
PMI ANALYST

Follow the Money

May, 2019

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IMPORTANT NOTICE

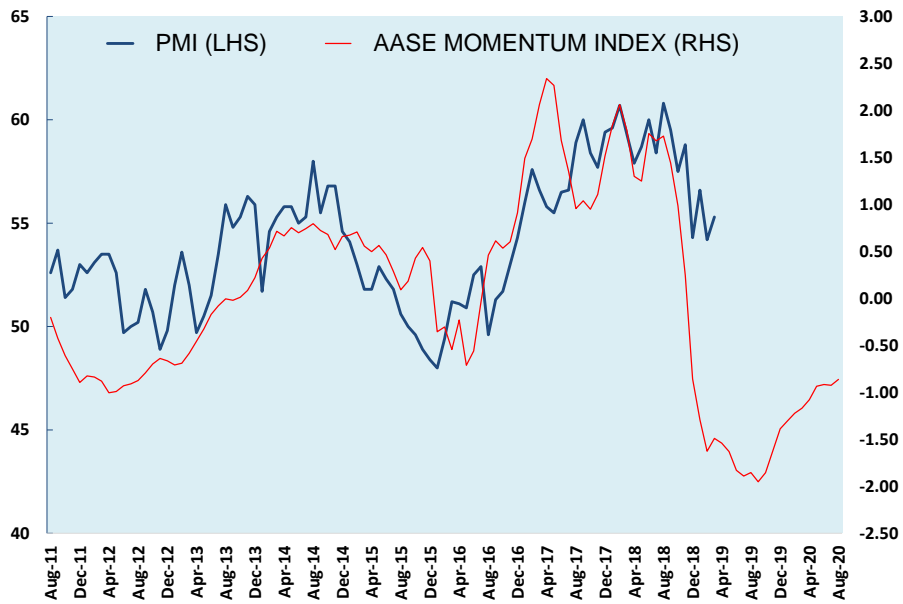
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Chart of the Month

US ISM MANUFACTURING PMI v. AASE MOMENTUM INDEX LAGGED 18 MONTHS

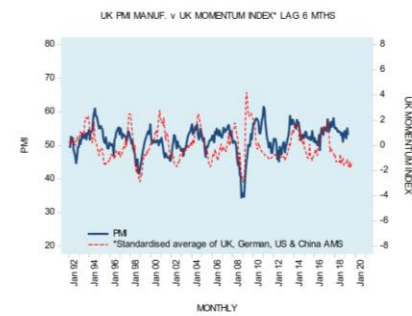
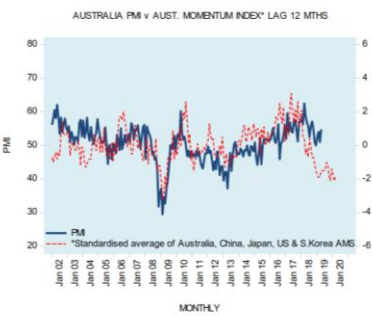
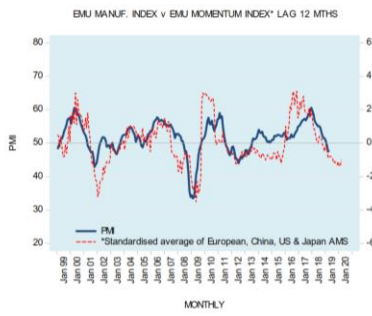
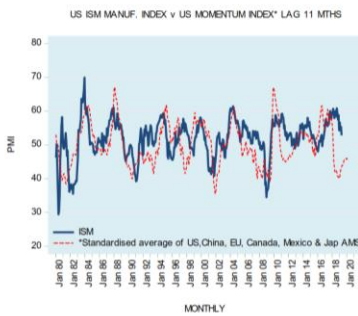


Overview

	Last	Month's Change
USA	52.8	-2.5
EUROZONE	47.8	0.2
GERMANY	44.5	-0.2
UK	53.1	-2.0
JAPAN	50.2	1.0
CHINA	50.2	-0.6
AUSTRALIA	54.8	3.9
WORLD*	50.8	-0.8

* Composite of USA, Eurozone, UK, Japan, China

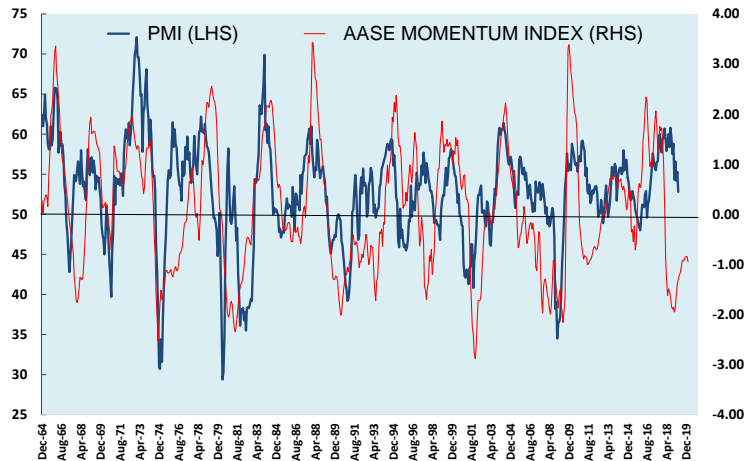
Summary Charts



US

Manufacturing PMI

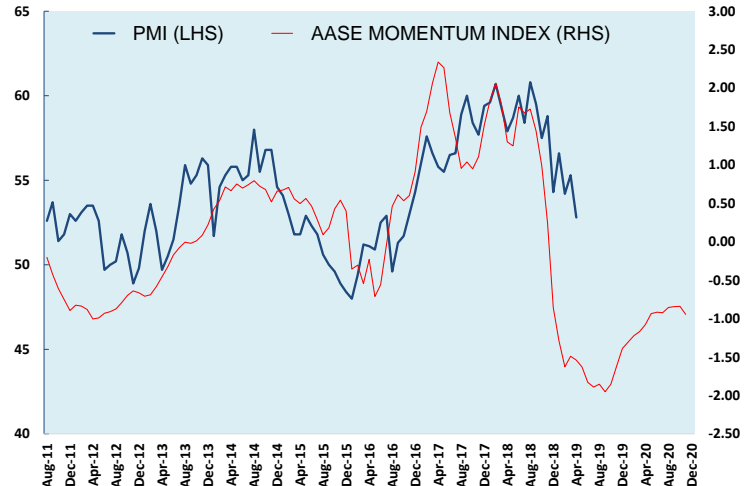
US ISM MANUFACTURING PMI v. AASE MOMENTUM INDEX LAGGED 11 MONTHS



Last Value: 52.8
Previous Value: 55.3

In forecasting PMIs we construct for each country a combined money-supply-based index of the country and several of that country’s major trading partners. This we call the *Momentum Index*, as it measures monetary momentum. In the **US** the average time lag, from 1982 to the present, between moves in our Momentum Index and those in the manufacturing PMI has been around 11 months. **Over the last three years, however, we have witnessed an apparent lengthening in this US lag, which now appears to sit at around 18-20 months.**

US ISM MANUFACTURING PMI v. AASE MOMENTUM INDEX LAGGED 18 MONTHS

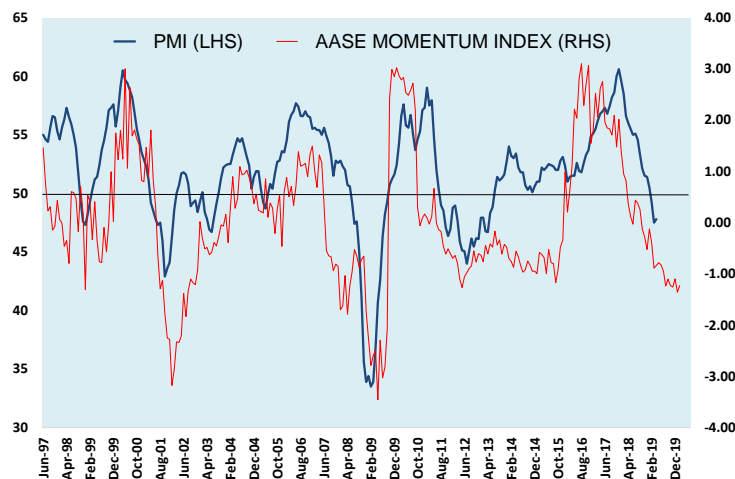


It is possible that the lags may have increased since the GFC as a result of a combination of influences including regulatory interference in bank lending, rebuilding of bank balance sheets or other factors. It is not clear whether this new lag will become entrenched, but **on the basis of this longer lag we are expecting continued weakness in the US PMI and a delayed economic recovery in the US with no genuine rebound until the last quarter of 2019 or early 2020.**

Eurozone

Manufacturing PMI

EUROZONE MANUFACTURING PMI v. AASE MOMENTUM INDEX LAGGED 12 MONTHS

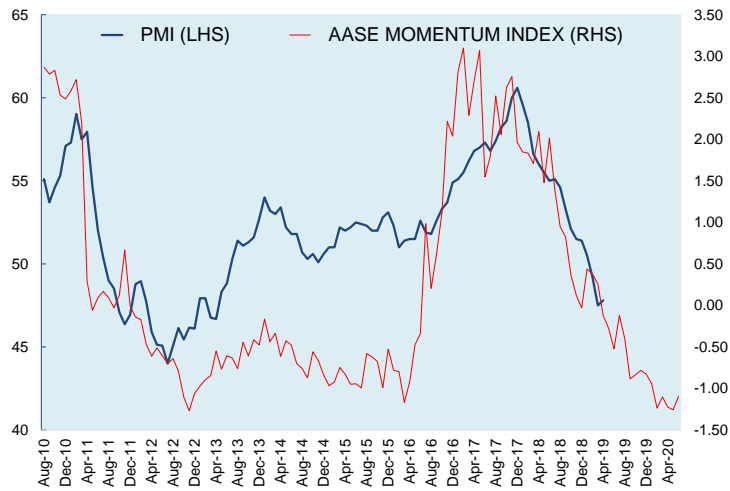


Last Value: 47.8

Previous Value: 47.6

The **Eurozone** PMI shows similar trends to those in the US. Based on historically average time lags of around 12 months between our AMS-driven Momentum Index and the PMI, we are facing continued declines in the Eurozone PMI for the next year or so. With more recent, longer lags of around 18 months the economic deceleration looks set to be more protracted.

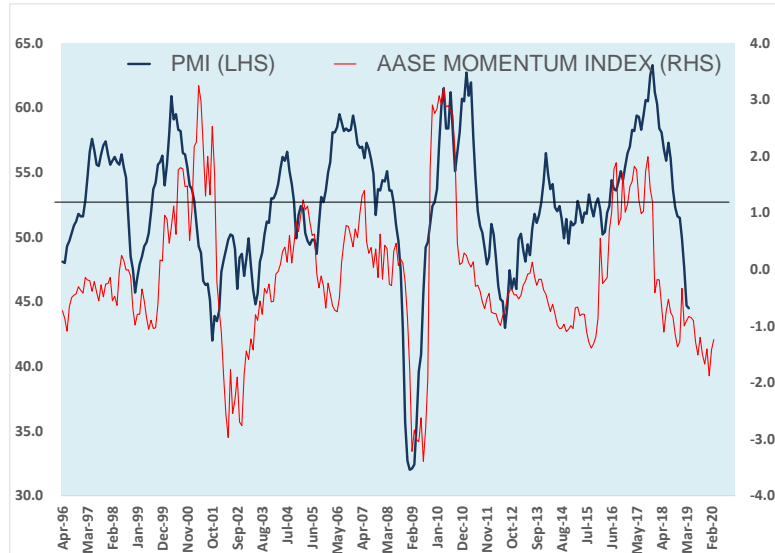
EUROZONE MANUFACTURING PMI v. AASE MOMENTUM INDEX LAGGED 18 MONTHS



Germany

Manufacturing PMI

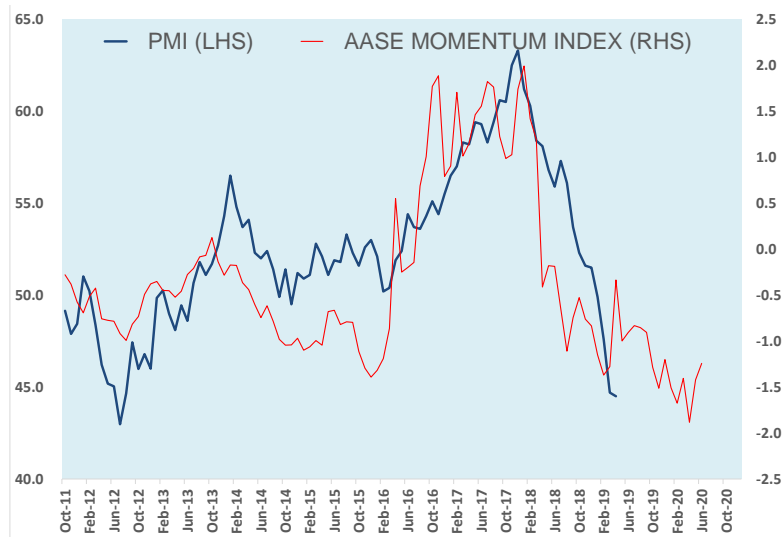
GERMANY MANUFACTURING PMI v. AASE MOMENTUM INDEX LAGGED 12 MONTHS



Last Value: 44.5
Previous Value: 44.7

As with several other countries' PMIs, there may have been a lengthening of lags between our Momentum Index and the underlying PMI. In Germany's case this lag may have increased **from around 12 months to around 15 months or even a couple of months longer**.

GERMANY MANUFACTURING PMI v. AASE MOMENTUM INDEX LAGGED 15 MONTHS

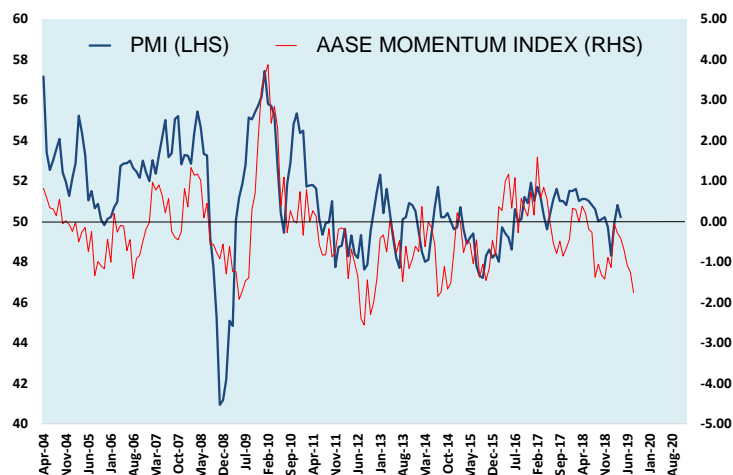


If this is the case then the German manufacturing PMI looks set to deteriorate for most of the remainder of 2019, with no uptrend yet in sight for the first half of 2020.

China

Manufacturing PMI

CHINA MANUFACTURING PMI v. AASE MOMENTUM INDEX LAGGED 6 MONTHS



Last Value: 50.2
Previous Value: 50.8

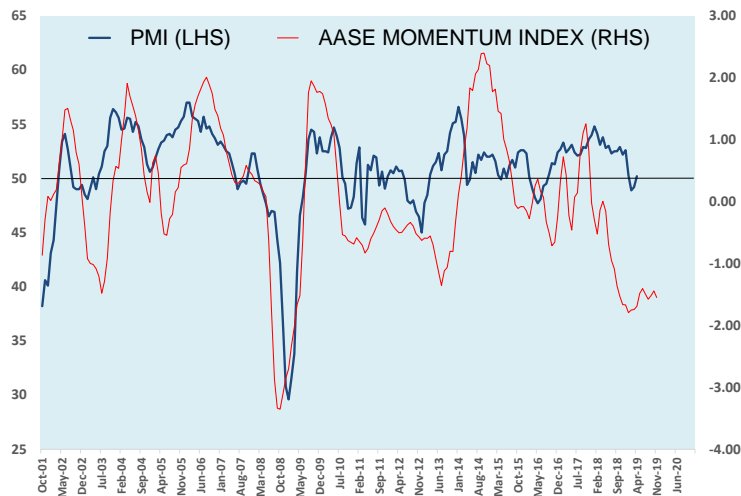
The average time lag between our Momentum Index and the Chinese manufacturing PMI has historically been around 6 months.

Based on this lag we expect that China’s manufacturing PMI should trend lower for the next half year, with as yet no sign of a forecast rebound.

Japan

Manufacturing PMI

JAPAN MAUFACTURING PMI v. AASE MOMENTUM UNDEX LAGGED 8 MONTHS



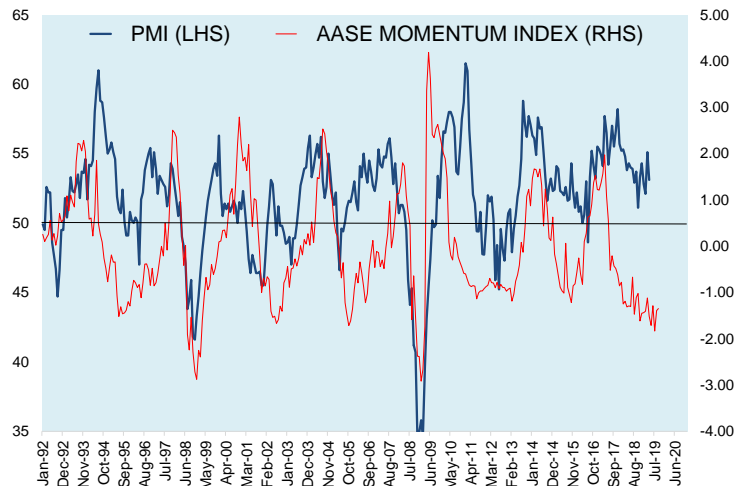
Last Value: 49.5
Previous Value: 49.2

Based on historical lags of around 8 months the Japanese manufacturing PMI looks set to rally from, or at least stabilise around, current levels. This is the only major economy where we see this possible development, and it may be that this outgoing tide from other economies may overwhelm Japan.

UK

Manufacturing PMI

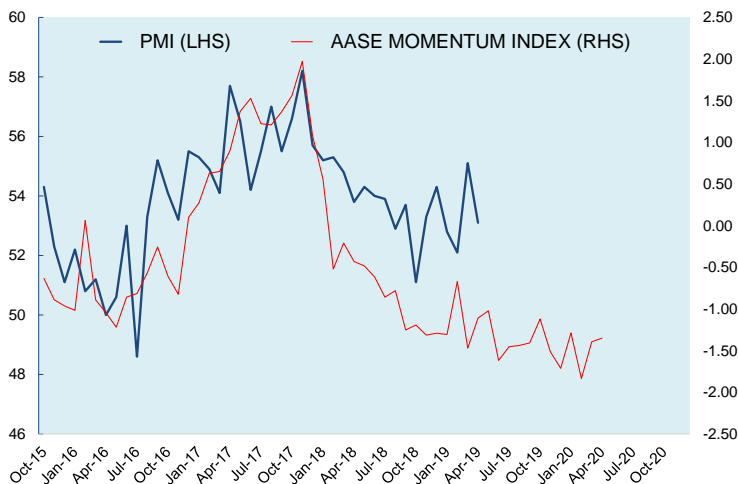
UK MANUFACTURING PMI v. AASE MOMENTUM INDEX LAGGED 6 MONTHS



Last Value: 53.1
Previous Value: 55.1

For the **UK**, once again the picture is not encouraging. Using historical average lags of around 6 months from the Momentum Index to the underlying PMI the picture is for continued weakness, or at least for a lack of meaningful rebound, in the near term. Using the more recent lags of around 13 months this flat period continues for a much longer period.

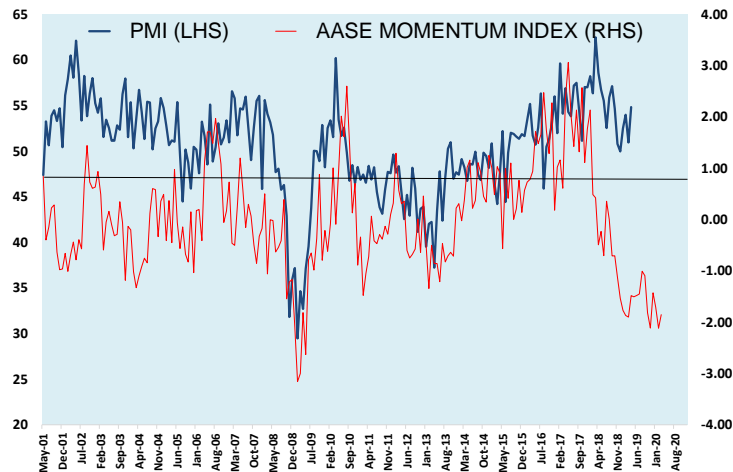
UK MANUFACTURING PMI v. AASE MOMENTUM INDEX LAGGED 13 MONTHS



Australia

Manufacturing PMI

AUSTRALIA MANUFACTURING PMI v. AASE MOMENTUM INDEX LAGGED 12 MONTHS



Last Value: 54.8
Previous Value: 51.0

The Australian manufacturing PMI has shown a relatively steep, albeit jagged decline over the last year. This has been in line with the severity and steepness of the decline in our lagged Momentum Index. Based on historical lags of around 12 months, and on the steepness of the drop in our Momentum Index, the deceleration in the Australian PMI should be quite marked over the coming year.

MORE INFORMATION

For more information please contact AAS Economics
info@aasecon.com

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