STATE STREET GLOBAL ADVISORS

February 21, 2020
Commentary

Weekly Economic Perspectives

Contents

Spotlight on Next Week
New home sales should rise in the US but consumer confidence may not. Canadian GDP may have expanded mildly in January. Retail sales likely fell in Japan.

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The Economy

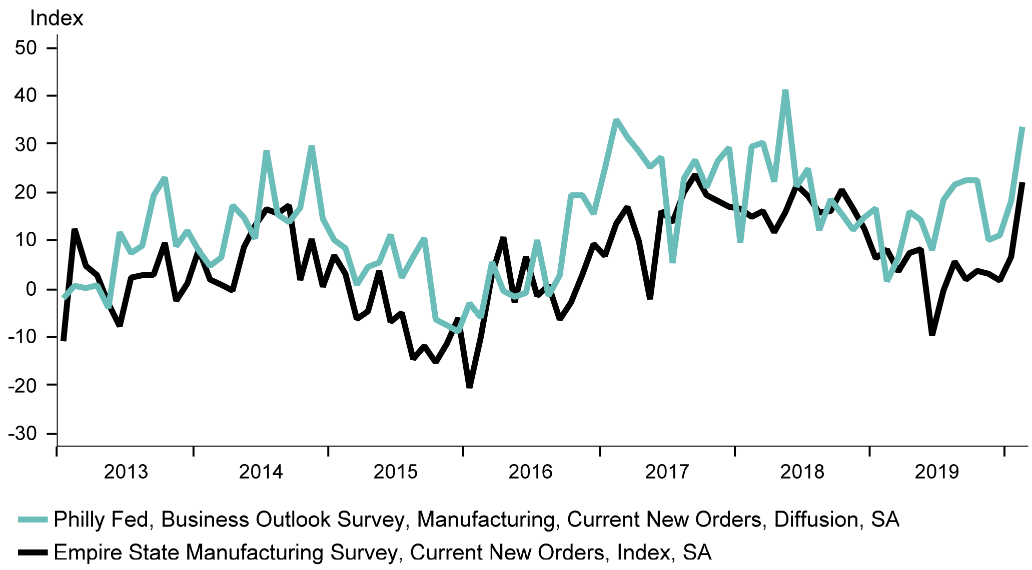
This week's macro data underscored concerns about the impact that the Covid-19 outbreak is having on global economic activity, particularly services. While updates from European flash PMIs and regional Fed manufacturing surveys came in better than expected, a big miss on Japanese GDP early in the week and another on US services PMI (Markit measure) at the end led to a clear risk-off move in markets. The 30-year treasury yield hit a record low.

US

Updates from the regional Fed surveys released this week blew way past expectations, suggesting that US manufacturing activity was noticeably accelerating prior to what is likely to be a bout of disruptions related to the Covid-19 outbreak. The **Empire Fed manufacturing survey** jumped 8.1 points to 12.9 in February, more than twice as much as expected, to the highest level since May 2019. New orders hit the highest since September 2017 (+15.5 points to 22.1), shipments surged (+10.3 points to 18.9) and firms on balance added to inventories (+13.6 points to 12.9).

Even more impressive was the **Philly Fed index**, which surged 19.7 points to 36.7, the biggest monthly gain since June 2009 and the highest level since February 2017. New orders jumped 15.4 points to 33.6, the biggest monthly gain and highest level since May 2018. Shipments rose modestly, backlogs and orders rose strongly, with the one exception to the improving trends being the number of employees, which declined sharply to a six-month low. More positively, though the average workweek lengthened noticeably.

Figure 1: US Manufacturing Activity On The Mend Prior To Covid-19



Sources: Federal Reserve Bank of New York, Federal Reserve Bank of Philadelphia,

We typically do not report on the Markit PMI indexes for the US since the ISM measures are more widely followed domestically. But we had to do so this week since a big miss on the services PMI on Friday essentially upended the entire otherwise decent data week, with investors looking at this print as a bad omen of things to come. Admittedly, it was far from pretty! The preliminary Markit services PMI plunged 3.8 points in February to 49.4, the first sub-50 print since early 2016 and, prior to that, late 2013. It remains to be seen how the ISM index will performance when we finally get that update on March 4th, but we suspect it would show far less movement than the Markit index. This was also the case during the two episodes mentioned above.

Existing home sales have rebounded alongside the new home sales recently as lower mortgage rates aid affordability. Admittedly, sales declined 1.3% in January, but that followed an upwardly revised 3.9% gain in December and still left sales 9.6% higher than a year earlier. The median selling price rose 6.8% y/y. Supply remains a binding constraint, though, as the inventory ratio stood close to record lows at 3.1 months' worth of sales. Homes stayed on the market an average of 43 days, two more than in December and 12 more than in August.

Residential construction keeps besting expectations thanks to a supportive combination of strong demand and lower interest rates, further accentuated recently by warm weather. After an extraordinary surge in December, which, after revisions, was even more impressive than originally reported, **housing starts** soared past expectations again in January. Admittedly, they eased 3.6% to 1,567,000 (annualized), but this was the second highest level since the crisis. Single-family starts declined 5.9% to 1.01 million (annualized) while multifamily starts, a category that tends to be volatile and includes apartment buildings and condominiums, edged up 0.7% to the highest level since 1986. All this left overall starts up 21.4% y/y, with single starts up 4.6% y/y and multi-family starts up 71.4% y/y.

The rebound in **building permits**—a leading indicator of starts—remained impressive. Permits jumped 9.2% in January, the biggest monthly gain since June 2017, reaching a post-recession high of 1,551,000 (annualizes). Single-family permits touched a new cycle high; multi-family permits reached the highest since mid-2015.

Homebuilder sentiment is hovering near pre-recession highs. Having surged 5.0 points to a new cycle high in December, the National Association of Homebuilders' (NAHB) index lost one point each in January and February, but only to a very strong 74. Buyer traffic, present sales, and future sales eased one point each to 57, 80, and 79, respectively, close to cycle highs themselves. Sentiment among builders in the South was the strongest on record while that in the Northeast reached a 14 year high. There may be limited upside potential from here on absent another leg lower in mortgage rates, but just maintaining current levels of activity would be quite positive for economic growth.

The **index of leading economic indicators** trended sharply higher from late 2016 to mid-2018, subsequently flat-lined, and had recently turned lower. That is, until January, when it jumped 0.8%—the largest monthly increase since October 2017 and, prior to that, February 2017. Unsurprisingly given the magnitude of the headline move, most components made positive contributions, with jobless claims and building permits by far the largest. Stock prices and the credit index also made sizable contributions while the ISM new orders was the only detractor. The index rose 0.9 y/y in January, up from 0.1% y/y in January and 3.4% in January of 2019.

Unemployment claims trended uniformly lower through the end of 2018 but have since been trending more volatilely sideways. Put differently, they continue to hover near cycle lows but are no longer making new lows. Initial claims—a measure of job shedding—rose 4,000 to 210,000 in the week ending February 15, not that far off from the cycle low of 193,000 reached in March 2019. Continuing claims—a measure of unemployment—have experienced sizable moves in recent weeks and did so again in the week ending February 8 when they rose by 25,000 to 1,726,000.

Headline **producer price inflation** (PPI) may be at an inflection point after the gentle downtrend since mid-2018. PPI inflation accelerated 0.8 percentage points to 2.1% y/y in January, largely driven by higher service costs. The traditional core measure (excluding food and energy) accelerated six tenths to 1.7% y/y, but the alternative core (which also excludes volatile trade services) stayed at 1.5% y/y.

The **minutes** from **FOMC**'s January 28-29 meeting didn't include any genuine revelations, and seemed in any case to have been quickly overtaken by new developments around the Covid-19 outbreak, plus what appeared to be an onslaught of Fed officials hitting the airways on Friday. Committee members appeared comfortably on hold, a stance articulated well by Chair Powell in the press conference. According to the minutes alone, it appears as though field contacts were starting to present the Committee with a mildly improved estimation of economic conditions, both in terms of sentiment and capex plans, but also labor market tightness. However, that balance may have since shifted although Fed officials have so far downplayed the impact of the coronavirus outbreak as temporary. Elsewhere, balance sheet expansion seems likely to continue through April and for the strategy review to continue for a few more months. There doesn't appear to be much in the way of a consensus view on how to alter the inflation target definition in a way that enhances the targets' credibility. Expect to hear a lot more on this in coming months.

Canada

Headline **consumer price inflation** came in a tad above expectations at 2.4% y/y in January, up two tenths from December. Again, bulk of the increase can be attributed to rising gasoline prices, which rose by 11.2% due to base effect. This caused transportation sub index to increase 5.0% over the year. Food prices also rose, by 3.2% on the back of rising vegetable prices (+5.0%). Inflation excluding food and energy prices came in at a much more reasonable 1.9%, still up one tenth from December. Prices for passenger vehicles also shot up to 2.3% from 1.4% in December, due to higher availability of new model-year vehicles. Headline inflation will likely moderate as oil prices exert a negative base effect, but we expect it to still stay close to target. The average of core inflation measures shifted down slightly—as both the weighted median and trimmed mean stayed at 2.2% and 2.1% respectively, while the common component fell two tenths to 1.8%. On a monthly basis, prices rose 0.3% in January, following having remained unchanged in December.

Nominal **manufacturing sales** have been trending lower lately, with sales down for four straight months. Sales declined 0.7% m/m in December, down in 11 out of the 21 sectors. Motor vehicle sales fell 6.8%, mainly due to factory shutdowns. Sales were lower in aerospace (-15.7%) and plastic (-5.6%), which was offset by an 8.7% increase in primary metal sales. Inventories declined by 0.3%, raising the inventory to sales ratio to 1.55 from 1.54 in November. New orders fell 0.6%, reflecting lower orders for aerospace products. The capacity utilization rate dropped 3.7 percentage points to 76.3%, lowest in at least three years. Real sales fell by 0.4%.

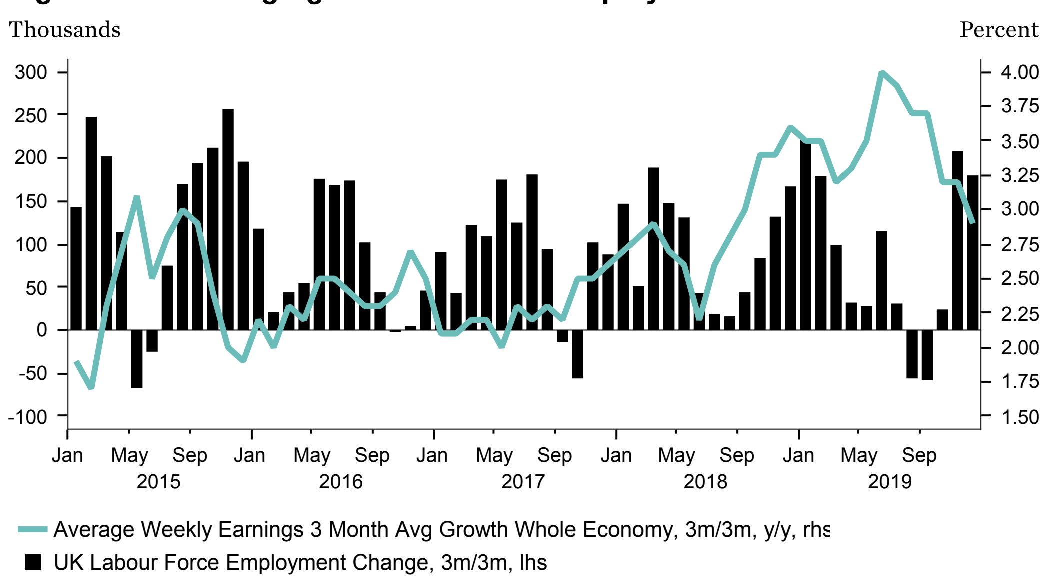
Retail sales were essentially unchanged in December, having risen 0.9% in November. Higher sales at building material and garden equipment dealers (+3.2%) and food and beverage stores (+0.6%) were offset by motor vehicle and parts dealers (-0.7%) and gasoline stations (-4.8%). Real sales were also unchanged. Sales increased 1.6% in 2019, which the smallest gain since 2009.

The housing market is on a clear path to recovery, as reported by the **11-City housing report** published by Teranet and the Bank of Canada. Admittedly, house price index increased just 0.1% in January, which was below average for the month. Declines in Quebec (−1.4%), Calgary (−1.1%), Victoria (−0.8%) and Winnipeg (−0.7%) pulled pries down, offset by Hamilton (+0.8%), Montreal (+0.5%) and Vancouver (+0.2%). In annual terms, prices were up by 2.1% y/y, accelerating for the sixth consecutive month.

UK

The labor market took a turn for the better recently although we'd like to see more evidence before concluding that this trend has staying power. Employment rose by 180,000 in October-December, in sharp contrast to a decline of 58,000 in the three months prior. Unemployment declined by 16,000, leaving the **unemployment rate** unchanged at 3.8%. The claimant count unemployment rate was unchanged at 3.4%. Encouragingly, vacancies increased by 7,000 in the first back-to-back advance in a year. Meanwhile, wage inflation has retreated, but remains quite healthy. Overall average weekly earnings moderated to 2.9% y/y in October-December, with regular pay (excluding bonuses) up 3.2% y/y. Both measures had neared 4.0% y/y several months ago so there has been a clear deceleration in nominal wage inflation. However, the pullback in real earnings has been more subdued. In fact, real weekly regular earnings (excluding bonuses) were up 1.8% y/y in the last three months of 2019, where they've been for several months prior.

Figure 2: Encouraging Rebound In UK Employment



Sources: ONS

After a dreadful few months, **real retail sales** bounced a little in January, up 0.9% for the best monthly gain since March 2019. With the exception of household goods, improvements were broad-based, including a 4.0% jump in clothing and footwear. Given the primarily discretionary nature of this category, this may signal an improved willingness to spend. If so, this would come not a moment too soon. Indeed, even after the hefty January gain, sales are still up by only 0.8% y/y, far below the 4.5% growth rate recorded in January 2019, and even the 3.3% 2019 annual average.

The high frequency data received since the December election have generally been better than expected and the preliminary **manufacturing PMI** (purchasing managers' index) was no exception. Indeed, the index bucked expectations for a small retreat and instead jumped 1.9 points to a ten-month high of 51.9. Production jumped 2.7 points, also to a ten-month high of 52.8, new orders improved 1.0 point to an eleven-month high of 52.3 and new export orders jumped 3.2 to 50.9. Not everything was rosy, though, as employment eased 0.2 point to 49.9 and backlogs contracted at an even faster pace. Nonetheless, this was a much better than expected release overall.

Admittedly, the **services PMI** retreated half a point to 53.3 in the preliminary February read, but this shouldn't cause readers to lose sight of the fact that the two-month average for January-February is currently the highest it's been since August-September of 2018. Still, we would expect some further pressure on near-term releases due to the impact of Covid-19 outbreak on international travel and tourism. There were major surprises in the details but the output price component did catch our eye by increasing 1.1 points to 55.0, the highest in over two years. This may suggest some building inflationary pressures in the pipeline.

Headline inflation did, in fact, firm more than expected in January, having lost considerable momentum since 2018. Overall **consumer prices** fell 0.3% in January, due to big declines in apparels and household goods, both down 3.3%. Easier base effects, however, helped CPI inflation accelerate five tenths to 1.8% y/y, the highest level in six months. Core inflation edged up two tenths to 1.6% y/y.

Eurozone

There is growing evidence that ***eurozone* manufacturing activity** is bottoming out. While still contracting, it did so at the slowest pace in a year in February, according the preliminary purchasing managers' index. The regional index jumped 1.2 points to 49.1, the second large increase in a row and the highest level since February 2019. Perhaps the most encouraging detail was a 1.0 point improvement in the employment measure, although only to 47.9. New orders rose 0.2 to 49.2 and output advanced 0.4 to 48.4. By far the most disappointing was the 1.9-point plunge in new export orders to 47.6. This may be an early indication of the Covid-19 impact. Performance varied widely across geographies, with the German index up a sharp 2.5 points to a thirteen month high of 47.8 but the French index down 1.4 to a seven-month low of 49.7.

Service activity has held up much better than manufacturing, but it could hardly be described as buoyant. The eurozone purchasing managers' index (PMI) for services moved back up 0.3 point to 52.8 in February on a 1.6-point rebound in the French index (to 52.6) that offset a 0.8-point retreat in the German index (to 53.3).

After skyrocketing 16 points to a four-and-a-half year high of 26.7 points in January, the **ZEW index of *German* investor confidence** relapsed to 8.7 in February. Both current and future economic situation assessments worsened, with the former down 6.2 points and the latter down by 15.2. The accompanying press release noted that "the feared negative effects of the Coronavirus epidemic in China on world trade have been causing a considerable decline of the ZEW Indicator of Economic Sentiment for Germany". It is quite unfortunate that the virus outbreak hit just as evidence was building of a turn in global manufacturing cycle. Hopefully, this will prove to be a transient shock, just as had been the case in similar prior episodes.

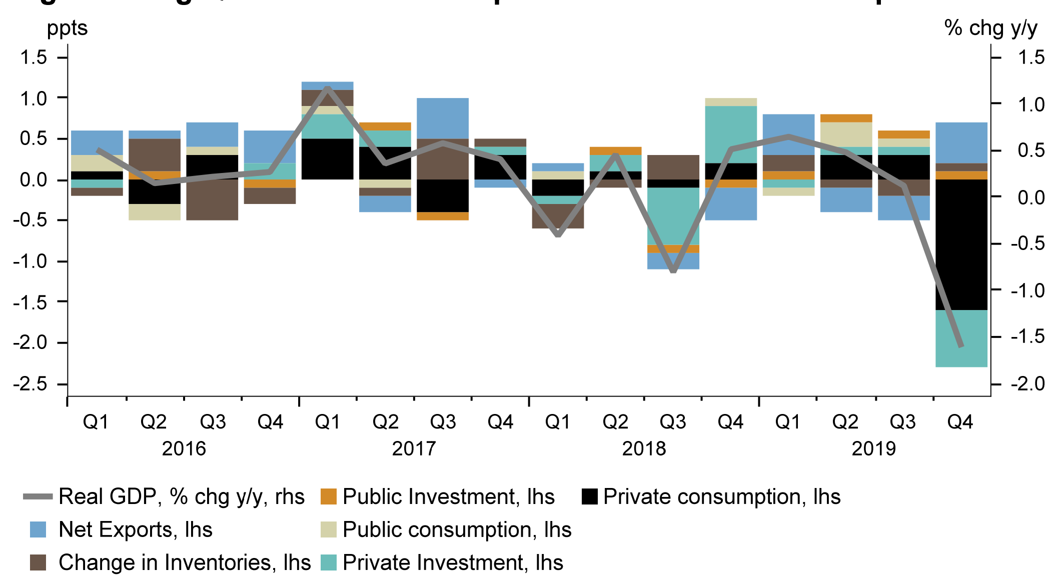
After losing some momentum earlier in 2019, ***German* consumer sentiment** has been remarkably steady over the last nine months or so. The GfK index of consumer confidence has hovered in a very tight range around 9.8 for some moments and settled at exactly that level in March.

***Italian* industrial activity** has been persistently weak throughout 2019 and there is no compelling evidence yet of a turnaround. Admittedly, industrial orders rose 1.4% in December, which left them 6.0% higher than in December 2018, the best comparison since April 2018. Unfortunately, this is simply a reflection of easier base comparisons than of genuine strength. Meanwhile, industrial sales plunged 3.0% during the month and were down 1.4% y/y in December. A dismal end to a dismal year…

Japan

The pullback in Japan's **GDP** was sharp, but still less than the fall observed post the tax hike in April 2014. Preliminary estimates of GDP in the fourth quarter came in at -1.6% q/q (-6.3% annualized), compared to -1.9% q/q (-7.4% annualized) in the second quarter of 2014. That said, the reading was lower than anticipated, and the third quarter figure was revised down from 1.8% q/q to 0.5% q/q, underscoring the fact that the frontloading of spending has not been as strong as expected.

Figure 3. Big Q4 Contraction In Japan Undermines 2020 Prospects



Sources: Japanese Cabinet Office (CaO)

Not surprisingly, household consumption was the biggest drag, falling 3.0% (-11.5% annualized) and shaving 1.6 percentage points (ppts) off headline growth. The hardest hit were purchase of durable (-12.8% q/q) and semi-durable goods (-6.2% q/q). Again, the drawdown in consumption was lower than that post the 2014 hike (-4.8% q/q). Business investment was also weak—with both residential and non-residential demand contracting, by 2.7% and 3.7% respectively, subtracting a cumulative 0.7 ppts off GDP. The fall in exports was less pronounced (-0.1% q/q), but imports fell again (-2.6% q/q) due to lukewarm private demand. Going forward, we expect private consumption to remain subdued, while capex will also be hurt. Add to that the disruptions in supply chain caused by the Covid-19 breakout, and at minimum, we are looking at a technical recession.

Headline **inflation** slowed slightly in January, coming in at 0.7% y/y compared to 0.8% y/y from December. Hotel and other accommodation charges, which had boosted inflation in December (+3.8%), actually turned negative in January (-2.0%). The coronavirus outbreak has hit tourism particularly hard, a key source of demand for services. Cost for education declined by 7.8% for the fourth straight month, likely a result of the government’s drive to subsidize education costs from pre-school to university. These were offset by gasoline prices which rose 6.3%, having fallen 0.1% in December. It is unlikely to persist though, given the sharp contraction in oil prices in January. Food inflation was up 1.2%, led by a sharp acceleration in cost of dining outside (+3.1%), which is a direct impact of the VAT hike. Housing inflation was unchanged at 0.8%. Core CPI (excluding fresh food) printed at 0.8%, same as in December, while the new BoJ core CPI (excluding fresh food and energy) edged down one tenth to 0.8%. The pullback in economic activity will take its toll on inflation, delaying the expected uptick.

Japan’s manufacturing has been playing catch up to the rest of the world, but extremely weak consumption pattern and supply disruptions due to Covid-19 scare will seriously hamper the recovery. The preliminary **purchasing managers’ index for manufacturing** lost 1.2 points to 47.6 in February, the lowest on record. New orders provided the most drag, while output and employment indices also dropped.

The biggest negative surprise was the massive drop in services activity, as the preliminary figure for **purchasing managers’ index for services** slumped 4.3 points to 47.6, again the lowest on record. Total new sales fell for the first time since July 2016, drawing on the reduced footfall due to loss in tourism. We echo the sentiment expressed in the accompanying press release, “overall, February flash PMI data stack the odds heavily against Q1 growth, despite Abe’s best efforts to stimulate the economy after the sales tax hike”.

Core machinery orders (private sector orders other than for ships and electricity generating equipment) slumped 12.5% in December, having jumped 18.0% the month before. This wasn’t a shock as the November gain was an outlier after four straight declines. Goods orders rose 4.3%, while services orders plummeted 21.3%. This reinforces our view that the earlier turnaround had probably been due to the pent-up demand in businesses caused by the weather disruptions. Public orders also declined 23.3%. October-December core orders fell by 2.1% q/q, the second consecutive quarterly decline. The January-March order outlook anticipates a 5.2% q/q decline, which would mark the third straight quarterly decline.

Australia

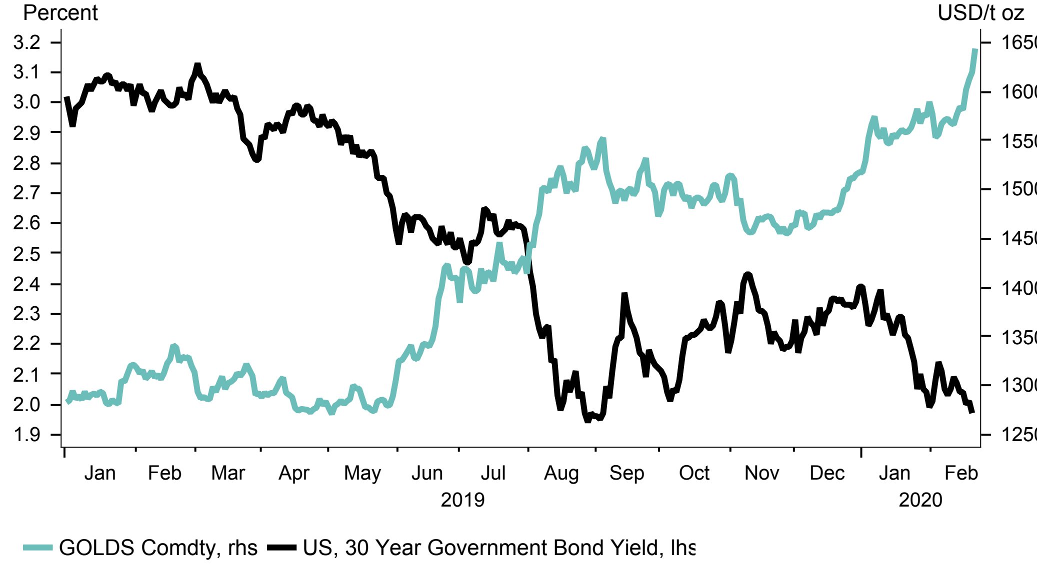
Despite a healthy gain in employment, the **unemployment rate** inched up two tenths to 5.3% in January. The number of people employed increased by 13,500 to 13.0 million in January after a strong showing in December. The gains were entirely in full time jobs which rose by 46,200, while part time jobs declined by 32,700. The participation rate increased 0.1 percentage points to 66.1%. The underemployment rate rose from 8.3% to 8.6%, which lifted the underutilization rate to 13.9%, the highest since June 2018. The solid December figures might have stayed RBA's hand in February, but forward looking indicators have the unemployment rate tracking sideways at best for the rest of the year.

Wage growth appears to be broadly stable, which is consistent with only a gradual recovery. Wages rose 0.5% in the December quarter, for the fourth consecutive time barring the 0.8% gain in Q3. This kept the annual pace of wage inflation unchanged at 2.2% y/y. Both public and private sector wages grew at 2.2%, though it was the lowest wage growth on record seen in public sector. Slow wage growth is reflective of the persistent underutilization in the labor market. Given unemployment rate is still a long way from NAIRU (around 4.5%), we believe the RBA will need to deliver one more cut, possibly in the third quarter to boost wage growth.

The Market This Week

A big miss on the US Markit services PMI on Friday revived worries about the Covid-19 impact on global economic activity. Uncertainty going into the Nevada caucus on Saturday also helped push the 30-year treasury yield to a new record low.

Figure 4: Safe Havens Catch A Bid



Sources: Bloomberg, U.S. Department of Treasury

Equities: Risk-off week with equities down sharply in Japan, Japan, and Germany.

Bonds: Bond yields decline; the 30-year US Treasury yield hits record low.

Currencies: The dollar gives back most of its earlier gains on Friday.

Commodities: Oil and gold move up, with gold catching a major bid.

2/21/20 2:51 PM

Stock Markets					10 Year Bond Yields			Currencies		
Country	Exchange	Last	% Ch Week	% Ch YTD	Last	BPs Ch Week	BPs Ch YTD	Last	% Ch Week	% Ch YTD
US	S&P 500®	3334.82	-1.3%	3.2%	1.47	-11	-45	99.279	0.2%	3.0%
Canada	TSE 300	17847.63	0.0%	4.6%	1.28	-9	-42	1.3212	-0.3%	1.7%
UK	FTSE®	7403.92	-0.1%	-1.8%	0.57	-6	-25	1.2975	-0.6%	-2.1%
Germany	DAX	13579.33	-1.2%	2.5%	-0.43	-3	-25			
France	CAC-40	6029.72	-0.7%	0.9%	-0.20	-5	-32	1.0856	0.2%	-3.2%
Italy	FTSE® MIB	24773.15	-0.4%	5.4%	0.91	-1	-50			
Japan	Nikkei 225	23386.74	-1.3%	-1.1%	-0.06	-3	-5	111.62	1.7%	2.8%
Australia	ASX 200	7138.962	0.1%	6.8%	0.94	-11	-43	0.663	-1.3%	-5.6%

Commodity Markets						
Commodity	Unit	Source	Last Price	%Ch Week	%Ch YTD	%ChYr Ago
Oil (Brent)	US $/Barrel	Bloomberg	57.92	1.2%	-12.8%	-13.0%
Gold	US $/troy oz	Bloomberg	1643.51	3.8%	8.3%	24.2%

Source: Bloomberg®

Week in Review (February 17–February 21)

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, February 17					
JN	GDP (Q4, prelim, q/q)	-1.0%	-1.6%	0.1%(↓r)	Looking at a technical recession.
JN	Industrial Production (Dec, final, m/m)	1.3%(p)	1.2%	-1.0%	Inventories up significantly.
Tuesday, February 18					
US	NAHB Housing Market Index (Feb)	75	74	75	Elevated.
US	Empire Manufacturing (Feb)	5.0	12.9	4.8	Sharp upturn
CA	Manufacturing Sales (Dec, m/m)	0.7%	-0.7%	-1.0%(↓r)	Disappointing.
UK	ILO Unemployment Rate (Dec)	3.8%	3.8%	3.8%	Solid.
UK	Average Weekly Earnings (Dec, 3m y/y)		2.9%	3.2%	Good enough given where inflation is.
GE	ZEW Investor Expectations (Feb)	21.5	8.7	26.7	Sharp pullback after surge.
Wednesday, February 19					
US	FOMC Meeting Minutes				No revelations here.
US	Building Permits (Jan, thous)	1450	1551	1420(↑r)	Really impressive!
US	Housing Starts (Jan, thous)	1428	1567	1626(↑r)	Really impressive!
US	PPI Final Demand (Jan, y/y)	1.6%	2.1%	1.3%	Turning higher.
CA	CPI (Jan, y/y)	2.3%	2.4%	2.2%	Up on gasoline and food prices.
UK	CPI (Jan, y/y)	1.6%	1.8%	1.3%	Has it bottomed?
JN	Core Machine Orders (Dec, m/m)	-8.9%	-12.5%	18.0%	Back to downward trend.
JN	Trade Balance Adjusted (Jan, ¥ bil.)	-550.3	-224.1	-107.2(↓r)	Exports continue the decline.
AU	Wage Price Index (Q4, y/y)	2.2%	2.2%	2.2%	Chugging along.
Thursday, February 20					
US	Initial Jobless claims (Feb 15, thous)	210	210	205	Still low, but no longer making new lows.
US	Leading Index (Jan, m/m)	0.4%	0.8%	-0.3%	Big rebound.
US	Philadelphia Fed Business Outlook (Feb)	11.0	36.7	17.0	Impressive! If only it could last…
CA	Teranet/National Bank HPI (Jan, y/y)		2.1%	1.9%	On a path to recovery.
UK	Retail Sales (Jan, m/m)	0.7%	0.9%	-0.5%(↑r)	Finally, some improvement!
GE	GfK Consumer Confidence (Mar)	9.8	9.8	9.9	Steady.
FR	CPI (Jan, final, y/y)	1.5%(p)	1.5%	1.5%	Steady.
AU	Unemployment Rate (Jan)	5.2%	5.3%	5.1%	Mixed report.
Friday, February 21					
US	Existing Home Sales (Jan, m/m)	-1.8%	-1.3%	3.9%(↑r)	Up 9.6% y/y.
CA	Retail Sales (Dec, m/m)	0.1%	0.0%	0.9%	Full year growth in sales lowest since 2009.
UK	Manufacturing PMI (Feb, prelim)	49.7	51.9	50.0	A pleasant surprise. Ten-month high.
UK	Services PMI (Feb, prelim)	53.4	53.3	53.9	But Jan-Feb average much improved.
EC	Manufacturing PMI (Feb, prelim)	47.4	49.1	47.9	Thanks to German rebound.
EC	Services PMI (Feb, prelim)	52.3	52.8	52.5	Really welcome, but virus will impact this.
GE	Manufacturing PMI (Feb, prelim)	44.8	47.8	45.3	Very pleasant surprise.
GE	Services PMI (Feb, prelim)	53.8	53.3	54.2	Good, but virus impact still to show up.
FR	Manufacturing PMI (Feb, prelim)	50.7	49.7	51.1	Disappointing.
IT	Industrial Orders (Dec, m/m)		1.4%	-0.3%	Not much consolation…
JN	CPI (Jan, y/y)	0.7%	0.7%	0.8%	Rose on gasoline prices.
JN	Manufacturing PMI (Feb, prelim)		47.6	48.8	Falling further behind.
JN	Services PMI (Feb, prelim)		46.7	51.0	Hit hard by loss in tourism.

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

Week Preview (February 24–February 28)

Country	Release (Date, format)	Consensus	Last	Comments
Monday, February 24				
GE	IFO Business Climate (Feb)	95.0	95.9	
Tuesday, February 25				
US	FHFA House Price Index (Dec, m/m)	0.4%	0.2%	
US	S&P CoreLogic 20-City Index (Dec, m/m)	0.5%	0.5%	
US	Consumer Confidence (Feb)	132.5	131.6	Covid-19 means there are downside risks here.
GE	GDP (Q4, final, q/q)	0.0%(p)	0.2%	
JN	Leading Index (Dec, final)	91.6(p)	90.8	
Wednesday, February 26				
US	New Home Sales (Jan, thous)	713	694	Housing is clear bright spot right now.
FR	Consumer Confidence (Feb)	103	104	
Thursday, February 27				
US	Initial Jobless claims (Feb 22, thous)	212	210	
US	GDP (Q4, second, q/q saar)	2.1%	2.1%	In rear-view mirror now.
US	Durable Goods Orders (Jan, prelim, m/m)	-1.5%	2.4%	Not looking good…
US	Pending Home Sales (Jan, m/m)	2.0%	-4.9%	
US	Kansas City Fed Manf. Activity (Feb)	-2.0	-1.0	Would this also surprise positively?
AU	Private Capital Expenditure (Q4, q/q)	0.5%	-0.2%	Non-mining capex yet to recover.
Friday, February 28				
US	Personal Income (Jan, m/m)	0.3%	0.2%	Important for this to hold.
US	Personal Spending (Jan, m/m)	0.3%	0.3%	
US	U of M Cons. Sentiment (Feb, final)	100.9(p)	99.8	Seems likely to give back some gains given virus outbreak.
US	Chicago PMI (Feb)	46.3	42.9	
CA	GDP (Dec, m/m)	0.1%	0.1%	Modest, but positive.
UK	GfK Consumer Confidence (Feb)	-8.0	-9.0	Seems to be gently healing.
GE	Retail Sales (Jan, m/m)	0.4%	-2.0%(↑r)	
GE	Unemployment Rate (Feb)	5.0%	5.0%	
FR	GDP (Q4, final, q/q)	-0.1%(p)	0.2%	
FR	Consumer Spending (Jan, m/m)	-0.5%	-0.3%	
JN	Unemployment Rate (Jan)	2.2%	2.2%	How long before we see signs of strain?
JN	Retail Sales (Jan, m/m)	-0.2%	0.2%	Pullback in consumption to reflect on sales.
JN	Industrial Production (Jan, prelim, m/m)	0.2%	1.2%	Continues to struggle.
AU	Private Sector Credit (Jan, m/m)		0.2%	Household credit has been positive of late.

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

Economic Indicators

Central Bank Policy Targets

Region	Target	Year/Year % Change in Target				
		Sep	Oct	Nov	Dec	Jan
US	Target: PCE price index 2.0% y/y	1.3	1.4	1.4	1.6	
Canada	Target: CPI 2.0% y/y, 1.0%-3.0% control range	1.9	1.9	2.2	2.2	2.4
UK	Target: CPI 2.0% y/y	1.7	1.5	1.5	1.3	1.8
Eurozone	Target: CPI below but close to 2.0% y/y	0.8	0.7	1.0	1.3	1.4
Japan	Target: CPI 2.0% y/y	0.2	0.2	0.5	0.8	0.7
Australia	Target Range: CPI 2.0%-3.0% y/y	1.7	1.8	1.8	1.8	

Source: Macrobond February 2020

Key Interest Rates

	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20
US (top of target range)	2.50	2.50	2.50	2.50	2.50	2.25	2.00	1.75	1.75	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	-0.07	-0.06	-0.08	-0.07	-0.06	-0.06	-0.03	-0.03	-0.07	-0.04
Australia (OCR)	1.50	1.50	1.50	1.28	1.02	1.00	1.00	0.76	0.75	0.75	0.75

Source: Macrobond

General Government Structural Balance as a % of Potential GDP

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
									Forecasts	
US	-3.1	-2.1	-1.1	0.1	0.8	0.7	0.0	-0.2	-0.5	-0.8
Canada	-5.9	-6.0	-4.0	-4.7	-4.1	-2.9	-2.0	-1.5	-1.3	-1.4
UK	-3.9	-2.1	-1.2	-0.9	-0.8	-0.7	-0.7	-0.6	-0.7	-0.9
Eurozone	-1.4	0.0	0.6	1.2	1.2	1.3	1.1	1.4	0.9	1.0
Germany	-5.0	-4.4	-3.4	-3.3	-3.0	-2.8	-2.6	-2.5	-2.4	-2.5
France	-4.1	-1.5	-0.6	-1.1	-0.7	-1.4	-1.7	-1.8	-1.5	-2.1
Italy	-4.1	-1.5	-0.6	-1.1	-0.7	-1.4	-1.7	-1.8	-1.5	-2.1
Japan	-4.3	-3.3	-2.6	-2.6	-2.4	-2.2	-1.5	-0.6	-0.4	-0.4
Australia	-4.3	-3.3	-2.6	-2.6	-2.4	-2.2	-1.5	-0.6	-0.4	-0.4

Source: International Monetary Fund, World Economic Outlook

Headline Consumer and Producer Price Inflation

	CPI Year/Year % Change					PPI Year/Year % Change				
	Sep	Oct	Nov	Dec	Jan	Sep	Oct	Nov	Dec	Jan
US	1.7	1.8	2.1	2.3	2.5	1.5	1.1	1.1	1.3	2.1
Canada	1.9	1.9	2.2	2.2	2.4	-1.3	-1.4	-0.6	0.3	
UK	1.7	1.5	1.5	1.3	1.8	1.2	0.8	0.5	0.9	1.1
Eurozone	0.8	0.7	1.0	1.3	1.4	-1.1	-1.8	-1.4	-0.7	
Germany	1.2	1.1	1.1	1.5	1.7	-0.1	-0.6	-0.7	-0.2	0.2
France	0.9	0.8	1.0	1.5	1.5	-0.6	-1.1	-0.5	0.4	
Italy	0.3	0.2	0.2	0.5	0.5	-1.6	-2.9	-2.6	-2.1	
Japan	0.2	0.2	0.5	0.8	0.7	-1.1	-0.4	0.1	0.9	1.7
Australia	1.7	1.8	1.8	1.8		1.6	1.4	1.4	1.4	

Source: Macrobond 2020

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

Source: Macrobond

Industrial Production Index (M/M Seasonally Adjusted)	Month/Month % Change					Year/Year % Change				
	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20
US	-0.3	-0.4	0.9	-0.4	-0.3	-0.2	-0.8	-0.5	-0.9	-0.8
Canada	-0.4	-0.4	-0.3			-2.0	-2.4	-1.6		
UK	0.2	0.1	-1.2	0.1		-1.8	-1.6	-2.5	-1.9	
Germany	-0.8	-1.2	1.2	-3.5		-4.3	-4.7	-2.5	-6.7	
France	0.3	0.4	0.0	-2.8		0.4	-0.2	0.9	-3.0	
Italy	-0.4	-0.4	0.0	-2.7		-2.3	-2.5	-0.8	-3.8	
Japan	1.7	-4.5	-1.0	1.2		-0.3	-6.6	-6.7	-5.6	

Source: Macrobond

Unemployment Rate (Seasonally Adjusted)	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov -19	Dec-19	Jan-20
US	3.8	3.6	3.6	3.7	3.7	3.7	3.5	3.6	3.5	3.5	3.6
Canada	5.7	5.7	5.4	5.6	5.7	5.7	5.5	5.6	5.9	5.6	5.5
UK	3.8	3.8	3.9	3.8	3.9	3.8	3.8	3.8	3.8		
Eurozone	7.7	7.6	7.6	7.5	7.6	7.5	7.5	7.5	7.5	7.4	
Germany	4.9	4.9	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
France	8.6	8.5	8.5	8.5	8.5	8.6	8.5	8.5	8.4	8.4	
Italy	10.1	10.1	10.0	9.8	9.9	9.6	9.9	9.7	9.8	9.8	
Japan	2.5	2.4	2.4	2.3	2.2	2.2	2.4	2.4	2.2	2.2	
Australia	5.1	5.2	5.2	5.3	5.2	5.3	5.2	5.3	5.2	5.1	5.3

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

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