Economic Research

24 June 2019

Week Ahead Economic Preview

Global overview

- **US rate guidance from PCE and GDP updates**
- **Inflation data to steer ECB policy stance**
- **Data on industrial production in key Asian economies, plus BoJ updates**
- **Special reports on the G20 Leaders Summit and the outlook for German manufacturing**

Trade wars and politics look set to dominate the markets, monitoring progress between the US and China at the G20 Leader Summit meeting in particular (see our special report on page 6). However, a number of key data releases will add insight into the extent to which the trade-led global economic slowdown could spur further policy action, especially in the Eurozone, where signs of manufacturing-led economic weakness have intensified (see our report on Germany, page 8).

With FOMC watchers hungry for insights into the health of the US economy, all data will be eagerly eyed for clues of growth momentum and price trends. Home price and home sales data are accompanied by durable goods orders and an updated estimate of first quarter GDP, as well as personal income, spending and price data. Of the latter, core PCE prices will be especially keenly awaited as this is an inflation gauge watched closely by the Fed (see page 3).

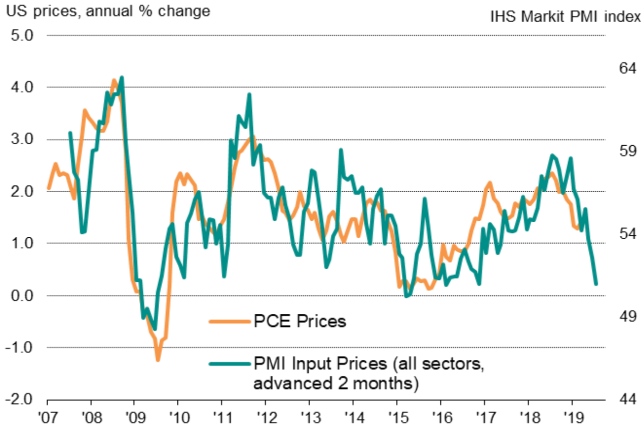
Similarly in the eurozone, markets will be watching flash consumer inflation data for June as the ECB stands ready to introduce new stimulus. Swaps market pricing of inflation expectations in the euro area have fallen to record lows. Business and consumer sentiment surveys are also published for Europe. In the UK, updated first quarter GDP takes the spotlight in an otherwise light week for data but Brexit continues to dominate the news (see page 4).

In Asia, the focus intensifies on the health of manufacturing amid escalating trade war tensions. Industrial output numbers are published for Japan, Thailand, Taiwan, Singapore and South Korea. China's industrial profits will also be under scrutiny, as will the NBS PMI data (issued on 30th June). Releases from the Bank of Japan will meanwhile be scoured for clues as to what form new stimulus could take (see page 5).

Contents

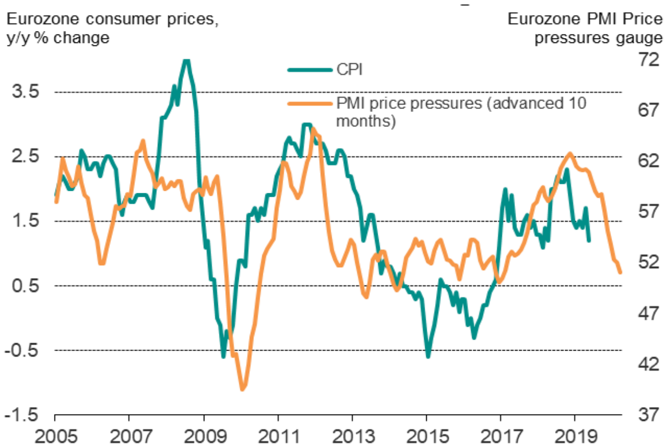
Special reports

The US Fed will be eager to see PCE price data amid signs that weak demand is dampening inflation



Source: IHS Markit.

Consumer price data for the eurozone are updated amid growing concern about the outlook at the ECB



Source: IHS Markit.

Key diary events

Monday 24 Jun

RBA Governor Lowe speech

Indonesia trade (May)

Singapore inflation (May)

Taiwan industrial output, retail sales, jobless rate (May)

Germany IFO surveys (Jun)

US Chicago Fed national activity index, Dallas Fed manufacturing index (May)

Tuesday 25 Jun

South Korea consumer confidence (Jun)

BoJ meeting minutes (Apr)

Thailand industrial output (May)

Hong Kong trade (May)

US Case-Shiller home price (Apr), new home sales (May), Richmond Fed manufacturing index (Jun)

Wednesday 26 Jun

Malaysia inflation (May)

Singapore industrial production (May)

Thailand monetary policy decision

Germany consumer confidence (Jul)

US durable goods orders, wholesale inventories (May)

ECB non-monetary policy meeting

Thursday 27 Jun

South Korea business confidence (Jun)

Japan retail sales (May)

China industrial profits (YTD, May)

Germany and Spain inflation (prelim, Jun)

Euro area business confidence, economic sentiment (Jun)

US GDP (final, Q1), pending home sales (May)

ECB General Council meeting

Friday 28 Jun

G20 Summit (28-29 Jun)

South Korea industrial output, retail sales (May)

Japan industrial output (prelim, May) jobless rate, housing starts (May)

BoJ Summary of Opinions (Jun)

Australia private sector credit (May)

UK GDP (final, Q1), consumer confidence, nationwide housing prices (Jun)

Italy and France inflation (prelim, Jun)

Euro area inflation (flash, Jun)

Spain GDP (final, Q1)

US PCE price index, personal income and spending (May), University of Michigan consumer surveys (Jun)

Brazil consumer confidence (Q2)

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United States Week Ahead

Durable goods orders, PCE inflation and GDP revision

By Siân Jones
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Leading the week's economic calendar is an update on conditions across the manufacturing sector, a final estimate for first quarter GDP and PCE prices data. Although manufacturing data are expected to add to slowdown worries, stronger than expected retail data in May could support consumer spending growth.

Durable goods orders and inventories

Following on from another month of muted industrial production, durable goods orders data for May are not expected to throw any upside surprises. The difficulties in the US manufacturing sector have been well documented throughout 2019 so far, with demand continuing to slide towards the middle of the year. New durable goods orders are expected to have broadly stagnated, though the IHS Markit Manufacturing PMI's New Orders Index is signalling contraction amid signs that trade wars are taking an increasing toll.

PCE price index

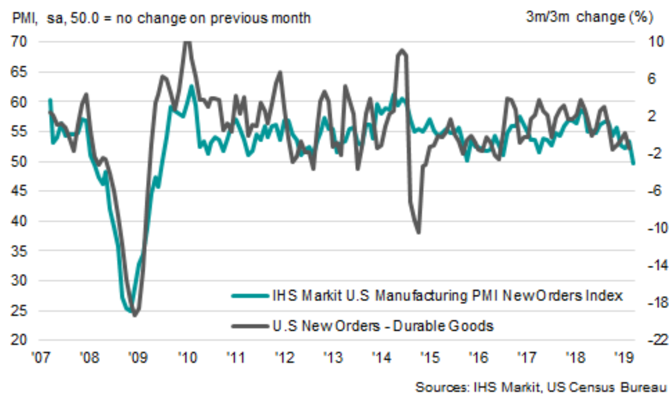
Although manufacturers are struggling, it's a brighter picture for US consumers. A combination of tight labour market conditions and stronger than expected retail sales suggests that expenditure across the US economy may remain stable through the second quarter. That said, the rate of increase in PCE inflation is expected to moderate, however, adding to growing speculation of lower interest rates later this year, with recent survey data hinting at a marked slowing in the rate of headline inflation.

Final GDP estimate

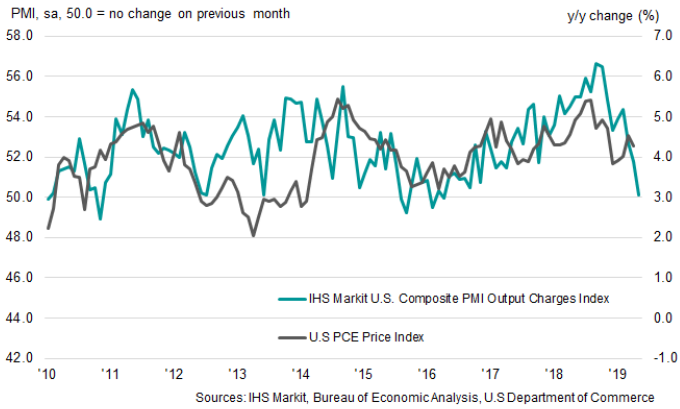
IHS Markit's US economists are meanwhile currently predicting a downward revision to the final estimate for first quarter GDP. An annualised increase of 2.7% is forecast, down from the current official estimate of 3.1%.

Other key data releases include new and pending home sales, personal income and spending data. Regional manufacturing surveys are published from the Dallas and Richmond Feds, while national consumer confidence data are issued from the University of Michigan Fed surveys and the Chicago Fed updates its national activity index.

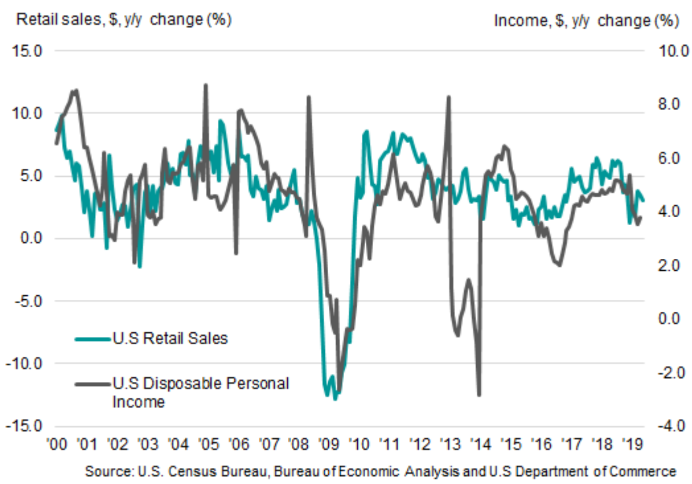
Manufacturing to remain a drag on expansion



Survey data hint at lower PCE price inflation



Disposable income and retail sales growth remains solid



Europe Week Ahead

Eurozone inflation data to provide steer on ECB stimulus

By Chris Williamson
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The prospect of additional stimulus from the European Central Bank remains firmly in focus with the release of new inflation data and fresh business survey updates, while the UK continues to be dominated by Brexit.

Eurozone inflation and survey releases

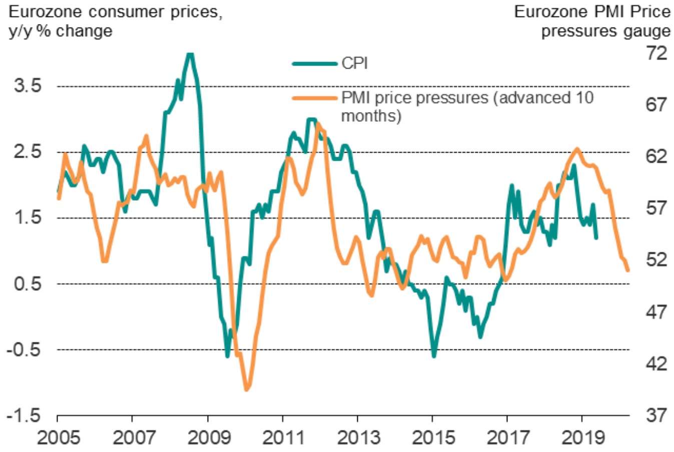
Fresh inflation data will be top of the agenda after the ECB readied markets for additional stimulus into the single-currency area if the coming dataflow suggests there's a need for action. In a surprisingly dovish speech, central bank head Mario Draghi stressed that the Governing Council "will use all the flexibility within our mandate to fulfil our mandate", which could include a reboot of the asset purchasing programme or lower interest rates.

Eurozone consumer price inflation eased to a 1.2% annual rate in May, down from 1.7% in April. Core inflation was down from 1.3% to 0.8%, its joint-lowest for just over a year. The timing of Easter seems to have had a dampening impact on price, though PMI survey data also hinted at lower pricing power generally during the month. June's data could provide an important steer on the scale and timing of further stimulus. Headline European Commission business and consumer survey data will also add to the developing picture of the health of the euro area in the second quarter.

UK Brexit fog and GDP update

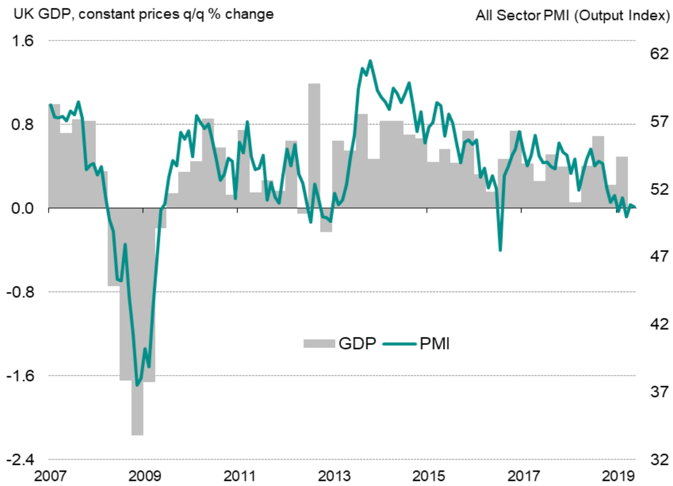
Brexit and the appointment of a new prime minister continues to dominate the UK news flow in a week of light economic data. The key picks will be an updated estimate of first quarter GDP and balance of payment data. While the current estimate of economic growth in the first quarter indicated sustained resilience in the face of heightened Brexit uncertainty, at least some of the 0.5% quarterly increase appears to have been the result of stock-piling ahead of a feared no-deal Brexit at the end of March. With the Brexit deadline having been pushed out to the end of October, this temporary boost looks to have faded in the second quarter, raising the risk of the economy stagnating or even slipping into decline as the lack of clarity on Brexit takes an increasing toll.

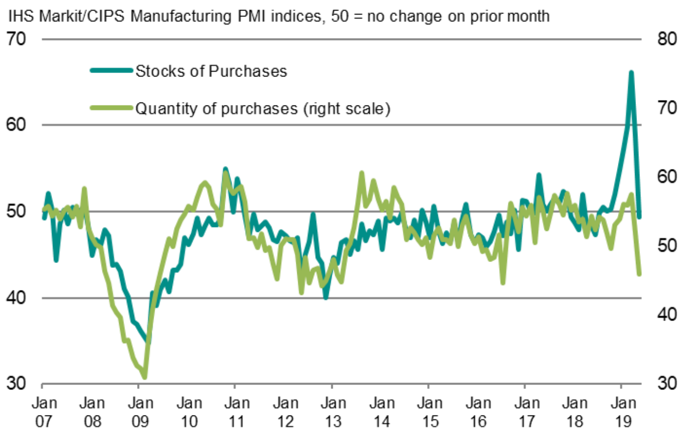
Eurozone inflation and PMI price pressures*



Source: Eurostat, IHS Markit
* The price pressures gauge is a blend of input costs and supplier delivery times data from the IHS Markit Eurozone PMI survey

PMI survey data suggest a strengthening of GDP growth in the first quarter of 2019 is likely to have proven temporary due to Brexit stockpiling





Source: IHS Markit, CIPS.

Asia Pacific Week Ahead

All eyes on regional manufacturing data amid rising trade tensions

By Bernard Aw
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With global manufacturing sector stuck in a lower gear amid rising trade frictions, the focus next week intensifies on manufacturing conditions across Asia. Industrial output numbers for May are reported for Japan, Taiwan, South Korea, Singapore and Thailand, of which exports are a key driver for economic growth. Analysts will also examine China's industrial profits alongside state-sponsored PMI data for signs of manufacturing weakness amid greater trade tensions.

Elsewhere, market participants will closely monitor the G20 Summit held in Japan for any new development on a US-China trade agreement. Meanwhile, the Summary of Opinions for the Bank of Japan's June policy meeting will be scoured for clues as to the latest policymakers' thinking on new stimulus. New Zealand and Thailand are also setting monetary policy in the same week.

Manufacturing health

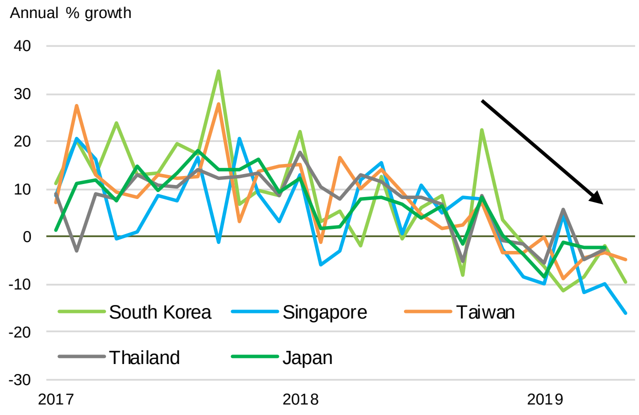
With the ongoing trade war broadening to include a technology war, factory output data for Japan, Taiwan, South Korea, Singapore and Thailand will be particularly interesting given the heavy reliance of these countries on electronics as a key export. Industrial production data will also be eyed for clues of growth momentum. Prospects of further monetary support across the region have risen recently amid signs that the global manufacturing malaise is spreading into services activity.

China factory data

Forthcoming data releases relating to the health of Chinese manufacturing will be scrutinised following the slowest expansion in industrial output for over 17 years during May. With the first four months of the year seeing Chinese industrial profits shrinking by 3.7% from the same period a year ago, May's update will be in focus. Caixin manufacturing surveys pointed to a slower rate of growth in May, accompanied by subdued orders and the lowest level of business optimism recorded in the series history.

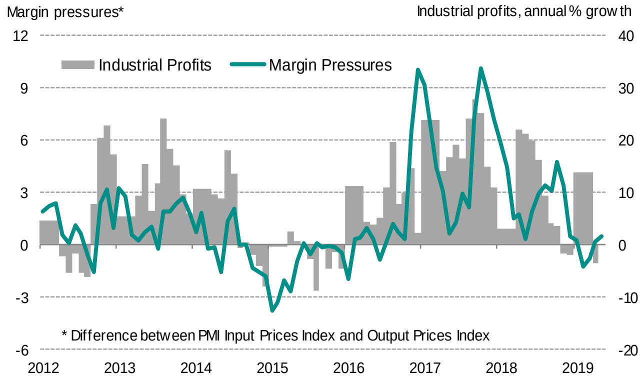
The June update to the government-sponsored manufacturing PMI will provide further guidance as to whether more fiscal stimulus is needed to offset the debilitating effects of the US-China trade war.

Export performance in Asia



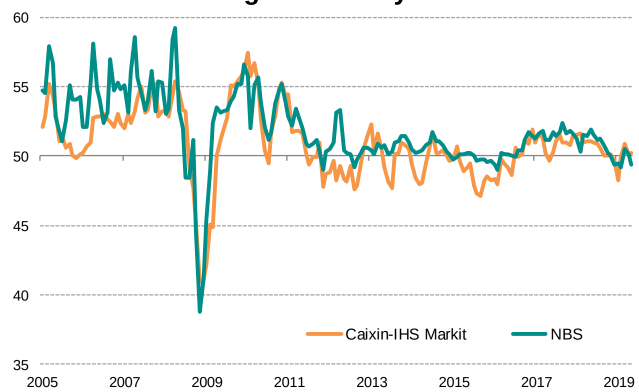
Source: Datastream

China PMI and industrial profits



Sources: IHS Markit, Caixin, NBS

China manufacturing PMI surveys



Sources: IHS Markit, Caixin, NBS

Asia Pacific Special Focus

G20 Summit: High Noon for US-China Trade Talks

By Rajiv Biswas

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Email: Rajiv.Biswas@ihsmarkit.com

The G20 Summit on 28-29th June will be overshadowed by the bilateral meeting on the side-lines of the summit between President Trump and President Xi, as they try to conclude a US-China trade deal. President Trump has signalled that the US will implement another round of tariff hikes on China if US-China bilateral trade talks do not make sufficient progress.

The Asia-Pacific (APAC) region has suffered from a significant slowdown in export growth during the first half of 2019. A further round of US tariff hikes on Chinese products would intensify negative spillover effects to the rest of the Asia-Pacific region from a deeper slowdown in China's export sector. However, if the Trump-Xi talks at the G20 Summit unblock negotiations and lead to a US-China trade deal, this will be very positive for global financial markets and a boost to the APAC economic outlook.

Trade tops the G20 Leaders Summit agenda

World trade will be at the very top of the agenda for the G20 Leaders Summit in Osaka, as the escalating US-China trade war continues to disrupt Asia-Pacific (APAC) regional trade flows.

Reforms of the World Trade Organization to improve its functioning had already been identified as a key priority at the G20 Summit in Buenos Aires in 2018, with a review of progress having been planned for the Osaka G20 Summit.

Another key agenda item for the G20 discussions on global trade will be excess capacity in the world steel industry, with the Global Forum for Steel Excess Capacity, established at the G20 Hangzhou Summit in 2016, due to report on progress. Many nations have applied anti-dumping measures against steel imports from various countries in recent years, due to concerns about the impact of excess steel capacity in some nations on the export prices of some steel products.

Rising barriers to global trade flows will be among the key themes for the G20 Leaders Summit, as the US-China trade war has escalated during May and APAC nations are already being impacted by spillover effects. Rising trade frictions between the US and India will also likely intensify the focus on trade protectionism at the G20 Leaders Summit. Signalling these rising trade frictions, the G20 Finance Ministers and Central Bank Governors Meeting held in Fukuoka earlier in June highlighted in their communique that global trade tensions had intensified.

This is evident in recent trade data for many APAC economies. Weakening exports from two of the G20 Asian industrial economies, Japan and South Korea, highlight these vulnerabilities. Preliminary data for Japanese exports in May 2019 showed a 13.4% decline year-on-year, while South Korean exports in May were down 9.4% year-on-year. South Korean exports to China declined by 20.1% year-on-year in May, mainly due to a significant slowdown in exports of semiconductors, liquid crystal displays and computers. In Singapore, exports fell by 15.9% year-on-year in May.

With Asian exports already facing significant downwards pressures, the latest tranche of US tariff hikes that were implemented in May will add to the negative impact on world trade.

US-China bilateral trade negotiations

At their bilateral meeting held at the G20 Leaders Summit in Buenos Aires in December 2018, US President Donald Trump and Chinese President Xi Jinping had agreed to a truce in the US-China trade war for a period of 90 days starting from the date of the US-China meeting at the G20 Summit. The deal temporarily suspended the US plan to hike tariffs on USD 200 billion of Chinese exports to the US from 10% to 25% on 1st January 2019.

However, with insufficient progress achieved in the bilateral trade negotiations by May 2019, the US Administration decided to proceed with its planned tariff hikes. On 10th May 2019, the US government ramped up tariffs on USD 200 billion of Chinese exports from 10% to 25%, which is a significant blow to the competitiveness of China's export sector.

While a bilateral trade deal is not expected to be concluded at the upcoming G20 summit, the Trump-Xi talks may help to unblock the stalled trade negotiations. The Trump-Xi talks could open the path for renewed trade negotiations to defuse the US-China trade and technology wars that have been escalating in recent weeks. A key focus of the bilateral talks will be in relation to protection of US intellectual property rights.

Another key topic for the bilateral discussions will be in regard to the US Department of Commerce's restrictions on US firms from selling or transferring technology to Huawei and its affiliated companies without first obtaining a US government license.

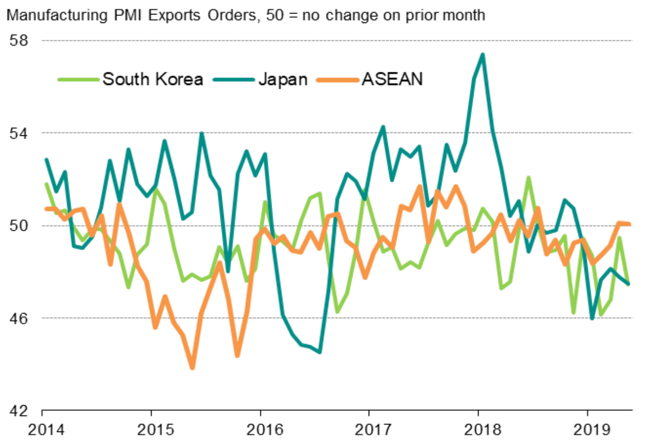
Next tranche of US tariff measures

The Trump Administration has also signalled that it may apply 25% tariffs to the remaining USD 300 billion of imports from China that have not yet been subject to punitive tariff measures if no trade deal is rapidly reached. This would create a further large negative shock to China's export sector and to the wider Asia-Pacific manufacturing supply chain. Public hearings held by the Office of the US Trade Representative commenced on June 17th to consider the impact of the proposed next tranche of US tariff measures.

China's manufacturing exports

Sources: NBS, IHS Markit., Caixin

New manufacturing export orders

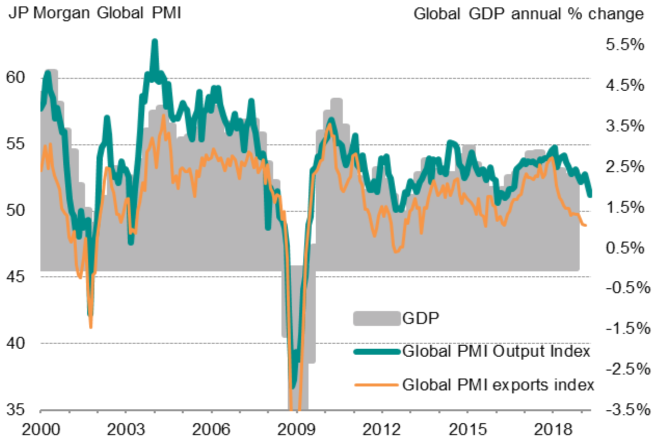


Source: IHS Markit

Impact on Asia-Pacific region

With world growth expected to moderate in 2019 as momentum in the Eurozone and Japanese economies eases, APAC exports face significant near-term headwinds. If no progress is made in the US-China trade talks at the G20 Summit, this could result in a further escalation of the US-China trade war. If protracted in duration, this would further cloud the near-term outlook for Asian exports.

Global economic growth and goods exports



Sources: IHS Markit, JPMorgan

That said, an escalating US-China trade war would also reinforce trade diversion effects, as US buyers shift their orders to other manufacturing hubs, while manufacturers also restructure their output across their global supply chains to reduce their exposure to the US tariff measures. Therefore, some emerging APAC manufacturing hubs would likely gain increased export orders from the US as a result. ASEAN manufacturing hubs such as Vietnam, Malaysia and Thailand are likely to benefit from some diversion of export orders as well as stronger foreign direct investment flows over the medium-term as multinationals diversify their global supply chains away from China. Tentative evidence of this beneficial trade diversion effect is already being recorded in the PMI surveys, notably for Vietnam.

With another round of US tariff hikes on a further USD 300 billion of Chinese exports looming if the G20 Summit does not produce significant progress in US-China bilateral trade negotiations, the risks of further negative spillover effects on the APAC export sector are increasing.

Concerns are increasing among APAC policymakers about the negative impact of the escalating US-China trade war on regional growth prospects. Signs of softening Chinese domestic demand and the slowdown in global electronics new orders are also amplifying the negative transmission effects on the APAC manufacturing supply chain.

However, if the Trump-Xi talks at the G20 summit unblock the stalled bilateral trade negotiations and lead to a US-China trade deal, this will be very positive for global financial markets and a boost to the APAC economic outlook.

Europe Special Focus

When will the German manufacturing sector recover?

By Timo Klein
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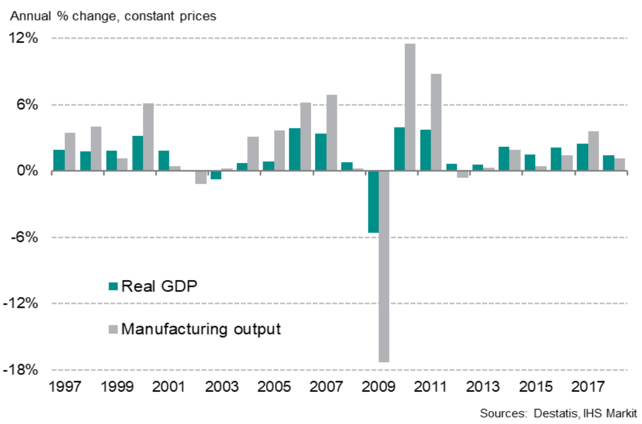
The current malaise of Germany's manufacturing sector is by no means unique in Europe or indeed the world at large, but it is particularly pronounced. Its root cause, beyond normal cyclical developments and a couple of one-off factors, is that some of the very structural features that German manufacturing has benefited from in times of deepening globalisation have become a drag in an environment of growing nationalism and (US-led) trade protectionism. The timing and strength of any recovery in Germany's manufacturing sector in the coming months and years thus critically depends on international efforts to push back the recent tide of protectionism.

An upswing dying of old age?

If one leaves aside the relatively short-lived recession during two quarters in late 2012 and early 2013, which was triggered by temporary eurozone break-up concerns due to the debt crisis, the German economy has enjoyed an upswing lasting for almost ten consecutive years. GDP growth has averaged 2.0%, even including the downturn in 2012-13 just mentioned. This was even stronger than the growth rate of 1.7% in the decade prior to the global financial market crisis of 2008-09. The strongly export-oriented manufacturing sector has been the key driver of growth during the past decade, with output growth averaging about 3.0%.

German GDP and manufacturing growth



In 2015, former US Federal Reserve President Janet Yellen claimed that it is a myth that expansions die of old age. While we agree with this general statement that an upswing has no pre-determined "sell by date", we would equally refute the claim made by many observers (especially in the US) that shifts in monetary policy towards tightening are always to blame for recessions. For the latest downswing of Germany's manufacturing sector that began in early 2018 and gathered momentum in mid-2018, the underlying cause is rather a combination of factors. These include economic policy and political decisions in the US and the UK, a necessary economic policy shift in China, accelerating structural change in Germany's important automobile industry, and even production problems linked to low river water levels.

The key point to make is that the above-average duration of the preceding upswing is not the reason for its end *per se*, as if companies became tired of investing or looking for new customers. Rather it is the rising probability with time that a constellation arises – involving both decisions by policy makers and structural changes linked to new technologies – that disrupts established business patterns and, due to the rise in uncertainty and damage to business confidence, reduces activity. Just like accidents, which happen because several things go wrong at the same time, a downswing ensues when several negative events or developments happen concurrently and overtax firms' and/or consumers' ability to adapt in time.

The evolution of the German manufacturing sector downturn of 2018-19

Although the German economy, and especially exports, enjoyed one last growth spurt during 2017, several harmful trends that had already started gained momentum in 2018. First and foremost, the Trump administration demonstrated that it was serious about embarking on a protectionist path, following up its imposition of steel and aluminium tariffs (including on the EU) with the withdrawal from NAFTA, the introduction of tariffs on a broadening range of imports from China, and threats to treat car imports from the EU and elsewhere as "national security threats". Although the latter was put on ice in July 2018 pending US-EU negotiations, the threat remains to this day.

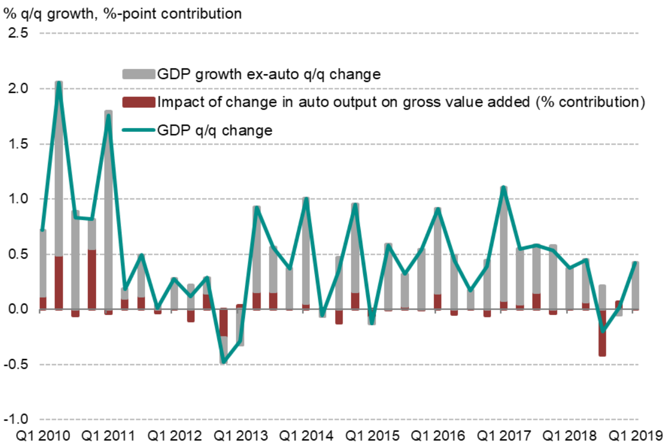
Separate decisions with geopolitical ramifications, such as the withdrawals from the Paris climate accord and the Iran nuclear deal, were rightly regarded by German manufacturers as a shift away from multilateralism and a rules-based system towards *ad hoc* decisions guided by political imperatives of the day in the US.

Meanwhile, for the past 2-3 years, Chinese authorities have been increasing efforts to steer their economy away from investment and exports, towards consumption. This has been accompanied by an attempt to curtail lending by the shadow banking sector and by the aforementioned dampening effects from the trade conflict with the US. Overall China's GDP growth thus also weakened noticeably from circa 7% to around 6% during the second half of 2018.

The acrimonious nature of the Brexit negotiations and eventually, in the first quarter of 2019, the inability of the UK government to obtain parliamentary consent for the UK-EU deal reached by Theresa May (resulting in the need to delay the exit date to end-October) forced German firms (among others) to step up efforts to look for alternative supply chains.

Domestically, Germany's automobile sector has meanwhile been grappling since 2015 with the twin challenges linked to diesel-powered cars, namely the emission scandal, which has cost manufacturers many billions in fines and wasted resources, and the rising risk of city bans linked to overly high nitrogen dioxide levels. In addition, the introduction of new tighter emission test regulations (WLTP) in September 2018 led to a temporary curtailment of car output in the second half of 2018 because manufacturers had not certified all their car models in time, so that customers were not able to buy as-yet uncertified cars. Furthermore, the long-term structural shift from combustion engines to electric vehicles has been picking up momentum since 2018, entailing difficult management decisions about investment in future technologies.

Contribution of auto sector to German GDP growth



Source: IHS Markit

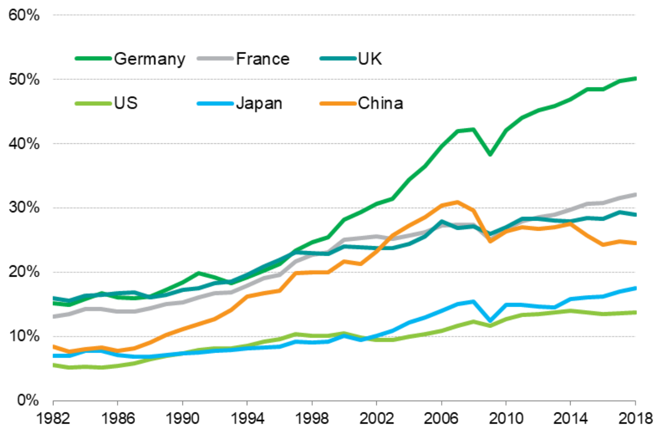
Finally, Germany's manufacturing output during second-half 2018 was curtailed by the ramifications of a drought that inhibited river transport of important commodities for several months, especially in the chemical industry.

Causes of manufacturing weakness

Most of the factors listed above share a common feature, namely the distinct increase in uncertainty related to the obvious interruption to the era of deepening globalisation that characterised the last three to four decades. Uncertainty promotes a wait-and-see attitude and thus holds back investment. Unlike risk, where the list of potential "bad outcome events" is roughly known and for which probabilities can at least be estimated, uncertainty means that an exhaustive list of potential developments cannot be created, let alone their probabilities be gauged. Specifically, with US President Trump's policy decisions frequently being unpredictable, and with a still possible no-deal Brexit representing uncharted territory, German firms will be forgiven for wanting to ride out the storm and err on the side of caution with respect to major investment decisions.

While heightened uncertainty is a problem for any economy, Germany's manufacturing sector is more vulnerable than most – at least in the short-term – for two reasons. First, the share of exports of goods and services in GDP is around 50% at present, markedly higher than that of Germany's major competitors (see chart). In the important automobile industry, about three-quarters of car output is exported. Second, Germany's manufacturing sector is unusually large for a big, industrialised economy at 23% of GDP, more than double its French or UK equivalent.

Share of exports in goods and services in real GDP

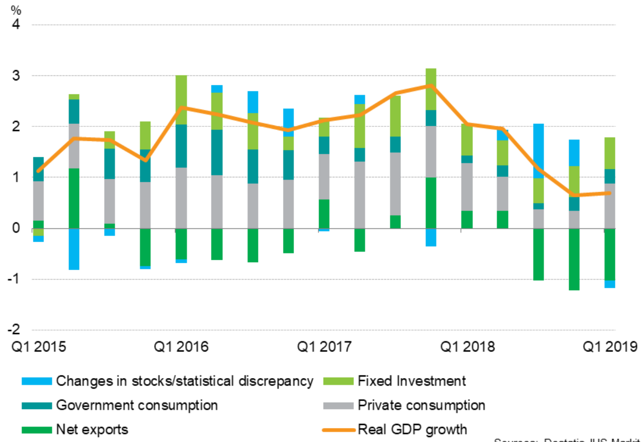


Source: IHS Markit

In 2008, the shock event of the Lehman collapse – then triggering fears of a global banking sector meltdown amid huge uncertainty – meant that German GDP was one of the hardest hit, plunging by more than 5% in 2009. However, it rebounded by almost 4% in 2010 followed by a similar sized expansion in 2011. By contrast, the current downturn has not been triggered by a single shock but a gradual accumulation of political factors that are weighing on global trade and thus hitting demand along the length of international supply chains (commonly known as “globalisation”). This is becoming a problem especially for Germany’s many middle-sized manufacturing firms that are highly specialised and often a world market leader in their field (e.g. machinery, electrical equipment). The quality of their products renders them an ideal exporter, but if hindered by protectionism they are often not large enough to build production facilities in target countries to circumvent tariffs or other trade barriers.

At the same time, domestically oriented sectors of Germany’s economy, namely construction and the bulk of the service sector, have so far been largely decoupled from the problems afflicting the manufacturing sector – although with time certain spill-overs via the labour market and general economic sentiment are of course to be expected. In combination with the stealth nature of the current de-globalisation trend, this means that Germany’s economy must not fear a sudden plunge, as had been the case in late 2008 and the first half of 2009. Conversely, the manufacturing sector is likely to stay in recession (or at best stagnation mode) for quite some time, which will at least limit overall GDP growth to around 1%.

Contributions to German GDP growth



Sources: Destatis, IHS Markit

Determinants and timing of an eventual German manufacturing recovery

The good news is that – unlike the Lehman collapse in 2008 that caught the global economy almost completely by surprise – companies in Germany and elsewhere have had some time to adjust to the shift towards more protectionism and less multilateralism (which includes Brexit). Thus, it seems quite unlikely that the German economy will suddenly plunge into a deep recession, especially as the construction sector will continue to benefit from demographic support and as large recent budget surpluses harbour potential for significant fiscal support via deficit spending, if seen necessary.

Conversely, however, Germany’s manufacturing sector *per se* can only recover in any decent manner once the wave of US-led protectionism is stopped and at least partially reversed. To be sure, not all developments on the globalisation front have been bad of late, given the EU and Japan Economic Partnership Agreement that entered into force in February and the looming Free Trade Agreement between the EU and the four founding members of Mercosur (Argentina, Brazil, Paraguay, and Uruguay). Nevertheless, much hinges on a de-escalation of the US-China trade conflict – a defusing of tensions at a planned Trump-Xi meeting at the G20 summit in Japan at end-June is a possibility but by no means assured (see page 6). Similarly, US-EU trade negotiations that recently have been put on the backburner in favour of the US-China talks still need to come to an agreement to remove the threat of US tariffs on cars from the EU.

Apart from trade protectionism issues, the other key determinant of manufacturing sector prospects in the coming years will be the path and structure of the Chinese economy as steered by the country’s leadership. While German manufacturers can adapt to new stages of maturity of the Chinese economy, the areas in which Chinese technology can match or even outdo German knowhow will increase, reducing their import needs. The same applies to the ongoing Chinese efforts to shift away from investment towards consumption, which disadvantages German manufacturers that are traditionally strong in the investment goods area.

The sector-specific problems in Germany’s automobile sector linked to technological change (electric vehicles; self-driving cars) will persist independently of the factors above. That said, the innovative capacity of the German car industry should not be underestimated either, so that medium-term prospects may well be brighter again than those for the next couple of years.

On balance, the most likely near-term scenario for Germany’s manufacturing sector – based on the assumption there will be no all-out trade war escalation – is further modest recession during the remainder of 2019 and relative improvement towards stagnation in 2020, with a return to growth then only seen in 2021. During this period, German overall annual GDP growth should fluctuate around 1%, as private and public consumption, as well as construction, more than offset the decline in manufacturing.