

# WHAT TO EXPECT NEXT WEEK

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## HIGHLIGHTS

- **The Chinese GDP** growth number for the second quarter (July 15). During the first three months of the year growth was at 6.4% It should be lower as monthly data on industrial production and imports show a poor momentum.
- **Retail sales and Industrial production** in the US (July 16). They will show the strength of the US economy. These will be important benchmark that may influence the Fed's strategy. Powell just mentioned this week that there was no improvement despite the strong labor market report.  
Associated to these numbers, the Fed's **beige book** (July 17) will highlight the Fed's perception of the economy at a regional level.
- **The NY Fed** (July 15) and the **Phylli Fed** (July 18) indices on economic activity will also provide data on the business cycle strength.
- **ZEW index in Germany** (July 16). A weak number following weak numbers in recent months may force the government to adopt a more proactive economic policy.
- **Employment numbers in the UK** (July 16) and **CPI in the UK** (July 17)  
Weaker numbers on employment are still to come and will be seen after this summer with the strong slowdown expected in the manufacturing sector.

## NEXT WEEK'S MAIN DATA AND EVENTS

- **Chinese GDP for the second quarter (July 15)**

This will be the most important data of the week. The GDP growth, year on year, was at 6.4% during the first quarter and is expected to slow during the spring months probably around 6.2%. The quarterly change which was at 1.4% in the first quarter (non annualized) should be close to this number in the second quarter but could be lower. The industrial production index and the Chinese external trade are consistent with low growth number. Details will show the impact of the trade war on the Chinese economy.

May figures have shown a slowdown in the Chinese economy through production, investment and imports (Imports in June were weak reflecting a low momentum for the domestic demand). Retail sales was up thanks to the fiscal boost but the impact will not last. In other words, the impact of the trade war was already seen in May data and this will probably be confirmed in June. The fiscal policy will partly cushion the external negative impact but the idea is that the Chinese trend growth is on the downside.

- **ZEW index in Germany (July 16)**

All corporate surveys in Germany have shown a strong slowdown in the economic activity. This was the case for the IFO, the Markit composite index and the ZEW. This latter is the first in the month and will be observed very carefully.

The stake is high as a weak number may reflect a persistent low momentum for the German economy. It could imply a more proactive government policy to support short term expansion. This would be also a support for the Eurozone growth.

- **Retail Sales and Industrial Production in the US (July 16)**

These figures are really important in order to measure the US economic momentum. In his speech to the Congress Jay Powell, the Federal Reserve president, said that there was no improvement in the US economic situation even after the last labor market report. The retail sales figures will be a measure of the domestic demand dynamics. Expectations are moderate not showing a rapid improvement. It will be the same for the industrial production index. Nevertheless, these numbers will not show a kind of stop that would suggest a rapid Fed's intervention. Economic conditions are currently not consistent with a drop in the Fed's interest rate.

This latter seems to be consistent with the view that the equilibrium unemployment rate is much lower than what economists thought in the past. The scenario is always scary when someone tells you that this time is different and that was Powell's message.

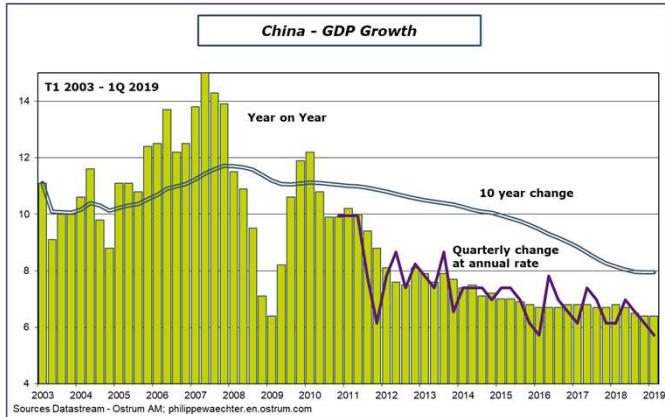
In the US we will also have NY Fed (July 15) and PhillyFed (July 18) indices on activity and data on real estate with the National Association of Home Builders (NAHB) for July (July 16) and the housing starts (July 17)

- **Employment figures for May in the UK (July 16) and CPI for June (July 17)**

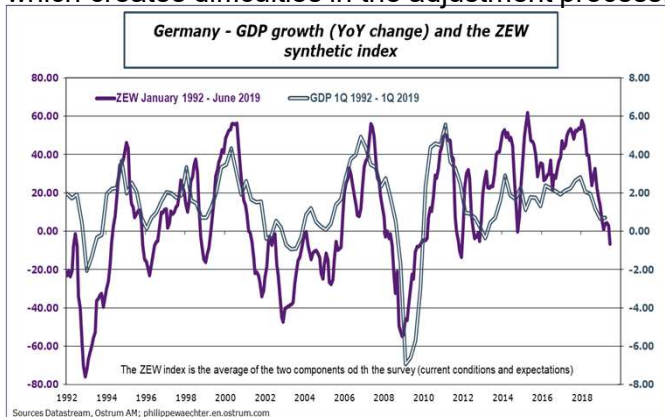
Lower figures on the labor market will come rapidly (not in May) as the economy will slowdown rapidly on the manufacturing sector.

- **Trade Balance in Japan (July 17) and Trade Balance in the Euro Area (July 16)**

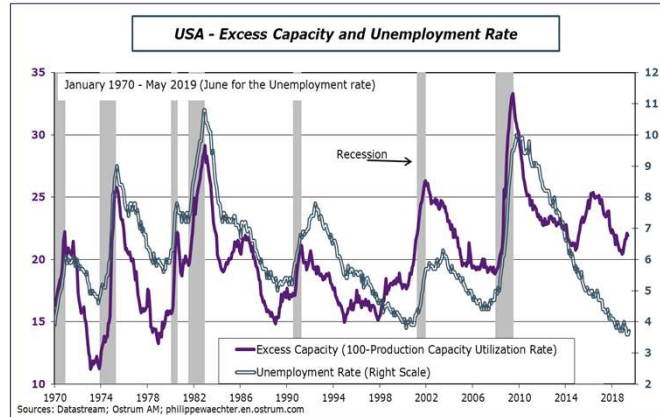
# MAIN GRAPHS



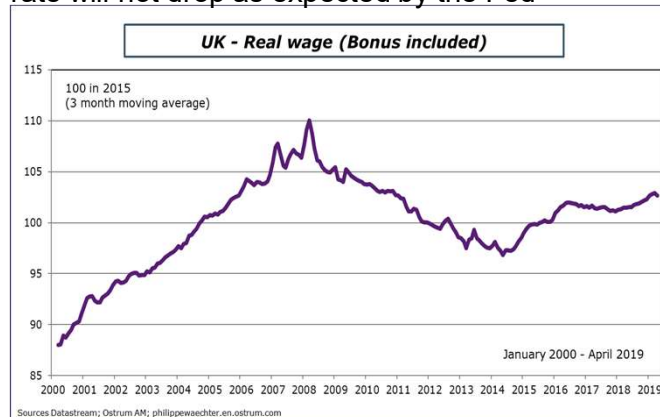
The China GDP follows a downside trend. This reflects the deep change in the Chinese economy as it is now less dependent on the industrial sector and more dependent on services. The main difficulty comes from the corporate indebtedness which creates difficulties in the adjustment process.



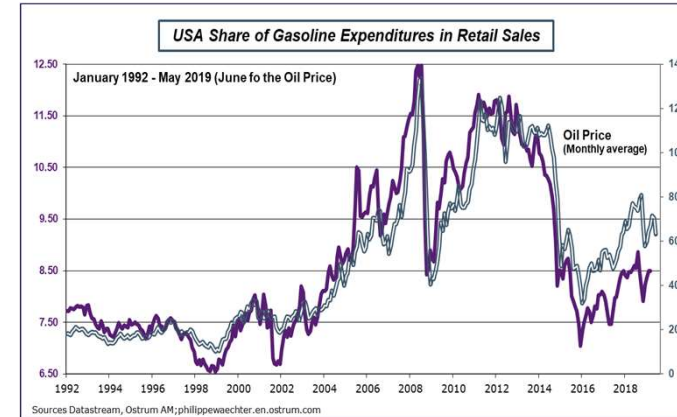
The recent drop in the ZEW index mainly shows a lower level of the current component sub-index. This is a signal of the impact of the mayhem in the automobile sector but it also witnesses the impact of the trade war.



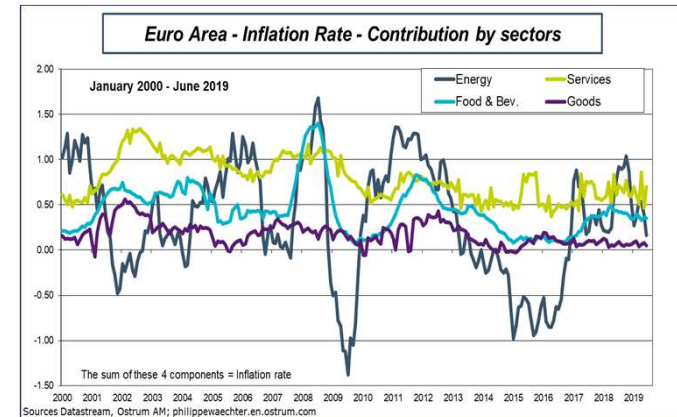
The two indicators show the US business cycle. The capacity is related to the US global environment while the unemp. rate is more dependent on the domestic situation. The upturn in the capacity reflects our guess that unemployment rate will not drop as expected by the Fed



The recent improvement in the real wage momentum in the UK is not sufficient to catch up the 2008 level. The UK economic dynamics is still weak. This reflects the change in the balance of strength on the labor market.



The interesting point is the fact that retail sales are now less dependent on oil. The oil price rebound has not been seen in a higher share of gasoline expenditures in retail sales.



The June inflation figure for the Euro Area shows a moderation due to the oil price contribution. This latter is now just above 0% while the other parts of the index are quite stable. This is the ECB task to modify this point.

# ADDITIONAL NOTES

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