

FIGURE  
OF THE WEEK

+6.2%

Chinese  
Nominal GDP  
growth, y/y

## In the Headlines



### Canada: Victorious Liberals plan to spend and stimulate

Justin Trudeau led the Liberals in a sweeping victory over the Conservatives in Canada Monday night, to take the Prime Minister's seat, and a majority in Parliament. The collapse in commodity prices and negative GDP in Q1 and Q2 were perhaps the factors which pushed Canadians toward a new government, along with a general fatigue of ten years of Conservative rule under Stephen Harper. Trudeau plans to run budget deficits for at least three years to finance CAD60bn in infrastructure spending and stimulate the economy, in contrast to his predecessor who had intended on balancing the budget even in the face of a weak economy. The deficits will be paid for by increasing taxes on higher incomes and by cancelling other Conservative programs, even as he plans to lower taxes for the middle class. Trudeau also intends to repair relationships with the U.S. which had soured somewhat under the Harper administration. Furthermore, the incoming PM will seek to remove Canadian troops from combat against ISIS and to legalize and regulate marijuana sales.



### China: Not yet out of the woods

China's GDP increased by +6.9% y/y in Q3 (from +7% in Q2). The breakdown revealed that GDP growth was supported by the service sector (+8.6% y/y from +8.5% in Q2). The manufacturing industry decelerated further to +5.8% y/y (from +6.0%). In particular, industrial production decelerated to +5.7% y/y in September (from +6.1% in August). On the demand side, hard frequency indicators suggest that growth was supported by an increase in government expenditures and solid private consumption growth (+10.9% growth for retail sales). Investment decelerated further, the trade balance remained large (USD60.3bn in September) but this reflects a strong decrease in imports. Going forward risks are tilted to the downside. First, business surveys in the manufacturing sector continue to signal weak new orders and moderate demand acceleration overseas does not bode well for a strong exports recovery. Second, pressures on companies' margins persist with high deflationary pressures (PPI declined for 43rd consecutive month in September). Against this background, authorities are expected to step up easing measures in the next quarters including higher infrastructure spending and monetary easing (-50bp policy rate cut). We maintain our 2015 GDP growth forecast at +6.8%.



### Germany: Growth rests upon the thrifty schwäbische Hausfrau becoming less thrifty

Germany's industrial production fell by 1.2% m/m in August, despite the sharp rise in durable consumer goods' production (+6.8% m/m). However, investment goods production fell (-2.1% m/m), as did non-durable consumer goods production (-1.8% m/m). Meanwhile, manufacturing orders fell by 1.8% m/m in August. Interestingly, whereas orders from the Euro area went up by +2.5%, orders from outside the Euro area decreased (-3.7% m/m). Coupled with the -2.8% fall experienced by manufacturers of capital goods, this probably reflects genuine weakness in China and other emerging markets. However, according to the economics ministry, calendar effects may have distorted the domestic order figures. Finally, the ZEW Indicator of Economic Sentiment declined again in October. It fell by 10.2 points compared to the previous month and the index now stands at a level of 1.9 points (vs. a long-term average of 24.8 pts). Nevertheless, another engine of growth is private consumption. Although retail sales fell -0.4% in August, they still hover around +2.5% y/y. This successful rebalancing away from exports and investment underpins our +1.6% Real GDP growth forecast for 2015 and +1.7% in 2016, in spite of the industrial sector's downside risks evidenced by the latest indicators.



### Brazil: consumption sharply contracts

Private consumption worryingly continues to contract in Brazil, with retail sales falling by -6.9% y/y in September, nearing -10% since the last peak of November 2014. Inflationary pressures persist although the SELIC target interest rate has been kept stable at 14.25% since July 2015 (after an increase of +300bps from October 2014). Consumer prices, which increased by +9.5% y/y in September, are expected to rise slightly in October, fueled by the recent large Brazilian real depreciation (-35% y/y against the U.S. Dollar), and upward pressures on food and controlled prices (partly due to the decrease in energy and fuel subsidies). High inflation is coupled with significant labor market deterioration. The unemployment rate stood at +7.6% in August, +2.7pps y/y, while employment contracted by -1.8%. The near-term outlook for private consumption remains negative, with the FGV Consumer Confidence Index falling steadily and reaching a new record low in September (76.3 against a medium-term average of 102).

# Countries in Focus

## Americas



## Europe



## Africa & Middle East



## Asia Pacific



## US: Softness suggests Fed on hold until 2016

Recent data was mostly weaker and EH now expects the Federal Reserve may wait until 2016 to raise interest rates. Inflationary pressures remained low as energy prices fell in September, pushing producer inflation down -0.5% m/m to -1.1 y/y, while the core fell -0.3% m/m to 0.8% y/y. Consumer inflation fell -0.2% to 0.0% y/y while the core rose +0.2% to 1.9% y/y. Manufacturing remained weak as industrial production fell -0.2% m/m to 0.4% y/y, the lowest of the recovery, while the manufacturing component lost -0.1%, the fourth loss in five months. The Fed's anecdotal Beige Book survey reported a weakening factory sector, while its regional manufacturing surveys from NY State and Philadelphia also showed contraction. Retail sales were flat in September as a +1.7% m/m gain in auto sales was offset by a drop of -3.2% in gasoline. September housing permits fell -5% m/m while the only bright piece of news was a +6.5% increase in starts.

## Eurozone: Finally a rise in credit demand from firms?

The 3rd quarter release of the European Central Bank's (ECB) Bank Lending Survey revealed a slight loosening of credit conditions for firms, for the sixth consecutive quarter, and stronger demand for loans. This is a positive signal that the ECB QE program starts to translate into the real economy. Going forward, banks expect further easing of credit standards for firms in Q4 (and households). On a country by country basis, Italy has shown the strongest improvement in loan rates for enterprises, while France registered a slight tightening. On the demand side, overall prospects are expected to improve as both firms and households' confidence slightly rises: a stronger rebound in credit will go hand-in-hand with a rebound in economic activity. That being said, given the previous tightening in credit conditions and the snail's pace of nominal GDP growth, more needs to be done. We look for an increase in the size and duration of the ECB QE program to be announced by early 2016 (possibly as soon as December).

## Egypt: Poll position?

The first stage of parliamentary elections took place on 17-19 October, with a further round slated for 22-23 November and runoffs scheduled for 1-2 December. With the Muslim Brotherhood outlawed and a government ban on political sermons in mosques and on overtly religious political campaigning, the elections are unlikely to result in an upset for the current regime. However, it is likely that the protracted polling period will be accompanied by a surge in militant attacks and other disruptive tactics. Security and stability, already fragile (particularly in Sinai) might deteriorate in Q4. As a result, there may be disruptions to commercial activity and some investment plans could be put on hold. In turn, this may reverse some recent gains in business confidence and challenge the official target of USD10bn in foreign direct investment in the current financial year (which runs to end June).

## Bank of Japan economic assessment – maybe too optimistic

The Bank of Japan maintained its optimistic assessment in its last regional economic review. According to the institution, activity continues to recover but at a moderate pace with domestic demand improvement compensating for lower exports growth. Accordingly, further monetary easing is not necessary at this stage. However, the recent activity figures do not support a rosy outlook. Retail sales growth decelerated in August (+0.8% y/y from +1.8% in July), industrial production decreased (-0.4% y/y, -1.2% m/m) and capacity utilization declined (-0.9% m/m). The trade balance deteriorated to JPY-355.6bn in September: exports volume remained in contraction (-3.9% y/y in September, after falling by -4.1% in August), while import volume decreased by -2% y/y, from -0.7% last month. The manufacturing PMI declined to 51 in September while lower consumer confidence (40.6 in September, down from 41.7 in August) suggests slower private consumption growth. On the price front, downward pressures remain strong (producer prices fell by -3.9% y/y in September after -3.6% in August). In that context, an extra stimulus package is likely in the form of higher fiscal expenditures but also further monetary easing.

## What to watch

- October 22nd – France Business and Manufacturing confidence
- October 22nd – UK retail sales
- October 22nd – Eurozone Consumer Confidence
- October 22nd – ECB monetary policy meeting
- October 22nd – U.S. September existing home sales
- October 22nd – Canada August retail sales
- October 23rd – France, Germany and Eurozone PMI
- October 23rd – Italy industrial sales and orders
- October 23rd – Canada September consumer prices
- October 23rd – Italy retail sales
- October 23rd – ECB survey of professional forecaster
- October 26th – Germany IFO business climate
- October 26th – U.S. September new home sales
- October 27th – UK GDP (preliminary estimates for Q3)
- October 27th – U.S. September durable goods orders
- October 27th – U.S. October consumer confidence
- October 28th – U.S. Fed policy announcement
- October 28th – France Consumer Confidence
- October 28th – Italy business and consumer confidence
- October 28th – Sweden Riksbank interest rate

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