



# High Frequency Economics®

Daily Data Analysis and Assessment of the Global Economy

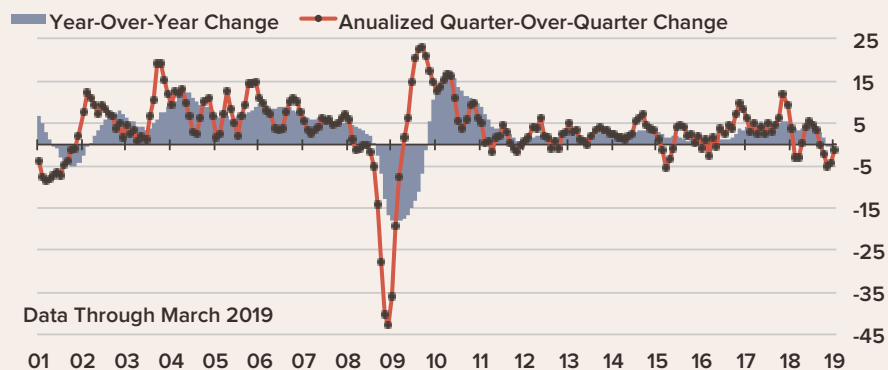
## **The 2018-19 World Economic Slowdown: Inventories Too High Everywhere Amidst Global Trade Decline**

**- Carl Weinberg, Chief International Economist  
Presentation Chart Book June 2019**

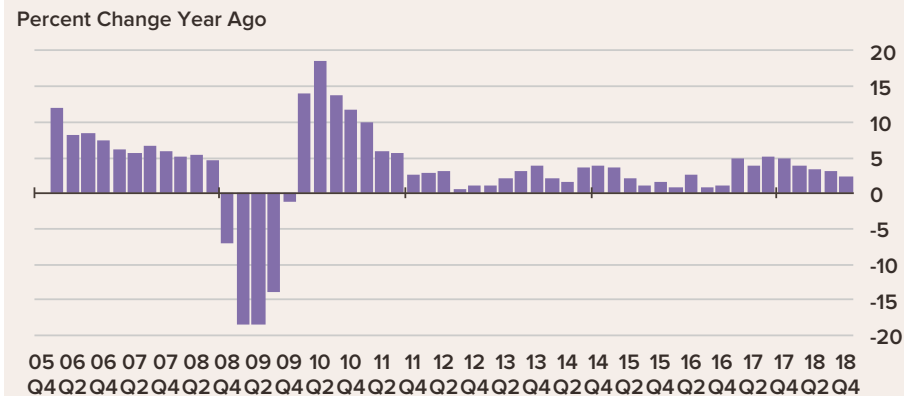
## The Pulse Of The Beast: Trade

World trade was grinding to a halt in 2018. Nothing good can be said about that. The crash of global exports continues into early 2019 according to CPB estimates.

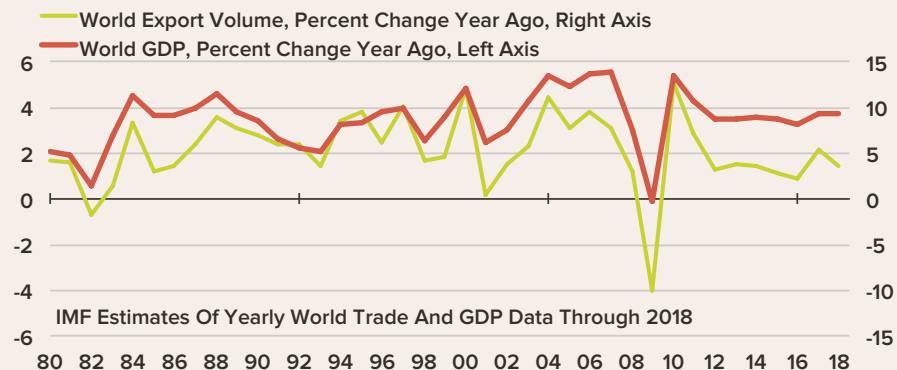
### CPB Estimates Of World Trade Volume, Three-Month Averages



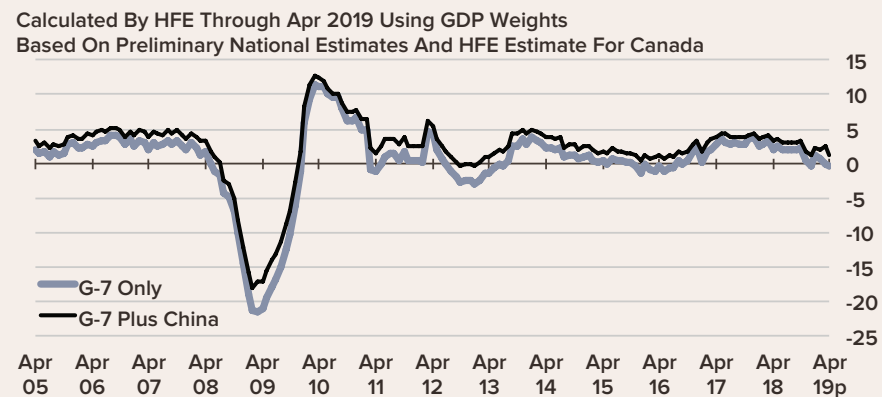
### WTO Measure Of World Trade Volume



### IMF Measure Of World Trade Volume Vs GDP Growth



### G-7 Plus China Industrial Production Growth, Percent

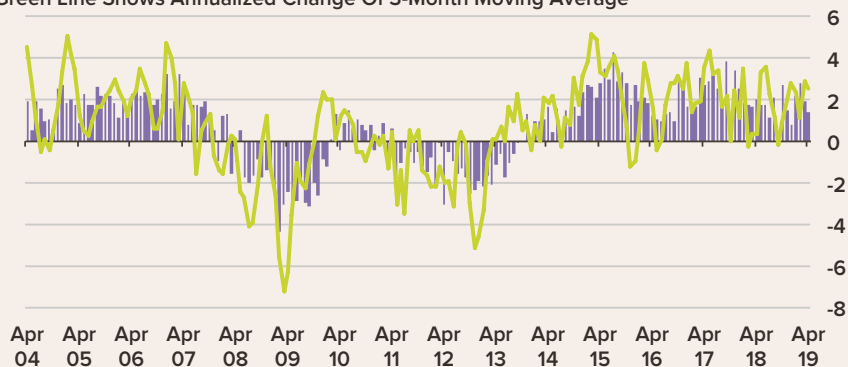


## Consumer Spending... Not So Hot

Maybe it was the surge in energy prices that slowed the consumer in 2018... but the damage is done, even though oil prices have now retraced their 2018 increases. Here is a hint: The way to end an inventory cycle is for consumer spending to grow fast, faster than production, for a period of time.

### Euro Zone: Retail Sales Volume, Percent Change Year Ago

Green Line Shows Annualized Change Of 3-Month Moving Average



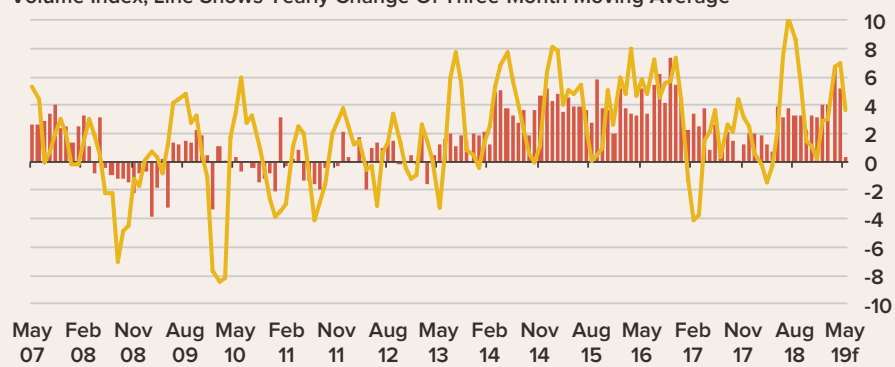
### Canada: Retail Sales, Percent Change Year Ago

Nominal Retail Sales (Blue Bars), Retail Sales Volumes (Yellow Line)



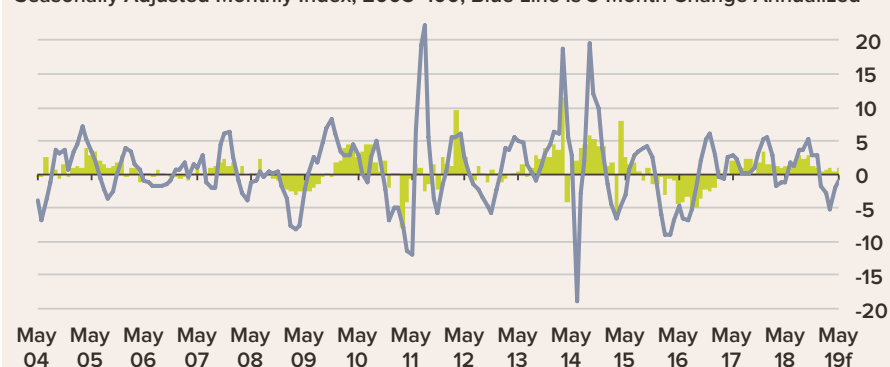
### United Kingdom: Retail Sales, Percent Change Year Ago

Volume Index, Line Shows Yearly Change Of Three-Month Moving Average



### Japan: Retail Sales, Percent Change Year Ago

Seasonally Adjusted Monthly Index, 2005=100, Blue Line Is 3-Month Change Annualized

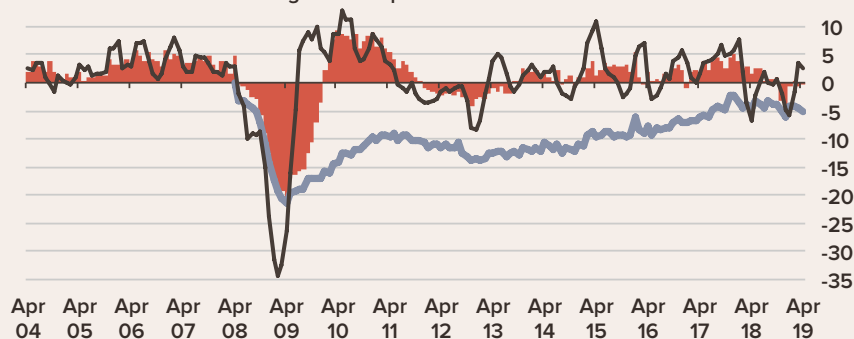


## Industrial Output... Pretty Darn Ugly

Problems emerged in most advanced economies starting in early 2018, not just in the fourth quarter.

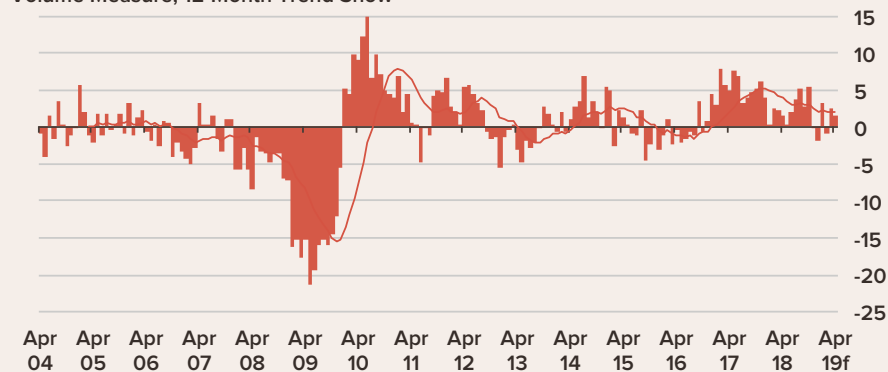
### Euro Zone: Industrial Production, Percent Change Year Ago

Black Line Shows Annualized Percentage Change In Three-Month Moving Average  
Blue Line Shows Percent Change Since April 2008 Peak



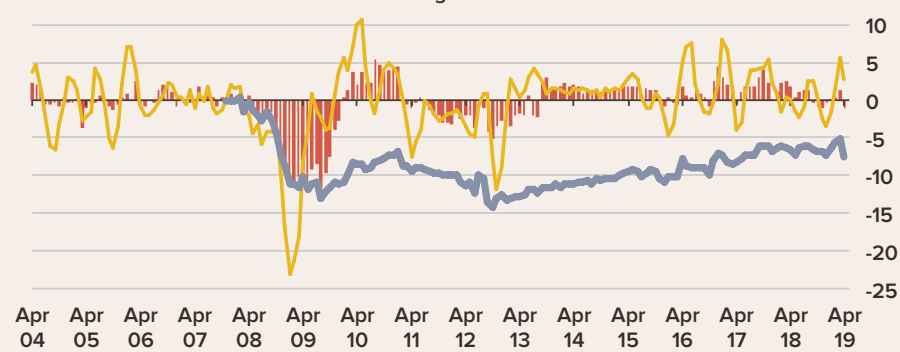
### Canada: Manufacturing Output, Percent Change Year Ago

Volume Measure, 12-Month Trend Show



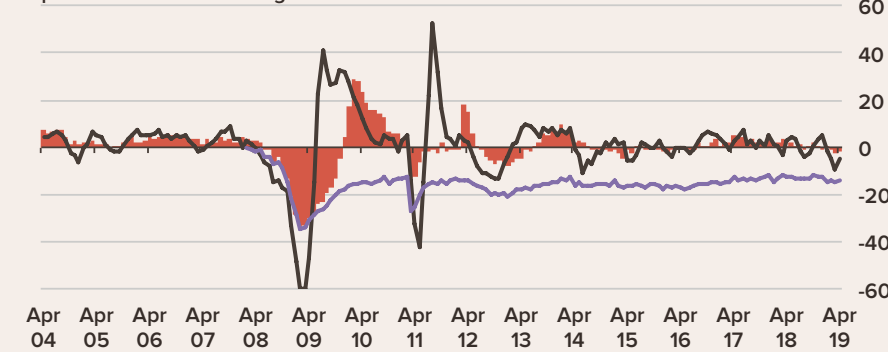
### United Kingdom: Industrial Production

Bars Are Industrial Production, %cha, Blue Line Is Percent Change Since Peak  
Yellow Line Is Annualized Three-Month Change In Production



### Japan: Industrial Production, Percent Change Year Ago

Black Line Shows Annualized Percent Change In Three-Month Moving Average  
Purple Line Is Percent Change Since Peak

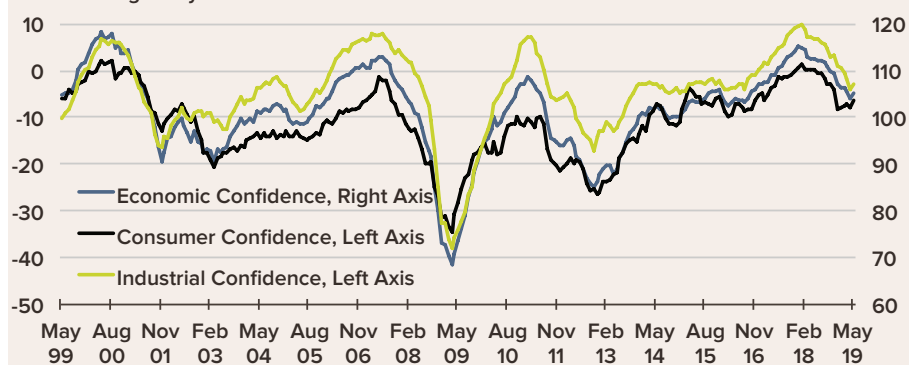


## Informative Surveys... Also Not So Hot

Euro Zone to Japan, survey data point to decaying supply-side conditions.

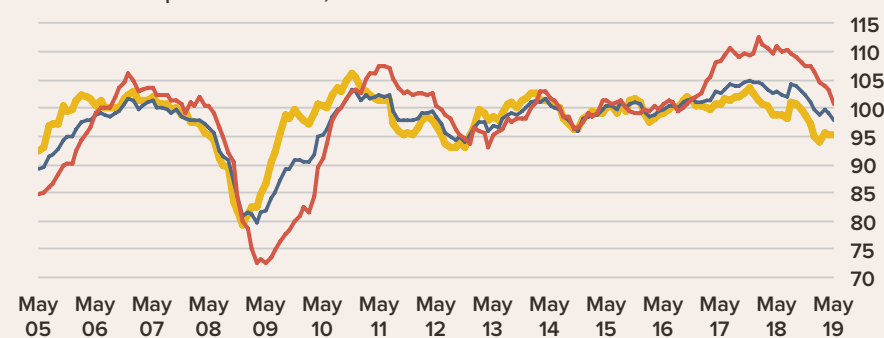
### Euro Zone: Economic Confidence Indexes

Data Through May 2019



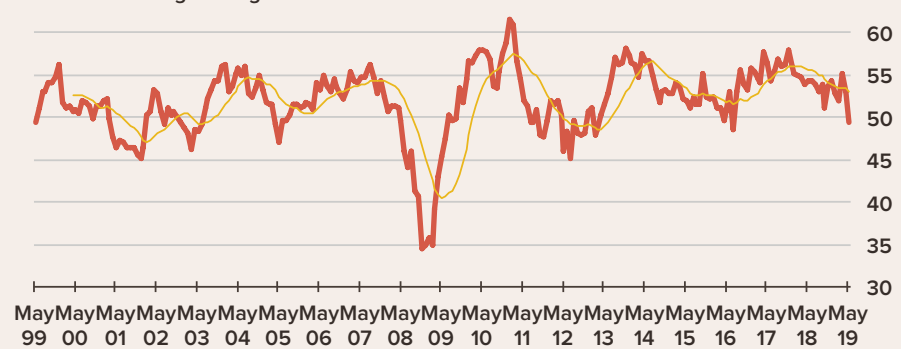
### Germany: IFO Index And Its Components

Blue Line Shows IFO Business Sentiment Overall Index  
Yellow Line Is Expectations Index, Red Line Is Current Conditions Index

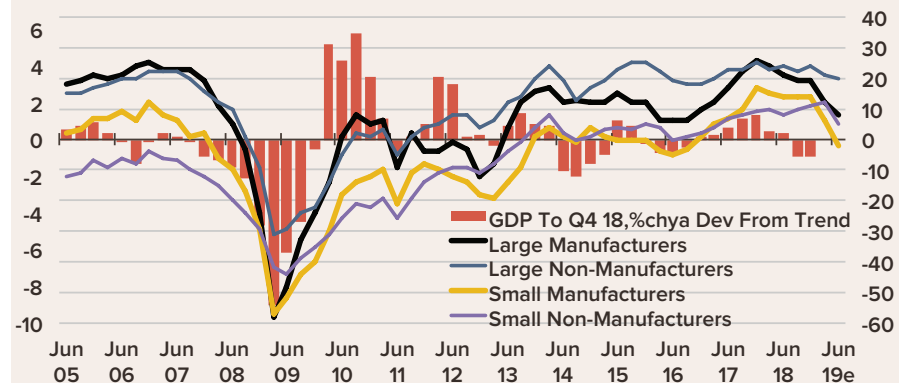


### United Kingdom: CIPS Manufacturing Sector PMI

12-Month Moving Average Shown



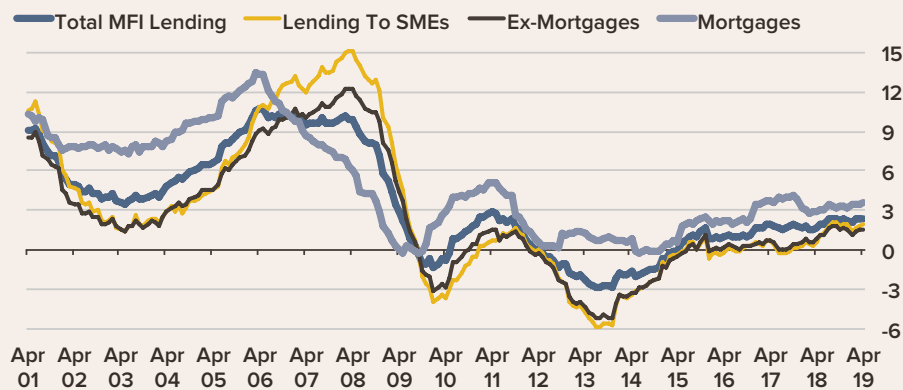
### Japan: Tankan Indexes And GDP Growth Trends



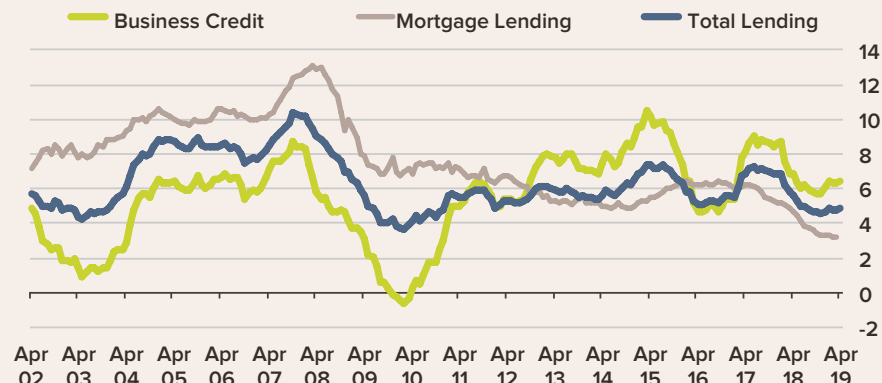
## Bank Lending: Too Slow And Slowing

Growth of money and credit is too low to accommodate desired nominal GDP growth—except in Canada. Credit is slowing in most economies, or flat at unacceptable rates of growth.

**Euro Zone: Bank Lending, Percent Change Year Ago**

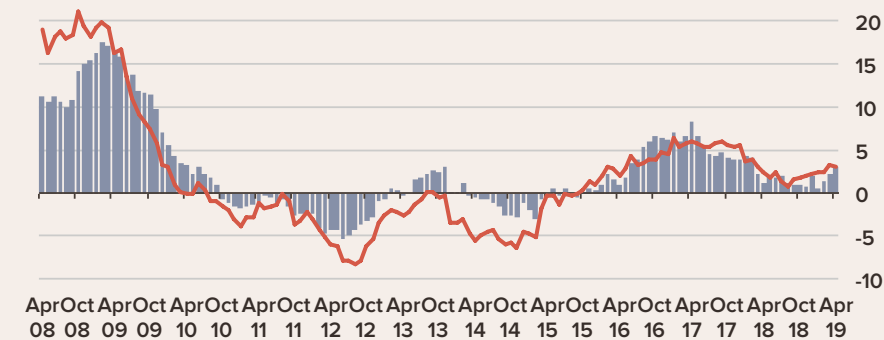


**Canada: Measures Of Credit, Percent Change Year Ago**

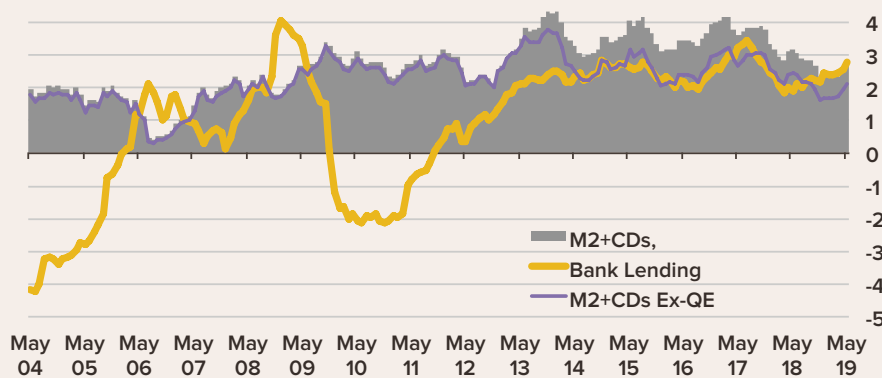


**United Kingdom: Growth Of Broad Money And Credit**

Bars Are M4, Red Line Shows M4 Lending, Percent Change Year Ago



**Japan: Money And Credit, Percent Change Year Ago**

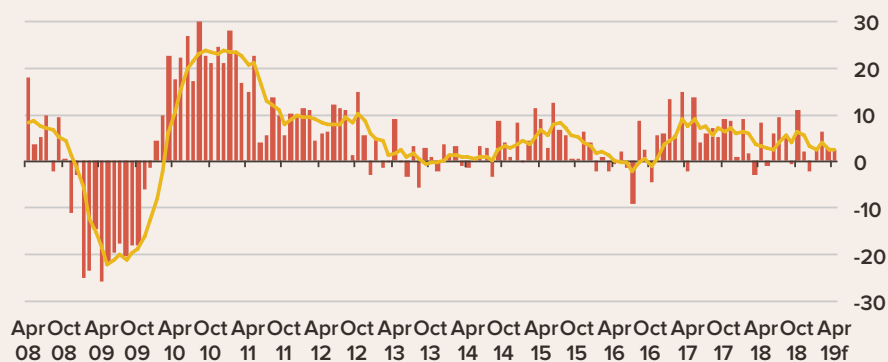


# Exports Are Not Helping

The decline in global exports is evident.

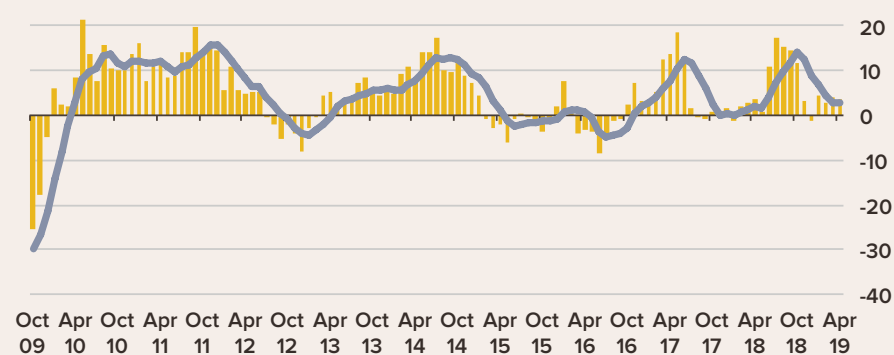
## Euro Zone: Exports, Percent Change Year Ago

Yellow Line Shows Five-Month Moving Average



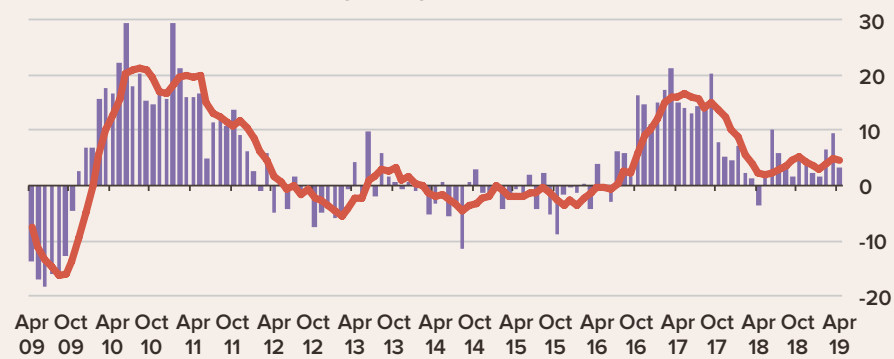
## Canada: Exports, Percent Change Year Ago

Blue Line Is Five-Month Trend



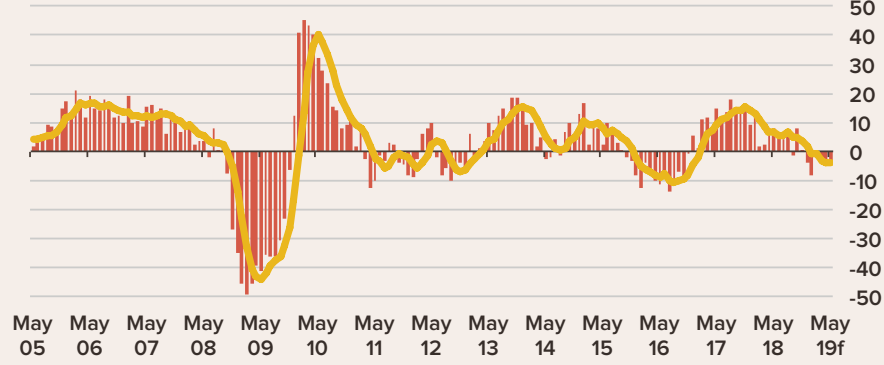
## United Kingdom: Exports, Percent Change Year Ago

Red Line Shows Five-Month Moving Average



## Japan: Exports, Percent Change Year Ago

Line Shows Five-Month Moving Average

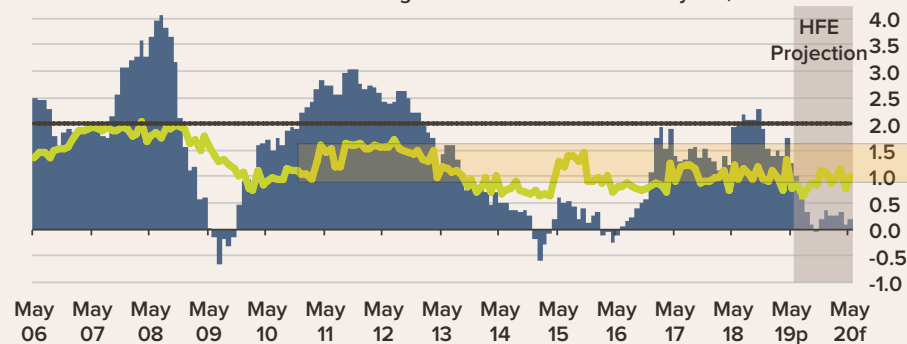


## There Is No Inflation Risk

Core inflation metrics are below target in Europe, Japan, and Australia, and barely at target in Britain and Canada. Yellow-shaded areas on our chart show recent ranges of core CPI.

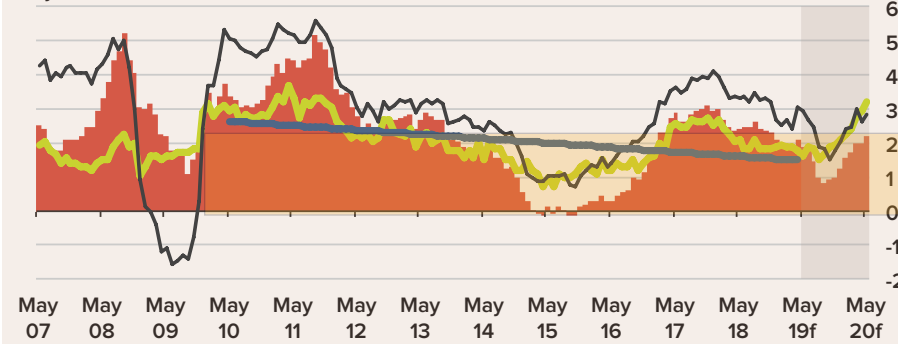
### Euro Zone: CPI, Percent Change Year Ago

Blue Bars Are CPI, Green Line Is Core CPI, Black Line Is ECB Inflation Target  
Jun 19 Onward Is HFE Forecast Assuming Brent Oil Prices Hold Steady At \$61



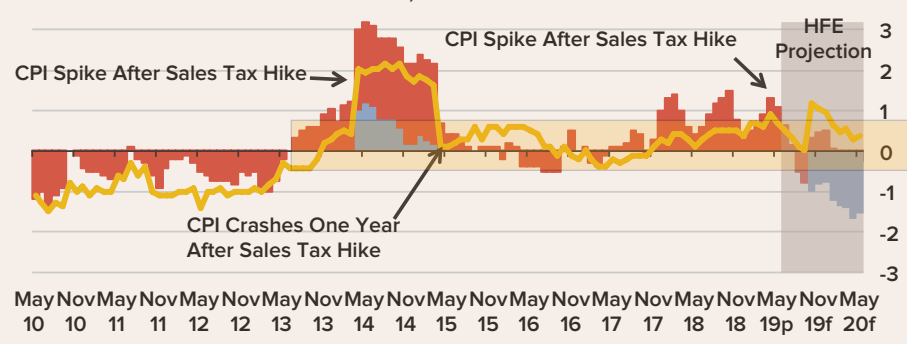
### United Kingdom: CPI, Percent Change Year Ago

Green Line Shows Core CPI, Black Line Shows RPI  
May 19 Onward Is HFE Forecast, Blue Line Is Trend Of Core CPI Since 2010



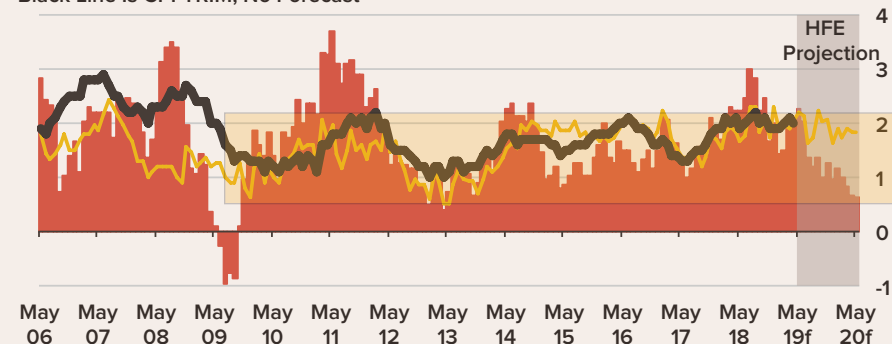
### Japan: Tokyo-Area CPI, Percent Change Year Ago

Yellow Line Shows CPI Excluding Food & Energy  
Blue Bars Are Headline CPI Ex-Sales Tax, Jun 19 Onward Is HFE Forecast



### Canada: CPI, Percent Change Year Ago

Yellow Line Shows CPI Ex-Energy, May 19 Onward Is HFE Forecast  
Black Line Is CPI-TRIM, No Forecast



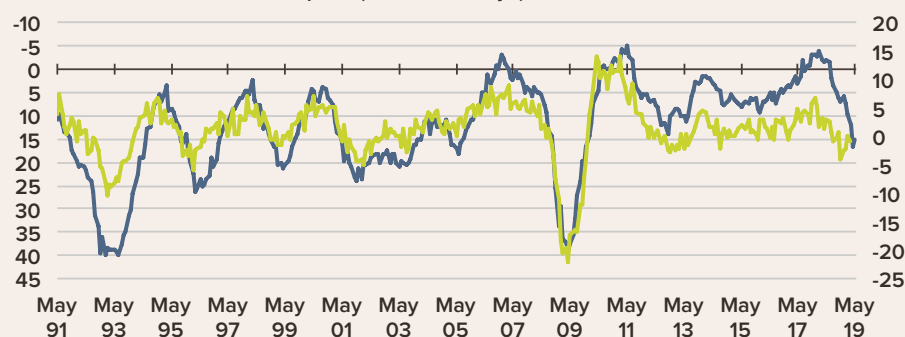


## The Inventory Cycle Un-Masked

In many economies, excess inventories have been building up. HFE believes an inventory cycle correction is at the root of the slowdown in many economies. Demand is still growing but output is down and employment growth has stalled. The pattern is clearest in Germany, Japan and Canada, less so for Britain where Brexit is the key causal factor. Inventory cycles tend to be short and shallow, and rarely lead to financial sector distress or crisis.

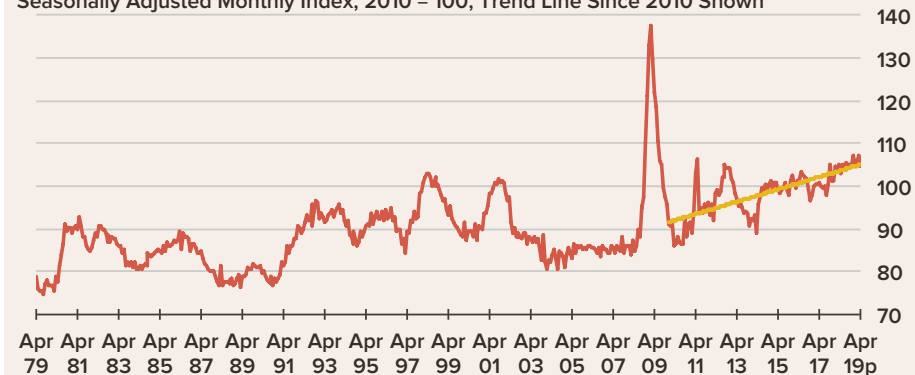
### Germany: IFO Inventory Index

Blue Line Is IFO Inventory Index To May 19 (Inverted Scale, Left Axis)  
Green Line Is Production To Apr 19 (Left Axis, %chya)



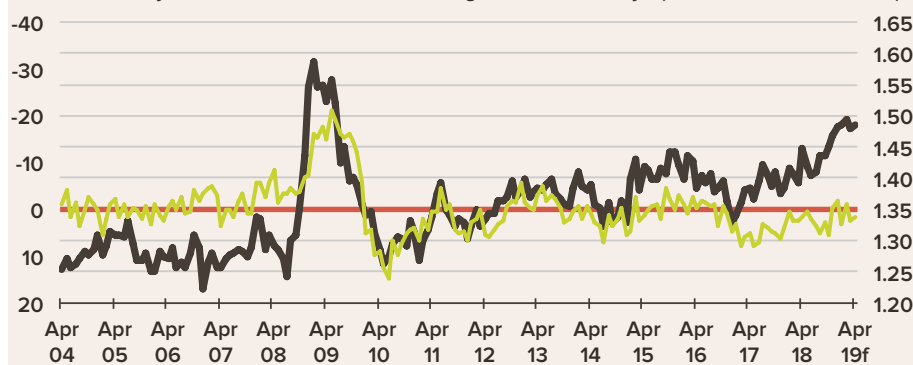
### Japan: Inventory To Sales Ratio

Seasonally Adjusted Monthly Index, 2010 = 100, Trend Line Since 2010 Shown



### Canada: Manufacturing Inventories/Sales Ratio Vs Production

— Inventory/Sales Ratio — Manufacturing Production %chya (Left Axis, Scale Inverted)



### Euro Zone: Changes In Inventories

Billions Of Current Euros



## Falling Oil Prices Mandate New Forecasts

Markets seem more concerned about global trade risks than conflict in the Middle East... at least so far. The big drop in oil prices in May and June mandate new forecasts for inflation and bond yields... lower in both instances. Growth implications vary by country, between producers and importing nations.

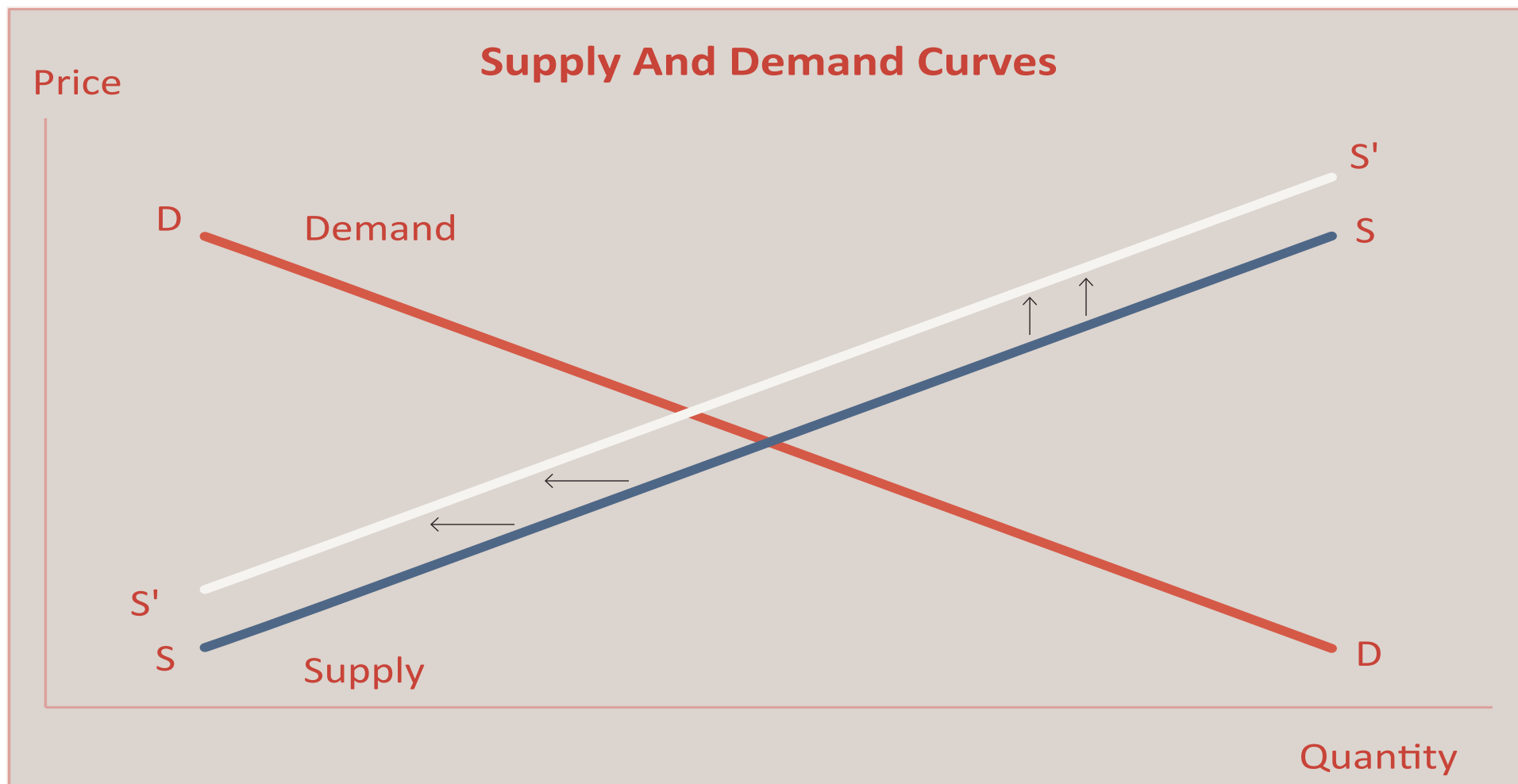
### Brent Crude Oil Price Scenario, Percent Change Year-Over-Year

Daily Data To June 14, 2019, U.S. Dollars/Barrel  
Constant Price At \$62.89 Extrapolation To May 2020



## Brexit In One Chart

Brexit means the suspension of immigration and the departure of some migrant labor—a reduction in the workforce—a loss of a big chunk of the business of the City, and higher costs for imported goods on top of delays in supply change. It is a supply shock—it shifts the aggregate supply curve upward to the left—that should result in a stagflation. Potentially, the drop in output and the acceleration of prices is huge, that is the hard Brexit risk. We have no statistical basis to estimate its magnitude or duration: No one has seen this before.



## Waypoints To Brexit, Many Paths But No Paved Roads...

Uncertainty prevails during a period when there is no clarity of Brexit outcome to encourage business investment or confidence. Might the BoE hike rates during this unexpected six month extension of the status quo? The MPC shouldn't, but that does not mean it will not.

**April 11**

EU Extends Brexit Day To October 31

Yes

**May 22**

Last Date For Parliament To Ratify Withdrawal Agreement  
Without Having To Run Elections For European Parliament

Withdrawal Agreement Ratified?

**Whenever**

Britain Exits EU With Deal  
And Orderly Transition Period

**May 26**

Elections In Britain For European Parliament

**Right Now**

Tory Leadership Change To Hardline Brexiteer  
Or, Tory Leadership Change To Remainer

### Unforecastable Contingencies

Deal Between Tories And Labor On Customs Union / Second Referendum / Confirming Referendum On Withdrawal Agreement  
Government Is Toppled Forcing National Elections

**June 19 - 20**

EU Summit To Review Progress Toward Brexit

**October 31**

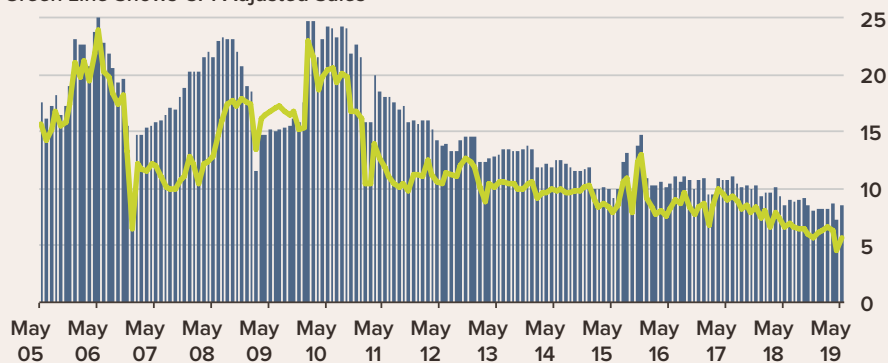
Brexit Day III  
Britain Leaves With A Deal Or Withdraws Notice Or Leaves Hard  
(Or EU Grants Another Extension)

## What About China?

China's economy is slowing, but it still is growing quite fast!

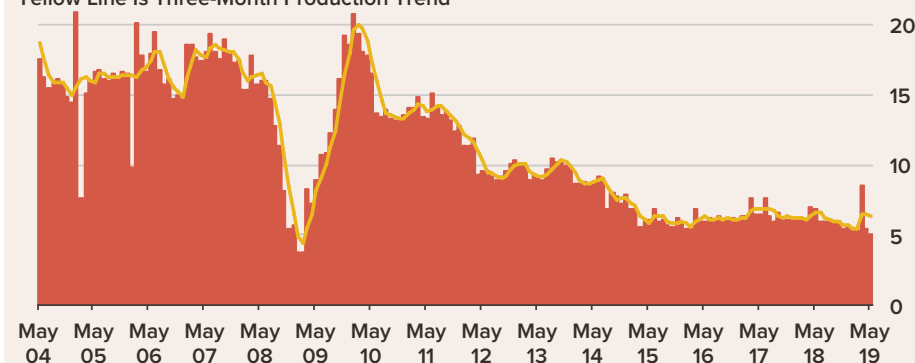
### China: Retail Sales, Percent Change Year Ago

Green Line Shows CPI-Adjusted Sales



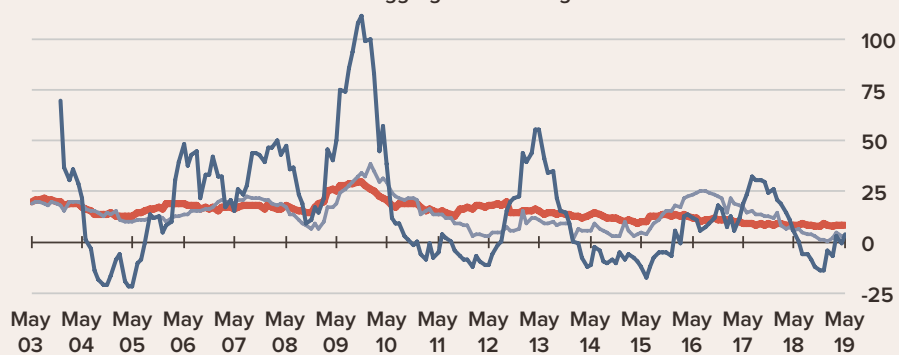
### China: Industrial Production, Percent Change Year Ago

Yellow Line Is Three-Month Production Trend



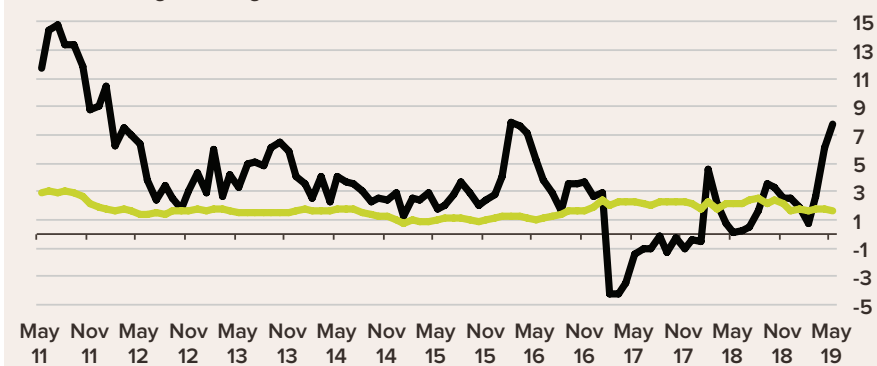
### China: Money And Credit, Percent Change Year Ago

— M2 — M1 — Aggregate Financing



### China: Consumer Price Index, Food Vs Non-Food Elements

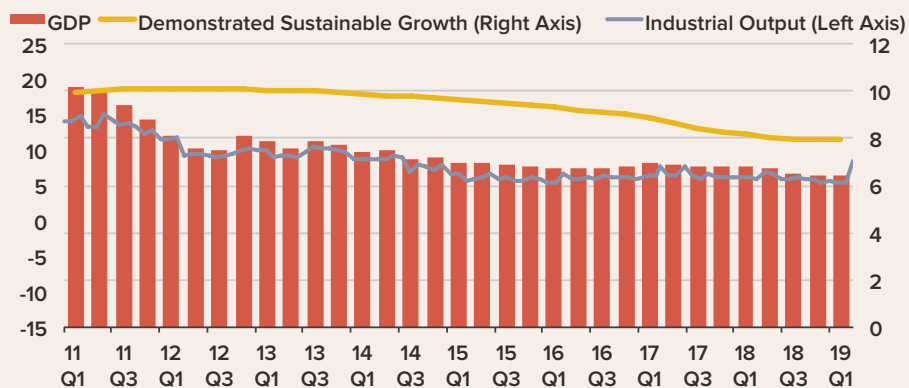
Percent Change Year Ago, Green Line Shows Non-Food Prices, Black Line Is Food



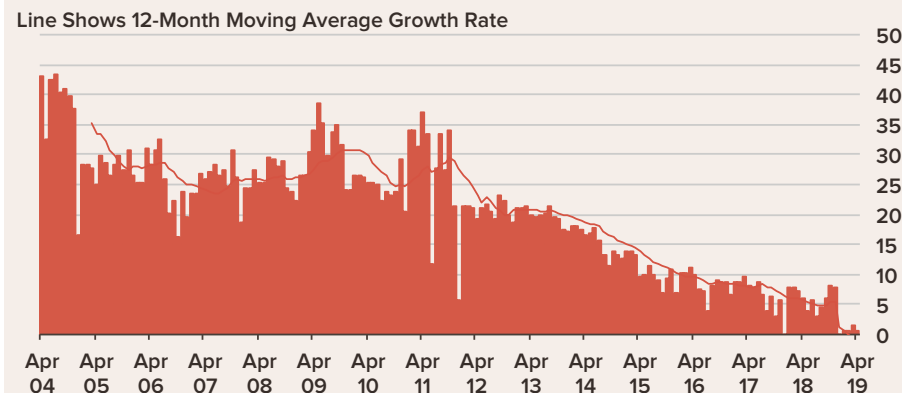
## China Is Poised For Cyclical Recovery

After seven years of sub-par economic growth, China's economy should be set to fly again. Excesses have been purged! However, fixed investment remains weak.

### China: GDP Vs Industrial Output, Percent Change Year Ago

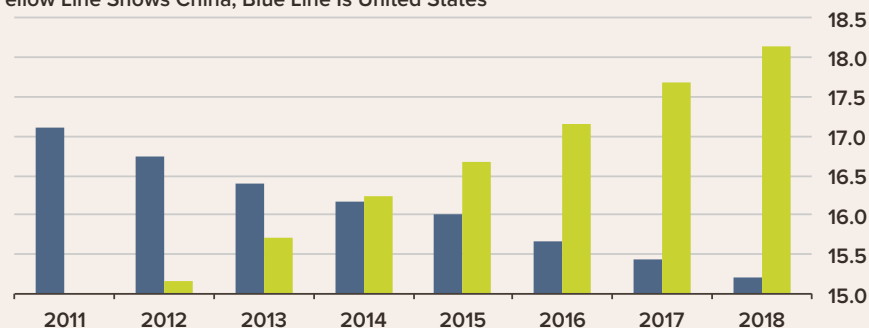


### China: Fixed Asset Investment, Percent Change Year Ago

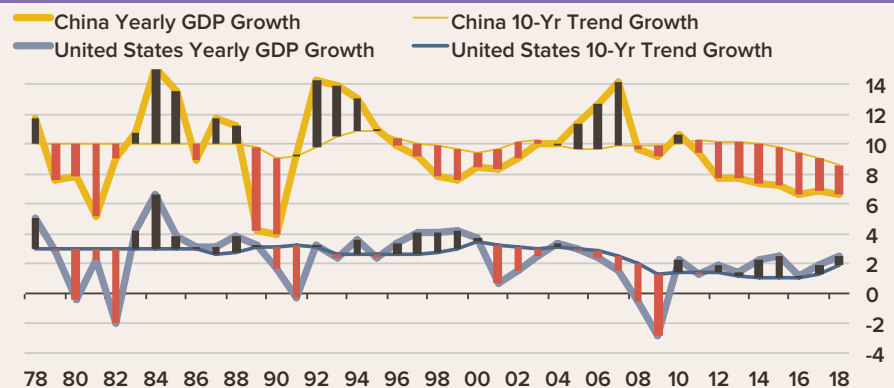


### China And United States' Share Of World GDP

Percent Of World GDP Based On Purchasing Power Of Currency  
Yellow Line Shows China, Blue Line Is United States



### China And United States: Economic Growth Rates

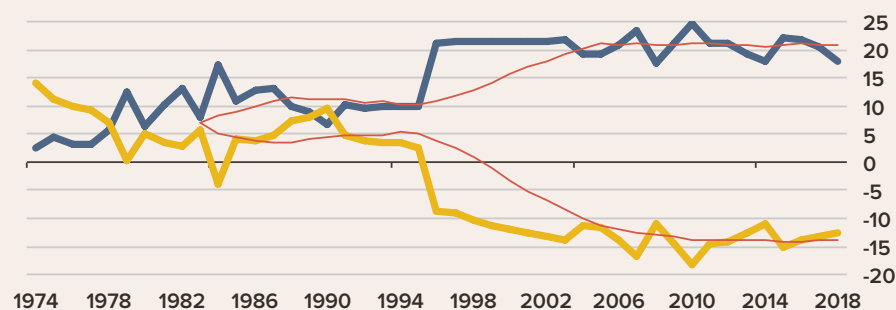


## Pause In The Demographic Dividend?

China modernizes by moving people into higher-productivity urban jobs from lower-productivity rural jobs. At the margin, shifting a worker from the farm to a city job increases his or her contribution to GDP 4.3 times. That pickup used to be 6.7 times. In addition, the percentage increase in the urban population caused by migration from farms declines over time. So the demographic dividend is down to about 8% per year now. That “potential” level of demand growth is still way higher than the 6.6% GDP growth reported for 2018.

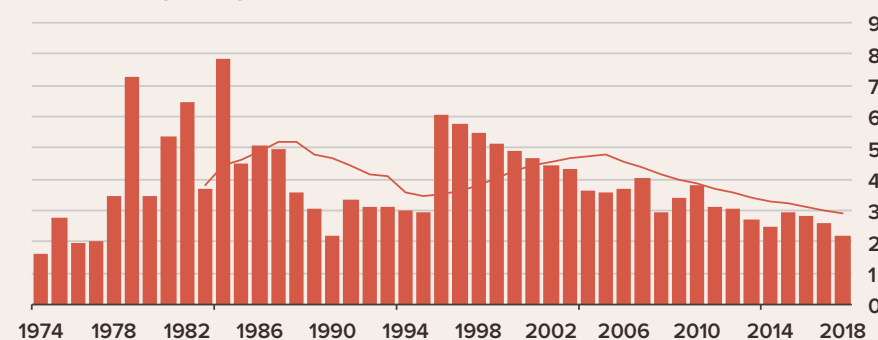
### China: Yearly Changes In Urban And Rural Population

Millions Of Persons, Yellow Line Is Rural Population, Blue Line Is Urban Population  
Red Lines Are Ten-Year Moving Averages



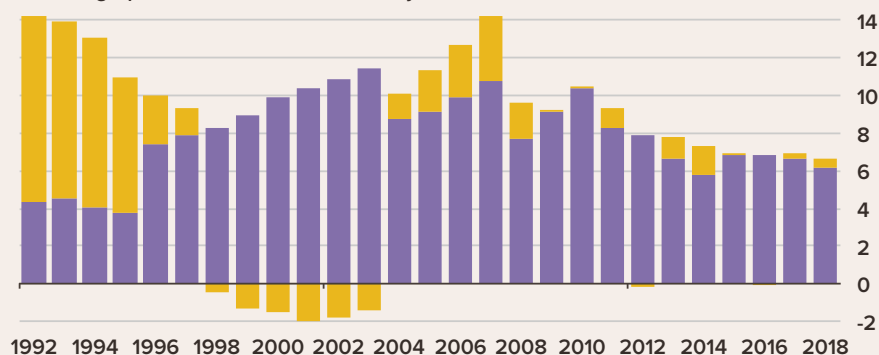
### China: Yearly Changes In Urban Population, Percent

Ten-Year Moving Averages Shown



### China: Sources Of Yearly Changes GDP, Percentage Points

■ Demographic Dividend ■ Productivity



### The Production Possibility Frontier

Consumer Goods

Advanced Economy

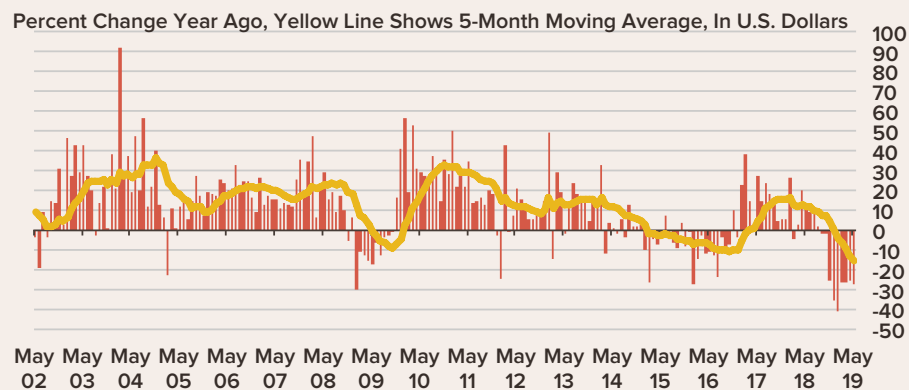
Developing Economy

Capital Goods

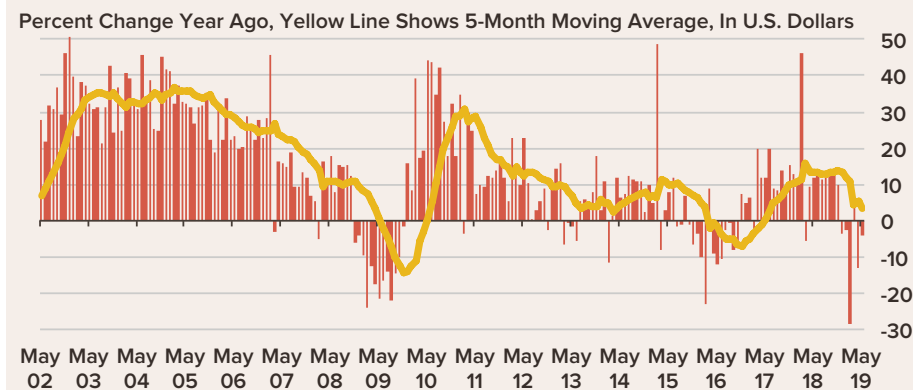
## [Trade] War Is Hell

After starting a fight with China, the United States is losing exports to China at a rapid rate. China's exports to the USA are fizzling, too. March 1 deadline date is long past. Next window for Xi/Trump Summit to end is G-20 Summit In June... China is in no rush. Team Trump wants a "win" from his trade negotiation "strategy" before U.S. election season kicks off. China will not give up its Made-In-China 2025 industrial strategy or do much to assuage IP related issues. Heads up: **Role of dollar as global reserve/transactions currency could be threatened if China abandons the dollar in consequence of reduced exports to USA!** Also, China boycott of U.S. brands could hit equities hard and fast. **Watch out!**

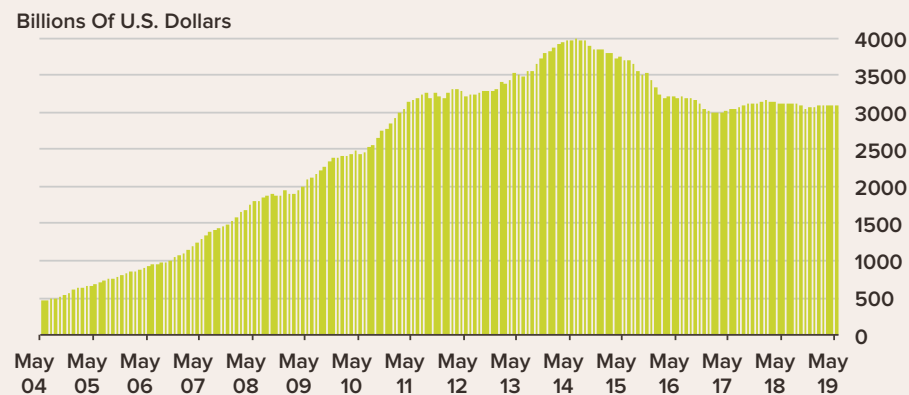
### China: Monthly Imports From The United States



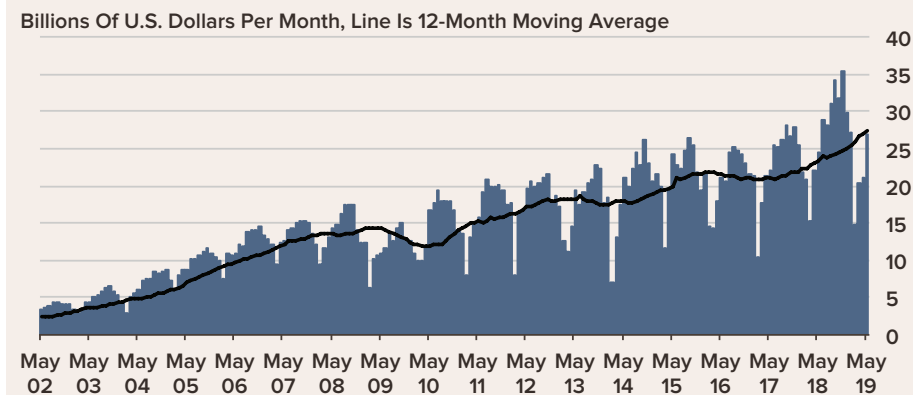
### China: Monthly Exports To The United States



### China: FX Reserves



### China: Monthly Merchandise Trade Balance With The USA





## Key Takeaways...

- **World trade** is slowing: The pulse of the global economy is slowing.
- **Industrial production** and survey data indicate output still faltering in many economies.  
**HFE sees this as an inventory cycle adjustment**, a short and shallow dip, not a crash.
- **Consumer spending** slowdown in 2018 may be partially due to oil prices.  
For the inventory correction to complete, demand must rise faster than supply for a while.
- **Bank lending** is wicked slow in most economies, and still slowing in many cases,  
Especially Europe, Japan and China. The damage of the 2008 crisis is not yet undone.
- **Trade wars** so far are not the cause of trade decay... but they do not help.  
**No resolution of Sino-U.S. trade dispute expected before 2020 U.S. elections!**  
Recommended reading by HFE: “The Art Of War”, not “The Art Of The Deal”
- HFE sees no indication of **inflation** risk in any major economy at this time, so...
- **Most central banks are not going to tighten in 2019**  
No 2019 or 2020 or 2021 ECB rate hike or other tightening. Tapering is not tightening.  
No 2019 rate hike or other tightening expected by **BoJ**, **BoE**. **RBA** may cut rates further.  
**BoC** tightening intentions are scaled back, temporarily on hold, as economy slows.
- **Bond** yields, already low, still have room to fall, although negative yields are unsustainable.