Weekly Macro Review

w/c 10 December 2018

Key Themes

US data out this week was positive and likely supportive of another hike in Dec. JOLTS data highlighted that job openings and hires remain close to respective recent peaks, while layoffs and discharges were unchanged in the month and remain at low levels. While headline PPI and CPI growth eased on lower energy prices, core PPI remained elevated (and now above the headline rate) and core CPI grew at a slightly faster rate (and is now growing on par with the headline rate) suggesting underlying inflation pressure remains. Even though retail sales growth slowed in Nov, spending growth remained elevated. Retail sales were also revised higher for Oct.

Industrial production was stronger in Nov led by mining and utilities - annual IP growth now at +3.8% just shy of the high point for the year. Manufacturing industrial production has been flat to down over the last two months and annual growth has slowed to 1.8%. Prelim PMI for Dec indicate slower growth across services and manufacturing.

The UK is in a deadlock over Brexit. The key vote on the withdrawal agreement was postponed during the week and the way forward for the UK is unclear. Data out this week indicated resilience in the economy despite the Brexit disruption. The labour market survey showed improved employment growth, while participation increased. Unemployment has started to increase somewhat over the last two quarterly reports. The monthly GDP growth slowed slightly.

Growth concerns remain within Europe. The ECB rates decision this week was as expected – key rates remain on hold while confirming that net asset purchases will end this month. The ECB assessment of current conditions confirm concerns over weaker external demand and country/sector specific issues but are offset by stronger domestic demand. GDP growth targets were revised slightly lower. While industrial production growth stabilized in Oct, the prelim PMI's for Dec indicate continued weaker growth.

Q3 GDP decline in Japan was revised lower, but there are signs of a stronger end to the year. Prelim Manufacturing PMI for Dec stabilized even though new export orders continued to decline. The final industrial production data for Oct confirmed a stronger rebound after the weaker lead up to Sep. Forecasts are for continued growth in industrial production in Nov & Dec.

In Australia, the house price index confirmed that National house prices declined at an accelerated pace in Q3 at -1.9%. This was the second consecutive annual decline house prices at a National level. Despite a small rebound in housing finance in Oct, bigger picture declines in housing credit remain in place. Syd and Melb so far leading the way with the bigger declines in credit.

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US Data

JOLTS (Oct)

Job openings and hires continued to grow and remain close to all time highs. Separations declined in the month, led by slightly lower quits and there was no change in layoffs and discharges.

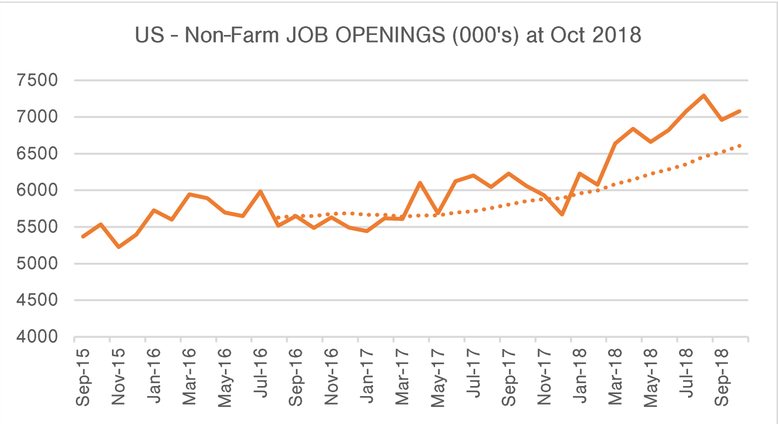
Job Openings

Oct 7.1m versus Sep 7m.

The Oct result is just 2% below the peak reached in Aug 2018 of 7.3m job openings.

Annual growth Oct 16.8%

Total job openings in Oct is well above the 12mth average – in fact +1SD. There has been an obvious acceleration since the start of the year;

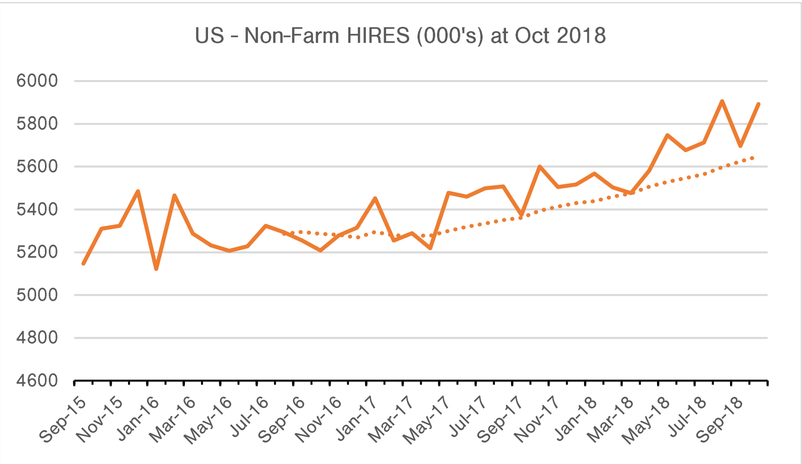


Hires

Oct 5.9m versus Sep 5.7m. The Oct result is just shy of the all time high reached in Aug.

Annual growth Oct +5.2%

Total hires for Oct remain well above the 12mth average (over +1SD);



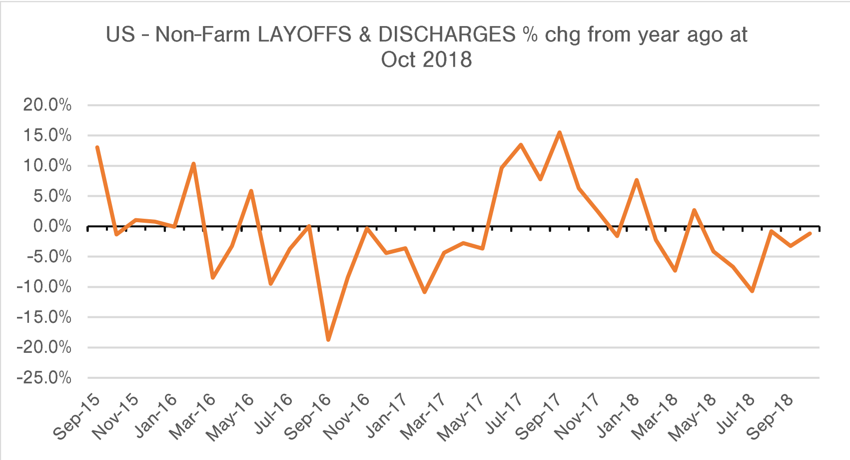
<u>Separations</u>

Oct 5.5m versus Sep 5.6m

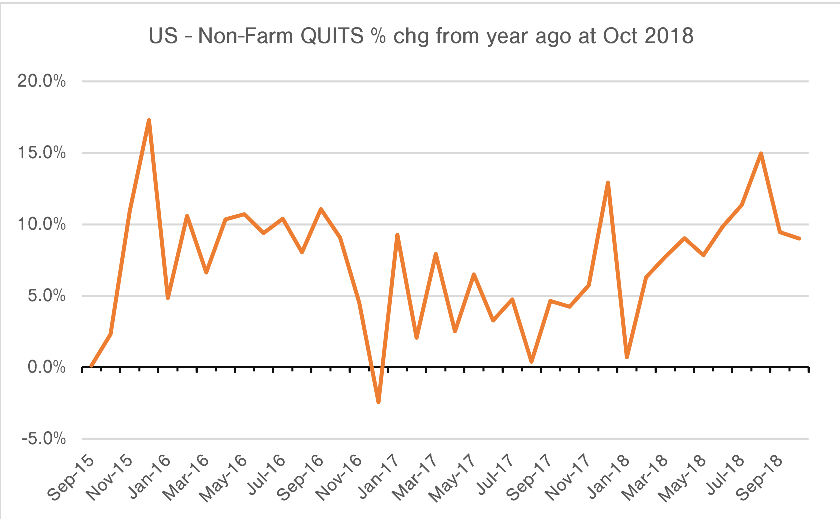
Annual growth Oct +5.4%

The small decline in separations in the month was the result of;

<u>No change in layoffs and discharges</u>; Oct 1.7m versus Sep 1.7m. The annual rate of growth highlights that while layoffs and discharges have been slowing since Q3 2017, that slow down has 'eased' since Jul 2018;



<u>A very small decline in quits</u>; Oct 3.51m versus Sep 3.56m. Quits peaked back in Aug and remains 4% below this peak. The annual growth in quits has been accelerating since the start of the year. Growth peaked in Aug and remains elevated.



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

PPI (Nov)

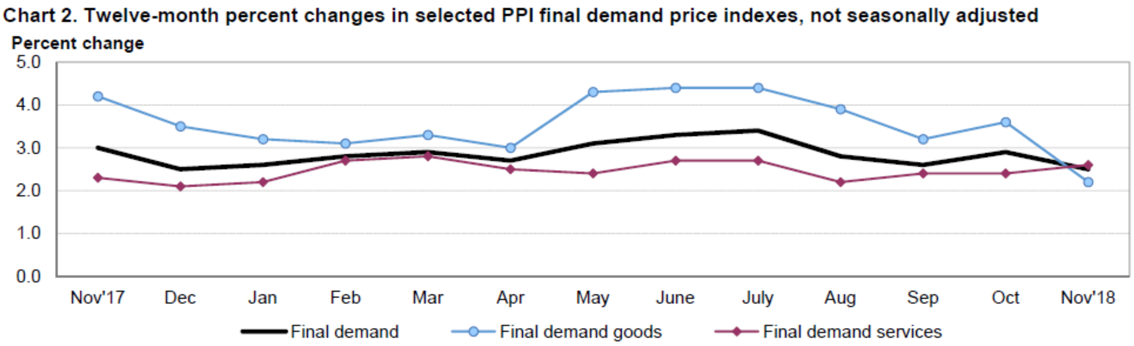
Growth in the headline PPI slowed in the latest month as energy (oil) prices fell. Core PPI (ex-energy, food and trade) continued to grow in the month at 2.8% and is higher than the annual headline PPI growth.

Final Demand Price Index

PPI (mth chg); Nov +0.1% versus Oct +0.6%

PPI (chg from year ago); Nov +2.5% versus Oct +2.9%

Final demand less food, energy and trade (chg from year ago); Nov +2.8% versus Oct +2.8%



The slower growth in the month was the result of a decline in prices for goods and services.

Goods prices declined in the month due to a 5% decline in energy costs. Food prices continued to accelerate in the month (+1.3% Nov v +1% Oct).

Services prices grew at slower pace mostly due to trade (+0.3% in Nov v +1.6% Oct).

Intermediate Demand Prices

Total Intermediate demand prices; Nov -0.7% versus +0.8% Oct

The decline was also driven by lower prices for energy, although processed goods ex energy and food also declined in the month (-0.2% Nov v +0.4% Oct).

Unprocessed goods for intermediate demand declined 5.3% in the month led by food stuffs and feed-stuffs and energy materials.

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

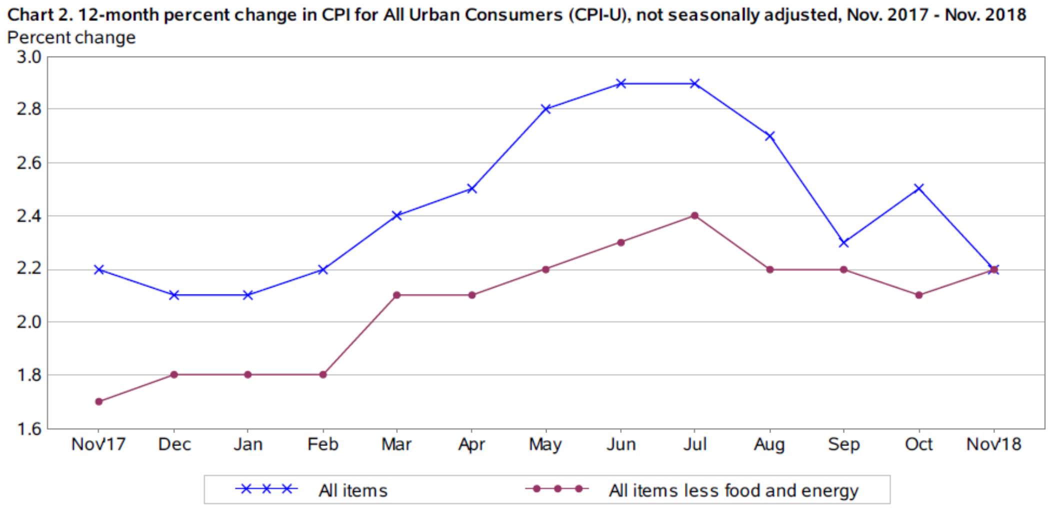
CPI (Nov)

Growth in the headline CPI was unchanged in the latest month. This was mostly due to a fall in energy prices. Core CPI grew at a slightly faster annual pace. Both headline and core CPI are growing at the same rate.

Headline CPI

Month Chg; Nov 0% versus Oct +0.3%

Annual Chg; Nov +2.2% versus Oct +2.5%



Energy price made a significantly lower contribution to headline growth in the latest month – almost now on par with its weighting in the index.

Energy prices; Nov -2.2% (v +2.4% Oct). In Oct, energy prices contributed nearly 30% of the annual change in the headline CPI. In Nov, energy prices contributed a significantly lower 11% of the change in headline CPI. Energy has an 8% weight in the index.

Food prices accelerated in the month; Nov +0.2% versus -0.1% Oct.

Core CPI – ex energy and food

Mth Chg; Nov +0.2% versus Oct +0.2%

Annual Chg; Nov +2.2% versus Oct +2.1%

Within core CPI, its services (less energy services) that is making the largest contribution to CPI growth.

Commodities less food and energy commodities; Nov +0.2% versus Oct +0.3%. Annual growth is a mere 0.2%.

> Represents 19% of the index but accounted for only 1.5% of the change in the annual CPI was due to commodities less food and energy commodities.

Services less energy services represents the bulk of the CPI index at 60% weight; Nov +0.2% versus Oct +0.2%. Annual growth is 2.9%.

> The largest component of services is shelter – owners equivalent and rentals.
>
> Rental of primary residence; +3.6% annual growth Nov. This represents 8% of the index and accounted for 13% of the change in the headline CPI.
>
> Owner's equivalent rent; +3.3% annual growth in Nov. It represents 23% of the total CPI index and accounted for 36% of the change in the annual CPI.
>
> Transport services, are also growing faster than the headline CPI at +3.3% due to motor vehicle insurance +5.5% annual growth in Nov. While this has a small weight in the CPI 2%, it accounted for 6% of the annual change in the headline index.

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

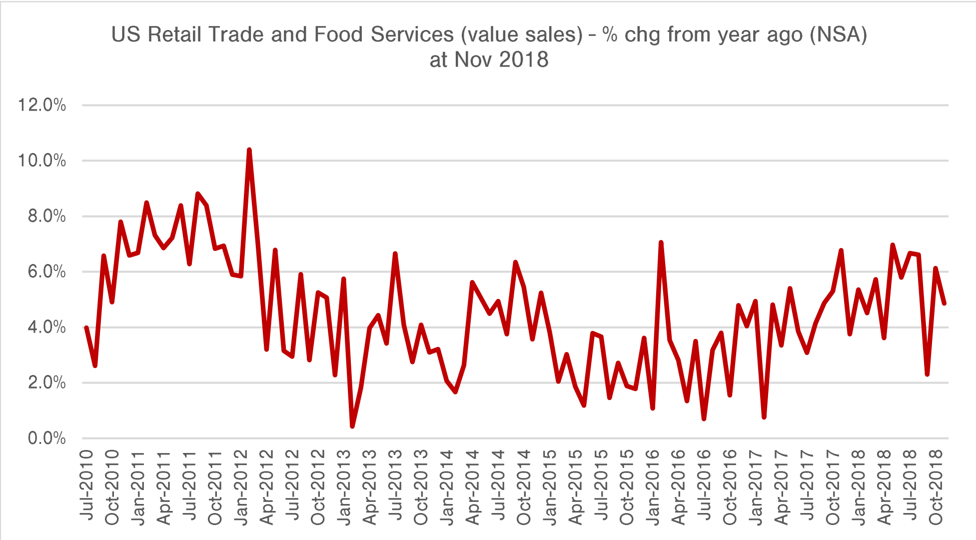
Retail Sales (Nov)

Retail sales grew at a slower pace in Nov led by lower gasoline sales (due to lower gasoline prices). The Oct growth rate was revised higher.

Nov +0.2% versus Oct +1.1% (revised higher from +0.8%)

Retail sales ex gasoline; Nov +0.5% versus Oct +0.9%

The chg in retail sales from a year ago slowed slightly after the stronger Oct result; Nov +4.9% versus oct +6.1%. Growth remains slightly lower than the recent peaks in growth from the middle of 2018;



In the latest month, the performance of specific categories was mixed;

Gasoline made the single largest negative contribution to headline growth, declining -2.3% in the month (lower gas prices)

Non-Store retailers made the single largest positive contribution to growth in the month, growing by +2.3% in Nov versus +0.8% in Oct (post-Thanksgiving sales)

The biggest category – Motor Vehicle Parts & Dealers grew at a slower pace compared to the prior month, but remained positive; Nov +0.2% versus Oct +1.5%

Food & Bev stores grew at a constant pace +0.4% in Nov versus +0.3% in Oct

Sales at Food Services and Drinking Places declined by -0.5% in Nov versus +0.6% in Oct.

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

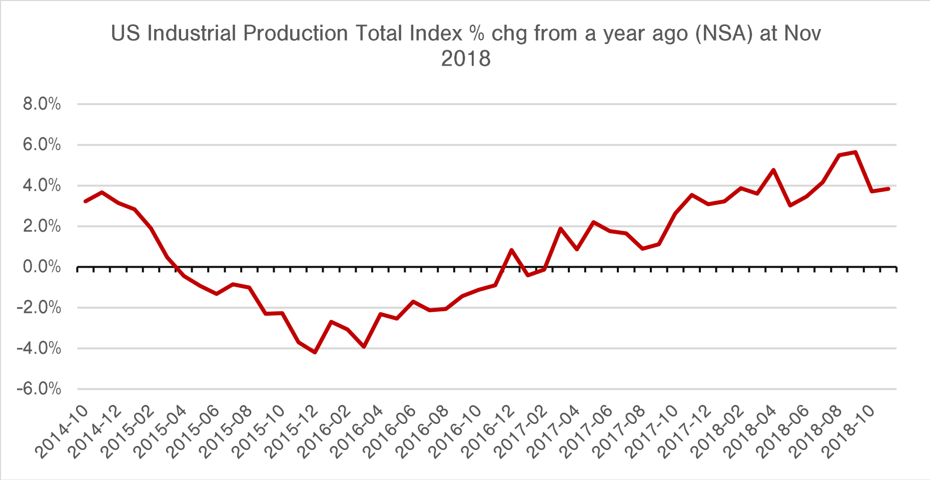
Industrial Production (G.17) (Nov)

US industrial production increased in the latest month due to stronger growth in mining and utilities while manufacturing growth was flat. The Oct result was revised lower led by manufacturing and mining. Capacity utilization continues to increase.

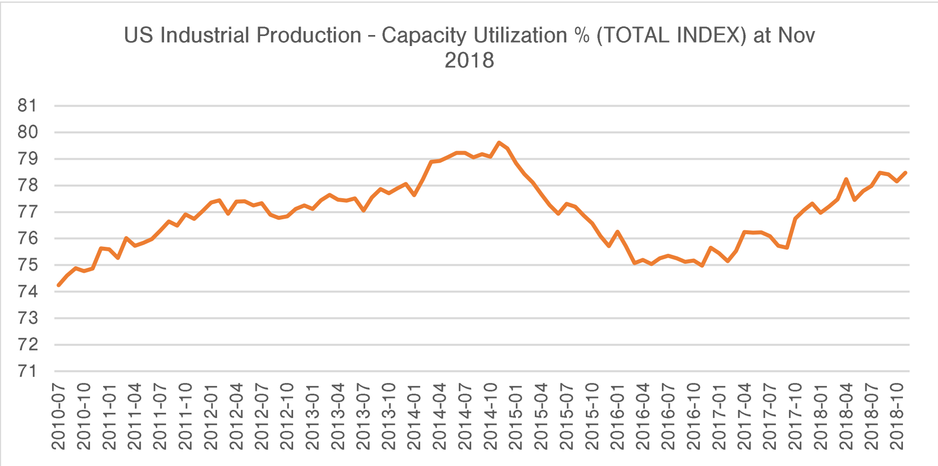
Total Industrial Production Index - mth chg; Nov +0.6% versus Oct -0.2% (Oct revised lower from +0.1%)

On an annual basis (same mth % chg from year ago), industrial production growth remained unchanged;

Nov +3.8% versus Oct +3.7%



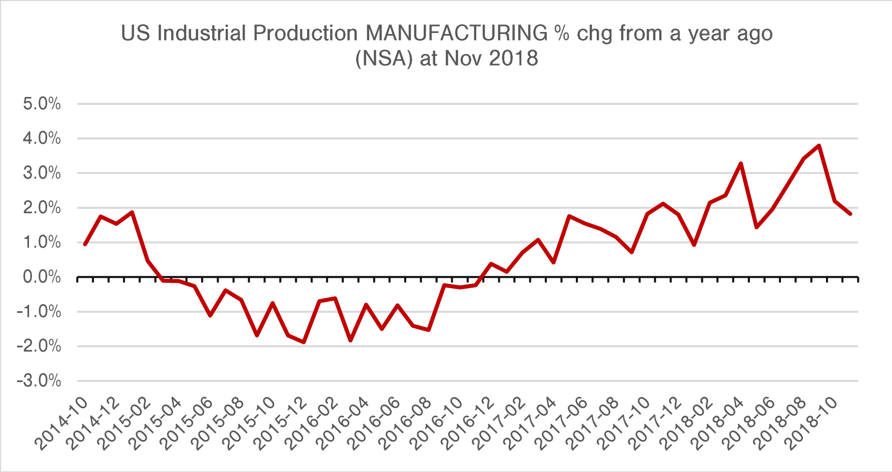
Capacity utilization continues to increase but for now, remains below the 2014 peak;



Manufacturing

On a monthly basis, manufacturing recorded zero growth after a downward revised result for Oct of -0.1%. Growth in durable goods manufacturing was offset by a decline in non-durable goods manufacturing.

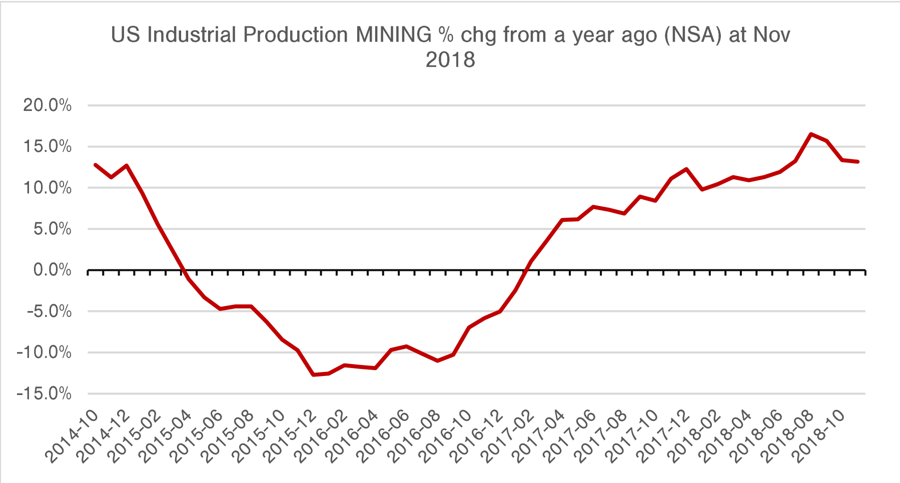
On a year ago basis, manufacturing industrial production has slowed further to +1.8%;



Capacity utilization remains elevated and was little changed in the latest month at 75%.

<u>Mining</u>

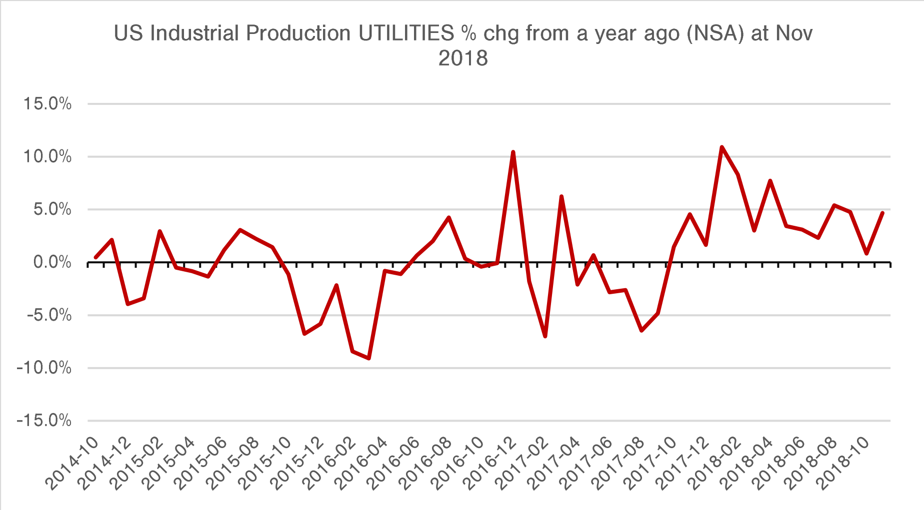
Growth in the latest month increased at a much faster rate after a much weaker Oct result. Growth in Nov +1.7% versus -0.7% Oct. On an annual basis, mining industrial production growth has slowed slightly from the peak in Aug but growth remains elevated at +13.2%;



Capacity utilization remains at the near-term high of 94%.

<u>Utilities</u>

Growth also rebounded in Nov after several weaker months; Nov +3.3% versus Oct +0.2%. On an annual basis, growth in utilities industrial production accelerated from +0.2% in Oct to +4.7% in Nov;



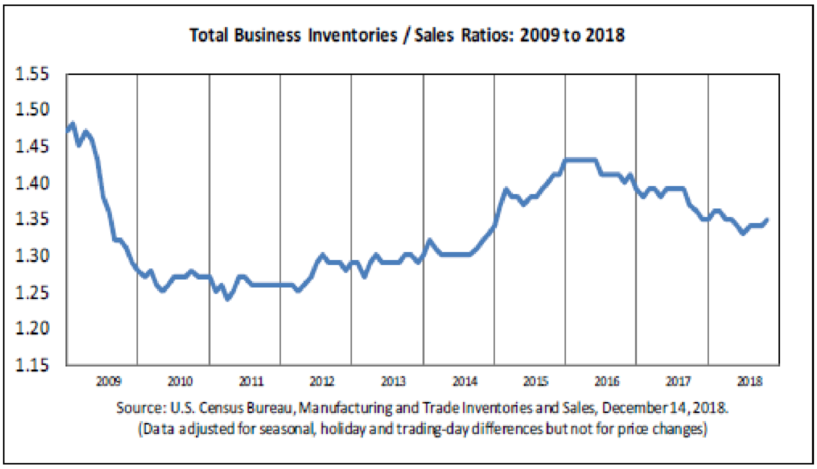
https://www.federalreserve.gov/releases/g17/current/

Business Inventories (Oct)

Business inventories increased in Oct – led by an increase in inventories for retailers and merchant wholesalers.

Total business inventories; Oct +0.6%

The inventory to sales ratio for total business ticked up again in the latest month, but remains just below last year;



Retail; while inventories increased by +0.8%, sales also increased by a similar value. The inventory to sales ratio remained unchanged at 1.44.

Manufacturers; inventories increased by +0.1% (a small value), but sales declined by -0.1%. The inventory to sales ratio also remained unchanged at 1.34.

Merchant wholesalers; fared a little worse this month with inventories increasing by +0.8% and sales declining by -0.2%. The inventory to sales ratio ticked up slightly to 1.28 (on par with prior year)

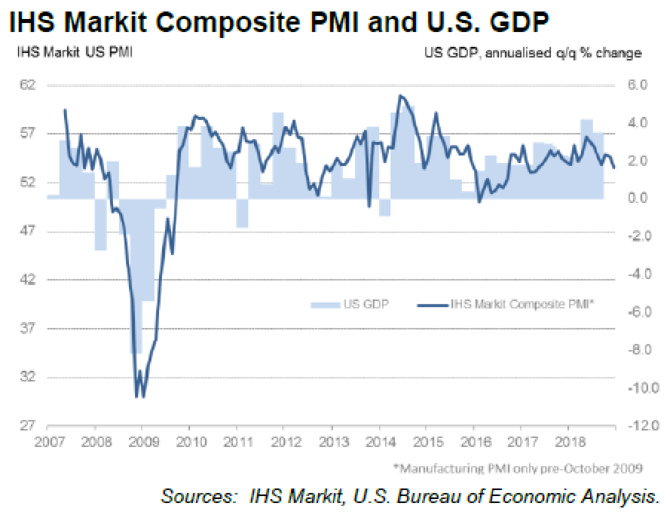
https://www.census.gov/mtis/www/data/pdf/mtis_current.pdf

Prelim US Manufacturing and Services PMI (Dec)

The prelim composite PMI indicated that growth continued to slow across manufacturing and services in Dec.

Composite PMI Prelim;

Dec 53.6 versus Nov 54.7 (-1.1pts)



Manufacturing PMI; Dec 53.9 versus Nov 55.3 (-1.4pts)

Manufacturing output growth remained unchanged in the month. New orders, backlogs of work and employment all grew at a slower pace. The rate of price inflation slowed on the back of lower oil-related costs. Manufacturers still cited input costs pressures from tariffs.

Optimism dipped to the lowest level since June 2016 – firms cited concerns over the current soft patch in growth and whether this would hold back client demand.

Services PMI; Dec 53.4 versus Nov 54.7 (-1.3pts)

Output grew at the slowest rate of the year. New business growth also slowed to its lowest level since Apr 2017.

https://www.markiteconomics.com/Survey/PressRelease.mvc/c77ee9ddf0ea4395b9f8924a180a5b03

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Europe

Eurozone Industrial Production (Oct)

In the latest month data there was an improvement in the growth of industrial production in both the Euro area and EU28 zone. Also, the annual change over the last three months indicates that the slower growth in industrial production may have stabilised.

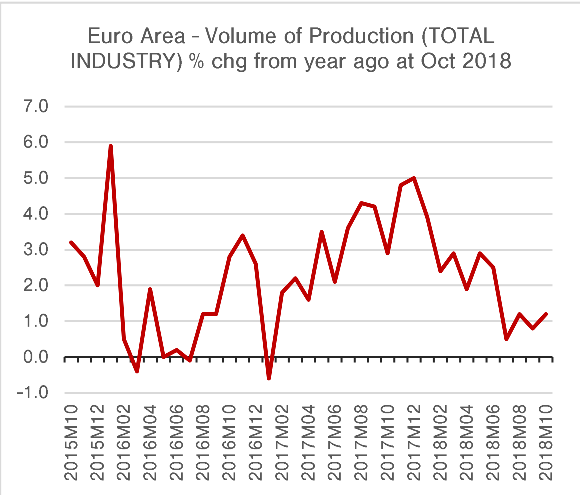
Latest month - there was a small rebound in the latest month, but not quite enough to fully reverse the fall in the prior month;

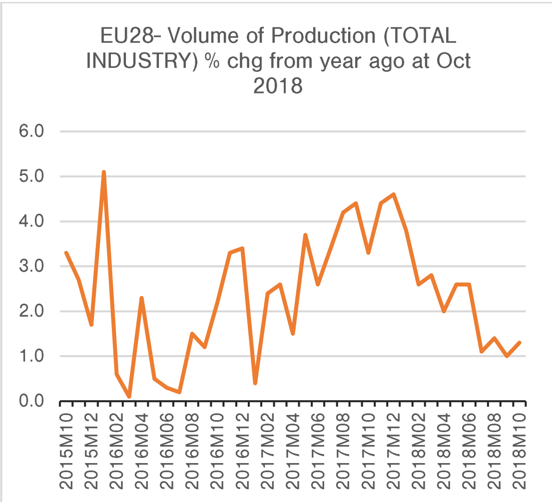
Euro area; Oct +0.2% versus Sep -0.6%

EU28; Oct +0.2% versus Sep -0.4%

In the Euro area - the strongest rebound in the month was in intermediate goods, capital goods and durable consumer goods. Energy continued to fall, and non-durable consumer goods recorded zero growth after a 1.6% fall in the prior month.

Annual industrial production; the accelerating growth rates of 2017 have reversed throughout 2018. Over the last three months though, that slow-down in growth appears to have stabilized;





On a year-ago basis for the Euro area; intermediate goods and energy industrial production remains below the same time last year. Durable consumer goods production is flat to last year. Non-durable consumer goods and capital goods remain ahead of last year.

https://ec.europa.eu/eurostat/documents/2995521/9443886/4-12122018-AP-EN.pdf/c9d2d022-63ec-4d4e-b9be-1d28ed176f26

ECB Rates Decision 13 December 2018

The ECB kept rates on hold - the interest rate on the main refinancing operations remain at 0% and the interest rates on the marginal lending facility and the deposit facility remain at 0.25% and -0.4% respectively.

Rates likely to remain on hold through the (European) summer of 2019.

The Net Asset Purchase Program will end in Dec 2018. It is currently running at €15b/mth and will reduce to zero after Dec 2018. The reduced €15b has been in place since the end of Sep 2018.

Principal payments from holdings of securities will continue to be reinvested 'for as long as possible to maintain favourable liquidity conditions and an ample degree of monetary accommodation'.

Of most interest is the outlook/assessment of economic conditions in Europe;

Incoming data weaker than expected – softer external demand, country specific and sector specific issues offset by some strength in underlying domestic demand.

Likely slower growth momentum ahead. GDP growth forecasts for 2018 and 2019 have been revised slightly lower; 2018 +1.9%, 2019 and 2020 +1.7%, 2021 +1.5%.

The risks to growth are skewed to the downside – 'uncertainties related to geopolitical factors, the threat of protectionism, vulnerabilities in emerging markets and financial market volatility.'

Headline inflation is slowing due to lower energy/oil costs. Core inflation growth remains 'muted' but seeing domestic cost pressures increase and excess capacity is reduced, and labour markets tighten.

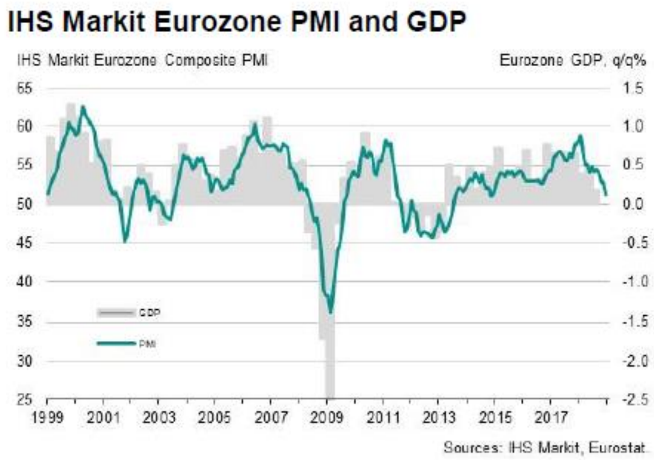
Inflation forecast revised slightly higher for 2018; +1.8% and lower for 2019; +1.6%. Forecasts for 2020 +1.7% and 2021 +1.8%.

https://www.ecb.europa.eu/press/pressconf/2018/html/ecb.is181213.en.html

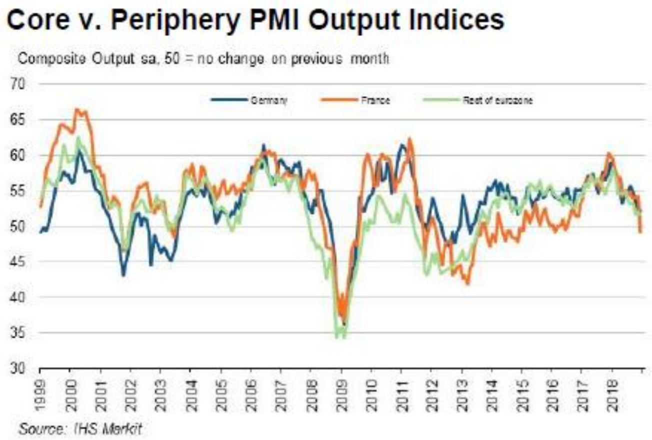
Eurozone Prelim Composite PMI (Dec)

The headline composite index pointed to continued slower expansion in private sector activity across the Eurozone – slowing to its lowest reading since Nov 2014. Manufacturing output increased slightly as firms worked through backlogs of work, while services activity/output slowed.

Composite PMI Eurozone; Dec 51.3 versus Nov 52.7 (-1.4pts)



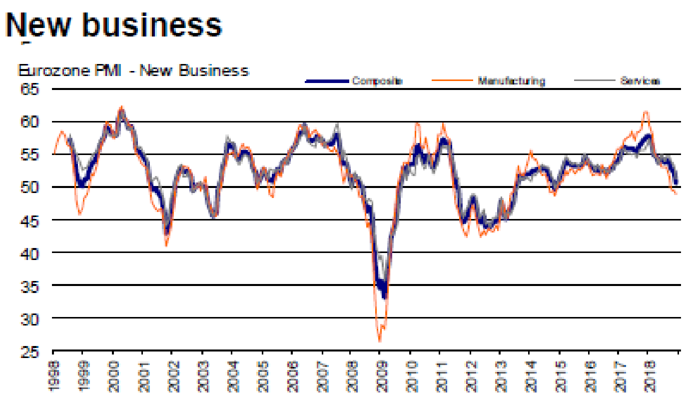
The shift to a contraction in business activity in France was blamed on the current protests;



At the composite level, new orders are barely growing, and output growth continues to slow. Firms have now worked through work/order backlogs, which declined for the first time since Jan 2015 at the composite level. If new orders don't start to pick up, output growth will continue to slow.

Manufacturing PMI; Dec 51.4 versus Nov 51.8

Output increased slightly. New orders declined for the third month in a row;



Backlogs of orders declined at the fastest rate in four years. Employment grew at the same rate as in Nov. Growth in input prices slowed sharply and growth in selling prices slowed.

Services Output/activity; Dec 51.4 versus Nov 53.4

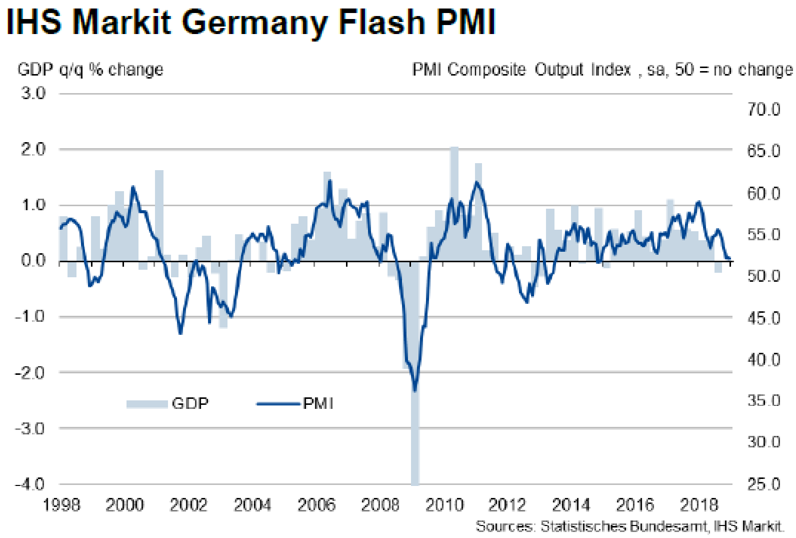
The current level of services output was the slowest since Nov 2014. New order growth slowed to a four-year low. Backlogs increased only marginally. Employment grew at a slower rate. Input prices continued to increase at a faster rate

https://www.markiteconomics.com/Survey/PressRelease.mvc/643fce2cd9e1403db4d1a6cc994a81fd

Prelim German Composite PMI (Dec)

The headline composite index indicated that private sector activity in Germany was mostly unchanged in Dec. Slower growth in services output was offset by slightly improved output in manufacturing.

Composite PMI Output Index – Prelim; Dec 52.2 versus Nov 52.3



Manufacturing Prelim PMI; Dec 51.5 versus Nov 51.8

The lower PMI reading was led by a further decline in new orders (the fastest rate since Nov 2014) and new exports orders declined for the fourth month in a row. Production output increased at a faster rate as 'the downturn in manufacturing backlogs accelerated'. Employment growth picked up slightly. Growth in input prices slowed while output prices increased at the same rate as the month prior.

Services prelim Output/Activity Index; Dec 52.5 versus Nov 53.3

New orders increased, but at the weakest level in 7-months. Backlogs of work declined for the first time in 10-months. Employment growth continued to pick up slightly.

Overall optimism continued to weaken. Sentiment among service firms was the weakest since late 2015.

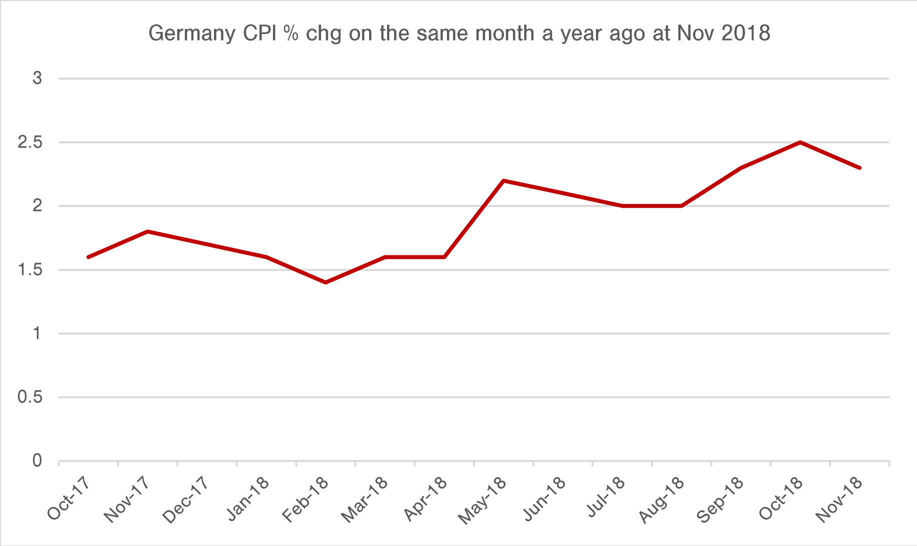
https://www.markiteconomics.com/Survey/PressRelease.mvc/4309c89c183b4589a7e788f7ec23b76f

Germany CPI (Nov)

The provisional CPI result was confirmed with the headline CPI slowing slightly in Nov.

Headline CPI - monthly change; Nov +0.1% versus Oct +0.2%

Annual Headline CPI (% chg from same month a year ago); Nov +2.3% versus Oct +2.5%



Energy prices remain the main source of growth in headline inflation; Energy prices increased +1.8% in the month and +9.3% for the year to Nov 2018.

The annual change in core CPI (ex food and energy) is much lower than the headline rate;

Core CPI (ex food and energy); Nov +1.5% and (0% growth in the month)

While growth in Goods prices remains higher, the change in Services prices is lower than the headline rate; +1.5% annual growth at Nov and -0.1% for the month.

https://www.destatis.de/EN/PressServices/Press/pr/2018/12/PE18_487_611.html;jsessionid=F15FBDB6292445404F1C12400BD396E2.InternetLive2

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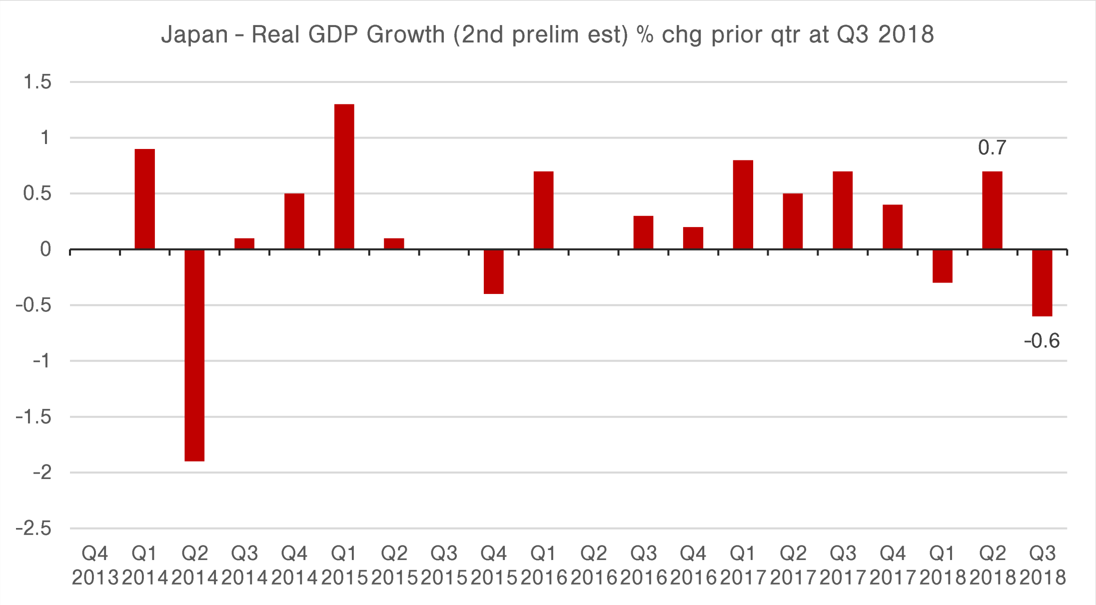
Japan

Q3 GDP (2nd prelim)

Japanese Q3 GDP was revised much lower in the second prelim release. Several areas of expenditure were revised lower, with the largest negative revision recorded for private non-residential investment spending.

Q3 GDP was revised from a -0.3% contraction to a -0.6% contraction.

Growth in Q2 was also revised slightly lower from +0.8% to +0.7%.



<u>Several areas of expenditure were revised lower;</u>

Consumption of households was revised lower from -0.1% to -0.2%.

Private residential investment was revised higher from +0.6% to +0.7%.

Private non-residential investment was revised much lower from -0.2% to -2.8%.

Govt consumption remained unchanged but public investment was revised lower from -1.9% to -2%.

The change in net exports remained unchanged. Exports declined by -1.8% and imports also declined by -1.4%.

The change in inventories made zero contribution to the change in GDP for the quarter.

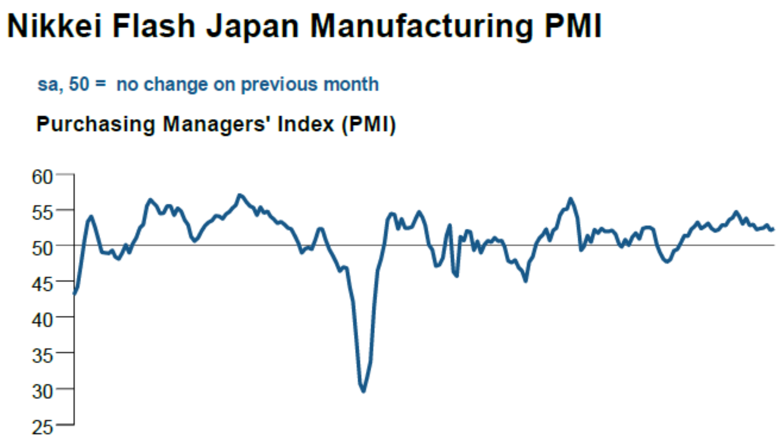
Gross National Income was also revised lower; from -0.7% to -0.9%

https://www.esri.cao.go.jp/en/sna/data/sokuhou/files/2018/qe183_2/gdemenuea.html

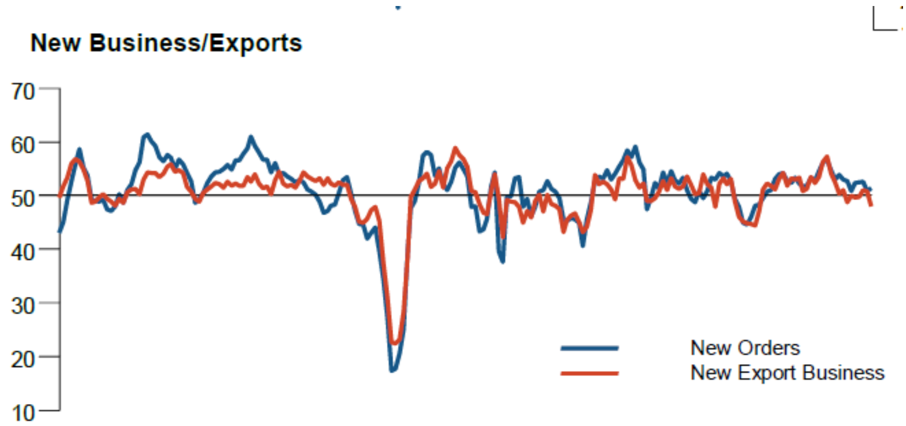
Prelim Manufacturing PMI (Dec)

There was only a small improvement in the prelim Manufacturing PMI for Dec.

Dec 52.4 versus Nov 52.2



Both output and new orders increased at a faster rate. BUT new export orders continued to fall;



Employment and input/output charges grew at a slower rate.

> "Survey data does bring some cautious undertones to the fore, however. Export orders declined at the fastest pace in over two years, while total demand picked up only modestly. Confidence also continued to fall, a seventh straight month in which this has now occurred. The prospects heading into 2019 ahead of the sales tax hike still appear skewed to the downside."

https://www.markiteconomics.com/Survey/PressRelease.mvc/26fdf9495dde4674b02a115f8c1e40ee

Industrial Production – Final (Oct)

The final data for Japanese Industrial Production in Oct confirmed that growth accelerated (after several months of weaker activity) across production and shipments while inventory declined. Growth in shipments was revised slightly lower and inventory change was revised slightly higher.

The industrial production forecast survey expects a +0.6% increase in IP in Nov and a +2.2% increase in Dec.

<u>Final – Month on month % chg;</u>

Industrial production; Oct +2.9% (unchanged) versus Sep -1.1%

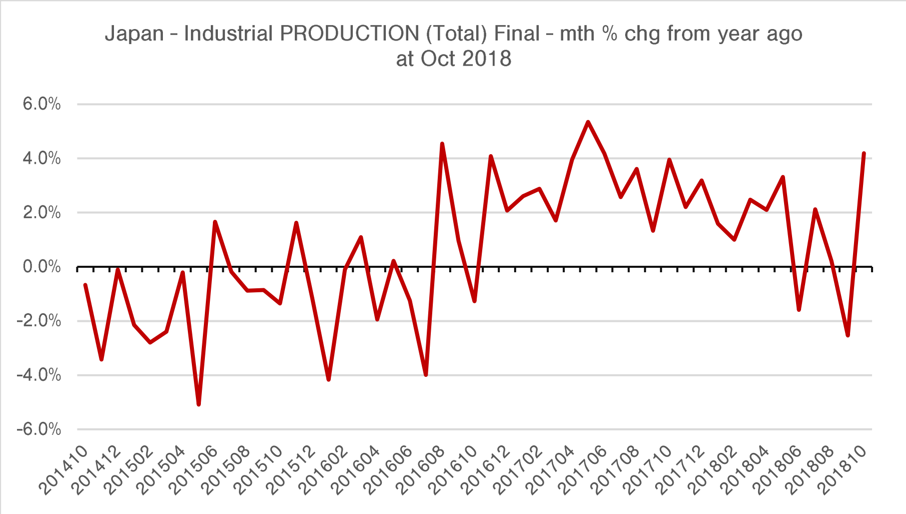
Shipments; Oct +3.5% (revised lower from +5.4%) versus Sep -3%

Inventory; Oct -1.3% (revised slightly higher from -1.4%) versus Sep +2.3%

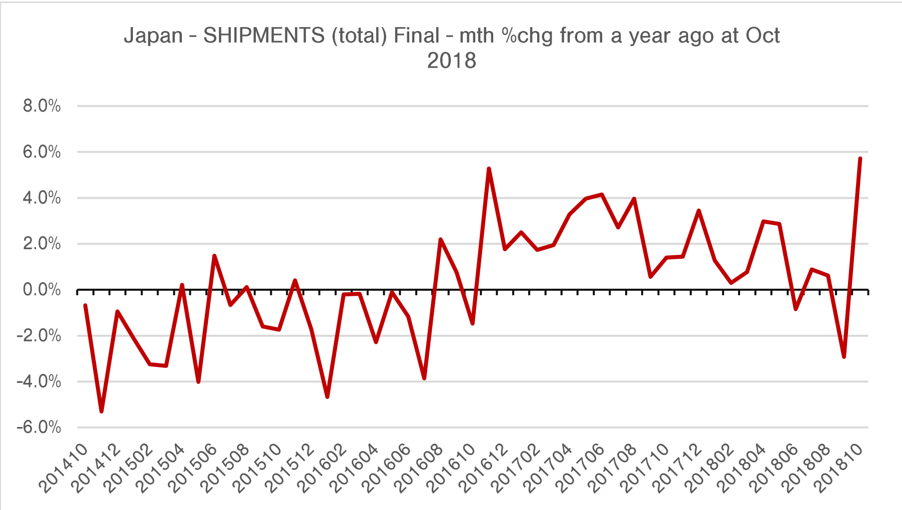
Inventory ratio; Oct -0.5% (revised much higher from -7.4%) versus Sep +7.8%

<u>Final - Annual change (% chg from same month a year ago);</u>

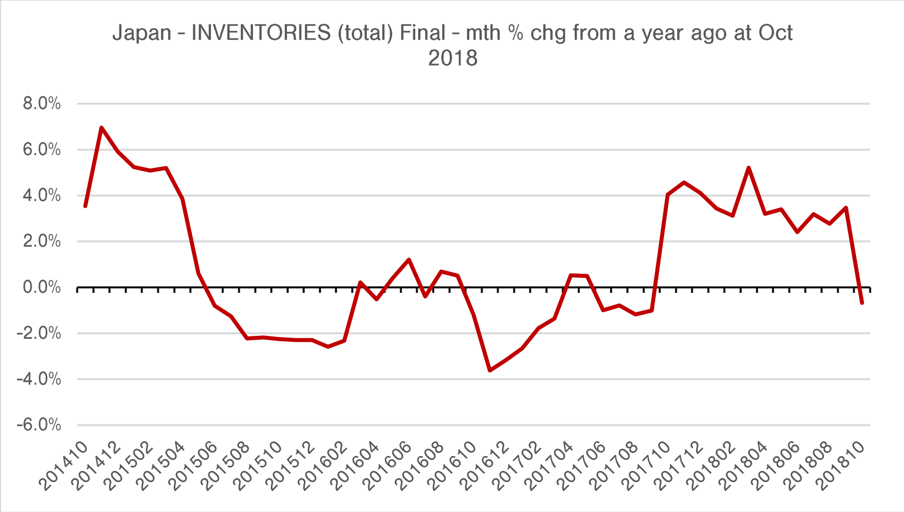
Industrial production; Oct; +4.2% (unchanged from the prelim result) versus Sep -2.5%



Shipments; Oct +5.7% (revised lower from +7.7%) versus Sep -2.9%



Inventory; Oct -0.7% (revised slightly higher from -0.8%) versus Sep +3.5%



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

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United Kingdom

Brexit

The UK is in Brexit deadlock, with some calling the situation a political crisis.

PM May pulled the vote on the Brexit withdrawal agreement on Tuesday when it became clear that she would lose the vote by a significant margin. After winning a ‘no confidence’ vote in her leadership, it also became clear how many within the party did not support PM May.

To break the stalemate, PM May attempted to make changes to the Withdrawal agreement at the last EU summit for the year. But the EU rejected the idea of making changes stating that it was now up the UK Parliament to accept or reject the deal.

At this point, there is no clear direction forward. PM May is maintaining her position on the deal and is so far, refusing to agree to a second UK referendum to vote on the deal or revisit the vote on Brexit.

The UK Parliament goes into recess this week and the deadline date for Brexit is 29 March 2019.

Labour Force Survey (Aug-Oct)

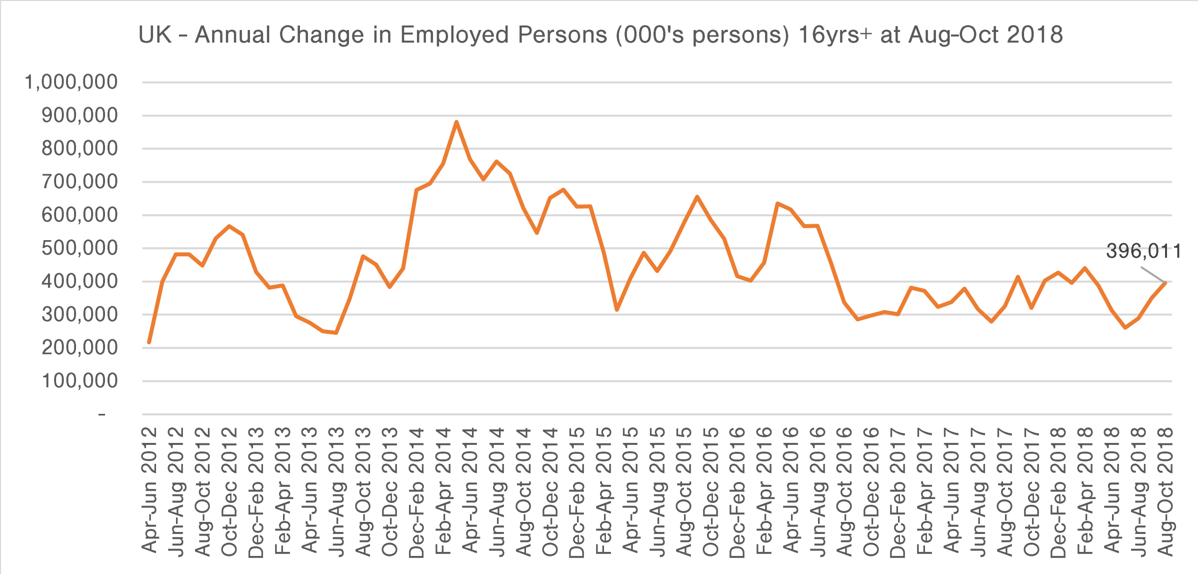
The UK labour force remains resilient considering the Brexit disruption.

The main feature this month was the increase in labour force participation. This was recorded across latest quarter, on an annual basis and across both 16+yrs and 16-64yrs groups.

On a quarterly basis, unemployment has started to increase. While employment growth has been improving over the last two quarters, it has not been growing fast enough to absorb new/returning workers into the labour force.

<u>Employment growth</u>

Annual employment growth continues to improve off recent lows; Aug-Oct +396k persons



On a quarterly basis, employment growth increased to +79k persons (from +23k in the prior rolling quarter).

<u>Participation</u>

On an annual basis, the participation rate increased by +0.3%pts, or, added 155k workers to the labour force.

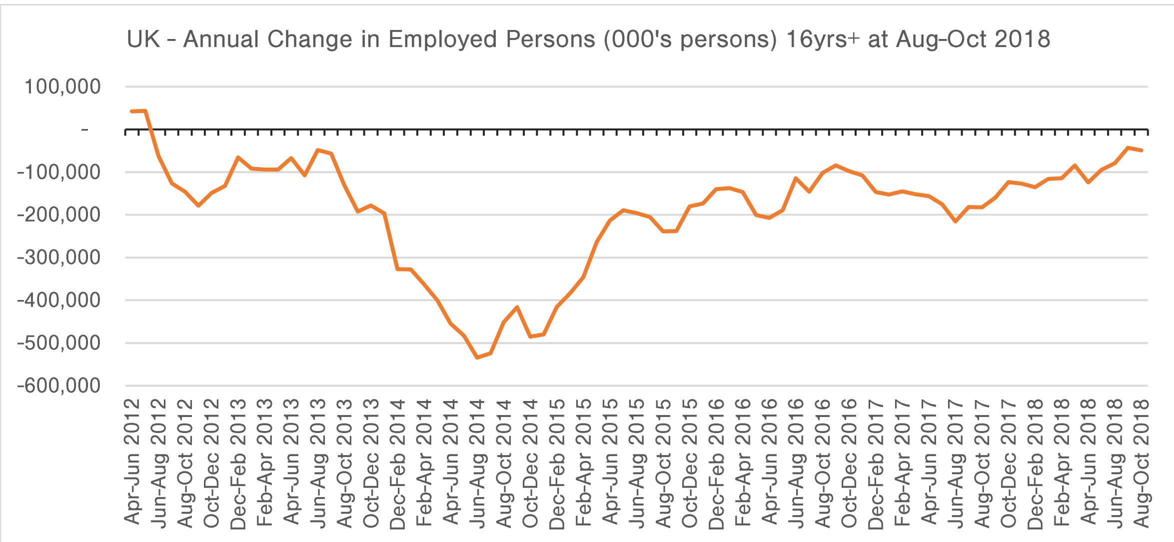
On a quarterly basis, participation also increased by +0.1%pts, or, added +50k workers to the labour force.

Employment growth was still high enough on an annual basis to be able to absorb these workers back into the labour force AND reduce unemployment. But this was not the case on a quarterly basis.

<u>Unemployed Persons</u>

On an annual basis, the growth in total unemployed persons has been getting smaller. This is because more people have been returning to the labour force.

On annual basis, total unemployed persons decreased by -49k persons, slightly faster than in the prior period;



On a quarterly basis though, total unemployed persons increased for the second period in a row; Aug-Oct +20k persons.

The unemployment rate remained at 4.1%

A summary of the key dynamics;

On an annual basis, the labour market looks quite strong – employment is still growing fast enough to be able to absorb new and returning workers into the labour force and reduce total unemployment.

But on a quarterly basis, the growth in employment, whilst positive, remains low and total unemployed persons has been increasing.

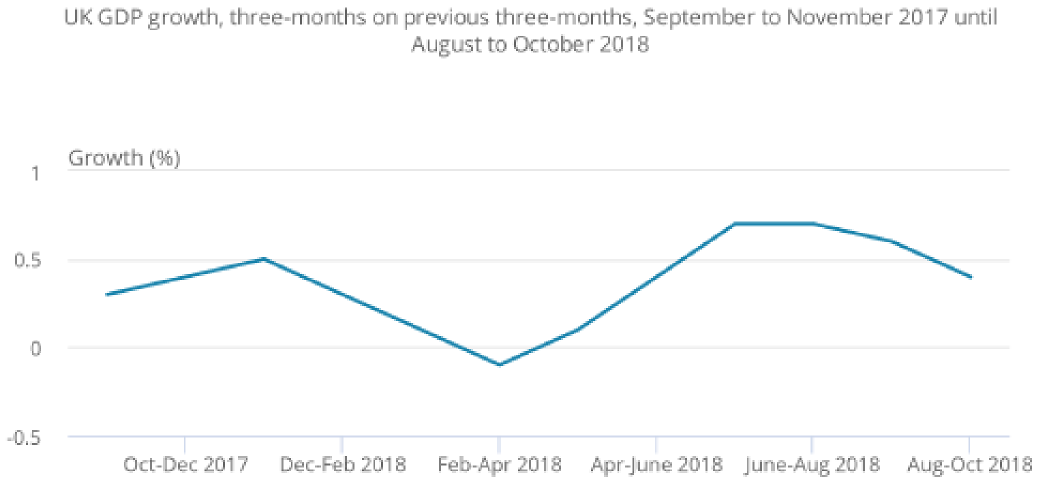
	16yrs+ (000's of persons)	
	Latest Qtr Chg Aug-Oct 2018	ANN Chg Aug-Oct 2018
Estimated change in the Labour Force due to pop growth (1)	47.499	191.148
How many jobs available for them? (employment growth) (2)	78.807	396.011
Difference; employment less est chg in labour force due to pop (3) (if positive, then employment growing faster than pop)	31.308	204.863
Change in the labour force due to the change in participation (4)	50.837	155.624
The remainder is the chg in total unemployed persons (4) less (3) - if neg, then unemployment decreasing	19.529	-49.239
Different views of the Labour Force:		
Double check - change in total economically active (pop + participation)	98.336	346.772
Double check - change in total economically active (employ + unemp)	98.336	346.772
Actual economically active ann chg (as reported)	98.336	346.772

https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/labourmarketeconomiccommentary/december2018

Monthly GDP (Oct)

In the Aug-Oct period, UK GDP growth slowed compared to the Q3 (Jul-Sep) period.

The Aug-Oct GDP grew by +0.4% versus (Jul-Sep) which grew by +0.6%.



Services continued to be the main contributor to growth in the latest 3-month period, adding +0.23%pts to the headline growth (prior 3-month services contributed +0.33%pts to growth).

Both Production and Construction made positive contributions to growth.

Splitting out the result on a monthly basis highlights that, while growth in services resumed in Oct, production and construction both declined;

Table 1: Breakdown of GDP growth rates by month
UK, August, September and October 2018

	Aug-18	**Sep-18**	**Oct-18**
GDP	0.0%	0.0%	0.1%
Index of Services	0.0%	-0.1%	0.2%
Index of Production	0.0%	0.0%	-0.6%
Manufacturing	-0.1%	0.2%	-0.9%
Construction	-0.3%	1.7%	-0.2%
Agriculture	0.1%	0.1%	0.1%

Source: Office for National Statistics, GDP monthly estimate

https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/october2018

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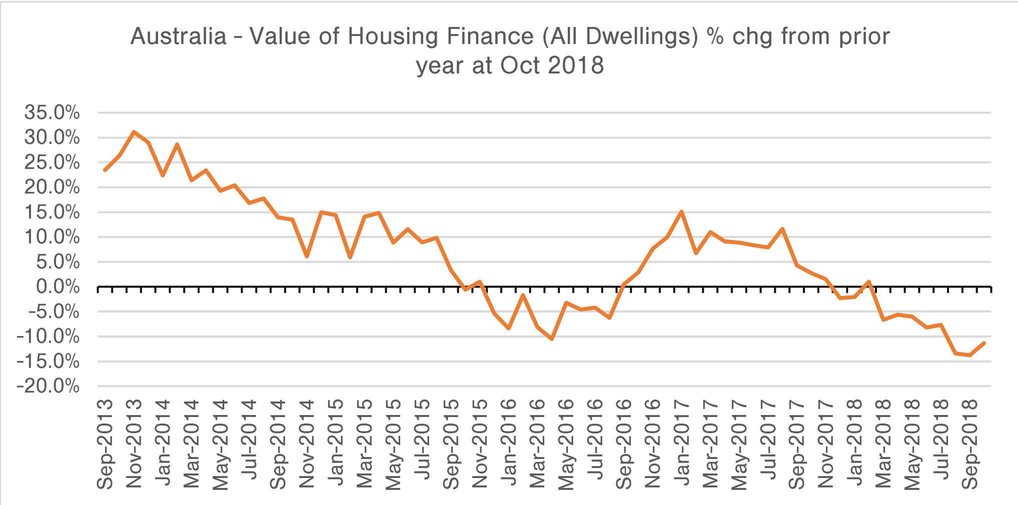
Australia

Australian Housing Finance (Oct)

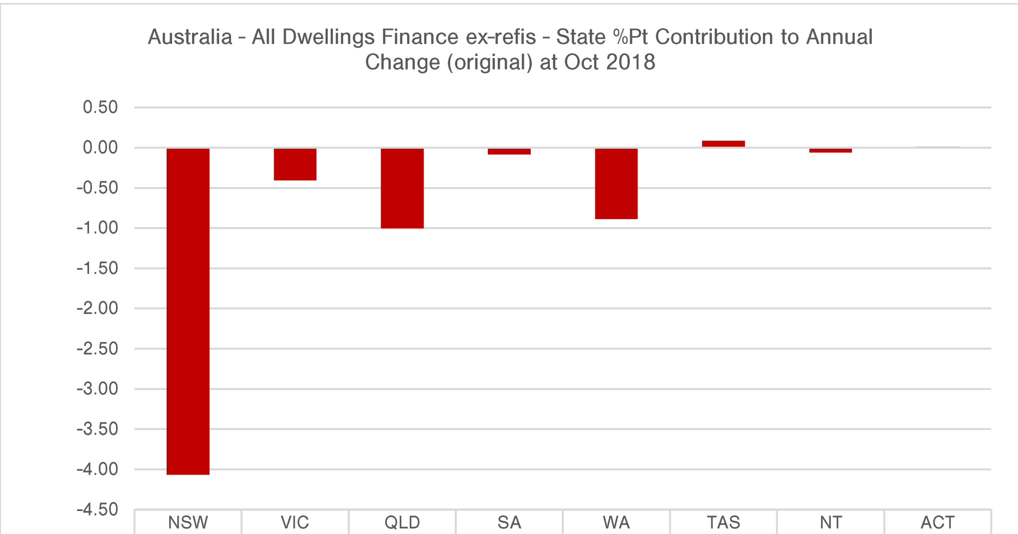
There was a small rebound in the value of housing finance commitments for Oct. Owner occupiers accounted for almost all of the loan growth in the month, while housing finance for investors grew only slightly.

<u>All dwellings finance (ex refi's) – monthly chg:</u> Oct +3% versus Sep -4%

Housing finance commitments in Oct were still below that of the prior year (current mth % chg from year ago); Oct -11.3% versus Sep -13.8%



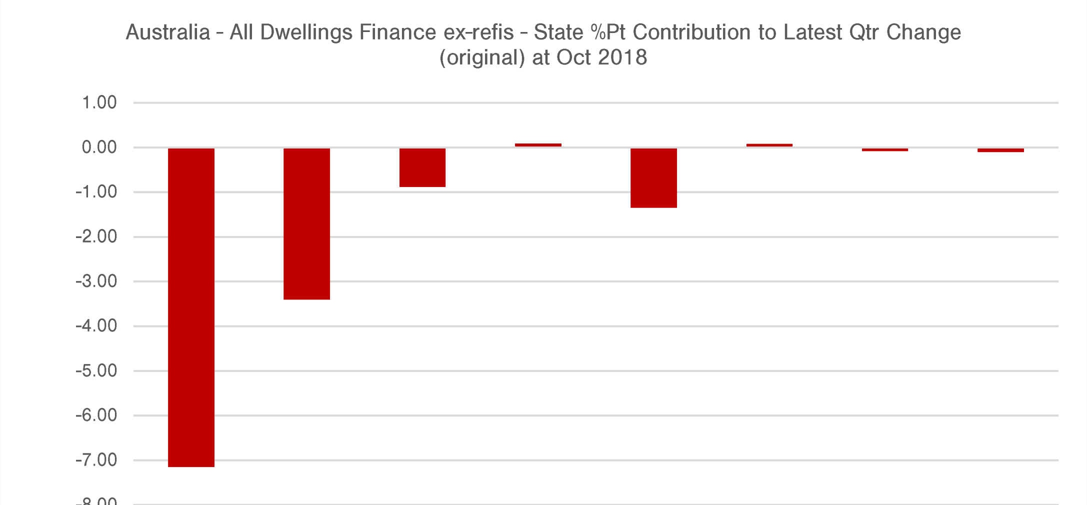
On a state basis, NSW currently accounts for most of the decline in housing finance. On a year on year basis, all dwellings finance has declined by -6.4% (states will sum to this total);



	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Series1	-4.07	-0.41	-1.00	-0.09	-0.89	0.09	-0.06	0.01

Note: this data is unadjusted, so measures the change in the total value of housing finance commitments in the 12mth period to Oct 18 versus the same 12mth period to Oct 17. “All dwellings finance” is the sum of investor and owner occupier housing finance.

The decline in housing finance is larger in the latest quarter. On this basis (the total of housing finance for the last 3 months versus the same 3 months a year ago), the decline in all dwellings finance has almost doubled to -12.8%.



	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Series1	-7.15	-3.40	-0.88	0.09	-1.35	0.08	-0.08	-0.10

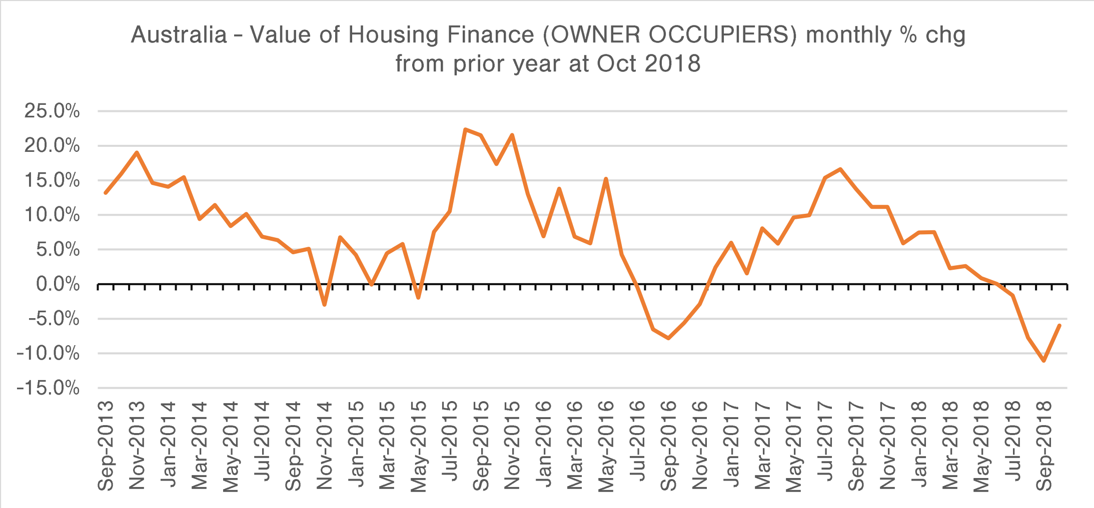
Note: this data is unadjusted, so measures the change in the total value of housing finance commitments in the 3mth period to Oct 18 versus the same 3mth period to Oct 17. “All dwellings finance” is the sum of investor and owner occupier housing finance.

NSW, VIC, WA, NT and ACT declines have accelerated (versus the 12mth view). QLD and TAS remain unchanged. SA has improved. But the declines in NSW and VIC far outweigh changes in the other states.

The two main components of all dwellings finance are owner occupier and investor housing finance;

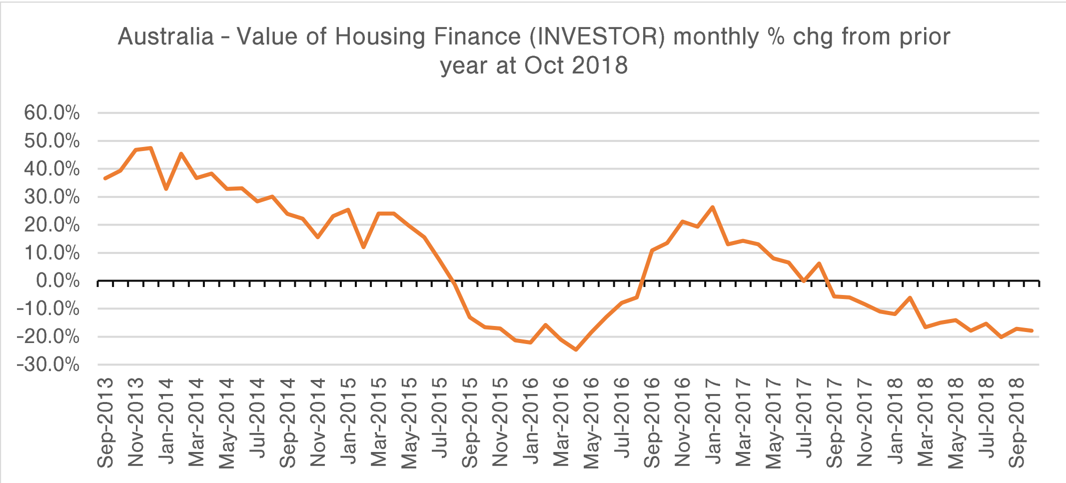
Owner occupier housing finance (ex refis) – monthly chg: Oct +5% versus Sep -5%

Loans for owner occupiers in Oct were also still below that of the prior year (current mth % chg from year ago); Oct -6% versus Sep -11%



Investor housing finance – monthly chg: Oct +1% versus Sep -3%

There was only a small rebound in investor loans for the month and the Oct total remains below last year also (current mth % chg from year ago): Oct -14.7% versus Sep -14.8%



http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5609.0Main+Features1Oct%202018?OpenDocument

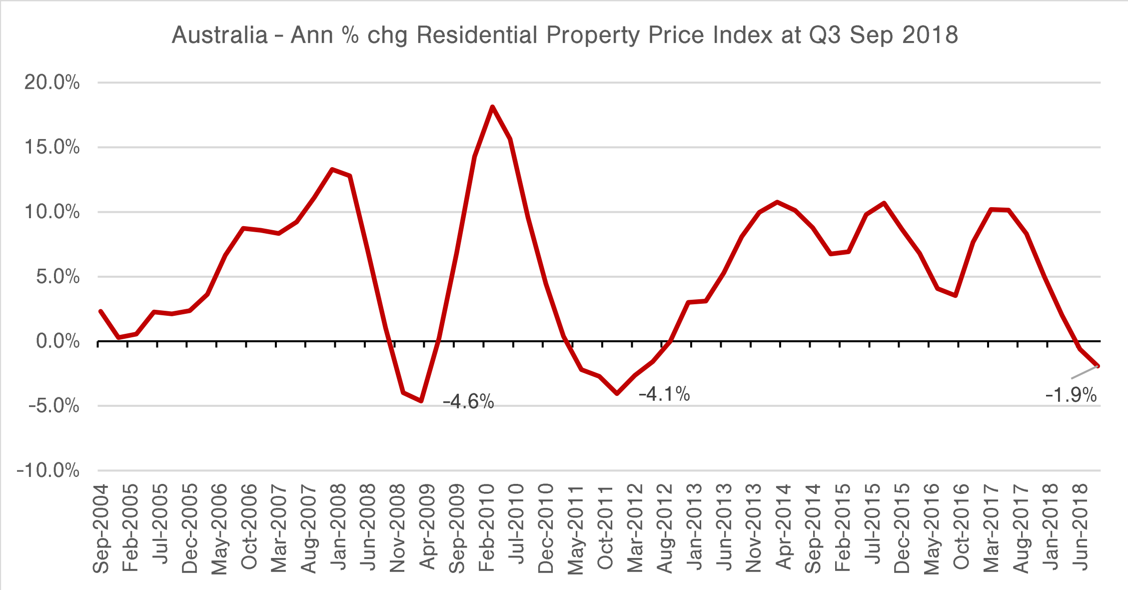
House Price Index Q3

The annual decline in house prices accelerated in the latest quarter – led by declines in the two largest markets of Melbourne and Sydney. Prices in the post-mining boom markets of Perth and Darwin also continue to fall.

Prices in the remaining markets of Brisbane, Adelaide, Hobart and Canberra continue to grow and *reached new near-term peaks in the latest quarter*. The decline in prices up until Sep is not (yet) widespread.

National Residential Property Price Index (QoQ chg); Q3 -1.5% versus Q2 -0.7%

On an annual basis, price declines also accelerated; Q3 -1.9% versus Q2 -0.6%

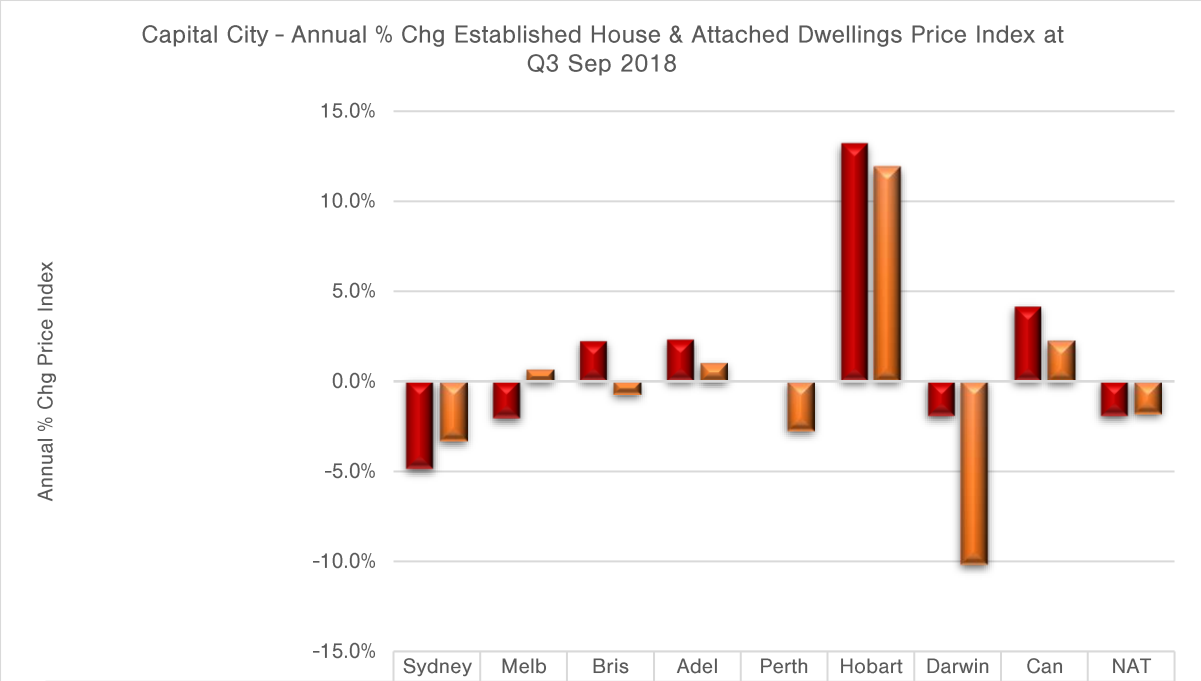


Prices for both established houses and attached dwellings fell at a faster pace in the latest quarter;

> Established houses; Q3 -1.7% and annual change of -1.9% (annual chg in Q2 was -0.3%)
>
> Attached dwellings; Q3 -1% and annual change of -1.8% (annual chg in Q2 was -1.6%)

<u>Key Markets;</u>

Sydney appears to be ground zero for the moment – with prices for both houses and attached dwellings well down on last year. Overall Sydney prices are -6% from the recent peak.

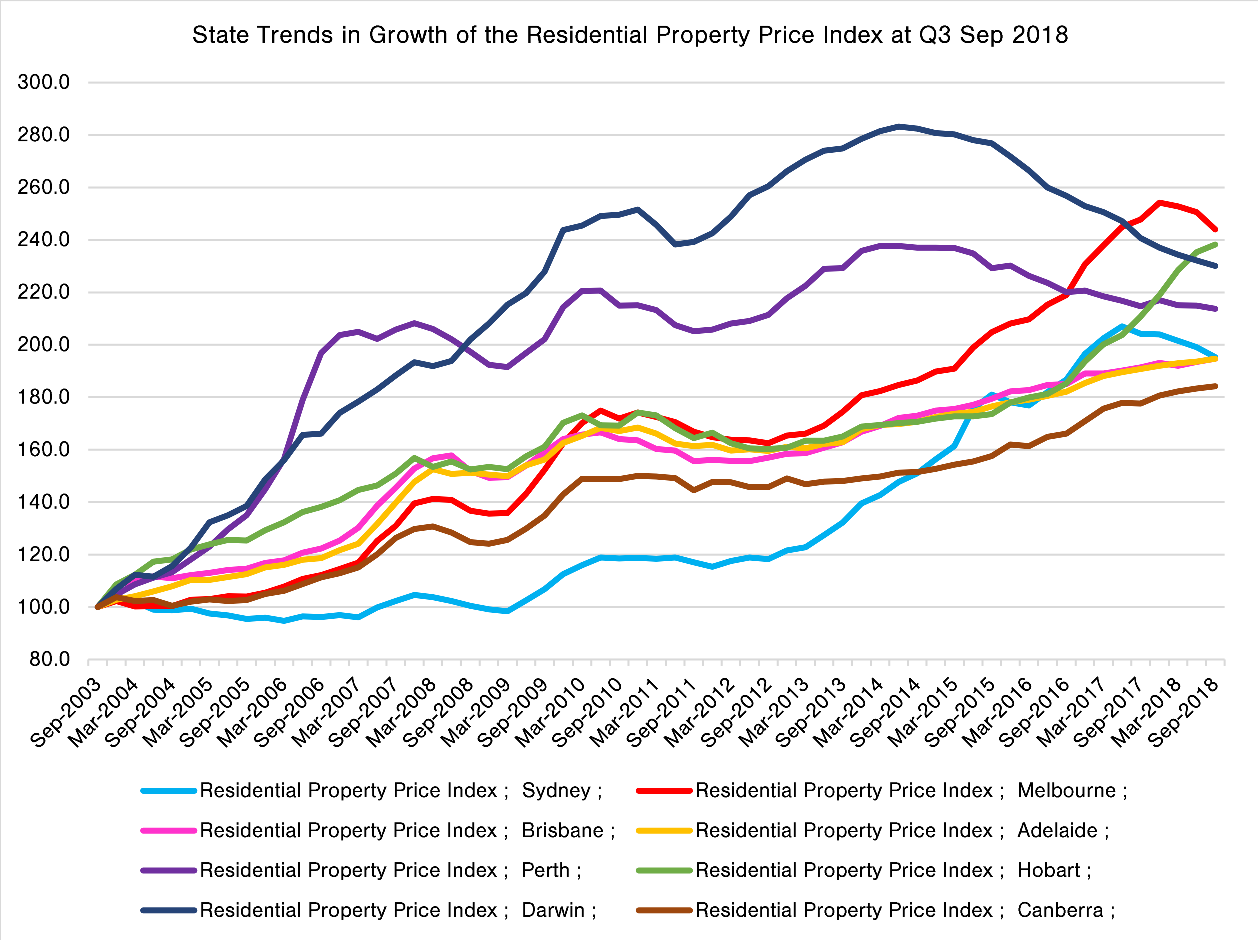


	Sydney	Melb	Bris	Adel	Perth	Hobart	Darwin	Can	NAT
% Chg Est House Price Index	-4.9%	-2.1%	2.2%	2.3%	0.0%	13.2%	-1.9%	4.2%	-1.9%
% Chg Attach Dwelling Price Index	-3.3%	0.7%	-0.7%	1.0%	-2.7%	11.9%	-10.2%	2.3%	-1.8%

Prices in the post-mining boom markets of Peth and Darwin remain well below their peaks and prices continue to fall. Overall Perth prices are -10% from the recent peak and Darwin -18%.

Overall prices in the remaining markets of Brisbane, Adelaide, Hobart and Canberra reached new near-term peaks in the latest quarter. Prices in these markets didn't grow to the same extent as Melb and Syd since late 2011.

Between late 2011 and Aug 2016, the RBA cut interest rates twelve times. The benchmark rate as of today, remains at that Aug 2016 low of 1.5%.



The anomaly is Hobart where price growth is accelerating – it's one of the smallest states, separated from the mainland.

http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6416.0Main+Features1Sep%202018?OpenDocument

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China

M2 money supply; +8% y/y in Nov, vs prev +8%, exp +8%

Total social financing; +1.52 tn yuan, vs prev +728.8 bn yuan, exp +1.33 tn yuan

New Loans; Nov +1.25tn yuan vs prev +697 bn yuan, exp +1.12tn yuan

Retail sales (Nov yr on yr); +8.1% versus Oct +8.6%

Industrial Production (Nov); +5.4% versus Oct +5.9%

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Trade

US-China Trade Negotiations

Few concrete developments throughout the week. Reports included; high level phone calls, China considering shifting its car and retaliatory tariff position and China agreeing to buy a certain volume of US soybeans.

USTR Lighthizer will now lead the negotiations with China. Previously, this was led by Ross and Mnuchin. In an interview last weekend, USTR Lighthizer did state that there would be a hard deadline of 1 March 2019 to complete negotiations.

> "When I talk to the president of the United States, he's not talking about going beyond March 1, he's talking about getting a deal if there is a deal to be gotten in the next 90 days."

https://www.sbs.com.au/news/us-sets-hard-deadline-for-china-trade-negotiations

The focus now turns to the schedule of meetings to address key issues over the next 90-days.

With a focus now on a looming hard deadline, uncertainty and headline risk around trade and tariffs is as heightened as ever.

Adding further strain to this deadline will be the Christmas and Chinese New Year breaks. Nothing we have seen or heard suggests that both sides are close to a compromise.

NAFTA/USMCA

The deal now needs to be submitted to the U.S. Congress for approval. Given mid-term election results, the deal is still likely to gain approval in Congress.

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

The public hearing took place during the week on the interests and priorities for the US-Japan trade talks. https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/december/public-hearing-negotiating

Talks are likely to start in Jan 2019.

As noted in the announcement, the USTR will publish objectives for the negotiations at least 30 days before negotiations begin (https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/october/trump-administration-announces)

https://www.federalregister.gov/documents/2018/10/26/2018-23569/request-for-comments-on-negotiating-objectives-for-a-us-japan-trade-agreement

Section 232 – Car and Truck Imports

Last week President Trump hinted that he is consider imposing steeper tariffs on imported passenger vehicles in response to the cost cutting announcement by GM.

> "If Washington imposed a 25% tariff on cars as it long has with small trucks, "many more cars would be built here" and GM "would not be closing their plants in Ohio, Michigan & Maryland," Trump tweeted."
>
> "The President has great power on this issue," he wrote."

https://asia.nikkei.com/Economy/Trade-War/Trump-threatens-to-boost-auto-tariffs-on-GM-restructuring

US-Europe Trade Talks

The public hearing for input into the negotiating objectives for the US took place on 14 Dec.

https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/december/public-hearing-negotiating-0

As noted in the announcement, the USTR will publish objectives for the negotiations at least 30 days before negotiations begin (https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/october/trump-administration-announces)

Official notification of trade talks was sent to the US Congress back in Oct (also notifying the US Congress of the intention to commence trade talks with Japan and the UK).

Formal consultation for the US-EU negotiations was announced on the US Federal Register. https://www.federalregister.gov/documents/2018/11/15/2018-24979/request-for-comments-on-negotiating-objectives-for-a-us-european-union-trade-agreement

US-UK Trade Talks

A formal request has now been posted on the US Federal Register for comments on the negotiating objectives for a US-UK trade agreement. https://www.federalregister.gov/documents/2018/11/16/2018-24987/request-for-comments-on-negotiating-objectives-for-a-us-united-kingdom-trade-agreement

A public hearing has been scheduled for 29 Jan 2019 on the negotiating objectives for the US-UK trade talks.

As noted in the announcement, the USTR will publish objectives for the negotiations at least 30 days before negotiations begin. (https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/october/trump-administration-announces

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