

# WHAT TO EXPECT NEXT WEEK

December 9 – December 15, 2019

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# HIGHLIGHTS

- **The main point will be the UK general elections. Boris Johnson will probably have a majority. Then may be will it be the start of the Brexit but don't be too optimistic (Dec.12)**
- **Monetary policy meetings for the Federal Reserve (December 11) and the ECB (December12)**

Nothing is expected in both meetings. The main point to notice is that it will be Christine Lagarde first monetary policy meeting and her press conference. She will have to define her view of monetary policy and the way to manage it in coming months. Nothing is expected on the Fed's side. Powell said recently that the US central bank was on a pause mode..

The interesting elements on both side of the Atlantic will be the new forecasts of each central bank. In September the ECB was clearly on the pessimistic side as it revised down its expectations on growth and on inflation. The Fed has stable forecasts compared to June.
- **German exports have not really started their adjustment. The trade balance will be released on December 9**

Recent data on Germany are bleak. This was the case of industrial orders (driven by domestic orders) and of the industrial production index. The New export orders index in the Markit survey suggests that in coming months a deep deceleration can be expected in German exports It will increase the probability of a recession in Germany in 2020.
- **Retail sales in the US for November (Dec 13)**

The weak number seen in October doesn't imply the start of a weaker trend
- **Industrial production indices in the Euro Area(12), in France (10), in Italy(10) in the UK (10) and the second estimate in Japan (13)**

The deep drop in the German index and in the Spanish index will imply a drop in the Euro Area index for October. The start of the fourth quarter is on a weak tone. This is also the case in Japan. The first estimate was too low to expect a robust GDP growth in the fourth quarter.
- **Confirmation of French employment figures for the third quarter (Dec10)**

The flash estimate number was very strong. 265 000 jobs were created in a year to the third quarter of this year; We expect a confirmation of this momentum. It would improve the capacity for the French economy to have a more autonomous growth.
- **US CPI for November (Dec 11) and Chinese CPI for November (Dec10).**

Focus on the Chinese CPI as the pork disease episode seems to be behind us

# NEXT WEEK'S MAIN DATA AND EVENTS PAGE 1

- Monetary policy meetings for the Federal Reserve (December 11) and the the ECB (December 12)**

This will be Christine Lagarde first monetary policy meeting and her first press conference. Until now she is Draghi compatible. She wants to continue the monetary policy that was put in place by the former president. Nothing is expected to be announced even if the ECB has mentioned that the central bank was thinking on the monetary policy framework. It's not a revolution but a way for the new president to define her strategy more precisely.

On the Fed's side, Jerome Powell said recently that the US central bank was on a pause mode. Nothing is expected.

My analysis of monetary policies is that they have to remain accommodative in order to limit constraints on the economic activity. As far as the growth momentum doesn't improve at the global level, central banks will keep an accommodative bias. We can have this allure for an extended period.

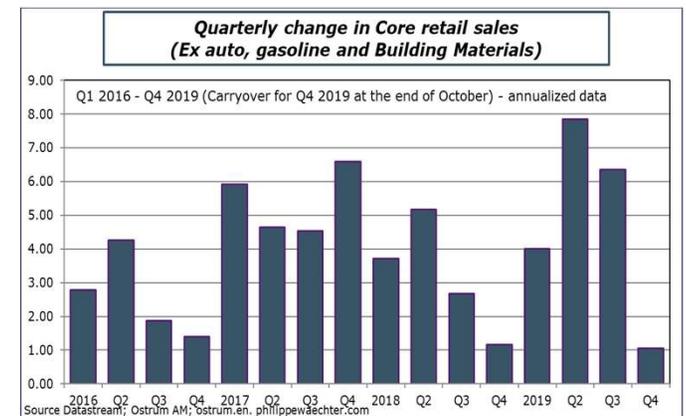
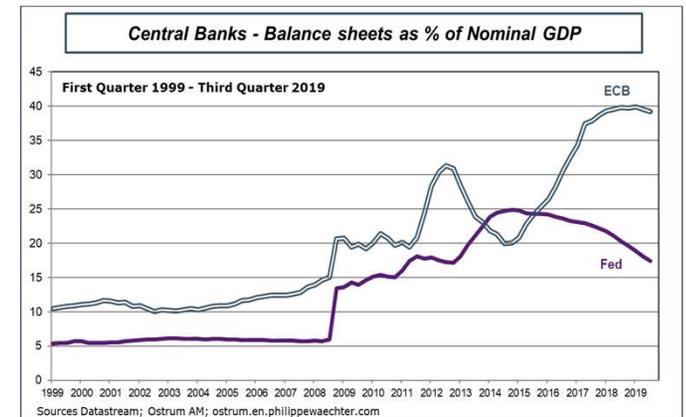
- German exports have not really started their adjustment. The trade balance will be released on December 9.**

Current news in Germany are on the negative side. Industrial orders were down, mainly because of the German orders weakness and the industrial production dropped dramatically in October. It was down 1.5% versus September and - 5.5% during the last three months at annual rate.

The graph shows that the adjustment on real exports is still to come. The new exports orders index in the Markit survey for the manufacturing sector suggests that a slowdown in exports is coming. The risk of recession remains high in Germany.

- Retail sales in the US for November (Dec 13)**

The US core index for retail sales was very strong during Spring and Summer but the 4<sup>th</sup> quarter has started on a lower tone. This profile was already seen in 2016 and 2018, the last quarter was weak but the recovery at the start of the following year was strong. Even if the November figure is on the bottom side of the consensus it doesn't mean that the situation is dramatic



## NEXT WEEK'S MAIN DATA AND EVENTS PAGE 2

- **Industrial production indices in the Euro Area(12), in France (10), in Italy(10) in the UK (10) and the second estimate in Japan (13)**

The drop in the German industrial production index in October is a negative sign for the other European countries. The Euro Area index will probably drop. On the graph we see the impact of the recent change in trade and it illustrates the pessimistic view in surveys.

The trend is flat in the best situation but usually it shows a slowdown. This creates conditions for a global slowdown.

- **Confirmation of French employment figures for the third quarter (Dec10)**

These figures were very strong in the flash estimate. 56 100 new jobs were created during the third quarter and 265 000 on a year. This is clearly a strong performance for the French economy. This reflects a more rapid reaction of the labor market to the economic activity. That's probably the impact of the new laws on the labor market (September 2017) but also the reduction in labor costs this year. These two momentum will continue next year.

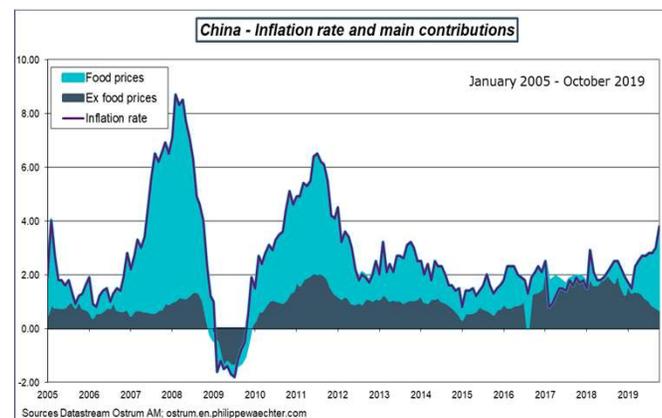
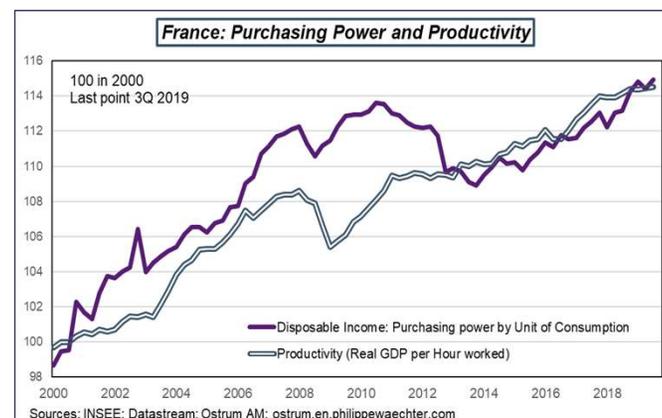
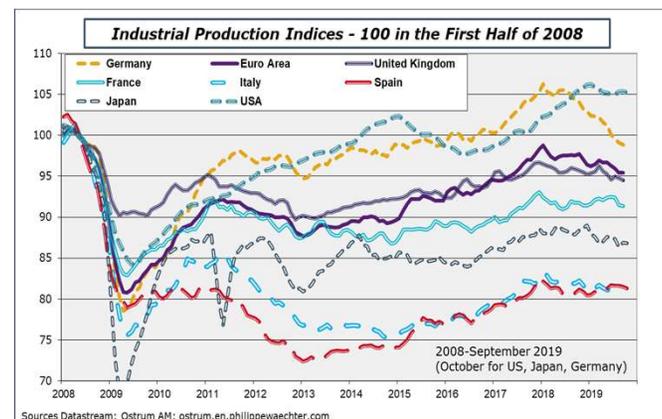
One consequence of this labor market's behavior is that the productivity growth is now lower. This is the grey line on the graph.

This is interesting to compare this productivity line with households' purchasing power (purple line). They are supposed to have similar profiles as purchasing power cannot increase more than productivity in the long term.

After the Lehman moment we've seen a strong improvement of households' revenue. It was the idea to boost demand through higher revenues. But as productivity did not recover as it was expected at this time, it was necessary to adjust HH revenues. That's what happened during Hollande's mandate. Now the two have similar profile, meaning that forthcoming purchasing power gains are limited if the productivity trend doesn't improve dramatically.

- **US CPI for November (Dec 11) and Chinese CPI for November (Dec10)**

The Chinese number will be the most important of the two. In recent months, food prices increased rapidly in China as Pork price was skyrocketing after the pork disease. It seems that the peak of the disease is behind us. This could lead to lower inflation rates in the foreseeable future.



# ADDITIONAL NOTES

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