

Key Themes

Weaker industrial production and external trade were key themes this week.

Key industrial production reports were weaker with output declining in Japan (Dec), the EU (Dec) and the US (Jan) in the month. Output in Japan and the EU fell below output levels from a year ago. The decline in production in the US was led by an 8.8% fall in motor vehicle and parts production.

GDP reports for Germany and Japan confirmed the weaker state of external demand late in 2018. Germany narrowly missed a technical recession as net exports likely detracted from growth. Growth rebounded in Japan in Q4, but the year on year result was such that annual GDP growth in Q4 slowed to -0.01%. The external sector also detracted from growth.

The EU goods trade balance for Dec and the full year 2018 trade balance confirmed the broadly weaker trade position. Goods exports declined in Dec while imports grew. In the full year of 2018, exports grew at a slower rate than imports. The detail highlights that growth of the largest export product group, machinery and vehicles, finished the year at +1.8%, lagging total goods exports growth of 4% for the year.

The question facing both Europe and Japan is whether the US will place a 25% tariff on car and truck imports. President Trump was scheduled to receive the final report into tariff recommendations from the s.232 National security investigation into car and truck imports by 17 Feb. The President has 90 days to review and action. President Trump has previously assured the EU and Japan that no additional tariffs will be levied while trade negotiations are underway (about to get underway).

UK Q4 GDP highlighted that Brexit has likely put a brake on business investment decision making amid a weaker external sector (net trade also detracted from growth in Q4) resulting in slower overall growth. Consumption remains resilient and growth in retail sales accelerated in Jan. Growth in the CPI slowed as energy prices declined.

The large magnitude % decline in US retail sales for Dec was important. While the report was weak (growth in autos was offset by declines in spending across all other categories), the broader context of the data makes it difficult to say whether this is the start of a trend in slower consumption. The decline in retail sales is inconsistent with the consumer credit data that was released last week for the month of Dec. Whilst revisions to data will be possible next month (consumer credit or retail), the Jan retail data will likely still be impacted by the partial govt shutdown. The weaker motor vehicle sales for Jan (released last week) will also likely weigh on next month's retail result.

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US Data

JOLTS (Dec)

Another strong JOLT's report with job openings and hires continuing to grow. Both job openings and hires remain near recent peaks. Separations were little changed overall.

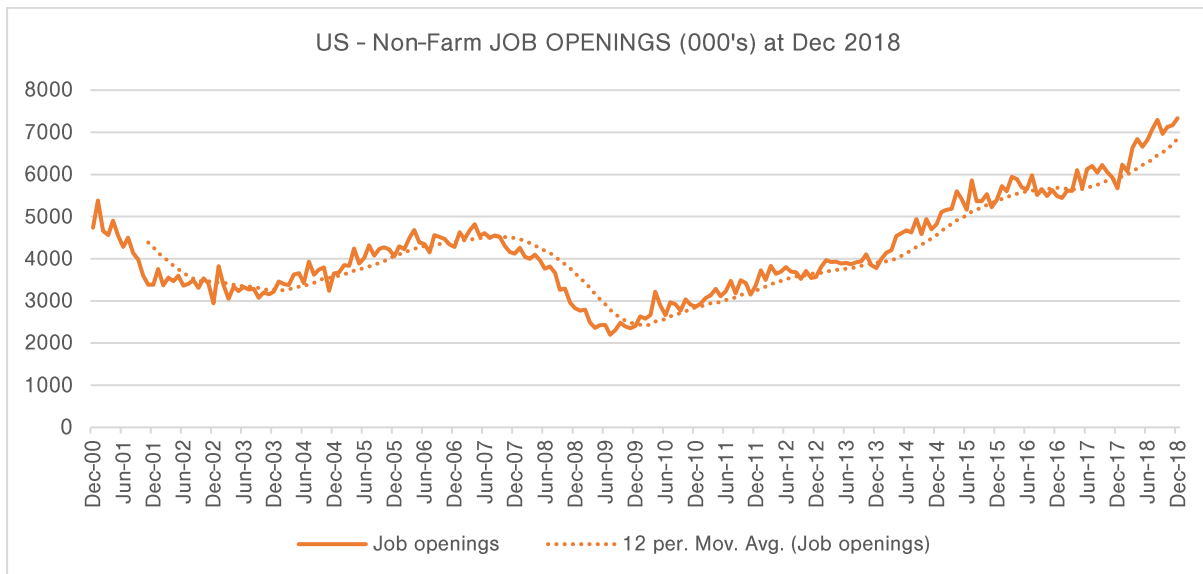
Job Openings

The number of job openings reached a new all time high in Dec and the job opening rate equalled the high from back in Aug 2018;

Dec +7.33m versus Nov +7.17m

Job Openings rate; Dec 4.7%

The current level of openings remains well above the 12-mth moving average;

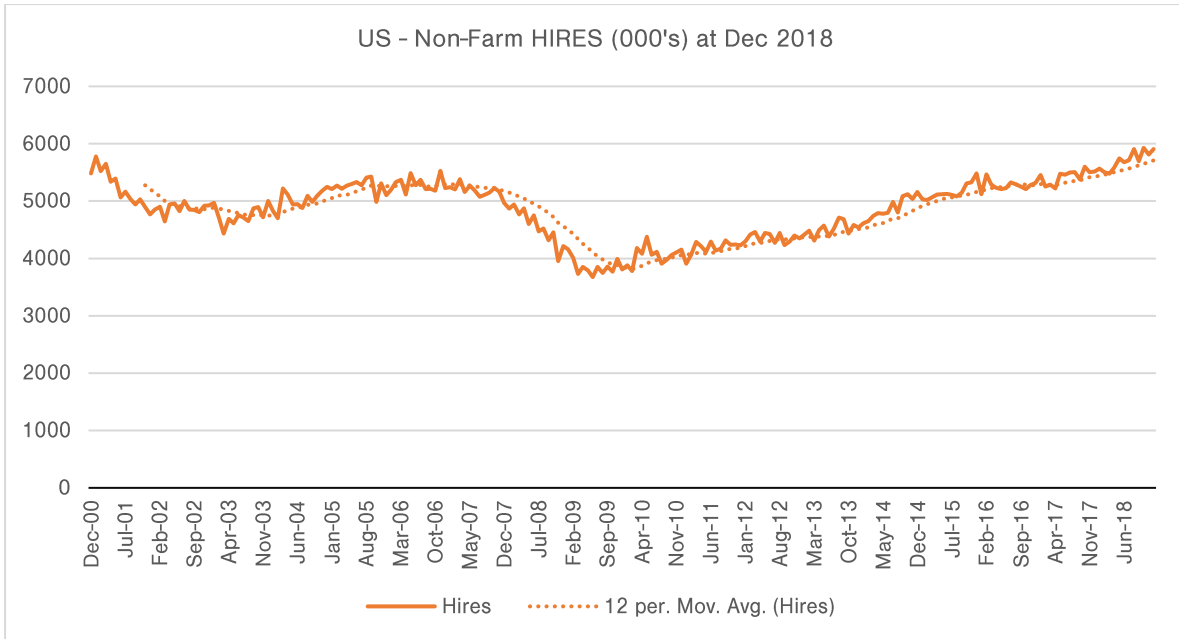


Hires

The number of hires also increased in the latest month and is only slightly below the all time high reached in Oct 2018. The current level of hires remains above the 12-month average. The rate of hires remained unchanged at 3.9% also just shy of the recent peak of 4%. The all time hire rate was 4.4% back in early 2001.

Dec 5.9m versus Nov 5.8m

Hire rate; Dec 3.9%



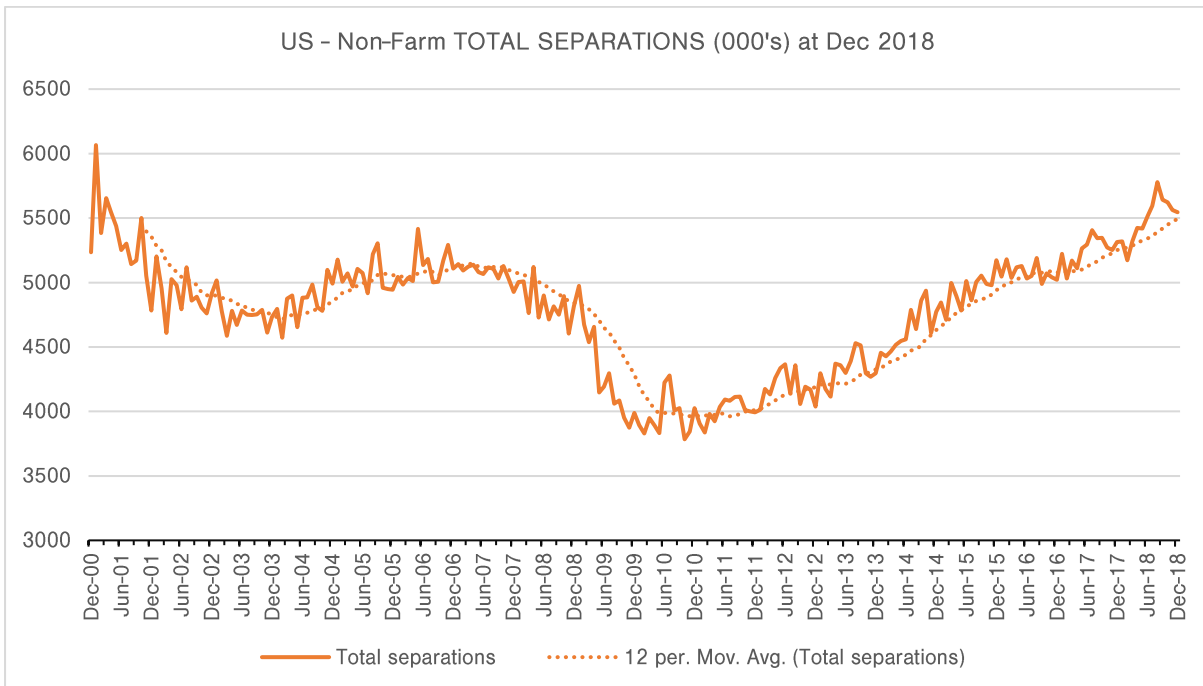
Non-Farm Separations

Total separations continued to decline in Dec. This was led by both layoffs & discharges and quits. An increase in ‘other’ separations somewhat offset the declines.

Dec 5.5m versus Nov 5.6m

Separation rate; Dec 3.7%, which is below the recent peak of 3.9% in Aug.

The current level of separations is running at approx. the 12-mth average;



Quits were little changed: Dec 3.48m versus Nov 3.49m, now below the peak reached in Aug 2018 of 3.64m. The quite rate remains unchanged at 2.3%.

Layoffs & discharges declined: Dec 1.69m versus Nov 1.75m. The current level of layoffs & discharges remains around the 12-month avg.

<https://www.bls.gov/news.release/pdf/jolts.pdf>

<https://www.bls.gov/news.release/jolts.nr0.htm>

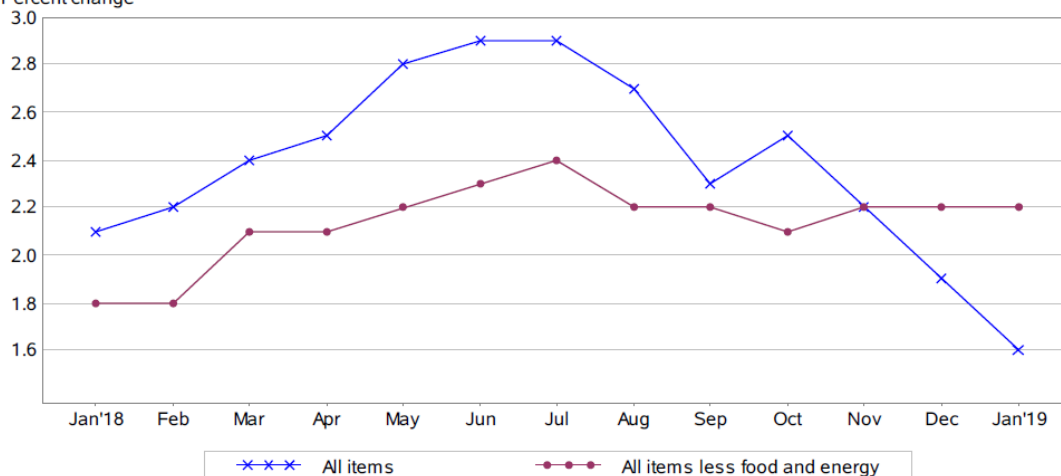
CPI (Jan)

The annual headline CPI growth for Jan continued to slow as energy prices declined. Removing the impacts of more volatile items, annual core CPI continued to grow at a consistent pace of +2.2%.

Headline CPI: In the month of Jan, CPI change was zero and the annual change slowed from +1.9% in Dec to +1.6% in Jan.

Core CPI – all items less food and energy: In the month of Jan, core CPI growth was +0.2% and annual growth remained at +2.2%.

Chart 2. 12-month percent change in CPI for All Urban Consumers (CPI-U), not seasonally adjusted, Jan. 2018 - Jan. 2019
Percent change



The largest contributor to the slower headline growth was energy prices;

In the month of Jan, overall energy prices declined by a further -3.1% with the annual change -4.8%. Declines in prices were recorded across both energy commodities and energy services in the month. Falling energy prices contributed 22% of the change in the CPI.

The contribution of the change in food prices remained on par with its weight in the index of +13%.

Growth in prices for commodities (goods) ex food and energy grew in the latest month by +0.4%. On annual basis, growth remains low; Jan +0.3%. Overall, this group contributed only 4% of the change in the CPI (but represents 19% of the index weight).

Services less energy services continued to make the larger contribution to the overall CPI index. Shelter was the largest contributor to overall growth in the CPI – nearly 70% of the change was due to the increase in shelter prices. In the month shelter increased by +0.3% and +3.2% annually in Jan.

<https://www.bls.gov/news.release/cpi.nr0.htm>

PPI (Jan)

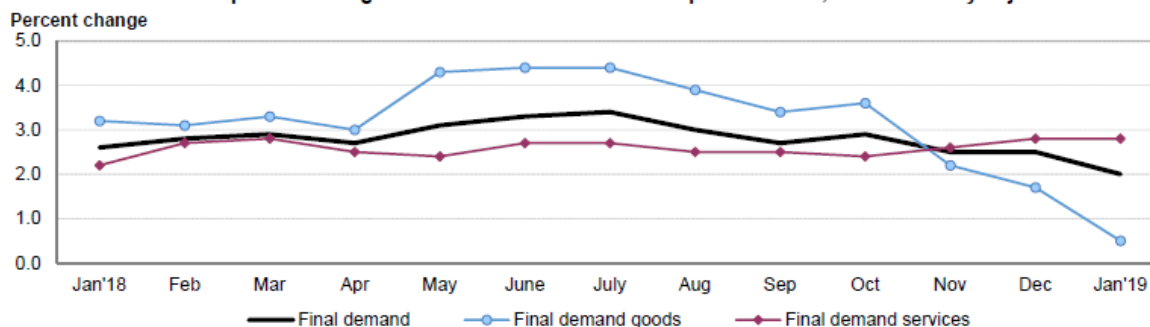
Producer prices were lower in Jan led mostly by declines in energy prices. Producer prices for services continued to grow at a slightly faster pace in Jan across both final and intermediate demand.

Producer Prices – Final Demand

Mth chg; Jan -0.1% versus Dec -0.1%

Annual % chg versus a year ago; Jan +2% versus Dec 2.5%

Chart 2. Twelve-month percent changes in selected PPI final demand price indexes, not seasonally adjusted



Final demand ex food energy and trade; Jan +0.2% versus Dec +0%

The slower growth in final demand prices in Jan was the result of a decline in final demand goods prices;

Final demand goods prices; Jan -0.8% versus Dec -0.3%

The decline was mostly the result of a further 3.8% decline in energy prices and a 1.7% decline in foods prices.

Final demand services prices; Jan +0.3% versus Dec 0%

The higher growth in services prices was led by trade +0.8% and transportation and warehousing +0.5%.

Producer Prices – Intermediate Demand

Intermediate demand for processed goods declined further in Jan; -1.4% versus Dec -0.9%. This was led mostly by a 6.5% decline in Jan for energy goods. The 12mth change continued to slow considerably; Jan +0.9% versus Dec +3%.

Intermediate demand for processed goods also declined in Jan; -9.3% versus Dec +11.1%. Declines were recorded across food and feed stuffs and energy materials. The 12-month change continues to be volatile; Jan -3.1% versus Dec +9.1.

Services for Intermediate demand; Jan +0.2% versus Dec +0.1%. Trade, transportation and warehousing and other all contributed to the higher growth in the month. On a 12-month basis, prices for services slowed from 3.1% in Dec to +2.9% in Jan.

<https://www.bls.gov/ppi/>

Mortgage Applications (wk ending 8 Feb 2019)

Mortgage applications declined by -3.7% in the latest week.

The refinance index decreased slightly by -0.1% on a week ago.

The purchase index decreased by 6% versus the week prior and is 5% below the same week last year.

"Application activity fell last week - even with rates decreasing - as renewed uncertainty about the domestic and global economy likely held potential homebuyers off the market," said Joel Kan, MBA's Associate Vice President of Industry Surveys and Forecasts. "Despite the recent decline in applications, we still expect that the continued strength of the job market and lower rates will support more purchase activity in the coming months."

<https://www.mba.org/2019-press-releases/february/mortgage-applications-decline-in-latest-mba-weekly-survey>

Retail Sales (Dec)

The value of retail sales declined in Dec versus the month prior. The magnitude of the % decline was large by historical standards. The decline was partly the result of a decline in the value of gasoline retail sales, but even excluding gasoline, retail sales declined. Growth in auto sales in Dec was offset by declines in all other categories.

The broader context of the data makes it difficult to say whether this is the start of a trend of weaker consumer activity. Firstly, the magnitude of the decline in retail sales is inconsistent with the consumer credit data that was released last week for the month of Dec. Consumer credit grew at a slower pace but was still +\$16.5bn (+0.4%) ahead of Nov. Revolving credit growth was slower +0.2% ahead of Nov but did not record any outright declines. Whereas other data, such as First Data Retail Merchant transactions (representing up to 45% of all US credit card transactions), showed that retail sales slowed quickly year on year in Dec (source: @TeddyVallee via Twitter 30 Jan 2019).

Whilst revisions to data will be possible next month (consumer credit or retail), the Jan data will likely still be impacted by the partial govt shutdown. The weaker motor vehicle sales for Jan (also released last week) will also likely weigh on next months retail result.

The data is based on retail sales value. The US CPI in Dec was 0%.

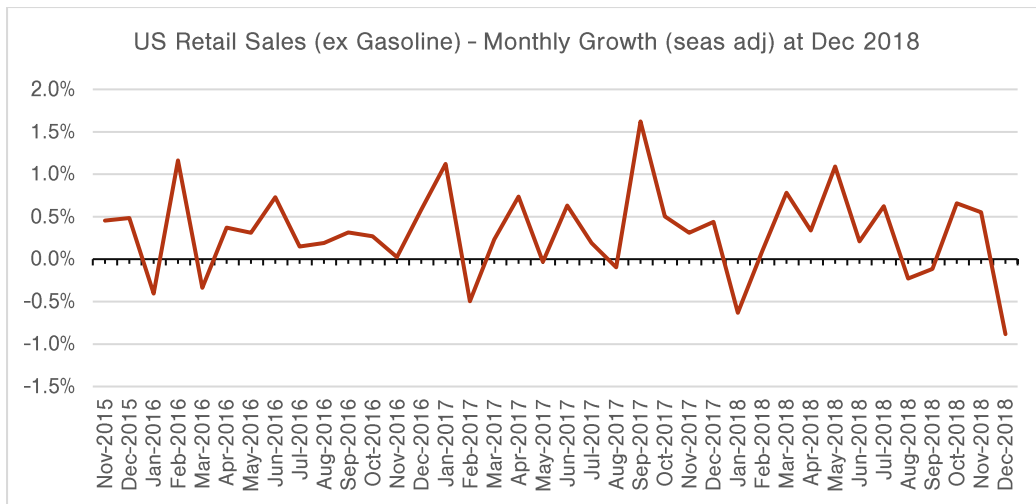
Total Retail Sales & Food Service – mth chg

Dec -1.2% versus Nov +0.1% (Nov retail sales were also revised lower)

The decline in the month represents a 0.9 SD decline (based on the last 12 months)

Even taking the average of the last 3 months, retail sales still declined by -0.1% in Dec.

Given the impact from lower oil prices on gasoline, the view of retail sales less gasoline highlights that retail sales still declined, but by a lower rate; Dec -0.9% versus Nov +0.6%.



In the latest month;

Motor Vehicle Parts & Dealers made the only positive contribution to growth in the month adding +0.198%pts (+1% growth mth on mth) to the headline monthly change. Given the decline in the Motor Vehicle sales report for Jan (reported last week), it's possible that this reverses course in next month's retail sales data.

The value of retail sales in every other category declined. The largest contributors to the decline were;

Gasoline Stations; detracting -0.436% pts from headline growth

Non-store Retailers; detracting -0.454% pts from headline growth

Health & Personal Care; detracting -0.115% pts from headline growth

General Merchandise stores; detracting -0.105%pts from headline growth

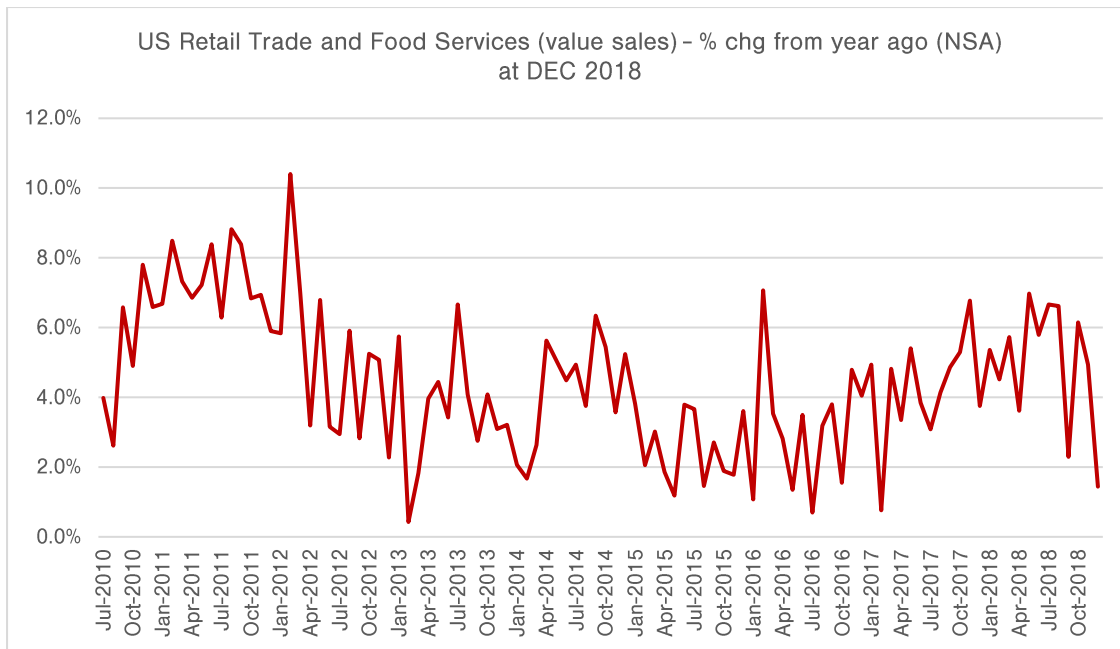
Misc Store retailers; detracting -0.092% pts from headline growth

Food Services and Drinking places; detracted -0.083% pts from headline growth

Food & Beverage Stores; detracting -0.54%pts from headline growth

Total Retail Sales and Food Service – current month versus a year ago (NSA):

Dec +1.4% versus Nov +4.9%



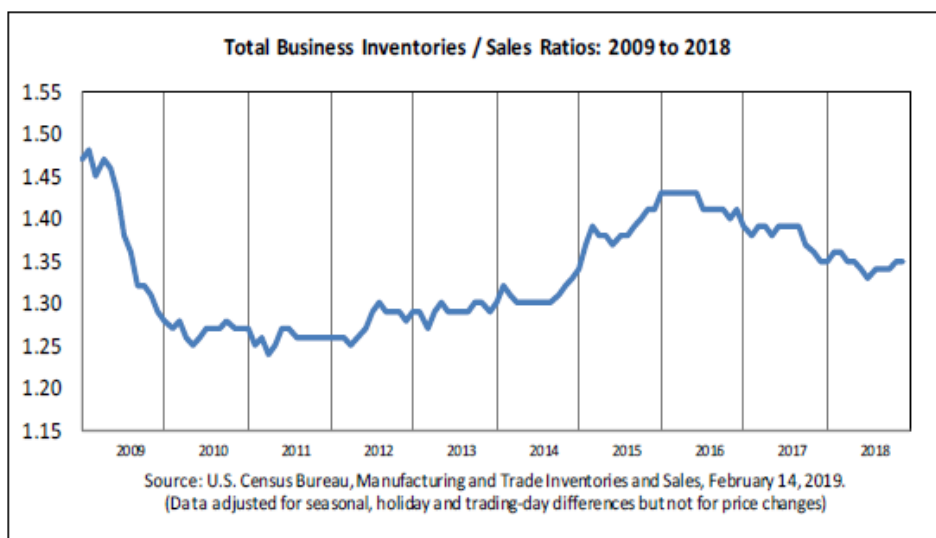
<https://www.census.gov/retail/index.html>

Business Inventories (Nov)

Trade sales declined in Nov led by manufacturer shipments and merchant wholesaler trade. Inventories also declined in Nov led by declines in manufacturer and retailer inventories.

Monthly change in Inventories for Manufacturers, Retailers and Merchant Wholesalers

Total inventories; Nov -0.1% - the inventory to sales ratio remained unchanged at 1.35



Manufacturers; sales in Nov declined by -0.6% and inventories also declined by -0.1%. As a result, the inventory to sales ratio increased from 1.34 to 1.35.

Retailers; sales increased by +0.2% in Nov and inventories declined by -0.4%. The inventory to sales ratio decreased from 1.44 to 1.43.

Merchant wholesalers; sales declined by -0.6% in Nov while inventories continued to increase +0.3%. As a result, the inventory to sales ratio increased from 1.28 to 1.29

<https://www.census.gov/mtis/index.html>

Empire State Manufacturing Survey (Feb)

Headline manufacturing/business conditions improved in the latest month. While new orders increased at a faster pace, growth in shipments continued to slow.

Feb 8.8 versus Jan 3.9

General Business Conditions



	Percent Reporting		Index
	Higher	Lower	
Jan	23.4	19.5	3.9
Feb	31.5	22.7	8.8
Change			4.9

New orders grew at a faster pace, increasing from 3.5 in Jan to 7.5 in Feb. But underlying that improvement, the proportion of firms reporting 'higher' new orders remained unchanged between Jan and Feb. The proportion of firms reporting 'lower' new orders decreased. Suggests that future growth in new orders may be more subdued.

Growth in shipments has continued to slow. At the same time unfilled orders declined by a smaller rate.

Inventories continued to decline but also at a slower rate.

Prices paid continued to grow, but at a slower rate. While prices received increased at a faster rate.

Both the number of employees and the average workweek grew at a slower pace.

https://www.newyorkfed.org/medialibrary/media/survey/empire/empire2019/esms_2019_02_survey.pdf?la=en

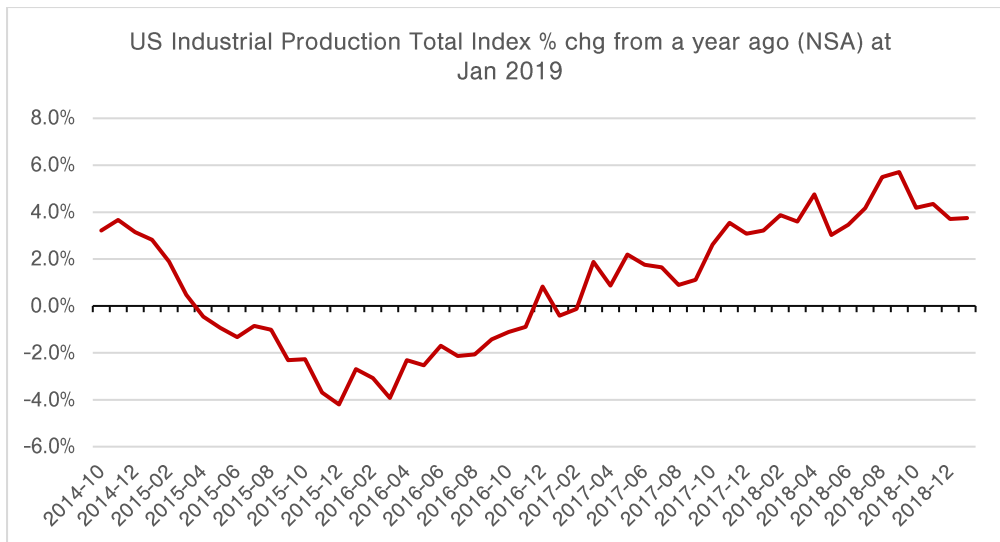
US Industrial Production (Jan)

Overall industrial production declined in Jan. This was the result of a decline in manufacturing production which was led by an 8.8% decline in motor vehicle and parts production. Annual growth in industrial production remained at +3.7%.

Total Industrial Production

Mth chg; Jan -0.6% versus Dec +0.1%

On a year ago basis, industrial production growth was unchanged from the prior month, growing at +3.7% (NSA). Growth in industrial production has been slowing since Sep 2018, but remains elevated;



Key Industries

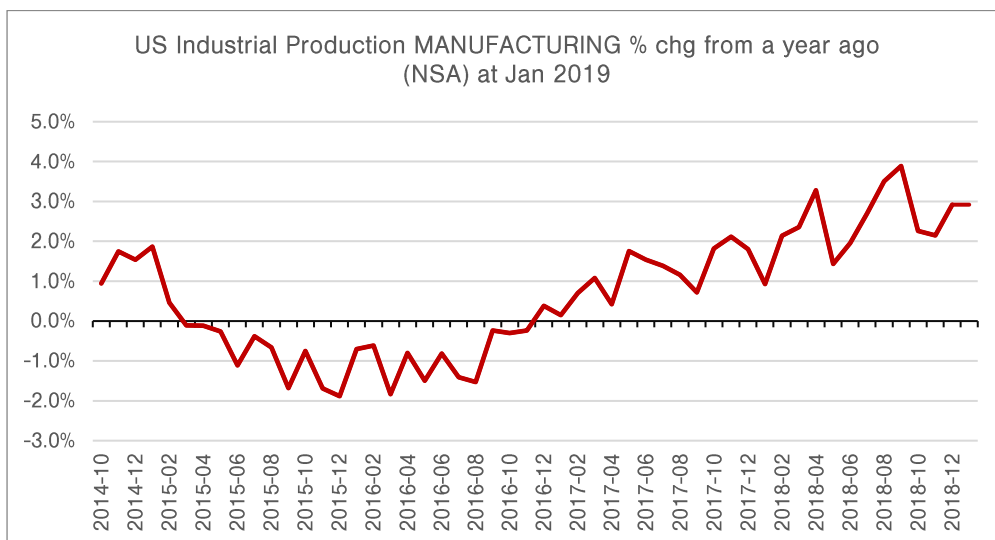
Manufacturing: led the decline in the latest month and the stronger growth from Dec was revised lower.

Jan -0.9% versus Dec +0.8% (prev +1.1%)

The decline in the month was partly the result of an -8.8% decline in production of motor vehicles and parts. Manufacturing production in Jan was -0.7% below the same month a year ago. Overall production of durable goods declined by -1.7% in the month of Jan.

Manufacturing of non-durable goods grew by +0% in the month.

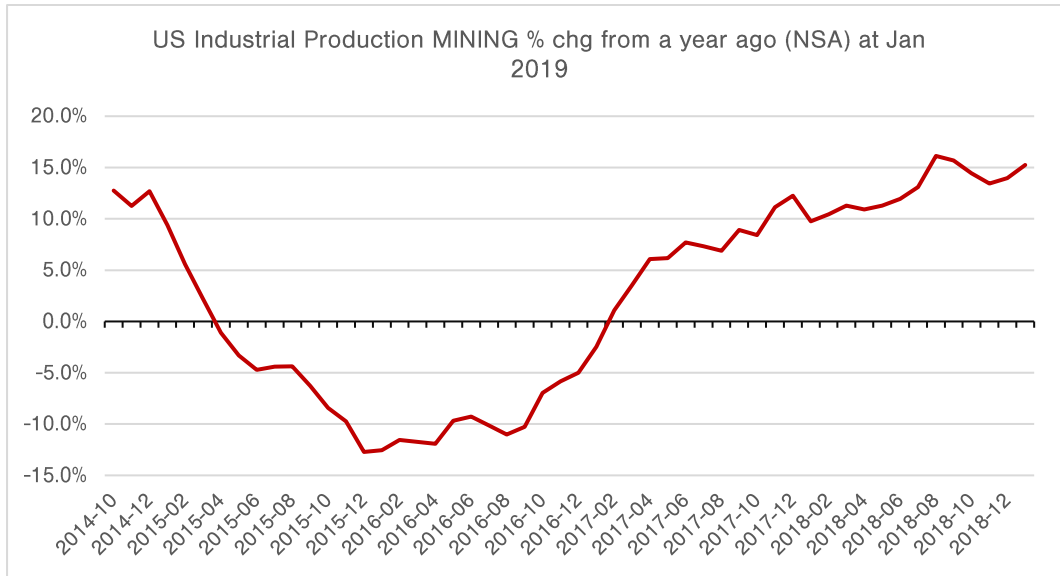
On an annual basis, manufacturing production remains unchanged at +2.9%.



Mining: growth slowed in the latest month but remains well ahead of a year ago.

Jan +0.1% versus Dec +1.5%

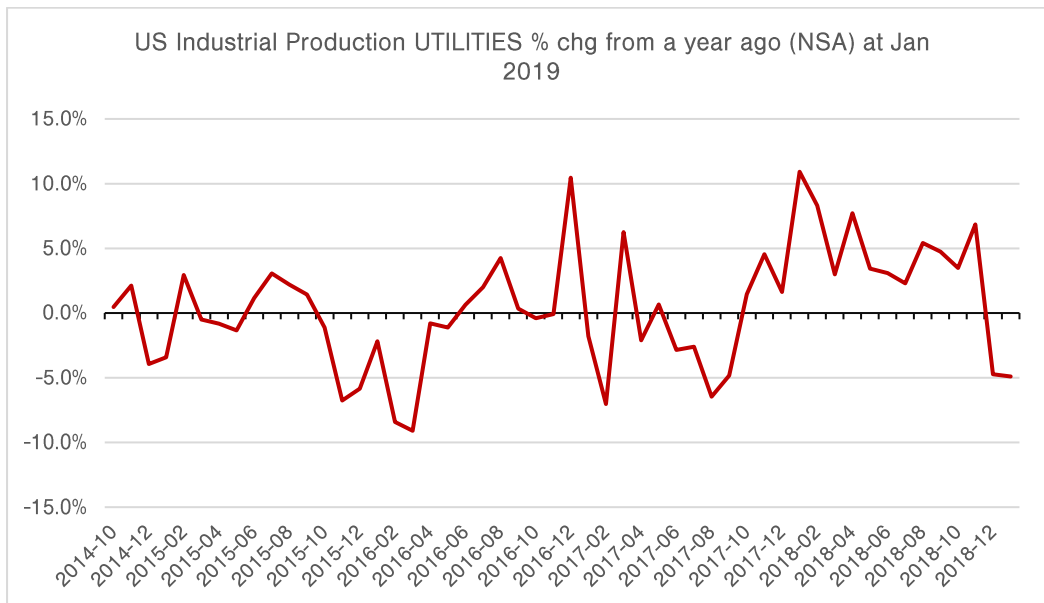
On a year ago basis, mining production growth accelerated from +14% in Dec to +15.2% in Jan (NSA);



Utilities: recorded only a small rebound after the larger decline in the month prior.

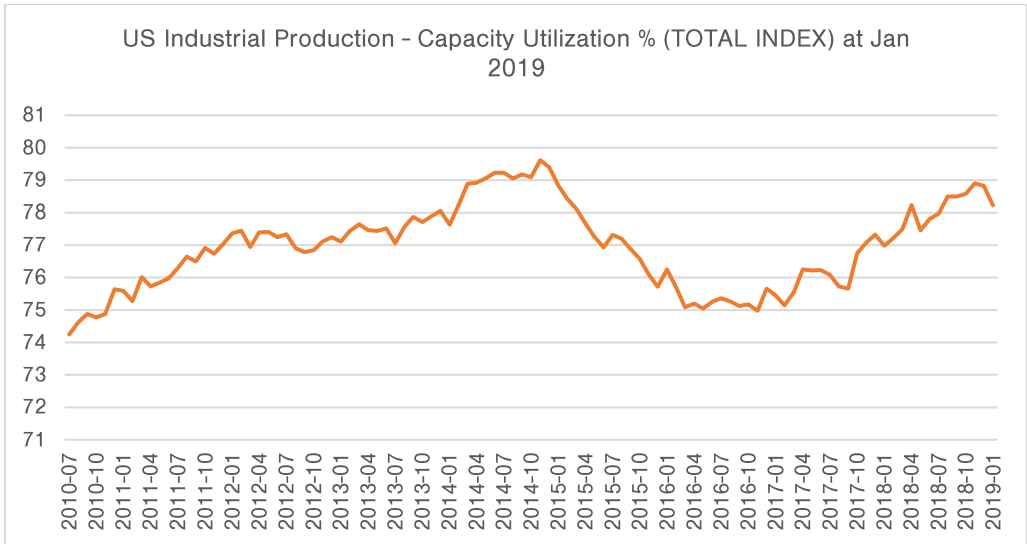
Jan +0.4% versus Dec -6.9%

Production output by utilities remains below the same time a year ago; -4.9% in Jan



Capacity Utilization

Total capacity utilization fell in the latest month, but remains at approx. 78%;



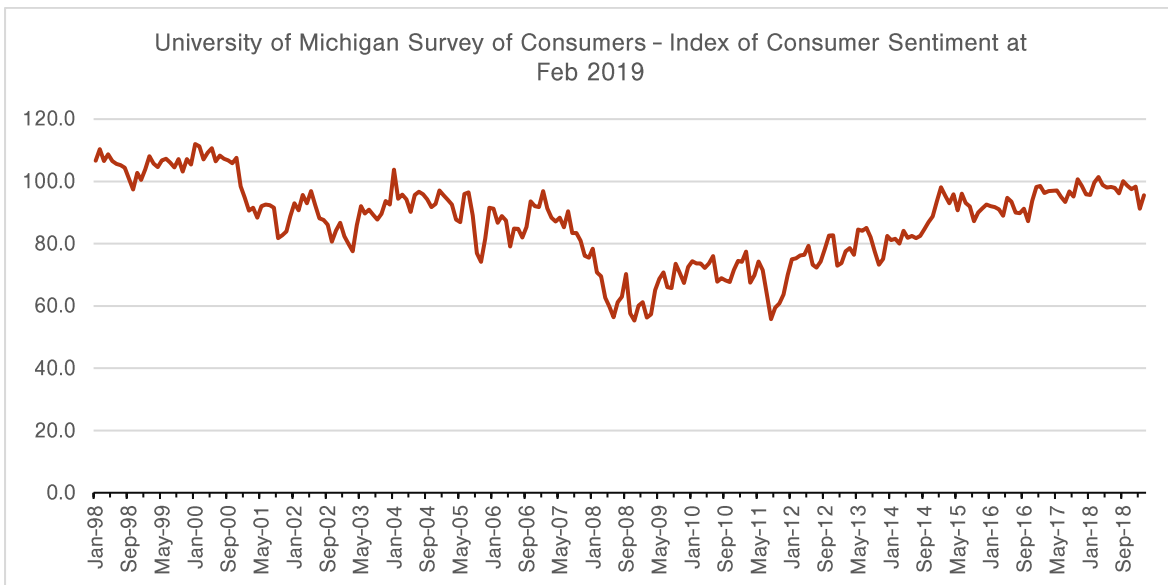
<https://www.federalreserve.gov/releases/g17/current/>

Consumer Sentiment – Prelim (Feb)

The prelim measures of consumer sentiment improved in Feb. The improvement in sentiment reflected the end of the partial government shutdown and the Fed shift in holding off on raising interest rates.

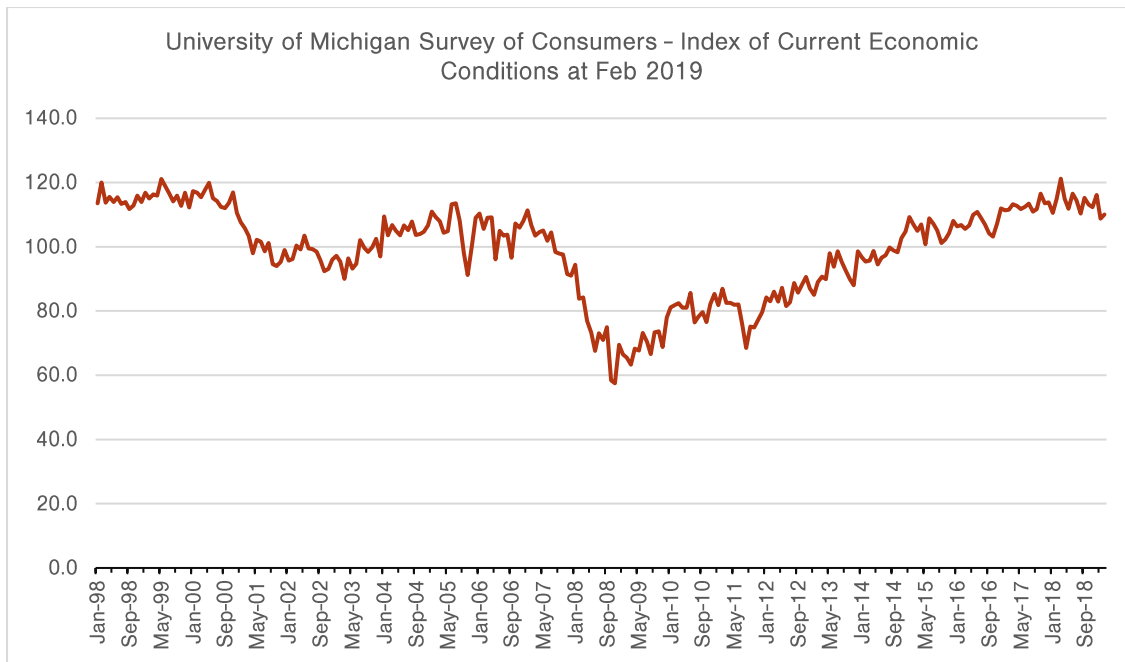
Index of consumer sentiment: Feb 95.5 versus Jan 91.2

The index remains 4% below the same month last year and just below the 12-month average of 97.8. The increase in the month is 1.7 SD's (based on the last 12-months).



Index of current economic conditions: Feb 110 versus Jan 108.8

The index also remains 4% below the same month last year and just below the 12-month average of 113.8.



Index of consumer expectations: Feb 86.2 versus Jan 79.9

This index also remains 4% below last year, but the improvement in the month was stronger, representing a 2.4SD increase (based on the last 12-months)

“Perhaps more importantly, consumers' long-term inflation expectations fell to the lowest level recorded in the past half century. While nominal income expectations remained at modest levels, consumers more frequently expected gains in their inflation-adjusted incomes in early February than at any other time in more than fifteen years.”

<http://www.sca.isr.umich.edu/tables.html>

US Fed Speeches

Links to speeches

<https://www.stlouisfed.org/fomcspeak>

Chairman Powell, Economic Development in High Poverty Rural Communities, At the Hope Enterprise Corporation Rural Policy Forum, Miss.

Atlanta Fed President Raphael Bostic to deliver a speech to the European Financial Forum on economic outlook and monetary policy in Dublin, Ireland

Kansas City Fed President Esther George - speech on "Charting America's Economic Course" at the Kansas City Public Library in Kansas City

Cleveland Fed President Loretta Mester; speech about the economic outlook and monetary policy at the Xavier University and Financial Executives International Cincinnati Chapter meeting in Cincinnati

Cleveland Fed President Loretta Mester; speech about economic outlook and monetary policy at the Gatton College of Business and Economics 2019 Economic Outlook Conference in Lexington

Atlanta Fed President Raphael Bostic - speech to the Public Affairs Research Council of Alabama on "Workforce Development" in Birmingham, Alabama

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Europe

Eurozone Industrial Production (Dec)

Industrial production continued to fall in Dec, although to a slightly lesser degree than the deceleration recorded in Nov. Industrial production remains below levels recorded last year in most of the major EU industrial-based economies.

Monthly change – Total Industrial Production

Euro area; Dec -0.9% versus Nov -1.7%

EU 28 group; Dec -0.5% versus Nov -1.2%

In the broader EU 28 group, declines were recorded across Capital Goods and Non-Durable Consumer Goods. Growth in production of Intermediate Goods was flat. Industrial production increased in Energy and Durable Consumer Goods.

Declines in the month were recorded across several major economies. Note that this Eurostat press releases lists German industrial production has having grown by +0.2% in Dec whereas the German Office of Statistics reported a -0.4% month on month decline (reported last week). Other notable declines in the month; Ireland -13.4%, Spain -1.4% and Italy -0.8%.

Industrial production in France increased by +0.8% in Dec.

Annual change (same mth a year ago) – Total Industrial Production

The annual picture remains weaker;

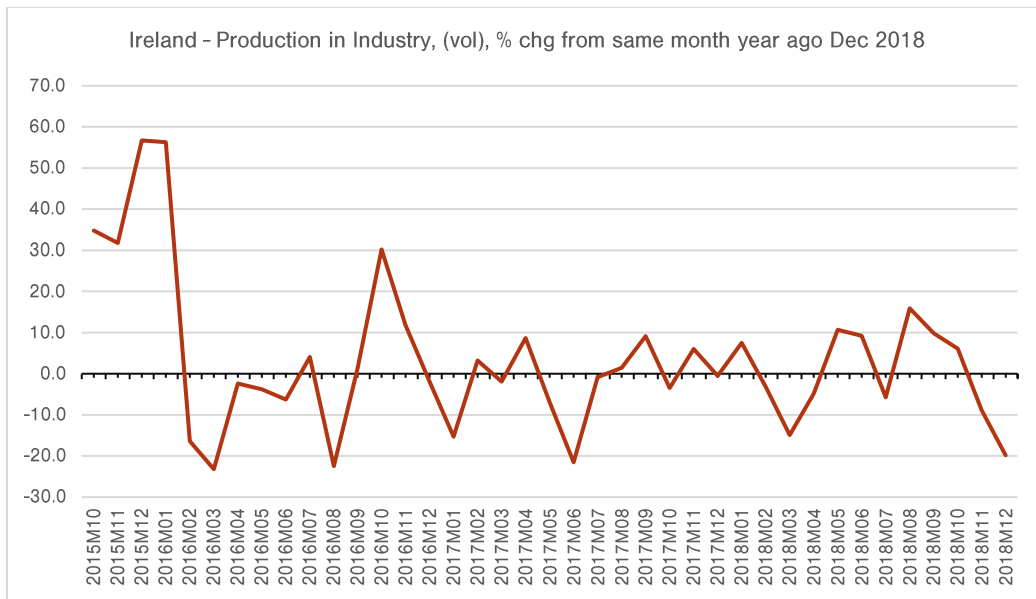
Euro area; Dec -4.2% versus Nov -3%

Broader EU 28 Group; Dec -2.7% versus Nov -1.9%

In both EU groups, industrial production remains below the same level from last year – with declines recorded across all categories, with the largest decline recorded in Capital Goods (-5.5% below last year in the Euro area).

Industrial production remains below last year in several key Eurozone economies and accelerated to the downside in Jan; Ireland -19.8%, Germany -3.9%, France -1.7%, Spain -6.7% and Italy -5.5%.

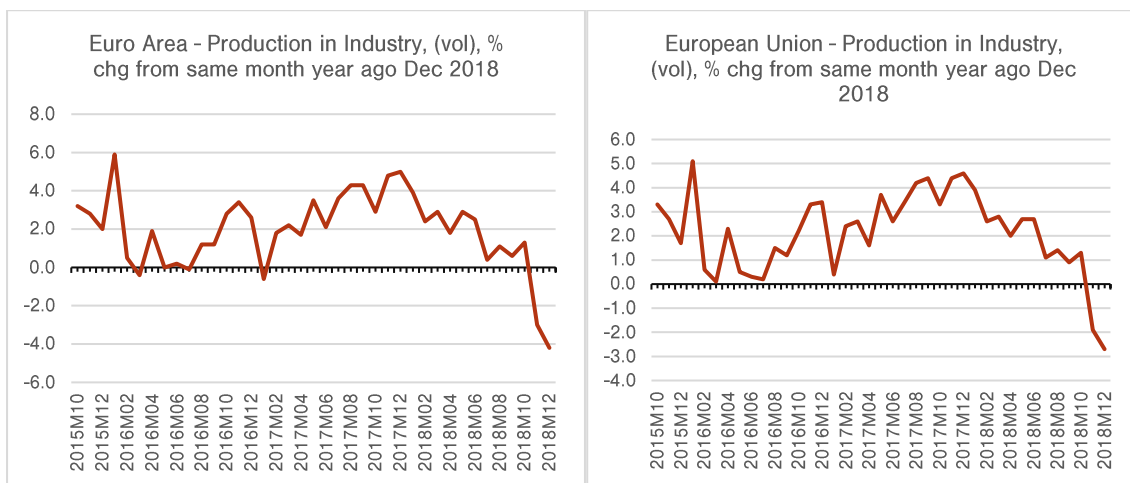
The result in Ireland is not unusual and the change in the current month is still less than 2*SD's based on the last 12 months.



The one country that is bucking the trend is Denmark – annual growth in industrial production has accelerated from 3% in Nov to +14.3% in Dec.

Annual Change in Euro Area and Eu 28 Industrial Production:

Growth in industrial production has been slowing throughout 2018 and production output levels have dipped below year-ago levels over the last two months;



<https://ec.europa.eu/eurostat/documents/2995521/9571785/4-13022019-AP-EN.pdf/83142383-24fb-463d-9c33-62dd7fa1bd2a>

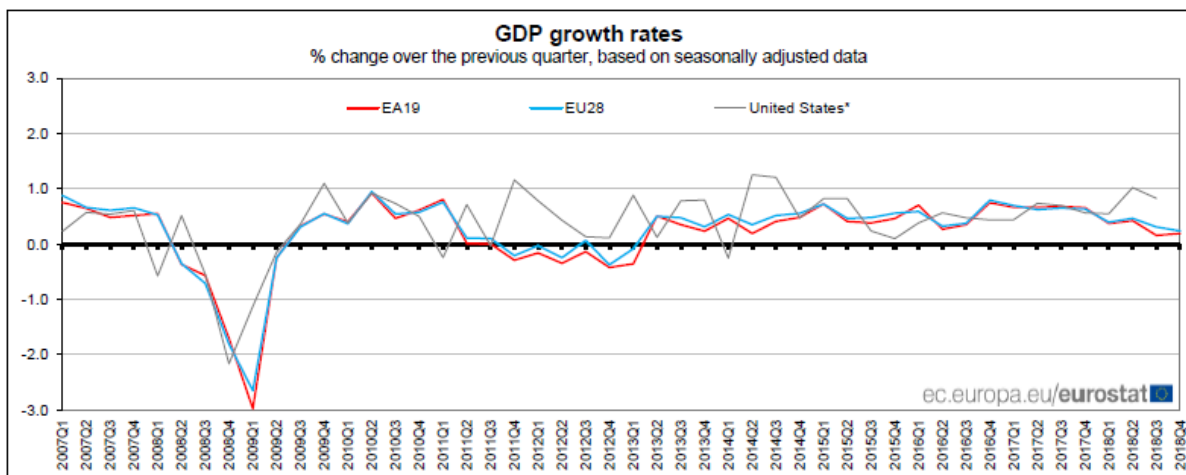
Eurozone Q4 GDP (prelim)

Prelim estimates of Eurozone GDP growth were confirmed for Q4. In the Euro area, the Q4 growth rate was unchanged from Q3 and the annual growth rate for GDP continued to slow.

Q4 GDP growth

Euro area; Q4 +0.2% versus Q3 +0.2%

Broader EU28 group; Q4 +0.2% versus Q3 +0.3%



* United States data for 2018Q4 are not yet available.

On a year-ago basis, GDP growth has slowed across the region;

Euro area: Q4 +1.2% versus Q3 +1.6%. At the start of 2018, Q1 GDP growth for the Euro area was +2.4%.

The broader EU28 group: Q4 +1.4% versus Q3 +1.8%. At the start of 2018, the EU28 annual GDP growth was +2.3%.

The more detailed breakdown will be released 7 Mar 2019.

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

German Q4 GDP (prelim)

The prelim Q4 German GDP shows that growth stalled in the final quarter of the year. GDP growth was zero in Q4, narrowly missing a “technical recession” of 2 consecutive quarters of decline.

Qtr GDP growth (price, calendar and seasonally adjusted): Q4 +0% versus Q3 -0.2%

Annual growth in GDP (price and calendar adjusted): Q4 +0.6%, slowing from +1.1% in Q3.

Making a positive contribution to growth in the latest quarter; gross fixed capital formation, especially in construction and machinery and equipment, household final consumption expenditure and general government final consumption expenditure.

Net trade did not make a positive contribution to growth in Q4. The prelim data shows that exports and imports of goods and services increased nearly at the same rate in the quarter-on-quarter comparison.

The more detailed breakdown of data will be released 22 February 2019.

https://www.destatis.de/EN/PressServices/Press/pr/2019/02/PE19_050_811.html

Eurozone Trade Balance - Goods (Dec)

All figures quoted are € value.

Trade within the Eurozone continued to slow in Dec – which is consistent with some of the weaker data seen from Asia.

The trade surplus in Dec narrowed versus a year ago across the Euro area and the broader EU region. Across both groups, the value of exports declined versus a year ago, while imports continued to grow.

EURO AREA TRADE BALANCE

The trade surplus narrowed in Dec versus a year ago and for the full year 2018;

Trade balance Dec 2018: 17bn versus 24bn in Dec 2017

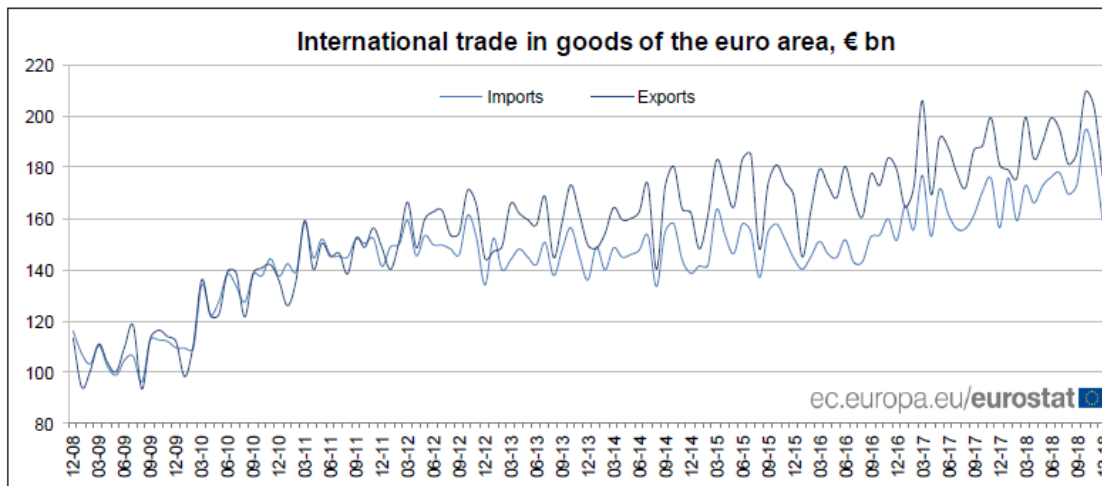
The lower surplus was the result of a decline in the value of exports while imports grew slightly;

Exports; Dec -2.5% versus a year ago

Imports; Dec +1.9% versus a year ago

For the full year 2018, the trade surplus narrowed as imports grew faster than exports. In the full year 2018, exports from the Euro area group grew by 3.7% and imports grew by +6.2%.

Intra-Euro Area trade was also lower in the month of Dec by -1.2% versus a year ago. This is well below the rate of growth for the full year of 5.2%, highlighting the recent slowdown in trade;



EU28 TRADE BALANCE

The trade surplus narrowed versus a year ago and shifted to deficit in the full year.

The Dec trade balance narrowed to 0.7bn in Dec 2018 versus 13.1bn in Dec 2017.

The smaller surplus in Dec was the result of a further decline in exports, while imports continued to grow;

Exports; Dec -3.9% versus a year ago

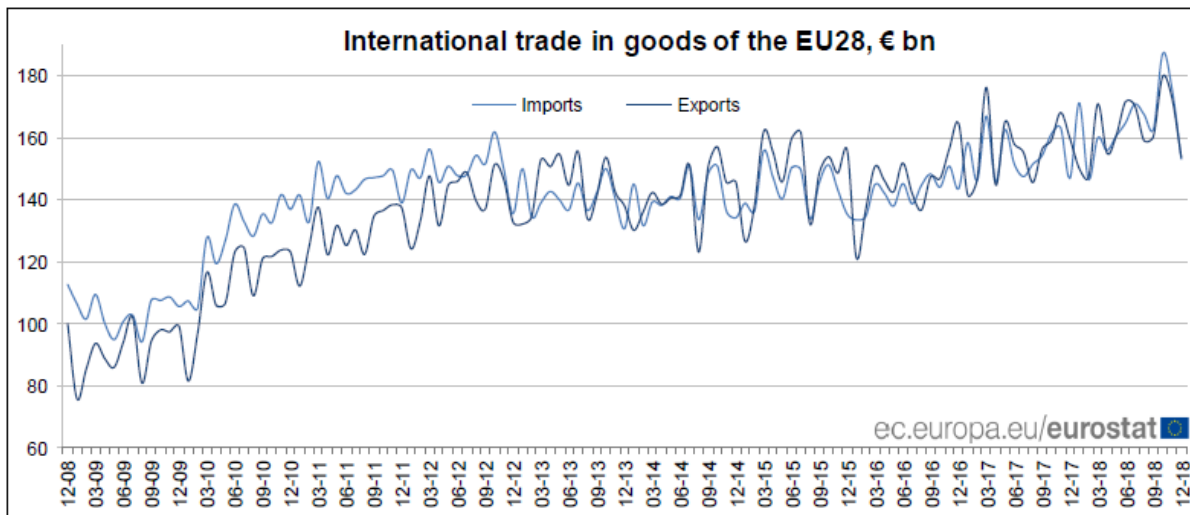
Imports; Dec +4.3% versus a year ago

Intra EU trade also declined in Dec by -1.5%, also well below the annual growth rate of +4.8%.

For the full year 2018, the EU trade surplus shifted to deficit

Trade deficit 2018 -22.6bn (versus +22.2bn in 2017).

The shift to a deficit was the result of imports growing faster than exports; Exports; +4% versus Imports +6.5%.



Trade in Goods by Category

The main driver of the higher value of goods imports in 2018 was energy.

The main contributor to the lower growth in exports remains machinery and vehicles, with annual growth of +1.8%, well below the growth of total exports of +4%. Other export categories that under-performed were food and drink, raw materials and other manufactured goods.

	Extra-EU28 exports			Extra-EU28 imports			Trade balance	
	Jan-Dec 17	Jan-Dec 18	Growth	Jan-Dec 17	Jan-Dec 18	Growth	Jan-Dec 17	Jan-Dec 18
Total	1 879.0	1 954.9	4.0%	1 856.9	1 977.5	6.5%	22.2	-22.6
Primary goods:	270.3	286.6	6.0%	524.4	606.3	15.6%	-254.1	-319.7
<i>Food & drink</i>	121.5	121.7	0.2%	112.0	112.3	0.3%	9.5	9.3
<i>Raw materials</i>	49.5	50.8	2.6%	78.2	81.4	4.1%	-28.8	-30.6
<i>Energy</i>	99.3	114.1	14.9%	334.2	412.5	23.4%	-234.8	-298.5
Manufactured goods:	1 550.8	1 603.3	3.4%	1 268.4	1 316.3	3.8%	282.4	287.0
<i>Chemicals</i>	332.9	355.8	6.9%	196.3	203.3	3.6%	136.5	152.5
<i>Machinery & vehicles</i>	793.8	808.0	1.8%	594.9	618.3	3.9%	198.8	189.7
<i>Other manuf'd goods</i>	424.1	439.5	3.6%	477.1	494.8	3.7%	-53.0	-55.3
Other	58.0	65.0	12.1%	64.1	54.9	-14.4%	-6.1	10.1

<https://ec.europa.eu/eurostat/documents/2995521/9577992/6-15022019-AP-EN.pdf/ff40ffc6-737f-44cc-a820-f687c3434d9c>

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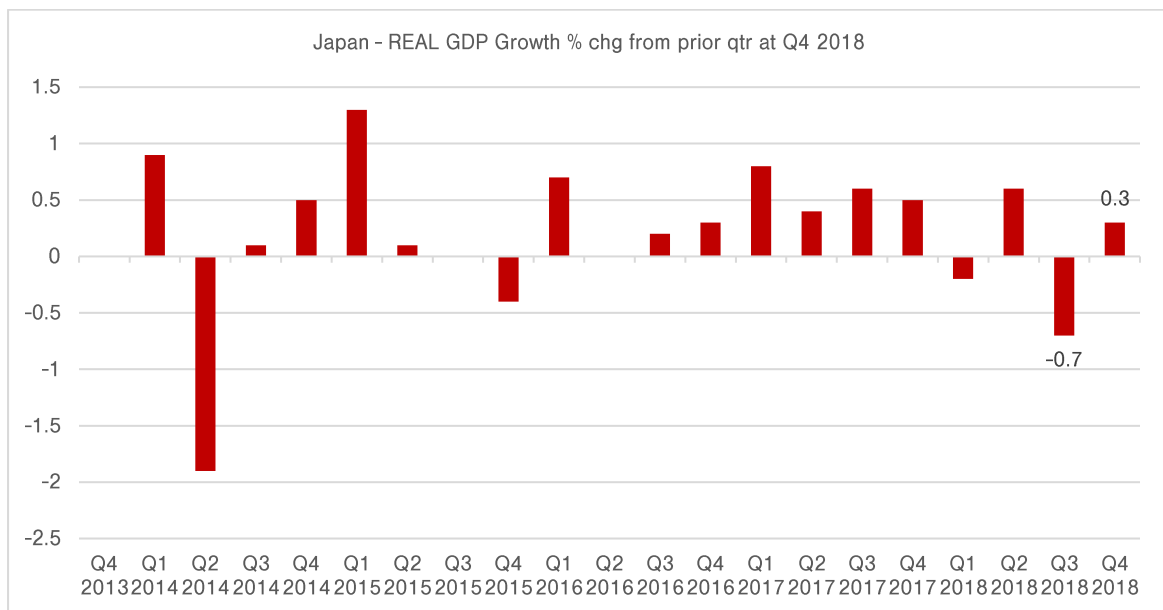
Japan

Q4 GDP – Prelim

The Japanese economy returned to growth in Q4 based on the prelim estimates, also avoiding a recession. On an annual basis, and in real terms, GDP growth was zero in 2018.

Quarter GDP Growth: Q4 +0.3% versus Q3 -0.7% (Q4 2017 growth was +0.5%)

Annual GDP Growth (same qtr versus year ago): Q4 -0.01% versus Q3 +0.15%



Part of the reason for the much weaker Q3 result was due to a storm disruption in Sep. The Q4 growth includes the stronger rebound seen in Oct especially in industrial production. The more recent PMI's suggest that the momentum from Oct has not been sustained, especially in net trade.

In the latest quarter, most areas of expenditure contributed to GDP growth except net trade;

Private demand grew by +0.7% in Q4 versus -0.6% in Q3

Growth accelerated across all areas of private demand with the largest contribution to growth from private non-residential investment (+0.4% pts). Private inventories detracted -0.2%pts from headline growth.

Public demand grew by +0.4% in Q4 versus -0.3% in Q3

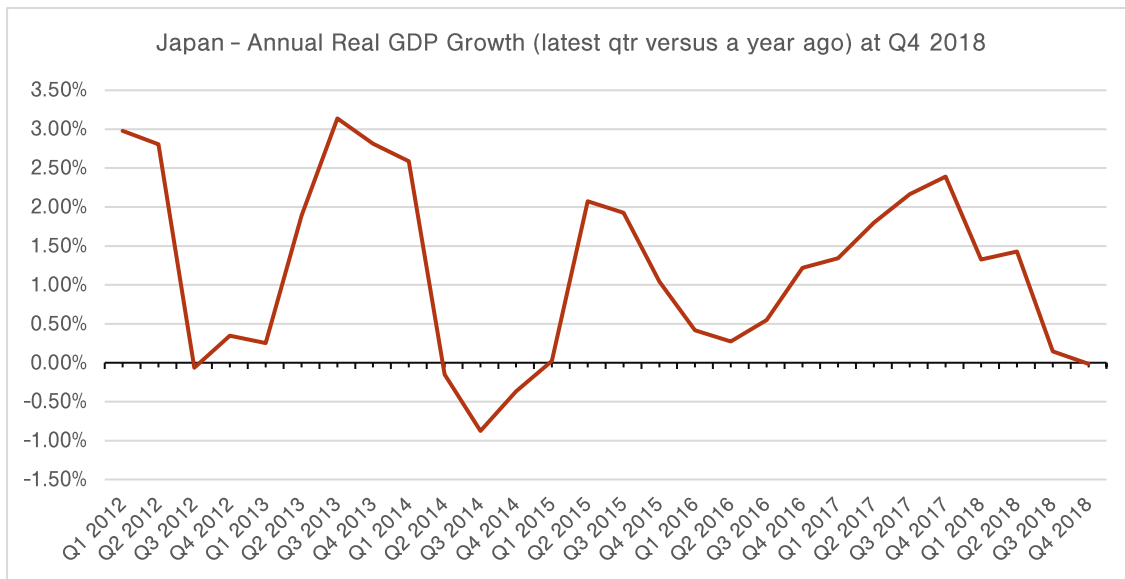
Within that, public investment continued to decline, but was offset by higher government consumption spending.

Net exports detracted -0.3% pts from the headline growth. Both exports and imports grew, but imports grew at a faster pace.

Exports; Q4 +0.9% versus Q3 -1.4%

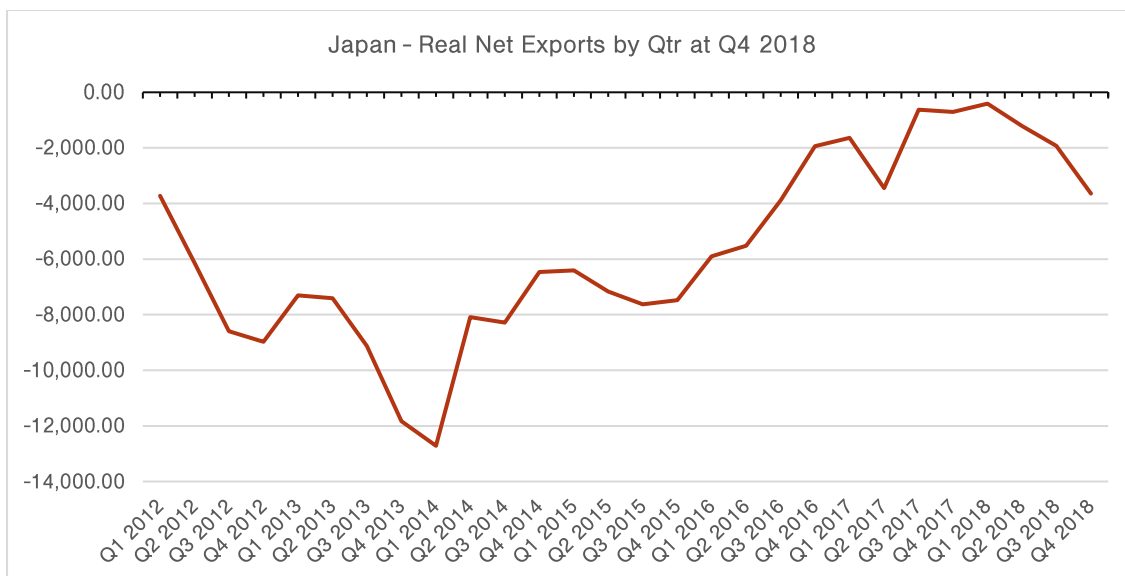
Imports Q4 +2.7% versus Q3 -0.7%

Annual GDP growth has continued to slow throughout 2018 now at -0.01% (zero) growth versus Q4 2017;



The decline in public investment has been a contributor to the weaker growth throughout 2018, but it has been net exports that has detracted from growth;

In Q4, net exports detracted -0.5% pts from the annual headline growth, offsetting the overall gains from both public and private demand;



Annual real export growth has slowed to +0.25% in Q4 versus import growth of +3.4%.

https://www.esri.cao.go.jp/en/sna/data/sokuhou/files/2018/qe184/pdf/main_1e.pdf

<https://www.esri.cao.go.jp/en/sna/data/sokuhou/files/2018/qe184/gdemenua.html>

Industrial Production Final (Dec)

The final data for industrial production confirmed the slightly lower growth in production output initially reported for Dec. Shipments were revised lower, now recording zero growth over the month. The growth in inventories was revised higher.

Final - Monthly % chg (seas adj)

Production; Dec -0.1% (prelim -0.1%) versus Nov -1%

Shipments; Dec 0% (prelim +0.3%) versus Nov -1.2%

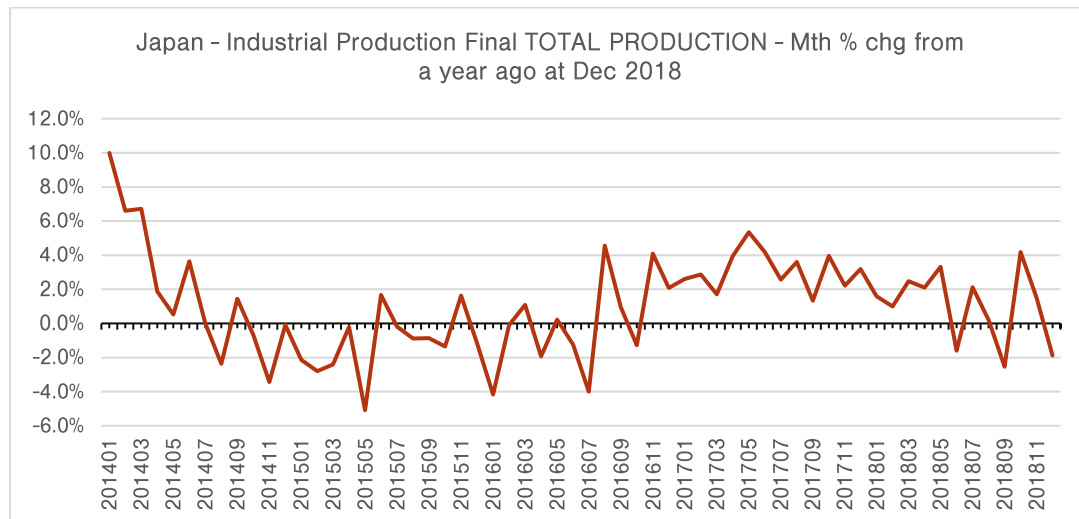
Inventories; Dec +1.7% (prelim +1%) versus Nov +0.1%

Inventory Ratio; Dec +5.1 (prelim +2.2%) versus Nov -2.2%

Final – Annual % chg – current mth % chg from a year ago

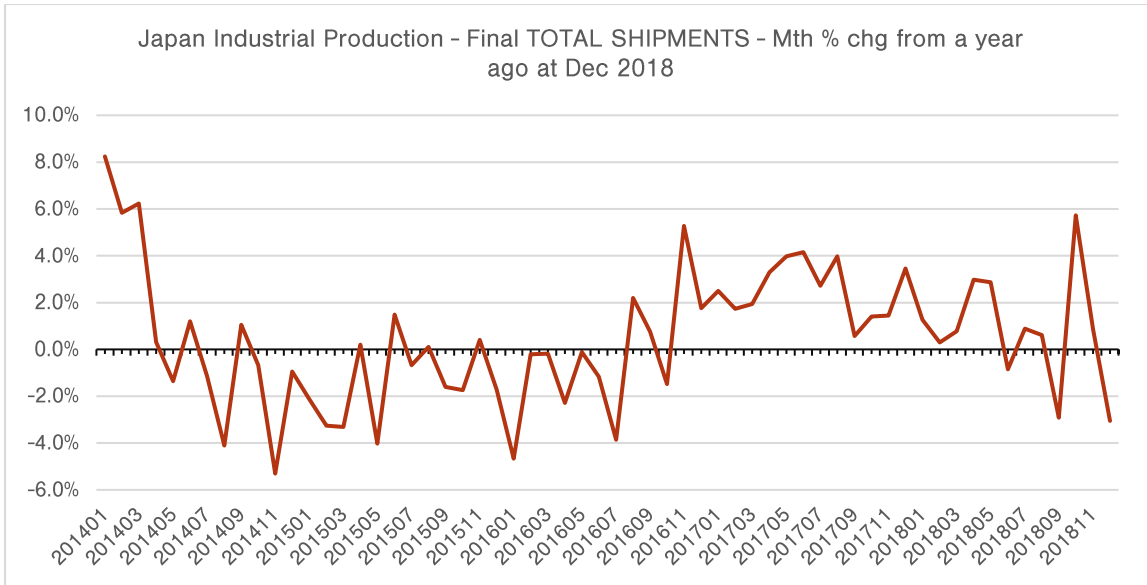
Production; based on the latest month data, production remains below a year ago

Dec -1.9% (unchanged) versus Nov +1.5%



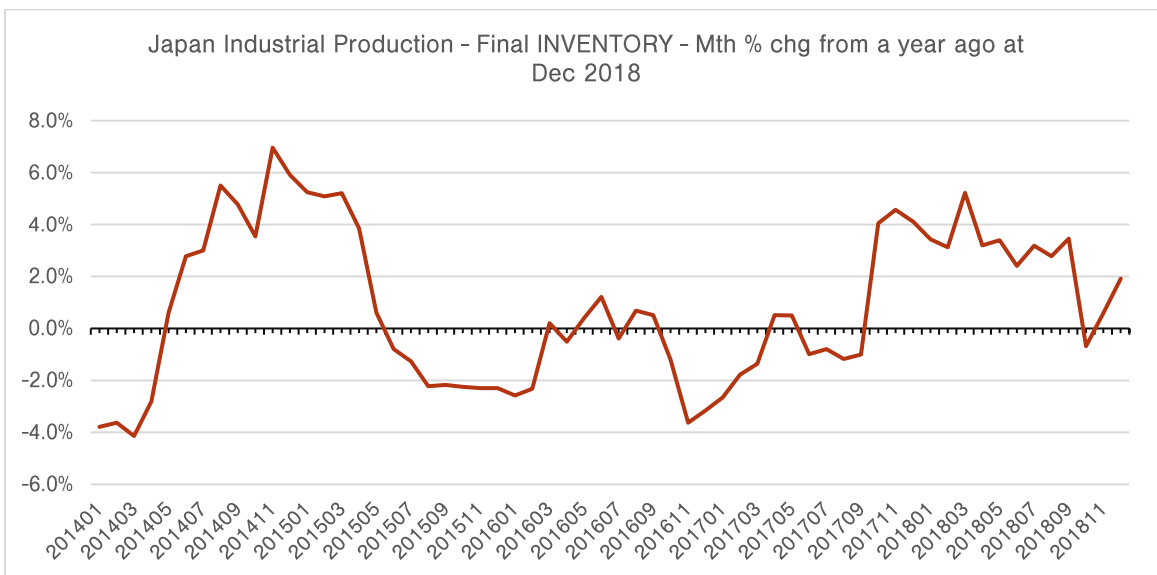
Shipments; based on the latest month data, shipments fell below the level recorded a year ago

Dec -3.1% (prelim -2.8%) versus Nov +0.9%



Inventory; inventories continued to grow versus a year ago, but growth rates remain below the levels recorded throughout 2017/18.

Dec +1.9% (prelim +1.3%) versus Nov +0.6%



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

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United Kingdom

BREXIT

With another vote lost in the UK Parliament last week, the EU now doubts that PM May can get a consensus on Brexit, even if there are changes to the Irish border backstop.

“Admittedly, the motion was procedural. But her failure to win a majority suggests that her control over Parliament is growing ever weaker. And that casts doubts on her ability to push through any Brexit deal before Britain is due to leave the European Union on March 29th.”

<https://www.economist.com/britain/2019/02/15/theresa-may-loses-yet-another-brexit-vote>

Further talks are likely this week between PM May and the EC President Juncker. Talks will also continue on the ‘alternative arrangements’ for the Irish border backstop provisions;

“[UK] Brexit secretary, Stephen Barclay, will meet the EU’s chief negotiator, Michel Barnier, on Monday to discuss the proposals of the “alternative arrangements working group” of Tories, who have been seeking a compromise solution to avoid the need for backstop.”

<https://www.theguardian.com/politics/2019/feb/17/theresa-may-letter-conservative-mps-attempts-unite-warring-party>

After that, the focus shifts to the UK Parliament on 26-27 Feb;

“Here's where the Brexit endgame starts to become clear. Both the Robbins calculation and the no-deal scenario rely on a relatively strict calendar: British and EU negotiating teams meet before the end of February; May puts whatever comes of that to MPs on for a vote on February 27; May meets EU leaders at a summit on March 21, leading to agreement just before the Brexit deadline of March 29.”

<https://edition.cnn.com/2019/02/13/uk/brexit-endgame-gbr-intl/index.html>

The other consideration to this timeline is whether the UK Parliament “mandates” that PM May request an extension to the Brexit process. This could be an outcome from 26-27 Feb.

The 26-27 Feb are likely to be the most important date in the process over the next few weeks. Various sources have different perspectives of what will be debated and voted on during those days. That will become clearer over the next few weeks.

See further detail here; <https://www.reuters.com/article/us-britain-eu-feb27-explainer/explainer-britains-next-brexit-flashpoint-what-happens-in-parliament-on-feb-26-27-idUSKCN1Q41RN>

Q4 GDP (Prelim)

The prelim release showed that UK GDP growth slowed further in Q4. From a sector perspective, services output continued to grow but at a slower pace, while output of

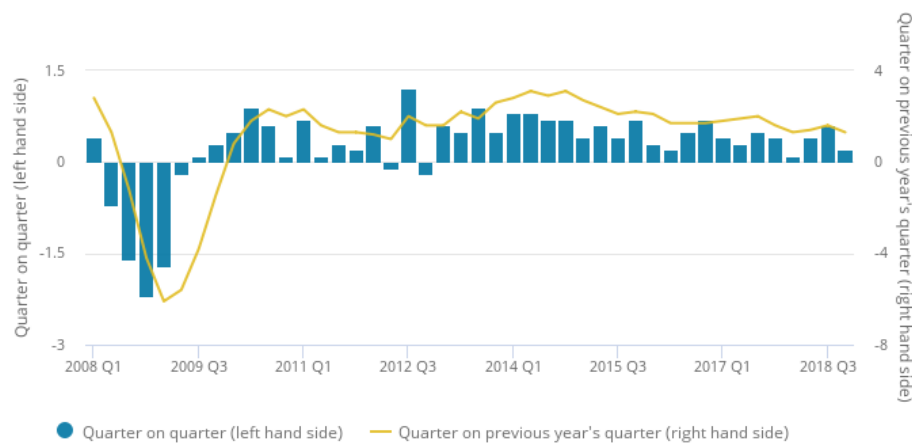
production and construction declined in the quarter. From an expenditure perspective the slower growth was the result of declines in private gross capital formation and net trade. The ongoing decline in business investment appears to “primarily reflect Brexit and associated uncertainty”.

Q4 GDP growth +0.2% versus Q3 +0.6%

Annual growth in GDP slowed from 1.6% in Q3 to +1.3% in Q4

Figure 1: Real GDP slows to 0.2% in Quarter 4 2018

UK, Quarter 1 (Jan to Mar) 2008 to Quarter 4 (Oct to Dec) 2018



Source: Office for National Statistics

Sector Results

Services output; Q4 +0.4% versus Q3 +0.5%

Production output; Q4 -1.1% versus Q3 +0.6%

The decline in production was the result of declines across all key segments; manufacturing - 0.69%, mining and quarrying -0.11%, gas & electric -0.25% and water supply -0.03%

Construction output; Q4 -0.3% versus Q3 +2.1%

The fall in construction output was led by a large decline in activity in Dec (-2.8% in that month alone) made up of a -6.8% fall in new private housing work and a 5.9% fall in non-housing repair.

Expenditure Results

Household consumption expenditure; Q4 +0.4% versus Q3 +0.4%

The annual growth was slightly higher at the end of Q4 but remains well below the higher growth rates reached in 2016

General Government consumption; Q4 +1.4% versus Q3 -0.3%

Total Gross Capital Formation; Q4 -1.4% versus Q3 +2.1%

Within this, business investment; Q4 -1.4% versus Q3 -1.2% (this was the fourth quarter that business investment had declined).

Gross Fixed Capital formation; Q4 -0.5% versus Q3 +0.6%

Net exports; net exports detracted -0.12%pts from GDP growth in Q4.

Exports Q4 +0.9% versus Q3 +0.2%

Imports Q4 +1.3% versus Q3 0%

<https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/octobertodecember2018>

CPI (Jan)

Consumer prices incl owner occupier housing costs declined in the latest month. The single largest contributor to the decline in prices in the month was from energy, but both goods and services prices declined in Jan. The annual growth in UK CPI continued to slow in Jan.

Headline CPI-H: Declined by -0.6% in the month and slowed to +1.8% on an annual basis in Jan versus Dec +2%.

Figure 1: CPIH, OOH component and CPI 12-month rates for the last 10 years: January 2009 to January 2019



Source: Office for National Statistics - Consumer Prices Index including owner occupiers' housing costs

Core CPI-H (ex-energy, food, alcohol & tobacco); also decreased by -0.6% in the month. The annual growth was unchanged at +1.8%.

Goods declined by -1.2% in the month and the annual growth in prices slowed to +1.2% in Jan.

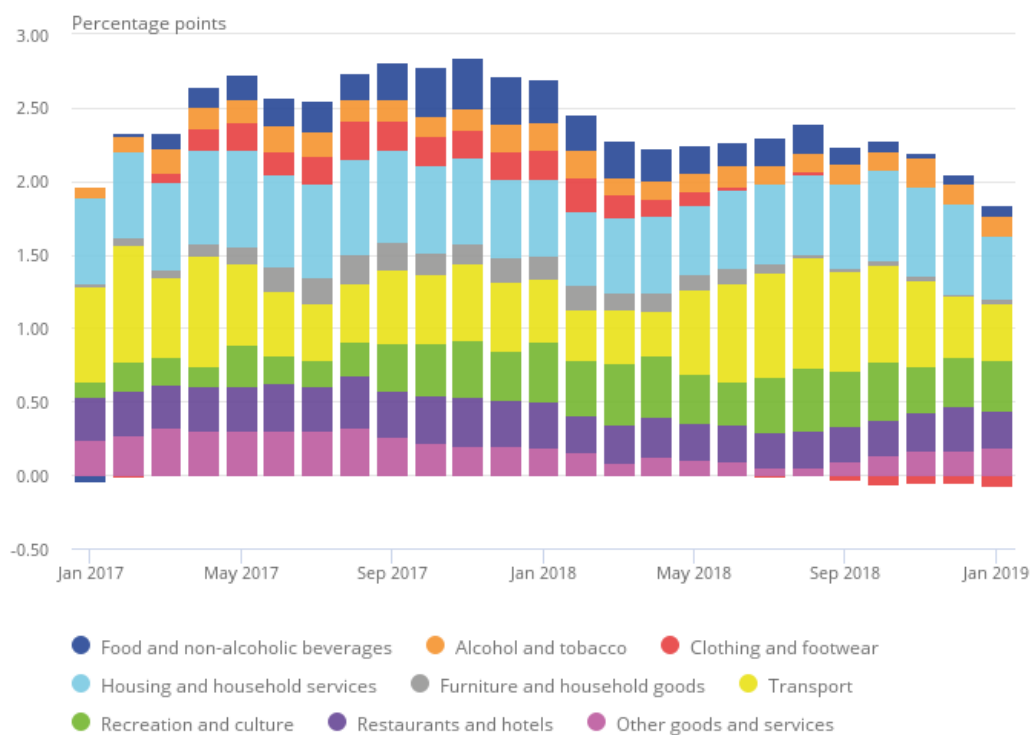
Contributing to the declines in the month were energy goods (-4.1% in the month) and non-energy industrial goods (-1.4%).

Services prices also declined in the month by -0.3% but continued to grow at +2.2% on an annual basis.

Travel and transport services prices declined by -2% in the month, but the annual change accelerated higher to +3.2%. Recreation and personal services prices declined by -0.3% in the month.

Housing services price growth was 0% in Jan and the annual growth slowed somewhat to +1.4%.

Figure 3: Contributions to the CPIH 12-month rate: January 2017 to January 2019
UK



Source: Office for National Statistics – Consumer Prices Index including owner occupiers’ housing costs

<https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/january2019>

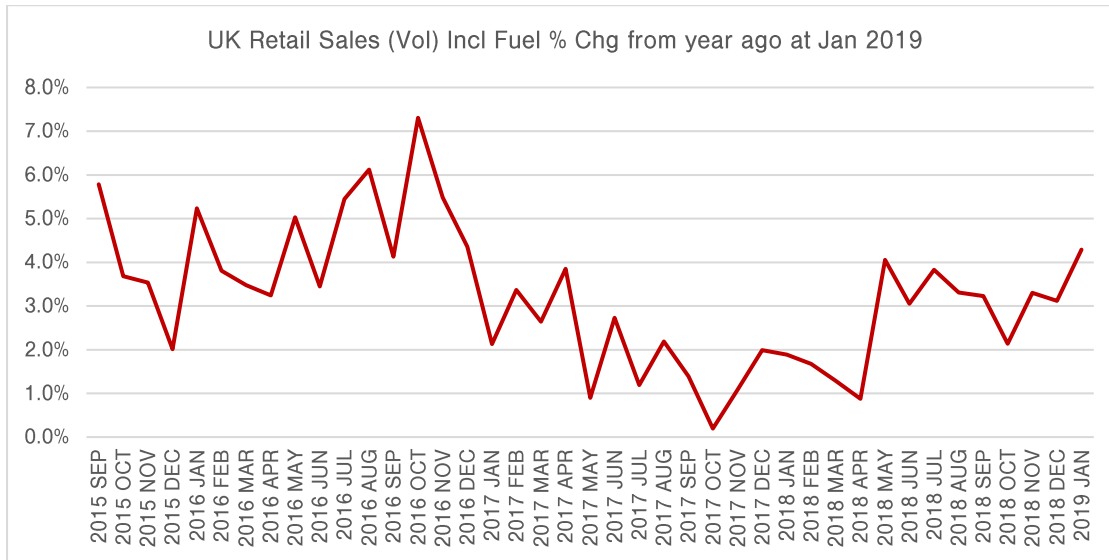
Retail Sales (Jan)

Growth in retail sales rebounded in Jan after declining in Dec. Growth in the month was led higher by most categories with only the volume of fuel sales declining in the month.

The annual growth in retail sales (same mth versus a year ago) accelerated higher in the latest month. This paints a reasonably good picture of the consumer among the Brexit chaos.

Monthly chg retail sales incl fuel; Jan +1% versus Dec -0.7%

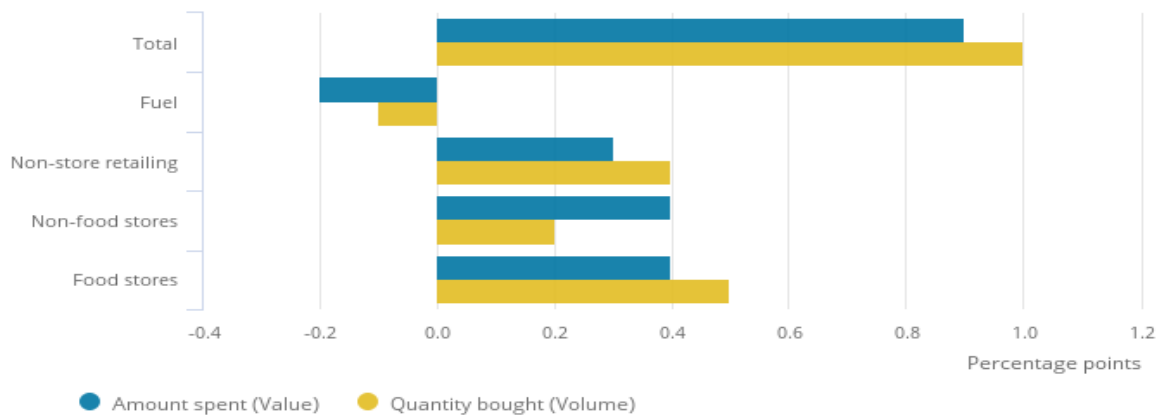
On an annual basis, retail sales grew by +4.3% in Jan from +3.1% in Dec;



In the latest month, the volume of fuel sales declined, but was offset by higher growth across food stores, non-food stores and non-store retailing;

Figure 5: Contributions to month-on-month volume and value growth from the four main retail sectors

Great Britain, January 2019 compared with December 2018



Source: Office for National Statistics - Monthly Business Survey - Retail Sales Inquiry

On an annual basis, the breakdown of volume sales, value sales and store price inflation highlight the role lower prices have played in driving more discretionary spending in retail sectors such as non-food stores and non-store retailing.

“In January 2019, prices slowed to 0.4%; the slowest price growth since November 2016.”

Table 2: Sector summary, January 2019				
Seasonally adjusted, Great Britain				
Percentage change over 12 months				
		Quantity bought (volume)	Amount spent (value)	Store price inflation (non-seasonally adjusted)
Total		4.2	4.5	0.4
Predominantly food stores ¹		3.2	4.1	0.9
Predominantly non-food stores ²		2.5	2.3	-0.2
	Department stores	-0.6	-0.6	0.1
	Textile, clothing and footwear stores	5.5	4.5	-0.9
	Household goods stores	0.0	0.5	0.6
	Other stores	3.7	3.3	-0.5
Non-store retailing		14.3	14.0	0.0
Fuel stores		5.1	5.8	0.9
Source:	Office for National Statistics - Monthly Business Survey - Retail Sales Inquiry			
Notes				
1.	Supermarkets, specialist food stores and sales of alcoholic drinks and tobacco.			
2.	Non-specialised stores, textiles, clothing and footwear, household goods and other stores.			

<https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/january2019>

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Australia

Housing Finance Commitments (Dec)

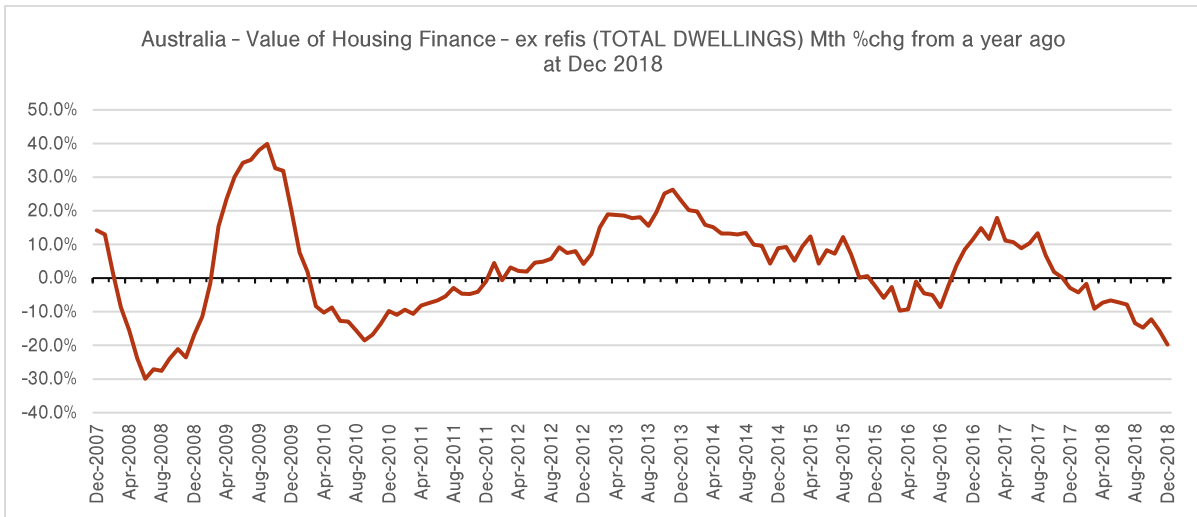
The decline in the value of housing finance commitments accelerated further in Dec, pointing to continued weaker house price growth Nationally. The larger contributor to the fall in the latest month was lending for owner occupier dwellings, although lending for investment dwellings also declined.

On an annual basis, lending for housing excluding refi's in Dec was 20% below the year prior.

There are revisions to the data in this issue due to the incorporation of more up-to-date data and concurrent seasonal adjustment.

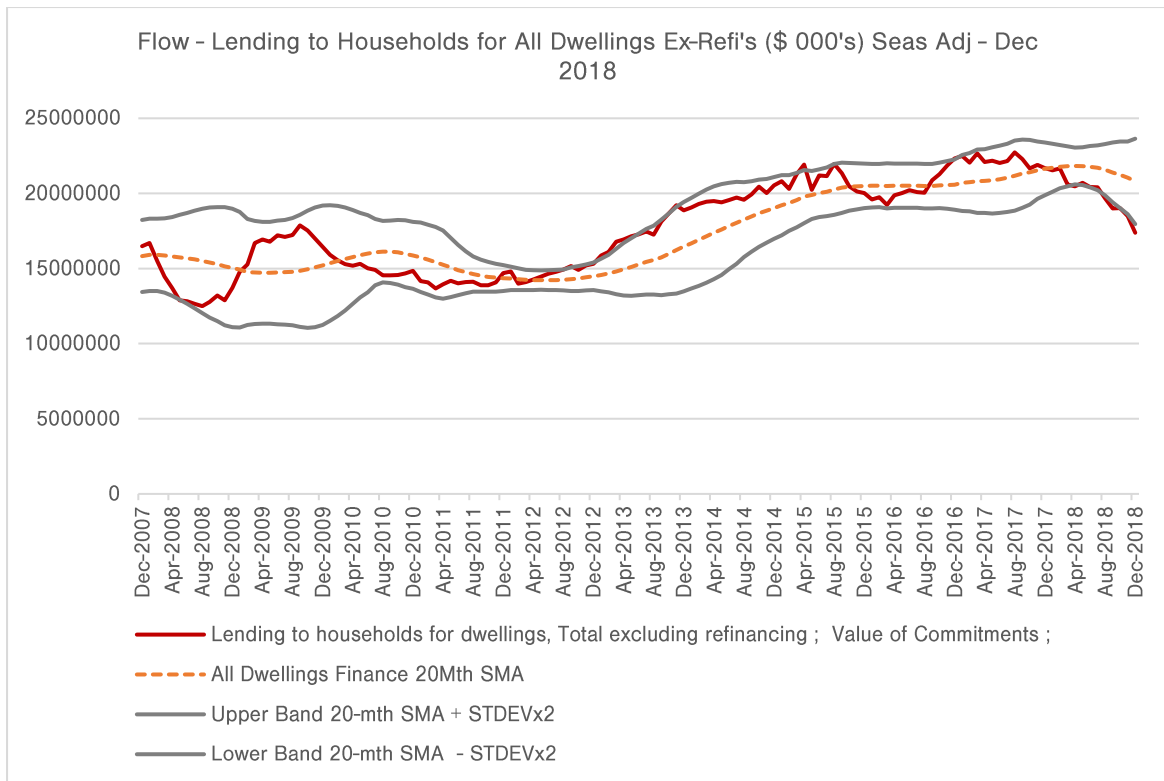
Lending to Households for Total Dwellings (ex refi's)

In the latest month, all dwellings finance fell by -5.9% versus Nov -2.8%. The fall in the latest month is a 1SD decline. On a year ago basis, lending to households for dwellings in Dec was 20% below a year ago;



The current decline is now the second largest in % terms since the GFC.

The Dec value for lending to households for dwellings is now below the 2*SD for the last 20-month period.



The two main groups making up lending to households for dwellings is owner occupier dwellings and investment dwellings.

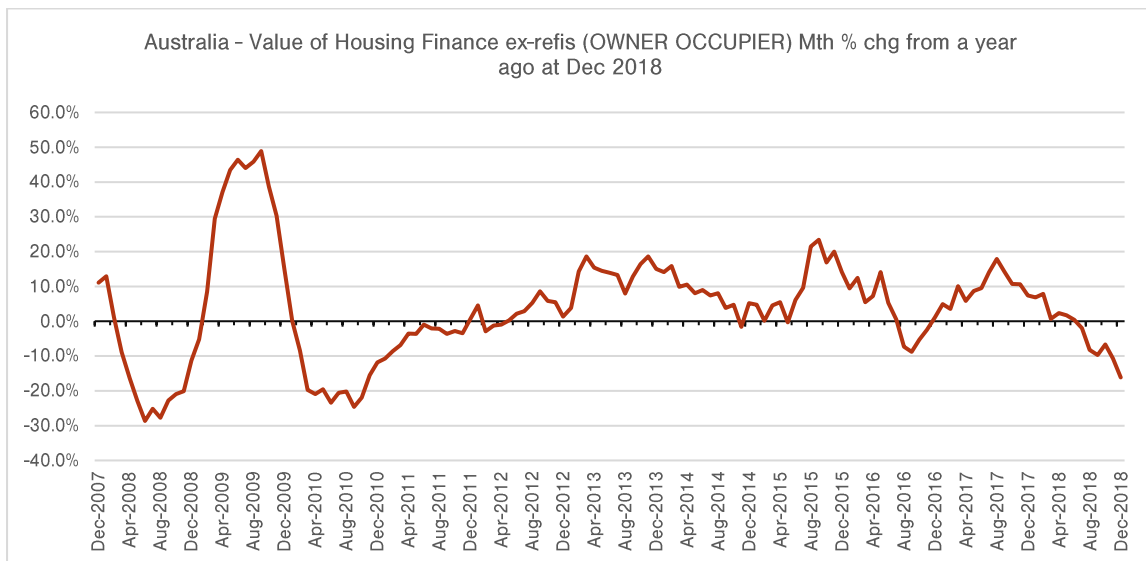
Lending for Owner Occupier Dwellings (ex-refi's)

The decline in lending for owner occupier dwellings accelerated in the latest month;

Dec -6.4% versus Nov -2.4%

The decline in the month was a 1.1*SD decline versus the month prior (based on the last 12 months)

On a year ago basis, the value of lending to households for owner occupier dwellings in Dec was -16% below the same month a year ago;



The current decline is still above that of the GFC and post-mining boom period.

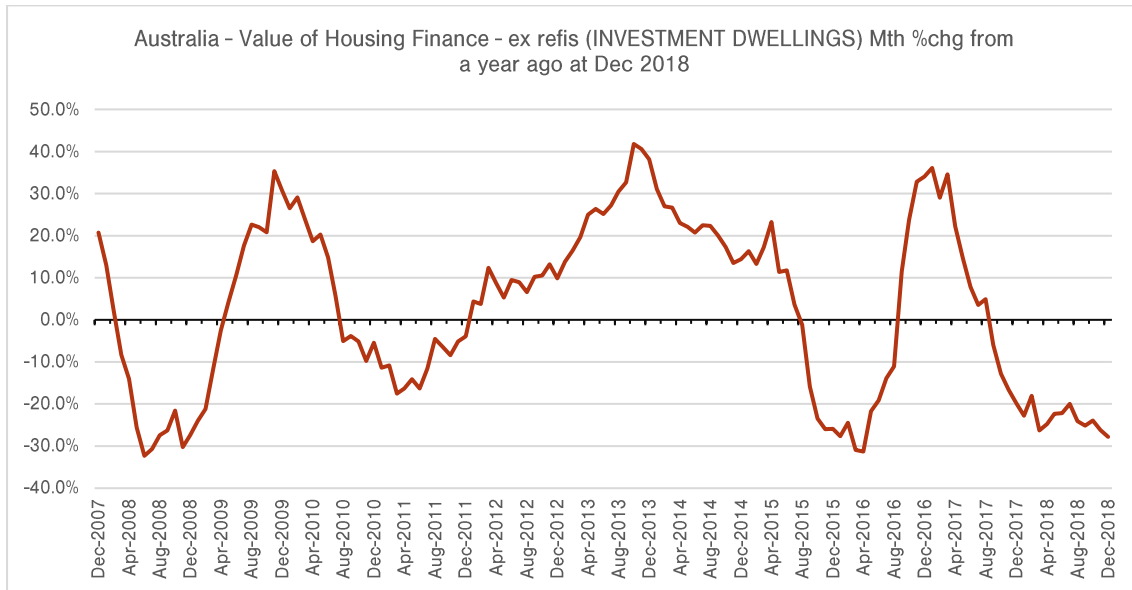
Lending to Households for Investment Dwellings (ex refi's)

The decline in lending for investment dwellings continued to accelerate in the latest month also;

Dec -4.6% versus Nov -3.9%

The decline in the month was a 0.5 SD decline versus the month prior.

On a year ago basis, the value of lending to households for investment dwellings in Dec was -28% below the same month a year ago;



The decline, on a % basis, is now approaching the levels seen in the GFC.

<https://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/5601.0Main%20Features1Dec%202018?opendocument&tabname=Summary&prodno=5601.0&issue=Dec%202018&num=&view=>

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Asia

China Trade Balance (Jan)

Trade balance (USD); Jan \$39bn versus Dec \$57bn

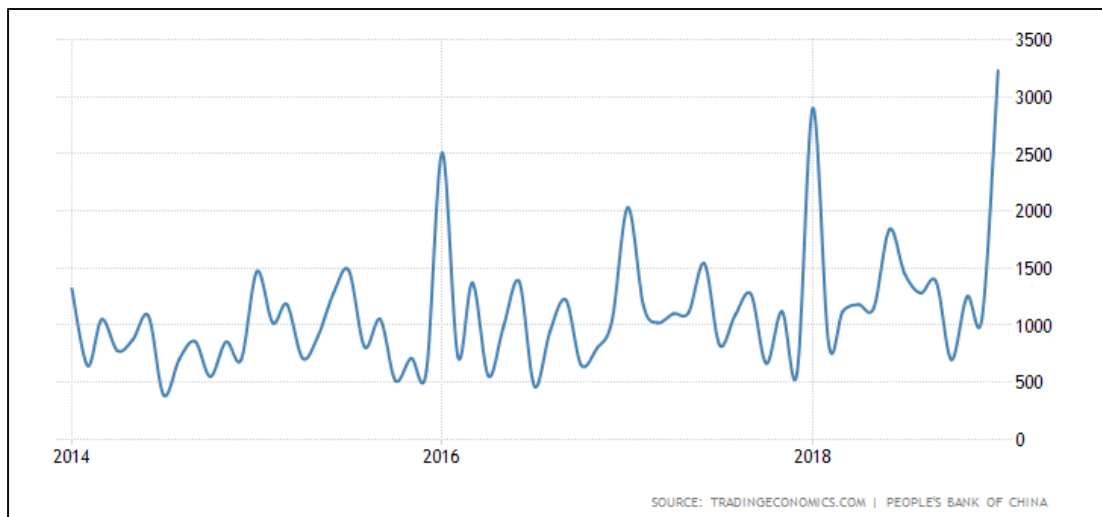
Exports; Jan +9.1% versus Dec -4.4%

Imports; Jan -1.5% versus Dec -7.6%

China New Loans (Jan)

New loans increased to an all-time high in Jan as various monetary stimulus came into effect ahead of the Lunar New Year.

New Loans; Jan 3.23t yuan (\$477bn USD)



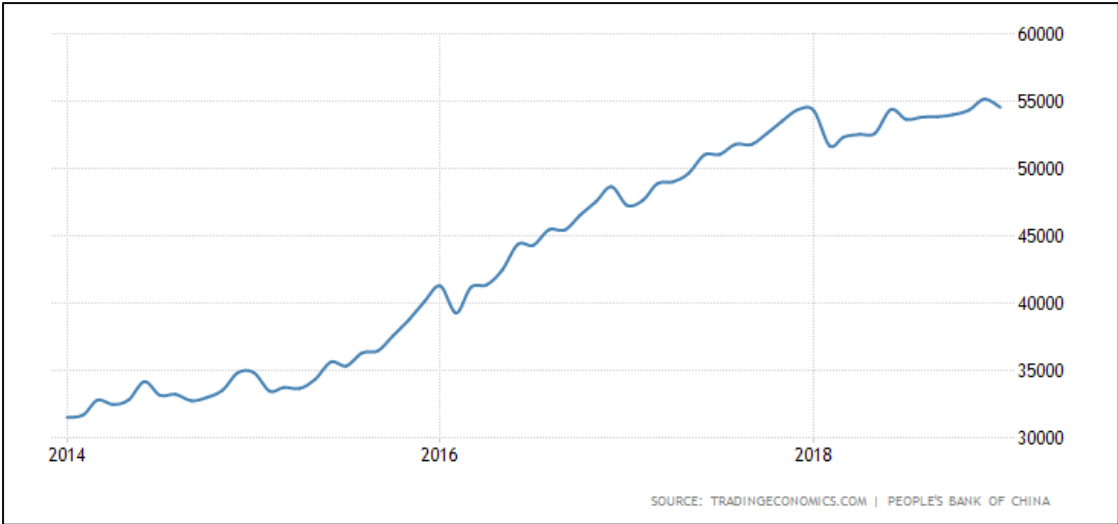
New loans to households; Jan 989.8bn yuan

New loans to non-financial enterprises and government institutions; Jan 2.58t yuan

Newly-added social financing, a measurement of funds that individuals and non-financial firms get from the financial system; Jan 4.64t yuan

http://www.china.org.cn/business/2019-02/16/content_74471221.htm

Despite the impact of various liquidity measures going into place, China's M1 declined in Jan; from 55.2bn yuan in Dec to 54.4bn yuan in Jan (the all-time high level of M1-defined money supply was reached in Dec 2018).



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Trade

US-China Trade Negotiations

The latest round of talks between the US and Chinese negotiators ended last week. As we approach the 1 Mar deadline, the commentary coming out of the talks was positive, but low-key. USTR Lighthizer said that;

“...U.S. and Chinese negotiators “made headway on very, very important” issues in talks on a technology dispute.”

“We feel we have made headway on very, very important and difficult issues. We have additional work we have to do but we are hopeful.”

Talks are set to continue in Washington w/c 18 Feb 2019.

US President Trump has said that the hard deadline of 1 Mar could be shifted if both sides are close to a deal.

“Trump said Friday in Washington that “I would not increase the tariffs” if the negotiations are going in a positive direction.”

https://www.washingtonpost.com/business/technology/the-latest-chinas-xinhua-us-trade-talks-for-next-week/2019/02/15/ed76c806-3110-11e9-8781-763619f12cb4_story.html?utm_term=.5131e9d9e314

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

No further update on progress. 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 report by the US International Trade Commission on the economic impact of the new agreement is likely to be delayed due to the shutdown. The report is due 15 Mar and will be used by members of Congress to inform their view of the agreement.

Reports continue to circulate that the new Congress will make it harder for the agreement to be ratified. While many believe that the agreement will end up being approved, some are calling for further changes on labour and environmental protections.

<https://www.nytimes.com/2019/02/06/business/nafta-trump-deal.html>

President Trump has previously indicated that he will withdraw from NAFTA if there is any push to renegotiate the USMCA by the Democrats. But it appears the Democrats aren't shying away from a fight.

Section 232 – Car and Truck Imports

The US Department of Commerce is expected to present the final report of its investigation into the National security implications of car and truck imports by 17 Feb. President Trump then has 90 days to make a final decision on the recommendations.

This could lead to further tariffs imposed on imported cars and trucks to 'protect' local production.

<https://www.wiwo.de/politik/europa/plaene-des-us-handelsministeriums-diese-3-optionen-liegen-im-streit-um-autozoelle-auf-dem-tisch/23965242.html>

<https://www.washingtonexaminer.com/opinion/trumps-next-national-security-charade-car-tariffs>

<https://www.ft.com/content/899e7472-3134-11e9-8744-e7016697f225>

<https://fas.org/sgp/crs/misc/IF10971.pdf>

US-Japan Trade Talks

The government shutdown and the looming deadline on the negotiations with China is hindering the progress on trade negotiations with Japan. It's now likely the negotiations with Japan will be postponed, possibly as late as April (if the US-China negotiations are extended).

President Trump is due to meet with Prime Minister Shinzo Abe at the Group of 20 summit in Osaka in June. <https://asia.nikkei.com/Economy/Trade-War/US-Japan-trade-talks-face-delay-as-Trump-focuses-on-China>

<https://ustr.gov/countries-regions/japan-korea-apec/japan/us-japan-trade-agreement-negotiations>

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

US-Europe Trade Talks

Awaiting further notice on the commencement of talks – likely to be delayed.

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

US-UK Trade Talks

A statement was released by the USTR last week confirming that the public hearing for negotiating objectives went ahead on 29 Jan.

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/january/public-hearing-negotiating>

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

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