Weekly Macro Review

w/c 14 January 2019

Key Themes

A much quieter week on the central bank front. Both key speeches this week by ECB President Mario Draghi and NY Fed President John Williams reiterated the central banks' commitment to deploy their policy tools "if and when" it is needed. In other words, confirming that the central banks will be there to step in if needed.

For the most part, US data was good this week. Several key reports are missing due to the ongoing government shutdown. While the NY Empire State Manufacturing Survey weakened, the Philadelphia Fed Business Outlook Survey showed a stronger result on the back of growth in new orders. US Industrial production growth grew at a constant pace in the month as utilities output declined due to warmer than expected weather. The manufacturing component of industrial production was much stronger than recent US manufacturing data had suggested – an upside surprise for the month.

US housing had some good news as mortgage applications increased at a faster rate last week, to be +11% on the same week a year ago. At the same time, the prelim reading on consumer sentiment in Jan recorded a large fall in current sentiment and expected conditions.

Eurozone growth was dealt another blow with industrial production declining in Nov. Declines in production were recorded across many Eurozone countries and across the major production categories of intermediate goods, capital goods and consumer goods. The EU trade balance also deteriorated in Nov and in the YTD as key export growth continued to underperform and import growth increased at a faster rate, led by categories such as energy.

Earlier in the week, Chinese trade data for Dec confirmed that both exports and imports had declined in Dec versus a year ago – an important development underpinning some of the global production and trade weakness.

CPI's were released across several key economies. Generally, slower growth in energy prices resulted in lower headline growth of the CPI – except in Canada where headline CPI growth accelerated higher in Dec despite slower growth in energy prices (likely to be an issue for the BoC if that trend continues). Measures of core inflation across Germany, the EU, the UK and Canada all remain stable. The BoJ's preferred measure of core CPI in Japan (CPI ex fresh food) slowed even further in Dec. The lower inflationary pressure will give central bankers room to keep policy accommodative as this 'slower growth' environment develops.

Contents

US Data

PPI (Dec)

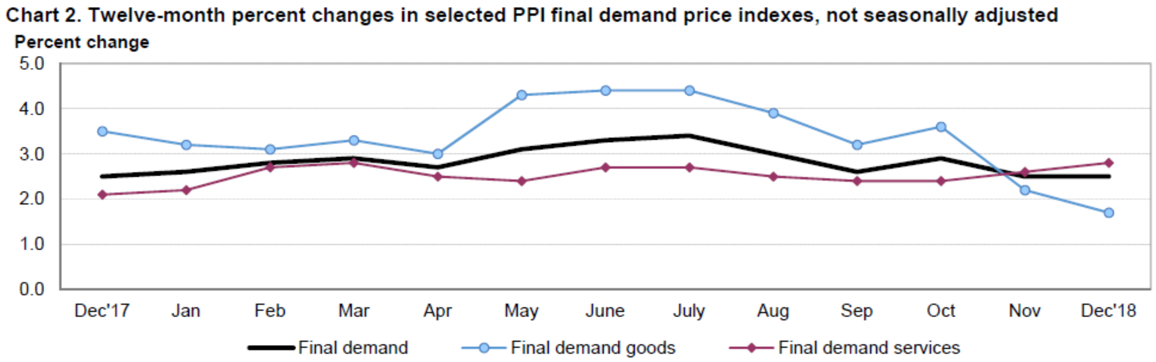
Producer prices declined in Dec as energy prices continued to fall. Year over year PPI and core PPI growth remains elevated and both are unchanged in the latest month.

PPI Final Demand

Monthly change; Dec -0.2% versus Nov +0.1%

Annual change; Dec +2.5% versus Nov +2.5%

Annual change PPI excluding food, energy and trade; Dec +2.8% versus Nov +2.8%



Prices for both final demand goods and services declined in the month;

Final Demand Goods prices declined by -0.4% in the month as a result of a -5.4% decline in energy prices. At the same time, food price growth accelerated from +1.3% in Nov to +2.6% in Dec.

Final Demand Services prices declined by -0.1% in Dec. This was due to falls in prices for trade (-0.3%) and transportation & warehousing (-0.2%).

PPI Intermediate Demand

Within intermediate demand, prices for processed goods continued to decline; Dec -0.9% versus Nov -0.7% - due to energy goods. Prices for unprocessed goods accelerated significantly from -5.3% in Nov to +11.2% in Dec – due to a 64.3% increase in Nat Gas prices.

Price changes for intermediate demand services continued to slow from +0.2% in Nov to +0.1% in Dec. This was mostly due to a decline in prices for transportation and warehousing.

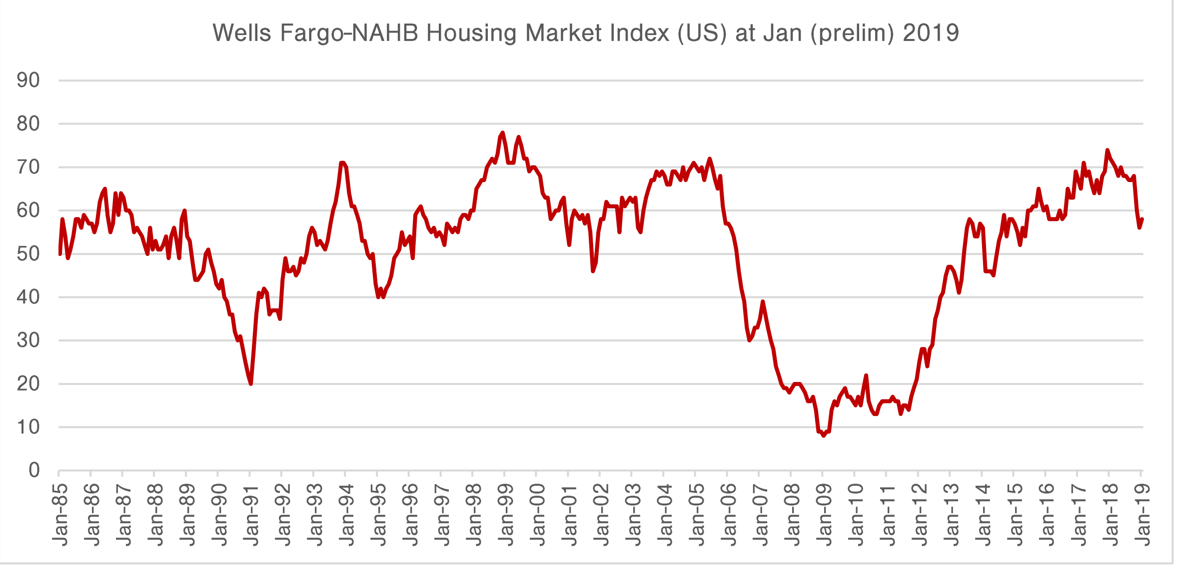
https://www.bls.gov/news.release/pdf/ppi.pdf

NAHB National Housing Market Index (Jan)

The National housing market index steadied in the latest month after large falls in Nov and Dec last year. Regional markets were mixed. Gains were recorded in the Northeast (after larger falls in Nov and Dec) and the West. Conditions in the South were unchanged and remained at a low level. Conditions continued to deteriorate in the Midwest.

Headline National Index; Jan 58 versus Dec 56

The index current sits below the 12mth avg of 66.



The components making up the headline index also saw small gains;

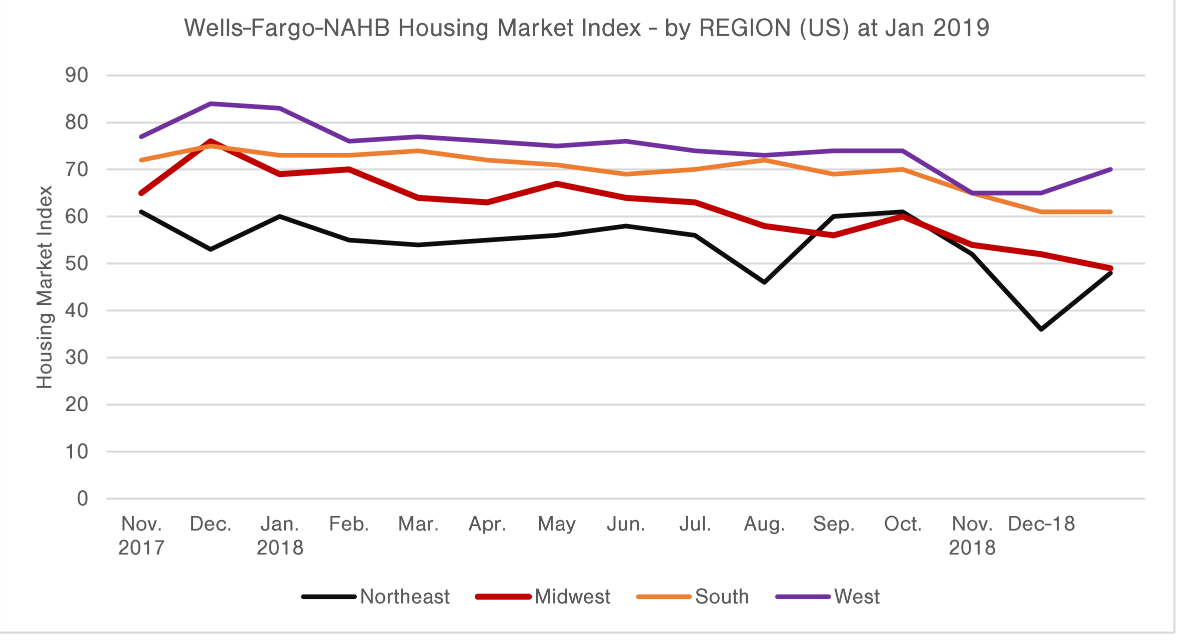
Single family sales - present: Jan 63 versus Dec 61

Single family home sales – next 6-months; Jan 64 versus Dec 61

Traffic of prospective buyers: Jan 44 versus Dec 43

Regional performance was mixed;

The gains in the Northeast and the West were relatively strong. Conditions in the South remained unchanged at a low level. Conditions in the Midwest continued to deteriorate somewhat in Jan.



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

Mortgage Applications for w/c 11 Jan

The market composite index (a gauge of mortgage loan application volume) increased by +13.5% on the week prior and was +11% higher than the same week a year ago.

The Refinance Index increased 19% from the previous week – now at its highest level since March 2018.

> "Mortgage applications rose to their strongest level in years last week, with purchase applications rising to the highest since 2010, and refinance applications up to their highest level since last spring," said Mike Fratantoni, MBA Senior Vice President and Chief Economist. "Uncertainty regarding the government shutdown, slowing global growth, Brexit, a more patient Fed, and a volatile stock market continued to keep rates from increasing. The spring homebuying season is almost upon us, and if rates stay lower, inventory continues to grow, and the job market maintains its strength, we do expect to see a solid spring market. The 11 percent gain in purchase volume compared to last year is a promising sign."

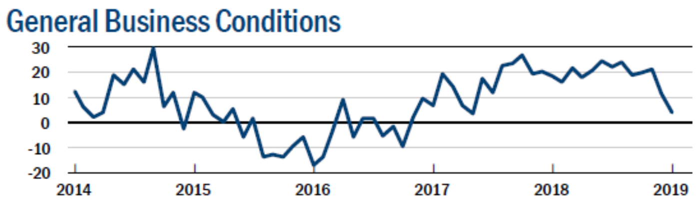
Average contract rates for 30year fixed jumbo and FHA backed loans increased versus the week prior – with the effective rates remaining unchanged. The average rate for a 15-year fixed rate mortgage decreased to 4.13% from 4.16% with the effective rate also remaining unchanged.

https://www.mba.org/2019-press-releases/january/mortgage-applications-increase-in-latest-mba-weekly-survey

Empire State Manufacturing Survey (Jan)

The NY based manufacturing survey is playing catch up with other regional surveys. The Jan report shows a large slowdown in manufacturing activity as less firms reported improving conditions. The proportion of firms reporting worsening business conditions though, remained unchanged from Dec. Activity remained elevated as firms worked through backlogs.

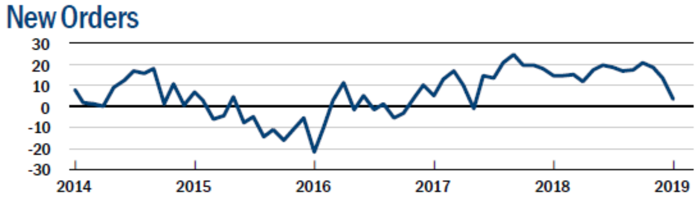
General Business Conditions; Jan 3.9 versus Dec 11.5



	Percent Reporting		
	Higher	Lower	Index
Dec	30.5	19.0	11.5
Jan	23.4	19.5	3.9
Change			-7.6

The proportion of firms reporting business conditions had improved fell (versus Dec) while the number of firms reporting that business conditions had worsened remained unchanged. In other words, firms went from "conditions are improving" to "conditions remain unchanged".

The growth in new orders slowed to a reading of 3.5 in Jan from 13.4 in Dec. This more forward-looking indicator was slightly more concerning as some firms did shift from recording improving new order activity to worsening new order activity;



	Percent Reporting		
	Higher	Lower	Index
Dec	34.7	21.2	13.4
Jan	29.2	25.8	3.5
Change			-9.9

Shipments growth slowed only slightly and remains elevated; Jan 17.9 versus Dec 20.3. This shipments result was partly due to firms working through backlogs, as unfilled orders fell further into contraction; Jan -7.6 versus Dec -5.1.

Both delivery times and inventories also fell into contraction in Jan.

Growth in prices paid slowed in Jan but remains elevated. Growth in prices received increased.

The growth in the number of employees slowed in Jan. A much lower proportion of firms recorded a 'higher' number of employees, but there was no corresponding increase in 'lower' employee numbers. The average employee workweek remained mostly unchanged.

Most of the future business conditions indicators slowed in the latest month. Capex also slowed from 31.2 in Dec to 17.9 in Jan. A smaller proportion of firms reported 'higher' capex in the future and there was a small increase in the number of firms reporting 'lower' capex intentions.

https://www.newyorkfed.org/medialibrary/media/survey/empire/empire2019/esms_2019_1_survey.pdf?la=en

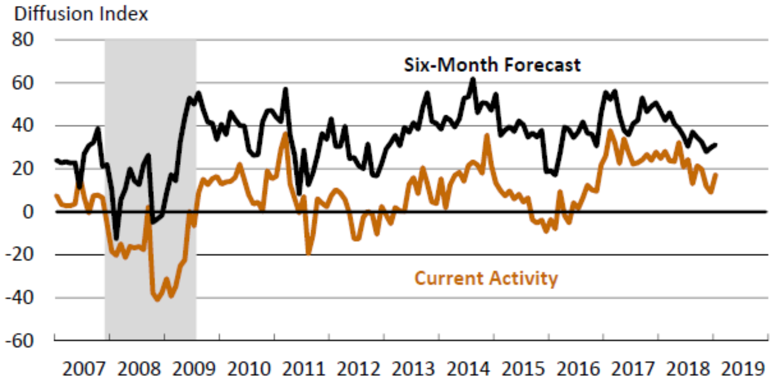
Philadelphia Fed Business Outlook Survey (Jan)

The index of manufacturing business activity increased at a faster pace in Jan. The improvement was mostly the result of faster growth in new orders.

General Activity Index; Jan 17.0 versus Dec 9.1

The increase was the result of a small increase in the proportion of firms recording improving levels of activity and a small decrease in firms recording worsening levels of activity overall.

Chart 1. Current and Future General Activity Indexes
January 2007 to January 2019



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.

As an indicator of future demand, new orders increased at a faster pace in Jan rising to 21.3 from 13.3 in Dec.

Shipments grew at a slightly slower pace and growth has continued to drift lower since the index peaked back in May 2017. Unfilled orders grew at a slower pace, suggesting that firms were working through backlogs. Inventories fell into contraction for the first time in 14 months. If new orders continue increasing at a faster pace, expect to see this pick up in the coming months.

Prices paid and prices received both grew at a slower pace.

The most negative part of the survey was that growth in the number of employees slowed considerably in the month – falling from 19.1 in Dec to 9.6 in Jan. Employment is still growing, but at a slower pace. The proportion of firms recording a decrease in the number of employees doubled in the latest month (from 6% in Dec to 12% in Jan). There was a small corresponding increase in the average employee workweek – driven by a larger proportion of firms reporting an increase in the average work week.

https://www.philadelphiafed.org/-/media/research-and-data/regional-economy/business-outlook-survey/2019/bos0119.pdf?la=en

Industrial Production (Dec)

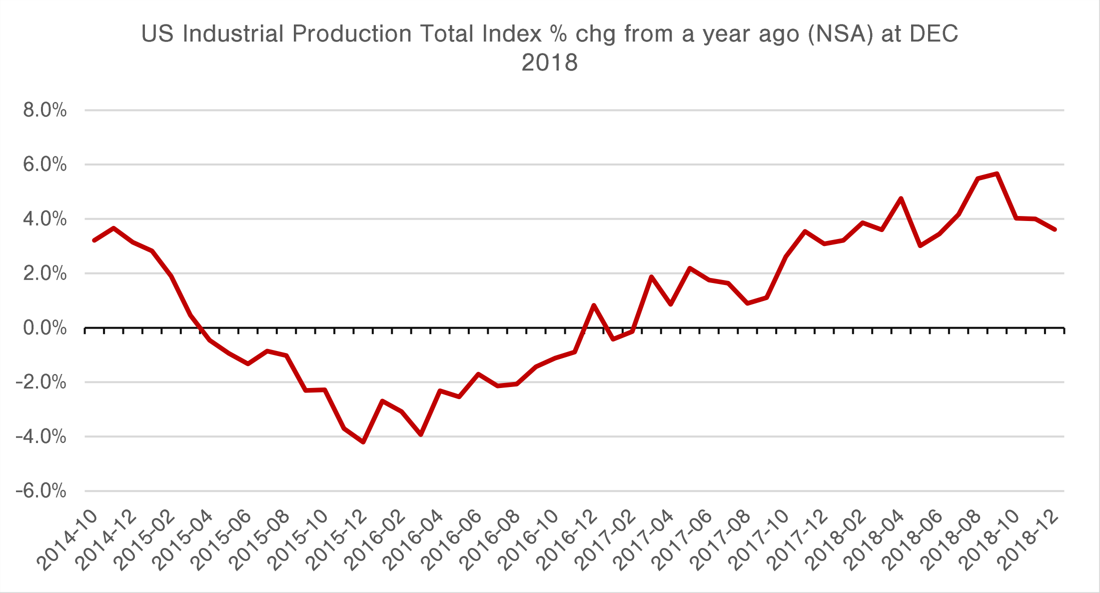
US industrial production continued to grow at constant pace in the latest month. Faster growth in manufacturing and mining was somewhat offset by a decline in utilities for the month. The decline in utilities in the month was the result of "warmer than usual temperatures".

Total Index – Us Industrial Production

Mth chg; Dec +0.3% versus Nov +0.4% (Nov growth revised lower from +0.6%)

Annual %chg from year ago; Dec +3.6% versus Nov +4%

Us industrial production has been expanding since early 2017 and growth has slowed somewhat over the last three months;

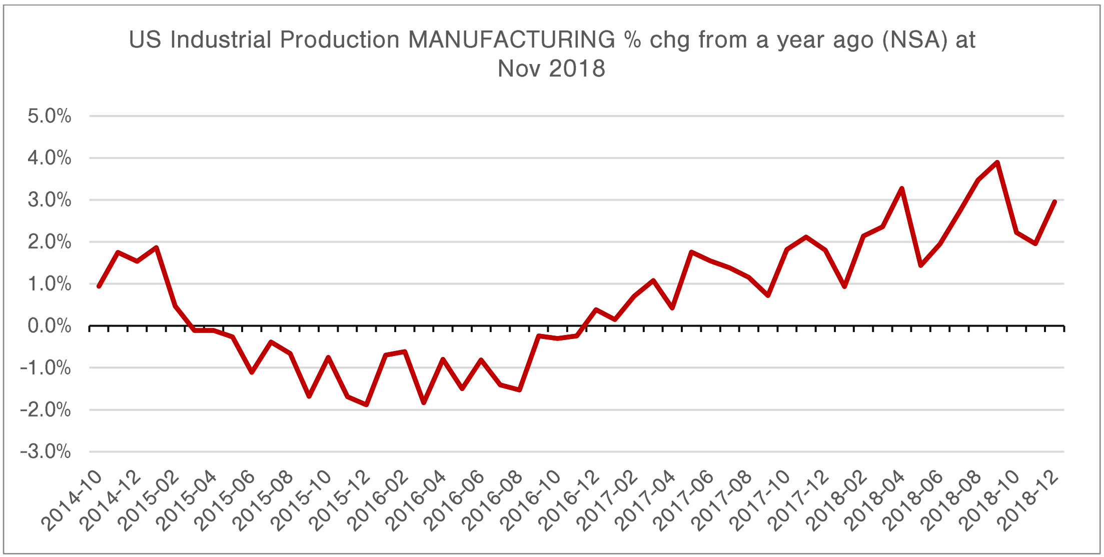


<u>Manufacturing</u>

Growth in manufacturing industrial production rebounded in Dec – despite indications from various regional surveys, the Dec PMI and Dec ISM report that manufacturing experienced a slow-down in Dec.

Month change: Dec +1.1% versus Nov +0.1%

Annual % chg from year ago; Dec +3% versus Nov +2%



In the latest month, it was both durable and non-durable manufacturing activity that contributed to growth. On an annual basis, it is durable good manufacturing that is generating higher growth.

Durable goods manufacturing;

Month % chg (SA); Dec +1.3%. This was led by higher growth in motor vehicle parts (+4.7%), non-metallic mineral product (+2.8%) and aerospace and misc. transportation (+1.7%).

Annual % chg (NSA); Dec +4.7%. Led by primary metals (+8.4%), computer & electronic equipment (+6.5%), motor vehicle parts (+4.3%) and aerospace (+5.9%).

Non-durable manufacturing;

Month % chg (SA); Dec +0.9%. This was led by petroleum and coal products (+3.5%).

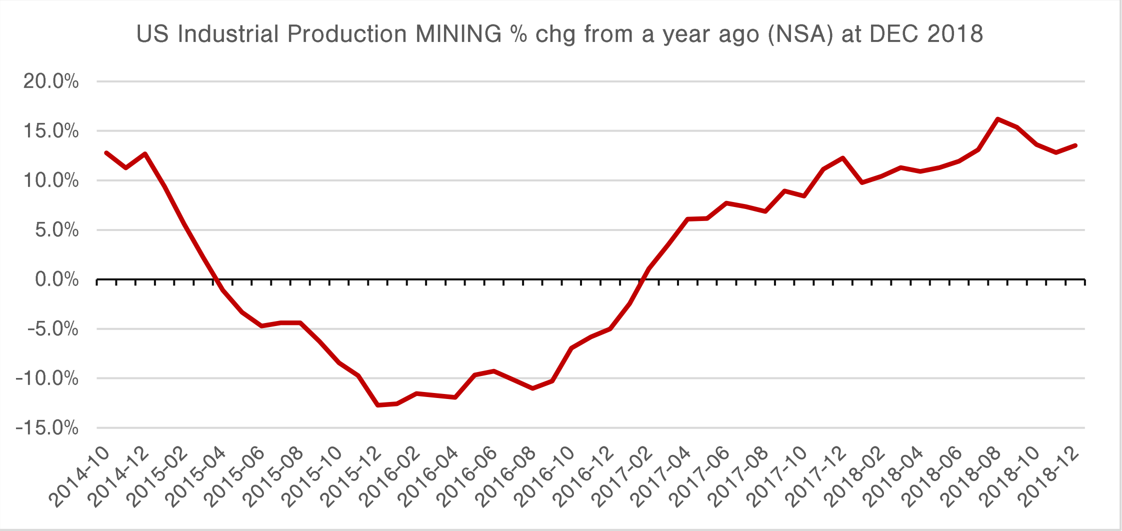
Annual % chg (NSA): Dec +1.6%. Led mostly by chemicals (+3.6%)

<u>Mining</u>

The much higher growth in Mining has been leading overall growth in industrial production higher over the last few years.

Month chg (SA): Dec +1.5% versus Nov+1.1%

Annual % chg from a year ago (NSA); Dec +13.5% versus Nov +12.8%

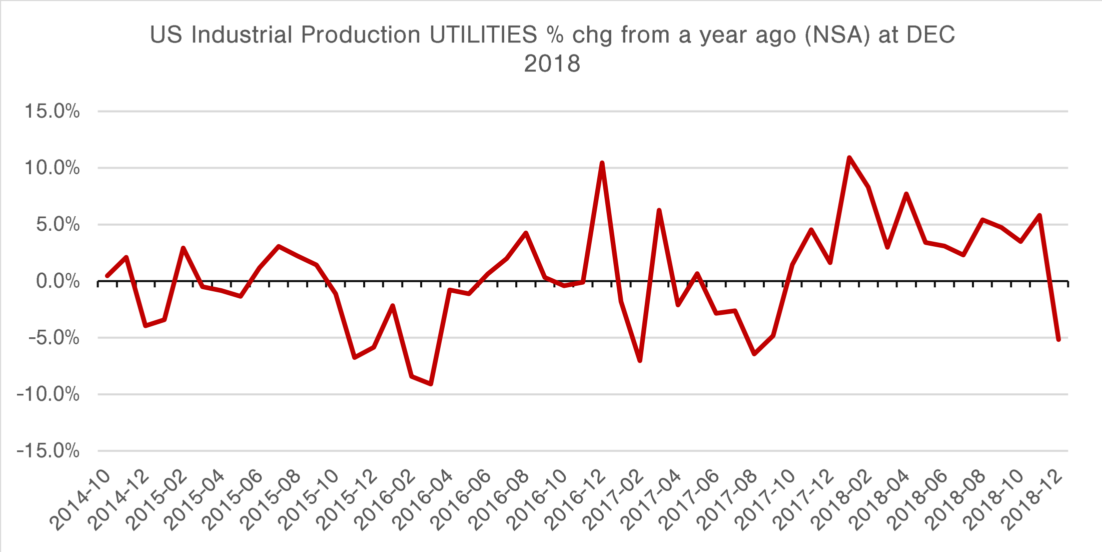


<u>Utilities</u>

The index for utilities experienced a sharp fall in Dec (and on a year ago basis). This was the result of "warmer-than-usual temperatures lowering the demand for heating".

Month chg: Dec -6.3% versus Nov +1.3%

Annual % chg from a year ago; Dec -5.2% versus Nov +5.8%

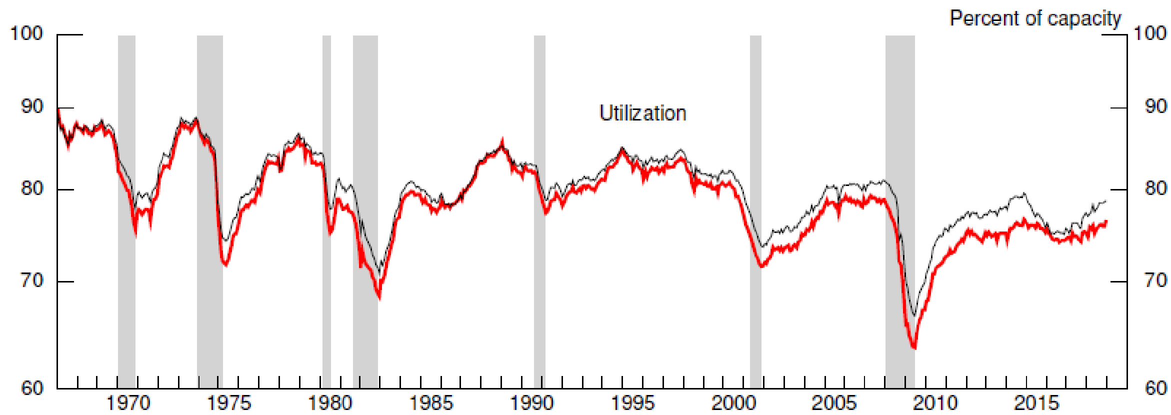


Capacity Utilization

Capacity utilization continued to increase in the latest month across both total industrial production and manufacturing.

Total industrial production capacity utilization remains just below the near-term high reached in late 2014;

(grey line = total industrial production, red line = manufacturing)

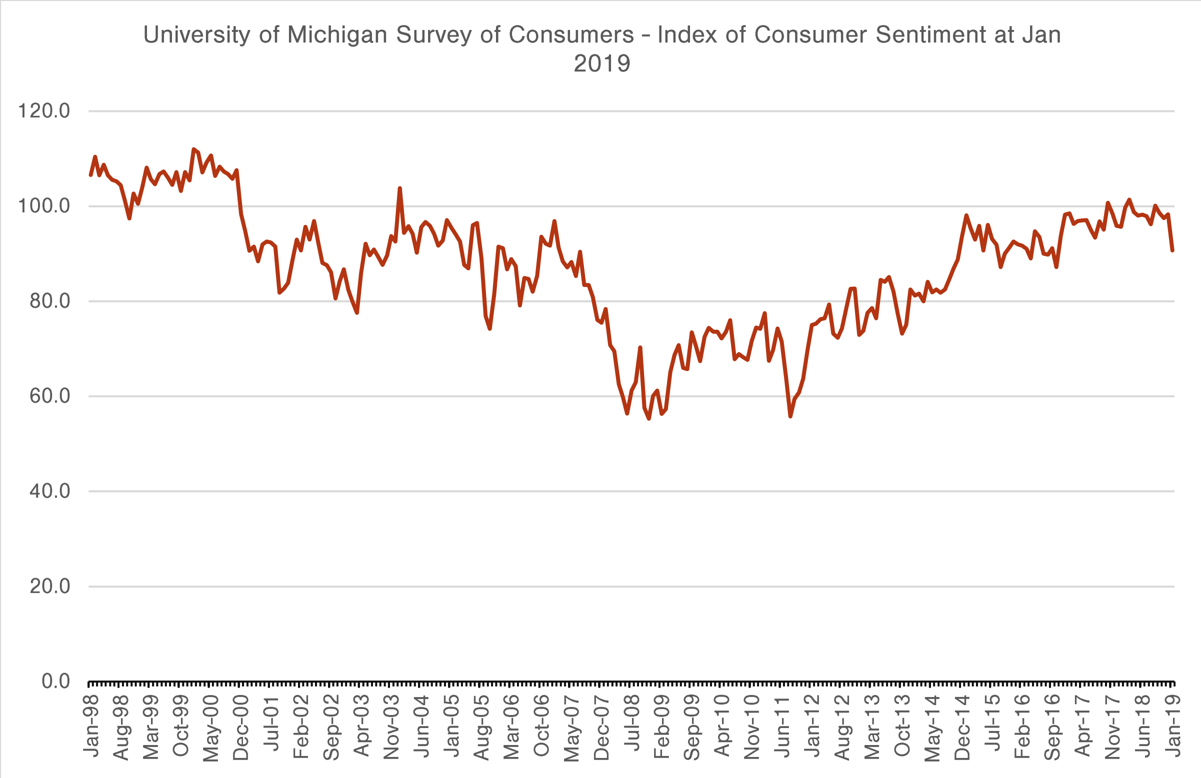


https://www.federalreserve.gov/releases/g17/current/

Survey of Consumers Uni of Michigan – Prelim (Jan)

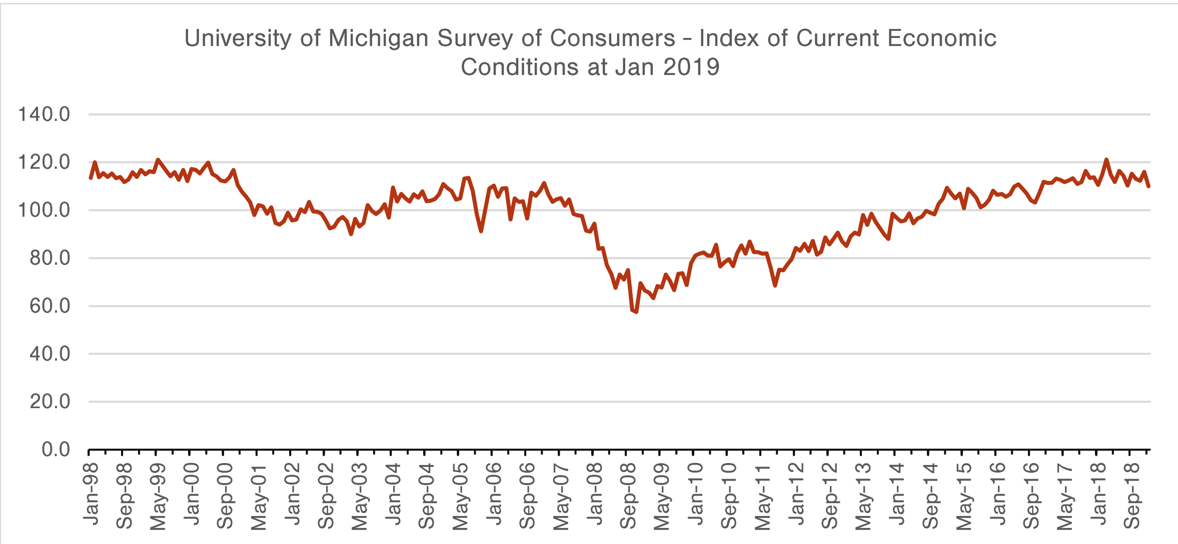
Negative news on the economy hit consumer sentiment hard in Jan. Prelim readings on current and future expectations fell in January and the falls were relatively large in std deviation terms.

The Index of Consumer Sentiment; Jan 90.7 versus Dec 98.3 (a 3*SD decrease based on the last 24mths). The current sentiment index is now 5% below the same time a year ago.



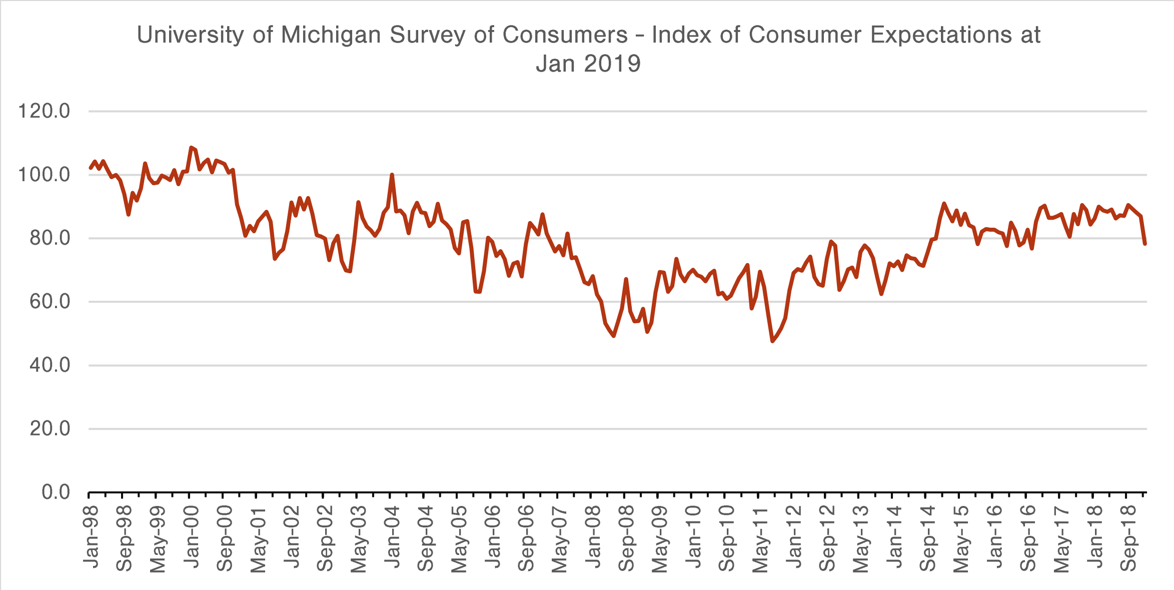
<u>Current economic conditions</u>; Jan 110.0 versus Dec 116.1 (a >2*SD fall based on the last 24 months)

The current reading is -0.5% below the same time a year ago;



<u>Index of Consumer Expectations;</u> Jan 78.3 versus Dec 87.0 (a 3*SD fall based on the last 24 months)

The current index reading in Jan is now 9% below the same time a year ago;



> "It is the strength in personal finances that will continue to support consumption expenditures at favourable levels in 2019. Nonetheless, consumers now sense a need to buttress their precautionary savings, which is typically done by reducing their discretionary spending. Evolving job and wage prospects, which were slightly weaker in early January, are critical to extending the current expansion."

http://www.sca.isr.umich.edu/

US Fed Speeches

NY Fed President Williams; Monetary Policy: A 'Data Dependent' Approach, at the New Jersey Bankers Association's Economic Leadership Forum in Somerset, NJ

The speech reinforces the current messages from the Fed;

Will be data dependent – which means not just looking at inflation and unemployment data. Look at wide range of inputs, including financial conditions and whether conditions are supportive of growth. Note the emphasis on "financial market developments".

> More broadly, I look at a wealth of data on international financial market developments and banking conditions, which feed into my understanding of the global outlook.

Growth likely to slow after stronger tailwinds during 2018. Now facing some headwinds, less certainty than at the start of last year. Currently no worrying signs of inflationary pressure building – underlying inflation pressures running just below 2%. How does the Fed approach this? "Carefully".

> The approach we need is one of prudence, patience, and good judgment. The motto of "data dependence" is more relevant than ever.

The path of future rate hikes:

> If growth continues to come in well above sustainable levels, somewhat higher interest rates may well be called for at some point. However, if conditions turn out to be less robust, then I will adjust my policy views accordingly.

He seems to set the bar high for further rate hikes – growth needs to be “well above sustainable levels” to even consider “somewhat” higher rates.

The current pace of balance sheet normalization will be reassessed if circumstances change.

> And, as always, if the outlook deteriorates in a material way, we stand prepared to deploy all our policy tools as appropriate in support of the economy.

https://www.newyorkfed.org/newsevents/speeches/2019/wil190118

Kansas City Fed President George to deliver a speech about economic and monetary policy outlook in Kansas City, MO

Minneapolis Fed President Kashkari to speak about the regional economy at the Rochester Economic Summit in Rochester, MN.

US Fed speeches; Minneapolis Fed President Kashkari to participate in the Intelligence Squared Debate about "Ten Years After the Global Financial Crisis, the System is Safer," in New York.

Dallas Fed President Kaplan to participate in a moderated Q&A at the Plano Chamber of Commerce Annual Meeting in Plano, TX, with audience Q&A.

Return to top

Europe

Eurozone Industrial Production (Nov)

Industrial production in Nov declined across a majority of EU member states and across all production groups. While the annual growth in IP had been slowing throughout 2018, there was a sharp deceleration in Nov. Given the continued weaker manufacturing PMI's in Dec, this trend is likely to continue.

<u>Monthly change – Total Industries;</u>

Euro area; Nov -1.7% versus Oct +0.1%

EU Group; Nov -1.3% versus Oct +0.1%

Declines in the month were recorded by many EU members. Of the EU group, eighteen countries recorded falls in industrial production in the month, two recorded no change, four are yet to report and ten recorded growth in industrial production. The top three largest declines (month on month rate of decline); Ireland -7.5%, Portugal -2.5% and Germany -1.9%.

France, Italy, Norway and Spain were all in the top ten ranked by rate of decline. One caveat – the trend in Ireland industrial production shows regular large monthly swings and 'normally' has a relatively high std deviation – the latest month data is in line with that 'normal' trend.

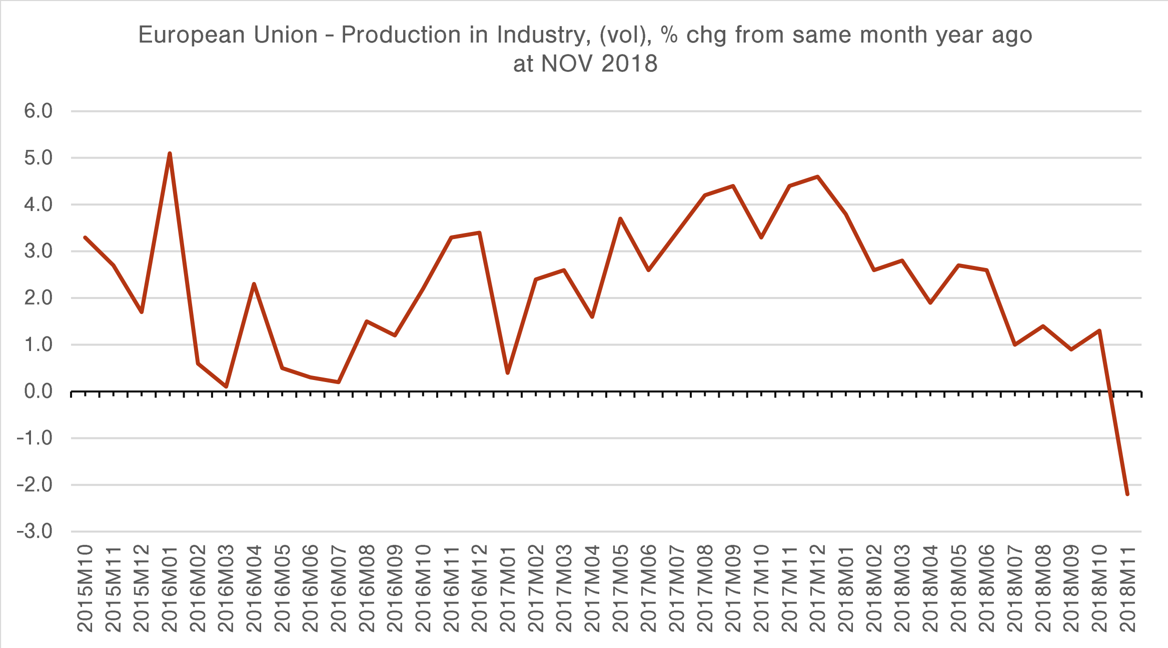
Every production group declined in the month (using total EU28 industrial production numbers);

> Intermediate Goods (also a good proxy for industrial production); Nov -1.1% versus Oct +0.3%
>
> Energy; Nov -0.5% versus Oct -1.4%
>
> Capital Goods; Nov-1.6% versus Oct +0.6%
>
> Durable Consumer Goods; Nov -1% versus Oct +0.6%
>
> Non-Durable Consumer Goods; Nov -0.6% versus Oct +0.2%

<u>Change Versus Year Ago % – Total Industries:</u>

Euro area; Nov -3.3% versus Oct +1.2%

EU28 Group; Nov -2.2% versus +1.3%



The decline on a year ago basis is not quite as widespread among EU members as the monthly decline, but the larger economies are still leading the way; Ireland -9.1%, Germany -5.1%, Italy -2.6%, France -1.9% and Spain -2.8%.

Most production groups are now recording production at levels below a year ago (using EU28 Group results);

Intermediate Goods; Nov -2.2% versus Oct +0.5%

Energy; Nov -4.3% versus Oct -2.1%

Capital Goods; Nov -3% versus Oct +3.2%

Durable Consumer Goods; Nov -1.4% versus Oct +1.3%

Non-Durable Consumer Goods; Nov +0.7% versus Oct +1.5%

https://ec.europa.eu/eurostat/documents/2995521/9490436/4-14012019-AP-EN.pdf/9d606acd-97bc-4a5b-8c4c-a270888aab0a

Eurozone International Trade – Prelim (Nov)

All figures quoted are in € value.

The Euro area trade balance (surplus) narrowed slightly in Nov and in the YTD compared to a year ago – as imports grew faster than exports. The EU28 trade balance shifted from a surplus a year ago to a deficit in the latest month and in the YTD.

Euro area trade balance – Surplus

The latest month trade balance (surplus) - Nov 2018; +19bn versus prior year Nov 2017; +23.4bn. Exports grew by +1.9% versus a year ago and imports grew by +4.7%.

The YTD trade balance (surplus) also narrowed; YTD 2018 +175bn versus YTD 2017 +210.4bn. Again, YTD exports growth has been slower (+4.2%) than import growth (+6.6%).

EU trade balance – Deficit

The latest month trade balance (deficit) Nov 2018; -3.2bn versus the prior year +4.9bn. Exports grew by +2.6% versus a year ago and imports grew by +7.6% versus a year ago.

The YTD trade balance (deficit) continues to worsen; YTD 2018 -25.2bn versus YTD 2017 +9bn. EU Exports have grown at a slower pace than imports in the YTD; exports +4.7% versus imports +6.7%.

Main products - EU28 **bn €**

	Extra-EU28 exports			Extra-EU28 imports			Trade balance	
	Jan-Nov 17	Jan-Nov 18	Growth	Jan-Nov 17	Jan-Nov 18	Growth	Jan-Nov 17	Jan-Nov 18
Total	**1 719.0**	**1 800.0**	**4.7%**	**1 710.0**	**1 825.3**	**6.7%**	**9.0**	**-25.2**
Primary goods:	**247.8**	**264.9**	**6.9%**	**478.8**	**558.3**	**16.6%**	**-231.0**	**-293.5**
Food & drink	111.7	111.9	0.2%	103.3	103.4	0.1%	8.4	8.5
Raw materials	45.5	46.9	3.1%	72.5	75.1	3.6%	-27.0	-28.2
Energy	90.6	106.0	17.0%	303.0	379.8	25.3%	-212.4	-273.8
Manufactured goods:	**1 419.6**	**1 473.8**	**3.8%**	**1 172.4**	**1 216.3**	**3.7%**	**247.2**	**257.4**
Chemicals	306.1	329.9	7.8%	182.0	188.5	3.6%	124.1	141.5
Machinery & vehicles	724.0	739.2	2.1%	547.6	568.6	3.8%	176.4	170.6
Other manuf'd goods	389.5	404.6	3.9%	442.8	459.3	3.7%	-53.3	-54.6
Other	**51.6**	**61.4**	**19.0%**	**58.7**	**50.6**	**-13.8%**	**-7.2**	**10.8**

Key exports; Energy, Chemicals and Machinery and Transport Equipment all made a similar contribution to the growth in export value in the YTD.

Machinery and Transport equipment is the largest share of exports but YTD growth of +2.1% is underperforming and is growing well below the total export growth rate.

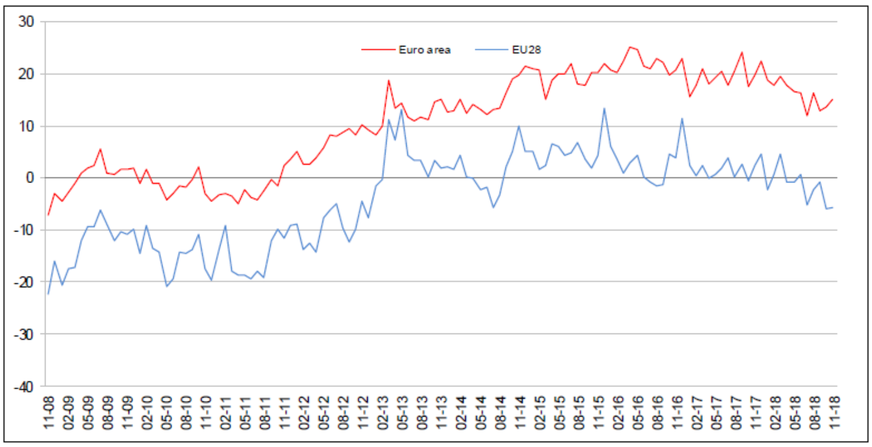
Chemical and Energy export growth YTD has been higher/over-performed the total rate of export growth.

Key imports; Just on two thirds of import growth (value) YTD was driven by Energy. Energy imports are growing +25.3% YTD – significantly higher than the rate of import growth across other categories.

EU28 and Euro Area Trade Balance - trend

The overall trade balance for the EU and Euro area has been declining throughout 2018. The value of energy imports is likely playing a role;

International trade in goods balance, seasonally adjusted, € bn



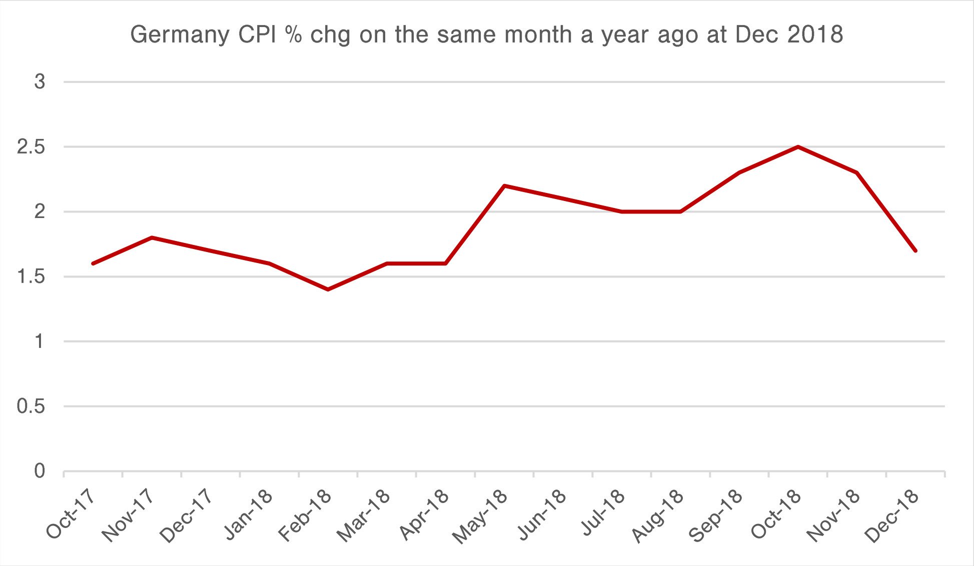
https://ec.europa.eu/eurostat/documents/2995521/9497430/6-15012019-AP-EN.pdf/2e5aed34-bee4-43de-ae74-84941678b9f1

Germany CPI (Dec)

The annual headline CPI growth slowed considerably versus the prior month. The decline in goods prices was mostly driven by falling energy prices in the month. Measures of underlying inflation remained steady.

Headline CPI - % chg from a year ago

Dec +1.7% versus Nov +2.3%



The slower annual growth between the last two months was the result of slower growth in Goods prices led by lower growth in energy prices;

Annual change in goods prices: Dec +2% versus Nov +3.2%

> Annual; change in energy prices; Dec +4.8% versus Nov +9.3%. Energy prices declined -4.2% in the latest month versus the month prior.

Annual change in services prices; Dec +1.5% versus Nov +1.5%

> Services prices increased by +1.3% in the month (versus the month prior)

Core CPI excluding energy and food; Dec +1.5% versus Nov +1.5%

https://www.destatis.de/EN/FactsFigures/NationalEconomyEnvironment/Prices/ConsumerPriceIndices/ConsumerPriceIndices.html

Eurozone CPI (Dec)

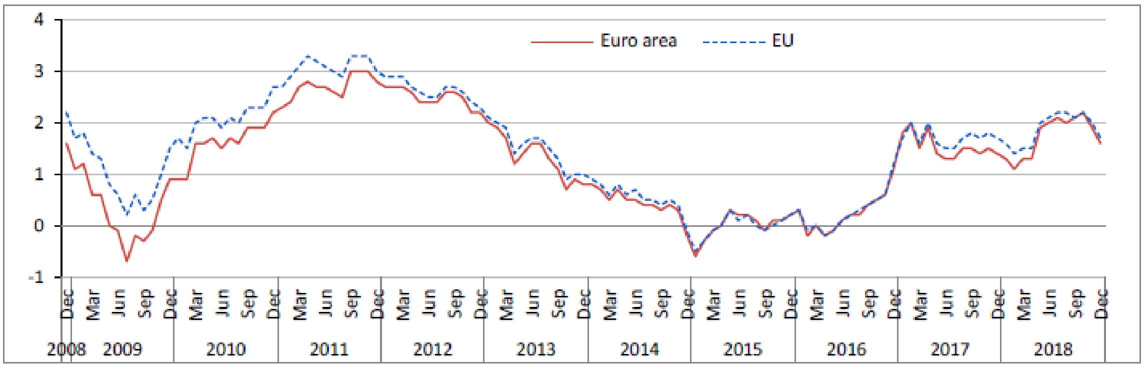
Annual Eurozone CPI growth also slowed further in the latest month. This was mostly the result of slower growth in energy prices. Underlying price growth remains low and core CPI was unchanged in the latest month.

Headline CPI;

Euro area CPI: Dec +1.6% versus Nov +1.9%

EU CPI: Dec +1.7% versus Nov +2%

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



The main drivers of the slower annual growth between the last two months;

Energy; price growth slowing to +5.4% in Dec from +9.1% in Nov.

Food, Alcohol and Tobacco also grew at a slower pace and made a lower contribution to headline CPI growth.

Services CPI continued to grow at a constant pace; Dec +1.3% versus Nov +1.3%.

Core CPI

Underlying growth in the CPI ex food, energy and alcohol and tobacco was unchanged in the latest month; Dec +1% versus Nov +1%.

https://ec.europa.eu/eurostat/documents/2995521/9499950/2-17012019-AP-EN.pdf/4ea467c3-8ff2-4723-bc6e-b0c85fb991e4

ECB President Draghi – Speech at the plenary debate of the European Parliament on the ECB's Annual Report 2017, Strasbourg, 15 January 2019

President Draghi made several references to the current state of the European economy in this brief speech. Most of what is said here mirrors detail from the Dec minutes outlined last week. President Draghi reconfirms the point about providing policy support to the economy 'if and when' it is needed.

President Draghi cites the domestic economy as the main driver of the recovery since the sovereign debt crisis – namely domestic demand via improving labour markets. Recent developments have been weaker than expected, uncertainties related to global factors remain prominent. (emphasis added)

Significant stimulus is still required;

> to support the further build-up of domestic price pressures and headline inflation developments over the medium term.

Will use tools available and adapt as required;

> Faced with unprecedented threats to price stability, the ECB adapted its policy instruments to continue delivering on its mandate. We will continue to do so if and when needed, in compliance with our mandate as defined by the EU Treaties, and with all the independence over our tools as defined by our legal framework.

Further work is required – not just up to the ECB;

> In this respect I can testify to the essential role the European Parliament has played during the challenging years of the crisis. And I am certain that it will also be fundamental in carrying out the remaining work until the completion of the EMU.

https://www.ecb.europa.eu/press/key/date/2019/html/ecb.sp190115_1.en.html

Return to top

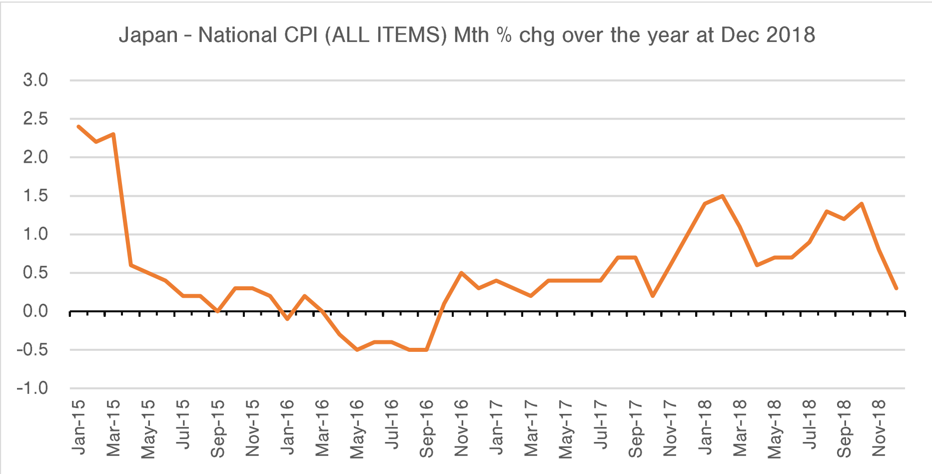
Japan

National CPI (Dec)

The annual change in National CPI slowed further in the latest month. Food and transport prices declined and the growth in energy prices slowed.

Headline CPI:

Dec +0.3% versus Nov +0.8%



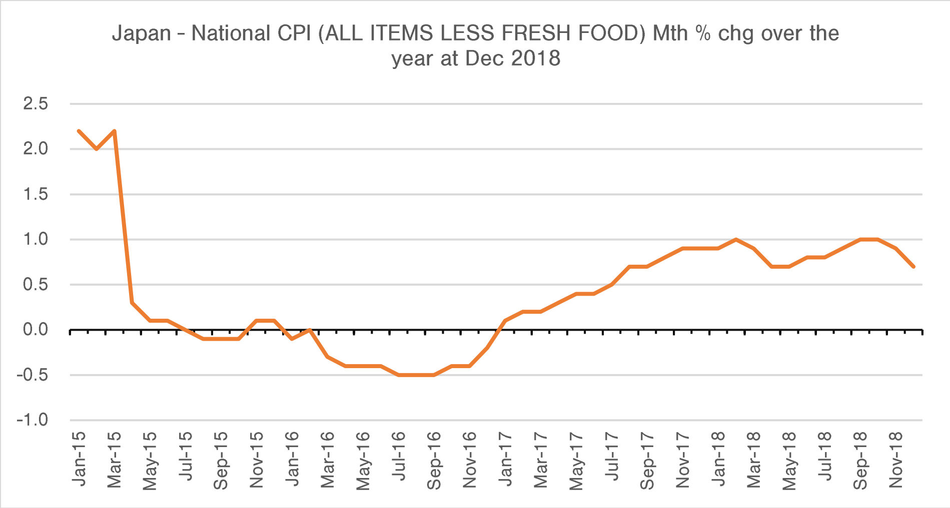
The lower headline growth was mostly the result of;

- Declining food prices in Dec -1.1% (of which fresh food declined by -9.4%) versus Nov +0.5%.
- Energy price growth slowing from +8.1% in Nov to +6% in Dec.
- Transport and Communication prices declining by -0.1% in Dec after growing +1.2% in Nov

Core CPI:

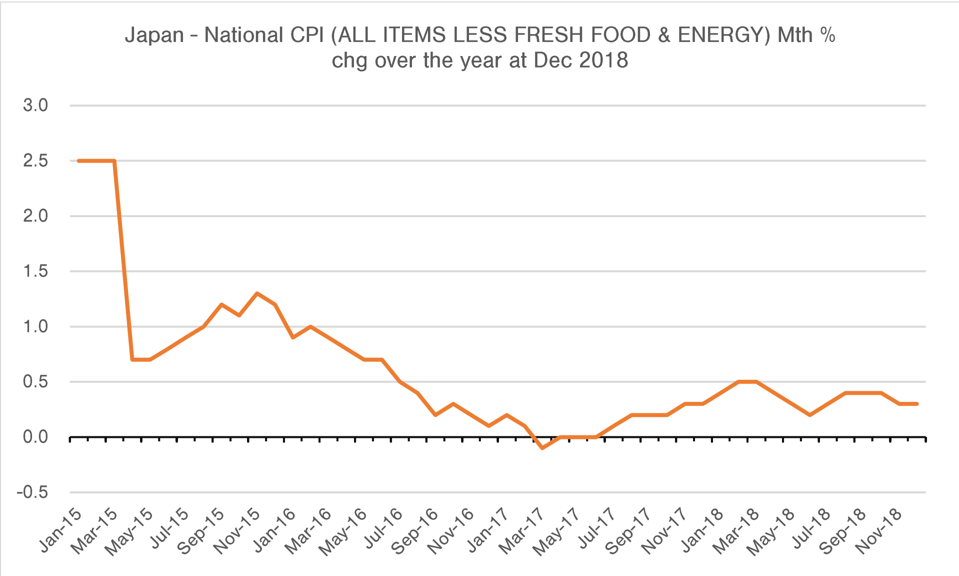
The BoJ's measure of core CPI excluding Fresh Food also slowed further and is sitting well below the BoJ target;

Dec +0.7% versus Nov +0.9%



Given the influence of higher energy prices, a better measure of underlying price change is CPI ex food and energy prices. This has been growing at a more constant rate and at a much lower level. This underlying measure of inflation is now on par with the headline CPI growth.

Dec +0.3% versus Nov +0.3%



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

Industrial Production – Final (Nov)

The final data for Nov confirmed that industrial production growth declined in the month, but at a slightly slower pace than originally reported for Nov.

Final – Month on month % chg

Total Industrial Production; Nov -1% (revised from -1.1%) versus Oct +2.9%

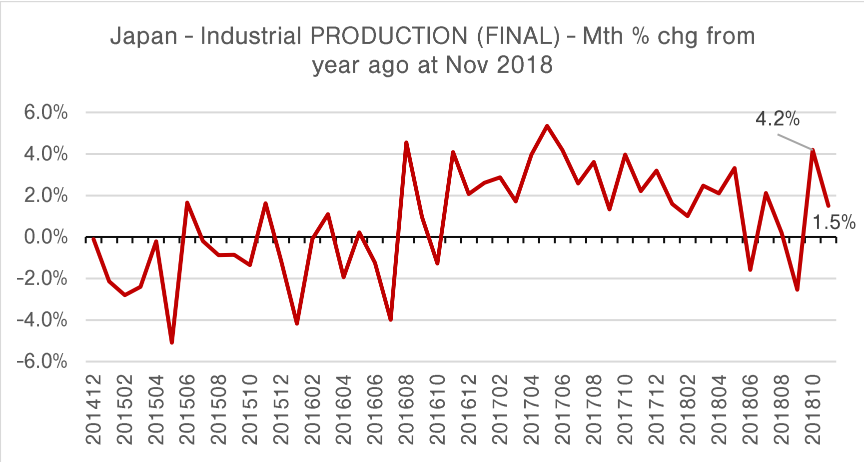
Shipments; Nov -1.2% (revised from -1.4%) versus Oct +5.4%

Inventories; Nov +0.1% (revised from +0.2%) versus Oct -1.4%

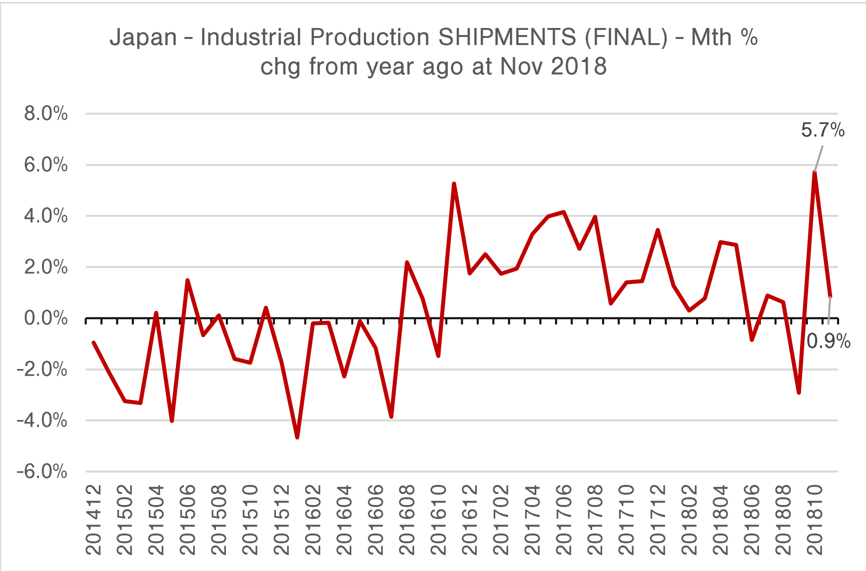
Inventory Ratio; Nov -2.2% (revised from -1.8%) versus Oct -7.4%

<u>Final – Annual % chg from a year ago</u>

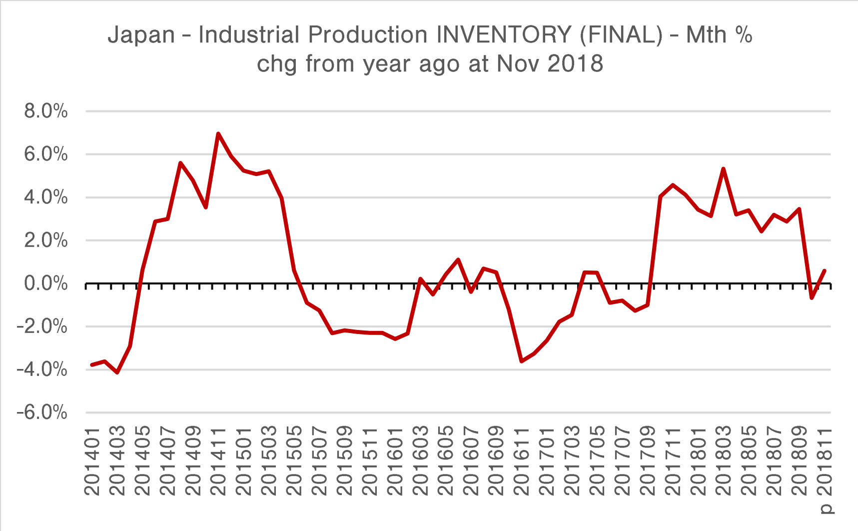
Industrial production; Nov +1.5% (revised from +1.4%) versus Oct +4.2%



Shipments; Nov +0.9% (revised from +0.7%) versus Oct +5.7%



Inventories of finished goods; Nov +0.6% (revised from +0.7%) versus Oct +0.9%



http://www.meti.go.jp/english/statistics/tyo/iip/index.html

BoJ Governor Kuroda speech – Demographic Changes and Macroeconomic Challenges (keynote speech at the G20 symposium in Tokyo)

This is a summarized version of the first half of the speech (taken directly from the speech). The second half of the speech addresses monetary policy response and, specifically, that of the BoJ. I've posted several of the more interesting quotes regarding some of the concerns regarding possible side effects of a low interest rate policy.

"Policy makers and the business community have increasingly been interested in the impact of demographic changes on the economy, as advanced and some emerging economies have experienced, or are expected to experience, declining and aging populations.

In Japan, the working age population peaked in 1995 and the total population in 2008, and both have been declining since then. The elderly population represented 28% in 2017.

Three questions;

"Does an aging and declining population hinder economic growth?"
Can lead to a decrease in the labour force population and put downward pressure on economic growth from the supply side. But growth of a country is affected not only by demographic changes but also by capital accumulation and changes in total factor productivity.

"How do we maintain a social security system with an aging population and fewer children?"
This raises concerns about fiscal balances. When many countries around the world established their medical, elderly care, and pension systems after World War II, it was assumed that the demographic structure of these countries was pyramid-shaped, that is, a small elderly population was supported by a much greater working-age population.

"How does an aging population affect monetary policy and the financial system?"
The natural rate, which is consistent with potential growth rates, will decline if long-term growth rates decline together with a declining and aging population.

There will be downward pressure on real interest rates as the natural rate declines. As a result, nominal interest rates consistent with their economic potential decrease, given that the inflation rates are constant."

BoJ/Monetary Response;

Invented various unconventional monetary policy measures to tackle this issue, such as negative interest rate policies, lowering of longer-term interest rates, and depressing risk premiums by purchasing various assets based on experiences of past financial crises. Therefore, we now know we have the tools to stimulate the economy even when we face the zero lower bound problem.

> However, we need to carefully monitor and evaluate the effects of these unconventional measures on economic developments, prices, and financial conditions since the transmission mechanisms, benefits, and side-effects of these measures could be different from those of conventional monetary policy measures based on controlling short-term interest rates.
>
> As a low interest rate environment persists and credit demands become stagnant amid declining population, banks might accelerate their search-for-yield activities such as expanding their exposures to overseas assets and increasing loans and investments to firms with higher credit risks. If that were the case, the entire financial system could become less stable.

https://www.boj.or.jp/en/announcements/press/koen_2019/ko190117b.htm/

Return to top

United Kingdom

BREXIT

The UK Parliament vote on Article 50 was comprehensively defeated during the week.

PM May set out 'plan b' yesterday – which consists of seeking further concession from the EU. This is something the EU has said it won't do, saying that;

> "The withdrawal agreement with all its dimensions, including the backstop, is the best deal possible. This debate is much more now on the future relationship. As I said last week at the EU parliament, if the UK want to be more ambitious, we are ready to be," Mr Barnier told Irish broadcaster RTE after meeting Mr Coveney."

https://www.ft.com/content/ee06a784-1d77-11e9-b126-46fc3ad87c65

The issues continue to be that the current deal maintains close ties with the EU and that the fear is that the current backstop plan is not time-limited (and could keep the UK in a customs union indefinitely).

Without an extension to the 29 March Brexit deadline, the risk of a 'no deal' Brexit remains a possibility.

Postponing Brexit seems to come with some caveats from the EU that the delay will be used for UK internal political purposes, including another referendum (which has been continually ruled out), a general election or further negotiation within the UK;

> "That viewpoint is widely shared in Brussels: a willingness to entertain a British request for more time, but only on the condition that Downing Street gives credible assurances that it will not use the time to press for concessions that have already failed on the continent."

The length of any delay will be impacted by EU parliamentary elections in May.

https://www.washingtonpost.com/world/europe/britain-is-operating-as-if-a-brexit-delay-is-there-for-the-taking-its-not/2019/01/19/83da06a2-1b2a-11e9-b8e6-567190c2fd08_story.html?noredirect=on&utm_term=.5db595be68c0

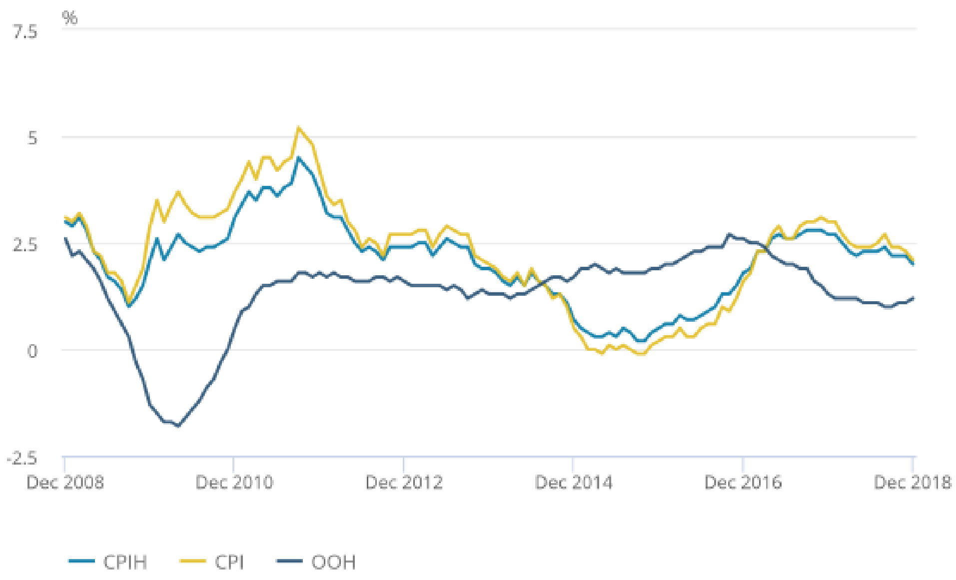
CPI (Dec)

UK consumer prices including owner occupier housing costs continued to increase at a slower pace in the latest month.

Headline CPI-H growth; Dec +2% versus Nov +2.2%

Figure 1: CPIH, OOH component and CPI 12-month rates for the last 10 years: December 2008 to December 2018

UK



The slow-down in the annual headline CPI growth was the result of slower growth in Goods CPI. Annual growth in Services CPI also grew at a slightly slower pace in Dec.

Overall goods prices have grown at a slower pace since peaking at +2.7% in Aug 2018. In Dec, Goods CPI slowed to +1.8% versus Nov +2.1%. This was led by Energy prices growing at a slower pace in Dec of +5.8% down from +8.7% in Nov. Alcohol and tobacco (tobacco prices) also grew at a slower pace; Dec +4.1% versus Nov +5.7%.

Services CPI growth has slowed slightly; Dec +2.1% versus Nov +2.2%. There was little change across key services categories. Just one thing of note is that the housing services price indexes (rental and owner occ housing) has been slowing edging up over the last four months.

Underlying price changes remain relatively stable. Core CPI ex food, energy, alcohol and tobacco; Dec +1.8% versus Nov +1.8%.

https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/december2018

Retail Sales (Dec)

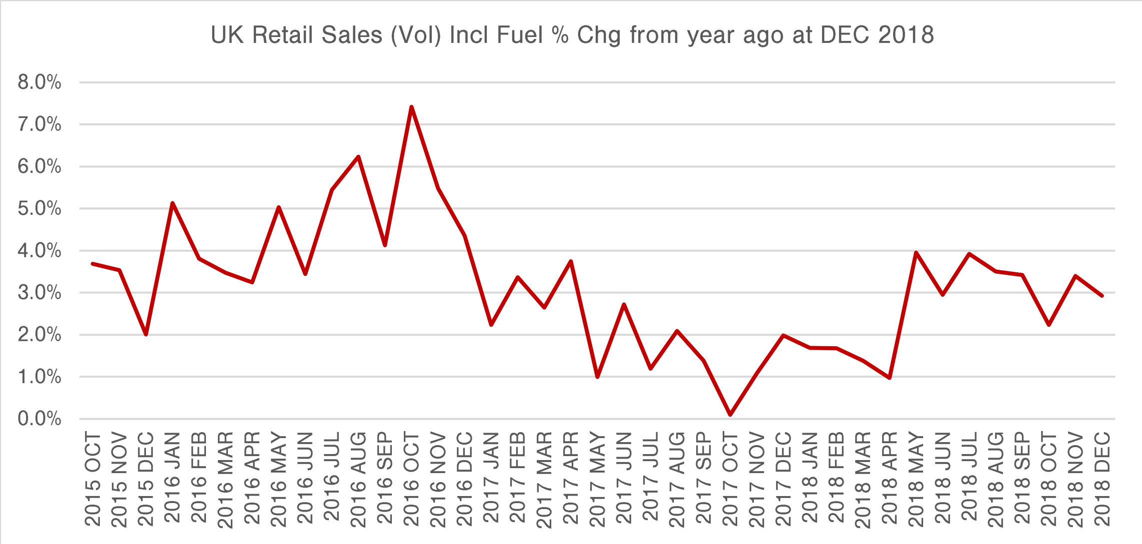
UK retail sales in volume terms declined in Dec after stronger growth in Nov. There appears to be some shift in the retail promotion calendar pulling some Dec sales forward into Nov. But the latest full quarter sales were lower versus the quarter prior also suggesting a slow-down in spending.

Retail sales (vol) incl fuel - month % chg: Dec -0.9% versus Nov +1.3%

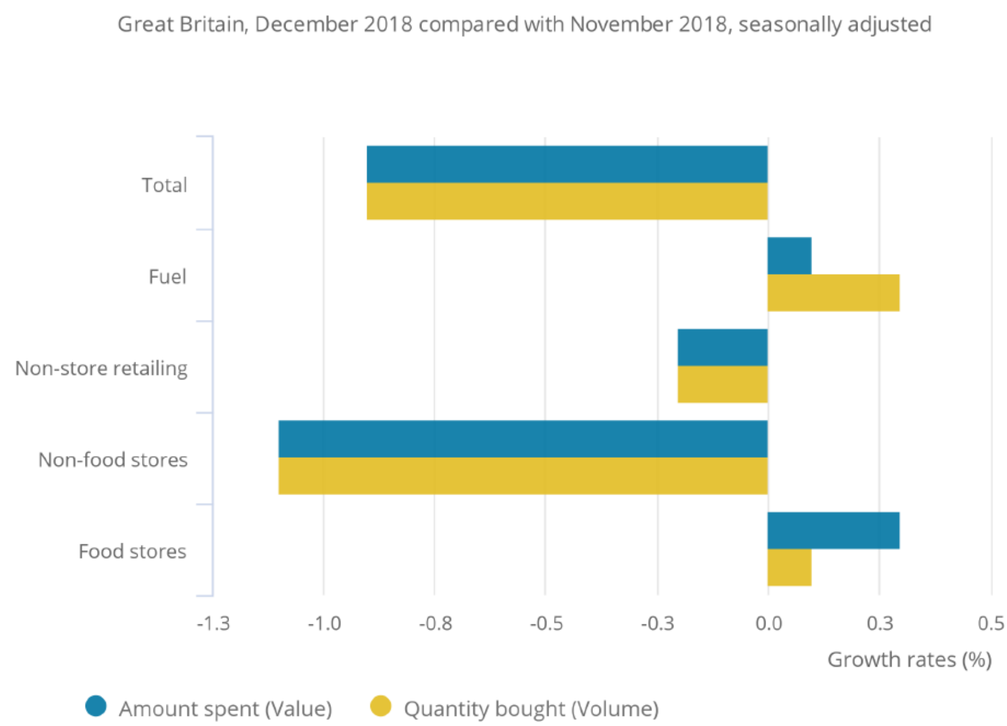
Nov retail sales were relatively strong with the volume index reaching a peak for the year in that month – after two prior months of declining sales.

In the quarter to the end of Dec, the volume of retail sales declined -0.2% versus the quarter prior (Q4 was +2.9% versus a year ago). This indicates that consumer spending is not likely to contribute to GDP growth in Q4.

On an annual basis, the change in the volume of retail sales in Dec only slowed slightly: Dec +2.9% versus Nov +3.4%.



In the latest month, growth in food and fuel volume sales were off-set by declines in non-store retailing and non-food store sales:



https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/december2018

Return to top

Canada

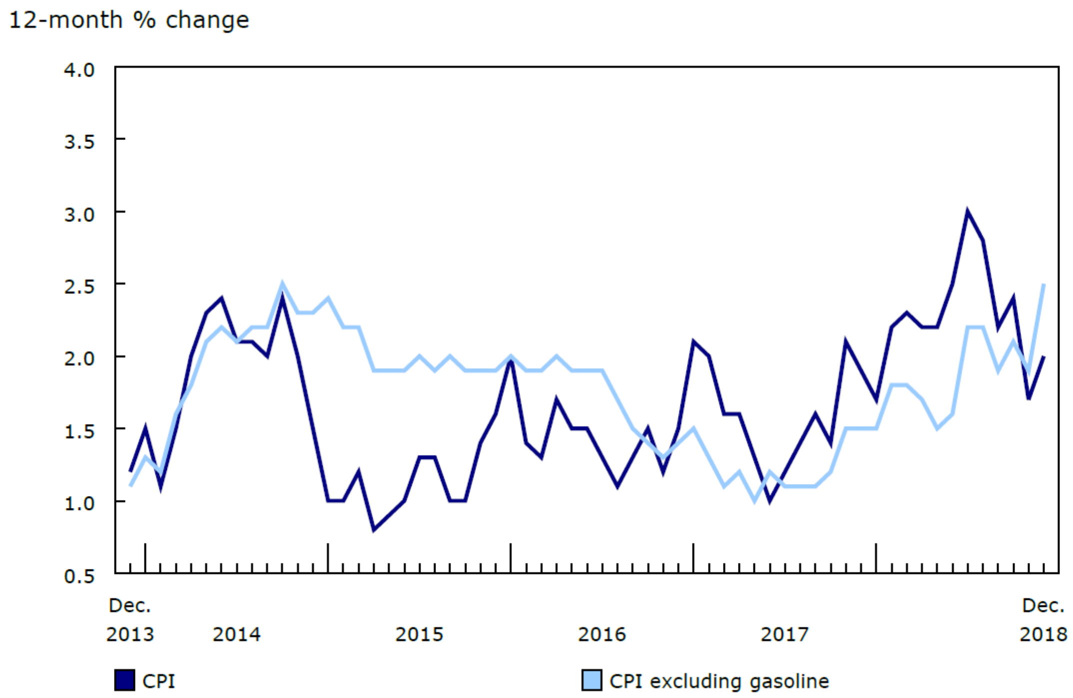
CPI (Dec)

Despite slower growth in oil prices, the headline CPI and CPI ex energy both increased at a faster rate in Dec. The BoC measures of underlying price growth remained stable.

Headline CPI; Dec +2% versus Nov +1.7%

CPI ex fuel has been increasing at a consistent pace with a further acceleration in the latest month; Dec +2.5% versus +1.9% in Nov

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



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

The increases across services and transportation costs offset some of the decline in energy prices.

Services prices increased at a faster rate in Dec +3.5% versus Nov +2.7%.

The price index of energy products (-3.7%) continued to decline year over year in December. Within that, gasoline prices declined by 8.6% in Dec versus a year ago. Natural gas prices declined 4.1% year over year.

The BoC measures of core/underlying changes to consumer prices remains unchanged in Dec, with all three measures sitting below 2%.

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

	September 2018	October 2018	November 2018	December 2018
	% change			
CPI-common[3,5]	1.9	1.9	1.9	1.9
CPI-median[4,6]	1.9	1.9	1.8	1.8
CPI-trim[4,7]	2.0	2.1	1.9	1.9

https://www150.statcan.gc.ca/n1/daily-quotidien/190118/dq190118a-eng.htm

Return to top

Australia

Housing Finance (Nov)

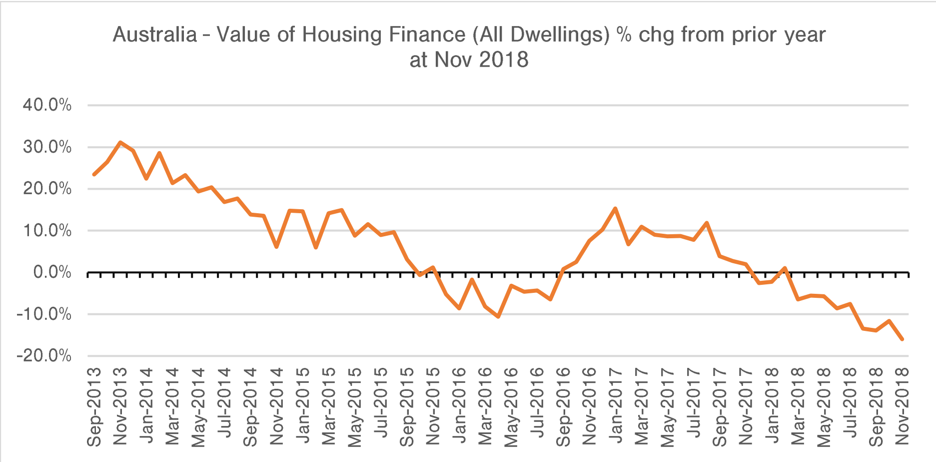
The decline in housing finance commitments resumed in the latest month – led mostly by investment housing finance, but owner occupier housing finance also declined. All dwellings finance ex- refi's is now -16% on a year ago basis.

This month's financing data indicates that falls in house prices are likely to continue.

<u>All dwellings finance (ex refi's)</u>

Monthly change; Nov -3% versus Oct +3%

% chg from a year ago: Nov -16% versus Oct -12%



The current month total in all dwellings finance is equal to -2std deviations below the 20mth moving average – the declines remain relatively large.

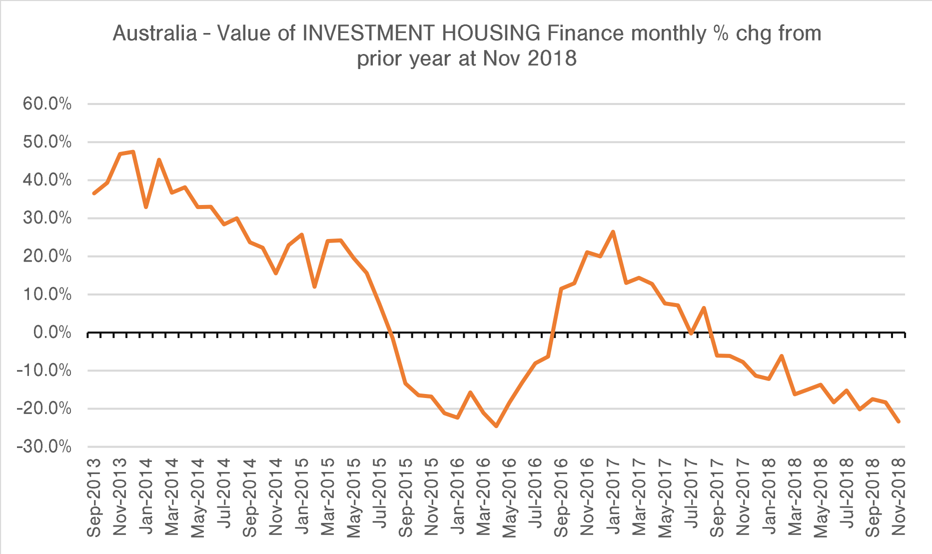
All dwellings finance is the sum of investment housing finance and owner occupier housing finance.

<u>Investment housing finance</u>

Leading the downturn in lending is investment housing finance – which accounted for two-thirds of the decline versus the month prior;

Monthly change; Nov -5% versus Oct 0%

% chg from a year ago; Nov -23% versus Oct -18%



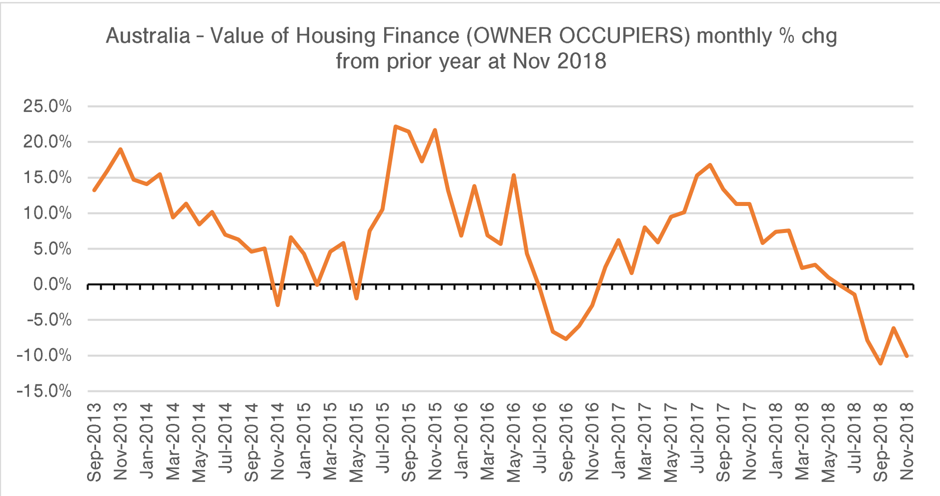
Back in May 2015, investment housing finance hit a peak of 55% share of all dwellings housing finance. The actual peak in the $ level of investment housing lending was reached in April 2015 with $14.7b of new lending in the month. The value of loans for investment housing as of Nov 2018 is 37% below that peak.

<u>Owner-occupier housing finance</u>

This is the largest part of all dwellings finance and year on year declines only started recently back in July 2018.

Monthly change; Nov -2% versus Oct +5%

% chg from a year ago; Nov -10% versus Oct -5%



The peak in the actual value of lending for owner occupier housing finance was reached a year ago in Nov 2017 and is currently 10% below that peak.

<u>Why is housing finance declining?</u>

“Speed limits” were place on banks to limit the growth in investment housing finance – which was growing at close to 50% at one point. This was in recognition of the risks created in the banking system from this type of lending (mostly interest-only).

The Royal Commission into Banking Misconduct (final recommendations are yet to be handed down) has also resulted in "tighter" lending criteria i.e. normal lending criteria.

But there is now some suggestion that demand for credit, not just supply, is falling. The CEO of National Australia Bank, of one of the 'big 4' banks in Australia, Andrew Thorburn claimed that home loan applications have fallen by 7% over the last six months.

> Further evidence has emerged of a softening housing market, with National Australia Bank chief executive Andrew Thorburn revealing home loan applications to the bank have fallen by 7 per cent over the past six months.
>
> While Mr Thorburn said he still expected housing credit to grow by 3-4 per cent next year, concerns over falling dwelling prices and the possibility of rising interest were taking hold among borrowers…
>
> Mr Thorburn said the supply of credit was not a problem — it was more on the demand side.

https://www.macrobusiness.com.au/2019/01/industry-demands-easing-mortgage-lending-standards/

http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5609.0Main+Features1November%202018?OpenDocument

Return to top

China

Trade Balance (Dec)

USD terms (year on year)

Exports; Dec -4.4% versus Nov +5.4%

Imports; Dec -7.6% versus Nov +3%

Yuan terms (year on year)

Exports; Dec -3.1% versus Nov +7.8% (expected +12% for Dec)

Imports; Dec +0.2% versus Nov +10.2%

Return to top

Trade

US-China Trade Negotiations

It has been confirmed that Chinese Premier Liu He will return to Washington DC for the next round of trade talks on 30 and 31 Jan 2019.

Despite the ongoing negotiations with China regarding technology transfer, IP, innovation and trade imbalances, the US continues to push forward with measures to address these issues. During the week US Federal prosecutors announced possible charges against Huawei for alleged theft of trade secrets from US business partners. It was also reported that the White House is preparing an executive order that would restrict the operations of Chinese telecoms firms in the US.

https://www.scmp.com/news/world/united-states-canada/article/2182815/white-house-prepares-executive-order-donald-trump

Reconfirming what a 'win' in the negotiations with China looks like – a statement of the key goals as outlined by the USTR (emphasis added);

> The meetings were held as part of the agreement reached by President Donald J. Trump and President Xi Jinping in Buenos Aires to engage in 90 days of negotiations **with a view to achieving needed structural changes in China with respect to forced technology transfer, intellectual property protection, non-tariff barriers, cyber intrusions and cyber theft of trade secrets for commercial purposes, services, and agriculture**.

https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/january/statement-united-states-trade

The final deadline for negotiations is 1 Mar 2019 before further tariffs and increased rates are imposed. From the USTR on the Federal Register in mid-Dec;

> 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

NEW – Special 2019 Section 301 Review

Posted on the Federal Register by the USTR is a request for comments and a notification of a public hearing for the annual special S.301 review;

> to identify countries that deny adequate and effective protection of intellectual property rights (IPR) or deny fair and equitable market access to U.S. persons who rely on intellectual property protection.

The special 301 subcommittee will hold a hearing on 27 Feb 2019.

On 26 Apr 2019, the USTR will publish the 2019 special 301 report within 30 days of the National Trade Estimate Report.

https://www.federalregister.gov/documents/2018/12/28/2018-28319/request-for-comments-and-notice-of-a-public-hearing-regarding-the-2019-special-301-review

NAFTA/USMCA

The government shutdown is reportedly halting further progress on the evaluation of the USMCA. The report by the US International Trade Commission on the economic impact of the new agreement has been delayed by the shutdown.

The report is due 15 March 2019 and will be used by member of Congress to inform their view of the agreement.

President Trump has already indicated that he will withdraw from NAFTA if there is any push to renegotiate the USMCA by the Democrats.

US-Japan Trade Talks

The summary of negotiating objectives for the US-Japan trade talks have been published;

https://ustr.gov/sites/default/files/2018.12.21_Summary_of_U.S.-Japan_Negotiating_Objectives.pdf

Awaiting details on when talks are to start, but likely to be late Jan/early Feb 2019.

Section 232 – Car and Truck Imports

The final report on the S232 investigation by the U.S. Commerce Department into whether President Trump should impose tariffs of up to 25 percent on imported cars and parts on national security grounds is due by mid-February.

https://www.reuters.com/article/us-autos-trade/trump-inclined-to-impose-new-u-s-auto-tariffs-senator-idUSKCN1PA31S?il=0

US-Europe Trade Talks

The summary of negotiating objectives for the US-EU trade talks have been published;

https://ustr.gov/sites/default/files/01.11.2019_Summary_of_U.S.-EU_Negotiating_Objectives.pdf

Awaiting further notice on the commencement of talks.

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