New York • London • Boston
DECISION ECONOMICS, INC.
Information for Decisions™
New York: 212 884 9440
London: 011 44 20 7959 3045
Boston: 617 994 0500

The Morning Briefing

Thursday, June 5, 2014
6:00 EDT; 11:00 BST
Allen Sinai, Chief Global Economist

THURSDAY BRIEFING POINTS – Andrew Wroblewski and Chang Liu, London/Pierre Ellis, New York/Francisco Larios, Miami

United States: Jobless claims. Initial claims will be looked to for a continuation of favorable labor market conditions, coming after a solid report last week.

Canada: Building Permits and Ivey Managers' Survey. Expected today are April building permits. After declining 3.0% M/M during March, a rebound to grow during April is expected (**DE: 4.0%; Consensus 4.1%**). Also expected is the Ivey Purchasing Manager's survey, which is expected to grow slightly from last month (**DE: 55.5; Consensus 56.0**)

U.S. DATA AND EVENTS OUTLOOK – Andrew Husby, New York

Today brings the weekly unemployment insurance report, at 08:30 EDT/12:30 GMT, and a speech by Fed President Kocherlaka, at 13:30 EDT/17:30 GMT.

WESTERN HEMISPHERE ANALYSIS

UNITED STATES – Andrew Husby, New York

ISM Nonmanufacturing—Reassuring

The Non-Manufacturing ISM survey modestly beats expectations, rising 1.1 points to 56.3 in May (Consensus +0.3 point to 55.5; DE: +0.1 point). Over half the increase (0.6 points) was due to a reassuring pickup in the new orders index to the highest level in over three years.

Data Details—Moderate Growth in Employment

The sentiment reading on "business activity" rose 1.2 points to 62.1, also the highest in over three years.

The key employment index strengthened modestly, up 1.1 points to 52.4, still well below prevailing 2013 levels.

Supplier deliveries held steady, down 0.5 points to 50.0.

Conclusions

Recovery after a poor winter remains in train, but other recent data continue to weigh on more-vibrant Q2 growth estimates.

The trade balance widened more than expected on a surge in consumer goods imports, and revisions showed a wider March deficit as well. The Q1 average was also revised lower relative to Q4 in the annual revision process, serving to pull down growth further in Q1 along with signaling, albeit early in the process, that trade will be a net drag in Q2.

ADP's estimate of May private employment growth revealed moderation—there, growth slowed from a downwardly-revised 215,000 in April to 179,000 in May. Acceleration out of the roughly 200,000 pace that has characterized employment growth for quite some time does not yet appear imminent, but Friday's jobs report will give the official read.

CANADA – Ethan Ward, Boston

International Trade: Surprising return to deficit. Trade balance data for April was released today, showing an unexpected deficit of C$639 million due to a 1.8% decline in exports. This comes after a revised surplus of C$770 million last month (up from C$80 million). Estimates had been for a continuation of the surplus (**DE: C$200 million; Consensus: C$200 million**). The decline in exports was led by a decrease in energy exports. Exports to countries other than the United States also declined during April.

Despite a recent return to surplus after four months of deficit, the April trade balance could not remain positive. If the economy is going to successfully transition to an economy based on exports and business investment, exports will need to increase during the upcoming months and bring the trade balance back into the black.

Bank of Canada: Interest rates held. Surprising no one, the Bank of Canada chose to keep overnight rates at 1.0% today. The bank has been facing concerns over low inflation and has not altered the rate since August 2010.

WESTERN EUROPE – Andrew Wroblewski, London

EUROZONE – Retail Sales Uptrend Even Clearer. Very clearly overshooting expectations yet again, real retail sales rose further in April, albeit this time possibly supported by a late-Easter effect (hence the clearer strength being in food sales this time around). Specifically, overall real sales rose by 0.4% M/M, the fourth rise in succession and the fifth in the last six months.

Yet More Solid Consumer Signals

These data suggest an ever-clearer uptrend in retail sales. Indeed, sales in the first quarter rose by 0.7% Q/Q, easily the largest such quarterly gain since the great recession and thereby very much corroborating better consumer signals available elsewhere, eg in survey readings and in discretionary spending numbers such as car sales. Moreover, as this April reading is already 0.5% above that Q1 average, this suggests an as-clear uptrend remains in place, the latter very much underscored by the April Y/Y rate more than doubling to a seven-year high of 2.4%.

DE View: Indeed, the question is the extent to which currently low inflation (now very much softened by falling food prices) is actually boosting spending rather than (as the deflation-mongers would suggest) causing households to defer spending. In this regard, it is notable the very clear and inverse correlation between the recent fall in inflation and the pick-up in real sales growth.

Indeed, HICP inflation has fallen from 2.5% Y/Y in Q3 2012 to its current 0.5%, while sales growth has swung from around -3% to its current circa-2% rise. This is important for retailers as it implies not only a clear improvement in sales volumes growth but also an end to weakness in sales values.

GERMANY – Orders Uptrend Clearer. Surprising to the upside and clearly so, manufacturing orders jumped back markedly in April. Indeed, orders increased 3.1% M/M, more than unwinding the 2.8% March fall, the latter actually being the only drop in then last six months of data.

The bounce was very broad-based but most manifest in terms of consumer orders

DE View: Regardless, this latest update very much in line with business survey data and suggest a clear uptrend in German manufacturing

ASIA PACIFIC ANALYSIS – Chang Liu, London

CHINA – Slower Expansion in Services. The HSBC/Markit-compiled services PMI signaled an expansion for the twenty-second consecutive month in May, albeit a slower one. More specifically, the headline index fell 0.7 point to 50.7. The breakdown showed the latest outcome to be a reflection of only modest expansion in orders coming alongside a seventh straight increase in employment. Meanwhile, and on a more encouraging note, the composite PMI actually saw the rise expansion in four months in May (bouncing to 50.2 from 49.5).

Commenting on these results, the compilers noted overall results still show growth momentum in the economy being weak—once again calling on policy makers to continue easig both monetary and fiscal policy in coming months.

PHILIPPINES – Inflation Rises Further. Surprising to the upside this time around, May CPI inflation rose to 4.5% Y/Y from 4.1% in the previous month, hitting a new cycle-high. In M/M terms, prices actually rose by 0.5%. The Y/Y breakdown showed the latest outcome to be a reflection of fairly broad based rises across nearly all components, led by food, utilities and transport.

Notably, BSP Governor Tetangco has recently noted that the Bank would "continue to monitor system domestic liquidity to ensure there are no financial stability risks building up"—highlighting its increasing cautiousness regarding upside inflation risks in the period ahead. As a result, the latest upside surprise will clearly increase the odds of a fresh rate hike by the Bank as soon as its upcoming meeting on 19 June.

SOUTH KOREA – GDP Growth Picks Up Further. Updated national accounts data for Q1 saw GDP growing at 0.9% Q/Q, unrevised from the advance estimate and also a same-sized gain as that seen in the previous quarter, still the second-highest pace in over two years. Meanwhile, in Y/Y terms, growth was also unrevised but at 3.9% from the advance estimate, still showing a pick up from 3.7% in Q4 and the hitting a new cycle-high.

The output-side breakdown (all in Q/Q terms) revealed the latest outcome to be a reflection of a clear deterioration in the primary sector (-4.4% from 7.4% in Q4); while the secondary sector was more mixed as a pick-up in manufacturing (2.2% from 0.8%) and construction (1.2% from -2.4%) came in contrast to a fresh fall in utilities (-4.5% from 8.3%). Tertiary sector output, meanwhile, was also fairly mixed, with improvements in transport (1.2% from 0.5%), finance (1.5% from 1.6%) and real estate (0.5% from 0.3%) outweighing weaker growth in business (0.5% from 0.8%) and public administration (0.1% from 0.7%).

Elsewhere, the expenditure breakdown showed weakness in private consumption (0.2% from 0.6%) and government spending (flat from 0.9%). Capex, meanwhile, saw a fresh drop of 0.9% in Q1 after a 4.4% gain in the preceding quarter. However, net trade clearly supported growth last quarter as the gain in exports (1.5%) came in clear contrast to the fresh drop in imports (-0.8% from 2.9%).

It is notable that these figures were rebased last quarter using 2010 as the new base-year, but with the overall message of a continuing recovery still clearly in tact. While growth last year was supported in part by a (front-loaded) $15 billion extra budget and stimulus package, growth this year is likely to be boosted instead by stronger global demand and exports (something clearly corroborated by these latest figures). Indeed, there are seemingly limited downside risks outside of the weakness of yen (and the recent situation in Ukraine) to keep the BoK from shifting away from its currently still accommodative policy over coming quarters.

TAIWAN – Inflation Moderates. After rising to 1.66% Y/Y in April, CPI inflation moderated afresh and to 1.61% last month, swinging from a cycle-high to a three-month low. The Y/Y breakdown revealed the May outcome to be a reflection of falling price pressures for food and health, outweighing stable to weaker outcomes across nearly all other components.

Elsewhere, wholesale inflation picked up to 1.17% from 0.11% in April, while import price inflation turned positive for the first time in the cycle and to 1.04% last month from -0.54%.

AUSTRALIA – Trade Balance Swings into Deficit. Confounding expectations of another surplus, April seasonally adjusted trade data showed the trade balance swinging into a deficit of AUD 122 mln from a surplus of AUD 902 mln in the previous month, the first negative reading in five months but also being a twenty-fourth deficit in the past twenty-eight months.

While the latest outcome came in clear contrast to the consensus estimate, many individual analysts were able to predict a swing into deficit this month as the higher exchange rate dampened exports of iron ore while demand for the commodity also appears have moderated somewhat. Notably, these figures only serve to reinforce the message that net trade (which was the by far the largest contributor to the latest GDP pick-up) will not be able to support growth to nearly the same *extent in coming quarters—with some moderation thus expected until non-mining business sectors see broader improvement.*