Weekly Economic Perspectives

Weekly Highlights

- **Economies:** The Fed delivers a hawkish rate cut. Canadian economy extends gains. The BoE delivers a dovish hold. Growth slows in the eurozone. Japan's labor market remains tight. Australia's inflation revives modestly. (pages 2 – 8)
- **Markets:** A clear risk-off week. Equities retreat broadly on uncertainty over future Fed actions and escalating trade war. Bond yields come in on trade/growth concerns. The dollar strengthens on Fed, the yen strengthens on safe-haven demand. Oil tanks after tariff tweet but gold rallies amid uncertainty. (page 9)

Upcoming Highlights

- **Spotlight:** Service activity should continue to expand in US and the eurozone. Economic growth might stall in the UK and slow sharply in Japan. (page 11)

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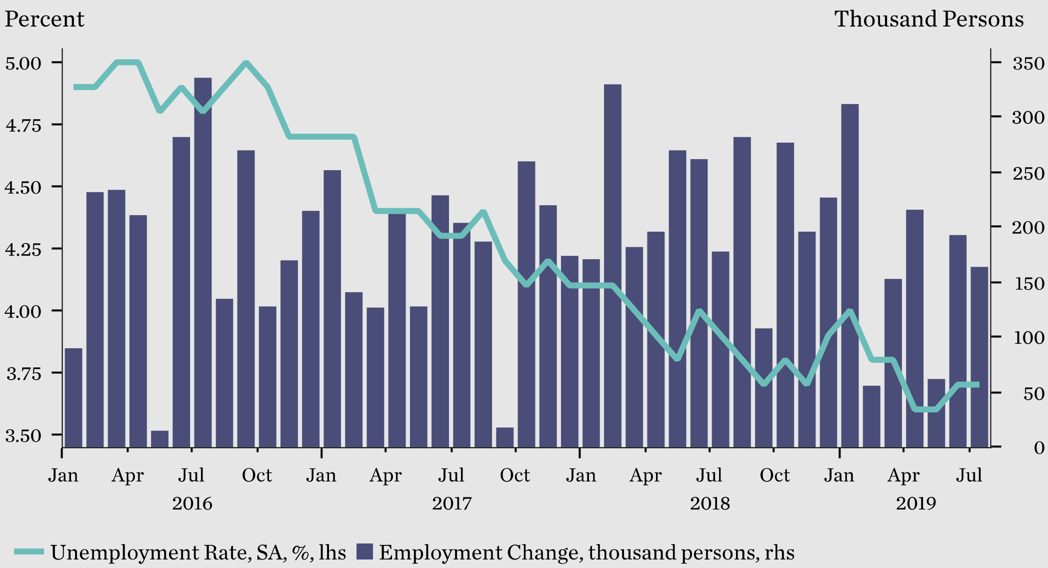
Figure 1: Another Month Of Solid Employment Gains In The US



Sources: U.S. Bureau of Labor Statistics (BLS)

STATE STREET GLOBAL ADVISORS

Week in Review

US

As widely anticipated, the **FOMC** lowered the Fed Funds rate this week by 25 basis points, to 2.00-2.25%, initiating the first easing cycle since 2007. It also brought forward the end of the balance sheet run-off from October to August. Still, while extremely dovish in relation to where the Fed had been just a few short months ago, the combination was perceived as a "hawkish cut" by investors who sent the dollar sharply higher. We agree with their interpretation as the two dissents against the cut made it abundantly clear that there remains a wide range of views among committee members about the severity of the economic slowdown and the wisdom of lowering interest rates in the context of full (or near-full) employment and elevated asset prices. Almost inevitably given the more positive incoming data since the June meeting, the statement language revealed a less acute easing bias going forward, yet that bias remains. "As the Committee contemplates the future path of the target range for the federal funds rate, it will continue to monitor the implications of incoming information for the economic outlook and will act as appropriate to sustain the expansion." One wonders what else could the committee do...but perhaps the benefit of such a bland formulation is that it allows for considerable leeway on policy down the line. Indeed, the usefulness of retaining such flexibility was obvious the very next day when President Trump announced that a new 10% tariff on Chinese imports not yet subject to such levies will take effect September 1.

US manufacturing activity is undeniably slowing. However, unlike most elsewhere around the world, it is still growing. The **ISM manufacturing index** came in weaker than expected in July as employment and output decelerated notably and overwhelmed a modest improvement in new orders. Indeed, the production metric lost 3.3 points to 50.8, employment lost 2.8 to 51.7 and backlogs plunged 4.3 to 43.1. New orders managed a modest 0.8-point improvement to 50.8 but a much stronger rebound is needed to sustain activity in coming months. Given the very latest developments in the trade war, it is doubtful—or at the very least highly questionable—whether such improvement will occur. Inflationary pressures are dimming, with the price component down 2.8 points to 45.1.

Factory orders have lost considerable momentum in recent months, recording three sizable declines since February. They managed a modest 0.6% improvement in June, but that was almost entirely drowned by a big downward revision to the prior month. Moreover, orders are still down 1.2% y/y. The final print on durable goods orders confirmed a solid 1.9% rebound, although this was a tenth less than initially reported. Core orders (non-defense capital goods excluding aircraft)—a leading indicator for business equipment investment (BEI) in the GDP accounts—rose 1.5%, which was solid but not as good as the preliminary 1.9%. Manufacturing shipments increased 0.4% but core shipments only increased 0.3%, half the initial estimate. Inventories rose 0.2%, lowering the inventory-to-shipments ratio to 1.37 months.

Unlike the prior two months, the July **employment report** came in largely as expected. Employment increased by 164,000, just 1,000 short of the consensus estimate. Admittedly, there was a 41,000 downward revision to the prior two months. Private payrolls increased by 148,000 and government added 16,000. Goods producing industries added 15,000 jobs and services added 133,000. Aside from the retail sector, which has been contracting for months, only the information sector lost jobs. Temporary help increased by 2,000.

According to the household report, employment increased by 283,000 while unemployment increased by 87,000, resulting in another big increase (370,000) in the labor force. Indeed, the labor force participation rate ticked 0.1 percentage point higher to 63.0%. This kept the **unemployment rate** unchanged to 3.7%. Positively, the number of people employed part time for economic reasons fell by a sharp 363,000, bringing the decline to 670,000 over the past three months. The underemployment rate eased two tenths to 7.0%, the lowest level since 2000.

The **hours data** were very weak—without a doubt the big disappointment in the report. Indeed, the manufacturing workweek plunged by 18 minutes to 40.4 hours, the least since late 2011. The overall workweek declined six minutes to 34.3 hours, the least since March 2017. The aggregate hours' index—a measure of work effort—declined 0.2%. The manufacturing hours index declined 0.6%, suggesting a bad print for industrial production.

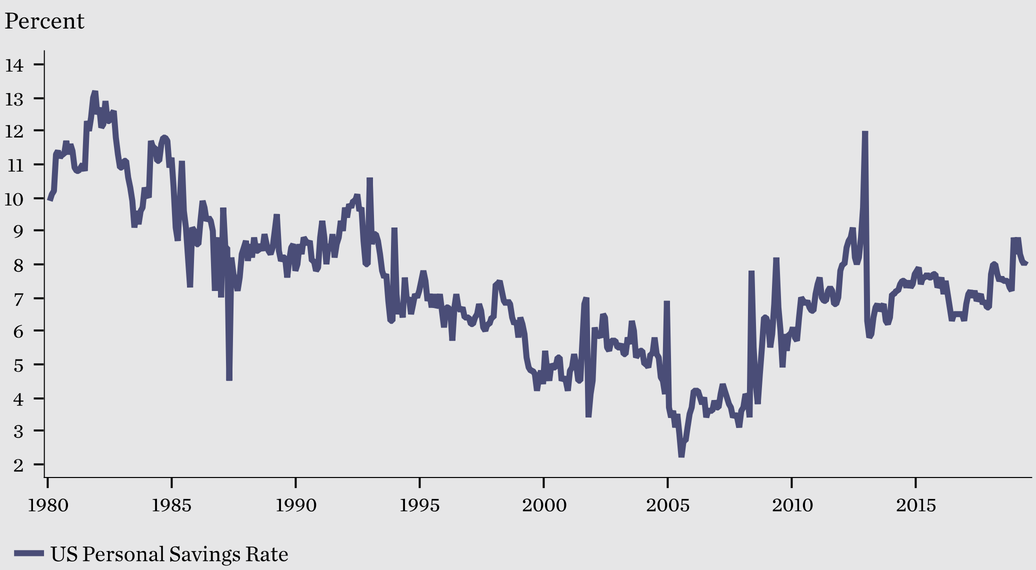
By contrast, the **wage data** were a bit stronger than expected. Total average hourly earnings increased 0.3%, as in June, pushing this measure of wage inflation back up to 3.2% y/y. Average hourly earnings for production and non-supervisory employees—a more homogeneous group—increased 0.2% and kept that measure of wage inflation at 3.3% y/y.

Given the gradual tightening of the labor market, it does not come as a surprise that labor costs have risen noticeably over the last two years. However, labor cost pressures still do not appear acute. The **employment cost index (ECI)** rose 0.6% q/q during the second quarter—a tenth lower than in the first—matching the fourth quarter performance, with gains split evenly across wages/salaries and benefits. Growth in wages and salaries held steady at 0.7% while the benefits growth rate slowed two tenths to 0.5%. Despite the steady gains, overall ECI inflation actually moderated a tenth to 2.7% y/y, having reached a cycle high of 2.9% y/y in the fourth quarter.

Unemployment claims continue to hover at very low levels historically. Admittedly, initial unemployment claims—a measure of job shedding—increased by 8,000 in the week ending July 27, but only to a low 215,000. Continuing claims—a measure of unemployment—increased by 22,000 to 1,699,000 in the week ended July 20.

The US consumer is in great shape. Overall **personal income** is growing at a healthy clip and advanced another 0.4% in June, the fourth consecutive such increase. After a softer May, wage and salaries increased a robust 0.5%. Nominal disposable income also increased 0.4%, whereas real disposable income grew 0.3%—the most since February. **Personal spending** increased 0.3%, as expected, with May's gain revised higher by a tenth to 0.5%. Real spending rose a modest 0.2% during the month, but this follows a string of strong reports recently. Moreover, benchmark revisions to the last five years of significantly lifted personal income estimates, leaving the savings rate at a highly elevated 8.1% and providing abundant cushion for consumers to weather a temporary economic slowdown.

Figure 2: Is The US Personal Savings Rate In New Secular Uptrend?



Sources: U.S. Bureau of Economic Analysis (BEA), U.S. Census Bureau

The **PCE (personal consumption expenditures) deflator** data came in a largely as expected, but downward revisions to the prior months imparted a tinge of softness to the release. Overall PCE prices increased 0.1% while core prices rose 0.2%. The overall PCE deflator was unchanged at 1.4% y/y while the core PCE deflator increased a tenth to 1.6% y/y. However, while the headline numbers remain soft for now, this obscures much better momentum recently. For instance, the unrounded monthly gain in core PCE prices was the highest since 2017.

Last month, we speculated that the timing of the survey (at the height of concerns about impending Mexican tariffs, subsequently avoided) skewed the **Conference Board consumer confidence index** lower. This months' update suggests that may have been the case to an even larger degree than we initially suspected. Indeed, having fallen 7.0 points in June, the headline index surged 11.4 in July, taking it to an eight-month high of 135.7 and just a tad below the 2018 highs. The present situation metric more than retraced June's decline while the expectations component made up the June losses twice over. Importantly, the labor differential—which measures the difference between those who think jobs are abundant and those who think jobs are scarce—also made a full recovery to settle at a very elevated 33.4 points.

The final read on the **University of Michigan consumer confidence index** for July confirmed the initial estimate of a 0.2-point improvement to 98.4 points. The details were incrementally worse as the decline in the present situation metric was a touch larger, offset by a similarly larger improvement in the expectations component. Inflation expectations over the next year retreated a tenth to 2.6% (as previously estimated), while expectations over the 5-10 year horizon rose two tenths to 2.5% (a tenth less than previously estimated). Lately, there has been an odd zig-zagging of the latter between 2.3% and 2.6% readings that form the lower and upper range of the past year.

Motor vehicle sales were flat in 2018 and have been quite choppy so far this year. After rebounding in May-June, they moderated again in July to a 16.823 million (annualized) rate. The pullback was largely as expected and suggests a softer print for retail sales in July following two robust months. Vehicle sales eased marginally (0.4%) from a year earlier, having declined 1.5% y/y, on average during the first seven months of 2019.

After a disappointing few months, **pending home sales** (transactions of previously owned homes on which sellers have agreed a contract but are yet to close) jumped 2.8% in June. Sales increased in all four regions, with a notable 5.4% rebound in the West, where activity had been particularly weak during the prior two months. Sales were incrementally (-0.6%) lower y/y, but compared to declines averaging 5.6% y/y from October to March, this is a notable improvement.

Home price inflation is slowing by all measures but the intensity of the deceleration seems to be easing. The **Case-Shiller 20-City composite price index** inched up 0.1% in May on mixed regional performances, causing this measure of home price inflation to slow one tenth to 2.4% y/y. Admittedly, this is the lowest level since August 2012 but the pace of deceleration has slowed markedly compared to several months ago, suggesting a bottoming out process may be afoot. If so, we would link this directly to the big retreat in mortgage rates as that allows buyers to accommodate a higher purchase price.

Canada

After expanding 0.5% in March, the most since November 2017—real **GDP** grew 0.2% in May, slightly above consensus. Goods producing industries increased output by 0.6%, mainly due to strength in manufacturing which rose 1.2%, adding 0.13 percentage points to growth. Manufacturing of durables and non-durables reversed roles from April, as durables rebounded 2.3%, while non-durables contracted 0.1%. Construction (0.9%) and agriculture (0.7%) also contributed positively. Services were however a little weak, growing by just 0.1%. A 1.4% fall in wholesale trade was offset by a 1.0% rise in transportation services. Overall GDP grew 1.4% y/y in May, down two tenths from April.

UK

In contrast to the Fed, the **Bank of England** (BoE) delivered a "dovish hold" this week. Admittedly, the Monetary Policy Committee (MPC) voted unanimously to leave the Bank Rate unchanged at 0.75% but the accompanying statement emphasized not only the uncertainty surrounding newly released forecasts but also an inherent inconsistency in the construction of those forecasts (that concomitantly assumer a smooth Brexit and interest rate levels that are derived from financial markets assuming a less benign scenario). As such, while the expectation of eventual policy tightening has been retained, it appears that this is now subject to more conditionality than in prior months. "Assuming a smooth Brexit and some recovery in global growth, a significant margin of excess demand is likely to build in the medium term. Were that to occur, the Committee judges that increases in interest rates, at a gradual pace and to a limited extent, would be appropriate to return inflation sustainably to the 2% target." We think the cautious language is warranted as the full percentage point acceleration in GDP growth from 2020 to 2021 in the new forecasts seems somewhat unconvincing. Still, we concur with the MPC's judgement that "the current stance of monetary policy is appropriate" for now.

As most everywhere around the world, manufacturing is struggling under the weight of Brexit and global trade tensions. The **purchasing managers' index (PMI) for manufacturing** was unchanged in contraction territory at 48.0 points in July as intensifying declines in employment (down 2.0 to 47.7) offset a mild improvement in new orders (up 0.6 point, but only to 46.9). Export orders were little changed, but also still in contraction. Inflation signals were mixed as input prices continue to rise whereas output prices contracted for the second consecutive month.

Consumers can hardly be blamed for being in a bleak mood amid the country's never-ending political drama. Admittedly, the **GfK index of consumer confidence** moved up two points in July, but only to a weak -11. There was little change in consumers' views about the broader economic situation (or expectations thereof) but expectations of personal finances took a meaningful step higher, as did buying intentions.

Mortgage approvals have been trending sideways for the past year and a half. Admittedly, the number of mortgage approvals inched up 1.2% to 66,400 in June, putting it close to the top of the recent range. But we do not anticipate any significant pick-up in activity since the broader economic weakness and Brexit related uncertainties are major headwinds.

Eurozone

As well signaled by high frequency data, ***eurozone*** **GDP growth** slowed markedly in the second quarter. Having advanced 0.4% in Q1 (and within a hair-breadth of rounding up to 0.5%), growth slowed to 0.2% in the Q2, leaving seasonally and workday-adjusted GPD up a modest 1.1% y/y. No sector details are available with the preliminary release, but the slowdown was evident across all key economies. In ***France***, growth slowed by a tenth to 0.2% q/q, lifting seasonally and workday-adjusted GPD growth by a tenth to 1.3% y/y. Preliminary estimates of German GDP will not be available until the middle of the month but they are expected to show an even sharper deceleration than in France.

The ***Italian*** economy exited a shallow technical recession with a 0.1% growth in the first quarter but there were concerns that another might be looming. Indeed, consensus expectations had been for an incremental 0.1% contraction in the second quarter. In the event, preliminary estimates suggest zero **GDP growth** during the period. Seasonally and workday adjusted GDP was also flat y/y, having contracted 0.1% y/y during the first quarter. No sector details are provided with the preliminary estimate.

After disappointing in April and May, ***German*** **real retail sales** (excluding cars) rebounded handsomely in June. Sales surged 3.5%—the most since 2006—pointing to a sharp rebound in consumer spending and, potentially, broader economic growth as we approach the third quarter. Admittedly, the positivity of this update was somewhat dampened by a sizable downward revision to May data, now showing a larger 1.7% decline compared with the 0.6% originally reported. Still, the news was very encouraging on balance. Seasonally and workday adjusted sales increased 3.7% y/y in June, the most since February and, prior to that, April of 2018.

Consumer spending remains well supported by the strong labor market. After a methodology-impacted wobble in May, the German labor market is once again returning impressive statistics. Employment increased by 8,000 to a new record in July, marking the 55th consecutive month of improvement. The number of unemployed, which surged in May due to an adjustment/correction to earlier estimates, was unchanged for the second consecutive month. The unemployment rate was unchanged at 5.0%, which is an extremely low level. The seasonally unadjusted rate (which garners more attention domestically) edged up a tenth, but only to 5.0%, which is the lowest level of any July in the twenty seven year history of the series.

The GfK index of ***German*** **consumer confidence** remains historically elevated but has been unmistakably eroding of late as the manufacturing sector's wows are sapping sentiment. After a sizable 0.3 point retreat in July, it lost another 0.1 point in August to 9.7, the lowest level since April 2017.

***Italian* industrial production** remains under pressure. It declined 0.2% in June and performance would have been even worse if not for a 2.9% gain in utilities. Manufacturing fell 0.4% while mining production plunged 5.4%. Workday-adjusted industrial production is still down 1.2% y/y.

The slow healing of ***Italy***'s labor market was interrupted in late 2018 but has since resumed. The **unemployment rate** retreated one tenth to 9.7% in June as a small decline in employment was accompanied by a much larger drop in the number of unemployed. The unemployment rate is now the lowest since January 2012.

***Italian* retail sales** remain under pressure. Admittedly, after contracting 0.7% in May, nominal sales rebounded 1.9% in June, settling 1.3% higher than a year earlier. Real sales advanced 2.0% during the month and 1.5% on the year. E-commerce is making inroads even in Italy, where the adoption of online retailing has lagged other developed market peers. E-commerce sales rose 15.4% y/y in June.

Japan

The July monetary policy statement from the **Bank of Japan** (BoJ) was business as usual, as the Bank pledged to maintain the current accommodative monetary policy "for an extended period of time at least through around spring 2020, taking into account uncertainties regarding economic activity and prices including developments in overseas economies and the effects of the scheduled consumption tax hike". Inflation remains benign, with wage growth actually negative, and calls for additional easing are getting stronger. The BoJ does not seem averse to the idea, noting they "will not hesitate to take additional easing measures if there is a greater possibility that the momentum toward achieving the price stability target will be lost." The Bank revised its forecasts for both growth and inflation slightly downward in the quarterly Outlook publication, citing developments in overseas economies which pose downside risks to domestic activity. With the Fed poised to cut rates again, we can expect the yield gap between the US and Japan to narrow further amid risk-off sentiment. If the BoJ is slow to react, it will likely cause a JPY appreciation, with negative implications for growth and inflation.

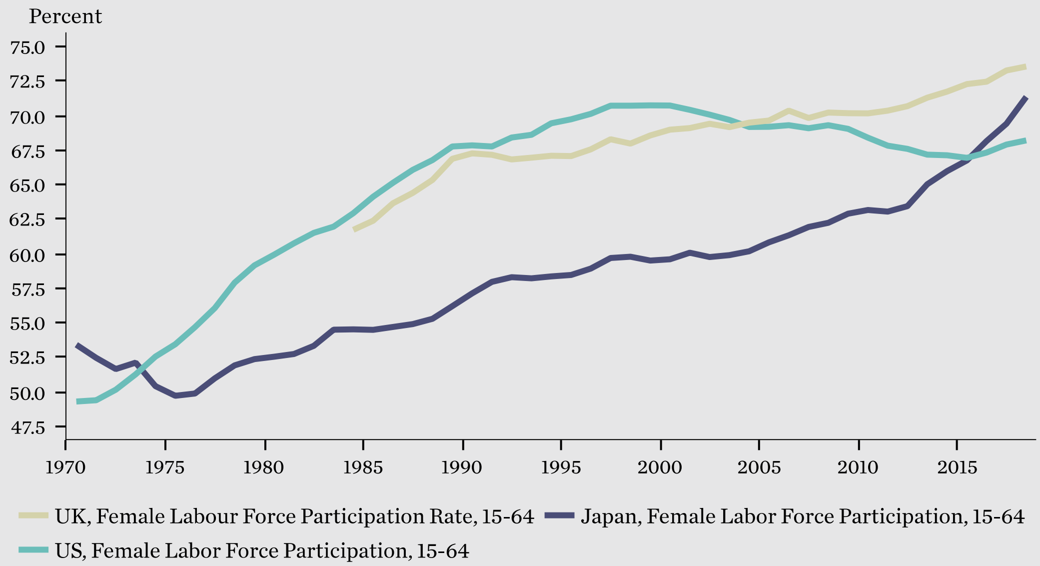
Retail sales have been trending gently higher after the 1.8% drop at the start of the year. Admittedly, sales were unchanged in June, higher than consensus, and after the previous month's reading were revised slightly upward to 0.4%. Sales for motor vehicles (-3.2%) and household machines (-2.1%) gave up gains recorded over the previous month, while fuel sales fell (-1.6%) for the second consecutive month. These were offset by increase in sales of general merchandise (1.3%) and apparels (1.5%). Sales in both department stores and supermarkets rose, by 2.4% and 0.5% respectively.

After a modest rise in April, the preliminary report for April showed a greater-than-anticipated drop in **industrial production**. The index has been trending down sharply since October, and fell a further 3.6% in June. The main detractors were motor vehicles which slumped 8.8%, production machinery which fell 6.9% and electronic parts which was down 4.7%. Despite the disappointing report, the Ministry of Economy, Trade and Industry (METI) expects production to be revised up to 2.7% in the final print, while August to see a modest 0.6% increase. Shipments declined 3.3% while the shipment-to-inventory ratio increased by 2.8%. Output declined 4.1% y/y, the fifth consecutive decline.

Industrial production has been pretty erratic of late and indications are for continued declines in manufacturing activity. The final **purchasing managers' index (PMI) for manufacturing** was revised down 0.2 points from the preliminary reading to 49.4 in July, the fifth month of contraction in the past six. According to IHS Markit, the "latest manufacturing PMI data did little to suggest that the worst has passed for the global goods-producing sector. Japanese manufacturers cut output for the seventh consecutive month amid soft demand from domestic and overseas clients. While slowing global growth in key export markets such as China and spillover effects from global trade spats remain a principal concern to companies, the risk now of Japan-South Korea relations deteriorating further merely adds to the already-strong headwinds."

Japan's labor market remains as tight as ever. The **unemployment rate** moderated 0.1 percentage point to 2.3% in June, the lowest in four months. This was despite the participation rate rising 0.1 percentage points (ppts) to 62.3%, as female participation climbed to a record high of 53.5% (+0.2 ppts from May). More jobs were on offer for women, as the female unemployment rate fell 0.2 ppts to 2.0%, the lowest level since February 1991, while the unemployment rate for men actually increased by 0.1 ppts to 2.6%. The integration of more women into the labor force has been one of the success stories of Abenomics, but it also highlights the labor shortage due to change in demographics. The mix was healthy, as the number of people employed increased by 70,000 while unemployed people fell by 10,000. The jobs-to-applicant ratio—a measure of labor market tightness—fell to 1.61 from 1.62, the second consecutive fall. Number of new jobs available per applicant also fell by 0.07 to 2.36. These statistics suggest that the labor market does not have much room to tighten further, and should ideally lead to rising wages. Unfortunately uncertain global scenario is more likely than not to impact the labor market in a negative way, insufficient to drive wage growth any higher.

Figure 3. Japanese Female Labor Force Participation Has Picked Up



Sources: OECD (Organisation for Economic Co-operation & Development)

Australia

Consumer price inflation (CPI) for the second quarter did not disappoint, with core measures in line with expectations and the headline slightly above consensus. Headline consumer prices rose 0.6% in Q2, mainly due to a 10.2% spike in fuel prices. International travel also increased by 2.7%, while tobacco prices rose by 2.4%. These were offset by falling food (-2.8%) and electricity (-1.7%) prices. Encouragingly, the two measures of underlying inflation—the weighted median and trimmed mean—both came in at 0.4%. CPI inflation accelerated 0.3 percentage points (pps) to 1.6% y/y, while the weighted median slowed 0.2 pps to 1.2%, and the trimmed mean was unchanged at 1.6%. Though down marginally post the release, market probability of additional cuts by the end of this year is overwhelmingly high. Governor Lowe's speech last week suggested the RBA will be watching incoming data closely and will act if required. A rate cut may not be guaranteed just yet, given the recovery in fuel prices and the still-tight labor market, but it is indeed getting harder for the RBA to maintain the credibility in its inflation forecasts.

Despite the housing boom, credit growth never quite recovered to pre-2008 levels, and has been especially weak since the second half of 2018. **Private sector credit** rose 0.1% for the third consecutive month in June. Credit for owner occupied housing was modest, rising 0.2%, while that for other personal uses declined 0.2%, completing a full year of decline. Credit for investor housing was flat, where it has been since January. Business lending fell 0.1%. Overall credit growth slowed to 3.3% y/y, the lowest since September 2013. A recovery in housing credit will be essential for private sector credit growth to pick up.

Retail sales rose 0.4% in June, a bit better than expected. Sales were driven by apparels, which grew by 2.0%, and higher sales at restaurants (0.5%) and "other" retailing (0.6%). This translated into a 0.6% growth in sales for the second quarter. However, much of the increase was due to price growth as volume of sales rose by just 0.2%. Annual volume growth came in at 0.2% y/y, the lowest since June 1991. A lower interest rate environment and tax cuts by the government should boost sales in the second half of the year.

Financial Markets Review

Having been driven sharply lower in late-May early June amid intense worries about threatened tariffs on Mexican imports, oil prices have since managed a decent (if uneven) recovery. This week, however, they were whipsawed again by the announcement that a 10% tariffs on $300 billion worth of Chinese imports will take effect on September 1.

Figure 4: Another Trade War Related Plunge In Oil Prices

Sources: Bloomberg

Equities: Risk-off week as equities retreat globally on uncertainty over future Fed actions and new tariff threat.

Bonds: Bond yields narrow again on global growth and trade war concerns.

Currencies: The dollar strengthens on Fed, the yen strengthens on safe-haven demand.

Commodities: Oil plunges after tariff threat, but gold continues to shine.

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Stock Markets					10 Year Bond Yields			Currencies		
Country	Exchange	Last	%Ch Week	%Ch YTD	Last	BP Ch Week	BP Ch YTD	Last	%Ch Week	%Ch YTD
US	S&P 500®	2936.41	-3.0%	17.1%	1.87	-20	-82	98.222	0.2%	2.1%
Canada	TSE 300	16354.92	-1.1%	14.2%	1.38	-9	-59	1.3253	0.7%	-2.8%
UK	FTSE®	7426.9	-1.6%	10.4%	0.57	-12	-71	1.2138	-2.0%	-4.8%
Germany	DAX	11912.56	-4.1%	12.8%	-0.48	-11	-73			
France	CAC-40	5390.89	-3.9%	14.0%	-0.22	-10	-93	1.1099	-0.3%	-3.2%
Italy	FTSE® MIB	21204.92	-2.9%	15.7%	1.54	-3	-120			
Japan	Nikkei 225	21087.16	-2.6%	5.4%	-0.16	-2	-17	106.68	-1.8%	-2.7%
Australia	ASX 200	6768.571	-0.4%	19.9%	1.09	-14	-123	0.6786	-1.8%	-3.7%

Commodity Markets						
Commodity	Unit	Source	Last Price	%Ch Week	%Ch YTD	%Ch Yr Ago
Oil (Brent)	US$/Barrel	Bloomberg	62.42	-0.7%	17.4%	-14.1%
Gold	US$/troy oz	Bloomberg	1443.92	1.8%	12.6%	19.5%

Source: Bloomberg®

Week in Review: Data Releases and Major Events (July 29 – August 2)

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, July 29					
JN	Retail Sales (Jun, m/m)	-0.3%	**0.0%**	0.4%(↑r)	Sales disappointed in June.
Tuesday, July 30					
US	Personal Income (Jun, m/m)	0.4%	**0.4%**	0.4%(↓r)	Wage and salaries up 0.5%.
US	Personal Spending (Jun, m/m)	0.3%	**0.2%**	0.4%	Consumers are in great shape!
US	S&P CoreLogic 20-City Index (May, m/m)	0.2%	**0.1%**	0.0%	Up 2.4% y/y, least since August 2012.
US	Pending Home Sales (Jun, m/m)	0.5%	**2.8%**	1.1%	Lower mortgage rates help!
US	Consumer Confidence (Jul)	125	**135.7**	121.5	Impressive rebound!
GE	GfK Consumer Confidence (Aug)	9.7	**9.7**	9.8	Eroding, but still historically elevated.
FR	GDP (Q2, prelim, q/q)	0.3%	**0.2%**	0.3%	Modest.
JN	BoJ Monetary Policy Decision	-0.10%	**-0.1%**	-0.10%	Further easing on the horizon?
JN	Unemployment Rate (Jun)	2.4%	**2.3%**	2.4%	Labor market conditions remain tight.
JN	Industrial Production (Jun, prelim, m/m)	-1.7%	**-3.6%**	2.0%	Worrying!
Wednesday, July 31					
US	FOMC Monetary Policy Decision	2.25%	**2.25%**	2.50%	A hawkish cut.
US	Employment Cost Index (Q2, q/q)	0.7%	**0.6%**	0.7%	Solid and steady.
CA	GDP (May, m/m)	0.1%	**0.2%**	0.3%	Led by a rebound in manufacturing.
UK	GfK Consumer Confidence (Jul)	-13	**-11**	-13	Weak; personal finance views improved.
EC	GDP (Q2, prelim, q/q)	0.2%	**0.2%**	0.4%	Well-anticipated deceleration.
GE	Unemployment Rate (Jul)	5.0%	**5.0%**	5.0%	Labor market remains solid.
GE	Retail Sales (Jun, m/m)	0.5%	**3.5%**	-1.7%(↓r)	Much needed and welcome rebound!
IT	Unemployment Rate (Jun, prelim)	10.0%	**9.7%**	9.8%(↓r)	Lowest since January 2012.
IT	GDP (Q2, prelim, q/q)	-0.1%	**0.0%**	0.1%	Bad, but not as bad as feared.
AU	CPI (Q2, q/q)	0.5%	**0.6%**	0.0%	Higher, but mostly due to fuel prices.
AU	Private Sector Credit (Jun, m/m)	0.3%	**0.1%**	0.2%	Slow.
Thursday, August 1					
US	Initial Jobless Claims (Jul 27, thous)	214	**215**	207(↑r)	Very low historically.
US	ISM Manufacturing (Jul)	52.0	**51.2**	51.7	Soft.
UK	BoE Monetary Policy Decision	0.75%	**0.75%**	0.75%	Somewhat dovish hold.
UK	PMI Manufacturing (Jul)	47.6	**48.0**	48.0	Weak.
EC	PMI Manufacturing (Jul, final)	46.4(p)	**46.5**	47.6	Dismal!
GE	PMI Manufacturing (Jul, final)	43.1(p)	**43.2**	45.0	Depressing!
FR	PMI Manufacturing (Jul, final)	50.0(p)	**49.7**	51.9	Weak.
IT	PMI Manufacturing (Jul)	48.1	**48.5**	48.4	Weak.
JN	PMI Manufacturing (Jul, final)	49.6(p)	**49.4**	49.3	Tough quarter ahead for manufacturing.
Friday, August 2					
US	Total Vehicle Sales (Jul, thous)	16.9	**16.8**	17.3	Decent.
US	Change in Nonfarm Payrolls (Jul, thous)	165	**164**	193(↓r)	Largely in line despite revisions.
US	Unemployment Rate (Jul)	3.7%	**3.7%**	3.7%	Participation rate ticked up a tenth.
US	Factory Orders (Jun, m/m)	0.7%	**1.9%**	-1.3%(↓r)	Still under pressure.
US	U of M Consumer Sentiment (Jul, final)	98.4(p)	**98.4**	98.2	Some pick-up in inflation expectations.
IT	Industrial Production (Jun, m/m)	na	**-0.2%**	1.0%(↑r)	Down 1.2% y/y.
AU	Retail Sales (Jun, m/m)	0.3%	**0.4%**	0.1%	Gets better from here.

Source: for data, Bloomberg®; for commentary, SSGA Economics

Week in Preview: Releases and Major Events (August 5–August 9)

Country	Release (Date, format)	Consensus	Last	Comments
Monday, August 5				
US	ISM Non-Manufacturing (Jul)	55.5	55.1	We need this to hold and chances are it will.
UK	PMI Services (Jul)	50.2	50.2	
EC	PMI Services (Jul, final)	53.3(p)	53.6	We need this to hold.
GE	PMI Services (Jul, final)	55.4(p)	55.8	We need this to hold.
JN	PMI Services (Jul, final)	52.3(p)	51.9	Heading for a fourth straight fall.
Tuesday, August 6				
US	JOLTS Job Openings (Jun, thous)	na	7323	
GE	Factory Orders (Jun, m/m)	0.5%	-2.2%	
JN	Labor Cash Earnings (Jun, y/y)	-0.8%	-0.5%(↓r)	Woefully low.
AU	RBA Monetary Policy Decision	1.00%	1.00%	Hold with one eye on the labor market.
Wednesday, August 7				
US	Consumer Credit (Jun, $ bil.)	17.0	17.1	
CA	Ivey PMI (Jul)	na	52.4	
UK	Halifax House Prices (Jul, m/m)	0.3%	-0.3%	
GE	Industrial Production (Jun, m/m)	-0.6%	0.3%	Disappointing but not shocking given PMIs.
Thursday, August 8				
US	Initial Jobless claims (Aug 3, thous)	na	215	
CA	New Housing Price Index (Jun, m/m)	na	-0.1%	
FR	Bank of France Ind. Sentiment (Jul)	96	95	
Friday, August 9				
US	PPI Final Demand (Jul, y/y)	1.7%	1.7%	
CA	Unemployment Rate (Jul)	na	5.5%	Decent growth to put downward pressure on slack.
CA	Housing Starts (Jul, thous)	na	245.7	
CA	Building Permits (Jun, m/m)	na	-13.0%	
UK	GDP (Q2, prelim, q/q)	0.0%	0.5%	Big deceleration!
UK	Industrial Production (Jun, m/m)	-0.2%	1.4%	
FR	Industrial Production (Jun, m/m)	-1.8%	2.1%	
FR	Wages (Q2, prelim, q/q)	0.5%	0.8%	
JN	GDP (Q2, prelim, q/q)	0.1%	0.6%	Pretty gloomy.

Source: for data, Bloomberg®; for commentary, SSGA Economics

Economic Indicators

Central Bank Policy Targets

		Year/Year % Change in Target				
		Feb	Mar	Apr	May	Jun
US	Target: PCE price index 2.0% y/y	1.3	1.4	1.5	1.4	1.4
Canada	Target: CPI 2.0% y/y, 1.0%-3.0% control range	1.5	1.9	2.0	2.4	2.0
UK	Target: CPI 2.0% y/y	1.9	1.9	2.1	2.0	2.0
Eurozone	Target: CPI below but close to 2.0% y/y	1.5	1.4	1.7	1.2	1.3
Japan	Target: CPI 2.0% y/y	0.2	0.5	0.9	0.7	0.7
Australia	Target Range: CPI 2.0%-3.0% y/y	1.3	1.3	1.6	1.6	1.6

Source: Macrobond

Key Interest Rates

	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	####	Jun-19	Jul-19
US (top of target range)	2.25	2.25	2.25	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Canada (Overnight Rate)	1.50	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
UK (Bank Rate)	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Eurozone (Refi)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Japan (OCR)	-0.06	-0.07	-0.06	-0.06	-0.06	-0.05	-0.06	-0.07	-0.06	-0.08	-0.07
Australia (OCR)	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.28	1.02

Source: Macrobond

General Government Structural Balance as a % of Potential GDP

									Forecast	
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
US	-9.3	-7.9	-6.1	-4.0	-3.4	-3.2	-3.9	-4.0	-4.7	-5.2
Canada	-3.8	-3.1	-1.9	-0.9	0.3	0.9	0.8	0.1	-0.2	-0.4
UK	-7.2	-5.9	-5.9	-3.9	-4.6	-3.9	-2.8	-1.9	-1.4	-1.2
Eurozone	-4.8	-3.9	-2.2	-1.3	-1.0	-0.9	-0.8	-0.7	-0.7	-0.9
Germany	-2.4	-1.4	-0.1	0.2	0.9	0.8	1.0	0.9	1.3	0.7
France	-6.2	-5.2	-4.5	-3.5	-3.3	-3.0	-2.8	-2.6	-2.5	-2.5
Italy	-3.7	-4.1	-1.5	-0.6	-1.1	-0.7	-1.4	-1.6	-1.7	-2.1
Japan	-8.0	-8.0	-7.6	-7.5	-5.5	-4.3	-4.1	-3.4	-3.1	-2.8
Australia	-4.9	-4.2	-3.3	-2.6	-2.5	-2.4	-2.2	-1.2	-1.0	-1.2

Source: International Monetary Fund, World Economic Outlook

Headline Consumer and Producer Price Inflation

	CPI Year/Year % Change					PPI Year/Year % Change				
	Mar	Apr	May	Jun	Jul	Feb	Mar	Apr	May	Jun
US	1.9	2.0	1.8	1.6		1.9	2.2	2.2	1.8	1.7
Canada	1.9	2.0	2.4	2.0		1.1	1.5	1.7	0.4	-1.7
UK	1.9	2.1	2.0	2.0		2.4	2.2	2.1	1.9	1.6
Eurozone	1.4	1.7	1.2	1.3		3.0	2.9	2.6	1.6	0.7
Germany	1.3	2.0	1.4	1.6	1.7	2.6	2.4	2.5	1.9	1.2
France	1.1	1.3	0.9	1.2	1.1	1.8	1.7	1.9	1.0	0.0
Italy	1.0	1.1	0.8	0.7	0.5	3.1	2.9	2.1	1.5	0.9
Japan	0.5	0.9	0.7	0.7		0.9	1.3	1.2	0.6	-0.1
Australia	1.3	1.6	1.6	1.6		1.9	1.9	2.0	2.0	2.0

Source: Macrobond

Economic Indicators

Real GDP Growth (Q/Q Seasonally Adjusted)

	Quarter/Quarter % Change					Year/Year % Change				
	Q2-18	Q3-18	Q4-18	Q1-19	Q2-19	Q2-18	Q3-18	Q4-18	Q1-19	Q2-19
US	0.9	0.7	0.3	0.8	0.5	3.2	3.1	2.5	2.7	2.3
Canada	0.6	0.5	0.1	0.1		1.8	2.0	1.6	1.3	
UK	0.4	0.7	0.2	0.5		1.4	1.6	1.4	1.8	
Eurozone	0.4	0.2	0.2	0.4	0.2	2.2	1.7	1.2	1.2	1.1
Germany	0.5	-0.2	0.0	0.4		2.0	1.2	0.6	0.7	
France	0.2	0.3	0.4	0.3	0.2	1.9	1.5	1.1	1.2	1.3
Italy	0.0	-0.1	-0.1	0.1	0.0	1.0	0.5	0.0	-0.1	0.0
Japan	0.6	-0.6	0.5	0.6		1.4	0.1	0.3	0.9	
Australia	0.9	0.3	0.2	0.4		3.1	2.8	2.4	1.8	

Source: Macrobond

Industrial Production Index (M/M Seasonally Adjusted)

	Month/Month % Change					Year/Year % Change				
	Feb	Mar	Apr	May	Jun	Feb	Mar	Apr	May	Jun
US	-0.5	0.1	-0.5	0.4	0.0	2.8	2.3	0.9	2.1	1.3
Canada	-1.0	1.9	1.5	0.4		-0.7	0.1	2.4	2.5	
UK	0.3	1.4	-2.9	1.4		-0.2	1.4	-1.2	0.9	
Germany	0.4	0.4	-2.0	0.3		0.1	-0.8	-2.3	-3.7	
France	0.3	-1.3	0.5	2.1		0.7	-0.8	1.1	4.0	
Italy	0.7	-1.0	-0.8	1.0	-0.2	0.7	-1.7	-1.4	-0.7	-1.2
Japan	0.7	-0.6	0.6	2.0	-3.6	-1.2	-2.8	-1.6	0.1	-2.5

Source: Macrobond

Unemployment Rate (Seasonally Adjusted)

	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	####	Jun-19	Jul-19
US	3.7	3.8	3.7	3.9	4.0	3.8	3.8	3.6	3.6	3.7	3.7
Canada	5.8	5.7	5.6	5.6	5.8	5.8	5.8	5.7	5.4	5.5	
UK	4.1	4.0	4.0	3.9	3.9	3.8	3.8	3.8			
Eurozone	8.0	8.0	7.9	7.9	7.8	7.8	7.7	7.6	7.6	7.5	
Germany	5.1	5.1	5.0	5.0	5.0	5.0	4.9	4.9	5.0	5.0	5.0
France	9.0	9.0	8.9	8.9	8.8	8.7	8.7	8.6	8.6	8.7	
Italy	10.4	10.7	10.5	10.4	10.4	10.4	10.1	10.0	9.8	9.7	
Japan	2.4	2.4	2.5	2.4	2.5	2.3	2.5	2.4	2.4	2.3	
Australia	5.0	5.0	5.1	5.0	5.1	4.9	5.1	5.2	5.2	5.2	

Source: Macrobond

Current Account Balance as a % of GDP (Seasonally Adjusted)

	Q3-16	Q4-16	Q1-17	Q2-17	Q3-17	Q4-17	Q1-18	Q2-18	Q3-18	Q4-18	Q1-19
US	-2.3	-2.2	-2.2	-2.5	-2.0	-2.3	-2.3	-2.1	-2.4	-2.8	-2.5
Canada	-3.3	-1.9	-2.5	-2.6	-3.1	-3.0	-3.0	-2.8	-1.8	-3.0	-3.1
UK	-6.3	-4.0	-3.0	-4.1	-3.1	-3.0	-3.4	-3.3	-4.3	-4.4	-5.6
Eurozone	3.1	2.8	3.0	2.5	3.9	3.5	3.3	3.0	2.6	2.8	3.1
Germany	8.1	7.9	8.2	6.8	8.5	8.5	8.3	7.5	6.4	7.3	7.7
France	-1.2	-1.3	-0.8	-0.5	-0.7	-0.4	-0.6	-1.4	-0.4	-0.2	-0.9
Japan	3.8	4.1	4.3	3.7	4.6	4.2	3.6	4.0	3.4	3.1	3.4
Australia	-3.3	-1.4	-1.6	-2.4	-2.8	-3.4	-2.2	-2.5	-2.1	-1.3	-0.6

Source: Macrobond

Important Risk Discussion

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