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New York: 212 884 9440
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The Morning Briefing

Tuesday, September 9, 2014
6:00 EDT; 11:00 BST
Allen Sinai, Chief Global Economist

TUESDAY BRIEFING POINTS – Andrew Wroblewski and Chang Liu, London/Andrew Husby, New York/Francisco Larios, Miami

Canada: Housing Starts. August **housing starts** are due today. Recent housing starts have been quite strong and August data could reflect a slight slowdown (**DE: 194,000; Consensus: 195,000**).

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

Today brings the weekly chain store sales reports, at 07:45 EDT/12:45 BST and 08:55 EDT/13:55 BST, and an appearance by Fed Governor Tarullo in front of the Senate Banking Committee, at 10:00 EDT/15:00 BST.

WESTERN HEMISPHERE ANALYSIS

CANADA – Ethan Ward, Boston

Building Permits—Surprising Strength

July **building permits** showed surprising strength when most estimates called for a small decline. Permits increased 11.8% M/M, slowing slightly from a revised growth of 16.4% last month. Expectations had been for a decline of 5.0%. Multi-family dwellings powered the increase, jumping a whopping 43.4% above last month.

WESTERN EUROPE – Andrew Wroblewski, London

EUROZONE

FRANCE – Trade Flows Fall. The July trade gap was higher than expected, but was also little-changed at € 5.55 bln. This arose as a clear correction in exports (of 1.5% M/M) was offset by a fall back in imports (of 1.3%).

NETHERLANDS – Production Bounces Back. July industrial production jumped 1.9% M/M, correcting much of the falls seen in the two previous months. As a result, the data showed yet more volatility, albeit with the Y/Y rate picking back up to 0.7%.

OTHER WESTERN EUROPE

UNITED KINGDOM – Manufacturing Production Has Plateaued. Slightly overshooting expectations, July industrial production rose by 0.5% in M/M terms, accentuating the 0.3% June recovery from the fall seen in May (the latter the only negative reading in the last six months of data). Partly as a result, Y/Y growth was a little stronger at 1.7%. Notably, manufacturing also edged back up a little further, albeit the second successive rise of 0.3% M/M unable to repair the marked fall of 1.3% seen in May. As a result, the Y/Y rate was little changed at 2.2% (a six-month low), albeit with more strength in regard to the capex side.

Manufacturing Still Solid

Notably, this result chimes less with what seem to be less upbeat factory sector survey data. Regardless, both official and survey data clearly imply that manufacturing is no longer accelerating, but in the current quarter should exceed the meager 0.2% Q/Q Q2 rise.

Partly as a result, but also reflecting still strong growth in imports, a Q3 GDP reading possibly a touch below the 0.7% to 0.8% Q/Q outcomes of the last few quarters is now on the cards, albeit with some better signs regarding export volumes evident in the July trade data released alongside these production numbers.

DE View: The BoE will not be swayed by these 'less upbeat' numbers, instead encouraged both by the better capex and export signs, especially in the regard to trade data showing underlying export volumes to the EU at the highest so far this year.

Sales Growth Hit Further By Food Price War. According to the British Retail Consortium (BRC), like-for-like nominal Y/Y store sales growth turned positive in August, despite fierce completion among supermarkets still curbing food prices. Meanwhile, the growth rate for like-for like sales rose to 1.3% from -0.3%, while overall (or total) sales growth picked up to 2.7% from 1.3%.

DE View: *A three-month average better reflects underlying trends given the gamut of distortions that have dogged recent data,. The three-month rate, however, still shows that non-food sales have been growing steadily, with food sales growth negative, the latter very much a weakness accentuated by retailers cutting prices for food in order to maintain sales volumes.*

Better Export Signs. The total visible trade deficit was £ 10.19 bln in July, actually a fourth straight deterioration. This reflected a recovery in exports being outweighed by further strength in imports (even more so in volume terms for both).

CENTRAL EUROPE, RUSSIA AND TURKEY – Chang Liu, London

CZECH REPUBLIC – Inflation Rises Slightly. Consumer price inflation rose 0.1 percentage point to 0.6% in Y/Y terms in August, hitting a new cycle-high. The Y/Y breakdown showed the latest pick up to be a reflection of increases in price pressures for food (1.3% from 0.8%), clothing (3.5% from 3.1%) and recreation (1.0% from 0.7%).

Notably, these latest figures came in above the Czech National Bank's inflation forecast (made in July) for the first time in seven months, exceeding the estimate by 0.2 percentage point.

JAPAN – Andrew Wroblewski, London

Monetary Growth Slows Stable. M2 money supply growth was 3.0% Y/Y in August, unchanged for a second successive month, thereby still down from the most recent high of 4.3% posted in January. However, growth in the broader M3 slowed further to 2.4%.

ASIA-PACIFIC ANALYSIS – Chang Liu, London

TAIWAN – Trade Surplus Narrows Modestly. August exports rose clearly and by 9.6% in Y/Y terms, the ninth increase in the past ten months and picking up from the 5.8% gain seen in the preceding month. Imports, however, saw an even sharper increase of 14.1% in August following a 9.5% gain in July. As a result, the trade surplus still narrowed modestly to $ 4.11 bln last month from $ 4.58 bln in August 2013. Meanwhile, on a geographical basis, exports improved all regions of the world, led by Europe, the Middle East and other Asian nations.

AUSTRALIA – Home Loan Approvals Rise Further. Coming below market estimates once again, total home loans still rose further and by 0.3% in M/M terms in July following a 0.1% gain in the previous month, albeit only the second positive reading in six months. The latest outcome came on the back of a bounce in refinancings (2.4%), with the ex-refinancing figure actually falling afresh and by 0.7%.

Continuing—albeit possibly more moderate—strength in the housing market is still generally expected in the period ahead after the RBA cut official interest rates by a cumulative 225 bp over the past 32 months; with the latest reduction coming at its meeting in August 2013. However, it is worth noting that, while the RBA will find comfort in the fact that the economy is rebalancing away from its dependence on the resources sector, concerns about capacity constraints in the housing sector have also been rising.

Business Confidence and Conditions Moderate. The National Australia Bank measure of business confidence eased to 8 in August from 10 in the previous month, still the joint second-highest outcome in the cycle. The business conditions index, meanwhile, declined to 4 from 8 in July, albeit also still being the second-strongest outcome in the cycle. Notably, the breakdown revealed the latest result to be a reflection of weaker growth in profitability, employment and orders.

Despite the latest outcome, NAB were quick to highlight that these figures were only slightly below their long-run average levels and therefore roughly consistent with the RBA's latest assessment of a gradual improvement in business conditions. As a result, the Bank is likely comfortable adhering to its guidance of a period of stable policy ahead.