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German growth in 2019 – Coming this week (Jan 13-19) and What to keep in mind from last week (Jan 6 – Jan 12)

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HIGHLIGHTS

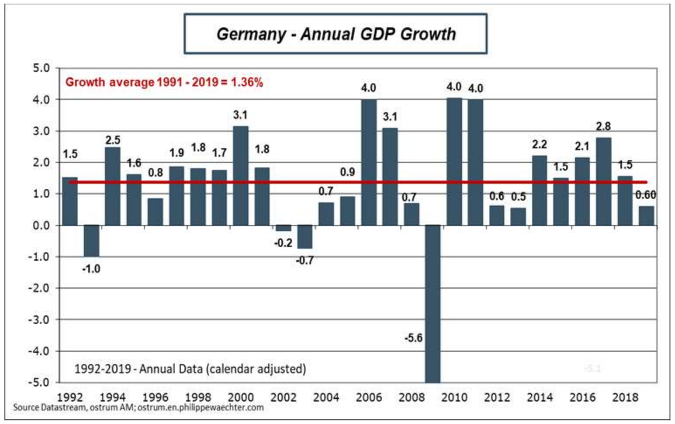
- **German GDP annual growth for 2019 (jan.15)**
  The annual GDP growth for 2019 will be release this week. It is expected to be 0.6% after 1.5% in 2018. It is way below the historical growth average of 1.36% since 1991. The 0.6% is consistent with a 0.2% growth during the last three months of the year. Therefore the carryover is expected to be close to 0.1%. This low starting point will limit the German growth performance for 2020.
- **The US industrial production for December (jan.17)**
  The US manufacturing production index has a profile consistent with the ISM synthetic index for the manufacturing sector. This latter dropped to 47.2 in December. This should pull down the YoY change in the industrial production. The NY Fed and the Phyli Fed indices on economic activity in January will also be released.
- **Jolts number for November (Jan.17)**
  After the December report on the labor market which showed a kind of neutral signal, it will be interesting to look at the Jolts which reflects flows on the US labor market. The dynamics has changed since the beginning of the year, we expect a confirmation.
- **External trade in China for December (jan.14)**
  Exports' dynamics has been negative since last September. They have a profile consistent with the global business cycle measured through the ISM index for the manufacturing sector. The drop in the ISM is not good news for the Chinese external trade even if the surplus remains very large due to the deep drop in Chinese imports.
- **UK retail sales for December (jan.17)**
  The recent picture is weak on retail sales side in the UK. An improvement can be expected after the general elections result. Brexit will take place n January the 31st. This reduces uncertainty. But it may be short lived as new issues will arrive such as details of the final deal with the European Union. Boris Johnson wants an agreement before the end of 2020. It should be hard to have a compact with the EU at this date. CPI for December (15)
- **Retail sales (jan.16) and CPI (jan 14) for December in the US**
  The inflation rate will be higher than in November. The main reason is a higher oil price in December. On retail sales, we can expect a small reversal after November's weakness. Nevertheless, the expenditures' momentum is now lower.
- **Other statistics**: Industrial production for November in the UK (13) and in China for December (17); NFIB for December in the US (14); US housing starts for December (17), Consumer confidence in the US Michigan index (17)

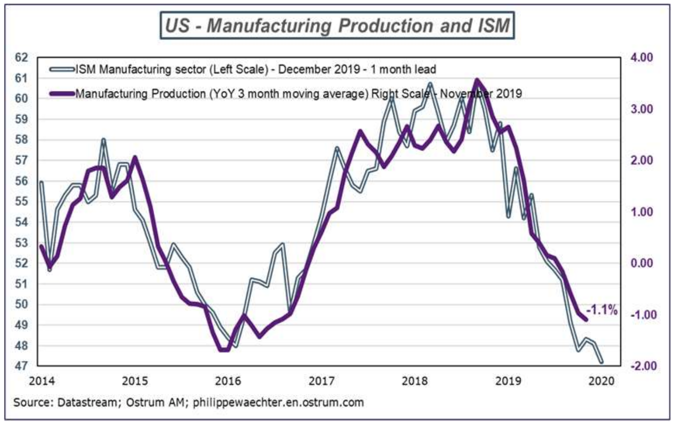
NEXT WEEK'S MAIN DATA AND EVENTS PAGE 1

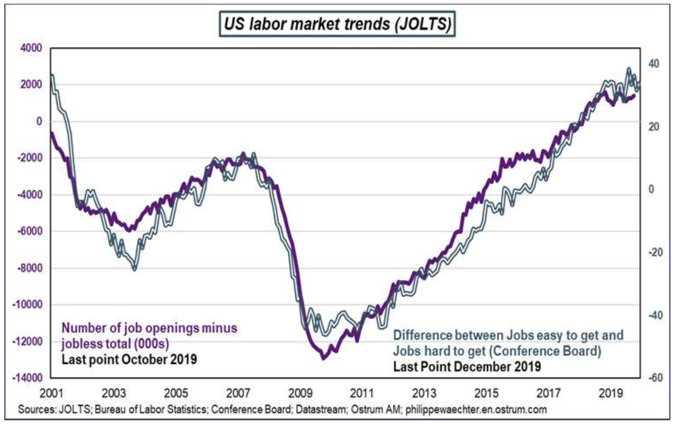
- **German GDP annual growth for 2019 (jan.15)**
  Expectations are at 0.6% for the annual GDP growth. This suggests that for the fourth quarter the economic activity was up at least at 0.1%. In other words, the risk of a German recession is ruled out for the end of 2019. This is consistent with the stabilization seen in corporate surveys during the last three months of the year. Anyway, the 2019 growth figure is way below its historical average which is at 1.36%. In recent years, the German growth was very strong, above its historical average, except in 2011 and 2012 during the eurozone austerity policy. It was first driven by the world trade recovery (2009-10) and after 2013 by a more robust domestic demand driven by a strong investment momentum. In 2019, the lower international momentum has weaken German external trade and lower investment expectations, explaining the GDP poor performance. For 2020, with a 0.2% GDP growth for the last quarter of 2019, the carry over is close to 0.1% In a weak international environment it will be hard to have a strong growth number. To be at the historical average, GDP growth would have to be at 0.5% every quarter. A real challenge.

- **The US industrial production for December (jan.17)**
  The US economic activity in the manufacturing sector has been weak during the last three months of 2019. That's the message from the ISM survey in this sector. As the industrial production index profile is consistent with this survey, the December number will probably be weak.
  On the economic activity side, surveys from the NY Fed (15) and the Phyli Fed (16) will be released for the month of January. The small companies index for the economic activity (NFIB) will be release on January 14 for the month of December. It was quite optimistic in November, stronger than the ISM

- **Jolts number for November (Jan.17)**
  The labor market has changed since the beginning of the year. This is not clearly seen in the monthly labor report but is clear from for the JOLT survey. Households also have changed their mind about the labor market. There is an inflection in both series.





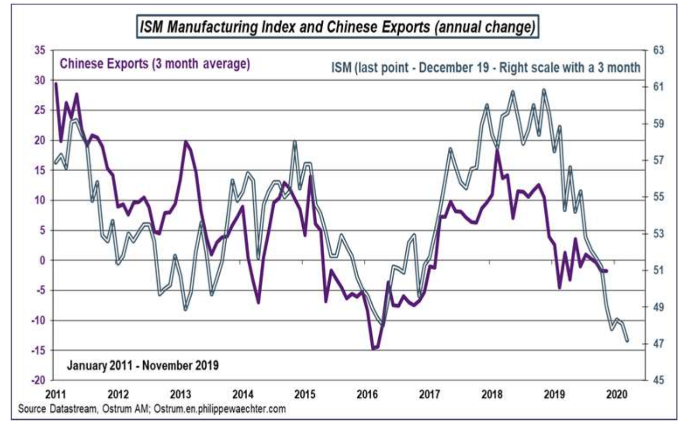


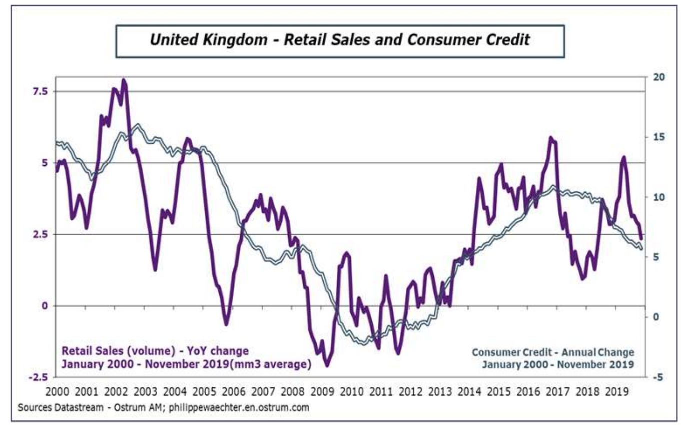
NEXT WEEK'S MAIN DATA AND EVENTS PAGE 2

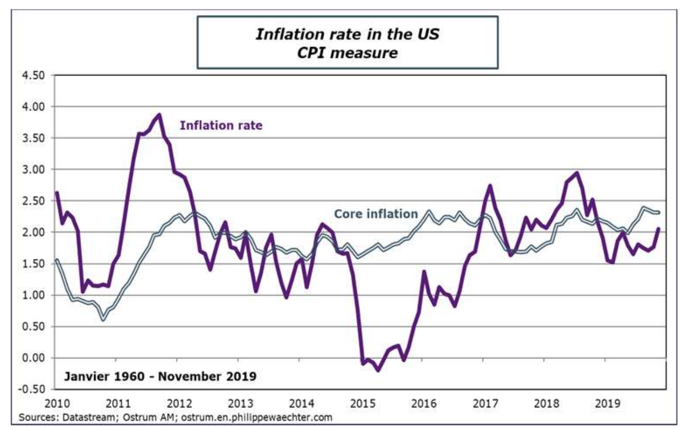
- **External trade in China for December (jan.14)**
  As shown in the graph, the Chinese exports' momentum is very dependent on the global business cycle measured here by the ISM index for the manufacturing sector.
  Recent data suggest that exports will continue to lose momentum as the ISM has clearly weaken.
  This will have a negative impact on the industrial production index for December that will be release on January 17 (as will be retail sales and investment).
  With this worrying international backdrop, we understand the last move of the Chinese central bank that points to more accommodation.

- **UK retail sales for December (jan.17)**
  In November, the figure was weaker than expected. On the graph we see the drop in YoY change. We can expect that the general elections result which is a signal for a immediate Brexit (January 31) has changed people expectations on the upside.
  Nevertheless if it the case it will be short lived as Brexit impact will start changing the equilibrium in which the UK has lived until now.
  The industrial production index will be released on January 13

- **Retail sales (jan.16) and CPI (jan. 14) for December in the US**
  November figures was weak in November. The core measure for the retail sales was just up to 0.1%.
  The inflation rate will creep up in December as the oil price is 13% higher than in December 2018 while in November it was 5% lower than a year ago. The energy negative contribution seen in November will become positive in December.

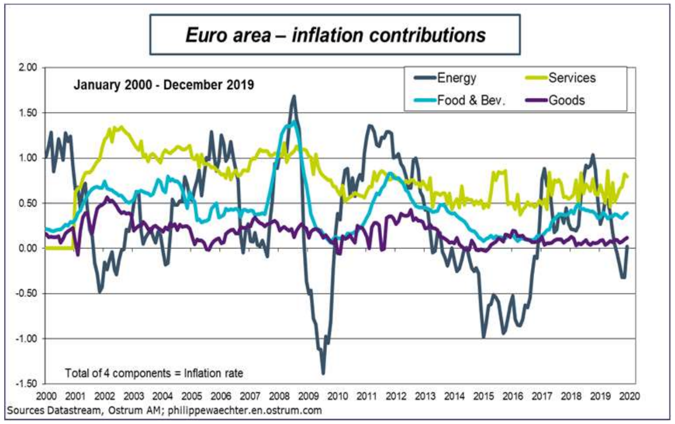




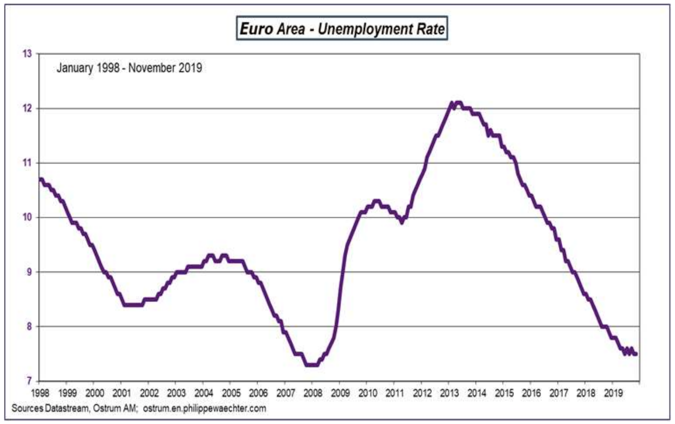


WHAT TO KEEP IN MIND FROM LAST WEEK (JANUARY 6– JANUARY 12)

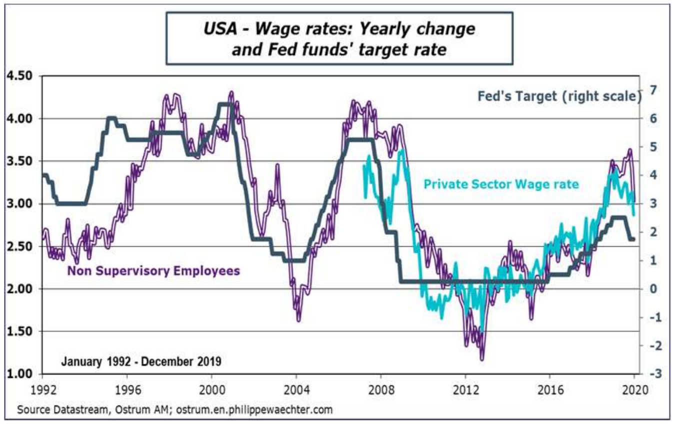
- **Rebound of the Eurozone Inflation rate in December**
  The inflation rate jumped from 1% in November to 1.3% in December. This reflects only a higher contribution of the energy sector. Its contribution was negative in November at -0.3% and was 0% in December. At the end of 2018, the oil price dropped dramatically. It had a coherent behavior with what happened on the stock market. The price is more stable this year and the acceleration in the inflation rate is due to what happened last year rather than new conditions this year. The impact on monetary policy expectations are null. The core inflation rate was stable at 1.3%. We expect it to converge to its recent average which is close to 1%.



- **The unemployment rate was stable at 7.5% in November in the Eurozone**
  That's an interesting question. As we see it on the graph, the unemployment rate is close to its lowest level at 7.3%. This may correspond to full employment as the eurozone has never been lower in the past. One natural question: would it be necessary to have a pro-cyclical fiscal policy as the eurozone is already at full employment ? The answer is a definite yes as 7.5% is clearly too high to be satisfying. Southern countries (Greece (16.8%), Spain (14.1%), France (8.4%) and Italy (9.7%)) must improve the efficiency of their labor market to converge to lower unemployment rate.



- **The US labor report will not force the Federal Reserve to change its monetary policy on the upside**
  The number of jobs creation was at 145 000 versus an average of 176 000 for the whole year. The main adjustment was on the manufacturing sector (strong change during the last three months with the GM strike in October). The unemployment rate remains at 3.5% and YoY changes in wages dropped dramatically. It was below 3% (at 2.9%) for the private sector as a whole. The graph suggests that nothing will happen rapidly on the Fed's side.

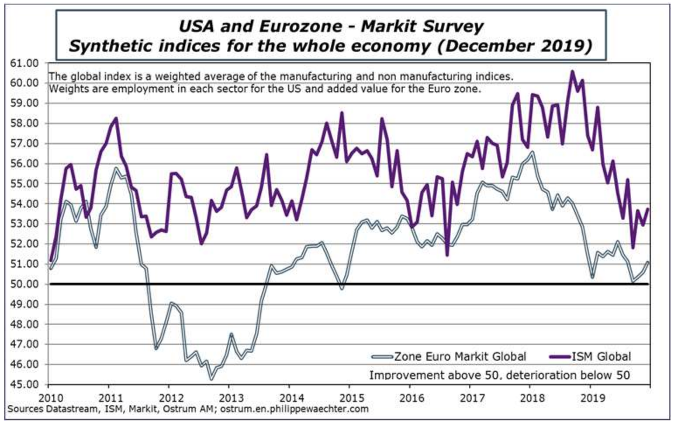


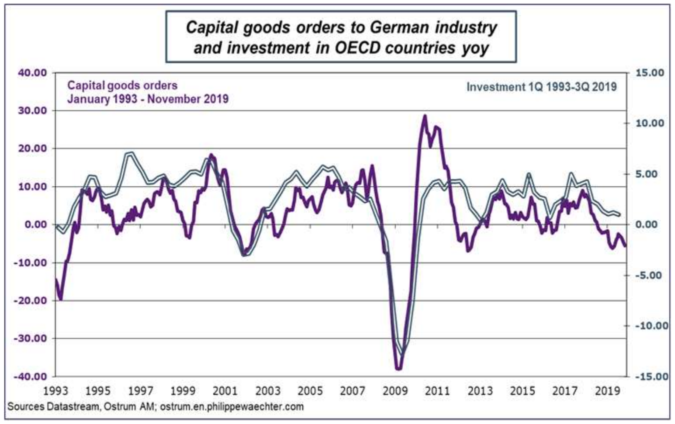
- **The Chinese inflation rate was stable in December at 4.5%**
  The food price contribution was marginally lower but still very high. The trade agreement between China and the US will relax the food constraint on China. The inflation rate will revert.

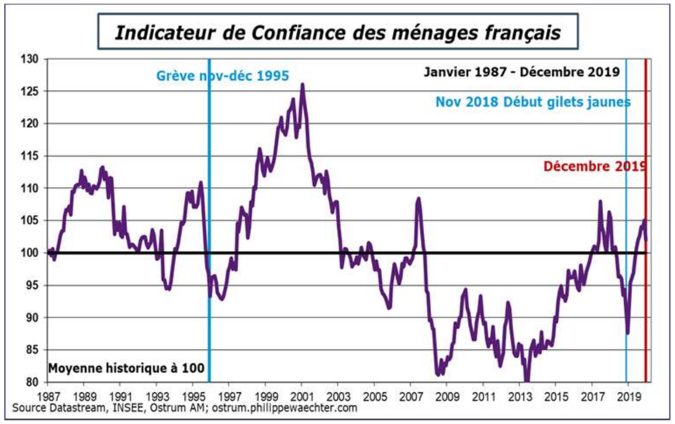
- **Industrial production indices was up in November in France, Italy and Spain with positive surprises for the three countries**

WHAT TO KEEP IN MIND FROM LAST WEEK (JANUARY 6– JANUARY 12)

- **The global activity was up in December in the US and in the Eurozone**
  In December, the global indices for the ISM survey in the US and the Markit survey in the Eurozone were up compared to November. None of them shows the possibility of a recession in the short term. They both have the same characteristics; the manufacturing sector in in recession (47.2 in the US and 46.3 for the Euro Area) but a rebound was seen on the non manufacturing sector. Nevertheless, the momentum of both index is limited. The US index is consistent with a 2% growth and the euro area with a 1% growth.
- **The capital goods orders in Germany are consistent with a drop in OECD investment.**
  Capital goods dropped in November. It was down -5.5% on a year. The geographical distribution shows that domestic orders crashed at -7.7% as were non euro orders at -8.6%. It was partially compensated by the 4% growth coming from the Euro Area.
  What bother me is that these orders are closely linked with the OECD corporate investment. We can expect that this companies' investment may drop around 0% at the end of 2019 or the beginning of 2020. This is clearly not a source of impulse for the business cycle.
  The good news for the global business cycle comes from the stability in the oil price. The risk of an oil shock falters and the risk of a weaker consumption profile in coming months appears limited.
- **The oil price was down at 65 dollars versus 69 last week.**
  The escalation of tensions between Iran and the US was more limited than expected at the end of last week. They both realized that an escalation was a mistake. Nevertheless it doesn't mean that risks are over, but the risk of a war is much lower this week.
- **The analysis on the French households' confidence index shows a slight drop but no break. See here**







ADDITIONAL NOTES

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