



## Global Data Watch

- Central banks need to engage government to address their constraints
- US growth holds up but global drag is washing onto its shores
- 2020 fiscal easing remains an EM Asia story so far
- Next week: Tariffs up; Powell talks; August PMIs and US payrolls

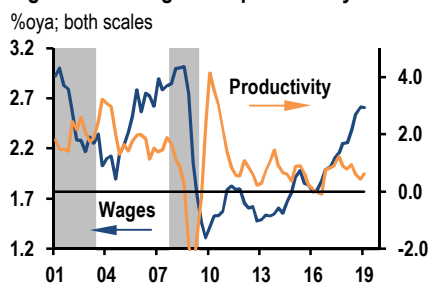
### You dance with the one that brung ya

Rapid-fire geopolitical news and elevated global recession risks naturally take focus away from underlying challenges facing the global economy. Arresting two decades of weakening demographic and productivity trends (“the global supply slide”) is a central one (Figure 1). With the reverberations of the financial crisis magnifying this slide, persistent weak wage gains, rising income inequality, and public sector debt are altering the political landscape. These alterations are not, however, generating policy responses that address underlying problems. Instead, a rising tide of populism and nationalism in geopolitical conflicts—trade and Brexit among others—is further damaging global growth prospects. The biggest medium-term risk is that this rising tide establishes a sustained adverse feedback loop whereby economic pressures produce counter-productive political responses.

Against this backdrop, central banks have been pressured to engage in the political process. Former New York Fed president William Dudley opined this week that “if the goal of monetary policy is to achieve the best long-term economic outcome, then Fed officials should consider how their decisions will affect the political outcome in 2020.” Similar advice has been offered elsewhere. During the Euro area sovereign crisis the ECB was often advised to set policy to pressure governments to address EMU’s institutional flaws. In pre-Abenomics Japan, it was regularly suggested that the BoJ refrain from easing to pressure its government to tackle Japan’s pressing structural needs.

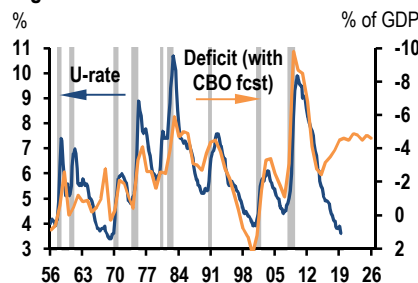
This advice is misguided, in our view, notwithstanding the limited leverage central banks have in influencing politics. Modern monetary policy is built on the idea that the business cycle is managed best when central bankers are insulated from political pressure. By attempting to influence politics, central bankers undermine the case for their operational independence. In addition, effective monetary policy transmission depends on markets having a clear understanding of their objectives and reaction function. Intermittent breaks in this framework to influence political outcomes would undermine the credibility and effectiveness of monetary policy.

Figure 1: DM wages and productivity



Source: J.P. Morgan

Figure 2: US u-rate and federal deficit



Source: CBO, J.P. Morgan

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But even independent central bankers need to respond to policy actions that affect the macroeconomic outlook. Whether it is Brexit or the US-China trade conflict, judgments about policies need to be made that will differ from the judgments of those making policy. That this sparks public debate and criticism of central banks is appropriate, as long as their operational independence is respected and central bankers act in good faith and are held accountable for their actions.

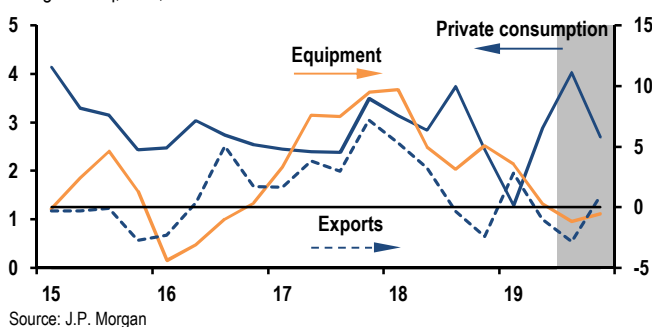
It is troubling to think that central bankers would take a confrontational political stance at a time that their constraints require closer coordination with elected officials. In particular, the next recession is likely to see each G-4 central bank facing an effective lower bound constraint. Their unconventional tools—QE and enhanced forward guidance—will likely prove less effective as a result of the past decade's  $r^*$  drop and yield curve flattening. This points to the need to prepare for the next recession now by putting in place facilities by which monetary, fiscal, and regulatory authorities can move in a rapid and coordinated counter-cyclical fashion.

## US consumers and labor markets are okay

Experience shows global recessions emanating from the US. However, this time is different. The business sentiment shock has been largest in Western Europe and Asia with other country-specific shocks holding back EM, notably Argentina and Turkey. The risk is that global weakness washes onto US shores kicking the more traditional dynamic into gear.

**Figure 3: US real GDP components**

%chg over 2q, saar; both scales



Recent US reports point in this direction as exports and capex contract and business confidence slides (Figure 3). But the economy continues to deliver 2% growth around midyear. This resilience reflects continued solid labor market performance—we forecast a 150,000 August job gain next week—and strong consumer spending. Households have been on a tear, delivering 4.6% ar in real spending gains in the first seven months of the year. A decline in consumer confidence suggests a cooling ahead. But this week's July report points to a

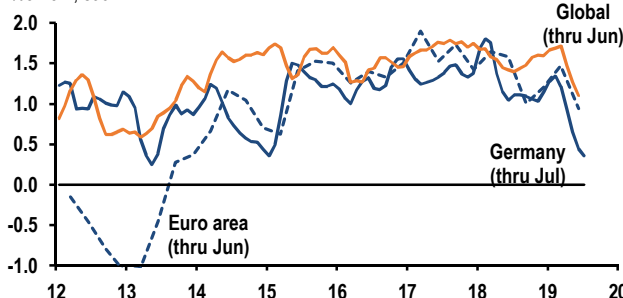
faster than 3% ar gain this quarter, providing an important cushion at a time that global drags look set to be intensifying.

## German sentiment and jobs are a concern

With the Euro area experiencing a more troubling 1H19 loss of growth momentum, it is comforting to see the composite flash PMI and EC economic sentiment index both move higher this month. However, Germany remains a weak regional link and labor demand is cooling. Employment gains slowed to a 0.4% ar in the three months through July, half its 1H19 pace (Figure 4). Take-up of the government's short-time work subsidy scheme remains very low as companies continued to report elevated labor shortages. But with the IFO expectations component falling further this month, this cooling suggests downside risk is rising for Europe's largest economy.

**Figure 4: Global employment**

%3m3m, saar



With growth risks high and core inflation stuck around 1%, the case for broad-based ECB easing is strong. However, the ECB's hawkish camp aggressively pushed back on this view this week. They grudgingly accept a rate cut, but remain opposed to tiering and to QE in particular. We remain comfortable that the ECB will deliver a rate cut and more QE, alongside guidance to beef up the impact of its actions. But this week's ECB talk suggests a healthy debate is coming and that there are two-sided risk around the outcome.

## Italy shows Mother of Parliaments the way

PM Johnson's decision to suspend Parliament constrains the time available for the Commons to restrict his push toward a no-deal Brexit at end-October. But it also exposes the lengths to which his administration will go to deliver his objective, galvanizing the opposition. The stage is hence set for a showdown starting next week. MPs will challenge the prorogation, and attempt to pass a law forcing Johnson to request an Article 50 extension, with a no-confidence motion and replacement of the Johnson administration possible if necessary. Our best guess remains that MPs will succeed in blocking the no-deal path, and Johnson will be forced toward calling a general

election. But the chance of a no-deal Brexit has risen. The likelihood of a compromise forming among MPs around some form of deal has fallen and we believe Johnson is mistaken in his view that the EU will remove the backstop from the withdrawal agreement if the no-deal threat is made credible.

Matteo Salvini's attempt to force a general election by withdrawing his support for the government in Italy appears to have backfired. Although the formation of an M5S-PD coalition government is not yet complete, the chances it will be with Conte renamed as PM appear high. Such an administration suggests less conflict with the EU on the fiscal path, and less tendency to reverse structural reforms the EU has recommended. In a more constructive atmosphere the EU will likely be minded to afford as much flexibility to Italy as the regional framework allows. While the likely longevity of the administration can be questioned, markets are already responding positively to the likelihood of an interlude in Italy's fiscal conflict, and lower funding costs feed back directly into an improved growth and fiscal outlook.

## EM Asia activity holding up...for now

Despite this month's negative tariff headlines, EM Asia trade and industry flows have delivered positive news. Exports are up a solid 6.8% ar over the three months through July. Production has followed, rising at a 3.7% ar. However, activity may be benefiting from frontloading ahead of scheduled tariff increases later this year. Although this boost would eventually be followed by declines, it is hard to gauge the timing of a turn. We do not look for a strong signal from the release of the August manufacturing PMIs next week; we expect stable prints from currently low levels.

While the timing is hard to gauge we are nudging down China's growth for the coming quarters as a result of the recent tariff announcements. Despite expectations of further policy stimulus—including additional RRR cuts or rate cuts, accelerating infrastructure investment, subsidies to consumers, and a CNY depreciation toward 7.4—we now expect GDP growth to slow toward a 5.5% ar as we approach 2020. The new interest rate reform could foster monetary policy transmission and open the door for lower bank lending rates, but the adjustment likely will be gradual in the near term.

## US-Japan trade talks move forward

The US and Japan reached a basic agreement on the main points of bilateral trade negotiations at the G-7 meeting, with plans to conclude talks next month. If this agreement materializes, it likely will become effective by the end of this year. Japan agreed to lower tariffs on agricultural products, which will have minimal impact on Japan's economy and is a politi-

cal win for the US administration. For its part, the US agreed to remove tariffs on a wide range of industrial goods. Autos, which comprise almost two-thirds of the US-Japan trade deficit, remain the major sticking point in the trade talks and there was limited progress on this front. The US did not agree to remove current tariffs on auto imports, but did agree to delay the imposition of Section 232 tariffs.

## More fiscal easing in EM Asia

As we have noted, most of the movement toward fiscal easing is in EM Asia. Although China leads the way there is stimulus in the pipeline in a number of countries in the region. This week delivered news on this front from Korea and India.

- South Korea announced an expansionary 2020 budget plan this week, proposing strong 9.3% spending growth next year. As we expect revenue growth to slow, we now see a fiscal deficit of 0.9% of GDP next year after a 0.6% surplus in 2019. While fiscal policy is on the move, the BOK didn't ease this week. However, two members dissented for an ease, and we continue to expect two more cuts.
- India's growth woes worsened with 2Q GDP growth printing well below expectations at 5%oya. Thus far, monetary policy has borne the brunt of the policy response with policy rates eased by 110bp in 2019. By contrast, policymakers have struggled to find fiscal policy space and the finance minister eschewed stimulus when announcing a series of sector-specific measures last week. However, the authorities caught a break this week. The RBI Board accepted an expert committee's recommendation to transfer "surplus capital" from the RBI's balance sheet to the fiscal authorities to the tune of 0.3% of GDP. The interaction of fiscal and monetary policy in the coming months should reduce downside risks to our 6.4% full-year growth forecast, which already is below consensus.

## Argentina is running out of options

Amid the turmoil aggravated by the primary results, the recently appointed minister of finance unexpectedly proposed a partial restructuring, involving a forced extension of short-term local T-bills (via decree) and the intention to re-profile external and local law debt. These measures were argued to be necessary to address liquidity needs but the announcements aggravated concerns, accelerating the drop in gross reserves (US\$10.3bn since the August 11 primary). With ineffective monetary policy levers, and doubts on IMF drawdowns rising, policymakers are running out of options to prevent the imposition of capital controls.

# Global economic outlook summary

	Real GDP			Real GDP						Consumer prices			
	% over a year ago			% over previous period, saar						% over a year ago			
	2018	2019	2020	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	4Q18	2Q19	4Q19	2Q20
United States	2.9	2.2	1.7	3.1	<b>2.0</b> ↓	<u>1.5</u>	1.8	1.8	1.8	2.2	1.8	1.8	1.9
Canada	1.9	<b>1.6</b> ↑	1.6	<b>0.5</b> ↑	<b>3.7</b> ↑	<u>1.5</u>	1.5	1.6	1.3	2.0	2.1	2.0	2.1
Latin America	1.3	0.6	1.8	-0.6	<b>1.8</b> ↑	<b>0.6</b> ↓	<b>1.7</b> ↓	<b>1.8</b> ↑	<b>2.0</b> ↑	4.0	4.0	3.2	3.4
Argentina	-2.5	-2.3	0.2	-0.9	<u>1.6</u>	-4.0	-0.5	0.0	1.3	47.4	56.4	50.6	44.8
Brazil	1.1	<b>0.8</b> ↑	2.0	<b>-0.3</b> ↑	<b>1.8</b> ↑	<b>0.9</b> ↓	<b>1.8</b> ↓	2.0	<b>2.2</b> ↑	4.1	4.3	3.2	3.4
Chile	4.0	2.6	2.8	0.0	3.4	<u>2.8</u>	3.0	3.0	2.0	2.4	2.2	2.6	3.2
Colombia	2.6	3.3	3.0	3.3	5.6	<u>2.8</u>	3.2	3.0	2.8	3.3	3.3	3.7	3.5
Ecuador	1.4	-0.6	-0.9	-3.8	<u>1.5</u>	-2.0	-2.0	-2.0	0.0	0.3	0.3	0.2	0.3
Mexico	2.0	0.5	1.7	-1.0	0.1	<u>1.2</u>	1.6	1.9	1.6	4.8	4.2	3.3	3.6
Peru	4.0	<b>2.8</b> ↓	<b>3.4</b> ↓	<b>-4.7</b> ↓	<b>4.1</b> ↑	<b>3.5</b> ↓	<b>6.0</b> ↑	2.0	4.0	2.1	2.5	2.2	2.4
Uruguay	2.0	0.7	1.6	0.0	<u>2.0</u>	2.0	1.0	2.0	0.0	8.0	8.0	7.8	8.2
Venezuela	-25.0	...	...	...	...	...	...	...	...	..	..	..	..
<b>Asia/Pacific</b>	4.8	4.4	<b>4.2</b> ↓	4.7	<b>4.4</b> ↓	4.1	3.7	4.3	<b>4.3</b> ↓	1.9	2.1	2.1	<b>2.5</b> ↓
Japan	0.8	1.1	0.1	2.8	1.8	<u>0.2</u>	-2.0	0.6	0.6	0.9	0.8	0.3	0.2
Australia	2.8	<b>1.8</b> ↓	<b>2.9</b> ↓	1.6	<b>1.7</b> ↓	2.6	3.8	3.0	2.8	1.8	1.6	1.4	1.6
New Zealand	2.9	2.4	2.6	2.2	<u>2.3</u>	2.8	2.4	2.8	2.1	1.9	1.6	1.2	1.5
EM Asia	5.9	5.4	<b>5.3</b> ↓	5.4	5.3	<u>5.2</u>	<b>5.2</b> ↑	5.3	<b>5.4</b> ↓	2.2	2.4	2.6	3.2
China	6.6	6.2	<b>5.8</b> ↓	6.8	5.9	<u>5.9</u>	5.6	<b>5.6</b> ↓	<b>5.9</b> ↓	2.2	2.6	2.8	3.6
India	6.8	6.4	7.0	4.8	<b>5.8</b> ↓	<b>7.0</b> ↑	<b>7.6</b> ↑	<b>7.9</b> ↑	7.1	2.6	3.0	3.5	3.8
Ex China/India	3.7	2.8	3.0	2.4	3.2	<u>2.6</u>	2.8	3.0	3.1	2.0	1.5	<b>1.5</b> ↓	<b>1.9</b> ↓
Hong Kong	3.0	0.3	1.5	5.3	-1.6	<u>-2.0</u>	0.0	3.0	3.0	2.6	3.0	3.0	3.3
Indonesia	5.2	4.9	4.9	5.0	5.0	<u>4.7</u>	4.8	4.8	4.8	3.2	3.1	2.8	2.5
Korea	2.7	1.9	2.3	-1.5	4.4	<u>2.0</u>	2.0	2.2	2.2	1.8	0.7	<b>0.5</b> ↓	<b>1.3</b> ↓
Malaysia	4.7	4.3	3.8	4.4	4.1	<u>3.0</u>	3.8	3.8	3.9	0.3	0.6	1.2	1.8
Philippines	6.2	5.5	5.7	2.6	5.6	<u>5.6</u>	5.6	5.7	5.8	5.9	3.0	1.5	2.9
Singapore	3.1	0.5	0.9	3.8	-3.3	<u>1.5</u>	1.0	1.3	1.2	0.5	0.7	1.6	1.8
Taiwan	2.6	2.1	1.7	3.2	2.7	<u>1.3</u>	1.4	1.3	1.8	0.5	0.8	1.9	1.3
Thailand	4.1	3.0	3.4	4.2	2.4	<u>3.6</u>	3.2	2.8	3.2	0.8	1.1	1.0	1.4
<b>Western Europe</b>	1.9	1.2	1.4	<b>1.9</b> ↑	0.5	<u>1.1</u>	1.3	1.5	1.7	2.0	1.5	1.2	1.3
Euro area	1.9	1.2	1.4	1.8	0.8	<u>1.0</u>	1.3	1.5	1.8	1.9	1.4	1.0	1.1
Germany	1.5	0.6	1.1	1.5	-0.3	<u>0.3</u>	0.5	1.3	1.8	2.1	1.7	1.2	1.2
France	1.7	<b>1.3</b> ↑	<b>1.5</b> ↑	<b>1.2</b> ↓	<b>1.3</b> ↑	<u>1.0</u>	1.3	1.5	1.8	2.2	1.3	1.4	1.5
Italy	0.7	0.1	0.8	0.5	0.1	<u>0.3</u>	0.5	1.0	1.0	1.5	0.9	0.8	1.1
Spain	2.6	2.2	1.8	2.7	2.0	<u>1.8</u>	1.8	1.8	1.8	1.8	1.1	0.9	1.1
Norway	2.6	<b>2.5</b> ↑	<b>2.1</b> ↑	<b>2.0</b> ↑	<b>2.7</b> ↑	<u>2.3</u>	2.3	2.0	2.0	3.4	2.5	1.6	1.7
Sweden	2.5	1.5	1.4	2.1	-0.3	<u>1.0</u>	1.3	1.8	1.8	2.1	2.0	2.3	2.6
United Kingdom	1.4	1.2	1.2	2.0	-0.8	<u>1.3</u>	1.3	1.3	1.5	2.3	2.0	1.6	1.9
<b>EMEA EM</b>	2.9	1.3	<b>2.3</b> ↓	<b>2.4</b> ↓	<b>1.3</b> ↓	<u>2.3</u>	2.4	<b>2.0</b> ↓	<b>2.5</b> ↓	7.1	6.7	5.2	<b>5.5</b> ↓
Czech Republic	3.0	2.4	2.4	<b>2.4</b> ↓	<b>2.6</b> ↑	<u>2.0</u>	2.3	2.5	2.5	2.1	2.8	2.8	2.4
Hungary	4.9	4.3	2.4	<b>5.9</b> ↑	4.5	<u>2.4</u>	2.0	2.3	2.4	3.2	3.7	3.2	2.5
Israel	3.3	<b>3.2</b> ↓	<b>3.1</b> ↓	5.2	<u>1.0</u> ↓	<b>3.2</b> ↑	4.1	<b>3.0</b> ↓	<b>2.8</b> ↓	1.1	<b>1.2</b> ↑	<b>0.5</b> ↓	<b>0.3</b> ↓
Poland	5.1	4.0	3.7	<b>5.7</b> ↓	3.2	<u>3.8</u>	3.8	3.8	3.8	1.4	2.4	2.9	2.9
Romania	4.1	4.0	1.5	4.9	4.1	<u>1.3</u>	1.6	-0.6	3.5	3.7	4.0	3.8	3.0
Russia	2.3	1.0	1.6	-0.2	1.7	<u>2.5</u>	1.5	1.0	1.5	4.0	5.0	4.3	3.7
South Africa	0.8	0.5	0.8	-3.2	<u>2.4</u>	1.5	1.0	-1.0	1.5	4.9	4.4	<b>4.1</b> ↓	5.0
Turkey	2.6	-1.7	3.5	5.2	<u>-2.5</u>	1.2	3.5	4.0	3.8	22.4	18.0	11.9	14.7
<b>Global</b>	3.2	2.6	2.6	3.1	<u>2.5</u>	<b>2.3</b> ↓	2.4	2.6	<b>2.7</b> ↓	2.4	2.3	2.0	2.3
Developed markets	2.2	1.7	1.5	<b>2.5</b> ↑	<u>1.5</u>	1.2	1.2	1.6	1.6	2.0	1.6	1.4	1.5
Emerging markets	4.7	4.0	<b>4.3</b> ↓	4.0	<b>4.1</b> ↑	<b>4.0</b> ↓	<b>4.2</b> ↑	4.2	<b>4.4</b> ↓	3.2	3.3	3.1	3.6
Global — PPP weighted	3.7	3.1	3.2	3.3	<u>3.1</u>	3.0	3.0	<b>3.2</b> ↑	3.3	2.7	2.6	2.4	2.7

Note: For some emerging economies seasonally adjusted GDP data are estimated by J.P. Morgan. Bold denotes changes from last edition of *Global Data Watch*, with arrows showing the direction of changes. Underline indicates beginning of J.P. Morgan forecasts. Unless noted, concurrent nominal GDP weights calculated with current FX rates are used in computing our global and regional aggregates. Regional CPI aggregates exclude Argentina, Ecuador and Venezuela. Regional GDP aggregates exclude Venezuela. Forecasts for Argentina are based on JPMorgan's estimates of CPI. Source: J.P. Morgan. Please note the long-form nomenclature for China, Hong Kong and Taiwan is Mainland China; Hong Kong SAR and Taiwan, China.

## G-3 economic outlook detail

				2019				2020			
	2018	2019	2020	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
United States											
Real GDP	2.9	2.2	1.7	3.1	2.0	1.5	1.8	1.8	1.8	1.8	1.5
Private consumption	3.0	2.7	2.3	1.1	4.7	3.4	2.0	2.0	2.0	1.8	1.8
Equipment investment	6.8	1.7	2.2	-0.1	0.7	-3.0	2.0	3.5	3.5	3.5	3.0
Non-residential construction	4.1	-2.8	1.0	4.0	-9.4	-5.0	0.5	3.5	3.5	3.5	3.0
Intellectual property products	7.4	7.4	3.2	10.8	3.7	4.0	3.0	3.0	3.0	3.0	3.0
Residential construction	-1.5	-2.5	0.9	-1.0	-2.9	-0.5	0.5	1.5	2.0	2.0	1.0
Inventory change (\$ bn saar)	48.1	70.3	46.2	116.0	69.0	45.7	50.3	46.9	42.6	48.2	47.2
Government spending	1.7	2.0	1.2	2.9	4.5	-0.2	1.5	1.3	1.3	0.9	0.9
Exports of goods and services	3.0	-0.1	1.1	4.1	-5.8	0.2	1.8	1.8	1.8	1.8	1.8
Imports of goods and services	4.4	1.6	2.6	-1.5	0.1	1.0	3.0	3.0	3.0	3.0	3.0
Domestic final sales contribution	3.0	2.3	2.1	1.8	3.7	2.1	1.9	2.0	2.1	1.9	1.8
Inventories contribution	0.1	0.1	-0.1	0.5	-1.0	-0.5	0.1	-0.1	-0.1	0.1	0.0
Net trade contribution	-0.2	-0.2	-0.2	0.7	-0.7	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2
Consumer prices (%oya)	2.4	1.7	2.1	1.6	1.8	1.8	1.8	2.1	1.9	2.1	2.3
Excluding food and energy (%oya)	2.1	2.2	2.4	2.1	2.1	2.3	2.3	2.3	2.5	2.4	2.4
Core PCE deflator (%oya)	1.9	1.7	2.1	1.6	1.5	1.7	1.8	2.0	2.1	2.0	2.1
Federal budget balance (% of GDP, FY)	-3.8	-4.5	-4.5								
Personal saving rate (%)	7.7	8.0	8.0	8.5	8.0	7.8	7.9	8.0	8.0	8.0	8.1
Unemployment rate (%)	3.9	3.6	3.3	3.9	3.6	3.6	3.5	3.4	3.3	3.3	3.2
Industrial production, manufacturing	2.3	0.2	1.0	-1.9	-2.2	1.0	1.4	1.4	1.2	1.2	1.0
Euro area											
Real GDP	1.9	1.2	1.4	1.8	0.8	1.0	1.3	1.5	1.8	1.8	1.5
Private consumption	1.3	1.4	1.5	2.2	1.3	1.5	1.3	1.8	1.8	1.5	1.3
Capital investment	2.0	2.2	1.9	0.2	0.8	1.0	1.5	2.0	2.5	2.5	2.0
Government consumption	1.0	1.2	1.3	0.4	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Exports of goods and services	3.4	2.5	2.4	2.7	1.0	1.5	2.0	2.5	3.0	3.0	3.0
Imports of goods and services	2.6	2.5	2.4	1.4	1.5	1.5	2.0	2.5	3.0	3.0	3.0
Domestic final sales contribution	1.3	1.4	1.5	1.3	1.1	1.3	1.2	1.6	1.7	1.6	1.4
Inventories contribution	0.1	-0.4	-0.1	-0.2	-0.1	-0.3	-0.1	-0.2	-0.1	0.0	0.0
Net trade contribution	0.5	0.1	0.1	0.7	-0.2	0.1	0.1	0.1	0.1	0.1	0.1
Consumer prices (HICP, %oya)	1.8	1.2	1.3	1.4	1.4	1.0	1.0	1.3	1.1	1.3	1.3
ex food, alcohol and energy	1.0	1.0	1.3	1.0	1.0	0.9	1.1	1.2	1.1	1.3	1.4
General govt. budget balance (% of GDP, FY)	-0.9	-1.0									
Unemployment rate (%)	8.2	7.5	7.0	7.8	7.6	7.4	7.3	7.2	7.1	6.9	6.8
Industrial production	0.9	-0.5	1.4	2.4	-2.5	1.0	1.5	1.8	2.0	2.0	2.0
Japan											
Real GDP	0.8	1.1	0.1	2.8	1.8	0.2	-2.0	0.6	0.6	0.6	0.6
Private consumption	0.4	0.8	0.2	0.4	2.5	0.8	-3.1	1.0	0.8	0.7	0.5
Business investment	3.9	2.8	0.2	1.7	6.1	1.0	-3.0	0.5	0.5	0.5	0.5
Residential construction	-5.9	1.9	-0.5	2.3	1.0	5.0	-5.0	-5.0	4.0	2.0	2.0
Public investment	-3.4	1.4	4.2	5.6	4.0	8.0	8.0	4.0	2.0	1.0	0.0
Government consumption	0.8	1.2	0.8	-0.3	3.8	-1.0	0.5	1.0	1.0	1.0	0.5
Exports of goods and services	3.4	-2.0	0.8	-7.6	-0.2	-1.0	1.0	2.0	1.0	0.5	0.5
Imports of goods and services	3.3	-0.7	0.9	-16.0	6.7	2.0	-1.5	1.0	1.0	0.5	0.5
Domestic final sales contribution	0.6	1.3	0.5	0.8	3.3	0.9	-1.9	0.9	0.9	0.8	0.5
Inventories contribution	0.2	0.1	-0.3	0.3	-0.4	-0.2	-0.5	-0.4	-0.3	-0.2	0.1
Net trade contribution	0.0	-0.2	0.0	1.7	-1.2	-0.5	0.4	0.2	0.0	0.0	0.0
Consumer prices (%oya)	1.0	0.4	0.3	0.3	0.8	0.4	0.3	0.2	0.2	0.3	0.3
ex food and energy	0.1	0.4	0.4	0.3	0.4	0.5	0.5	0.4	0.3	0.3	0.4
General govt. net lending (% of GDP, CY)	-2.7	-2.5	-2.8								
Unemployment rate (%)	2.4	2.3	2.2	2.4	2.4	2.2	2.2	2.2	2.2	2.1	2.1
Industrial production	1.0	-1.5	0.6	-9.5	2.2	-2.4	0.8	0.8	1.0	1.0	1.0
Memo: Global industrial production	2.7	1.1	1.1	0.9	0.2	1.6	2.3	2.4	2.5	2.4	2.4
%oya				1.5	1.0	0.8	1.1	1.6	2.4	2.6	2.6

Note: More forecast details for the G-3 and other countries can be found on J.P. Morgan's Morgan Markets client web site. Source: J.P. Morgan



## Global Central Bank Watch

	Official rate	Current rate (%pa)	Change since (bp)		Last change	Next mtg	Forecast next change	Forecast (%pa)				
			05-07 avg	oya				Sep 19	Dec 19	Mar 20	Jun 20	Sep 20
<b>Global</b>		2.54	-156	-1				2.40	2.34	2.30	2.28	2.29
excluding US		2.65	-156	18				2.54	2.46	2.41	2.39	2.40
<b>Developed</b>		1.03	-207	-3				0.87	0.86	0.85	0.84	0.86
<b>Emerging</b>		4.94	-208	-6				4.82	4.68	4.59	4.56	4.55
Latin America		6.01	-490	-19				5.66	5.57	5.50	5.56	5.81
EMEA EM		7.69	120	45				7.35	7.02	6.82	6.52	6.23
EM Asia		4.11	-159	-14				4.09	3.98	3.92	3.92	3.92
<b>The Americas</b>		2.82	-233	18				2.57	2.54	2.53	2.53	2.58
United States	Fed funds	2.25	-208	25	31 Jul 19 (-25bp)	18 Sep 19	18 Sep 19 (-25bp)	2.00	2.00	2.00	2.00	2.00
Canada	O/N rate	1.75	-188	25	24 Oct 18 (+25bp)	<u>4 Sep 19</u>	Oct 19 (-25bp)	1.75	1.50	1.50	1.50	1.50
Brazil	SELIC O/N	6.00	-944	-50	31 Jul 19 (-50bp)	18 Sep 19	18 Sep 19 (-50bp)	5.50	5.50	5.50	5.75	6.25
Mexico	Repo rate	8.00	6	27	15 Aug 19 (-25bp)	26 Sep 19	26 Sep 19 (-25bp)	7.75	7.50	7.25	7.00	7.00
Chile	Disc rate	2.50	-200	0	6 Jun 19 (-50bp)	<u>3 Sep 19</u>	Sep 19 (-25bp)	2.25	2.00	2.00	2.00	2.00
Colombia	Repo rate	4.25	-300	0	29 Jan 18 (-25bp)	27 Sep 19	On hold	4.25	4.25	4.25	4.25	4.25
Peru	Reference	2.50	-148	-25	8 Aug 19 (-25bp)	26 Sep 19	On hold	2.50	2.50	2.50	2.50	2.50
<b>Europe/Africa</b>		1.46	-222	-5				1.32	1.26	1.21	1.16	1.14
Euro area	Depo rate	-0.40	-238	0	10 Mar 16 (-5bp)	12 Sep 19	3Q 19 (-10bp)	-0.50	-0.50	-0.50	-0.50	-0.50
United Kingdom	Bank rate	0.75	-417	0	2 Aug 18 (+25bp)	19 Sep 19	Aug 20 (+25bp)	0.75	0.75	0.75	0.75	1.00
Norway	Dep rate	1.25	-183	75	20 Jun 19 (+25bp)	19 Sep 19	2Q 20 (+25bp)	1.25	1.25	1.25	1.50	1.50
Sweden	Repo rate	-0.25	-277	25	20 Dec 18 (+25bp)	<u>5 Sep 19</u>	3Q 20 (+25bp)	-0.25	-0.25	-0.25	-0.25	0.00
Czech Republic	2-wk repo	2.00	-40	75	2 May 19 (+25bp)	25 Sep 19	On hold	2.00	2.00	2.00	2.00	2.00
Hungary	3-m dep	0.90	-641	0	21 May 16 (-15bp)	24 Sep 19	On hold	0.90	0.90	0.90	0.90	0.90
Israel	Base rate	0.25	-397	15	26 Nov 18 (+15bp)	7 Oct 19	<b>4Q 19 (-15bp)</b>	0.25	<b>0.10</b>	<b>0.10</b>	<b>0.10</b>	<b>0.25</b>
Poland	7-day interv	1.50	-317	0	4 Mar 15 (-50bp)	11 Sep 19	On hold	1.50	1.50	1.50	1.50	1.50
Romania	Base rate	2.50	-644	0	7 May 18 (+25bp)	3 Oct 19	On hold	2.50	2.50	2.50	2.50	2.50
Russia	Key pol rate	7.25	N/A	0	14 Jun 19 (-25bp)	<u>6 Sep 19</u>	Sep 19 (-25bp)	7.00	6.75	6.75	6.50	6.50
South Africa	Repo rate	6.50	-173	-650	18 Jul 19 (-25bp)	19 Sep 19	Nov 19 (-25bp)	6.50	6.25	6.25	6.25	6.25
Turkey	1-wk repo	19.75	374	200	21 Jul 19 (-425bp)	12 Sep 19	Sep 19 (-125bp)	18.50	17.50	16.50	15.50	14.00
<b>Asia/Pacific</b>		3.13	-48	-15				3.08	2.99	2.93	2.92	2.92
Australia	Cash rate	1.00	-488	-50	2 Jul 19 (-25bp)	<u>3 Sep 19</u>	Feb 20 (-25bp)	1.00	1.00	0.75	0.50	0.50
New Zealand	Cash rate	1.00	-631	-75	7 Aug 19 (-50bp)	25 Sep 19	Nov 19 (-25bp)	1.00	0.75	0.75	0.75	0.75
Japan	Pol rate IOER <sup>1</sup>	-0.10	-33	-5	28 Jan 16 (-20bp)	19 Sep 19	Sep 19 (-20bp)	-0.30	-0.30	-0.30	-0.30	-0.30
Hong Kong	Disc. wndw	2.50	-331	25	31 Jul 19 (-25bp)	-	18 Sep 19 (-25bp)	2.25	2.25	2.25	2.25	2.25
China	1-yr working	4.35	-175	0	23 Oct 15 (-25bp)	-	On hold	4.35	4.35	4.35	4.35	4.35
Korea	Base rate	1.50	-258	0	18 Jul 19 (-25bp)	16 Oct 19	<b>Oct 19 (-25bp)</b>	<b>1.50</b>	<b>1.25</b>	1.00	1.00	1.00
Indonesia	BI rate	5.50	-418	0	22 Aug 19 (-25bp)	19 Sep 19	Sep 19 (-25bp)	5.25	5.00	5.00	5.00	5.00
India	Repo rate	5.40	-141	-650	7 Aug 19 (-35bp)	4 Oct 19	Oct 19 (-25bp)	5.40	4.90	4.65	4.65	4.65
Malaysia	O/N rate	3.00	-20	-25	7 May 19 (-25bp)	<u>12 Sep 19</u>	Sep 19 (-25bp)	2.75	2.75	2.75	2.75	2.75
Philippines	Rev repo	4.25	-279	25	8 Aug 19 (-25bp)	12 Sep 19	4Q 19 (-25bp)	4.25	4.00	4.00	4.00	4.00
Thailand	1-day repo	1.50	-219	0	7 Aug 19 (-25bp)	25 Sep 19	1Q 20 (-25bp)	1.50	1.50	1.25	1.25	1.25
Taiwan	Official disc.	1.375	-114	-50	30 Jun 16 (-12.5bp)	19 Sep 19	4Q 19 (-13bp)	1.38	1.25	1.13	1.13	1.13

Source: J.P. Morgan. <sup>1</sup> BoJ sets the policy rate on IOER (O/N) and targets 10-year JGB yields as policy guidance

Bold denotes move since last GDW and forecast changes. Underline denotes policy meeting during upcoming week.

Aggregates are GDP-weighted averages.

Please note the long-form nomenclature for China, Hong and Taiwan is Mainland China; Hong Kong SAR and Taiwan, China.

## Nowcast global GDP: Downside risk story continues

While our global GDP growth forecast for this quarter and next has not moved much over the past couple of months, risks to the downside are building. Last week's US announcement that it would hike tariffs on imports from China three times starting on Monday suggests a bumpy road ahead for geopolitics. At the same time, Brexit politics are heating up ahead of the October deadline. Our forecast for current-quarter growth stands at a solid 2.3% ar with a slightly stronger 2.4% ar projection for 4Q (Table 1 and Figure 1). We look for growth 0.2%-pt below trend in the DM and 0.5%-pt below trend in the EM.

On the week, we lowered 3Q global GDP growth 0.1%-pt to 2.3% ar to reflect downward revisions in Brazil and Peru. Our global forecast for 4Q at 2.4% remains unchanged. We also cut growth in China for 1H20 by 0.2%-pt to reflect the new US tariff announcement.

**Table 1: Real GDP**

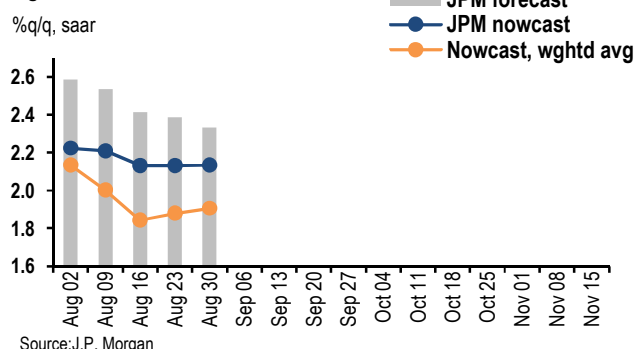
%q/q, saar. Underline indicates J.P. Morgan forecast.

	2Q19		3Q19	
	Fcst/Actual	Nowcast	Forecast	Nowcast
<b>Global</b>	<u>2.5</u>	2.3	<u>2.3</u>	2.1
<b>Weighted Avg*</b>	<u>2.4</u>	2.4	<u>2.1</u>	1.9
<b>DM*</b>	<u>1.5</u>	1.5	<u>1.2</u>	1.0
US	2.0	1.9	<u>1.5</u>	1.4
EMU	0.8	0.8	<u>1.0</u>	0.6
UK	-0.8	1.0	<u>1.3</u>	0.9
Canada	3.7	2.1	<u>1.5</u>	1.3
Japan	1.8	2.0	<u>0.2</u>	0.7
<b>EM*</b>	<u>4.0</u>	4.0	<u>3.8</u>	3.5
<b>EM Asia*</b>	<u>5.4</u>	5.3	<u>5.2</u>	5.0
China	5.9	5.7	<u>5.9</u>	5.5
Korea	4.4	2.4	<u>2.0</u>	2.0
Taiwan	2.7	4.0	<u>1.3</u>	3.0
Singapore	-3.3	4.0	<u>1.5</u>	5.5
<b>Latam*</b>	<u>1.8</u>	1.3	<u>0.7</u>	1.6
Brazil	1.8	0.6	<u>0.9</u>	1.7
Mexico	0.1	1.2	<u>1.2</u>	1.0
Argentina	<u>1.6</u>	-1.9	<u>-4.0</u>	2.1
Chile	<u>3.4</u>	4.4	<u>2.8</u>	3.9
Colombia	5.6	6.0	<u>2.8</u>	-0.8
Peru	<u>4.1</u>	7.7	<u>3.5</u>	3.0
<b>EMEA EM*</b>	<u>1.3</u>	2.4	<u>2.2</u>	0.1
Poland	3.2	2.3	<u>3.8</u>	2.7
Hungary	4.5	3.5	<u>2.4</u>	2.7
Czech Rep.	2.6	0.0	<u>2.0</u>	-1.0
Romania	4.1	2.2	<u>1.3</u>	3.5
Russia	1.7	3.6	<u>2.5</u>	0.2
Turkey	<u>-2.5</u>	1.4	<u>1.2</u>	-3.3
South Afr	<u>2.4</u>	1.3	<u>1.5</u>	1.8

\* Aggregates are GDP weighted averages of constituents. Please note the long-form nomenclature for China and Taiwan is Mainland China and Taiwan, China. Source: J.P. Morgan

Our nowcaster suggests growth this quarter closer to 2% ar. After filtering new data for the week, our nowcast settled at a 2.1% ar (Table 1 and Figure 1). The weighted average of our national nowcasters for 3Q was also unchanged on the week at 1.9% ar. Both measures continue to point to subpar growth and suggest downside risk to our official 2.3% ar forecast. At the national level, this risk bias is broad-based, but concentrated in EMEA EM, especially Turkey (Figure 3).

**Figure 1: Global real GDP, 3Q19**



**Table 2: J.P. Morgan global aggregates**

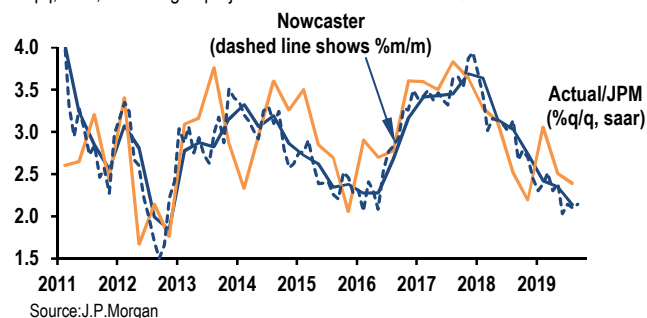
%ch, sa (ar for qrt). PMIs are levels. Conf is st.dev from 2010-pres avg

	2Q19	3Q19	Jun19	Jul19	Aug19	Sep19
PMI, mfg	50.1	49.8	49.5	49.5	<u>49.8</u>	50.1
PMI, serv	52.1	52.1	51.9	52.5	<u>51.8</u>	52.0
IP	-0.6	0.0	-0.4	<u>0.3</u>	-0.1	-0.1
Retail sales	4.8	3.4	0.4	<u>0.3</u>	0.2	0.2
Auto sales	6.6	3.5	-0.5	0.6	-0.1	0.1
Cap. shpmnts	1.8	-3.6	-1.0	-0.2	-0.5	-0.4
Cap. orders	-0.1	-2.6	2.2	-1.5	0.0	-0.6
Cap. imports	-3.3	-4.9	-3.4	1.3	-0.8	0.1
Bus conf	-0.8	-1.0	-1.0	-1.0	<u>-1.0</u>	-1.0
Cons conf	0.9	0.9	0.9	0.9	0.9	0.9
Nowcast	2.3	2.1	2.0	2.1	2.1	2.1

Note: Shaded values show forecasts computed by the Kalman filter estimates from the dynamic factor model. Underlined values are our estimates based on available data and our judgment. Source: J.P. Morgan, Markit, and national statistical agencies

**Figure 2: Global real GDP**

%q/q, saar; J.P. Morgan projection and Nowcaster thru 3Q19



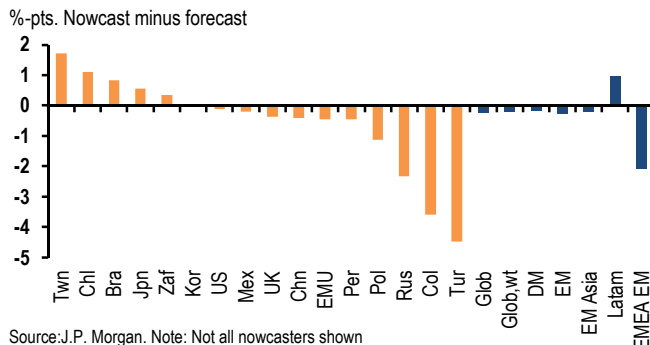
On the week we received a number of July IP reports from Asia. On net, data came in strong with increases of 1.3% in Japan, 2.6% in Korea, and 3.6% in Singapore. However, even

with a solid Asian performance, our global IP aggregate is tracking at a soft pace. Last quarter, global IP contracted 0.6% and the profile based on the July data for this quarter suggests very little growth. We will receive more clarity on global industry when the August manufacturing PMI is out next Tuesday. Our estimate based on flash reports is for the global output index to increase 0.3pt to 49.8.

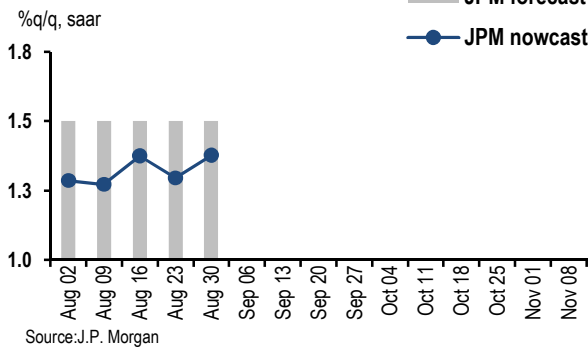
We also updated our global domestic bank credit aggregate this week through June. A healthy flow of credit is an important pillar that should keep global growth from breaking as geopolitics create uncertainty and stifle investment. While EM credit growth has slowed this year, lending standards reported by the IIF suggest the supply of credit remains healthy. The latest data on credit standards in the DM send a similar message alongside increases in credit growth.

As noted above, on Tuesday we will report the August manufacturing PMI with the services counterpart following on Thursday. In addition to the PMIs, the US August labor market report is out on Friday. The Euro area will report its second estimate of 2Q GDP on Friday as well.

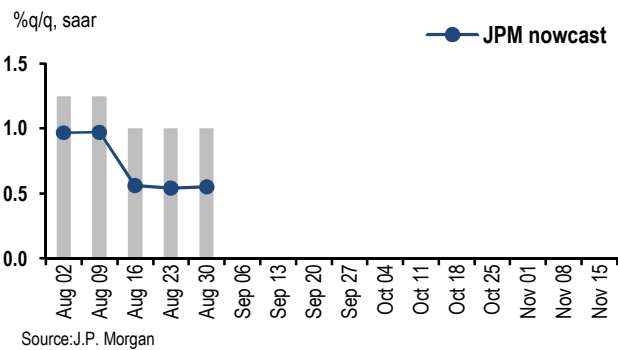
**Figure 3: Real GDP risk bias, 3Q19**



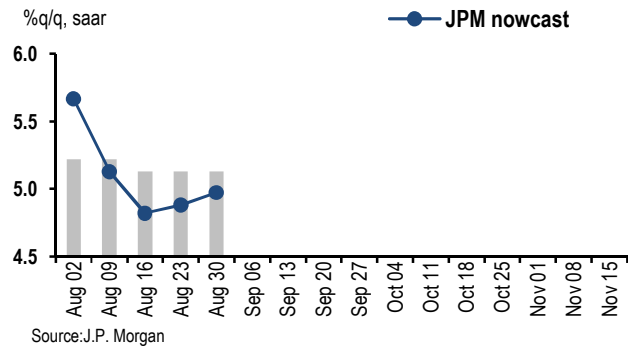
**Figure 4: US real GDP, 3Q19**



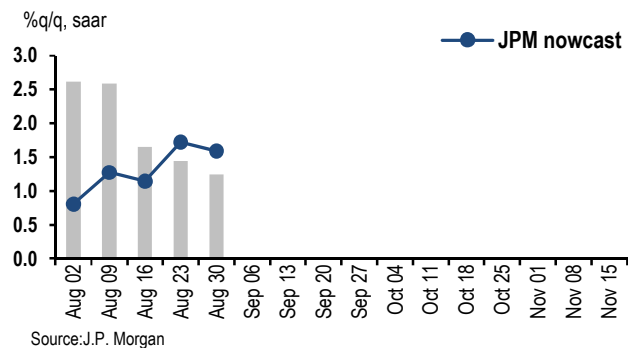
**Figure 5: Euro area real GDP, 3Q19**



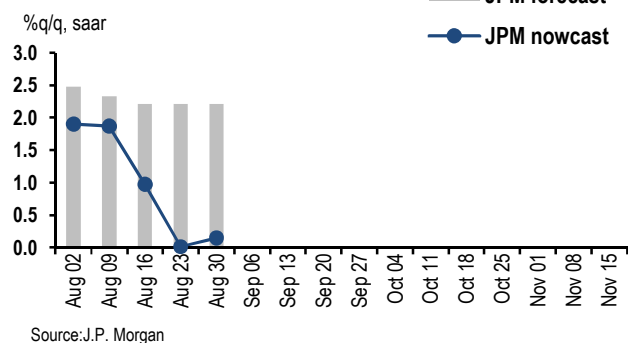
**Figure 6: EM Asia real GDP, 3Q19**



**Figure 7: Latam real GDP, 3Q19**



**Figure 8: EMEA EM real GDP, 3Q19**



\* For primer on various Nowcasters, click here: [Global](#), [US](#), [EMU](#), [UK](#), [Japan](#), [EM](#).



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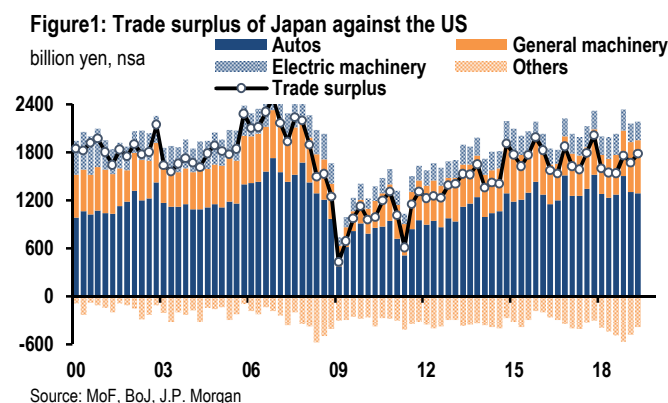
## Economic Research Note

# US-China will weigh more on Japan's growth than US-Japan

- **Impact of US-Japan trade negotiations on Japanese economy will be small**
- **Tariffs on agricultural goods declined to the level of TPP11, no further impact than that of original TPP12**
- **Lower risk for Japan of currency clause**
- **Re-escalation of US-China trade war could damage Japanese economy more than US-Japan trade dispute**
- **Resulting downside risks from corporate sentiment, supply chain disruption, and JPY appreciation are rising**

At their August 25 meeting, President Trump and Prime Minister Abe reached basic agreement on the main points of the US-Japan bilateral trade negotiations, and indicated that they will seek to conclude talks at a summit meeting at the end of September. If this materializes, the new trade agreement likely will become effective by the end of this year.

Although the US strongly argued for its trade deficit (almost JPY6.5tn) with Japan to be reduced, and Japan's autos and parts comprise almost two-thirds of the deficit, there has not been much discussion of how to reduce Japan's auto trade surplus (Figure 1). Rather, the discussion has focused more on lowering the Japan's taxes on agricultural products, which is politically important for the US administration. The basic agreement reduces Japan's tariff on US meats to the level agreed by TPP11, and postpones the abolition of the US tariff on Japan's autos Japan had requested.



The risks have lessened that the US will insist on a currency clause in the agreement or impose export volume restrictions on Japanese autos, but it remains a risk at the negotiations in September. At least both Trump and Abe have made assur-

ances that the US will not impose Section 232 tariffs on Japan's autos, a good sign.

In sum, Japan made concessions to the US, but avoided a significant negative impact on Japan's economy because its agricultural industry is small and the tariffs have been reduced to the same level agreed under TPP11. This outcome is more positive for Japan than we had originally expected.

The US-China trade war, however, while not directly related to Japan, will have significant impact on Japan's growth. The recent re-escalation has the potential to drag on Japan's economy further, indirectly through corporate sentiment, the supply chain, and possible JPY appreciation. We think that the indirect impact of the US-China trade frictions on Japan will be far larger than the direct impact of the US-Japan trade negotiations.

## US-Japan: Agricultural product tariff lowered to TPP11 level, with little impact

At the meeting with the US during the G-7 summit, Japan agreed in principle to lower tariffs on US beef and pork gradually to the level agreed in TPP11 (Table 1), as Japan's tariff rates on agricultural products are high on average, in contrast with those on industrial products (Table 2). This concession aims to compensate for the impact on US farms from the US withdrawal from TPP. And other actions on dairy products, wheat, and corn will follow (see box below). For its part, the US agreed to abolish tariffs on a wide range of industrial goods, but not on Japan's autos (currently 2.5% on passenger cars and 25% on trucks). Japan had strongly requested the abolition of the tariffs on autos, but the US wants to protect US automakers. The discussion about tariffs on autos will continue in September.

**Table 1: Main points of US-Japan trade negotiations**

Japan's imports from US	Reduction of tariff on US beef from 38.5% to 9% eventually
	Relaxation of criteria for triggering safeguard about imports of US beef
	Reduction of tariff on US low-price pork from 482 JPY/kg to 50 JPY eventually
US imports from Japan	Postponement of abolition of tariff on Japan autos (discussion will continue in September)
	Abolition of tariffs on wide range of other industrial goods except for autos
	Introduction of no tariff on Japan's beef up to 3,000 tons

Source: J.P. Morgan

Since TPP11 became effective in December 2018 and the EU-Japan EPA in February 2019, Japan's imports of meats (beef and pork) and dairy products from the US were depressed compared to imports from the EU and Australia and New Zealand because of lower tariffs and non-tariff limits on those areas (Figures 2 and 3). This has been the main incentive for the US to urge Japan to lower tariffs on those products.

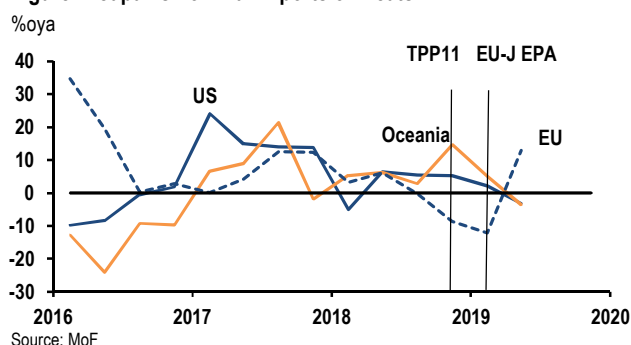
**Table 2: Simple average tariff rate (2018)**

Most Favored Nation applied, %

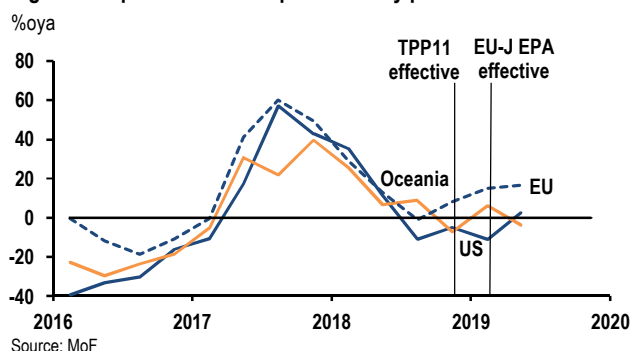
	All products	Agricultural products
Australia	2.5	1.2
US	3.4	5.3
Canada	4.0	15.9
Japan	4.4	15.7
EU	5.2	12.0
China	9.8	15.6

Source: WTO

**Figure 2: Japan's nominal imports of meats**



**Figure 3: Japan's nominal imports of dairy products**



However, the import volumes of agricultural products are so small that the economic growth impact of Japan reducing its tariffs on imports from the US will be negligible.

## Purchase of defense goods may not drastically reduce trade surplus

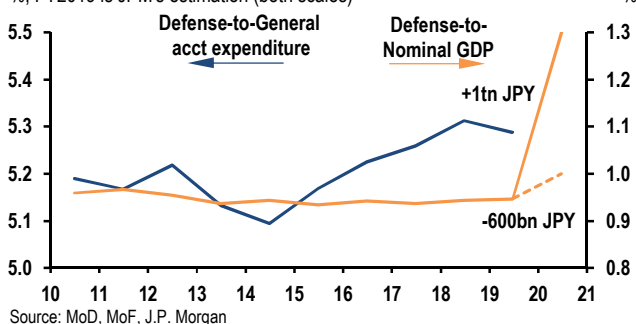
Another, less explicit issue is the Japanese government's sizable purchases of defense goods from the US. Trump's past comments suggest the Japanese government may purchase more. This would buoy the US defense industry, but whether it would reduce Japan's trade surplus with the US by much is questionable.

Japan's government has a self-imposed 1% of GDP ceiling on defense spending. Since 1990 defense spending has exceeded 1% of nominal GDP only once, in FY2010. In FY2020 we

expect it will exceed 1% once again to avoid reducing defense spending compared to FY2019 (Figure 4). But a JPY1tn increase in spending in FY2020, which would reduce the trade surplus with the US by 15%, would raise defense spending to 1.3% of GDP, which we believe is unlikely to be realized. Even if the Japanese government buys JPY1-2tn of defense goods, we expect it to spread purchases over two to three years, or reduce other military spending to remain close to the 1% ceiling.

**Figure 4: Defense expenditure**

%, FY2019 is JPM's estimation (both scales)



## Potential risk: currency clause

There remains a risk that the Trump administration eventually will complain that the trade deficit with Japan has not narrowed, and choose to include a currency clause in the US-Japan trade agreement, although the risk has eased since the August 25 Trump-Abe meeting. The respective finance ministers have not discussed this issue. Japan has continued to insist that discussion of exchange rate policy should be separate from the trade negotiations, and has opposed the inclusion of any currency clauses in this trade agreement. A currency clause like that included in the FTA between the US and Korea and the USMCA is unlikely to constrain Japan's FX and monetary policies. However, the US Commerce Department proposed to treat policy-driven currency undervaluation as an unfair subsidy that can be countered with tariffs using the existing anti-dumping/countervailing duty framework and procedures. Thus Japan may risk the US imposing tariffs on Japanese goods if the Japanese government intervenes in the FX market to stop sharp yen appreciation.

We do not expect Japan to agree readily to include any currency clauses in the US-Japan trade agreement. And there remains a risk that President Trump would complain about JPY weakness if the trade negotiations do not result in a compromise, which would put upward pressure on JPY, reminiscent of President Clinton referring to yen appreciation to reduce the trade imbalance, which led the yen to appreciate substantially.

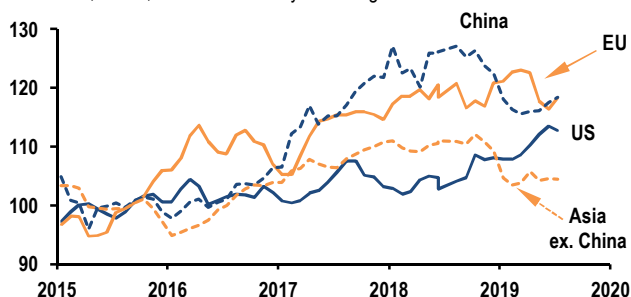
## US-China: Decrease in China's exports to US could have a big impact

While the impact of the US-Japan trade negotiations on Japan's growth will be small, the impact of the US-China trade war potentially will be far larger. After the war re-escalated on August 23, US tariffs on China could breach 25% in a worst-case scenario. The concern is that this trade war will not end in the near future or be managed appropriately.

The impact on Japan's economy would come through three main channels. First is the supply chain. Japan's exports to China have not increased visibly so far this year (Figure 5). It is important to note that the impact on Japan's exports from a decrease in China's exports to the US is bigger than the impact of an equivalent decline in China's domestic demand (Figure 6). In addition to the rise in overall tariff rates on China's exports to the US, Japan cannot substitute China's exports to the US on which 15% tariffs will be newly imposed, so that the downside risk to Japan's exports is mounting.

**Figure 5: Real exports by destination**

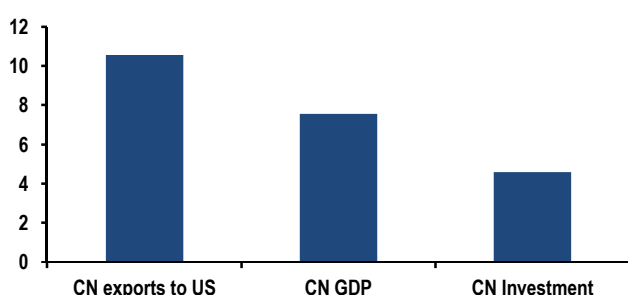
2015=100, 3mma, deflated and sa by J.P. Morgan



Source: MoF, BoJ, J.P. Morgan

**Figure 6: Sensitivity of Japan's exports to China's demand**

1 standard error impact on China's demand, %oya



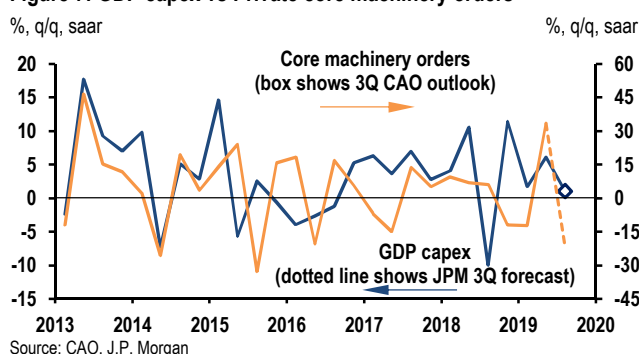
Source: J.P. Morgan

## Uncertainty over US-China trade war could derail capex plans for 2020

The second and larger risk is the uncertainty channel, in other words corporate sentiment. Japan's domestic capex was solid

until 2Q19 because especially non-manufacturers have strong incentive to substitute capital for labor amid extremely tight labor market conditions. However, the 3Q Cabinet Office outlook for core machinery orders is for a more than 20% ar fall in 3Q (Figure 7).

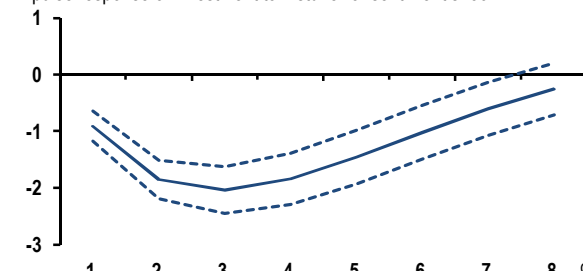
**Figure 7: GDP capex vs Private core machinery orders**



Source: CAO, J.P. Morgan

**Figure 8: Impact of negative sentiment shock on business investment**

Impulse response of investment to 1 std. error sentiment shock



Note: VAR model variables: Reuters Tankan DI, financial condition DI, corporate profits, and GDP-based investment. Shock identification is based on Cholesky decomposition in the above order. Bands show  $\pm 2$  standard error. Source: J.P. Morgan

Indeed, VAR analysis shows the clear relationship between a decline in business sentiment and reduction in capex. According to Figure 8, a 10pt drop in the Reuters Tankan diffusion index (DI) is associated with a 5% decline in GDP-based capex, with weaker sentiment affecting capex with a two- to three-quarter lag. We expect business sentiment will continue to decline due to the US-China trade war, and we will closely watch any downward revisions of capex plans hereafter.

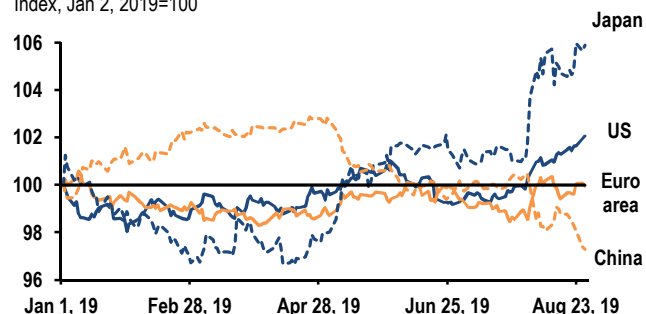
## Potential threat of JPY appreciation

The third risk is JPY appreciation. The JPY (NEER) has already been the strongest global currency throughout 2019 (Figure 9). The CNY has depreciated since Trump announced the 30% and 15% tariffs on imports from China. If the risk-off mode in FX markets intensifies further because of the US-China trade war and/or CNY depreciation, JPY risks appreciating more (Figure 10).



Figure 9: Nominal effective exchange rate

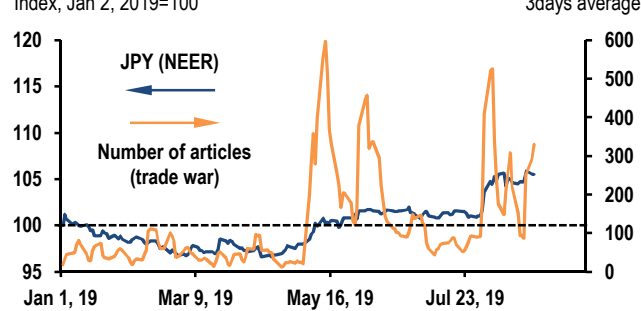
Index, Jan 2, 2019=100



Source: J.P. Morgan

Figure 10: JPY (NEER) and trade war

Index, Jan 2, 2019=100



Source: Google, J.P. Morgan

### Box: Tariff treatment of agricultural products in TPP11

The following is the list of tariff reductions on agricultural products, agreed by TPP11 (Tables A, B). EU-Japan EPA also mainly followed TPP11 rules. The US-Japan trade agreement would also largely follow TPP11 rules, except regarding corn which Japan has newly agreed to purchase from the US.

Table A: Impact of tariff treatment of agricultural products

	Impact	Comments
Rice	Relatively significant	Increase in supply pressure
Wheat	Relatively significant	Increase in imports of prepared and processed items
Barley	Limited	-
Sugar	Significant	Increase in imports of snacks and prepared foods
Starch	Limited	-
Dairy products	Significant	Increase in cheese and whey imports
Beef	Significant	Safeguards not effective
Pork	Significant	Increase in imports of processed foods, decline in raw pork prices

Source: MAFF, Norinchukin Research Institute Co., Ltd., J.P. Morgan

Table B: Details of tariff treatment of agricultural products

	Import limit set-up	Tariff elimination and reduction
Rice	Tax-free import limit for the US and Australia (78,400 tons) Medium-grain and processed limit within MA	Tariff elimination and reduction for prepared and processed items
Wheat	Country limit (SBS) for the US, Australia, and Canada) TPP limit for wheat products	45% mark-up reduction Elimination for biscuits and cookies, 60% reduction for macaroni and spaghetti
Barley	TPP limit (SBS) Country limit for malt	45% mark-up reduction Elimination for grain processed items
Sugar	Tax elimination for raw sugar with a high sucrose content Tax-free and no adjustment charge limit for new product development Tariff quota limit for sugar-added prepared products	Tariff elimination and reduction for sugar-added prepared products and snacks
Starch	TPP limit (within the existing framework range) Country tax-free limit for designated starch	Tariff elimination for starch derivatives
Dairy products	TPP limit (skimmed milk powder, butter 60,000 tons, private-sector trade), tariff quota framework for whole milk powder, whey, and condensed milk), processed cheese tariff quota framework by country	Tariff elimination for some cheeses, ice cream, and yogurt 50% reduction for blue cheese
Beef	-	Initially 27.5%, 16th year 9% Tariff elimination for intestines and beef tongue
Pork	-	Volume-based tax reduction, duty value tax elimination, tariff elimination for pork prepared items and intestines

Source: MAFF, Norinchukin Research Institute Co., Ltd., J.P. Morgan



## Economic Research Note

# ECB will likely view further easing as effective

- According to the ECB, its policy measures since 2014 have lifted inflation by 0.4%-pt
- Move in financial markets since late last year compares favorably to the moves in 2014-18
- Exact form and scale of ECB easing still unclear but will likely rely significantly on rhetoric and guidance

Financial markets expect a large policy response from the ECB at its next meeting in September. Underneath this view, there are, however, a very wide range of opinions about the state of the economy and the efficacy of further monetary easing. In fact, there are significant concerns about how the combination of very negative rates and a very flat yield curve would affect the banking system's ability to generate profit and therefore to lend to the real economy. All of this creates a difficult challenge for the ECB, in terms of deciding both on the scale and form of further easing and on how to communicate this to markets.

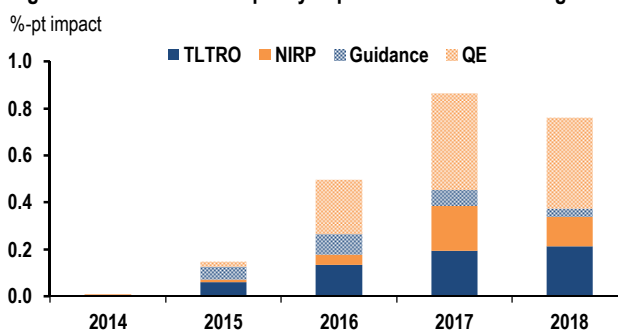
How the debate at the ECB is evolving is hard to gauge as we have had a few weeks of relative quiet due to the summer break. But, before the break, the ECB's views about the economy were still relatively balanced, recognizing areas of worrying weakness and areas where significant progress has been made. There was also little sign that the ECB was beginning to doubt the efficacy of further policy easing. In fact, we think recent market moves will be viewed favorably and may encourage the ECB to deliver a package of significant size and scope, while also relying on rhetoric and guidance to "beef it up" further to limit any market disappointment.

## Monetary policy is still working

To get a sense of how the ECB itself thinks about the impact of its policy measures, we go back to Philip Lane's recent speech. Lane presented two charts showing the impact on GDP growth and inflation of all the ECB's measures since early 2014 (Figure 1 and 2). The growth impact peaked in 2017 at 0.9%-pt and the cumulative impact on the level of GDP since 2014 is 2.3%. The impact on inflation is still building and was 0.4%-pt in 2018, which is consistent with a standard Phillips curve coefficient of 0.2 on the output gap. Lane's speech also offered a decomposition by policy instrument. In terms of the 2.3% cumulative impact on GDP, 0.6%-pt came from the TLTROs, 0.4%-pt from the negative interest rate policy (NIRP), 0.25%-pt from forward guidance, and the bulk (1.05%-pt) from QE. On inflation, the relative impacts

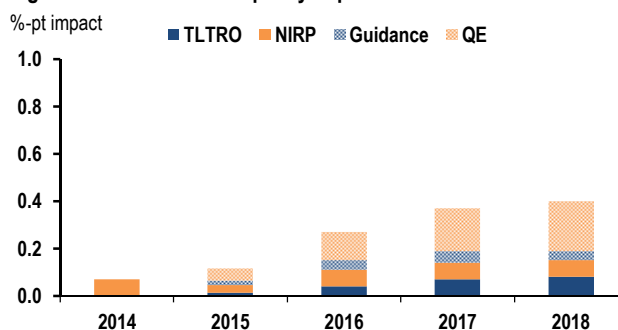
are very similar, except that TLTROs have a slightly bigger impact on growth than on inflation, while negative rates have a slightly bigger impact on inflation than on growth. The latter likely reflects that NIRP had an amplified impact on inflation via the currency, while TLTROs work more slowly via credit and domestic demand.

Figure 1: ECB estimate of policy impact on Euro area GDP growth



Source: ECB, J.P. Morgan

Figure 2: ECB estimate of policy impact on Euro area HICP



Source: ECB, J.P. Morgan

One way to gauge whether ECB easing is still having an impact is to look at financial conditions (Table 1). The impacts in Lane's speech were likely produced by the changes in financial conditions between early 2014 (i.e., before the shift towards QE) and late 2018. Over this period, Eonia fell by around 60bp and the forward curve flattened sharply (Figure 3), the currency did not do much in trade-weighted terms, 2yr and 10yr yields in Germany fell by 80bp and 135bp, respectively, and government bond spreads tightened a bit further, while credit spreads widened a bit. Compared to this, the moves since the end of 2018 have been significant. In fact, they have been half as big for bond yields, while the Eonia curve is pricing in an additional 35bp easing. The flattening of the curve has been even more pronounced, while credit spreads have tightened. Bank equity prices remain very depressed but credit markets are not pricing in much default risk. One concern is that market-based inflation expectations are still very low, which pushes up real yields. But, the ECB is unlikely to be taking this at face value and, interestingly, the latest falls have been bigger in the US (Figure 4).

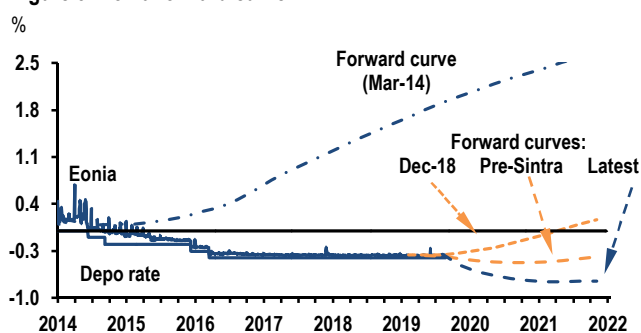
**Table 1: Financial conditions in the Euro area**

% and bp, "pre-QE" is Apr-14

	Pre-QE	Dec-18	Pre-Sintra	Latest
Eonia (%)	0.25	-0.36	-0.36	-0.37
Eonia in 1yr (bp, ch.)	-12	3	-11	-35
€/\$	1.38	1.14	1.13	1.11
NEER38 (Pre-QE=100)	100.0	101.2	100.7	101.0
DE 2yr (%)	0.15	-0.63	-0.68	-0.91
DE 10yr (%)	1.62	0.27	-0.23	-0.72
DE 10yr-2yr (bp)	147	90	45	19
10yr spread (bp)				
Core vs DE	44	38	32	25
Periphery vs DE	189	211	185	137
5y5y HICP (%)	2.10	1.60	1.22	1.21
Credit spreads (bp)				
iBoxx IG	117	172	138	121
iBoxx HY	302	511	456	422
CDS (bp)				
iTraxx IG	69	84	62	51
iTraxx Senior Fin.	81	110	79	61
Equity (Pre-QE=100)				
Broad Idx	100	116	130	129
Banks	100	66	66	60

Source: J.P. Morgan

**Figure 3: Eonia forward curve**



Source: J.P. Morgan

**Figure 4: 5y5y inflation swaps**



Source: J.P. Morgan

This simple analysis suggests that expectations of further ECB easing are having the desired impact on financial markets. Markets are pricing in even lower short-term rates, as ECB commentary has eased concerns about the lower bound.

Markets are also pricing in lower long-term rates, in anticipation of further QE. This has narrowed bond spreads further. And while market-based measures of inflation expectations have failed to recover in the Euro area, they have actually slipped further in the US. Finally, the euro has not depreciated further, but given the shift in expectations for the Fed, the ECB has at least managed to avoid an unwanted appreciation. While all of this points to the ECB having had success so far, we address three other points.

- **The credit channel is still working.** The depressed levels of bank equity prices in the region raise clear concerns about banks' ability to generate profit in an environment of negative rates and very flat yield curves. The ECB is far from ignoring this, but the data continue to back its view that the credit channel is working. Net lending by banks to Euro area households and nonfinancial corporates is growing by almost €40bn per month, a 4% ar. This is still much weaker than in 2006-07, but that was likely too rapid, while the current rate looks trend-like for nominal GDP growth. Further rate cuts and a flatter curve are likely to increase the pressure on banks, but we suspect the ECB will still view weak bank profitability as largely a structural problem that banks have to address via cost cuts and efficiency gains. The ECB may help by introducing a tiered reserve charging system, but having recently offered new TLTROs with tighter conditions, this decision still may not be a done deal.

**Figure 5: Euro area bank lending to the real economy**

€bn, monthly flows, adj. for loan sales/securitizations

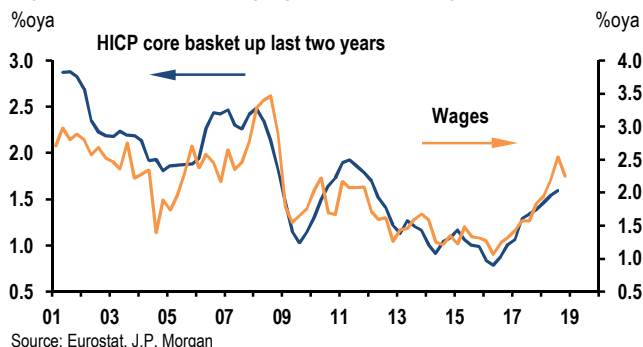


Source: ECB, J.P. Morgan

- **The preconditions for higher inflation are there.** While inflation is too low, the preconditions for a pickup are in place. Unemployment is now very low and wage growth has stepped up significantly. Within the core inflation basket, the cyclical items, which make up around half of the total, have already responded to the pickup in wage growth (see [Euro area core inflation: One half up, one half down](#)). In fact, this response has been in line with historical regularities (Figure 6). The problem is that the non-cyclical parts of the basket have moved in the other direction, preventing an increase in core inflation overall. Hence, in our

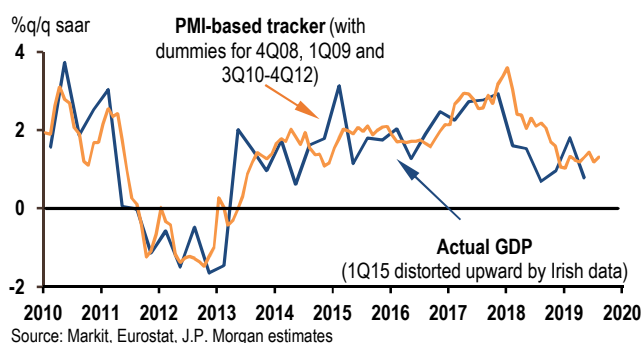
view, it is not entirely correct to say that the ECB has not had any success in terms of inflation.

**Figure 6: Euro area underlying inflation and wages**



- **The Euro area composite PMI suggests trend-like growth.** While downside risks to growth have increased substantially and the weakness in German industry looks alarming, the Euro area composite PMI is still consistent with trend-like economic growth (Figure 7), suggesting that significant parts of the economy remain resilient to the slowdown.

**Figure 7: Tracking Euro area GDP growth with the PMI**

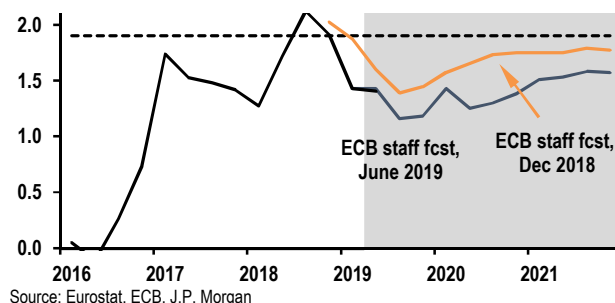


## Threatening to throw the kitchen sink

How might the ECB calibrate the size and composition of the policy package it has signaled for next month? One way is to look at its own inflation projections for 2021, which have slipped by 0.2%-pt since the end of last year (Figure 8). Using the policy impacts Philip Lane presented, the ECB would need to do half of everything it has done since 2014 just to reverse this slippage. This would require €1.25 trillion additional QE, another 20bp of rate cuts, another €350bn in TLTROs, and additional forward guidance. Clearly, this would be a very large package, which would need to be scaled up even further if the efficacy of further easing is seen to be falling and if growth is revised down further.

**Figure 8: ECB staff forecast for headline inflation**

%oya, dotted line is assumed ECB target of 1.9%oya



However, the combination of Draghi's Sintra speech and the easing that markets have automatically priced in due to the weaker outlook has already delivered a significant easing in financial conditions. To the ECB, this shows that the state-based part of its forward guidance is working. And, if the ECB's assessment of the growth outlook is changing incrementally with the data, rather than abruptly, then the bank could still opt for a package that is broad in scope but a bit smaller in size than it could be and which relies instead on rhetoric and forward guidance to "beef" it up. This has been our forecast so far. The reliance on rhetoric and forward guidance would aim to reduce the risk of a material market disappointment, given that consensus in the Governing Council on such guidance is likely easier to achieve than on a bigger package.

Hence, the ECB could cut the deposit rate by 10bp and enhance this with a strong signal that tiering is ready to go at any time and that rates can still go "lower." Extension of the calendar guidance to the end of 2020 would reinforce the message that rates are set to remain low, or lower, for a long time. Similarly, additional QE at a pace of €30bn per month for nine months could be enhanced with a signal that it can be accelerated and extended, if needed. To reinforce this point, the ECB would either formally change the issue limit or it would state clearly that it can be raised above 33%. Finally, the ECB could revisit the conditions on the new TLTROs to reinforce the message that it is helping the banks. Eventually, we also expect the ECB to change its inflation target to 2%, which would further reinforce the need for a long period of monetary support, but it is not clear that this will be done already in September. In any case, upcoming ECB commentary will be very important to watch, given the relative quiet during the summer break. So far, hawkish governors have voiced the opposition to a large package, and to QE in particular. It will, however, be important hear from more centrist governors about their current thinking.

## Economic Research Note

# Debt crises in Asia and their lessons for China

- The region has experienced two severe banking crises: Japan in early 1990s and the Asian Crisis in 1997/1998
- The ensuing policy responses provide useful insights and lessons for debt resolutions in China
- Timely recognition of loan losses and a well-coordinated financial safety net, with clear lender of last resort protocols, are key

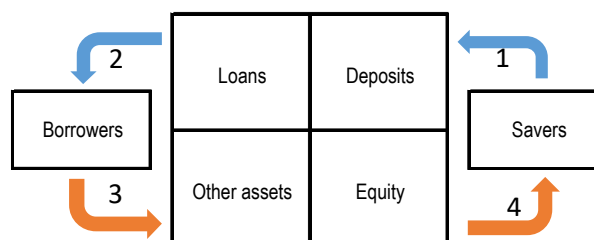
On the heels of notes focusing on China's [present debt](#) and [past debt resolutions](#), this note provides a brief history of banking crises and resolutions in Asia, gleaned insights on the resolution framework within the Asian context that can apply to China. In China, the dominance of state ownership in the banking sector and its debtors, which are mainly state-owned corporations, reduces the scope for market mechanisms to resolve NPLs, i.e., through bankruptcy and liquidation of assets. In effect, these considerations increase the burden of bank restructurings on the public sector, including both the central bank and government, and indirectly on the household sector via low returns on deposits. Thus, given the architecture of China's financial sector, we still expect the future cost of bank restructuring to fall squarely on the public sector, unless there is a material change in the ownership structure.

That being said, two crises still offer useful lessons: Japan in the early 1990s and Korea and Thailand in 1997/1998. The first lesson is that excessive credit expansion over a prolonged period tends to precede a banking crisis. Second, balance sheet mismatches around FX and duration can lead to a sudden stop in funding flows, triggering a liquidity shock, which subsequently spurs a broader banking sector crisis. Moreover, uncertainty around solvency could also trigger liquidity shocks, via a loss of confidence among depositors and within wholesale funding markets. Third, such a liquidity shock would require a clear protocol for lender of last resort intervention by the central bank. Indeed, there is little room for ambiguity in the central bank's operations given its knock-on to confidence, which is the cornerstone of the smooth running of financial systems. Finally, a comprehensive and coordinated financial safety net will be key in determining the allocation of funds to resolve underlying banking weaknesses, a necessary step to facilitate the banking system's return to health.

## A stylized debt flow/stock map

Helpful in thinking through banking sector crises are stylized descriptions of debt-creating flows, giving rise to the debt stock and the debt service payments needed to maintain solvency (Figure 1).

Figure 1: Stylized banking sector flows



Source: JPMorgan

There are very broadly four basic elements: initial deposit flows (1) from savers to the financial intermediaries, which in turn provide loans to borrowers, (2) who are then obliged to service the debt, (3) which ultimately flows back to the savers as interest income. (4) In principle, there are two types of shocks, which may not be mutually exclusive, that lead to banking sector crises in Asia. The first is insolvency, which occurs when the cash flows generated from the asset are not able—either in reality or perception—to meet the debt service claims from the debt stock, which is the flow from (3) to (4). The second is a liquidity shock, which is the temporary inability to convert assets into cash, should creditors or depositors choose not to roll over their claims, effectively a reversal of flows (1) and (2).

In principle, solvent financial institutions should still be viable amid a liquidity shock if there is a timely provision of liquidity, typically via lender of last resort (LOLR) operations, while an insolvent financial institution would not be viable regardless of LOLR interventions. In practice, distinguishing solvent from insolvent institutions during periods of stress is challenging. A strong financial infrastructure with timely reporting and recognition of risky and delinquent assets can facilitate this determination, preferably ex ante.

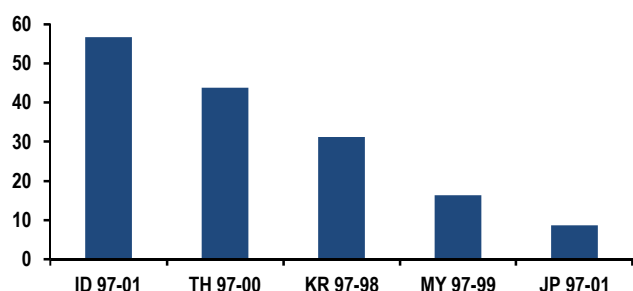
## Similarities in starting conditions

Thus framed, the banking sector crises in Japan and Korea/Thailand both involved elements of each shock, and the subsequent resolution provides lessons for the future. While the proximate triggers for the crises differed, the general sequence of banking sector resolution is similar, involving an initial set of policies that provide liquidity to the banking sector to stabilize confidence and a subsequent recapitalization to restore their balance sheets, usually via public capital, to permit financial intermediation. Thus, it should not be a surprise that material increases in public debt accompanied Asian banking sector crises (Figure 2).



**Figure 2: Fiscal cost of bank recapitalization and restructuring cost<sup>1</sup>**

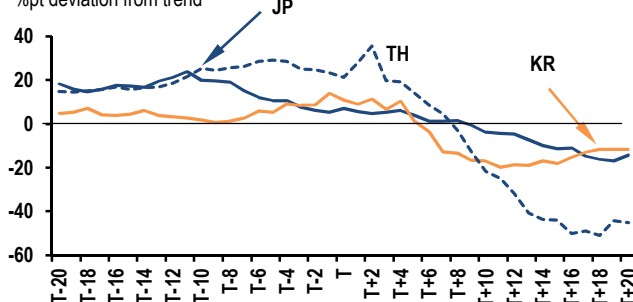
% GDP, crisis period



Source: IMF estimates; 1. Excludes liquidity assistance; Japan denotes period of recapitalization

**Figure 3: Credit gaps**

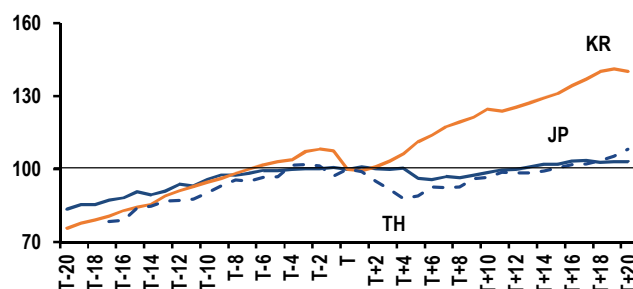
%pt deviation from trend



Source: BIS, J.P. Morgan; T defined as start of crisis

**Figure 4: Real GDP**

Index, T=100, sa



Source: National sources; T defined as start of crisis

Both Japan and Thailand/Korea experienced years of high credit growth before their crises, leading to widening credit gaps (Figure 3). Subsequently, with the onset of the crises, as defined by the BIS in 4Q92 in Japan, 3Q97 in Thailand, and 4Q97 in Korea, credit growth collapsed and credit gaps turned negative. However, the impact on growth was different: in Korea growth slowed sharply but GDP took only seven quarters to return to its pre-crisis peak, while Japan's growth already had been slowing ahead of the banking crisis and Thailand took 16 quarters to return to its prior GDP peak (Figure 4).

## A BOP-led liquidity shock in 1997/1998

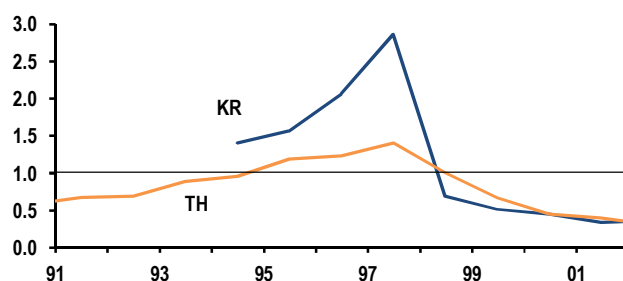
The genesis of the crisis in Asia was in the early 1990s when export-led development drove expectations of strong growth.

The prospect of strong growth and high returns prompted capital inflows into the region, helping fund current account deficits. With willing global creditors, domestic banks and companies were willing borrowers given the lower rates on foreign capital, largely denominated in USD, facilitated also by regimes of semi-fixed exchange rates, which implicitly guaranteed stability against currency fluctuations. The revenues of these domestic debtors were in the form of local currency even as their foreign liabilities tended to be short term and USD-denominated (see Kawai, M; Newfarmer, R; Schmukler, S. "[Crisis and contagion in East Asia: nine lessons](#)," World Bank Policy Research Working Paper 2610, and Hale, G. "[Could We Have Learned from the Asian Financial Crisis of 1997-1998?](#)" FRBSF Economic Letter 2011-06).

Thus, external debt in Thailand and Korea rose notably, as did domestic credit (Figure 5). However, there were notable differences between the two. Although Korea's short-term external debt had been much higher than Thailand's, Thailand's credit gap started at a higher point in 1996. In addition, the Chaebols had done much of Korea's external borrowing to build capacity in the tradable sector rather than to invest in the non-tradable sector, particularly real estate, as was the case in Thailand.

**Figure 5: Korea and Thailand short-term external debt**

Ratio, ST external debt to FX reserves



Source: IMF and WB

The slowing in trade flows during 1996/1997 led investors to reevaluate their investments, slowing capital flows and triggering a sudden stop, which exacerbated the downturn with a knock-on to solvency. In hindsight, the build-up of short-term external debt and the subsequent sudden stop and currency devaluations provided the primary catalyst for the economic shock.

And likely because of the different starting conditions, the subsequent recoveries were quite different. Korea's real GDP took only seven quarters to return to its pre-crisis level, led by a very competitive export sector aided by FX depreciation and a supportive external demand environment. In Thailand, FX depreciation did help the export sector but not enough to offset the drag from the non-tradable sector, and the GDP recovery took almost 16 quarters.

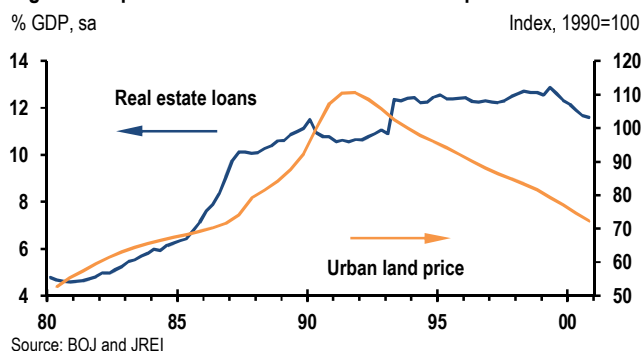


## Japan, the unintended consequences of an incomplete policy response

In Japan, the primary issue revolved around the solvency of the banking sector, and the policy response prolonged rather than shortened the crisis (see Fujii, M; Kawai, M, “[Lessons from Japan’s Banking Crisis](#),” ADBI Working Paper No. 222, June 2010, and Nakaso, H.; “[The financial crisis in Japan during the 1990s: how the Bank of Japan responded and the lessons learnt](#)” BIS Papers, No. 6.).

The crisis stemmed primarily from late-1980s optimism on the Japanese economy, which led to a surge in real estate loans, collateralized by land (Figure 6). Second, banks had incorporated unrealized gains on their holdings of common stock into the capital base, which eroded once share values declined. Once the perceptions of economic growth cooled and sentiment turned, the equity market crashed, followed by real estate prices, denting real estate asset values and cash flows. Moreover, banking sector capital, derived from unrealized equity gains, also came under pressure. The ensuing concerns around solvency of banking institutions further eroded confidence, leading a deterioration in funding conditions.

Figure 6: Japan real estate loans and urban land price



We draw two broad lessons from Japan’s experience. First, it is crucial to determine loan losses and quantify the size of the problem early on in the crisis. In Japan, the financial infrastructure relating to accounting, disclosures, and timely recognition of loan losses delayed the assessment of the loan losses. This meant that NPL recognition and the subsequent resolutions were similarly delayed. Second, the lack of a comprehensive financial sector safety net with clear protocols across various agencies and stakeholders slowed the allocation of public funds, undermining confidence with spillovers to other financial institutions.

## Lessons for China: Financial infrastructure and LOLR protocols

Over the past two years, China’s credit gap has narrowed, while the easing in borrowing costs has reduced the cash flow pressure on the corporate sector, with a likely positive impact on solvency (Figures 7 and 8).

Figure 7: China credit to non-financial sector

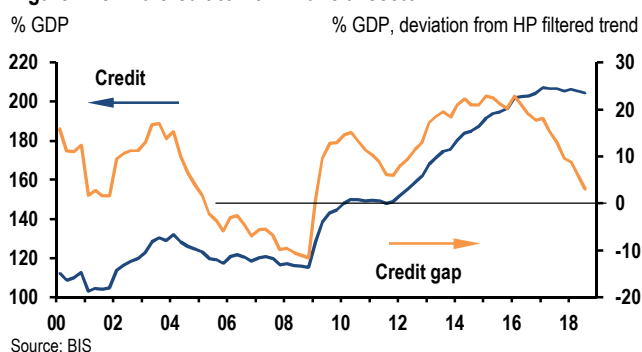


Figure 8: China RoA and 1-yr corporate lending rate

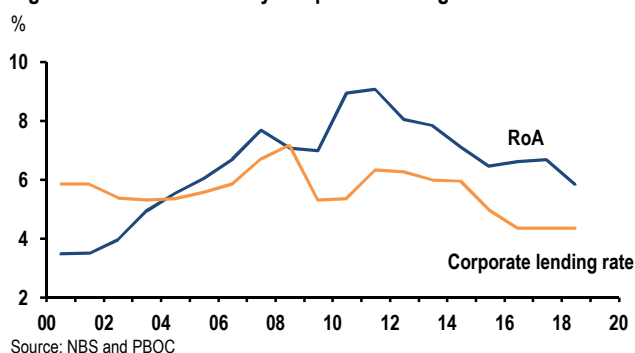
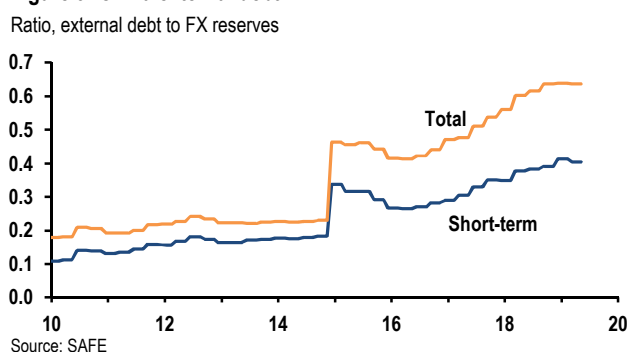


Figure 9: China external debt



Moreover, external liquidity risks look manageable, with short-term external debt at less than 40% of FX reserves, suggesting that rollover risks are not a concern (Figure 9). The sharp rise in external debt during 2014 reflected the inclusion of foreign-held local currency debt, that is, a change in methodology rather than a sudden rise in debt. By implication external liquidity risks appear manageable, with the evolution of the balance of payments and FX reserves key variables to watch. For these reasons, [China more closely parallels the experience of Japan](#) than that of countries caught up in the Asian crisis.

Thus, concern rests mainly on solvency and its impact on confidence, especially within the weaker links in the banking system, with a knock-on to funding markets. Indeed, the repercussions from the recent takeover of Baoshang Bank, an unlisted city commercial bank, highlight the need for financial stability, and the subsequent repricing of counterparty risk serves as a warning of the impact of uncertainty (Figure 10). This is the first time since 1998 that a commercial bank has been taken over with a *de facto* restructuring of its liabilities. In particular, smaller banks, which depend heavily on the wholesale market for funding, could face higher funding costs, especially given that 90% of China's interbank market consists of overnight funding (Figure 11).

Figure 10: China Negotiable Certificate of Deposit Spreads

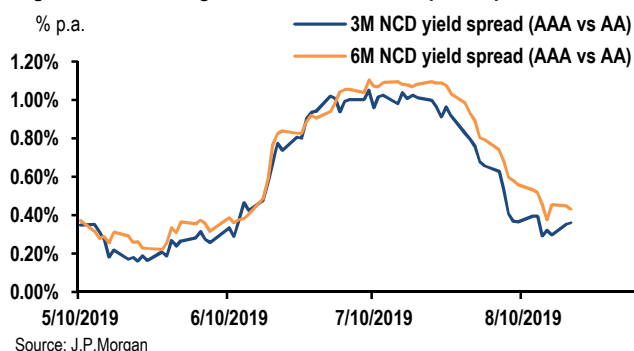
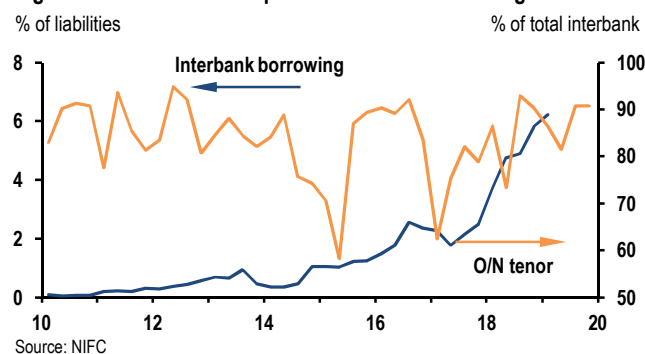


Figure 11: China rural co-op. bank interbank borrowing and tenor



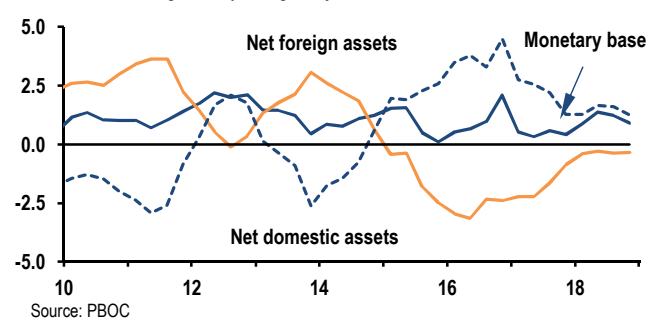
More broadly, the adaptive nature of the takeover of three banks this year—Baoshang Bank, which resulted in a *de facto* haircut for depositors; the consolidation of Jinzhou Bank with a large state-owned bank; and the acquisition of Heng Feng bank by Central Huijin, which incidentally played a key role in [bank recapitalization in the 2000s](#)—raises the question of whether a broader protocol exists for Lender of Last Resort and capital injections in China, especially if more medium-sized banks face solvency or liquidity pressures. A related question is whether the reporting infrastructure is timely enough to determine the size of NPLs in a manner that mitigates concerns around counterparty risk—especially pertinent for banks that rely heavily on wholesale funding markets.

## Being mindful of the broader macro context

Aside from issues around financial sector stability, we remain mindful of two broader macroeconomic risks in China: Growth and also the interaction between the balance of payments, the monetary base, and liquidity. [In past debt resolutions](#), the policy bias has been to grow out of the problem, relying on high growth rates to reduce the debt burden on the economy over time. However, with growth expected to slow over the medium term, it is not clear that this strategy will work as well in the future. In addition, while China's monetary framework continues to evolve, there is still a high reliance [on quantity rather than price signals](#). Indeed, in an environment where the PBOC has to juggle between a declining external surplus, keeping domestic liquidity conditions easy, and maintaining a broadly stable currency, it becomes apparent that the burdens placed on monetary policy have increased, reflected in the shifting composition of the monetary base toward net domestic assets (Figure 12). Moreover, given the escalation in trade tensions and the [currency response](#), the evolution of [capital flows and the balance of payments](#) will be important to watch given the knock-on to domestic liquidity.

Figure 12: China sources of adjusted monetary base

RMB trillion, change from year ago, adjusted for RRR



## Economic Research Note

# Brexit: Preparing for an early general election

- A detailed constituency-level analysis suggests Tories would be on track for a slim majority in a snap election
- Despite parties against a no-deal enjoying a larger share of the popular vote
- This would give the government a mandate for no-deal
- But the picture could yet change if moderate Conservative voters were to shift support to the Lib Dems

Since the change in Conservative Party leadership an early election at some point this year looks quite likely. The consequences could be more significant than any other in living memory: should parties open to a no-deal Brexit win, there would be a direct mandate from the electorate for that outcome which will boost the likelihood of a very hard Brexit. Even if there is no election prior to Brexit, understanding where public opinion is will influence how assertive the government is in pushing a no-deal. In this note we undertake a detailed analysis of the polling data to show how close we are to an election which produces a no-deal mandate. The first conclusion is one we have highlighted previously, i.e. that current polls suggest the Conservatives are on course for a slim majority as things stand. Given that subsequent changes in the polls could yet change the picture dramatically, we also set out some markers to gauge what kind of shift in the polls would be required to tip the balance in favor of parties against no-deal. Our second conclusion is that the most likely route to avoiding no-deal in an election scenario would be for moderate Conservative voters to switch support to the Liberal Democrats.

## Methodology: constituency-level analysis

Predicting UK election outcomes is hard. As with many other countries, the opinion polls can be inaccurate. But an added difficulty in the UK comes from its “first past the post” system. Seats are determined by the party with the largest number of votes in 650 parliamentary constituencies. The runner up receives no seats. This means that parties with very large support (like Labour or the Conservatives) or highly regionally concentrated support (like the SNP in Scotland) can pick up a lot of seats. We [recently](#) ran a simple aggregate model using opinion polls to map votes into seats. This suggested the Conservatives are on the cusp of an outright majority. Here we use a more sophisticated and granular approach which derives estimates by combining the polls with constituency-level data.

We start with a uniform swing model which takes the results of the last general election in 2017 (GE17) and then adjusts the results for each constituency according to how the opinion polls have suggested the vote share has changed since then. This is a common approach to electoral forecasting, and one which can also prove to be inaccurate. Uncertainty around such estimates may be even larger now as some parties (e.g. the Brexit Party) didn’t exist back in 2017. We hence take the additional step of applying a uniform swing analysis to the results of the UK’s European election earlier this year (EE19). This involves building on work undertaken by polling expert [Chris Hanretty](#) which transposes the regional results of the European election into the 650 constituencies used for general elections. The results of the two uniform swing approaches are quite different, and help to illustrate the uncertainty around electoral forecasts (Table 1).

## Current conclusion: slim no-deal victory

The polls might yet change significantly, but if an early election were called then our analysis based on recent polling suggests that parties willing to pursue a no deal would get a majority (Table 1)—and potentially without the Conservatives requiring support from the Brexit Party. This is the same result that emerged from our simpler aggregate model. Although we acknowledge the level of uncertainty highlighted by the two uniform swing approaches described above, Table 1 shows that in both cases the Conservatives are on course for a majority, which would likely require them gaining around 323 seats. The GE17 model is admittedly close to this threshold, but there would also be the possibility of support from the Northern Irish DUP party again—who picked up ten seats in 2017. The EE19 model suggests the Conservatives could win by a comfortable margin.

### Uniform swing election prediction

Based on 632 seats, excluding Northern Ireland

	Votes	Number of parliamentary seats		
	%	GE17	EE19	Average
<b>Pro no-deal</b>	<b>45.3</b>	<b>325</b>	<b>374</b>	<b>350</b>
Conservative	31.2	325	353	339
Brexit Party	13.5	0	21	11
UKIP	0.6	0	0	0
<b>Anti no-deal</b>	<b>54.1</b>	<b>301</b>	<b>248</b>	<b>275</b>
Labour	24.9	219	157	188
Liberal Democrat	18.3	32	35	34
SNP	3.8	50	56	53
Green	6.1	2	4	3
Plaid	0.8	4	6	5
Change UK	0.2	0	0	0
<b>Other</b>	<b>0.6</b>	<b>0</b>	<b>0</b>	<b>0</b>

Source: Gov.uk, Hanretty

One interesting conclusion from this analysis is that parties who are against no deal appear to have a majority of the electorate's vote share—by a margin of 54 to 45. But under the UK's first past the post system it is the no-deal parties that come out on top. This reflects the concentration of the vote for the Conservatives, and the division of the anti- no-deal vote among the other parties. This suggests the best strategy for no-deal campaigners is to push for an early election. For anti- no-deal campaigners, a referendum which records the popular vote would appear to be more effective.

## Marking out some key battle grounds

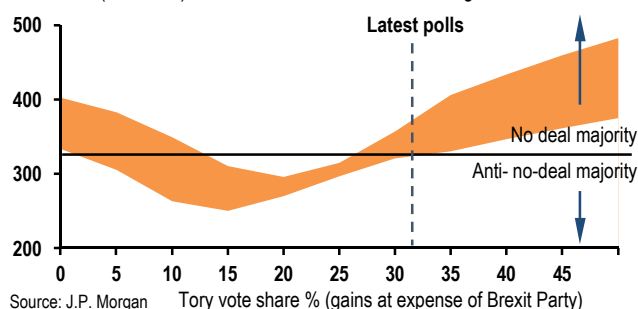
Given the scope for polling errors and a change in public opinion before then, below we lay out some markers to illustrate how our projections would change under alternative scenarios. We again use our uniform swing analysis to set out a range of projections. We do so by adjusting only two parties' voting shares at a time, while at the same time assuming support for other parties remains unchanged. While we cannot cover all permutations, there are three key party battle grounds that are worth paying particularly close attention to. The second may be the one that determines whether a no-deal mandate is avoided in an election scenario.

- No-deal voters spoilt for choice.** Voters who want to see Brexit at any cost are currently split between the Conservative and Brexit parties. The recent appointment of Johnson as leader and Prime Minister has persuaded many Brexit Party voters to come back to the Conservatives—putting the latter on course for an election victory. We estimate that any potential reversal of this trend would require Conservative support to drop below 28% for the no-deal vote to become sufficiently split that even a coalition between the two would fail to gain a majority (Figure 1). This threshold is low compared to current polling. But if anything the Conservatives look just as likely to see a further rise in support coming from Brexit Party losses.
- The homeless center-right moderates.** The Liberal Democrats were one of the beneficiaries of the Conservative's demise around the time of the European elections. But there are few signs that this trend has continued even though the Conservatives under Johnson have expressed greater willingness to pursue a no-deal if necessary. There may still be some moderate Conservative voters who are yet to jump ship, perhaps influenced by Johnson's claim that the chances of a no-deal are one in a million. But if this group were to balk at that prospect and vote Liberal Democrat instead, there would need to be a swing in the vote share between those two parties that takes Liberal Democrat support up by around 4%-pts to over 22% in order to stop a coalition in favor of no-deal forming (Figure 2). This might be attainable, for example, if Johnson ramps up no-deal rhetoric.

- Labour loyalists who fear no-deal.** Labour lost votes to the Liberal Democrats earlier this year owing to Corbyn's resistance to adopting an explicit remain policy. With Labour shifting gradually toward advocating remain, this may draw in more voters from the Liberal Democrats. We estimate that a boost to Labour from this source would need to see them polling over 30% to prevent a no-deal majority in parliament. This bar is high compared to Labour's current polling at 25%—which reflects the current strength of support for the anti- no-deal parties alongside a strong starting position for the Lib Dems. This route to a shift against no-deal will also be weakened if at the same time Labour's change in policy prompts some of its voters to defect to the Brexit Party.

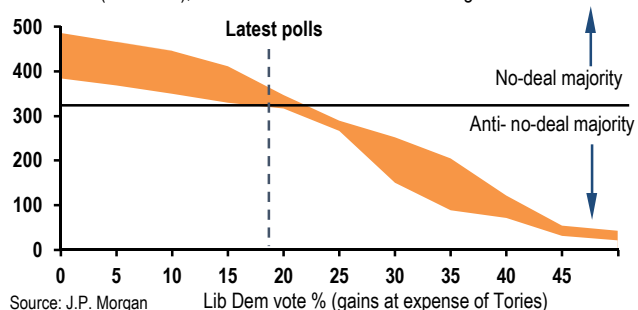
**Figure 1: Seats for no-deal parties vs. how their vote share is split**

Total seats (Con + BP), shaded band shows uniform swing vs. GE17 and EE19



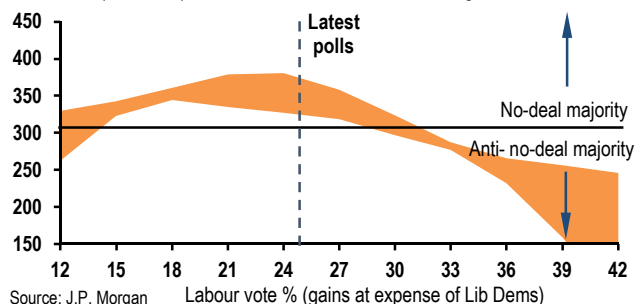
**Figure 2: Seats for no-deal parties vs. Tory losses to the Lib Dems**

Total seats (Con + BP), shaded band shows uniform swing vs. GE17 and EE19



**Figure 3: Seats for no-deal parties vs. Labour/Lib Dem vote split**

Total seats (Con + BP), shaded band shows uniform swing vs. GE17 and EE19



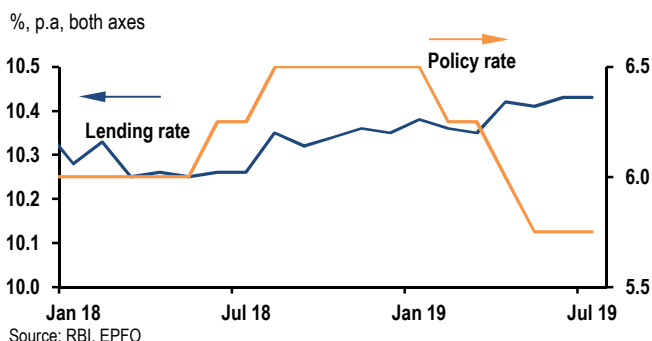
## Economic Research Note

# India: An implicit fiscal stimulus

- With growth under pressure, Indian policymakers have struggled to find fiscal space to respond to the slowdown
- A Committee recommended transferring 0.3% of GDP of RBI “surplus capital” to the government
- This constitutes an asset sale but is treated “above the line” in India
- Therefore, even as the fiscal deficit stays the same, the fiscal impulse for FY20 could rise to 0.3% of GDP

India is in the midst of a sharp economic slowdown. 2Q19 growth printed at a six year-low of 5.0%<sub>o</sub>ya and this was also the first time in seven years that growth has printed below 6% for two consecutive quarters. The real challenge is finding the optimal mix of counter-cyclical policy to fight the slowdown. Monetary policy has been eased by 110bp—and we see more easing in the pipeline—but its efficacy is limited for several reasons. First, monetary policy is transmitting slowly and incompletely. Banks’ lending rates on their outstanding loans have not been cut commensurately with the policy rate cuts (Figure 1). Part of this is because banks are reluctant to cut deposit rates because they must compete with government-administered rates that are not explicitly linked to policy rates.

Figure 1: Policy and lending rate

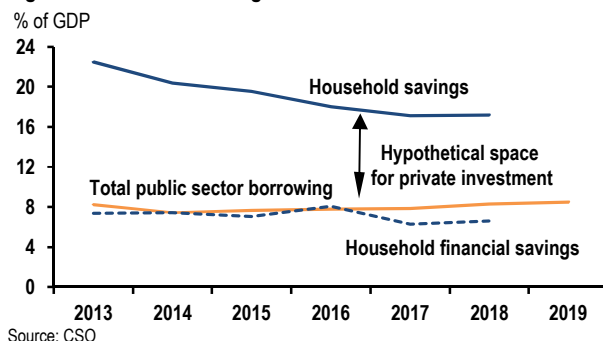


Second, a lower cost of capital will not alleviate many of the stresses in the economy, particularly asymmetric information in the shadow banking system and progressively worsening agrarian terms of trade.

Against this backdrop, the authorities ideally would deploy a counter-cyclical fiscal response but have no room because of a very adverse starting point. The total public sector borrowing requirement (PSBR) stands at 8%-9% of GDP, consuming all household financial savings and then some (Figure 2). This has resulted in a very steep yield curve and when markets began to expect some fiscal relaxation, bond yields sold off

25bp in a week, undoing all the bond-market transmission of the RBI’s most recent 35bp cut. Last week, the Finance Minister eschewed any fiscal stimulus when announcing sector-specific measures to fight the slowdown.

Figure 2: Household savings and PSBR

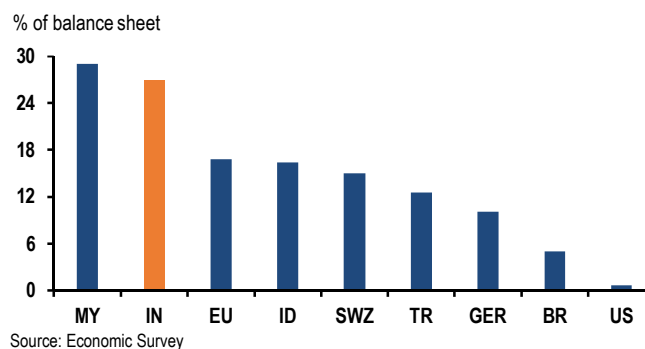


This week, however, the authorities may have caught a break. The RBI Central Board announced that—along with the usual annual profits being transferred to the government (which has been budgeted), it would undertake a one-time transfer of “surplus capital” on its balance sheet (which policymakers had not budgeted). We will argue that, even though we don’t expect the fiscal deficit to widen from the budget target, this one-time transfer effectively constitutes a fiscal stimulus, which has implications for growth and liquidity creation. This note discusses both the genesis and implications of the RBI’s transfer of “surplus capital” to the fiscal authorities.

## When in doubt ... set up a committee

The RBI is one of the most highly capitalized central banks in the world (Figure 3), with total capital at 28% of its balance sheet.

Figure 3: Central Bank's equity



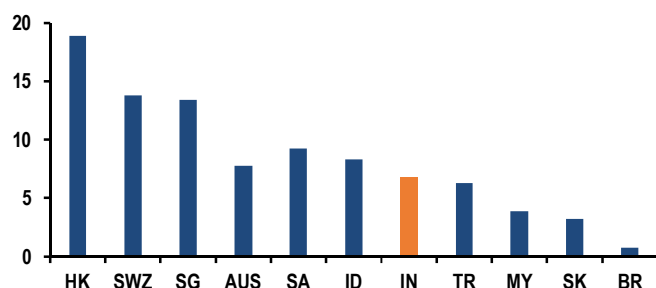
However, the bulk of this capital is “revaluation” reserves that accrued when market prices moved. In particular, the sustained depreciation of the rupee against the US dollar over the last eight years has meant that the domestic currency value of the RBI’s FX reserves increases, pushing up “revaluation re-



serves.” By contrast, “realized equity” (equity created through retained profits) is much lower at about 6.8% of the balance sheet. In a cross-country comparison the RBI’s realized reserves are in the middle of the pack (Figure 4).

Figure 4: Realized capital ratio

% of balance sheet



Source: Central Bank Equity: Facts and Analytics, Lahiri et al (2019)

Given the strength of the balance sheet, the fiscal authorities wondered whether the RBI needed to hold such hefty amounts of equity and why some couldn’t be transferred back to the fiscal authorities in the form of a special dividend. The government set up a six-member expert “Bimal Jalan Committee” in December to both review and propose suitable changes to the RBI’s capital framework.

### Committee recommended a one-time transfer of 0.3% of GDP

The Committee released its recommendations this week, opining that the RBI’s “realized equity”—as distinct from revaluation gains—should be 5.5%-6.5% of the RBI’s balance sheet, with the RBI Central Board deciding where in that range realized equity should stand every year. The current realized equity is 6.8% of the balance sheet and the Central Board decided to move to the lower bound of the range (i.e., 5.5% of the balance sheet). Consequently, the RBI had “excess capital” of about 0.25% of GDP, which will be transferred to the government this year. Importantly, the Committee noted that “revaluation reserves” are unrealized and therefore cannot be distributed.

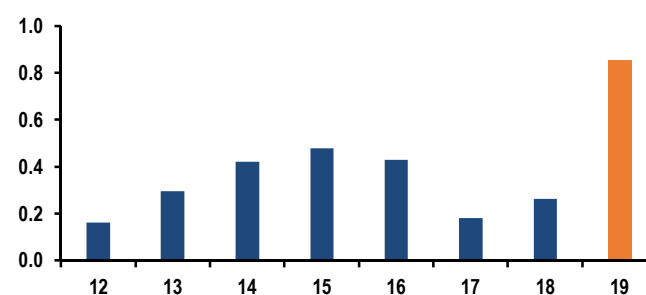
Together with the aforementioned excess capital—which can be thought as excess capital accruing on the previous “stock”—the typical Rs1.23 trillion (~0.6% of GDP) surplus accruing for the year 2018-19 will also be transferred to the government. The dividend is more than twice the level of previous years reflecting gains from (i) the large open market operation (OMO) purchases undertaken in 2018-19, (ii) FX swaps conducted in the year, and (iii) no further allocation of profits to reserves.

Consequently, the total amount due to be transferred will be Rs1.76 trillion or about 0.85% of GDP (Figure 5). Of this,

Rs280bn was already paid as an interim dividend earlier in 2019, and Rs900bn was budgeted in the July Budget. Therefore, it is the balance of Rs580bn (0.3% of GDP) that is above and beyond what had been budgeted and is the additional revenue that will accrue to the government for FY20.

Figure 5: RBI dividend transfer

% of GDP



Source: RBI

### Salient features of the Committee’s Recommendations

**Breakdown of the economic capital:** Most notably, the Committee clearly distinguished between “realized equity” (actual earnings) and “revaluation balances” (unrealized valuation gains/losses from market movements) noting that “realized equity could be used for meeting all risks/losses while revaluation balances could be reckoned only as risk buffers against markets risks and hence were not distributable.”

**Risk Provisioning for Market Risk:** The Committee recommended the adoption of a 99.5% confidence level expected shortfall (ES) under stressed conditions. That said, in view of the cyclical volatility of the RBI’s revaluation balances, a downward risk tolerance limit (RTL) of 97.5% CL was also articulated.

**Size of Realized Equity:** The Committee noted the RBI’s provisioning requirements for monetary, financial, and external stability risks. Consequently, the Committee recommended maintaining realized equity of 5.5%-6.5% of the RBI’s balance sheet. Further, any shortfall in revaluation balances vis-à-vis the market risk provisioning requirement would add to the requirement for the realized equity.

**Surplus distribution policy:** The Committee recommended a surplus distribution policy that targets 5.5%-6.5% realized equity. Only if realized equity is above 6.5% is the entire net income transferable to the government. If it is below 5.5% risk provisioning will be made to the extent necessary. With realized equity in the range of 5.5%-6.5% of the balance sheet, the Central Board will decide on the level of risk provisioning.

## Macroeconomic Implications

**Fiscal deficit:** On account of this one-time transfer, the fiscal authorities now have 0.3% of GDP more resources than was budgeted. In theory, this could be used to reduce the deficit. But we think this is highly unlikely, given revenue pressures and growth slowdown concerns. The budgeted tax-revenue growth of 15% (after adjusting for rate changes) is ambitious given that tax collection only grew 9% last year, and GDP growth is expected to slow further in FY20. Therefore, we expect that net tax collection could fall short by 0.5% - 1.0% of GDP. Consequently, the extra 0.3% of GDP in revenues accruing from the RBI transfer should be thought of as offsetting some of the tax revenue shortfall.

**Fiscal impulse and growth:** Importantly, even as the deficit target is not likely to change, the fiscal impulse will. Because the transfer (i) should be thought of as an asset sale (reduction in the government's equity in the RBI); and (ii) asset sales are considered above the line in India; and (iii) these asset sales will likely replace tax revenues that are contractionary, the fiscal impulse will change. In the July budget, the computed fiscal impulse (change in the fiscal deficit ex asset sales) was flat. However, if the entire transfer is used to substitute for undershooting tax collection, the fiscal impulse would increase commensurately by 0.3% of GDP (Table 1, scenario 1). In other words, even as the deficit stays the same, the fiscal impulse would be positive and potentially impart a 0.3% of GDP "stimulus" to the economy. However, this presumes other asset sale revenue targets are reached. If the target for disinvestment proceeds is not met, and RBI capital is used to substitute for that, the fiscal impulse will not change. Finally, on a more normative note, it's not clear whether these "asset sales" will be used to finance current expenditure (which is undesirable) or preserve capital expenditures (which, absent this transfer, would have been slashed), given the fungibility of funds.

**Table 1: Central Government fiscal balance (% of GDP)**

	FY19 Actual	FY20 Budget	FY20 Scenario 1
Net tax revenue	6.9	7.8	7.1
Non-tax (including RBI dividend)	1.9	2.1	2.4
Total revenue	8.8	9.9	9.5
Total expenditure	12.2	13.2	12.8
Fiscal deficit	-3.4	-3.3	-3.3
Asset sales	0.6	0.7	0.7
One-time RBI dividend			0.3
Fiscal deficit ex asset sales	-4.0	-4.0	-4.3

Source: Budget documents, J.P. Morgan

**Liquidity requirements and OMOs:** The 0.3% of GDP extra transfer immediately creates base money and inter-bank liquidity. Therefore, for whatever interbank liquidity target the RBI has in mind, this transfer will entail doing 0.3% of GDP less in open market operation purchases and/or FX purchases than would have otherwise been needed to create liquidity. Given the currency-in-circulation expectations for the second half of the fiscal year, some liquidity would have had to be created in any case. So this will not force the creation of "extra base money" but simply substitute for other forms of base money creation (i.e., OMO/FX purchases). From bond markets' perspective, while the higher-than-expected one-time transfer reduces fiscal slippage risks, it also reduces the number of OMOs for liquidity creation, which likely explains why bonds have sold off in recent days despite the one-time windfall to fiscal authorities.

**Future transfers:** The RBI Board was able to fully transfer the 2018-19 surplus because, even after doing so, the principles advocated by the Committee would be met (i.e., realized equity of 5.5%-6.5% of the balance sheet and market risk provisioning in the 97.5%-99.5% confidence interval of the expected shortfall under stressed conditions). However, after the one-time transfer, realized equity will be at the lower bound of 5.5% of GDP. Therefore, additional provisioning will have to be made to the tune of the growth of the balance sheet. This will have to be at least 5.5% of the increase in the balance sheet for 2019-20 and possibly more if market prices move such that the market risk provisioning falls below the 97.5% confidential interval. Therefore, the RBI will not be able to transfer the full surplus accrued in subsequent year to the fiscal authorities.

## The bottom line

In our view a modern Economic Capital Framework, which is transparent, rigorous, formula-based, and suitably cautious (i.e., revaluation reserves cannot be used for dividend distribution) is unambiguously positive, reducing policy and market uncertainty.

In the near term, the transfer of "surplus capital" will effectively act as a fiscal stimulus, because even though the fiscal deficit will not change, the fiscal impulse will be positive and potentially as much as 0.3% of GDP. This limits the downside risks to our 6.4% 2019-20 forecast. Qualitatively, however, because these proceeds constitute an asset sale (a reduction of government equity in the central bank) it's important the resources are deployed toward creating new assets (thereby making for an asset-swap) rather than be used to finance current expenditure.

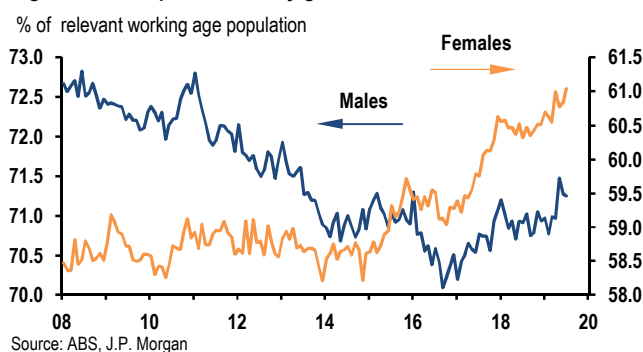
## Economic Research Note

# Australian labor supply: Demographic lags and NAIRU drags

- Australia's participation rate and employment to population ratio are now near all-time highs
- The shift in labor supply is concentrated among women and workers 65+ years
- Demographics have potentially lowered NAIRU by 40bp since 2010
- We still regard a large decline in the unemployment rate as unlikely and expect the RBA to ease further

One of the more surprising aspects of Australia's labor market in recent years has been the strength of the supply-side. This is most evident in the participation rate, which has moved higher through 2019 and is now tracking at a record 66.1%. Unsurprisingly, labor supply dynamics have become a recurring theme in RBA commentary, including last week's minutes, which highlighted the role of demographic shifts in shaping participation outcomes. Demographics and labor supply are important monetary policy considerations and, in our view, influenced the Bank's [recent admission that NAIRU is probably lower than previously thought and closer to 4.5%](#) (previous estimate: ~5%). Below we take a closer look at the factors driving participation and how these shifts may have impacted the Bank's estimate of NAIRU.

Figure 1: Participation rates by gender

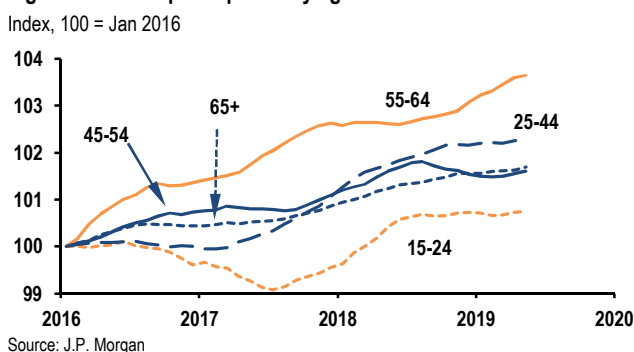


## Demographics matter

Female participation has been at the forefront of Australia's labor supply strength, climbing 3%-pts since 2015 and delivering the bulk of the participation increase over that period (Figure 1). Male participation trends are less striking, though the stabilization and modest recovery from 2016 is interesting

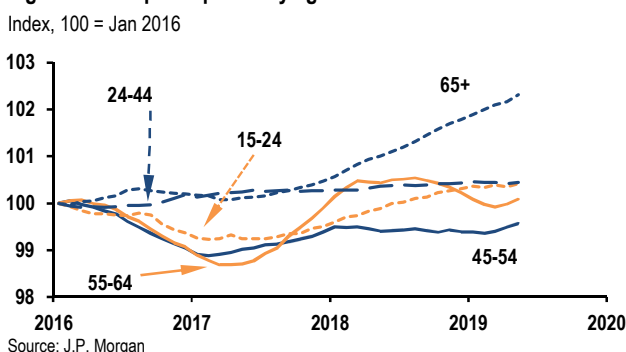
in that it arrests a 40-year down trend and broadly aligns with the shift in female participation, which hints at a broader labor supply story. A more granular look at these dynamics reveals that the lift in female participation has been reasonably broad-based across various age buckets (Figure 2). That said, there has been a clear outperformance among individuals within the 55-64 years age bracket, where the participation rate has increased near 4%-pts since 2016.

Figure 2: Female participation by age bracket



By contrast, labor supply growth among men has been narrowly concentrated in the 65+ years age bracket, where the participation rate has increased 3%-pts since January 2016, most of which has occurred in the past year (Figure 3). Interestingly, the indexed participation rate for males aged 45-54 is now below 100, meaning participation among the largest individual cohort of the working-age population is lower than it was three years ago. Participation across the remaining age brackets has drifted sideways or slightly lower in the past three years.

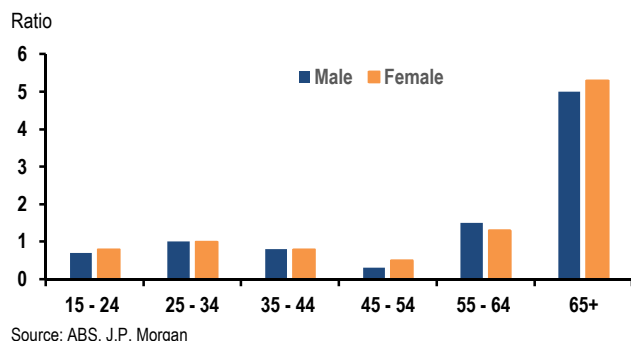
Figure 3: Male participation by age bracket



## Older workers punch above their weight

Another way to assess labor supply is to examine each group's contribution to working-age population growth relative to prevailing labor share. Figure 4 outlines these ratios from 2016 to the present. Ratios greater than 1 reflect a contribution to labor supply growth is larger than that group's labor share, while ratios below 1 indicate the contribution from a given group is less than what its labor share alone implies.

Figure 4: Contribution to labor supply vs. labor share



The most striking takeaway from Figure 4 is the outsized contribution of the 65+ years age bracket, where the contribution to labor force growth is, on average, five times larger than the group's labor force share. Specifically, stronger participation among males aged 65+ contributed 20% of the increase in aggregate labor supply since 2016, despite this group accounting for just 4% of the labor force. Female participation dynamics tell a similar story, with this group contributing 15% of the total change in labor supply, while comprising less than 3% of the labor force.

## Measuring demographic drags on NAIRU

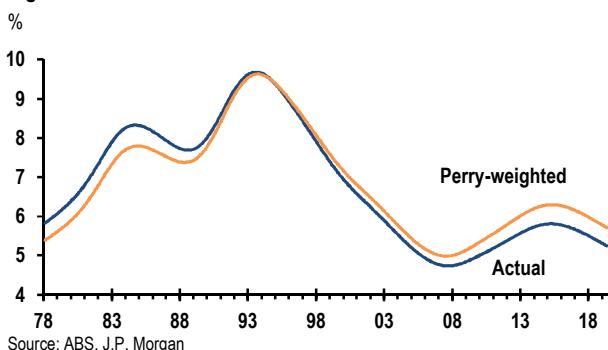
Over the past few years the RBA has expected strong employment growth and an aging population to exert modest downward pressure on the unemployment rate. While employment growth has proven robust, the unexpected strength in participation has meant labor demand and supply have remained somewhat evenly balanced and confined the unemployment rate to a narrow range.

Labor supply dynamics likely influenced the RBA's admission earlier in the year [that NAIRU is likely lower than initially thought and closer to 4.5%](#). The NAIRU is a theoretical concept and affected by numerous factors, so decomposing potential drivers is fraught with difficulty. However, it is generally accepted that demographics are among the most influential and observable reasons for changes in labor market dynamics. Age-based trends are particularly important since younger workers have structurally higher unemployment rates because older workers are more likely to exit the labor force when no longer working. The data support this bias as the average unemployment rate for the 15- to 24-years age bucket since 1980 is 13%, while the corresponding rate for 65+ years is 1.4%.

It follows that greater participation among older workers has pushed down NAIRU estimates. To measure this effect we follow [Perry's](#) approach and estimate a weighted unemployment rate using fixed age weights from a specified time peri-

od, in this case 1978 to 2010. We then apply a Hodrick Prescott Filter to the derived series, as well as the actual unemployment, to obtain proxy estimates for NAIRU. Figure 5 shows the results of this series. The wedge that has emerged between the two series captures the effect of rising participation among older workers on NAIRU estimates. Specifically, this exercise suggests that demographic changes have lowered NAIRU by 40bp over the past decade.

Figure 5: Simulated NAIRU rates



Recent RBA commentary (for example, see [here](#) and [here](#)) has suggested the supply dynamics outlined above have acted, alongside other factors, to prevent the economy from pushing up against capacity constraints, which in turn has kept a lid on wage growth. [In a recent note](#) we looked more closely at wage dynamics and found that the shape of the Phillips curve has not changed drastically since 2010, but there has been a clear shift lower such that wage growth is now lower for a given unemployment rate. We nominated a fall in inflation expectations as driving this move. But the observed fall in reservation wages of older workers could be a correlated development, to the extent that lower expectations for interest rates reduce expected retirement income. There is tentative empirical support for this view with participation rates for workers 65+ since 2016 recording the most meaningful increases in the 12-month period immediately following RBA rate cuts. Other factors supporting a shift toward higher participation among older workers include the insufficient pension fund balance of baby boomers, greater flexibility in work arrangements and an increasingly services-based economy.

Lastly, we note that demographics shifts occur only gradually and likely influenced the RBA's decision to lower its NAIRU estimate earlier this year. This note is therefore a partial explanation for the NAIRU revision, rather than an argument that the Bank's estimate needs to decline further.



## United States

- July GDP source data signal upside risk to our 1.5% 3Q forecast
- Business investment looks weak, but labor market has held up so far
- Consumer spending was solid through July, but sentiment declined in August
- We forecast 150k job growth in August and a tick down in the unemployment rate

Recent data reports continue to show depressed business sentiment along with weak business investment. Yet despite a downbeat run for these measures across much of the year to date, the labor market appears to be holding up reasonably well and consumer spending growth has been robust on net over recent months. We are still cautious that the weakness in business activity could start to more meaningfully spill over into other parts of the economy and we think that the recent escalations in trade tensions are an important downside risk to the outlook, but the economy seems to have maintained solid momentum through the middle of the year: real GDP increased 2.0% saar in updated 2Q data released by the BEA and we now see some upside risk to our 1.5% growth forecast for 3Q following a range of July source data released this past week.

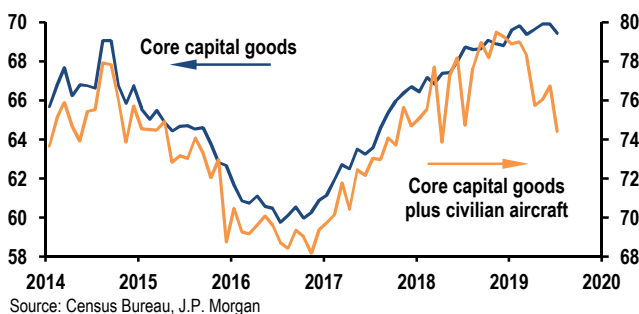
Of course, the Fed already eased policy in July even with GDP growth and job gains performing reasonably well, and more easing likely is ahead. The Fed clearly has been paying attention to a range of downside risks to the outlook and Chair Powell also recently noted that the easing in financial conditions (associated with increased expectations for Fed easing) has helped keep the outlook for inflation and employment favorable. So while our short-term views on growth have become a little more upbeat lately, we continue to think that the FOMC will cut rates by 25bp in September. We also still see risks of additional easing later on.

### Businesses can't shake the funk

The July durable goods report contained mixed news. The shipments data used to estimate equipment spending disappointed, with core capital goods shipments declining 0.7% in July and civilian aircraft shipments falling another 16.2% after earlier drops (Figure 1). With the relevant source data available to date, it is likely that real equipment spending will decline in 3Q. Inputs related to nonresidential structures investment also have looked weak lately and aggregate nonresidential fixed investment (incorporating equipment, structures, and intellectual property products) probably will decline again in 3Q. The BEA's updated 2Q GDP data continued to show real business investment down 0.6% saar and our updated forecast looks for a 1.0% decline in 3Q.

Figure 1: Key categories of manufacturing shipments

\$bn, sa, both scales

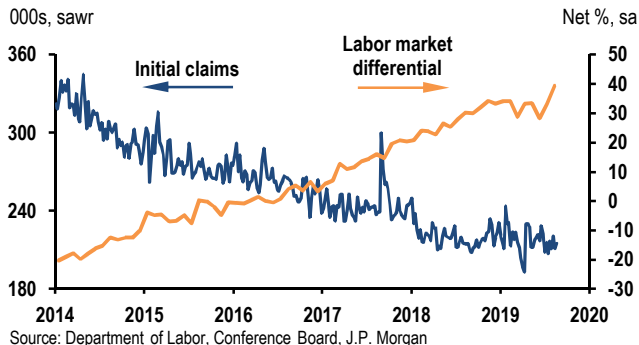


The weakness in business investment has coincided with a downbeat run for business sentiment. The business surveys have remained weak overall in August, although there have been mixed changes across the latest reports. Orders in the July durables report were stronger than expected, signaling that activity could pick up ahead. But given uncertainty on trade policy and downbeat business sentiment, we are not very hopeful of seeing near-term strength in investment.

### Labor market keeps rolling

A few business surveys have posted downbeat results on employment lately, but overall it seems that the labor market has held up well through the weakness in business fixed investment. Jobless claims filings continued to come in at reasonably favorable levels through the latest weekly report and the Conference Board's labor market differential jumped to a new high for the expansion in August (Figure 2).

Figure 2: Initial jobless claims and CB labor market differential



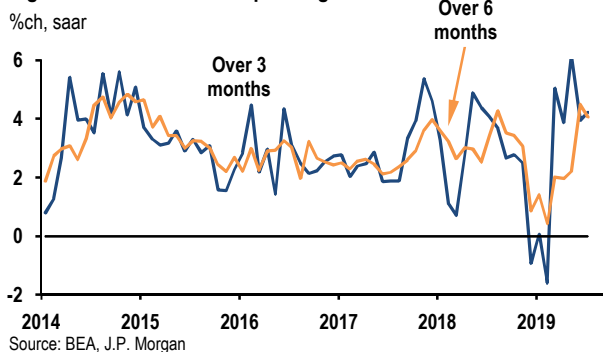
As usual, the upcoming BLS employment report will be an important gauge of the labor market. With several recent favorable signals, we think that nonfarm employment increased 150,000 in August and that the unemployment rate ticked down to 3.6%, returning to its low for the expansion.



## Strong consumption before sentiment drop

Real consumer spending increasing 0.4% in July, continuing a solid run for spending over the past several months (Figure 3). However, there are some signs that consumption will slow. Most importantly, several consumer sentiment measures have dropped in August relative to upbeat July levels. The link between sentiment and spending is not especially tight, but this drop in sentiment could signal that the factors that have been depressing business sentiment for much of the year are starting to weigh on consumers. Even with some moderation ahead, we still look for a solid spending gain in 3Q, with real consumption rising about 3.5% saar.

Figure 3: Real consumer spending



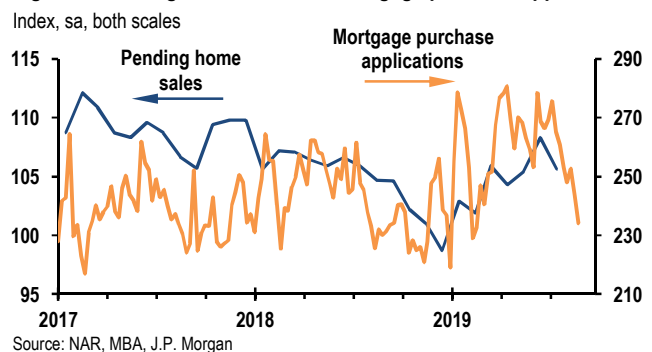
While solid consumer spending appears to be driving GDP growth again in 3Q, we also see less of a drag coming from trade and inventories during the quarter than we had previously assumed. The nominal goods deficit unexpectedly narrowed in July and the July gains in wholesale and retail inventories were stronger than expectations on net.

## Are home sales turning lower?

Mortgage rates have fallen by about 125bp since their recent highs last November and it looks like home sales have responded favorably to the drop in rates, with many related measures picking up to at least some degree since early this year. But there are some signs that the boost to demand from mortgage rates may be starting to fade, with some of the time-liest indicators of home sales weakening in recent reports. This past week, the pending home sales index—which leads existing home sales—fell 2.5% in July and the slide in mortgage purchase application volumes that began early in July has now continued through most of August (Figure 4).

Real residential investment had been declining through 2Q (including a downward-revised 2.9% drop reported for 2Q), even with the recent firming in sales. We had thought that this aggregate measure of housing market activity would pick up at some point given the large decline in rates, but the recent indicators signal that we may see some softening ahead. That said, the housing data can be noisy, so we are not entirely convinced that sales are weakening in a meaningful way.

Figure 4: Pending home sales and mortgage purchase applications



## Profits pick up in 2Q

Corporate profits beat expectations in 2Q, jumping 5.3% saqr during the quarter (2.7%oya). This solid growth provided a respite from what had been a downward trend in profits (and profit margins). Nevertheless, one strong quarter does not make a trend—especially for a series as choppy as profits—and we still think that declining margins could signal that we are getting closer to the end of the expansion. Margins are part of the “background risk” that we build into some of our recession risk models, and this so-called background risk is adding about 12%-pts to our perceived probability that a recession will begin over the next year. Incorporating this background risk and signals from a range of other economic indicators, our preferred model of recession risk currently shows a 46% chance that a recession begins over the next 12 months.

## Core PCE still short of target

Month-to-month changes in inflation don’t seem to be especially important for monetary policy right now, but below-target inflation gives the Fed the option of easing policy based on growth concerns. In the July PCE report, the headline PCE price index was up 1.4%oya (0.2%m/m) while the core PCE deflator rose 1.6%oya (0.2%m/m).

## Payrolls and more

Friday’s employment report should be the main event next week, but there also should be interest in the August auto sales data along with the August ISM reports. Powell also is set to make some remarks in Zurich on Friday. While his views on policy probably haven’t changed much since his recent speech at Jackson Hole, this does provide a chance to update the Fed’s messaging ahead of the blackout period associated with the September FOMC meeting. We’ll also be watching news on trade policy, with the US and China both currently (as of our writing) threatening to implement tariffs on September 1.

## Data releases and forecasts

### Tue Markit manufacturing PMI

Sep 3 Index, sa

9:45am

	Jun	Jul	Flash Aug	Final Aug
Composite <sup>1</sup>	50.6	50.4	49.9	<u>50.0</u>
New orders (30%)	51.5	51.7	49.5	
Output (25%)	51.2	50.5	50.6	
Employment (20%)	50.8	49.8	56.6	
Sup. del. (15%, inv.)	49.4	49.7	49.5	
Stks of purch (10%)	46.7	48.0	48.5	
New export orders	51.4	49.2	46.1	
Backlogs of work	50.9	48.2	55.6	
Output prices	51.7	53.3	54.7	
Input prices	52.9	51.4	58.5	
Stocks of finished goods	49.1	49.4	50.8	
Quantity of purchases	50.4	48.8	58.7	
ISM-weighted composite <sup>2</sup>	50.1	50.1	56.8	

1. Weights in parentheses

2. Attributes ISM-composite weights (equal weights) to corresponding PMI series

We look for the Markit manufacturing PMI's headline composite to be revised up from 49.9 to 50.0 between the flash and final August reports, representing a 0.4pt decline relative to the final July reading. The flash report showed the headline measure at its lowest level since September 2009. While many manufacturing indicators have been weak lately, some have not been as downbeat as the recent PMI data, so we look for a modest upward revision in the upcoming report.

### Tue ISM manufacturing survey

Sa

10:00am

	May	Jun	Jul	Aug
Overall index	52.1	51.7	51.2	<u>51.5</u>
Production	51.3	54.1	50.8	
New orders	52.7	50.0	50.8	
Inventories	50.9	49.1	49.5	
Employment	53.7	54.5	51.7	
Supplier deliveries	52.0	50.7	53.3	
Export orders	51.0	50.5	48.1	
Imports	49.4	50.0	47.0	
Prices	53.2	47.9	45.1	

We believe that the ISM manufacturing survey's headline composite inched up 0.3pt to 51.5 in August. There have been mixed changes across the August manufacturing survey data released so far, but on net the regional survey data have improved a bit during the month and the ISM survey has been tracking an aggregate of the regional data pretty well lately. The relationship between the ISM survey and the national Markit manufacturing PMI has been looser, and we think that the ISM survey will improve in August despite weakening reported in the flash PMI release.

Sources: ADP/Moody's Analytics, BEA, BLS, Census Bureau, Conference Board, Department of Labor, Federal Reserve Board, ISM, J.P. Morgan forecasts, NAHB, NAR, NFIB, NY Fed, Markit, Philadelphia Fed, Standard & Poor's, University of Michigan, US Treasury

### Tue Construction spending

Sep 3 %m/m, sa

10:00am

	Apr	May	Jun	Jul
Nominal	0.9	-0.5	-1.3	<u>0.4</u>
Private	0.0	-0.3	-0.4	<u>0.3</u>
Residential	0.9	0.0	-0.5	<u>0.7</u>
Nonresidential	-1.1	-0.6	-0.3	<u>-0.2</u>
Public	3.6	-1.2	-3.7	<u>-0.9</u>

We estimate that nominal construction spending increased 0.4% in July. Spending on new residential construction has been trending lower for about a year but our mapping of related housing starts data signals that things could pick up in July. We believe that new residential construction spending rose 0.8% and that overall private residential construction spending—which also includes home improvements—increased 0.7%. Private nonresidential construction spending has been trending lower in recent months and we look for a continuation of this downward trend into July with some moderation in the pace of decline; we forecast that private nonresidential construction spending declined 0.2% during the month. Public construction spending surged for a few months through April before dropping part of the way back down in May and June. This series can be very noisy, and we look for a 0.9% increase in public construction spending in July to reverse some of the recent declines.

The upcoming report also will contain annual revisions, with seasonally adjusted data subject to revision back to January 2008 and unadjusted data subject to revision back to January 2013.

### Wed International trade

Sep 4 \$billion, samr

8:30am

	Apr	May	Jun	Jul
Balance(BOP basis)	-51.2	-55.3	-55.2	<u>-53.5</u>
Services	20.5	20.6	20.0	<u>19.8</u>
Merchandise	-71.7	-75.9	-75.1	<u>-73.3</u>
Exports (%m/m)	-2.4	2.1	-2.1	<u>0.3</u>
Imports (%m/m)	-2.2	3.3	-1.7	<u>-0.4</u>

We forecast that the nominal trade balance narrowed from -\$55.2bn in June to -\$53.5bn in July. The advance trade report already showed narrowing in the nominal goods deficit that we also think will be evident in the full trade report for July. With price data released separately, we also look for narrowing in the real goods deficit in July, with real goods exports increasing 0.6% and real goods imports falling 0.7%. The trends in nominal services flows have been soft in recent months and we expect that to continue through July with exports declining 0.3% and imports about unchanged.

### Wed Motor vehicle sales

Sep 4 Millions, saar

	May	Jun	Jul	Aug
Light trucks and autos	17.4	17.1	16.8	<u>16.6</u>
Imports	3.8	3.8	3.8	
Domestics	13.6	13.4	13.0	
Autos	3.6	3.5	3.4	
Light trucks	10.0	9.8	9.7	

We look for light vehicle sales of 16.6mn saar in August based on available industry guidance. If realized, this would be the third straight monthly decline in the unit sales figures.

**ADP employment**

Change from month ago, sa

	May	Jun	Jul	Aug
ADP	46	112	156	
BLS private payroll	81	179	148	

Last month, the ADP employment report showed that private payrolls increased by 156,000 in July, a result very close to the BLS's estimate of private job growth of 148,000. While the ADP and BLS data looked similar last month, the ADP report has not proven to be a reliable predictor of the BLS data over time.

**Jobless claims**

Thousands, sa

	<b>New claims (wr.)</b>		<b>Continuing claims</b>		<b>Insured Jobless, %</b>
	<b>Wkly</b>	<b>4-wk avg</b>	<b>Wkly</b>	<b>4-wk avg</b>	
Jun 22	229	222	1696	1689	1.2
Jun 29	222	223	1728	1696	1.2
Jul 6	208	219	1689	1702	1.2
Jul 13 <sup>1</sup>	216	219	1677	1698	1.2
Jul 20	207	213	1699	1698	1.2
Jul 27	217	212	1687	1688	1.2
Aug 3	211	213	1728	1698	1.2
Aug 10	221	214	1676	1698	1.2
Aug 17 <sup>1</sup>	211	215	1698	1697	1.2
Aug 24	215	215			
Aug 31	<u>215</u>	<u>216</u>			

1. Payroll survey week

We forecast that initial jobless claims held at 215,000 during the week ending August 31. The trend has been fairly steady around this level in recent weeks through some noise in the weekly figures and we look for a continuation of this roughly-sideways trend through the upcoming report.

**Productivity and costs**

Nonfarm business sector, %q/q, saar, unless noted

	<b>Rev 1Q19</b>	<b>Prel 2Q19</b>	<b>Rev 2Q19</b>
Productivity	3.5	<u>3.5</u>	2.3
%oya	1.7	<u>1.7</u>	<u>1.8</u>
Output	3.9	<u>3.9</u>	1.9
%oya	3.2	<u>3.2</u>	<u>2.6</u>
Hourly compensation	9.2	<u>9.4</u>	4.8
%oya	3.2	<u>3.2</u>	<u>4.4</u>
Unit labor costs	5.5	<u>5.7</u>	2.4
%oya	1.5	<u>1.6</u>	<u>2.5</u>
Hours	0.4	<u>0.4</u>	-0.4
%oya	1.5	<u>1.5</u>	<u>0.8</u>

With revisions to nonfarm output and compensation modest in the latest GDP report, we expect related revisions to the productivity and costs data to be pretty uneventful. We think that 2Q productivity growth will be unrevised at 2.3%q/q, saar and 1.8%oya after rounding. We also think that 2Q unit labor cost growth will be unrevised at 2.5%oya after rounding, but we expect a modest upward revision to the quarterly change reported for 1Q (from 5.5% to 5.7% saar) and a modest downward revision to the quarterly change reported for 2Q (from 2.4% to 2.3% saar).

**Markit services PMI**

Index, sa

	<b>Jun</b>	<b>Jul</b>	<b>Flash Aug</b>	<b>Final Aug</b>
Business activity	51.5	53.0	50.9	<u>51.0</u>
Incoming new business	52.7	54.1	51.1	
Employment	52.3	52.5	50.2	
Business expectations	58.7	54.3	74.2	
Input prices	53.2	52.7	49.4	
Prices charged	51.9	50.4	48.3	
Backlogs of work	51.8	52.7	47.8	

We look for the headline activity index in the Markit services PMI to be revised up from 50.9 to 51.0 between the flash and final August reports, showing a 2.0pt drop relative to the final July reading. Some of the regional service sector surveys that have been released for August are not as downbeat as the figures from the flash August PMI, so we expect a bit of an upward revision to the PMI in the upcoming report.

**ISM non manufacturing survey**

Sa

	<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>
Nonmfg. index (NMI)	56.8	55.1	53.7	<u>53.5</u>
Business activity	61.2	58.2	53.1	
New orders	58.6	55.8	54.1	
Employment	58.1	55.0	56.2	
Prices	55.4	58.9	56.5	

We forecast that the ISM nonmanufacturing survey's headline composite declined from 53.7 in July to 53.5 in August. This index already has fallen sharply in recent months and we look for continued deterioration in the August report given downbeat news already released for the month in the flash services PMI.

Sources: ADP/Moody's Analytics, BEA, BLS, Census Bureau, Conference Board, Department of Labor, Federal Reserve Board, ISM, J.P. Morgan forecasts, NAHB, NAR, NFIB, NY Fed, Markit, Philadelphia Fed, Standard & Poor's, University of Michigan, US Treasury

**Factory goods report**

Thu Sep 5 10:00am %m/m, sa, unless noted

	Apr	May	Jun	Jul
New orders	-1.2	-1.3	0.6	<u>1.1</u>
Shipments	-0.6	0.1	0.4	<u>-0.5</u>
Inventories	0.2	0.2	0.2	<u>0.3</u>
Inventory/sales ratio	1.37	1.38	1.38	<u>1.39</u>

We estimate that new orders for factory goods increased 1.1% in July while related shipments declined 0.5% and inventories rose 0.3%. We already have seen that orders for durable goods jumped 2.1% in July while related shipments dropped 1.1% and inventories rose 0.4%. For the data on nondurable goods, we look for 0.1% increases in orders, shipments, and inventories. The industrial production report showed a drop in the volume of manufacturing output related to nondurables in July but prices from some nondurable products jumped during the month, so we look for small increases in the upcoming report containing nominal data.

**Labor-market report**

Fri Sep 6 8:30am Sa

	May	Jun	Jul	Aug
Payroll employment (ch, m/m, 000s)	62	193	164	<u>150</u>
Private payrolls	81	179	148	<u>135</u>
Goods-producing	5	29	15	<u>5</u>
Construction	1	18	4	<u>10</u>
Manufacturing	2	12	16	<u>0</u>
Service-providing	57	164	149	<u>145</u>
Private service-providing	76	150	133	<u>130</u>
Wholesale trade	5	-1	7	
Retail trade	-12	-7	-4	
Professional services	21	38	38	
Temporary help	-2	-1	2	
Education/health	34	57	66	
Leisure and hospitality	12	7	10	
Government	-19	14	16	<u>15</u>
Average weekly hours	34.4	34.4	34.3	<u>34.3</u>
Index, hrs worked (%m/m)	0.1	0.2	-0.2	<u>0.1</u>
Hourly earnings (%m/m)	0.3	0.3	0.3	<u>0.2</u>
(%oya)	3.1	3.1	3.2	<u>3.0</u>
Unemployment rate (%)	3.6	3.7	3.7	<u>3.6</u>
Participation rate (%)	62.8	62.9	63.0	

We forecast that nonfarm employment increased 150,000 in August while the unemployment rate ticked down to 3.6%. We see mixed signals regarding the August employment report and overall expect August job growth to come in reasonably close to the trend that has been reported for recent months. Business sentiment has dropped off throughout much of the year and some of the employment indexes in the August business surveys were downbeat, suggesting that the labor market should weaken. But jobless claims data have been solid lately, including upbeat readings shown for the reference week for the August employment report, and the Conference Board survey's labor market differential was very strong in August.

Sources: ADP/Moody's Analytics, BEA, BLS, Census Bureau, Conference Board, Department of Labor, Federal Reserve Board, ISM, J.P. Morgan forecasts, NAHB, NAR, NFIB, NY Fed, Markit, Philadelphia Fed, Standard & Poor's, University of Michigan, US Treasury

In the main industry categories, we look for the goods sector to add 5,000 jobs in August. This increase should come from the construction sector as we look for the recent weakening in the mining industry to continue through August (-5,000 jobs) and we expect little change in manufacturing employment following solid growth during the past couple of months. For the private service sector, we forecast that employment increased by 130,000 in August, which would be a result fairly close to the recent average monthly change. We also look for government employment to increase by 15,000 in August. There has been solid growth reported in recent months so there is the potential for some moderation in the August report. But we also think that temporary decennial census hiring could pick up a bit in August with the launch of address canvassing (we don't have precise estimates about the monthly employment patterns associated with the decennial census, but [we expect](#) the bulk of the temporary hiring to occur next year based on past patterns).

Elsewhere in the establishment survey, we believe that average hourly earnings rose 0.3% in August. Earnings should keep trending higher over time given the tightness in the labor market, but the pace of appreciation has cooled lately. If our forecast is correct, the 12-month change in earnings should slow from 3.2% in July to 3.0% in August. We also look for the average workweek to hold at 34.3 hours between July and August. While job growth has been somewhat resilient in the face of declining business confidence, the workweek has moved down lately, and we think it will stay on the low end of the recently reported range in August. Given our expectations for job growth and the workweek, we think that the aggregate hours index will tick up 0.1%.

In the household survey, we believe that the unemployment rate will decline from 3.7% in July to 3.6% in August. The Conference Board survey's labor market differential looked very upbeat in August, hitting a clear new high for the expansion in the data that have already been released. Given the tendency for this measure and the unemployment rate to move in similar manners (inversely), we think that the unemployment rate will return to its low for the expansion in the August report.

**Review of past week's data**

**Durable goods (Aug 26)**

%m/m, sa

	May	Jun	Jul	
New orders	-2.3	-4.9	1.8	<u>1.0</u> 2.1
Ex transportation	0.4	-4.0	0.8	<u>0.2</u> -0.4
Nondef cap. gds ex air	0.2	-4.5	0.9	<u>0.6</u> 0.4
Shipments	0.5	-4.3	1.0	<u>0.2</u> -1.1
Nondef cap. gds ex air	0.4	-0.3	0.0	<u>0.4</u> -0.7
Inventories	0.5	0.3		

New orders for durable goods increased 2.1% in July while related shipments fell 1.1%. The headline orders reading beat expectations but the aggregate shipments data disappointed, and key subcategories of orders also were above expectations in July while key categories of shipments disappointed. Overall, the GDP source data related to equipment spending are off to a weaker-than-anticipated start in 3Q, and we see downside



risk to our estimate that real equipment spending will be up 5.0% saar during the quarter. That said, it is very early in terms of the 3Q data cycle, and recent strength in orders suggests that shipments could pick up in the coming months.

The 2.1% increase in durable goods orders was lifted in part by a 47.8% jump in civilian aircraft orders along with a 15.7% increase in defense orders. Aircraft orders have surged in the past two months relative to a depressed May level, but the July total for aircraft orders (\$10.6bn) was still below the norms that had preceded the 737 MAX issues. The July increase in defense orders undid only a portion of the drop reported over the prior two months. For the more important series on core capital goods—which excludes aircraft and defense—orders increased 0.4% in July. The trend in core orders has been decent in recent months (6.1% saar over the past three) even with downward revisions to the monthly growth rates reported for May and June in the July report.

The trend in core capital goods shipments has been soft lately, with shipments declining 0.7% samr in July and down 1.1% saar over the most recent three months (including a downward revision to the June reading). Civilian aircraft shipments have been even more downbeat lately, falling 16.2% in July to their lowest level (\$9.3bn) since 2011.

#### S&P/Case-Shiller home price index (Aug 27)

%oya, unless noted

	Apr	May	Jun	
20-city composite	2.5	2.4	<u>2.4</u>	2.1
%m/m, sa	<u>0.0</u>	0.1	<u>0.2</u>	0.0
10-city composite	2.3	2.2		1.8
National	3.5	3.4	3.3	3.1

#### FHFA home price indexes (Aug 27)

purchase-only

	Apr	May	Jun			
%oya	5.4	<del>5.0</del>	5.2	<del>5.0</del>	4.7	
%m/m (sa)	0.4	<del>0.4</del>	0.2	<del>0.4</del>	0.1	
	4Q18	1Q19	2Q19			
All-transactions (%q/q, nsa)	<del>0.4</del>	0.5	<del>0.9</del>	1.0	<del>1.6</del>	1.8
%oya	6.1	6.1	<del>5.5</del>	5.6	<del>4.6</del>	5.0
Purchase-only (%q/q,sa)	<del>1.2</del>	1.3	<del>1.4</del>	1.3	<del>0.9</del>	1.0
%oya	<del>5.9</del>	6.0	<del>5.4</del>	5.4	<del>4.9</del>	5.0

In separate reports, the Case-Shiller 20-city composite house price index was basically unchanged in June (samr) while it increased 2.1% oya, and the FHFA house price index ticked up 0.1% samr, bringing this measure up 4.7% oya. While the monthly readings differed somewhat from expectations, the broad message from these reports was close to expectations and continued the trends in the data that we have seen for over a year—prices keep rising over time, but the pace of appreciation has moderated noticeably. The year-ago change in the Case-Shiller index hit its softest reading since August 2012 in the June report while the year-ago change in the FHFA measure was the lowest since January 2015. A variety of home sale measures have firmed since early this year, and it is likely that the drop in mortgage rates relative to late-2018 has helped boost activity in the housing market. However, the increase in housing demand coming from lower mortgage rates doesn't seem to have been enough to prevent house price appreciation from slowing.

#### Consumer confidence (Aug 27)

Sa

	Jun	Jul		Aug	
Conference Bd index	124.3	<del>135.7</del>	135.8	<del>131.0</del>	135.1
Present situation	164.3	170.9			177.2
Jobs plentiful	44.0	<del>46.2</del>	45.6		51.2
Jobs hard to get	15.8	<del>12.8</del>	12.5		11.8
Labor mkt diff	28.2	<del>33.4</del>	33.1		39.4
Expectations	97.6	<del>112.2</del>	112.4		107.0

The Conference Board consumer confidence index slipped from 135.8 in July to 135.1 in August. While sentiment cooled somewhat in August, this latest figure was above expectations and showed less of a drop in confidence than recent data released in separate measures of sentiment reported by the University of Michigan and Bloomberg. While recent news on markets and trade policy probably has been weighing on consumer confidence, it is likely that this relative outperformance of the Conference Board data is related to the survey's emphasis on the labor market, which appears to be performing well. Along these lines, the Conference Board survey's labor market differential—calculated as the share of responses reporting jobs plentiful less the share reporting jobs hard-to-get—jumped from 33.1 in July to 39.4 in August, coming in more than five points above its previous high for the expansion (34.2 in November 2018). We have seen weakness in some labor market indicators lately, but the initial claims data and the Conference Board's labor market differential paint a very upbeat picture of recent conditions in the job market. Other details of the Conference Board survey were mixed, but generally softer than the data on the labor market.

#### International trade (adv.) (Aug 29)

\$bn, samr, unless noted

	May	Jun	Jul	
Balance of goods, Cen.	-74.8	-74.2	<u>-75.3</u>	-72.3
Exports (%samr)	3.1	-2.7	<u>-0.1</u>	0.7
Imports (%samr)	3.9	-2.1	<u>-0.6</u>	-0.4

The nominal goods trade balance narrowed from -\$74.2bn in June to -\$72.3bn in July, with exports increasing 0.7% and imports declining 0.4%. This contrasted with expectations for widening in the deficit in July, and the 3Q trade data are now off to a stronger-than-anticipated start. We had previously thought that net exports would subtract about a half point from growth in 3Q, but now it looks like trade will be closer to neutral for growth during the quarter (with limited hard data reported so far).

#### Business inventories (adv.) (Aug 29)

%m/m, sa, unless noted

sa, unless noted	May	Jun	Jul		
Wholesale	0.4	0.0	0.2	0.2	
Retail inventories	0.3	-0.3	<u>-0.4</u>	0.8	
Ex autos	0.2	<u>-0.4</u>	-0.2	<u>-0.1</u>	0.3
Autos	0.4	-0.5	<u>-0.9</u>	1.6	

The July inventory data came out above expectations on net, with nominal wholesale inventories rising 0.2% and nominal retail inventories jumping 0.8%. We still think that the change

Sources: ADP/Moody's Analytics, BEA, BLS, Census Bureau, Conference Board, Department of Labor, Federal Reserve Board, ISM, J.P. Morgan forecasts, NAHB, NAR, NFIB, NY Fed, Markit, Philadelphia Fed, Standard & Poor's, University of Michigan, US Treasury



in inventories will moderate between the second and third quarter, but the expected inventory correction should be somewhat more modest than we had previously assumed.

### Gross domestic product (Aug 29)

%ch, q/q, saar, unless noted

	1Q19	Adv 2Q19	Sec 2Q19	
Real GDP	3.1	2.1	<u>1.9</u>	2.0
Final sales	2.6	3.0	<u>2.9</u>	3.0
Domestic final sales	1.8	3.5	<u>3.6</u>	
Consumption	1.1	4.3	<u>4.5</u>	4.7
Equipment	-0.1	0.7	<u>0.1</u>	0.7
Intellectual property	10.8	4.7	<u>4.7</u>	3.7
Nonres. structures	4.0	-10.6	<u>9.6</u>	-9.4
Residential investment	-1.0	-1.5	<u>2.5</u>	-2.9
Government	2.9	5.0	<u>4.6</u>	4.5
Exports	4.1	-5.2	<u>6.0</u>	-5.8
Imports	-1.5	0.1	<u>0.2</u>	0.1
Inventories (ch, \$bn)	116.0	71.7	<u>64.1</u>	69.0
Net exports-pct.pt.contr.	0.7	-0.6	<u>-0.7</u>	
Inventories-pct.pt.contr.	0.5	-0.9	<u>-1.0</u>	-0.9
Core PCE price index	1.1	1.8		1.7
(%oya)	1.6	1.5		1.5
GDP chain price index	1.1	2.4		2.4
(%oya)	2.0	1.8		1.8
Adj. corporate profits	-3.8		<u>2.4</u>	5.3
(%oya)	-2.2		<u>-0.1</u>	2.7

The revision to 2Q growth was pretty close to expectations, with headline real GDP growth revised down from 2.1% to 2.0% saar despite an upward revision to consumer spending. Perhaps more interestingly, corporate profits beat expectations, jumping 5.3% saqr after declines in each of the prior two quarters. In the report's details, many of the main subcategories of growth were revised lower, although the revisions tended to be pretty modest. But, as mentioned above, real consumption growth was revised up to 4.7% saar and now looks even stronger than the 4.3% figure that had been reported previously.

### Pending home sales (Aug 29)

sa, unless noted

	May	Jun	Jul	
Total (mn, ar)	105.4	108.3	<u>107.8</u>	105.6
%ch m/m	1.1	2.8	<u>-0.5</u>	-2.5
%oya (nsa)	-0.8	-0.6	<u>-1.8</u>	1.7

The pending home sales index fell 2.5% in July which was a larger decline than we had anticipated and even more of a disappointment relative to consensus expectations. Many measures of home sales have picked up this year, which likely reflected a favorable response to the drop in mortgage rates that started late last year. And the July decline in pending home sales could simply reflect noise along a rising trend, as it reversed just a portion of the gains reported in earlier months. But it also could be a sign that the lift to housing demand coming from lower mortgage rates is starting to fade. The separate weekly series on mortgage purchase applications also shows some recent softening in activity following earlier gains.

### Personal income (Aug 30)

%m/m, sa, unless noted

	May		Jun		Jul	
Personal income	0.4		<u>-0.4</u>	0.5	<u>-0.4</u>	0.1
Wages & salaries	-0.2	0.1	0.5		<u>-0.3</u>	0.2
Consumption	0.5		0.3		0.6	0.6
Real consumption	<u>-0.3</u>	0.4	0.2		0.4	0.4
PCE price index	0.1		0.1		0.2	0.2
Core	<u>0.15</u>	0.12	<u>0.25</u>	0.24	<u>0.14</u>	0.18
Mkt-Based Core	0.1		0.2			0.2
Core (%oya)	1.5		1.6		1.6	1.6
Mkt-Based Core	1.4		<u>-1.6</u>	1.5		1.5
Saving rate	8.0		<u>-8.1</u>	8.0	<u>-7.9</u>	7.7

Consumer spending continued to increase at a solid rate through July. Real consumption increased 0.4% in July and nominal spending rose 0.6%, with these gains matching our forecast (but coming in a little above consensus expectations). Real consumption likely will moderate from the robust 4.7% saar pace reported for 2Q, but it still looks like consumption growth will be solid in 3Q, with an annualized quarterly gain likely around 3.5%. More broadly, we continue to see some upside risk to our 1.5% saar real GDP forecast for 3Q. The recent strength in spending has brought down the saving rate since early this year, but it still has stayed above the levels reported throughout much of the past few years. The main PCE price indexes, meanwhile, came out pretty close to expectations in July. The headline price index increased 0.2% during the month and was up 1.4% oya, while the core index rose 0.2% during the month (0.178% to three decimals) and 1.6% oya. Core inflation has picked up in recent months, with the core PCE price index up 2.2% saar over the three months through July. But this firming came after a weak run early in the year, and through some of the short-lived swings in the data, the index has remained well below the FOMC's 2% inflation target on a year-ago basis.

### Consumer sentiment (Aug 30)

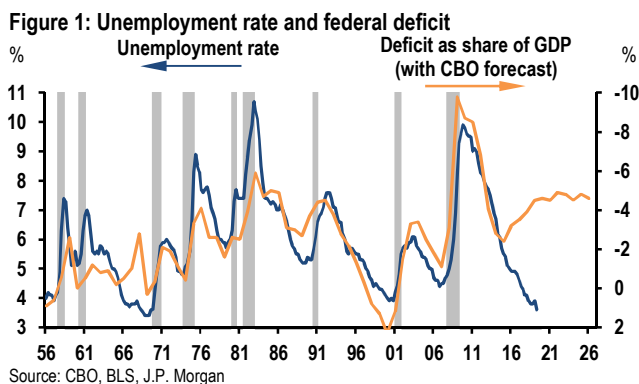
	Jul	Pre Aug	Fin Aug	
Univ. of Mich. Index	98.4	92.1	<u>92.1</u>	89.8
Current conditions	110.7	107.4		105.3
Expectations	90.5	82.3		79.9
Inflation expectations				
Short term	2.6	2.7		2.7
Long term	2.5	2.6		2.6
Home buying conditions	137	137		132

The University of Michigan consumer sentiment index was revised down from 92.1 to 89.8 between the preliminary and final August reports, disappointing expectations. This fairly large downward revision built on what already had been a large drop in sentiment shown for August and the index now shows an 8.6-pt fall in sentiment between July and August in the updated data. The revised August level now stands as the lowest monthly reading since October 2016. Unsurprisingly, commentary associated with the University of Michigan report indicated that tariffs have been weighing on sentiment.

Several other measures of consumer sentiment also have weakened lately, although the severity of this softening has varied. Before this recent weakening, most measures of sentiment had been at pretty upbeat levels, and consumer spending has been on a solid run for several months through July. The link between sentiment and spending is not especially tight, but the recent decline in consumer sentiment could be a sign that the spending data will soften soon.

## Focus: The fiscal picture

The CBO now projects the fiscal 2019 federal deficit at \$960 billion and the 2020 deficit at about \$1 trillion—and these numbers assume that the economy continues to perform well. However, we do not view “fiscal space” *per se* as an important constraint on the use of fiscal stimulus to fight a potential recession. Rather, the most relevant questions are political ones around Democrats’ willingness to cooperate in passing legislation that may ultimately benefit President Trump. We note as a precedent the bipartisan stimulus legislation passed under Republican President Bush in February 2008.



The Congressional Budget Office now expects a federal government budget deficit of \$960 billion for fiscal year 2019 (which runs from October 2018 to September 2019), a bit larger than the \$900 billion we had penciled in. After incorporating the effects of the [recent budget deal](#) on fiscal 2020, CBO now looks for a deficit quite close to our \$1 trillion forecast, amounting to about 4.5% of GDP. There is no precedent in the modern era for running deficits this large outside of a recession (Figure 1).

And these projected trillion dollar deficits assume that there is, in fact, no recession. A regression of the deficit’s share of GDP on the unemployment rate in the data from 1985 to 2011 produces a coefficient of 1.8, meaning that every 1%-pt increase in unemployment has predicted a 1.8%-pt increase in the deficit share of GDP. We might thus expect a mild recession that raised the unemployment rate by about 2%-pts (like the ones in 1990 or 2001) to raise the deficit by 3.6% of GDP through a combination of automatic stabilizers and proactive stimulus measures. Such an increase could bring the deficit to about 8% of GDP, very high by historical standards, although still below the 9.8% peak seen in 2009.

Projections like this would spark debate about the wisdom of providing stimulus, drawing comparisons to the struggles of highly-indebted European nations like Greece and Spain earlier this decade. Some would argue that the United States does

not have the “fiscal space” to provide stimulus when deficits and debt are already so high. In our view, however, there is no bright line level of deficits or debt that would constrain the possible fiscal response to a recession. We have [argued before](#) that the risk of a European-style sovereign debt crisis in the US is very low, because the federal government borrows in US dollars, which the Federal Reserve can create at will to purchase government debt in support of its mandate to pursue maximum employment and price stability. Although it would not be entirely free of risk, there would be compelling arguments for the federal government to borrow money to provide stimulus, especially in a world of low interest rates and inflation that would likely coincide with a recession.

Any constraints on borrowing to fund stimulus would thus be primarily political. For example, it is not obvious whether traditional deficit hawks—many of them Republicans—would support stimulus legislation in this context, although we suspect they would. Perhaps most crucial is the question of whether Democratic legislators would support a stimulus bill that could be seen as benefiting President Trump.

One potential solution that has received attention would be for the Trump administration to attempt to bypass Congress and provide fiscal support through executive action alone. In general, tax and spending policy changes require Congressional approval, so the potential for action like this to provide meaningful stimulus is quite limited, in our view. Some have argued that the Treasury Department has the legal authority to index capital gains to inflation without Congressional approval, although [others disagree](#). In any case, estimates suggest that this policy would reduce revenues by [\\$100 to \\$200 billion](#) over 10 years, with benefits heavily concentrated at the top of the income distribution. Because a \$20 billion annual tax cut amounts to less than 0.1% of US GDP, we would expect only *de minimis* effects. There could also be potential for finding unused funds elsewhere in the proverbial fiscal couch cushions and spending them more actively on administration priorities, but such options are likely to be small and subject to court challenges, like the recent [wall construction](#) project.

Thus the most realistic option for a meaningful fiscal stimulus, in our view, is the old-fashioned process of passing legislation, which would require Democratic support. To find a precedent for action like this, one need only go back to the early days of the 2008 recession, when the \$152 billion [Economic Stimulus Act](#) was introduced in the House by Speaker Pelosi and passed with 216 Democratic votes, before being signed by the Republican President Bush just nine months before the 2008 election. While such bipartisan cooperation may seem quaintly charming today, it nonetheless failed to prevent the 2008 recession.

## Euro area

- **Two hawkish ECB governors expressed reluctance to provide aggressive stimulus at this stage**
- **We still expect the ECB to move along a number of dimensions (rate cut, QE, rhetoric, and forward guidance)**
- **PMI and EC surveys up, but risks around our 3Q GDP forecast are still tilted to the downside.**
- **Unemployment rate decline is slowing; core inflation remains close to 1%**

In recent days, two hawkish ECB governors expressed reluctance to provide aggressive monetary stimulus at this stage. Last weekend, Bundesbank president Weidmann expressed skepticism about the need for immediate stimulus, as the extent of the economic slowdown is in his view unclear. Should the economy really fall into recession, he argued, fiscal policy would have to do most of the support, and that Germany had some fiscal space, even within the debt brake. On monetary policy, he seemed grudgingly to acknowledge a case for further easing and said that the debate at the ECB was about the strength of any response, its impact, and side-effects. In his view, there is room for lower rates as the effective lower bound has not yet been reached. He also said that tiering could help banks, but that the ECB must balance that with any reduction in effectiveness of lower rates. On QE, Weidmann continues to worry about moral hazard and a creeping loss of ECB independence if it acts to blur the line between fiscal and monetary policy. He argued that there was still some room to buy assets within existing rules (including the issue limit).

According to Bloomberg later this week, Nederlandsche Bank president Knot also seems open to a rate cut, but he sees no need to do more than that in September. Knot views market expectations as “overdone,” sees “no value added” in a policy package, is “reluctant” to support the introduction of a tiered reserve charging system, and does not want to restart QE unless the economy weakens much further or risks of deflation emerge. He is not convinced that the inflation outlook has changed much recently and also argued that refraining from more QE would “keep some powder dry.”

The comments from Weidmann and Knot contrast starkly with those recently made by Rehn, who seems to favor a package that (somehow) exceeds market expectations. In our view, it is not too surprising that comments from governors are very divergent. Given the summer break, there likely has been little opportunity for governors to get a sense of how the balance of opinion in the Governing Council is moving. As we approach the September meeting, commentary will likely become increasingly useful in signaling where the consensus

might settle down. For this, any “ECB sources” stories, which have become a regular feature of ECB communication, will be important to watch.

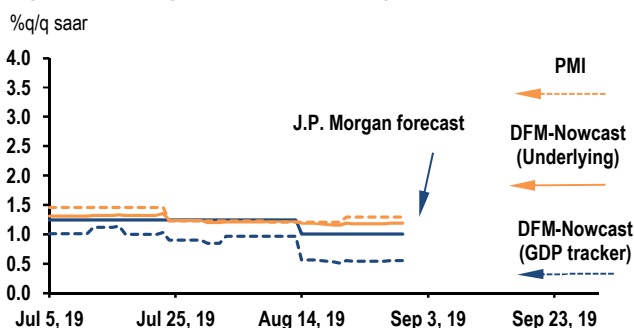
While it might seem easy to dismiss comments from Weidmann and Knot as possibly too hawkish to influence most governors, some governors likely share their sense that the growth outlook is still hard to gauge. Clearly, German industry is struggling, but other data have held up much better and the Euro area composite PMI signals trend-like growth for now. Similarly, it is not clear to us that all governors are yet fully on board for the strategy review or the need to urgently reverse the slippage of the ECB’s inflation forecast seen over the past nine months.

Ultimately, we still expect the ECB to move along a number of dimensions (10bp rate cut, €30bn of QE per month for nine months), but to also rely very heavily on rhetoric and forward guidance to “beef up” this package and to limit any market disappointment. The reliance on rhetoric and forward guidance would reflect the need to compromise to broaden support for the overall package.

### Nowcaster signal still weak

A small move up in the EC economic sentiment survey this week (+0.4pt to 103.1) echoed the slight increase in the Euro area PMI last week (+0.3pt to 51.8). Taking into account the most recent data, our GDP nowcaster still points to 0.6% ar growth in 3Q, well below our 1.25% forecast (Figure 1). The weak nowcaster signal owes to the disappointing June IP print (-1.6%/m/m) that was released mid-August. IP prints are volatile, and a rebound next month would lift the nowcaster signal. The PMI signal has been close to our 3Q GDP forecast.

Figure 1: Tracking Euro area 3Q19 GDP growth



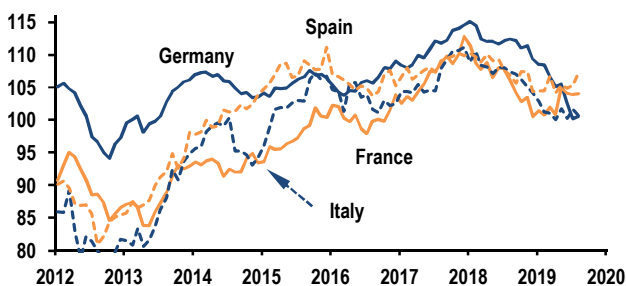
Source: J.P. Morgan

Looking at the EC survey details, consumer confidence declined 0.5pt to -7.1 and construction and services declined 1.3pts each. But, retail confidence rose by around 1pt and manufacturing confidence rose by 1.4pts. At the country level (Figure 2), economic sentiment improved in Germany, which contrasts with the decline in the IFO survey (the two surveys

focus on different questions). Meanwhile, economic sentiment was broadly stable in France, fell 1pt in Italy, and rose 2.2pts in Spain to a solid 104.7. In Italy, the fall in sentiment did not quite reverse the increase in July. In Greece, the remarkable 7.4pt jump over the past two months is interesting in light of the recent election. In the consumer survey, expectations about consumers' own financial situation have risen further even as expectations for the broader economy and unemployment have downshifted somewhat.

Figure 2: Euro area economic sentiment

Idx, sa

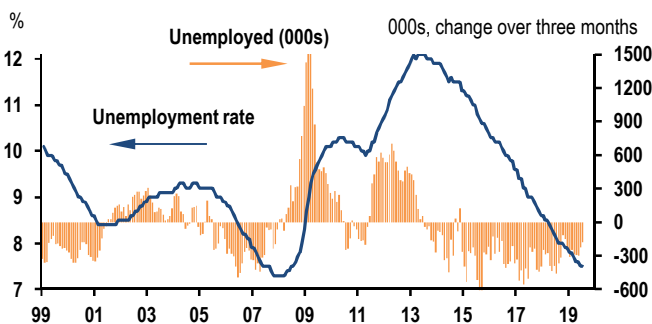


Source: European Commission, J.P. Morgan

## Unemployment rate decline is slowing

While GDP growth has weakened substantially—from 2.8% in 2017 to 1.25% since 2018—the unemployment rate has continued to fall, although this decline has slowed. In July 2019, the unemployment rate was stable at 7.5%, 0.6%-pt below the level in July 2018 (Figure 3). And the fall in the number of unemployed continues (-16,000 to 12,322,000 according to this week's release).

Figure 3: Euro area unemployment



Source: Eurostat, J.P. Morgan

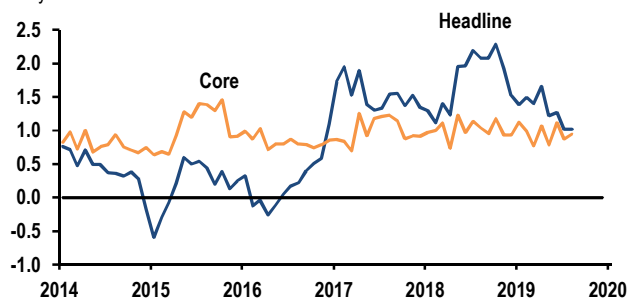
The fall in the unemployment rate over the last 12 months was broad-based by country. According to Eurostat, the German unemployment rate has declined 0.4%-pt since July last year to reach 3.0%. The French and Italian numbers have each moved down 0.5%-pt, to 8.5% and 9.9%, respectively. And Spain, where the unemployment rate started from a higher level, recorded a significant 1.1%-pts fall to 13.9%.

## Inflation remains close to 1%

The fall in the unemployment rate contrasts with the overall stability of core inflation (Figure 4). In August, seasonally adjusted core prices remained stable, leaving core inflation up 0.08%-pt to 0.95%oya, in line with the average since the start of 2017. Core goods price inflation was stable at 0.4%oya and services price inflation rose a tenth to 1.3%oya. Energy and food price inflation were broadly stable (1.2%oya and 2.1%oya, respectively), leaving headline inflation unchanged at 1.0%oya.

Figure 4: Euro area HICP inflation

%oya

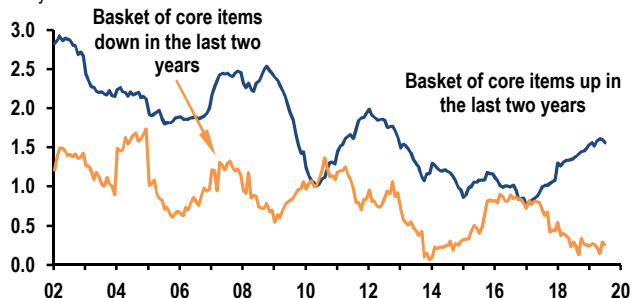


Source: Eurostat and J.P. Morgan

The full inflation breakdown will only be available in mid-September, when Eurostat releases the final HICP print. In the past, we have argued that inflation pressures were building modestly. Inflation has risen in about half of the core basket in recent years, the component which correlates with the business cycle. However, the recent evidence has been mixed as this measure of underlying inflation seems to have peaked around 1.6%oya (Figure 5). It will thus be important to assess how much cyclical versus non-cyclical items drove the 0.08%-pt increase in core inflation in August. Overall, this week's core inflation outcome was a slight disappointment relative to our 1.0% forecast. But we have left our medium-term forecast unchanged and continue to expect core inflation to reach 1.1%oya in 4Q19 and 1.4%oya in 4Q20.

Figure 5: Euro area underlying inflation

%oya



Source: J.P. Morgan



## Data releases and forecasts

Week of September 2 - 6

## Output and surveys

## Purchasing managers index final (manufacturing)

		May	Jun	Jul	Aug
Mon	<b>Euro area</b>				
Sep 2	Overall region	47.7	47.6	46.5	<u>47.0</u>
10:00am					
9:55am	<b>Germany</b>	44.3	45.0	43.2	<u>43.6</u>
9:50am	<b>France</b>	50.6	51.9	49.7	<u>51.0</u>
9:45am	<b>Italy</b>	49.7	48.4	48.5	
9:15am	<b>Spain</b>	50.1	47.9	48.2	

## Purchasing managers index final (services)

		May	Jun	Jul	Aug
Wed	<b>Euro area</b>				
Sep 4	Overall region	52.9	53.6	53.2	<u>53.4</u>
10:00am					
9:55am	<b>Germany</b>	55.4	55.8	54.5	<u>54.4</u>
9:50am	<b>France</b>	51.5	52.9	52.6	<u>53.3</u>
9:45am	<b>Italy</b>	50.0	50.5	51.7	
9:15am	<b>Spain</b>	52.8	53.6	52.9	

## Purchasing managers index final (composite)

		May	Jun	Jul	Aug
Wed	<b>Euro area</b>				
Sep 4	Overall region	51.8	52.2	51.5	<u>51.8</u>
10:00am					
9:55am	<b>Germany</b>	52.6	52.6	50.9	<u>51.4</u>
9:50am	<b>France</b>	51.2	52.7	51.9	<u>52.7</u>
9:45am	<b>Italy</b>	49.9	50.1	51.0	
9:15am	<b>Spain</b>	52.1	52.1	51.7	

The Euro area composite PMI edged up in August, according to the flash report. If confirmed, it would leave the PMI signaling trend-like growth rather than recession. The details are likely to confirm some improvement in manufacturing and also ongoing resilience in services. At the same time, the manufacturing PMI continues to suggest at best stagnant IP, which suggests that the pressures persist. And, the future output index fell sharply in August according to the flash report. As a result, it is certainly encouraging that the level of the PMI remains decent but it is too early to draw strong forward-looking conclusions.

## Manufacturing orders

		Apr	May	Jun	Jul
Thu	<b>Germany</b>				
Sep 5	Volumes, sa				
8:00am	Total (%m/m)	0.5	-2.0	2.5	<u>-2.0</u>
	%oya	-5.0	-8.5	-3.7	
	Total ex. bulk orders (%m/m)	1.9	-2.8	-0.4	
	%oya	-4.5	-8.7	-7.5	
	Domestic (%m/m)	-0.8	0.9	-1.0	
	%oya	-4.9	-7.2	-6.5	
	Foreign (%m/m)	1.4	-3.9	5.0	
	%oya	-5.1	-9.4	-1.5	

German orders jumped 2.5%/m in June, driven entirely by bulk orders. This creates the risk of payback in July, especially as the business surveys still signal a very weak underlying trend in orders.

## Industrial production

		Apr	May	Jun	Jul
Fri	<b>Germany</b>				
Sep 6	Industry incl constr (%m/m, sa)	-2.0	0.1	-1.5	<u>0.0</u>
8:00am	%oya, sa	-2.8	-4.5	-5.1	
	Industry ex constr (%m/m, sa)	-2.3	0.7	-1.8	<u>0.0</u>
	Manufacturing (%m/m, sa)	-2.2	0.8	-1.8	<u>0.0</u>
	Construction (%m/m, sa)	-0.2	-2.9	0.3	<u>0.0</u>
	Energy (%m/m, sa)	-2.5	-1.8	-1.7	

German IP fell very sharply in June, leaving 2Q19 down 7.3%/q/q, saar. The business surveys also signal a more moderate pace of contraction, but the VDA car production data pointed to a sharp fall in July, which is likely to weigh on the July IP report. As a result, we are cautious and expect no rebound at all. Ahead of this report, the VDA will release its next car production report for August, which will help to gauge whether the weakness in July was temporary.

## Real GDP

		3Q18	4Q18	1Q19	2Q19
Fri	<b>Euro area (3rd estimate)</b>				
Sep 6	%q/q, sa	0.2	0.2	0.4	<u>0.2</u>
11:00am	%q/q, saar	0.7	1.0	1.8	<u>0.8</u>
	%oya	1.7	1.2	1.2	
	GDP components (%q/q, saar)				
	Private consumption	0.5	1.3	2.2	<u>1.0</u>
	Government consumption	0.2	2.5	0.4	<u>1.5</u>
	Fixed investment	1.7	6.2	0.2	<u>1.5</u>
	Exports	1.1	4.7	2.7	<u>-1.0</u>
	Imports	3.9	4.1	1.4	<u>0.0</u>
	Contribution to GDP growth (%q/q, saar)				
	Domestic final sales	0.6	2.5	1.3	<u>1.3</u>
	Inventories	1.2	-1.9	-0.2	<u>0.1</u>
	Net trade	-1.2	0.5	0.7	<u>-0.5</u>

Euro area GDP growth is likely to be left unrevised at 0.8%/q/q, saar in 2Q19. But, in light of the German revisions, Euro area growth is likely to get revised up even further in 2017 to a 3% ar. The report will also contain new expenditure and income details. These are likely to reveal a modest gain in domestic demand, partly offset by a net trade drag. In our view, some of the weakness in 2Q19 is payback from 1Q19, when warm weather and the original Brexit deadline had boosted activity. Growth in 1H19 is likely to have been around 1.2% ar, which is in line with the signal from the PMI.

Source: European Commission, Eurostat, ECB, FSO, Bundesbank, IFO, INSEE, ISAE, Istat, INE, CBS, BNB, Markit, and J.P. Morgan forecasts



## Demand and labor markets

## Retail sales

		Apr	May	Jun	Jul
Wed	<b>Euro area</b>				
Sep 4	Total sales, volumes				
11:00am	%m/m, sa	0.1	-0.6	1.1	<u>-0.6</u>
	%oya, working-day adj.	2.1	1.0	2.6	

German retail sales fell sharply (-2.2%/m/m), but data in France and Spain pointed to small increases (0.3% and 0.2%, respectively). Meanwhile, we expect the strong Italian gain in June (1.3%) to be reversed somewhat in July (-0.5%). As a result we pencil in a 0.6%/m/m contraction in Euro area retail sales in July. This would leave the July level in line with the 2Q19 average.

## Inflation

## Producer prices

		Apr	May	Jun	Jul
Tue	<b>Euro area</b>				
Sep 3	%m/m, nsa	-0.3	-0.1	-0.6	
11:00am	%oya, nsa	2.6	1.6	0.7	

## Review of past week's data

## Output and surveys

## European Commission survey

	Jun	Jul	Aug	
<b>Euro area</b>				
% balance of responses, sa				
Economic confidence	103.3	102.7	<u>102.2</u>	103.1
Industrial confidence	-5.6	<u>-7.4</u>	-7.3	-5.9
Construction confidence	7.6	5.0		3.7
Retail confidence	0.1	-0.7		0.5
Service confidence	11.0	10.6		9.3
Consumer confidence	-7.2	-6.6	<u>-7.1</u>	

Euro area economic sentiment rose unexpectedly in August, helped by a bounce in Spain and by Germany, where the details of the IFO were significantly stronger than the main expectations index (which does not directly feed into the EC survey). The improvement in the EC survey does not change our view about where the economy is tracking and that there are still significant risks ahead.

## National business surveys

	Jun		Jul		Aug	
<b>German IFO survey</b>						
2015=100, sa						
Business climate	97.5	97.4	95.7	95.8	97.0	94.3
Business situation	101.4	101.0	99.4	99.6	100.5	97.3
Business expectations	94.0		92.2	92.1	94.0	91.3

Apart from some ongoing strength in construction, the German IFO was a comprehensive disappointment. The main business climate index fell 1.5pts to 94.3 in August, driven by a 2.3pt plunge in current conditions (to 97.3) and a 0.8pt fall in business expectations (to 91.3). By sector, expectations deteriorated significantly in manufacturing, wholesale, and in the broader services sector.

	Jun	Jul	Aug
<b>France (INSEE survey - manufacturing)</b>			
Index			
Composite index	101.7	<del>100.7</del> 101.4	102.0
Index of past production	8.0	<del>7.0</del> 8.1	5.4
Exp. output - personal	6.4	<del>5.5</del> 7.1	7.7
Exp. output - general	1.6	<del>0.0</del> 0.1	2.4

	Jun	Jul	Aug
<b>Italy (ISAE survey)</b>			
2000=100, sa			
Producer confidence	100.7	100.1	99.7

## Real GDP

	4Q18	1Q19	2Q19	
<b>Germany</b>				
%q/q, sa	<del>0.0</del>	0.2	0.4	-0.1
%q/q, saar	<del>0.1</del>	0.8	<del>1.7</del>	1.5 <u>-0.3</u>
%oya	0.6	<del>0.7</del>	0.9	<u>-0.1</u> 0.4
GDP components (%q/q saar)				
Private consumption	<del>1.0</del>	1.7	<del>5.0</del>	3.2    0.4
Government consumption	<del>5.3</del>	1.5	<del>1.1</del>	3.2    2.0
Mach, equip, other investment	<del>2.9</del>	1.2	<del>4.7</del>	5.8    2.5
Construction investment	<del>4.3</del>	5.1	<del>7.8</del>	10.2    -4.0
Exports	<del>2.6</del>	0.7	<del>4.2</del>	7.5    -5.3
Imports	<del>2.8</del>	2.6	<del>2.7</del>	3.8    -1.1
Contribution to GDP growth (%q/q saar)				
Domestic final sales	<del>2.3</del>	2.0	<del>3.4</del>	3.6    0.5
Inventories	<del>-2.2</del>	-0.4	<del>-2.5</del>	-3.9    1.4
Net trade	<del>0.0</del>	-0.8	<del>0.9</del>	2.0    -2.1

The "final" GDP report for 2Q19 confirmed a small contraction of 0.3%/q, saar. The report contained wide-ranging revisions of prior years that have boosted 2017 and reduced 2018 somewhat (with a net positive overall). Revisions are bigger still in the details. Overall, the report shows that domestic supports are still in place but also that the broader slowdown is creating some pressures on corporations and that capital spending has already slowed. Hence, the report seems consistent with the broader slowdown signaled by the business surveys, without yet signaling an inevitable recession.

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**Economic Research**
**Euro area**

August 30, 2019

**J.P.Morgan**

	4Q18	1Q19	2Q19	
<b>France (3rd estimate)</b>				
%q/q, sa	0.4	0.3		0.3
%q/q, saar	<del>1.6</del>	1.8	<del>1.3</del>	1.2 <u>1.0</u> 1.3
%oya	<del>1.1</del>	1.2	<del>1.2</del>	1.3 <u>1.4</u>
GDP components (%q/q saar)				
Private consumption	<del>1.3</del>	1.5	<del>1.5</del>	1.3 <u>0.6</u> 0.9
Government consumption	<del>1.1</del>	1.9	<del>0.3</del>	0.1 <u>1.4</u>
Fixed investment	<del>2.4</del>	2.5	<del>2.4</del>	2.0 <u>3.7</u> 3.6
Exports	<del>7.4</del>	7.3	0.6	<u>0.7</u> -0.1
Imports	<del>4.3</del>	4.2	4.4	<u>0.6</u> -0.8
Contribution to GDP growth (%q/q saar)				
Domestic final sales	<del>1.6</del>	1.8	<del>1.4</del>	1.2 <u>1.6</u>
Inventories	-0.9	<del>1.2</del>	1.3	<u>-0.6</u>
Net trade	0.9	-1.2	<u>0.0</u>	0.2

	4Q18	1Q19	2Q19	
<b>Italy</b>				
%q/q, sa	-0.1	0.1		<u>0.0</u>
%q/q, saar	<del>-0.2</del>	-0.3	0.5	<u>0.1</u>
%oya	0.0	-0.1		-0.1
GDP components (%q/q saar)				
Private consumption	<del>0.0</del>	1.1	<del>0.6</del>	0.4 0.2
Government consumption	-0.9	0.9		-0.3
Fixed investment	<del>2.4</del>	0.9	<del>2.4</del>	2.8 7.7
Exports	<del>5.5</del>	5.3	<del>1.0</del>	1.1 4.1
Imports	<del>5.2</del>	5.0	<del>5.9</del>	-6.4 4.6
Contribution to GDP growth (%q/q saar)				
Domestic final sales	<del>0.8</del>	0.6	<del>1.0</del>	0.9 1.4
Inventories	<del>1.3</del>	-1.2	<del>2.6</del>	-2.7 -1.2
Net trade	0.2	<del>2.2</del>	2.4	-0.1

**Unemployment**

	May	Jun	Jul
<b>Euro area</b>			
Harmonized measure, sa (Eurostat)			
Unemployment rate (%)	7.6	7.5	<u>7.5</u>
Unemployment (ch m/m, 000s)	<del>83.0</del>	-87.0	<del>45.0</del> -75.0 -16.0

See essay for details.

	Jun	Jul	Aug
<b>Germany</b>			
Registered (ch m/m, 000s, sa)	0	0	1 <u>2</u> 4
000s, nsa	2216.2	2275.5	2319.4
Unempl. rate (% sa)	5.0	5.0	5.0

**Employment**

	May	Jun	Jul
<b>Germany</b>			
Change m/m, 000s, sa	<del>12</del>	13	<del>8</del> 9 <u>10</u> 14

German unemployment increased by 4,000 in August, broadly in line with the deterioration in the IAB's unemployment barometer. At the same time, the IAB survey still points to some job creation, as the business surveys also signal. Consistent with this, the level of employment increased modestly in July by 14,000 (a 0.4% ar). Hence, weaker growth is clearly having an impact by causing a sharp slowing in job creation, but the increase in unemployment is from a very low level and not driven by outright job losses at this stage. Instead, it reflects the fact that employment growth is no longer keeping pace with the growth of the labor force. Similarly, the usage of the government's short-time work subsidy scheme remains very low and applications to use the scheme also have yet to pick up meaningfully. Even in the car sector, usage of the scheme remains very low and the increase in applications has been small.

## Demand and labor markets

**Retail sales**

	May	Jun	Jul
<b>Germany</b>			
Sales ex. autos and petroleum, volumes, sa			
%m/m	-1.2	<del>3.1</del>	3.0 <u>1.5</u> -2.2
%oya	<del>1.5</del>	1.4	<del>3.9</del> 3.7 <u>1.7</u>

German retail sales fell 2.2%/m in July after having jumped 3%/m in June. This gets 3Q19 off to a weak start with the level of spending 2.6% annualized below the 2Q19 average. But, rather than reading too much into this, such as that it reflects a consumer pulling back due to economic uncertainty, we would simply put the decline down to the normal volatility and unreliability of this data series. The upward trend in retail spending remains intact and first estimates of German retail sales are systematically underreported, with upward revisions often materializing very quickly. Also, at the product level, there have been huge swings in nominal spending on clothing/footwear, which can be affected by unseasonable weather and holiday timing. Finally, German consumer confidence remains elevated.

**Inflation**
**Import prices**

	May	Jun	Jul
<b>Germany</b>			
%m/m, nsa	-0.1	-1.4	-0.2
%oya, nsa	-0.2	-2.0	-2.1

Source: European Commission, Eurostat, ECB, FSO, Bundesbank, IFO, INSEE, ISAE, Istat, INE, CBS, BNB, Markit, and J.P. Morgan forecasts

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**Economic Research****Global Data Watch**

August 30, 2019

**J.P.Morgan**

**Producer prices**

	May	Jun	Jul	
<b>France</b>				
%m/m, nsa	<del>-0.4</del>	-0.3	<del>-0.5</del> -0.6	0.4
%oya, nsa	<del>0.7</del>	0.8	0.2	0.0
	<b>May</b>	<b>Jun</b>	<b>Jul</b>	
<b>Italy</b>				
%m/m, nsa	0.1	-0.3		0.0
%oya, nsa	1.5	0.9		-0.5

**Consumer prices**

	Jun	Jul	Aug	
<b>Euro area (flash)</b>				
HICP (%oya, nsa)	1.3	<del>1.4</del> 1.0	<del>1.1</del>	1.0
HICP core (%oya, nsa)	1.1	0.9	<del>1.1</del>	0.9
	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>	
<b>Germany (prelim)</b>				
%m/m, nsa	0.3	0.5	<del>-0.1</del>	-0.2
%oya	1.6	1.7	<del>1.5</del>	1.4
HICP (%oya)	1.5	1.1	<del>1.3</del>	1.0
Baden Wuerttemberg (%oya)	1.8	1.7	<del>1.7</del>	1.5
Bavaria (%oya)	1.8	1.7	<del>1.5</del>	1.4
Brandenburg (%oya)	1.8	1.5	<del>1.6</del>	1.4
Hesse (%oya)	1.5	1.4	<del>1.4</del>	1.3
North-Rhine West (%oya)	1.7	1.7	<del>1.5</del>	
Saxony (%oya)	1.8	1.6	<del>1.6</del>	1.4
	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>	
<b>France (prelim)</b>				
%m/m, nsa	0.2	-0.2	<del>0.4</del>	0.5
%oya, nsa	1.2	1.1	<del>1.0</del>	1.1
HICP (%oya)	1.4	1.3	<del>1.1</del>	1.2
	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>	
<b>Italy (prelim)</b>				
%m/m, nsa	0.1	0.0	<del>0.2</del>	0.5
%oya, nsa	0.7	0.4	<del>0.2</del>	0.5
HICP (%oya, nsa)	0.8	0.3	<del>0.5</del>	
	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>	
<b>Spain (flash)</b>				
%m/m, nsa	-0.1	-0.6	<del>0.2</del>	-0.1
%oya, nsa	0.4	0.5	<del>0.6</del>	0.3
HICP (%oya, nsa)	0.6	0.7	<del>0.6</del>	0.4
	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>	
<b>Belgium CPI</b>				
%m/m, nsa	-0.1	0.1		0.0
%oya, nsa	1.7	1.4		1.3

See Euro area essay for details.

Source: European Commission, Eurostat, ECB, FSO, Bundesbank, IFO, INSEE, ISAE, Istat, INE, CBS, BNB, Markit, and J.P. Morgan forecasts

## Japan

- With the broad agreement on the US-Japan trade deal, Japan avoided significant negatives for the economy
- Real indicators started to follow deteriorating sentiment
- The IP trend remained downbeat, while retail sales slumped
- In August, consumer sentiment fell to level in April 2014, the month of the last VAT hike

The US and Japan likely will formally sign a trade deal at the end of September. On August 25 at the G-7 summit meeting, President Trump and Prime Minister Abe agreed on a broad framework for the deal and to accelerate remaining negotiations, such as discussion of the digital economy, to meet the late-September target date for the final signing. Japan agreed to lower its tariff on US beef and pork to the level set by TPP11, while the US kept its tariff on Japan's autos unchanged. Although Japan appears to have made a concession to the US, this would be a political victory for the Abe administration as Japan successfully avoided being drawn into a quagmire with extended negotiations. The agricultural industry is small in Japan, and lowering tariffs on beef and pork to the level set by TPP11 would not have a meaningful negative impact on the economy. On the other hand, the US had strong incentives to urge Japan to lower tariffs on beef and pork, as Japan's imports of those products from the US have been depressed compared its imports from the EU, Australia, and New Zealand since TPP11 and the EU-Japan EPA came into effect in December 2018 and February 2019, respectively. With this progress and an absence of intensive discussion about bilateral trade imbalances, Japan reduced risks of a currency clause in the trade agreement and volume restrictions on auto exports. This broad agreement is generally regarded as positive outcome for Japan (see [“US-China will weigh more on Japan's growth than US-Japan”](#)).

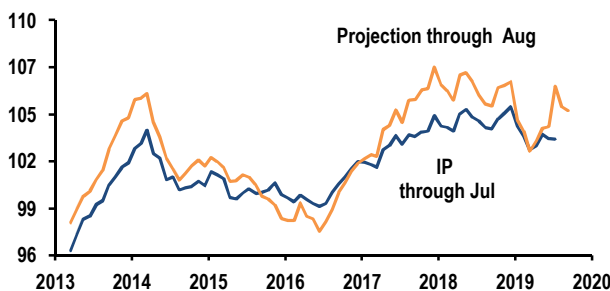
Data released this week suggest that deteriorating sentiment gradually has weighed on real activity. Industrial production recovered weakly in July after a steep drop in June. Retail sales, which remained solid in spite of significant deterioration of consumer sentiment through June, fell sharply in July, partly due to the bad weather in the month. Meanwhile, two months before the scheduled VAT hike consumer sentiment in August fell to the record low reached the month of the last VAT hike. The labor market data also raised concern. Although the unemployment rate came down further, the rising trend in the existing job offers to applicant ratio since 2013 has clearly reversed, a sign of moderation ahead in the labor market.

## Only partial July payback of sharp June IP fall

Industrial production rose 1.3%/m, sa in July, reversing less than half of June's sharp 3.3% fall. This outcome was stronger than our forecasts of a 0.5%/m, sa gain and the METI's estimate of a 0.3% decline. Although the longer-than-usual Golden week holidays in April-May would have caused some noise in the data, IP has been drifting lower since late 2018. Projections are not promising, either. Although the manufacturers' projection survey looks for a 1.3% rise in August, the METI's estimate, a more reliable projection adjusting for survey bias, shows a further 0.7% drop. Among sectors, the transport machinery sector, including autos, and the production machinery sector recovered weakly from June. Meanwhile, the electronic parts and devices sector was weak, with output remaining close to the 2016 level despite a small rise in July. Weak global demand and increasing uncertainty about global trade continued to weigh on IP.

Figure 1: Industrial production and manufacturers' output projection

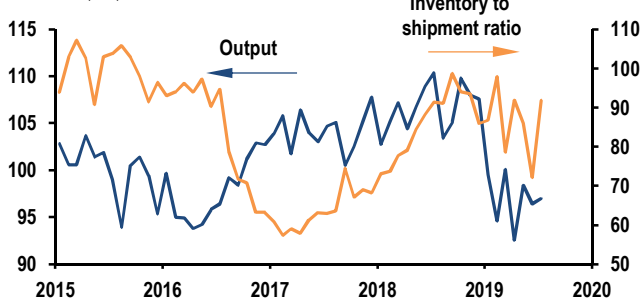
2015=100, sa, 3mma, both axes



Source: METI, J.P. Morgan

Figure 2: IP electronic parts and devices

2015=100, sa, both axes



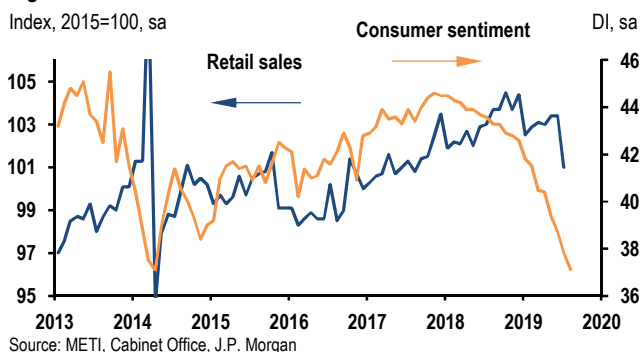
Source: METI

The inventories-to-shipments ratio declined in July, but remained elevated after reaching its highest level since 2013 in June. However, the ratio tends to be volatile. We continue to expect no significant acceleration of production before the October VAT hike.

## Retail sales fell sharply in July as consumer sentiment deteriorated

Retail sales dropped 2.3%/m, sa in July. Both business and consumer sentiment indicators had indicated sales would lose momentum (Figure 3). Bad weather in July this year also contributed to the slump: average temperatures were low, and the number of rainy days was high in July compared to average years. Often affected by bad weather, sales of general merchandise dropped 4.6%/m and apparel sales fell 6.3%/m. Electronics & appliance sales also were lackluster, falling 9.0%/m, consistent with our view of a weak rush in demand ahead of the scheduled VAT hike.

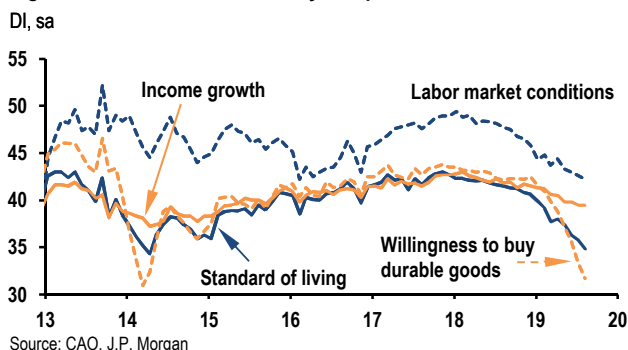
Figure 3: Retail sales and consumer sentiment



## August consumer sentiment suggests rush demand ahead of VAT already over

Consumer sentiment dropped 0.7pt to 37.1 in August, marking the eleventh consecutive monthly decline and the lowest level since April 2014, the month of the previous VAT hike. The index trend has declined sharply reflecting gloomy media reports on the economic outlook and the negative wealth effect from the decline in stock prices. In addition, unusually hot temperatures appear to have dragged on consumer sentiment in August. In particular, the willingness to buy durable goods fell 1.7pts in August even after a 2.2pt dive in July, suggesting rush demand ahead of the October VAT hike is already over after small increases in durable goods sales during the longer-than-usual Golden Week holidays in April-May. Also, the standard of living DI, thought to represent consumers' assessment of their real incomes, dropped 1.0pt in August to 34.8, probably reflecting the gradual rise in core consumer prices (Figure 4). The labor market conditions DI declined 0.4pt to 42.2 in August despite the continued tightness of the labor market in the hard data. Meanwhile, although inflation expectations for the next 12 months in this survey (calculated and seasonally adjusted by J.P. Morgan) had increased firmly, it edged down 0.4pt in August to 83.8.

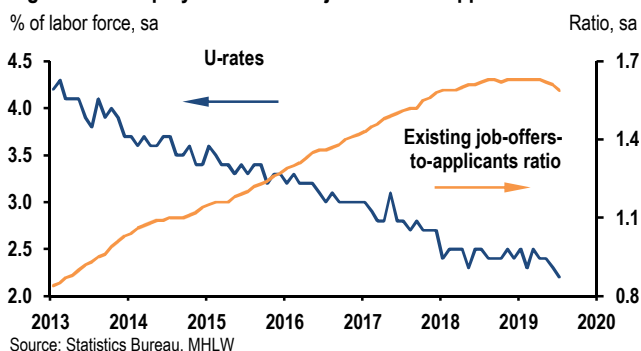
Figure 4: Consumer sentiment by component



## Clear signs of labor market moderation

The July labor market data were mixed, showing further tightening amid clear signs of moderation as concern rises over the global economy. The unemployment rate fell further to 2.2% in July, the lowest level since the early 1990s. Payroll employment also grew 0.3%/m sa. However, the job-offer-to-applicant ratio slipped to 1.59 in July from 1.61 in June in the third consecutive month of decline, suggesting the ratio is now trending down (Figure 5). Although structural factors partly drove the decline in the unemployment rate, the existing-job-offers-to-applicant ratio is weakening cyclically, in line with the recent deterioration of business and consumer sentiment.

Figure 5: Unemployment rate and job-offers-to-applicant ratio





## Data releases and forecasts

### Week of September 2 – 6

Tue	<b>MoF corporate survey</b>				
Sep 3	%q/q saar, unless noted, nonfinancial firms				
8:50am		<b>3Q18</b>	<b>4Q18</b>	<b>1Q19</b>	<b>2Q19</b>
	Sales	2.5	2.8	-1.0	
	Current profits	-45.8	-15.4	64.5	
	Capex ex. software	-17.5	16.5	4.5	
	Capex incl. software (%oya)	4.5	5.7	6.1	<u>2.5</u>

We expect capex (including software), which is key source data for business capital investment in GDP second estimates, rose 2.5%oya in 2Q. Based on the anemic trend in capital shipments, another measure of domestic capex, capex in this survey also decelerated after the firm rise in 1Q.

Fri	<b>Employers' survey – preliminary</b>				
Sep 6	%oya				
8:30am		<b>Apr</b>	<b>May</b>	<b>Jun</b>	<b>Jul</b>
	<i>Official base</i>				
	Monthly wages per employee	-0.3	-0.5	0.4	<u>0.2</u>
	Scheduled payments	-0.1	-0.6	-0.1	
	Overtime payments	-1.9	0.9	-1.0	
	Special payments	-5.3	-0.4	1.1	
	Real wages (total)	-1.4	-1.3	-0.5	
	Total hours worked	-1.8	-4.4	-3.3	
	<i>Constant samples base</i>				
	Monthly wages per employee	0.7	0.9	1.1	
	Scheduled earnings	0.8	0.4	0.5	
	Full-timers monthly	0.9	0.6	0.6	
	Part-timers hourly	1.6	1.9	2.6	
	Overtime payments	-1.9	0.2	-0.5	
	Special payments, **	2.0	11.1	2.0	
	Real wages *** (total, JPM)	-0.4	0.1	0.2	
	Total hours worked per employee	-1.4	-4.2	-3.2	

We project that total earnings per employee rose 0.2%oya in July. The June print rose only 0.4%oya, showing wages inflation has been anemic this year after accelerating last year, but it was largely due to the benchmark revision from January. Indeed, our preferred measure to gauge the wage trend, scheduled monthly earnings in the constant sample (which is reported for reference), shows a 1.1%oya rise in June, thus we think that underlying wage inflation was firmer than the official base. That said, we project the official print to continue to be weak in July.

## Review of past week's data

### Services producer prices (Aug 27)

	<b>May</b>	<b>Jun</b>	<b>Jul</b>	
%oya	0.9	0.7	—	0.5

Service producer price index (SPPI) inflation rose 0.5%oya in July, moderating from a 0.7% rise in June. The trend of SPPI inflation has been anemic since the price revisions in 2019 seem much smaller than in the previous year. It has continued to decelerate after accelerating in the middle of 2018 and the July oya rise was the lowest since January 2017. The July moderation was due mainly to slower transportation (-0.1%-pt to 1.0%oya), and leasing & rental (-0.2%-pt to 0.1%oya). The former decelerated reflecting the moderation in energy prices and base year effects. The price of leasing & rental services (such as industrial machinery leasing and leasing of machinery and equipment for commercial services) also decelerated, probably due to anemic business activity. Moreover, the price of hotel services declined sharply at -2.5%oya in July after the April and May jump, pointing to weaker service consumption. SPPI (prices of service products traded in the corporate sector) is not always correlated closely with services CPI (retail prices), but based on this weak result, further acceleration in services CPI looks unlikely.

### Consumer sentiment (Aug 29)

DI, sa		<b>Jun</b>	<b>Jul</b>	<b>Aug</b>	
Consumer sentiment		41.5	40.5	<u>37.5</u>	37.1
Standard of living		39.2	37.7	—	34.8
Income growth		41.2	40.6	—	39.5
Labor market conditions		44.8	43.7	—	42.2
Durables purchases		40.9	39.9	—	31.7
% of respondents, "Rise" minus "fall"					
Inflation expectations in next 12 months					
Nsa		84.2	83.4	—	82.7
Sa		83.9	84.1	—	83.8

1. The DI asks whether a respondent thinks that now is a good time to purchase durables

See main essay.

**Tokyo Consumer prices (Aug 30)**

%oya, 2015-based

	Jun	Jul	Aug	
Overall	1.1	0.9	—	0.6
Core (ex fresh food)	0.9	0.9	<del>0.8</del>	<u>0.7</u>
Ex fresh food and energy	0.8	0.8	<del>0.9</del>	<u>0.7</u>
Ex food and energy	0.6	0.6	—	0.6

In the August Tokyo CPI report, a leading indicator of the nationwide CPI, the BoJ's preferred core CPI measure (ex. fresh food and energy) rose 0.7%oya, moderating 0.1%-pt from July, weaker than our expectation for a 0.1%-pt acceleration. Core goods prices inflation held steady from the previous month, but food prices (ex. fresh food) inflation was weaker than expected. It had shown upward momentum ahead of the VAT hike, but started to decelerate in August, suggesting firms' pass-through of their costs to retail prices has started to fade. Service prices also moderated reflecting the deceleration of recreational services. The core CPI (ex. only fresh food) inflation continued to ease, moderating 0.2%-pt to 0.7%oya in August due to the deceleration of energy prices. With the earlier end of passthrough of costs in the food industry in mind, we revise down the August and September nationwide BoJ core CPI 0.1%-pt each to 0.5%oya. But we maintain our August and September nationwide core CPI (ex. fresh food) forecasts at 0.4%oya and 0.3%, respectively, reflecting slightly less energy price deceleration than expected.

Basically, we think that further acceleration of nationwide core inflation looks unlikely, since anemic consumption momentum especially after the VAT hike will make it hard for firms to raise prices more amid heightened uncertainty on the global economy. We maintain our projection that the nationwide BoJ core CPI (excluding policy shifts like the VAT hike and free education) will reach only 0.4%oya in 4Q19 and also in 4Q20.

**Housing starts (Aug 30)**

	May	Jun	Jul	
Housing units %oya	-8.7	0.3	<del>-1.0</del>	-4.1
%m/m, sa	-3.3	2.4		-1.3
Mn units saar	0.90	0.92		0.91
Floor space, 6mma* (%m/m, sa)	-0.6	-0.4		0.7

Housing starts by unit fell 1.3%/m, sa in July after a 2.4% rise in June. The trend of housing starts by unit has been anemic since the 1Q demand boost due to the expiration of one of the countermeasures to the VAT hike. In the details, although built-for-sale rose 3.8% partly due to an increase in demand for luxury housing, built-for-rent fell 2.8%, reflecting banks' tightening of lending standards for rental apartments, dragging on the overall trend. The six-month moving average of starts by floor space, which we think is a better indicator of real GDP residential investment in put-in-place terms, rose 0.7%/m, sa in July, leaving the July level 1.0% annualized higher than the average in 1Q, when it rose 1.6% ar. It is still early in the quarter but this result suggests downside risks to our 3Q GDP residential investment forecast for a 5.0%/q, saar rise. We continue to expect housing activity to rise moderately in 3Q, but the front-loaded demand ahead of the VAT hike should be much weaker than that in 2014 due to government countermeasures.

Source: BoJ, CAO, EJCS, JADA, JCSA, JDSA, JFA, JLMVMA, Markit, METI, MHLW, MILT, MoF, Reuters, Statistics Bureau, J.P. Morgan forecast

**Commercial sales (Aug 30)**

%m/m, sa

	May	Jun	Jul	
Total retail sales	0.4	0.0	<del>-3.0</del>	<u>-2.3</u>
%oya	1.3	0.5	<del>-2.5</del>	-1.9

See main essay.

**Labor force survey (Aug 30)**

%m/m, sa

	May	Jun	Jul	
Unemployment rate (% sa)	2.4	2.3	<del>2.3</del>	2.2
Job offers ratio (% sa)	1.62	1.61	<del>1.62</del>	1.59

See main essay.

**Industrial production – preliminary (Aug 30)**

%m/m, sa

	May	Jun	Jul	
Production	2.0	-3.3	<del>0.5</del>	1.3
Shipments	1.3	-4.0		2.6
Inventories	0.5	0.4		-0.3
Inventory/shipments ratio	1.7	3.2		-2.2

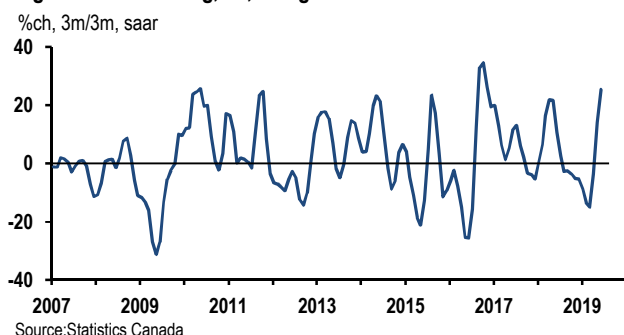
See main essay.

## Canada

- **Real GDP bounced 3.7% saar in 2Q19, beating our forecast**
- **Net trade did all the heavy lifting while domestic final sales and destocking dragged on growth**
- **We expect the Bank of Canada to remain on hold next week...**
- **...and ease 25bp in October**

This week's main release—2Q19 real GDP growth—confirmed the bounce we were expecting with more to spare. The 3.7% saar real GDP growth rate in the second quarter beat our forecast, which was already above market expectations. Central to the robust pace was the significant upswing in energy production as provincial authorities in Alberta rapidly reversed mandated cuts in all three months of the quarter (Figure 1). The swing in energy production underpinned a significant portion of the surge in net exports, which contributed a larger-than-expected 5.5%-pts to overall growth.

**Figure 1: Real mining, oil, and gas extraction**



While the outturn was a good bit stronger than the Bank of Canada's forecast from the July MPR (2.3%), we expect the Bank will be eyeing the more worrisome underlying aspects of the report, which included a significant deceleration in real consumer spending and continued weakness in business fixed investment, with some caution. We still believe the Bank will remain on hold next week as we put a low probability on preemptive easing at this point. Our forecast remains that the Bank will cut the policy rate 25bp in October.

In July, the Bank noted that it would closely monitor developments in the energy sector and global trade. Since then, protectionist global trade policies and associated uncertainty have clearly intensified and energy prices have slumped (Figure 2). We expect a more dovish tone in the September statement and that building downside risks to growth will push the Bank to ease in October.

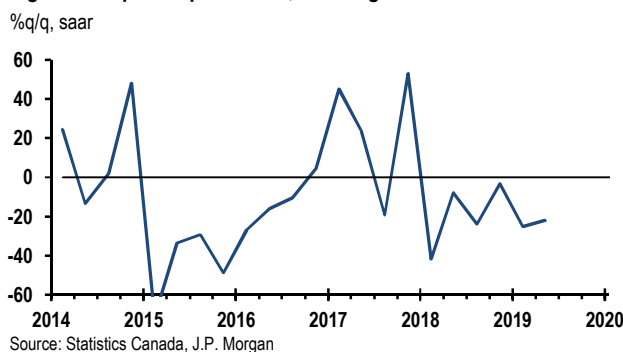
**Figure 2: Sentiment and oil prices**



## Under the hood of 2Q19 real GDP

After two quarters of very weak growth (0.4% saar on average), real GDP bounced up 3.7% saar in 2Q19. Net trade did all the heavy lifting in 2Q while domestic final sales and destocking dragged on growth. Real consumption decelerated significantly to 0.5% saar after downwardly revised 2.9% growth in 1Q19. Vehicle purchases were weak in volume terms, posting the fifth decline in the last six quarters. Business fixed investment was down 6.4%. Among the factors holding down overall investment spending is weak capital expenditure in the oil and gas sector (Figure 3). Residential investment grew in the second quarter for the first time since 4Q17 on rebounds in new construction and ownership transfer costs. We see some stabilization in residential investment ahead but don't expect growth in the sector to return to the strength seen earlier in the recovery.

**Figure 3: Capital expenditures, oil and gas extraction**



The idiosyncratic V-shaped recovery in the energy sector over the first half suggests averaging the first two quarters of real GDP growth would give a better sense of the underlying trend. First-half growth was right around potential at 2.1%. That said, the details of the second quarter seem to point to a slowdown. We keep our 3Q19 forecast at 1.5% saar with our nowcaster signaling modest downside at 1.3%.

## Data releases and forecasts

### Week of September 2 – 6

#### Wed International trade

Sep 4	Sa				
8:30am		<b>Apr</b>	<b>May</b>	<b>Jun</b>	<b>Jul</b>
	Balance (C\$ bn)	-1.13	0.56	0.14	<u>-1.4</u>
	Exports (%m/m)	0.5	4.5	-5.1	<u>-0.6</u>
	Imports (%m/m)	-1.1	1.1	-4.3	<u>2.5</u>
	Real balance	0.45	1.67	2.28	

#### Fri Labor force survey

Sep 6	Sa				
8:30am		<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>
	Employment (mn)	19.06	19.05	19.03	<u>19.04</u>
	(ch, m/m, 000s)	27.7	-2.2	-24.2	<u>10.0</u>
	(%m/m)	0.1	0.0	-0.1	<u>0.1</u>
	(%oya)	2.4	2.3	1.9	<u>2.1</u>
	Labor force (mn)	20.14	20.17	20.18	<u>20.18</u>
	(%m/m)	-0.2	0.2	0.1	<u>0.0</u>
	(%oya)	1.9	1.7	1.7	<u>1.8</u>
	Unemployment rate (%)	5.4	5.5	5.7	<u>5.6</u>
	Avg hrly earnings (%oya)	2.6	3.6	4.5	<u>4.5</u>
	Hours worked (%m/m)	-0.3	0.7	-0.7	<u>0.0</u>

#### Fri Ivey PMI

Sep 6					
10:00am		<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>
	Composite index <sup>1</sup> (sa)	52.9	51.8	52.9	<u>52.6</u>
	Purchasing index (sa)	55.9	52.4	54.2	<u>56.0</u>

1. Calculated and seasonally adjusted by J.P. Morgan

### Industrial PPI (Aug 30)

%m/m, nsa, unless noted

	<b>May</b>	<b>Jun</b>	<b>Jul</b>	
Total	-0.1	-1.4	<u>-0.9</u>	-0.3
%oya	0.4	-1.7	<u>-1.3</u>	-1.7
Ex energy	-0.2	-0.5	-0.5	
%oya	0.9	-0.3	-0.5	

Source: Statistics Canada, Ivey Business School, CMHC, Markit, Teranet/National Bank of Canada, CREA, CFIB, Bank of Canada, J.P. Morgan forecasts

## Review of past week's data

### Current account (Aug 29)

C\$ bn, saqr, unless noted

	<b>4Q18</b>	<b>1Q19</b>	<b>2Q19</b>	
Current account	-16.6	<u>-17.3</u>	-16.6	<u>-9.8</u> -6.4
(% of GDP)	-3.0	<u>-3.4</u>	-3.0	<u>-1.7</u> -1.1
Merchandise	-7.9	<u>-9.1</u>	-8.9	<u>-0.7</u> -0.3
Nonmerchandise	-8.7	<u>-8.2</u>	-7.8	<u>-9.1</u> -6.1

### Quarterly GDP (Aug 30)

Sa				
	<b>4Q18</b>	<b>1Q19</b>	<b>2Q19</b>	
Real GDP, %q/q, ar	0.3	<u>0.4</u>	0.5	<u>3.2</u> 3.7
%oya	1.6	<u>1.3</u>	1.4	<u>1.6</u> 1.6

### Monthly GDP (Aug 30)

Sa				
	<b>Apr</b>	<b>May</b>	<b>Jun</b>	
Total, %m/m	0.3	0.2	<u>-0.1</u>	0.2
%oya	1.6	1.4	<u>-1.2</u>	1.5

## Mexico

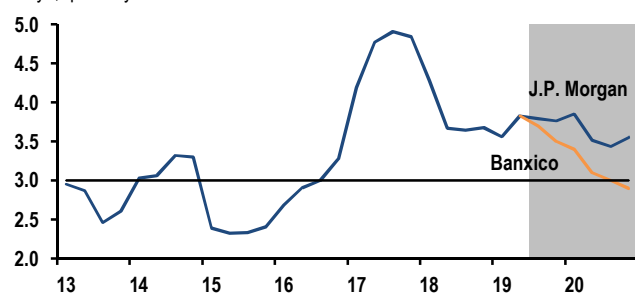
- **Banxico to keep easing on cyclical weakness**
- **Structural constraints could limit rate cuts**
- **AMLO faintly hints at restoring business confidence**
- **State of the Union address this weekend key to monitor**

The 2Q inflation report helped to shed light on whether Banxico is likely to continue to cut rates and, more important, if so, how much. We think Banxico signaled, even if not explicitly, that it has space to continue cutting rates. The Bank aggressively cut its current-year forecasts for both GDP growth and inflation. We had expected them to do so, but less; it cut GDP growth from 1.3%/y to just about 0.5%, in line with our own forecast, while revising down the inflation forecast to 3.2%oya from 3.7%.

Thus from a cyclical perspective, the Bank strengthened the case for further rate cuts from a still quite restrictive 8% starting point. Several comments seemed to point in the same direction: the Bank also lowered its 2020 GDP growth forecast to 2% from 2.2%, implying widespread economic slack at least well into next year. The labor market is not as tight as before and the yield curve's marked shift lower—including the very long-end—suggests the market is not concerned about Banxico easing policy. Also, Banxico stressed that Mexico's volatility-adjusted short-term rate differential vs. the US has moved well above that of a selected (and we might add, representative) EM sample. In our view, all of the above signals there is space to cut further, despite the pledge of data dependency, which in fact goes both ways and could lead to earlier or more cuts.

**Figure 1: Core CPI**

%oya, quarterly



Source: INEGI, Banxico and J.P. Morgan forecasts.

The more important question was on the depth of any potential easing cycle; overall, we think Banxico poured cold water on expectations for an aggressive (200bp) cycle. We think that whereas the cyclical case for easing was made clearer, Banxico appears to think structural factors call for caution: it remains concerned core inflation might prove stickier than it projects (which

we think will be the case; Figure 1); it touched on how recent market volatility has led to financial outflows from EMs. Although Banxico did not mention it, Mexico has witnessed portfolio outflows since 2Q, so we think Banxico remains wary about this; it stressed that Mexico's country risk seems elevated vis-à-vis its credit rating; and finally, it nudged up its estimate of the neutral real policy rate to 2.6%.

We think that most of these factors boil down to Banxico being worried about a deterioration in the country's risk profile amid domestic and external uncertainty that could cause financial instability. Against this backdrop, it could be ill-advised to adopt an outright easy policy stance that removes an anchor for capital flows and financial stability. This suggests policy rates will be eased only gradually.

Wednesday's comments by Deputy Governor Heath (generally perceived as dovish) that Banxico could cut rates but only to partly unwind its current restrictive stance, also indicate that Banxico is not ready to cut rates aggressively. Banxico sees the neutral real policy rate between 1.8% and 3.4%; factoring in long-term inflation expectations—which surveys place around 3.5%—this translates into a neutral nominal rate of 5.3%-6.9%. So partly unwinding the Bank's restrictive stance could suggest rates between 6.5% and 7% (Table 1). This is in line with our view that Banxico will cut rates, but only to 7% next year. Finally, we do not think that core inflation will fall back to 3% as soon as 2Q20—we forecast it at 3.6% in December next year—which should also deter aggressive easing.

**Table 1: Nominal and real long-term neutral policy rate**  
%

	Real neutral rate		Nominal* neutral rate	
	Mean	Range	Mean	Range
Recursive Taylor rule	2.5	1.6-3.4	5.5	4.6-6.4
Taylor rule (TVP)	2.6	1.9-3.3	5.6	4.9-6.3
Business cycle model	2.5	1.5-3.6	5.5	4.5-6.6
Affine term structure model	2.7	2.3-3.2	5.7	5.3-6.2
<b>Average</b>	<b>2.6</b>	<b>1.8-3.4</b>	<b>5.6</b>	<b>4.8-6.4</b>
Previous average	2.5	1.7-3.2	5.5	4.7-6.2

Source: Banxico. \*For the nominal rate the 3% inflation target rate was considered.

## Scenarios in which Banxico could cut more

Some potentially brewing and somewhat intertwined alternative scenarios could bring lower rates. On core inflation, we may see that slack actually trumps pressure from rapid real wage growth and rising unit labor costs. On the country risk perception, AMLO seems to have become more aware of the need to boost private investment—probably motivated by GDP and currency weakness—and, hence, of restoring confidence among businesses. The administration provided a handful of markers of such a shift this week, though we think more is needed to lower risk perceptions, improve the economic



outlook, and reduce potential sources of economic imbalances (including higher structural inflation). This would allow Banxico to ease its way below neutrality without risking structural externalities. AMLO's State of the Union address this weekend will provide additional clues on potentially welcoming news to reactivate investment.

## Trade data offer hope of 3Q rebound

The July trade data have mixed, but likely positive, implications for activity. Manufacturing exports grew just 0.4%/m after a large drop in June and are tracking a small decline early in the quarter, but this followed a near-12% gain in 2Q. Meanwhile, intermediate imports popped 4.6%/m, which we think not only should help rebalance inventories, but even suggests that demand for factory goods remains strong and should remain a source of growth in 3Q.

Regarding domestic demand, upbeat news on consumption may be building: non-oil consumer goods imports jumped 2.7%/m on the heels of a modest 0.2% gain in June. As things stand, imports in July were up 8.3% annualized with respect to 2Q. These data can be choppy and are far from conclusive, but, alongside strong consumer fundamentals and strong retail sales data, offer hope that consumers might finally be spending more actively—a key assumption in our call for a modest bounce in GDP in 2H after a dire 1H.

## Tentative signs of firm-government alliance?

On Sunday, President AMLO will deliver his first State of the Union (*Informe Presidencial*) just days after his government announced an agreement was reached with private-sector companies regarding an arbitration process that could have unilaterally canceled contracts granted by the previous administration. While we view this news with optimism, given that the AMLO administration seems to be strengthening its dialogue with the private sector, more than a few unknowns need to be clarified before we are convinced a turn in investment sentiment is approaching. The new rhetoric from AMLO's team seems to be a reaction to a weak economy and the 5% depreciation of the peso over the last three months—AMLO frequently refers to the exchange rate as a market gauge in his daily morning press conference.

Other encouraging signals would include a more detailed infrastructure plan and the intention to involve the private sector more actively in oil exploration and production, as the media have suggested. Otherwise, the annual speech is expected to resemble AMLO's acceptance speech, in which he distances himself from the previous administration, while stressing achievements combatting corruption and the deployment of the National Guard. With the economy stalled, bolstering Mexico's security could take longer than the AMLO government anticipated.

## Data releases and forecasts

### Week of September 2 – 6

Mon	<b>IMEF PMI survey</b>				
Sep 2	Index, sa				
1:00pm		<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>
	Manufacturing	49.2	49.0	49.6	<u>50</u>
	Non-manufacturing	48.7	47.7	47.1	<u>48.4</u>
Thu	<b>Consumer confidence, INEGI</b>				
Sep 5	Jan 2003=100				
7:00am		<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>
	Composite, sa	108.1	106.1	105.1	<u>101.5</u>
Fri	<b>Gross fixed investment</b>				
Sep 6	%oya				
7:00am		<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>Jun</b>
	Total	-2.4	-5.7	-7.4	<u>-8.5</u>
	M&Eq	-3.2	-7.4	-5.4	<u>-15.8</u>
	Construction	-1.8	-4.4	-9.1	<u>-6.1</u>

## Review of past week's data

<b>Trade balance</b>				
	<b>May</b>	<b>Jun</b>	<b>Jul</b>	
Balance (US\$ mn)	1,030	2,561	<u>1,919</u>	-1,117
Exports (US\$ bn)	41.8	37.9	<u>38.7</u>	39.3
%oya	6.7	1.2	<u>5.3</u>	7.0
Imports (US\$ bn)	40.8	35.4	<u>40.6</u>	40.4
%oya	0.1	-7.8	<u>2.6</u>	2.0
<b>Labor market report</b>				
% of labor force				
	<b>May</b>	<b>Jun</b>	<b>Jul</b>	
Unemp. rate	3.5	3.6	<u>3.8</u>	3.7
Sa	3.6	3.6	<u>3.6</u>	3.6

Source: Banxico, IMEF, INEGI, and J.P. Morgan forecasts

## Brazil

- **The rapporteur of the SSR in the Senate delivered his report; we see expected savings down to BRL 751bn**
- **We revise our 2019 GDP growth forecast 0.8% after the upside surprise on 2Q GDP**
- **We factored recent events into our fiscal forecasts**
- **We raise our CAD forecasts on strong July outflow**

This week the rapporteur of the social security reform (SSR) in the Senate, Tasso Jereissati, delivered his report in the Constitution and Justice Committee (CCJ). Senator Jereissati proposed a few changes to the SSR proposal approved in the Lower House, including ending some tax exemptions, and estimated savings over 10 years at BRL990bn. Also, he included the possibility of states and municipalities implementing the reform, with potential gains of BRL350bn. The changes were kept in a separate bill to avoid the SSR returning to the Lower House. [We estimate the changes excluding tax measures should reduce the savings to BRL751bn from BRL824bn](#). The vote in the CCJ may happen next week and the SSR would then move to the Senate floor, where votes are scheduled for September 24 and October 10.

On the data front, 2Q GDP growth surprised on the upside both in the headline, expanding 1.8%q/q, saar, and in the details, prompting us to raise our 2019 GDP growth forecast to 0.8% (Table 1). We highlight the strong 13.3% jump in investment and another increase in private consumption (growing since 2017). However, both domestic and external factors now suggest a weaker profile in 2H19 and we revise growth down to 0.9% in 3Q and 1.8% in 4Q. Overall, stronger growth last quarter could reduce pressure for extended policy rate cuts and we feel more comfortable with our call for one more 50bp cut in September; stronger growth also eases resistance to the fiscal consolidation.

**Table 1: Annual GDP forecasts**

%oya					
Items	Weight (%)	2017	2018	2019	2019 (old)
GDP	100	1.1	1.1	0.8	0.7
<b>Demand components:</b>					
Private consumption	63	1.4	1.9	1.8	1.7
Government consumption	20	-0.9	0.0	-1.2	-1.2
Investment	18	-2.5	4.1	1.8	1.4
Exports	13	5.2	4.1	1.0	1.4
Imports	-14	5.0	8.5	2.3	2.9

Source: IBGE and J.P. Morgan forecasts

## Finally a positive GDP surprise ... unfortunately to be partially reversed ahead

The 2Q GDP report finally brought positive economic news, with GDP growing 1.8%q/q, saar, well above our call for a modest 0.4% gain and the consensus estimate at 0.8%. The details were also upbeat, with investment surging 13.3%q/q saar and private consumption growing for the tenth consecutive quarter. In our view, the most important implication of the upbeat report is for public perception: we believe the positive headlines should ease the pressure against fiscal consolidation policy.

The upside surprise led us to revise up our 2019 GDP growth forecast by a tenth to 0.8%. But, both domestic and external factors now suggest a weaker profile in 2H19. First, we think that part of 2Q growth spike was temporary. Second, rising trade tensions are hurting global growth prospects and causing stress in domestic financial markets. Third, a new chapter in the crisis in Argentina, one of Brazil's largest trade partners, should also affect the Brazilian economy. Last but not least, domestic political uncertainty remains high while the improvement in private sentiment indicators after the approval of the social security reform in the Lower House was disappointing. In particular, confidence indexes do not point to as much of a growth acceleration in 3Q as we have forecast. Those negative forces—particularly for a country in the middle of a fiscal consolidation cycle—should partially offset the improvements in credit markets from the stimulative monetary policy and the one-off impact of withdrawals from workers severance funds (FGTS) on household consumption, keeping GDP growth modest in the second half of this year. In this environment, we lower our quarterly forecasts to 0.9%q/q, saar in 3Q from 2.4% and to 1.8% in 4Q from 2.2%.

In our view, stronger 2Q GDP growth could also reduce the pressure for an extended monetary easing cycle. Before this release, we thought the balance of risks was tilted toward more SELIC rate cuts compared with our forecast for just one further 50bp cut at the September meeting. Now, with the BRL having depreciated around 9% since the last COPOM meeting and a positive surprise from GDP, we see risks more aligned with our view. But we still believe the Central Bank will cut 50bp at the next meeting given the benign inflation trajectory and contained expectations. Beyond that, the outlook remains uncertain; we assume the easing cycle will end in September, but a final 25bp cut in October remains possible, in our view.

## We revised our fiscal forecasts

The consolidated government (central, regional, and state-owned companies) primary budget posted a BRL2.8bn deficit in July, taking the 12-month sum down slightly to BRL98.9bn

(1.4% of GDP), still well below the BRL132bn target for this year. Still, gross debt reached an all-time-high 79.0% of GDP from 78.7%.

Recent events prompted us to revise our fiscal forecasts. First, the slow progression of the large auction of excess oil reserves led us to move the expected revenues to 2020. Importantly, this should put some pressure on FX flows in December, when the signing bonus was scheduled to be paid. Also, we increased dividends paid by banks this year and the payment of court orders in 2020. In all, we increased our forecasted primary deficit in 2019 and reduced the projection in 2020 (Table 2). However, the USD spot auctions recently announced by the Central Bank (BCB), and which we expect to continue until the end of the year, should reduce repo operations and offset the impact on debt of the higher primary deficits. We now expect gross debt to end 2019 at 77.9% of GDP (from 78.4%) and 2020 at 78.2% (from 79.2%).

**Table 2: Fiscal scenario**  
% of GDP

Variables	2017	2018	2019	2020
Central government primary balance (BRLbn)	-124	-120	-112	-36
Consolidated government primary balance	-1.7	-1.6	-1.3	-0.3
Nominal balance	-7.8	-7.1	-6.5	-5.5
Gross debt	74.1	77.2	77.9	78.2

Source: BCB and J.P.Morgan forecasts.

## Profits and dividends sent abroad pressured the current account in July

The July current account deficit (CAD) surprised at US\$9.0bn, driven by marginal weakness in the trade balance and upside surprises in both interest payments and profits sent abroad, with the 12-month total of profit repatriation the highest since August 2015. Foreign direct investment (FDI) registered net inflows of US\$7.7bn in July and totaling US\$94.9bn (5.1% of GDP) over 12 months. We increased our forecast for the 2019 CAD to US\$24bn (1.3% of GDP) from US\$19bn and for 2020 to US\$33bn (1.7% of GDP) from US\$30bn.

## Lower rates underpin credit recovery

The July credit report was fairly positive: outstanding credit grew 0.4%/m/m, sa (our seasonal adjustment), driven mainly by household credit, while corporate credit excluding BNDES lines returned to growth, expanding 0.2%/m/m. Lower interest rates and contained delinquencies added to the positive picture. In our view, this shows that looser monetary policy already is driving a credit market recovery which should continue with the expected cuts to the basic rate.

## Data releases and forecasts

### Week of September 2 – 6

Tue		Industrial production				
Sep 3			Apr	May	Jun	Jul
8:00am	%m/m sa		0.3	-0.2	-0.6	<u>0.3</u>
	%oya nsa		-3.9	7.1	-5.9	<u>-1.2</u>
Fri		Consumer prices (IPCA)				
Sep 6			May	Jun	Jul	Aug
8:00am	%m/m		0.1	0.0	0.2	<u>0.08</u>
	%oya		4.7	3.4	3.2	<u>3.40</u>
Fri		Wholesale prices (IGP-DI)				
Sep 6			May	Jun	Jul	Aug
7:00am	%m/m		0.4	0.6	0.0	<u>-0.56</u>
	%oya		6.9	6.0	5.6	<u>4.26</u>

## Review of past week's data

### Gross domestic product

	4Q18	1Q19	2Q19	
%q/q, saar	0.5	-0.6	<u>0.4</u>	1.8
%oya	1.1	0.5	<u>0.6</u>	1.0

### Current account balance

	May	Jun	Jul	
Current account (CA)	0.7	-2.9	<u>-7.8</u>	-9.0
CA, 12-month sum	-16.9	-19.8	<u>-20.8</u>	-24.4
CA, 12-month sum, %GDP	-0.9	-1.1	<u>-1.1</u>	-1.3
Foreign direct investment	7.1	2.2	<u>9.4</u>	7.7

### Fiscal sector

Minus denotes surplus

BRL bn	May	Jun	Jul	
Primary	13	12.7	<u>5.1</u>	2.8
12-month sum, as % of GDP				
Primary	1.4	1.4	1.4	
Nominal	7.4	6.5	<u>6.7</u>	6.5
Net debt, % of GDP	54.7	55.2	<u>55.9</u>	55.8

### National unemployment rate

	Jun	Jul	Aug	
Rate, 3-month average (nsa)	12.3	12.0	<u>11.9</u>	11.8

### Wholesale prices (IGP-M)

	Jun	Jul	Aug	
%m/m	0.8	0.4	<u>-0.50</u>	-0.67
%oya	6.5	6.4	<u>5.13</u>	4.95

Source: BCB, FGV, IBGE, and J.P. Morgan forecasts

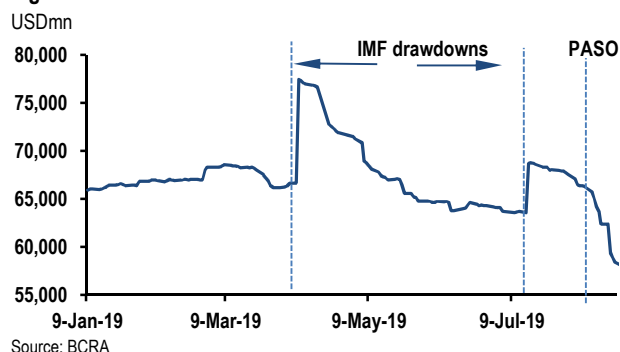
## Argentina

- **MinFin announced a forced re-profiling of short-term Treasury bills...**
- **...as well as a proposal for voluntary maturity extension of external and local law bonds**
- **The announcement seeks to alleviate short- to medium-term liquidity needs...**
- **...yet potential peso debt dollarization and FX deposit withdrawals may continue to put pressure on reserves**

Economy Minister Lacunza surprised us (and the market) by announcing the forced re-profiling of short-term Treasury bills (i.e., Letes, Lecaps, Lecer, and Lelink) held by institutional investors and proposing a voluntary re-profiling of external and local law debt. The re-profiling would not include principal or coupon haircuts, and the government committed to honor debt service while negotiations unfold.

He explained the measure as a way to address short- and medium-term liquidity needs and safeguard reserves. Very low rollover of short-term debt was putting a lot of stress on reserves, via a decline in the Treasury FX deposit and/or depletion of BCRA net reserves due to the cancellation of Treasury debt. Indeed, gross international reserves have declined by US\$10.3bn since the PASO election through Thursday 29<sup>th</sup> (Figure 1): US\$1.5bn through FX intervention, US\$4.7bn through Treasury payments (including repo cancellation and Letes payment) and the rest in FX deposit declines and other payments.

Figure 1: Gross international reserves



## Extending maturities for local and foreign debt bonds

For local law bonds, the maturity extension for around US\$20bn in debt requires Congress to approve a bill. At the time of writing, it is still unclear whether the government plans to present the bill to the Congress before or after the

October election. Either way, we believe the Congress will debate this bill in the next session.

For foreign law bonds, the government will negotiate a voluntary maturity extension with debtholders, relying on CACs as a vehicle to streamline the process. The Ministry of Treasury invited banks to send their proposals and clarified that the intention is to re-profile only the around US\$30bn in bonds maturing in the coming 10 years. That would exclude Global 2036, 2046, 2047, 2048, and 2117.

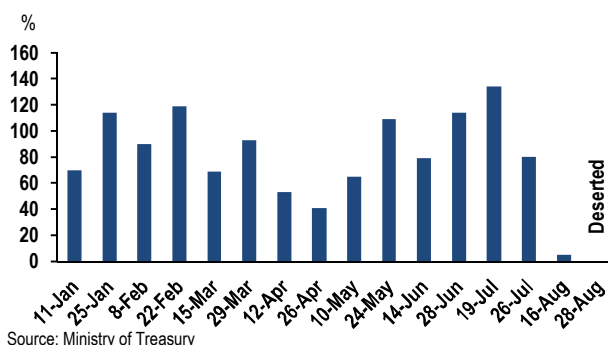
Importantly, as per a presentation the Treasury circulated, the following bonds are excluded from maturity extension: Provincial bonds, Gas Plan bonds, Bote 2020, Bote 2021, Bote 2023, Bote 2026, Discount AR Law, Discounts ARS, USD, EUR, and JPY, and Pars.

## For short-term bills the re-profiling is not voluntary, however

For short-term treasury bills denominated in both local currency (Lecap, Lecer, Lelink) and hard currency (Letes) the treatment is different depending on debtholder type: individuals (i.e., human persons as defined by local law) and institutional investors. For institutional investors, the Treasury is to pay 15% at the date of maturity, 25% three months later, and the remaining 60% six months later. For Lecaps maturing after 2020 the extension is for three months.

Private sector Letes rollover declined drastically after the PASO election, falling to 5% two weeks ago, while Wednesday's auction was canceled due to lack of demand (Figure 2). With no rollover of short-term bills, the Treasury faces a daunting US\$7.0bn outflow through year-end, with the corresponding impact on reserves. A similar rationale applied to local currency short-term bills, with around US\$7bn maturing through year-end (see [note](#) for a detailed breakdown of the Treasury financial needs before the short-term debt extension).

Figure 2: USD Letes rollover with the private sector



According to local press estimates, around 85% of the short-term Treasury bills outstanding is in the hands of institutional investors, which would imply around US\$9bn of delayed payments. The president issued an Executive Decree on Thursday, extending short-term maturities.

Finally, the government will also open negotiations with the IMF to re-profile US\$44bn in SBA payments, which currently are planned to start in 3Q21.

## The announcement seeks to alleviate liquidity needs but risks persist

In our view, the government's strategy involves many risks. First, we believe the pressure on international reserves may linger. While the involuntary short-term maturity extension will ease the Treasury's financial needs, FX deposit withdrawal pressures and dollarization of peso deposits will persist. In our view, a political gesture from the main opposition candidate and the favorite to win the presidential election is needed to break the prevailing vicious cycle.

Second, it's not clear, in our view, how holders of local law debt will react, particularly if we are right regarding the Congress addressing the re-profiling bill only after the October election.

Last, the IMF response to the policy announcement was cautious: "Regarding the debt operations announced by the Argentine authorities today, Fund staff is in the process of analyzing them and assessing their impact. Staff understands that the authorities have taken these important steps to address liquidity needs and safeguard reserves." While this paragraph of the statement does not stand out as supportive of the measures, the closing sentence reads: "Staff will remain in close contact with the authorities in the period ahead and the Fund will continue to stand with Argentina during these challenging times." In all, in our view the statement does not ease the uncertainty around whether the IMF will allow the country to draw down the US\$5.4bn originally scheduled for 3Q19.

## Data releases and forecasts

### Week of September 2-6

Government tax revenue					
Mon		May	Jun	Jul	Aug
Aug 2	%oya, real	-6.2	-3.3	-2.6	

Industrial production					
Thu		Apr	May	Jun	Jul
Aug 5	%oya	-8.8	-7.0	-6.9	

## Review of past week's data

No data released.

Source: INDEC, BCRA, and J.P. Morgan forecasts



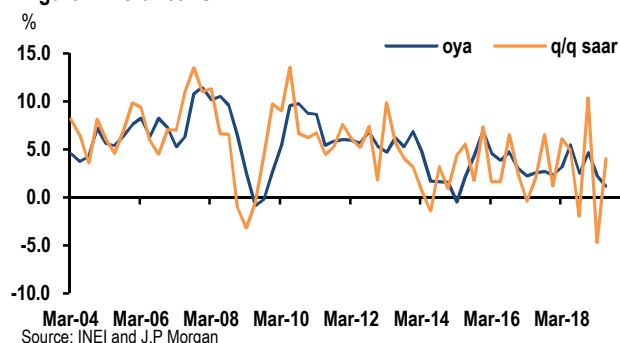
## Peru

- **Real GDP grew just 1.2%oya in 2Q19, the lowest rate recorded since 4Q14**
- **We now expect 2019 GDP growth to print at 2.9%/y/y and also revise 2020 lower to 3.4%/y/y**
- **The 2Q19 CAD deterioration was mainly explained by a lower trade surplus as exports declined**
- **There is room for limited fiscal accommodation**

Peru's real GDP grew just 1.2%oya in 2Q19, the lowest rate recorded since 4Q14, due to weak traditional exports, slowing private consumption, and moderating public expenditures. Domestic demand grew 2.0%oya, supported by private investment and by the recovery of public spending, but offset in part by slower private consumption. On the public sector side, consumption recovered in 2Q19 as well as investment. Finally, net exports disappointed markedly in 2Q19, subtracting 0.8%-pt from GDP %oya growth in the quarter.

In sequential terms, real GDP rebounded 4.1%/q/q, saar in 2Q19 after a 4.7% contraction in 1Q (Figure 1). Sequential growth has been seesawing since 2Q18, making it difficult to read underlying momentum. Yet, the sequential series pattern is similar to that of the over-year-ago series, with private consumption decelerating and investment recovering.

Figure 1: Peru real GDP



## Growth the strengthen in 2H19, with downward risks aplenty

We now expect 2019 GDP growth to print at 2.9% (3.5%/y/y before). We also lower our 2020 growth forecast to 3.4%/y/y. We now see 2H19 GDP growth averaging 4.0%oya, on more favorable base effects (particularly for 3Q19), the normalization of primary sector production (aside from gold production, where the downward trend seems structural) and a positive contribution from inventories (in 1H19 inventories subtracted 0.7%-pt on average).

But forecasts risks seem skewed to the downside. The uncertainty that surrounds US-China trade relations could add further downside to both export prices and volumes, while also reducing long-term direct investment, though we haven't observed this yet. On the local front, the current political stress between the president and the legislature may prompt the private sector to delay investment (particularly ex. mining investment, which accounts for 15.5% of GDP, while mining investment accounts for 2.4%).

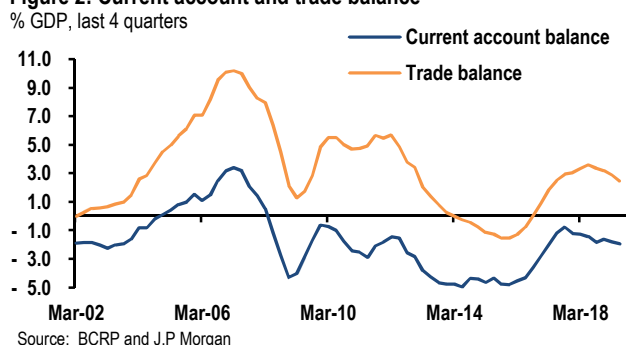
Thus the resolution of the government proposal to advance the general elections for April 2020 is particularly relevant. The timing for the Congress to analyzing and vote on the proposal seems tight, and the government could decide to add pressure by resorting to a vacancy motion.

The BCRP already trimmed the policy rate by 25bp, setting the real ex-ante policy rate close to zero. Even if inflation expectations continue to trend lower, we see limited space for the BCRP to add more monetary policy accommodation. The good news is that fiscal revenues increased in 1H19 despite the economic slowdown, which would suggest some fiscal space. But, the public sector deficit limits the scope for increased fiscal spending.

## Delving into the 2Q19 BoP balance

The current account deficit (CAD) amounted to US\$1.2bn (or 2.0% of GDP, Figure 2) in 2Q19, US\$410mn wider than the deficit in 2Q18, mainly due to a lower trade surplus as exports declined, particularly traditional exports, including mining and hydrocarbon products and fishmeal. As a result, the 2Q19 trade surplus came in US\$945mn lower than in 2Q18.

Figure 2: Current account and trade balance



Meanwhile, the public sector current account (savings-investment) balance printed at -1.1% of GDP in 2Q19 while the private sector came in at -0.9% of GDP. Thus, the public sector has indeed corrected in part the savings deficit that peaked at 2.5% of GDP in 4Q17 by around 1.4%-pts, suggesting there is some room for accommodative policies, albeit temporary and limited.

## Hefty financial inflows drove up BCRP gross reserves to 29.4% of GDP

On the financial side, net direct investment (NDI) inflows inched up to 3.8% of GDP, 0.3%-pt higher than in 2Q18. Meanwhile, private sector portfolio inflows grew to 1.3% of GDP, while the public sector financial account showed a positive balance of 3.0% of GDP.

The flipside of the strong net financial inflow in 2Q19 was the BCRP's international reserves, which rose by US\$7.4bn from 2Q18 to US\$66.5bn, equivalent to 29% of GDP (2.9% of GDP higher than in 2Q18). The sound macroeconomic setup helped the BCRP build its foreign exchange position from US\$38.1bn to US\$41.4bn, enough to counteract currency volatility.

## Chile

### Data releases and forecasts

Week of September 2-6

Policy rate		May	Jun	Jul	Aug
Sep					
Tue 3	%	3.0	2.5	2.5	<u>2.25</u>
Economic activity		Apr	May	Jun	Jul
Sep					
Tue 5	%oya	2.11	2.29	1.30	<u>3.3</u>
CPI		May	Jun	Jul	Aug
Sep					
Tue 6	%m/m	0.40	0.64	0.76	<u>0.2</u>
	%oya	7.73	7.36	7.54	<u>2.9</u>

### Review of past week's data

#### Manufacturing production

	May	Jun	2Q19	
%oya	1.90	-5.40	<u>3.10</u>	5.7

#### Unemployment

	May	Jun	Jul	
%, 3mma	7.1	7.1	<u>7.1</u>	7.2

Source: INE, BCCh, and J.P. Morgan forecasts

## Colombia

### Data releases and forecasts

Week of September 2-6

Exports		Apr	May	Jun	Jul
Tue					
Sep 3	US\$bn	3.9	3.7	3.0	<u>3.3</u>
CPI		May	Jun	Jul	Aug
Thu					
Sep 5	%m/m	0.31	0.27	0.22	<u>0.10</u>

### Review of past week's data

No data released.

Source: DANE and J.P. Morgan forecasts

## Peru

### Data releases and forecasts

Week of September 2-6

CPI		May	Jun	Jul	Aug
Sep					
Sat 1	%m/m	0.15	-0.09	0.20	<u>0.12</u>
	%oya	2.73	2.29	2.11	<u>2.1</u>

### Review of past week's data

No data released.

Source: INEI, BCRP, and J.P. Morgan forecasts

## United Kingdom

- **Johnson plans to prorogue Parliament for September**
- **MPs likely to launch a push back next week**
- **Spending review set for Wednesday**
- **Sliding sentiment point to weakening growth from August; watch next week's PMI**

Johnson's planned prorogation of Parliament for the second week of September places huge significance on the actions of anti-no-deal MPs next week, but limits available time. MPs have three courses of action they could take next week to help prevent the increasing likelihood of a no-deal Brexit: use legislation to force an Article 50 extension, use a court injunction to overturn the government's prorogation plans, or hold a potential no-confidence vote.

Our baseline scenario is that MPs will seek to pass legislation forcing Prime Minister Johnson to seek an Article 50 extension next week, with a no-confidence vote a fallback if that legislation does not look likely to pass in time. We have also updated our Brexit probabilities for October, pushing up the probability of a no-deal Brexit from 25% to 35%. The prorogation decision, if it withstands legal and political challenges, will constrain the time available to MPs to force a different path. At the same time, however, we have pushed up the possibility of a general election being the cause of an Article 50 delay to 40%, and that remains our base case. To be clear, that base case involves Parliament passing legislation to block PM Johnson's push toward a no-deal outcome and Johnson being forced to seek an Article 50 extension as the price for securing the necessary two-thirds majority to call a general election. An alternative route to an extension and general election comes via a no-confidence motion followed by replacement of the Johnson administration with a new PM.

The government described next week's unexpected spending review—which will lay out departmental budgets for the next fiscal year—as necessary so departments can start planning for next year while allowing the government to move on and focus on its Brexit planning. But this week's prorogation announcement suggests the timing of the review may have been a further attempt to occupy parliamentary time to make it harder for MPs to block no-deal. That may not work if opposition MPs seize the order paper and set an alternative agenda. The second motivation for the review is that it will help the government to demonstrate to voters the boost it intends to give to the economy should it win a snap election. We expect the review to follow through on government pledges to raise spending for the NHS, education, and the police. Chancellor Javid has said, however, that departments should not expect a

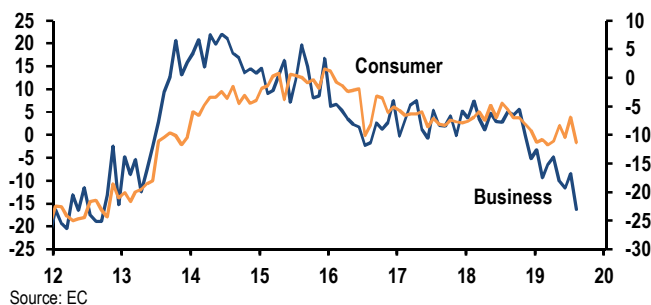
blank check and that any spending increases are likely to be implemented within the government's current fiscal objective of keeping structural borrowing below 2% of GDP in 2020/21. The current borrowing projection is 0.8% of GDP, but the recent monthly borrowing figures have surprised to the upside and suggest that borrowing may come in around 0.5%-pt higher than planned. If this carries over to next year, it would suggest around 0.7% of leeway relative to the current target. We doubt all of this will be used and hence would expect higher spending worth around 0.2%-0.3% of GDP to be announced for next year. But any fiscal projection will also depend on any new taxes as yet to be set out in the Autumn Budget—and of course what kind of Brexit happens beyond October.

## Sentiment slid in August

Underlying growth downshifted to 1% around the start of this year, as Brexit and global headwinds increased. Since then growth has been trading water without much further deceleration; although business investment continued to weaken, strength in the labor market has lifted consumption. As no-deal fears have grown over the summer, however, there is fresh evidence that this balance of forces is shifting to the downside.

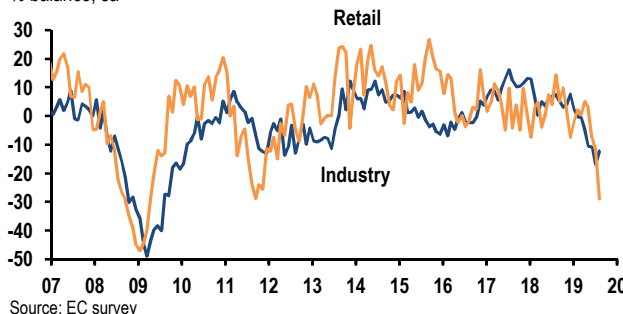
**Figure 1: Business and consumer confidence from the EC survey**

% balance, sa, business is JPM weighted average of EC industry data



**Figure 2: Consumer confidence from EC survey**

% balance, sa



The August EC sentiment indicator dropped 1.8%-pts to 92.5, the lowest reading since September 2012. Consumer confidence declined, although not enough to break new lows for this year

(Figure 1). The more striking development was the decline in business confidence—coming from the services rather than manufacturing sector, suggesting that domestic factors are at play. The particularly sharp decline in retail sentiment (Figure 2) was a little puzzling given the relative stability of consumer confidence and the strength of real incomes. But it is consistent with the collapse in the CBI's retail survey for August last week and, together with the softening in services sentiment, flags the risk that consumption is now following a weaker path, too. Our consumption nowcaster has indeed already fallen to indicate a weakening in spending growth to below 1%.

We prefer the PMI as timely indicator of underlying GDP growth, and we will receive the August installment of that survey next week. The survey will be the first to capture any shift arising from the change in prime minister and the ramping up of no-deal rhetoric. The July composite at 50.6 broadly signals growth of around 1.2% annualized on our estimates. We estimate that each 1%-pt drop in the survey would signal a further 0.2%-pt slowing in annualized underlying GDP growth.

## Data releases and forecasts

### Week of September 2 - 6

Mon	<b>PMI survey, manufacturing</b>				
Sep 2	% balance, sa				
9:30am		<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>
	Overall index	49.4	48.0	48.0	<u>48.0</u>
	Output	50.3	47.2	47.0	<u>47.0</u>
Tue	<b>BRC retail sales monitor</b>				
Sep 3	%oya				
12:01am		<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>
	Like for like sales	-3.0	-1.6	0.1	
	Total	-2.7	-1.3	0.3	
Tue	<b>PMI survey, construction</b>				
Sep 3	% balance, sa				
9:30am		<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>
	Overall index	48.6	43.1	45.3	
Wed	<b>PMI survey, services &amp; composite</b>				
Sep 4	% balance, sa				
9:30am		<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>
	Services business activity	51.0	50.2	51.4	<u>50.2</u>
	Composite				
	Output	50.9	49.7	50.7	<u>49.7</u>
	New orders	50.3	49.3	52.0	
	Employment	51.4	53.0	51.8	
Thu	<b>New car registrations</b>				
Sep 5	%3m/12m nsa				
9:00am		<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>
	Total	-3.8	-4.6	-4.6	
	Private (ex. bus. and fleet)	-4.7	-6.5	-4.1	

Fri	<b>Markit report on jobs</b>				
Sep 6	% balance, sa				
12:01am		<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>
	Permanent placements	48.5	48.7	49.7	
	Permanent salaries	58.9	59.1	58.8	
	Availability of permanent staff	37.3	38.5	42.1	
Fri	<b>Halifax house price index</b>				
Sep 6	Sa				
8:30am		<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>
	%m/m	0.4	-0.4	-0.2	
	%oya	5.7	3.9	2.6	
	%3m/3m saar	10.5	9.9	1.6	
Fri	<b>BoE/TNS Inflation attitudes survey</b>				
Sep 6	%oya, median expectations				
9:30am		<b>4Q18</b>	<b>1Q19</b>	<b>2Q19</b>	<b>3Q19</b>
	Inflation next 12 months	3.2	3.2	3.1	

## Review of past week's data

### CBI survey of services sector

% balance	<b>1Q19</b>	<b>2Q19</b>	<b>3Q19</b>	
Bus. and prof services	-12.0	-19.0		-2.0
Consumer services	-5.0	-7.0		-8.0

### BBA lending

Sa					
	<b>May</b>	<b>Jun</b>	<b>Jul</b>		
Secured lending (ch £bn, sa)	<del>4.4</del> 1.5	<del>4.6</del> 1.8			2.9
Loan approvals (000s, sa) <sup>1</sup>	<del>42.4</del> 42.5	<del>42.7</del> 42.8			43.3

<sup>1</sup>. For house purchase.

### Net lending to individuals (BoE release)

£ bn, average	<b>May</b>	<b>Jun</b>	<b>Jul</b>	
Consumer credit (ch, m/m)	0.9	<del>1.0</del> 1.1		0.9
Mortgage approvals (000s, sa)	<del>65.6</del> 65.7	<del>66.4</del> 66.5		67.3
Secured lending (ch, m/m)	<del>2.9</del> 3.0	<del>3.7</del> 3.8		4.6

### Money supply

Sa	<b>May</b>	<b>Jun</b>	<b>Jul</b>	
M4 ex IOFCs (%m/m)	<del>0.2</del> 0.1	0.1		0.9
M4 ex IOFCs (%3m/3m, ar)	<del>2.7</del> 2.8	2.5		4.4
M4 (%m/m)	-0.1	<del>0.4</del> 0.0		0.7
M4 (%oya)	2.1	2.3		2.7
M4 lending (%m/m) <sup>1</sup>	<del>-0.4</del> 0.0	0.7		0.9
M4 lending (%oya) <sup>1</sup>	3.4	2.9		4.7

<sup>1</sup>. Excludes the effect of securitization.

### GfK consumer confidence

Nsa	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>	
% balance	-13	-11		-14

Source: Rightmove, CBI, BBA, BCC, GfK, BRC Markit, SMMT, RICS, Land Registry, ONS, BoE, and J.P. Morgan forecasts

## Emerging Europe

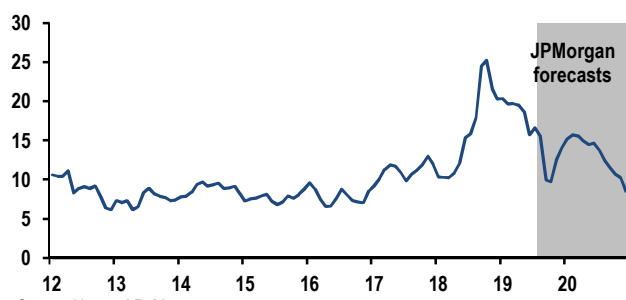
- **Turkey: Yearly inflation likely continued trending down in August**
- **Russia: We expect the CBR to cut 25bp next week**
- **Poland: Government goes for “expansionary consolidation,” aiming for balanced state budget in 2019**

### Turkey: Inflation fall likely accelerated in August

In Turkey, weak domestic demand, a stable currency, declining inflation expectations, and the downward adjustment in unprocessed food prices have been contributing to the downward trend in inflation in recent months. These factors and a very strong base likely will lead to an accelerated fall in inflation in the next two months (Figure 1). In fact, we expect inflation to fall from the current 16.7% to below 10% by October. Although we expect a weaker base to push inflation back up to 14.0% by year-end, the anticipated sharp fall over the next two months should further lower inflation expectations (which largely are backward-looking) and provide room for the CBRT to continue cutting rates.

Figure 1: Turkey consumer prices

%oya

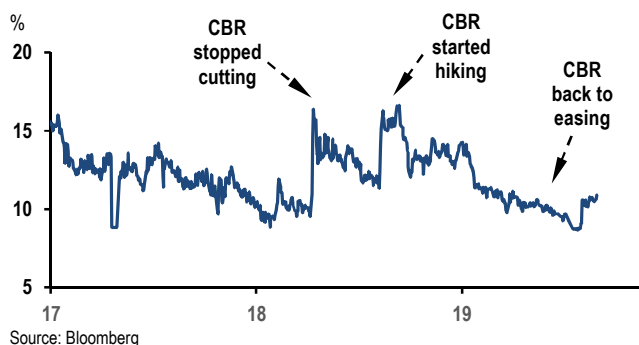


We expect consumer prices to increase 1.3%/m in August. The government's decision to increase the excise tax on tobacco and the resulting increase in cigarette prices and the 15% increase in natural gas prices are likely the main factors behind the rise. A seasonal fall in clothing prices and the continued downward adjustment in fruit and vegetable prices likely prevented higher monthly inflation. Despite the high monthly increase, we expect yearly inflation to fall sharply to 15.5% in August from 16.7% in July, due to a very strong base. Note that the sharp lira depreciation fueled 2.3%/m inflation in August 2018. Core inflation, which among other things excludes tobacco products and natural gas, should fall more sharply: to 14.0% from 16.2%.

### Russia: Hawks' talons clipped

We expect the CBR to cut 25bp at next week's meeting. Inflation and growth dynamics remain soft. Gauges of underlying inflation have trended slightly below the 4% target and next week's August CPI report appears likely to confirm that core inflation remains well behaved. Household inflation expectations dropped 0.3%-pt last month; corporate expectations edged lower, too. Economic activity unexpectedly weakened in July—only agricultural output kept the economy from contracting more significantly last month. Next week's PMI reports are likely to confirm that Russia's economy is running below trend. Increased volatility in financial markets, and the RUB in particular, is likely to contain the CBR's enthusiasm, but at current levels it is hardly an obstacle to a cut—in a historical context, the recent increase in RUB vol was modest (Figure 2).

Figure 2: USDRUB 3 month ATM implied volatility

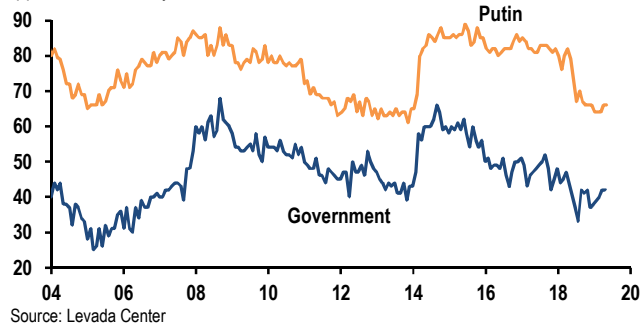


Meanwhile, the political pressure on the CBR to ease monetary policy has been rising. Last week the Economy Ministry presented its updated forecasts, with 2020 growth expectations, including on domestic demand, downgraded, and the inflation forecast for end-2020 slashed to 3.0%. The Ministry also continued to accuse the CBR of mismanagement of the consumer credit cycle, predicting a plunge in consumer credit growth from the current (elevated) 23%oya to 4% next year. Changes in forecasts imply increased demand for an easier policy set to support the economy. In a similar vein, President Putin commented that Russia's 1H growth (0.7%) was insufficient, while (the lack of) household income growth is a concern. Amid falling approval ratings (Figure 3), the political pressure to ease both fiscal and monetary policies will likely increase in coming quarters, we expect. On the fiscal policy front, of key interest ahead is the decision about the investment strategy for the sovereign oil fund and the size of quasi-fiscal stimulus it may bring in 2020-21.



Figure 3: Russia approval ratings: Putin vs. government

Approve, % of surveyed



## Poland: Government aims for balanced budget amid a stimulus program

This week the Polish government announced that it will aim for a balanced state budget in 2020 (or a 0.3% of GDP deficit in ESA terms), after a 1.7% deficit expected in 2019, an ambitious target given the sizable fiscal stimulus program being rolled out. Before the announcement, markets expected a 2% deficit, and PM Morawiecki himself just a few months ago forecast a 1.5%-2.0% deficit in 2020. If anything, in recent months the stimulus agenda has been beefed up, by extending the PLN500 policy to disabled individuals, raising public sector wages, and confirming that the pensioner's bonus will be repeated in 2020, and every year thereafter.

The government's plans rely on a string of one-off revenues (such as fees related to the liquidation of Open Pension Funds, sales of 5G licenses, and proceeds from the auction of CO2 permits) as well as what in our view are optimistic tax revenue growth assumptions and understated spending dynamics in the context of fiscal stimulus. We acknowledge that the government has a track record of fiscal prudence, and though its hands are tied by stimulus commitments (which cannot be reversed now) is still holds some levers to tweak the budget outcome. It can cut investment; it can raise some taxes (excise taxes for example); it can frontload OFE fee revenue; or it can even surprise us with some new one-off revenues that we are not including. All in all, we find the government's target optimistic, but believe that the government will take action to reduce the deficit. We reduce our 2020 budget deficit forecast to 1.5% of GDP, from 2.2%, and will revisit it once the government discloses the full budget plan. Regardless, we note that most of the spending implemented and pledged is permanent, whereas new revenues are temporary, so overall the structure of the budget has weakened and is more exposed to cyclical turns. We are confident that Poland will maintain firm economic momentum in the next few years, but in cyclically adjusted terms the budget deficit will likely be close to 3% next year, which highlights the exposure of the fiscal accounts to potential growth shocks.

## Data releases and forecasts

Week of September 2 – 6

### Czech Republic:

Mon Sep 2 9:00am	<b>PMI</b> Index				
	PMI, Manufacturing	May	Jun	Jul	Aug
		46.6	45.9	43.1	—
Tue Sep 3 9:00am	<b>Average wage</b> %oya				
		3Q18	4Q18	1Q19	2Q19
	Nominal wage	7.9	6.5	7.4	—
	Real wage	5.4	4.3	4.6	—
Thu Sep 5 9:00am	<b>Retail trade</b> %oya, unless otherwise stated				
		Apr	May	Jun	Jul
	Retail sales, sa	3.9	2.5	2.5	—
	%m/m, sa	0.5	-0.7	0.5	—
Fri Sep 6 9:00am	<b>Industrial output</b> %oya				
		Apr	May	Jun	Jul
	Production, nsa	3.2	3.2	-6.4	—
	Production, wda	3.3	3.2	-3.8	—
	%m/m sa	0.8	1.2	-2.8	—
Fri Sep 6 9:00am	<b>External trade</b> CZK bn				
		Apr	May	Jun	Jul
	Trade balance	18.8	25.2	18.4	—
	Ytd	71.1	96.3	114.7	—
	Ytd a year ago	71.0	77.7	91.1	81.6
	Exports %oya	8.2	8.1	-4.2	—
	Imports %oya	7.5	2.1	-6.1	—

Source: CNB, National Statistics, Eurostat, J.P. Morgan forecasts

### Hungary:

Tue Sep 3 9:00am	<b>External trade, final</b> EUR mn				
		Mar	Apr	May	Jun
	Trade balance	644	245	674	556
	Ytd	1853	2098	2772	3328
	Ytd a year ago	2147	2630	3123	4115
	Exports, %oya	4.9	3.8	4.6	-6.1
	Imports, %oya	5.9	7.0	2.8	-1.7
Wed Sep 4 9:00am	<b>Retail trade</b> % change				
		Apr	May	Jun	Jul
	%oya wda	7.2	2.6	5.2	—
	%m/m swda	0.6	-0.2	0.7	—
Fri Sep 6 9:00am	<b>Industrial output</b> %oya				
		Apr	May	Jun	Jul
	Production, wda	6.2	6.2	4.3	—
	Production, nsa	6.4	9.1	-1.4	—
	%m/m swda	-1.3	1.3	-1.8	—

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Fri Sep 6 9:00am	<b>External trade</b> EUR mn				
		Apr	May	Jun	Jul
	Trade balance	245	674	556	—
	Ytd	2098	2772	3328	—
	Ytd a year ago	2630	3123	4115	—
	Exports, %oya	3.8	4.6	-6.1	—
	Imports, %oya	7.0	2.8	-1.7	—

Source: NBH, National Statistics, Eurostat, J.P. Morgan forecasts

**Poland:**

Mon Sep 2 9:00am	<b>PMI</b> Index				
		May	Jun	Jul	Aug
	PMI, Manufacturing	48.8	48.4	47.4	—

Source: NBP, National Statistics, Eurostat, J.P. Morgan forecasts

**Romania:**

Wed Sep 4 9:00am	<b>Retail sales</b> %oya				
		Apr	May	Jun	Jul
	Retail sales, sa	6.5	3.9	5.7	—
	%m/m, nsa	-0.4	-0.5	1.3	—

Fri Sep 6 9:00am	<b>Real GDP, preliminary</b> %oya, unless otherwise stated				
		3Q18	4Q18	1Q19	2Q19
	Real GDP	4.2	4.1	5.0	<u>4.4</u>
	%q/q saar	5.3	4.1	4.9	<u>4.1</u>
	Domestic demand	2.6	3.3	6.2	—
	Private consumption	4.4	5.9	7.0	—
	GFCF	-3.9	-3.2	3.9	—
	Contribution to %oya GDP				
	Domestic final sales	3.5	4.0	8.8	—
	Inventories	5.9	5.6	6.9	—
	Net trade	-5.1	-5.6	-10.8	—

Source: NBR, National Statistics, Eurostat, J.P. Morgan forecasts

**Russia:**

Mon Sep 2 10:00am	<b>PMI surveys</b>				
		May	Jun	Jul	Aug
	PMI, Manufacturing	49.8	48.6	49.3	<u>49.5</u>
	PMI, Services	52.0	49.7	50.4	<u>52.0</u>

Thu Sep 5 4:00pm	<b>Consumer prices</b> %oya, unless otherwise stated				
		May	Jun	Jul	Aug
	%oya	5.1	4.7	4.6	<u>4.4</u>
	%m/m, nsa	0.3	0.0	0.2	<u>-0.2</u>

Fri Sep 6	<b>CBR rate decision</b>
	A 25bp cut to 7.0% expected – see main essay

Source: Rosstat, MinFin, AEB Russia, Markit, J.P. Morgan forecasts

**Economic Research****Emerging Europe**

August 30, 2019

J.P.Morgan

**Turkey:**

Mon Sep 2 2:00pm	<b>Gross domestic product</b> %oya, real terms				
		3Q18	4Q18	1Q19	2Q19
	GDP	1.8	-3.0	-2.6	<u>-2.4</u>
	Private Consumption	0.8	-8.9	-4.8	<u>-5.5</u>
	Public Consumption	3.4	0.5	7.2	<u>1.0</u>
	Capital Formation	-4.7	-12.9	-13.0	<u>-8.5</u>
	Exports	13.6	10.6	9.5	<u>4.2</u>
	Imports	-16.8	-24.4	-28.8	<u>-8.5</u>

Tue Sep 3 10:00am	<b>Consumer prices</b> % change				
		May	Jun	Jul	Aug
	Consumer prices				
	%oya	18.7	15.7	16.6	<u>15.5</u>
	%m/m	0.9	0.0	1.4	<u>1.3</u>
	Producer prices				
	%oya	28.7	25.0	21.7	<u>15.1</u>
	%m/m	2.7	0.1	-1.0	<u>0.9</u>
	Core CPI (I)				
	%oya	15.9	14.9	16.2	<u>14.0</u>
	%m/m	1.3	0.9	2.1	<u>0.4</u>

See main text

Source: Turkstat, CBRT, Ministry of Finance, J.P. Morgan forecasts

**Review of past week's data****Czech Republic:**

	<b>Real GDP</b> %oya, unless otherwise stated				
		3Q18	1Q19	2Q19	
	Real GDP, nsa	2.5	<u>2.8</u>	2.7	2.7
	%q/q saar	2.3	<u>2.6</u>	2.4	2.6
	Private consumption	3.0	2.9	—	2.6
	GFCF	7.7	3.0	—	2.6

Source: CNB, National Statistics, Eurostat, J.P. Morgan forecasts

**Hungary:**

	<b>NBH rate decision</b> %				
	<b>Average gross wages</b> %oya				
		Apr	May	Jun	
	Gross wages, nominal	9.0	11.3	—	10.7
	Industry	12.0	12.7	—	12.8
	Public sector	3.6	10.7	—	8.4

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**Economic Research****Global Data Watch**

August 30, 2019

**J.P.Morgan****Real GDP, final**

%oya, unless otherwise stated

	4Q1			
	8	1Q19	2Q19	
Real GDP	5.1	5.3	4.9	
%q/q saar	<del>4.5</del> 4.4	<del>5.7</del> 5.9	4.5	
Domestic demand	7.2	4.3	—	6.6
Private consumption	5.0	5.2	—	4.5
Fixed investment	17.2	23.4	—	16.4
Contribution to %oya GDP				
Domestic final sales	6.1	7.6	—	7.2
Inventories	0.2	-3.2	—	-1.3
Net trade	-2.1	1.7	—	-1.5

Source: NBH, National Statistics, Eurostat, J.P. Morgan forecasts

**Poland:****Consumer prices, preliminary**

%oya, unless otherwise stated

	Jun	Jul	Aug	
%oya	2.6	2.9	2.8	
%m/m, nsa	0.3	0.0	<del>0.1</del>	0.0

**Real GDP, final**

%oya, unless otherwise stated

	4Q18	1Q19	2Q19	
Real GDP	4.9	4.7	<del>4.4</del>	4.5
%q/q saar	1.6	5.7	3.2	
Domestic demand, nsa	4.8	4.2	—	4.8
Private consumption	4.2	3.9	—	4.4
Fixed investment	8.2	12.6	—	9.0
Contribution to %oya GDP				
Domestic final sales	5.2	5.4	—	4.8
Inventories	-0.4	-1.3	—	-0.2
Net Trade	0.1	0.6	—	-0.1

Source: NBP, National Statistics, Eurostat, J.P. Morgan forecasts

**Turkey:****Capacity utilization**

%

	Jun	Jul	Aug	
Total manufacturing	77.1	76.2	—	76.6
Durables	76.3	74.6	—	74.3
Non-durable	74.9	74.5	—	75.5

Source: Turkstat, CBRT, Ministry of Finance, J.P. Morgan forecasts

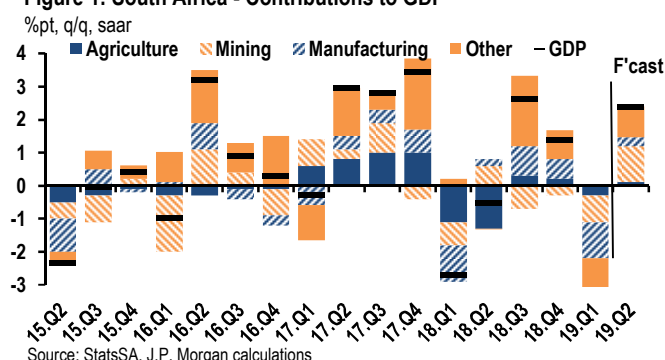
## South Africa & SSA

- **South Africa: GDP likely bounced broadly in 2Q19, but growth should moderate in 2H19 as base effects fade**
- **IP probably led 2Q growth, but outlook remains challenging**
- **Current account deficit likely widened in 2Q19 on reduced trade surplus**

### South Africa: GDP likely leapt 2.4%q/q, ar in 2Q19, but outlook remains challenging

We expect the upcoming 2Q19 GDP report to mark a broad-based recovery in growth to 2.4%q/q, saar, after a 3.2% contraction in 1Q. We attribute much of the 2Q GDP growth swing to rebounds in the primary and secondary sectors, particularly mining and manufacturing. Operational issues and power cuts contributed to a 10.8%q/q, saar plunge in mining and an 8.8% fall in manufacturing activity in 1Q19, shaving a combined 1.9%-pts from growth. Yet, in 2Q mining output probably surged 14.6%q/q, saar, while manufacturing production recovered a subdued 2.1%. We estimate these sectors combined contributed 1.4%-pts to 2Q GDP growth, leading the rebound in overall activity (Figure 1). We estimate that the agricultural sector also recovered after contracting in 1Q, mainly benefiting from base effects and summer crop harvesting in May.

Figure 1: South Africa - Contributions to GDP



Regarding the tertiary sector, and the likely support from the consumer, we project that services output grew sequentially, helped by a decline in sequential consumer price inflation and a likely recovery in nominal wage growth. That said, while consumer and business confidence remained weak, many of the consumer indicators recovered somewhat in 2Q, signaling a positive contribution to GDP growth from the services sector.

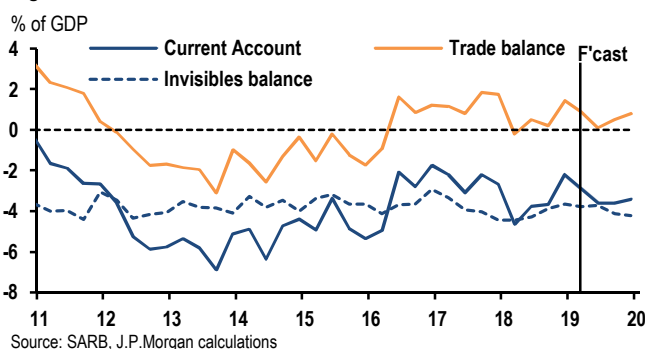
Risks to the growth outlook remain skewed to the downside, notwithstanding the expected rebound in 2Q. Substantial fis-

cal challenges lead us to anticipate that Moody's will revise South Africa's ratings outlook to negative in November, with a likely downgrade in 1Q20. At the same time, the economic outlook hinges significantly on a stable electricity supply. Risks of load-shedding in early 4Q remain, but the extent and the magnitude matter. In our view, the economy could withstand more contained stage one load-shedding, [while stage four](#) could drive full-year GDP into contraction. On the flip side, our near-term inflation outlook remains benign, with the next move in the repo rate more likely to be a 25bp cut to 6.25% in November and some chance that this may occur in September. All told, we continue to look for 1.5%q/q, saar GDP growth in 3Q and 0.4% in 2019.

### Current account gap likely widened in 2Q on weaker trade surplus

The SARB's upcoming BoP release probably will reflect a substantial widening in the current account deficit to 3.6% of GDP, from 2.9% in 1Q19 (Figure 2). A rise in imports, particularly of petroleum products, machinery, and vehicle parts, probably reduced the trade surplus to 0.1% of GDP last quarter, from 0.9% in 1Q19. At the same time, exports remained soft, particularly in the mining sector.

Figure 2: South Africa - Current account balance



The shortfalls in the services, income, and capital transfers balances likely remained large in 2Q19, and probably even widened somewhat. In our view, the trade balance should recover to 0.6% of GDP in 2H19 as the uptick in imports, probably tied to local supply disruptions in manufacturing, should prove temporary. Overall, we still expect the current account deficit to narrow marginally to 3.4% of GDP this year, from 3.6% in 2018.

## South Africa

## Data releases and forecasts

## Week of September 2 – 6

Mon	<b>Barclays BER PMI</b>				
Sep 2	Index				
11:00am		<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>
	PMI (% weights)	45.4	46.2	52.1	—
	Business activity (25)	43.5	44.5	56.9	—
	New sales orders (30)	44.4	46.2	54.5	—

Mon	<b>New vehicle sales</b>				
Sep 2	%oya, except as noted				
		<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>
	Total vehicle sales	-5.9	-1.5	-3.8	—
	%m/m nsa	9.9	13.7	0.2	—

Tue	<b>Real GDP by output sector</b>				
Sep 3	%q/q, saar, except as noted				
11:30am		<b>3Q18</b>	<b>4Q18</b>	<b>1Q19</b>	<b>2Q19</b>
	%q/q, saar	2.6	1.4	-3.2	<u>2.4</u>
	%oya	1.3	1.1	0.0	—
	<b>Primary</b>	<b>-4.0</b>	<b>-1.1</b>	<b>-11.4</b>	—
	Agriculture	14	8	-13.2	—
	Mining	-8.9	-3.8	-10.8	—
	<b>Secondary</b>	<b>4.9</b>	<b>3.0</b>	<b>-7.4</b>	—
	Manufacturing	7.5	4.5	-8.8	—
	<b>Tertiary</b>	<b>2.9</b>	<b>1.7</b>	<b>-0.7</b>	—
	GDP ex agriculture	2.2	1.5	-2.9	—

Thu	<b>Balance of payments</b>				
Sep 5	R bn, saar, except where noted				
11:00am		<b>3Q18</b>	<b>4Q18</b>	<b>1Q19</b>	<b>2Q19</b>
	Trade balance	10.2	71.8	43.0	—
	% of GDP	0.2	1.4	0.9	—
	Invisibles balance	-191	-182	-185	—
	% of GDP	-3.9	-3.6	-3.8	—
	Current account balance	-180.4	-110.2	-142.5	—
	% of GDP	-3.7	-2.2	-2.9	—

Fri	<b>SARB official reserves</b>				
Sep 6	US\$ bn, except noted				
8:00am		<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>
	Gross reserves (R bn)	709.4	705.7	702.7	—
	Gross reserves	48.3	49.8	49.4	—
	International liquidity	43.2	43.9	43.9	—

## Review of past week's data

## Monetary and credit aggregates

%oya, except as noted

	<b>May</b>	<b>Jun</b>	<b>Jul</b>	
M3	9.1	9.0	—	8.3
M0	5.0	7.4	—	6.7
Private sector credit	7.7	6.9	—	7.2

## Fiscal revenue and expenditure June

Rand bn, sa

	<b>May</b>	<b>Jun</b>	<b>Jul</b>	
Balance	-17.5	23.6	—	-99.1
Revenue	96.9	147.2	—	73.7
Expenditure	114.5	123.6	—	172.9

## Trade balance

R bn, except as noted

	<b>May</b>	<b>Jun</b>	<b>Jul</b>	
Trade balance	1.6	5.5	—	-2.9

Source: Stats SA, J.P. Morgan forecasts

## SSA

## Data releases and forecasts

## Week of September 2 – 6

<b>Kenya</b>	<b>Markit/Stanbic Bank PMI</b>				
	Index				
Wed		<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>
Sep 4	PMI	51.3	54.3	54.1	—

<b>Nigeria</b>	<b>Markit/Stanbic IBTC Bank PMI</b>				
	Index				
Wed		<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>
Sep 4	PMI	52.9	54.8	54.6	—

<b>M'bique</b>	<b>Markit/Stanbic Bank PMI</b>				
	Index				
Wed		<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>
Sep 4	PMI	52.3	52.0	52.8	—

<b>Zambia</b>	<b>Markit/Stanbic Bank PMI</b>				
	Index				
Wed		<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>
Sep 4	PMI	43.9	46.6	44.4	—

<b>Ghana</b>	<b>Markit/Stanbic Bank PMI</b>				
	Index				
Wed		<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>
Sep 4	PMI	50.6	50.5	51.2	—

## Review of past week's data

## Zambia: CPI

%oya	<b>June</b>	<b>July</b>	<b>Aug</b>	
	8.6	8.8	—	9.3

Source: IHS Markit, Bloomberg, J.P. Morgan



## Australia and New Zealand

- **The RBA is widely expected to leave the cash rate unchanged at 1% at next week's September meeting**
- **2Q real GDP tracking at 0.4%q/q or 1.6%oya**
- **Domestic demand still subdued, though net exports remain supportive**
- **NZ business confidence slipped, while inflation expectations fell further**

The RBA's September policy meeting and the June quarter real GDP print are in focus next week. We expect the RBA to hold the cash rate steady at 1%, though the soft partial GDP data suggest the commentary around near-term growth performance will be more cautious than in previous months. The capex and construction prints this week lowered our 2Q real GDP growth tracking estimate one-tenth to 0.4%q/q and we will revisit this forecast as more data come to hand.

The retail and trade data for July are also released next week. We expect retail spending to firm through 3Q as recent tax cuts boost disposable income, though we highlight that it is probably still too early to see a meaningful effect in the data given rebates were only distributed from mid-July. The trade data are likely to have a softer tone than in the past few months following the 25% decline in spot iron ore prices from the July peak. We regard June's record surplus as the high-water mark for the trade data and expect the surpluses to moderate through the rest of the year.

### Weak GDP doing the RBA no favors

RBA officials recently expressed a preference to wait and assess how recent easing is filtering through to the economy, so we have low expectations for next week's meeting. While officials will not have the 2Q real GDP print in hand, the tracking data (which we estimate imply 0.4%q/q growth) suggest that growth is running meaningfully below the RBA's 0.75%q/q standing forecast. The commentary surrounding the growth outlook is therefore likely to have a more dovish tone than in prior meetings and increases the chance of further growth downgrades in the upcoming Statement of Monetary Policy. That said, the 50bp of rate cuts in 1H19 alongside the successful implementation of the government's tax cut package should boost household disposable income and in turn consumption growth from 3Q19. In our view this will prevent the RBA from becoming too downbeat on near-term growth and will emphasize prospects for a better second half. This contributes to our expectation that the Bank remains on the sidelines for the rest of the year before easing policy again in early 2020.

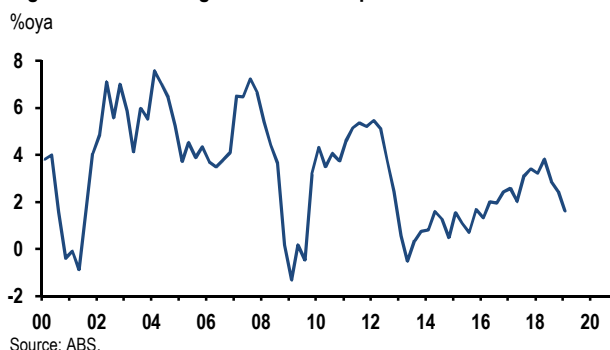
## Business activity still soft

The June construction and capex reports released this past week were both softer than expected, particularly construction work done, which posted a large decline in residential (-5%q/q) and non-residential (-7%q/q) construction. The persistent weakness in the monthly residential building approvals data had suggested that residential building was set to fall through 2019, though the 2Q outcome indicates this pull-back was particularly acute around midyear. The headline capex print also was below forecast, though the weakness was narrowly concentrated in construction, while the incremental information from plant and equipment spending was stronger (+2.5%q/q). Firms' capex intentions for the 2019/20 fiscal year came in very close to our forecast and above consensus at A\$113.4bn (JPM: A\$114bn; consensus: A\$111bn). This is an upgrade from 1Q's A\$99bn, but as noted previously it is normal to see large upgrades in the third estimate (the first conducted within the fiscal year in question).

## 2Q GDP now tracking at 0.4%q/q

Following the construction and capex reports we lowered our tracking estimate of 2Q real GDP growth by one-tenth to 0.4%q/q. The composition of growth is also weaker than we initially expected as the tracking data suggest the weak trend in domestic activity persisted through the June quarter (Figure 1).

Figure 1: Australian gross national expenditure

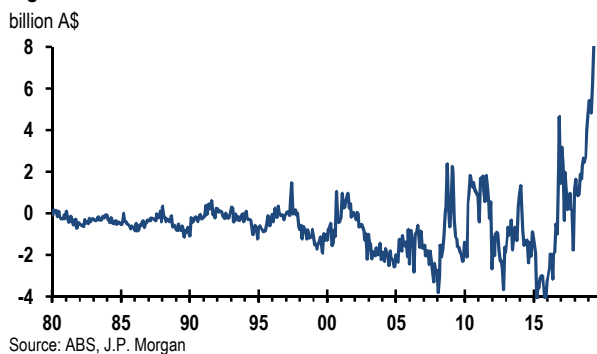


Aside from the capex print the soft domestic backdrop has been most apparent in the retail volumes data, which marked another very small gain in 2Q. While the retail and household consumption data rarely move in lockstep, the persistent weakness in the retail sector suggests broader private spending growth remains soft. The external sector is still the bright spot and we expect it to contribute 0.2%-pt to GDP, but given this strength is narrowly concentrated in the highly productive and largely foreign-owned resources sector, we regard spillovers to the domestic economy as limited. The remaining pieces of the GDP puzzle for next week are the business indicators, trade, and government spending data.

## Mixed week for the external accounts

Australia's 2Q current account and July trade balance data are released in the coming week. The string of record trade surpluses though the June quarter (Figure 2) suggests the current account (CA) release is poised to report the first surplus in more than 40 years. Although the CA deficit has been narrowing gradually since 2016, this improvement owes solely to better trade outcomes, while the income account remains in structural deficit. Given spot iron ore prices are now 25% below the 2019 highs we expect the CA to return to deficit later this year. Turning to the monthly trade print, recent dynamics in spot iron ore markets (Australia's largest export commodity comprising about 30% of total exports) suggest nominal exports will move lower in July. As a result we expect the June trade surplus to be the high-water mark for the traded sector and look for the monthly surpluses to moderate to more sustainable levels.

Figure 2: Australia's trade balance



## NZ business survey plumbs new depths

New Zealand's ANZ business confidence survey for August brought yet another downgrade to sentiment on the economy and profitability. The confidence measure fell to -52.3 from -44.3, a new post-GFC low, and firms' own activity outlook also darkened again to a (less extreme) -0.5 from 5.0. Ironically, as the RBNZ hosts its joint conference with the IMF on "Inflation Targeting: Prospects and Challenges," inflation expectations have sunk by another 11bp to 1.70%. It is not too surprising to see inflation expectations fall alongside local fuel prices. But Governor Orr cited weakening expectations as a key motivation for cutting 50bp in August, and on the data the RBNZ still will have a battle ahead to stabilize these readings. We expect the Bank to cut again in November, though its view that the front-loaded easing has bought some time could see this slip to early 2020.

## Australia

### Data releases and forecasts

#### Week of September 2 - 6

Tue Sep 3 11:30am	Current account balance	Sep	Dec	Mar	Jun
	A\$bn	-11.0	-7.4	-2.6	-
	Net exports (%-pts)	0.1	0.0	0.2	<u>0.2</u>

Tue Sep 3 11:30am	Retail sales	Apr	May	Jun	Jul
	%m/m	0.2	0.1	0.4	<u>0.2</u>

Wed Sep 4 11:30am	Real GDP	Sep	Dec	Mar	Jun
	%q/q	0.3	0.2	0.4	<u>0.4</u>

Thu Sep 5 11:30am	Trade balance	Apr	May	Jun	Jul
	A\$bn	5.7	6.2	8.0	-

### Review of prior week's data

Construction work done	Dec	Mar	Jun	
%q/q	-2.1	-1.9	-4.9	-3.3

Private capital expenditure	Dec	Mar	Jun	
%q/q	1.3	-1.5	-0.2	-0.5

Building approvals	May	Jun	Jul	
%m/m	0.3	-1.2	-	0.0

## New Zealand

### Data releases and forecasts

#### Week of September 2 - 6

No data releases of note.

### Review of prior week's data

ANZ business confidence	Jun	Jul	Aug
Index	-44.0	-44.3	-52.3

Source: ABS, Stats NZ, J.P. Morgan forecast

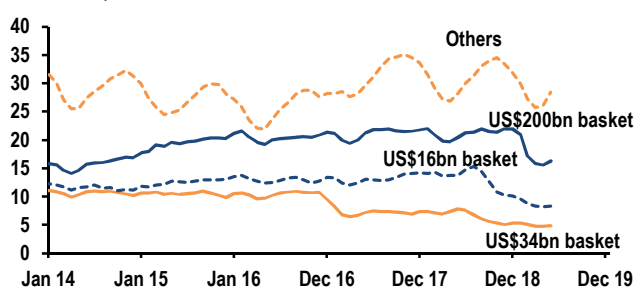
## Greater China

- **Trade war update: Crossing the 25% line**
- **Industrial profits recovered somewhat in July**
- **Hong Kong: Trade activity remained weak in July**
- **Retail sales continued to contract July**

On August 23, in response to additional US tariffs on Chinese imports, China announced it would: i) impose an additional 10% or 5% tariff on US\$75bn of products imported from the US on September 1 and December 15, and ii) re-impose 25% or 5% tariffs on auto and auto parts imported from the US, effective December 15. President Trump immediately tweeted he would increase tariffs from 25% to 30% for the \$250bn goods, and from 10% to 15% for list 4A products. The latest escalation for the first time imposes tariffs higher than 25% on certain products from both sides. China is in a weak position in the negotiation, as it imports much less from the US than it exports to the US (Figure 1).

**Figure 1: Share of China in US imports by tariff groupings**

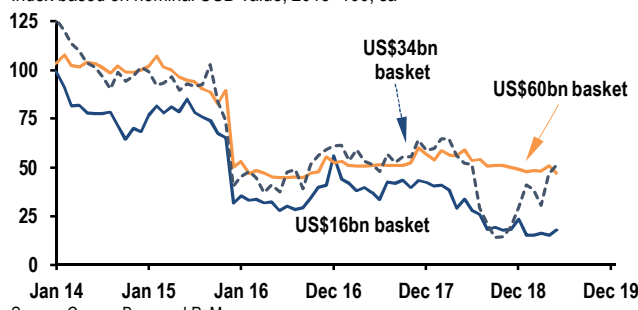
%, 3mma, by tariff



Source: Census Bureau, J.P. Morgan

**Figure 2: China imports from US in nominal terms**

Index based on nominal USD value, 2013=100, sa



Source: Census Bureau, J.P. Morgan

In the previous two rounds of retaliatory action, China imposed a 25% tariff on US\$50bn and a 5%-25% tariff on US\$60bn of imports from the US (Figure 2). But on the latest list, 3,298 out of the total 5,078 items overlap with the previous two lists. The September list includes mainly soybeans and other agricultural products, medicines, and oil while the

December list includes mainly autos and auto parts. Aircraft (except for small planes) still are not included.

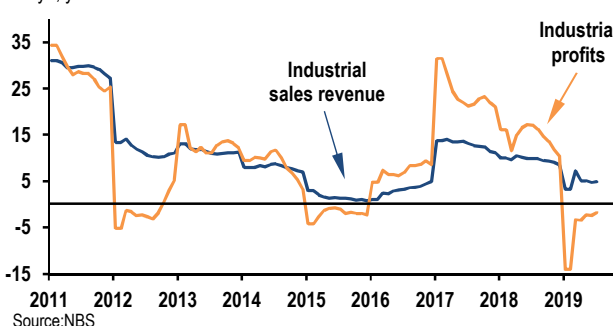
The latest announced tariffs imply that the average US tariff on Chinese imports will increase by another 3.4%-pts and the average China tariff on US imports will increase by another 3.6%-pts, resulting in an additional 0.2%-pt drag on China's GDP growth in 2019 and 2020. Assuming China's policy reaction does not deviate from our forecast for i) modest fiscal expansion, with the augmented fiscal deficit increasing by 0.8%pt of GDP in 2019 and 0.4%pt in 2020; ii) two more 50bp RRR cuts and 10bp OMO policy rate cuts, with TSF growth rising marginally to 11-12%; and iii) the USD/CNY exchange rate reaching 7.35 at the end of 2019 and 7.40 in mid-2020, we keep our 2019 growth forecast at 6.2%/y (largely due to the delay in applying the tariff to some products from September 1 to December 15), but lower our 2020 growth forecast from 6.0% to 5.8%.

## Industrial profits recover

Total industrial profits (including all industrial companies with annual sales from their principal business exceeding 20mn yuan) increased by 2.6%oya in July after a 3.1%oya decline in June and a 10.3%oya rise in full-year 2018). Sales revenue growth also picked up to 4.9%oya ytd from 4.7% in June, while industrial enterprises' profit margin (as a percentage of sales revenue) edged up to 5.9%ytd (Figure 3).

**Figure 3: China industrial enterprises' profits and sales revenue**

%oya, ytd



Source: NBS

Industrial profits recovered across sectors. While profits in autos, oil refineries, and electric machinery (the main drags in June) fell further, the decline has slowed notably. In addition, the sector manufacturing consumer goods reported notable profit gains

By ownership structure, private companies continued to lead the gains, while SOEs and foreign companies' profits continued falling in January-July (down 8.1%oya and 6.9%oya, respectively).

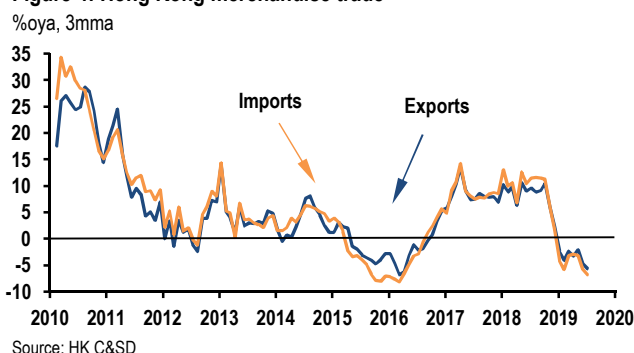
The industrial sales revenue recovery was consistent with the latest pickup in manufacturing FAI, which rose 4.7%oya in July after 3.8% in June. In fact, the weakness in industrial enterprise sales revenue growth and profits since 4Q18 had been the main drag on manufacturing FAI earlier this year. Thus, the moderate recovery of sales revenue in July was encouraging, yet remains fragile.

Manufacturing investment accounts for nearly one-third of total fixed investment in China, and thus maintaining stable manufacturing investment is critical to China's growth stabilization efforts. Policy supports such as tax cuts could start to show effects in 2H, but external headwinds have been rising. Overall, we forecast manufacturing investment to grow about 4% in 2019, implying a relatively stable 2H.

## Hong Kong SAR, China: Trade activity remained weak

Hong Kong's (HK's) exports dropped 5.7%oya in July, following a 9.0%oya fall in June. Imports also contracted, by 8.7%oya, with the pace of decline accelerating from 7.5%oya in June (Figure 4). For the first seven months of 2019, exports declined by 3.9%oya over the same period in 2018 while imports dropped by 5.1%oya, translating to a trade deficit of US\$276.8bn.

Figure 4: Hong Kong merchandise trade



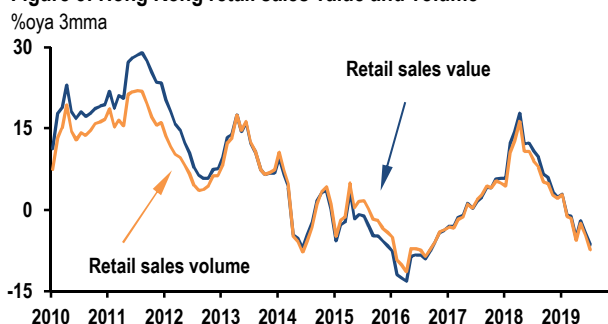
Uncertainty surrounding US-China trade tension disrupted the global supply chain, severely dragging on HK's re-exports business, which accounted for about 99% of HK's total exports in 2018. As a result, trade with many major trade partners has contracted for consecutive months. In particular, exports to mainland China fell 7.1%oya and exports to the US nose-dived 10.7%oya. Imports contracted as well. While the direct impact on GDP through net exports will be limited, weak trade activity could erode business confidence, raise unemployment, and lower household income, indirectly weighing on consumption and investment. We expect total trade to fall by 8.0%oya in 2019, and assuming other factors hold constant, the contraction in trade activity likely will slow 2019 growth by 0.8%-pt. Considering the social unrest in the

region along with rise in the unemployment rate (to 2.9% sa in July, after staying at record-low 2.8% sa for 14 consecutive months), we expect GDP growth to stay at 0.3%/y in 2019 down notably from compared to 3.0% in 2018.

## Retail sales continued to contract in July

Hong Kong's retail sales volume came in below expectations in July, falling 13.0%oya (J.P. Morgan and consensus: -12.5%oya) while sales value shrank by 11.4%oya, on 7.0%/m/m, sa and 6.0% falls in real and nominal sales (Figure 5). The retail sales weakness was broad-based. Sales of jewelry and valuable gifts led the slowdown, plunged 13.1%/m/m, sa, followed by sales at department stores, clothes and footwear, and other consumer goods. Overall, retail sales volume has lost momentum in the first seven months of 2019, falling 4.4%oya over the same period of last year.

Figure 5: Hong Kong retail sales value and volume



Source: HKC&SD, J.P. Morgan

While GDP growth has already slowed amid US-China trade tension, the prolonged social unrest in the region has disrupted tourism as well as the domestic service sector. Tourist inflows dropped 4.8%oya in July, implying about 264,000 fewer arrivals than July 2018, and a sharp decelerating from the 14%oya tourist inflow growth in 1H. In addition to the direct impact from ongoing protests, weak business will also lead to lower corporate revenue and higher unemployment, passing through to investment and consumption. CNY depreciation in response to higher tariffs on Chinese exports led the HKD to appreciate as the CNY comprises ~50% of Hong Kong's currency basket, eroding tourists' spending power.

Despite the recently announced additional government relief package totaling approximately 0.67% of 2018 GDP, we forecast that retail sales will remain weak, contracting in the high single-digits in 2019.

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 August 30, 2019

**J.P.Morgan**

## China:

### Data releases and forecasts

Week of September 2 – 6

Sat Aug 31 9:00am	<b>Purchasing managers index</b>				
	Index	<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>
	Overall (NBS)	49.4	49.4	49.7	<u>49.6</u>
	Output	51.7	51.3	52.1	—

Mon Sep 2 9:45am	<b>Purchasing managers index</b>				
	Index	<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>
	Overall (Markit)	50.2	49.4	49.9	<u>49.8</u>
	Output	50.1	49.0	50.1	—

### Review of past week's data

No data released.

Source: NBS, PBOC, Markit, J.P. Morgan forecasts

## Hong Kong SAR, China:

### Data releases and forecasts

Week of September 2 – 6

No data releases.

### Review of past week's data

#### Merchandise trade (Aug 26)

HK\$ bn	<b>May</b>	<b>Jun</b>	<b>Jul</b>	
Balance	-34.7	-55.2	<u>-54.9</u>	-32.2
Exports	343.1	309.6	<u>329.5</u>	338.6
%oya	-2.4	-9.0	<u>-8.2</u>	-5.7
Imports	377.8	364.8	<u>384.4</u>	370.8
%oya	-4.3	-7.5	<u>-5.4</u>	-8.7

#### Retail sales volume (Aug 30)

% change	<b>May</b>	<b>Jun</b>	<b>Jul</b>	
%oya	-1.8	-7.6	<u>-12.5</u>	-13.0
%m/m sa	3.2	-6.0	<u>-7.0</u>	

Source: Hong Kong Census and Statistics Department, J.P. Morgan forecasts

## Taiwan, China:

### Data releases and forecasts

Week of September 2 – 6

Mon Sep 2 8:30am	<b>Markit manufacturing PMI</b>				
	Index, sa	<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>
	Overall	48.4	45.5	48.1	<u>47.8</u>
	Output	49.2	43.9	48.6	—

Fri Sep 6 4:00pm	<b>Consumer prices</b>				
	% change	<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>
	%oya	0.9	0.9	0.4	<u>0.6</u>
	%m/m sa	0.2	-0.1	-0.2	<u>0.1</u>

### Review of past week's data

No data released.

Source: Taiwan Ministry of Economic Affairs, DGBAS, MoF, J.P. Morgan forecasts



## Korea

- **Bank of Korea stood pat but hinted at further easing**
- **July IP surprised to the upside due to non-tech domestic demand**
- **Government proposed an expansionary 2020 budget**

While potential negative spillover from elevated trade tensions looms larger for later this year and in 2020, accommodative policy responses should buffer any drag. According to the 2020 budget proposal, the government's contribution to overall GDP growth should remain strong, and we expect the Bank of Korea to ease in October. July's IP was materially stronger than markets expected and the PMI output index suggested, as non-tech production surged, likely benefiting from fiscal stimulus.

### BoK stood pat, hinting at further easing

The Bank of Korea maintained its base policy rate at 1.5% at its August meeting, after an earlier-than-expected cut in July. We expect further monetary policy easing (two 25bp cuts) in response to concern over GDP growth and the inflation outlook, yet the timing is fluid. While we expected preemptive action in August as a close call, the MPC chose to wait and hint at near-term action: dovish members Cho and Shin dissented for a cut in August (the decision was 5-2), and the governor highlighted uncertainty about growth and downside risk to the inflation outlook.

The governor stressed uncertainty from US-China trade tension and geopolitical noise, but noted it is too early for its growth forecast to reflect that risk, likely overriding calls for preemptive action. Meanwhile, the BoK acknowledged downside risk to the inflation outlook. While supply-side factors and a temporary base effect led to the inflation downshift, underlying inflation pressure and inflation expectations should have eased, bolstering the case for rate cuts.

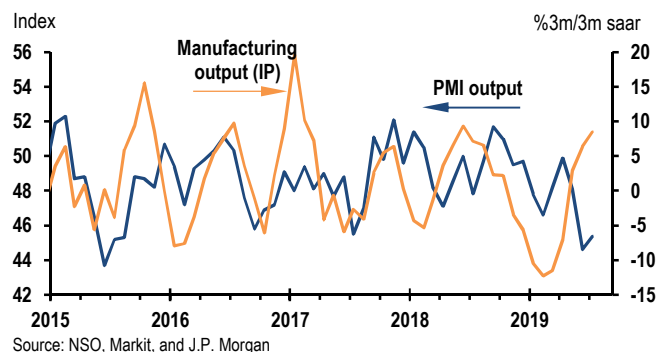
In all, reflecting the downside risks to growth and the inflation path and a relatively sanguine financial stability outlook, we continue to expect two more cuts by 1H20, with disappointing inflation leading to a 25bp cut in October. We expect a follow-up cut in 1Q20 but as a closer call given the BoK's cautious stance and depending on incoming data and trade tensions.

### Non-tech led July upside IP surprise

Industrial production jumped 2.6%*m/m*, *sa* in July, surprising markets to the upside. Three-month sequential growth accelerated further to 1.9%*3m/3m sa*, after bottoming in February with a 3.0% contraction. The deviation between robust IP data

and soft surveys widened further (Figure 1), suggesting that forward-looking concerns over negative spillover from rising trade tension, rather than actual production conditions, dragged on sentiment. We expect this gap to narrow gradually, as trend IP growth should soften given sluggish external demand and as the surveys recover from temporary noise.

Figure 1: Manufacturing output - PMI vs IP



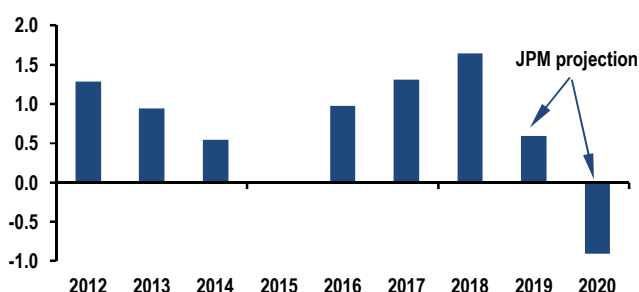
Non-tech production led July's gain, notably automobile, chemical, and machinery and equipment production, while tech production fell after rising for four months. Shipments also rose more robustly in the non-tech sector and in response to domestic demand than in the tech sector and in response to export demand. In all, domestic demand for non-tech products has firmed, likely benefiting from fiscal stimulus.

### Government proposed an expansionary 2020 budget

This week, the Ministry of Economy and Finance announced a budget plan, which is to be finalized by the National Assembly by early December. The plan proposes 9.3%/y growth in spending compared with the original 2019 budget (or 8.0% compared with the supplementary 2019 budget) after 9.9% growth in 2019. The details are modestly more growth-supportive than the 2019 plan, with a material ramp up in R&D and industrial support programs (+15.9%) and acceleration in social infrastructure investment (+9.3% in 2020 from +6.8% in 2019). As revenue growth is expected to slow materially, we now see the fiscal balance falling to a deficit of 0.9% of GDP after a 0.6% surplus in 2019 (Figure 2). This stimulus action should buffer the downside risk from rising trade tensions.

Figure 2: Fiscal balance (consolidated)

% of GDP



Source: MoEF, BoK, and J.P. Morgan

## Data releases and forecasts

## Week of September 1 – 6

## Sun Customs trade

Sep 1	US\$ bn, nsa				
9:00am		May	Jun	Jul	Aug
	Trade balance	2.1	4.0	2.4	<u>1.5</u>
	Exports	45.7	44.0	46.1	<u>44.5</u>
	Imports	43.6	40.1	43.7	<u>43.0</u>

## Mon Purchasing Managers Index

Sep 2	Index, sa				
9:30am		May	Jun	Jul	Aug
	PMI - Manufacturing	48.4	47.5	47.3	<u>48.0</u>

## Tue Real GDP 2nd estimate

Sep 3	% change				
8:00am		3Q18	4Q18	1Q19	2Q19
	%q/q, sa	0.5	0.9	-0.4	<u>1.1</u>
	%q/q, saar	1.8	3.8	-1.5	<u>4.4</u>
	%oya	2.1	2.9	1.7	<u>2.1</u>

## Tue Consumer prices

Sep 3	% change				
8:00am		May	Jun	Jul	Aug
	%oya	0.7	0.7	0.6	<u>0.0</u>
	%m/m, nsa	0.2	-0.2	-0.3	<u>0.2</u>

We expect over-year-ago consumer inflation to fall sharply to 0.0% in August, partially due to an unfavorable base effect. Seasonally adjusted food prices likely fell sharply in August.

## Thu Current account

Sep 5	US\$ bn, nsa				
8:00am		Apr	May	Jun	Jul
	Balance	-0.7	4.8	6.4	<u>4.4</u>

## Review of past week's data

## Consumer survey (Aug 27)

100=neutral reading, nsa

	Jun	Jul	Aug	
Index	97.5	95.9	<u>93.0</u>	92.5

Consumer sentiment slid for the fourth straight month, to the lowest since January 2017. Consumers have faced multiple headwinds in recent months: trade tensions in major trading partners, soft economic data, and a stock market decline. The August survey did not reflect China's new retaliatory tariffs (announced August 23) and trade tensions are likely to remain elevated, posing some downside risk to consumer sentiment.

## FKI business survey (Aug 29)

Index, sa

	Jun	Jul	Aug	
One-month outlook	95.1	<del>84.8</del>	84.4	<u>86.0</u>
Current conditions	90.0	<del>86.9</del>	86.7	<u>87.0</u>

## Industrial production (Aug 30)

% change

	May	Jun	Jul	
%oya	<del>0.2</del>	0.5	<del>-2.9</del>	-2.6
%m/m, sa	<del>-1.3</del>	-1.0	<del>0.2</del>	0.1

## Producer shipments and inventories (Aug 30)

%oya

	May	Jun	Jul	
Shipments	<del>-1.6</del>	-1.4	<del>-2.7</del>	-2.8
Inventories	<del>8.3</del>	8.4	<del>6.4</del>	6.3

## Composite leading indicator (Aug 30)

2015=100, sa

	May	Jun	Jul
Index	114.4	114.5	<u>114.5</u>

## Service activity (Aug 30)

% change

	May	Jun	Jul	
%oya	2.3	0.1	<u>0.4</u>	1.3

## Consumption goods sales (Aug 30)

% change

	May	Jun	Jul	
%oya	3.4	1.2	<u>0.4</u>	-0.3
%m/m, sa	0.9	-1.6	<u>-1.3</u>	-0.9

Consumer goods sales fell further in July, as expected from the recent slump in consumer sentiment. The sequential trend of retail sales turned to a slight negative at -0.1%3m/3m from 1.0%, decelerating for the second month, losing earlier strength. The fall was notable in non-auto durable goods sales, down 5.0%3m/3m following a 2.8% drop in June. Semi-durable goods sales also fell 1.6%. Officials commented that cooler-than-usual temperatures in August dragged on the sales of air conditioners and summer clothes.

Source: Customs office, Markit, BoK, NSO, FKI and J.P. Morgan forecasts

## ASEAN

- Singapore's July production and exports suggest a stronger start to 3Q19
- We expect stabilization to be temporary before tariff-related shocks resume in September
- Core inflation remains on a downtrend, and likely will soften further in 2H19 and 1H20...
- ...reinforcing our view that the MAS could move to a flat NEER slope in October

Despite the negative headlines on trade tariffs, Singapore's July trade and production data paint a more benign picture. However, the recent swings in regional exports likely owe largely to [the tariffs](#), with front-loading of tariffed exports followed by a drop after the imposition of tariffs. We expect that tariff-related shocks will dominate EM Asia trade flows through the rest of the year, especially if the 10% US tariff on US\$300 billion in imports from China effective September 1 and December 15 remains in place. This could again lead to front-loading of exports followed by a contraction. However, if and when the dust around tariffs settles, we do not expect the underlying macroeconomic environment to be conducive to a sustained capex revival, especially if [corporate profits come under pressure](#), with a knock-on to EM Asia's and Singapore's exports. Given the dour view on the external cycle, following the release of the 2Q19 GDP results we revised down our 2019 growth forecast to 0.5%/y from 1.3% and 2020 growth to 0.9%/y from 1.3%. These revisions translate to 1.3%/q, saar sequential growth in 2H19 and a 1.2% average for 2020, well below the 2.6% trend from 2016 to 1H19.

The risks to employment and core inflation are tilted to the downside. Employment growth has been relatively resilient through 1H19, despite slowing growth, and the risk is that employment could slow materially as business confidence ebbs, adding downside to core inflation, which we forecast to average 0.3%/y in 2020 from around 1.1% this year. Indeed, the J. P. Morgan growth forecast embeds a slowing in 2H19 that extends through to 2020, consistent with a negative output gap.

### A temporary reprieve

Singapore's non-oil domestic exports (NODX) surged 10.1%/m, sa, in July in US dollar terms, leaving the headline stronger than expected (Figure 1). By product, electronics and non-pharmaceutical products exports increased; and exports rose across destinations as well (Figure 2). The July growth in exports aligns with the stronger tone of the July PMIs, pointing to some stabilization following consistent weakness since 1H18 (Figure 3).

Figure 1: Singapore non-oil domestic exports

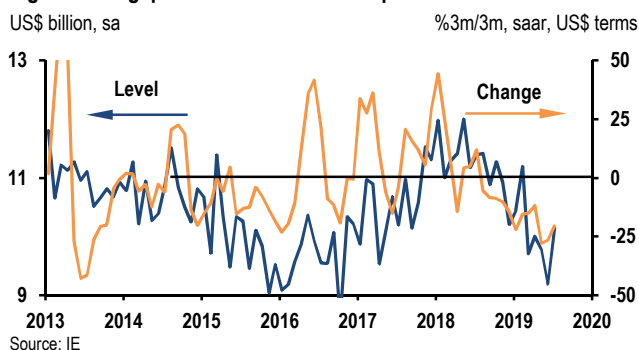


Figure 2: Singapore non-oil domestic exports by destination

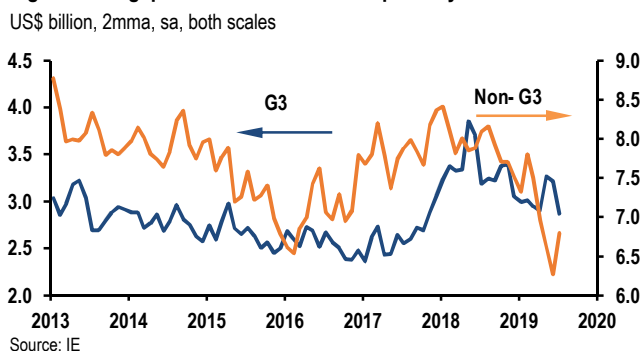
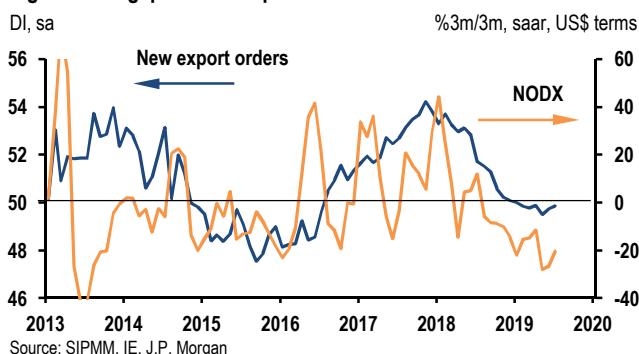
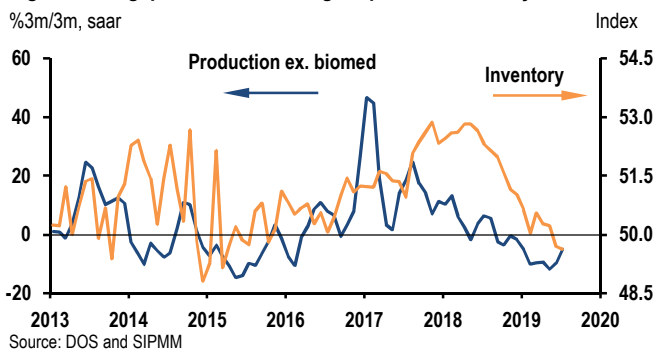


Figure 3: Singapore new export orders PMI and NODX



Front-loading of exports might occur in July and August ahead of the September 1 tariff deadline, followed by a drop, mirroring the prior trends of tariffed exports. If so, we could see trade flows remain firm through 3Q19 before contracting in late 3Q19 and into 4Q19. Aside from the near-term undulations, the evolution of inventories bear watching as a signal of manufacturing behavior. Should inventories remain lean through 3Q19, despite the suggested export pickup, it would not only lead to a downdraft in manufacturing output in 3Q19 but also signal that producers are battening down the hatches ahead of uncertainty (Figure 4).

Figure 4: Singapore manufacturing output and inventory PMI



The tension between the near-term stabilization in trade and the negative macroeconomic context of weak sentiment and capex remains (Figure 5). However, our bias would be to stick with the current growth profile of a lackluster 2H19, and even if activity remains stable through 2H19, this would still deliver 0.5%/y growth in 2019. Given slowing external demand, employment gains in Singapore have slowed to close to a standstill in 2Q19 and the risk is that the slowdown could extend through 2H19 amid rising uncertainty, reducing underlying price pressures (Figure 6). Indeed, surveys suggest that domestic business activity is expected to slow further in 3Q19 and 1Q20 (Figure 7). Whether this leads to a non-linear contraction in employment will be an important marker to watch.

Figure 5: Global capex nowcaster and Singapore NODX

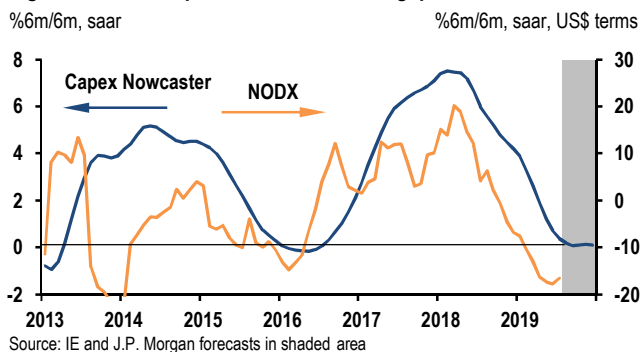


Figure 6: Singapore changes in employment

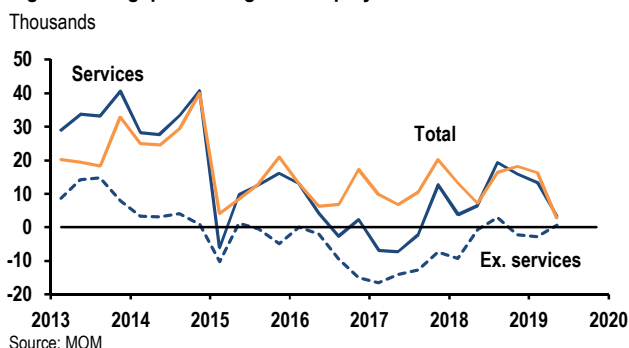
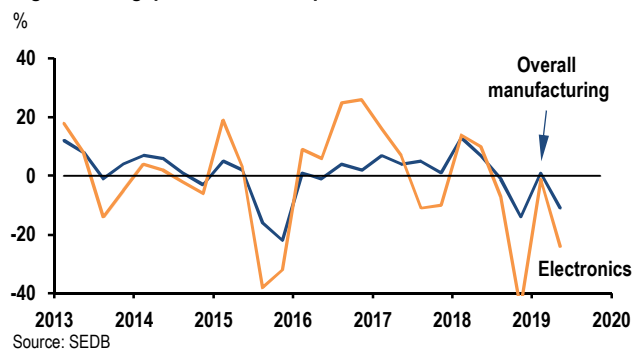


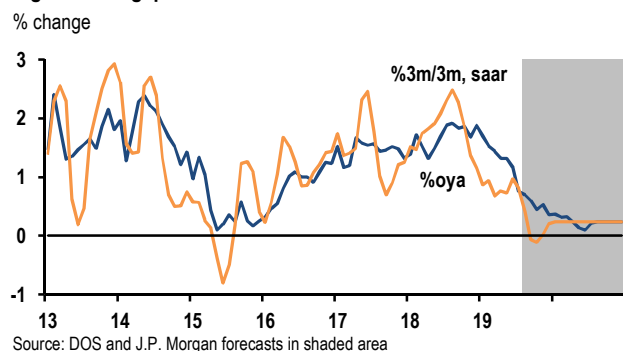
Figure 7: Singapore business expectations 6-mos ahead



## Core CPI slides in July, opening room for flat NEER slope in October

Singapore's consumer price index rose 0.1%/m/m, sa in July, leaving headline inflation a touch softer than expected at 0.4%oya (J.P. Morgan: 0.4%; consensus: 0.5%). Core prices declined 0.1%/m/m, sa, leaving core inflation at 0.8%oya, marking a sustained decline since late 2018 (Figure 8). Price pressures eased in July, across both retail goods and services. Fuel and utilities prices also dropped, down 1.6%/m/m, sa, reflecting the ongoing impact of deregulation of the domestic electricity market. In the past, we have noted that [the MAS's reaction function](#) tends to be sensitive to growth and inflation, particularly core inflation, and given the July core CPI reading and its expected path, [we maintain our view](#) that the MAS will move to a flat NEER slope at its upcoming October meeting from an estimated 100bp currently.

Figure 8: Singapore core CPI



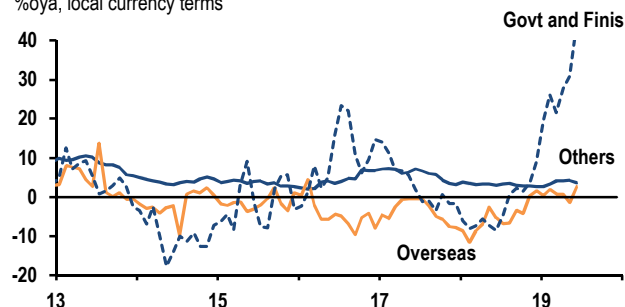
## Notable deposit trends

Within the banking system, deposits have shifted notably, with a marked increase in fixed deposit (FD) placements amid a material rise in deposits placed by non-bank financial institutions and government-related entities (Figures 9 and 10). More recently, despite the growth in such deposits, fixed deposits have not increased in tandem but instead, demand deposits have risen suggesting a shift toward more liquid deposits (Figure 11). Whether this liquidity preference owes to a

desire to reduce risk or signals a move toward liquidating deposits in anticipation of a shift to other investments is not clear. Moreover, despite the increased placement in fixed deposits, FD rates have not declined and could speak to the impact of the net stable funding ratio (NSFR) requirement that banks hold a larger portion of the deposits in longer-dated tenors, with the rise in the longer-dated FD rates encouraging depositors to extend their duration (Figure 12).

Figure 9: Singapore DBU deposits by ownership

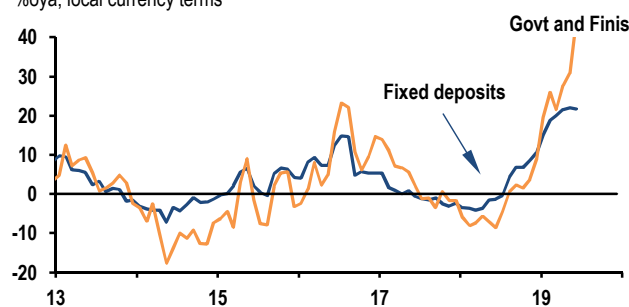
%oya, local currency terms



Source: MAS

Figure 10: Singapore DBU deposits by type and ownership

%oya, local currency terms



Source: MAS

Figure 11: Singapore DBU deposits by type

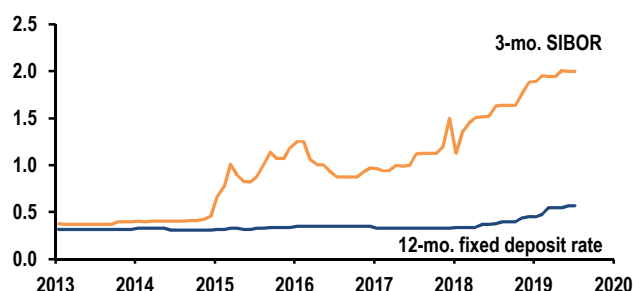
%oya, local currency terms



Source: MAS

Figure 12: Singapore 12-mo. interbank and fixed deposit rates

%p.a., eop



Source: MAS

## ASEAN

### Indonesia

#### Data releases and forecasts

Week of September 2 – 6

Mon	Consumer prices				
Sep 2	% change				
	Total, %oya	May	Jun	Jul	Aug
	%m/m, sa	0.7	0.1	0.2	<u>0.2</u>

#### Review of past week's data

No data released.

### Malaysia

#### Data releases and forecasts

Week of September 02 – 06

Wed	Merchandise trade				
Sep 4	US\$ bn, nsa				
12:00pm		Apr	May	Jun	Jul
	Trade balance	2.6	2.2	2.5	<u>2.1</u>
	Exports	20.7	20.2	18.3	<u>19.7</u>
	%oya	-4.5	-2.7	-6.9	<u>-7.5</u>
	Imports	18.1	18.0	15.8	<u>17.5</u>
	%oya	-1.4	-3.6	-12.8	<u>-8.8</u>

#### Review of past week's data

No data released.

Source: Central Bureau of Statistics, Indonesia; Department of Statistics, Malaysia; J.P. Morgan forecasts



## Philippines:

### Data releases and forecasts

Week of September 2 – 6

Thu	Consumer prices				
Sep 5	% change				
		May	Jun	Jul	Aug
	Total, %oya	3.2	2.7	2.4	<u>1.9</u>
	%m/m, sa	0.4	0.1	0.3	<u>0.2</u>

### Review of past week's data

No data released.

## Singapore:

### Data releases and forecasts

Week of September 2 – 6

Tue	Purchasing managers index				
Sep 3	% change				
9:00pm		May	Jun	Jul	Aug
	PMI	49.9	49.6	49.8	<u>50.5</u>
	PMI—electronics	49.4	49.2	49.3	<u>50.5</u>

### Review of past week's data

#### Industrial production (Aug 26)

% change

	May	Jun	Jul	
%oya	-1.8	-8.1	<u>-5.3</u>	-0.4
%m/m, sa	-0.1	-0.3	<u>-2.7</u>	3.6

July's industrial production beat expectations and rose 3.6%m/m, sa, but slipped 0.4%oya. Excluding the volatile pharmaceutical output, July IP rose a further 9.1%m/m, sa. Electronics production rose a solid 22.1%m/m, sa, reversing the June contraction. The positive message from electronics output aligns with the stronger tone of the July PMIs and NODX prints, which may also reflect the solid expansion in cyclically-sensitive semiconductor production. As in the past, there has tended to be some payback in activity following a contraction as sharp as 2Q's. Should inventory levels remain lean despite some expected pickup in exports from front-loaded activity, this could suggest a slowdown in manufacturing output this quarter. In that context, the August SIPMM PMI release next Tuesday bears watching.

## Thailand:

### Data releases and forecasts

Week of September 2 – 6

Thu	Consumer prices				
Sep 2	% change				
11:00am		May	Jun	Jul	Jul
	Total, %oya	1.1	0.9	1.0	<u>0.9</u>
	%m/m, sa	0.1	-0.3	0.3	<u>0.1</u>

### Review of past week's data

#### Private investment index (Aug 30)

% change

	May	Jun	Jul	
%oya	<del>-2.0</del>	-1.8	<del>-4.4</del>	-5.5
%m/m, sa	<del>0.6</del>	0.8	<del>-0.9</del>	-2.4

#### Private consumption index (Aug 30)

% change

	May	Jun	Jun	
%oya	<del>3.6</del>	3.5	<del>2.7</del>	2.4
%m/m, sa	<del>0.2</del>	0.1	<del>-0.4</del>	-0.2

#### Merchandise trade (Aug 30)

% change

	May	Jun	Jul	
Trade balance	1.4	4.4	<u>2.5</u>	2.2
Exports, %oya	-7.2	-2.1	<u>-0.3</u>	3.8
Imports, %oya	-0.2	-9.6	<u>-7.4</u>	0.9

Private investment in July recovered moderately, led by strong 14.1%m/m, sa capital goods imports. Domestic consumption stayed resilient at 0.5%m/m, sa, supporting annual growth at 2.4%oya, although non-resident expenditure edged down 1.9%m/m, sa, likely reflecting the flat tourist arrival growth. The capital goods import rebound boosted total import growth to 10.5%m/m, sa, but as export growth also picked up to 4.4%m/m, sa, the overall trade balance remained in a US\$1.7bn surplus. The monthly trade and investment recovery could be attributed to front-loaded activity before next tranche of US tariff on China takes effect in September. We had flagged slowing tourist arrival growth as a potential risk that might trim Thailand's service surplus. However, the BOP should remain in surplus for the full year.

## Vietnam:

### Data releases and forecasts

Week of September 2 – 6

No data releases.

### Review of past week's data

No data released.

Source: Coordination Board and National Statistics Office, Philippines, Singapore Statistics Department, Office for Industrial Economics, Thailand; Bank of Thailand; General Statistics Office of Vietnam; J.P. Morgan forecasts

## India

- **India's slowdown worsened with 2Q19 GDP growth at a five-year-low 5%oya**
- **Private consumption fell sharply for both cyclical and structural reasons**
- **Export and imports growth also declined**
- **We expect 25bp cut at October monetary policy review**

### India's growth woes worsened in 2Q19

India's 2Q19 GDP growth surprised sharply to the downside, printing at a six-year-low 5.0%oya, after an already subpar 5.8%oya in 1Q19. This is first time in seven years that quarterly growth has printed below 6% for two consecutive quarters. Importantly, idiosyncratic factors related to agriculture and government spending did not drive this deceleration. In fact, growth in core GVA (GVA ex. agriculture and government spending)—which is perhaps the best gauge of the private sector business cycle—slowed even more sharply to 4.9%oya in 2Q19 from 6.1% in 1Q19 (Table 1).

**Table 1: Composition of GDP growth (% oya)**

	Sep-18	Dec-18	Mar-19	Jun-19
<b>GDP</b>	<b>7.0</b>	<b>6.6</b>	<b>5.8</b>	<b>5.0</b>
GVA	6.9	6.3	5.7	4.9
<b>Core GVA</b>	<b>6.9</b>	<b>7.1</b>	<b>6.1</b>	<b>4.9</b>
Agriculture	4.9	2.8	-0.1	2.0
Industry	6.7	7.0	4.2	2.7
- Mining	-2.2	1.8	4.2	2.7
- Manufacturing	6.9	6.4	3.1	0.6
- Electricity	8.7	8.3	4.3	8.6
- Construction	8.5	9.7	7.1	5.7
Services	7.3	7.2	8.4	6.9
- Trade, transport	6.9	6.9	6.0	7.1
- Finance & real estate	7.0	7.2	9.5	5.9
- Public administration	8.6	7.5	10.7	8.5

Source: MoSPI

Even as high frequency consumption indicators slowed sharply, consumption growth in the GDP data held up surprisingly well until 2Q19. Growth in private consumption, which accounts for about 55% of GDP, slumped from 7.2% in 1Q19 to 3.1% in 2Q19, and now better aligns with the soft high frequency data (Table 2). Thus the contribution of private consumption to annual GDP growth fell from 4.1%-pts in 1Q19 to 1.8%-pts in 2Q19, a 230bp decline—three times as much as the slowing in GDP (80bp). Consumption is currently in a perfect storm in India, reflecting both cyclical factors (tighter financial conditions in the shadow-banking system, a struggling auto sector) and more structural forces (a sustained decline in agrarian terms-of-trade that is depressing rural purchasing power, and a sustained fall in household savings in the wake of softer income and wages).

**Table 2: Composition of GDP growth (% oya)**

	Sep-18	Dec-18	Mar-19	Jun-19
<b>GVA</b>	<b>6.9</b>	<b>6.3</b>	<b>5.7</b>	<b>4.9</b>
Net taxes- subsidy	8.7	9.8	6.7	6.1
<b>GDP</b>	<b>7.0</b>	<b>6.6</b>	<b>5.8</b>	<b>5.0</b>
Consumption	10.0	7.9	8.1	4.1
- Government	10.9	6.5	13.1	8.8
- Private	9.8	8.1	7.2	3.1
Investments	11.0	11.2	3.6	3.7
- Fixed Investments	11.8	11.7	3.6	4.0
- Inventory	4.7	4.3	1.0	2.1
- Valuables	-0.5	2.6	5.2	-3.4
Exports	12.7	16.7	10.6	5.7
Imports	22.9	14.5	13.3	4.2

Source: MoSPI

To be sure, the global slowdown also left its imprint on GDP, with export growth virtually halving from 10.6%oya in 1Q19 to 5.7% in 2Q19. However, given the lower share of exports in GDP—vis-à-vis private consumption—exports' contribution to the slowdown was a more modest 80bp. Import growth also collapsed—reflecting weak domestic demand—from 13.3%oya in 1Q19 to 4.2%oya in 2Q19. As a consequence, the net trade contribution to GDP growth actually rose in 2Q19.

Finally, the slowdown in real GDP growth meant that nominal GDP growth slowed to a 10-year low of 8%oya, far below the 11% presumed in the budget. All this is likely to constrain tax buoyancy (with gross tax receipts rising just 1.4% in the April-June quarter) and make it much harder to achieve the budgeted revenue targets. Therefore, it is increasingly likely that the surplus-capital transferred by the RBI this week will be used to offset revenue shortfalls rather than fund new expenditure (see [“India: Macroeconomic Misconceptions”](#)).

### Odds of a 25bp cut in October increase

Thus far, monetary policy has borne the brunt of the counter-cyclical policy response with policy rates eased by 110bp in 2019 and inter-bank liquidity being eased significantly. This week's GDP surprise increases our conviction of more easing, and we expect another 25bp cut at the October review. By contrast, policymakers have struggled to find fiscal policy space because total public sector borrowing already consumes all household financial savings. Therefore, the finance minister studiously eschewed a fiscal stimulus when announcing a series of sector-specific measures last week (see [“India's slowdown: FM focuses on reducing sector-specific frictions, eschews a fiscal stimulus”](#)). However, authorities caught a break this week. The RBI Board accepted the Jalan Committee's recommendation to transfer “surplus capital” from the RBI's balance sheet to fiscal authorities to the tune of 0.3% of GDP. This is tantamount to an asset sale on the Budget but because asset sales are counted above the line in India, this

will effectively translate into a fiscal impulse of 0.3% of GDP this year (see “[India: An implicit fiscal stimulus](#)”). Fiscal and monetary policy acting in tandem in coming months therefore provides some buffer to the downside risks to our 6.4% full-year growth forecast, which already is below consensus.

## Data releases and forecasts

### Week of September 2-6

Tue	<b>Manufacturing PMI</b>				
Sep 3	Index				
		<b>May</b>	<b>June</b>	<b>July</b>	<b>Aug</b>
	Index	52.7	52.1	52.5	-

## Review of past week's data

### GDP (Aug 30)

% oya

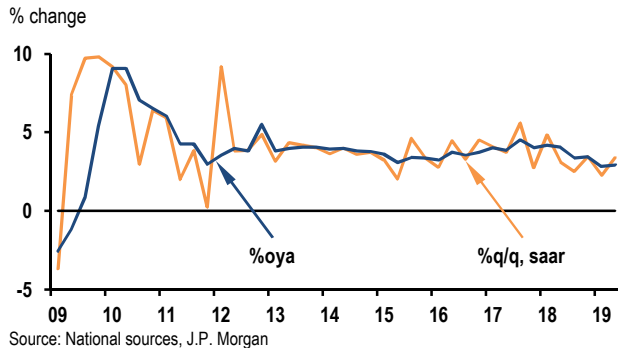
	<b>3Q18</b>	<b>4Q18</b>	<b>1Q19</b>	<b>1Q19</b>
GDP (% oya)	7.0	6.6	5.8	<u>5.0</u>

Source: Statistical organization and Ministry of Commerce, Government of India, Reserve Bank of India, J.P. Morgan forecasts

## Asia focus: 2Q19 growth

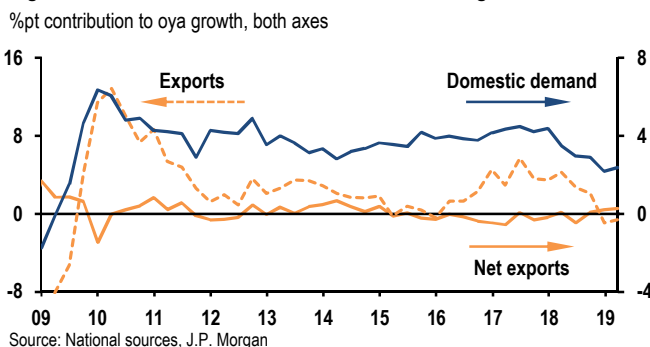
Real GDP growth in EM Asia excluding China and India accelerated to 3.4%/q/q, saar in 2Q19 from 2.3% in 1Q (Figure 1). That said, the acceleration followed a deeper deceleration in 1Q; as a result, over-year-ago growth in 2Q was 0.9%-pt below the 2018 average.

Figure 1: EM Asia ex. CN/IN - Real GDP growth



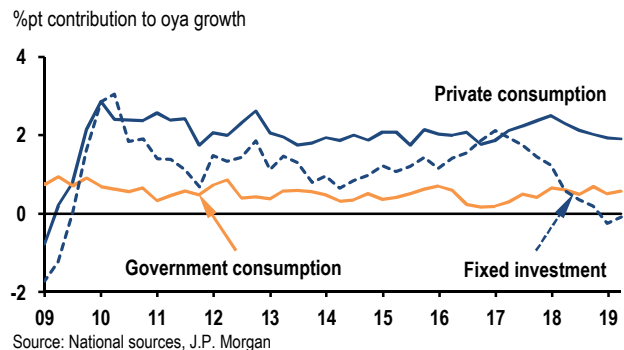
After increasing for most of a decade, EM Asia's gross exports decreased from a year ago in 2Q for the second straight quarter amid lingering trade tensions, suggesting possible negative spillover to overall growth. However, net exports made a small positive direct contribution to growth in 2Q, as imports contracted to a larger extent. Thus domestic demand drove the recent growth slowdown (Figure 2).

Figure 2: EM Asia ex. CN/IN - Contribution to GDP growth



Among domestic demand growth drivers, consumption's contribution remained relatively stable. But the contribution of fixed investment has declined since 2017 and turned negative in 1H19 (Figure 3), reflecting soft business sentiment in the region (the manufacturing PMI fell 1.2pts during 2Q, and was down 2.7pts over a year to June in EM Asia ex. China and India), also consistent with the recent global capex stall.

Figure 3: EM Asia ex. CN/IN - Domestic demand growth drivers



Consumption provided a base for growth across all countries in the region in 2Q, while fixed investment dragged down growth in Hong Kong, the Philippines, and Korea (Figure 4). [In Korea](#), the weakness of fixed investment was concentrated in the private sector (Figure 5). Korea's facilities investment has slumped since mid-2018 partly due to a downturn in the semiconductor industry. Trade disputes in major trading partners and weakening external demand weigh additionally on business spending. By contrast, investment supported growth [in Taiwan](#), as private capex expanded in recent quarters with the [re-onshoring](#) of offshore production lines fueled by ongoing trade tensions.

Figure 4: Contribution to GDP growth

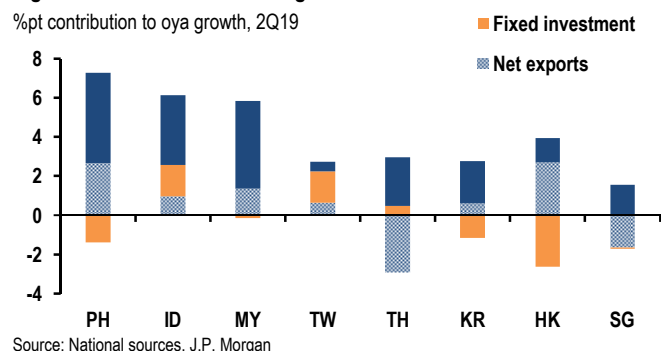
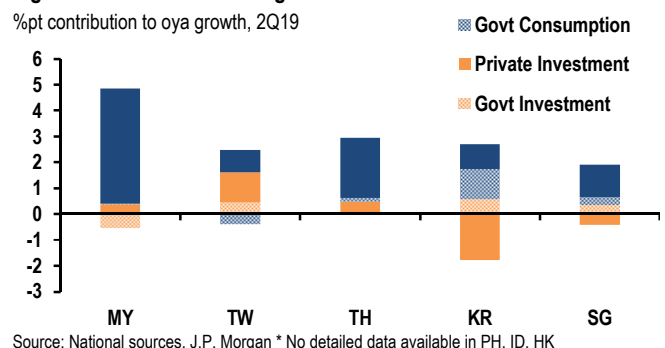


Figure 5: Domestic demand growth drivers



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**Economic Research**  
**Asia focus: 2Q19 growth**  
August 30, 2019

**J.P.Morgan**



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**Economic Research**  
**Global Data Watch**  
August 30, 2019

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# US economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
<b>2 Sep</b>  <b>Labor Day, markets closed</b>	<b>3 Sep</b>  <b>Manufacturing PMI</b> (9:45am) Aug final <u>50.0</u> <b>ISM manufacturing</b> (10:00am) Aug <u>51.5</u> <b>Construction spending</b> (10:00am) Jul <u>0.4%</u>  Boston Fed President Rosengren speaks (5:00pm)	<b>4 Sep</b>  <b>International trade</b> (8:30am) Jul <u>-\$53.5bn</u> <b>QFR</b> (8:30am) 2Q <b>Beige book</b> (2:00pm) <b>Light vehicle sales</b> Aug <u>16.6mn</u>  New York Fed President Williams speaks (9:25am) Fed Governor Bowman speaks (12:30pm) St. Louis Fed President Bullard speaks (12:30pm) Minneapolis Fed President Kashkari speaks (1:00pm) Chicago Fed President Evans speaks (3:15pm)	<b>5 Sep</b>  <b>ADP employment</b> (8:15am) Aug <b>Initial claims</b> (8:30am) w/e Aug 31 <u>215,000</u> <b>Productivity and costs</b> (8:30am) 2Q rev <u>2.3%</u> Unit labor costs <u>2.3%</u> <b>Services PMI</b> (9:45am) Aug final <u>51.0</u> <b>Factory orders</b> (10:00am) Jul <u>1.1%</u> <b>ISM nonmanufacturing</b> (10:00am) Aug <u>53.5</u>  Announce 10-year note (r) <u>\$24bn</u> Announce 30-year bond (r) <u>\$16bn</u> Announce 3-year note <u>\$38bn</u>	<b>6 Sep</b>  <b>Employment</b> (8:30am) Aug <u>150,000</u> Unemployment rate <u>3.6%</u> Average weekly hours <u>34.3</u> <b>QSS</b> (10:00am) 2Q  Fed Chair Powell speaks in Zurich (12:30pm)
<b>9 Sep</b>  <b>Consumer credit</b> (3:00pm) Jul	<b>10 Sep</b>  <b>NFIB survey</b> (6:00am) Aug <b>JOLTS</b> (10:00am) Jul  Auction 3-year note <u>\$38bn</u>	<b>11 Sep</b>  <b>PPI</b> (8:30am) Aug <b>Wholesale trade</b> (10:00am) Jul  Auction 10-year note (r) <u>\$24bn</u>	<b>12 Sep</b>  <b>Initial claims</b> (8:30am) w/e Sep 7 <b>CPI</b> (8:30am) Aug <b>Federal budget</b> (2:00pm) Aug  Announce 10-year TIPS (r) <u>\$12bn</u> Auction 30-year bond (r) <u>\$16bn</u>	<b>13 Sep</b>  <b>Retail sales</b> (8:30am) Aug <b>Import prices</b> (8:30am) Aug <b>Business inventories</b> (10:00am) Jul <b>Consumer sentiment</b> (10:00am) Sep preliminary
<b>16 Sep</b>  <b>Empire State survey</b> (8:30am) Sep	<b>17 Sep</b>  <b>Business leaders survey</b> (8:30am) Sep <b>Industrial production</b> (9:15am) Aug <b>NAHB survey</b> (10:00am) Sep <b>TIC data</b> (4:00pm) Jul  <b>FOMC meeting</b>	<b>18 Sep</b>  <b>Housing starts</b> (8:30am) Aug  <b>FOMC statement and projections</b> (2:00pm) and press conference (2:30pm)	<b>19 Sep</b>  <b>Initial claims</b> (8:30am) w/e Sep 14 <b>Philadelphia Fed manufacturing</b> (8:30am) Sep <b>Current account</b> (8:30am) 2Q <b>Existing home sales</b> (10:00am) Aug <b>Leading indicators</b> (10:00am) Aug  Announce 2-year FRN (r) <u>\$18bn</u> Announce 2-year note <u>\$40bn</u> Announce 5-year note <u>\$41bn</u> Announce 7-year note <u>\$32bn</u> Auction 10-year TIPS (r) <u>\$12bn</u>	<b>20 Sep</b>
<b>23 Sep</b>  <b>Manufacturing PMI</b> (9:45am) Sep flash <b>Services PMI</b> (9:45am) Sep flash  St. Louis Fed President Bullard speaks (1:00pm)	<b>24 Sep</b>  <b>Philadelphia Fed nonmanufacturing</b> (8:30am) Sep <b>S&amp;P/Case-Shiller HPI</b> (9:00am) Jul <b>FHFA HPI</b> (9:00am) Jul <b>Consumer confidence</b> (10:00am) Sep <b>Richmond Fed survey</b> (10:00am) Sep  Auction 2-year note <u>\$40bn</u>	<b>25 Sep</b>  <b>New home sales</b> (10:00am) Aug  Auction 2-year FRN (r) <u>\$18bn</u> Auction 5-year note <u>\$41bn</u>	<b>26 Sep</b>  <b>Initial claims</b> (8:30am) w/e Sep 21 <b>Advance economic indicators</b> (8:30am) Aug <b>Real GDP</b> (8:30am) 2Q final <b>Pending home sales</b> (10:00am) Aug <b>KC Fed survey</b> (11:00am) Sep  Auction 7-year note <u>\$32bn</u>  St. Louis Fed President Bullard speaks (10:00am) Minneapolis Fed President Kashkari speaks (2:00pm)	<b>27 Sep</b>  <b>Durable goods</b> (8:30am) Aug <b>Personal income</b> (8:30am) Aug <b>Consumer sentiment</b> (10:00am) Sep final  Philadelphia Fed President Harker speaks (12:00pm)

Source: Private and public agencies and J.P. Morgan. Further details available upon request.

## Euro area economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
<b>2 Sep</b>  <b>Euro area:</b> PMI mfg final (10:00am) Aug <u>47.0</u> <b>Germany:</b> PMI mfg final (9:55am) Aug <u>43.6</u> <b>France:</b> PMI mfg final (9:50am) Aug <u>51.0</u> <b>Italy:</b> PMI mfg (9:45am) Aug <b>Spain:</b> PMI mfg (9:15am) Aug  ECB's Mersch speaks in Germany (8:45am)	<b>3 Sep</b>  <b>Euro area:</b> PPI (11:00am) Jul	<b>4 Sep</b>  <b>Euro area:</b> PMI serv. & comp final (10:00am) Aug <u>53.4 &amp; 51.8</u> Retail sales (11:00am) Jul <u>-0.6% m/m</u> <b>Germany:</b> PMI serv. & comp (9:55am) Aug <u>54.4 &amp; 51.4</u> <b>France:</b> PMI serv. & comp (9:50am) Aug <u>53.3 &amp; 52.7</u> <b>Italy:</b> PMI serv. & comp (9:45am) Aug <b>Spain:</b> PMI serv. & comp (9:15am) Aug  ECB's Lane speaks in London (12:00pm) ECB's de Guindos speaks in Germany (6:30pm)	<b>5 Sep</b>  <b>Germany:</b> Mfg orders (8:00am) Jul <u>Total: -2.0% m/m</u> <b>Netherlands:</b> CPI (6:30am) Aug	<b>6 Sep</b>  <b>Euro area:</b> Employment final (11:00am) 2Q GDP final (11:00am) 2Q <u>0.8% q/q, saar</u> <b>Germany:</b> Industrial production (8:00am) Jul <u>0.0% m/m</u> <b>France:</b> Foreign trade (8:45am) Jul  ECB's de Guindos speaks in Italy (11:15am)
<b>9 Sep</b>  <b>Germany:</b> Foreign trade (8:00am) Jul <b>France:</b> Bank of France industrial sentiment (8:00am) Aug	<b>10 Sep</b>  <b>France:</b> Industrial production (8:45am) Jul <b>Italy:</b> Industrial production (10:00am) Jul	<b>11 Sep</b>	<b>12 Sep</b>  <b>Euro area:</b> Industrial production (11:00am) Jul ECB rate announcement (1:45pm) Sep <b>Germany:</b> CPI final (8:00am) Aug <b>France:</b> CPI final (8:45am) Aug	<b>13 Sep</b>  <b>Euro area:</b> Foreign trade (11:00am) Jul Labor costs (11:00am) 2Q <b>Spain:</b> CPI final (9:00am) Aug
<b>16 Sep</b>  <b>Italy:</b> CPI final (10:00am) Aug	<b>17 Sep</b>  <b>Germany:</b> ZEW bus. survey (11:00am) Sep	<b>18 Sep</b>  <b>Euro area:</b> New car regs (8:00am) Jul & Aug HICP final (11:00am) Aug Construction output (11:00am) Jul <b>Italy:</b> Foreign trade (11:00am) Jul	<b>19 Sep</b>  <b>Euro area:</b> Balance of Payments (10:00am) Jul	<b>20 Sep</b>  <b>Euro area:</b> EC cons. conf. flash (4:00pm) Sep <b>Germany:</b> PPI (8:00am) Aug <b>Belgium:</b> BNB cons. conf. (3:00pm) Sep
<b>23 Sep</b>  <b>Euro area:</b> PMI mfg prelim (10:00am) Sep PMI serv. & comp prelim (10:00am) Sep <b>Germany:</b> PMI mfg prelim (9:30am) Sep PMI serv. & comp prelim (9:30am) Sep <b>France:</b> PMI mfg prelim (9:15am) Sep PMI serv. & comp prelim (9:15am) Sep	<b>24 Sep</b>  <b>Germany:</b> Import price index (8:00am) Aug IFO bus. survey (10:00am) Sep <b>France:</b> INSEE bus. conf. (8:45am) Sep <b>Belgium:</b> BNB bus. conf. (3:00pm) Sep	<b>25 Sep</b>  <b>Germany:</b> GfK cons. conf. (8:00am) Oct <b>France:</b> INSEE cons. conf. (8:45am) Sep	<b>26 Sep</b>  <b>Euro area:</b> M3 money supply (10:00am) Aug  ECB publishes economic bulletin (10:00am)	<b>27 Sep</b>  <b>Euro area:</b> EC econ. sent. (11:00am) Sep <b>Germany:</b> Retail sales (8:00am) Aug <b>France:</b> Cons. of mfg goods (8:45am) Aug CPI prelim (8:45am) Sep PPI (8:45am) Aug <b>Italy:</b> ISAE bus. conf. (10:00am) Sep ISAE cons. conf. (10:00am) Sep PPI (11:00am) Aug <b>Belgium:</b> CPI (8:00am) Sep <b>Netherlands:</b> CBS bus. conf. (6:30am) Sep

Highlighted data are scheduled for release on or after the date shown. Times shown are local. Source: Private and public agencies and J.P. Morgan. Further details available upon request.

## Japan economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
<b>2 Sep</b>  <b>MoF corporate survey</b> (8:50am) 2Q Capex (incl. software) <u>2.5%oya</u> <b>PMI manufacturing final</b> (9:30am) Aug <b>Auto registrations</b> (2:00pm) Aug	<b>3 Sep</b>          Auction 10-year note	<b>4 Sep</b>  <b>PMI services final</b> (9:30am) Aug Remarks by Governor Kuroda at the FIN/SUM 2019 in Tokyo (9:50am)	<b>5 Sep</b>          Auction 30-year note	<b>6 Sep</b>  <b>Employers' survey prelim</b> (8:30am) Jul Wage <u>0.2%oya</u> <b>Consumption activity index</b> (2:00pm) Jul   Auction 3-month bill
<b>9 Sep</b>  <b>GDP 2nd</b> (8:50am) 2Q <b>Bank lending</b> (8:50am) Aug <b>Current account</b> (8:50am) Jul <b>Economy watchers survey</b> (2:00pm) Aug  Auction 6-month bill	<b>10 Sep</b>          Auction 5-year note	<b>11 Sep</b>          Auction 3-month bill	<b>12 Sep</b>  <b>Reuters Tankan</b> (8:30am) Sep <b>Corporate goods prices</b> (8:50am) Aug <b>Private machinery orders</b> (8:50am) Jul	<b>13 Sep</b>  <b>IP final</b> (1:30pm) Jul   Auction 3-month bill
During the week: CAO private consumption index Jul (9-13 Sep)				
<b>16 Sep</b>  <i>Holiday: Japan</i>	<b>17 Sep</b>  <b>Construction spending</b> (2:00pm) Jul	<b>18 Sep</b>  <b>Trade balance</b> (8:50am) Aug BoJ Monetary Policy Meeting   Auction 1-year bill Auction 20-year note	<b>19 Sep</b>  BoJ Monetary Policy Meeting BoJ governor Kuroda's press conference	<b>20 Sep</b>  <b>Nationwide core CPI</b> (8:30am) Aug <b>Employers' survey final</b> (8:30am) Jul  Auction 3-month bill
<b>23 Sep</b>  <i>Holiday: Japan</i>	<b>24 Sep</b>  <b>PMI manufacturing prelim</b> (9:30am) Sep <b>PMI services prelim</b> (9:30am) Sep	<b>25 Sep</b>  <b>Corporate service prices</b> (8:50am) Aug Minutes of Jul 29, 30 BoJ Monetary Policy Meeting (8:50am)  Auction 40-year note	<b>26 Sep</b>          Auction 3-month bill Auction 2-year note	<b>27 Sep</b>  <b>Tokyo core CPI</b> (8:30am) Sep

Times shown are local. Source: Private and public agencies and J.P. Morgan. Further details available upon request.

## Canada economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
<b>2 Sep</b>  <i>Labor Day</i> <i>Markets Closed</i>	<b>3 Sep</b>	<b>4 Sep</b>  <b>International trade</b> (8:30am) Jul –C\$1.4bil <b>Productivity &amp; costs</b> (8:30am) 2Q <b>Bank of Canada Rate announcement</b> (10:00am) Sep <u>no change</u>	<b>5 Sep</b>  Deputy Governor Lawrence Schembri presents the "Economic Progress Report" before the Halifax Partnership and Halifax Chamber of Commerce in Halifax, Nova Scotia (12:00pm)	<b>6 Sep</b>  <b>Labor Force Survey</b> (8:30am) Aug <u>10,000 (0.1%)</u> Unemployment rate <u>5.6%</u> <b>Ivey PMI</b> (10:00am) Aug <u>56.0</u> J.P. Morgan composite <u>52.6</u>
<b>9 Sep</b>	<b>10 Sep</b>  <b>Housing starts</b> (8:15am) Aug <b>Building permits</b> (8:30am) Jul	<b>11 Sep</b>  <b>Capacity utilization</b> (8:30am) 2Q	<b>12 Sep</b>  <b>New housing price index</b> (8:30am) Jul	<b>13 Sep</b>  <b>National Balance Sheet</b> (8:30am) 2Q
<b>16 Sep</b>  <b>International transactions in securities</b> (8:30am) Aug	<b>17 Sep</b>  <b>Manufacturing sales</b> (8:30am) Jul	<b>18 Sep</b>  <b>CPI</b> (8:30am) Aug	<b>19 Sep</b>  <b>Teranet/National Bank HP Index</b> (8:30am) Aug	<b>20 Sep</b>  <b>Retail sales</b> (8:30am) Jul
<b>23 Sep</b>  <b>Wholesale sales</b> (8:30am) Jul	<b>24 Sep</b>	<b>25 Sep</b>	<b>26 Sep</b>  <b>CFIB Business Barometer Index</b> (6:00am) Sep <b>Payroll employment</b> (8:30am) Jul	<b>27 Sep</b>

All existing home sales are tentative. Times shown are local. Source: Private and public agencies and J.P. Morgan. Further details available upon request.



## Latin America economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
<b>2 Sep</b> <b>Argentina:</b> Tax collection Aug <b>Mexico:</b> Remittances Jul <u>6.1%oya</u> IMEF manufacturing index Aug <u>50.0</u> IMEF nonmanufacturing index Aug <u>48.4</u> <b>Brazil:</b> PMI Manufacturing Aug Trade balance Aug	<b>3 Sep</b> <b>Brazil:</b> FIPE CPI Aug IP Jul <u>0.3%/m/m; -1.2%oya</u> <b>Colombia:</b> Exports Jul <u>US\$3.3bn</u> <b>Chile:</b> Retail sales Jul BCC meeting <u>2.25% (-25bp)</u>	<b>4 Sep</b> <b>Argentina:</b> Vehicle production Aug Vehicle sales Aug <b>Uruguay:</b> CPI Aug <u>1.0%/m/m; 7.9%oya</u>	<b>5 Sep</b> <b>Argentina:</b> IP Jul <b>Chile:</b> Nominal wages Jul Economic activity index Jul <u>3.3%oya</u> <b>Colombia:</b> CPI Aug <u>0.10%/m/m</u> <b>Mexico:</b> Consumer confidence Aug <u>101.5</u>	<b>6 Sep</b> <b>Brazil:</b> IGP-DI Aug <u>0.08%/m/m; 3.40%oya</u> IPCA Aug <u>-0.56%/m/m; 4.26%oya</u> <b>Chile:</b> CPI Aug <u>0.2%/m/m; 2.29%oya</u> Trade balance Aug <b>Mexico:</b> GFI Jun <u>-8.5%oya</u> <b>Uruguay:</b> Unemployment rate Jul
<b>During the week:</b> <b>Chile:</b> Vehicle Sales Total Aug (5-6 Sep) <b>Mexico:</b> ANTAD same-store sales Aug (6-12 Sep) <b>Peru:</b> Lima CPI (1 Sep) <u>0.12%/m/m; 2.1%oya</u>				
<b>9 Sep</b> <b>Mexico:</b> Auto report Aug CPI Aug	<b>10 Sep</b> <b>Mexico:</b> Nominal wages Aug	<b>11 Sep</b> <b>Brazil:</b> Retail sales Jul <b>Mexico:</b> IP Jul <b>Peru:</b> Trade balance Jul	<b>12 Sep</b> <b>Argentina:</b> CPI Aug <b>Brazil:</b> Services output Jul <b>Peru:</b> BCRP meeting Sep	<b>13 Sep</b> <b>Brazil:</b> Economic activity index Jul <b>Colombia:</b> IP Jul Retail sales Jul
<b>During the week:</b> <b>Uruguay:</b> IP Jul (11-14 Sep) <b>Uruguay:</b> GDP 2Q (13-19 Sep)				
<b>16 Sep</b> <b>Peru:</b> Economic Activity Jul Unemployment rate Aug  <i>Holiday: Mexico</i>	<b>17 Sep</b> <b>Colombia:</b> IP Jul	<b>18 Sep</b> <b>Brazil:</b> BCB meeting <b>Colombia:</b> Trade balance Jul  <i>Holiday: Chile</i>	<b>19 Sep</b> <b>Argentina:</b> GDP 2Q Unemployment rate 2Q  <i>Holiday: Chile</i>	<b>20 Sep</b> <b>Argentina:</b> Budget balance Aug <b>Mexico:</b> Aggregate supply & demand 2Q  <i>Holiday: Chile</i>
<b>During the week:</b> <b>Brazil:</b> Tax collection Aug (19-22 Sep) <b>Colombia:</b> Current account 2Q (17-24 Sep)				
<b>23 Sep</b> <b>Brazil:</b> FGV: consumer confidence Sep Current Account Aug FDI Aug <b>Colombia:</b> Economic Activity Jul BanRep meeting <b>Mexico:</b> Retail sales Jul	<b>24 Sep</b> <b>Brazil:</b> IPCA-15 Sep BCB meeting minutes <b>Mexico:</b> CPI Sep 1H	<b>25 Sep</b> <b>Argentina:</b> Trade balance Aug <b>Brazil:</b> Credit report Aug <b>Mexico:</b> Unemployment Aug	<b>26 Sep</b> <b>Mexico:</b> GDP monthly proxy Jul Banxico meeting Sep <b>Argentina:</b> Economic activity Jul Current account 2Q	<b>27 Sep</b> <b>Brazil:</b> Central government budget Aug IGP-M Sep <b>Mexico:</b> Trade balance Aug

Times shown are local. Source: Private and public agencies and J.P. Morgan. Further details available upon request.

## UK and Scandinavia economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
<b>2 Sep</b>  <b>United Kingdom:</b> PMI Mfg (9:30am) Aug <u>48.0</u> <b>Sweden:</b> PMI Mfg (8:30am) Aug <b>Norway:</b> PMI Mfg (9:00am) Aug	<b>3 Sep</b>  <b>United Kingdom:</b> BRC retail sales monitor (12:01am) Aug PMI Construction (9:30am) Aug	<b>4 Sep</b>  <b>United Kingdom:</b> PMI Services (9:30am) Aug <u>50.2</u> <b>Sweden:</b> PMI Services (8:30am) Aug  Government spending review	<b>5 Sep</b>  <b>United Kingdom:</b> New car regs (9:00am) Aug <b>Sweden:</b> Industrial production & orders (9:30am) Jul Riksbank rate announcement (9:30am) Sep	<b>6 Sep</b>  <b>United Kingdom:</b> Markit jobs report (12:01am) Aug Halifax HPI (8:30am) Aug BoE/TNS inflation attitudes survey (9:30am) 3Q <b>Sweden:</b> Budget balance (9:30am) Aug <b>Norway:</b> IP Mfg (8:00am) Jul
<b>9 Sep</b>  <b>United Kingdom:</b> Monthly GDP (9:30am) Jul Trade balance (9:30am) Jul <b>Norway:</b> Monthly GDP (8:00am) Jul	<b>10 Sep</b>  <b>United Kingdom:</b> Labor market report (9:30am) Aug <b>Sweden:</b> Prospera inflation expectations (8:00am) Sep CPI (9:30am) Aug <b>Norway:</b> CPI (8:00am) Aug PPI (8:00am) Aug Regional network survey (10:00am) 3Q	<b>11 Sep</b>	<b>12 Sep</b>  <b>United Kingdom:</b> RICS HPI (12:01am) Aug <b>Sweden:</b> PES unemployment (6:00am) Aug House price data (9:30am) Aug	<b>13 Sep</b>  <b>Sweden:</b> GDP final (9:30am) 2Q
<b>16 Sep</b>  <b>United Kingdom:</b> Rightmove HPI (12:01am) Sep <b>Norway:</b> Trade balance (8:00am) Aug	<b>17 Sep</b>  <b>Sweden:</b> Labor force survey (9:30am) Aug	<b>18 Sep</b>  <b>United Kingdom:</b> CPI (9:30am) Aug PPI (9:30am) Aug ONS HPI (9:30am) Jul VISA consumer spending index (9:30am) Aug	<b>19 Sep</b>  <b>United Kingdom:</b> Retail sales (9:30am) Aug Agents' Summary of business conditions (9:30am) 3Q MPC rate announcement and asset purchase target (12:00pm) Sep <b>Sweden:</b> Valueguard house price data (6:00am) Aug <b>Norway:</b> Norges Bank rate announcement (10:00am) Sep	<b>20 Sep</b>  <b>United Kingdom:</b> BoE quarterly bulletin (12:00pm) 3Q
<b>During the week: United Kingdom:</b> CBI industrial trends Sep (19-25 Sep)				
<b>23 Sep</b>  <b>Norway:</b> Building statistics (10:00am) Aug	<b>24 Sep</b>  <b>United Kingdom:</b> Public sector finances (9:30am) Aug	<b>25 Sep</b>  <b>United Kingdom:</b> BBA Mortgage lending (9:30am) Aug <b>Norway:</b> AKU unemployment (8:00am) Jul	<b>26 Sep</b>  <b>United Kingdom:</b> Car manufacturing (12:01am) Aug <b>Sweden:</b> Consumer confidence (9:00am) Sep Economic tendency survey (9:00am) Sep Household lending (9:30am) Aug PPI (9:30am) Aug Trade balance (9:30am) Aug	<b>27 Sep</b>  <b>United Kingdom:</b> Gfk cons. conf. (12:01am) Sep EC economic sentiment (10:00am) Sep <b>Sweden:</b> Retail sales (9:30am) Aug <b>Norway:</b> Credit indicator growth (8:00am) Aug Labor directorate unemployment (10:00am) Sep
<b>During the week: United Kingdom:</b> Nationwide HPI Sep (28-3 Oct), CBI distributive trades Sep (23-27 Sep)				

Times shown are local. Source: Private and public agencies and J.P. Morgan. Further details available upon request.

## Emerging Europe/Middle East/Africa economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
<b>2 Sep</b>  <b>Czech Republic:</b> PMI (9:30am) Aug <b>Hungary:</b> PMI (9:00am) Aug PPI (9:00am) Jul <b>Poland:</b> PMI (9:00am) Aug <b>Russia:</b> Manufacturing PMI (9:00am) Aug 49.5 <b>Turkey:</b> GDP (10:00am) 2Q -2.4%oya PMI (10:00am) Aug <b>South Africa:</b> Barclays PMI (11:00am) Aug Vehicle sales (11:00am) Aug	<b>3 Sep</b>  <b>Czech Republic:</b> Average real wage (9:00am) 2Q <b>Hungary:</b> Trade balance final (9:00am) Jul EUR 556.0mn <b>Turkey:</b> CPI (10:00am) Aug 15.5%oya <b>South Africa:</b> GDP (11:30am) 2Q 0.8%oya	<b>4 Sep</b>  <b>Hungary:</b> Retail sales (9:00am) Jul <b>Romania:</b> Retail sales (9:00am) Jul <b>Nigeria:</b> PMI (8:45am) Jul	<b>5 Sep</b>  <b>Czech Republic:</b> Retail sales (9:00am) Jul <b>Russia:</b> CPI (4:00pm) Aug 4.4%oya <b>South Africa:</b> Current account and Quarterly Bulletin (11:00am) 2Q R -187.0bn	<b>6 Sep</b>  <b>Czech Republic:</b> Industrial output (9:00am) Jul Trade balance (9:00am) Jul <b>Hungary:</b> Industrial output (9:00am) Jul Trade balance (9:00am) Jul <b>Romania:</b> GDP prelim (9:00am) 2Q 4.4%oya <b>Russia:</b> CBR rate decision (1:30pm) Sep 25bp cut: 7.00% <b>South Africa:</b> Gross reserves (8:00am) Aug
<b>9 Sep</b>  <b>Romania:</b> Trade balance (9:00am) Jul <b>Russia:</b> GDP prelim (4:00pm) 2Q	<b>10 Sep</b>  <b>Czech Republic:</b> CPI (9:00am) Aug <b>Hungary:</b> CPI (9:00am) Aug <b>South Africa:</b> BER business confidence (12:00pm) 2Q Manufacturing output (1:00pm) Jul	<b>11 Sep</b>  <b>Poland:</b> NBP rate decision Sep <b>Romania:</b> CPI (9:00am) Aug <b>Russia:</b> Foreign trade (4:00pm) Jul <b>Ghana:</b> CPI Aug	<b>12 Sep</b>  <b>Romania:</b> Industrial output (9:00am) Jul <b>Turkey:</b> CBRT rate decision (2:00pm) Sep <b>Angola:</b> CPI Aug <b>Serbia:</b> NBS rate decision (12:00pm) Sep	<b>13 Sep</b>  <b>Czech Republic:</b> Current account (10:00am) Jul <b>Poland:</b> CPI (10:00am) Aug Current account (2:00pm) Jul <b>Romania:</b> Current Account Jul <b>Turkey:</b> Current account (10:00am) Jul Industrial output (10:00am) Jul
<b>During the week:</b> Egypt: CPI Aug (10-15 Sep) Israel: Current account 2Q (15 Sep) Israel: CPI Aug (15 Sep) Nigeria: CPI Aug (15 Sep)				
<b>16 Sep</b>  <b>Czech Republic:</b> PPI (9:00am) Aug <b>Poland:</b> Core inflation (2:00pm) Aug <b>Russia:</b> Industrial output (4:00pm) Aug <b>Turkey:</b> Unemployment (10:00am) Jun <b>Israel:</b> GDP prelim (1:00pm) 2Q	<b>17 Sep</b>  <b>Russia:</b> PPI (4:00pm) Aug	<b>18 Sep</b>  <b>Poland:</b> Average gross wages and Employment (10:00am) Aug <b>Russia:</b> Retail sales, Unemployment & Investment (4:00pm) Aug <b>South Africa:</b> CPI (10:00am) Aug Retail sales (1:00pm) Jul	<b>19 Sep</b>  <b>Poland:</b> Industrial output (10:00am) Aug PPI (10:00am) Aug <b>South Africa:</b> SARB rate decision Sep	<b>20 Sep</b>  <b>Hungary:</b> Current account (8:30am) 2Q <b>Poland:</b> Retail sales (10:00am) Aug <b>Ghana:</b> BOG rate decision Sep
<b>During the week:</b> Saudi Arabia: CPI Aug (21-28 Sep)				
<b>23 Sep</b>  <b>Kenya:</b> CBK rate decision Sep	<b>24 Sep</b>  <b>Hungary:</b> NBH rate decision (2:00pm) Sep <b>Turkey:</b> Capacity utilization (10:00am) Sep <b>Nigeria:</b> CBN rate decision Sep	<b>25 Sep</b>  <b>Czech Republic:</b> CNB rate decision (1:00pm) Sep	<b>26 Sep</b>  <b>South Africa:</b> Quarterly employment statistics 2Q <b>Zambia:</b> CPI Aug <b>Egypt:</b> CBE rate decision Sep	<b>27 Sep</b>  <b>Hungary:</b> Unemployment (9:00am) Jul
<b>During the week:</b> Poland: Budget balance Aug (24-30 Sep) Saudi Arabia: GDP 2Q (25-2 Oct) Kenya: CPI Aug (28 Sep)				

Times shown are local. Source: Public and private agencies and J.P. Morgan. Further details available upon request.

## Non-Japan Asia economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
<b>2 Sep</b> <b>Australia:</b> ANZ job advertisements (11:30am) Aug Company operating profit (11:30am) 2Q <u>A\$3.2bn</u> Inventories (11:30am) 2Q <b>New Zealand:</b> Terms of trade (10:45am) 2Q <b>China:</b> PMI Mfg. (9:45am) Aug <u>49.8</u> <b>India:</b> PMI mfg. (10:30am) Aug <b>Indonesia:</b> CPI Aug <u>3.3%oya</u> <b>Korea:</b> PMI mfg. (9:30am) Aug <u>48.0</u> <b>Taiwan:</b> PMI mfg. (8:30am) Aug <u>47.8</u> <b>Thailand:</b> CPI (11:00am) Aug <u>0.9%oya</u> <i>Holiday: Vietnam</i>	<b>3 Sep</b> <b>Australia:</b> Current account balance (11:30am) 2Q <u>A\$3.0bn</u> Retail sales (11:30am) Jul <u>0.3% m/m</u> RBA official rate announcement <u>No change</u> <b>Korea:</b> CPI (8:00am) Aug <u>0.0%oya</u> GDP final (8:00am) 2Q <u>2.1%oya</u> <b>Singapore:</b> PMI (9:00pm) Aug <u>50.5</u>	<b>4 Sep</b> <b>Australia:</b> GDP (11:30am) 2Q <u>0.4%q/q</u> <b>New Zealand:</b> ANZ commodity price (1:00pm) Aug <b>Malaysia:</b> Trade balance (12:00pm) Jul <u>US\$2.1bn</u>	<b>5 Sep</b> <b>Australia:</b> Trade balance (11:30am) Jul <u>A\$6.0bn</u> <b>Korea:</b> Current account balance (8:00am) Aug <u>US\$4.4bn</u> <b>Philippines:</b> CPI (9:00am) Aug <u>1.9%oya</u>	<b>6 Sep</b> <b>Taiwan:</b> CPI (4:00pm) Aug <u>0.6%oya</u>
<b>During the week:</b> China: Foreign Exchange Reserves Aug (7 Sep) Trade balance Aug (8 Sep) India: BoP 2Q (5-30 Sep)				
<b>9 Sep</b> <b>New Zealand:</b> Manufacturing output (10:45am) 2Q <b>Taiwan:</b> Trade balance (4:00pm) Aug <i>Holiday: Malaysia</i>	<b>10 Sep</b> <b>Australia:</b> NAB business confidence (11:30am) Aug <b>China:</b> CPI (9:30am) Aug PPI (9:30am) Aug <b>Philippines:</b> Trade balance (9:00am) Jul	<b>11 Sep</b> <b>Korea:</b> Unemployment rate (8:00am) Aug <b>Malaysia:</b> IP (12:00pm) Jul	<b>12 Sep</b> <b>India:</b> CPI (5:30pm) Aug IP (5:30pm) Jul <b>Malaysia:</b> BNM monetary policy meeting <i>Holiday: Korea</i>	<b>13 Sep</b> <b>New Zealand:</b> Business NZ PMI (10:30am) Aug <i>Holiday: China, Korea, Taiwan</i>
<b>During the week:</b> China: Money supply/TSF Aug (9-15 Sep) India: Trade balance Jul (12-15 Sep)				
<b>16 Sep</b> <b>China:</b> FAI (10:00am) Aug IP (10:00am) Aug Retail sales (10:00am) Aug <b>India:</b> WPI (12:00pm) Aug <b>Indonesia:</b> Trade balance (11:00am) Aug <i>Holiday: Malaysia</i>	<b>17 Sep</b> <b>Hong Kong:</b> Unemployment rate (4:30pm) Aug <b>Singapore:</b> NODX (8:30am) Aug	<b>18 Sep</b> <b>New Zealand:</b> Current account balance (10:45am) 2Q <b>Korea:</b> Export price index (6:00am) Aug Import price index (6:00am) Aug	<b>19 Sep</b> <b>Australia:</b> Unemployment rate (11:30am) Aug <b>New Zealand:</b> GDP (10:45am) 2Q <b>Indonesia:</b> BI monetary policy meeting <b>Korea:</b> Money supply (12:00pm) Jul <b>Taiwan:</b> CBC monetary policy meeting	<b>20 Sep</b> <b>Hong Kong:</b> CPI (4:30pm) Aug <b>Taiwan:</b> Export orders (4:00pm) Aug
<b>23 Sep</b> <b>Philippines:</b> Budget balance Aug <b>Singapore:</b> CPI (1:00pm) Aug <b>Taiwan:</b> IP (4:00pm) Aug Unemployment rate (4:00pm) Aug	<b>24 Sep</b> <b>Korea:</b> PPI (6:00am) Aug	<b>25 Sep</b> <b>New Zealand:</b> Trade balance (10:45am) Aug RBNZ official rate announcement <b>Malaysia:</b> CPI (12:00pm) Aug <b>Thailand:</b> BOT monetary policy meeting	<b>26 Sep</b> <b>Hong Kong:</b> Trade balance (4:30pm) Aug <b>Korea:</b> Consumer survey (6:00am) Sep <b>Philippines:</b> BSP monetary policy meeting <b>Singapore:</b> IP (1:00pm) Aug	<b>27 Sep</b>
<b>During the week:</b> Thailand: Mfg. Production Aug (27-30 Sep) Vietnam: CPI Sep (25-30 Sep)				

Times shown are local. Source: Private and public agencies and J.P. Morgan. Further details available upon request.

# Global Data Diary

Week / Weekend 31 Aug – 6 Sep	Monday 2 September	Tuesday 3 September	Wednesday 4 September	Thursday 5 September	Friday 6 September
	<b>Brazil</b> <ul style="list-style-type: none"> <li>Trade balance (Aug)</li> </ul> <b>Japan</b> <ul style="list-style-type: none"> <li>MoF corp srvy (2Q)</li> </ul> <b>Turkey</b> <ul style="list-style-type: none"> <li>GDP (2Q)</li> </ul>	<b>Australia</b> <ul style="list-style-type: none"> <li>RBA mtg: no chg</li> </ul> <b>Brazil</b> <ul style="list-style-type: none"> <li>IP (Jul)</li> </ul> <b>Chile</b> <ul style="list-style-type: none"> <li>BCCh mtg: -25bp</li> </ul> <b>Korea</b> <ul style="list-style-type: none"> <li>CPI (Aug)</li> </ul> <b>Turkey</b> <ul style="list-style-type: none"> <li>CPI (Aug)</li> </ul> <b>South Africa</b> <ul style="list-style-type: none"> <li>GDP (2Q)</li> </ul> <b>United States</b> <ul style="list-style-type: none"> <li>ISM mfg (Aug)</li> </ul> <b>Global</b> <ul style="list-style-type: none"> <li>Manufacturing PMI (Aug)</li> </ul>	<b>Australia</b> <ul style="list-style-type: none"> <li>GDP (2Q)</li> </ul> <b>Canada</b> <ul style="list-style-type: none"> <li>BoC: no chg</li> </ul> <b>Euro area</b> <ul style="list-style-type: none"> <li>Retail sales (Jul)</li> </ul> <b>United States</b> <ul style="list-style-type: none"> <li>Trade balance (Jul)</li> <li>Light vehicle sales (Aug)</li> </ul>	<b>Germany</b> <ul style="list-style-type: none"> <li>Mfg orders (Jul)</li> </ul> <b>Sweden</b> <ul style="list-style-type: none"> <li>Riksbank mtg: no chg</li> </ul> <b>United States</b> <ul style="list-style-type: none"> <li>ADP employment (Aug)</li> <li>Prod &amp; costs (2Q, rev)</li> <li>Factory orders (Jul)</li> <li>ISM non-mfg (Aug)</li> </ul> <b>Global</b> <ul style="list-style-type: none"> <li>All industry PM I(Aug)</li> </ul>	<b>Brazil</b> <ul style="list-style-type: none"> <li>CPI (Aug)</li> </ul> <b>Euro area</b> <ul style="list-style-type: none"> <li>GDP (2Q, final)</li> </ul> <b>Germany</b> <ul style="list-style-type: none"> <li>IP (Jul)</li> </ul> <b>Japan</b> <ul style="list-style-type: none"> <li>CAI (Jul)</li> </ul> <b>Russia</b> <ul style="list-style-type: none"> <li>CBR mtg: -25bp</li> </ul> <b>Taiwan</b> <ul style="list-style-type: none"> <li>CPI (Aug)</li> </ul> <b>United States</b> <ul style="list-style-type: none"> <li>Labor mkt report (Aug)</li> </ul>
7 – 13 September	9 September	10 September	11 September	12 September	13 September
<b>China</b> <ul style="list-style-type: none"> <li>Money supply/TSF (Aug)</li> </ul> <b>India</b> <ul style="list-style-type: none"> <li>Trade balance (Jul)</li> </ul> <b>Japan</b> <ul style="list-style-type: none"> <li>CAO priv cons index (Jul)</li> </ul>	<b>Germany</b> <ul style="list-style-type: none"> <li>Trade balance (Jul)</li> </ul> <b>Japan</b> <ul style="list-style-type: none"> <li>GDP (2Q, 2<sup>nd</sup> est)</li> <li>Econ watchers srvy (Aug)</li> </ul> <b>Mexico</b> <ul style="list-style-type: none"> <li>CPI (Aug)</li> </ul> <b>Taiwan</b> <ul style="list-style-type: none"> <li>Trade balance (Aug)</li> </ul> <b>United Kingdom</b> <ul style="list-style-type: none"> <li>GDP (Jul)</li> </ul>	<b>China</b> <ul style="list-style-type: none"> <li>CPI (Aug)</li> </ul> <b>United Kingdom</b> <ul style="list-style-type: none"> <li>Labor market report (Aug)</li> </ul> <b>United States</b> <ul style="list-style-type: none"> <li>NFIB srvy (Aug)</li> </ul>	<b>Mexico</b> <ul style="list-style-type: none"> <li>IP (Jul)</li> </ul> <b>Poland</b> <ul style="list-style-type: none"> <li>NBP mtg: no chg</li> </ul> <b>United States</b> <ul style="list-style-type: none"> <li>PPI (Aug)</li> <li>Wholesale trade (Jul)</li> </ul>	<b>Euro area</b> <ul style="list-style-type: none"> <li>IP (Jul)</li> <li>ECB mtg: -10bp</li> </ul> <b>India</b> <ul style="list-style-type: none"> <li>CPI (Aug)</li> <li>IP (Jul)</li> </ul> <b>Japan</b> <ul style="list-style-type: none"> <li>Reuters Tankan (Sep)</li> <li>Machinery orders (Jul)</li> </ul> <b>Malaysia</b> <ul style="list-style-type: none"> <li>BNM mtg: -25bp</li> </ul> <b>Peru</b> <ul style="list-style-type: none"> <li>BCRP mtg: no chg</li> </ul> <b>Turkey</b> <ul style="list-style-type: none"> <li>CBRT mtg: -125bp</li> </ul> <b>United States</b> <ul style="list-style-type: none"> <li>CPI (Aug)</li> </ul>	<b>Euro area</b> <ul style="list-style-type: none"> <li>Trade balance (Jul)</li> <li>Labor costs (2Q)</li> </ul> <b>United States</b> <ul style="list-style-type: none"> <li>Retail sales (Aug)</li> <li>Import prices (Aug)</li> <li>UMich cons sent (Sep, pri)</li> </ul>

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