

WHAT TO EXPECT NEXT WEEK

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HIGHLIGHTS

- The global economy is slowing very rapidly and the world trade was contracting in June. To anticipate the immediate future on the economic activity, companies' surveys are key. Next week, the Markit and ISM surveys will be released. On September the 2nd, manufacturing sector surveys for Markit will be out. The ISM will be out on September the 3rd. These numbers will highlight the short term momentum of the global activity and the future dynamics of world trade.
- On September the 4th the Markit service sector survey will be released and the 5th it will be the ISM survey on services. In the US, the services survey no longer rebalance the weakness of the manufacturing sector. The flash estimate for the Markit survey is now below 51. Fragility leading to recession?
- US employment for August will be released on September the 6th. Recent numbers on jobs creation have been revised down (annual revision) leading to a lower dynamics. This inflexion is consistent with the change in trend seen in the JOLTS survey.
- Industrial Orders in Germany for July (September 5) will be another source of information on the strength of the global momentum as this indicator has a profile consistent with the OCDE corporate investment. Recent data show a rapid slowdown.
- Recent developments in the Middle East with higher tensions, this week-end, between Israel, Lebanon and the West Bank.

NEXT WEEK'S MAIN DATA AND EVENTS

- **Markit Corporate surveys for the manufacturing sector (September 2) and the ISM survey (September 3)**

As always, in this period of weakness in the economic activity, corporate surveys will be the information to follow this week. On Monday 2, Markit surveys indices for the manufacturing sector will be released. The world index was at 49.3 in July reflecting the rapid drop in developed countries. The Euro Area was at 47 in the flash estimate released earlier this month, Japan was at 49.5 (revised down this morning at 49.3) and the US was at 49.9. The world index will probably go lower.

During the week-end, the Chinese official index was at 49.5 and early this morning the Markit index for China was at 50.4. These indices fluctuate around 50.

The most interesting index to follow will be the US Markit index. In the flash estimate it was released at 49.9, the first drop below the 50 threshold since September 2009. The confirmation of this level would show a real change for the US economic outlook exacerbating the risk of a recession in coming months. This will have to be confirmed by the ISM index that will be released on September 3.

These data on the manufacturing sector momentum are frankly important to gauge the world trade dynamics. Recent development of the trade war will probably extend the recent drop.

- **Industrial orders in Germany (September 5)**

This index reflects the impact of the current international mayhem on the German business cycle. But my favorite sub-indicator is on capital goods orders as it is a good proxy for the OCDE investment. Recent data have shown a negative trend. This will probably be consistent with a slowdown in corporate investment in coming months. Large uncertainty is a source of deterrence for companies to invest.

- **The Markit services index (September 4) and the ISM services index (September 5)**

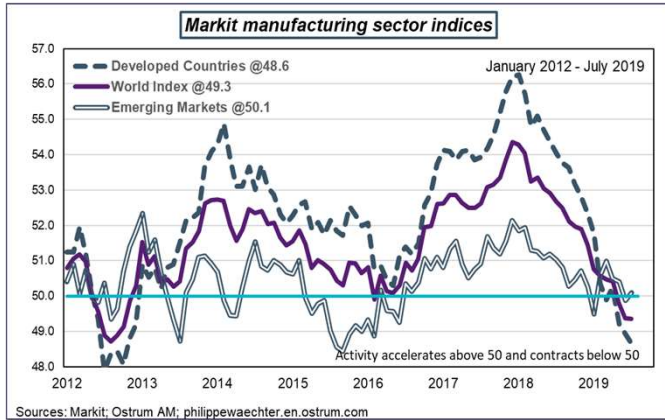
Services index are still in positive territory but they are trending downward. This can be seen on the ISM global index which is at 53.3 in July (vs 60.6 at the peak last September) and on the Markit global index. The services index follows the manufacturing index. It's not a source of impulse that may reverse the trend seen on the manufacturing sector.

- **US employment for August (September 6)**

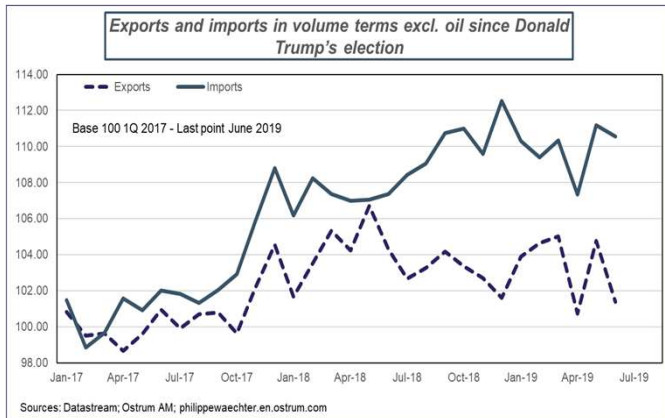
The US labor market is weaker than expected after the annual revision. The number of jobs created since the beginning of the year is the weakest since 2010. The slowdown seen in the recent corporate surveys doesn't pledge for a rapid change. Therefore, pressure on wages will probably diminish in coming months.

- **GDP and Employment (final) for the 2Q in the Euro Area ((6), Trade balance for the US (5) and trade balance for France (6). Productivity and Unit Labor Cost for the 2nd quarter in the US (2nd estimate September 5), Retail sales in the Euro Area (4)**

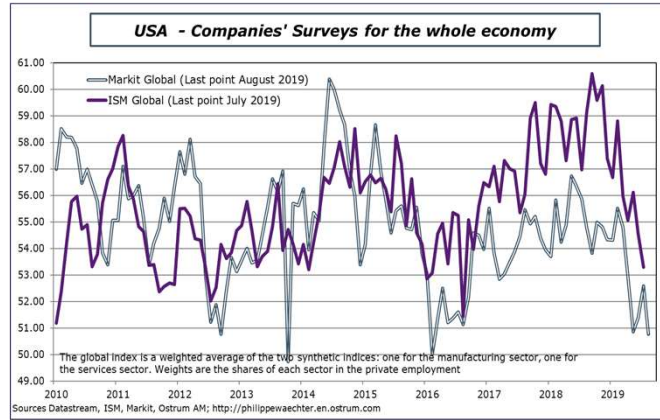
MAIN GRAPHS



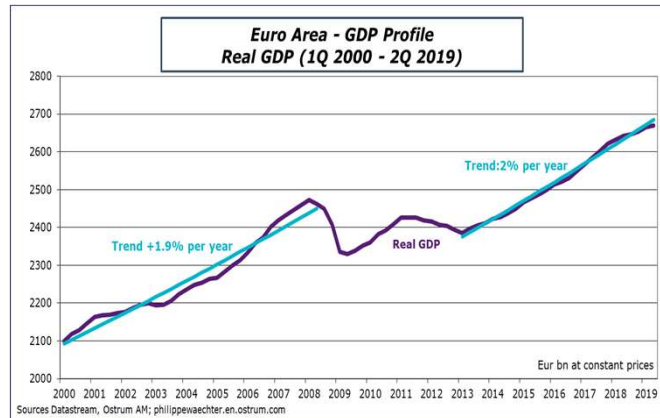
The manufacturing sector is downside trending. Most of developed countries are now in the contracting area. That's the case for the Euro Area, the US, Japan and the UK. For emerging countries the index is marginally above the 50 threshold. Among them, India is still above 50 and China fluctuates around this level.



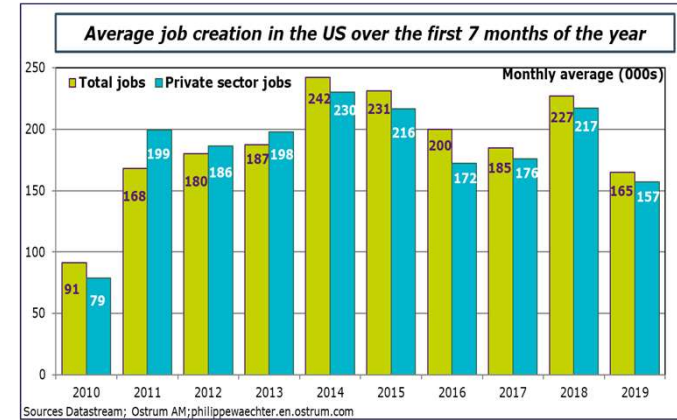
The US strategy to reduce the trade deficit is a failure. Imports, in real terms, are growing rapidly while exports are stable. Therefore the external trade balance is wider than expected. It's Econ 101 to know that a strong domestic demand, boosted by the strong 2018 fiscal policy, is associated with surge in imports.



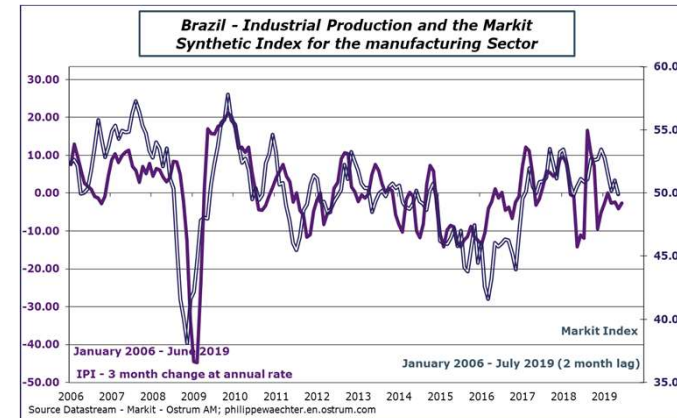
ISM and Markit synthetic indices are rapidly trending down. The rapid drop of the manufacturing index is not compensated by a strong services index. The ISM index was at 53.3 in July vs 60.6 last September. In August, after the flash estimate, the index is 50.8 on of the lowest level since 2010.



The economy follows a strong trend since the beginning of the recovery in 2013 (2% per annum). This reflects the strong German momentum. But this is changing. Since the beginning of 2018, the trend is just above 1%. The probable recession in Germany implies a risk in the Eurozone outlook.



After the annual revision, the momentum of the labor market is the weakest since 2010. Is it the consequence of the surge seen in 2018 or a change in trend? Looking at the JOLTS survey we see that the dynamics has changed since the beginning of the year. The economy is slowing down.



The Brazilian economy is still at risk. The mild recovery after the deep recession recorded in 2015 and 2016. The contraction of the global manufacturing sector will push down the Brazilian index below the 50 threshold (49.9 in July). This will continue.

ADDITIONAL NOTES

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