Market Commentary | May 31, 2019

Weekly Economic Perspectives

Weekly Highlights

- **Economies:** The BoC holds rates as recent weakness seen temporary. Rising US consumer sentiment seems misleading. Canadian GDP growth weighed by trade. UK consumer sentiment improves. German unemployment jumps, partly on technical factors. Japan's labor market remains tight. Australian private capex declines, but outlook improves. (pages 2 – 6)
- **Markets:** Another week of heavy bleeding in risk assets amid mixed data and heightened trade tensions. Stocks retreat across the board. Bond yields are lower again, except in Italy. The dollar is little changed while safe-haven demand supports the yen. Oil collapses on weak demand worries, gold rises on worries about...everything. (page 7)

Upcoming Highlights

- **Spotlight:** ECB should hold rates, new lending program details expected. The RBA is expected to go for a cut. Employment should remain robust in US but manufacturing activity could disappoint. (page 9)

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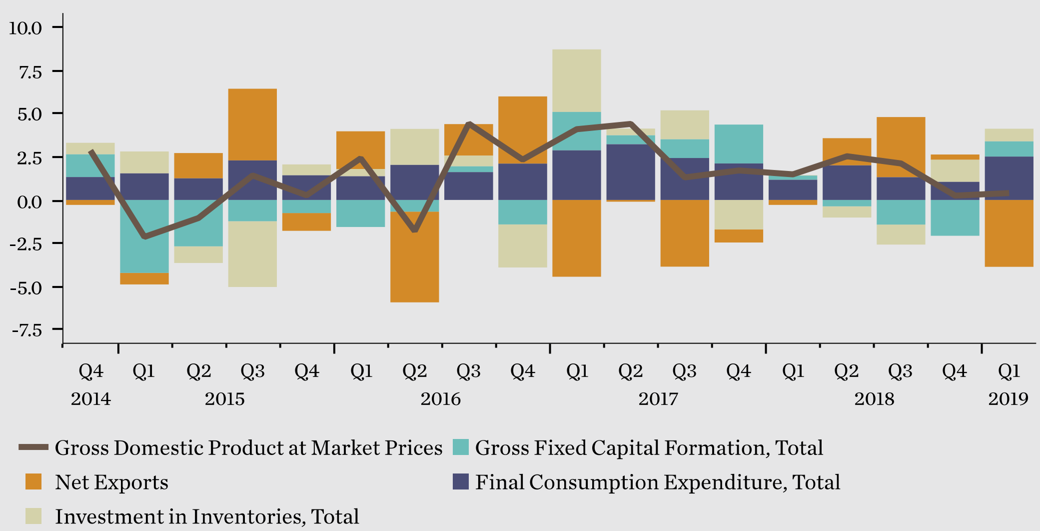
Figure 1: Net Exports Detracted Heavily From Canadian Growth In Q1

Percentage Point Contribution to SAAR Growth



Sources: Statistics Canada

STATE STREET GLOBAL ADVISORS

Week in Review

US

Revisions to first-quarter **GDP** data were modest as growth was lowered by just one tenth to 3.1% (annualized). There was little change to the composition of growth, although consumption and exports fared incrementally better while fixed investment and inventories fared incrementally worse than initially estimated. Private consumption contributed 0.9 percentage points (ppts) to growth, a tenth better than previously thought, but far less than 1.7 ppts in Q4. Government consumption added 0.4 ppts—as initially stated but much better than in Q4—entirely on account of state and local governments. Fixed investment was even more disappointing than initially thought, contributing just 0.2 ppts (from 0.3 initially) as most categories did incrementally worse. Inventories remained the second largest contributor to growth, adding 0.6 ppts, which was nonetheless a tenth less than initially estimated. Net exports still offered the same massive 1.0 ppts lift initially reported. This is unsustainable in and of itself, but the mix of this contribution was more encouraging as exports and imports fared better than initially reported. As we stated at the time of the initial release, we see the first-quarter GDP data as posing some upside risks to the FOMC's median growth forecast (of 2.1%) and, possibly, even to our 2.3% projection. GDP grew 3.2% y/y, the most since the second quarter of 2015.

Consumer confidence has surprised positively over the last two months, but we are skeptical that these gains can be sustained if trade tensions do not subside. We are nonetheless encouraged by the 4.9-point jump in the Conference Board consumer confidence index in May, bringing it to a six-month high of 134.1. The details were very strong as the present situation metric rose by 6.2 points to 175.2—the highest level since December 2000. Expectations improved 3.9 points to a six-month high. The labor differential—which measures the difference between those who think jobs are abundant and those who think jobs are scarce— rebounded 3.1 points to 36.3, also the highest since December 2000. Typically, these would be extremely positive developments suggesting a solid outlook for consumer spending. But given that the cutoff date for the preliminary survey was May 16th and that the US-China trade dispute has since escalated, we suspect that the June update will look this strong.

Indeed, the final read on the **University of Michigan consumer confidence** highlights these risks. Whereas the preliminary estimate indicated a 5.2-point advance, the final print on May 31st was for a more muted 2.8-point gain. The details were weak as the current situation measure declined 2.3 points while the more volatile expectations component rose 6.1. Tariffs were "spontaneously mentioned by 35% of all consumers in the last two weeks of May, up from 16% in the first half of May". This helps explain why, having slipped recently, short term inflation expectations rose four tenths to a seven-month high of 2.9% in May while long-term inflation expectations increased three tenths to a four-month high of 2.6%. According to the accompanying survey commentary "while higher inflation expectations modestly reduced real income expectations, the largest impact was on buying conditions for appliances and other large household durables, which fell to their lowest level in four years." This is a key risk to the outlook.

For the time being, though, the consumer remains in good shape. The update on April **personal income and spending** was encouraging and supportive for second quarter GDP. Overall personal income rose a solid 0.5%, with wages and salaries up 0.3%. Nominal personal spending increased 0.3%, slightly ahead of expectations. Admittedly, real spending was flat, but this follows an upwardly revised 0.9% March gain that was the best since August 2009 (when it was followed by a plunge of similar magnitude the very next month). The March-April combination is therefore quite positive for second-quarter household consumption and overall GDP. The savings rate increased a tenth to 6.2%. Its behavior so far this year is closely aligned with the pattern seen in 2018 and 2017: an increase in the early months, followed by subsequent moderation. The **PCE deflator** data came in a largely as expected. Overall prices increased 0.3% and core prices increased 0.2% (March was also revised up a tenth to 0.1%). Both the headline and core PCE inflation rates accelerated a tenth each to 1.5% y/y and 1.6% y/y, respectively.

The strong labor market is a critical underpinning for consumer confidence and so far, the news on that front is great. Admittedly, initial **unemployment claims**—a measure of job shedding—increased by 3,000 to 215,000 during the week ending May 25. But this is an extremely low level historically. Moreover, continuing claims—a measure of unemployment—declined by 26,000 to 1,657,000 in the week ended May 18.

Pending home sales (transactions of previously owned homes on which sellers have agreed a contract but are yet to close) surprisingly declined 1.5% in April. However, we do not think this contradicts the idea of improving housing market activity as this comes after sizable gains in both March and February. And despite the weaker than expected April performance, sales were still incrementally higher than a year earlier. The sharp pullback in mortgage rates over the past month should help support sales activity in coming months although limited inventory remains a big challenge.

Every measure of house price inflation has been slowing over the past year. While the FHFA measure has been holding up better than most, it, too, has softened. The **FHFA purchase-only price index** for existing single family homes increased a smaller than expected 0.1% in March, causing this measure of home price inflation to decelerate one tenth to 5.0% y/y, the lowest since April 2015. It peaked at 7.6% y/y back in February 2018. Performance was mixed, with prices actually declining in three of the nine regions but increasing by 0.7% or more in three others.

The **Case-Shiller 20-City composite price index** also came in softer than expected, rising just 0.1% in March and slowing this measure of home price inflation by another three tenths to 2.7% y/y, the least since August 2012. Performance has become increasingly divergent in recent months, with several high-priced cities experiencing sharp slowdowns in price appreciation. For instance, Seattle home inflation had hovered in the low double digits for nearly three years but has since slowed precipitously to just 1.6% y/y. San Francisco slowed from double-digit in mid-2018 to just 1.3% y/y . We suspect some impact from changes in the tax code limiting state and local tax deductions.

Canada

It was no surprise that the **Bank of Canada** (BoC) left its policy rate unchanged at 1.75% at the May 29th meeting. But its assessment of prevailing economic conditions brightened considerably from the April assessment. The rhetoric turned visibly neutral, as BoC noted that "recent data are in line with the projections in the Bank's April Monetary Policy Report, with accumulating evidence that the slowdown in late 2018 and early 2019 is being followed by a pickup starting in the second quarter." Recent woes in the oil sector seem to have subsided, with both production and prices stabilizing. The BoC appeared pretty upbeat about broad economic conditions, noting that "

> "Continued strong job growth suggests that businesses see the weakness in the past two quarters as temporary. Recent data support a pickup in both consumer spending and exports in the second quarter, and it appears that overall growth in business investment has firmed. That said, inventories rose sharply in the first quarter, which may dampen production growth in coming months."

Both headline and core measures on inflation are expected to remain around the 2% target. Global conditions were deemed to have worsened however, with global trade risks seen to have increased. The Bank continued to indicate that they see no need to move rates anytime soon, and maintained that any decision will be "data dependent". Depending on how trade talks between China and the US evolve, incoming data could create space for the BoC to raise rates once towards the end of the year, but we are acutely aware that the market believes a cut is more likely.

Canada's **GDP** grew an unimpressive 0.4% on a seasonally adjusted annual (saar) basis during the first quarter, only slightly above the 0.3% rate recorded in the fourth. Performance was driven by household consumption which increased 3.5% (the fastest since 2017), contributing close to 2.0 percentage points to growth. Business investment also contributed 0.6 percentage points to the headline, driven by a 13.5% rebound in non-residential structures and equipment. Inventory accumulation rose by C$3.8 billion in Q1, and added 0.7 percentage points to growth. These were offset by a 4.1% decline in exports, complemented by a 7.7% rise in imports. Residential investment also fell 6.1%, detracting 0.5 percentage points from growth. The fall in exports was the first decline since the third quarter of 2017, and was led by agricultural products and oil. The BoC had previously noted that the slowdown in late 2018 and early 2019 is likely to be temporary, with gradual recovery expected in the second half.

UK

Consumer confidence appears to have bottomed out, though the never-ending political drama is a constant threat to its resilience. The GfK index rose three points to -10 in May, the highest since October and close to its mid-2017 to mid-

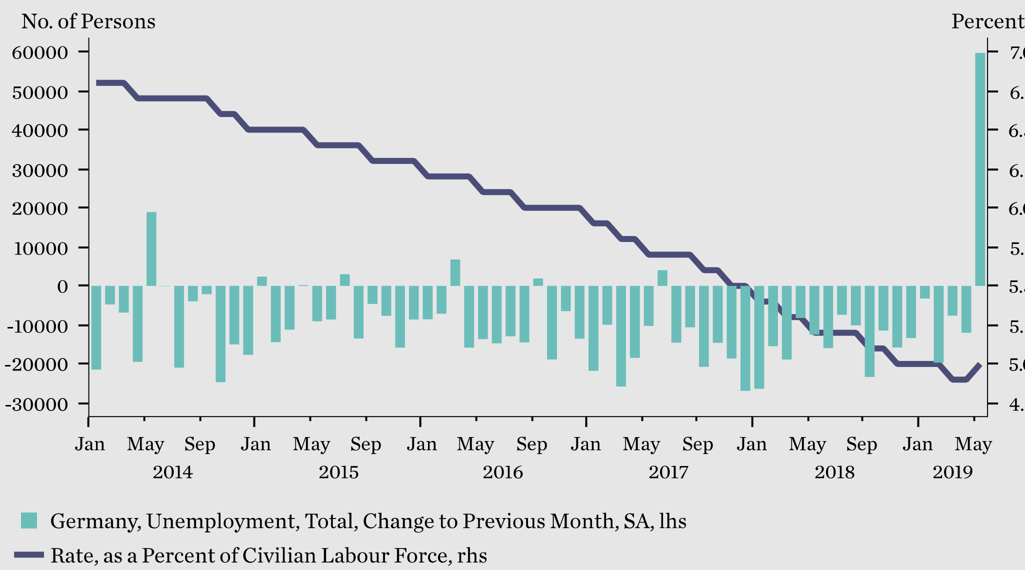
2018 average. The details were good, with solid improvements in assessment of both current and future personal finances, as well as future economic conditions.

Eurozone

Consumer price inflation continues to trail below target in much of the eurozone. Preliminary readings from several key economies suggest that did not change in May. In fact, ***German*** consumer price inflation retreated four tenths to 1.6% y/y, ***Frenc***h inflation eased three to 1.0% y/y, and ***Italian*** inflation retreated two to 0.9% y/y.

Despite the growth slowdown, the ***German*** **labor market** has been humming along; the unemployment rate touching successive record lows over the past year. May marked a bump along that positive path, however, as the number of unemployed jumped by 60,000, breaking a string of twenty two consecutive declines. The Employment Agency estimates that more than half the increase reflected a technical adjustment (implementation of checks on whether people previously no longer counted as unemployed have since rejoined the labor force). However, even if so, this was still the largest increase since mid-2009. In conjunction with a 6,000 decline in vacancies—the second consecutive drop and the largest since 2013—this may suggest that labor demand may be starting to erode at the margin. However, one month does not a trend make and it remains far too soon to conclude that a lasting deterioration is afoot. This is especially the case since employment also increased by 32,000. The unemployment rate inched up a tenth but only to the extremely low level of 5.0%. Indeed, the seasonally unadjusted rate (which garners more attention domestically) was unchanged at 4.9%, the lowest level of any May in the twenty seven year history of the series.

Figure 2: German Unemployment Jumps Partly On Technical Change



Sources: German Federal Employment Agency (Bundesagentur fuer Arbeit), Japanese Statistics Bureau

After good first quarter, ***German*** **real retail sales** (excluding cars) plunged 2.0% in April, the second largest decline in five years, second only to December's outsized 2.9% drop. This will weigh on second quarter GDP and adds to evidence that despite Germany's 0.4% first-quarter GDP growth, Europe's largest economy continues to face some notable headwinds. Somewhat surprisingly given the timing of Easter holidays in April, spending on food/tobacco was down a sharp 2.4%, a drop only exceeded by the 3.4% plunge in the clothing and shoes category.

The ***German*** **GfK index of consumer confidence** remains historically elevated but has eroded somewhat over the past two years. That continued in June, when the headline index lost 0.1 point to 10.1. Although consumers' views of their own income prospects improved slightly, buying intentions deteriorated, likely in response to less upbeat views about the broader economic outlook.

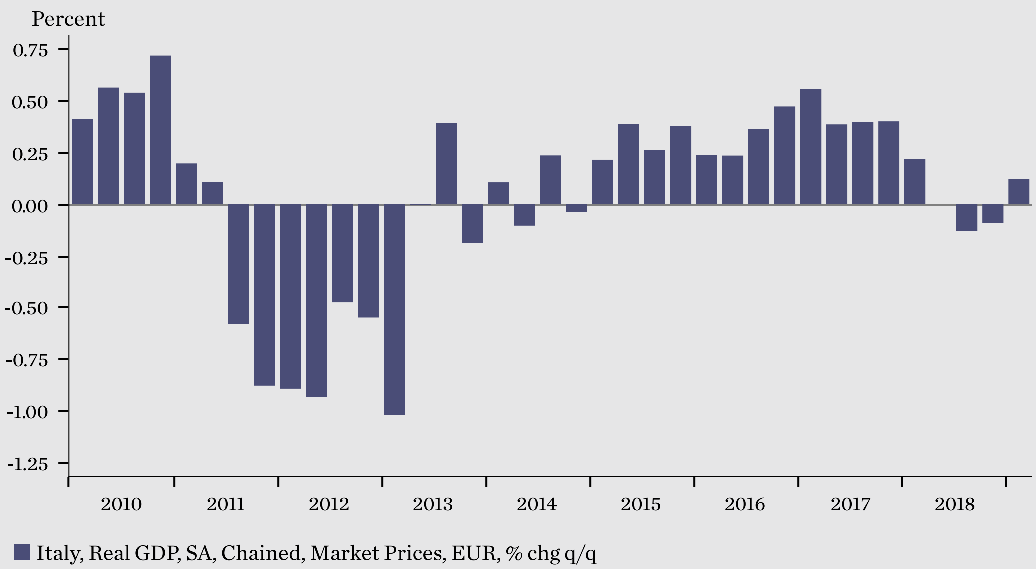
Final estimates of ***French*** first-quarter **GDP growth** confirmed the initial estimates of a 0.3% advance, which marked a one-tenth deceleration relative to the fourth quarter. The details were good as growth was driven by domestic demand while trade detracted 0.3 percentage points (ppts). Consumption contributed 0.3 ppts—the fast majority of it household consumption. Fixed investment added 0.1 ppts and inventories added 0.3 ppts. The latter could suggest a pullback down the line but since this inventory accumulation comes after two quarters in which inventories subtracted notably from growth, we see these risks as fairly well contained. GDP increased 1.2% y/y, same as in Q4.

The high-frequency data flow out of ***France*** has improved notably following the end of acute street protests and that momentum continued in May. For instance, the **INSEE consumer confidence index** gained a better than expected three points to 99 in May, the highest level since May of 2018. Expectations about the employment situation improved, supporting stronger views about expected future financial situation and savings ability.

The combination of improving sentiment and Easter holidays drove a 0.8% increase in ***French*** **consumer spending** in April, the first gain in three months. Spending increased a modest 1.2% y/y, which was nonetheless the best comparison since March 2018. But again, we believe this to have been favorably skewed by Easter timing.

Having entered technical recession during the fourth quarter, the ***Italian*** economy exited it during the first. Final estimates of first-quarter **GDP** growth indicate an anemic 0.1% q/q advance, supported largely by external demand. Consumer spending and fixed investment contributed 0.1 percentage point (ppts) to growth, government spending was neutral, net exports added 0.5 ppts and inventories detracted 0.7 ppts. It is unlikely the latter two are sustainable but they may well cancel each other out in the opposite direction next quarter, leaving the economy dependent on what remains a soft environment for domestic demand. GDP fell 0.1% y/y.

Figure 3: Italy Exits Technical Recession



Source: Italian National Institute of Statistics (Istat)

Italian **consumer confidence** has eroded notably since late 2018 and it remains too soon to conclude it has bottomed. Admittedly, the Istat index increased 1.2 points to 111.8 in May, which was the largest monthly gain since June 2018, but this came after five declines in the prior six months. The details were pretty good, however, reflecting notable gains in assessments of the current situation (both the economy at large and family finances). The question is whether these gains can be sustained.

Italian **business confidence** improved a little in May, but this came after seven consecutive declines so it will take a lot more to declare a change in trend. Indeed, despite the latest improvement, the index is still some 7.0 points below where it stood at the start of 2018.

Japan

The April labor market report was bit of a mixed bag, after a string of strong performances. The **unemployment rate** declined 0.1 percentage points (ppts) to 2.4% but this largely reflected a sizable 380,000 decline in the labor force to 68.7 million. Employment decreased by 300,000 to 67.0 million while the number of unemployed fell by 60,000 to 1.7 million. The jobs-to-applicant ratio—a measure of labor market tightness—was unchanged at 1.63, where it has been since November. The new jobs-to-applicants ratio rose to 2.48 from 2.42 in March. Average weekly hours worked dropped 4.8 hours to 34.0. The labor market has held up pretty well, but may cool in the coming months due to the drag from manufacturing. However, prevailing tight conditions do not seem sufficient to drive wage growth.

After a modest fall in March, the preliminary report for April showed a greater-than-anticipated rebound in **industrial production**. The index has been trending down sharply since October, but rose 0.6% in April. Durable consumer manufacturing increased 2.4%, while consumer non-durables rose 0.5%, as manufacturers shored up production ahead of the extended holiday. Production machinery rose by 5.3%, while production of transport equipment increased by 4.2%. The main detractors were general and business machinery which fell 1.0% and electronic parts which dropped 7.7%. Shipments rose 1.7% while the shipment-to-inventory ratio decreased 2.5%. Output declined 1.1% y/y, the third consecutive decline.

Producer prices for services (PPIS), which purport to measure the cost of running a business, seems to have stabilized at a higher level and trending gently higher. Admittedly, producer prices fell 0.2% in April. Transportation—one of the largest components—fell 0.2%, due to a sharp downtick in air travel. The usually volatile advertising services declined 4.5%, while prices for information/communication services fell 0.1%. PPIS inflation eased two tenths to 0.9% y/y.

Retail sales picked up impressively over the second half of 2018 but the pace of growth has slowed a bit since the start of the year. Sales were flat in April, having registered back-to-back rises, albeit slowing in February and March. Apparels were up 2.8%, along with food (1.0%) and “others” (1.0%); while general merchandise was flat over the month. Sales in supermarkets dropped 1.1%, while sales in department stores rose 1.9%. Sales edged down 0.3% y/y.

Australia

Capital spending contracted unexpectedly over the first quarter of 2019, but that might be more of an outlier. **New capital expenditures** contracted 1.7%, the most since September 2016, and follow a downwardly revised 1.3% rise in Q4. The fall was driven by building and structures, which fell by 2.8%, while plant and equipment also declined 0.5%. However, the outlook is still positive as both mining and non-mining businesses maintained strong investment intentions during 2019-20. Long term capex plans were upgraded to A$99 billion in Q1 from A$92 billion in Q4. Planned spending in manufacturing and ‘other’ industries is now expected to increase by 5.6% and 7.8% respectively, while investment intentions for the mining industry rose by 7.7%.

Credit growth has been anemic since the second half of 2018. April was no exception, as **private sector credit** edged up 0.2%. Credit for owner occupied housing increased 0.4%, while that for other personal uses declined 0.3%, its tenth consecutive decline. Credit for investor housing was flat, unchanged from March. Business lending was also unchanged after an encouraging rise in March. Overall credit growth slowed to 3.7% y/y, the lowest since October 2013. This was led by a sharp deceleration in other personal credit, which fell 2.8% y/y. Both investor and owner-occupied housing credit slowed a little from March, rising by just 0.6% y/y (a record low) and 5.5% y/y (lowest since July 2015), respectively. Given the ongoing weakness in the housing sector, we’ll probably see more weakness in the months ahead.

Financial Markets Review

Oil prices plummeted again this week amid worries of weak global demand. The WTI price was down some 8% on the week despite a number of geopolitical developments that would typically be seen as threatening supply and therefore supportive of prices. Accumulating US inventories seem to be investors' bigger worry at the moment.

Figure 4: Oil Price Plunges On Weak Demand Worries

Sources: Bloomberg

Equities: Risk assets fall hard on trade war escalation.

Bonds: Bond yields fall hard on mixed data, worries about outlook, and a dovish speech from Fed Vice-Chair Clarida.

Currencies: The dollar is little changed, the yen appreciates on safe-haven demand.

Commodities: Oil collapses on worries of weak demand amid inventory build. Gold rises on worries about...everything!

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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®	2760.62	-2.3%	10.1%	2.15	-17	-53	97.861	0.3%	1.8%
Canada	TSE 300	16019.86	-1.3%	11.8%	1.50	-12	-47	1.3524	0.6%	-0.8%
UK	FTSE®	7161.71	-1.6%	6.4%	0.89	-7	-39	1.2629	-0.7%	-1.0%
Germany	DAX	11726.84	-2.4%	11.1%	-0.20	-9	-44			
France	CAC-40	5207.63	-2.0%	10.1%	0.21	-7	-50	1.1164	-0.3%	-2.6%
Italy	FTSE® MIB	19802.11	-2.8%	8.1%	2.67	12	-7			
Japan	Nikkei 225	20601.19	-2.4%	2.9%	-0.09	-2	-10	108.52	-0.7%	-1.1%
Australia	ASX 200	6396.853	-0.9%	13.3%	1.46	-6	-86	0.6932	0.1%	-1.7%

Commodity Markets

Commodity	Unit	Source	Last Price	%Ch Week	%Ch YTD	%Ch Yr Ago
Oil (Brent)	US $/Barrel	Bloomberg	63.71	-8.1%	19.8%	-17.4%
Gold	US $/troy oz	Bloomberg	1304.8	1.5%	1.7%	0.5%

Source: Bloomberg®

Week in Review: Data Releases and Major Events (May 27–May 31)

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, May 27 – Memorial Day In US					
JN	Leading Index (Mar, final)	96.3(p)	**95.9**	97.1	Revised further downward.
Tuesday, May 28					
US	FHFA House Price Index (Mar, m/m)	0.2%	**0.1%**	0.3%	Up 5.0% y/y, least since April 2015.
US	S&P CoreLogic 20-City Index (Mar, m/m)	0.5%	**0.1%**	0.2%	Only up 2.7% y/y, least since August 2012.
US	Consumer Confidence (May)	130.0	**134.1**	129.2	Unlikely to be sustained amid trade spat.
GE	GfK Consumer Confidence (Jun)	10.4	**10.1**	10.4	Mixed.
FR	Consumer Confidence (May)	97	**99**	96	Has perked up since end of protests.
JN	PPI Services (Apr, y/y)	1.1%	**0.9%**	1.1%	Down slightly due to drop in air travel.
Wednesday, May 29					
CA	BoC Monetary Policy Decision	1.75%	**1.75%**	1.75%	BoC more confident about the economy..
GE	Unemployment Rate (May)	4.9%	**5.0%**	4.9%	Surprising jump in unemployment.
FR	GDP (Q1, final, q/q)	0.3%(p)	**0.3%**	0.4%	Decent details.
FR	CPI (May, prelim, y/y)	1.1%	**1.0%**	1.3%	Slowdown seen in several economies.
FR	Consumer Spending (Apr, m/m)	0.4%	**0.8%**	-0.1%	Skewed by Easter holiday.
IT	Manufacturing Confidence (May)	100.4	**102.0**	100.8(↑r)	First improvement in eight months.
IT	Consumer Confidence (May)	110.0	**111.8**	110.5	First improvement in four months.
Thursday, May 30					
US	Initial Jobless claims (May 25, thous)	214	**215**	212(↑r)	Continuing claims retreated by 26k.
US	GDP (Q1, second, q/q saar)	3.0%	**3.1%**	3.2%	Very little change to composition.
US	Pending Home Sales (Apr, m/m)	0.5%	**-1.5%**	3.8%	Surprising decline.
UK	GfK Consumer Confidence (Jun)	-12	**-10**	-13	Best since October.
AU	Private Capital Expenditure (Q1, q/q)	0.4%	**-1.7%**	1.3%(↓r)	But capex intentions improved further.
Friday, May 31					
US	Personal Income (Apr, m/m)	0.3%	**0.5%**	0.1%	Solid; wages and salaries up 0.3%.
US	Personal Spending (Apr, m/m)	0.2%	**0.3%**	1.1%(↑r)	Real spending flat but after stellar March.
US	Chicago PMI (May)	54.0	**54.2**	52.6	First improvement in three months.
US	U of M Consumer Sentiment (May, final)	102.4(p)	**100.0**	97.2	Tariff fears multiplying.
CA	GDP (Q1, q/q saar)	0.7%	**0.4%**	0.3%(↓r)	Most likely a temporary slowdown.
UK	Nationwide House Price (May, m/m)	0.0%	**-0.2%**	0.3%(↓r)	But seems to be bottoming.
UK	Mortgage Approvals (Apr, thous)	63.5	**66.3**	62.6(↑r)	Trending volatilely sideways.
GE	CPI (May, prelim, y/y)	1.6%	**1.4%**	2.0%	Sizable pullack.
GE	Retail Sales (Apr, m/m)	0.1%	**-2.0%**	0.0%(↑r)	This hurts!
IT	GDP (Q1, final, q/q)	0.2%	**0.1%**	-0.1%	Soft, but technical recession ended for now.
IT	CPI (May, prelim, y/y)	1.0%	**0.9%**	1.1%	Soft.
JN	Unemployment Rate (Apr)	2.4%	**2.4%**	2.5%	Bit of a mixed bag.
JN	Industrial Production (Apr, prelim, m/m)	0.2%	**0.6%**	-0.6%	Likely to be temporary, but still welcome.
JN	Retail Sales (Apr)	0.6%	**0.0%**	0.2%	More was expected ahead of holidays.
JN	Consumer Confidence (May)	40.7	**39.4**	40.4	Lowest since Jan 2015.
AU	Private Sector Credit (Apr, m/m)	0.3%	**0.2%**	0.3%	Chronically weak.

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

Week in Preview: Releases and Major Events (June 3–June 7)

Country	Release (Date, format)	Consensus	Last	Comments
Monday, June 3				
US	ISM Manufacturing (May)	53.0	52.8	Can it really rise given all the uncertainty?
US	Total Vehicle Sales (May)	16.8	16.4	If true, modestly supportive for retail sales.
UK	Manufacturing PMI (May)	52.4	53.1	
EC	Manufacturing PMI (May, final)	47.7(p)	47.9	
GE	Manufacturing PMI (May, final)	44.3(p)	44.4	
FR	Manufacturing PMI (May, final)	50.6(p)	50.0	
IT	Manufacturing PMI (May)	48.5	49.1	
JN	Manufacturing PMI (May, final)	49.6	50.2	Waiting for the storm to pass.
Tuesday, June 4				
US	Durable Goods Orders (Apr, final, m/m)	-2.1%(p)	1.7%	
US	Factory Orders (Apr, m/m)	-0.9%	1.9%	Sadly, no upside surprise seems likely.
IT	Unemployment Rate (Apr, prelim)	10.3%	10.2%	
AU	RBA Monetary Policy Decision	1.25%	1.50%	Pressure mounting on the RBA to ease.
AU	Retail Sales (Apr, m/m)	0.2%	0.3%	
Wednesday, June 5				
US	Fed Beige Book Report			
US	ISM Non-Manufacturing Index (May)	55.6	55.5	Services are increasingly critical in anchoring growth.
CA	Labor Productivity (Q1, q/q)	na	-0.4%	
UK	Services PMI (May)	50.6	50.4	On shaky groud...
EC	Services PMI (May, final)	52.5	52.8	Services are critical in anchoring growth.
GE	Services PMI (May, final)	55.0	55.7	
AU	GDP (Q1, q/q)	0.4%	0.2%	Partials do not suggest an especially good report.
Thursday, June 6				
US	Initial Jobless claims (Jun 1, thous)	215	215	Labor market solid so far.
US	Nonfarm Productivity (Q1, final, q/q)	3.5%	1.3%	
US	Trade Balance (Apr, $ bil.)	-50.5	-50.0	
CA	Trade Balance (Apr, C$ bil.)	na	-3.2	
CA	Ivey PMI (Mar)	na	55.9	
EC	ECB Monetary Policy Decision	0.00%	0.00%	Details of TLTROIII expected.
EC	GDP (Q1, final, q/q)	0.4%(p)	0.2%	
GE	Factory Orders (Apr, m/m)	0.1%	0.6%	
Friday, June 7				
US	Change in Nonfarm Payrolls (May, thous)	190	263	Too soon for latest trade escalation to show here.
US	Unemployment Rate (May)	3.6%	3.6%	
US	Consumer Credit (Apr, $ bil.)	12.0	10.3	
CA	Unemployment Rate (May)	na	5.7%	Labor market is hot.
UK	Halifax House Prices (May, m/m)	-0.2%	1.1%	
GE	Industrial Production (Apr, m/m)	-0.5%	0.5%	This will hurt...
GE	Labor Costs (Q1, y/y)	na	2.0%	
FR	Industrial Production (Apr, m/m)	0.3%	-0.9%	
IT	Retail Sales (Apr, m/m)	na	-0.3%	
JN	Labor Cash Earnings (Apr, y/y)	-0.7%	-1.3%	Wage growth subdued despite tight labor market.
JN	Leading Index (Apr, prelim)	96.0	95.9	

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

Economic Indicators

Central Bank Policy Targets

		Year/Year % Change in Target				
		Dec	Jan	Feb	Mar	Apr
US	Target: PCE price index 2.0% y/y	1.8	1.3	1.3	1.4	1.5
Canada	Target: CPI 2.0% y/y, 1.0%-3.0% control range	2.0	1.4	1.5	1.9	2.0
UK	Target: CPI 2.0% y/y	2.1	1.8	1.9	1.9	2.1
Eurozone	Target: CPI below but close to 2.0% y/y	1.5	1.4	1.5	1.4	1.7
Japan	Target: CPI 2.0% y/y	0.3	0.2	0.2	0.5	0.9
Australia	Target Range: CPI 2.0%-3.0% y/y	1.8	1.3	1.3	1.3	

Source: Macrobond

Key Interest Rates

	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	####	Apr-19	May-19
US (top of target range)	2.00	2.00	2.25	2.25	2.25	2.50	2.50	2.50	2.50	2.50	2.50
Canada (Overnight Rate)	1.50	1.50	1.50	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
UK (Bank Rate)	0.50	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)	-0.07	-0.06	-0.06	-0.07	-0.06	-0.06	-0.06	-0.05	-0.06	-0.07	
Australia (OCR)	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	

Source: Macrobond

General Government Structural Balance as a % of Potential GDP

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

Source: International Monetary Fund, World Economic Outlook

Headline Consumer and Producer Price Inflation

	CPI Year/Year % Change					PPI Year/Year % Change				
	Jan	Feb	Mar	Apr	May	Dec	Jan	Feb	Mar	Apr
US	1.6	1.5	1.9	2.0		2.6	2.0	1.9	2.2	2.2
Canada	1.4	1.5	1.9	2.0		2.0	1.0	1.2	1.5	1.8
UK	1.8	1.9	1.9	2.1		2.4	2.1	2.4	2.2	2.1
Eurozone	1.4	1.5	1.4	1.7		3.0	2.9	3.0	2.9	
Germany	1.4	1.5	1.3	2.0	1.4	2.7	2.6	2.6	2.4	2.5
France	1.2	1.3	1.1	1.3	1.0	1.3	1.9	1.9	1.8	2.2
Italy	0.9	1.0	1.0	1.1	0.9	4.1	3.4	3.1	2.9	2.1
Japan	0.2	0.2	0.5	0.9		1.5	0.6	0.9	1.3	1.2
Australia	1.3	1.3	1.3			2.0	1.9	1.9	1.9	

Source: Macrobond

Economic Indicators

Real GDP Growth (Q/Q Seasonally Adjusted)

	Quarter/Quarter % Change					Year/Year % Change				
	Q1-18	Q2-18	Q3-18	Q4-18	Q1-19	Q1-18	Q2-18	Q3-18	Q4-18	Q1-19
US	0.5	1.0	0.8	0.5	0.8	2.6	2.9	3.0	3.0	3.2
Canada	0.4	0.6	0.5	0.1	0.1	2.2	1.8	2.0	1.6	1.3
UK	0.1	0.4	0.7	0.2	0.5	1.2	1.4	1.6	1.4	1.8
Eurozone	0.4	0.4	0.1	0.2	0.4	2.4	2.2	1.6	1.2	1.2
Germany	0.4	0.5	-0.2	0.0	0.4	2.1	2.0	1.2	0.6	0.7
France	0.3	0.2	0.3	0.4	0.3	2.4	1.9	1.5	1.2	1.2
Italy	0.1	0.1	-0.1	-0.1	0.2	1.4	1.0	0.5	0.0	0.1
Japan	-0.1	0.5	-0.6	0.4	0.5	1.4	1.4	0.1	0.2	0.8
Australia	1.1	0.8	0.3	0.2		3.1	3.1	2.7	2.3	

Source: Macrobond

Industrial Production Index (M/M Seasonally Adjusted)

	Month/Month % Change					Year/Year % Change				
	Dec	Jan	Feb	Mar	Apr	Dec	Jan	Feb	Mar	Apr
US	0.0	-0.4	-0.5	0.2	-0.5	3.8	3.6	2.7	2.3	0.9
Canada	-0.3	-0.2	-0.8	1.3		1.3	2.0	-0.2	0.4	
UK	-0.3	1.0	0.6	0.7		-0.4	0.0	0.4	1.3	
Germany	0.8	-0.1	0.4	0.5		-2.5	-2.1	0.1	-0.8	
France	0.0	1.4	0.1	-0.9		-2.4	1.8	0.5	-0.9	
Italy	-0.6	1.8	0.8	-0.9		-5.4	-0.8	0.8	-1.5	
Japan	0.1	-2.5	0.7	-0.6	0.6	-1.0	0.7	-1.2	-2.8	-1.6

Source: Macrobond

Unemployment Rate (Seasonally Adjusted)

	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	####	Apr-19	May-19
US	3.9	3.8	3.7	3.8	3.7	3.9	4.0	3.8	3.8	3.6	
Canada	5.9	6.0	5.8	5.7	5.6	5.6	5.8	5.8	5.8	5.7	
UK	4.0	4.1	4.1	4.0	4.0	3.9	3.9	3.8			
Eurozone	8.1	8.0	8.0	8.0	7.9	7.9	7.8	7.8	7.7		
Germany	5.2	5.2	5.1	5.1	5.0	5.0	5.0	5.0	4.9	4.9	5.0
France	9.0	9.0	9.0	9.0	8.9	8.9	8.9	8.8	8.8		
Italy	10.4	10.1	10.4	10.7	10.6	10.5	10.4	10.5	10.2		
Japan	2.5	2.4	2.4	2.4	2.5	2.4	2.5	2.3	2.5	2.4	
Australia	5.3	5.3	5.0	5.0	5.1	5.0	5.0	4.9	5.1	5.2	

Source: Macrobond

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

	Q3-16	Q4-16	Q1-17	Q2-17	Q3-17	Q4-17	Q1-18	Q2-18	Q3-18	Q4-18	Q1-19
US	-2.3	-2.3	-2.2	-2.5	-2.1	-2.3	-2.5	-2.0	-2.5	-2.6	
Canada	-3.3	-1.9	-2.5	-2.6	-3.1	-3.0	-3.0	-2.8	-1.8	-3.0	-3.1
UK	-6.3	-4.0	-3.0	-4.1	-3.1	-3.0	-3.4	-3.3	-4.3	-4.4	
Eurozone	3.1	2.8	3.0	2.5	3.9	3.5	3.4	3.0	2.5	2.7	
Germany	8.1	7.9	8.2	6.9	8.6	8.5	8.2	7.5	6.5	7.5	7.6
France	-1.2	-1.1	-1.0	-0.4	-0.7	-0.3	0.1	-1.1	-0.3	0.0	-0.2
Japan	3.8	4.1	4.3	3.7	4.6	4.2	3.6	4.0	3.4	3.1	3.5
Australia	-3.3	-1.4	-1.6	-2.4	-2.8	-3.4	-2.3	-2.5	-2.3	-1.5	

Source: Macrobond

Important Risk Discussion

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