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WHAT TO EXPECT NEXT WEEK

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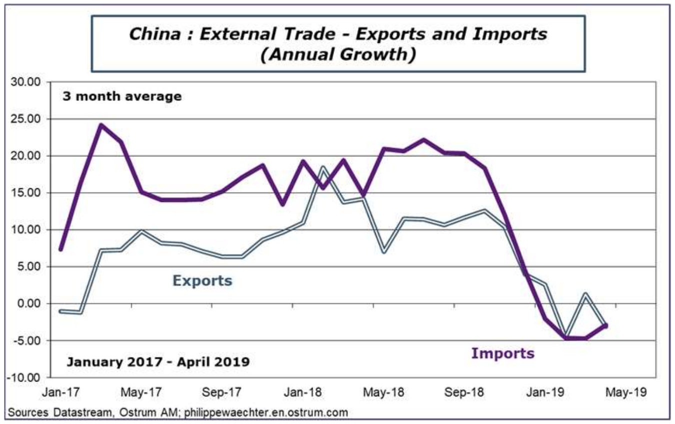
HIGHLIGHTS

- Chinese trade figures, industrial production and retail sales for May are key to see how China cushions the negative international trade shock. Weak number would imply new measures to support domestic demand
- The US economy is slowing down on industrial side. This was shown by the ISM manufacturing index in April and the industrial production index is trending downward since the beginning of the year. A negative figure on industrial production for May (June 14) may accelerate the Fed's monetary policy change (next meeting June 19).
- This change in the Fed's strategy may also reflect a lower inflation rate. CPI figure will show a lower headline inflation (2% in April) and stable core inflation rate. Retail sales (June 14) are volatile reflecting a weaker domestic demand. This could add up to CPI and industrial production in the Fed's decision in June.
- After weak figures in the in April, the Euro Area industrial production index (June 13) will be down. May be is it the signal Draghi mentioned yesterday in his press conference to move the ECB monetary policy on a more accommodative ground

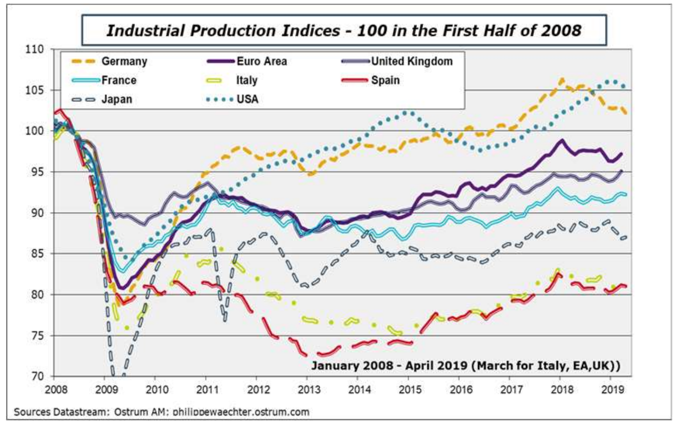
NEXT WEEK'S MAIN DATA AND EVENTS

- **The Chinese trade balance for May (June 10), Industrial Production, Investment and retail sales (June 14)**
  Since the beginning of tensions on trade with the US, the Chinese trade momentum has dramatically changed. After September 2018, the exports and imports growth rates have plunged. This is a negative shock for the Chinese economy. Chinese authorities have reacted to this adverse situation with a proactive policy-mix in order to boost the domestic demand.
  Two points to look at: first, trade figures will show how the US trade tax have impacted Chinese exports and imports. It may give a magnitude of the possible Chinese retaliation. Figures on industrial production and retail sales will show the way domestic demand and the policy-mix that goes with it have succeeded in cushioning the external trade shock.
- **Industrial Production figures (May in the US, April in Europe) (US June 14, Euro Area June 13, Italy &U K June 10)**
  Industrial production indices have lost their momentum. This is linked to the business cycle since the end of 2017, notably in Europe, but this lower dynamics has been recently reinforced by trade tensions. The first part can be seen in every European index but the impact of the trade war is seen clearly in Germany. In the US, the peak is more recent (turn of this year) but the trend is now on the downside. It will continue in May. After the German and the French figures for April we expect a drop for the Euro Area.
  The industrial sector which is the core of the global dynamics is no longer a source of improvement. This alert can be perceived in speeches from central bankers as seen with Draghi during his June press conference. No improvement in the data will imply new strategy on their side. Powell from the Fed has already given a signal for lower rates in coming months in the US.
- **Inflation rates for May: in the US, in Spain, China (June 12), Germany (June 13) and France and Italy (June 14)**
  Inflation rates are largely depending on the oil price momentum. Therefore, focus must be made on core inflation rates. Whatever the country, core inflation rates are quite stable at a low level. Except in the US (but the CPI is not the index followed by the Fed), core rates are way below targets. This reflects changes in the labor market and lower number of jobs and lower wages for intermediate jobs. Highly educated people can find jobs with high wages as they have a high productivity, non educated people have jobs but they are low paid and insecure but the bulk of the market, intermediate jobs with low qualification, have a lower number of jobs and no capacity to push for higher wages. This middle class was at the center of economic growth process in the 60's and after but for the last twenty years this is no longer the case as this jobs have to compete with innovations. This jobs were well paid in the 60's and were the trigger of the 70's high inflation. There are non longer well paid, therefore core inflation rates will remain low for long and this will create issues for central banks.
- **Employment and earnings in the UK for April (June 11)**
  Still a strong momentum on jobs and on earnings. This may change in the future as short term indicators (surveys) on the economic momentum are weaker.
- **US real sales for May (June 14)**
  The domestic demand is weaker since the beginning of the year. Recent figures have been very volatile. As weekly date are quite well oriented, the figure for May will probably be strong

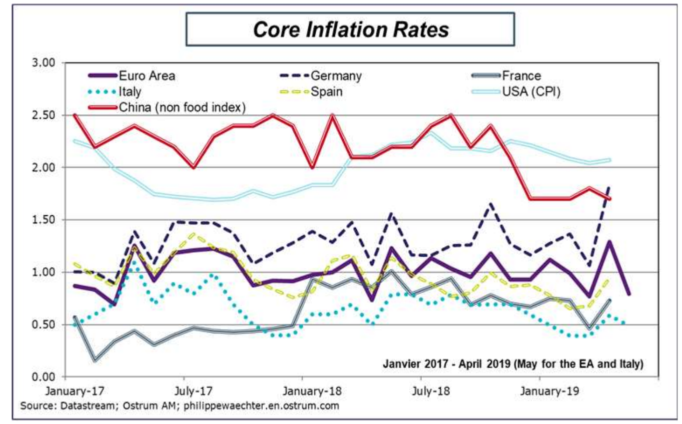
EXPLANATORY GRAPHS



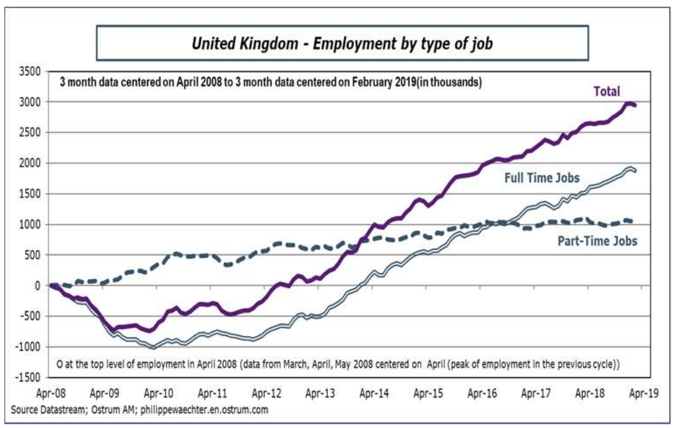
Chinese trade figures are a measure of the impact of the US new trade barriers. The slowdown is an explanation of the weaker industrial production momentum



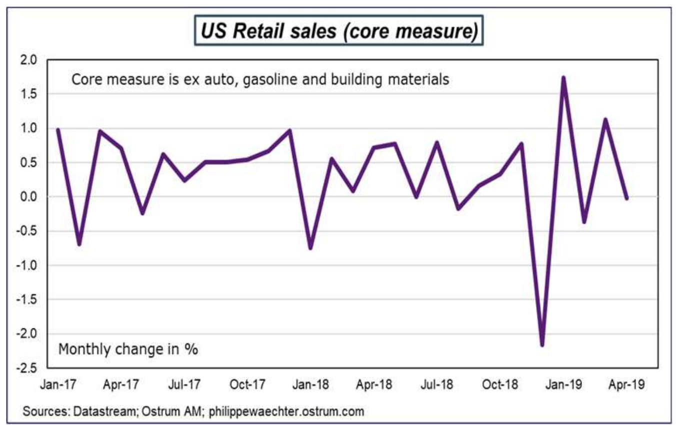
The trend has changed since the beginning of 2018 in Europe. At this time it was the impossibility to run faster. The downward trend is now linked to the slowdown in international trade



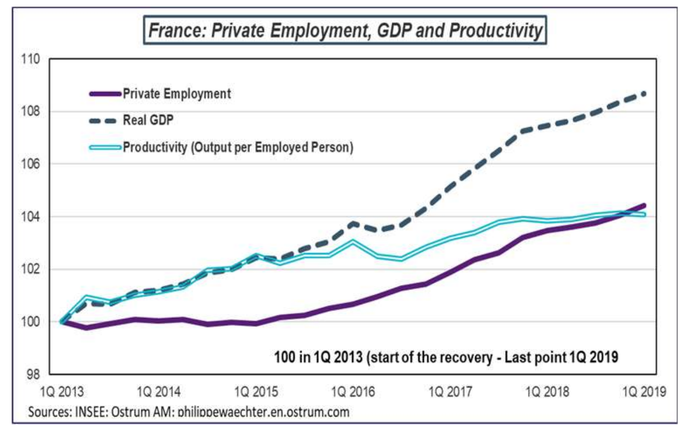
Core inflation rates are very low at this stage of the business cycle. The ECB expectations on core figures are systematically revised down. (German figure for April is a non persistent shock)



The labor market momentum remains strong as full time jobs have replace part time jobs as source of improvement. The question in coming months is on the UK global outlook which could decelerate with political confusion



The external shock has to be cushioned by a strong domestic momentum. This is not what we see since the beginning of the year. Final sales in GDP figures were weak and retail sales are volatile. The US business cycle is weaker now



French employment will be published on June 12 for the first quarter. The flash estimate (in the graph) was quite strong. We expect a strong number. The French economy is stronger than expected.

ADDITIONAL NOTES

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