

# Macro Weekly

Group Economics

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## Distortions, distortions, I am giving up, see you after Easter

- It is increasingly hard to read the tea leaves of the global economy due to distortions
- A few surprisingly good European indicators, but weakness persists
- Further fall Asian PMIs

### My sabbatical starts today

It is getting very hard to make sense of the economic data that are being released. The number of factors distorting the data is high. The partial shutdown of the US government is impacting on the data and even on the working hours of the people putting together the data, although they are now back in the office. The trade conflict may have led to companies bringing forward purchases, which may have boosted some data, but a drop later is the typical result. These things are hard to quantify. The Brexit process may have the same effect. Then there is the polar vortex in the mid-West of the US. Or what to think of the problems in the European car industry due to the new emission-testing procedures. And I haven't mentioned the water levels yet in the Rhine, affecting German industry.

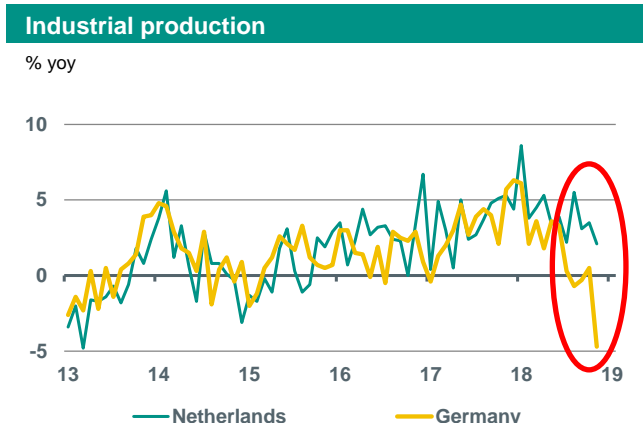
The problems of interpreting the data are so large that one might as well give up, at least for a while. And that is exactly what I am going to do. ABN AMRO kindly allows staff to take a sabbatical once every five years and mine starts now. I will be back after Easter. My colleagues will fill in for me.

### Germany's problems

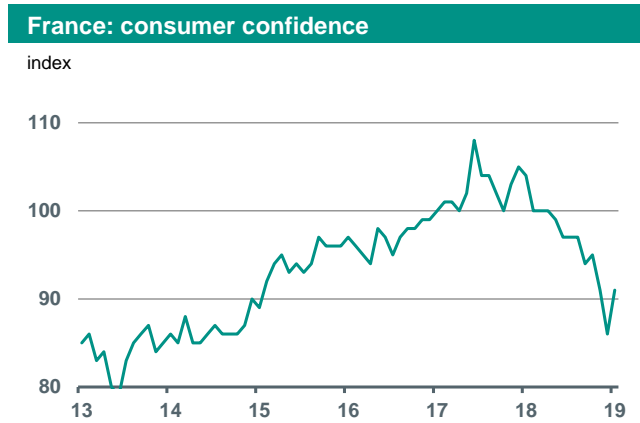
The graph of German and Dutch industrial production shows that both economies tend to move in tandem, not surprisingly. But the graph also shows that a wide gap has opened up recently. That must be because of specific challenges for the German economy. The car sector's problems and the low water level in the Rhine are most likely the culprit. Perhaps slower growth in China eating into Germany's exports of capital goods also plays a role.

The eurozone's GDP grew 0.2% qoq in Q4, the same as in Q3. That represents a significant slowdown from the first half of 2018 and of 2017. But it is not a recession. If I am right thinking that a number of temporary factors have depressed growth, but will disappear in due course, then growth should improve a little from here. I am not saying we are going to see particularly strong growth numbers.

While a lot of recent eurozone economic indicators have disappointed, an occasional positive surprise pops up. French consumer confidence bounced strongly in January, a bit of a surprise. German consumer confidence was also a touch better.



Source: Bloomberg



Source: Bloomberg

Eurozone headline inflation eased in January: 1.4% yoy, down from 1.6%. Core inflation meanwhile, picked up ever so slightly: 1.1% yoy, from 1.0%. This is probably a welcome development to the ECB. And it is probably the result of slightly stronger wage gains. There is a long way to go before core inflation gets close to 2%, but at least the risk of deflation appears very small. We think that the underlying inflation dynamics will keep core inflation below the 2% for a long time yet.

### Government shutdown

The partial shutdown of the US government may be impacting the economy and, especially, the economic data, but it is hard, if not impossible to work out just by how much. Consumer confidence fell on the Conference Board's measure in January: 120.2, versus 126.6 in December. The Chicago PMI, measuring business confidence in the Chicago Fed's district fell from 63.8 in December to 56.7 in January. But whether or not that had anything to do with the shutdown is unclear.

The US labour market remains solid as 304,000 new jobs were created in January, after 222,000 in December (downwardly revised from 312,000). Wage pressure is still muted. Average hourly earnings rose by a mere 0.1% mom and 3.2% yoy (3.3% in December). The broader measure of the Employment Cost Index was up 0.7% qoq in Q4, suggesting that wage pressures are very unlikely to push up inflation materially.

### Mixed Asia

Asian data has recently been mixed. China's PMIs were a little better. The NBS PMI for manufacturing was 49.5 in January, slightly higher than December's. But the Caixin version fell further 48.3, versus 49.7 in December. The NBS non-manufacturing business confidence was up almost a point: 54.7, against 53.8 in December. That is good news.

Meanwhile, business confidence measures in Indonesia, Taiwan and Korea weakened further in January. To what extent that is the result of the trade conflict or a reflection of more fundamental slowing is hard to say.

### Korea: PMI manufacturing

Index, 50=neutral



Source: Thomson Reuters Datastream

### What will the world look like when I get back to the office?

I will be back in the office after Easter. A lot of today's uncertainty will then hopefully be resolved. Mind you, there is always uncertainty. But let me make a list of things I expect to happen during the next couple of months.

- **US-China trade deal signed**

I assume Trump and Xi will reach a trade deal. The reason I think that, is that the news about the negotiations is positive. More important, I think both sides have an interest in reaching a deal. President Trump wants to be re-elected and can't risk doing a lot of damage to the US economy now. And president Xi does not want to see the recent slowing continuing and turning into an actual downturn.

- **Brexit deal**

We expect that some sort of agreement will develop among UK politicians to do. Deal with the EU and avoid a hard Brexit.

- **Cyclical indicators to bounce back**

I expect the special factors in Germany, and some other countries to disappear and perhaps even reverse. Together with a US-China trade deal reached, this should provide stimulus to business confidence. If I am wrong on this, my colleagues may decide, in my absence, that we are forecasting a recession to occur in major economies this year.

- **Modest inflation, no central bank action in the US or the eurozone**

Inflation has been remarkably low given the economic strength in many countries. While tight labour markets may cause some acceleration of wage gains, an alarming rise of inflation is extremely unlikely.

- **Central banks stay put**

Against this whole background, I see no reason for central banks to tighten monetary policy

Main economic/financial forecasts											
GDP growth (%)	2017	2018e	2019e	2020e	3M interbank rate	24/01/2019	31/01/2019	+3M	2019e	2020e	
United States	2.2	3.0	2.7	1.7	United States	2.76	2.74	2.75	2.70	2.60	
Eurozone	1.8	1.8	1.1	1.3	Eurozone	-0.31	-0.31	-0.30	-0.30	-0.05	
Japan	1.9	0.8	0.9	0.7	Japan	0.07	0.07	-0.10	-0.10	-0.10	
United Kingdom	1.8	1.4	1.7	1.9	United Kingdom	0.93	0.91	0.80	1.20	1.45	
China	6.6	6.6	6.3	6.0							
World	3.8	3.6	3.4	3.3							
Inflation (%)	2017	2018e	2019e	2020e	10Y interest rate	24/01/2019	31/01/2019	+3M	2019e	2020e	
United States	2.4	2.4	1.6	2.0	US Treasury	2.71	2.64	↓	2.7	2.70	2.60
Eurozone	1.5	1.7	1.0	1.3	German Bund	0.18	0.16		0.2	0.50	0.80
Japan	0.9	1.0	1.1	1.6	Euro swap rate	0.73	0.67		0.8	1.10	1.40
United Kingdom	2.5	2.4	1.4	1.8	Japanese gov. bonds	0.01	0.00		0.0	0.30	0.50
China	2.1	2.1	2.5	2.5	UK gilts	1.27	1.22		1.5	1.80	2.10
World	3.0	3.6	3.9	3.3							
Key policy rate	31/01/2019	+3M	2019e	2020e	Currencies	24/01/2019	31/01/2019	+3M	2019e	2020e	
Federal Reserve	2.50	2.50	2.50	2.50	EUR/USD	1.14	1.15	1.17	1.25	1.30	
European Central Bank	-0.40	-0.40	-0.40	-0.20	USD/JPY	109.6	108.9	111	105	100	
Bank of Japan	-0.10	-0.10	-0.10	-0.10	GBP/USD	1.30	1.32	1.36	1.45	1.50	
Bank of England	0.75	0.75	1.00	1.25	EUR/GBP	0.87	0.87	0.86	0.86	0.87	
People's Bank of China	4.35	4.35	4.35	4.35	USD/CNY	6.79	6.70	6.85	6.70	6.70	

Source: Thomson Reuters Datastream, ABN AMRO Group Economics.

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