

Dutta's Economic Daily

Mixed bag in Europe

Wednesday, April 24, 2019



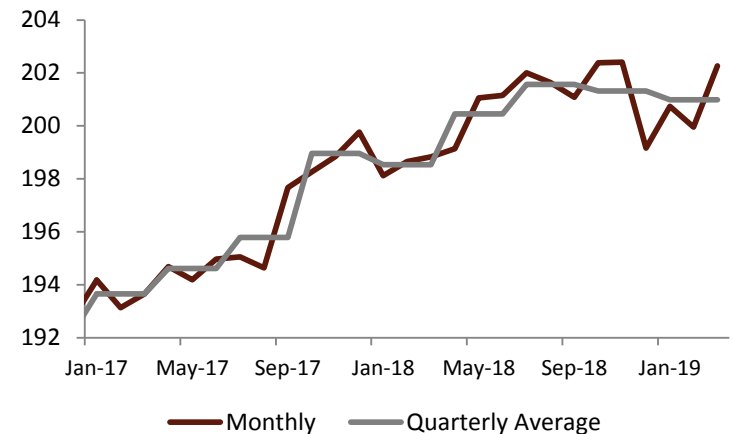
Neil Dutta – Head of Economics
ndutta@renmac.com | 212.537.8826

Real retail sales: Another fake talking point

- A popular talking point of late is that “real retail sales have contracted for two consecutive quarters.” This is a good example of the data are real but the news is fake. **The two-quarter calculation mostly reflects the fact that December was an exceptionally weak month.** The weak December pulled down the average for Q4 and started Q1 2019 on a lower base.
- Of course, the data since December has been solid. Over the last three months, real retail sales have advanced 6.4% at an annual rate. So, while the average of Q1 '19 is lower than Q4 '18, the level of real retail sales is close to its November 2018 highs. This implies that there is a good build-in for Q2 2019 – if real retail sales don't grow from April to June it would still mean 2.6% annualized growth.

Retail sales have bounced notably off December low

Real Retail Sales & Food Services



Source: Renaissance Macro Research, Haver Analytics

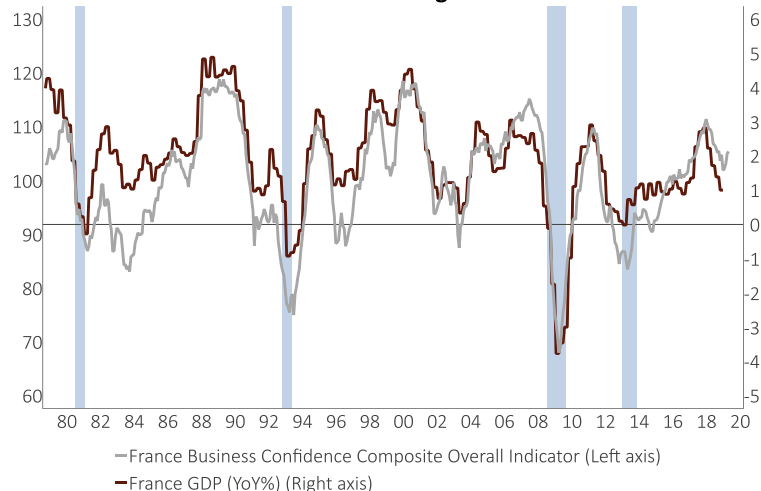
Financial conditions have loosened

- We believe looser financial conditions will provide a lift to business investment later this year. A number of financial stress indicators have shown improvement in recent weeks. The St. Louis Fed Financial Stress Index fell to -1.311 for the week of April 12, the lowest since early 2018. The Chicago Fed National FCI hasn't been this low since the mid-90s! For the Fed, we suspect they are relieved by the rise in equity prices (the P/E is still much lower than it was in late 2017) but are more concerned about the continued strength in the USD and what it means for future inflation.

Mixed business confidence in Europe

- Growth looks pretty uneven in Europe with the core economics moving in opposite directions this month. On the one hand, French business confidence improved, rising to 105.4 in April, the best level since September 2018 with the prior month being revised up to 105.0. On the other hand, the German IFO index slipped to 99.2 from 99.7 in March. While this is still above February's level, the momentum in German business confidence looks quite sluggish.

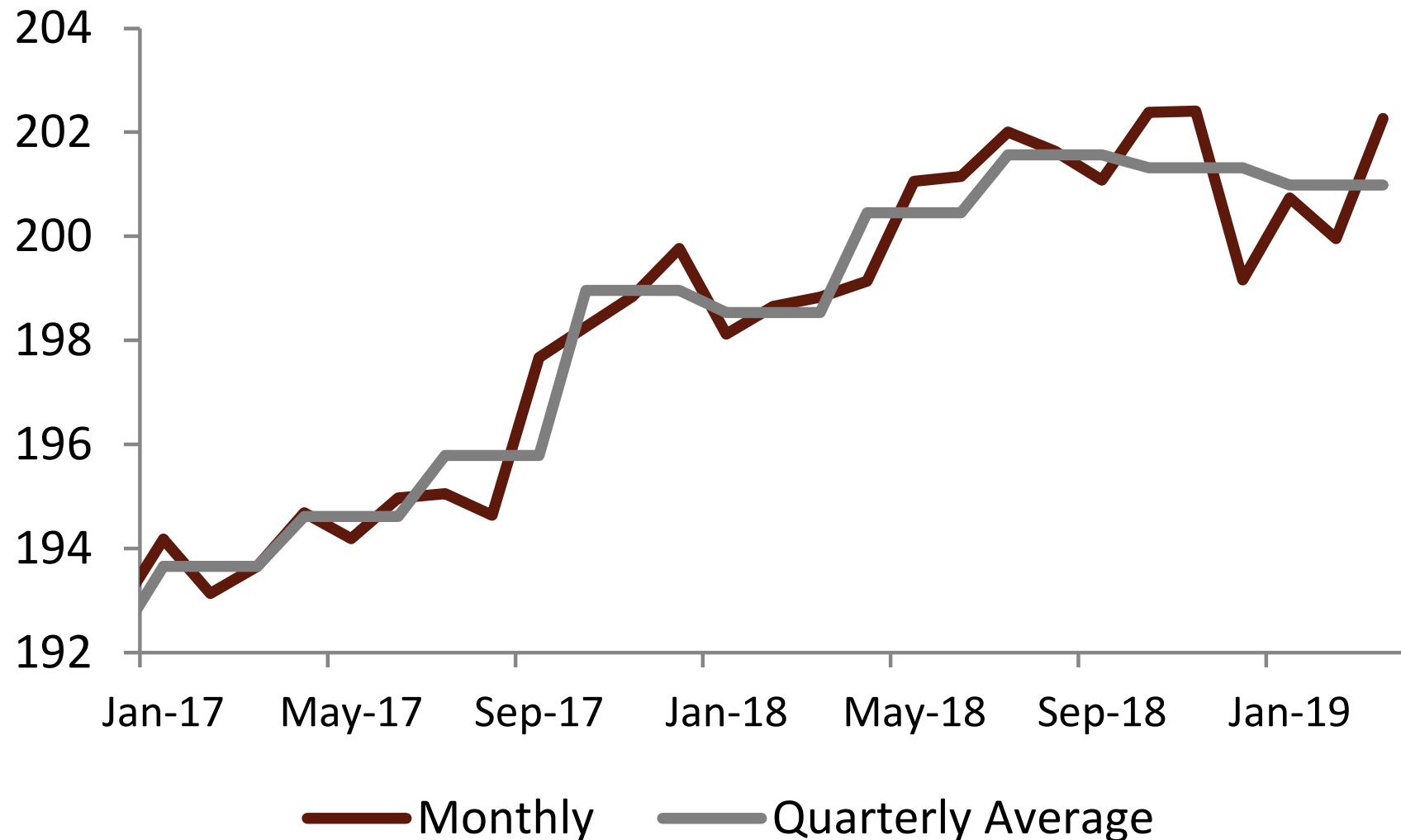
French business confidence stabilizing



Source: Renaissance Macro Research, Macrobond

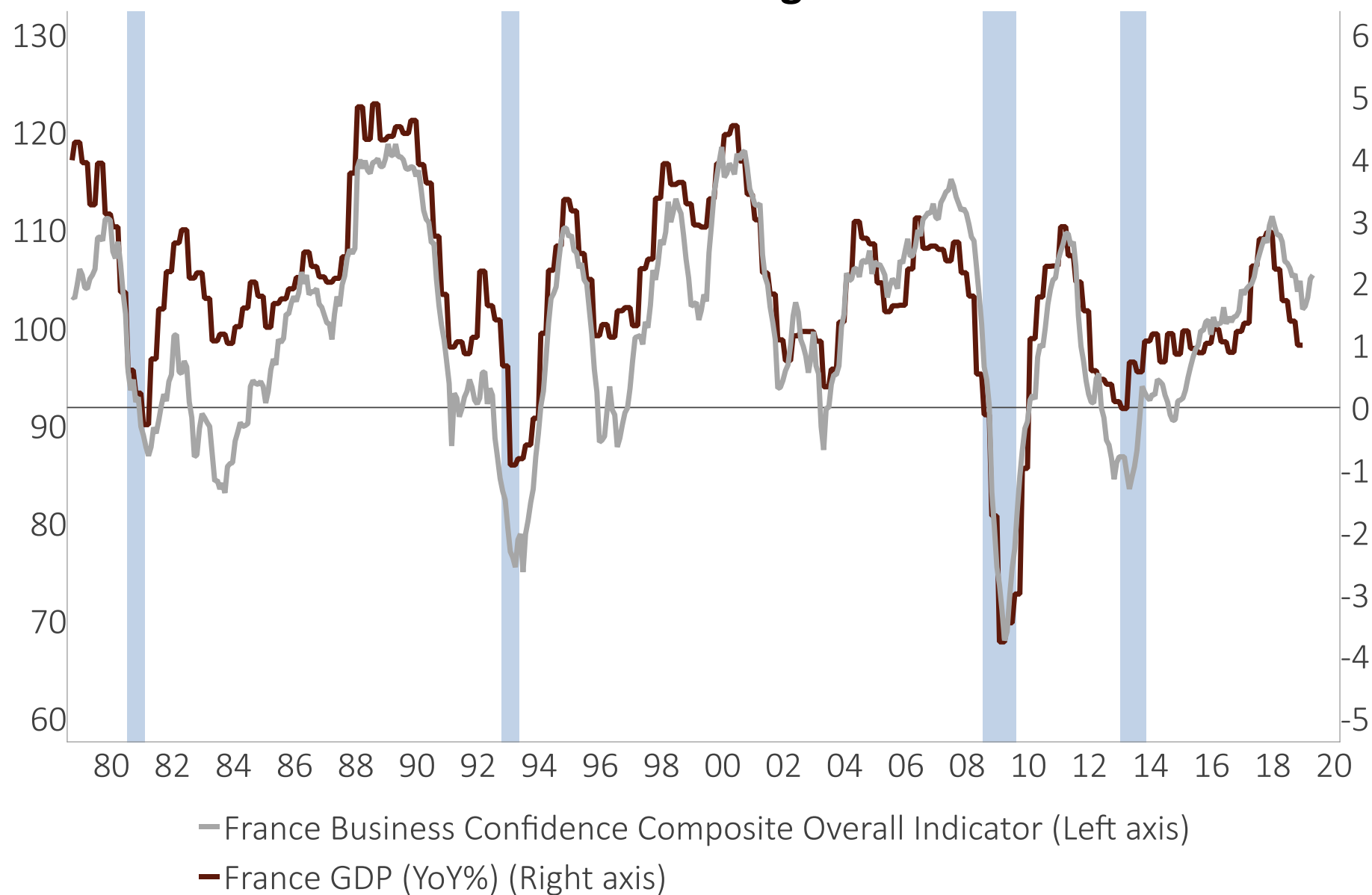
Retail sales have bounced notably off December low

Real Retail Sales & Food Services



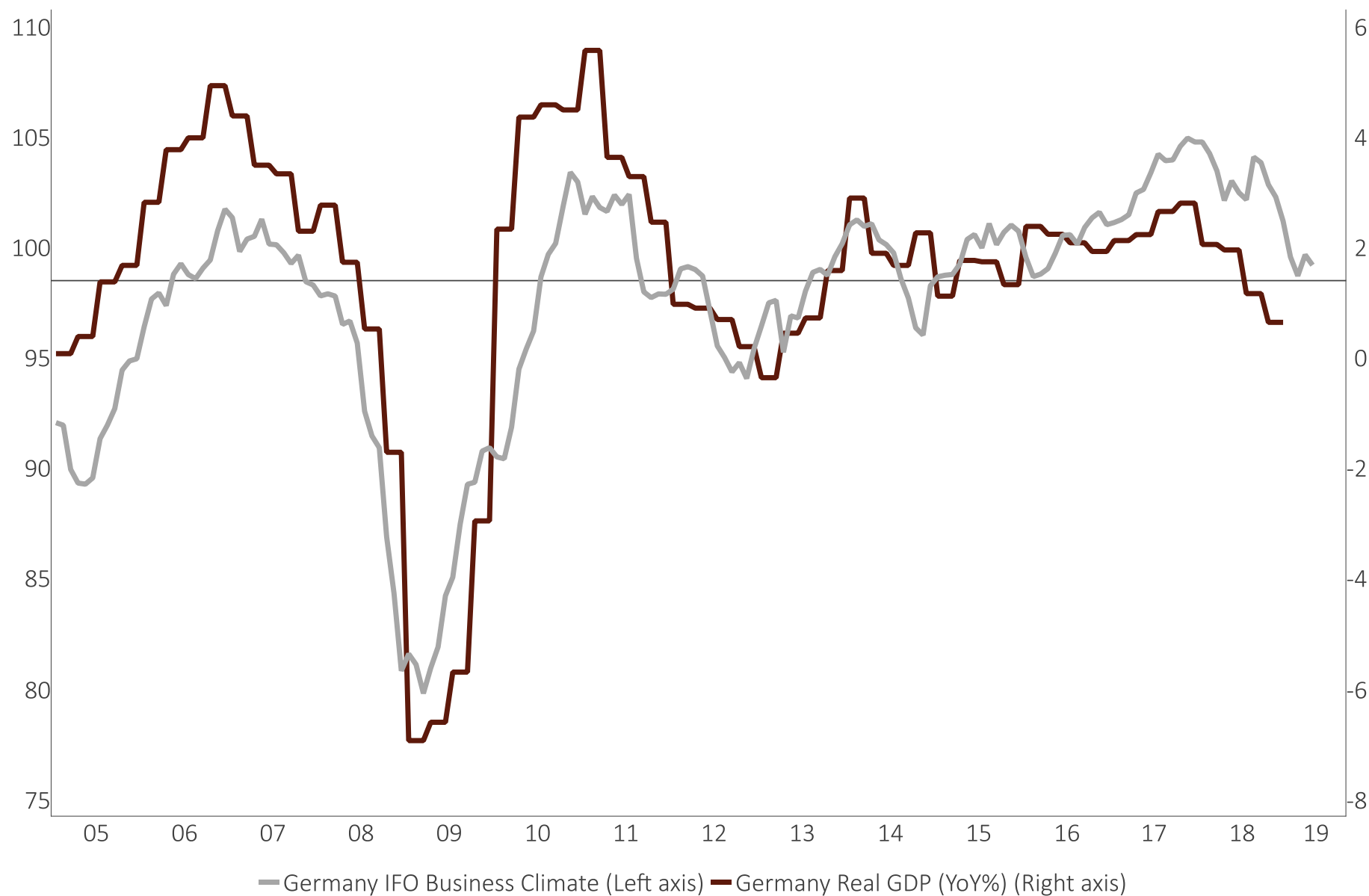
Source: Renaissance Macro Research, Haver Analytics

French business confidence stabilizing



Source: Renaissance Macro Research, Macrobond

German business confidence: Weak in April



Source: Renaissance Macro Research, Macrobond

Legal Disclaimer

This document has been prepared by Renaissance Macro Research, LLC (“RenMac”), an affiliate of Renaissance Macro Securities, LLC.

This document is for distribution only as may be permitted by law. It is published solely for information purposes; it is not an advertisement nor is it a solicitation or an offer to buy or sell any financial instruments or to participate in any particular trading strategy. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained in this document. The information is not intended to be a complete statement or summary of the markets, economy or other developments referred to in the document. Any opinions expressed in this document may change without notice. Any statements contained in this report attributed to a third party represent RenMac's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation have not been reviewed by the third party.

Nothing in this document constitutes a representation that any investment strategy or recommendation is suitable or appropriate to an investor's individual circumstances or otherwise constitutes a personal recommendation. Investments involve risks, and investors should exercise prudence and their own judgment in making their investment decisions. The value of any investment may decline due to factors affecting the securities markets generally or particular industries. Past performance is not indicative of future results. Neither RenMac nor any of its directors, employees or agents accepts any liability for any loss (including investment loss) or damage arising out of the use of all or any of the information.

Any information stated in this document is for information purposes only and does not represent valuations for individual securities or other financial instruments. Different assumptions by RenMac or any other source may yield substantially different results. The analysis contained in this document is based on numerous assumptions and are not all inclusive.