MARS CAPITAL PARTNERS

Weekly Macro Review

w/c 11 March 2019

Key Themes

The more subdued US retail environment extended into Q1 2019. Retail sales in the US grew marginally in Jan, despite the falls in motor vehicle and gas sales. The rebound in sales excluding autos and gas was larger but sales remain below the Nov 18 level. Consumer sentiment continued to improve in Mar (prelim report) – readings on sentiment and current economic conditions are still below the same time a year ago, but future expectations are now ahead of last year. Current sentiment readings remain elevated and are consistent with continued spending growth.

Headline US CPI growth slowed due to lower energy prices. But core CPI remained steady around 2.1% led mostly by higher growth in prices for shelter.

The trend of accelerating growth in manufacturing activity through late 2016 to early 2018 has shifted to either a more constant rate or slower growth environment.

The broader slowdown in manufacturing activity was reflected in the US industrial production data (Feb) and Durable Goods report (Jan). US Industrial production growth remained low in the latest month with production in manufacturing declining for the second month. Manufacturing capacity utilization is starting to reflect this slower growth.

Durable Goods orders were higher in Jan due to transports. Excluding the effect of larger transport orders, the slow-down in annual growth in orders and shipments is more pronounced.

There were some positive signs from Europe;

German industrial production fell in Jan, but the decline in Dec was revised to a positive/growth result. Production in Jan remains below last year. Declines in production of intermediate and capital goods were the key drivers of the Jan result. The German trade surplus was lower as export growth remained below import growth. Importantly, export and import growth for the month outperformed in non-EU member states ("third countries").

Broader Eurozone industrial production grew in Jan especially in key economies and across major industry groups.

The BoJ kept rates on hold and the statement acknowledged weaker export and industrial production activity – as a result of slowing overseas economies.

The growth in housing finance for Australia continued to decline in Jan – on both a value and number of commitments basis. The value of lending to households for dwellings was 21% below the same time a year ago in Jan.

Contents

US Data

Advance Retail Sales (Jan)

US retail sales increased marginally in Jan compared to Dec, despite large falls in both motor vehicle sales and gasoline stations sales. Retail sales for Dec were revised lower.

Monthly % chg – Total Retail Sales

Jan +0.2% versus Dec -1.6% (previous -1.2%)

The actual value of total retail sales reported in Jan 2019 remains below the Nov 2018 peak.

As expected, Motor vehicle sales declined in Jan by -2.4%. Excluding motor vehicles, retail sales growth was stronger in Jan +0.9% versus -2.1% in Dec.

Gasoline sales also declined by -2% in Jan. Excluding motor vehicles and gasoline; retail sales in Jan +1.2% versus -1.6% in Dec.

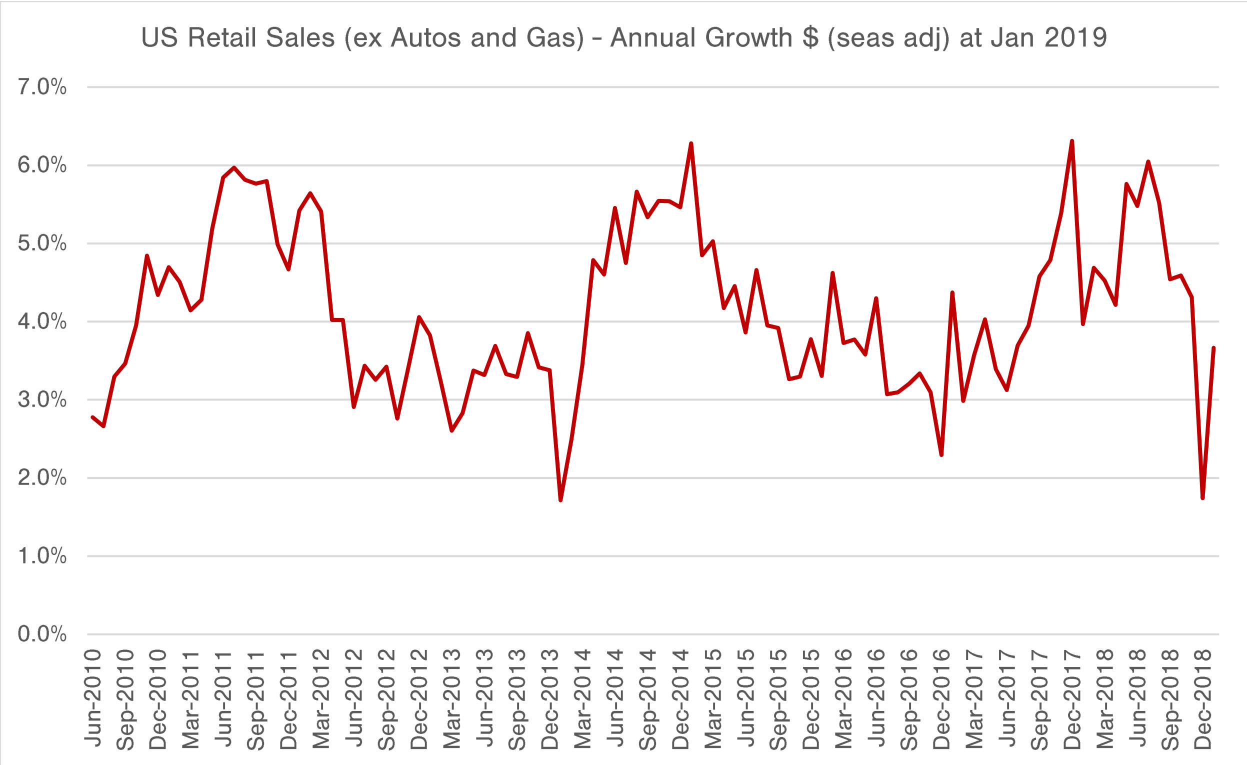
The biggest contributors to growth in Jan were; building supplies +3.3%, non-store retailers +2.6%, food and beverage stores +1.1%.

Annual % chg – Total Retail Sales

Jan +2.3% versus Dec +1.6%

Despite the uptick in the annual rate (current mth versus a year ago), retail sale growth has slowed since Aug 2018;

Excluding for the impact of motor vehicles as oil/gasoline price changes, the underlying retail sales growth has also slowed since Jul 2018. While there was a larger rebound in Jan, the value of retail sales (ex-autos & gas) in Jan also remains below the Nov 2018 result;



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

Business Inventories (Dec)

In line with the weaker retail environment, distributive trade sales declined in Dec. This was led by declines in retail, merchant wholesalers and manufacturer shipment/sales. Inventories increased across retail and wholesale merchants.

Monthly change in Total Distributive Trade Sales; Dec -1%

Manufacturers; -0.2%

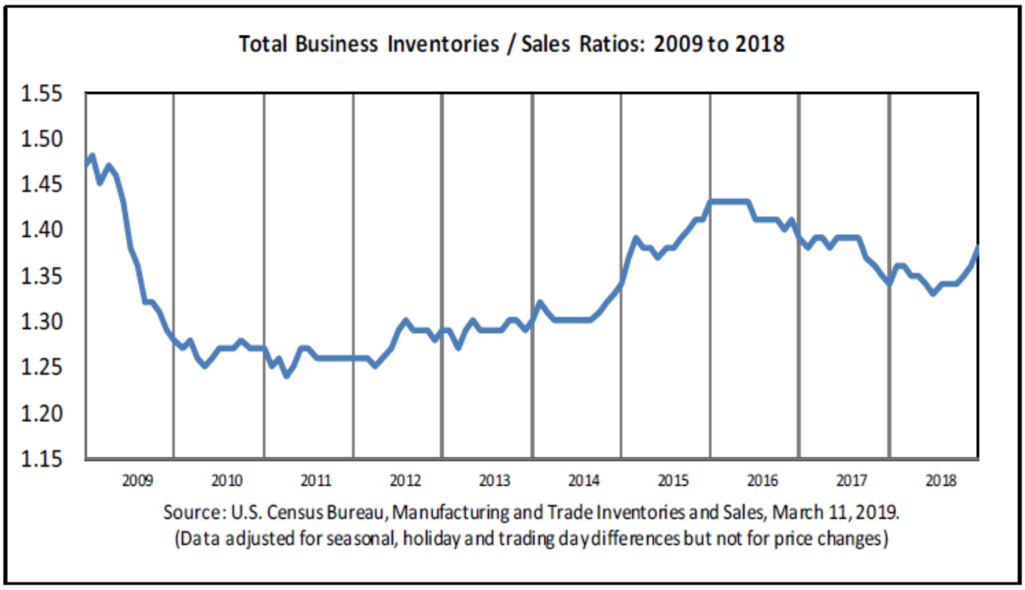
Retailers -1.8%

Merchant wholesalers -1%

Monthly change in Inventories; Dec +0.6%

This was led by a +1.1% increase in inventories for merchant wholesalers and a +0.9% increase for retailers. There was no change in inventories for manufacturers.

The headline inventory to sales ratio increased from 1.36 in Nov to 1.38 in Dec and has been slowly increasing throughout the second half of 2018;



https://www.census.gov/mtis/www/data/pdf/mtis_current.pdf

Uni of Michigan Consumer Sentiment Prelim (Mar)

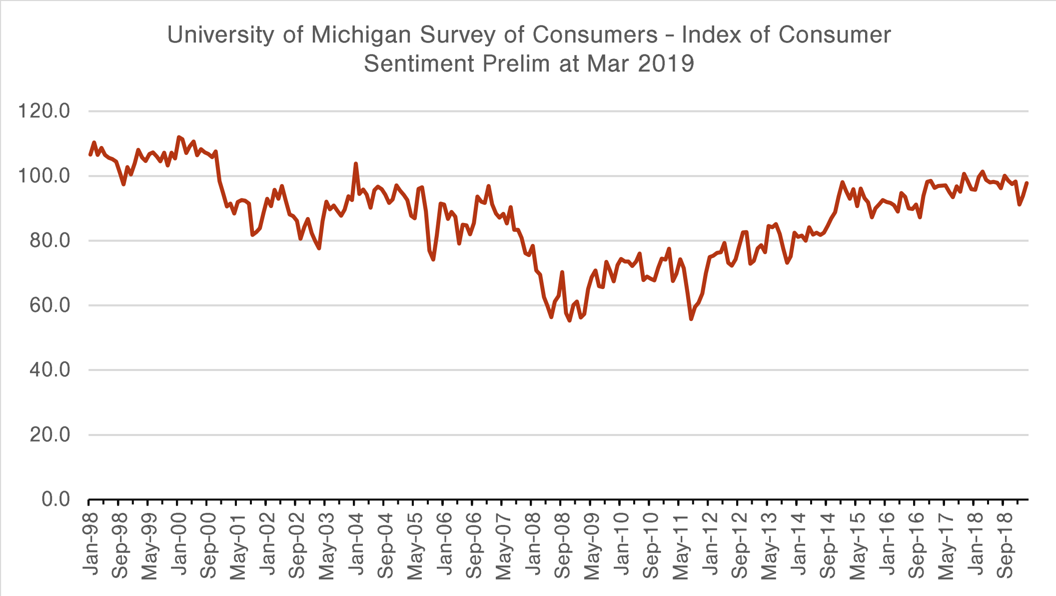
Measures of consumer sentiment improved further in the prelim Mar report. Current sentiment and current economic conditions remain below the same time last year. The expectations index has now retraced the recent fall and is +0.5% ahead of the same time last year.

The shift in sentiment was "due to households with incomes in the bottom two-thirds of the distribution". Even though sentiment fell among households in the top third, that reading remains above the sentiment reading for households in the bottom two-thirds. These readings are consistent with further consumption growth.

Index of Consumer Sentiment

Mar-prelim; 97.8 versus Feb 93.8

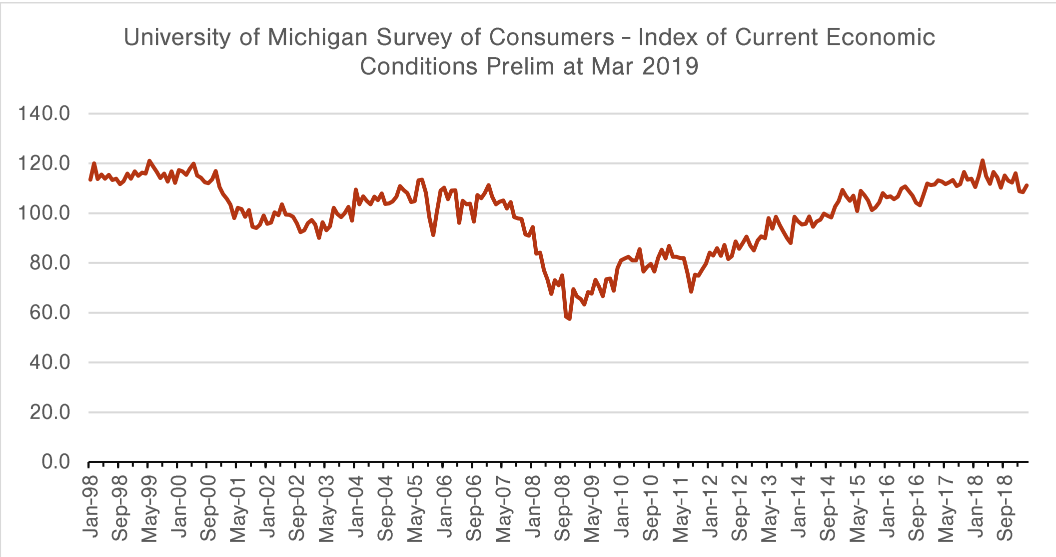
The increase in the reading for the month (prelim) was 1.5 SD's (based on the 12-month average). The current reading of sentiment is now only 3.6% below that of a year ago.



<u>Current Economic Conditions</u>

Mar-prelim; 111.2 versus Feb 108.5

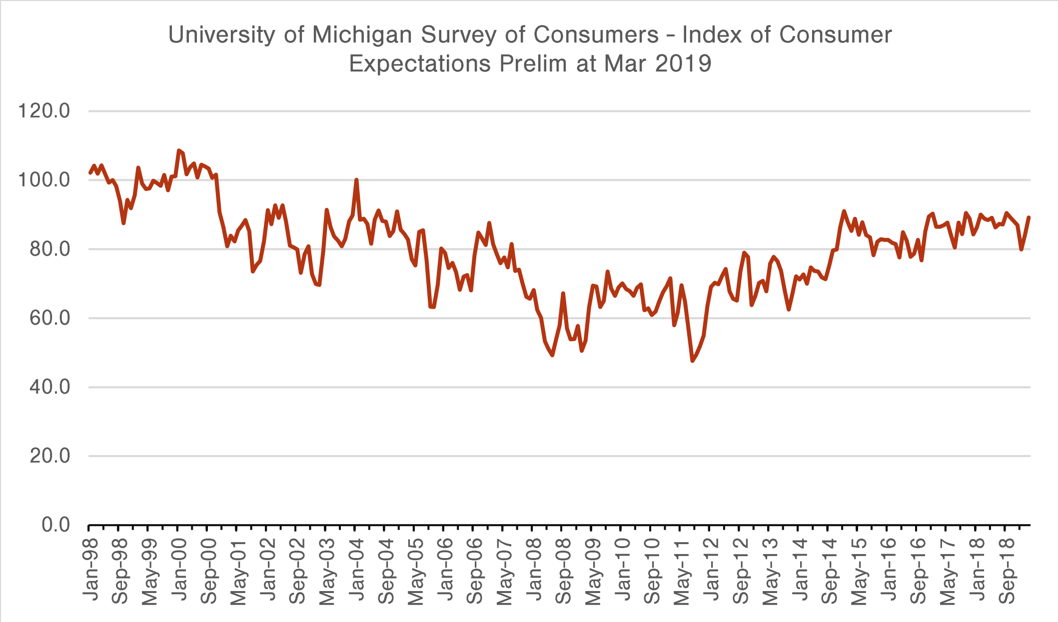
The index remains 8% below that of a year ago.



<u>Index of Consumer Expectations</u>

Mar – prelim; 89.2 versus Feb 84.4

The increase in the month was 1.8 SD's. The expectations index is now +0.5% above the same time last year.



According to the prelim Mar report (emphasis added);

> "…lower income households expressed much more positive assessments. The divergence was due to a monthly jump of one-percentage point in income expectations among middle and lower incomes compared to a change of just one-tenth of a percentage point among those with incomes in the top third. **Rising income expectations were accompanied by lower expected year-ahead inflation rates, resulting in more favorable real income expectations**".

> " Since households with incomes in the top third account for more than half of all consumer expenditures, cautious observers will conclude that the latest data are another indication that the end of the expansion is on the distant horizon. While that may well be true**, the current level of consumer sentiment at 97.8 hardly indicates an emerging downturn**; even among households with incomes in the top third, the Sentiment Index is 98.5, and 97.4 in the bottom two-thirds. The data indicate that real consumption will grow by 2.6% in 2019 and that the expansion will set a new record length by mid-year."

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

JOLTS (Jan)

JOLTS data this month paints a positive picture of the job market. Job openings continue to outperform hires. Separations were higher in the month, led by an increase in quits, although the quit rate remains unchanged.

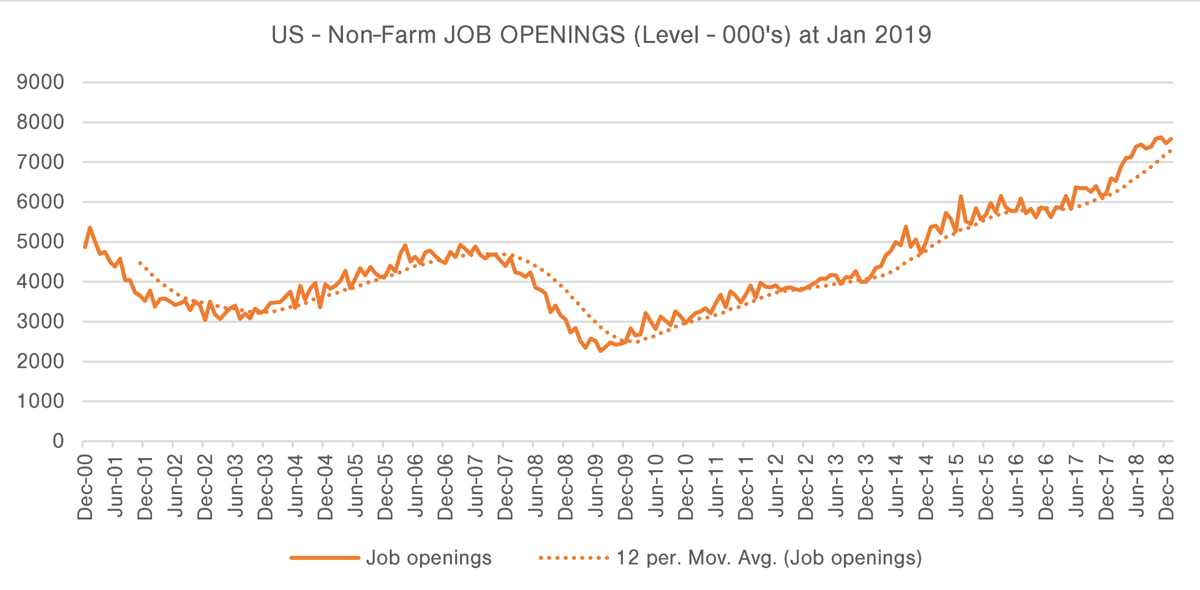
The annual revision has been incorporated into this report; Job openings were revised higher, hires were revised lower, quits were mostly unchanged and layoffs & discharges were revised higher. More; https://www.bls.gov/jlt/revisiontables.htm

Job Openings

Jan 7.6m versus Dec 7.5m

The growth in the number of job openings remains above the 12-month average. The current level of job openings is 15% above the same time a year ago and just below the max reached in Nov 2018.

Job openings rate; Jan 4.8% this is now equal to the max in the job openings rate since the start of 2000.

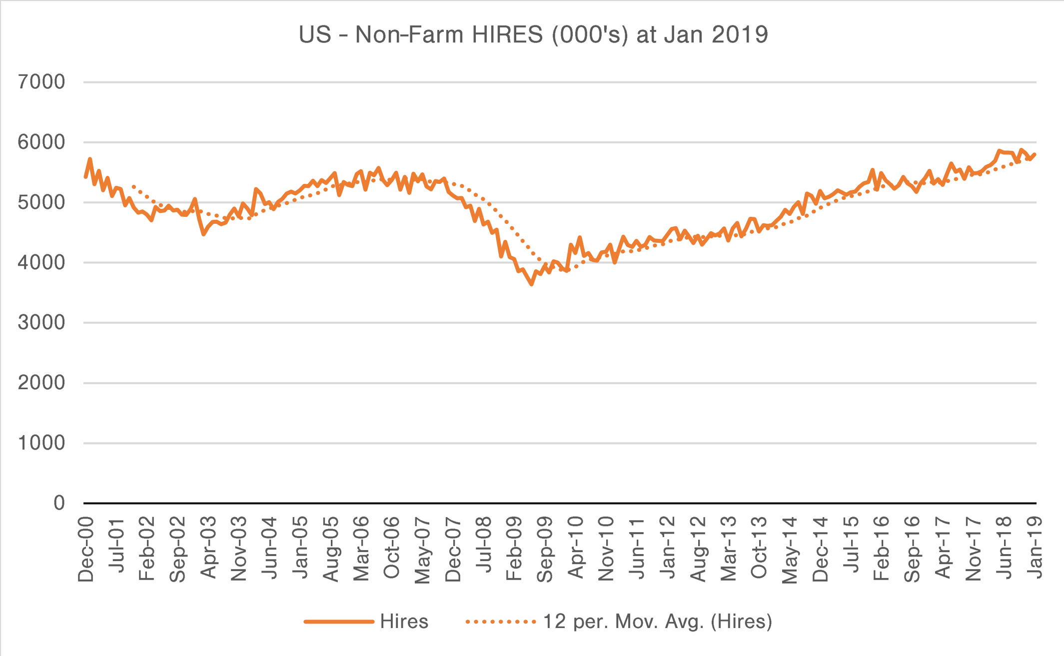


Hires

Jan 5.8m versus Dec 5.7m

The growth in the number of hires is just above the 12-mth average of 5.9m. The annual change versus the same month a year ago is 5%.

The job hire rate increased slightly to 3.9%, well below the max of 4.3% but on par with the 12-month average of 3.9%.



<u>Separations</u>

Jan 5.5m versus Dec 5.5m

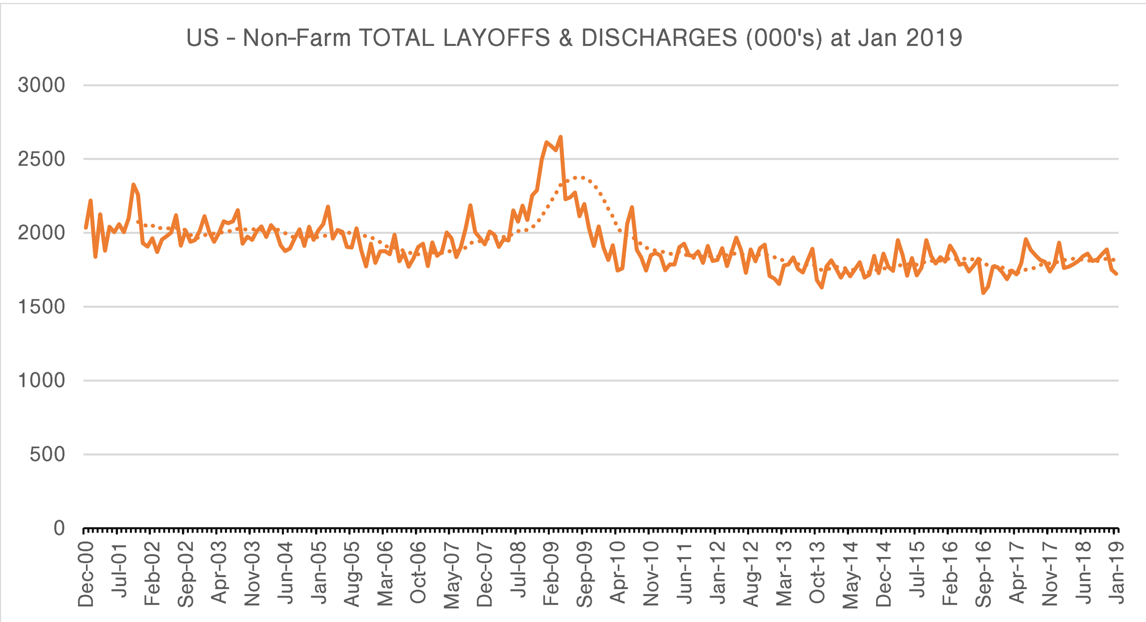
The number of separations is on par with the 12-month average. The annual change versus Jan 2018 was +4.4%.

The separation rate increased slightly to 3.7% with is also on par with the 12-month average.

The change in total separations was the result of a decline in Layoffs and Discharges and an increase in Quits.

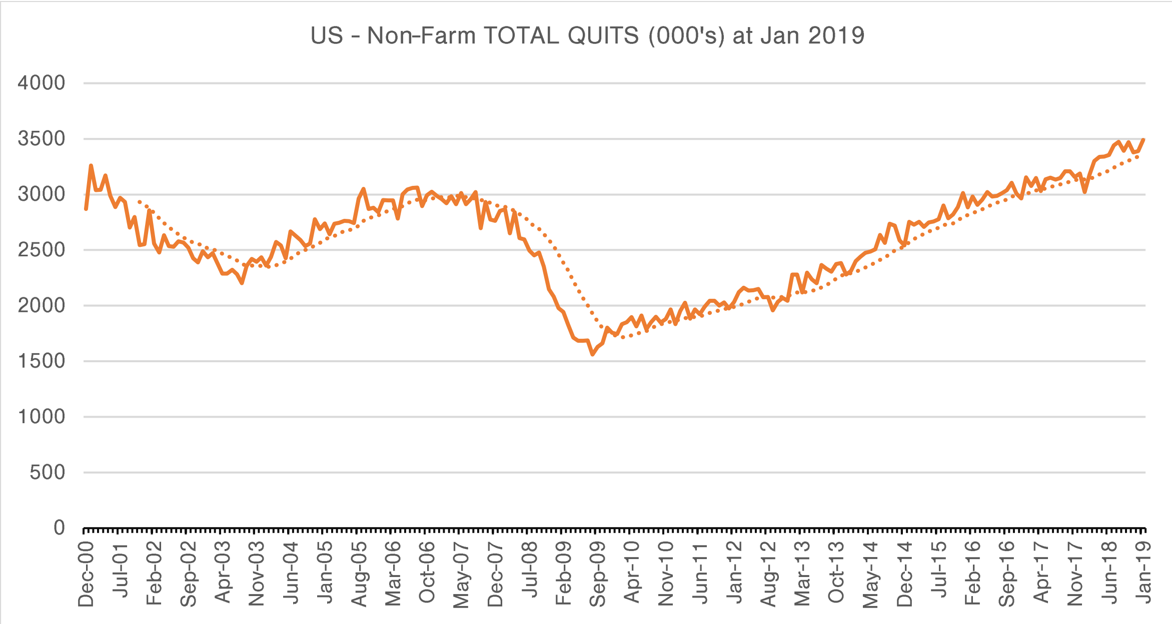
Layoffs and Discharges; Jan 1.72m versus Dec 1.75m.

The number of layoffs and discharges is running at below the 12-month average;



Quits; Jan 3.5m versus Dec 3.39m

The level of quits in Jan reached an all-time high (since 2000) in Jan but the current quit rate of 2.3% (unchanged versus Dec) remains just below the all-time high of 2.5%.



https://www.bls.gov/jlt/

CPI (Feb)

The headline CPI grew at a faster pace in Jan but continued to slow on an annual basis due to falls in energy prices. Excluding foods and energy, the muted price growth for commodities (ex food and energy commodities) is helping to offset the higher price growth from services.

Headline CPI annual % chg; Feb +1.5% versus Jan +1.6%

Energy prices continued to have a negative effect on the headline annual growth, accounting for -24% of the change in the CPI (and accounts for approx. 7% of the index weight). Or, detracted -0.363% pts.

Approx 17% of the increase in the CPI index was due to Food price growth – which is mostly on par with the weight in the index (approx. 13%). Or, adding +0.263% pts.

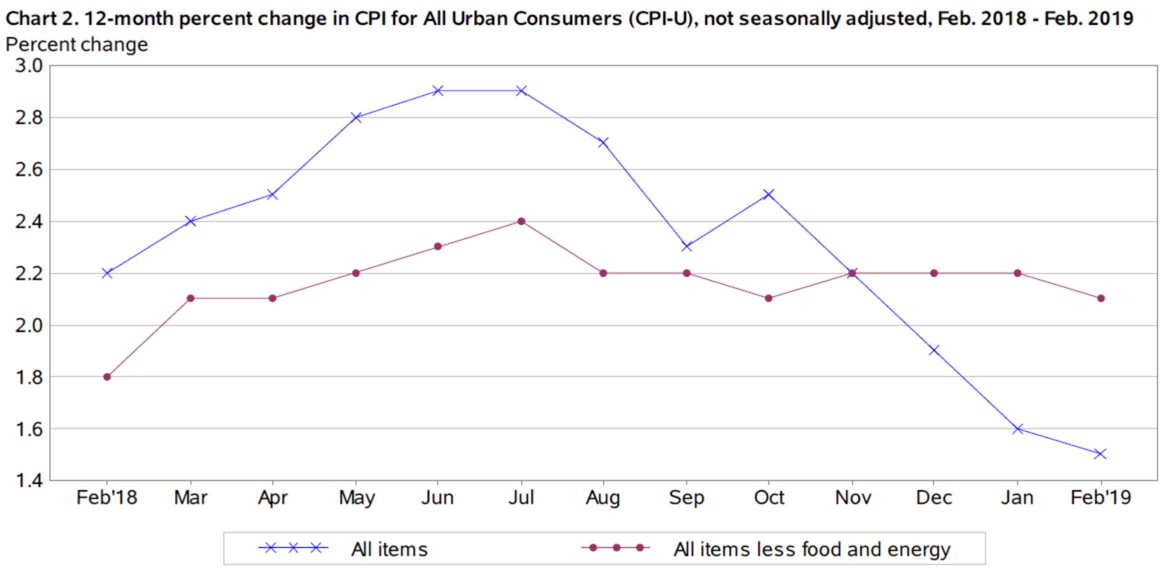
All items less food and energy ann % chg; Feb +2.1%

This group made the largest contribution to the headline rate of growth adding 1.656% pts. This remaining part of the index represents approx 80% of the index weight. This is made up of two areas – commodities less food and energy commodities and services less energy services.

It is Services less energy services that is contributing mostly to growth in the CPI – which also accounts for approx. 60% of the weight of the CPI. Services contributed +1.639% pts to the headline CPI growth (more than 100% of the change in the index).

Services CPI grew at an annual pace of +2.7% in Feb, well above the headline and core rate of growth for the year. Within services, it is the prices for shelter that continues to growth at a higher rate of +3.4%.

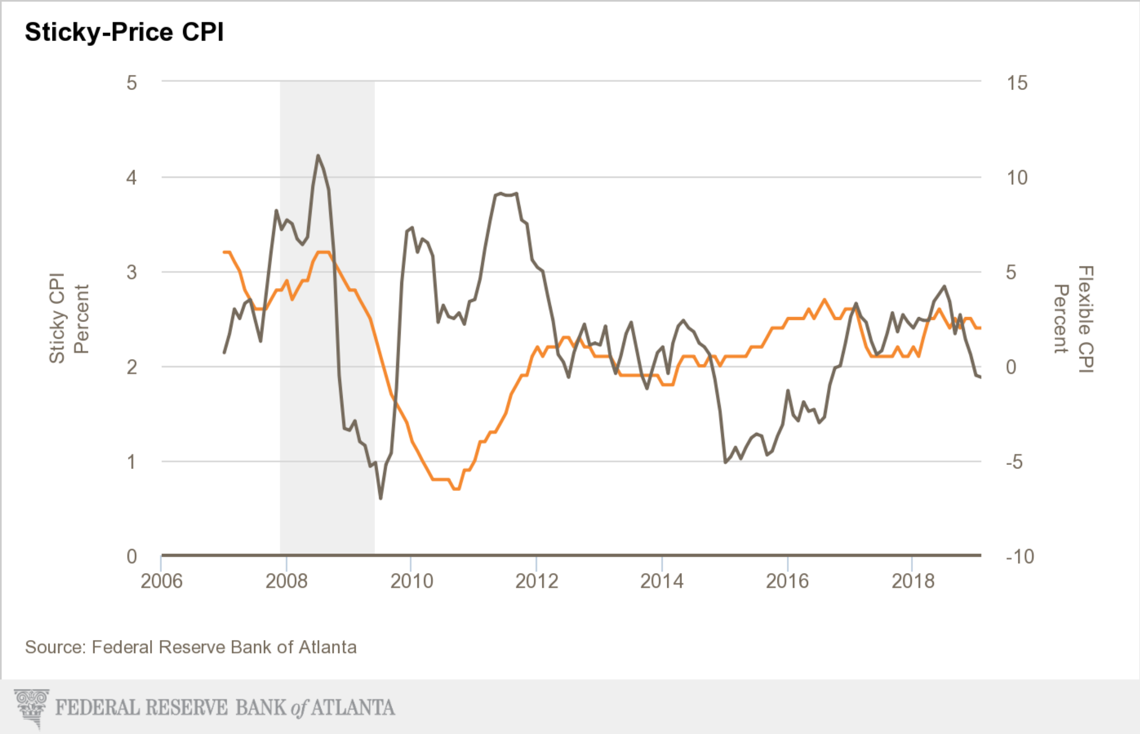
The other group – commodities less food and energy commodities accounts for nearly 20% of the index and contributed a much smaller +0.027% pts to headline growth. The annual rate of growth in Feb was +0.1%. This is helping to offset the higher price growth pressure from services.



CPI - Sticky Prices

The Atlanta Fed produces a series on sticky versus non-sticky prices which can add another layer to the view of CPI;

> "We find that sticky prices appear to incorporate expectations about future inflation to a greater degree than prices that change on a frequent basis, while flexible prices respond more powerfully to economic conditions— economic slack. Importantly, our sticky-price measure seems to contain a component of inflation expectations, and that component may be useful when trying to gauge where inflation is heading." https://www.frbatlanta.org/-/media/documents/research/inflationproject/stickyprice/sticky-price-cpi-supplemental-reading.pdf



In Feb, the annual change in the non-sticky/flexible CPI remained low; Feb -0.6% versus Jan -0.5%. The price growth of items in this group has slowed since reaching a peak of +4.2% in Jul 2018. What does this mean? According to Atlanta Fed Research, the changes in flexible prices are more sensitive to economic conditions and changes in the business cycle. Falling/slowing price growth may reflect some level of economic slack developing. **So far, the slow-down in flexible price growth has not been to the same degree as previous/recent periods of weakness – such as in 2014-5.**

Sticky prices reflect more embedded inflation expectations. The current annual growth rate for the sticky prices CPI remained unchanged in Feb at +2.4% (Jan +2.4%). Late in 2017, sticky prices were growing at an annual rate of +2.1% and reached a peak of +2.6% in June 2018. The annual change in sticky prices hasn't slowed much since then.

Bringing the two together is interesting. The flexible price CPI is likely reflecting a relatively small degree of slow-down in the business cycle (mostly reflected by lower oil prices?) while the sticky price CPI growth remains somewhat elevated suggesting that future inflation expectations haven't shifted materially lower.

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

https://www.frbatlanta.org/research/inflationproject/stickyprice.aspx?d=1&s=email&utm_source=Atlanta+Fed+E-mail+Subscriptions&utm_campaign=8930269653-inflation-project-sticky-price-cpi-2019-03-12&utm_medium=email&utm_term=0_b7a27f0b85-8930269653-258837149

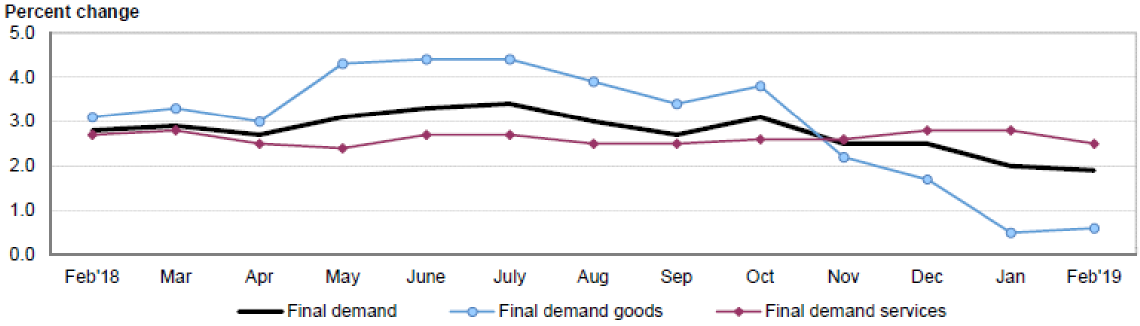
PPI (Feb)

The PPI for final demand increased at a slightly faster rate in Feb, led by faster growth in goods prices (mostly energy) while services price growth slowed to zero in the month. The annual change in producer prices (final demand) was only slightly lower in Feb.

Headline PPI - Final Demand

Feb +1.9% versus Jan +2%

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



In the month, PPI for final demand increased by +0.1%.

Goods prices increased by +0.4% after declining by -0.8% in Jan. Food prices declined at a slower rate while energy prices increased +1.8%;

> Forty percent of the increase in the index for final demand goods is attributable to a 3.3 percent rise in gasoline prices. The indexes for diesel fuel, jet fuel, integrated microcircuits, residual fuels, and beef and veal also moved higher. In contrast, prices for fresh and dry vegetables declined 12.8 percent. The indexes for iron and steel scrap and for residential natural gas also decreased.

Services prices grew by 0% in Feb, trade and transport prices declined and were offset by an increase in other service prices.

> In February, prices for traveller accommodation services rose 5.3 percent. The indexes for machinery, equipment, parts, and supplies wholesaling; food retailing; portfolio management; and legal services also moved higher. Conversely, margins for fuels and lubricants retailing fell 10.5 percent. The indexes for apparel, jewellery, footwear, and accessories retailing; airline passenger services; health, beauty, and optical goods retailing; and non-residential real estate services also declined.

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

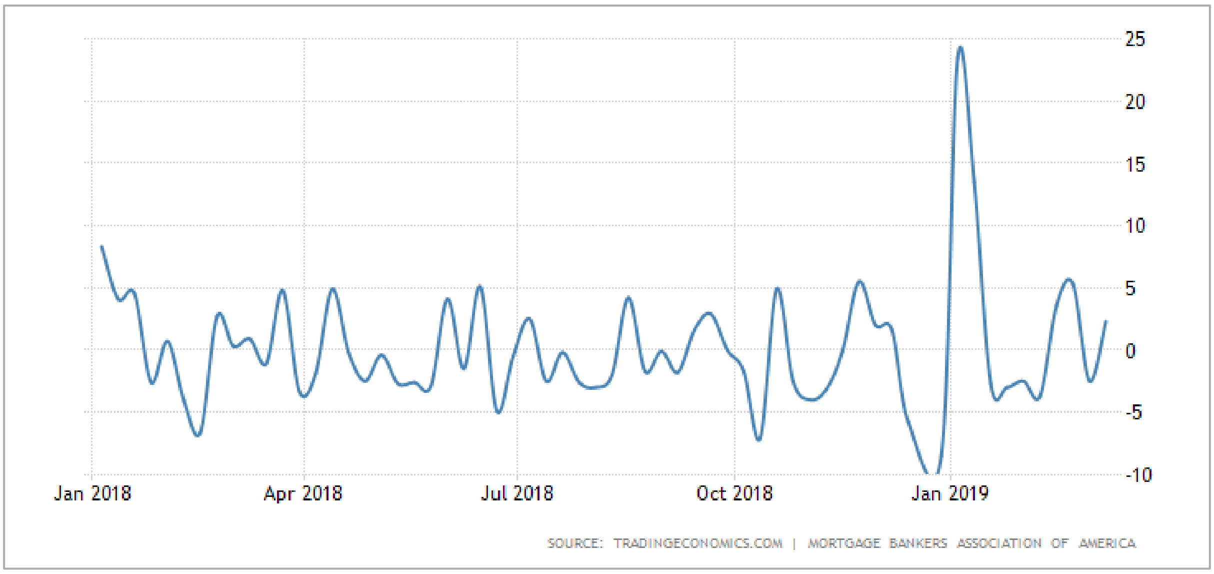
Mortgage applications wk to 8 Mar

Mortgage applications increased 2.3% from a week ago

The Market Composite Index; +2.3% (seas adj)

The Purchase Index; +4% versus a week ago and +2% higher than the same week a year ago.

The growth in applications appears to be trending somewhat higher so far in 2019;



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

https://tradingeconomics.com/united-states/mortgage-applications

New Home Sales (Jan)

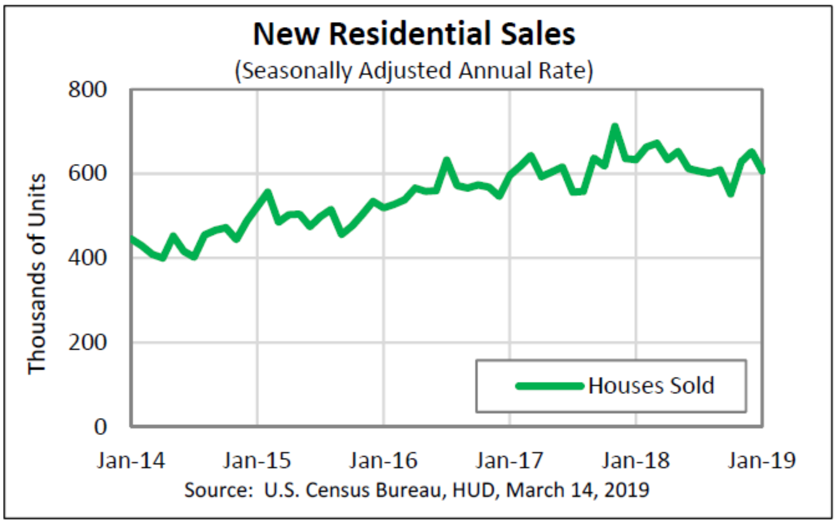
New home sales recorded a -6.9% decline in Jan. But again, the results are inconclusive with a wide confidence interval that includes zero – sales could have increased or, the could have decreased.

Total US New Home Sales

Jan 607k annual rate versus Dec 652k annual rate

-6.9% +/- 16.3%pts

The annual rate yields a similar result; Jan versus Jan 2018 -4.1% +/- 14%pts.



Regional Results

There is only one region where the result was more robust and that was in the Midwest – which represented only a small proportion (8%) of total new home sales in Jan.

Jan -28.6% (+/- 21.6% - so new home sales most likely declined versus Dec)

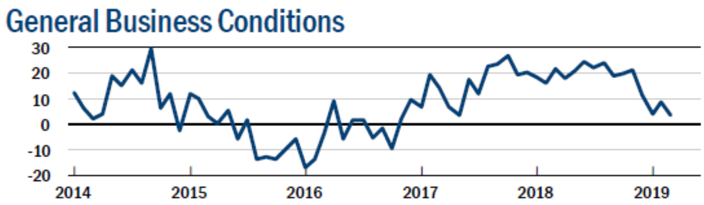
Annual change at Jan -41.9% (+/- 19.7%)

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

Empire State Manufacturing Survey (Mar)

One of the first readings of regional manufacturing activity in Mar shows that growth continued to slow. Overall activity is growing at a slower pace compared to most of 2018;

Headline Index; Mar 3.7 versus Feb 8.8



	Percent Reporting Higher	Percent Reporting Lower	Index
Feb	31.5	22.7	8.8
Mar	29.1	25.4	3.7
Change			-5.1

The slow-down was the result of slower growth in key measures of demand – new orders and shipments. Unfilled orders have increased slightly. Inventory growth is muted.

Prices paid increased at a faster pace, while prices received grew at a slower pace.

The number of employees grew at faster pace while the growth in the average workweek fell into contraction.

Forward indicators of business expectations in six-months remain elevated.

https://www.newyorkfed.org/medialibrary/media/survey/empire/empire2019/esms_2019_03_survey.pdf?la=en

Advance Durable Goods Manufacturer Shipments & New Orders (Jan)

In Jan, durable goods shipments declined – led by lower defense shipments. The more forward indicator of activity, new orders, increased, but at a slightly slower pace than in the month prior.

The annual change in shipments and new orders highlights that growth has slowed/is no longer accelerating. That slow-down is more pronounced when transport is excluded.

Shipments;

Total shipments: Jan -0.5% versus Dec +0.7%

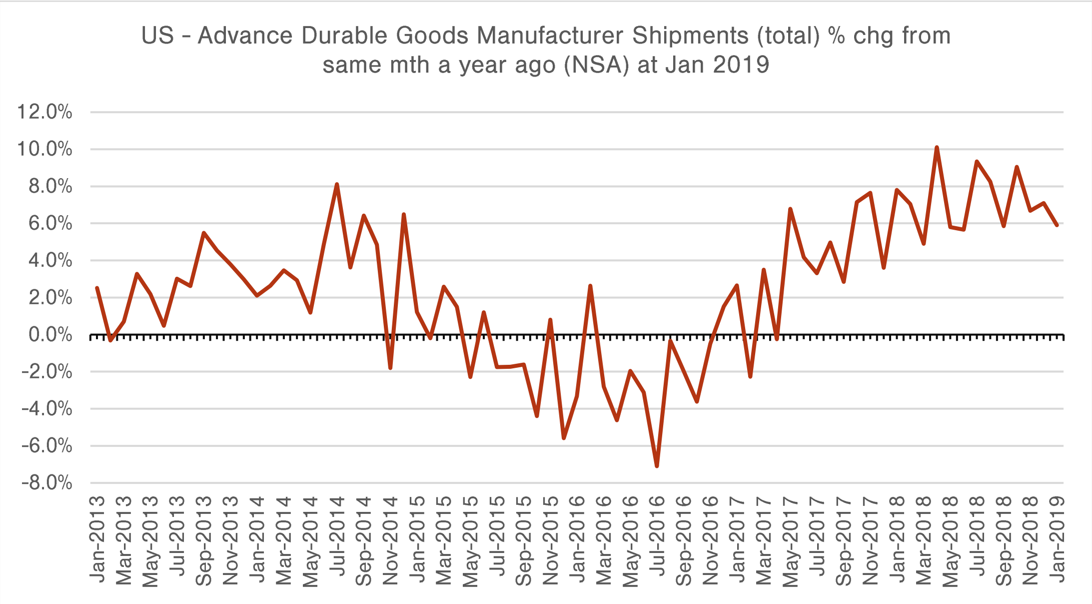
Shipments excluding transportation; Jan 0% versus Dec +0.2%

The decline in total shipments for Jan was partly the result of lower shipments for non-defense aircraft and parts, which declined by $1.52bn or -10.2% versus the month prior. Shipments for non-defense aircraft remains +7.8% ahead of the same time in the year prior.

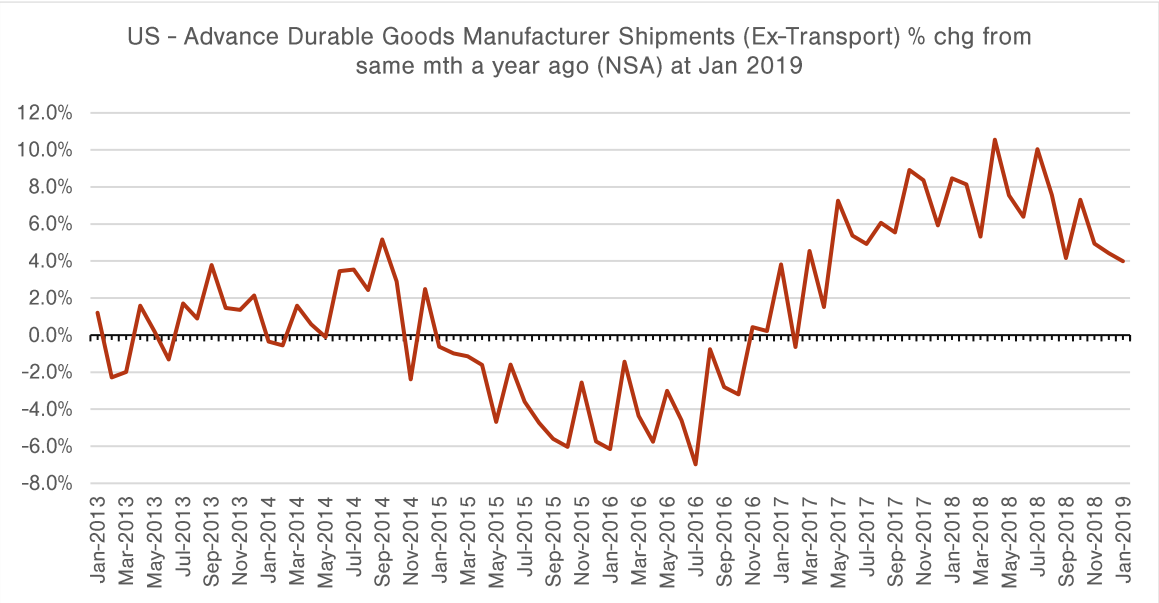
Shipments excluding defense was slightly more negative; Jan -0.8% versus Dec +0.5%.

Shipments of primary metals, motor vehicles and parts and other durable goods also declined versus the month prior.

On an annual basis, total shipments are growing at +6% down slightly from Dec +7%. The annual growth highlights that overall shipments are growing but **that growth has not been accelerating through 2018 as in late 2016/17**;



Excluding transportation, the growth slow-down is more pronounced since mid-2018;

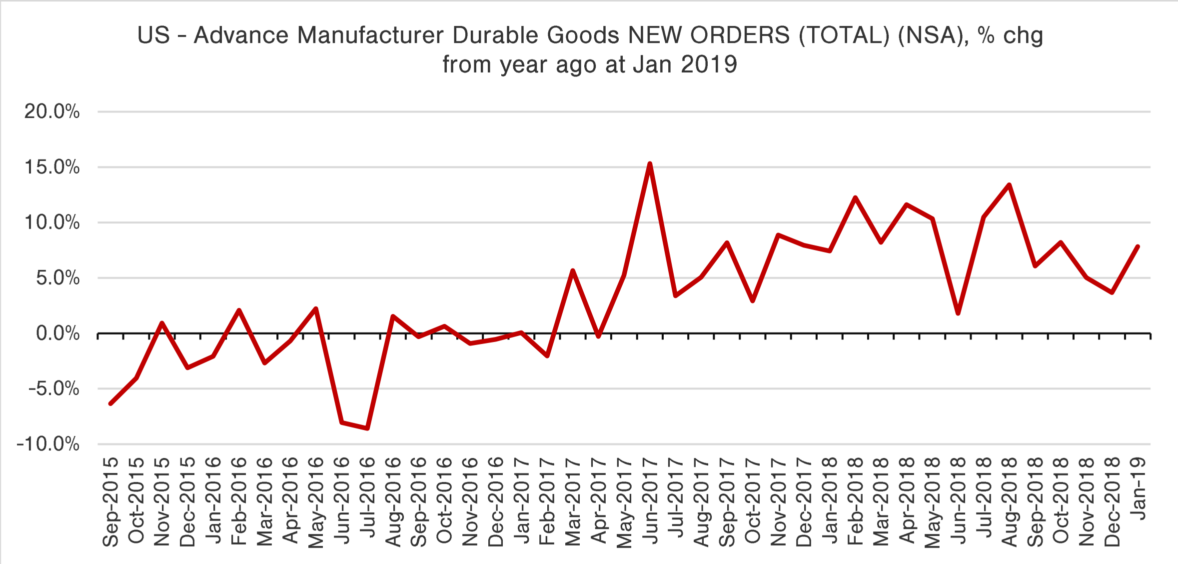


New Orders

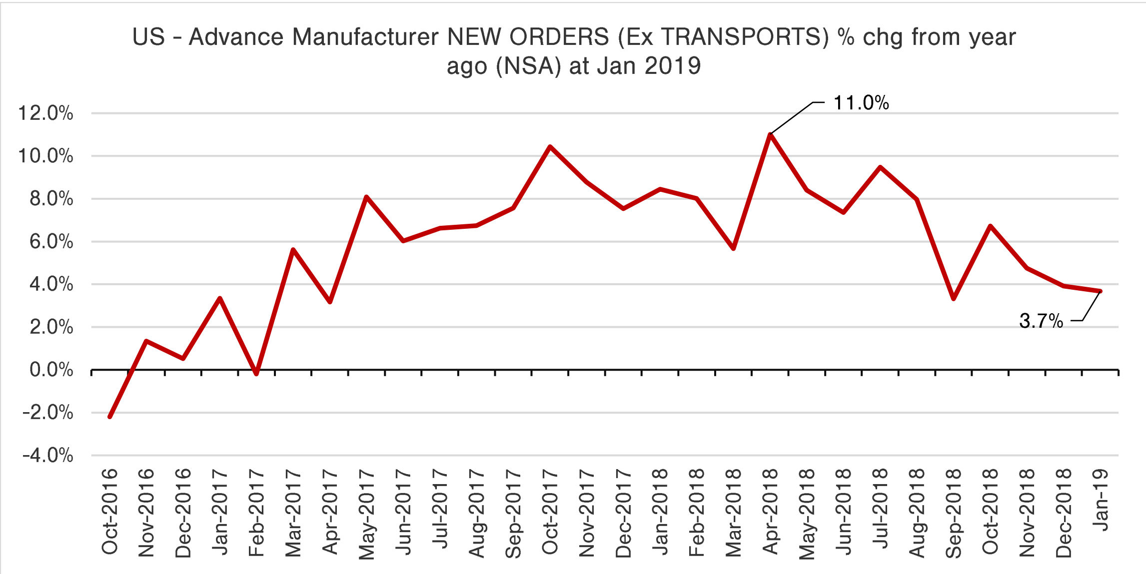
Jan +0.4% versus Dec +1.3%

New orders excluding transportation; Jan -0.1% versus Dec +0.3%. New orders for transportation made a larger contribution to growth in the latest month.

On a non-seasonally adjusted basis, the annual growth in total new orders accelerated; Jan +7.8% versus Dec +3.7%;



The picture is slightly different when excluding transports. The growth in new orders excluding transports has been slowing since a similar time last year (Apr 2018).



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

Industrial Production G.17 (Feb)

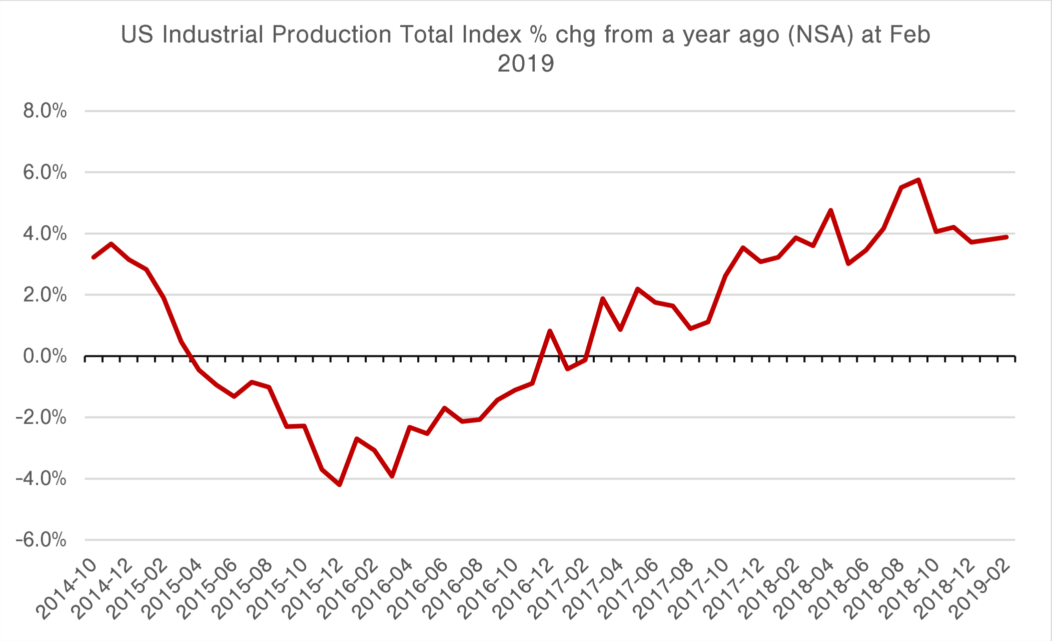
US Industrial production growth remained low in the latest month. Production in manufacturing declined for the second month while growth in production in mining remained constant and production in utilities grew at a faster pace.

While manufacturing production has slowed for several months, manufacturing capacity utilization is only just starting to reflect this slower growth - something to watch especially for the impact on employment growth.

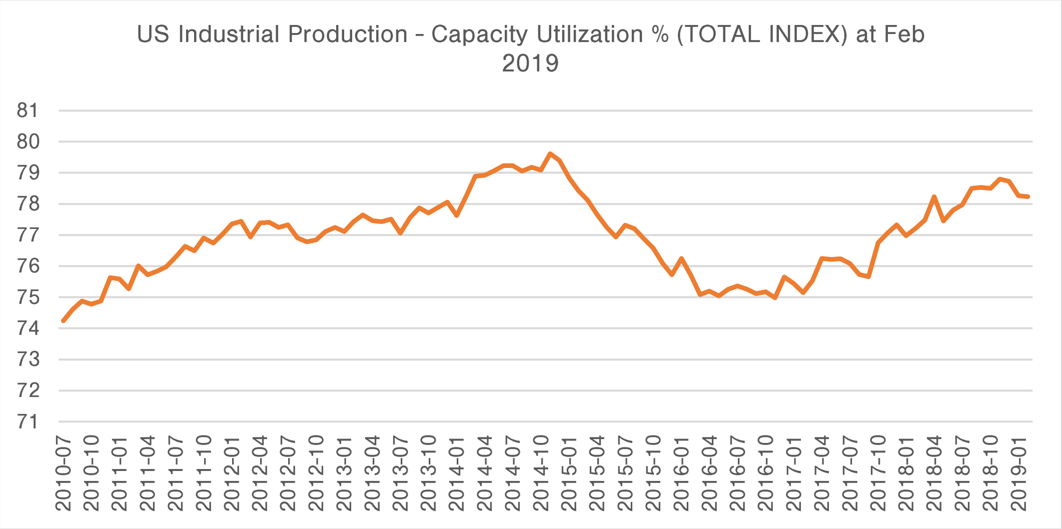
<u>Total Industrial Production</u>

Feb +0.1% versus Jan -0.4%

Annual % chg (NSA); +3.9%



Overall capacity utilization for total industry was unchanged in Feb and remains below the recent peak in late 2014;



<u>Manufacturing</u>

Feb -0.4% versus Jan -0.5% (revised higher from -0.9% originally reported)

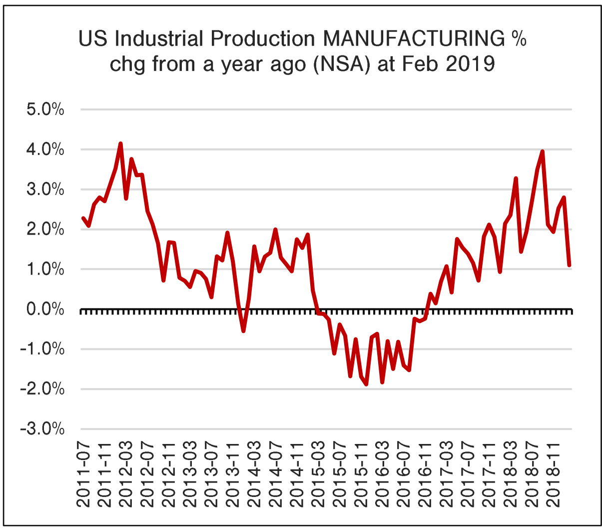
Annual % chg (NSA); +1%

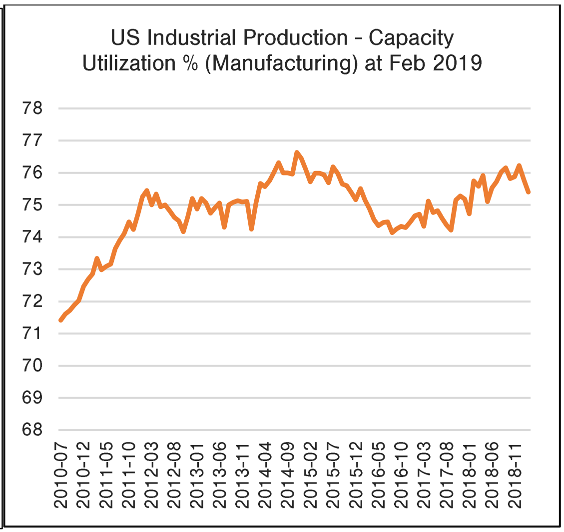
The decline in Feb was the result of further declines in manufacturing production in durable goods manufacturing (-0.1% in Feb versus -1.2% in Jan); non-metallic mineral products, fabricated metal, machinery, electrical equipment, appliance and components, motor vehicles & parts (although not to the same degree) and furniture and related.

Non-durable goods manufacturing also declined; Feb -0.7% versus Jan +0.3%. Of note is the fall in apparel and leather goods (utilization has also fallen sharply), printing, a large decline in petroleum and coal products (-5.2% in the month), chemicals and plastics and rubber.

Manufacturing capacity utilization; Feb -0.5% versus Jan -0.6%

Annual change in utilization at Feb; -0.4% versus Feb 2018. Capacity utilization in manufacturing is approx. 3% pts below its long-run average.





The slow-down in manufacturing production growth is starting to show up in lower manufacturing capacity utilization.

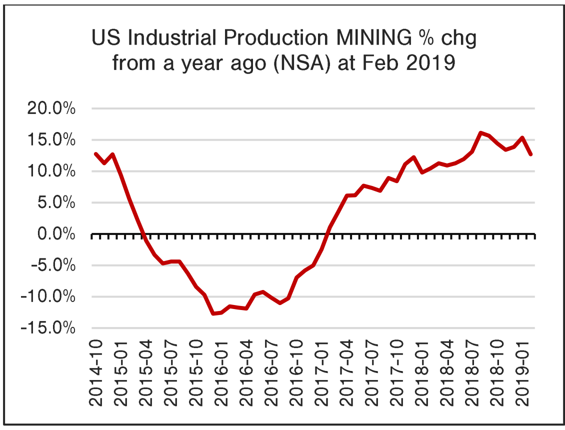
Manufacturing production was at a slightly higher level of growth back in 2014 when utilization peaked then started to fall.

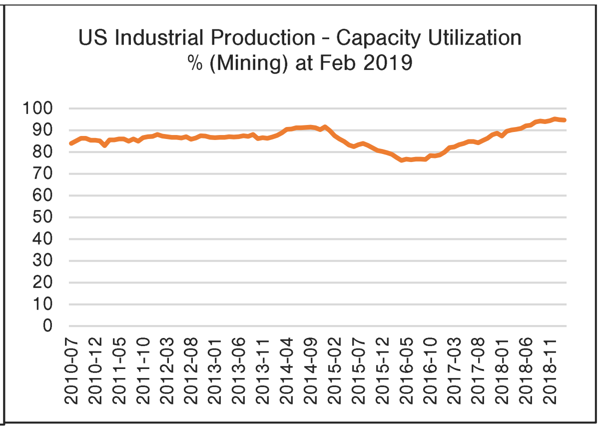
<u>Mining</u>

Feb +0.3% versus Jan +0.3%

Annual chg (NSA); +12.7%

Capacity utilization fell in the latest month but remains elevated overall; Feb -0.3% versus Jan -0.3%. Versus a year ago, capacity utilization has grown by +5.7%. Capacity utilization remains above its long-run average.



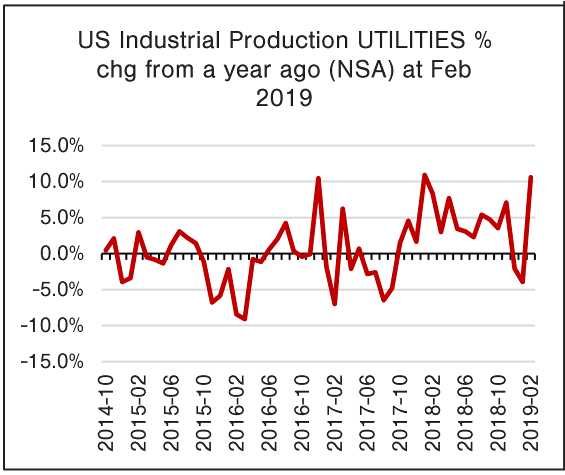


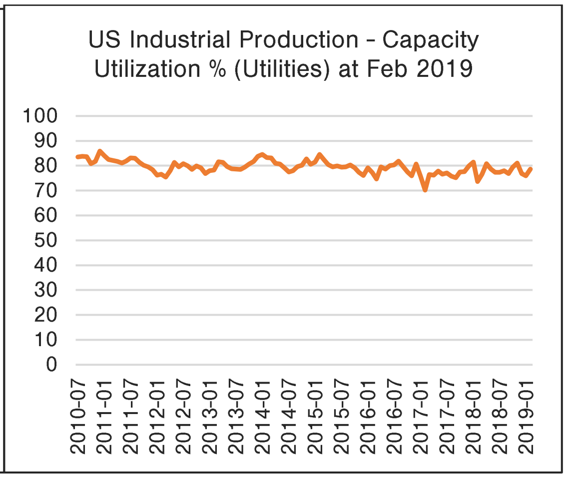
Utilities

Feb +3.7% versus Jan -0.9%

Annual chg (NSA); +10.6%

Capacity utilization grew by +3.5% in the latest month after declining by -1.3% in Jan. Overall utilization is +6.8% ahead of last year but is almost 7% pts below its long-run average.





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

US Fed Speeches;

US Fed Chairman Powell (videotaped) welcoming remarks at the National Community Reinvestment Coalition's Just Economy Conference in Washington, D.C.

Fed Reserve Member of the Board of Governors Lael Brainard - speech about "Community Reinvestment Act Modernization" at the National Community Reinvestment Coalition's Just Economy Conference in Washington, D.C, with audience Q&A.

Return to top

Europe

Germany Industrial Production (Jan)

Industrial production in Germany fell again in Jan and remains below the levels recorded a year ago. As with new orders, the fall in Dec was revised higher. In Jan, production of intermediate goods and capital goods contributed mostly to the overall decline. But production remains below last year across of the larger industry groups.

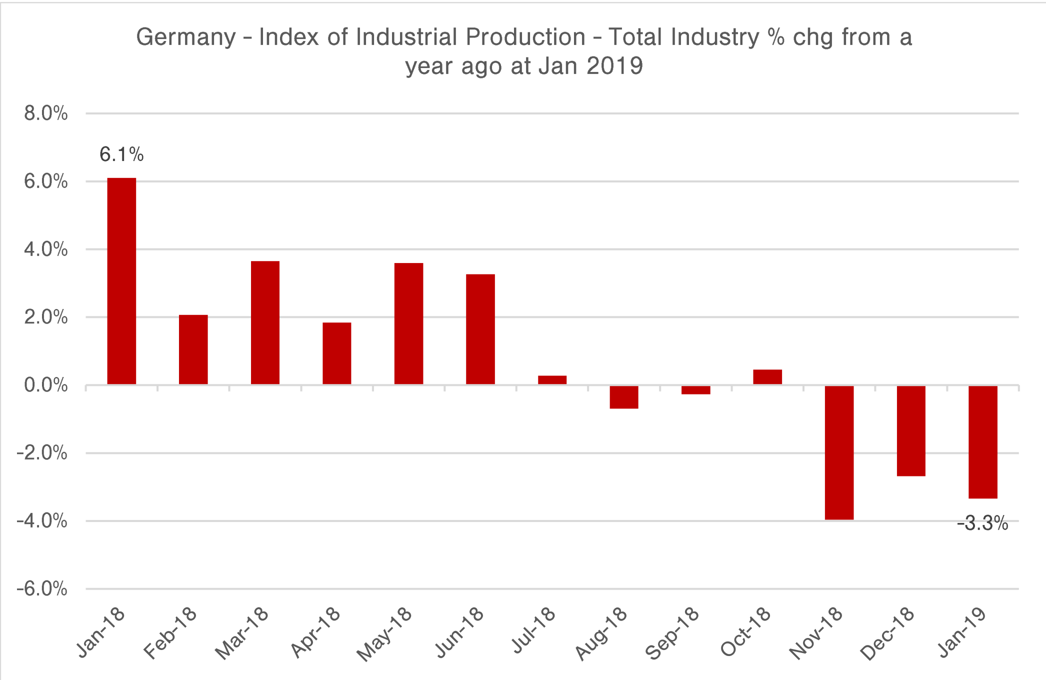
Total Industrial Production

Jan -0.8% versus Dec +0.8% (Dec revised higher from -0.4% originally reported)

On an annual (same month year ago) basis, total industrial production declined;

Jan -3.3% versus Dec -2.7% (Dec revised higher from -3.9% originally reported)

Despite the positive monthly revisions, growth in German industrial production has slowed considerably from the same time a year ago and started to decline by a greater rate since Nov;



The actual index of industrial production peaked back in May 2018 and the production index is -4.2% below that level in Jan 2019.

Industries

The decline in the latest month was the result of further declines across intermediate and capital goods.

Intermediate goods; Jan -0.7% versus Dec +0.5%. On an annual basis -2.8%

The production of intermediate goods has declined in nine out of the last twelve months. The index of production peaked over a year ago in Dec 2017 and is currently -4.5% below that level.

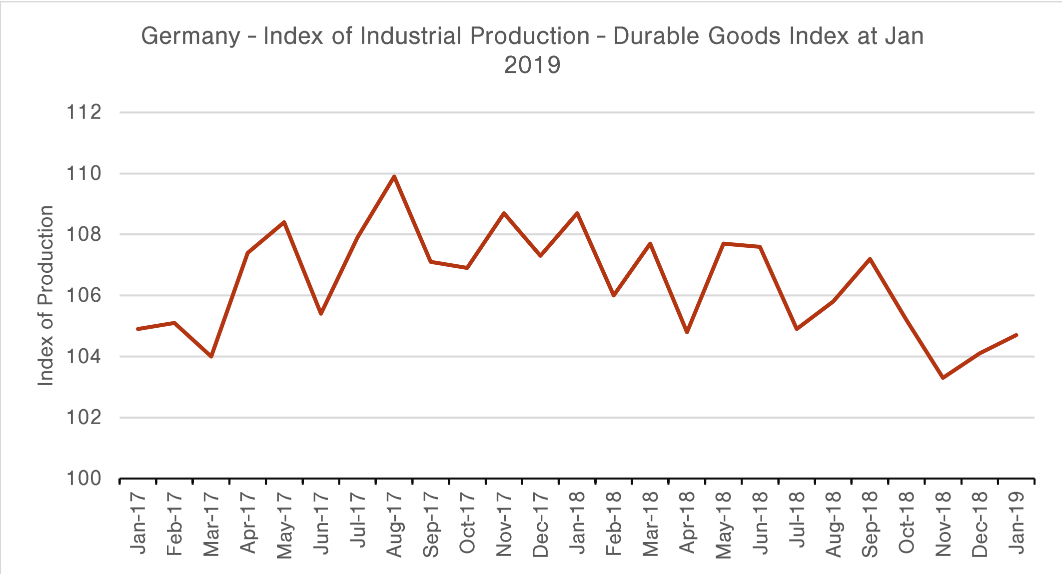
Capital goods; Jan -2.5% versus Dec +1.8%. On an annual basis -4.5%.

The index of production of capital goods peaked back in Nov 2017 and is -5.6% below that level as of Jan 2019.

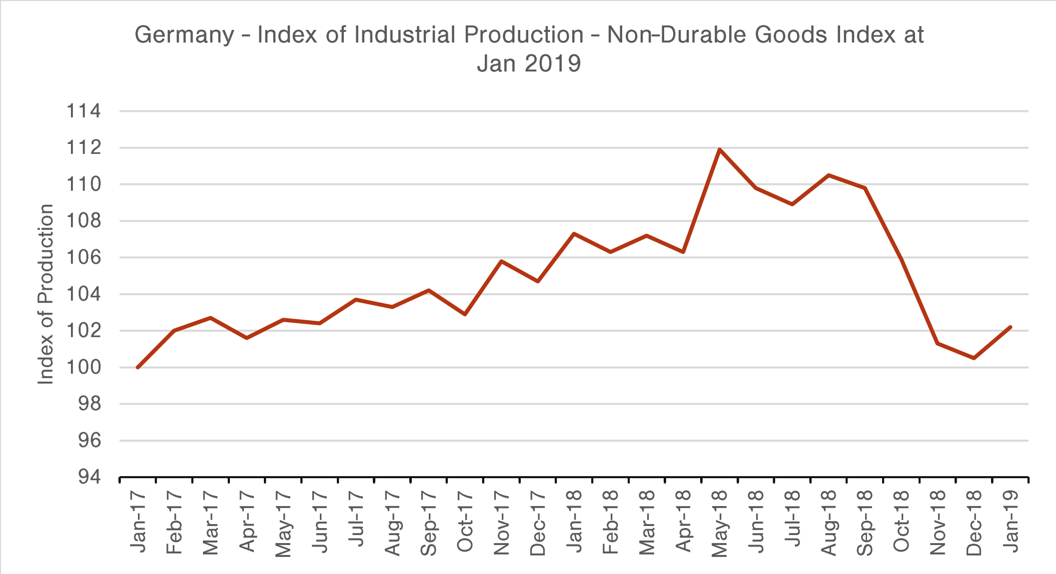
Other groups – durable goods, non-durable goods and consumer goods all grew in the latest month, but production remains below the same time a year ago;

Durable goods; Jan +0.6% versus Dec +0.8%. Annual % chg -3.5%.

The index of production of durable goods peaked in Aug 2017 and the current level of production remains 4.7% below that level – in other words, production of durable goods has been weaker over a longer period of time;



Non-durable goods; Jan +1.7% versus Dec -0.8%. Annual % chg -4.6%. The stronger result in Jan comes after consistent falls throughout the last half of 2018. The index of production for non-durable goods peaked in May 2018 and is currently -8.6% below that level;



Consumer goods; Jan +1.5% versus Dec -0.5%. Annual % chg -4.4%. The change in production for consumer goods follows a similar trend to non-durable goods. Production reached a new low in Dec and has rebounded in Jan but remains -7.7% below the peak reached in May 2018;

https://www.destatis.de/EN/PressServices/Press/pr/2019/03/PE19_086_421.html

German Trade Balance (Jan)

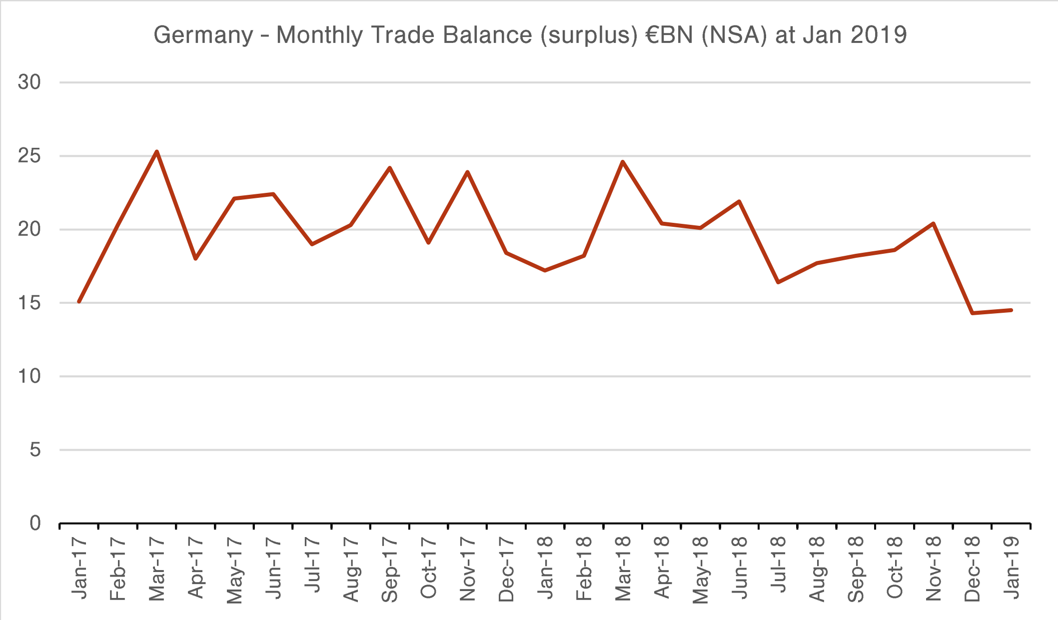
The German trade balance remained lower in Jan (versus the same time a year ago NSA basis). Exports grew at a slower pace than imports versus a year ago and also versus the month prior.

Export (and import) growth outperformed in non-EU member states ("third countries").

All values in €.

Trade Balance

Annual comparison (NSA); Jan 14.5bn versus Jan 2018 17.2bn



Monthly comparison (Seas adj); Jan 18.5bn versus Dec 19.9bn.

The lower trade surplus was the result of exports growing slower than imports.

Exports

Month % chg (Seas adj); Jan +0% versus Dec

Annual % chg (NSA); Jan +1.7% versus Jan 2018. In Jan 2018, exports grew by +8.4%.

Exports to EU Member States +0.6% versus a year ago (Eurozone countries +1% and non-Eurozone countries 0%.

Exports to Third Countries +3.3%

The value of exports to Third Countries and Eurozone Countries is approx. equal and both groups represent the bulk of exports.

Imports

Month % chg (Seas adj); Jan +1.5% versus Dec

Annual % chg (NSA); Jan +5% versus Jan 2018. In Jan 2018, imports grew by +7.4%.

Similar to exports, the growth of imports from Third Countries outperformed total import growth.

Imports from EU Member States; +3.7% (Eurozone countries +4.7% and Non-Eurozone Countries +2%)

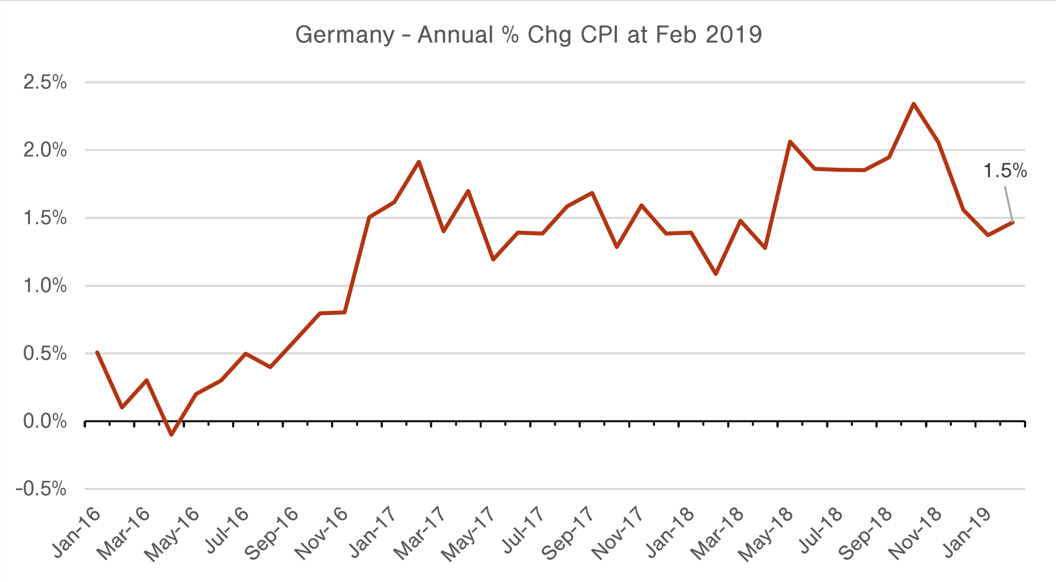
Imports from Third Countries; +6.5%

https://www.destatis.de/EN/PressServices/Press/pr/2019/03/PE19_088_51.html

German CPI (Feb)

Germany headline CPI grew at a slightly faster pace in Feb. Contributing to the increase in price growth were Energy and Non-Durable Consumer Goods prices. Services prices grew at a slightly lower rate than the headline CPI.

Annual CPI; Feb +1.5% versus Jan 1.4%



Higher growth in Goods prices (especially Non-durable due to the higher weighting) contributed to the uptick in annual CPI in Feb;

Energy; Feb +2.9% (higher household energy prices +4.3%, while Motor Fuel Prices grew by +0.1% versus a year ago). Excluding Energy, the annual growth in CPI for Feb was +1.4%.

Non-Durable Consumer Goods; Feb +2.1%

Services; +1.4%

https://www.destatis.de/EN/PressServices/Press/pr/2019/03/PE19_095_611.html

Eurozone Industrial Production (Jan)

Growth in Industrial Production across the Eurozone rebounded in Jan. Total production remains below a year ago.

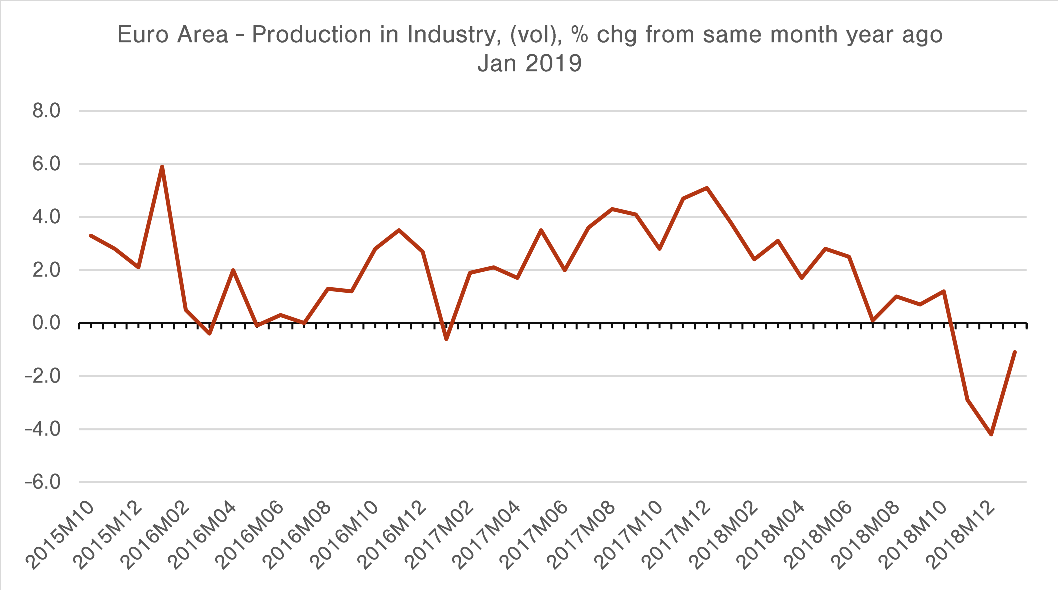
Euro-Area

Month chg; Jan +1.4% versus Dec -0.9%

Growth in the month rebounded across most areas – Energy, Capital Goods and Non-Durable Consumer Goods.

Growth in production remained unchanged for Intermediate Goods, while Consumer Durable Goods increased at a faster rate.

On a year ago basis, industrial production declined at a slower rate; Jan -1.1% versus Dec - 4.2%.



Industrial production in the Euro-Area remains 2.5% below the peak reached in Dec 2017.

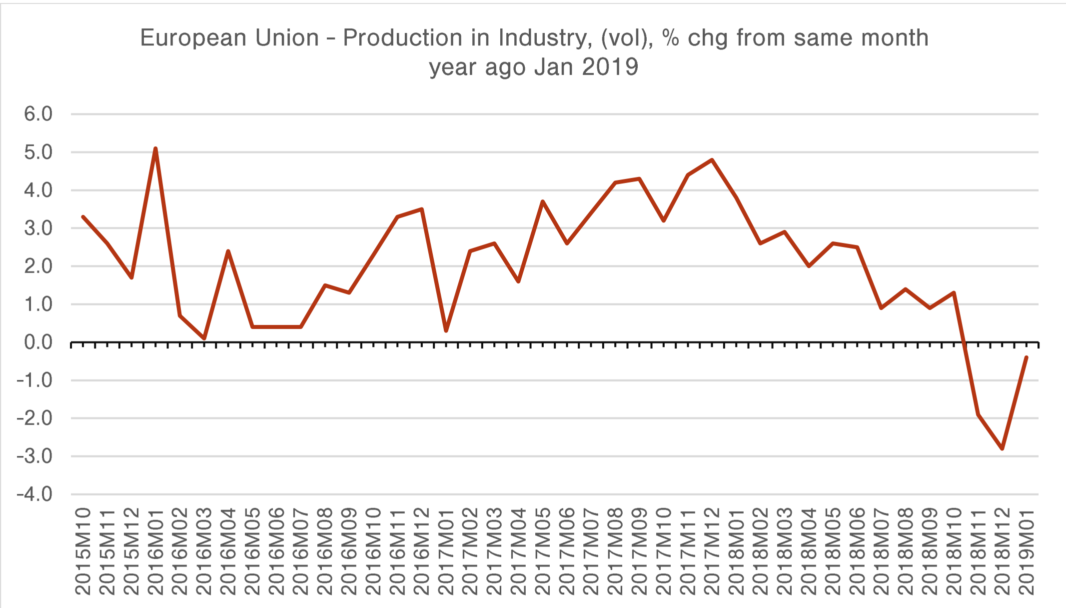
<u>EU 28 Zone</u>

Month chg; Jan +1% versus Dec -0.4%

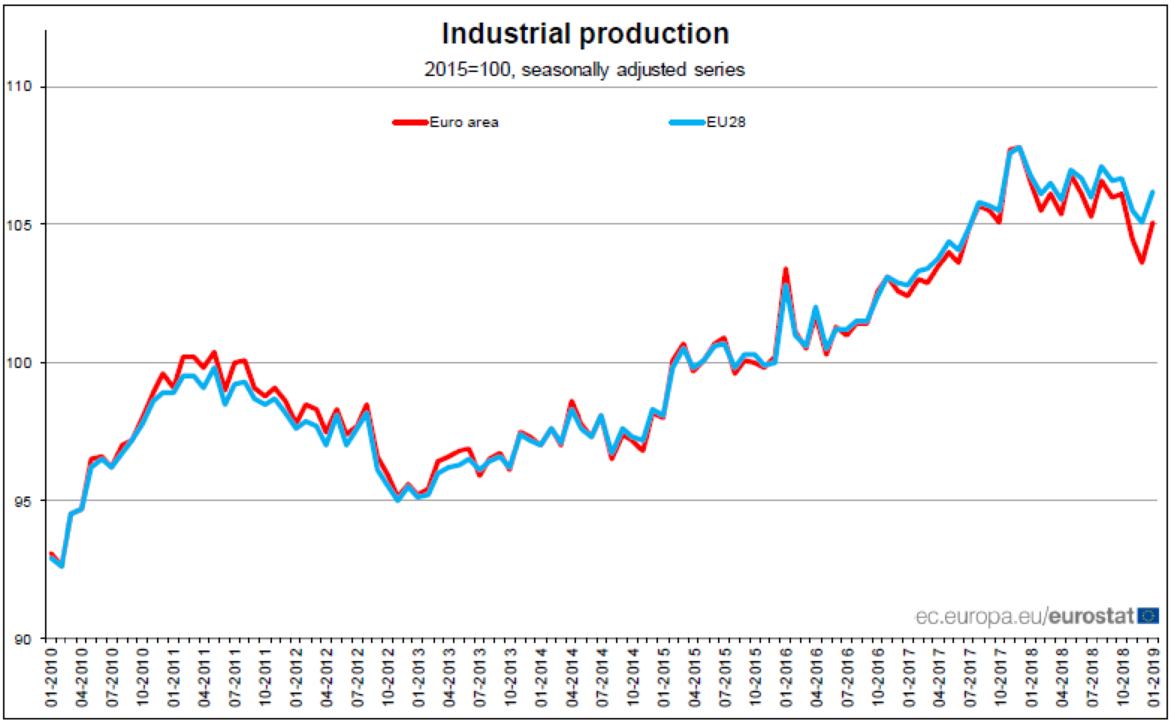
Industrial production growth increased across Energy, Capital Goods, Durable Consumer Goods and Non-Durable Consumer Goods.

Production of Intermediate Goods remained low and unchanged at +0.3%

Total Industrial Production declined at a much slower rate versus a year ago; Jan -0.4% versus Dec -2.8%.



Industrial production remains 1.5% below the peak reached in Dec 2017.



Industrial production accelerated in the latest month across key member states;

Spain; Jan +3.6% versus Dec -1.2%

France; Jan +1.3% versus Dec 0%

Italy; Jan +1.7% versus Dec -0.7% (the first monthly increase since Aug)

https://ec.europa.eu/eurostat/documents/2995521/9649466/4-13032019-AP-EN.pdf/1d86924d-dbb8-40d2-9e3c-cf35e6e6f46b

Eurozone CPI (Feb)

The annual growth in CPI in the Euro Area and EU28 group increased in the latest month.

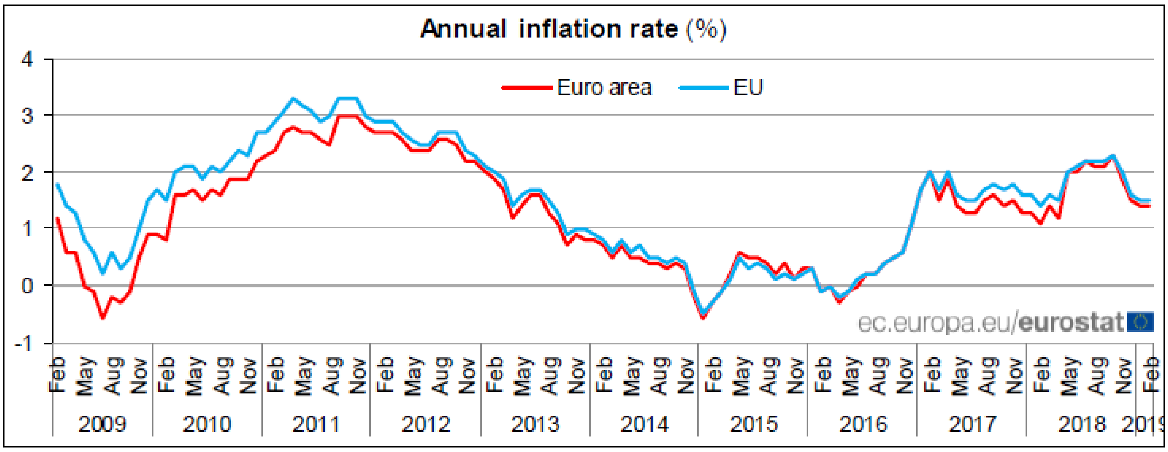
Euro Area

Headline CPI annual % chg; Feb +1.5% versus Jan +1.4%

Several areas contributed to the slightly faster growth;

Food Alcohol and Tobacco (both processed and unprocessed food), energy also made a slightly higher contribution. Nonenergy industrial goods contribution was unchanged. Services remains the largest contributor to CPI growth, but made a somewhat lower contribution to the annual rate in Feb.

A more core measure of CPI (ex food, alcohol, tobacco and energy) shows CPI continued to grow at a more subdued pace and the annual rate slowing; Feb +1% versus Jan +1.1%.



https://ec.europa.eu/eurostat/documents/2995521/9665796/2-15032019-AP-EN.pdf/45cb83d0-2de7-40e5-b70a-36b8a682e99d

Return to top

Japan

BoJ Rates Decision – 15 Mar 2019

The BoJ kept rates on hold and current policy settings unchanged. The BoJ acknowledged the weaker export and industrial production activity – as a result of slowing overseas economies.

Monetary Policy - Yield Curve Control

ST interest rate; -0.1% policy rate Balances in current accounts held by financial institutions at the Bank.

LT interest rate; the BoJ will buy JGB's so that the 10yr JGB yield will remain at around zero %. Purchases will be conducted in a 'flexible manner' such that the amount outstanding will increase at a rate of 80bn Yen

Asset Purchases

ETF's and J-REITs - amounts outstanding will increase at annual paces of about 6 trillion yen and about 90 billion yen, respectively

CP and corporate bonds - the Bank will maintain their amounts outstanding at about 2.2 trillion yen and about 3.2 trillion yen, respectively.

Current Conditions

Exports and production have been affected by the slowdown in overseas economies. Slow downs in overseas economies have been observed.

Domestic demand – business fixed investment continues to grow, moderate private consumption growth, steady improvement in employment and income, housing investment and public investment has been flat.

Inflation expectation more less unchanged – CPI ex fresh food in the range of 0.5-1% annual growth.

Outlook

Moderate expansion of the economy.

Exports are projected to show some weakness but expected to be on a moderate increasing trend on the back of overseas economies growing moderately.

Year on year CPI;

> "likely to increase gradually toward 2% mainly on the back of the output gap remaining positive and medium- to long-term inflation expectations rising."

Risks

US macroeconomic policies and impacts on the financial markets (raising rates??)

Consequences of protectionist moves

Brexit

Geo-political risks

Policy Guidance

Continue with QQE and YCC aiming to achieve the price stability target of 2% and maintaining that target rate.

Continue expanding the money base until the 2% CPI rate is achieved (and maintained)

> "maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, taking into account uncertainties regarding economic activity and prices including the effects of the consumption tax hike scheduled to take place in October 2019."

https://www.boj.or.jp/en/announcements/release_2019/k190315a.pdf

Return to top

United Kingdom

Brexit

The 2nd vote was easily defeated during the week, but by a smaller margin than the first vote. This was then followed by another vote to block a ‘no-deal’ Brexit (this may not be a legally binding result), which then left the final vote – to request a delay on Brexit.

> “May’s warning that if parliament again votes against her deal — which has already been crushed twice by lawmakers — that Britain could face a long delay and would need to take part in European elections in May seemed to be winning some over.” https://www.reuters.com/article/uk-britain-eu/under-pressure-may-scrambles-to-win-support-for-brexit-deal-idUSKCN1QY0HG

The EU needs to approve the extension of Article 50 - by a unanimous vote of remaining EU member states. The EU has suggested that approval of a delay would be based on the duration required and the reason for the delay.

> Indeed, most commentators east of the channel say the UK will be required to present a clear way forward to what happens after June if they hope to guarantee a longer-term extension to Brexit. Not only would it mean participating in the European elections, it would also mean promising a new event of the political horizon that would end the impasse – such as second Brexit referendum, or general elections. http://en.rfi.fr/europe/20190317-may-hopes-third-vote-will-pave-way-brexit-delay

The focus moves to the 3rd vote in the UK Parliament likely to be on Tuesday 19 Mar in time for the EC summit 21-22 Mar.

If the PM wins the third vote, then this will go to the EC Summit for final approval (likely with a short technical extension). PM May does not yet have the numbers at the time of writing.

> The real worry is that parliament will reject May’s Brexit deal, forcing her to seek a longer-term extension to Brexit that would oblige the UK to participate in elections to the European parliament in May. People on both sides of the political divide say this would be farcical, with May herself warning it would be a "potent symbol of parliament's collective political failure". http://en.rfi.fr/europe/20190317-may-hopes-third-vote-will-pave-way-brexit-delay

Return to top

Australia

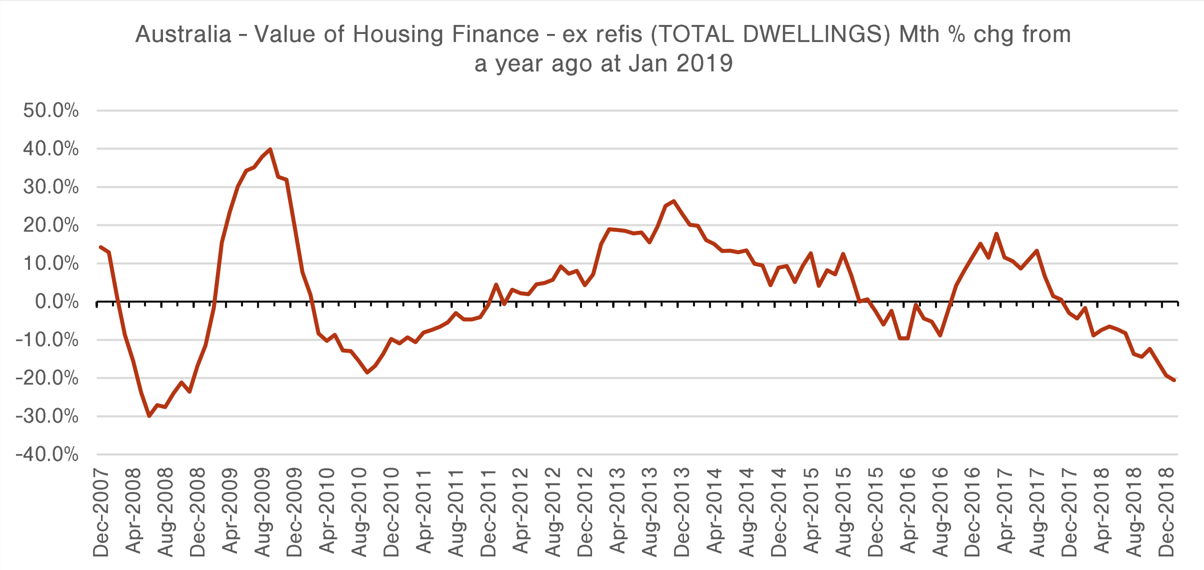
Housing Finance Lending (Jan)

Lending for housing continued to decline in the latest month. This was led by declines in lending for owner occupiers and lending for investment dwellings.

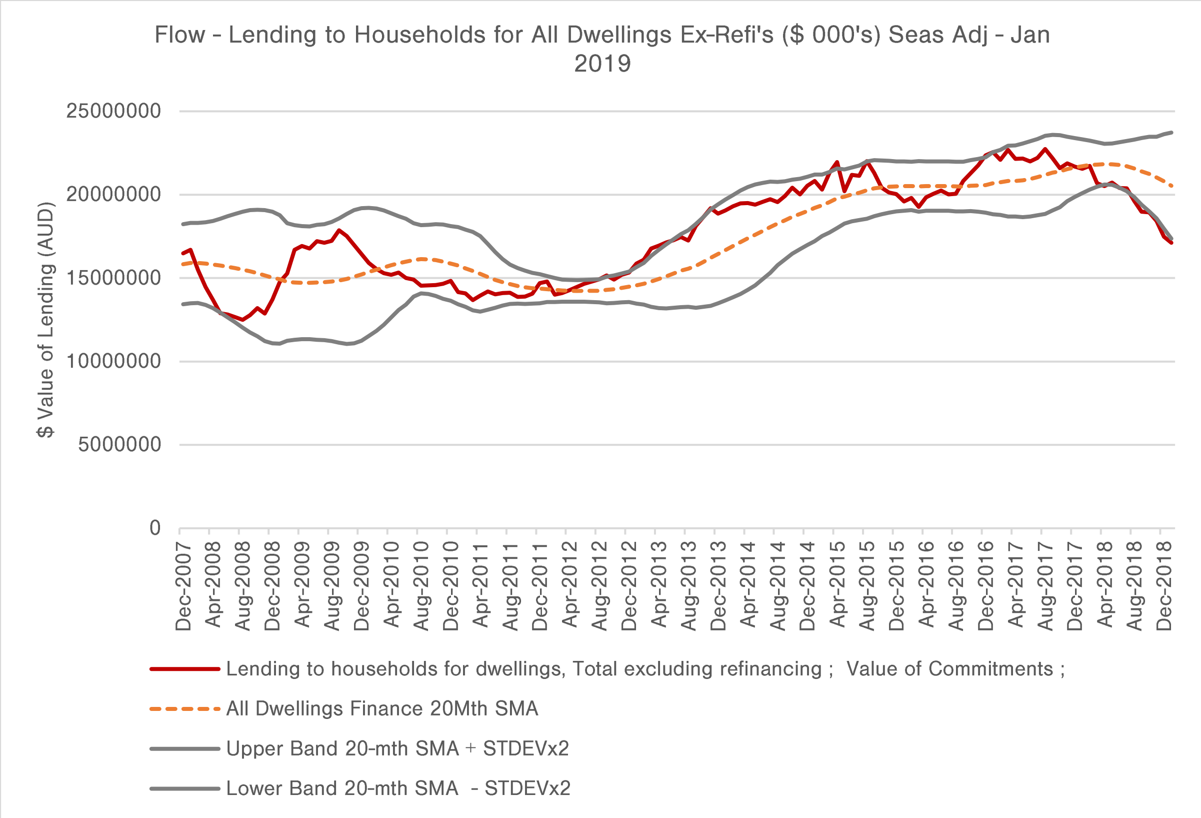
<u>Total – Lending to Households for Dwellings</u>

In the latest month, lending to households for dwellings fell by -2.1%. In Dec that fall was -5%.

On a year ago annual basis, lending to households for dwellings ex refi's also continued to fall and was -21% below the same month a year ago;



The value of total dwelling lending commitments for Jan remained below the 2*SD of the 20mth simple moving average;

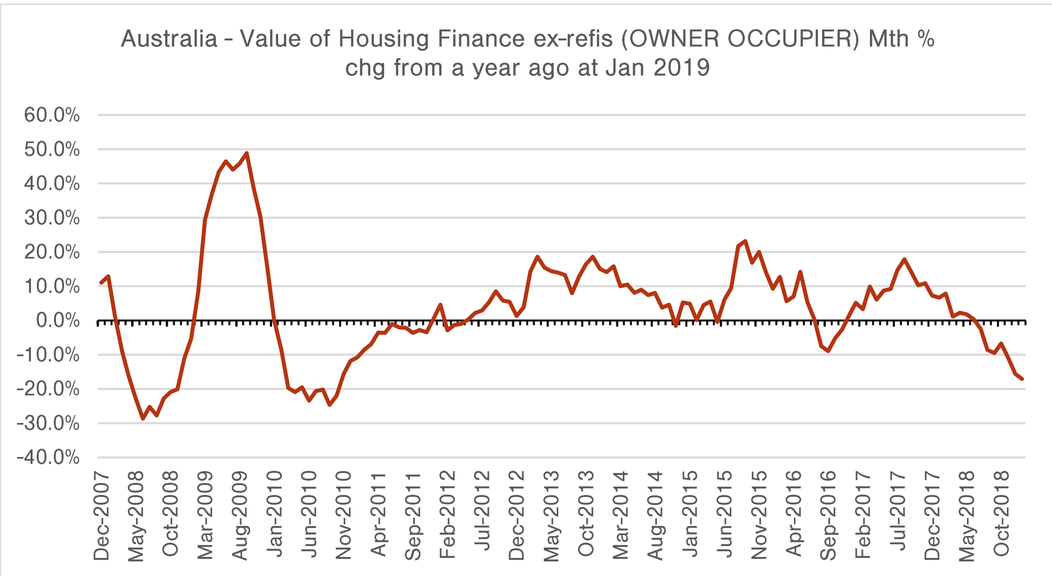


In the latest month, it was both lending for owner occupiers and investment dwellings that contributed to the fall.

<u>Lending for Owner Occupier Dwellings (ex-refi's)</u>

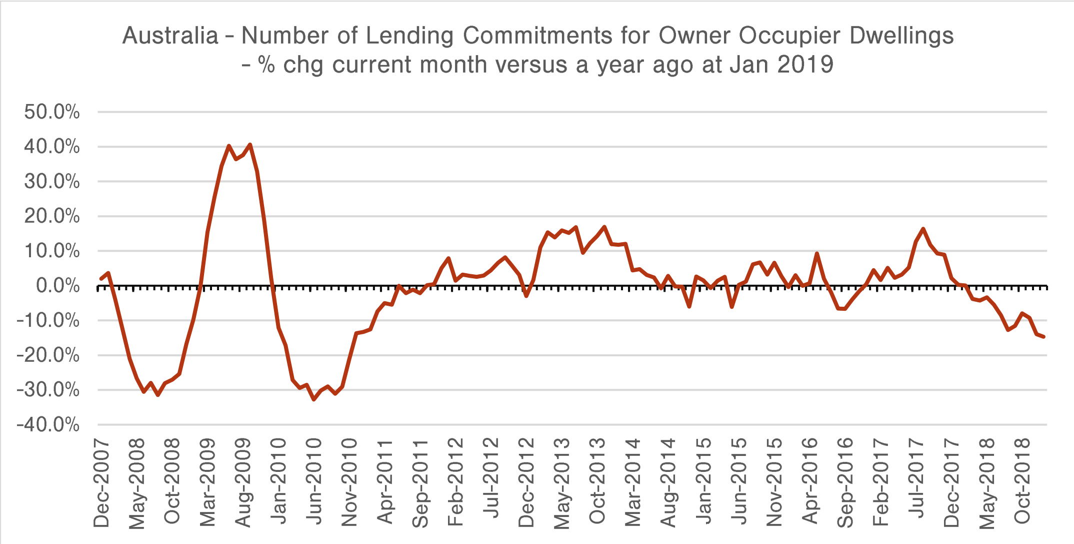
In Jan, lending declined by -1.3% after falling 5.3% in the month prior. Lending for new dwellings and for established dwellings both fell while lending to households for the construction of new owner occ dwellings increased in the month.

On a year ago annual basis, the value of lending is now 17% below the same time last year which is slightly faster than the declined recorded in Dec of 16%.



As the value of houses fall, it follows that this will contribute to the decline in the value of lending. Looking at the number of finance commitments provides some insight into the underlying change in lending activity. The Aus Bureau of Statistics provides this data for owner occupier purchases.

In Jan, the number of housing finance commitments excluding refis, fell by 1.2% versus Dec. On a year ago annual basis, the number of housing finance commitments is 15% below Jan 2018. This is almost on par with the decline in the value of lending commitments;

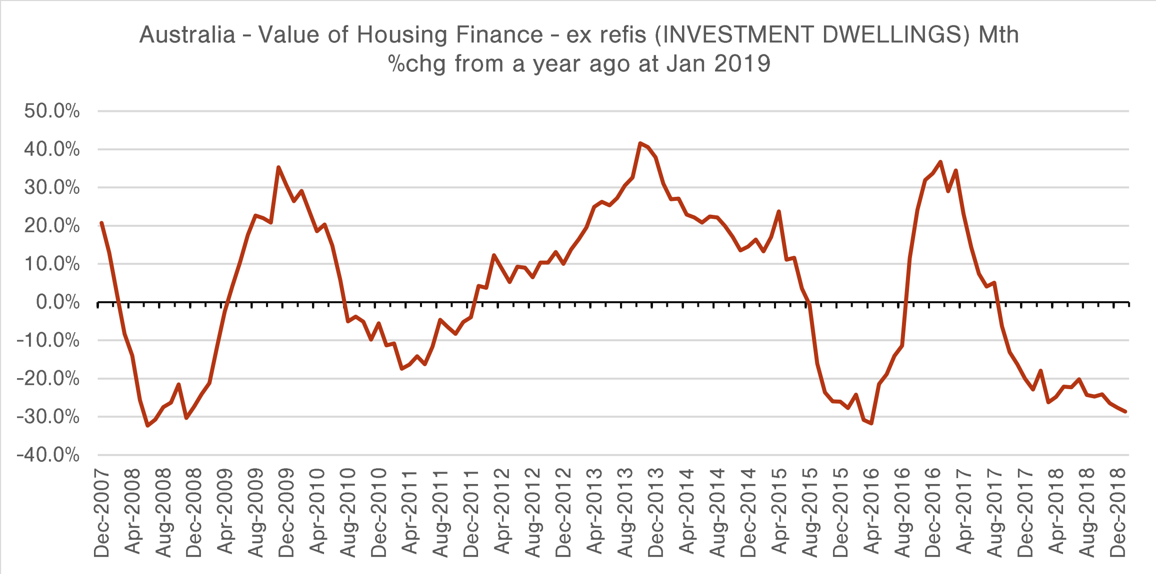


The key states of NSW, Vic and QLD are leading the way with declines in the number of owner occupier commitments. The decline in SA is somewhat muted, but the change in commitments has averaged -0.6% since the start of 2016 – the state never really saw the large increases throughout 2017. The growth in the number of owner occupier lending commitments in WA and NT remain firmly negative but are not declining at the same rate as through mid-2018.

Lending to Households for Investment Dwellings

In Jan, the value of lending commitments for investment dwellings fell by a further 4.1% after declining by 4.4% in Dec.

On a year ago annual basis, the value of lending commitments fell by 29%. This is now 50% below the peak value in lending recorded in Apr 2015;



<u>Refinancing</u>

One other point that stands out in this release is the decline in refinancing. Credit conditions remain tighter (although some evidence that banks are starting to ease again) and asset values are falling. As prices keep falling, this may make it difficult for borrowers to improve their terms with implications for both housing and consumption expenditure patterns.

For both investment dwellings and owner occupiers, refi's had mostly continued to increase throughout 2018 – both up 2% in value terms.

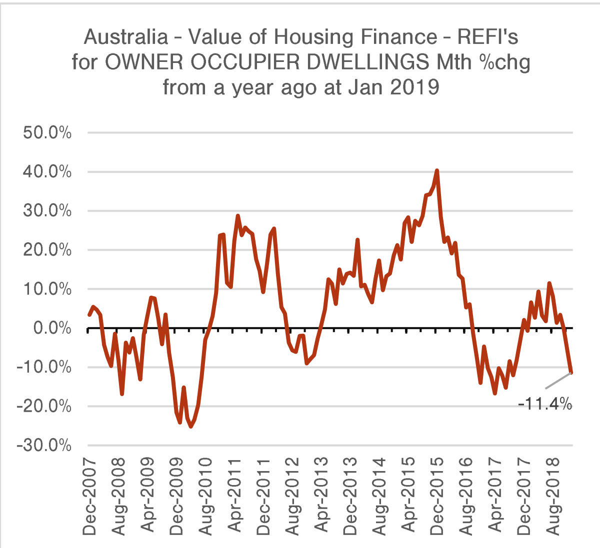
In Jan, refinancing for owner occupiers declined by 4.3% after declining by 2.9% in Dec.

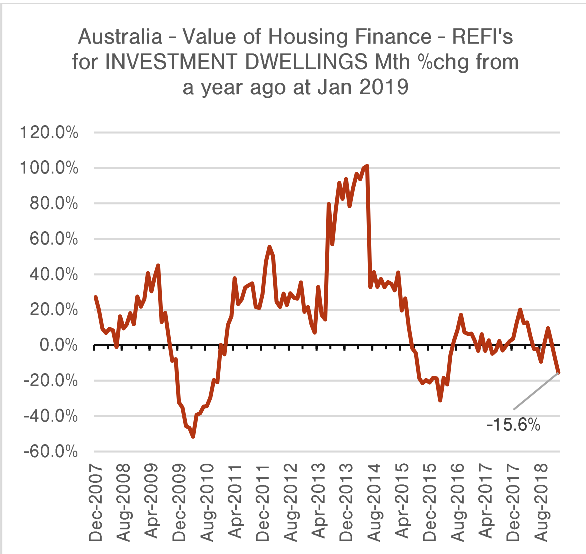
For investment dwellings, the value of refinancing declined by a further 2.9% after declining by 5.7% in Dec. The value of refinancing has declined in 8 of the last 12 months.

On a year ago basis, the decline in refinancing accelerated;

Owner occupiers -11.4% (and the number of refi commitments is -13%!)

Investment dwellings -15.6%





https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5601.0Main+Features1Jan%202019?OpenDocument

Return to top

Asia

China Retail Sales

Feb +8.2% versus Jan +8.2% (expecting +8.1%)

China Industrial Production

Feb +5.3% versus Jan +5.7% (expected 5.5%)

China Fixed Asset Investment

Feb +6.1% versus Jan +5.9% (expecting 6%)

Return to top

Trade

US-China Trade Negotiations

No confirmation at this stage of any developing agreement between the US and China on trade. Positive news on 'concrete steps' toward an agreement continues to be report though.

The final meeting between President Trump and Xi may now get pushed back until Jun 2019.

> Officials from both nations are stepping up negotiations on the text of the trade agreement, but a source said there was a divergence within the Trump administration regarding the deal with China.
>
> The main division within the White House is how much importance will be attached to an enforcement mechanism to ensure the Chinese side lives up to its side of the bargain, or whether it will be enough to secure an agreement in principle and declare success.
> https://www.scmp.com/news/china/diplomacy/article/3001943/trump-xi-meeting-end-trade-war-may-be-put-back-june-sources

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

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 delayed due to the shutdown. The report was due 15 Mar but has now been postponed until mid-April.

> And some lawmakers are withholding their opinions until they see the results of a U.S. International Trade Commission report analyzing the economic impact of the deal, which likely won't be out until mid-April due to a delay from the 35-day government shutdown.
> https://www.politico.com/story/2019/03/07/trump-nafta-democrats-1247064

There appears to be some movement now on a 'potential pathway' to approve USMCA through Congress;

> "In an interview Thursday, Rep. Kevin Brady, R-Woodlands, ranking member of the House Ways and Means Committee, said U.S. Trade Representative Robert Lighthizer was working on a "reasonable" replacement for Trump's tariffs on steel and aluminum from Mexico and Canada, which Republicans and Democrats alike have said must be eliminated with to secure their support."
> https://www.houstonchronicle.com/business/article/As-Congress-weights-new-NAFTA-signs-of-support-13671780.php

> "The administration has largely set aside — for now — the threat of pulling out of NAFTA because Lighthizer and others in the administration agree that such a move would undermine the trust they've been working to build on Capitol Hill. Aides said there were no immediate plans to withdraw from the 25-year-old agreement, though the president hasn't completely ruled out doing it eventually if the negotiations over approving USMCA fall apart."
> https://www.politico.com/story/2019/03/07/trump-nafta-democrats-1247064

Section 232 – Car and Truck Imports

The final report on the s 232 investigation has been provided to President Trump on 17 Feb. The President has 90 days to make a final decision on the recommendations.

> "Some analysts have considered the secrecy around the U.S. report on Section 232 tariffs as leverage which Trump likely intends to use in the U.S. trade negotiations with the EU."

> "We're trying to make a deal. They are very tough to make a deal with," Trump told reporters at the White House on Wednesday. "If we don't make a deal, we'll do the tariffs." http://www.xinhuanet.com/english/2019-02/23/c_137845093.htm

This week, Toyota announced a further top up of its investment in its US plants (now up to $13bn) adding up to 600 manufacturing jobs.

https://www.internationallawoffice.com/Newsletters/International-Trade/USA/Arent-Fox-LLP/Trump-administration-moves-closer-to-decision-on-auto-tariffs

US-Japan Trade Talks

No further indication of when negotiations with Japan will commence. The commencement of talks could be delayed further, especially now that the US-China negotiations have been 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 release of the S.232 investigation into car and truck imports is a key issue for European members (as well as Japan);

> "As the sword of Damocles hangs over the European automotive industry, the trade ministers discussed the bloc's trading relationship with Washington. European Trade Commissioner Cecilia Malmstrom has called on EU governments to decide soon to start negotiations with the United States.
>
> She also warned "there is full support" from member states to hit back if the United States were to levy the tariffs, escalating the transatlantic tension."
> http://www.xinhuanet.com/english/2019-02/23/c_137845093.htm

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

The USTR has now published the summary of specific negotiating objectives for the US-UK trade negotiations; https://ustr.gov/sites/default/files/Summary_of_U.S.-UK_Negotiating_Objectives.pdf

The USTR publishes 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