

## Key Themes

Despite stimulus measures in place, economic data out of China continues to disappoint. This week, there was little follow through on industrial production with growth slowing back down to the lower pre-Mar level. Retail sales growth slowed quickly. Factory sales/shipments of autos declined at an accelerated pace.

US data was mixed. Retail sales fell. The decline in auto sales was expected but weaker sales were recorded across most categories.

Manufacturing activity remains lacklustre. Industrial production growth disappointed with manufacturing and utilities leading the decline. Manufacturing output fell below last year for the first time since 2016. The first regional US surveys for manufacturing in May were higher – led by larger increases in shipments after stronger growth in new orders in Apr. There was no follow-through on new orders growth for May.

The prelim US consumer sentiment data for May was mostly much stronger. The survey was taken prior to the deterioration in talks between the US and China, so the final report may see some revision.

The trade front delivered mixed news. The US came to an agreement with Mexico and Canada to lift retaliatory tariffs under the s.232 duties on steel and aluminium. The US also agreed to postpone the decision to levy tariffs under the s.232 car and truck import investigation. But President Trump announced that he agreed with the conclusion of the Commerce Dept report that auto imports harmed national security by causing declining market share for US-owned carmakers. The Commerce report has not been made public. The threat of these tariffs continues to hang over the negotiations with Japan and the EU.

By the end of the week, it was reported that negotiations between the US and China had stalled. The US continues to move forward on the process to finalise the next round of tariffs on \$300bn on imports from China.

Eurozone industrial production continued to decline in Mar, but declines were not as broad, limited to energy and non-durable consumer goods. EU and German Q1 GDP growth accelerated slightly.

In Australia, the Liberal (conservative) government was returned to government – meaning that there would be no removal of the favourable tax incentives related to property (negative gearing, capital gains tax), among other things. Lending for housing in Mar declined at an accelerated pace in Mar. Wage growth remains low – with real wages growing at a faster pace only due to lower growth in the CPI.

Employment is a key metric of the RBA at this part of the cycle. There are two dynamics playing out over different timeframes. On an annual basis, the labour market remains in good condition. Employment growth remains larger than the labour force growth resulting in further declines in total unemployed persons.

Although employment growth has been somewhat stronger over the last two years, the underemployment ratio remains close to its highs. This has been a key concern of the RBA regarding 'excess capacity' and the implication for wage growth.

The underlying month trend is moving in a different direction. Employment growth only equalled the estimate of what pop growth added to the labour force. Meaning that employment growth was not then high enough to absorb the increase in participation (participation reached a new all time high in the latest month). As a result, the number of unemployed persons increased for the fourth month in a row.

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## US Data

### Retail Sales (Apr)

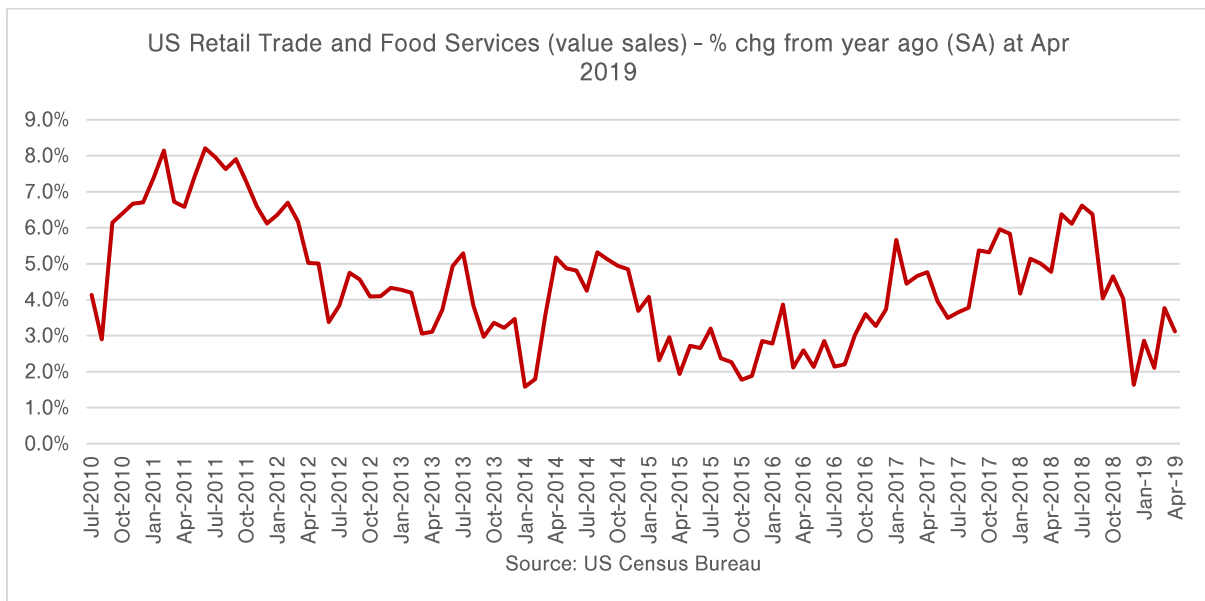
Headline retail sales declined in Apr after the stronger rebound in Mar. The decline in motor vehicle sales was expected (reported two weeks ago). Excluding the decline in motor vehicle sales, total retail sales increased slightly, led mostly by an increase in sales via gasoline stations.

The one area with a strong upward impact in the month was retail sales via gasoline stations, likely the result of price increases.

#### Total Retail Sales

Total Retail Trade (SA)	Mth chg	Apr -0.2%	Mar +1.7%
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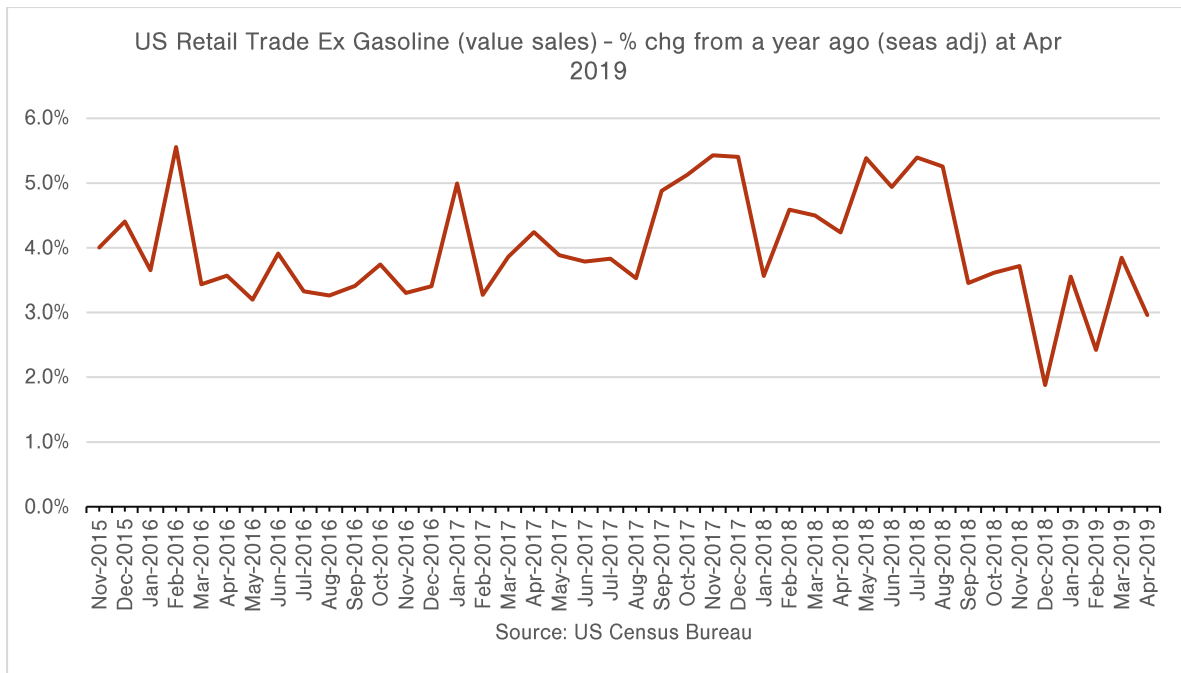
Total Retail Trade (SA)	Ann Chg	Apr +3.1%	Mar +3.8%
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#### Total Retail Sales Ex-Gasoline

Retail Trade Ex-Gas Stations (SA)	Mth chg	Apr -0.4%	Mar +1.5%
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Retail Trade Ex-Gas Stations (SA)	Ann Chg	Apr +3%	Mar +3.8%
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Retail sales in gasoline stations was the single largest positive contributor to sales growth in the month (by a long way). That said, monthly growth of gasoline stations slowed from +3.3% in Mar to +1.8% in Apr. It's likely that higher prices for gasoline are driving some of this growth - from the Mar CPI report, gasoline prices (Gasoline all types) increased by +6.5% just in Mar. In Feb that monthly growth was lower at +1.5%. Likely to slow in the Apr CPI.

#### Contribution by Category

The negative contribution to growth this month was the result of;

Motor Vehicles; declined by -1.1% in Apr versus a +3.2% increase in Mar

Building Materials; declined by -1.8% in Apr after increasing +0.8% in Mar

Electronics and Appliance Stores; declined by -1.3% in Apr after increasing by +1.3% in Mar

Other categories that contributed to the decline; Health & Personal Care stores, Clothing, Non-Store Retailers.

The only category where retail sales growth accelerated in the month was Sporting Goods; Apr +0.2% versus Mar -0.3%

The declines were partly offset by slower growth in the remaining categories; Furniture, Food & Bev Stores, General Merchandise, Misc and Food Service.

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

## Industrial Production (Apr)

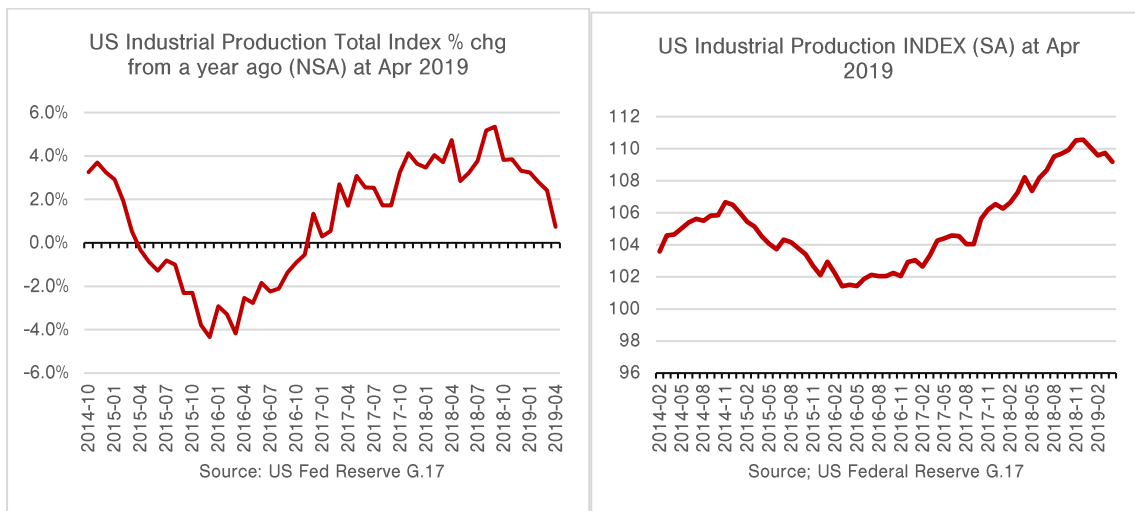
Total US industrial production declined in the latest month and growth slowed even further versus a year ago. The slower growth in the month was the result of a decline in manufacturing production and utilities output while mining output continued to grow.

### Total US Industrial Production

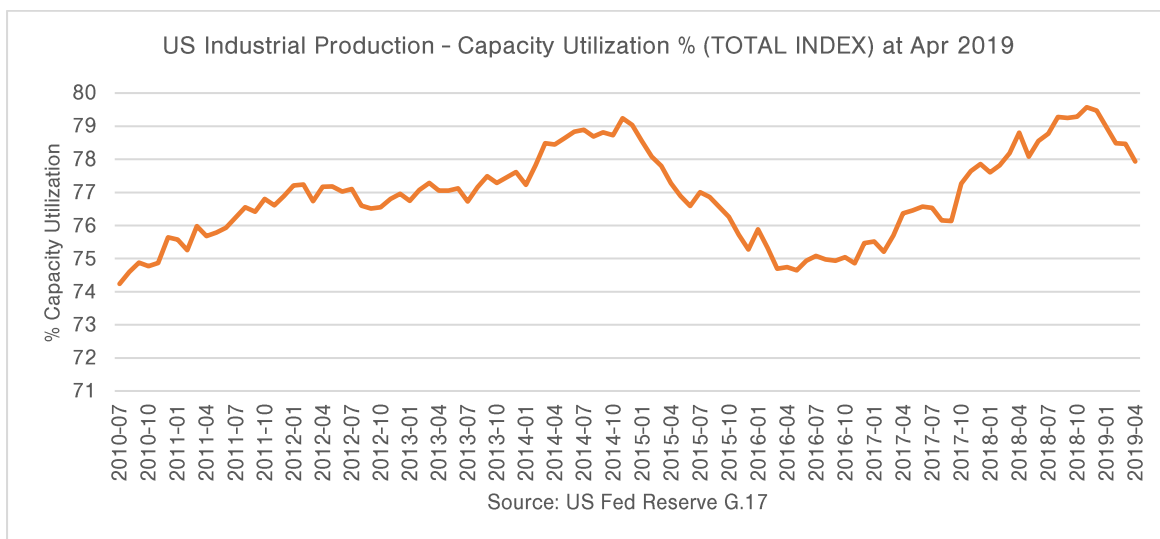
Total Industrial Production (SA)	Mth chg	Apr -0.5%	Mar +0.2%
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Total Industrial Production (NSA)	Ann Chg	Apr +0.7%	Mar +2.4%
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The charts below are intended to balance out the view of total production. Annual growth has slowed to almost zero growth. The index of actual output appears to have peaked in Dec 2018 and output is -1.2% below that peak as of Apr.



The slowdown in growth is also showing up as a fall in capacity utilization. Total capacity utilization has declined again in the latest month by -0.5% pts to 77.9%;



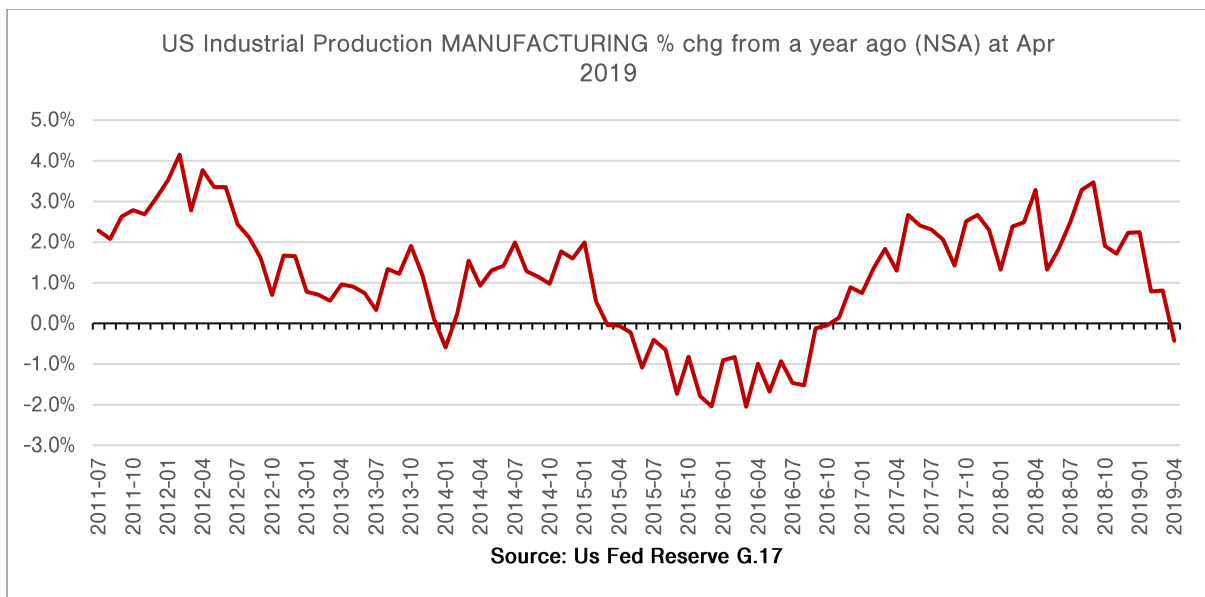
The following are the three main industry groups making up the total of Industrial Production output;

**Manufacturing**

Manufacturing production slowed in the month and has fallen below the same time last year for the first time since Q3 2016.

Manufacturing - IP (SA)	Mth chg	Apr -0.5%	Mar 0%
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Manufacturing - IP (NSA)	Ann Chg	Apr -0.4%	Mar +0.8%
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The current index of manufacturing production peaked in Dec 2018 and is now -1.6% below that peak as of Apr.

Leading the decline in the month was durable goods production; Apr -0.9% versus 0% in Mar. Several areas within durable goods stand out; machinery -2.6% in the month, computer and electronic products -0.5% in the month, electronic equipment, appliance and component production -2% in the month, motor vehicles and parts -2.6% and aerospace and misc transport -0.8% in the month.

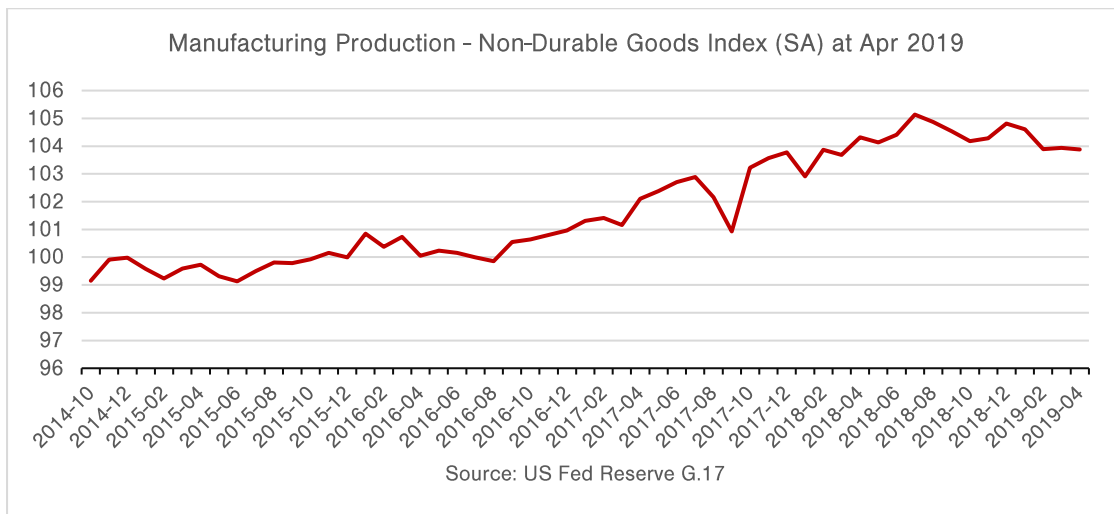
Of note is production of electrical equipment, appliance and components – the annual decline accelerated in the latest month and is now -3.6% versus a year ago. Production peaked back in Oct 2018 and is now 6% below that peak as of Apr.

Motor vehicle production has also slowed; peaking back in Dec 2018 and is now 8% below that level. Assembly of motor vehicles (Auto's and Light Trucks) slowed even further on a SAAR basis;

**Table 3**  
**MOTOR VEHICLE ASSEMBLIES**  
Millions of units, seasonally adjusted annual rate

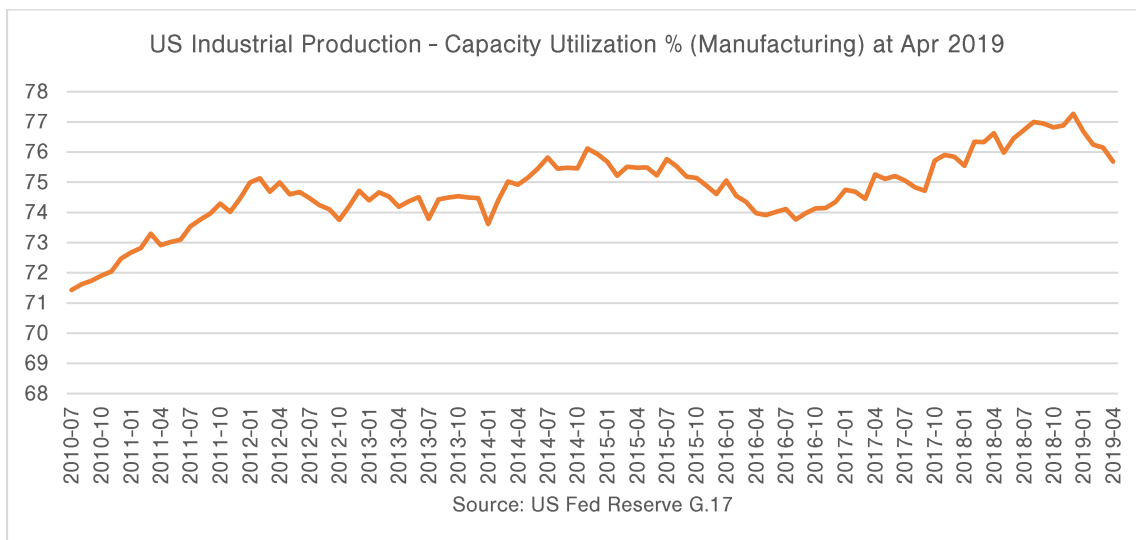
Item	2018 average	2018 Q2	Q3	Q4	2019 Q1	2018 Nov.	Dec.	2019 Jan.	Feb.	Mar.	Apr.
<b>Total</b>	11.30	11.01	11.18	11.64	11.12	11.46	12.14	11.14	11.20	11.01	10.58
Autos	2.79	2.76	2.62	2.91	2.62	2.84	3.05	2.85	2.59	2.44	2.42
Trucks	8.51	8.25	8.57	8.73	8.49	8.62	9.09	8.29	8.62	8.57	8.16
Light	8.18	7.94	8.22	8.38	8.13	8.27	8.71	7.93	8.28	8.19	7.82
Medium and heavy	.33	.30	.35	.36	.36	.35	.38	.37	.34	.38	.34
<b>Memo</b>											
Autos and light trucks	10.97	10.70	10.84	11.28	10.75	11.11	11.76	10.77	10.86	10.63	10.24

**Production of non-durable goods also declined in the month; Apr -0.1% versus Mar 0%.** Production peaked back in Jul 2018 but has trended mostly sideways since then and is only -1.1% below that peak. This is still quite a departure from the previous (mostly) accelerating trend from mid-2016;



In the latest month, manufacturing of petroleum and coal products increased by +3.5%.

Unsurprisingly, capacity utilization for manufacturing has also fallen -0.5%pts in Apr to 75.7%. The peak was Dec 2018 and the index of utilization is now -1.6% pts below that level. The fall in utilization has been pronounced over the last four months, indicating a clear slowdown in activity;



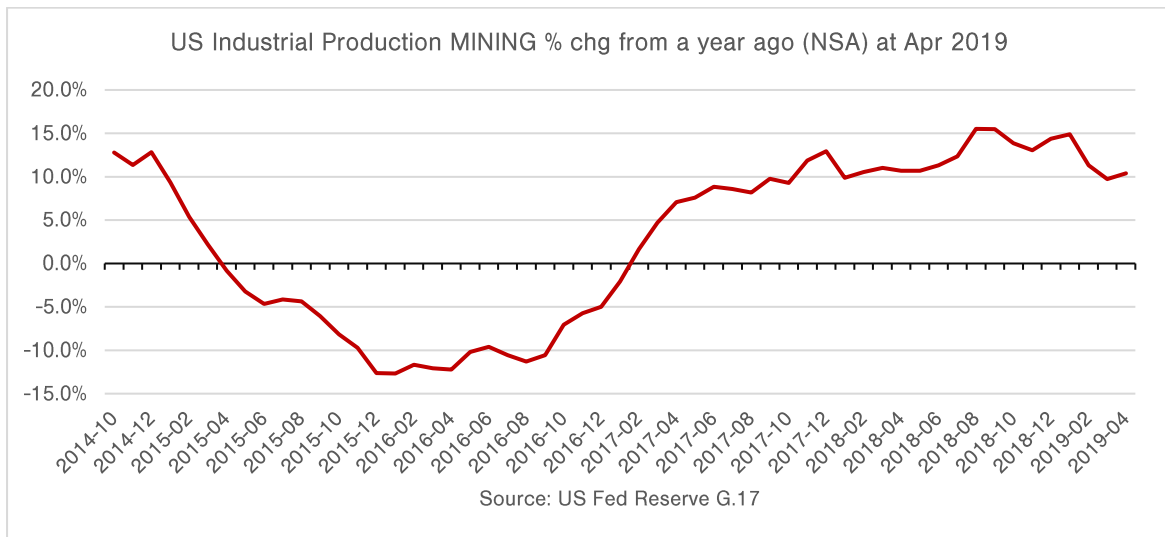
## Mining

Production in Mining grew at a faster pace in Apr:

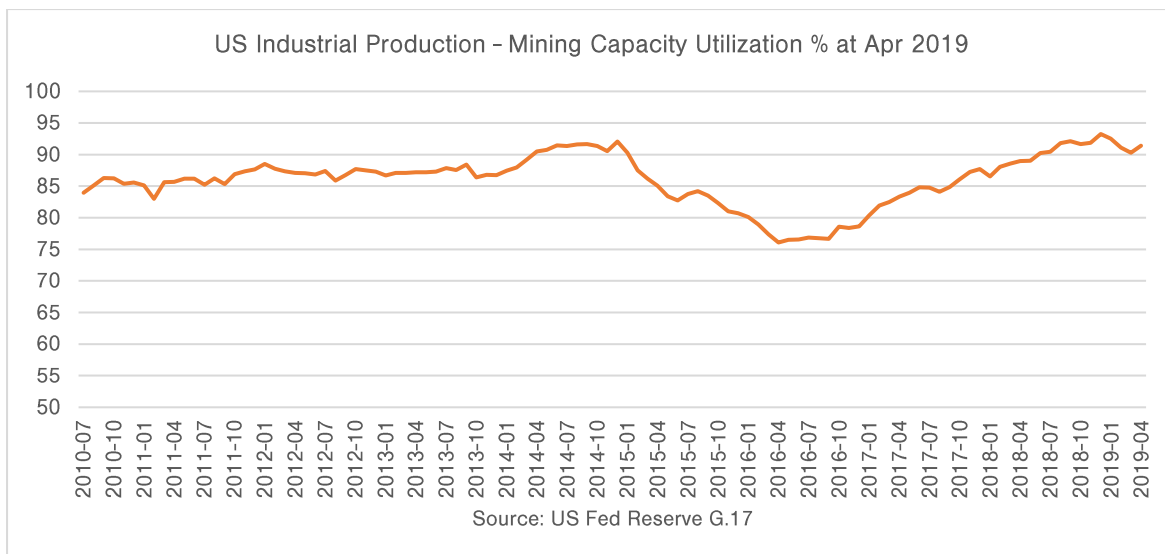
Mining - IP (SA)	Mth chg	Apr +1.6%	Mar -0.4%
Mining - IP (NSA)	Ann Chg	Apr +10.4%	Mar +9.7%

Although growth has slowed, mining output remains elevated. From the Fed reserve report;

“The increase in the mining index for April reflected gains in the oil and gas sector as well as a jump in coal mining that followed a few months of declines.”



Capacity utilization increased in the latest month and remains elevated at 91.4%.





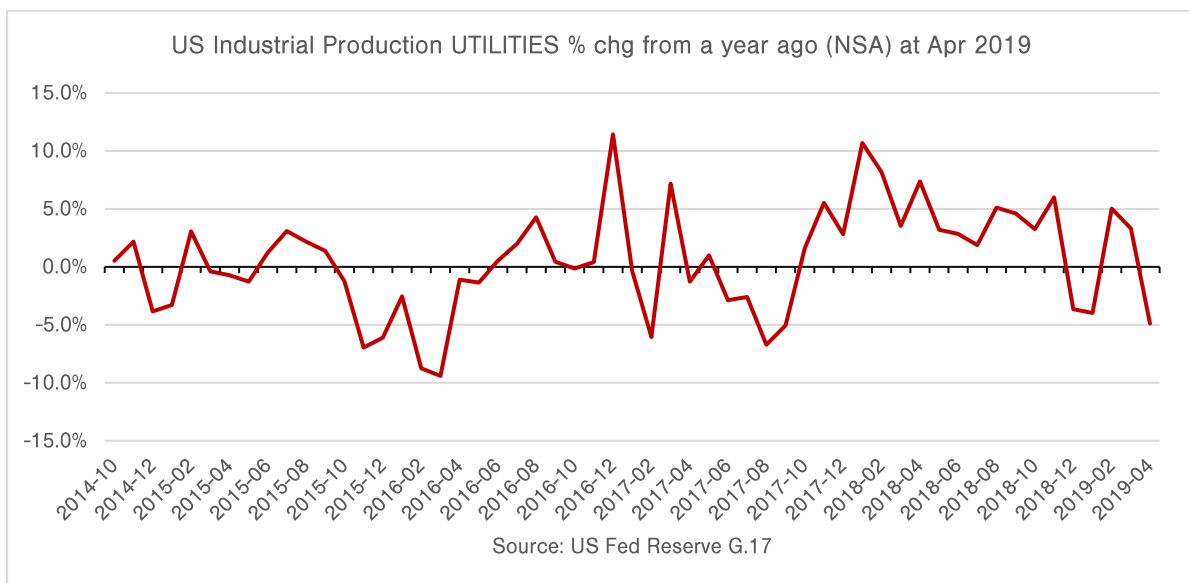
Utilities

In the latest month, output of electric and gas utilities declined sharply. From the Fed Reserve report;

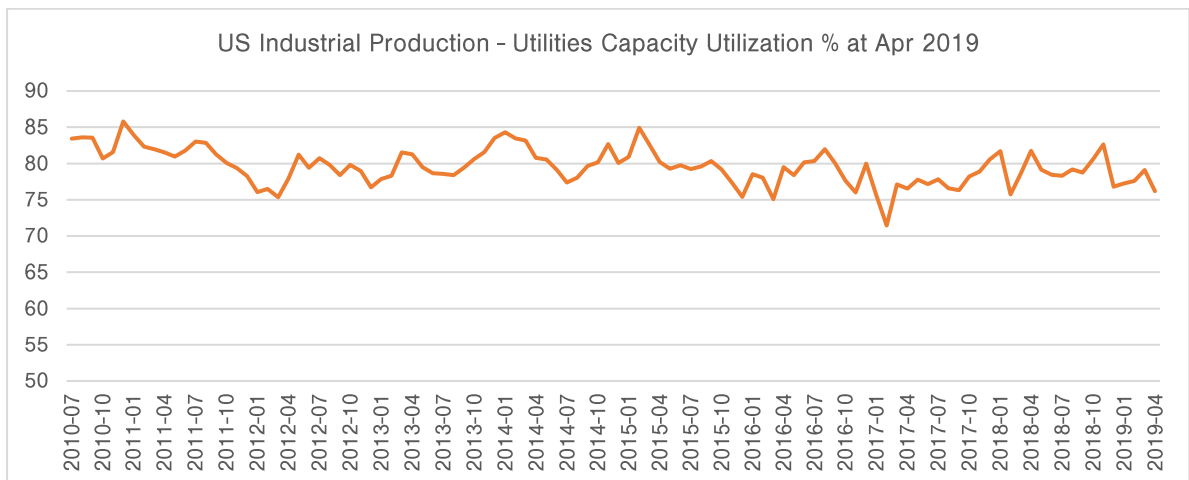
The output of utilities fell 3.5 percent in April, with declines in the indexes for both natural gas and electric utilities; **demand for heating decreased last month because of temperatures that were warmer than normal.**

Utilities - IP (SA)	Mth chg	Apr -3.5%	Mar +2.2%
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Utilities - IP (NSA)	Ann Chg	Apr -4.9%	Mar +3.3%
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As a result of the lower output, capacity utilization also fell in the latest month -2.91% pts to 76.2%;



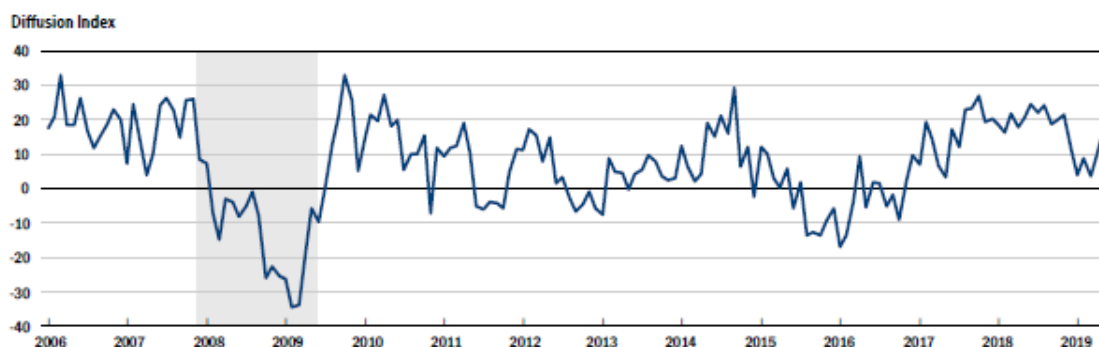
<https://www.federalreserve.gov/releases/g17/current/default.htm>

## Empire State Manufacturing Survey (May)

There was a continued improvement in manufacturing conditions in the latest survey. This was led by faster growth in shipments and somewhat faster growth in new orders. Unfilled orders increased at a slightly moderate rate.

**Business Conditions; Apr 17.8 Versus Mar 10.1**

### General Business Conditions Seasonally Adjusted



New orders increased at a slightly faster pace but remains below 2018 levels. It was really shipments that increased at a faster pace in Apr increasing by 7.7 pts. Unfilled orders also increased slightly. Inventories fell into contraction.

Prices paid and prices received continued to grow at a slower pace.

Employment recorded slower growth with the index falling 7.2pts. The average workweek was unchanged.

The outlook for general business conditions in 6-months' time increased at a much faster pace increasing by 18.2 pts. Optimism is starting to edge up closer to the 2018 levels.

[https://www.newyorkfed.org/survey/empire/empiresurvey\\_overview.html](https://www.newyorkfed.org/survey/empire/empiresurvey_overview.html)

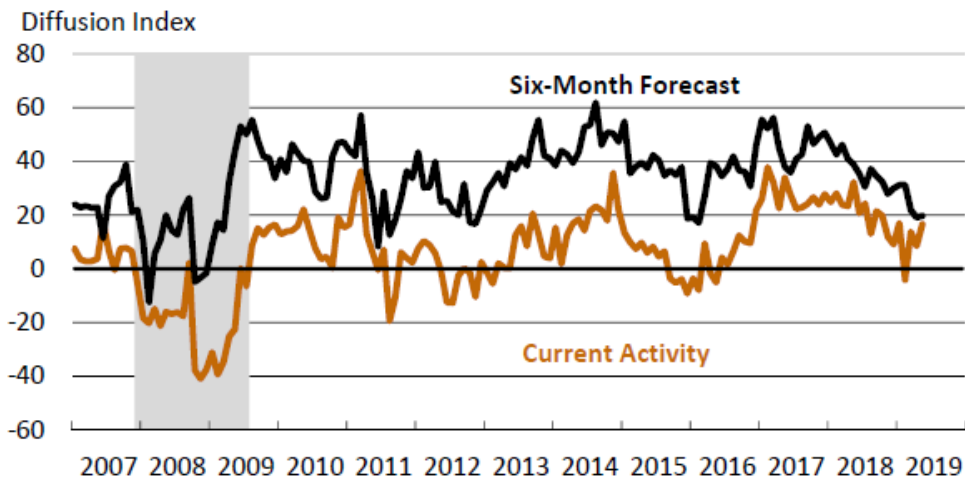
## Philadelphia Fed Manufacturing Business Outlook Survey (May)

The headline index of general business conditions suggests activity has expanded at a faster rate in May, after slowing in Apr. One of the drivers behind the increase in activity was much faster growth in shipments (after the stronger Apr increase in new orders).

**General Business Activity; May 16.6 Versus Apr 8.5**

**Chart 1. Current and Future General Activity Indexes**

January 2007 to May 2019



Note: The diffusion index is computed as the percentage of respondents indicating an increase minus the percentage indicating a decrease; the data are seasonally adjusted.

Growth in the more forward-looking indicator of new orders slowed in May. Shipments increased at a much faster pace after the larger increase in new orders in Apr. Unfilled orders increased only marginally. But inventories contracted in the month.

Prices paid increased at a faster pace, while growth in prices received slowed.

The number of employees grew at a faster pace and the average work week was unchanged.

<https://www.philadelphiafed.org/-/media/research-and-data/regional-economy/business-outlook-survey/2019/bos0519.pdf?la=en>

## Business Inventories (Mar)

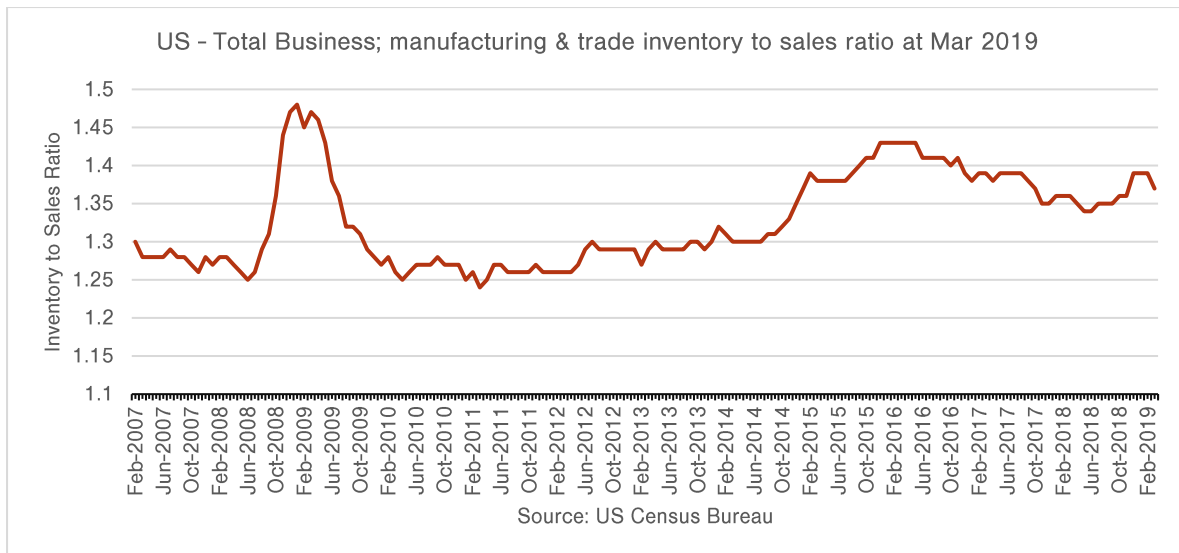
Sales through the distributive channels increased at a faster rate in Mar. This was led by much faster sales growth through retail and (mostly) merchant wholesale channels. Inventory growth was flat at the total level – inventories still increased at manufacturers and declined at retailers. Despite the much stronger growth in sales through merchant wholesalers, inventory decline was marginal.

The stronger sales resulted in mostly lower inventory/sales ratio's.

### Total Business – All Distributive Channels

Sales	Mth chg	Apr +\$22.8bn	Apr +1.6%
Inventories	Mth chg	Apr +\$0.3bn	Apr 0%

Growth in sales relative to inventories was such that the inventory ratio declined from 1.39 in Feb to 1.37 in Mar. This is still slightly above the ratio in Mar 2018 of 1.36.



Performance of the three main channels;

#### Manufacturers

Sales – mth; Mar +\$3.7bn or +0.7%

Inventories – mth; Mar +\$2.8bn or +0.4%

The sales to inventory ratio remained unchanged at 1.36.

#### Retailers

Growth accelerated in line with the stronger consumer retail result in Mar;

Sales – mth; Mar +\$7.9bn or +1.8%

Inventories – mth; Mar -\$2.1bn or -0.3%

The inventory to sales ratio declined from 1.48 in Feb to 1.45 in Mar (mostly in line with last year).

#### Merchant Wholesalers

Sales growth accelerated in Mar and inventory barely changed;

Sales – mth; Mar +\$11.2bn or +2.3% (Feb +0.3%)

Inventories – mth; Mar -\$0.4bn or -0.1%

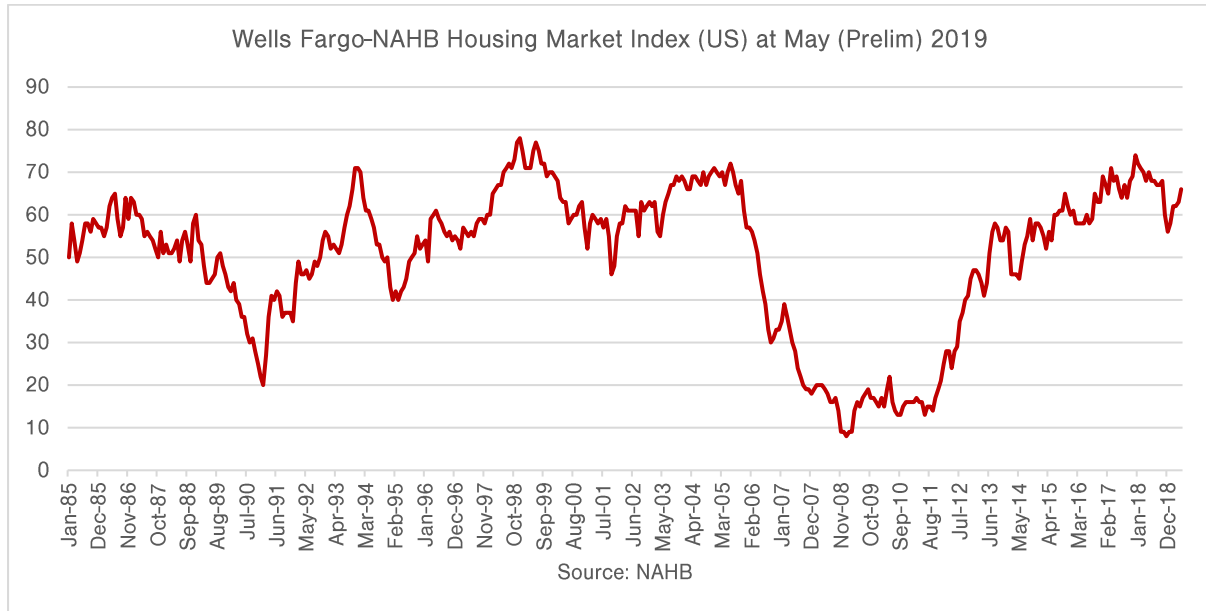
The sales to inventory ratio declined from 1.35 in Feb to 1.32 in Mar. This remains well above the Mar 2018 ratio of 1.29.

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

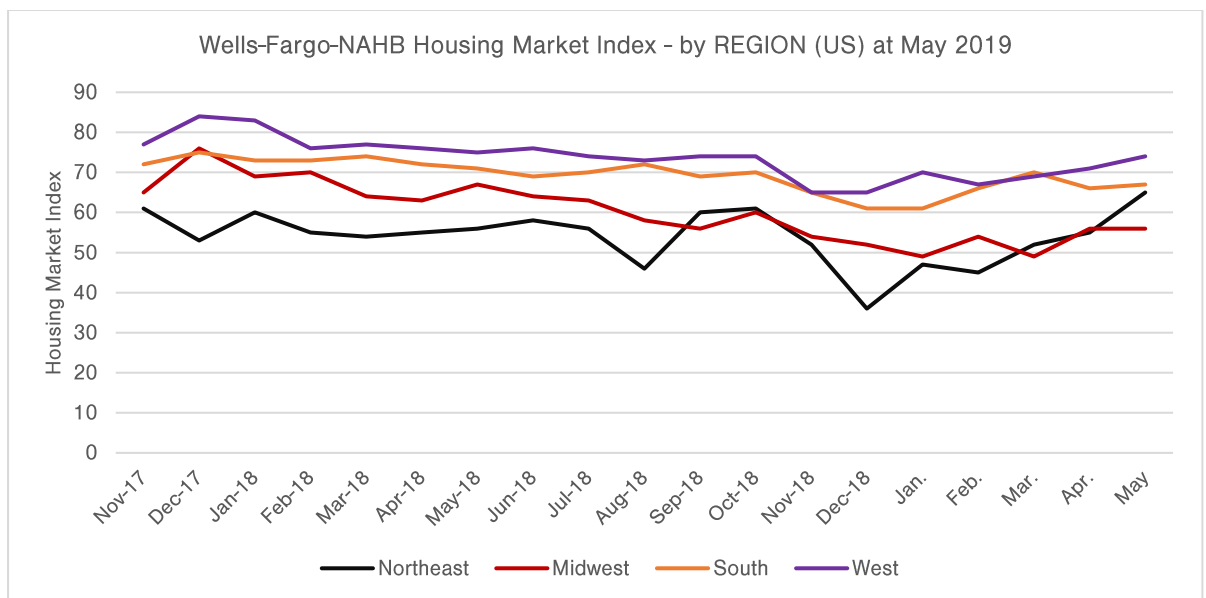
## NAHB Housing Market Index (May)

Conditions for the sale of new homes continued to improve in the latest month. The headline improvement in conditions was led by most regions, but especially the Northeast.

Headline Housing Market Index; May 66 versus Apr 63



Most regions experienced an improvement in selling conditions in May except for the Midwest where conditions were unchanged.



<https://www.nahb.org/en/research/housing-economics/housing-indexes/housing-market-index.aspx>

## Uni of Michigan Prelim Consumer Sentiment PRELIM (May)

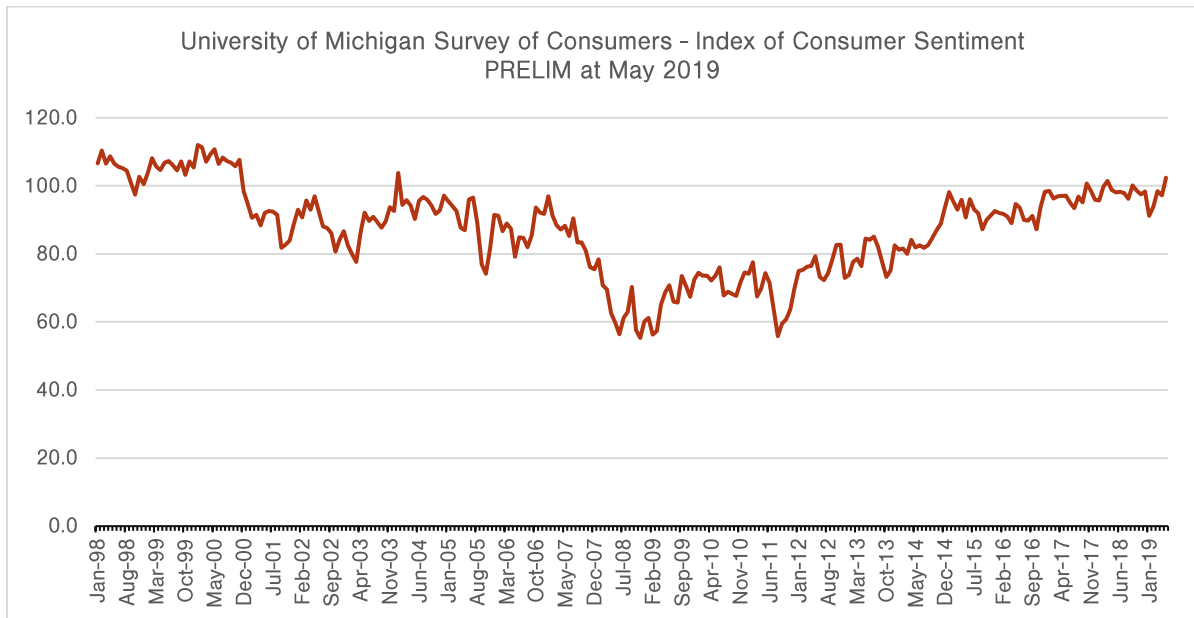
The prelim reading for May recorded large increases in current consumer sentiment and future expectations of conditions. The index of current conditions was little changed.

“The Index of Consumer Sentiment surged in early May to its **highest level in fifteen years**. All of the May gain was in the Expectations Index, which also rose to its highest level since 2004, while the Current Conditions Index was virtually unchanged and well below the cyclical peak set in March 2018.”

It was noted that the survey was taken before the breakdown in talks between the US and China. There was some negative impact on sentiment when the tariffs were first introduced. There may be some further impact on sentiment in the final result for May.

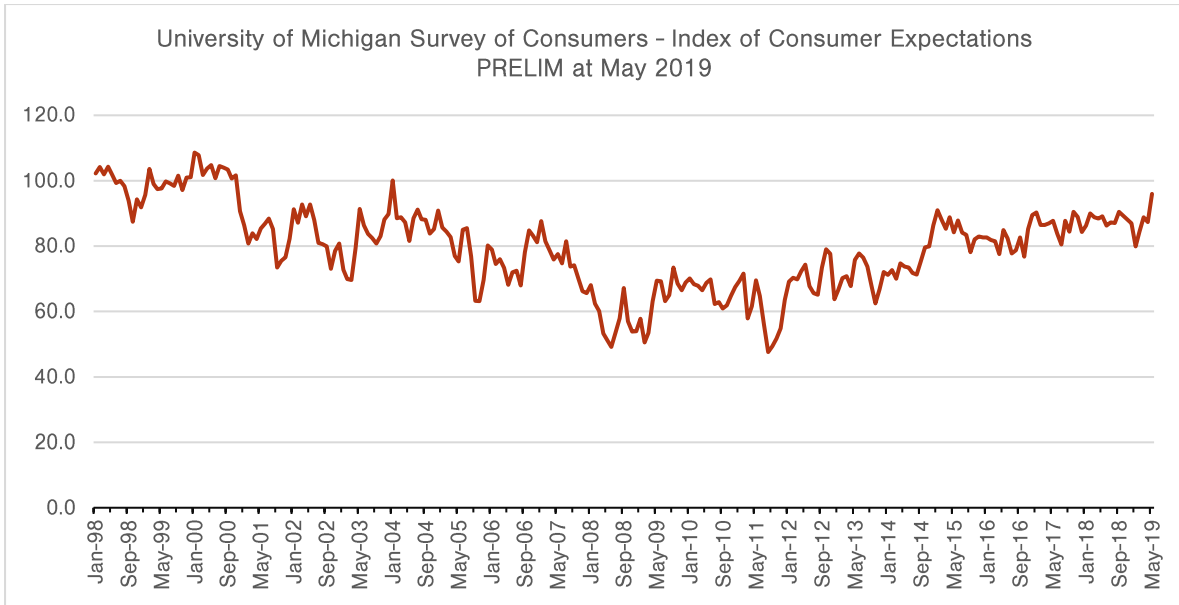
### Index of Consumer Sentiment

Consumer sentiment jumped 5.2 pts in May or +2SD's (based on the last 12mths).



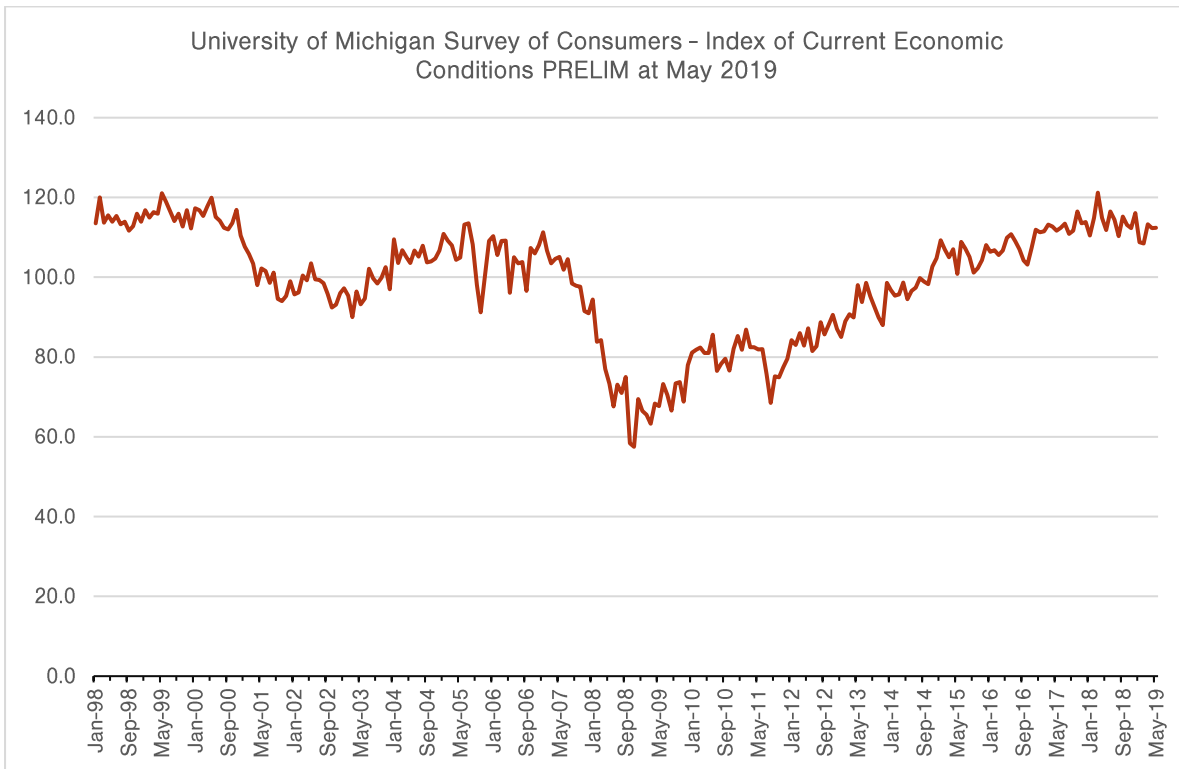
### Index of Consumer Expectations

The index of expected conditions increased by 8.6pts in May or +2.4 SD's (based on the last 12mths).



**Index of Sentiment based on Current Conditions**

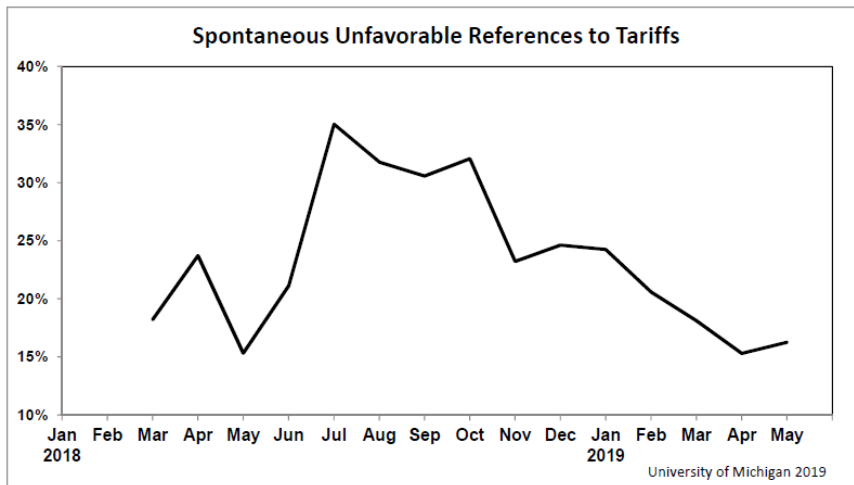
The index of current conditions was little changed increasing by +0.1pt in May. The index is +0.5% above a year ago and remains -7% below the peak in Mar 2018;



**Special Note of Tariffs**

The prelim data was gathered before the breakdown in talks between the US and China. Unaided mentions of tariffs peaked back in Jul 2018 when the first tariffs were imposed. While

there wasn't a notable corresponding shift in sentiment at the time, there may still be some pull back in optimism in the release of the final results.



<http://www.sca.isr.umich.edu/>

US Fed Speeches;

Boston Fed President Rosengren - opening remarks at the "New England Perspectives on Fed Policymaking" conference

Fed Reserve Board Vice Chairman Clarida - The Federal Reserve's Review of Its Monetary Policy Strategy, Tools, and Communication Practices, at Fed Listens: New England Perspectives on Fed Policymaking, Federal Reserve Bank of Boston, Boston, Mass.

New York Fed President Williams - panel on "Past - Lessons Learned from an Evolving International Monetary System" at the Switzerland National Bank-International Monetary Fund High-Level Conference on the International Monetary System: "Past, Present and Future of the International Monetary System" in Zurich, Switzerland.

Kansas City Fed President George - speech about the Federal Reserve and the US economy at the Economic Club of Minnesota in Minneapolis

Vice Chair for Supervision Quarles - testimony before the Senate Banking Committee, Washington, D.C.

Governor Brainard - speech Economic and Monetary Policy Outlook, the National Tax Association 49th Annual Symposium, Washington, D.C

New York Fed President Williams - speech at the "Equitable Growth Meeting in Chinatown" event, in New York, NY

Vice Chair Clarida - speech The Federal Reserve's Review of Its Monetary Policy Strategy, Tools, and Communication Practices, at Fed Listens: Education, Employment, and Monetary Policy in the Third District, Federal Reserve Bank of Philadelphia, Philadelphia, Pa.

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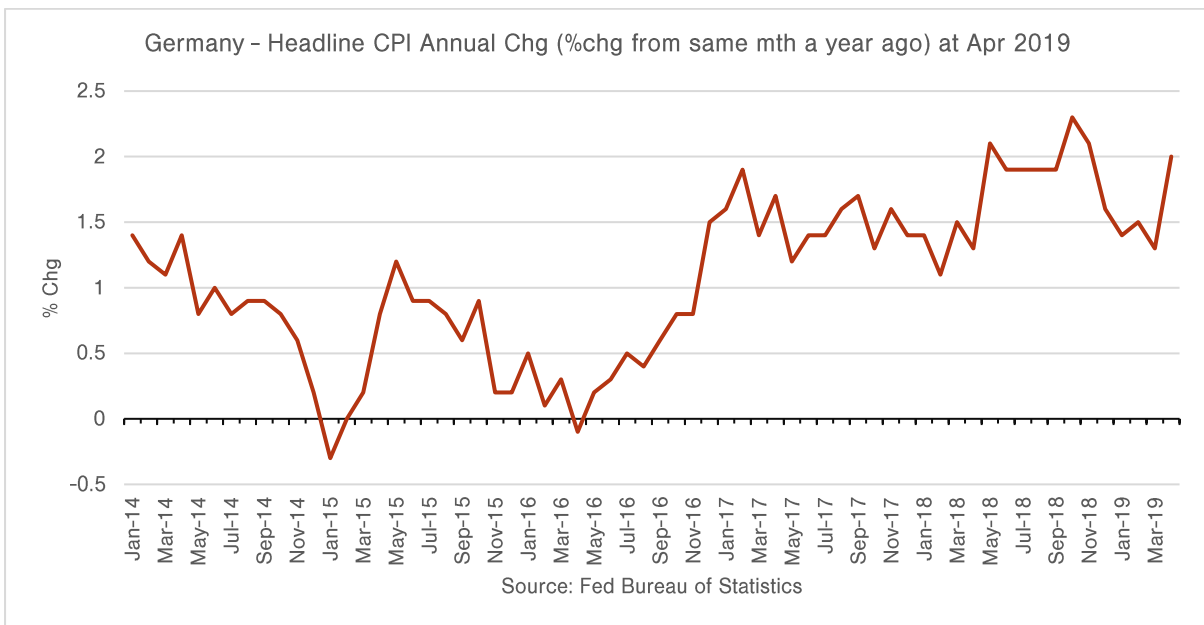
# Europe

## Germany CPI (Apr)

Growth in the headline CPI accelerated in the latest month and on an annual basis. The faster growth in the year was mostly the result of faster growth in energy prices.

Headline – All Items CPI	Ann Chg	Apr 2%	Mar 1.3%
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Headline – All Items CPI	Qtr Chg	Apr 1%	Mar 0.4%
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In the latest year, energy prices increased by +4.6% and in the latest month by +2.1%.

The annual change in recreation, entertainment and culture prices also increased at a faster rate, partly due to the calendar effect of Easter in Mar last year versus Apr this year; annual change Mar +3.3% versus -0.9% in Apr. The monthly change was +3.5% increase.

[https://www.destatis.de/EN/Press/2019/05/PE19\\_181\\_611.html](https://www.destatis.de/EN/Press/2019/05/PE19_181_611.html)

## Germany Prelim GDP (Q1)

Detailed results to be released 23 May 2019.

The prelim reading for German GDP indicated that economic growth in real terms accelerated in Q1 (seas adj and calendar adj basis).

Annual real GDP growth slowed slightly.

Quarter GDP growth: Q1 +0.4% versus Q4 0%

Preliminary commentary indicates that positive contributions to growth came from household final consumption expenditure and fixed capital formation in construction and machinery. Government expenditure declined. The result was mixed on foreign trade with both imports and exports growing versus the prior quarter.

Annual GDP growth: Q1 +0.6% versus Q4 +0.9%

[https://www.destatis.de/EN/Press/2019/05/PE19\\_184\\_811.html](https://www.destatis.de/EN/Press/2019/05/PE19_184_811.html)

## Eurozone CPI (Apr)

The annual growth in the Euro area and EU inflation rate accelerated in Apr. While the annual change in energy prices remains elevated, it was Services prices that contributed to the acceleration in headline CPI growth.

### Euro Area CPI

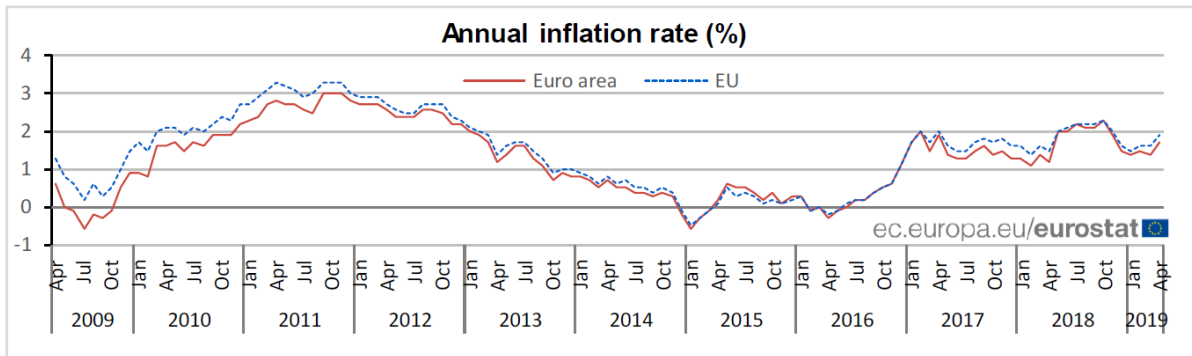
Euro Area All-items CPI	Mth chg	Apr +0.7%	
Euro Area All-items CPI	Ann chg	Apr +1.7%	Mar +1.4%

The main contributor the faster annual growth in CPI was Services – growing at +1% in the month and accelerating from +1.1% annual growth in Mar to +1.9% in Apr. Services contributed a much larger proportion of the total growth in CPI - +0.86% pts in Apr versus +0.51% pts in Mar.

Food, alcohol and tobacco prices grew at 0% in the month of Apr and annual growth slowed from +1.8% in Mar to +1.5% in Apr. The contribution of food, alcohol and tobacco was smaller; +0.29% pts in Apr versus +0.34% pts in Mar.

Growth in energy prices remains elevated but did not make a larger contribution to growth in the year. In Apr, the annual change in energy prices contributed +0.51% pts to the +1.7% headline CPI growth, in line with the +0.52% pts contribution in Mar.

Excluding energy and food, alcohol, tobacco, CPI growth accelerated; Apr +1.3% versus Mar +0.8%.



<https://ec.europa.eu/eurostat/documents/2995521/9793727/2-17052019-AP-EN.pdf/8c1d8ecb-4e0a-47ed-bda6-26f8cd647d10>

## Eurozone Industrial Production (Mar)

Total industrial production declined at a faster pace in Mar across both the Euro Area and EU28 region. This was led by declines in production of non-durable consumer goods and energy.

### Euro Area – Industrial Production

Euro Area Industrial Production	Mth chg	Mar -0.3%	Feb -0.1%
Euro Area Industrial Production	Ann chg	Mar -0.6%	Feb 0%

In the latest month, production of non-durable consumer goods declined at a faster pace. Energy production declined but at a slower pace. Production of intermediate goods, capital goods and durable goods increased at a faster pace.

On an annual basis, production of intermediate goods, energy and durable consumer goods remains below last year. The annual growth of non-durable goods is zero. Production of capital goods has been improving and is now +1.3% above a year ago.

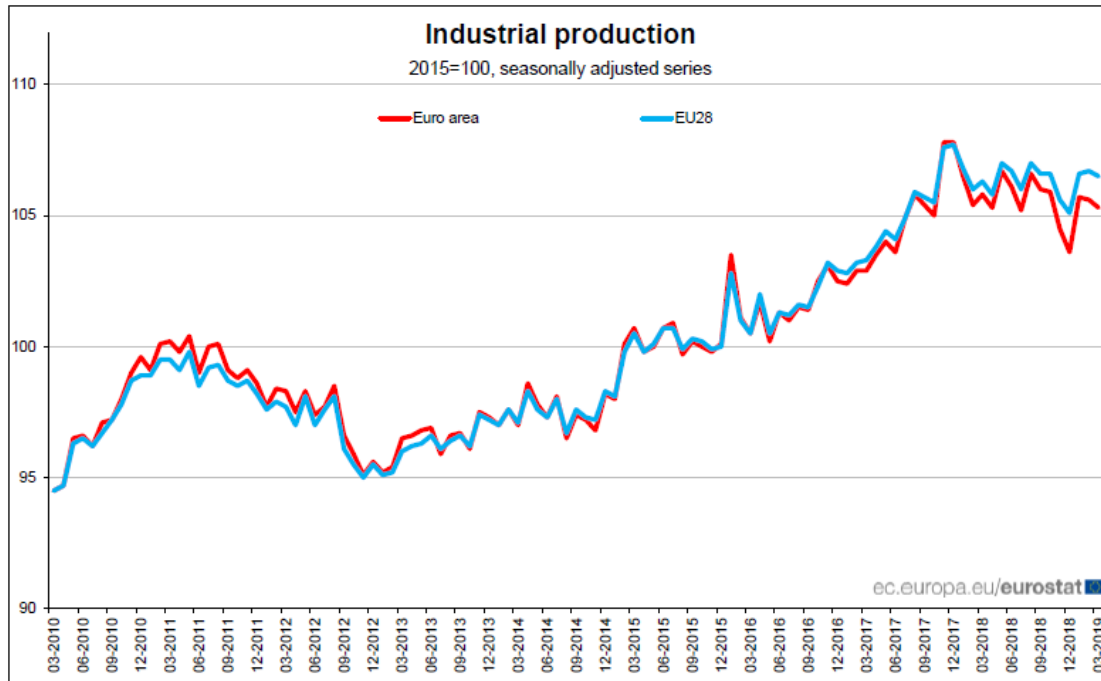
### EU28 Group – Industrial Production

EU28 - Industrial Production	Mth chg	Mar -0.1%	Feb 0%
EU28 - Industrial Production	Ann chg	Mar +0.4%	Feb +0.5%

The performance by category was similar to that of the Euro area - production of non-durable consumer goods declined at a faster pace. Energy production declined but at a slower pace. Production of capital goods and durable goods increased at a faster pace. Production of intermediate goods slowed to 0%.

On an annual basis across the broader EU28 group, only energy production remains well below last year. Growth in all other categories remains above a year ago.

While industrial production has improved from the lows of late in 2018, production levels remain well below the peak of 2017 with no evidence yet of a return to acceleration;



<https://ec.europa.eu/eurostat/documents/2995521/9780987/4-14052019-AP-EN.pdf/b1e6a890-6429-44b0-bbb7-9caa9620317f>

### Eurozone Prelim GDP (Q1)

Prelim results indicate that GDP growth accelerated in Q1 across the Eurozone. The annual growth in real GDP was unchanged.

#### Euro Area

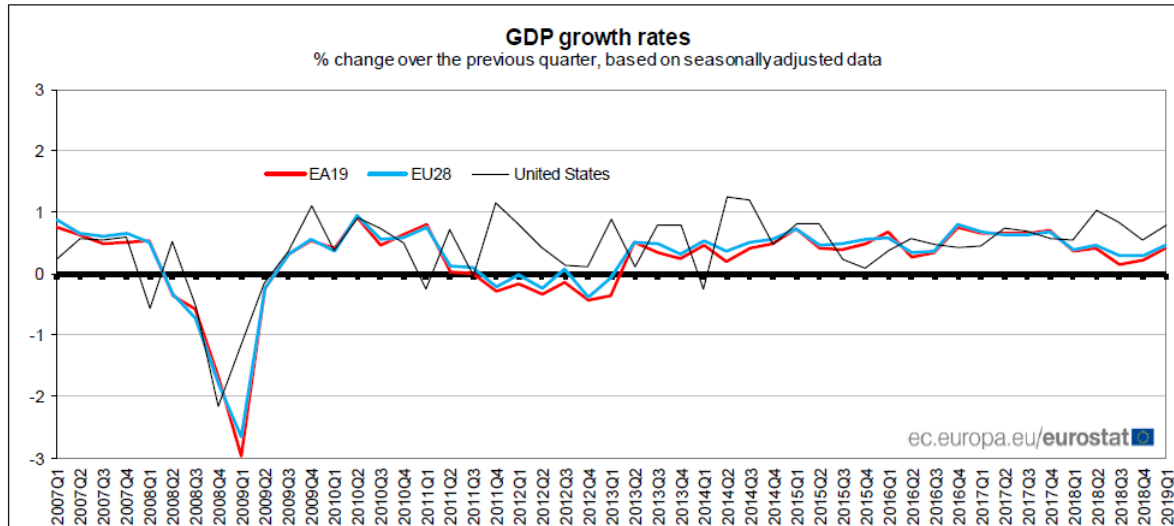
Euro Area - real GDP growth	Qtr Chg	Q1 +0.4%	Q4 (2018) +0.2%
Euro Area - real GDP growth	Ann chg	Q1 +1.2%	Q4 (2018) +1.2%

The annual change in Euro area GDP growth remains well below the +2.2% recorded in Q2 2018.

**EU 28 Group**

EU - real GDP growth	Qtr Chg	Q1 +0.5%	Q4 (2018) +0.3%
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EU - real GDP growth	Ann chg	Q1 +1.5%	Q4 (2018) +1.5%
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<https://ec.europa.eu/eurostat/documents/2995521/9786896/2-15052019-AP-EN.pdf/6870b615-affa-43e3-b1f4-cde883544d13>

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## United Kingdom

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### Brexit

Talks between the UK Conservative Party and Labour have broken down. The aim of the talks was to try and find a compromise to enable the passage of the Withdrawal Agreement Bill through the UK Parliament.

“Each side blamed the other for the collapse. Labour Party leader Jeremy Corbyn said the talks with Prime Minister Theresa May’s government had “gone as far as they can.””

The deadlock remains in place and frustration remains elevated that Brexit has not yet delivered after the referendum 3 years ago. PM May is considering yet another round of votes on different options for Brexit. Rumours are continuous that PM May will step down if these votes fail;

“May also plans to make a fourth attempt to get lawmakers’ backing for Brexit terms by putting a withdrawal agreement bill to **a vote during the week of June 3**. She says that if it passes, Britain could leave the EU in July, well before the October deadline set by the bloc.”

“But it’s unclear how the government plans to persuade a majority of lawmakers to back May’s EU divorce terms, since few on either side of the Brexit divide seem prepared to change their positions.”

<https://www.pressherald.com/2019/05/17/uncertainty-looms-over-uk-as-brexit-compromise-talks-fail-2/>

In the meantime, the UK will vote in the European elections next week. Both the Conservative and Labour party performed poorly in the recent local council elections.

“Thirteen-hundred Conservative councillors lost their seats. The opposition Labour Party, which according to past trends should have made large gains, didn’t do much better. Both look set to struggle next week.”

The new Brexit Party is polling at 18%, capitalising on voter frustration.

<https://www.nbcnews.com/storyline/brexit-referendum/next-week-s-european-elections-u-k-could-be-100m-n1006836>

### UK Labour Market Survey (3mths Jan-Mar)

The UK labour market remains in good condition. Employment growth, despite slowing, continues to be larger than (the estimate of) what population adds to the labour force. This

employment growth remains high enough to absorb an increase in participation and still result in a decline in total unemployed persons.

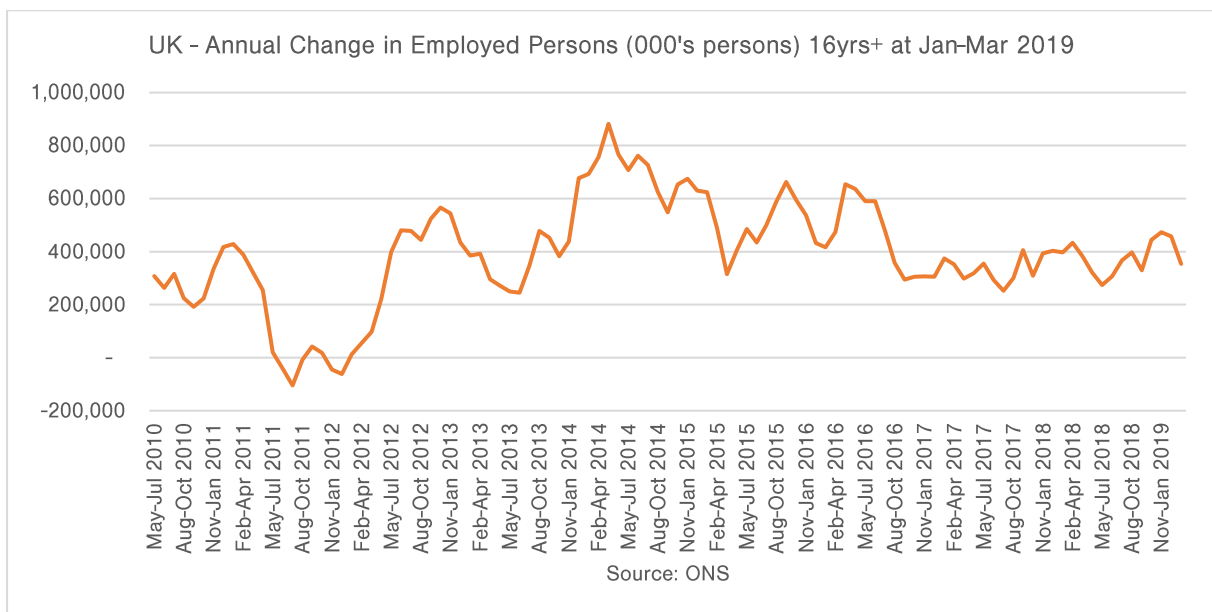
The slower growth in the labour force in the year was due to slower growth in participation. While in the quarter, the slower growth in the labour force was the result of a decline in participation.

**Employment**

Growth in total employed persons slowed in the latest year and quarter;

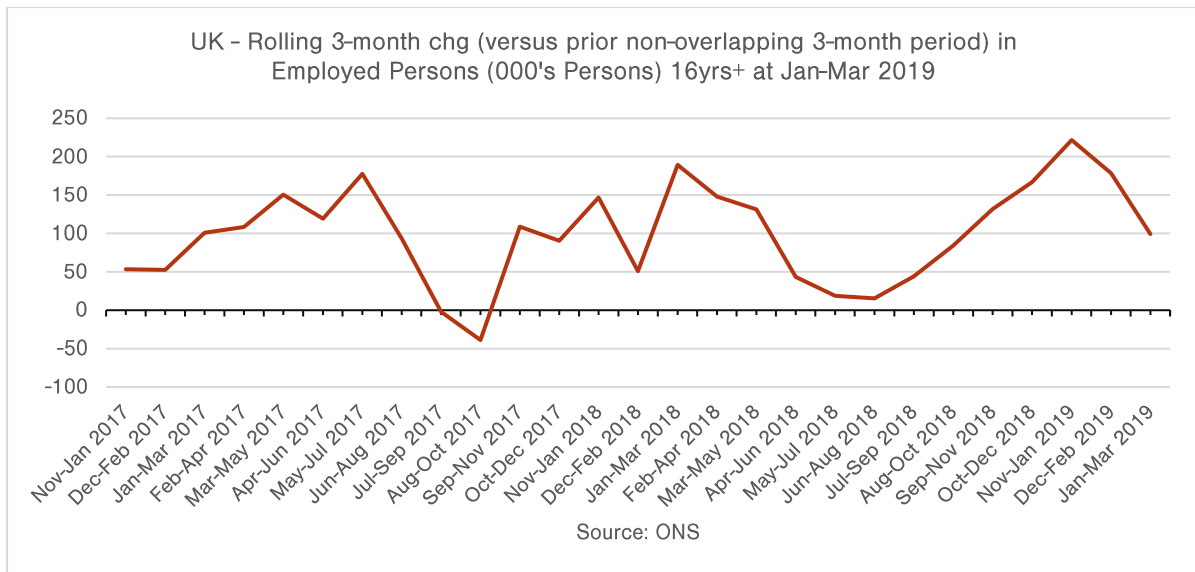
Total Employed Persons	Ann Chg	Jan-Mar +353k	Dec-Feb +457k
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Total Employed Persons	Qtr Chg	Jan-Mar +99k	Dec-Feb +179k
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Although annual growth has slowed in this latest survey, the actual growth in total employed persons remains elevated and well in line with recent history.

The monthly change in total employed persons has slowed back to a more average level;



Importantly though, the growth in employed persons still exceeds that of the total labour force.

### Labour Force

Growth in the total labour force has slowed faster in the latest year and quarter;

labour force/economically active persons	Ann Chg	Jan-Mar +234k	Dec-Feb +380k
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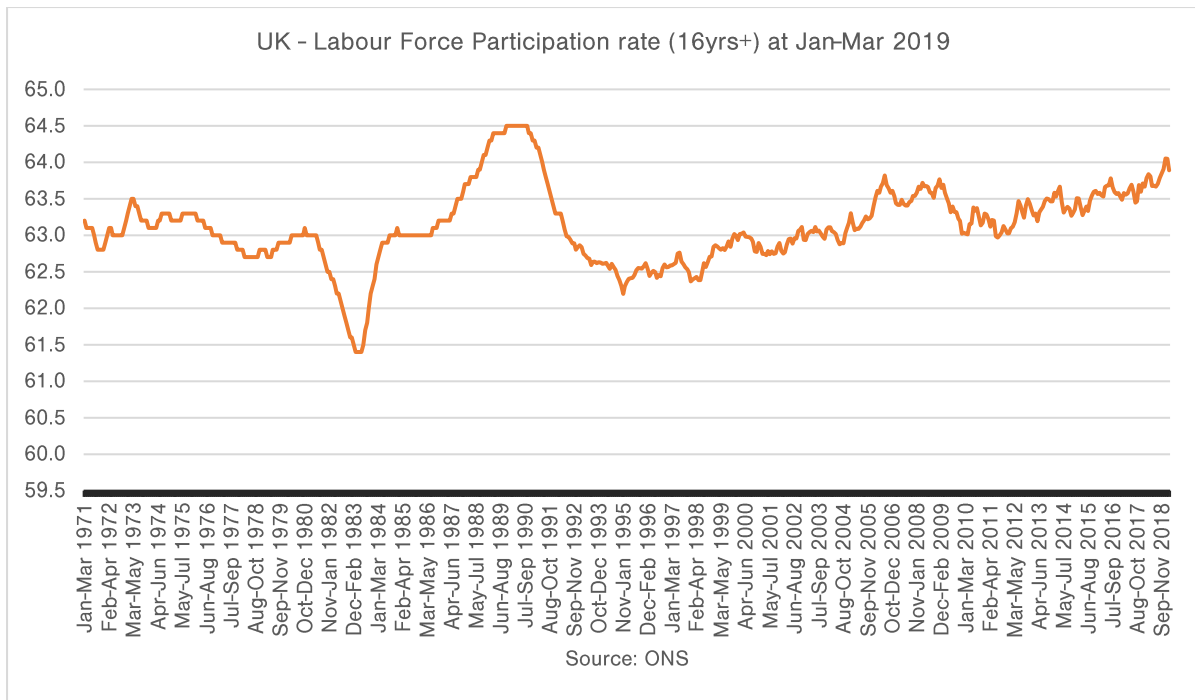
labour force/economically active persons	Qtr Chg	Jan-Mar +151k	Dec-Feb +34k
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On an annual basis, the main driver for the slower growth in the total size of the labour force was the **slow down in growth in participation**. The estimate for what underlying population growth adds to the labour force has been broadly stable over this time.

The annual change in the participation rate for Jan-Mar was +0.108 %pts. The annual change from Dec-Feb was +0.383% pts.

In the latest quarter, the participation rate declined compared to the (non-overlapping) quarter prior. Participation for 16yrs+ overall remains elevated;





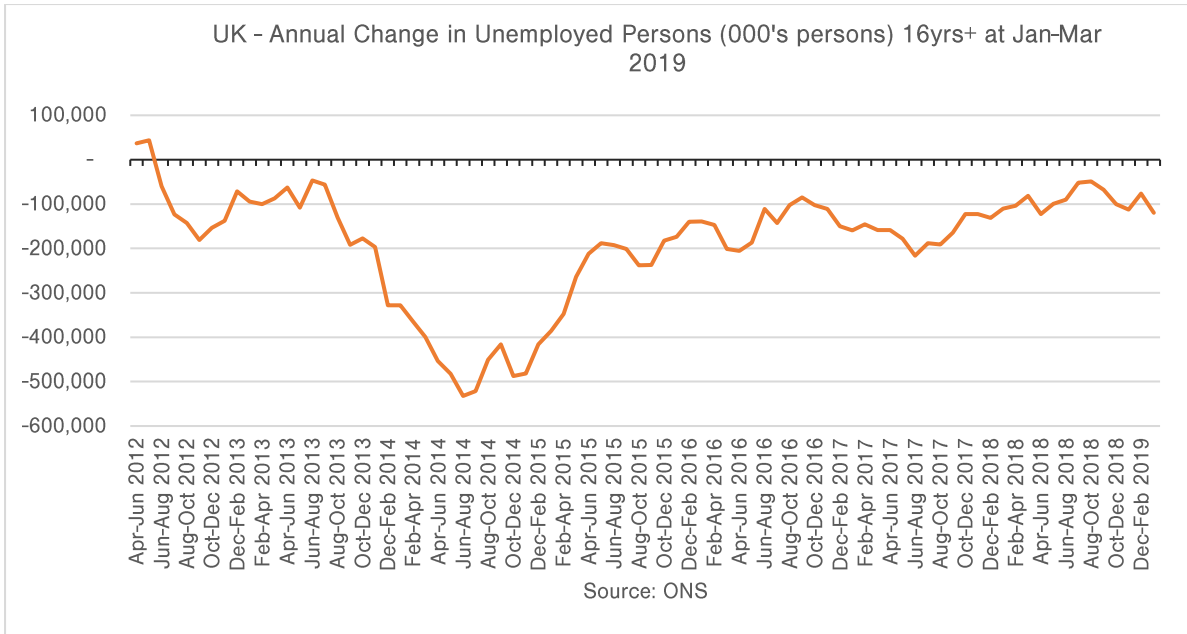
Even though employment growth has slowed, the slow down in growth in the labour force has been larger than that of employment - meaning that total unemployed persons has declined at a faster pace.

### Total Unemployed Persons

The total number of unemployed persons declined at a faster pace in the latest year and quarter;

Total unemployed persons	Ann Chg	Jan-Mar -119k	Dec-Feb -76k
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Total unemployed persons	Qtr Chg	Jan-Mar -65k	Dec-Feb -27k
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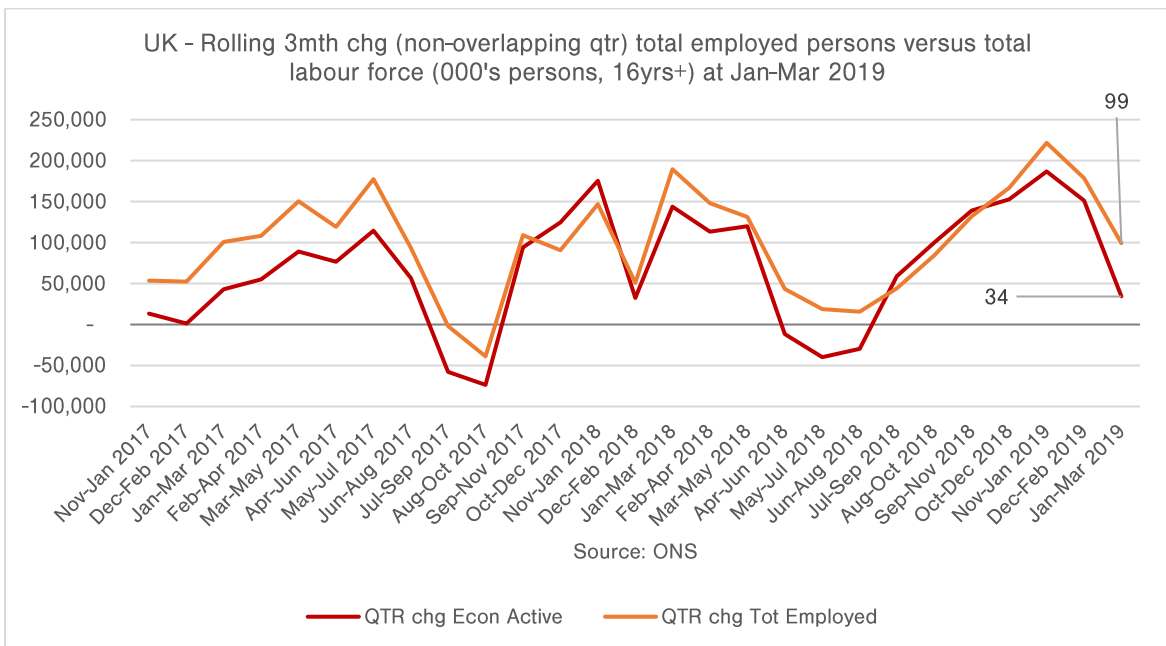


The unemployment rate has fallen to 3.8% in the latest quarter.

Last month, total unemployed persons declined at a slower pace – employment growth was mostly unchanged while there was a large surge in participation. This surge in participation led to an increase in the labour force which somewhat reduced the level of decline in total unemployed persons, even though employment growth remained elevated.

This month though, there has been a somewhat larger slowdown in total employment growth (actual growth is elevated though). Participation growth has slowed in the Jan-Mar quarter, which has meant that growth in the labour force has also slowed and has slowed faster than employment growth.

This chart below highlights the shifting dynamic in the labour market. Note that the difference between the two lines equals the change in total unemployed persons for the latest qtr.



The reason for the slow-down in growth in the labour force is the decline in participation for the qtr.

Summary of the key labour market indicators:

While overall the total unemployed persons have declined at a faster rate in the latest qtr and year, it has done so as employment (and labour force) growth has slowed.

Employment growth, despite slowing, continues to be larger than (the estimate of) what population adds to the labour force. This employment growth remains high enough to absorb an increase in participation and still result in a decline in total unemployed persons.

	16yrs+ (000's of persons)		16-64yrs (000's of persons)	
	Latest Qtr Chg Jan-Mar 2019	ANN Chg Jan- Mar 2019	Latest Qtr Chg Dec-Feb 2019	ANN Chg Dec- Feb 2019
Estimated change in the Labour Force due to pop growth (1)	43.369	176.750	15.537	66.402
How many jobs available for them? (employment growth) (2)	99.387	353.619	107.364	268.373
Difference; employment less est chg in labour force due to pop (3) (if positive, then employment growing faster than pop)	56.019 <span style="color: green;">▲</span>	176.868	91.826	201.971
Change in the labour force due to the change in participation (4)	-9.149	57.441	27.021	87.151
The remainder is the chg in total unemployed persons (4) less (3) - if neg, then unemployment decreasing	-65.168	-119.428	-64.805	-114.820
<u>Different views of the Labour Force:</u>				
Double check - change in total economically active (pop + participation)	34.219 <span style="color: green;">▲</span>	234.191	42.558	153.553
Double check - change in total economically active (employ + unemp)	34.219	234.191	42.558	153.553
Actual economically active ann chg (as reported)	34.219	234.191	42.558	153.553

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/may2019>

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# Australia

## Housing Lending (Mar)

The decline in housing lending resumed in Mar after the rebound in Feb. Most of the decline was in lending for owner occupiers but lending for investment dwellings also continued to decline.

### Lending to Households - Total Dwellings

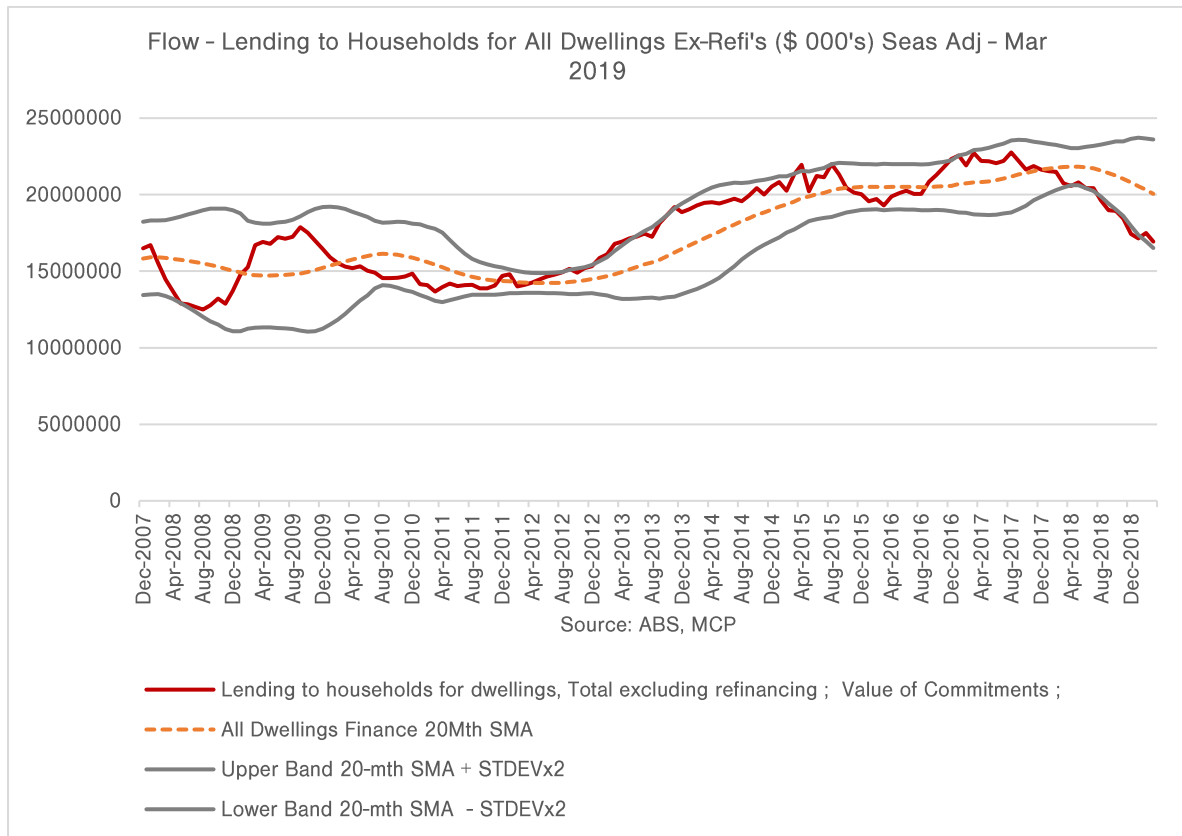
The total value of lending fell again in Mar and reversed the gains from Feb;

Total Housing Lending ex-refis (value)	Mth Chg	Mar -3.2%	Feb +2%
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Total Housing Lending ex refi's (value)	Annual Chg	Mar -18.4%	Feb -18.6%
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Most of the decline was the result in falls in Owner Occupier finance which accounted for 77% of the decline in the month. Lending for Investment Dwellings also fell and accounted for the remaining 23% of the decline in the month.

On an annual basis, the lending in Mar was 18% below the same month a year ago. The falls in lending continue to track the -2\*SD (last 20 mths) band suggesting that lending overall remains weak on a relative basis;



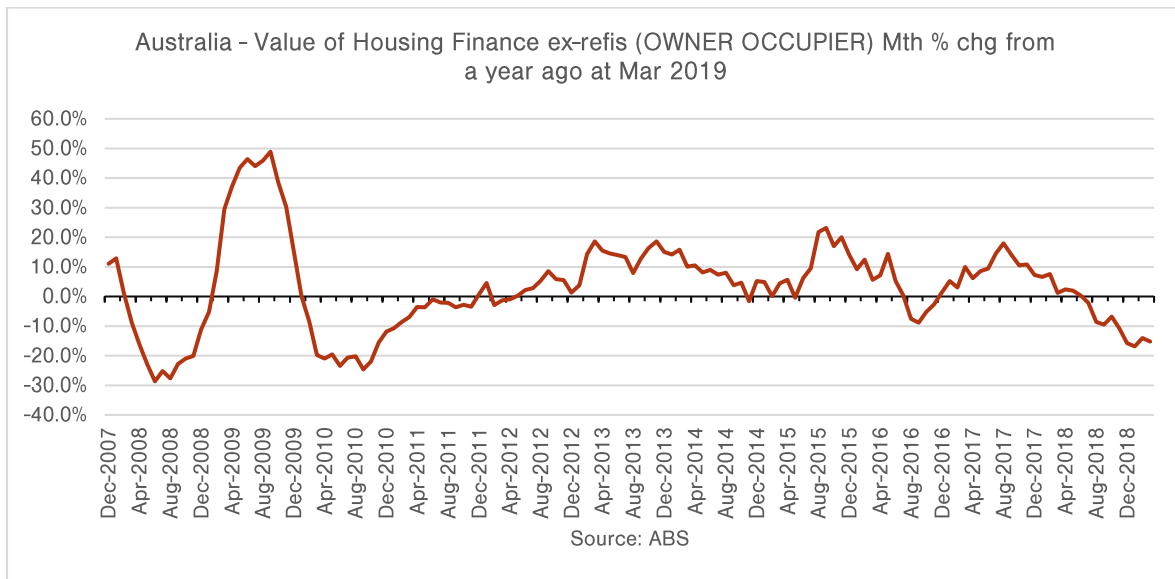
### Lending to Owner Occupiers

The growth in Feb has been reversed with the latest declines in Mar and the value of lending has reached a new low for this part of the cycle;

Owner Occ Lending ex-refis (value)	Mth Chg	Mar -3.4%	Feb +2.8%
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Owner Occ Lending ex refi's (value)	Annual Chg	Mar -15%	Feb -14%
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Lending in Mar is 15% below the same month a year ago;

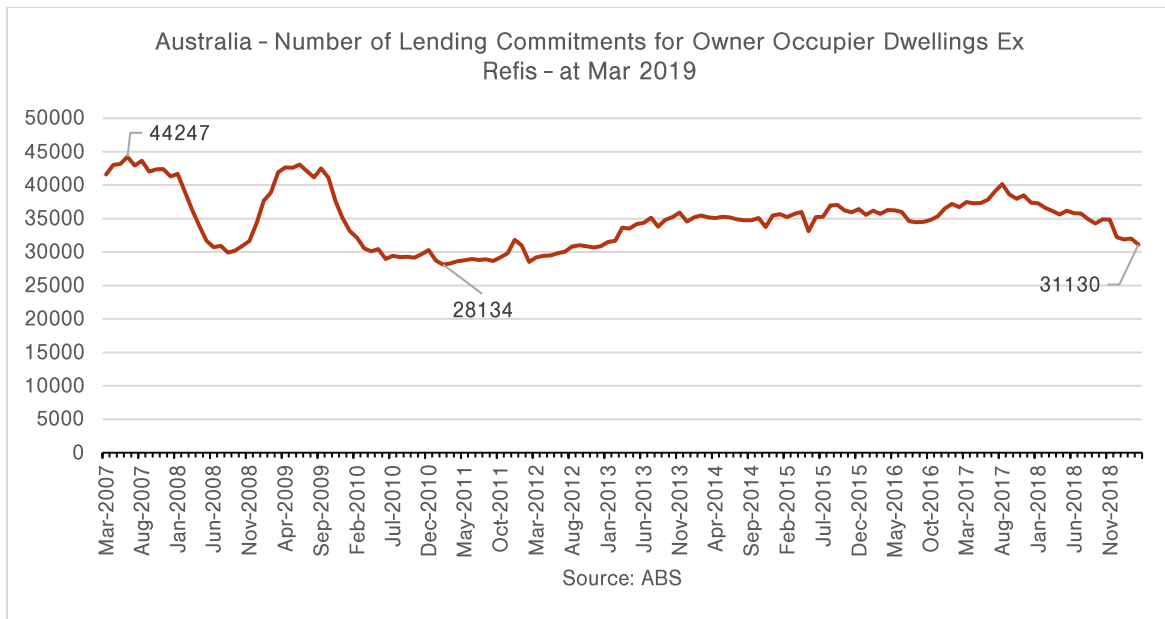


**Number of Owner Occupier Commitments;** Given that the value of commitments could be influenced by falling house prices, it's important to view the number of commitments for owner occupier lending as a gauge of underlying demand. As of Mar, and excluding refis, the number of owner occupier housing commitments is also declining;

Number of Owner Occ Commitments – ex-refis	Mth Chg	Mar -2.8%	Feb +0.5%
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Number of Owner Occ Commitments – ex-refis	Annual Chg	Mar -14%	Feb -13%
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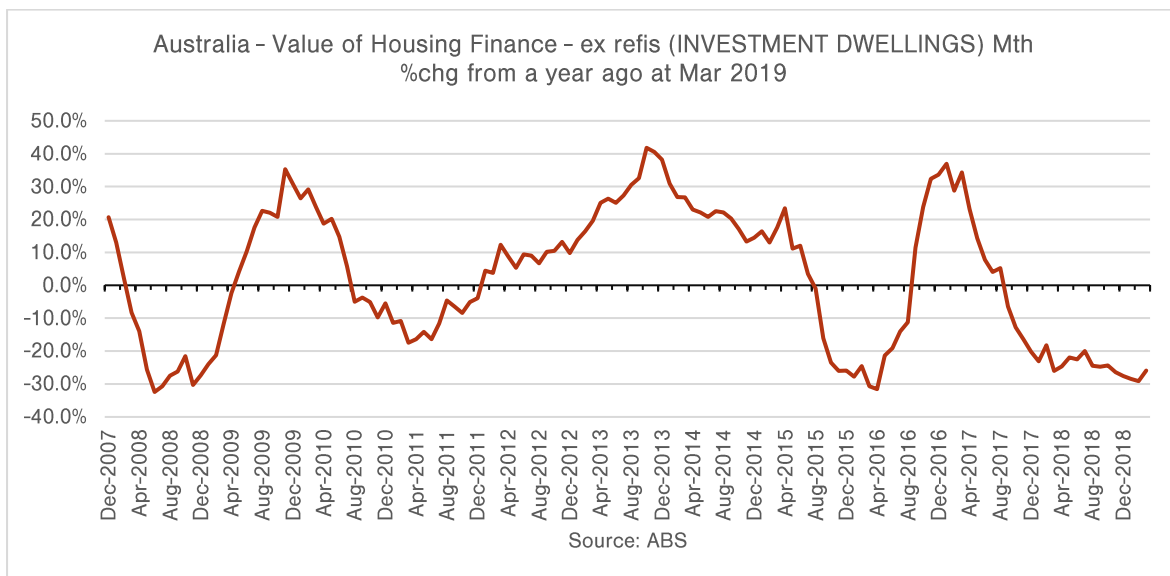
The number of commitments also reached a new low in this current cycle. In fact, the number of owner occupier housing finance commitments reached a MINIMUM back in Feb 2011 of 28,134 commitments in a month (data going back to Jul 2002). The Mar figure is now only 10% above that level at 31,130 commitments in a month. The Max was reached back in Jun 2007 at 44,247 commitments in a month.



### Lending for Investment Dwellings

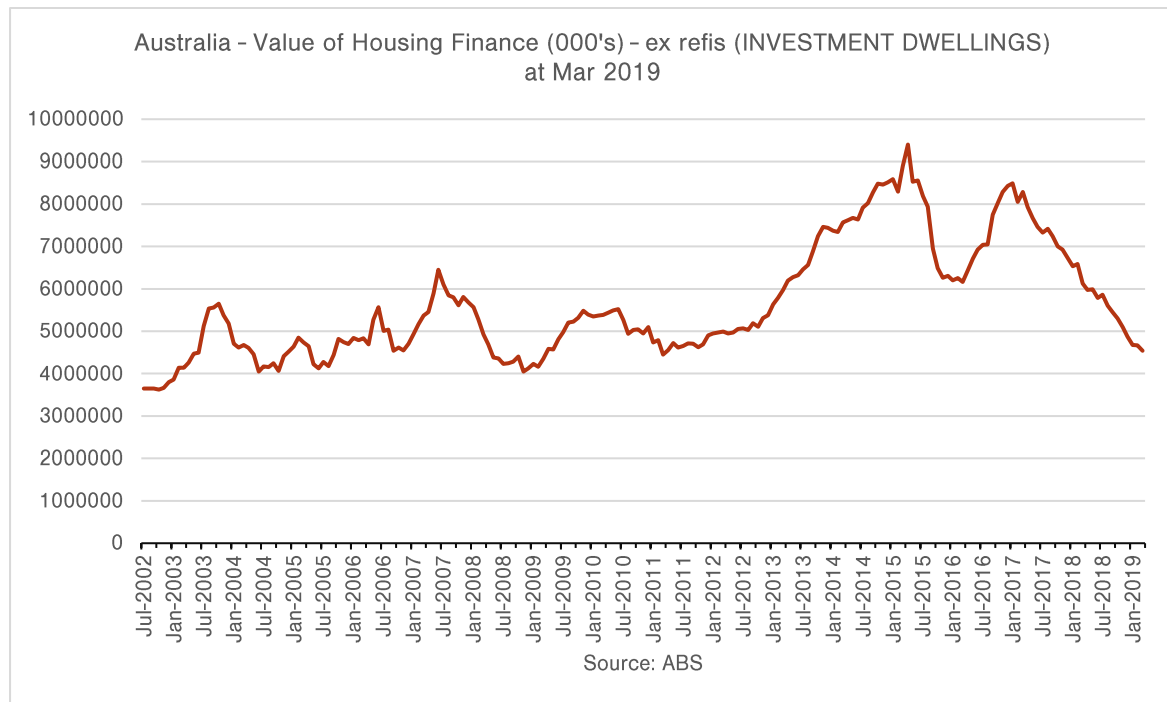
The value of lending for investment properties has continued to fall and remains well below a year ago. The current month value of lending for investment properties has also reached a new low in the current cycle.

Lending for Investment Dwellings – ex-refis (value)	Mth Chg	Mar -2.7%	Feb -0.2%
Lending for Investment Dwellings – ex-refis (value)	Annual Chg	Mar -26%	Feb -29.2%



Lending for investment dwellings has remained under greater pressure in this latest downtrend. Going back to Jul 2002, the value of lending commitments for investment dwellings peaked only recently in Apr 2015. The current month value of lending is 52%

BELOW this peak. The actual value of lending for investment properties has mostly reversed back down to the 2002-07 monthly average (\$4.7bn/mth);



<https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5601.0Main+Features1Mar%202019?OpenDocument>

## NAB Monthly Business Survey

While we don't usually report on the NAB's Business Survey, it seems important to note some of the larger shifts this month.

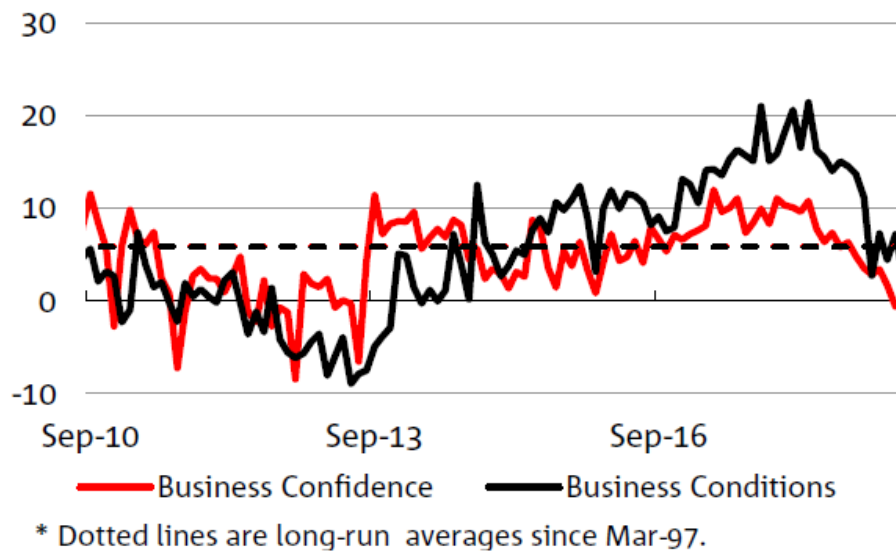
Conditions and confidence have been expanding at a slower pace throughout 2018. In the latest month though, several important measures have reached some inflection points - either falling into contraction or falling below longer-term averages.

**Business Confidence** – improved slightly but is at the threshold of improving/deteriorating. Apr increased to 0 from -1 in Mar. Remains below the LT average. Confidence is lower across all industries and negative in retail and wholesale,

**Business Conditions** – fell further in Apr and is just at the LT average.

“This suggests that the business sector has lost significant momentum but is not yet going backwards.”

### CHART 1: CONDITIONS FALL AND CONFIDENCE WEAK



Conditions were led lower by all three components;

Trading; Apr 7 versus Mar 11

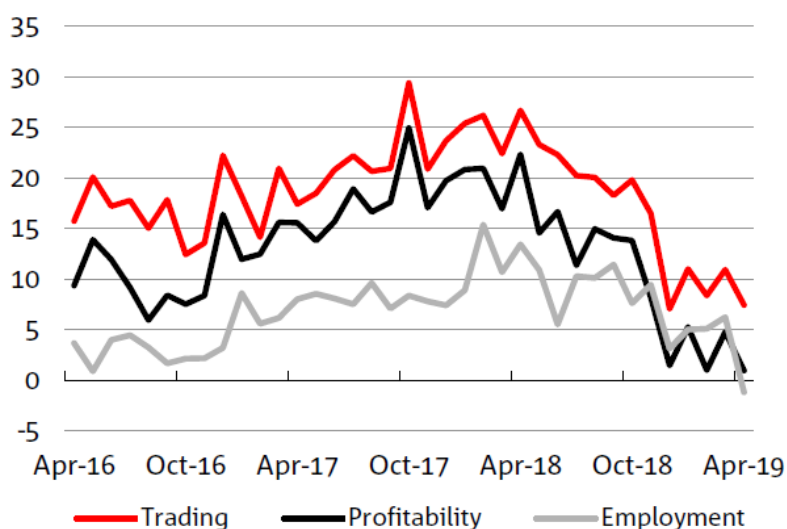
Profitability; Apr 1 versus Mar 5

Employment; Apr -1 versus Mar 6

Of most concern was sharp fall in employment conditions this month – now into negative territory;

“At face value, the employment index based on historical relationships suggests ongoing employment growth of 14k per month – barely enough to see the labour market hold onto recent gains.”

### CHART 8: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.





Forward indicators such as forward orders remain negative. With confidence remaining at very low levels, there is little to suggest that there will be improvement in the short-term.

<https://business.nab.com.au/wp-content/uploads/2019/05/2019m04-NAB-Monthly-Business-Survey.pdf>

## Wage Price Index (Q1)

In nominal terms, there was little change in the annual or quarterly growth in total hourly rates of pay.

Two points underlying that result;

1. While there has been little change in **private** hourly rates of pay, quarterly and annual growth in **public** rates of pay have slowed.
2. Australian CPI growth has been slowing over the last three quarters contributing to higher real wages growth

### Hourly Rates of Pay ex-Bonus – Total Public and Private Industries (Nominal)

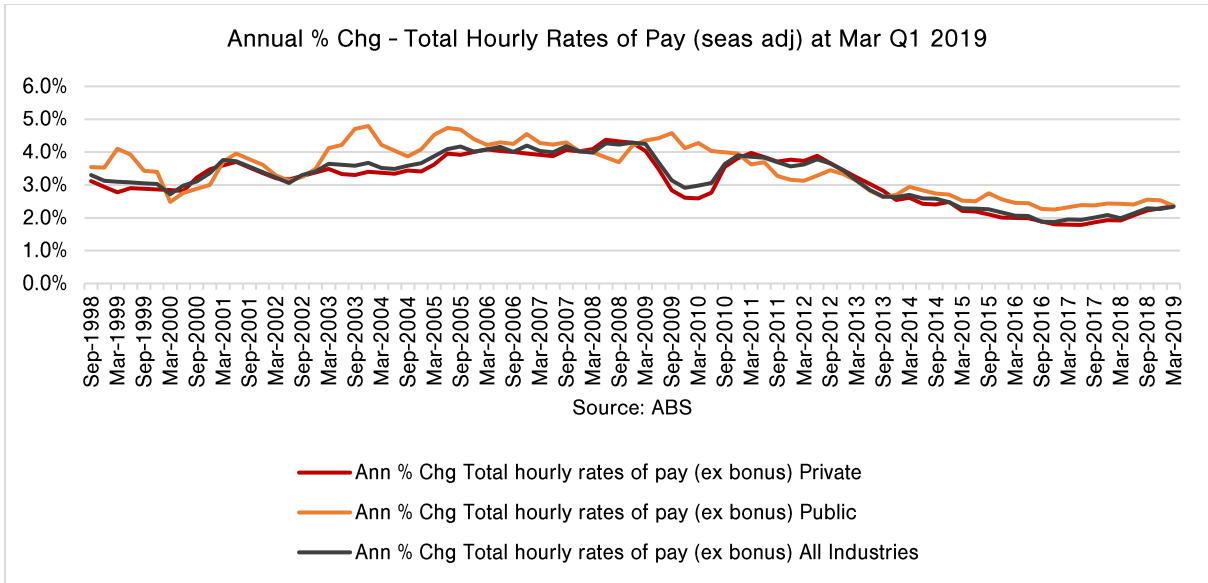
Total hourly rates of pay ex-bonus	Qtr Chg	2019 Q1 0.54%	2018 Q4 0.54%
Total hourly rates of pay ex-bonus	Annual Chg	2019 Q1 2.34%	2018 Q4 2.27%

Underlying the quarterly change, growth in public hourly rates of pay is slowed while private rates of pay grew at the same pace;

Public hourly rates of pay ex-bonus; Q1 +0.45% versus Q4 +0.60%

Private hourly rates of pay ex-bonus; Q1 +0.54% versus Q4 +0.54%

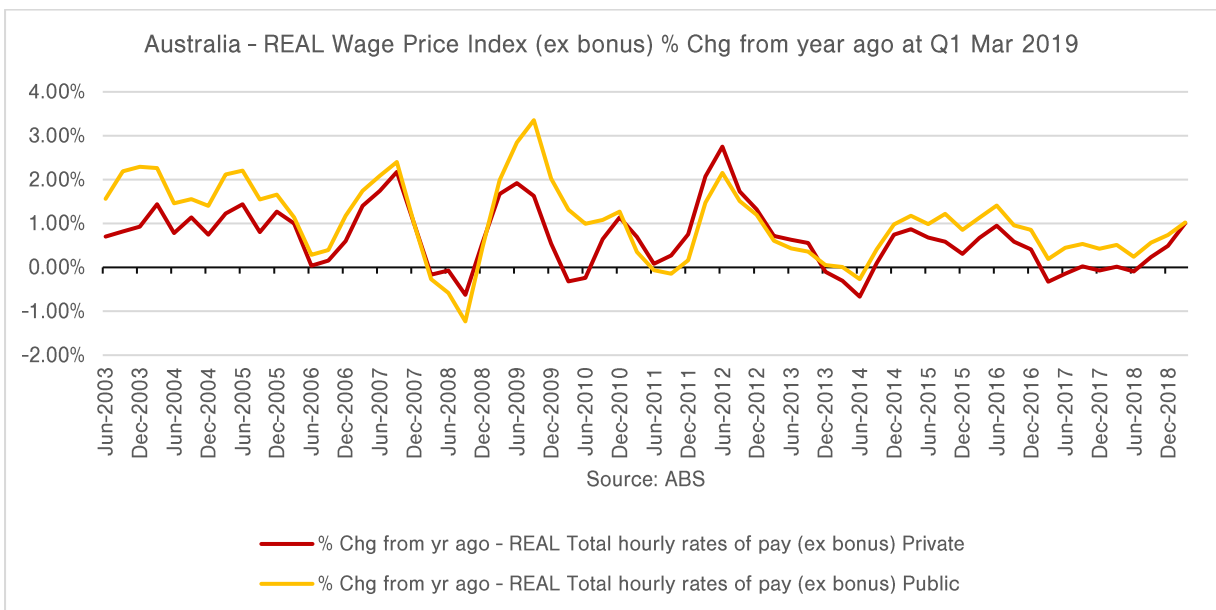
On an annual basis, there has been little change in the growth of private rates of pay as of Q1 and the annual growth in public rates of pay has slowed more notably;



**Real Hourly Rates of Pay**

In real terms, the annual growth in both public and private hourly rates of pay have accelerated in each of the last three quarters. This has been mostly the result of slowing CPI growth.

<b>Total Industry - real hourly rates of pay ex-bonus</b>	<b>Ann chg</b>	<b>2019 Q1 1%</b>	<b>2018 Q4 0.5%</b>
<b>CPI – All Items</b>	<b>Ann chg</b>	<b>2019 Q1 1.3%</b>	<b>2018 Q4 1.8%</b>



<https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6345.0Main+Features1Mar%202019?OpenDocument>

## Labour Market Survey (Apr)

There are two dynamics playing out over different timeframes. On an annual basis, the labour market remains in good condition. Employment growth remains larger than the labour force growth resulting in further declines in total unemployed persons.

Although employment growth has been somewhat stronger over the last two years, the underemployment ratio remains close to its highs.

The underlying month trend is moving in a different direction. This month, employment growth remained below that of the labour force for the fourth month. This means that employment growth was not then high enough to absorb the increase in participation (participation reached a new all time high in the latest month) – as a result, unemployed persons increased for the fourth month.

All data quote is the 'trend' series as recommended by the ABS.

### Employment

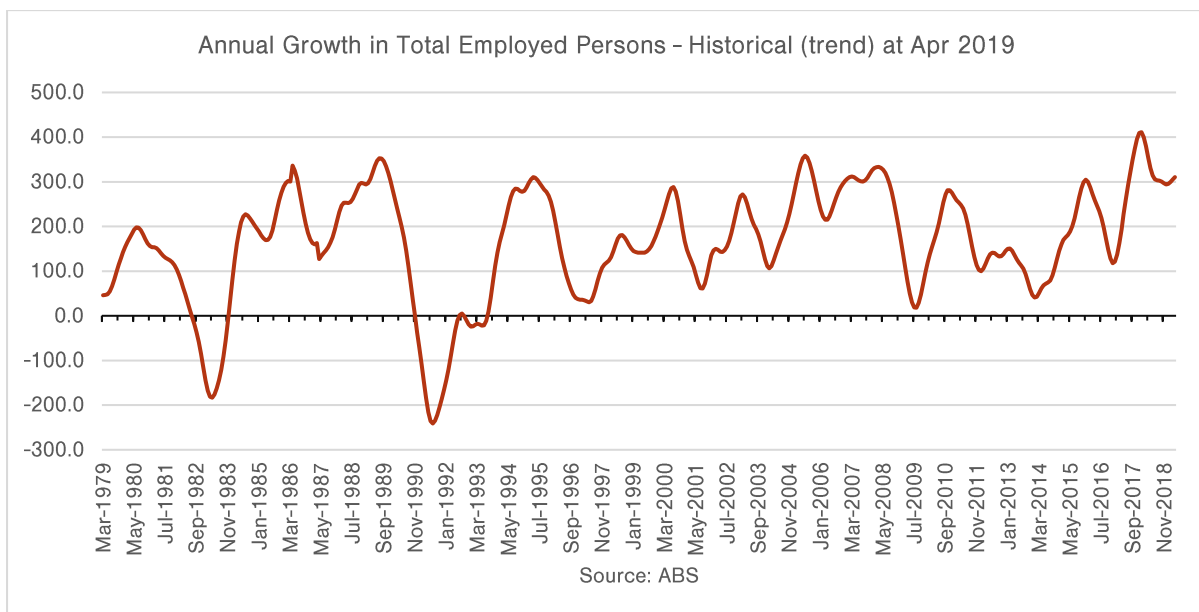
On an annual basis employment growth increased slightly.

In the latest month, growth continued to slow – something that we have observed over the last several months.

Total Employed Persons	Ann Chg	Apr 310.5k	Mar 305.5k
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Total Employed Persons	Mth Chg	Apr 20.7k	Mar 21.6k
------------------------	---------	-----------	-----------

On an annual basis, employment growth remains elevated, indicating how strong employment growth has been in recent years;



What is not clear from this chart is that, despite this high level of employment growth, the level of underemployment remains elevated in Australia.

Underemployment is defined as;

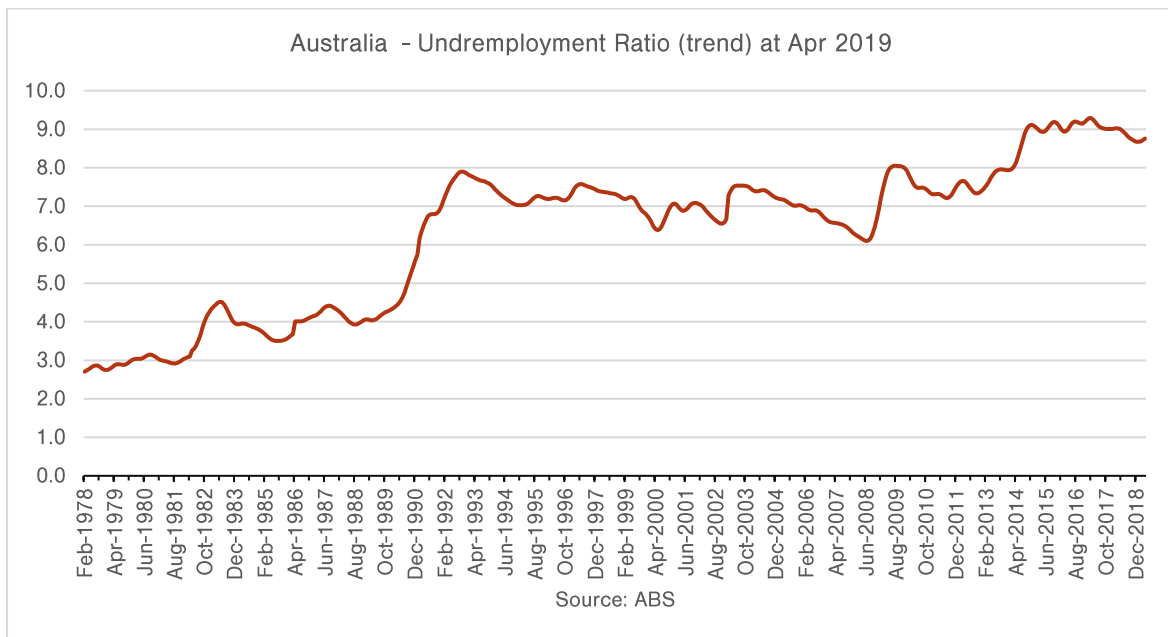
Employed persons aged 15 years and over who want, and are available for, more hours of work than they currently have. They comprise:

**persons employed part time who want to work more hours** and are available to start work with more hours, either in the reference week or in the four weeks subsequent to the survey; or

**persons employed full time who worked part time hours in the reference week for economic reasons (such as being stood down or insufficient work being available).** It is assumed that these people wanted to work full time in the reference week and would have been available to do so.

The underemployment ratio is defined as the number of underemployed workers expressed as a percentage of total employed persons.

The underemployment ratio has drifted down slowly since early 2017 but remains elevated at 8.8% in Apr;



The proportion of FT workers to total employed persons remains very close to its all-time lows of at 68.6% (all-time low 68.1% recorded mid 2016). While employment growth has been at close to very high levels (historically), spare capacity remains.

On an annual basis, employment growth is higher than growth in the total labour force. On a monthly basis though, employment growth remains below that of the labour force which is resulting in higher unemployment.

## Labour Force

On an annual basis, the size of the total labour force increased, but slowed slightly in the latest month

Total Labour Force	Ann Chg	Apr 275k	Mar 261k
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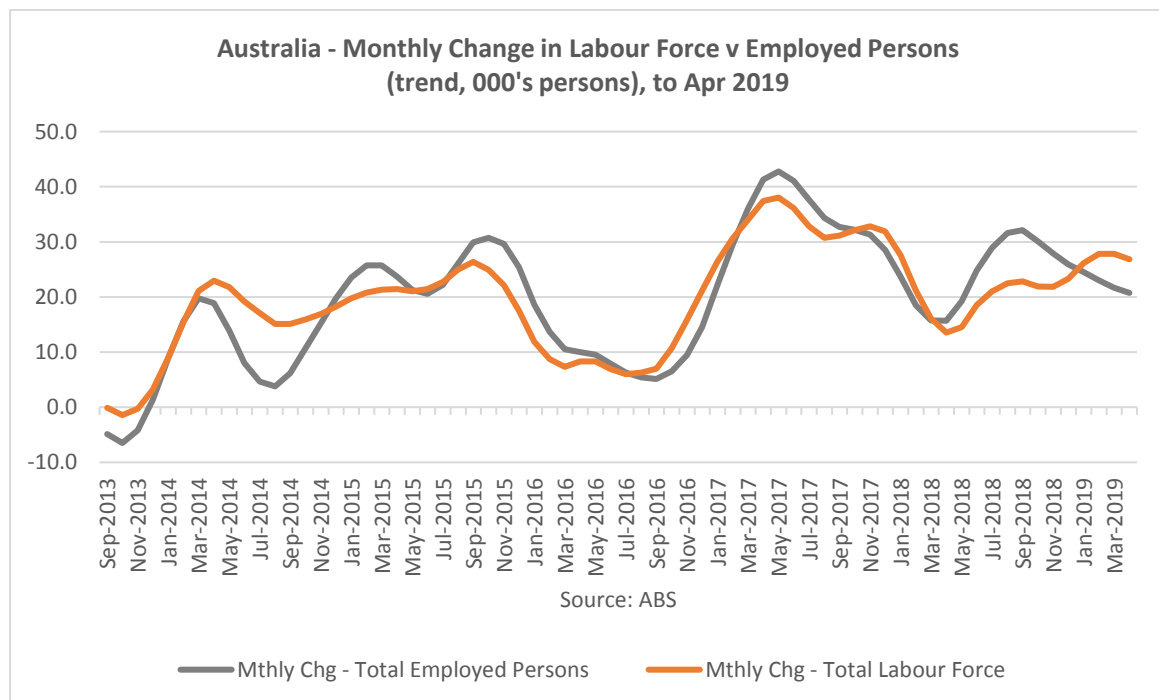
Total Labour Force	Mth Chg	Apr 26.8k	Mar 27.8k
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Both population growth and participation contributed to growth in the labour force over the year and the month.

Participation has continued to increase and in fact, the participation rate (total) reached a new all time high in the latest month of 65.74%. This been mostly the result of increases in female participation which also reached a new all time high in the latest month of 60.8%. Male participation remains very close to all-time lows only 0.7% above the all-time low.

Participation has increased on an annual (+0.18% pts) and monthly (+0.026% pts) basis.

Importantly though, employment growth remains below growth in total labour force in the latest month. This has been the case since Jan 2019;



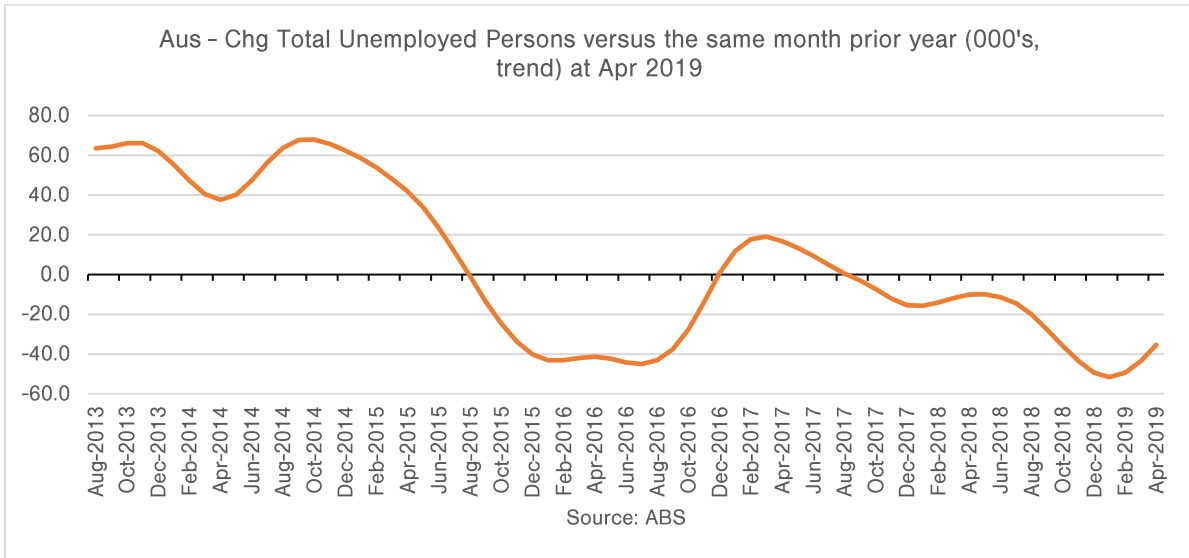
This has resulted in higher unemployment over the last few months.

## Total Unemployed Persons

On an annual basis, the growth in total employed persons remains above that of the labour force, so total unemployed persons continued to decline. The decline was slightly smaller due to faster growth in the labour force over the year;

Total Un-employed Persons	Ann Chg	Apr -35k	Mar -44k
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Total Un-employed Persons	Mth Chg	+6k	Mar +6k
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On a monthly basis though, total unemployed persons has increased for the fourth month. This has been the result of slower growth in employment even though there has also been a slight slowdown in growth in the labour force.

The unemployment rate edged up further in the latest month to 5.1%.

Summary of the key labour market indicators

On an annual basis, the labour market remains in good condition. Employment growth remains larger than the estimate of what population adds to the labour force and employment growth is high enough to also absorb more entrants into the labour force and continue to reduce total unemployed persons.

The underlying month trend remains concerning. This month, employment growth only equalled the est of what pop growth added to the labour force. This means that employment growth was not then high enough to absorb the increase in participation – as a result, the number of unemployed persons increased.

	000's Persons	
	Annual Chg - Apr	Month Chg - Apr
The estimated change in the Labour Force due to pop growth	238.208	21.474
How many jobs available for them? (employment growth)	310.534	20.734
Difference (if positive, employment growing faster than pop est)	72.326	-0.740
Change in labour force due to the change in participation	36.899	5.365
The reminder is the change in total unemployed persons	-35.427	6.105
Double Check - Annual chg in size of the Labour Force	275.107	26.830
<b>Two views of the size of the Labour Force:</b>		
Underlying population growth plus changes in participation	275.107	26.839
Total employed persons plus total unemployed persons	275.107	26.839

<https://www.abs.gov.au/ausstats/abs@.nsf/latestProducts/6202.0Media%20Release1Apr%202019>

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## China

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### China Motor Vehicle Sales (Apr)

The decline in vehicle production and sales continues;

Total Vehicle Production; Apr 2.052m units, -19.8% decline versus the month prior and a -14.5% decline on the same month a year ago.

YTD Production; 8.389 million units reflecting a -11% decline versus a year ago.

Total Vehicle Sales; Apr 1.98 million units, -21.4% decline on the month prior and -14.6% decline on the same month a year ago.

YTD Sales; 8.353m units -12.1% on the same time a year ago.

Further detail on sales/shipments breakdown, below:

#### New vehicle sales by type (Factory shipments)

	Apr. 2019			Jan.-Apr. 2019		
	Units (10,000)	Share(%)	Y-oY(%)	Units (10,000)	Share(%)	Y-oY(%)
Sedan/Hatchback	79.12	39.95	-14.77	331.46	39.68	-12.56
MPV	9.51	4.80	-30.67	46.49	5.57	-24.24
SUV	64.78	32.71	-20.02	291.88	34.94	-15.77
Mini Van	4.08	2.06	4.76	13.94	1.67	-1.75
<b>Passenger Cars Total</b>	<b>157.49</b>	<b>79.52</b>	<b>-17.73</b>	<b>683.76</b>	<b>81.86</b>	<b>-14.65</b>
<b>Commercial Vehicles Total</b>	<b>40.56</b>	<b>20.48</b>	<b>0.13</b>	<b>151.58</b>	<b>18.15</b>	<b>1.49</b>
<b>Grand Total</b>	<b>198.05</b>	<b>100.00</b>	<b>-14.61</b>	<b>835.33</b>	<b>100.00</b>	<b>-12.12</b>

Source:CAAM, Each maker's press releases

The first week of May results are also disappointing;

Sales of passenger car decreased 24% in the first week of May from a year ago, according to the China Passenger Car Association (CPCA). Transactions between automakers and dealers fell 44% year on year, the CPCA.

– Source; Caixin

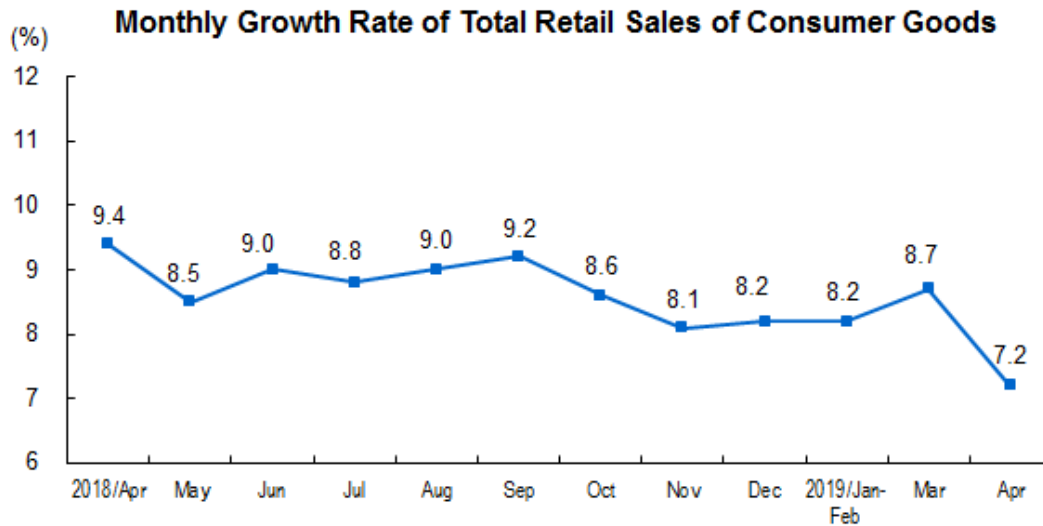
[https://www.marklines.com/en/statistics/flash\\_sales/salesfig\\_china\\_2019](https://www.marklines.com/en/statistics/flash_sales/salesfig_china_2019)



## Retail Sales (Apr)

The annual growth in retail sales slowed at a much faster rate in Apr;

Apr +7.2% versus Mar +8.7%

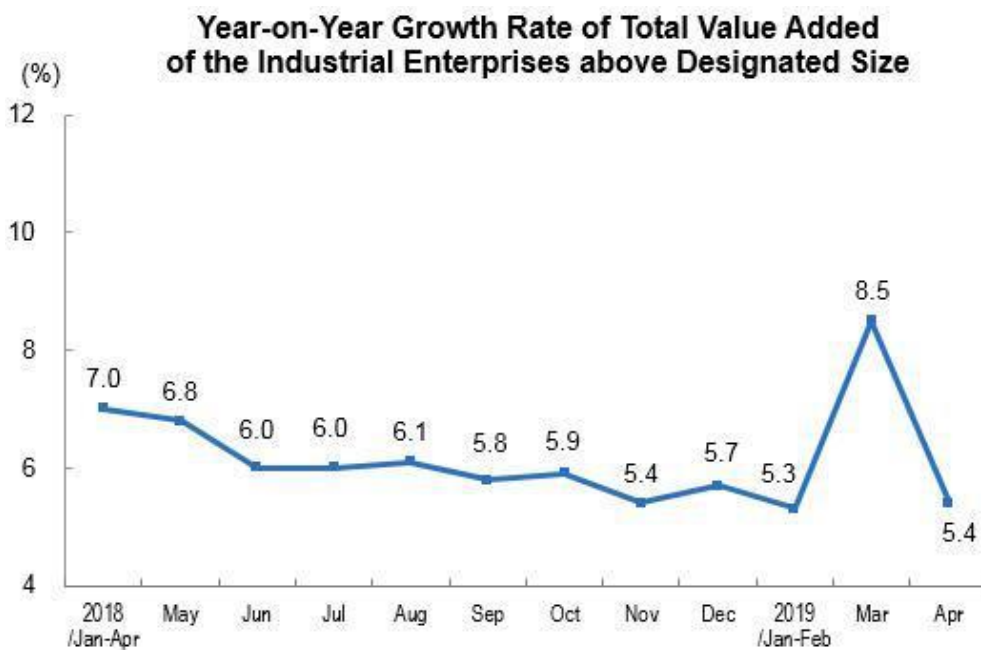


[http://www.stats.gov.cn/english/PressRelease/201905/t20190516\\_1665387.html](http://www.stats.gov.cn/english/PressRelease/201905/t20190516_1665387.html)

## Industrial Production (Apr)

The spike in the annual growth in industrial production from Mar was not maintained. Annual growth slowed back to the pre-Mar level;

Apr +5.4% versus Mar +8.5%



Of the three main sectors;

Mining & Quarrying; Apr +2.9% versus a year ago

Manufacturing; Apr +5.3% versus a year ago

(Manufacture of High-tech industry; Apr +11.2%)

Prod & Distribution of Electricity, Heating Power, Gas and Water; Apr +9.5%

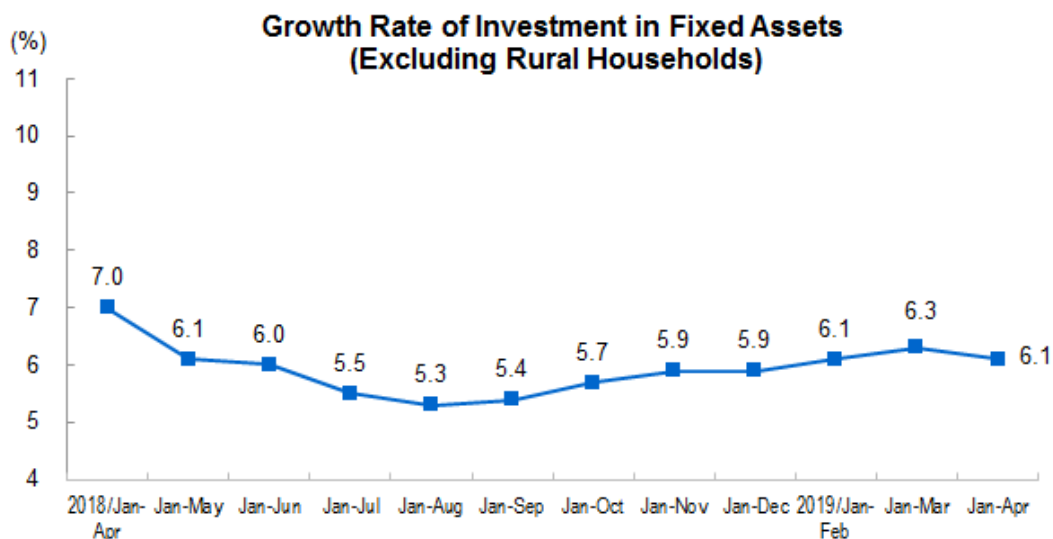
[http://www.stats.gov.cn/english/PressRelease/201905/t20190515\\_1665171.html](http://www.stats.gov.cn/english/PressRelease/201905/t20190515_1665171.html)

## Fixed Asset Investment (Apr)

The annual growth in investment in fixed assets slowed for the first time in several months;

Apr +6.1% versus Mar +6.3%

Investment in fixed assets (excluding rural households): refers to the total workload on construction and purchase for fixed assets during a certain period in the form of currency, as well as the concerning expenses.



[http://www.stats.gov.cn/english/PressRelease/201905/t20190516\\_1665392.html](http://www.stats.gov.cn/english/PressRelease/201905/t20190516_1665392.html)

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## Trade

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### US-China Trade Negotiations

The US is continuing the process of investigating imposing the next round of tariffs on the remaining \$300bn of imports from China.

As expected, China announced retaliatory tariffs on \$60 billion of U.S. goods.

The USTR announced on 10 May that;

“Earlier today, at the direction of the President, the United States increased the level of tariffs from 10 percent to 25 percent on approximately \$200 billion worth of Chinese imports. **The President also ordered us to begin the process of raising tariffs on essentially all remaining imports from China, which are valued at approximately \$300 billion.**” <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/may/statement-us-trade-representative>

Key dates for the USTR investigation;

10 June – filing deadline for requests to appear at the public hearing

17 June – public hearing in Washington

<https://www.federalregister.gov/documents/2019/05/17/2019-10191/request-for-comments-concerning-proposed-modification-of-action-pursuant-to-section-301-chinas-acts>

The next key date is the G20 in Osaka on 27-28 Jun – this had been widely touted as a key date for when both President Trump and President Xi would meet.

Depending on the status of negotiations, this next round of tariffs could go into effect from late Jun/early Jul.

Over the last week, the state of negotiations between the two countries is now being viewed through a less positive lens. On Friday, it was reported that negotiations had stalled.

" But sources say scheduling discussions have not taken place since the Trump administration ratcheted up its scrutiny of Chinese telecom companies. The move was seen as a shot across the bow..." <https://www.cnbc.com/2019/05/17/us-china-trade-talks-have-stalled-sources.html>

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](https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/january/statement-<br/>united-states-trade)

## Special 2019 Section 301 Review

No further notification on progress.

The USTR released its annual Special 301 Report on Intellectual Property Protection and Review of Notorious Markets for Piracy and Counterfeiting late last week.

“Specifically, over the coming weeks, USTR will review the developments against the benchmarks established in the Special 301 action plans for countries that have been on the Priority Watch List for multiple years. For such countries that fail to address U.S. concerns, USTR will take appropriate actions, such as enforcement actions under Section 301 of the Trade Act or pursuant to World Trade Organization or other trade agreement dispute settlement procedures, necessary to combat unfair trade practices and to ensure that trading partners follow through with their international commitments.”

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/april/ustr-releases-annual-special-301>

The report prepared a ‘priority watch list’, a ‘watch list’ and a ‘notorious markets list’.

The report highlighted;

“trading partners that do not adequately or effectively protect and enforce intellectual property (IP) rights or otherwise deny market access to U.S. innovators and creators that rely on protection of their IP rights.

Trading partners that currently present the most significant concerns regarding IP rights are placed on the Priority Watch List or Watch List. USTR identified 36 countries for these lists in the Special 301 Report:

Algeria, Argentina, Chile, China, India, Indonesia, Kuwait, Russia, Saudi Arabia, Ukraine and Venezuela are on the Priority Watch List.

Barbados, Bolivia, Brazil, Canada, Colombia, Costa Rica, Dominican Republic, Ecuador, Egypt, Greece, Guatemala, Jamaica, Lebanon, Mexico, Pakistan, Paraguay, Peru, Romania, Switzerland, Thailand, Turkey, Turkmenistan, the United Arab Emirates, Uzbekistan and Vietnam are on the Watch List.”

### Notorious Markets List

“The Notorious Markets List highlights 33 online markets and 25 physical markets that are reported to engage in and facilitate substantial copyright piracy and trademark counterfeiting”

[https://ustr.gov/sites/default/files/2018\\_Notorious\\_Markets\\_List.pdf](https://ustr.gov/sites/default/files/2018_Notorious_Markets_List.pdf)

The link to the notorious markets reports is here;

[https://ustr.gov/sites/default/files/2018\\_Notorious\\_Markets\\_List.pdf](https://ustr.gov/sites/default/files/2018_Notorious_Markets_List.pdf)

The first country on the list is China.

The full report; [https://ustr.gov/sites/default/files/2019\\_Special\\_301\\_Report.pdf](https://ustr.gov/sites/default/files/2019_Special_301_Report.pdf)

## NAFTA/USMCA

This week, the US agreed with Mexico and Canada to lift retaliatory tariffs under the s.232 duties on steel and aluminium. This results in the removal of retaliatory tariffs by Mexico and Canada which has affected US farmers. This agreement comes amid the somewhat cooling of trade negotiations between the US and China.

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/may/united-states-announces-deal-canada-and>

Removal of the tariffs also means that the process to ratify the USMCA agreement for Mexico and Canada will get underway and will likely be easier;

““We were very clear that as long as the 232 tariffs were there it would be very, very hard for us to ratify the new NAFTA, and that is why we did not table the legislation,” [Chrystia] Freeland said in an interview broadcast by CBC radio.”

<https://globalnews.ca/news/5291708/canada-cusma-ratification/>

“U.S. Vice President Mike Pence said on Friday he would meet with Canada’s Prime Minister Justin Trudeau in Ottawa on May 30 to discuss “advancing” ratification.” <https://globalnews.ca/news/5291708/canada-cusma-ratification/>

The report by the ITC evaluating the USMCA was released – based on the implementation over the next six years. Links to the detail can be found in the USTR announcement; <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/april/statement-us-trade-representative>

Link to the USITC report;

[https://www.usitc.gov/press\\_room/news\\_release/2019/er0418II1087.htm](https://www.usitc.gov/press_room/news_release/2019/er0418II1087.htm)

## Section 232 – Car and Truck Imports

President Trump has agreed to delay the decision to impose tariffs on auto imports as a part of the s.232 investigation on car and truck imports on national security grounds. But he has **stated that he agrees with the conclusion of the Commerce Dept report that imports harmed national security by causing declining market share for US-owned carmakers.**

““I concur in [Commerce Secretary Wilbur Ross'] finding that automobiles and certain automobile parts are being imported into the United States in such quantities and under such circumstances as to threaten to impair the national security of the United States,” Trump said in a proclamation outlining his decision.” <https://www.politico.com/story/2019/05/17/donald-trump-auto-tariffs-1330014>

“Early relief quickly faded as realization set in that Trump had actually moved closer to wielding the tariffs down the road if he is unsuccessful in using them as leverage in trade talks with the European Union and Japan. Trump isn't so much delaying auto tariffs as he is holding a gun to the global auto industry's

head and reserving his right to pull the trigger.”  
<https://edition.cnn.com/2019/05/18/politics/trump-auto-tariffs-delay/index.html>

As a part of the announcement, US President Trump also...

“directed U.S. Trade Representative Robert Lighthizer to pursue the negotiation of agreements with the EU, Japan and other countries that address the alleged national security threat posed by auto imports.

Lighthizer was directed to update the president on the status of those talks within 180 days.” <https://www.politico.com/story/2019/05/17/donald-trump-auto-tariffs-1330014>

The tariffs remain as negotiating leverage between the US and Japan and the EU. The S.232 report has not been made public, but President Trump’s statement provided some insight as to how the Commerce Dept justified the ‘national security’ grounds;

“The rapid application of commercial breakthroughs in automobile technology is necessary for the United States to retain competitive military advantage and meet new defense requirements,” the proclamation said.

The proclamation added that the U.S. defense industrial base depends on the “American-owned automotive sector” for development of technologies essential to military superiority. Foreign imports have eroded the ability of U.S. companies to compete and research and develop new technologies, the proclamation said.

“The lag in R&D expenditures by American-owned producers is weakening innovation and, accordingly, threatening to impair our national security,” the proclamation stated. <https://www.politico.com/story/2019/05/17/donald-trump-auto-tariffs-1330014>

## US-Japan Trade Talks

Further talks are expected to be scheduled for 24 May in Washington.

Along with the postponement of the auto tariffs, USTR Lighthizer has also confirmed that the US will not push for import quotas as a part of the trade deal.

After President Trump announced the postponement of auto tariffs, Toyota Corp came out with a strongly worded statement;

“Toyota Motor Corp. rebuked U.S. President Donald Trump’s declaration that imported cars threaten national security, signaling contentious talks are ahead for the White House and America’s key trading partners.”

“In an unusually strong-worded statement, Japan’s largest automaker said Trump’s proclamation Friday that the U.S. needs to defend itself against foreign cars and components “sends a message to Toyota that our investments are not welcomed.” The company said it has spent more than \$60 billion building

operations in the country, including 10 manufacturing plants.”  
<https://www.japantimes.co.jp/news/2019/05/19/business/no-u-s-auto-import-quota-works-says-japans-economic-revitalization-chief-toshimitsu-motegi/#.XOjTllzZhE>

Agriculture as well as auto tariffs remain important to the negotiations. Representatives have previously stated that Japan would not soften its stance on agriculture (import tariffs have been high);

Donald Trump’s hopes of completing a trade deal with Japan next month have been severely dented after he failed to persuade prime minister Shinzo Abe to give the US greater access to the country’s agricultural market. <https://www.ft.com/content/6ae28e80-698b-11e9-80c7-60ee53e6681d>

Japan wants to ensure it gets something in return for granting US farmers greater market access to its market, namely removing the threat of tariffs on car imports on the basis of US national security. <https://www.ft.com/content/6ae28e80-698b-11e9-80c7-60ee53e6681d>

A group of major US farm groups has lobbied USTR Lighthizer regarding the trade talks with Japan and access to the Japanese market (emphasis added);

“In recent weeks, Japan cut tariffs for the second time on agricultural imports from the European Union and CPTPP member countries. **As a result, U.S. exporters of wheat, beef, pork, dairy, wine, potatoes, fruits and vegetables, and other products are facing collapse of their Japanese market share as these lucrative sales are handed over to their competitors.**” [https://www.hpj.com/ag\\_news/plenty-of-trade-action-on-several-fronts/article\\_6ac3fc7d-8eb4-5d6d-965d-602094ce6a66.html](https://www.hpj.com/ag_news/plenty-of-trade-action-on-several-fronts/article_6ac3fc7d-8eb4-5d6d-965d-602094ce6a66.html)

President Trump is due to meet with Prime Minister Shinzo Abe at the Group of 20 summit in Osaka in June – securing an agreement before then seems unlikely that this stage.

<https://ustr.gov/countries-regions/japan-korea-apec/japan/us-japan-trade-agreement-negotiations>

The summary of US 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](https://ustr.gov/sites/default/files/2018.12.21_Summary_of_U.S.-Japan_Negotiating_Objectives.pdf)

## US-Europe Trade Talks

US and EU negotiators will meet next week 22-23 May at the OECD meeting in Paris as well as on 27 May in Paris. It now seems likely that the US and EU will enter talks “on a limited trade agreement, which covers vehicles”. <https://menafn.com/1098537328/EU-set-for-talks-with-US-on-limited-trade-agreement>

“The EU indicated last month it is ready to start talks with the United States on only two areas: cutting tariffs on industrial goods and making it easier for companies to show products meet EU or US standards.”

<https://www.bworldonline.com/eu-says-agriculture-not-on-agenda-for-us-talks/>

Background – The EC authorised negotiations to commence between the EU and the US. Emphasis added;

“Today's adoption of the EU negotiating directives gives a clear signal of the EU's commitment to a positive trade agenda with the US and the implementation of the strictly defined work programme agreed by Presidents Trump and Juncker on 25 July 2018. **But let me be clear: we will not speak about agriculture** or public procurement.”

[https://www.consilium.europa.eu/en/press/press-releases/2019/04/15/trade-with-the-united-states-council-authorises-negotiations-on-elimination-of-tariffs-for-industrial-goods-and-on-conformity-assessment/?utm\\_source=dsms-auto&utm\\_medium=email&utm\\_campaign=Trade+with+the+United+States%3a+Council+authorises+negotiations+on+elimination+of+tariffs+for+industrial+goods+and+on+conformity+assessment](https://www.consilium.europa.eu/en/press/press-releases/2019/04/15/trade-with-the-united-states-council-authorises-negotiations-on-elimination-of-tariffs-for-industrial-goods-and-on-conformity-assessment/?utm_source=dsms-auto&utm_medium=email&utm_campaign=Trade+with+the+United+States%3a+Council+authorises+negotiations+on+elimination+of+tariffs+for+industrial+goods+and+on+conformity+assessment)

Issues regarding US and EU aircraft subsidies remains live also. The USTR announced it will commence a process that will identify products of the EU that additional duties will be applied to in response to continued EU subsidies for Airbus. <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/april/ustr-proposes-products-tariff>

The USTR has now launched an “investigation to enforce U.S. rights in the World Trade Organization (WTO) dispute against the European Union (EU) and certain EU member States addressed to EU subsidies on large civil aircraft.”

The Trade Representative proposes to take action in the form of additional duties on products of the EU or certain member States, to be drawn from the preliminary list annexed to this Notice.

Key dates for this investigation;

May 6, 2019: Due date for submission of requests to appear at the public hearing and summary of testimony.

May 15, 2019: The Section 301 Committee will convene a public hearing. Details; <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/may/public-hearing-proposed-countermeasures>

May 28, 2019: Due date for submission of written comments, including post-hearing rebuttal comments.

<https://www.federalregister.gov/documents/2019/04/12/2019-07267/initiation-of-investigation-notice-of-hearing-and-request-for-public-comments-enforcement-of-us-wto>

Last week the EC has identified approx. €20bn in US exports for tariffs;



“The European Commission Wednesday said it wants to hit around €20 billion of U.S. exports with tariffs in retaliation for unlawful subsidies given by the U.S to American aircraft manufacturer Boeing.” <https://www.politico.eu/article/eu-prepares-e20b-retaliation-against-us-over-boeing-subsidies/>

<https://www.politico.eu/tag/eu-us-trade-talks/>

The summary of US 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](https://ustr.gov/sites/default/files/01.11.2019_Summary_of_U.S.-EU_Negotiating_Objectives.pdf)

## **US-UK Trade Talks**

The USTR has now published the summary of specific negotiating objectives for the US-UK trade negotiations; [https://ustr.gov/sites/default/files/Summary\\_of\\_U.S.-UK\\_Negotiating\\_Objectives.pdf](https://ustr.gov/sites/default/files/Summary_of_U.S.-UK_Negotiating_Objectives.pdf)

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