

## Key Themes

Trade and Brexit negotiations took a negative turn this week. The US-China trade dispute escalated with further tariffs implemented by both sides. The next round of trade talks was cancelled by China. Negotiations between US and Canada have yet to resolve issues on NAFTA. The EU rejected the UK Chequers plan for the post Brexit trade relationship and this now leaves four weeks to create a new deal, while no further progress has been made on the issues of the Irish border.

The preliminary PMI's didn't hold much good news either. The US composite PMI slowed further, led by services – the overall pace of expansion has been slower in Q3. The Eurozone composite PMI also continued to slow – with further evidence of slowing manufacturing and export activity, especially in core markets of France and Germany. Japanese manufacturing PMI improved.

Annual CPI growth continues to be influenced by higher energy/transport costs -

Eurozone; annual headline CPI growth slowed to 2%, around the ECB's target, but annual growth of CPI ex energy lower at +1.4%.

UK; annual growth of CPI-H incl owner occ housing costs came in at 2.4%, but ex volatile items CPI growth was lower at +1.9%.

Japan; the BoJ measures CPI less fresh food, which came in higher at +0.9%, but still well below the BoJ target, annual growth in CPI ex fresh food and energy was less than half that rate at +0.4%.

Canada; headline CPI growth slowed to +2.8%, but again CPI ex energy annual growth was lower at +2.2%. The BoC measures of core CPI accelerated somewhat in the latest month and are now sitting between 2 and 2.2%.

The BoJ left monetary policy settings unchanged at the latest meeting.

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[Trade](#) – US-China Trade, NAFTA, US-Japan Trade, Section 232 Car & Truck Imports

## US Data

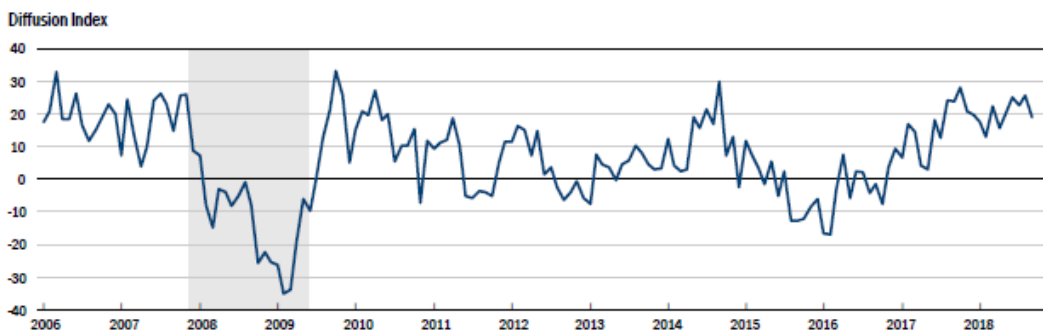
### Empire State Manufacturing Index (Sep)

Manufacturing activity in NY state continued to grow in the latest month, but at a slower pace;

Sep 19 versus Aug 25.6 (Jul 22.6)

Over the course of Q3, activity has mostly expanded at a constant rate compared to Q2 activity which accelerated over each month. Q2; Apr 15.8, May 20.1 and Jun 25

#### General Business Conditions Seasonally Adjusted



Note: The shaded area indicates a period designated a recession by the National Bureau of Economic Research.

The proportion of businesses that reported 'higher' levels of activity remained mostly unchanged 40%, but the proportion of businesses reported 'lower' levels of activity increased from 16% to 21%.

Measure of demand all continued to grow, but also a slower pace; New orders were mostly unchanged, shipments slowed by 11pts and unfilled orders also slowed. Inventories increased from a reading of zero to 8.9.

Prices paid expanded slightly faster, but prices received slowed.

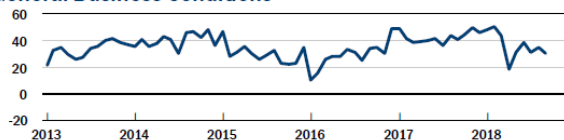
Number of employees was unchanged, but the average employee work week expanded at a faster rate.

The forward-looking business indicators are mostly all showing slower expansion;

General Business Conditions 6mths ahead;

Sept 30.3 versus Aug 34.8

#### General Business Conditions



	Percent Reporting		Index
	Higher	Lower	
Aug	49.3	14.5	34.8
Sep	45.8	15.5	30.3
Change			-4.5

[https://www.newyorkfed.org/medialibrary/media/survey/empire/empire2018/esms\\_2018\\_9\\_survey.pdf](https://www.newyorkfed.org/medialibrary/media/survey/empire/empire2018/esms_2018_9_survey.pdf)

## Philadelphia Fed Manufacturing Survey (Sept)

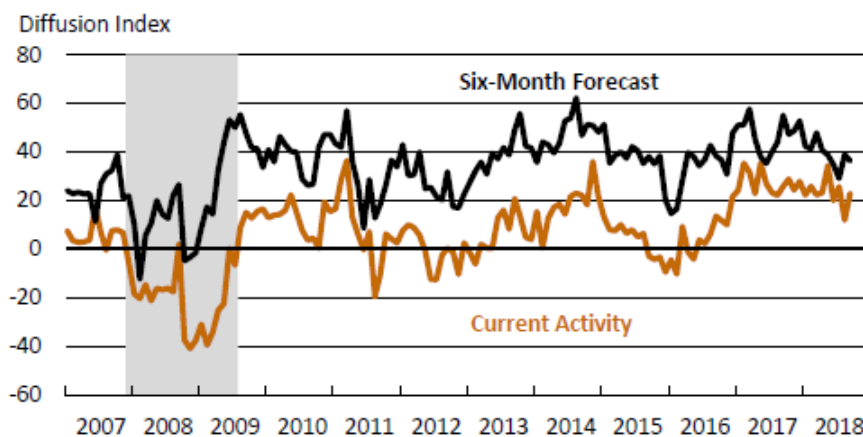
Manufacturing activity within the region expanded at a faster rate in Sept, bringing the index back up to around the 2018 average. It was a very strong finish to an otherwise lacklustre quarter.

Sept 22.9 versus Aug 11.9

Over the course of Q3, the business activity index has had a large negative swing – Jul 25.7, Aug 11.9 and Sept 22.9. This is compared to Q2, when activity had a relatively large and positive swing and remained elevated - Jun 19.9, May 34.4, Apr 23.2.

**Chart 1. Current and Future General Activity Indexes**

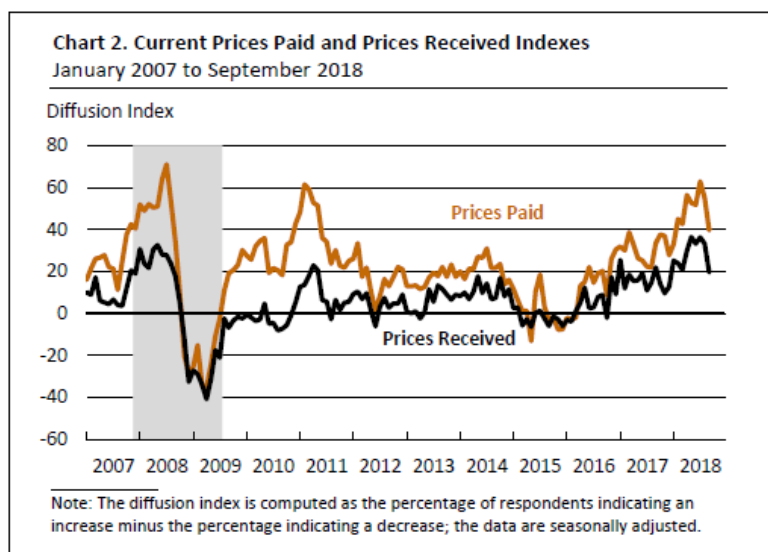
January 2007 to September 2018



Note: The diffusion index is computed as the percentage of respondents indicating an increase minus the percentage indicating a decrease; the data are seasonally adjusted.

Measures of demand all expanded at a faster pace in Sept – especially new orders; Sept 21.4 versus Aug 9.9. Shipments and unfilled orders expanded at a faster pace. Inventories fell into contraction.

Prices paid and prices received, expanded at a much slower pace.



Note: The diffusion index is computed as the percentage of respondents indicating an increase minus the percentage indicating a decrease; the data are seasonally adjusted.

Employment and average employee workweek expanded at a faster rate.

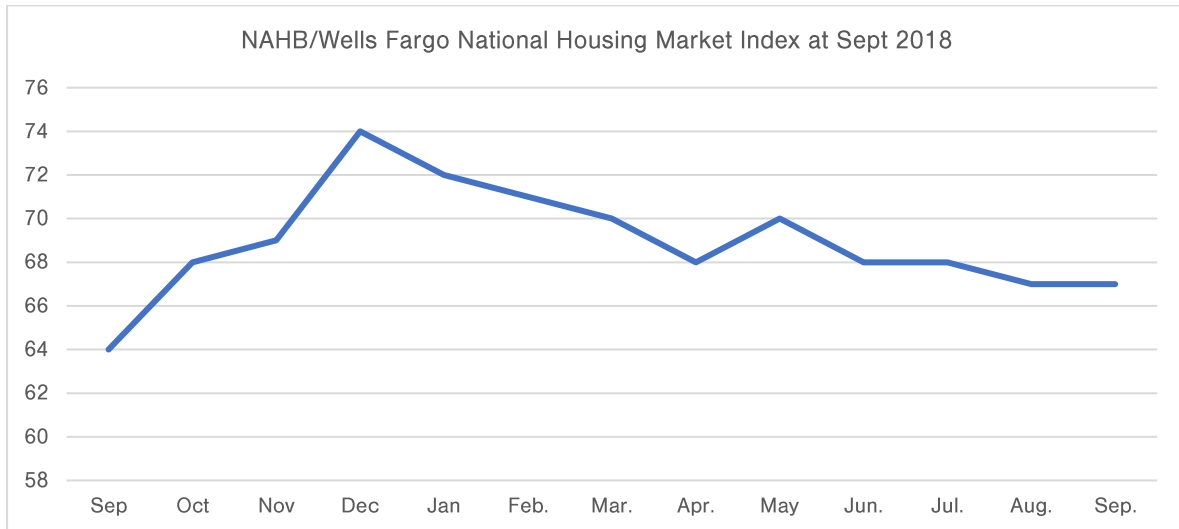
Activity 6months from now still expanded, but at a slightly slower pace. Capex was mostly unchanged from the reading in Aug.

<https://www.philadelphiafed.org/-/media/research-and-data/regional-economy/business-outlook-survey/2018/bos0918.pdf?la=en>

### Housing Market Index (Sep)

The NAHB/Wells Fargo Housing Market Index was unchanged in the latest month;

Sept 67 (prelim) versus Aug 67 (revised)



There was uptick in the index in the latest month for single-family sales activity (present) and over the next 6 months (after several months of slowing activity). Traffic of prospective buyers remained unchanged and down slightly from its peak in Jan/Feb.

On a regional basis, the index of sales activity increased in the Northeast (from 46 Aug to 61 Sept), declined slightly in the Midwest, decreased in the South and remained unchanged in the West.

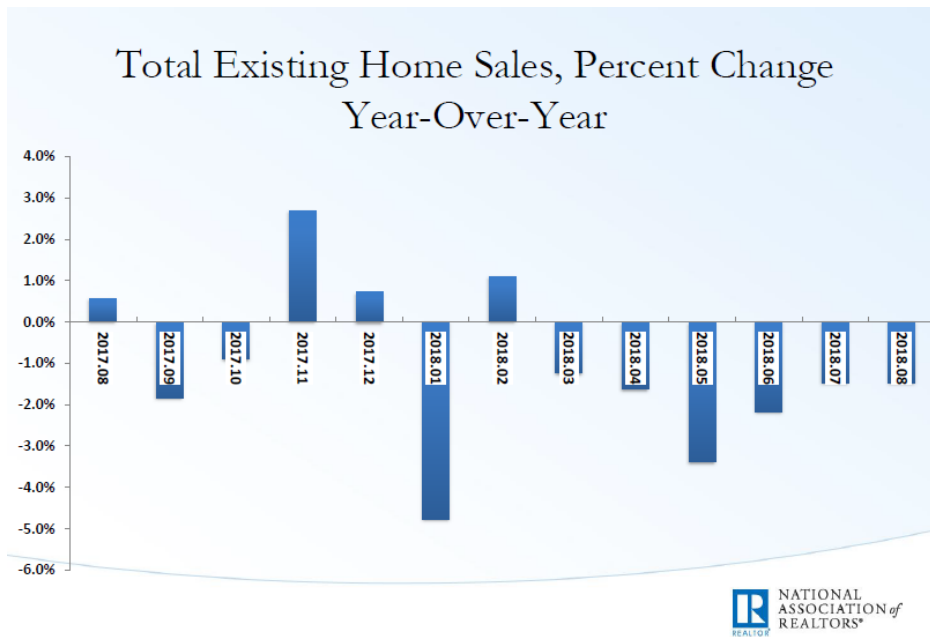
<https://www.nahb.org/en/research/housing-economics/housing-indexes/housing-market-index.aspx>

### Existing Home Sales (Aug)

Existing home sales were unchanged in the latest month;

Aug 0% versus Jul -0.7%

Annual at Aug -1.5%



On a regional basis; month sales growth was recorded in Northeast and Midwest regions. This was offset by declines in the South and West regions.

<https://www.nar.realtor/research-and-statistics/housing-statistics/existing-home-sales>

#### **Prelim Composite/Services/Manufacturing PMI (Sept)**

The prelim composite PMI reading for Sept highlighted a slower level of expansion. This was due mostly to slower expansion in services activity for the month, which offset accelerated manufacturing activity.

Over the course of the last quarter, activity at a total level, has expanded at a consistently slower pace;

Composite PMI; Sept 53.4 versus Aug 54.7 (Jul 55.7)

Services activity; Sept 52.9 versus Aug 54.8 (Jul 56)

Manufacturing activity; Sept 55.6 versus Aug 54.7 (Jul 55.3)

It was noted in the survey that east coast storms may have played some part in the slower overall activity.

Data collected September 12-20

## IHS Markit Composite PMI and U.S. GDP



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

Services; backlog of work and new business continued to increase and may point to future expansion in output, employment expanded at a faster pace and input prices and prices received increased further in Sept.

Manufacturing; output and new orders continued to expand, inventories increased with some manufacturers indicating forward buying in response to trade disputes. Business sentiment moderated, and employment grew at slower pace, the weakest for 13 months.

<https://www.markiteconomics.com/Survey/PressRelease.mvc/97fb3daa507944cba1740664bfc20257>

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## Europe

### Eurozone – CPI (Aug)

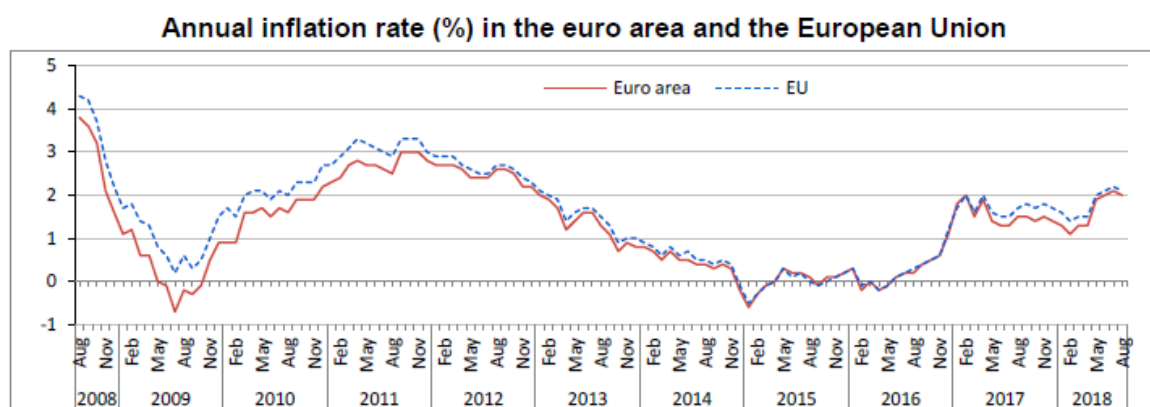
Headline CPI in the Eurozone slowed in the latest month. Energy costs continue to make the larger contribution to headline CPI growth, masking lower levels of underlying inflation.

The current headline rate of 2% is at the ECB target, but its due to higher energy costs.

### Headline CPI

EA19 Group – Annual CPI growth; Aug 2% versus Jul 2.1% (+0.2% month Aug)

EU28 – Annual CPI growth; Aug 2.1% versus 2.2%



### CPI less Energy

EA 19 Group – annual growth; Aug 1.3% versus Jul +1.4%

**Energy costs** - despite its much smaller weight in the CPI index, it is by far the largest contributor to headline CPI growth, although growth in energy costs did slow slightly in the latest month from +9.5% to +9.2% annual rate. Contribution to annual headline CPI growth; Aug +0.87%pts versus Jul 0.89%pts

**Services costs** – growth is slowing. Annual growth Aug +1.3% versus Jul +1.4%. Monthly growth in Aug of +0.1%. Contributed +0.59%pts to annual headline CPI growth in Aug versus +0.64%pts in Jul.

**Food costs** – the third largest group by contribution to headline growth. The increase in food prices has been running higher than the headline rate. Annual growth Food, alcohol & tobacco; Aug +2.4% versus Jul +2.5%. Growth in the month of Aug 0%.

CPI annual growth ex energy, food, alcohol and tobacco; Aug +1% versus Jul +1.1%.

<https://ec.europa.eu/eurostat/documents/2995521/9102879/2-17092018-AP-EN/ed017944-9d20-42c5-8fa2-0374ced49cce>

ECB Draghi speech

<https://www.ecb.europa.eu/press/key/date/2018/html/ecb.sp180919.en.html>



## Prelim Eurozone Composite/Services/Manufacturing PMI (Sept)

The overall composite PMI slowed slightly in the latest month. This was the result of continued expansion in services and slower pace of manufacturing activity.

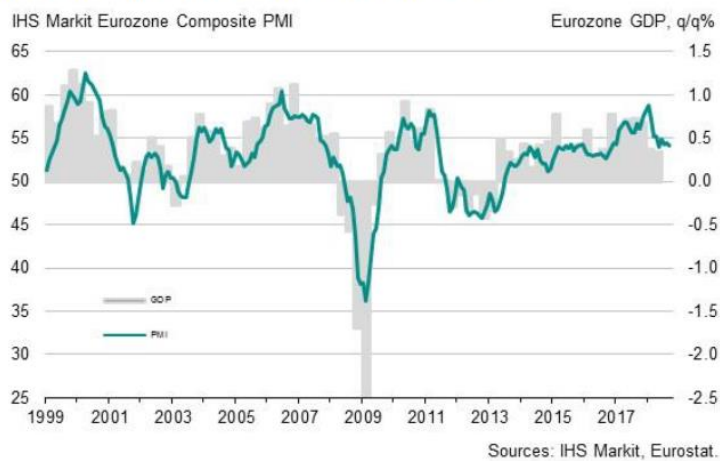
At the broad composite level, overall activity growth has shown little momentum over the latest quarter.

Composite PMI; Sept 54.2 versus Aug 54.5 (Jul 54.3, slowing from Jun 54.9)

Services PMI; Sept 54.7 versus Aug 54.5

Manufacturing PMI; Sept 53.3 versus Aug 54.6

## IHS Markit Eurozone PMI and GDP



**Services:** overall output growth expanded at a faster pace, but remains below recent peaks, new business and work backlogs slowed. Employment continued to expand, and input prices continued to increase.

**Manufacturing:** the output index fell from 54.7 in Aug to 52.8 in Sept, new orders were joint weakest since Feb 2016 – export orders declined for the first time since June 2013. Order backlogs fell for the first time since Apr 2015 due to slower inflow of new work. Employment grew at the slowest pace of the last 18 months.

## Core v. Periphery PMI Output Indices



Periphery countries have so far slowed the most, but France also slowed further in the latest month, led by manufacturing and a further decline in exports.

<https://www.markiteconomics.com/Survey/PressRelease.mvc/d5095bcc27914975afaef5e2b27b1709>

### Prelim Germany Composite/Services/Manufacturing PMI (Sept)

The composite PMI for Germany slowed slightly in the latest month. Faster expansion in services activity was more than offset by slower growth in manufacturing activity.

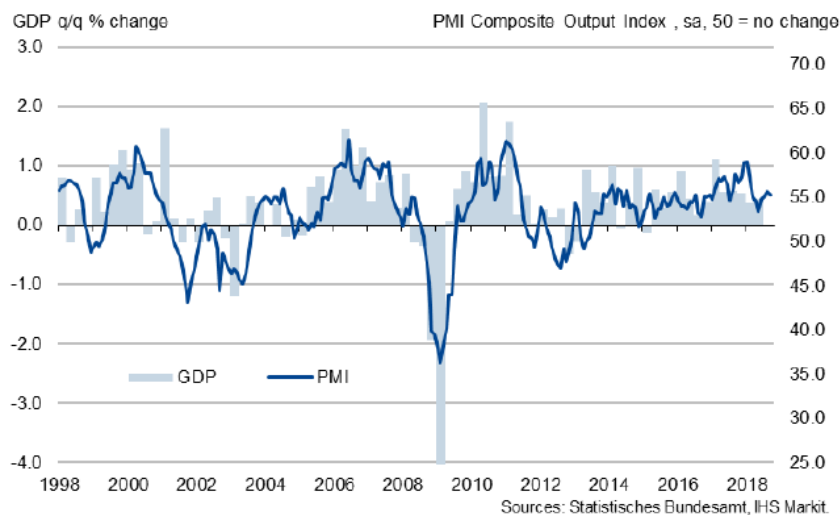
Over the latest quarter, overall activity has improved somewhat compared to the prior quarter.

Composite PMI; Sept 55.3 versus Aug 55.6 (Jul 55, increasing from Jun 54.8)

Services PMI; 56.5 versus Aug 55

Manufacturing PMI; 53.7 versus Aug 55.9 (Jul 56.9 versus Jun 55.9)

### IHS Markit Germany Flash PMI



Services; new business expanded at a faster rate, backlogs of work also increased. Employment expanded at a faster pace. Cost pressures eased but remained elevated overall.

Manufacturing; the output index slowed further in the latest month from 56.6 in Aug to 53.2 in Sept, new orders were little changed. Exports declined for the first time in four years. Employment continued to expand. Cost pressures eased but remained elevated, especially for energy and steel price inputs. Expectations toward future output deteriorated in Sept, falling to the lowest level in four years.

<https://www.markiteconomics.com/Survey/PressRelease.mvc/72e0ddce9d2b47e5b02edad840b357a2>

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## Japan

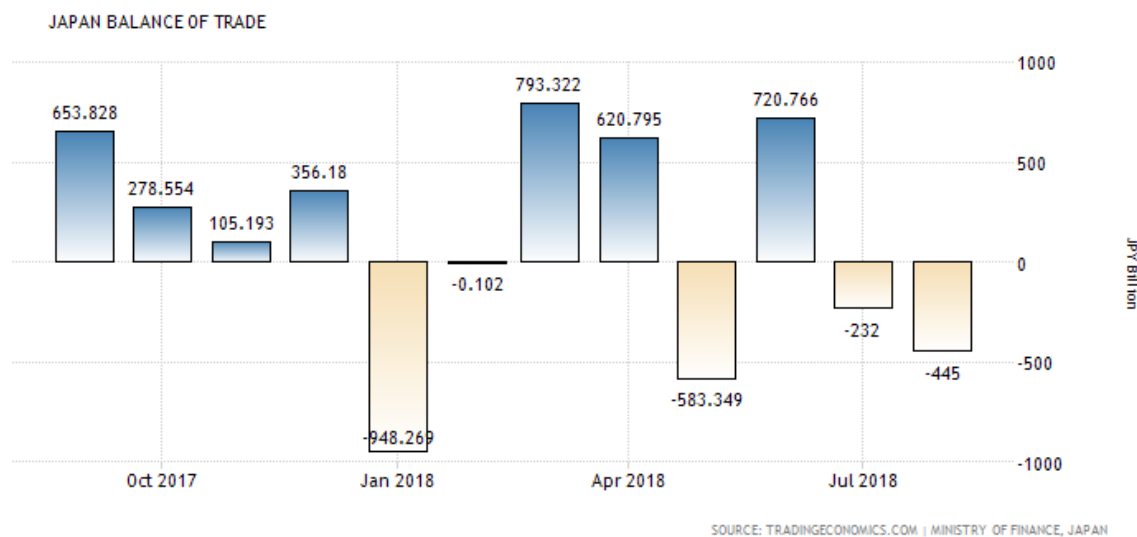
### Trade Balance Provisional (Aug)

The Japanese trade balance (value ¥m) widened in the latest month. The value of imports grew faster than exports partly driven by higher value of fuel imports;

Aug -444.6b Yen versus July -231.2b Yen

The trade balance has shifted from surplus in Aug 2017 to deficit in Aug 2018:

Aug 2018 -444.6b Yen versus Aug 2017 +96.7b Yen



In the latest month;

Export growth (compared to same month prior year) accelerated; +6.6%. In July, annual export growth was +3.9%.

Transport and Machinery made the largest contribution to export growth (where as in July, transport had detracted from export growth versus a year ago).

Import growth also continued to accelerate; +15.4%. In July, annual import growth was +14.6%

Mineral fuels made the single largest contribution to import growth in August +9.5%pts of the headline import growth rate. Of that, Petroleum contributed 5.4%pts with annual growth of 59% in value terms and +1.1% in quantity. It represents 12.6% share of import value.

Of note:

The value of exports to the US increased by 5% and imports increased by 21% in Aug. The single largest contributor to the growth in imports was transport equipment/aircraft adding 8.2%pts and mineral fuel imports contributed 6.4%pts to the import growth rate.

The value of car exports to the US declined by 2% in Aug and the quantity declined by 5.5%. Cars were 26.3% of the value of Japanese exports to the US (in Aug). In quantity terms, the US portion of car exports from Japan in August represented 30% (US is a large market).

[http://www.customs.go.jp/toukei/shinbun/trade-st\\_e/2018/2018084e.pdf](http://www.customs.go.jp/toukei/shinbun/trade-st_e/2018/2018084e.pdf)

## **BoJ Rates Decision – September**

There was no change to monetary policy settings at the latest meeting.

### Yield curve control (7-2 majority vote)

ST rate; -0.1% policy rate balances for current accs held by financial institutions

LT rate; BoJ to purchase 10yr bonds so that yields remain around 0%. Purchases conducted such that amount outstanding will increase by approx. 80 trillion yen/per annum.

### Asset purchases (unanimous vote)

Purchase of ETF's and J-REITS such that outstanding amounts increase at 6 trillion and 90 billion yen, respectively, per annum.

CP and corporate bonds - maintain amounts outstanding at about 2.2 trillion yen and about 3.2 trillion yen, respectively

### Forward Guidance:

QQE to be maintained until price stability target of 2% is achieved.

BoJ to continue to expand the monetary base until the year on year rate of increase in the CPI (all items less fresh food) exceeds 2% and stays above the target in a stable manner.

Maintain current low levels of short- and long-term interest rates for an extended period of time, taking into account uncertainties regarding economic activity and prices including the effects of the consumption tax hike scheduled to take place in October 2019.

[https://www.boj.or.jp/en/mopo/mpmdeci/state\\_2018/index.htm/](https://www.boj.or.jp/en/mopo/mpmdeci/state_2018/index.htm/)

## **Japan National CPI (Aug)**

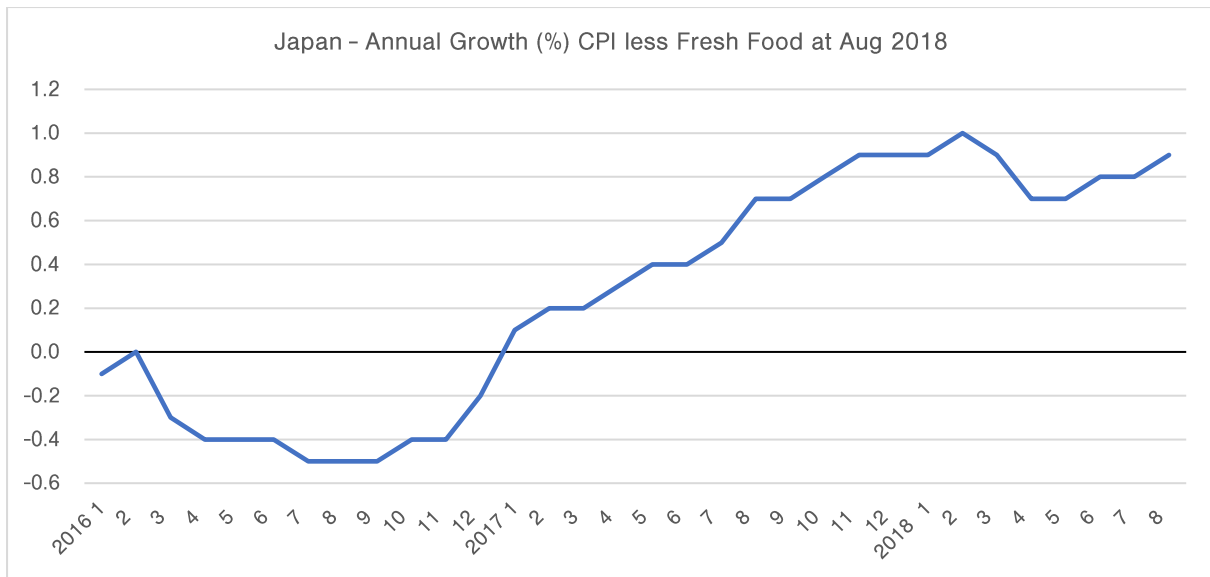
CPI in Japan, across several different measures, continued to grow in the latest month.

From the minutes above, the BoJ forward guidance looks at CPI less fresh food;

CPI less fresh food – monthly change; Aug +0.3% versus Jul -0.1%

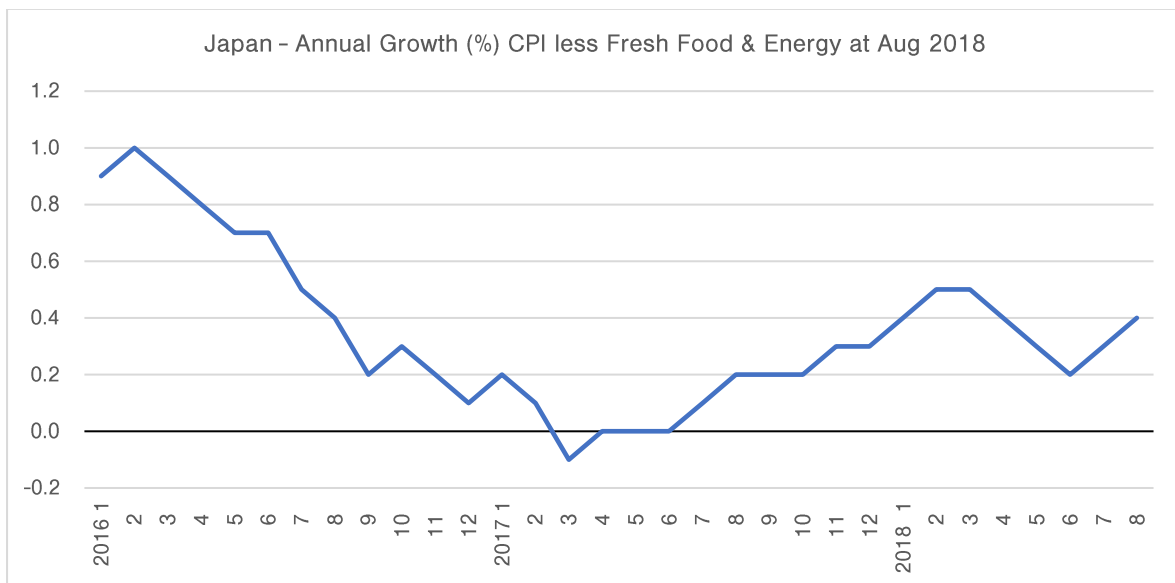
CPI less fresh food – annual change; Aug +0.9% versus Jul +0.8%

CPI growth has been trending higher and picking up again in the last few months, still well short of the BoJ target.



The problem is that much of this growth is driven by higher energy costs. This represents an impost on the economy rather than reflecting any “positive” change where prices are higher due to an overperforming economy.

CPI ex fresh food and energy – annual growth is much lower, almost half the rate of annual growth in CPI less fresh food; Aug +0.4% versus Jul +0.3%. Energy has a weight of just under 8% of the CPI.



Across most measures though, CPI growth was higher in the latest month;

Services component of CPI; annual growth is +0.5%, but growth in Aug was +0.6%.

Food; Aug +1.1% growth

Culture and recreation; +2.6%

Medical care; +0.8%

<http://www.stat.go.jp/english/data/cpi/1581-z.html>

## Japan – Prelim Manufacturing PMI (Sept)

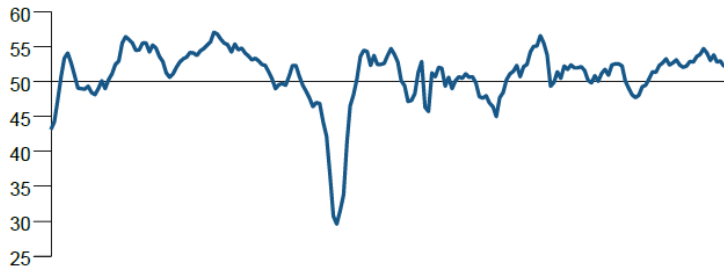
Manufacturing activity expanded at a slightly faster pace in the latest month. Momentum in manufacturing activity has improved over the latest quarter to end near the level of the end of Q2.

Sept 52.9 versus Aug 52.5 (Jul 52.3 versus Jun 53)

## Nikkei Flash Japan Manufacturing PMI

sa, 50 = no change on previous month

Purchasing Managers' Index (PMI)



Of note was the improvement in new export orders in the month, expanding at a faster pace after several weaker months. Other measures of demand continued to expand at a slower pace.

Business sentiment slowed to a 22month low.

*“Growth in the goods-producing sector continues to be supported by increases in new orders. Although recent demand pressures have been primarily driven by the domestic market, latest flash data pointed to the first rise in export sales since May amid ongoing global trade frictions”*

<https://www.markiteconomics.com/Survey/PressRelease.mvc/445022caeb2c4387904f111dc180dea2>

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## United Kingdom

### BREXIT

The unofficial Salzburg summit ended poorly for the status of Brexit negotiations. Expectations for the summit had been to at least reignite some momentum leading into the final few weeks of the negotiations. Instead, the EU has rejected the UK's Chequers plan claiming that the plans would "risk undermining the single market".

PM May responded;

"It's not acceptable to simply reject the other side's proposals without a detailed explanation and counter proposals," May said. "So we now need to hear from the EU what the real issues are, what their alternative is, so that we can discuss them. Until we do, we cannot make progress." – PM May, <https://www.reuters.com/article/uk-britain-eu/may-challenges-eu-as-brex-it-talks-hit-impasse-sterling-tumbles-idUSKCN1M100J>

This now leaves four weeks to renegotiate the trade element of the agreement and have a backstop in place regarding the Irish border issues before the 18 Oct EU summit. An emergency EC meeting will likely be held on 17-18 Nov to formalize the withdrawal agreement – and this will only go ahead if there has been enough progress by the time of the Oct summit.

This week should see further details for the likely path forward for Brexit negotiations. PM May's annual conservative party conference is on 30 Sept.

The official statement from the EC - [http://europa.eu/rapid/press-release\\_STATEMENT-18-5829\\_en.htm](http://europa.eu/rapid/press-release_STATEMENT-18-5829_en.htm)

### CPI (Aug)

Annual CPI-H (consumer prices including owner occupier housing costs) growth increased slightly in the latest month;

Aug +2.4% versus Jul +2.3%

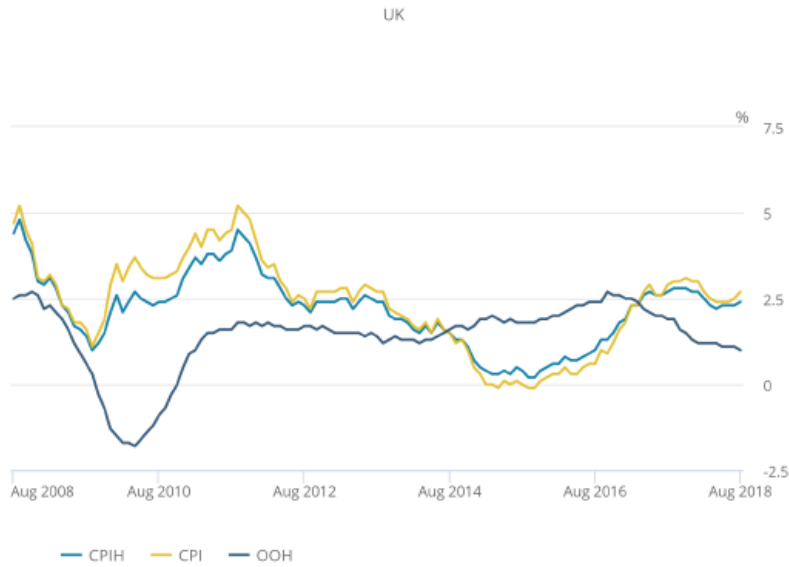
All items CPI-H ex food, energy, alcohol and tobacco; Aug +1.9% versus Jul +1.8%

CPI – Goods; Aug +2.7% versus Jul +2.6%

CPI – Services; Aug +2.2% versus Jul +2%

UK

Figure 1: CPIH, OOH component and CPI 12-month rates for the last 10 years: August 2008 to August 2018

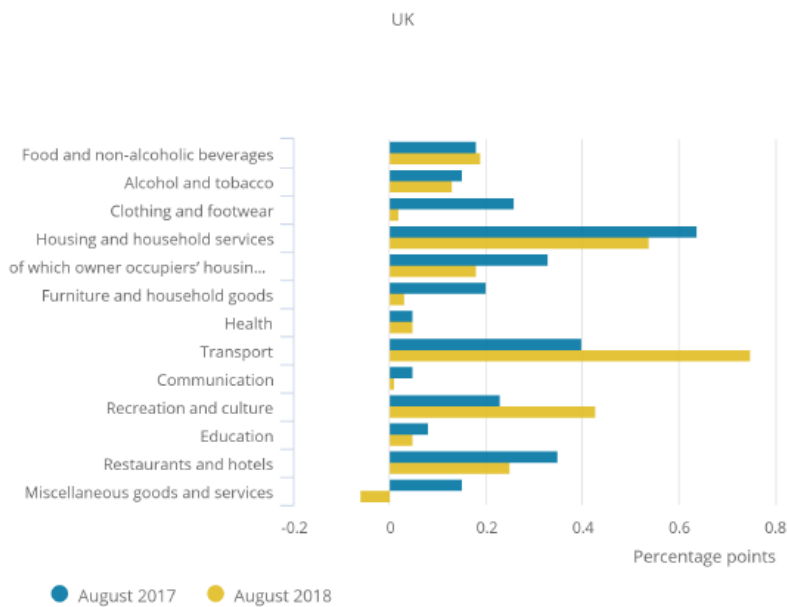


Source: Office for National Statistics

The largest contributors to CPI-H growth were two of the top three largest weight categories in the CPI-H; transport and recreation and culture;

UK

Figure 2: Contributions to the CPIH 12-month rate: August 2017 and August 2018



Source: Office for National Statistics



Transport costs include; purchase of vehicles (ann growth Aug +4.1%), operation of personal transport equipment (ann growth Aug+7.4%) and transport services (ann growth Aug +5.5%).

The total Transport cost component of the CPI-H annual growth; Aug +6% versus Jul +5.6%. The annual growth has been accelerating over the last four months.

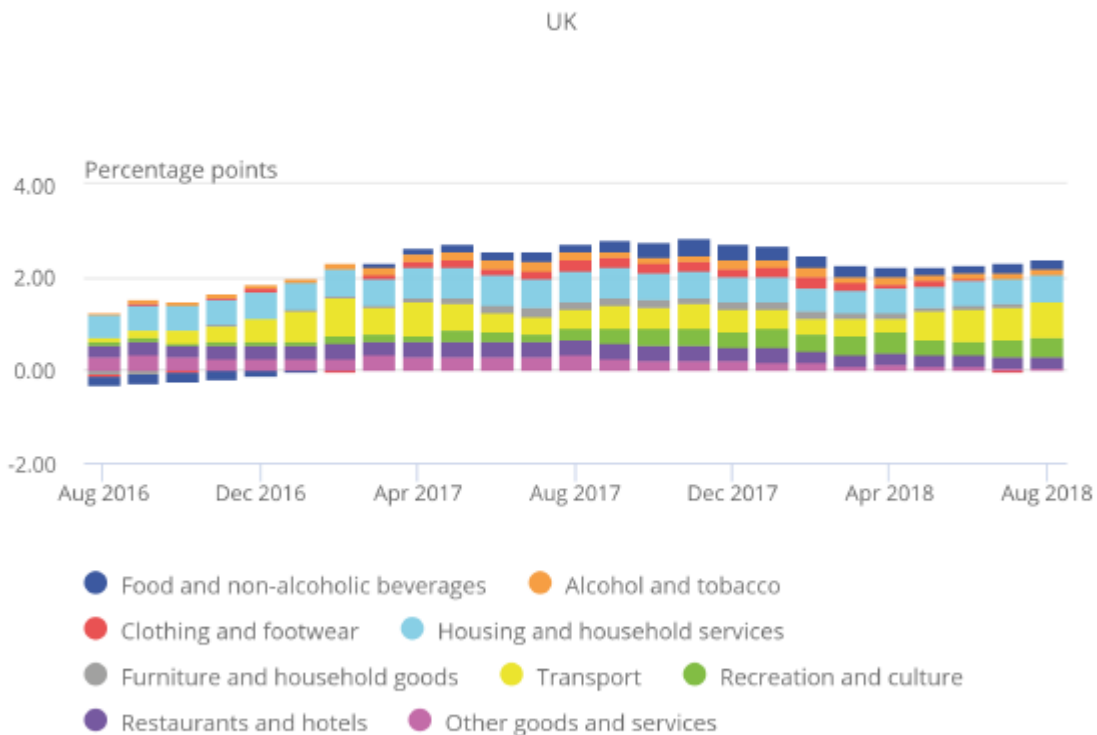
Recreation and culture also made a larger contribution to headline CPI driven by; other recreational items/games and hobbies (accelerating from ann growth of +5.8% in Jul to 14% in Aug) recreational and cultural services/cinemas/theatres/concerts (accelerating from +3.6% Jul to +5% in Aug) and package holidays.

Housing and household services made the third largest contribution to overall CPI-H growth but the contribution to growth remained stable.

**Figure 3: Contributions to the CPIH 12-month rate: August 2016 to August 2018**

UK

Figure 3: Contributions to the CPIH 12-month rate: August 2016 to August 2018



Source: Office for National Statistics

Notes:

<https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/august2018>

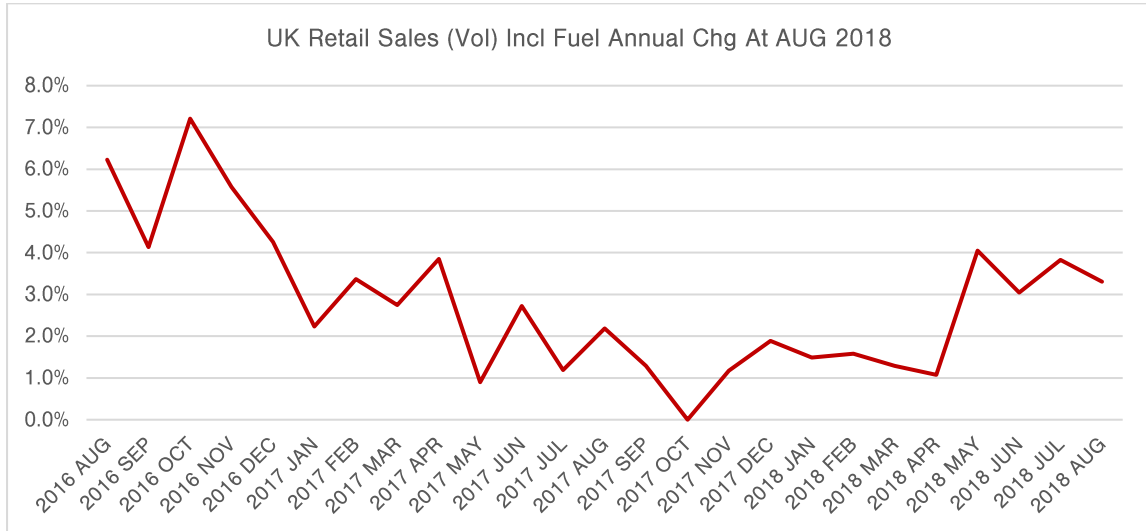
<https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/producerpriceinflation/august2018>

## Retail Sales – (First Estimate Aug)

Retail sales in the UK continued to grow in the latest month. All retailers incl fuel, volume growth;

Monthly change; Aug +0.3% versus Jul +1%

Annual change: Aug +3.3% versus Jul 3.8%



In the latest month, it was non-food stores that made any contribution to growth on a volume basis.

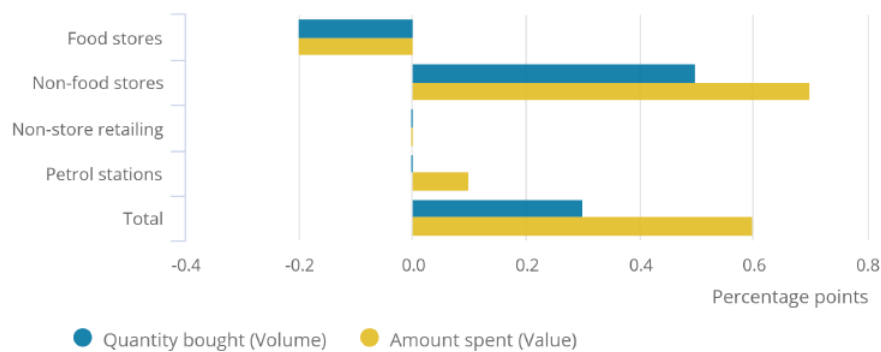
Petrol stations and non-store retailing made 0%pt contribution and food stores detracted from growth by -0.2%pts.

**Figure 3: Contributions to month-on-month growth in the quantity bought and amount spent in the 4 main retail sectors**

Great Britain, August 2018 compared with July 2018

Figure 3: Contributions to month-on-month growth in the quantity bought and amount spent in the 4 main retail sectors

Great Britain, August 2018 compared with July 2018



Of the non-food stores, it was household goods stores that were the main driver of growth; Aug +4.5% versus Jul -2.4%.

<https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/august2018>

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## Canada

### Retail Sales (Jul)

Retail sales grew in the latest month on a value basis but were unchanged on a volume/constant prices basis.

Value of retail sales;

Jul +0.3% versus Jun -0.1%

annual growth +3.7%

Retail sales at constant prices/'real' retail sales;

Jul -0.1% versus Jun -0.2%

Annual growth +0.7%, which has slowed considerably since mid-2017;



In the latest month, retail sales were led lower mostly due to the decline in Motor Vehicle and parts dealers (-1.9% in Jul). This category represents approx. 25% of retail sales (the largest category). Health and Personal Care stores and General Merchandise stores also recorded small declines.

The second largest category is Food & Bev stores and growth was strong in the latest month +1.1% on a constant price basis.

The price adjusted sales of gasoline stations was 0% in July. In value terms, sales at gasoline stations increased by +1.9%.

<https://www150.statcan.gc.ca/n1/daily-quotidien/180921/dq180921b-eng.htm?indid=3660-1&indgeo=0>

## CPI (Aug)

While the headline annual CPI growth slowed in the latest month, there is some evidence that core, underlying inflation has started to accelerate.

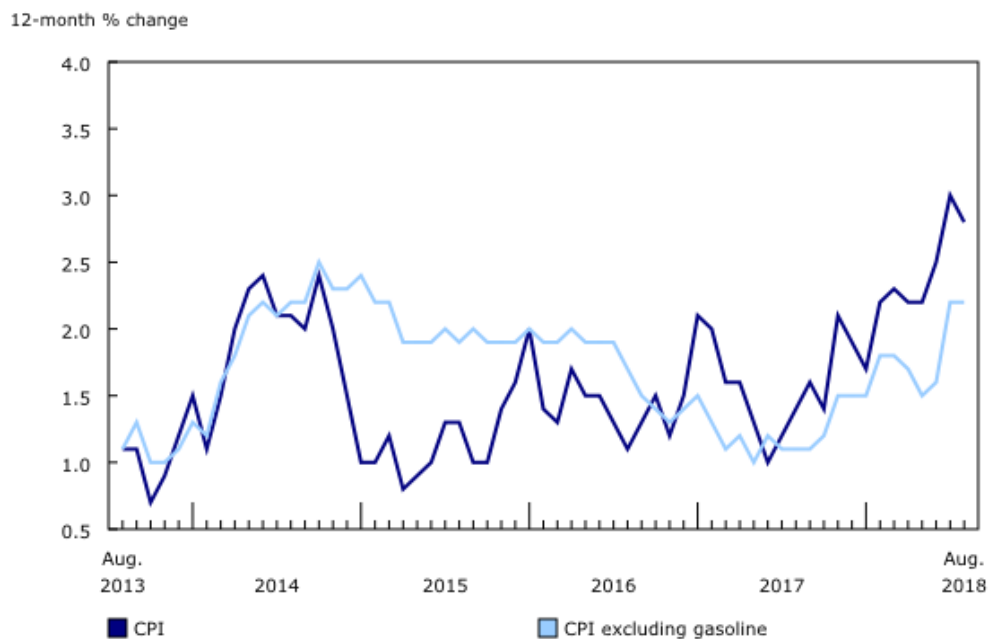
Annual headline CPI; Aug +2.8% versus Jul +3%

Month (not-seasonally adjusted); Aug -0.1%

Energy prices continue to contribute to higher overall CPI growth; Energy +11.2% annual growth in Aug but has abated in the latest month -0.9%. Gasoline +19.9% annual growth and -1.6% in the latest month.

All items ex energy is growing at a slower annual rate +2.2% - closer to the core measures

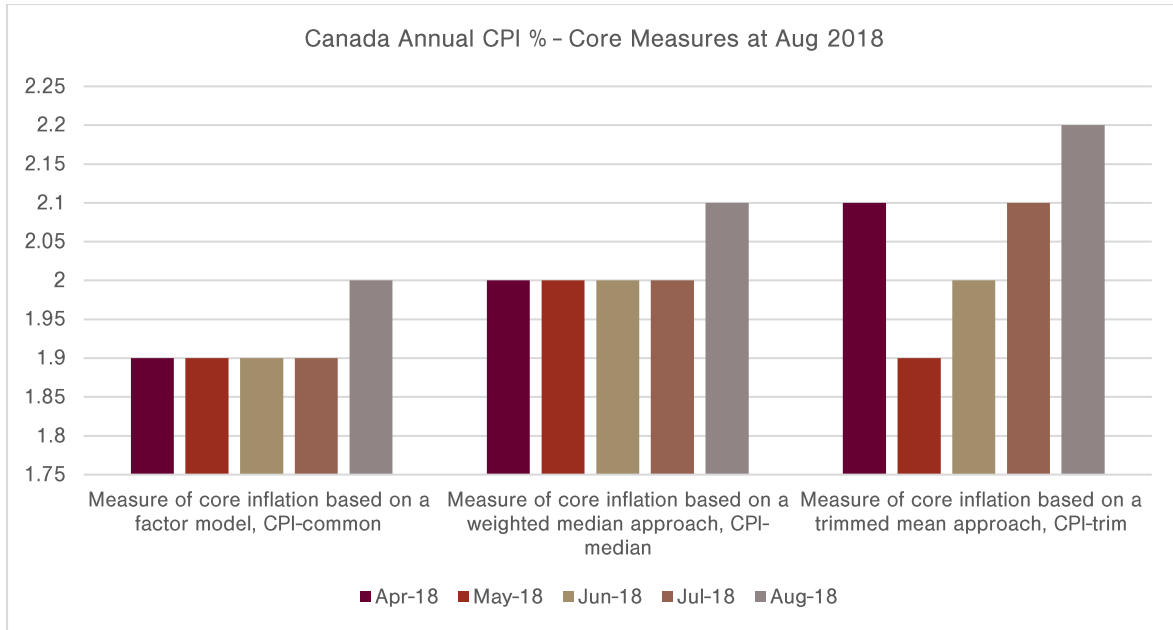
Chart: 12-month chg CPI and CPI ex Gasoline



Annual Goods prices; Aug +2.5% (latest month -0.2%)

Annual Services prices; Aug +3.1% (latest month 0%)

The Bank of Canada measures of core CPI show underlying inflation are at lower levels. In the latest month, annual growth across all core measures increased and most notably using the trimmed mean approach.



<https://www150.statcan.gc.ca/n1/daily-quotidien/180921/dq180921a-eng.htm?HPA=1>

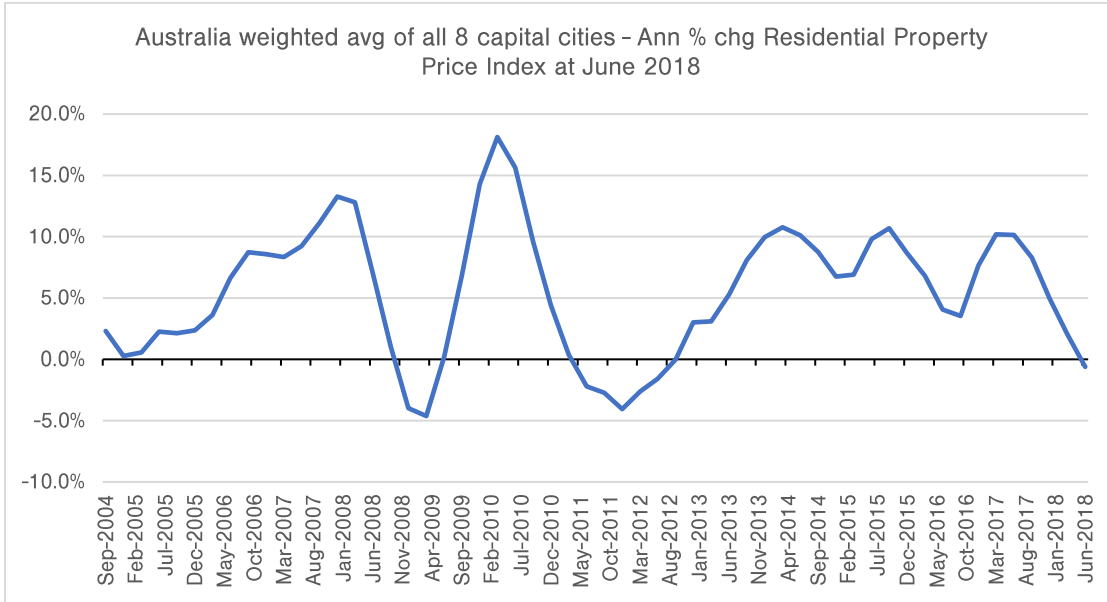
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# Australia

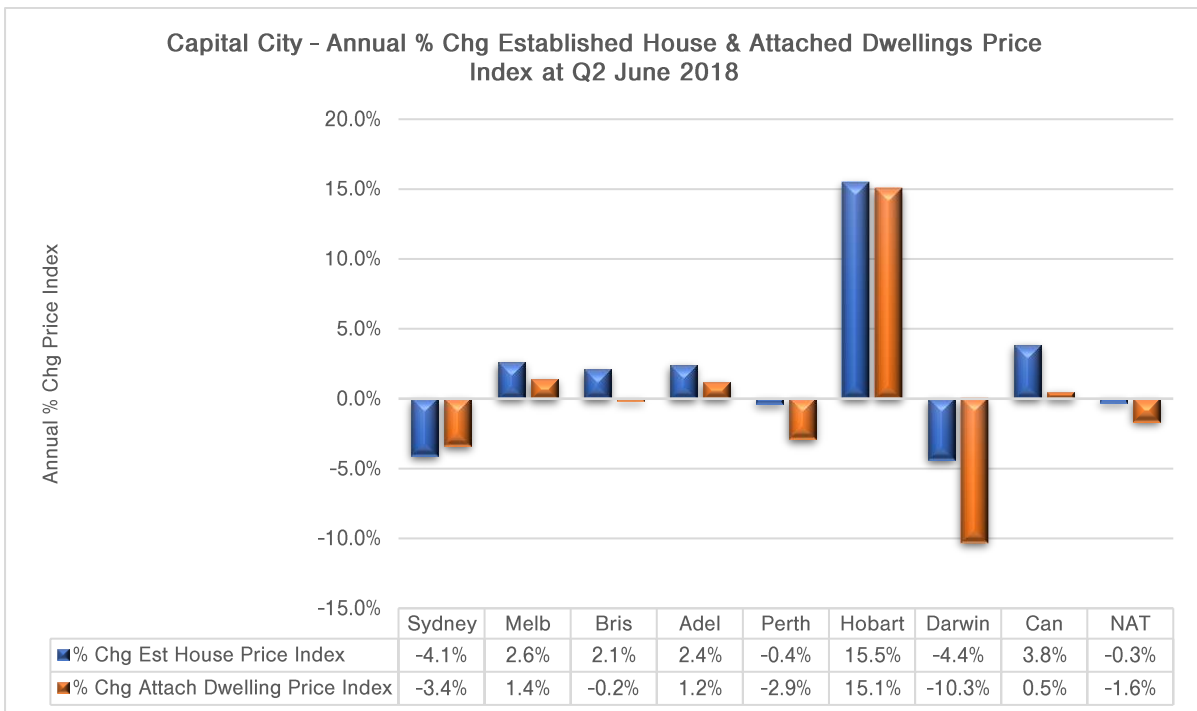
## House Price Index Q2

House prices of the combined weighted average of 8 capital cities declined slightly in the latest year. Only the third such decline at a National level since 2004.

Annual change in the residential property price index; Q2 -0.6% versus Q1 +2%



Both established houses and attached dwellings (units/apartments) have declined on an annual and national weighted average level. Growth of prices for attached dwellings is showing more weakness than for established houses – at a national and capital city level.



Some markets/capital cities recorded all time high peaks in the house price index in the latest quarter - Brisbane, Adelaide, Hobart and Canberra. The combined weight of these four markets in the index (based on qty of dwelling stock) is 21.7%. In these markets, prices were mostly driven by growth of established house prices, while attached dwelling prices peaked several quarters ago.

Melbourne and Sydney represent 64.3% of the index.

It will be important to see what the RBA does from here and contingent on 1) whether prices fall further from here, 2) how the economy reacts and 3) the status of bank funding pressures. Previous house price declines have been part of a broader economic weakness and hence a marker for both monetary and fiscal policy stimulus. The economy hasn't (yet) been weakening as a part of this cycle.

The most important data for the Australian economy; USD strength/weaker AUD, impact of interest rate increases (out of cycle increases by the major banks only just implemented), household consumption data and employment growth.

<http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6416.0Jun%202018?OpenDocument>

<https://www.rba.gov.au/statistics/cash-rate/>

## **RBA Sept Meeting Minutes**

RBA sending the message that from a whole range of perspectives, the economy is strong and house prices/interest rate increases should be viewed within that context.

Key considerations for monetary policy all point to how the Australian economy is being supported. Slight slowing in Chinese growth but being supported with targeted monetary/fiscal policy. Commodity prices supporting terms of trade, the modest depreciation in the AUD "was helpful for domestic economic growth", positive labour market conditions, strong public demand, resource exports, non-mining business investment and steady consumption growth. Business conditions remain positive.

Risks; uncertainties from abroad and low domestic wages growth.

National house prices fallen moderately, led by lower investor lending. Downplaying the out of cycle rate increase (although two other major banks announced increases after this RBA meeting);

"Once they take effect, these increases would imply a small rise in the average outstanding variable housing loan rate, unwinding about half of the decline observed in the average housing loan rate over the preceding year"

Rates to remain on hold. No need for a near terms change – inflation is low, wages growth is low and further progress required to reduce the unemployment rate.

The next move in the cash rate more likely to be up. But changes in inflation and unemployment likely to gradual, so no near-term case for policy adjustment.

<https://www.rba.gov.au/monetary-policy/rba-board-minutes/2018/2018-09-04.html>

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## Trade

### US-China Trade Negotiations

The US announced plans to go ahead with previously announced tariffs 10% on \$200b to be implemented 24 Sept, which will increase to 25% from 1 Jan 2019. <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/september/ustr-finalizes-tariffs-200>

The US also threatened a fourth tranche of tariffs on \$267b of Chinese imports if China retaliated.

China retaliated with further tariffs. The Customs Tariff Commission of the State Council imposed a 5% and 10% tariff on \$60bn goods, effective from 24 Sep. China's new tariffs affect 5,207 US products and account for as much as 95% of all US exports to China

Negotiations remain stalled. China has also cancelled the visit of both Vice Premier Lui He and the mid-level delegation that was due to arrive prior to pave the way for Vice Premier Lui He.

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 were due to meet at the G20 in November – which was a possible deadline for any agreement to be announced by the leaders.

### NAFTA

There has been no further progress on the US-Canadian arm of the NAFTA agreement. The deadline for a deal is approaching this week (deadline based on ensuring an agreement before the new Mexican PM is sworn in on 1 Dec).

This week, the Canadian PM and Foreign Minister will both present at the UN General Assembly. It is likely that side meetings will take place this week. President Trump will chair the UN General Assembly next week.

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

### US-Japan Trade Talks

President Trump and Prime Minister Shinzo Abe will meet in the next week 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 previously.

<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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