

Key Themes

A prelim agreement on NAFTA was reached between the US and Mexico, with President Trump notifying Congress of his intention “to sign a trade agreement with Mexico – and Canada, if it is willing, 90 days from now”. Talks between US-Canada are yet to reach an agreement and further meetings will take place.

President Trump hinted that the third tranche of tariffs on Chinese imports may be implemented as early as this week.

Brexit negotiations are yet to yield any progress on the key issues of the withdrawal agreement. With deadlines looming, negotiations are now ongoing. The UK parliament is back this coming week; key Brexit legislation is to be discussed amid negative comments from the EU on the Chequers plan and (ongoing) rumours of a leadership challenge.

US; Q2 GDP growth was revised slightly higher – led by private investment, net exports and government expenditure. July data highlighting slightly slower momentum coming into the 3rd quarter; July real personal income and consumption expenditure growth slower than in June, but continued acceleration in annual growth of PCE price indexes both headline and ex food & energy now both at or above the Fed’s 2% benchmark. Regional surveys provided insight into August performance – Richmond Fed manufacturing activity accelerating and Chicago PMI and Dallas Fed manufacturing expansions continuing at a constant pace.

Euro-area headline CPI growth still heavily influenced by higher energy price growth; headline +2%, but ex energy +1.3%. Similar for the provisional result on German CPI in July. The provisional German retail sales in real terms declined in July.

Canadian Q2 GDP growth accelerated versus Q1 – led higher by household consumption and export growth.

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US Data

Chicago Fed National Activity Index (Jul)

The National Activity Index (CFNAI) highlighted a slower pace of expansion in economic activity in July.

*An index reading of zero = the economy expanding at the historical trend

Headline index; Jul +0.13 versus Jun +0.48 (June revised up from +0.43)

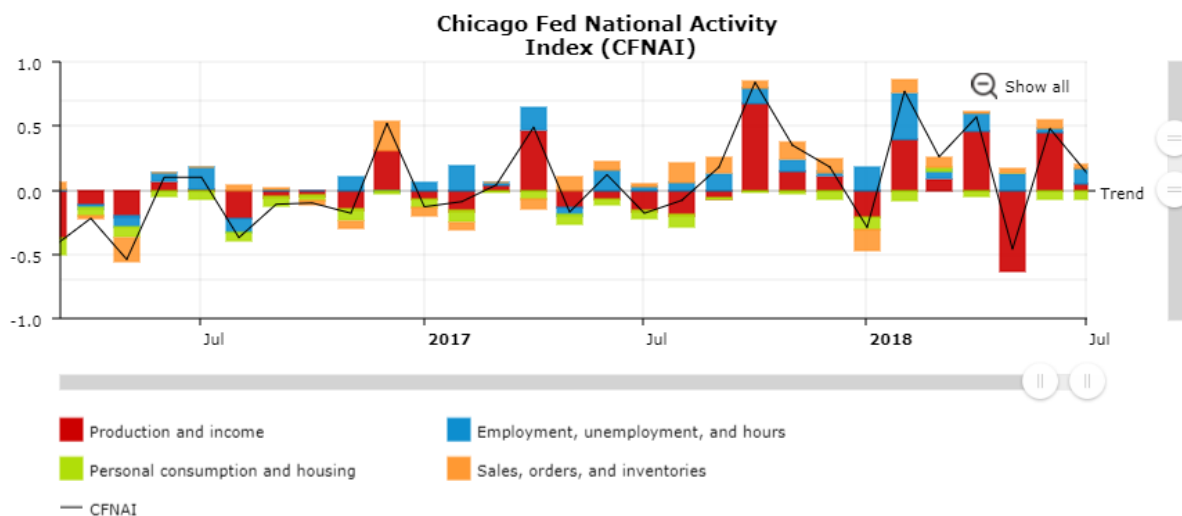
Headline 3mth MA; Jul +0.05 versus Jun +0.20

The slower expansion in the month was led by lower growth in production and income; Jul +0.05 versus June +0.45

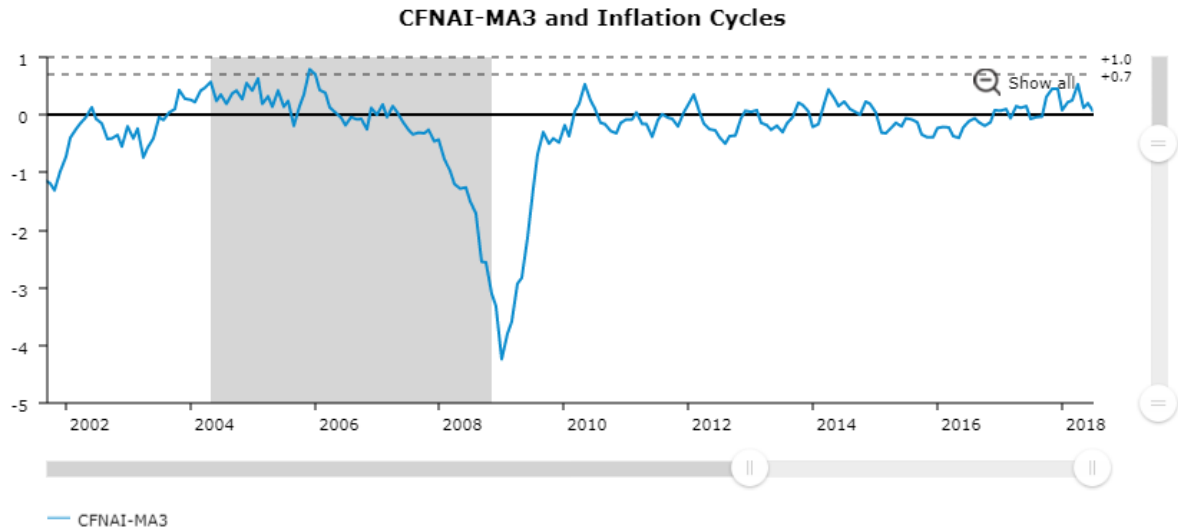
Sales, orders and inventories were also slightly lower.

Employment, unemployment and hours expanded at a faster pace in July; Jul +0.12 versus June +0.3

The personal consumption and housing sub-index slowed slightly and continues to grow at a pace below historical trend; Jul -0.07 versus Jun -0.06, led lower by consumption indicators, but offset by improved housing indicators.



The 3month moving average highlights that economic growth has slowed to a rate on par with the historical average.



On inflation; “An increasing likelihood of a period of sustained increasing inflation has historically been associated with values of the CFNAI-MA3 above +0.70 more than two years into an economic expansion. Similarly, a substantial likelihood of a period of sustained increasing inflation has historically been associated with values of the CFNAI-MA3 above +1.00 more than two years into an economic expansion”.

<https://www.chicagofed.org/research/data/cfnai/current-data>

International Trade, Wholesale inventories and retail inventories (Advance – Jul)

The advance US Goods trade deficit (\$ value) increased in July.

Jul \$72.2b versus Jun \$67.9b and above the Jul 2017 \$64.4b deficit.

In \$ and seasonally adjusted terms, exports continue to slow, and imports continue to increase;



Leading the slowdown in export value in July; Food, capital goods, consumer goods and other goods. Industrial supplies held steady after reaching the highest level on record (in dollar terms) in the month prior.

The increase in imports in July were led by; food, industrial supplies, capital goods, automotive vehicles. The value of consumer goods imports declined.

Changes in inventories – Wholesale and Retail Adv Jul

Total wholesale inventories increased by +0.7% in July versus +0.1% in June. Inventories were led higher by durable goods inventories.

Retail trade inventories increased by +0.4% in July versus no change in June. The increase in retail inventories was mostly the result of an increase in motor vehicle and parts.

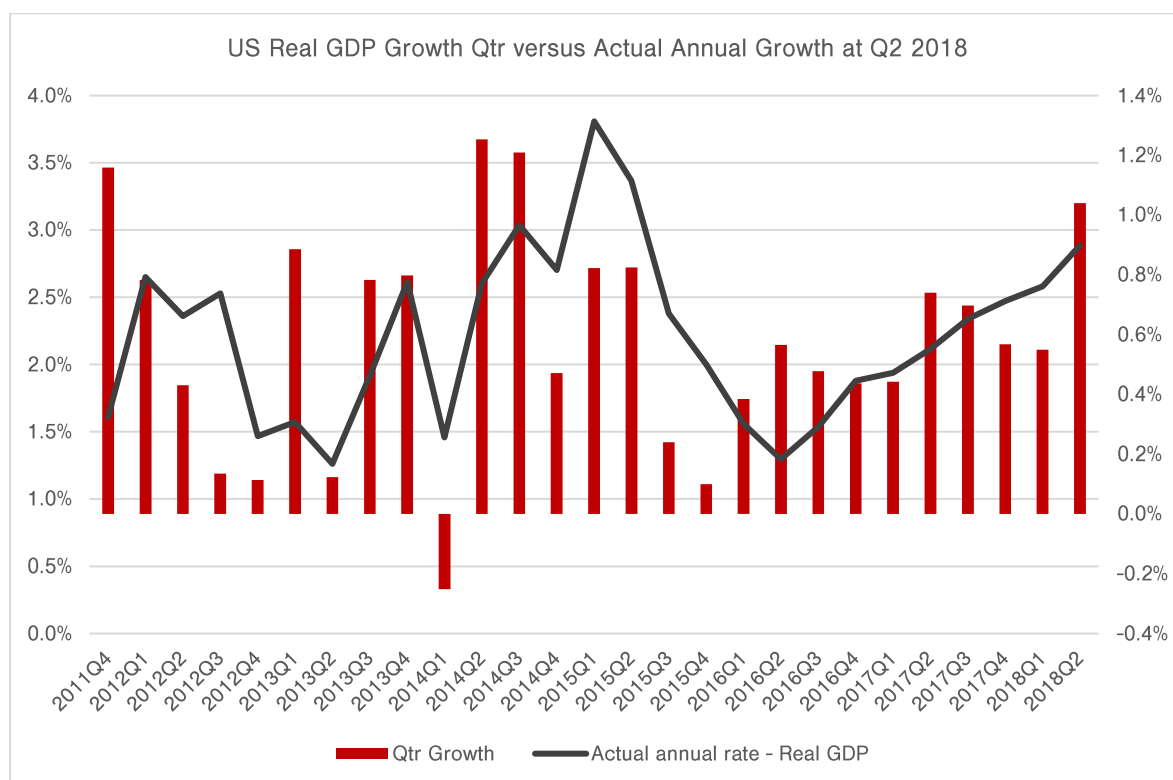
<https://www.census.gov/econ/indicators/index.html>

US GDP Q2 – Second Estimate

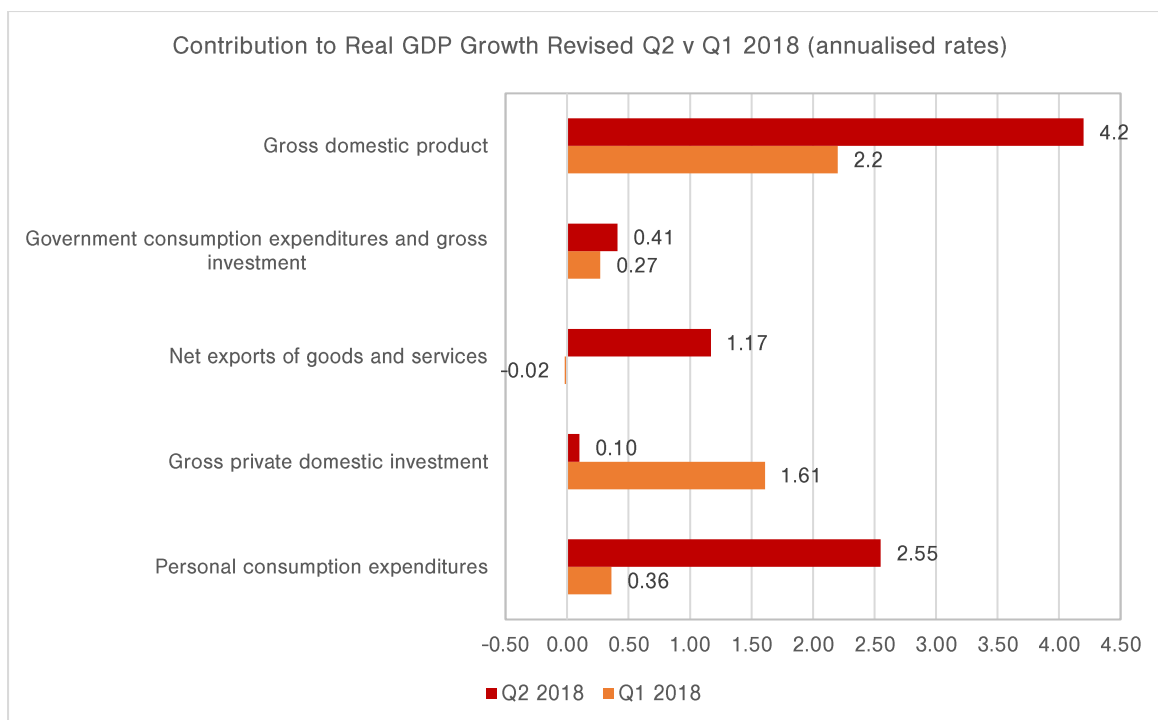
The second quarter GDP was revised higher to an annualised rate of growth of +4.2% (from +4.1%).

Real GDP growth Q2 +1.04% versus Q1 +0.55%

Real GDP Q2 2018 v Q2 2017 +2.9%



All areas continued to contribute to growth in the latest Q2 data but there were some revisions;



Revisions;

Lower contribution/growth for personal consumption expenditure revised from 2.69%pt contribution to 2.55%pt contribution

Gross private domestic investment was revised higher from detracting -0.06%pts to a +0.1%pt contribution (higher fixed investment and a less negative contribution from change in private inventories)

Contribution of net exports increased; both imports and exports were revised lower (imports more than exports)

Contribution from Government expenditure was revised higher.

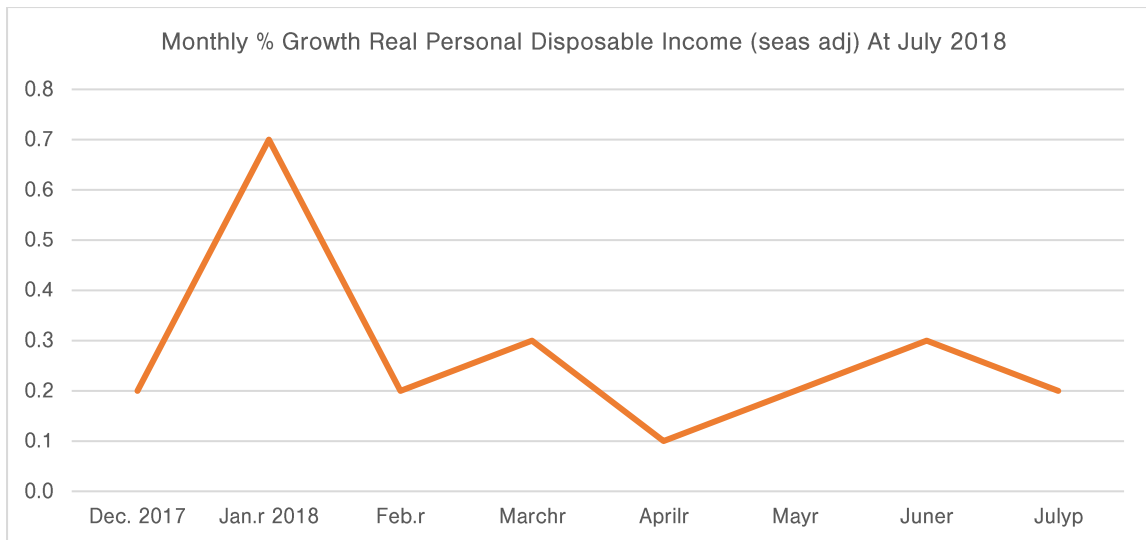
<https://www.bea.gov/news/2018/gross-domestic-product-second-quarter-2018-second-estimate-corporate-profits-second>

Personal Consumption Expenditure and PCE Price Index – July

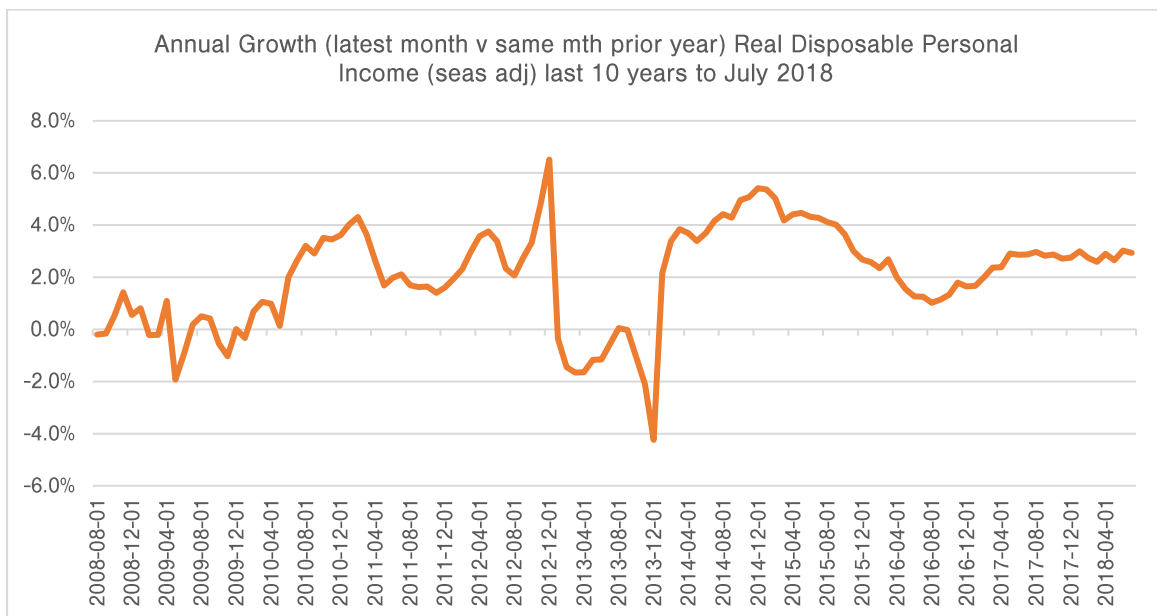
Real disposable personal income continued to grow in the latest month, but slowed slightly;

Jul +0.2% versus Jun +0.3%

Growth has been consistent throughout 2018;

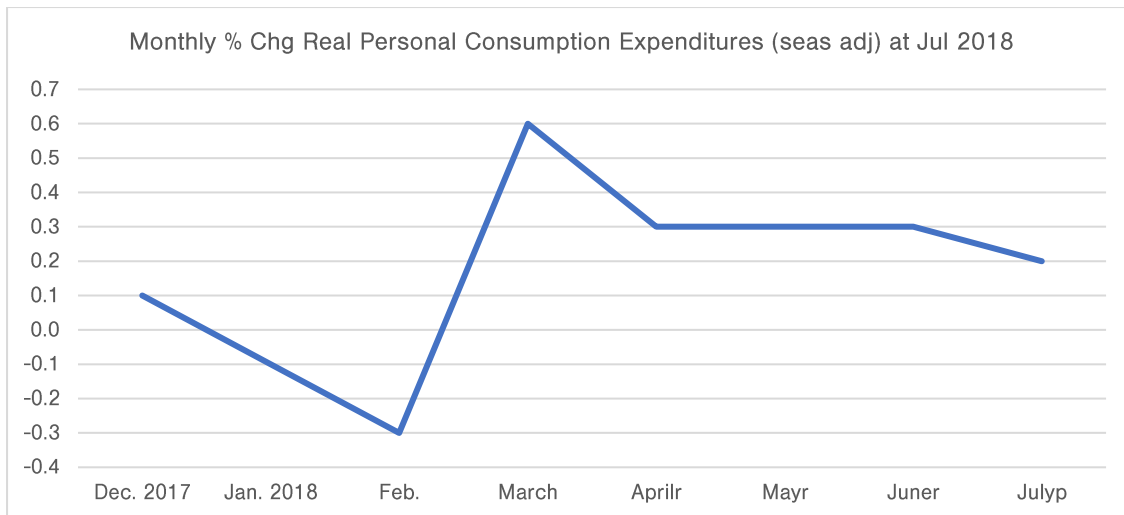


The current annual rate of growth of real personal disposable income is +2.9% (measured as July 2018 v July 2017) – this has been a consistent rate of growth since mid-2017;



Current growth is above the 10yr average (approx. 2.1%).

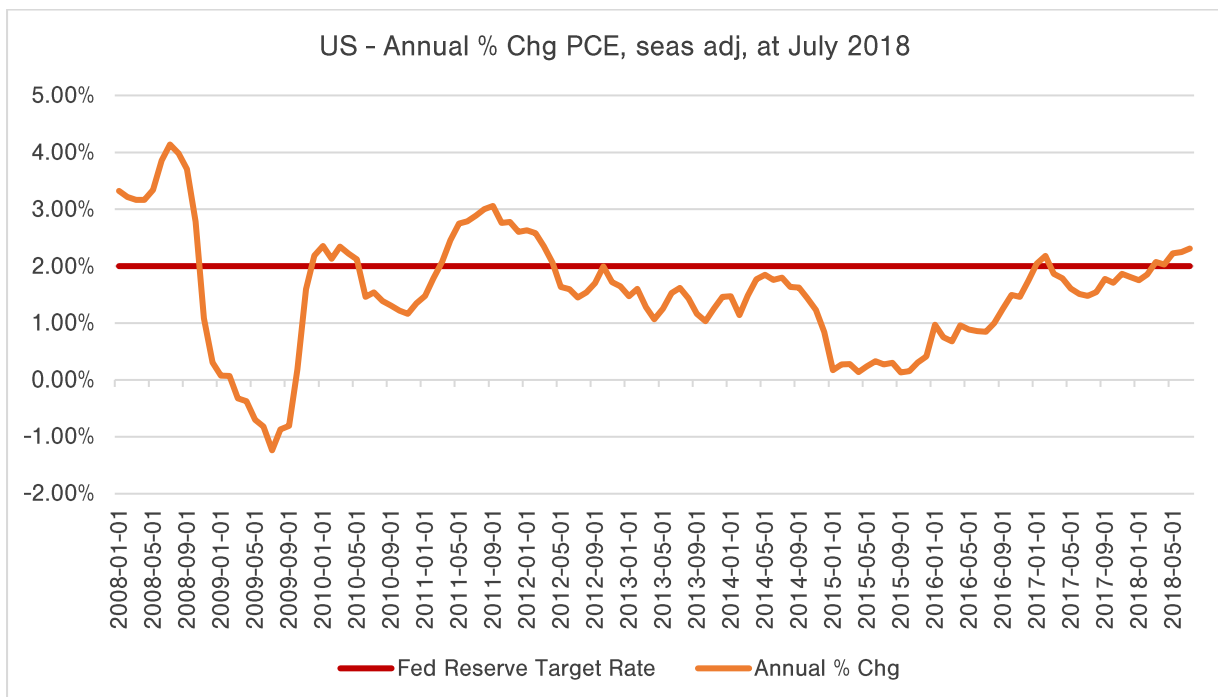
Real personal consumption expenditures also grew at a slightly slower pace; Jul +0.2% versus Jun +0.3%. Consumption of durable goods has continued to slow since March and declined in July. This was more than offset by growth in non-durables. Growth in consumption of services slowed but remains elevated relative to 2018 YTD.



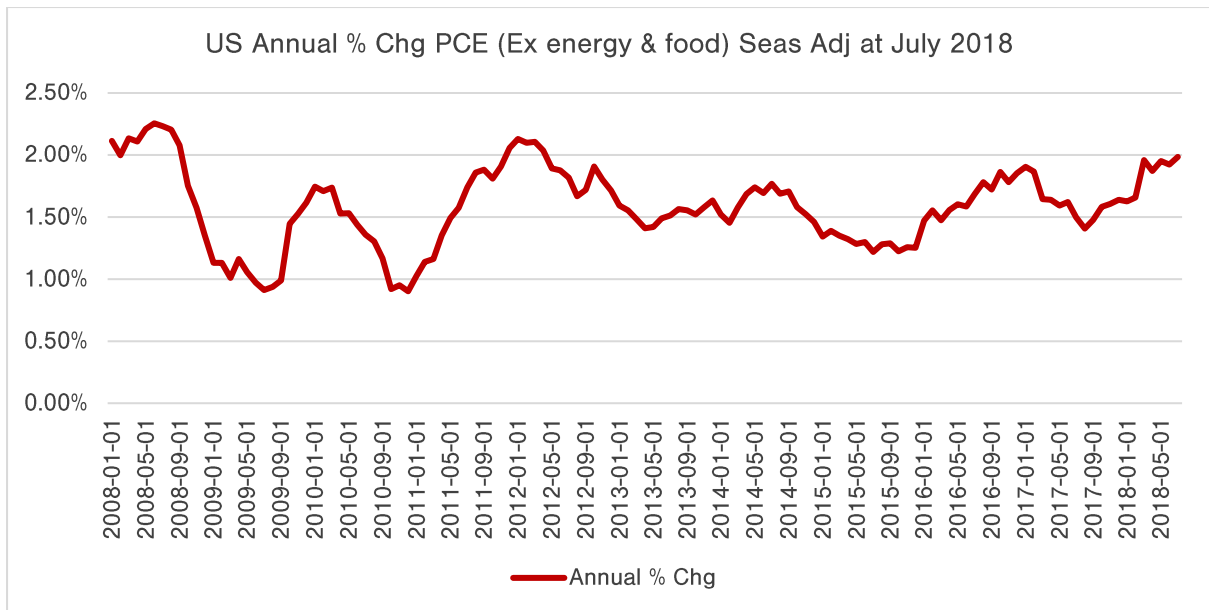
PCE Price Indexes

The headline PCE price index grew at a constant pace in the latest month; Jul +0.1% versus June +0.1%. Ex Food and Energy though, the price index grew at a slightly faster pace in July; +0.2% versus Jun +0.1%.

The annual rate continues to grow at above the Fed target rate; Jul +2.31% versus Jun +2.25%;



The annual growth of PCE excluding volatile food & energy costs also accelerated slightly; Jul +1.98% versus June +1.92%



<https://www.bea.gov/news/2018/personal-income-and-outlays-july-2018>

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

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

REGIONAL SURVEYS

Dallas Fed Manufacturing Outlook Survey – Aug

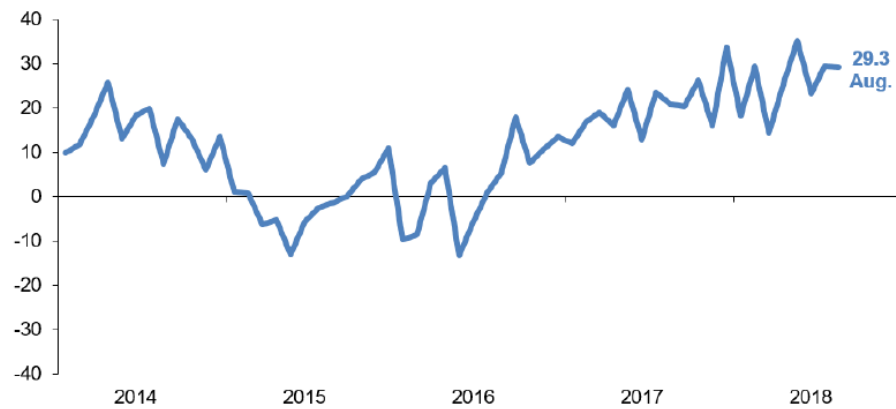
Manufacturing conditions in Texas expanded at a constant pace in August with the headline production index mostly unchanged;

Aug 29.3 versus Jul 29.4

Production Index

Texas Manufacturing Outlook Survey Production Index

Index, seasonally adjusted



Federal Reserve Bank of Dallas

Future demand as measured by new orders expanded at a slightly faster pace +0.6pts – but did not offset the -6pt decline from the month prior. The growth rate of new orders also expanded at a faster rate +2.9pts in August – which helped to offset the -5.9pt decline from the prior month.

Shipments fell -4.8pts in August after increasing 5.3pts in July

The biggest increase across the indices came from finished goods inventories +15.8pts going from contraction back into expansion. There was a large shift in firms going from ‘decreasing’ to ‘increasing’ inventories. The % reporting ‘no change’ in inventories remains virtually the same versus the month prior.

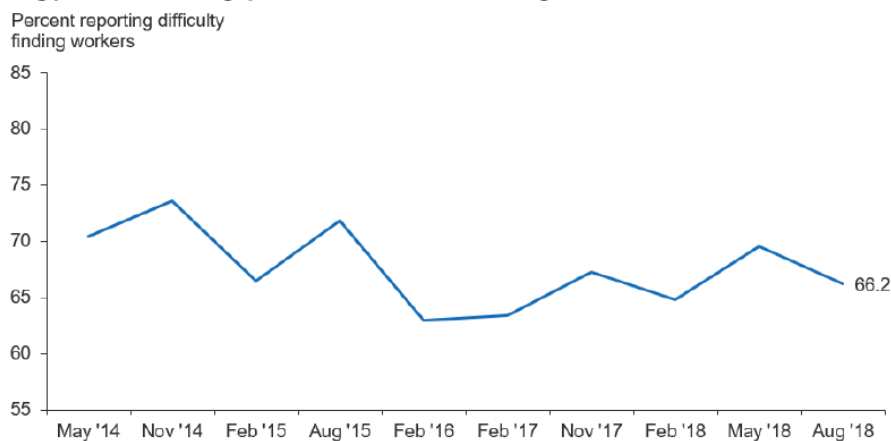
Prices abated – prices paid for raw materials remains elevated but fell 5pts. Prices received also expanded at a slower pace in August.

Employment and hours continued to expand at a faster pace.

The future conditions 6mths ahead expanded at a slower pace; Aug -4pts versus Jul +2.7pts
6mth expectations for capex increased; Aug +8pts versus Jul -2pts

The special question posed in this month survey was “are you having problems finding qualified workers?”. In relation to 2014 levels, the degree of difficulty finding workers seems to have abated slightly. But 2/3 of firms in the area claim to have problems finding workers;

Are you having problems finding qualified workers when hiring?



NOTE: Data shown are for months when special questions were asked.
SOURCE: Federal Reserve Bank of Dallas, Texas Business Outlook Surveys.

	Nov. '17 (percent)	Feb. '18 (percent)	May '18 (percent)	Aug. '18 (percent)
Yes	67.3	64.8	69.5	66.2
No	32.7	35.2	30.5	33.8

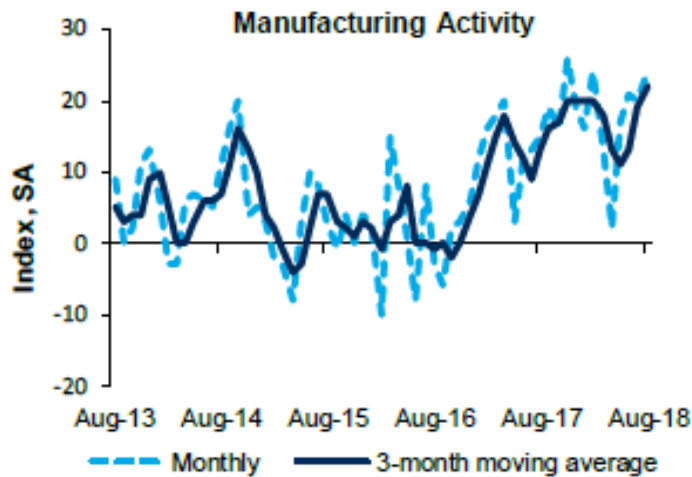
Further detail is in the latest month report.

<https://www.dallasfed.org/research/surveys/tmos/2018/1808.aspx#tab-report>

Richmond Fed Manufacturing Survey – Aug

Manufacturing activity in the region continued to expand at a faster pace in August and the headline index is approaching recent highs after a large fall in late 2017;

Aug 24 versus Jul 20



Measures of demand expanded at a faster pace with shipments and volumes of new orders both expanding at a faster pace in the month.

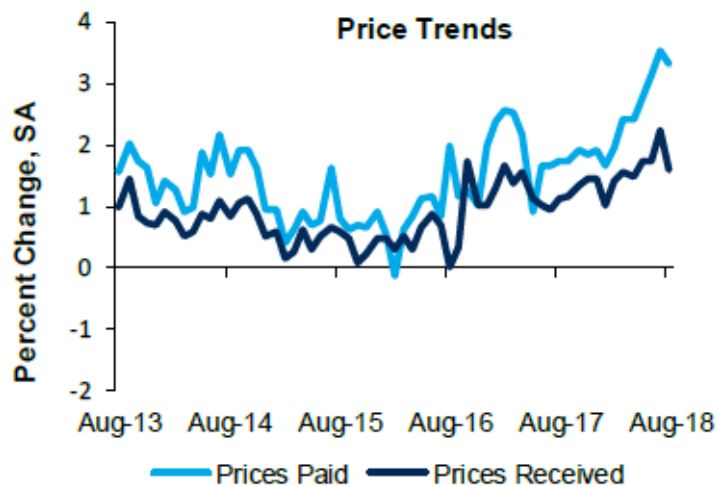
Capacity utilization also expanded at a faster pace and is almost back up to the June reading after slowing in July.

The increase in finished goods inventories slowed.

Measures of employment in the month remained strong; number of employees, wages and average work week all expanding at a faster pace.

Growth in prices paid slowed but remain elevated.

Growth in prices received slowed to levels below that of the June reading;



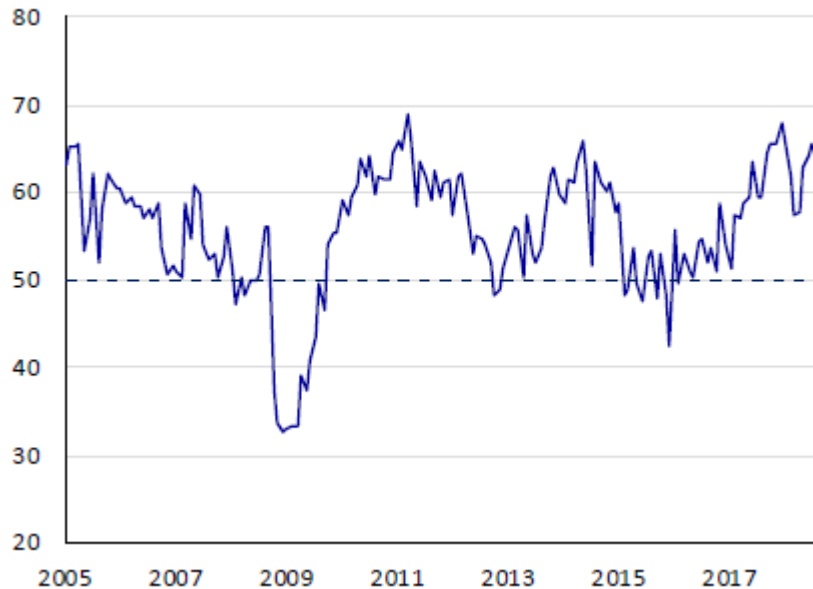
https://www.richmondfed.org/-/media/richmondfedorg/research/regional_economy/surveys_of_business_conditions/manufacturing/2018/pdf/mfg_08_28_18.pdf

Chicago PMI – Aug

The Chicago PMI business barometer continued to expand but at a slower pace in the latest month.

Aug 63.6 versus Jul 65.5

Chicago Business Barometer™



Gains in production and new orders were offset by a deceleration in supplier deliveries, order backlogs and employment.

Demand and output were virtually unchanged versus July.

Price paid eased slightly in August but remain elevated with a reading above 80. Prices were elevated among a wide range of inputs with many claiming trade disputes as the key reason for price pressure. Approx 60% of firms have claimed that they have passed on higher input costs to customers.

Overall sentiment also eased in the latest month.

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

Of interest;

Information in the Yield Curve about future recessions

<https://www.frbsf.org/economic-research/publications/economic-letter/2018/august/information-in-yield-curve-about-future-recessions/>

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Europe

German CPI Prelim – Aug

The provisional headline CPI growth in Aug; +0.1%. The annual rate remains at +2% in Aug (versus 2% in July)

Annual growth in energy costs continued to accelerate in Aug; +6.9% versus +6.6% July

This was offset by slower annual growth in food prices of +2.5% in Aug (v 2.6% in July) and slower growth in prices for services +1.4% Aug versus +1.6% July.

The housing rents component of services continues to grow at an annual rate of +1.6%.

https://www.destatis.de/EN/PressServices/Press/pr/2018/08/PE18_325_611.html;jsessionid=C1FCCA54E00C5DE984D65D934164044C.InternetLive1

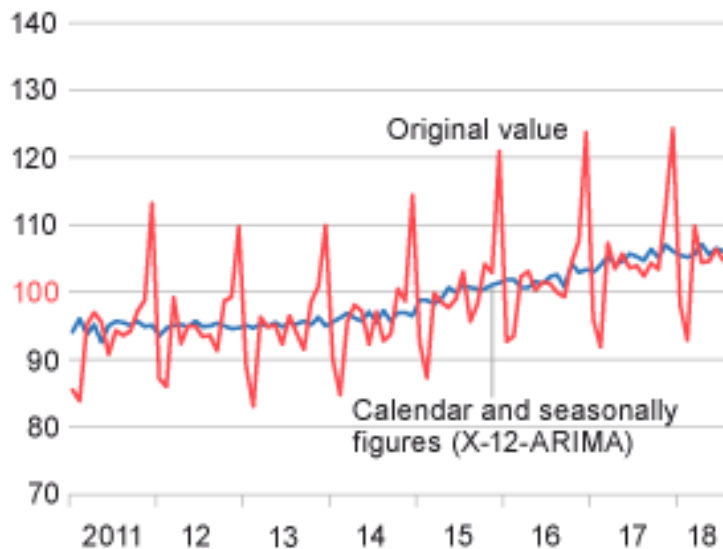
German Retail Sales (Provisional - Jul)

Calendar and seasonally adjusted retail sales in real terms declined by -0.4% in July versus June. In nominal terms, was -0.9% lower than in June.

Retail sales in real terms were +0.8% higher in Jul 2018 v Jul 2017.

Retail trade

Turnover at constant prices (real); 2015=100



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https://www.destatis.de/EN/PressServices/Press/pr/2018/08/PE18_326_45212.html;jsessionid=65A4B8016F71D80514680B8D7CB56903.InternetLive2

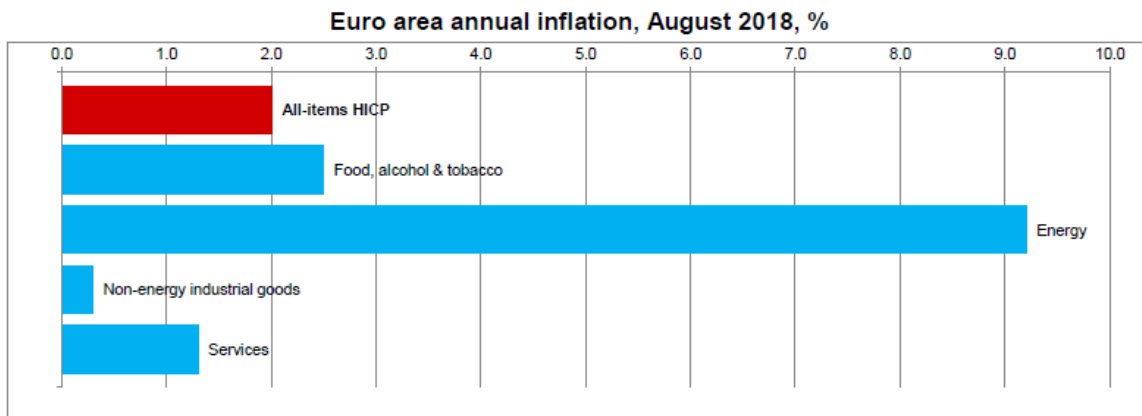
Euro Area CPI (Flash – Aug)

The estimate for annual Euro area CPI slowed in the latest month;

Aug +2% versus Jul +2.1%

Energy costs continue to be a key driver of CPI growth. Annual energy prices growing at a similar pace in Aug +9.2% versus 9.5% in Jul.

CPI ex energy is growing at a slower pace and well below the headline rate; Aug +1.3% versus Jul +1.4%



Food alcohol and tobacco prices are also elevated. Annual growth Aug +2.5% versus Jul +2.5%. In Aug 2017, food alcohol and tobacco prices +1.4%.

The services component of CPI is growing well below the headline rate also; Annual Aug +1.3% versus Jul +1.4%.

<https://ec.europa.eu/eurostat/documents/2995521/9105294/2-31082018-BP-EN.pdf/991241e2-f3e8-4291-acfa-4465378460e2>

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Japan

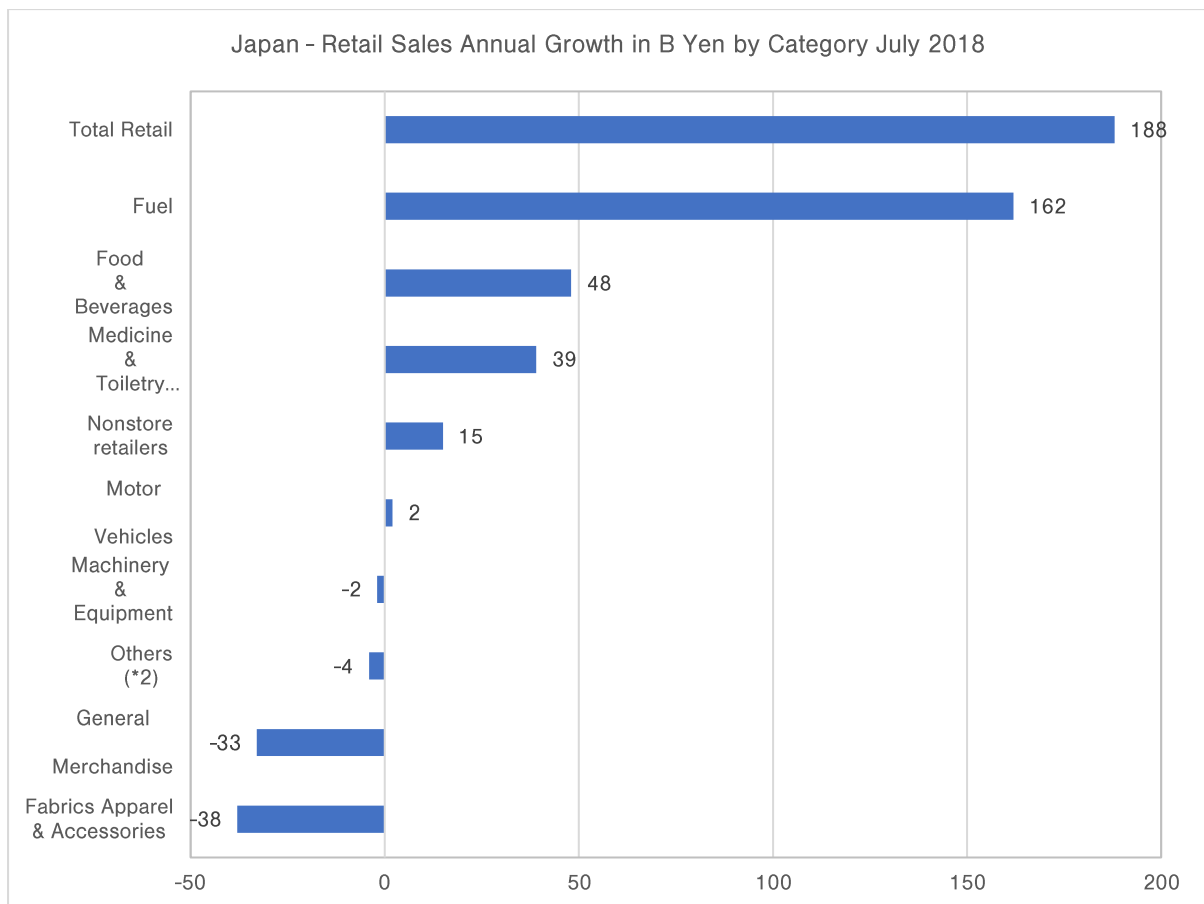
Retail Sales – Prelim Jul

Prelim retail sales value growth slowed in the latest month;

Jul +0.1% versus Jun 1.4% (seasonally adjusted)

Annual retail sales slowed slightly; Jul +1.5% versus Jun +1.7%

On an annual basis, retail sales value of fuel has been the main driver of total retail sales growth;



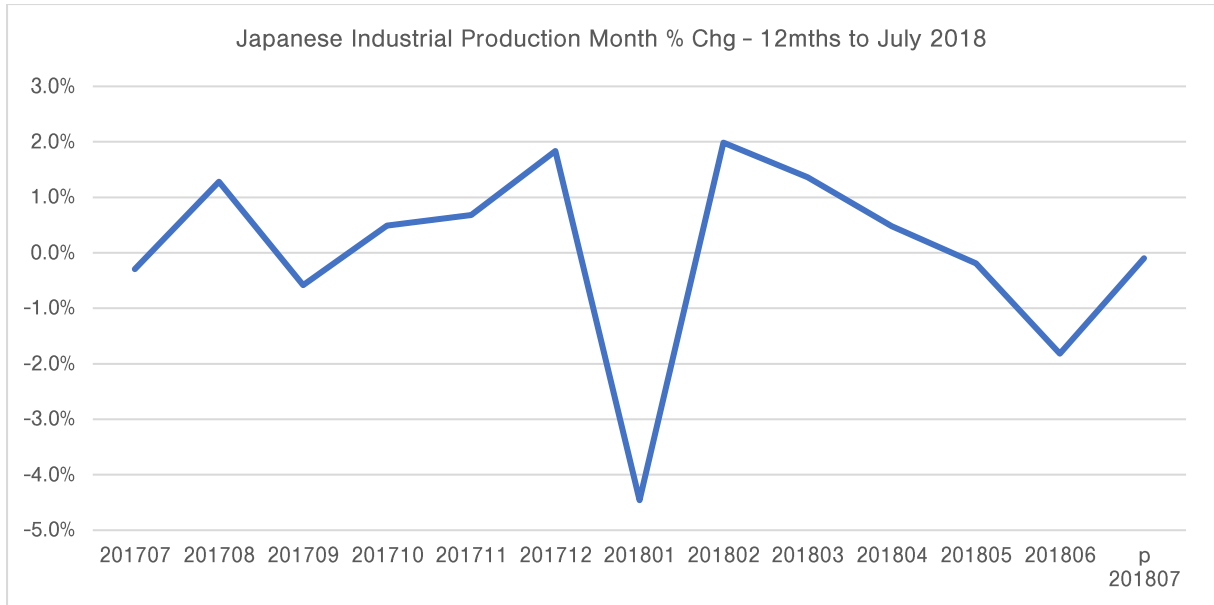
<http://www.meti.go.jp/statistics/tyo/syoudou/result/pdf/201807S.pdf>

Industrial Production – Prelim Jul

Industrial production continued to slow in the latest month, but at a slower pace than in the month prior;

Jul -0.1% versus Jun (final) -1.8% (seas adjusted)

Annual growth in industrial production increased to 2.3% in July (original data)



Shipments slowed in the latest month; Jul -1.9% versus Jun +0.3%, annual shipments +1.3%

Inventories also continue to decline; Jul -0.2% versus Jun -1.9%

Growth in the inventory ratio slowed; Jul 0.4% versus Jun 2.3%

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

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United Kingdom

BREXIT

Technical level meetings took place on 29-30 Aug and were followed by a meeting of chief negotiators Barnier and Raab. The official statement has been released regarding the current status. Its clear, at the end of the statement, that little/no development has been made on the backstop solution regarding Ireland and Northern Ireland;

“This backstop is critical to conclude the negotiations, because as I've already said, without a backstop, there is no agreement”

Official statement; http://europa.eu/rapid/press-release_STATEMENT-18-5403_en.htm

Further background regarding the backstop;

<https://www.irishtimes.com/news/world/uk/brexit-what-is-the-backstop-agreement-and-why-does-it-matter-1.3571135>

Outside of this statement, Barnier has been reported as saying that he is “strongly opposed” to the Chequers proposal on future trade. <https://www.irishtimes.com/news/world/uk/barnier-warns-against-key-parts-of-may-s-brexit-trade-deal-1.3616076>

The UK parliament comes back from summer recess this week with parliament considering key tax and trade legislation. The rumours of a leadership challenge continue to surface.

A recap of the key timings outlined last week;

“Brexit crisis summit on ‘no deal’” – 13 Sept. Senior UK frontbenchers will meet on 13 Sept to detail further contingency plans in case of ‘no-deal’ Brexit.

The Oct 18 EU meeting was “no longer an absolute deadline”, but that a deal should be finalised by the start of November. This initial timing was based on securing an agreement at the EU Council meeting and allowing enough time for both parliaments to approve the deal.

Scheduling an emergency meeting in November to finalise the agreement would be ‘straightforward’.

Key dates;

20 Sept - The informal meeting of heads of state or government (PM May had suggested the Salzburg meeting for further talks);

Official EU council meeting Brussels 18 Oct – where it is hoped a deal can be struck/finalised;

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

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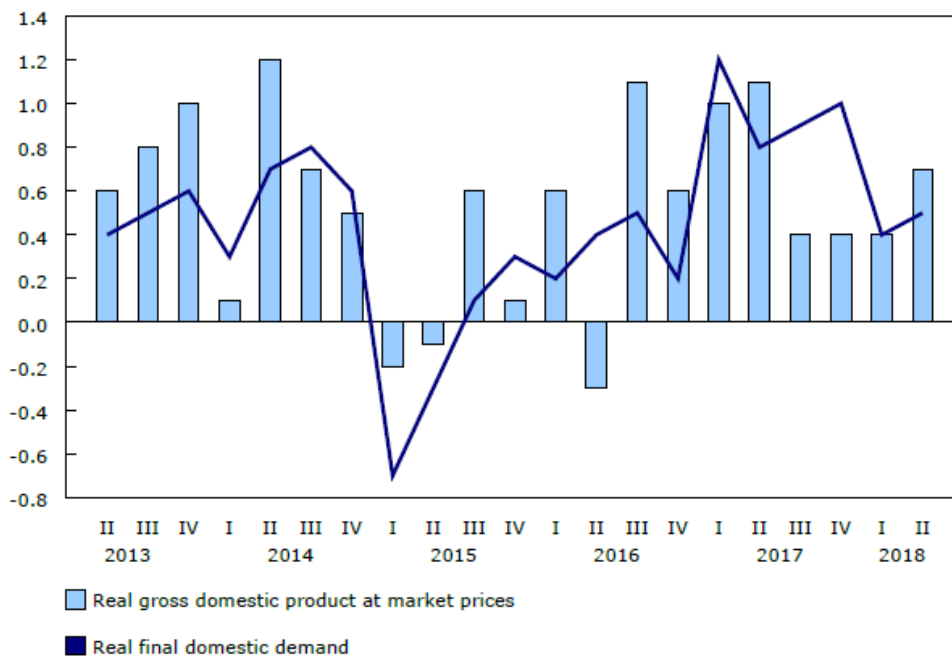
Canada

Q2 GDP

Real GDP growth accelerated in the latest quarter: Q2 +0.7% versus Q1 +0.4%. It was a relatively strong result, with the main weakness a lower, yet still positive, contribution from private investment.

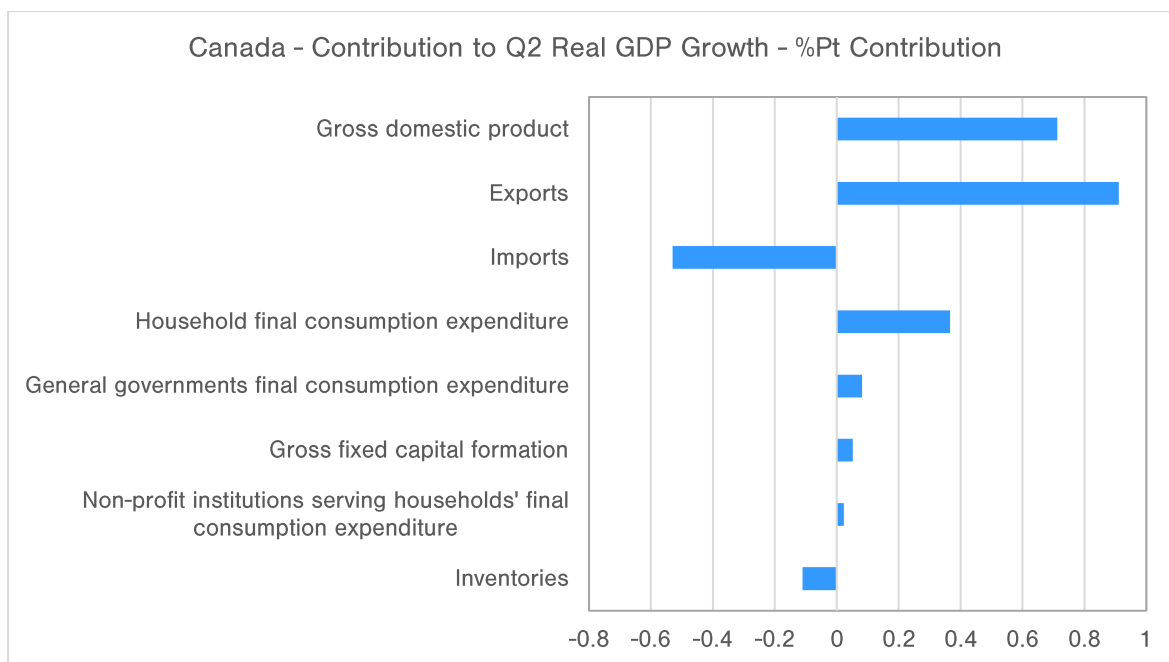
Chart 1
Gross domestic product and final domestic demand

quarterly % change, chained (2007) dollars



Source(s): Table 36-10-0104-01.

Most expenditure categories made a positive contribution to GDP growth in the quarter. Notably, exports and household consumption growth accelerated in the latest quarter;



Household consumption expenditure; +0.366% pts. HH consumption growth accelerated from the prior quarter

Net exports +0.389% pts – exports and imports grew at a faster pace, with export volumes growing at the fastest pace since Q2 2014

A smaller contribution from private business investment +0.071% pts. Government gross fixed capital formation detracted -0.021%pts from growth. Overall gross fixed capital formation growth slowed to +0.2% in Q2 versus +0.6% in Q1

Change in inventories also detracted -0.110%pts from growth in the quarter.

<https://www150.statcan.gc.ca/n1/daily-quotidien/180830/dq180830a-eng.htm?HPA=1>

<https://www150.statcan.gc.ca/n1/daily-quotidien/180830/t004a-eng.htm>

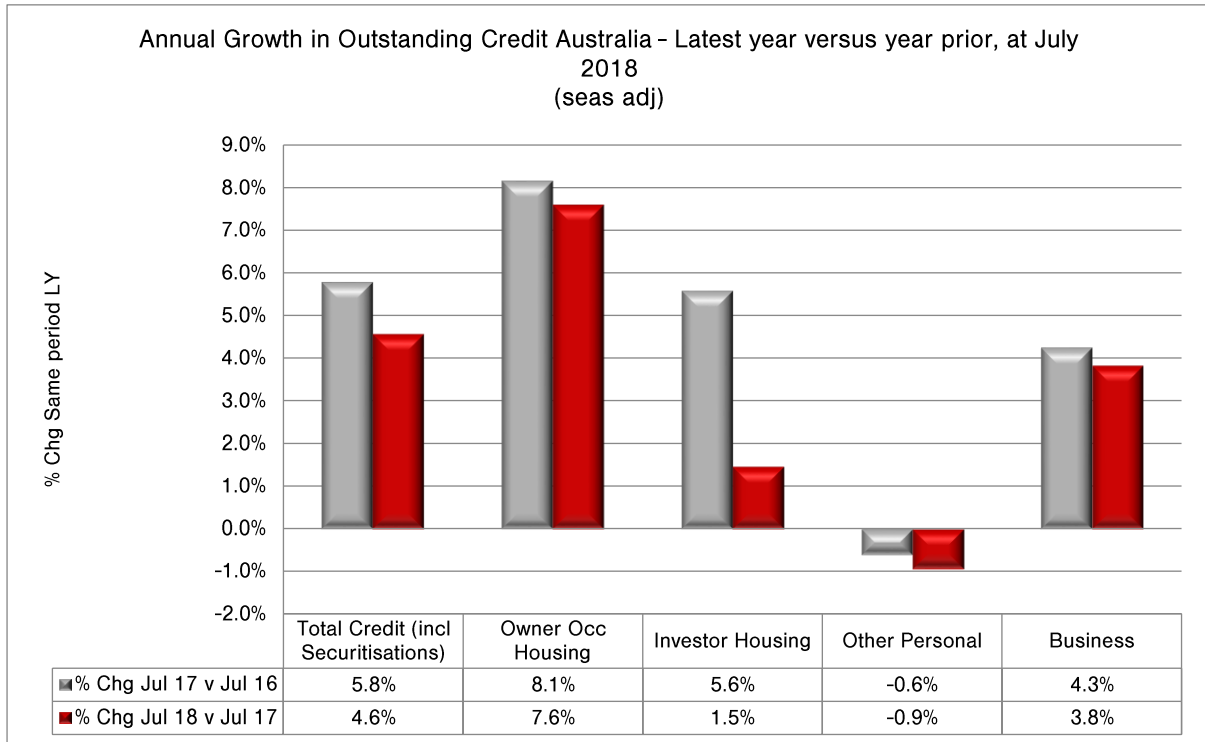
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Australia

Private Sector Credit – Jul

This week the RBA released aggregate lending and credit data. This is the stock of outstanding total private sector credit, business credit, mortgage credit and personal lending.

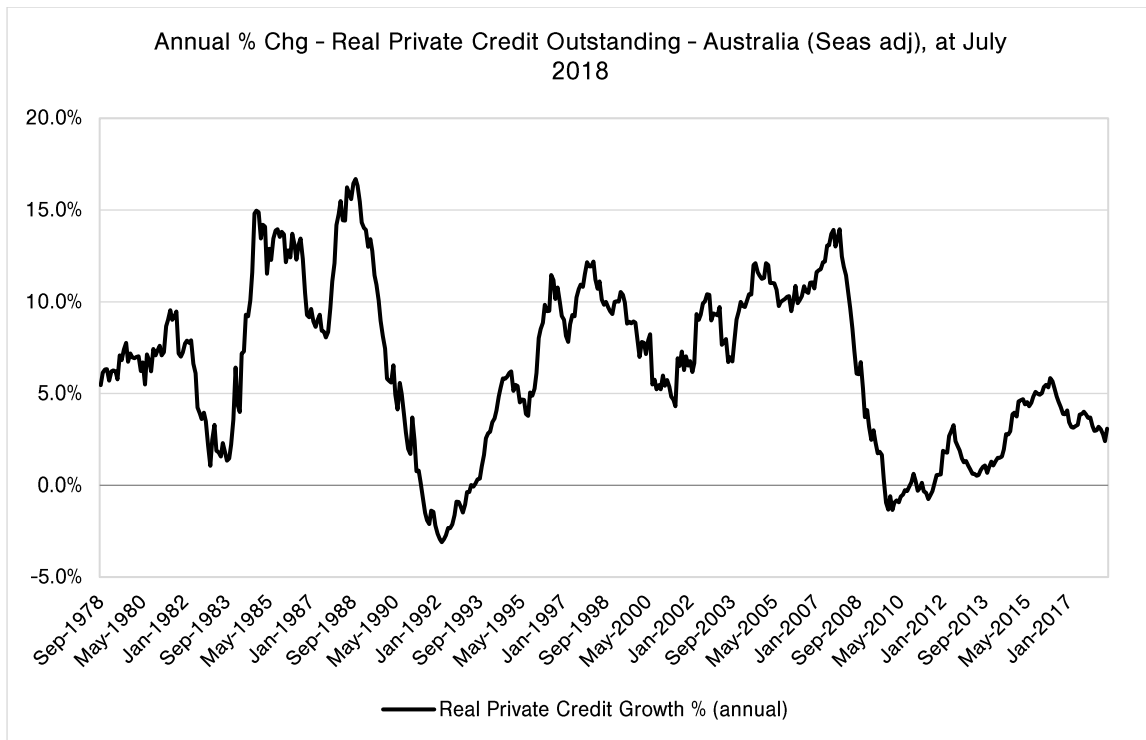
Annual private credit growth slowed to 4.6% or \$124b as of the July release.



Slower growth in outstanding debt was recorded across all series elements – the most notable is the slow-down in investor mortgage credit.

The main contributor to annual growth in outstanding credit/debt remains owner occupier mortgages \$83b, followed by business \$34b and then investor mortgage credit \$8.5b. The total outstanding of Other personal credit continues to decline -\$1.4b.

Real private sector credit growth has been slowing since mid-2016;



<https://www.rba.gov.au/statistics/frequency/fin-agg/2018/fin-agg-0718.html>

Out of Cycle Rate Increases

While there was no specific data release, its worthwhile noting that a series of out of cycle mortgage lending rate increases occurred last week.

One of the four biggest banks, Westpac raised its variable interest rate by 14bps – this will include Bank of Melbourne, BankSA, St George Bank and RAMS.

“Westpac chief executive Brian Hartzler said he did not "relish" raising customer rates but funding costs had failed to ease and "reluctantly we came to the conclusion that needed to be reflected in our mortgage costs".”

<https://www.afr.com/real-estate/westpac-raises-interest-rates-14bp-cites-funding-costs-20180829-h14oo0>

So far the other major banks are yet to pass on a similar hike, but they are likely to (will be facing similar pressures). It will be interesting to see the RBA reactions in the minutes – no doubt a point of concern.

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Trade

US-China Trade

Public hearings were completed this 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>

Based on the current timeline, it's likely that these tariffs will go into effect sometime in Sept. Comments from President Trump suggest that he may expedite the process and implement the tariffs as early as next week.

NAFTA

An official statement from USTR Lighthizer on Friday this week 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>

Negotiations have taken place in earnest between US and Mexico over the last few weeks with the notably absence of Canadian representatives. In his statement on Friday, USTR Lighthizer said;

"We have also been negotiating with Canada throughout this year-long process. This week those meetings continued at all levels. The talks were constructive, and we made progress. Our officials are continuing to work toward agreement. The USTR team will meet with Minister Freeland and her colleagues Wednesday of next week."

https://www.reuters.com/article/us-trade-nafta/u-s-to-move-ahead-with-mexico-trade-pact-keep-talking-to-canada-idUSKCN1LG1DM?feedType=nl&feedName=businessNews&utm_source=Sailthru&utm_medium=email&utm_campaign=2018%20Template:%20US%20Business%20News%201700%202018-08-31&utm_term=2018%20-%20US%20Business%201700

US-Japan Trade Talks

There has been no further discussion about 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.

Section 232 – Car and Truck Imports

Awaiting the outcome of the public hearings.

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