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WHAT TO EXPECT NEXT WEEK

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HIGHLIGHTS

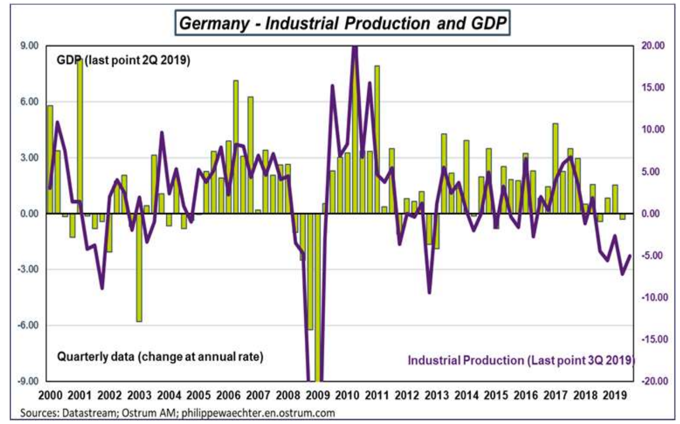
- **GDP growth for the third quarter in Germany (Nov.14) and the ZEW survey for November (Nov.12)**
  The industrial contraction during the third quarter and the fragility seen on the services sector during the third quarter will probably lead to a negative growth rate in the third quarter. Will this technical recession be sufficient to force a more accommodative fiscal policy ?
- **The Eurozone GDP and Employment for the third quarter (Nov.14) and industrial production for September (Nov.15)**
  The flash estimate for the GDP was at 0.2%, it will be confirmed. The question is on the employment dynamics. Since the beginning of 2018, its quarterly growth has been close to the GDP growth leading to a flat trend in productivity. This is not a positive news.
- **The UK GDP for the third quarter (Nov.11) and Employment for August (Nov.12)**
  The main concern for the UK is its low productivity growth. Since the beginning of the current recovery, it has grown by only 1%. The change may come in coming months with a downside adjustment on the labor market.
- **GDP growth for the third quarter in Japan (Nov.14)**
  The figure will take into account the jump in households' retail sales in September. Their expenditures were increasing to compensate the increase in the VAT rate in October. This is the same phenomena that the one seen in April 2014 with the last TVA rate change.
- **Industrial production index in the US for October (Nov. 15) NY Fed manufacturing survey for November (Nov.15)**
  The industrial momentum is low in the US as it can be seen with the ISM manufacturing index below the 50 threshold for the last 3 months to October. This will probably push the industrial production index on the downside.
- **Chinese industrial production, retail sales and investment for October (Nov.14)**
  The momentum is lower in China. It reflects negative external shocks (exports growth is close to zero in recent months) and of an strong internal adjustment (negative growth for imports)
- **Retail sales in the US (Nov.15) and in the UK (Nov.14)**
  The US sales will continue to be robust as the labor market is still supportive and households are optimistic
  In the UK, the perception is weaker as the labor market dynamics has turned negative recently.
- **Inflation in the UK and in the US for October**
  Will be lower than in September as the energy contribution will be more negative in October.
- **Inflation rates in the Euro Area (15), France (14), Germany(13), Italy(15) and Spain (14)**
  Confirmation of the flash estimates released at the beginning of the month. The Euro Area inflation rate in October was first estimated at 0.7%

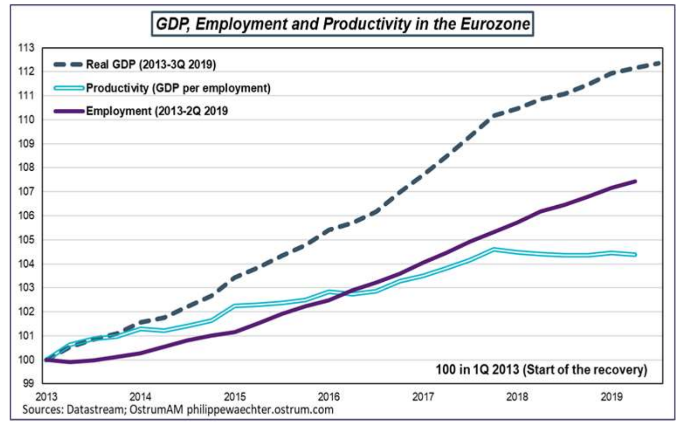
NEXT WEEK'S MAIN DATA AND EVENTS (1/2)

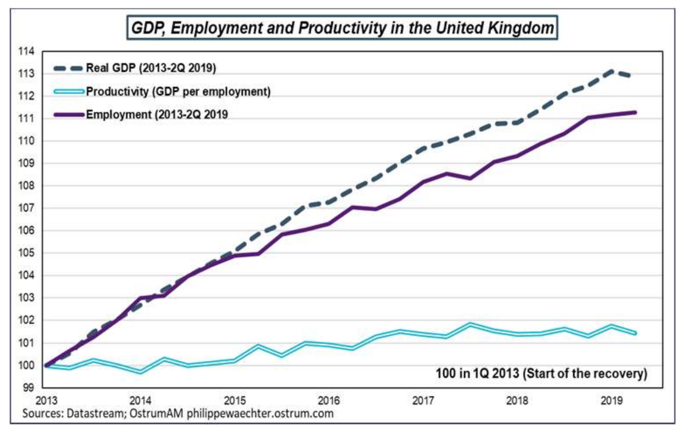
- **GDP growth for the third quarter in Germany (Nov.14) and the ZEW survey for November (Nov.12)**
  The deep drop in the industrial production index (-5% in the third quarter) is consistent with a reduction in the German GDP. The second quarter contraction was mild at just -0.3% at annual rate. The figure for the third quarter will probably be larger as the service sector is weaker than during last spring. In the Markit survey, the global index for the economic activity has been negative in September and the average for the third quarter was just at 50 and more than 2 points below the 2nd quarter average. The German economy will be in recession (2 consecutive drops in the quarterly GDP change). The question will be necessarily on the start of the uptrend. We do not expect a rapid recovery except if the recession is deeper than expected forcing the government to adopt a procyclical policy.
  At the same time the ZEW survey doesn't show elements for a rapid recovery. Both indices (current conditions and expectations) have plunged during summer suggesting a deeper recession. We expect that the figures will be less negative than in October as some good news arrived on the market (the ZEW survey is done with financial analysts)

- **The Eurozone GDP and Employment for the third quarter (Nov.14) and industrial production for September (Nov.15)**
  The flash estimate for the GDP growth was announced at 0.2% (0.75% at annual rate) earlier in October. The first estimate will probably be consistent this number. The job number will probably grow at the same speed as it did during the second quarter. This parallel between GDP and employment growth has a consequence on productivity. As the graph shows, the productivity follows a flat trend since the beginning of 2018. The profitability of the economy is not that strong. Will this create incentives to invest in the Euro Area ? That's a good question.

- **The UK GDP for the third quarter (Nov.11) and Employment for August (Nov.12)**
  The problem of the UK economy is on the third graph of this page. The productivity, measured as the ratio of GDP to employment, has barely grown 1% since the beginning of the recovery in 2013. This is clearly not the picture we can imagine from an efficient economy. This lack of profitability will be a source of concern after the Brexit. Foreign investment has already dramatically decreased, how can we imagine a U-turn after the Brexit when the profitability is already very poor ?
  The GDP figure was down in the second quarter at -0.2% (-0.9% at annual rate) but the monthly GDP figures since the end of June suggest a small rebound.
  On the employment side, the point will be interesting as in July, the number of jobs decreased. At the end the impact of the marked slowdown in activity will be seen in employment figures. We expect that the weak data in August will start a downside trend on employment.
  All these reduced figures reflect the consequence of the absence of decision on the Brexit as commitments are liw within the Kingdom







NEXT WEEK'S MAIN DATA AND EVENTS (2/2)

- **GDP growth for the third quarter in Japan (Nov.14)**
  Japan has witnessed a robust recovery since tsunami in March 2011. Its GDP growth trend is 1.2% per year. The Q3 number will probably strong as retail sales has increased by 2.4% between Q2 and Q3. This is linked with the VAT rate change in October this year. In order to take advantage of lower prices, Japanese households have dramatically increased their expenditures in September.

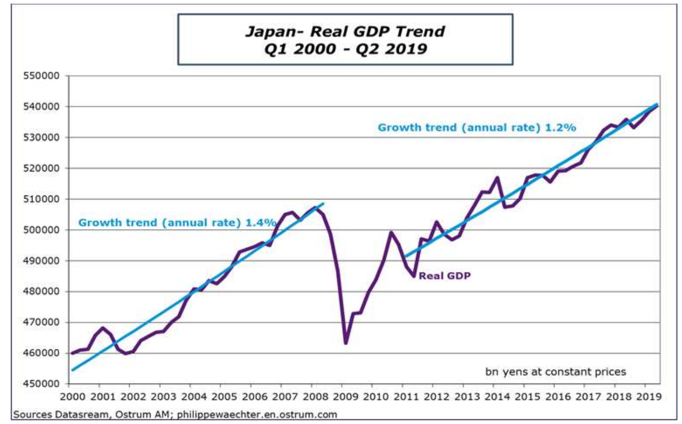
- **Industrial production index in the US for October (Nov. 15) NY Fed manufacturing survey for November (Nov.15)**
  The complex reading of the US business cycle is on the second chart of this page. Since 1970, at least, the unemployment rate and the excess capacity in the industrial sector followed the same profile. A higher unemployment rate was seen with higher excess capacities. Since 2015, it's no longer the case. The unemployment rate is at an historical low but excess capacities are not tight. This discrepancy is a measure of everyone discomfort to understand the business cycle.

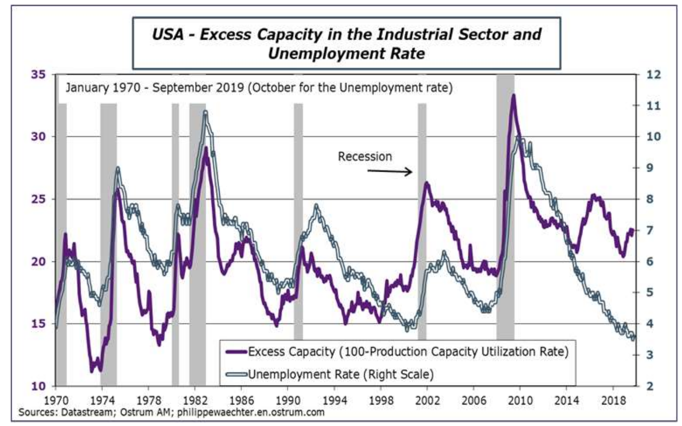
- **Chinese industrial production, retail sales and investment for October (Nov.14)**
  The trend is on the downside on the industrial production index as shown on the graph. This reflects the impact of the trade war and of the internal adjustment that takes place as the economic momentum is lower. This can be seen also on retail sales and on investments. In coming months, the recent change in the balance of strength between the US and China could boost the Chinese activity. But this may not take place before the beginning of next year.

- **Retail sales in the US (Nov.15) and in the UK (Nov.14)**
  During the third quarter, the strong momentum in households' expenditures in the US has been the main source of GDP growth. This momentum will continue in the beginning of the fourth quarter as employment is still on a strong dynamics and households are still optimistic on their own situation in coming months.
  In the UK the risk is on the downside as uncertainty remains high. Moreover, the dynamics on the labor market has probably changed. This is the message from the last Markit survey is that fort the whole economy the employment momentum is negative. This may affect households' behavior.

- **Inflation in the UK and in the US for October –** A slowdown is expected in sympathy with a lower energy contribution

- **Inflation rates in the Euro Area (15), France (14), Germany(13), Italy(15) and Spain (14) –** These will be the final number after the flash estimates at the beginning of the month





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ADDITIONAL NOTES

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