

Key Themes

The FOMC minutes reflected a somewhat more upbeat, yet guarded view on growth and risks – “some of the risks and uncertainties that had surrounded their outlooks earlier in the year had moderated”. Unfortunately, the rates decision was made prior to the escalation in the trade dispute between the US and China. Several points noted in the minutes have also been superseded by weaker data on retail sales and manufacturing activity. The Board maintains that low inflation is due to transitory effects. Nonetheless, ‘muted inflation’ and the global economic backdrop warrant a patient approach to rates.

From the RBA, some of the more positive underpinnings of the recent outlook (US-China trade etc) have now shifted to uncertainty and have tilted risks to growth to the downside. The RBA meeting was just after news broke of the deterioration in trade talks between the US and China. Domestically, the low inflation print for the Mar 2019 quarter and the income/spending impact of falling house prices has the Board monitoring the labour market very closely. What has concerned the board is that, despite very strong employment growth, underemployment/slack in the labour market remains elevated and is likely to slow down progress of wage growth (and reaching the inflation target). During the week, Governor Lowe suggested that a discussion on rate cuts was likely at the next board meeting.

Data on manufacturing in the US continues to disappoint. The advance Durable Goods report for Apr highlighted that both shipments and new orders fell in Apr, with Mar results also revised lower. This confirmed the weaker manufacturing data within the industrial production report from the previous week.

The prelim US composite PMI suggested that this weakness accelerated in May with both services and manufacturing growth slowing quickly. New orders in manufacturing declined in this survey for the first time since '09, employment growth slowed to a marginal rate and business sentiment fell amid a worsening trade backdrop.

Japan prelim manufacturing PMI also fell back into slight contraction in May. While measures of demand remained weaker, most concerning was the shift in manufacturing sentiment to a ‘negative outlook’ – the lowest level in over six years.

The Eurozone prelim PMI was little changed. Results in core countries were more mixed, but there was some deterioration in demand within periphery countries.

Escalations continue between the US and China outside of strictly trade issues, and this is likely to continue. No further talks have been scheduled at this stage.

Amid the impasse on Brexit, PM May will step down as leader on 7 June.

Contents

[US Data](#) - FOMC Minutes, Composite Prelim PMI (May), Durable Goods Orders (Apr)

[Europe](#) - Eurozone Prelim Manufacturing and Services PMI (May)

[Japan](#) - Prelim Manufacturing PMI (May), National CPI (Apr)

[United Kingdom](#) - Brexit, Retail Sales (Apr)

[Australia](#) - RBA Minutes

[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

FOMC Minutes – Meeting 01 May 2019

The FOMC meeting and decision on rates was made prior to the official news of the deterioration in trade negotiations between the US and China. Negotiations between the US and China had been one of the ‘cross-current’ risks from late in 2018 that the FOMC had recently identified as having ‘moderated’ so far in 2019.

Growth and outlook - The minutes reflect a somewhat more guarded upbeat view with some of the downside risks having been diminished, but not eliminated.

“A number of participants observed that some of the risks and uncertainties that had surrounded their outlooks earlier in the year had moderated, including those related to the global economic outlook, Brexit, and trade negotiations”

“For this year as a whole, a number of participants mentioned that they had marked up their projections for real GDP growth, reflecting, in part, the strong first-quarter reading”

“Participants cited continuing strength in labor market conditions, improvements in consumer confidence and in financial conditions, or diminished downside risks both domestically and abroad, as factors likely to support solid growth over the remainder of the year.”

Other uncertainties remain which warrant the ‘patient approach’ to rates policy – global economic developments and domestic muted inflation;

“In light of **global economic and financial developments as well as muted inflation pressures**, participants generally agreed that a patient approach to determining future adjustments to the target range for the federal funds rate remained appropriate.”

Inflation - The minutes reference the weaker reading on core inflation as measured by ex food and energy. The view is that this is primarily due to ‘temporary factors’.

“At least part of the recent softness in inflation could **be attributed to idiosyncratic factors that seemed likely to have only transitory effects on inflation**, including unusually sharp declines in the prices of apparel and of portfolio management services”

An alternative measure of core or underlying inflation was presented – the trimmed mean, which showed that core inflation had been around 2% for several months.

Household sector – the point was made of the very strong bounce back in retail and light vehicle sales in Mar, with the minutes stating;

“...these developments suggested that the first-quarter softness in household spending was likely to prove temporary.”

[Subsequent data has now indicated that the weakness in spending is persisting.]

Other points from the minutes to continue to monitor:

“Challenges in the agriculture sector” – due to trade uncertainty, low prices, weather events.

Industrial production – the minutes identified that manufacturing output declined ‘moderately’ due to a decrease in output of cars and parts. Automakers' assembly schedules suggested that the production of light motor vehicles would move up in the near term. [In fact, production has deteriorated as of the Apr industrial production data]. New orders indexes from national and regional manufacturing surveys pointed to modest gains in overall factory output in the coming months, aircraft production would likely slow in the second quarter. [The most recent durable goods orders (advance) shows that new orders are now flat to last year.]

Residential investment – New and existing home sales increased in Feb-Mar period. Financing conditions remained supportive - mortgage rates decreased approx. 5bps, to levels comparable with 2017.

“Consistent with lower mortgage rates, home-purchase mortgage originations increased, reversing a yearlong decline.”

Business equipment expenditures -

“Forward-looking indicators of business equipment spending pointed to sluggish increases in the near term”

Risks to financial stability -

“The build-up in overall nonfinancial business debt to levels close to historical highs relative to GDP was viewed as a factor that could amplify adverse shocks to the business sector and the economy more broadly.”

<https://www.federalreserve.gov/monetarypolicy/fomcminutes20190501.htm>

Advance Durable Goods Orders (Apr)

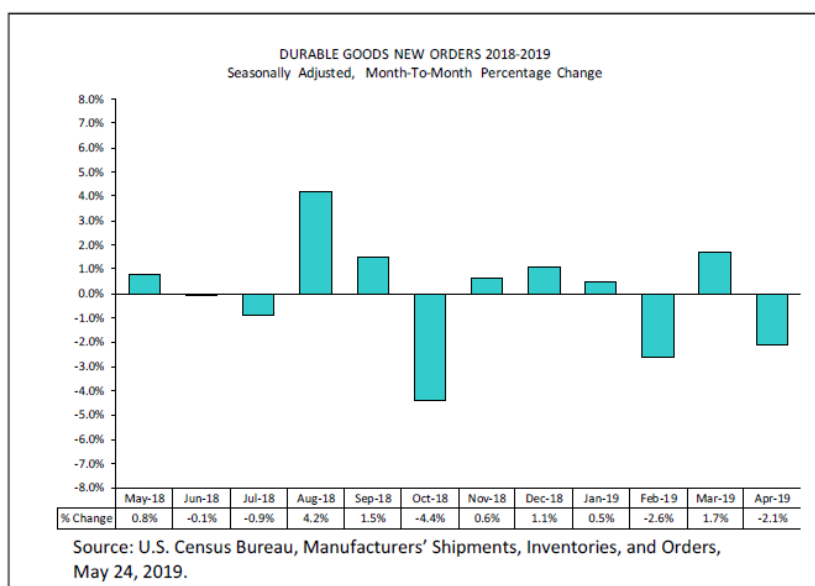
The advance report for durable goods manufacturing showed that new orders and shipments declined in Apr. Declines in transportation equipment new orders and shipments contributed to the overall decline. The Mar results were also revised lower.

Durable Goods – New Orders

Durable Goods – New Orders % chg	Mth chg	Apr -2.1%	Mar +1.7% (prior +2.7%)
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Durable Goods – New Orders \$ chg	Mth Chg	Apr -\$5.4bn	Mar +\$4.2bn
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On a non-seasonally adjusted basis, total durable goods new orders in Apr was -0.1% below the same period a year ago.



The main contributor to the decline in new orders for Apr was transport equipment. Excluding transport equipment, new orders growth was zero in Apr versus Mar.

Excluding defense, the decline in new orders was larger; -2.5% in Apr.

The decline in transport equipment was not limited to aircraft. New orders fell by -\$5.4bn in Apr. This was made up of a decline in new orders for motor vehicles and parts (-\$2.1bn), non-defense aircraft and parts (-\$3.1bn) and defense aircraft and parts (-\$0.1bn).

Overall capital goods new orders declined in Apr by -3.5% or -\$3.2bn (after a +6.3% increase in Mar). For the YTD, growth in capital goods new orders was a mere +0.3% and is -2.2% versus the same month a year ago. Non-defense aircraft is likely to make up the bulk of this decline but excluding aircraft, non-defense capital goods new orders still declined by -0.9% in the month.

Durable Goods – Shipments

Durable Goods – Shipments % chg	Mth chg	Apr -1.6%	Mar -0.5% (prior +0.3%)
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Durable Goods – Shipments \$ chg	Mth Chg	Apr -\$4bn	Mar -\$1.2bn (prior +\$0.9bn)
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Shipments were lower across most categories except for computers and electronic products.

The largest contributor to the decline in shipments was transportation equipment. Shipments excluding transportation equipment declined by -0.2% (after declining by -0.7% in Mar).

Both motor vehicle and non-defense aircraft and parts contributed equally to the decline in transportation equipment shipments.

Excluding defense, shipments declined at a faster pace -1.8%.

Durable Goods – Inventories

Durable Goods – Inventories % chg	Mth chg	Apr +0.4%	Mar +0.3% (prior +0.3%)
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Transport equipment contributed the most to the increase in inventories. Motor vehicles and parts, non-defense aircraft and parts and defense aircraft and parts contributed to the increase in transport inventories.

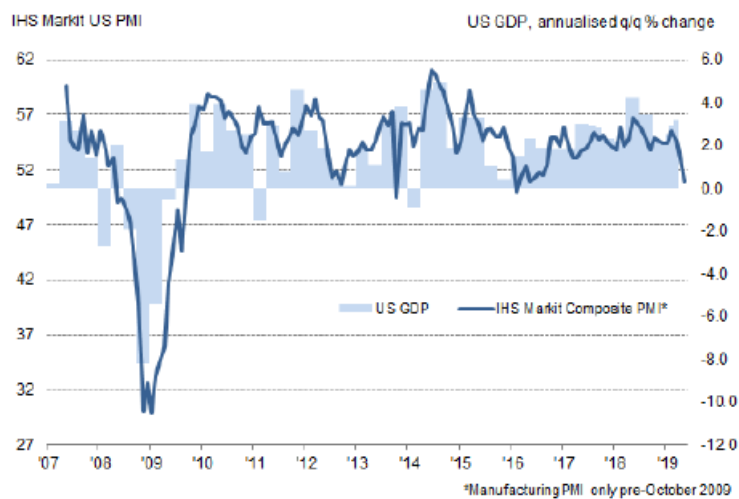
<https://www.census.gov/manufacturing/m3/index.html>

Prelim Composite PMI (May)

The headline composite index fell harder in May with growth slowing to a more marginal rate of growth. Both services and manufacturing activity contributed to this slower growth. The weaker performance was driven by more negative trends in underlying indicators of demand in both services and manufacturing sectors.

Composite PMI: May 50.9 versus Apr 53 (-2.1 pts)

IHS Markit Composite PMI and U.S. GDP



Sources: IHS Markit, U.S. Bureau of Economic Analysis.

Overall employment growth was only marginal. Firms became less optimistic about output growth in the next 12-months as business expectations fell to the lowest level since 2012.

“Reduced confidence was commonly attributed to hesitation among clients and increased uncertainty, which were both often linked to global trade tensions.”

Services Business Activity Index: May 50.9 versus Apr 53

New orders increased only slightly, while backlogs of work declined for the first time this year. Employment growth slowed to a 25-mth low.

Manufacturing PMI: May 50.6 versus Apr 52.6

Output, employment and pre-production inventories all grew at a slower pace. **Of note was that new orders declined for the first time since Aug 2009.** Weaker overall demand

conditions were noted by firms and 'hesitancy among clients to place orders'. Demand from foreign and domestic clients fell.

<https://www.markiteconomics.com/Public/Home/PressRelease/c0a77762175240d989bf5090d001cff2>

[Return to top](#)

Europe

Prelim Composite PMI (May)

There was little change in the headline Eurozone composite PMI for May, with growth remaining at a lower level. In the prelim report, growth in services activity slowed while the decline in manufacturing continued at a similar pace. Outside of Germany and France, the rest of the Eurozone region recorded the first fall in new orders in almost six years – indicating possible weaker activity throughout the Eurozone.

Prelim Composite PMI: May 51.6 versus Apr 51.5

IHS Markit Eurozone PMI and GDP



Sources: IHS Markit, Eurostat.

New orders growth was small overall. New export orders declined, although not as steep as in the two prior months. Backlogs of work declined for the fifth time in the last six months.

With slower growth in underlying demand, firms slowed the pace of employment growth – the lowest increase since 2016. Service firms continued to expand employment but at a slower pace while employment for manufacturing firms declined for the first time since Aug 2014.

Overall expectations for growth over the next twelve months fell to the lowest point since 2014 in services firms while manufacturing expectations remained near 2012 lows.

Services Activity Index; May 52.5 versus Apr 52.8

Manufacturing PMI; May 47.7 versus Apr 47.9

Manufacturing output continued to decline, and new manufacturing orders fell for the eighth month with another fall in goods exports. Manufacturing jobs fell for the first time since Aug 2014.

Regional growth;

Germany – overall growth was the result of service sector activity (which had slowed to a four-month low) output while manufacturing activity declined at a slower pace. New orders fell and jobs growth was the lowest in three years.

France – growth edged up to a six-month high. Growth increased moderately in the service sector and the manufacturing output was more stable.

Outside of Germany & France – business activity slowed to the lowest point since 2013, almost at a stagnant level. New business declined for the first time since Jul 2013.

<https://www.markiteconomics.com/Public/Home/PressRelease/2c6b3033fa8b46c6ae859fea0f98da8d>

[Return to top](#)

Japan

Prelim Manufacturing PMI (May)

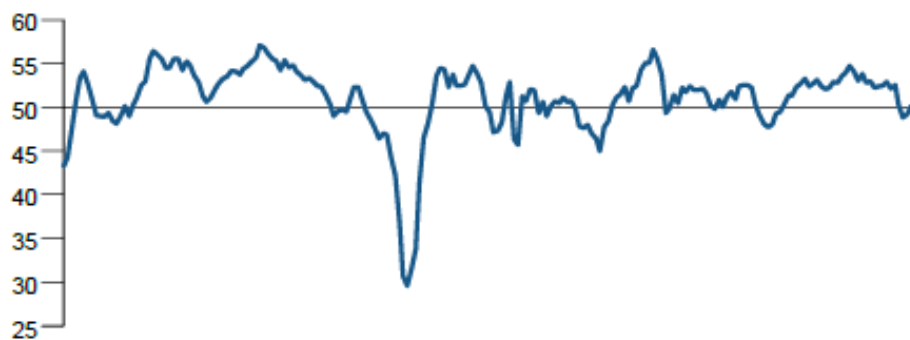
The prelim manufacturing PMI fell back into slight contraction in May after recent improvement. Key measures of demand – both output and new orders declined for the fifth month.

Manufacturing PMI: May 49.6 versus Apr 50.2

Nikkei Flash Japan Manufacturing PMI

sa, 50 = no change on previous month

Purchasing Managers' Index (PMI)



Output declined at a faster rate. New orders also declined but at a slower rate while new export orders declined at an accelerated rate.

Order backlogs continued to decline.

Employment growth increased at a slower pace.

Firms remained cautious about inventory – quantities of purchases and stocks of purchases declined at a faster rate. Stocks of finished goods decreased at a slower rate.

Future expectations were downbeat with sentiment shifting to negative;

“The re-escalation of US-China trade frictions has heightened concern among Japanese goods producers. Underlying growth weakness across much of Asia led to struggling exports, which fell at the sharpest rate in four months. Difficulties on the international front merely add to uncertainties domestically, with upcoming upper house elections in July, and the impending sales tax hike later this year. Subsequently, **sentiment turned negative in May for the first time in six-and-a-half years.**”

<https://www.markiteconomics.com/Public/Home/PressRelease/76038dfe5cd84d09a0df7042b5dd057e>

[Return to top](#)

United Kingdom

BREXIT

This last week PM May has agreed to step down as Conservative Party leader and PM on 7 Jun 2019. PM May will remain as a caretaker until a new leader is selected which is likely to be completed by late July – a general election is not required.

This now raises uncertainty again about whether the UK will exit without an agreement;

“Scottish First Minister Nicola Sturgeon, an opponent of Brexit, tweeted that May’s exit “will not solve the Brexit mess that the Tories have created. ... The prospect of an even more hard-line Brexiteer now becoming PM and threatening a no deal exit is deeply concerning.””

“Most businesses and economists think that would cause economic turmoil and plunge Britain into recession. Parliament has voted to rule out a no-deal Brexit, though it remains the legal default option.”

“But many Conservatives think embracing a no-deal Brexit may be the only way to keep the support of voters who opted in 2016 to leave the EU.”

<https://www.apnews.com/2ac10eef56b941b6b2f405a3319a7720>

EU parliamentary elections also took place over the weekend – possibly helping to break the impasse. The Farage-led Brexit Party appears to have won the largest proportion of the votes, although final results have not yet been announced.

“The results were greeted by Conservative Brexiteers as a sign that the party should be prepared leave the European Union without a deal at the end of October.”

““This is a political tsunami. The Brexit Party have absolutely romped it,”
Conservative MP Mark Francois told the BBC.”

“Following the results, the Labour leader signalled a possible shift towards backing a new EU referendum.”

https://www.businessinsider.com.au/european-election-results-brexit-party-nigel-farage-wins-conservatives-collapse-2019-5?utm_source=dlvr.it&utm_medium=twitter&utm_campaign=theurbannewz&=US&IR=T

UK Retail Sales (Apr)

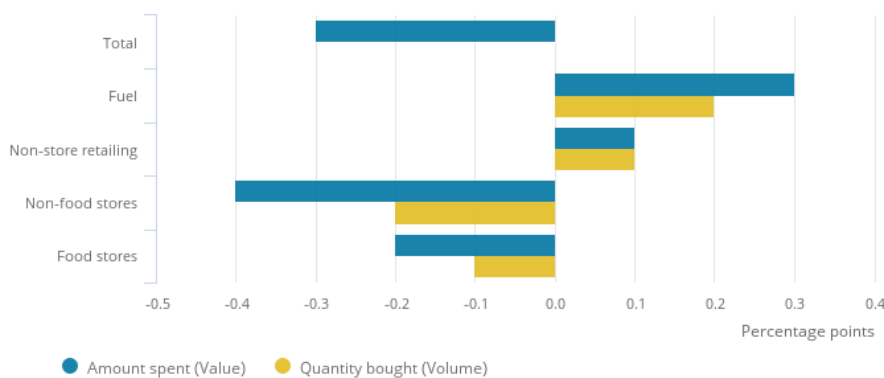
This is the first month of data after the first Brexit deadline passed on 29 Mar. After the very strong result in Mar, retail sales growth was unchanged in Apr.

Retail Sales incl Fuel (volume seas adj): Apr 0% versus Mar +1.2%. Excluding Fuel, retail sales declined by -0.2%.

Fuel and non-store retailing made the only contributions to growth – sales in food stores and non-food stores declined compared to Mar;

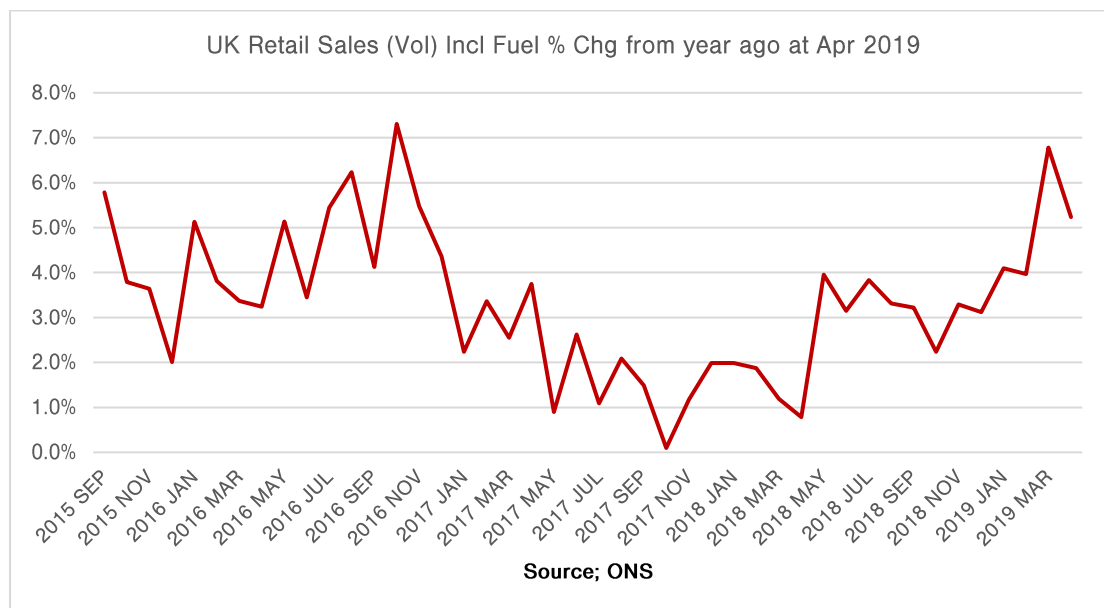
Figure 3: Fuel stores and non-store retailing were the only positive contributors to the quantity bought in April 2019

April 2019 compared with March 2019



Source: Office for National Statistics - Monthly Business Survey - Retail Sales Inquiry

On an annual basis, growth remains elevated but still slowed somewhat;



<https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/april2019>
Return to top

Australia

RBA Meeting Minutes – 7 May 2019

One of the elements that had been supportive of a more positive global outlook has now shifted to uncertainty. This RBA meeting took place just after news broke that negotiations on trade between the US and China had started to stall and that the US had imposed a one-week deadline before raising tariffs again.

It was also two weeks before the Australian election. Its unclear whether the RBA would see upside from a Liberal (conservative) win in the near-term forecasts.

The key feature of the RBA rates decision on the 7 May was the change in the guidance statement – noting that ‘spare capacity’ still existed in the economy (via elevated underemployment) which, if not reduced, would hinder reaching the inflation target. The RBA would pay ‘close attention to developments in the labour market’ - rather than stating more broadly that the Board will ‘monitor developments (in the economy) and set policy to support sustainable growth’.

International conditions – risks generally tilted to the downside. Outlook for China continued to be a significant uncertainty, more so as trade tensions had escalated. Aus key trading partners impacted by slower growth in China. Targeted stimulus in China having some positive effect on results. Generally, global financial conditions remain very accommodative – this could provide some upside surprise to growth.

Domestic conditions – two important points; 1) the income/spending impacts of the declines in the housing market;

“The outlook for household consumption remained a key uncertainty, with the risks tilted to the downside given ongoing low-income growth and the adjustment occurring in housing markets.”

and 2) the very low CPI print in the Mar qtr

“The inflation data in the March quarter CPI release were noticeably lower than expected.”

“The earlier exchange rate depreciation and the drought-related increase in some food prices had led to relatively strong retail price inflation in the March quarter. However, these inflationary pressures had been more than offset by broad-based weakness in other CPI components, which was likely to be more persistent.”

Both these points have the RBA closely monitoring developments in the labour market. In the case where unemployment trended up and inflation remained low, a ‘decline in the cash rate would be appropriate’. Leading indicators of employment growth had eased recently – suggesting that it would be harder to further reduce unemployment as well as underemployment (which remains stubbornly high). Emphasis added;

“Members noted that the forecasts for the labour market suggested that there would be some spare capacity in the labour market throughout the forecast

period, **although there was uncertainty about how quickly the spare capacity would decline and how progress would feed into wage pressures.**”

Also worthy of consideration is the fact that rates in Aus remain at low levels. The Board noted in the minutes that the impact further cuts in rates may have limited effect on borrowing decisions in the near term. Lower rates seen to support spending in those households with variable rate mortgages as well as lower the exchange rate to support exports;

“As noted at the previous meeting, members recognised that the effect on the economy of lower interest rates could be expected to be smaller than in the past, given the high level of household debt and the adjustment that was occurring in housing markets. Nevertheless, a lower level of interest rates could still be expected to support the economy through a depreciation of the exchange rate and by reducing required interest payments on borrowing, freeing up cash for other expenditure.”

<https://www.rba.gov.au/monetary-policy/rba-board-minutes/2019/2019-05-07.html>

Housing; Australian Election

The conservative Liberal/National Coalition was returned to government. Among other things, this means that several of the housing-related policies of the Labour party will not be implemented – negative gearing will remain for both new and established properties and the capital gains tax discount will remain at 50%. In other words – there will be no change to the current situation. Labour policies on negative gearing (only applied to new properties, while maintaining all existing arrangements) would not have come into effect until 2020.

[Return to top](#)

Trade

US-China Trade Negotiations

Negotiations appear to remain stalled - at this stage, there are no official talks scheduled.

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

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 around the time of this meeting.

Other pressure points between the two countries have increased over the last week; the US was considering 'Huawei-like sanctions' on a Chinese surveillance firm, Hikvision Digital Technology Co Ltd and the US sent two navy ships into the Taiwan Strait;

Also feeding into tensions, the U.S. military said it sent two Navy ships through the Taiwan Strait on Wednesday, prompting Chinese Foreign Ministry spokesman Lu Kang to lodge “stern representations.”

<https://www.reuters.com/article/us-usa-trade-china/trump-says-dangerous-huawei-could-be-included-in-u-s-china-trade-deal-idUSKCN1ST0PA>

Also of note, was a statement released on the USTR website “Joint Statement of the Trilateral Meeting of the Trade Ministers of the United States, European Union, and Japan” on 23 May 2019. This was the joint statement from the 23 May meeting in Paris of Trade Ministers, including USTR Lighthizer, Cecilia Malmström, European Commissioner for Trade, and Mr. Hiroshige Seko, Minister of Economy, Trade and Industry of Japan.

Several paragraphs are clearly aimed at China, the paragraph below in particular;

“The Ministers shared growing concerns about third parties’ developing State Enterprises into national champions, disrupting market-oriented trade, and directing those State Enterprises to dominate global markets. The Ministers also shared growing concerns about the non-market advantages and non-market domestic behavior of State Enterprises that result in distortions that negatively affect farmers, workers, and enterprises in the Ministers’ home countries. The Ministers affirmed their commitment to effective means to address these concerns and, to this end, deepen discussions on enforcement and rule-making as tools to address these problems.” <https://ustr.gov/about->

[us/policy-offices/press-office/press-releases/2019/may/joint-statement-trilateral-meeting](https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/may/joint-statement-trilateral-meeting)

Background;

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>

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

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>

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

The link to the notorious markets reports is here;

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

NAFTA/USMCA

Last week the US agreed with Mexico and Canada to lift retaliatory tariffs under the s.232 duties on steel and aluminium.

<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/er041811087.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>

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

Negotiations between the two countries is underway. The Japanese Economic Revitalization Minister Toshiimitsu Motegi met with USTR Lighthizer on the weekend –

““We agreed to make efforts to bridge the gaps between us," Motegi told reporters after the meeting, noting that the two countries' positions are not completely the same.”

“At the two-and-a-half-hour meeting, Motegi and Lighthizer discussed mainly cuts and elimination in tariffs on farm products and automobiles”.
<https://www.nippon.com/en/news/yjj2019052600019/japan-u-s-to-accelerate-trade-talks-to-bridge-gaps.html>

President Trump and Japan Prime Minister Shinzo Abe also met in Japan over the weekend in preparation for a bilateral summit today (Monday).

“During remarks to business leaders on Saturday night, Mr Trump ribbed Japan over its trading edge while saying progress had been made. “With this deal, we hope to address the trade imbalance, remove barriers to United States exports, and ensure fairness and reciprocity in our relationship. And we’re getting closer,” he said.” <https://www.straitstimes.com/asia/east-asia/trump-tees-up-japan-summit-with-abe-golf-match>

President Trump suggested that August is the likely deadline for the two countries to announce a deal. <https://asia.nikkei.com/Politics/International-relations/Trump-touts-August-trade-deal-with-Japan>

Key issues for the US remain the trade deficit, access for agriculture and auto exports, as well as currency clauses to ‘prevent competitive devaluations’.
https://www.washingtonpost.com/business/whats-at-stakein-us-japan-trade-talks/2019/05/24/62d6104a-7e5d-11e9-b1f3-b233fe5811ef_story.html?utm_term=.776b6d909b48

Background:

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.

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

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

US-Europe Trade Talks

USTR Lighthizer and the EU chief negotiator Cecilia Malmstrom met last week 22-23 May at the OECD meeting in Paris – but talks are yet to begin in earnest as the US remains focused on China;

“Malmstrom said she met with U.S. Trade Representative Robert Lighthizer earlier on Wednesday, which was the first time the two had seen each other in person since EU member states gave the European Commission the green light to begin negotiations more than a month ago. Separately, Malmstrom said that U.S. discussions with China is “their main focus.””

“Malmstrom said that if talks do begin soon, she hopes a deal could be struck during this commission’s term, which wraps up at the end of October.”

<https://news.yahoo.com/eu-says-u-may-not-170529340.html>

The joint statement from the trilateral meeting between the US, Japan and the EU is available on the USTR website; <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/may/joint-statement-trilateral-meeting>

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

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

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

[Return to top](#)