

# Weekly Economic Perspectives

## Weekly Highlights

- **Economies:** Manufacturing activity slumps in the US. Mortgage lending picks up in the UK. German labor market sends mixed signals. ([pages 2 – 4](#))
- **Markets:** Volatile shortened trading week as risk-on sentiment reverses on Friday. Stocks are modestly lower as bond yields narrow. The yen strengthens. Middle East tensions support oil and send gold prices back to recent highs. ([page 5](#))

## Upcoming Highlights

- **Spotlight:** US employment growth should moderate from very high levels. Canadian unemployment rate should moderate after last month's jump. Service activity should expand modestly in the eurozone. ([page 7](#))

## Tables

- **Data Calendars** ([pages 6 – 7](#))
- **Economic Indicators** ([pages 8 – 9](#))

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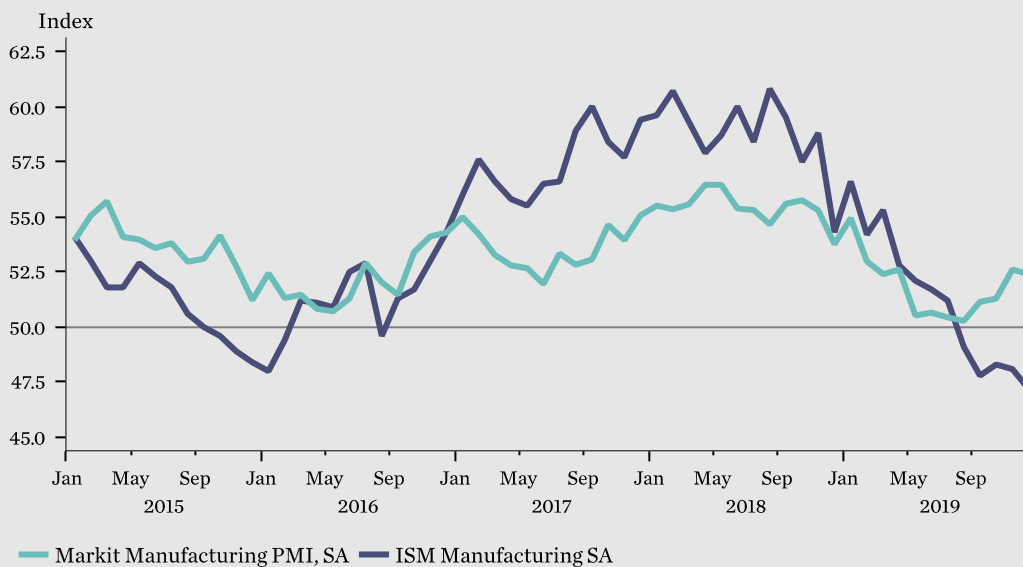
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**Figure 1: Measures Of US Manufacturing Activity Diverge**



Sources: Institute for Supply Management (ISM), IHS Markit

## Week in Review

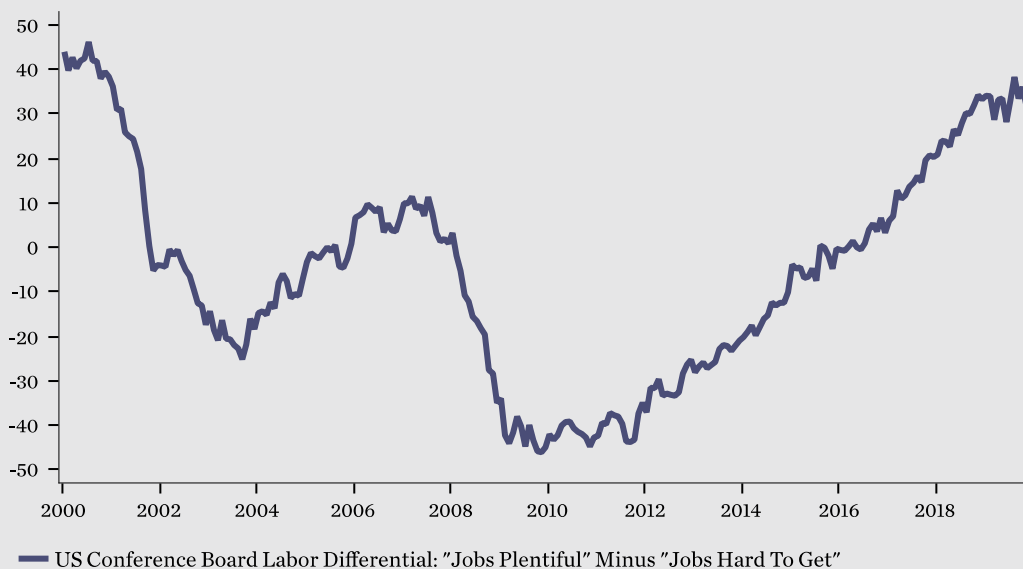
### Global

Global **manufacturing production** continues to struggle, though there are signs it is stabilizing. However, there is still a long way from here to actual sustained growth and expansion. Indeed, the December data has been disappointing, particularly in Europe. The eurozone index, which had improved a full point in November, gave back more than half of that gain in December to settle at a dismal 46.3. The German index, which had gained 2.0 points in November, retreated 0.4 to 43.7. The Italian and French indexes plunged 1.4 and 1.3 points, to 46.2 and 50.4, respectively. The UK index lost 1.4 points to 47.5. In the US, the manufacturing ISM index unexpectedly plunged 0.9 point to a cycle low of 47.2. The details were somewhat puzzling: production plummeted 5.9 points to 43.2 and employment dropped 1.5 to 45.1, but new orders and new export orders were little changed, prices rose, and respondents feel customer inventories are too low. The big drop in production is slightly reminiscent of December 2018, when a similar decline was more than retraced the following months. It remains to be seen whether the same dynamic will repeat again. Also intriguing is that sizable divergence between the ISM and Markit PMI metric not only persisted but even intensified as the latter was almost unchanged at 52.4 (Figure 1, page 1). The Chinese Caixin PMI index was little changed at 51.5.

### US

The **Conference Board** measure of consumer confidence has been trending volatily sideways in 2019. It was little changed in December, down just 0.3 point from an upwardly revised November print, which left it almost exactly in line with the December 2018 value. The details were mixed as the present situation metric declined 2.9 points while expectations improved 3.4. Encouragingly, the labor differential—which measures the difference between those who think jobs are abundant and those who think jobs are scarce—rose 2.3 points, retracing about half of the November deterioration. At 33.9, it remains historically elevated.

**Figure 2: Jobs Still Abundant In The US...Will They Remain So?**



Sources: Conference Board

Most measures of home price inflation have slowed noticeably over the last year, but there is some evidence that they might be bottoming out as lower mortgage rates allow buyers to digest higher purchase prices. The **Case-Shiller 20-City composite price index** rose 0.4% each in both September and October, marking the best performance in a year.

Consequently, this measure of home price inflation accelerated a tenth to a still modest 2.23% y/y, the highest since May. Lower mortgage rates appear to be aiding an improvement in the higher-priced markets that had been recently experiencing sharp slowdowns in home price appreciation. After six consecutive declines, New York home prices recoded solid back to back gains in September-October. In Los Angeles, prices rose 0.7% in each of the two months, marking the biggest gains since early 2018.

The **FHFA price index** of existing single family homes had been holding up better than most other measures but it, too, had been moderating through August and now seems to be turning higher. Admittedly, after a big upwardly revised 0.7% gain in September, prices increased a smaller than expected 0.2% in October. As a result, this measure of home price inflation decelerated two tenths to 5.0% y/y, though it is still higher than the recent August low. Prices rose in October six of the nine regions, were unchanged in one, and declined in two.

**Pending home sales** (transactions of previously owned homes on which sellers have agreed a contract but are yet to close) have been exhibiting an upward trend, albeit in fits and starts, thanks to lower mortgage rates. After retreating 1.3% in October, they rose 1.2% in November, settling 5.6% higher than a year earlier. Pending home sales have risen on a year-on-year basis in each of the last five months, a feat last accomplished in 2015.

**Unemployment claims** have turned more volatile lately, which is not really unusual around this time of the year. Initial claims surged by 49,000 during the week ended December 7 but they've moderated in each subsequent week since then. They stood at 222,000 in the week ended December 28, only marginally above the January-November 2019 average. Continuing claims—a measure of unemployment—increased by 5,000 to 1,728,000 in the week ending December 21, exactly matching the recent highs reached in early August and late June. Both initial and continuing claims are still at low levels historically.

## UK

**Mortgage approvals** took a decided step lower in 2018 and early 2019 but have since stabilized. The number of mortgage approvals was little changed in November at 65,000, marginally below the year to date average. Net mortgage lending to individuals has perked up more clearly. While down slightly on the month, it has risen by an average 13.4% y/y in the last five months, up sharply from outright declines in the first half of 2019.

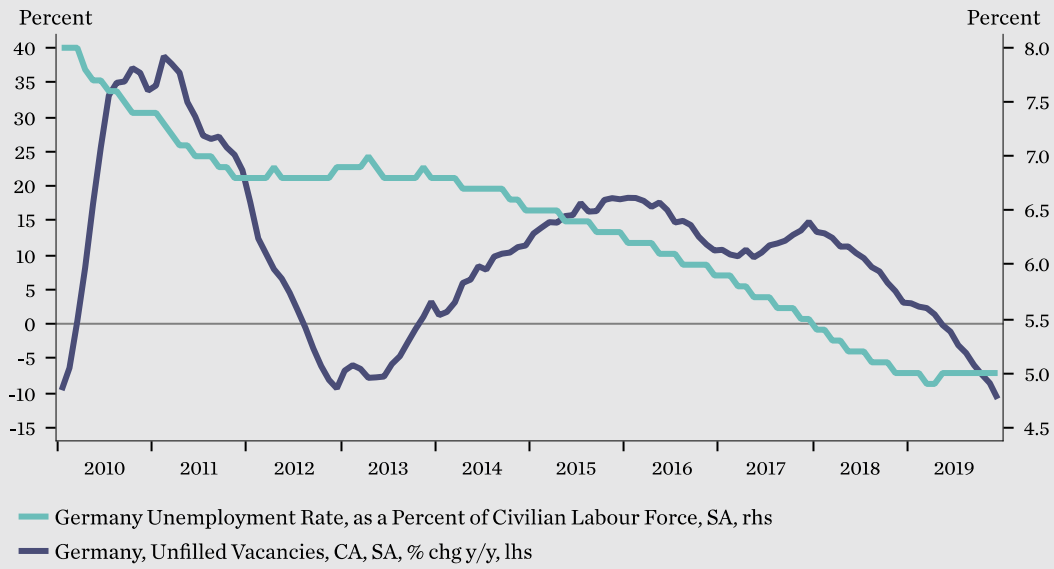
Resilient demand evidenced by rising mortgage approvals has also supported house prices. Indeed, various measures of house price inflation appear to be bottoming out. Having jumped 0.5% in November, the Nationwide index of house prices inched another 0.1% higher in December, leaving prices 1.4% higher than a year earlier, the most since November 2018.

## Eurozone

Lower oil prices had caused headline **consumer price inflation** to noticeably relapse across the eurozone in 2019 but the most recent data suggest a moderate upturn is finally afoot. Indeed, as base effects turned more favorable, inflation has recently ticked up across the region, with both German and French data for December coming in slightly above expectations. German inflation touched 1.5% y/y in December, whereas the French index rose 1.4% y/y.

The strength of **Germany's labor market** is a key underpinning for consumer confidence and the December report remained reassuring. Admittedly, the number of unemployed increased by 8,000, which reversed more than half of the November decline, but both the claimant count unemployment rate and the seasonally unadjusted rate (which garners more attention domestically) were unchanged at 5.0% and 4.9%, respectively. Both were at the twin lowest levels of any December in the entire twenty eight year history of the series (matching the December 2018 values). But other forward looking indicators sent more cautionary signals. Vacancies, for instance, have declined in each of the last nine months and declines have intensified of late. They declined by 21,000 in December to settle 11.8% lower than a year earlier.

**Figure 3: Mixed Signals From German Labor Market**



Sources: German Federal Statistical Office, German Federal Employment Agency

## Financial Markets Review

After a strong start to 2020 trading on Thursday, equity markets retreated on Friday amid news that Iranian General Qassem Suleimani was killed at Baghdad airport in an airstrike ordered by President Trump. Gold revisited recent highs and oil jumped on the news, although oil prices subsequently moderated a little as investors assessed the supply cushion.

**Figure 4: Geopolitical Risks Lift Gold, Oil**



Sources: Bloomberg

**Equities:** Risk on mood was replaced by risk-off trading on Friday following the killing of Iranian General Suleimani.

**Bonds:** Bond yields retreated on a combination of geopolitical risks and data disappointments.

**Currencies:** The yen jumps, as does the Canadian dollar.

**Commodities:** Middle East tensions support oil and send gold prices back to recent highs.

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### Stock Markets

Country	Exchange	Last	% Ch		10 Year Bond Yields			Currencies		
			Week	YTD	Last	BP Ch Week	BP Ch YTD	Last	% Ch Week	% Ch YTD
US	S&P 500®	3243.95	0.1%	0.4%	1.80	-7	-12	96.787	-0.1%	0.4%
Canada	TSE 300	17090.52	-0.5%	0.2%	1.55	-5	-16	1.299	-0.7%	0.0%
UK	FTSE®	7622.4	-0.3%	1.1%	0.74	-2	-8	1.3083	0.0%	-1.3%
Germany	DAX	13219.14	-0.9%	-0.2%	-0.28	-2	-9			
France	CAC-40	6044.16	0.1%	1.1%	0.03	-2	-9	1.1172	0.0%	-0.4%
Italy	FTSE® MIB	23702.35	-0.2%	0.8%	1.35	-3	-6			
Japan	Nikkei 225	23656.62	-0.8%	0.0%	-0.01	-1	0	107.96	-1.4%	-0.6%
Australia	ASX 200	6733.5	-1.3%	0.7%	1.25	-5	-12	0.6961	-0.3%	-0.9%

### Commodity Markets

Commodity	Unit	Source	Last Price	%Ch Week	%Ch YTD	%Ch Yr Ago
Oil (Brent)	US\$/Barrel	Bloomberg	68.61	1.6%	3.3%	25.6%
Gold	US\$/troy oz	Bloomberg	1549.43	2.6%	2.1%	19.7%

Source: Bloomberg®

## Week in Review: Data Releases and Major Events (December 30–January 3)

Country	Release (Date, format)	Consensus	Actual	Last	Comments
<b>Monday, December 30</b>					
US	Pending Home Sales (Nov, m/m)	1.4%	<b>1.2%</b>	-1.3%(↑r)	Up 5.6% y/y.
<b>Tuesday, December 31</b>					
US	FHFA House Price Index (Oct, m/m)	0.4%	<b>0.2%</b>	0.7%(↑r)	Early evidence of bottoming out.
US	S&P CoreLogic 20-City Index (Oct, m/m)	0.3%	<b>0.4%</b>	0.4%	Early evidence of bottoming out.
US	Conf. Board Consumer Confidence (Dec)	128.5	<b>126.5</b>	126.8(↑r)	Trended volatily sideways in 2019.
<b>Wednesday, January 1 (New Year's Day Holiday)</b>					
<b>Thursday, January 2</b>					
US	Initial Jobless Claims (Dec 28, thous)	220	<b>222</b>	224(↑r)	Still low.
UK	PMI Manufacturing (Dec, final)	47.6(p)	<b>47.5</b>	48.9	Dismal!
EC	PMI Manufacturing (Dec, final)	45.9(p)	<b>46.3</b>	46.9	Dismal!
GE	PMI Manufacturing (Dec, final)	43.4(p)	<b>43.7</b>	44.1	Dismal!
FR	PMI Manufacturing (Dec, final)	50.3(p)	<b>50.4</b>	51.7	Weak!
<b>Friday, October 18</b>					
US	ISM Manufacturing (Dec)	49.0	<b>47.2</b>	48.1	Weak, with odd details.
UK	Mortgage Approvals (Nov, thous)	64.4	<b>65.0</b>	64.7(↑r)	Decent.
GE	Unemployment Rate (Dec)	5.0%	<b>5.0%</b>	5.0%	Low, but vacancies keep shrinking...
GE	CPI (Dec, prelim, y/y)	1.4%	<b>1.5%</b>	1.1%	Base effects help.
FR	CPI (Dec, prelim, y/y)	1.3%	<b>1.4%</b>	1.0%	Base effects help.

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

## Week in Preview: Releases and Major Events (January 6–January 10)

Country	Release (Date, format)	Consensus	Last	Comments
<b>Monday, January 6</b>				
UK	PMI Services (Dec, final)	49.0(p)	49.3	
EC	PMI Services (Dec, final)	52.4(p)	51.9	
GE	PMI Services (Dec, final)	52.0(p)	51.7	
GE	Retail Sales (Nov, m/m)	1.0%	-1.6%(↑r)	Still pretty dismal.
JN	PMI Manufacturing (Dec, final)	48.8(p)	48.9	
<b>Tuesday, January 7</b>				
US	ISM Non-Manufacturing (Dec)	54.5	53.9	Service resilience should continue.
US	Trade Balance (Nov, \$ bil.)	-44.5	-47.2	Positive for GDP.
US	Factory Orders (Nov, m/m)	-0.6%	0.3%	
CA	Trade Balance (Nov, C\$ bil.)		-1.1	
<b>Wednesday, January 8</b>				
US	Consumer Credit (Nov, \$ bil.)	14.5	18.9	Solid.
GE	Factory Orders (Nov, m/m)	0.2%	-0.4%	
FR	Consumer Confidence (Dec)	104	106	
JN	Consumer Confidence (Dec)	39.5	38.7	
JN	Labor Cash Earnings (Nov, y/y)		0.0%(↓r)	
<b>Thursday, January 9</b>				
US	Initial Jobless claims (Jan 4, thous)	221	222	
CA	Housing Starts (Dec, thous)	211.9	201.3	
GE	Industrial Production (Nov, m/m)	0.8%	-1.7%	Not nearly enough, but at least improving.
IT	Unemployment Rate (Nov, prelim)	9.8%	9.7%	
<b>Friday, October 25</b>				
US	Change in Nonfarm Payrolls (Dec, thous)	158	266	Could retreat even more from November spike.
US	Unemployment Rate (Dec)	3.5%	3.5%	
CA	Unemployment Rate (Dec)	5.8%	5.9%	Last month's spike was outsized, should moderate.
UK	Industrial Production (Nov, m/m)	0.0%	0.1%	
FR	Industrial Production (Nov, m/m)	0.1%	0.4%	
FR	Bank of France Ind. Sentiment (Dec)	96	97	
IT	Industrial Production (Nov, m/m)	0.0%	-0.3%	
JN	Leading Index (Nov, prelim)	90.9	91.6	
AU	Retail Sales (Nov, m/m)	0.4%	0.0%	Much needed improvement.

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

	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19
US (top of target range)	2.50	2.50	2.50	2.50	2.50	2.50	2.25	2.00	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)	-0.05	-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	1.28	1.02	1.00	1.00	0.76	0.75	0.75

Source: Macrobond

### General Government Structural Balance as a % of Potential GDP

	2011	2012	2013	2014	2015	2016	2017	2018	Forecast	
									2019	2020
US	-8.2	-6.4	-4.5	-3.8	-3.6	-4.4	-4.8	-6.0	-6.3	-6.3
Canada	-3.1	-2.1	-1.1	0.1	0.8	0.7	0.0	-0.2	-0.5	-0.8
UK	-5.9	-6.0	-4.0	-4.7	-4.1	-2.9	-2.0	-1.5	-1.3	-1.4
Eurozone	-3.9	-2.1	-1.2	-0.9	-0.8	-0.7	-0.7	-0.6	-0.7	-0.9
Germany	-1.4	0.0	0.6	1.2	1.2	1.3	1.1	1.4	0.9	1.0
France	-5.0	-4.4	-3.4	-3.3	-3.0	-2.8	-2.6	-2.5	-2.4	-2.5
Italy	-4.1	-1.5	-0.6	-1.1	-0.7	-1.4	-1.7	-1.8	-1.5	-2.1
Japan	-8.0	-7.6	-7.5	-5.5	-4.3	-4.1	-3.4	-3.1	-2.9	-2.1
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				
	Aug	Sep	Oct	Nov	Dec	Jul	Aug	Sep	Oct	Nov
US	1.7	1.7	1.8	2.1		1.6	1.8	1.4	1.1	1.1
Canada	1.9	1.9	1.9	2.2		-1.7	-1.0	-1.3	-1.3	
UK	1.7	1.7	1.5	1.5		1.9	1.7	1.2	0.8	0.5
Eurozone	1.0	0.8	0.7	1.0		0.1	-0.8	-1.2	-1.9	
Germany	1.4	1.2	1.1	1.1	1.5	1.1	0.3	-0.1	-0.6	-0.7
France	1.0	0.9	0.8	1.0	1.4	-0.2	-0.5	-0.7	-1.1	-0.5
Italy	0.4	0.3	0.2	0.2		-0.7	-1.4	-1.6	-2.9	-2.5
Japan	0.3	0.2	0.2	0.5		-0.6	-0.9	-1.1	-0.4	0.1
Australia	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	0.2	-0.3	-0.4		-2.3	-2.2	-2.0	-2.4	
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	-0.9	-1.1	-2.0	-0.3	-6.6	-6.6

Source: Macrobond

### Unemployment Rate (Seasonally Adjusted)

	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19
US	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	5.7	5.4	5.5	5.7	5.7	5.5	5.5	5.9	
UK	3.8	3.8	3.8	3.9	3.8	3.9	3.8	3.8			
Eurozone	7.8	7.7	7.6	7.6	7.5	7.6	7.5	7.6	7.5		
Germany	5.0	4.9	4.9	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
France	8.6	8.6	8.5	8.5	8.5	8.6	8.6	8.6	8.5		
Italy	10.5	10.1	10.1	10.0	9.8	9.9	9.6	9.9	9.7		
Japan	2.3	2.5	2.4	2.4	2.3	2.2	2.2	2.4	2.4	2.2	
Australia	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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