

## Key Themes

Despite a positive assessment of current conditions, a point in Chairman Powell's speech was interpreted as a change to the view of where we are in the hiking cycle, shifting from 'a long way from neutral' to 'close to neutral'. That said, the FOMC minutes suggest that a further hike is likely in Dec. After that, policy will change if incoming data "prompts a meaningful reassessment of the outlook" rather than follow the 'gradual increases' path. Expect to see this wording change in the FOMC statements.

Data this week indicated stronger growth in real personal consumption expenditure and real disposable personal income. The Oct core PCE price index growth was lower and is now outside of the lower end of the current FOMC projection range for inflation. This is not likely to represent a material change just yet, especially given the stronger consumption/income data. The regional surveys continue to record price and wage pressures.

On more interest-rate sensitive sectors; new home sales continued to fall. House prices slowed on an annual basis but were somewhat firmer in the month to month change.

ECB Draghi continued to err on the side that current European weakness is transitory. Net asset purchases are still likely to finish at the end of Dec. The prelim Euro area and German CPI growth slowed somewhat.

Japanese industrial production bounced back strongly in Oct. While the forecasts are for further increases in Nov and Dec, the Prelim PMI for Nov suggests that manufacturing growth continued to slow again, including weaker new orders.

Declines in private capex and construction for Australia are likely to detract from GDP growth in Q3.

The meeting between Presidents Trump and Xi has been broadly positive. The outcome was an agreement to move forward to address key issues on tariffs, IP protections and the trade imbalance. No further tariffs/escalations will be applied while negotiations take place. There is a 90-day window for discussions. The US will also be kicking off trade negotiations with Japan, Europe and the UK during that time.

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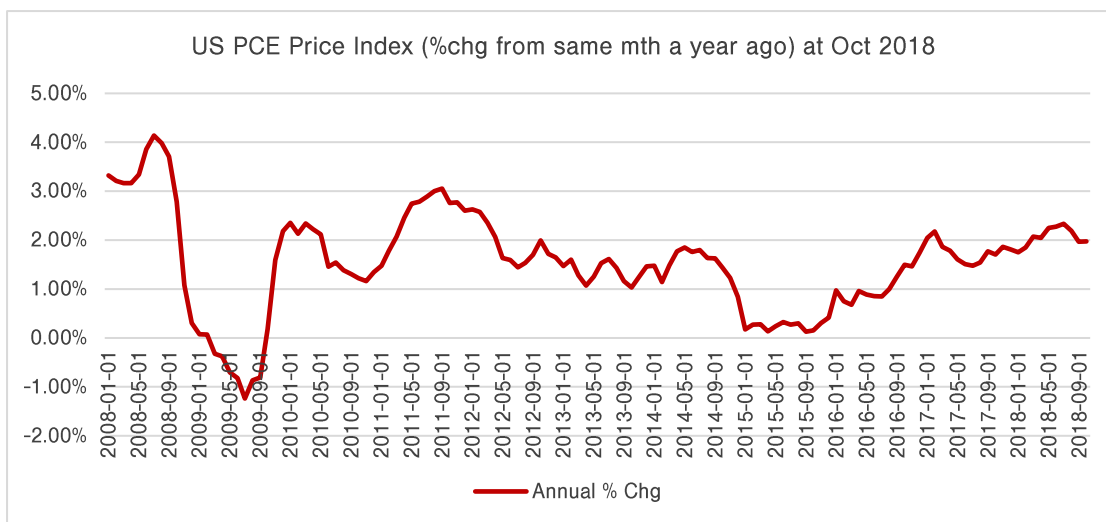
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## US Data

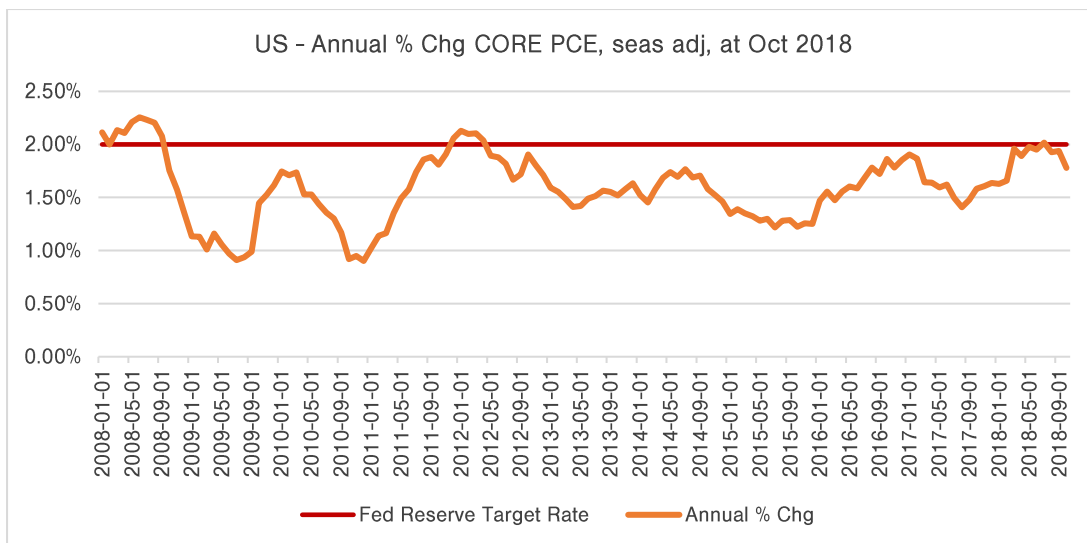
### Personal Consumption Expenditures, Incomes and Prices (Oct)

The annual change in the core PCE price index slowed further in the latest month – now outside of the latest range of FOMC projections. Real personal disposable income and consumption expenditure grew at a slightly faster pace in Oct (versus Sep) – a good start to Q4.

Headline PCE Price Index (latest mth % chg from prior year): Oct +2% versus Sep +2%. This is still within the Fed range for 2018 of 1.9-2.2 (Sep projection). The median projection was 2.1%.



Core PCE Price Index (latest mth % chg from prior year): Oct 1.8% versus Sep +1.9%. The PCE core measure of inflation has now fallen outside of the Fed projections; the range for 2018 was 1.9% - 2% as at the Sep projections. The median projection is 2%.



Change in price indexes (% chg on same month a year prior):

The change in the durable goods price index remains negative, while non-durable goods prices accelerated, and services price growth has slowed (but remains elevated).

PCE headline; Oct +2% versus Sep +2%

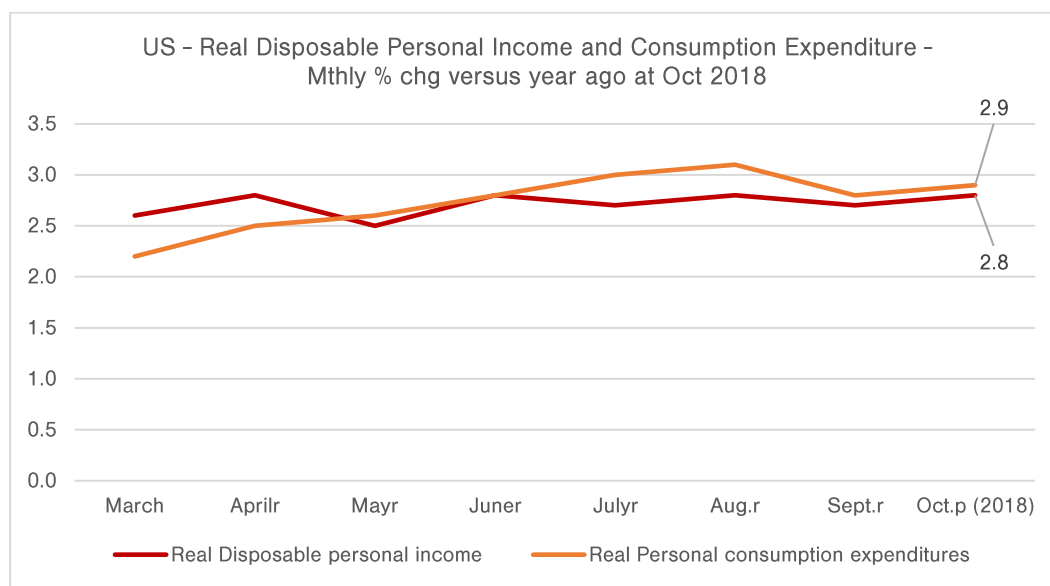
Durable Goods; Oct -1.4% versus Sep -1.6% (includes motor vehicles)

Non-durable Goods; Oct +2% versus Sep +1.4%

Services; Oct +2.5% versus Sep +2.7%

Real personal disposable income and consumption expenditure

Real personal disposable income and consumption both continued to grow at a slightly faster rate (versus Oct a year ago);



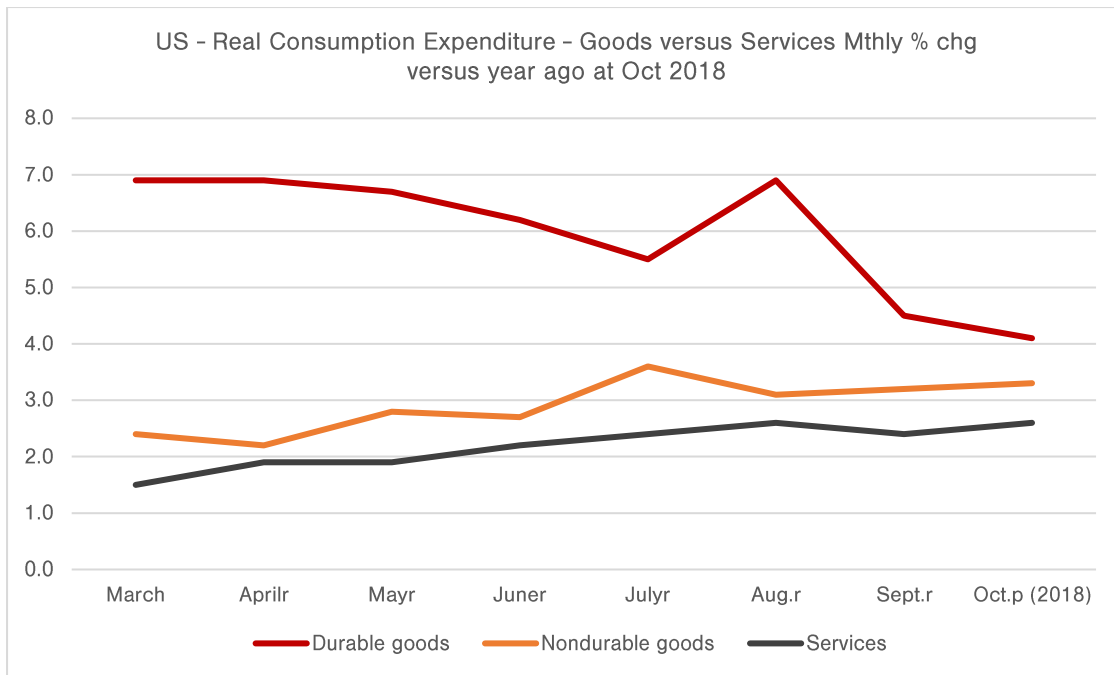
On a monthly basis, real personal disposable income growth accelerated slightly; Oct +0.3% versus Sep +0.1%. Annual rate +2.8%

While real personal consumption expenditures also accelerated slightly in Oct +0.4% (the largest monthly change since Mar 2018)

Consumption of goods and services grew at a faster rate in the latest month – so far a strong start to Q4.

On a year on year basis, there has been a consistent slow-down in consumption expenditure growth for durable goods. Durable goods growth has slowed from +6.9% in Mar 2018 to +4.1%.

Growth in non-durable goods and services have both accelerated over the same time;



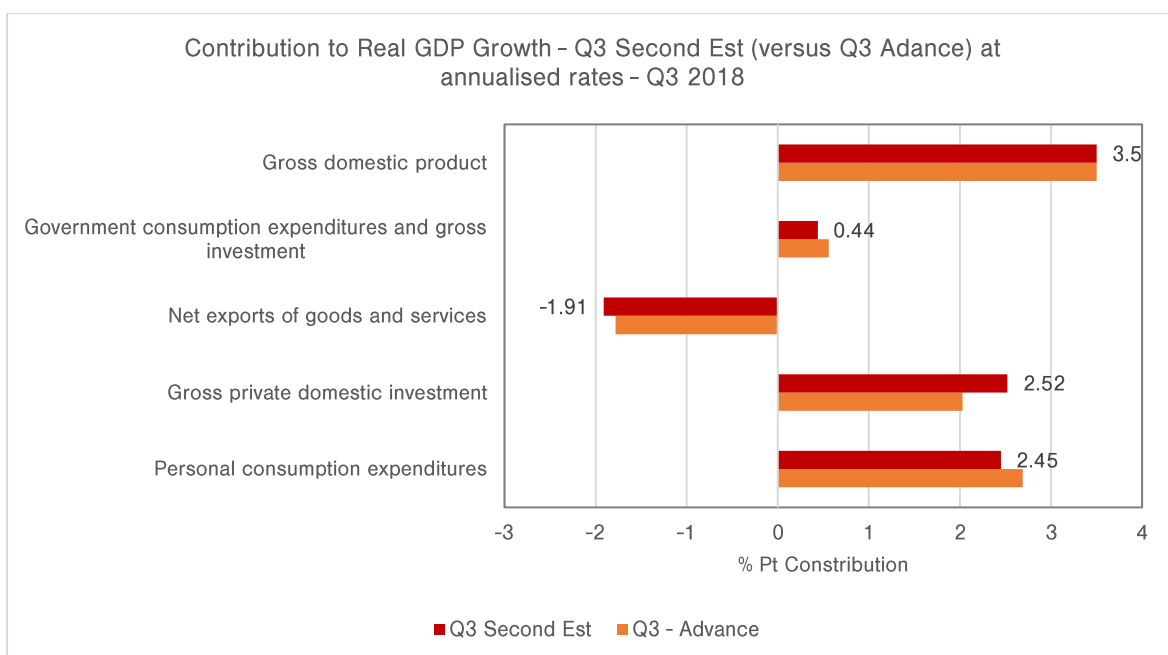
<https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20180926.pdf>

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

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

## GDP Q3 (2<sup>nd</sup> Estimate)

There was no change to the headline rate of GDP growth in Q3; +3.5% (annualised). There were several revisions to underlying expenditure - personal consumption expenditure, net exports and govt expenditure were all revised lower. This was offset by higher domestic investment spending.



Personal consumption was revised lower (made a smaller contribution to growth) as a result of lower growth goods and services consumption.

Gross Private Domestic Investment was revised higher – fixed investment shifted from decline to growth. Residential investment was revised higher but remained negative. The change in inventories made a larger contribution to growth

Net exports were revised lower on the back lower exports and slightly lower imports.

Govt expenditure was also revised lower.

<https://www.bea.gov/data/gdp/gross-domestic-product>

## Goods Trade Balance (Oct)

The monthly trade balance in goods widened slightly in Oct.

Trade balance; Oct -\$77.2b versus Sep -\$76.2b (trade balance Oct 2017 -\$67.6b)

The wider trade balance was the result of lower goods exports (-0.6% versus the month prior), while the value of imports only increased by +0.1% versus the month prior.

The weaker result from trade in Q3 has, so far, been carried forward into the start of Q4.

<https://www.census.gov/econ/indicators/tab1adv.pdf>

## Core Logic/Case Shiller HPI (Sep)

On a National level house price growth slowed in the latest month and year. The monthly change in the composite-10 and composite-20 indexes (SA) continued to accelerate slightly.

### Monthly change (Seas adj)

US National house price index; Sep +0.4% versus Aug +0.6%

The 10-city composite index; Sep +0.3% versus Aug +0.1%

The 20-city composite index; Sep +0.3% versus Aug +0.1%

After seasonal adjustment, 18 of the 20 cities recorded a price increase in Sep.

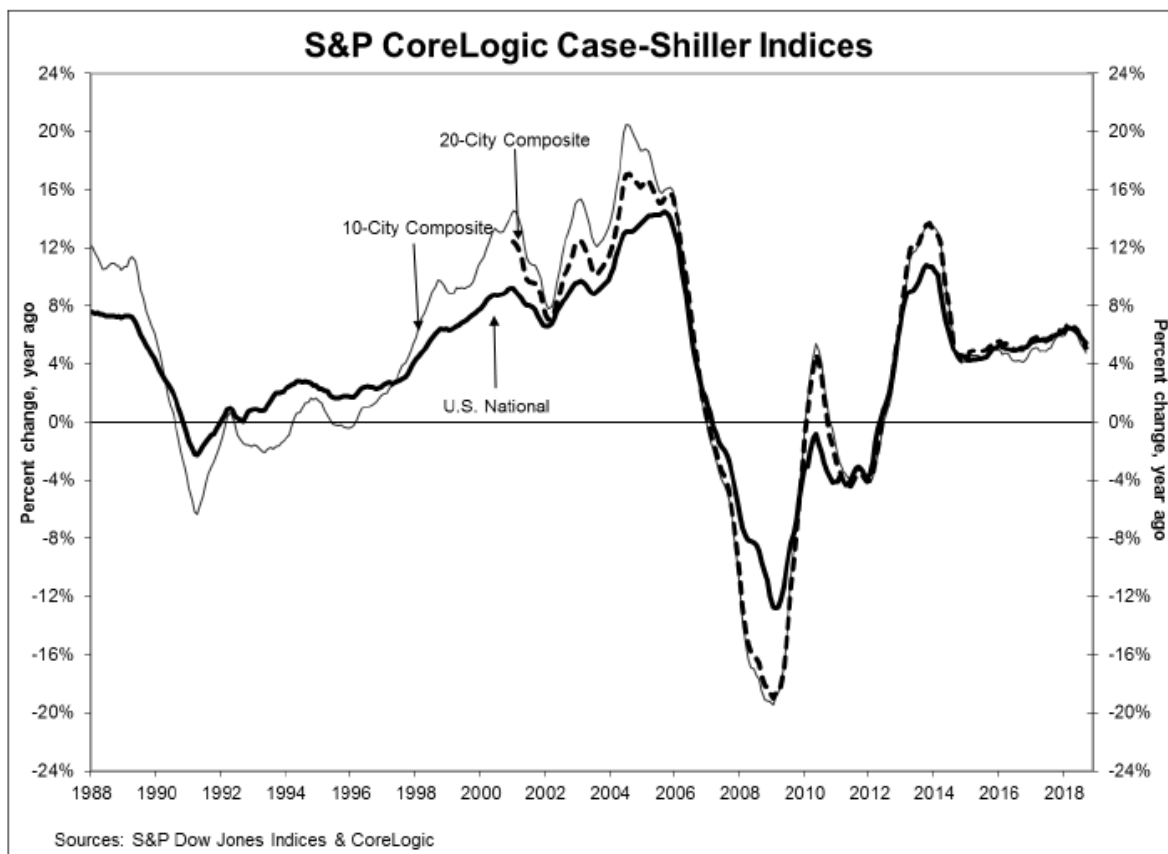
### Annual change (Not seas adj)

The slow-down in price growth is evident versus a year ago;

US National house price index; Sep +5.5% versus Aug +5.7%

The 10-city composite index; Sep +4.8% versus Aug +5.2%

The 20-city composite index; Sep +5.1% versus Aug +5.5%

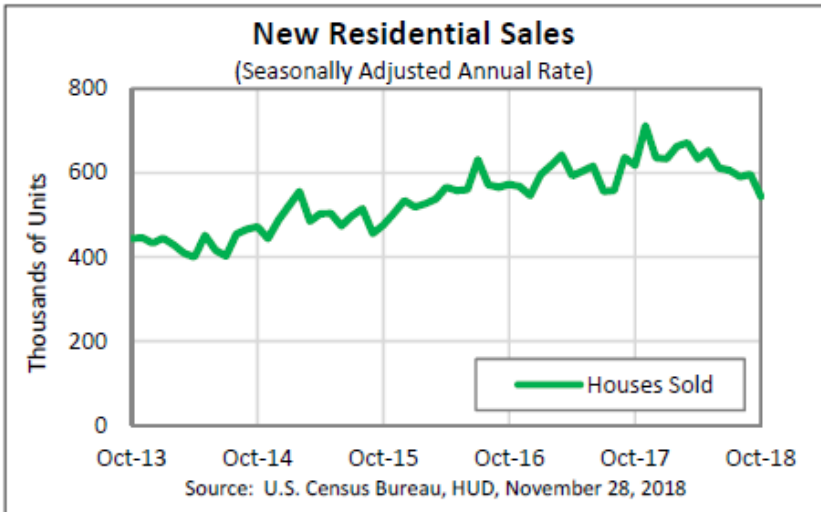


[https://www.spice-indices.com/idpfiles/spice-assets/resources/public/documents/821961\\_cshomeprice-release-1127.pdf?force\\_download=true](https://www.spice-indices.com/idpfiles/spice-assets/resources/public/documents/821961_cshomeprice-release-1127.pdf?force_download=true)

## New Home Sales - Prelim (Oct)

Continued evidence of a slowing housing market with Oct new home sales falling by an estimate -8.9% (this has a relatively wide confidence interval of +/- 13.7%)

The estimated (annual) rate of new homes sold; Oct 544k versus Sep 597k. The annual rate of new homes sold in Oct 2017 was an estimated 617k. Sales peaked back in Nov 2017;



Declines were recorded across all regions. The smallest decline was recorded in the West, falling an estimated -3.2% (+/- 21.5%).

The months' supply of new homes has been steadily increasing;

From 5.6 months in Oct 2017 to 7.4 months recorded Oct 2018

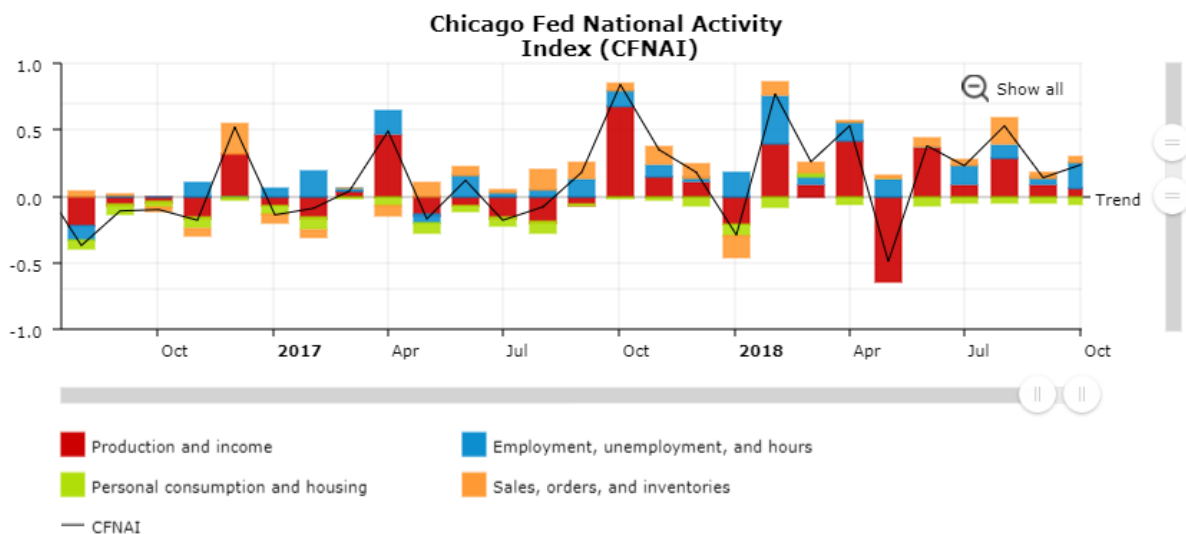
<https://www.census.gov/construction/nrs/pdf/newressales.pdf>

## Chicago Fed National Activity Index (Oct)

The headline national activity index indicated that economic growth expanded at a slightly faster pace in Oct.

Headline Index; Oct +0.24 versus Sep +0.14

The headline index was higher due to expansion in the employment/unemployment and hours sub index;





Sub-index performance;

Production and income - continued to slow slightly and remains close to zero indicating expansion around the LT average. Oct +0.06 versus Sep +0.09

Personal consumption and housing - continued to grow at a below average pace; Oct -0.05 versus Sep -0.04

Employment, unemployment and hours – grew at a faster pace; Oct +0.19 versus Sep +0.05

Sales, orders and inventories – recorded no change from the result in the month prior and expansion continues at around the LT average; Oct +0.04 versus Sep +0.04.

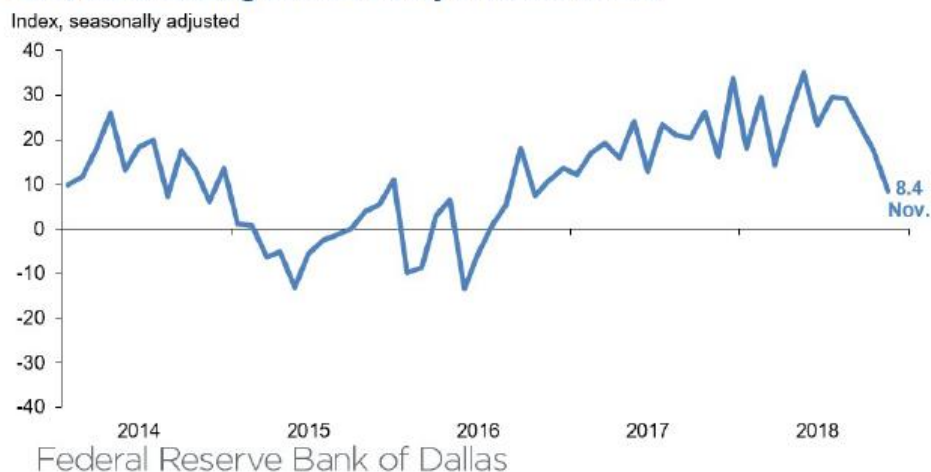
<https://www.chicagofed.org/research/data/cfnai/current-data>

## Dallas Fed Manufacturing Survey (Nov)

Most indicators in the Texas manufacturing survey indicated a slower rate of expansion in Nov.

The headline production index slowed from 17.6 in Oct to 8.4 in Nov (-9.2pts)

### Texas Manufacturing Outlook Survey Production Index



As a measure of future demand, new orders slowed; Nov 9.7 versus Sep 18.9. The underlying shift was a lower proportion of firms recording an 'increase' in new orders and a larger number of firms recording 'no change' and a 'decrease' in new orders.

The growth rate of new orders also slowed quickly; Nov 4.8 versus Oct 11

With production slowing, shipments also slowed; Nov 7.7 versus Oct 16.6

Prices paid for raw materials saw a large slow down (oil related?); Nov 33.7 versus Oct 54.4 (-20.7pts). While this would be a welcomed development, prices received for finished goods also slowed, dropping 10pts to a reading of 7.5 in Nov.

Growth in employment and hours worked also slowed.

While the outlook remains positive, the level of optimism is moderating. The reading on company outlook slowed, with the index falling -11.3pts to 13.7 in Nov. The general business outlook reading also slowed, with the index falling -11.8pts to 17.6 in Nov. In both cases, the number of firms reporting conditions had 'improved' had decreased and the number of firms

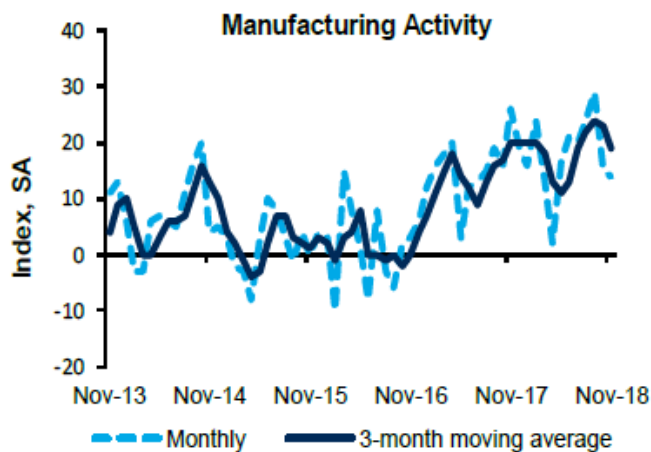
reporting that conditions ‘worsened’ had increased. The number of firms reporting ‘no change’ was unchanged.

<https://www.dallasfed.org/-/media/Documents/research/surveys/tmos/2018/1811/tmos1811.pdf>

## Richmond Fed Manufacturing Survey (Nov)

The headline index of manufacturing activity was little changed in Nov. Manufacturing activity continued to expand but at a slightly slower pace and remains below the peak of Sep.

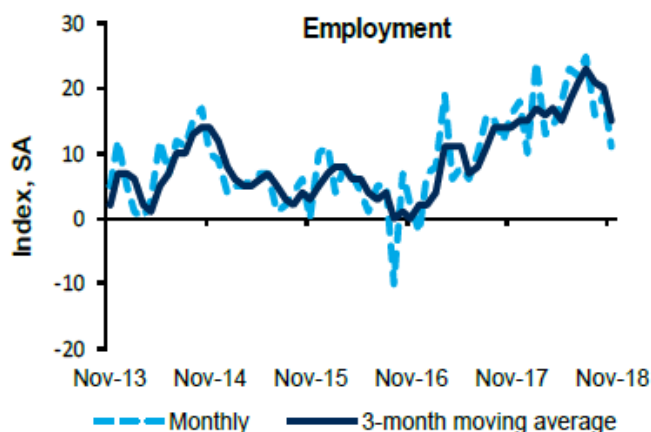
Headline manufacturing index; Nov 14 versus Oct 15



While shipments improved, the volume of new orders grew at a slower pace and both remain below the peaks of Sep 2018. While the expectations for six months ahead are positive, both measures slowed considerably in Nov.

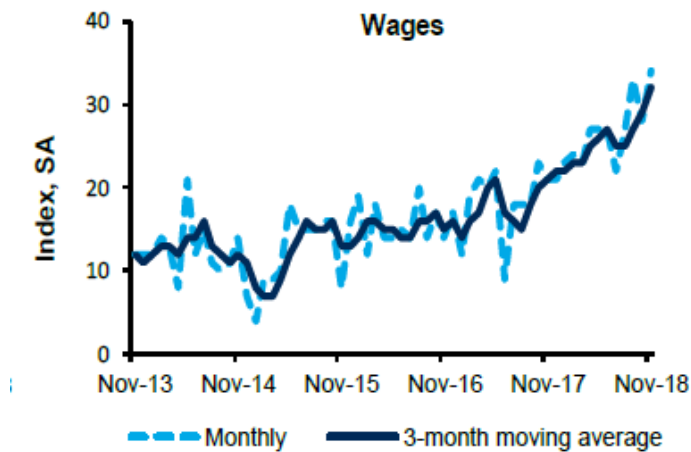
Capex expectations was little changed and remains elevated.

Employment expanded at a slower pace and seems to have broken the clear uptrend since the end of 2016;



Despite the slower employment growth, firms continue to record a skills shortage.

Wages growth increased at a faster pace and has been accelerating over the last few months;



The growth in prices paid and prices received both slowed in the latest month

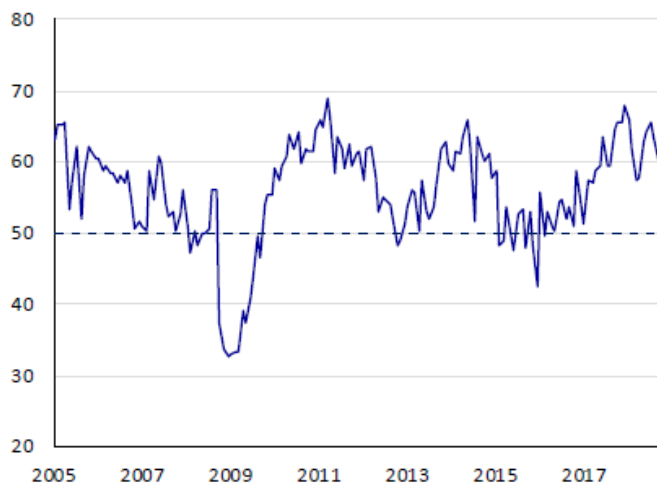
[https://www.richmondfed.org/-/media/richmondfedorg/research/regional\\_economy/surveys\\_of\\_business\\_conditions/manufacturing/2018/pdf/mfg\\_11\\_28\\_18.pdf](https://www.richmondfed.org/-/media/richmondfedorg/research/regional_economy/surveys_of_business_conditions/manufacturing/2018/pdf/mfg_11_28_18.pdf)

## Chicago PMI (Nov)

The headline barometer of business activity grew at a faster pace in Nov, reaching a new high for the year.

Nov 66.4 versus Oct 58.4

Chicago Business Barometer™



Faster expansion in output and (mostly) new orders were the main drivers of the headline result. With new orders reaching a 54-month high. Orders were stronger than what is typically seen at this time of year.

Employment increased to a 3-month high. Prices paid moderated somewhat but remain elevated.

<https://s3.amazonaws.com/images.chaptermanager.com/chapters/b742ccc3-ff70-8eca-4cf5-ab93a6c8ab97/files/mni-chicago-press-release-2018-11.pdf>

## FOMC Minutes 7- 8 November

On rates; likely another hike in Dec;

almost all participants expressed the view that another increase in the target range for the federal funds rate was likely to be warranted fairly soon if incoming information on the labor market and inflation was in line with or stronger than their current expectations.

Signalling: positive assessment of the economy. Labour market continued to strengthen, inflation and core inflation was around the 2% level (has moderated somewhat now). Long-term inflation expectations were little changed. Household consumption spending was strong, but investment spending had moderated. Financial conditions somewhat tighter than at the Sep meeting, but accommodative overall. Risks broadly balanced.

Future rate hikes: not going to follow a 'further gradual increase' path (the reality is that hikes aren't guaranteed now either – if the data were materially softer, hikes would just stop, regardless of the 'further gradual increase' statement). **Policy will change if incoming data "prompts a meaningful reassessment of the outlook"**.

"Various factors such as the recent tightening in financial conditions, risks in the global outlook, and some signs of slowing in interest-sensitive sectors of the economy on the one hand, and further indicators of tightness in labor markets and possible inflationary pressures, on the other hand, were noted in this context"

Statements by the FOMC in the future are likely to leave out 'further gradual increases'

begin to transition to statement language that placed greater emphasis on the evaluation of incoming data in assessing the economic and policy outlook

Other: discussions resumed regarding the framework for the implementation of monetary policy via the choice of operating regime and target interest rate. Two regimes were discussed – where bank excess reserves were abundant (post GFC) and where excess reserves were limited (pre GFC). Discussion also focused on targeting the overnight bank funding rate rather than the effective fed funds rate (the former having a larger volume of transactions and therefore a more robust indicator of banks overnight funding costs).

The discussion of framework is planned to continue over the new few meetings. No formal timeline for a review has been set.

<https://www.federalreserve.gov/monetarypolicy/files/fomcminutes20181108.pdf>

## US Fed speeches – Chairman Powell (Economic Club of NY Luncheon)

The speech was in two parts – covering the economic outlook and the framework for monitoring financial stability. What was widely reported was the apparent shift in wording/view of how close the FFR is to neutral; from “a long way’ to ‘just below’.

The Chairman was quite positive regarding the outlook stating that the economy was close to both objectives of the Fed in inflation and employment.

My FOMC colleagues and I, as well as many private-sector economists, are forecasting continued solid growth, low unemployment, and inflation near 2 percent. There is a great deal to like about this outlook.

In the course of the most recent expansion, the Fed has been raising rates from ‘unprecedentedly’ low levels. THE quote regarding the view of rates;

Interest rates are still low by historical standards, and they remain just below the broad range of estimates of the level that would be neutral for the economy--that is, neither speeding up nor slowing down growth.

This was widely interpreted as a change in the view of the Fed.

The second half of the speech talked about the range of changes implemented as a part of the improved approach to monitoring of the financial system.

In discussing possible areas of vulnerability, Chairman Powell highlighted non-financial business borrowing. Whilst the ratio of corporate debt to GDP is ‘about where one might expect’ at this stage of the cycle, he cites reasons for concern (emphasis added);

“Information on individual firms reveals that, over the past year, firms with high leverage and interest burdens have been increasing their debt loads the most”

“In addition, other measures of underwriting quality have deteriorated, and leverage multiples have moved up. Some of these highly leveraged borrowers would surely face distress if the economy turned down, leading investors to take higher-than-expected losses--developments that could exacerbate the downturn. The question for financial stability is whether elevated business bankruptcies and outsized losses would risk undermining the ability of the financial system to perform its critical functions on behalf of households and businesses. For now, my view is that such losses are unlikely to pose a threat to the safety and soundness of the institutions at the core of the system and, instead, are likely to fall on investors in vehicles like collateralized loan obligations with stable funding that present little threat of damaging fire sales.<sup>10</sup> Of course, we will continue to monitor developments in this sector carefully.”

<https://www.federalreserve.gov/newsevents/speech/powell20181128a.htm>

**NY Fed Governor Williams** - panel on Monetary Policy Strategies for a Low-Neutral-Interest-Rate World at the 80th Plenary Meeting of the Group of Thirty in New York

<https://www.newyorkfed.org/newsevents/speeches/2018/wil181130>

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## Europe

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### ECB Draghi speech - Hearing of the Committee on Economic and Monetary Affairs of the European Parliament 26 Nov 2018

Reaffirms what was in the ECB minutes that data has been weaker than expected since Sep. Draghi holds the line that this is a loss of momentum mainly reflecting weaker trade growth and some country specific factors.

He errs on the side that this is more temporary in nature.

He also reiterates though that a slow-down in growth is normal as 'expansions mature' and growth 'converges towards its long-term potential'. Growth forecasts; 2% in 2018, 1.9% in 2019 and 1.7% in 2020.

There was no change to the stance that policy accommodation will still be required and will still be ample, even after the net asset purchases finish at the end of Dec.

The second half of the speech discusses reforms still required to create a 'complete' EMU.

Improved on some of the gaps in the EMU monetary framework – such as integration for financial regulation, supervision and crisis resolution.

Still need to work on; policy co-ordination, establishment of the European Investment Stabilisation Function (enabling a coordinated fiscal approach to support the single monetary policy) and completing the banking union (strengthen the resilience and integration of the financial sector).

[https://www.ecb.europa.eu/press/key/date/2018/html/ecb.sp181126\\_2.en.html](https://www.ecb.europa.eu/press/key/date/2018/html/ecb.sp181126_2.en.html)

### Euro Area CPI Prelim (Nov)

The prelim reading for the Euro area headline CPI is expected to slow slightly from the prior month;

Nov +2% versus Oct +2.2% year on year change

The growth in energy prices continues to be the largest contributor to higher headline CPI growth. That said, energy prices growth has moderated; Nov +9.1% versus Oct +10.8%.

All items excluding energy is much lower than the headline CPI: Nov +1.2% versus Oct +1.3%

Food, alcohol and tobacco price growth also remains elevated, but has moderated; Nov 2% versus Oct +2.2%

Growth in Services CPI remains lower than the headline and moderated in the latest year on year change; Nov +1.3% versus Oct +1.5%.

<https://ec.europa.eu/eurostat/documents/2995521/9422692/2-30112018-AP-EN.pdf/c9049eab-2ce0-4a34-9cc5-26af78a75a38>

## Germany CPI Prelim (Nov)

Based on the prelim results, the year on year CPI growth in Germany is expected to slow slightly from the month prior;

Nov +2.3% versus Oct +2.5%

While goods CPI growth remained elevated, the growth in services CPI slowed.

Goods CPI; remains elevated, growing at +3.2% in Nov (and +3.2% in Oct). This was the result of continued acceleration in energy price growth from +8.9% in Oct to +9.3% in Nov. The year on year growth in food CPI has slowed considerably; from +2.8% in Sep to +1.4% in Nov.

Services CPI: year on year growth has slowed from +1.8% in Oct to +1.5% in Nov.

The final result will be released 13 Dec 2018.

[https://www.destatis.de/EN/PressServices/Press/pr/2018/11/PE18\\_466\\_611.html](https://www.destatis.de/EN/PressServices/Press/pr/2018/11/PE18_466_611.html)

## Germany Retail Sales (Oct)

The provisional result for German retail sales was lower in the latest month.

In real, calendar and seas adjusted terms;

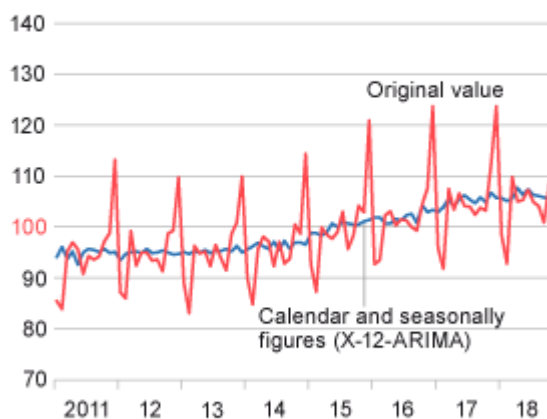
Oct -0.3% versus Sep +0.1%

The year on year change for Oct jumped to +5.1% in real terms – partly based on a higher number of trading days in Oct 2018 (26) versus Oct 2017 (24).

On a YTD basis, in real terms, retail trade is +1.4% versus the same period prior year.

### Retail trade

Turnover at constant prices (real); 2015=100



© Statistisches Bundesamt (Destatis), 2018

[https://www.destatis.de/EN/PressServices/Press/pr/2018/11/PE18\\_468\\_45212.html](https://www.destatis.de/EN/PressServices/Press/pr/2018/11/PE18_468_45212.html)

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# Japan

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## Prelim Manufacturing PMI (Nov)

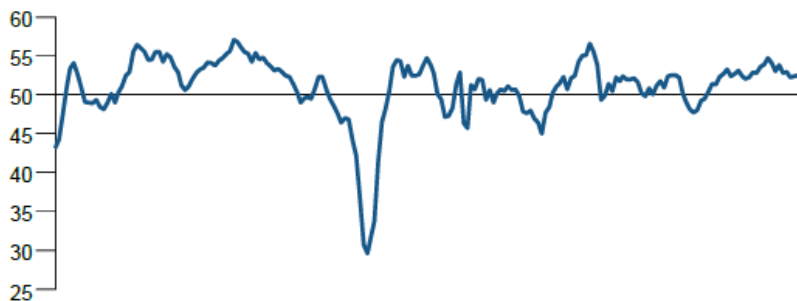
The prelim headline manufacturing index slowed in Nov after recording improved conditions for the last few months. The slow down was led by the first decline in new orders since Sep 2016.

Nov 51.8 versus Oct 52.9

## Nikkei Flash Japan Manufacturing PMI

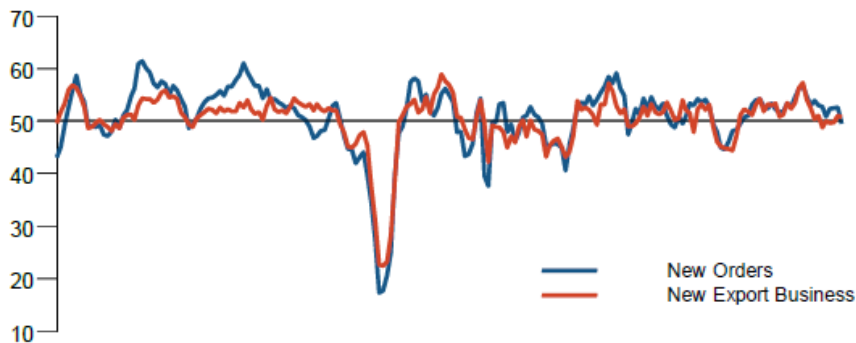
sa, 50 = no change on previous month

Purchasing Managers' Index (PMI)



As measures of underlying demand; production grew at a slower pace. New orders declined for the first time since Sep 2016 – but it looks like new export orders improved;

New Business/Exports



Against the backdrop of slower production and new orders, stocks of purchases declined, and stocks of finished goods also declined. The quantity of purchases increased at a slower rate.

Growth in input and output prices moderated.

Despite the slower level of activity, employment continued to increase at a faster rate.

<https://www.markiteconomics.com/Survey/PressRelease.mvc/96fd4568ca1342a4aa1bf782c99edb28>



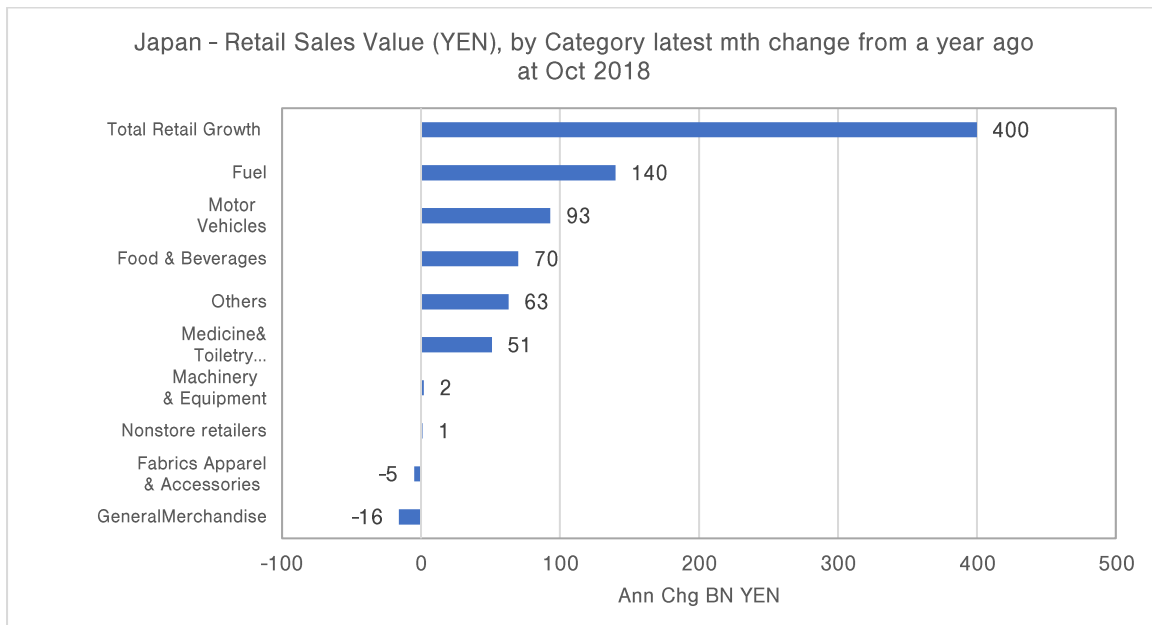
## Retail Trade – Prelim (Oct)

Retail sales growth accelerated higher in the latest month and on a year ago basis.

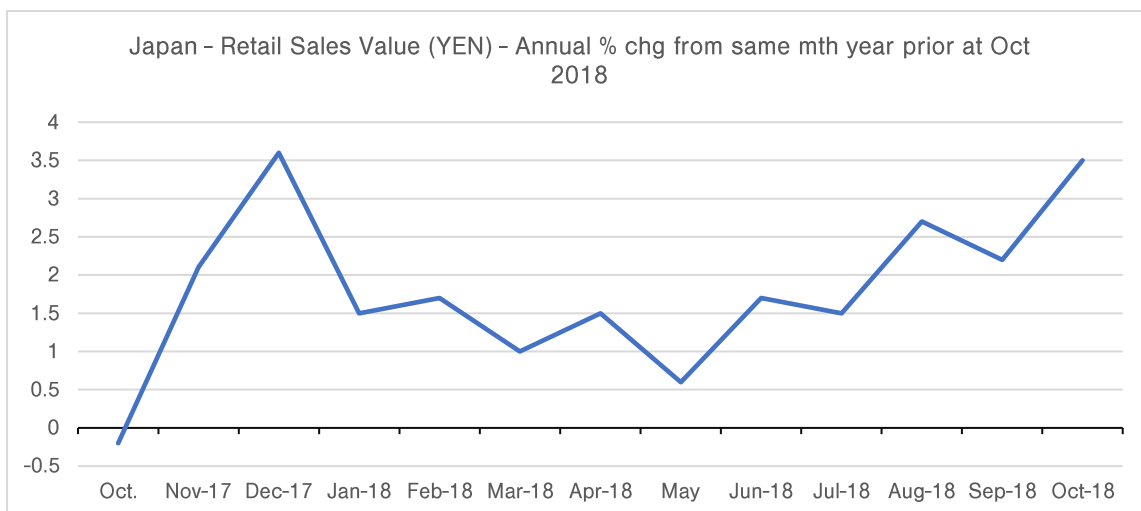
Month change; Oct +1.2% versus Sep +0.1% (Sep revised higher from -0.2% reported in the prelim results)

Annual % chg from the same month a year ago: Oct +3.5% versus Sep +2.2% (Sep revised slightly higher from +2.1% reported in prelim results). Excluding fuel; Oct +2.5% versus Sep +1.3%.

On a year ago basis, the value of fuel sales remains the largest contributor to retail sales growth. But this month, other categories, such as motor vehicles also made a larger contribution to growth;



Since May 2018, growth in the value of retail sales has been accelerating;



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

## Industrial Production - Prelim (Oct)

Industrial production in Oct was stronger as expected. Growth accelerated (on a year ago basis) and reversed the declines (and the trend of slowing growth) recorded across most of the larger weight industries. The survey of production forecast indicates that production is expected to increase in Nov and Dec (last month Nov was forecast to decline). Inventories and the inventory ratio declined.

The Nov and likely Dec figures will be important to see how much of this latest momentum is sustained.

### Prelim results for the month (seas adjusted):

Total industrial production; Oct +2.9% versus Sep -1.1% (final)

Shipments; Oct +5.4% versus Sep -3%

Inventories; Oct -1.4% versus Sep +2.3%

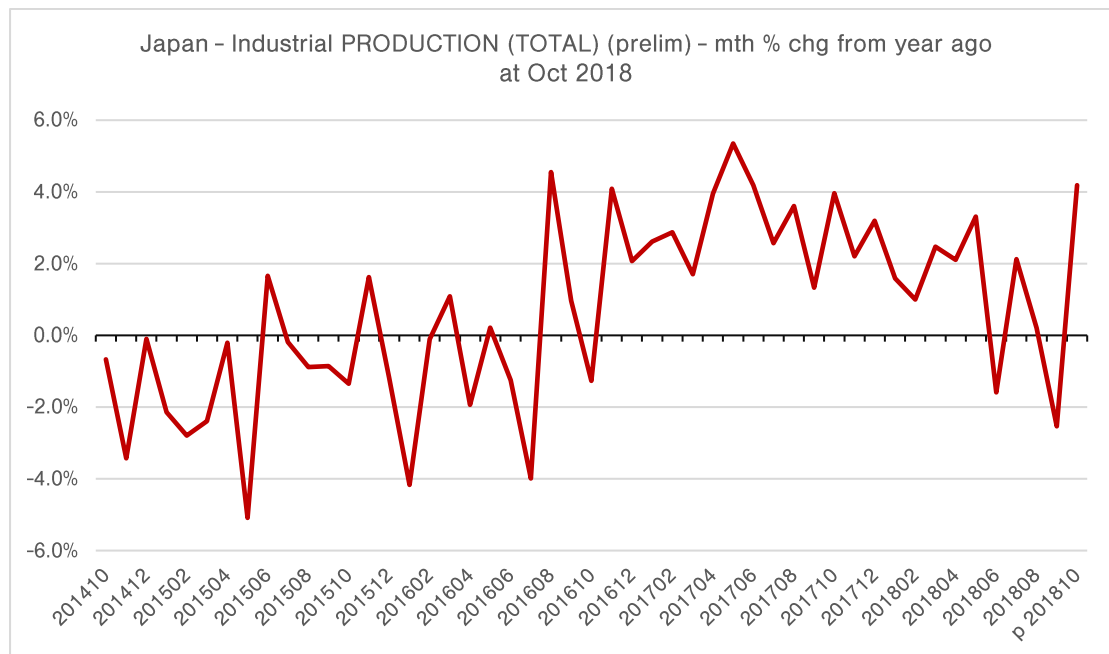
Inventory ratio; Oct -7.4% versus Sep +7.8%

### %chg from a year ago (NSA)

The declines in production and shipments recorded in Sep were reversed in Oct. While there were reports that production and shipments had been disrupted by typhoon events, there had been a general trend of slowing growth. This was reversed across the larger industries.

### **Industrial Production (total manufacturing and mining)**

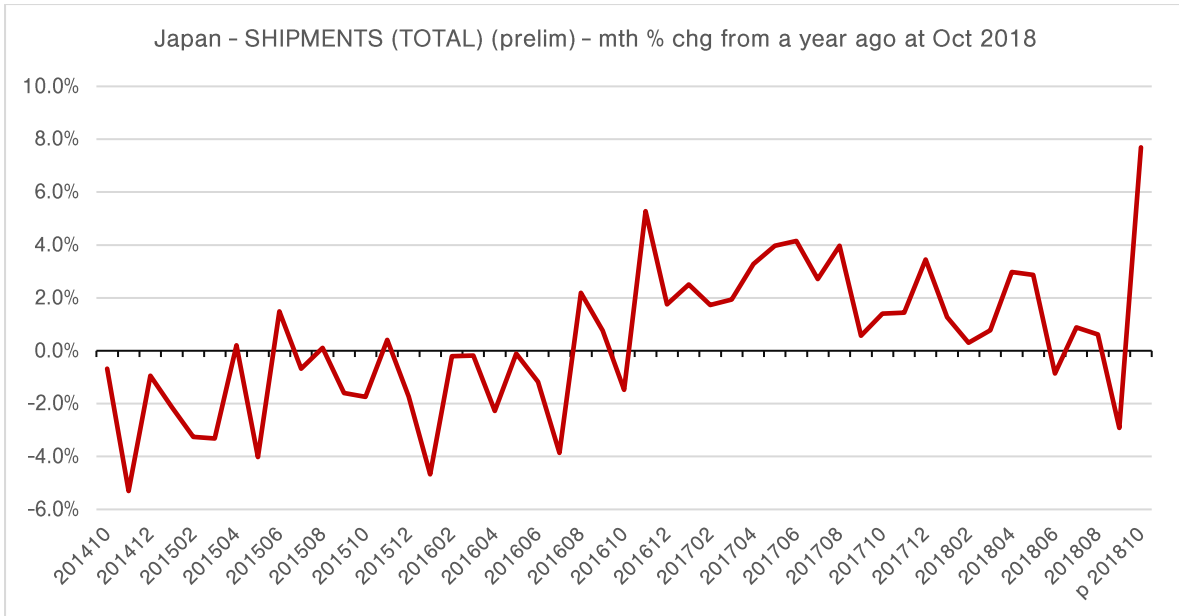
Oct +4.2% versus Sep -2.5%



### **Shipments (total manufacturing and mining)**

Posted an impressive reversal versus the same month a year ago;

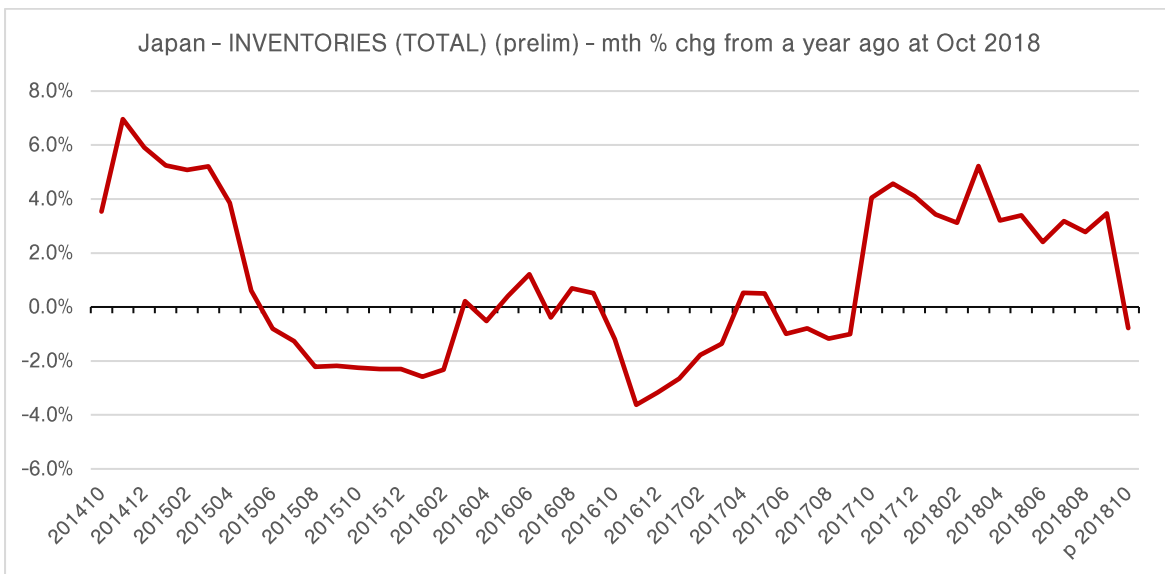
Oct +7.7% versus Sep -2.9%



**Inventories (total manufacturing and mining)**

Inventories recorded a decline versus a year ago and the inventory ratio also fell

Oct -0.8% versus Sep +3.5%



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

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## United Kingdom

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### Brexit

As widely expected, the EC endorsed the draft withdrawal agreement and the Political Declaration.

The focus now turns to the approval of the agreement through the UK Parliament and the by European Parliament and Council. The most important part now is whether the deal will be approved by the UK Parliament. The vote is expected to be on 11 Dec 2018.

[http://europa.eu/rapid/press-release\\_STATEMENT-18-6622\\_en.htm](http://europa.eu/rapid/press-release_STATEMENT-18-6622_en.htm)

### BoE Carney opening remarks – Financial Stability Report 28 Nov 2018

Brexit is identified as the largest factor affecting the UK economic outlook. Several scenarios were presented reflecting the new relationship between the UK and EU.

The two main scenarios were economic partnership and a no-deal and no transition Brexit (a worst-case scenario). Using these scenarios, the BoE assessed the resilience of the financial system based on this worst case.

Findings were that the UK banking system is strong enough to withstand a disorderly Brexit. Capital ratios would remain high (currently higher than the GFC) and liquidity would remain ample, including access to lines of funding from BoE.

Transition; highlighted that preparedness of business and infrastructure was lacking if there were to be a 'cliff edge' Brexit.

The bank reiterates its 'do whatever it takes' approach to ensuring the functioning of the financial system and support for the economy – but that its role is limited;

“There is little monetary policy can do to offset the potentially significant hits to productivity and supply that Brexit could entail, but the Bank’s unwavering commitment to price and financial stability will support the necessary adjustment of the real economy”

“the economic consequences of Brexit over the longer-term will depend on the nature of the UK’s future trading relationships, other government policies, and ultimately the ingenuity and enterprise of the British people”

<https://www.bankofengland.co.uk/financial-stability-report/2018/november-2018>

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# Canada

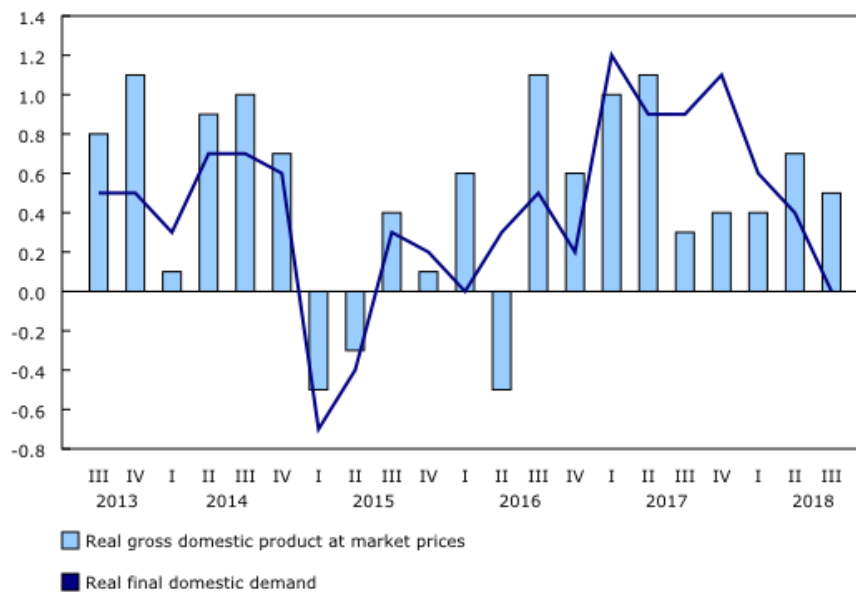
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## GDP Q3

GDP growth in real terms slowed in the latest quarter due to slower growth in household consumption and declines in private investment spending. This was offset by a decline in imports, which had a positive effect on GDP.

Q3 +0.5% versus Q2 +0.8%

quarterly % change, chained (2012) dollars



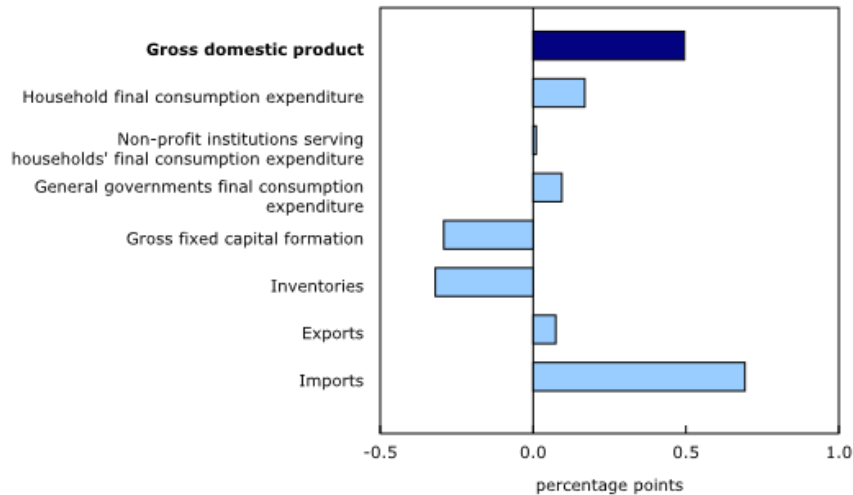
The main contributors to growth in the latest quarter were;

Household consumption expenditure contributed +0.17 %pts to the quarter GDP growth. This was lower than in the prior quarter with growth in household consumptions slowing to +0.3% from +0.6% in Q2 due to a decline in expenditure on durable goods. Motor Vehicle purchases fell for the third quarter in a row declining -1.6%

General Govt consumption expenditure contributed +0.1%pt

Net exports; where higher exports contributed +0.1%pt to the headline growth in the quarter and a decline in imports also contributed to growth, adding 0.693%pts.

Contribution by expenditure category Q3 2018;



(Note statistical discrepancy +0.66%pts)

Private investment (gross fixed capital formation) continued to fall in Q3 with declines across both investment in residential structures and non-residential structures, machinery and equipment. Total gross fixed capital expenditure fell -1.3% in Q3 versus -0.2% in Q2.

Residential structures; -1.5% in Q3 versus 0% in Q2

Non-resi structures, machinery, equipment; -1.8% in Q3 versus +0.2% in Q2

Investment in inventories also slowed, detracting 0.32%pts from growth in the quarter. Retailers reduced inventories with motor vehicle inventories falling by \$4.1b

<https://www150.statcan.gc.ca/n1/daily-quotidien/181130/dq181130a-eng.htm?HPA=1>

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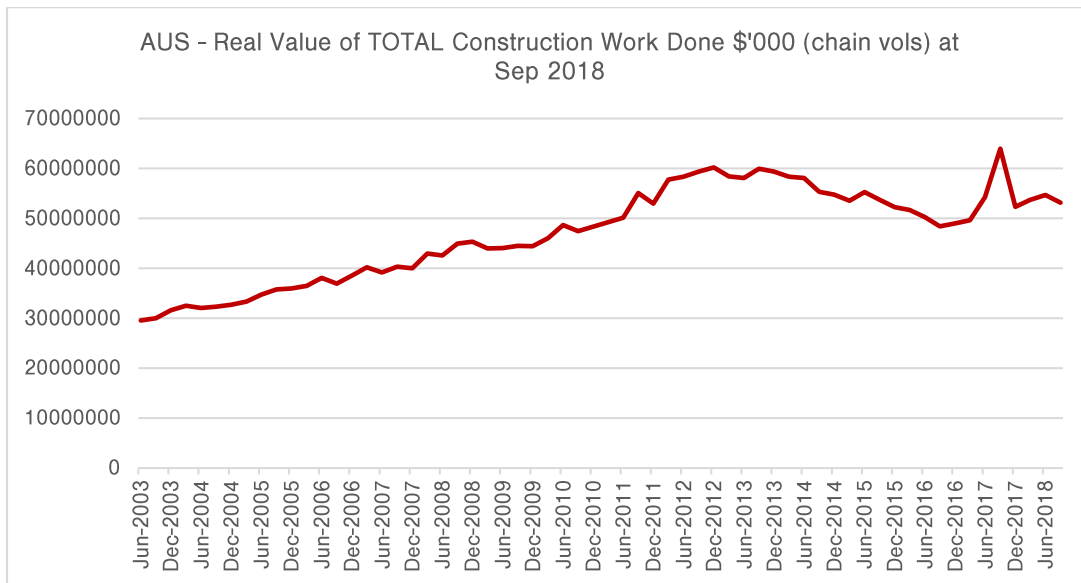
## Australia

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### Construction Work Done Q3

The value of construction work done declined in the latest quarter and declined on a moving annual total basis. Both public and private sector construction expenditure fell in real terms in the latest quarter. This will likely be negative for GDP growth in Q3.

The recent increase in spending peaked in Sep 2017 driven by higher private sector engineering and construction expenditure. This private sector expenditure has been unwinding over the last four quarters and continued in the latest quarter;



Total Construction work (Public + Private) fell by -2.8% in Q3 versus +1.8% in Q2

Private sector construction work done (% chg on prior qtr); Q3 -3.4% versus +1.6%

Private sector building fell by -1.3% and engineering and construction fell by -7.5%

On a same qtr year ago basis, private sector construction fell by -22.9%

Public sector construction work done (% chg on prior quarter); Q3 -1% versus +2.6% in Q2

Public sector building work fell by -3.6% in Q3 and engineering and construction fell by -0.1%

On a same qtr, year ago basis, public sector construction is growing +9.4%

<http://www.abs.gov.au/ausstats/abs@.nsf/mf/8755.0?OpenDocument>

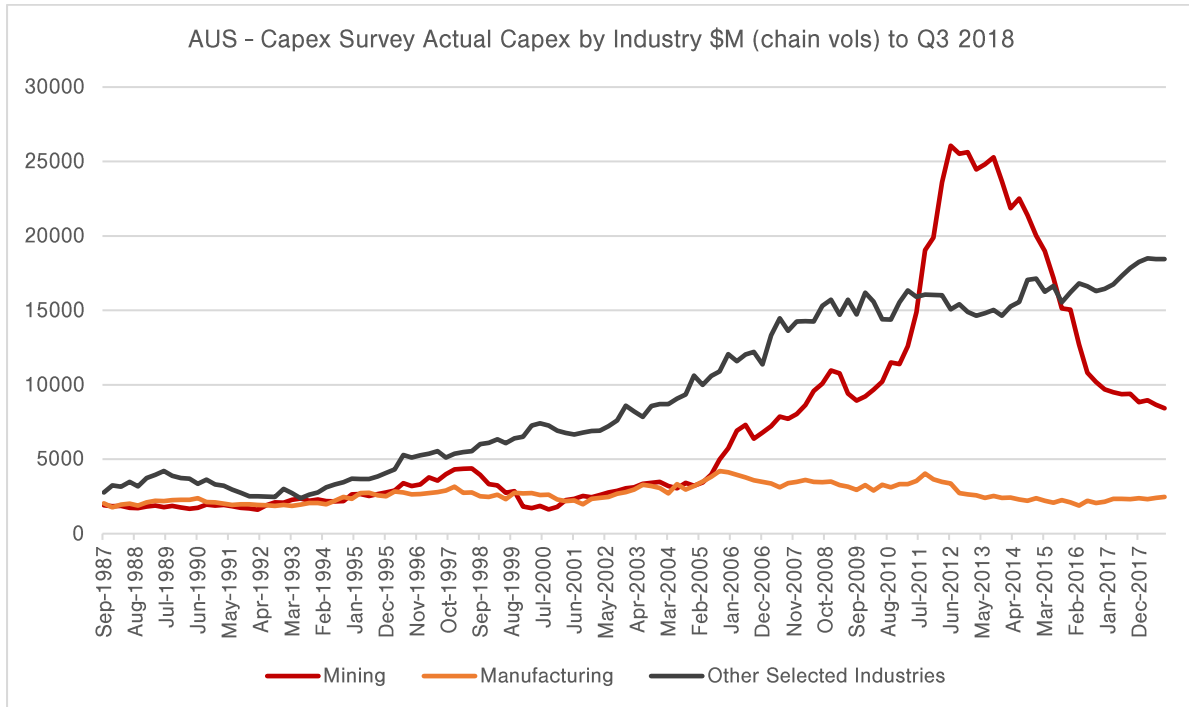
### Private Capex Survey Q3

Private capex declined in the latest quarter. The survey represents approx. 60% of the total private sector investment captured in the GDP.

In real terms, actual capex declined by -0.5% versus -0.9% in Q2.

The quarterly decline in Mining capex more than offset the zero growth for 'Other Selected Industries' and the +2.7% increase in Manufacturing capex.

The chart below highlights the significant impact the Mining boom has had on private capex in Australia in recent years. As this 'capex cliff' was peaking (Q1 2012), the RBA started to reduce the overnight cash rate to help cushion the economy from the decline.



<http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5625.0Sep%202018?OpenDocument>

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## China

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### NBS Manufacturing and Non-Manufacturing PMI (Nov)

The headline manufacturing PMI reportedly fell to 50 – a neutral position (neither expanding nor contracting). Versus 50.2 in Oct.

The non-manufacturing PMI expanded at a slower rate; Nov 53.4 versus 53.9 in Oct.

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## Trade

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### US-China Trade Negotiations

The meeting on the sidelines at the G20 produced an agreement to go forward with negotiations – positive in the sense that there wasn't a deterioration or a 'no outcome' result.

Further tariffs are on hold for now. US tariffs – the 10% rate on \$200b on goods will not increase to 25% on 1 Jan 2019. China agreed to purchase 'substantial' ag, energy, industrial and other product from the US (they have agreed to this before).

The 'truce' is only in place for a short time. In the next few months, both sides need to deliver on a timeline of negotiations regarding forced tech transfer, IP theft etc (the detail on this has been omitted from the Chinese statement). If this doesn't work out, tariffs will reset to 25%, and the possible fourth round of tariffs may be implemented by the US on \$267b of Chinese imports.

During this time, the US will also be kicking off trade negotiations with Japan, UK and EU.

Statement from the White House; <https://www.whitehouse.gov/briefings-statements/statement-press-secretary-regarding-presidents-working-dinner-china/>

What did go by quietly last week was a statement released by the USTR Lighthizer criticizing China's tariffs on the import of US cars (released 28 Nov);

“China's policies are especially egregious with respect to automobile tariffs. Currently, China imposes a tariff of 40 percent on U.S. automobiles. This is more than double the rate of 15 percent that China imposes on its other trading partners, and approximately one and a half times higher than the 27.5 percent tariff that the United States currently applies to Chinese-produced automobiles. At the President's direction, I will examine all available tools to equalize the tariffs applied to automobiles.”

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/november/ustr-statement-china%E2%80%99s-auto>

This has now been addressed and, as tweeted by President Trump (3 Dec), “China has agreed to reduce and remove tariffs in cars coming into China from the US. Currently the tariffs is 40%”.

### Section 232 – Car and Truck Imports

Announcement this week that GM is planning a program of cost cutting including closing seven plants and firing 15% of its workforce – save \$6b by the end of 2020 (\$4.5b from cost cutting and \$1.5b from lower capital spending).

<https://www.prnewswire.com/news-releases/general-motors-accelerates-transformation-300755112.html>

Question is whether this will impact the deliberations on auto tariffs. There is a process that got underway back in May to investigate the S.232 claim. Public hearings have been

concluded and the report continues to circulate. Companies and governments from around the world warned that tariffs would also hurt US carmakers. President Trump has 90 days after receiving the report to decide whether to act if the final report concludes that auto imports are a threat to national security.

It has also been reported that heads of German carmakers will meet at the White House on Tuesday to lobby the Commerce Secretary Wilbur Ross and USTR Lighthizer to convince the US to not go ahead with the threatened duties.

<https://www.france24.com/en/20181202-german-carmakers-hold-white-house-talks-tuesday-sources>

At the very least, it is likely that the threat will remain in place as the trade negotiations get underway;

The White House has pledged not to move forward with imposing tariffs on the European Union or Japan as long as it is making constructive progress in trade talks.

<https://www.straitstimes.com/world/united-states/tariff-proposals-on-imported-cars-and-parts-given-to-white-house>

## **NAFTA/USMCA**

The US, Mexico and Canada have now signed the USMCA. The deal will now 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**

A hearing is now scheduled to take place on 10 Dec 2018 on the negotiating objectives for a US-Japan trade agreement. 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>

## **US-Europe Trade Talks**

Official notification of trade talks was sent to the US Congress on 16 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 has now been 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>

A public hearing has been set for 14 Dec for input into the negotiating objectives for the US-EU trade negotiations.

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>)

## 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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