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**TUESDAY BRIEFING POINTS** – Andrew Wroblewski, London/Pierre Ellis, New York/Francisco Larios, Miami

**Brazil: Trade Balance Surplus Continues.**

On schedule today is Brazil's **Trade Balance** announcement. DE and consensus are predicting a September trade balance of \$2.0 billion. Last month's balance clocked in at \$1.2 billion.

**United States: Is the ISM Still Strong?** The main event should be the September **ISM**

**survey**, watched for confirmation that the sharp upturn recorded back in July, and the turning-point signal it represented, has been retained for another month. There will also be great interest in September **vehicle sales results**, as an indicator of consumer financial confidence.

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**U.S. DATA AND EVENTS OUTLOOK** – Pierre Ellis, New York

On tap today are the weekly store sales reports from ICSC/Goldman Sachs and Redbook research, at 7:45 EDT/11:45 GMT, and 8:55 EDT/12:55 GMT respectively, the September ISM Manufacturing Survey and August construction spending, both at 10:00 EDT/14:00 GMT, and September light vehicle sales reports from manufacturers, appearing through the day.

The main event should be the **ISM survey**, watched for confirmation that the sharp upturn recorded back in July, and the turning-point signal it represented, has been retained for another month. There will also be great interest in the **vehicle sales results**, as an indicator of consumer financial confidence.

**Construction spending** results will probably be overshadowed, though this is the final release before the first estimate of third-quarter GDP, and a big surprise could jolt forecasts. **Store sales reports**, covering only a tiny fraction of the market now, will also likely pass unnoticed, unless there is a sudden shift away from the recent lackluster tone.

The headline **ISM Manufacturing** index jumped 4.5 points in July, on a broad-based rise in the component indexes, including a 6.4-point gain in the new orders index. In August, the new orders index was up another 4.9 points—a very encouraging turning point signal on demand—though moderate declines in other components kept the rise in the headline figure to only 0.3 points.

Forecasts this month are conservative, pointing to a small decline in the headline index (**Consensus: -0.6 point, to 55.1; Decision Economics: -1.0 point**). Of course, such moves might still incorporate a rise in the new orders index, but odds seem to weigh against that.

Headline results in the forecast range would keep the index well into the “expansion” zone above the 50 level, preserving the positive turning point signal given by the big July advance. The two jumps in the new orders index took it to 63.2, so even a several-point reversal this time would leave a big positive signal in place.

**Light vehicle sales** reports are expected to show a bit of a decline from the 16.0 million August pace (**Consensus: 15.8 million; Decision Economics: 15.5 million**). However, a certain amount of the loss is attributed to the not-too-common circumstance of the Saturday of Labor Day weekend—a very heavy day of inventory-clearance sales—being counted in calendar August.

That factor, of course, would have boosted August sales and depressed September sales—so the month-to-month decline would not signal any new deterioration in consumer confidence. Any result in the forecast range would average with the August total to produce a rate completely in line with the June and July levels.

**Construction spending** is seen rising very moderately, as it did in July (Consensus: +0.4%; Decision Economics: +0.5%). That sort of outcome would leave third quarter GDP forecasts unperturbed.

The risk to growth forecasts lies in the ever-present potential for surprises and revisions, which could alter the trajectory of outlays into the new quarter. Both the June and July numbers are subject to change today, so the slope could be affected reasonably sharply.

**Store sales reports**, finally, will cover the fourth of five weeks in retail September. However, the main story of the month—back to school sales—has already largely played out, so the tone of the reports with respect to that will characterize the full month.

The big issues will be sales relative to plan, and the effect on inventories. Unfortunately, chains still participating in the surveys represent just a small, and unrepresentative, part of the overall market. News from the major part of the market—Walmart—is already of cutbacks in orders.

#### **DE Forecasts:**

ISM Manufacturing Survey (September, Headline index): -1.0 point, to 54.7

Construction Spending (August): +0.5%

Light Vehicle Sales (September, Total): -0.5 million, to 15.5 million.

## **WESTERN HEMISPHERE ANALYSIS**

### **UNITED STATES – Pierre Ellis, New York**

The September **Chicago Purchasing Managers' report** was stronger than expected, with the headline index rising 2.7 points, to 55.7 (Consensus: +1.0 point; Decision Economics: +0.4%).

The gain was reasonably broad based, though the production index (+5.0 points, to 58.0) clearly dominated. The new orders index was up more moderately (+1.7 points, to 58.9), though that was still strong enough to prevent worsened erosion of backlogs (+0.2 point, to 46.7).

And, inventories (+1.0 point, to 46.0) continued to close a gap between output and shipments, so production is still not excessive.

The employment reading was a bit disappointing (-1.7 points, to 53.2), though whether that reflected new skepticism about the outlook is not clear, given the quite-high readings since May. Meanwhile, the production runup taxed supply chains a bit, with the supplier delivery index jumping (+2.9 points, to 53.7).

This was clearly a fundamentally healthy reading, with the composite headline index netting out the uneven moves of the components, and still showing a very positive result.

Of course, a stronger new-orders reading would have been even more encouraging—but the level of that index is quite high as it is.

Implications for the more significant national ISM Survey today are only positive—though the linkage can be very loose.

### **CANADA – Thomas Lee, New York**

**Monthly GDP jumping as expected.** July monthly GDP advanced 0.6% M/M rebounding from a 0.5% M/M decline seen in the previous month (Consensus: +0.5% M/M; Decision Economics: +0.6% M/M). Goods production outpaced the services sector this month with the former recording

a 1.2% M/M jump while the latter saw a more modest 0.3% hike. Notably, following a 2.1% M/M decline in June, construction increased 1.9% M/M which, according to Statistics Canada, was partly due to the end of a labor dispute in Quebec. Consistent with the reports seen earlier, wholesale (+1.6% M/M) and retail (+0.6%) trade advanced along with manufacturing production (+1.1%).

*As expected, the rebound from the June slump occurs as the downward pressure exerted by the one-time disruptions begins to fade. Encouragingly, not only will the downward pressure fade, continuing resumption of construction and the rebuilding and restocking activity in Alberta are expected to push economic growth higher in August as well, albeit at a more moderate pace than July. As a result, Q3 will likely showcase a stronger result than the 1.7% Q/Q (SAAR) figure recorded in Q2.*

## **WESTERN EUROPE – Andrew Wroblewski, London**

**EUROZONE – Growing Again?** Match the flash data, the September manufacturing PMI eased 0.3 points to 51.1, down from a 27-month high and a fall that looks likely to be nothing more than a correction as it came only after four successive rises (still boosted by a growing orders backdrop, including that for exports).

Regardless the PMI also suggest that weakness outside of France and Germany was (again) less marked as manufacturers in the periphery reported better demand. Orders rose for the fourth month running in Spain and for the third successive month in Italy and Ireland. Meanwhile, in the so-called core countries orders likewise rose for a third month running in Germany and the Netherlands and even the recent laggard France saw the first upturn in demand for just over two years..

Indeed, the Netherlands continued to top the PMI league table, followed by Austria and Ireland.

DE View: These numbers continue the recent upward trend, also corroborating the already-released, and clearly better, September EU Commission business survey data – which also showed an eighth successive rise in consumer confidence.

Thus, these data add to the array of numbers that suggest that the Eurozone economy may in the throes of a recovery. In addition, they corroborate a picture of ‘bottoming out’ occurring in the peripheral of the Eurozone, especially in regard to Spain.

**Unemployment Drops Further.** Undershooting expectations once again, the unemployment rate remained at of 12.0% in August, albeit revised down notch from the previous estimate, both readings down from the record-highs set in May and June. Notably, however, the actual level of unemployment fell by 5 000 (to 19.2 mln), the third decline in a row, the fall in June having been the first such drop since April 2011

**GERMANY – Labor Market Still Improving?** Showing another worse than expected outcome, albeit possibly affected by increased participation, unemployment increased for a second successive months in September and more sizably so. Indeed, the 25 000 rise was higher than the 9 000 August rise and pushed up the adjusted unemployment rate a notch to 6.9%. Notably (August) employment numbers continued to edge higher.

However, on something of a more upbeat note, there was also a further rise in vacancies.

## **OTHER WESTERN EUROPE**

**UNITED KINGDOM – Manufacturing Recovery Consolidates?** Coming in slightly below expectations for once, the headline September manufacturing PMI failed to rise for the first time in seven months. Indeed, it slipped from a 31-month high, easing 0.4 point to 56.7, ending a run which has seen the headline figure surge by over nine points since the recent low set back in February.

Underlying Strength Still Clear

Both production and orders also slipped from August highs that were apparently the highest since mid-1994, with both still supported by domestic and export activity, the latter enjoying widespread

gains geographically. Notably, the still much more solid PMI reading echoes factory sector output signals from other alternatively-sourced manufacturing surveys but with the long-standing firmer tone in official manufacturing data somewhat calmer. Also of some note, a clear rise in input costs is a key feature of these numbers, and now with some clearer signs of such pressures being passed on into average selling prices.

DE View: These numbers corroborate the picture of an economic recovery gaining increasing traction. There are clear hints that growth momentum seen in Q2 GDP will continue into Q3 and probably beyond. More notably, this correction in the PMI should be regarded in a healthy manner as previous such survey results may have been exaggerating strength in manufacturing and the economy as a whole.

**SWEDEN – Manufacturing Recovery Continues.** Surprising clearly to the upside, the September manufacturing PMI jumped 3.8 points to 56.0, recovering further to the highest since May 2011. The higher reading was a result of a more positive outcome for output and orders and contrasts clearly with the much weaker manufacturing reading in the last set of national Institute survey data. The more upbeat tone of the PMI reading is, however, corroborated by the latest survey of companies compiled by the Riksbank, also released today

**NORWAY – Manufacturing Corrects.** Surprising to the upside, but also continuing the sharp month-to-month volatility seen of late, the September manufacturing PMI fell 0.9 points to 52.3, albeit preserving much of the surge seen in August when the headline hit the highest in 17 months. The higher reading was a result of a less positive outcome for orders.

**SWITZERLAND – Manufacturing Surges.** Showing a more than expected bounce, the September manufacturing PMI rose back 0.7 points to 55.2, unwinding some of the August correction and a sixth successive 50-plus reading. The strength was broad-based.

## **CENTRAL EUROPE, RUSSIA AND TURKEY – Chang Liu, London**

**Mostly Better Messages in Manufacturing Sector.** The Central-European manufacturing PMIs showed mostly better messages in September. Specifically, better messages were seen in Hungary (54.5 from 51.8), Poland (53.1 from 52.6) and Turkey (54.0 from 50.9). The Czech Republic, however, saw a slightly slower rate of expansion at 53.4 from 53.9 in August, while the Russian index was stable at 49.4

*Overall, the compilers remained fairly upbeat this month, albeit with some concern seemingly emerging in regard to growth prospects for Russia and the inflation outlook for Turkey.*

## **JAPAN – Andrew Wroblewski, London**

**Tankan Improvement Clearer.** The September BoJ Tankan Business Survey showed a further, clear improvement, once again exceeding the expectations of the previous survey and consensus thinking. Specifically, manufacturing sentiment rose for a third successive quarter as the (headline) large manufacturer's business conditions increased from 4 in June to 12, albeit with no further pick-up envisaged in the coming three months. Meanwhile, the headline non-manufacturing part of the survey rose from 12 to 14, also with no further improvement envisaged for three months time. Moreover, overall capex plans showed firms were revised higher.

**Jobless Rate Jumps Back.** Surprising most, the unemployment rate in August swung back 0.3 percentage point to 4.1%, a three month high and up from the lowest since October 2008. Moreover, employment growth remained flat with the higher jobless rate largely stemming from a rise back in the participation rate (to 59.4%). Even so, and also of note, the job-to-applicant ratio rose to 0.95, still the highest in over five years.

## **ASIA PACIFIC ANALYSIS – Chang Liu, London**

**CHINA – Manufacturing Sector Improves Slightly.** The semi-official (Federation of Logistics and Purchasing and the National Bureau of Statistics-compiled) manufacturing PMI edged up a notch to 51.1 in September from 51.0, adding to the 0.7 point jump seen in the previous month and

hitting a 17-month high. This was a reflection of faster growth in both output and new orders, but with employment actually seeing a steeper contraction.

*Notably, these results are quite similar to that of its competitor—compiled by HSBC and released yesterday—which also showed a 0.1 point improvement, albeit to 50.2. As such, these outcomes help substantiate the case that growth has indeed stabilized in recent months, supported by stimulus measures from Beijing; and with further effects of these measures expected to come through in coming months.*

**INDIA – Less Steep Contraction in Manufacturing.** The September manufacturing PMI rose by 1.1 points to 49.6, unable to fully unwind the 1.6 point drop seen in the previous month and thus implying the second decline in the sector in over four years. The latest outcome was a reflection of a fifth successive decline in both production and new orders coming alongside the first contraction in employment in 19 months.

*Commenting on these results, the compilers noted that the latest survey also showed a marked rise in input prices as the effects of the weaker rupee exchange rate continue to pass through—thus limiting the RBI’s scope to ease policy despite weakening growth.*

**INDONESIA – Consumer Price Inflation Falls Slightly.** Confounding market expectations for a further rise, consumer price inflation actually moderated to 8.40% Y/Y in September from 8.79% in August, albeit still being the third-highest outcome in the cycle. However, core inflation (which excludes food, energy and administrative prices) actually saw a further rise to 4.72% in September from 4.48%, reaching a new cycle-high.

*Notably, the recent surge in CPI inflation was largely the result of the first rise in fuel subsidies in five years, albeit with the headline rate likely to have peaked in August.*

**SOUTH KOREA – Inflation Falls Clearly.** Surprising clearly to the downside, consumer price inflation actually fell by 0.5 percentage point to 0.8% Y/Y in September, actually hitting the lowest in over 14 years and coming in below the BoK’s target range of 2-3% (for an eleventh consecutive month). In contrast, the core rate actually rose to 1.6% Y/Y last month from 1.3% in August, hitting a joint cycle-high.

*Notably, the latest outcome was largely the result of lower farm good prices and base effects. While inflation is expected to remain well contained in the near-term, the Korean Ministry of Strategy and Finance released a statement noting that near-zero percent inflation would not continue for an extended period of time due to volatility in global oil prices and supply side pressures stemming from factors such as bad weather conditions.*

**Exports Fall.** Data for September showed exports falling by 1.5% Y/Y after a 7.7% jump in the previous month. Imports, meanwhile, saw an even steeper fall of 3.6% Y/Y following a 1.0% gain in August. The trade surplus, as a result, still widened to \$ 3 713 mln from a \$ 2 853 mln gap in the same month of 2012.

*Notably, the geographical breakdown showed exports deteriorating to all regions of the world, with the only exception being Latin America.*

**Less Steep Contraction in Manufacturing Sector.** The manufacturing PMI rose by 2.2 point to 49.7 in September, a second consecutive fall albeit still the fourth sub-50 reading in eight months. The breakdown showed the latest outcome reflected continued (albeit very modest) contraction in production and order, but with employment actually registering the first increase in four months.

**THAILAND – Price Pressures Ease Further.** September consumer price inflation fell to 1.42% Y/Y from 1.59% in the previous month. However, in M/M terms, prices actually rose by 0.16%. Meanwhile, core inflation (which excludes fresh food and fuel prices) moderated further last month to 0.61% Y/Y from 0.75%, a new cycle-low.

*It may be worth noting that the CPI index was rebased in December last year using 2011 as the base year whereas figures prior to December were based using 2007.*

**AUSTRALIA – Policy Held.** Surprising few, the Reserve Bank of Australia (RBA) decided to keep the Cash Rate unchanged at a record-low of 2.50% at its meeting in October. This follows a similar decision in the previous month, but all coming after a 25 bp reduction in August.

#### Less Pessimistic About Growth?

The accompanying statement by Governor Stevens showed some small perhaps notable changes. Beginning with its assessment of the global economy, the RBA again noted that growth is running a little below average this year, albeit with a pick up now expected for next year with “reasonable prospects”. A new paragraph introduced a couple of months ago was also repeated, again highlighting that global financial conditions remained very accommodative. However, a previous comment on how increasing volatility has affected a number of emerging market economies was removed this month. In terms of the domestic economy, the RBA’s assessment did not see any major changes either; noting that growth has been a little below trend over the past year, and with a similar performance expected to continue in the near-term as the economy adjusts to falling mining investment. Elsewhere, the Bank again pointed to unemployment edging higher and a moderation in labor costs. However, and new this month, the Bank also highlighted an improvement in indicators of household and business sentiment recently as well as signs of increased demand for finance by households. The Australian dollar, however, was noted to have risen over the past month; albeit still nearly 10% below its peak in April.

#### Inflation Contained

The Bank’s assessment of the inflation outlook was (again) also almost non-existent this month, albeit with the Bank again noting that CPI inflation has been consistent with its medium-term target and is expected to remain so over the next one to two years. However, a paragraph introduced in September regarding the RBA’s view on the effects of monetary policy on the economy was repeated. Specifically, the Bank again noted the easing cycle beginning in late-2011 to have supported interest-sensitive spending and asset values, and with further effects expected over time.

*DE View: Overall, the latest statement (again shorter than usual) was fairly similar to that of the previous month, and with again no hints provided on the RBA’s policy stance going forward. However, through nuanced changes to its assessment of the economy (both domestic and global), a seemingly more upbeat tone appears to be emerging from the Bank. While the changes are too subtle to draw any clear signals or hints about changes to the RBA policy stance, it is at least clear that the Bank is not getting any more dovish. Meanwhile, in terms of official policy guidance, the lack of information mirrors that of the September statement where the Bank explicitly attempted to remain “vague” as to “neither close off the possibility of reducing rates further nor signal an imminent intention to reduce them”. That being said, a rate cut before year-end can hardly be completely ruled out, especially given the recent resurgence of AUD strength.*

**Retail Sales Growth Pick Up.** Coming in above expectations, retail sales data for August showed sales rising 0.4% in M/M terms following a 0.1% gain in July. However, the rise was the result of a sharp swing into the positive in sales of department stores and a slight improvement cafes & restaurants, actually weighing deterioration across all other components.

**Fresh Expansion in Manufacturing.** The September Performance of Manufacturing Index jumped 5.3 points to 51.7, the first above-50 reading in over two years. The breakdown showed a clear swing into expansion for new orders, while much less steep contractions were seen in production and employment.

**Home Sales Bounce.** According to the Housing Industry Association, home sales rose for the fifth month in the last six in August, albeit with the 3.4% M/M bounce still unable to fully unwind the 4.7% fall in July.

#### **SOUTH AFRICA – Chang Liu, London**

**Faster Contraction in Manufacturing.** The September manufacturing PMI plunged to 49.1 from 56.5 in the previous month, thereby swinging from a cycle-high to a cycle-low. The breakdown showed the latest outcome to be a reflection of clear swings into contraction for output, new orders and employment.