Data mixed, sentiment soft and monetary easing powerful

Global Economics – April 26, 2019
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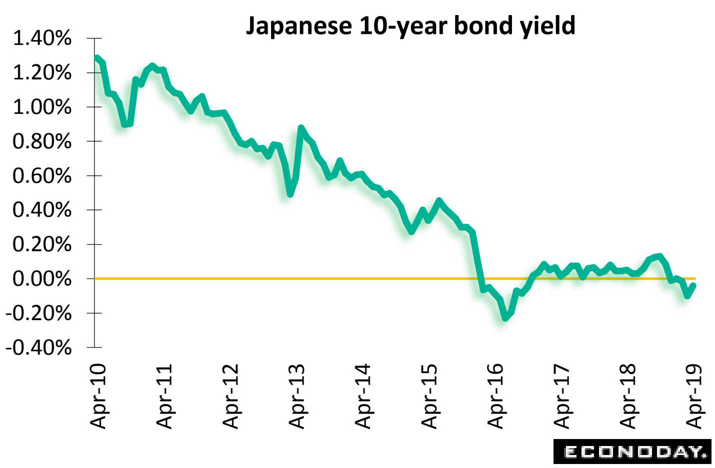
Introduction

The Bank of Japan made headlines in the week, not mincing words on how much stimulus is in store: "powerful monetary easing" is their theme. Global economic performance hasn't been great this year but is far from being a disaster. The latest week includes a mostly solid GDP report out of the US and favorable data on Japanese employment. But there are weak spots, including a still uncertain outlook for manufacturing, visible easing in business and consumer sentiment, and the complete lack of inflation pressure. So in keeping with the theme of stressing risks, we start off with the latest central bank announcements.

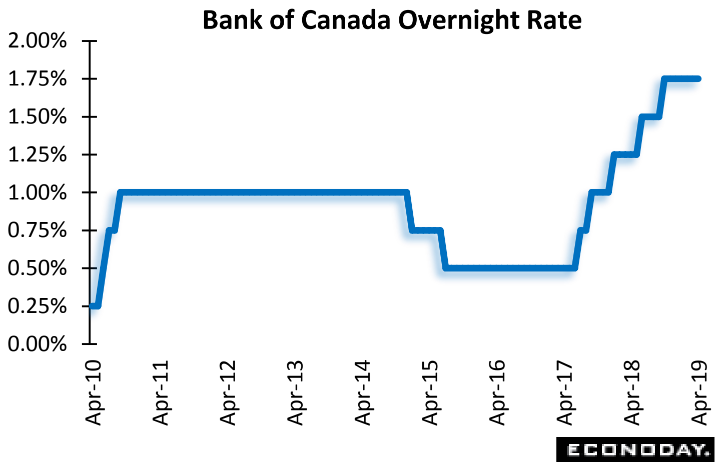
The Economy

Monetary Policy



The Bank of Japan's Monetary Policy Board left monetary policy settings unchanged at the conclusion of its April meeting, in line with expectations, but advised that it is "making clearer" its plans to maintain aggressive policy easing. The BoJ's short-term policy rate for excess reserves remains, as it has since early 2016, at minus 0.1 percent while the target level for the long-term 10-year yield remains at around zero percent. Officials believe that purchasing JGBs at an annual rate of Y80 trillion is consistent with meeting this target. MPB members voted 7-2 in favor of these decisions.

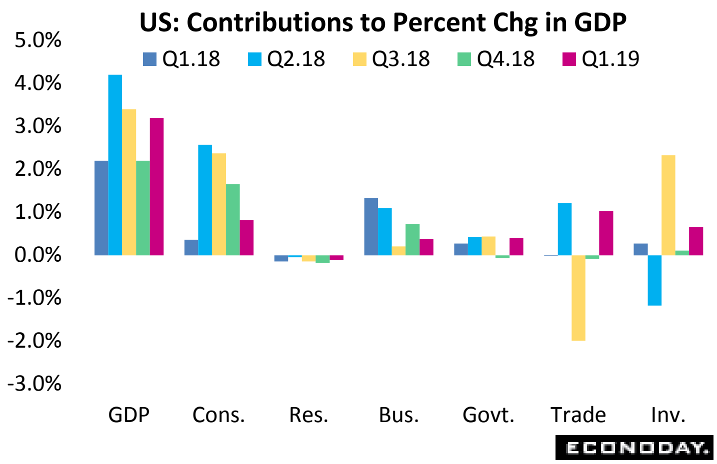
Officials' assessment of the domestic outlook appears to becoming less certain. They see the economy continuing to expand moderately and they also retained their view that inflation is likely to increase "gradually" towards their target level of 2.0 percent. However, officials also argued that there are "high uncertainties" facing the outlook for both economic activity as well as prices. In response to this uncertainty, the board decided that it needs to "persistently continue with powerful monetary easing". Officials reaffirmed their commitment to achieving their inflation target at the earliest possible time and to keeping policy accommodative until inflation is above target and stays there "in a stable manner". Governor Haruhiko Kuroda in his post-meeting press conference said that the BoJ will maintain current policy settings "at least" until early 2020 if not longer. Kuroda also acknowledged that it will be difficult to achieve the 2.0 percent inflation targeting for the 2021 fiscal year.



There were words of caution but no changes to key interest rates at the Bank of Canada's April meeting. In line with expectations, the target for the benchmark overnight rate was held at 1.75 percent. In its statement, the bank said global growth has slowed more than anticipated since its last policy report in January and that ongoing uncertainty related to trade conflicts has undermined business sentiment and activity, contributing to a slowdown across many countries. The bank projects real GDP growth of 1.2 percent in 2019, down from the previous estimate of 1.7 percent, and sees it around 2.0 percent in 2020 and 2021, with CPI and core inflation close to 2 percent and remaining there through 2020 and 2021. The bank sees Canada's oil sector remaining under considerable stress despite firmer prices since January. It said limited access to markets remains a source of uncertainty that has led to a downward revision in investment intentions. The downward adjustment here is being reflected negatively throughout the Canadian economy, slowing down wage growth and curtailing real estate development.

Citing these developments, the BoC said that an accommodative rate policy continues to be warranted. Officials will continue to evaluate the appropriate degree of monetary policy accommodation as new data arrive, in particular developments in household spending, oil markets, and global trade policy to gauge the extent to which these factors are weighing on growth and inflation. Speaking at a press conference following the release of the report, Governor Stephen Poloz said the BOC is "in no rush to get back into the saddle on rate hikes". More time is needed, he said, to absorb the modest excess capacity that grew in the late 2018 to early 2019 period. Given current conditions, rate hikes are not foreseen for some time ahead.

GDP

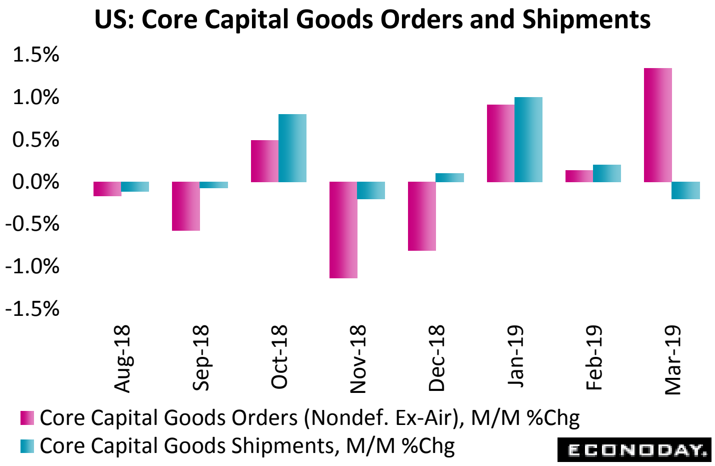


However much the global economy may be slowing, US growth at the headline level continues to be stronger than expected. The consumer may not be on fire but still contributed to a very solid 3.2 percent growth rate for first-quarter GDP. Net exports were the driving force of the headline rate, still deeply negative at minus $899.3 billion but nevertheless contributing 1.03 percentage points to the quarter's calculation though trade data for March, which have yet to be released, were imputed. Inventories rose sharply and added 0.65 points but whether the build was desired may be in question, given what was less than robust strength in consumer demand.

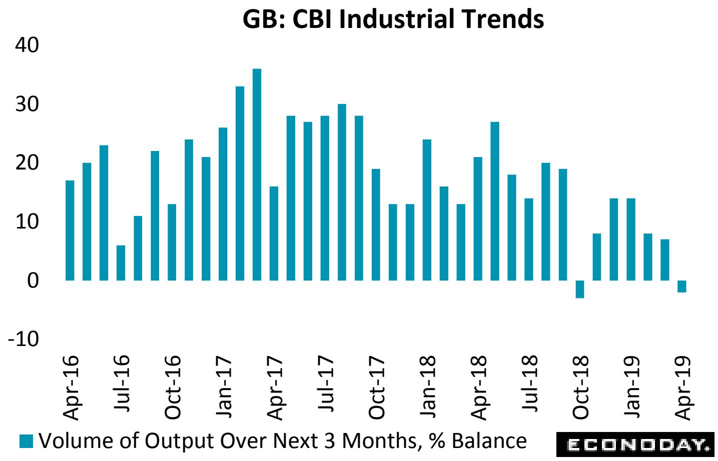
Consumer spending rose at a modest-to-moderate and largely as expected 1.2 percent pace but nevertheless contributed 0.82 points to the quarter though spending on durables, a discretionary component, fell very steeply and pulled the quarter 0.38 points lower. But spending on nondurables and especially services was strong, contributing 0.24 and 0.96 points respectively. Not strong at all was residential investment which contracted at a 2.8 percent annual pace – the fifth straight quarterly contraction – and subtracted 0.11 points from the quarter. In contrast once again was business investment which rose at a very favorable 2.7 percent pace and added 0.38 points to the quarter. Government purchases were also strong, at a 2.4 percent growth rate for a 0.41 point contribution.

A clearer look on underlying domestic demand comes from final sales to domestic purchases, a reading that excludes both net exports and inventories and where the growth rate was only 1.4 percent. Lack of consumer punch is a bit of a puzzle at least based on the strength of the US labor market. Price readings in the report were very subdued at 0.9 percent for the overall index and only 1.3 percent for the core. The pace of the nation's economy isn't as strong as headline GDP suggests with questions over the consumer, first raised by the 1.6 percent plunge in December retail sales, still unanswered.

Manufacturing

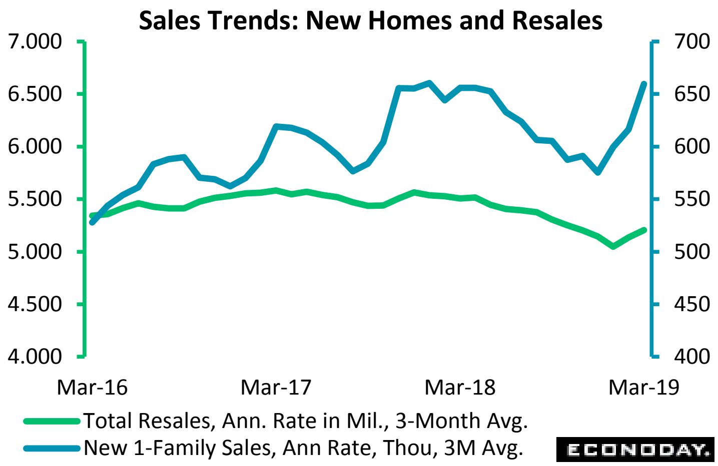


The solid rise in first-quarter business investment was a bit of surprise given what have been uneven readings for capital goods in US factory data. Orders for core capital goods (nondefense ex-aircraft) surged 1.3 percent in March's durable goods report to easily exceed expectations. This reading had been soft but now points to sizable acceleration. This is especially promising for second-quarter GDP as shipments of core capital goods actually slipped 0.2 percent in the last month of the first quarter. The dip in shipments, however, did provide a lift for unfilled orders of core capital goods which rose 0.2 percent to end an unwanted run of declines. The durables report in general proved strong, showing gains for vehicles as well as another round of gains for aircraft, including for unfilled orders, in results that should cool cancellation worries over Boeing's 737 MAX.



Though US manufacturing may be improving, slowing global markets remain a key risk as it is for Great Britain where Brexit is compounding the uncertainty. The Confederation of Business Industry's trends survey for April found a surprise deterioration in this month's manufacturing conditions. In particular, both orders and future output expectations were disappointingly soft. Output expectations for the coming three months were marked down significantly, to minus 2 percent from plus 7 percent, as were expected prices from 7 to 1 percent. The headline orders balance was minus 5 percent, down 6 percentage points versus its March reading and its weakest level since last October. Within this, exports fell sharply to minus 5 percent from plus 8 percent. Following a poor end to 2018, goods production recovered well in January and February but the latest findings suggest that the upswing may falter this quarter. Still, at least the CBI's broader quarterly survey found business optimism improving by a solid 10 percentage points to minus 13 percent, still negative but the best reading since July-September last year. The gain here was attributed to the latest extension of the Brexit deadline.

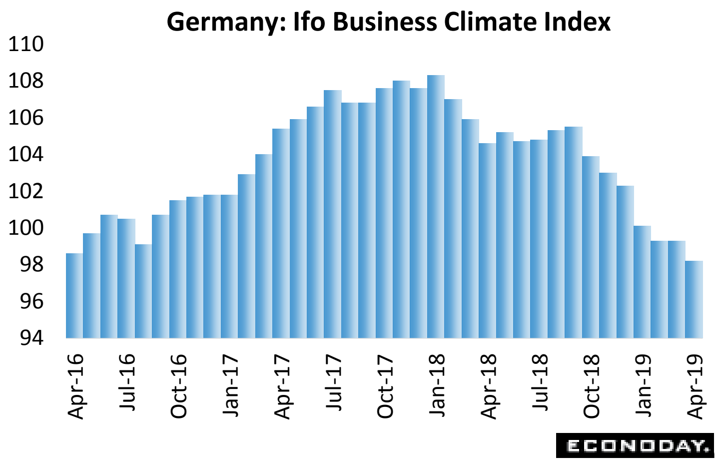
Housing



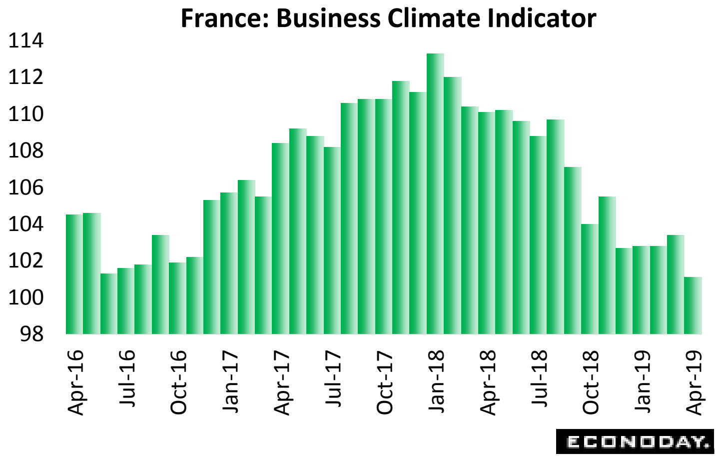
For the US economy, housing has been the weak link by far but a pivot higher, the direct result of lower mortgage rates, may be in the works. March's new home sales easily topped expectations at a 692,000 annual rate for the best showing since November 2017 and pulling up the 3-month average to 660,000 to match January last year as the best showing of the expansion. Yet builders may have been giving discounts to drive sales. The median price of a new home fell 0.3 percent in March to $302,700 for year-on-year contraction at a steep 9.7 percent. Relative to sales, which were up a yearly 3.0 percent in March, prices look like they have room to move higher. By region, the most important gain came in the West which has been struggling but where sales rose to a 176,000 rate from 165,000 in February though year-on-year sales are still down 4.3 percent. The South also fared well, at a 401,000 rate vs February's 387,000 with this yearly percentage change at a very strong plus 9.3 percent.

Preceding the new home sales report was a deceptively upbeat report on sales of existing homes. After surging far beyond expectations in February, existing home sales came in at the low end of Econoday's consensus range in March. The 5.210 million rate was down a steep looking 4.9 percent on the month but compares with February's 11.2 percent jump. Moving averages are important when gauging housing data because of their volatility and here the 3-month average, at 5.207 million, is up 1.4 percent on the month for the best showing since November. The latest week's data offer confirmation of the positive effects of low mortgage rates which began to drop sharply beginning at year end and extended to March with 30-year conventional loans averaging 4.27 percent in the month, down sizably from 4.64 percent in December. Mortgage rates have since, however, flattened with future moves ultimately tied to market demand for 10-year US Treasuries.

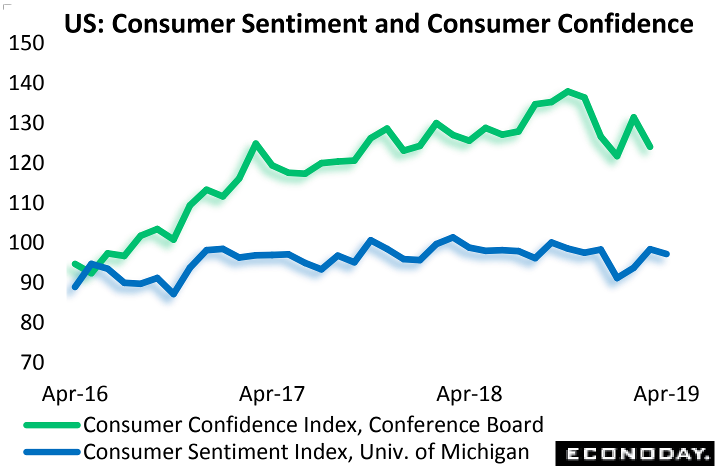
Sentiment



A central factor that increased demand for US Treasuries was the financial market gyrations late last year, an unwelcome time of jitters that sent global confidence readings sharply lower. And, unlike US home sales, they have yet to really recover. The latest Ifo survey of Germany points to no improvement in overall business conditions this month. At 99.2, the headline business climate index was 0.5 points short of March and on the soft side of expectations. Although it held above February's 3-year low, it was also among the weakest showings over the period. The latest fall reflected fresh declines in both current conditions and expectations. The former was down 0.6 points at 103.3, the sixth decrease in the last seven months and the worst reading since March 2017. Expectations were off 0.4 points at 95.2, still 1.2 points above their recent February trough but similarly below their 2017 and 2018 readings. At the sector level, morale continued to fall in manufacturing where it hit its lowest point since December 2012. By contrast, services strengthened for a second consecutive month as did construction but trade lost ground following gains in February and March. Ifo's findings are much in line with the flash PMI survey which, on the back of the struggling manufacturing sector, also seemingly ruled out any bounce-back in German activity at the start of the second quarter.

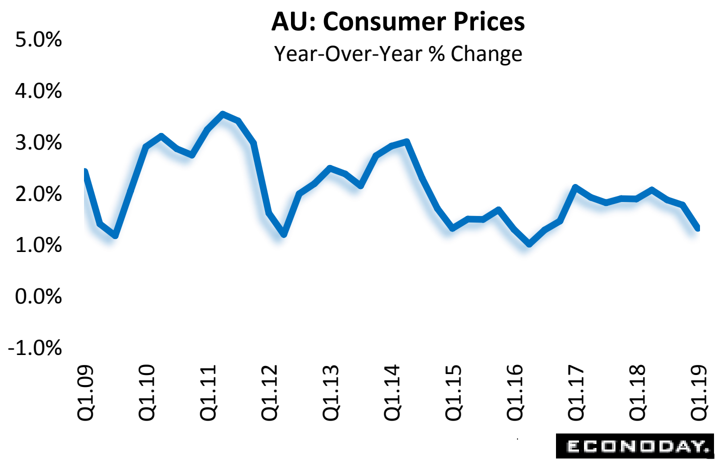


Like Germany, sentiment in French manufacturing worsened slightly in April. A 101 headline reading was a couple of points short of March and its lowest reading since March 2015. The deterioration was mainly due to weaker past output (minus 1 after 6) which recorded its poorest performance in three years. New business fell to minus 12 from minus 11 and both personal production expectations and general production expectations also moved in the wrong direction. Yet the decline in manufacturing morale, in what may be an emerging global theme, was not matched in services which held unchanged at 105 or retail trade at 105 after 103. As a result, economy-wide sentiment held steady at 105 to match its highest mark since September last year. These results are broadly consistent with the findings of the April flash PMI which also pointed to weakness in goods producing industries as the principal cause of sluggish business activity in general.



Consumer sentiment, like business sentiment, has also been struggling. The expectations component of the University of Michigan's US consumer sentiment index did improve in the last half of April though current conditions eased, together making for a 2 tenths rise from mid-month to 97.2 for the final April reading. Expectations dipped noticeably at mid-month but firmed back to an 87.4 reading that, however, is still down 1.4 points from March. In contrast, current conditions rose at mid-month but then fell sizably to 112.3 and down 1 point from March. The sentiment index itself is down 1.2 points from March though the 97.2 result is still well up from the low 90 readings during January and February which were hit by the shutdown of the US government. Nevertheless, April's month-end slowing in current conditions is not a favorable signal for either the month's retail sales nor perhaps for the coming week's US employment report. Inflation expectations are closely watched in this report by Federal Reserve officials and the results were mixed with the year-ahead reading unchanged at 2.5 percent but the 5-year outlook down 2 tenths to 2.3 percent.

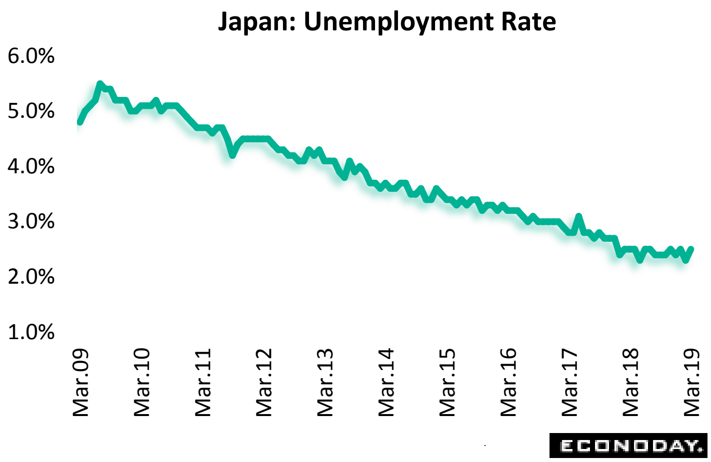
Inflation



Weakness in inflation is perhaps the single most dominant global theme of the last 10 years. And the situation doesn't appear to be improving. Australia's headline consumer price index, which was at a year-on-year 1.8 percent in the December quarter, rose by only 1.3 percent in the three months to March and further below the Reserve Bank of Australia's target range of 2.0 to 3.0 percent. Inflation has now been below this range for three consecutive quarters and is at its lowest level since late 2016. On a quarter-to-quarter basis, the CPI was unchanged after increasing 0.5 percent in the prior quarter. The drop in headline inflation in the three months to March was largely driven by a sharp fall in transport costs in response to lower global oil prices. But price changes were also subdued for other major categories of spending, including food, housing, and communication. Measures of core inflation also moderated in the three months to March. The trimmed mean CPI inflation measure advanced 0.3 percent on the quarter after increasing 0.4 percent in the three months to December, with the year-on-year increase falling from 1.8 percent to 1.6 percent. The weighted mean CPI inflation measure rose 0.1 percent on the quarter after increasing 0.4 percent previously with the year-on-year increase also falling, from 1.7 percent to 1.2 percent.

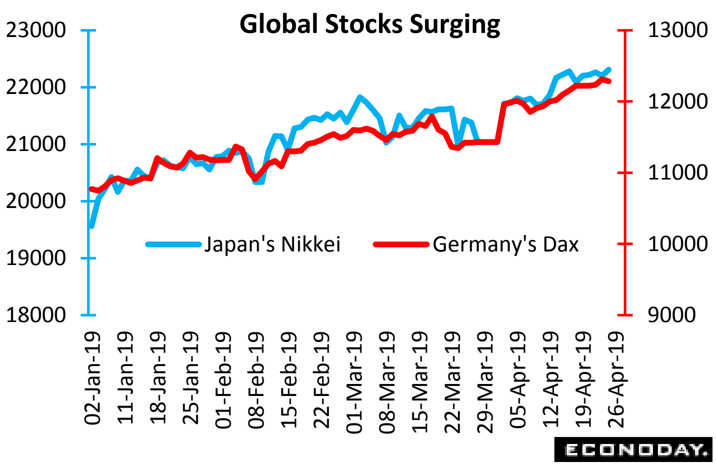
The drop in headline inflation in the three months to March was expected by officials at the Reserve Bank of Australia when they updated their economic forecasts in February. Having previously forecast inflation to be around 2.25 percent in 2019 and "a bit higher" in 2020, officials' central scenario now is for underlying inflation to be 2.0 percent this year and 2.25 percent in 2020. Officials now consider the chances that the next move in policy rates will be higher or lower to be evenly balanced, but the latest CPI data will likely strengthen speculation that a rate cut may be considered in upcoming meetings.

Labor Market



Another trend across developed economies, but one that's fundamentally favorable, is strength in labor markets. Japan's unemployment rate did rise from 2.3 percent in February to 2.5 percent in March, just above the consensus forecast of 2.4 percent but still close to the multi-decade low of 2.2 percent recorded in May 2018. The unemployment rate has been at or below 2.5 percent since the start of 2018. The number of employed persons in Japan increased by 1.0 percent to 670,000 persons on the year in March which is down only modestly from February's 1.2 percent increase to 780,000 persons. Japan's participation rate increased to 61.9 percent in March, up from 61.4 percent in February and well above the 61.2 percent rate recorded 12 months earlier. Strong participation rates, in particular, will likely reinforce the Bank of Japan's view that employment gains should eventually translate into stronger wages growth and help push inflation towards its 2.0 percent target, though officials continue to stress that this will be a gradual process.

Markets: What global economic slowdown?



The theme has risen and ebbed but is still here, that is a global economic slowdown tied to narrowing cross-border trade, slipping confidence and slowing in global manufacturing. But moves in the stock markets are apparently not always tied to the economy. The still rising level of employment, and with this greater investment participation by workers themselves, is one likely reason that stock markets are going up this year. Another is a technical correction from the sharp late-year selloff in 2018 though the most prominent reason, or the one most talked about, is the dovish shift in global monetary policy, a pivot led by the Federal Reserve in January and since playing out at other central banks. The rate of year-to-date increase in the stock markets, at 11.2 percent for instance for the Nikkei or 16.6 percent for the Dax, are reminscent of last year's early jump out of the starting gate, a run that of course faded badly then collapsed down the stretch. Yet a major oddity about this year's early run is that it hasn't come at the expense of bonds which hints at safe-haven uneasiness. Yields, in fact, have fallen very sharply especially in the US where the 2-year Treasury yield, now at 2.29 percent, is down a year-to-date 21 basis points while the 10-year yield, at 2.51 percent, is down 17 points. This time last year these yields had risen by more than 40 basis points. Unlike last year, investors may now be hedging their bets, wanting to be a part of the stock bounce but also hesitant enough to stuff their mattresses with government bonds. Speaking of the Nikkei, Japanese markets will be shut from April 29 to May 6 in an unusually long Golden Week stretch that, extended for the ascension of a new emperor, will dry up market liquidity. This of course is raising concern over the risk of flash crashes during this period, especially in the currency market. And if a flash crash does erupt, bonds could be one beneficiary.

The bottom line

Global central bankers are in a dovish state of mind which fits with the easing seen this year in business and consumer optimism. But trends are not uniformly unfavorable as seen in the strength of US business investment and the greatest and most pervasive strength of all, and that is strong demand in the global labor markets. The coming week will get an important update on labor and that is April employment in the US which is expected to show strength.

**Jeremy Hawkins and Brian Jackson contributed to this article

Week of April 29 to May 3

The first part of a very busy week will turn on China's CFLP manufacturing PMI released Tuesday morning local time where no change at only a fractional growth rate is the consensus. GDP data out Italy, which is battling against recession, will also be out Tuesday as will GDP out of France and the CPI out of Germany. The big event at mid-week will be the US Federal Reserve and how resolutely Chair Jerome Powell, at his press conference, stands by his dovish outlook. The Caixin PMI then follows for a second update on Chinese manufacturing with German retail sales a Thursday highlight as well as the latest Bank of England announcement during what appears to be a gap in the Brexit saga. US employment caps off the week and though a solid report is the universal expectation for April, the ghost of February's collapse is still in the background.

Monday

CN: CLFP Manufacturing PMI (21:00 EDT Monday; 01:00 GMT Tuesday; 09:00 CST Tuesday)
Consensus Forecast: 50.5
Consensus Range: 50.1 to 50.8

China's **Federation of Logistics and Purchasing Manufacturing PMI** in March rebounded to 50.5 from February's 3-year low at 49.2. The March report included sharp gains for new orders and also export orders. The consensus for April is for no change at 50.5 though within a sizable range of 50.1 to 50.8.

Tuesday

FR: GDP Flash (01:30 EDT; 05:30 GMT; 07:30 CEST)
Consensus Forecast, Month-to-Month: 0.3%

First-quarter GDP in France is expected to match the quarterly growth rates of 0.3 percent in both the fourth and third quarters of last year. Household spending was unchanged in the fourth quarter and business spending slowed but government consumption was up as were net exports.

IT: GDP for Preliminary First Quarter (06:00 EDT; 10:00 GMT; 12:00 CEST)
Consensus Forecast: 0.3%

Italy has been skirting on the recession line with GDP in the fourth quarter slipping a quarter-over-quarter 0.1 percent for no change on the year. Expectations for **preliminary first-quarter GDP** are looking for a 0.3 percent quarterly rate.

DE: CPI for Preliminary April (08:00 EDT; 12:00 GMT; 14:00 CEST)
Consensus Forecast, Month-to-Month: 0.5%
Consensus Forecast, Year-on-Year: 1.5%

After rising a monthly 0.4 percent in March for a yearly 1.3 percent pace, the consensus for **German consumer prices in April** is calling for acceleration to a 0.5 percent rise on the month and 1.5 percent on the year. Energy was up in March while food was down.

US: Employment Cost Index for First Quarter (08:30 EDT, 12:30 GMT)
Consensus Forecast, Quarter-to-Quarter Change: 0.7%
Consensus Range: 0.6% to 0.9%

Consensus Forecast, Year-on-Year Change: 2.8%
Consensus Range: 2.8% to 3.2%

Steady pressure is expected for the **employment cost index** with Econoday's first-quarter consensus at a 0.7 percent rise. The fourth-quarter rate was also 0.7 percent. Year-on-year the ECI is seen easing 1 tenth to 2.8 percent.

US: Case-Shiller, 20-City Adjusted Index for February (09:00 EDT, 13:00 GMT)

Consensus Forecast, Month-to-Month Change: 0.3%
Consensus Range: 0.0% to 0.4%

Case-Shiller, 20-City Unadjusted Index
Consensus Forecast, Year-on-Year Change: 3.2%
Consensus Range: 2.7% to 3.9%

Case-Shiller's 20-city adjusted index is expected to rise a subdued 0.3 percent in February after an unexpectedly weak 0.1 percent increase in January. Deepening price weakness in California has been pulling down the overall index where **year-on-year growth** in the last report of 3.6 percent was the weakest in 6-1/2 years. February's forecast for the year-on-year rate is for further weakening to 3.2 percent.

US: Consumer Confidence Index for April (10:00 EDT, 14:00 GMT)
Consensus Forecast: 126.0
Consensus Range: 122.0 to 130.0

The **consumer confidence index** fell unexpectedly in March along with the consumer's assessment of the labor market. A slight bounce back is expected for April where the consensus is 126.0 vs March's 124.1.

US: Pending Home Sales Index for March (10:00 EDT, 14:00 GMT)
Consensus Forecast, Month-to-Month Change: 0.6%
Consensus Range: -2.1% to 1.0%

A bounce back higher is the forecast for **March pending home sales** which are expected to increase 0.6 percent after dipping 1.0 percent in February that, however, followed a 4.3 percent surge in January.

JP: PMI Manufacturing Index for April (21:30 EDT Tuesday; 00:30 EDT Wednesday, 09:30 JST Wednesday)
Consensus Forecast: 49.6

Japan's manufacturing PMI did climb in March but not very much, coming in at a still contractionary 49.2 vs 48.9 in February. New orders in March fell as did export orders. Forecasters see the **manufacturing PMI in April** extending improvement to 49.6.

Wednesday

US: ADP, Private Payrolls for April (08:15 EDT, 12:15 GMT)
Consensus Forecast: 180,000
Consensus Range: 168,000 to 200,000

Econoday's consensus for **ADP's private payroll estimate** in April is 180,000 which would compare with 129,000 for ADP's March estimate and against 182,000 in the government's data for March.

US: ISM Manufacturing Index for April (10:00 EDT, 14:00 GMT)
Consensus Forecast: 55.0
Consensus Range: 54.7 to 55.5

At a consensus 55.0, steady strength is the call for the **ISM manufacturing index in April** which came in at the very high end of expectations in March at 55.3.

US: Federal Funds Target for April 30 & May 1 Meeting
Consensus Forecast, Midpoint: 2.375%
Consensus Range: 2.25% to 2.50%

No change is expected for the **federal funds target rate at 2.375 percent** in April's meeting. March's statement was very cautious as the committee downgraded their assessment of the economy and shaved their GDP forecasts and also updated their forecasts for no further rate hikes this year. The FOMC also set dates for the end of quantitative tightening back in March.

CN: Caixin Manufacturing PMI (21:45 EDT Wednesday; 01:45 GMT Thursday; 09:45 CST Thursday)
Consensus Forecast: 50.9

The **Caixin manufacturing PMI** posted a solid 9 tenths increase in March to 50.8 and foreshadowed what turned out to be a strong industrial production report in the month. The consensus for April is further but very limited improvement to 50.9.

Thursday

DE: Retail Sales for April (02:00 EDT, 06:00 GMT, 08:00 CEST)
Consensus Forecast: -0.6%

German retailers had an unexpectedly good February but a sizable reversal for March, at a sharp 0.6 percent monthly decline, is the **retail sales** consensus. Strength in domestic demand is key for the German economy as the country's exports, due to the global slowdown, are struggling.

GB: Bank of England Announcement (07:00 EDT; 11:00 GMT;12:00 BST)
Consensus Forecast: 0.75%

No change is once again the expectation for **Bank of England monetary policy** which, despite a standing bias toward tightening, is locked in place by not only the Brexit dilemma but also the general slowing in the global economy. Bank Rate is expected to stay at 0.75 percent.

Friday

US: Nonfarm Payrolls for April (08:30 EDT, 12:30 GMT)
Consensus Forecast: 180,000
Consensus Range: 160,000 to 225,000

Unemployment Rate
Consensus Forecast: 3.8%
Consensus Range: 3.7% to 3.8%

Private Payrolls
Consensus Forecast: 170,000
Consensus Range: 160,000 to 200,000

Manufacturing Payrolls

Consensus Forecast: 10,000
Consensus Range: -6,000 to 20,000

Participation Rate
Consensus Forecast: 63.0%
Consensus Range: 62.9% to 63.0%

Average Hourly Earnings
Consensus Forecast, Month-to-Month Change: 0.3%
Consensus Range: 0.1% to 0.4%

Average Hourly Earnings
Consensus Forecast, Year-on-Year Change: 3.3%
Consensus Range: 3.2% to 3.5%

Average Workweek
Consensus Forecast: 34.5 hours
Consensus Range: 34.5 to 34.5 hours

Steady strength is expected for **nonfarm payrolls in April**, at a **consensus 180,000** vs March's solid 196,000 gain. The **unemployment rate** is seen holding steady at 3.8 percent with **average hourly earnings** warming back up from March's 0.1 percent to an increase of 0.3 percent. The **year-on-year rate** for earnings is expected to move 1 tenth higher to 3.3 percent. **Private payrolls** are seen rising 170,000 with **manufacturing payrolls** expected to increase 10,000. The **workweek** is seen steady at 34.5 hours with the **labor participation rate** also steady, at 63.0 percent.

US: International Trade In Goods for March (08:30 EDT: 12:30 GMT)
Consensus Forecast, Month-to-Month Change: -$74.5 billion
Consensus Range: -$75.9 to -$74.0 billion

Forecasters see a widening in the **March goods trade gap** to $74.5 from what was a comparatively narrow $70.9 billion in February.

US: ISM Non-Manufacturing Index for April (10:00 EDT, 14:00 GMT)
Consensus Forecast: 57.2
Consensus Range: 55.5 to 57.9

One month sharply exceeding expectations and the next month missing badly. But underneath the recent volatility of the **ISM's non-manufacturing** has been still strong rates of growth for new orders and a strong build in unfilled orders in the last report. For April, forecasters see re-acceleration to a consensus 57.2 vs March's 56.1.