



# Week In Review

August 16, 2019

## **Europe**

The German economy contracted in the second quarter as exports slumped, and Eurozone industrial production fell sharply. Olli Rehn, one of the most dovish ECB officials, called for a large increase in monetary stimulus at the September meeting. Merkel indicated that her government is not yet ready to implement fiscal stimulus but that in the event of a recession Germany will allow their debt growth to increase above the usual limits.

**Our Take:** The slowing German economy will severely pressure Eurozone and global growth. The German economy is much more reliant on manufacturing and exports than the U.S. economy, and so the global weakness in these areas is having a greater effect in Germany.

## **Retail Sales**

July retail sales rose 0.7% while sales excluding autos rose 1.0%. The retail sales control group, which feeds GDP, also rose 1.0%.

**Our Take:** Retail sales rose far more than expected. Low unemployment is a likely driver of the strength as consumers have money in their pockets and are willing to spend. A strong consumer is needed to drive U.S. GDP growth as other sectors struggle.

## **Inflation**

Consumer prices rose 0.3% in July and are up 1.8% over the last twelve months.

**Our Take:** While consumer prices came in a little higher than expected, inflation remains subdued. The Fed is unlikely to worry about inflation when deciding future rate moves unless it accelerates considerably.

## **China**

The U.S. announced that it will delay implementation of 10% tariffs on some of the remaining items until December. The items where the tariffs will be delayed are mostly those that drive increased sales around the holiday season. Chinese credit growth, industrial output and retail sales all slowed in July.

**Our Take:** China's economic growth continues to slow. At least part of this trend is due to the trade conflict with the U.S., and this headwind is more likely to increase than decrease. Slowing Chinese growth is a major contributor to a global slowdown, and it is unclear how long the U.S. economy can escape this global trend.

## **Manufacturing**

Industrial production fell 0.2% in July. Economists had been expecting an increase of 0.1%.

**Our Take:** The trade conflicts with China have taken a toll on the manufacturing sector. Things are unlikely to significantly improve until companies have better visibility on the future trade landscape.

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## **Municipals**

Alaska Governor Michael Dunleavy and the University of Alaska Board of Regents reached an agreement this week that avoids the proposed \$135 million immediate funding cut to the university system. Governor Dunleavy and university officials agreed to funding cuts of \$70 million over three years. It is expected that there will be a reduction in university staff along with a possibility for campus consolidation in the future.

**Our Take:** While Governor Dunleavy and university officials have announced their agreement, the Alaskan legislature must also approve the proposal. Cuts to education were expected as the governor and lawmakers worked on the budget proposal. Alaska has struggled financially since a drop in oil prices led to a decrease in revenue.

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