

WHAT TO EXPECT NEXT WEEK

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HIGHLIGHTS

- **Minutes of the last Fed's meeting (Nov. 20) and of the last ECB's meeting (Nov.21)**

The Fed's minutes will reveal the discussions on the drop of the Fed's benchmark rate but the most useful part will be on the commitment to stop, at least temporarily, the downside trend on the benchmark rate.

In the ECB minutes, the focus will be on the discussions related to the important disagreements between governing council members after September decisions

- **Markit flash estimates for November in the Euro Area, Japan and the US (Nov.22)**

In October a rebound in the US for the manufacturing sector was a surprise reflecting mainly the spike in the New export Orders index. The divergence with the eurozone and Japan was astonishing. The November survey will highlight the possibility for the US to remain strong while Japan and the EA are still weak..

- **The French Climat des Affaires for November (Nov. 21)**

The French index has been above its historical average for months. This is consistent with the stronger momentum of the French growth when compared with the Euro Area. This is linked to the specificity of the French economic policy that feed domestic demand in order to cushion a possible external shock. This strategy limits the possibility of a downturn.

- **Eurozone Current Account for September (Nov.19)**

The Euro Area current account shows a large surplus. It is circa 3% of GDP. This means that there is an excess saving in the Euro Area and that we have means to invest in order to improve the autonomy of our growth process. Because accumulating surplus is just useless.

- **Existing homes sales in the US for October (Nov. 21) and Housing Starts (Nov.19)**

Existing home sales indicator is a measure of a wealth effect on consumption expenditures. Its recent profile suggests a slowdown in expenditures during the last quarter of this year before a mild rebound at the beginning of 2020.

- **Productivity in the third quarter for the United Kingdom (Nov. 20)**

The strong slowdown in the UK productivity suggests a extended period of low growth except if investment rebounds strongly. This will not be the case whatever the Brexit agreement because Brexit will continue to provide large uncertainty.

- **The Phylli Fed index will be release on November the 21st. The Japanese trade balance on November the 20th, the Japanese CPI for October on November the 22nd and the German Consumer Confidence index on November the 21st**

NEXT WEEK'S MAIN DATA AND EVENTS PAGE 1

- **Minutes of the Fed's meeting (Nov. 20) and of the ECB's meeting (Nov.21)**

During the last Fed's meeting, it was decided to lower the corridor of the benchmark rate by 0.25% to [1.5%; 1.75%]. It was the third drop since July. We remember that Esther George and Eric Rosengren voted against this change. The first because it is not necessary now and the second because the monetary policy stance is already accommodative in the current US economic backdrop. Jay Powell, last Wednesday, said that the Fed considers to maintain its rate at the current level for a while. The discussion will be interesting on the perception of the economic environment, the necessity of the change in monetary policy and the commitment to maintain rates at the current level for a moment.

For the ECB, it was Mario Draghi's last meeting. All the measures were taken in September, nothing has been added in October (24). What characterized the September meeting was the public disagreement between the monetary policy committee members. Draghi said in his press conference that there were no sequels of it in October. Minutes will say.

- **Markit flash estimates for November in the Euro Area, Japan and the US (Nov.22)**

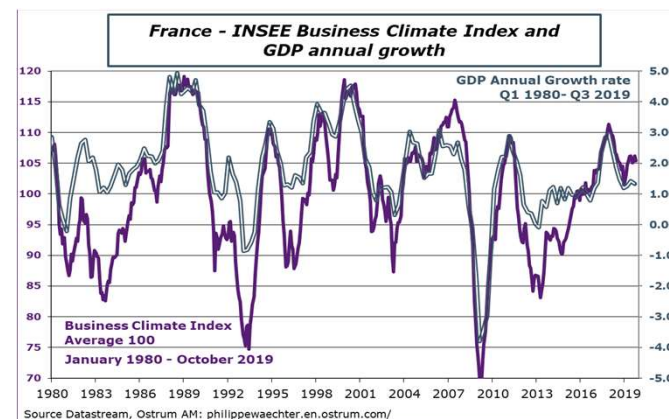
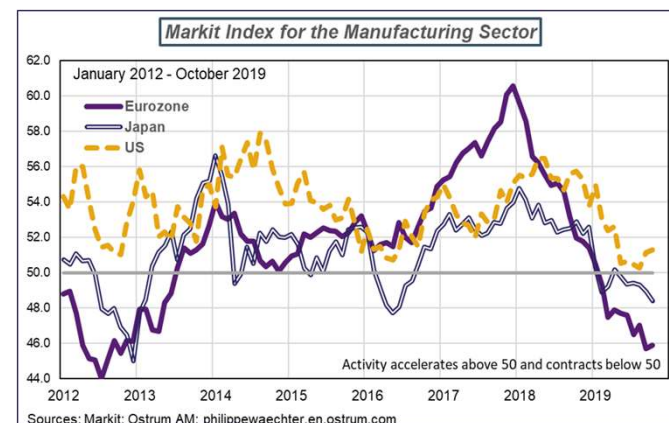
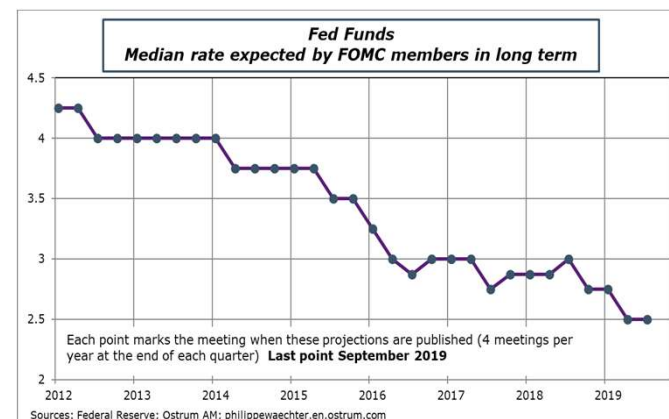
Will the divergence between the US on the one hand and Japan and the Eurozone on the other continue in November ? The upturn seen in the US came from the spike in the New Export Orders index. The same pattern was noticed in the ISM survey for the manufacturing sector. It was probably a technical rebound after months of decrease. According to the ISM report, the number of sectors that show an improvement in their orders was limited.

The euro area index stabilized at a very low level in October and will probably remain close to this level in November. The main point is about Germany which is the main driver of the Eurozone index in the manufacturing sector. The German level is set to remain close to its current low. The fact that technically Germany is not in recession doesn't change this picture. GDP was up by 0.1% during the third quarter but was -0.16% below the first quarter level. It's not yet a rebound or a recovery.

The Japanese index is low and the low GDP growth during the third quarter was associated with inventories adjustment on the downside. This can reflect expectation of low demand in the future (the VAT rate hike in October has, in advance, boosted sales in September but will depress them during the last quarter of this year.)

- **The French Climat des Affaires for November (Nov. 21)**

The French business survey index has been above its historical level, at 100, for many months now. This is clearly a support for GDP growth as shown on the graph. This dynamics reflects the impact of the French economic policy. In the current uncertain global economic backdrop, it feeds the domestic demand to cushion possible external shocks, limiting then the risk on growth. One point of attention. In October, the sub-index on the industrial sector dropped below the 100 threshold. Is it a contagion effect from the uncertain global environment ? Probably and that's why we will need to analyze it in details. We will also be attentive of the employment index associated with the climat des affaire survey. Will it continue to be strong ?



NEXT WEEK'S MAIN DATA AND EVENTS PAGE 2

- **Eurozone Current Account for September (Nov.19)**

The euro area current account is in surplus since the beginning of this decade. This reflects the surplus in Germany and in the Netherlands while other countries no longer have the negative contribution they had before the austerity policy of 2011 that dramatically limited their domestic demand momentum.

This surplus is large and probably too large. It represents an excess saving of circa 3% of the Eurozone GDP. This means that investment is not important enough in Europe. That's an interesting trade-off. Is it necessary to accumulate saving but then what will we do with it in the future? Or would it be more efficient to invest in order to increase the autonomy of the euro area growth dynamics? We need to invest and to avoid the mercantilist view of accumulation.

- **Existing homes sales in the US for October (Nov. 21) and Housing Starts (Nov.19)**

The existing home sales indicator is interesting as its profile is consistent with households' expenditures. This is clearly what the graph shows. There is strong inertia in the construction I use. I compare the last 12 month average with the same average a year before. This indicator is leading consumption by 9 months and is used as representing a wealth effect. An improvement of this indicator has a positive wealth effect, people perceive that the situation is favorable leading to a more optimistic bias.

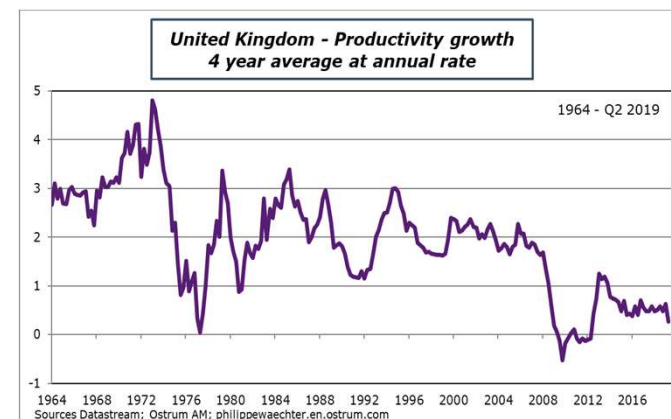
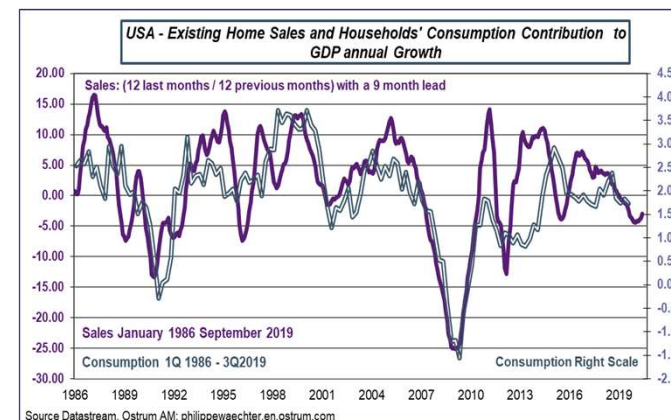
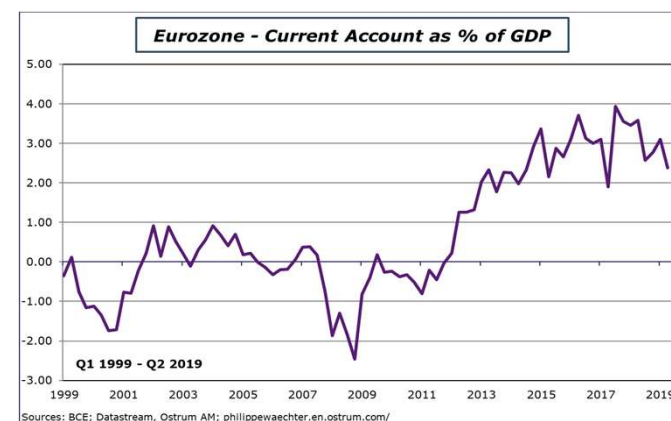
In the current situation, the graph suggests a slowdown in consumption expenditures for the coming months. The recent rebound, if confirmed, would limit the risk on the US growth in 2020. The US housing starts will be released on November the 19th. The trend of this indicator has been stable for months. The NAHB index will be released on November the 18th.

- **Productivity in the third quarter for the United Kingdom (Nov. 20)**

The third graph on the right shows the official profile of the UK productivity. This profile is not specific to the UK even if UK levels are usually lower in recent years than in other developed countries.

The graph shows the different steps of growth in developed countries. Strong in the 60's then a long plateau at 2% and the deep break after the Lehman shock in 2008. The recent rebound is very limited, well below 1%. This constrains the leeway of the UK economy and its capacity to converge to a higher growth trajectory. More investments are needed but the Brexit clearly limits this possibility whatever the commitment between the UK and the European Union.

- **The Philly Fed index will be released on November the 21st. The Japanese trade balance on November the 20th, the Japanese CPI for October on November the 22nd and the German Consumer Confidence index on November the 21st**



ADDITIONAL NOTES

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