

Macro Weekly

Group Economics

1 November 2019

Han de Jong
Chief Economist
Tel: +31 20 628 4201
han.de.jong@nl.abnamro.com

Fed cuts and pauses, US and eurozone GDP marginally better

- US and eurozone GDP data marginally better than expected
- Some sign of life in key Chinese PMI
- Fed cuts and pauses
- Hong Kong shows what unrest can do

US GDP growth amounted to 1.9% qoq annualised in Q3. That was a touch better than expected, but lower than the last couple of quarters. Private consumption was strong. Other elements of the report were unexciting and much in line with expectations. As the US economy is experiencing weakness in manufacturing, just like many other countries, we still expect the overall economy to slow further during the next couple of quarters. A recession, however, is very unlikely in our view. The softening manufacturing sector is already leading to somewhat weaker jobs growth, a trend we expect to continue. As the improvement of labour market conditions weakens, so will income growth, consumer confidence and growth of private consumption. Personal income growth in September came in at 0.3% mom after August's revised 0.5%. Spending growth was a little softer at 0.2% mom in both months. This implies savings have gone up a little. The savings rate is relatively high by historical standards, implying the US consumer is financially comfortable. A drop in income growth could be compensated by a drop in the savings rate making a sharp downturn in consumer spending unlikely.

GDP growth



Source: Bloomberg

US PCE inflation fell back in September. Prices were unchanged on the month as they were in August, while the yoy rate fell from 1.4% to 1.3%. The Fed's favourite inflation

measure, core PCE, was also unchanged in September after rising 0.1% mom in August. The yoy rate fell back from 1.8% to 1.7%.

Below-target inflation and muted growth has created the room for the Fed to ease this year. At their latest policy meeting they cut rates for a third time this year. We had pencilled in a fourth cut in December, but the Fed seems to indicate they are going to adopt a wait-and-see attitude. We still believe one more cut is coming but have pushed it out to early next year.

Eurozone GDP still growing, but likely to lose further momentum

Eurozone GDP grew 0.2% qoq according to preliminary numbers. That was a touch better than expected. We continue to think that growth will disappear altogether in the next while, though we would not call that a recession. Manufacturing is in the doldrums and leading indicators in services suggest that growth in services is set to soften. The European Commission's index of Economic Sentiment fell further in October: 100.8 versus 101.7 in September. Meanwhile, it isn't all bad. There are scattered signs that things may be bottoming out in specific places. Dutch producer confidence, for example, has been stabilising since June, having fallen earlier in the year.

Netherlands: producer confidence



Source: Bloomberg

Domestic demand is still doing reasonably well in the eurozone, but international trade is a significant drag. The outlook therefore depends to a great extent on the outlook for international trade. Unfortunately, it is not easy to determine what will happen to international trade in the quarters ahead as it depends crucially on developments in the US-China conflict, possible further protectionist measures by US president Trump against other nations (European cars?) and also on domestic growth in the largest economies.

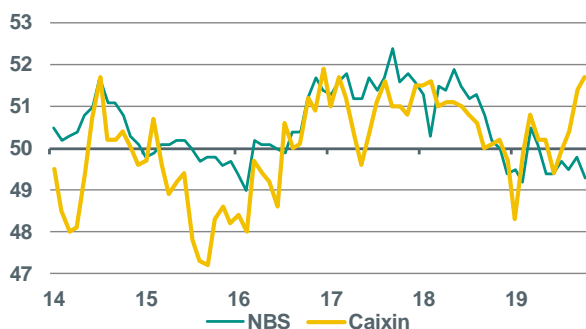
Signs of life in China's PMIs

The PMIs in China paint an interesting picture. The NBS PMIs (they are the measures as published by the central bank) fell in October. The manufacturing index fell from 49.8 in September to 48.3 in October while the non-manufacturing index fell from 53.7 to 52.8. That does not look promising. However, the rival Caixin index showed a different picture. The manufacturing series rose to 51.7, up from 51.3, but, more importantly, registering its fourth consecutive monthly improvement. A key difference between the NBS measures and the Caixin ones is that the sample of Caixin is more geared towards private sector

companies. The Chinese policymakers have taken a range of measures to stimulate economic growth, focussing on the private sector. The relatively better performance of the Caixin PMI therefore may be suggesting that these measures are working. That would be good news for the Chinese economy and also for the world economy at large. But, it is early days yet.

China: PMI manufacturing

Index, 50=neutral



Source: Bloomberg

China: PMI services

Index, 50=neutral



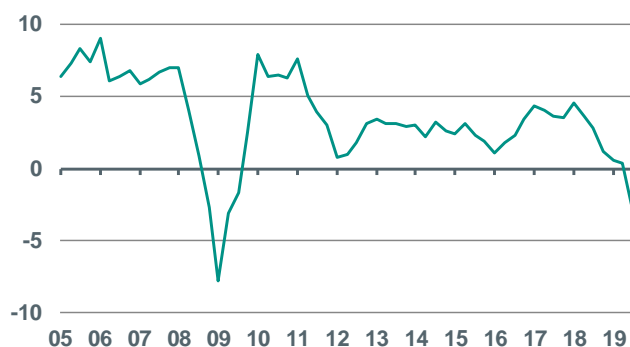
Source: Bloomberg

Hong Kong in recession

Hong Kong has been plagued by unrest for a while now. This is leaving its mark on the economy. GDP had already contracted 0.4% qoq in the second quarter and shrank a staggering 3.2% qoq in Q3. The yoy rate of growth collapsed from +0.5% in Q2 to -2.9% in Q3.

Hong Kong GDP growth

% yoy



Source: Bloomberg

Main economic/financial forecasts										
GDP growth (%)	2017	2018	2019e	2020e	3M interbank rate	24/10/2019	31/10/2019	+3M	2019e	2020e
United States	2.4	2.9	2.2	1.3	United States	1.94	1.91	1.43	1.43	1.55
Eurozone	2.7	1.9	0.8	0.6	Eurozone	-0.40	-0.40	-0.55	-0.55	-0.55
Japan	1.9	0.8	1.0	0.3	Japan	0.07	0.07	-0.10	-0.10	-0.10
United Kingdom	1.9	1.4	1.2	1.2	United Kingdom	0.81	0.80	0.80	0.80	0.80
China	6.9	6.6	6.2	5.8						
Inflation (%)	2017	2018	2019e	2020e	10Y interest rate	24/10/2019	31/10/2019	+3M	2019e	2020e
United States	2.1	2.4	1.8	2.0	US Treasury	1.77	1.69	1.5	1.50	1.50
Eurozone	1.5	1.7	1.1	0.9	German Bund	-0.41	-0.40	-0.8	-0.80	-0.80
Japan	0.5	0.9	1.1	1.6	Japanese gov. bonds	-0.15	-0.14	-0.1	-0.10	0.00
United Kingdom	2.7	2.5	1.9	1.8	UK gilts	0.63	0.63	0.3	0.30	0.30
China	1.6	2.1	2.5	2.5						
Key policy rate	31/10/2019	+3M	2019e	2020e	Currencies	24/10/2019	31/10/2019	+3M	2019e	2020e
Federal Reserve	1.75	1.50	1.50	1.50	EUR/USD	1.11	1.12	1.12	1.12	1.15
European Central Bank	-0.50	-0.60	-0.60	-0.60	USD/JPY	108.6	108.0	104	104	100
Bank of Japan	-0.10	-0.10	-0.10	-0.10	GBP/USD	1.28	1.29	1.24	1.24	1.30
Bank of England	0.75	0.75	0.75	0.75	EUR/GBP	0.86	0.86	0.90	0.90	0.88
People's Bank of China	4.20	4.10	4.10	3.85	USD/CNY	7.07	7.04	7.20	7.20	7.50

Source: Thomson Reuters Datastream, ABN AMRO Group Economics.

DISCLAIMER

This document has been prepared by ABN AMRO. It is solely intended to provide financial and general information on economics. The information in this document is strictly proprietary and is being supplied to you solely for your information. It may not (in whole or in part) be reproduced, distributed or passed to a third party or used for any other purposes than stated above. This document is informative in nature and does not constitute an offer of securities to the public, nor a solicitation to make such an offer.

No reliance may be placed for any purposes whatsoever on the information, opinions, forecasts and assumptions contained in the document or on its completeness, accuracy or fairness. No representation or warranty, express or implied, is given by or on behalf of ABN AMRO, or any of its directors, officers, agents, affiliates, group companies, or employees as to the accuracy or completeness of the information contained in this document and no liability is accepted for any loss, arising, directly or indirectly, from any use of such information. The views and opinions expressed herein may be subject to change at any given time and ABN AMRO is under no obligation to update the information contained in this document after the date thereof.

Before investing in any product of ABN AMRO Bank N.V., you should obtain information on various financial and other risks and any possible restrictions that you and your investments activities may encounter under applicable laws and regulations. If, after reading this document, you consider investing in a product, you are advised to discuss such an investment with your relationship manager or personal advisor and check whether the relevant product –considering the risks involved- is appropriate within your investment activities. The value of your investments may fluctuate. Past performance is no guarantee for future returns. ABN AMRO reserves the right to make amendments to this material.

© Copyright 2019 ABN AMRO Bank N.V. and affiliated companies ("ABN AMRO")