

WHAT TO EXPECT NEXT WEEK

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HIGHLIGHTS

- **Durable goods orders in the US for November (Dec. 23)**

The main source of weakness for the US business cycle is capital expenditures. It has been weak in recent months even after the White House decision to lower companies' tax rate. The non defence capital goods orders ex aircraft will highlight the investment profile we can expect for the last quarter of 2019.

- **The Chicago Fed National Activity Index (CFNAI) for November (Dec.23)**

The US short term economic outlook is weaker since the beginning of this fall. This can be seen with the drop in the industrial production index (-1.1% for the last three months when compared to the same three months a year ago), the continuous weakness in the ISM index for the manufacturing index or the not so strong retail sales. This will reflect in the CFNAI for November. The October level was weak as will probably be November figure too.

- **Japan retail sales for November (Dec.27)**

With the October VAT rate hike, retail sales dropped dramatically after a huge surge in September. The question for coming months is to know if the retail sales future profile will follow the one seen in 2014. It was then a source for a weaker outlook for the following three years.

- **Japanese unemployment rate for November (Dec 27)**

The dynamics has changed on the Japanese labor market. The unemployment cannot go lower at 2.4%. Since the beginning of 2018 it oscillates around 2.3%. The Japanese economy is at full employment. In discussions on the Japanification of the Euro zone we have to keep in mind that the Japanese economy is doing well. Its unemployment rate is at historical low. It's also the case in the Euro Area but with a rate at 7.5%. The fact that population is ageing rapidly is a source of explanation for the Japanese performance but the population is ageing very rapidly also in Italy, Spain and Germany but except in Germany the unemployment rate remains high and not comparable to the Japanese one.

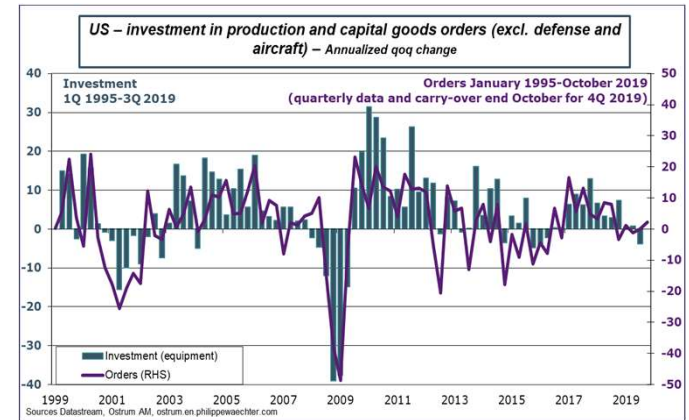
Happy Christmas on December the 25th

NEXT WEEK'S MAIN DATA AND EVENTS PAGE 1

- **Durable goods orders in the US for November (Dec. 23)**

One weakness of the US economy is the profile of its corporate investment. As we can see on the graph (blue bar), capital expenditures have not been boosted by the large tax rebate seen on companies' profits in 2018. It was seen as preferable to buy back on the equity market. The global effect is a higher return on the stock market but a lower capacity for the US companies to embrace the future changes and their capacity to drive productivity up.

The non defence capital goods orders ex aircrafts mimics the corporate investment profile. It's still poor in the last quarter of 2019 even with the marginal improvement in October.

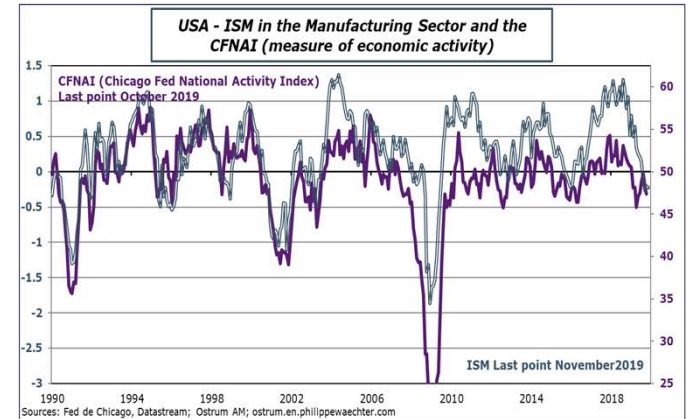


- **The Chicago Fed National Activity Index (CFNAI) for November (Dec.23)**

This index was at -0.31 on average for the last three months to October but the sole October index was at -0.71. The index shows a strong probability of recession when the 3 month average is close to -0.7. This is not the case yet. Will the weak industrial production and the not so strong retail sales in November be counterbalanced by the strong employment report ?

The point is important as the US economy doesn't show strong sources of impulse that could boost growth in a foreseeable future.

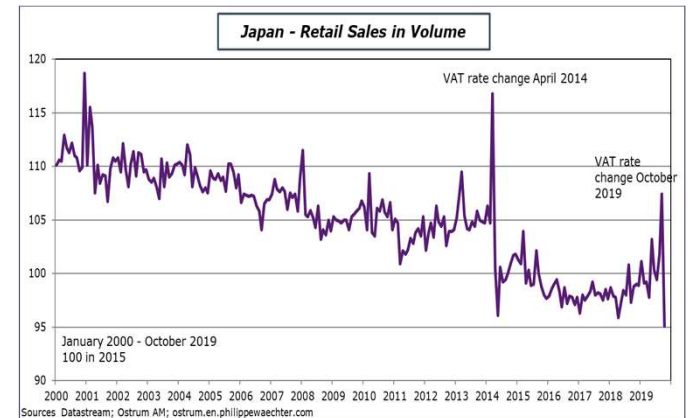
This index is more reliable than the ISM. Its profile for the end of the year will feed expectations for coming months and be a support for future non defense capital goods orders ex aircraft.



- **Japan retail sales for November (Dec.27)**

Sometime, the same measure creates the same consequences. In April 2014, the Japanese government increased the VAT rate from 5 to 8%. Therefore in March 2014 retail sales were skyrocketing and dropped dramatically in May and for the three following years (the line on the graph is in level).

In October 2019, the VAT rate was increased to 10%. Therefore in September sales increased rapidly before shrinking in October. The question for the coming months will be on the sales profile. Will it follow the one seen after April 2014? If it is the case it will again be a source of weakness for the Japanese outlook.



ADDITIONAL NOTES

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