

## Key Themes

“Stalling export trade” was a key theme from the latest round of PMI’s for September. This was evident in the manufacturing PMI’s for the Eurozone, including Germany, Japan, China and Canada. There was ‘modest’ improvement in the US and UK export orders.

The manufacturing PMI for China is on the verge of contraction. The PBOC announced a reduction of 1% in the RRR for some banks. Chinese officials are also considering further fiscal stimulus measures.

The US ISM Manufacturing PMI and the Markit Manufacturing PMI, although not as strong as each other, were consistent with the final US Factory Orders data for Aug. Growth in factory orders for all manufacturing industries recorded the second strongest growth in new orders for the last year. Stronger factory orders data can be traced back to transport equipment manufacturing activity.

The divergence remains between the US ISM non-manufacturing PMI and the Markit Services PMI data. Activity in the ISM non-manufacturing reached all-time highs in Sep while growth in the US Markit Services PMI continued to slow in Sep.

US payrolls data was lower for Sep, but previous months were revised higher. From the household survey (16yrs+), annual employment growth continued to slow, and participation declined over the last year. Real earnings continued to grow at a constant rate.

US Consumer credit growth continued to accelerate in Aug, likely to support consumption/spending growth.

A busy week of US Federal Reserve speeches. A full range of views were expressed from hiking rates to a point that are somewhat restrictive, to taking a more cautious path and a slower rate of hikes. Chairman Powell’s interview garnered the most attention, but also noteworthy was Atlanta Fed President/CEO Bostic speech – he has previously been more cautious on hikes but admitted that the strength of the economy had surprised him.

The RBA kept rates on hold and Australian retail sales rebounded in Aug after a weaker Jul.

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## US Data

### Non-Farm Payrolls (Sep)

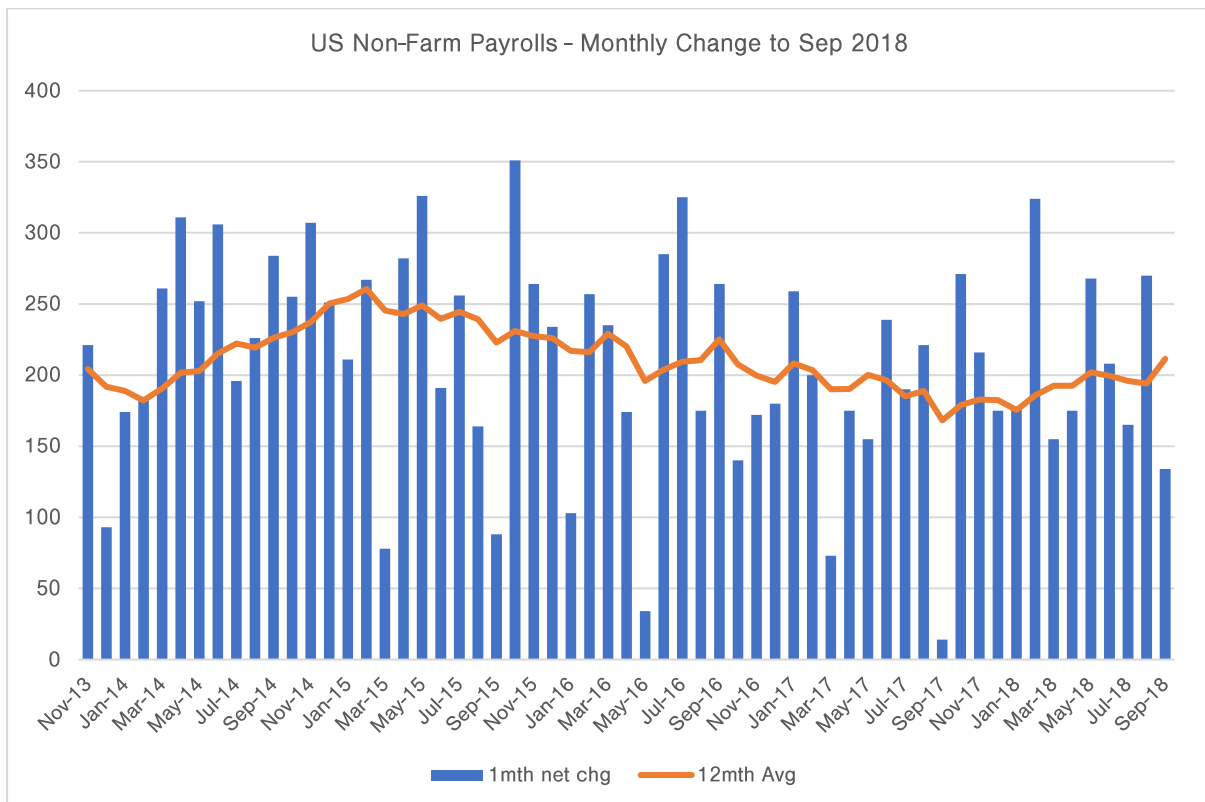
The headline non-farm payrolls increased by +134k jobs in Sep.

Revisions to the prior months were positive;

Jul; revised higher from +147k to +165k jobs

Aug; revised higher from +201k to +270k jobs

The 12month average increased to +211k jobs given the size of the revisions.



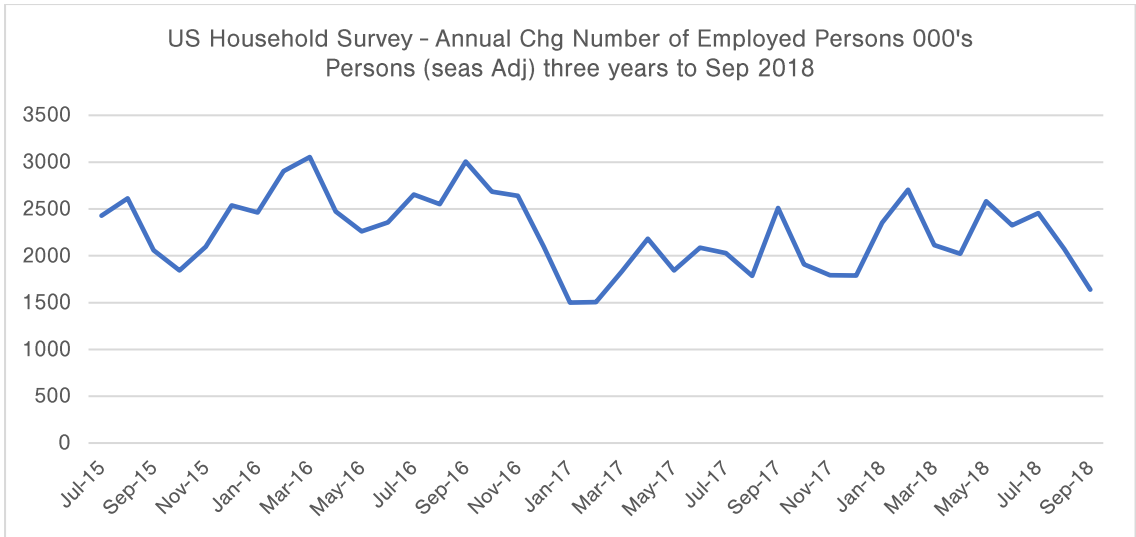
### Household Survey – monthly employment (Sep)

Annual employment growth continued to slow in the latest month;

Sep +1.6m persons versus Aug +2.1m persons

Monthly change in total employed persons;

Sep +420k persons versus Aug -423k persons



The annual decline in total unemployed persons was slightly smaller than the previous month (ie total unemployed persons declined by a smaller amount).

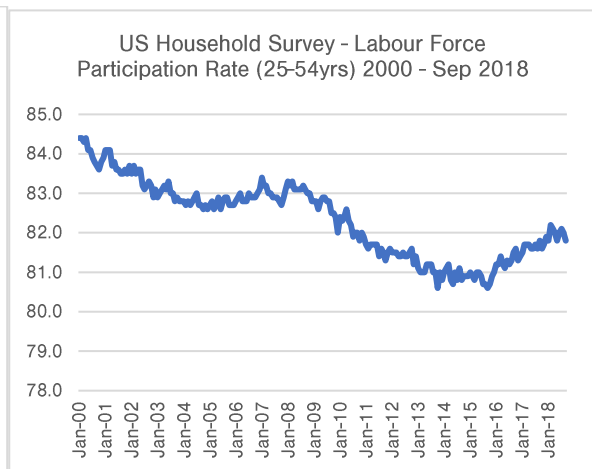
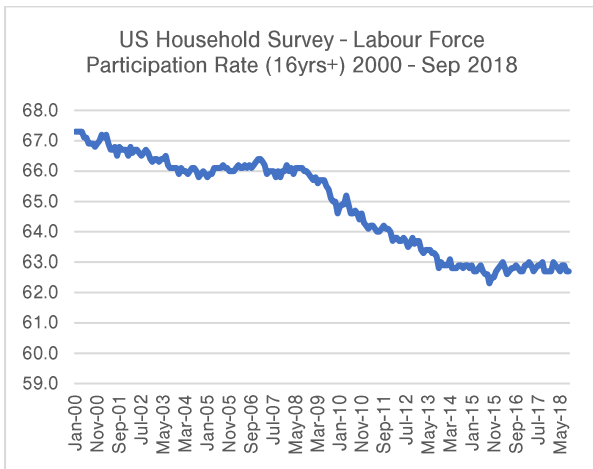
Annual change; Sep -795k persons versus Aug -893k persons

Monthly change in unemployed persons; Sep -270k persons versus Aug -46k persons

The unemployment rate declined to 3.7% in Sep from 3.9% in Aug. The decline in the unemployment rate was a function of higher growth in employment for the month compared to the prior month and no change in participation in the month.

For those aged 16yrs+, participation remained at 62.7% in Sept unchanged from Aug. On an annual basis the participation rate declined by 0.3%pts – this equates to 774k persons. The participation rate for 16yrs+ has been holding steady for the last three years (it has stopped declining).

Given likely aging population, the participation rate for those 25-54yrs has been increasing over the same time but remains below recent peaks. In the latest year, participation for 25-54yrs has remained unchanged.



For the 16+ yrs demographic, lower participation continues to be a key driver of the decline in unemployment, especially given that employment growth has been slowing.

As of Sep, the est change in the labour force due to population growth was almost on par with employment growth. If there has been no change in participation, then the annual change (decline) in unemployed persons would have been smaller;

| <b>Annual chg 000's people (16yrs+) - Sep 2018</b>                                |          |
|---|----------|
| The estimated change in the Labour Force due to pop growth (1)                    | 1618.766 |
| How many jobs available for them? (annual employment growth) (2)                  | 1638.000 |
| Difference (employment growing faster than what pop adds to the labour force) (3) | -19.234  |
|   |          |
| The change labour force participation - people left the labour force (4)          | -774.766 |
|   |          |
| The remainder is the reduction in total unemployed persons - (4) plus (3)         | -794.000 |
|   |          |

There is a slightly different dynamic when you restrict the population to 25-54 yrs. In this group, employment is growing faster than what the estimated change in the labour force due to population growth. There was no change in participation over the last year, therefore employment growth was the driver of the decline in unemployment;

| <b>Annual chg 000's people (25-54yrs) - Sep 2018</b>                              |          |
|---|----------|
| The estimated change in the Labour Force due to pop growth (1)                    | 582.000  |
| How many jobs available for them? (annual employment growth) (2)                  | 1081.000 |
| Difference (employment growing faster than what pop adds to the labour force) (3) | -499.000 |
|   |          |
| The change labour force participation - people left the labour force (4)          | 0.000    |
|   |          |
| The remainder is the reduction in total unemployed persons - (4) plus (3)         | -499.000 |
|   |          |

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

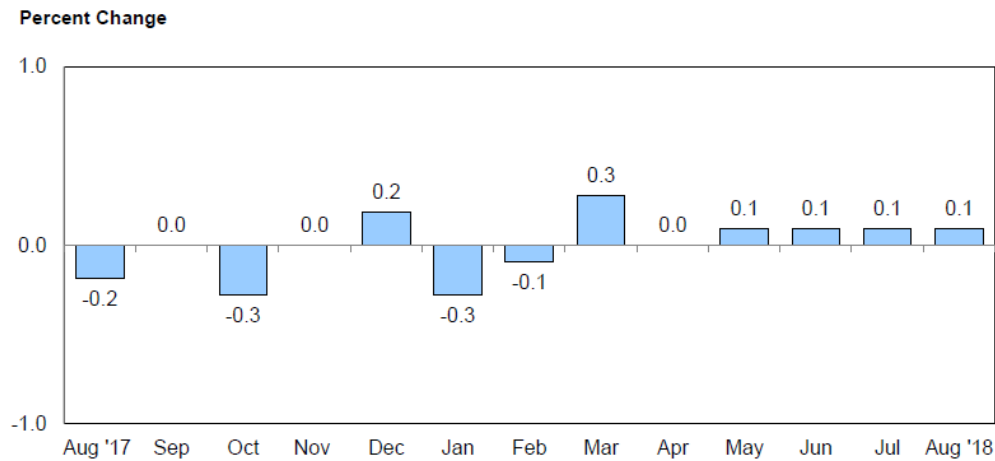
### Real Earnings – Aug

Real average hourly earnings continued to grow at a constant pace in the latest month;

All employees; Aug +0.1% versus Jul +0.1%

The increase in the month was due to the increase in real average hourly earnings combined with no change in the average workweek.

**Chart 1: Over-the-month percentage change in real average hourly earnings for all employees, seasonally adjusted, August 2017 – August 2018**

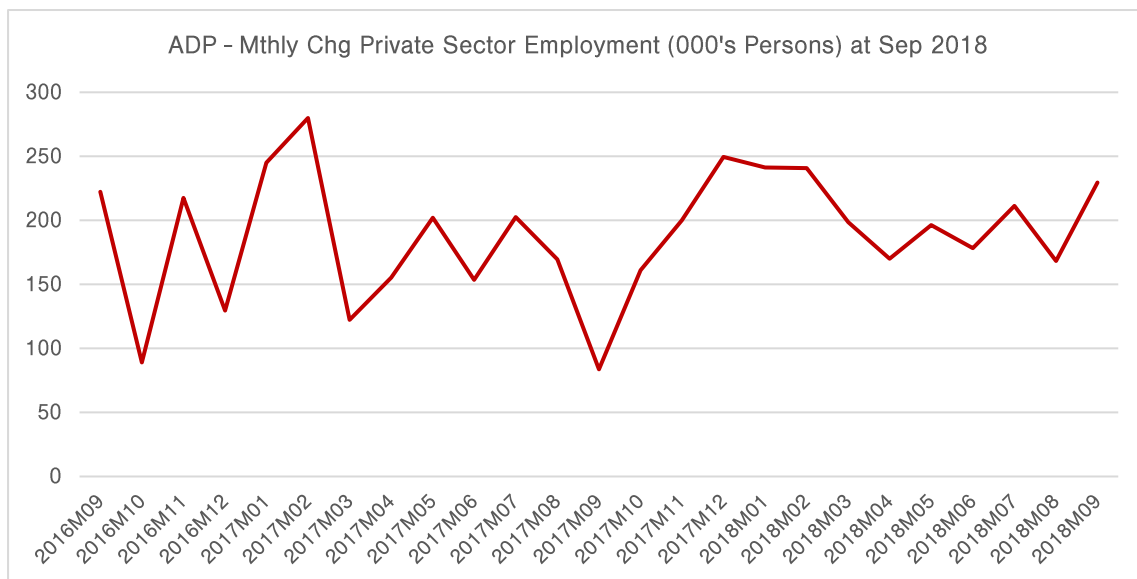


<https://www.bls.gov/news.release/pdf/realer.pdf>

### ADP Employment Report (Sep)

Growth in private sector employment accelerated in the latest month;

Sep +230k persons versus Aug +168k persons



The increase in Sep is above the current 12mth average growth of +204k persons.

Growth in the month was the result of increased employment growth in both goods and services-based industries.

Goods: Sep +46k persons versus Aug +23k persons (12mth average +41k persons)

Services: Sep +184k persons versus Aug +145k persons (12mth average +163k persons)

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

## Challenger Job Cut Report (Sep)

Announced job cuts increased in the latest month;

Sep 55.3k persons versus Aug 38.5k persons

From the report – approx. half of the job cuts came from the announcement by Wells Fargo that it was cutting between 5-10% of its workforce in the next three years (the higher estimate was included in the month total).

The YTD total for 2018 versus YTD 2017 is +13.9% (last month YTD increase; +7.5%)



Despite the higher announced job cuts for the month, the total in Q3 is still well below the Q3 average going back to 1989;

Q3 2018; +120.9k persons

Q3 average (back to 1989); +174.3k persons

Q3 2017 +94.5k persons

As expected, the hiring announcements came in higher for Sep (announcing seasonal appointments). This was the strongest growth in announced hiring plans for Sep going back to 2013;

Sep 2018 596k persons versus Sep 2017 422.7k persons

Seasonal workers made up most of the announcements in hires this month; +589k persons.

The stronger Sep job hiring announcements has brought the YTD total more into line with the prior year;

Sep 2018 YTD; +857k persons

Sep 2017 YTD; +933.7k persons

<http://www.challengergray.com/tags/job-cut-report>

## Full Report on Manufacturer Shipments, Inventories and Orders (Aug)

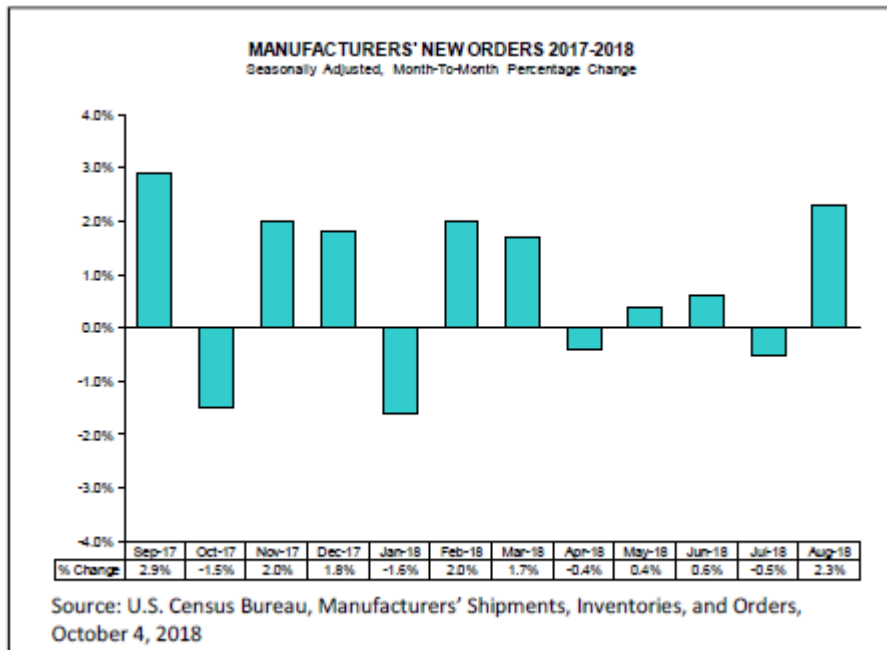
Following on from the prelim Durable Goods Orders report, the final manufacturer data confirms that the stronger growth in new orders in Aug was mostly the result of the increase in

transportation equipment which dwarfed all other categories – it represented 96% of the increase in the value of new orders for the month.

Prior month reports highlighted increased inventory for transport equipment (including non-defence aircraft and parts) which is now flowing through the data. Shipments for transport equipment also increased but will likely see larger increases in shipments in the coming month/s as unfilled orders accelerated higher in the latest month, of which transport equipment was approx. 89% of that increase.

New Orders – All Manufacturing Industries

Aug +2.3% versus Jul -0.5% and YTD growth +8.6%



Ex transportation, growth in new orders was much lower; Aug +0.1% versus Jul +0.1%

New orders of Durable Goods grew by +4.4% in Aug (slightly lower than the 4.5% reported in the prelim report) – transportation equipment was the driver of that increase.

Shipments – All Manufacturing Industries

Aug +0.5% versus Jul 0% and YTD growth +7.6%

Excluding transport equipment, shipments grew by +0.2% in Aug

Shipments for Durable goods also came in slightly lower than the prelim report; Aug +0.7% versus Aug (prelim) +0.8%.

Its likely that we will see a larger increase in shipments in the coming month/months, as growth in unfilled orders accelerated higher in the month.

Unfilled Orders – All Manufacturing Industries

Aug +0.9% versus Jul +0.1%

The growth in the value of unfilled orders was \$10.4b in Aug – total transportation and equipment was 88% of that increase or +\$9.3b.



## Inventories – All Manufacturing Industries

Aug -0.1% versus Jul +0.9%

Excluding transportation, inventories increased in the latest month; Aug +0.2% versus Jul +0.3%

Other categories the recorder higher inventory in the month of Aug;

Durable goods; machinery +0.5% (or +\$355m)

Non-durable good industries; +0.3% (or +\$814m) – mostly petroleum and chemical products.

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

## **US Composite PMI (Sep)**

The overall composite PMI for Sep showed that private sector activity continued to expand in the latest month but slowed somewhat. Momentum has been slowing throughout Q3;

| Jun 2018 | Jul 2018       | Aug 2018       | Sep 2018 |
|----------|----------------|----------------|----------|
| 56.2     | 55.7 (-0.5pts) | 54.7 (-1.0pts) | 53.9     |

The slower expansion was due mostly to the slower expansion in Services – there are some indications that service activity may start to improve after several months of slower momentum.

## Manufacturing

In line with the preliminary result, manufacturing activity in the US expanded at a faster pace – a consistent pace of growth over the last quarter;

Sep 55.6 versus Aug 54.7 (Jul 55.3)

### Manufacturing PMI

sa, >50 = improvement since previous month



Production and new orders expanded at a faster rate – in line with reported stronger client demand. New export orders increased slightly. Rate of order backlogs increased.

Input buying and pre-production inventories increased at a faster pace – this stock building was partly attributed to higher prices as a result of tariffs and supply chain delays.

Employment expanded, but at the slowest rate for the last 13 months.

Tariffs and higher oil prices drove input cost increases.

Optimism increased but was the lowest recorded for the last year.

### Services

Services activity also continued to expand in the latest month, but at a slower pace (lowest level in eight months);

Sep 53.5 versus Aug 54.8

### **Service sector business activity** (seasonally adjusted)



Source: IHS Markit.

Importantly though, new business growth increased in the latest month. Backlogs of orders increased after two months of contraction. This may point to faster growth in the future.

Employment grew at the joint fastest rate since June 2014.

Prices also continued to increase at a faster rate – the highest in nine years. demand for inputs and tariff were cited as key factors impacting prices.

Business optimism was lower – at its weakest point since Dec 2017. Competition for new work was cited as the main factor.

<https://www.markiteconomics.com/Survey/PressRelease.mvc/6fe76902b2b74200a6708cea6c40b4ce>

<https://www.markiteconomics.com/Survey/PressRelease.mvc/b704f3ee7adb46c68a4324bd1bfaaff1>

### **US ISM Manufacturing Report (Sep)**

Manufacturing activity continued to expand in the latest month, although did slow somewhat compared to the very strong Aug report;

Headline PMI; Sep 59.8 versus Aug 61.3

Production increased at a slightly faster pace – with a larger proportion of respondents reporting 'the same' level of activity. New orders slowed after a very strong Aug. New export orders expanded at a faster pace. Inventories and backlogs of orders slowed.

Employment increased at a slightly faster pace, although the proportion of respondents shifted out of 'higher' and 'same' levels of employment into an increased proportion of respondents reporting 'lower' levels of employment.

Input prices continued to increase, but at a slower pace, slowing from 72.1 in Aug to 66.9 in Sep.

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

### **US ISM Non-Manufacturing Index (Sep)**

The headline non-manufacturing index increased at a faster rate in the latest month to an all-time high level (since 2008);

Sep 61.6 versus Aug 58.5

Business activity/production expanded at a faster rate; Sep 65.2 versus Aug 60.7. There was a definite shift from respondents reporting 'lower' and 'same' levels of activity to 'higher' levels of activity. New orders also expanded at a faster rate. Inventories, backlogs of orders and new export orders also expanded at a faster pace.

Employment has recorded a much faster expansion in the latest month – "the highest reading since the employment index was created in 1997"; Sep 62.4 versus Aug 56.7. Similarly, a larger proportion of respondents claimed 'higher' levels of employment, shifting from 'same' and 'lower'.

Prices continued to expand at a faster rate.

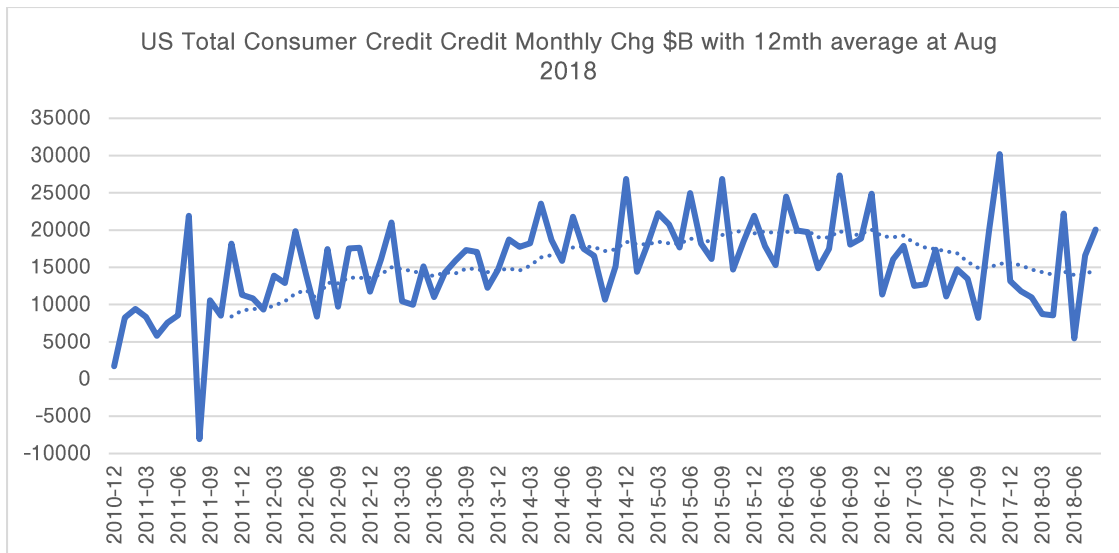
<https://www.instituteforsupplymanagement.org/ISMReport/NonMfgROB.cfm?SSO=1>

### **US Consumer Credit (G.19) (Aug)**

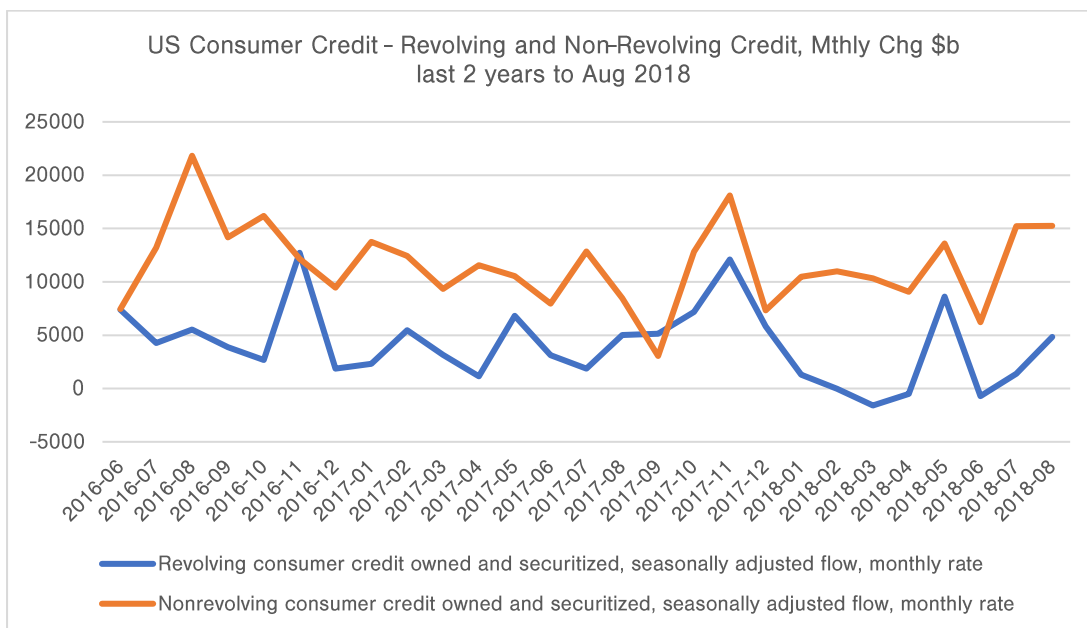
Consumer credit growth accelerated further in the latest month.

Aug; +\$20.1b versus Jul +\$16.6b

Consumer credit growth for the first two months of Q3 is already on par with total consumer credit growth in Q2.



Non-revolving and revolving credit both contributed to the growth in the latest month;  
 Non-revolving credit growth was on par with the prior month; Aug +\$15.2b versus Jul +\$15.2b  
 Revolving credit growth increased; Aug +\$4.8b versus Jul +\$1.4b



The underlying data for non-revolving credit (Autos and Student Loans) will be released next month for the quarter.

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

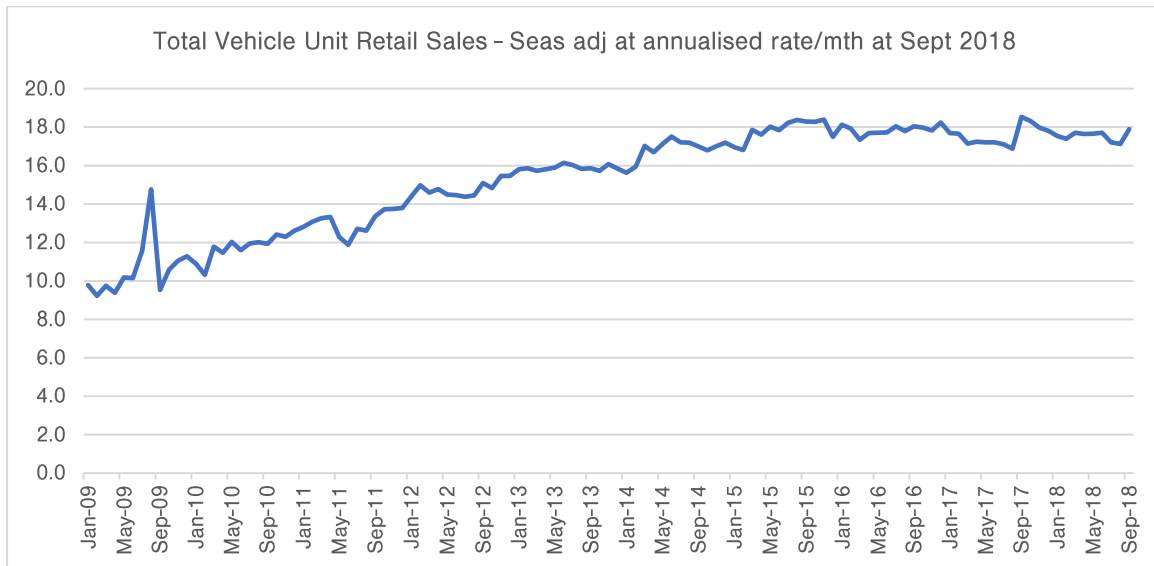
### US Auto Sales (Sep)

On a seasonally adjusted annual rate basis, total vehicle sales (unit retail sales), declined 3% in Sep 18 versus Sep 17.

The difficulty in the Sept 18 change versus Sep 2017 is that there was a large spike in sales last year in Sept – in fact it was the peak ‘annualised rate’ of total vehicle sales since the start of 2009.

Underlying that, auto sales continue to slide which have been offset by higher light truck sales (which includes SUV’s up to 14,000 pounds gross vehicle weight).

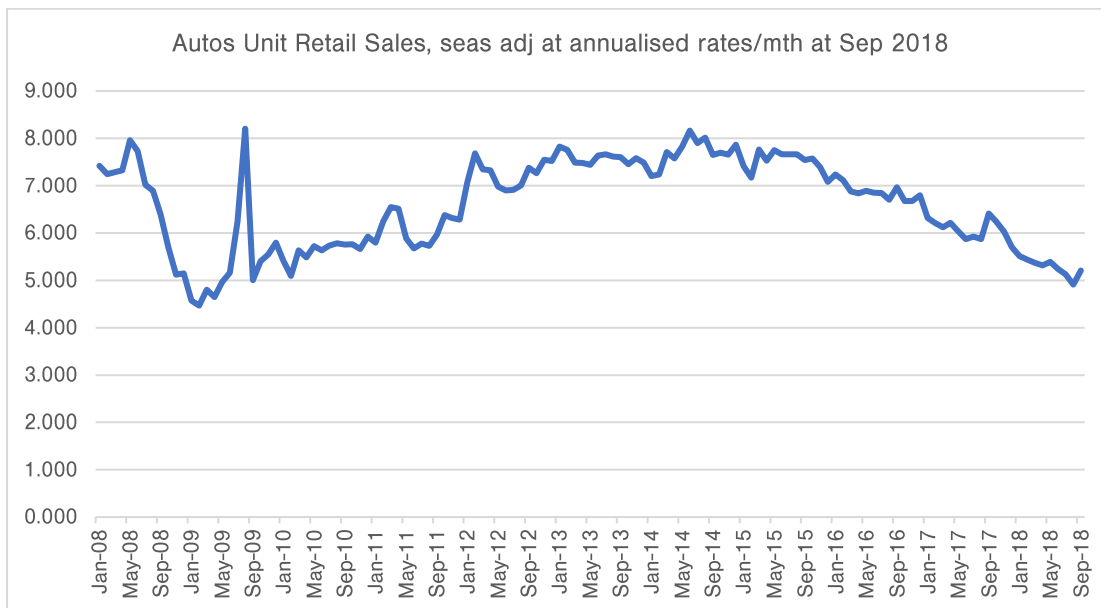
On a moving annual total basis, total vehicle sales have grown by 1% (total to Sept 2018 versus the total to Sept 2017). This reflects the more constant rate of sale since the start of 2016;



It’s worthwhile looking under the hood to see the differences underlying total vehicle sales.

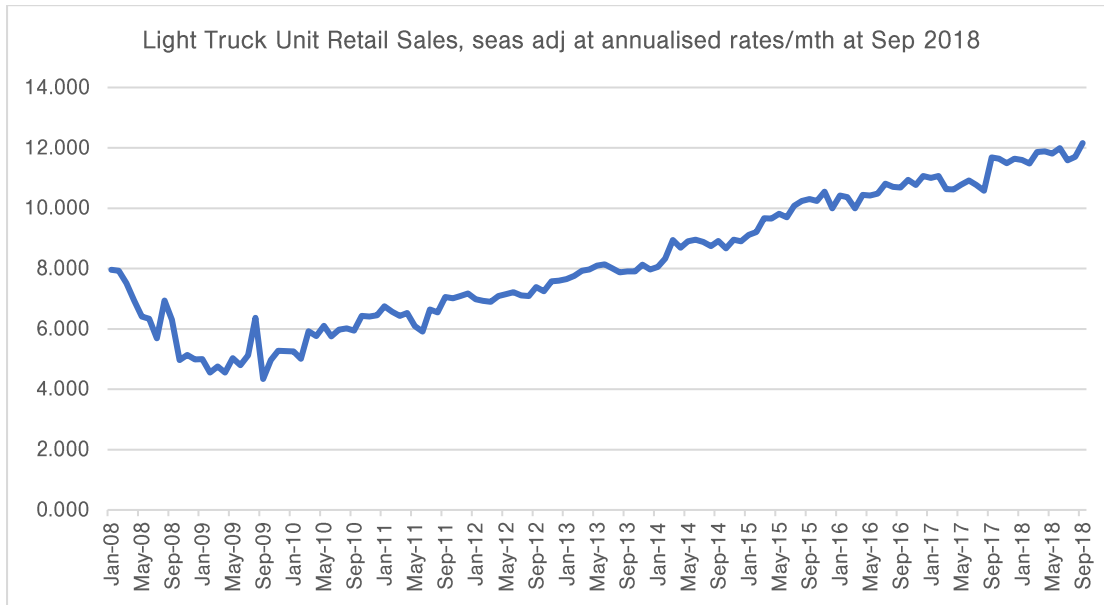
Over the same time-period/measurement (moving annual total unit sales at Sep 18 v the total at Sep 17);

**Auto sales -13%**



Auto sales are closer to their all-time lows on an annualised basis.

**Light trucks (which includes SUV's up to 14,000 pounds gross vehicle weight): +8%**



In the current month, the annualised rate of light truck sales reached its highest point since the start of 2009 at 12.16m units. The all-time peak in monthly annualised sales of light trucks was 12.6m units in July 2005.

[https://www.bea.gov/national/xls/gap\\_hist.xlsx](https://www.bea.gov/national/xls/gap_hist.xlsx)

## US Fed – Speeches

Key speeches this week highlighted how the strength of the US economy may warrant rate increases that are somewhat more restrictive.

### **US Fed Chairman Powell – Monetary Policy and Risk Management at a Time of Low Inflation and Low Unemployment, 2 Oct 2018**

“the economy is strong, unemployment is near 50-year lows, and inflation is roughly at our 2 percent objective. The baseline outlook of forecasters inside and outside the Fed is for more of the same.”

“This historically rare pairing of steady, low inflation and very low unemployment is testament to the fact that we remain in extraordinary times”

<https://www.federalreserve.gov/newsevents/speech/files/powell20181002a.pdf>

### **US Fed Chairman Powell – Q&A, The Atlantic Festival (video)**

This speech was widely quoted throughout the week, where Fed Chairman Powell said ‘we are a long way from neutral, probably’.

The context of that comment; The Fed has been raising rates for 3 years and only now, have real interest rates moved above zero – rates are still accommodative. Gradually moving to a place where they will be neutral, we may go past neutral. We are a long way from neutral at this point, probably.

<https://www.cnbc.com/2018/10/03/watch-fed-chairman-jerome-powell-in-a-qa-session.html>

### **Atlanta Fed President and CEO Raphael Bostic – The Importance of Early Economic Education**

In previous speeches, President Bostic has been more guarded/moderate on the path of rate increases, preferring the ‘slow and steady’ approach to increases and then to ‘pause’ when rates reach ‘neutral’ – to wait and see that the economy can handle the less stimulative policy.

In a speech this week though, his thinking on the strength of the economy and path of rates appears to have shifted;

The incoming economic data on the real side of the economy have come in stronger than I had been expecting earlier this year. So much stronger, in fact, that the central question in my mind is whether the apparent strength in GDP and job growth is a signal that I have materially underestimated the underlying momentum of aggregate demand. If that's the case, the potential for overheating would require a higher path for rates than what I had been thinking.

He goes onto temper these comments though;

These business leaders have struck a largely upbeat tone regarding the current environment, with the majority reporting that demand roughly matched or was slightly above their expectations. That said, my contacts generally indicated that they have **not** materially revised their outlooks for the remainder of 2018 and 2019.

“So we delved into this issue during conversations with our contacts. The responses were a little varied, but they had one unifying theme: Businesses' investment strategies are driven by demand fundamentals. In this environment, business leaders have not yet bought into a significant persistent pickup in demand beyond their current capabilities to meet that demand.”

Full copy of the speech is here;

<https://www.frbatlanta.org/news/speeches/2018/10/05-bostic-importance-of-early-economic-education.aspx>

### **Boston Fed President Rosengren – Exploring Current Economic Conditions and the Implications for Monetary Policy 1 Oct 2018**

Continued strong growth in the US will result in labour markets that will continue to tighten, pushing up inflationary pressures. If global risks don't derail current growth, then slightly restrictive monetary policy will be appropriate and beneficial in the long term.

“I believe that Federal Reserve policymakers will likely need to move interest rates gradually from a mildly accommodative stance to a mildly restrictive stance in order to best fulfil our mandate — stable prices and maximum sustainable growth.”

<https://www.bostonfed.org/news-and-events/speeches/2018/exploring-current-economic-conditions-and-the-implications-for-monetary-policy.aspx>

**Philadelphia Fed President Harker Fed Bloomberg interview**; seen no acceleration in inflation (it's not the level, but the rate of change), wants a slower pace of rate increases, no rush to normalisation to neutral. Risk: yield curve inversion. But don't know where the neutral rate is. <https://www.bloomberg.com/news/videos/2018-10-03/fed-s-harker-on-employment-rate-path-economy-video>

### **Richmond Fed President Thomas Barkin – speech “The Outlook for Tomorrow”**

Speech highlights several data points that are important in forming his view on the path of the economy (on top of growth, jobs and inflation data). They are business investment, productivity, compensation growth for job stayers, consumer durables prices and the yield curve.

[https://www.richmondfed.org/-/media/richmondfedorg/press\\_room/speeches/thomas\\_i\\_barkin/2018/barkin\\_speech\\_20181003.pdf](https://www.richmondfed.org/-/media/richmondfedorg/press_room/speeches/thomas_i_barkin/2018/barkin_speech_20181003.pdf)

Remaining speeches for the week can be found at; <https://www.stlouisfed.org/fomcspeak>

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## Europe

### Germany – Provisional Retail Sales (Aug)

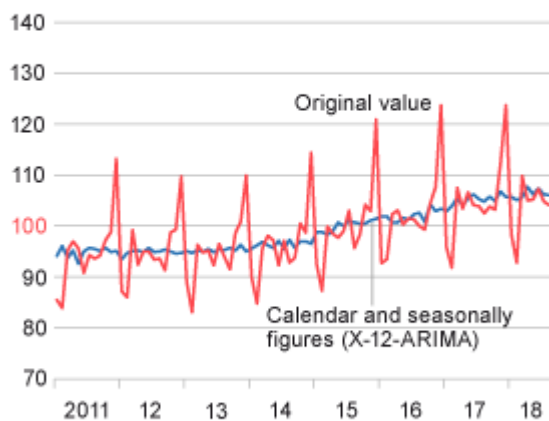
In the provisional result, monthly retail sales (real terms) in Germany continued to slow in the latest month, but annual growth (Aug 18 versus Aug 17) was faster;

Monthly % chg (real terms, seas adj); Aug -0.1% versus Jul -0.4%

Annual % chg (real terms, seas adj); Aug +1.6% versus Jul +0.9% (revised higher from the provisional result of +0.8%)

#### Retail trade

Turnover at constant prices (real); 2015=100



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[https://www.destatis.de/EN/PressServices/Press/pr/2018/10/PE18\\_375\\_45212.html](https://www.destatis.de/EN/PressServices/Press/pr/2018/10/PE18_375_45212.html)

### German Factory Orders (Provisional - Aug)

Some welcomed improvement in manufacturing new orders. Provisional data for Aug (price and seasonally adjusted);

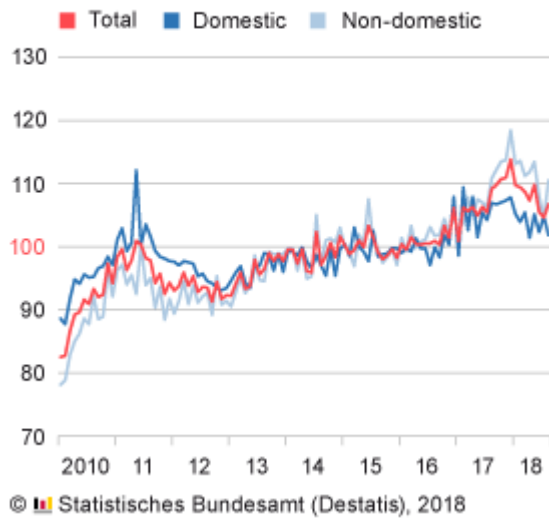
#### New orders

month chg; Aug +2% versus Jul -0.9%

annual chg; Aug -2.1% (v Aug 2017)

In the latest month, domestic orders decreased by 2.9%, foreign orders increased by 5.8%, new orders from the euro area declined by 2.2%, new orders from other countries increased 11.1% versus Jul.

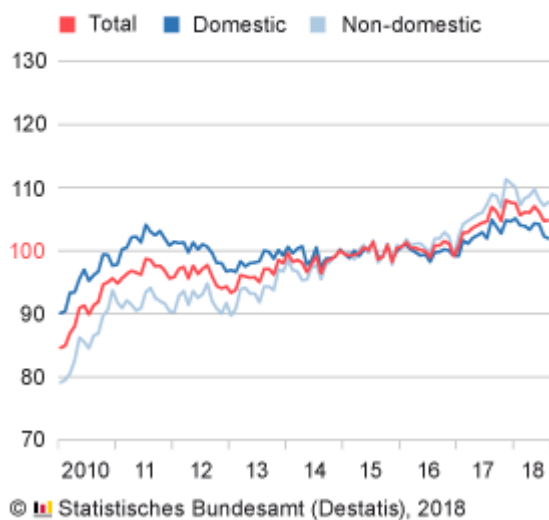
**Index of new orders in manufacturing**  
2015=100; price, calendar and seasonally adjusted



Manufacturing turnover

Aug +0.1% (price and seasonally adjusted) versus Jul -1.3% (revised higher from the provisional -1.8%)

**Turnover index in manufacturing**  
2015=100; price, calendar and seasonally adjusted



[https://www.destatis.de/EN/PressServices/Press/pr/2018/10/PE18\\_380\\_421.html](https://www.destatis.de/EN/PressServices/Press/pr/2018/10/PE18_380_421.html)

**Germany Composite PMI (Sep)**

Overall private sector activity continued to expand in the latest month, albeit at a slower pace. Overall growth momentum has been relatively constant during Q3, led mainly by services activity. This month PMI report contrasts a more bearish view of manufacturing activity with stronger activity in services helping to pick up some of the slack.

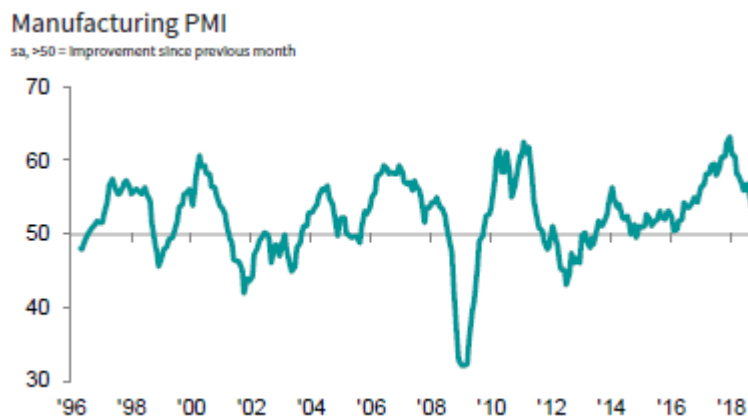
| Jun  | Jul          | Aug            | Sep 2018     |
|------|--------------|----------------|--------------|
| 54.8 | 55 (+0.2pts) | 55.6 (+0.6pts) | 55 (-0.6pts) |

The slight down-tick in the rate of composite output growth in September does little to change the picture for the third quarter as a whole, with the PMI data still running consistent with around 0.5% quarter-on-quarter expansion in GDP.

### Manufacturing PMI (Sep)

In line with provisional results, manufacturing activity in Germany continued to slow in the latest month – capping off slower growth momentum in Q3;

Sep 53.7 versus Aug 55.9 (Jul 56.9)



Growth in output and new orders slowed. The slow down in new orders was mostly the result of weaker export orders. Export orders fell for the first time in three years – focused on capital goods including machinery, equipment and transport.

Employment growth slowed to the lowest level since Feb 2017.

Input cost growth slowed. The average increase in purchase prices were led higher by energy, basic metals and metal products.

Manufacturers have lowered their expectations of where output levels will be in a year's time.

“The escalating US-China trade war, uncertainty surrounding Brexit negotiations and Turkey's currency crisis have all played a part. It was producers of investment goods such as machinery, transport and other equipment that led the decline in orders in September, in some cases reporting the postponement of projects.”

### Services

Services activity expanded at a faster pace in the latest month and is now growing at a faster rate than manufacturing activity;

Sep 55.9 versus Aug 55

New business growth expanded at a faster pace, due to a pick up in domestic demand. Backlogs of orders increased, but at a slightly slower pace.

Employment continued to grow at a faster pace.

Price pressures remain elevated due to higher fuel and labour/wage costs.

Optimism in growth in services activity and output remained unchanged from Aug.

<https://www.markiteconomics.com/Survey/PressRelease.mvc/254cbe5edf3644a8ae8650b0c0410eaa>

<https://www.markiteconomics.com/Survey/PressRelease.mvc/55f726566fd342b0814f7e32ab2b6558>

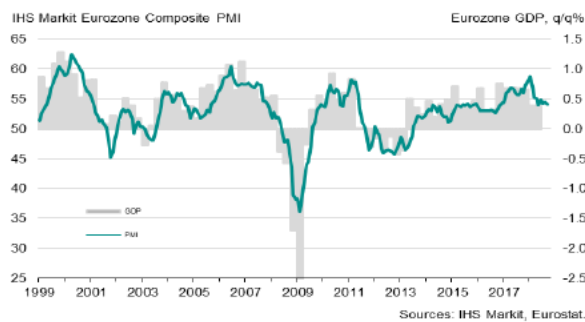
### Eurozone Composite PMI (Sep)

Overall private sector activity in the Eurozone continued to grow in the latest month, but at a somewhat slower pace. Growth momentum overall has been broadly consistent throughout Q3;

| Jun 2018 | Jul 2018       | Aug 2018       | Sep 2018 |
|----------|----------------|----------------|----------|
| 54.9     | 54.3 (-0.6pts) | 54.5 (+0.2pts) | 54.1     |

Slower momentum in manufacturing led the overall composite index lower in the latest month.

### IHS Markit Eurozone Composite PMI



### Manufacturing

Eurozone manufacturing activity continued to slow in the latest month, capping off slower growth momentum in Q3. Stalling export trade remains the key theme.

Sep 53.2 (slightly lower than the prelim 53.3) versus Aug 54.6 (Jul 55.1)

### IHS Markit Eurozone Manufacturing PMI



The overall slowdown was broad-based on a country basis – only the Netherlands recorded an improvement on its manufacturing PMI when compared to Aug. Of the four largest countries, German performance was the strongest, but manufacturing momentum has stalled there also.

Weakening trade is leading the general manufacturing slowdown. New export orders in the Eurozone were little changed. Outright falls were recorded in key economies of Germany and France.

Growth in new orders were slowest in twenty-five months. Output growth was the weakest since May 2016. Order backlogs fell for the first time in three and a half years.

Employment continued to grow across the Eurozone, but also at the slowest pace in eighteen months.

Input price growth has eased but remains elevated. Prices of steel and oil-related goods remains high.

Business sentiment weakened to the lowest level in thirty-five months – trade protectionism was a key issue.

### Services

Services activity throughout the Eurozone expanded at a faster pace in the latest month;

Sep 54.7 versus Aug 54.4

New orders continued to increase, leading to further expansion in order backlogs.

Employment growth was faster. Employment gains across all countries were higher than their respective long run averages.

Price pressures also persisted, with average operating expenses increasing at the strongest rate since early 2011.

Business optimism improved on the weaker Aug reading but remains at a low level.

<https://www.markiteconomics.com/Survey/PressRelease.mvc/b3b808eb02bf46f596caf8e3b40cfe5d>

<https://www.markiteconomics.com/Survey/PressRelease.mvc/d8f59f9ea9c94d139936d5ea9273a94f>

### **Euro Area Retail Sales (Aug)**

Retail sales in the Euro area were again weak in the latest month.

Monthly % change, based on price adjusted retail sales data;

EA19; Aug -0.2% versus Jul -0.6%

In the broader EU28 group; Aug 0% versus Jul -0.2%

The current annual rate of growth for retail sales (vol) in the EA19 is +1.8% and in the EU28 +2.4%.

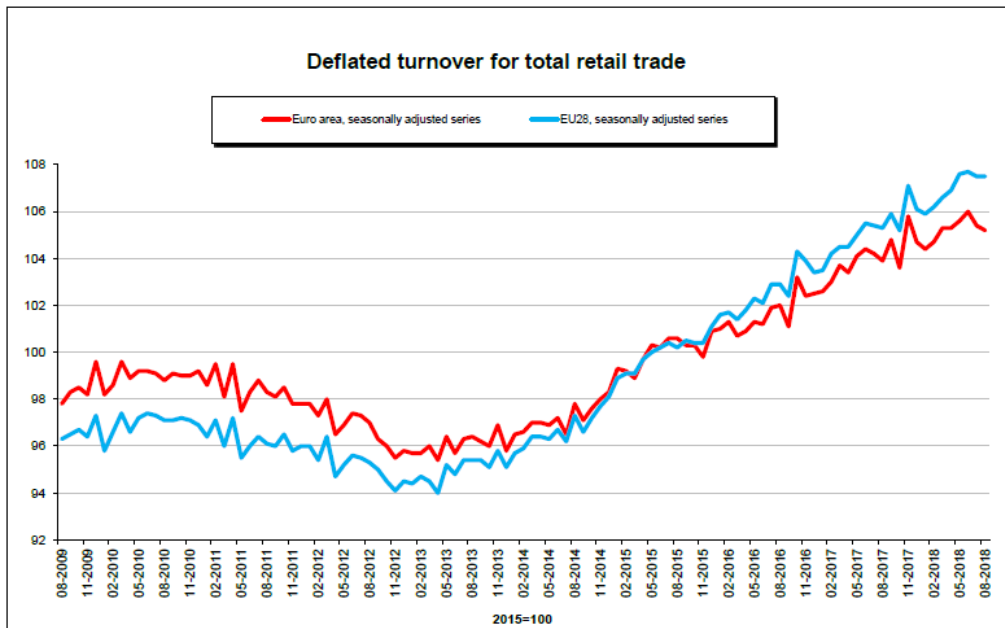
In the EA19, several categories contributed to the decline in the latest month;

Food Drink and Tobacco; Aug -0.3% versus Jul -1%

Mail Orders and Internet; Aug -2.3% versus Jul +0.9%

Automotive Fuel in specialised stores; Aug -0.6% versus Jul -1.5%

Germany, France and Poland were the larger of the Eurozone economies to report declines in the latest month.



<https://ec.europa.eu/eurostat/documents/2995521/9282435/4-03102018-AP-EN.pdf/5efc10b6-de94-4d1a-9023-8f16b2db610a>

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## Japan

### Nikkei Composite PMI (Sep)

The headline composite PMI of private sector business activity slowed further in the latest month. The composite index was led lower by both services and manufacturing activity.

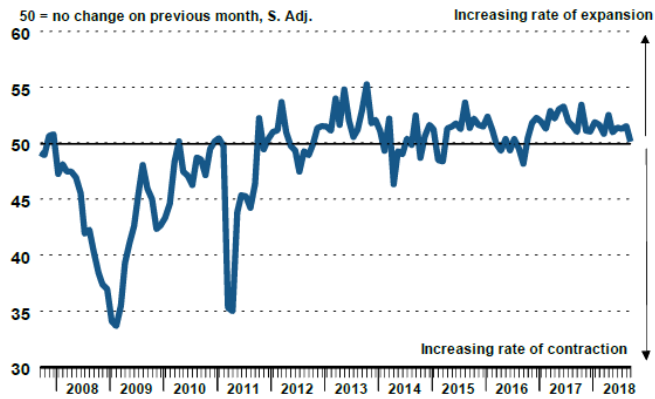
| Jun 2018 | Jul 2018 | Aug 2018 | Sep 2018 |
|----------|----------|----------|----------|
| 52.1     | 51.8     | 52       | 50.7     |

### Services PMI

The business activity index slowed to the lowest level in two years and reflects a very weak level of expansion;

Sep 50.2 versus Aug 51.5

### Nikkei Japan Services PMI



Sources: Nikkei, IHS Markit

Output growth was marginal and growth in new orders increased at a slower pace.

Employment continued to grow but slowed somewhat and remained in line with recent averages.

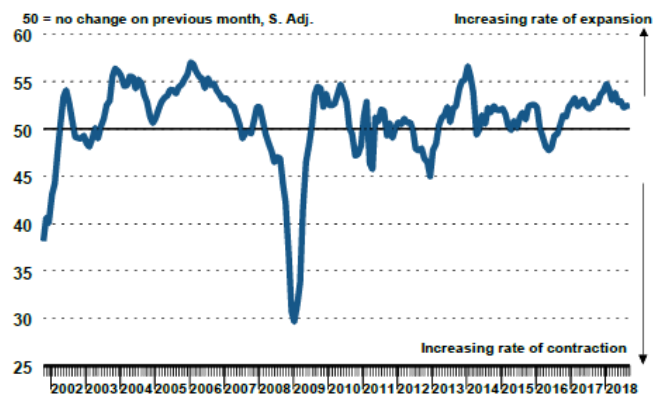
<https://www.markiteconomics.com/Survey/PressRelease.mvc/fab68ddbef3f49b3b121f257eff6e8d5>

### Manufacturing PMI

The headline index of manufacturing activity was mostly unchanged in the latest month, continuing to expand at a constant pace, albeit slower than at the start of the year;

Sep 52.5 versus Aug 52.5 (Jul 52.3)

## Nikkei Japan Manufacturing PMI



Sources: Nikkei, IHS Markit

Output continued to grow but at a slower pace – now at a fourteen-month low. Total new business growth also expanded but remains below the average of recent months. New export orders declined for another month.

Employment growth accelerated but remains well below the current two-year peak.

Input prices accelerated in the latest month – oil, metals, Yen weakness, higher labour and shipping expenses were cited. Output prices were increased to offset the higher input prices.

“Although firms remained optimistic overall that output levels would be higher in a year’s time, the degree of confidence dipped to a 22-month low, with some panellists raising concern towards the demand outlook.”

<https://www.markiteconomics.com/Survey/PressRelease.mvc/6ed063ca095e4bba880e5ccf24f3cc21>

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## United Kingdom

### BREXIT

There are more positive sounding statements coming from the EU now on key issues of the Brexit withdrawal agreement, in particular, on the Irish border issue. At this stage, there have been no formal proposals put forward by the UK.

On trade ties/Chequers proposal; It has been reported that PM May is preparing to compromise even further with the EU. <https://www.express.co.uk/news/politics/1025943/brexit-news-theresa-may-chequers-conservative-party-conference-brexit-deal>

October 10 – Michel Barnier is due to present to the EU’s executive European Commission a first draft of the EU’s proposal for close trade ties with Britain after Brexit.

EC council meeting on 17-18 Oct – it will likely be announced on the 18 Oct whether enough progress has been made on the Irish border issue to call an emergency EU meeting to finalize the Brexit deal.

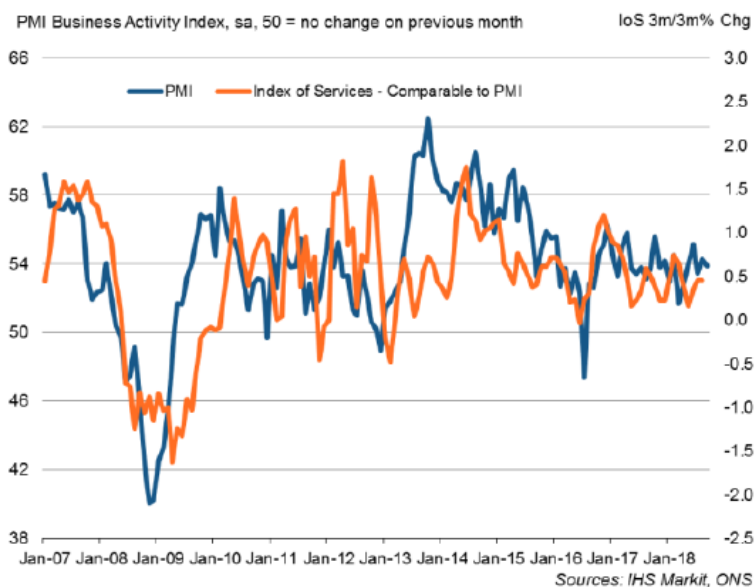
The extra EC meeting will likely be held on 17-18 Nov to formalize the withdrawal agreement.

### Services PMI (Sep)

Overall services activity continued to expand in the latest month but did so at a slower pace.

Sep 53.9 versus Aug 54.3

### IHS Markit / CIPS UK Services PMI



New order growth continues to grow but had slowed in the latest month. This was partly attributed to the uncertainty regarding Brexit. That said, backlogs of orders continued to increase, partly reflecting staff shortages.

Employment continued to increase but reports of tight labour markets has resulted in difficulties filling positions.

Input prices increased at the fastest level for three months. Price charged by firms increased at a more moderate pace, the slowest in a year.

Overall confidence improved slightly but remains below the survey average.

Some companies cited hopes of a boost to activity from pent up client demand following the conclusion of Brexit negotiations. However, there were again widespread reports that political uncertainty and global trade tensions had weighed on overall growth projections.

<https://www.markiteconomics.com/Survey/PressRelease.mvc/baf2b9734d8d4194a8d5a39f0f26a3f4>

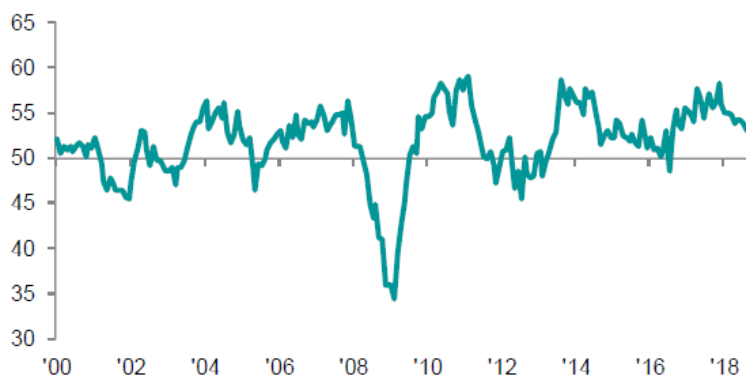
### Manufacturing PMI (Sep)

The UK manufacturing sector bucked the broader trend this month and PMI expanded at a faster pace;

Sep 53.8 versus Aug 53 (revised higher from 52.8)

#### Manufacturing PMI

sa, >50 = improvement since previous month



Production/output increased at a faster pace – reaching a four-month high, the result of growth in new business, rebuilding inventories and clearing backlogs of work. New orders increased both domestic and exports.

“Foreign demand posted a mild recovery following the solid contraction registered in August”

Employment continued to grow, especially at small/medium manufacturers.

Prices for inputs and outputs both continued to increase in the month. Prices increased across a broad range of inputs.

Optimism increased in Sep with now more than half of companies expect production to increase over the next twelve months. Brexit and exchange rate movements were creating uncertainty.

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## Canada

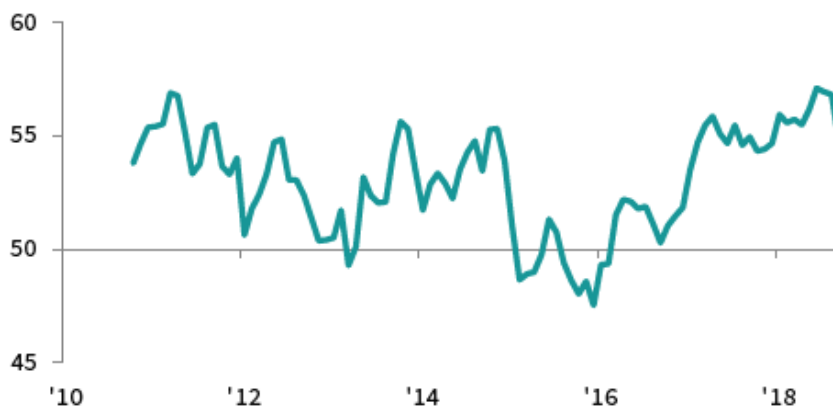
### Canada Manufacturing PMI (Sep)

Growth in manufacturing activity in Canada slowed in the latest month. This is not great news considering the monthly GDP data (reported last week) for July had manufacturing and wholesale activity leading overall growth in the economy.

Sep 54.8 versus Aug 56.8 (Jul 56.9)

#### Manufacturing PMI

sa, >50 = improvement since previous month



The overall slow-down was the result of slower growth in output and new orders. New orders expanded at the slowest pace for eleven months. Export sales growth also slowed. Order backlogs declined for the first time since a year ago.

Employment continued to increase linked to business investment and forthcoming new product launches. Potentially stronger activity to come?

Input costs continued to increase with higher prices reported for steel, aluminium and electronic components. Average prices charged by manufacturers also increased.

Growth expectations fell to the lowest level since the start of the year. Global trade and skills shortages were cited as key reasons.

<https://www.markiteconomics.com/Survey/PressRelease.mvc/350b00a9b329461384f0830505d5c797>

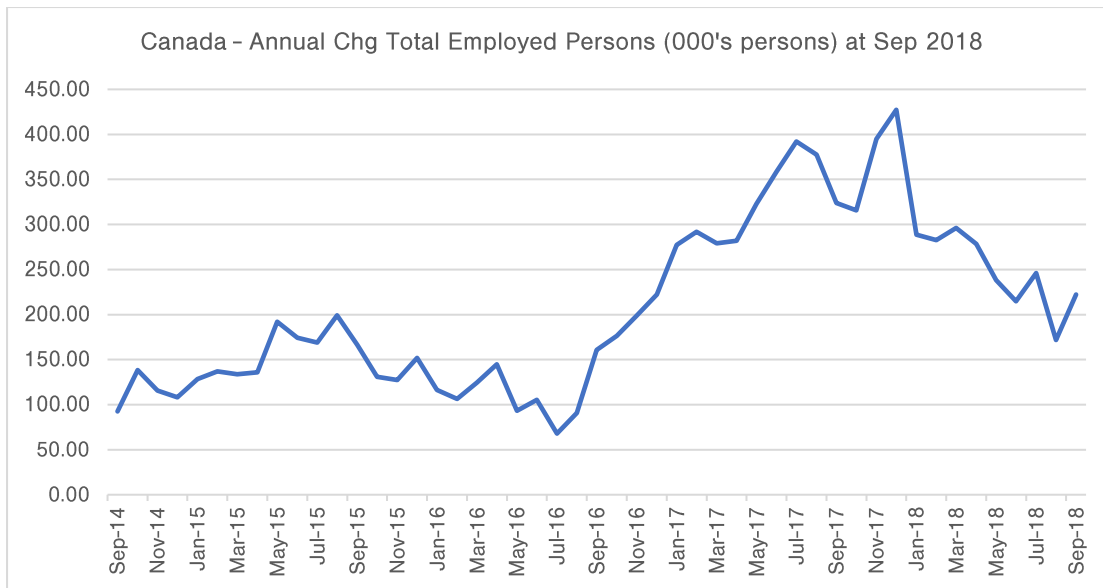
### Labour Force Survey (Sep)

The latest month labour force report was stronger than the previous month.

Monthly change; Sep +63k persons versus Aug -51.6k persons

In the latest month, employment growth was the result of a decline of 17k FT employed persons and growth of 80.2k PT employed persons.

Annual employment growth has been slowing since the start of the year, but the annual rate increased in the latest monthly read;



The annual change in total unemployed workers decreased in the latest month (ie the total number of unemployed persons declined);

Sep -46.8k persons versus Aug -18.5k persons. The unemployment rate for the month declined from 6% to 5.9%.

The participation increased in the latest month, but still declined year on year.

Overall for the year, employment growth is still lower than what the estimated change in population growth added to the labour force. If it wasn't for the decline in participation, total unemployed persons would have likely increased over the last year;

| <b>Annual chg - 000's persons at SEP 2018</b>   |              |
|---|--------------|
| Est of what underlying pop growth add to Labour Force (1)                                   | 266.8        |
| How many jobs available? (Annual employment growth) (2)                                     | 222.4        |
| <b>Difference (employ growing slower than what population adds to the Labour force) (3)</b> | <b>44.4</b>  |
| How many left the Labour Force in the yr to Sep 2018? (4)                                   | -91.2        |
| <b>The remainder is the reduction in total unemployed persons - (4) plus (3)</b>            | <b>-46.8</b> |

<https://www150.statcan.gc.ca/n1/daily-quotidien/181005/dq181005a-eng.htm>

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## Australia

### RBA – Rates Decision October 2018

The RBA left rates on hold at the latest meeting – the overnight cash rate remains at 1.5%

There wasn't much new in the statement – the process to reduce unemployment and having inflation return to target is likely to be gradual and low rates are supporting the economy.

There were several changes to the statement;

Global conditions – 'advanced economies' removed from the reference to expansionary financial conditions. Removed reference to "sizable fiscal stimulus" in the US as an inflation threat.

Yields – Added that higher money market rates have not fed through to higher interest rates on deposits. Reference removed to lenders that have reduced rates on some loans and instead focused on how lenders have increased rates, but that the average mortgage rate is lower than a year ago. [This would be partly due to lower investor mortgage demand – investor mortgage rates are higher].

Growth – removed reference to "Aus economy grew strongly" replaced with "economy is estimated to have grown at an above trend rate".

Rather than trending lower, reference is now that the unemployment rate has fallen to 5.3%.

Housing market – reference now made to declining housing credit growth, led by investors. "Tighter lending standards" replaces reference to tighter credit conditions – adding that this was due to APRA (financial regulator) implementing "earlier supervisory measures to contain the build up of risk in HH balance sheets" - in other words, interest rates have been too low for too long.

<https://www.rba.gov.au/media-releases/2018/mr-18-24.html>

### Aus Retail Sales (Aug)

The value of retail sales increased in the latest month after a softer July;

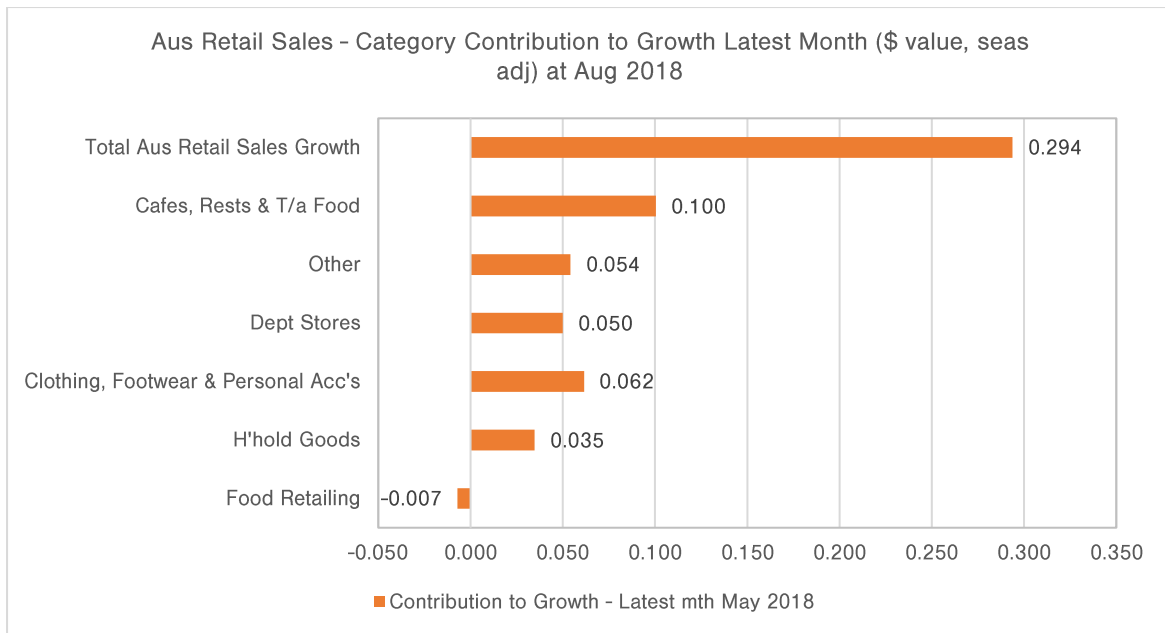
Aug +0.3% versus Jul 0%

All data is retail sales value - quarterly volume/price adjusted retail sales will be released next month.

Growth was led higher in the latest month by Household Goods Retailing, Clothing and Footwear and Dept Stores (after all detracting from growth in the prior month).

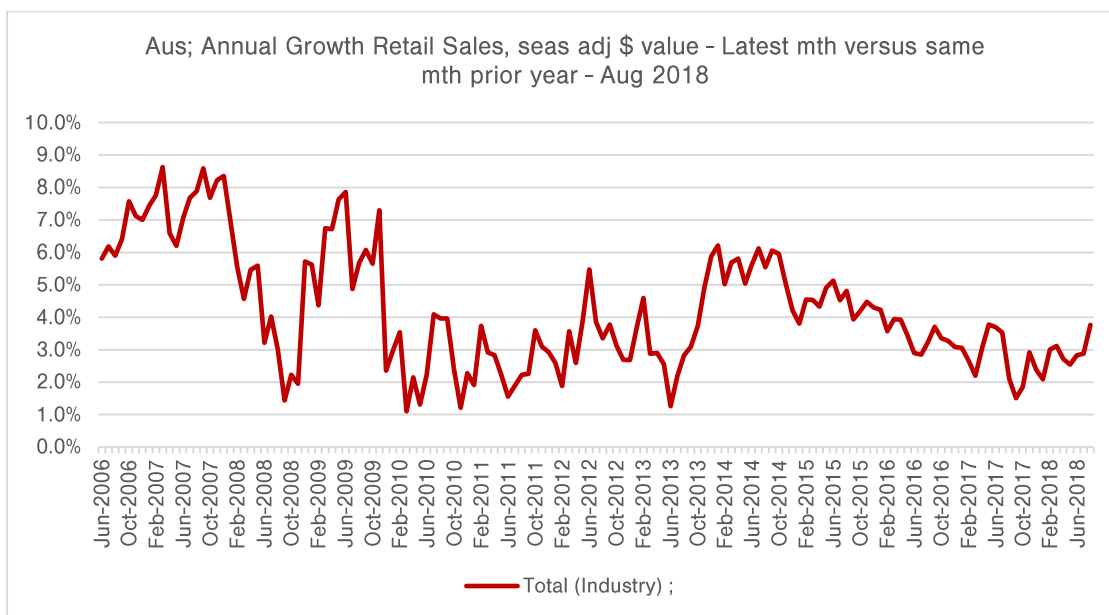
Cafes/Restaurants continued to make a slightly higher contribution to overall growth.

Growth in Food Retailing was mostly unchanged in the latest month.



On annual basis (latest month versus same month prior year), retail sales value growth has been on an accelerating trend for the last year.

Annual growth in retail sales value; Aug 2018 v Aug 2017 +3.8%



Annual retail sales growth accelerated across most states in the latest month – the exceptions were WA and NT.

Retail sales have declined consistently in WA over the last year and NT growth has slowed considerably in the last few months. Higher interest rates are likely impacting both states which are still “recovering” from the end of the investment phase of the mining boom.

<http://abs.gov.au/AUSSTATS/abs@.nsf/Lookup/8501.0Main+Features1Aug%202018?OpenDocument>

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## China

### PBOC

Announced on 7 Oct a cut in the RRR for banks by 1%, effective from 15 Oct. It will release about 1.2tn yuan liquidity, including 450bn yuan to be used to repay MLF coming due on 15 Oct.

### China – Manufacturing PMI (Sep)

The Chinese manufacturing PMI slowed further in the latest month, highlighting broadly stagnant manufacturing activity;

Sep 50 versus Aug 50.6



Sources: IHS Markit, Caixin.

Production/output growth was the weakest recorded for the last year. New work received was unchanged/stagnant. New export orders declined at the fastest pace since Feb 2016.

Employment fell due to company restructures and non-replacement of leavers. Rate of job cuts was faster for the last year.

Input purchasing activity was unchanged. Input inventories increased slightly and inventories of finished goods fell for the fifth month.

Firms optimism was the weakest for the last year, with trade disputes weighing on sentiment and activity.

<https://www.markiteconomics.com/Survey/PressRelease.mvc/b369c6f870f444998432430d73870b6e>

### Nikkei Singapore PMI (Sep)

This report caught our eye – with the headline private sector activity in Singapore falling into contraction. Its unclear how closely linked this is to private sector activity in China, but Singapore does have close links with China and is likely to be impacted by Chinese activity.

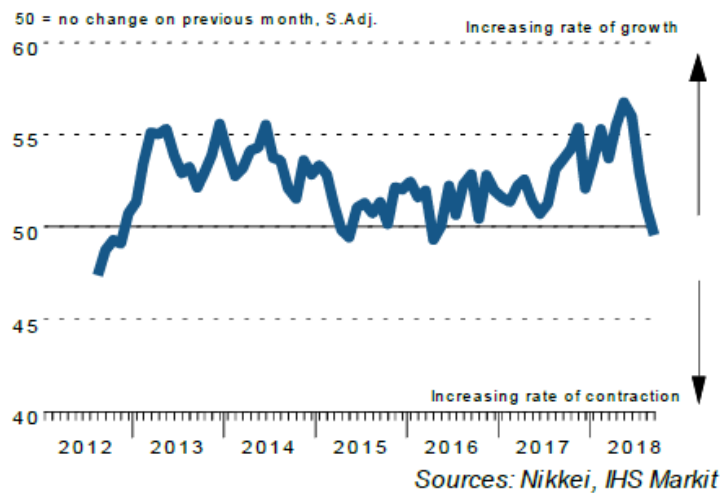


The trend of the headline index has been weak all year and has now fallen into contraction – a warning sign or a proxy for what is happening in China?

Headline PMI;

Sep 49.6 versus Aug 51.1

### Nikkei Singapore PMI™



Output, new orders and exports all declined. As a result, order backlogs and inventories declined.

Despite the gloomy report, there was some optimism for the year ahead – linked to higher sales forecasts, promo activity and new product launches.

<https://www.markiteconomics.com/Survey/PressRelease.mvc/a952c3601bba43f1a86a6e538c73b0c9>

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## **Trade**

### **US-China Trade Negotiations**

Mostly a round of antagonistic comments throughout the week.

A possible fourth round of tariffs may be implemented by the US on \$267b of Chinese imports after China retaliated.

Awaiting details of the next round of talks. Both leaders planned to meet at the G20 in November – which was a possible deadline for any agreement to be announced by the leaders. This is looking less likely given the status of negotiations (stalled).

### **NAFTA/USMCA**

A deal between the US and Canada was announced early in the week. Its been officially renamed – the USMCA.

The joint statement can be found on the USTR website; <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/september/joint-statement-united-states>

U.S. officials intend to sign the agreement with Canada and Mexico at the end of November, after which it would be submitted to the U.S. Congress for approval.

### **US-Japan Trade Talks**

Awaiting details now of a schedule/timeline for talks between the US and Japan on a bilateral trade deal.

### **Section 232 – Car and Truck Imports**

Awaiting the outcome of the public hearings.

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