Macro Weekly

Group Economics

18 October 2019

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

Brexit coming to the crunch while global manufacturing remains weak

- **Boris Johnson gets his deal**
- **UK parliament to vote on Saturday**
- **China's GDP growth slows a little further**
- **Manufacturing still in trouble**

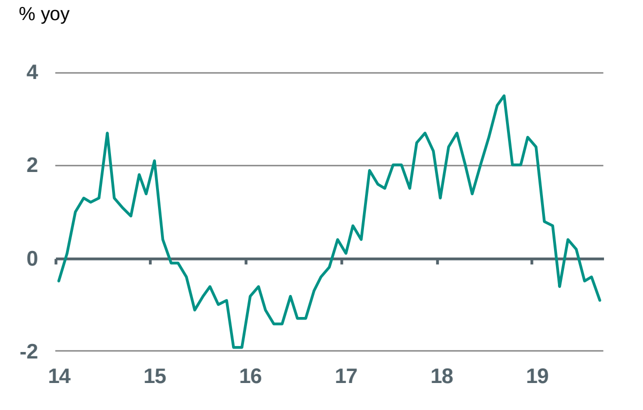
UK Prime Minister Boris Johnson reached a deal with the EU on Brexit. The deal takes the 'backstop' out of the equation, but puts an economic border in the Irish Sea. At the time of writing European leaders still have to agree to the deal, but there is no reason to think they will not. A much higher hurdle for the deal is the UK parliament which is meant to vote on the deal on Saturday. My colleague Bill Diviney has set out the various options here. The government does not have a majority in parliament so things are complicated. But it is far from impossible that the deal passes as some MPs may prefer this deal over taking the risk of a hard(er) Brexit. It is also possible that the deal is passed on the condition that it is put to a new referendum. Should the deal get rejected new elections look inevitable and it then all depends on what platforms the various parties will campaign on. So, there is still uncertainty, but the good thing is that a hard Brexit has become a lot less likely. We should know a lot more after the weekend.

The global economy looks weak and the industrial sector in particular is in trouble. US industrial production fell 0.4% mom in September and fell 0.1% yoy. Manufacturing production fared slightly worse: -0.5% mom and -0.9% yoy. We must, however, make two qualifying observations. First, the data for August was revised up and was actually reasonably robust: +0.8% mom for industrial production (originally reported as +0.6%) and +0.6% mom for manufacturing (originally 0.5%). A second very important observation is that the September data was strongly affected by the strike at car manufacturer GM. On 15 September almost 50,000 employees went on strike and they still are. A deal has recently been reached between the company and the unions, but the workers remain on strike as they vote on the deal. This means the strike may last at least another week. The October data may thus not be any better than the September data.

US retail sales growth slows but housing is benefitting from lower mortgage rates
US retail sales fell 0.3% mom in September. This was probably partly pay-back for strong data in August: +0.6%. Excluding cars and gas retail sales were unchanged on the month having risen 0.4% mom in August. While the September data was underwhelming the US consumer is still doing well. As jobs growth has slowed, we think consumer spending growth will slow (further), but not by so much that a recession in the US follows.

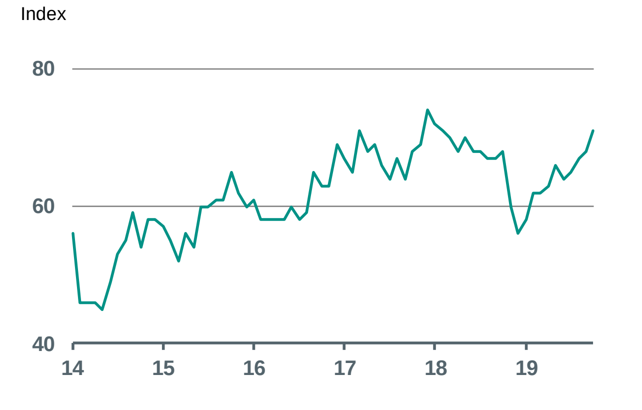
Lower bond yields have pushed mortgage rates down in recent months. The US mortgage and housing markets are flexible and lower mortgage rates trigger stronger demand for housing relatively quickly. The confidence index of the National Association of Home Builders is a good gauge of buyers' interest. It rose to 71 in October (from 68 in September), its highest level since February 2018.

US manufacturing production



Source: Bloomberg

US NAHB Home builders' confidence

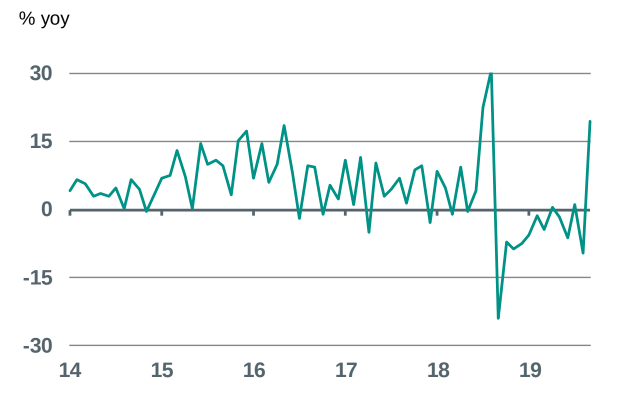


Source: Bloomberg

Not a lot of data in the eurozone

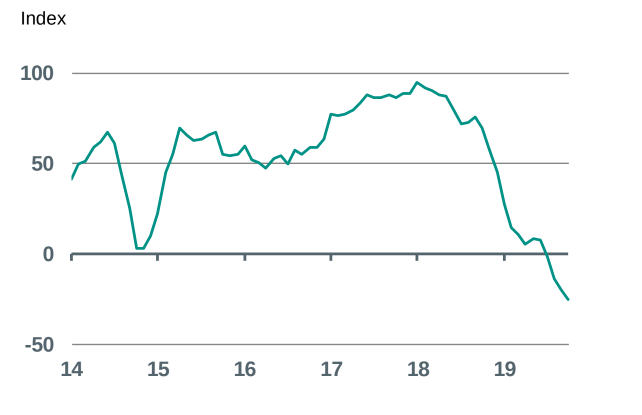
Recent days have not seen a lot of eurozone economic data. Car registrations were up 14.5% yoy in September, having been down 8.4% in August. This sounds like a major positive development. However, we must bear in mind that base effects are important here. Last year, car registrations collapsed in September which was related to the introduction of new emission-testing procedures.

Eurozone: car registrations



Source: Bloomberg

Germany: ZEW current conditions



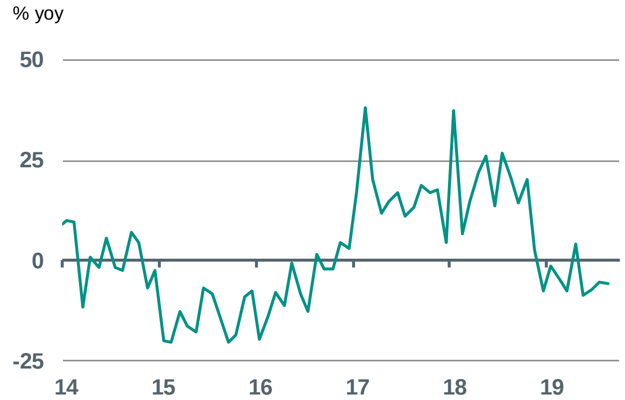
Source: Bloomberg

The ZEW confidence index (expectations) for the eurozone fell to -23.5 in October, slightly down from -22.4 in September. The same index for Germany alone also eased marginally, while the 'current conditions' component slumped further falling to -25.3 after -19.9 In September. All this highlights that the eurozone economy is soft and Germany in particular and that an acceleration of growth is not in sight yet. Things could improve if the trade conflict got resolved, if fiscal policy provided a meaningful boost or if the car sector improved. None of these three is impossible, but neither can we count on them any time soon.

China GDP slows further

China's GDP was up 6.0% yoy in Q3, down from 6.2% in Q2 and the lowest growth rate in a long time. The number was slightly lower than expected but the trend of slowing growth has been visible for a while. Other Chinese data was mixed. Industrial production growth accelerated a little: 5.8% yoy in September, up from 4.4% in August while retail sales growth amounted to 7.8% yoy, up from 7.5%. This data does not change the picture of a gradual slowdown. The most direct effect China has on the rest of the world is through trade. The picture here is poor and not changing much. Chinese imports were down 8.5% yoy in September (in dollars and values). Imports have been falling at a pace of -5% - -10% yoy for a while. Imports from the US are particularly weak: -21.9% yoy in September.

China: imports in USD



Source: Bloomberg

A resolution of the conflict with the US would be very helpful. Chinese authorities have taken a lot of relatively small measures to prop up growth in response to the slowdown and the effect of the trade conflict in particular. So far, however, the effects are not overwhelming.

Main economic/financial forecasts

GDP growth (%)	2017	2018	2019e	2020e	3M interbank rate	10/10/2019	17/10/2019	+3M	2019e	2020e
United States	2.4	2.9	2.2	1.3	United States	1.99	2.00	1.43	1.43	1.55
Eurozone	2.7	1.9	0.8	0.6	Eurozone	-0.42	-0.41	-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	0.77	0.78	0.80	0.80	0.80
China	6.9	6.6	6.2	5.8						
World	3.8	3.5	2.9	2.9						
Inflation (%)	**2017**	**2018**	**2019e**	**2020e**	**10Y interest rate**	**10/10/2019**	**17/10/2019**	**+3M**	**2019e**	**2020e**
United States	2.1	2.4	1.8	2.0	US Treasury	1.66	1.76	1.5	1.50	1.50
Eurozone	1.5	1.7	1.1	0.9	German Bund	-0.49	-0.40	-0.8	-0.80	-0.80
Japan	0.5	0.9	1.1	1.6	Euro swap rate	-0.06	0.01			
United Kingdom	2.7	2.5	1.9	1.8	Japanese gov. bonds	-0.23	-0.16	-0.1	-0.10	0.00
China	1.6	2.1	2.5	2.5	UK gilts	0.58	0.68	0.3	0.30	0.30
World	3.0	3.4	3.6	3.3						
Key policy rate	**17/10/2019**	**+3M**	**2019e**	**2020e**	**Currencies**	**10/10/2019**	**17/10/2019**	**+3M**	**2019e**	**2020e**
Federal Reserve	2.00	1.50	1.50	1.50	EUR/USD	1.10	1.11	1.12	1.12	1.15
European Central Bank	-0.50	-0.60	-0.60	-0.60	USD/JPY	108.0	108.7	104	104	100
Bank of Japan	-0.10	-0.10	-0.10	-0.10	GBP/USD	1.23	1.28	1.24	1.24	1.30
Bank of England	0.75	0.75	0.75	0.75	EUR/GBP	0.90	0.87	0.90	0.90	0.88
People's Bank of China	4.35	4.10	4.10	3.85	USD/CNY	7.12	7.08	7.20	7.20	7.50

Source: Thomson Reuters Datastream, ABN AMRO Group Economics.