

Key Themes

Central banks – The US Fed kept rates on hold but affirmed its view of a ‘strong’ economy. This further increased the probability for rate increases in Sept and Dec 2018. The BoJ kept rates on hold and made adjustments to the implementation of monetary policy – widening the trading range of the 10yr yield, among other measures, in order to improve the sustainability of the framework. The BoE increased rates citing future inflation expectations.

US data – The acceleration in the growth of personal consumption and real disposable income data for June were highlights of the week. These helped to underpin stronger consumption growth in the Q2 GDP data. PCE price index was higher, around the Fed target rate. Growth in non-farm payrolls slipped and was below the current 12month average. Regional manufacturing and business surveys were stronger. The PMI’s for July show that overall private sector activity continues to grow, but without the acceleration seen in recent months.

Eurozone data was softer – GDP flash for Q2 highlighted slowing growth, headline CPI growth was influenced by energy prices, CPI ex energy coming in at 1.4%, Eurozone PMI’s for July highlighted weaker expansion in private sector activity, with slower growth in new orders across member states - the exception was Germany.

UK Services and Manufacturing PMI’s for the start of Q3 also highlighted slower growth across the private sector.

The PMI’s out of China highlighted slower growth, weaker demand and optimism reaching some of the lowest on record (esp Services). From the Chinese PMI report; “In July, the State Council, China’s cabinet, said the country will adopt a more proactive policy to support the economy in response to uncertainty abroad. The risk of an economic downturn has diminished.”

The US and China continued the tit-for-tat approach to tariffs. NAFTA negotiations appear to be taking a higher gear for Mexico.

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[US Data](#) – Personal Consumption and Outlays and Price Index (June), Non-Farm Payrolls, ADP Employment Change, FOMC Rates Decision, US PMI's Composite/Manufacturing/Services, Regional Surveys; Dallas Fed Manufacturing Survey (Jul), Chicago PMI, NY Business Conditions.

[Europe](#) – Eurozone Q2 Flash GDP, Eurozone Unemployment, Eurozone Flash CPI, Eurozone Retail Sales, Eurozone PMI's Composite/Manufacturing/Services, German CPI (June), German PMI's Composite/Manufacturing/Services

[Japan](#) – Retail Sales, Industrial Production, BoJ Rates Decision, Japanese PMI's Composite/Manufacturing/Services

[Great Britain](#) – BoE Rates Decision, PMI's Services & Manufacturing

[Other](#) – China PMI's Composite/Manufacturing/Services

[Trade](#) – US-China Trade, NAFTA, Brexit

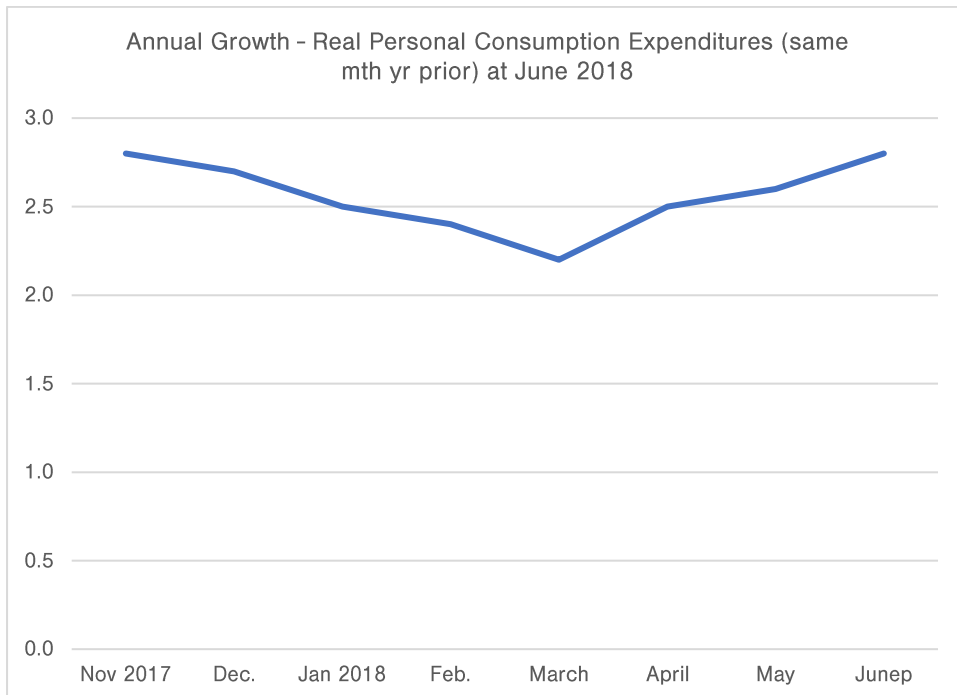
US Data

Personal Consumption and Outlays and PCE Price Index (Jun)

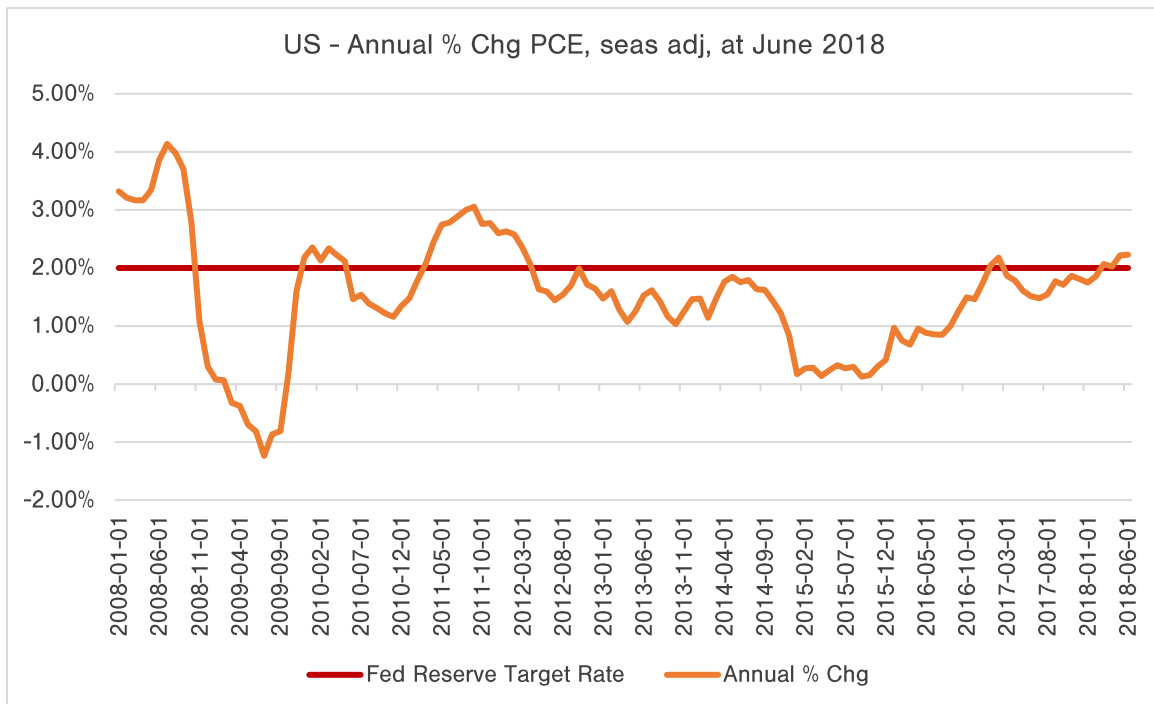
Annual growth in real personal disposable income accelerated in the latest month; from +2.7% in May to +3.1% June;



The acceleration in real personal disposable income over the latest 3months, together with the acceleration in consumer credit growth over the same period underpins the improvement in consumption growth in Q2 GDP;

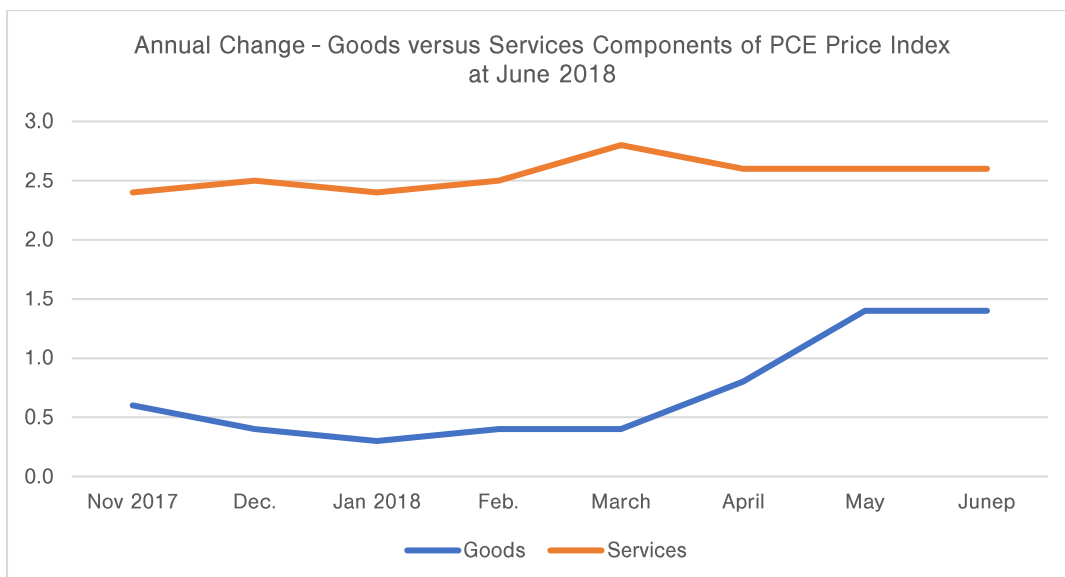


PCE Price Index - The annual change in the PCE price index was unchanged in the latest month; +2.2% June versus +2.2% May and remains above the Fed target level of 2%.

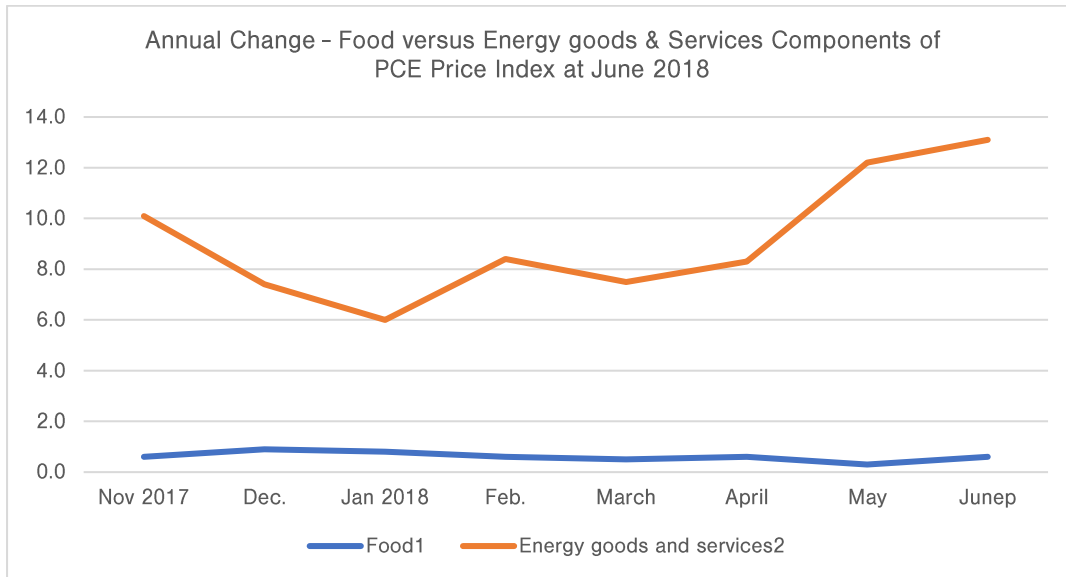


The annual headline growth continues to be influenced by higher annual growth in energy prices.

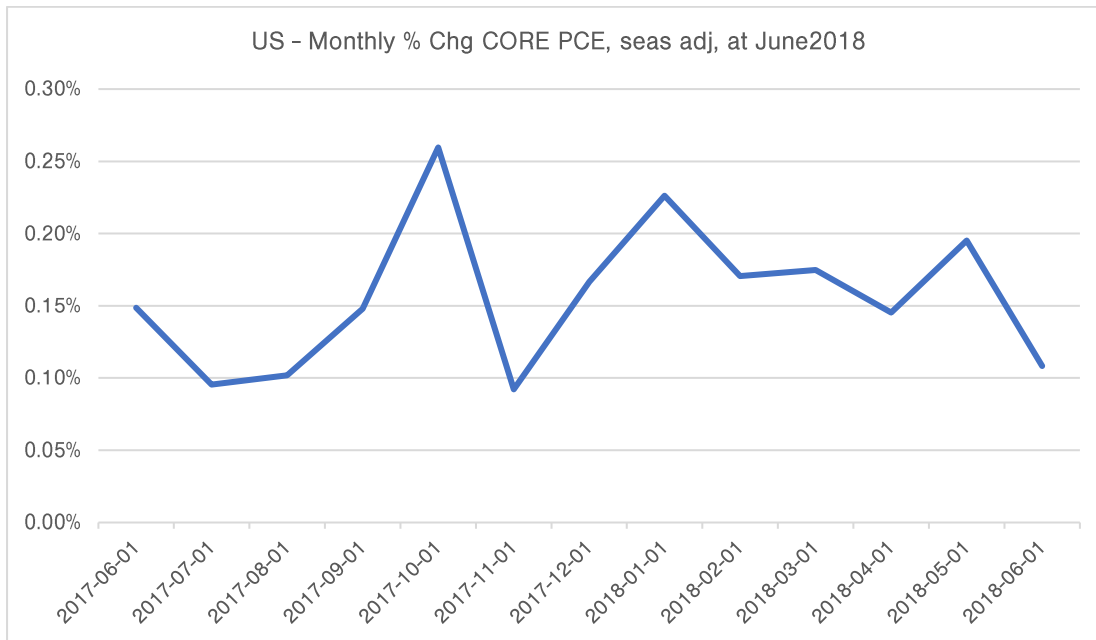
Changes in Goods prices accelerated from an annual rate of +0.3% Jan 2018 to +1.4% in June. Prices for Services has remained constant over the same period (albeit at a higher rate of growth);



The common theme is that energy has been a large contributor to the headline growth in prices. The annual rate of growth in energy prices has accelerated from +6% in Jan 2018 to +13.1% in June;



The core PCE data (ex food & energy) highlights that underlying price growth remains somewhat lower than the headline growth; June +1.9% versus May +1.9%. The monthly growth in Core PCE prices slowed in June; From +0.2% May to +0.1% June and the monthly trend looks to be slowing;



<https://www.bea.gov/newsreleases/national/pi/pinewsrelease.htm>

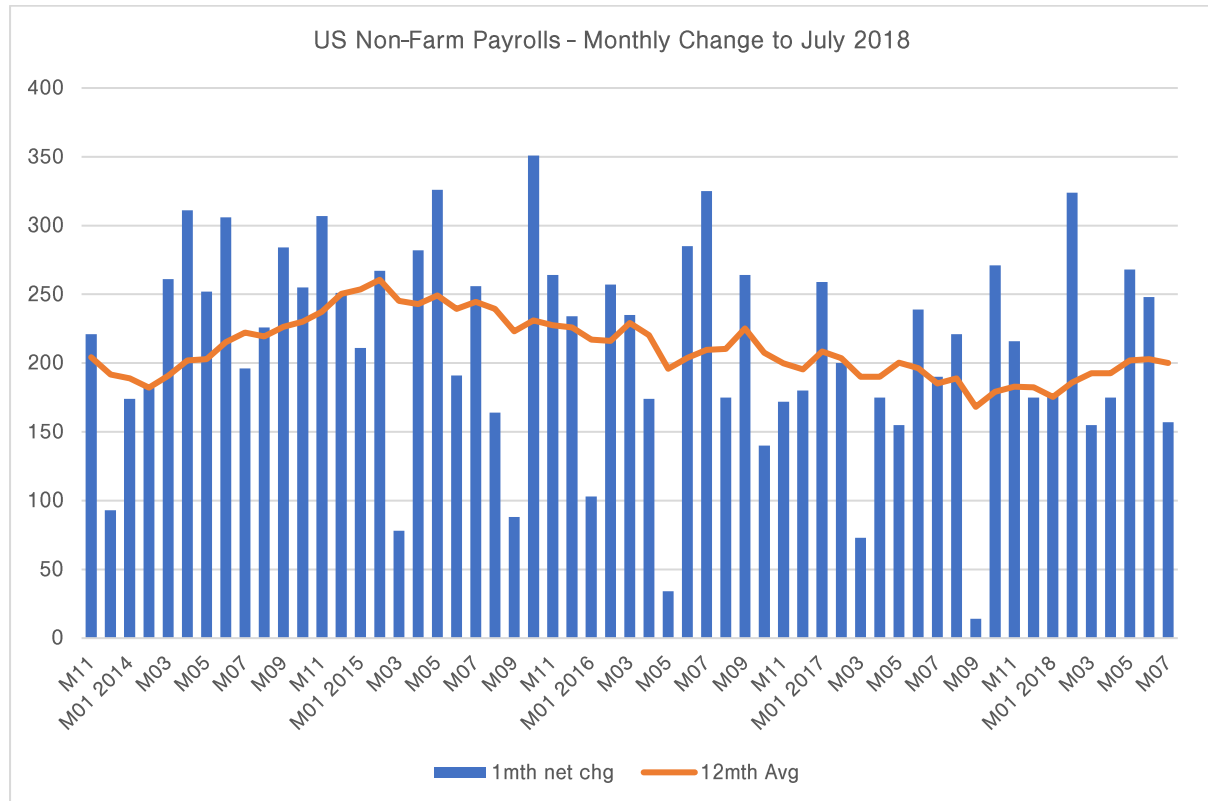
<https://fred.stlouisfed.org/series/PCEPILFE#0>

US Non-Farm Payrolls (Jul)

From the Establishment Survey; Non-farm payrolls grew by 157k in the latest month – well below the current 12mth average trend of +200k persons.

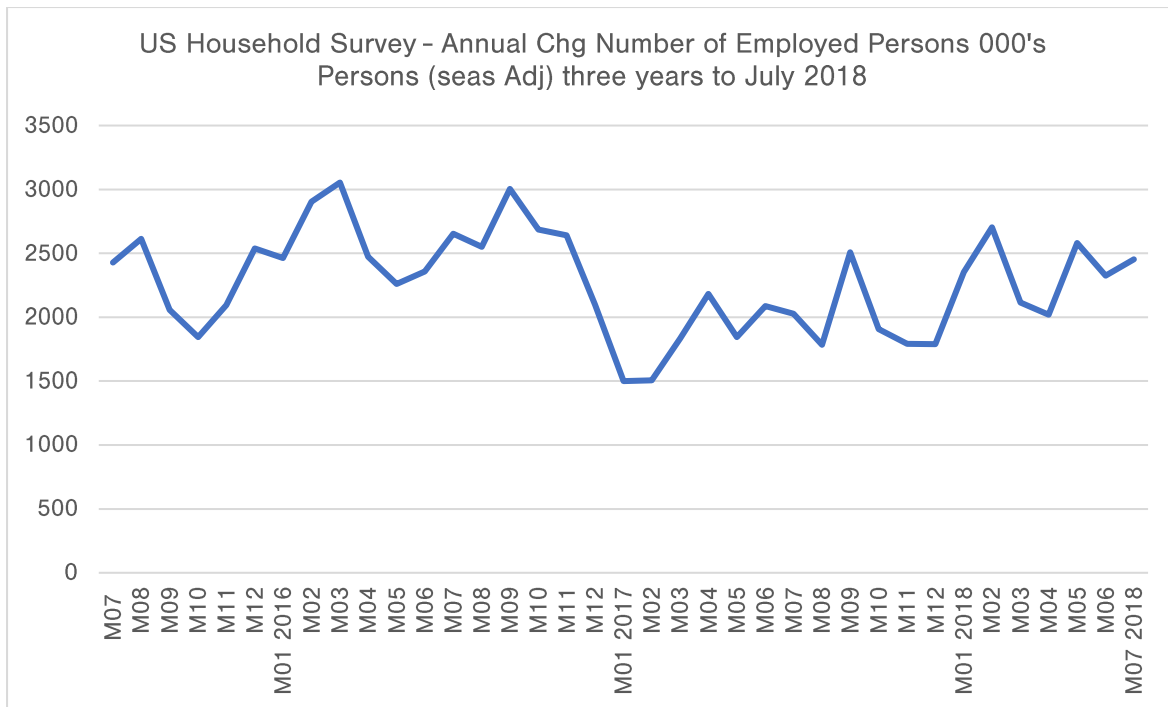
There were several upward revisions to the prior months. The revisions did not change the 12-mth average trend in non-farm payroll growth.

The average growth had been slowing since the start of 2016 (12mth avg +261k persons) to a low of +168 Sept 2017. The average growth has picked up to +200k throughout 2018 and has flattened off over the last several months.

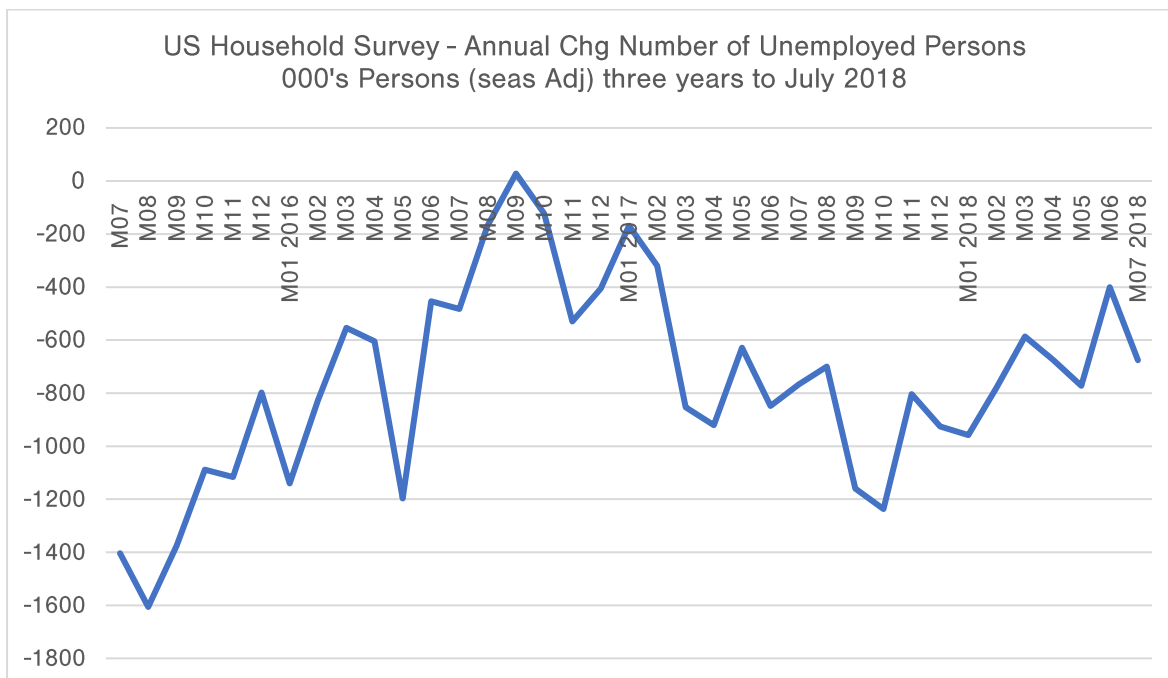


Household Survey data; From the BLS - The household survey provides information on the work status of the population without duplication, since each person is classified as employed, unemployed, or not in the labor force.

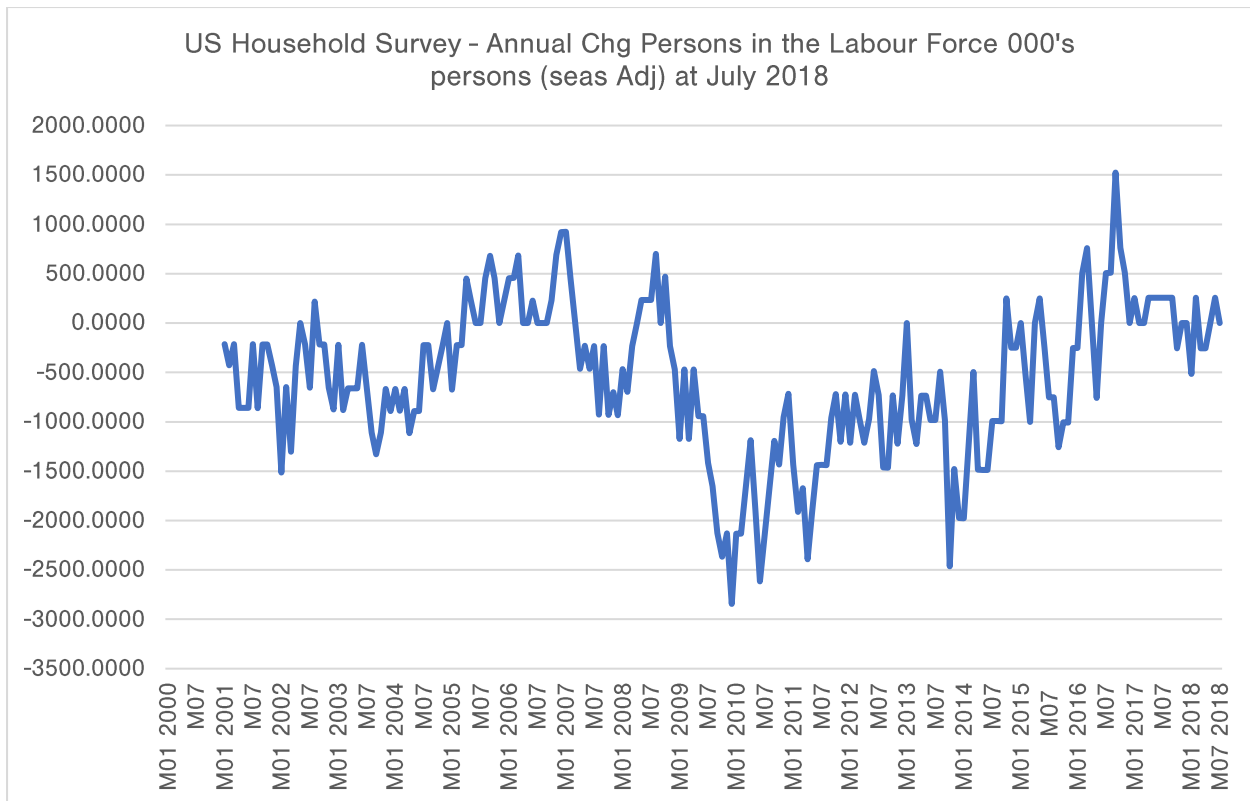
Annual employment growth has been trending up since the start of 2017 but remains below the peaks reached throughout 2016. Over the last 3 years, employment has grown slightly faster than the working age population (or the total labour force plus those Not in the labour force)



Total unemployed persons have been declining throughout the last three years. But recently, the trend of that rate of decline has become smaller. The total number of unemployed persons is at a historically low level.



At the start of 2000, the Labour Force Participation Rate was 67.3%. as of July 2018, it remains near its lows at 62.9%. Over the last 3 years, participation has barely changed, increasing by +0.3% pts.



<https://www.bls.gov/news.release/empsit.nr0.htm>

ADP Employment Report (Jul)

Growth in total private sector employment accelerated in the latest month.

July; +219k persons versus June +181k persons (revised up from +177k persons)

Growth in July exceeds the two-year average of +187k growth/month.



Employment growth continues to be driven by Services (+177k persons) over Goods industries (+42k persons).

<https://www.adpemploymentreport.com/2018/July/NER/NER-July-2018.aspx>

FOMC – Rates Decision

No change to the range of the Fed Funds Rate – current range 1.75% - 2%.

The FOMC statement reflected the positive performance of the economy; “economic activity has been rising at a strong rate”.

“The Committee expects that further gradual increases in the target range for the federal funds rate will be consistent with sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee’s symmetric 2 percent objective over the medium term. Risks to the economic outlook appear roughly balanced”

Probabilities for the FFR at 2 August; a 91.2% chance of FFR increasing to 2% - 2.25% at Sept 26 meeting and now a 64.2% chance of the FFR moving up at the Dec 19 meeting to 2.25% - 2.5% range.

<https://www.federalreserve.gov/monetarypolicy/files/monetary20180801a1.pdf>

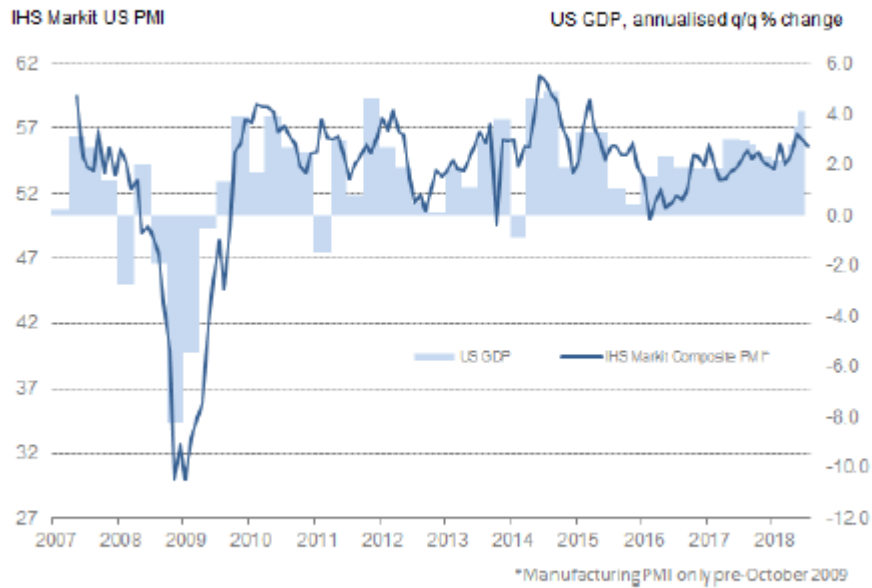
US COMPOSITE PMI – July 2018

Overall private sector activity expanded at a slightly slower pace in July.

July 55.7 versus June 56.2

Manufacturing activity expanded at a constant pace while services activity grew at a slightly slower pace.

IHS Markit Composite PMI and U.S. GDP



Sources: IHS Markit, U.S. Bureau of Economic Analysis.

<https://www.markiteconomics.com/Survey/PressRelease.mvc/c469a225498c40bcb40ec692a82a540f>

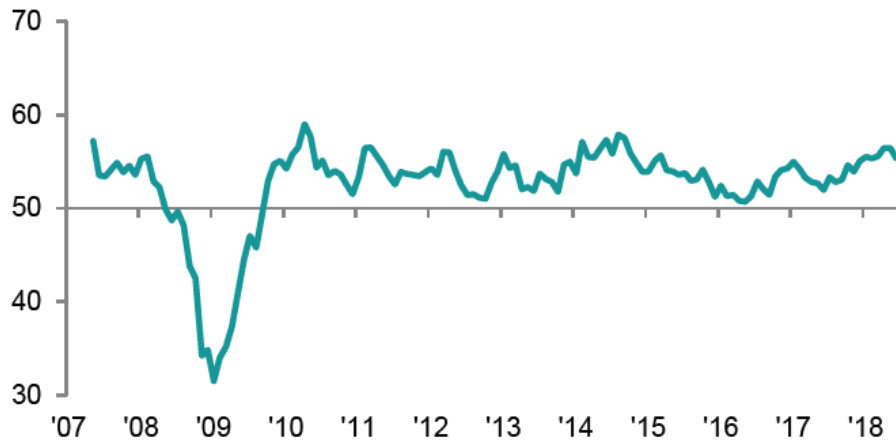
PMI Manufacturing Index (Jul)

The US Manufacturing PMI was little changed in July. Activity expanded at a constant pace for the start of Q3, but was the 'joint weakest rate of expansion so far in 2018';

Jul 55.3 versus Jun 55.4

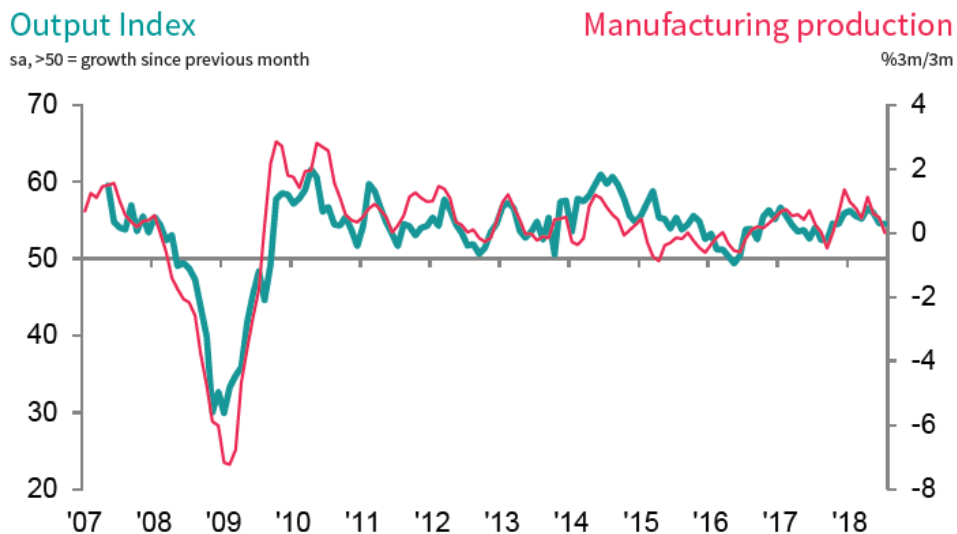
Manufacturing PMI

sa, >50 = improvement since previous month



Indicators of demand were mixed; domestic new order growth was reported as expanding, but export growth slowed for the second month.

Output continued to expand at a constant pace;



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

Firms continued to struggle with higher prices paid, lengthening lead times and difficulties sourcing some raw materials. Pre-production inventories increased at the quickest pace since Jan 2018. Firms increased their prices for finished goods at the 'steepest rate for seven years".

No mention of employment in the report, but charts suggest it continued to expand, but at slower rate.

<https://www.markiteconomics.com/Survey/PressRelease.mvc/299dafdf20b744529bc0bd5207415971>

Services PMI July 2018

Service sector activity expanded at a slightly slower pace in July but remains close to recent highs.

July 56 versus June 56.5

Data collected July 12-26

Service sector business activity (seasonally adjusted)



Source: IHS Markit.

Of note was slower expansion in the rate of new business growth – but remains above the 2017 levels. Backlogs contracted. Employment growth continued. Input prices continued to grow, albeit at a slightly slower pace.

<https://www.markiteconomics.com/Survey/PressRelease.mvc/c469a225498c40bcb40ec692a82a540f>

ISM Manufacturing PMI Index (Jul)

The expansion in manufacturing activity moderated in July;

July 58.1 versus June 60.2

Most sub-indices continued to expand at a slower rate in the latest month.

Production slowed; July 58.5 versus June 62.3 – the shift was from firms reporting higher production to lower production

New orders also slowed; July 60.2 versus June 63.5 – there was a large shift from firms recording increasing new orders mostly into 'same'.

New export orders slowed slightly; July 55.3 versus June 56.3.

Employment remained steady.

Inventories expanded at an increasing rate; July 53.3 versus June 50.8

The growth in the backlog of orders also slowed; July 54.7 versus June 60.1 – the majority of respondents shifted from high backlogs into 'same' backlogs.

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

REGIONAL SURVEYS

Dallas Fed Manufacturing Survey (Jul)

The headline production index continued to expand in the latest month (seasonally adjusted);

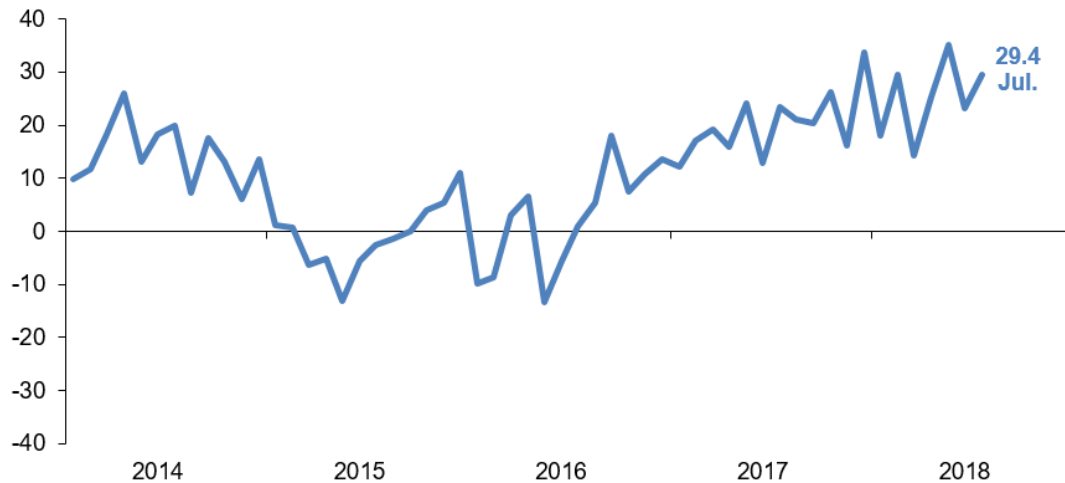
Jul 29.4 versus June 23.3

(The unadjusted index is moving in the opposite direction)

The current production index (SA) is close to the near-term highs;

Texas Manufacturing Outlook Survey Production Index

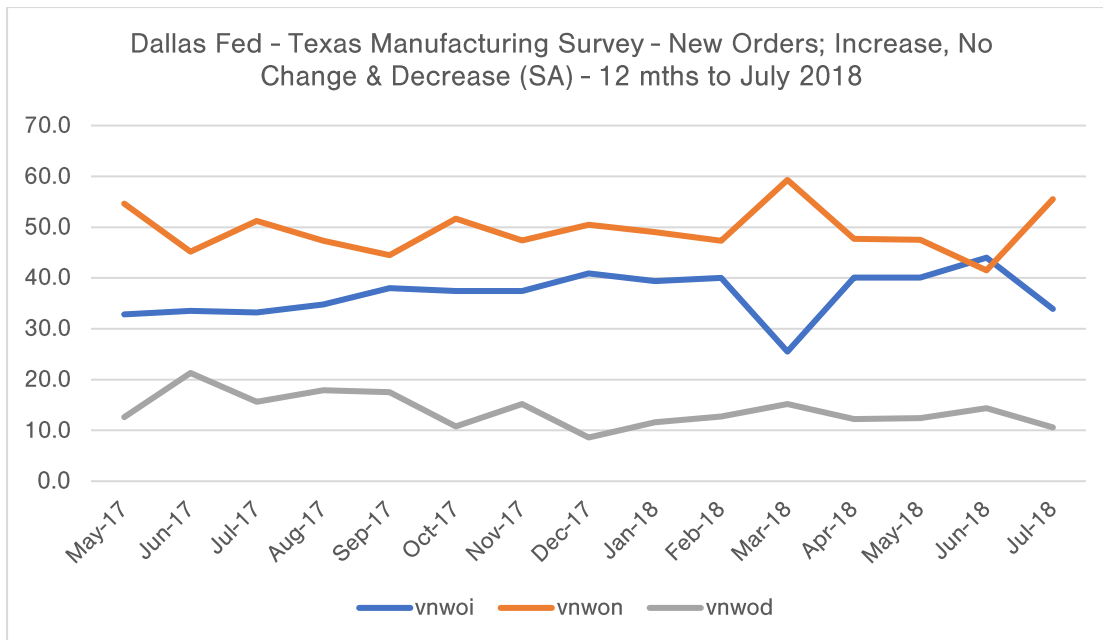
Index, seasonally adjusted



Federal Reserve Bank of Dallas

In line with the higher reading on production, shipments and capacity utilization also continued to expand at an increasing rate.

Of interest is the pipeline of new orders and the growth rate of new orders – the expansion in both slowed in the latest month. The change has been the result of respondents shifting from 'increasing' into 'no change'. There has been little change in the % of respondents reporting decreasing new orders.



While new orders growth has been slowing, finished goods inventories have been falling, which partly accounts for the increasing production/shipments data.

Employment and hours worked continued to expand at an increasing rate.

Future expectations; Company Outlook continued to expand, but at a slower pace; July 20.4 versus June 33.2. General Business Activity also slowed moderately in the latest month.

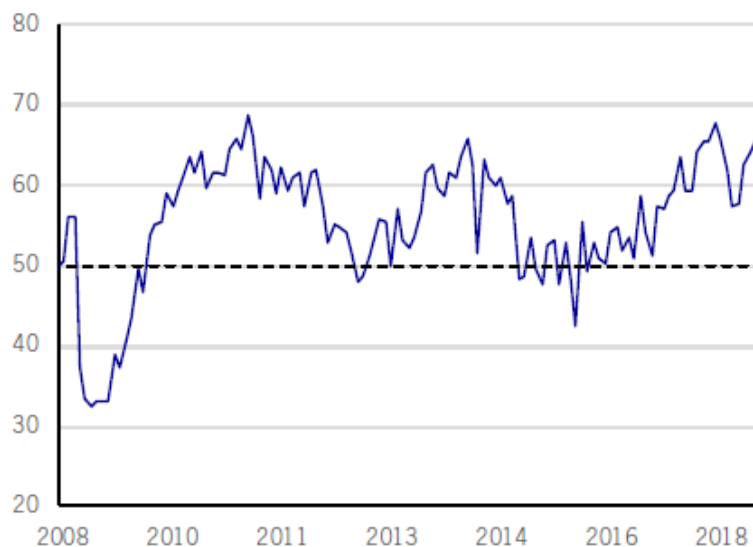
<https://www.dallasfed.org/research/surveys/tmos/2018/1807.aspx#tab-report>

Chicago PMI (Jul)

The Chicago PMI business barometer index strengthened again in the latest month. Activity in the region continues to recover from early 2018 lows;

July 65.5 versus June 64.1

Chicago Business Barometer™



Indicators of demand all continued to strengthen - new orders and production recorded 6-month highs.

Price pressures remain elevated – prices paid increased to its highest level since 2008 and were widespread across a range of key inputs. Some firms attributed the prices increases to tariffs on imported goods.

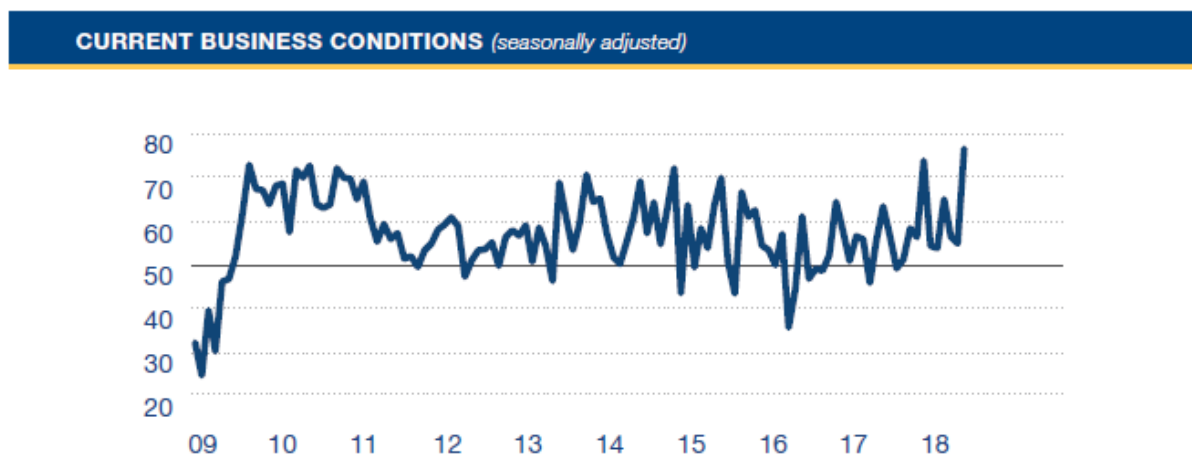
Employment continued to expand for the third month.

<https://www.ism-chicago.org/insidepages/reportsonbusiness/>

ISM NY Index Bus Conditions (Jul)

Current business conditions in NY City expanded an accelerating rate in the latest month. The headline index jumped 20 points to the highest level since 2006;

July 75 versus June 55



The 6month outlook for NY City expanded at a slightly slower pace but remains elevated.

http://www.ismny.com/wp-content/uploads/2018/08/2018_ISM-NewYork_ReportOnBusiness_July_v02.pdf

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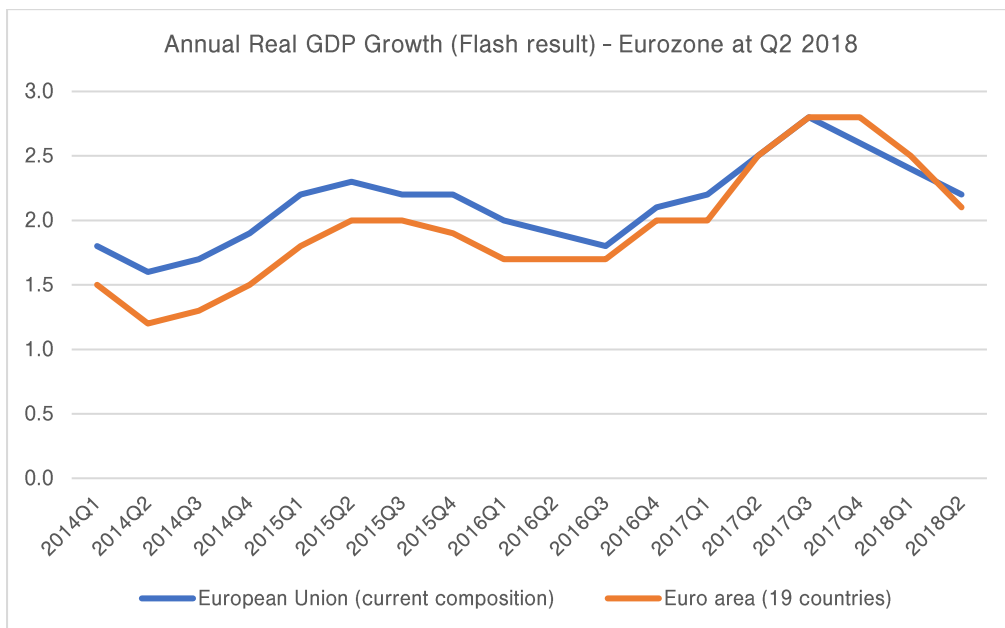
Europe

Eurozone GDP – Flash Estimate Q2

The initial GDP estimate for GDP growth highlights slowing growth throughout the Eurozone; EU28 region; Annual growth Q2 +2.2% versus Q1 +2.4%

EA19 region; Annual growth Q2 +2.1% versus Q1 +2.5%

Growth in the region remains higher than in recent years (for example since the start of 2014), but has lost some momentum over the last three quarters;



On a quarterly basis, growth has slowed in the EU28 since Q3 2017 and in the EA19 region since Q4 2017.

<http://ec.europa.eu/eurostat/documents/2995521/9105204/2-31072018-CP-EN/7ed325fa-e287-4cfe-903d-079d321b8ebd>

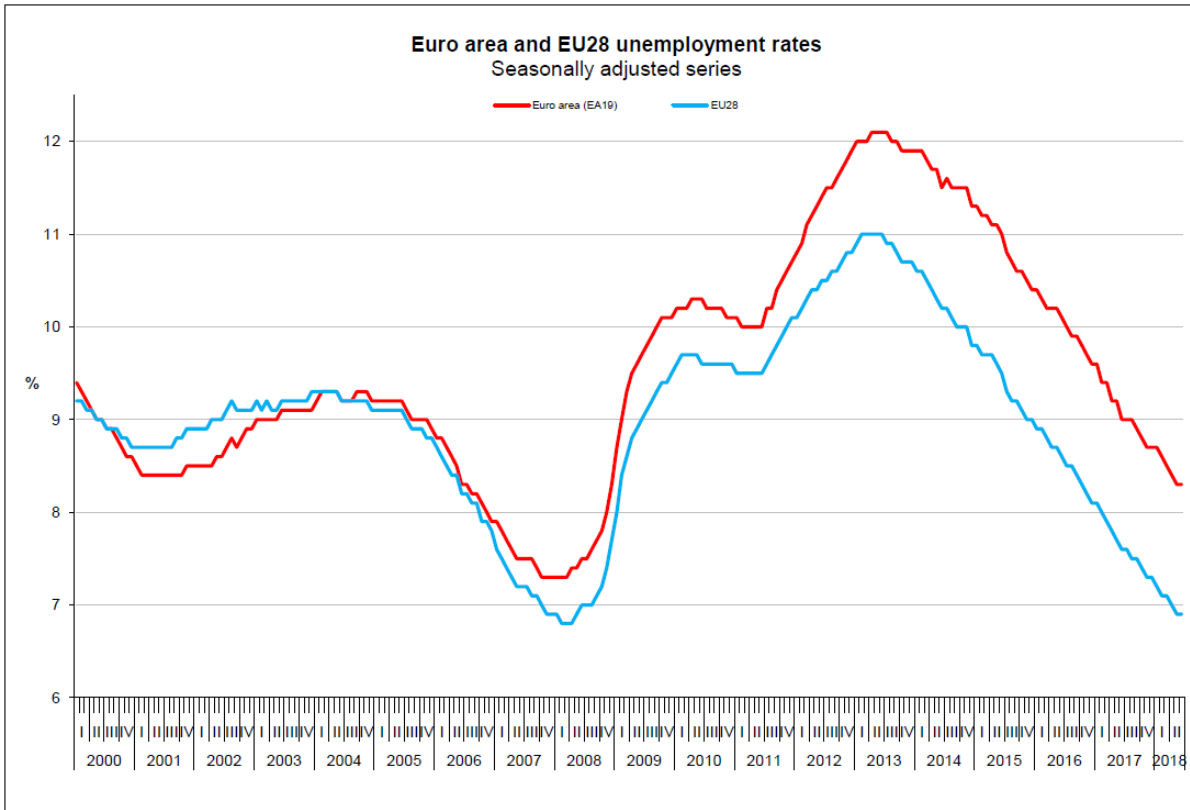
Eurozone Unemployment (Jun)

The total number of unemployed persons was unchanged in the latest month. The unemployment rate also remained steady;

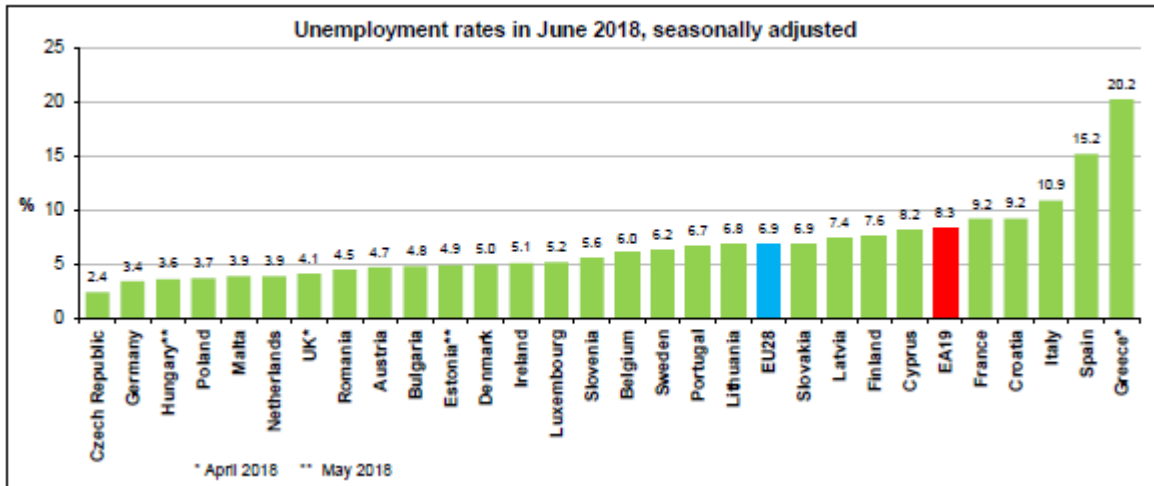
EA19 region unemployment rate; June 8.3% versus May 8.3%

EU28 region unemployment rate; June 6.9% versus May 6.9%

There was also no change in the rates of unemployment for men, women and youth under 25.



The unemployment rate is higher in the EA19 region. Some of the larger key EA member states have higher rates of unemployment than the region as a whole; France, Italy, Spain and Greece.



<http://ec.europa.eu/eurostat/documents/2995521/9105174/3-31072018-AP-EN/a942605d-7a19-4c0a-8616-c5805a826798>

Eurozone CPI (Flash – Jul)

Headline CPI continued to grow in the latest month. The higher growth continues to be influenced by higher energy prices, but also by food, alcohol and tobacco prices.

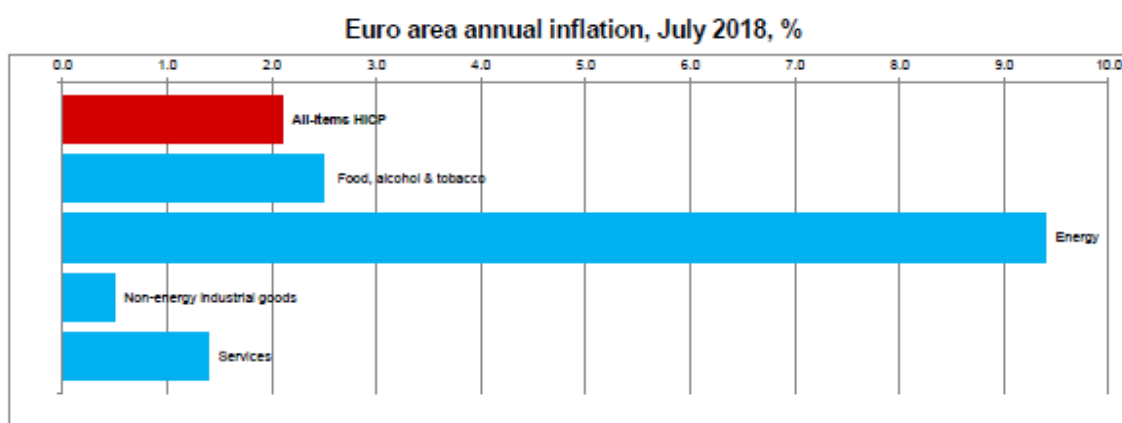
Annual headline rate (“All items”); July +2.1% versus June +2%

The underlying CPI growth continues to be more subdued;

Annual CPI ex energy; July +1.4% versus June +1.3%

Annual CPI ex food & energy; +1.1% July versus June +0.9%

Annual energy prices continued to accelerate; July +9.4% versus June 8% and May +6.1%.



Growth in the Services component remains subdued – this has the single largest weighting in the index.

<http://ec.europa.eu/eurostat/documents/2995521/9105189/2-31072018-BP-EN/537d7ef4-217f-4db0-a7b2-208d99aacc1b>

Eurozone Retail Sales (Jun)

Retail sales volume growth was higher in the Euro Area (EA19) than in the broader EU28 region in June.

Euro Area (EA19) retail sales (volume) grew at a constant pace in June;

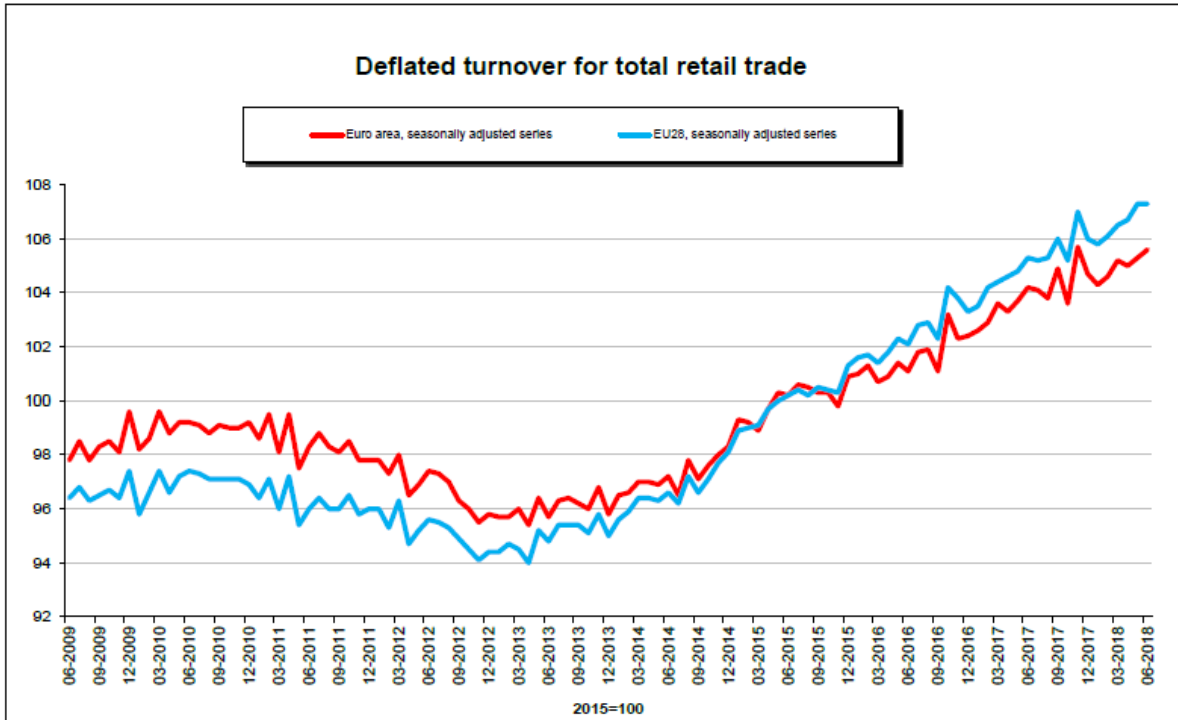
Month on Month; June +0.3% versus May +0.3%

Annual growth slowed; June +1.2% versus May +1.6%

Euro Union (EU28) retail sales (volume) growth slowed to zero in June;

Month on Month; June +0% versus May +0.6%

Annual growth slowed from +2.5% in May to +1.9% in June



Across both regional sectors, food, drink and tobacco retail trade continued to grow, but at a slower pace. Retail sales in non-food sectors declined in June versus May. Automotive fuel (volume) continued to grow.

Germany and Spain recorded the highest growth in the month. Austria, Norway, Finland, Sweden and UK were notable declines in the month.

<http://ec.europa.eu/eurostat/documents/2995521/9105340/4-03082018-AP-EN/4bea9201-cf62-477a-a827-060560d5ebea>

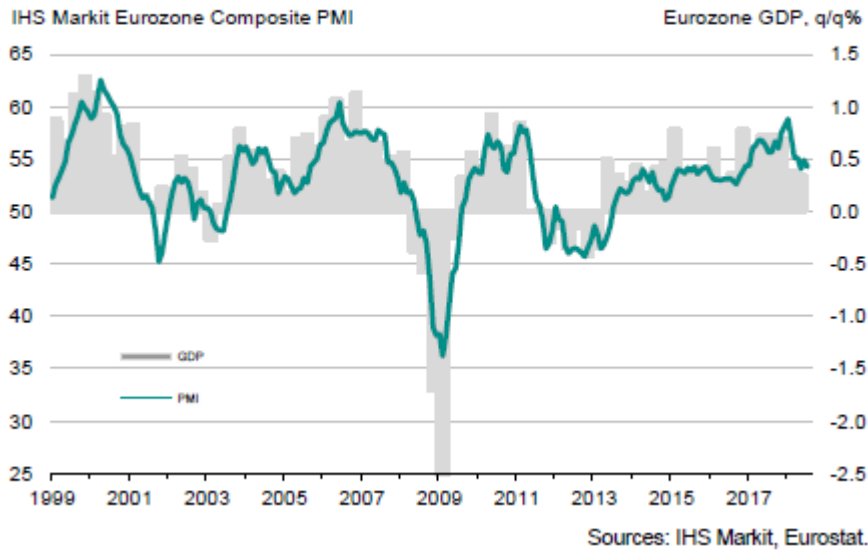
EUROZONE COMPOSITE PMI – JULY 2018

Expansion in private sector business activity throughout the Eurozone slowed in the latest month;

July 54.3 versus June 54.9

The slowdown in growth momentum was the result of slower expansion in services activity, while manufacturing activity remained fairly constant.

IHS Markit Eurozone Composite PMI



Output continued to grow but slowed in most key member states. The main reason for the slowdown was weaker expansion in new orders – ‘new business growth was the slowest in over 18 months’. The only exception was Germany.

This filtered through to a lower reading on business confidence – a 20month low.

<https://www.markiteconomics.com/Survey/PressRelease.mvc/a204767bdb2449fb7803f0f3bc10505>

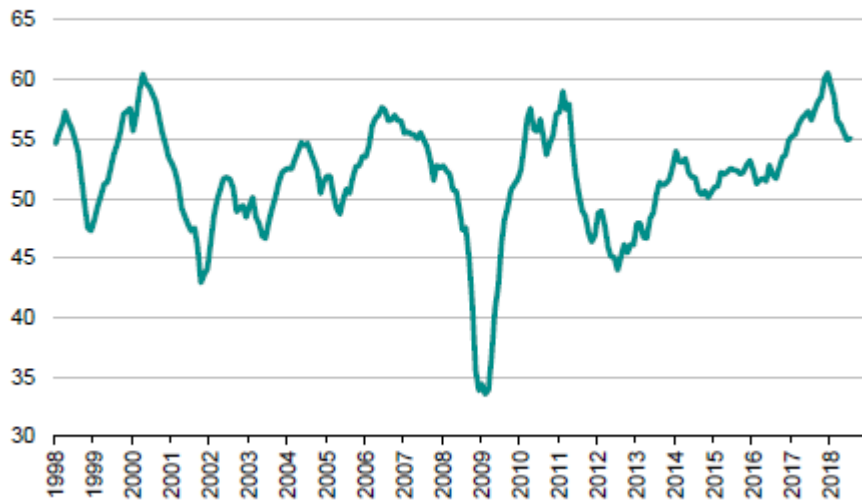
Eurozone Manufacturing PMI (Jul)

Manufacturing growth expanded at a constant pace in July, arresting the slow-down from earlier in the year. Commentary around the results is downbeat.

July; 55.1 versus June 54.9

IHS Markit Eurozone Manufacturing PMI

Eurozone Manufacturing PMI, sa, 50 = no change



Source: IHS Markit.

Factory output most subdued since late 2016 and yet still outpaced growth in new orders. Possible signal of continued slow down in output to come.

Soft patch in demand linked to deteriorating exports since start of 2018 – across all member states.

Optimism remained at lowest level of the last two years.

<https://www.markiteconomics.com/Survey/PressRelease.mvc/53aba53c3c144d219f19fb2730231665>

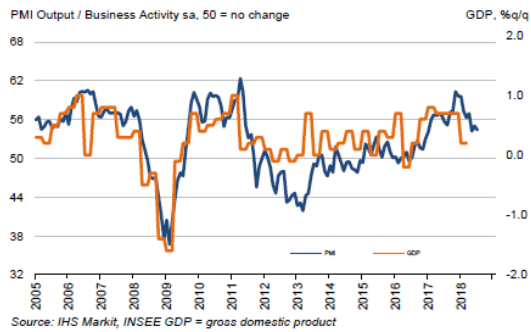
Eurozone Services PMI (Jul)

Growth in services activity slowed in July;

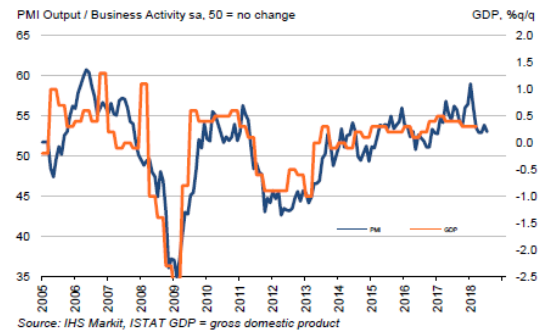
July 54.2 versus June 55.2

Across some of the larger member states, output momentum has slowed. The only exception in Germany;

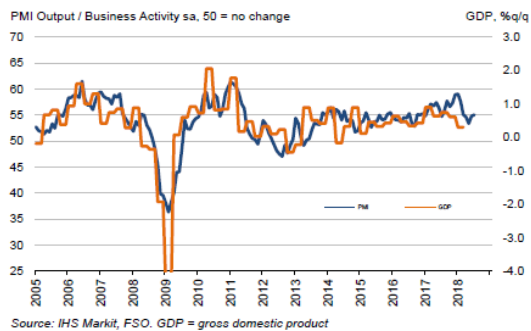
France



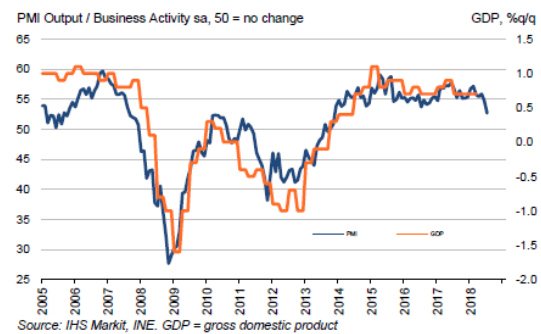
Italy



Germany



Spain



New order growth slowed, and sentiment continued to fall. Employment growth remained robust.

“slower expansion in new order inflows during July was partnered by a tandem dip in business optimism to a 20-month low. Both are reflecting the uncertainty about global market conditions, especially given the ongoing rhetoric about trade wars and the potential spill-over effects to the broader economy and to manufacturing in particular”

In this light, domestic activity will need to expand at a faster pace to offset some of this weakness in overall new business and output.

At the current rates, Q3 GDP would expand at a similar softer pace to that recorded in Q2 (+0.3%).

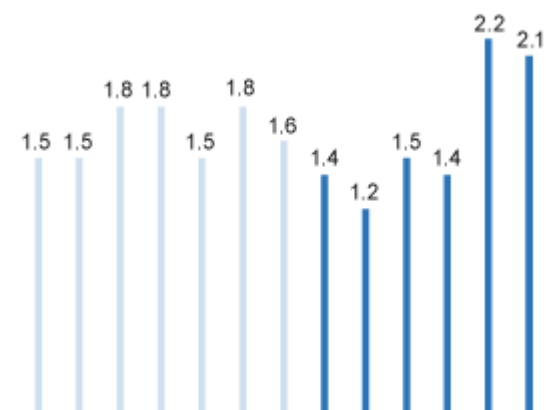
<https://www.markiteconomics.com/Survey/PressRelease.mvc/a204767bdbc2449fb7803f0f3bc10505>

German CPI (Jul)

The provisional CPI growth result for June was confirmed; +2.1% annual and +0.1% June versus May.

Harmonised consumer price index

Change on the previous year in %



2017: June - December

2018: January - June

© Statistisches Bundesamt (Destatis), 2018

Energy prices continued to have an impact on annual CPI growth;

Annual energy consumer prices; +6.4% and +0.5% June versus May.

Also of note was the increase in annual Food prices; +3.4% and -0.3% June versus May.

Both Food and Energy prices led total Goods CPI higher in the year.

Annual CPI Ex-food & energy was much lower than the headline growth; annual +1.4% and was on par with the headline number in the month of June as a result of declining food prices in June versus May.

Overall index / subindex	Weighting	Index 2010 = 100	Change on the same period a year earlier	Change on the preceding month
			in per cent	
Overall index	1,000.00	111.3	2.1	0.1
Excluding food and energy	802.92	110.5	1.4	0.1
Excluding energy (household energy and motor fuels)	893.44	111.5	1.6	0.1

Excluding heating oil and motor fuels	950.52	111.7	1.6	0.1
Goods	479.77	111.3	2.8	-0.2
Non-durable consumer goods	307.89	115.4	4.1	0.2
Energy	106.56	109.9	6.4	0.5
Services	520.23	111.3	1.5	0.3

The harmonised Index of Consumer Prices also increased by +2.1% (annual) and +0.1% (June versus May).

https://www.destatis.de/EN/PressServices/Press/pr/2018/07/PE18_255_611.html;jsessionid=A8EAD709F400A9C6BE37C7F5E7A39531.InternetLive2

GERMAN COMPOSITE PMI – JULY 2018

Overall private sector business activity expanded at a slightly faster pace in July;

July 55 versus June 54.8

IHS Markit Germany Composite PMI



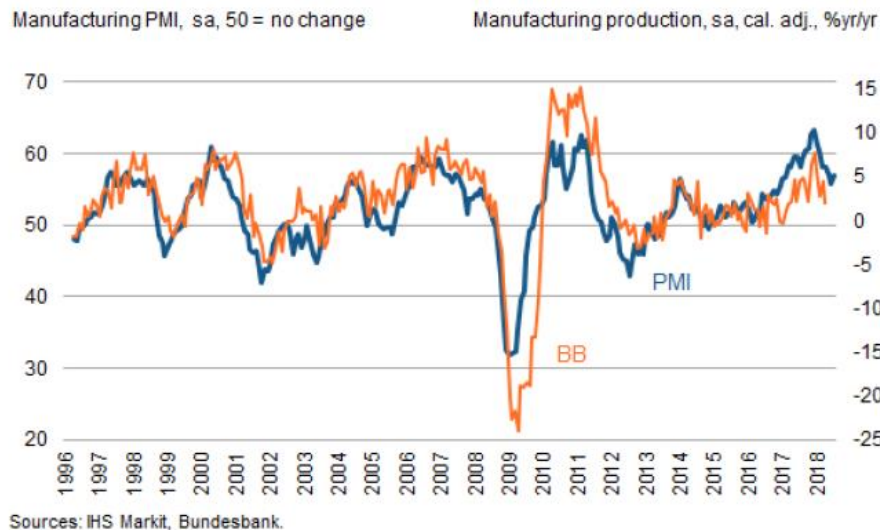
The current pace of expansion remains well below the recent highs. In the latest month, services activity slowed while manufacturing activity expanded at a faster rate.

<https://www.markiteconomics.com/Survey/PressRelease.mvc/169eb38e0f9a43ee88494035be80dd8a>

German Manufacturing PMI (Jul)

Manufacturing activity in Germany picked up in July after a period of generally weaker results; July 56.9 (flash result 57.3) versus June 55.9

IHS Markit / BME Germany Manufacturing PMI

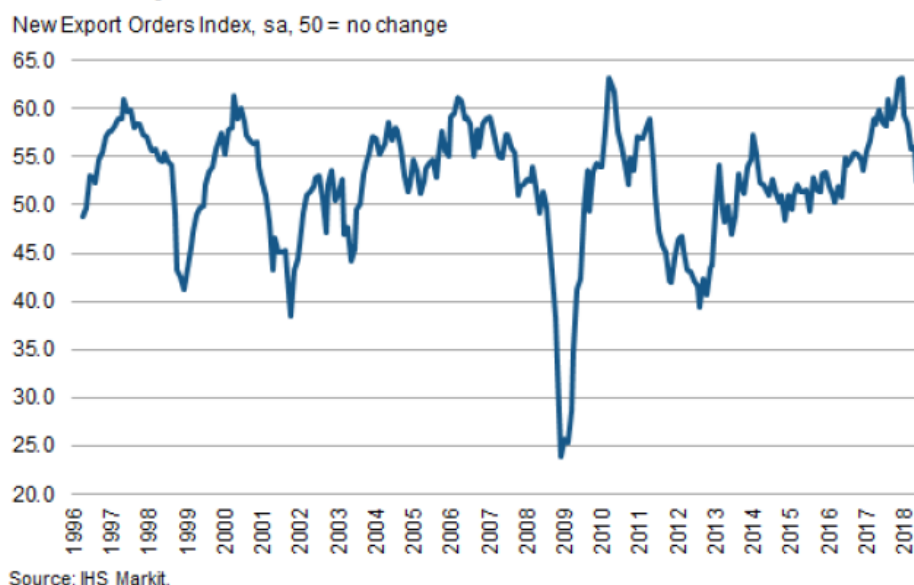


Whilst manufacturing activity picked up in the July, the expansion remains below the peaks seen from the start of the year.

Output and new orders, including export orders, expanded at a faster pace. Firms stated that efforts to clear backlogs drove activity.

Of note is the continued weaker performance of new export orders. Activity stabilised in the current month, but remains well below the recent peak.

New Export Orders Index



<https://www.markiteconomics.com/Survey/PressRelease.mvc/186ef1ae56eb4566b0e3ff7c26b710ce>

German Services PMI (Jul)

Service activity in Germany expanded at a slightly slower rate in July;

July 54.1 versus June 54.5

New business and employment expanded at a constant pace. Backlog of orders also increased. Input prices continued to accelerate and as a result firms increased prices to customers at the fastest rate since the survey started. Sentiment remained elevated but eased for the fourth time in five months.

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Japan

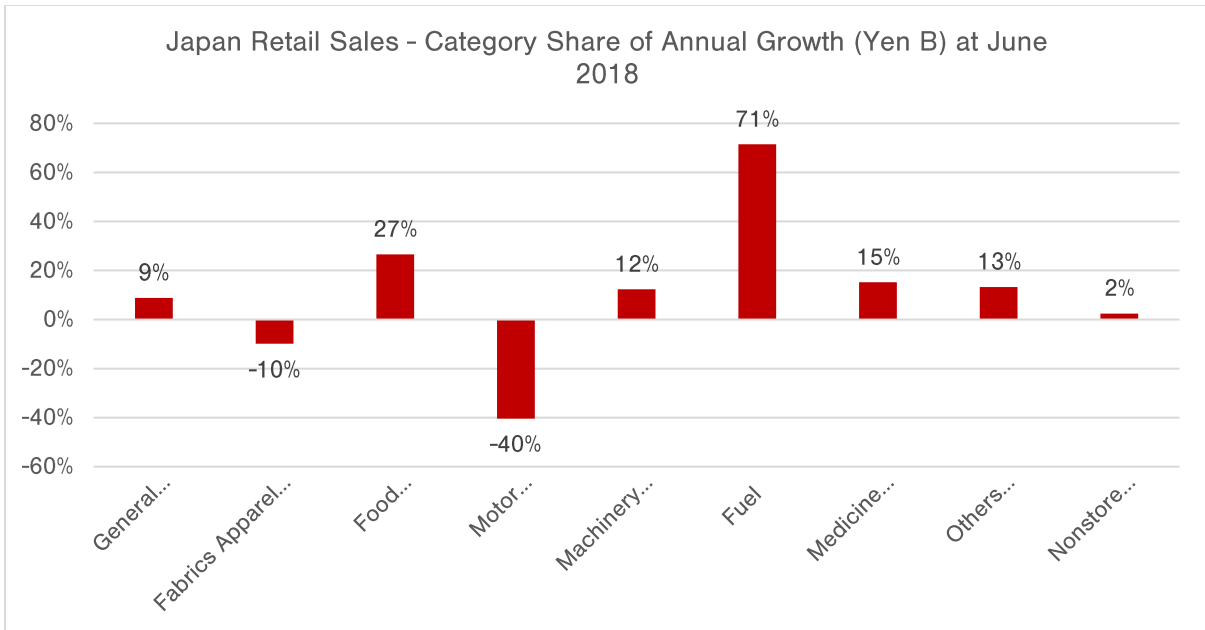
Retail Trade (Jun)

Annual growth in retail sales accelerated higher in the latest month;

Annual June; +1.8% versus May +0.6%

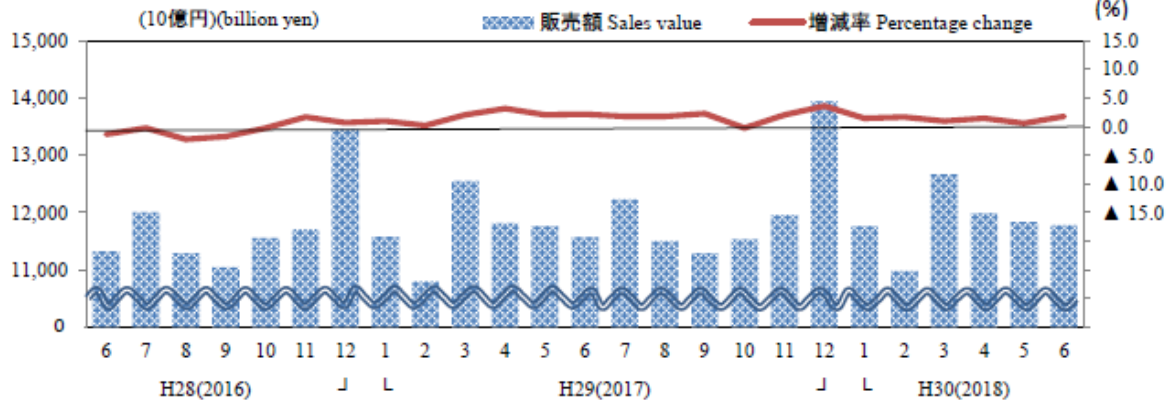
The seasonally adjusted monthly change; June +1.5% versus May -1.7%

The annual growth in retail sales was ¥203b - the main contributor to annual growth was Fuel, with ¥145b annual growth. In second place was Food & Beverage growth to the value of ¥54b;-



小売業販売額・前年同月比増減率の推移

Retail sales value and the percentage change from the same month of the previous year



<http://www.meti.go.jp/statistics/tyo/syoudou/result/pdf/201806S.pdf>

Industrial Production (Prelim – June)

This was another weak result for industrial production in June, with production and shipments declining. Inventories also declined in the latest month, whilst the inventory ratio continued to increase.

2010 average=100				
	Seasonally Adjusted Index		Original Index	
	index	Percent change from the previous month(%)	index	Percent change from the previous year (%)
Production	102.2	-2.1	104.5	-1.2
Shipments	101.3	-0.2	102.8	-0.7
Inventories	111.5	-1.8	112.2	2.5
Inventory Ratio	116.6	2.4	115.3	5.3

For comparison, the May result was also weak, but at that stage, the annual growth rates for production and shipments were all positive.

In the prelim June report though, the annual rates of production and shipments have dipped into negative territory – while inventories and the inventory ratio continue to grow (which I would think is not a positive sign).

May report for comparison;

2010 average=100				
	Seasonally Adjusted Index		Original Index	
	index	Percent change from the previous month(%)	index	Percent change from the previous year (%)
Production	104.4	-0.2	98.8	4.2
Shipments	101.4	-1.6	94.2	3.2
Inventories	113.5	0.6	113.3	2.5
Inventory Ratio	114.0	0.2	122.2	2.1

<http://www.meti.go.jp/english/statistics/tyo/iip/index.html>

BoJ Rates Decision

Overall - Rates remain on hold, 2% target inflation will take longer to reach than expected, so the BoJ introduced forward guidance to help anchor expectations and confirm its commitment to the 2% target, the bank will allow 10yr JGB's to trade up to +0.2%, reduce current account balances of banks to which negative rates are applied and conduct purchases of assets that may increase or decrease depending on market conditions (purchase more when markets fall and less when markets rise).

It will continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeds 2 percent and stays above the target in a stable manner.

Summary of the decision including comments from the press conference - not all detail was supplied in the monetary policy statement;

Strengthen its commitment to achieving its price stability target by 1) introducing 'forward guidance' for policy rates and 2) enhance sustainability of QQE with YCC.

- Forward guidance – maintain extremely low levels of ST and LT rates, for an extended period of time, taking into account economic uncertainties including the consumption tax hike schedule for Oct 2019
- YCC – conduct market operations, as well as asset purchases in a more flexible manner. Negative interest rate of -0.1% to policy rate balances in current accounts held by financial institutions at the BoJ – but reduced the amount of reserve subject to negative interest rate. LT rates – purchase 10yr JGB target range +/- 0.2%, so yields remain around zero but allowing for fluctuation of up to +0.2%. The BoJ will buy 10yr JGB's so that the amount outstanding will increase at an annual pace of approx. 80 trillion yen.
- Asset Purchases – purchase ETF's and REIT's so that their amounts outstanding will increase at annual paces of about 6 trillion yen and about 90 billion yen, respectively
- As for CP and corporate bonds, the Bank will maintain their amounts outstanding at about 2.2 trillion yen and about 3.2 trillion yen, respectively.

"Sustainability of the framework" - in the last BoJ Opinions report, two concerns were highlighted – 1) some JGB trades were not getting done and 2) bank profitability was hurt by low rates. The widening of the 10yr target yield helps on both fronts, although Kuroda stressed that the widening of the target yield was to improve the functioning of the JGB market.

https://www.boj.or.jp/en/announcements/release_2018/k180731a.pdf

Recommended read; <https://www.japantimes.co.jp/opinion/2018/08/02/commentary/japan-commentary/bojs-monetary-policy-adjustment-really-just-tweak/#.W2UzstUzZhE>

JAPAN COMPOSITE PMI - JULY

Overall private sector business activity in Japan expanded at a slower pace in July;

July 51.8 versus June 52.1

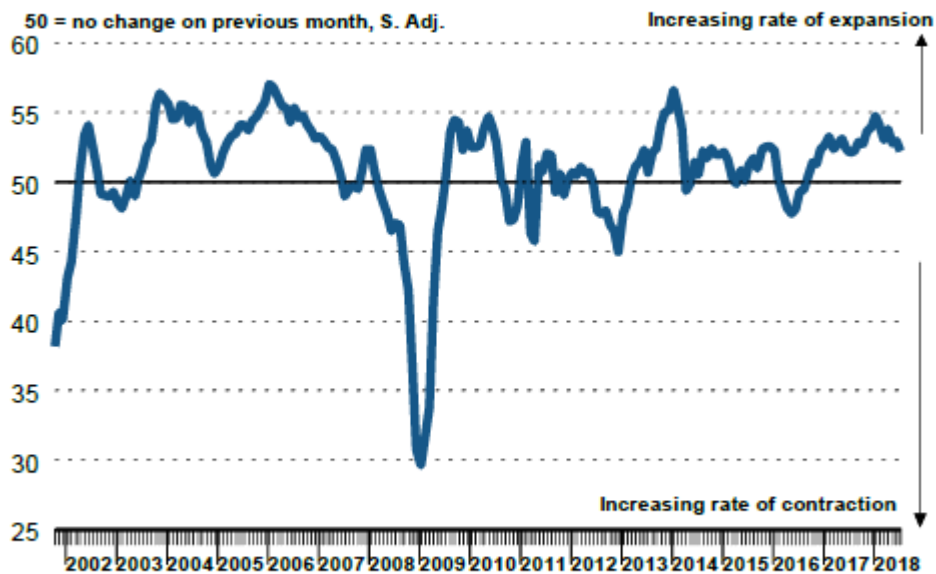
Manufacturing led the overall composite index lower while services expanded at a constant pace.

Japan Manufacturing PMI (Jul)

The Manufacturing sector continued to expand at a slowing rate;

July 52.3 versus June 53

Nikkei Japan Manufacturing PMI



Sources: Nikkei, IHS Markit

The slower rate of expansion was seen across a range of metrics, especially forward demand; new business growth (now at a 21month low) and export orders remain unchanged for the second month.

Output continued to grow, albeit at a slower pace – with slower new orders, the main impact was slower growth in backlog of work.

Prices continued to increase – oils, metal, food and labour.

Employment continued to expand, but also a slower pace than seen at the start of the year.

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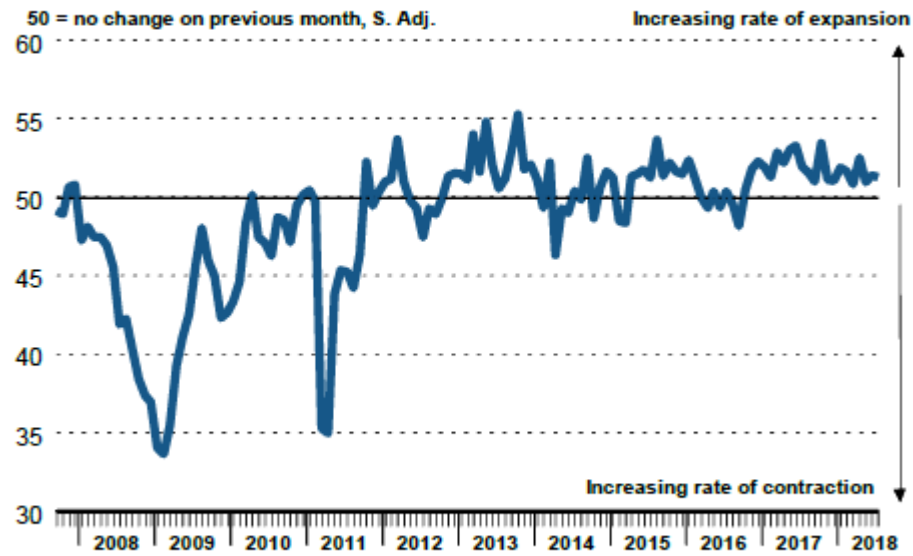
Services PMI (Jul)

Japanese services sector expanded at a constant pace in July;

July 51.3 versus June 51.4

The current rate of expansion remains low compared to recent history;

Nikkei Japan Services PMI



Sources: Nikkei, IHS Markit

New orders continued to grow while backlogs remained mostly unchanged. Service sector employers continued to expand employment levels. Services sentiment strengthened.

<https://www.markiteconomics.com/Survey/PressRelease.mvc/ae07dd04a64343449792656e19195fa7>

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United Kingdom

Bank of England – Rates Decision

The MPC voted unanimously to increase the Bank Rate by +0.25% to 0.75%.

Guidance; were the economy to continue to develop broadly in line with Inflation Report projections, an ongoing tightening of monetary policy over the forecast period would be appropriate to return inflation sustainably to the 2% target at a conventional horizon. **Any future increases in Bank Rate are likely to be at a gradual pace and to a limited extent.**

The Committee voted unanimously to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at £10 billion. The Committee also voted unanimously to maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at £435 billion.

Inflation developing as expected – currently above the target rate, influenced by external factors (incl energy). Inflation expected to slow (due to a reduction in external influences) and reach the target inflation rate during the third year of the forecast period.

With a gradual increase in rates, GDP growth expected to grow at 1.75% on average during forecast period. UK economy judged as having limited slack and a small margin of excess demand is expected by 2019.

Risks – household and business response to EU withdrawal.

<https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-summary-and-minutes/2018/august-2018.pdf?la=en&hash=301950BE50C6045B010FDB84D8FCCC51FDEF4CB9>

https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2018/august-2018?utm_source=Bank+of+England+updates&utm_campaign=ec2b25c1ea-EMAIL_CAMPAIGN_2018_08_01_03_15&utm_medium=email&utm_term=0_556dbefcdc-ec2b25c1ea-113463341

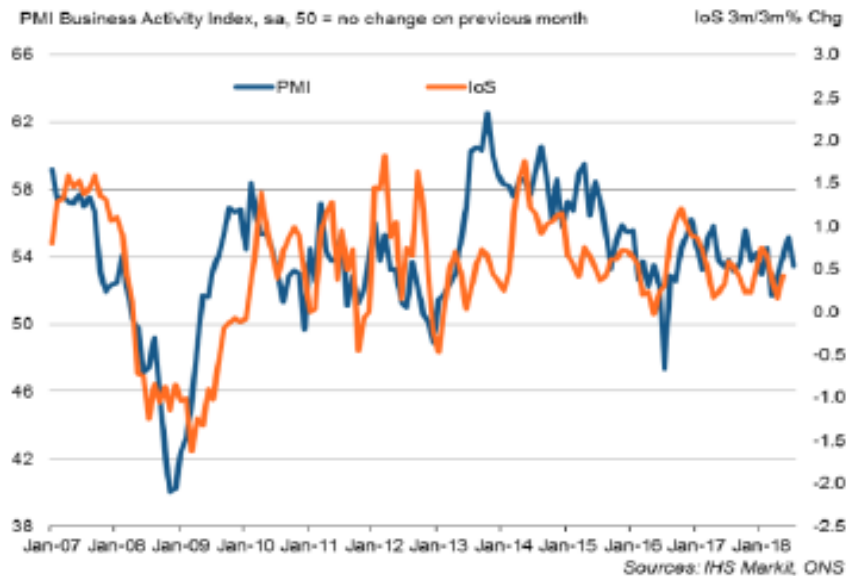
UK Services PMI (Jul)

The level of activity in the services sector is one of the more important signposts of economic activity in the UK. The July PMI recorded a slower pace of growth in service activity. Overall momentum has been stuck in a sideways range since mid-2016.

July 53.5 versus June 55.1

Data collected July 12-27

IHS Markit / CIPS UK Services PMI



Growth in new business eased – some firms noting increased uncertainty related to Brexit. Backlogs of work increased slightly, mostly linked to difficulty in finding new workers. Employment increased at its weakest rate since Aug 2016 - firms reported difficulties in finding new staff as well as due to long term plans for automation to reduce headcounts.

“The sector appears to be bumping along a seesaw path with ups and downs, but with the most disappointing performance since April no one can hide the underlying dangers that still remain in the biggest contributor to the UK economy.”

<https://www.markiteconomics.com/Survey/PressRelease.mvc/ddab493fc5694af88b94d4d56d9de132>

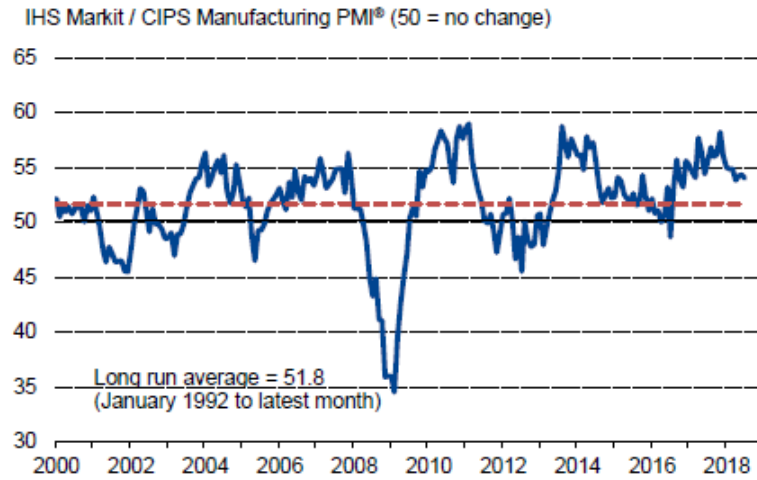
UK Manufacturing PMI (Jul)

Manufacturing activity in the UK expanded at a slightly slower rate in July. Slower momentum in manufacturing has continued throughout 2018.

July 54 versus June 54.3

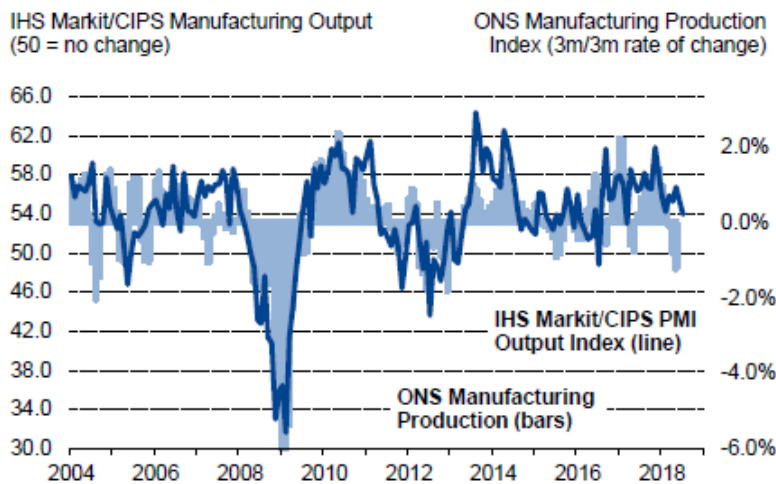
Data collected July 12-26

IHS Markit/CIPS UK Manufacturing PMI



Source: IHS Markit

New orders (domestic) and output expanded at a slower rate. The slower output growth has been consistent with the weaker contribution of manufacturing to Q1 GDP. Latest results suggest that manufacturing weakness may persist in the Q2 GDP results.



Sources: IHS Markit, UK Office for National Statistics

Despite the slower growth, employment continued to grow – due to planned company expansion, higher output and plans to reduce work backlog.

Input costs continued to rise – due to commodity prices and raw material shortages.

Sentiment continued to fall – now at a 21month low. Uncertainties remain around Brexit and the exchange rate. Almost half of the companies still expect output to be higher in one year.

<https://www.markiteconomics.com/Survey/PressRelease.mvc/9bf5fbd4b87b44e2b18c0acfd4b04949>

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Other

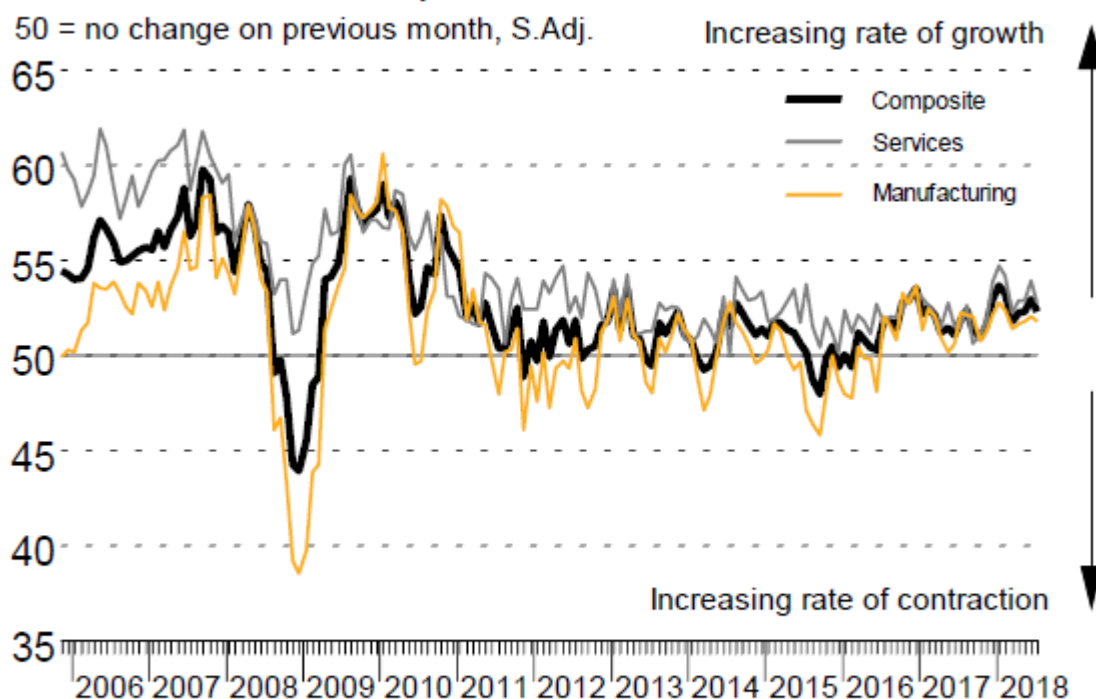
CHINA COMPOSITE PMI – JULY 2018

Overall private sector activity expanded at a slower pace in July;

July 52.3 versus June 53

The slowdown was the result of slower growth momentum across manufacturers and service providers in China.

Caixin China Output PMI



Sources: IHS Markit, Caixin.

Growth momentum has clearly waned and optimism has reached near-term lows.

“In July, the State Council, China’s cabinet, said the country will adopt a more proactive policy to support the economy in response to uncertainty abroad. The risk of an economic downturn has diminished.”

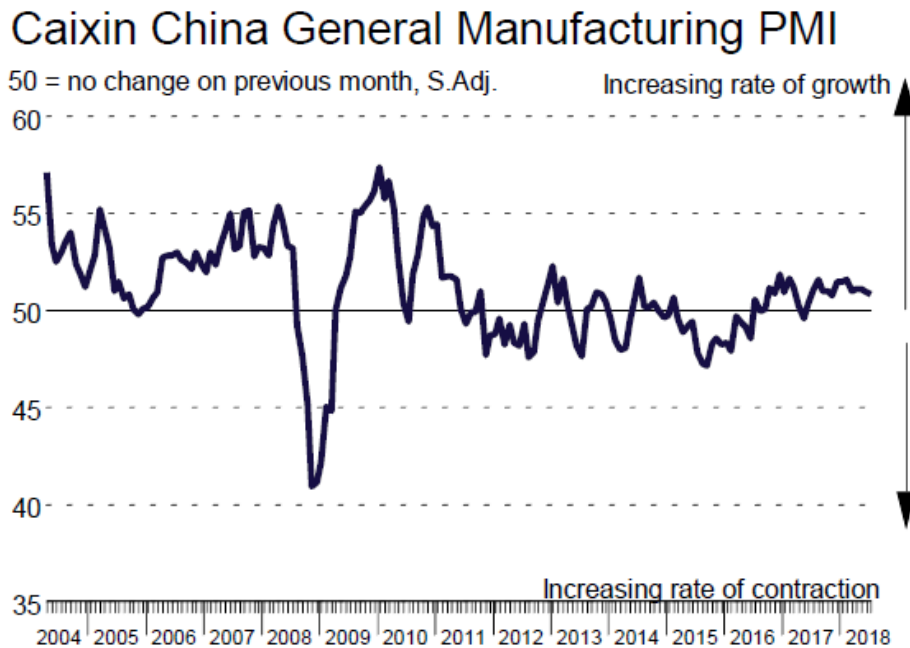
<https://www.markiteconomics.com/Survey/PressRelease.mvc/d63f8b79c61444e398cf00f13f50d5f9>

China – General Manufacturing PMI (Jul)

Manufacturing activity continued to expand at a slower rate in July;

July 50.8 versus June 51

Whilst the index remains in expansion, the trend is one of slowing momentum – now the lowest level of improvement in activity since Nov 2017.



Sources: IHS Markit, Caixin.

New order growth was slower and lower than historical averages. External demand contributed to the slowdown with exports falling for the fourth month in a row and new export business declined at the fastest rate in over two years.

Employment growth slowed as companies downsized.

Average input costs continued to increase on the back of higher raw materials costs. Prices charged by firms increased only at a modest pace.

Sentiment remains subdued overall and remains weak relative to history.

“In general, the survey signalled a weakening manufacturing trend as a grim export market dragged on the sector’s performance. The positive drivers were the increase in stocks of purchases and easing pressure on capital turnover.”

<https://www.markiteconomics.com/Survey/PressRelease.mvc/5a6e9d9005fc431ba1d3bf03ca77b04e>

China – Services PMI (Jul)

The overall services activity index also slowed in July – a relatively large slowdown compared to other PMI reports.

July 52.8 versus June 53.9

The slow-down was partly the result of slower growth in new orders – the weakest recorded for over 2.5 years. Employment still grew, but at a slower rate. Increased efforts to clear unfinished work resulted in a decline in outstanding business. The risk is that if new orders don’t start to accelerate, then output is likely to keep slowing.

Optimism deteriorated in July with sentiment reaching the joint lowest level on record.

“The sub-index of new business remained in expansionary territory, but fell significantly to its lowest level since December 2015 – a clear sign that demand for services had worsened”

<https://www.markiteconomics.com/Survey/PressRelease.mvc/d63f8b79c61444e398cf00f13f50d5f9>

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Trade

US-China Trade

Further threats of escalating tariffs were made this week. As reported by Reuters, USTR Lighthizer: "Trump directed the increase from a previously proposed 10% duty because China has refused to meet U.S. demands and has imposed retaliatory tariffs on U.S. goods."

The tariffs initially announced on 10 July - 10% tariff on \$200b in trade value - may be increased to 25%. Public hearings are still proposed for 20-23 August.

China reacted by announcing an import tax on approx. \$60b of US imports with the tax rate ranging from 5% - 25%.

The problem is that sentiment in the Chinese private sector is starting to wane (highlighted in the latest PMI's), more so than in the US. The Chinese state council affirmed its support for the economy - "In July, the State Council, China's cabinet, said the country will adopt a more proactive policy to support the economy in response to uncertainty abroad. The risk of an economic downturn has diminished."

NAFTA

Progress on NAFTA with Mexico claiming that it is close to overcoming several key issues with the US. Negotiations are planned to continue next week. Mexico has previously stated that it wants to finalise a deal by the end of August.

Canada is yet to join the current talks.

Brexit

During the summer break, ministers of the UK Cabinet including PM May have been meeting with European leaders to build support for the UK Brexit whitepaper. There appears to have been little/no breakthrough.

An article written by the EU lead negotiator Michel Barnier during the past week and printed throughout Europe, was seen as a 'rebuff to UK efforts to persuade individual leaders in Europe to back its vision'.

"Theresa May's Brexit plan would "undermine" the European single market and the legal order of the EU,"

"He warned that UK proposals must not "undermine" the four pillars of the single market - free movement of goods, capital, services and labour, which he called "one of the EU's biggest achievements" - by seeking freedom only for goods."

"But I remain confident that the negotiations can reach a good outcome."

Official negotiations are said to recommence mid-August.

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