

Key Themes

US growth momentum continues into Q3. Employment and non-farm payrolls continue to grow and the annual avg hourly earnings growth accelerated. ISM's for August show business activity expanding at a faster rate, but PMI's more subdued.

European data highlights slower momentum. GDP growth slowed in Q2 for the Euro area and growth is well below that of last year. Eurozone manufacturing PMI slowing with weaker gains in new export orders. Of note was the German data – manufacturing new orders, led by exports, and industrial production data is rolling over. German Manufacturing PMI at lowest reading for 18months.

Australia – RBA kept rates on hold, but two of the major banks increased mortgage lending rates anyway. Mortgage lending continues to decline. GDP growth in Q2 slowed versus Q1, but annual growth increased to +3.4% - above the RBA expectation for growth to average around 3%.

Trade disputes remained in focus as the US threatened a new round of tariffs of Chinese imports and hinted at the possibility of escalation with Japan.

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[US Data](#) - ISM Manufacturing Index (Aug), PMI Manufacturing (Aug), ISM NY Business Conditions (Aug), ADP Employment report, Services and Composite PMI (Aug), Factory Orders (Jul), ISM Non-Manufacturing PMI, Challenger Job Cuts (Aug), Non-farm Payrolls (Aug)

US Fed speeches for this week can be found at; <https://www.stlouisfed.org/fomcspeak>

[Europe](#) - Euro Manufacturing PMI (Aug), Eurozone Services and Composite PMI (Aug), Eurozone Retail Sales (Jul), Eurozone Q2 GDP, German Manufacturing PMI (Aug), German Services and Composite PMI (Aug), German Factory Orders (Jul), German Industrial Production (Jul),

[Japan](#) – Manufacturing PMI (Aug), Services PMI (Aug)

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[Trade](#) – US-China trade negotiations, NAFTA, US-Japan trade talks, S.232 Car and Truck Import

US Data

Challenger Job Cuts – Aug

The announced job cuts increased; Aug 38,472 versus Jul 27,122

YTD announced job cuts are also up on last year +7.5%. YTD announced job cuts have been led by several industries; Aerospace/defence, Computer, Education, Energy, Food and Govt as the larger of the increases.

QTR-to-date cuts for Q3 are 65,594. Even if you assume another 30-40k job cut announcements, this will still be a low level for Q3 relative to previous years – the average for Q3 since 1989 is +176k job cut announcements.

The announced hiring plans picked up in August +17k versus Jul +9.8k persons. This is the largest increase going back to 2013 (available data). But the YTD run rate is well below previous years;

YTD 2018 +261k persons

YTD 2017 +571k persons

Historically, job hiring announcements peak during the month of Sept, averaging approx. +480k going back to 2013. Next month will be important to see how much the YTD run rate for announced job hires picks up.

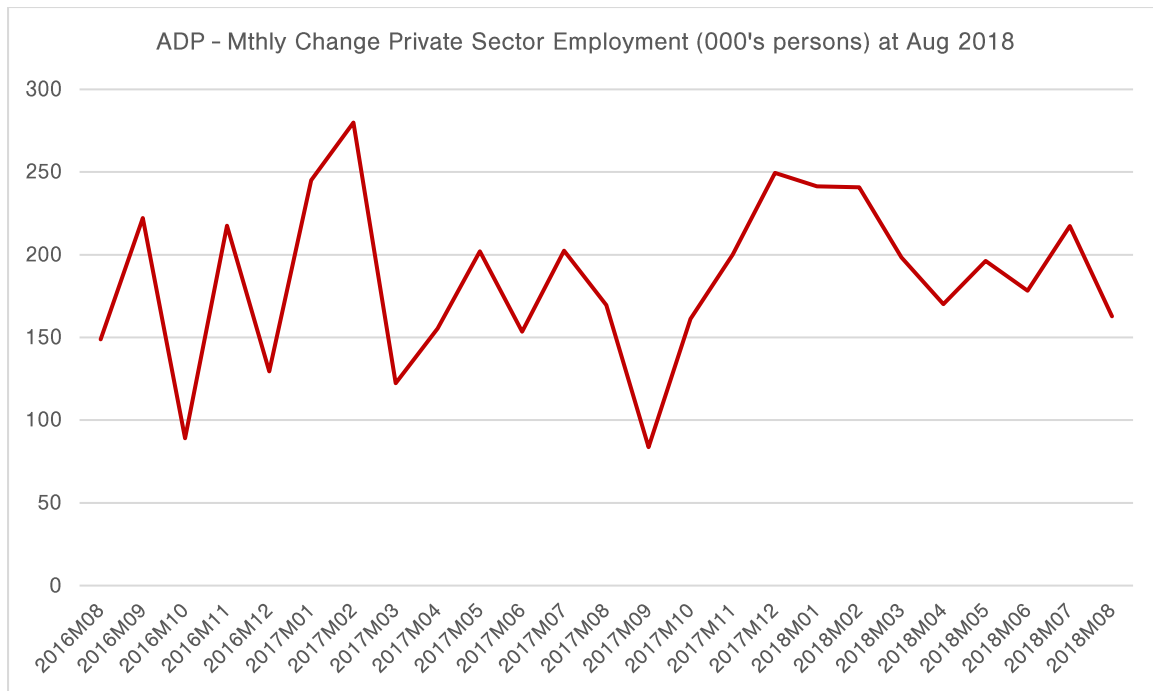
<http://www.challengergray.com/press/press-releases/2018-august-job-cut-report-companies-announce-38472-cuts>

ADP Employment Report – Aug

Growth in private sector employment slowed in the latest month –

Aug; +163k versus Jul +217k persons

The current monthly growth is below the 2year average growth of +187k persons.



Services employment continued to drive overall private sector employment; +139k persons, down from +177k in Jul. The Aug result is below the 2year average growth of +153k persons.

Goods producing employment growth slowed to +24k persons in Aug versus +41k in Jul. This is also below the 2year average growth of +34k persons. Growth in goods producing employment has been slowing since the start of 2018.

<https://www.adpemploymentreport.com/2018/August/NER/docs/ADP-NATIONAL-EMPLOYMENT-REPORT-August2018-Final-Press-Release.pdf>

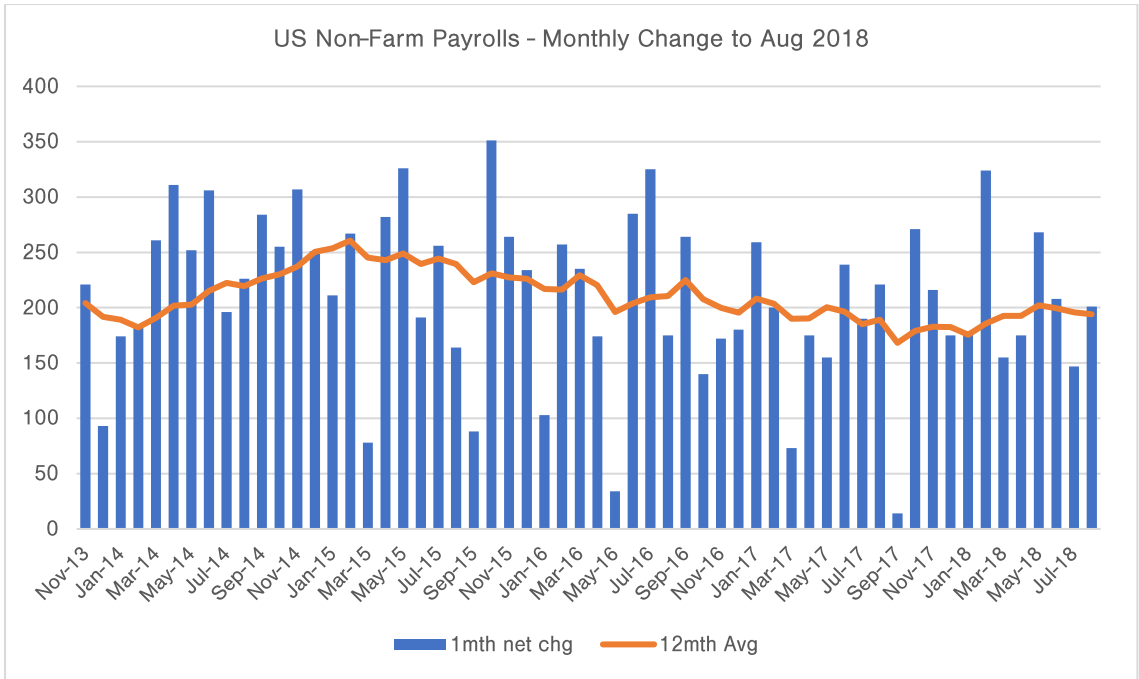
US Non-Farm Payrolls and Labour Force Statistics from the Current Population Survey (Aug)

The headline non-farm payrolls employment grew by +201k employees in August.

July; revised lower -10k

June; revised lower -40k

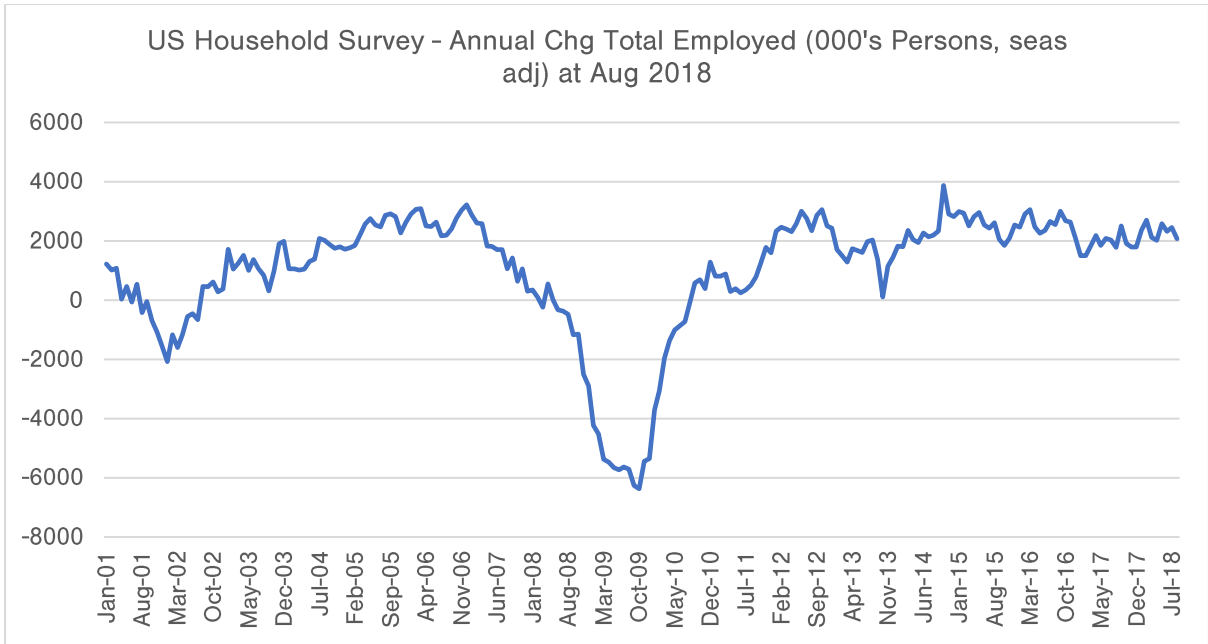
The 12-mth average slowed slightly to +194k payroll employment growth – which has been slowing slightly since May 2018;



From the household survey (000's persons);

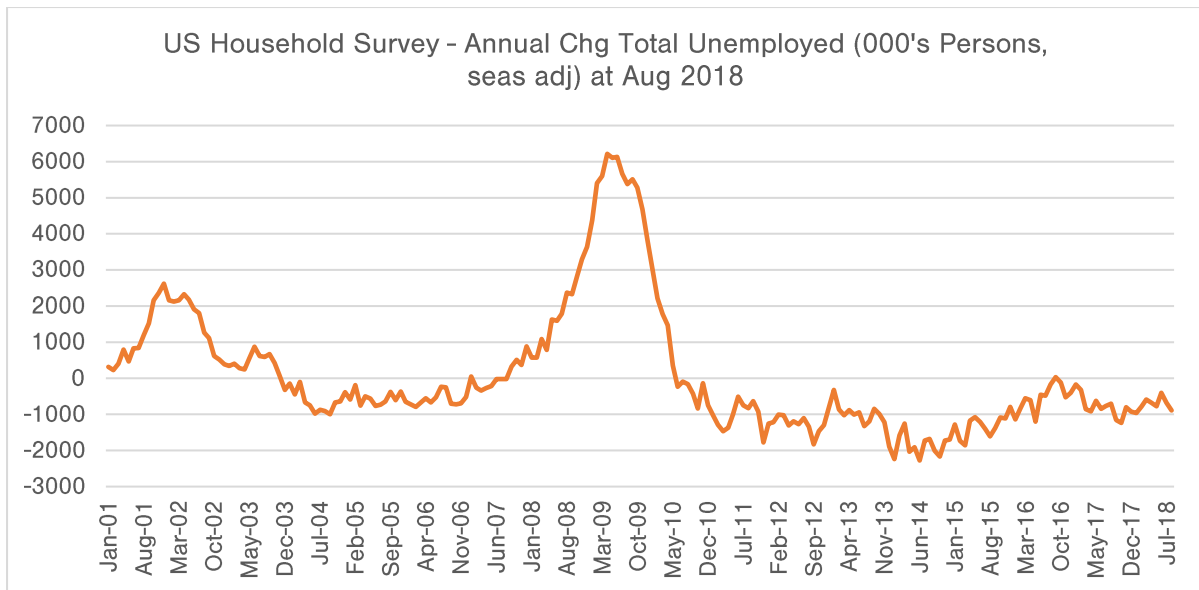
Annual employment growth slowed; Aug 2,071 versus Jul 2,454

The slower annual growth was the result of a decline of -423k employed persons in Aug.



Annual unemployment growth is also slowing (ie the total number of unemployed persons is becoming smaller); Aug -893k persons versus Jul -676k.

The monthly change in total unemployed persons was also much smaller this month; Aug -46k versus Jul -284k.

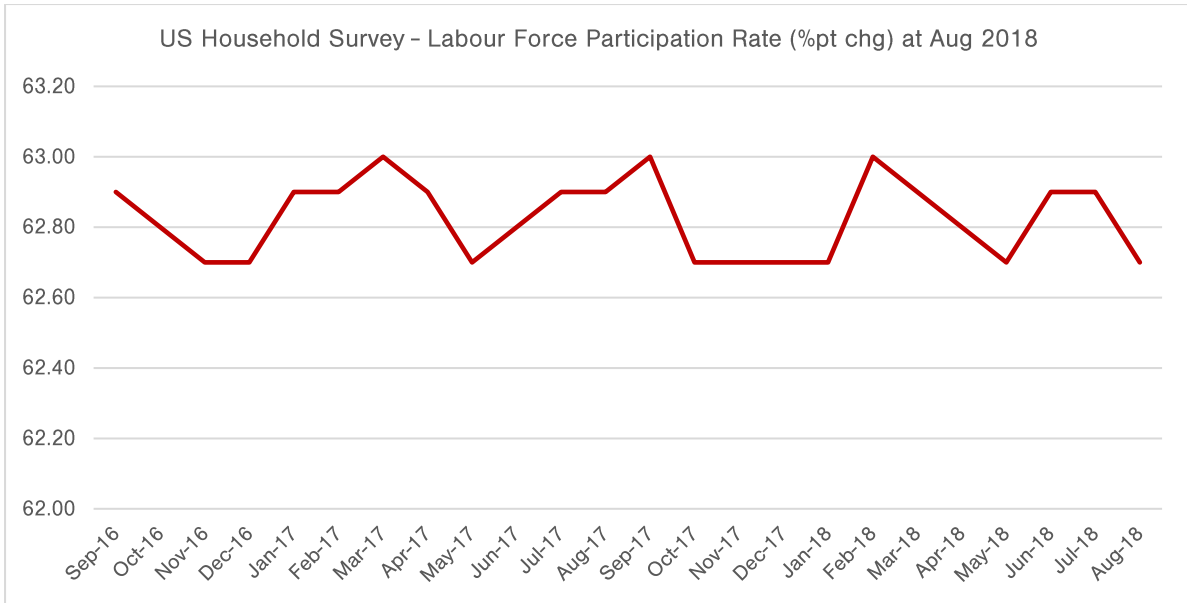


The annual change in labour force participation was -0.2%pts. On an annual basis, this equates to approx. -516k persons less in the labour force. This has been a key driver in the larger decline of unemployed persons while employment growth has slowed somewhat.

The table below summarises the broad dynamics over the last year (based on population 16yrs+);

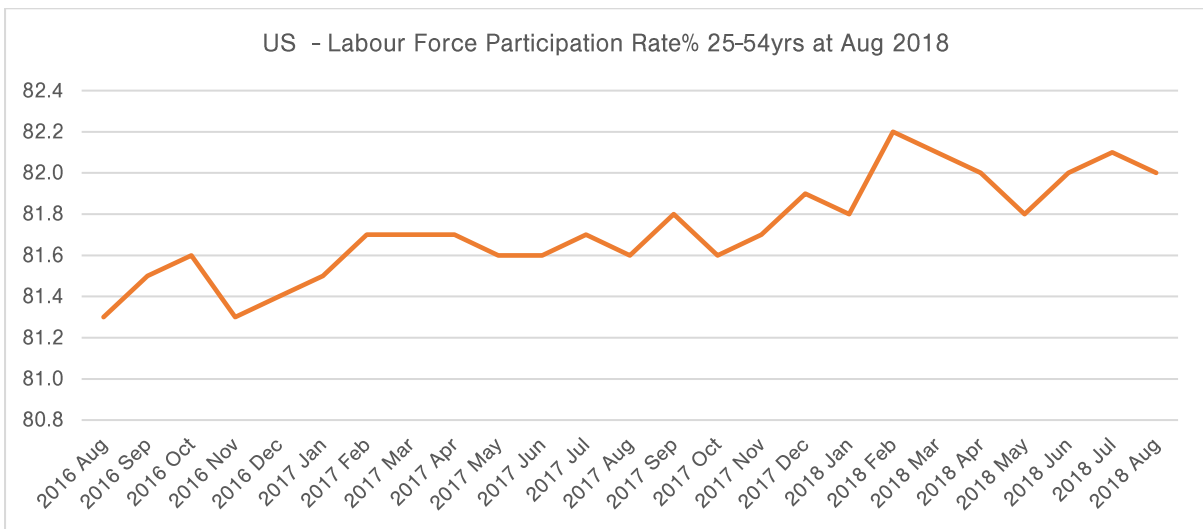
Annual chg 000's people (16yrs+) - Aug 2018	
The estimated change in the Labour Force due to pop growth (1)	1694.032
How many jobs available for them? (annual employment growth) (2)	2071.000
Difference (employment growing faster than what pop adds to the labour force) (3)	-376.968
The change labour force participation - people left the labour force (4)	-516.032
The remainder is the reduction in total unemployed persons - (4) plus (3)	-893.000

On an annual basis the US economy is creating more jobs than what the estimated population is adding to the labour force. Hence the decline in total unemployed persons. Rather than see people coming back into the labour force though, participation (pop 16yrs+) is declining. In other words, if participation stayed the same throughout the year, the decline in unemployed persons would be smaller.



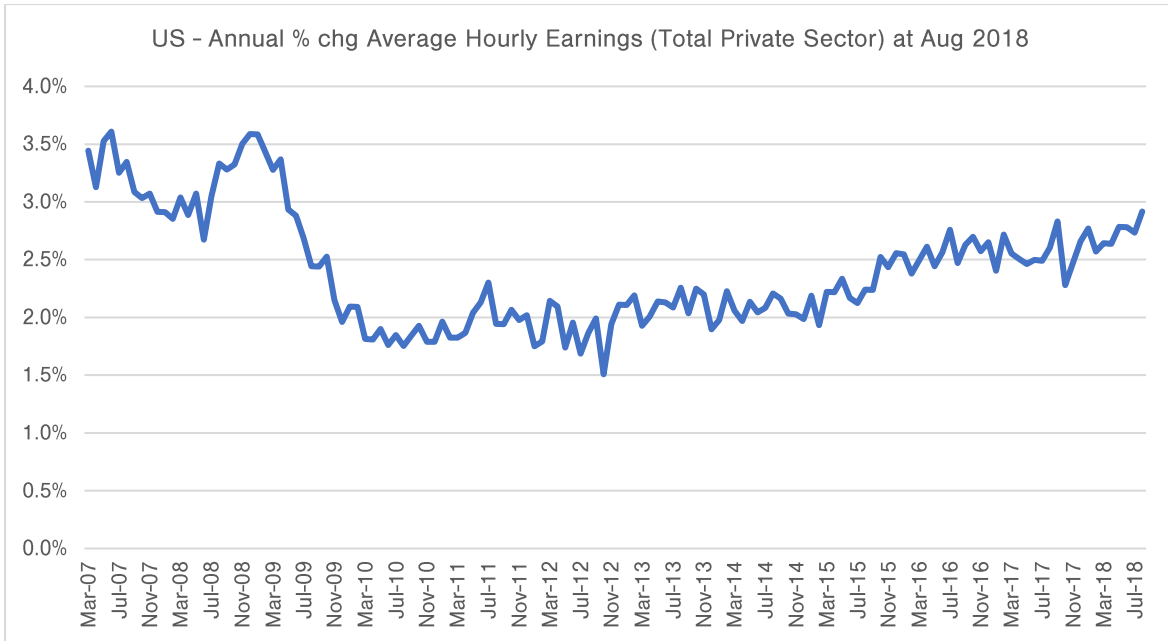
The annual change in the participation rate has gone from +0.6%pts in Sept 2016 to -0.2%pts in Aug 2018.

But the result is quite different if you restrict the population to 25-54yrs – participation is increasing for that age demographic. In the last year, participation has increased by +0.4%pts;



What caught the attention of many was the acceleration in the annual growth of average hourly earnings, increasing more than expected and to its highest rate of growth since 2009;

Aug +2.9% versus Jul +2.7%

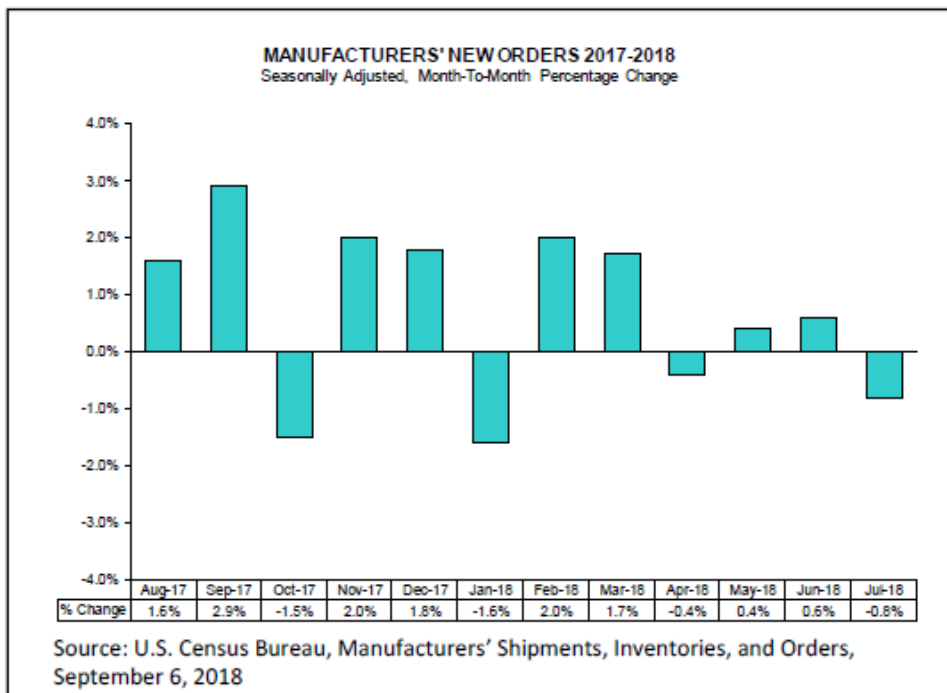


<https://www.bls.gov/ces/#tables>

US Factory Orders – Final Jul

Manufacturers New Orders fell in July; Jul -0.8% versus Jun +0.6%.

Excluding transportation, new orders increased; Jul +0.2% versus Jun +0.4%. The YTD change for new orders at YTD Jul; +8.3%.



Manufacturer shipments were unchanged in Jul versus Jun; +1%. Excluding transportation, new orders grew by +0.4% in Jul versus +0.4% Jun. The YTD change as of Jul; +7.5%.

Inventories continued to grow; Jul+0.8% versus Jun +0.2%.

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

ISM Manufacturing Report on Business/PMI (Aug)

The headline indicator of manufacturing activity expanded at a faster pace in the latest month; PMI; Aug 61.3 versus Jul 58.1

This is the highest reading for the last 12 months.

The key highlight was the acceleration in growth of new orders and production. New orders index is just below its Jan 2018 high; Aug 65.1 versus Jul 60.2. Production; Aug 63.3 versus Jul 58.5.

New export orders remained unchanged; Aug 10.5 – there was an increase in the proportion of firms reporting both lower and higher export orders and a reduced proportion of firms reporting the same number of export orders.

Amid expanding production and new orders, backlog of orders and inventories increased at a faster pace.

The increase in prices slowed but the sub-index remains elevated.

Employment expanded at a faster rate. Underlying this result – while a smaller proportion of firms reported lower employment levels, a smaller proportion of firms also reported higher/expanding employment levels versus the month prior. There was instead an increase in proportion of firms reporting the same level of employment.

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

ISM Non-Manufacturing Report on Business/PMI (Aug)

The non-manufacturing PMI also increased at a faster rate in the latest month;

Aug 58.5 versus Jul 55.7

This was led by business activity/production and new orders – both expanding at an increasing rate of +4.2 and +3.4pts respectively.

Backlog of orders also increased at a faster rate and inventories remained unchanged.

New export orders also expanded at a faster rate.

Employment levels expanded at a slightly faster rate. But like the manufacturing report, more firms reported the “same” employment levels.

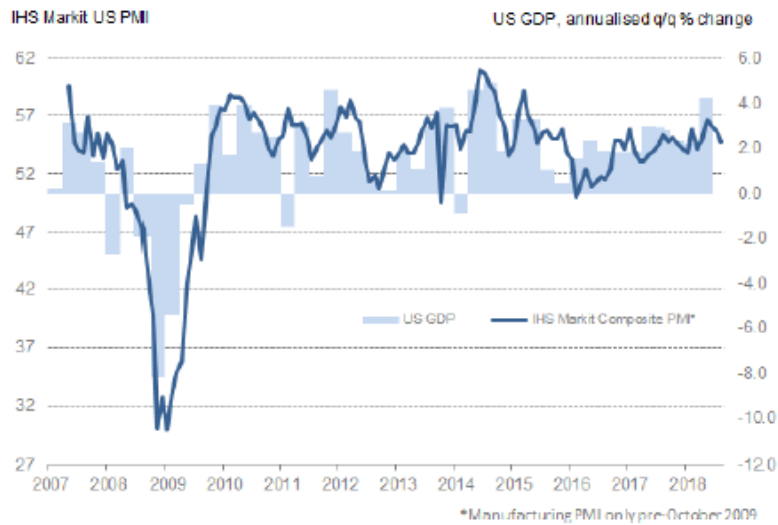
<https://www.instituteforsupplymanagement.org/ISMReport/NonMfgROB.cfm?navItemNumber=30174>

US Composite PMI – August

Overall private sector activity continued to expand, but at a slower rate in the latest month – highlighting slower growth momentum so far in Q3;

Jun 2018	July 2018	Aug 2018
56.2	55.7 (-0.5pts)	54.7 (-1.0pts)

IHS Markit Composite PMI and U.S. GDP



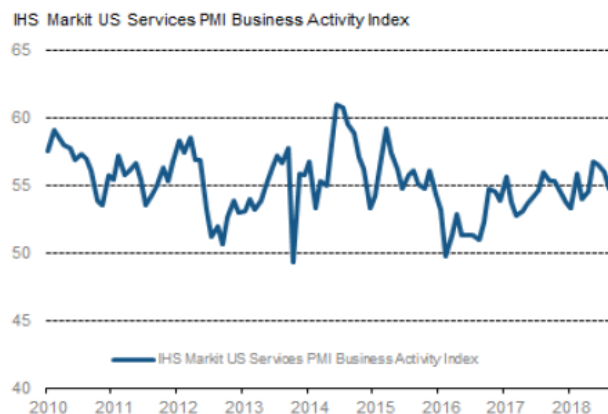
Sources: IHS Markit, U.S. Bureau of Economic Analysis.

Slower momentum was recorded across both services and manufacturing. This is at odds with the ISM manufacturing and non-manufacturing results, which showed an acceleration in overall activity in August.

Services: Aug 54.8 versus July 56

Data collected August 13-28

Service sector business activity (seasonally adjusted)



Source: IHS Markit.

Output growth and new orders growth continued to slow. Backlog of orders also slowed.

Employment growth slowed to a 7mth low.

Input prices expanded, but at a slower rate. Price rises were linked to increases due to tariffs and an increase in fuel costs.

Business optimism remained elevated.

Manufacturing: Aug 54.7 versus 55.3 Jul

Manufacturing PMI

sa, >50 = improvement since previous month



The slower expansion in manufacturing wasn't as pronounced as for services.

Output growth was slower – reaching an 11mth low. New orders expanded at a slightly slower rate. Importantly, new export orders returned to expansion. Overall client demand was not as strong as at the start of the year though.

Employment growth slowed to a 4mth low.

Prices increased, but also at a slower rate – a new 6mth low.

Optimism regarding output over the next 12mths reached a 3mth high.

<https://www.markiteconomics.com/Survey/Page.mvc/PressReleases>

NY ISM Business Conditions – Aug

The strong results for the NY region continued into August, reaching a new 12year high;

Aug 76.5 versus Jul 75 (the all-time high 77.1 Nov 2006)

CURRENT BUSINESS CONDITIONS (seasonally adjusted)



There was a large acceleration in overall purchases; Aug 66.7 versus Jul 60

Prices also accelerated higher, surpassing the high reached in 2011.

Despite the overall stronger conditions, employment growth continued to expand at a constant pace, which remains elevated.

The six-month outlook continued to expand at a faster rate – which has been a good guide for current conditions over time.

http://www.ismny.com/wp-content/uploads/2018/09/2018_ISM-NewYork_ReportOnBusiness_August_v03.pdf

Fed Speeches;

There were quite a few speeches by Fed Governors this week. A listing of public remarks can be found here; <https://www.stlouisfed.org/fomcspeak>

A few highlights;

Rosengren – continue the path of increasing interest rates, economy where we want it to be (inflation, growth, unemployment targets) “no reason to be accommodative”.

<https://www.cnbc.com/video/2018/09/07/feds-rosengren-were-exactly-where-we-want-the-economy-to-be.html>

Bullard – Fed had already been pre-emptive, most forecasts expect growth to slow, “Now, inflation is right at target, he pointed out, and market-based inflation expectations are low and remain right around target. “I think it shows that we've got a pretty good policy right now and we should stay where we are and see how the data come in,” <https://www.stlouisfed.org/from-the-president/video-appearances/2018/bullard-foxbusiness-part-2>

Evans – “long-run neutral funds rate generally in the range of 2-1/2 to 3 percent, this path has policy becoming a bit restrictive sometime next year and tightening a touch further in 2020. Given an unemployment rate forecast below the natural rate, such a policy stance is quite natural and would be consistent with some moderation in growth and a gradual return of employment to its longer-run sustainable level”

<https://www.chicagofed.org/publications/speeches/2018/09-0302018-back-to-the-future-monetary-policy-argentina>

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Europe

Eurozone Q2 GDP – Flash

Real GDP growth slowed further in Q2 in the Euro area group (EA19) and remained unchanged from the prior quarter in the larger Euro Union group (EU28). The current quarter growth rates are much slower than what was recorded a year ago.

Euro Area (EA19):

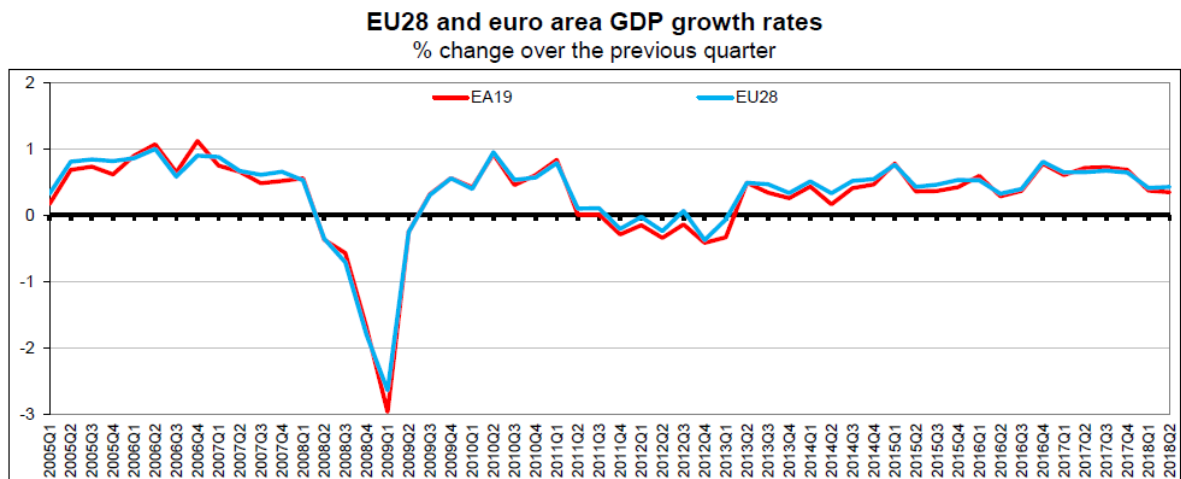
Q2 +0.3% versus Q1 +0.4% (Q2 2017 +0.7%)

The annual rate of growth slowed from +2.5% in Q1 to +2.1% in Q2

Euro Union (EU28):

Q2 +0.4% versus Q1 +0.4% (Q2 2017 +0.6%)

The annual rate of growth also slowed from +2.3% in Q1 to +2.1% in Q2.



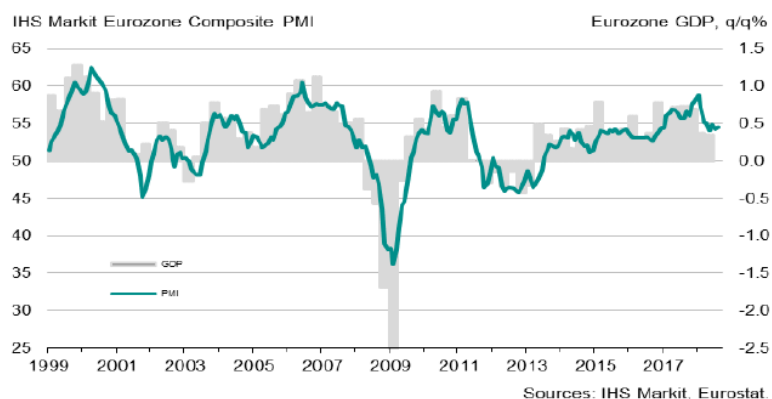
<https://ec.europa.eu/eurostat/documents/2995521/9105204/2-31072018-CP-EN/7ed325fa-e287-4cfe-903d-079d321b8ebd>

Eurozone Composite PMI – Aug

Overall private sector activity and momentum was broadly unchanged in August.

Jun 2018	Jul 2018	Aug 2018
54.9	54.3 (-0.6pts)	54.5 (+0.2pts)

IHS Markit Eurozone Composite PMI



Underlying this result, was a slightly faster expansion in services and slower growth in manufacturing across the region.

Services PMI expanded at a slightly faster rate; Aug 54.4 versus Jul 54.2.

Country-wise; services expansion was slightly faster in German, France and Ireland, unchanged in Spain and activity decelerated in Italy.

Manufacturing PMI expanded at a slower pace; Aug 54.6 versus Jul 55.1

Whilst still expanding, overall manufacturing activity is well off the Dec 2017 highs.

Country-wise; Netherlands reached a two-month high, Ireland a 7mth high, expansion in Germany slowed and Italy now only just remains in expansion territory at a reading of 50.1 – a 24mth low.

Partly driving the slower manufacturing activity was weaker gains for new exports orders – overall in the Eurozone unchanged in Aug, near the 2-year low.

<https://www.markiteconomics.com/Survey/PressRelease.mvc/85bc82085b6e46b6b07320ca1a4d28c8>

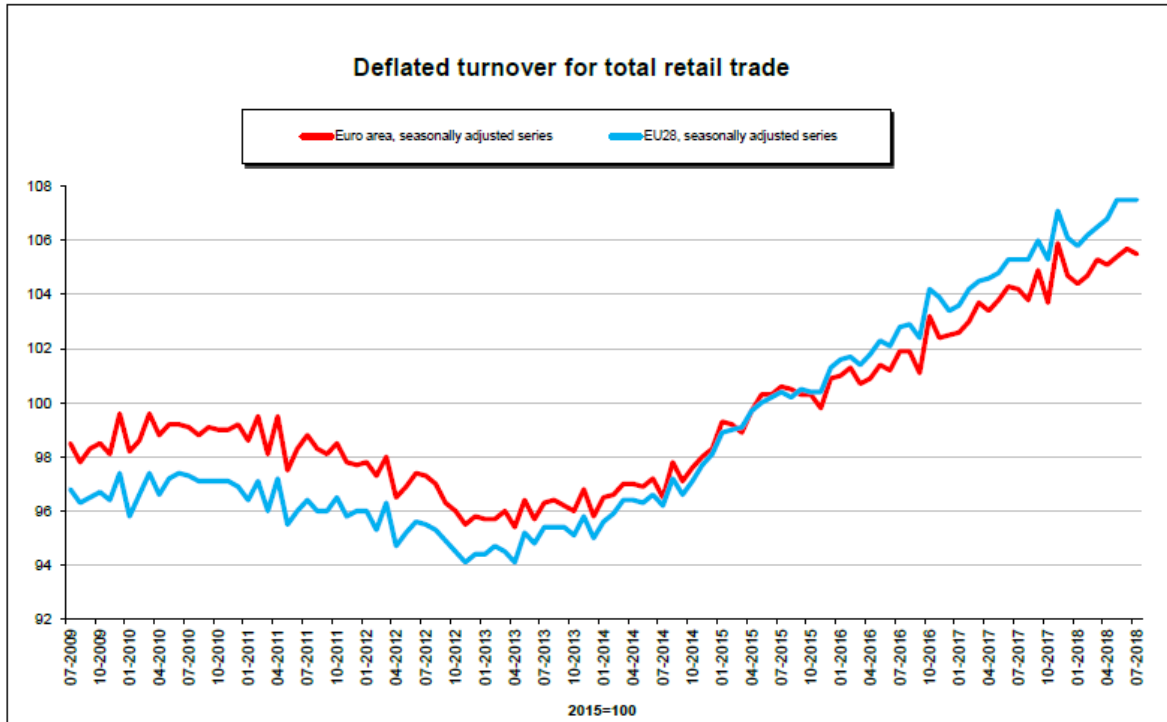
Eurozone Retail Sales – July

In real terms, retail sales in the Euro area declined in July versus the month prior.

Jul -0.2% versus Jun +0.3%

Retail sales volume were unchanged across the broader EU28 group in July.

The main drivers of the decline in the month; decline in food drink and tobacco, electronic goods and furniture and auto fuel in specialised stores. Growth of mail orders and internet sales slowed (but still grew).



On an annual basis, retail sales in the euro area slowed;

At Jul +1.1% versus at Jun +1.5%. This is off the highs of +1.8% growth recorded in Feb 2018.

In the broader EU 28 group, annual retail sales growth only slowed slightly in Jul;

Jul +2% versus Jun +2.1%.

<https://ec.europa.eu/eurostat/documents/2995521/9102924/4-05092018-AP-EN/7786de60-5253-4995-b70e-91aa9604fcd9>

German Composite PMI – Aug

Overall private sector activity continued to expand at a faster pace in August. This suggests slightly faster growth momentum so far, in the third quarter.

Jun	Jul	Aug
54.8	55 (+0.2pts)	55.6 (+0.6pts)

IHS Markit Germany Composite PMI



The overall stronger performance was the result of faster expansion in services activity and a deceleration in the growth of manufacturing activity.

Services PMI: Aug 55 versus Jul 54.1

In the expansion in services activity was the result of faster growth in new orders, leading to an increase in order backlogs. Employment expanded at “the fastest rate for nearly 11 years in August”. Prices continued to increase due to higher salaries and transport costs. Optimism for the year ahead increased slightly but remains below the highs of earlier in 2018.

Manufacturing PMI: Aug 55.9 versus Jul 56.9. This is the joint lowest reading for 18 months.

Manufacturing PMI

sa, >50 = improvement since previous month



Production expanded at the same rate as July, but new order growth expanded at a slower rate. This was due to *export sales growth at the weakest level since May 2016*. Stocks of finished goods increased, and backlogs increased at the slowest rate in 2 years.

Despite this, employment growth continued to expand. But unless demand starts to accelerate, this could start to slow in coming months.

Input prices increased at a slower rate.

Optimism for the year ahead softened – now the lowest in 3 years. Tariffs and geopolitical concerns were the main reasons.

<https://www.markiteconomics.com/Survey/PressRelease.mvc/e676bae6241b43b8a248334bfe1f45e7>

German Manufacturing New Orders and Turnover – Provisional Jul

The provisional manufacturing data for July continues to reflect the slower expansion in manufacturing activity seen in the PMI's – with new orders and turnover rolling over;

New Orders; Jul -0.9% versus June -3.9%. New orders are also down on the same month prior year -0.9%.

New orders without major orders; Jul -2%

The slow down in new orders is driven by a decline in export activity;

Domestic new orders; Jul +2.4% - see chart below

All foreign new orders; Jul -3.4%



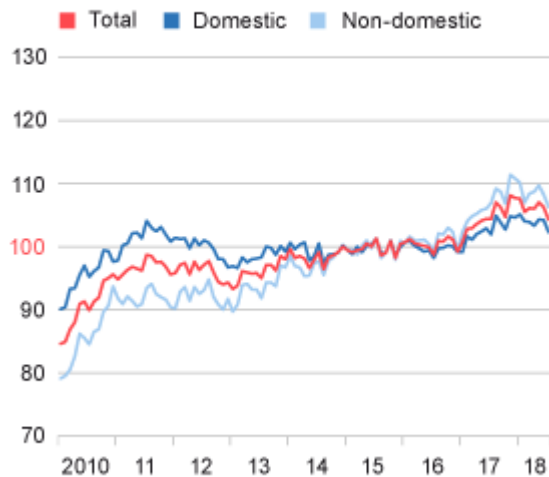
Manufacturing turnover in real terms also declined in July;

Jul -1.8% versus Jun-0.7% (May -1%).

Declines in real turnover were recorded across both domestic and non-domestic markets;

Turnover index in manufacturing

2015=100; price, calendar and seasonally adjusted



© Statistisches Bundesamt (Destatis), 2018

https://www.destatis.de/EN/PressServices/Press/pr/2018/09/PE18_331_421.html

German Industrial Production – Provisional Jul

The provisional industrial production data for July also reflects the slower expansion in manufacturing activity seen in the PMI's, with overall industrial production also rolling over (price and seasonally adjusted basis).

Jul -1.1% versus Jun -0.7%

Annual; July 2018 v July 2017 +1.1% - slower than the annual growth rate from June of +2.7% (versus Jun 17).

Production in industry excluding energy and construction; -1.9% in July.

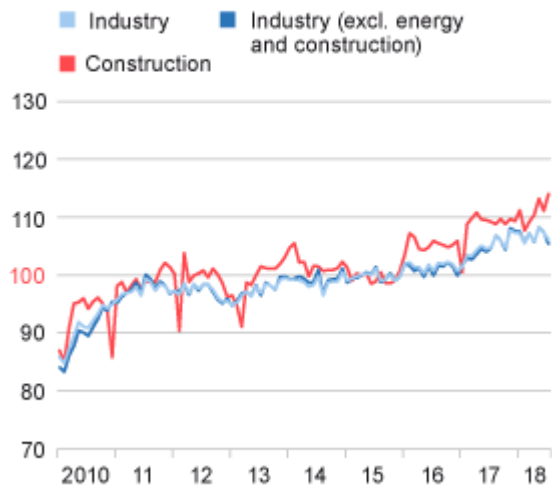
Production of capital goods declined by -2.5% and consumers goods -0.9%.

Production of energy remained unchanged in July.

Construction grew by +2.6% in July.

Production index for the industry

2015=100; price, calendar and seasonally adjusted



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https://www.destatis.de/EN/PressServices/Press/pr/2018/09/PE18_335_421.html

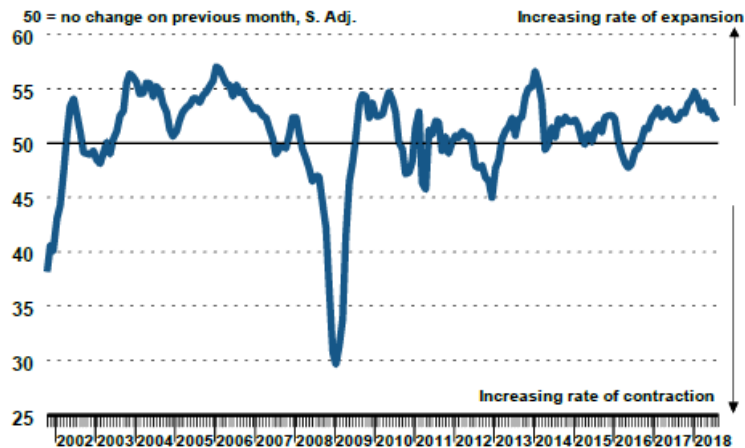
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Japan

Manufacturing PMI – Aug

The manufacturing PMI expanded at a slightly faster rate in the latest month;
Aug 52.5 versus Jul 52.3 (Jun 53)

Nikkei Japan Manufacturing PMI



Sources: Nikkei. IHS Markit

New orders increased at a faster rate for the first time since April. But new export orders continued to decline.

Employment increased, but at the slowest pace since Nov 2016.

Input purchase prices and selling prices both increased at a faster rate.

Overall output expectations remained positive but slowed to a 21month low.

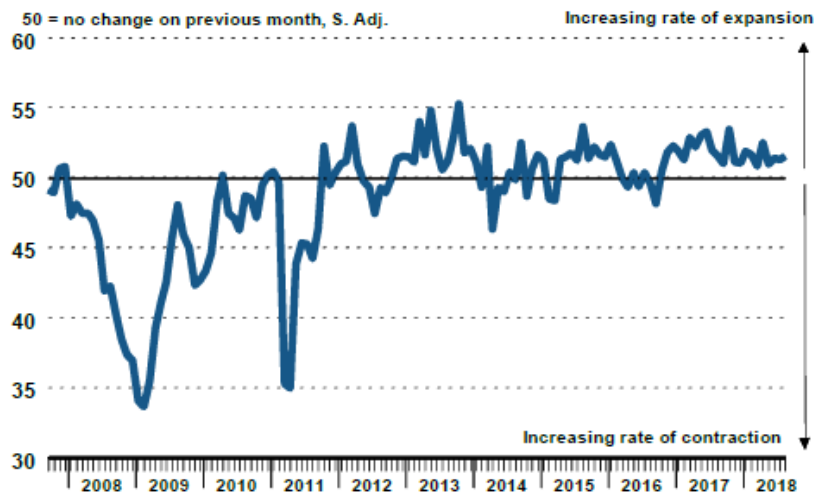
<https://www.markiteconomics.com/Survey/PressRelease.mvc/025c9a273ae74c559d06939a3af587d1>

Services PMI Aug 2018

The services PMI also expanded at a slightly faster rate in the latest month;

Aug 51.5 versus Jul 51.3 (Jun 51.4)

Nikkei Japan Services PMI



Sources: Nikkei, IHS Markit

New orders continued to grow – the equal fastest in the last nine months. Backlogs increased, but at a slower rate than in the last several months.

Employment growth expanded – job creation was the strongest in 14 months.

Input and output prices continued to increase, with selling prices increasing at the fastest pace since Oct 2008.

Overall business confidence was little changed.

<https://www.markiteconomics.com/Survey/PressRelease.mvc/5b8c491d18e4468ba34f4cf1eab4e8f2>

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United Kingdom

BREXIT

Negotiations on the withdrawal agreement continued this week on 5th and 6th Sept – the official statement on progress is yet to be released. https://ec.europa.eu/commission/brexit-negotiations_en

Comments during the week led many to believe that the EU were softening their stance on other solutions to the Irish border solution.

It's reported that the EU is likely to "give its Brexit negotiator new instructions to help close a deal with the UK". <https://www.ft.com/content/477ac3e4-b433-11e8-bbc3-ccd7de085ffe>

A recap of the key timings;

Senior UK frontbenchers will meet on 13 Sept to detail further contingency plans in case of 'no-deal' Brexit.

19-20 Sept - The informal meeting of EU leaders at Salzburg – discussion of timing of a deal, key sticking points and whether to provide additional instructions Michel Barnier to "serve as a sort of mandate to do the deal" (Source: FT).

Official EU council meeting Brussels 18 Oct – this EU meeting is "no longer an absolute deadline" and a date of 13th Nov is now the most likely deadline.

13/14 Dec the next 'official' EU council meeting in Brussels.

BRC Like for Like retail sales – Aug

The current annual rate for like for like retail sales grew by +0.2% in August versus the Jul +0.5% growth result.

"The continued pressure on people's disposable income has meant that some shoppers are increasingly less able to spend on the more discretionary non-food items such as clothing and footwear".

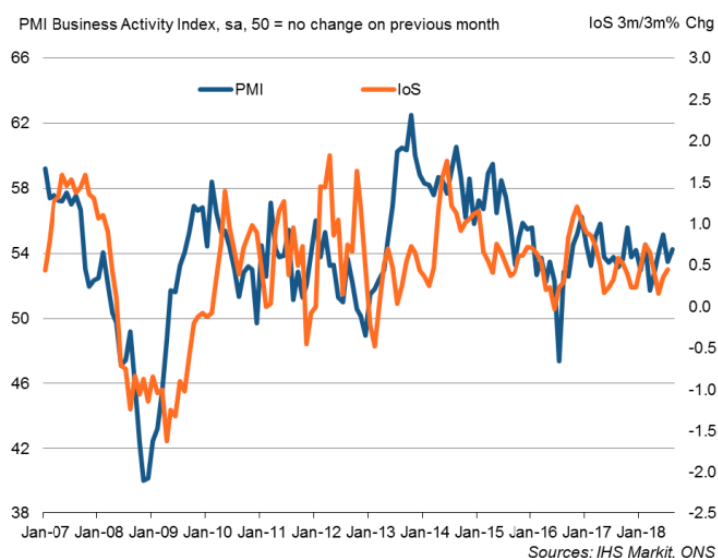
<https://brc.org.uk/retail-insight-analytics/retail-sales-reports/retail-sales-monitor/reports?id=28508>

Services PMI – Aug

Services PMI expanded at a faster pace in the UK in the latest month, reflecting a steadier rate of activity, but still below the stronger reading for June.

Aug 54.3 versus Jul 53.5 (Jun 55.1)

IHS Markit / CIPS UK Services PMI



Growth in new work/orders expanded at a faster pace, but below the trend seen since Aug 2016. Backlogs of orders increased.

Employment expanded at the fastest rate since Feb 2018. Firms noted that finding suitable staff held back hiring plans.

While input prices increased (salaries, fuel and energy costs), competition limited the rate at which costs were passed on.

Business optimism fell to a 5month low on the back of Brexit uncertainty.

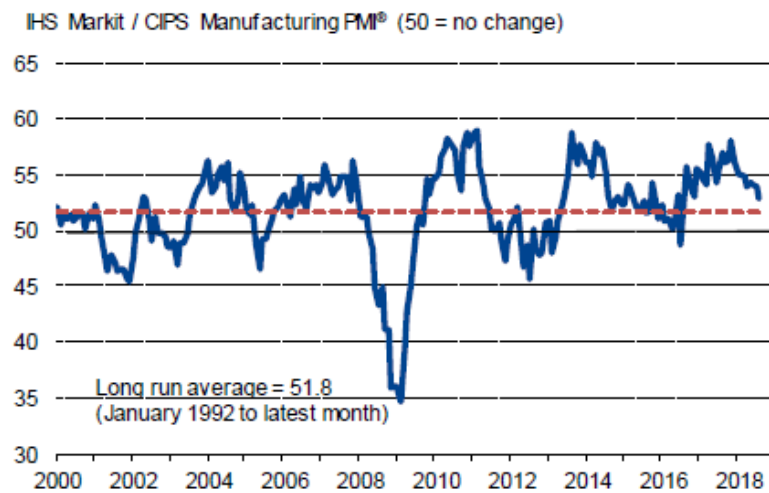
<https://www.markiteconomics.com/Survey/PressRelease.mvc/4b3fbe3795fd46289aa5160abe1adb36>

Manufacturing PMI – Aug

The slower pace of manufacturing activity continued in the latest month, with the PMI reaching a 25-mth low.

Aug 52.8 versus Jul 53.8 (Jun 54.3)

IHS Markit/CIPS UK Manufacturing PMI



Source: IHS Markit

Measure of demand were weaker with output and new orders slowing. New export business declined for the first time in two years.

Employment growth slowed to the 50 mark – highlighting little/no expansion in employment.

<https://www.markiteconomics.com/Survey/PressRelease.mvc/e830abd7df454f68b40915494d40fb2e>

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Canada

Bank of Canada – Rates Decision

The benchmark overnight rate remains on hold at 1.5%.

Despite higher headline inflation, core inflation measures remain consistently around 2%. Growth had come in as forecast, with a stronger Q2 result. Growth is likely to slow temporarily in Q3 due to changes in energy production and exports.

Risk remain; NAFTA and other trade policy changes, economy reaction to higher rates

“Overall higher interest rates will be warranted to achieve the inflation target”. The bank will continue to take a gradual approach to rate increases.

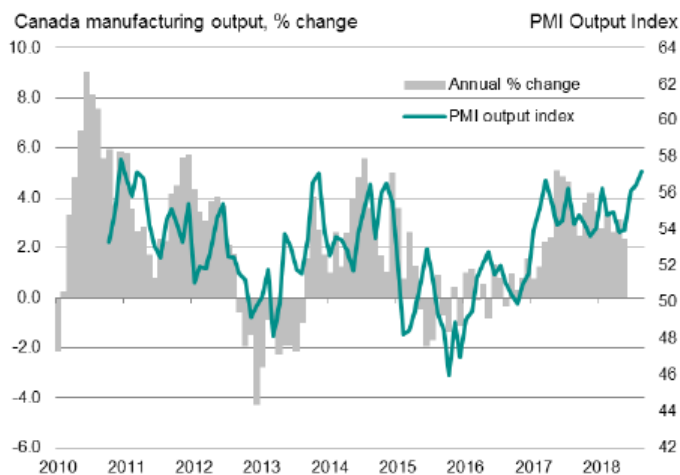
<https://www.bankofcanada.ca/2018/09/fac-press-release-2018-09-05/>

Manufacturing PMI – Aug

The overall manufacturing PMI expanded at a constant pace in Aug. While output growth increased at a faster rate, new business growth slowed.

Aug 56.8 versus Jul 56.9

IHS Markit Canada Manufacturing Output Index



Production output increased at the fastest pace since Dec 2010. New order growth slowed, but export orders continued to expand. The somewhat weaker outlook for export orders reduced business confidence.

Employment continued to expand at a faster pace.

Input prices were impacted by the introduction of tariffs – the latest cost increases the largest for over seven years.

<https://www.markiteconomics.com/Survey/PressRelease.mvc/336723b149c14555a19de0e83f531641>

Labour Force Survey – Aug

Weaker labour force results this month.

Employment declined month on month; Aug -51.6k persons versus Jul +54k persons. The annual change in employed persons slowed from +245k in July to +171k in the 12mths to Aug.

Unemployment increased month on month; Aug +34.8k persons versus Jul -34.9k persons. The annual change in unemployed persons slowed from -73k persons to -18.5k persons in Aug. The unemployment rate increased to 6% in August.

The participation rate continues to fall; -0.4%pts in the latest year or -121k persons.

Overall, employment growth continues to be lower than what population is adding to the labour force. Unemployment would be higher, except that the labour force participation rate continues to fall. The following table broadly summarises the main dynamics;

Annual chg - 000's persons at AUG 2018	
Est of what underlying pop growth add to Labour Force (1)	274.6
Less annual employment growth (employment growing slower) (2)	171.7
Difference (employ growing slower than what population adds to the Labour force) (3)	102.9
How many left the Labour Force in the yr to Aug 2018 (4)	-121.4
The remainder is the reduction in total unemployed persons - (4) plus (3)	-18.5

<https://www150.statcan.gc.ca/n1/daily-quotidien/180907/t001a-eng.htm>

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Australia

RBA – Rates Decision (Sept)

The overnight cash rate remains on hold at 1.5%

Inflation remains around 2% at the lower bound of the target range. CPI growth is expected to slow temporarily in Q3.

Growth expected to average around 3% in 2018 and 2019 (currently above 3%)

Unemployment remains elevated and there is slack in the labour market. Wages growth is low – CPI growth not likely to increase without wages growth.

Low interest rates continue to support the economy and unemployment to be reduced. Process likely to be gradual.

<https://www.rba.gov.au/media-releases/2018/mr-18-21.html>

AUS – Out of Cycle Mortgage Rate Increases

Further to the outline from last week on Westpac (one of the big four banks in Australia) raising its mortgage lending rates, two of the other big four followed this week;

ANZ - increase variable interest rates for Australian home and residential investment loans by 0.16%pa

Commonwealth Bank - rates up 0.15% from October 4

National Australia Bank has announced that it will not follow the other three major banks at this stage.

Context; money market rates up +25bps

Housing Lending (Jul)

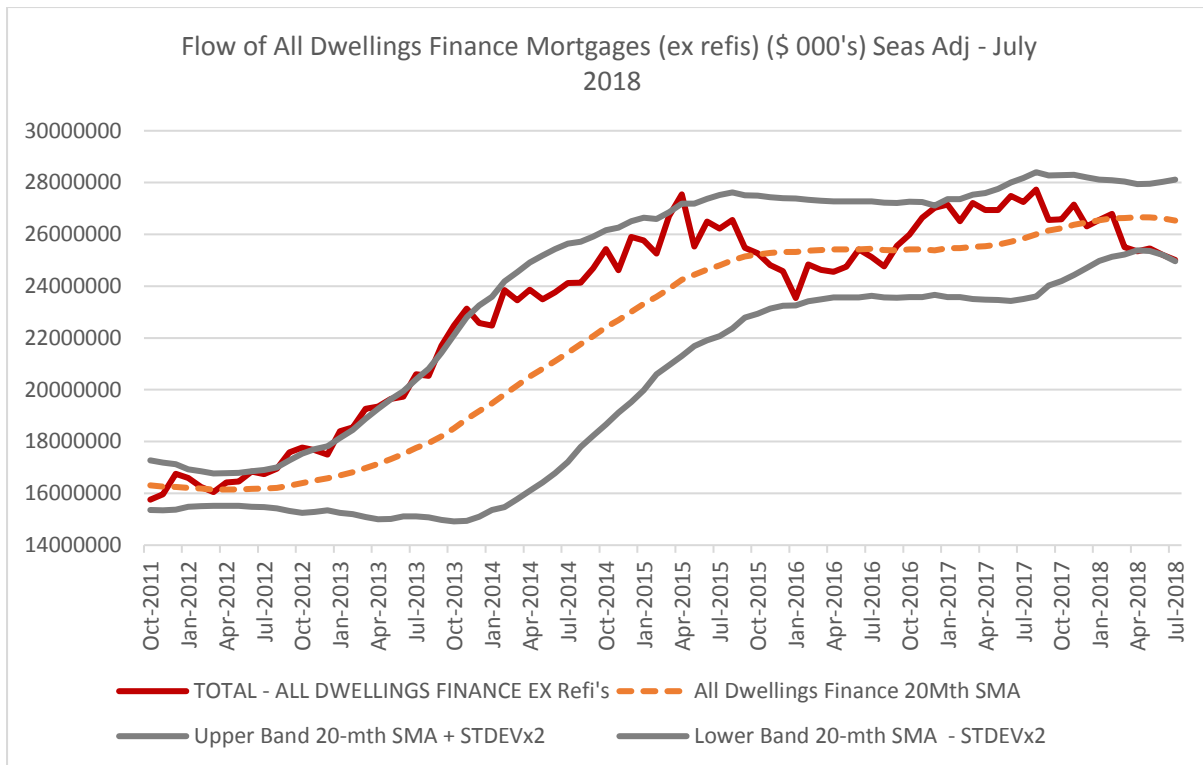
The value of lending for mortgages continued to decline in the latest month due to tighter lending standards and higher rates for investment property borrowing.

All dwellings finance (ex-refinancing):

Monthly change; Jul -0.8% versus Jun -1%

Annual change Jul (versus Jul 2017); -8.2%

The decline in mortgage lending is well below the 20mth SMA.



The decline in lending is interest only loans for investment properties.

Investor mortgages month on month; Jul -1.3% versus Jun -2.6%.

The annual decline in the value of investor mortgages in July (v July 2017) is -15.7%.

Owner occupier mortgage lending is faring a little better; Jul -0.4% versus Jun +0.2%,

The annual change in the value of owner occupier mortgages in July (v July 2017) is -2.3%.

Given this data is up until July, it will be a few months before we start to see the impact of rate increases on lending activity. Auction clearance rates are much lower than last year coming into the key Spring selling season. Further declines in house prices are likely.

<http://www.abs.gov.au/AUSSTATS/abs@.nsf/ProductsbyCatalogue/05DBCE56402EC566CA25723D000F2999?OpenDocument>

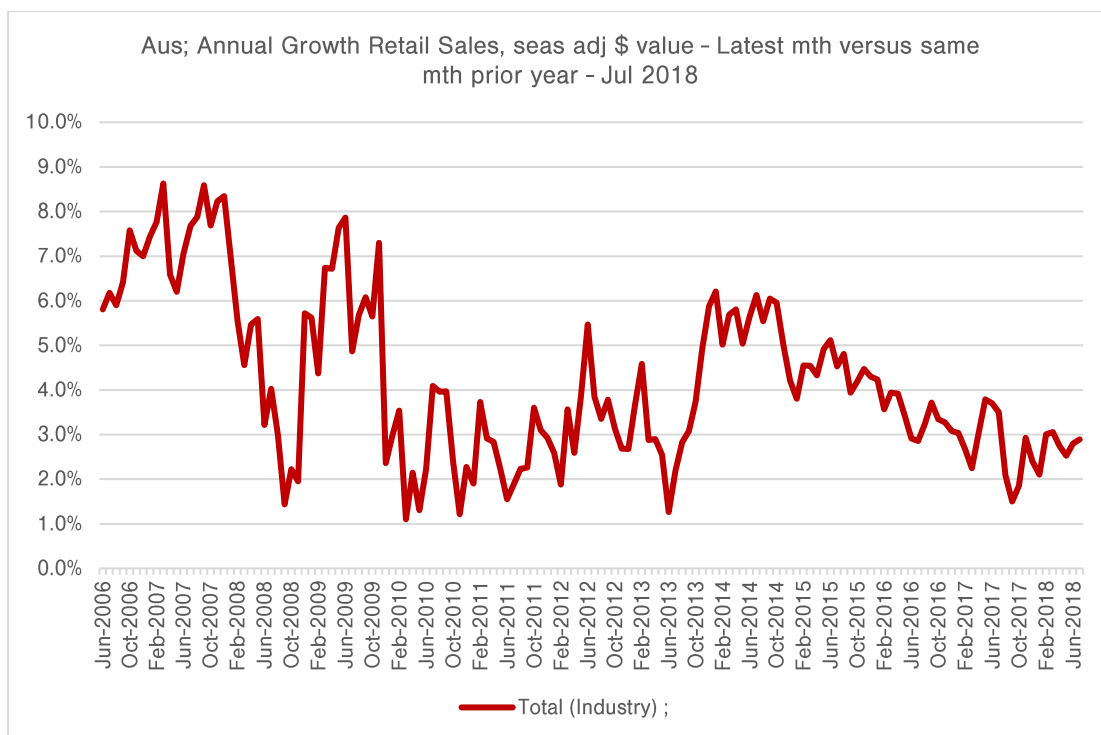
Retail Sales (Jul)

The value (nominal) of retail sales in Australia grew by zero % in July.

Jul 0% versus Jun +0.4%

The annual rate of growth increased from 2.8% in Jun to +2.9% in Jul.

Overall retail sales growth is still well below the rates of recent history but seem to have accelerated somewhat from the lows of late 2017;



In the latest month, growth in food retailing, other retail and cafes/restaurants/takeaway was off-set by declines in household goods, clothing and footwear and department store sales.

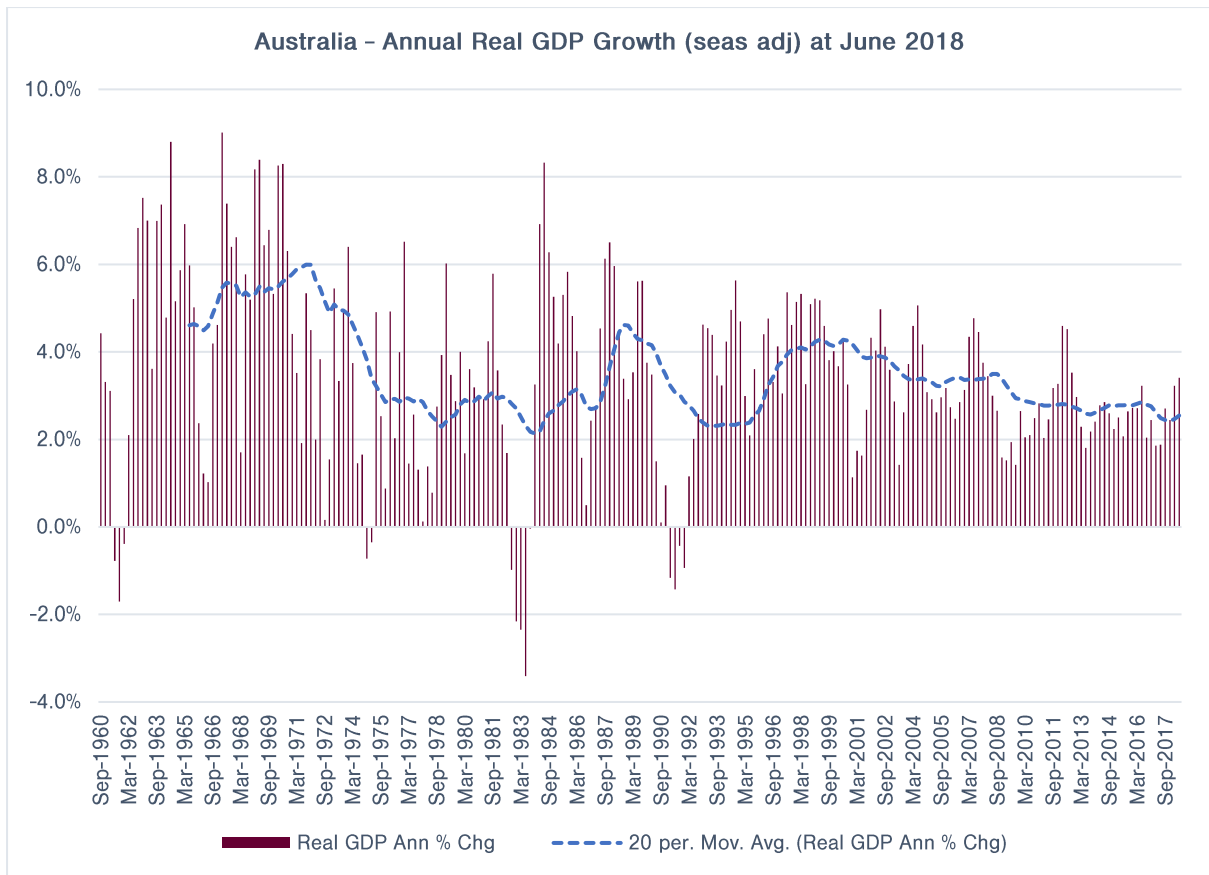
<http://www.abs.gov.au/AUSSTATS/abs@.nsf/ProductsbyCatalogue/3DDA13ECDC094B1CCA257734002042F2?OpenDocument>

Q2 GDP

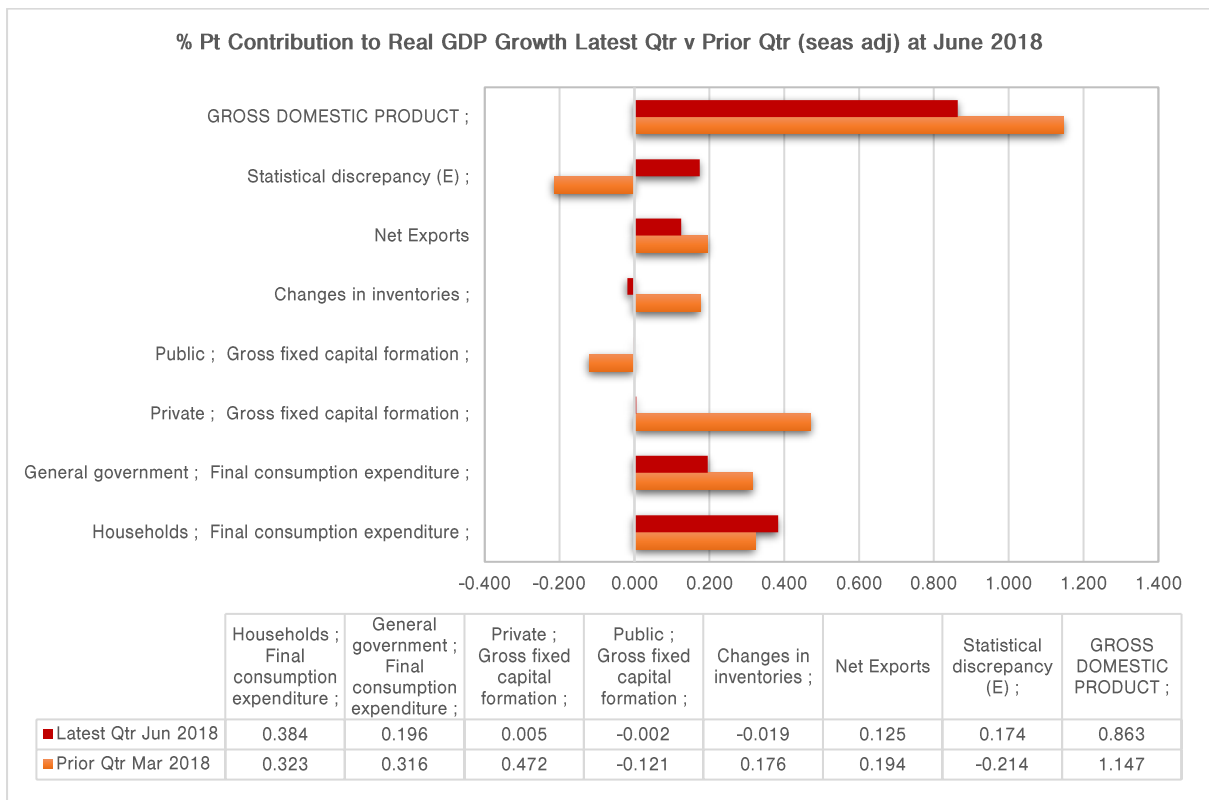
Real GDP growth in Australia slowed slightly in Q2 versus Q1; Q2 +0.86% versus Q1 +1.15%

Despite the slower growth in Q2, the annual growth of real GDP accelerated from Q1 +3.23% to Q2 +3.41%.

Annual growth in real GDP has accelerated over the last 4 quarters;



In the latest Q2 result, household consumption expenditure was the only group to make a larger contribution to growth than in the prior quarter;



Household final consumption expenditure; Q2 +0.384%pts versus Q1 +0.323%pts

The main driver of the higher contribution of household consumption expenditure between the two quarters was growth in expenditure on food and alcoholic beverages. Expenditure on Hotels, cafes and restaurants made a less negative contribution. The purchase of vehicles and transport services detracted from growth in the latest quarter.

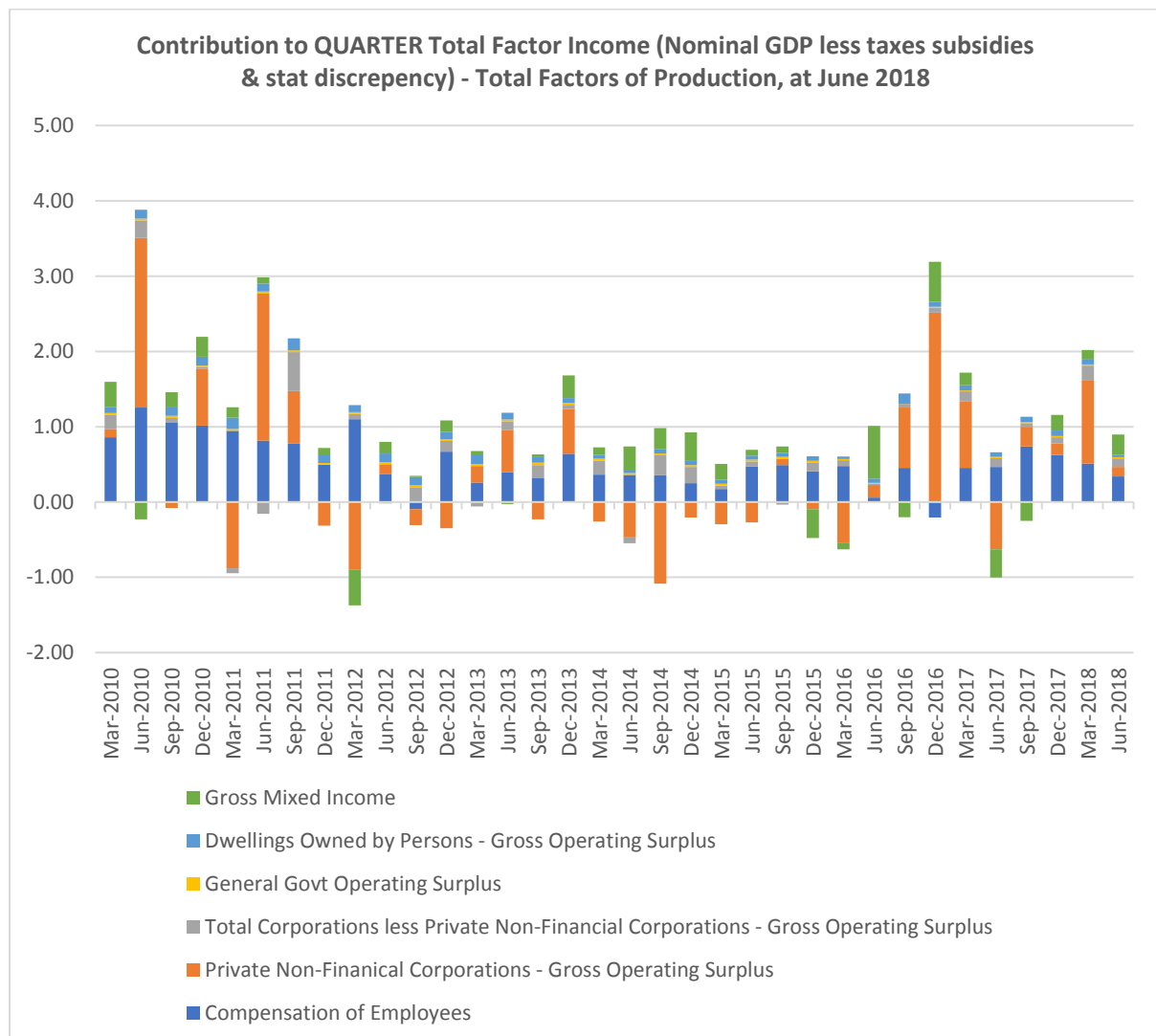
All other categories made a smaller contribution to growth in Q2 than in Q1.

Of note was the change in private gross fixed capital formation with a virtually zero %pt contribution to growth in Q2 versus +0.472%pts in Q1. The decline in private business investment was offset by dwellings.

Net exports and government consumption expenditure, whilst still positive, made a smaller contribution to growth in the latest quarter.

Public fixed capital formation made a less negative contribution to growth in the latest quarter.

Looking at the results from a slightly different perspective – National income or nominal GDP plus taxes less subsidies on production and imports.



Some important insights; Total factor income and nominal GDP growth slowed in the latest quarter.

This was led by a much smaller contribution from the gross operating surplus (profits) of non-financial corporations. This number is heavily influenced by the change in the Terms of Trade in Australia which declined by -1.3% in Q2 after increasing by +3.5% in Q1.

Compensation of employees is the largest share of National income and is continuing to make a smaller contribution to growth of National income over the last three quarters. Growth has halved since the end of the investment phase of the mining boom around 2011.

<http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5206.0Main+Features1Jun%202018?OpenDocument>

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Trade

US-China Trade

New tariffs threats have surfaced for the remaining \$267b of Chinese imports.

<https://www.reuters.com/article/us-usa-trade-china/trump-ups-ante-on-china-threatens-duties-on-nearly-all-its-imports-idUSKCN1LN1TH>

Public hearings were completed last week regarding the third tranche of tariffs on approx. \$200b worth Chinese products. - <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/august/public-hearings-proposed-section-301>

According to the same Reuters article above; “Most comments were from companies seeking to remove products from the tariff list, arguing there were few, if any alternative sources and the duties would cause financial hardship. Comparatively few applauded the tariffs”

Based on the current timeline, it’s likely that these tariffs will go into effect sometime in Sept. Comments from President Trump suggested that he may implement the tariffs earlier.

This week China also announced that it will increase the export tax rebates for products such as mechanical and electrical goods as well as cultural products to 9-16 pct. The increase will take effect on Sept 15. (Source: People’s Daily China)

NAFTA

Negotiations between the US and Canada continue. Canadian negotiators remain confident that a deal can be reached, but a conclusion “does not appear imminent”. Discussions will continue this week at a high level, but it’s possible that talks could continue until the end of the month. The main points of dispute are around the dairy industry.

Last week USTR Lighthizer announced that the “US President notified Congress of his intent to sign a trade agreement with Mexico – and Canada, if it is willing, 90 days from now”. Text of the deal is to be published by the start of October.

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/august/ustr-statement-trade-negotiations>

US-Japan Trade Talks

President Trump and Japanese PM Abe are due to meet in late Sept. Cabinet-level talks did not result any clear agreement between US and Japan. Japanese negotiators requested no tariffs be implemented while talks are underway.

This week President Trump was reported as touting his good relations with Japan but warned the relationship may sour over trade.

“Of course that will end as soon as I tell them how much they have to pay,”

<http://thehill.com/policy/finance/405444-trump-touts-good-relations-with-japan-until-i-tell-them-how-much-they-have-to>

Section 232 – Car and Truck Imports

Awaiting the outcome of the public hearings.

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