Key Themes

Despite the looming trade talks, the US proceeded to officially request the extradition of Huawei CFO Meng as well as announce further criminal charges against Huawei. Little detail was provided regarding the trade talk outcomes between the US and China, although brief comments were upbeat. Further high-level talks have been scheduled for mid-month.

As expected, the FOMC kept rates on hold. Comments remained dovish; "muted inflation pressures" and "case for raising rates has weakened" were key statements. The surprise announcement was the decision on the long run monetary policy implementation framework – to retain the current system of 'abundant reserves'. Past minutes, and even a speech by Vice Chairman Clarida on 10 Jan suggested that the FOMC was still working through its evaluation of the options in the coming meetings. The decision means that the FOMC can complete 'normalisation' sooner and with a larger balance sheet than expected. The FOMC is now considering the appropriate timing for ending normalisation.

Brexit remains at an impasse. The UK parliament essentially voted for the current agreement on the basis that it be renegotiated. Brussels insisted that the deal was not up for renegotiation. Latest news suggests that the UK may look to extend Article 50 beyond 29 Mar as a key UK working group commences work on providing alternative arrangements for the Irish border backstop.

US PMI and ISM numbers indicated somewhat faster overall growth in manufacturing. New export orders remained weak in both surveys. The regional surveys were mixed. The end of the partial government shutdown will help put some firmer numbers around these surveys. Nonfarm payrolls were strong again in Jan, but the very strong Dec growth in payrolls was revised much lower. On an annual basis, employment continued to grow faster than what both population and participation added back to the labour force. The slightly slower growth in employment though, resulted in a smaller decrease in total unemployed persons.

The flash Eurozone GDP growth for Q4 was better than expected with the quarterly growth rate on par with Q3. Italy officially went into recession. The PMI's for Jan suggest manufacturing weakness is likely to continue. German retail sales data indicated some impact on consumer sentiment with a large fall in retail trade for Dec.

Data from Asia remains disappointing. The post-storm rebound from Oct in Japan appears to have ended with retail sales growth remaining low and industrial production again falling back below last year. Japanese manufacturing PMI was very weak with both production and new orders contracting. Manufacturing PMI's were also weaker in the key Asian hubs, with Chinese, Taiwan and South Korea manufacturing sectors all falling into contraction.

Some evidence that Australia is catching up to its regional neighbours with a very weak business conditions report for Dec. The CPI growth for Q4 remains below the RBA range and suggests little need to increase rates.

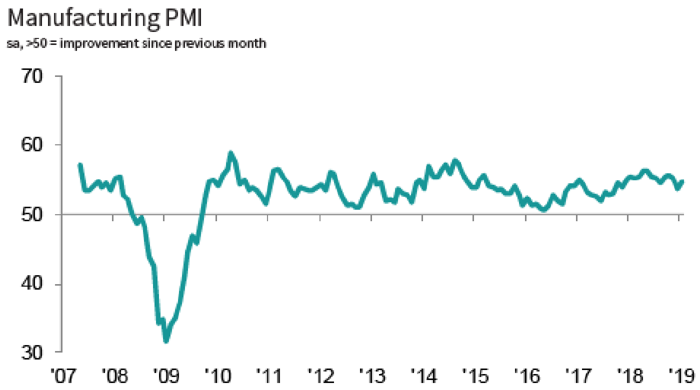
Contents

US Data

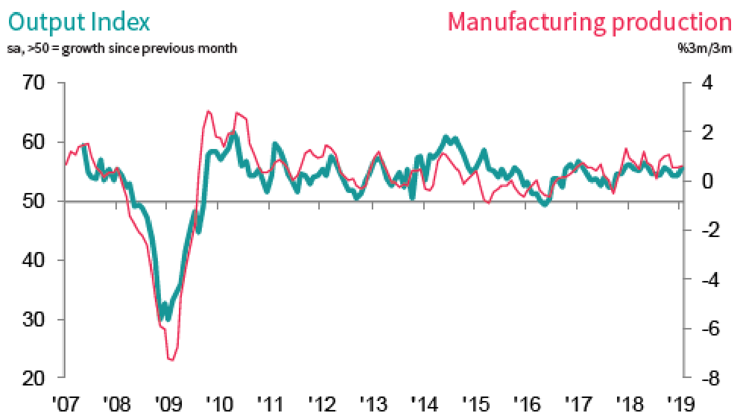
US Manufacturing PMI Final (Jan)

The headline PMI indicated that private sector manufacturing activity expanded at a faster rate in Jan. This was led by faster growth in both production and new orders.

Headline Manufacturing PMI; Jan 54.9 versus Dec 53.8



Production/output increased at a faster rate. Firms cited new business and efforts to reduce backlogs as drivers behind higher production activity.



Sources: IHS Markit, U.S. Federal Reserve.

New orders also grew at a faster rate but was the “second lowest increase since last Aug”. This was driven by stronger domestic demand, while the rate of new export order growth was marginal at best.

Order backlogs recorded a ‘modest’ increase.

Firms increased employment at a faster rate.

While input prices still increased, the rate of increase slowed as oil prices fell. Output charges increased at a faster rate.

Business confidence increased among manufacturers on the back of stronger domestic demand.

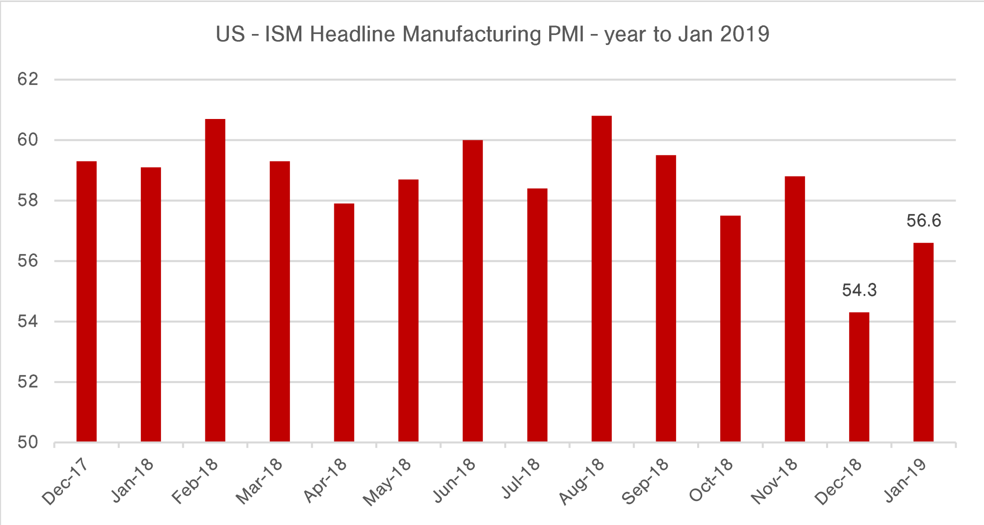
"Domestic markets provided the main source of new work for manufacturers, offsetting a near-stalling of export trade, the latter linked to subdued demand for US goods in foreign markets. Although higher than December, the overall rise in new orders was the second-lowest since last August, hinting at a slight cooling of demand growth in recent months which served to keep the headline PMI below the average recorded last year."

https://www.markiteconomics.com/Survey/PressRelease.mvc/205ca630a29f4864a23da015c3e38b9f

ISM Manufacturing Index (Jan)

The ISM manufacturing index also confirmed that private sector manufacturing activity expanded at a faster pace in Jan. The faster expansion was the result of much faster growth in new orders and production.

Headline ISM Manufacturing Index; Jan 56.6 versus Dec 54.3 (Dec was revised slightly higher from 54.1)



Production increased at a much faster rate; Jan 60.5 versus Dec 54.1

New orders also increased at a much faster rate; Jan 58.2 versus Dec 51.3. Like other reports, domestic demand appears to be driving the strong orders growth as new export orders grew at a slower pace and expansion remained at a lower level.

There was little change in order backlogs. The subindex remains close to neutral. Inventories grew at a slightly faster pace.

Employment growth was mostly unchanged.

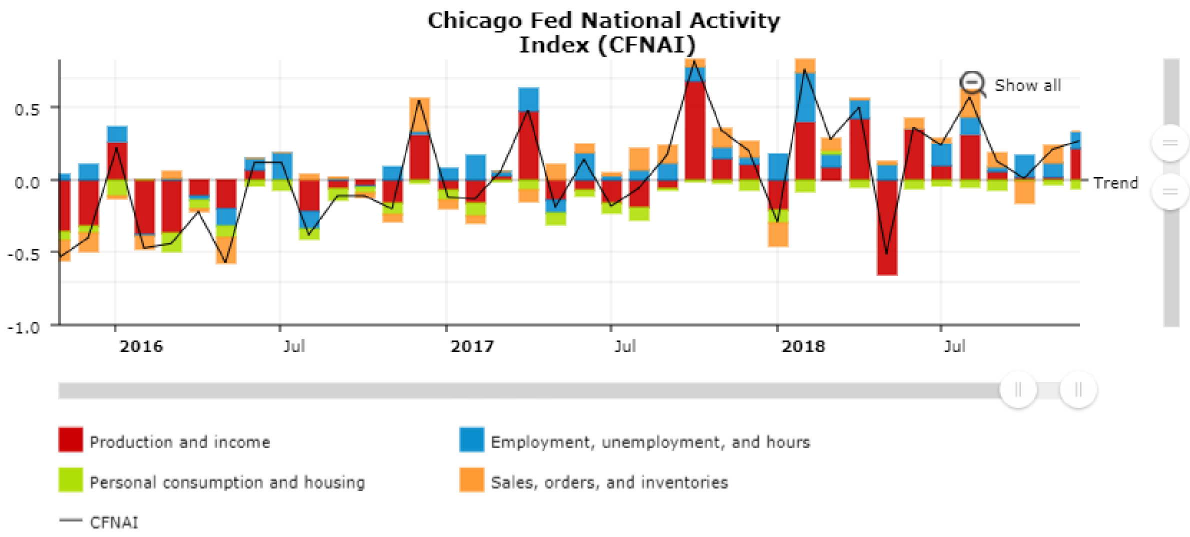
Prices for raw materials fell into contraction in the latest month. Price growth has fallen by 22% pts over the last three months.

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

Chicago Fed National Activity Index (Dec)

The Chicago Fed National Activity Index (CFNAI) indicated that growth increased at a slightly faster pace in Dec. Production and income indicators made the largest contribution to the improvement in the latest month.

Headline CFNAI - Dec 27 versus Nov 21



Contribution by sub-index;

Production and income improved in the latest month and contributed the most to the improvement in the overall index in the latest month; Dec +0.22 versus Nov +0.02

Employment, unemployment and hours was mostly unchanged; Dec +0.11 versus Nov +0.10

Sales, orders and inventories recorded much lower growth; Dec 0.0 versus Nov +0.12

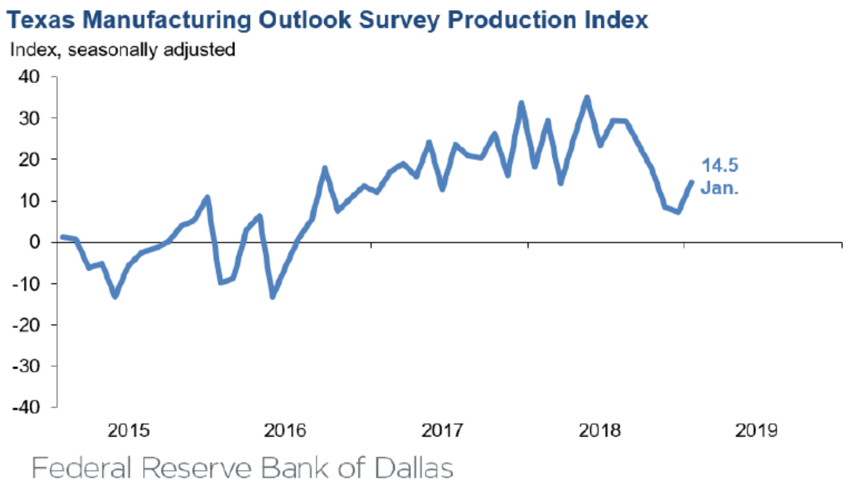
Personal consumption and housing growth remained negative; Dec -0.06 versus Nov -0.03

https://www.chicagofed.org/research/data/cfnai/current-data

Dallas Fed Manufacturing Survey (Jan)

The headline index of manufacturing conditions in Texas confirmed that activity expanded at a faster rate in Jan.

Headline production indicator; Jan 14.5 versus Dec 7.3



The improvement in the production index was the result of more firms recording ‘increasing’ levels of production (shifting from ‘no change’). The proportion of firms recording ‘decreasing’ levels of production also increased slightly. Unfilled orders shifted from contraction in Dec to at least very low levels of growth in Jan. Shipments increased at a much faster rate.

Growth in new orders slowed slightly and remain well below the high reached in Jun 2018. There was a slight decrease in the number of firms recording ‘increasing’ and ‘no change’ in new orders. The number of firms recording ‘decreasing’ levels of new orders increased slightly and is at its most elevated level since late 2016.

Employment levels grew at a slower pace along with hours worked.

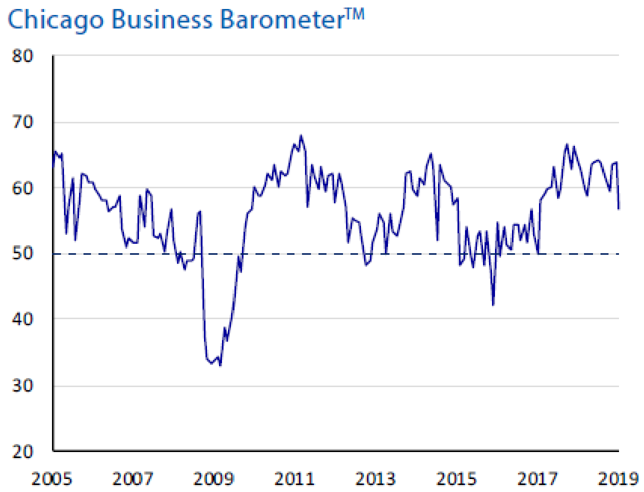
Growth in prices paid for raw materials slowed but remains elevated. Prices received for finished goods was mostly unchanged.

https://www.dallasfed.org/-/media/Documents/research/surveys/tmos/2019/1901/tmos1901.pdf

Chicago PMI (Jan)

The headline PMI indicated that activity in the region slowed considerably in Jan. This was led mostly by slower growth in key indicators of demand - production and new orders.

Headline PMI; Jan 56.7 versus Dec 63.8 (Dec revised lower from 65.4)



Falls in production and new orders contributed the most to the fall in the headline index.

Growth in order backlogs slowed. Inventories grew at a slightly slower pace on the expectations of product launches, stronger future orders and longer lead times.

Employment growth remained subdued.

Growth in prices paid was unchanged in the month and remains elevated.

> "Encouragingly, some anecdotal evidence pointed to temporary factors such as holidays as the reason for dampening output as opposed to inherent weakness in demand,"

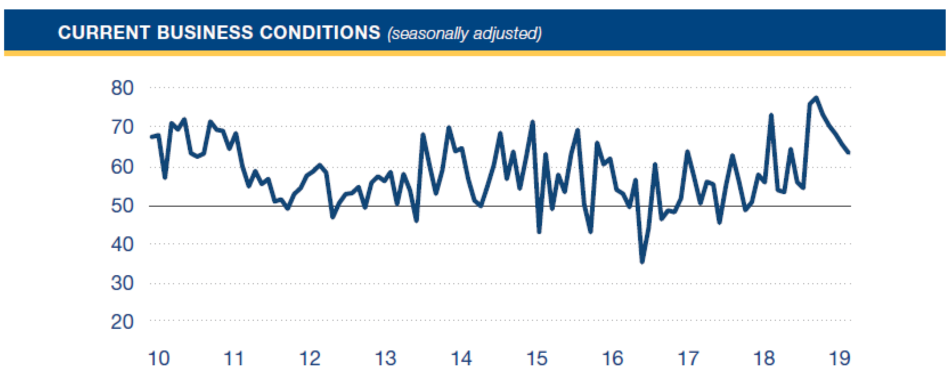
(Note that the data are seasonally adjusted.)

https://s3.amazonaws.com/images.chaptermanager.com/chapters/b742ccc3-ff70-8eca-4cf5-ab93a6c8ab97/files/mni-chicago-press-release-2019-january.pdf

ISM-NY Business Conditions (Jan)

Growth in the headline business conditions index for the NY area continued to grow at a slower pace in Jan. The general level of business activity reached a significant peak in 2018. This latest month data confirms slower growth from the much higher/faster (historically speaking) momentum of 2018.

Current business conditions; Jan 63.4 versus Dec 65.4



Employment growth slowed in the latest month; Jan 53.1 versus Dec 64.5. This caps off several months of much slower growth in employment. Two thirds of the survey respondents were in service industries.

Quantity of purchases fell into contraction; Jan 44.7 from 54.2 in Dec.

Prices paid continued to increase at a faster pace.

http://www.ismny.com/wp-content/uploads/2019/02/2019_ISM-NewYork_ReportOnBusiness_January_v02.pdf

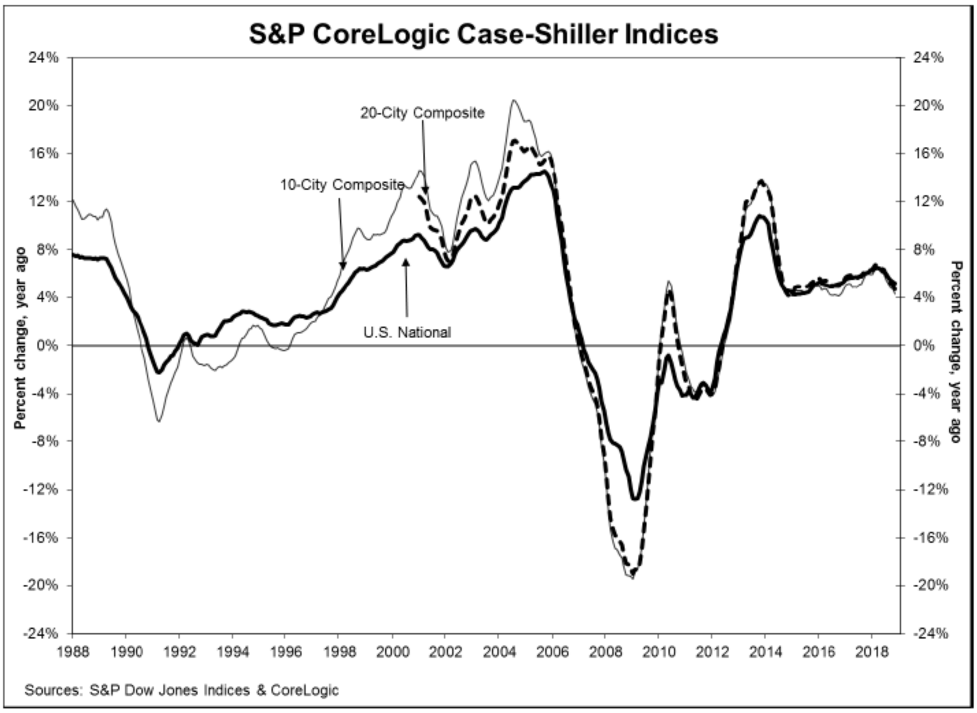
CoreLogic Case-Shiller House Price Index (Nov)

Annual house price growth continued to slow in the latest month especially the 10 and 20-city composite indexes.

National Home Price Index (NSA); Nov 5.2% versus Oct +5.3%

10-city Composite Index (NSA); Nov 4.3% versus Oct +4.7%

20-city Composite Index (NSA); Nov 4.7% versus Oct 5%



"The pace of price increases are being dampened by declining sales of existing homes and weaker affordability. Sales peaked in November 2017 and drifted down through 2018. Affordability reflects higher prices and increased mortgage rates through much of last year. Following a shift in Fed policy in December, mortgage rates backed off to about 4.45% from 4.95%."

https://www.spice-indices.com/idpfiles/spice-assets/resources/public/documents/862767_cshomeprice-release-0129.pdf?force_download=true

Mortgage Applications wk. 25 Jan

Mortgage applications fell again in the latest week; -3% versus the week prior. The current level is reportedly still 6% above its long-term average. The unadjusted purchase index is 7% below the same week from a year ago.

The refi index also fell 6% versus the week prior.

Rates were slightly higher this week for conforming and jumbo 30-year fixed loans. The average contract interest rate for 30-year fixed-rate mortgages backed by the FHA fell to 4.77% from 4.82% in the week prior.

The average contract interest rate for 15-year fixed-rate mortgages increased from 4.12% to 4.16% this week.

https://www.housingwire.com/articles/48042-mba-mortgage-applications

Pending Home Sales (Dec)

On a seasonally adjusted basis, the Pending Home Sales index fell again in the latest month and remains well below levels from a year ago. The slight acceleration in Dec suggests that further weakness in existing home sales is to be expected over the next few months – most likely led by the South, while the results in the West should stabilise.

National Pending Home Sales Index % chg. (SAAR); Dec -2.2% versus Nov -0.9%

The National index is now -9.8% below the same time a year ago.

Regional Results

In the latest month, the South recorded the largest decline in pending home sales (SAAR). But on an annual basis, the Midwest, South and West all remain well below last year.

Northeast; Dec -2% versus Nov +2.7% and is now -2.5% below the same time a year ago

Midwest; Dec -0.6% versus Nov -2.3% and is -7.2% below the same time a year ago

South; Dec -5% versus Nov -2.8% and is -13.5% below the same time a year ago

West; Dec +1.7% versus Nov +2.5% and is -10.8% below the same time a year ago

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

Census New Home Sales (Nov)

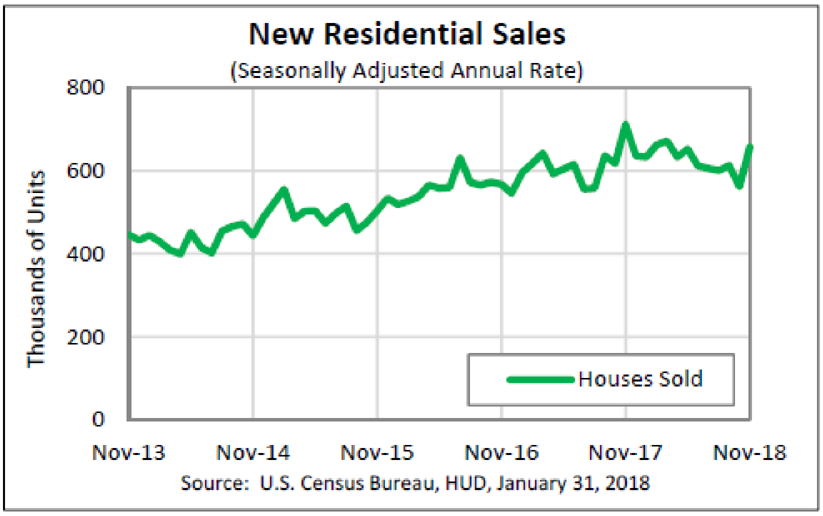
This is one of the delayed data releases.

The monthly change in new home sales increased at a much faster rate in Nov. This was led by higher growth in the Northeast, Midwest and South. Note that the confidence intervals for the monthly changes are very wide.

Total US – New Home Sales

Month (SAAR); Nov 657k +16.9% (+/-19.9% pts) on the month prior

Annual versus a year ago; Nov -7.7% (+/- 20.7% pts)



Regional Results

Northeast; New home in Nov; +100% on the month prior (+/- 89.5% pts), so likely there was at least a small increase. Note that this is off a small base. New home sales +15% on the same time a year ago (+/- 59.5% pts)

Midwest; New home sales increased by 30.5% in Nov versus the month prior (+/- 25.4% pts), so likely there was at least a small increase. New home sales are still -2.5% below the same time a year ago (+/- 30.4% pts)

South (largest number of new home sales); New home sales increased by 20.6% in Nov versus the month prior (+/- 29.1% pts), so its quite possible that sales could have declined in the month. New home sales are still -0.8% below the same time a year ago (+/- 29.8% pts)

West; New home sales declined by -5.9% versus the month prior (+/- 21.5% pts). New home sales are well below last year -25.9% (+/- 21.2% pts).

https://www.census.gov/construction/nrs/pdf/newressales.pdf

Challenger Job Cut Report (Jan)

The Jan announced jobs cuts were 52,988 – led by retail job cuts. The announced hiring plans totalled 74,040 – also led by retail (but mostly one retailer, Lowes).

Job Cut Announcements

Jan 2019; 53k job cuts were announced which is +21% higher than in Dec and +18% higher than the announced cuts for Jan 2018.

The job cuts were led mostly by Retail (which made up 22k job cut announcements – higher than 2018). Retailer Gymboree plans to liquidate its stores in the US and Canada and this accounted for 10,000 of the job cuts announced in the month.

Just over 70% of the announced job cuts were due to bankruptcy, restructuring or closing.

Announced Hiring Plans

Jan 2019; +74k new hires were announced. This is +76% higher than Jan 2018 hiring announcements.

The higher announcements were led by Lowes (retail) announcing 50,000 seasonal workers, 10,000 permanent roles and 6,000 managers (total 66k new hires).

http://www.challengergray.com/press/press-releases/2019-january-job-cut-report-planned-cuts-rise-21-percent

Monthly Non-Farm Payrolls and Labour Force Survey (Jan)

Both the establishment and household surveys are measured here. This month, the establishment and household survey data have been revised due to annual benchmarking and changes to seasonal factors.

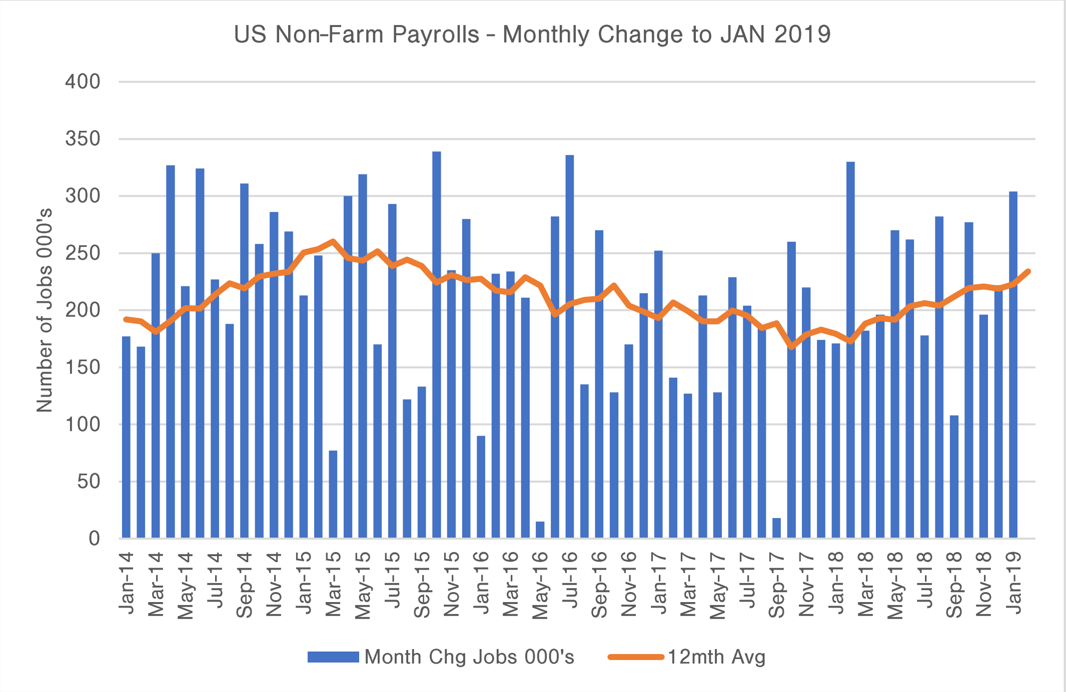
Non-farm payrolls continued to grow with the 12-month average increasing at a faster rate.

From the household survey, annual employment growth remains higher than what both population and participation added back to the labour force. But the growth in employment was somewhat lower, resulting in a smaller decrease in total unemployed persons.

NON-FARM PAYROLLS

Total non-farm payrolls increased more than expected; Jan +304k persons versus Dec 222k persons (which was revised much lower from the originally reported +312k persons).

Despite the revision to Dec, the 12-mth average increased further;



HOUSEHOLD SURVEY

In Jan 2019, updated population estimates were incorporated into the household survey.

From the BLS (emphasis added);

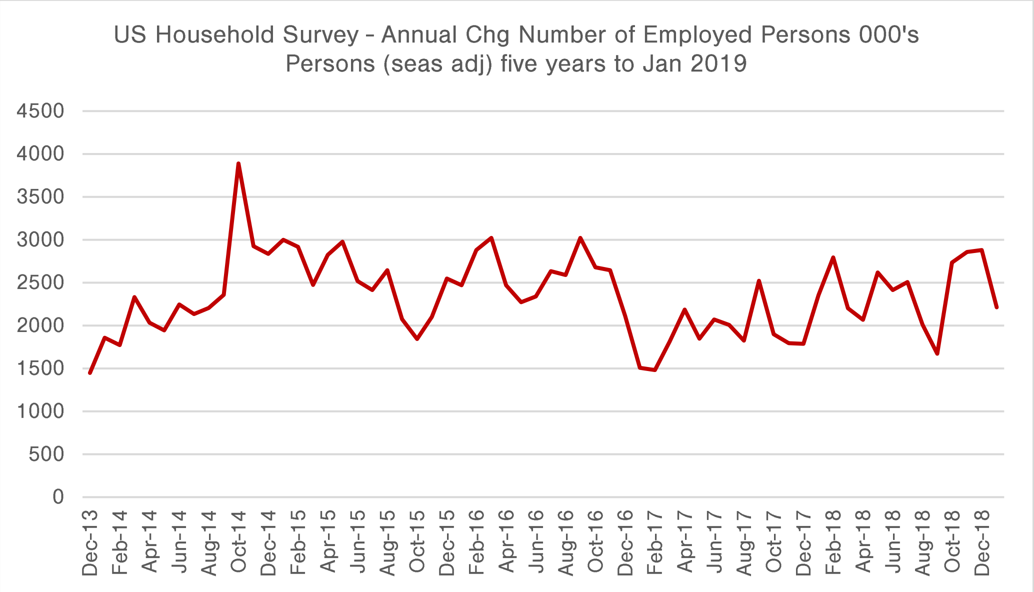
> The adjustments **decreased** the estimated size of the civilian noninstitutional population in December by 800,000, the civilian labor force by 506,000, employment by 488,000, unemployment by 18,000, and the number of persons not in the labor force by 294,000. The total unemployment rate, employment population ratio, and labor force participation rate were unaffected.

This has impacted the Dec-Jan monthly change – the table outlining that impact is provided at the end of this section.

Employed Persons

The annual growth in employed persons slowed in the latest month.

Jan +2.2m persons versus the annual rate in Dec +2.88m persons



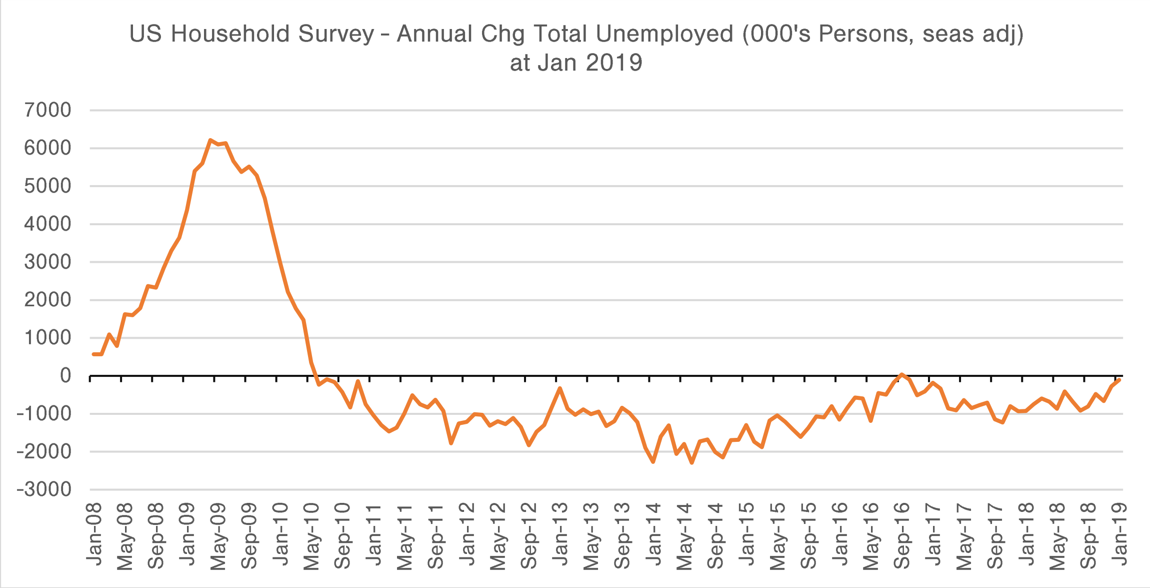
Total Unemployed Persons

The unemployment figures were also impacted by the partial government shutdown this month;

> Among the unemployed, the number who reported being on temporary layoff increased by 175,000. This figure includes furloughed federal employees who were classified as unemployed on temporary layoff under the definitions used in the household survey

On an annual basis, total unemployed persons continued to decrease, but at a much slower rate; Jan -106k persons versus Dec -278k persons.

The total number of unemployed persons increased in the latest month and has been slowly trending higher since mid-2018.



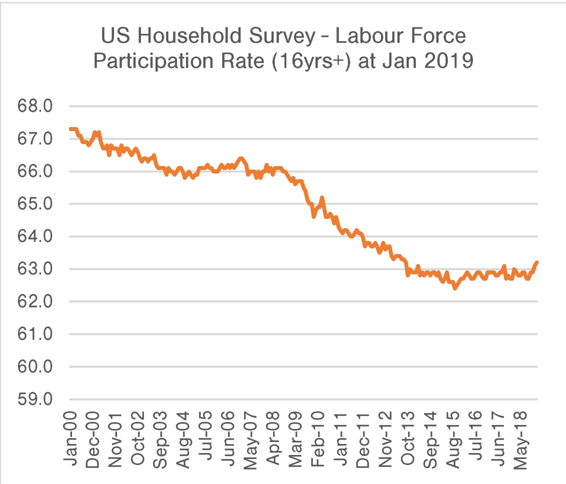
The unemployment rate increased to 4% in Jan.

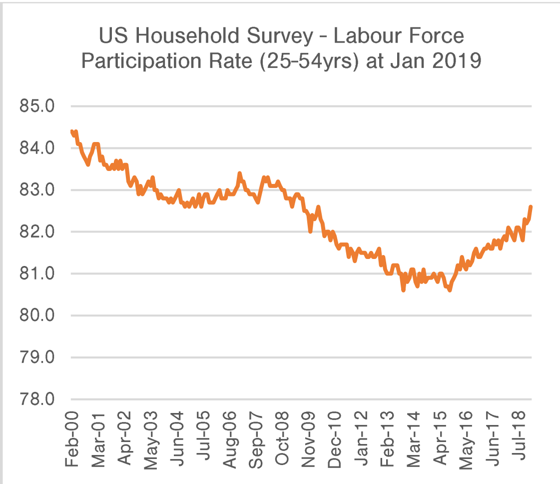
<u>Labour Force and Labour Force Participation</u>

This annual increase in participation this month was large, with the participation rate increasing by +0.5% pts from a year ago. Based on an estimate of the working age population, this meant that approx. +1.3m persons were in the 16yrs+ labour force due to an increase in participation.

Note that this much larger increase in participation was more than offset by a much lower increase in the estimate for what underlying population growth added to labour force (see summary table). The resulting annual growth in the size of the labour force was lower in Jan and was just below the average growth for the year.

The participation rate for the more core working age group 25-54yrs also increased in the latest year by +0.8% pts





Summary of the main changes in the labour force survey for Jan 2019;

Employment continued to grow faster than what both population and participation added back to the labour force. The slightly slower growth in employment though, resulted in a smaller decrease in total unemployed persons.

	Annual chg 000's people (16yrs+) - JAN 2019
The estimated change in the Labour Force due to pop growth (1)	814.63
How many jobs available for them? (annual employment growth) (2)	2212.00
Difference (if negative, then employment growing faster than what pop adds to the labour force) (3)	-1397.37
Change labour force participation - people entering/returning to the labour force (4)	1291.37
The remainder is the reduction in total unemployed persons - (4) plus (3)	-106.00
Two views of annual growth in the labour force;	
Total employed persons plus total unemployed persons	2106.00
Est of what population adds to the labor force plus change in participation	2106.00
BLS reported change in the size of the labor force	2106.00

The Dec-Jan month changes have not been reported here this month due to the changes in the population controls. Below is a summary of those changes for the month;

Table C. December 2018-January 2019 changes in selected labor force measures, with adjustments for population control effects

(Numbers in thousands)

Category	Dec.-Jan. change, as published	2019 population control effect	Dec.-Jan. change, after removing the population control effect [1]
Civilian noninstitutional population	-649	-800	151
Civilian labor force	-11	-506	495
Participation rate	0.1	0.0	0.1
Employed	-251	-488	237
Employment-population ratio	0.1	0.0	0.1
Unemployed	241	-18	259
Unemployment rate	0.1	0.0	0.1
Not in labor force	-639	-294	-345

[1] This Dec.-Jan. change is calculated by subtracting the population control effect from the over-the-month change in the published seasonally adjusted estimates.

NOTE: Detail may not sum to totals because of rounding.

In the latest month, employment growth was lower than what both population and participation added to the labour force. The total number of unemployed persons increased, and the unemployment rate also increased.

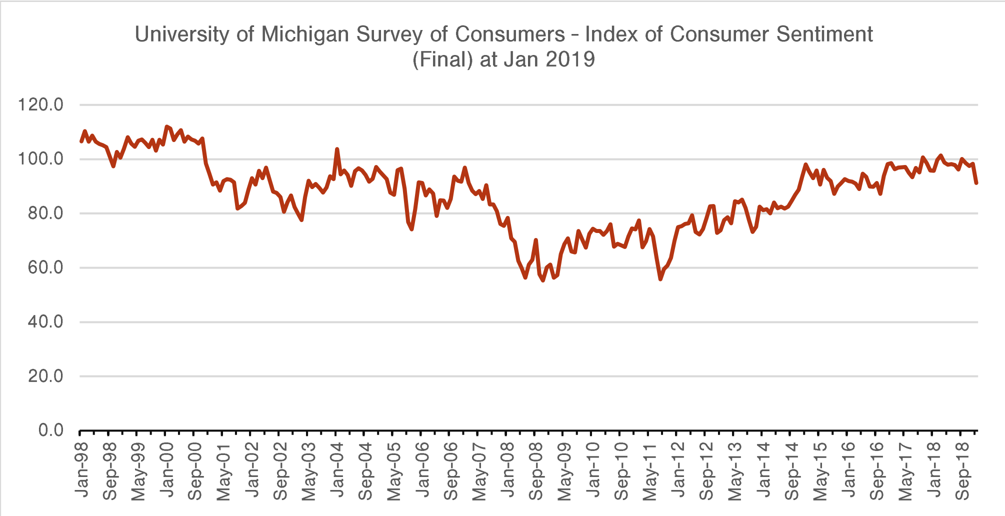
https://www.bls.gov/news.release/pdf/empsit.pdf

University of Michigan Consumer Sentiment – Final (Jan)

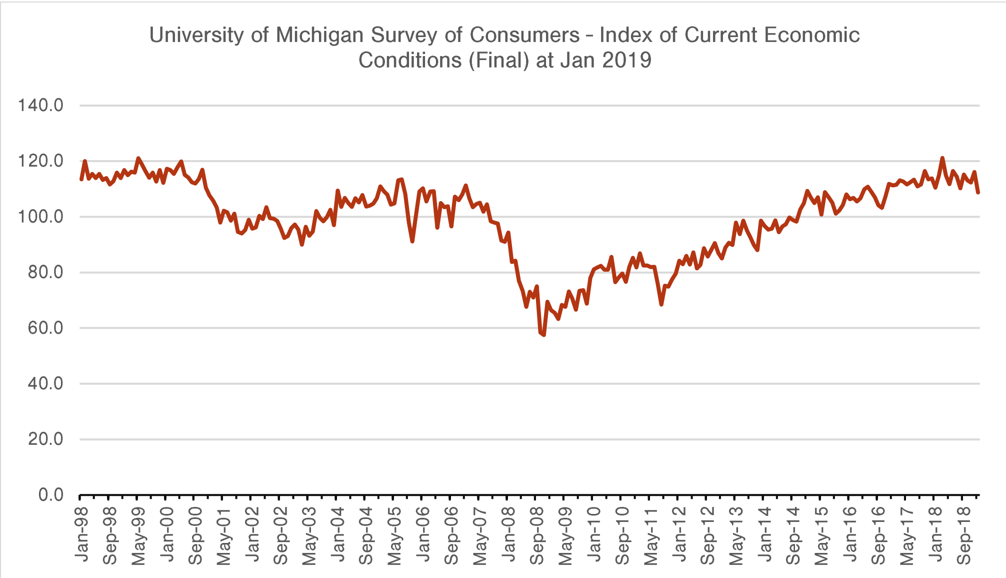
The final report for Jan consumer sentiment figures were mixed. The revisions resulted in little change to the overall readings for Jan. The commentary provides good perspective – while the month to month falls were relatively large between Dec and Jan, sentiment remains high.

The index of consumer sentiment; Jan 91.2 versus Dec 98.3 (Jan was revised slightly higher from 90.7)

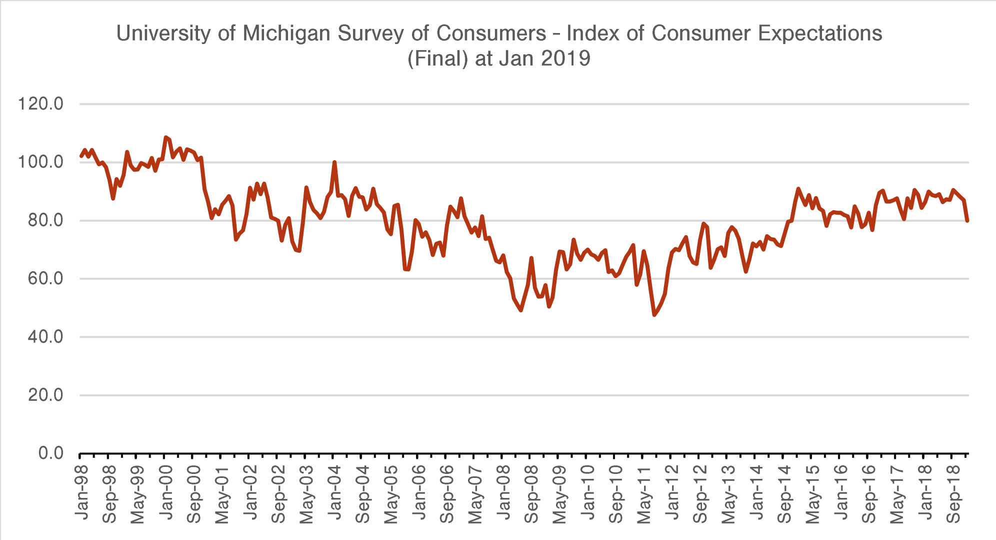
The final Jan result was still a -3SD decline from Dec (based on 12mth std dev).



Index of current economic conditions; Jan 108.8 versus Dec 116.1 (Jan was revised lower from 110.0). This was a -2.6SD decline from Dec (based on the 12mth SD)



Index of consumer expectations; Jan 79.9 versus Dec 87 (Jan was revised slightly higher from the 78.3 reading provided in the prelim report). The Jan result was also a -2.7SD decline from Dec (originally a -3SD decline).



The overall commentary provided touched on the shutdown impacting sentiment as well as perceptions of financial prospects;

> "Consumer sentiment remained at month-end at its lowest level since Trump was elected. The end of the shutdown caused only a modest boost in the Sentiment Index. The typical impact of such "crisis" events is short lived, with consumers quickly regaining lost confidence. That is unlikely to occur this time as the deadline for resolution has only been extended until mid February."

> "It is of some importance to note that consumers still viewed their financial prospects quite positively (see the chart). Nonetheless, consumers were not as optimistic about future job gains, which was a consequence of the expected weakening of the economy due to the shutdown."

> "Indeed, if the current level of confidence is maintained, it would be consistent with a 2.6% growth in consumer spending in 2019."

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

US - FOMC Meeting Announcement

As widely expected, the FOMC left rates on hold with the FFR target range to remain at 2.25% - 2.5%.

The overall message was dovish as the FOMC said it will be patient on future rate increases. The FOMC also indicated that normalization of the balance sheet will be completed sooner than expected as the Fed elected to retain the current interest rate setting regime of 'abundant reserves'. The committee is now evaluating the appropriate timing for the end of balance sheet run-off.

Statement;

The official statement removed the reference to "judges that the risks to the economic outlook are roughly balanced".

The key signalling statement;

> In light of global economic and financial developments and muted inflation pressures, the Committee will be patient as it determines what future adjustments to the target range for the federal funds rate may be appropriate to support these outcomes.

Press conference;

Economy will grow at a solid pace in 2019, but slower than the very strong pace in 2018

Cross currents and conflicting signals – providing reasons for caution. But there has been no change in the baseline outlook for the economy.

> Today, the FOMC decided that the cumulative effects of those developments over the last several months warrant a patient, wait-and-see approach regarding future policy changes

> In addition, the case for raising rates has weakened somewhat.

From previous minutes we've followed the deliberations on the change to the long-run monetary policy implementation framework – where reserves are abundant (current) versus where reserves are limited (prior to the GFC). The FOMC decided today to maintain the current regime of abundant reserves.

This decision was somewhat unexpected at this meeting. In the previous minutes from Dec 2018, new 'ceiling tools for controlling policy rates' were still to be evaluated in later meetings. From the Dec minutes (emphasis added):

> Participants expected to **continue their discussion of long-run implementation frameworks and related issues at upcoming meetings**. They reiterated the importance of communicating clearly on the rationale for any decision made on the implementation framework.

As well, Fed Reserve Vice Chairman Clarida gave a speech on 10 Jan 2019 (reviewed in our Macro Review w/c 7th Jan) outlining the work the Fed was doing regarding the evaluation of changes to monetary policy implementation;

> The FOMC is discussing the pros and cons of different longer-run approaches to monetary policy implementation and is still learning about the evolution of the demand for reserves in the banking system. As noted in the FOMC's Policy Normalization Principles and Plans, the Committee intends to, in the longer run, hold "no more securities than necessary to implement monetary policy efficiently and effectively."[7]

> "If we find that the ongoing program of balance sheet normalization or any other aspect of normalization no longer promotes the achievement of our dual-mandate goals, we will not hesitate to make changes."

https://www.federalreserve.gov/newsevents/speech/clarida20190110a.htm

The thinking at the Fed has changed quickly since 10 Jan 2019. The change and seemingly sudden decision to retain the current system of "abundant reserves" now "clears the way" to address questions 'regarding the remaining stages of balance sheet normalization':

> "Estimates of the level of reserve demand are quite uncertain, but we know that this demand in the post-crisis environment is far larger than before. Higher reserve holdings are an important part of the stronger liquidity position that financial institutions must now hold. Moreover, based on surveys and market intelligence, current estimates of reserve demand are considerably higher than estimates of a year or so ago. **The implication is that the normalization of the size of the portfolio will be completed sooner, and with a larger balance sheet, than in previous estimates.**"

The committee is now evaluating the appropriate timing for the end of balance sheet run-off.

An additional statement regarding Monetary Policy Implementation and Balance Sheet Normalization was also released. This clarifies that the FOMC will use the FFR as its 'active' tool. While the balance sheet is not seen as an 'active' tool, changes to the balance sheet will be made in order to respond to any future conditions;

> '**its full range of tools**, including alternating the size and composition of its balance sheet, if future economic conditions were to warrant a more accommodative monetary policy than can be achieved solely by reducing the federal funds rate.'

https://www.federalreserve.gov/newsevents/pressreleases/monetary20190130c.htm

https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20190130.pdf

https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm

Return to top

Europe

ECB President Draghi speech (Intro Statement at the ECON hearing at the European Parliament)

ECB president Draghi made several references to current conditions throughout Europe, mirroring previous speeches;

> "However, over the past few months, incoming information has continued to be weaker than expected on account of softer external demand and some country and sector-specific factors. The persistence of uncertainties in particular relating to geopolitical factors and the threat of protectionism is weighing on economic sentiment."

> "At the same time, supportive financing conditions, favourable labour market dynamics and rising wage growth continue to underpin the euro area expansion and gradually rising inflation pressures."

> "In any event, the Governing Council stands ready to adjust all of its instruments, as appropriate, to ensure that inflation continues to move towards the Governing Council's inflation aim in a sustained manner."

https://www.ecb.europa.eu/press/key/date/2019/html/ecb.sp190128~8b43137b4f.en.html

German CPI – Prelim (Jan)

The prelim report for Germany CPI indicates that growth in consumer prices has slowed further in the latest year and prices have declined versus the month prior.

Annual headline CPI growth; Jan prelim +1.4% versus Dec +1.7%

Current month % chg; Jan prelim -0.8% versus Dec +0.1%

https://www.destatis.de/EN/PressServices/Press/pr/2019/01/PE19_034_611.html;jsessionid=FA3A53635A3ACD70886C718557DE76A9.InternetLive1

German Retail Sales – Prelim (Dec)

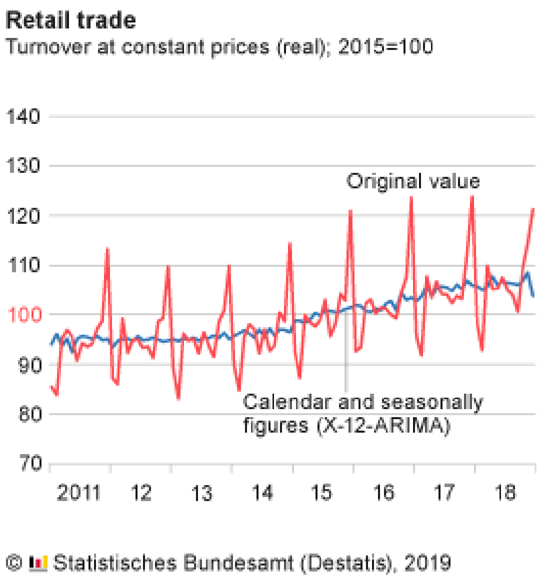
The prelim report on retail sales indicates that in real, calendar and seasonally adjusted terms, retail sales declined in the month of Dec. Sales are also below that of the same time last year.

Monthly Retail Sales % chg (real, calendar and seasonally adjusted)

Dec -4.3% versus Nov +1.4%

Annual % chg from a year ago (real terms)

Dec -2.1% versus Nov +1.1%



https://www.destatis.de/EN/PressServices/Press/pr/2019/01/PE19_035_45212.html

Eurozone Q4 GDP – Prelim

The prelim estimates of Q4 GDP growth in the Euro area and Eurozone remained unchanged versus the prior quarter, while annual GDP growth continued to slow across the region.

Euro area

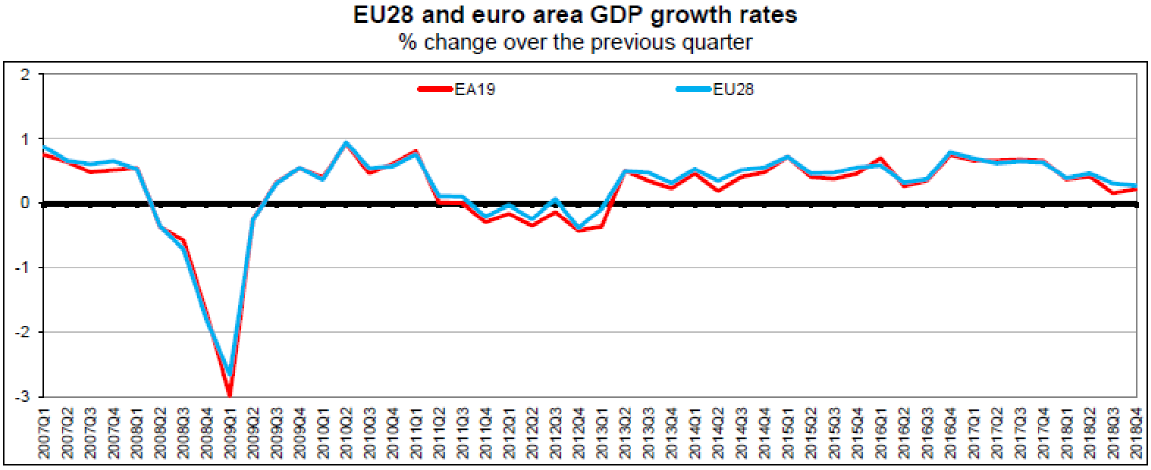
Quarterly GDP growth; Q4 +0.2% versus Q3 +0.2%

Annual GDP growth; Q4 +1.2% versus Q3 +1.6%

EU28

Quarterly GDP growth; Q4 +0.3% versus Q3 +0.3%

Annual GDP growth; Q4 +1.5% versus Q3 +1.8%

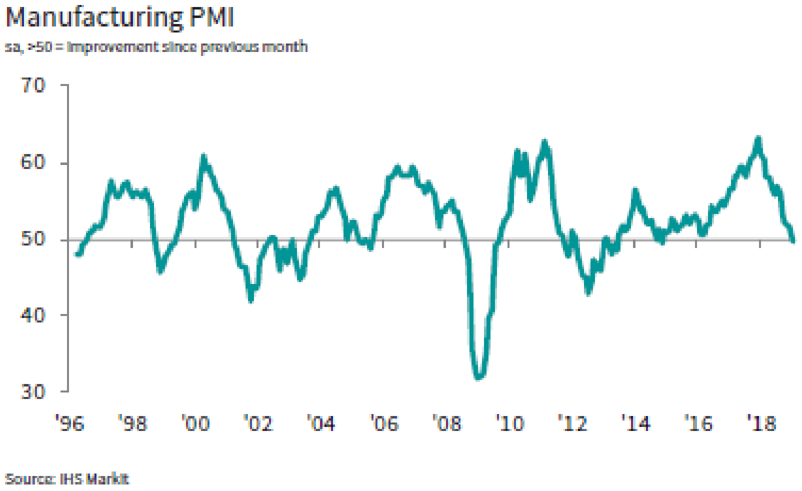


Revised estimates and main GDP aggregates due; 14 Feb and 7 Mar 2019 https://ec.europa.eu/eurostat/documents/2995521/9539637/2-31012019-AP-EN.pdf/fead6e91-cd7f-4654-b5d7-81fef584772d

German Manufacturing PMI - Final (Jan)

The headline PMI for private sector manufacturing activity fell into contraction in the latest month. The decline in new orders was notable with overseas demand continuing to fall.

Headline PMI; Jan 49.7 versus Dec 51.5 (-1.8% pts)



The fall in the PMI was led by a continued decline in new orders. New order demand from international markets was notable – with reports of decreases in sales to the US, UK, Italy, Turkey and Asia (China).

Production still increased but the expansion was “marginal”. Production increases were reported in consumer goods which helped to offset declined in intermediate and capital goods. Order backlogs continued to decrease. Stocks of finished goods increased in Jan as “production levels outstripped sales”.

Employment continued to grow but also at a much slower pace.

Purchase prices fell as firms cited lower prices from oil and steel.

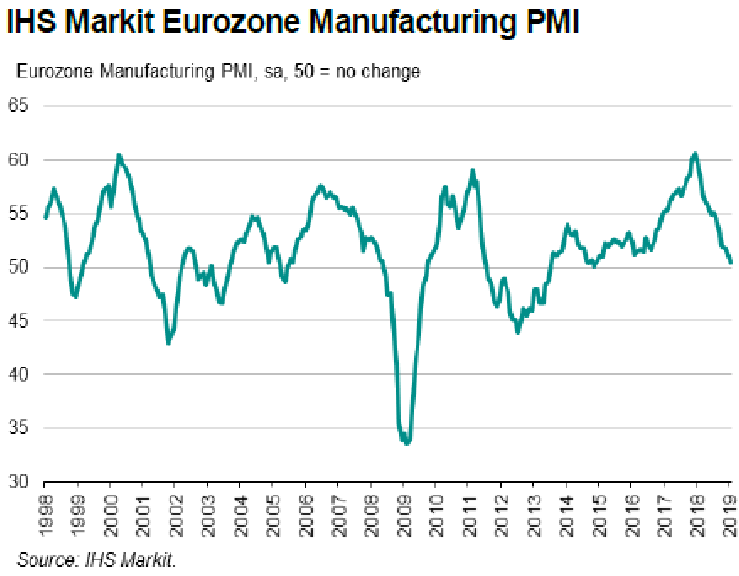
> "Thanks to a strong rise in consumer goods output, overall production remained just inside growth territory in January, but there are growing risks to the near-term outlook. Stocks of finished goods rose the joint-most on record, backorders continued to be depleted, and firms' expectations towards future output showed no appreciable improvement from last October's six-year low.”

https://www.markiteconomics.com/Survey/PressRelease.mvc/903dce5c59f14037aa28c989e66eb77f

Eurozone Manufacturing PMI – Final (Jan)

Manufacturing activity across the Eurozone was unchanged in the latest month. New orders continued to fall, while output continued to increase. Growth in output was the result of continued falls in order backlogs and stocks of finished goods increased at the fastest rate in survey history.

Headline PMI; Jan 50.5 versus Dec 51.4



Across the key countries; manufacturing activity fell into contraction in Germany, the downturn in activity in Italy continued to increase and manufacturing activity in Spain and France increased at a faster pace.

> "Worryingly, weaker than anticipated sales mean warehouses are filling up with unsold stock at a rate not previously recorded over the two decades of prior survey history, suggesting firms will need to cut operating capacity in coming months unless demand revives, boding ill for future production growth."

Other commentary highlights an important point regarding employment. The slower growth momentum has so far not appeared to impact employment and hence consumer sentiment.

> "…jobs growth is starting to deteriorate as increasing numbers of firms seek to cut costs and raise productivity."

https://www.markiteconomics.com/Survey/PressRelease.mvc/7d0b5f0fc624424ab8ab8bbc9d3fdbc3

Return to top

Japan

BoJ – Minutes of the MPM 19-20 Dec 2018

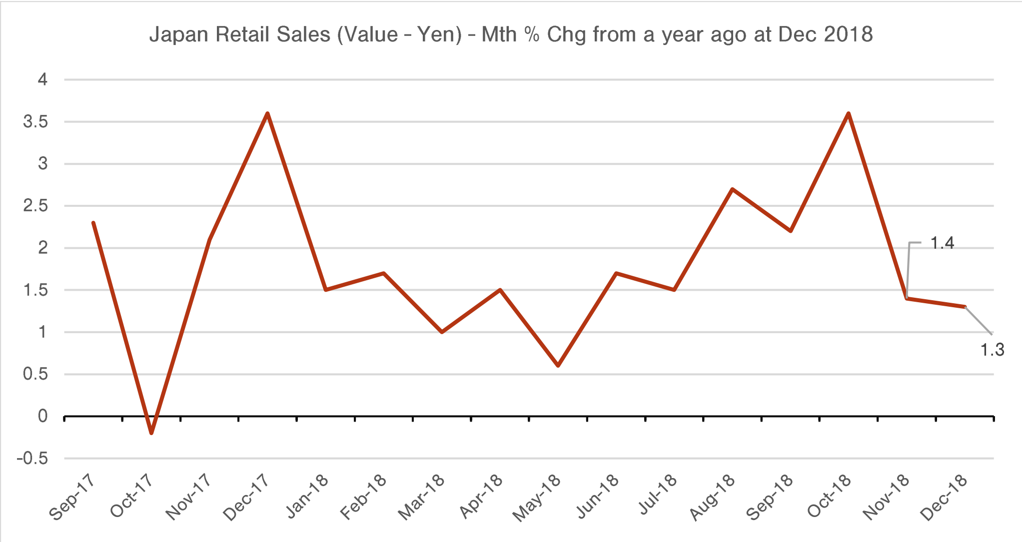
http://www.boj.or.jp/en/mopo/mpmsche_minu/minu_2018/g181220.pdf

Retail Trade – Prelim (Dec)

The monthly change in retail sales accelerated in the latest month after declining in the month prior. Annual retail sales growth slowed slightly and remain lower than the recent peak.

Month change in retail sales (Yen value); Dec +0.9% versus Nov -1.1%

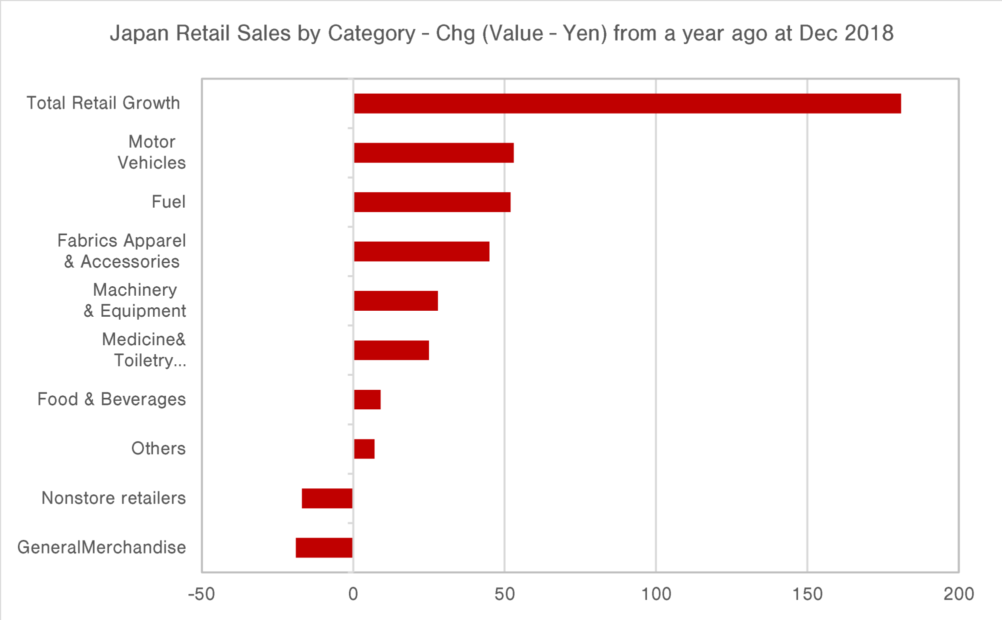
On an annual basis, retail sales growth slowed slightly; Dec +1.3% versus Nov +1.4%



Between Nov and Dec, the annual growth across several categories improved; Fabrics & Apparel and Machinery & Equipment.

Growth slowed in several categories; Food & Bev, Motor Vehicles and Fuel.

Retail sales continued to decline in General Merchandise and non-store retailers.



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

Industrial Production – Prelim (Dec)

Despite the somewhat better monthly growth in Dec versus Nov, total production and shipments in Dec remain below that of a year ago. Inventories of finished goods are higher than a year ago but underlying that, inventory of some of the larger weight items in the index, such as transport (passenger cars) has continued to fall.

The forecast for Dec industrial production had been for +2.2% growth in production.

Monthly % chg (seas adjusted)

Production; Dec -0.1% versus Nov -1%

Shipments; Dec +0.3% versus Nov -1.2%

Inventories: Dec +1% versus Nov +0.1%

Inventory ratio: Dec +2.2% versus Nov -2.2%

The forecast for January industrial production is for a slight decline; -0.1%

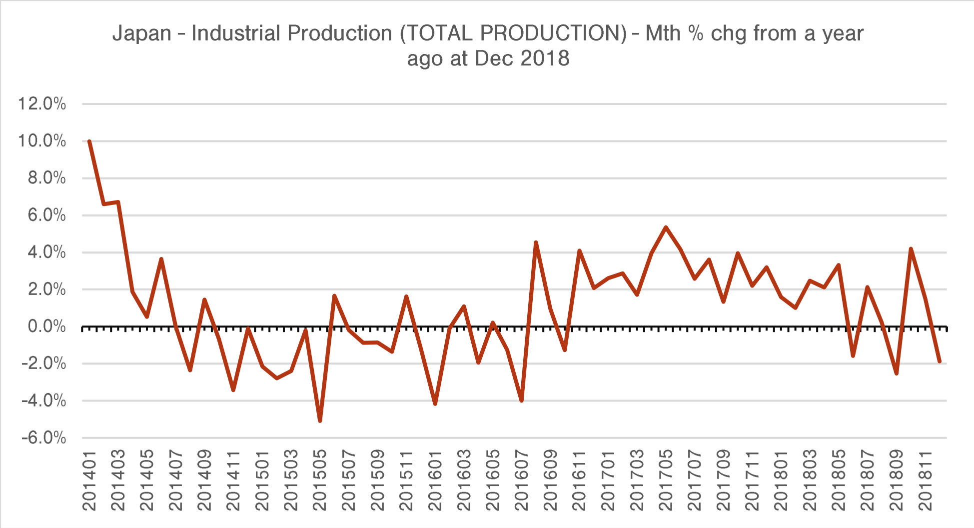
Annual % Chg – Current mth % chg from a year ago

Total Industrial Production - Production indices have again fallen behind a year ago after the strong rebound in Oct.

Dec -1.9% versus Nov +1.5%

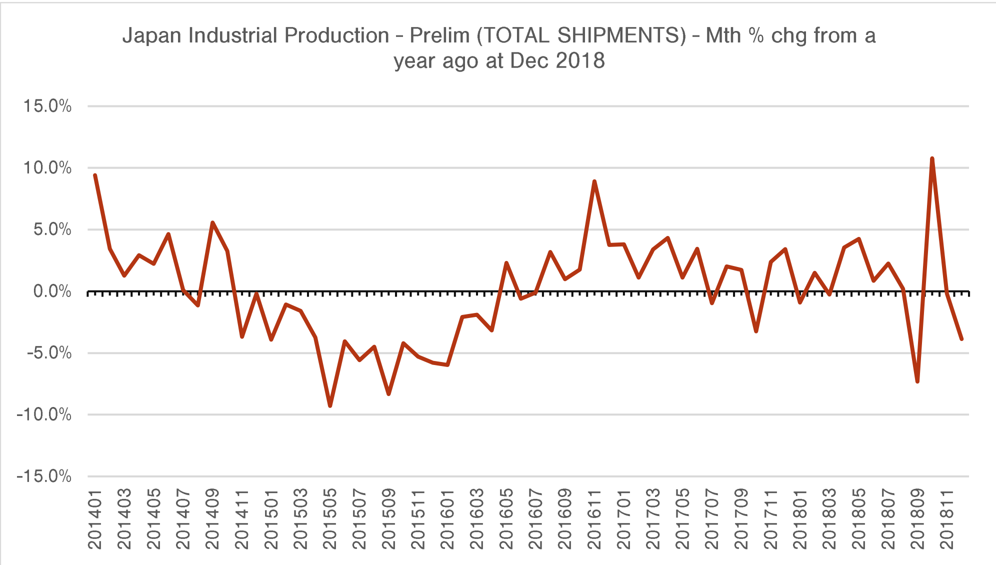
Most of the larger categories (by weight in the index) experienced lower production than a year ago in Dec; Iron & Steel manufacturing, electrical machinery and transport equipment.

Production of general purpose and business-oriented machinery was slightly higher than a year ago.



Total Shipments - Total shipments were also below those of Dec a year ago after a stronger rebound in Oct and somewhat slower growth in Nov;

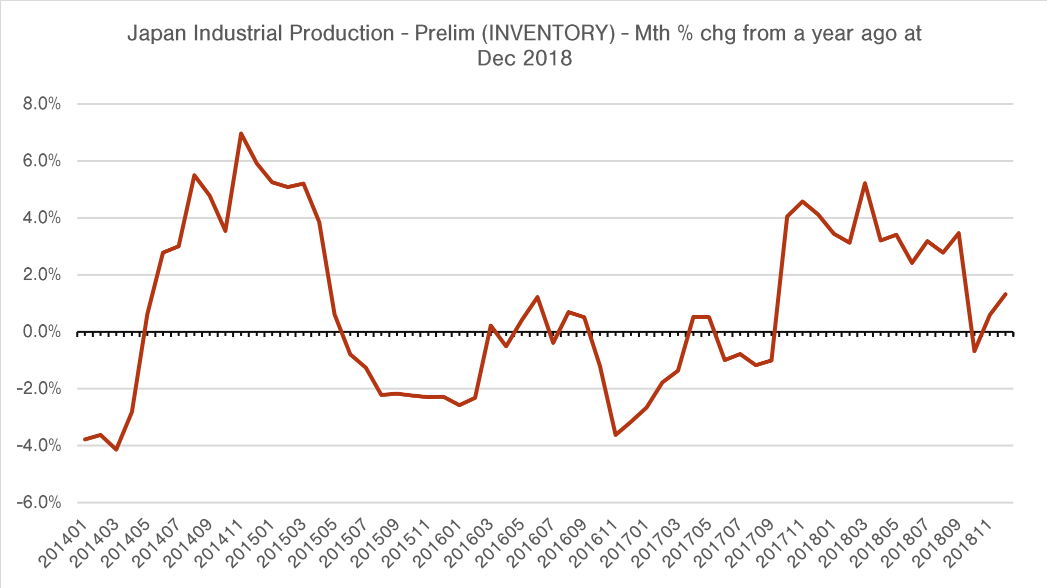
Dec -2.8% versus Nov +0.9%



Similarly, shipments were below last year across the larger weight categories; Iron and steel, electrical and machinery, transport (but note that the % decline in passenger vehicle shipments was much smaller than the total for motor vehicles).

Inventory - Producers inventory of finished products increased in the month and was higher than a year ago.

Dec +1.3% versus Nov +0.6%



Unlike production and shipments, some of the larger categories continue to record lower inventories than a year ago; electrical machinery and transport (passenger cars finished goods inventory is -13% below a year ago and progressively lower growth in inventory has been recorded over the last year) – firms are possibly scaling back inventory as a result of lower demand conditions.

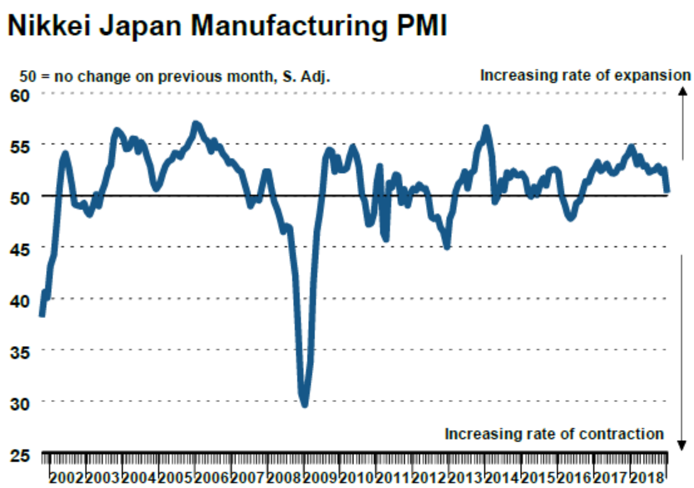
The inventory ratio has also continued to increase and is now +4.6% ahead of last year.

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

Manufacturing PMI – Final (Jan)

The final PMI for manufacturing in Jan slowed to virtually zero growth. The much slower growth in Jan was the result of a decline in output and new orders.

Jan 50.3 (slightly higher than the 50.0 in the prelim) versus Dec 52.6



Production declined for the first time since 2016 as a result of 'weak demand'. New orders also fell as a result of weaker domestic and international business. This was the second month of declining new export orders. Lower demand from the US and China were cited.

Production measures were likely buoyed by firms working through their backlogs. Backlogs of orders decreased.

Stocks of finished goods and inputs were ‘scaled back’.

Employment continued to grow, albeit at a weaker pace.

Input price inflation slowed while output charges were increased at a faster pace.

Overall business confidence remains subdued – with the consumption tax increase and trade tensions impacting sentiment.

https://www.markiteconomics.com/Survey/PressRelease.mvc/4255041f55fa48779d8f7a5bb0c4429f

Return to top

United Kingdom

BREXIT

Latest news is that the UK government is looking to extend Article 50 beyond 29 Mar to provide enough time to renegotiate a deal with the EU.

The UK parliament passed the amendment during the week that approved the current withdrawal agreement **only on the basis that it be renegotiated**.

The issue remains the terms of the Irish border backstop;

> "Those provisions would be replaced with what the Brady amendment, mysteriously and Britishly, refers to only as "alternative arrangements." Could May, Corbyn wondered, "set out today what these alternative arrangements might be?"

Both sides have reaffirmed the desire to maintain an open border between Northern Ireland (UK) and the republic of Ireland (EU), which is an essential part of the Good Friday Agreement/peace accord.

If a trade deal hasn't been renegotiated by the end of the transition period between the UK and EU then all of the UK remains in the EU customs union – which is what has been rejected by the UK parliament. The UK Labour leader has now confirmed his support for PM May to renegotiate the backstop so that backstop deal (if a trade agreement is not reached) does not become permanent.

The passing of the Brady amendment was;

> "…good enough, May told the M.P.s, for her to go back to Brussels with something that "crucially showed what it would take" to get a deal through Parliament."

So far, there is little detail regarding the alternative ideas;

> "When I return to Brussels I will be battling for Britain and Northern Ireland, I will be armed with a fresh mandate, new ideas and a renewed determination to agree a pragmatic solution that delivers the Brexit the British people voted for, while ensuring there is no hard border between Northern Ireland and the Republic of Ireland."

At the same time, the EU has continued to reaffirm that the article 50 is not up for renegotiation.

https://www.newyorker.com/news/daily-comment/brexit-enters-the-realm-of-science-fiction

https://news.sky.com/story/may-could-call-june-election-and-vows-to-battle-for-britain-during-talks-for-new-brexit-deal-11626710

Current Brexit documents;

Announcement; http://europa.eu/rapid/press-release_IP-18-6424_en.htm

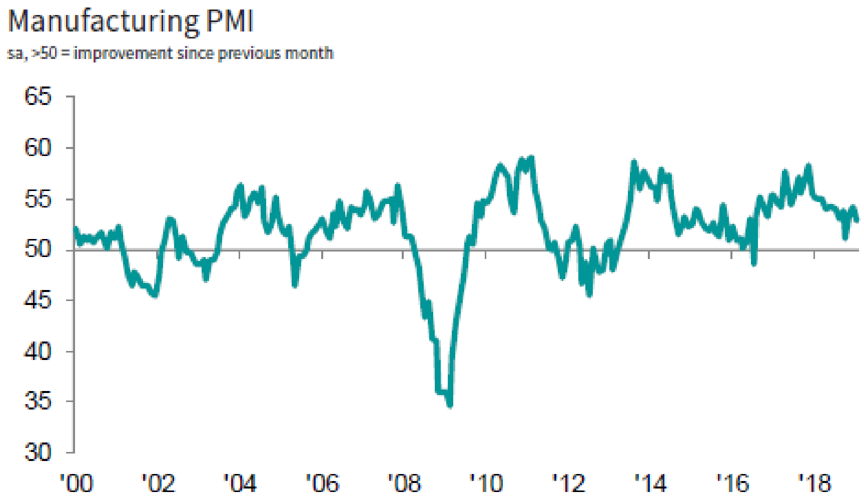
Comprehensive factsheet; http://europa.eu/rapid/press-release_MEMO-18-6422_en.htm

Q&A Protocol on Ireland and Northern Ireland; http://europa.eu/rapid/press-release_MEMO-18-6423_en.htm

UK Manufacturing PMI (Jan)

The headline PMI indicated that manufacturing activity continued to grow at a slower pace in Jan. While output and new orders slowed, firms continued to prepare for Brexit with increased purchasing activity and stockpiling of inputs.

Headline manufacturing PMI: Jan 52.8 versus Dec 54.2



Production growth was the lowest in over two years. Output growth was mainly the result of firms building stocks. Inventories of finished goods increased at the third fastest pace in the history of the data.

New order growth remains low. Domestic order growth eased, and new export order growth remains ‘near stagnation’.

Despite the weaker growth, almost half of the firms expect output to be higher in one year’s time – but sentiment still fell to a 30-year low.

> “January also saw manufacturing jobs being cut for only the second time since mid-2016 as confidence about the outlook slipped to a 30-month low, often reflecting ongoing concerns about Brexit and signs of a European economic slowdown.”

https://www.markiteconomics.com/Survey/PressRelease.mvc/0a24cd497b1845359ae26143d7094345

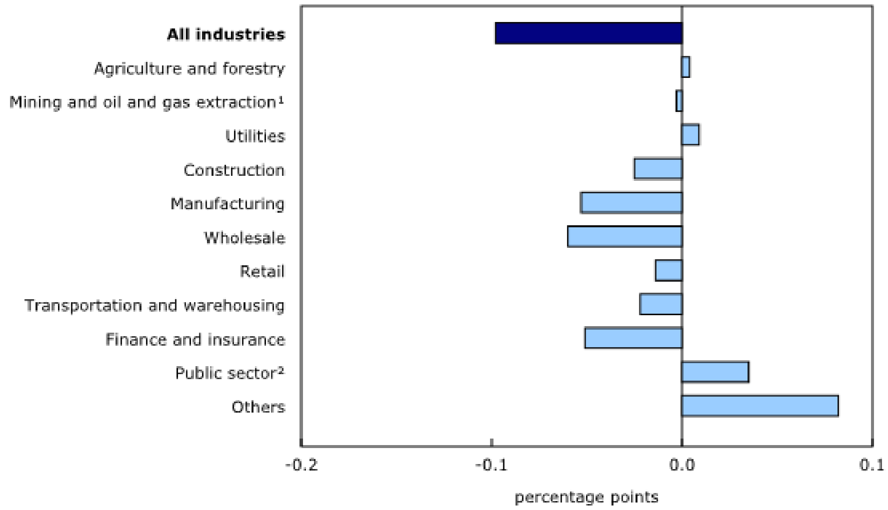
Return to top

Canada

Monthly GDP (Nov)

Monthly GDP declined in Nov after a stronger Oct. Note that this is focused on domestic activity. The main sectors contributing to the decline were wholesale, manufacturing and finance & insurance.

Monthly GDP % chg; Nov -0.1% versus Oct +0.3%



Wholesale declined by -1.1% in Nov, which more than offset the growth recorded in Oct. Most subsectors recorded a decline in the month.

Manufacturing activity declined by -0.5% - the third decline in four months. Both durable and non-durable subsectors recorded declines in the month.

Finance and insurance activity declined by -0.7%.

Construction declined by -0.3% - now at the lowest level since mid-2017. Residential construction activity declined by 1% in the month.

Transportation and warehousing declined by -0.5%.

Retail trade also declined by -0.3%. Only 5 of the 12 subsectors declined, but activity in motor vehicles and parts dealers declined by 2% in the month.

'Others' made the single largest offsetting contribution to growth in the month – accomms and food services increased by +0.6%. Professional services grew by +0.2%.

Utilities and public sector activity also made a small offsetting contribution to growth in the month.

https://www150.statcan.gc.ca/n1/daily-quotidien/190131/dq190131a-eng.htm?HPA=1

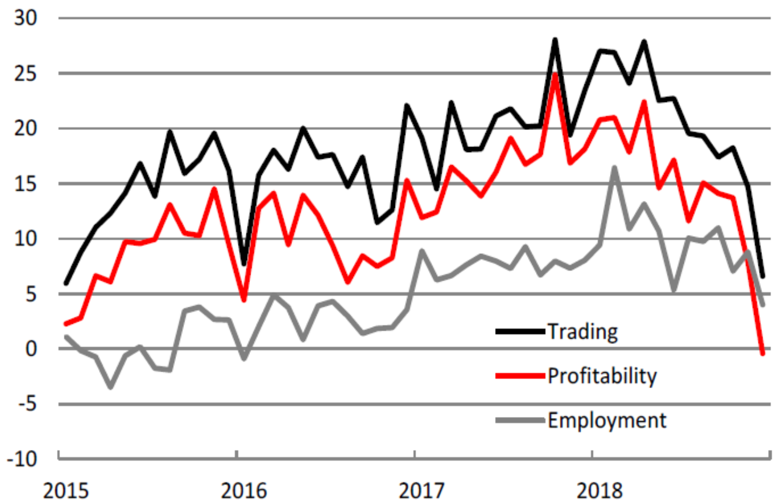
Return to top

Australia

NAB Business Conditions (Dec)

Australian data has remained surprisingly robust given the backdrop of slower growth/trade environment. But the Dec NAB Bus Conditions report now mirrors what we've seen in other business surveys – slower growth throughout the latter part of 2018 and a sharper deterioration leading into Dec. The fall in business conditions was the result of slower growth in trading, profitability and employment.

Headline Business Conditions; Dec 2 versus Nov 11



Trading (demand conditions); Dec 7.0 versus Nov 15.0

Profitability; Dec 0.0 versus Nov 8.0

Employment; Dec 4.0 versus Nov 9.0

As a measure of future demand conditions, new orders growth continued to slow and is now in contraction.

Conditions weakened across most states except Tas. Conditions also weakened across industries, with retail the worst performer.

There is some caution provided by the survey authors regarding an end of year effect.

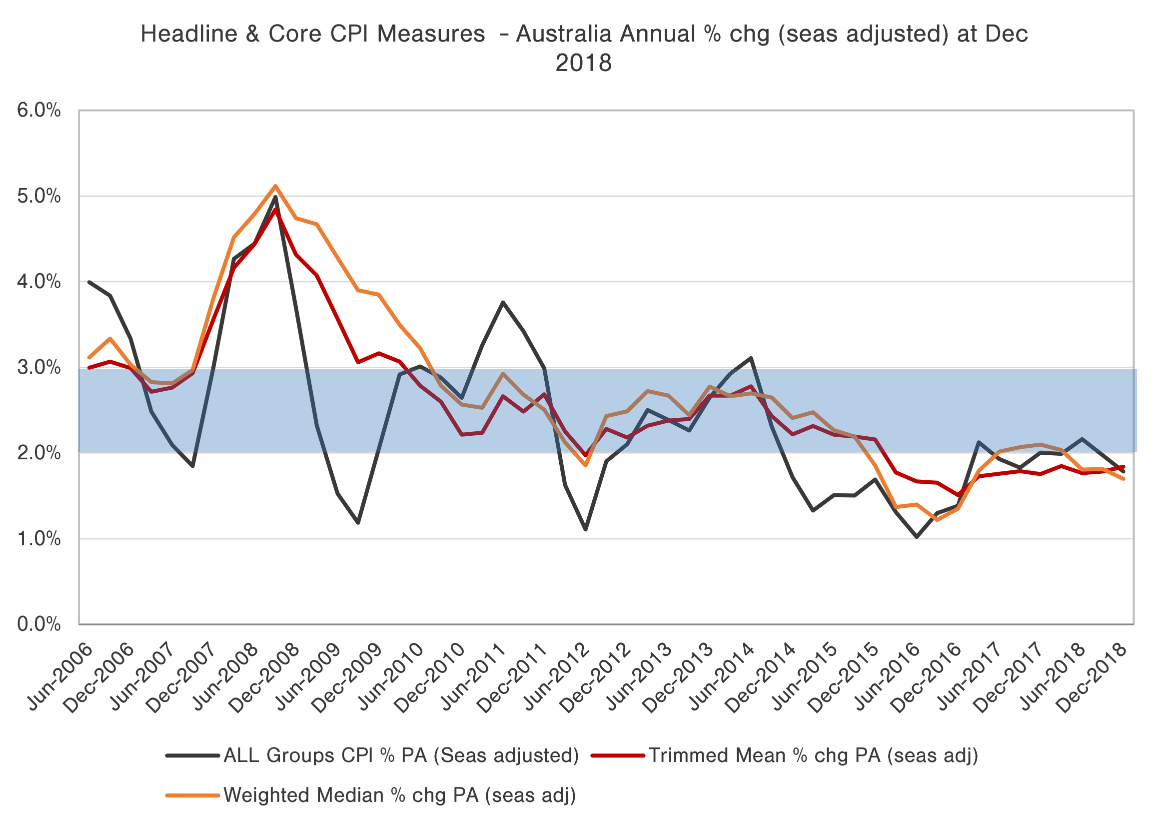
https://business.nab.com.au/wp-content/uploads/2019/01/2018m12-NAB-Monthly-Business-Survey1.pdf

CPI Q4

The annual headline CPI growth slowed in Q4 and remains below the RBA target range of 2-3%. Growth in the RBA preferred measures of underlying inflation were little changed and remains below the target band.

<u>Annual headline CPI (seasonally adjusted);</u> Q4 +1.8% versus Q3 +2%

Underlying measures of inflation (seasonally adjusted): The trimmed mean was little changed at +1.8% and growth in the weighted median slowed from +1.8% to +1.7%;



(shaded area = RBA target band)

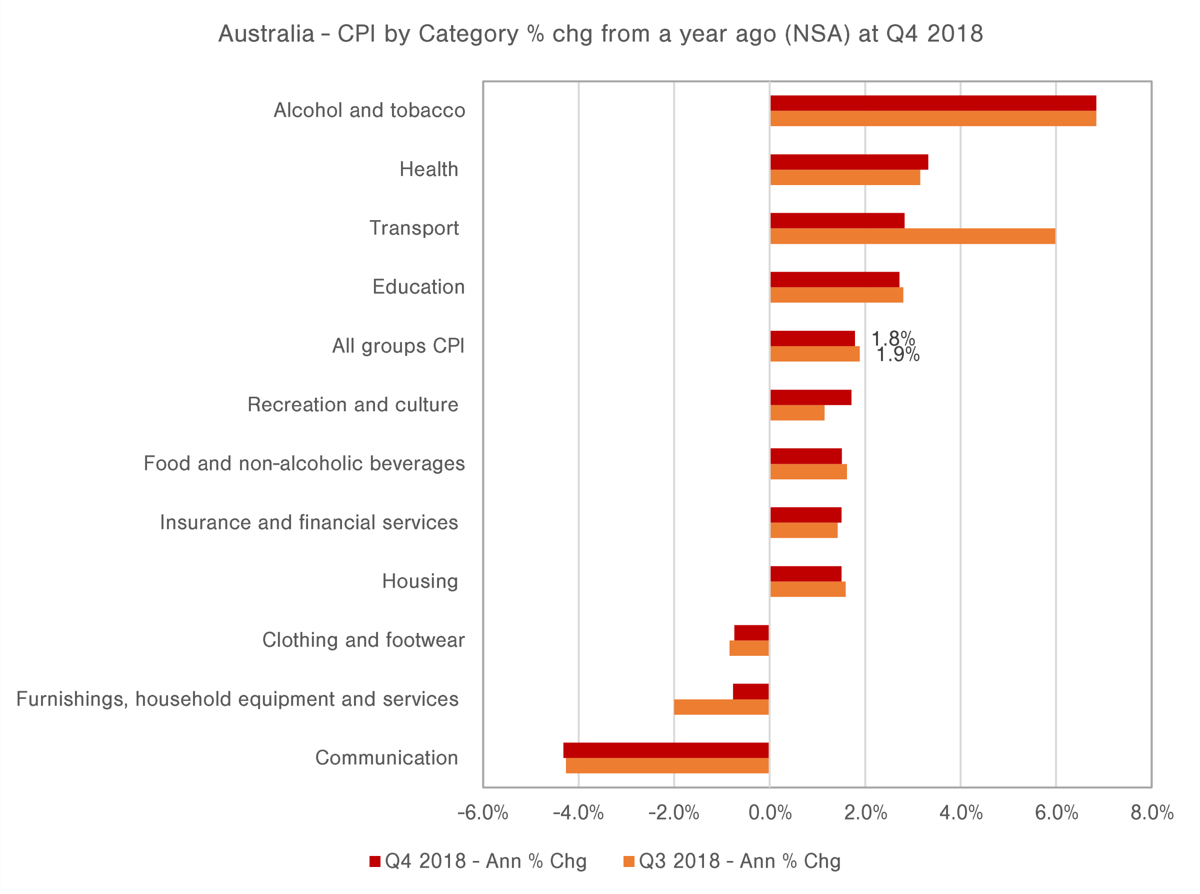
Leading the overall headline growth lower was Goods CPI, which slowed in Q4 to +1.7% versus +2.2% in Q3. But the quarter on quarter growth was stable at +0.5% in Q4 (+0.5% in Q3)

Growth in Services CPI increased slightly from +1.6% in Q3 to +1.7% in Q4. The quarterly growth also accelerated from +0.3% to +0.5%.

<u>CPI by Category</u>

The main driver of the slower annual growth in CPI between Q3 and Q4 was the slower growth in Transport costs; from +6% in Q3 to +2.8% in Q4 – this was mostly driven by lower growth in Automotive Fuel.

Prices for Communication continued to decline in Q4. The decline in prices in Q4 for Clothing and Household Furnishings slowed somewhat compared to Q3.



The main categories contributing to higher CPI growth; Alcohol and Tobacco +3.2% in the qtr and +6.8% in the year. Prices for Health and Education remained constant while prices for Recreation & Culture accelerated somewhat on the back of higher growth in Travel and Accommodation prices.

http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6401.0Main+Features1Dec%202018?OpenDocument

Return to top

Asia

China

Two sets of Chinese PMI data are reported here. The official PMI tracks large sized companies, mostly state owned. The Caixin PMI tracks mostly small sized companies. Both measures show manufacturing activity in contraction.

NBS Manufacturing PMI; Jan 49.5 versus Dec 49.4

NBS Non-manufacturing PMI; Jan 54.7 versus Dec 53.8

Caixin Manufacturing PMI (Jan)

Manufacturing activity in the smaller sized firms continued to contract in the latest month.

Headline PMI; Jan 48.3 versus Dec 49.7

Sources: IHS Markit, Caixin.

Output declined. Domestic new orders were ‘muted’ while export orders increased slightly. Purchasing activity weakened and inventory of inputs and finished items were further reduced.

Workforce numbers fell slightly.

Input prices fell for the second month in a row and output prices also fell amid a ‘general drop in market prices’.

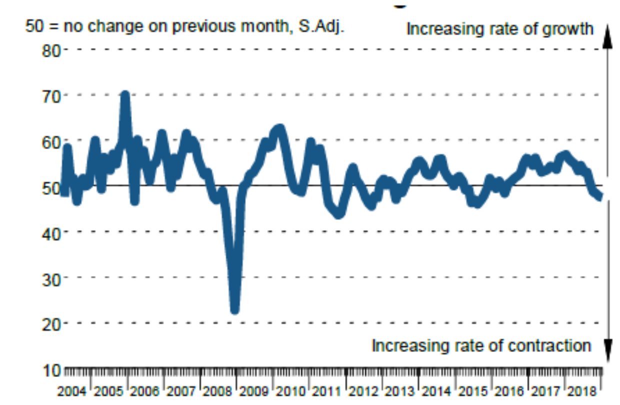
https://www.markiteconomics.com/Survey/PressRelease.mvc/945f5bd422af495cb40ea9660b1553b4

Manufacturing PMI (Jan) – Taiwan

The headline PMI for Taiwan continued to indicate further deterioration in private sector manufacturing activity. Output and new orders continued to decline, and firms continued to focus on destocking.

Headline Manufacturing PMI; Jan 47.5 versus Dec 47.7

Nikkei Taiwan Manufacturing PMI



Sources: Nikkei, IHS Markit.

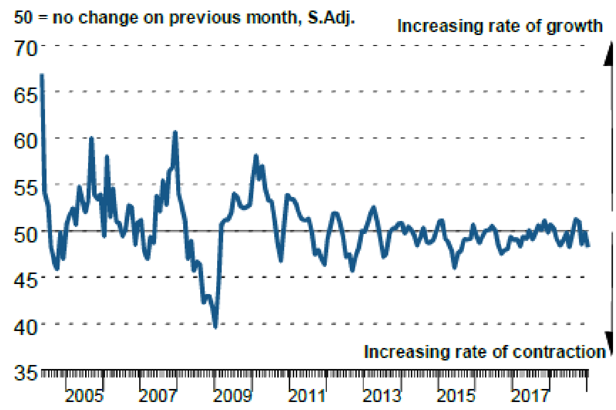
https://www.markiteconomics.com/Survey/PressRelease.mvc/7d89cbd0e0c1401194954c17d84ca5a2

Manufacturing PMI (Jan) – South Korea

The headline PMI for South Korea also indicated that manufacturing activity continued to deteriorate in Jan. Output declined amid further falls in new orders and new export orders.

Headline Manufacturing PMI; Jan 48.3 versus Dec 49.8 (-1.5% pts)

Nikkei South Korea Manufacturing PMI



Sources: Nikkei, IHS Markit

https://www.markiteconomics.com/Survey/PressRelease.mvc/50b02a7d3acd4383aff684a219ab7674

Return to top

Trade

US-China Trade Negotiations

The US has now requested extradition of Huawei CFO Meng and has laid further charges against Huawei regarding bank fraud, wire fraud, conspiracy to defraud the US and theft of trade secrets;

> "The charges unsealed today are the result of years of investigative work conducted by the FBI and our law enforcement partners," FBI Director Christopher Wray said today at a Department of Justice press conference announcing the indictments. "Both sets of charges expose Huawei's brazen and persistent actions to exploit American companies and financial institutions and to threaten the free and fair global marketplace."

https://www.fbi.gov/news/stories/chinese-telecom-firm-huawei-indicted-012819

Amid these charges, the high-level delegation of Chinese officials met with US officials during the week. There has been no official statement released on the USTR site at this stage. Non-official reports suggest talks were positive having dealt with some of the more difficult areas of the negotiation.

TBC - Further talks have now been scheduled for Treasury Secretary Mnuchin and USTR Lighthizer to travel to Beijing after the end of Chinese New Year (4-10 Feb) and a possible meeting between Presidents Trump and Xi later in the month.

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 process to ratify the USMCA remains underway. The report outlining what needs to change in law to approve the USMCA has reached the Senate Finance Committee.

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.

President Trump has already 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 clash;

> "Just a few weeks into the new Congress, senior Democrats say they want changes to the trade deal signed by Donald Trump with Justin Trudeau, Canada's prime minister, and Enrique Peña Nieto, Mexico's former president, in November last year."

https://www.ft.com/content/6f1b275a-1b43-11e9-9e64-d150b3105d21

Section 232 – Car and Truck Imports

The final report/recommendations 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-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).

Return to top