

WHAT TO EXPECT NEXT WEEK

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HIGHLIGHTS

- The ISM index for the manufacturing sector (July 1) will be the main indicator in the coming week. The slowdown in the US business cycle may be confirmed in June.
- The US labor market is the other main indicator (July 7). Its dynamics has recently changed as it adjusts to the new business cycle shape.
- The Markit indices for the manufacturing sector (July 1) and for the services sector (July 3) will show the risk of a global recession for the manufacturing sector. The hope for the Eurozone is a strong services sector index that will allow an extension of the growth momentum.
The Tankan survey in Japan will be out on July 1.
- Employment in Germany for June (July 1) and retail sales for May (July 3) will show the possibility of maintaining a robust domestic demand or if it is necessary to have a stronger economic policy to cushion the impact of world trade negative shock on the German economy.
- Retail sales in the Euro Area (July 4) for May will be a good proxy on the strength of the internal demand for the Euro zone.

NEXT WEEK'S MAIN DATA AND EVENTS

- **The ISM index for June in the manufacturing sector (July 1)**

This will be the most important figure of the week. This is the most reactive US index to the business cycle. It has been strong during 2018 reflecting the boost given by the US fiscal policy. It is now more conditioned by the impact of the global economy slowdown and the consequences of the trade war that has been initiated by the White House.

Recently we've seen that this index had overreacted to the US economic environment. Compared to the CFNAI (an index based on 85 indicators from industrial production to retail sales and real estate), the ISM manufacturing index was too optimistic in 2018. The convergence has started to a lower level more consistent with the CFNAI. It may converge to 50 or below in coming months.

The other point is that the Markit index for the US manufacturing sector is now close to the 50 threshold. In the June flash estimate the index was at 50.1. This shows the impact of the current global situation and the slowdown in the global manufacturing sector.

- **The US June Employment figure (July 7)**

This will also be an important figure for two reasons. The May figure was low at 75 000 and the monthly average since the beginning of the year is just at 164 000 versus 230 000 in 2018. Employment is a lagging indicator but it's adjusting progressively on a weaker business cycle.

This change on the labor market can also be seen on the households' Conference Board survey. In this survey there is a question on the current situation on the labor market. It is of the form "Is it easy or hard to find a job?" The difference between the two answers is a good proxy of the labor market. We see that this index was on the upside and consistent with the improvement of the labor market. Since last February, this index is no longer improving. This probably shows a change of the labor market behavior and the end of its improvement.

In this environment, the unemployment rate is probably too static to change rapidly and not a good measure to the labor market change. The June figure will show how the US labor market adjusts to the business cycle and the speed of this adjustment.

Before that we will have the ADP survey on jobs in the private sector (July 3). But this indicator is usually not a good predictor of the non farm payrolls

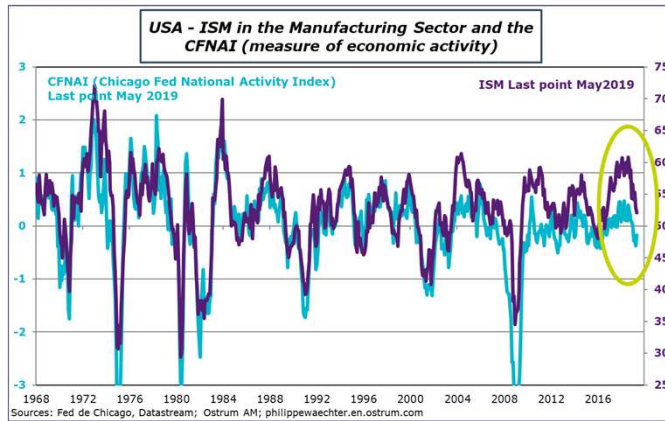
- **Markit survey on the manufacturing sector or June (July 1)**

The point to look at will be the global index. In May, it was at 49.8 so marginally below the 50 threshold showing a contraction in the manufacturing sector at the global level. This will probably continue as the US Markit index dropped at 50.1 in June (versus 50.5 in May). We already know that the Euro Area figure will remain close to the May level (47.7 in May and 47.8 in the June flash estimate) while the Japanese index was marginally down at 49.5 (49.8 in May). We will look carefully at the Chinese index which will remain close to 50.

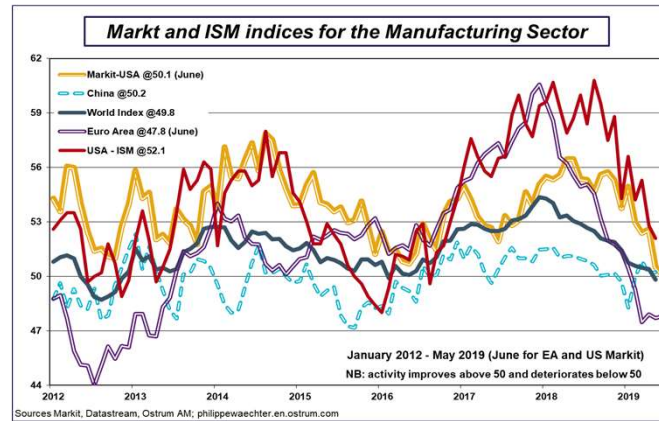
- **The US trade deficit for May (June 3)**

This statistic is interesting as real export (ex oil) are following a low momentum (consistent with the world trade slowdown) while imports are quite strong. Trump wanted to boost internal demand in 2018 with its fiscal policy but as taxes on imports took place in 2018 imports have continue to grow and US households are therefore paying for the Trump policy.

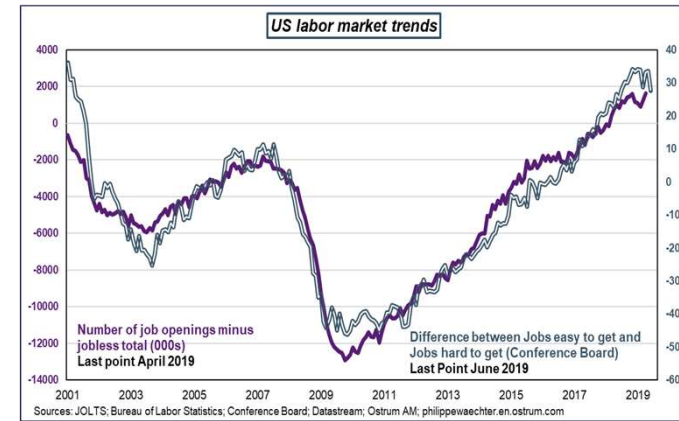
EXPLANATORY GRAPHS



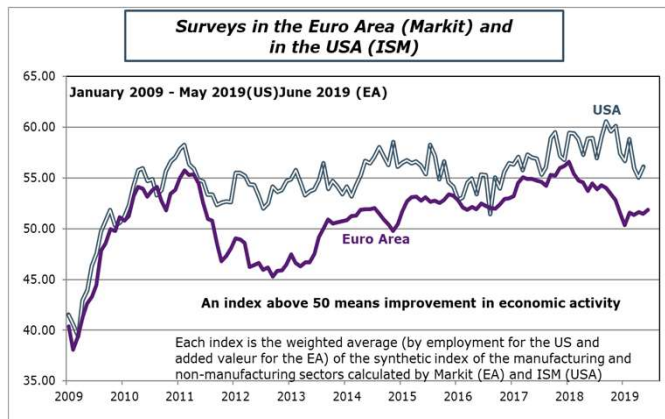
The blue line shows the CFNAI which represents the common trend for 85 US indicators. The over-optimistic ISM is adjusting progressively. It may plunge rapidly below 50.



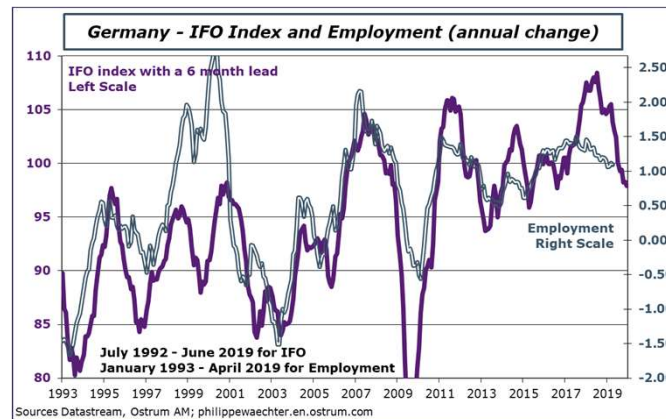
The strong and rapid adjustment on the US Markit index is impressive. It will create pressure for a lower world index in June. Due to the US foreign trade policy, the world economy is slowing down.



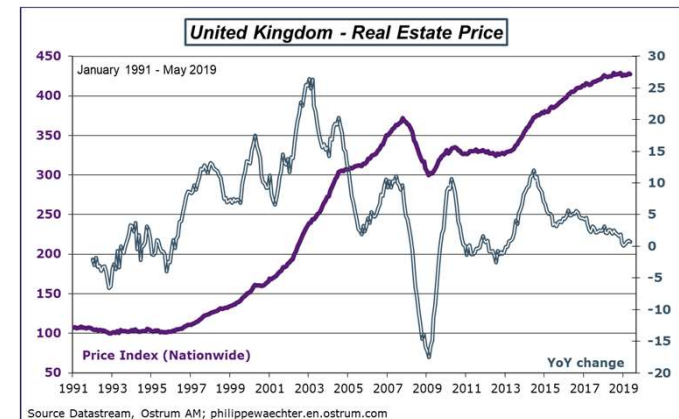
The Conference Board Index on the labor market is consistent with the Jolts survey (Jobs Openings and Labor Turnover Survey). Since the beginning of the year the dynamic has changed showing probably a change on the labor market behavior



The Markit and ISM part related to services will be out on July 3. The global index for the ISM shows a robust growth while the Eurozone global index is showing a slow dynamics. This reflects the low level of the manufacturing index



The employment figure in Germany will be out on July 2. The labor market momentum is consistent with the IFO index. The recent drop in the IFO survey will push down the German labor market dynamics. This could weaken the internal demand momentum. This may have consequences on the German economic policy



The real estate market in the UK is slowing down rapidly. We will have June figures next Tuesday (June 2).

ADDITIONAL NOTES

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