Weekly Macro Review

w/c 3 December 2018

Key Themes

There has been a large shift in the growth narrative over the last few weeks. Increased emphasis has been placed on the likelihood of slower growth in the near-term outlook due to yield curve inversion, fading stimulus and the broader context of slowing global momentum. More dovish Fed statements have started to re-shape the expectations for the path of rate hikes – this is what the Fed signalled it wanted to do in the minutes last week (i.e. no longer follow a 'gradual path' of rate hikes).

Several Fed Presidents have been advocating that the low inflation print over the last few months gives the Fed space to pause and reassess. Political pressure has also been mounting on the Fed to slow the rate of increases.

The outcome of the US-China G20 sideline meeting was used to project confidence for the path forward for trade negotiations. But uncertainty and headline risk around trade and tariffs remains. The USTR has confirmed a hard deadline of 1 Mar 2019 to conclude negotiations to avert an intensifying trade war.

US data this week shows that the economy continues to do well. The ISM's indicate continued high rates of expansion across manufacturing and non-manufacturing sectors. Factory orders headline data were lower but highly influenced by volatile transports. Growth in core (ex-transports) new orders and shipments have been slowing (growing at a slower rate) throughout the year. Non-farm payroll growth was lower in the month, but the household survey shows that the higher level of employment growth continues to 'absorb' new/returning workers to the labour force and reduce unemployment. Avg wages continue to grow. On the more interest rate sensitive parts of the economy; consumer credit growth continued to accelerate while motor vehicle sales were down slightly.

Outside of the US, there is growing caution about growth.

The BoC minutes clearly stress the concern of the potential negative impact on the Canadian economy from the oil price 'shock' of the last few weeks as well as generally slower momentum going into Q4.

The Aus GDP Q3 print was much lower than expected. There is now a growing focus on slower growth amid a house price correction.

The ECB has previously stated that it will closely watch the data leading up the Dec meeting. Data this week suggests that the weakness is enduring. Eurozone PMI data indicated that expansion in both manufacturing and services activity continues to slow – led by core Eurozone countries. Production data in Germany was mixed – new orders remain lower than last year, but production growth had improved over the last two months. Eurozone GDP growth was confirmed at +0.2% and employment growth has similarly slowed to +0.2% in Q3.

Finally, Chinese trade data was well below expectations with exports and imports growing at a much slower pace. This lower level of activity is likely to continue to have far reaching effects throughout the global economy.

Contents

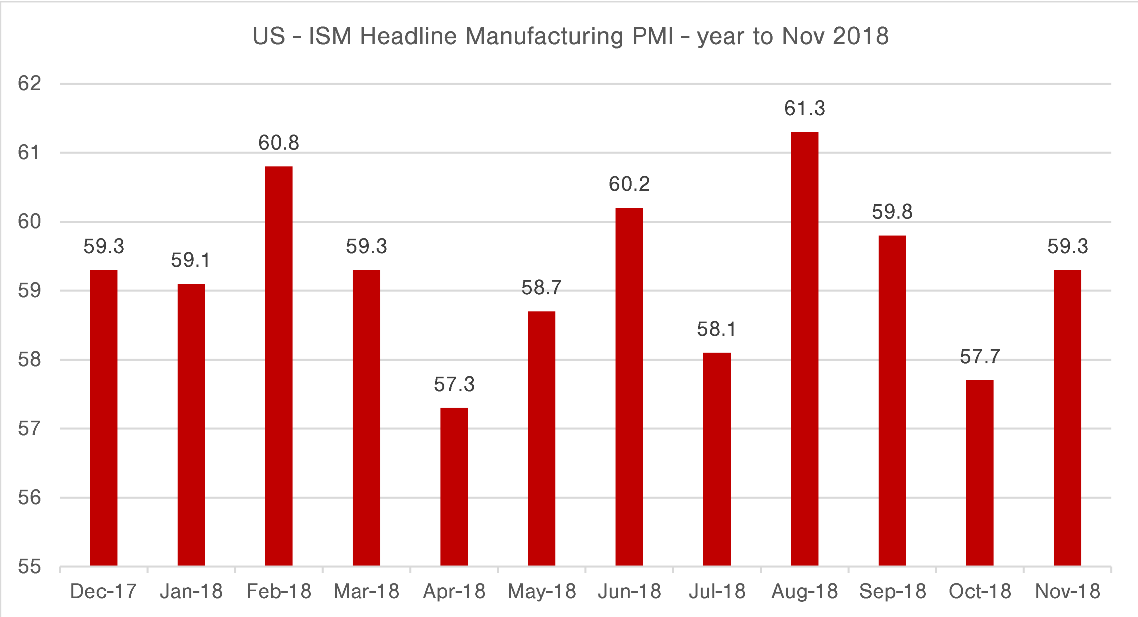
US Data

ISM Manufacturing Index (Nov)

The headline manufacturing PMI indicated that activity expanded at a faster pace in the latest month. Most of the subindexes recorded faster growth. The two stand outs were stronger growth in new orders and the much slower growth in prices.

Nov 59.3 versus Oct 57.7

The current month reading is just above the 12mth average



This was the result of faster growth in new orders, as well as production;

New Orders – Nov 62.1(+4.7pts), just short of the Aug high of 65.1. While domestic demand remained strong, new export orders were unchanged and, at an index of 52.2, indicate a slower rate of growth.

Production – Nov 60.6 (+0.7pts)

Employment – Nov 58.4 (+1.6pts)

Supplier Deliveries – Nov 62.5 (-1.3pts) – this expanded at a slower rate, meaning that deliveries were slightly faster. The index remains elevated. Firms cited supply chain difficulties in keeping up with production demand.

Inventories – Nov 52.9 (+2.2pts) - increasing partly due to improved supplier deliveries.

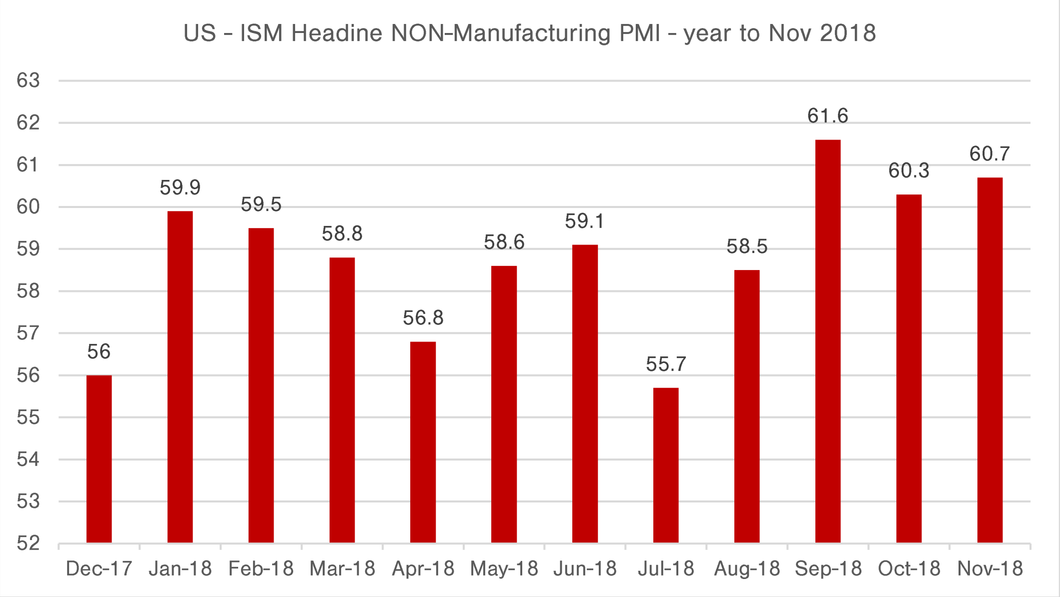
Prices – Nov 60.7 (-10.9pts). No official reason cited for the large drop (possibly oil-linked?). The index remains elevated. Price increases for metals (steel, copper, aluminium) are softening.

https://www.instituteforsupplymanagement.org/ismreport/mfgrob.cfm?SSO=1

ISM Non-Manufacturing Index (Nov)

The headline ISM non-manufacturing PMI increased at a slightly faster pace in the latest month and remains close to the high of the last twelve months.

Nov 60.7 versus Oct 60.3



The headline index was higher on the back of faster growth in business activity/production, new orders and inventories.

Supplier deliveries and employment both grew at a slower pace. Underlying the slower growth in employment result was more firms reporting 'the same' levels of employment. The proportion of firms reporting both higher and lower levels of employment decreased.

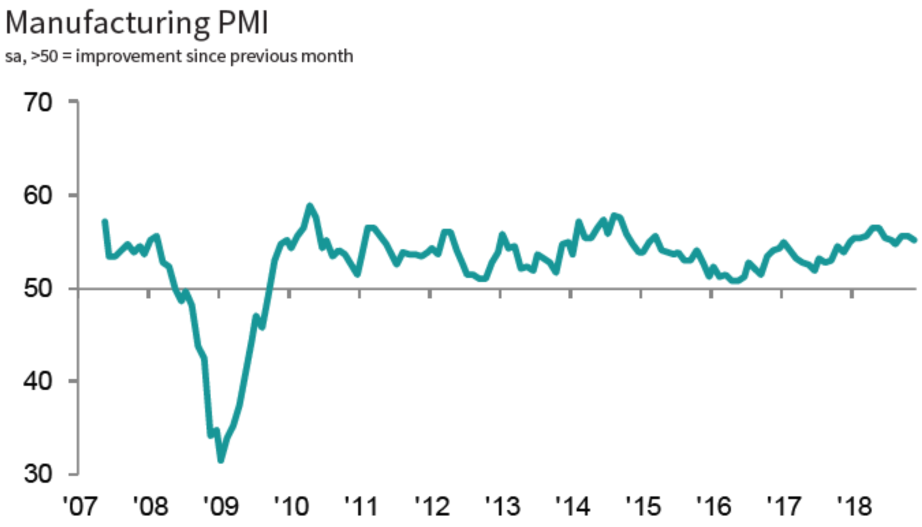
The biggest movers this month; new export orders slowed to 57.5 in Nov (-3.5pts). While imports grew at a faster pace in Nov +54.5 (+3.5pts).

https://www.instituteforsupplymanagement.org/ISMReport/NonMfgROB.cfm?SSO=1

PMI Manufacturing Index (Nov)

Private sector manufacturing activity expanded at a slightly slower pace in Nov, led by slower growth in production.

Nov 55.3 versus Oct 55.7



As a measure of future demand, new orders expanded at “a sharp and accelerated rate” in Nov. Firms cited increased client demand. New export orders also expanded at the fastest pace in the last 9-months.

Production increased at the joint slowest rate of the year. Yet the backlog of work increased at the fastest pace in 3 years.

Employment increased at a faster rate.

Price growth slowed but remains elevated. Tariffs and supplier shortages were cited.

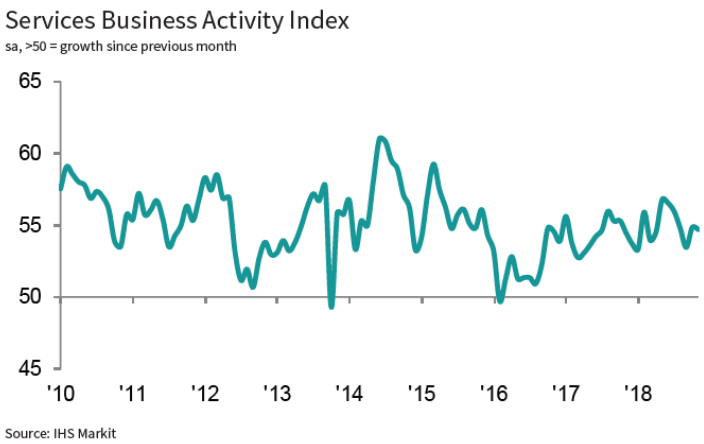
Despite the relatively rosy report, confidence dipped on concerns around sustainability of the increase in new orders.

https://www.markiteconomics.com/Survey/PressRelease.mvc/cb9e0e3abcec4084aa62ba08c96af884

PMI Services Index (Nov)

There was little change in the headline services PMI in the latest month – activity continued to expand at a similar rate as the month prior.

Nov 54.7 versus Oct 54.8



Activity/output continued to expand. New order growth also expanded, but at the slowest pace in 13-months. This was reflected in slower accumulation of order backlogs.

Job growth also expanded at a slower rate.

Input prices increased at a faster rate, with firms citing higher fuel and labour charges.

https://www.markiteconomics.com/Survey/PressRelease.mvc/fee6330c7c654e39b79192fc5261dab6

US Manufacturer Shipments, Orders and Inventories (Final) (Oct)

Overall a weaker result in the month with some revisions lower for Sep on shipments and new orders. While growth versus year ago remains elevated, the monthly change in core (ex-transports) new orders and shipments indicates that growth has been slowing over the last year.

Shipments

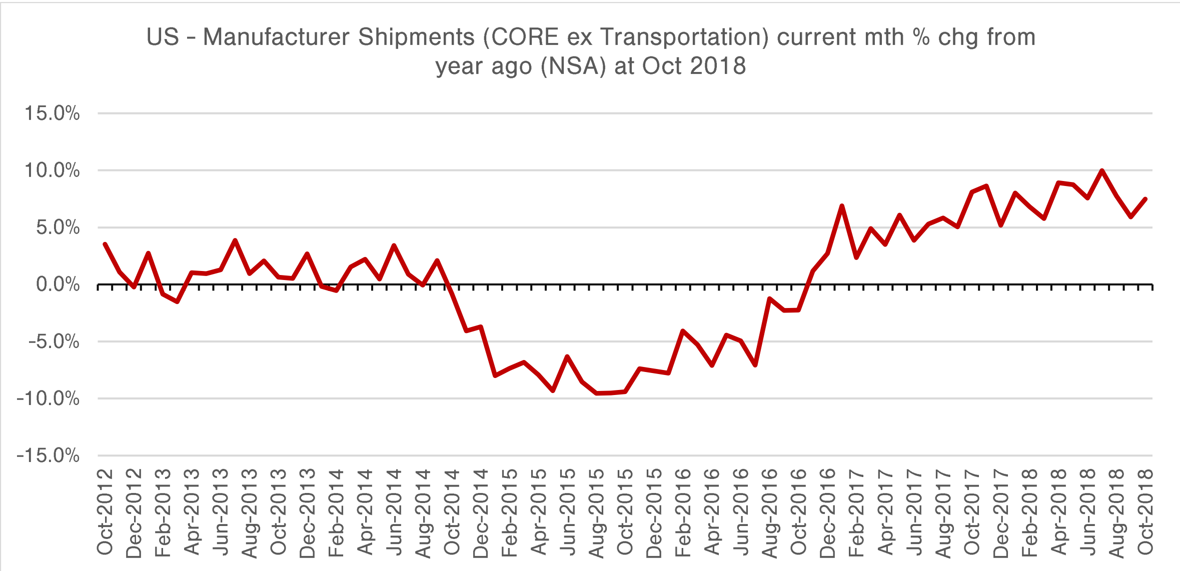
Oct -0.1% versus Sep +0.7% (revised lower from +0.9%)

Excluding transports, shipments grew by +0.2% in Oct and +7.5% from a year ago.

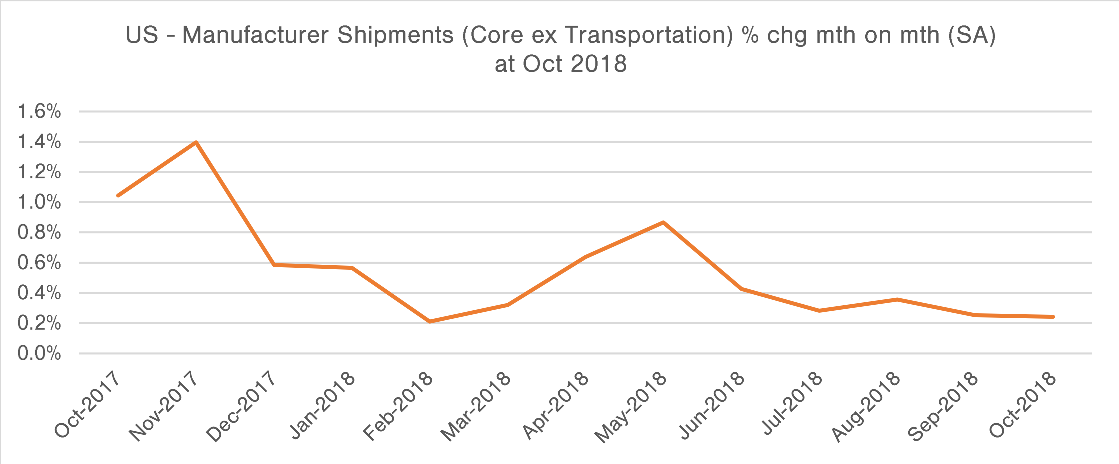
Shipments of durable goods fell by -0.5% mostly as a result of lower shipments for non-defense aircraft and parts. Large new orders recorded for defense aircraft last month are yet to be recorded in shipments.

Shipments of non-durable goods grew at a slower pace in Oct; +0.3% versus +0.5%. This was mostly due to lower value in shipments of petroleum and coal products.

The underlying growth in core shipments (ex-transports) remains elevated on an annual basis;



But when you view the trend on a micro basis – the month on month % chg for the last 12 months – it seems growth in core shipments has been slowing (still growing, but at a slower rate);



New Orders

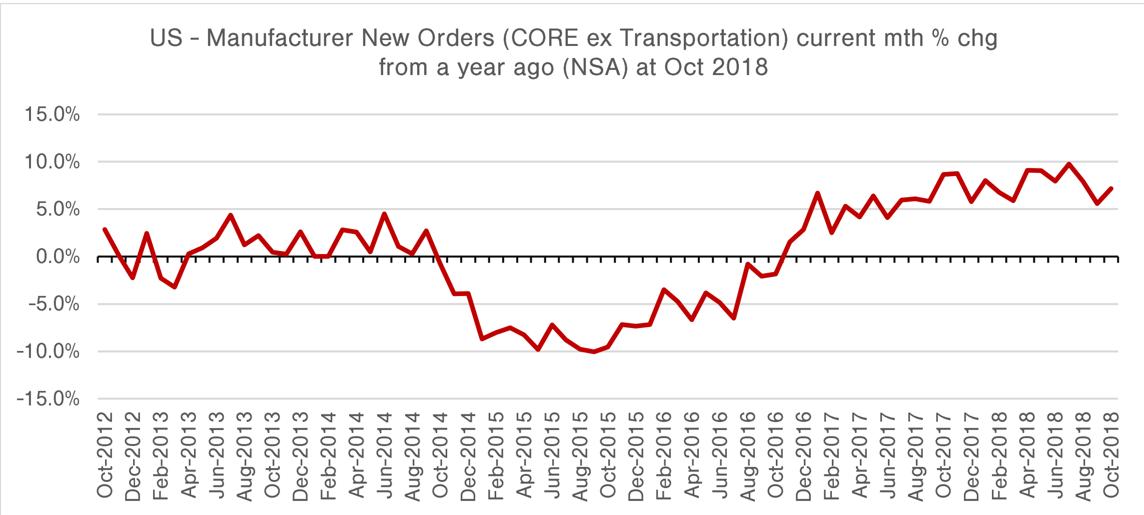
Oct -2.1% versus Sep +0.2% (revised lower from +0.7%)

Excluding transports, new orders increased by +0.3% in Oct and +7.2% from a year ago.

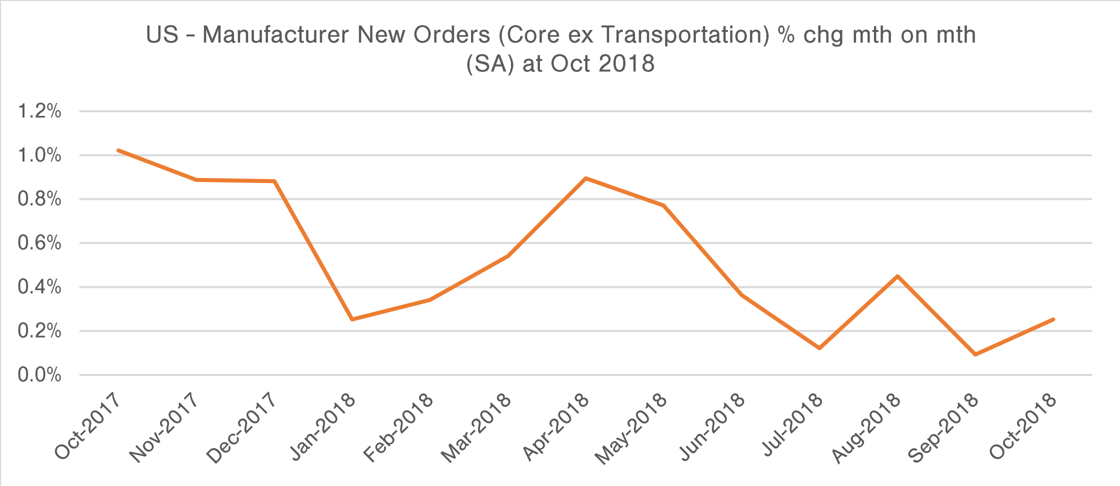
New orders for durable goods fell by -4.3% in the month after no change in the month prior and +4.7% growth in Aug. The decline was due to transportation – both non-defense and defense aircraft and ships and boats.

New orders for non-durable goods also slowed; Oct +0.3% versus Sep +0.5%.

On an annual basis, growth in core (ex-transports) new orders has slowed somewhat since Jul 2018 but remains elevated;



As with the shipments data, when viewed on a more micro-basis, there has been a slowdown in the monthly growth of core new orders over the last 12-months;



Unfilled orders

Oct -0.1% versus Sep +0.7% (revised slightly lower from +0.8%)

Unfilled orders excluding transport increased by +0.3% in the month.

The large defense orders received in Sep remain recorded as unfilled orders – as the large increase in unfilled orders for defense aircraft in Sep has not been reversed.

Unfilled orders for non-defense aircraft continue to fall as that work makes its way through production.

Inventories

Oct +0.1% versus Sep +0.6% (revised higher from +0.5%)

Inventories continued to grow in the latest month led by non-durable goods industries.

Inventory for non-durable goods increased by +0.2% in Oct after two months +0.4% and +0.5% increases.

Inventory for durable goods also continued to increase, but at a much slower rate than in the month prior; +0.1% in Oct versus Sep +0.8%. As expected, inventory increased for transportation equipment as orders make their way through the production process.

https://www.census.gov/manufacturing/m3/prel/pdf/s-i-o.pdf

https://www.census.gov/manufacturing/m3/index.html

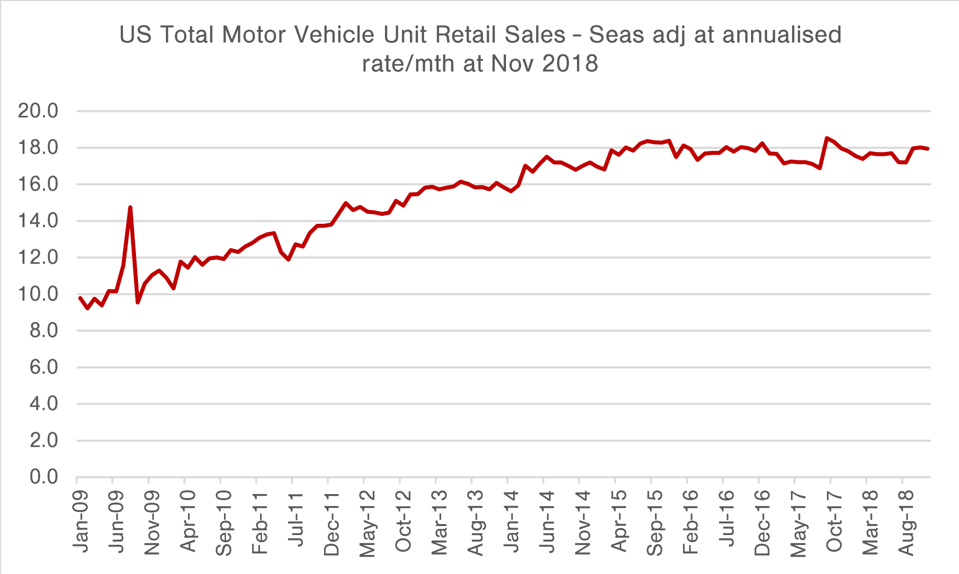
Motor Vehicle Sales (Nov)

Motor vehicle sales were slightly lower in the latest month. Faster sales of light trucks (just short of a series high) was offset by declines in auto sales.

Total Motor Vehicles Sales

Seas adj annualised rate; Nov 17.9m versus Oct 18m

Annual % chg from year ago (NSA); Nov -0.1% versus Oct +1%



Making up total Motor Vehicle sales are Autos (all passenger cars incl station wagons) 29% and Light Trucks (up to 14k pounds incl minivans and SUV's) 68%.

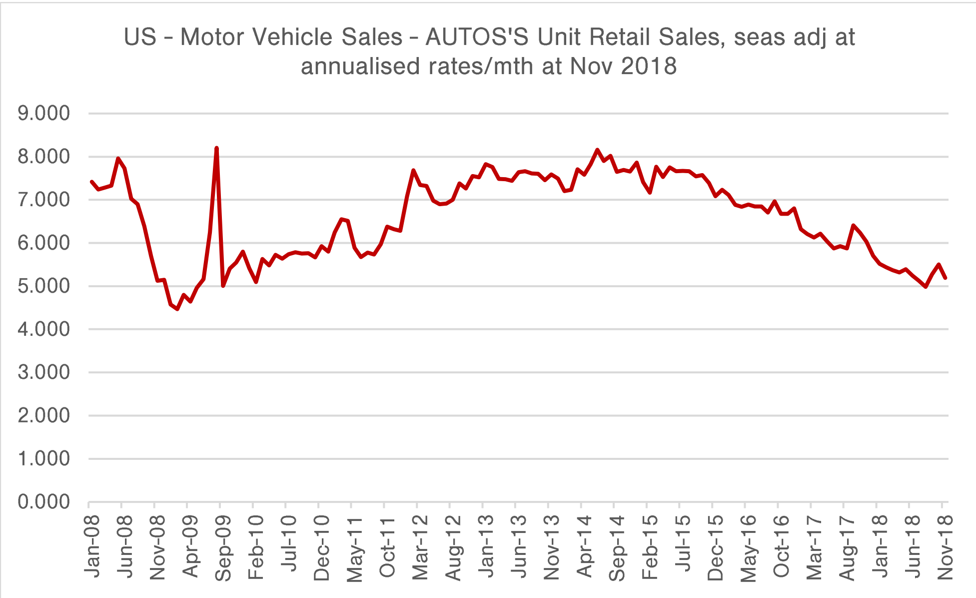
Auto sales started to slow back in approx. mid-2014. Increases in light truck sales have been such that the increases have only been enough to kept total motor vehicle sales around the average 17.7m annualised rate (relatively flat at a total level).

<u>Autos – (passenger cars incl station wagons)</u>

In November, auto sales declined further after posting better sales in Sep & Oct.

Seas adj annualised rate: Nov 5.188m versus Oct 5.505

Annual % chg from year ago (NSA); Nov -14% versus Oct -10%

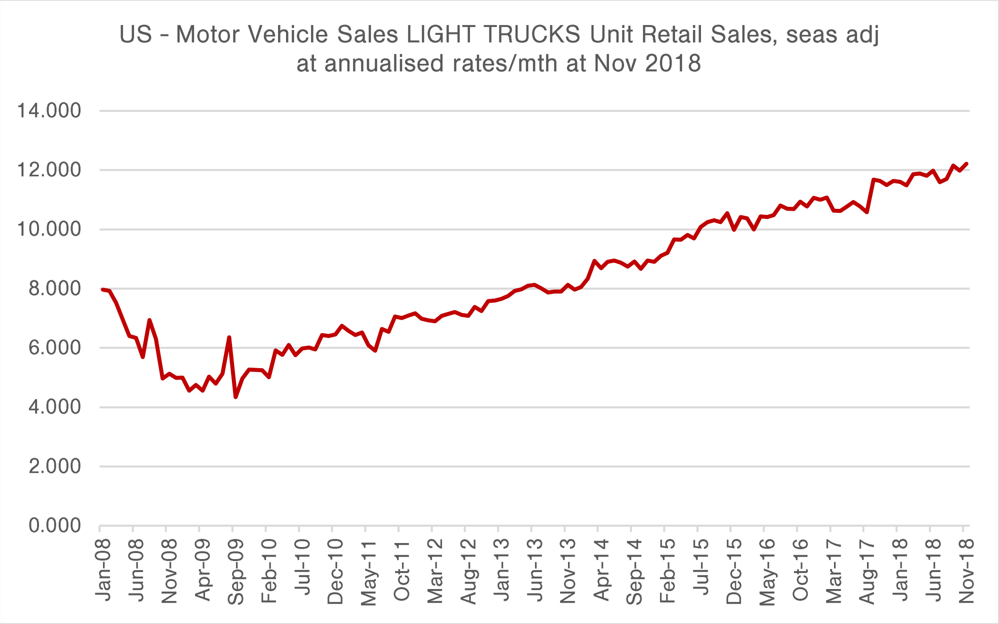


Light Trucks (up to 14k pounds including minivans and SUV's)

In November, light truck sales continued to increase, after slowing in the month prior. The current annualised rate of sale is now just below the peak of 12.59m reached in Jul 2005.

Seas adj annualised rate; Nov 12.22m versus Oct 11.98m

Annual % chg from year ago (NSA); +6% versus Oct +6%

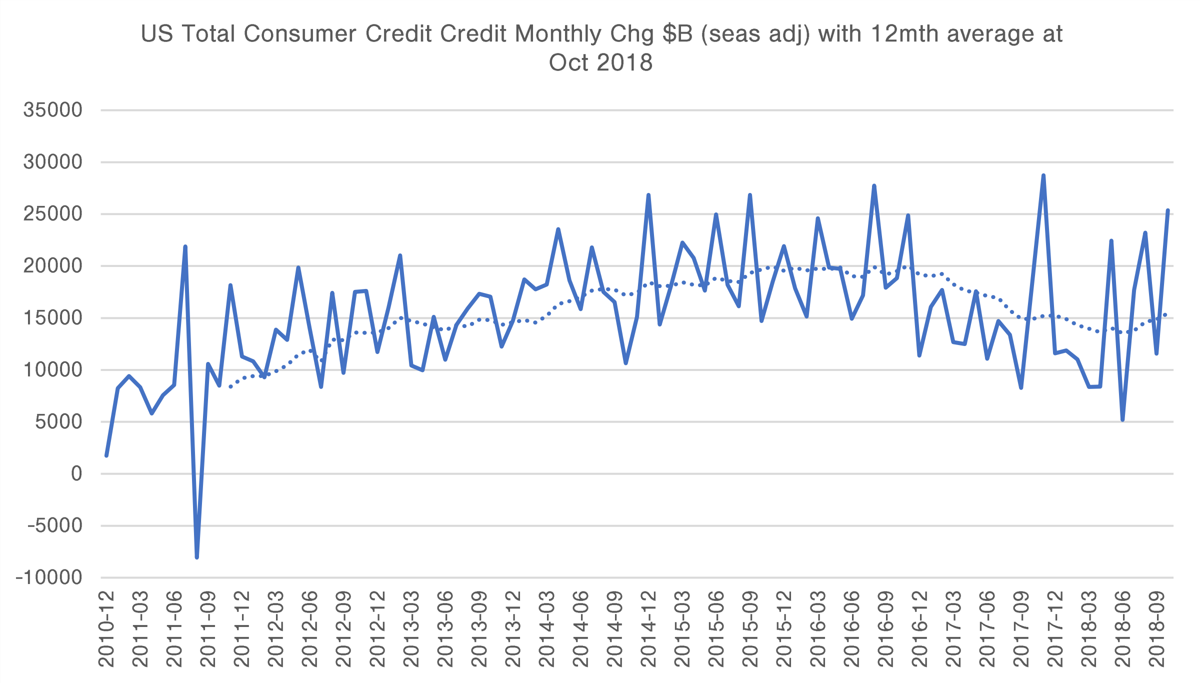


https://www.bea.gov/national/xls/gap_hist.xlsx

G.19 Consumer Credit (Oct)

US consumer credit growth continued to accelerate in the latest month. While both revolving and non-revolving credit grew at a faster rate, it was mostly revolving credit that contributed to the overall growth.

Total Consumer Credit growth; Oct $25.4b versus Sep $11.6b



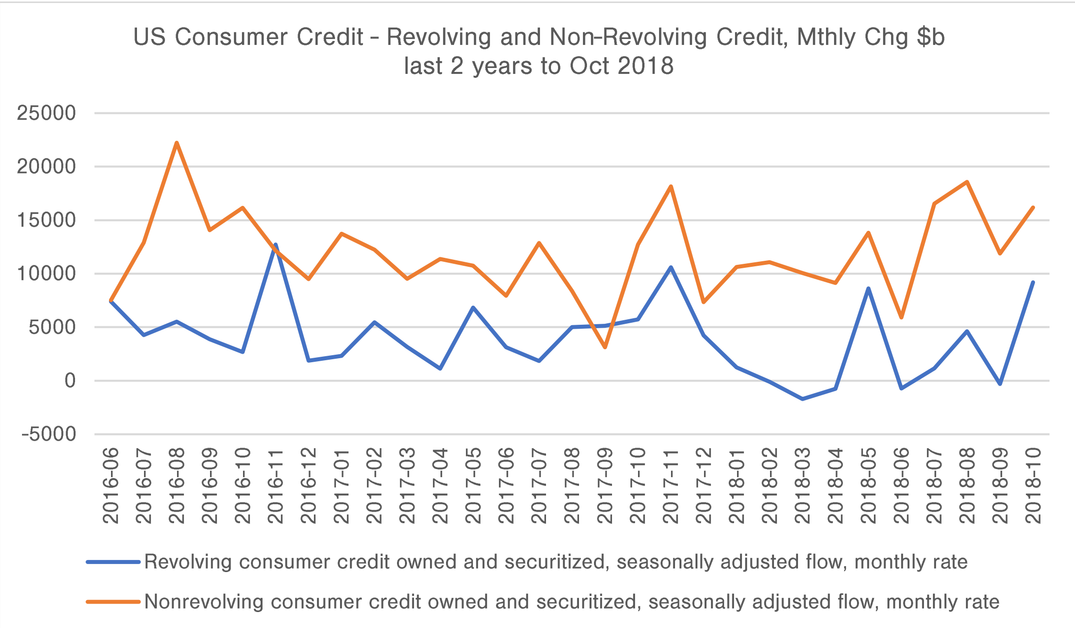
The 12mth average is now trending back up. The range for the monthly change in consumer credit has become wider especially over the last 12 months.

The stronger growth in the month likely underpins the stronger personal consumption expenditure growth reported for Oct last week.

The two main parts of consumer credit are revolving and non-revolving credit. Growth in both measures accelerated in the latest month;

Revolving Credit growth; Oct $9.2b versus Sep no change

Non-revolving Credit growth; Oct $16.2b versus Sep $11.9b



https://www.federalreserve.gov/releases/g19/current/

US Non-Farm Payrolls & Labour Force Report (Nov)

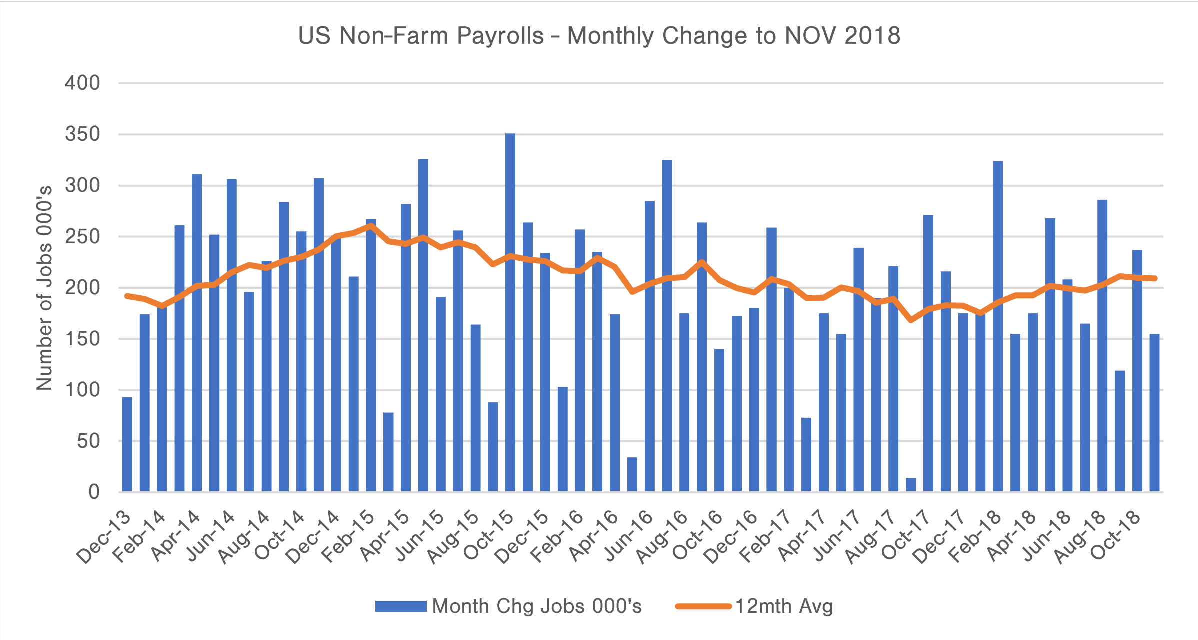
While the growth in non-farm payrolls was lower in the latest month, the household survey result continues to reinforce the strength of the labour market.

Importantly, employment is growing fast enough to 'absorb' higher labour force participation and result in lower growth in total unemployed persons.

Establishment Survey

In November non-farm payroll growth was lower;

Nov +155k jobs versus Oct 273k jobs (Oct revised lower by -13k jobs)



The 12-month average remains little changed at +209k jobs – this average has been increasing since late 2017.

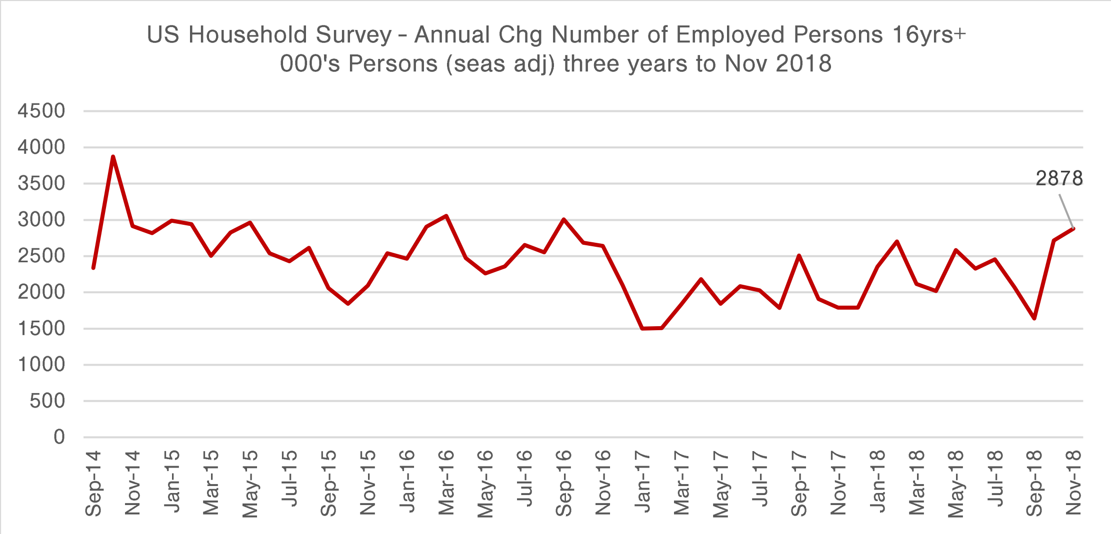
Average workweek; -0.1 hours to 34.4 hours in Nov. In manufacturing, both the workweek and overtime were unchanged (40.8 hours and 3.5 hours, respectively). The average workweek for production and nonsupervisory employees on private nonfarm payrolls held at 33.7 hours. (See tables B-2 and B-7.)

Average hourly earnings – Increased by 6 cents to $27.35. Over the year, average hourly earnings have increased by 81 cents, or 3.1 percent.

Household Survey

Annual growth in employed persons (16yrs+) accelerated further in the latest month;

Nov +2.88m versus Oct 2.7m

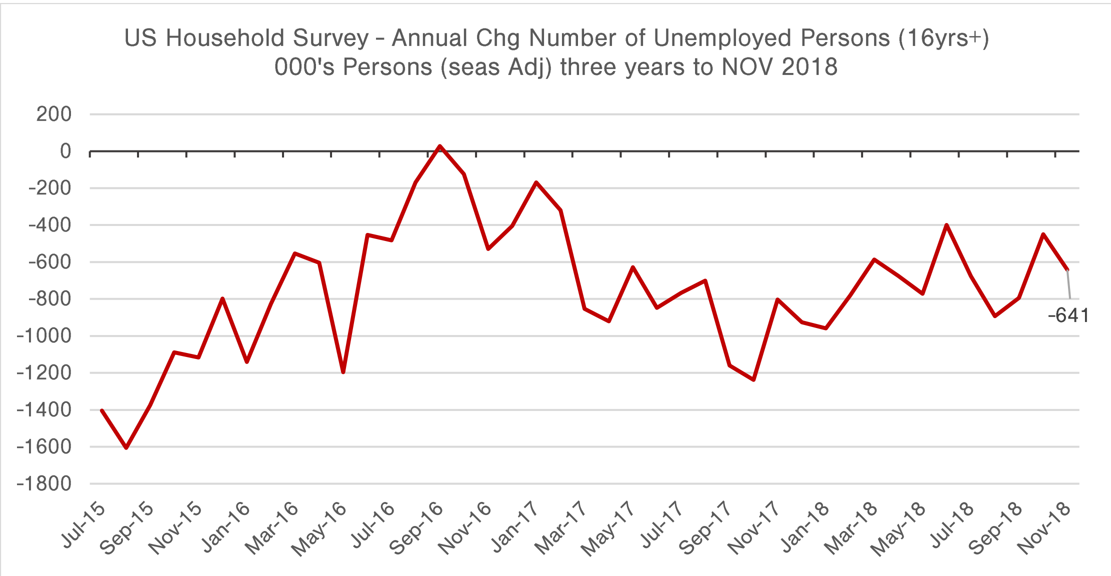


In the latest month (versus month prior) employment growth slowed but remained positive; Nov +233k persons versus Oct +600k persons.

The level of employment growth on an annual and monthly basis, was high enough to absorb an increase in participation AND see a greater reduction in total unemployed persons.

The total number of unemployed persons decreased at a faster rate;

Annual chg at Nov; -641k versus Oct -449k persons.



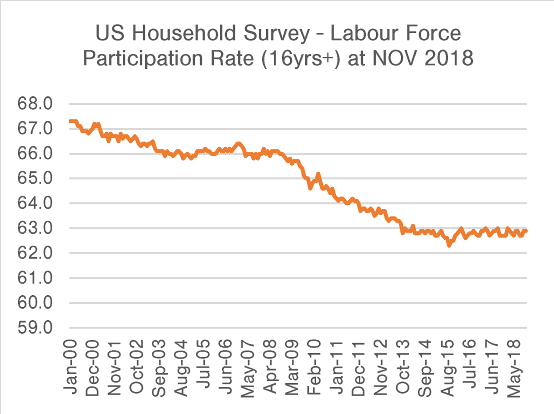
Even on a monthly basis, the total number of unemployed persons decreased:

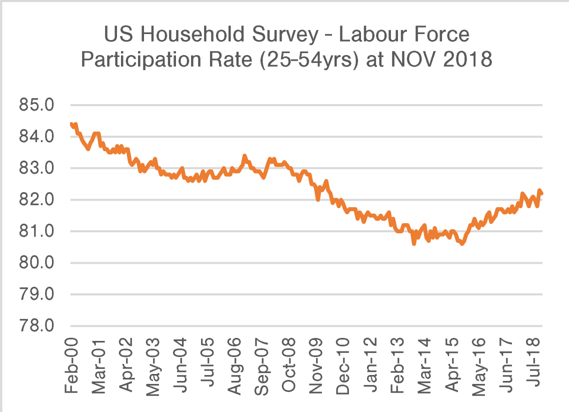
Nov -100k persons versus Oct +111k persons

The unemployment rate remains at 3.7%.

On an annual basis, participation increased +517k persons in Nov, the same annual rate as in Oct. On a monthly basis, participation did not change for the 16yrs+ age group.

The actual participation rate for 16yrs+ continues to trend sideways – just below 63%. This is still well down on the pre-GFC peak of 66%. When you restrict this to the more 'working-age' population of 24-54yrs, its obvious that the spare capacity is slowly being diminished;





Summary; Employment growth remains strong. Employment is growing faster than the est change in the labour force due to population. Employment also grew fast enough to absorb more workers in the labour force during the year as well as continue to reduce the total number of unemployed persons.

	Annual chg 000's people (16yrs+) - NOV 2018
The estimated change in the Labour Force due to pop growth (1)	1719.448
How many jobs available for them? (annual employment growth) (2)	2878.000
Difference (employment growing faster than what pop adds to the labour force) (3)	-1158.552
Change labour force participation - people entering/returning to the labour force (4)	517.552
The remainder is the reduction in total unemployed persons - (4) plus (3)	-641.000

https://www.bls.gov/news.release/pdf/empsit.pdf

Challenger Job Cut Report (Nov)

Announced job cuts were lower than in the month prior – this includes the announcement by GM that it will cut up to 14,000 jobs. The YTD announcements are up 28% on the year prior.

Nov 53.1k jobs versus Oct 75.6k

The report by Challenger Gray also cites several large announcements in Japan and Germany (Toshiba to cut 7k jobs and Bayer to cut 12k jobs). It's unknown whether this will have an impact on the US.

The announced hiring plans were lower after a very strong Oct result. Nov 15k versus Oct 130k. The total announced hiring plans for Nov and Oct in 2018 is about average versus the last five years.

YTD Hiring plans are running approx. 9% below the same time last year but are well up on the three years prior to that.

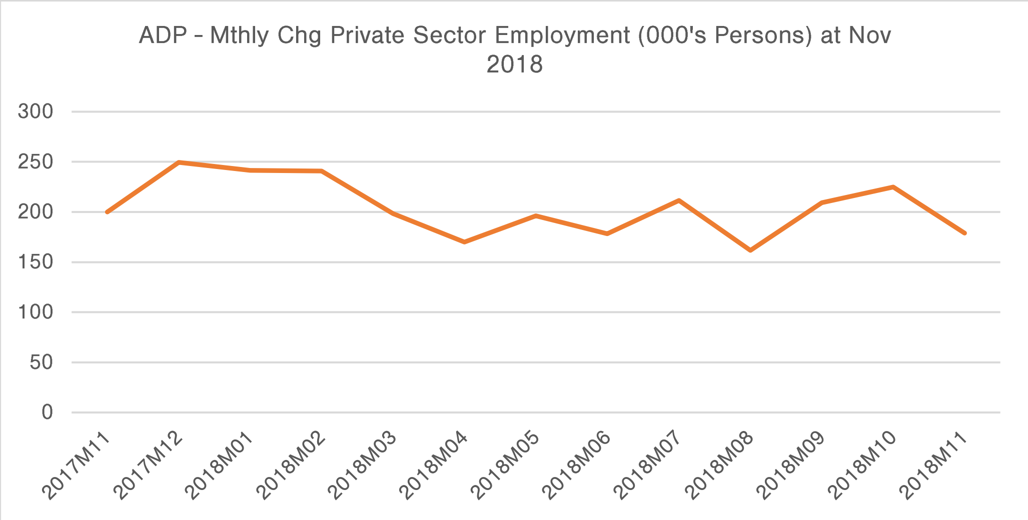
http://www.challengergray.com/press/press-releases/2018-november-job-cut-report-cuts-hit-53073-ytd-28-percent

ADP Employment Report (Nov)

Employment growth slowed in the latest month and growth was revised slightly lower for Oct and Sep.

Nov +179k jobs versus Oct 225k jobs (revised from 227k). Sep revised from 218k to 209k jobs.

The Nov result is below the 12mth average growth of 205k jobs.



Growth slowed in goods producing industries; Nov +16k jobs versus 44k jobs in Oct and remains well below the 12month average of 39 growth in jobs. This was the second lowest print for growth of jobs in goods producing industries in the last year.

Growth in services jobs also slowed; Nov 163k jobs versus Oct 181k jobs. The Nov result is around the 12-month average of 166k jobs growth.

https://www.adpemploymentreport.com/2018/November/NER/NER-November-2018.aspx

International Trade (Oct)

The US trade balance (deficit) increased further in the latest month. Exports in USD value were lower while imports increased versus the month prior.

Monthly trade balance (deficit); Oct -$55.49bn versus Sep -$54.55bn

Exports; Oct -0.15% (goods exports -0.28%, services exports +0.13%)

Imports; Oct +0.23% (goods imports +0.2%, services imports +0.35%)

On a YTD basis, the US trade deficit is also higher than at the same time last year;

Trade deficit (Jan-Oct) +$51bn (YTD Jan-Oct 2018 -$502bn versus Jan-Oct 2017 -$451bn)

The larger deficit is the result of imports growing faster than exports;

Exports +$150bn (YTD Jan-Oct 2018 $2,093bn versus Jan-Oct 2017 $1,943bn)

Imports + $200bn (YTD Jan-Oct 2018 $2,595bn YTD Jan Oct 2017 $2,395bn)

https://www.census.gov/foreign-trade/data/index.html

US Fed Speeches

Chairman Powell, Inaugural Janet L. Yellen Award for Excellence in Community Development, Washington, D.C.

No indications of Powell's view of the economy or near-term path of rates here.

He cites a stronger economy, beyond a low unemployment rate. But highlights that the improvement over the last ten years hasn't reached everyone. Acknowledges some longer-term challenges; low wage growth for lower income workers, productivity growth has picked up, but questions whether it can be sustained, aging population limited labour supply & growth and lower economic mobility.

https://www.federalreserve.gov/newsevents/speech/powell20181203a.htm

"Evolving Structure of the U.S. Treasury Market" fourth annual conference in New York - Williams, Brainard

Halfway through the speech, Gov Brainard indicates that she believes that the econ is "at or beyond' full employment (this is really the only reference to her view of current conditions);

> "With the economy now at or beyond full employment and inflation around target, the Federal Open Market Committee has since gradually increased its target for the federal funds rate to between 2 and 2-1/4 percent, and normalization of the balance sheet is well under way"

https://www.federalreserve.gov/newsevents/speech/brainard20181203a.htm

Vice Chairman for Supervision Randal Quarles; Banking Conditions in the West, at State of the West 2018: Investing in the Future West - Banks and Infrastructure, Stanford, Calif.

https://www.federalreserve.gov/newsevents/speech/quarles20181205a.htm

Dr Lael Brainard, Financial Stability, at the Peterson Institute for International Economics, Washington, D.C.

Governor Brainard covers the same Financial Stability report as Chairman Powell last week.

Provides a very positive assessment of the current conditions and the economy. Notes that tailwinds that have provided a boost are fading and the economy faces some 'cross-currents'. Favours the 'gradual approach' to hikes;

> "The gradual path of increases in the federal funds rate has served us well by giving us time to assess the effects of policy as we have proceeded. That approach remains appropriate in the near term, although the policy path increasingly will depend on how the outlook evolves"

https://www.federalreserve.gov/newsevents/speech/brainard20181207a.htm

Dallas Fed President Robert Kaplan interview - CNBC

Is taking a far more openly cautious view of current events and stresses that it's the outlook that also matters – what the markets are saying about the outlook and what companies are saying.

Can only see the 'neutral' rate in hindsight. Tighter 2/10 spread saying that short end responding to Fed but long end saying sluggish growth. Firms seeing input costs rising (tariffs are part of it) and companies are struggling to pass on those costs = margin erosion. Its all creating more uncertainty for business. Global growth is decelerating.

"Gradual and patient" approach to rate increases – the inflation rate isn't running away from the Fed.

https://www.cnbc.com/2018/12/06/cnbc-transcript-dallas-federal-reserve-president-robert-kaplan-speaks-with-cnbcs-steve-liesman-today.html

St. Louis Fed President Bullard – Interview on CBNC

Also cautioning on the yield curve inversion from this week. In the past, this has been a recession signal, although the time between inversion and GDP downturn "has varied widely". Suggests that the Fed could delay Dec increase.

https://www.cnbc.com/2018/12/07/feds-bullard-says-central-bank-could-delay-december-rate-increase-then-raise-in-january.html

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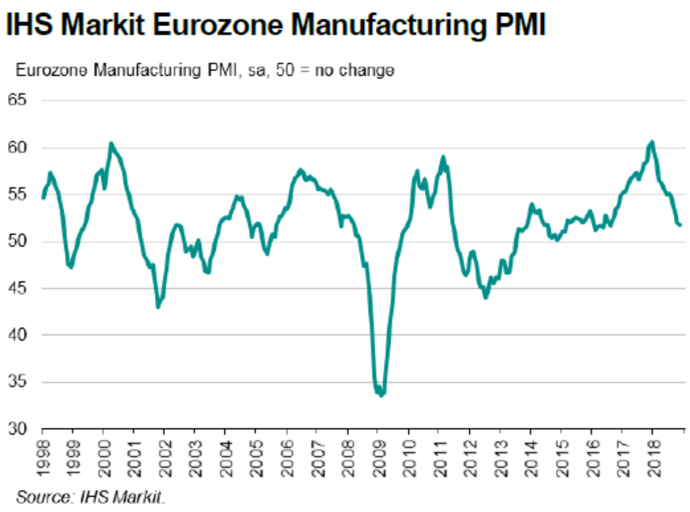
Europe

Eurozone Manufacturing PMI (Nov)

Private sector manufacturing activity growth slowed slightly – but was revised higher than the initial prelim estimate.

Nov 51.8 versus Oct 52



New orders continue to weaken, and export trade fell for the third month in a row. Net falls in new orders were recorded in Germany, France and Italy. Weakness appears centred on capital goods producers.

Overall production increased at the slowest in 5.5-years. Order backlogs were cleared, and inventories of finished goods increased.

Employment growth was the weakest since Sep 2016. In France, employment declined for the first time in two years.

> "Hopes that the soft patch may prove short-lived are countered by business optimism about prospects for the year ahead remaining among the gloomiest seen since the sovereign debt crisis in 2012, suggesting companies are bracing themselves for further weak demand in the coming months."

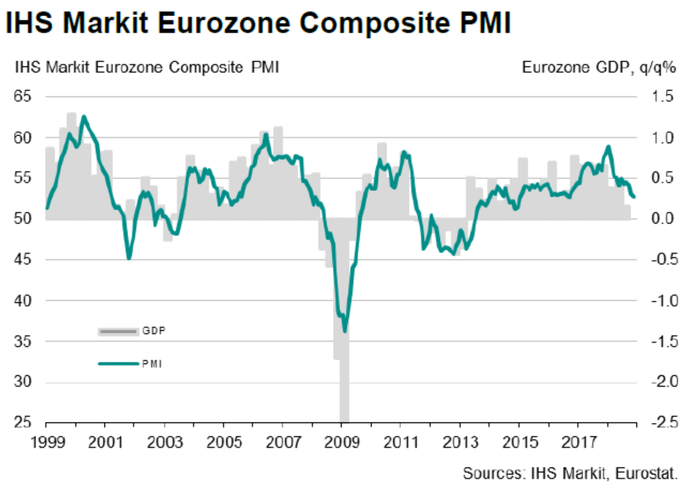
https://www.markiteconomics.com/Survey/PressRelease.mvc/4246b90671af433d9e8b7d2a5ccbffdc

Eurozone Services PMI (Nov)

Services activity across the Eurozone slowed further in the latest month.

Nov 53.4 versus Oct 53.7

This was the lowest level for the last two years.



New orders grew at a slower pace. With that, backlogs of work increased modestly.

Employment growth expanded at a slower pace around a 6-month low.

Firms cited higher energy and fuel costs as input prices continued to increase.

> "Business optimism is running at its lowest since late 2014, adding to downside risks for growth as we move into 2019. Furthermore, hiring, which has hitherto shown surprising resilience as firms have hoarded labour despite the slowdown in demand, is now also showing signs of weakness. Employment growth in November was the lowest for almost two years".

https://www.markiteconomics.com/Survey/PressRelease.mvc/677a520b5bd947cfb2dd78a8cd698a46

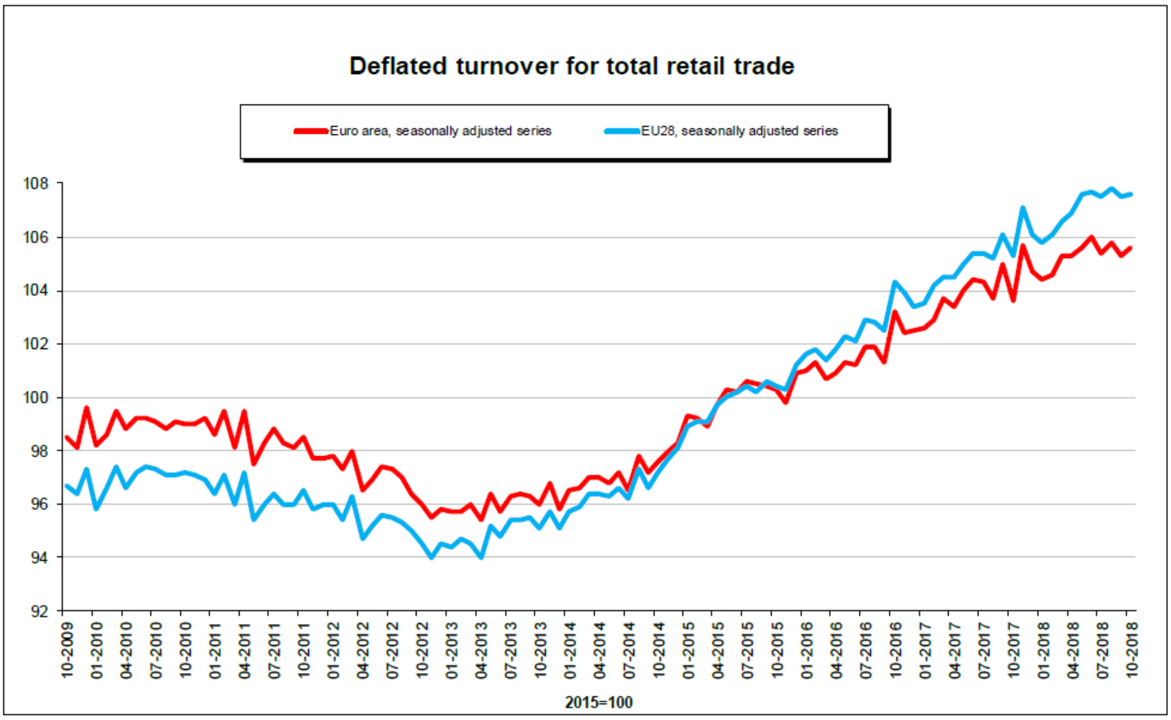
Eurozone Retail Sales (Oct)

There was only a small rebound in the Euro area and EU retail trade (in real terms) result for Oct after a weaker Sep.

Euro area retail sales; Oct +0.3% versus Sep -0.5%

The broader EU 28 group; Oct +0.1% versus Sep -0.3%

Both series below highlight that retail sales in real terms have remained relatively flat (albeit at high levels) during 2018;



In the latest month, growth in food, drink, tobacco and automotive fuel offset the continued decline in retail sales of non-food products.

https://ec.europa.eu/eurostat/documents/2995521/9426718/4-05122018-AP-EN.pdf/223a34b1-1fc2-4b4a-bb16-d1d3d5477f09

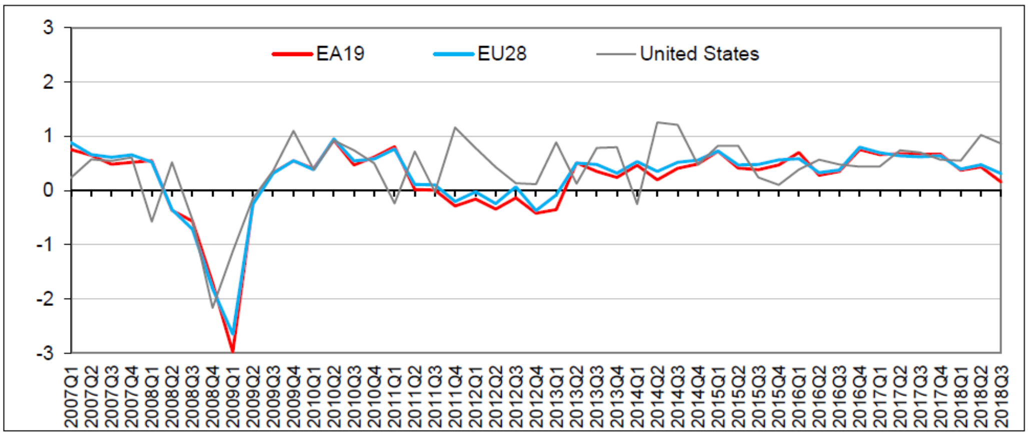
Eurozone Q3 GDP

The prelim Euro area and broader EU GDP growth for Q3 was confirmed;

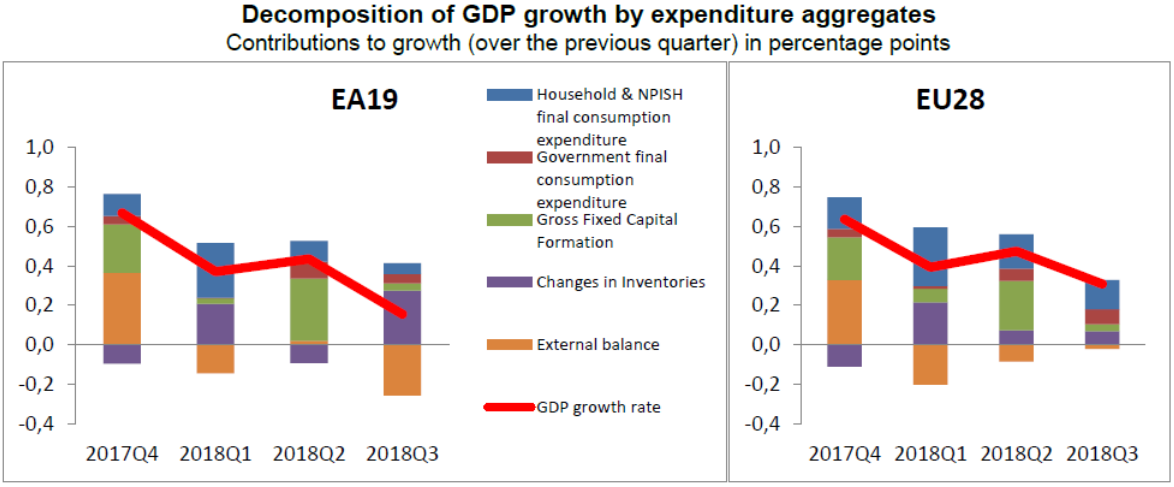
Euro area Q3 GDP growth; +0.2% slowing from +0.4% in Q2. Versus a year ago, Q3 GDP increased by +1.6% (slowing from +2.1% recorded in the previous quarter)

EU28 zone Q3 GDP growth; +0.3% slowing from +0.5% in Q2. Versus a year ago, Q3 GDP increased by +1.8% (slowing from +2.2% recorded in the previous quarter).

Euro area, EU28 and United States GDP growth rates
% change over the previous quarter, based on seasonally adjusted data



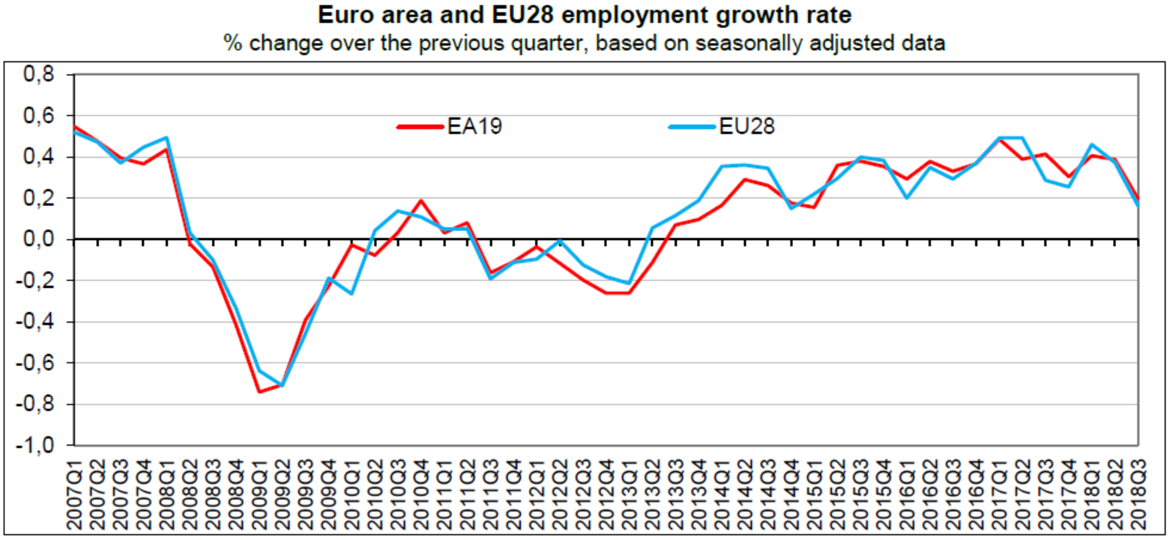
The slower growth in the quarter was the result of; net exports detracting from growth, which was offset by a larger contribution to growth from inventories. Both gross fixed capital formation and household consumption expenditure made a smaller contribution to growth than in the quarter prior;



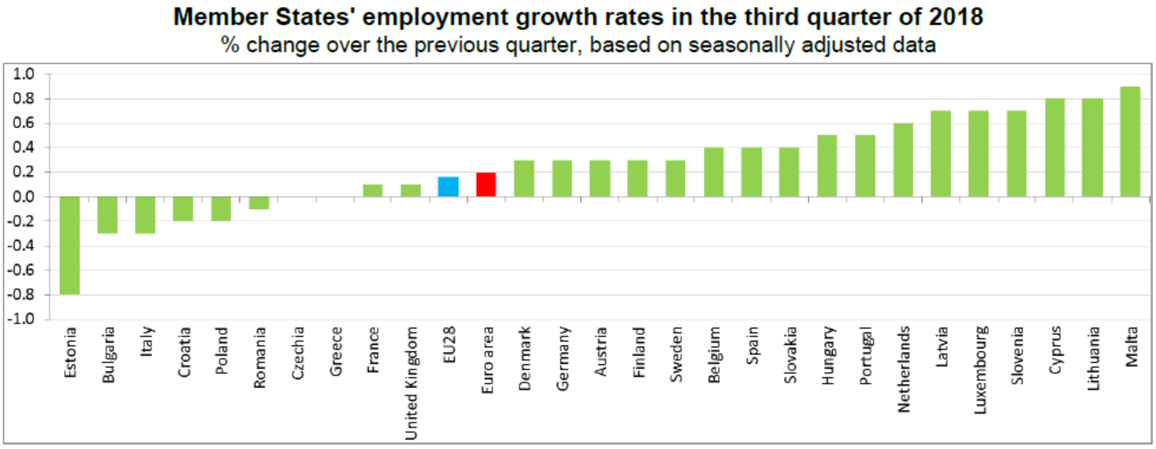
Eurozone Employment Change Q3

Eurozone employment growth continued to slow in the latest quarter with growth halving versus the quarter prior.

Euro area and EU28 zones - the number of persons employed increased by +0.2% in Q3 compared to +0.4% in Q2.



Employment growth across some of the larger economies is pulling down the average growth rate – including falling employment levels in Italy. France and UK employment growth remains low.



Ireland: data not available for the third quarter of 2018.

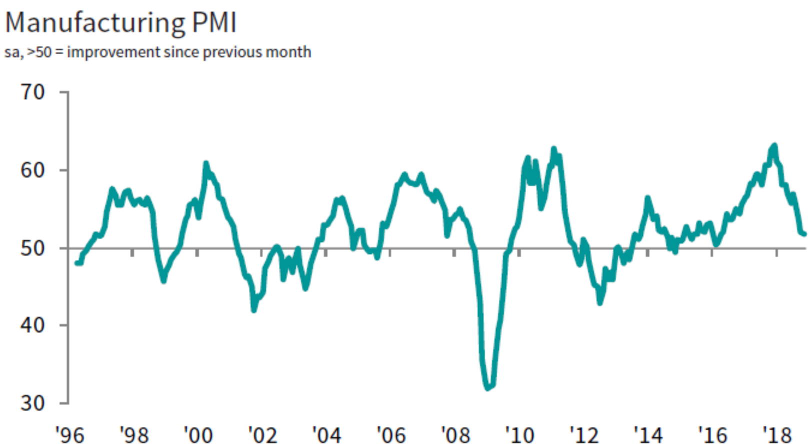
https://ec.europa.eu/eurostat/documents/2995521/9437650/2-07122018-AP-EN.pdf/eadec005-b37c-42e2-a8e7-a8bfc2e74f1d

Germany Manufacturing PMI (Nov)

Manufacturing activity in Germany continued to expand at a slower pace. This was led by continued declines in new orders.

Nov 51.8 versus Oct 52.2

This is now a 31-month low;



New orders declined for the second month in a row. New export orders were also down for the third month in a row. Firms cited falls in orders from China. Output increased only marginally.

Production remained steady as firms cleared backlogs and finished goods inventory increased. This was the lowest level of production growth since May 2013. Output of capital goods declined while consumer and intermediate goods continued to increase.

The pace of employment growth was the slowest for two years.

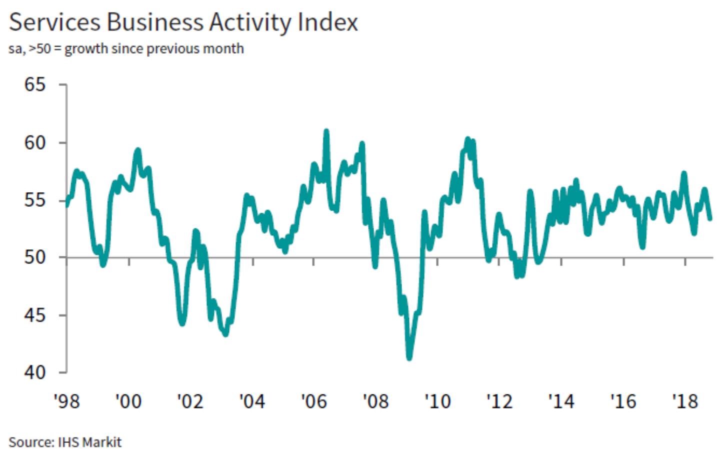
Input prices continued to increase on the back of higher raw materials costs, energy prices and transport-related costs. Growth in the prices charged by firms slowed to a 16-month low.

https://www.markiteconomics.com/Survey/PressRelease.mvc/997f97da94604aafbdff0d65ef49f18c

Germany Services PMI (Nov)

The German private service sector recorded a further large slow-down in the growth of business service activity in the latest month.

Nov 53.3 versus Oct 54.7



Activity continued to increase across most sectors but fell in Hotels and Restaurants.

New orders grew at the slowest rate since May 2018. New orders from overseas feel for the fifth month in a row.

Employment also grew at a slower pace.

The key issue also remains input cost growth. Operating expenses showed the steepest monthly increase since Mar 2011. Higher fuel costs, increasing energy costs and labour costs all weighed further on firms. Selling prices were increased but that rate is also at a 6-month low, but "still strong in the context of historical data".

Sentiment weakened further.

https://www.markiteconomics.com/Survey/PressRelease.mvc/ba06a3c9c6fe4f36831c4bbd1bfa7b20

Germany Factory Orders (Oct)

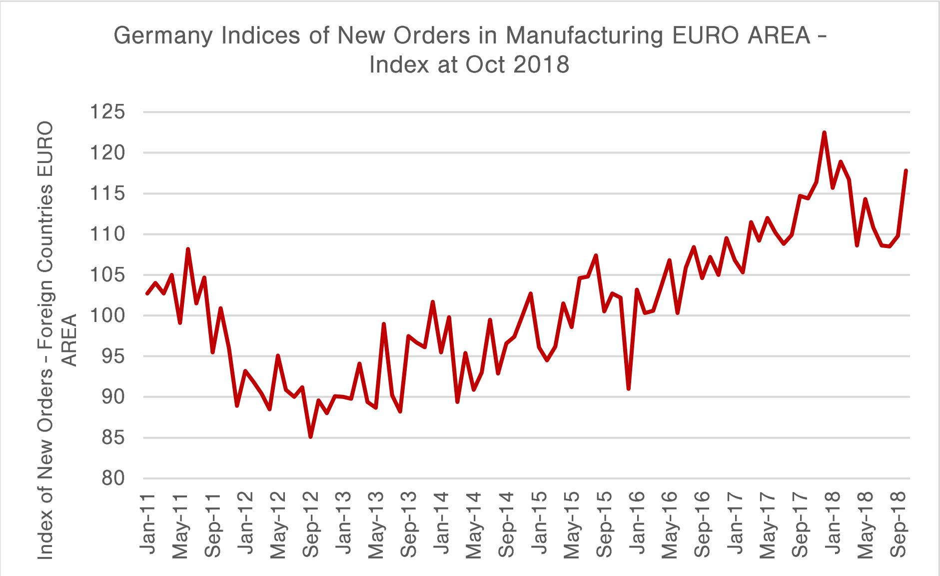
New orders were slightly higher in the latest month but remain lower than in the year prior.

The trend of the change in new orders versus a year ago still looks quite concerning. Over the last three months though, the change in new orders has been positive due to higher growth in new orders from foreign countries within the Euro area. Domestic new orders were weaker.

<u>Total New Orders;</u>

Monthly change in Total New Orders; Oct +0.3% versus Sep +0.1%

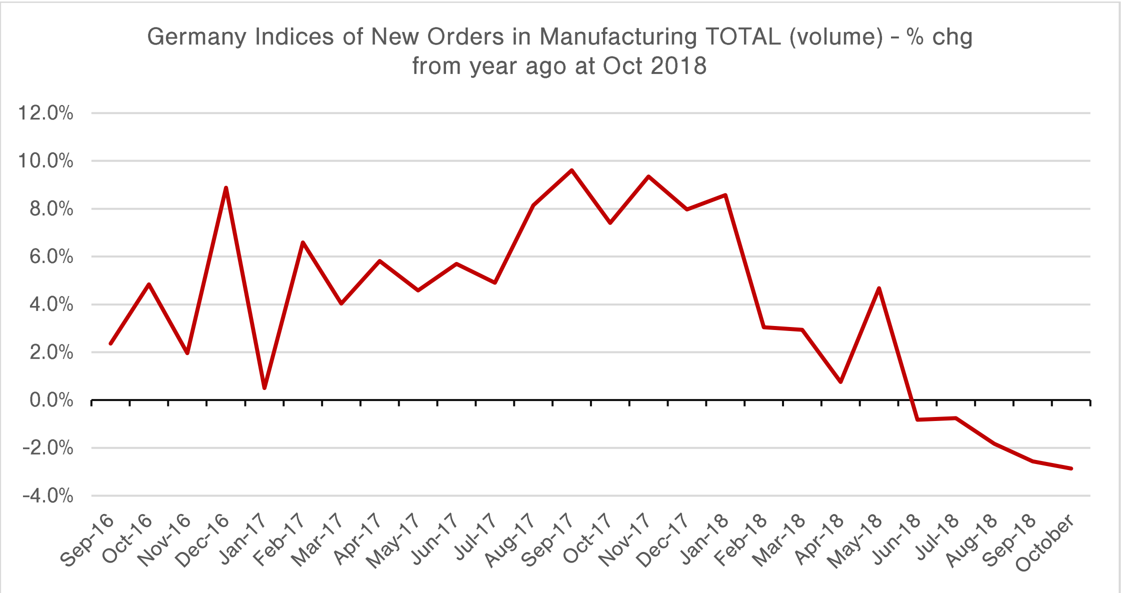
The stronger growth in month was the result of stronger growth in new orders from foreign countries within the Euro area, up +7.3%. New orders for transport equipment was the main driver of this result, with most of the gain in the latest month (below is the trend of the straight index, not rate of change):



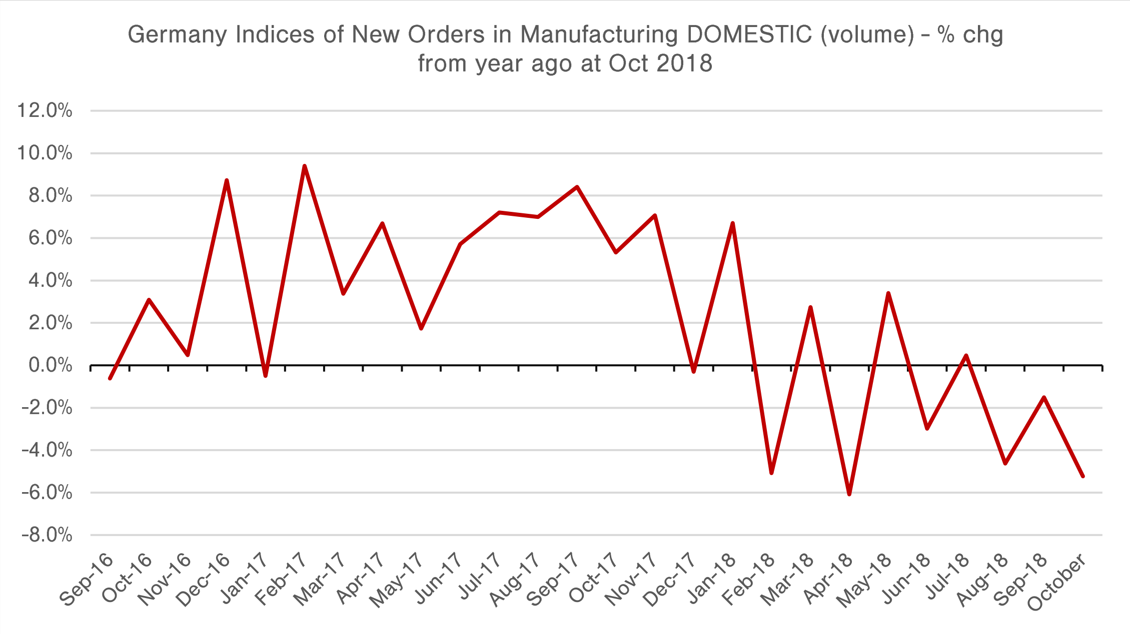
New orders from non-Euro area foreign countries increased by +0.3%.

Domestic new orders in Germany declined by 3.2% in the month

Annual change in Total New Orders in Oct versus a year ago; -2.9%



Growth in new orders for the domestic market continues to weaken;



https://www.destatis.de/EN/PressServices/Press/pr/2018/12/PE18_473_421.html;jsessionid=0173D341B08DFA654F004E0AB943B586.InternetLive2

Germany Turnover of Manufacturing (Oct)

The volume of manufacturing turnover is the total of final invoice amounts of the reference month.

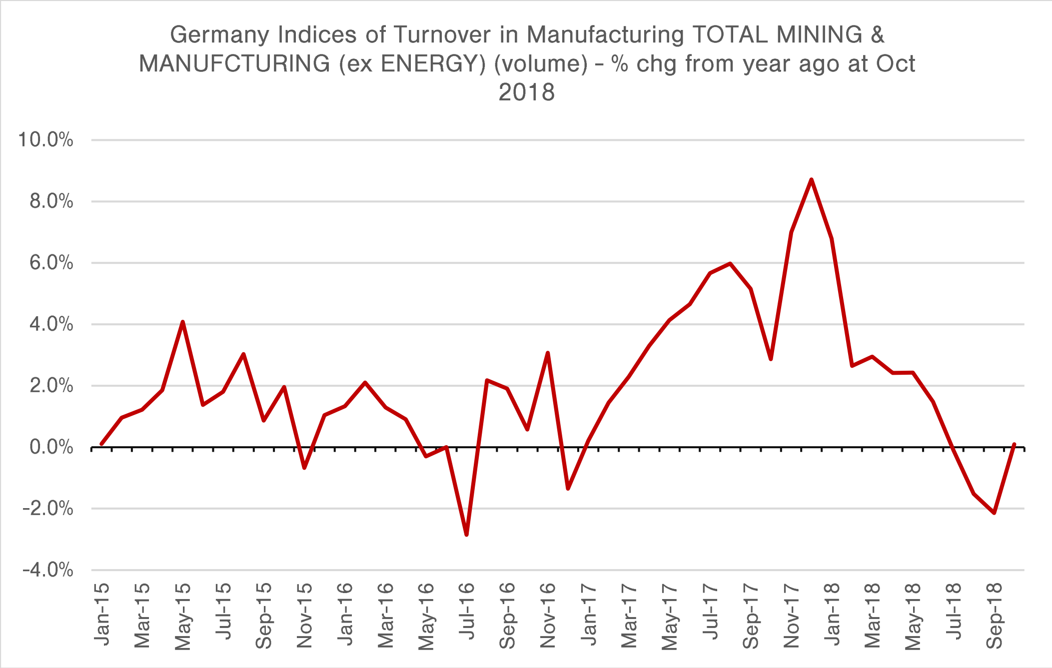
The volume of turnover grew at a faster rate in the latest month and was slightly ahead of the same time last year.

Monthly change in manufacturing turnover; Oct +1% versus Sep -1%

> Domestic manufacturing turnover was stronger in the month +2.3%, while turnover for foreign countries declined slightly -0.2% (led by lower turnover for non-Euro countries)

Annual change in manufacturing turnover in Oct versus a year ago; Oct +0.1%

This was a much stronger result after three months of lower turnover (versus a year ago);



Versus a year ago, manufacturing turnover for the domestic market turned positive +0.6% in Oct. Turnover for foreign countries remained below the same month a year ago by -0.3% (led by Euro area countries).

https://www.destatis.de/EN/PressServices/Press/pr/2018/12/PE18_473_421.html;jsessionid=0173D341B08DFA654F004E0AB943B586.InternetLive2

Germany Industrial Production (Oct)

Industrial production in Germany fell in the month but continues to grow on a year ago basis.

Industrial production (mth chg); Oct -0.5% versus Sep +0.1% (revised lower from +0.2% previously).

Growth for the month within the main areas of industry;

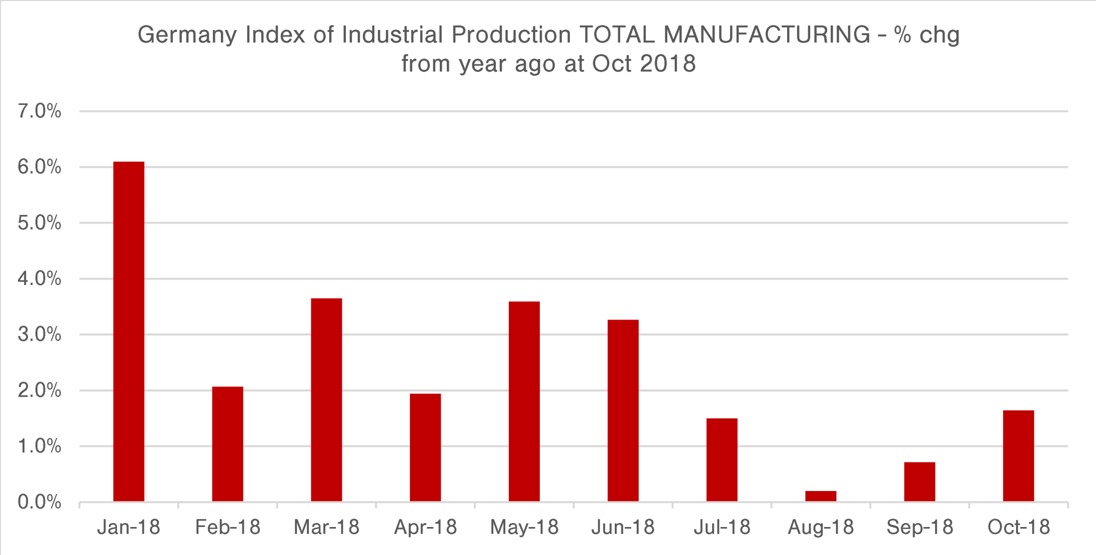
Capital goods; +0.3%

Intermediate goods; +0.2%

Consumer goods; -3.2%

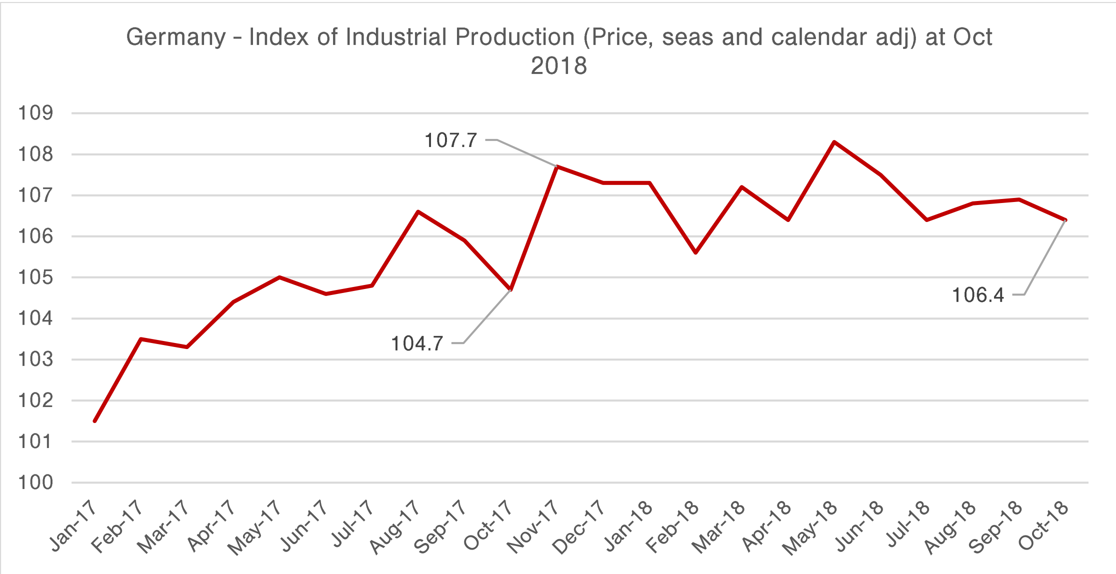
Outside of industry; Energy; -3.2% and Construction -0.3%

On a year ago basis, industrial production grew by +2.6% - recording the second month of higher growth versus a year ago (price and calendar adjusted);



The trend of the seasonally adjusted index of industrial production suggests that the higher growth in the latest month versus a year ago was partly the result of lower production in Oct 2017.

Looking ahead to Nov, production growth will need to increase at a much faster rate on a monthly basis in order to cycle over the Nov 2017 spike in production. Given the state of new orders over the last few months, its difficult to see that happening;



https://www.destatis.de/EN/PressServices/Press/pr/2018/12/PE18_476_421.html

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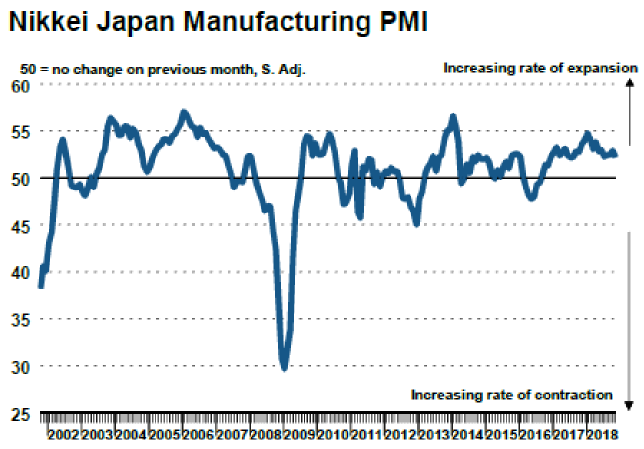
Japan

Manufacturing PMI (Nov)

Private sector manufacturing activity in Japan expanded at a slower rate in Nov after a stronger rebound in Oct.

Nov 52.2 versus Oct 52.9



Sources: Nikkei, IHS Markit

New orders and production both expanded at a slower pace. New export orders also expanded at a slower rate – via weaker demand from China and Europe.

Employment growth increased – firms cited efforts "to improve production capabilities".

Input prices also continued to increase. Firms cited higher fuel, steel, paper, chemicals and foods prices. Labour costs also increased.

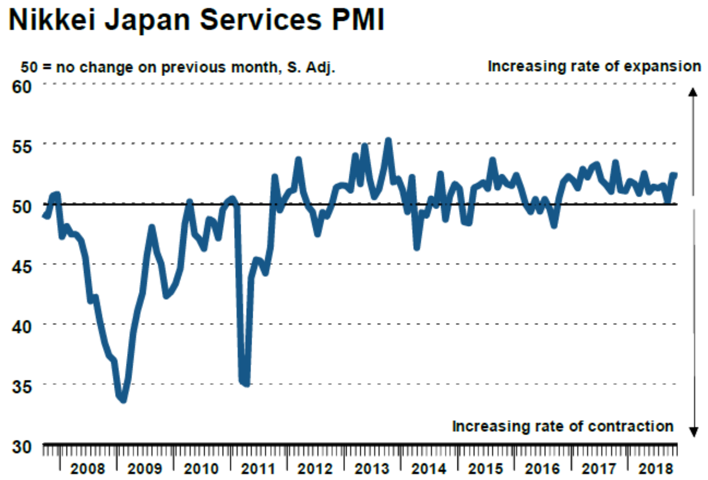
The PMI report quotes deteriorating vendor performance – with shortages of stocks and labour exacerbated by increased demand. Input buying appears have accelerated in order to offset possible future input price rises.

https://www.markiteconomics.com/Survey/PressRelease.mvc/cabb2908b3d94c56be05a60b81c8c391

Services PMI (Nov)

The overall level of services activity was little changed in Nov, remaining elevated near the 6-month high.

Nov 52.3 versus Oct 52.4



Sources: Nikkei, IHS Markit

New business expanded at the same rate as Oct – and remains elevated near the five and half year high. Export business expanded at a faster pace.

Employment growth expanded – with the pace of expansion only 'mild'. That said, backlogs of work declined for the third month in a row.

Input prices continued to increase at a faster pace. Firms cited higher prices for materials, fuel and labour costs. Output prices were increased.

https://www.markiteconomics.com/Survey/PressRelease.mvc/d97be85bf2e7446898c9d13a39e9f4a1

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United Kingdom

Brexit

Throughout the week, news reports increasingly focused on the likelihood of PM May losing the vote for the Brexit deal in the UK Parliament. Over the weekend it was reported that of two more members of the Government resigned over Brexit.

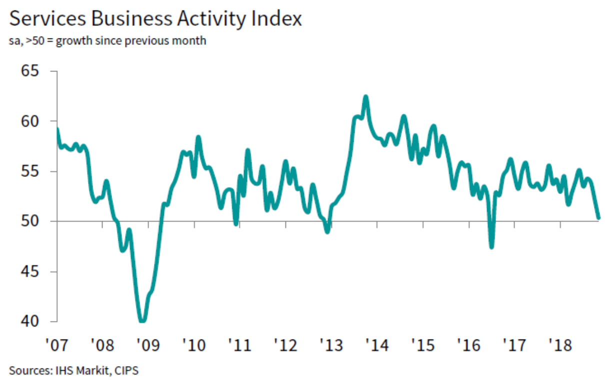
The focus for Brexit becomes the vote in the UK parliament next week. Government whips are currently working through the voting stance of conservative MP's. There is a chance that the vote could be rescheduled.

The European Court of Justice will also rule on Monday whether article 50 can be revoked.

Services PMI (Nov)

Amid the disruption of Brexit, services activity in the UK also recorded a large slow down in the latest month, with growth now almost at neutral.

Nov 50.4 versus Oct 52.2



Firms cited subdued business and consumer spending with spending and investment decisions by firms on hold due to Brexit uncertainty. Growth in new business was marginal. Work in progress fell in the sharpest drop since Sep 2009. Employment growth slowed, and firms continued to cite difficulties hiring skilled staff. Cost inflation eased and selling price growth also slowed. Levels of optimism moderated – mainly due to Brexit uncertainty, but also outlook for business investment and availability of skilled staff.

"A contraction of service sector business activity in November was only avoided by firms working through backorders to an extent not exceeded since 2009. As such, unless demand revives, a slide into economic decline at the turn of the year is a distinct possibility"

https://www.markiteconomics.com/Survey/PressRelease.mvc/441ec75beefb47f7afce9752744f8d75

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Canada

BoC Rate Decision 5 Dec 2018

The Bank of Canada kept its benchmark overnight funds rate on hold at 1.75%.

The statement was the first since the larger falls in the oil price (calling it a 'shock') and the bank is concerned about the impact on the economy/energy sector. Expecting activity in that sector to be 'materially weaker'.

This is within the context of lower momentum in the Canadian economy and the broader global economy going into Q4. Trade uncertainties remain despite the signing of USMCA.

Core inflation tracking at 2% - consistent with an economy running close to its capacity.

The housing market appears to be stabilizing after a 'significant' slowdown in recent quarters, with the bank continuing to monitor the effect of higher rates and tighter rules on builders and buyers.

The BoC maintained that the policy rate will need to increase to the neutral rate to achieve the inflation target.

Further increases will depend on how consumption and housing evolve under the current higher rates, and trade policy changes. The bank will also continue to monitor the 'persistence' of the oil price shock and its impact on the energy sector.

https://www.bankofcanada.ca/2018/12/fad-press-release-2018-12-05/

Employment Report (Nov)

The monthly view of the Canadian labour market was stronger in Nov.

Monthly change

Employment growth has been high enough to absorb more workers into the labour force;

Employment grew by +94k persons in Nov versus +11.2k growth in Oct. Most of which were FT jobs. At the same time, the participation rate increased in the month, which means approx. 55k persons returned/entered the labour force. The total number of unemployed persons still declined by 17k persons.

The unemployment rate declined by 0.2%pts to 5.6% - the lowest since "comparable" data become available in 1976.

Annual change

The annual view is not quite as good. Employment grew by +218k persons, just below the est of what pop growth added to the labour force. The decline in the participation rate meant that 121k persons left the labour force in the last year. If participation had remained the same, the total number of unemployed persons would have increased. Instead, the number of unemployed persons declined on an annual basis.

Annual chg - 000's persons at NOV 2018	
Est of what underlying pop growth add to Labour Force (1)	297.4
How many jobs available? (Annual employment growth) (2)	218.8
Difference (employ growing slower than what population adds to the Labour force) (3)	78.6
How many left the Labour Force in the yr to Nov 2018? (4)	-121.8
The remainder is the reduction in total unemployed persons - (4) plus (3)	-43.2

https://www150.statcan.gc.ca/n1/daily-quotidien/181207/dq181207a-eng.htm

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Australia

RBA Interest Rate Decision – 4 December 2018

The overnight cash rate was unchanged at 1.5%.

Overall positive assessment of the global economy – some slow down in global trade but expansion continuing. China growth slowed a little. Financial conditions are still expansionary but have tightened somewhat.

Aus growth to average 3.5% this year. Slowing after that on the back of slower export growth. Household spending remain uncertain under high levels of debt and "some asset prices have declined".

Unemployment rate expected to continue to fall (currently 5%). There is some pick up in wages growth (this is a crucial point followed by the RBA and is central to the RBA achieving inflation targets). What isn't mentioned is the elevated levels of underemployment – until that is reduced, wage growth likely to remain muted.

CPI is low and stable. Inflation likely to pick up in the next few years but will be gradual (wages). Expected 2.25% in 2019 (currently 1.9%)

On housing;

> "Credit conditions for some borrowers are tighter than they have been for some time, with some lenders having a reduced appetite to lend"

Signalling; low level of rates is supporting the economy. Further progress on returning inflation to the 2-3% band and reducing unemployment is likely to be gradual. Holding rates is consistent with sustainable growth and achieving inflation target over time.

https://www.rba.gov.au/media-releases/2018/mr-18-31.html

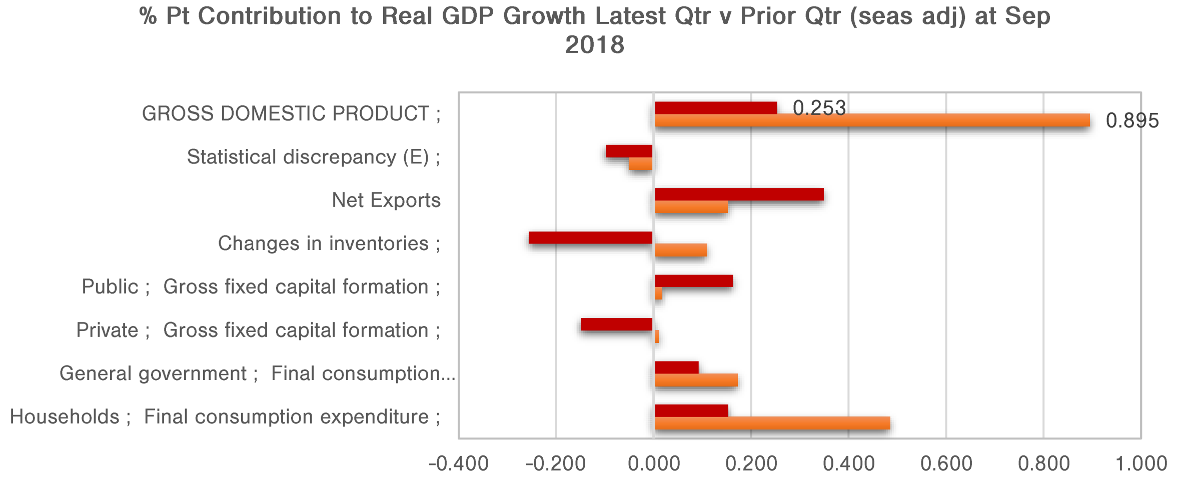
Q3 GDP

Aussie Q3 GDP growth slowed more than expected. In the latest quarter, the largest contribution to growth was from Net Exports (from a decline in imports, while export growth was flat). Household consumption expenditure contributed to growth but at a much slower pace.

Qtr real GDP growth; Q3 +0.25% versus Q2 +0.9% - the expectation was for at least +0.6% growth in the latest quarter.

Annual rate of GDP growth (latest qtr versus year ago); Q3 2.8% versus Q2 +3.1%. The RBA is expecting GDP growth to average 3.5% this year.

Contribution to growth in the latest quarter



	Households ; Final consumption expenditure ;	General government ; Final consumption expenditure ;	Private ; Gross fixed capital formation ;	Public ; Gross fixed capital formation ;	Changes in inventories ;	Net Exports	Statistical discrepancy (E) ;	GROSS DOMESTIC PRODUCT ;
Latest Qtr SEP 2018	0.153	0.092	-0.149	0.163	-0.256	0.349	-0.098	0.253
Prior Qtr JUN 2018	0.485	0.172	0.010	0.017	0.109	0.151	-0.049	0.895

Net exports made the single largest contribution to growth in the latest quarter, adding +0.35%pts to the headline growth of +0.25%. The increase in the net export figure was the result of lower imports (-1.48% in the quarter) and export growth that was relatively flat (+0.14% growth in the quarter).

The decline in Imports was led by consumption goods (non-industrial transport), capital goods and non-monetary gold imports. Services imports were flat.

Whilst total exports were higher, goods exports fell by 1.1% (led by metal ores & mins, coke/coal and cereal grains). Service exports +4.5% offset the decline.

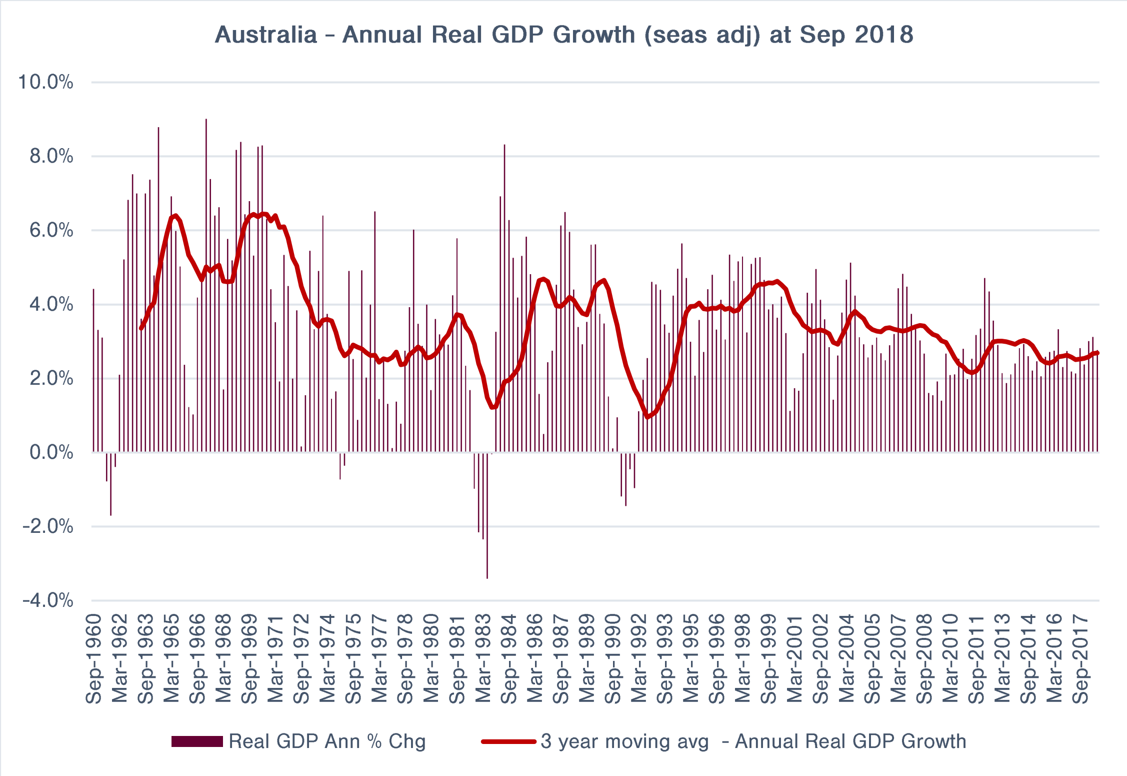
In other words, lower domestic consumption hit imports and the volume measure of our largest export sector was down slightly. Not a great story.

Public investment spending (public gross fixed capital formation) also made a larger contribution to growth adding +0.16%pts to growth in the quarter – significantly more than in the quarter prior.

Most disappointing was the lower contribution to growth from Household Consumption Expenditure – which added +0.15%pts, well below that of the quarter prior (which was about the average for the last 3 years). This is also the second lowest level of contribution to growth since the Mar Qtr in 2009.

As expected from the capex and construction data last week, private capital formation detracted from growth this quarter after a flat result in the quarter prior. Private business investment detracted from growth, offsetting small gains in dwellings (due to alterations).

The change in inventories was much lower in the latest quarter, and this also detracted from growth in the quarter.



On a longer-term basis, annual GDP growth is sitting just above the 3-year average.

GDP data;
http://www.abs.gov.au/ausstats/abs@.nsf/latestProducts/5206.0Media%20Release1Sep%202018

Balance of Payments trade data;
http://www.abs.gov.au/AUSSTATS/abs@.nsf/ProductsbyCatalogue/3A4E6ACDF08D503ECA257EB2001131AE?OpenDocument

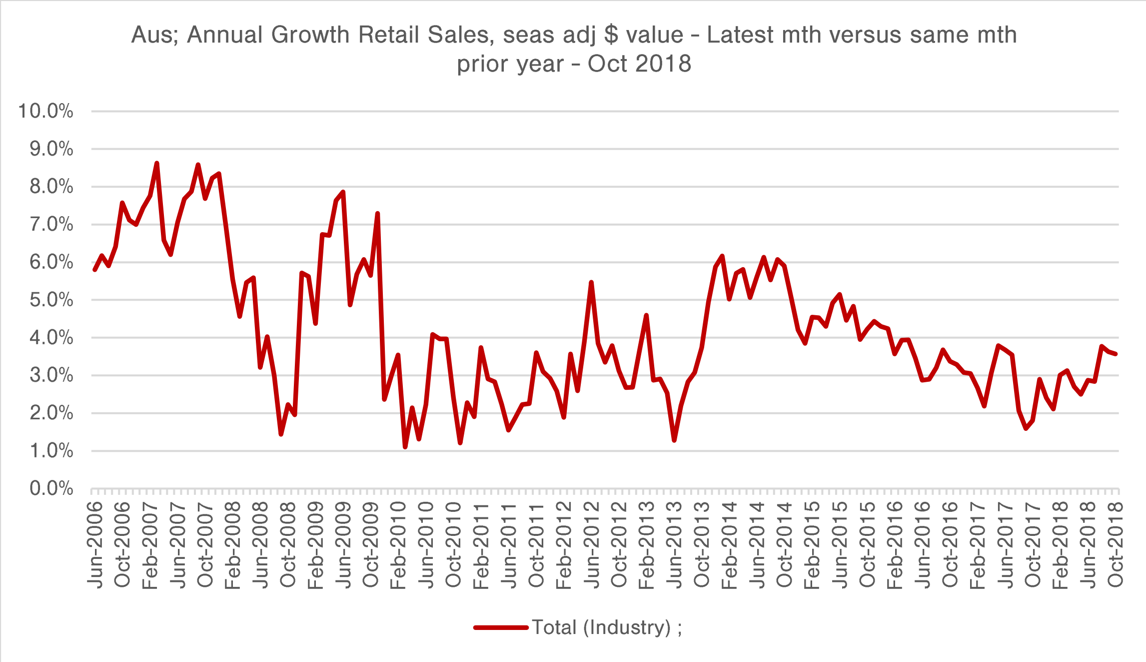
Retail Sales (Oct)

Retail sales in Australia (at current prices) grew at a faster pace in Oct.

Oct +0.3% versus Sep +0.15%

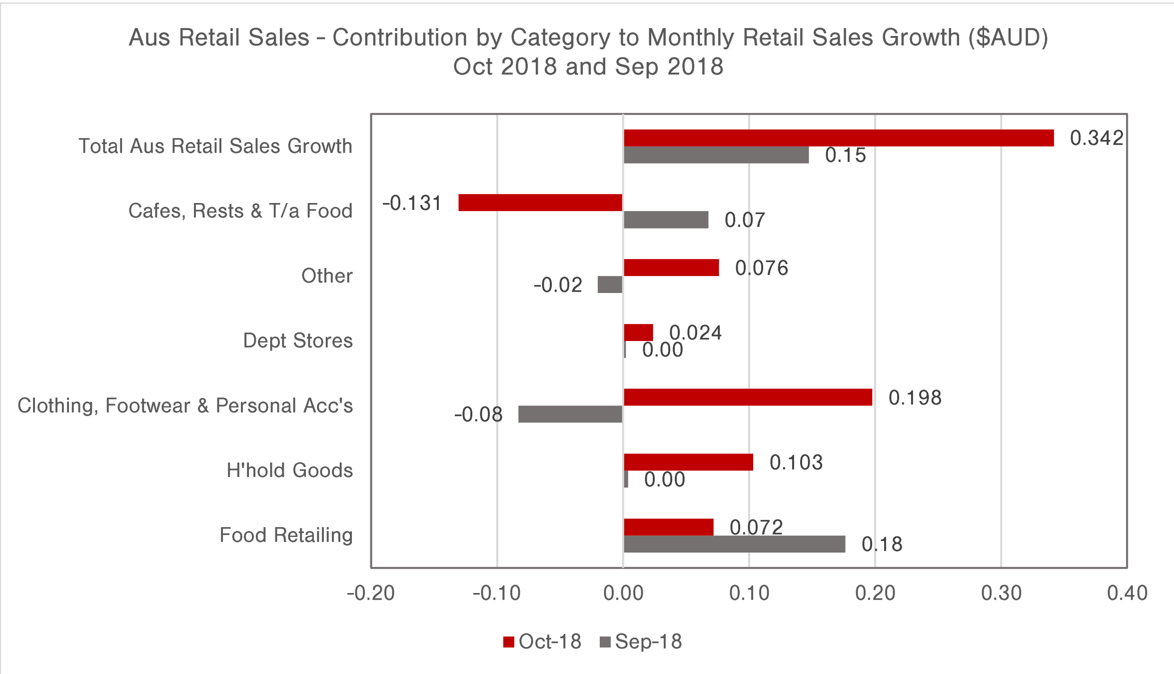
The faster growth was the result of an acceleration in growth of clothing, footwear and personal, household goods and other.

The annual change (current month versus same month prior year) remained the same in Nov; +3.6% (versus Oct +3.6%)

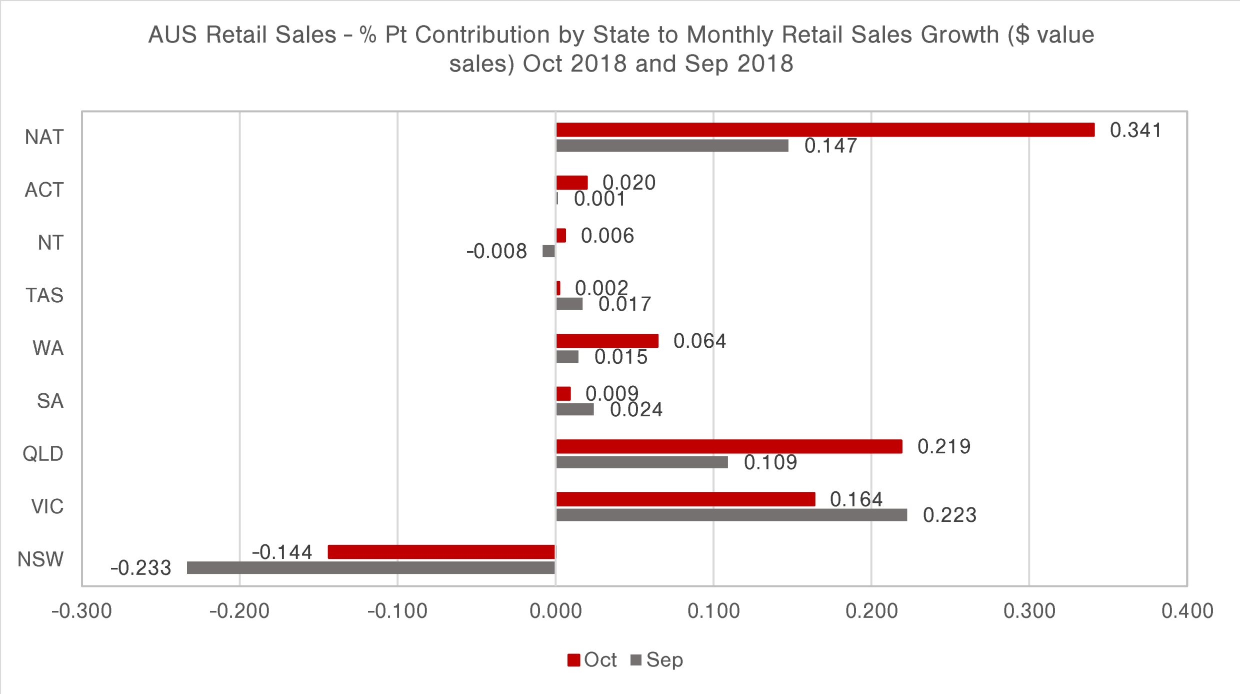


Sales improved in clothing footwear and personal, household goods and other.

Sales declined in cafes, restaurants and takeaway – which has been one of the stronger performing categories over the last few years.



The state by state view of retail sales is an important view in context of the current developments in the housing market;



The two largest states are NSW and VIC - based on retail sales value both together accounted for 58% of total retail sales.

Over the last two months, retail sales in NSW has declined. Sales in VIC continue to grow but growth has slowed somewhat. It is difficult to say at this moment whether this result is related to a softer housing market. It will be something to watch.

http://www.abs.gov.au/AUSSTATS/abs@.nsf/ProductsbyCatalogue/3DDA13ECDC094B1CCA257734002042F2?OpenDocument

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China

Caixin Manufacturing PMI (Nov)

Operating conditions in Chinese manufacturing was little changed in the latest month.

Nov 50.2 versus Oct 50.1

Sources: IHS Markit, Caixin.

New orders increased marginally, while new export orders continued to fall. New orders from abroad have fallen for eight months. Overall production levels were unchanged.

Workforce numbers declined due to softer demand conditions and downsizing.

Input prices continued to grow but at a slower pace.

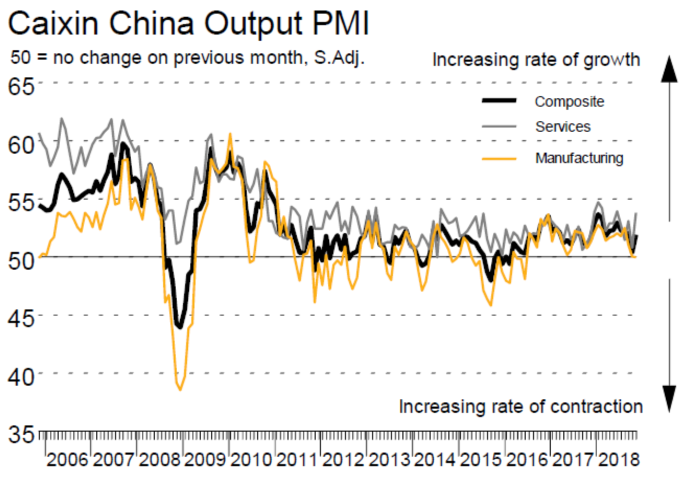
Confidence lifted, but remains low relative to history, citing “strict environmental policies” and sluggish demand conditions.

https://www.markiteconomics.com/Survey/PressRelease.mvc/d8bf2895434243c7af39a6c1dcdc75dc

Caixin Services PMI (Nov)

The headline index of services activity in China increased strongly in the latest month.

Nov 53.8 versus Oct 50.8



Sources: IHS Markit, Caixin.

New orders increased at a faster rate. A modest increase in new export orders was recorded but did not offset the decline in manufacturing export orders. Activity/output levels increased at a faster pace due to greater demand and higher client numbers.

Employment increased for the second month, but only marginally. This also did not offset the declines recorded in the manufacturing sector.

Input price growth remained unchanged in the latest month. Prices charged by companies was little changed

> "Companies widely commented that relatively subdued demand conditions and efforts to remain competitive had weighed on overall pricing power"

https://www.markiteconomics.com/Survey/PressRelease.mvc/719f9e508097472b948a542fdbcac3ea

Trade Balance data (Nov)

The Chinese trade data came in much worse than expected;

Exports; +5.4% y/y in Nov in USD terms, vs prev 15.6%, expected 9.9%

Imports; +3% y/y, vs prev 21.4%, expected 14%

Trade surplus; widened by 16.4% to $44.74bn from prev $34.01bn

For the surplus to widen, import growth slowed faster than export growth.

We are sure to see the knock-on effects of this slower growth across many countries in the next few months.

Source: @YuanTalks

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Trade

US-China Trade Negotiations

At the start of the week, the outcome of the G20 sideline meeting was used to project confidence for the path forward for negotiations. But uncertainty and headline risk around trade and tariffs remains.

In an interview on Sunday night, USTR Lighthizer stated that 1 Mar 2019 was a 'hard deadline' to reach an agreement with China and avert an intensifying trade war.

> "When I talk to the president of the United States, he's not talking about going beyond March 1, he's talking about getting a deal if there is a deal to be gotten in the next 90 days."

In the meantime, the CFO of Huawei was arrested – but USTR Lighthizer stated that he did not expect that "to interfere with trade talks".

https://www.sbs.com.au/news/us-sets-hard-deadline-for-china-trade-negotiations

The focus now turns to the schedule of meetings to address key issues over the next 90-days.

With a focus now on a looming hard deadline, uncertainty and headline risk around trade and tariffs is as heightened as ever.

Adding further strain to this deadline will be the Christmas and Chinese New Year breaks. Nothing we have seen or heard suggests that both sides are close to a compromise. Even the triumphant tweet from President Trump regarding China agreeing to reduce its tariffs on cars has proven to be unfounded.

NAFTA/USMCA

The deal now needs to be submitted to the U.S. Congress for approval. Given mid-term election results, the deal is still likely to gain approval in Congress.

The joint statement can be found on the USTR website; https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/september/joint-statement-united-states

US-Japan Trade Talks

The public hearing is scheduled to take place on 10 Dec 2018 "regarding a proposed U.S.-Japan Trade Agreement, including U.S. interests and priorities in order to develop U.S. negotiating positions". https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/december/public-hearing-negotiating

Talks are likely to start in Jan 2019.

As noted in the announcement, the USTR will publish objectives for the negotiations at least 30 days before negotiations begin (https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/october/trump-administration-announces)

https://www.federalregister.gov/documents/2018/10/26/2018-23569/request-for-comments-on-negotiating-objectives-for-a-us-japan-trade-agreement

Section 232 – Car and Truck Imports

Last week President Trump hinted that he is consider imposing steeper tariffs on imported passenger vehicles in response to the cost cutting announcement by GM.

> "If Washington imposed a 25% tariff on cars as it long has with small trucks, "many more cars would be built here" and GM "would not be closing their plants in Ohio, Michigan & Maryland," Trump tweeted."
>
> "The President has great power on this issue," he wrote."

https://asia.nikkei.com/Economy/Trade-War/Trump-threatens-to-boost-auto-tariffs-on-GM-restructuring

This is contrary to commitments made to Japan and Europe to hold off on any tariffs until trade negotiations get underway.

GM is planning a program of cost cutting including closing seven plants and firing 15% of its workforce – to save $6b by the end of 2020 ($4.5b from cost cutting and $1.5b from lower capital spending).

https://www.prnewswire.com/news-releases/general-motors-accelerates-transformation-300755112.html

US-Europe Trade Talks

Official notification of trade talks was sent to the US Congress three weeks ago (also notifying the US Congress of the intention to commence trade talks with Japan and the UK).

Formal consultation for the US-EU negotiations has now been announced on the US Federal Register

https://www.federalregister.gov/documents/2018/11/15/2018-24979/request-for-comments-on-negotiating-objectives-for-a-us-european-union-trade-agreement

A public hearing has been set for 14 Dec for input into the negotiating objectives for the US-EU trade negotiations.

As noted in the announcement, the USTR will publish objectives for the negotiations at least 30 days before negotiations begin (https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/october/trump-administration-announces)

US-UK Trade Talks

A formal request has now been posted on the US Federal Register for comments on the negotiating objectives for a US-UK trade agreement. https://www.federalregister.gov/documents/2018/11/16/2018-24987/request-for-comments-on-negotiating-objectives-for-a-us-united-kingdom-trade-agreement

A public hearing has been scheduled for 29 Jan 2019 on the negotiating objectives for the US-UK trade talks.

As noted in the announcement, the USTR will publish objectives for the negotiations at least 30 days before negotiations begin. (https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/october/trump-administration-announces).

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