MARS CAPITAL PARTNERS

Weekly Macro Review

w/c 2 July 2018

Key Themes

Tariffs on US and Chinese imports went into effect late last week with some heated language around "igniting the largest trade war in economic history". "International trade policy" featured in central bank speeches/minutes/interest rate decisions last week – highlighting concerns about escalation and the impact of uncertainty on sentiment and investment/capex decisions.

BoE highlighting scenarios for monetary policy contingent on trade protectionism, Brexit uncertainty and 'tighter global financial conditions".
US FOMC minutes – risks to the outlook are balanced, gradual rate rises appropriate, FFR likely to be above neutral by next year.
Aus RBA rates kept on hold – slightly less positive language around trade policy, global growth and local employment growth. Likely tighter lending standards to come.

PMI's offered a first glimpse at June activity. PMI's covered here followed a similar pattern – slowing/no expansion in manufacturing (US, Japan, Eurozone, UK, and China) and slightly stronger expansion in services. Continued to highlight impact of trade policies on business uncertainty, prices and availability of certain commodities (so far). Several PMI reports highlighted issues around slowing export sales (US, Asia, Europe).

US data remains positive; the ISM reports (manufacturing and non-manufacturing) showed expansion continued to accelerate versus the Markit PMI's showing manufacturing and services still expanding, but not accelerating. Headline manufacturers new orders for May increased, driven by non-durable goods. Continued improvement in US non-farm payroll growth. Job cut announcements low compared to recent history but hiring announcements lagging.

Europe; unemployment continued to fall, retail sales growth in Eu28 was steady (flat in the EA19)

UK; announcement of Brexit plans late Friday now under some uncertainty after the key Brexit Minister resigns, citing the Cabinet plans. PMI's suggesting stronger services, improved construction and weaker manufacturing in June.

Contents

US Data

ISM Manufacturing (June)

The ISM Manufacturing PMI continued to expand at an increasing rate in the latest month;

June 60.2 versus May 58.7 – this is one of the strongest readings from the last year.

The two main elements of the ISM – production and new orders (unchanged) – continued to expand.

Supplier delivery lead times increased markedly in the latest month – the result of lead times for production materials, transportation delays, and ongoing uncertainty in the steel and aluminium markets. Many negative anecdotes recorded regarding uncertainty around tariffs.

Employment continued to expand at the same rate (slowed somewhat since March). Prices continued to expand, but also at a slower rate.

https://www.instituteforsupplymanagement.org/ISMReport/MfgROB.cfm?SSO=1

ISM Non-Manufacturing PMI (June)

Non-manufacturing PMI expanded at a faster rate in the latest month; June 59.1 versus May 58.6, and just below the Jan 2018 12-mth high of 59.9

This month business activity expanded at a faster rate; June 63.9 versus May 61.3

New orders increased at a faster rate; June 63.2 versus 60.5

Employment decreased slightly, but remains in expansion; June 53.6 versus May 54.1

The acceleration in prices also eased (and remains in expansion); June 60.7 versus May 64.3

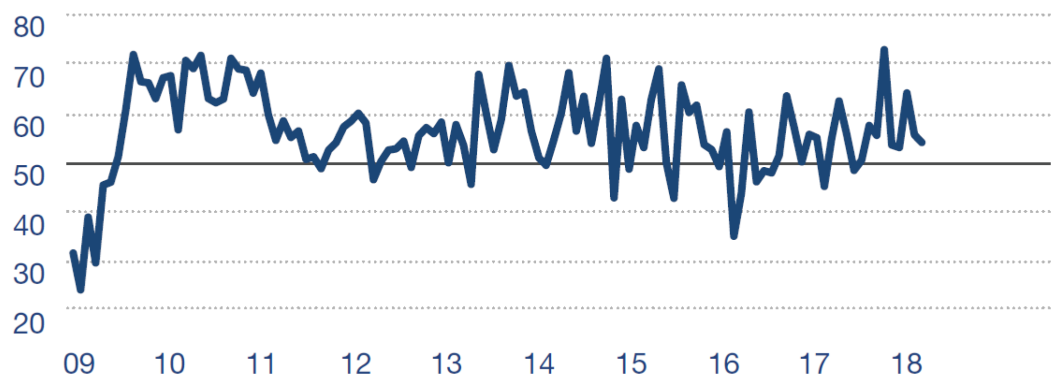
The top three non-manufacturing industries reporting growth this month; Mining, Construction and Wholesale Trade.

https://www.instituteforsupplymanagement.org/ISMReport/NonMfgROB.cfm?SSO=1

ISM NY Index Business Conditions (June)

Current business conditions in NY continued to expand, but again at a slower rate; June 55 versus May 56.4

CURRENT BUSINESS CONDITIONS *(seasonally adjusted)*



This contrasts with the 6mth outlook which accelerated in the latest month and reached a new high for the year; June 78.1 versus May 66.9. Reasons for the optimism are unclear in the report.

SIX-MONTH OUTLOOK *(seasonally adjusted)*

Company specific data;

Employment increased to a seven-month high, jumping significantly; June 63.4 versus May 50.2

Quantity of purchases remained at breakeven 50 for the third month.

Prices paid eased in the latest month; June 55.9 versus May 72.9

http://www.ismny.com/wp-content/uploads/2018/07/2018_ISM-NewYork_ReportOnBusiness_June_v01.pdf

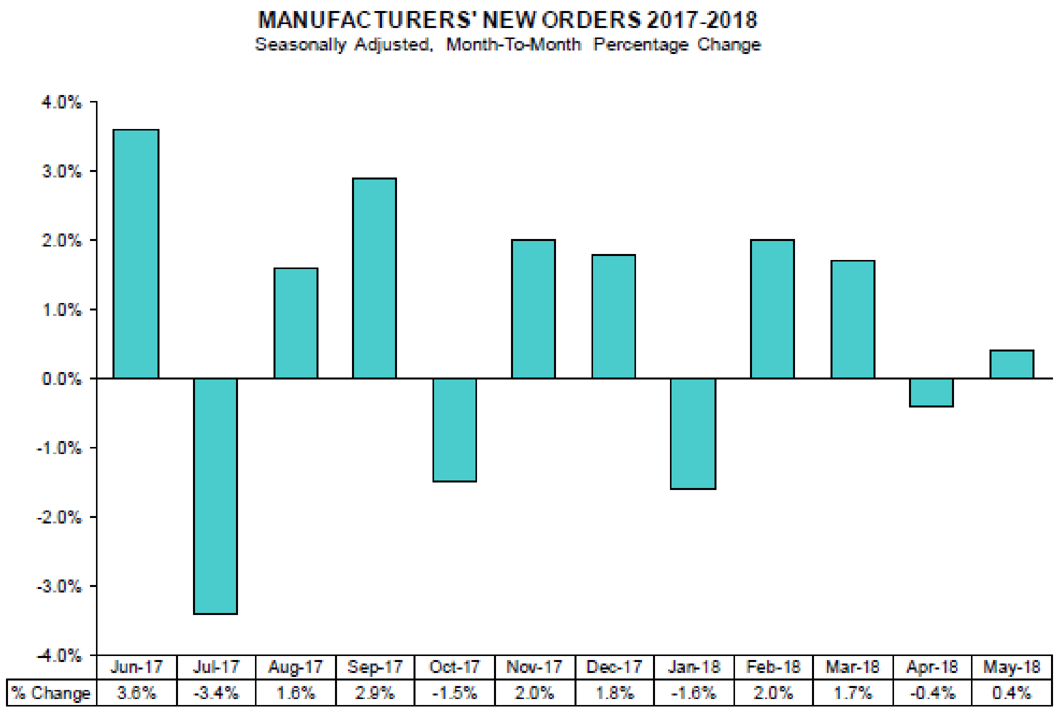
Manufacturers Shipments, Inventories and New Orders (final - May)

Shipments – all manufacturing industries continued to grow; May +0.6% versus April +0.1%

Shipments were stronger for capital good ex defence and consumer non-durables.

(Shipments ex transport; May +0.8% versus April +0.6%)

New Orders – all manufacturing industries also grew; May +0.4% versus April -0.4%



Source: U.S. Census Bureau, Manufacturers' Shipments, Inventories, and Orders, July 3, 2018

Growth in new orders was weaker across most categories, with the exception of Defence Capital Goods which grew by 15.5% in May (and consumer non-durables). Ex Defence Capital Goods, new orders were flat for May.

New Orders ex transport; May +0.7% versus April +0.9%

Growth in new orders continues to be driven by non-durable goods;

Durable goods; May -0.4% versus April -1%

Non-durable goods (mostly consumer non-durable); May +1.1% versus April +0.3%

https://www.census.gov/manufacturing/m3/prel/pdf/s-i-o.pdf

Challenger Job Cuts (June)

Announced job cuts increased in the latest month; June 37.2k versus May 31.5k (+18%)

This is +19% versus June 2017.

YTD the number of announced job cuts is +8% versus YTD 2017.

Despite the increase, compared to recent years, **this is still one of the smallest announced job cut totals** – the average for Q2 going back to 1999 is 152.4 job cuts – the current quarter total is 104.8.

That said, the number of hiring announcements is running well below the rate of last year and the YTD, but is up on the previous month;

Hiring announcements; June 13.5k versus May 9.9k and versus June 2017 +40.1k

YTD hiring announcements YTD2018 June 233.6k versus YTD 2018 June 332.5k (-29%).

IF hiring announcements continue to grow at the same rate (ie a total of 467.1k for the year) – this will be the lowest total of hiring announcements going back to 2012 (data only goes back to 2012).

http://www.challengergray.com/press/press-releases/2018-june-job-cut-report-cuts-18-percent-37202

ADP Employment Change (June)

Change in non-farm private sector employment June; +177k persons versus May +189k (May revised up from 178k)

The average monthly growth in non-farm employment for the last two years is currently +185k. While the rate of growth in June is somewhat close to this average level, there is clearly less growth momentum compared to late 2017/early 2018.

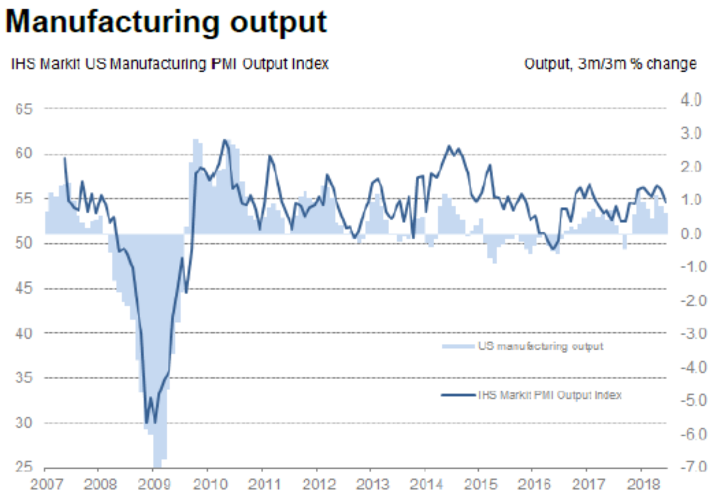
https://www.adpemploymentreport.com/2018/June/NER/docs/ADP-NATIONAL-EMPLOYMENT-REPORT-June2018-Final-Press-Release.pdf

Manufacturing PMI (June)

US manufacturing PMI remains in expansion, but growth slowed further in the latest month;

June 55.4 versus May 56.4

This is the slowest growth in four months and was the result of slower expansion in both output and new orders.



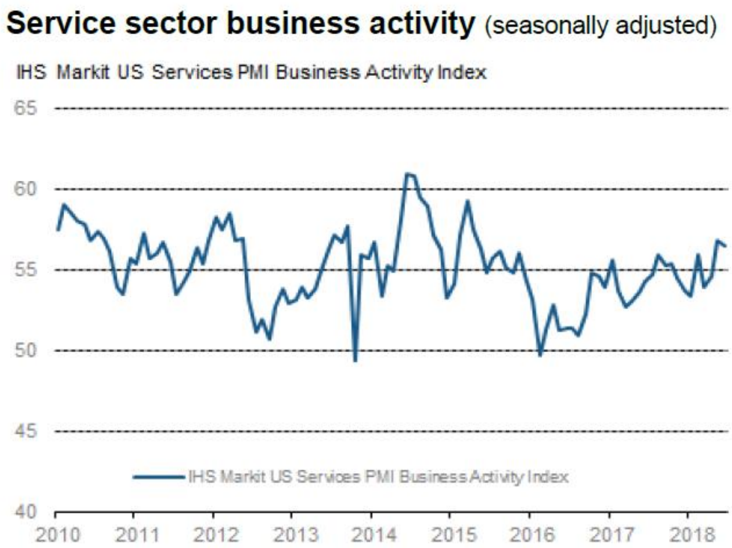
Sources: IHS Markit, U.S. Federal Reserve.

Tariff announcements – cited as playing a role in higher input prices, in a contraction in foreign client demand and in worsening supply delays.

https://www.markiteconomics.com/Survey/PressRelease.mvc/368b1aa446ec458baffca63d6ab76530

Services and Composite PMI (June)

Services PMI expanded at a slightly slower pace in the latest month and remains near multi-year highs; June 56.5 versus May 56.8



The second quarter result was the strongest in three years.

New order growth and backlogs remained high but expanded at a slower pace than the recent peak in May.

Costs increased at a similar pace as in May – the result of supplier shortages, recent introduced tariffs and higher fuel costs. Some of these higher input charges were passed onto clients.

Employment continued to expand, and business optimism remains near recent highs.

The overall composite index expanded at a slightly slower pace; June 56.2 versus May 56.6.

https://www.markiteconomics.com/Survey/PressRelease.mvc/e5008c6842f94213893ce1f4c60d3735

FOMC Minutes (June meeting)

Job gains have been strong in recent months and inflation is moving closer to the 2% target. Longer term inflation expectations are little changed.

Risks to the outlook are roughly balanced.

Districts had expressed concerns over proposed trade restrictions – investment plans scaled back amid uncertainty over trade policy. Fed contacts in the steel and aluminium industries expected higher prices as a result of the tariffs on these products *but had not planned any new investments to increase capacity.*

Strong labour market data – but still more opportunity get more people back into the labour market. Wage increases moderate.

Key risks discussed;

Uncertainty and risks associated with trade policy – negative effects on sentiment and investment spending

Fiscal policy changes supportive of econ over next few years (possible upside risk), but not on a sustainable path

Political and economic developments in Europe and EME's

What the flattening of the yield curve might signal about economic growth in the future – impact of CB intervention could itself temper the reliability of yield curve slope as a signal of future activity

Based on current performance, appropriate to continue with 'gradual approach' to rate rises. With gradual increases, "the federal funds rate could be at or above their estimates of its neutral level sometime next year". Discussion around modifying language in the post meeting statement indicating that "the stance of monetary policy remains accommodative."

A few participants suggested that, before too long, the Committee might want to further discuss how it can implement monetary policy most effectively and efficiently when the quantity of reserve balances reaches a level appreciably below that seen recently (in reference to the IOER).

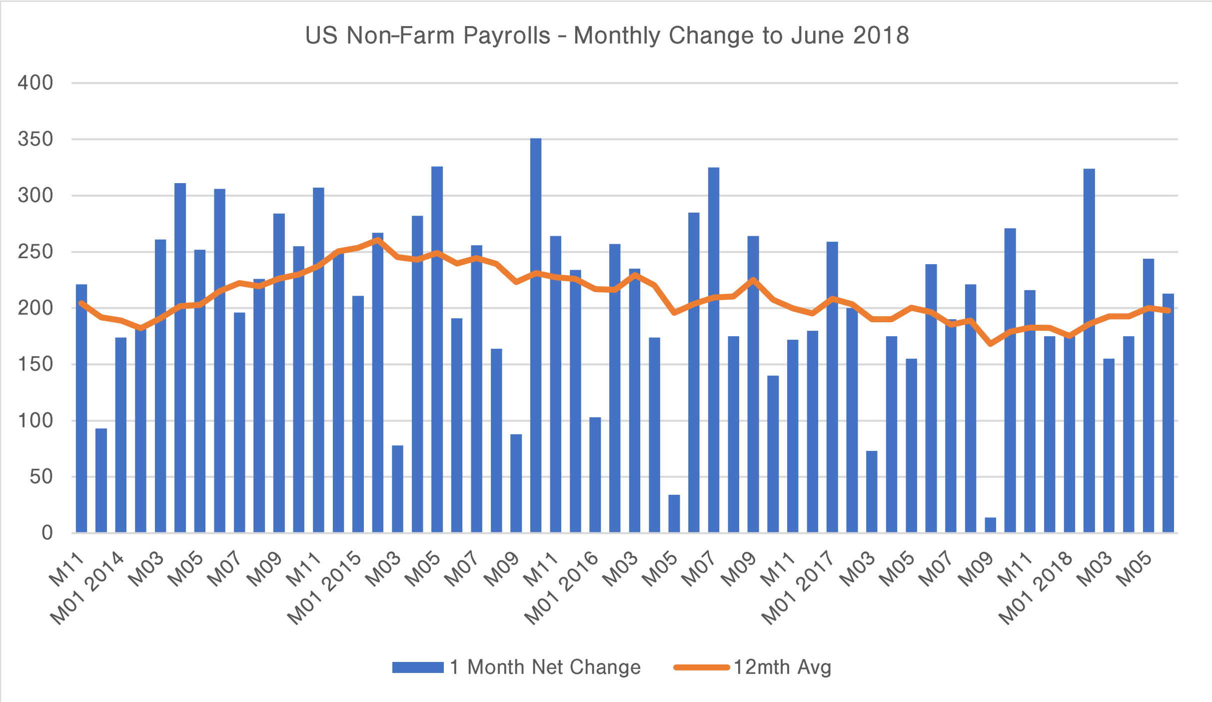
https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm

Non-farm payrolls (June)

Non-farm payrolls increased by 213k in June.

Upward revisions for May from 223k to 244k and April from 159k to 175k

We had previously highlighted that the trend in the 12-mth average monthly growth in non-farm payrolls had started rising from Oct 2017 – now around 200k for the last 2 months;



In June (HH survey data);

More people came back into the labour force - Civilian non-institutional pop +188k – made up of +601k labour force and -413k not in labour force. The LFPR increased from 62.7% to 62.9%.

The increase in the labour force was made up of an increase in employed persons +102k and an increase in unemployed persons of +499k (using the HH data).

As a result, unemployment ticked up from 3.8% May to 4.0% June.

The reason for unemployment was mostly two-fold; job losers and persons who had completed temporary jobs +211k and re-entrants +204k.

Average weekly hours and average earnings were unchanged.

https://www.bls.gov/news.release/pdf/empsit.pdf

Return to top

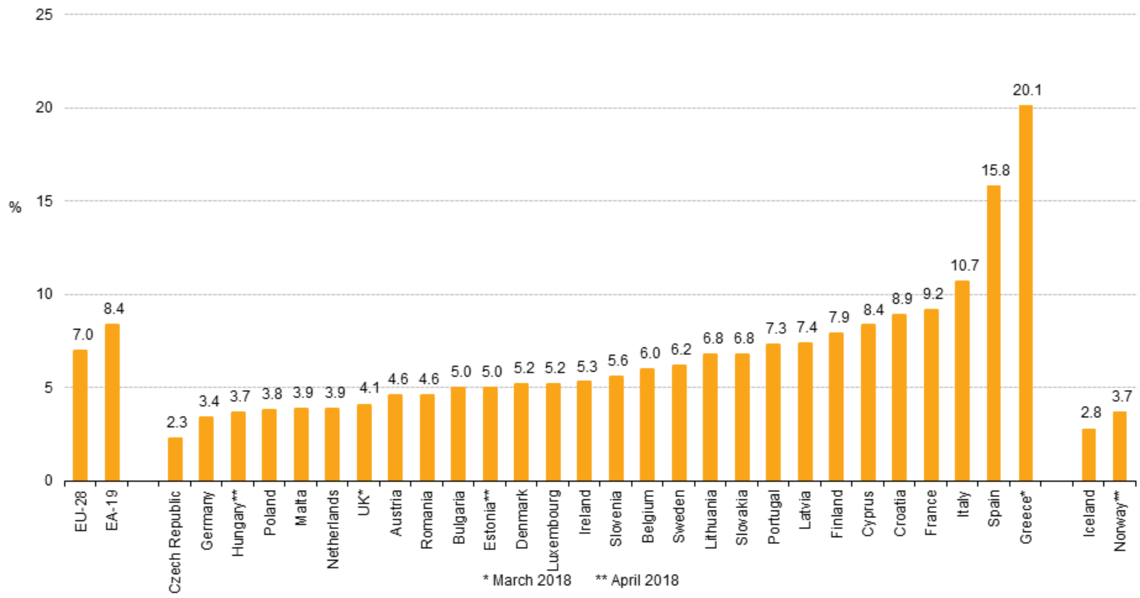
Europe

Eurozone Unemployment (May)

The seasonally adjusted unemployment rate in the Euro Area (EA19) was 8.4% in May – unchanged versus April and down from 9.2% in May 2017.

The majority of countries have unemployment rates lower than the EA19 or EU28 average.

Unemployment rates, seasonally adjusted, May 2018



Source: Eurostat (online data code: une_rt_m)

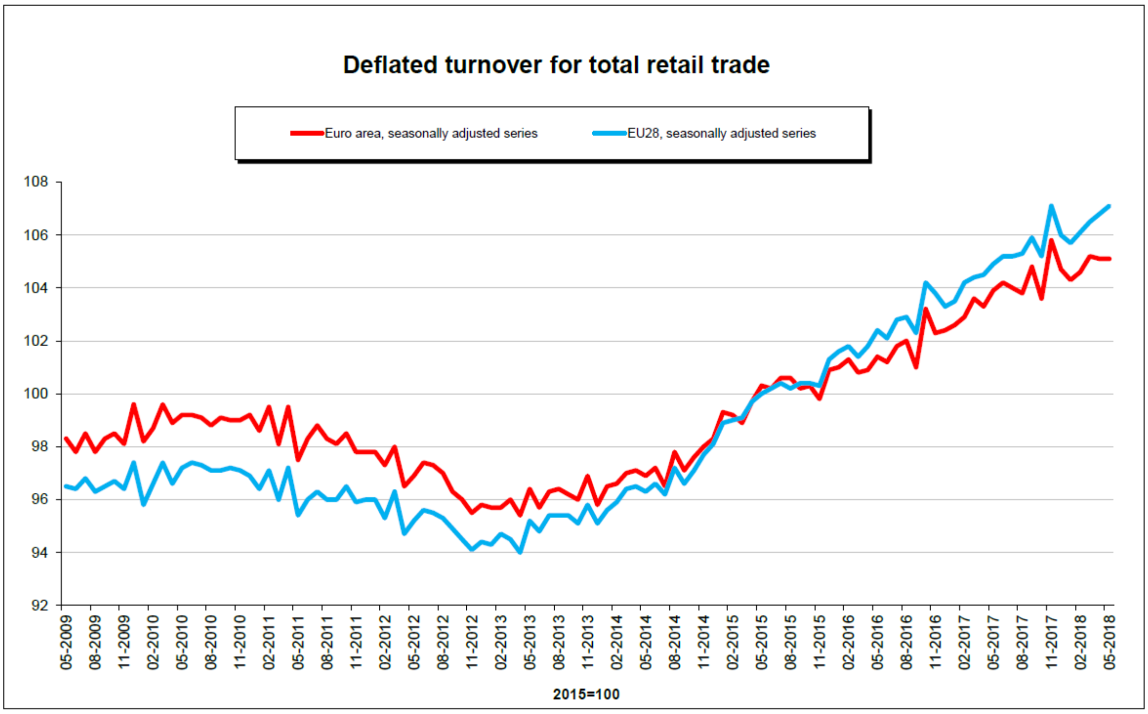
eurostat

http://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Unemployment_rates,_seasonally_adjusted,_May_2018_(%25)_F2.png

Eurozone Retail Sales (May)

In the Euro Area (EA19), retail sales volume was unchanged; May 0% versus April -0.1% and grew by +0.3% in the EU28 in May (versus +0.3% April).

The annual rate of growth in the EA19 was +1.4%.



EA19 - Food drink and tobacco increased by +1.1% and non-food decreased by -1%, no change in auto fuel

EU28 – food drink and tobacco increased by +1.2%, non-food decreased by -0.5% and auto fuel +0.1%

As per last weeks prelim German retail sales, Germany was one of the key member states to record a decline in retail sales for the month, along with Austria, Spain and Poland. Growth was higher in Portugal, Latvia and Slovenia.

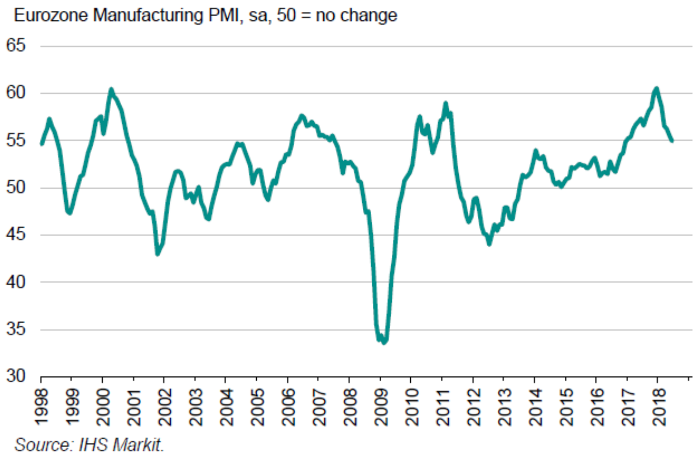
http://ec.europa.eu/eurostat/documents/2995521/9034255/4-03072018-AP-EN.pdf/99c581e6-3946-45d4-8c71-2fdd753eb3a2

Eurozone Manufacturing PMI (June)

There was a further slow-down in manufacturing expansion; June 54.9 versus May 55.5

This is now at an 18month low;

IHS Markit Eurozone Manufacturing PMI



Growth in the key elements of production and new orders, have continued to slow. This was evident across most sectors. As a result, business optimism has fallen to a 2.5 year low.

Manufacturing employment continued to expand – companies linked this to rising production and backlog of orders, despite production growth that “has weakened markedly since the end of last year”.

“risks clearly tilted towards output growth waning further in coming months”

Increasing concern about tariffs - “The biggest concern is the extent to which export order book growth has cooled since the start of the year, and could soon go into decline

The PMI readings moved lower in 5 of the 8 key markets covered; Netherlands, Austria, Germany, Greece and France. Ireland and Italy expanded and Spain was unchanged.

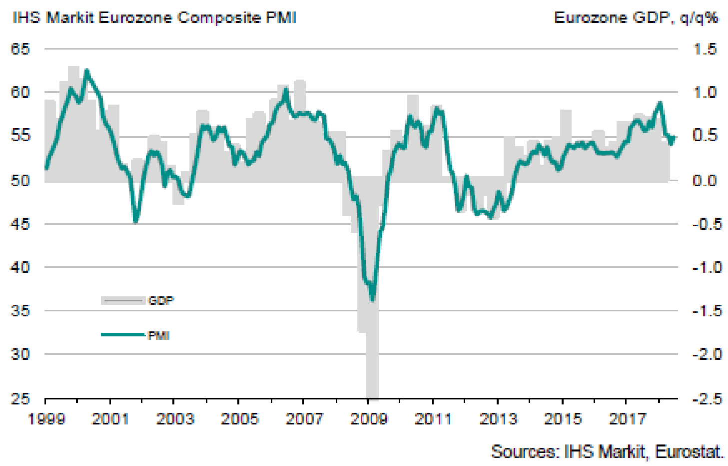
https://www.markiteconomics.com/Survey/PressRelease.mvc/69aa3d179f0b4a4b82278e3b3706ec6d

Services & Composite PMI (June)

Eurozone services PMI accelerated higher in the latest month; June 55.2 versus May 53.8,

This helped to offset some of the weakness in the manufacturing activity, resulting in the overall composite index expanding at a faster rate; June 54.9 versus May 54.1

IHS Markit Eurozone Composite PMI



Momentum is still clearly below that of the start of the year – this similar pattern is mirrored in the output/activity indexes for the key countries.

Services output increased across ‘the big three’ service economies – Germany, Ireland and Italy.

New business expanded across most countries covered in the survey, except Spain. Backlog of orders increased as a result. Employment expanded at a faster pace (2mth high).

Overall though, business optimism expanded at a weak pace. Cost pressures weighed (fuel and staff costs) and resulted in firms passing on higher prices.

“In particular, a weakening in business optimism to the lowest for over one-and-a-half years reflects intensifying nervousness about the outlook for the economy, notably in manufacturing, as trade-war talk escalates. Service sector companies – generally less affected by international trade – are more upbeat about the year ahead, though less so than earlier in the year as domestic political issues once again add to uncertainty about the outlook.

“With many service companies – notably transport – dependent on a healthy manufacturing sector, any downturn in trade could soon spill over to the service sector.”

https://www.markiteconomics.com/Survey/PressRelease.mvc/34a6a9b7c0634afa893246ba90272425

German New Orders Manufacturing (May)

After several months of falling factory orders, provisional data for new orders in May increased by +2.6% versus April -1.6%.

Domestic orders increased by +4.3% and foreign orders increased by +1.6%.

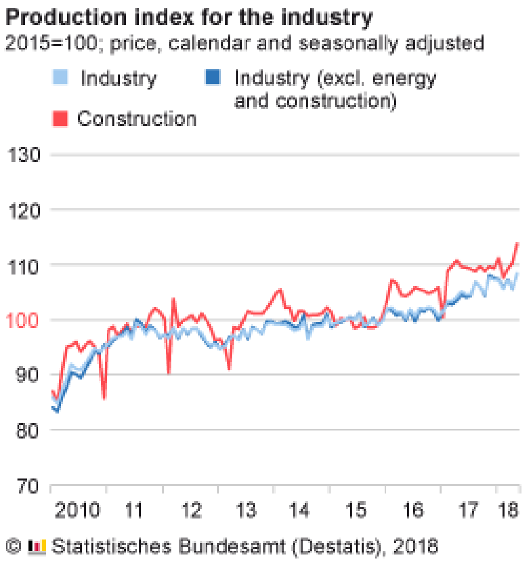
New orders from the Euro area +6.7% versus new orders outside of Euro -1.3% (versus April).

https://www.destatis.de/EN/PressServices/Press/pr/2018/07/PE18_244_421.html;jsessionid=1C3C4F3FBC55B171E5D3598A6B378CD1.InternetLive2

German Industrial Production (May)

Provisional data shows that German industrial production continued to grow; +2.6% May versus -1.3% April (revised down further from -1% originally reported).

Overall growth in the month was the result of an increase in [production of capital goods +0.9% and consumer goods+6.5%. Production of intermediate goods increased by +3%. Construction +3.1%.

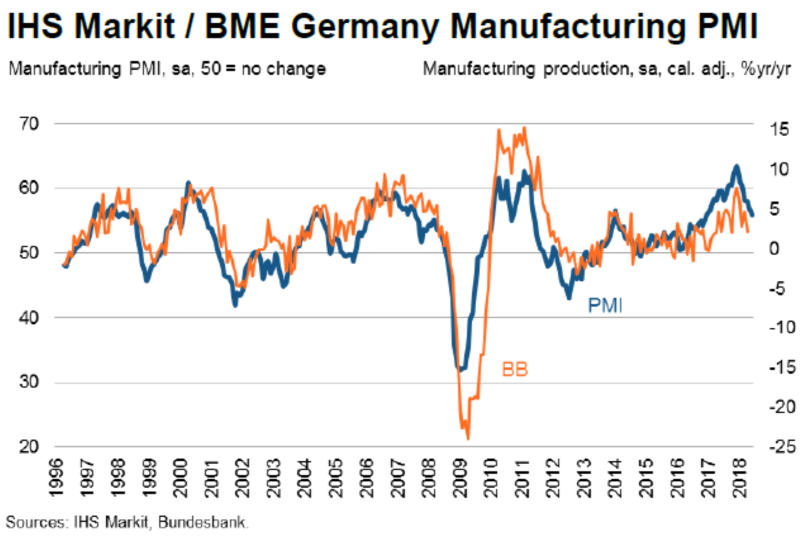


https://www.destatis.de/EN/PressServices/Press/pr/2018/07/PE18_246_421.html

Germany PMI – Manufacturing (June)

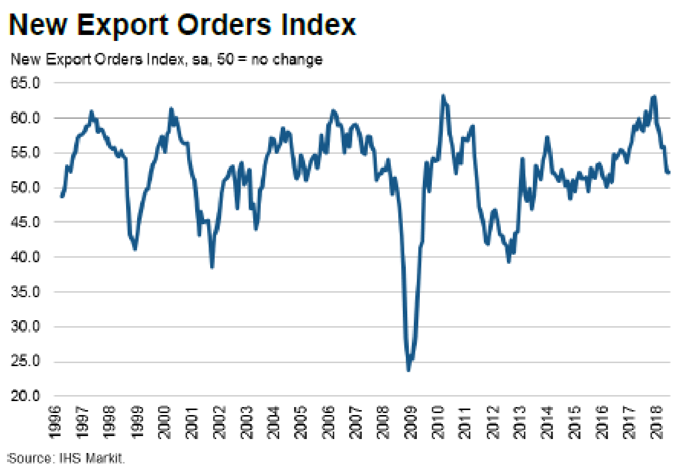
The June PMI for German manufacturing expanded in June, but the pace of expansion continues to slow; June 55.9 versus May 56.9. This is the sixth month in a row where the headline index has slowed.

While the May data for new factory orders (above) showed a rebound, the June PMI headline slow-down was the result of a further slow down in the growth of new orders – “the weakest monthly increase since March 2016”.



Output growth slowed less than new orders – as a result of order backlogs. June data highlights gains in production across capital and intermediate goods. Consumer goods production recorded a small decrease for the first time in 3.5 years. Stocks of finished goods fell at the fastest rate in 8mths.

Export sales growth continued to slow (fewer orders from US and China).



https://www.markiteconomics.com/Survey/PressRelease.mvc/b34458f1fa7647ea88cadc153a2fcb46

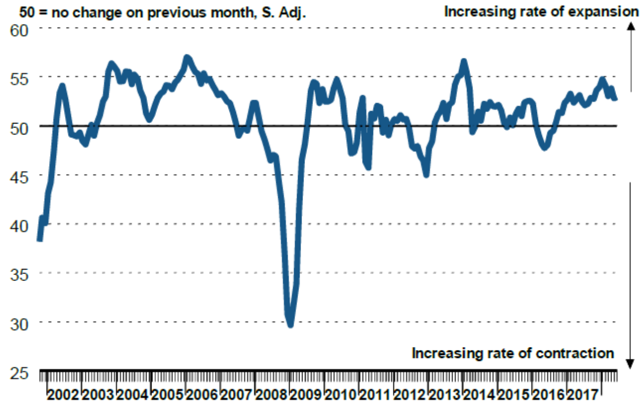
Return to top

Japan

Manufacturing PMI (June)

The composite Manufacturing PMI increased slightly during June; June 53 versus May 52.8

Nikkei Japan Manufacturing PMI



Sources: Nikkei, IHS Markit

New orders increased “albeit to the weakest extent in ten months”, resulting in further increases in production and employment. Backlog of orders also increased slightly.

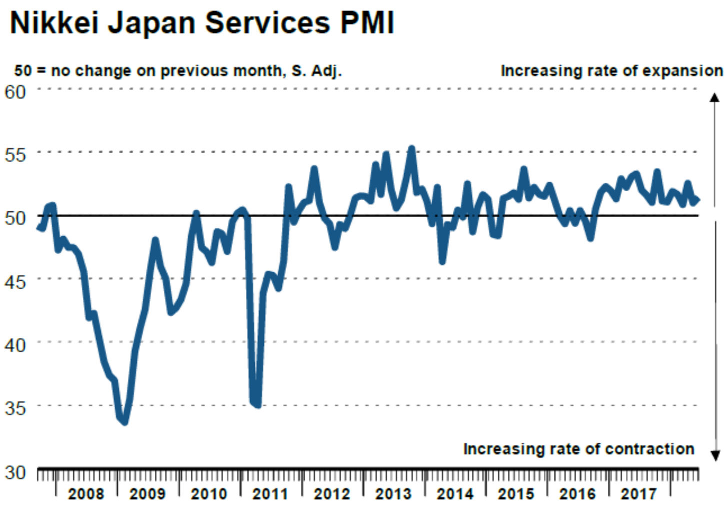
This was the first time in 22months that export sales decreased – higher prices and weaker demand from Nth America and China.

Input prices increased to a 3yr high (increased cost for oil and metals) and firms increased output prices, but at a more modest pace.

https://www.markiteconomics.com/Survey/PressRelease.mvc/712c55aadb4c458ba6afa4fc9a62793f

Services PMI (June)

The services business activity index expanded at a slightly faster pace in the latest month; June 51.4 versus May 51



Sources: Nikkei, IHS Markit

Output continued to increase, but employment increased at a slower pace.

https://www.markiteconomics.com/Survey/PressRelease.mvc/06675700ab2648598325f642bf3f1a5e

Return to top

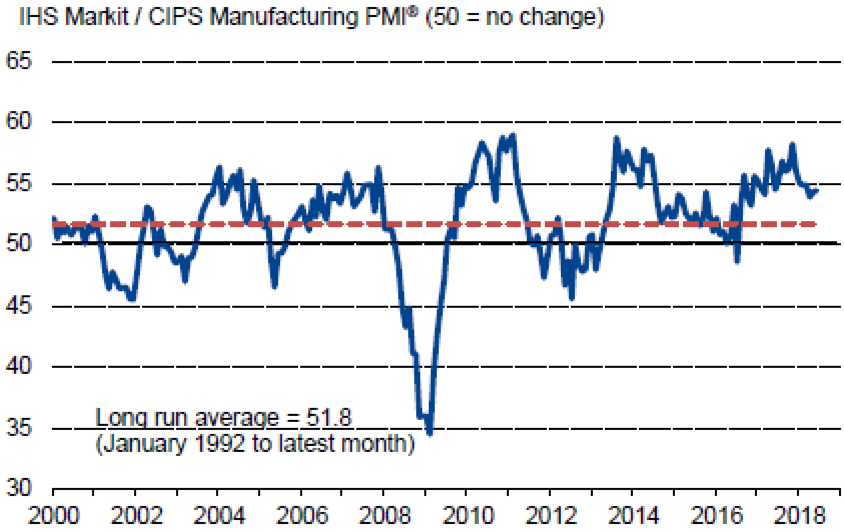
Great Britain

Manufacturing PMI (June)

The PMI for manufacturing in the UK was unchanged; June 54.4 versus May 54.3

Output growth slowed which off-set a slight acceleration in new orders and employment.

"Some companies noted that higher output had been partly sustained through inventory-building and clearing backlogs of work"



Source: IHS Markit

Manufacturing commentary continues to be downbeat –

Stronger growth rates from last year have turned into the weakest of the last 2.5 years

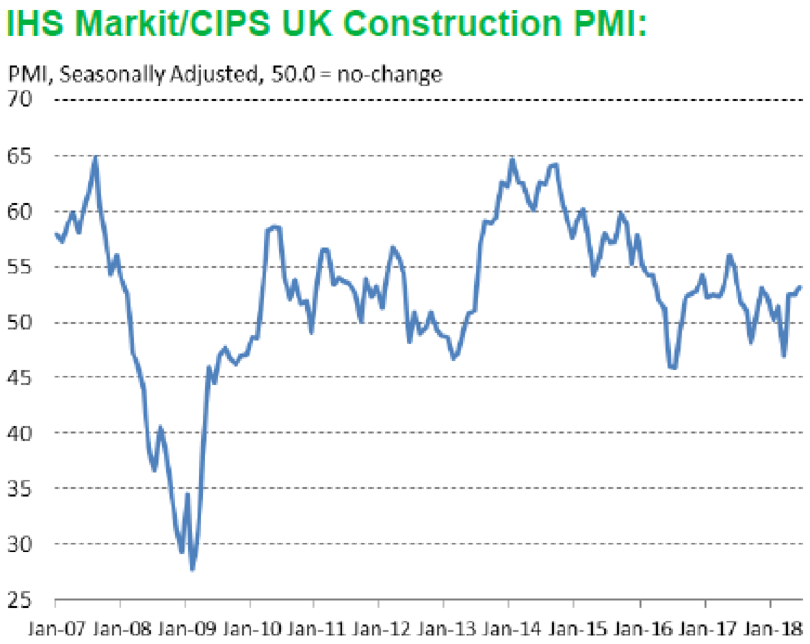
Slow down in order growth leaving manufacturers reliant on backlogs in order to keep output increasing – "the trend in demand will need to stage a much firmer rebound if a further slowdown in output growth is to be avoided"

"How likely such a revival is remains in some doubt, with the June survey also seeing business optimism drop to a seven-month low amid rising concerns about possible trade tariffs, the exchange rate and Brexit uncertainty. Ongoing supply-chain disruptions, including raw material shortages, and signs of a renewed upswing in input price inflation may also jeopardise stronger manufacturing growth. With industry potentially stuck in the doldrums, the UK economy will need to look to other sectors if GDP growth is to match expectations in the latter half of the year"

https://www.markiteconomics.com/Survey/PressRelease.mvc/dc253d06a70d48ef8a7d8a545def0584

Construction PMI (June)

This was a more upbeat report; June 53.1 versus May 52.5 – remaining in expansion now for the last 3 months (Construction declined in the official Q1 GDP data – so Q2 should see a turnaround)



Source: IHS Markit/CIPS

Activity was driven by greater residential and commercial building. A slow-down in new work to replace completed civil engineering projects continued to hold back growth.

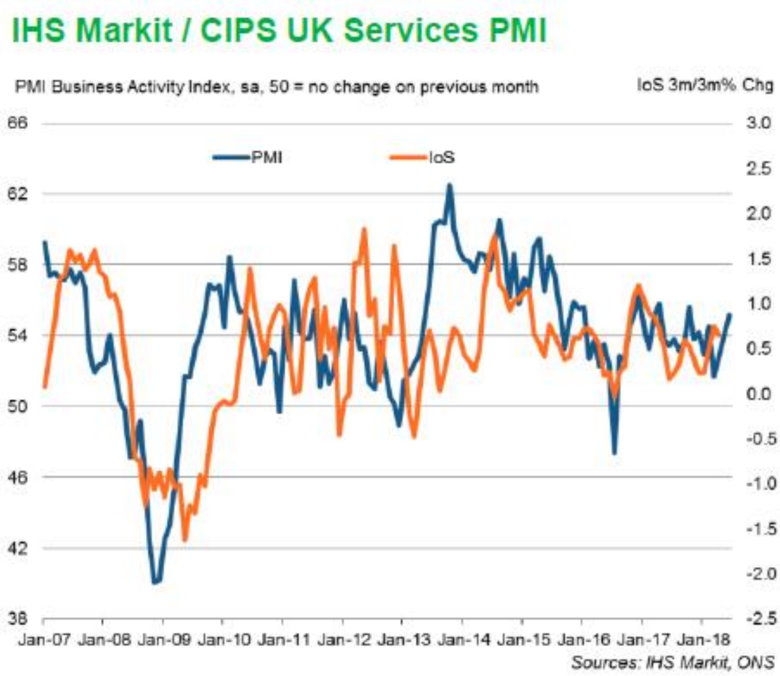
Business optimism rebounded from May's seven-month low – sentiment level remains below the long run survey average.

Infrastructure work was likely the key source of growth in the coming 12 months.

https://www.markiteconomics.com/Survey/PressRelease.mvc/19a12ac51497443f97d9e8745d8ceb82

Services PMI (June)

A continued rebound in the latest month; June 55.1 versus May 54 – this was the strongest rate of expansion since Oct 2017. It also highlights a likely stronger Q2 GDP result.



The results in June are in marked contrast to the very downbeat report for May;

New business growth accelerated – the fastest in over a year, as a result of product launches, marketing initiatives and improving economic conditions.

Brexit-related concerns holding back some business investment

Stronger than expected sales resulting in higher backlog of orders and higher incomplete work. Employment growth increased modestly, and firms noted tight labour markets.

A sharp increase in costs – greater fuel bills and staff salaries. Prices charged increased as a result

Optimism remained solid.

https://www.markiteconomics.com/Survey/PressRelease.mvc/b47dc6e053404819b7485cc100f7fb41

BoE Carney speech – From Protectionism to Prosperity

The BoE is looking at the threat of increased protectionism, 'tighter global financial conditions" more as a result of US monetary policy and the remaining uncertainty about Brexit (and how that is affecting UK growth). Signalling BoE approach to monetary policy.

Governor Carney has made this similar statement in the Financial Stability report last week;

"Nonetheless, there is a growing possibility that trade uncertainty could crystallise the longstanding risks of a snap back in long-term interest rates, increased risk aversion and a general tightening in global financial conditions".

"The experience of Brexit underscores that the impact of global trade war will be greater the more business confidence is affected, the more financial conditions tighten and – most fundamentally – the more permanent the loss of openness is expected to be"

On the post-referendum period - Carney uses the opportunity to signal that the bank 'looked through' what it judged would be transitory inflation (currency depreciation) to focus on supporting jobs growth – at a time when Brexit related uncertainty was high and econ was slowing.

Assuming a smooth Brexit (the base case) – MPC's reaction function will be 'conventional' – path of policy driven by demand (using the targets rom the May Inflation report).

For the moment, international data has been mixed (weaker EM's, fading momentum in Europe, US growing). Domestic UK weakness from Q1 likely not persisting into Q2.

https://www.bankofengland.co.uk/speech/2018/mark-carney-speech-during-a-regional-visit-to-the-north-east

UK Cabinet offsite to work through detail on UK-EU relationship post Brexit

After Friday's meeting – UK PM May announced her Cabinet had agreed on a plan for ties with the EU after the UK leaves next year.

12 key principles for EU negotiations:

OUR BREXIT DEAL FOR BRITAIN

THE PRIME MINISTER **7TH JULY 2018**

1. Leaving the EU on 29th March 2019
2. Ending free movement and taking back control of our borders
3. No more sending vast sums of money each year to the EU
4. A new business friendly customs model with freedom to strike new trade deals around the world
5. UK-EU free trade area with a common rulebook for industrial goods and agricultural products which will be good for jobs
6. Commitment to maintain high standards on consumer and employment rights and the environment
7. Parliamentary lock on all new rules and regulations
8. Leaving the Common Agricultural Policy and Common Fisheries Policy
9. Restoring the supremacy of British courts by ending the jurisdiction of the ECJ in the UK
10. No hard border between NI and Ireland or between NI and GB
11. Continued close cooperation on security to keep our people safe
12. An independent foreign and defence policy working closely with the EU and other allies

10 DOWNING STREET
LONDON SW1A 2AA

Seeks to keep the UK and EU in a free trade zone for goods and maintains the same rules as the bloc for goods and agri products.

Late Sunday night (UK time) the British Brexit secretary David Davies resigned – citing this policy direction. It has also been reported that several junior Brexit ministers have resigned. Brexit-backing MP’s say this deal will keep the UK too close to the EU and limit its ability for new deals.

PM May is due to brief politicians today (9 Jul) of the details of the UK-EU ties.

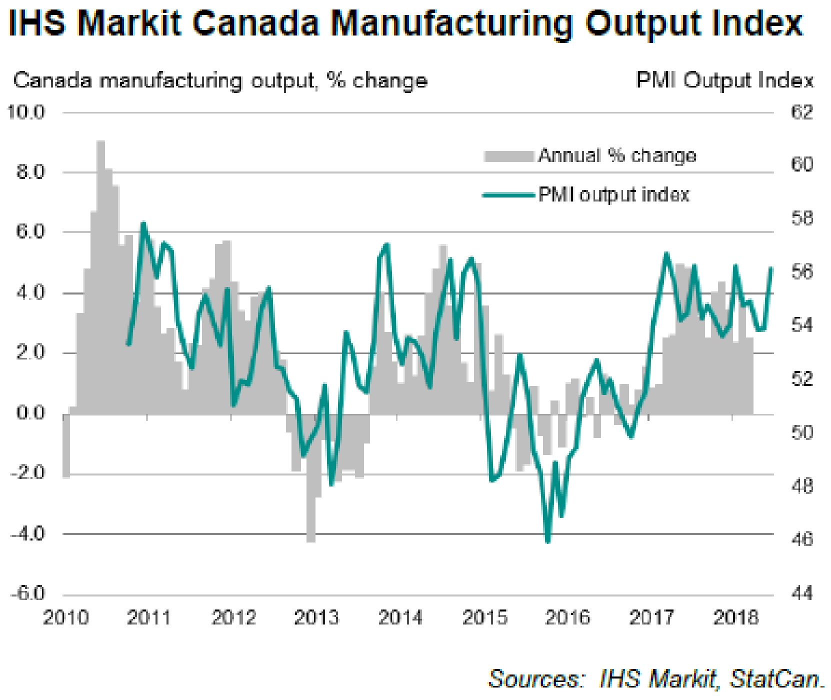
Return to top

Canada

Manufacturing PMI (June)

Canadian manufacturing continued to expand in the latest month to a new record high; June 57.1 versus May 56.2

The overall increase was the result of increases in new orders, output and employment. The output index bounced back in June;



"Manufacturers also suggested that part of the rise in new work reflected efforts by clients to complete orders and boost their inventories in advance of surcharges on steel and aluminium"

"Concerns about raw material availability continues to stimulate efforts to build up inventories in June, with the latest rise in pre-production stocks the fastest in more than seven years of data collection"

https://www.markiteconomics.com/Survey/PressRelease.mvc/1f0844b2be894d76bb8f114018013b56

Canadian Employment (June)

In the latest month, employment grew by +31.8k persons – a better result compared to May when total employment declined by 7.5k persons (versus April). On an annual basis, employment grew by +215k persons (slowing from the 238k annual growth recorded in May).

Employment growth in the month was different to the annual picture;

Employment in June was mostly driven by gains in PT employment; FT +9.1k persons and PT +22.7k persons. On an annual basis, most of the employment growth was due to increases in FT employment – annual FT employment grown by 284k persons and PT employment declined -69k persons.

Unemployment ticked up in the latest month; +43.7k persons versus an annual decline of -77k. Last month, total unemployed persons had declined by -3.4k (but changes in the LFPR had resulted in -30k persons leaving the LF).

The unemployment rate also ticked up by +0.2%pts in the latest month and remains -0.5%pts below a year ago.

The employment rate didn't change in the latest month (employment grew in line with the population 15yrs+).

The LFPR rate also increased in the latest month +0.2%pts but remains -0.4%pts below a year ago.

Return to top

Australia

RBA Interest rate decision - July

The RBA kept the Overnight Cash Rate (OCR) on hold at 1.5% - this was widely expected.

Overall changes to statement suggest the RBA is a little less positive about global growth, trade policy and employment growth.

The statement changes around global growth is a nod to some signs that growth no longer accelerating. This month "global expansion is continuing" - last month is was "the global economy has strengthened over the last year". Removed reference to "some countries removing monetary stimulus" and replaced that with "uncertainty regarding direction of international trade policy" (there was no mention of this in the last statement).

Financial conditions still expansionary, but less so. Short-term wholesale interest rates have been increasing – due to developments in the US and "other factors".

Recent GDP growth in line with bank forecasts. Uncertainty around household consumption remains – low HH income growth and high debt levels.

Statement changed from "Employment has grown strongly in the last year" to "outlook for the labour market remains positive". "Gradual decline in the unemployment rate" remains the focus.

Inflation statement unchanged also – "inflation is low and is likely to remain low for some time", expecting a bit above 2% for 2018.

Acknowledgement that house prices have started falling in the key markets of Sydney and Melbourne. Some likely further tightening of lending standards by banks is likely.

July statement - https://www.rba.gov.au/media-releases/2018/mr-18-16.html

June statement - https://www.rba.gov.au/media-releases/2018/mr-18-14.html

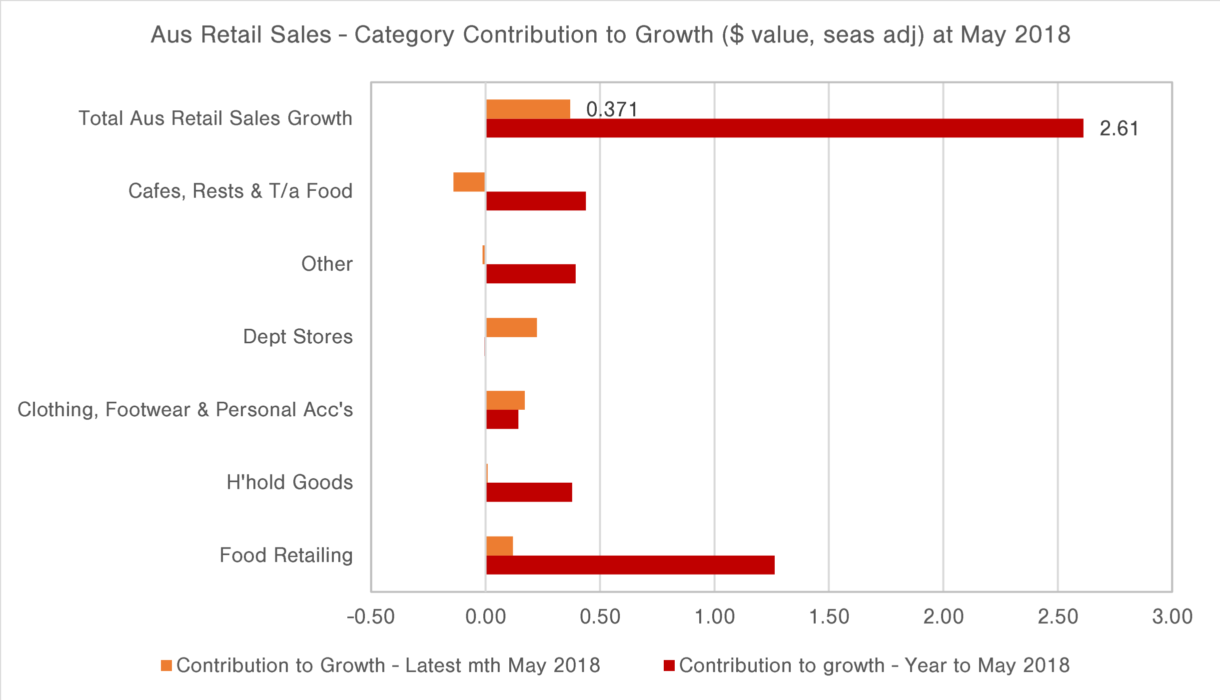
Retail Sales (May)

Aus retail sales (dollar value) increased at a slower rate in the latest month; May +0.4% versus April +0.5%.

The annual rate also slowed; May +2.61% versus April +2.72%

The two main contributors to growth in the latest month were clothing and department stores. Department stores have been underperforming for several years now.

Food retailing, household goods and Café's/restaurants/take-away and other made much smaller contributions in the latest month (compared to annual contribution to growth).



http://www.abs.gov.au/AUSSTATS/abs@.nsf/ProductsbyCatalogue/3DDA13ECDC094B1CCA257734002042F2?OpenDocument

Return to top

China

China - Manufacturing PMI (June)

The manufacturing PMI for China remains in expansion territory and was mostly unchanged in the latest month; June 51 versus May 51.1

At best, PMI suggests only moderate manufacturing expansion, not accelerating higher;

Slightly more downbeat results;

Production continued to expand, but new orders increased at a slower rate and exports sales fell for the third month.

Employment continued to fall, steepest in June for eleven months – due to retirements, downsizing and insufficient workloads.

Price inflation picked up – rising raw material costs such as steel. Price charged also increased.

Lowest positive forward sentiment for the last 6 months.

“Overall, the manufacturing PMI survey pointed to strengthening price pressures in June. Deteriorating exports and weak employment, along with companies' destocking and poor capital turnover, put pressure on the manufacturing sector.”

China - Services & Composite PMI (June)

General services PMI in China continued to expand in the latest month; June 53.9 versus May 52.9. Whilst still expanding, this was weaker than at the start of the year.

Services output continued to increase. Expansion in new business/orders was stronger for services than for manufacturing (unchanged), which left the composite index for new orders unchanged.

Service sector reported a slightly stronger rise in employment, but not enough to off set the fall into contraction for the overall employment composite index.

“the employment index dropped into contraction territory, indicating a deteriorating employment situation”

Particularly downbeat commentary;

“The index of expectations regarding future output also fell, suggesting less optimism across the manufacturing and service sectors. It’s doubtful that China’s economic growth will maintain stable amid tightening credit and regulations.”

https://www.markiteconomics.com/Survey/PressRelease.mvc/f3def1f2fa794521a71c09853d7b057e

Return to top

Trade

US-China Trade Negotiations -

The first wave of US tariffs, affecting $34 billion worth of Chinese goods across 818 product categories, have gone into effect on **6 July 2018.** China has retaliated with duties on $34 billion in US exports at the same time. China announced it had delayed the imposition of tariffs due to the difference in time-zone claiming it didn't want to be the first to "fire shots" in a potential trade war. The deadlines came and went with a little heated language on behalf of Chinese authorities: China was "prepared to fight ... to defeat the [unilateralism] of the US".

China says U.S. has 'ignited the largest trade war in economic history,'

The second wave of US tariffs — affecting $16 billion of Chinese goods focused on semiconductors and electronics — is subject to a review scheduled for 24^{th} July 2018.

Car and Truck Imports –

President Trump indicated on 25 June that he was close to completing a study on tariffs on car and truck imports from Europe. He also tweeted;

"We are finishing our study of Tariffs on cars from the E.U. in that they have long taken advantage of the U.S. in the form of Trade Barriers and Tariffs. In the end it will all even out - and it won't take very long!"

In the previous week, President Trump threatened a 20% tariff on all imports of EU assembled cars.

US-Japan trade talks in July –

First round of trade talks are likely to occur late July in Washington.

Implications for Japanese automakers and for trade negotiations of the US investigation into car and truck imports - one of Japan's major exports to the US. Its unclear whether the results of the section 232 investigation will be released before the trade talks.

NAFTA –

Negotiations are likely to remain in limbo as the new incoming President of Mexico, Andrés Manuel López Obrador, prepares to take office in December. Canadian Foreign Affairs Minister Chrystia Freeland expects negotiations to take a "higher gear" over the summer.

Steel Tariffs –

Canada considering quotas and tariffs on steel imports (protecting local steel producers) originally earmarked for US markets. "US tariffs opens the door to cheaper steel imports into Canada) from abroad"

EU considering similar antidumping measures.

Canadian tariffs on US imports go into effect 1st July – approx. $12.6b in imports from the US including steel, aluminium, and consumer goods.

Canada is threatening further action if the US goes ahead with threatened duties on Canadian-made autos and auto parts – this will be a large threat for the Canadian (and other) economies, especially Europe.

Return to top