

Macro Weekly

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Mixed data

- ▶ **Weak Chinese data suggest trade deal crucial**
- ▶ **Germany escapes another quarter of small contraction**
- ▶ **Further monetary easing postponed**

My colleague Arjen van Dijkhuizen commented on 'hard' Chinese data already: [here](#). Industrial production growth fell back to 4.7% yoy in October, down from 5.8% in September. Retail sales growth fell back to 7.2% yoy from 7.8% and investment in fixed assets was weak: 5.2% yoy, the lowest number on record.

Last week I highlighted that the Caixin manufacturing PMI and the NBS manufacturing PMI are diverging in a most peculiar way. I argued the divergence suggests that the stimulus measures might be working as these measures have been focussed on the private sector. The sample of the Caixin survey includes more private sector firms than the NBS sample does. Of course, the divergence might also just be noise. Whatever the case may be, the hard data released in recent days does not confirm the picture created by the Caixin manufacturing PMI. The weakness in investment spending was driven by the private sector. This is a strange combination: optimism reflected in the Caixin PMI, but weakening investment spending. It could be a matter of a lag but it would seem consistent with optimism being tempered by the uncertainty created by the trade conflict. It shows how badly China needs a resolution to the conflict.

China: industrial production and retail sales growth



Source: Bloomberg

Suppose a phase 1 deal is reached between the US and China. What lies ahead then is still unclear. On the one hand, companies may consider that the Phase 1 deal is limited in scope and that the conflict will linger for years to come. As a

result, investment spending may remain depressed. If that is the case, the global outlook is quite gloomy for an extended period of time. Alternatively, companies may respond with relief to a phase 1 deal and not only would investment spending be resumed, pent-up investment could also come to the market, adding to a meaningful boost to activity in the short term.

Germany grows in Q3

Germany managed a 0.1% qoq growth rate in Q3. The more positive trade data for September, released a week earlier, might have just eked out a positive for the quarter. No details have been released. It remains to be seen what happens next. The German economy is sensitive to world trade growth and investment spending world wide. The trade conflict and the wait-and-see attitude of many companies around the world has therefore also had a negative impact. A phase 1 trade deal between the US and China would, therefore, also be positive for Germany.

The problems in the car industry haven't helped either. German car production has fallen by some 15% in just over a year, reducing GDP by just over 0.5% of GDP. I don't follow this in great detail, but I see commercials on Dutch TV in which Volkswagen announces a whole range of electric cars. Volkswagen will not just need to produce the cars that they sell, they will also want to build up some inventory. A turn in car production could provide the German economy with a much needed and very welcome support.

Analysts are getting more optimistic, according to the ZEW indicators. To what extent these measures follow markets for risky assets isn't clear to me, but it is remarkable that the 'expectations' series for the eurozone ZEW index jumped sharply in November: -1.0, versus -23.5 in October. This could be a sign that the business cycle is starting to bottom out, or at least that the analysts surveyed think so.

Eurozone ZEW confidence index



Source: Bloomberg

Netherlands: GDP growth



Source: Bloomberg

Dutch GDP growth amounted to 0.4% qoq and 1.9% yoy in Q3. The yoy rate was up marginally from Q2 when it was 1.8%. My colleague Nico Klene commented on the numbers [here](#). The composition of the numbers wasn't impressive. Inventories and government consumption were the biggest contributors while international trade had a zero contribution and private consumption and investment spending slowed. The nitrogen crisis has stopped activity in a number of areas and is bound to have a negative impact on the activity data going forward, sadly.

Monetary easing pushed out

We have pushed out further monetary easing we had pencilled in in the US and the eurozone in December. Fed chair Powell appears to be indicating a pause. Given his rhetoric and the slightly better data generally, it would be odd for the

Fed to ease further in December. However, we still believe that a softening of labour market will hit confidence and force the Fed to take out further insurance against a recession by cutting rates in Q1 2020.

The same applies to the eurozone. While the business cycle may be close to the bottom, a meaningful upturn would not appear to be on the horizon. The labour market is a lagging indicator and given recent slowing of growth, labour market conditions are set to deteriorate before they improve again. The ECB is now most likely to pause in December, but to take further stimulus measures early next year.

Main economic/financial forecasts										
GDP growth (%)	2017	2018	2019e	2020e	3M interbank rate	07/11/2019	14/11/2019	+3M	2019e	2020e
United States	2.4	2.9	2.2	1.3	United States	1.90	1.91	1.43	1.43	1.55
Eurozone	2.7	1.9	0.8	0.6	Eurozone	-0.41	-0.40	-0.55	-0.55	-0.55
Japan	1.9	0.8	1.0	0.3	Japan	0.07	0.07	-0.10	-0.10	-0.10
United Kingdom	1.9	1.4	1.2	1.2	United Kingdom	0.80	0.79	0.80	0.80	0.80
China	6.8	6.6	6.2	5.8						
Inflation (%)	2017	2018	2019e	2020e	10Y interest rate	07/11/2019	14/11/2019	+3M	2019e	2020e
United States	2.1	2.4	1.8	2.0	US Treasury	1.92	1.82	1.5	1.50	1.50
Eurozone	1.5	1.7	1.1	0.9	German Bund	-0.25	-0.35	-0.8	-0.80	-0.80
Japan	0.5	0.9	1.1	1.6	Japanese gov. bonds	-0.08	-0.07	-0.1	-0.10	0.00
United Kingdom	2.7	2.5	1.9	1.8	UK gilts	0.79	0.71	0.3	0.30	0.30
China	1.6	2.1	2.5	2.5						
Key policy rate	14/11/2019	+3M	2019e	2020e	Currencies	07/11/2019	14/11/2019	+3M	2019e	2020e
Federal Reserve	1.75	1.50	1.50	1.50	EUR/USD	1.10	1.10	1.12	1.12	1.15
European Central Bank	-0.50	-0.60	-0.60	-0.60	USD/JPY	109.3	108.4	104	104	100
Bank of Japan	-0.10	-0.10	-0.10	-0.10	GBP/USD	1.28	1.29	1.24	1.24	1.30
Bank of England	0.75	0.75	0.75	0.75	EUR/GBP	0.86	0.86	0.90	0.90	0.88
People's Bank of China	4.20	4.10	4.10	3.85	USD/CNY	6.98	7.02	7.20	7.20	7.50

Source: Thomson Reuters Datastream, ABN AMRO Group Economics.

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