MARS CAPITAL PARTNERS

Weekly Macro Review

w/c 21 January 2019

Key Themes

The slow-down in global trade (and growth) continued to be a key theme from the data last week.

The US data was somewhat stronger, but there were some mixed results. The two regional surveys showed some improvement in headline manufacturing activity in Jan after the weaker readings from Dec. But an underlying theme was that new order growth remained weak and headline output grew as firms worked through backlogs. That said, the broader prelim manufacturing PMI for Jan was stronger with domestic demand offsetting weaker new export orders. The services PMI was mostly unchanged.

US existing home sales came in weaker with falls across all regions and led by larger falls in the Midwest.

The ECB kept rates on hold. While the minutes of the last meeting in Dec and the Jan press conference have introduced more caution on the broader environment, the ECB still appears to be fundamentally optimistic about the economy and the outlook. The data continues to indicate a weaker growth environment and the Jan PMI's did little allay concerns about the slow-down. The broader Eurozone composite PMI showed subdued growth and weaker internal results such as declining new orders – led by both manufacturing and services.

The BoJ kept rates on hold and reduced the inflation forecast for fiscal year 2019. Data on merchandise trade was weaker with exports declining in Dec. This weakness was mostly driven by Asia with exports to Asia -7% in Dec. Exports to China were -6.9%. The prelim Jan Manufacturing PMI fell to a neutral 50 reading as key indicators of demand (new orders and production) fell into contraction.

Trade data from the Asia region was also released during the week, further highlighting the weaker trade environment.

Ending on a good note. UK labour force data remained strong. The Australian labour force data was also strong, although employment growth has moderated somewhat.

The US Senate and House voted unanimously on Friday to fund the Government until 15 Feb as negotiations on funding for the border wall continue. It will likely take some time to restore the data flow by key agencies.

Contents

US Data - Existing Home Sales (Dec), Mortgage applications w/c 18 Jan, Richmond Fed Manufacturing Index (Jan), Kansas City Fed Manufacturing Index (Jan), Prelim Manufacturing and Services PMI (Jan)

Europe - ECB Rates Decision & Press Conference, German and Eurozone Prelim Manufacturing and Services PMI (Jan)

Japan – Merchandise Trade Balance (Dec), BoJ Interest Rate Decision, Prelim Manufacturing PMI (Jan)

United Kingdom – Brexit, Labour Force Survey (Jan)

Canada – Retail Sales (Nov)

Australia – Labour Force Survey (Dec)

Asia – China; GDP, Retail Sales and Industrial Production, Asian Trade Data

Trade – US-China Trade Negotiations, Special 2019 S.301 Review, NAFTA/USMCA, S.232 Car and Truck Imports, US-Japan Trade Talks, US-Europe Trade Talks, US-UK Trade Talks

US Data

Existing Home Sales (Dec)

After several months of modest gains, existing homes sales fell hard in Dec. Falls were recorded across all regions, with the Midwest recording the largest fall.

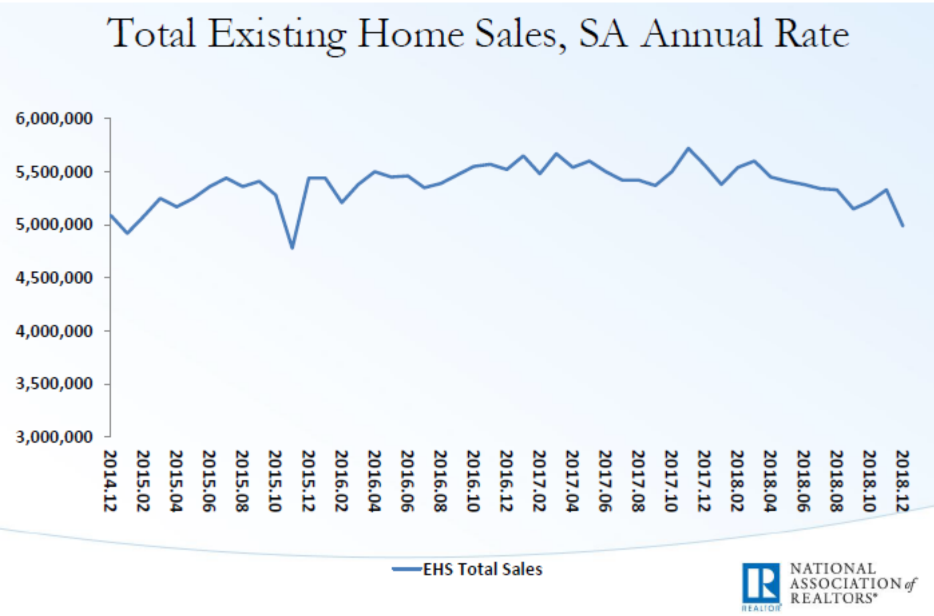
<u>National Existing Home Sales</u>

Dec 4.990m versus Nov 5.330m

% chg versus prior month; Dec -6.4% versus Nov +2.1%

The current SAAR is now -10% versus a year ago.

At a National level, the decline in the month is a 2SD fall (based on the last 20 months)



Inventory has also fell in Dec by -10.9% versus the month prior and remains +6% above the same month a year ago. The months of supply fell to 3.7mths from a near term peak of 4.4mths in Sep.

<u>Regional Results</u>

While all regions recorded declines in the month, the largest fall was recorded in the Midwest;

Midwest; Dec1.190m versus Nov 1.340m (-11.2%) – this was a +3SD decline (well outside what you would consider a 'normal' fall)

South; Dec 2.090m versus Nov 2.210m (-5.4%) – just over a 1SD decline

Northeast; Dec 0.69m versus Nov 0.740m (-6.8%) - just over a 1SD decline

West; Dec 1.020m versus Nov 1.040m (-1.9%)

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

Mortgage applications w/c 18 Jan

After the much stronger growth in the week prior, the measure of mortgage loan application volume declined by 2.7% versus the week prior.

The seasonally adjusted Purchase Index decreased 2 percent from one week earlier. The unadjusted Purchase Index increased 4 percent compared with the previous week and was 13 percent higher than the same week one year ago.

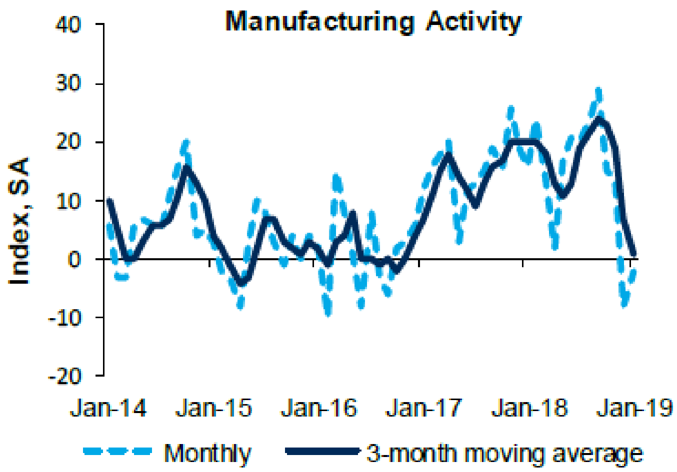
> "Mortgage application activity cooled off last week after two consecutive weeks of sizeable increases. Both purchase and refinance applications saw declines but remained at healthy levels, with the purchase index remaining close to a nine-year high, and the refinance index hovering near its highest level since last spring," said Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting. "Reversing the recent downward trend, rates increased for most loan types last week, due to better-than-expected unemployment claims, easing trade tensions and stabilization in the equity markets."

https://www.mba.org/2019-press-releases/january/mortgage-applications-decrease-in-latest-mba-weekly-survey-x247544

Richmond Fed Manufacturing Index (Jan)

The headline index improved somewhat in Jan, indicating little change in activity. Growth in shipments improved but remains in contraction, while firms continued to work through order backlogs, which fell further into contraction.

Headline Manufacturing Index; Jan -2 versus Nov -8



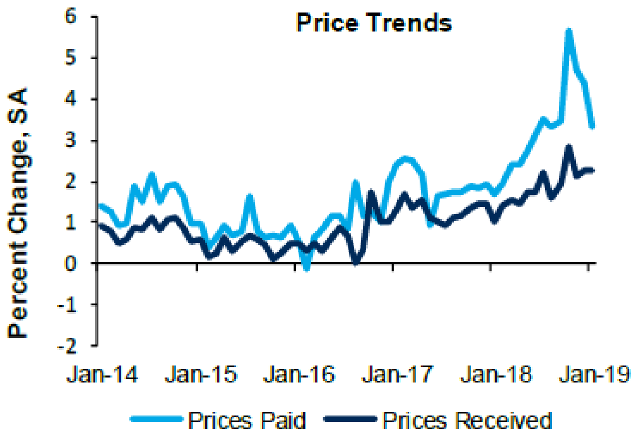
Growth in shipments improved, but the index remains in contraction (-8 in Jan versus -25 in Dec). Firms continued to work through order backlogs as that index fell further into contraction (-21 in Jan versus -18 in Dec). Capacity utilization improved. The growth in finished goods inventories slowed to almost neutral.

New orders as an indicator of future demand, fell further into contraction, from -9 in Dec to -11 in Jan.

Raw materials inventories continued to grow at a faster pace, from 15 in Dec to 23 in Jan.

On the employment front, the number of employees continued to grow at a slightly faster pace, wages remain unchanged and the average workweek continues to show little change.

The growth in prices paid eased, while prices received remained unchanged.

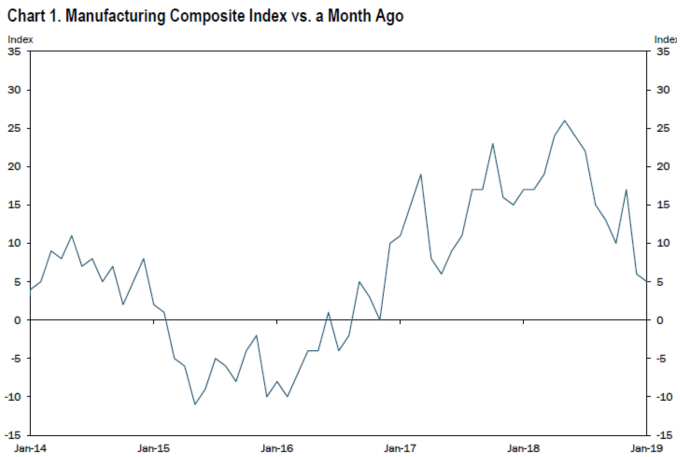


https://www.richmondfed.org/research/regional_economy/surveys_of_business_conditions/manufacturing/2019/mfg_01_23_19

Kansas City Fed Manufacturing Index (Jan)

The headline manufacturing index grew at similar pace in Jan, indicating continued lower levels of growth in activity. The Dec reading was revised higher in the latest report. Readings of production improved as firms worked through backlogs. New order growth has slowed to neutral/no change.

Composite Index; Jan 5.0 versus Dec 6.0 (revised up from 3.0 reported in Dec)



Production had a large turnaround in the month. Production activity recorded a low level of growth in Jan (2.0) after falling into contraction in Dec (-18). Similarly, the volume of shipments shifted from contraction in Dec to at least low growth in Jan.

One of the key reasons for the improvement was firms working through backlogs of orders. In Dec order backlogs were still growing. In Jan, backlogs declined; Jan -13 versus Dec 9.0.

As a measure of future demand, the growth in the volume of new orders slowed to virtually no growth/neutral in Jan. Volume of new orders; Jan 1.0 versus Dec 4.0. Partly driving this result was new export orders falling further into contraction.

Inventories for materials and finished goods both increased at a slower pace.

On the employment front, the growth in the number of employees was unchanged between the last two months. The average employee workweek increased at a faster pace on a seasonally adjusted basis.

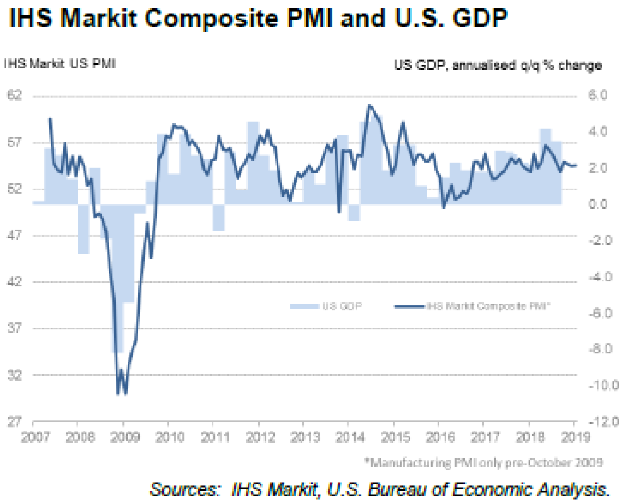
Prices received for finished products increased at a much faster rate (new year price increases?); Jan 23 versus Dec 2.0. While prices paid for raw materials slowed somewhat.

https://www.kansascityfed.org/research/indicatorsdata/mfg

Prelim Manufacturing and Services PMI (Jan)

The headline composite output index was virtually unchanged in the latest month. Slightly slower growth in services activity was offset by faster growth in manufacturing activity.

Composite output index: Jan 54.5 versus Dec 54.4



Services PMI – Business activity Index; Jan 54.2 versus Dec 54.4

The prelim reading indicates continued weaker growth in new business. Growth expectations for the future remain subdued and resulted in lower growth in hiring. The increase in employees was 'the weakest since Apr 2017". Input price growth slowed to a two-year low. Prices charged by firms also slowed.

Manufacturing PMI headline index; Jan 54.9 versus Dec 53.8 (+1.1pts)

Production expanded at a faster pace. New orders also expanded at a faster pace, whereby growth in domestic demand off-set slower growth in export sales. Firms remained confident about the outlook and employment growth continued to expand at a faster pace. Input prices grew at a faster rate in Jan partly due to higher costs for imported materials.

https://www.markiteconomics.com/Survey/PressRelease.mvc/31b1e914003d4d7b9218e45791245ff4

Return to top

Europe

ECB Rates Decision & Press Conference – 24 Jan 2019

The ECB kept rates on hold in the latest meeting.

Current rate settings remain unchanged;

Main refinancing operations 0.00%

Marginal lending facility 0.25%

Deposit facility -0.40%

Rates to remain at these current levels ‘at least through to the end of summer 2019’ (although the minutes from the Dec suggested that rates ‘lift-off” was likely to be pushed out to the end of the year).

Principal payments from maturing securities on the ECB balance sheet will continue to be reinvested (this is the second month with this new ‘chained guidance’);

> “for an extended period of time past the date when it starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.”

<u>Key messages from the press conference;</u>

These are, in my opinion, the key quotes. While the last minutes and this press conference have introduced more caution on the broader environment, the ECB still appears to be fundamentally optimistic about the economy and the outlook (emphasis added);

> “Then the discussion focused on persistence and there were two viewpoints. For some, China**, the slowdown in China won't last long** because we have confidence – and we do have confidence – in the government's measures. Everything we know says that the government is actually taking strong measures to address the slowdown. **The trade disputes will wane**. In the end, **the Brexit thing will not affect the EU economy that much**, but especially there was one aspect of the discussion is that all these uncertainties, all these risks are being addressed by the policy response of the authorities in these countries. **The specific episode of the car industry in Germany will soon wash out because there is going to be a rebound in the sector**.”

> “One thing that basically of course we all agree is that if there is going to be clarity on the exports and the trade sector, much of what we are seeing today in terms of weakness will very likely wash out. **For others however, the downside movement in all industries, in all indicators, both hard and soft, has lasted now several quarters.** All these risk factors are not going to disappear and they are affecting confidence.”

Based on the comments made throughout the press conference/Q&A, it appears that the positive developments in the labour market (employment), nominal wage growth and favourable financing conditions are the most important points underpinning the continued "optimistic" view the ECB has of the Eurozone economy – this is despite the acknowledged weaker momentum. These will be the important indicators to monitor.

Weakness still seen as somewhat 'isolated'?

> The incoming information has continued to be weaker than expected on account of softer external demand and some country and sector-specific factors.
>
> While the impact of some of these factors is expected to fade, the near-term growth momentum is likely to be weaker than previously anticipated.

Supportive financing conditions, strong labour market and rising wages is maintaining optimism in domestic demand leading to the 2% target inflation rate.

Risks have moved to the downside – but not due to any domestic weakness (emphasis added);

> "The risks surrounding the euro area growth outlook have moved to the downside on account of the persistence of uncertainties related to geopolitical factors and the threat of protectionism, vulnerabilities in emerging markets and financial market volatility."

Despite the slowdown in headline CPI;

> Measures of underlying inflation remain generally muted, but labour cost pressures are continuing to strengthen and broaden amid high levels of capacity utilisation and tightening labour markets.

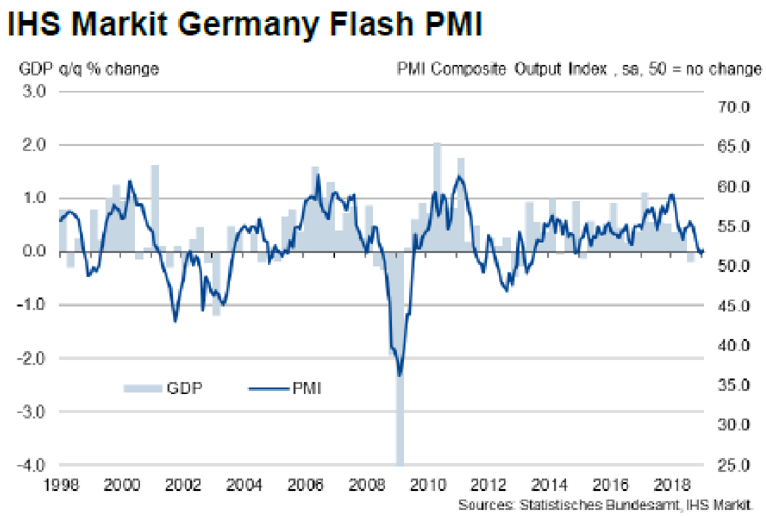
Transcript of the press conference and Q&A (recommended):
https://www.ecb.europa.eu/press/pressconf/2019/html/ecb.is190124~cd3821f8f5.en.html

Statement;
https://www.ecb.europa.eu/press/pr/date/2019/html/ecb.mp190124~5c00d09d5d.en.html

German Prelim Manufacturing and Services PMI (Jan)

The prelim composite output index increased at a faster rate in the latest month. Faster growth services activity somewhat offset the faster decline in manufacturing activity.

German Composite Output Index; Jan 52.1 versus Dec 51.6



Services Activity Index; Jan 53.1 versus Dec 51.8 (+1.3pts)

Manufacturing PMI; Jan 49.9 versus Dec 51.5 (-1.6pts)

Service sector output increased at a faster pace, while manufacturing output barely grew and the index reading falling to 50.5 in Jan.

Overall new orders declined in Jan led mostly by manufacturing. New orders in manufacturing declined for the fourth month. Of note was that new export orders across both manufacturing and services declined in Jan. For services, the decline in new export business offset the increase in domestic activity.

As a result of the decline in new orders, firms continued to work through order backlogs. Backlogs of outstanding business declined for the third month.

The growth of job creation also slowed.

While further growth in input costs was recorded for service firms, the growth in input costs for manufacturers slowed to a 27-month low.

Overall business confidence remained subdued.

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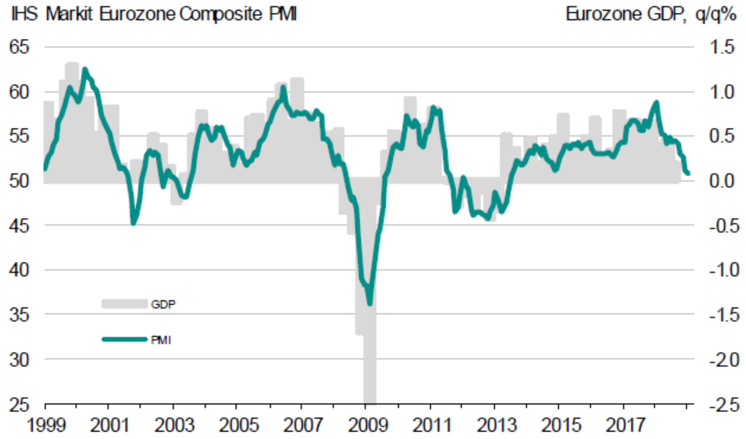
Eurozone Prelim Manufacturing and Services PMI (Jan)

The broader picture of private sector activity in the Eurozone remains one of subdued growth in the latest month. The headline composite index showed that growth in activity continued to slow and this was led by both services and manufacturing activity.

Eurozone Composite Output Index; Jan 50.7 versus Dec 51.1

IHS Markit Eurozone PMI and GDP



Sources: IHS Markit, Eurostat.

Services PMI Activity Index; Jan 50.8 versus Dec 51.2

Manufacturing PMI; Jan 50.5 versus Dec 51.4

Private sector business output growth was marginal – this was the case across both services and manufacturing.

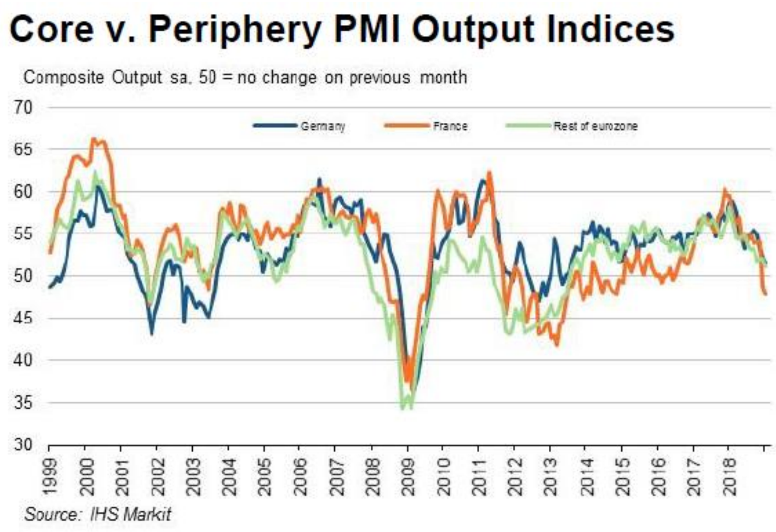
New orders declined. New orders across manufacturing declined for the fourth month and at a faster rate. New work for services firms also fell into contraction for the first time since Jul 2013. Export orders continued to deteriorate – falling for the fourth consecutive month. This included services exports which also declined at an increased rate.

Current levels of weak output growth were maintained partly due to firms working through order backlogs. Outstanding work declined for the second month in a row.

Employment growth slowed across both sectors, but the slow down in services was notable.

Across the region, there is evidence to suggest that the weakness once thought to be ‘isolated’ to auto’s and exports, has started to spread to domestic demand and beyond autos (as starting to show in the latest (Nov) German industrial production data). Partly leading the slowdown is an accelerate decline in output in France – linked mostly to the ongoing ‘Gilet Jaunes’ protests.

Private sector growth across periphery Eurozone economies has also appeared to slow;



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Return to top

Japan

Merchandise Trade Balance (Dec)

All values quoted are in ¥

The Japanese trade balance shifted from a surplus a year ago to a deficit in Dec. This was the result of a larger than expected decline in exports and somewhat lower growth in imports. Much of the weakness in exports for Dec can be traced back to Asia.

National Trade Balance (Deficit) versus a year ago; -55.3bn (Nov -737.3bn)

Exports annual change Dec: -3.8% (Nov +0.1%)

Imports annual change Dec +1.9% (Nov +12.5%)

Regional Performance

The top three export markets for Japan (by value); Asia (46%), Nth America (21%) and Western Europe (11%). China and the US are clearly the two largest export markets for Japan (exports to both countries were 1.4bn in Dec).

Asia; The trade balance within the region remains in surplus but declined by 25% versus a year ago. This was the result of exports declining faster than imports.

Exports; -6.9% very much underperformed. Exports to most markets within the Asia region declined in the month – Thailand, Indonesia and India were the exceptions. Exports to China declined by 7% (and across most product categories), exports to Hong Kong -17% and exports to Korea -11%.

Imports; -2.9%. Imports from China -6.4%

North America; The trade balance with Nth America is also still in surplus, but declined by 20% in Dec.

Exports to Nth America; +1.2%. Exports to the US were stronger at +1.6% - the US is the equal largest export market for Japan.

Imports from Nth America: +19.9%. Imports from the US grew at a much faster rate +24% (the import of Mineral Fuels increased by +102%, contributing half of the growth in imports).

Western Europe; the trade balance with Western Europe remains in deficit and increased by 16%. This was the result of imports growing faster than exports.

Exports to Western Europe; +1.3%. Of note is that exports to Germany declined by 5%. But on a product perspective, transport equipment exports to the EU was very strong at +13.7%.

Imports from Western Europe; +2%. Also note that imports from Germany declined by 1.6%.

Product Performance

Exports; What is most concerning is that exports declined across most product categories. Only Mineral Fuels and Chemicals exports recorded an increase in the month (together, both account for 13% of exports).

The bigger declines were in Machinery and Electrical Machinery. 'Other' also made a large contribution to the decline. The decline in transport equipment was less pronounced, but still declined by -0.6%.

Imports: Import growth was mostly driven by Mineral Fuels (petroleum products, but mostly LNG). Chemicals and Machinery also made the larger contributions to growth. Imports still declined in Electrical Machinery, raw materials and foodstuffs.

The detail regarding the value of transport imports is also interesting – but note it is a smaller import category. While total Transport imports increased by +9.8% in Dec, Motor Vehicle imports declined by 19.4% (-12.2% in volume terms). The decline was offset by an increase in aircraft imports.

http://www.customs.go.jp/toukei/shinbun/happyou_e.htm

BoJ Interest Rate Decision 23 Jan 2019

There was no change to the monetary policy settings;

Yield Curve Control;

Short-term policy interest rate: -0.1% for the Policy-Rate Balances in current accounts held by financial institutions at the Bank.

Long-term interest rate: The Bank will purchase Japanese government bonds (JGBs) so that 10-year JGB yields will remain at around 0%.

> "While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices. With regard to the amount of JGBs to be purchased, the Bank will conduct purchases in a flexible manner so that their amount outstanding will increase at an annual pace of about 80 trillion yen."

Broader Objectives;

QQE and yield curve control – to achieve price stability target of 2%.

Expand the monetary base until the year-on-year rate of increase in the observed consumer price index (CPI, all items less fresh food) exceeds 2% and stays above the target in a stable manner

> "As for policy rates, the Bank intends to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, taking into account uncertainties regarding economic activity and prices including the effects of the consumption tax hike scheduled to take place in October 2019."

Other;

> The Policy Board decided, by a unanimous vote, to extend by one year the deadlines for new applications for such measures as the Fund-Provisioning Measure to Stimulate Bank Lending, the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth, and the Funds-Supplying

> Operation to Support Financial Institutions in Disaster Areas affected by the Great East Japan Earthquake and by the Kumamoto Earthquake.

The BoJ also released its overview for economic activity and prices (Jan 2019);

Cyclical slowdown in business fixed investment and scheduled consumption tax increase were noted.

> With regard to the risk balance, risks to both economic activity and prices are skewed to the downside. On the price front, the momentum toward achieving the price stability target of 2 percent is maintained but is not yet sufficiently firm, and thus developments in prices continue to warrant careful attention.

CPI (all items less fresh food) – the 2019 forecasts have been lowered significantly in Jan compared to those made in Oct.

Forecast for CPI in the fiscal year 2019;

At January 2019; +1% to +1.3% (median +1.1%)

At Oct 2018; +1.5% to +1.7% (median +1.6%)

As of the Dec 2018 CPI report, annual growth in CPI ex fresh food was +0.7%.

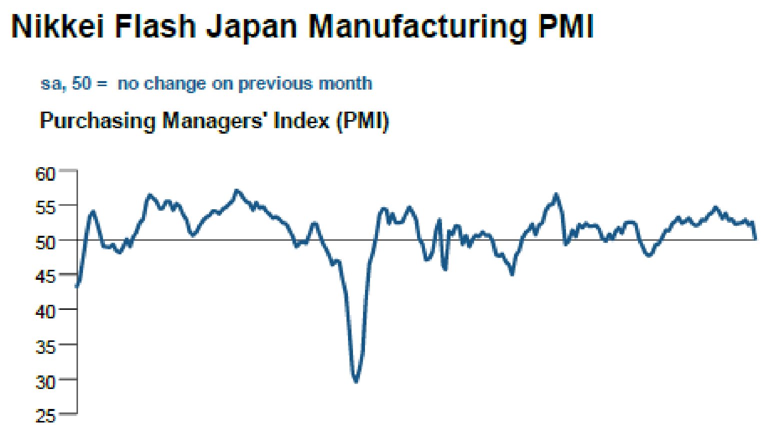
https://www.boj.or.jp/en/mopo/outlook/gor1901a.pdf

https://www.boj.or.jp/en/announcements/release_2019/k190123a.pdf

Prelim Manufacturing PMI (Jan)

The prelim headline PMI indicated the manufacturing growth stalled in Jan. Output and new orders fell into contraction while new export orders continued to decline at a faster pace.

Headline Manufacturing PMI; Jan 50 versus Dec 52.6



The key measures of demand fell into contraction in Jan – new orders and production. New export orders continued to decline at a faster pace. Backlogs of work also fell into contraction.

Employment continued to grow, but at a slower rate.

Input price growth continued to grow but at a slower pace. Output price growth was unchanged from the month prior.

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Return to top

United Kingdom

Brexit

At this stage, the UK Parliament is set to vote on PM May's 'Plan B' on 29 Jan. Plan B consists of intending to ask Brussels for further concessions on the backstop arrangement i.e. adding/agreeing a time limit. A time-limited backstop is more likely, though not guaranteed, to get the support of the UK Parliament.

The Sun is reporting that the DUP is now supporting PM May in accepting a time limited backstop;

> In a crucial shift, it has emerged that the DUP are now willing to accept a backstop as long as it's specifically time limited.
>
> Revealing the significant shift towards the PM, a senior DUP source told The Sun: "If she fails on Tuesday, Parliament will take over and we lose any semblance of a decent Brexit.

https://www.thesun.co.uk/news/brexit/8274637/dup-agree-to-support-pm-brexit-plan/

The issue remains that the EU negotiators have repeatedly stated that the EU will not renegotiate the withdrawal agreement;

> "The withdrawal agreement with all its dimensions, including the backstop, is the best deal possible. This debate is much more now on the future relationship. As I said last week at the EU parliament, if the UK want to be more ambitious, we are ready to be," Mr Barnier told Irish broadcaster RTE after meeting Mr Coveney."

https://www.ft.com/content/ee06a784-1d77-11e9-b126-46fc3ad87c65

Amendments are likely to be tabled in Parliament to request an extension to Article 50 as well as Brexit proposals from Labor. If these amendments are successful, then this sets up a possible further crisis as the House of Commons could overrule the Govt. This could pave the way for a second referendum.

If the amendments are not successful, then PM May's Plan B goes into effect – despite clear rejection by the EU. PM May has already ruled out an extension to Article 50 and a second referendum.

There were also moves during the week to block any possibility of a 'no deal' Brexit.

https://www.telegraph.co.uk/politics/0/theresa-mays-brexit-plan-b-will-parliament-vote1/

Labour Force Survey (Sep-Nov)

The UK labour market indicators remain strong. The highlight this month was that the participation rate in the 16-64yr age group reached a new all-time high in Sep-Nov of 79.05%. The unemployment rate for this group is also at historic lows.

The annual change in employment (16yrs+) remains at average levels but the growth is still high enough to absorb what both population and increased participation have added to the labour force. As a result, the total number of unemployed persons has continued to fall.

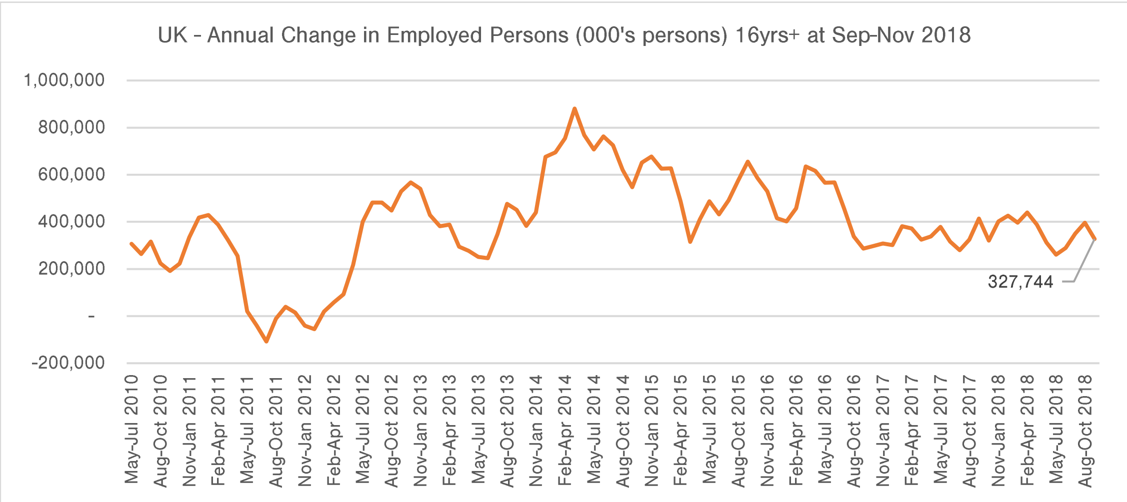
In the latest quarter though, the increase in participation has accelerated. While employment growth has also improved in the latest quarter, it was not quite high enough to absorb both population and the larger increase in participation. As a result, in the latest quarter, total unemployed persons increased slightly.

Total in Employment

While annual employment growth has slowed and remains below recent peaks, the more recent quarterly data shows employment growth starting to accelerate again.

The annual growth in total employed persons (16yrs+) slowed in Sep-Nov and is just below the average growth for the last 12 months.

Sep-Nov +327k persons versus Aug-Oct +396k persons



During the latest quarter though, employment growth has been improving (comparing non-overlapping qtrs.);

Sep-Nov +141k persons versus Jun-Aug -5k persons

When you restrict the view to 16-64yrs, the changes in total employment are similar;

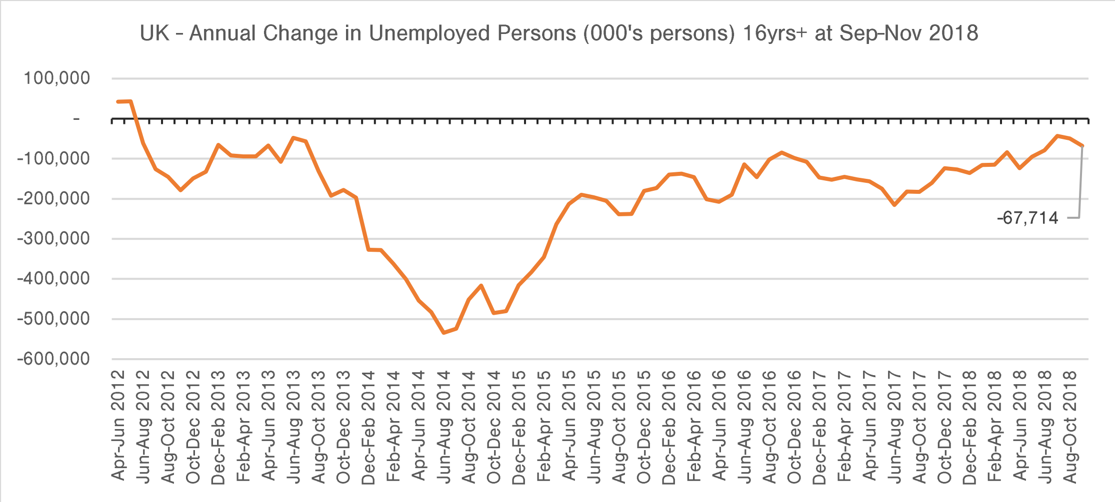
16-64yrs annual change in total employed; Sep-Nov: 237k persons, slowing from 328k persons at Aug-Oct.

16-64yrs latest quarter change in total employed also accelerated; Sep-Nov +111k persons versus Jun-Aug -37k persons.

Total Unemployed

The annual decline in total unemployed persons picked up again the latest quarter (a positive development).

Annual chg in total unemployed persons; Sep-Nov -68k persons versus Aug -Oct -49k persons



The size of the decline in total unemployed persons remains at relatively low levels mainly as a result of increased participation. In both the 16+ and 16-64yr age groups, total unemployed persons still increased somewhat in the latest quarter – as a result of higher participation.

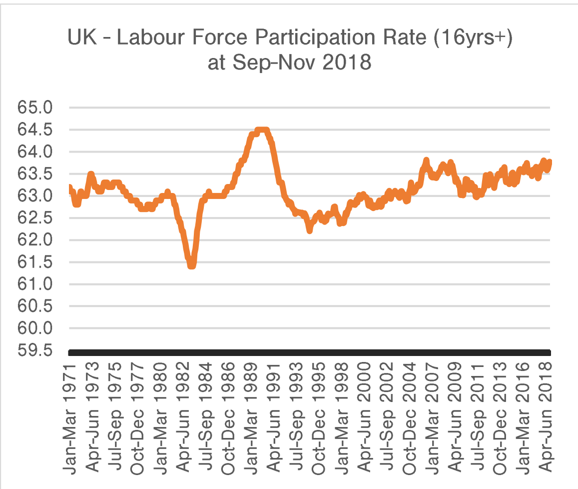
The unemployment rate in Sep-Nov remained unchanged versus the quarter prior (Jun-Aug) at 4% - the lowest unemployment rate since the 70's.

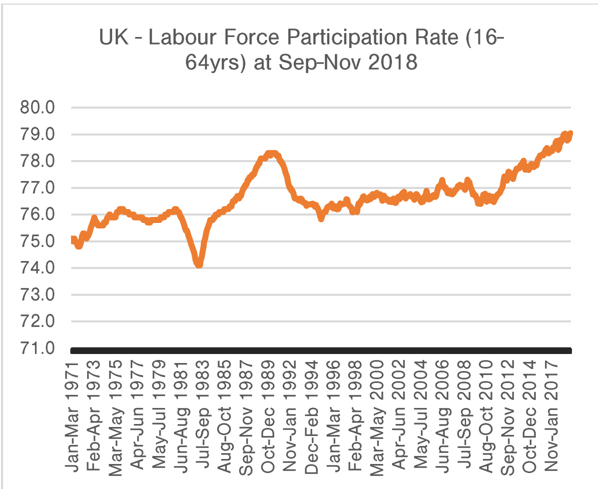
<u>Participation</u>

In the latest year, the LFPR for 16+yr age group increased by +0.128% pts to 63.77% adding approx. +68k persons to the labour force. This is just below the near-term peak reached in Mar-May 2018 of 63.8%

In the latest quarter, the participation rate has increased even more. The LFPR for people 16yrs+ increased by +0.191%pts to 63.77%, adding approx. 101k persons to the labour force.

Gains in participation for the 16-64yrs age group have accelerated since 2010 and the LFPR reached a new all-time high of 79.05% in the latest qtr. Sep-Nov. In the latest year and in the latest quarter, the LFPR has increased by +0.254%pts to 79.05% adding approx. 105k persons to the labour force.





A summary of the key labour market dynamics at Sep-Nov:

In the last year, for both age groups, employment growth has been higher than what both population and increased participation has added to the labour force (”economically active”). As a result, the total number of unemployed persons has declined.

In the latest quarter; employment growth was larger than what the est population change has added to the labour force, but not large enough to also absorb the larger increase in the LFPR. As a result, there has been a small increase in unemployed persons in the Sep-Nov qtr.

	16yrs+ (000's of persons)		16-64yrs (000's of persons)	
	Latest Qtr Chg Sep-Nov 2018	ANN Chg Sep-Nov 2018	Latest Qtr Chg Sep-Nov 2018	ANN Chg Sep-Nov 2018
Estimated change in the Labour Force due to pop growth (1)	47.625	191.630	17.608	72.136
How many jobs available for them? (employment growth) (2)	140.826	327.744	110.983	237.140
Difference; employment less est chg in labour force due to pop (3) (if positive, then employment growing faster than pop)	93.201	136.114	93.375	165.004
Change in the labour force due to the change in participation (4)	101.435	68.400	104.554	105.001
The remainder is the chg in total unemployed persons (4) less (3) - if neg, then unemployment decreasing	8.234	-67.714	11.178	-60.003
Different views of the Labour Force:				
Double check - change in total economically active (pop + participation)	149.059	260.030	122.161	177.137
Double check - change in total economically active (employ + unemp)	149.059	260.030	122.161	177.137
Actual economically active ann chg (as reported)	149.059	260.030	122.161	177.137

https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/january2019

Return to top

Canada

Retail Sales (Nov)

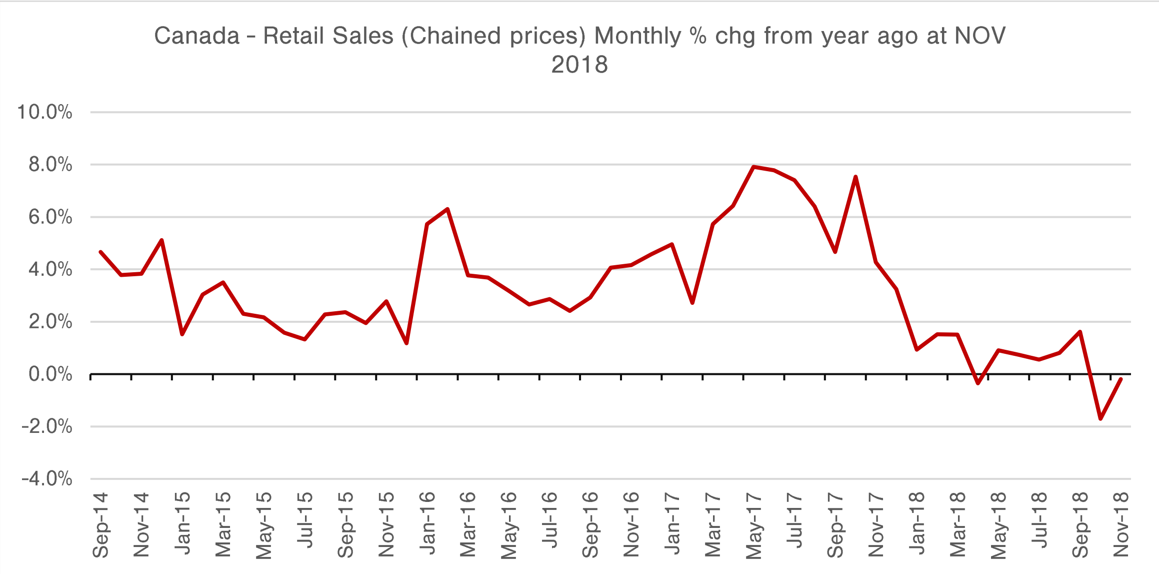
Retail sales in Canada declined again in the latest month and on a year ago basis. In the latest month, in constant dollar terms, declines were led by autos, food and bev and gasoline stations.

Retail Sales – Chained Dollar (trend) Terms (volume)

The trend in retail sales has continued to slow throughout 2018.

Mth on mth chg: Nov -0.4% versus Oct 0%

Current mth versus a year ago; Nov -0.2% versus Oct -1.7%



Retail sales by Category - Constant prices

In the latest month, the four largest categories out of the eleven retail categories recorded declines in sales for the month (representing 62% of Nov retail sales);

Motor vehicle parts & dealers -1.8%, building materials -0.1%, food and beverage stores -1% and gasoline stations -1.5%

In the latest year (in constant prices), six of the eleven categories recorded declines (representing approx. 40% of Nov retail sales):

Furniture and home furnishings -2.9%, electronics and appliance stores -6.4%, building materials -3.9%, gasoline stations -4.8%, sporting goods -5.7% and general merchandise -1%

https://www150.statcan.gc.ca/n1/daily-quotidien/190123/dq190123a-eng.htm

Return to top

Australia

Labour Force Survey (Dec)

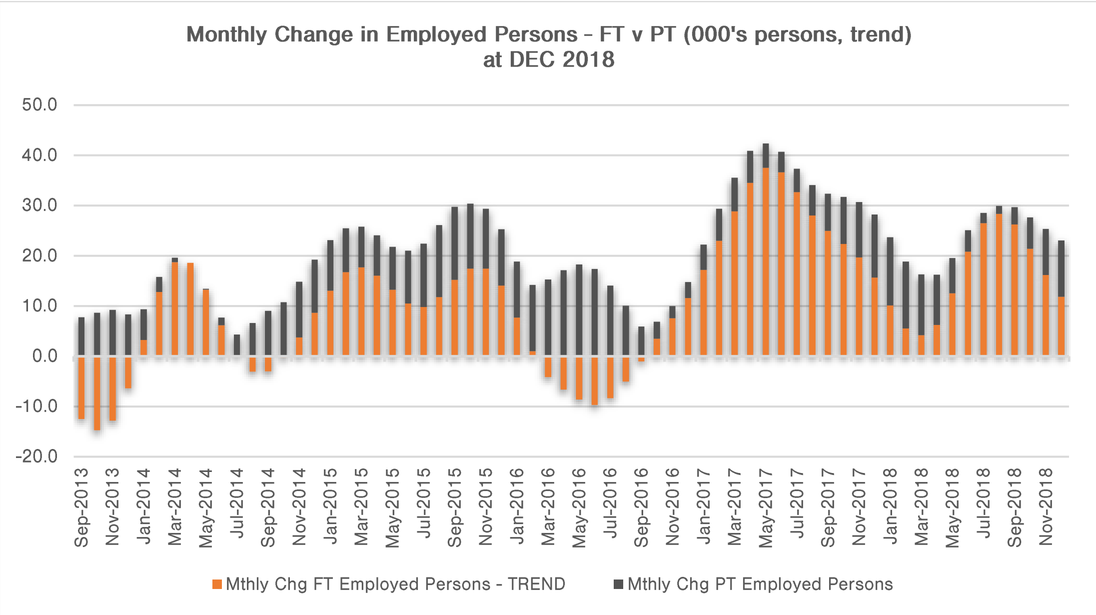
The annual picture of the labour force remains good. Of note is that employment growth is starting to slow – this will be something to watch. On an annual basis, employment is still growing faster than population, and due to lower increases in participation, the decline in unemployed persons is accelerating. But in the latest month, employment growth has slowed to be on par with population growth. The total number of unemployed persons still declined due to a decrease in participation.

<u>Employment Change</u>

The annual change in total employed persons only slowed slightly;

Dec +284.1k persons versus Nov +289.3k persons

This is still well above the 10year average annual growth of +192k persons.



On a monthly basis, employment growth has continued to slow;

Dec+23k persons versus Nov +25k persons (the recent peak was +29k persons in Aug 2018)

The growth of FT employed persons has slowed by half over the last two months. Growth in PT employed persons has made up some of the difference.

<u>Total Unemployed Persons</u>

On an annual basis, the decline in the number of unemployed persons continues to accelerate;

Dec -46k persons versus Nov -41k persons

The unemployment rate remains at 5%.

On a monthly basis though, the decline in unemployed persons has become smaller;

Dec -3k persons versus Nov -6k persons

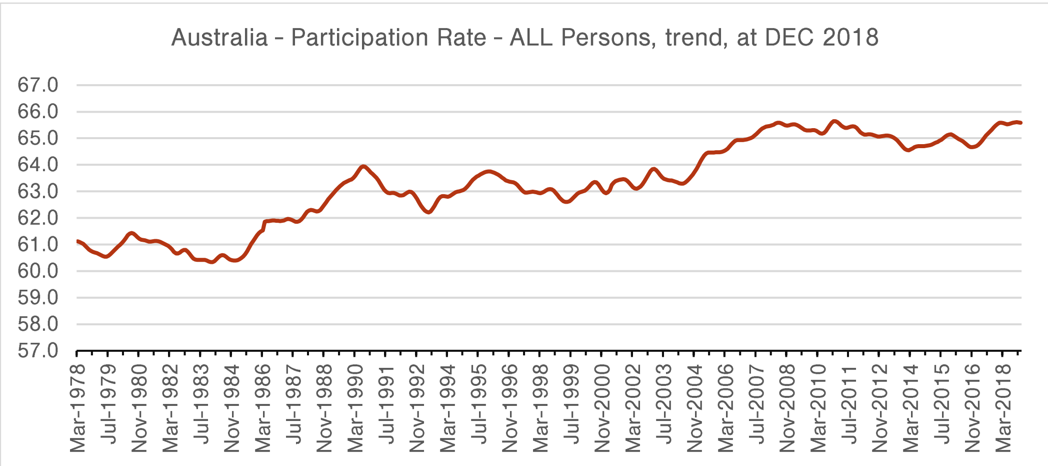
The slow down was the result of slower employment growth. The change in unemployed persons for the month would have been zero (so, no decline) if the Labour Force Participation Rate (LFPR) didn't decrease in Dec.

<u>Participation Rate</u>

On an annual basis, the LFPR has increased by 0.044%pts. Led mostly by increases in male participation, but female participation has increased also.

Year on year participation; Dec 65.58% versus Dec 2017 65.54%

This has resulted in the lowest increase in participation since May 2017 – approx. +9k persons over the last year.



Male participation remains well below its peak and is in fact, much closer to its all-time lows than its highs. The all-time lowest level of male participation was reached in Dec 2016 and the current rate is only +0.8% above that.

Overall participation has been led higher by female participation. Female participation reached its all-time high peak in Feb 2018 and is currently only 0.1% below that level.

In the latest month, participation has declined, led by male participation;

Dec –0.016%pts versus Nov -0.004%pts

This equates to approx. net -3k persons leaving the labour force.

Summary of the key labour market dynamics at Dec:

On an annual basis, employment is still growing fast enough to absorb new population and new entrants into the labour force. The lower level of participation growth is helping to improve the decline in total unemployed persons.

On a monthly basis though, employment growth is now only on par with the estimated change to the labour force due to population growth. It was only because there was a decline in participation that total unemployed persons still declined.

	000's Persons	
	Annual Chg – DEC	**Month Chg – DEC**
The estimated change in the Labour Force due to pop growth	228.186	23.153
How many jobs available for them? (employment growth)	284.102	23.069
Difference (if positive, employment growing faster than pop est)	55.917	-0.084
Change in labour force due to the change in participation	8.976	-3.264
The reminder is the reduction in total unemployed persons	-46.940	-3.179
Double Check - Annual chg in size of the Labour Force	237.162	19.895

http://www.abs.gov.au/ausstats/abs@.nsf/mf/6202.0?OpenDocument

Return to top

Asia

Early in the week a range of trade data was released. Its was mostly negative and continued to highlight the trade weakness throughout Asia.

China

There were several reports out at the start of the week;

GDP; Annual growth slowed to +6.4% from +6.5% recorded in the prior quarter. Quarterly growth remained at +1.5%.

Retail sales growth accelerated slightly; Dec +8.2% versus Nov +8.1%

Industrial production accelerated; Dec +5.7% versus Nov +5.4%

Asian Trade Data

Other Asian data confirmed the ongoing weaker trade environment;

South Korea: Jan first 20 days of exports contracted -14.6% YoY & imports fell -9.5% YoY

Thailand; Dec exports YoY -1.72% (est -0.20%) Imports -8.15% expected +4.90%

Taiwan: Dec 2018 total export orders -10.5% YoY. Hong Kong & China export orders -10.32%. The biggest drop was in machinery (-22.50%) followed by electrical products (-17.00%)

Return to top

Trade

US-China Trade Negotiations

It has been confirmed that Chinese Premier Liu He will return to Washington DC for the next round of trade talks next week on 30 and 31 Jan 2019.

News continues to revolve around how the trade negotiations going smoothly and are positive in preparation for next week. But issues are simmering. News during the week included the US to proceed with the extradition of Huawei executive Meng. **The deadline for the filing of the extradition is 30 Jan – while Premier Lui He is in Washington.**

> Canadian Ambassador David MacNaughton said the U.S. has requested Huawei CFO Meng's extradition, but he did not say when the request will be made. The deadline for filing is Jan 30 - RTRS

China's Foreign Ministry responded:

> "Canada and the United States arbitrarily abused their bilateral extradition treaty to seriously infringe upon a Chinese citizen's security and legal rights," Hua said.
>
> China "strongly urges" the United States to correct its "mistake", cancel the arrest order for Meng, and not make a formal extradition request, she added.
>
> Asked if China would retaliate against the United States if Meng is extradited, Hua said, "China will, of course, respond to U.S. actions." She did not elaborate.

https://www.reuters.com/article/us-usa-china-huawei-canada/u-s-to-formally-seek-extradition-of-huawei-executive-meng-wanzhou-globe-and-mail-idUSKCN1PG078

At the same time;

> China Unicom, one of China's major state-owned telecommunication companies, confirmed the government had ordered a block on Microsoft Bing - RTRS

Reconfirming what a 'win' in the negotiations with China looks like – a statement of the key goals as outlined by the USTR (emphasis added);

> The meetings were held as part of the agreement reached by President Donald J. Trump and President Xi Jinping in Buenos Aires to engage in 90 days of negotiations **with a view to achieving needed structural changes in China with respect to forced technology transfer, intellectual property protection, non-tariff barriers, cyber intrusions and cyber theft of trade secrets for commercial purposes, services, and agriculture**.

https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/january/statement-united-states-trade

The final deadline for negotiations is 1 Mar 2019 before further tariffs and increased rates are imposed. From the USTR on the Federal Register in mid-Dec;

> As set out in this notice, the rate of additional duty for the products covered by the September 2018 action will increase to 25 percent on March 2, 2019.

https://www.federalregister.gov/documents/2018/12/19/2018-27458/notice-of-modification-of-section-301-action-chinas-acts-policies-and-practices-related-to

NEW – Special 2019 Section 301 Review

Posted on the Federal Register by the USTR is a request for comments and a notification of a public hearing for the annual special S.301 review;

> to identify countries that deny adequate and effective protection of intellectual property rights (IPR) or deny fair and equitable market access to U.S. persons who rely on intellectual property protection.

The special 301 subcommittee will hold a hearing on 27 Feb 2019.

On 26 Apr 2019, the USTR will publish the 2019 special 301 report within 30 days of the National Trade Estimate Report.

https://www.federalregister.gov/documents/2018/12/28/2018-28319/request-for-comments-and-notice-of-a-public-hearing-regarding-the-2019-special-301-review

NAFTA/USMCA

The government shutdown is continuing to hinder progress on the evaluation of the USMCA. The report by the US International Trade Commission on the economic impact of the new agreement has been delayed by the shutdown.

The report is due 15 March 2019 and will be used by member of Congress to inform their view of the agreement.

President Trump has already indicated that he will withdraw from NAFTA if there is any push to renegotiate the USMCA by the Democrats. But it appears the Democrats aren't shying away from a clash;

> "Just a few weeks into the new Congress, senior Democrats say they want changes to the trade deal signed by Donald Trump with Justin Trudeau, Canada's prime minister, and Enrique Peña Nieto, Mexico's former president, in November last year."

https://www.ft.com/content/6f1b275a-1b43-11e9-9e64-d150b3105d21

Section 232 – Car and Truck Imports

The final report/recommendations into whether President Trump should impose tariffs of up to 25 percent on imported cars and parts on national security grounds is due by mid-February.

https://www.reuters.com/article/us-autos-trade/trump-inclined-to-impose-new-u-s-auto-tariffs-senator-idUSKCN1PA31S?il=0

US-Japan Trade Talks

The ongoing government shutdown and the looming deadline on the negotiations with China is hindering the progress on trade negotiations. It's now likely the negotiations with Japan will be postponed, possibly as late as April (if the US-China negotiations are extended).

President Trump is due to meet with Prime Minister Shinzo Abe at the Group of 20 summit in Osaka in June.

https://asia.nikkei.com/Economy/Trade-War/US-Japan-trade-talks-face-delay-as-Trump-focuses-on-China

The summary of negotiating objectives for the US-Japan trade talks have been published;

https://ustr.gov/sites/default/files/2018.12.21_Summary_of_U.S.-Japan_Negotiating_Objectives.pdf

US-Europe Trade Talks

Awaiting further notice on the commencement of talks, although there are likely to be delays.

The summary of negotiating objectives for the US-EU trade talks have been published;

https://ustr.gov/sites/default/files/01.11.2019_Summary_of_U.S.-EU_Negotiating_Objectives.pdf

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. Given the Federal Register was not being updated throughout the shutdown, it's unclear whether this hearing will go ahead or be delayed.

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).

Return to top