

Key Themes

The focus this week was on US data.

Indices of US regional and National activity indicated a lower level of growth momentum throughout Mar. All regional surveys remained in expansion but the pace of growth was somewhat slower except for the Kansas City Fed Manufacturing Index (recording faster expansion).

Housing – the uptick in mortgage application growth so far this year is yet to fully translate into sustained higher pending home sales data. House price growth continued to slow. Lower mortgage rates are now just starting to kick in at the beginning of the Spring selling season.

US Q4 GDP growth was revised lower. This was due to lower growth in personal consumption expenditure, private domestic investment and govt consumption and investment expenditure. Net exports were revised higher to be 'less negative'.

The trend of slower growth in personal consumption expenditures continued in Jan – likely the product of a continued cautious consumer at the time of negative headlines on the govt shutdown and a volatile period on the stock market. Jan was also the month where sentiment readings fell hard. Consumption expenditures grew only marginally in Jan as purchases of durable goods continued to fall. Disposable income growth fell in Jan which was the result of a fall in personal dividend income, farm proprietors' income, and personal interest income (partly reversing large increases in Dec) – rather than a fall in employee compensation. **Growth in employee compensation and wages & salaries has remained constant through to Feb.** Disposable incomes continued to grow in Feb. The important clue is that the saving rate remained elevated in Jan (after increasing in Dec) – indicating that consumers likely held off on the larger purchases.

Consumer sentiment measures (Uni of Michigan) have continued to improve into Mar. Headline measures of sentiment are now all above the Jan lows and are in line with the last 12-month averages. This may be supportive of improvements in spending in the coming months.

The latest annual growth in PCE price indexes for headline and core inflation continued to slow. Both measures were lower than current Fed projections for 2019 and remain below the FOMC 2% symmetrical target. Current inflation readings suggest rates will remain on hold.

Of interest outside of the US was Japanese industrial production. This has been one indicator of the broader manufacturing, trade influenced, slow-down in Asia. The Feb prelim data showed some improvement in the month – but the production index remains below the levels seen throughout most of 2018. While total shipments and production remain below the same time last year, several key area's such as the production of autos and fabricated metal are now above the same time a year ago.

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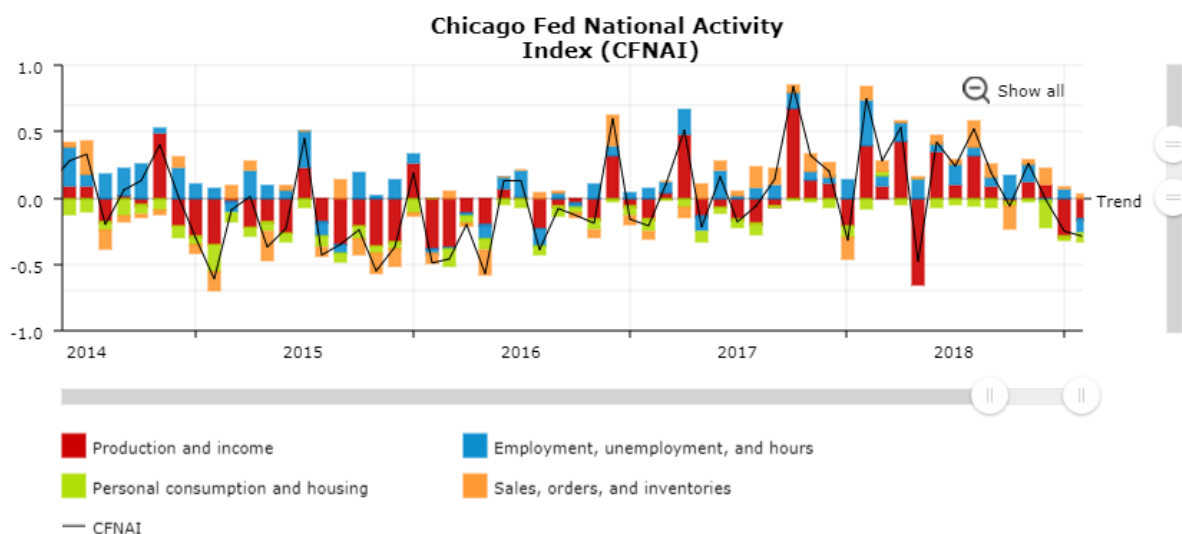
US Data

REGIONAL SURVEYS

Chicago Fed National Activity Index (CFNAI) (Feb)

The CFNAI continued to expand at below the historical trend rate of growth in Feb. The Jan figure was revised to 'less negative'. Three of the four sub-indexes contributed to the below average growth in Feb.

CFNAI; Feb -0.29 versus Jan -0.25 (previously reported as -0.43)



Sub-index Performance

Production and Income; continued to perform below the long-term average growth, albeit slightly better than in the month prior; Feb -0.16pts versus Jan -0.29pts

Personal consumption and housing; was little changed, growing at just below the long-term average; Feb -0.06pts versus Jan -0.03pts

Employment, unemployment and hours; shifted to growing below the long-term average; Feb -1pt versus Jan +0.07pts

Sales orders and inventories; continues to grow at around the long-term average; Feb +0.03pts versus Jan +0.01pts

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

Dallas Fed Manufacturing Survey (Mar)

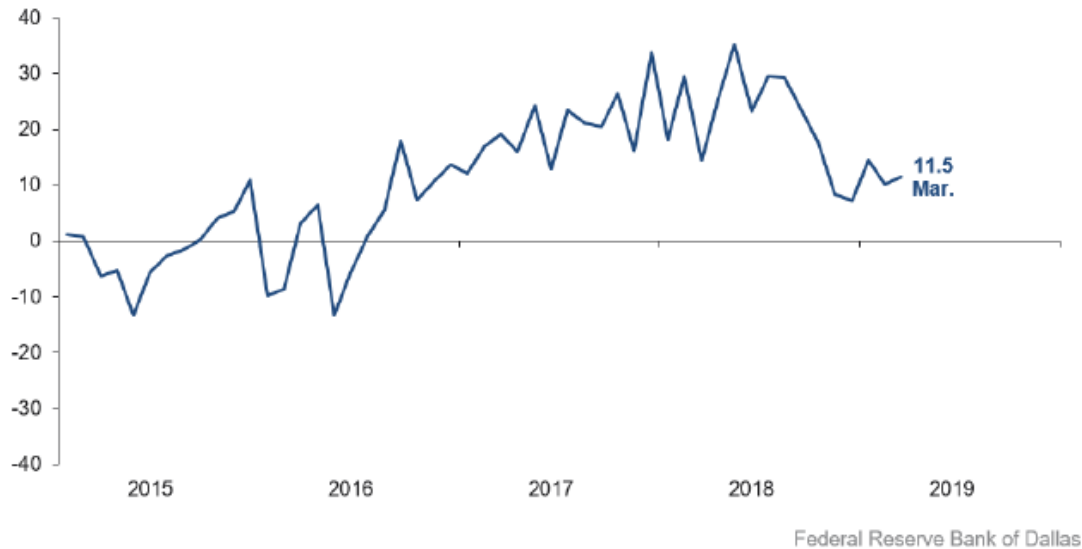
The headline production index was little changed in the latest month, suggesting output growth remained constant. Measures of future demand, such as new orders, indicate potential for slower growth in the near term.

Production Index; Mar 11.5 versus Feb 10.1

General Business Activity Index; Mar 8.3 versus Feb 13.1

Texas Manufacturing Outlook Survey Production Index

Index, seasonally adjusted



Underlying the result, new orders growth slowed to a low level; Mar 2.4 versus Feb 6.9. The growth rate of new orders fell into slight contraction. This suggests potentially further weaker production/output results to come. Unfilled orders remain very close to neutral/no growth.

Actual shipments growth also slowed in the month to a lower level; Mar 5.8 versus Feb 10.7.

Finished goods inventories increased slightly after contracting in Feb.

Prices paid for raw materials slowed slightly but remains elevated. Prices received for finished goods grew at a slightly faster pace from a lower level.

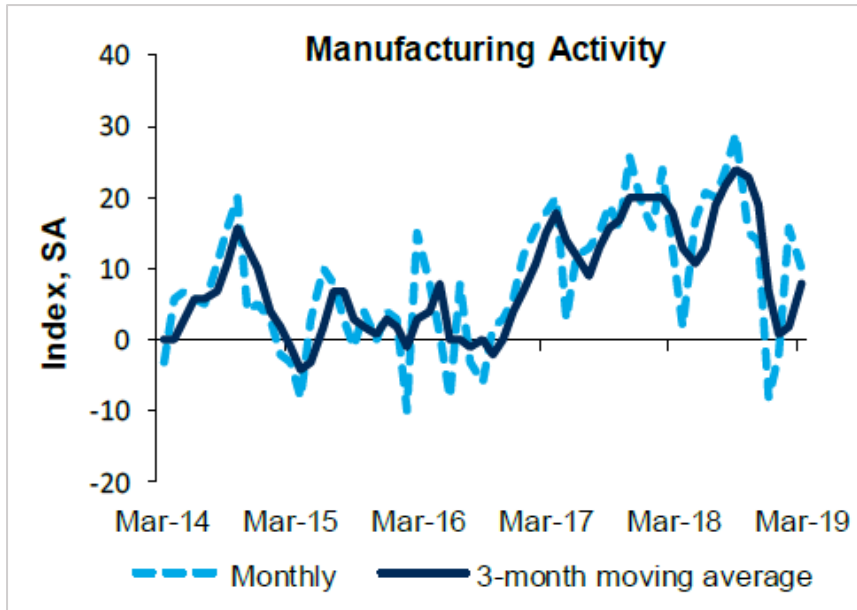
Measures of employment remained upbeat. Employment growth continued to expand at a constant pace. Hours worked increased at a faster pace, off a very low level of growth.

<https://www.dallasfed.org/research/surveys/tmos/2019/1903.aspx>

Richmond Fed Manufacturing Survey (Mar)

The index of manufacturing activity indicated that growth slowed in Mar after the stronger rebound experienced in Feb. The Mar result reflected slower growth in measures of demand; shipments, volume of new orders and order backlogs.

Headline Manufacturing Index; Mar 10 versus Feb 16



Shipments slowed to a low level of growth; Mar 2 versus Feb 12

The volume of new orders continued to grow but at a slower pace; Mar 9 versus Feb 19. The backlog of orders remains firmly in contraction as firms work through backlogs.

In contrast, the index of local business conditions continued to improve, growing at a faster pace.

Both finished goods and raw materials inventories grew at a faster pace.

Employment continued to grow at a faster pace while growth in the average workweek slowed again, almost back to the Jan low.

Prices paid continued to slow. Prices received remained unchanged.

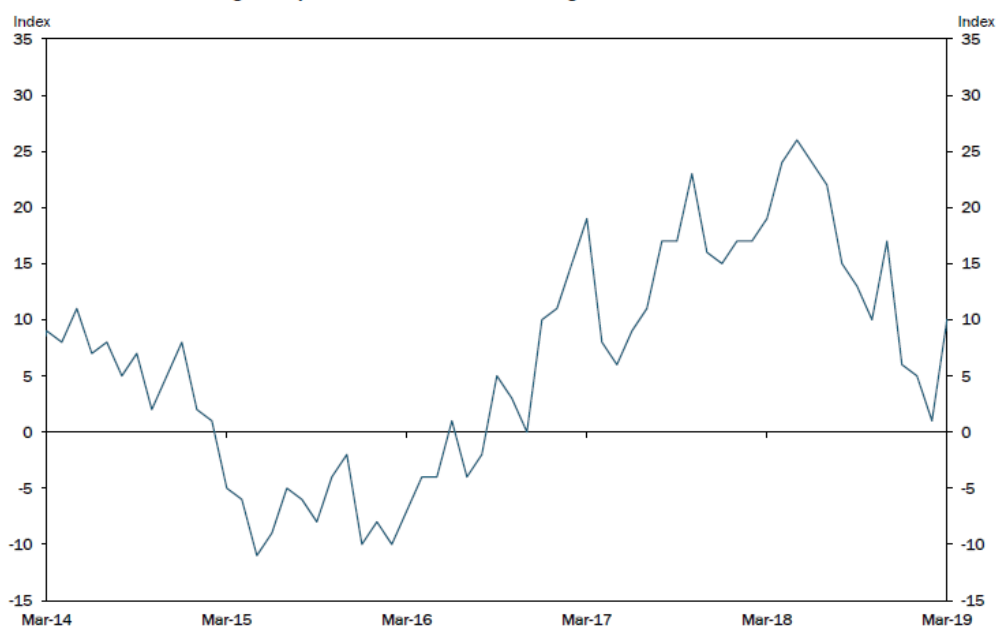
https://www.richmondfed.org/-/media/richmondfedorg/research/regional_economy/surveys_of_business_conditions/manufacturing/2019/pdf/mfg_03_26_19.pdf

Kansas City Fed Manufacturing Survey (Mar)

Manufacturing activity in the region grew at a faster pace in Mar after slowing for several months prior. This was led by an acceleration in growth across the key metrics. Important measures of demand returned to positive territory in the latest month.

Headline Composite Index; Mar 10 versus Feb 1

Chart 1. Manufacturing Composite Index vs. a Month Ago



Key measures of demand all accelerated back into positive territory in Mar. Production increased from -4 in Feb to 17 in Mar. The volume of shipments shifted from -14 in Feb to 14 in Mar. The volume of new orders increased from -10 in Feb to 4 in Mar. Order backlogs also returned to positive territory.

The number of employees grew at a faster pace while the average workweek also rebounded very strongly from 0 in Feb to 14 in Mar.

Inventories for materials increased from -2 Feb to 9 in Mar. But inventories for finished goods slowed further to record no growth.

Prices received for finished goods grew at a much lower pace; slowing from 18 in Feb to 7 Mar. The growth in prices paid for raw materials slowed somewhat.

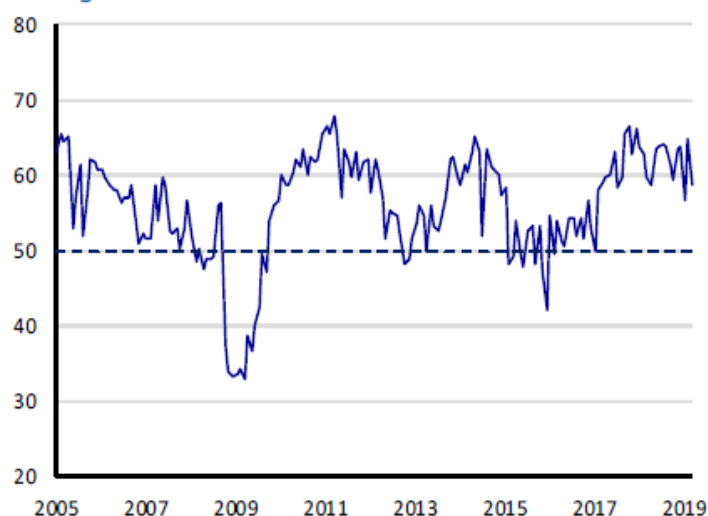
<https://www.kansascityfed.org/research/indicatorsdata/mfg>

Chicago PMI (Mar)

The headline Chicago PMI indicated that business activity grew at a slower pace in Mar. This was the result of slower growth across production, new orders and order backlogs.

Headline Chicago PMI; Mar 58.7 versus Feb 64.7

Chicago Business Barometer™



Both production and new orders grew at a slower pace. New orders continued to lag production in Q1.

Order backlogs declined and shifted into contraction. Inventories also decreased at the fastest pace since Jul 2018.

Employment continued to grow and remained above the 3 and 12-month averages.

Prices paid recorded the largest decrease in 17-months.

“This month’s special question asked firms about their expectations about incoming orders in Q2. A total 46.8% firms expected orders to increase in Q2 while 14.8% saw their orders plummeting, showing optimism below levels seen when companies were posed the same question last year.”

<https://s3.amazonaws.com/images.chaptermanager.com/chapters/b742ccc3-ff70-8eca-4cf5-ab93a6c8ab97/files/mni-chicago-press-release-2019-03.pdf>

HOUSING

Core Logic Case-Shiller House Price Index (Jan)

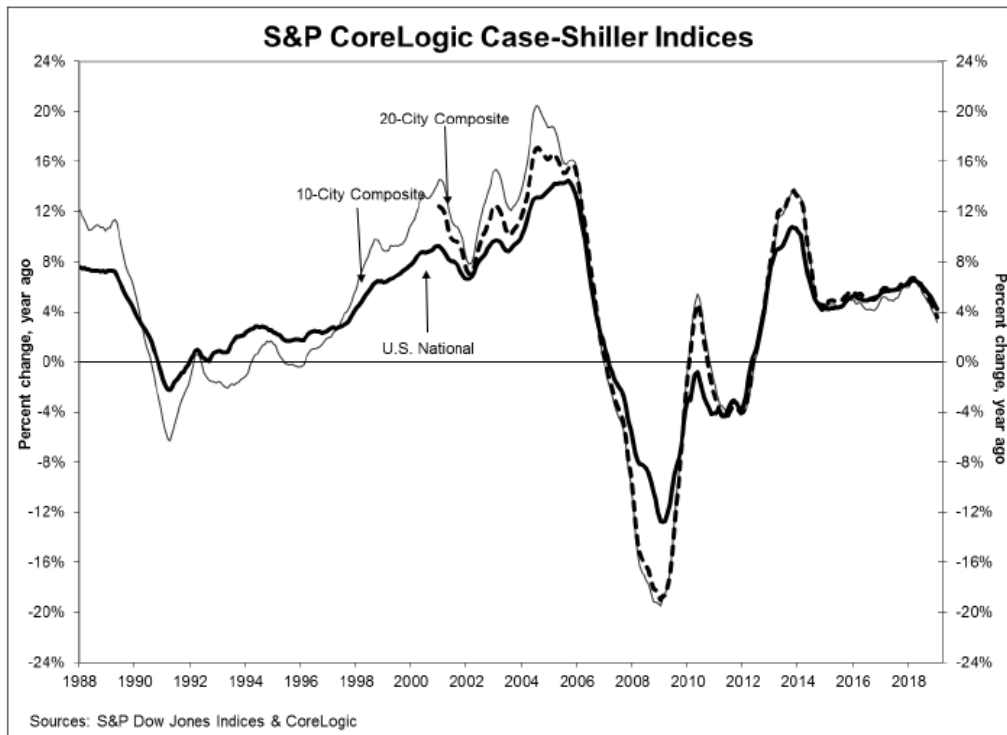
Growth in house prices at a national level continued to slow in the latest year to Jan. On a monthly basis, prices continued to fall (using the NSA index).

Annual change in the House Price Index:

National (NSA); Jan +4.3% versus Dec +4.6%

10-City Composite Index (NSA); Jan +3.2% versus Dec +3.7%

20-City Composite Index (NSA); Jan +3.6% versus Dec +4.1%



Monthly change in the HPI

On a monthly basis using the NSA index, prices continue to fall;

National; Jan -0.2% versus Dec -0.2%

10-City Composite; Jan -0.3% versus Dec -0.2%

20-City Composite; Jan -0.2% versus Dec -0.2%

Metro areas with the biggest declines in the month (NSA); San Francisco -1.3%, Cleveland -0.6%, Chicago -0.5%.

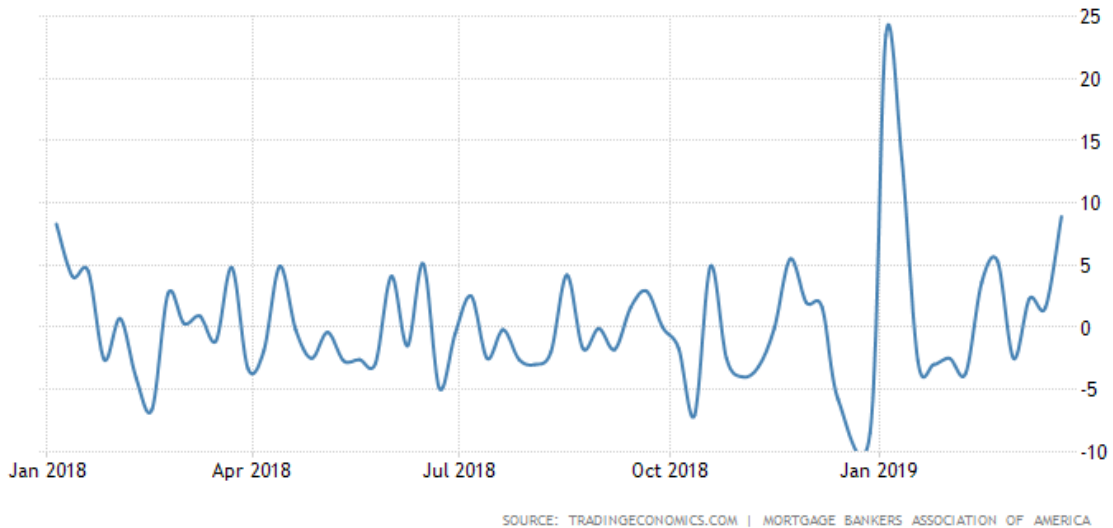
Interest rates have started to come down and home sales started to lift from Feb.

https://www.spice-indices.com/idfiles/spice-assets/resources/public/documents/897961_cshomeprice-release-0326.pdf?force_download=true

US Mortgage Applications 22 Mar 2019

US mortgage applications increased at a faster pace last week, likely buoyed by lower rates.

The market composite index – a measure of mortgage loan application volume; +8.9% versus the week prior. The trend remains firmly up for applications;



Refinance Index; +12% from the week prior

Purchase Index: 6% versus the week prior (SA) and +4% versus the same week a year ago (NSA)

"The spring buying season is off to a strong start. Thanks to an unexpectedly large drop in mortgage rates following last week's FOMC meeting, purchase applications jumped 6 percent and refinance applications surged over 12 percent," said Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting. "Rates dropped across all loan types, and the 30-year fixed-rate mortgage is now more than 70 basis points below last November's peak. The average loan size increased once again to new highs for both purchase and refinance loans, as borrowers with - or seeking - larger loans tend to be more reactive to the drop in rates."

<https://www.mba.org/2019-press-releases/march/mortgage-applications-increase-in-latest-mba-weekly-survey-x250985>

Pending Home Sales Index (Feb)

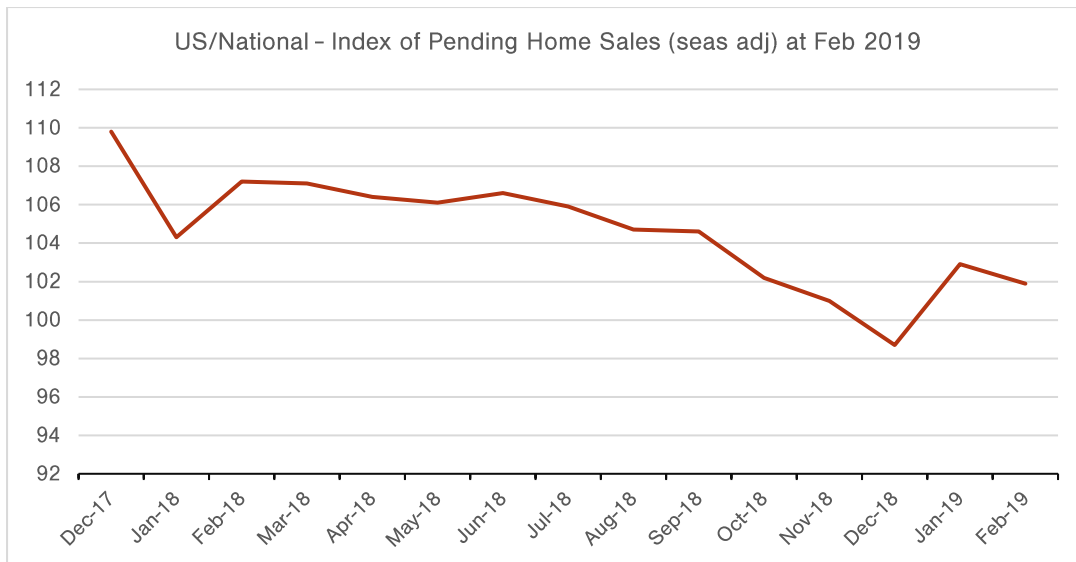
Pending home sales decreased slightly in the latest month at a National level. The trend in pending home sales, as a leading indicator of existing homes sales, has been slowing throughout most of 2018 – last month (Jan 2019) was the first monthly increase since Jun 2018.

The latest monthly decline in Feb was the result of a larger decline in the Midwest. Pending home sales in the Northeast fell slightly. Pending home sales in the South and West grew versus the month prior. Pending home sales activity in all markets remain below the same time last year.

Pending Home Sales – National (index)

Month change; Feb 101.9 versus Jan 102.9 (-1%)

Annual change; Feb -5% versus same month a year ago.



The Jan result was the first monthly increase since Jun 2018. The index in Feb remains above the Dec 2018 lows.

Regional Results

Northeast; month change Feb -0.8% and -2.6% versus the same time last year

Midwest; recorded a large monthly decline in Feb -7% with the index reaching a new low for the last 12 months. The index is now 6% below the same time a year ago.

South; has continued to rebound strongly since the 12-month low in Dec. Feb +1.7% and only 3% below the same time last year.

West; while pending home sales have rebounded since Oct, growth in the index remains moderate. Month change in Feb +0.5% and -10% below the same time a year ago.

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

Housing Starts (Feb)

Data collection remains an issue housing starts data.

Overall permits for new privately-owned housing likely declined in Feb and remains below the level of a year ago. At a National level, the data for housing starts and completions remains inconclusive – could have increased or decreased.

New Permits (seas adj ann rate)

National; Feb 1.296m units versus Jan 1.317

Month chg; -1.6% +/- 1.2% pts (so most likely declined)

Annual chg; -2% +/- 1.7% pts (so most likely declined)

On a regional level, only data for the South and the West provides a statistically significant result;

South; Monthly chg at Feb +4% +/- 1.1% pt and annual growth of +10.7% +/- 1.4% pts.

West; Monthly chg at Feb -15% +/- 1% pt and annual growth of -22% +/- 3.4% pts.

Housing Starts (seas adj ann rate)

National; Feb 1.162m units versus Jan 1.273m units

Month chg; -8.7% +/- 10.3% pts – inconclusive result, could have increased or decreased

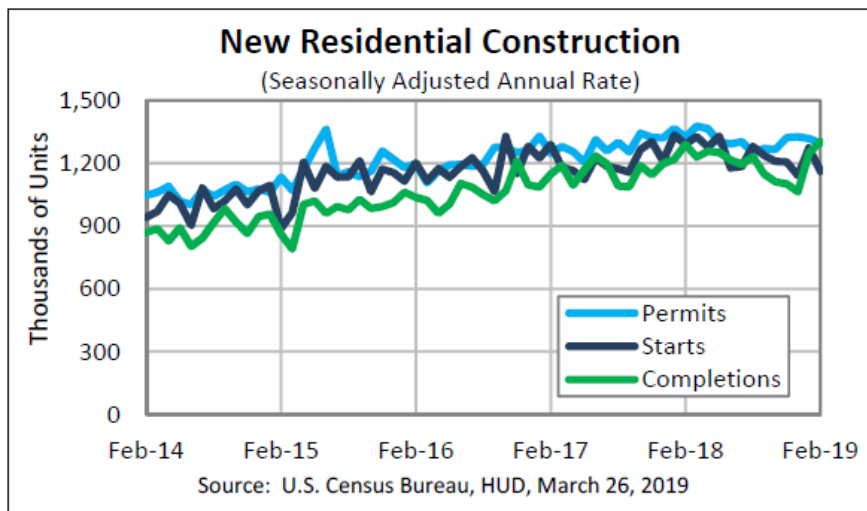
Annual chg; -9.9% +/- 11.5 %pts – also an inconclusive result

Housing Completions (seas adj ann rate)

National; Feb 1.303m units versus Jan 1.247m units

Month chg; +4.5% +/- 17.8% pts – inconclusive result

Ann chg; +1.1% +/- 18.6 %pts – inconclusive result



“Data collection and processing were delayed for this indicator release due to the lapse in federal funding from December 22, 2018 through January 25, 2019.

While response rates were consistent with normal levels, delays in data collection for December and January could make it more difficult to determine exact start and completion dates. The revised data collection schedule caused the adjustments for anticipated late reported December starts and completions to be less accurate than normal, resulting in larger than normal revisions.”

<https://www.census.gov/construction/nrc/pdf/newresconst.pdf>

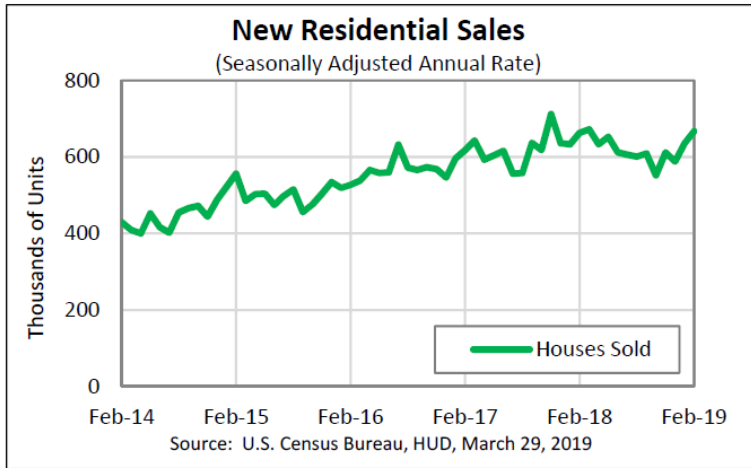
New Home Sales (Feb)

The new home sales data remains inconclusive. The results at a National and regional level are not statistically significant given the 90% confidence interval contains zero. In other words, sales could have increased or could have decreased.

National New Home Sales (Seas adj ann rate)

Month chg; Feb 667k versus Jan 636k, +4.9% which is +/- 14.4% pts

Annual chg; Feb 2019 +0.6% above the same month a year ago which is +/- 13.1% pts.



All the regional results are similarly inconclusive.

<https://www.census.gov/construction/nrs/index.html>

GROWTH

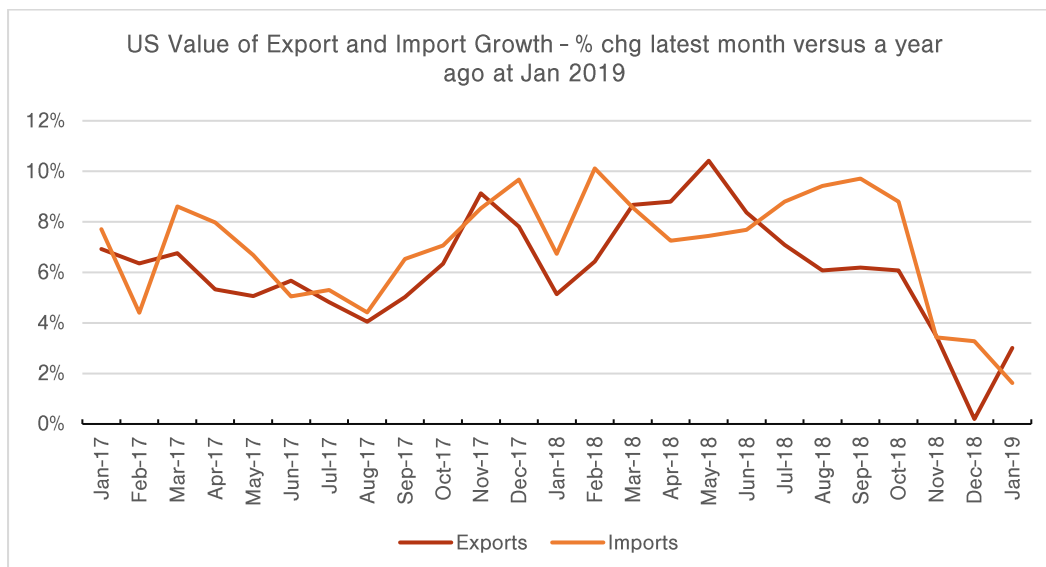
International Trade (Jan)

On a year ago basis and versus the month prior, the goods and services trade deficit declined/improved. Across both timeframes, it was faster growth in exports (than imports) that led to the narrowing of the trade deficit. Both exports and imports grew at a faster pace in Jan versus a year ago.

ANNUAL TRADE BALANCE - DEFICIT

Year on Year; Jan 2019 -\$51bn versus Jan 2018 -\$53bn

Exports grew at a faster pace than imports; Export growth rebounded to +3% versus Import growth that slowed further to +2%.



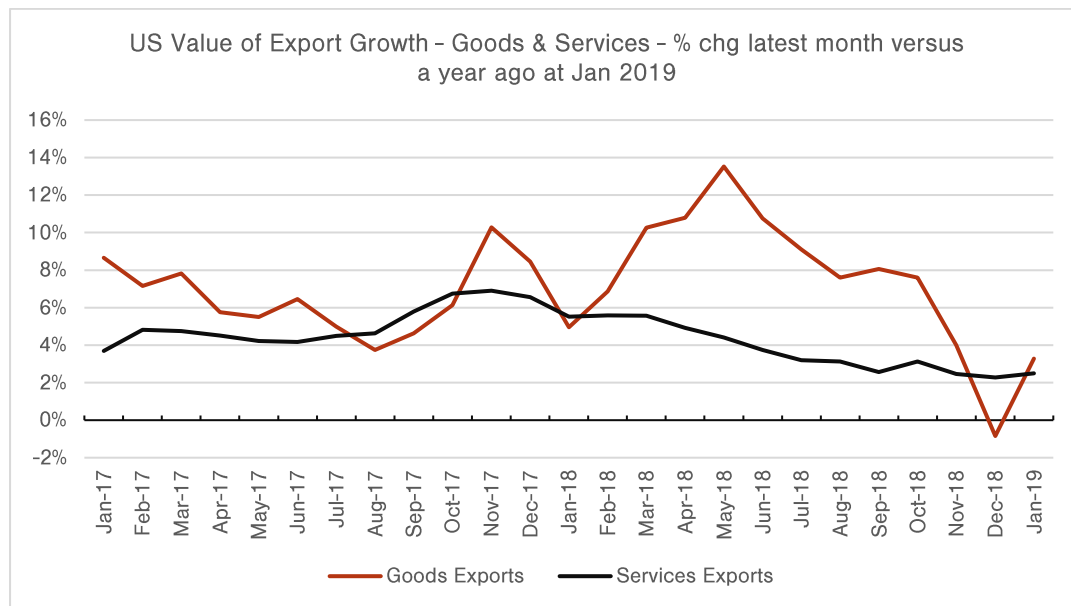
Exports - annual

The annual change in exports accelerated in Jan after growth had slowed since mid-2018.

Versus a year ago – total exports grew by 3%.

The growth in the export of Goods rebounded from 0% in Dec to +3% in Jan (versus a year ago). The largest \$ value contributor was industrial supplies (both petroleum and non-petroleum exports contributed to that growth in goods exports). The export of foods feeds and bevs also grew at a faster pace. Growth in consumer goods and auto exports remained unchanged from a year ago.

Growth in Services exports continued to grow at a constant pace of 2%.



Imports - annual

The annual change in imports continued to grow at a slower pace.

Versus a year ago; total imports grew by 2% in Jan after growing by 3% in Dec. Both Goods and services contributed to that growth;

Goods imports; +1% versus a year ago. Annual growth in goods imports was slower (but still positive) across most categories. The import of Industrial Supplies declined by 7% versus a year ago (led by a 22% decline in the value of petroleum imports, while non-petroleum goods imports increased by 3.5%).

Services imports; +4% versus a year ago in Jan and growth continues to accelerate slightly.



MONTHLY TRADE BALANCE – DEFICIT

Month on month the US trade balance also improved; Jan -\$51bn versus Dec -\$59.9bn

Driving the improvement versus Dec, was 1% growth in exports versus a 3% decline in imports.

Exports;

Versus the month prior; growth in total exports accelerated from -1.9% in Dec to +1% in Jan.

This was led predominantly by Goods exports. The growth in exports of Foods, Feeds & Bevs, Autos and Consumer Goods all accelerated in Jan.

Imports;

Versus the month prior; growth in imports declined by 3%. This was led predominantly by a decline in Goods imports.

Goods imports declined across all categories in Jan versus Dec. Declines in Industrial Supplies (the decline in petroleum imports was a small part of the decline) and Capital Goods imports made the largest contribution to the decline in Jan.

<https://www.census.gov/foreign-trade/data/index.html>

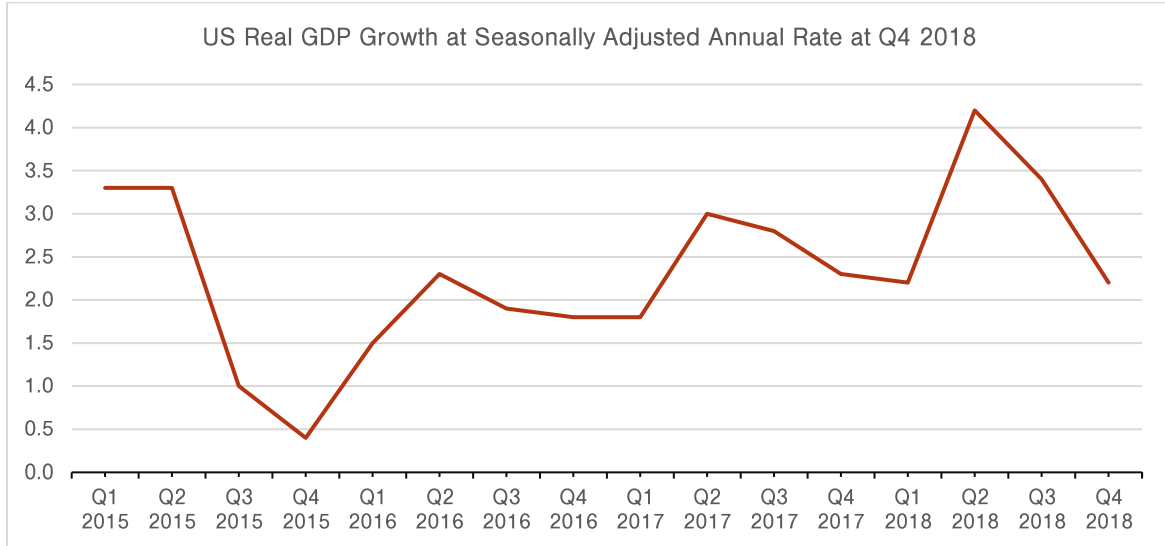
Q4 GDP (second estimate)

The second estimate for Q4 GDP growth was revised lower from +2.6% (initial est) to +2.2% (second est) – at seasonally adjusted annual rates. Several areas were revised lower – personal consumption expenditure, gross private domestic investment and govt consumption and gross investment expenditure. Net exports were revised higher on the back of higher growth in exports and lower growth in imports.

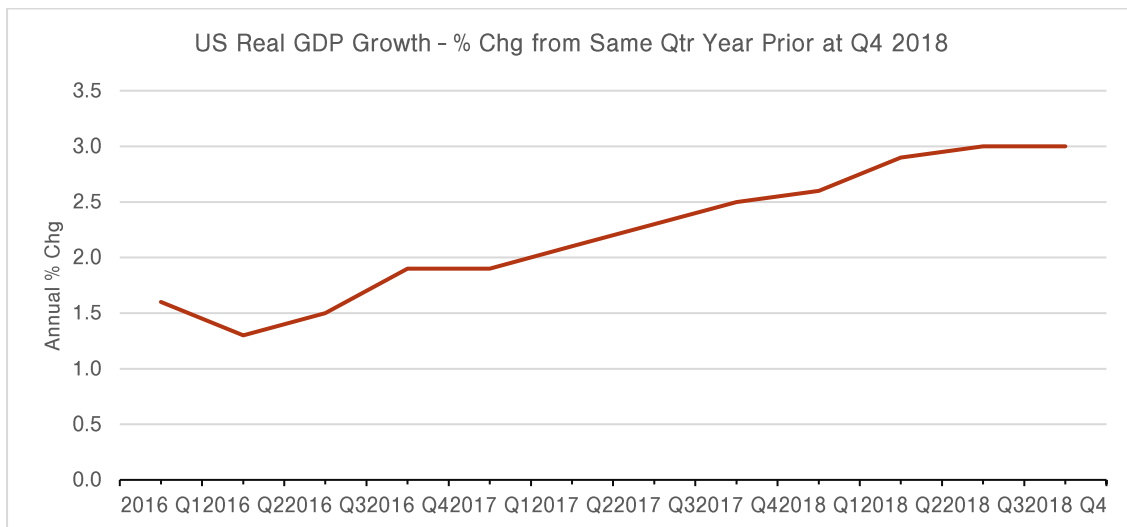
Headline GDP Growth

At a seasonally adjusted annual rate; the growth in Q4 was revised lower from +2.6% in the initial estimate to +2.2% in the second estimate.

Using this view, the trend of GDP growth has been slowing over the last two quarters;

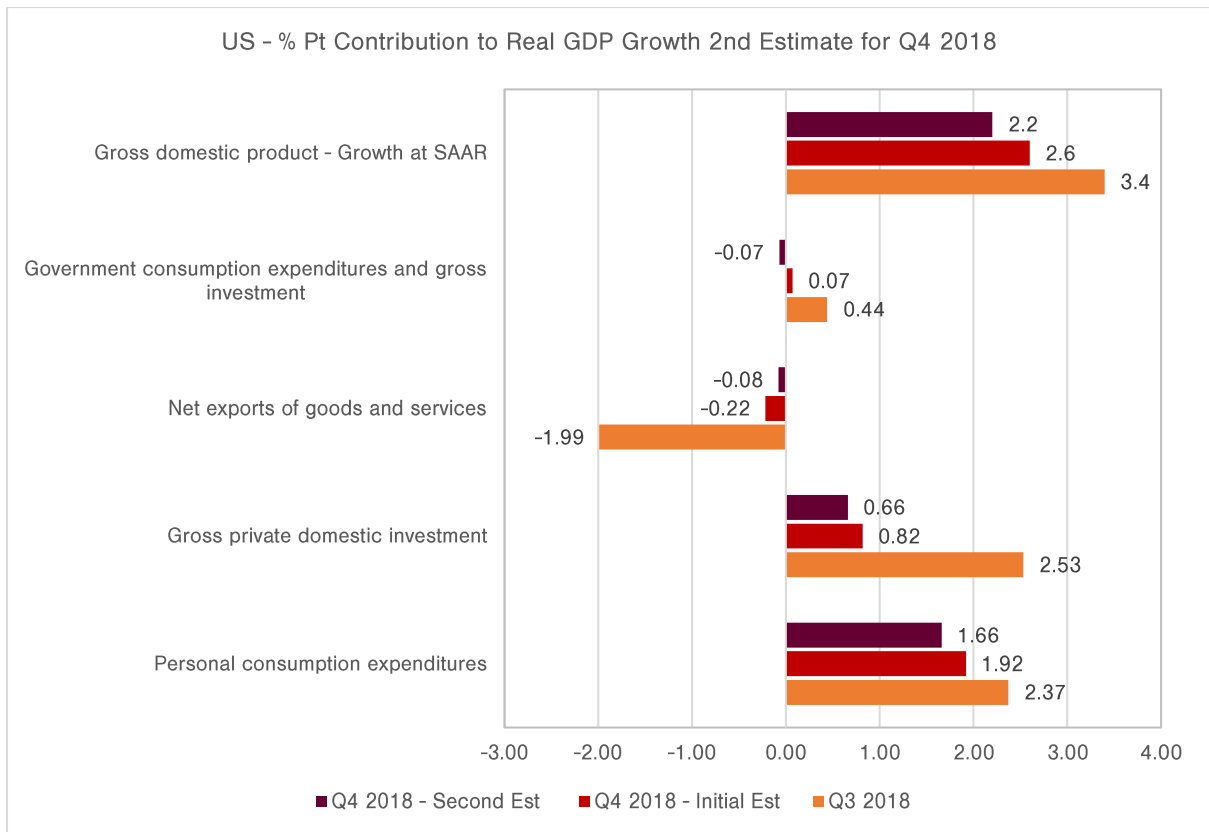


On an annual basis (the % chg from the same qtr prior year), GDP growth remains constant at a near term high of 3%;



Contribution to growth in Q4

There were several revisions to growth in Q4 in the second estimate resulting in the lower growth in the quarter;



Contributing to the lower growth;

Personal Consumption Expenditure was revised lower; from 2.8% to 2.5%. This was the result of lower growth in Goods consumption expenditure (revised lower from 3.9% to 2.6%). Both durable goods and non-durable goods expenditures were revised lower. Growth in personal expenditures on services remained unchanged.

Gross Private Domestic Investment expenditure was revised lower from 4.6% to 3.7%. Growth in both Residential and Non-residential investment expenditures were revised lower.

The change in private inventories made only a slightly lower contribution to growth.

Govt Consumption and Gross Investment expenditures were revised lower from +0.4% growth to -0.4% decline. Both Federal and State/Local expenditures contributed to the decline.

On the positive side, net exports made a less-negative contribution to growth in the quarter;

Net exports were revised higher from -0.22%pts to -0.08%pts. This was the result of higher growth in exports from 1.6% to 1.8% growth in the quarter. Growth in goods exports were revised lower from 1.6% to 1.2% and growth in services exports was revised higher from 1.4% to 2.7%. At the same time, growth in imports were revised lower. Similarly, goods imports were revised lower while services imports were revised higher.

<https://www.bea.gov/data/gdp/gross-domestic-product>

Personal Income and Outlays and PCE Price Index (Jan data for spending and PCE price index, Feb data for personal incomes)

Personal income continued to grow in Feb after declining in Jan. The Jan decline in personal income was not the result of any decline in employee compensation (labour market remains stable), rather reversing the increase in personal income receipts on assets recorded in Dec. That said, the savings rate remains elevated in Jan after a large increase in Dec. Personal consumption expenditures grew slightly in Jan compared to Dec but remain below the Nov 18 peak – expenditures on durable goods continued to decline. Consumers likely remained cautious in Jan – this is supported by the larger fall in consumer sentiment recorded in Jan.

The annual growth in the PCE price indexes (Fed preferred view of inflation) continued to slow and remains well below current Fed projections for 2019 and the 2% symmetrical target.

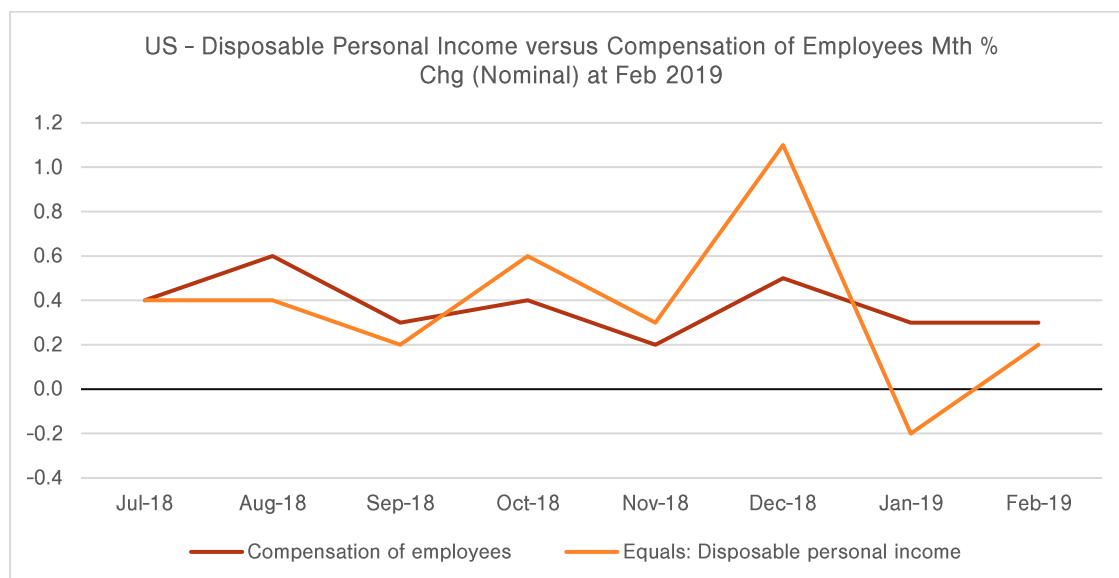
Personal Income – Feb

Personal incomes in Feb increased by \$42bn, or +0.2% versus Jan.

The increase in Feb was the result of further growth in wages and salaries as well as govt and social benefits to persons and proprietors.

Compensation of employees continued to grow at a constant pace; Feb +0.3% versus Jan +0.3%. The monthly change is a little below the average over the last eight months (which is +0.4%).

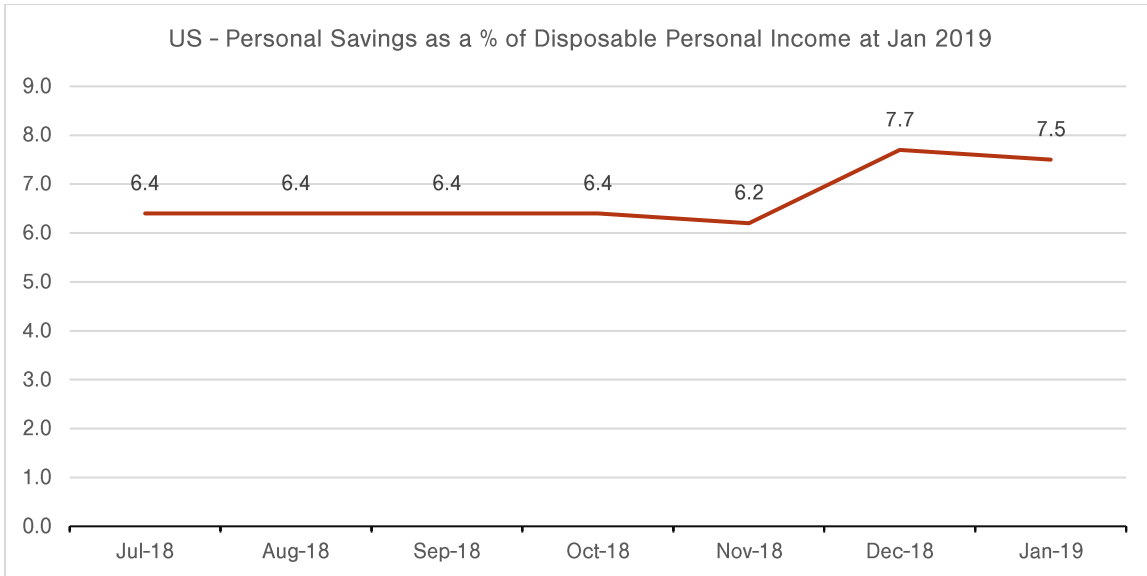
Disposable personal incomes grew at a faster pace; Feb +0.2% versus Jan -0.2%. The fall in Jan was the result of a fall in personal dividend income, farm proprietors' income, and personal interest income – rather than a fall in employee compensation.



Personal Savings as a % of Disposable Income

In Jan we highlighted the increase in the savings rate. In Feb, that rate remains elevated compared to the rate recorded throughout the last half of 2018;

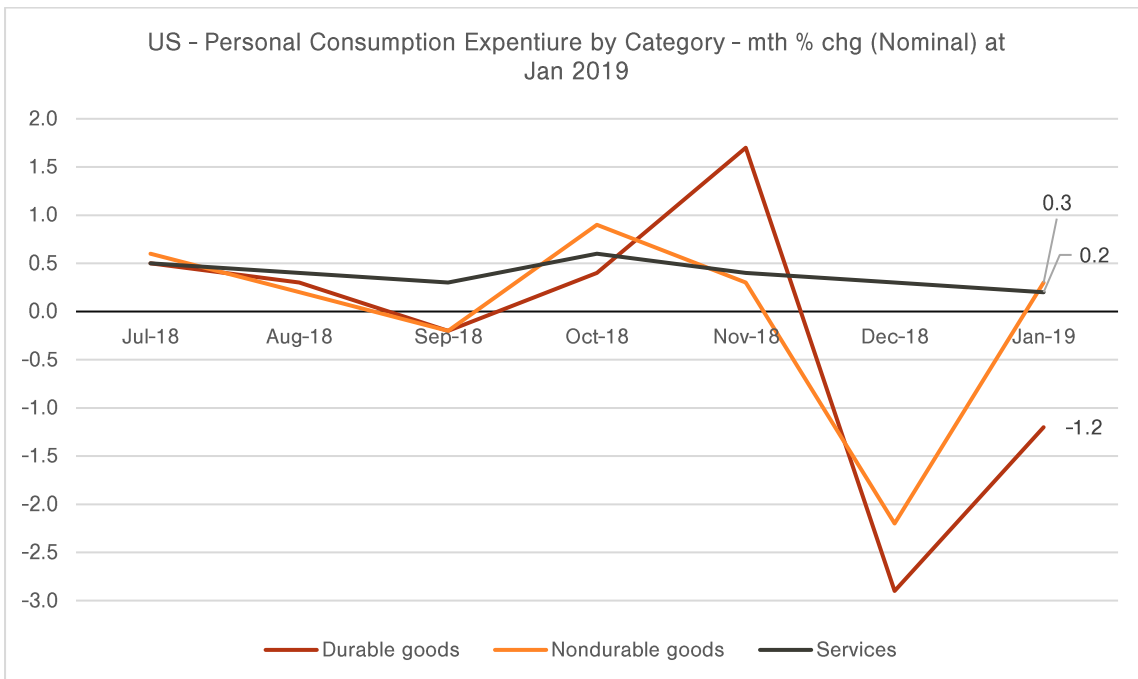
Feb 7.5% versus Jan 7.7%



Personal Consumption Expenditures (data up to Jan 2019 only)

Personal consumption expenditures increased by \$8.6bn in Jan, which was +0.1% on the month prior.

The continued decline in expenditure on durable goods was offset by a small rebound in expenditures on non-durable goods and services.

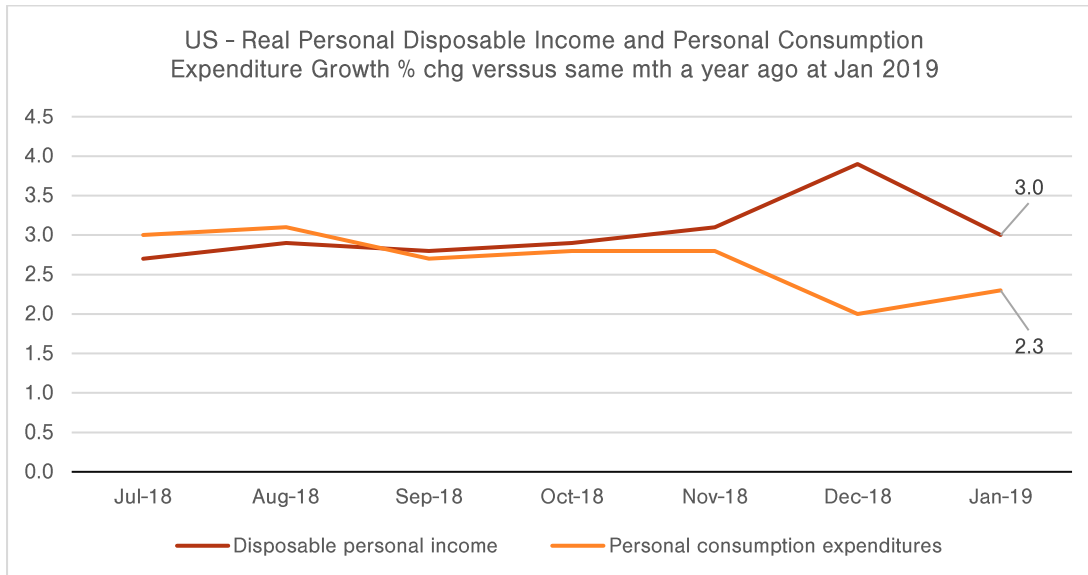


Real Consumption Expenditure and Personal Income

From an annual perspective, real personal income continues to grow at a faster pace than expenditures in Jan.

Real personal disposable income – annual growth; Jan +3%. Although this slowed from the 3.9% growth recorded in Dec, it remains above the rate of growth recorded throughout the second half of 2018.

Real personal consumption expenditures – annual growth; Jan +2.3%. This increased slightly from Dec and expenditure growth remains below that recorded throughout the second half of 2018.



PCE Price Indexes

The FOMC preferred measure of inflation is the PCE price index. The annual rate of growth recorded in Jan slowed further.

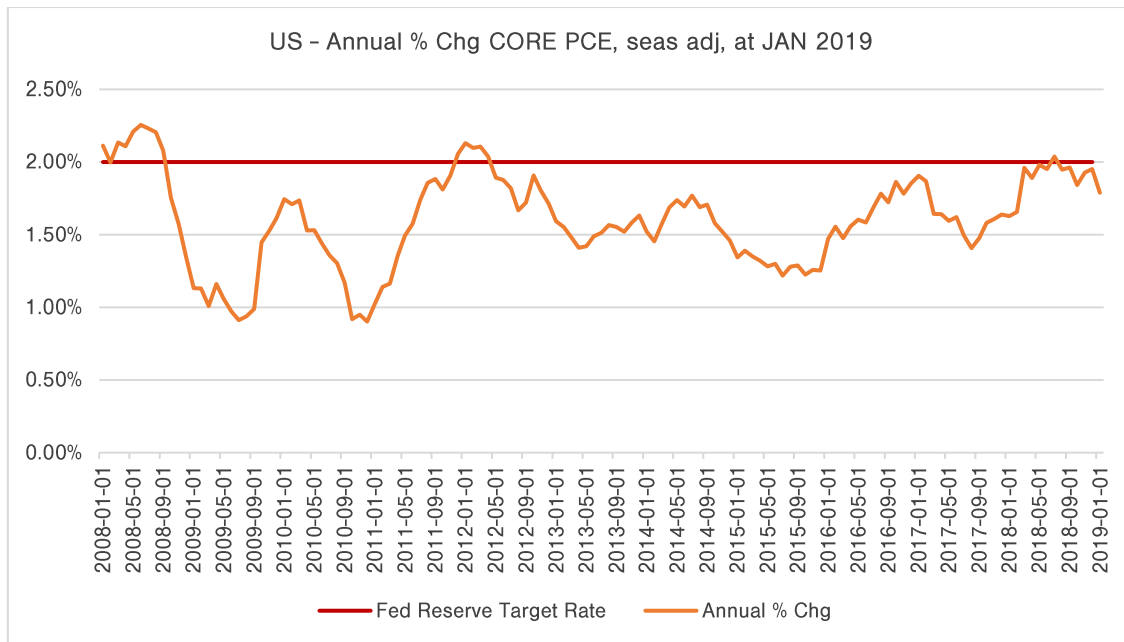
Headline PCE Price Index; Jan +1.4 versus Dec +1.8%

In the Mar FOMC projections, the median headline PCE price inflation growth is +1.8% for 2019. Part of the reason for the slower growth was the decline in energy prices.

Core PCE Price Index; Jan +1.8% versus Dec 1.95%

In the Mar FOMC projections, the median projection for core PCE in 2019 was 2%.

The current rate of inflation remains well below the FOMC 'symmetrical' 2% target.



<https://www.bea.gov/data/income-saving/personal-income>

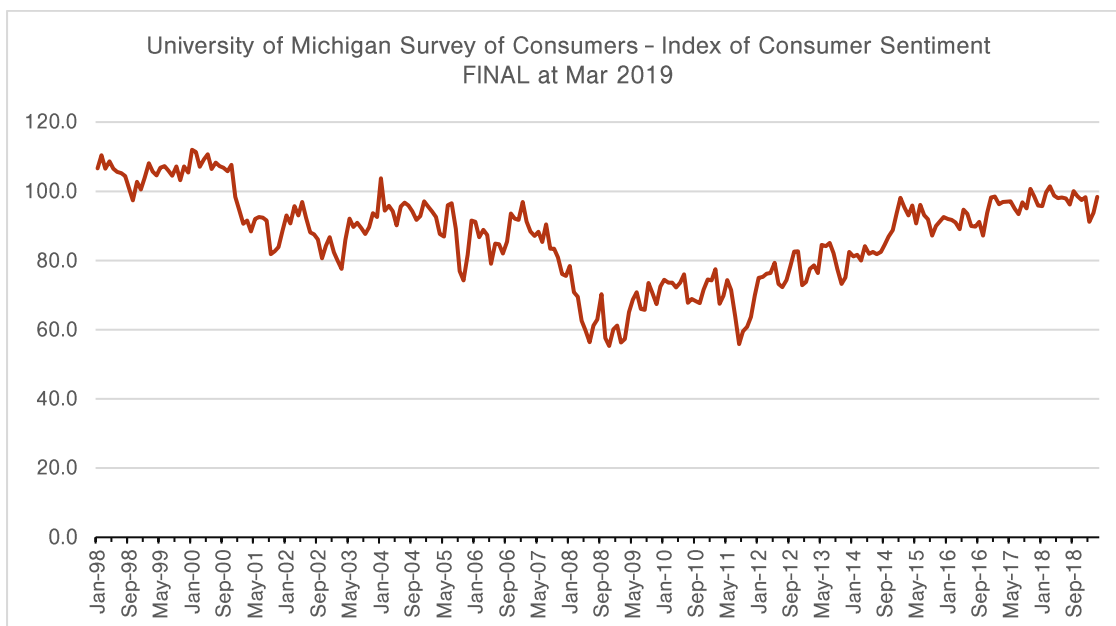
Uni of Michigan Consumer Sentiment – Final (Mar)

Consumer sentiment data continued to improve in the final Mar report. Consumer expectations, current economic conditions and consumer sentiment are now all above the Jan low.

Index of Consumer Sentiment

Mar 98.4 (revised slightly higher from the prelim report) versus Feb 93.8

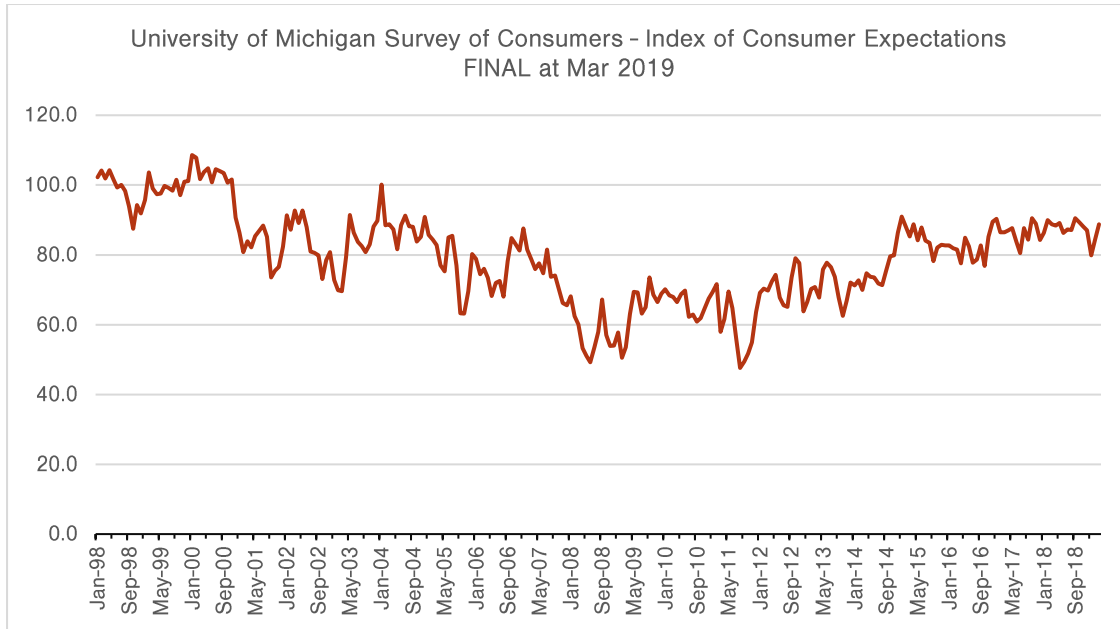
The current index of consumer sentiment remains 3% below the same month a year ago – which was the peak in the last 12-months. The current index reading is also above the 12month average.



Index of Consumer Expectations

Mar 88.8 (revised slightly lower from the prelim report) versus Feb 84.4

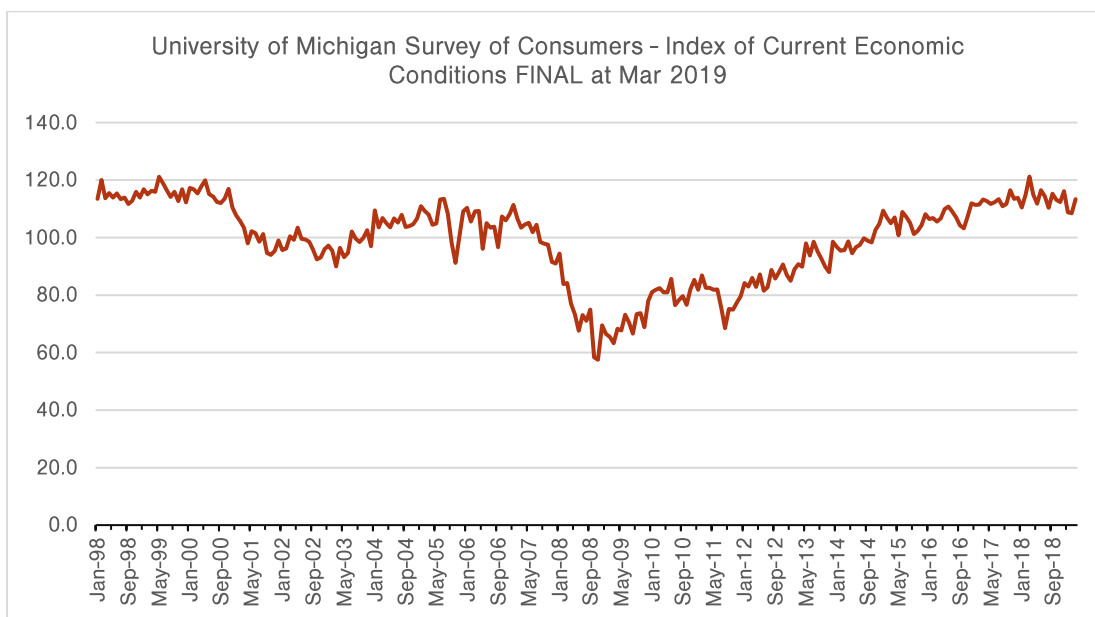
The current index of consumer expectations is now on par with that of a year ago. Note that the expectations index peaked in Sep 2018 at 90.5. The current index reading of 88.8 remains above the 12-month average of 87.3.



Index of Current Economic Conditions

Mar 113.3 (revised slightly higher from the prelim report) versus Feb 108.5.

This has been the first monthly increase since the large fall recorded in Jan. The index remains 6.5% below the same time last year – which was the peak in the last 12 months. The current index reading is at the average for the last 12-months.



“Moreover, all income groups voiced more favorable growth prospects for the overall economy. While no further decline in interest rate expectations was recorded in March, the data suggest that consumers anticipated additional increases in 2019.”

“Overall, the data do not indicate an emerging recession but point toward slightly lower unit sales of vehicles and homes during the year ahead.”

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

US Fed Speeches;

Philadelphia Fed President Harker - speech on economic outlook at the OMFIF City Lecture in London

Philadelphia Fed Bank President Harker - speech on economic outlook at the ECB and Deutsche Bundesbank Joint Meeting in Frankfurt, Germany

Boston Fed President Rosengren - keynote address at the 22nd Annual Credit Suisse Asian Investment Conference in Hong Kong

Kansas City Fed President George - speech on economic outlook and monetary policy at the Money Marketeers of New York University, Inc. Downtown Association in New York

St. Louis Fed President Bullard - presentation about the U.S. economy and monetary policy at the Center for Research on the Wisconsin Economy (CROWE)'s Spring Economic Outlook Forum in Madison

Vice Chairman Clarida Board of Governors - Global Shocks and the U.S. Economy, Banque de France and European Money and Finance Forum Colloquium, Paris, France

Vice Chairman for Supervision Quarles, Board of Governors - Financial Stability Board Agenda, the Joint Conference of the European Central Bank and the Journal of Money, Credit and Banking: Financial Intermediation, Regulation and Economic Policy: The 50th Anniversary of the Journal of Money, Credit and Banking, Frankfurt, Germany

Atlanta Fed President Bostic - panel discussion "From Bankhead to Buckhead: Prosperity for All" about workforce development, income mobility and income inequality at the Commerce Club in Atlanta

New York Fed President Williams - moderated discussion about the economy with Kenneth Rivera-Robles, President of the Puerto Rico Chamber of Commerce, in San Juan, Puerto Rico

Vice Chairman for Supervision Quarles, Board of Governors – speech; macroprudential Policy, at the Manhattan Institute’s Shadow Open Market Committee’s Spring 2019 Meeting, New York

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Europe

Germany CPI – Prelim (Mar)

The annual growth in German CPI is expected to slow in Mar.

Headline CPI – annual % chg: Mar +1.3% versus Feb +1.5%

This slower annual growth is the result of slower growth in both Goods and Services prices;

Goods CPI; Mar +1.6% versus Feb +1.7%

Services CPI; Mar +1.2% versus Feb +1.4%

https://www.destatis.de/EN/Press/2019/03/PE19_121_611.html

Germany Retail Sales – Prelim (Feb)

Provisional data indicates that retail sales continue to grow in Germany.

In real, seasonally adjusted and calendar adjusted terms, retail sales grew by;

Month chg; Feb +0.9%

Annual chg; Feb +4.7%

https://www.destatis.de/EN/Press/2019/03/PE19_122_45212.html

ECB President Draghi speech - 'The ECB and Its Watchers' in Frankfurt, Germany

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Japan

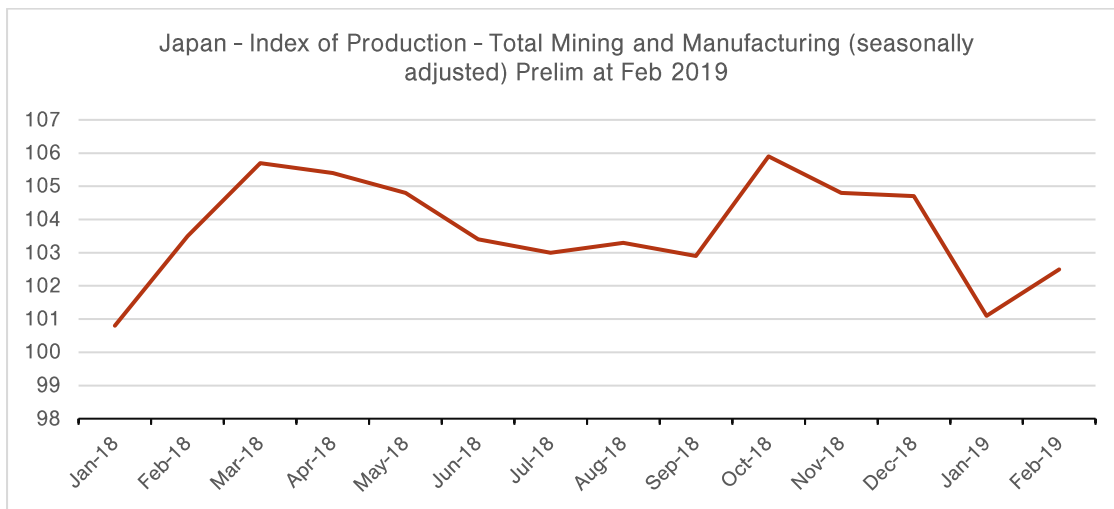
Industrial Production – Prelim (Feb)

The prelim report for Japanese industrial production indicated that both shipments and production increased in the latest month but remains below the same time a year ago.

Month Change – Seas Adj

Production; Feb +1.4% versus Jan -3.4%

The current seasonally adjusted production index remains below the level seen for most of 2018;



Shipments; Feb +1.8% versus Jan -3.4%

The Shipments index remains below the levels of Oct, Nov and Dec, but is at least now back to just below the average for the last 12 months.

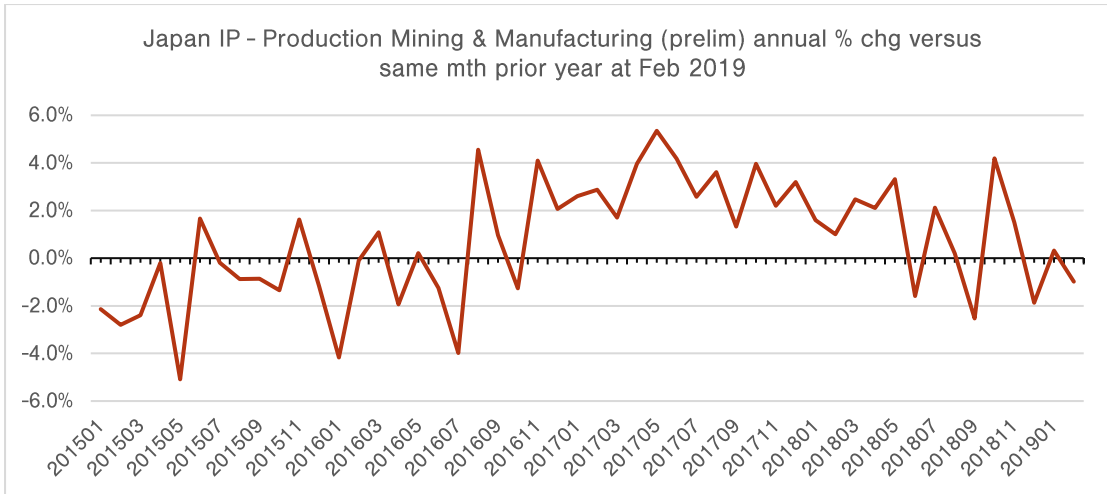
Inventory; Feb +0.5% versus Jan -1.4%

Inventory Ratio; Feb -0.2% versus Jan -1.1%

Annual Change – Original

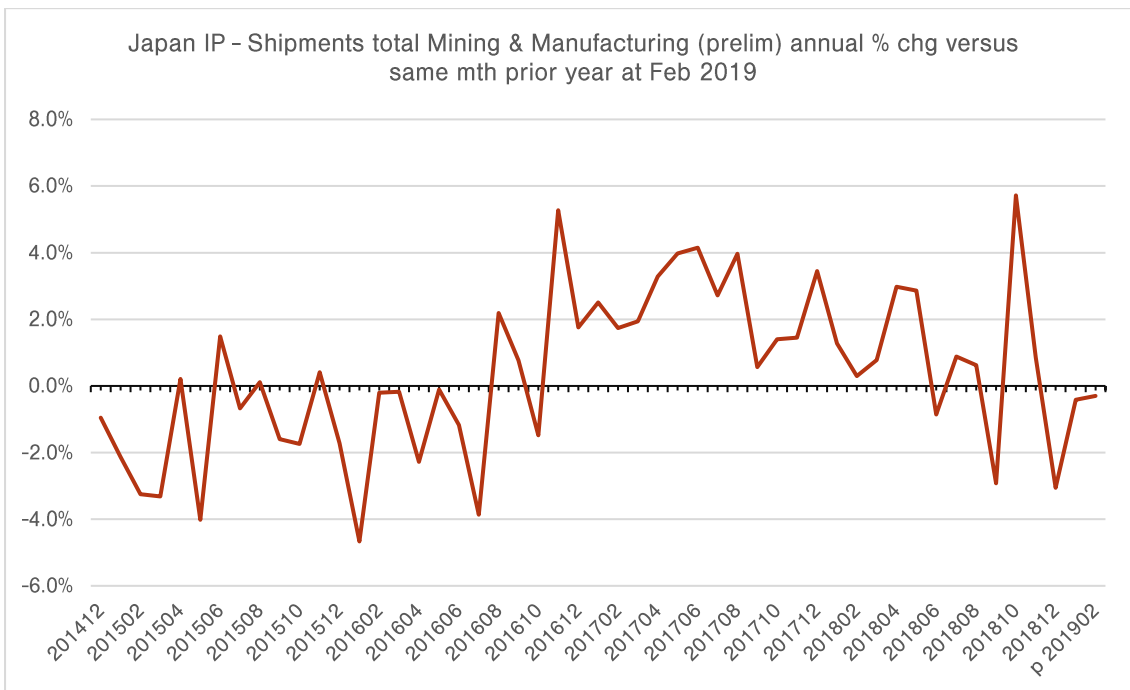
Using the original index, both shipments and production growth remains below the same time last year.

Production – annual change; Feb -1% versus Jan +0.3%



Production growth has continued to slow over the last few months and production levels is only above last year in a couple of the major industry groups; Fabricated metals (+4%) and Transport Equipment (+1%).

Shipments – annual change; Feb -0.3% versus Jan -0.4%



Inventory – annual change; Feb +1.4% versus Jan +1.3%

The annual growth in inventory has continued to slow (excluding the large decline in Oct 2018)



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

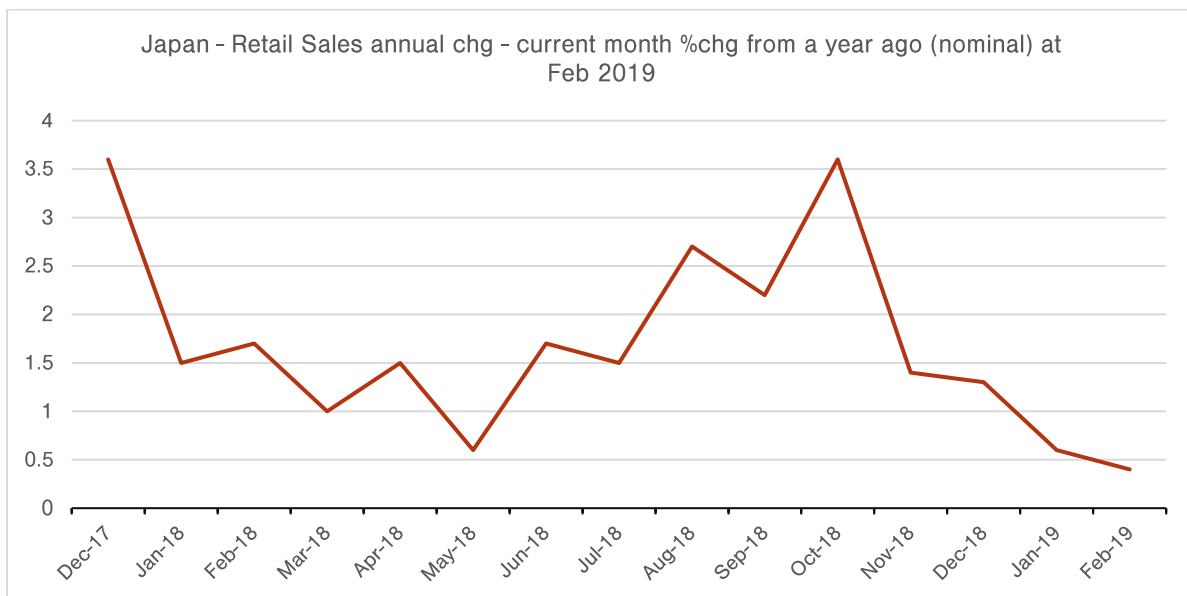
Retail Sales (Feb)

Retail sales increased slightly after falling in Jan. The Jan result was revised to a smaller decline.

Monthly chg; Feb +0.2% versus Jan -1.8% (previous result -2.3%)

The annual change has slowed to +0.4% versus the same month a year ago.

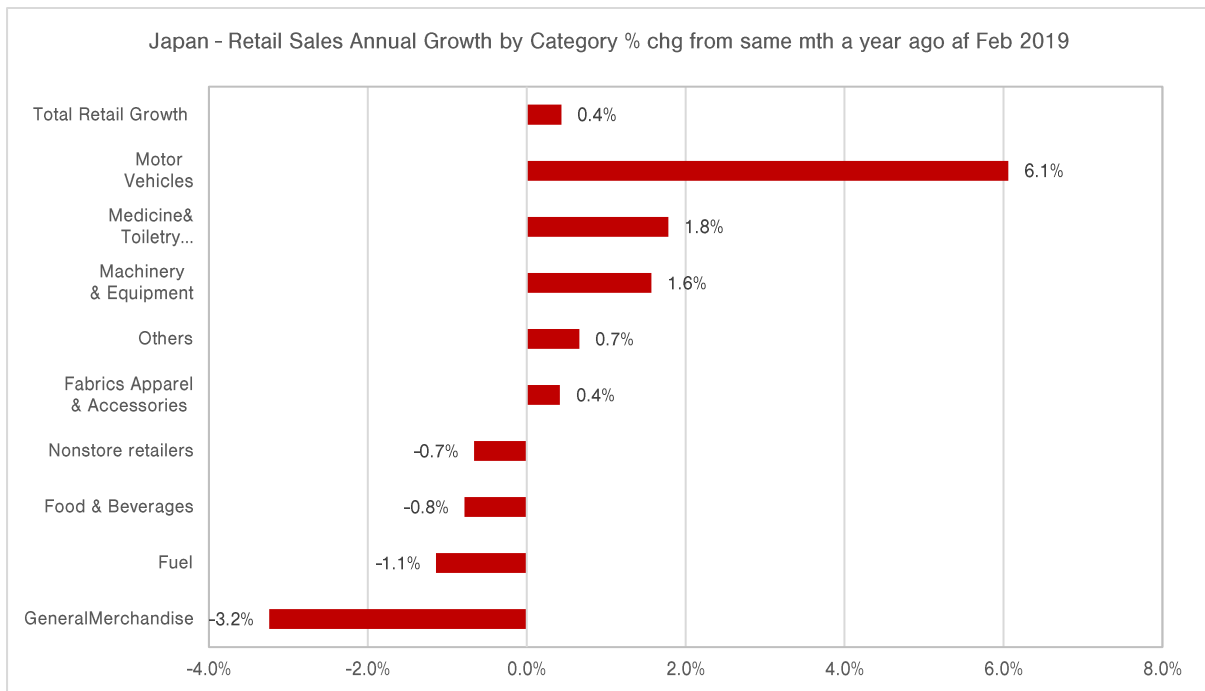
The current headline CPI rate of growth is +0.2%, so real retail sales growth remains very low;



On a category basis, the sale of motor vehicles contributed the most to current annual growth.

The value of retail sales in the largest category, Food and Beverages, continues to decline on an annual basis (-0.8% annual decline in Feb). The latest CPI data for Feb has the price levels

for all food declining by -1.4% and Beverages prices growing by +0.1% on an annual basis. In real terms, its likely that food and beverage retail sales are growing.



<https://www.meti.go.jp/english/statistics/tyo/syoudou/index.html>

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United Kingdom

Brexit

An extension to Brexit was approved last week with the actual date contingent on what happens with the 3rd Parliamentary vote (or some other deal that the UK Parliament can agree upon that doesn't require renegotiation of the withdrawal agreement).

If the UK parliament approves the withdrawal agreement (which needs to happen almost immediately), then the deadline is extended to 22 May 2019.

If the deal is rejected, then the extension is reduced to 12 Apr 2019.

Early in the week, the UK held several rounds of 'indicative votes' including a no deal Brexit, a common market 2.0, a customs union, revoke article 50 to prevent 'no deal', a second referendum. Not one of the propositions received a majority of votes.

The current deal was again defeated in a third vote held on Friday.

The impasse remains – ministers on both sides of her party are threatening to quit if she 1) leaves without a deal or 2) requests a longer delay to Brexit.

“The Mail on Sunday newspaper said May’s advisors were divided over whether she should call an early election if she fails to win support for her Brexit deal from parliament in the coming week.”

Its possible that another vote will take place in the UK Parliament early w/c 1 Apr, with a possibility that an election may be called during the week.

“[PM] May now has less than two weeks to convince the 27 other EU countries that she can break the deadlock. Otherwise she will have to ask the bloc for a long extension or take Britain out of the EU on April 12 with no deal to soften the economic shock.”

<https://www.reuters.com/article/britain-eu-may-cabinet/update-1-uks-may-risks-total-collapse-of-government-in-brexit-impasse-sunday-times-idUSL8N21H0SM>

The EU has scheduled an emergency Brexit Summit for 10 Apr to either deal with a request for an extension or prepare for a no deal Brexit.

<https://www.miamiherald.com/news/business/article228634084.html>

The dates are important and revolve around the EU Parliamentary elections;

“April 12 would be the deadline for the UK to register its intention to take part in the elections. Even though May has ruled this out, it would be a prerequisite if the UK were to end up seeking a longer Brexit extension. May 22 is the day before the elections. The EU is building a “cordon sanitaire” to ensure that Brexit does not contaminate its institutional integrity”.

The options for the UK Parliament are unchanged;

“...the withdrawal agreement will not be renegotiated, only the political declaration defining the terms of UK-EU post-Brexit relationship can be

amended. A no-deal Brexit is not the preferred scenario, but the EU is ready for it.”

<http://theconversation.com/brexit-deadline-extended-why-brussels-chose-these-dates-and-what-happens-now-114050>

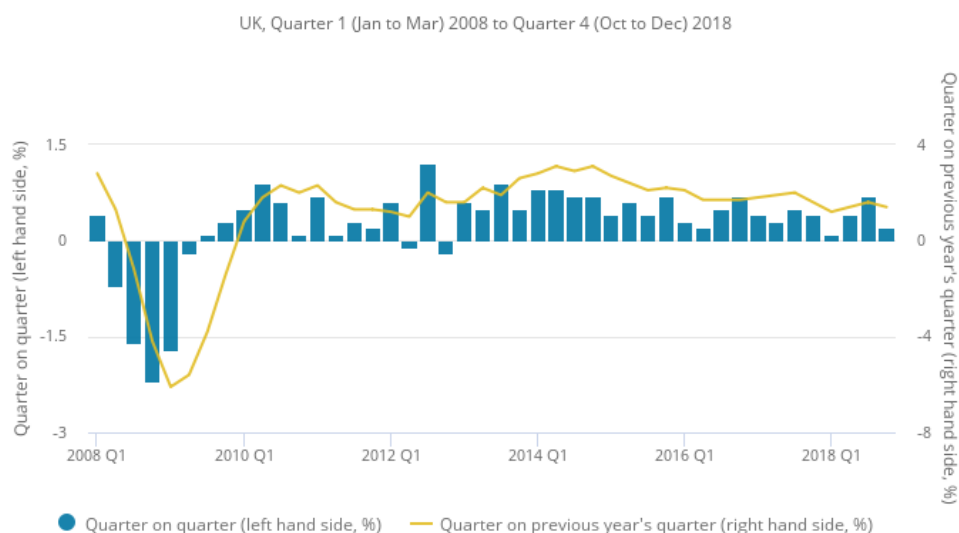
Q4 GDP – second estimate

There was no change to the headline quarterly growth rate for UK GDP.

Q4 GDP growth; +0.2% versus Q3 +0.7%

The annual rate of growth slowed from +1.6% in Q3 to +1.4% in Q4.

Figure 1: Real GDP increased by an unrevised 0.2% in Quarter 4 (October to December) 2018



Source: Office for National Statistics – UK National Accounts

Contribution to growth in Q4;

Household final consumption expenditure made a lower contribution to growth; Q4 +0.19% pts versus Q3 +0.24% pts

General govt expenditures increased from -0.01%pts in Q3 to +0.23%pts in Q4

Gross Capital Formation detracted -0.07%pts from growth in Q4 versus +0.44%pts in Q3. Within that, business investment continued to detract from growth for the fourth quarter in a row.

Net trade detracted -0.17%pts in Q4 versus adding +0.03%pts in Q3.

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

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Australia

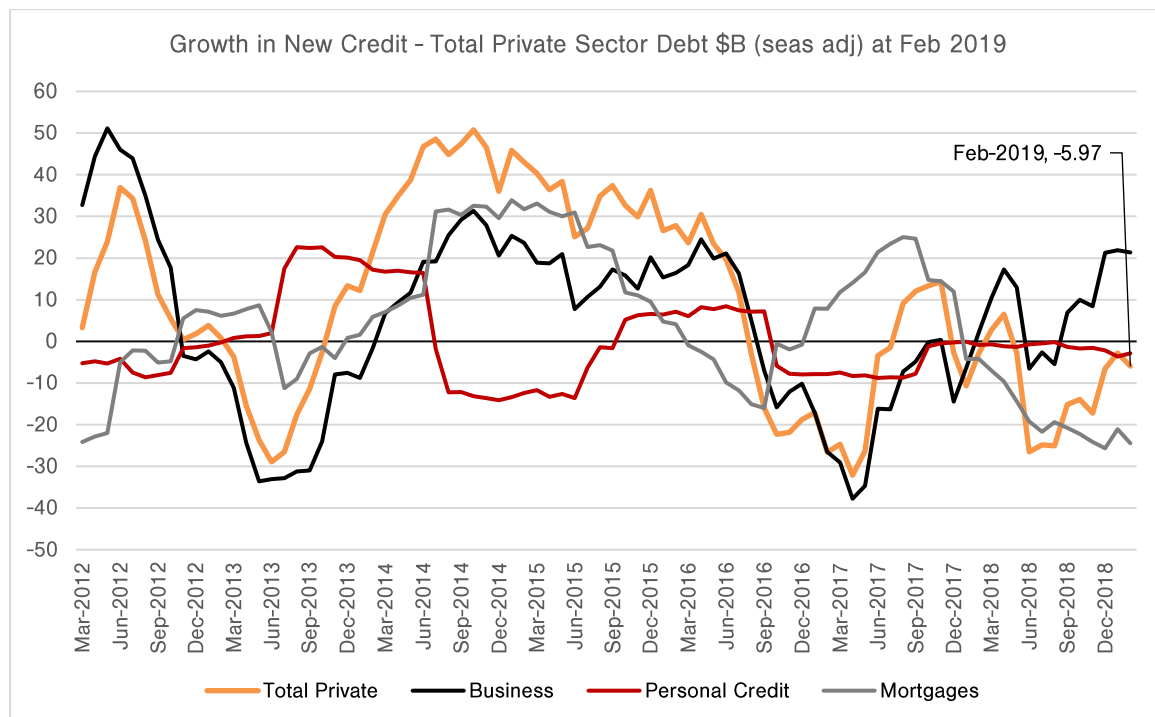
Private Sector Credit (Feb)

The stock of outstanding private sector credit increased by 4.5% versus a year ago in Feb. Growth was led by an increase in the stock of occupier housing credit and business credit outstanding.

But it is the change in new credit (the growth of the growth) that is more important for understanding changes in spending. The growth in new private sector decelerated slightly again in the year to Feb 2019. This month, the growth in new credit for business did not accelerate further and remained at the same level (a neutral impulse), while the growth in new credit for mortgages decelerated again.

Private Sector Credit growth – ann chg; Feb +4.5% or +\$126.8bn

In Feb the growth in new private sector credit was -\$6bn. This is calculated as the annual growth in outstanding credit in Feb 2019 of \$126.8bn less the growth in outstanding credit in Feb 2018 of \$132.8bn. While total credit outstanding is growing at 4.5%, the “growth of the growth” decelerated/became smaller;



The growth in new private sector credit has remained negative since mid-2018 (Jun -\$26bn), but the slope of the curve has become positive since then (the impulse has been positive). This improvement has been led predominantly by the growth in new credit for business.

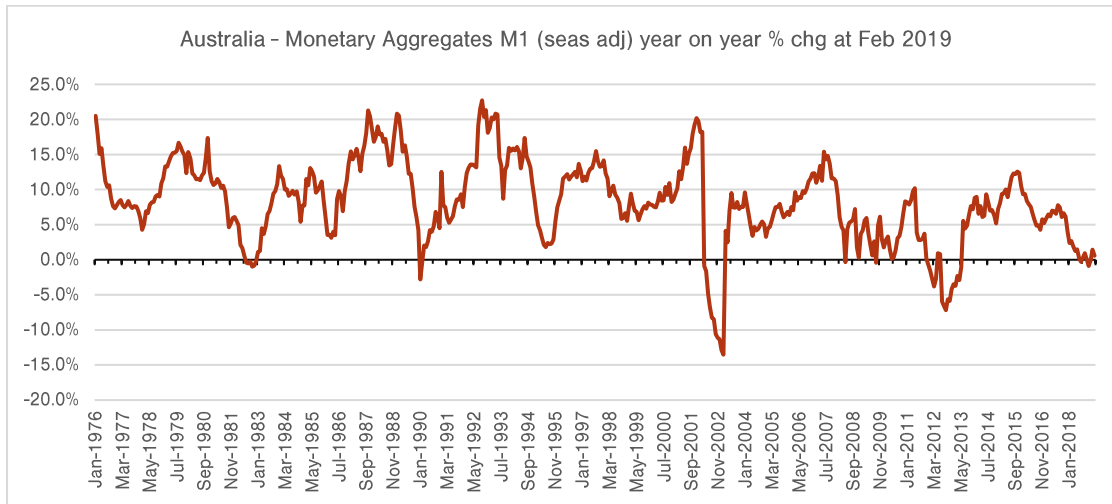
The growth in new credit for business was unchanged in Feb versus Jan around +\$21bn. This has offset the decline in new credit for mortgages and the neutral trend in personal credit.

The growth in credit for mortgages resumed a more negative trend in Feb with the growth in new credit declining by -\$24.4bn. Both investors and owner occupiers contributed to this result. This is likely to remain a negative influence on housing.

Monetary Aggregates

The annual growth in the M1 measure of money supply/liquidity resumed the slower pace of growth in Feb. But the annual growth in the broad money measure continued to accelerate. Growth overall remains low likely providing lower impetus/support for spending.

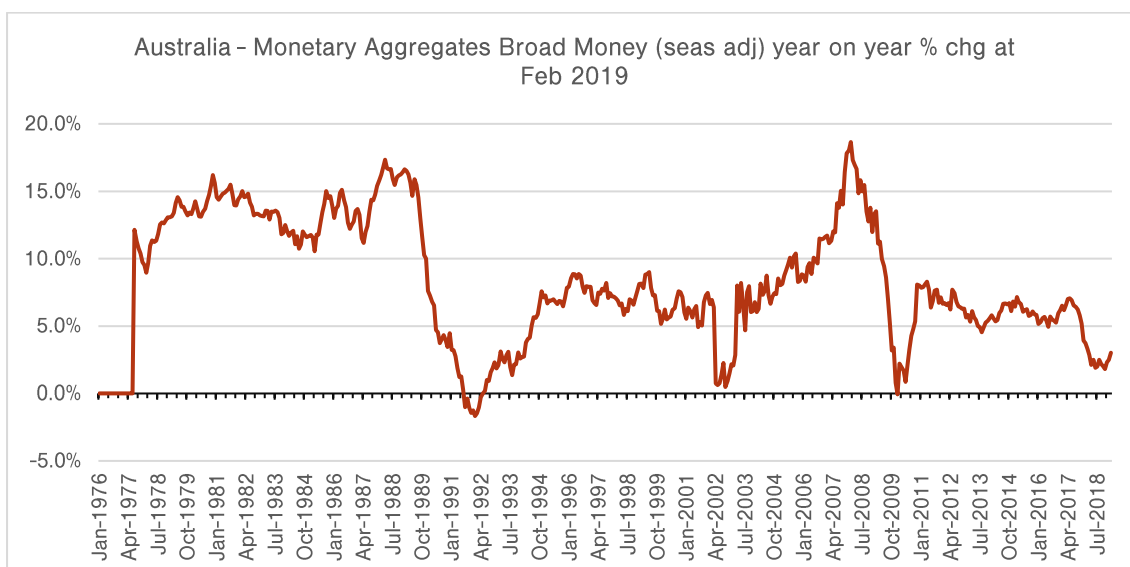
M1 measure of money supply; Feb +0.6% versus Jan +1.4% (chg versus a year ago)



This has been led by growth in the currency base, while current bank deposits remain -0.4% below the same time last year.

Broad Money; Feb +3% versus Jan +2.5% (chg versus a year ago)

This continued acceleration is mostly (but not all) the result of an increase in term deposits with banks (+7.6% above the same month a year ago). Other deposits with banks and certificate of deposit issued by banks both continue to grow, but at a slower pace.



<https://www.rba.gov.au/statistics/frequency/fin-agg/2019/fin-agg-0219.html>

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Trade

US-China Trade Negotiations

Trade talks continued this week with USTR Lighthizer and Treasury Secretary Mnuchin meeting Chinese officials in Beijing. Meetings will continue this week in Washington - Chinese Vice Premier Lui He will visit Washington on 3 April for further talks.

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>

The focus now is to have the deal ratified by Congress before the summer.

“Rep. Kevin Brady, ranking member on the House Ways and Means Committee, said U.S. Trade Representative Robert Lighthizer is ready to send legislation to lawmakers when House Speaker Nancy Pelosi “gives the green light.” He called getting the deal to Trump’s desk this summer “crucial.””

<https://www.cnbc.com/2019/03/29/trumps-nafta-usmca-trade-deal-faces-bipartisan-roadblock-in-congress.html>

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

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

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