High Frequency Economics®
Daily Data Analysis and Assessment of the Global Economy

Daily Notes on the **Global Economy**

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Production Sag

We will come out and say this bluntly: *We are expecting a decline in industrial production for both France and Germany in tomorrow's reports for April.* This is a markdown of the forecast we published in our *Weekly Notes on the Global Economy*.

Also tomorrow, we expect Germany to report that exports were flat year-over-year in April. That is not a coincidence: Exports are part of the industrial weakness in Germany's economy. However, the problem in both economies is that inventories of unsold goods have been building up for a couple of years now, as confirmed by Germany's IFO survey of inventory adequacy and by constant increases in private inventories relative to GDP in the French national accounts data. Reduction of those stockpiles to more desirable levels relative to sales will require a period during which firms fill orders out of stockpiles rather than new production. Thus, industrial output is prone to decline.

Our markers for the monthly changes are the IFO index for Germany and INSEE's index of manufacturing confidence for France. Neither is a particularly good predictor of month-to-month changes in production. However, both are excellent predictors of turning points in production. To keep the analysis as non-technical as possible, we will say it bluntly: Neither the IFO index nor the French manufacturing confidence index has shown any sign of a sea change recently. *Thus, we expect production to continue to decay.*

So our revised point forecast for Germany's industrial production is a 0.9% drop in April, instead of the 0.1% rise we initially estimated. By chance, that drop would leave the index 0.9% lower than a year ago. In March, production rose 0.5% on the month but was 0.8% lower year-over-year. For France, we estimate a lesser 0.1% drop in output for the month after a 0.9% decline in March, leaving the index 0.6% higher than a year ago but only thanks to the huge 1.5% Easter-related dip a year ago.

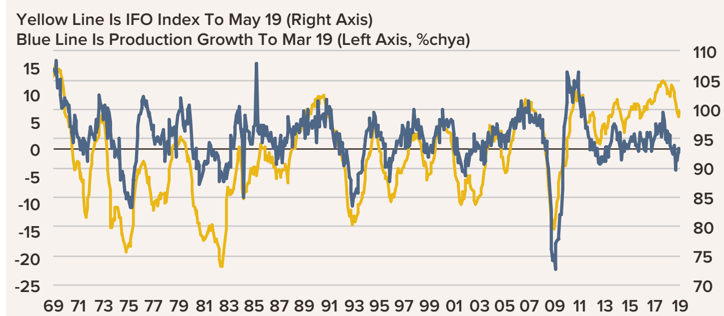
This is not the stuff economic recoveries are made of. This is not what it takes to reduce slack or boost employment in the interest of firming up wage and price increases toward the inflation target. This is an unsatisfactory result that the equity markets will take note of. The ECB, as we will hear today, has no more ammunition to throw at the problem of stagnant economies in the Euro Zone. Bond yields may tick a notch lower because of lower inflation expectations, but not because of any rate cut expectations.

Euro Zone

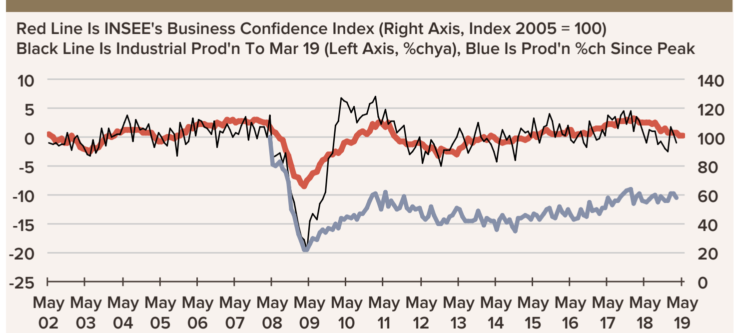
EuroStat yesterday reported a 0.4% drop in **retail sales volumes** for April, leaving the index just 1.4% higher than a year ago. In March, the index was dead flat but up 1.9% year-over-year. *This is not good news at all. We will have to see if industrial output fell by more than consumer spending when those data are published next week. Otherwise, the inventory run-up may have extended in April after a brief run-down in March.* The good news is that retail sales volumes in April were 4.1% higher than at their peak in 2008, just before the global financial crisis. The offsetting news is that the population in Euroland has also risen by about 4%: Consumption per capita is likely flat in volume terms over the last 11 years. *That is not good.*

Also yesterday, EuroStat said **PPI** was 2.6% higher than a year ago in April, accelerating from a 2.9% year-over-year pace in March. This headline will be music to the ears of local inflation hawks. However,

Germany: 50 Years Of IFO Index And Industrial Production



France: Manufacturing Confidence And Industrial Production

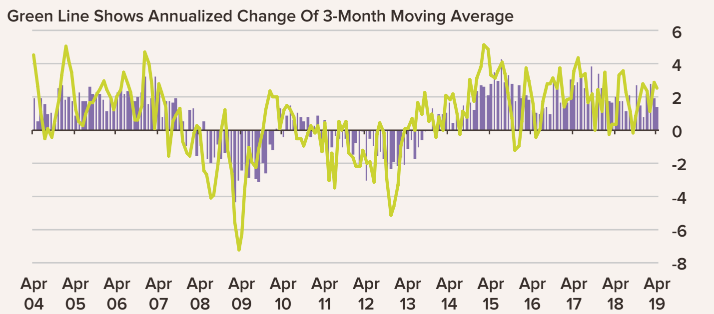


Yields On 10-Year Government Bonds @ 22:00 GMT

	Coupon	Maturity	Yield (%)	Prev (%)	Chge (bps)	Δ vs U.S.	Prev Δ vs U.S.
United States	2.375%	5/29	2.121	2.123	-0		
Japan	0.100%	3/29	-0.128	-0.108	-2	-225	-223
Germany	0.250%	2/29	-0.227	-0.208	-2	-235	-233
United Kingdom	1.625%	10/28	0.863	0.901	-4	-126	-122
Italy	3.000%	8/29	2.468	2.514	-5	35	39
France	0.500%	5/29	0.152	0.182	-3	-197	-194
Canada	2.250%	6/29	1.441	1.468	-3	-68	-65
Australia	3.250%	4/29	1.482	1.501	-2	-64	-62
China	3.250%	11/28	3.240	3.238	+0	112	111

Note: All yields converted to a comparable semi-annual basis. Data collected 22:00 GMT daily, from market sources believed to be reliable by High Frequency Economics. These data are market indications only, not quotes.

Euro Zone: Retail Sales Volume, Percent Change Year Ago



if you take energy prices out of the mix, PPI was up just 1.0% year-over-year. This signals that exogenous prices rather than domestic product prices are the culprit. Consumer goods prices—which include some energy products, and also some imports—were just 1.5% higher than a year ago. *In other words, theories of PPI pushing up consumer prices fizzle quickly if we actually look at the data.*

Finally yesterday, Markit reported a small upward revision to its flash estimates of the **services sector PMI for the Euro Zone** for May, to 52.9 from 52.5. This index was 52.8 for April. *Yawn!* We will skip the lecture and refrain from the use of the words "unvalidated," "untested" and "unproven." You know what we think of these recently invented statistics. **Germany**'s services sector PMI was revised up to 55.4 from 55.0. It was 55.7 in April. The **French** index was revised down to 51.5 from 51.7, but it is still up from 50.5 in April. **Spain**'s services PMI was 52.8, down from 53.1 in April. **Italy**'s index fell to 50.0 from 50.4. There are no flash estimates for the Italian or the Spanish services PMIs.

Speaking of Italy, **the EC yesterday initiated an "excessive deficit" procedure against Italy**, with an eye toward possibly fining the government for exceeding the 3%-of-GDP fiscal deficit limit imposed on all member states. *If you want reassurance, we have seen these procedures initiated almost a dozen times before. They have never resulted in sanctions or fines.* However, market participants see this as a potential credit risk for the Euro Zone, given the mass of BTPs outstanding. Whether they are right or not, yields did jump by nearly 10 basis points on this news. Ten-year yields are still short of last week's high of 2.74%, and they fell back toward the end of the day yesterday. *Uncertainty about Italy's fiscal path will continue to push up Italy's yield curve and drive money into safe-haven markets like Bunds and OATs. Keep an eye on spreads, please!*

Today, the ECB will announce the outcome of a regularly scheduled Governing Council meeting, after which President Draghi will hold his usual press conference. *No policy changes are likely. As we discussed in yesterday's* Notes, *we would like to see a louder call from the Bank for structural public sector investment to stimulate demand. However, we expect to be disappointed. We likewise do not expect the Bank to back down on capital adequacy requirements, which would unleash a well-targeted monetary jolt.* ***We continue to see sluggish bank lending as the fatal flaw in the Euro Zone economy.*** Also today, EuroStat will release another round of GDP revisions for the first quarter. Flash estimates showed GDP slowed to a 0.4% quarterly rate of growth and a 1.2% year-over-year pace. No economic releases are due tomorrow.

Germany

There were no economic releases yesterday, other than the revision to Markit's untested services sector PMI for May.

Today, FSO will report April factory orders. *Ignore this report, as it will give us no useful clues about what to expect from the industrial production report, due tomorrow.* Production is the metric that correlates best with GDP growth, employment and general prosperity. *As we discuss above, we are now looking for a 0.9% drop in April.* Also tomorrow, we expect international trade estimates for April and first quarter data on labor costs. *HFE is looking for further decay in the trade surplus, to €17.8 billion in April compared to €20.4 billion in the same month last year. The current account surplus should work out to around €18.7 billion, compared to €23.5 billion a year ago.*

Japan

We did not see any economic reports yesterday.

None are due today, either. However, BoJ Governor Kuroda will speak overnight tonight at the Institute of International Finance's spring meeting in Tokyo. *He could say anything, but he is unlikely to say that the BoJ is giving up on QQME with YCC as the BoJ's primary tactic.* Tomorrow, look for April reports on workers' cash earnings and household spending, as well as a preliminary calculation of the LEI for April from the Cabinet Office. *HFE estimates money wages were down 0.1% year-over-year, leaving real cash earnings 1.4% lower than a year ago. With real wages flat, household spending should print barely better than flat, too.*

A Quick Look At Upcoming Events

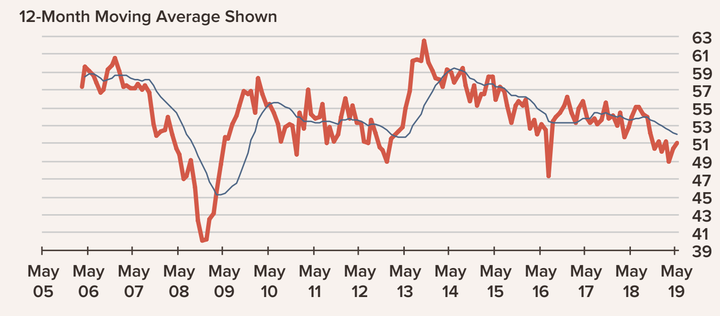
	Thursday	Friday
Japan	BoJ's Kuroda Speaks	**Wages (4)** **Household Spending (4)**
Australia	**TRADE (4)**	Mortgage Approvals (4)
Euro Zone	**ECB Council Meeting** ECB's Draghi Speaks GDP (Q1r)	Nothing
Germany	Factory Orders (4)	Labor Costs (Q1) **Industrial Production (4)** **TRADE (4)**
France	Nothing	**Industrial Production (4)** **TRADE (4)**
United Kingdom	**21 Weeks To Brexit III** BoE's Carney Speaks	**146 Days To Brexit III** Halifax HPI (5)
Canada	Ivey Index (5) **TRADE (4)**	**Capacity Utilization (Q1)** **Employment (5)**
United States	**Productivity (Q1r)** Financial Accounts (Q1) Qtrly Services Srvy (Q1r) **TRADE (4)** **Weekly Initial Claims**	**Employment (5)** Consumer Credit (4) Wholesale Trade (4)
China	***FX Reserves (5)*** ***MONEY (5)*** ***TRADE (5)***	Nothing

Underscore=Already released *Italics*=Estimated release date
CCI/BCI/BSI=Consumer/Business Confidence HPI=House Price Indexv

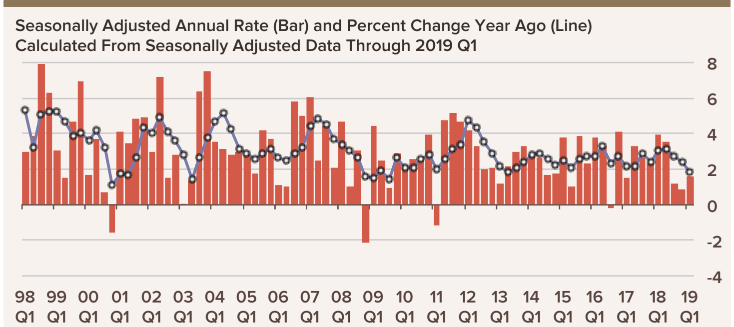
Further Down The Road...

June 19	United States—FOMC Decision
June 20	United Kingdom—MPC Decision
June 19 - 20	EU Summit, Brexit Update And Review Planned
June 20	Japan—BoJ Board Decision
June 28 - 29	G-20 Summit In Osaka, Trump/Xi Summit Possible
July 2	Australia—RBA Board Meeting
July 10	Canada—BoC Governing Council Decision
July 25	Euro Zone—ECB Governing Council Decision
August 24 - 26	G-7 Summit In Biarritz
October 18 - 19	IMF Fall Meetings In Washington
October 31	**Brexit Day III (Maybe)**

United Kingdom: CIPS Services Sector PMI



Australia: GDP



United Kingdom

The **CIPS/Markit PMI for the services sector** rose to 51.0 in May from 50.4 in April, according to yesterday's report. This PMI is now up two months in a row. However, it has been headed downward for five years. *The empirical evidence is still too shaky to believe the sea has changed in this sector.* Also, this is a newly created PMI, with only a dozen years of data: It has not seen even one complete business cycle. *So we cannot treat its level above 50 as a serious indication that output in the sector may have accelerated in May. In our view, this latest datapoint fails to reverse the five-year downtrend in this statistic.*

SMMT yesterday reported 183,724 **new auto registrations** in May, 4.6% fewer than a year ago. They were down 4.1% year-over-year in April. Car sales in the first five months of this year are now reported 3.1% lower than in the same period of 2018. *So Brexit uncertainty is not driving people to buy their Beemers and Porsches before the borders close and tariffs go up... as you might expect. Autos will not pull Britain's economy into economic recovery.*

Correction: HFE mistakenly referred to Sadiq Khan, the Mayor of London, as "The Lord Mayor of London." We apologize for the error

No economic releases are due today, but BoE Governor Carney will be speaking at the IIF's spring meeting in Tokyo. Tomorrow will bring the Halifax house price index for May. *We expect another strong year-over-year figure for May. Brexit is still a few months away.*

France

Other than the revisions to the flash estimate of Markit's services PMI for May, we did not see any economic reports yesterday.

No economic releases are due today. Tomorrow, look for April reports on industrial production and international trade from INSEE. *We discuss the production report above. We figure the trade deficit was €5.3 billion, little changed from €5.5 billion in April 2018.*

Australia

ABS yesterday reported that **GDP** increased 0.4% in the first quarter, a squinch less than expected but better than the 0.2% increase in the fourth quarter of last year. The trend is not so good: GDP was just 1.8% higher than a year ago in Q1, after a 2.3% pace in Q4. As you should have expected from the monthly data, private consumer expenditures subtracted from GDP growth. Investment spending subtracted from growth. Net exports supported growth. ***Let this be a message to all nations that want to blame a "slowdown" in China for their export shortfalls.*** Australia, which depends more than most economies on exports to China, benefited from increased trade. *Need we remind every one that China's GDP growth has been **steady** between 6.4% and 7.2% for the last 19 quarters? While the trend has been downward, the quarterly slowing is microscopic.*

Clearly, the RBA Board did not like this GDP outcome or it would not have cut rates on Tuesday. *We read this GDP report as supporting the case for monetary easing, and potentially suggesting more rate cuts to come if this week's 25 basis point move does not reflate demand in a big way. Probably, it will not.*

Today, ABS will publish international trade estimates for April. *We expect to see a further improvement in the trade balance, to a surplus of A$4.8 billion, compared to A$1.1 billion a year ago.* Tomorrow will bring April data on mortgage lending. *That should be a sad story—we expect a 2.0% drop on the month for a 12.1% year-over-year decline. Ugh!*

Canada

Labor productivity rose 0.3% in the first quarter, StatCan reported yesterday, after dropping 0.4% in Q4. Hourly compensation rose 1.4% in Q1 after a mere 0.6% rise in Q4. That puts unit labor costs up about 1.1% in both quarters. *Unit labor cost increases at that pace are consistent with only 0.8% year-over-year increases in CPI, assuming non-labor costs remain steady. That is no threat to price stability.*

Today, StatCan will release international trade estimates for April. *HFE figures the trade deficit was C$2.3 billion, wider than C$1.55 billion a year ago. Loonie traders will not like that result.* Also today, the Ivey PMI for May is due. Tomorrow, we will see the employment report for May, as well as StatCan's estimate of capacity use in manufacturing for the first quarter. *Slack undoubtedly increased in the first quarter. As for the employment report, we will be focusing on the rate of growth of employment, looking for any signs of slowing.*

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