Weekly Macro Review

w/c 17 December 2018

Key Themes

The most anticipated event of the week was the FOMC meeting. The FFR was increased for the fourth time this year. The statement of the decision had an unexpected hawkish tone including retaining the reference to “further hikes”. Chairman Powell’s news conference, though, emphasised more the downside risks. At this stage, FOMC participants have revised growth somewhat lower for 2019 and “judge” that there may be a further two hikes in rates in 2019. There were some important changes to the wording of the decision statement which were clarified by NY Fed President Williams in his CNBC interview on Friday morning.

US data was mostly good this week. Core PCE growth ticked up in the latest month, in line with Fed estimates. The third estimate for Q3 GDP growth was revised slightly lower to +3.4% as personal consumption expenditure and the contribution of net exports were revised lower. The contribution from inventories remains high. The latest month of PCE data for Nov indicates that real spending growth has been somewhat lower so far in Q4 than in Q3.

US housing data had some positive news. Although the conditions index continued to deteriorate in Nov, existing home sales and new residential construction increased in the latest month.

One area to watch for is slowing US manufacturing growth. Data this week and over the last few weeks is hinting at slower momentum, especially from Dec. The three regional surveys this week were much softer. Advance durable goods new orders and shipments ex-transports for Nov was softer. In the previous month final durable goods report, core orders & shipments growth has been trending somewhat slower throughout the year. Last weeks industrial production for manufacturing had growth slowing and the prelim PMI for Dec also showed growth slowing. Something to watch.

Other interest rates decisions this week; the BoE (concerned about Brexit), BoJ (inflation not remotely close to targets) and RBA (concerned banks are tightening credit too much) all kept rates on hold.

The impact of slower global trade was mostly evident in the monthly Japanese trade data. Japanese export growth slowed to a mere +0.1% as exports to two (Asia and Western Europe) of the top three Japanese export markets declined versus last year. The Eurozone trade deficit also increased as exports and import growth accelerated (but imports grew at a faster pace).

Consumer price data out this week indicates that the impact of recent growth in energy costs is starting to reverse.

US-China trade talks; a ‘notice of modification of action’ was posted onto the US Federal Register by the USTR on 19 Dec 2018 – confirming that “the rate of additional duty for the products covered by the September 2018 action will increase to 25 percent on March 2, 2019”. This confirms a hard deadline of 1 March 2019 for the US-China Section 301 trade negotiations to be completed by. As we come back from the holiday season, trade negotiation activity will likely ramp up – along with headline risk.

Contents

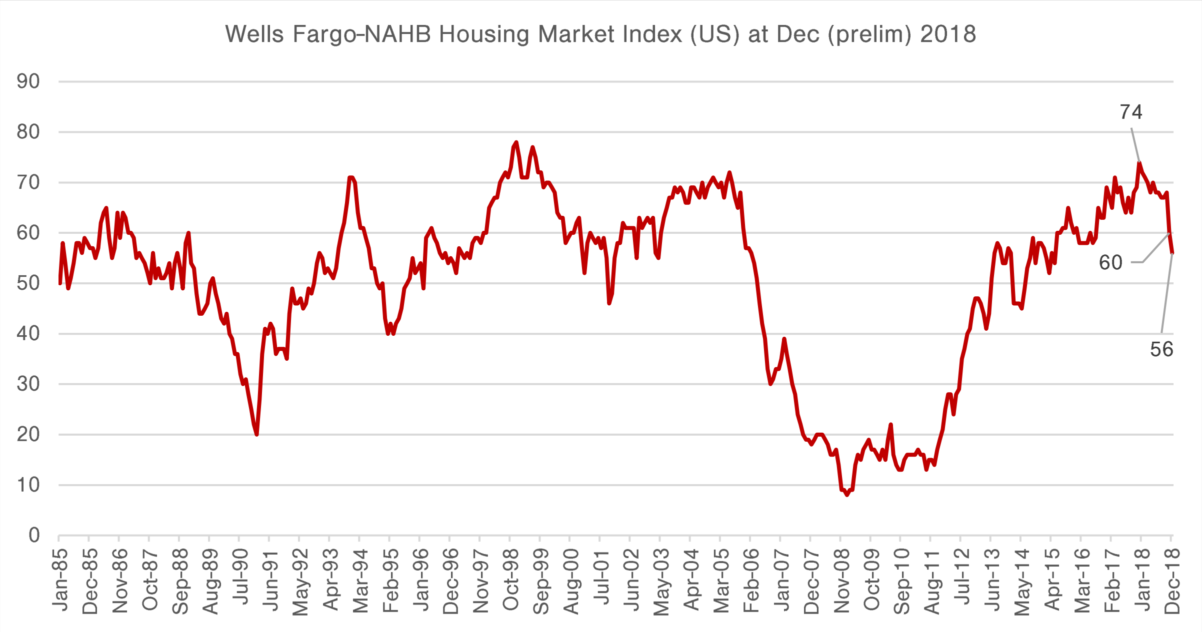
US Data

NAHB Housing Market Index (Dec)

The National Housing Market Index fell further in the latest month indicating continued deterioration in current market conditions. The decline in Dec was not as severe as the fall in Nov, but declined, nonetheless. On a regional basis, the best performing market was the West where there was no change in current market conditions.

Housing Market Index; Dec 56 versus Nov 60.

The high for this cycle was reached a year ago in Dec 2017 when the HMI reached 74.



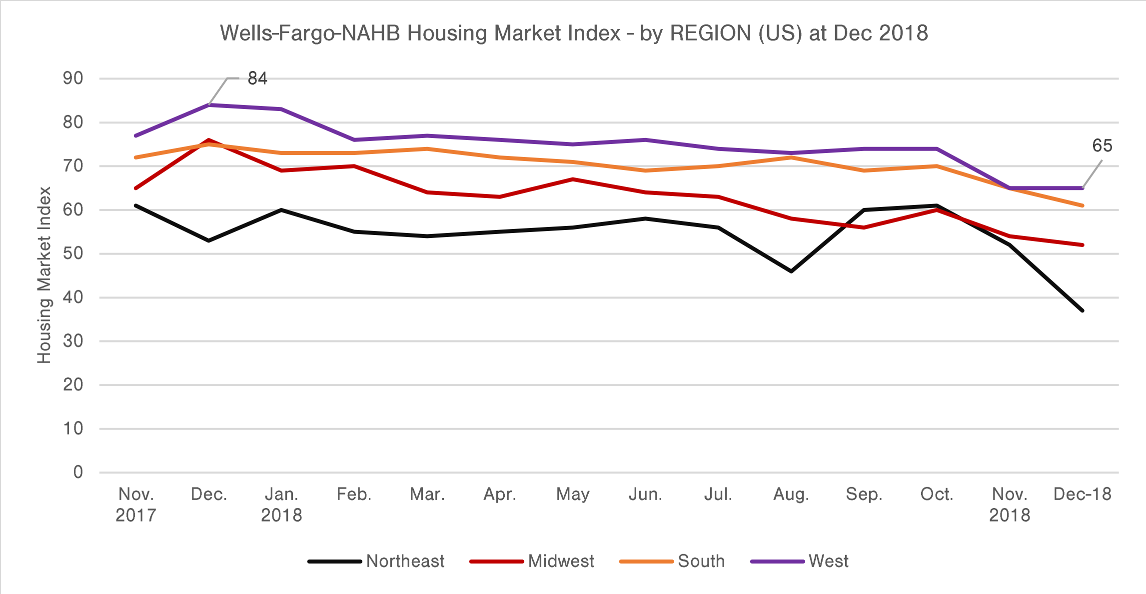
The fall in Nov was a +2SD decline and the current month was <1SD.

Regional HMI

The best performing market this month was the West – recording no change in the housing market index in Dec (versus Nov).

The Northeast recorded the largest fall/decline in conditions with a +2SD decline in the month.

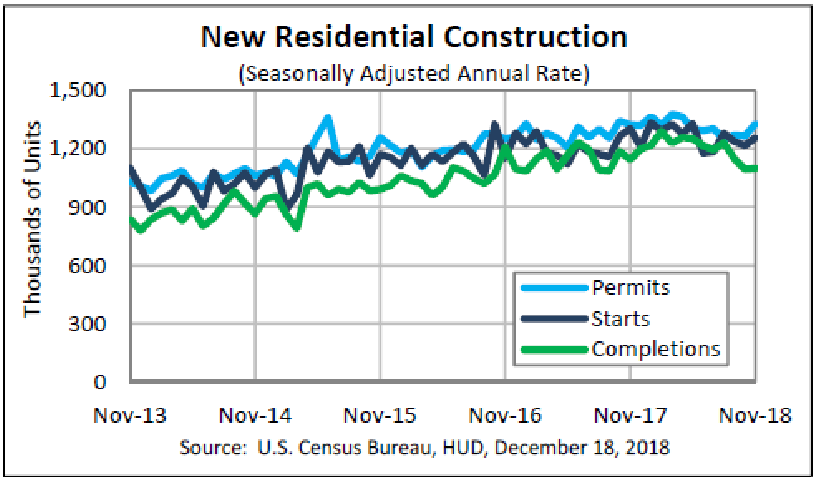
All regions recorded a new low in the conditions index for the year;



https://www.nahb.org/en/research/housing-economics/housing-indexes/housing-market-index.aspx

New Residential Construction (Nov)

Some positive news on new residential construction with increases across permits, starts and completions. The estimate for permits in Oct was revised higher while starts and completions for Oct were revised lower (helping to deliver a positive month on month chg).



Building Permits; Nov annualised rate 1.328m units, +5% (+/- 1.6% pts) versus Oct.

This was driven by permits for 5+ unit dwellings. The South recorded the largest increase in the annualised rate in the latest month.

YTD to Nov 2018; +4.2% (+/- 0.6% pts) versus the YTD 2017 (NSA).

The Oct estimate was revised higher from 1.263m units to 1.265m units.

Housing Starts; Nov annualised rate 1.256m units +3.2% (+/- 9.8% pts) versus Oct.

YTD to Nov 2018; +5.2% (+/- 2.3% pts) versus the YTD Nov 2017 (NSA).

The Oct estimate was revised lower from 1.228m units down to 1.217m units.

Housing Completions; Nov annualised rate 1.099m units +0.4% (+/- 8.7% pts) versus Oct.

YTD to Nov 2018; +4.2% (+/- 3.6% pts) versus the YTD Nov 2017 (NSA)

The Oct estimate was also revised lower from 1.111m units to 1.095m units.

https://www.census.gov/construction/nrc/pdf/newresconst.pdf

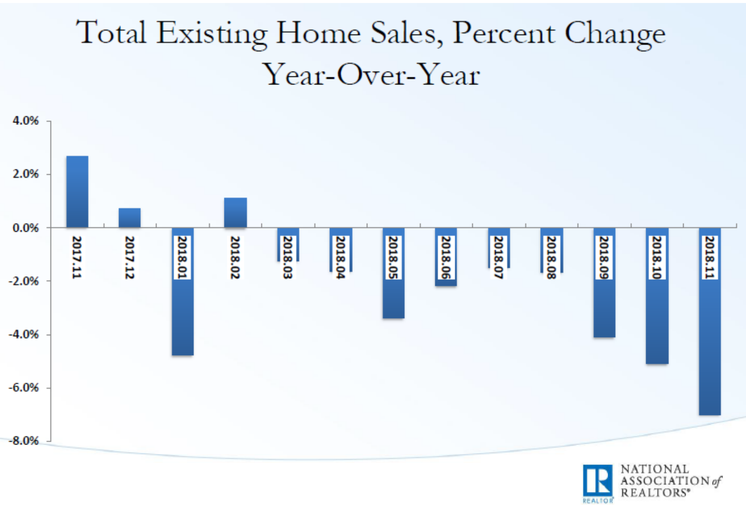
Existing Home Sales (Nov)

Existing home sales increased for the second month in a row but remains well down on a year ago. Most regions recorded increases in sales for the month, except for the West. Inventory/months of supply fell and the sales price across all regions was still ahead of last year.

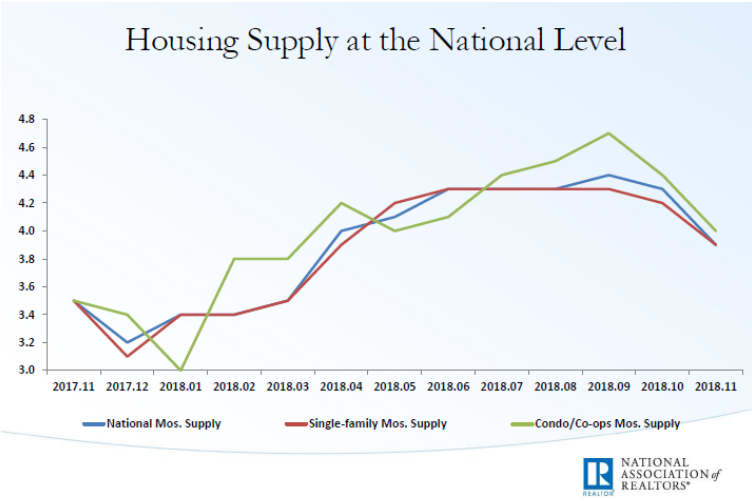
National existing home sales

National monthly change; Nov +1.9% annualised sales 5.320m units versus Oct +1.4% annualised sales 5.220m units

National change versus year ago; Nov -7%



Inventory fell by 5.9% in Nov and months supply declined from 4.3 in Oct to 3.9 in Nov (the lowest since Apr). Inventory remains +4.2% up on last year.



Regional existing homes sales

Existing homes sales were up on the month across the Northeast, Midwest and the South. In the West, existing home sales fell further by 6.3% and is 15.4% down on the same month a year ago.

Northeast; +7.2% in Nov and -2.6% versus same month a year ago

Midwest; +5.5% in Nov and -4.3% versus same month a year ago

South; +2.3% in Nov and -5.6% versus same month a year ago

Sale Prices

The median sale price of existing homes was up on a National and a regional basis;

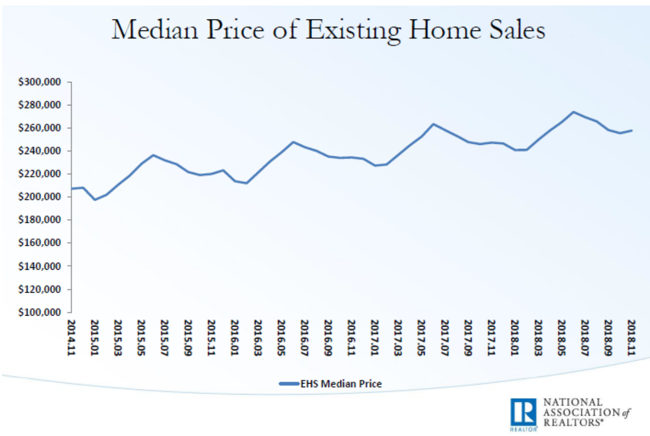
National; Nov +4.2% versus a year ago

Northeast; Nov +6.5% versus a year ago

Midwest; Nov +2.6% versus a year ago

South: Nov +3.2% versus a year ago

West +1.8% versus a year ago.

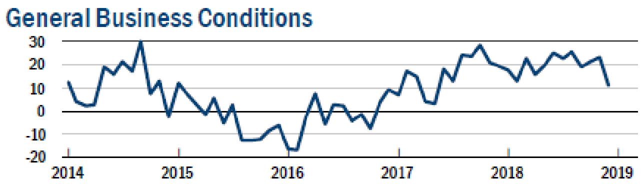


https://www.nar.realtor/research-and-statistics/housing-statistics/existing-home-sales

Empire State Manufacturing Survey (Dec)

The headline manufacturing business conditions index slowed markedly in Dec.

General business conditions; Dec 10.9 versus Nov 23.3



	Percent Reporting		
	Higher	Lower	Index
Nov	40.9	17.7	23.3
Dec	29.8	18.9	10.9
Change			-12.4

While the proportion of firms reporting ‘higher’ levels of activity fell, the number of firms reporting ‘lower’ levels of activity was little changed. Meaning – firms are experiencing ‘no change’ in growth momentum rather than an increase in outright falls in activity.

Activity slowed across the major indicators of demand – new orders and shipments growth slowed. Unfilled orders fell back into contraction as firms worked through backlogs. This has been a key theme through the latest rounds of PMI’s also.

Growth in prices paid slowed somewhat and remains elevated. Prices received was mostly unchanged at lower levels. Firms likely experiencing margin pressures.

The number of employees continued to grow at a faster pace, while the average workweek continues to moderate.

General business conditions for 6months ahead fell in the latest month but is still higher than current business conditions. Capex and tech spending for 6-months ahead both expanded at a faster rate in the current month and are approaching recent highs.

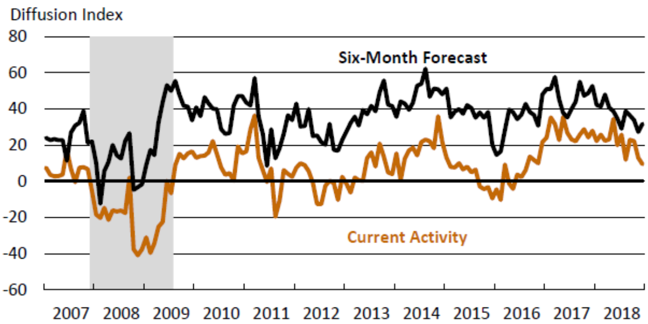
https://www.newyorkfed.org/medialibrary/media/survey/empire/empire2018/esms_2018_12_survey.pdf?la=en

Philadelphia Fed Manufacturing Business Outlook Survey (Dec)

The headline general business activity index continued to grow at a slower pace in the latest month.

Dec 9.4 versus Nov 12.9

Chart 1. Current and Future General Activity Indexes
January 2007 to December 2018



Note: The diffusion index is computed as the percentage of respondents indicating an increase minus the percentage indicating a decrease; the data are seasonally adjusted.

New orders grew at a faster pace in Dec but remains lower than its average reading for the year. Production slowed considerably from a reading of 21.6 in Nov to 10 in Dec.

Unfilled orders moved out of contraction and increased to 9.7 while inventories moved into contraction.

Prices paid remains elevated but slowed slightly in Dec while prices received increased at a faster pace.

The number of employees continued to grow at a slightly faster rate, but the average employee workweek slowed to almost neutral in Dec with a reading of 0.5.

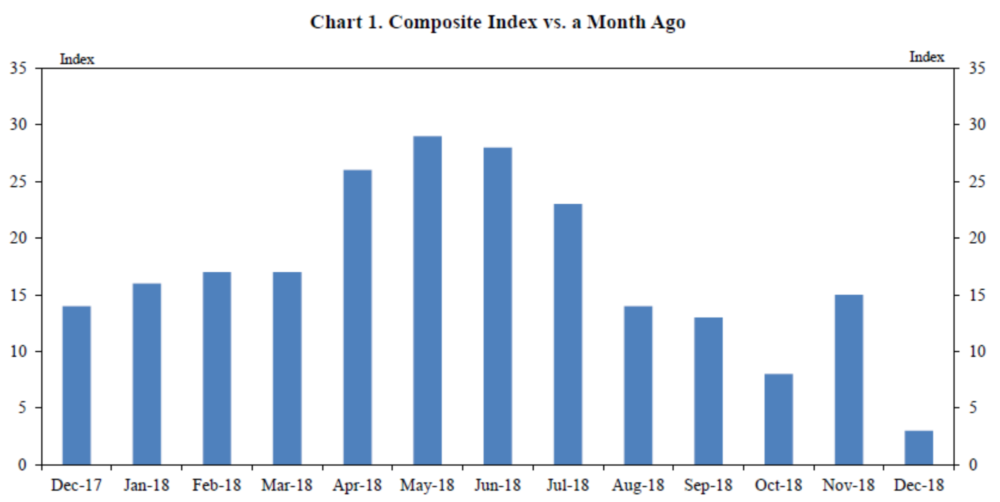
The outlook for six months' time increased in the latest month and remains well down on the more optimistic readings in 2017.

https://www.philadelphiafed.org/-/media/research-and-data/regional-economy/business-outlook-survey/2018/bos1218.pdf?la=en

Kansas City Fed Manufacturing Index (Dec)

The headline composite index of manufacturing activity in the region slowed considerably in the latest month. The key indicators of demand weakened.

Composite index; Dec 3 versus Nov 15



The volume of new orders slowed to a reading of 4 in the latest month (low growth). The proportion of firms reporting a decrease in new orders is larger than the proportion of firms reporting an increase (unusual).

New orders for export declined – but note that the majority, 82%, of firms reported 'no change' in new export orders.

Production and the volume of shipments fell into contraction. The backlog of orders continued to grow but at a much slower pace.

Prices paid continued to grow, but at a slower pace. Growth in prices received for finished products slowed to virtually no change.

The number of employees continued to grow but remains well off the recent highs. The average employee workweek was unchanged.

Expectations for conditions in six months' time improved somewhat in the month but also remains well off the recent peak.

https://www.kansascityfed.org/~/media/files/publicat/research/indicatorsdata/mfg/2018/2018dec21mfg.pdf?la=en

Advance Durable Goods – Manufacturers Shipments, Orders & Inventories (Nov)

The advance report for Nov indicated that durable goods new orders and shipments both grew at a faster pace in the latest month – driven higher by transportation orders and shipments. Excluding the large transport orders and shipments, both new orders and shipments fell.

Unfilled orders fell as transport orders progressed through production and shipment processes. Inventories increased – but there was no single driver of that increase.

Core orders and core shipments (ex-transport) data will be updated once the final report is released.

Shipments

Nov +$1.8bn or +0.7% versus Oct -0.4% (the Oct value was revised slightly higher)

The single largest contributor to the increase in manufacturer shipments was transportation equipment growing at +$1.78bn in Nov (almost equal to the overall increase in shipments for the month)

Shipments ex-transports; Nov 0%

Of the other major product categories, the growth in shipments for primary metals and computers and electronic products was offset by declines in fabricated metal products, machinery and all other durable goods.

Looking at capital goods shipments – growth was driven primarily by non-defense capital goods (aircraft).

New Orders

Nov +$1.89bn +0.8% versus Oct -4.3% (the Oct value was revised slightly higher)

As with shipments, new orders were higher due to transportation new orders which increased by +$2.46bn in Nov.

New orders ex transports; Nov -0.3% or -$0.5bn versus Oct.

The increase in transportation new orders was for defense aircraft & parts +$1.63bn and a smaller increase in new orders for non-defense aircraft & parts of +$0.6bn in Nov.

Unfilled Orders

Nov -$1.7bn or -0.1% versus Oct -0.2%

The decline in unfilled orders was also driven primarily by transport equipment which fell by -$2.46bn in Nov. Non-defense unfilled orders decreased by over -$4.7bn (shipments only increased by +$2.1bn in the month, so likely a further increase in shipments to come).

Inventories

Nov +$1.05bn or +0.3% versus Oct +0.2%

There has been no single category driving the higher inventory number this month. Even ex transports, inventory grew by +$0.97bn or +0.3%.

Given the increase in new orders for transport equipment, its likely that inventories will increase further in the following month/s.

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

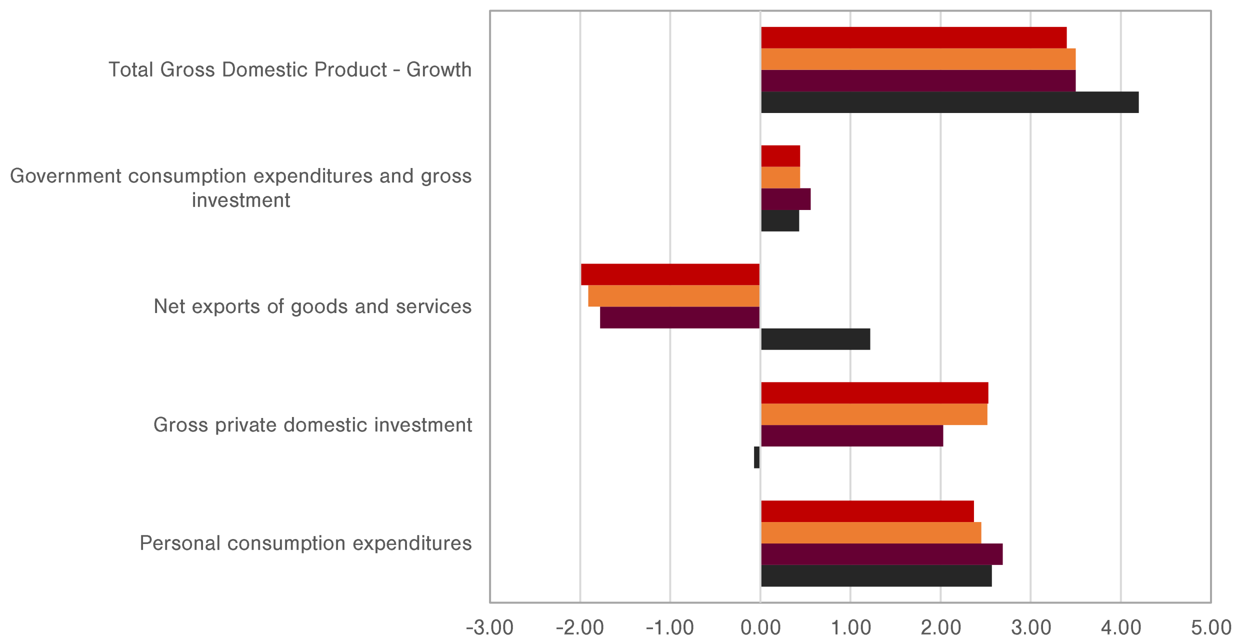
Q3 GDP and Personal Consumption Expenditures (Third Est)

Real GDP growth was revised slightly lower in the latest third estimate from +3.5% to +3.4% growth (SAAR). Personal consumption expenditure and net exports were revised lower while gross private domestic investment was revised very slightly higher due to inventories. The change in inventories contributed +2.33% pts to the headline growth of 3.4% - which is almost on par with the contribution of personal consumption expenditures.

Complete summary of Q3 revisions versus Q2

Note that this chart measures the contribution of each expenditure group to headline GDP growth – all components should sum to the total GDP growth.

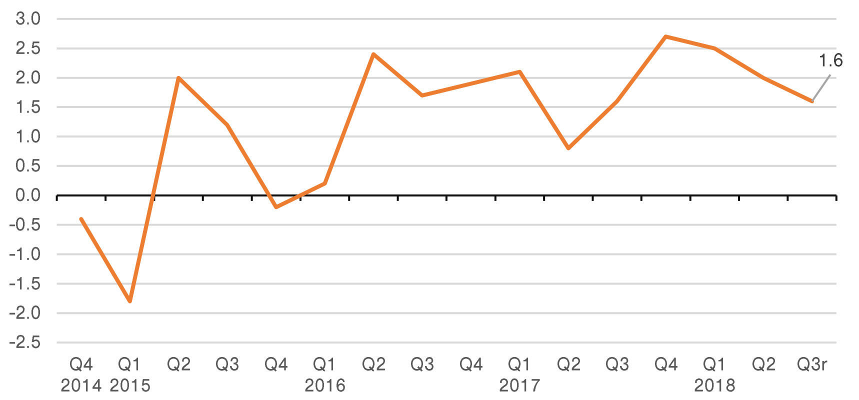
Contribution to Real GDP Growth - Q3 THIRD ESTIMATE (versus Q2 Second Est) at Annualised Rates



	Personal consumption expenditures	Gross private domestic investment	Net exports of goods and services	Government consumption expenditures and gross investment	Total Gross Domestic Product - Growth
Q3 Third Estimate	2.37	2.53	-1.99	0.44	3.4
Q3 Second Est	2.45	2.52	-1.91	0.44	3.5
Q3 - Advance	2.69	2.03	-1.78	0.56	3.5
Q2	2.57	-0.07	1.22	0.43	4.2

Personal consumption expenditure was revised lower; expenditure on durable goods was lower and expenditure on services was revised higher. Overall real PCE growth has slowed over the last three quarters but is the same rate of growth recorded in Q3 2017;

US - Real Personal Consumption Expenditure Growth - % chg from prior Qtr



Gross private domestic investment was revised very slightly higher, but the devil is in the detail. Fixed private investment was revised slightly lower to +0.21% pts contribution to the 3.4% headline growth and changes in private inventories was revised slightly higher to 2.33% pts contribution to GDP growth in Q3. The change in private inventories makes up most of the contribution by gross private domestic investment in Q3.

Net exports were revised lower as a result of exports declining more than imports in the revised estimate.

https://www.bea.gov/data/gdp/gross-domestic-product

Personal Consumption Expenditures, Incomes and PCE Price Index (Nov)

The annual growth in the headline PCE price index growth slowed in Nov as energy price growth slowed. The core PCE price index (ex food and energy) grew at a slightly faster pace and is in line with the latest FOMC forecast.

Real personal disposable income growth remained unchanged at a high level in Nov. But the annual growth in real personal consumption expenditure has slowed. So far in Q4, there is a somewhat slower pace of expenditure growth compared to the trend during the months of Q3.

PCE Price Index

Headline PCE Price Index - the annual change in the headline PCE price index slowed further in the latest month;

Nov +1.8% versus Oct +2%

One of the drivers of the lower headline inflation is the slower growth in energy goods & services (as crude oil prices have fallen). Energy goods and services grew at an annual rate of +3.4% in Nov versus +9.3% in Oct.

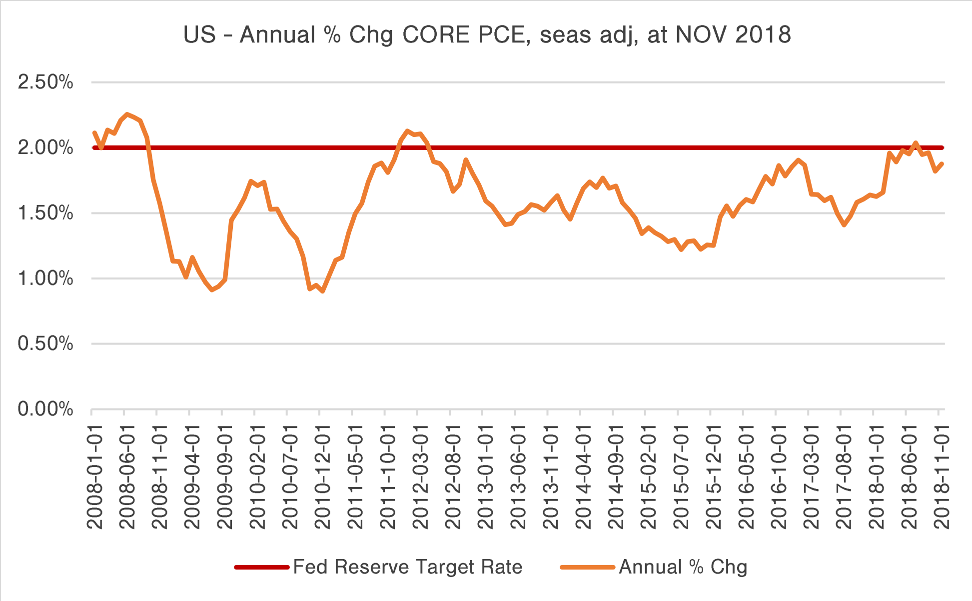
Durable goods prices continue to decline, but at a slower rate in the late month; Nov -1% versus Oct -1.4% annual chg.

Services Prices remain elevated and annual growth slowed slightly; Nov +2.5% versus Oct +2.6%.

Core PCE Price Index - the annual change in the core PCE price index excluding food and energy grew at a slightly faster pace in the latest month and is now growing faster than the headline rate;

Nov +1.88% versus Oct +1.82%

The latest FOMC projection for core PCE price growth was +1.9% revised lower from 2%. The overall 2% symmetrical target remains unchanged;

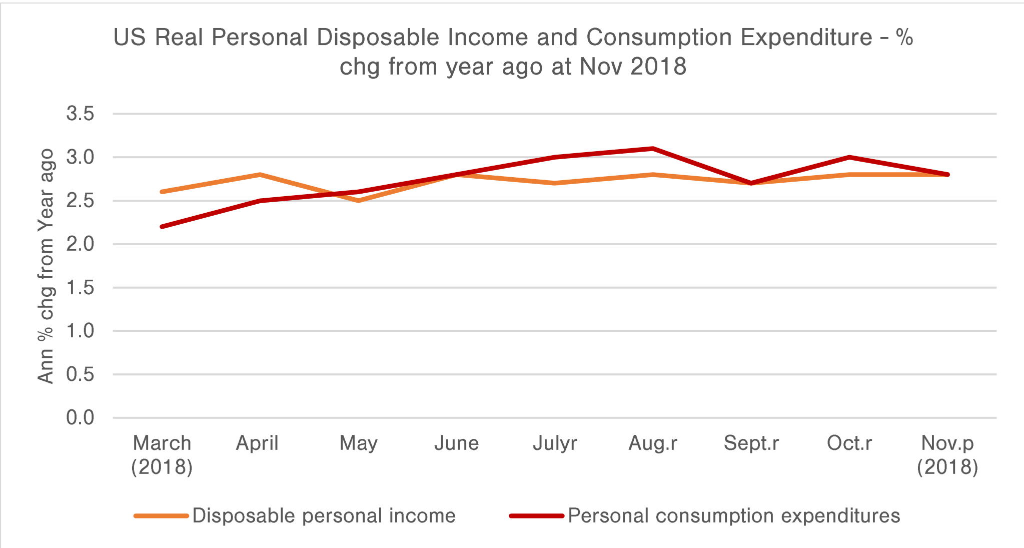


<u>Real Personal Disposable Income and Expenditure</u>

The annual change in real personal disposable income growth (versus same month a year ago) remained unchanged in Nov growing at +2.8% (also +2.8% in Oct).

Real personal consumption expenditure growth slowed slightly from 3% in Oct to +2.8% in Nov. This includes Thanksgiving and post-Thanksgiving promotional periods.

So far in Q4, there is a somewhat slower pace of expenditure growth compared to the trend of the months during Q3;



Expenditure (in real terms) growth was lower mostly across durable goods; Nov +3.8% versus Oct +4.4%. Expenditure on non-durable goods and on services slowed slightly also.

https://www.bea.gov/data/income-saving/personal-income

https://fred.stlouisfed.org/series/PCEPILFE#0

FOMC Rates Decision – 19 Dec 2018

At this meeting the FOMC raised the target range for the FFR by 25bps to 2.25 – 2.5%.

What stood out; the statement/forecasts/dot plot seemed to have a more hawkish bias, while the press conference had a very different approach, emphasising the downside risks. Its most likely that the Fed/FOMC will wait and see for now how this current bout of volatility plays out.

The statement of the decision downplays specific mention of financial market volatility and focuses instead on restating the mandate of managing rates for a sustained expansion of activity, low unemployment and an asymmetric 2% inflation rate.

On the risks, the FOMC states they are roughly balanced "but will continue to monitor global and financial developments and assess implications for the econ outlook". This is the new statement reference for monitoring conditions.

It was surprising to see the official statement still referring to 'further gradual increases';

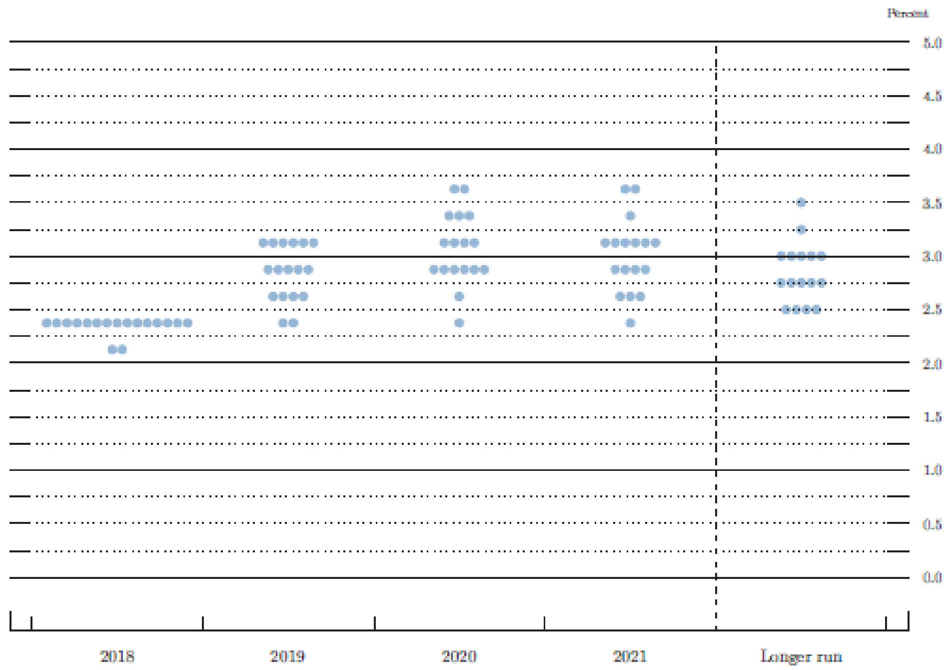
> The Committee **judges** that **some** further gradual increases in the target range for the federal funds rate will be consistent with sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective over the medium term.

Whereas, at the press conference, Chairman Powell indicated that data will inform the outlook and the path of policy, so there is a fair degree of uncertainty about path and destination of further increases. The statement, by contrast, sounded more 'certain'.

The forecasts for 2019 have the median FFR at 2.9% (between 2.75 - 3%, or two hikes from here). The 'dot plot' shows the distribution for the FFR – and while six participants forecast that the FFR will either be unchanged or increase once, there are six participants that forecast up to 3 hikes for 2019 (more hawkish than expected);

For release at 2:00 p.m., EST, December 19, 2018

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



It was a different story at the press conference. The first thing Chairman Powell mentioned was ‘cross-currents emerged since the Sept meeting’. This was very much referring to tighter financial conditions and volatility and the degree to which these tighter conditions were less supportive of growth.

Chairman Powell mentioned that growth was modestly revised lower for 2019 and that “the economy may not be as kind to our forecasts next year” – meaning that the 2018 growth had some added impetus from fiscal stimulus. The additional tightening of financial conditions and slower growth abroad had prompted them to revise growth lower slightly – but was “still at healthy levels”.

On balance sheet normalisation; makes the point that the ‘auto pilot’ run-off of maturing securities had been smooth and that there was no need to change that.

On political pressure, the Chairman was clear, “nothing will deter us from what we think is the right thing to do”.

Statement; https://www.federalreserve.gov/monetarypolicy/files/monetary20181219a1.pdf

Projections & dot plot;
https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20181219.pdf

Interview with NY Fed President John Williams on CNBC – Friday 21 Dec 2018

Moving away from explicit forward guidance and more data dependent.

How the fed interprets ‘data dependence’; not just using the hard data, but also looking at the surveys of households and businesses that the Fed conducts, understanding what the financial markets are saying and incorporating feedback from regional fed liaison with business.

There were specific comments about the changes to the statement wording that seemed to be quite important to the Fed – especially around the part of the statement referencing further gradual rate hikes;

Changed wording around gradual hikes from “expects” to “judges” – an important distinction for the FOMC. “Judges” is based on a current opinion, “how we see things now” which is a positive and optimistic view but is not a commitment to further hikes.

Also added the word “some” in front of ‘gradual increases’ to further temper the expectation.

Added the sentence “continue to monitor global and financial developments and assess implications for the econ outlook” – means they are very focused and attuned to the possibility that this outlook may change in the coming months and open to reassessing their views.

On the ‘autopilot’ of balance sheet normalization – Williams reiterated that the Fed will continue to normalize if it is appropriate in order to achieve goals. In the baseline outlook, the FFR adjustment is the primary instrument to adjust monetary policy. If material deterioration in the economy, then would reconsider path for ST interest rates and adjust accordingly, would consider ending balance sheet normalization if that helped to achieve objectives.

https://www.cnbc.com/video/2018/12/21/cnbcs-full-interview-new-york-fed-president-john-williams.html

Return to top

Europe

Eurozone Trade Balance (Oct)

All figures quoted are € value.

The Euro area trade balance narrowed slightly in the latest month (trade balance with the rest of the world). Both imports and exports growth accelerated in the latest month – across the Euro area and EU28 group - but imports grew at faster rate.

Euro area (19) Trade Balance (with the rest of the world)

Trade balance/surplus; Oct 2018 +14bn versus Oct 2017 +17.8bn

The YTD trade surplus remains lower by +31bn; Jan-Oct 2018 +156bn versus Jan-Oct 2017 +187bn

Exports; Oct +11.4% change from a year ago. For the YTD Jan-Oct export growth +4.4% - the current month export growth is overperforming.

Imports; Oct +14.8% change from a year ago. For the YTD Jan-Oct import growth +6.9% - current month import growth is also overperforming.

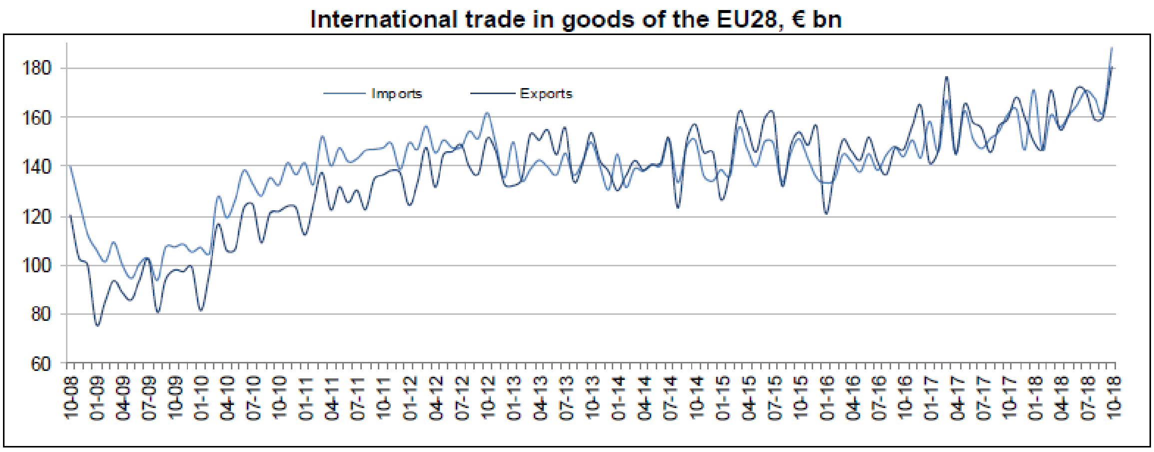
EU 28 zone Trade Balance (with the rest of the world)

Trade balance/deficit; Oct 2018 -7.7bn versus Oct 2017 -1.8bn

The YTD trade balance has worsened further; Jan-Oct 2018 -22.4bn versus Jan-Oct 2017 +4.1bn. YTD Jan-Oct 2016, the trade balance/surplus was +10bn.

Exports; Oct +13.4% change from a year ago. For the YTD Jan-Oct exports growth +5% - the current month is over performing compared to the YTD.

Imports; Oct +16.8% change from a year ago. For the YTD Jan-Oct import growth was +6.7% - the current month growth is also outperforming versus the YTD growth rate.



YTD – Product perspective

Exports - Total exports growing at 5% YTD. The single largest export group within total exports, manufactured goods - machinery and vehicles, is growing at a lower rate of +2.2%;

Main products - EU28 bn €

	Extra-EU28 exports			Extra-EU28 imports			Trade balance	
	Jan-Oct 17	Jan-Oct 18	Growth	Jan-Oct 17	Jan-Oct 18	Growth	Jan-Oct 17	Jan-Oct 18
Total	**1,550.6**	**1,627.9**	**5.0%**	**1,546.5**	**1,650.3**	**6.7%**	**4.1**	**-22.4**
Primary goods:	**223.4**	**239.2**	**7.1%**	**431.9**	**505.5**	**17.0%**	**-208.5**	**-266.3**
Food & drink	100.5	100.6	0.1%	93.6	93.4	-0.2%	6.9	7.3
Raw materials	41.2	42.6	3.4%	65.8	68.1	3.5%	-24.5	-25.5
Energy	81.7	96.0	17.5%	272.6	344.0	26.2%	-190.8	-248.0
Manufactured goods:	**1,280.0**	**1,331.4**	**4.0%**	**1,060.3**	**1,099.3**	**3.7%**	**219.7**	**232.1**
Chemicals	276.6	299.3	8.2%	164.6	170.5	3.6%	111.9	128.7
Machinery & vehicles	652.0	666.3	2.2%	493.2	512.2	3.9%	158.9	154.1
Other manuf'd goods	351.4	365.8	4.1%	402.5	416.6	3.5%	-51.1	-50.7
Other	**47.2**	**57.3**	**21.4%**	**54.3**	**45.5**	**-16.2%**	**-7.1**	**11.8**

The source dataset is available here.

Machinery and vehicle exports are underperforming – that product group accounts for 40% of the value of exports YTD but has only accounted or 18% of the growth YTD.

Trade balance – the shift in the trade balance from surplus of 4.1bn in YTD 2017 to deficit of -26bn YTD 2018, can be traced back two key categories;

1. Mineral fuels and lubricants increased deficit; detracting -57bn (in YTD 2017 detracted -39bn). Min fuel imports & exports growing at a significantly higher rate. Imports account for 20% of total imports and accounting for 68% of the growth in imports YTD.
2. Machinery and transport narrower surplus (exports growing slower than imports); detracting -4.8bn (in YTD 2017 added +5.5bn)

http://trade.ec.europa.eu/doclib/docs/2013/december/tradoc_151969.pdf

Eurozone CPI (Nov)

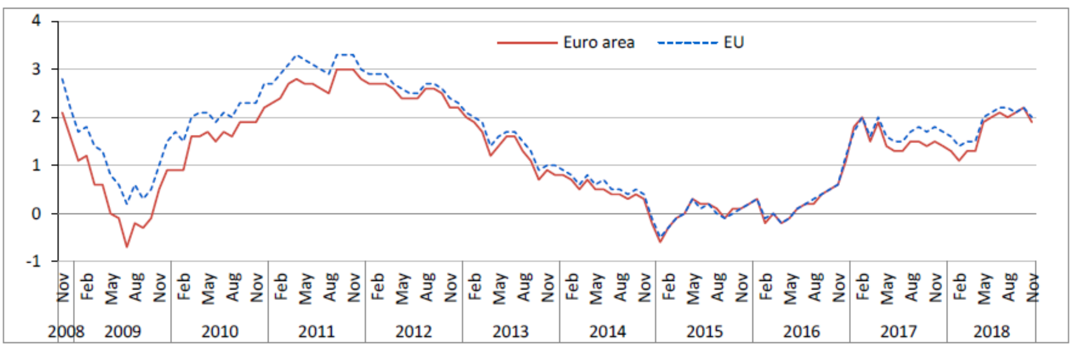
Annual Eurozone inflation growth slowed in the latest month. This was led by slower growth across most CPI categories including energy, food and services.

Headline CPI

Annual growth in Euro area CPI; Nov +1.9% versus Oct +2.2% (-0.2% in the month)

Annual growth in EU CPI; Nov +2% versus Oct +2.2% (-0.1% in the month)

Annual inflation rate (%) in the euro area and the European Union



Most categories in the CPI made a lower contribution to the headline growth this month including food, alcohol & tobacco, energy and services. Non-energy industrial goods made the same contribution to annual growth as in the month prior.

Euro-area CORE CPI

Annual core CPI growth (ex food/tobacco/alcohol and energy) remains lower; Nov +1% and was lower in the latest month -0.3% versus Oct.

Despite zero growth in Nov, energy price increases continue to exert the most influence on the headline CPI. Energy prices grew at an annual rate of 9.1% in Nov (down from +10.7% annual growth in Oct). Although energy only has a 10% weight in the index, it contributed almost half of the annual change in the CPI.

Food, alcohol and tobacco prices recorded zero growth in Nov and grew at a 1.9% annual rate in Nov.

Services

Growth in services remains lower and the annual rate slowed in Nov to +1.3% from +1.5% in Oct. In the month of Nov, services prices declined -0.5%. Services represent 44% of the weight of the CPI index and contributed 30% of the annual change in prices (underperforming).

https://ec.europa.eu/eurostat/documents/2995521/9450383/2-17122018-AP-EN.pdf/692be29f-8c6f-4324-b5eb-3f544521bf0a

Return to top

Japan

Trade Balance – Provisional (Nov)

(All figures quoted are ¥)

The trade balance/deficit increased further in the latest month as export growth slowed markedly (lower exports to Western Europe and Asia) and imports grew at a faster pace (versus the same month year ago).

Trade deficit; Nov -737bn (Oct deficit -449bn)

Exports; Nov +0.1% (versus Nov 2017). Oct export growth was +8.2%.

Imports; Nov +12.5% (versus Nov 2017). Oct import growth was 19.9%.

Top 3 regions for Japanese exports; Asia (55%), Nth America (21%), Western Europe (11%)

Japanese exports to Asia and Western Europe declined in Nov versus Nov 2017: Asia (-1.9%), Western Europe (-2.4%)

Japanese exports to Nth America increased by +0.7%. Within that, exports to Canada declined 14%.

Top 3 regions for Japanese imports; Asia 47%, Middle East 13% and Western Europe 13%.

Imports from Asia increased +5.6% (well below the total increase in imports of 12.6%).

Imports from Western Europe increased by 12.7% - on par with the total.

Imports from the Middle East increased by 41.8% (the oil price in USD was roughly the same during these two periods)

The top 3 export products/categories;

Transport (24% shr of all exports in Nov) and grew by +2.5% of which; cars +0.6%, buses & trucks -11.1% and ships +78%.

Machinery (19% shr of all exports in Nov) and declined by -2.3%

Electrical Equipment (17% shr of exports in Nov) and declined by -2.7%

The top 3 import products/categories;

Mineral Fuels (24% of imports in Nov) – growth +38.9%

Elec Machinery 16.4% of imports in Nov – growth of +1.7%

Others 13% of imports – growth +_3.5%

The slightly smaller categories of Chemicals and Machinery (both approx. 9%) of imports made a larger contribution to growth in import values.

http://www.customs.go.jp/toukei/shinbun/trade-st_e/2018/2018114e.pdf

BoJ Rates Decision – 20 Dec 2018

Rates remained on hold

ST rates; -0.1% on the Policy-Rate Balances in current accounts held by financial institutions at the Bank

LT rates; purchase Japanese government bonds (JGBs) so that 10-year JGB yields remain at around zero percent. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices. The Bank will conduct purchases in a flexible manner so that their amount outstanding will increase at an annual pace of about 80 trillion yen

7-2 decision for this decision (as per last month); the two dissenting votes;

> Voting against the action: Mr. Y. Harada and Mr. G. Kataoka. Mr. Y. Harada dissented, considering that allowing the long-term yields to move upward and downward to some extent was too ambiguous as the guideline for market operations decided by the Policy Board. Mr. G. Kataoka dissented, considering that, with heightening uncertainties regarding developments in economic activity and prices going forward, it was desirable to strengthen monetary easing so that yields on JGBs with maturities of 10 years and longer would broadly be lowered further.

The current extremely low levels of short- and long-term interest rates will be maintained for an extended period of time, taking into account uncertainties regarding economic activity and prices including the effects of the consumption tax hike scheduled to take place in October 2019. (not a new part of the statement).

No mention made in the statement regarding the current decline in Q3 GDP;

> "Japan's economy is expanding moderately, with a virtuous cycle from income to spending operating"

Risks to the outlook (not mentioned specifically in the previous meeting statement in Oct);

U.S. macroeconomic policies and their impact on global financial markets (increasing rates?)

The consequences of protectionist moves

Developments in emerging and commodity-exporting economies including the effects of the two aforementioned factors

Negotiations on the United Kingdom's exit from the European Union (EU)

Geopolitical risks

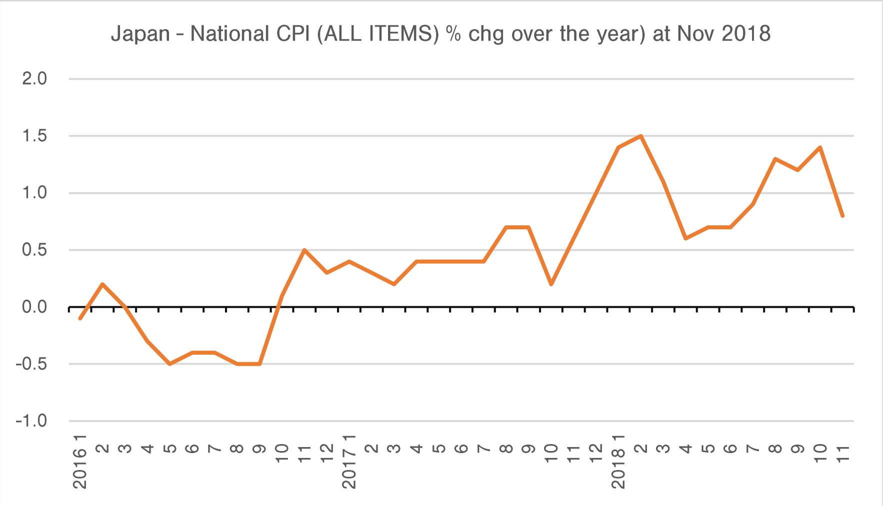
https://www.boj.or.jp/en/announcements/release_2018/k181220a.pdf

CPI (Nov)

Headline CPI for Japan slowed in the latest month. Price growth for food was lower and as a result the BoJ measure of annual core inflation less fresh food was higher than the headline rate for the month. Energy prices were also slightly lower but continue to influence the headline CPI. Excluding fresh food and energy highlights that underlying CPI growth remains much lower.

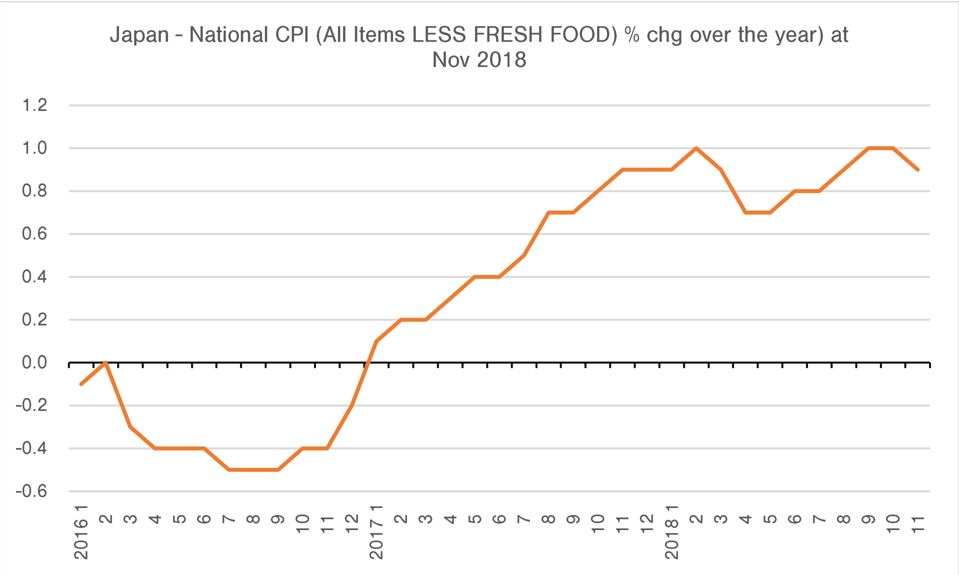
Headline CPI

All items CPI; Nov +0.8% versus Oct +1.4%



<u>Core CPI - BoJ Measure;</u>

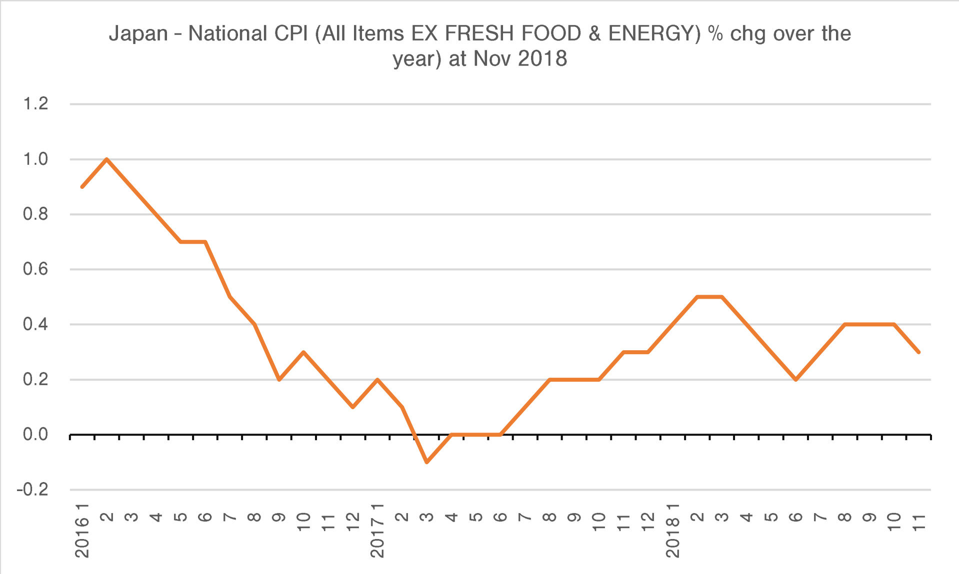
All items less fresh food Nov +0.9% versus Oct +1%



The annual change on Fresh Food declined considerably in the latest month; Nov -1.4% versus +10.8% in Oct. In the month of Nov, Fresh Food prices declined by -5.5%.

Energy price growth slowed in the latest month +0.1% in Nov versus +1.7% in Oct. Energy prices were still growing at an annual rate of +8.1% in Nov.

The annual change in CPI less fresh food and energy is much lower than the headline and core/BoJ measure – annual change; Nov +0.3% versus Oct +0.4%.



On a monthly basis, this measure of underlying inflation grew by 0% in Nov.

https://www.stat.go.jp/english/data/cpi/1581-z.html

Return to top

United Kingdom

Brexit

The UK Parliament vote on Brexit is so far pencilled in for the week of 14 Jan 2019. PM May has been unsuccessful in garnering any further concessions from the EU on the Brexit agreement.

After that possible vote in Parliament, there will only be 10 weeks before the UK is scheduled to leave the EU.

The PM has been adamant that a ‘no deal Brexit’ is not an option but the approval of the deal by the UK Parliament remains highly uncertain. PM May has also ruled out a second referendum to break the current deadlock.

With a ‘no deal’ Brexit a very real possibility, the government has allocated an additional £2bn to planning for ‘no deal’ Brexit and started to send new advice packs to 80,000 business on how to plan for a no deal Brexit.

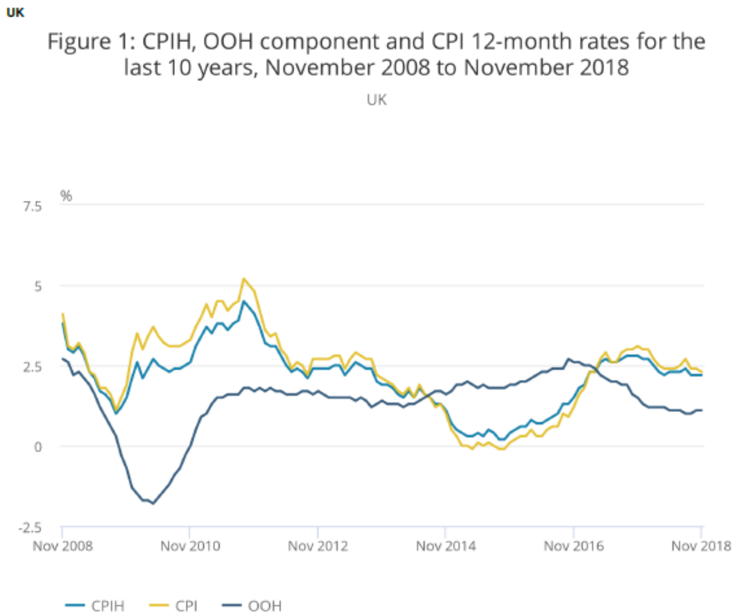
https://abcnews.go.com/International/brexit-preparations-troops-standby-businesses-watching-horror/story?id=59907886

UK CPI (Nov)

The annual headline CPI in the UK remained unchanged in Nov.

CPI-H (incl Owner Occupier Housing)

Nov +2.2% versus Oct 2.2%

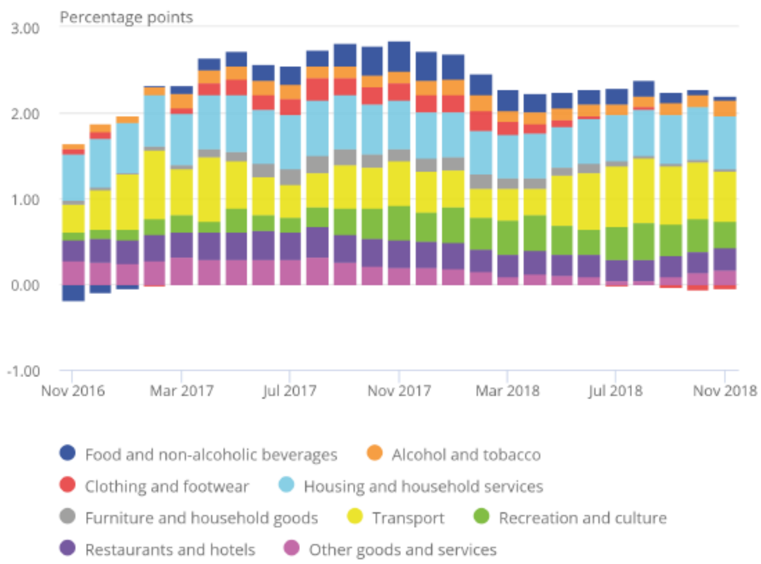


Underlying this result, several categories contributed to higher CPI growth – alcohol & tobacco, less negative contribution from clothing and footwear, restaurants & hotels and other.

This was offset by lower contribution to CPI growth from food & non-alcoholic bevs, housing and household services, health, transport, communication and recreation & culture.

Figure 3: Contributions to the CPIH 12-month rate, November 2016 to November 2018

UK



Source: Office for National Statistics

Core CPI

CPI excluding energy, food, alcoholic bevs and tobacco grew at a constant pace and remains below the headline rate; Nov +1.8% versus Oct +1.8%.

Overall goods and services prices are growing at a similar pace;

Annual Goods prices; Nov +2.1%

Annual Services prices: Nov +2.2%

https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/november2018

BoE Rates Decision – 20 Dec 2018

The BoE kept the Bank rate on hold at 0.75%.

Other monetary policy measures;

Maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at £10 billion.

Maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at £435 billion.

Overall, if Brexit is smooth, and inflation develops in line with the current inflation report, then monetary policy will be tightened (gradual & limited pace).

That said, there were many risks to the near-term outlook that were raised in this statement;

Brexit uncertainties have intensified; this is impacting UK bank funding costs, UK equities have fallen 'materially', the GBP has depreciated and market-based indicators of inflation in the UK have increased.

> The broader economic outlook will continue to depend significantly on the nature of EU withdrawal, in particular: the form of new trading arrangements between the European Union and the United Kingdom; whether the transition to them is abrupt or smooth; and how households, businesses and financial markets respond.

Slowing global growth; the downside risks to global growth have increased, corporate credit markets have tightened considerably, oil prices have fallen significantly (which should provide some support to demand in advanced economies)

Domestic conditions; inflation pressure has continued to build, employment growing, u/e rate to stay at 4%, wages growing at +3.25%, stronger than expected.

Future path of rates (emphasis added);

> The Committee judged in November that, were the economy to develop broadly in line with its Inflation Report projections, which were conditioned on a smooth adjustment to the average of a range of possible outcomes for the UK's eventual trading relationship with the European Union, a margin of excess demand was expected to emerge. In that context, an ongoing tightening of monetary policy over the forecast period, at a gradual pace and to a limited extent, would be appropriate to return inflation sustainably to the 2% target at a conventional horizon.

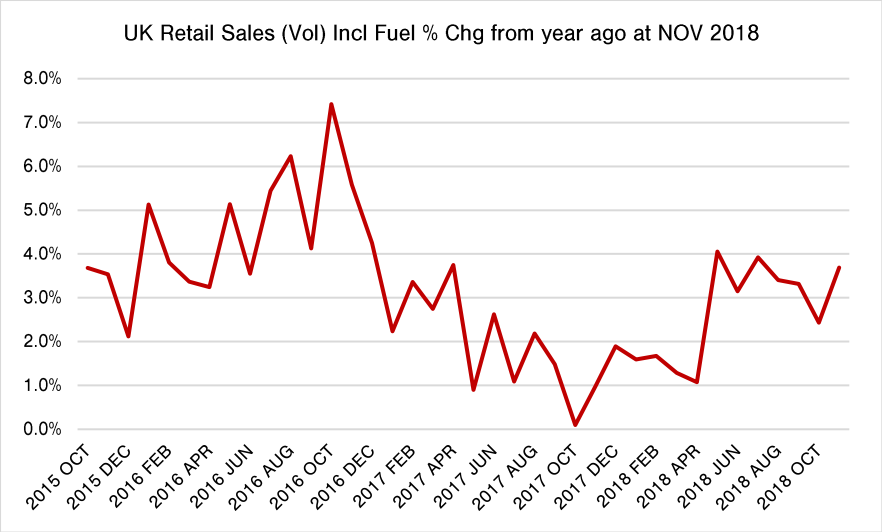
> The appropriate path of monetary policy will depend on the balance of the effects on demand, supply and the exchange rate. The monetary policy response to Brexit, whatever form it takes, will not be automatic and could be in either direction. The MPC judges at this month's meeting that the current stance of monetary policy is appropriate. The Committee will always act to achieve the 2% inflation target.

https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2018/december-2018?utm_source=Bank+of+England+updates&utm_campaign=d2c7fbc6bd-EMAIL_CAMPAIGN_2018_12_20_11_36&utm_medium=email&utm_term=0_556dbefcdc-d2c7fbc6bd-113463341

UK Retail Sales (Nov)

UK Retail sales (vol) grew at a faster pace in Nov reversing the declined recorded in the previous two months. This is a very positive sign of consumer sentiment in the face of Brexit uncertainty. The November data includes Black Friday promotions.

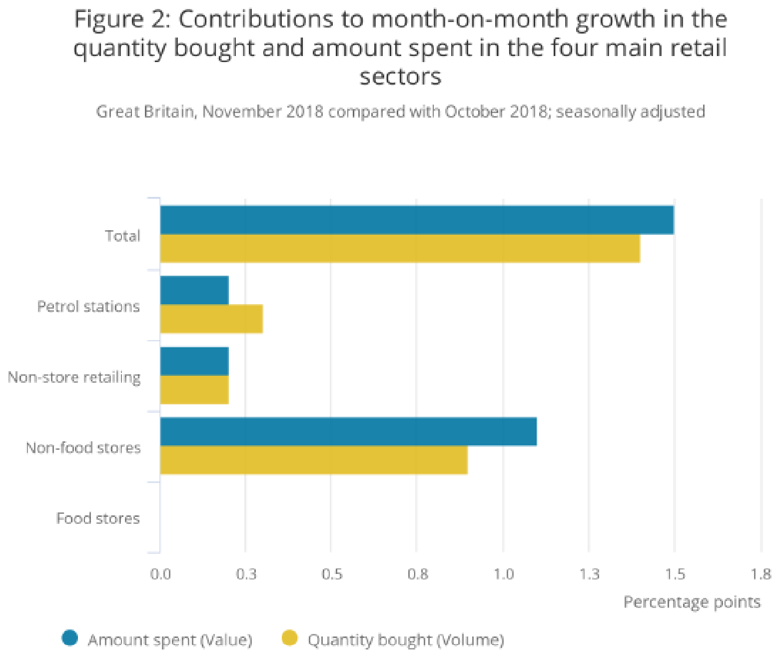
Annual growth Retail Sales (Incl fuel); Nov +3.7% versus Oct +2.4%.



Growth of retail sales in the month were also strong, growing at +1.4% after declining in the last two months.

The last several months of retail sales have also been revised slightly higher (vol).

The main category contributing to growth in retail sales this month was non-food stores;

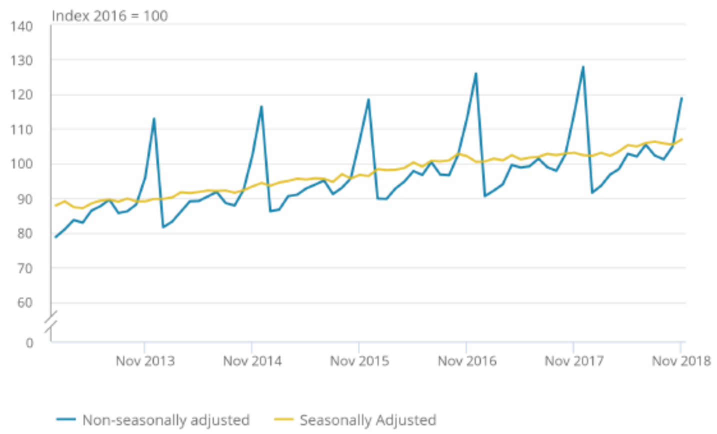


The largest contributor to non-food store sales as household goods.

The Office for Nation Statistics provides an interesting chart on the shopping behaviour as a result of the introduction of Black Friday sales. This year, the official day for Black Friday sales was 23 Nov. Many started promotional sales earlier in the month ranging from a weekend to over two-week long sales.

Figure 4: Monthly index for the quantity bought in total retail sales both seasonally and non-seasonally adjusted

Great Britain, January 2018 to November 2018



Interestingly, the non-seasonally adjusted peak was much lower this year.

https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/november2018

[Return to top]

Canada

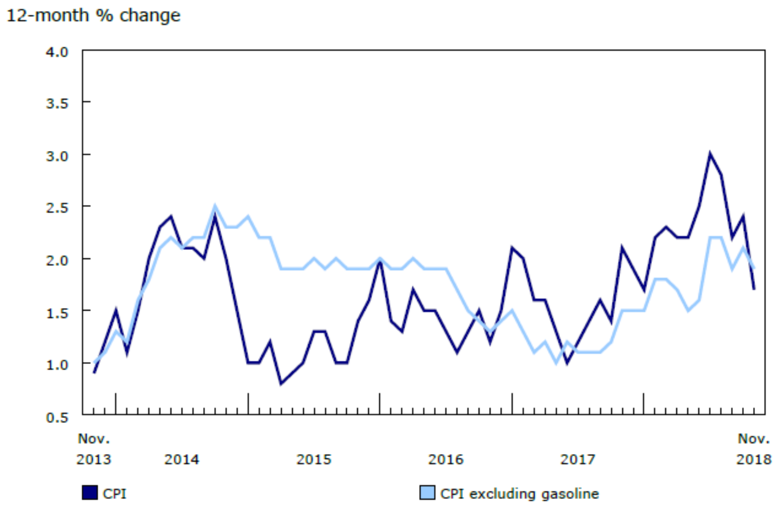
CPI (Nov)

Consumer prices in Canada increased at a much slower pace in Nov reflecting the decline in crude oil prices.

Headline CPI

Annual growth; Nov +1.7% versus Oct +2.4%

Chart 1
The 12-month change in the Consumer Price Index (CPI) and the CPI excluding gasoline



Source(s): Table 18-10-0004-01.

Excluding energy, CPI growth was higher this month (+1.9%). This was due to the fall in energy prices, which recorded an annual decline of -1.3% in Nov and prices declined by 4.8% between Oct and Nov.

The categories contributing to lower CPI growth; gasoline, traveller accommodation, telephone services, furniture and digital computing.

Mortgage interest costs, air transportation and fresh vegetables made the largest upward contributions to CPI growth.

Core CPI

The Bank of Canada measures core CPI using a common, median and trim index.

CPI-Common annual growth has remained steady at +1.9% over the last four months. But the CPI Median and Trimmed Mean versions have now slowed and are also at +1.9% annual growth. This is now above the headline rate of CPI growth.

Table 4
Consumer Price Index statistics, preferred measures of core inflation – Bank of Canada definitions, year-over-year percent change, Canada[1,2]

	August 2018	September 2018	October 2018	November 2018
	% change			
CPI-common[3,5]	1.9	1.9	1.9	1.9
CPI-median[4,6]	2.0	2.0	2.0	1.9
CPI-trim[4,7]	2.1	2.0	2.1	1.9

https://www150.statcan.gc.ca/n1/daily-quotidien/181219/dq181219a-eng.htm?HPA=1&indid=3665-1&indgeo=0

Return to top

Australia

RBA Meeting Minutes – 4 December 2018

The overnight cash rate was kept on hold at 1.5%.

The current stance of MP deemed to be appropriate in order to further reduce the unemployment rate and return inflation to the 2-3% band.

And while there is no near-term case for an increase, the RBA, surprisingly, still thinks that the next move in rates will be UP;

> "In these circumstances, members continued to agree that the next move in the cash rate was more likely to be an increase than a decrease"

Key areas of risk discussed;

Slower global trade and measuring the extent of the slow-down in China. Potential impact on commodity prices (and possibly demand).

Domestic growth – GDP data was released the day after the meeting.

Household consumption - continued to be a source of uncertainty because growth in household income remained low, debt levels were high and housing prices had declined. Retailer liaison reports that trading conditions remain stable

Housing market conditions has eased. Slower growth in credit to households and small business. The slower growth was a function of both tighter lending conditions and weaker demand;

> "The focus on responsible lending obligations in response to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry was likely to have reduced some lenders' appetite for lending to both households and small businesses"

Labour market data remains strong. Despite a small uptick in growth, wage increases remain weak. The RBA claims that average earnings have increased at about the same level as consumer price over the last 5 years – despite moderate productivity growth.

[considering taxation then, real wages are likely going backwards].

https://www.rba.gov.au/monetary-policy/rba-board-minutes/2018/2018-12-04.html

Further developments...

It's likely that the minutes don't reflect the true level of concern at the RBA about housing. Since the minutes were released this week;

> RBA Governor Philip Lowe has reportedly met with executives from Australia's big four banks to implore them to lend.

The Australian says that Lowe cautioned against an "overzealous tightening of credit supply in response to lending rules and the Hayne royal commission".

"The report says Lowe met with the bank chiefs before the release of an inaugural quarterly statement from the Australia's Council of Financial Regulators (CFR) last week in which members noted the "importance of lenders continuing to supply credit to the economy".

Last month, RBA Governor Philip Lowe said he was "starting to be bit concerned" that after being too loose in prior years, credit standards may now have swung too far in the other direction.

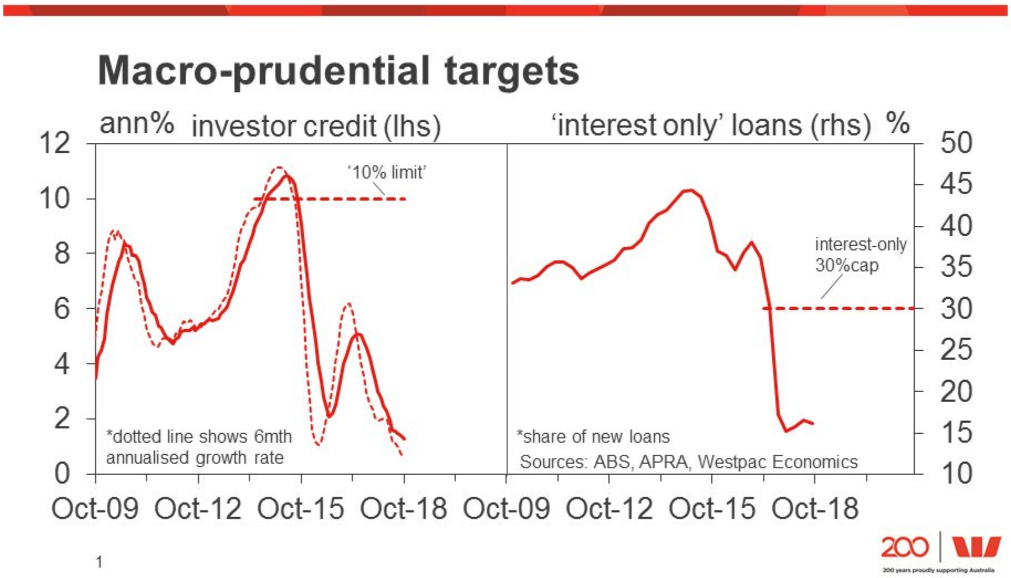
https://www.businessinsider.com.au/rba-philip-lowe-bank-credit-crunch-risk-royal-commission-2018-12

Then this from the financial regulator, APRA on 19 Dec 2018;

Removal of the supervisory benchmark on investor loan growth, reflecting the improvements that ADIs have made to lending standards. APRA is now also removing the supervisory benchmark on interest-only lending, for ADIs that have provided assurances on the strength of their standards. From 1 Jan 2019.

APRA Statement;
https://www.apra.gov.au/sites/default/files/letter_residential_mortgage_lending_interest-only_benchmarks.pdf

Will this be successful in 're-igniting' credit growth? Current activity has fallen well below the macro-prudential settings that APRA has announced it is reversing.



Source; Westpac

Labour Force Survey (Nov)

Another strong labour market report for Australia. Please note that the data series used here is the 'trend' series – as recommended by the Aus Bureau of Stats. The Aus media often still quote the seas adjusted data which tends to have large swings.

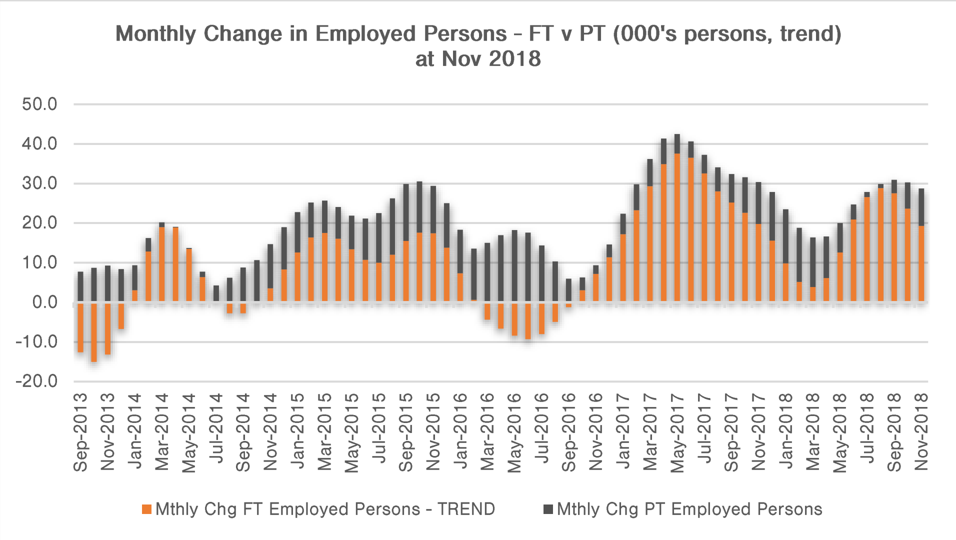
While employment growth has slowed somewhat, that growth remains high enough to continue to absorb returning workers back into the labour force AND reduce unemployment.

If you HAD to point out any issues; Employment growth is slowing somewhat (but remains above 10yr averages), monthly change in unemployment is starting to become smaller after peaking several months ago.

<u>Employment growth</u>

Annual chg: Nov +295.7k persons, slightly lower than the annual rate in Oct of +297.3k persons. The all-time peak in employment growth was recorded Jan 2018 at 407k persons.

The current annual rate remains well above the 10yr average growth of +190k persons.



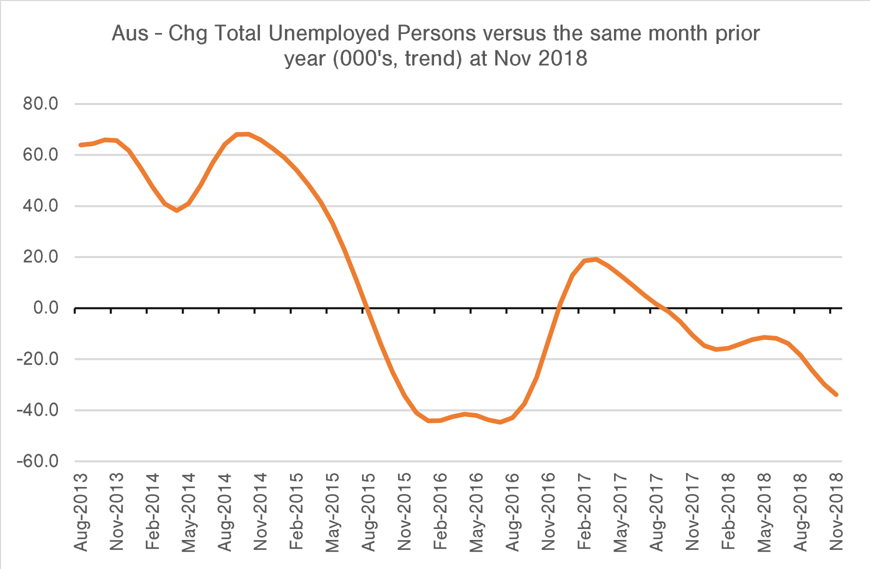
Growth in FT employed persons has slowed over the last three months; Nov +200k persons which is still double the 10yr avg growth.

PT employment growth did not fully offset the lower FT growth; Nov +95k persons which is equal to the 10yr avg growth.

<u>Total unemployed persons continue to decline</u>

On an annual and monthly basis, the total number of unemployed persons continues to fall.

Nov; -33.9k persons – on an annual basis that decline is becoming larger;

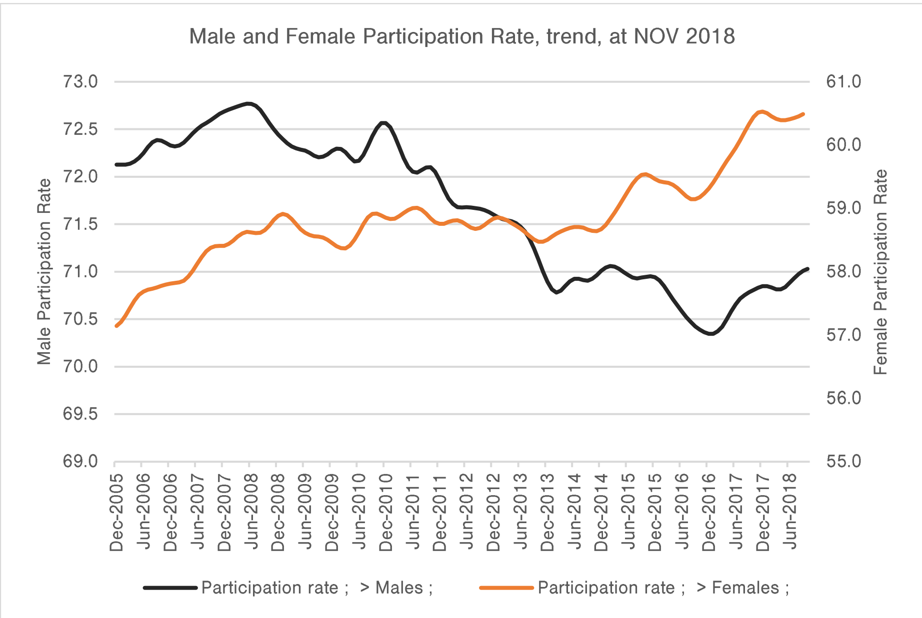


But on a monthly basis, the decline in the total number of unemployed persons is getting smaller/less negative (-3k in Nov versus -5k in Oct).

The unemployment rate declined slightly from 5.15% in Oct to 5.12% in Nov.

Participation continues to increase

In the latest month, the total participation rate increased by +0.028% pts and +0.189% pts on an annual basis.



Female participation is almost back up to its all time peak. While male participation, although improving recently, is well below its pre-GFC peak.

In summary;

Over both time periods, employment continues to grow faster than the estimated change in the labour force due to population. Even with more people coming back into the labour force, unemployment continues to decline.

	000's Persons	
	Annual Chg - NOV	Month Chg - Nov
The estimated change in the Labour Force due to pop growth	223.272	20.027
How many jobs available for them? (employment growth)	295.713	28.782
Difference (if positive, employment growing faster than pop est)	72.441	8.755
Change in labour force due to the change in participation	38.585	5.719
The reminder is the reduction in total unemployed persons	-33.857	-3.037
Double Check - Annual chg in size of the Labour Force	261.857	25.737

http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6202.0Main+Features1November%202018?OpenDocument

Return to top

Trade

US-China Trade Negotiations

The focus now turns to the schedule of meetings to address key issues over the next 90-days. No detail available at this stage.

As outlined in the Macro Review last week, USTR Lighthizer will now lead the negotiations with China. Previously, this was led by Ross and Mnuchin. USTR Lighthizer stated that 1 Mar 2019 was a 'hard deadline' to reach an agreement with China.

This hard deadline has been confirmed on the US Federal Register (emphasis added);

> "In accordance with the direction of the President, the U.S. Trade Representative (Trade Representative) has determined to modify the action being taken in this Section 301 investigation by postponing the date on which the rate of the additional duties will increase to 25 percent for the products of China covered by the September 2018 action in this investigation. As set out in this notice, the rate of additional duty for the products covered by the September 2018 action will increase to 25 percent on March 2, 2019"

https://www.federalregister.gov/documents/2018/12/19/2018-27458/notice-of-modification-of-section-301-action-chinas-acts-policies-and-practices-related-to

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.

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 for input into the negotiating objectives has been completed. 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

No additional news here. President Trump has previously hinted that he is considering 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.

> The White House has pledged not to move forward with imposing tariffs on the European Union or Japan as long as it is making constructive progress in trade talks.

https://www.straitstimes.com/world/united-states/tariff-proposals-on-imported-cars-and-parts-given-to-white-house

US-Europe Trade Talks

The public hearing for input into the negotiating objectives has been completed. https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/december/public-hearing-negotiating-0

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).

Return to top