Ostrum ASSET MANAGEMENT

FUNDING YOUR TOMORROW

Employment in the US – Coming this week (Jan 6-12) and What to keep in mind from last week (Dec 30 – Jan-5)

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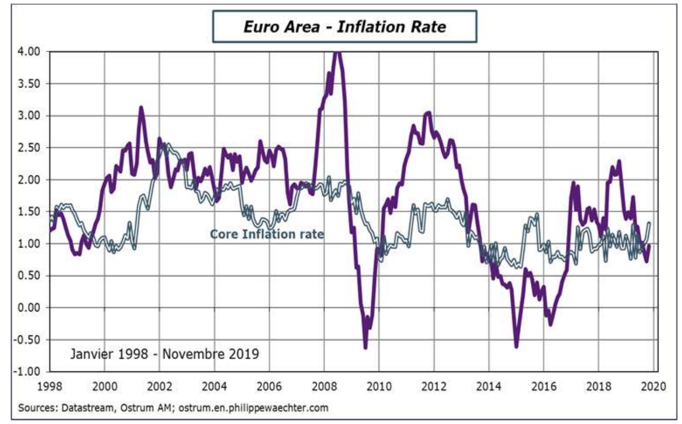
HIGHLIGHTS

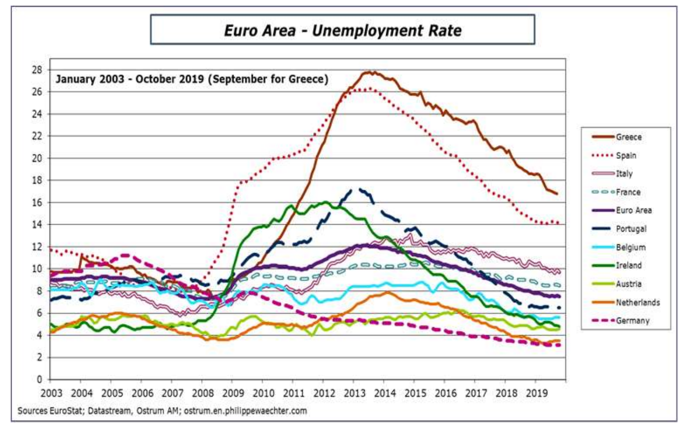
- **Inflation rate in the Euro Area for December (January 7)**
  The inflation rate will be higher in December as the oil price in December this year is much higher than in December 2018. This spike has already been seen in France and in Germany. The French inflation was at 1.4% in December vs 1% in November and it was respectively 1.5% and 1.1% in Germany.
- **The unemployment rate in the Euro Area for November (January 9)**
  The unemployment rate is close to its lowest at 7.5%. Going lower when most of northern countries are at their lowest unemployment rate suppose a boost in growth expectations and much lower unemployment rate in the south of the Euro Area (France, Italy, Spain) which supposes large structural reforms. We do not expect that.
- **Industrial orders (January 8), Industrial production and external trade (Jan.9) in Germany for November**
  Industrial orders to the German industry is a real measure of corporate confidence. Past levels are weak and a rebound is hardly expected.
- **French Households' confidence index for December (Jan. 8)**
  The French economy is enduring a strike since the beginning of last December. Households were very optimistic in November and they were, in majority, fighting the reform on the retirement scheme proposed by the government. Will this continue in December ?
- **The US external trade for November (Jan.7)**
  Since Trump's election, the US external trade doesn't behave as expected despite the White House trade policy. Imports are much higher than expected and exports much lower. The agreement with China will not change the picture.
- **Employment in the US for December (Jan.10)**
  Figures were too strong in November and not consistent with the current economic momentum and the demographic profile of the US population. The Non Farm Payrolls number for December will be lower, probably way below the average of 180 000 job creation seen on average since the beginning of the year.
- **Other statistics**: Markit service survey (Jan.6) and ISM non manufacturing survey (Jan 7), industrial production for France, Italy and Spain for November (Jan 10), retail sales for the Euro Area for November (Jan.7), the Chinese CPI for December with probably a strong impact of the pork price. UK labor productivity for the third quarter (Jan.8)This measure was particularly weak during the second quarter.

NEXT WEEK'S MAIN DATA AND EVENTS PAGE 1

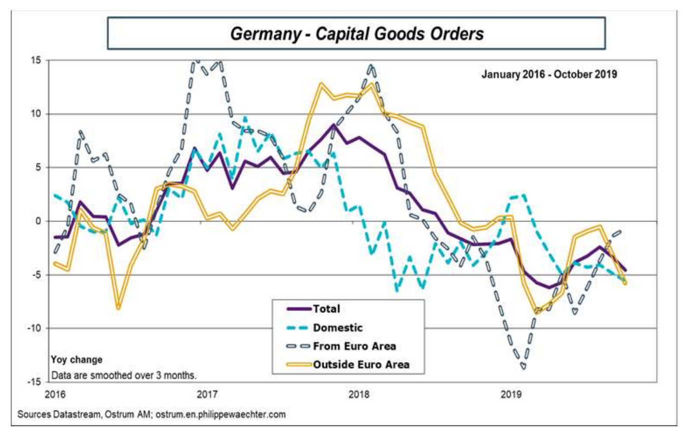
- **Inflation rate in the Euro Area and for Italia for December (January 7)**
  The inflation rate was at 1% in November. It will be higher in December as the oil price is way above its December 2018 level. That was not the case in November in which the oil price was 2.7% below a year ago (in euro). In December this year, due to the dramatic drop at the end of last year, it will be 15.5% above December 2018. At the same time, the core inflation rate will be lower than in November (1.4%). Some seasonal features (on leisure notably) will vanish.
  After Baghdad, the oil price will remain a source of uncertainty. As the graph shows, the volatility of inflation is due to oil price fluctuations. This will continue. The main risk is a long lasting high price which would push the inflation rate way above its current level. This would have a negative impact on households' purchasing power.



- **The unemployment rate in the Euro Area for November (January 9)**
  The unemployment rate at 7.5% in October is close to its historical low (7.3%) seen at the end of 2007. This means that the Euro Area is close to its full employment level. Improvement can still be expected but for Germany, Netherland, Ireland or Austria the current level is already close or below their previous low. Improvement can be expected in France but the Spanish unemployment rate is no longer improving at a level close to 14%. In 2020, the low momentum of the economic activity will not allow a deep improvement in the unemployment rate. If we want to go below the current level structural measures will have to be taken in the South of the Euro Area.



- **Industrial orders (January 8), Industrial production and external trade (Jan.9) in Germany for November**
  Industrial orders do not show, at least until October, a profile that can let expect a rapid recovery. Domestic orders were particularly weak. We look specifically at the capital goods orders as their profile is consistent with capital expenditures in the OECD countries. The current level suggests a drop in companies' investment during the second part of the year in these countries.



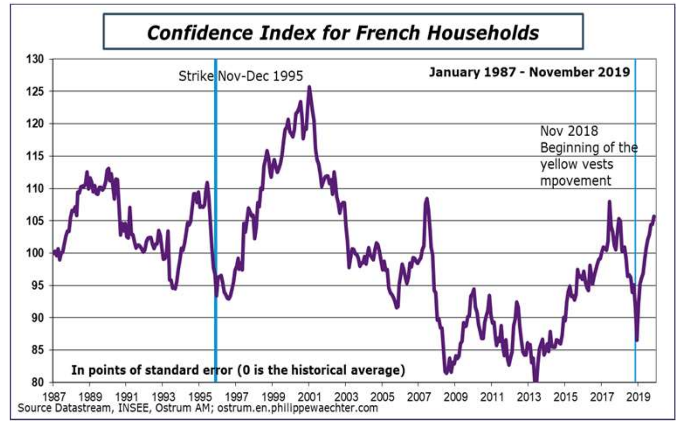
- On January 6 the Markit services surveys will be released. For Japan it will be on the 7th. For the US the ISM non manufacturing will be released the 7th.

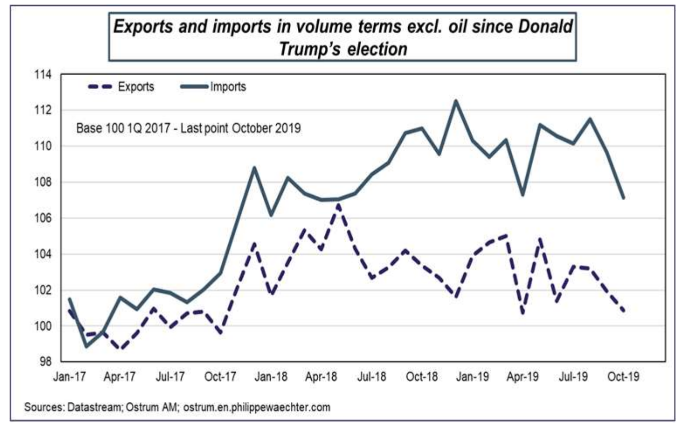
NEXT WEEK'S MAIN DATA AND EVENTS PAGE 2

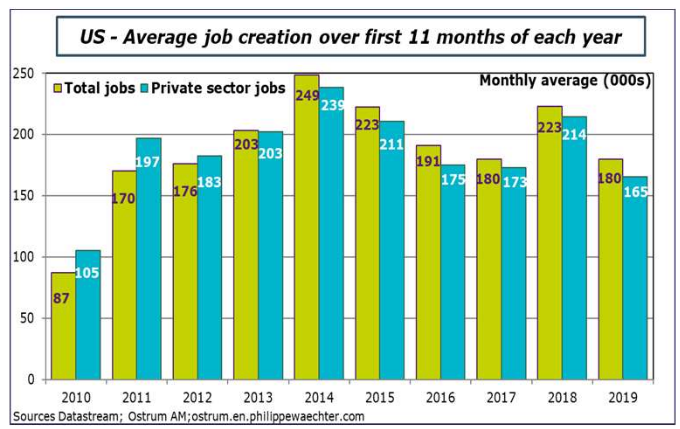
- **French Households' confidence index for December (Jan. 8)**
The current strike in France has started on December the 5th. The railway national network is the main source of problem at the national scale and the metro is the main source of problem in Paris. The strike has a negative impact in Paris as it is hard for people to go to work and to shop during the week-end. Malls' activity has strongly increased during the recent month, notably for Xmas. The macro impact will be limited. The interesting point is that during the last two important social movements (1995 already for retirement scheme and November 2018 with the yellow vests) the French households' confidence index was very low (see the two blue lines). It's currently not the case. In November, people were optimistic on the economic situation in coming month. The December release of this survey will be interesting to measure the how they really support the strike.

- **The US external trade for November (Jan.7)**
The graph on the right is fascinating. The US trade policy has led to lower real exports and higher real imports since Trump's election. It's just a measure showing that the economic model of the White House is not working. The philosophy of the trade policy was that the global economy is a zero sum game. Therefore, the economic policy target was to increase economic activity in the US at the expense of all the other countries. With the repatriation of the economic activity, imports were supposed to drift lower and exports to improve. In fact with the strong fiscal policy that was put in place in 2018, the domestic demand has boosted imports and exports remained in the US to take advantage of this surge in domestic demand. This is inconsistency.
The expected deal with China which is supposed to be signed on January the 15th will not change this situation. It is mainly on agriculture.

- **Employment in the US for December (Jan.10)**
The November figure was particularly strong at 266 000. It was too much and probably the December number will be much lower. The unemployment rate will remain close to 3.5% and no strong improvement is expected on wages.
The labor market is still healthy but the labor component of the ISM for the manufacturing sector is now clearly lower than at the beginning of the year. It was at 54.3 on average during the first 6 months of this year and at 46.4 on average since September. A real source of concern on the labor market.

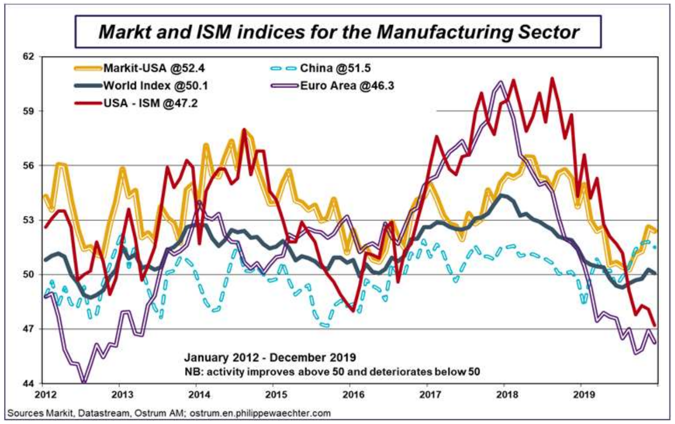


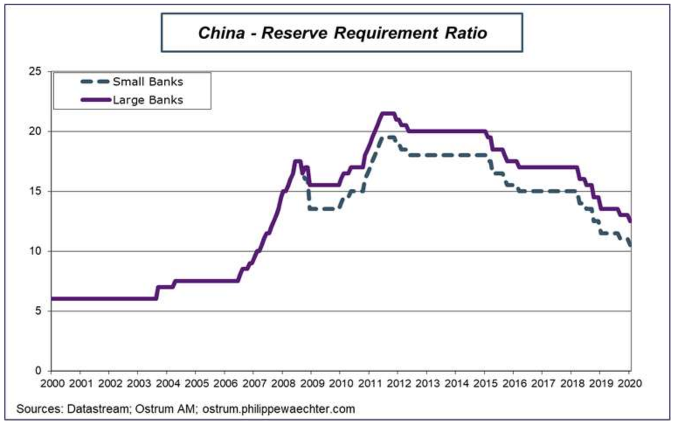


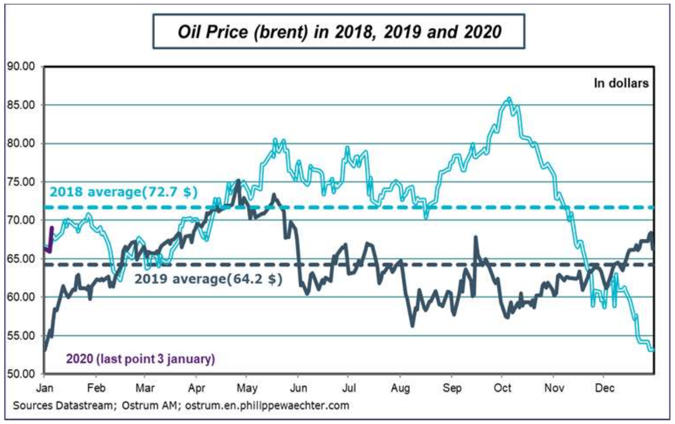


WHAT TO KEEP IN MIND FROM LAST WEEK (DECEMBER 30 – JANUARY 5)

- **The economic momentum is weaker in December**
  The ISM survey for December for the manufacturing sector was particularly weak at 47.2. It was the lowest number since the start of the current business cycle in June 2009. The consequence will be a weak industrial production index in December (already -1.1% lower on a YoY basis in November) and a negative contagion effect on the ISM non manufacturing survey. 2020 will be harder than expected.
  At the world level, the index is back to 50.1 vs 50.3 in November. The global dynamics is limited as the Chinese index (51.5) is marginally lower than in November, the Japanese index at 48.4 is still contracting and the Euro Area is back to a level close to its lowest. In Europe, every country is weaker than in November. The risk of recession in the UK is far from being null.
- **Lower reserve requirement ratio in China**
  In order to boost, loans and to reduce the cost of liquidity, the Chinese central bank has reduced the reserve requirement ratio. The monetary policy is expected to be supportive for growth when forecasts for 2020 are usually lower than 6% for the Chine GDP. The Chinese government doesn't want to take risks on the labor market. A weaker labor market may lead to social unrest. Chinese authorities try to limit these risks.
- **The death of Ghassem Soleimani creates uncertainty on the oil market**
  The uncertainty created by the death of Soleimani last Thursday in Baghdad has already had a impact on the oil market. The price is not high yet but could spike in the case of a war. One consequence would be a loss in households' purchasing power and lower consumption expenditures. The low momentum in corporate investment and the contracting world trade imply that the global growth momentum is very dependent on households expenditures. A higher oil price would reduce consumption and push the global economy into recession.
- **The employment momentum in Germany** is lower compared to the beginning of 2019 (1.1% on a YoY basis during the first 3 months of 2019) and 0.7% during the three available months (end November)
- **The French inflation rate** was at 1.4% in December (Oil price effect) vs 1% in November







ADDITIONAL NOTES

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