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

Weekly Notes on the **Global Economy**

June 10, 2019. Worldwide Edition

Carl B. Weinberg, Chief International Economist

What Economy Will Britain's New PM Inherit?

The weekend news from London is rife with the Brexit promises of the Tory candidates to replace Theresa May. Whoever gets the job will face unchanged Parliamentary arithmetic: No party has a majority, so no party can get anything done. Additionally, Tories are so fractured that they cannot unite behind ***any*** Brexit strategy. The party that keeps the Tories in government, the DUP, did not vote for Brexit in any form. The DUP opposes a "hard" Brexit because it would put a hard border across Ireland. Finally, the only Brexit law Parliament has passed prohibits a hard Brexit at any cost. There are not enough hard Brexit MPs or sympathizers to overturn that.

So for all the bluster of the leading candidates, hard Brexit will remain as unachievable as Theresa May's "soft" Brexit, with just as much support as "no Brexit." *The end of this impasse, even for Boris Johnson, will be to fold the government—if the DUP, threatened by a hard Brexit, does not do that on its own—and to call national elections that the Tories are sure to lose.* Probably, conservative financial markets will not embrace either a Labour or a Brexit Party government.

Brexit drama aside, the new PM will have a country to run. She or he will have to prepare to stand for new elections at some point. If held today, Tories would have to campaign on a sour economy. *That is inauspicious. People vote on their bellies, eh?*

Britain's economy is grinding to a halt. Investment is declining. The current account balance is woefully in the red. Sterling is depreciating. Services output is falling. Construction is flat. This week's short-term economic indicators report should confirm all *(Continued on page 7)*

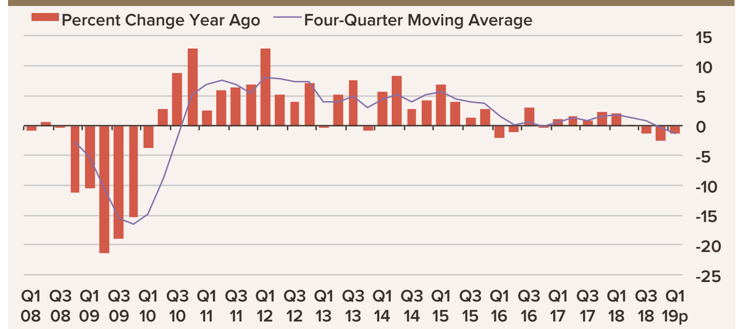
World Trade: The Missing Chart

We have run our world trade chart on this page several times of late to show the magnitude of the 2018-19 stall in global exports. Here is the missing chart showing the link between world trade and world GDP.

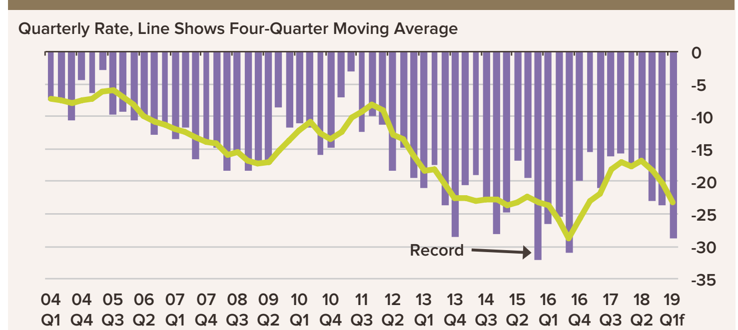
Over the last four decades, world trade has contracted outright in only two years, and it stalled in one. The 2009 contraction accompanied a contraction of world GDP, the only decline in the IMF's GDP metric in postwar history. The 1982 contraction coincided with the next-worst GDP growth rate in this period. The 2001 trade stall lines up with the seventh-worst GDP growth rate in 40 years. The three strongest years for world trade line up with three of the six best years for GDP in this period. Maybe this is a coincidence, but we do not think so. **The slowdown in world trade, which dates back to the first quarter of last year, merits your attention.**

It is tempting to say that this is the result of the trade war between the United States and China. NBS data put China's exports to the United States down by $9.0 billion in the first three months of this year; U.S. exports to China were down by $13.2 billion. That annualizes to a loss of $88.7 billion per year, if sustained, or roughly 0.5% of world exports. World export values in this same period were down 2.4%. ***The decline in world trade is a lot greater than U.S.-China trade frictions can explain. It worries us when we see world trade decline and we do not have an explanation for it.*** China's April trade data show the losses of exports on both sides of the dispute increased. *We are on the alert for more bad global economic news in the months ahead if the drop in world trade continues.*

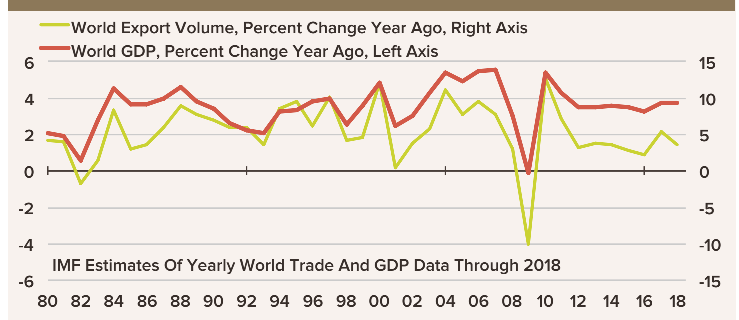
United Kingdom: Investment Spending By Businesses



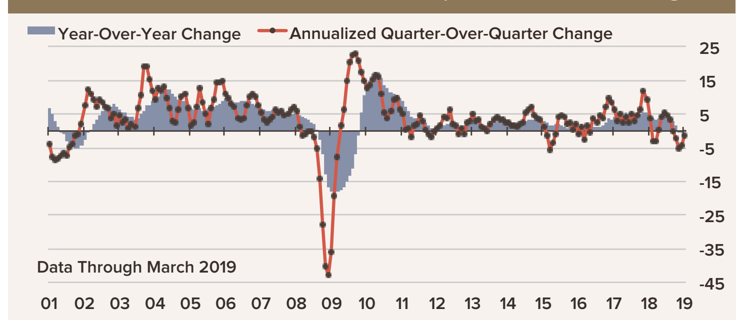
United Kingdom: Current Account Balance, £Billions



IMF Measure Of World Trade Volume Vs GDP Growth



CPB Estimates Of World Trade Volume, Three-Month Averages



Weekly Calendar of International Economic Events & Data Releases

High Frequency Economics®

	United States	Canada	Japan	France	Germany	United Kingdom	Australia	Europe & Global
Monday Jun 10	JOLTS Survey (4)	Housing Starts (5) Building Permits (4)	**GDP (Q1r)** **Bank Lending (5)** **Current Account (4)**	**HOLIDAY** *Whit Monday*	**HOLIDAY** *Whit Monday*	**143 Days To Brexit III** **STEI (4): GDP, Industrial Production, TRADE, Services & Construction**	**HOLIDAY** *Queen's Birthday*	G-20 FinMin Communiqué Call For Repo Tenders
Tuesday Jun 11	***NFIB Survey (5)** ***PPI (5)**		M2+CDs (5) Mach Tool Orders (5p)	BdF BCI (5)		**142 Days To Brexit III** Claimant Count (5) **ILO Employment (4)** **Avg Wkly Earnings (4)**		Wkly Repos Allocated
Wednesday Jun 12	***CPI (5)** Treasury Budget (5) Wkly MBA Mortgages	**Teranet Index (5)**	PPI (5) Machinery Orders (4)			**141 Days To Brexit III**		ECB's Draghi Speaks
Thursday Jun 13	Import Prices (5) ***Wkly Initial Claims**	**New House Prices (4)**	**Tertiary Index (4)**		CPI (5r)	**20 Weeks To Brexit III**	**Employment (5)**	**Industrial Prod'n (4)** Eurogroup Meeting
Friday Jun 14	***Mich Sentiment (6p)** ***Retail Sales (5)** ***Industrial Prod'n (5)** Inventories (4r)		Industrial Prod'n (4r)	CPI (5r)	WPI (5)	**139 Days To Brexit III** BoE's Carney Speaks		ECOFIN Meeting
Sometime Soon	**June 19:** FOMC Decision	**July 10:** BoC Council Decision	**June 20:** BoJ Board Decision	**July 10:** Industrial Prod'n (5)	**June 18:** ZEW Survey (6)	**Jun 20:** MPC Decision **October 31:** Brexit Day III	**July 2:** RBA Board Decision	**Jun 19-20:** EU Summit **Jun 28-29:** G-20 Summit **Jul 9-10:** EU FinMins **Jul 25:** ECB Council **Aug 24-26:** G-7 Summit
Key Data	Still-Tame CPI Solid Retail Sales	House Prices Steady Starts Chirp Up	GDP Revision Flat Lending, Tertiary Off	No Inflation Worries	Bund Yields Even More Negative	STEI Fizzle Further Wages Cool Again	Jobless Rate Stalled Second Cut Coming?	Italy Dispute Grows Production Down

CCI or **BCI** = Consumer or Business Confidence Index. **HPI** = House Price Index. **a** = Advance. **s** = Second. **p** = Preliminary. **r** = Revision. **f** = Final. Dates are in parentheses: **(1)** indicates January, etc. ***Indicates subjects of HFE Snapshots.** *Italics indicate HFE estimated release date.*

Carl B. Weinberg, Chief International Economist

International Yield Curves

Our scorecard shows yield curves in most the major economies we track are inverted, and those that are not inverted yet will be soon. If inverted yield curves predict economic adversity—that rule is not infallible—then the global economy is headed for trouble.

Australia has joined the ranks of upside-down yield curves. We will avoid jokes about which way is right-side-up in that part of the world. Even though the RBA delivered on expectations—generated over the last two months—of a rate cut last week, tens now yield less than 90-day paper. The cash rate is now lower than local inflation metrics. To be fair, the yield curve does slope up nicely from three years out to 20 years. So the market may be pricing in at least one more rate cut now, and perhaps more easing later, rather than an outright recession. *The signal is not definitive, but it is not positive, either.*

Germany's yield curve, the benchmark for the **Euro Zone**, continues to flatten as 10-year yields fall to unprecedented negative rates. As we have argued here before, the supply of Bunds in the hands of the public is being steadily reduced by Berlin's fiscal surpluses. At the same time, the demand for Bunds is rising, as Italy prepares to test EC fiscal deficit rules. The Banca d'Italia last week published a forecast for GDP growth to slow to a fraction of what was assumed in the budget, a recipe for an overshoot of the fiscal deficit target as soon as this year. The EC has already started excessive deficit procedures against Italy, while Rome is bracing to contest all calls for incremental fiscal austerity as its economy withers. On top of everything else, Germany's economy, and others in the Zone, look to be nearing a recession, inflation metrics are below target and are not picking up, and the ECB just pushed back its guidance for the date when it will even consider a rate hike. *We see all elements in place for Germany's yield curve—which has flattened by 71 basis points since December—to invert as bond yields continue to fall.*

Britain's yield curve is not inverted overnight to tens, but the slope over that range is just nine basis points. The curve is steeply inverted out to three years and thence slopes nicely upward. This economy is showing signs of stalling, as we discuss on page one. *Safe haven for sterling investors is 10-year gilts, it seems.* Lower-than-expected inflation, election risks and Brexit uncertainty all demand safe haven.

Canada's yield curve is inverted out to five years and still is negative from 90 days to 10 years. People are not yet comfortable with the BoC's assertion that all will turn out well in the second half of this year without a rate cut. Further yield curve inversion should be expected.

Yields On 90-Day Paper — June 7, 2019

		Spread Against:							Curve's
Country	Yield	U.S.	Canada	Japan	France	U.K.	Germany	Aus	Slope*
U.S.	2.27	—	+0.61	+2.24	+2.81	+1.55	+2.84	+0.75	-0.19
Canada	1.66	-0.61	—	+1.64	+2.20	+0.94	+2.24	+0.15	-0.21
Japan	0.03	-2.24	-1.64	—	+0.57	-0.69	+0.60	-1.49	-0.15
France	-0.54	-2.81	-2.20	-0.57	—	-1.26	+0.03	-2.06	0.62
Britain	0.72	-1.55	-0.94	+0.69	+1.26	—	+1.29	-0.80	0.09
Germany	-0.57	-2.84	-2.24	-0.60	-0.03	-1.29	—	-2.09	0.31
Australia	1.52	-0.75	-0.15	+1.49	+2.06	+0.80	+2.09	—	-0.05

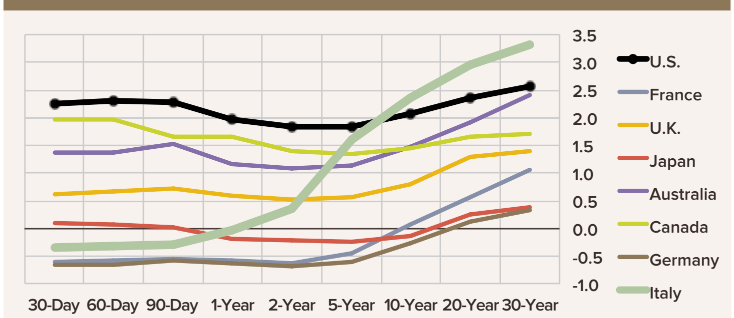
**Calculated as 10-year yield minus 90-day yield for each currency.*

Yields On 10-Year Bonds — June 7, 2019

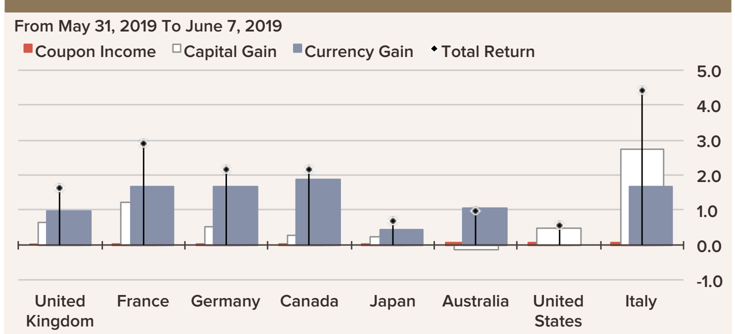
		Spread Against:						
Country	Yield	U.S.	Canada	Japan	France	U.K.	Germany	Aus
U.S.	2.08	—	+0.62	+2.20	+1.99	+1.26	+2.33	+0.60
Canada	1.46	-0.62	—	+1.58	+1.37	+0.64	+1.71	-0.02
Japan	-0.13	-2.20	-1.58	—	-0.21	-0.94	+0.13	-1.60
France	0.08	-1.99	-1.37	+0.21	—	-0.73	+0.34	-1.39
Britain	0.81	-1.26	-0.64	+0.94	+0.73	—	+1.07	-0.66
Germany	-0.26	-2.33	-1.71	-0.13	-0.34	-1.07	—	-1.73
Australia	1.47	-0.60	+0.02	+1.60	+1.39	+0.66	+1.73	—

Japanese 10-year simple interest yield converted to semi-annual compound yield.

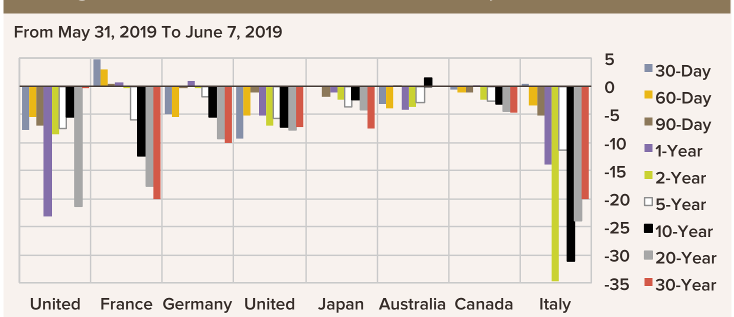
Government Bond Yield Curves — June 7, 2019



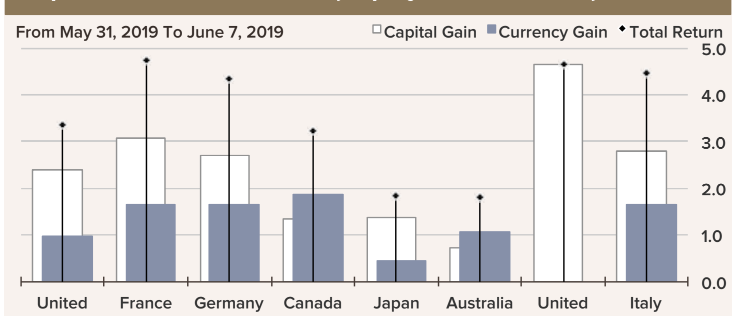
Total Return On Ten-Year Bonds In U.S. Dollars, Percent



Changes In Government Bond Yield Curves, Basis Points



Capital Return In U.S. Dollars, Equity Market Indexes, Percent



Germany: Not Recovering Yet

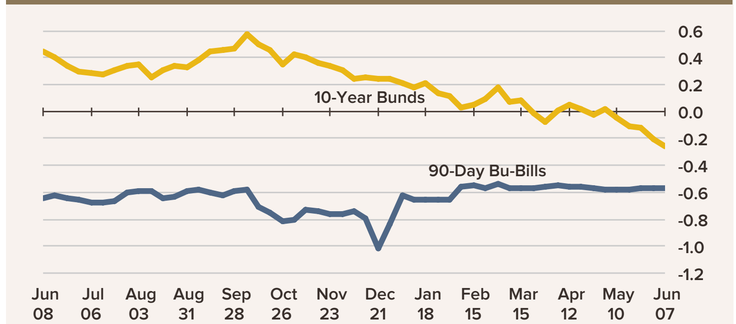
The huge drop in industrial production for April wiped out all hopes for a rapid return to growth, which had been raised by the two months of small gains in output that came before it. It confirms the message of the IFO index, which is that this downturn in the industrial sector of the economy is not yet over. In IFO's survey of inventory adequacy, more respondents reported higher inventories relative to sales in April, but there was a slight drop in May. If the drop in output continues, and if demand does not falter as much—two big "ifs"—then more companies will start filling orders out of new production rather than stockpiles of unsold goods. Otherwise, the inventory recession will be prolonged.

What should we expect from the labor market as Germany's economy slows, or even declines? For us, the salient metric is the drop in the rate of growth of employment, year-over-year, reported for May. The increase in the unemployment rate to 5.0% from 4.9% was mostly noise. The jobless rate has fluctuated between 4.9% and 5.0% since November. *We do not expect the jobless rate or the number of registered unemployed to go up very much in any economic downturn.* The marginal worker in the German economy is the immigrant who was the last to be hired. *He or she will be the first to be fired, if only because the separation costs are lower.* If these workers do not remain in Germany, they will neither receive unemployment benefits nor be counted as unemployed in Germany's official statistics. This has been the German way for decades—exporting "guest workers" when the economy is sour while welcoming them when the economy is hot.

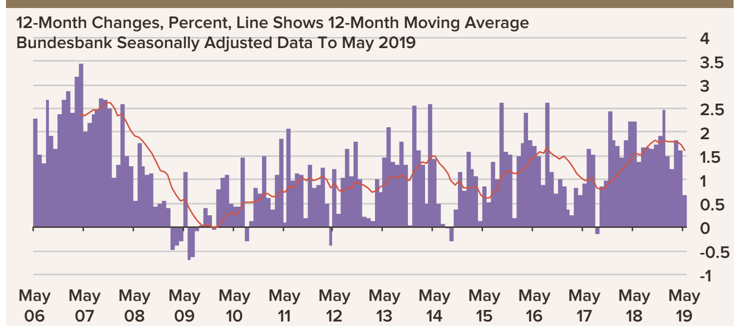
In any case, Germany has a surplus on its fiscal balance that is robust enough to survive this economic downturn. That means Bunds will continue to become scarcer over time. *HFE expects that uncertainty about trade, and Italy, will boost demand for Bunds, maintaining their downward glide even though tens are already negative. This is a rough deal for banks and fund managers. Banks maximize earnings by not lending when the yield curve is negative and inverted.* Optimists will note that the yield curve is not yet inverted. However, market participants cannot ignore falling output, slow and slowing CPI, lower jobs growth, falling exports and faltering GDP forever. The yield curve has flattened to 31.3 basis points from 90 days to 10 years, compared to 108.9 basis points at end-December. Yield curve inversion and fabulously low yields are in the cards.

Germany: Industrial Production

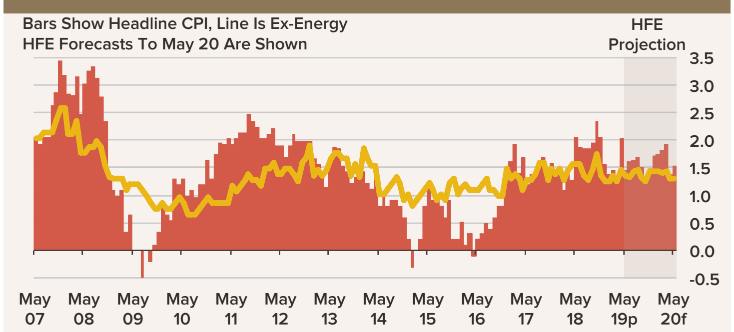
Germany: Yields, Percent



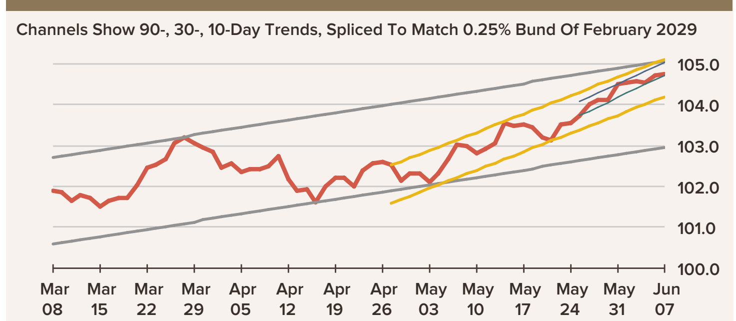
Germany: Employment Growth



Germany: CPI, Percent Change Year Ago



Germany: Daily Price Of 10-Year Bund



Monday 10	Tuesday 11	Wednesday 12	Thursday 13	Friday 14
HOLIDAY *Whit Monday*			**CPI** / **Core** %ch %chya %chya May 18 0.8 2.1 1.6 Feb 19 0.4 1.5 1.4 Mar 19 0.4 1.3 1.3 Apr 19 1.0 2.0 1.4 *May 19p 0.2 1.4 1.3*	**WPI** %chya May 18 2.7 Feb 19 1.6 Mar 19 1.8 Apr 19 2.1 *May 19f 1.2*

Japan: Q1 GDP Revision Could Go Either Way

Survey data from the FinMin show nominal investment spending increased by about three percentage points more than the flash GDP estimate for the first quarter assumed. This suggests we should see a 0.3-percentage-point mark-up in the quarterly GDP growth rate, to 0.8%, raising the seasonally adjusted annual pace to 3.2% from 2.1%. Yet we wonder, how does an economy where industrial production contracted 1.1% in the first quarter and services output fell 0.5% print an increase in GDP of even 0.5%? Sure, we know that net exports added to GDP growth. However, the gap between a 0.5-to-1.0% *drop* in GDP, as implied by the monthly data, and the 0.5% *increase* already reported—with a potential upward revision to 0.8%—is way too wide to be explained by trade.

Inventories were missing from the flash GDP estimate but will be included in today's update. *What if the huge stockpiles of unsold goods that have been building up for years were run down in the Q1?* The FinMin's survey does indicate a big Q1 rundown of stockpiles. *If investment spending is revised up but a big drop in inventories is included in the maths, then GDP growth might actually be marked down, not up!* So we will watch today's report with unusual care for a negative surprise!

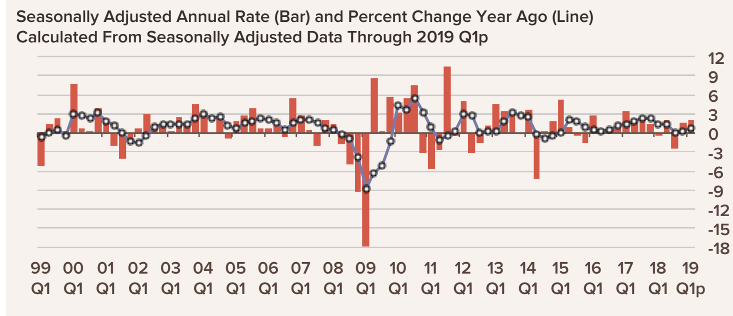
Thursday 13

Tertiary Index	%chya	%chSP
Apr 18	1.0	0.6
Jan 19	1.7	1.8
Feb 19	0.9	1.2
Mar 19	1.0	0.9
Apr 19f	*0.2*	*0.7*

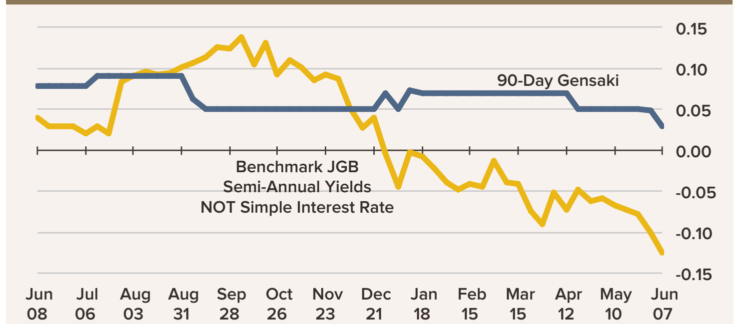
Friday 14

Industrial Production	%chya	%ch	%chSP
Apr 18	0.4	-0.6	-12.5
Jan 19	0.7	-2.5	-14.5
Feb 19	-1.2	0.7	-13.9
Mar 19	-2.8	-0.6	-14.4
Apr 19p	*-1.6*	*0.6*	*-13.9*

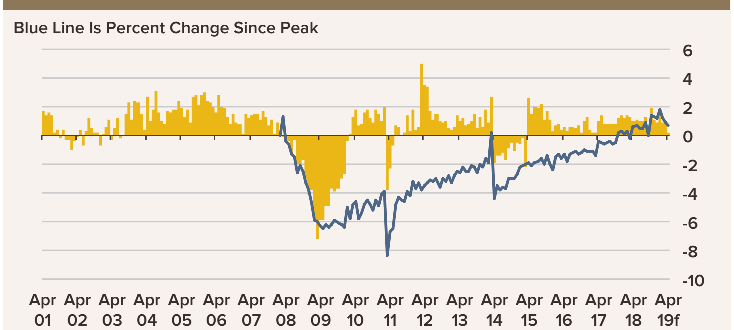
Japan: GDP



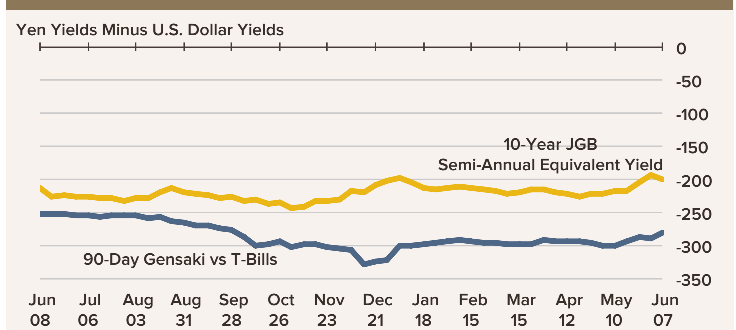
Japan: Yields, Percent



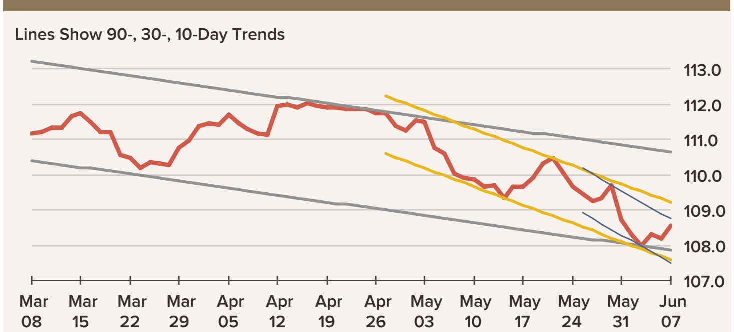
Japan: Tertiary Sector Index, Percent Change Year Ago



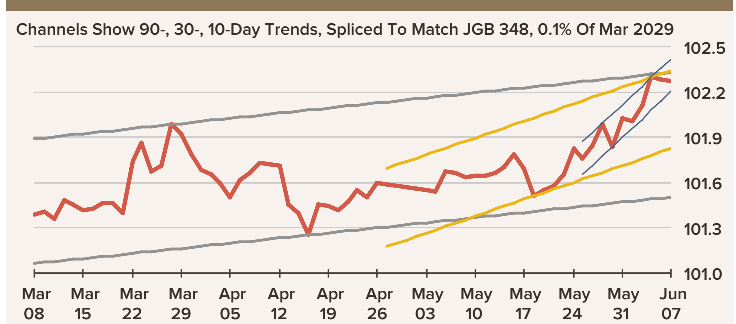
Yen Vs U.S. Dollar Yield Spreads, Basis Points



Yen Per U.S. Dollar, Daily Exchange Rate & Trends



Japan: Daily Price Of 10-Year Benchmark JGB



Monday 10

GDP	%SAAR	%chya
18 Q1	-0.3	1.4
18 Q2	2.2	1.4
18 Q3	-2.5	0.1
18 Q4	1.6	0.2
19 Q1p	*2.1*	*0.8*

Monday 10

Bank Lending	%chya
May 18	1.9
Feb 19	2.4
Mar 19	2.5
Apr 19	2.5
May 19f	*2.5*

Monday 10

¥bns	Trade Balance	Current Acc't
Apr 18	621	1887
Jan 19	-1416	600
Feb 19	335	2677
Mar 19	528	2848
Apr 19pf	*61*	*1419*

Tuesday 11

M2+CDs	%chya	Ex-QQME %chya
May 18	3.2	2.5
Feb 19	2.4	1.7
Mar 19	2.4	1.8
Apr 19	2.6	2.0
May 19f	*2.6*	*2.0*

Tuesday 11

Machine Tool Orders	%chya	%chSP
May 18	14.9	5.1
Feb 19	-29.3	-22.7
Mar 19	-28.5	-8.0
Apr 19	-33.4	-23.5
May 19f	*-27.2*	*-23.5*

Wednesday 12

PPI	%ch	%chya
May 18	0.5	2.7
Feb 19	0.3	0.9
Mar 19	0.3	1.3
Apr 19	0.3	1.2
May 19f	*0.2*	*0.9*

Wednesday 12

Machinery Orders	%chya	%chSP
Apr 18	11.3	-13.9
Jan 19	-5.2	-22.8
Feb 19	-5.8	-21.4
Mar 19	1.2	-18.4
Apr 19f	*-5.3*	*-18.5*

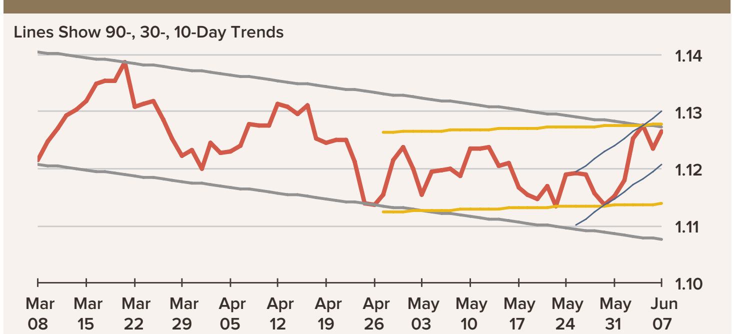
France & Euroland: Inflation Low, Growth Slow

The big news from last week's ECB Governing Council meeting was that the central bank now promises no rate hikes "at least through the first half of 2020, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term." The announcement of terms for rolling over targeted long-term repo operations, or TLTROs, is of little interest to us: None need to be rolled over before next June. *What should interest market participants is that the ECB's staff forecasts put annual HICP inflation at 1.3% in 2019, 1.4% in 2020 and 1.6% in 2021.* If inflation metrics are only going to average 1.6% in 2021, they must be more than half a percentage point below the 2% target for the first half of the year. *So perhaps interest rates will not be raised until sometime in 2021, or even 2022.* Of course, a new ECB president and a new chief economist could change that guidance, but only with the assent of the Council, which remains unchanged despite the change in leadership.

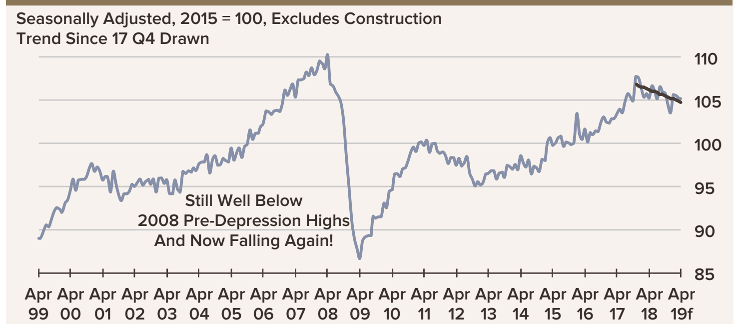
All economic indicators point to an industrial recession now, and most suggest an overall economic downturn over the next two or three quarters. Employment has almost stopped growing. Real wages are flat. Survey-based sentiment indexes have been warning of an economic slowdown for a year, save for those recently-made-up PMIs from Markit. *Trust them at your own risk! The outlook has to be for already low bond yields to fall even further, as Bund supply dwindles, inflation expectations decline and rate hike hopes are pushed back. All Euro Zone yield curves are priced off the Bund curve. All are now inverted save for France and Italy. HFE forecasts a rough patch ahead for the Euro Zone economy, with low growth, rising unemployment outside Germany and slow wages and unit labor costs.*

Into this economic mess, we insert the challenges to EU unity posed by Italy. The Banca d'Italia last week revised down its forecast for GDP growth this year to 0.3%. That is well below the 1.5% figure promised in the budget. The BdI forecasts 0.7% GDP growth in 2020 and 1.2% in 2021, compared to 1.6% and 1.4% in the budget forecast. *If the Bank is right, the fiscal deficit will easily blow through the EU limit of 3% of GDP starting this year and into the foreseeable future.* Brussels has already started an excessive deficit procedure against Italy, and Rome has vowed to resist budget cuts. The EC has never before sanctioned a member nation under the excessive deficit rules. *This could be the first time. We will see how that works!*

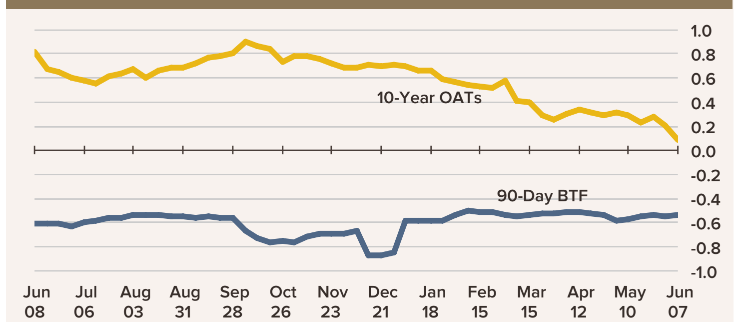
The Euro In U.S. Dollars, Daily Exchange Rate & Trends



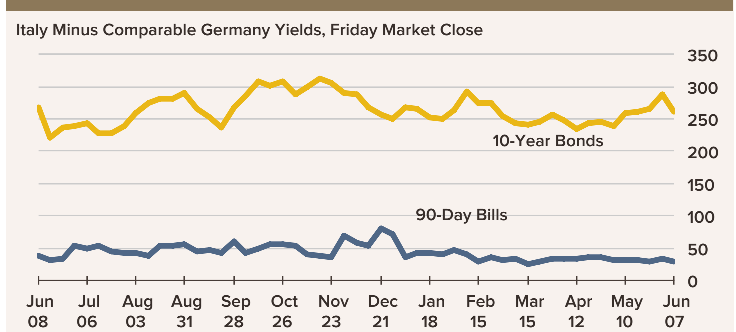
Euro Zone: Industrial Production Index



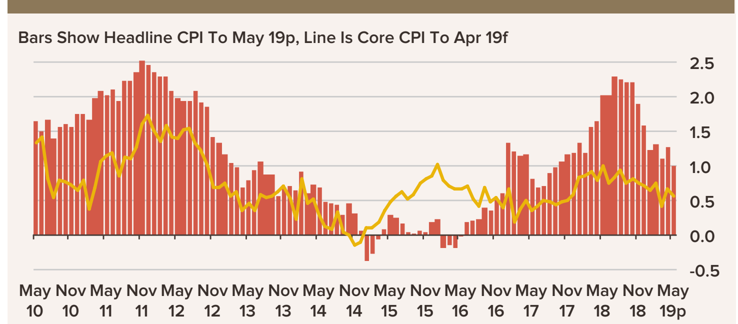
France: Yields, Percent



Germany Vs Italy: Yield Spreads, Basis Points



France: Consumer Price Index, Percent Change Year Ago



Monday 10	Tuesday 11	Wednesday 12	Thursday 13	Thursday 13	Friday 14	Friday 14
FR HOLIDAY *Whit Monday*	FR BdF Business Sentiment (5)	ECB's Draghi Speaks	**EZ Industrial Prod'n** **%ch %chya %chSP** Apr 18 -0.5 1.7 -4.5 Jan 19 2.0 -0.8 -4.2 Feb 19 -0.1 0.2 -4.3 Mar 19 -0.3 -0.5 -4.5 *Apr 19f -0.1 -0.1 -4.6*	Eurogroup Meeting	**FR CPI Total Core** **%chya %chya** May 18 2.0 1.0 Feb 19 1.3 0.8 Mar 19 1.1 0.4 Apr 19 1.3 0.7 *May 19p 1.0 0.6*	ECOFIN Meeting

United Kingdom: Greeting Prime Minister X

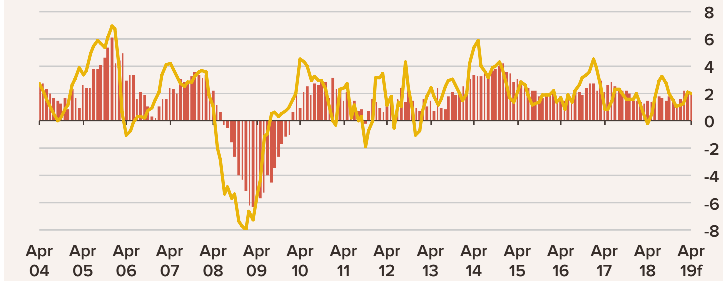
(Continued from page 1) of that, and conclude that monthly GDP growth is way short of potential. The economy is sliding toward recession.

One can debate until the cows come home whether this is all the result of Brexit uncertainty, or if the economy would be slumping with Brexit either resolved or abandoned. It matters not, because the world is what it is. *In our view, the key task for any new prime minister is not resolving Brexit uncertainty but rather introducing some fiscal stimulus.* True, the hard Brexiteers' pledge to stiff the EU on the separation payment stands out as a £39 billion free lunch over three years that could be used for half-a-percent-of-GDP-per-year stimulus. That argument is a big part of the appeal for the hard Brexit camp. However, Parliament has ruled that out, and there is no majority in Parliament for a hard Brexit. The EU will not renegotiate the separation agreement. Meanwhile, Tory fiscal austerity has reduced the fiscal deficit to barely 1% of GDP. *A fiscal stimulus package is affordable to the new PM, without stiffing the Europeans on a hard Brexit.*

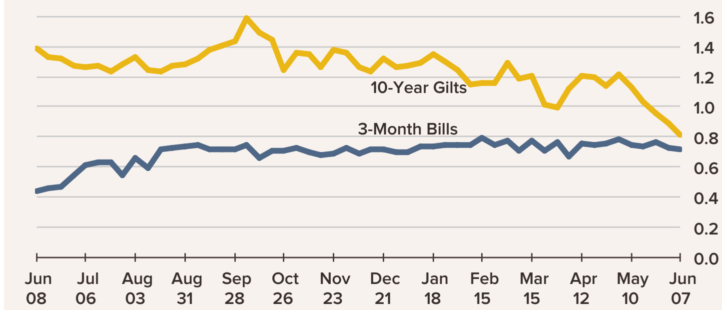
Our outlook for financial markets is conflicted, just like the nation. Gilts have been rallying recently as inflation has slowed despite dire BoE forecasts. The economy has slowed with it. Rate hike expectations will fizzle no matter who becomes PM. Equities have held up, but we suspect Brexit uncertainty plus economic distress and the risk of a Labour government will sap the market's strength. We expect some fiscal stimulus from the Tories before they give up. The only way we see the government not falling is if the DUP is not pushed on the Irish border issue. ***Most critical of all, the current account deficit is not sustainable at 5% of GDP. Risk of a sterling correction is high.***

United Kingdom: Monthly GDP

Bars Are GDP %chya, Yellow Line Is Change In Three-Month Average Annualized

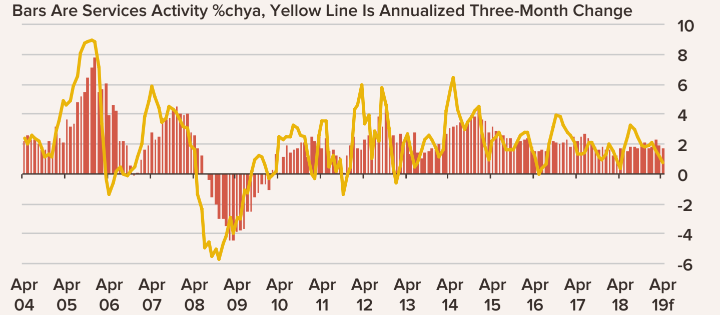


United Kingdom: Yields, Percent



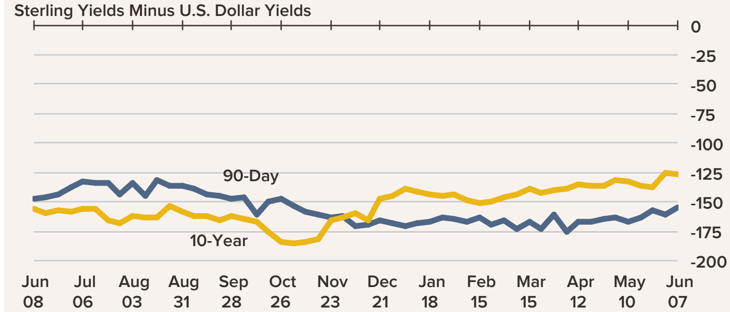
United Kingdom: Services Sector Activity

Bars Are Services Activity %chya, Yellow Line Is Annualized Three-Month Change



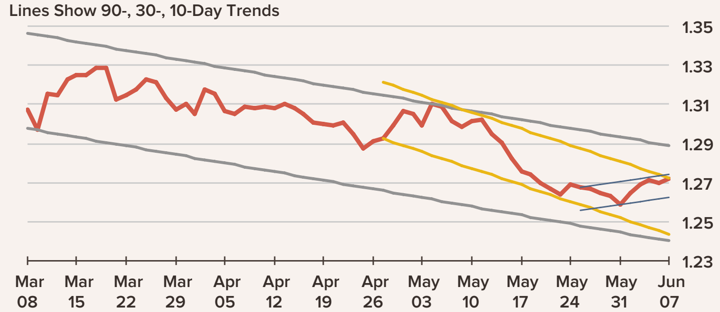
Sterling Vs U.S. Dollar Yield Spreads, Basis Points

Sterling Yields Minus U.S. Dollar Yields



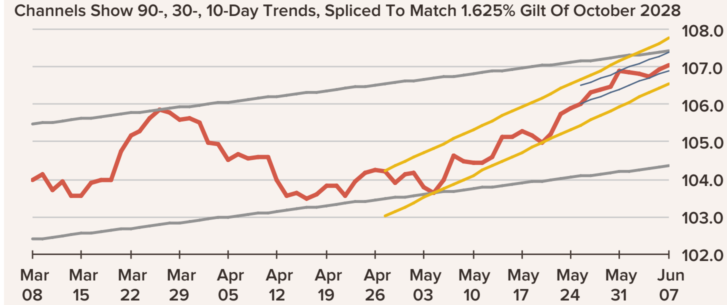
Sterling In U.S. Dollars, Daily Exchange Rate & Trends

Lines Show 90-, 30-, 10-Day Trends



United Kingdom: Daily Price Of 10-Year Gilt

Channels Show 90-, 30-, 10-Day Trends, Spliced To Match 1.625% Gilt Of October 2028



Monday 10

	Exports	Imports	Balance	EU Bal
Apr 18	27.7	39.8	-12.1	-8.0
Jan 19	29.9	45.2	-15.3	-8.2
Feb 19	30.1	44.5	-14.4	-8.2
Mar 19	31.5	45.1	-13.7	-9.2
Apr 19f	*29.2*	*43.9*	*-14.8*	*-8.6*

Monday 10

Ind'l Prod'n	Overall %ch	Overall %chya	Mfg %ch	Mfg %chya
Apr 18	-0.4	1.8	-0.6	1.4
Jan 19	1.0	0.0	1.6	-0.2
Feb 19	0.6	0.4	1.0	1.2
Mar 19	0.7	1.3	1.0	2.6
Apr 19f	*0.4*	*2.0*	*0.6*	*3.8*

Monday 10

Construction	%ch	%chya
Apr 18	0.5	-1.4
Jan 19	3.3	2.0
Feb 19	0.5	3.2
Mar 19	-1.9	3.3
Apr 19f	*-0.3*	*2.5*

Monday 10

Services Output	%ch	%chya
Apr 18	0.3	1.7
Jan 19	0.3	1.8
Feb 19	0.1	2.3
Mar 19	-0.1	1.9
Apr 19f	*0.1*	*1.7*

Monday 10

GDP	%ch	%chya
Apr 18	0.2	1.5
Jan 19	0.5	1.5
Feb 19	0.3	2.1
Mar 19	-0.1	1.9
Apr 19f	*0.1*	*1.9*

Tuesday 11

ILO Unemployment	000s	Δ000s	%
Apr 18	1416	-35	4.2
Jan 19	1363	-10	3.9
Feb 19	1343	-27	3.9
Mar 19	1298	-65	3.8
Apr 19f	*1341*	*-22*	*3.9*

Tuesday 11

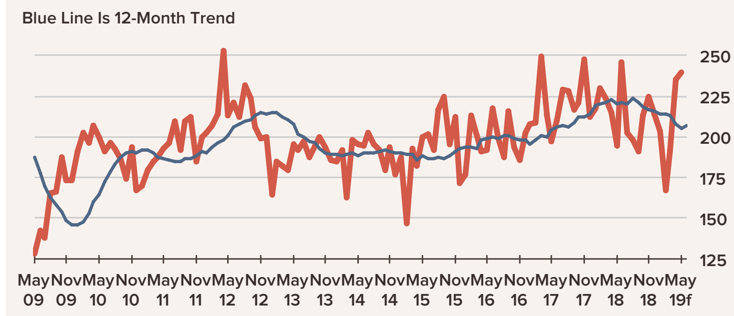
Avg Earnings	%chya	%chya 3mma	Δ vs CPI
Apr 18	2.8	3.0	58
Jan 19	4.0	3.6	176
Feb 19	3.4	3.6	173
Mar 19	3.4	3.6	169
Apr 19f	*3.3*	*3.4*	*127*

Canada: Housing Week

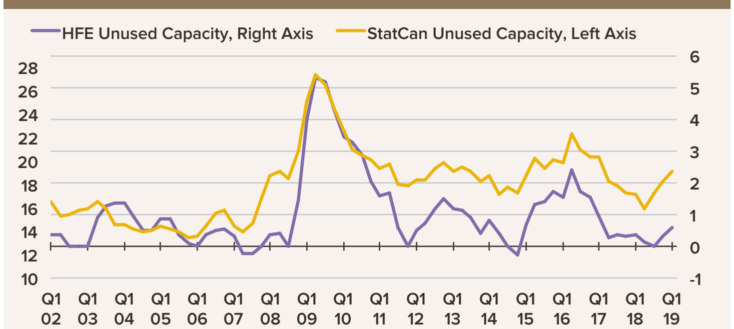
The unemployment rate has not been as low as May's 5.4% level since 1974. Yet employment has accelerated to a 2.4% year-over-year rate of growth, the fastest pace in a dozen years. Real wages are flat. At the same time, both StatCan's econometric estimate and HFE's peak-to-peak measure show slack rising. Prices are on target.

This week's data will tell us whether the housing market has stabilized. Meanwhile, we will be wondering what a central bank *should* be doing with inflation on target, slack widening, real wages flat and unemployment at a 45-year low but jobs being created at a fast clip. The Bank tells us that it will be watching the data, and that it aims to raise rates again when the current rough patch ends. *We suspect that as long as inflation is on target, it will do nothing.*

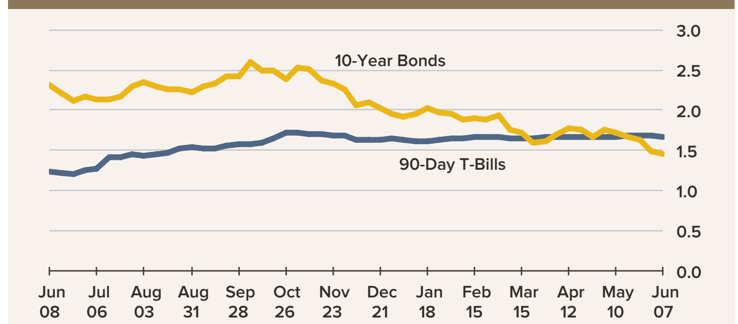
Canada: Housing Starts, Thousands



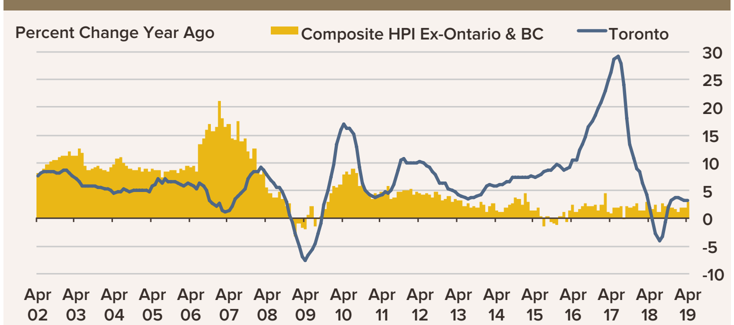
Canada: HFE Vs StatCan Measures Of Slack, Percent Of GDP



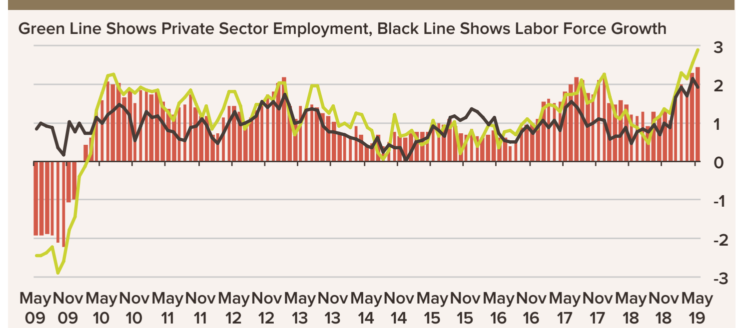
Canada: Yields, Percent



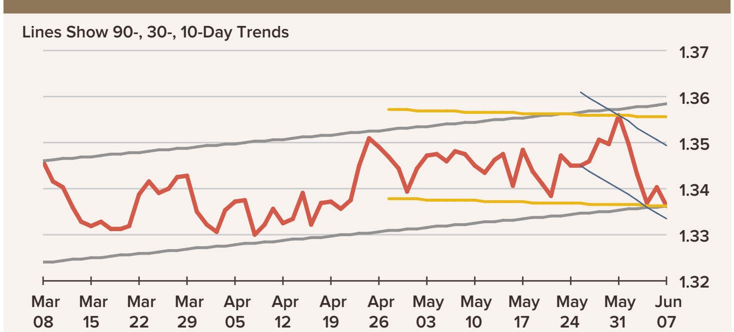
Canada: Teranet Toronto HPI Vs Composite Ex-Ontario & BC



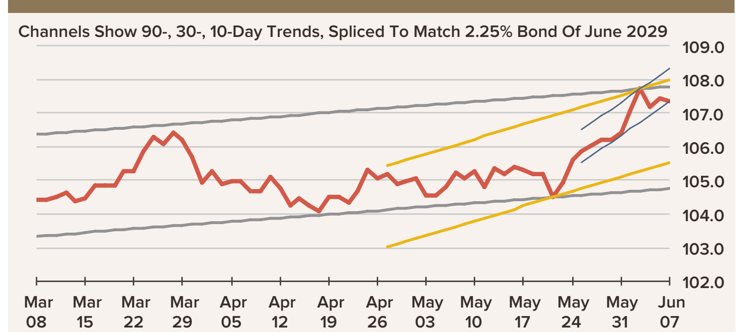
Canada: Employment, Percent Change Year Ago



Canadian Dollar Per US$, Daily Exchange Rate & Trends



Canada: Daily Price Of 10-Year Bond



Monday 10

Housing Starts

	000s	%chya	%chSP
May 18	194.8	-1.3	-17.9
Feb 19	167.2	-27.2	-29.6
Mar 19	192.0	-14.4	-19.1
Apr 19	235.5	9.7	-0.8
May 19f	*240.1*	*23.3*	*1.2*

Monday 10

Building Permits Value

	%chya
Apr 18	6.4
Jan 19	-2.0
Feb 19	-6.0
Mar 19	-2.4
Apr 19f	*2.0*

Tuesday 11

Wednesday 12

Teranet House Prices

%chya	Comp11	Toronto	Ex-ON&BC
May 18	4.5	-0.3	1.7
Feb 19	1.9	3.6	1.9
Mar 19	1.5	3.3	1.9
Apr 19	1.2	3.3	2.9
May 19f	*?*	*?*	*?*

Thursday 13

New Housing Prices

	%chya
Apr 18	1.6
Jan 19	-0.1
Feb 19	0.1
Mar 19	0.1
Apr 19f	*0.3*

Friday 14

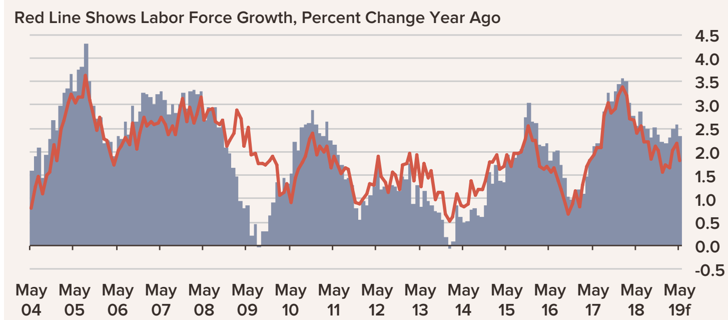
Australia: After The Rate Cut

Now that the RBA has cut rates, market participants are focusing on the timing of the next move. Historically, the RBA has been a "serial"—not one-and-done—rate cutter. The last four easing episodes have been 50-basis-point adjustments—in 2016, 2015, 2013 and late 2012—separated by one or two months. The early 2012 easing was 75 basis points, broken into one 25- and one 50-basis-point dose. In 2011, two 25-basis-point cuts came back-to-back. Clearly, market participants expect more easing, lower inflation metrics or both: Despite the rate cut, the yield curve just inverted from 90 days to 10 years.

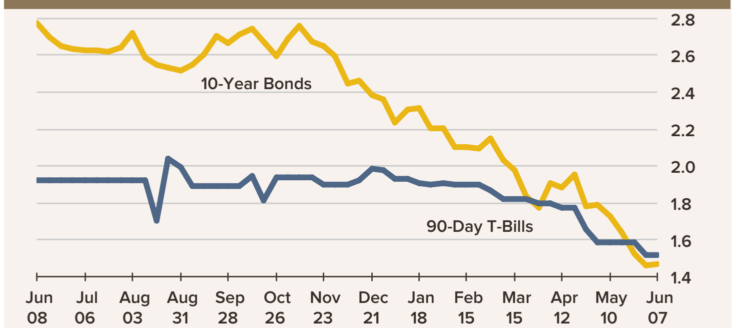
Last week's move marks the first time since 2001 that the RBA has eased its cash rate below the monthly inflation metric. The RBA has tolerated negative real interest rates since the fourth quarter of 2016. *We consider monetary conditions to be extraordinarily easy when borrowers pay less than inflation to take cash from a bank.*

The economics of the RBA's rate cut are impeccable. It looks as though a 5% unemployment rate is not generating the wage gains needed to achieve the 2-to-3% inflation target. The jobless rate seems to be stalled, having hovered between 4.9% and 5.1% since September. *Somebody has to do something to avoid an inflation undershoot.* The just reelected coalition government is not about to step on the fiscal accelerator. Governor Lowe urges more fiscal spending on productivity-boosting infrastructure, and he is asking banks to pass through the latest rate cut to home buyers. *We suspect that one 25-basis-point rate cut will not boost the economy enough to achieve the inflation target.*

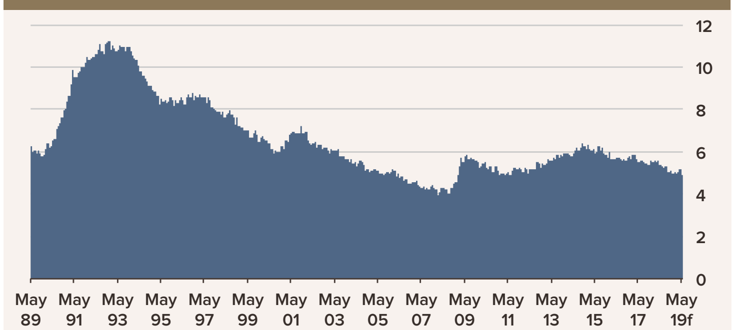
Australia: Employment, Percent Change Year Ago



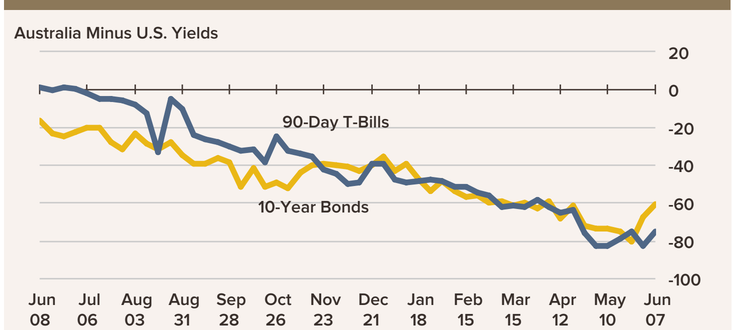
Australia: Yields, Percent



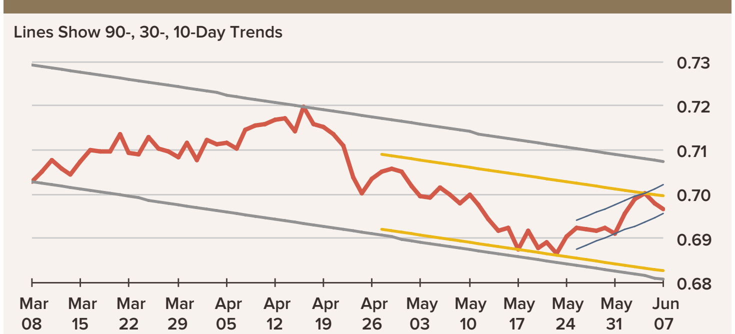
Australia: Unemployment Rate, Percent



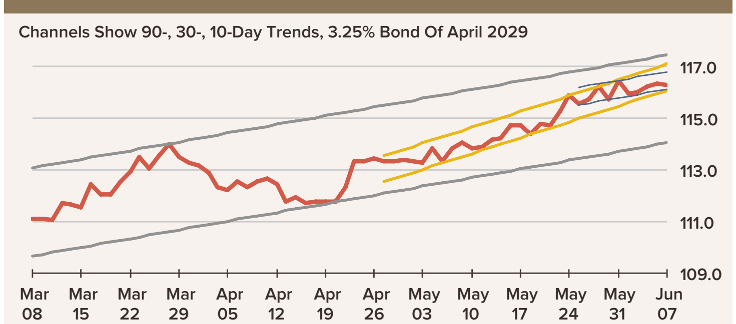
Australia Dollar Vs U.S. Dollar Yield Spreads, Basis Points



U.S. Dollars Per Australian Dollar, Daily Exchange Rate & Trends



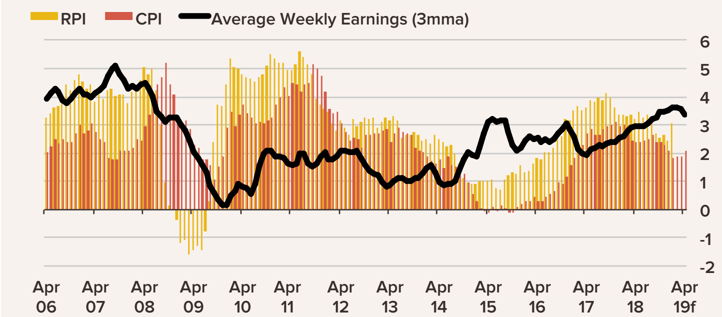
Australia: Daily Price Of 10-Year Bond



Monday 10	Tuesday 11	Wednesday 12	Thursday 13	Friday 14
HOLIDAY *Queen's Birthday*			**Unemployment** % Δ(000s) May 18 5.4 -22.0 Feb 19 4.9 -14.0 Mar 19 5.1 19.0 Apr 19 5.2 21.0 *May 19f 4.9 -40.8*	

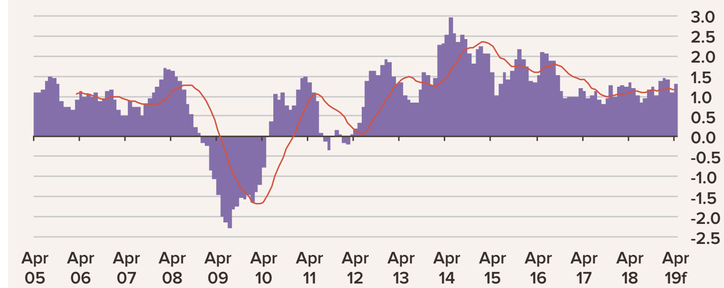
At A Glance: The Economy Britain's New Prime Minister Will Inherit

United Kingdom: Average Weekly Earnings Ex Bonuses, %chya



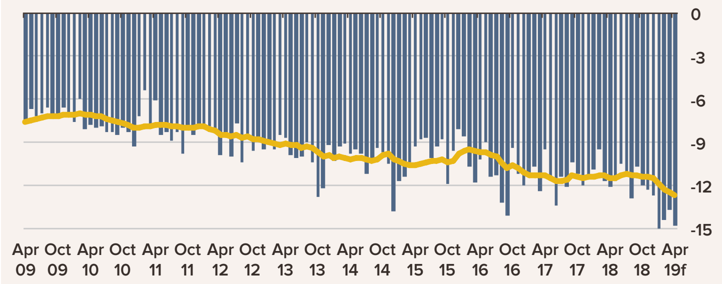
United Kingdom: ILO Employment, Percent Change Year Ago

NatStats' Estimate From Employment Survey, Line Shows 12-Month Moving Average



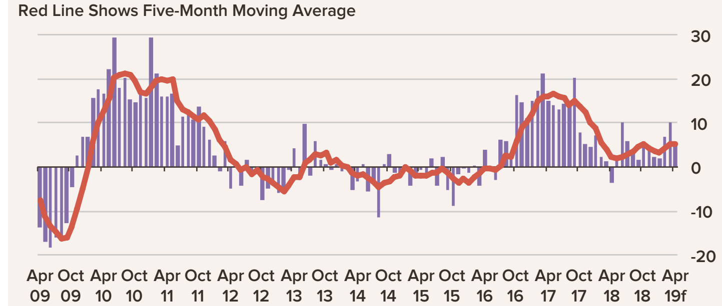
United Kingdom: Trade Balance, Billions Of Pounds Sterling

Line Shows 12-Month Moving Average



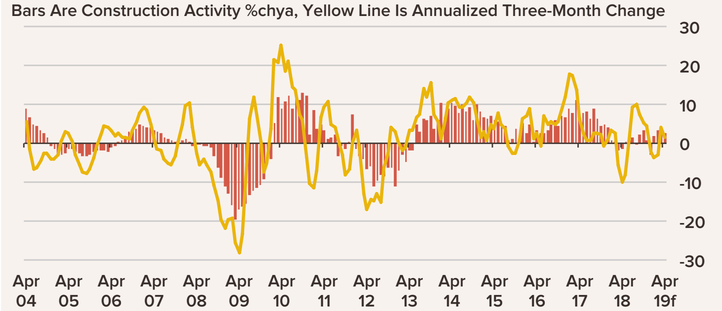
United Kingdom: Exports, Percent Change Year Ago

Red Line Shows Five-Month Moving Average



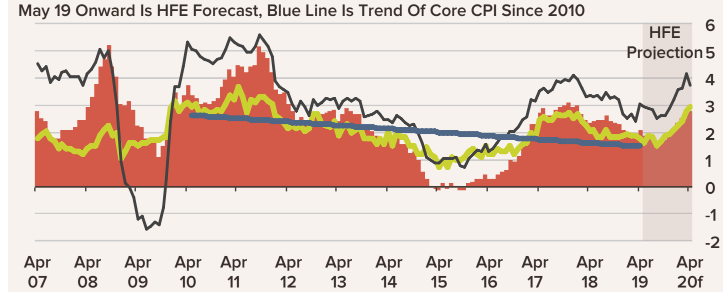
United Kingdom: Construction Sector Activity

Bars Are Construction Activity %chya, Yellow Line Is Annualized Three-Month Change



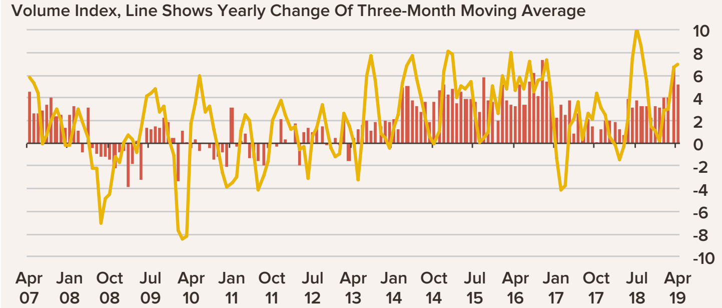
United Kingdom: CPI, Percent Change Year Ago

Green Line Shows Core CPI, Black Line Shows RPI
May 19 Onward Is HFE Forecast, Blue Line Is Trend Of Core CPI Since 2010

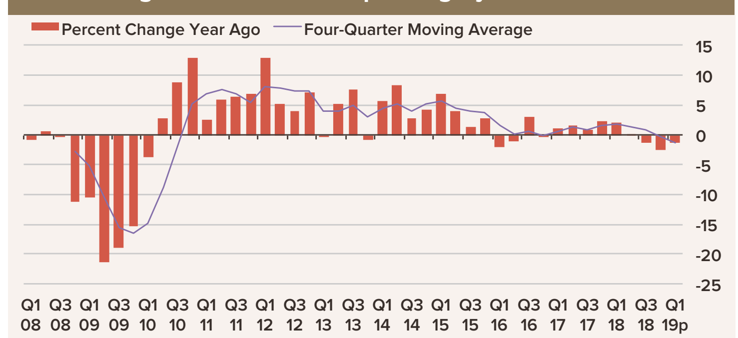


United Kingdom: Retail Sales, Percent Change Year Ago

Volume Index, Line Shows Yearly Change Of Three-Month Moving Average



United Kingdom: Investment Spending By Businesses



Carl B. Weinberg, Chief International Economist