MARS CAPITAL PARTNERS

Weekly Macro Review

w/c 29 April 2019

Key Themes

US data and events dominate the review this week and results are mixed.

Weak inflation. The FOMC appears to be discounting the weaker core inflation growth reported this week, believing that ‘some transitory factors may be at work’. The monthly change in the core PCE price index has been slowing since the start of the year. Both core services and goods prices are contributing to the slower growth as of Mar. The annual growth in core services prices has been slowing since mid-2018 and core goods prices slowing more so in the last two months.

Weaker personal income growth for Mar was also reported this week. Data is now up to date after the shutdown and, after revisions, the Mar result is the third month in a row where disposable personal income growth has stalled, falling to zero in Mar. While employee compensation growth remained on par with the prior month, falls in other forms of income detracted from overall personal income in the month – mainly personal interest income and farm proprietors income.

Motor Vehicle sales fell again in Apr. The fall in Apr means the SAAR is almost back on par with the Jan/Feb lows - obviously that higher level of growth from Mar has not been maintained. This will likely detract from the next retail result and is so far not a good sign of a rebound in consumer expenditure.

Factory orders headline numbers suggested a strong rebound – on the back of stronger orders for transport equipment. But underlying annual growth in shipments and new orders have slowed over the last few months, and especially so in Mar. While it’s not obvious, it’s likely that petroleum (price fluctuations) is influencing the headline numbers especially since late 2018. The ISM manufacturing report, regional surveys and Markit manufacturing PMI confirm this weaker growth.

Non-farm payrolls were stronger. The household survey of employment wasn’t as strong as it has been. In the annual view, the larger decline in the total number of unemployed persons was the result of slower growth in the labour force rather than faster/accelerating growth in employment. This was the fourth month where annual employment growth has slowed.

The monthly employment figures are somewhat more concerning. Employment declined again in the month. What ‘saved’ this report was the 0.02% pt decline in participation – which equated to approx. 517k persons leaving the labour force. As a result of this decline in participation, total unemployed persons declined. The fall in total unemployed persons “technically” occurred while employment declined in the month.

US-China trade negotiations appear to have stalled. President Trump announced that Friday 10 May is now a deadline to complete negotiations before the tariff rate is again increased. China’s manufacturing PMI’s for Apr suggested little acceleration since the stronger Mar result.

Contents

US Data

Personal Income and Outlays (Mar)

Data is now up to date after the shutdown.

Personal disposable personal income growth stalled for the third month in Mar. Growth in personal disposable income was 0% in Mar versus +0.1% in Feb. While employee compensation growth remained on par with the prior month, other forms of income detracted from overall personal income in the month – mainly personal interest income and farm proprietors income.

Outlays were stronger, as telegraphed by the stronger retail sales, including motor vehicle sales for Mar.

As a result, the personal savings rate fell back to its pre-Dec 2018 level of 6.5%. This had been tracking higher as personal consumption expenditure had slowed/declined across Dec-Feb.

Personal Income

Personal Income; Mar +0.1% versus Feb +0.2%

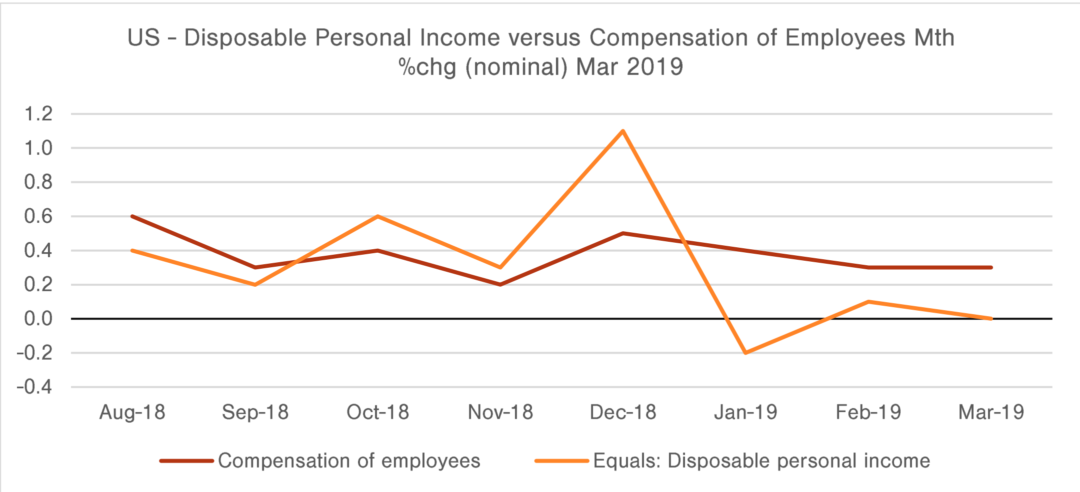
The main components of income;

Growth in employee compensation and personal transfer receipts remained on par with prior months. Of the smaller areas, growth in supplements to wages and salaries, and rental income of persons with capital consumption adjustment also remained on par with the month prior.

The decline in farm proprietors income and personal interest income versus the month prior offset the growth in employee compensation. Both of those income elements have declined in each of the last three months. This has been the main driver of lower total personal income growth.

Current personal taxes grew at a similar pace.

As a result, disposable personal income growth was 0% in Mar (versus +0.1% in Feb which was revised lower min this report from +0.2% originally reported in Feb).



Personal Outlays

As telegraphed by the much stronger retail sales data in Mar, there was a strong rebound in personal outlays led by growth in personal consumption expenditure.

Personal consumption expenditures; Mar +0.9% versus Feb +0.1%

Growth was higher due to much stronger growth in durable and non-durable goods;

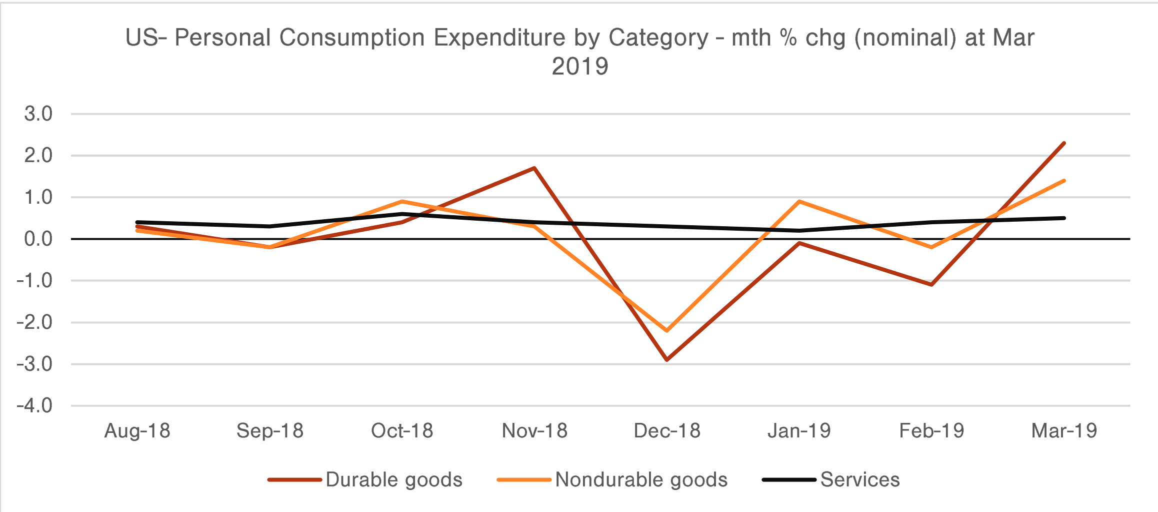
Durable goods; Mar +2.3% versus Feb -1.1%

Non-durable goods; Mar +1.4% versus Feb -0.2%

Services growth accelerated slightly; Mar +0.5% versus Feb +0.4%

From the BEA report (emphasis added);

> In March, real PCE increased $87.4 billion, which reflected a $66.3 billion increase in spending on goods and an increase of $27.9 billion in spending on services. **Within goods, increases were widespread, with spending on motor vehicles and parts the leading contributor**. **Within services, the largest contributor to the increase was spending on health care**.

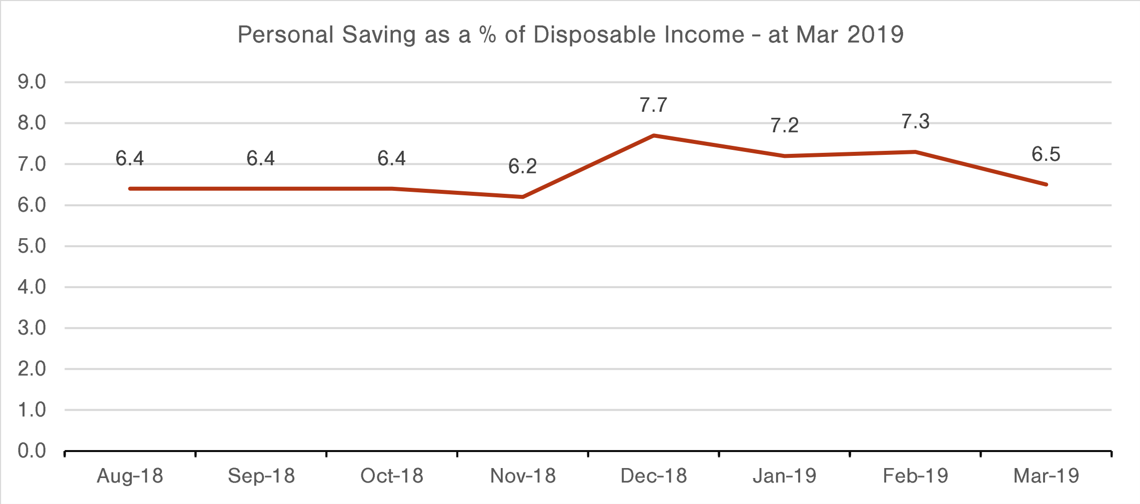


The growth in Mar was very strong and the question is now whether this level of consumption will be maintained.

Savings Rate

The savings rate shifted higher in Dec, Jan and Feb as consumption expenditures either fell or slowed. Consumer sentiment may have been a key driver of the lower consumption growth at that time.

The saving rate in Mar shifted back to the pre-Dec 2018 level. The drop in the saving rate in Mar was the result of faster growth in outlays (mostly personal consumption expenditures growing by +0.9%) than disposable income (0% chg).



https://www.bea.gov/data/income-saving/personal-income

PCE Price Index (Mar)

The annual growth in the headline PCE price index grew at a slightly faster pace in Mar after falling earlier in the year.

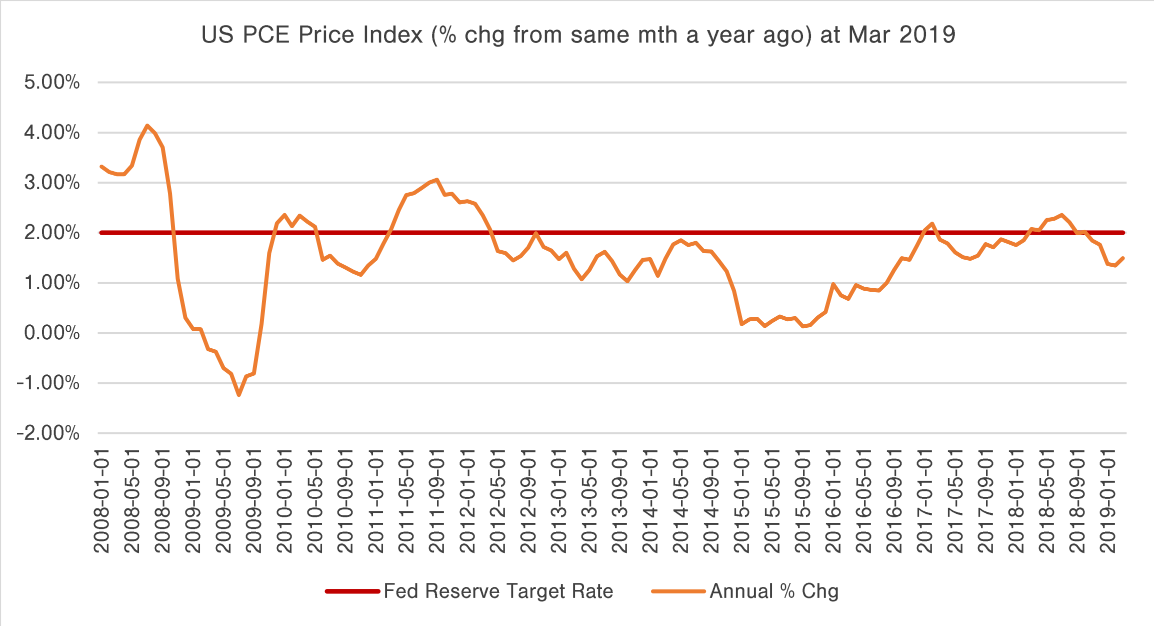
The core measure of PCE price growth slowed even further in Mar though. The latest Fed statement from 1 May describes the fall as 'unexpected' and believes that 'some transitory factors may be at work'. Looking at the key components suggests that both goods and services (ex food energy) contributed to lower growth in core PCE inflation.

The PCE price index is the US Fed preferred measure of inflation.

Headline PCE Price Index;

Month chg; Mar +0.2% versus Feb +0.1%

Annual chg; Mar +1.5% versus Feb +1.3%



Major Components of PCE Price Index;

Goods; growth in goods prices continue to be led lower by durable goods.

Durable Goods price chg – annual; Mar -1.4% versus Feb -0.9%. On a monthly basis, the durable goods price index declined even faster; Mar -0.5% versus Feb -0.3%. This was led by declines across most categories but especially, Furnishings and Durable HH Equip and Other Durable Goods.

Non-durable Goods price chg – annual; Mar +0.3% versus Feb -0.9%. On a monthly basis growth increased at a faster pace; Mar +0.6% versus Feb+0.1%. **Gasoline and other energy goods increased by +6.1% in Mar (just the month) versus +1.3% in Feb**.

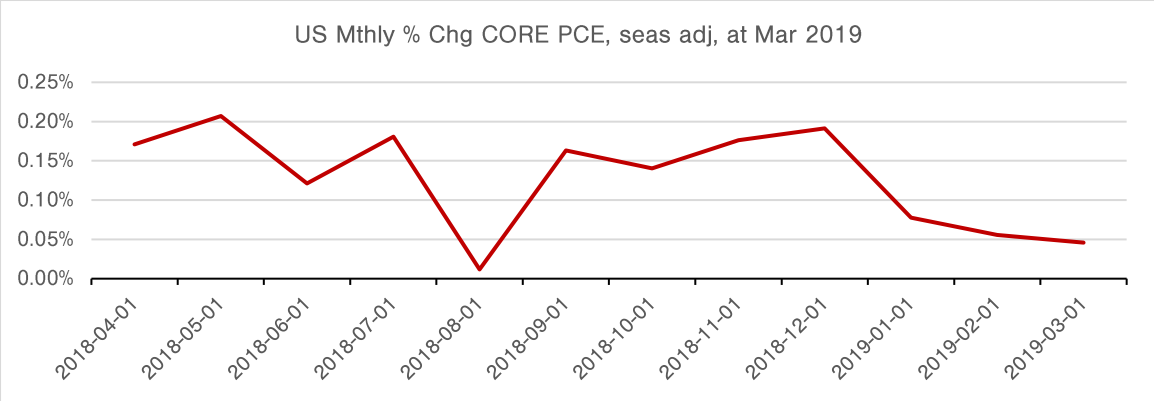
Energy Goods & Services grew at a much faster pace in the month; Mar +3.6% versus Feb +0.5%.

Food Prices grew at a slower pace; Mar +0.2% versus Feb +0.5%. The Feb growth was much higher than the average over the last 8 months (+0.1% monthly growth).

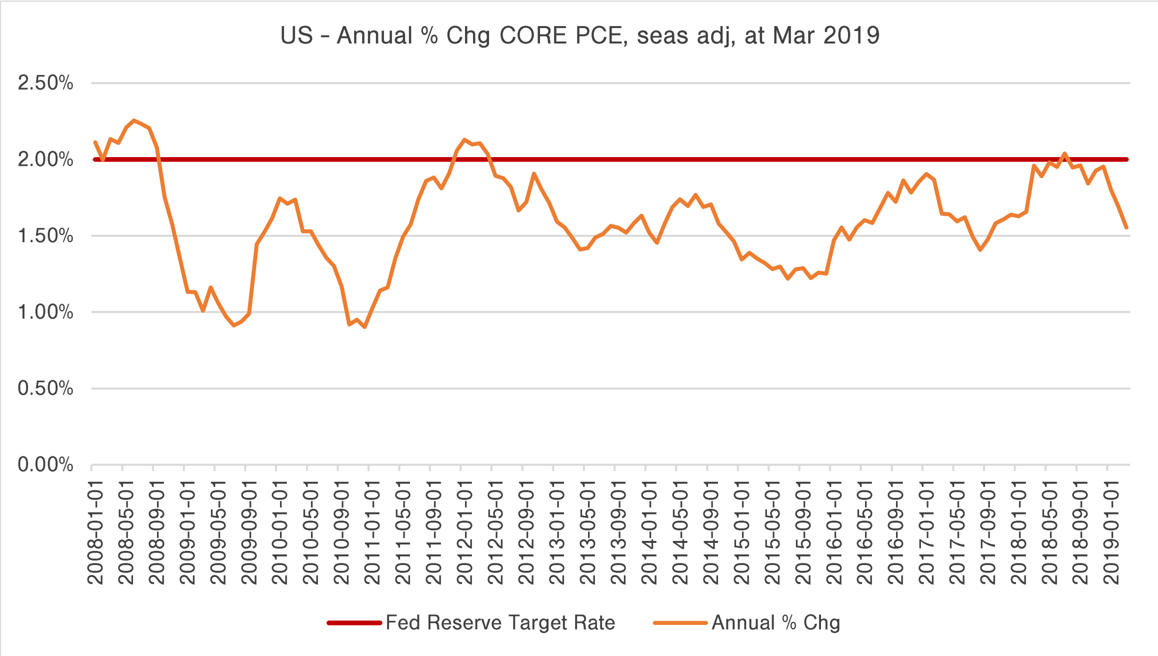
Services price growth has slowed on an annual basis; Mar +2.3% versus Feb +2.4%. Annual growth peaked at +2.8% in Aug 2018 and has slowed since then. The shape of the slow-down is somewhat consistent with the core PCE price chart – something to watch.

Core Inflation; PCE prices ex energy and food

Month chg; Mar 0% versus Feb 0.1% - the month core prices have been slowing since the start of the year.

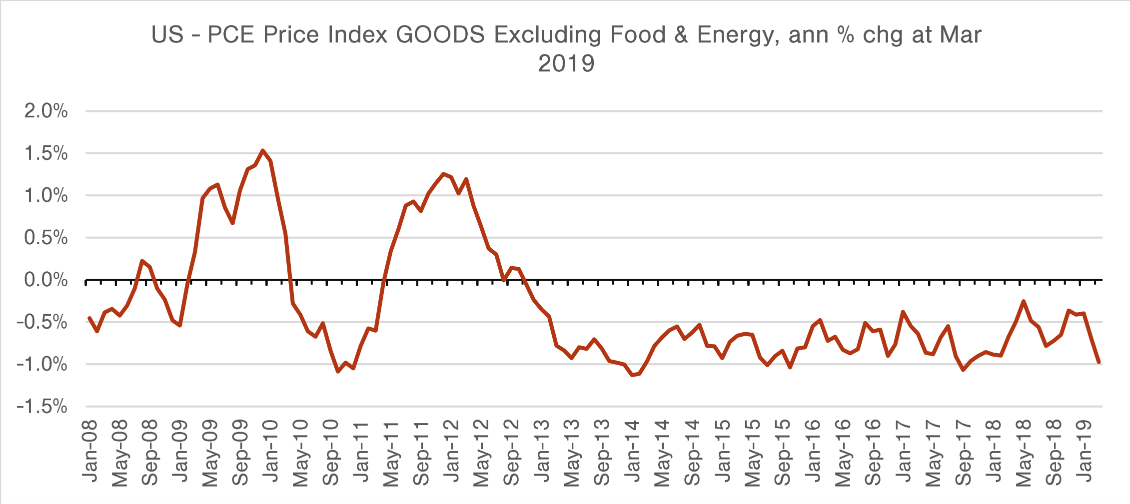


Annual chg; Mar +1.55% versus Feb +1.68%

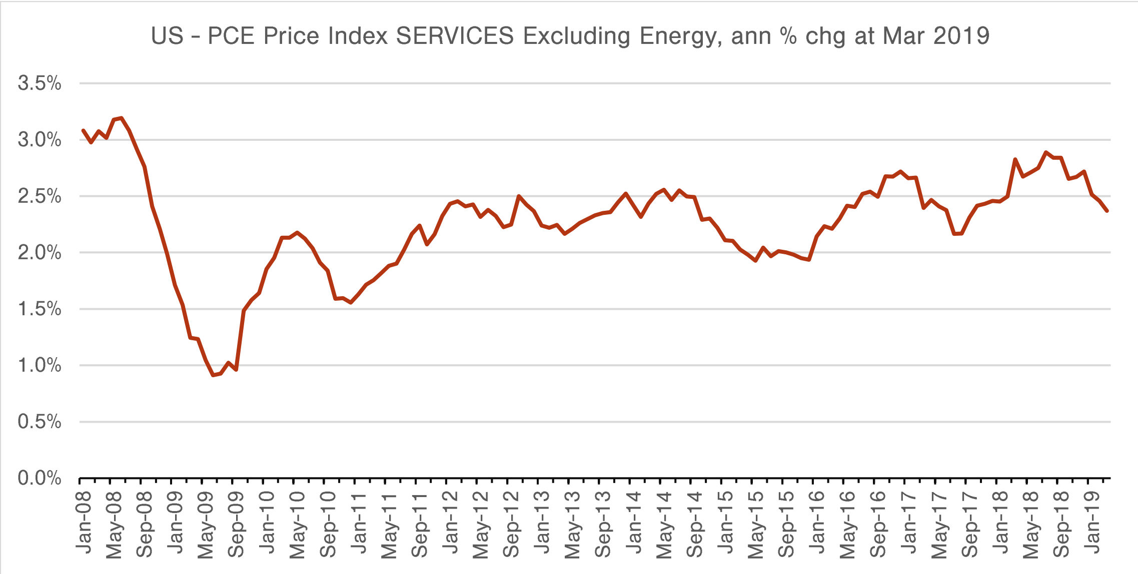


Both goods ex food & energy and services ex energy services are contributing to the slow-down in core PCE growth;

Goods Excluding food and energy; Mar -1% versus Feb -0.7%. The annual growth has remained mostly negative over the last few years with a renewed push lower over the last two months;



Services Excluding Energy price growth has continued to slow since mid-2018; Mar +2.4% versus Feb +2.5%



https://www.bea.gov/data/income-saving/personal-income

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

Motor Vehicle Sales (Apr)

The stronger growth in motor vehicle sales from Mar has not carried through to Apr. Total sales of motor vehicles fell again was led by lower by both autos and light trucks. The seas adj annual rate of sales recorded in Apr across the categories are either at or only slightly above the lows reached earlier in 2019.

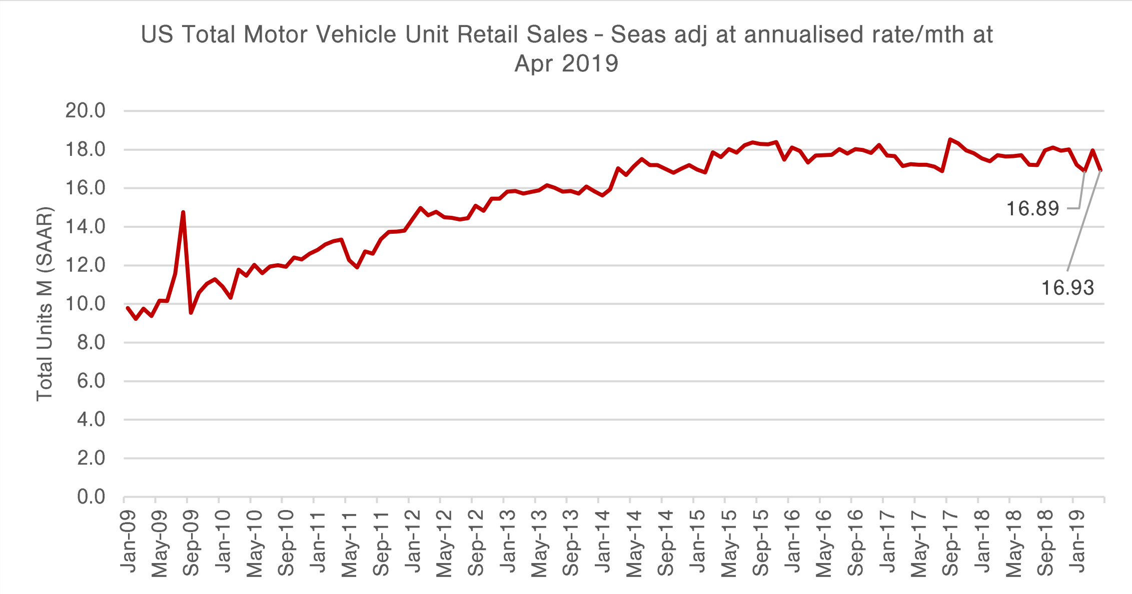
This will likely be a drag on Apr retail sales data and suggests the rebound in consumer expenditure remains weak.

Total Motor Vehicle Sales (seas adj ann rates)

Apr 16.9m units (-6%) versus Mar 18m units (+6% versus the month prior)

Total motor vehicle sales are now 4% below the same month a year ago.

The seas adj annual rate recorded in Apr is equal to the recent low in sales recorded in Feb;



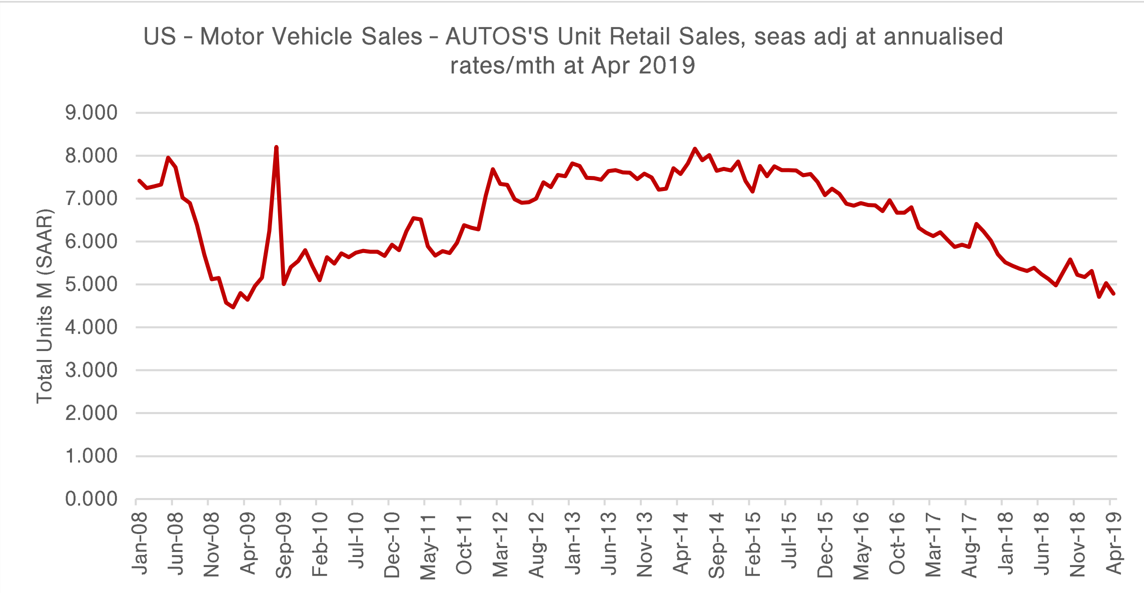
Lower sales of autos and light trucks contributed to the overall decline in the month.

<u>Auto Sales (seas adj annual rate)</u>

Apr 4.8m units (-5%) versus Mar 5m units (+7% versus the month prior)

Total auto sales are 10% below the annual rate from the same time a year ago.

The decline in the current month is slightly above the low point reached in Feb 2019;

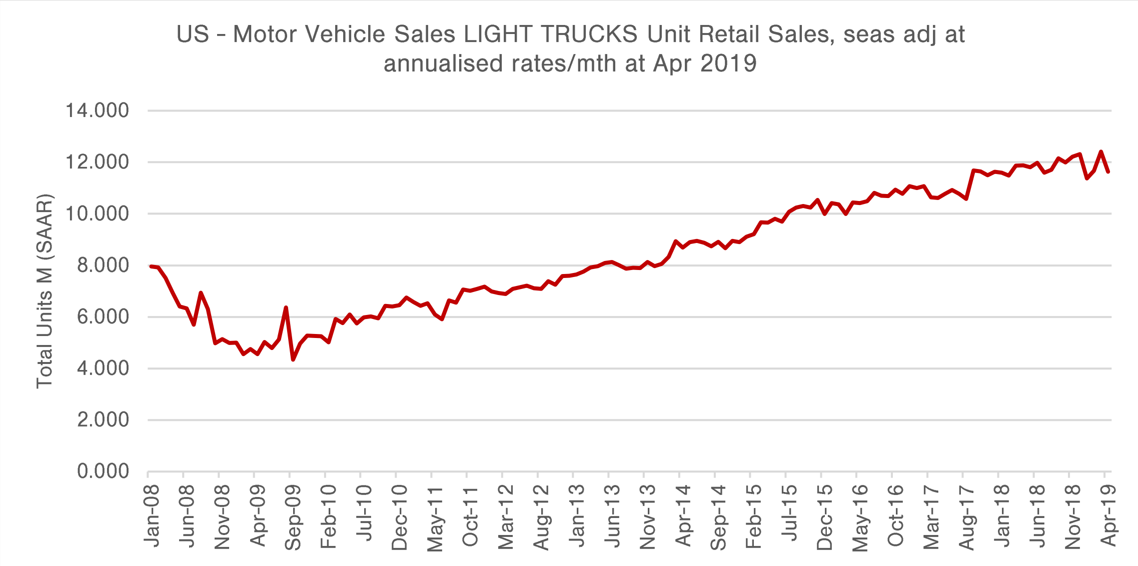


Light Truck Sales (seas adj annual rate)

Apr 11.63 units (-6%) versus Mar 12.4m units (+6% versus the prior month)

Total light truck sales are 2% below the same time a year ago.

The current rate of sale is slightly above the low reached in Jan 2019 of 11.37m units;



https://www.bea.gov/docs/gdp/auto-and-truck-seasonal-adjustment

Challenger Job Cut Report (Apr)

The number of announced job cuts fell in Apr versus Mar, but the number remains above the same time a year ago. Industrial goods, consumer products, automotive and healthcare recorded the largest number of job cut announcements in Apr.

Offsetting the job cut announcements was the announced hiring plans. The number of announced hires increased significantly mostly off the back of +250k hires planned for McDonalds. Excluding retail, the largest hiring plans were announced in the month for technology, insurance, fin tech and electronics.

Comparing hires to cuts - of note is Automotive. In the YTD, the announced cuts and announced hires are mostly on par.

The industries that are underperforming versus a year ago (higher job cuts and little/no offsetting hiring announcements) are Industrial Goods, Energy and Financial. Consumer products, Health Care/Products, Services and Telecoms are also areas to watch.

Announced Job Cuts

Apr +40k versus Mar +60.6k

The result in Apr in +11% versus the same month a year ago (Apr 2018 +36.1k announced cuts)

The YTD announced job cuts are running at +30% ahead of the same time a year ago; YTD 2019 230.4k versus YTD 2018 176.3k

Announced Hiring Plans

Hiring plans surged in Mar and Apr on the back of specific announcements; Mar +80k jobs for Home Depot and Apr +250k jobs announced by McDonalds.

Total hire plans; Apr 258.3k (incl McDonalds +250k) versus Mar +96.4k (incl +80k jobs for The Home Depot).

YTD Hires; 2019 444k jobs versus 2018 210.2k jobs

Without the McDonalds and The Home Depot, announced hires YTD would be running at 45% BELOW the year prior.

Sector Specifics - YTD

Specific sectors stand out in terms of the elevated rate of announced cuts versus a year ago with lower offsetting job hire announcements;

Industrial Goods is the single largest area of concern so far; Job cut announcements running at +34k versus last year with only +2k offsetting hire announcements (so far)

Energy; job cut announcements +9.3k ahead of last year with only 0.1k offsetting hire announcements

Financial; job cut announcements running at +6.3k versus last year with only 0.5k offsetting hire announcements

On Automotive; while the number of announced cuts is running ahead of last ear by +13.3k jobs, the announced 19k job cuts have been offset by +19.1k hire announcements.

Sectors to watch (concern);

Consumer products, Health Care/Products, Services, Telecoms; while job cuts are below last year, they remain elevated and there are only a small number of offsetting hire announcements to date.

Sectors performing positively; Retail, Electronics, Fintech, Insurance and Technology where the number of hires announcements are greater than the number of job cut announcements. In most of these sectors, job cuts are also below the same time a year ago.

	Announced Job Cuts			Offsetting Hiring Announcements
	YTD 2018	YTD 2019	DIFF	YTD 2019
Aerospace/Defense	2,396	2,667	271	1,784
Apparel	0	743	743	82
Automotive	6,451	19,802	13,351	19,070
Chemical	249	368	119	0
Construction	366	1,362	996	0
Consumer Products	12,743	8,904	-3,839	250
Education	1,688	7,069	5,381	85
Electronics	4,070	762	-3,308	950
Energy	2,879	12,179	9,300	121
Entertainment/Leisure	3,486	7,058	3,572	0
Financial	4,476	10,865	6,389	520
FinTech		1,000	1,000	1,280
Food	5,397	6,883	1,486	770
Government	1,226	3,503	2,277	0
Health Care/Products	17,450	14,374	-3,076	4,895
Industrial Goods	4,625	39,304	34,679	1,990
Insurance	2,090	1,193	-897	3,150
Legal	0	0	0	0
Media	5,233	6,112	879	127
Mining	395	802	407	240
Non-Profit	695	608	-87	0
Pharmaceutical	3,706	2,236	-1,470	100
Real Estate	302	592	290	0
Retail	64,370	48,076	-16,294	396,700
Services	14,665	8,032	-6,633	810
Technology	3,004	5,933	2,929	7,450
Telecommunications	6,254	4,451	-1,803	0
Transportation	7,039	11,232	4,193	3,515
Utility	888	770	-118	100
Warehousing	137	3,553	3,416	0

http://www.challengergray.com/press/press-releases/2019-april-job-cuts-report-cuts-down-40023-ytd-31

Employment and Non-Farm Payrolls (Apr)

We look at both the establishment and household surveys;

Establishment survey - Non-Farm payrolls increased at a faster pace of 263k jobs and was ahead of expectations. Revisions to Feb and Mar resulted in a net +16k more jobs.

Household Survey - Employment; The dynamics of the labour market performance are mixed on both an annual and monthly basis.

Annual view; The larger decline in the total number of unemployed persons was the result of slower growth in the labour force rather than faster/accelerating growth in employment. This was the fourth month where annual employment growth has slowed.

Monthly view; The monthly figures are somewhat more concerning. Employment did not grow faster than the estimate of what population added to the labour force – in fact employment declined again in the month. What 'saved' this report was the 0.02% pt decline in participation – which equated to approx. 517k persons leaving the labour force (which was most of the -490k decline of the total labour force for the month). As a result of this large monthly decline in the participation rate, total unemployed persons declined. The fall in total unemployed persons "technically" occurred while employment declined in the month.

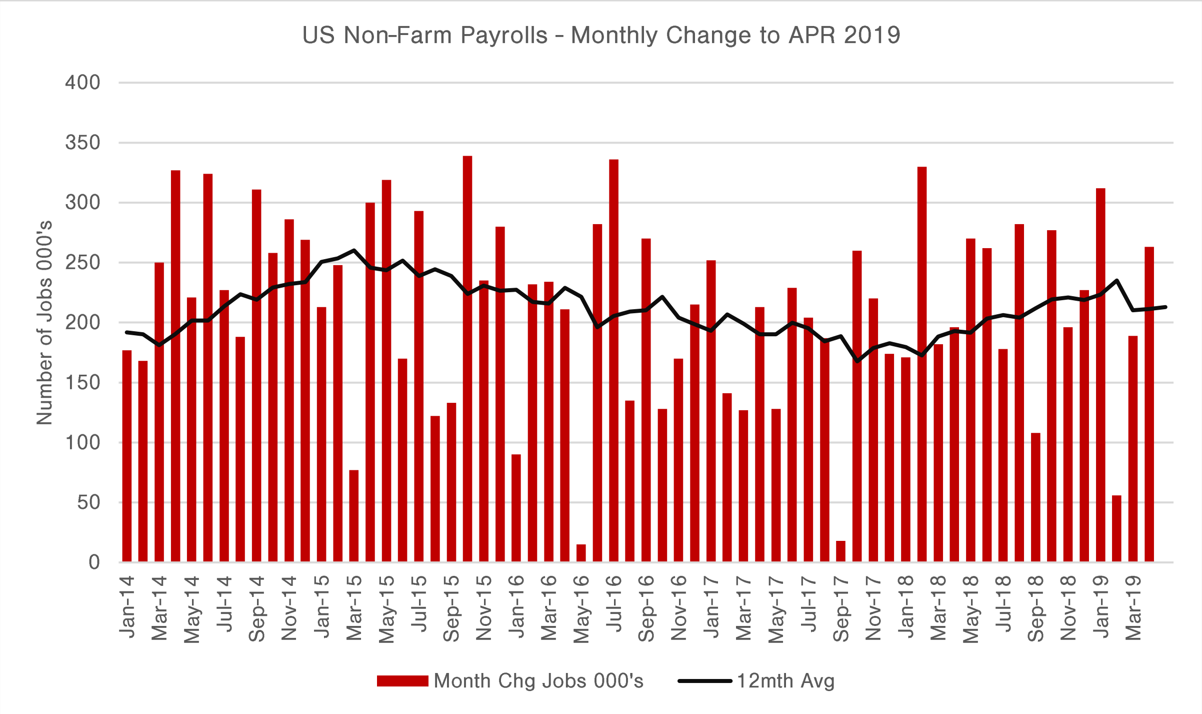
Average weekly hours and overtime hours (for manufacturing) both declined on an annual basis.

Non-Farm Payrolls

Payroll employment increased at faster pace;

Apr +263k jobs versus Mar +189k jobs

Revisions; Mar revised lower by -7k jobs and Feb revised higher by +23k jobs



The Apr result is above the 12-mth moving average.

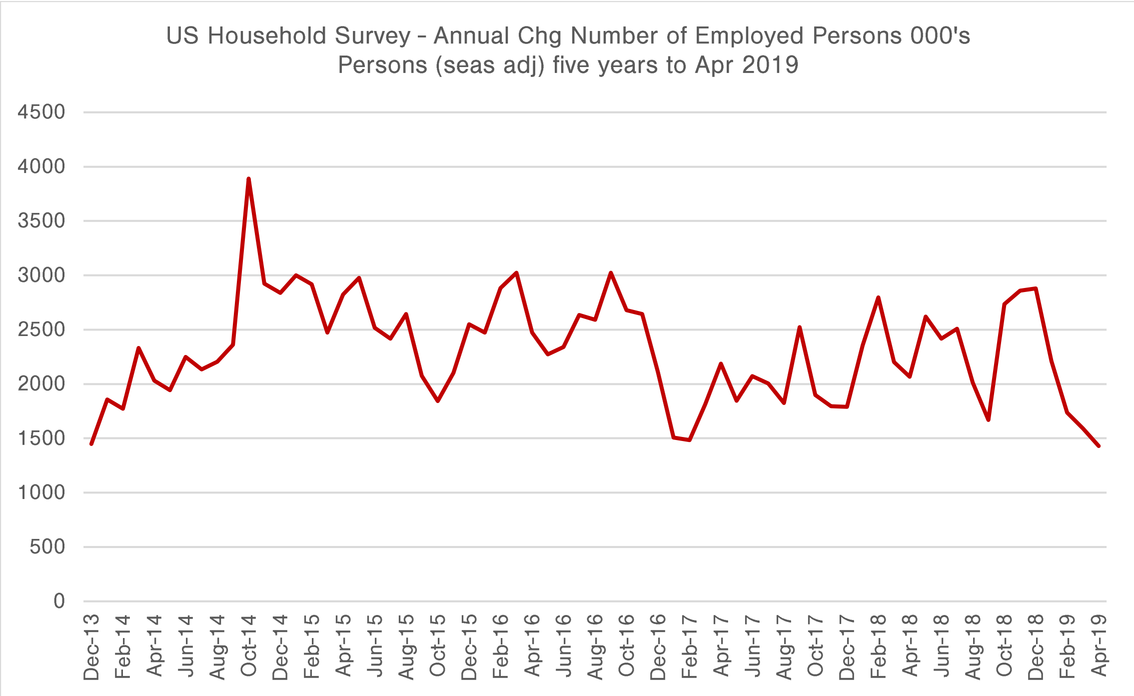
Labour Force/Employment Survey

Employment

In the latest year, total employed persons increased at a slower pace.

Annual employment growth; Apr 1,429k persons versus Mar 1,588k persons

The annual pace of employment growth has slowed since Dec 2018.



On a monthly basis, employment has declined over the last two months; Apr -103k persons versus Mar -201k persons.

Although employment growth has been slowing, growth is still faster than that of the labour force.

Labour Force Size

On an annual basis, the labour force has grown at a slower pace;

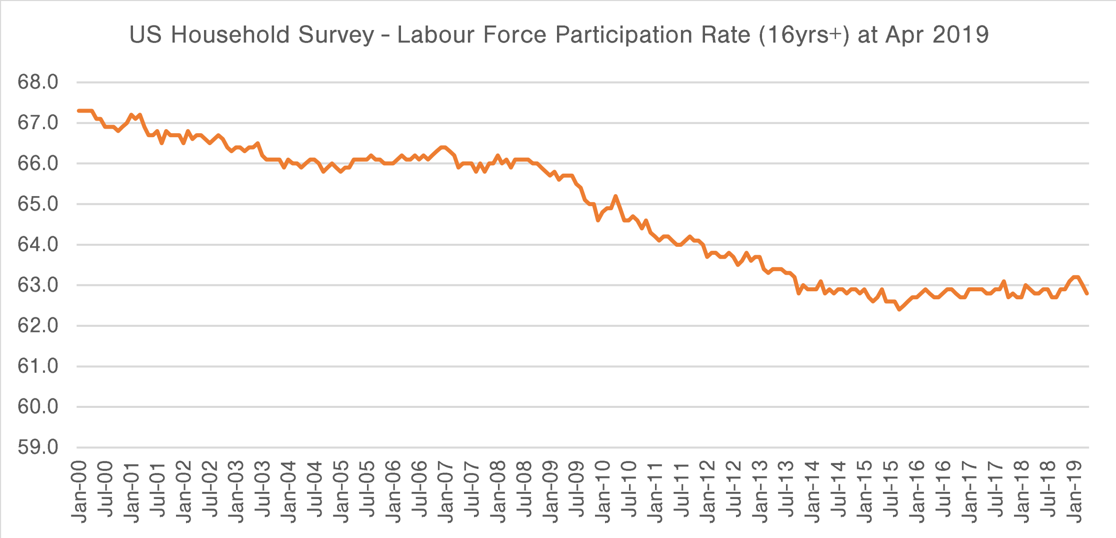
Apr +919k persons versus Mar +1,314k persons

On a monthly basis, the labour force has declined for the second month in row; Apr -490k persons versus Mar -224k persons.

Two factors are contributing to the lower growth in the labour force in the latest year; there was lower growth in the estimate of what population added to the labour force and there was no change in participation versus a year ago.

Participation rate in Apr 62.8% - no change versus a year ago.

On a monthly basis, the participation rate declined for the second month; Apr 62.8% versus Mar 63%. This has broken the upward trend from late 2018;

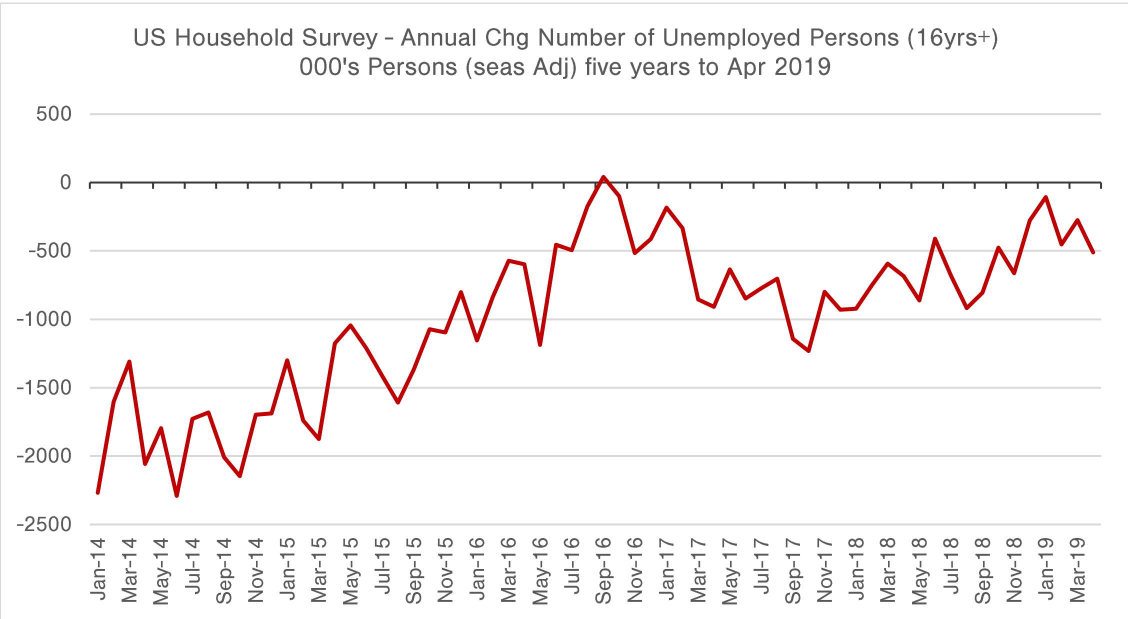


As the labour force growth is lower than that of employment, it means that the total of unemployed persons decreased at a faster pace.

<u>Total Unemployed Persons</u>

There was a shift to a larger annual decline in total unemployed persons in the year to Apr;

Annual chg; Apr -511k less persons unemployed versus Mar -275k less persons unemployed.



On a monthly basis, total unemployed persons also continued to decline; Apr -387k persons versus Mar -24k persons.

The unemployment rate fell from 3.8% in Mar to 3.6% in Apr.

Any reduction in the total number of unemployed persons is a great achievement and its important not to take away from that. The broader context of this decline is that it was achieved, as a result of a faster decline in the labour force rather than faster/accelerating growth in employment. Slowing employment growth is an issue.

Summary of the main labour market dynamics

Annual;

Employment continued to grow faster than what both the estimate of what population and participation added to the labour force (because there was no contribution from added participation). But note that this is the fourth month where the annual employment growth has slowed. The total number of unemployed persons still declined – this was the result of slower growth in the labour force rather than faster/accelerating growth in employment.

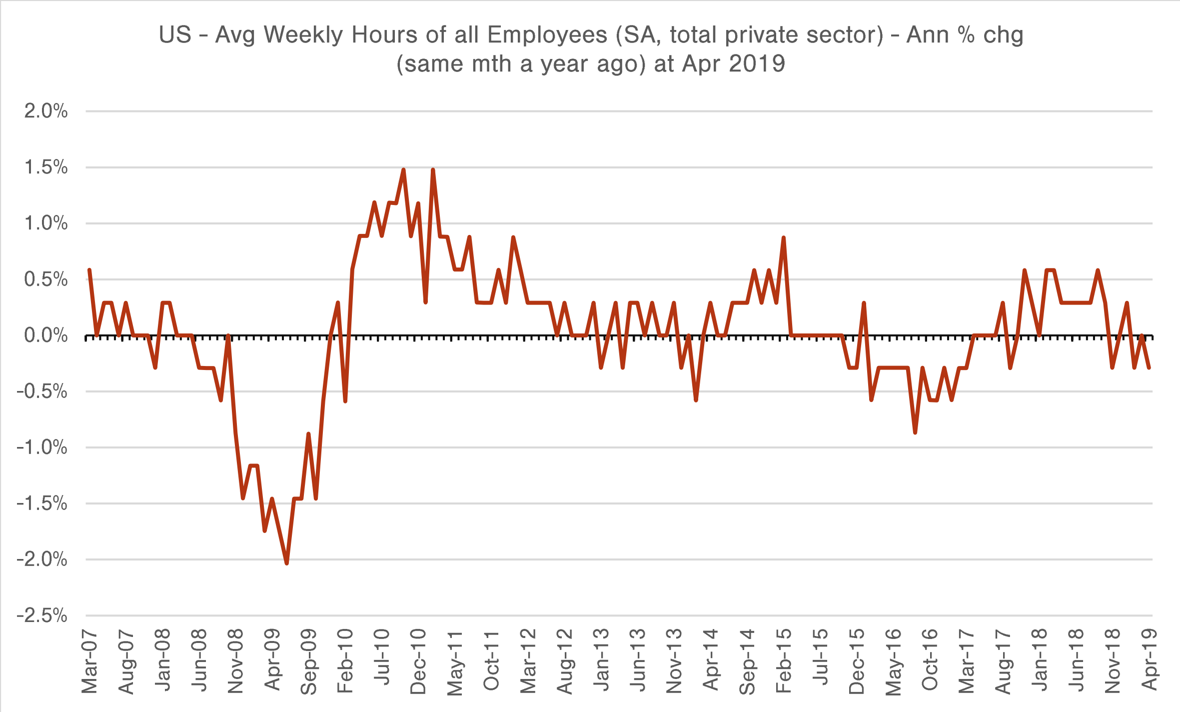
Monthly;

Employment did not grow faster than the estimate of what population added to the labour force – employment declined in the month. What 'saved' this report was the 0.02% pt decline in participation – which equated to approx. 517k persons leaving the labour force (which was most of the -490k decline of the total labour force for the month). As a result of this large monthly decline in the participation rate, total unemployed persons declined. The fall in total unemployed persons "technically" occurred while employment declined in the month.

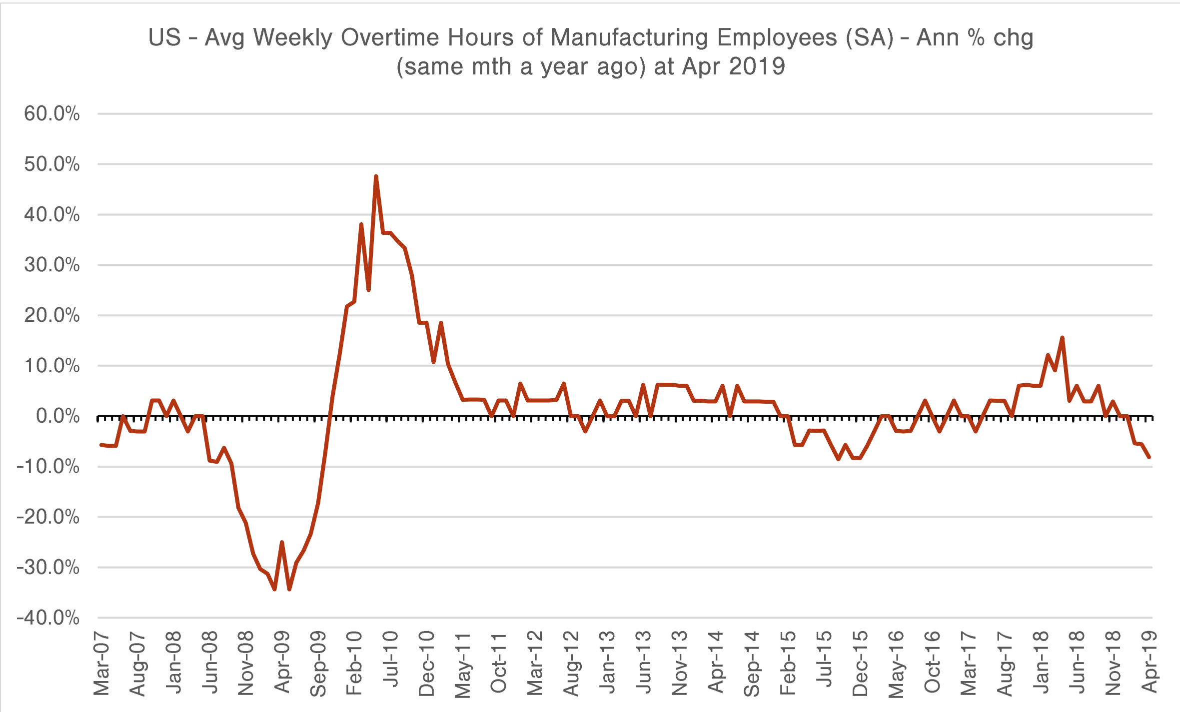
000's people (16yrs+)	Annual chg - APR 2019	Monthly Chg - Apr
The estimated change in the Labour Force due to pop growth (1)	919	27
How many jobs available for them? (annual employment growth) (2)	1,429	-103
Difference (if negative, then employment growing faster than what pop adds to the labour force) (3)	- 510	130
Change labour force participation - (if positive, people entering/returning to the labour force) (4)	-	-517
The remainder is the chg in total unemployed persons (declining if negative) (4) plus (3)	- 510	-387
Two views of annual growth in the labour force;		
Total employed persons plus total unemployed persons	919	-490
Est of what population adds to the labor force plus change in participation	919	-490
BLS reported change in the size of the labor force	919	-490

Hours Worked

The average weekly hors worked of all employees declined slightly versus the same time a year ago and versus the prior month. There has been very little growth in hours worked over the last year;



The average weekly overtime hours have also continued to decline versus a year ago, declining by 8% in Apr (measured only for manufacturing employees);



This is consistent with various manufacturing/output surveys that indicate that hours worked have slowed.

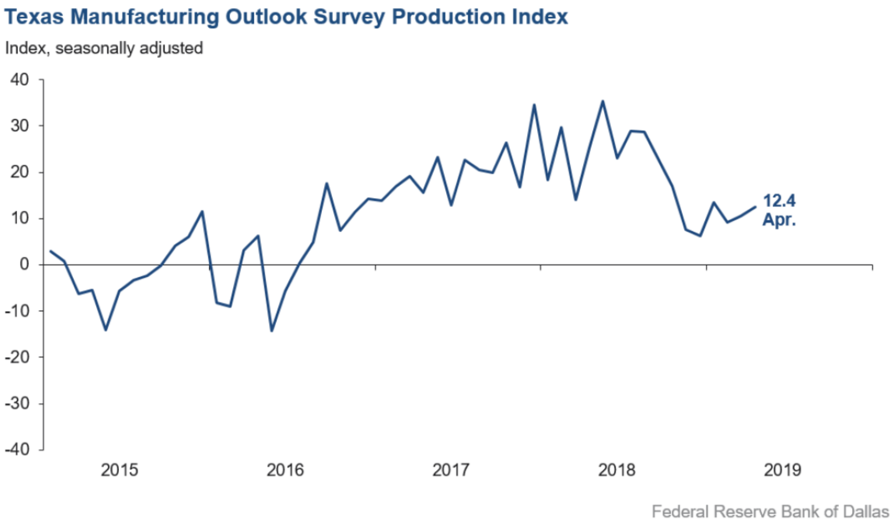
https://www.bls.gov/home.htm

Dallas Fed Manufacturing Survey (Apr)

Production output in the Texas region grew at a slightly faster pace in Apr. While there was a welcome improvement across many measures, most metrics remain well below recent highs.

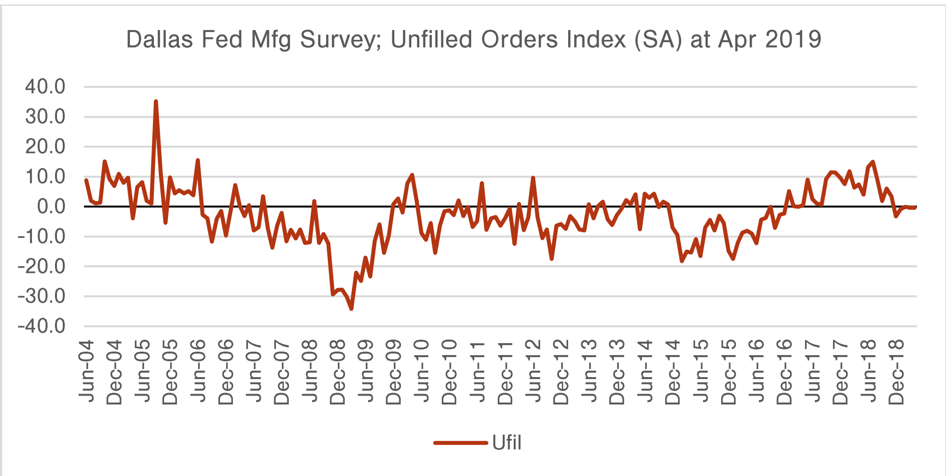
There were improvements across a range of demand measures including faster growth in new orders and shipments. The index of company outlook improved but the index of general business activity slowed to a lower level of growth.

Production Output Index; Apr 12.4 versus Mar 10.5

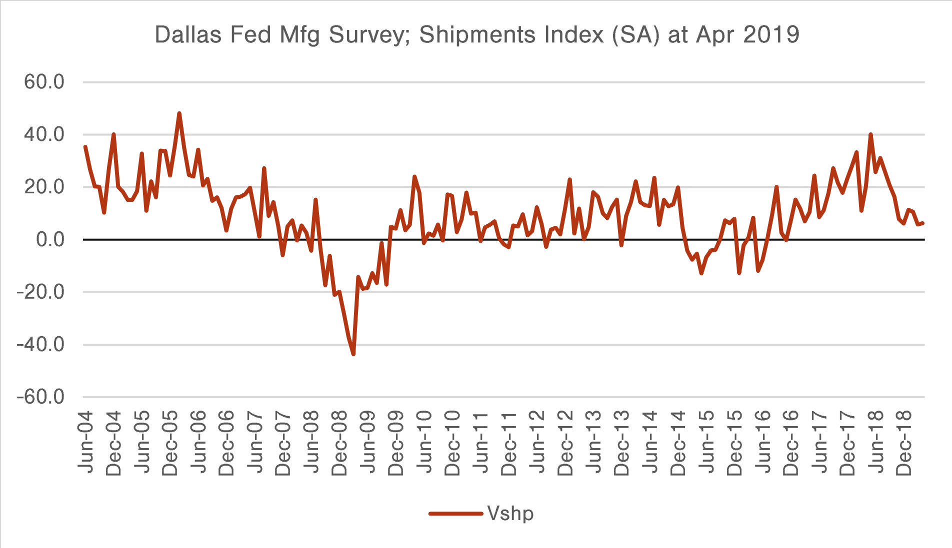


New orders and the growth rate of new orders both increased at a faster rate – recording the first substantial bounce since peaking in Jun 2018 at 30.4. The growth in new orders had slowed consistently since Jun. New orders; Apr 9.8 versus Mar 2.2.

Unfilled orders remained unchanged versus the month prior, neither expanding nor contracting. The current reading of -0.4 is just above the recent low. The chart below highlights that firms have been working through backlogs as new orders have been slowing throughout the back half of 2018;

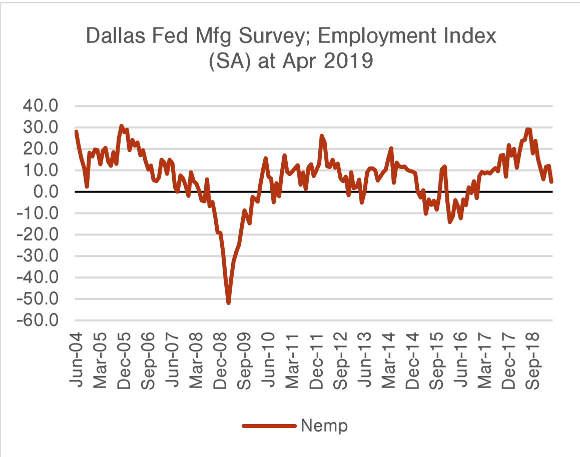


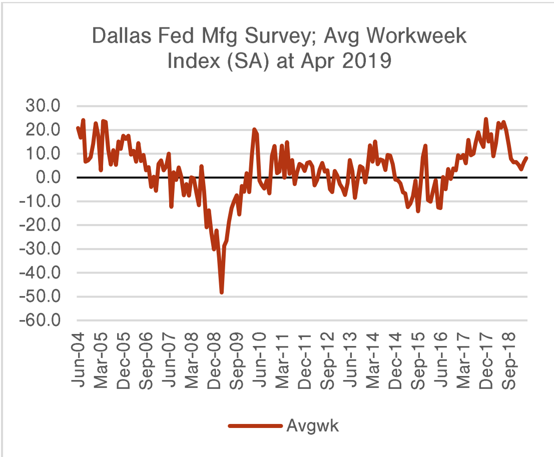
Shipments also increased at a slightly faster pace but are still close to current cycle lows. The shipments index peaked at 40.2 in May 2018 and has slowed since then. The Apr increase is small; Apr 6.3 versus Mar 5.8. The reading for Mar was the recent low. The improvement in orders may see shipment growth improve in the coming months.



Finished Goods inventories fell into contraction in the latest month; Apr -5.7 versus Mar 1.7. The finished goods inventory index peaked at 13 in Aug 2018 and growth has been slowing ever since.

Employment growth slowed in the month to a lower level of growth; Apr 4.6 versus Mar 12.2. This slowdown marks a new low level of growth in the current cycle. Growth has slowed from a reading of 29.2 in Jul 2018 to 4.6 in Apr 2019. The avg workweek/hours worked improved for the second month but growth remains close to recent lows;





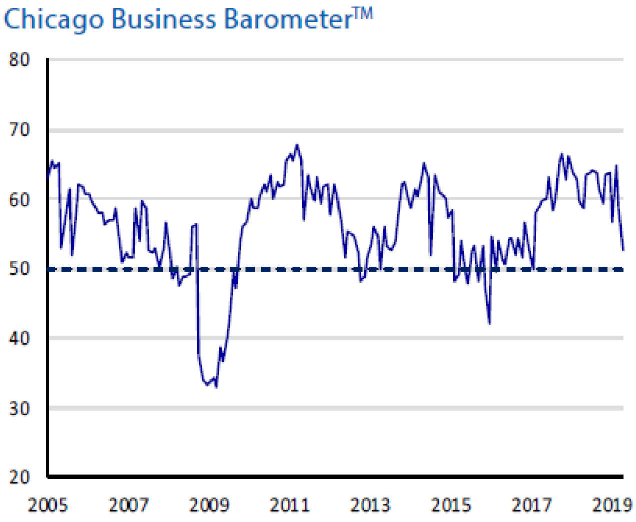
Growth in wages and benefits remains close to recent highs. Prices paid for raw materils fell sharply in the month. Growth in prices received for finished goods was mostly unchanged compared to the month prior.

https://www.dallasfed.org/-/media/Documents/research/surveys/tmos/2019/1904/tmos1904.pdf

Chicago PMI (Apr)

The headline index of business activity indicated that growth slowed quickly in the latest month. The slower growth was led by slower growth in new orders, production and weaker employment.

Headline PMI; Apr 52.6 versus Mar 58.7



Both new orders and production growth slowed. Production 'pulled back significantly' since Mar.

Inventories remained in contraction for the third time in the last nine months as firms continued to run down stocks.

The slower growth in demand was driver of the weaker employment growth. The employment index is now below the 3 and 12-month average.

Raw material prices also fell – recording the biggest monthly fall since Dec 2008. Some firms cited falls in steel prices.

> "Most Barometer components have dived below their respective 12-month averages, pointing towards greater business uncertainty among firms,"

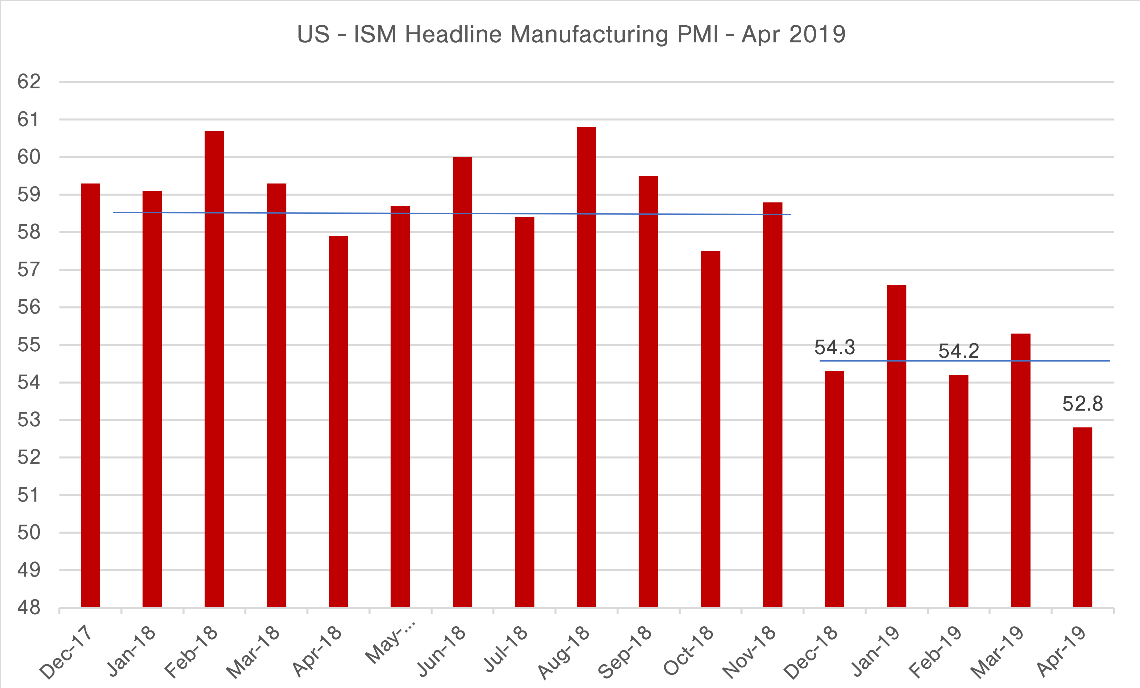
https://www.ism-chicago.org/insidepages/reportsonbusiness/

ISM Manufacturing PMI (Apr)

The headline index indicated that manufacturing growth slowed further in the latest month. This was led by slower growth across new orders, production and employment. New export orders fell into contraction.

Headline PMI; Apr 52.8 versus Mar 55.3

This follows four months where the average headline PMI has remained well below the average during 2018;



New orders grew at a slower pace, falling 5.7% pts to 51.7 in Apr. An increasing proportion of firms reported lower new orders than in the month prior and fewer firms reported higher new orders.

Production growth also slowed, falling 3.5%pts to 52.3 in Apr. Similarly, an increasing proportion of firms reported lower production than in the month prior and fewer firms reported higher production than in the month prior.

Employment growth also slowed, falling 5.1% pts to 52.4 in Apr. A slightly different underlying dynamic – while less firms reported increasing employment most firms reported no change from the month prior. There was a small increase in the number of firms reporting lower employment.

Inventories increased at a slightly faster pace but remain around similar levels since the start of the year.

Declines in production output resulted in order backlogs increasing at a slightly faster pace.

New export orders shifted into a slight contraction in the latest month, after very low levels of growth in the three months prior.

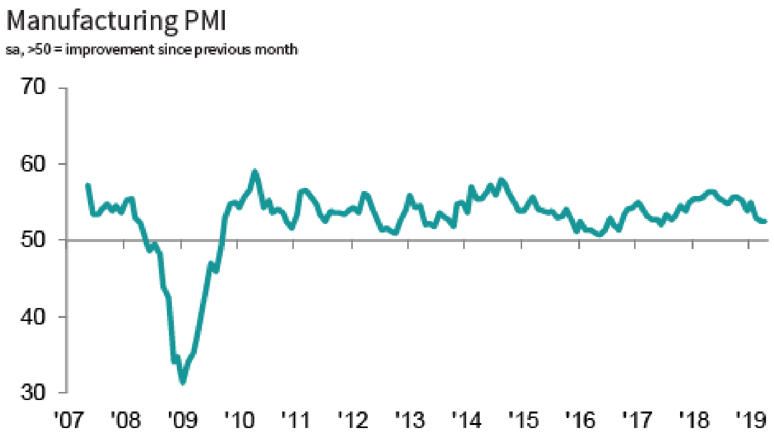
Price growth also slowed in the latest month after a larger increase in the month prior.

https://www.instituteforsupplymanagement.org/ISMReport/MfgROB.cfm?SSO=1

Markit Manufacturing PMI (Apr)

The headline US manufacturing PMI increased at a slightly faster pace in Apr. Both output and new orders increased at a faster pace, while employment growth continued to slow.

Headline Manufacturing PMI; Apr 52.6 versus Mar 52.4



New business/orders increased at a faster pace after reaching a recent low in the month prior. The uptick in new orders remains slower than the 2018 average. New export order growth remains subdued.

As a result, output increased at a faster pace compared to the low reached in Mar. Again, the current rate of output growth is the weakest in over two years.

With the pick up in output, order backlogs also increased at a faster pace.

Firms reported slower growth in employment, citing issues finding staff to replace leavers as well as weaker confidence in the outlook. Confidence fell to a four-month low as firms reported concerns over 'less robust demand conditions in 2019 so far".

Input and output prices increased at a slower pace.

Inventories continued to increase in Apr on the back of higher growth in new orders.

https://www.markiteconomics.com/Survey/PressRelease.mvc/5ee0f9d3951b4934a3184f60a086c474

US Factory Orders Final (Mar)

The faster growth in total manufacturer new orders for Mar is due to transport equipment. The underlying growth in new orders for durable goods ex transports indicates that monthly growth is lower (than at the total level). Annual growth has slowed quickly since Oct 2018 and this continued in Mar.

It is most likely that the recent growth in the value of petroleum shipments (as oil prices have increased over Feb/Mar) is currently influencing the value of total shipments. This is likely impacting the non-durable goods orders figures also.

Excluding petroleum shipments, the monthly growth in total shipments is much lower. Annual growth in total manufacturer shipments has also slowed quickly since Oct 2018 and especially so in Mar.

NEW ORDERS

Total Manufacturer; On a monthly basis, total Manufacturer New Orders growth accelerated;

Mar +1.9% versus Feb -0.3% (seas adj)

The category dollar value breakdown;

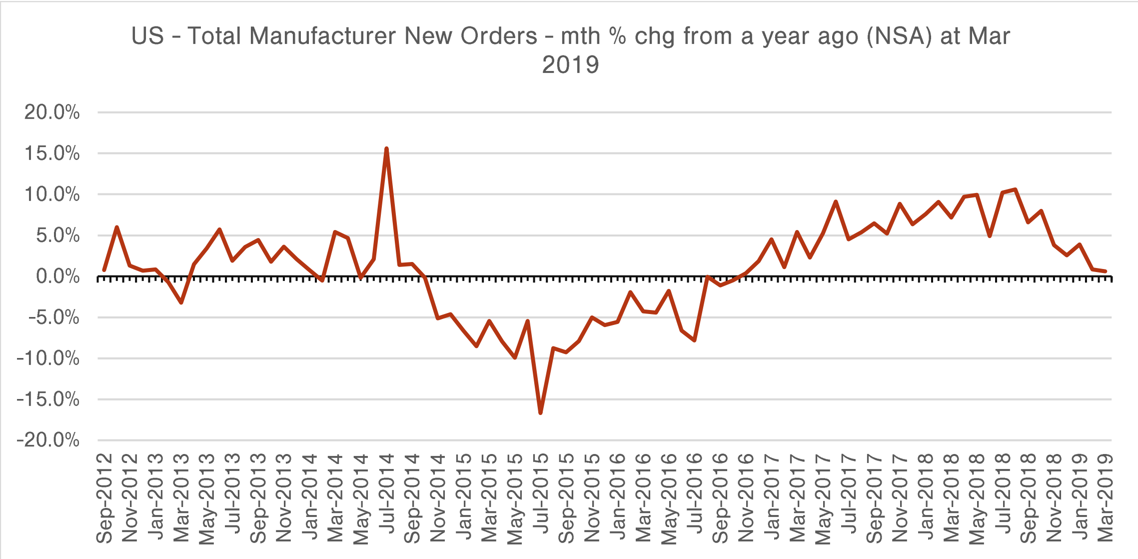
Total manufacturer new orders growth; +$9.3bn. This was made up of;

Durable Goods; +$6.6bn (of which transport new orders +$6.1bn)

Non-Durable Goods; +$2.8bn

Growth in the month was mostly due growth in orders for Transport (non-defense aircraft and parts, defense aircraft and ships and boats).

Annual growth continues to slow; Mar +0.6% versus Feb +0.9% (NSA, versus same mth a year ago).



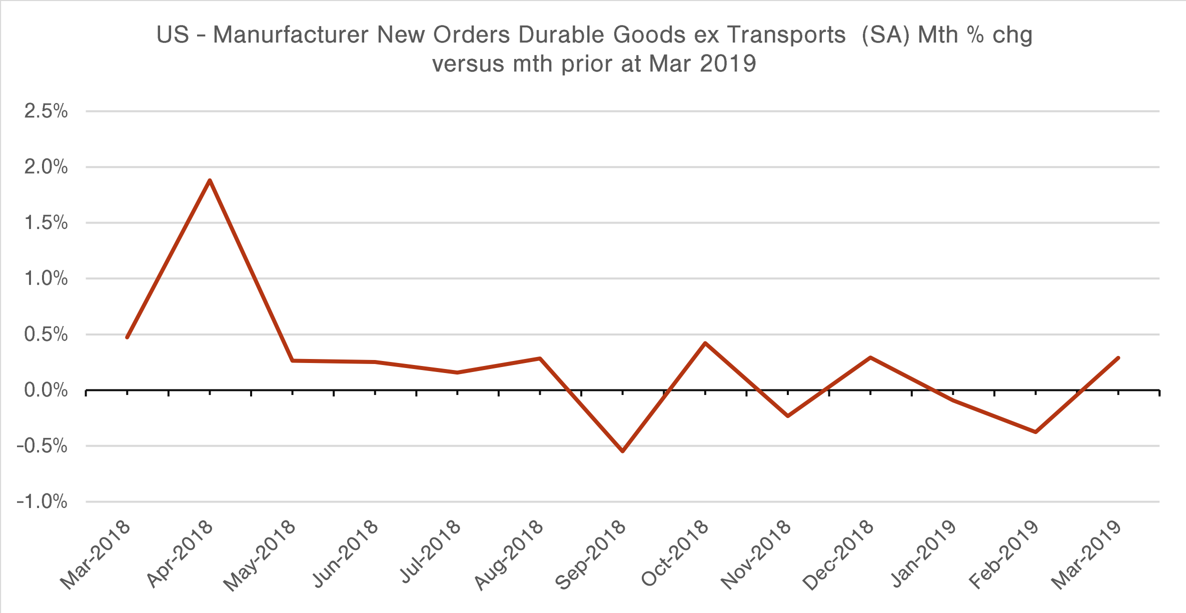
<u>**Excluding Transport**</u>, growth continued to accelerate, but at a slower pace;

Mar +0.8% versus Feb +0.3%

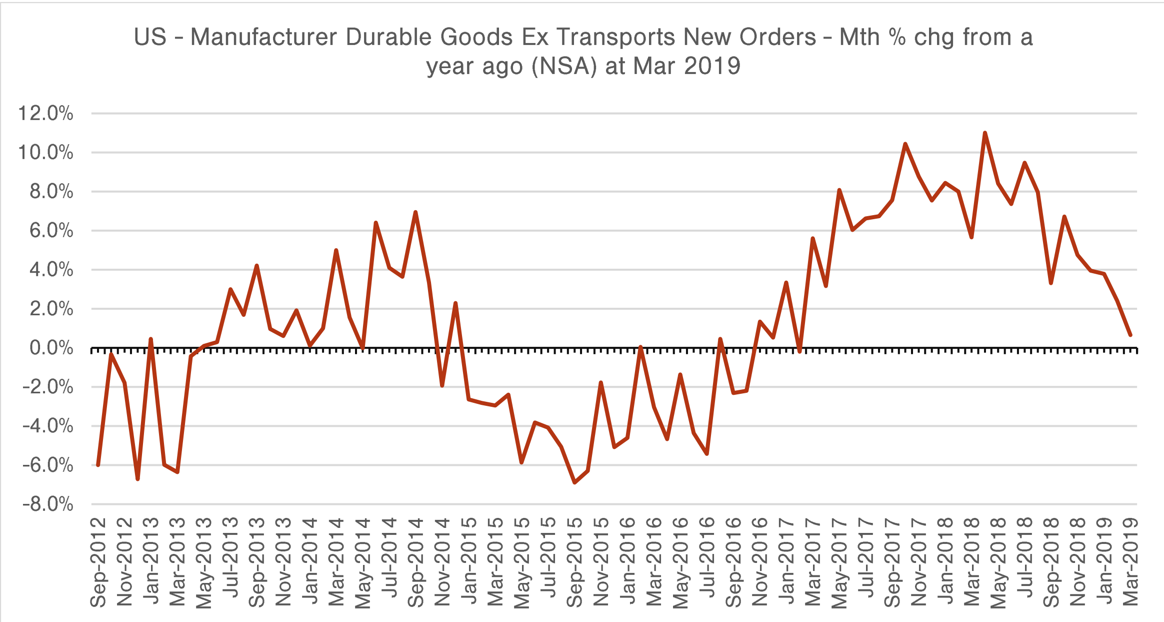
If you exclude transport, most of the growth in new orders is due to higher growth in non-durable goods – but non-durables don’t really track ‘new orders’. Therefore, drilling down to Durable goods ex transports provides some clearer insight as to underlying performance of new orders.

The monthly change in new orders of durables less transports improved in the latest month, but growth continues to trend long at a similar level **i.e. it is not showing the same improvement or acceleration in growth as at the total manufacturing level including non-durable goods;**

Mar +0.3% versus Feb -0.4%



On an annual basis, growth in durable goods new orders ex transports has slowed quickly since Oct 2018; Mar +0.6% versus Feb +2.4%



<u>Non-defense capital goods ex aircraft;</u> A different view of new orders that provides some insight into capital goods spending for the economy (which includes some transports).

Non-defense capital goods ex aircraft shows a continued monthly improvement in growth (which includes some of the transports figures); Mar +1.4% versus Feb +0%.

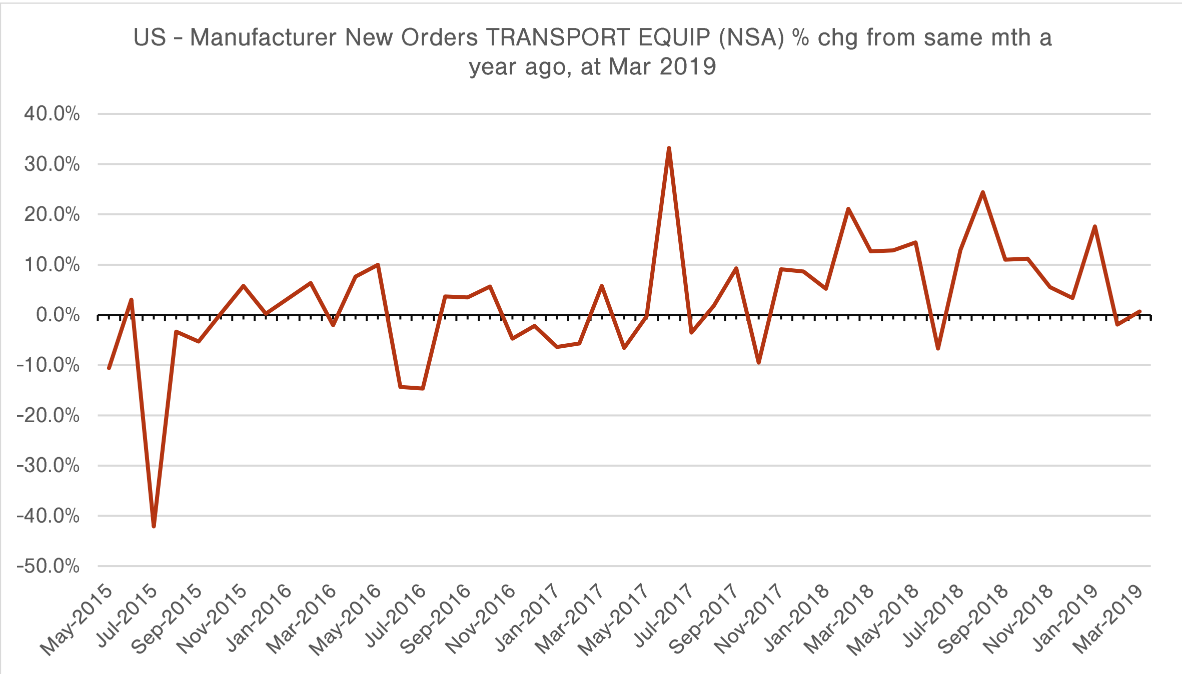
Annual growth has remained constant over the last four months; Mar +2.7% versus Feb +2.3%. This suggests little/no acceleration in capital goods spending;

<u>New Orders for Transport Equipment</u>

Part of the analysis above excludes orders for transports in order to identify underlying trends. Transport orders can be large in value and skew results. The reality is though, that transport orders still contribute to the total!

On a monthly basis, new orders for transports increased at a much faster pace; Mar +7% versus Feb -2.9%.

The annual change in new orders for transport equipment fluctuates more than at the total level (note the difference on the % chg scale). Ann growth has slowed to +0.7% in Mar;



SHIPMENTS

Total Manufacturer shipments; increased at a slightly faster pace in the latest month (after declining for the four months prior to Feb);

Mar +0.7% versus Feb +0.5%

The category dollar value breakdown; Growth in total manufacturer shipments in Mar (versus Feb) +$3.7bn. This was made up of;

Durable Goods Shipments growth; Mar +$0.9bn. Transport shipment growth was +$1bn.

Non-durable Goods Shipments growth; Mar +$2.8bn. **Of which the single largest contributor to growth in shipments in the month was Petroleum Refineries of +$3bn.**

Shipments excluding petroleum grew at a much slower pace;

Mar +0.2% versus Feb +0.1%

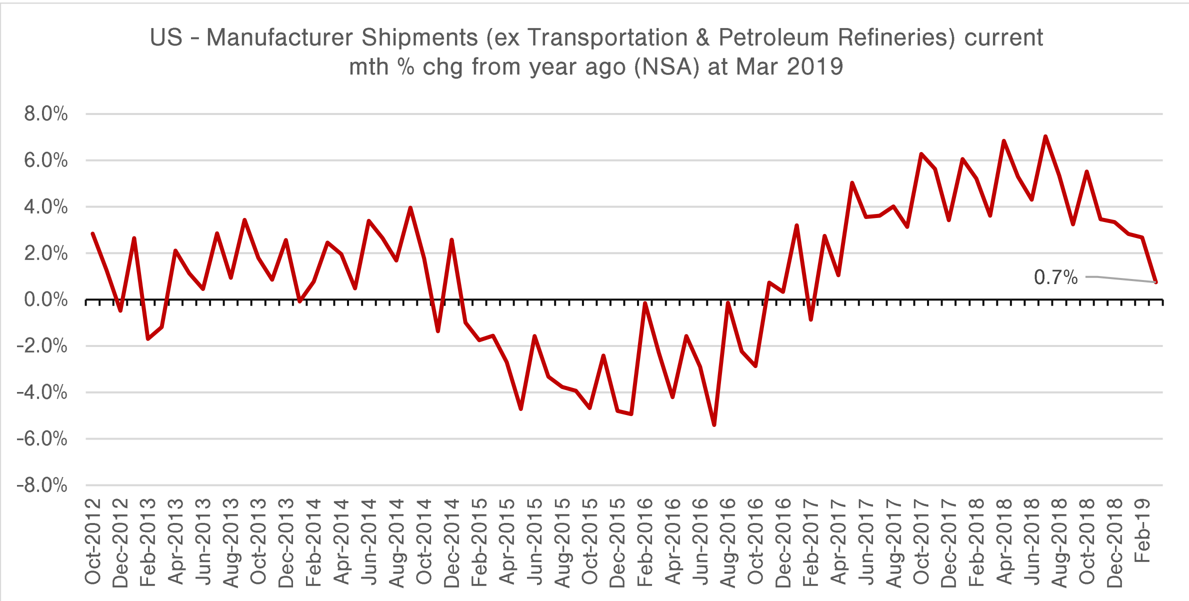
This suggests that some of the growth in shipments was likely led by an increase in the value of oil. In the month of Mar, the value of shipments of petroleum refineries increased by +6.3% after increasing by 4.5% in the month prior. (The PCE price index data confirms the acceleration in petroleum price growth for Mar).

Shipments ex transports; grew at a constant pace in the latest month; Mar +0.7% versus Feb +0.7%. Annual growth continued to slow; Mar +1.1% versus Feb +2.1%.

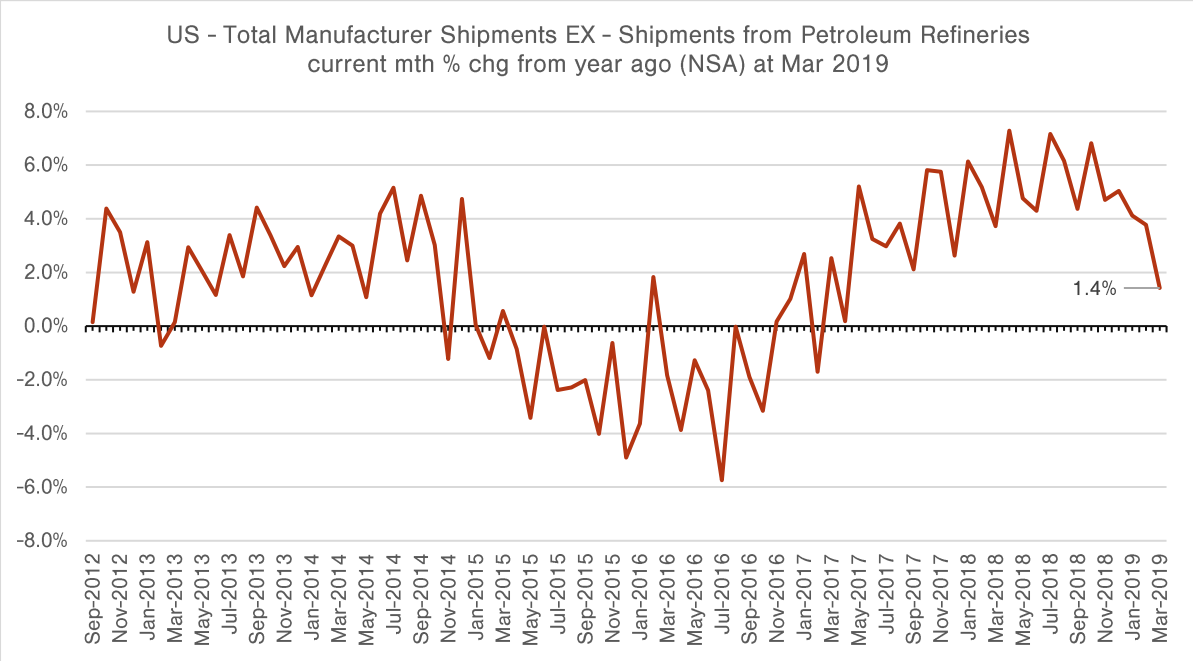
Shipments excluding transports and petroleum refineries shipments; As the recent increase in oil prices is possibly influencing the headline numbers, excluding transports and petroleum provides a more underlying view of shipment performance;

Mar -0.1% versus Feb +0.2%

On an annual basis growth underlying growth in shipments ex transports & petroleum refineries has slowed quickly;



Even when you include transports, the annual growth in shipments ex petroleum shows how quickly underlying growth in shipments has slowed since Nov. Its important to note that shipments are still growing, but at a much slower pace;

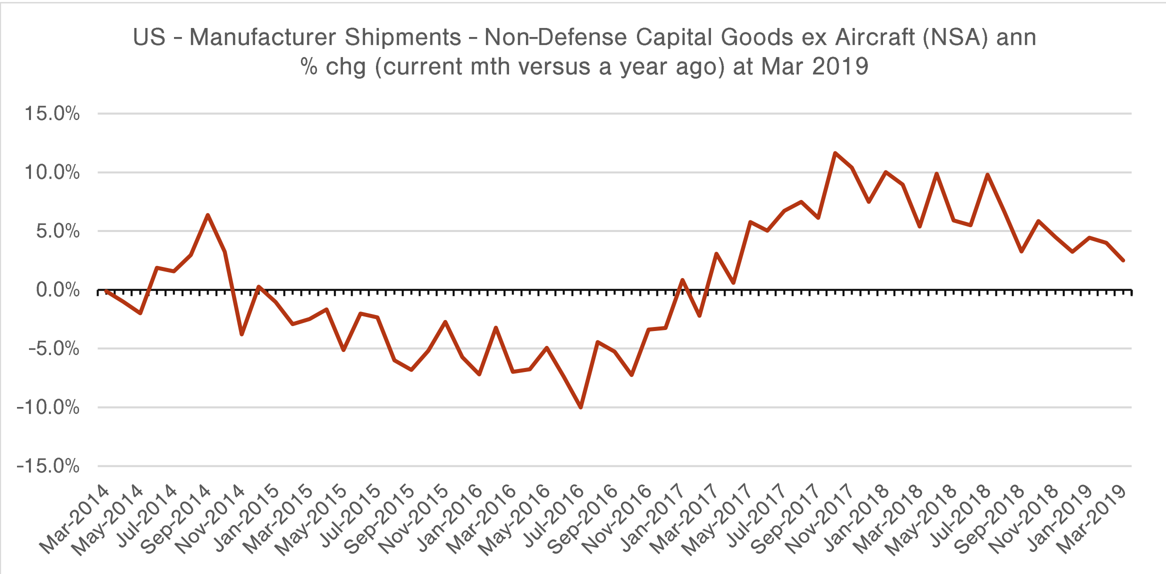


The one bright spot is that the boost to new orders for transports in this release will filter through to higher shipments in the next few months.

The view of non-defense capital goods ex aircraft shipments suggests that growth in investment spending on capital goods continues to slow;

In the latest month; Mar 0% versus Feb +0.3%

On an annual basis, growth has been slowing faster throughout 2018;

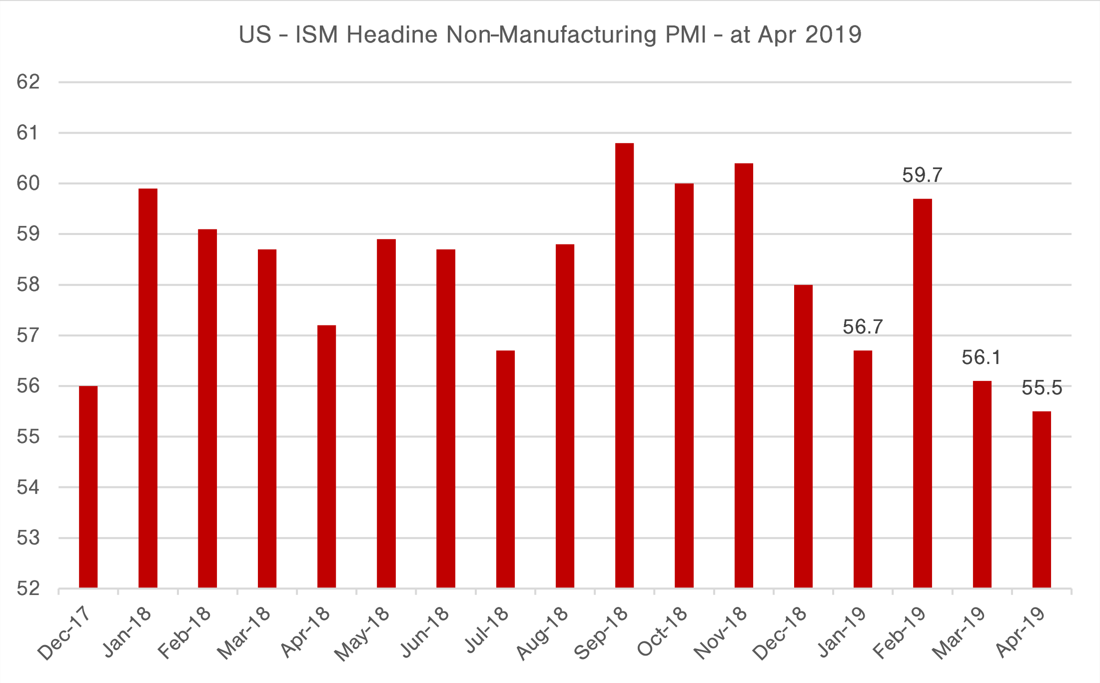


https://www.census.gov/manufacturing/m3/index.html

ISM Non-Manufacturing PMI (Apr)

The headline non-manufacturing PMI grew at a slightly slower pace in Apr. While output grew at a faster pace, growth in new orders slowed. Firms continued to work through backlogs, which grew at a slower pace.

Non-Manufacturing PMI; Apr 55.5 versus Mar 56.1



Output growth continued to increase at a somewhat faster pace as firms worked through order backlogs. New order growth slowed, and inventories increased at a slightly faster pace.

Employment grew at a slower pace.

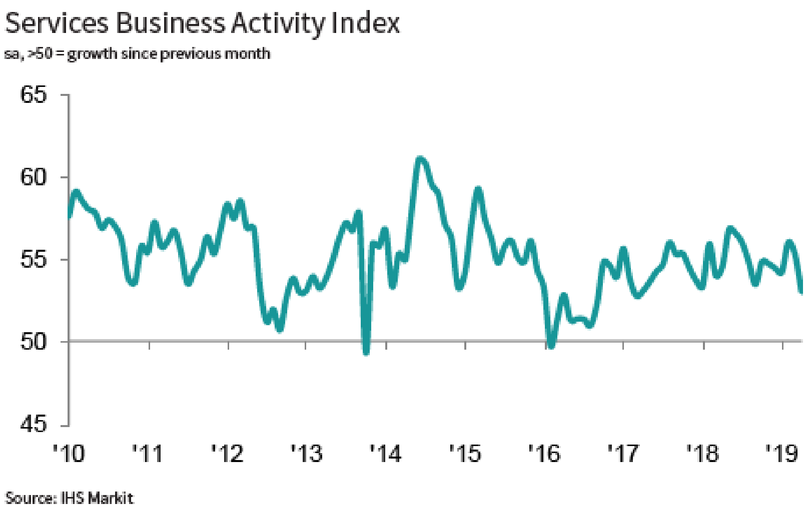
Output price growth also slowed.

https://www.instituteforsupplymanagement.org/ISMReport/NonMfgROB.cfm?SSO=1

Markit Services PMI (Apr)

Growth in private sector service activity slowed markedly in the latest month. This was the result of slower growth in output, new orders and employment. Firms cited less robust demand conditions and more intense competition.

Services PMI: Apr 53 versus Mar 55.3



Output growth slowed and is below the long-run series average. New business growth also slowed to the lowest level in two years.

Optimism regarding future output also slowed to its lowest level since 2016. Respondents cited greater uncertainty and more intense competition.

Both input and output prices increased at a slower pace. Increased competition had kept output price increases to a minimum.

Employment grew at a slower pace – the slowest in two years.

https://www.markiteconomics.com/Public/Home/PressRelease/d708415c566e4cc9adaacc3fde7fb1e9

FOMC - Rates Decision 01 May 2019

The FOMC left rates on hold at the latest meeting.

Target Fed Funds Rate; 2.25-2.50%

Key points in the rates decision remain consistent with previous meetings with a focus on "muted inflation" and a "patient approach" to rates adjustments;

> "In light of global economic and financial developments and **muted inflation pressures, the Committee will be patient** as it determines what future adjustments to the target range for the federal funds rate may be appropriate to support these outcomes."

Incoming data has been broadly in-line with expectations and overall economy doing well, risks have moderated.

Weaker inflation figures in Mar were both 'unexpected' (core) and due to 'transitory factors at work'.

Domestic economy

Economic and employment growth have been stronger than anticipated. Despite the stronger GDP growth, personal consumption and business fixed investment growth both slowed in Q1. The Fed expects that this trend is reversing;

> "Recent data suggest that these two components will bounce back, supporting our expectation of healthy GDP growth over the rest of the year."

Inflation growth has been weaker.

> "Core inflation unexpectedly fell as well, however, and as of March stood at 1.6 percent for the previous 12 months. We suspect that some transitory factors may be at work."

Solid underlying fundamentals; accommodative fin conditions, high employment & job growth, rising wages and strong consumer & business sentiment.

<u>Risks</u>

Several cross currents were identified at the start of the year; weak global growth especially China and Europe, Brexit, trade negotiations. Risks remain in all areas but have moderated somewhat. Global financial conditions have eased.

They key signalling statement from the press conference;

> "The Committee views these developments, along with the outlook for continued growth, a strong job market, and muted inflation pressures, as consistent with continued patience in assessing further adjustments in monetary policy."

<u>Balance Sheet</u>

Prelim discussion on the maturity composition of the Fed portfolio.

> "As part of normalization, we will have to decide what the maturity structure should be in the longer term. This choice raises many complex issues and has possible implications for the stance of policy."

Will be looking for more detail about this in the minutes.

The FOMC is not planning to decide on this until toward the end of the year.

<u>Interest on excess reserves (IOER)</u>

Another small adjustment (cut) was made to the rate for IOER – and is now 15bps below the top end of the FFR range.

From the implementation note (emphasis added);

> The Board of Governors of the Federal Reserve System voted unanimously **to set the interest rate paid on required and excess reserve balances at 2.35 percent, effective May 2, 2019.** Setting the interest rate paid on required and excess reserve balances 15 basis points below the top of the target range for the federal funds rate is **intended to foster trading in the federal funds market at rates well within the FOMC's target range.**

https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm

https://www.federalreserve.gov/newsevents/pressreleases/monetary20190501a.htm

https://www.federalreserve.gov/newsevents/pressreleases/monetary20190501a1.htm

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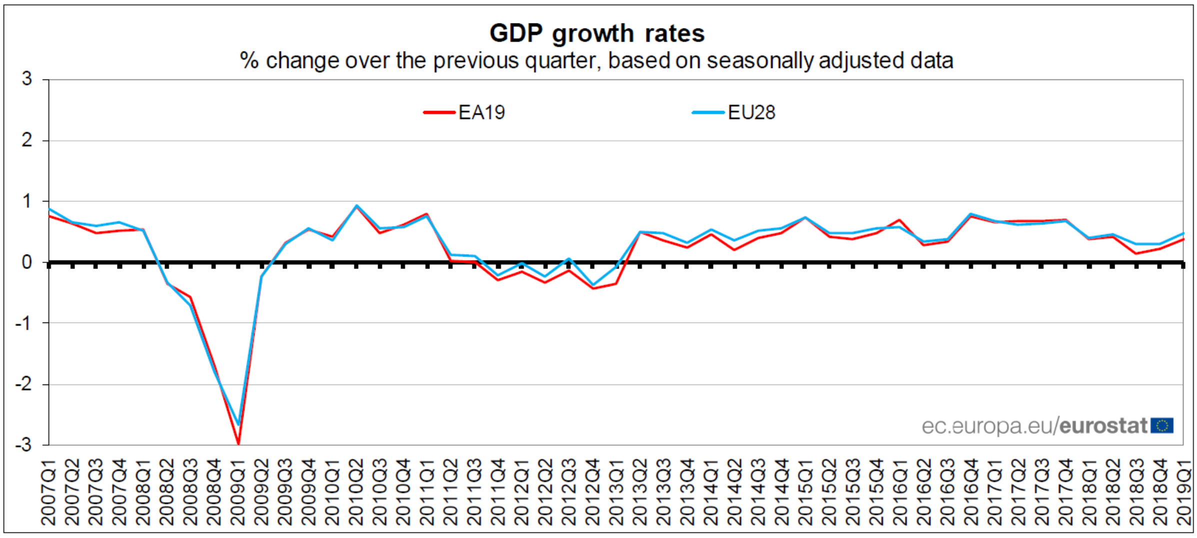
Europe

Eurozone GDP Prelim Q1

The prelim reading for Q1 GDP across the Euro area and EU showed that growth in Q1 2019 accelerated versus Q4 2018;

Euro Area; Q1 2019 GDP growth +0.4% versus Q4 2018 growth +0.2%. Annual GDP growth was unchanged in Q1 at +1.2% (was +1.2% at Q4 2018).

EU28 group; Q1 2019 GDP growth +0.5% versus Q4 2018 growth +0.3%. Annual GDP growth was also unchanged at +1.5% (was +1.5% at Q4 2018).



As this is the prelim report, there is no further breakdown of the key drivers of growth.

https://ec.europa.eu/eurostat/documents/2995521/9752703/2-30042019-AP-EN.pdf/df263061-9e85-44fc-8d90-edb3d2860a83

Eurozone CPI Prelim (Apr)

The annual Euro area CPI growth accelerated in the latest month. This was likely led by faster growth across services and energy prices.

Annual CPI growth – Euro Area

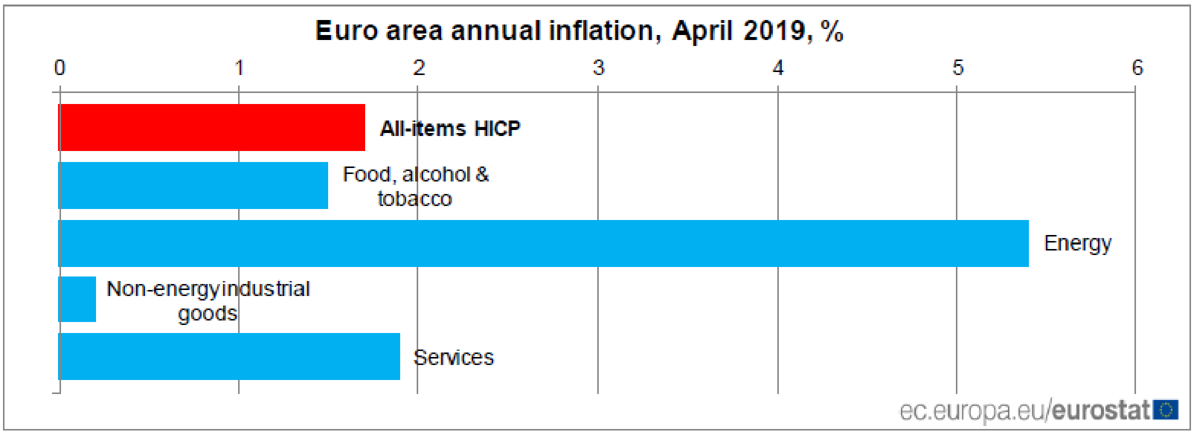
Headline CPI growth; Apr +1.7% versus Mar +1.4%

Core measures of CPI growth are lower, suggesting some influence from energy and other volatile items. But that said there is still an acceleration in core CPI growth from Mar to Apr;

All items ex energy; Apr 1.3% versus Mar 1%

All items ex energy, food, alcohol & tobacco; Apr +1.2% versus Mar +0.8%

The only area where the annual price growth accelerated between Mar and Apr was Services; Apr +1.9% versus Mar +1.1%. Even a year ago, Services prices were growing at +1%.

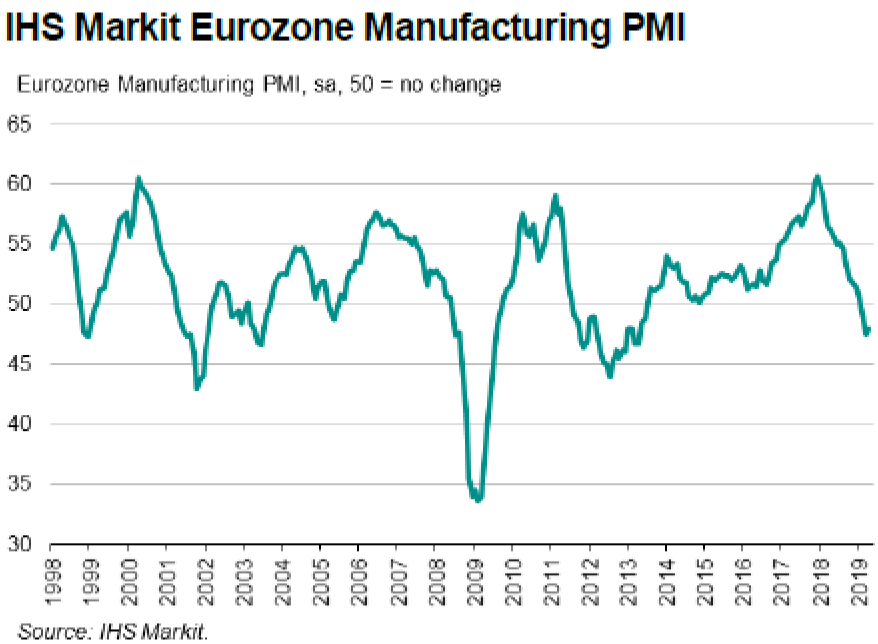


https://ec.europa.eu/eurostat/documents/2995521/9760508/2-03052019-AP-EN.pdf/dbcc52b0-a975-4da5-a3c2-8f7eb892b802

Eurozone Manufacturing PMI (Apr)

The headline PMI indicated that manufacturing activity continued to contract at the total Eurozone level. The rate of contraction eased only slightly.

Manufacturing PMI; Apr 47.9 versus Mar 47.5



Capital and intermediate goods manufacturing remained firmly in contraction territory, while consumer goods expanded.

The weaker conditions continued to be led by Germany – and overall conditions deteriorated further in the month. Manufacturing activity in Italy and Austria also contracted, while Spain recorded modest growth and France recorded no change.

New orders and new export orders continued to decline. Production activity declined for the fifth month in a row. Order backlogs were also reduced to the ‘greatest degree since Nov 2012’.

Despite the weaker conditions, there was a net increase in employment.

https://www.markiteconomics.com/Public/Home/PressRelease/a4c26f8d7ba44a21ab350938d4eab0a3

Germany Retail Sales Prelim (Mar)

Retail sales in real terms declined in Mar -0.2% (and -0.5% in nominal terms versus the month prior). This is price and calendar adjusted.

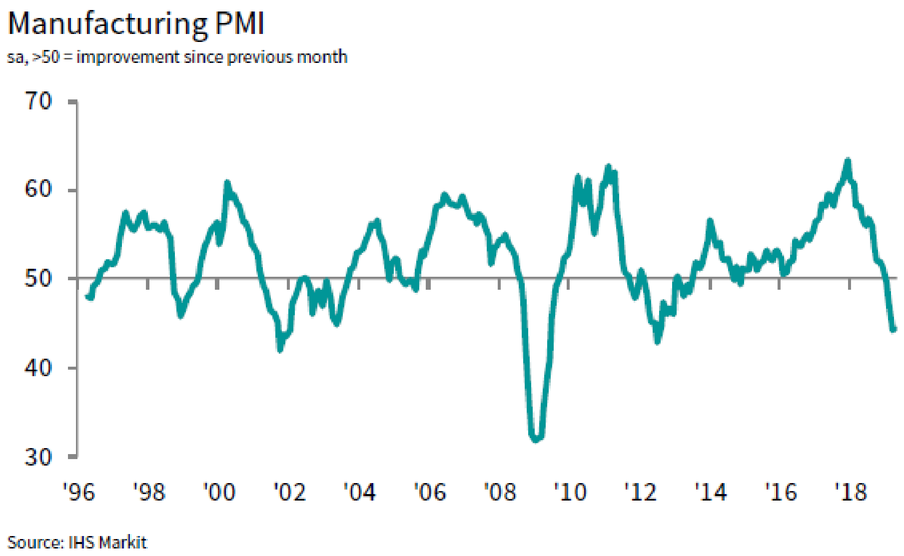
In annual terms, retail sales in Mar were -2.1% below the same month a year ago. This data is not calendar adjusted and the annual decline is influenced by the timing of the Easter 2018 holiday.

https://www.destatis.de/EN/Press/2019/05/PE19_169_45212.html

Germany Manufacturing PMI (Apr)

Manufacturing activity in Germany continued to contract in the latest month, albeit easing slightly. There was a small improvement in rate of output decline. But new orders and new export orders continued to contract.

Manufacturing PMI; Apr 44.4 versus Mar 44.1



Output continued to decline, but at slightly slower pace 9 which accounted for the slight uptick in the PMI). Production in investment goods declined at an accelerated rate.

New orders declined for the seventh month in a row. New export orders also continued to decline, and some firms cited a slowdown in the auto industry.

Order backlogs declined at the fastest rate in over ten years. Firms also reduced pre and post production inventories. Stocks of purchases fell by the largest amount in over three years.

Employment declined for the second month in a row.

The level of pessimism regarding the outlook for the next twelve months reached levels last seen in 2012.

https://www.markiteconomics.com/Public/Home/PressRelease/0c0711d722c04906897c827f9980d0c4

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United Kingdom

BREXIT

Cross party talks are set to resume this week. Local elections during the week resulted in losses for both the Labour party and the Conservatives. This has prompted fresh calls from PM May to 'break the deadlock' and find a compromise between the Conservatives and the Labour party to get the withdrawal agreement passed in Parliament.

Opposition to a compromise remains;

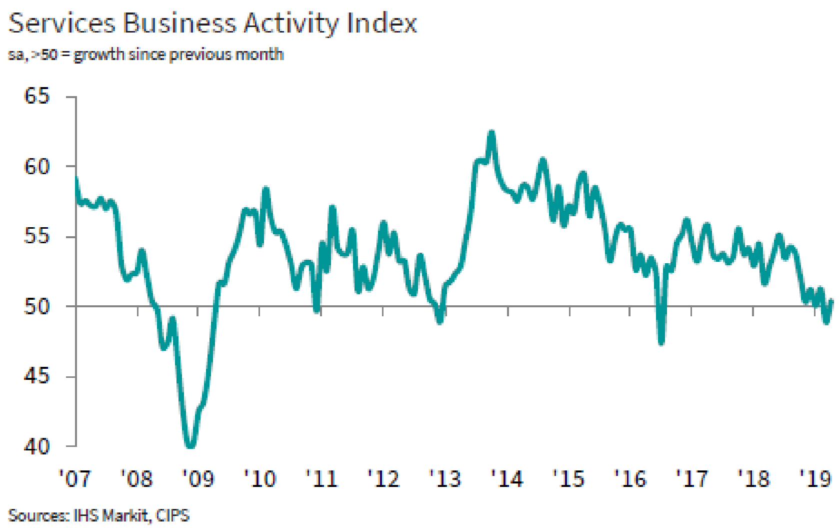
> "If Theresa May faces losing dozens of Tories opposed to a customs union, or Jeremy Corbyn faces losing dozens of labour MPs who want another referendum, they might not have the numbers to get this through the Commons. And in that case, a compromise is useless."
> https://www.bbc.com/news/uk-48165373

To avoid participation in the EU elections, the UK government needs to approve the current Brexit deal by 23 May 2019.

UK Services PMI (Apr)

This is first read of activity/output in the UK since the postponement of Brexit (after preparations were well underway for a Mar 29 exit). The headline PMI increased at a slightly faster pace. Despite the improvement, firms continued to cite uncertainty over Brexit as reasons clients postponed work. Yet business optimism for the outlook improved in the latest month.

Services PMI; Apr 50.4 versus Mar 48.9



New business orders fell again for the fourth month in a row – linked to weaker domestic demand. New orders from overseas customers also weakened, especially from European clients due to uncertainties over Brexit. Firms cited stronger sales to the US.

Order backlogs declined for the seventh month in a row. Employment growth remained unchanged.

Despite the current situation, optimism improved to the highest level since Sep 2018;

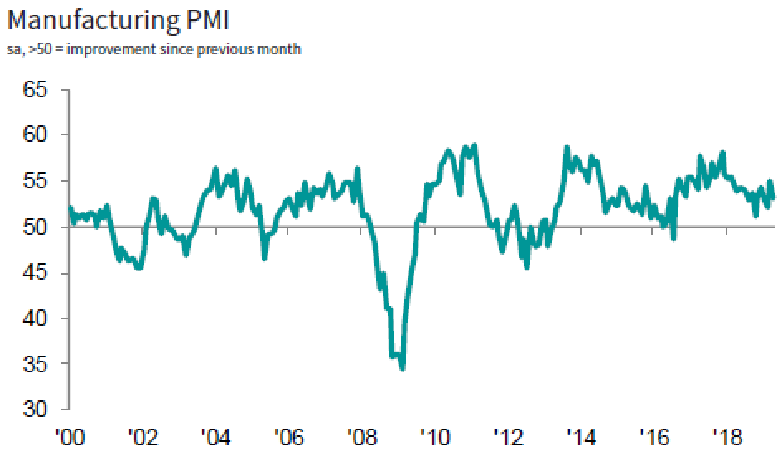
> Survey respondents mainly cited more favourable projections for their sales and marketing initiatives, linked to product launches and the recent progress of new business opportunities.

https://www.markiteconomics.com/Public/Home/PressRelease/e03e807db16c46c0928ea3ad4af515f6

UK Manufacturing PMI (Apr)

Manufacturing activity in the UK grew at a slower pace in Apr. This was led by lower growth in production, new orders and stocks of purchases. Employment growth also declined for the third time in the last four months.

Manufacturing PMI; Apr 53.1 versus Mar 55.1



While some of the slow down was Brexit-related (due to stock-building activity leading up to the end of Mar), some firms also cited slower global market conditions "with reports of lower demand from the EU, the USA and China".

https://www.markiteconomics.com/Public/Home/PressRelease/42eb2c51416f42f2a9008c3ca11a9555

BoE Interest Rate Decision – 02 May 2019

The MPC left rates on hold with the benchmark Bank rate at 0.75%.

The MPC also voted to maintain other elements of monetary policy unchanged;

Maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at £10 billion

Maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at £435 billion

Outlook

The economic outlook will continue to **depend significantly on the nature and timing of EU withdrawal**, in particular: the new trading arrangements between the European Union and the United Kingdom; whether the transition to them is abrupt or smooth; and how households, businesses and financial markets respond.

Domestic conditions

Shifting expectations around Brexit is the main influence on economic performance. Stock building activity impacted/boosted Q1 performance and this is expected to wane.

Brexit uncertainty is having a 'particularly pronounced impact on business investment, which has been falling for a year'.

Overall growth expected to pick up next year, with Brexit uncertainty gradually subsiding.

CPI growth expected to subside on the back of easing energy prices. Domestic inflationary pressure expected to increase above 2% target in two years' time, partly due to continued tightness in labour markets.

https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2019/may-2019

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Australia

Private Sector Credit (Mar)

The annual growth in total outstanding private sector credit continued to slow; as of Mar 2019, growing at an annual rate of +4.2%. In Mar 2018, that growth was +5.2%.

More important than the growth in credit is the growth in new credit (the growth of the growth). This is based on the premise that borrowing equals spending, so it is new credit issued in an economy, together with income growth, that drives new, or incremental, spending (growth) in the economy. <u>To generate spending growth, credit growth (and/or income) needs to accelerate.</u>

Using the stock of outstanding credit/debt provides a more complete picture of changes in total credit as it incorporates both paydowns of debt (contractionary) and new credit issued (expansionary).

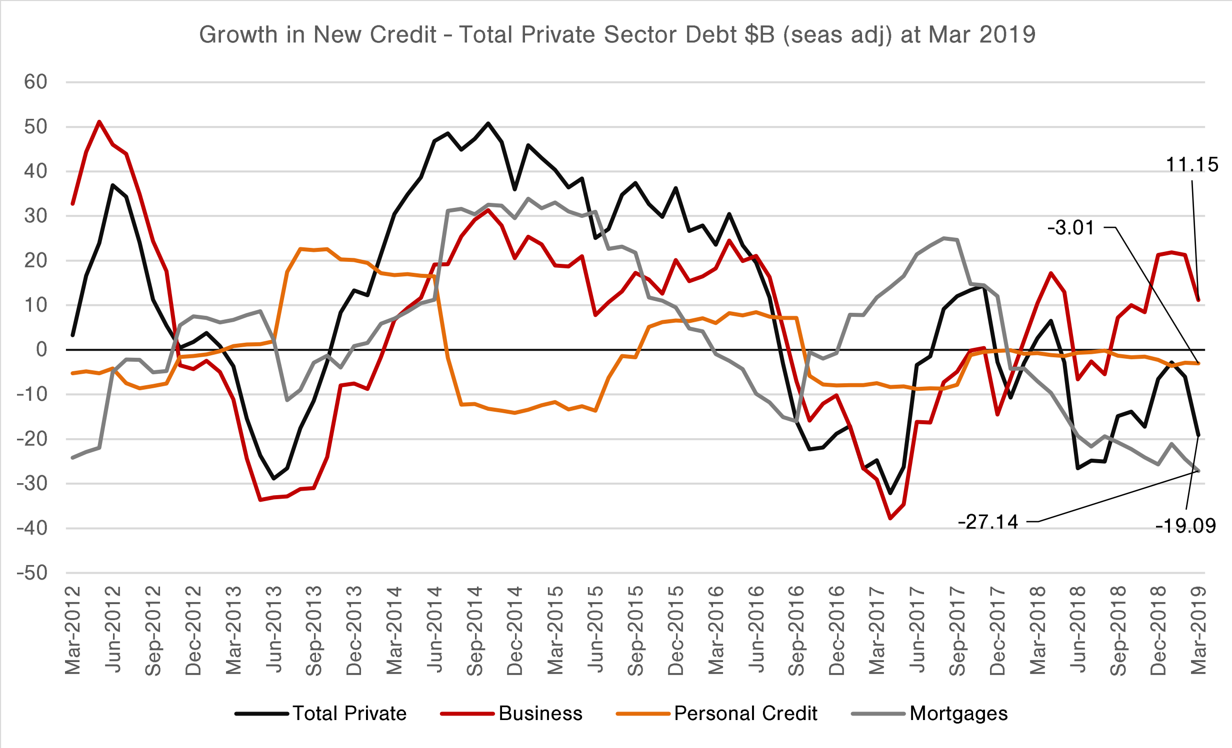
There was a large deceleration in the annual growth in new private sector credit in Mar.

Recently, the growth in new credit for business has been offsetting the continued deceleration in new credit for housing. This reversed in Mar as new credit for business shifted to deceleration, which was the main driver of the overall deceleration in new private sector credit.

Growth in new private sector credit; Mar -$19bn versus Feb -$6bn.

The deceleration was led by Business credit, and although it is still positive, the growth of the growth became smaller and it's this deceleration that matters; Mar +$11.1bn versus Feb +$21.3bn.

The growth in new credit for mortgages continues to decelerate; Mar -$27.14bn versus Feb -$24.45bn



https://www.rba.gov.au/statistics/frequency/fin-agg/2019/fin-agg-0319.html

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China

NBS Manufacturing and Non-Manufacturing PMI (Apr)

Manufacturing PMI; Apr 50.1 versus Mar 50.5

Manufacturing activity slowed slightly after a much stronger expansion in Mar. Both production and new orders increased at a slower pace. New export orders continued to contract, but at a slower pace. Firms continued to reduce finished goods and raw materials inventories. The employment index remained in contraction.

Non-manufacturing PMI; Apr 54.3 versus Mar 54.8

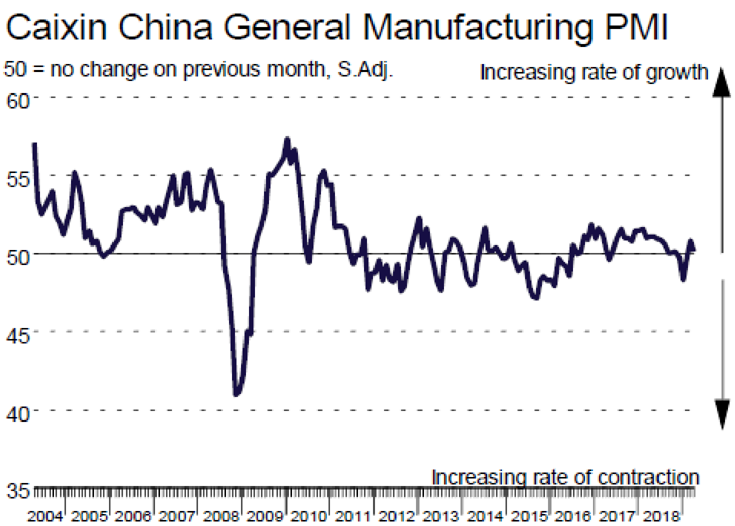
A slight slow down in services activity in Apr. This was led by a larger slow-down in new order growth. New export orders contracted further. Employment continued to decline.

http://data.stats.gov.cn/english/easyquery.htm?cn=A01

Caixin Manufacturing PMI (Apr)

Consistent with the NBS PMI, manufacturing activity grew at a slower pace with growth remaining marginal. Not a particularly convincing rebound so far in manufacturing activity. Yet business confidence increased to the highest level in over a year.

Headline Manufacturing PMI: Apr 50.2 versus Mar 50.8



Sources: IHS Markit, Caixin.

Output and new orders continued to increase, but growth overall was subdued. New export business declined for the second time in three months.

Increases in order backlogs remained low. Employment declined slightly.

Firms remained cautious about demand and inventories of finished goods continued to decline for the fourth month in a row.

At the same time, business confidence increased to the highest level seen in over a year. Optimism was linked to launches, expansions and ‘expectations that global demand conditions will improve’.

https://www.markiteconomics.com/Public/Home/PressRelease/26c51700cb5f4224bda8595676615fdb

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Trade

US-China Trade Negotiations

Talks between the US and China appear to have stalled with no agreement on key issues. Frustrated with the lack of progress, US President Trump has tweeted that if an agreement is not reached by Friday (10 May 2019), tariffs would increase from 10% to 25%.

> "Could be Trump trying to increase leverage going into a potential last round or could be an indication that things aren't going well on the outstanding items," Erin Ennis, vice president at the USCBC, said in an email. "It's hard to know if it was wishful thinking that negotiations would conclude this month, since we have never been given solid information about what is outstanding and how close or far [apart] the two sides are on those issues."
> https://www.politico.com/story/2019/05/05/trump-china-trade-tariffs-1302635

Chinese Vice Premier Lui He may delay his scheduled visit to Washington for talks this coming week.

An arbitrary line in the sand is this coming Friday 10 May 2019.

Within the US, business groups have expressed concerns over increasing tariffs;

> "If the President follows through on this threat, the consequences will be dire," it added. "Raising tariffs to 25 percent could cost nearly one million American jobs, according to recent estimates. This decision will also roil financial markets and increase the likelihood of retaliation on American farmers who are facing the lowest income levels in years."
> https://www.politico.com/story/2019/05/05/trump-china-trade-tariffs-1302635

Agriculture has been particularly hurt by retaliatory tariffs imposed by China. This comes at a time when both Japan and EU trade negotiations opening gambit is to refuse to include agriculture in the scope of discussions i.e. consider opening markets to US agriculture.

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

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

The report by the ITC evaluating the USMCA was released – based on the implementation over the next six years;

> "We welcome the International Trade Commission's independent analysis of the USMCA. This report is an important step forward in gaining congressional approval of the USMCA. The ITC analysis shows that USMCA will increase U.S. employment by 176,000 jobs and is projected to increase GDP by 0.35%. This is more than double the 0.15% growth rate the ITC projected for the multilateral Trans-Pacific Partnership. These findings validate President Trump's action to withdraw from TPP and renegotiate the disastrous NAFTA. With USMCA, we will have stronger growth, more trade and more jobs – particularly in manufacturing. There can be no doubt that the USMCA is a big win for America's economy."

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

The focus now is to have the deal ratified by Congress before the summer.

> "Rep. Kevin Brady, ranking member on the House Ways and Means Committee, said U.S. Trade Representative Robert Lighthizer is ready to send legislation to lawmakers when House Speaker Nancy Pelosi "gives the green light." He called getting the deal to Trump's desk this summer "crucial."" https://www.cnbc.com/2019/03/29/trumps-nafta-usmca-trade-deal-faces-bipartisan-roadblock-in-congress.html

Link to the USITC report;
https://www.usitc.gov/press_room/news_release/2019/er0418ll1087.htm

Section 232 – Car and Truck Imports

The final report on the s.232 investigation was provided to President Trump on 17 Feb. The President has 90 days to make a final decision on the recommendations – this will be on or around 19 May 2019.

> "Some analysts have considered the secrecy around the U.S. report on Section 232 tariffs as leverage which Trump likely intends to use in the U.S. trade negotiations with the EU."

> "We're trying to make a deal. They are very tough to make a deal with," Trump told reporters at the White House on Wednesday. "If we don't make a deal, we'll do the tariffs." http://www.xinhuanet.com/english/2019-02/23/c_137845093.htm

US-Japan Trade Talks

Trade talks between the US and Japan commenced in the week prior. Details of the negotiations came to light last week - 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

The two representatives will 'meet again in the near future to continue talks'.

> "The United States and Japan discussed trade issues involving goods, including agriculture, as well as the need to establish high standards in the area of digital trade. In addition, the United States raised its very large trade deficit with Japan – $67.6 billion in goods in 2018." https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/april/statement-ustr-meetings-discuss

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

Negotiations are set to commence this coming week, but the scope of the talks remain a sticking point.

Meetings this coming week will focus on regulatory co-operation and will set the groundwork for higher level discussions between the EU chief negotiator Cecilia Malmstrom and USTR Lighthizer.

Both representatives are set to meet later in May, with possibly follow-up meetings in order to agree the scope of the negotiations;

> "According to one EU official, the Malmström-Lighthizer meeting will take place on the sidelines of an OECD ministerial meeting in Paris on May 22-23. It may, however, take another meeting of the two trade chiefs in June, or even longer, to reach agreement on the scope of the talks."

https://www.politico.com/newsletters/morning-trade/2019/05/03/the-gop-fight-blocking-nafta-20-432006

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.

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

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