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Global Macro Policy Quarterly

Highlights

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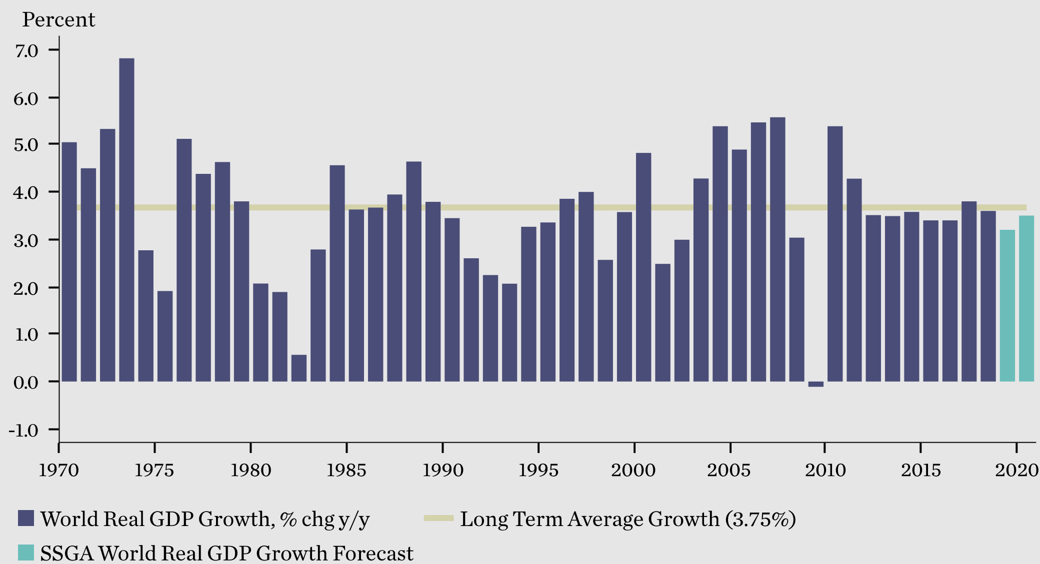
Figure 1: 2019 Slowdown To Give Way To 2020 Rebound



Sources: IMF, SSGA Global Macro and Policy Research, Oxford Economics

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STATE STREET GLOBAL ADVISORS

2020 Cometh With Green Shoots Getting Greener (Good News on Trade Wars, Growth, IP and Sentiment indicators)

We enter the last fortnight of the year feeling more upbeat about 2020 prospects given Trade War Phase 1 progress, UK election majority mandate for Brexit/Boris Johnson, and incoming data that has so far corroborated our "resilience" call in regards to the global economy. Our team was right in calling the UK elections and Boris Johnson's actions since becoming Conservative Party leader (*UK Election: On to Brexit Sunlit Uplands?*) as well as the direction of Trade Wars. In the face of more positive news recently, we end the year gently nudging up our forecasts (see *Key Macro Themes for the Global Economy* later in this publication).

However, as per the IMF's "Growth at Risk" framework, certain risks still linger on the horizon, causing us to broaden the range of plausible outcomes for 2020. Further noting that nearly 60% of the last decade's global growth came from EM countries. The cycle is extended but as in our Global Market Outlook 2020, the quality of the cycle is what we need to pay greater attention to. Labor force numbers challenged by a digital automated advancing world along with lower productivity growth numbers are likely to limit growth.

On the monetary policy front, 2019 was a breakthrough year with most DM central banks finally acknowledging the limits of unconventional monetary policy. "The Fed Listens" Conference Series and the ECB Sintra conference emphasized the same while highlighting the need for simpler more effective communications. More than 15 years after monetary economists and central banks focused on good practices for central bank policy communications, it is unclear whether much clarity has actually been achieved through more frequent communications. Market participants and investors are not much clearer on instruments, objectives, transmission mechanism and process. Currently, major EM Central banks have more policy room in terms of rate cuts and some of them have exhibited a withdrawal from the central bank independence (Turkey, India, Argentina etc.). There has also been noticeable political pressure on the Fed to act to redress imbalances beyond their mandate.

Fiscal policy is needed but the Fiscal space to operate policy within differs and in Europe, Japan, Australia, India and few other countries we have seen the start of fiscal policy operations to complement monetary policy. Fiscal policies need to be assessed in an intergenerational context (*Debt, Demographics & Deficits--Intergenerational Sustainability (Focus on EU)*) and the US, EU and other economies have to implement more fiscal policy effectively and equitably.

Our strategic 2020 watch list includes: monitoring geopolitics and oil, new evolving UK and EU political leadership, US elections, central bank independence, future of QE (as part of the ECB Comprehensive Strategy Review) and how well central banks coordinate to reach their inflation targets while avoiding negative yields and inverted curves in 2020. FinTech, AI and Big Data are disrupting businesses including Financial Services and that is likely to continue; we need to assess their impact on investment fundamentals and portfolios.

Happy Holidays, Merry Christmas and Season's Greetings from our Global Macro Policy Research Team.

Amlan Roy (Head, Global Macro Policy Research)

Key Macro Themes for the Global Economy

- 2019 was definitely a year to remember, fraught with uncertainties and unexpected turns in policy, yet in retrospect it probably played out better for global investors that many may have assumed at its start. It was a less compelling year for actual **global GDP growth**, which we estimate to have slowed to a post-recession low of 3.2% as escalating trade tensions (among other factors) caused business investment to stall and global manufacturing to contract. Against a backdrop of a synchronized global slowdown that engulfed advanced and emerging economies alike, the relative US outperformance stood out. But the slowdown seems poised to give way to improvement in 2020 while the US outperformance gap is likely to shrink. After spending most of 2019 seemingly unable to address key geopolitical risks, the month of December has brought us an agreement on USMCA, an agreement on a Phase 1 US-China trade deal, a US budget agreement, and a mandate on Brexit. There seems to be enough here to argue that, having been squarely skewed to the downside for more than a year, risks to the outlook are now at least balanced, with even a hint of an upside tilt. This is still too recent a shift and there are still too many notable unknowns as we head into a US electoral cycle that we shy away from proclaiming a major growth reacceleration. But on account of the resilience demonstrated so far, growth in ***advanced economies*** has been revised upward to 1.9% for both 2019 and 2020, helping lift 2020 global growth to 3.5% (PPP basis). Growth in ***emerging markets*** moderated as we advanced through the year, not just on account of Chinese deceleration but also India and others. Thus, we've reduced our estimate for 2019 growth, but we continue to anticipate a rebound in 2020. Broadly speaking, emerging markets should benefit from trade war de-escalation, accommodative monetary policy globally (but, most importantly, in the US), and what we anticipate to be a modestly weaker dollar.
- Risks to the **global inflation** outlook also seem more evenly balanced than they've been in a while. It is true that the much talked-about inflation "deficit" persists across developed markets despite continued labor market healing that has brought unemployment rates to multi-decade lows. Central banks around the world are revisiting concepts such as NAIRU (non-accelerating-inflation rate of unemployment) and the neutral interest rate. The widely shared conclusion appears to be that economies can support considerably lower levels of unemployment without generating undue inflationary pressures. NAIRU estimates have come down (in the US, the estimate has ticked down another tenth to 4.1% in the Fed's December 2019 summary of economy projections). Estimated neutral policy rates have come down as a result, and policy interest rates have come down in many economies as a direct result of that. But wage inflation is quietly building and with acute concerns about growth prospect giving way to cautious optimism, this process likely has further to run. And with central banks seemingly content to let inflationary pressures build, we should witness a clear turn higher in inflation rates over the course of 2020. We do not anticipate a genuine inflation "event", but it is incorrect to assume that inflation is altogether dead. Rather, we view it as "manageable". Indeed, our inflation metric for advanced economies actually picks up more than previously forecast in 2020 on the back of even tighter labor markets and improving growth.
- Changing **central banks**' views around NAIRU and the neutral rate, combined with heightened risks to the outlook, have driven a meaningful injection of monetary policy stimulus globally in 2019. The Fed has delivered the three rate cuts that have in prior episodes denoted a "mid-cycle adjustment". The RBA has cut trice and might do so again. The ECB has cut further and has restarting QE. But this easing should give way over the course of 2020 to a "prolonged pause" stance, with only modest exceptions to this. Indeed, having done much this year, central banks can sit back and watch that stimulus feed through the global economy. And, given the already low level of interest rates globally, there appears to be more interest in deploying **fiscal stimulus** as an alternative to even lower rates. Moves by Japan, Korea, France, India, and others, suggest fiscal policy may start playing a more important role in 2020. We welcome the change, though not all fiscal spending is created equal, which means governments should focus on things like education and infrastructure if they are to be successful in lifting potential growth.

Summary of World Output[1] and Inflation[2]

(Annual percent change)

	Weight	History					Forecast	
	(2018)	2014	2015	2016	2017	2018	2019	2020
World Growth	100.0	3.6	3.5	3.3	3.8	3.6	3.2	3.5
Advanced Economies	40.8	2.1	2.3	1.7	2.5	2.3	1.9	1.9
US	15.2	2.5	2.9	1.6	2.4	2.9	2.3	2.1
Euro area	11.4	1.6	2.3	1.9	2.5	1.8	1.2	1.3
Germany	3.2	2.2	1.7	2.2	2.5	1.5	0.6	1.2
France	2.2	1.0	1.1	1.1	2.3	1.7	1.4	1.5
Italy	1.8	0.0	0.8	1.3	1.7	0.8	0.2	0.5
Japan	4.2	0.3	1.3	0.5	2.2	0.3	1.1	0.9
UK	2.2	2.6	2.4	1.9	1.9	1.3	1.4	1.6
Canada	1.4	2.9	0.7	1.0	3.2	2.0	1.6	1.7
Australia	1.0	2.6	2.3	2.8	2.5	2.7	1.8	2.5
Developing Economies	59.2	4.7	4.3	4.6	4.8	4.5	4.0	4.6
Advanced Economy Inflation	40.8	1.4	0.3	0.8	1.7	2.0	1.5	1.9
US	15.2	1.6	0.1	1.3	2.1	2.4	1.8	2.3
Euro area	11.4	0.4	0.2	0.2	1.5	1.8	1.2	1.4
Germany	3.2	0.9	0.0	0.5	1.5	1.7	1.4	1.6
France	2.2	0.5	0.0	0.2	1.0	1.9	1.1	1.4
Italy	1.8	0.3	0.0	-0.1	1.2	1.1	0.6	0.9
Japan	4.2	2.8	0.8	-0.1	0.5	1.0	0.6	0.8
UK	2.2	1.5	0.1	0.6	2.7	2.5	1.8	1.7
Canada	1.4	1.9	1.1	1.4	1.6	2.2	1.9	2.0
Australia	1.0	2.5	1.5	1.3	1.9	1.9	1.6	2.1
Developing Economies	59.2	4.7	4.7	4.2	4.3	5.0	4.8	4.4
Value of World Output ($ trl)								
At Market Exchange Rates		78.9	74.8	75.8	80.3	84.9	86.6	90.5
At Purchasing Power Parities		110.9	115.8	120.8	127.7	135.4	141.9	149.5

[1] Real GDP; [2] Consumer Price Inflation

Weight represents the share of world GDP on a purchasing power parity basis. IMF: *World Economic Outlook* , October 2018

Source for historical data: Oxford Economicsnational sources, and IMF. Forecast: SSGA Global Macro and Policy Research

UK Election: On to Brexit Sunlit Uplands?

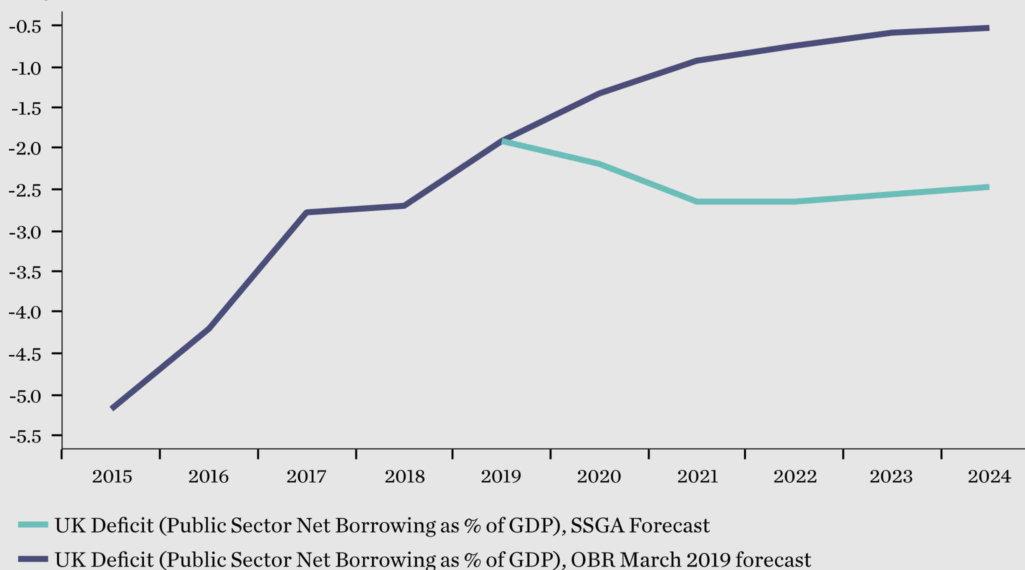
A solid majority for the Conservative Party should have a calming effect on markets in the near term, but looking into the second half of 2020, political risks in the United Kingdom (UK) remain, as the country redefines its relationship with the European Union (EU) and overcomes its internal political rifts.

The Prime Minister has already outlined the Parliamentary program for the next few weeks. On 19 December, Parliament is to be recalled, and on 23 December, it will vote on Brexit. The bill to implement Brexit will be debated in January, with the exit scheduled for 31 January. The House of Lords may make some technical amendments but will not stand in the way, and therefore UK will ratify the Withdrawal Agreement with the EU and legally cease to be a member state on 1 February. This entails a transition period, during which time everything would stay the same, through 31 December 2020. The new government will only have a few months to decide whether it can manage to conclude a trade deal with the EU or opt for an extension of the transition period by two years. Failing either, trading will be on the World Trade Organization's terms.

Given the size of the parliamentary majority – the largest Conservative victory since the Thatcher era – we are very confident that the tail risk of a no-deal crash-out is negligible. The more difficult question centers on whether Prime Minister Boris Johnson will prefer a bare-bones trade deal (e.g., covering tariff-free trade in goods with EU access to UK fisheries) to an extension of the transition period.

There is a strong likelihood that the government will pursue an extension. First, any extension period would still end well before the next election. Second, Johnson has proven himself to be a ruthless operator of party discipline. Third, the relative gains of any trade negotiation freedom would be intangible. Finally, a good proportion of the new Tory constituencies contain Leave-voting seats with a larger working-class profile. These voters care less about the free-trade element of Brexit than the political identity of British exceptionalism, which will have been largely validated by Britain's exit from the EU's political institutions.

Figure 2: UK Deficit 2014-2024



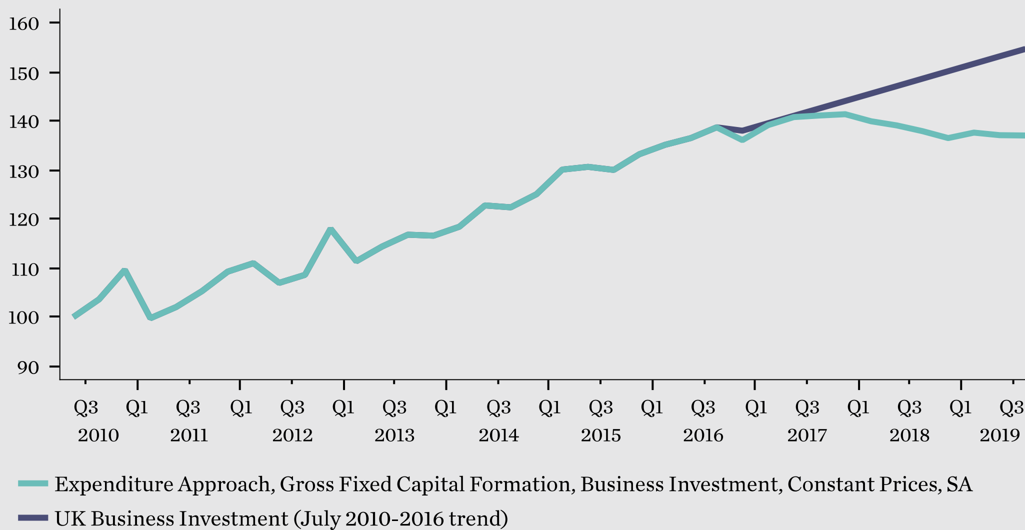
Sources: Macrobond; year number indicate the end of the fiscal year (e.g. '2016' denotes 2015-2016 fiscal year)

For similar reasons, this should lead to a multi-year fiscal expansion as the new government shores up its support in newly won constituencies through government largesse. The change in fiscal rules in early November was a preparatory step, aiming for a current budget balance by 2023 and allowing net public sector investment of up to 3% of GDP. In practice, we estimate that the net fiscal expansion will equate to roughly 0.3% of GDP in 2020 and nearly 0.8% in 2021, which is material when compared to the austerity of the 2010s.

The projected fiscal moderation in the later years assumes that the Labour Party will undergo a renewal in the post-Jeremy Corbyn era. This does not imply a return to centrism but the continuation of an interventionist agenda, led by a more palatable leader. This will reinject competitiveness into UK politics later into the term of the Conservatives, forcing them to re-embrace fiscal responsibility as a differentiator.

In addition to the moderate fiscal expansion, the reduction of Brexit uncertainty coupled with a recovery in global demand should invite a revival in UK business investment. Figure 3 shows just how severely business investment ground to a halt after the 2016 referendum. While it will certainly not catch up to the pre-referendum trend, investment growth should definitely turn positive in 2020, especially for domestic-oriented companies.

Figure 3: UK Business Investment - 2010-2019 (Rebased at July 2010=100)



Sources: Macrobond, U.K. Office for National Statistics (ONS)

The composition of investment could also change over the course of the transition period. With the advent of 5G and its myriad new applications, we see a case for even more emphasis on software and technology. These are also areas that are indifferent to the ultimate UK-EU trading regime and should potentially attract more investment by US firms.

Business optimism remains near post-referendum lows, reflecting how uncertainty has hampered investment. Both metrics should move upwards in the coming months as optimism rises and feeds through into actual increases in investment. Nonetheless, full normalization would require clarity over the long-term future trading regime with the EU, which is unlikely to be forthcoming.

By the middle of 2020, Brexit clouds may again gather on the horizon: the lack of clarity over long-term trading relationships risks stemming the positive momentum. While we expect an extension of the transition period beyond 2020, we may not know this until mid-2020, and a disruptive move towards a bare-bones free trade deal by year-end 2020 remains a possibility. Such developments would be market-negative, and Sterling will again be the main pricing indicator of market confidence.

In addition, other post-Brexit policy plans, for instance around immigration or regulation, could offer potential for market disappointment. This could be two-fold as government plans may not fully materialize in the absence of the UK-EU trade deal, and as considerable trade-offs will exist between potential policy divergence and the costs of disruption.

Debt, Demographics & Deficits--Intergenerational Sustainability (Focus on EU)

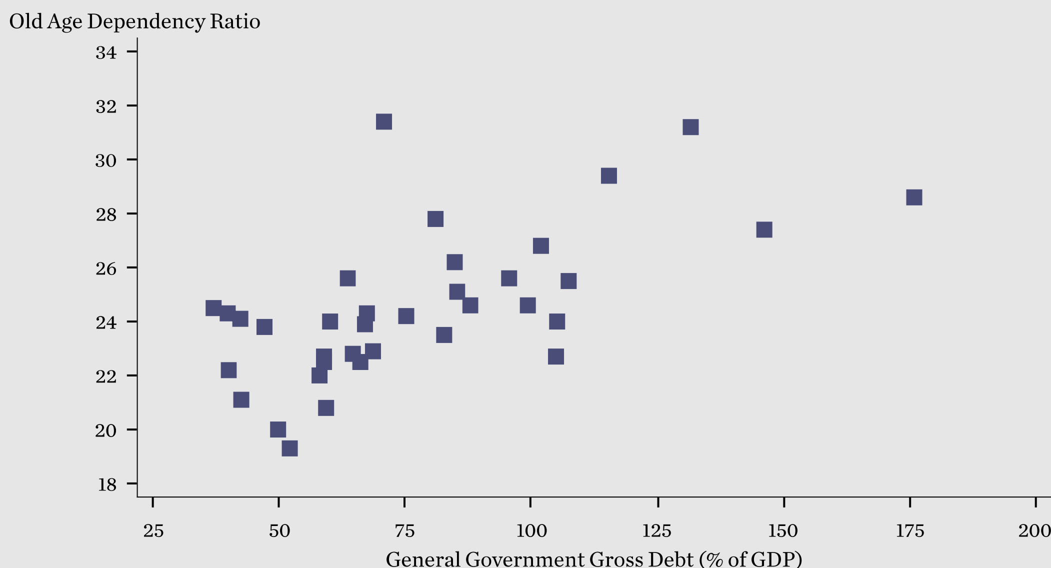
The IMF projects EU GDP to grow 1.5 % in 2019, down from 2.2% in 2018. There is little room for monetary policy maneuver given the trade war, global low growth, low inflation and low interest rate with negative yielding debt. As focus turns toward fiscal policy, there are important questions about EU's fiscal sustainability as well as intergenerational equity.

Many European countries use public finances to redistribute resources from the working-age population to the old and the very young. However, as the population ages, this societal model is facing long-term fiscal sustainability challenge[1].

Increasing life expectancy and lower fertility rate over the last 3 – 4 decades have resulted in significant increase in the old age dependency ratio – the number of people 65+ years over population of 100 people aged 15-64 years - in many European countries. In countries such as Germany and France, old age dependency ratios are well above 30. In France, the ratio is expected to increase by more than 75% from 19.1 in 1985 to 33.7 in 2020 while in Italy, the ratio is expected to almost double from 19.4 to 38.1 over the same period of time. Higher old-age dependency ratio is often associated with higher public debt in many advanced European countries[2].

Figure 4 shows the correlation between old age dependency ratios and public debts in the nine selected countries over 2000-2015 at five year intervals. The countries covered include: Austria, Finland, France, Germany, Greece, Italy, Netherlands, Spain and the UK. We note that the relationship between old age dependency ratios and public debts is relatively strong at 62.9%.

Figure 4.Old Age Dependency Ratio vs Public Debt



Sources: Eurostat Global Macro Policy Research

In the EU, public spending on pension and healthcare account for almost 20% of GDP and are expected to remain major public spending items going forward, contributing significantly to the uptrend in public debt in many European countries. Italy's high debt has increased from 109% of GDP in 2000 to 135%. In France, public debt has jumped from 59% of GDP in 2000 to an all-time high around 98% in 2018.

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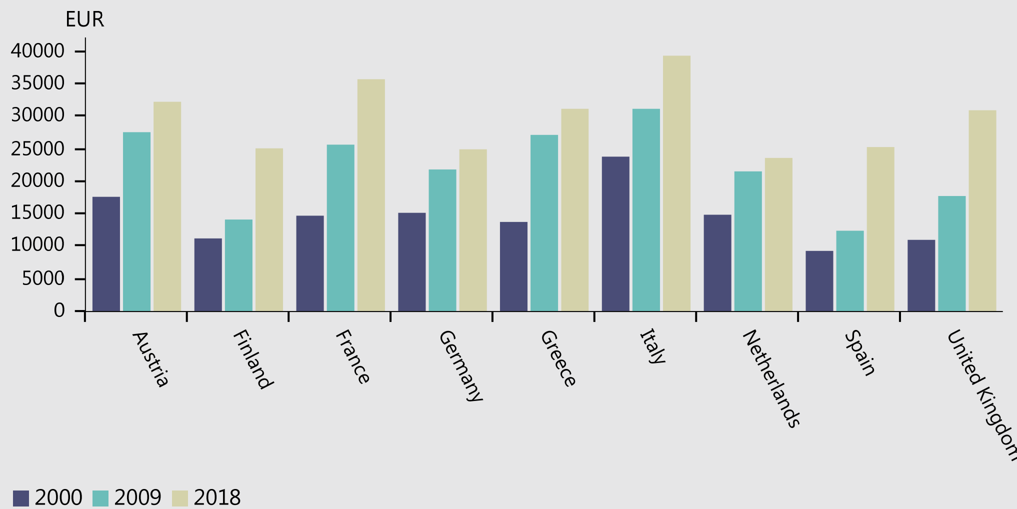
[1] Arevalo P, Berti K., Caretta A. and P. Eckefeldt, 2019, "the Intergenerational Dimension of Fiscal Sustainability", European Commission

[2] Roy A., Punhani S., Shi L.. Credit Suisse Global Demographics Research, 2011, "Macro "Fiscal Sustainability" to Micro "Economic Conditions of the Old" in the "Oldest Five" Countries"

Public debt per capita has increased dramatically in the EU (Figure 5), especially in the UK, where it almost tripled from 2000 to 2018. Amongst the nine selected countries, Italy has the highest public debt per capita, followed by France.

According to the EC, in the EU as a whole, younger generations (up to age 42) appear as net tax payers and individuals around the age of 63 appear to be the highest net tax receivers. Given the rapid aging population and increasing debt levels, generational imbalances remain a major challenge for fiscal policy to be accounted for.

Figure 5.General Government Debt Per Capita, EUR



Sources: Macrobond, Eurostat Database, SSGA Global Macro Policy Research

Fiscal space is defined as the room for undertaking discretionary fiscal policy relative to existing plans without endangering market access and debt sustainability. Elevated levels of public debt and long-term pressures due to aging population have weighed on fiscal space in many European countries. For example, in Germany, aging related long-term pressures are a major fiscal challenge that will require adjustment down the road, although the strength of the fiscal position in other dimensions still leaves substantial room for discretionary fiscal policy in the interim[3].

In addition, it has been argued that fiscal rules in the EU have been overly complex, contributed to the prolonged low growth. Fiscal strains are imposed by the Stability and Growth Pact as part of the Maastricht Treaty (Feb 1992) and Lisbon Treaty (Dec 2009) which mandated the 3% deficit to GDP and 60% debt to GDP criteria for the EU needs modifications. According to the European Commission's 2019 spring forecast[4], countries with debt-to-GDP ratio above 90% such as France, Italy, Greece and Spain are considered to be away from their medium-term budgetary objectives (MTOs) and therefore remain vulnerable to an economic downturn and financial market volatility. Given weak global growth and low interest rate, these countries are in need of expansionary fiscal policy but under the current rules, they have little room to pursue it.

All in all, fiscal policy in the EU is at a crossroads at the same time that it has to shoulder more burden in the low growth and low interest rate era. Complex fiscal rules, ageing population, high public spending as well as high debt entailing intergenerational issues remains a major obstacle for the EU's fiscal policy.

[3] IMF, 2018, "Assessing Fiscal Space: An Update And Stocktaking"
[4] Haroutunian S., Hauptmeier S. and N. LeinerKillinger, 2019, "Priorities for fiscal policies under the 2019 European Semester", ECB Economic Bulletin, Issue 5/2019

Outlook for the Major Advanced Economies

US: Resilient Against An Improving Global Backdrop

Throughout 2019 we had been pushing back against what appeared to us to be excessive pessimism about the state of the US economy and excessive worries about an impending recession. It is therefore with understandable pleasure (and, admittedly, some relief!) that we are closing the year leaving our 2019 growth estimate unchanged at 2.3%—where it had been since March—and even raising the 2020 projection by two tenths to 2.1%.

The theme of "resilience in divergence" that we had emphasized throughout—namely, the idea that even though manufacturing and business investment were struggling amid a widening trade war, the larger services and consumer sectors remained well supported, has indeed played out as we had outlined. Meanwhile, with USMCA and a Phase 1 China trade deal essentially in hand, an expansionary budget in place, and impeachment nearing conclusion amid widely held expectations that no removal from office will take place, we see the balance of risks as greatly improved. For the past year, risks have been skewed squarely to the downside; over the past month, they have moved into balance.

The slight upgrade to 2020 growth indeed reflects the diminution of downside risks, which translates into better labor market momentum that supports steady growth in consumer spending and modestly better business investment and exports. The new forecast is better, but we would not describe it as more optimistic. In reality, we've simply "marked to market" the new balance of risks, without overlaying new favorable assumptions into the final outcome. As such, there is scope for an even better performance. However, we are mindful that many risks and uncertainties remain (Brexit, Iran, US elections, the evolution of US-China trade relations post-Phase 1, to name but a few), and these may yet repress a more buoyant revival in economic activity in 2020. In this context, it makes sense to take it slow with the forecast upgrades.

The US consumer is in great financial shape, underpinned by solid labor market dynamics, strong incomes, and higher savings. Even if, as seems likely, job growth slows in 2020, with over 7,000,000 open positions and not that many unemployed people, the unemployment rate should continue to hover below 4.0%. We couldn't help but notice that while the latest Fed summary of economic projections incorporated no changes to GDP forecasts, the 2020 unemployment rate has been lowered by two tenths to 3.5%.

Admittedly, having dipped into contraction much later than the rest of the world, US manufacturing may remain under pressure for some time as Boeing's troubles diminish the lift otherwise anticipated from stronger global growth and de-escalation in trade tensions. But service activity should remain brisk, as it has been throughout. Housing has also recently emerged as a bright spot. In the third quarter, it contributed positively to GDP for the first time since 2017 and appearing poised to continue doing so into 2020.

Inflation is not dead. In fact, it seems to be already stirring from its 2019 slumber, a process aided by what we expect to be a weaker dollar. Core consumer price inflation is already hovering near cycle highs and while the headline has been buffeted by methodology changes and lower oil prices, it has started to converge higher. We've raised the 2020 headline CPI inflation forecast by two tenths to 2.3%; core PCE inflation is also poised to move towards the 2.0% target. There is a good chance that at some point in 2020 it will even exceed it.

Monetary policy is the one area where we've made no changes. Having delivered three rate cuts in 2019 as part of a mid-cycle adjustment meant to pre-emptively address downside risks, the Fed seems content to sit on the sidelines for an extended period of time. Admittedly, many of the downside risks have diminished, but there is enough focus on still-low inflation expectations and the symmetric nature of the inflation target that the inflation overshoot we anticipate to see develop over the course of 2020 will probably not be enough to stir the Fed off the sidelines, especially in the midst of a high-stakes US election. We are not in the camp that would see a Fed desire to sit back in the midst of a high-stakes election as evidence of political interference but rather as a reasonable and practical choice. Tightening may be needed eventually (the four "dots" calling for a 2020 hike hinted at that), but it can wait until the election is out of the way.

Canada: Outlook Unchanged But Potential For Upside

After a stellar 2017, growth moderated to 2.0% in 2018 and weak momentum carried into 2019 amid subdued global demand and a slump in oil prices. Bank of Canada's move away from its earlier hawkish stance provided some relief early in the year. A rebound in housing and energy-sector activities, complemented by a strong labor market has since led to improving growth.

After two weak quarters, economic activity picked up in the second quarter of 2019, when real GDP expanded 0.9% q/q, led by higher energy exports. Third-quarter growth then moderated as the lift from trade waned, but consumer spending and investment improved. Indeed, we were encouraged by the 2.6% q/q gain in business investment, which helped lift overall fixed investment to its best performance since late 2017. Admittedly, even with the 0.4% gain in private consumption in Q3, consumer spending has been subpar. However, with wage growth now reaccelerating—it has averaged 4.4% y/y over the past three months—some improvement seems likely. All in all, we've raised our 2019 growth estimate by two tenths to 1.6% to reflect the resilience in incoming data.

Our outlook for 2020 is unchanged, admittedly with upside risks reflecting USMCA resolution, improved global outlook and favorable domestic conditions. The USMCA tri-partite deal—which we all along assumed would get done—will be a big positive, and help boost investor sentiment. Firms have indeed revised up future capex intentions, as is apparent from the BoC's Q3 Business Outlook Survey. Exports which exerted a net drag of 0.5 percentage points on Q3 growth are also likely to hold up. There are several positives for consumer spending as well. House prices have been either flat or falling in most major metropolitan markets due to tougher mortgage lending regulations. Recent data on building permits and housing starts are consistent with a gentle reversal in trend. Some of the recent jobs reports have also been nothing short of stellar. Admittedly, November was a bad month, with the unemployment rate climbing four tenths to 5.9%, but strikes in October and November alongside fading effects of job creation due to the federal election suggest more noise than signal. As a matter of fact, employment growth has averaged 2.2% y/y over the course of the year barring November, about a full percentage point above its post-recession average. The new Liberal minority government is also expected to implement their middle class tax cut proposal, worth roughly 0.2% of GDP in 2020. All in all, we retain our forecast of a 1.7% growth in 2020 and see the risks to this number as leaning to the upside.

Inflation is essentially at target. After a soft spell in early 2019, headline consumer price inflation has turned higher to stand at 2.2% y/y in November. All three measures of core inflation have stayed at around the 2.0% mark for all of 2019 and have recently ticked higher. The BoC estimates that there is still a modest amount of spare capacity in the system, offset by a small boost from the carbon pollution charge. We continue to see inflation at around 2.0% 2020, a view shared by a majority of respondents in the Business Outlook Survey, who see inflation remaining in the lower half of the target range.

We believe the current strength of the recovery does not warrant easing bias by the Bank of Canada (BoC), but the openness of the Canadian economy makes it vulnerable to unexpected global shocks that are not built into our baseline. Ahead of the November policy decision, Governor Poloz seemed to signal a pause, noting that "we think we've got monetary conditions about right given the situation" and "we're still quite stimulative, I think, where we are today." We too feel there is no urgency for a change in policy stance for the time being, with the BoC likely to be on pause in 2020.

UK: Light At The End Of The Tunnel

The Brexit drama has been casting a long shadow over the UK economy for more than three years now. While performance proved resilient in the early phase, with GDP up 1.9% each in 2016 and 2017, deeper cracks began appearing last year. Momentum waned in the early part of 2018, although it reaccelerated in the second and third quarters on a combination of the World Cup, Royal Wedding, and unusually warm weather. Nevertheless, sluggish real wages and fragile home prices (particularly in London) hindered consumption, while Brexit chaos weighed on business sentiment, causing fixed investment to contract incrementally for the first time in seven years. Hence, the economy advanced just 1.3% in 2018, the lowest since the Great Recession.

2019 was a constant yet unsuccessful struggle for Brexit clarity so there was no relief for business or consumer confidence. Even so, the year was underwhelming rather than disastrous. We find it telling that, even amid Brexit, the labor market continued to tighten and wage inflation briefly touched a post-GFC high…Even fixed investment is merely stuck in low gear rather than collapsing outright. Some of that resilience, and our expectation that the massive inventory drawdown in Q3 (which turned out in revisions this week to have been even larger than initially estimated!) will at least moderate if not modestly retrace, caused us to raise the 2019 GDP growth estimate by two tenths to 1.4%. But make no mistake—this is still highly disappointing. Indeed, 2019 will be the worst year for private consumption since 2011 while fixed investment will clock an uninspiring sub-1.0% growth.

Given our expectation of no hard Brexit, improving global growth and fiscal policy support, we see growth improving to 1.6% in 2020. We are considerably above consensus here (the Bloomberg consensus was just 1.1% as of December 19) but do not see our projections as exceedingly optimistic. In fact, we even see some upside potential to this forecast if consumer sentiment starts improving post-elections (as we suspect it will) so that consumption accelerates modestly. We see decent growth in real wages as a powerful underpinning for our more positive assessment of the broader economic outlook.

Inflation accelerated sharply in 2017 on rising oil prices and a weaker sterling following the referendum result. Indeed, headline consumer price inflation jumped 2.0 percentage points to 2.7%, by far the highest in the G7. Since then, though, headline inflation has steadily retreated and stood at just 1.5% y/y in October-November. Core inflation has followed a similar path, spiking to 2.7% y/y in the latter part of 2017 but now down to 1.7%. Still, the Bank of England views this as likely temporary, reiterating in its December 2019 statement that “although pay growth has eased somewhat, unit labour costs have continued to grow at rates above those consistent with meeting the inflation target in the medium term.”

Having cut the Bank Rate to 25 basis points in the immediate aftermath of the referendum and then raised it twice (in November 2017 and August 2018), the BoE has since stayed pat. Two dissents in favor of a cut at recent meetings imply a dovish near-term tilt to the current Committee preference, but our baseline expectation does not incorporate such a cut in 2020. The promise—and the premise—remains the same: “monetary policy could respond in either direction to changes in the economic outlook “. We learned one more thing this week. Those future policy deliberations will be led by Andrew Bailey, who will succeed Mark Carney as Bank of England Governor next March.

Eurozone: Mild Cyclical Improvement; Unclear On Structural Lift

As far as eurozone economic performance is concerned, one can be forgiven from saying a hearty “good riddance” to 2019! Admittedly, we didn’t have a recession and this wasn’t nearly as bad as 2009 or 2012, but at an estimated 1.2% growth, 2019 will have been the worst year since 2013. It would also see regional growth more than halve from 2017 levels, when it bedazzled us with a memorable 2.5% gain.

Not only have both the weak and the strong been hurting in the 2019 slowdown, but the traditional roles have even reversed somewhat. Germany is poised to grow just 0.6% this year, having narrowly escaped a technical recession not just once, but twice. Its manufacturing PMIs had been faring worse than Italy’s, whose economy did undergo a mild technical recession in 2018…By contrast, France has shaped up to be the growth leader among the “Big-3”, and unusual situation that to some extent mirrors the dichotomy seen around the world between a weak manufacturing sector and a much more resilient service sector. France, with its lesser dependence on manufacturing, has been somewhat shielded from the global headwinds and is poised to grow 1.4% this year. Italy will hardly grow at all.

But, nothing last forever and what goes down eventually comes back up. So with eurozone growth in 2020, we think, although the “wheel of fortune” may turn slowly at first. With broadening evidence of global manufacturing bottoming out, de-escalation in global trade tensions, and improving global demand, we see Germany well positioned for a rebound. However, while this could be quite meaningful over the course of 2020, the improvement in the annual average growth will be more subdued, reflecting the weak starting point. Still, up is better than down, and investors are likely to take note of the improved direction of travel. France may continue to outperform in an absolute sense, but there won’t be any meaningful lift to growth in 2020. Italy should improve, but not enough to move it out of the “weak and bordering on dismal” category.

Spain may run counter to this improving trend in 2020; it is with some angst that we are watching policy developments for implications for medium-term productivity and competitiveness.

Progress on inflation has been painfully slow. The core measure should sustainably move above 1.0% in 2020, but the ascent will be arduous. The headline dipped to an estimated 1.2% in 2019, largely on account of oil prices, and remains vulnerable to any shocks, of which a stronger euro may be one the region had not had to contend for some time.

Against this backdrop, the ECB eased progressively, with the deposit rate falling to zero in 2012, -20 basis points in 2014,-30 basis points in 2015, and to -40 basis points in March 2016. It also introduced a genuine QE program in January 2015 and subsequently made a slew of adjustments and enhancements to it. As growth accelerated and the threat of a broad-based deflation receded, the Bank changed direction in 2017, starting to “taper” QE that April and ending the program in December 2018 (reinvestments continue). But ECB’s hopes of initiating genuine policy normalization have since been once again thwarted. After repeatedly altering its forward guidance in response to the region’s slowdown and announcing another longer-term refinancing operations program (TLTRO-III), the Bank cut the deposit facility rate to -50 bp in September and, despite considerable opposition, announced it would restart QE in November 2019.

We have long been skeptical that the new round of stimulus would accomplish much. After all, we do not think eurozone’s real problem is the high cost of capital, yet all that further monetary easing can hope to accomplish is to reduce borrowing costs. To us, the trouble really lies in structural impediments to growth, which, unlike in a typical nation-state, are intimately linked to the region’s incomplete monetary union and lack of an institutional framework designed to facilitate a flexible deployment of counter-cyclical fiscal stimulus.

Do not get us wrong: there is an urgent need for national-level reforms in many eurozone countries. Italy’s complaint that the common currency has shackled its industry due to subsequent lack of competitiveness has some validity, but is not the whole story. After all, Spain has the same single currency constraints, yet the Spanish economy has greatly outperformed Italy’s. There must be something more then to the Italian underperformance story. What is it? The answer lies in national-level structural reforms (such as labor market reforms) that Italy has persistently avoided but which Spain had previously pushed through. A quick glance at the working-age female labor force participation (FLFP) in these two countries goes is revealing. Back in 1992, FLFP in Spain and Italy was almost identical at around 44%. Today, Spain stands at close to 70%, whereas Italy is far behind at just 56%. This is a severe limitation, but also an opportunity that, with the right policies, could be harvested to lift Italy’s potential growth.

But even in a best-case scenario of considerable growth-enhancing reforms, changes are needed to the union’s institutional framework in order to facilitate a more flexible and effective deployment of fiscal policy to augment the so-far single-handed monetary policy intervention. Alternative solutions, such as fiscal spending aimed to attenuate the short-term pain of structural reforms, strikes us as a more impactful policy mix. It remains to be seen whether Mme. Lagarde—although at the helm of the ECB and so probably unlikely to wade very publicly into the fiscal policy debate—could wield influence behind closed doors to energize the political establishment to move in this direction. Evidence that such a policy shift is underway would make us feel much more sanguine about the region’s medium term prospects.

We would say we are encouraged by recent signals, but that it remains far too soon to assume that a genuine structural shift is afoot. The first ECB meeting under the leadership of President Lagarde did not bring any changes to policy but there was at least a hint of a change in style and approach. President Lagarde seems poised to more directly, openly, and publicly engage with policymakers across the policy spectrum, with the goal of enhancing macro policy coordination across the region. As she said during the press conference, “it takes many to actually dance the economic ballet that would deliver on price stability but also employment and growth. I don't see anything wrong with policymakers actually agreeing that they're going to make the efforts that they can in order to reach their respective goals.” We haven’t conducted a comprehensive research to validate this, but we are pretty sure this is the first ever ballet reference in an ECB policy press conference. We welcome not just the broadening of the metaphor but first and foremost, what it might mean for the effectiveness of macro policy in Europe in years to come!

Japan: Over To You, Fiscal

It has been an eventful year for Japan. Tepid global demand has led to a slump in exports, and, in turn, manufacturing. Despite the very strong labor market, consumer spending has been lackluster, not exhibiting the sort of pre-VAT tax hike surge seen in prior episodes. But government spending provided support and the stronger than expected third-quarter GDP data caused us to upgrade the 2019 estimate by two tenths to 1.1% y/y.

The final read for the third quarter GDP was revised up by three tenths to 0.4% q/q, implying that GDP has grown by 1.2% y/y over the course of the year. The better outcome reflected upward revisions to private non-residential investment and consumer spending. But consumer spending may wobble again. For instance, retail sales plunged by 14.4% m/m in October, sharper than the declines experienced in the aftermath of the '97 and '14 sales tax hikes. The outlook for investments is a little more optimistic, with large enterprises revising their capex projections up for current fiscal year from 6.6% to 6.8% according to the latest Tankan survey.

The picture gets brighter from here though. Firstly, news on the trade front is better, given that an escalation has been averted between US and China. This, combined with diminished risks of no-deal Brexit will reduce near-term uncertainty. An anticipated improvement in global growth should help net exports (which detracted 0.2 percentage points from Q3 GDP) as well as investment intentions. Secondly, growth will further be supported by building and tourism around the 2020 Olympics.

Most importantly, however, the government seems to have picked up the mantle from Bank of Japan (BoJ). Consistent with his pledge in July, Prime Minister Abe announced a larger than expected stimulus package in early December, of which ¥13.2 trillion ($121 billion) will be fresh spending. The government estimates that the impact will likely be somewhere around 1.4% of GDP. Though we will prefer to err on the side of caution in estimating a full-in impact, this will nonetheless represent a substantial fiscal boost, which has led us to sharply upgrade Japan's 2020 growth forecast from 0.3% to 0.9%

Inflation has been anemic, despite a positive output gap and a very tight labor market. Regularly contracted cash earnings (excluding bonuses and overtime pay) as well as regular wages have been encouraging lately, recording the sharpest rise in almost a year in December. Methodological changes that have buffeted the series this past year will mostly wear off in January and we might see further improvement in wage inflation. The uplift from consumption tax hike is also expected to be limited, while the intense rivalry amongst mobile network providers will also not help headline inflation. Although the BoJ's measure of the output gap still points towards inflation of above 1%, we expect inflation to come in only at 0.6% in 2019; though we have revised our expectation for 2020 a tenth higher to 0.8% to reflect better growth prospects.

Improving global growth prospects and the government's fiscal stimulus allow the BoJ some breathing room. Earlier in the October meeting, the BoJ laid the focus squarely on the output gap in determining the monetary policy path; it being positive implies that the current stance remains adequate. Financial imbalances arising from the prolonged ultra-low interest rate environment have been of some concern lately, and the incremental impact of taking rates further into the negative territory seems to be negligible anyways. The BoJ will be more apprehensive about a possible Yen appreciation at this point, letting the yield curve steepen further and that may imply some more JGB buying.

Australia: A Recovery In The Offing

2019 has been rather unremarkable, but not without green shoots. The public and external sectors have been the drivers of growth for the economy, but we are looking for private domestic demand to pick up in 2020. The labor market has been pretty tight for the most of the year, and leading indicators of employment point to a further pick-up in employment growth. The main source of optimism, along with an improved global scenario, is a rebound in the housing sector.

Real GDP grew by just 1.7% over the first three quarters of 2019, and looks set to miss the Reserve Bank of Australia's (RBA) forecast of 2.25% for the full year. Consumption has been the main source of uncertainty, and rightly so, as private spending rose by just 0.1% over the third quarter, the lowest since March 2009. Private investment has also been weak, and

understandably so. Still, it has not been as bad as we previously expected, and even a moderate growth scenario of 0.4% q/q in Q4 should lift the 2019 full year growth to 1.8%.

High debt and slow income growth remain major drags on spending, especially as low wage expectations become the "new normal". Housing in our view, will be the key to improving consumer sentiment. We did not expect a rebound in the Australian housing market until well into 2020, but RBA's accommodative policy stance seems to have hastened the healing. House prices rebounded sharply in Q3, rising 2.4% for the first gain since end 2017. Dwelling construction is showing early signs of improvement, with building approvals now stabilizing. Business investment has disappointed so far, led by mining investment (down 11% y/y in Q3). The outlook for mining investment has improved somewhat, but non-mining investment is yet to show signs of revival. With global uncertainties abating, we anticipate a gentle turnaround in the capex cycle as well. All these have prompted us to keep our outlook for 2020 unchanged at 2.5% y/y.

Underlying inflation has run at a soft 1.7-2.0% over the past couple of years as a result of an increasingly competitive retail environment, smaller administered price increases and, of course, slow wage growth. Indeed, while wage inflation (as measured by private-sector wages excluding bonuses) has clearly bottomed, it still only tracked at 2.5% y/y in the third quarter (whereas it ran at about 4.0% per year during the mid to late 2000s). Wage growth is unlikely to shoot up sometime soon, due to the excess capacity in the system. The underemployment rate climbed back up to 8.5% in October after a brief respite in September, while the unemployment rate ticked up a tenth to 5.3%. The RBA has acknowledged that the full-employment rate is probably somewhere around 4.5%, hence wage growth will recover only slowly as the gap closes. Our baseline expectation remains for inflation to average 1.6% in 2019 before rising to a still modest 2.0% in 2020.

The government has pledged to increase spending in the mid-year budget update. But given its pessimistic forecasts for nominal GDP, there may be a revenue shortfall, which makes it difficult to undertake fiscal stimulus when they are politically committed to maintaining a surplus. Which means that the onus is still on the RBA to act. Even in the improved scenario, the economy will still be some way off RBA's employment and output targets, leaving the RBA little choice but to ease. We expect a further rate cut of 25 basis points in early 2020, bringing the cash rate down to 0.50%. Some analysts expect unconventional measures from the RBA in the form of Quantitative Easing. Governor Lowe in his November speech had mentioned that unemployment and inflation have to be "moving away from, rather than towards" RBA's targets in order to introduce quantitative easing, which is a condition unlikely to be met soon in our opinion. However, there is a possibility of some fiscal stimulus in late 2020 if growth fails to organically improve.

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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®	3222.49	1.7%	28.5%	1.92	9	-77	97.683	0.5%	1.6%
Canada	TSE 300	17148.64	0.9%	19.7%	1.63	5	-34	1.3167	0.0%	-3.4%
UK	FTSE®	7582.48	3.1%	12.7%	0.78	-1	-50	1.3037	-2.2%	2.2%
Germany	DAX	13318.9	0.3%	26.1%	-0.25	4	-49			
France	CAC-40	6021.53	1.7%	27.3%	0.05	5	-66	1.1073	-0.4%	-3.4%
Italy	FTSE® MIB	24003.64	2.9%	31.0%	1.41	15	-134			
Japan	Nikkei 225	23816.63	-0.9%	19.0%	0.01	3	1	109.48	0.1%	-0.2%
Australia	ASX 200	6816.321	1.1%	20.7%	1.29	3	-103	0.6906	0.4%	-2.0%

Commodity Markets

Commodity	Unit	Source	Last Price	%Ch Week	%Ch YTD	%Ch Yr Ago
Oil (Brent)	US $/Barrel	Bloomberg	66.92	0.0%	25.9%	24.0%
Gold	US $/troy oz	Bloomberg	1478.09	0.1%	15.3%	17.3%

Source: Bloomberg®

Week in Review: Data Releases and Major Events (December 16–December 20)

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, December 16					
US	NAHB Housing Market Index (Dec)	70	**76**	71	New cycle high!
CA	Existing Home Sales (Nov, m/m)		**0.6%**	0.0%	Home sales continue to edge higher.
UK	Manufacturing PMI (Dec, prelim)	49.2	**47.4**	48.9	Disappointing.
UK	Services PMI (Dec, prelim)	49.5	**49.0**	49.3	Should improve from here.
EC	Manufacturing PMI (Dec, prelim)	47.3	**45.9**	46.9	Disappointing.
EC	Services PMI (Dec, prelim)	52.0	**52.4**	51.9	This is welcome!
GE	Manufacturing PMI (Dec, prelim)	44.6	**43.4**	44.1	Disappointing.
GE	Services PMI (Dec, prelim)	52.0	**52.0**	51.7	This is welcome!
FR	Manufacturing PMI (Dec, prelim)	51.5	**50.3**	51.7	Disappointing.
JN	Manufacturing PMI (Dec, prelim)	na	**48.8**	48.9	Dismal, but might be bottoming out.
JN	Services PMI (Dec, prelim)	na	**50.6**	50.3	Doing the heavy lifting.
Tuesday, December 17					
US	Housing Starts (Nov, thous)	1340	**1365**	1323(↑r)	Housing revival continues.
US	Industrial Production (Nov, m/m)	0.9%	**1.1%**	-0.9%(↓r)	Rebound in auto production.
US	JOLTS Job Openings (Oct, thous)	7018	**7267**	7032(↑r)	Solid pipeline demand for labor.
CA	Manufacturing Sales (Oct, m/m)	0.0%	**-0.7%**	-0.2%	Lower auto sales impacted by strikes.
UK	ILO Unemployment Rate (Oct)	3.9%	**3.8%**	3.8%	Labor market is still very strong.
Wednesday, December 18					
CA	Teranet/National Bank HPI (Nov, y/y)	na	**1.4%**	1.0%	Further evidence of strength in housing.
CA	CPI (Nov, y/y)	2.2%	**2.2%**	1.9%	Energy prices drove up headline inflation.
UK	CPI (Nov, y/y)	1.4%	**1.5%**	1.5%	Well under control.
EC	CPI (Nov, final, y/y)	1.0%(p)	**1.0%**	0.7%	Has it bottomed once and for all?
GE	IFO Business Climate (Dec)	95.5	**96.3**	95.1(↑r)	Finally turning higher.
Thursday, December 19					
US	Initial Jobless claims (Dec 14, thous)	225	**234**	252	Have ticked up in last two weeks.
US	Existing Home Sales (Nov, m/m)	-0.6%	**-1.7%**	1.5%(↓r)	Super tight inventories.
US	Philadelphia Fed Business Outlook (Dec)	8	**-0.3**	10.4	Details seemed much better, actually.
UK	BoE Monetary Policy Decision	0.75%	**0.75%**	0.75%	Still on hold.
UK	Retail Sales (Nov, m/m)	0.2%	**-0.6%**	0.0%(↑r)	Ughh!
JN	BoJ Monetary Policy Decision	-0.10%	**-0.10%**	-0.10%	Fiscal takes the spotlight.
AU	Unemployment Rate (Nov)	5.3%	**5.2%**	5.3%	Rebound in employment, though part-time.
Friday, December 20					
US	GDP (Q3, third, q/q saar)	2.1%(p)	**2.1%**	2.0%	Mildly stronger final sales.
US	Personal Income (Nov, m/m)	0.3%	**0.5%**	0.1%(↑r)	Excellent for sustaining consumption.
US	Personal Spending (Nov, m/m)	0.4%	**0.4%**	0.3%	Good.
US	U of M Cons. Sentiment (Dec, final)	99.2(p)	**99.3**	96.8	LT inflation expectations hit all time low.
CA	Retail Sales (Oct, m/m)	0.5%	**-1.2%**	0.0%(↑r)	Again, lower vehicles sales a drag.
UK	GDP (Q3, final, q/q)	0.3%(p)	**0.4%**	-0.2%	Even larger inventory decline...
UK	GfK Consumer Confidence (Dec)	-14	**-11**	-14	Could improve further.
GE	GfK Consumer Confidence (Jan)	9.8	**9.6**	9.7	Historically elevated still.
JN	CPI (Nov, y/y)	0.5%	**0.5%**	0.2%	Arrest in falling food prices.

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

Week in Preview: Data Releases and Major Events (December 23 – December 27)

Country	Release (Date, format)	Consensus	Last	Comments
Monday, December 23				
US	New Home Sales (Nov, thous)	730	733	
US	Durable Goods Orders (Nov, prelim, m/m)	1.5%	0.5%	
CA	GDP (Oct, m/m)	na	0.1%	Strikes should have impeded activity.
JN	All Industry Activity Index (Oct)	-4.3	1.5%	
JN	Leading Index (Oct, final)	91.8(p)	91.9	Not much change.
AU	Private Sector Credit (Nov, m/m)	0.2%	0.1%	Has failed to respond to lower rates.
Tuesday, December 24				
	No release of note			
Wednesday, December 25				
JN	PPI Services (Nov, y/y)	2.1%	2.1%	
Thursday, December 26				
US	Initial Jobless claims (Dec 21, thous)	na	234	
JN	Annualized Housing Starts (Nov, mil.)	0.9	0.9	
Friday, December 27				
GE	Retail Sales (Nov, m/m)	na	-1.9%	
JN	Unemployment Rate (Nov)	2.4%	2.4%	Tight.
JN	Retail Sales (Nov, m/m)	5.0%	-14.2%(↓r)	That's good news!
JN	Industrial Production (Nov, prelim, m/m)	-1.1%	-4.5%	Manufacturing might be on the mend here.

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

Economic Indicators

Central Bank Policy Targets

		Year/Year % Change in Target				
		Jul	Aug	Sep	Oct	Nov
US	Target: PCE price index 2.0% y/y	1.4	1.4	1.3	1.4	1.5
Canada	Target: CPI 2.0% y/y, 1.0%-3.0% control range	2.0	1.9	1.9	1.9	2.2
UK	Target: CPI 2.0% y/y	2.1	1.7	1.7	1.5	1.5
Eurozone	Target: CPI below but close to 2.0% y/y	1.0	1.0	0.8	0.7	1.0
Japan	Target: CPI 2.0% y/y	0.5	0.3	0.2	0.2	0.5
Australia	Target Range: CPI 2.0%-3.0% y/y	1.7	1.7	1.7		

Source: Macrobond

Key Interest Rates

	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19
US (top of target range)	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.25	2.00	1.75	1.75
Canada (Overnight Rate)	1.75	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	-0.05	-0.06	-0.07	-0.06	-0.08	-0.07	-0.06	-0.06	-0.03	-0.03
Australia (OCR)	1.50	1.50	1.50	1.50	1.50	1.28	1.02	1.00	1.00	0.76	0.75

Source: Macrobond

General Government Structural Balance as a % of Potential GDP

									Forecast	
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
US	-9.6	-8.2	-6.4	-4.5	-3.8	-3.6	-4.4	-4.8	-6.0	-6.3
Canada	-3.8	-3.1	-2.1	-1.1	0.1	0.8	0.7	0.0	-0.2	-0.5
UK	-7.2	-5.9	-6.0	-4.0	-4.7	-4.1	-2.9	-2.0	-1.5	-1.3
Eurozone	-4.8	-3.9	-2.1	-1.2	-0.9	-0.8	-0.7	-0.7	-0.6	-0.7
Germany	-2.7	-1.4	0.0	0.6	1.2	1.2	1.3	1.1	1.4	0.9
France	-5.9	-5.0	-4.4	-3.4	-3.3	-3.0	-2.8	-2.6	-2.5	-2.4
Italy	-3.7	-4.1	-1.5	-0.6	-1.1	-0.7	-1.4	-1.7	-1.8	-1.5
Japan	-8.0	-8.0	-7.6	-7.5	-5.5	-4.3	-4.1	-3.4	-3.1	-2.9
Australia	-5.0	-4.3	-3.3	-2.6	-2.6	-2.4	-2.2	-1.5	-0.6	-0.4

Source: International Monetary Fund, World Economic Outlook

Headline Consumer and Producer Price Inflation

	CPI Year/Year % Change					PPI Year/Year % Change				
	Jul	Aug	Sep	Oct	Nov	Jul	Aug	Sep	Oct	Nov
US	1.8	1.7	1.7	1.8	2.1	1.6	1.8	1.4	1.1	1.1
Canada	2.0	1.9	1.9	1.9	2.2	-1.7	-1.0	-1.3	-1.3	
UK	2.1	1.7	1.7	1.5	1.5	1.9	1.7	1.2	0.8	0.5
Eurozone	1.0	1.0	0.8	0.7	1.0	0.1	-0.8	-1.2	-1.9	
Germany	1.7	1.4	1.2	1.1	1.1	1.1	0.3	-0.1	-0.6	-0.7
France	1.1	1.0	0.9	0.8	1.0	-0.2	-0.5	-0.7	-1.1	-0.5
Italy	0.4	0.4	0.3	0.2	0.2	-0.7	-1.4	-1.6	-2.9	-2.5
Japan	0.5	0.3	0.2	0.2	0.5	-0.6	-0.9	-1.1	-0.4	0.1
Australia	1.7	1.7	1.7			1.6	1.6	1.6		

Source: Macrobond

Economic Indicators

Real GDP Growth (Q/Q Seasonally Adjusted)

	Quarter/Quarter % Change					Year/Year % Change				
	Q3-18	Q4-18	Q1-19	Q2-19	Q3-19	Q3-18	Q4-18	Q1-19	Q2-19	Q3-19
US	0.7	0.3	0.8	0.5	0.5	3.1	2.5	2.7	2.3	2.1
Canada	0.6	0.2	0.2	0.9	0.3	2.0	1.8	1.5	1.9	1.7
UK	0.6	0.2	0.6	-0.2	0.4	1.6	1.4	2.0	1.2	1.1
Eurozone	0.2	0.3	0.4	0.2	0.2	1.6	1.2	1.4	1.2	1.2
Germany	-0.1	0.2	0.5	-0.2	0.1	1.1	0.6	1.0	0.3	0.5
France	0.3	0.4	0.3	0.3	0.3	1.5	1.2	1.3	1.4	1.4
Italy	-0.1	0.1	0.1	0.1	0.1	0.4	-0.1	0.0	0.1	0.3
Japan	-0.6	0.3	0.6	0.5	0.4	-0.3	-0.3	0.8	0.8	1.9
Australia	0.3	0.2	0.5	0.6	0.4	2.5	2.1	1.7	1.6	1.7

Source: Macrobond

Industrial Production Index (M/M Seasonally Adjusted)

	Month/Month % Change					Year/Year % Change				
	Jul	Aug	Sep	Oct	Nov	Jul	Aug	Sep	Oct	Nov
US	-0.2	0.8	-0.4	-0.9	1.1	0.4	0.4	-0.2	-1.3	-0.8
Canada	-1.7	0.1	-0.2			-2.2	-2.2	-1.8		
UK	0.1	-0.7	-0.2	0.1		-1.1	-1.9	-1.4	-1.3	
Germany	-0.7	0.6	-0.6	-1.7		-4.2	-4.0	-4.5	-5.3	
France	0.3	-1.0	0.4	0.4		0.1	-1.3	0.2	-0.2	
Italy	-0.8	0.4	-0.4	-0.3		-0.6	-1.8	-2.2	-2.3	
Japan	1.3	-1.2	1.7	-4.5		-1.1	-2.0	-0.3	-6.6	

Source: Macrobond

Unemployment Rate (Seasonally Adjusted)

	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19
US	4.0	3.8	3.8	3.6	3.6	3.7	3.7	3.7	3.5	3.6	3.5
Canada	5.8	5.8	5.8	5.7	5.4	5.5	5.7	5.7	5.5	5.5	5.9
UK	3.9	3.8	3.8	3.8	3.9	3.8	3.9	3.8	3.8		
Eurozone	7.8	7.8	7.7	7.6	7.6	7.5	7.6	7.5	7.6	7.5	
Germany	5.0	5.0	4.9	4.9	5.0	5.0	5.0	5.0	5.0	5.0	5.0
France	8.7	8.6	8.6	8.5	8.5	8.5	8.6	8.6	8.6	8.5	
Italy	10.4	10.5	10.1	10.1	10.0	9.8	9.9	9.6	9.9	9.7	
Japan	2.5	2.3	2.5	2.4	2.4	2.3	2.2	2.2	2.4	2.4	
Australia	5.1	5.0	5.1	5.2	5.2	5.3	5.2	5.3	5.2	5.3	5.2

Source: Macrobond

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

	Q1-17	Q2-17	Q3-17	Q4-17	Q1-18	Q2-18	Q3-18	Q4-18	Q1-19	Q2-19	Q3-19
US	-2.2	-2.5	-2.0	-2.3	-2.3	-2.1	-2.4	-2.8	-2.6	-2.4	
Canada	-2.2	-2.7	-3.4	-3.0	-2.8	-2.6	-1.8	-2.8	-3.0	-1.2	-1.7
UK	-3.2	-4.0	-3.4	-3.3	-3.4	-4.4	-4.3	-5.1	-6.0	-4.6	
Eurozone	3.1	1.9	3.9	3.6	3.5	3.6	2.6	2.8	3.1	2.4	
Germany	8.3	7.0	8.6	8.6	8.5	7.6	6.5	7.4	7.8	7.6	8.1
France	-1.3	-0.7	-0.7	-0.3	-0.3	-1.4	-0.5	-0.5	-0.8	-0.8	-1.0
Japan	4.3	3.7	4.6	4.2	3.6	4.0	3.4	3.1	3.4	3.5	3.5
Australia	-1.5	-2.5	-2.8	-3.5	-2.2	-2.7	-2.2	-1.4	-0.2	1.2	

Source: Macrobond

Important Risk Discussion

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