



### Britain's Fate

Whither Britain? *The first thing to say about Britain's election result is that it will probably have little impact on the near-term fate of the economy.* We argue on page seven of these *Notes* that the short-term outlook for the economy is weakening: Consumers, having spent like mad for the last two years, are now exhausted. Production is flat. Foreign capital inflows are reduced, not because of fears about Brexit but because oil revenues have been diminished in the OPEC nations—and Russia—that traditionally invest in Britain. Sterling is under balance of payments pressure, although it has been for years already.

Beyond the immediate cyclical challenges, the hung Parliament, the agreement between the Tories and the Democratic Unionists Party, and the demonstrated lack of cohesiveness within the Tories on Brexit all point to huge uncertainties in the medium term.

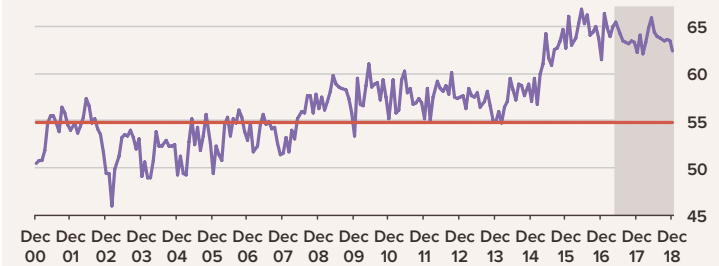
The support of the DUP will cost the Tories—and thus the government—something. Key issues for the DUP include economic support for Northern Ireland and the maintenance of an open border with the EU. The DUP also diverges from Tory thinking on several hot-button social issues. So at best they will be an “on-demand” partner to support the government, not a coalition partner on all issues. *This is an unstable arrangement.*

*Brexit remains the key long-term concern.* Even though the government's Brexit negotiating team is—so far—unchanged, hard Brexit may no longer be a strategy Prime Minister May can hope to sell to this Parliament. Soft-exit MPs now have a louder voice in the party caucus. They may not want to run the risk that Prime Minister May's hard negotiating tactics leave Britain with no deal on March 30, 2019. They might demand new leadership that will ensure “some deal” to keep Britain in the EU's free trade area regardless of the compromises necessary to achieve it. That would be impossible without sacrificing control of the borders... but that control is why many voted for Brexit.

*So we do not know where the Brexit story goes from here.* The next step will be for the Conservatives to reunite behind Ms. May, or to dump her. History suggests she will be toppled... but if so, who will replace her? Leading candidates include Foreign Secretary Boris Johnson and Brexit Negotiator David Davis—two hardliners—as well as Chancellor Philip Hammond—who is more neutral on Brexit—and

### OECD Private Inventories Of Crude Oils And Liquid Fuels

Days Of Refiner "Calls" For Crude, IEA Forecast May 2017 To Dec 2018  
Red Line Is "Normal" Over 15 Years Prior To June 2014



immigration hardliner Amber Rudd. The election results seem to demand a softer approach to Brexit.

Brexit talks are slated to begin on June 19. In the opening round, Britain's Mr. Davis will demand that negotiations on the divorce terms and the post-divorce arrangements run in parallel. The EU will simply diss that idea, putting Britain on a path where its only choices will be either hard Brexit with no deal or to cave on exit fees and immigration. Britain's latest budget sets aside £39 billion in out-year spending for EU fees to be converted to domestic stimulus. If those monies go to fees rather than domestic spending, growth will be lower. And if the borders stay open, wages will remain low for a very long time. On hard Brexit, they will rise in March 2019. *Stay tuned for developments.*

### Crude Oil Slides

The arithmetic of the oil markets is inexorable. Supply exceeds demand. Inventories are excessive. The laws of economics predict price declines until either demand picks up or supply decreases to reduce inventories back to normal levels. This is Econ 101.

The latest weekly figures from the U.S. Department of Energy show inventories in the first week of June were 2.6% greater than a year ago, and well above the levels when OPEC started negotiating its “deal” with non-OPEC producers. In its *May Oil Market Report*, the IEA noted that OPEC producers amped up output ahead of the start of the “deal,” and that they would have to get serious about actually reducing output—not just complying with relative output cuts—to stabilize prices. The data show OPEC oil production is higher now than last fall, and incremental supply has popped up from a few OPEC nations—Nigeria and Iraq are not included in the “deal”—as well as other non-OPEC sources.

The surge of crude oil prices above \$50 per barrel also triggered a surge of tight oil exploration and production in the United States. That oil will flood into markets over the next six-to-12 months: It is “in the pipeline” and will be produced, even if oil prices plunge.

OECD inventories rose relative to calls on crude through the first quarter and into April, the IEA reports. So oil prices continue to fall.

Our maths say that holding crude oil at last week's closing price puts it just below year-ago levels, and headed for 15%-or-more below year-ago levels by December. *The outlook, then, is for global headline inflation metrics to fall below core inflation metrics by year-end... again.*

### Brent Crude Oil Price Scenario, Percent Change Year-Over-Year

Daily Data To June 9, 2017, U.S. Dollars/Barrel  
Constant Price At \$47.55 Extrapolation Thereafter



## Weekly Calendar of International Economic Events &amp; Data Releases

High Frequency Economics®

	United States	Canada	Japan	France	Germany	United Kingdom	Australia	Europe & Global
Monday Jun 12	Treasury Budget (5)		PPI (5) Mach Tool Orders (5p) Machinery Orders (4)	BdF Bus Sentiment (5)			<b>HOLIDAY</b> <i>Queen's Birthday</i>	Call For Repo Tenders
Tuesday Jun 13	*NFIB Survey (5) *PPI (5) Wkly Store Sales			Payrolls (Q1r)	ZEW Survey (6) WPI (5)	CPI (5) PPI (5)		Wkly Repos Allocated
Wednesday Jun 14	*FOMC Decision *Fed's Yellen Speaks Fed Forecast Update *CPI (5) *Retail Sales (5) Inventories (4r) Wkly MBA Mortgages	Teranet Index (5)	Industrial Prod'n (4r)		CPI (5r)	Claimant Count (5) ILO Employment (4) Average Earnings (4)		Employment (Q1) Industrial Prod'n (4)
Thursday Jun 15	*Philly Fed Survey (6) *NAHB Index (6) Empire State Svy (6) *Industrial Prod'n (5) Import Prices (5) TIC Flows (4) *Wkly Initial Claims	Survey of Mfg (4)		CPI (5r)	Partial HOLIDAY <i>Corpus Christi</i>	MPC Decision Monetary Minutes Retail Sales (5) BoE's Carney Speaks	Employment (5)	TRADE (4) Eurogroup Meeting
Friday Jun 16	*Mich Sentiment (6p) *Housing Starts (5) FRB LMCI (5)	Int'l Securities Flows (4)	BoJ Board Decision	Wages (Q1r)				Labor Costs (Q1) CPI (5r) Vehicle Regs (5) ECOFIN Meeting
Sometime Soon	July 26: FOMC Decision	July 12: BoC Council Decision	July 20: BoJ Board Decision	June 18: Legislative Election II June 30: Household Spdg (5)	June 26: IFO Index (6)	June 19: Brexit Talks Start August 3: MPC Decision	July 4: RBA Board Meeting	Jun 22-23: EU Summit Jul 7-8: G-20 Summit Jul 10-11: EU FinMins Jul 20: ECB Council
Key Data	Fed Rate Hike Oil-Depressed CPI	Mfg Improves Again HPI Slows But Still Hot	BoJ Talks Tapering Orders Sagging	All Eyes On Election Second Round	ZEW Flatter Holiday Week	Political Chaos! CPI, Sales Slow	Jobs Growth Still Too Slow	Faltering Industrial Growth, Trade Flatter

CCI or BCI = Consumer or Business Confidence Index. HPI = House Price Index. a = Advance. s = Second. p = Preliminary. r = Revision. f = Final. Dates are in parentheses: (1) indicates January, etc. \*Indicates subjects of HFE Snapshots. Italics indicate HFE estimated release date.

Carl B. Weinberg, Chief Economist

## International Yield Curves

We know of no one who can give us an unemotional assessment of the implications of **Britain's** Tory upset in last week's national elections. Many seem to agree that Prime Minister May has to go, but who will replace her and what impact will that have on the course of Brexit? *This is all yet to be seen.* In the short run, though, the outlook for persistently falling inflation metrics at least through year-end means no BoE tightening can be considered. *We expect no rate hike or other form of tightening at this week's MPC meeting.* Look for gilts to rally over the summer as inflation metrics settle but sterling remains susceptible to correction on adverse capital account flows. Inflation metrics in **Euroland** are set to go even lower as oil prices fall and year-over-year oil price increases pass out of the calculus. The ECB will have to do something as the stock of long-term sovereign bonds it can purchase dwindles, but it seems to be in no rush to do so. *Normally, we would look for falling bond yields with slowing inflation. However, yields are so low already that scope for further declines is limited.* So the yield curve is mostly static, with a slight flattening bias. *Recalling that the Fed is tightening monetary conditions while the ECB is not, this is a recipe for more euro depreciation over time.*

The Policy Board of the Bank of **Japan** will meet this week. A hot topic on its agenda will be the challenges of keeping 10-year JGB yields

from falling below zero. *We expect an adjustment of the parameters of its quantitative easing program to achieve the YCC goal of keeping long-term rates positive. That has to mean a formal rollback of the target of ¥80 trillion per year in JGB purchases.* Watch out!

In **Canada**, manufacturing growth is picking up but oil prices are falling. Generally speaking, that should steepen the yield curve. However, core CPI-based inflation metrics are falling toward the bottom of their 1-to-3% target band, and that suggests the yield curve is likely to flatten. Cheaper oil prices all but ensure a cheaper currency. *So we are looking at a lot of moving parts Up North. The BoC is not responding to the lower inflation trajectory, so the yield curve should flatten as the C\$ cheapens.*

For **Australia**, the RBA is demonstrating an unexpected insensitivity to the slowdown in core CPI, the decay in the terms of trade, the slowdown of credit, falling housing activity and flat retail sales. Oh yes, employment growth is not so hot, either, although it has picked up a bit in the last few reports. Just like in most other markets, inflation metrics seem likely to fall, although the RBA Board insists they will rise back toward target. *We do not see that happening, with falling energy prices pulling down headline CPI-based inflation metrics. Our outlook is for a flatter yield curve, and a cheaper A\$ as the Fed tightens.*

### Yields On 90-Day Paper — June 9, 2017

Country	Yield	Spread Against:							Curve's Slope*
		U.S.	Canada	Japan	France	U.K.	Germany	Aus	
U.S.	1.00	—	+0.49	+0.94	+1.60	+0.86	+1.88	-0.59	1.21
Canada	0.51	-0.49	—	+0.45	+1.11	+0.37	+1.39	-1.08	0.81
Japan	0.06	-0.94	-0.45	—	+0.66	-0.08	+0.94	-1.53	-0.03
France	-0.60	-1.60	-1.11	-0.66	—	-0.74	+0.28	-2.19	1.17
Britain	0.14	-0.86	-0.37	+0.08	+0.74	—	+1.02	-1.45	0.80
Germany	-0.88	-1.88	-1.39	-0.94	-0.28	-1.02	—	-2.47	1.14
Australia	1.59	+0.59	+1.08	+1.53	+2.19	+1.45	+2.47	—	0.81

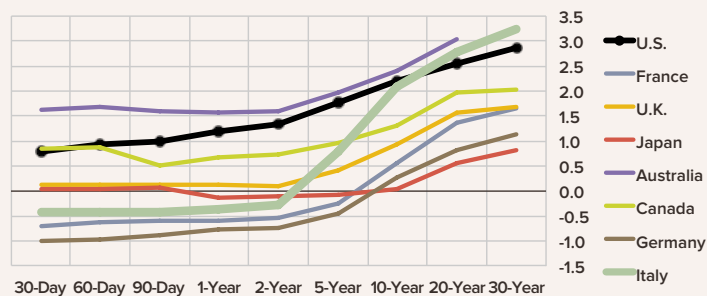
\*Calculated as 10-year yield minus 90-day yield for each currency.

### Yields On 10-Year Bonds — June 9, 2017

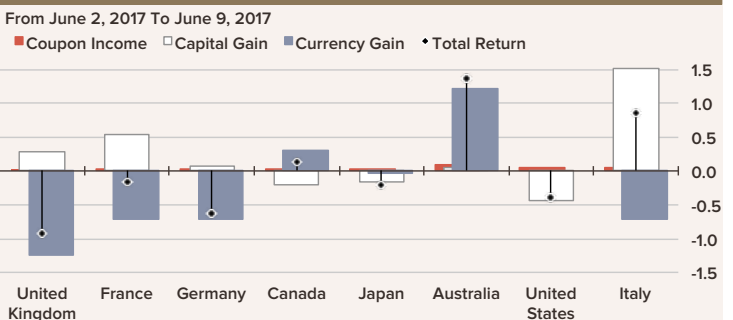
Country	Yield	Spread Against:						
		U.S.	Canada	Japan	France	U.K.	Germany	Aus
U.S.	2.21	—	+0.89	+2.18	+1.64	+1.27	+1.95	-0.19
Canada	1.32	-0.89	—	+1.29	+0.75	+0.38	+1.06	-1.08
Japan	0.03	-2.18	-1.29	—	-0.54	-0.91	-0.23	-2.37
France	0.57	-1.64	-0.75	+0.54	—	-0.37	+0.31	-1.83
Britain	0.94	-1.27	-0.38	+0.91	+0.37	—	+0.68	-1.46
Germany	0.26	-1.95	-1.06	+0.23	-0.31	-0.68	—	-2.14
Australia	2.40	+0.19	+1.08	+2.37	+1.83	+1.46	+2.14	—

Japanese 10-year simple interest yield converted to semi-annual compound yield.

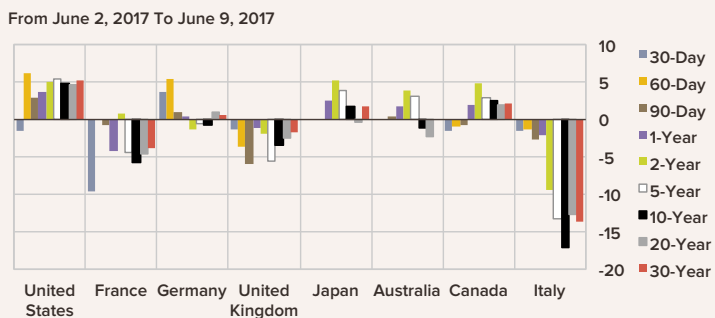
### Government Bond Yield Curves — June 9, 2017



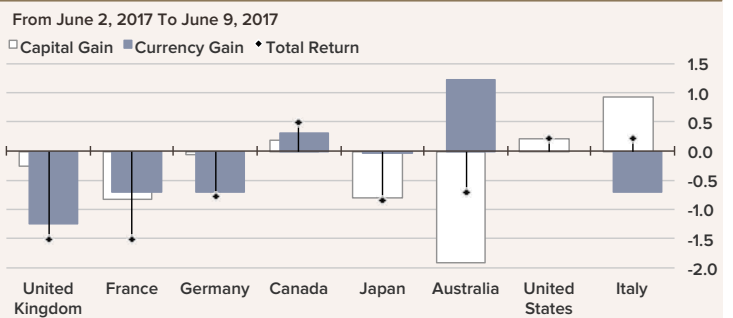
### Total Return On Ten-Year Bonds In U.S. Dollars, Percent



### Changes In Government Bond Yield Curves, Basis Points



### Capital Return In U.S. Dollars, Equity Market Indexes, Percent



### Germany: Low Jobless Rate And Steady CPI? Yes!

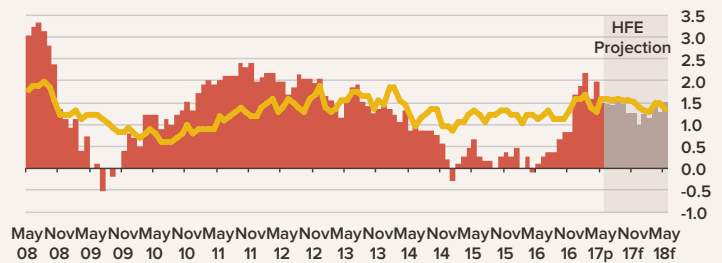
It is a puzzle to some that the unemployment rate in Germany is at a 26-year low yet wages are not accelerating. Our solution is simple: The *domestic* unemployment rate is at a 26-year low, but the Euroland unemployment rate is much higher. Germany, like the rest of Euroland, is open to cross-border economic migration. Unlike the rest of Euro-land, Germany's economy is doing fairly well, creating jobs. So Germany enjoys—the German electorate probably would not agree to that word choice—access to a seemingly unlimited supply of labor from the rest of Euroland. These people come to Germany willing to do any job at any wage rather than be unemployed at home. Thus wages for newly created jobs are pegged at the margin to the lowest wage, and workers with jobs have no traction to demand pay increases.

So Germany's exporters, already efficient and competitive thanks to technology gains in manufacturing, become even more competitive because they can hire marginal workers at wages lower than the value of their marginal product. This is a profit-enhancer for any company. It encourages low prices, exports and excess profits to fund investment. This is what investors should expect from Germany.

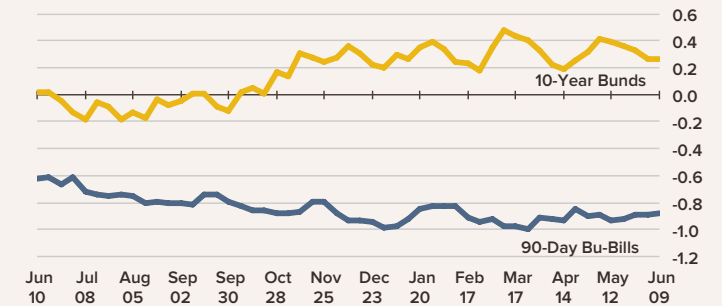
However... the economy is slowing. Retail sales are slowing. Employment growth is down. That may explain part of the retail slowdown. Despite an unexpected blip in April—which may be more about Easter than economic strength—industrial output is growing slowly, and the level is just 2% higher than a decade ago. *Germany may be entering a cyclical slowdown—watch out for that. You can watch for slowing CPI too, with no lift for Bund yields even if the ECB stops buying them.*

### Germany: CPI, Percent Change Year Ago

Bars Show Headline CPI, Line Is Ex-Energy CPI, Jun 17 Onward Is HFE Forecast

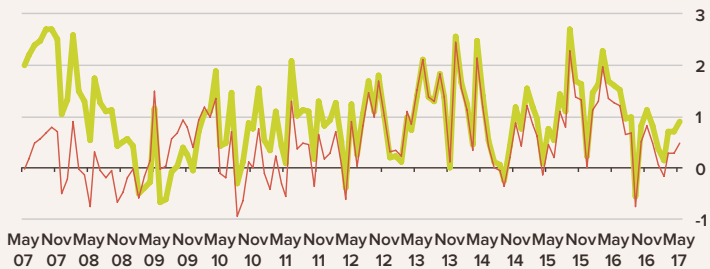


### Germany: Yields, Percent



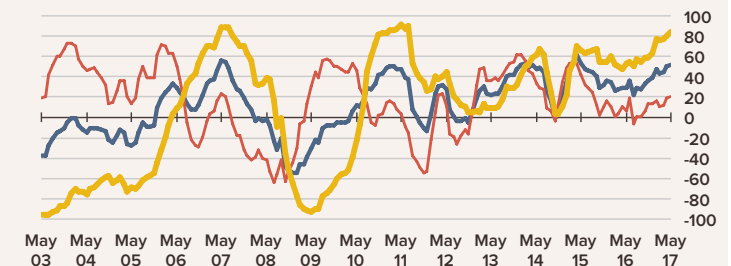
### Germany: Employment, Percent Change Year Ago

Green Line Shows Employment %chya, Red Line Shows Labor Force %chya



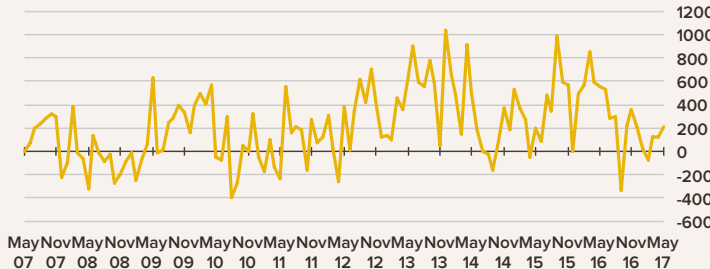
### Germany: ZEW Index And Its Components

Blue Line Shows HFE Composite ZEW Index, Red Line Is ZEW Expectations Index, Yellow Line Is ZEW Current Conditions Index



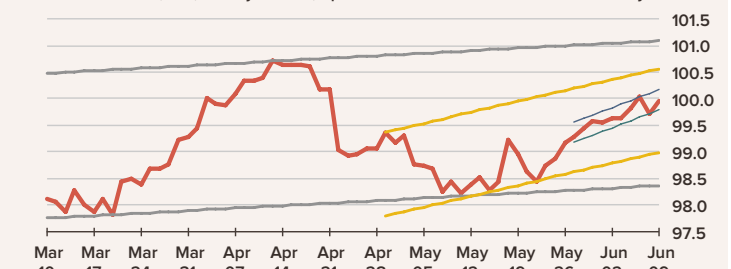
### Germany: HFE Immigration Estimate

Thousands Of Persons, Yearly Rate Assuming No Natural Labor Force Growth



### Germany: Daily Price Of 10-Year Bund

Channels Show 90-, 30-, 10-Day Trends, Spliced To Match 0.25% Bund Of February 2017



Monday 12	Tuesday 13	Tuesday 13	Wednesday 14	Thursday 15	Friday 16
	ZEW Survey	Expectations	Current Cond'ns	HFE Composite	WPI %chya
	Jun 16	19.2	54.5	36.9	May 16 -2.3
	Mar 17	12.8	77.3	45.1	Feb 17 5.0
	Apr 17	19.5	80.1	49.8	Mar 17 4.7
	May 17	20.6	83.9	52.3	Apr 17 4.7
	Jun 17f	?	?	?	May 17f 3.8
					CPI %ch %chya %chya
					May 16 0.3 0.1 1.1
					Feb 17 0.6 2.2 1.7
					Mar 17 0.2 1.6 1.4
					Apr 17 0.0 2.0 1.3
					May 17p -0.2 1.5 1.6
					Partial HOLIDAY Corpus Christi

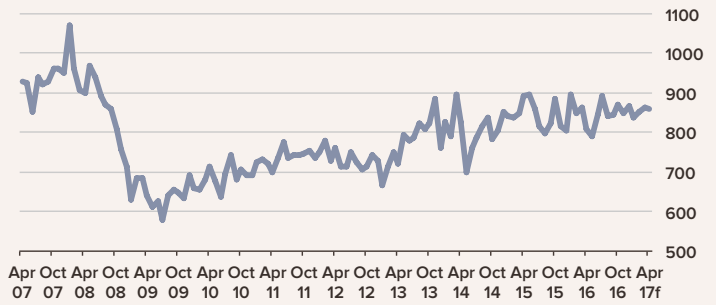
### Japan: BoJ Has To Do Something!

Yields on 10-year JGBs are flirting with zero again. The problem is that insurance companies and pension funds deplete cash as they roll over maturing bonds into new paper at negative yields. The whole point of the BoJ's yield curve control—YCC—was to pull yields up from as low as minus 30 basis points into positive territory, to promote financial system stability. *Without additional action, yields will go negative again.* The BoJ Board meets this week.

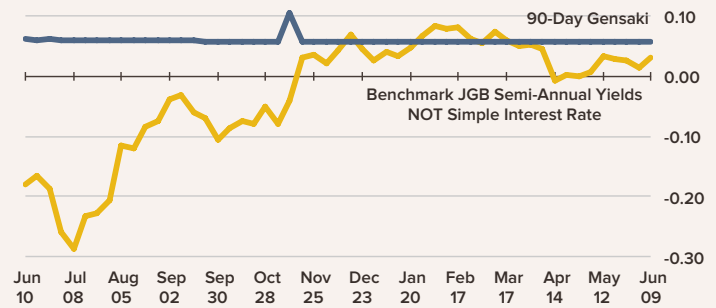
The challenge is that the BoJ wants to maintain its commitment to buy “more-or-less” ¥80 trillion in JGBs per year. However, it also wants to keep 10-year yields above zero. Economics students know that you have to adjust quantity purchased to affect the price of anything, or accept the price that is generated by specific levels of purchases: No one, not even the mighty Bank of Japan, can rig both quantity bought and prices for any given supply of JGBs. *So we expect the BoJ to announce some tapering of its asset purchases to avert a further decline of JGB yields. Some discussion of this, as well as an action plan, are what we expect from this week's BoJ Board meeting.*

Economic news this week will be light. Zippy production figures will be confirmed, although the level of production is severely depressed. The acceleration of producer prices likely fizzled in May, and year-over-year metrics should fall over the summer as the oil price drop works out of the maths. Orders should be dull. Japan's economy can neither grow much nor generate any inflation as long as its population is in decline. That is just a fact. No monetary or fiscal policy can make things otherwise... not even QQME with YCC.

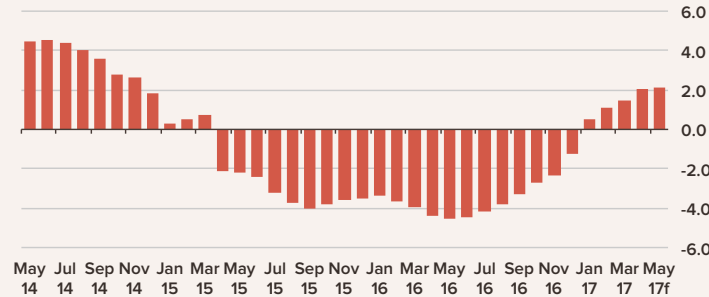
Japan: Core Machinery Orders, Billions Of Yen



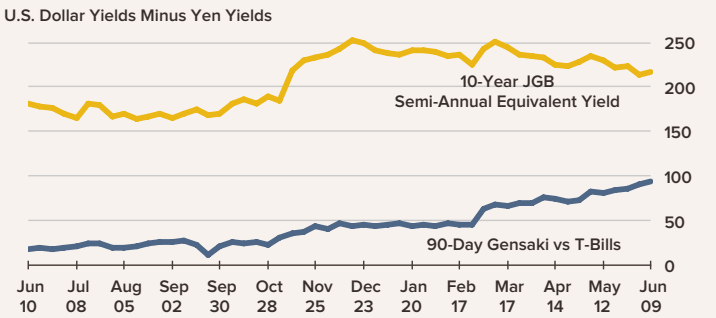
Japan: Yields, Percent



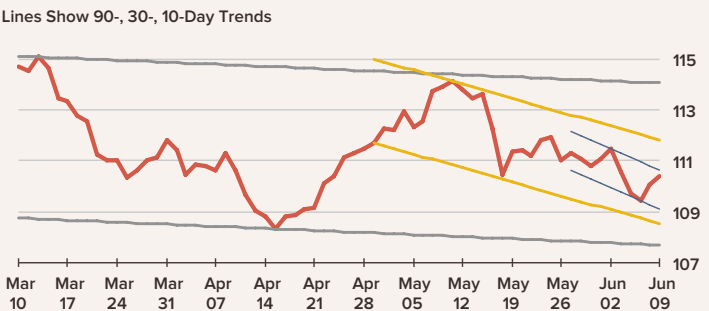
Japan: Producer Price Index, Percent Change Year Ago



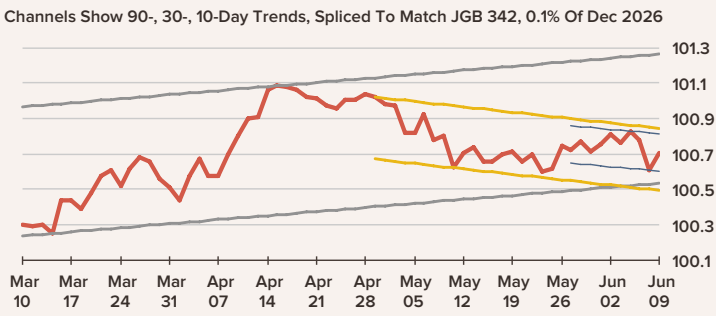
Yen Vs U.S. Dollar Yield Spreads, Basis Points



Yen Per U.S. Dollar, Daily Exchange Rate & Trends



Japan: Daily Price Of 10-Year Benchmark JGB



Monday 12		Monday 12		Monday 12		Tuesday 13		Wednesday 14		Thursday 15		Friday 16	
PPI		Machine Tool Orders		Machinery Orders				Industrial Production				BoJ Board Decision	
%ch	%chya	%chya	%chSP	%chya	%chSP			%chya	%ch	%chSP			
May 16	0.0	-4.6	May 16	-24.7	-26.5	Apr 16	-9.4	-24.6	Apr 16	-2.1	0.4	-17.5	
Feb 17	0.3	1.1	Feb 17	9.1	-21.7	Jan 17	-6.6	-21.7	Jan 17	1.5	-2.1	-16.0	
Mar 17	0.2	1.4	Mar 17	22.8	0.5	Feb 17	0.0	-20.6	Feb 17	6.7	3.2	-13.3	
Apr 17	0.2	2.1	Apr 17	34.7	-5.9	Mar 17	0.0	-19.5	Mar 17	3.5	-1.9	-14.9	
May 17f	0.0	2.1	May 17f	34.0	-1.5	Apr 17f	6.6	-19.6	Apr 17p	7.2	4.0	-11.5	

## France & Euroland: Inflation Is Nil, Industry Flat

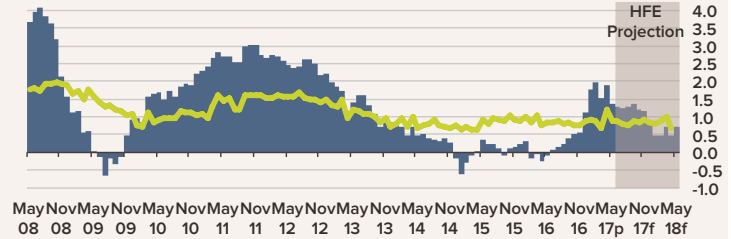
Revised CPI estimates for May are due this week. In Germany, core CPI increased only 1.6% over the 12 months ended May. We estimate core CPI in France was only 0.5% higher than a year ago. In the Euro Zone as a whole, we estimate core CPI rose just 0.9% year-over-year. The uncomfortable fact is that core CPIs are not accelerating. Year-ago declines in oil prices are passing out of the year-over-year maths for headline CPI increases. With Brent prices now lower than a year ago, headline CPIs will slow to and then fall below the rate of core CPI increases. **In short, the ECB's QE is not succeeding in restoring inflation to 2%.** Dr. Draghi may see things differently, but the numbers are immutable.

Falling headline inflation normally means falling bond yields. However, 10-year OAT yields at 0.6% are barely above core CPI inflation and lower than headline CPI metrics. Yields on 10-year Bunds are well below headline CPI metrics. *So we want to think that bond yields can fall with inflation metrics, but we wonder how much further they can go... especially if the ECB has to stop buying sovereigns by year-end as the universe of securities it is eligible to purchase is depleted.* We can only suggest that bond prices have upside potential, but that scope for lower yields is limited.

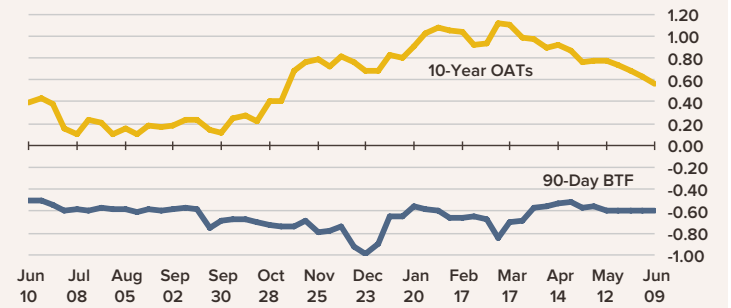
Zonal production figures this week should show some growth, but not a lot. Dr. Draghi is inclined to call sub-2% economic growth "solid" and "broad based." We are not so generous. *Industrial output is growing slowly and still 8% lower than before the depression that began almost a decade ago. This poses no risk of capacity exhaustion, overemployment or inflation at any point in the foreseeable future.*

### Euro Zone: CPI, Percent Change Year Ago

Blue Bars Are CPI, Green Line Is Core CPI  
Data To May 17p, Jun 17 To May 18 Are HFE Forecast

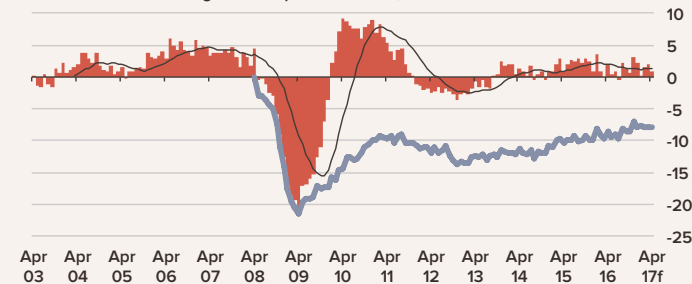


### France: Yields, Percent



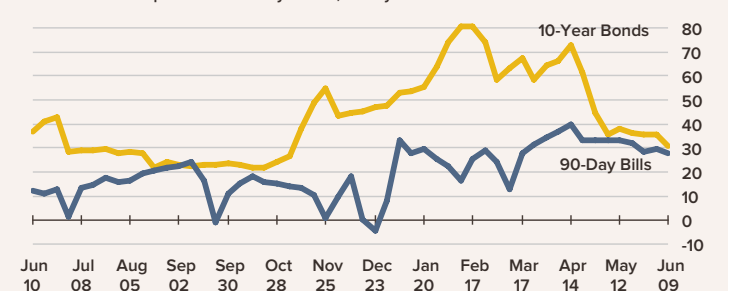
### Euro Zone: Industrial Production, Percent Change Year Ago

Blue Line Is Percent Change Since April 2008 Peak, 12-Month Trend Also Indicated



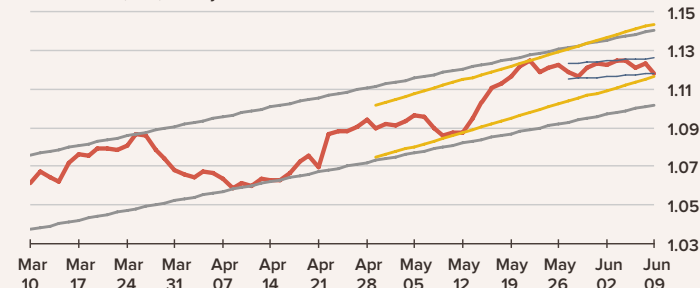
### Germany Vs France Yield Spreads, Basis Points

France Minus Comparable Germany Yields, Friday Market Close



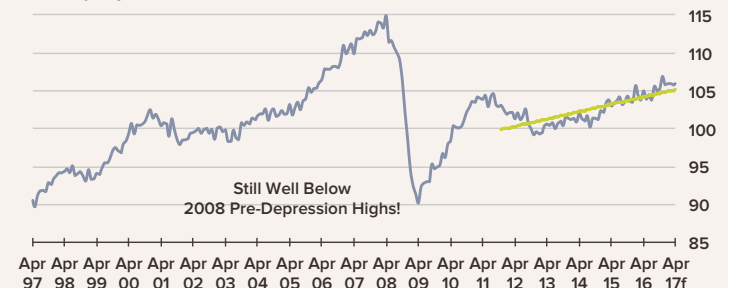
### The Euro In U.S. Dollars, Daily Exchange Rate & Trends

Lines Show 90-, 30-, 10-Day Trends



### Euro Zone: Industrial Production Index

Seasonally Adjusted, 2010 = 100, Trend Since 2011 Drawn



Monday 12	Wednesday 14	Wednesday 14	Thursday 15	Thursday 15	Friday 16	Friday 16
FR BdF Business Sentiment (5)	<b>EZ Industrial Prod'n</b> %chya %chSP	EZ Employment (Q1)	<b>EZ Trade Ex- Im- Bal-</b> €bns ports ports- ance	<b>FR CPI Total Core</b> %chya %chya	<b>EZ CPI Core</b> %ch %chya %chya	EZ Labor Costs (Q1)
<b>Tuesday 13</b>	Apr 16 1.9 -8.6 Jan 17 0.3 -7.7 Feb 17 1.5 -7.8	<b>Thursday 15</b>	Apr 16 172.5 145.9 26.6 Jan 17 163.1 164.2 -1.1 Feb 17 171.2 154.3 16.9 Mar 17 202.3 171.4 30.9 Apr 17f 187.0 159.7 27.4	May 16 0.0 0.7 Feb 17 1.2 0.2 Mar 17 1.1 0.4 Apr 17 1.2 0.5 May 17pf 0.8 0.5	May 16 0.4 -0.1 0.8 Feb 17 0.4 2.0 0.9 Mar 17 0.8 1.5 0.7 Apr 17 0.4 1.9 1.2 May 17p-0.1 1.4 0.9	EZ Vehicle Regs (5) ECOFIN Meeting FR Wages (Q1r)
FR Payrolls (Q1r)	Apr 17f 0.9 -7.8	Eurogroup Meeting				

## United Kingdom: Election Doesn't Matter Near-Term

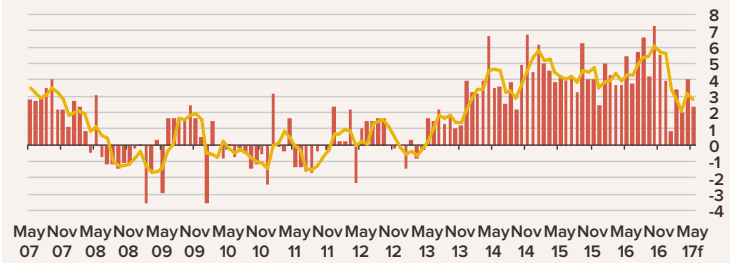
Let us take something complicated and make it simple: Regardless of the political fallout from last week's election, and regardless of the outcome of Brexit negotiations over the next 22 months, consumer spending is faltering **now** and inflation is falling below target **now**. The economy is slowing **now**. Sterling is at risk **now** because the balance of payments are in bad shape. Long-term investors may take bets on Brexit gains and losses, but short-term investors can expect few changes in the short run: *Gilt yields will fall with inflation this summer*. They can expect consumer exhaustion to reduce aggregate demand. They can anticipate low investment spending, not because of Brexit uncertainty but because foreign capital inflows from oil-exporting nations are impaired by low oil prices.

With the economy slowing, employment growth will fall. That will be this week's news. It matters not whether the unemployment rate rises or falls: Labor supply is ample thanks to open borders for economic migrants from unemployment-ravaged Euroland. Wage growth is minimal, as we will also see in this week's report. Thus, the outlook for CPI is a slowing from now to the end of this year, and beyond. The basis effect from year-ago oil price declines **and** the basis effect from the July 2016 sterling crash are both passing out of inflation maths now, so CPI will have cooled a lot by the end of the summer.

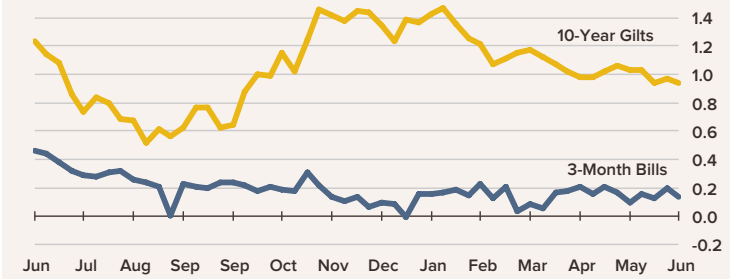
Savvy short-term investors will take advantage of these trends and leave the long-term thinking to others. *In the short term, we expect a flatter yield curve, a tough time for equities in a flagging economy and risk to sterling from balance of payments shocks.*

### United Kingdom: Retail Sales, Percent Change Year Ago

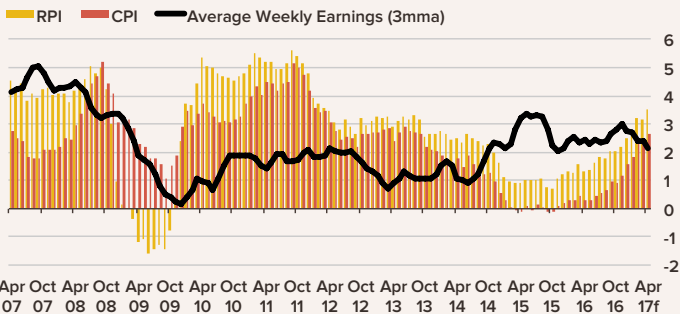
Line Shows Yearly Change Of Three-Month Moving Average



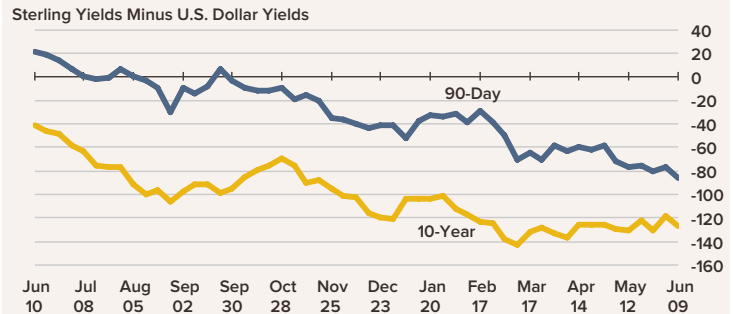
### United Kingdom: Yields, Percent



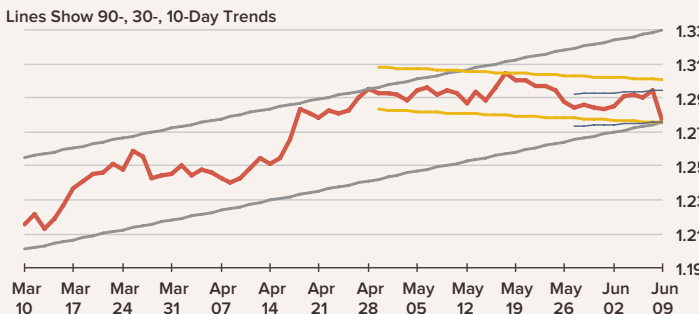
### United Kingdom: Average Weekly Earnings Ex Bonuses, %chya



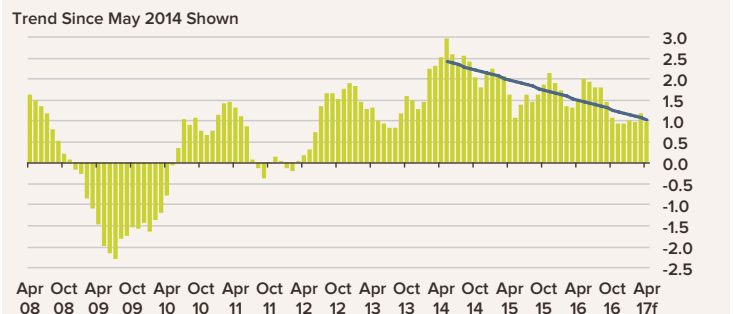
### Sterling Vs U.S. Dollar Yield Spreads, Basis Points



### Sterling In U.S. Dollars, Daily Exchange Rate & Trends



### United Kingdom: ILO Employment, Percent Change Year Ago



Tuesday 13				Tuesday 13				Wednesday 14				Wednesday 14				Wednesday 14				Thursday 15				Thursday 15			
CPI	%ch	%chya	Ex-FBTE	PPI	Input %chya	Output %chya	ILO Unemployment	000s	Δ000s	%	Avg Earnings	%chya	Δ vs 3mma	CPI	Claimant Count (5)	Retail Sales	%ch	%chya	MPC Decision								
May 16	0.2	0.3	1.2	May 16	-4.3	-0.5	Apr 16	1671	-20	5.0	Apr 16	2.6	2.4	236		May 16	1.6	5.5	Monetary Minutes								
Feb 17	0.7	2.3	2.0	Feb 17	19.3	3.7	Jan 17	1584	-32	4.7	Jan 17	2.6	2.7	79		Feb 17	1.6	3.4	BoE's Carney Speaks								
Mar 17	0.4	2.3	1.8	Mar 17	17.4	3.6	Feb 17	1559	-45	4.7	Feb 17	2.2	2.4	-13		Mar 17	-1.5	2.0									
Apr 17	0.4	2.7	2.5	Apr 17	16.6	3.6	Mar 17	1541	-53	4.6	Mar 17	2.4	2.4	5		Apr 17	2.4	4.0									
May 17f	0.1	2.6	2.4	May 17f	13.6	3.5	Apr 17f	1566	-18	4.7	Apr 17f	1.9	2.1	-77		May 17f	0.0	2.3									

### Canada: Better Living Through Manufacturing

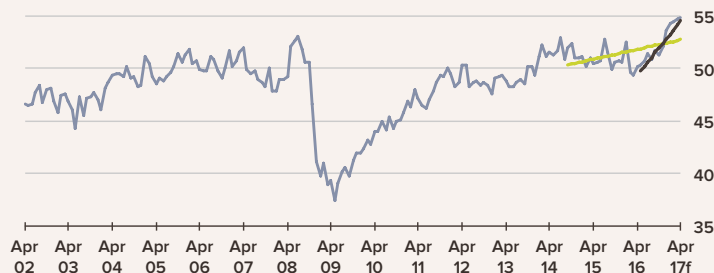
If you focus on manufacturing, Canada's economy does not look so bad. That is what we expect to see in this week's economic data. Manufacturing output should be up. The trend rundown of inventories relative to sales should extend, even though we expect the level of stockpiles to be reported up slightly. Orders continue to jump.

Strength in manufacturing was evident in Friday's employment report: Employment in industry rose by 25,000 in May, almost half the 55,000 increase in jobs for the whole economy. The transportation and warehousing sectors added another 17,000 jobs. Overall, the pace of job creation accelerated in May to 1.8% overall, or 1.7% for private sector jobs alone. *This was a strong report. Finally, the "rotation" strategy—shifting jobs out of extraction into traditional manufacturing—seems finally to be paying off.*

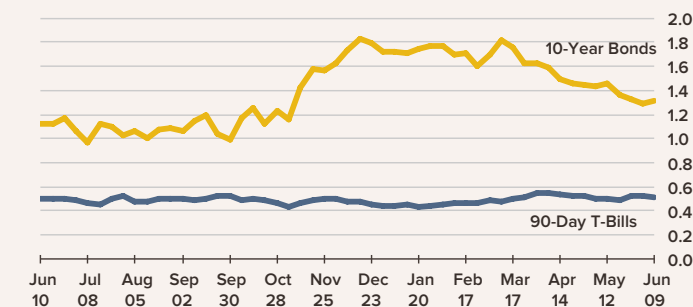
Too bad, then, that oil prices are falling again. Rotation or not, quite a lot of Canada's economy hinges on extraction. Global supply conditions promise benchmark oil prices will drop to the bottom of a \$40-to-50 per barrel range. That means lower prices for Canada's oil products as well. While we suppose it is possible that neither the economy nor the loonie will react to falling oil prices, history tells us to expect otherwise. *With a decline in oil prices, we expect lower CPI-based inflation metrics, and thus lower bond yields. A retracement of oil prices means lower income and less consumer spending and investment. Overall, conditions favor further yield curve flattening. Lower oil prices have always triggered a cheapening of the loonie. We think they will do so once again.*

### Canada: Manufacturing Output

Billions Of Canadian Dollars, Current Prices, Two- And One-Year Trends Shown

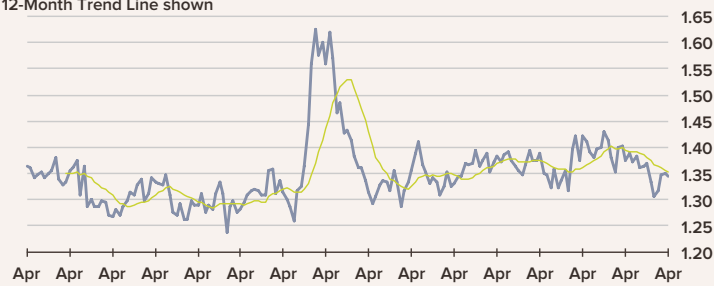


### Canada: Yields, Percent



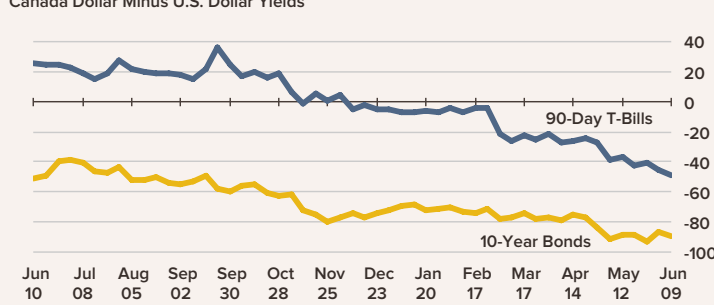
### Canada: Manufacturing Inventories-To-Sales Ratio

12-Month Trend Line shown



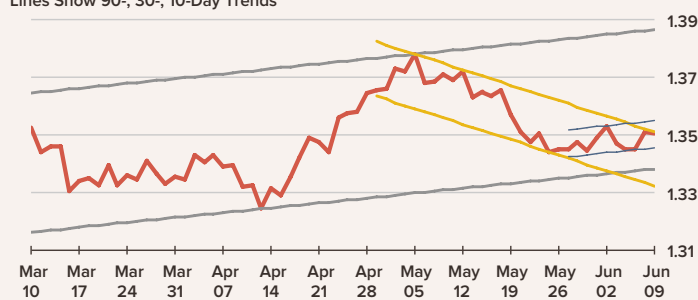
### Canada Vs United States Yield Spreads, Basis Points

Canada Dollar Minus U.S. Dollar Yields



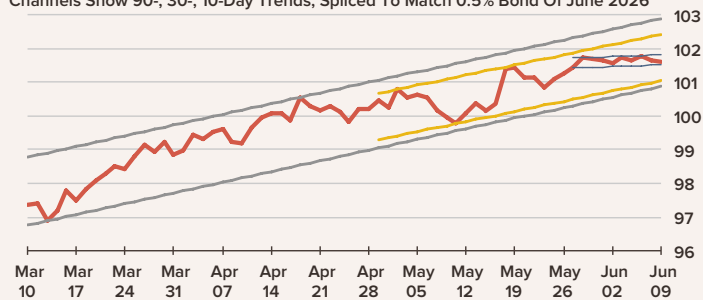
### Canadian Dollar Per US\$, Daily Exchange Rate & Trends

Lines Show 90-, 30-, 10-Day Trends



### Canada: Daily Price Of 10-Year Bond

Channels Show 90-, 30-, 10-Day Trends, Spliced To Match 0.5% Bond Of June 2026



Monday 12

Tuesday 13

Wednesday 14

Thursday 15

Friday 16

Teranet House Price Index (5)

Survey of Manufacturing			
%chya	Feb 17	Mar 17	Apr 17f
Shipments	6.2	8.2	7.5
Orders	12.1	17.6	6.8
Backlogs	-1.0	3.8	3.4
Inventories	2.1	4.0	5.2
Production	9.6	11.0	9.3

Int'l Securities Flows	
	C\$ Billions
Apr 16	3548
Jan 17	-2959
Feb 17	32055
Mar 17	-9037
Apr 17f	?



### Australia: Sluggish Labor Market

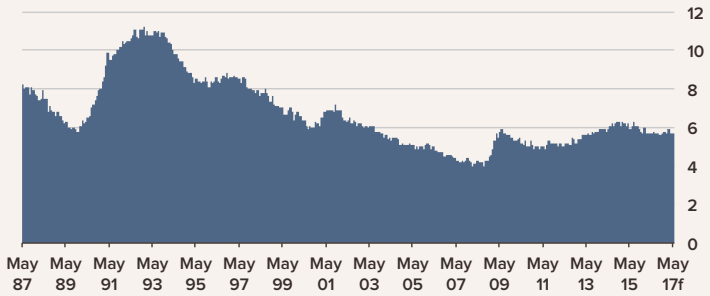
The RBA Board was pretty clear about its intentions: It looked at the first quarter GDP figures, the below target inflation and wage figures and the reversal in the terms of trade, and it decided to hold interest rates unchanged at its meeting last week. Some people had been theorizing that the Board might consider a rate cut, in light of below-target inflation metrics plus flat retail sales, faltering auto sales and quarterly declines in construction activity and investment. *Nah!* Governor Lowe’s statement after the meeting ignored the slowdown of credit growth altogether.

The Board’s bet is that the acceleration of core CPI inflation observed over the last three quarters will continue, even if bank lending is too slow to support economic growth at its potential rate, even if the terms of trade continue to move against the economy, even if the decline in investment spending after the commodity boom has yet to end convincingly, and even if...

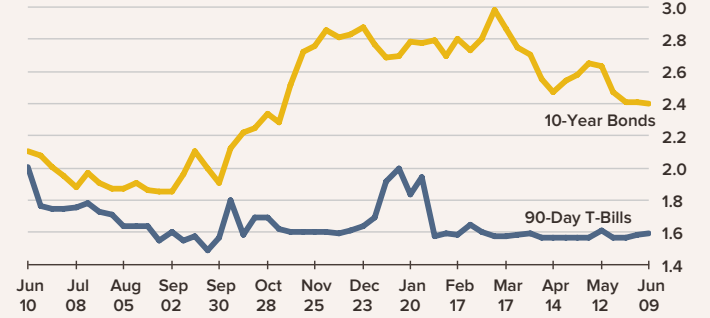
Well, there are a lot of “ifs” in this outlook, which is to say that the Board really has to count on being agile and efficient in easing monetary conditions if inflation metrics reverse course, or if they just fail to rise above target.

So our outlook is for steady rates for now. We expect sluggish economic growth overall, especially if terms of trade shift for the worse, as seems likely. If so, the trade balance will worsen, as we saw in last week’s report. Expecting Fed rate hikes as we do, we forecast further depreciation of the Ozzie dollar and a flatter yield curve.

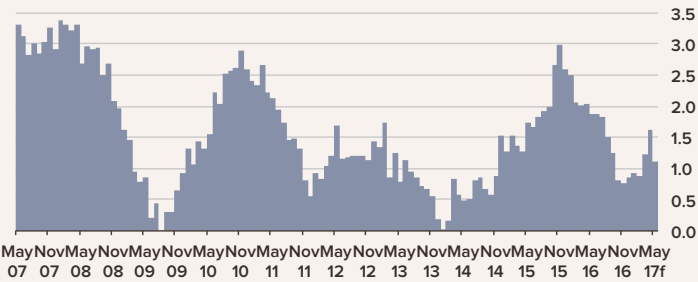
Australia: Unemployment Rate, Percent



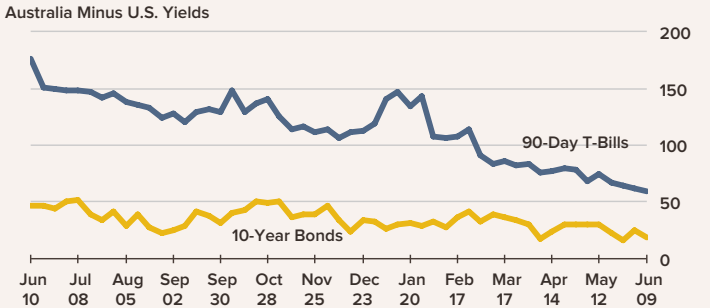
Australia: Yields, Percent



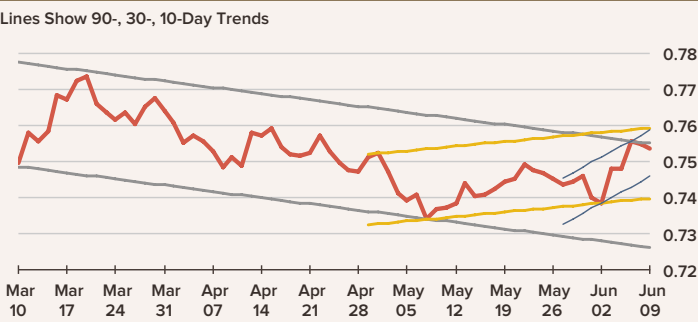
Australia: Employment, Percent Change Year Ago



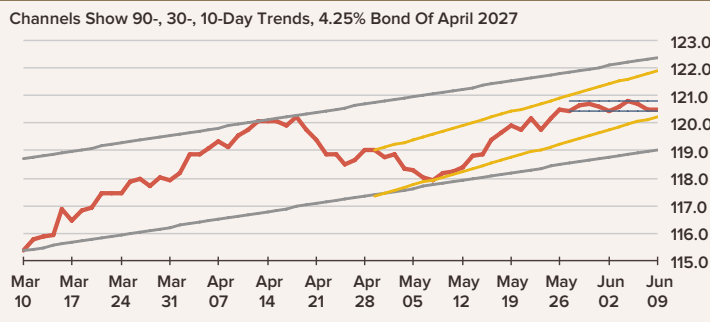
Australia Dollar Vs U.S. Dollar Yield Spreads, Basis Points



U.S. Dollars Per Australian Dollar, Daily Exchange Rate & Trends



Australia: Daily Price Of 10-Year Bond



Monday 12

Tuesday 13

Wednesday 14

Thursday 15

Friday 16

**HOLIDAY**

Queen's Birthday

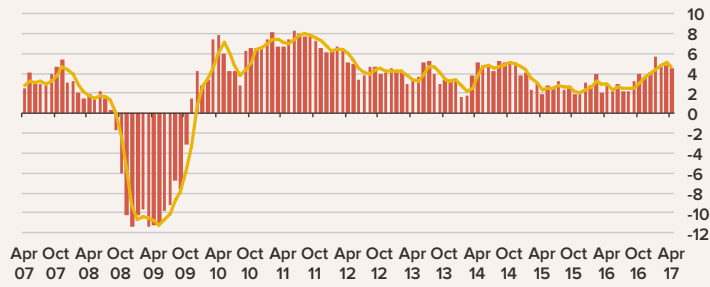
**Unemployment**

	%	Δ(000s)
May 16	5.7	-1.3
Feb 17	5.9	22.5
Mar 17	5.9	3.9
Apr 17	5.7	-19.1
May 17f	5.7	0.2

## At A Glance: Global Retail Slowdown... Almost Everywhere

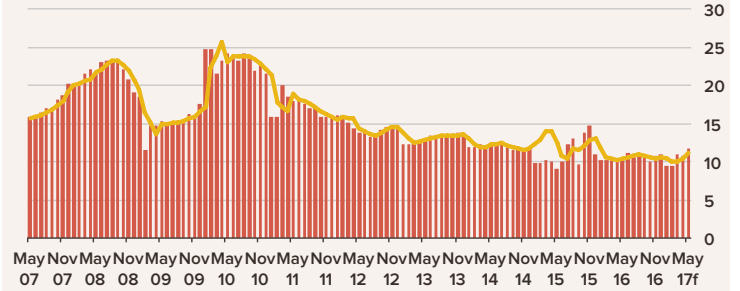
### United States: Retail Sales, Percent Change Year Ago

Line Shows Yearly Change Of 3-Month Moving Average



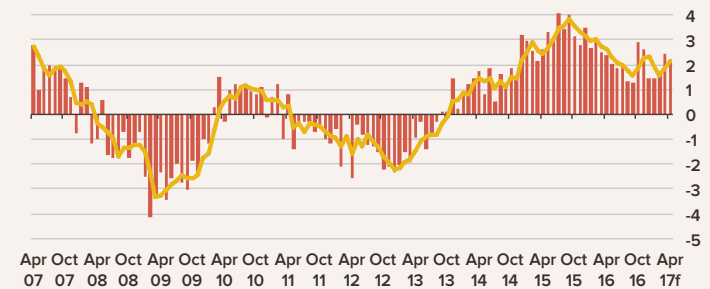
### China: Retail Sales, Percent Change Year Ago

Line Shows Yearly Change Of Three-Month Moving Average



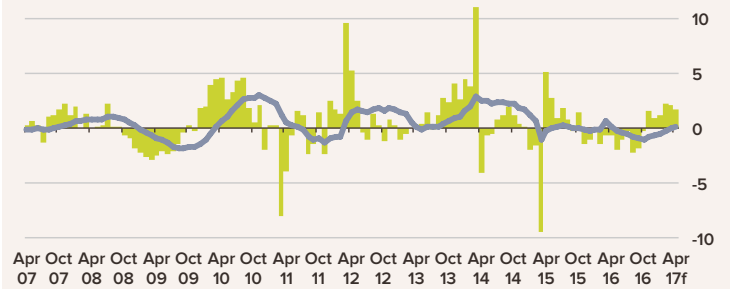
### Euro Zone: Retail Sales, Percent Change Year Ago

Line Shows Three-Month Moving Average Year-Over-Year



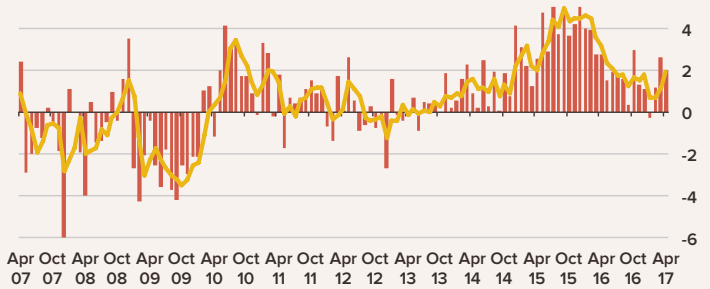
### Japan: Retail Sales, Percent Change Year Ago

Blue Line Is 12-Month Moving Average



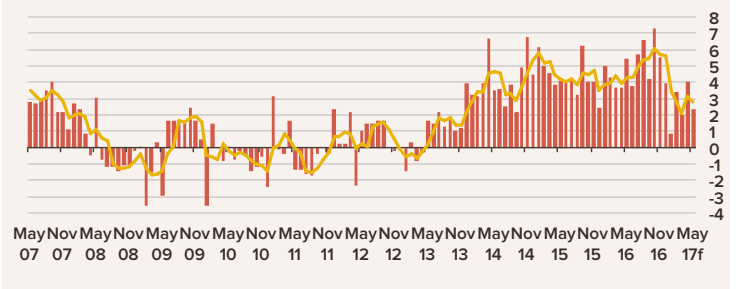
### Germany: Retail Sales Ex-Cars, Percent Change Year Ago

Line Shows Three-Month Moving Average, HFE's Calculations For All Percentage Changes



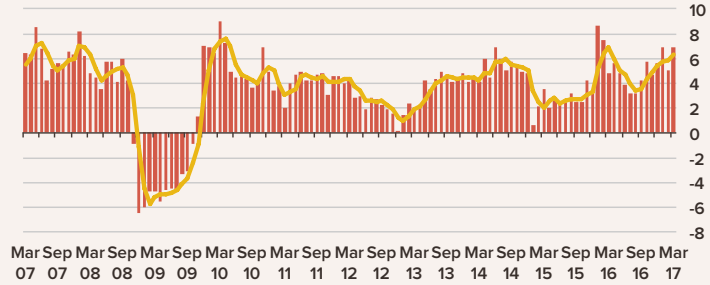
### United Kingdom: Retail Sales, Percent Change Year Ago

Line Shows Yearly Change Of Three-Month Moving Average



### Canada: Retail Sales, Percent Change Year Ago

Line Shows Yearly Change Of Three-Month Moving Average



### Australia: Retail Sales, Percent Change Year Ago

Line Shows Yearly Change Of Three-Month Moving Average

