

## Key Themes

Brexit – no agreement was reached at the EC meeting and not enough progress had been made on the withdrawal agreement to schedule an additional EC meeting for November. This leaves timings very tight. There are several (contentious and likely unacceptable) options under consideration to break the current deadlock on the Irish border issue.

US data remained solid; retail sales were lower than expected because of a fall in one category – growth in most categories rebounded. Industrial production continued to grow at a constant pace. Growth in job openings continues to accelerate while growth in hires remains constant.

The key point from the FOMC minutes was the discussion around the expectation that interest rates may need to become ‘modestly’ restrictive for a period – to be decided within the context of continued good US economic performance.

CPI's in the Eurozone, UK and Japan continued to be influenced by higher energy prices. Annual Euro area CPI grew at 2.1% in Sep but ex energy was 1.3%. In the UK, CPI-H annual growth slowed to 2.2% - but ex energy/food/alcohol/tobacco CPI growth was lower at +1.8%. In Japan, CPI ex fresh food grew at +1% (annual), but ex fresh food and energy grew at a lower annual rate of +0.4%.

UK data was mixed; retail sales missed in Sep. The UK labour market remains resilient, but latest quarter data points to some weakness with employment declining in the quarter.

Chinese GDP growth slowed in Q3 to +1.6% versus +1.8% in Q2. The annual rate slowed to +6.5%.

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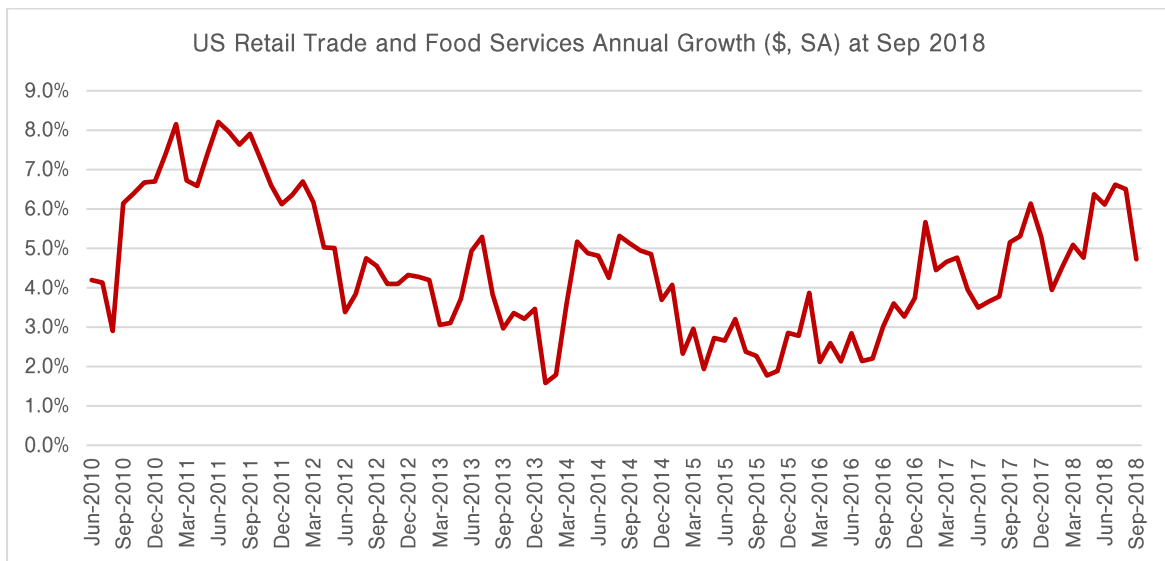
## US Data

### Retail Sales (Sep)

Retail sales growth remained low in the latest month – this was mostly due to the decline in one category (food services and drinking places), whilst the performance of most other categories improved/rebounded after slower growth/declines in the prior month.

Monthly growth of Total retail and food services (seas adj); Sep +0.1% versus Aug +0.1%

Annual growth of Total retail and food services (seas adj) – current month versus same month prior year; Sep +4.7% versus Aug +6.5%.



The slower growth in the month was mostly due to the decline in food services and drinking places; in Sep -1.8% versus Aug +0.3%.

Retail sales for gasoline stations and health and personal care also declined in the month, but by smaller amounts.

Most other categories rebounded in Sep after slowing or declining Aug;

Motor vehicle sales rebounded; +0.8% in Sep versus the -0.5% in Aug. Annual growth is still poor, growing at Sep +1.1%, the second slowest rate since Aug 2010. In Sep, used car and truck CPI was -3% (via latest CPI report).

Retail sales of food and beverage stores grew by +0.2% versus -0.3% in Aug

Retail sales of furniture, clothing, general merchandise and non-store retailers similarly rebounded.

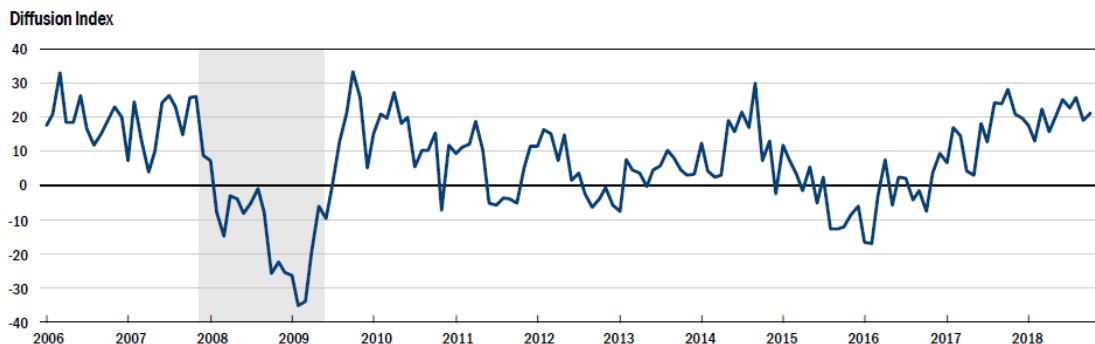
<https://www.census.gov/retail/index.html>

### Empire State Manufacturing Survey (Oct)

One of first views of October data. The headline general business conditions in NY State grew at a slightly faster pace in Oct.

Oct 21.1 versus Sep 19 – this was mostly the result of fewer firm respondents reporting higher and lower business conditions (ie an increase in ‘no change’ to current conditions).

**General Business Conditions**  
Seasonally Adjusted



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

New orders and shipments (especially) grew at a much faster pace. Unfilled orders and inventories both declined. Unfilled orders is now in contraction and inventories is close to a neutral reading. While firms have been catching up with past orders, it’s important to note that new orders remain strong.

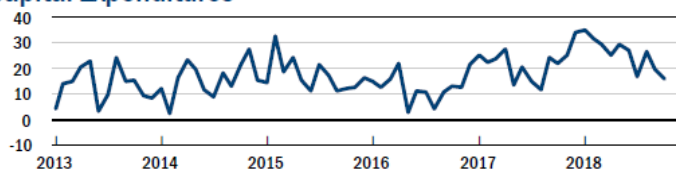
Prices paid and prices received both slowed in the latest month. Prices paid remains elevated.

The growth in the number of employees slowed. The average employee workweek slowed considerably in the latest month and is now sitting at a neutral reading – showing no change in the length of the work week. The proportion of firms reporting a higher and a lower employee workweek are now almost on par.

The forward-looking expectations six months ahead general business indicator remained mostly unchanged; Oct 29 versus Sep 30.3 – this is well off the highs from early 2018.

Capex expectations for six months ahead slowed further; Oct 16 versus Sep 19.5 – also below the highs from late 2017;

**Capital Expenditures**



	Percent Reporting		Index
	Higher	Lower	
Sep	30.1	10.6	19.5
Oct	27.7	11.8	16.0
Change			-3.5

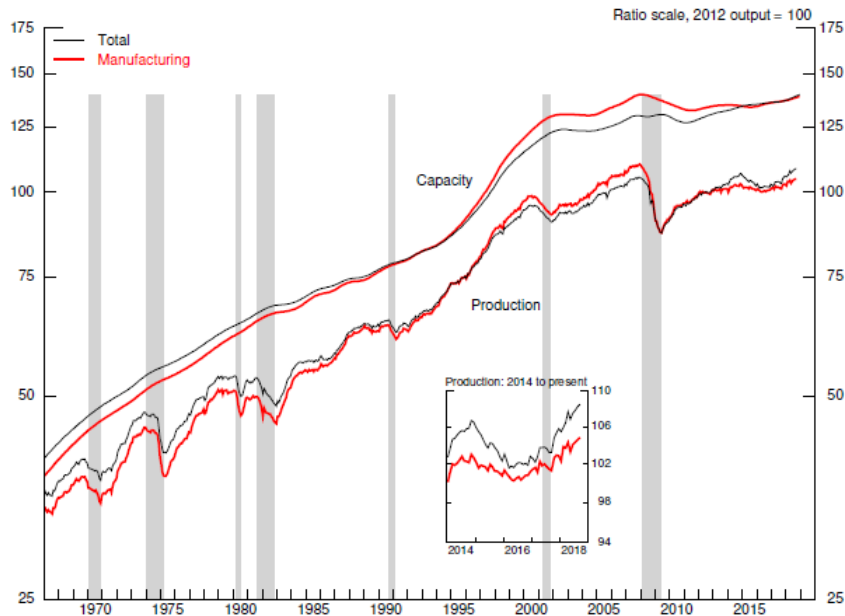
[https://www.newyorkfed.org/medialibrary/media/survey/empire/empire2018/esms\\_2018\\_10\\_survey.pdf?la=en](https://www.newyorkfed.org/medialibrary/media/survey/empire/empire2018/esms_2018_10_survey.pdf?la=en)

## US Industrial Production (g.17) (Sep)

Total US industrial production continued to grow in the latest month, although slightly slower than in the month prior;

Sep +0.3% versus Aug +0.4%

Annual growth in industrial production; +5.1%



**Mining** – overall growth in the month was led higher by Mining +0.5% (versus +0.4% growth in Aug). On an annual basis, Mining continues to be the main driver of growth in industrial production growing at +13.4%.

**Manufacturing** - activity grew at a slower pace in the month; Sep +0.2% versus +0.3% in Aug. Production of durable goods led overall manufacturing higher, growing at +0.6% in the month. The strongest growth in durable goods was for motor vehicles and parts growing at +1.7% in Sep (which was slower than Aug +4.3%) and +7% annual. Also higher in the month was manufacturing of aerospace and misc transport equipment.

Manufacturing of non-durable goods declined by -0.1% in Sep. This was led by declines in food, beverage and tobacco and chemical products.

**Utilities** - growth of industrial production for Utilities was 0% in Sep versus +1.1% in Aug.

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

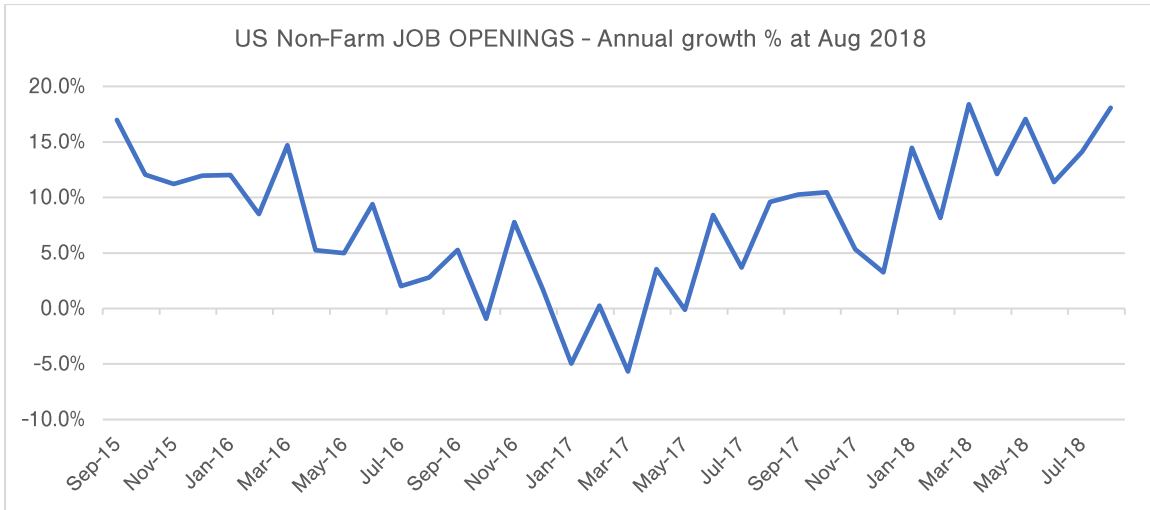
## JOLTS (AUG)

Latest JOLTS data continues to show accelerating growth in job openings. At the same time, growth in hires has remained relatively constant.

### Job Openings

Aug 7.13m versus Jul 7.07m

The number of openings as of Aug 2018 v Aug 2017 increased by 18% and has been on an accelerating trend since early 2017.

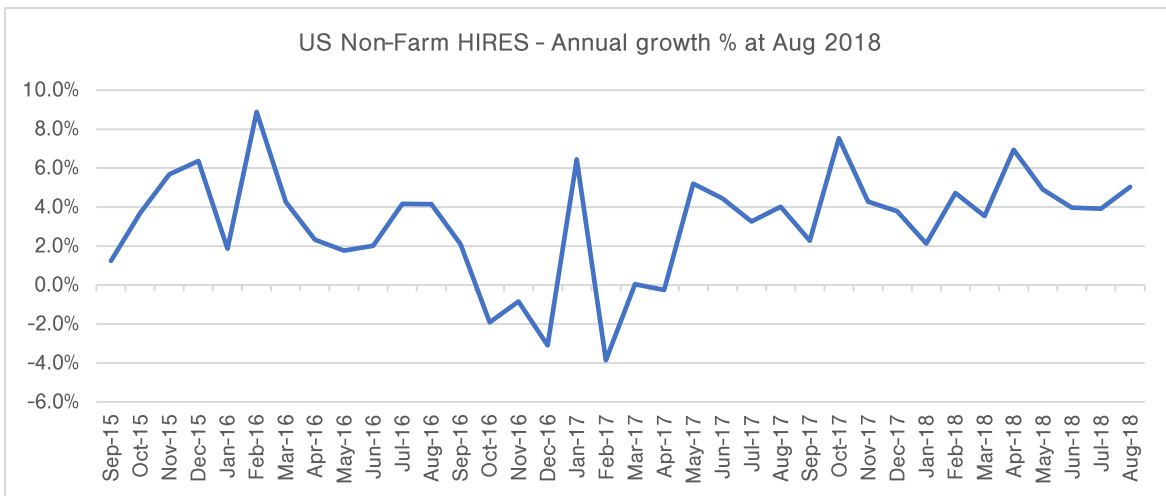


From a regional perspective, the rate of job openings increased in the South and remained at near term highs for the Midwest and the West. The rate of job openings slowed in the Northeast from 4.2 to 4 in Aug.

**Hires**

Aug 5.8m versus Jul 5.7m

Hires growing at an annual pace of +5%. While the growth in hires also picked up in early 2017, annual growth has remained at a more constant pace and has not accelerated in the same way as job openings.



The hire rates increased in the South and the West. But slowed in Midwest and the Northeast.

**Separations**

Aug 5.7m versus Jul 5.6m

The majority of separations are quits. The number of quits declined slightly in Aug, but the annual rate increased by 12.7% and has been accelerating higher since Jan 2018.

Quits; Aug 3.57m versus Jul 3.6m

The quit rate increased in the South and the West and remained unchanged in the Northeast and the Midwest.

Layoffs and discharges increased slightly; Aug 1.8m versus Jul 1.6m

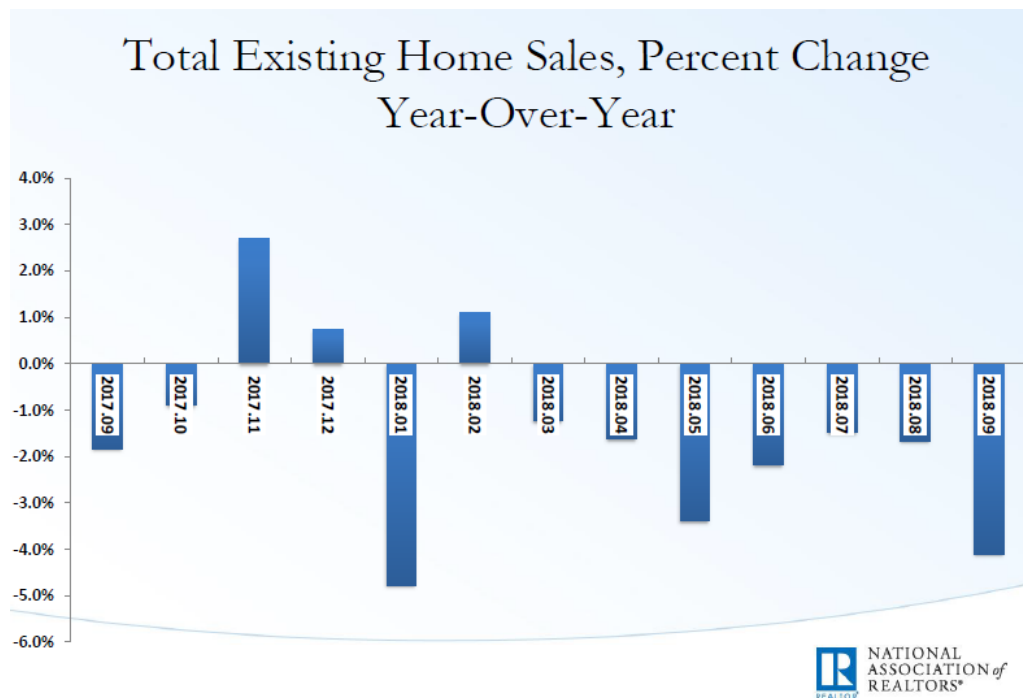
The annual rate of discharges has been declining, but is now almost back to unchanged; Aug -0.4%

Layoffs and discharges increased in the Northeast and the West and remained unchanged in the Midwest and South.

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

### Existing Home Sales (Sep)

Existing home sales declined by 3.4% in the latest month (Sep) and declined by 4.1% from a year ago;



Sales declined in the latest month and on an annual basis across all regions;

In the latest month; sales in the South and West declined by 5.4% and 3.6% respectively. Sales declined by 2.9% and 0% in the Northeast and Midwest respectively.

On an annual basis; Sales declined by 5.6% and 12.2% in the Northeast and West respectively and by 1.5% and 0% in the Midwest and South respectively.

Inventory declined slightly in the latest month -1.6% and grew by 1.1% on an annual basis.

Months' supply continued to increase; Sep 4.4, up from 4.2 a year ago and a low of 3.2 in Dec 2017.

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

## FOMC Minutes – Meeting 25-26 Sep

The key points from the meeting revolves around the future path of rate increases and the likelihood that policy may become restrictive;

Views about how much additional policy firming would likely be required for the Committee to sustainably achieve its objectives of maximum employment and 2 percent inflation.

“A few participants expected that policy would need to become modestly restrictive for a time and a number judged that it would be necessary to temporarily raise the federal funds rate above their assessments of its longer-run level in order to reduce the risk of a sustained overshooting of the Committee's 2 percent inflation objective or the risk posed by significant financial imbalances. A couple of participants indicated that they would not favor adopting a restrictive policy stance in the absence of clear signs of an overheating economy and rising inflation.”

Other key points;

Gradual approach to rate increase would balance the risk of tightening monetary policy too quickly, which could lead to an abrupt slowing in the economy and inflation moving below the Committee's objective, against the risk of moving too slowly, which could engender inflation persistently above the objective and possibly contribute to a build-up of financial imbalances.

Adjustments to the path for the policy rate would depend on their assessments of the evolution of the economic outlook and risks to the outlook relative to the Committee's statutory objectives.

The economy was evolving about as anticipated, with real economic activity rising at a strong rate, labour market conditions continuing to strengthen, and inflation near the Committee's objective.

As covered in the statement at the time;

“It was appropriate to revise the Committee's post-meeting statement in order to remove the language stating that "the stance of monetary policy remains accommodative." Participants discussed a number of reasons for removing the language at this time, noting that the Committee would not be signalling a change in the expected path for policy, particularly as the target range for the federal funds rate announced after the Committee's meeting would still be below all of the estimates of its longer-run level submitted in the September SEP. In addition, waiting until the target range for the federal funds rate had been increased further to remove the characterization of the policy stance as "accommodative" could convey a false sense of precision in light of the considerable uncertainty surrounding all estimates of the neutral federal funds rate.”

<https://www.federalreserve.gov/monetarypolicy/fomcminutes20180926.htm>

US Fed Speeches - <https://www.stlouisfed.org/fomcspeak>

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## Europe

### Eurozone CPI (Sep)

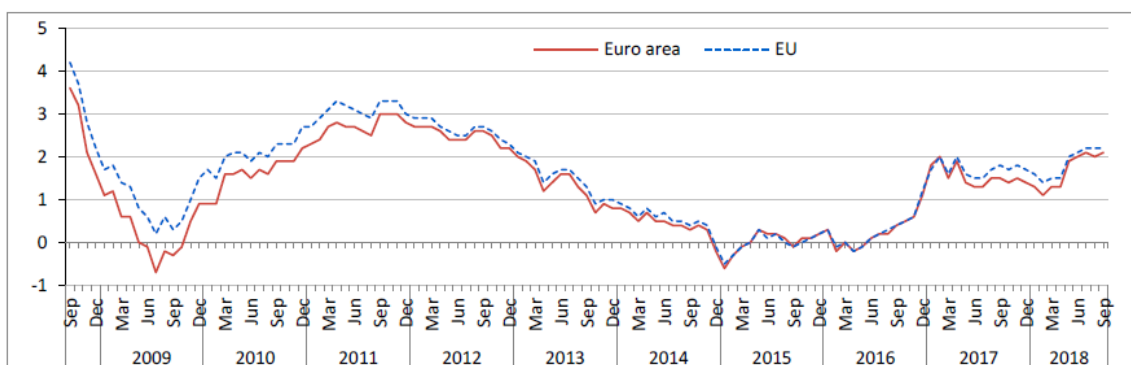
Annual growth in the headline CPI accelerated in the latest month for the Euro area and remained unchanged for the broader EU group. Growth in energy prices continues to be the main driver.

Euro area; Sep +2.1% versus Aug 2% - at Sep 2017 annual CPI growth was 1.5%

EU group; Sep +2.2% versus Aug 2.2% - at Sep 2017 annual CPI growth was 1.8%

The current growth is now on par with the highest level of consumer price inflation since 2013.

**Annual inflation rate (%) in the euro area and the European Union**



The main reason for the faster growth in consumer prices over the last year is energy prices and food prices to a lesser degree.

Annual CPI ex energy is growing at a much lower rate in the Euro area; Sep +1.3% versus Aug +1.3%.

Annual CPI ex energy, food, alcohol and tobacco is growing at an even slower rate in the Euro area; Sep +0.9% versus Aug +0.9%

Energy prices have grown by +9.5% in the Euro area over the last year. The contribution of energy price growth to the headline CPI has increased from +0.25%pts in April 2018 to +0.90%pts in Sep 2018 – the single largest contribution to the headline CPI growth.

The next largest contribution to CPI growth is Services at +0.57%pts (making a smaller contribution over the last few months). Growth in Services CPI has remained more constant; Sep +1.3% versus Aug +1.3%.

In the latest month, it's also worth noting that the monthly rate of CPI growth for non-energy industrial goods accelerated by +3.1% (the annual growth at Sep was +0.3%).

<https://ec.europa.eu/eurostat/documents/2995521/9307203/2-17102018-AP-EN.pdf/6567cead-7e9b-45e4-a814-e39226c197b2>

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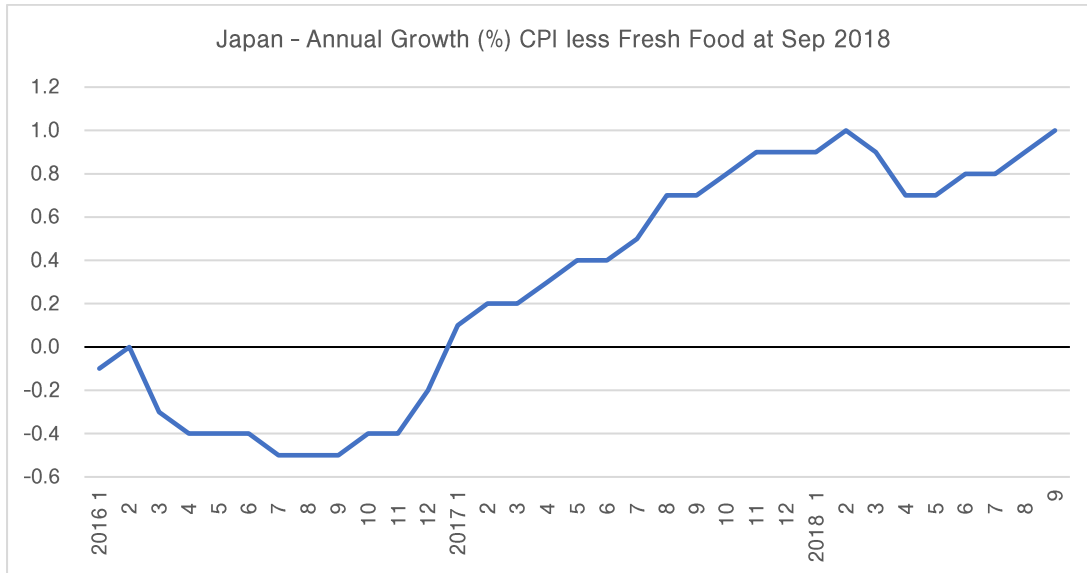
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## Japan

### Japan CPI (Sep)

Growth in the BoJ measure of CPI - annual CPI less fresh food, continued to increase in the latest month;

Sep +1% versus Aug +0.9% (the BoJ target is 2%)



Several categories contributed to higher annual CPI growth in September;

Fuel, light and water charges; annual growth +3.7%

Food (total); annual growth +1.8%

Transport and communications; annual growth +2.1%

The annual change in housing costs (second largest by weight), detracted from growth; declining at an annual rate of -0.1%.

More core measures of CPI have underlying inflation growing at a more muted pace; CPI ex fresh food and energy +0.4% (annual at Sep).

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

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## United Kingdom

### BREXIT

After the EC meeting on 17-18 Oct, it was deemed that not enough progress had been made on the agreement to schedule an additional meeting in November. In a statement, the EC President, Donald Tusk said;

“I stand ready to convene a European Council on Brexit, if and when the EU negotiator reports that decisive progress has been made.”

<https://www.consilium.europa.eu/en/press/press-releases/2018/10/18/remarks-by-president-donald-tusk-after-the-european-council-meetings-on-17-and-18-october-2018/>

The negotiations between the EU and the UK will continue. PM May will address the UK parliament this week.

According to PM May “95%” of the withdrawal agreement has been completed. The remaining 5% is the negotiation of the Northern Ireland backstop - an insurance policy to ensure there will be no return to a hard border on the island of Ireland.

“As I set out last week, the original backstop proposal from the EU was one we could not accept, as it would mean creating a customs border down the Irish Sea and breaking up the integrity of the UK,” (PM May)

There are several (contentious and likely unacceptable) options under consideration to break the current deadlock on the Irish border issue.

<https://www.reuters.com/article/us-britain-eu/with-divorce-deal-almost-done-may-repeats-rejection-of-eu-proposal-on-northern-ireland-idUSKCN1MV0YE>

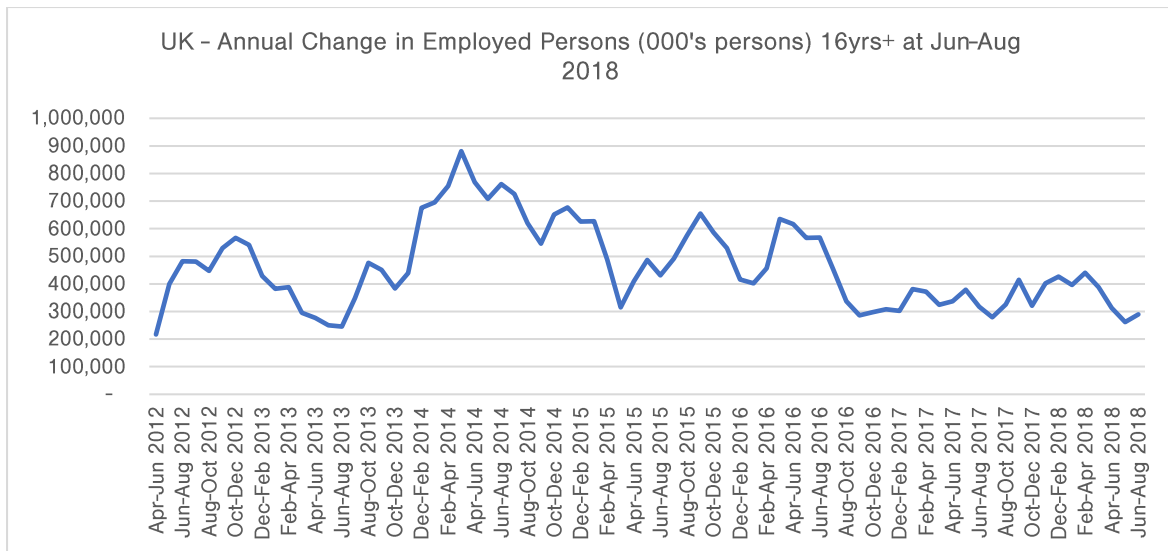
The next EC summit will be in December.

Further reading on the backstop; <https://www.bbc.com/news/uk-northern-ireland-politics-44615404> and <https://www.bbc.com/news/uk-politics-45931973>

### UK Labour Force Survey (Jun-Aug)

The annual picture of the UK employment growth was slightly better in the year to Jun-Aug, but the latest quarter data highlighted a further slow-down in employment growth.

Annual employment growth increased slightly to 289k persons (the year to Jun-Aug) versus +261k persons (year to May-Jul).

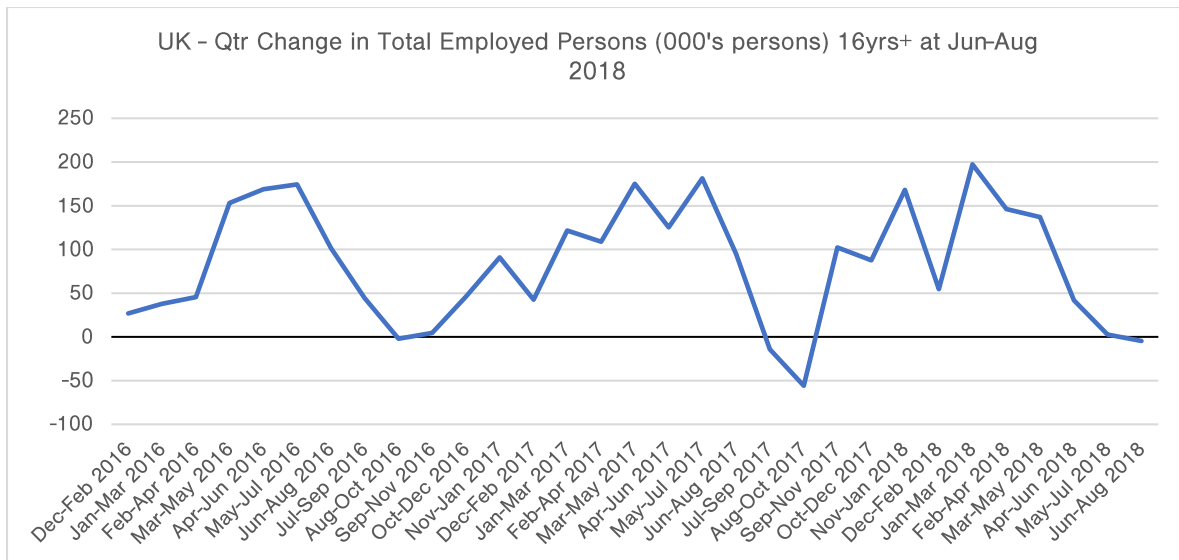


On an annual basis, employment continues to grow faster than the estimate of what population adds to the labour force, and with participation increasing on an annual basis, unemployment has been declining.

The annual decline in unemployed persons has been getting smaller though. The annual declined at Jun-Aug was -79k. This is the smallest decrease in unemployed persons going back to 2013.



In the latest quarter though, the picture is not quite as good. The growth of employed persons has been slowing throughout 2018 and declined by -5k persons in the Jun-Aug quarter (the decline is -37k if you restrict to 16-64yrs).



The decline in participation meant that approx. 100k persons left the labour force in the Jun-Aug quarter (-0.2%pts in participation). This meant that the total number of unemployed persons did not increase in the latest quarter;

	16yrs+ (number of persons)	
	Latest Qtr Chg Jun-Aug2018	ANN Chg Jun-Aug 2018
Estimated change in the Labour Force due to pop growth (1)	47,808	191,694
How many jobs available for them? (employment growth) (2)	-4,786	289,297
Difference (is employment growing faster than population?) (3)	-52,594 <span style="color: green;">▲</span>	97,603
Change in the labour force due to the change in participation (4)	-99,974	18,296
The remainder is the reduction in total unemployed persons (4) less (3)	-47,380	-79,308
Double check - change in total economically active	-52,166 <span style="color: green;">▲</span>	209,990
Double check - change in total economically active	-52,166	209,990
Actual economically active ann chg	-52,166	209,990

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/october2018>

### UK Retail Sales (Sep)

The volume (and value) of retail sales declined in the latest month – declines in the month were recorded across the major retail groups. On an annual basis growth was +3% versus the same time last year.

**Month change;** Sep -0.8% versus Aug +0.5%

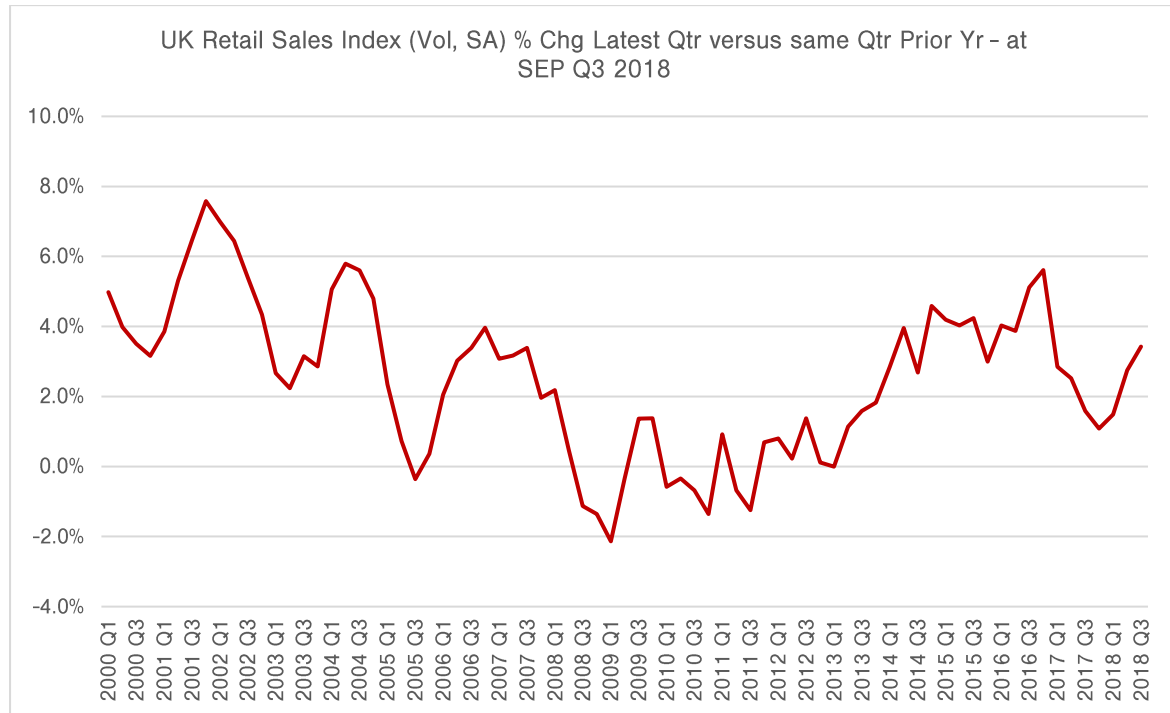
In the latest month, all categories contributed to the decline in retail sales volume;

Food stores contributed -0.6%pts to the overall -0.8% decline. Non-food stores growth was 0%. Non-store retailing and petrol stations both contributed -0.1%pts to the decline.

Quarter change; Q3 growth in retail sales slowed versus Q2;

Q3 +1.1% versus Q2 +2%

Q3 2018 growth was higher than for Q3 2017; +3.4%. This annual change (by qtr) has been accelerating throughout 2018;



On a quarterly basis, non-store retailing, household goods, textiles, clothing and footwear and other stores all contributed to growth in retail sales. Food stores, auto fuel and dept stores detracted slightly from growth.

<https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/september2018>

### UK CPI (Sep)

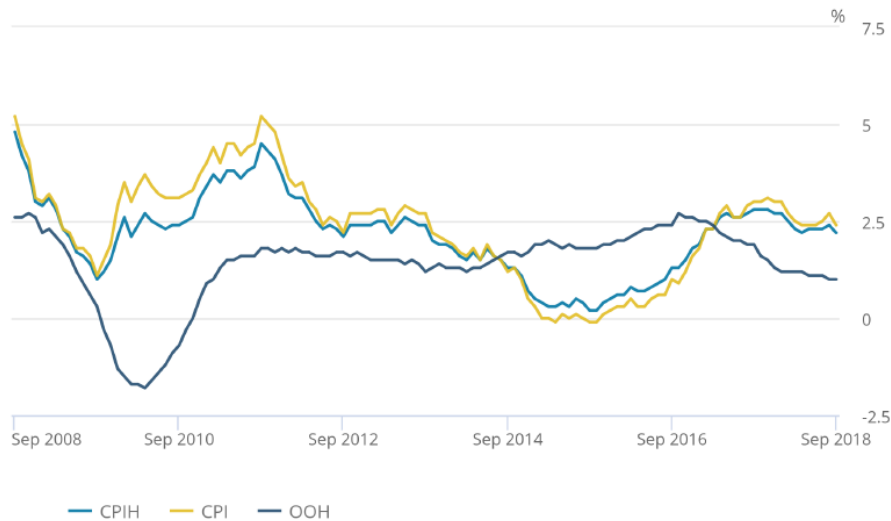
The headline annual CPI growth (CPI-H including owner occupier housing costs) slowed in the latest month;

Sep +2.2% versus Aug +2.4%

Annual price growth in several of the larger categories slowed in the latest month.

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

UK



The slower annual growth was the result of slower growth in;

Food and alcoholic bevs; from 2.4% in Aug to 1.5% in Sep

Transport prices, whilst still high, slowed from 6% in Aug to 5.5% in Sep

Recreation and culture price growth slowed from 3.6% in Aug to 3.1% in Sep

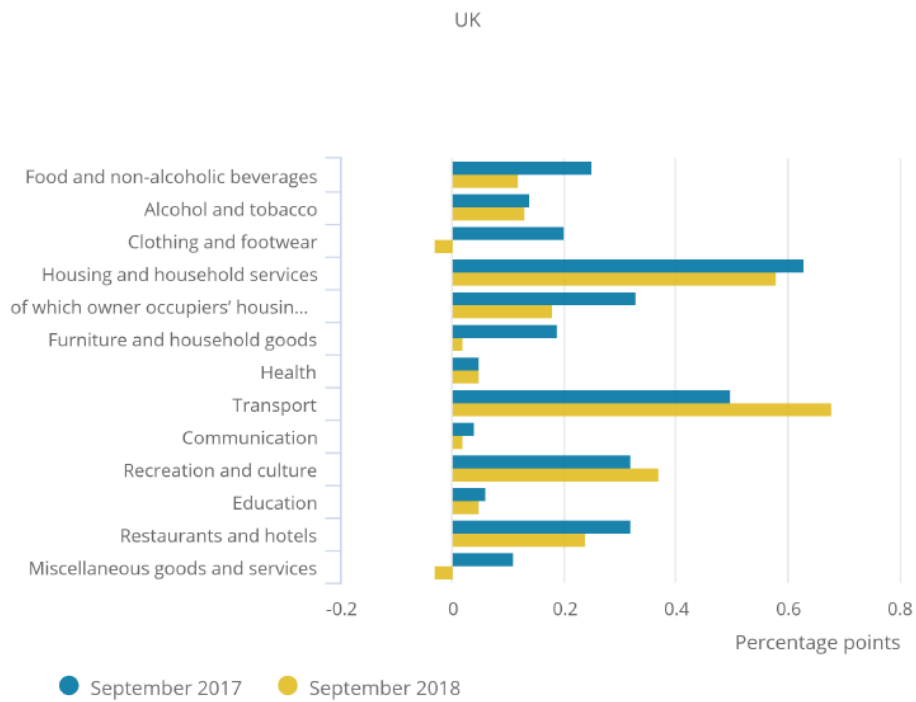
Clothing and footwear prices declined in Sep -0.4% and was growing at 3.9% in Sep 2017

Core measure of CPI growth remain lower than the headline;

CPIH excluding Energy, Food, Alcoholic beverages and tobacco; Sep +1.8% versus Aug +1.9%

Despite adding some downward pressure in the latest annual growth, transport (and energy) prices continues to be one of the largest contributors to overall CPI-H growth;

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



Transport – price index for the purchase of vehicles is growing at an annual rate of +4.3% at Sep. The operation of personal transport equipment is growing at +7.2%, led higher by growth in fuels and lubricants growing at +10.8%.

Housing and household services – the growth in the price index for housing and household services was higher due mostly to electricity, gas and other fuels – annual growth +8.1%.

<https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/september2018>

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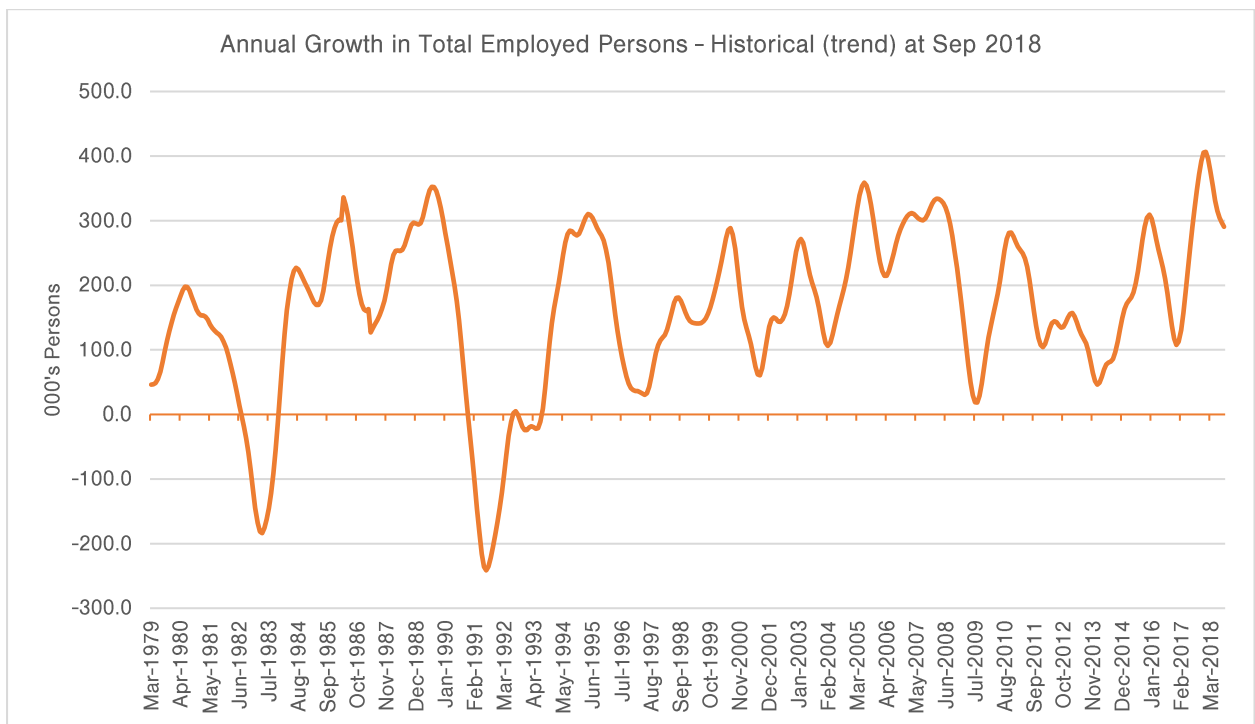
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## Australia

### Aus Labour Force (Sep)

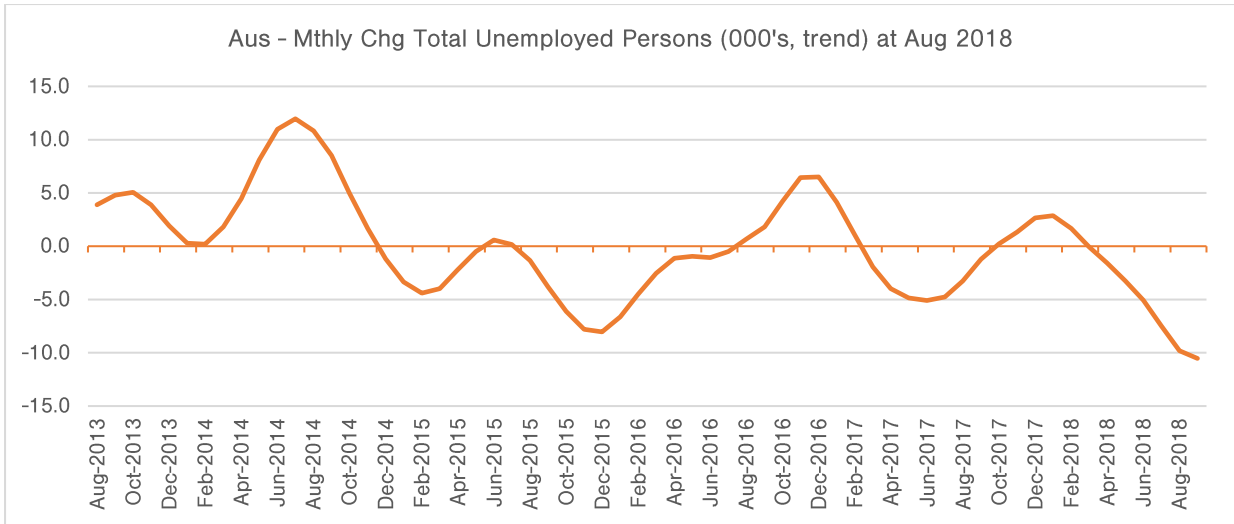
This was another good labour market report. Some of the leading indicators of job vacancies have pointed to a slowing in employment growth. So far employment growth has remained constant and well above what population is estimated to have added to the labour force. More people have come back into the labour force and unemployment has continued to decline.

Annual employment growth has slowed in recent months and, whilst it continued to slow in Sep, growth remains elevated;

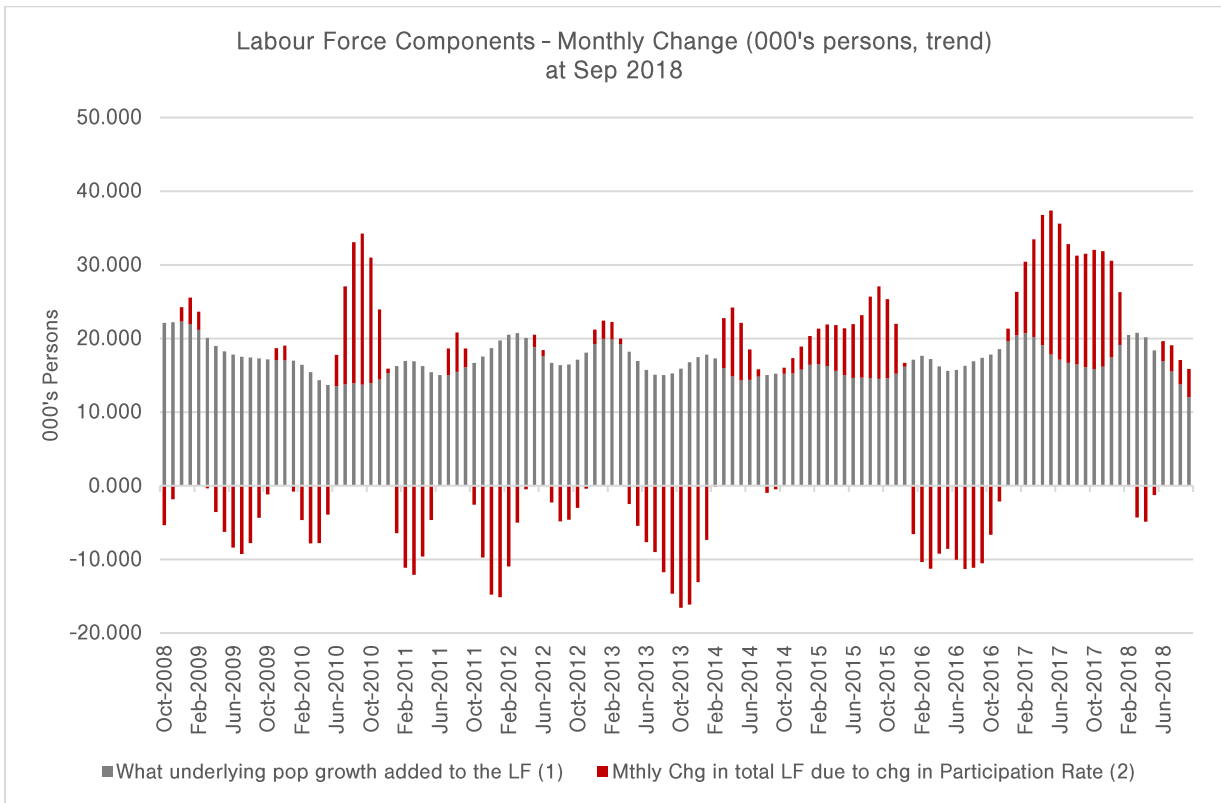


Annual employment growth in Sep +290.6k persons – well above the 10year average of +185k persons.

The total number of unemployed declined to below 700k for the first time since 2013; the annual change at Sep was -29k. The monthly change in Sep was -10k unemployed persons.



Participation has continued to increase at a total level, albeit at a slower rate than recent changes. The population component of the labour force has also been slowing recently;



The summary of the key labour market figures shows that employment is growing faster than the estimate of what population growth adds to the labour force. Employment growth is such that even with increases in participation, the total number of unemployed persons is still declining – on an annual and monthly basis.

		000's Persons	
		Annual Chg - SEP	Month Chg - SEP
	The estimated change in the Labour Force due to pop growth	205.793	12.031
	How many jobs available for them? (employment growth)	290.598	26.401
	Difference (employment growing faster than pop est)	84.806	14.369
	Change in labour force due to the change in participation	55.736	3.843
	The reminder is the reduction in total unemployed persons	-29.069	-10.53
	<b>Double Check - Annual chg in size of the Labour Force</b>	<b>261.529</b>	<b>15.87</b>

The data reported here uses the 'trend' estimates, as per the recommendation of the Aus Bureau of Statistics to provide a more accurate view of the underlying behaviour of the labour market.

<http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6202.0Main+Features1September%202018?OpenDocument>

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## China

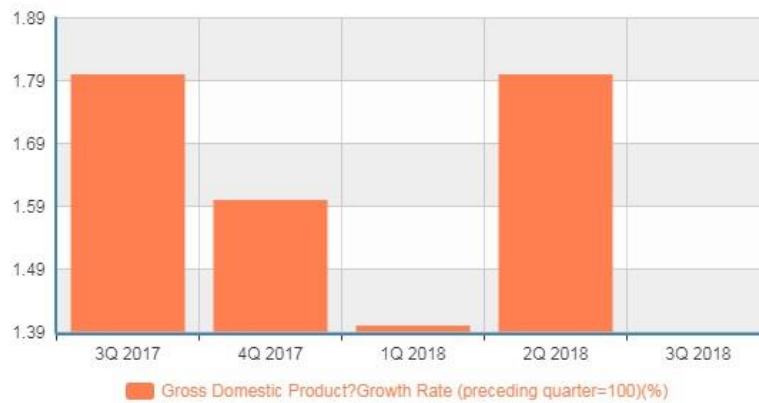
### Q3 GDP

GDP growth came in lower than expected in Q3;

Annual growth; +6.5% (expectations were for growth to slow from 6.7% to 6.6%)

Growth in Q3 slowed to +1.6% versus +1.8% in Q2.

The National Bureau of Statistics of China has the most current data until Q2 2018;



<http://data.stats.gov.cn/english/easyquery.htm?cn=B01>

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## **Trade**

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

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

As a likely part of the retaliation, President Trump announced that the US is planning to withdraw from a postal treaty that has allowed Chinese companies to ship small packages at a discounted rate.

“The White House, in a statement, said “sufficient progress has not been made on reforming terms” of the postal treaty and that it would begin the withdrawal process while seeking to “negotiate bilateral and multilateral agreements that resolve the problems.”

<https://www.nytimes.com/2018/10/17/us/politics/trump-china-shipping.html>

It appears confirmed that Presidents Trump and Xi will meet on the sidelines of the G20 in November.

### **NAFTA/USMCA**

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.

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>

### **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.

### **US- Europe Trade Talks**

It is expected that low level meetings will commence this week to prepare for the first round of US-EU trade talks in November. At this stage, the EU chief trade negotiator has yet to receive the ‘mandate’ required to commence formal talks with US;

The lack of an EU mandate represents a potential departure from the July agreement, when the EU and U.S. pledged to work “toward zero tariffs, zero non-tariff barriers, and zero subsidies on non-auto industrial goods.” France

and other member states remain divided over the scope of the negotiations, according to two European officials who spoke on the condition of anonymity.

Quite a good insight into the state of negotiations; <http://time.com/5430547/trump-european-union-trade-talks/>

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