Weekly Macro Review

w/c 25 February 2019

Key Themes

US data was a highlight this week. One of the more important insights comes from the US personal consumption expenditure and income release for Dec. This confirmed the weaker retail numbers for Dec (note; after much stronger growth in Nov). At the same time, real income growth accelerated – importantly this included employee compensation. In other words – the decline in consumption in Dec may have been sentiment driven, rather than driven by a worsening of consumer/income fundamentals.

(While nominal disposable income declined in Jan (some one-off reversals), employee compensation continued to grow, albeit slower than in Dec, but on par with prior months. This was the full month of the partial government shutdown.)

Supporting this thesis is the substantial increase in the savings rate for Dec – consumers saved more rather than spent. There was also only a modest improvement in consumer sentiment data for Feb. In fact, Uni of Michigan sentiment data for current economic conditions continued to weaken in Feb after the large fall in Jan. This may mean that further weakness in spending could persist. There was already a large slowdown in Jan auto sales in the US. It will be important to watch for changes in consumer sentiment and employment – both of which could shift spending patterns quickly.

Inventory build was highlighted by Q4 GDP data and the wholesale sales and inventory report which indicated slower growth in wholesale sales and recent inventory growth in that part of the supply chain.

Manufacturing growth slowed – confirmed by the ISM PMI, Markit PMI and the production sub-index of the Chicago Fed National Activity Index. Mixed results from the regional surveys. The slower growth in US factory orders suggest slower output growth is possible. In context of slower consumer demand and inventory build within the supply chain, this makes sense.

Outside of the US, weakness in manufacturing persisted into Feb. Via the PMI's, manufacturing went into contraction at the broader Eurozone level in Feb and German manufacturing contracted at a faster pace. The weakness in Japanese industrial production in Jan is likely to persist given the Feb manufacturing PMI fell into contraction.

Concerning Canadian Q4 GDP with much slower growth led by declines in investment spending. The lower Terms of Trade resulted in a decline in National income for the quarter. The manufacturing PMI indicated continued slower growth.

Aus data was mixed with the value of construction work declining while capex in Q4 increased. Some contrary signals from the RBA monetary aggregates. Growth in new credit for the private sector continues to accelerate (and remains slightly negative) – led by growth in new credit for business which is mostly offsetting the continued deceleration in new mortgage credit. At the same time, the slowdown in the decline of the money base (across several measures) seems to have stabilized.

Contents

US Data

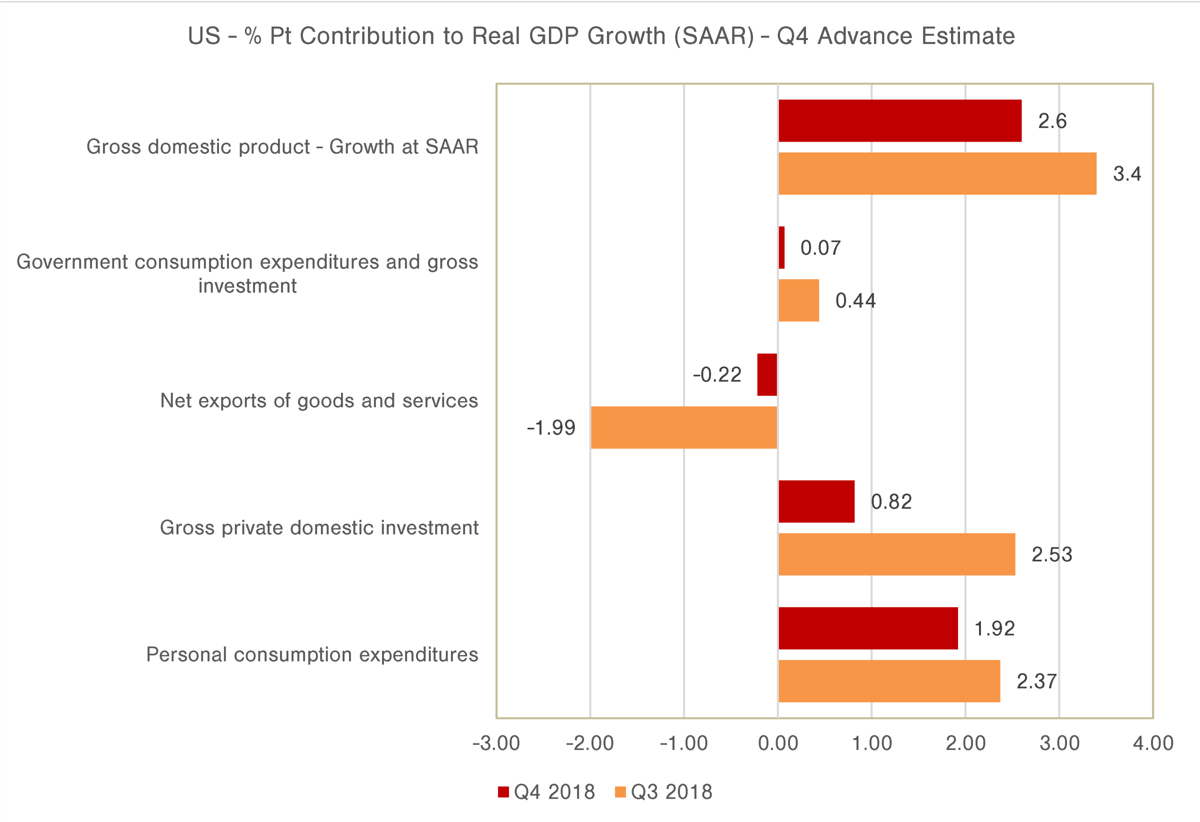
National output & activity

Q4 GDP – Initial Estimate

US GDP growth slowed in Q4 on a seasonally adjusted annual rate-basis (versus Q3). This was led by slower growth in personal consumption expenditures, a lower contribution from the change in inventories (despite a second quarter of inventory growth) and lower government consumption and investment spending growth. Net exports continued to detract from growth.

The fixed investment component of private domestic investment spending made a larger contribution to growth in Q4.

Q4 Real GDP growth (SAAR); +2.6% versus Q3 +3.4%



Contributing to the lower growth in the quarter was;

Personal Consumption Expenditures made a somewhat lower contribution to overall growth; while still positive, there was a smaller contribution from non-durable goods (food & bev for off-premise consumption and clothing and footwear) and services (food services and accommodations made the largest negative contribution).

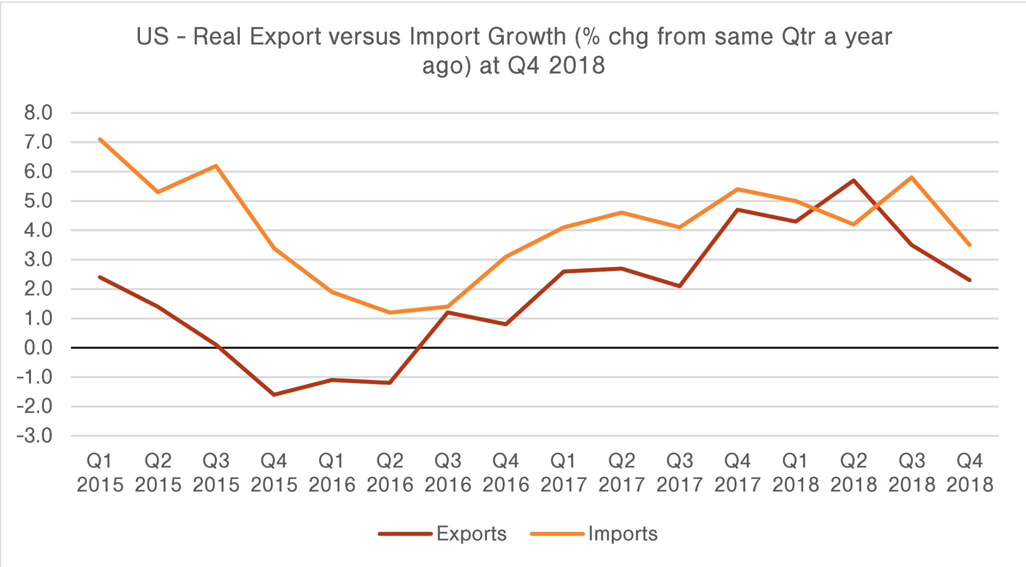
Gross Private Domestic Investment made a much smaller contribution to growth in the quarter – led by a lower contribution from change in inventories. Q3 inventories added a large 2.33% pts to growth and in Q4 that was lower at +0.13% pts. But the underlying *change in inventory continued to grow.*

The real value of the change in inventory in Q3 was $89.8bn which was +$126bn higher than in Q2 (large inventory build). In Q4, the real value of inventory growth was higher again at $97.1bn but was only +$7.9bn higher than in Q3, so made a smaller contribution to the quarter growth.

The fixed investment component of private domestic investment spending made a larger contribution in Q4 +0.69% pts versus +0.21%pts in Q3. This was led by non-residential investment adding +0.82%pts to headline growth which offset the continued decline in residential fixed investment spending, which detracted -0.14%pts from growth.

Net exports continued to make a negative contribution to growth, detracting -0.22%pts from headline growth in Q4. Export growth improved in Q4 +1.6% versus -4.9% in Q3. Import growth slowed but still grew faster than exports in Q4 +2.7% versus Q3 +9.3%.

On a year ago basis, real export growth has slowed over the last two quarters;



Government consumption and gross investment expenditure also made a smaller contribution to growth in Q4. At the Federal level, somewhat higher contribution of defense expenditures was offset by a decline in non-defense consumption expenditures. State and local expenditure also contracted in the quarter.

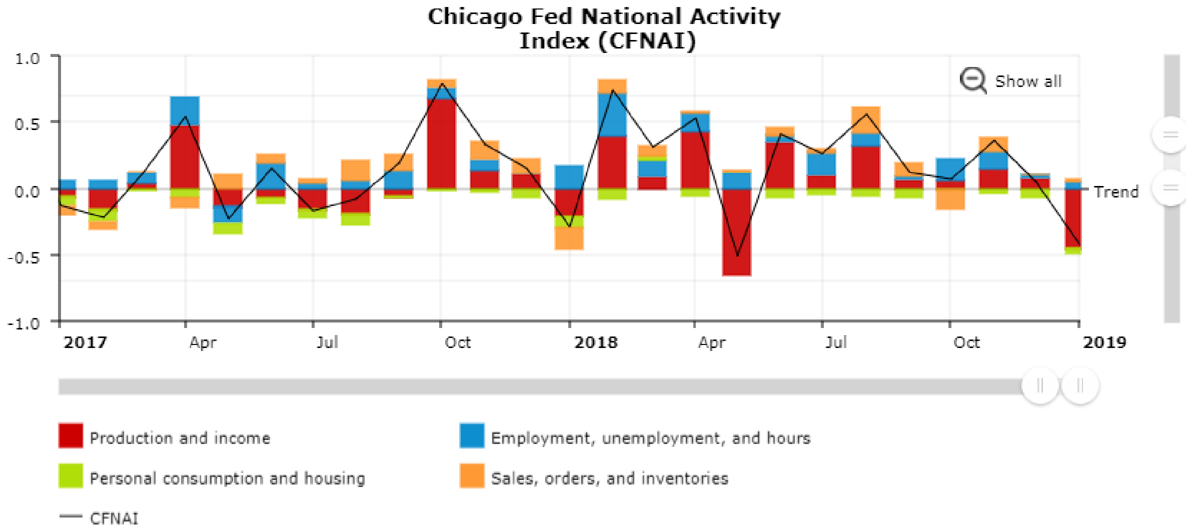
https://www.bea.gov/system/files/2019-02/gdp4q18_ini_2.pdf

Chicago Fed National Activity Index (CFNAI) (Jan)

The CFNAI in Jan indicated that growth slowed with the headline index shifting from slightly above trend growth to below trend growth. The decline in the index was led by falls in production and income indicators.

An index reading of zero indicates the economy expanding at its historical trend.

Headline index; Jan -0.43 versus Dec +0.05



The decline in Jan was mostly the result of a fall in the production and income index. The other sub-indexes continued to grow at around the long-term trend;

Production and Income; Jan -0.45 versus Dec +0.08

Personal Consumption and Housing; Jan -0.04 versus Dec -0.06

Employment, Unemployment and Hours; Jan +0.05 versus Dec +0.02

Sales, Orders and Inventories; Jan +0.02 versus Dec 0

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

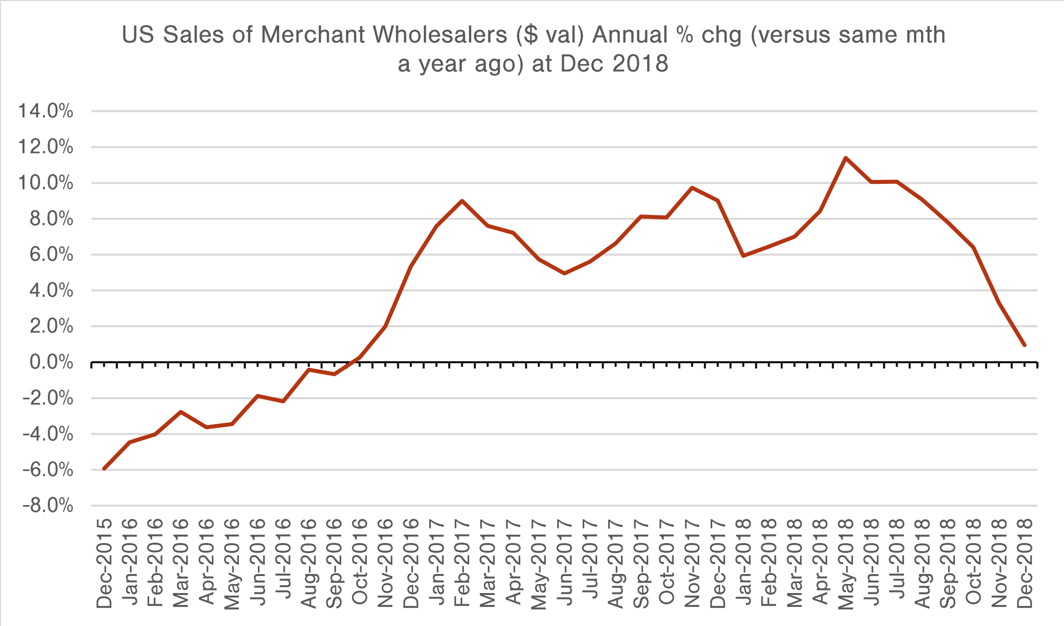
Wholesale Trade & Inventories (Dec)

The monthly wholesale trade data for Dec indicates that wholesale sales continued to decline in Dec versus Nov with Nov data also revised lower. A large part of the decline was related to lower oil prices (non-durable goods/petroleum contributed all the decline in the month). But that also hides the broader trend of slower growth across both durable and non-durable goods.

Inventories continued to increase in Dec and the inventory to sales ratio has been increasing.

US Total Wholesale Sales (ex manuf sales branches and offices); Dec -1% versus Nov -1.2% (revised lower from -0.6%).

The annual change has now slowed to 1% (Dec 2018 v Dec 2017);



Leading growth lower in the latest month was Non-Durable Goods;

<u>Non-Durable Goods;</u> Dec -2.5% versus Nov -1.7%. The annual chg at Dec -1.5%.

The largest contributor to that result was petroleum declining by 11.1% in Dec versus -7.5% in Nov.

<u>Durable Goods;</u> Dec +0.7% versus Nov -0.7%. The annual chg at Dec +3.6%.

The durable goods result was more mixed. Of the bigger categories, automotive and computer equipment declined in the month. Electrical (the largest value category in Dec) made the largest positive contribution to growth in durable goods in Dec.

Despite the more mixed results, the annual % chg in durable goods sales has been slowing overall;

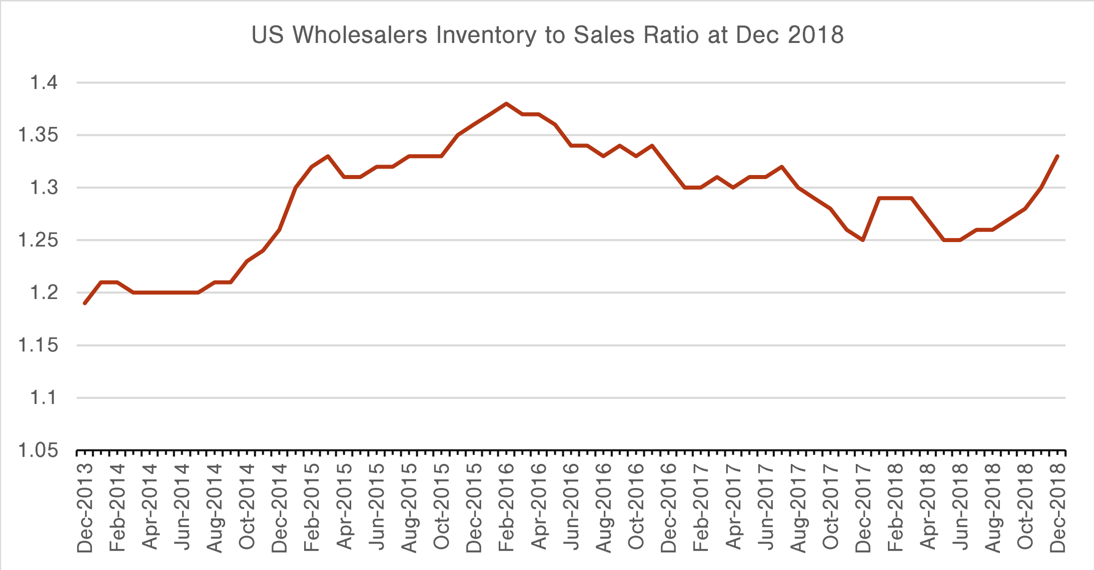
Inventory

The value of inventory has continued to increase in Dec. On a monthly and annual basis, this has been led by higher growth in the value of durable goods inventory.

Dec; +1.1% versus Nov +0.4%. Annual change in inventory +7.3% in Dec.

Durable Goods; Dec +1.5% versus Nov +0.7%. The annual change in inventory +10.6%.

Non-Durable Goods; Dec +0.3% versus Nov -0.1%. The annual change in inventory is +2.3%.



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

Consumption

Personal Income and Outlays & PCE Price Index (Dec) and Personal Income (Jan)

It looks like Dec consumption expenditure growth has confirmed the weaker Dec retail sales result with real personal consumption expenditure declining month on month – after a much larger increase in consumption expenditure in Nov. At the same time, real personal disposable income growth accelerated in Dec – partly the result of one-off payments. The Jan nominal income result suggests limited impact from the partial government shutdown on employee compensation growth.

The high growth in real disposable income and the fall in personal consumption growth suggests that a cautious consumer kept spending in check in Dec. The savings data confirms this with a large increase in the savings rate.

Growth in the headline PCE price index in Dec was slightly higher.

Personal Income

Nominal mth chg: Dec+1% versus Nov +0.3%

Real Disposable Personal Income - mth chg; Dec +1.1% versus Nov +0.3%

The large increase in Dec was the result of increases in (nominal terms) personal dividend income (Dec +$83.4bn versus Nov -$4.6bn), employee compensation (Dec +$51.5bn versus Nov +$25.7bn) and farm proprietor's income (+$29.2bn versus Nov +$14.2bn). From the BEA:

> Personal dividend income increased $83.4 billion, primarily reflecting a one-time special dividend payment by VMware Incorporated. Farm proprietors' income increased $29.2 billion, which included subsidy payments associated with the Department of Agriculture's Market Facilitation Program.

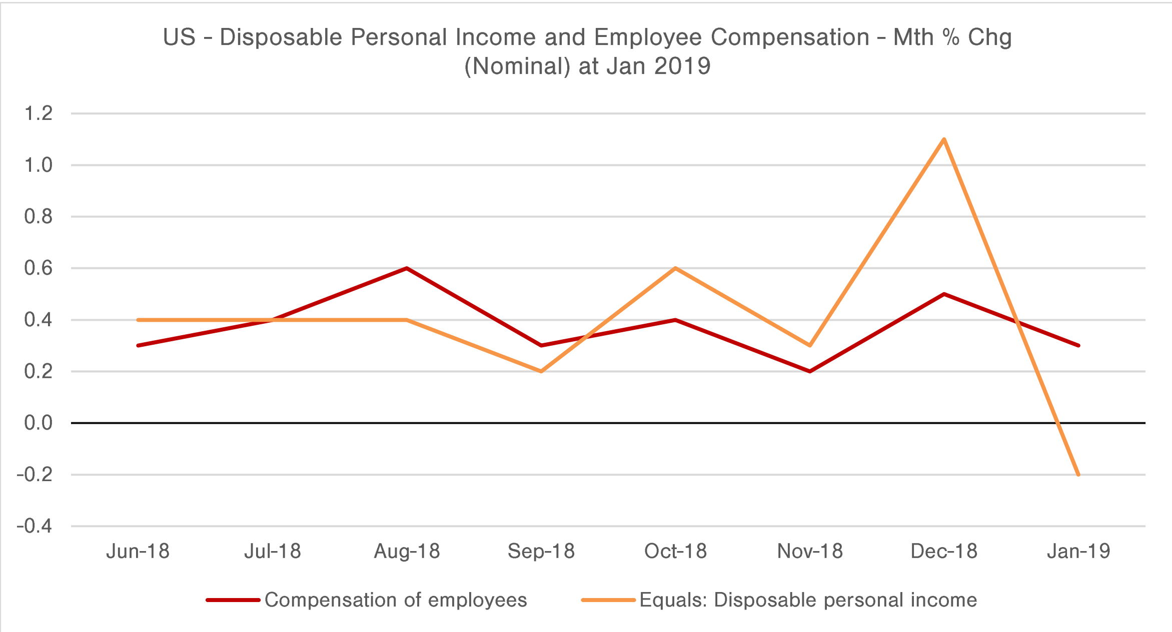
The BEA also released Jan Personal Income in nominal terms only;

Jan -0.1% versus Dec +1%

The fall personal income for the month was partly the result of Dec reversals of the growth in farm proprietor's income and a decline in personal income receipts on assets. This was offset by (importantly) continued growth in employee compensation (albeit a slower pace than in Dec) and increases in transfer receipts. From the BEA:

> The decrease in personal income in January primarily reflected decreases in personal dividend income, farm proprietors' income, and personal interest income that were partially offset by increases in social security benefit payments (related to cost of living adjustments), and other government social benefits to persons, which includes the Child Tax Credit and the Affordable Care Act refundable tax credit.

Importantly, the month change in employee compensation has remained steady – likely indicating a stable labour market and little impact from the partial government shutdown at this stage.



<u>Personal Consumption Expenditure</u>

Real Personal Consumption Expenditure; Dec -0.6% versus Nov +0.5%

The decline in expenditure was led by declines across all categories;

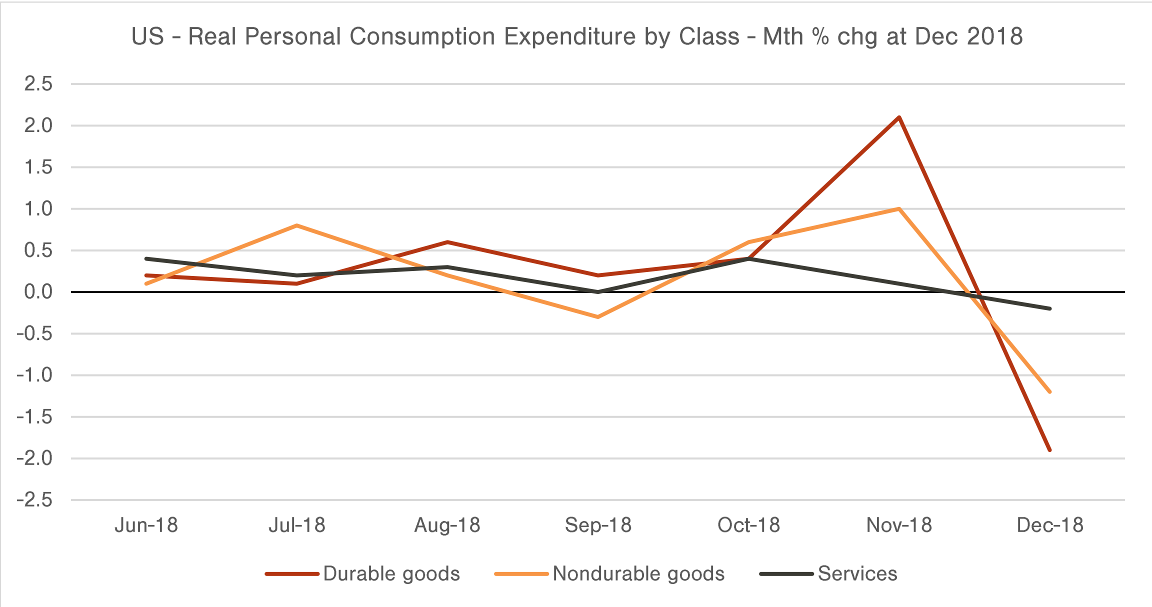
Durable goods; Dec -1.9% versus Nov +2.1%

Non-Durable Goods; Dec -1.2% versus Nov +1%

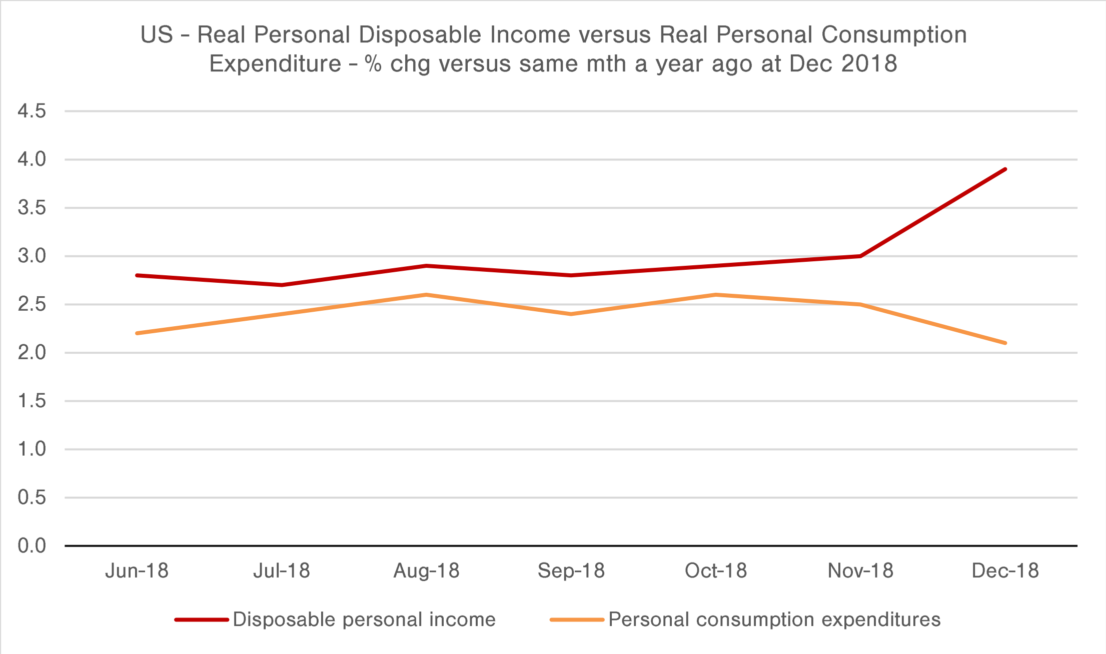
Services; Dec -0.2% versus Nov +0.1%

The trend of the expenditure growth suggests that Dec sales were bought forward into Nov. The wholesale trade data indicates that inventory build (inventory to sales ratio) has been increasing in that part of the supply chain. It's also likely that weaker consumer sentiment played a role in lower expenditures for Dec – something that was also highlighted by the University of Michigan sentiment data for Dec and Jan.

Note that the Nov spike in consumption growth is far more pronounced for durable goods than for non-durable goods. Services growth continued to slow with weaker sentiment a likely driver of the trend;



The annual view of real income and personal consumption growth suggests that a cautious consumer may have kept spending in check in Dec;

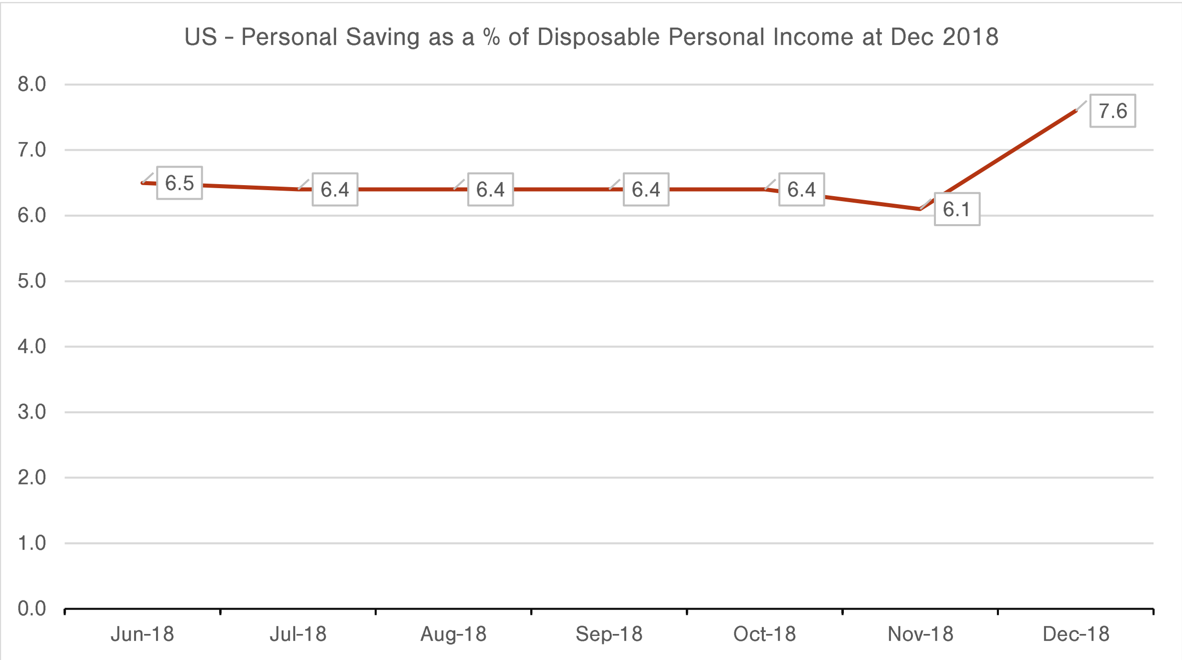


Personal Saving

Confirming this view is the growth in personal saving in the month;

Dec +25.4% versus Nov -3.8% ($1.2bn in Dec versus $0.96bn in Nov)

The rate of personal saving as a % of disposable personal income increased in Dec after recording a steady saving rate since June 2018. Note the slight dip in Nov, consistent with the spike in expenditures;



PCE Price Indexes

The headline Dec PCE Price index increased slightly, led by slightly faster growth in services prices as non-durable goods prices (lower petrol prices) continued to fall. On an annual basis, the PCE price index continues to slow as goods prices fall below last year.

Dec +0.1% versus Nov 0%

Annual chg; Dec +1.7% versus Nov +1.8%

On an annual basis, lower goods prices have led the index lower;

Goods; Dec -0.2% versus Nov +0.2%

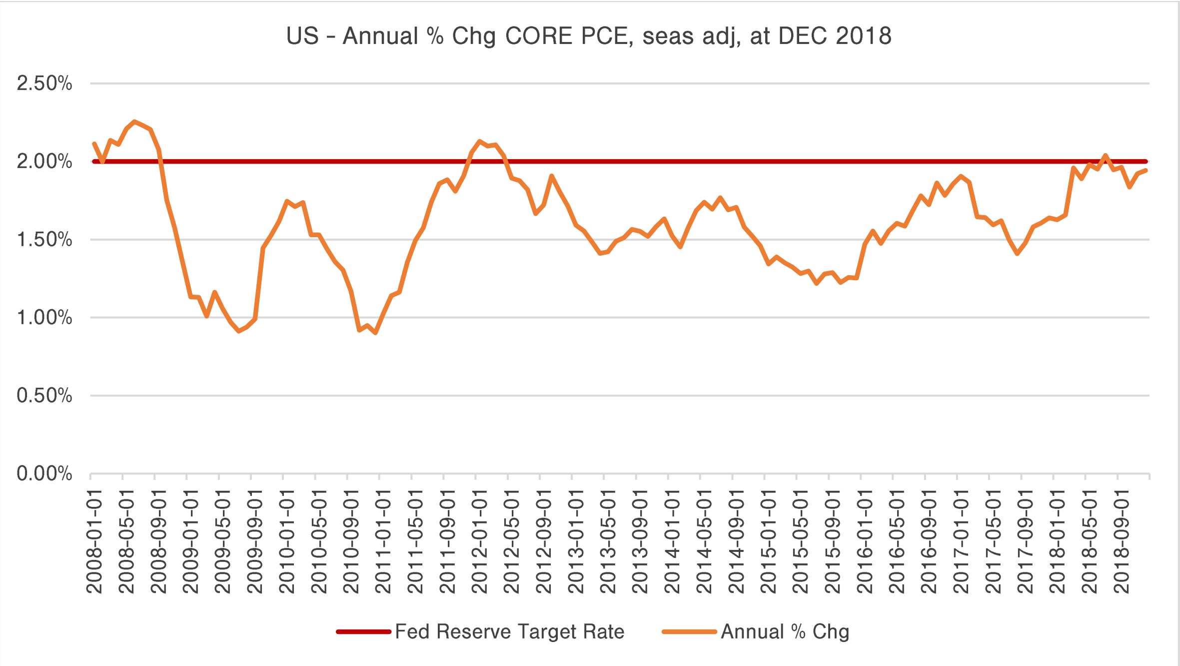
Services; Dec +2.6% versus Nov +2.6%

Lower oil prices are likely impacting non-durable goods -0.7% in Dec versus -0.6% in Nov.

Excluding food and energy, core PCE growth was unchanged between Dec and Nov;

Dec +1.9% versus Nov +1.9%

The current rate of price growth remains below the Fed target – giving the Fed room to remain patient on changes to monetary policy.



https://www.bea.gov/news/2019/personal-income-and-outlays-december-2018-personal-income-january-2019

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

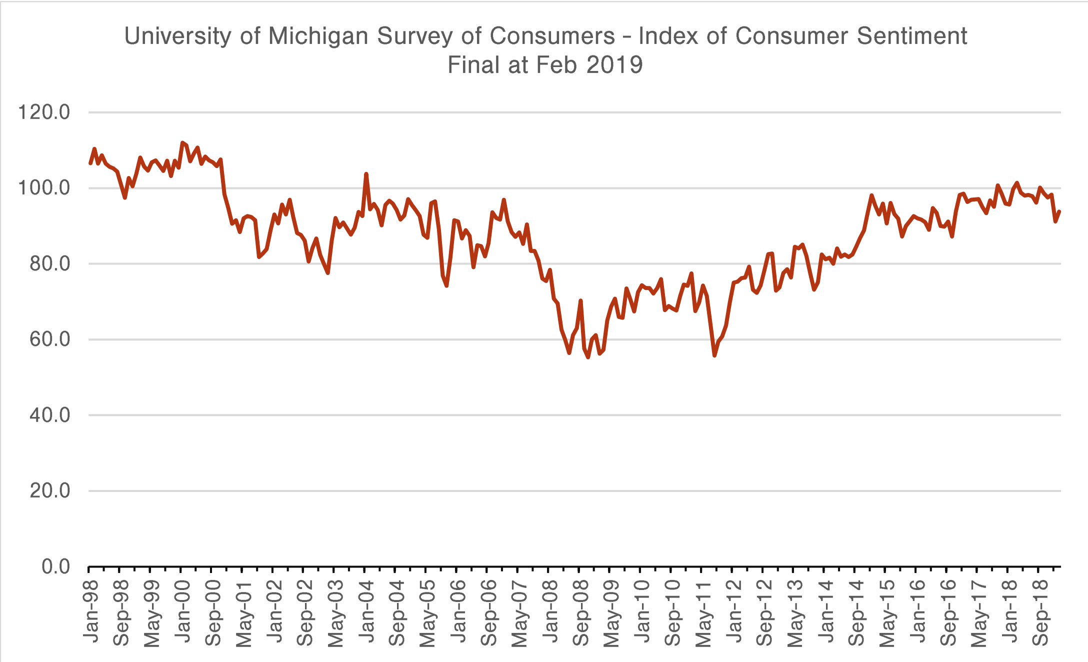
Uni of Michigan Consumer Sentiment – Final (Feb)

Consumer sentiment bounced back somewhat in Feb and remains close to near term highs. The final results for Feb were revised slightly lower than the prelim reading and there is some indication of consumer caution on current economic conditions.

Headline index of Consumer Sentiment

Feb 93.8 (revised down from 95.5) versus Jan 91.2

The index moved up 2.6pts and remains 6% below a year ago

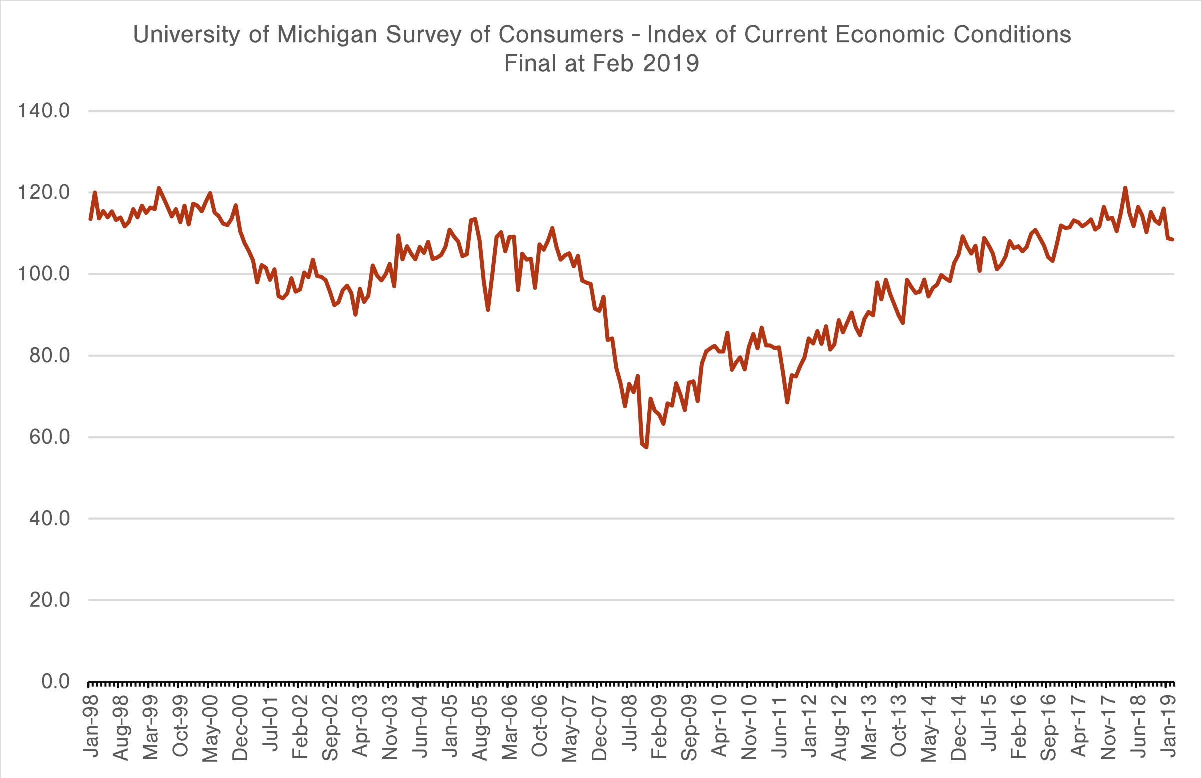


Current Economic Conditions

Feb 108.5 (revised lower from 110) versus Jan 108.8

Despite the markets settling down, the Fed pause and the end of the partial govt shutdown, important sentiment readings on current economic conditions continued to fall in Feb 2019.

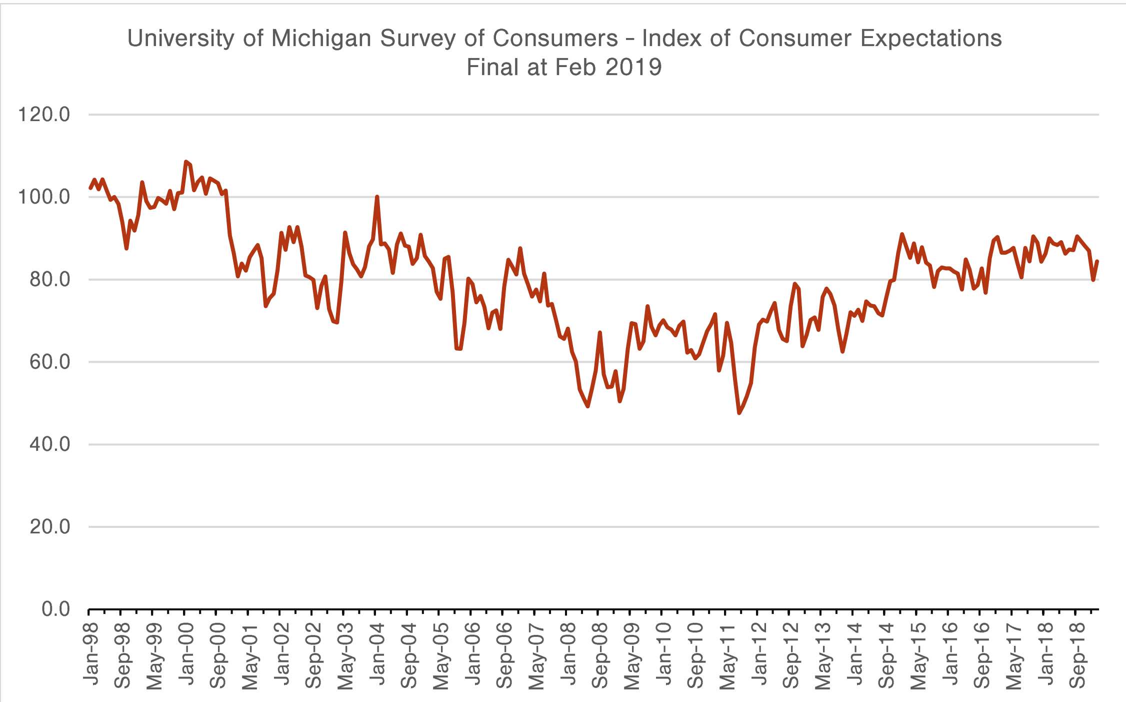
Sentiment on current conditions remains 5.6% below last year.



<u>Index of Consumer Expectations</u>

Feb 84.4 (revised lower from 86.2) versus Jan 79.9

Future expectations bounced back after the weaker reading in Jan and remains 6% below the same time a year ago.



Although sentiment was still above last month's low, the bounce-back from the end of the Federal shutdown faded in late February. While the overall level of confidence remains diminished, it is still quite positive.

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

Manufacturing

Factory Orders – Full Report (Dec)

The value of US manufacturer shipments fell in the latest month. New orders grew slightly on the back of new orders for transport equipment. Inventory also declined across durable goods manufacturers.

On a year ago basis, the growth in shipments stabilized somewhat after excluding for the impact of lower oil prices. As a more forward-looking indicator though, the growth in new orders continues to slow. Isolating durable goods new orders only, results in a similar trend with growth slowing since Aug 2018.

As this data report has been delayed by the shutdown, the results are consistent with slow-down in factory activity leading into the end of 2018. This was mostly confirmed by many of the regional surveys.

Manufacturer Shipments

Mth chg in shipments; Dec -0.2% versus Nov -0.5%

The continued decline in Dec was the result of a fall in the value of non-durable goods.

Non-durable goods; Dec -1% versus Nov -2%. The value of shipments from petroleum refineries declined by 5.5% in the month accounting for most of the decline.

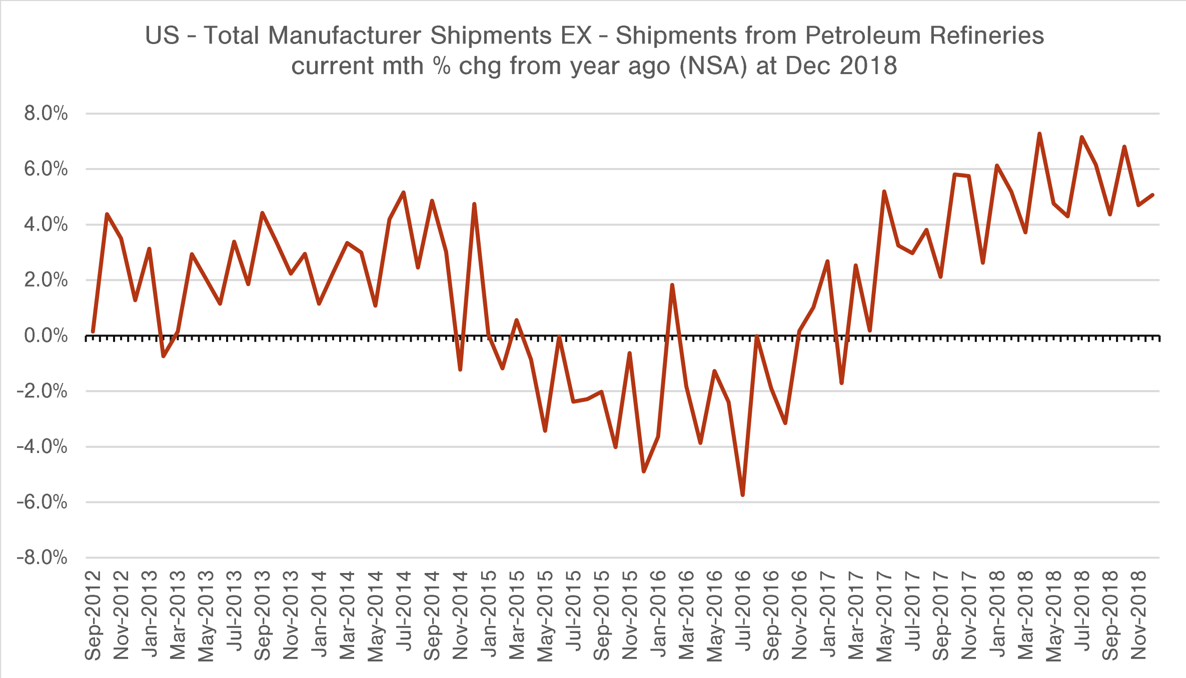
Durable goods shipments increased at a slightly slower pace; Dec +0.7% versus Nov +1%. Shipments of transportation equipment was the main driver of growth in the month at +1.6%.

On an annual basis, the total value of manufacturer shipments appears to slow.

Annual chg in shipments; Dec +4.3% versus Nov +4.6%

The change in oil prices continues to impact the value of shipments, so excluding the value of shipments for petroleum refineries growth in shipments increased slightly; Dec +5.1% versus Nov +4.7%.

The more recent trend in slower growth of shipments is not as pronounced when the value of petrol refinery shipments is excluded;



<u>Manufacturer New Orders</u>

This is the more forward-looking aspect of the report.

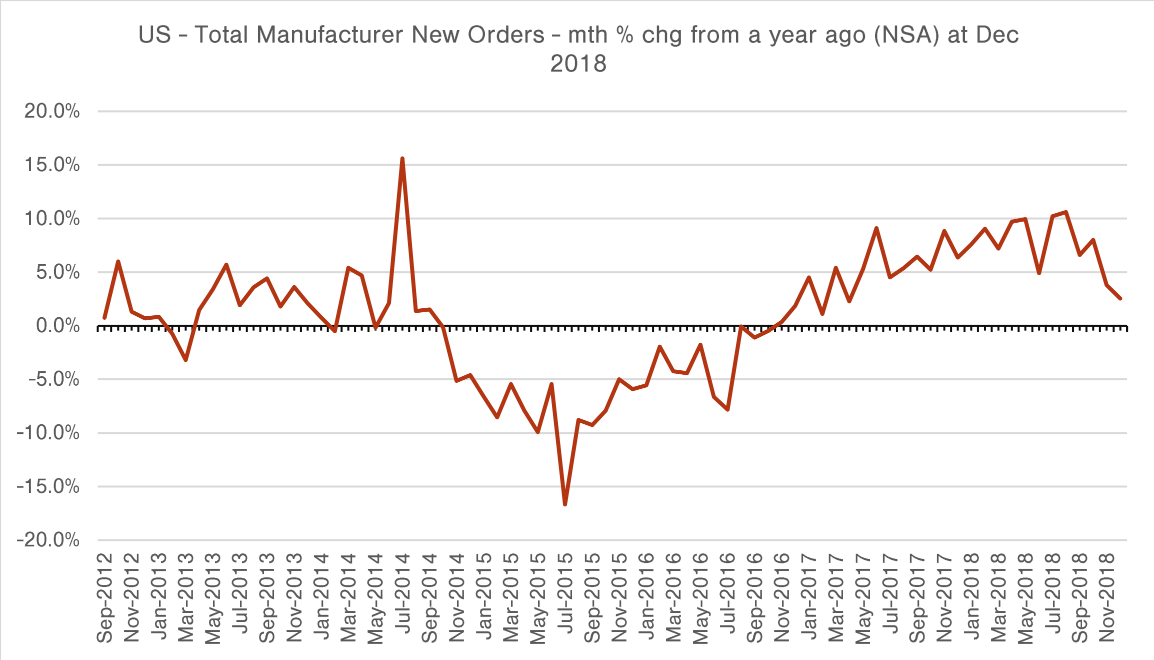
Mth chg in new orders; Dec +0.1% versus Nov -0.5%

New orders for durable goods led the total higher;

Durable goods; Dec +1.2% versus Nov +0.9%. This was led higher by new orders for non-defence aircraft and parts.

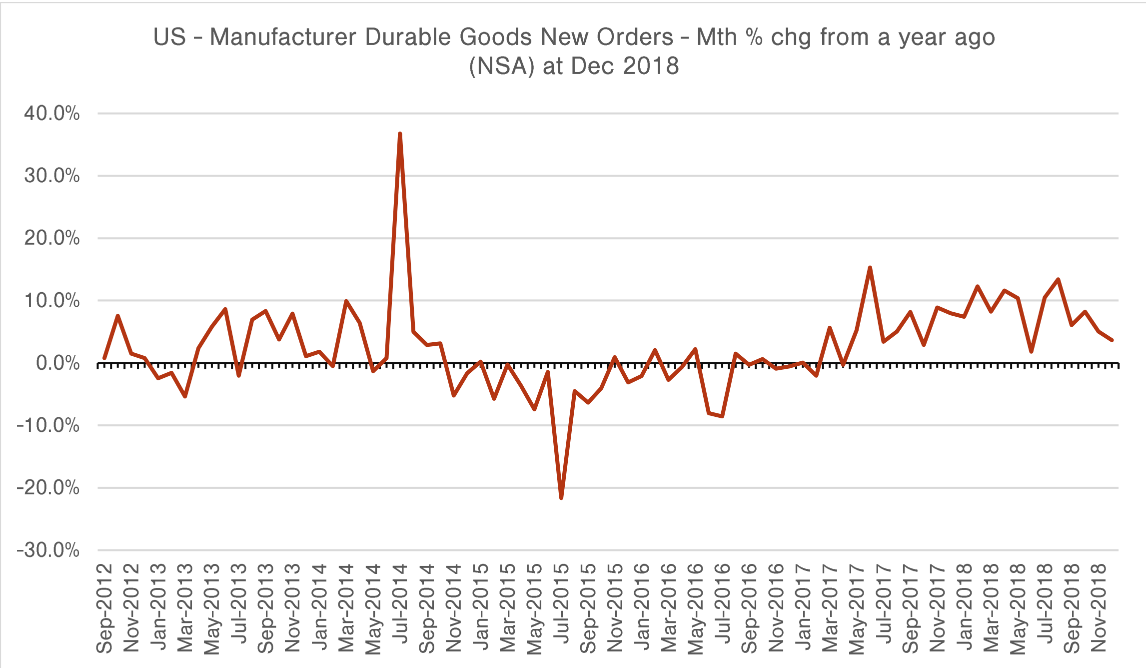
On an annual basis, manufacturer new orders have been slowing;

Dec; +2.5% versus Nov +3.8%. Annual growth (%chg from a year ago) peaked back in Aug at +10.6%;



Looking at durable goods only, there is also evidence of a slow-down in growth of new orders;

Durable Goods new orders; Dec +3.6% versus Nov 5%. The annual change peaked back in Aug at 13.4%;



Manufacturer Inventories

Total inventories were unchanged in the latest month;

Mth chg; Dec 0% versus Nov -0.1%

Underlying that result though, inventory for durable goods increased by +0.3% which was offset by a -0.4% decline in non-durable goods inventories.

Durable goods inventory increase was led by Primary Metals, Electrical Equipment and Machinery.

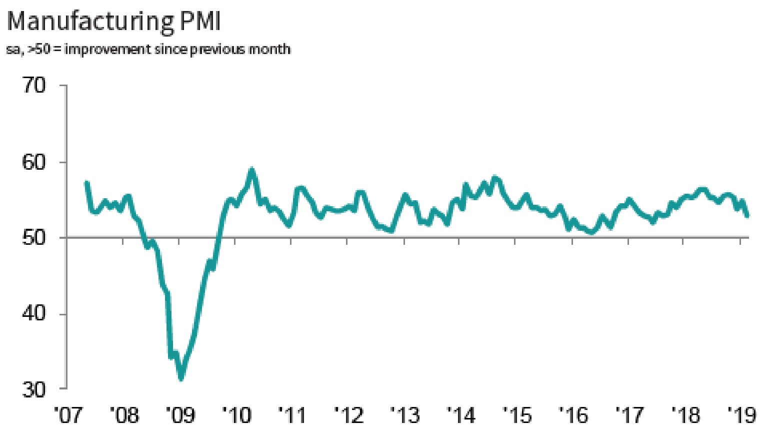
The decline in non-durable goods inventory was led by Petroleum Refineries.

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

US Manufacturing PMI (Feb)

The headline manufacturing index indicated that private sector manufacturing activity continued to grow, but at a slower pace in Feb. Output, new orders and backlogs grew at a slower pace.

Headline PMI; Feb 53 versus Jan 54.9 (-1.9pts)



Production/output continued to grow but at a slower pace – growth was the at the slowest level since Sep 2017.

New orders also expanded at a slower rate – the slowest since Jun 2017. Foreign new orders increased marginally, and growth was slightly faster than in Jan.

Order backlogs also increased "fractionally".

The slower increase in new orders resulted in slower growth in pre-production inventories.

Employment continued to grow.

On prices;

> On the price front, input cost inflation eased to an 18-month low in February. The increase in purchasing prices was nevertheless sharp, reflecting higher raw material costs and tariffs. Factory gate prices rose solidly, albeit at the second-slowest rate since December 2017.

Overall;

> "Having seen demand grow faster than production through much of 2018, order book and output trends have come back into line in recent months, hinting at an alleviation of capacity constraints as demand cools. Backlogs of works barely rose as a result, and price pressures have likewise moderated,

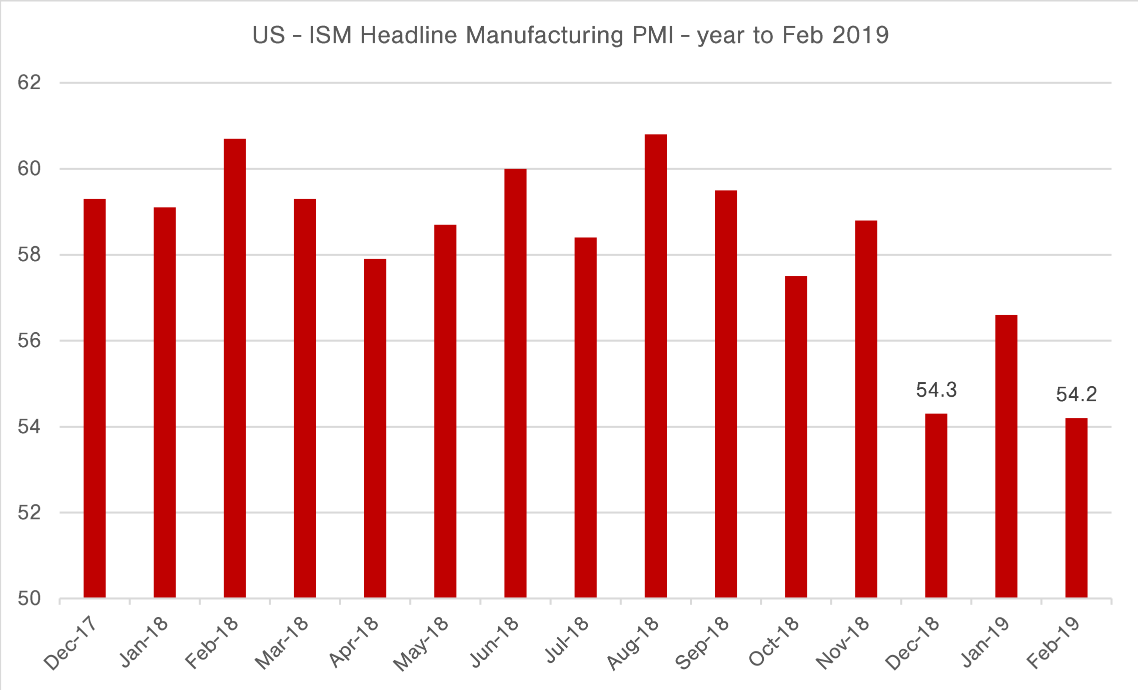
though tariffs were again reported to have pushed costs higher. Hiring has consequently also slowed."

https://www.markiteconomics.com/Survey/PressRelease.mvc/3d072ba188be4cdabd9726916094cecb

ISM Manufacturing PMI (Feb)

Headline manufacturing PMI slipped back to below the low reached in Dec 2018. The fall in the headline index was the result of slower growth across new orders, production and employment.

Feb 54.2 versus Jan 56.6



New order growth slowed in Feb. The index fell from 58.2 to 55.5 in Feb. Despite the fall in the index, the proportion of firms that recorded 'lower' levels of new orders also declined – most of the gain was for firms recording 'the same' levels of activity.

Production activity slowed from a reading of 60.5 in Jan to 54.8 in Feb – a relatively large decline. But again, it's interesting to note that a smaller proportion of firms were recording 'lower' levels of production activity. Most firms shifted from with either 'higher' or 'lower' levels of activity into 'no change'.

Despite the slower growth, order backlogs grew at a slightly faster pace in Feb.

Employment growth slowed from 55.5 in Jan to 52.3 in Feb. The concern here is that the proportion of firms recording 'lower' levels of employment has been steadily increasing since Nov; Nov 8.2% of firms reported lower employment, and this has increased to 13.2% in Feb. The proportion of firms recording higher employment has also been slowing declining.

Firms inventories increased at a faster pace in Feb.

Prices remained in contraction (below the neutral 50 reading).

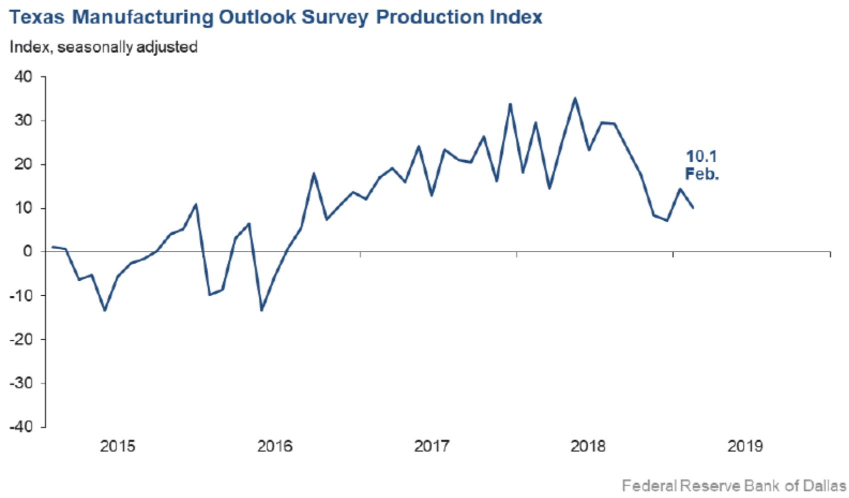
> The Prices Index has dropped 22.2 percentage points over the past four months. "Prices contracted for the second straight month. Decreases were reported in aluminium, steel, steel-based products, various chemicals and plastic resins. Steel prices have returned to more normal levels. Price increases and shortages continue for passive electronic components,"

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

Dallas Fed Manufacturing Survey (Feb)

Factory activity continued to expand in Feb but a slower pace in the region. Production and new orders both grew at a slower pace. Growth in shipments remained unchanged as manufacturers reduced finished goods inventories.

Headline Production Index; Feb 10.1 versus Jan 14.5



New orders grew at a slower pace, falling from 11.6 in Jan to 6.9 in Feb. The growth rate of new orders increased at a slightly faster pace, but expansion remains at a low level. Capacity utilization grew at a much slower pace (slowed by half).

Growth in shipments and unfilled orders remained mostly unchanged. Finished goods inventories shifted into contraction.

Prices paid for raw materials was unchanged while prices received for finished goods grew at a slightly slower pace (and is at a relatively lower level of expansion).

Employment grew at a faster pace. Hours worked grew at a slower pace with growth remaining at low levels.

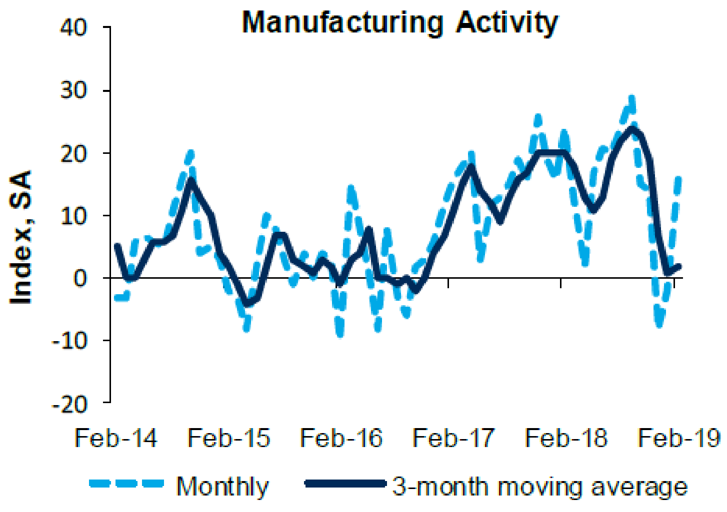
Overall business activity improved versus the month prior from a reading of 1 in Jan to 13.1 in Feb.

https://www.dallasfed.org/research/surveys/tmos/2019/1902.aspx

Richmond Fed Manufacturing Index (Feb)

Manufacturing activity rebounded more convincingly in the latest month, expanding at a faster rate. The faster growth in activity was led by an expansion in the volume of new orders and shipments.

Headline Manufacturing activity Index; Feb 16 versus Jan -2



The return to faster expansion was led by improvements in shipments and new orders with both moving from negative territory to firmly positive readings in Feb.

Firms continued to work through order backlogs which still declined in Feb but at a slower pace than in Jan. At the same time, finished goods inventories also grew at a faster pace.

Capacity utilization also increased at a slightly faster rate.

Employment grew at a slightly slower pace and wages grew at a similar pace as in Jan. The average workweek though grew at an accelerated pace with the index increasing from 3 in Jan to 17 in Feb.

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

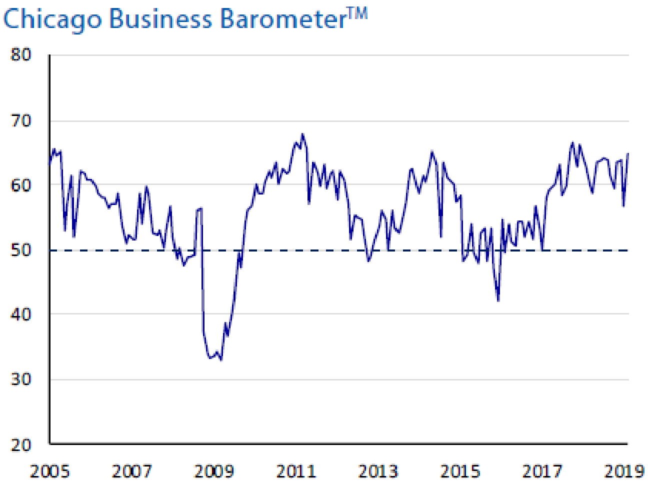
https://www.richmondfed.org/research/regional_economy/surveys_of_business_conditions/manufacturing/2019/mfg_02_26_19

Chicago PMI (Feb)

The Chicago area PMI rebounded in Feb led by an improvement in demand – new orders, production and an increase in order backlogs.

Headline PMI – Business Barometer

Feb 64.7



Indicators of demand mostly led the rebound in Feb – new orders increased by 15.2% pts, production increased by 17.4% pts and order backlogs also increased after declining in Jan.

Inventories contracted for the first time in 7-months.

Employment continued to grow.

Prices paid for raw materials increased for the first time in 7-months.

https://www.ism-chicago.org/insidepages/reportsonbusiness/

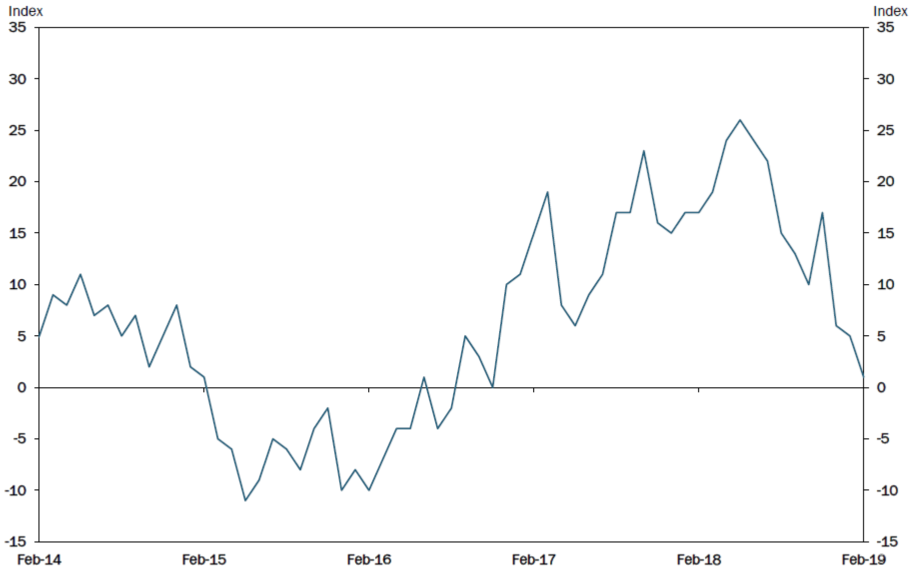
Kansas City Fed Manufacturing Survey (Feb)

In contrast, the Kansas City Fed Manufacturing index indicated that manufacturing activity grew only marginally in Feb. The key measures of demand all fell into contraction – production, shipments, new orders, the volume of new orders and backlog of orders.

Composite Index

Feb 1 versus Jan 5

Chart 1. Manufacturing Composite Index vs. a Month Ago



Production shifted back into contraction in Feb; -4 versus Jan 2. The volume of shipments fell firmly into contraction for the first time in this cycle; Feb -14 versus 6 in Jan. Similarly, the volume of new orders also fell into contraction; Feb -10 versus Jan 1. The contraction in the backlog of orders accelerated; Feb -18 versus Jan -13. For all these measures, the proportion of forms recording a decrease in activity is larger than the proportion of firms reporting increasing activity.

The number of employees increased at a faster rate, but the average employee work-week did not grow (a reading of zero).

Inventories for raw materials shifted into contraction as firms likely kept a handle on stocks. Inventories of finished goods continued to grow, but at a slower pace.

Prices paid for finished goods and raw materials continued to increase but at a slower pace.

https://www.kansascityfed.org/~/media/files/publicat/research/indicatorsdata/mfg/2019/2019feb28mfg.pdf?la=en

Housing

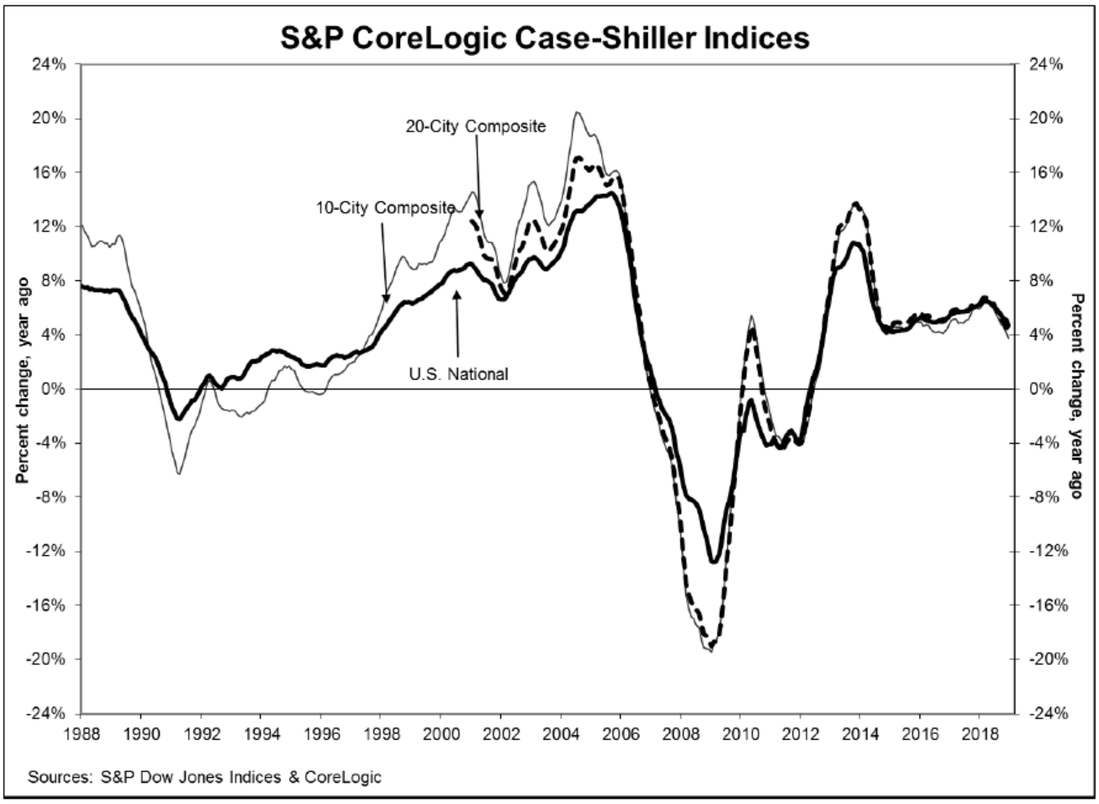
CoreLogic Case Shiller House Price Index (Dec)

Annual US house price growth continued to slow in the final month of the year. On a monthly basis though (seas adj), the National, 10 and 20-city house price indexes increased further in Dec.

National House Price Index;

Annual change; Dec +4.7% versus Nov +5.1%

Month chg (Seas adj); Dec +0.3% versus Nov +0.4%



<u>10-City Composite Price Index;</u>

Annual change; Dec +3.8% versus Nov +4.2%

Monthly change (seas adj); Dec +0.2% versus Nov +0.2%

<u>20-City Composite Price Index;</u>

Annual change; Dec +4.2% versus Nov +4.6%

Monthly change (seas adj); Dec +0.2% versus Nov +0.3%

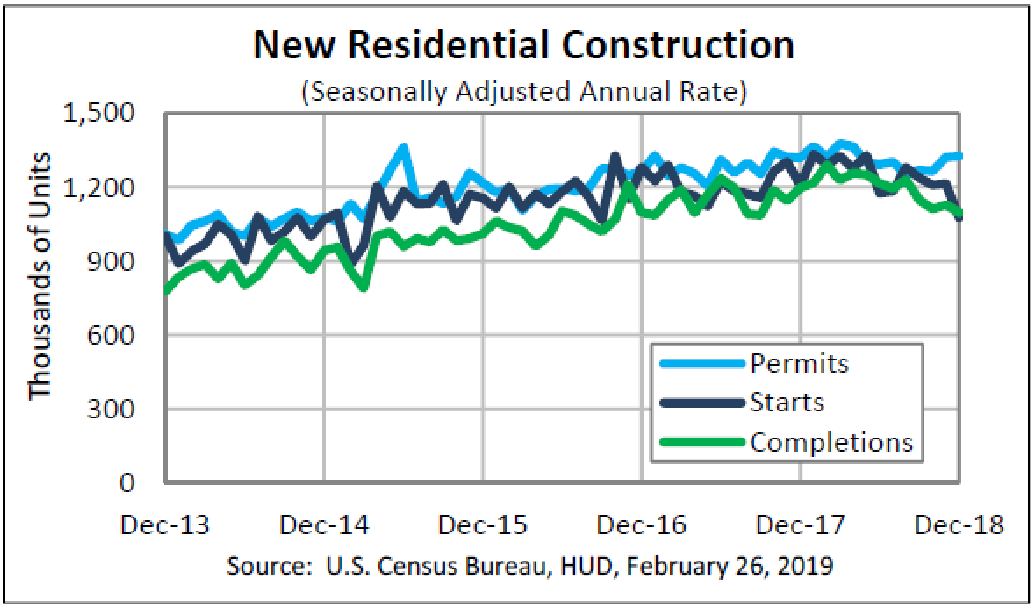
> "Even at the reduced pace of 4.7% per year, home prices continue to outpace wage gains of 3.5% to 4% and inflation of about 2%. A decline in interest rates in the fourth quarter was not enough to offset the impact of rising prices on home sales. The monthly number of existing single-family homes sold dropped throughout 2018, reaching an annual rate of 4.45 million in December. The 2018 full year sales pace was 4.74 million."

https://au.spindices.com/index-family/real-estate/sp-corelogic-case-shiller

New Residential Construction (Dec)

The national-level data for housing permits and housing starts has wide confidence intervals which include zero, making it difficult to ascertain whether there was an increase or a decrease in activity in Dec. Data on permits is a little more robust – its more likely that permits decreased at a national level for 1 and 2-4 units and increased for 5+ units.

The main issue with the data provided is the wide confidence intervals in the monthly and annual % changes. Where the range includes 0% change, it is difficult to ascertain whether there was an increase or a decrease.



Building Permits

Month; Dec 1.326m versus Nov 1.322 (month chg; +0.3% +/- 1.2% pts)

Annual change +0.5% which is also +/- 1.1% pts

At a National level permits were led higher by dwellings with 5+ units. There is greater confidence that the number of permits decreased in Dec for 1-unit and 2-4unit dwelling projects. There is also a high degree of confidence that permits for 5+unit dwelling projects increased in Dec.

On a regional basis, there is a high degree of confidence that permits issued in the Northeast and the Midwest declined in Dec and for the year overall. There is a high degree of confidence that permits issued in the South declined in Dec but increased overall in the last year. There is also a high degree of confidence that permits issued in the West increased in Dec and for the year overall.

New Privately-Owned Housing Units Started

Month; Dec 1.078m versus Nov 1.214m (month chg; -11.2% with a +/- 14% pt range)

Annual change -10.9% which also has a +/- 16.1% pt range

Across the type of dwelling and region, the confidence intervals don't provide any certainty that there was at least an increase or a decrease in housing starts.

https://www.census.gov/construction/nrc/index.html

Pending Home Sales Index (Dec)

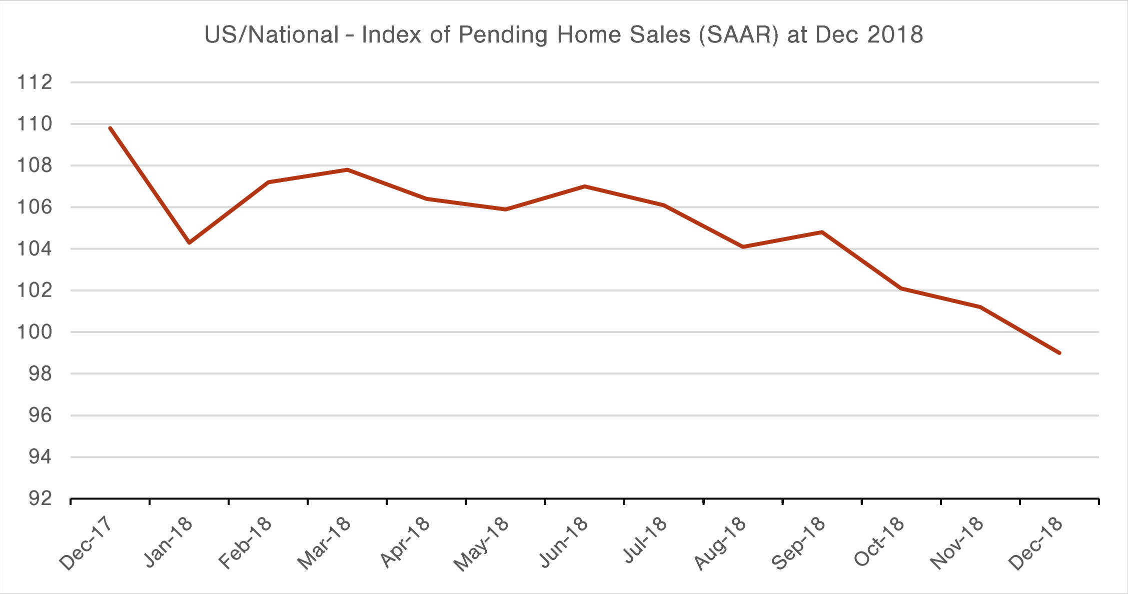
The index of pending home sales has continued to decrease in Dec. Declines were recorded across most regions in the month except the West. All regions recorded lower levels of pending sales versus a year ago.

The index leads existing home sales by 1-2months and suggests that sales of existing homes are likely to remain subdued.

National Pending Home Sales Index;

Month chg; Dec 99 versus Nov 101.2 (-2.2%)

Annual chg; Dec -9.8% (versus same mth a year ago)



In decline in the latest month was led by; South -5%, Midwest -0.6% and Northeast -2%. Pending home sales in the West increased for the second month +1.7%.

The index of pending home sales in all regions remains well below the same time last year;

Northeast -2.5%, Midwest-7.2%, South -13.5% and West -10.8%

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

US Mortgage Applications

In the latest week, mortgage applications increased by +5.3% versus the prior week (seas adj).

The Purchase Index (NSA) was 3 percent higher than the same week one year ago.

https://www.mba.org/2019-press-releases/february/mortgage-applications-increase-in-latest-mba-weekly-survey-x248874

US Fed Speeches

US Fed Chairman Powell – semi-annual monetary policy report to the Committee on Banking, Housing, and Urban Affairs, U.S. Senate (two days)

US Fed Chairman Powell - Recent Economic Developments and Longer-Term Challenges, at the Citizens Budget Commission 87th Annual Awards Dinner, New York, New York

US Fed Vic Chairman Clarida - opening remarks on "Promoting Global Growth and Domestic Economic Security" at the 35th Annual NABE Economic Policy Conference in Washington DC.

US Fed Vice Chairman Clarida - A Conversation with Community Leaders in Southern Dallas and Moderated discussion with Dallas Fed President Robert S. Kaplan

Atlanta Fed President Bostic - panel about "Economic and Housing Landscape" at the 2019 Banking Outlook Conference in Atlanta, GA, with audience Q&A.

Philadelphia Fed President Harker - speech on economic outlook at The Philadelphia Inquirer's Influencers of Finance in Philadelphia.

Dallas Fed President Kaplan – moderated Q&A at the Real Estate Council of San Antonio in San Antonio.

Atlanta Fed President Bostic – "fireside chat" on economic outlook and monetary policy at the 35th annual NABE Economic Policy Conference in Washington, DC, with audience Q&A.

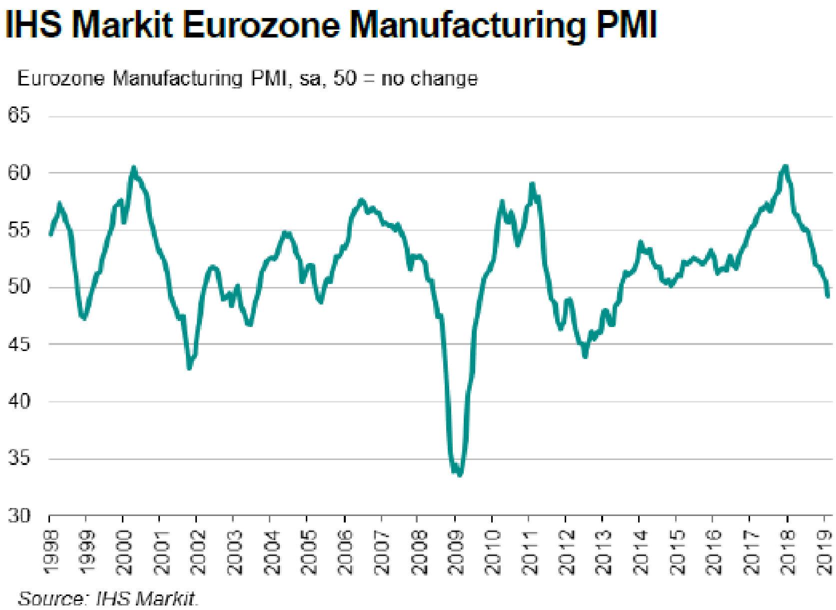
Return to top

Europe

Eurozone Manufacturing PMI (Feb)

The headline index of private sector manufacturing activity across the Eurozone fell into contraction in Feb. This was led by several of the larger manufacturing economies – Italy, Germany and Spain. Indicators of future demand show that risks remain to the downside.

Feb 49.3 versus Jan 50.5



Output shifted into contraction for the first time in over five years.

This was exacerbated by the 'sharpest fall in new work received since April 2013'. Export orders fell for a sixth successive month and to the 'greatest degree for over six years'.

Order backlogs continued to decline, falling for the 6th-month in a row.

Inventories of finished goods continued to grow, albeit slightly.

Despite the weakening demand picture, employment continued to grow. Germany recorded the strongest growth followed by Greece and Ireland. Employment growth was marginal in Italy and Spain.

Input price pressures continued to abate, led by lower prices for oil-based products. Output prices grew at a slower rate.

> "In addition to widespread trade war worries, often linked to US tariffs, and concerns regarding the outlook for the global economy, companies report that heightened political uncertainty, including Brexit, is hitting demand and driving increased risk aversion."

https://www.markiteconomics.com/Survey/PressRelease.mvc/1e8eadb61abe40b4b97c3c5655216df9

Eurozone CPI – Prelim (Feb)

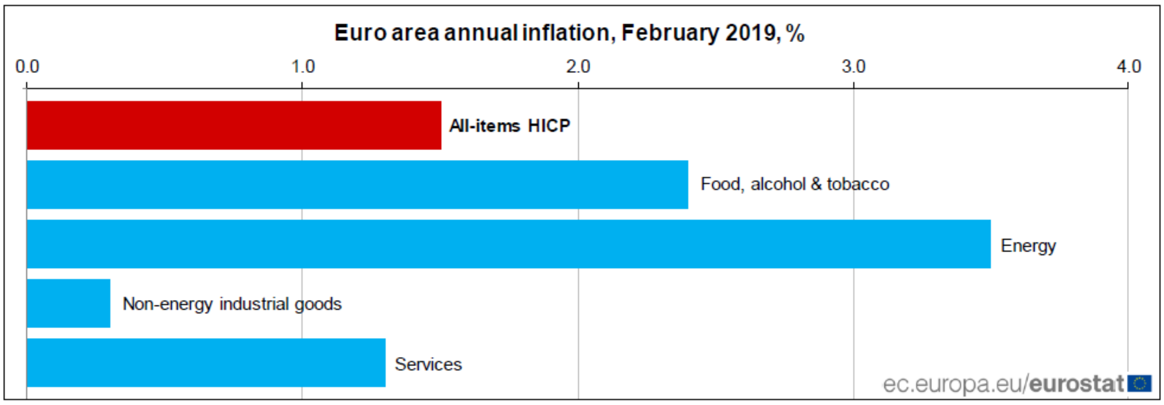
The prelim report for CPI growth in the Euro area indicated that CPI grew at a slightly faster annual pace in Feb.

Feb +1.5% versus Jan 1.4%

Faster growth in both Food and Energy prices led overall annual CPI growth higher in the month;

Food Prices; Feb +2.4% versus Jan +1.8% - led by a sharp acceleration in unprocessed food prices and faster growth in processed food, alcohol and tobacco prices.

Energy prices; Feb +3.5% versus Jan +2.7%



Annual growth in Core CPI – ex food and energy products remained constant;

Feb +1.2% versus Jan +1.2%

https://ec.europa.eu/eurostat/documents/2995521/9627990/2-01032019-AP-EN.pdf/f4bd2b9c-9c97-4a66-a359-7463dfe5d8aa

Germany CPI – Prelim (Feb)

The annual change in the headline CPI increased at a slightly faster pace in Feb as a result of faster growth in goods prices (energy and food). Price growth overall remains low and well below the ECB target of 2%.

Headline CPI – ann chg; Feb +1.6% versus Jan +1.4%

The higher growth was the result of faster growth in Goods prices;

Goods; Feb +2.4% versus Jan +1.3%. The annual change in foods prices increased from +0.8% in Jan to +1.5% in Feb. Energy prices also increased from +2.3% in Jan to +2.9% in Feb.

Growth in Services prices remained stable; Feb +1.4% versus Jan +1.4%

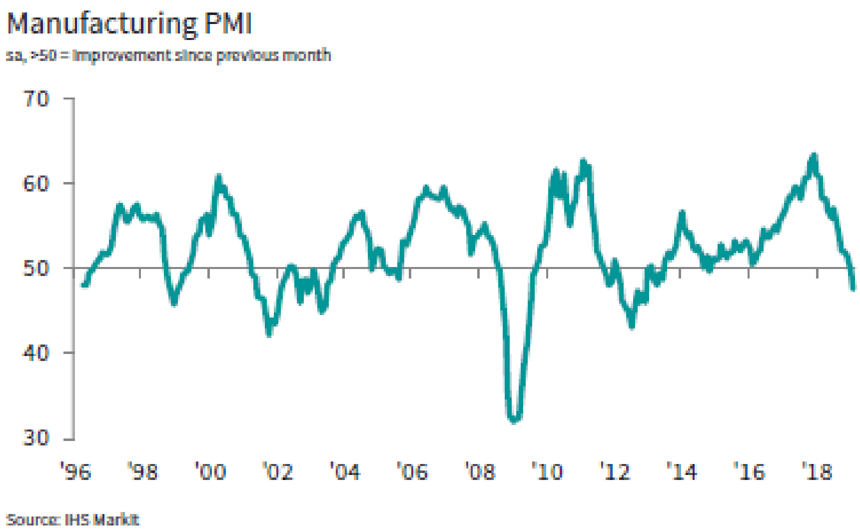
The full Feb report will be released 14 Mar 2019

https://www.destatis.de/EN/PressServices/Press/pr/2019/02/PE19_073_611.html

Germany Manufacturing PMI (Feb)

German manufacturing activity continued to contract in Feb with a sharper deceleration recorded. Activity across most sub-components contracted, except for employment.

Feb 47.6 versus Jan 49.7 (-2.1pts)



Output decreased for the first time in six years. This was led by intermediate and capital goods producers while consumer goods sector production increased.

The decline in new orders was faster in Feb. New export orders fell the most since Oct 2012 – firms cited weaker demand from Asia (China), Brexit concerns and increasing competition.

Purchasing activity continued to fall. Stocks of purchases held by manufacturers fell in Feb. Inventories of finished goods on the other hand increased for the fifth month in a row, just slightly below the joint fastest rate recorded in Jan.

Employment continued to grow, led by goods producing firms.

Measures of confidence eased – with firms citing concerns over Brexit, trade wars, the car industry and economic slowdown.

https://www.markiteconomics.com/Survey/PressRelease.mvc/d8762f4af36348609bd1c7cd0681fa57

Germany Q4 GDP – Detailed Release

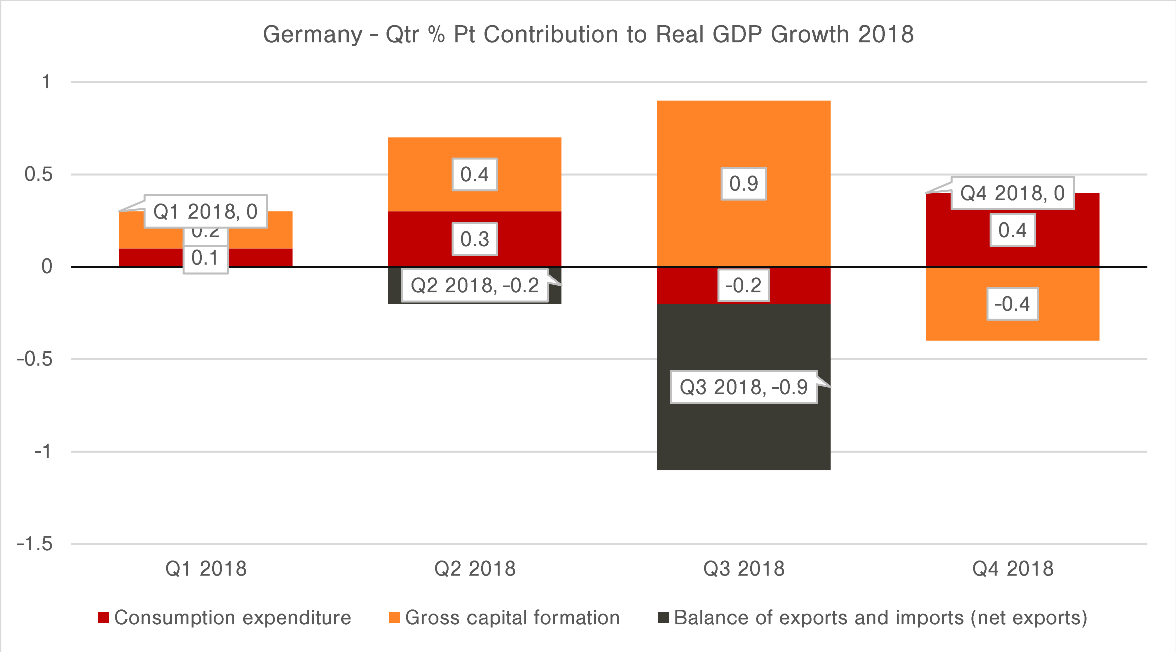
From w/c 18 Feb 2018

Germany Q4 GDP growth was confirmed at 0.0%, narrowly missing a technical recession. The detail of the quarter on quarter changes highlights that the positive contribution from consumption expenditure was offset by a decline in gross capital formation. Net trade made zero contribution to overall growth in Q4.

Q4 GDP growth 0% versus Q3 -0.2%

Q4 versus the same quarter a year ago; +0.9%

In Q4 2017, annual GDP growth was +2.2%



Q4 detail;

Consumption expenditure contributed +0.4%pts to the headline growth of 0%. There was an improvement in household consumption expenditure, which grew by +0.2% in Q4. Government consumption expenditure added the bulk to overall consumption expenditure growing by +1.6% in the quarter.

Gross Capital Formation detracted from growth by -0.4% pts after making a much larger contribution in the quarter prior. The detail highlights that capital expenditure (gross fixed capital formation) increased slightly but was offset by the change in inventories detracting -0.6%pts in Q4.

Net Exports made zero contribution to growth. Exports in real terms improved versus the prior quarter increasing from -0.9% to +0.7%. Import growth in real terms slowed from +1.3% to +0.7%.

https://www.destatis.de/EN/PressServices/Press/pr/2019/02/PE19_064_811.html

Return to top

Japan

Industrial Production – Prelim (Jan)

Prelim industrial production data showed that production, shipments and inventories fell in the latest month. The declines in the month were relatively large and across many of the larger weight categories in the index. The annual changes were not as pronounced.

Monthly Change (seas adj);

While the monthly declines are large for production and shipments, they are comparable to the monthly declines recorded at the same time last year.

Total Industrial Production; Jan -3.7% versus Dec -0.1% (the monthly decline in Jan 2018 was -4.7%)

The decline was led by the larger weight categories; transport equipment -6.4%, electrical machinery -10%, general purpose and business machinery -6.4% and iron, steel and non-ferrous metals -5.3%

Total Shipments; Jan -4% versus Dec 0% (the decline in Jan 2018 was -4.9%)

The decline was led by; transport equipment -11% (passenger cars down -11.7%), info and comms electrical equipment -6%, electrical machinery and info comms equipment -4.1%, production machinery -8%.

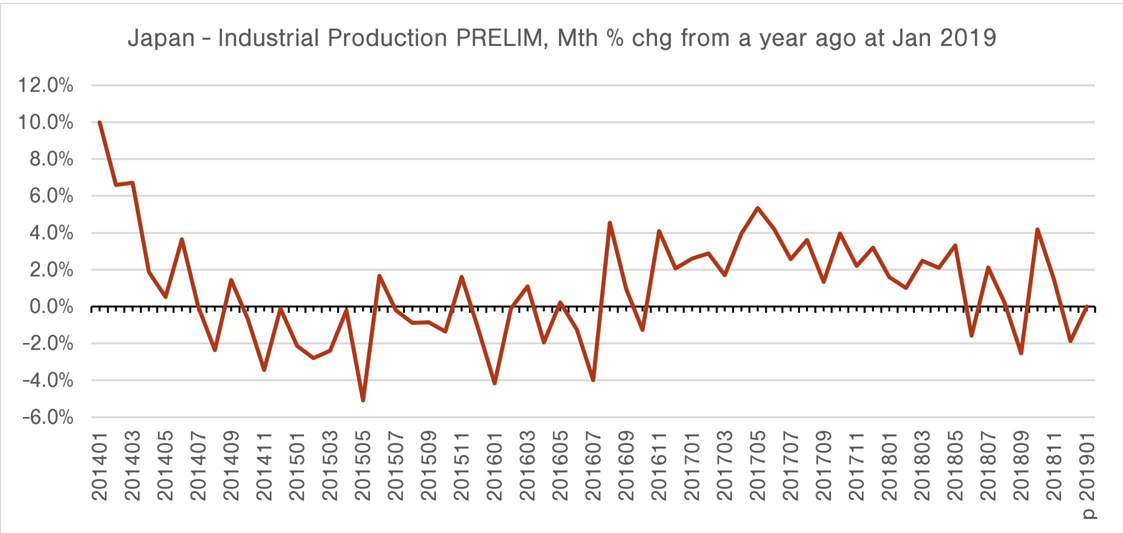
Inventories; Jan -1.5% versus Dec +1.7% (the decline in Jan 2018 was -0.6%)

Inventory Ratio; Jan +0.8% versus Dec +5.1%

Annual % chg from a year ago (orig);

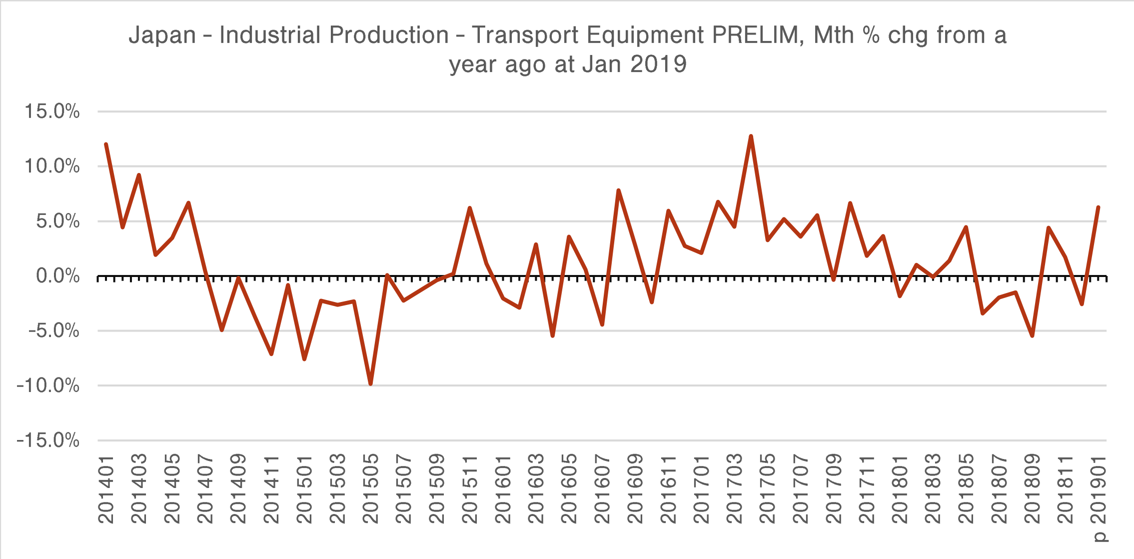
Total Industrial Production; Jan 0% versus Dec -1.9%

Despite the declines in Jan, total production is on par with that of a year ago;

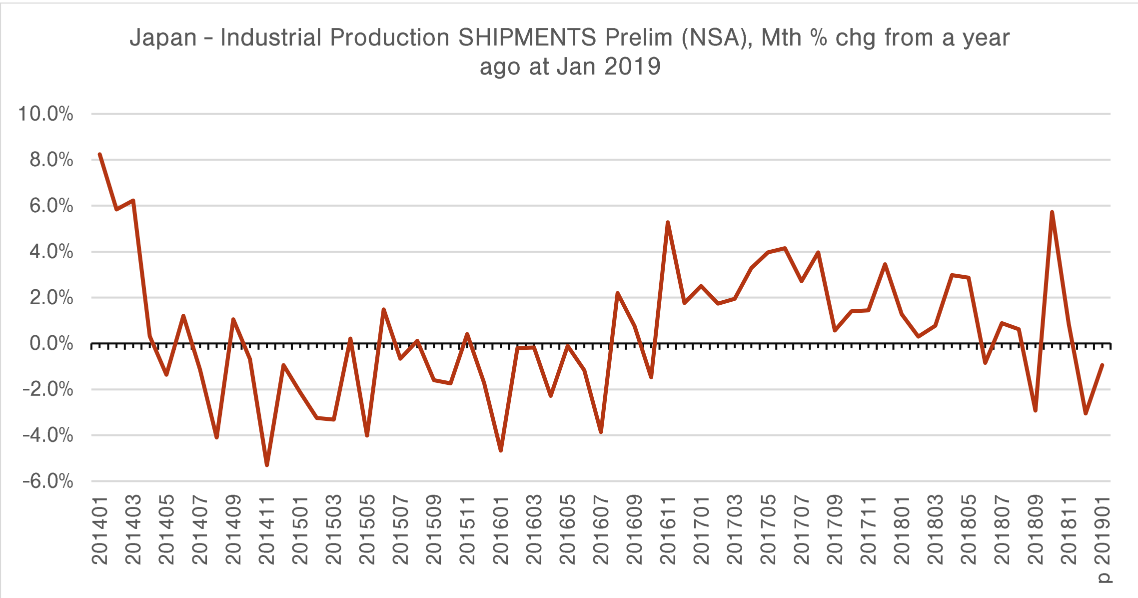


Several of the larger weight categories remain below last year; Iron, steel and Non-ferrous metals -3%, General-purpose and business-oriented machinery -2.2%, Electronic parts and devices -3.5%, Electrical machinery, and Information and communication electronics equipment -6.4%.

But the production index for the single largest weight category, transport equipment, remains +6.3% above last year (passenger cars +6.6%);

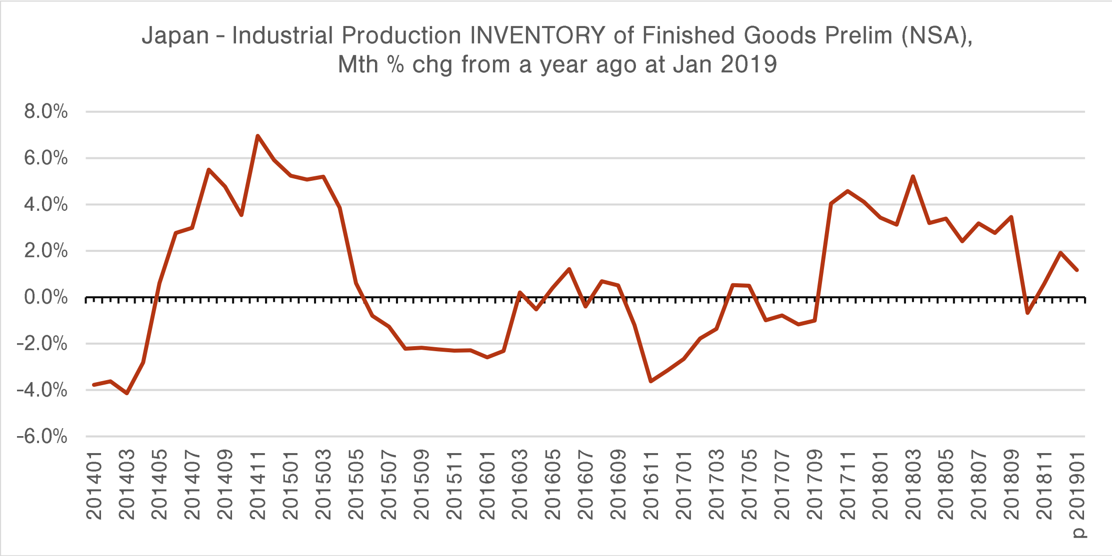


Shipments; Jan -0.9% versus Dec -3.1%



Shipments declined at a slower pace compared to the annual decline recorded in the month prior, led by; General-purpose and business-oriented machinery -3.3%, Electrical machinery, and Information and communication electronics equipment -6.7%. Again, shipments of transport equipment out-performed, increasing by +0.5%.

Inventory; Jan +1.2% versus Dec +1.9%



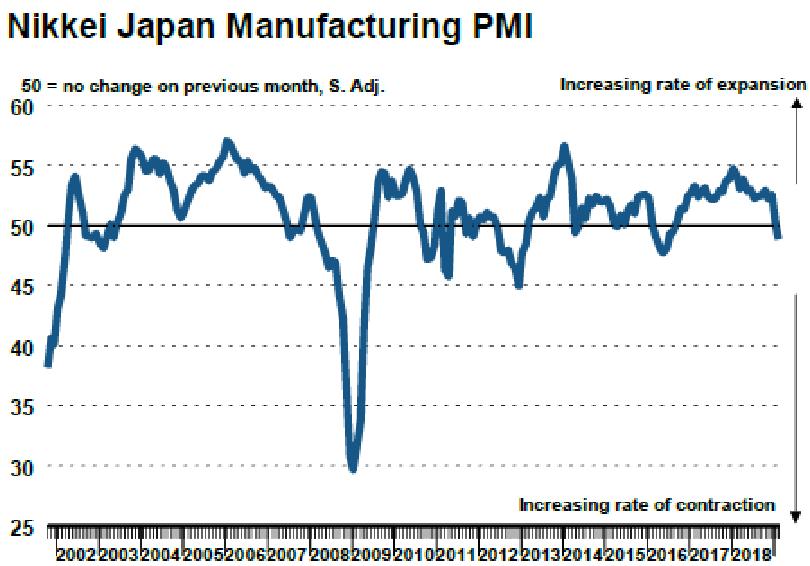
Inventory continued to increase versus a year ago but grew at a slightly slower pace. The increase was led by General-purpose and business-oriented machinery +19.1%, Electronic parts and devices +20.2%, Petroleum and coal products +3.3% and Other Manufacturing +3%.

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

Nikkei Manufacturing PMI (Feb)

The headline indicator of private sector manufacturing activity fell into contraction in the latest month. This was led by declining production and new order activity – for both domestic and export markets.

Manufacturing PMI; Feb 48.9 versus Jan 50.3



Sources: Nikkei, IHS Markit

Production volumes declined for the second month in row. New orders declined at the fastest rate in over 2.5-years and the weakness was across both domestic and export markets.

Order backlogs fell at the sharpest rate in 32 months.

Output expectations were reduced further and are now at a neutral level.

> Global trade frictions, downbeat demand forecasts and the impending consumption tax hike were cited as risks to the outlook.

Employment growth was modest at best.

Costs increased for raw materials, labour and transport but was still the softest growth in 16-months.

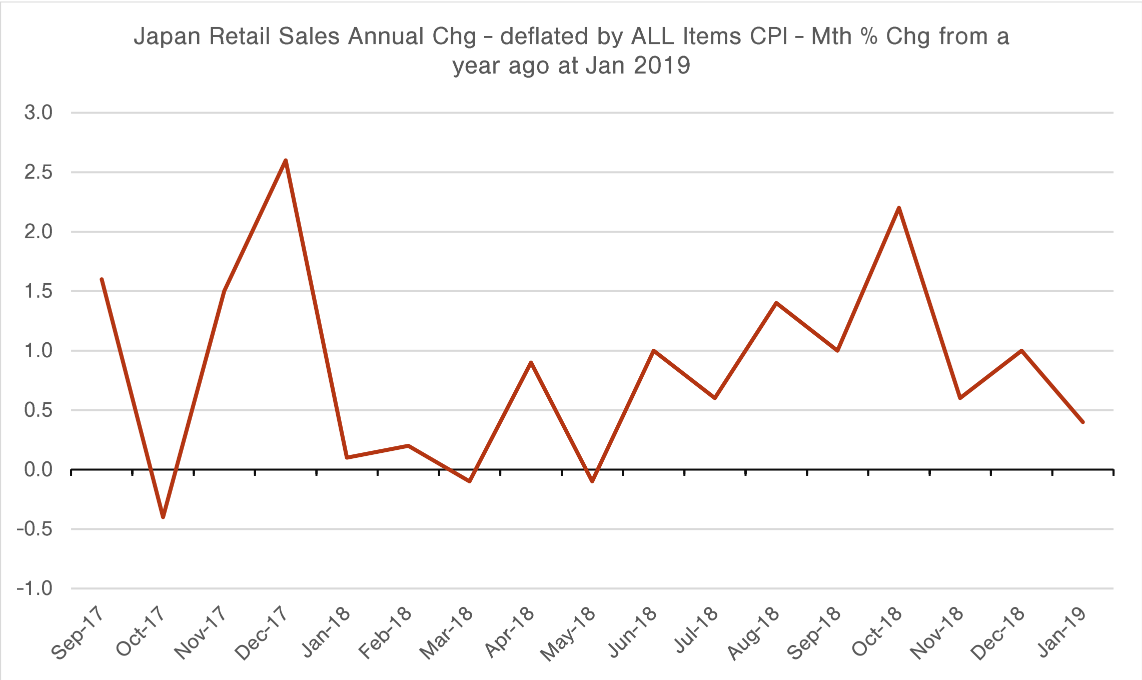
https://www.markiteconomics.com/Survey/PressRelease.mvc/6c443ec64f204116aafd715ecb44319b

Retail Trade (Jan)

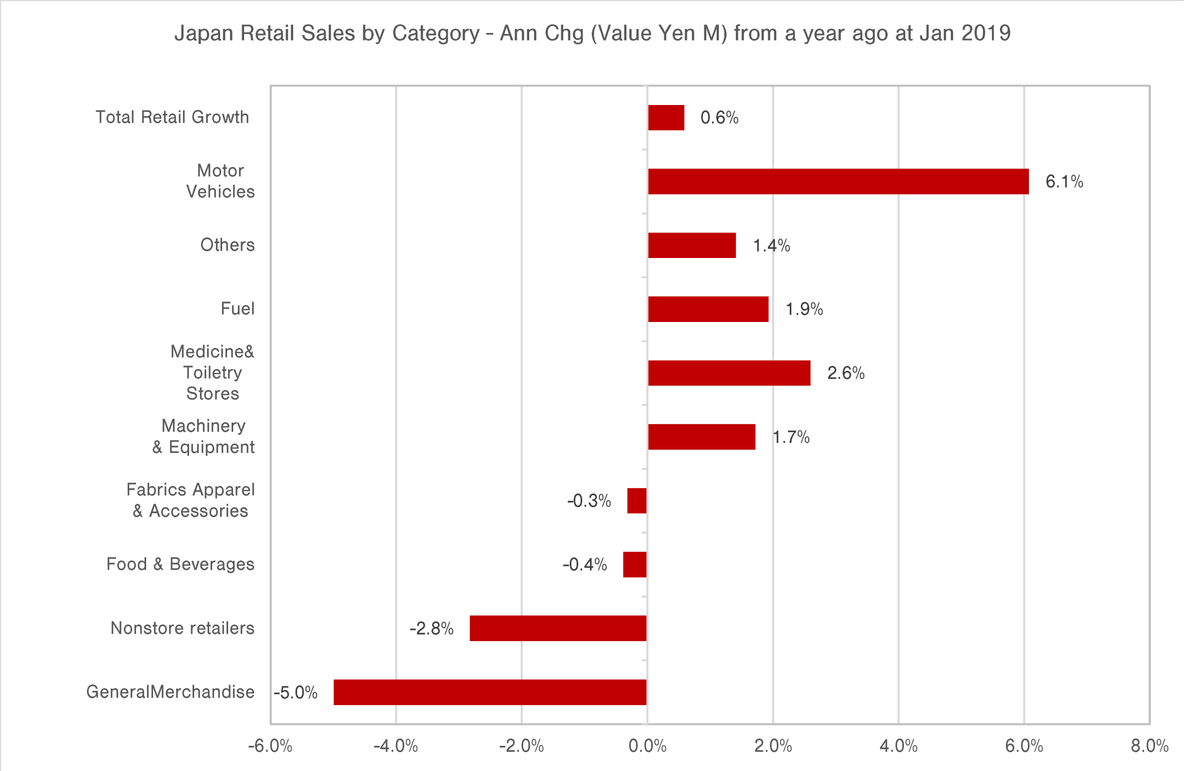
Retail sales declined in Jan and growth versus a year ago has continued to slow. Deflating the headline retail sales by all-items CPI results in the same trend on an annual basis, with real retail sales growth slowing.

Retail sales Mth chg; Jan -2.3% versus Dec +0.9%

Retail sales ann chg versus a year ago; Jan +0.6% versus Dec +1.3%



On a year ago basis, sales of cars and other retail were the only two categories where annual retail sales increased between Dec and Jan.



In categories such as Food & Bev (the largest category by value in Jan), some of the decline can be explained by further falls in prices of -1.5% (see CPI report below). Deflating the food & bev retail sales value by the food CPI results in the annual growth in Jan shifting from -0.4% to +1.1% in real terms for food & bev. At a total level though, real retail sales growth is still slowing.

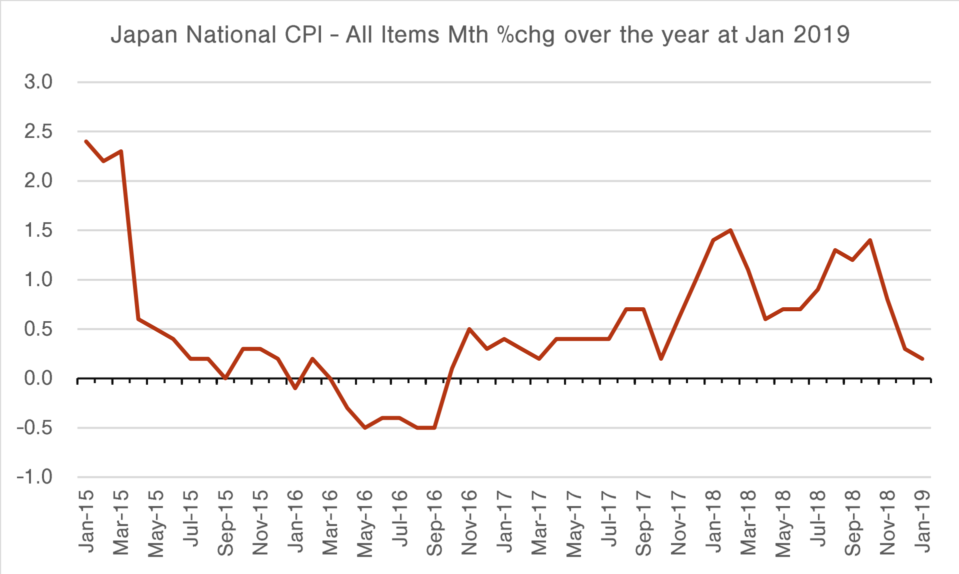
http://www.meti.go.jp/english/statistics/tyo/syoudou/index.html

National CPI

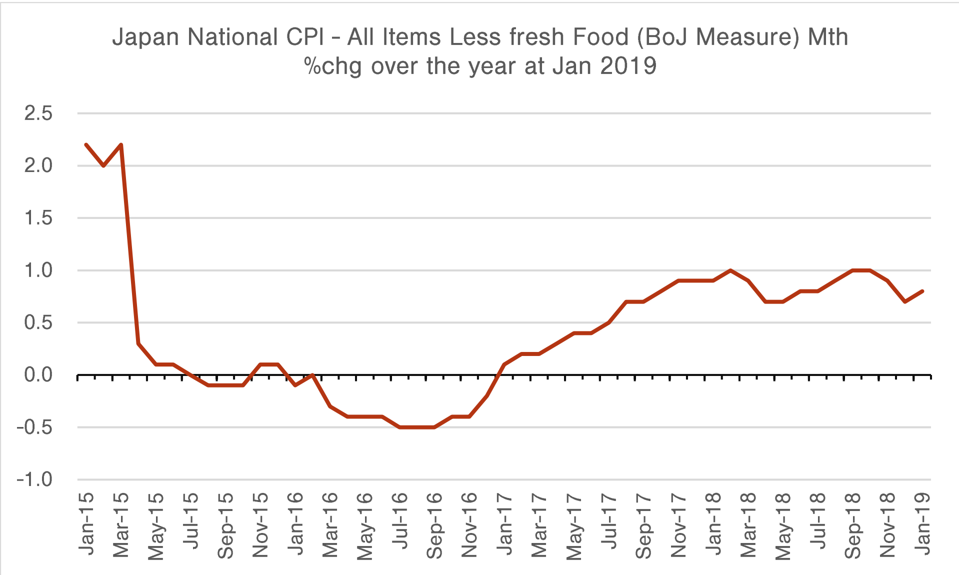
From w/c 18 Feb 2019

The annual headline growth in Japan CPI slowed further in the latest month from +0.3% in Dec to +0.2% in Jan.

This was led by declines in Food prices (Total Food -1.5% and Fresh Food -11.1%) as well as continued slower growth in Energy prices (+4.9% in Jan from +6% in Dec), with overall Transport and Communication prices declining by -0.2% and Housing prices also declining by -0.1%.



The BoJ preferred measure is CPI ex Fresh Food; on an annual basis, this measure of CPI grew at a slightly faster rate in Jan of +0.8% versus +0.7% in Dec 2018;



This remains well short of the BoJ target of 2%.

Energy prices have continued to impact at the CPI level, so another measure of the underlying inflation is CPI ex fresh food and energy, which is growing at an annual rate of +0.4% in Jan.

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

Return to top

United Kingdom

Brexit

Some signs of a path through the Irish border backstop issue?

> Speaking to German newspaper Die Welt, Mr Barnier said: “We know that there are misgivings in Britain that the backstop could keep Britain forever connected to the EU. This is not the case. And we are ready to give further guarantees, assurances and clarifications that the backstop should only be temporary.”

The EU negotiator for Brexit indicated that an ‘interpretive document’ could be developed to outline the guarantee, but that there would not be a time limit placed on the backstop nor could the UK pull out of the agreement. https://www.irishtimes.com/news/world/uk/brexit-barnier-doubts-whether-uk-will-leave-eu-on-schedule-1.3812513

This comes as Sir Graham Brady (that led the win on the ‘Brady amendment’ in late Jan to remove the Irish backstop and replace it with ‘alternative arrangements’);

> “…suggested he will recommend that MPs back it – if the prime minister secures new assurances on the Irish backstop.”

Note; The backstop is only meant to remain in place until such time that the EU and the UK negotiate a new trade deal for the post-Brexit regime.

At this stage, the meaningful vote on Brexit in the UK parliament is scheduled for the 12 Mar. If the vote does not pass, PM May has agreed to a vote to delay Brexit.

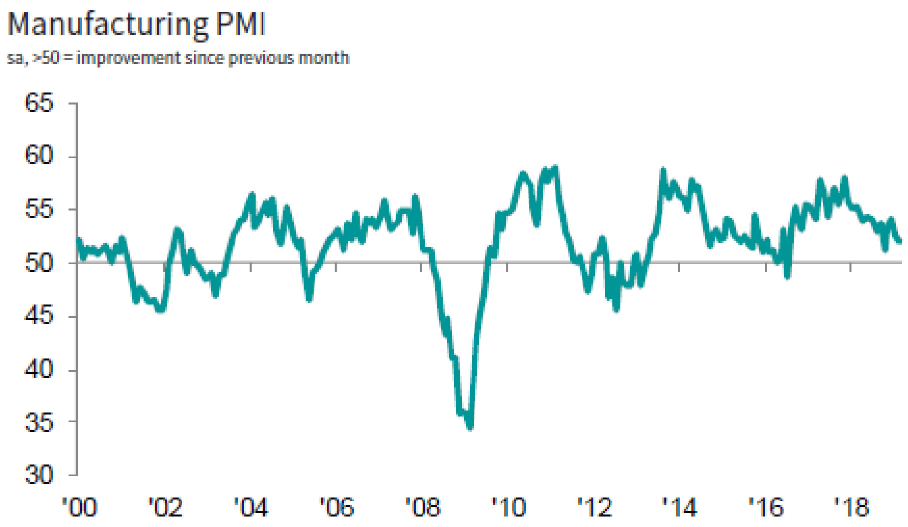
> “May’s decision last week to hold a vote on delaying Brexit if her deal is rejected again, coupled with Labour’s coming out more clearly in support of a second referendum, have been key factors in persuading many Conservatives to consider switching their vote to support the prime minister.” https://www.theguardian.com/politics/2019/mar/03/mays-hopes-rise-as-senior-tory-mps-soften-opposition-to-brexit-deal

The UK Attorney General Geoffrey Cox has been in Brussels to work in developing this additional appendix that states that neither side intends for the Irish border backstop to be permanent. He will return to Brussels this week for further talks.

Manufacturing PMI (Feb)

The UK manufacturing PMI indicated that manufacturing growth eased slightly in Feb. Manufacturers remained in planning mode for Brexit as purchasing activity and inventories were increased.

Feb 52 versus Jan 52.6



Production activity increased in Feb as firms worked through order backlogs and began to build stock in preparation for Brexit.

Growth in new orders was at a neutral/no growth level. Domestic orders slowed and new export orders continued to decrease.

Pre-production inventories increased to the greatest extend in the survey history. Stock build-ups were attributed to Brexit.

Employment was reduced for the second month in a row.

Input cost increases continued to ease.

Manufacturer confidence fell;

> "Manufacturers' optimism regarding future output fell to its lowest level in the series history in February. Positive sentiment was either at, or near to, record lows across the consumer, intermediate and investment goods sectors."

> "The UK manufacturing sector continues to suffer the slings and arrows of outrageous fortune as the harsh realities of Brexit uncertainty, challenges in the global economy and a weak pound affected confidence, jobs and overall activity."

https://www.markiteconomics.com/Survey/PressRelease.mvc/8467d1324cdc4d80a8901d90b2e62352

Return to top

Canada

CPI (Jan)

Growth in the headline CPI continued to slow in Jan. The slower growth was mostly the result of further falls in energy prices.

Headline CPI; Jan +1.4% versus Dec +2%

CPI ex gasoline slowed; Jan +2.1% versus Dec +2.5%

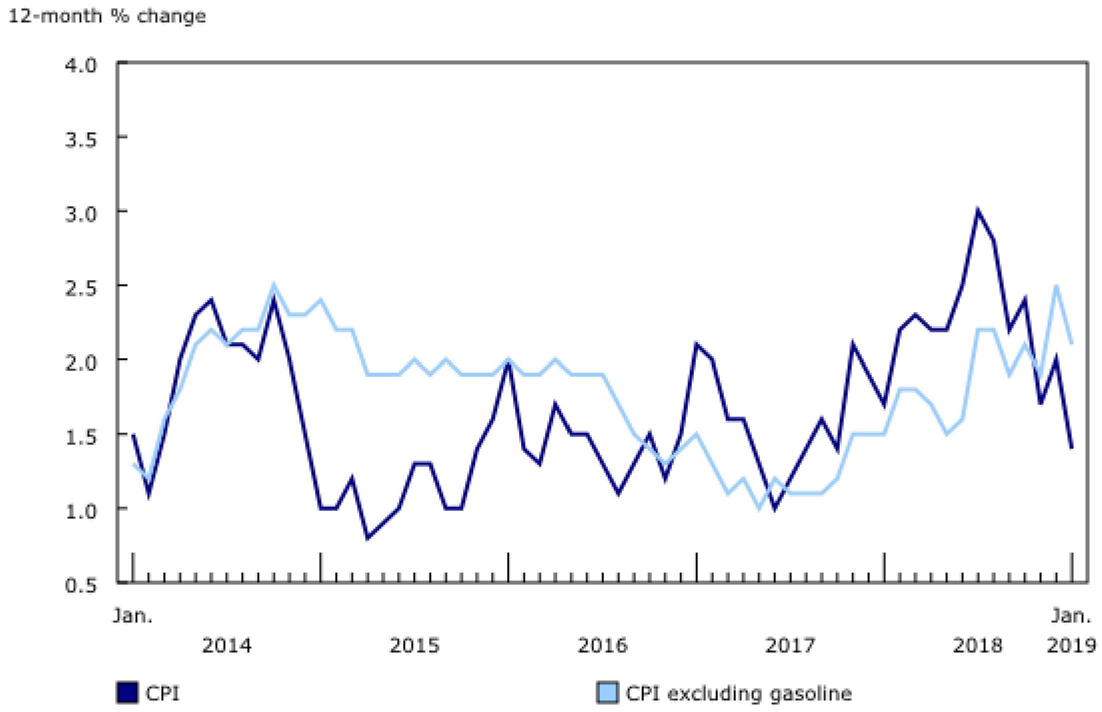


Table 5
Main contributors to the 12-month and 1-month change in the Consumer Price Index

	January 2018 to January 2019
	% change
Main contributors to the 12-month change	
Main upward contributors	
Mortgage interest cost	7.8
Food purchased from restaurants	3.5
Passenger vehicle insurance premiums	5.3
Fresh vegetables	13.2
Rent	2.2
Main downward contributors	
Gasoline	-14.2
Digital computing devices and equipment	-9.2
Traveller accommodation	-3.2
Natural gas	-2.3
Prescribed medicines (excluding medicinal cannabis)	-2.9

BoC measures of core CPI remain unchanged;

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

	October 2018	November 2018	December 2018	January 2019
	% change			
CPI-common[3,5]	1.9	1.9	1.9	1.9
CPI-median[4,6]	2.0	1.8	1.8	1.8
CPI-trim[4,7]	2.1	1.9	1.9	1.9

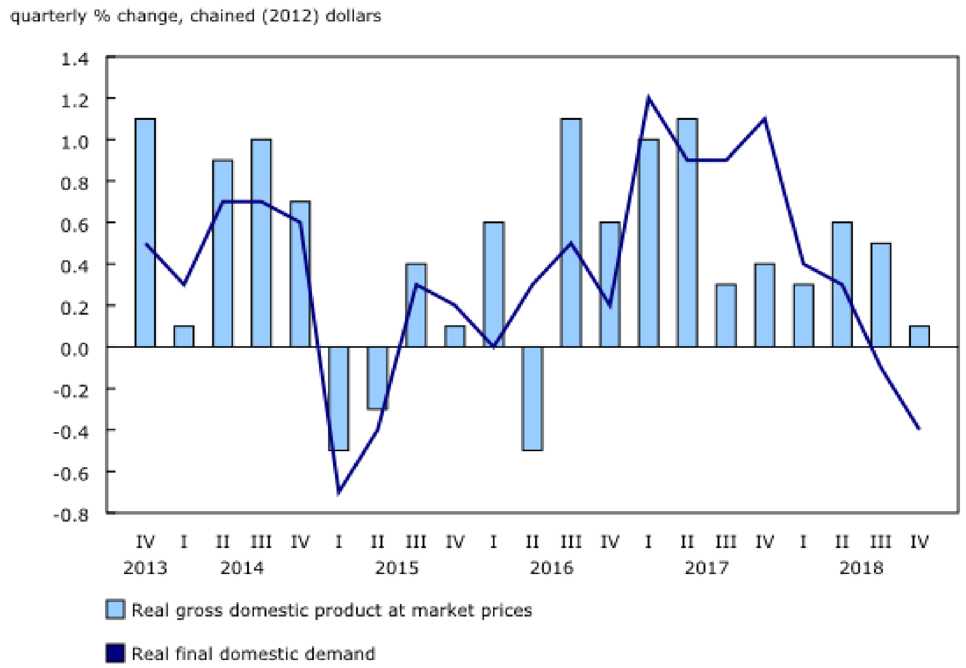
https://www150.statcan.gc.ca/n1/daily-quotidien/190227/dq190227a-eng.htm?HPA=1&indid=3665-1&indgeo=0

GDP Q4

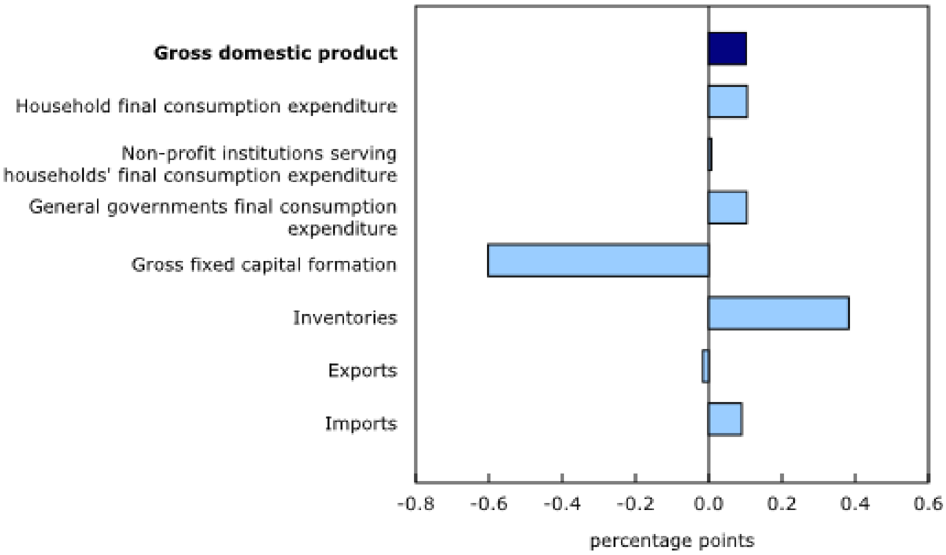
Overall real output growth slowed in Q4 to a mere 0.1%, from +0.5% in Q3. Lower growth was the result of slower growth in household consumption and a substantial decline in non-residential investment spending.

Q4 GDP growth; +0.1% versus Q3 +0.5%

Annual change in GDP growth has slowed from 3% in Q4 2018 to +1.8% in Q4 2018.



Contribution to GDP growth in Q4; +0.102 quarter growth



<u>Household Consumption Expenditure</u>; contributed +0.105% pts

Housing investment fell 3.9% including a fall in new construction (-5.5%), renovations (-2.7%) and ownership transfer costs (-2.6%).

<u>Govt Consumption Expenditure</u>; +1.04% pts

<u>Gross Fixed Capital Formation</u>; -0.602% pts

Investment in non-residential structures and machinery & equipment fell sharply by -2.9% and investment in non-residential buildings declined by 3.1%. Investment spending on engineering structures fell 4.3% after declining by 3.1% in the prior quarter. Machinery and equipment investment decreased 1.2%, after a 3.9% decline in the third quarter.

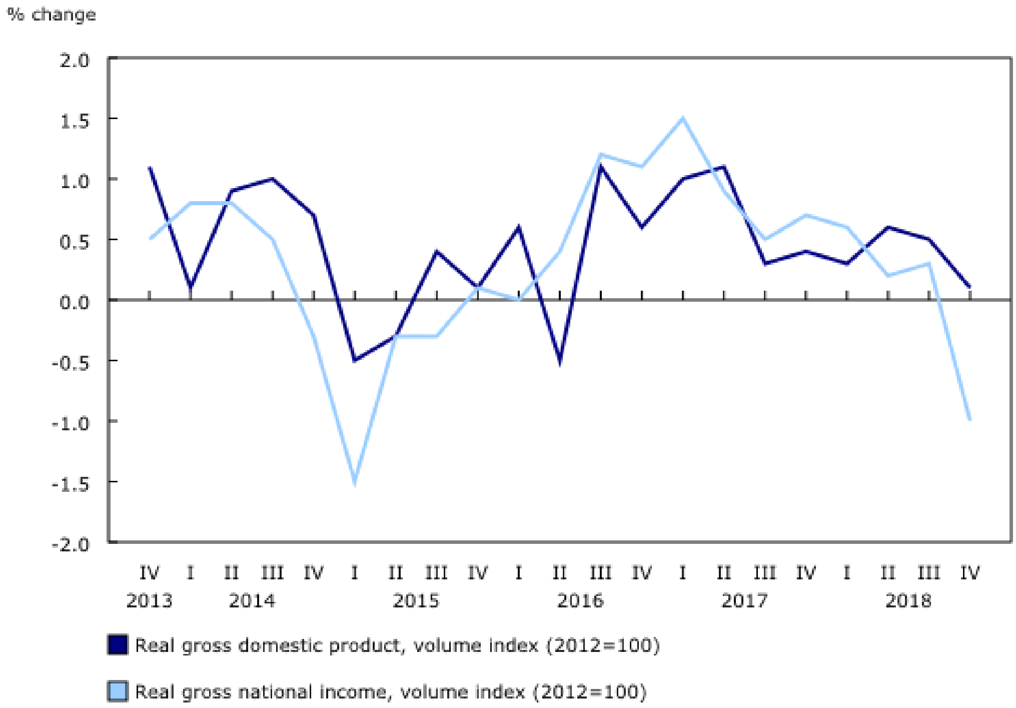
<u>Inventories;</u> +0.382% pts

The inventory build resulted in the value of real inventories increasing to the more average level recorded in 2018. Q3 inventories were lower than in the rest of the year.

<u>Net exports</u>; +0.106% pts (exports -0.016% pts while imports +0.09% pts)

The fall in crude oil prices has impacted the Terms of Trade with the index falling by -3.6% - the largest fall since Q1 2009.

The fall in the ToT resulted in a 1% decline in real gross national income;

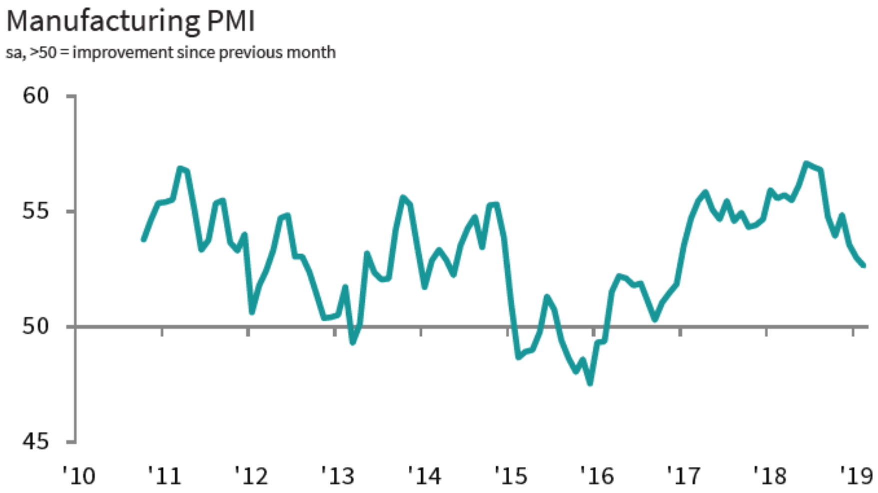


https://www150.statcan.gc.ca/n1/daily-quotidien/190301/dq190301a-eng.htm

Manufacturing PMI (Feb)

The growth in private sector manufacturing activity slowed further in the latest month.

Feb 52.6 versus Jan 53



Production volumes increased slightly – now 'fractionally' above the 25-month low recorded in Jan. Firms cited subdued client demand the result of trade frictions and economic uncertainty. Firms also indicated that higher costs for steel-intensive items was resulting in lower export competitiveness.

New orders expanded at a slightly faster pace with growth remaining low.

Employment grew at the slowest pace since the start of 2017. Margin pressure and softer client demand have held back employment growth.

Input cost increases moderated but higher costs were still associated with tariffs on metals.

https://www.markiteconomics.com/Survey/PressRelease.mvc/2936e409212b4ba898cf52e3e00a2d47

Return to top

Australia

Construction Work Done Q4

In real terms, construction work done in Q4 continued to decline but at a somewhat slower pace than in Q3 (which was revised lower).

In the Dec quarter, the decline was led by falls in activity across both public and private sectors. The two largest contributors to the decline in construction work done this quarter were; Private sector building contributing -1.37%pts and public sector engineering construction also contributing -1.85% pts to the quarterly decline of -3.1%.

The data in this release covers approx. 85% of both building and engineering work done in the quarter.

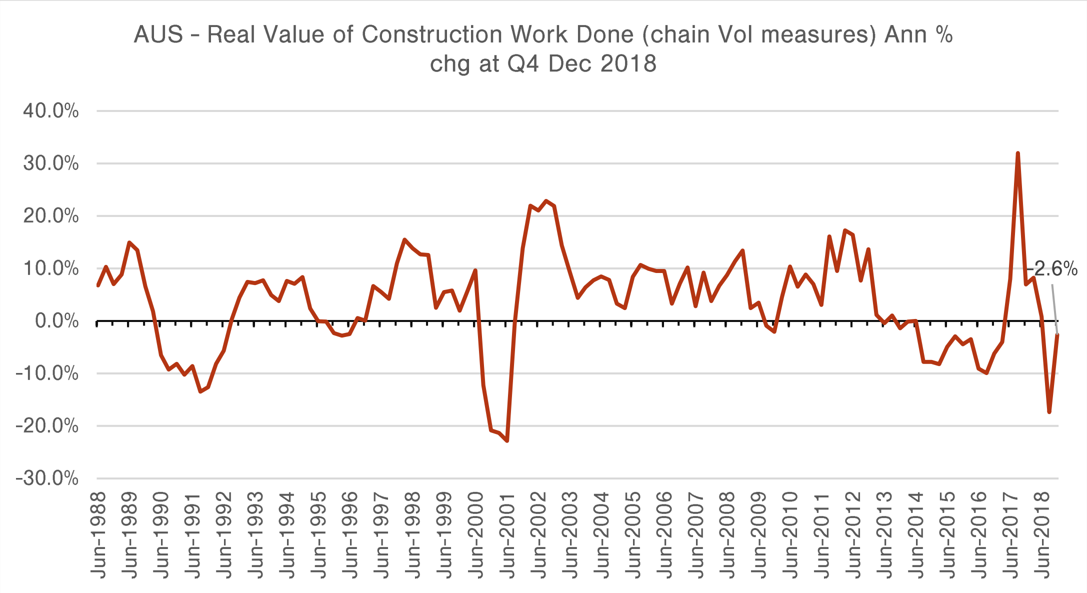
<u>All sectors Construction Work Done</u>

Q4 -3.1% versus Q3 -3.6% (Q3 revised lower from the originally reported -2.8%)

Private sector construction work done -2.2% in Q4 (contributed -1.68% pts)

Public sector construction work done -6% in Q4 (contributed -1.44% pts)

Annual Q4 versus same quarter a year ago; -2.6%



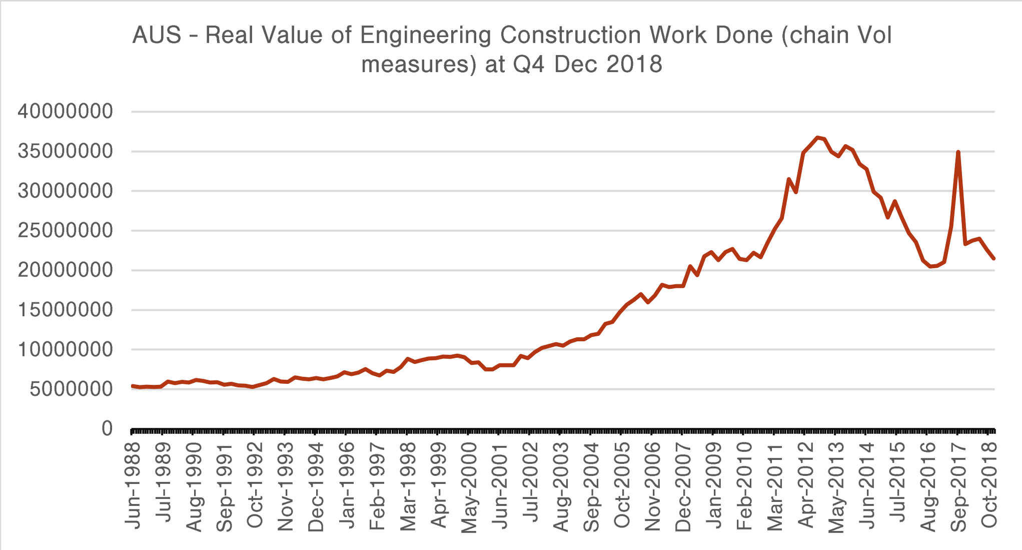
On an annual basis, it has been the decline in engineering construction that has led the overall decline in Construction Work done. But in the latest quarter, private sector building work also made a large contribution to the quarterly decline and is the single largest category of the value of the total of construction work done.

<u>Engineering Construction Work Done;</u> Q4 -5% versus Q3 -5.6%

Private Sector; Q4 -1.3% versus Q3 -7.7% (Q3 revised lower from -7.5%)

Public Sector; Q4 -10.3% versus Q3 -2.6% (Q3 revised lower from -0.1%)

On a same quarter year ago basis, engineering construction was -7.8% below the same time last year (as we start to cycle over the peak of 2016/7);

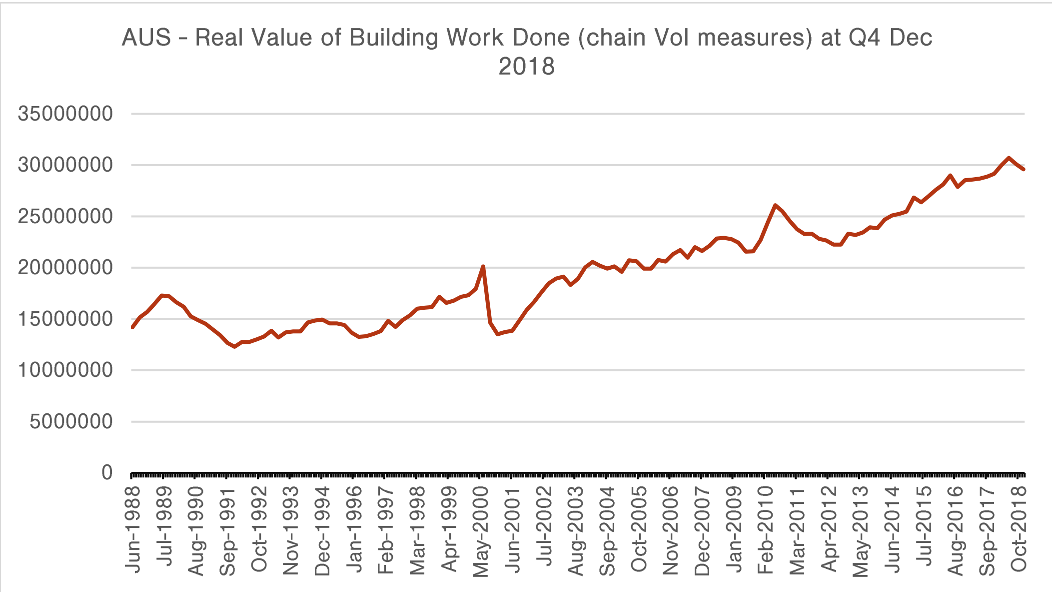


Building Work Done; Q4 -1.7% versus Q3 -2%

Private Sector; Q4 -2.7% versus Q3 -2% (Q3 revised lower from -1.3%)

Public Sector; +6.9% versus Q3 -1.9% (Q3 revised higher from -3.6%)

On a year ago basis, building work done is +1.5% ahead of the same time last year.



Engineering Construction made the larges contribution to the decline in the latest quarter. The value (real terms) of work done declined by 5% in Q4 and contributed -2.2%pts to the 3.1% overall decline. Private sector engineering activity declined

https://www.abs.gov.au/ausstats/abs@.nsf/mf/8755.0?OpenDocument

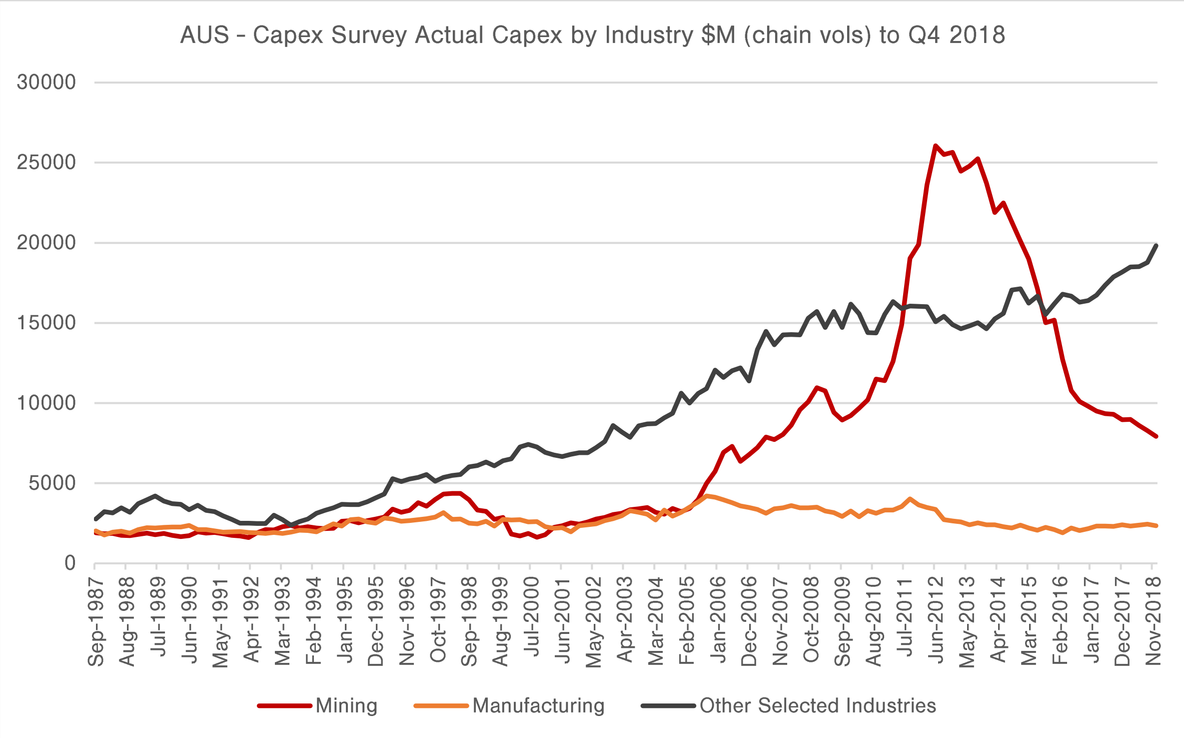
Private Capex Q4

Aus private sector capex improved in the latest quarter. Annual growth remains low, but positive, as total capex continues to cycle over the decline in Mining investment.

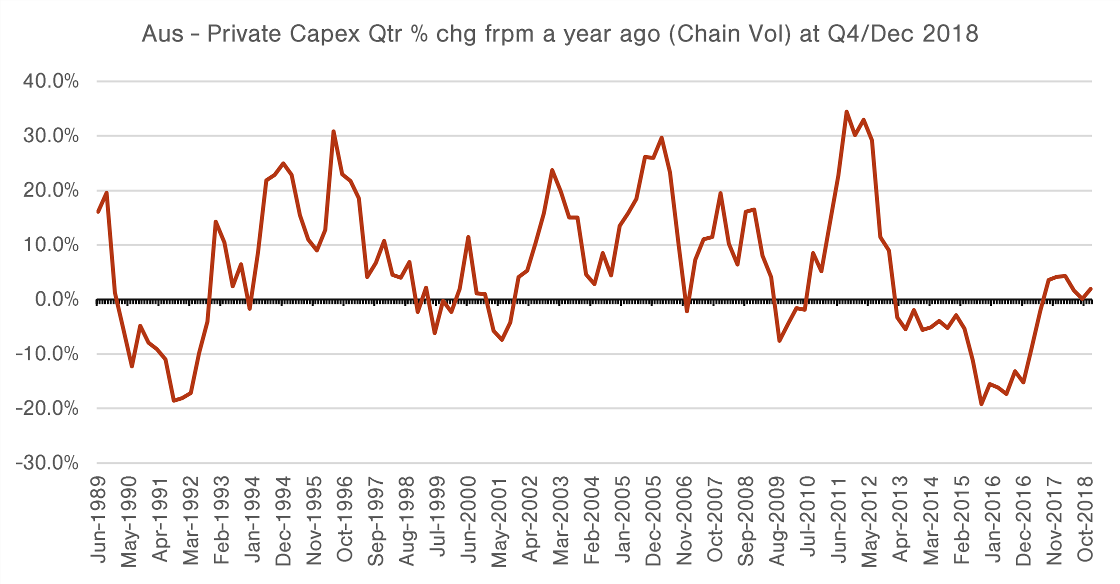
The Capex data reported here accounts for approx. 65-70% of the value of private capital formation reported in GDP.

In the latest quarter, private sector capex grew by 2% and was also +2% above the same quarter a year ago.

Leading the growth in the quarter was Other Selected Industries (mostly Services) (+5.6%), which offset declines in spending in Mining (-4.3%) and Manufacturing (-4.4%);



Year over year capex grew by +2%, remaining in positive territory. Annual growth was also led by Other Selected Industries (+9.1%), which offset declines in Mining (-11.5%) and Manufacturing (-2.1%).



https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5625.0Main+Features1Dec%202018?OpenDocument

Financial Aggregates (Jan)

The RBA released both the Monetary Aggregates and Lending and Credit Data for Jan. The lending and credit data measure the stock of outstanding private sector credit.

Reports for Jan point to some improvement in the direction of lending and at least some stabilization in the growth of the money supply.

Credit and Lending Aggregates

The slow down in housing lending has been a key focus due to the size of total mortgage lending, mortgage debt and the relatively elevated level of house prices in Australia.

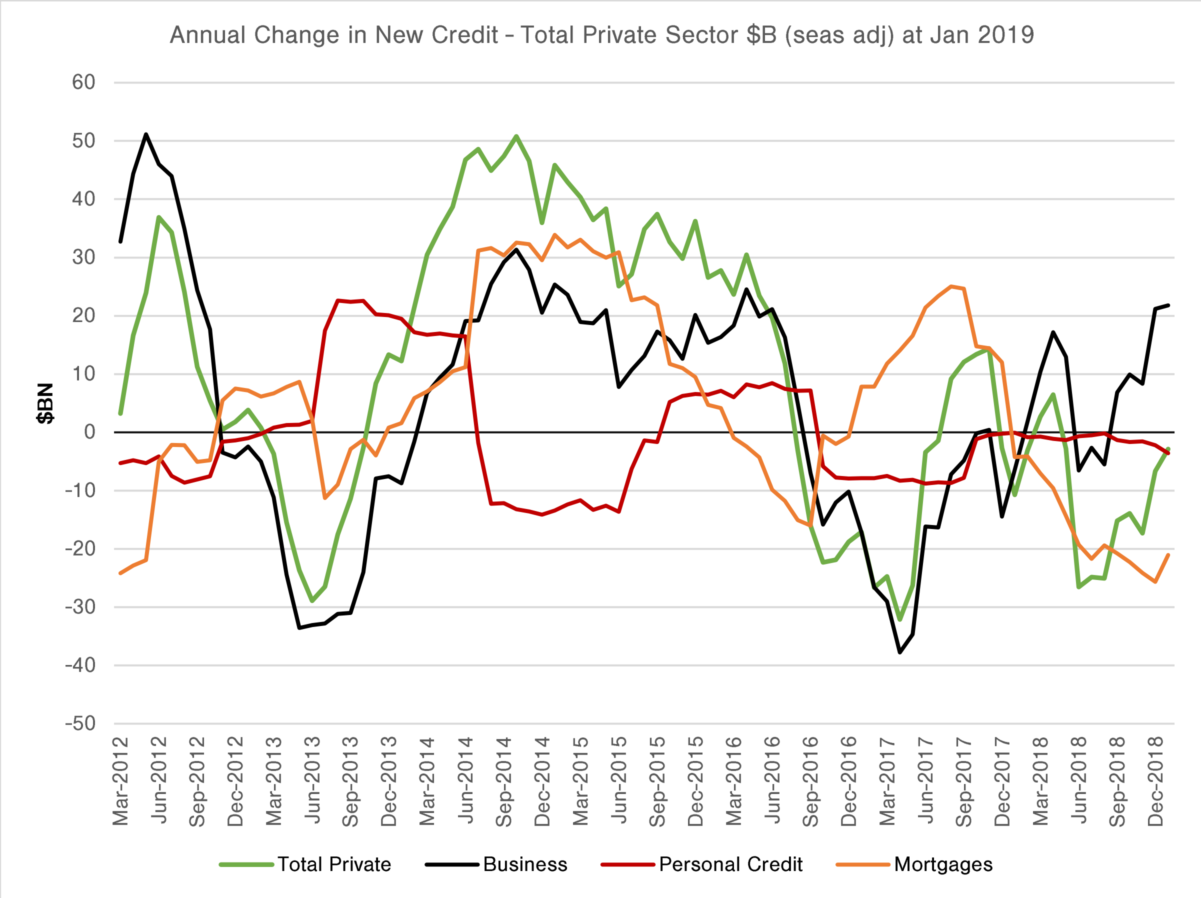
Looking at the data from the perspective of the 'growth of the growth' or the change in new credit, highlights that while mortgage debt continues to decelerate, the growth in new credit for business has been accelerating and has somewhat offset the deceleration in new mortgage credit.

More important than the growth in credit is the growth in new credit (the growth of the growth). This is based on the premise that borrowing equals spending, so it is new credit issued in an economy, together with income growth, that drives new spending (growth) in the economy. To generate spending growth, credit growth (and/or income) needs to accelerate.

Using the stock of outstanding credit/debt provides a more complete picture of changes in total credit as it incorporates both paydowns of debt (contractionary) and new credit issued (expansionary).

Total Private Sector Credit

The annual change in NEW Credit for Jan 2019 (calculated as the annual growth in credit for Jan 2019 less the annual growth in credit for Jan 2018) was -$2.9bn. Whilst this is still negative, it has started to become less negative since Sept 2018. The slope of the curve has become positive since Aug 2018 when the growth in new credit was -$25bn;



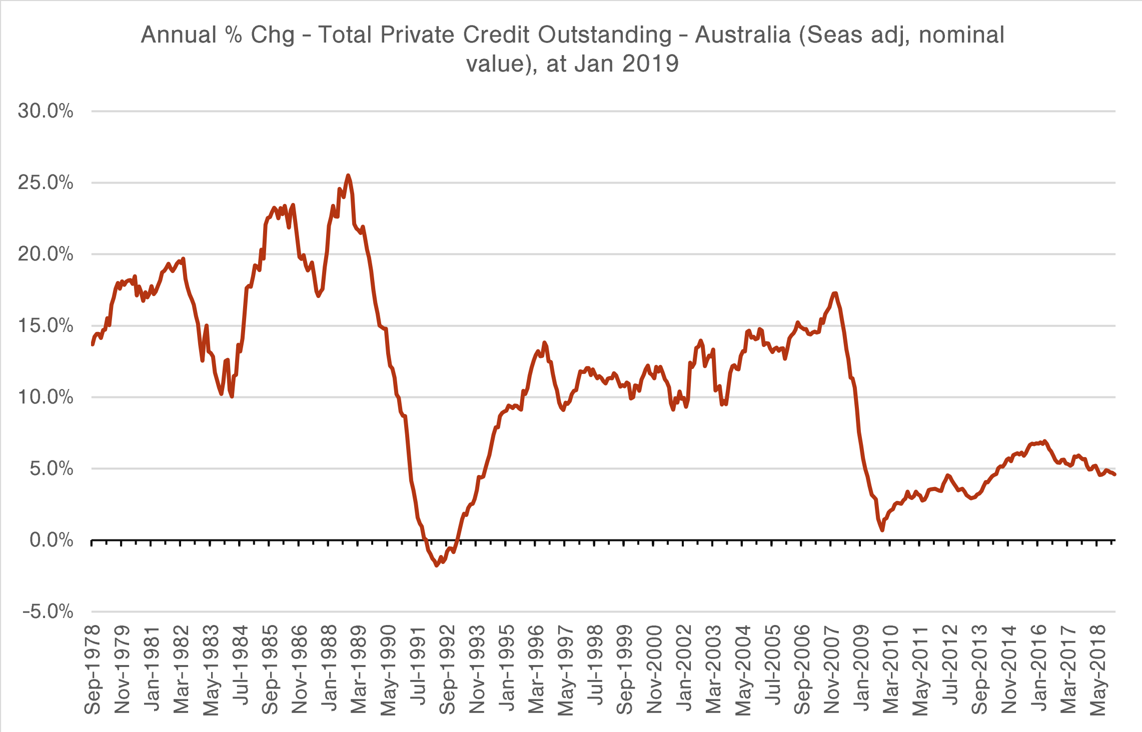
The improvement has been led by accelerating growth in new credit for business, which reached +$21.8bn in Jan. This is helping to offset the weakness in the change in new credit for mortgages, which remains close to its lows.

On mortgages; the stock of outstanding mortgages grew by +$80.3bn in Jan versus a year ago or +4.6%. The annual change in new credit was -$21bn. That curve remains negative sloping/decelerating (but not quite as steep) and suggests that house price weakness is likely to continue.

The annual growth (nominal) in total outstanding private sector credit continued to slow but remains elevated relative to recent periods of weakness.

Annual change at Jan; +4.6% versus Dec +4.7%

Monthly change in the total outstanding credit grew by +0.2% in Jan. The 12mth average monthly growth is +0.4%.



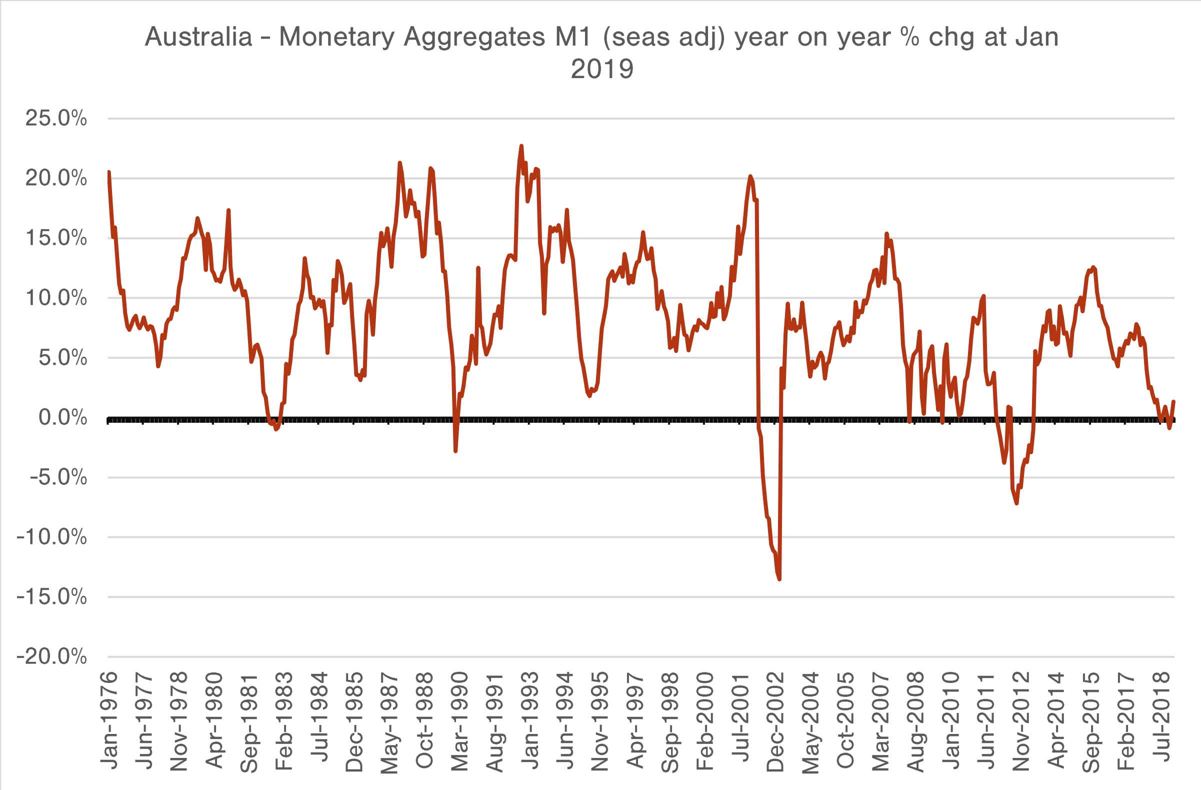
Monetary Aggregates – Jan

This is something that we haven't reported on before – changes in the measure of the money supply. The M1 is often used as a (narrow) measure of liquidity impacting aggregate activity.

The changes in the monetary aggregates provide one view of the possible impact of increases/decreases in the money supply on economic activity. It's just one of many different lenses to view the economy and not a 'be all end all' measure.

But looking at the data, it's hard not to think that changes in the money supply might be providing an [early] indicator of a shift in underlying activity. For the moment, it's suggesting there has at least been some stabilization in narrow money supply growth.

Below, the larger changes (declines) in the M1 have correlated with well documented periods of economic weakness in Australia;



Firstly, the two key recessions from the early 80's and 90's. Secondly, the slowdown in the early 2000's, the GFC and finally, the lesser known period of late 2011/12 when the RBA started to cut rates again in response to the Mining 'capex cliff' and expiration of various stimulus supporting the housing market and economy during the GFC.

Then there is the current slow-down in M1 growth. In the latest month, we've start to see what could be, stabilization in the slowdown of the growth in the money supply.

In Jan the M1 measure grew by +1.3% versus Jan a year ago. In Dec, the M1 measure declined by -0.1% versus a year ago.

It is a similar view, although not identical, with the annual change in Broad Money. The growth in the Broad Money aggregate has slowed from +7% in May 2017 to +2.6% in Jan 2019 and has been averaging around +2.2% growth over the last 10-months.

https://www.rba.gov.au/statistics/frequency/fin-agg/2019/fin-agg-0119.html

Labour Force Survey (Jan)

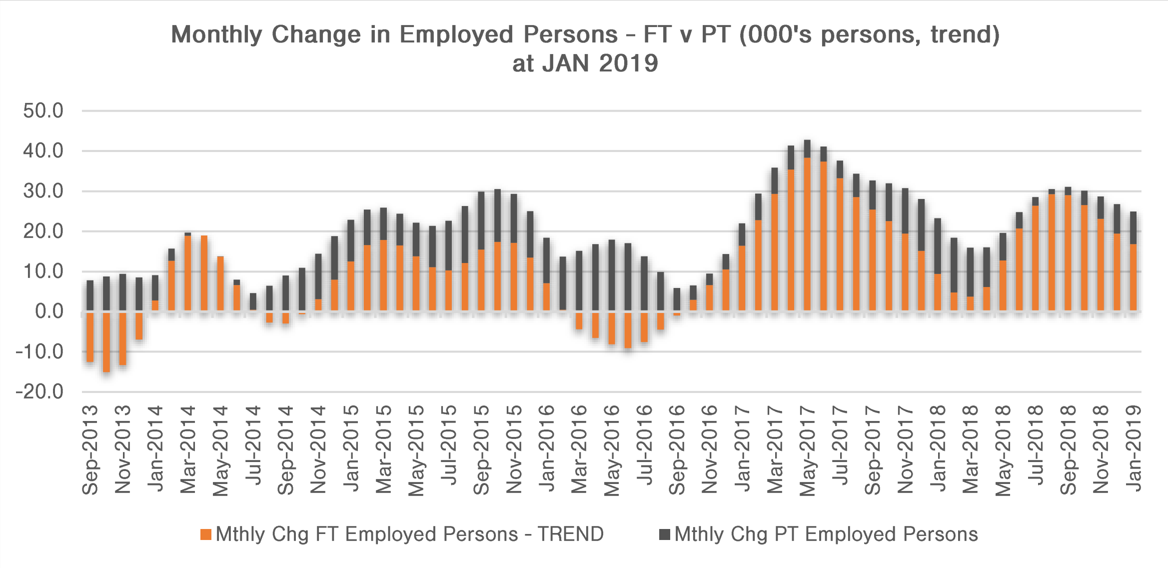
From w/c 18 Feb 2019

Despite some slowing in employment growth, the labour market remains strong. Total employed persons continued to grow faster than what both population and increases in participation added to the labour force – resulting in a continued decline in total unemployed persons. On a monthly basis, employment growth was mostly on par with what population and participation added to labour force – and total unemployed persons increased slightly in the month.

Employment growth has slowed slightly on a monthly basis as slower FT employment was offset somewhat by faster growth in PT employment

Annual chg +295k persons

Mthly chg; Jan +25k persons versus Dec +27k persons



Total unemployed persons continued to decline on an annual basis, but increased slightly on a monthly basis;

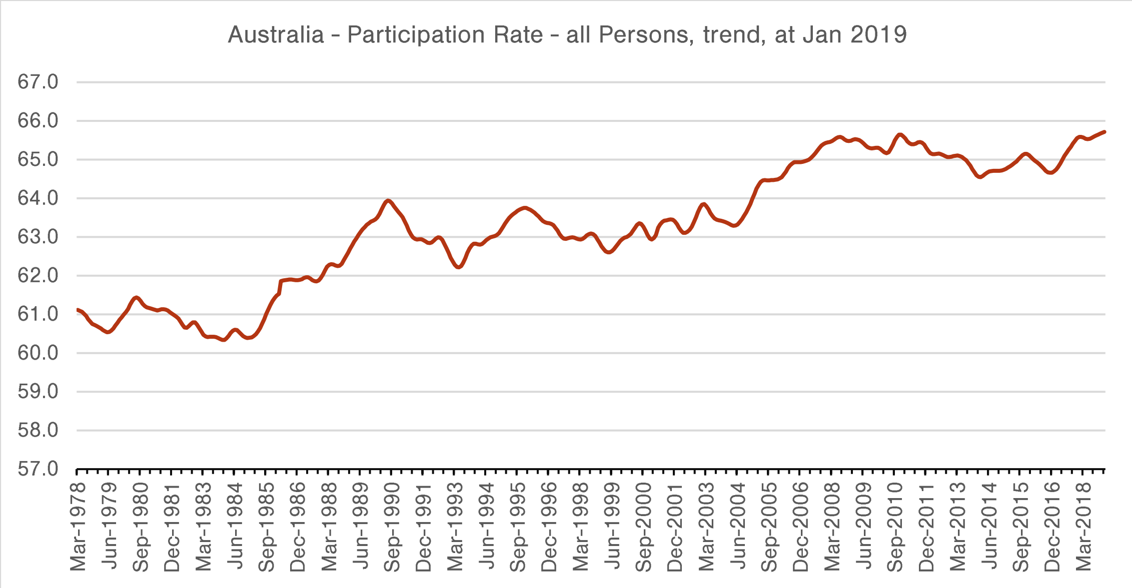
Annual change; Jan -42k persons

Mthly change; Jan +1.8k persons versus Dec -1.1k persons

The unemployment rate was unchanged at 5.1% in Jan.

The total number of unemployed persons declined on an annual basis despite a further increase in participation. But not on a monthly basis.

In Jan the participation rate for all persons reached another new all-time high of 65.72%, increasing by +0.023%pts in the month and +0.127%pts in the year.

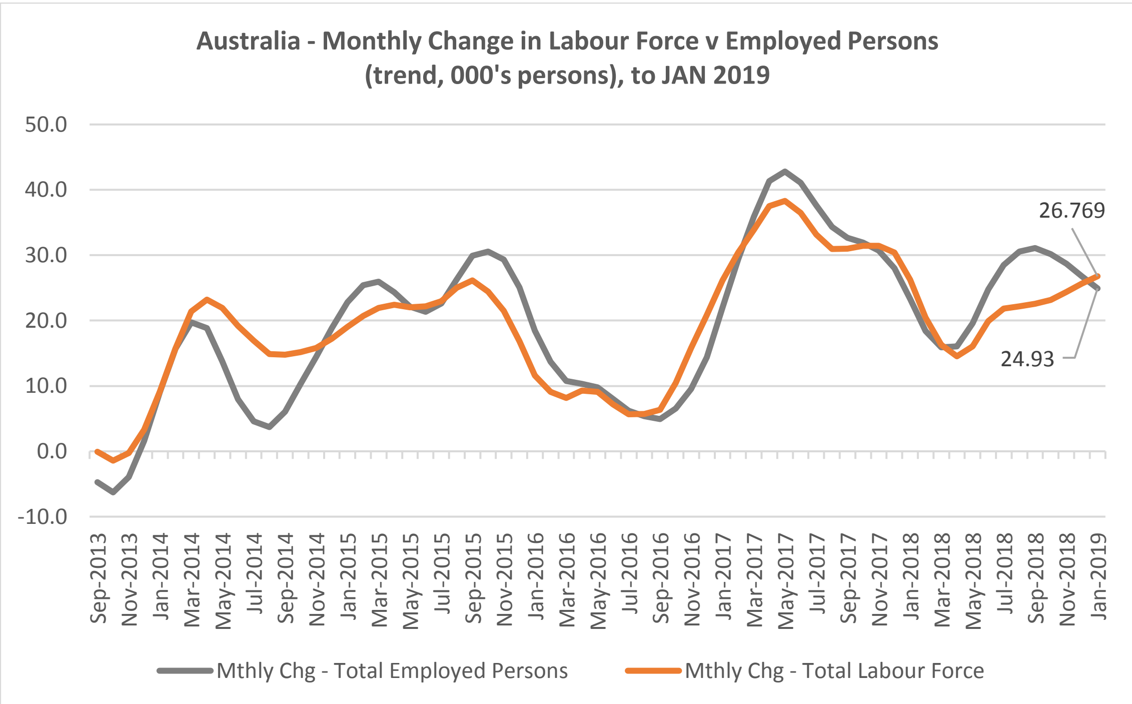


The gains in participation have been mostly led by female participation.

Female participation reached a new all-time high in the latest month of 60.58% - back in Dec 2010 (the last peak), female participation was 58.9%.

Male participation on the other hand has remained subdued, although stabilizing over the last few months. Currently 71.04% and was 72.56% back in Dec 2010.

The <u>increase</u> in unemployed persons in the month of Jan is partly the result of the slower growth in employment and somewhat faster growth in the total size of the labour force – such that employment growth is now below that of the total labour force;



Breaking down the labour force components, its faster growth in what underlying population growth is adding to the labour force that is driving faster growth in the labour force. The monthly change in participation has been relatively stable over the last few months.

Summary of the key dynamics in the labour force;

	000's Persons	
	Annual Chg - JAN	Month Chg - JAN
The estimated change in the Labour Force due to pop growth	227.812	22.143
How many jobs available for them? (employment growth)	295.472	24.928
Difference (if positive, employment growing faster than pop est)	67.660	2.785
Change in labour force due to the change in participation	26.009	4.634
The reminder is the change in total unemployed persons	-41.651	1.849
Double Check - Annual chg in size of the Labour Force	253.821	26.769

https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6202.0Main+Features1Jan%202019?OpenDocument

Return to top

China

The official NBS data tracks the larger sized firms, mostly state owned.

China NBS Manufacturing & Non-Manufacturing PMI (Feb)

Headline manufacturing activity fell to 49.2 in Feb versus 49.5 in Jan

Headline non-manufacturing activity fell to 54.3 in Feb versus 54.7 in Jan

Caixin Manufacturing PMI (Feb)

The headline manufacturing PMI (covering mostly the smaller sized firms) indicated that while activity continued to contract, it was at a slower pace of contraction.

Headline PMI; Feb 49.9 versus Jan 48.3 (the recent low)

Manufacturing production return to slight growth in Feb. New orders also increased led by domestic demand while new export orders fell.

The level of outstanding work increased modestly. Purchasing activity was reduced for the second month in a row – inventories of inputs and finished goods fell in Feb.

Employment continued to fall despite the modest uptick in production.

Input costs fell in Feb while output prices/selling prices increased for the first time since Oct 2018.

https://www.markiteconomics.com/Survey/PressRelease.mvc/fdc5e337a1ee49c7b633620eb321c2d7

Return to top

Trade

US-China Trade Negotiations

News from late in the week is that the US and China are now 'close' to a trade deal. https://www.reuters.com/article/us-global-markets/wall-street-futures-jump-on-us-china-trade-deal-hopes-asian-shares-seen-higher-idUSKCN1QK0SQ

This contrasts with the opening statement made by USTR Lighthizer last week which downplayed the status of the agreement (emphasis added), but did confirm that 'real progress' has been made on negotiations;

> "We are making real progress. If we can complete this effort – and again I say "if" – and can reach a satisfactory solution to the all-important outstanding issue of enforceability as well as some other concerns, we might be able to have an agreement that helps us turn the corner in our economic relationship with China. **Let me be clear: much still needs to be done both before an agreement is reached and, more importantly, after it is reached, if one is reached**." https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/february/opening-statement-ustr-robert

A further summit between Presidents Trump and Xi will be scheduled to finalise the details of the trade deal. This could be scheduled as soon as late March. https://www.bloomberg.com/news/articles/2019-03-03/u-s-and-china-in-final-stages-of-completing-trade-deal-wsj

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 likely to be delayed due to the shutdown. The report is due 15 Mar and will be used by members of Congress to inform their view of the agreement.

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

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

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

Section 232 – Car and Truck Imports

The 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

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 until April, 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 as a key issue for European members;

> "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