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WHAT TO EXPECT NEXT WEEK

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HIGHLIGHTS

- The most important data this week will be the industrial production indices in Europe. Germany and Spain (8) and France, Italy and UK (10).
  Their momentum will reflect and highlight the risk of recession in Europe as corporate surveys are weak throughout Europe.. Germany has been weak recently and corporate surveys during summer and in September have validated the possibility of a deep recession in Germany.
  In Italy, the dynamics remains low and risks are on the downside
  In Spain, the momentum is lower since the end of spring. This has forced the Bank of Spain to revised down its forecasts for 2020 and 2021. The industrial figure will show if the downside risk has to be seen as soon as 2019
  In the UK, the uncertainty associated with the Brexit leads to lower growth in the industrial sector.
  In France, the momentum is still robust
- In Japan, households' spending in August (8) will be interesting as a VAT rate hike is expected in October.
  We remember that after the previous VAT rate hike in April 2014, the impact has been very important and persistent on households' behavior. It has been depressing at this time. Can we forecast the same dynamics ?
- Jolts survey (9) in the US will probably confirm the change in the labor market trend in the US. That's already how it is perceived by households.
- Inflation rate in the US with the CPI (10) which has an upside bias when compared to the favored Fed's measure (PCE). The core inflation rate was at 2.4% in August which is high.

NEXT WEEK'S MAIN DATA AND EVENTS

- **The most important data this week will be industrial production indices for August in Europe (Germany, Spain (8 October), France, Italy, United Kingdom (10 October).**

  The main risk in Europe is a recession coming from the weakness of the manufacturing sector. Recent surveys data in the manufacturing sector have shown a deep slump in Germany and the trend is negative in Italy, in the United Kingdom and more recently in Spain. The main reason for that is the negative impact of the low world trade momentum but also the lack of a strong domestic demand. This is notably the case in the Euro Area where except in France, the economic policy doesn't cushion the negative impact of negative external factors.

  In Germany, the Markit survey was at 41.7 in September. This number has been below the 50 threshold since the beginning of the year. Every month since January, German companies have said that their output was lower than in the previous month. And the trend is accelerating on the downside as the September figure is the lowest since June 2009.

  In Italy, the contraction is not as deep as in Germany but the Markit survey shows a contraction in the manufacturing sector (47.8 in September) since last October. In Spain, recent data are weaker. In September, the Markit survey data was at 47.7. It was the fourth consecutive month below the 50 threshold. Consistent with that, the Bank of Spain has, last week, revised down its forecasts for 2019 to 2021 as the global environment worsens. In the United Kingdom, the Markit survey at 48.3 in September is negative since last May. France is the sole large country with a positive momentum in the manufacturing sector. The INSEE and the Markit surveys do not show a slump in the manufacturing sector. This has a positive impact on employment in the manufacturing sector leading to a more autonomous dynamics for the French activity.

  The industrial production indices for August will probably reflect these trend feeding the risk of a slower growth everywhere.

  Consistent with the German figures we will look at the German Industrial Orders Index for August. The capital goods component is always a good proxy for the OECD investment profile. Recent data show a contraction in these orders. It will be released on October the 7th..

  One key data to understand all this low dynamics is exports in Germany. Its trade balance will be released on October the 10th. Since 2018, the trend on real exports is flat and monthly data fluctuate around it.

- **Labor market data in the US through the JOLTS survey on August (9 October)**

  Since the beginning of the year, the labor market dynamics has changed when it is analyzed through the Jolts data. The profile of this survey is consistent with the household's perception of the labor market seen through the Conference Board survey. For both, the dynamics is lower and therefore we cannot expect an improvement on the US employment data. The job report in September was robust but Jolts is another way to look at the labor market. This is complementary.

- **September Inflation rate in the US through the CPI lens (10 October)**

  The August figure was strong on the core index. It was at 2.4%. This was an ingredient of the strong rebound seen on long term US interest rates. This surge was not confirmed by the Fed preferred inflation measure (the PCE index). We can expect a milder figure with a low headline number way below the 2% target.

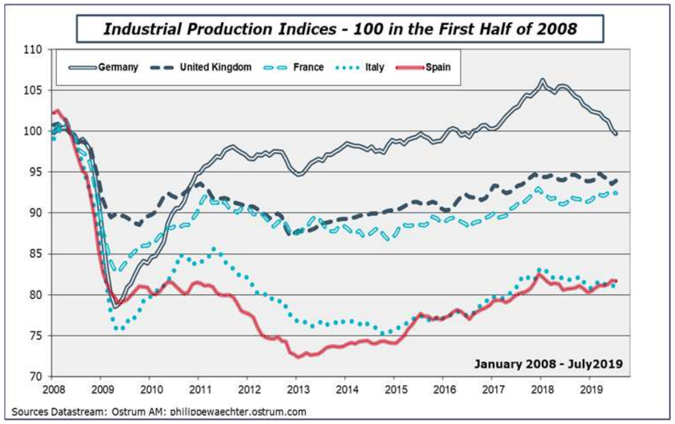
- **Households spending in Japan for August (8 October).**

  In October 2019, the VAT will be raised from 8 to 10%. We remember that in 2014 the VAT rate was up by 3% from 5 to 8%. The negative impact has been long lasted and it has taken three years to recover. The Households behavior will be interesting in August and September just before the hike.

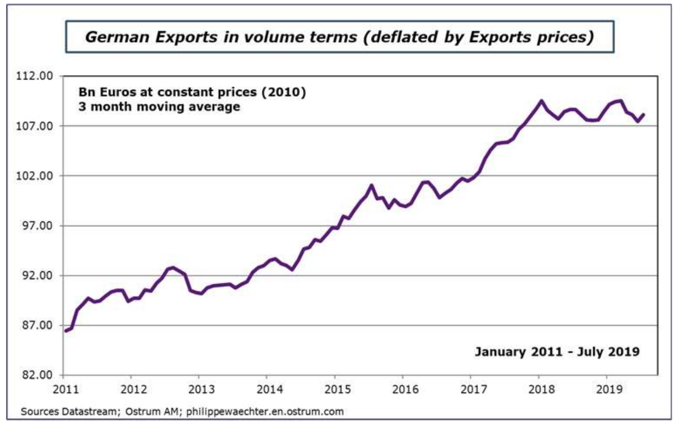
- **Other statistics this week**

  The NFIB index in the US (8) which is an index on small and medium companies in the US, Inflation rate (final) in Germany and Spain (11), Inflation in Brazil (9), Real estate price in the UK (Halifax (7)) and RICS survey on real estate in the UK (10), Trade balance in France (8), productivity in the UK (8) and Caixin PMI on service sector in China (8)

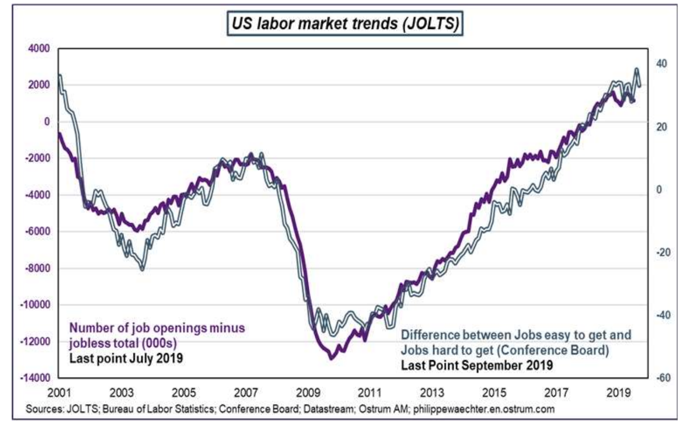
MAIN GRAPHS



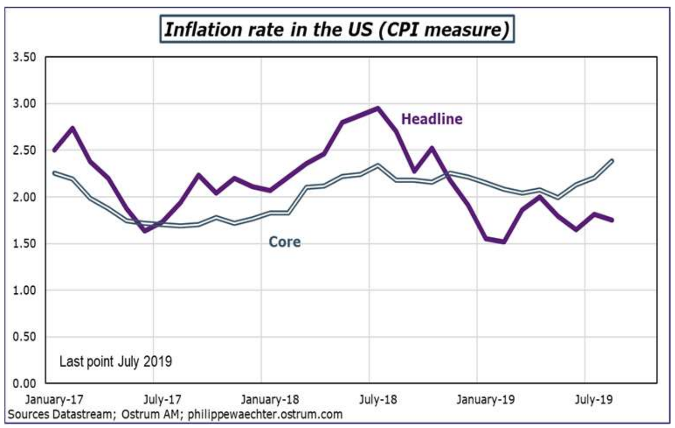
The German industrial production is now 6% below its peak seen at the beginning of 2018. Elsewhere, the dynamics is limited with a mild momentum rather than a strong and rapid improvement. Surveys in the manufacturing sector suggest than coming data will be on the downside



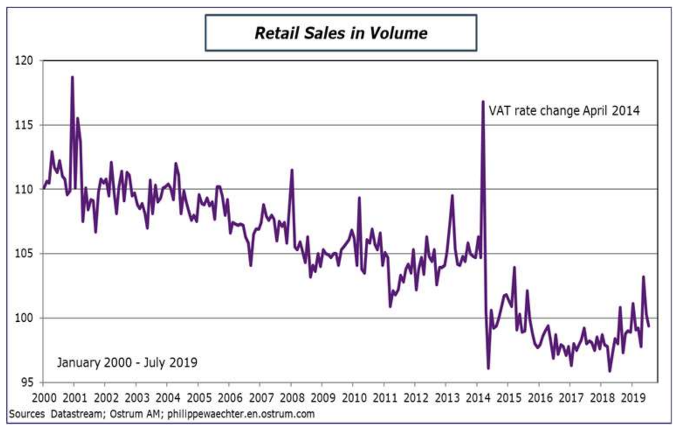
German exports follow a flat trend since the second part of 2017. It limits the German growth momentum. This can be a reason and an incentive for the government to support domestic demand. This would cushion the negative impact of the external trade.



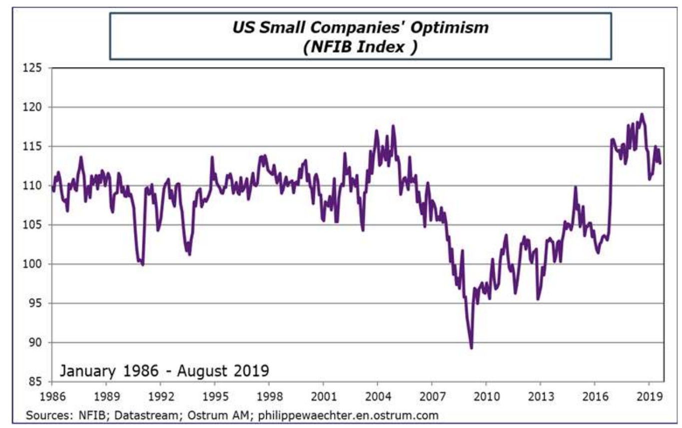
Even with an unemployment rate at 3.5% (September), I think that the labor market momentum is changing. But it may be a long process, longer than expected.



The core inflation rate at 2.4% in August was at its highest since September 2008. It was a good reason for the long term rates to reverse the recent downside trend. But it will probably not last as wages momentum are now lower.



The impact of the VAT rate hike in April 2014 was absolutely spectacular. Retails sales increased strongly before the hike and adjusted on the downside just after. But the effect has been persistent. We will have to look carefully at the August and September figures



The NFIB index remains high according to historical standard. The deep drop seen in the ISM may also reflects an strong adjustment at every level of the US production process and may have an impact on the NFIB this fall.

ADDITIONAL NOTES

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