MARS CAPITAL PARTNERS

Weekly Macro Review

w/c 10 September 2018

Key Themes

New threats of escalation in the trade dispute between US and China. Reports of possible retaliation from China amounts to what would be a major disruption to US supply chains in China. Escalation from China will be contingent on whether the US moves ahead with the next round of tariffs.

US data continues in line with the Fed's rate trajectory. Good results from JOLTs data highlights further growth in employment. Consumer credit growth was stronger again, likely to help underpin expenditure growth - although, the motor vehicle component of non-revolving loans has been slowing. This is was highlighted in the slower retail sales growth this month. Retail sales growth was slower across most areas, but notably in auto's. US CPI data was stable this month and annual rates of growth have been moderating. Slowing PPI suggest lower price pressure coming through the supply chain. Industrial production continued to grow.

The Eurozone industrial production looks like it could be rolling over, consistent with the German data and slower growth in manufacturing PMI's. Eurozone international trade data further confirmed the recent anecdotes from the PMI's of slowing export growth. This will be important to watch.

ECB kept rates on hold – note that after Sept, the ECB will reduce net asset purchases by half to €15b/month.

Despite the increasingly negative and destabilising Brexit process, UK growth remains surprisingly robust. The rolling quarterly GDP was led higher by stronger retail activity throughout May-Jul. Some caution around labour market trends with employment growth clearly slowing. The BoE kept rates on hold.

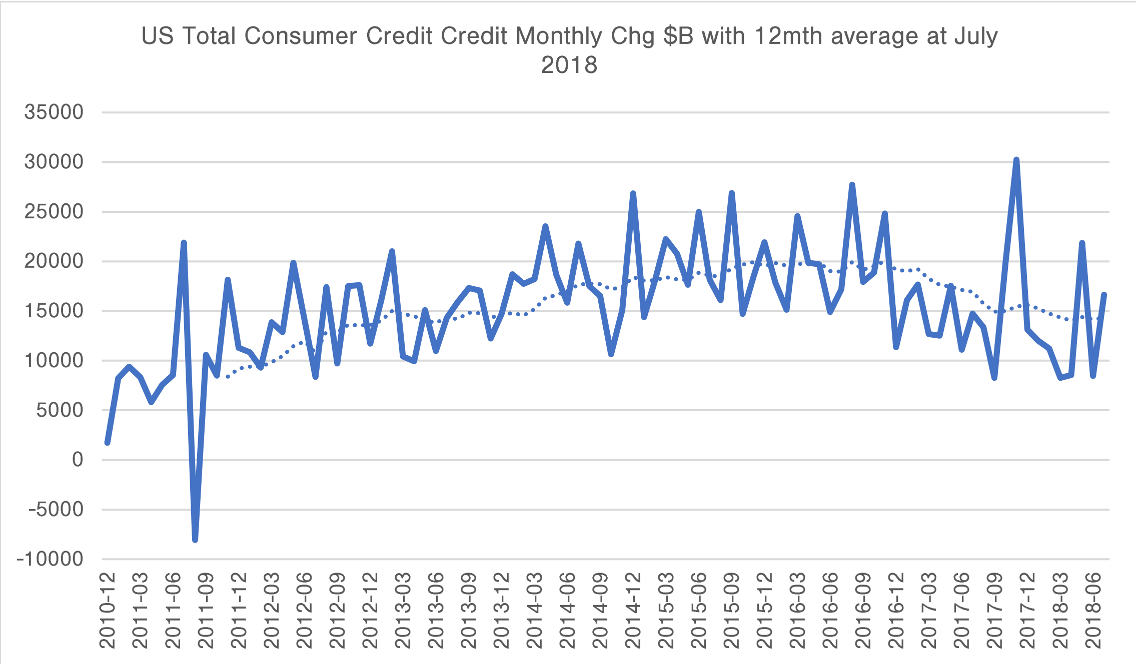
Contents

US Data

Consumer Credit – Fed G.19 (Jul)

It was a strong start to Q3 with total consumer credit growth accelerating;

Jul +$16.6b versus Jun +$8.4b (revised lower from +$10.2b)



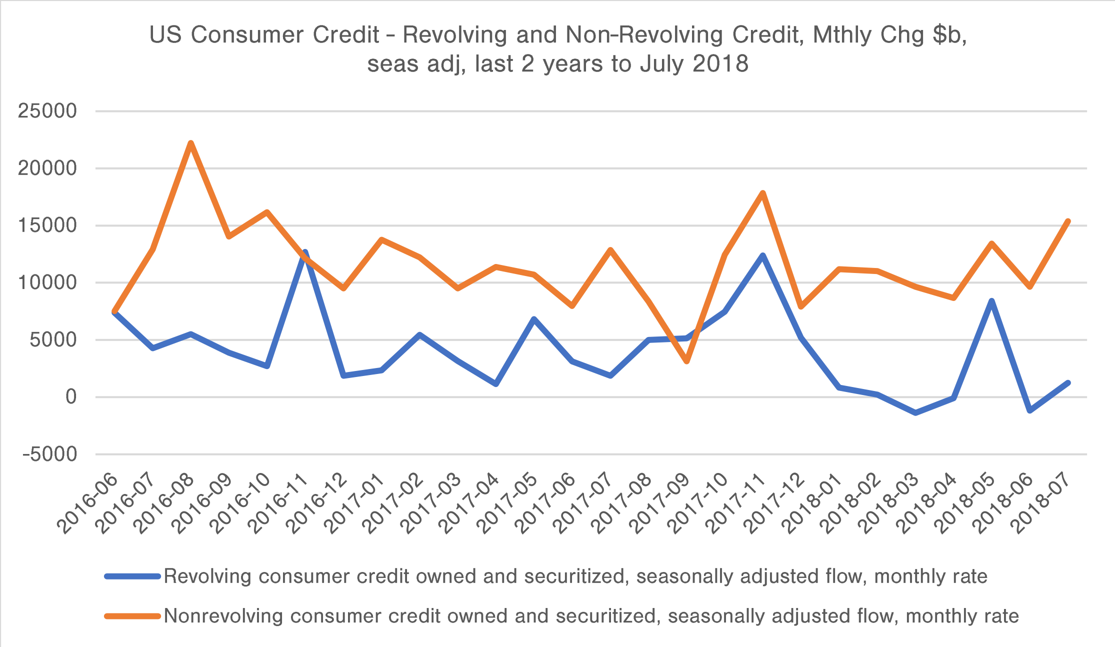
Total consumer credit growth continues to be driven by growth in non-revolving credit;

<u>Nonrevolving credit growth</u>;

Jul +$15.4b versus Jun +$9.6b

<u>Revolving credit growth;</u>

Jul +$1.2b versus Jun -$1.2b

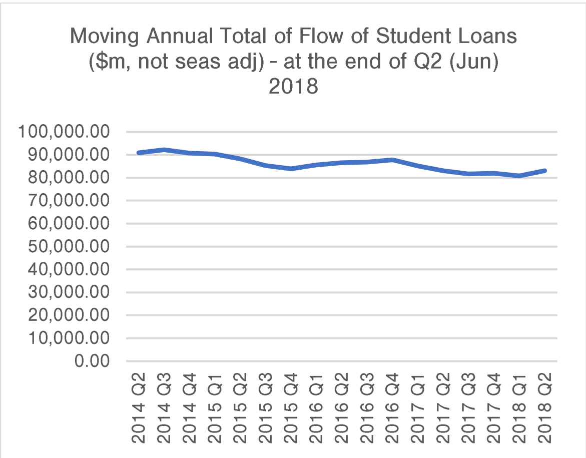


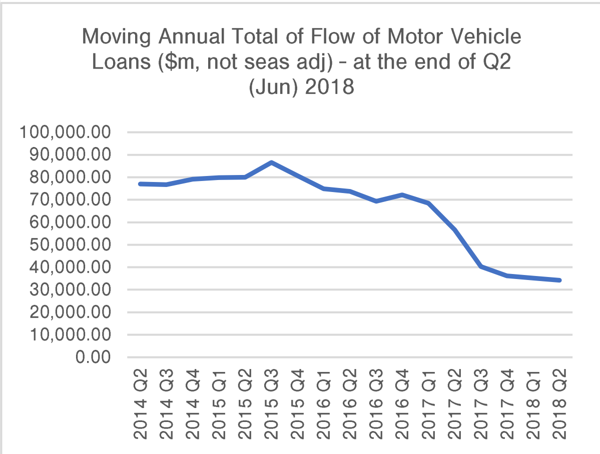
Some detail on non-revolving credit. The largest part of non-revolving credit is student loans (65%) and Motor Vehicle Loans (26%) based on the current annual flow of new credit.

Data on student loans and motor vehicles is available quarterly and on a non-seas adjusted basis.

The current increase in the flow of non-revolving credit is the result of growth in student loans. The current annual flow of new loans (non-revolving credit) is $128b in Jul.

At the end of Q2, the annual total of non-revolving new loans was $126b, made up of student loans $83b and motor vehicle loans $34b;





The slow down in new credit for motor vehicle loans is stark and suggests slower growth in vehicle sales financed with credit. Higher interest rates are likely a factor. Student loans have also slowed (esp on a longer time frame), but the annual total has accelerated in Q2 – which relates to the increase in the seasonally adjusted total starting in Apr 2018.

https://www.federalreserve.gov/releases/g19/current/

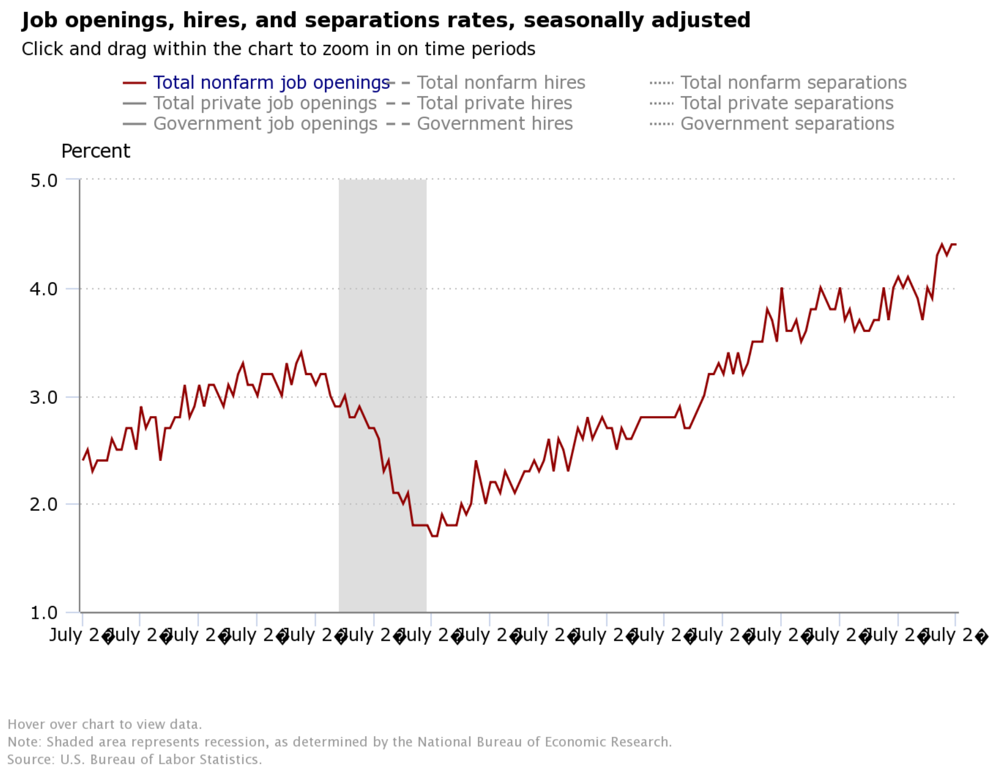
JOLTS (Jul)

Job openings, hires and separations continued to increase slightly in the latest month.

<u>Job openings;</u>

Jul 6.9m versus Jun 6.8m

The total number of 6.9m openings was a new series high - the job openings rate remained unchanged at 4.4% in Jul versus Jun – also remaining at its all-time high;

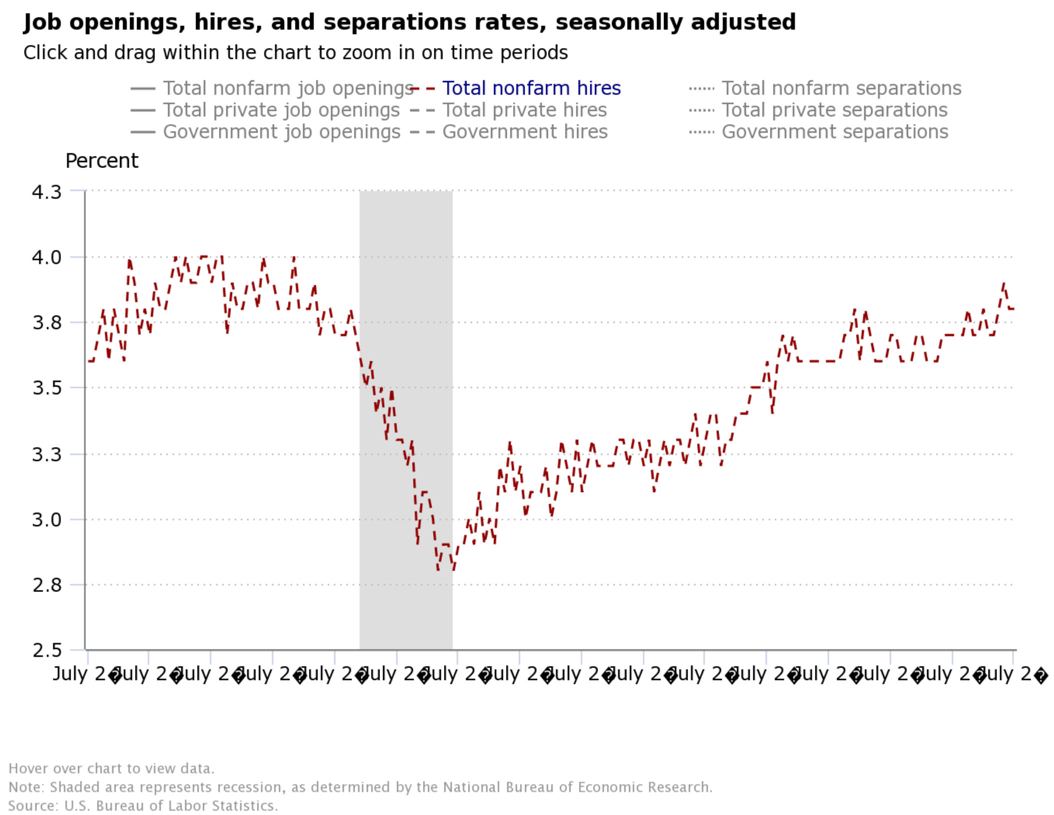


Note; x-axis dates are July 2003 to July 2018

<u>Hires</u> increased slightly;

Jul 5.679m versus Jun 5.677m

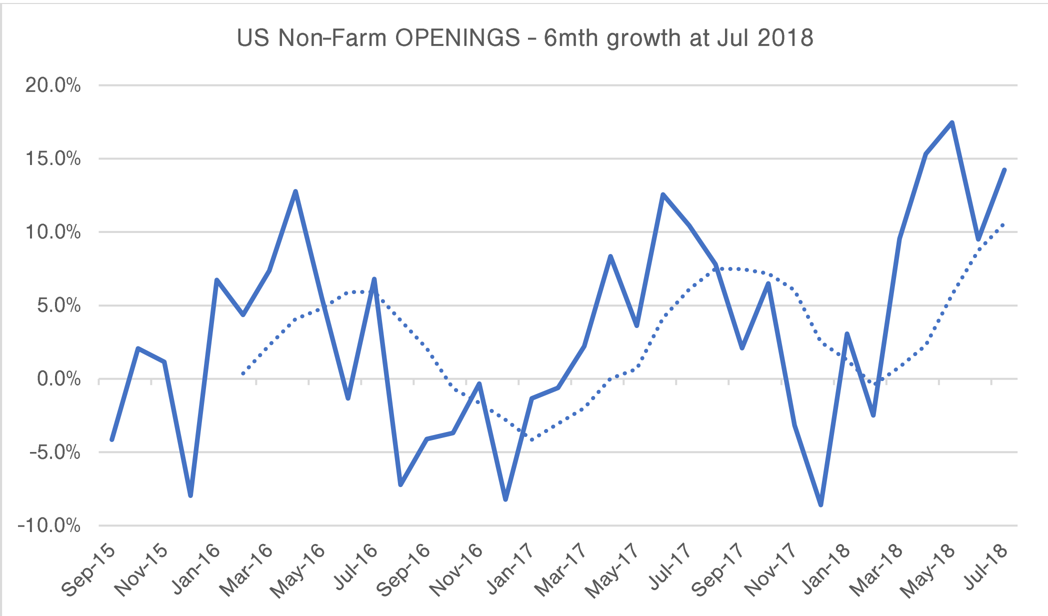
The hire rate was unchanged in Jul at 3.8%, just below the peak of 3.9% reached in May. The current hire rate is still below the pre-GFC peak of 4%.



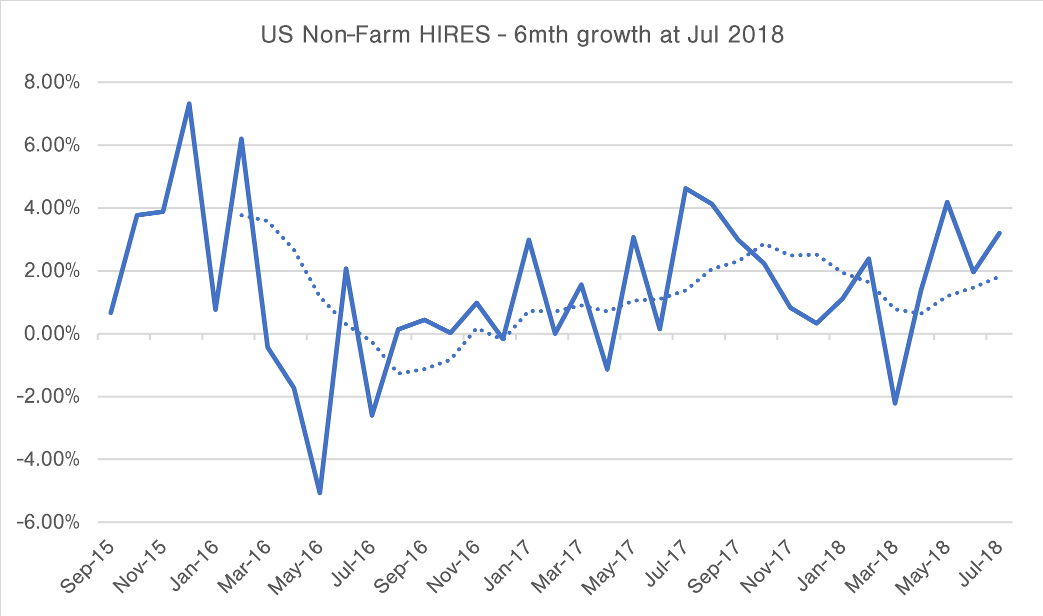
Note; x-axis dates are July 2003 to July 2018

One thing is obvious – the momentum in hires continue to lag job openings.

Growth in job openings has been accelerating – most notably since Dec 2017 (which is why I used a 6mth growth rate);



There is evidence that growth in hires follows a similar trend. But over the last 3 years growth in hires has been more moderate than that of openings;



As of July, job openings are growing at 14.2% versus 6 months ago and hires are growing at a much lower 3.2% versus 6 months ago. Whether this acceleration in the growth of job openings translates into an acceleration in hires is yet to be seen. But at the very least, it suggests ongoing growth in hires.

Separations were also slightly higher in July;

Jul 5.534m versus Jun 5.514

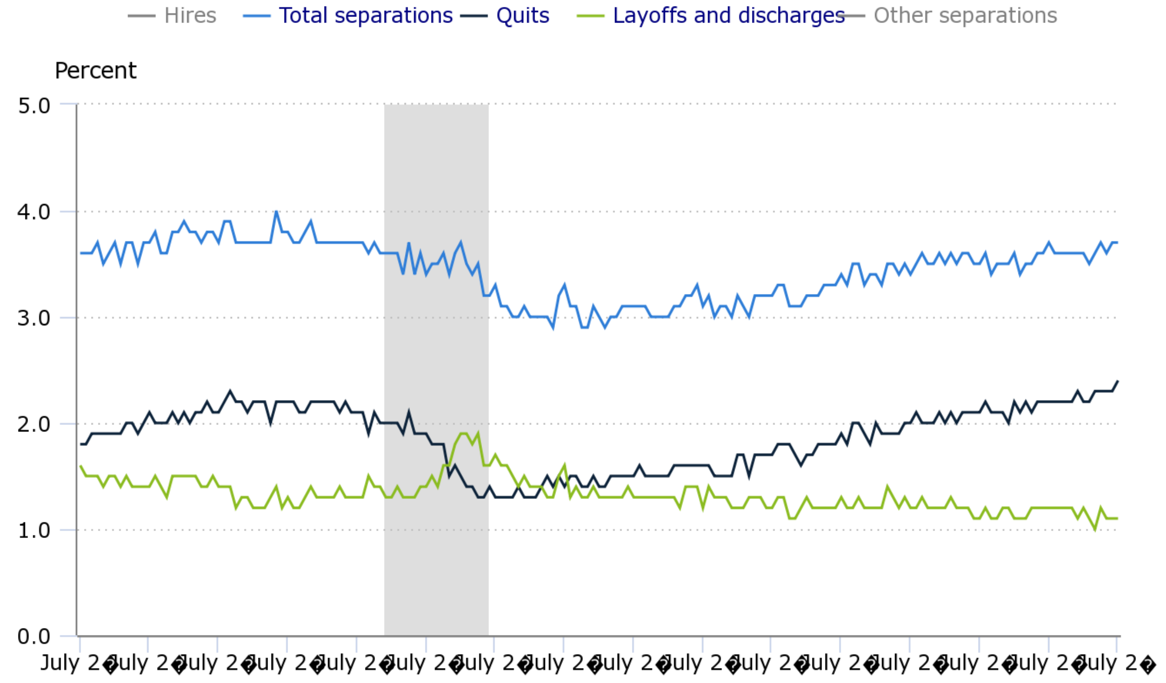
The separation rate remained unchanged in Jul at 3.7%. The current separations rate is still below that of the pre-GFC period, which peaked at 4%.

In the latest month, the change in separations was led high by quits; Jul 3.58m versus Jun 3.47m. The quite rate increased from 2.3% in Jun to 2.4% in Jul.

The higher level and rate of quits was off-set by slightly lower layoffs and discharges; Jul 1.6m versus Jun 1.65m. The layoff rate remained unchanged at 1.1%.

Total nonfarm hires and separations rates, seasonally adjusted

Click and drag within the chart to zoom in on time periods



Hover over chart to view data.
Note: Shaded area represents recession, as determined by the National Bureau of Economic Research.
Source: U.S. Bureau of Labor Statistics.

Note; x-axis dates are July 2003 to July 2018

Separations remain lower than hires. Over the last year, hires equalled 66.7m versus separations 64.2m – highlighting a net employment gain for the year.

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

Monthly Wholesale Trade – Sales & Inventories (Jul)

Wholesale sales were little changed in the latest month;

Jul 0% versus Jun -0.2% and +9.8% year on year.

Durable goods were unchanged in Jul – falls recorded in the bigger categories of automotive, professional and computer equipment. Offset by gains in electrical and machinery.

Non-durable goods declined -0.1% versus -0.6% in Jun – led lower mostly by drugs and petroleum

Inventories continued to grow overall +0.6% in Jul versus +0.1% in Jun, led higher by durable goods inventories.

The total inventory to sales ratio increased slightly from 1.25 in Jun to 1.26 in Jul. This was also led higher by durable goods increasing to 1.59 in Jul, but still well below the 1.64 from the year earlier. Non-durable inventory to sales ratio remains at 0.95.

https://www.census.gov/wholesale/index.html

PPI Aug

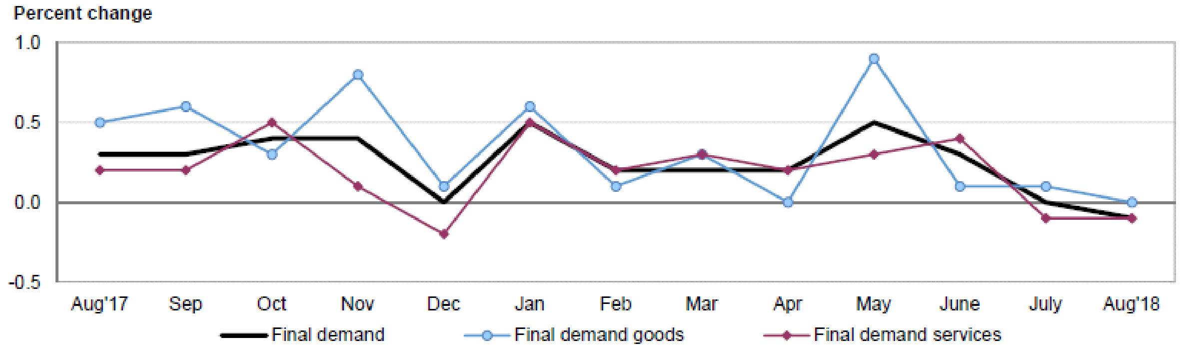
The PPI for final demand decreased in the latest month.

FINAL DEMAND; Aug -0.1% versus Jul 0%

Annual growth in PPI Final demand slowed; Aug +2.8% versus Jul +3.3%

The “core” PPI ex food energy & trade; Aug +0.1% versus Jul +0.3%

Chart 1. One-month percent changes in selected PPI final demand price indexes, seasonally adjusted



<u>Final demand for goods</u> was unchanged; Aug 0% versus Jul +0.1%

The biggest changes; food declined further in the latest month; Aug -0.6% versus Jul -0.1%

<u>Final demand for services</u> declined; Aug -0.1% versus Jul -0.1%

The biggest changes; trade continued to decline, and transportation and warehousing shifted from growth to decline; Aug -0.6% versus Jul +0.3%

INTERMEDIATE DEMAND; also saw some further moderation in the latest month, suggesting some weaker growth in final demand prices in the future.

Processed goods for intermediate demand; Aug 0% versus Jul 0%

Unprocessed goods; Aug -5.8% versus Jul +2.7% (volatile). The 12mth change fell from 8.2% in Jul to +2.9% in Aug.

Services for intermediate demand slowed; Aug +0.1% versus Jul +0.2%. Trade, transportation and warehousing price indexes declined in the latest month.

https://www.bls.gov/ppi/

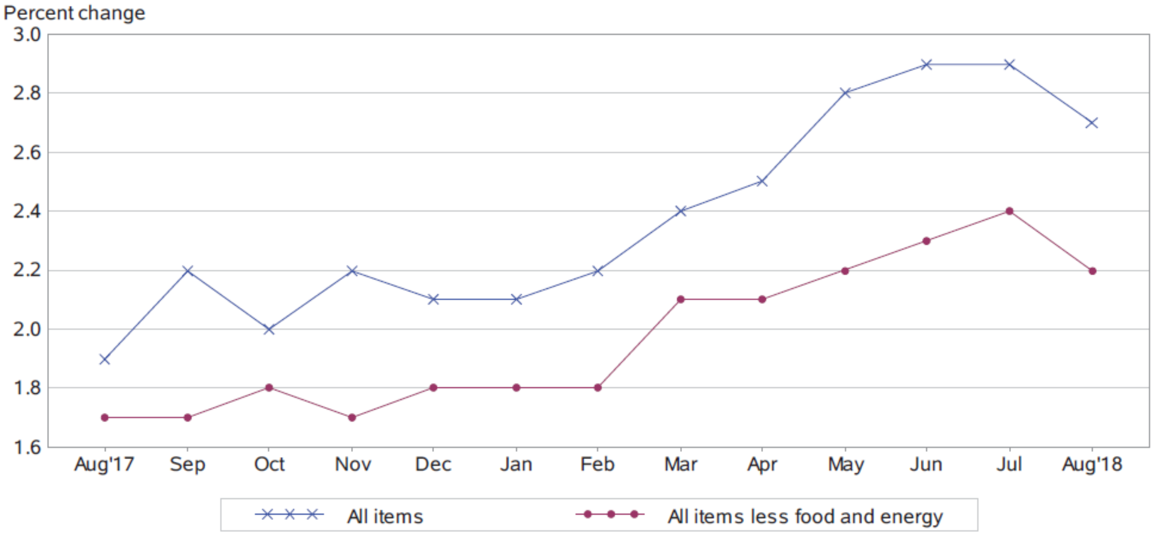
CPI – Aug

The headline CPI growth remained unchanged versus the previous month.

Aug +0.2% versus Jul +0.2%

Annual headline rate; Aug +2.7%

Chart 2. 12-month percent change in CPI for All Urban Consumers (CPI-U), not seasonally adjusted, Aug. 2017 - Aug. 2018



Energy continues to make the largest contribution to headline CPI growth; Aug +1.9% versus Jul -0.5% and annual growth of +10.2%. This month, gasoline made a much larger contribution to headline CPI growth; Aug +3% versus Jul -0.6%, annual +20.3%. Gasoline accounts for 3.8% of the weight in the CPI and this month contributed approx. 32% of the change for the month.

All items less food and energy; Aug +0.1% versus Jul +0.2%, annual +2.2%.

In this group, its services less energy services that is driving growth in the more 'core' measure of CPI;

Services: Aug +0.2% versus Jul +0.3%, annual +3%. Shelter (rents and owners' equivalent rent) and transportation services are the main drivers.

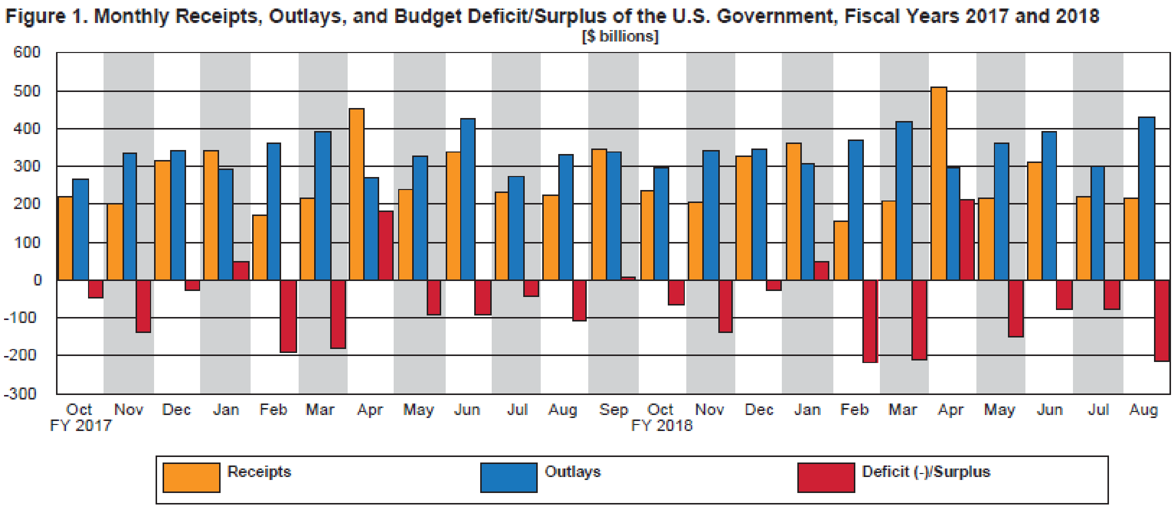
https://www.bls.gov/cpi/

US Monthly Budget Statement

Whilst we had this report earmarked to review this week given it was the second last month in the fiscal year. But it was highlighted in the news due to the increase in budget deficit for the month of August, more than prior results for August.

It appears that the larger deficit may have been due to payments earmarked for Sept were shifted into August due to the payment dates falling on non-business days and public holidays. We will need to wait for the Sept data to see the effect of this timing anomaly.

For the YTD, total receipts are running slightly ahead of last year, outlays are up on last year and the deficit is also higher;



At YTD Aug 2018 versus the YTD Aug 2017;

Total receipts +0.6%

Total outlays +6.7%

Deficit running at +$224b versus prior YTD

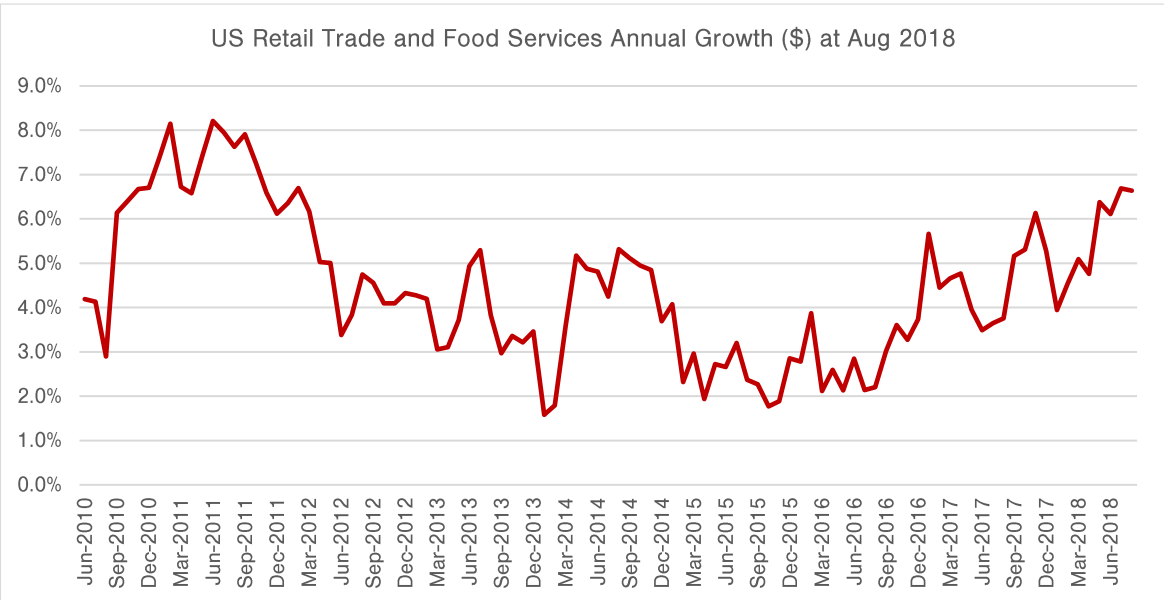
https://www.fiscal.treasury.gov/fsreports/rpt/mthTreasStmt/current.htm

Retail Sales – Aug

The advance monthly retail sales growth ($ value) was slower in the latest month;

Aug +0.1% versus Jul +0.7%

Annual growth for total retail trade and food services; Aug +6.6% versus Jul +6.7%



Growth slowed across most categories in the latest month (compared to Jul), but the main driver of the slower monthly retail growth was the decline in value sales of Motor Vehicle and

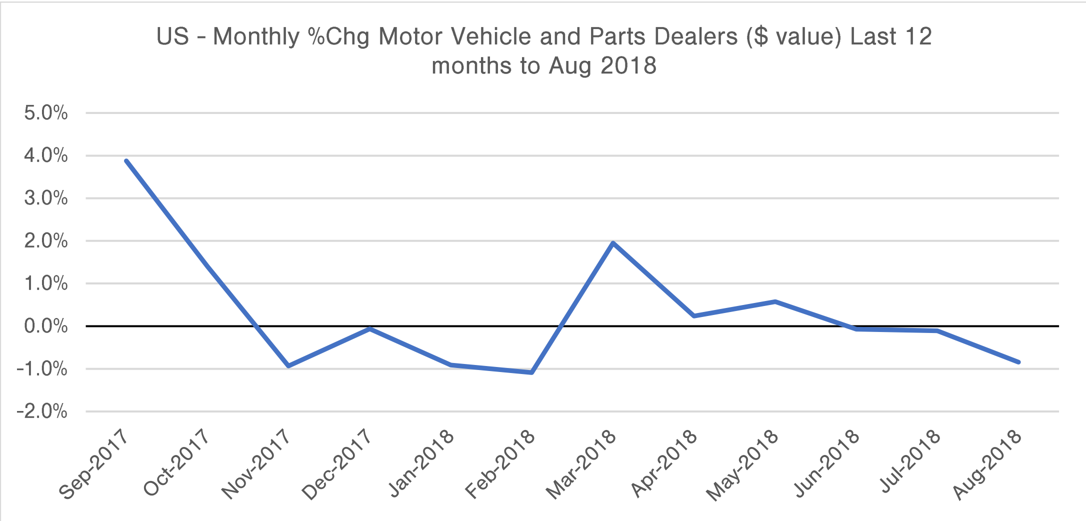
Parts Dealers. This group represents 20% of retail sales value in Aug and detracted 0.2%pts from total growth in the month.

The largest positive contributor to growth was the change in value sales of gasoline. Gasoline represents 9% of retail sales in the latest month and contributed +0.142%pts to the headline growth of 0.087%. From the CPI report, we know that gasoline prices increased in Aug, mostly like the reason behind the higher sales value.

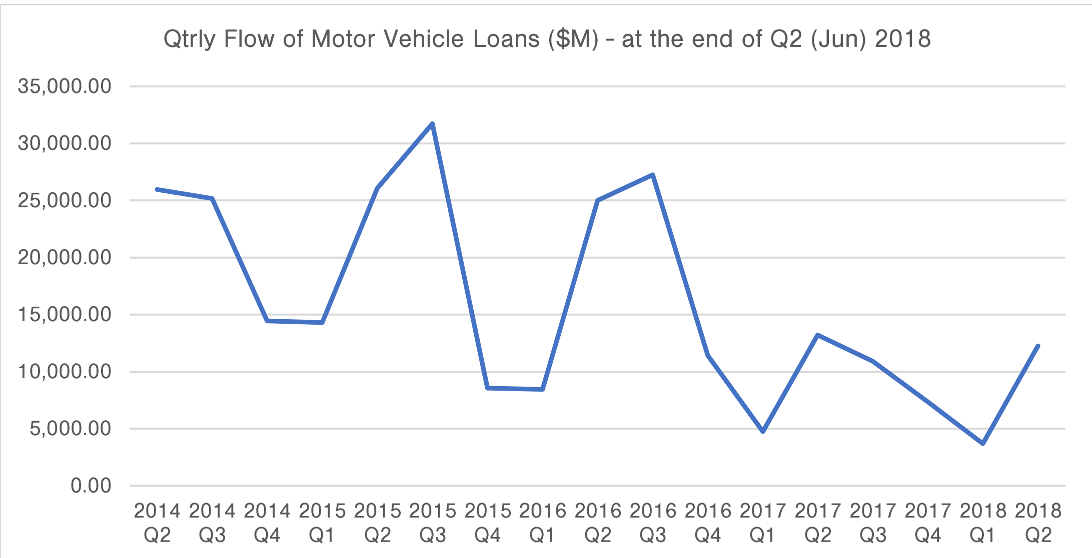
Non-store retailers and misc store retailers made the next largest positive contribution to growth in the month.

Some further detail on sales of motor vehicles;

The value of sales for Motor Vehicle and Parts Dealers has been slowing since March 2018 and has declined over the last two months;



Going back to the Consumer Credit Report, the growth in new loans has been slowing. Data is only available on a quarterly, non-seasonally adjusted basis. The credit data for Motor Vehicles is a month behind current consumer credit data and two months behind current retail sales. But it's the slowing trend in credit growth especially since Q1 2017 that is important. Retail sales suggests that auto loans may continue to slow;



Motor Vehicle loans account for approx. 27% of non-revolving credit growth over the last year (https://www.federalreserve.gov/releases/g19/HIST/cc_hist_memo_flows.html)

https://www.census.gov/retail/marts/www/marts_current.pdf

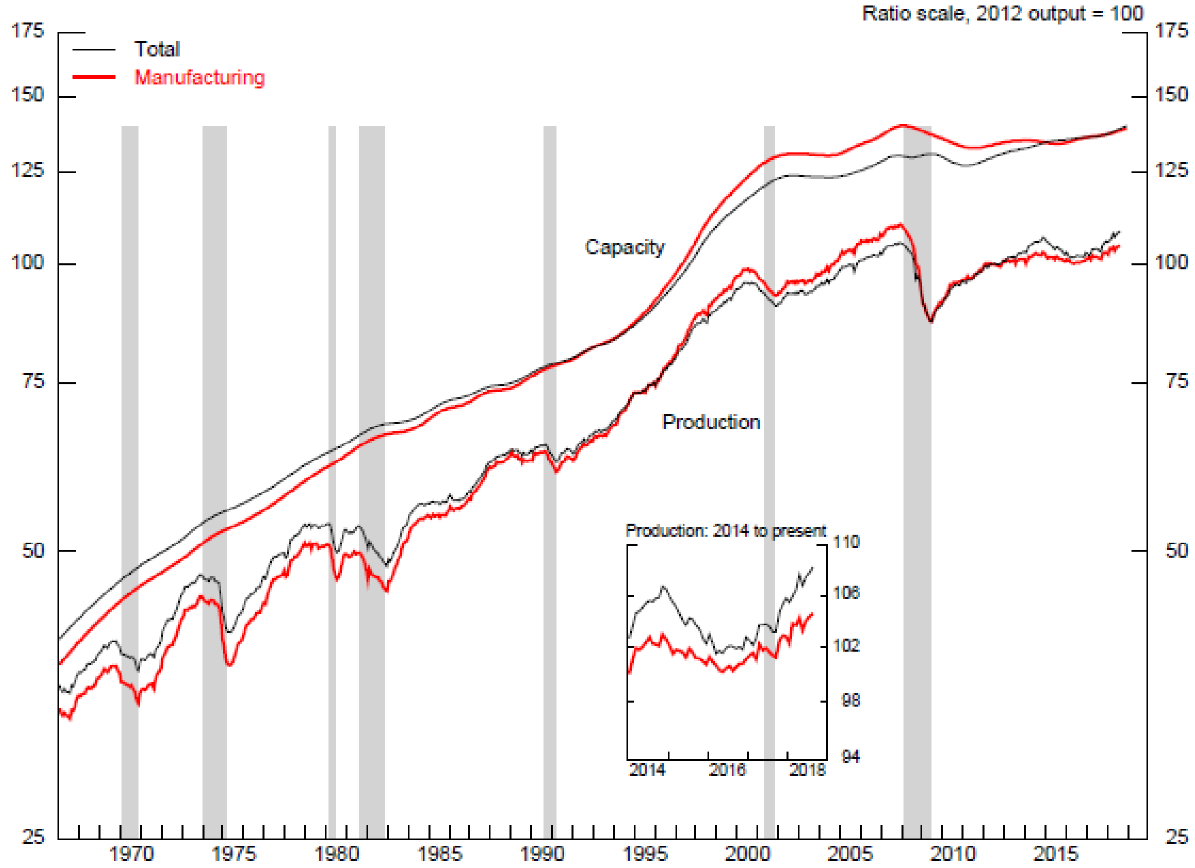
Industrial Production (Fed G.17) – Aug

Industrial production continued to grow at a constant rate in the latest month;

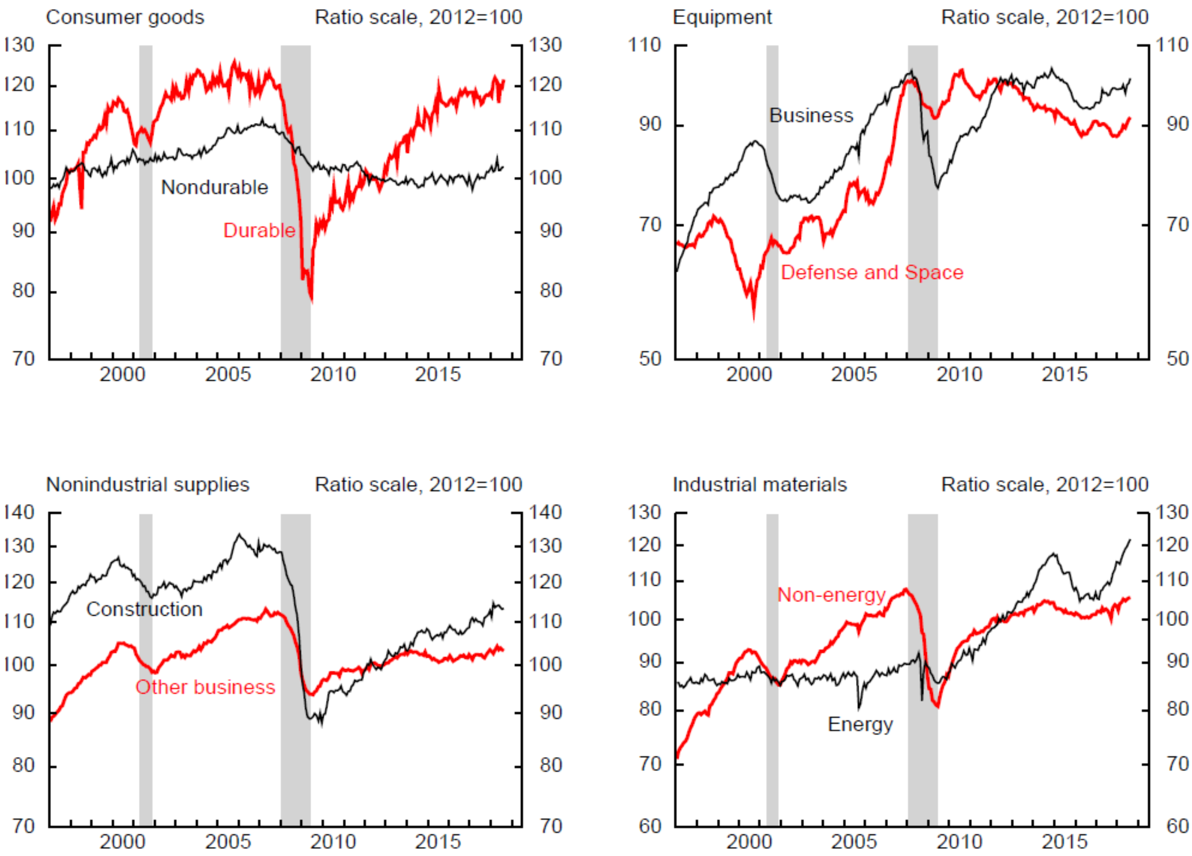
Aug +0.4% versus Jul +0.4%, annual at Aug +4.9%

Mining and Utilities led the way this month, Mining +0.7% and Utilities +1.2%. Annual growth industrial production in Mining +14.8% and Utilities +4.8%.

Manufacturing slowed to +0.2% in Aug and the annual rate +3.1%



Across the major groups, few industry groups are above the Pre-GFC levels of industrial production – energy, non-energy industrial materials, durable consumer goods and business equipment are either above or at least approaching those levels;



https://www.federalreserve.gov/releases/g17/current/

<u>Fed speeches this week</u>; Highlights based on decision criteria/considerations for further rate increases.

Fed President Bullard Speech Sept 12 – What is the best strategy for extending the US economy's expansion?

Place more weight on financial market signals (rather than the Phillips curve), such as slope of the yield curve and market-based inflation expectations.

"The flattening yield curve and subdued market-based inflation expectations suggest that the current monetary policy stance is already neutral or possibly somewhat restrictive"

The inflation compensation data derived from Treasury inflation-protected securities (TIPS) "suggest that markets do not expect the FOMC to achieve the 2 percent inflation target on average on a PCE basis over the next decade," he said.

Governor Lael Brainard Sept 12 - What Do We Mean by Neutral and What Role Does It Play in Monetary Policy?

"How much the neutral rate is likely to rise and whether it flattens or moderates further out will depend on a variety of developments–such as whether fiscal stimulus is extended or expires, whether foreign and trade risks grow or recede, and whether financial system vulnerabilities extend. As such, the gradual pace of rate increases implicit in the SEP's median policy path incorporates a degree of caution, which is appropriate, in my view."

“It is worth highlighting that the flattening yield curve suggested by the SEP median is associated with a policy path calibrated to sustain full employment and inflation around target. So, while I will keep a close watch on the yield curve as an important signal on financial conditions, I will want to interpret yield curve movements as one of several considerations informing appropriate policy.”

“Indeed, the possibility that the projected policy path may have unintended consequences is one of the compelling reasons for raising interest rates gradually. The gradual pace of interest rate increases anticipated in the SEP median path should give us some time to assess the effects of our policies as we proceed.”

President Evans Sept 14 – Monetary Policy: The Road Ahead

“Absent these types of surprises, I expect the strong fundamentals for growth to continue and inflation will reach our symmetric 2 percent target on a sustained basis. Given this outlook, it is time to return to the more conventional, mainstream monetary policy that characterized the Fed’s policymaking in the 20 years prior to the financial crisis.”

“The longer-run normal level of interest rates—what economists call the neutral level—is noticeably lower today than it was during earlier times of conventional monetary policymaking. This means we don’t have the same capacity to cut interest rates in response to adverse economic shocks as we did in the past. And if we run out of such room, then we may again have to turn to unconventional tools such as large-scale asset purchases and forward guidance about the funds rate to provide monetary accommodation.”

https://www.stlouisfed.org/fomcspeak

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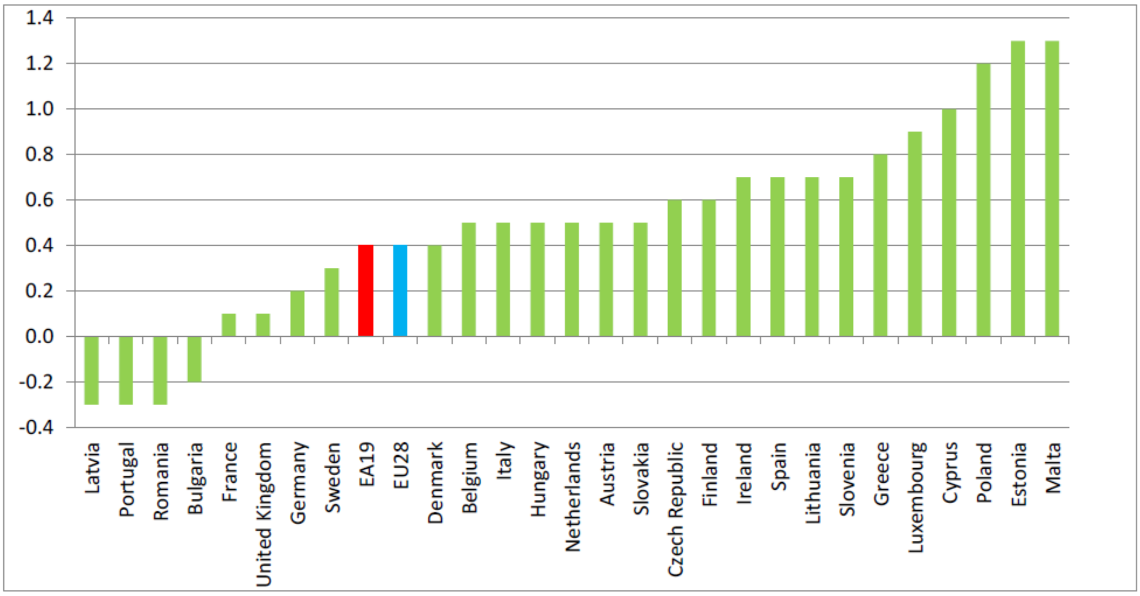
Europe

Eurozone Employment Q2

Employment growth in the EA19 and EU28 grew by +0.4% in Q2 versus Q1.

Annual employment growth remains unchanged at 1.5% for the EA19 and slowed slightly to 1.4% in the EU28.

Member States' growth rates for employment in the second quarter of 2018
% change over the previous quarter, seasonally adjusted



Croatia: data not available for the second quarter of 2018.

Of note is that employment growth is below the EA19/EU28 average in some of the larger economies such as France and Germany.

Germany – growth slowed from +0.5% in Q1 to +0.2% in Q2.

France - employment growth slowed from Q1+0.2% to +0.1% in Q2.

Employment growth also slowed in the UK from +0.6% in Q1 to +0.1% in Q2.

Employment growth in Italy increased from +0.2% in Q1 to +0.5% in Q2.

https://ec.europa.eu/eurostat/documents/2995521/9102864/2-11092018-AP-EN.pdf/dfae4d76-b958-49bf-9ea8-0066bf7ea788

Eurozone Industrial Production – Jul

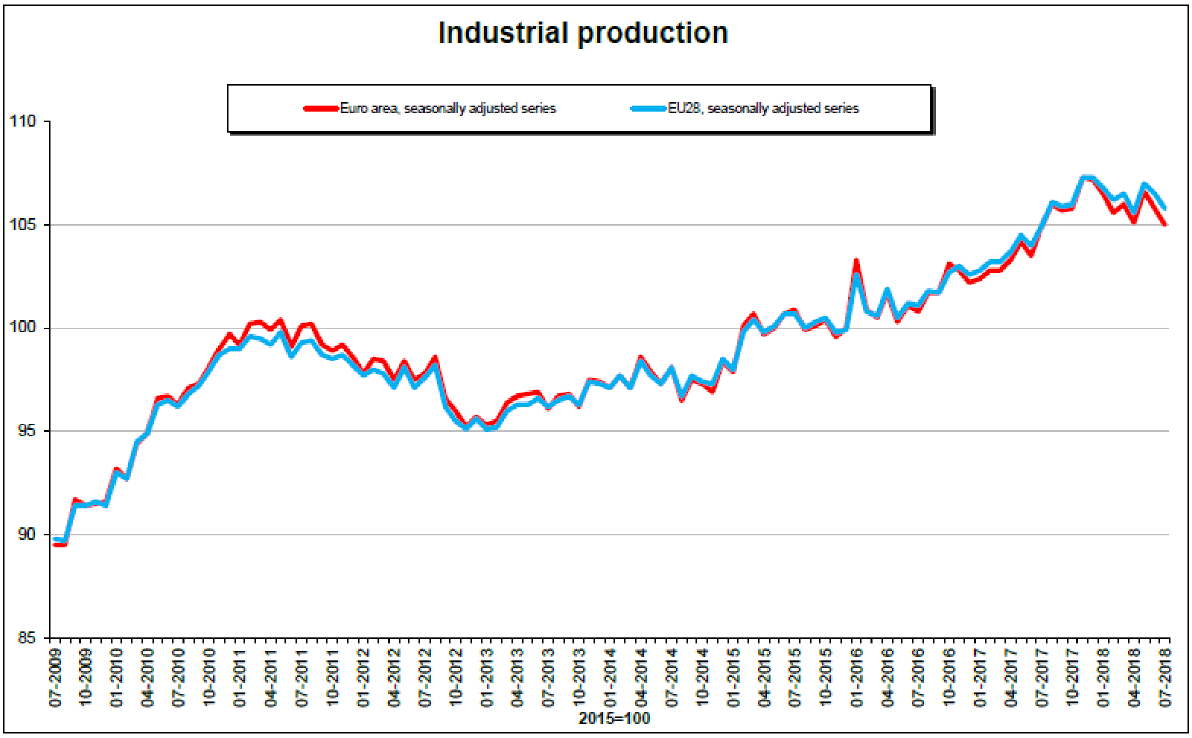
Industrial production in the Eurozone fell in the latest month for the second month in a row.

EuroArea 19 Group; Jul -0.8% versus Jun -0.8%

Jul 2018 v Jul 2017 -0.1%

The only industry groups that grew in the month were Energy and Capital Goods (after declining the month prior).

Industrial production in the broader Euro Union 28 group declined; Jul -0.7% versus Jun - 0.5%.



Declines were recorded across some of the larger economies; Germany (highlighted last month), Spain and Italy. Notable was a -4% decline in Sweden for the month.

This report has been consistent with the weaker PMI's across European manufacturing as well as the weaker industrial production data for Germany.

https://ec.europa.eu/eurostat/documents/2995521/9102954/4-12092018-AP-EN.pdf/81d6dda4-98f3-4c96-8a81-23b5c4dec2ab

Eurozone Trade Balance – Jul

Across the Euro Area and the EU, imports are growing faster than exports.

Euro area (EA19):

Exports of goods to the rest of the world in Jul 2018; €194.6b (+9.4% annual growth)

Imports from the rest of the world Jul 2018; €177.1 b (+13.4% annual growth)

Trade Balance Jul 2018; €17.6 b surplus versus +€21.6 bn in Jul 2017.

Intra-euro area trade rose to €162.3 bn in July 2018, up by 9.3% compared with July 2017.

International Trade

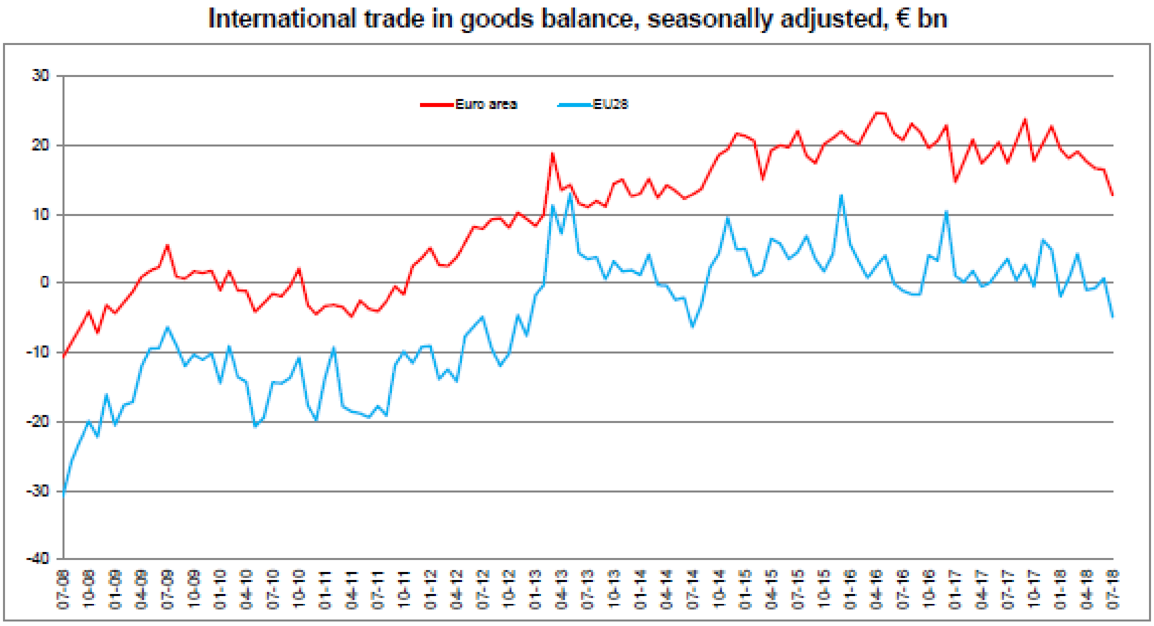
The monthly seasonally adjusted data highlights slower growth in exports – something that has been highlighted via the recent PMI's.

Euroarea 19 group; July seasonally adjusted exports - 0.8%, imports +1.3%. The seasonally adjusted balance was +€12.8 b, a fall compared with June +€16.5 b.

Euro Union 28; July 2018 seasonally adjusted exports -1.0%, imports +2.4%. The seasonally adjusted balance was -€4.9 b, a fall compared with June +€0.7 b.

Note that this is the international component of exports & trade, not including trade within the Eurozone.

The longer timeframe data doesn't pick up on the slow down at this stage. On a monthly basis the EU28 international goods trade balance is now in deficit and the EA19 group surplus is becoming smaller.



In both cases, it is export growth that is underperforming the growth in imports over the same time.

Currency changes over this time need to be considered given that this data is reported as "value".

https://ec.europa.eu/eurostat/documents/2995521/9102969/6-14092018-BP-EN/aa6f0d89-4ce3-45b3-a1d8-c09fc65ed3bd

German CPI (final) – Aug

Headline CPI growth slowed slightly in the latest month, but annual growth remained unchanged at 2% in the year to Aug 2018.

Aug +0.1% versus Jul +0.3%

The annual headline number continues to be influenced by higher energy prices, as well as other goods prices such as food.

CPI ex energy growth is much lower than headline, with annual growth at +1.5% and Aug month 0% growth.

The growth in the goods component of CPI is higher in the month and annual; Aug +0.5% and annual growth +2.7%. The energy component; Aug +0.7% and annual growth +6.9%.

The growth in the services component of CPI is helping to offset the higher growth in goods prices; Aug -0.3% and annual growth +1.4%.

https://www.destatis.de/EN/PressServices/Press/pr/2018/09/PE18_343_611.html;jsessionid=3AA1B091515166FCCF86039871FA10B3.InternetLive1

ECB Rates Decision - Sept

The ECB kept rates on hold at the latest meeting. Key rates:

Main refinancing operations 0%

Marginal lending facility +0.25%

Deposit facility -0.4%

The ECB is likely to keep rates on hold “at least” through the summer of 2019, but for as long as necessary in order to reach inflation levels close to 2%.

After the end of Sept, the ECB starts to slow the pace of asset purchases.

At the end of Sept, net asset purchases will slow from €30b/mth to €15b/mth until the end of Dec. Based on incoming data, the ECB expects that net asset purchases will finish after Dec.

From then, the ECB will continue to reinvest principal payments from its holdings of assets for an extended period of time, in order to maintain ‘favourable’ liquidity conditions and ‘an ample degree of monetary accommodation’.

https://www.ecb.europa.eu/press/pr/date/2018/html/ecb.mp180913.en.html

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Japan

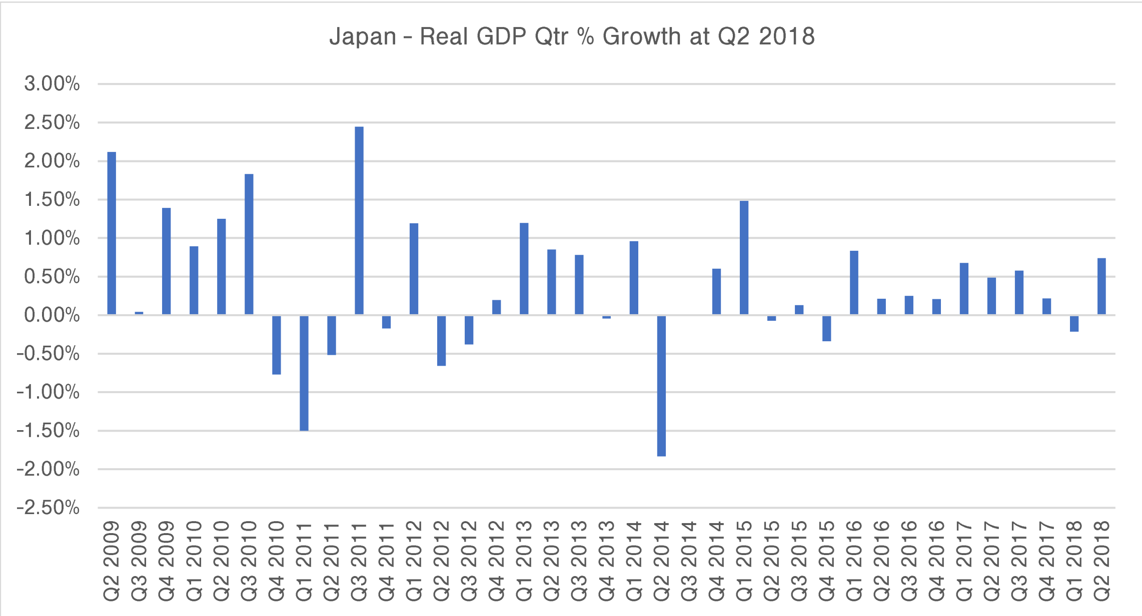
GDP Q2 – 2nd Prelim estimate

2nd Quarter real GDP growth was revised higher in the latest estimate;

Q2 +0.74% revised from +0.5%

Current annual growth Q2 v Q2 2017; +1.3%

Current Q2 annualised; +2.96%



The current quarter growth is the strongest since Q1 2016.

The largest contributor to growth was private non-residential investment growing at +3% in the quarter (Olympics related?).

Household consumption also made a relatively strong contribution to growth growing at +0.7% in the quarter.

Residential investment and the change in net exports detracted from growth in the quarter.

The GDP price deflator was 0% in the quarter.

Compensation of employees grew by +1.7% annual (real rate)

http://www.esri.cao.go.jp/en/sna/data/sokuhou/files/2018/qe182_2/gdemenuea.html

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United Kingdom

BREXIT

No further progress made on the withdrawal agreement this week. There was little in the way of negotiations at a high level this week with UK and EU 'taking stock' of the current negotiations by phone ahead of the Salzburg summit.

"While there remain some substantive differences we need to resolve, it is clear our teams are closing in on workable solutions to the outstanding issues in the withdrawal agreement and are having productive discussions in the right spirit on the future relationship." https://www.pulse.ng/news/world/brexit-negotiators-in-call-ahead-of-eu-summit-id8855372.html

Next week's informal summit of EU leaders at Salzburg is shaping up as an important event. While no final decision is expected, it is hoped that this will create some needed momentum leading into these final stages.

19-20 Sept - discussion of timing of a deal, key sticking points and whether to provide additional instructions to Michel Barnier to "serve as a sort of mandate to do the deal" https://www.ft.com/content/477ac3e4-b433-11e8-bbc3-ccd7de085ffe

https://www.reuters.com/article/uk-britain-eu/britain-and-eu-closing-in-on-a-brexit-agreement-raab-says-idUSKCN1LU1YO

UK GDP – Monthly (Jul)

The latest monthly data shows that the rolling 3-mth growth in GDP increased to +0.6% (May-July) from the final result for Q2 of +0.4%.

Table 1: Breakdown of GDP growth rates by month

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	Growth (%)		
	May-18	Jun-18	Jul-18
GDP	0.3%	0.1%	0.3%
Index of Services	0.2%	0.0%	0.3%
Index of Production	-0.2%	0.4%	0.1%
Manufacturing	0.6%	0.4%	-0.2%
Construction	2.9%	1.4%	0.5%
Agriculture	0.2%	-0.2%	-0.1%

Source: Office for National Statistics

Services made the largest contribution to growth in the latest rolling 3months - led by retail and wholesale activity. This period included the world cup and the royal wedding as two major retail events.

Production detracted slightly from overall growth -0.07%pts. The trend in the table above over the 3months shows manufacturing continuing to slow. The Aug PMI's highlight further slower momentum is likely, led by a decline in export orders.

While construction made a positive impact on growth, the table above also highlights that construction growth is slowing (had a poor start to the year also).

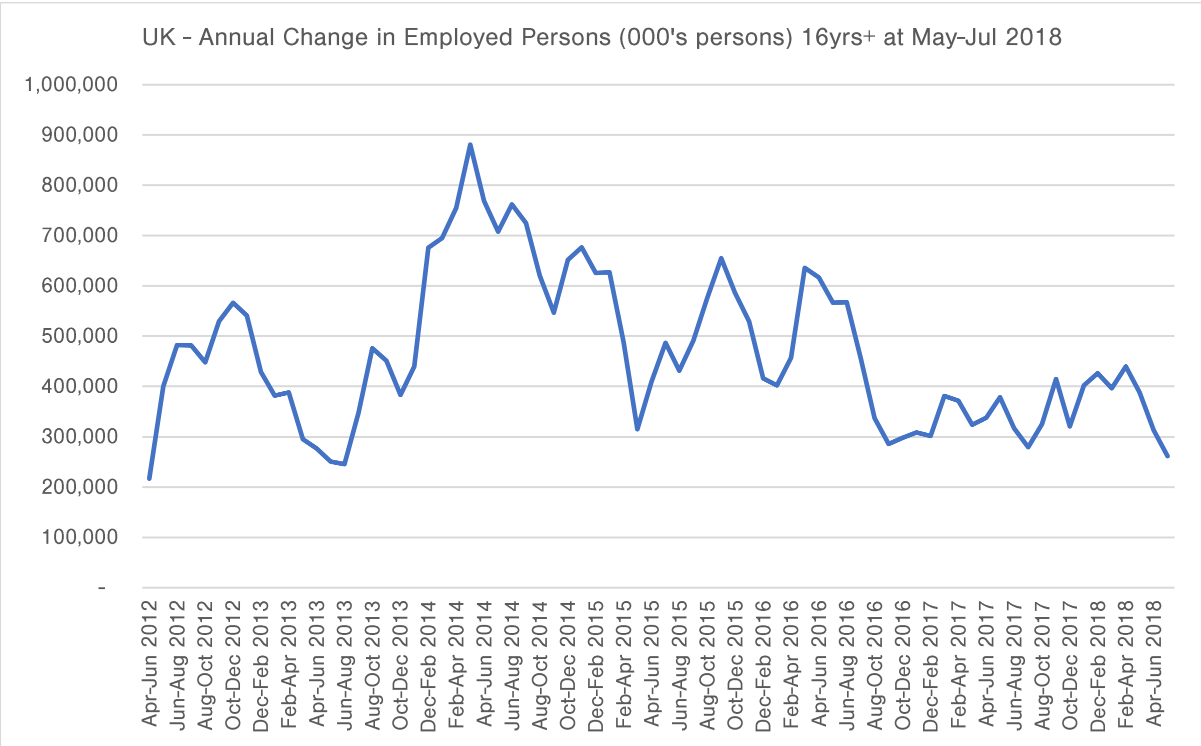
This is broadly in line with the latest PMI's. The Aug PMI's showed stronger result in services and slowing momentum in manufacturing (led by export growth).

https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/july2018

UK Labour Market – May-Jul

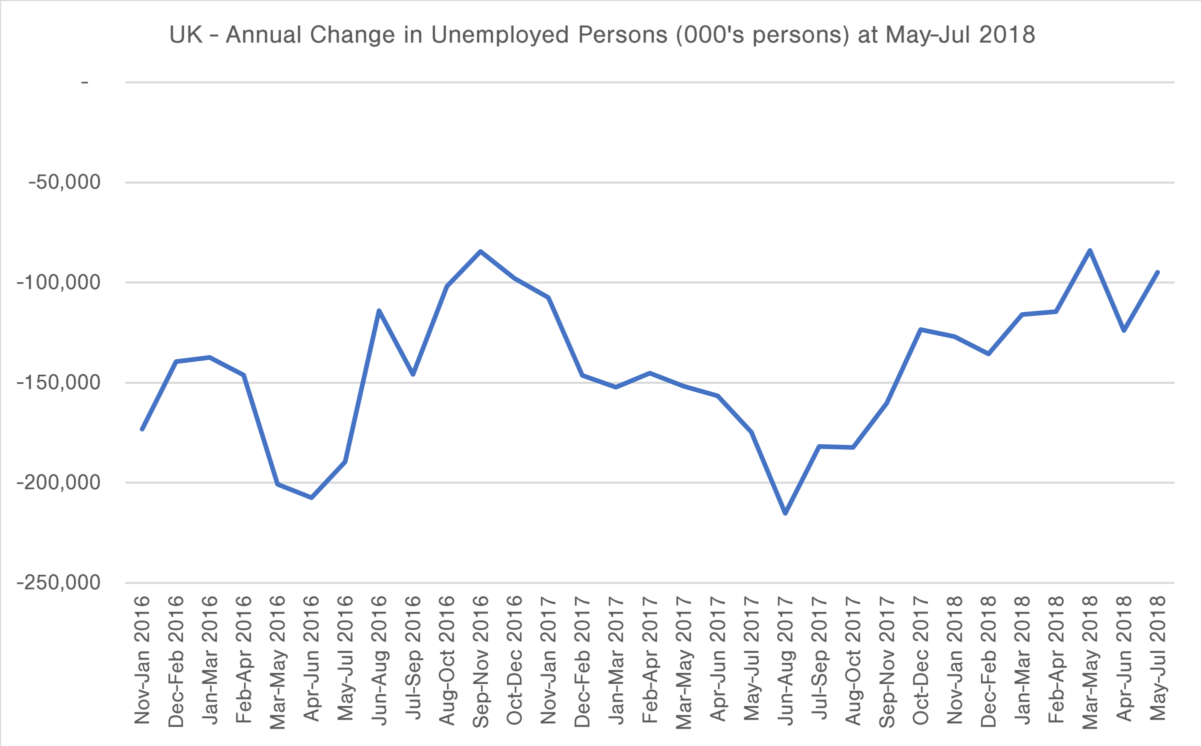
UK labour market data was somewhat weaker, with employment growth continuing to slow.

Total Employed; For the population 16yrs+, employment grew by 3k persons in the latest quarter and annual growth slowed to +261k persons. This is the slowest level of growth going back to 2012;

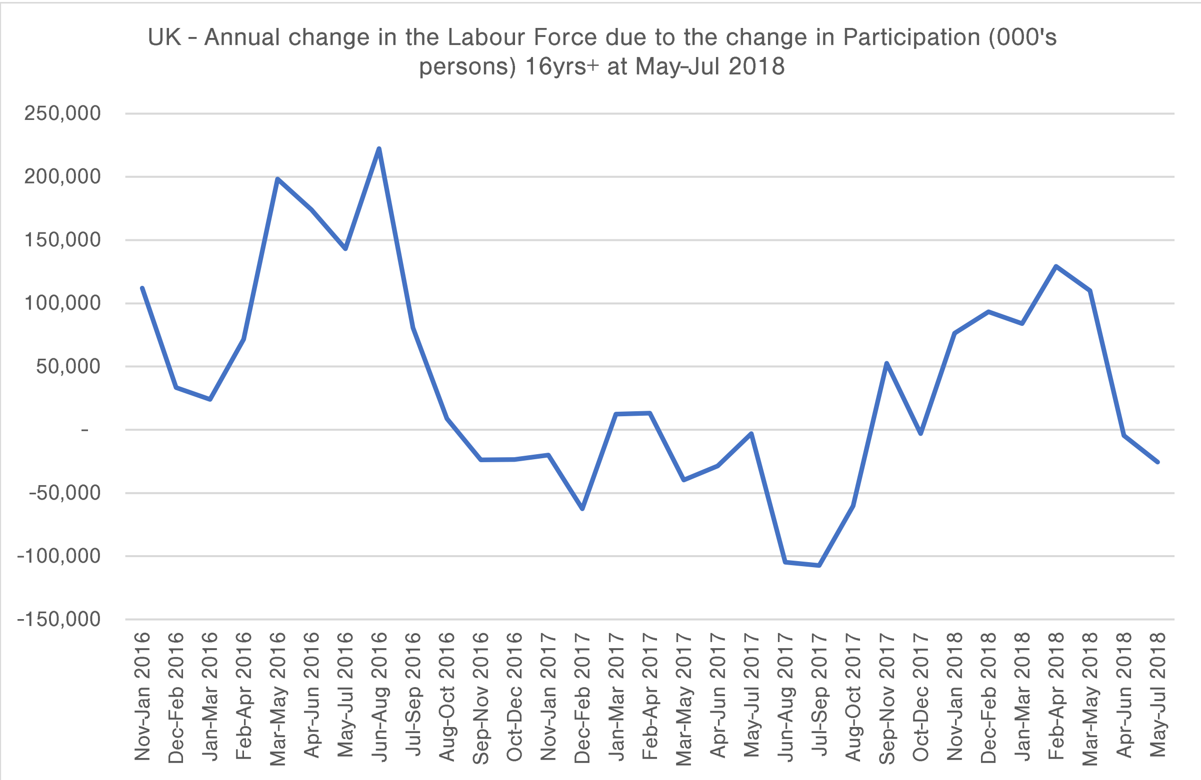


In the 16-64yr age group, total employed persons declined by 35k in the latest May-Jul quarter.

This slow-down in employment growth is resulting in a smaller decline in total unemployed persons;



At the same time, people are leaving the labour force; the change in the labour force due to the change in participation is -25k persons over the latest year and -100k persons in the latest quarter (the participation rate has gone from 63.8% Feb-Apr 18 to 63.61% in May-Jul).



Note the total size of the labour force declined by -52k persons in the latest quarter and grew by +166k persons in the latest year.

The total change in the labour force can be viewed two ways. One is the sum of what the estimated pop growth adds to the labour force plus the change in participation. The second is the sum of total employed persons and total unemployed persons. The summary of the key labour market measures aims to bring together both sides of that labour market view;

	16yrs+ (number of persons)		
	Latest Qtr Chg May-Jul 2018		ANN Chg May-Jul 2018
Estimated change in the Labour Force due to pop growth (1)	47,720		192,123
How many jobs available for them? (employment growth) (2)	2,710		261,339
Difference (is employment growing faster than population?) (3) -	45,009		69,216
Change in the labour force due to the change in participation (4) -	100,326	-	25,630
The remainder is the reduction in total unemployed persons (4) less (3) -	55,317	-	94,845
Double check - change in total economically active -	52,607		166,493
Double check - change in total economically active -	52,607		166,493
Actual economically active ann chg -	52,607		166,493

On an annual basis, employment is still growing faster than what population adds to the labour force (by an estimated +69k persons). So even if people didn't leave the labour force, unemployment would still decline.

In the latest quarter, this is reversed. The only reason that unemployment didn't increase is because of the change/decline in labour force participation.

On a more positive note was the increased is annual growth of average earnings. In the year to May-Jul 18, regular pay increased by 2.9% in nominal terms (annual UK CPIH at June +2.3%). But taking a bigger picture view, the actual level of average weekly earnings is still below that of the pre-GFC days;

January 2005 to July 2018

From a speech by Mark Carney this week on the Future of Work;

"Although current rates of pay growth in the UK are below pre-crisis averages, this largely reflects continued weakness in productivity growth. While that weakness may reflect the early consequences of the Fourth Industrial Revolution, other factors seem more likely to be at play. In the years following the global financial crisis, the aftereffects of that shock and the subsequent euro-area crisis exerted a drag on business investment. More recently, uncertainty around Brexit has had an additional dampening effect"
(https://www.bankofengland.co.uk/-/media/boe/files/speech/2018/the-future-of-work-speech-by-mark-carney.pdf?la=en&hash=7192F8E8427F6ACC51D98DABE951AA6D4B95B0EF)

https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/september2018

BoE Rates Decision – Sept

The BoE voted (unanimous) to keep rates on hold. Current bank rate 0.75%

Other key elements of current policy also remained unchanged;

Maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at £10 billion

Maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at £435 billion

Recent data broadly in line with BoE projections. The BoE projects that with a very limited degree of slack remaining, a small margin of excess demand will emerge by late 2019 and build thereafter, feeding through into higher growth in domestic costs.

Any future increases in Bank Rate are likely to be at a gradual pace and to a limited extent.

Key risks remain around the final withdrawal agreement with the EU and how business and households respond.

https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2018/september-2018

Speech by Mark Carney – The Future of Work https://www.bankofengland.co.uk/-/media/boe/files/speech/2018/the-future-of-work-speech-by-mark-carney.pdf?la=en&hash=7192F8E8427F6ACC51D98DABE951AA6D4B95B0EF

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Australia

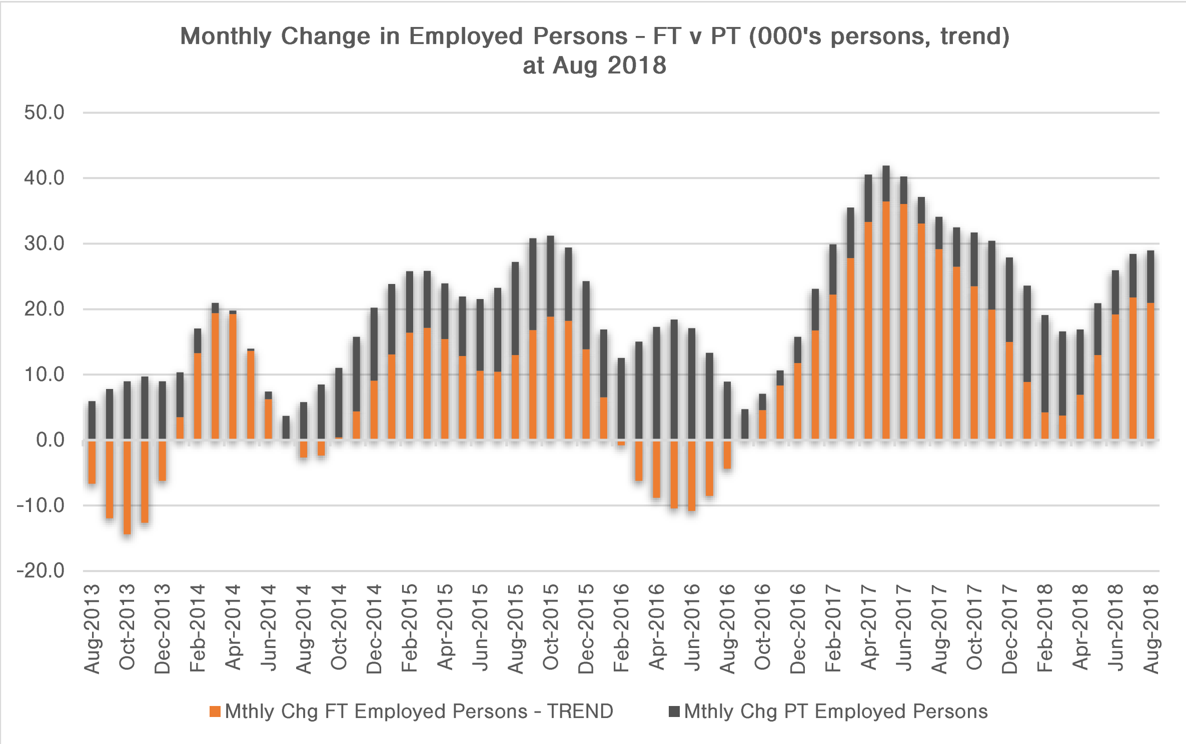
Labour Force Survey – Aug

A good labour market report.

Employment growth was constant, people came back into the labour market and unemployment still declined slightly.

Employment grew by +29k persons in the latest month. Annual growth slowed slightly to +303k persons, but still well above the 10year average of +184k annual growth in employed persons for Aug.

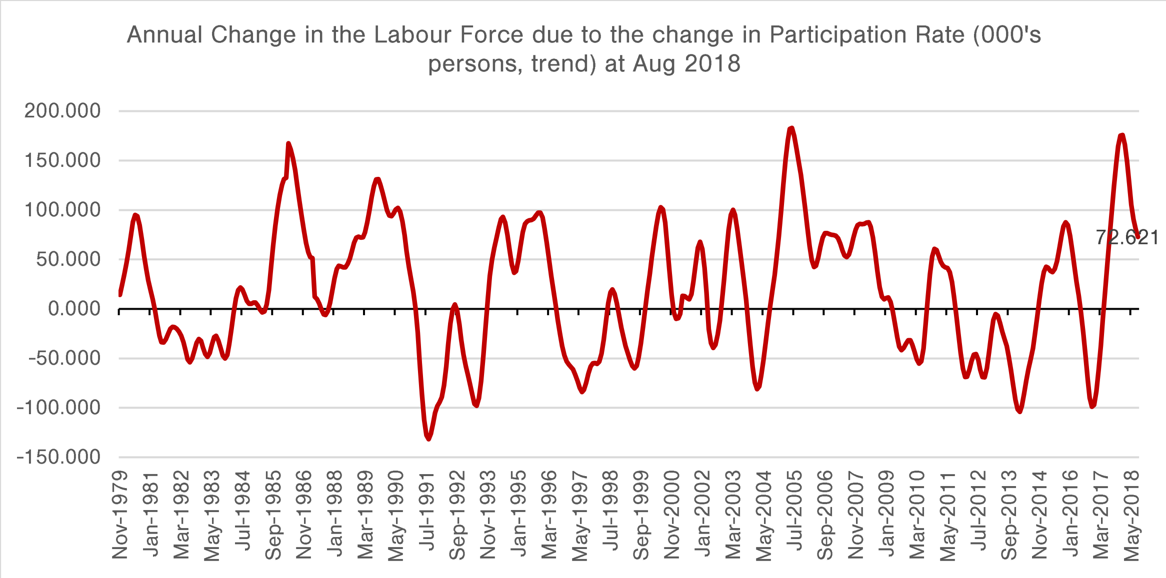
Employment growth in the latest month was driven mostly by full-time employment growth.



Total unemployed persons declined by -2.7k persons in the latest month, bringing the annual decline to -9.2k persons.

Given how strong employment growth has been, total unemployed persons have remained stubbornly high. Peaked at a total of 776k persons in Nov 2014 and is still at 711k persons at Aug 2018. U/e rate peaked at 6.3% and is now 5.3%.

The reason for the smaller decline in unemployed persons has been due to the change in participation.



In the latest month, the participation rate increased by 0.028%pts. Over the last year, the participation rate has increased by +0.357%pts which equates to approx. 72k people. Most of the growth has been the result of increased female participation.

	Annual chg 000's people - AUG 2018
The estimated change in the Labour Force due to pop growth	221.220
How many jobs available for them? (employment growth)	303.054
Difference (employment growing faster than pop est)	81.834
Change in labour force due to the change in participation	72.621
The reminder is the reduction in total unemployed persons	-9.214
Double Check - Annual chg in size of the Labour Force	293.841

In the latest year, employment continues to grow faster than the estimated change in the labour force due to population. Even with a relatively large change/increase in participation, unemployment continues to fall, albeit slowly.

http://www.abs.gov.au/AUSSTATS/abs@.nsf/ProductsbyCatalogue/3AE3C968A8A9CC98CA2582CE00152220?OpenDocument

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Trade

US-China Trade Negotiations

Some reports that Chinese Vice Premier Lui He was invited to visit the US on 27-28 Sept by Treasury Secretary Mnuchin. Reuters is reporting the meeting around the 20 Sept.

Vice Premier He is yet to accept. It has been reported that China may not accept the invitation if the next round of tariffs goes into effect.

We have some indication of how China could start to retaliate through the disruption of US supply chains in China – by imposing limits on the sale of parts and supplies needed by US businesses. https://www.reuters.com/article/us-usa-trade-china/china-may-reject-new-trade-talks-if-more-tariffs-imposed-wsj-idUSKCN1LW0NS

Reports are that the third tranche of tariffs may go ahead this week – a 10% import tariff on $200b of Chinese imports. The new tariffs would apply to more than 1,000 products, including smartphones, televisions, toys, and a range of other products.

President Trump may direct the USTR to implement a fourth tranche of tariffs on $267b of Chinese imports – as threatened several weeks ago.

China has previously offered energy and agri purchases, small reduction in the auto tariffs, some liberalization of JV requirement as a part of their negotiation.

Both leaders will meet at the G20 in November – which is a possible deadline for any agreement to be announced by the leaders.

US-EU Trade

https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/september/ustr-statement-us-eu-trade

NAFTA

Planned high level face to face talks did not go ahead this week. The Canadian Foreign Minister opted to remain in Canada (but talked by phone to USTR Lighthizer) to allow officials time to 'do more work' before negotiations could recommence in earnest.

http://www.kitco.com/news/2018-09-13/Canada-s-Freeland-won-t-hold-NAFTA-talks-says-more-work-needed.html

Reuters is now reporting that the President of Dairy Farmers of Canada industry lobby will meet with the Canadian Foreign Minister. https://www.reuters.com/article/us-trade-nafta-canada-dairy/head-of-powerful-canada-dairy-lobby-to-meet-freeland-about-nafta-idUSKCN1LU2GN

Text of the US-Mexico portion of NAFTA will be released at the start of October.

US-Japan Trade Talks

A cabinet-level negotiation is to be organised for later this month. This will be a precursor to direct talks between Trump and Prime Minister Shinzo Abe, likely on the sidelines of the United Nations General Assembly in New York.

The US is looking for further trade concessions to reduce the trade deficit with Japan and is using a 25% tariff of Japanese auto imports as a threat.

There is a possibility that the US may escalate the dispute given comments made by US President Trump last week.

https://asia.nikkei.com/Economy/Trade-War/Japan-girds-for-Trump-auto-tariffs-with-trade-talks-set-to-resume

Section 232 – Car and Truck Imports

Awaiting the outcome of the public hearings.

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