

## Key Themes

Developments on trade, increasing downside risks from trade tensions and low inflation had central bankers in the US, Europe, and Australia worried this week.

The US Fed Chairman has put a rate cut into play. Chairman Powell stated in a speech on Tuesday that the US Fed 'will act, as appropriate, to sustain the expansion'. The Chairman was referring specifically to 'recent developments involving trade and other matters' – the stalling of talks with China and the upcoming threat of tariffs on imports from Mexico. The comments were somewhat out of place in that they were added to the start of his opening remarks for the Fed conference on Monetary Policy Strategy, Tools and Comms Practices – a conference dealing with longer-run issues.

But the brief comments by the Fed Chair had the desired effect and helped markets in light of some weaker economic data for May – especially coming into the blackout period before the next FOMC meeting. The most notable was the much slower growth in non-farm payrolls. The household survey also highlighted the continued deceleration in employment growth. The Markit PMI's indicated that private sector activity in manufacturing and services had slowed quickly in May to only a marginal level of growth. The ISM's was less negative but indicate that growth remained low in May.

Other measures of output and sales were also weaker for Apr – with factory orders and shipments falling in the month. Wholesale sales also declined while inventories increased at a faster pace.

One brighter spot was that motor vehicle sales had picked up again in May. There is a possibility that retail sales of vehicles will remain lower (growth from fleet sales) in the May retail sales report. Consumer credit growth in Apr accelerated on the back of faster growth in revolving credit.

Then, very late on Friday, US President Trump announced that the US and Mexico had reached an agreement on managing the flow of illegal immigrants into the US – and that the tariffs on imports from Mexico were on hold indefinitely.

While the ECB kept rates on hold, ECB President Draghi indicated that discussions had started regarding a possible cut or further bond purchases to stimulate inflation. The prelim CPI for May indicated that annual consumer price growth decelerated quickly in May – both headline inflation and core inflation, which will be a concern for the ECB. The underlying drivers of the faster Q1 GDP growth were somewhat positive but incoming data suggested weakness into the second quarter. Retail sales declined in May after flat sales in Apr. The PMI's for May were mixed – ongoing declines in manufacturing were offset by some growth in services activity – but growth in output/activity likely remained subdued overall throughout the Eurozone.

The RBA cut rates to ‘assist with faster progress in reducing unemployment’ which will help to get the inflation back to the 2-3% range. The RBA cited concerns over increasing trade tensions and domestic uncertainty regarding household consumption, sustained low income growth, and falling house prices. The Q1 GDP did little to allay those concerns. While growth accelerated in Q1 versus Q4, growth of domestic output (GNE) was zero. Into the second quarter, retail sales declined with some pronounced negative shifts in expenditure. The value of housing lending increased due only to an increase in the value borrowed by owner occupiers. But the number of owner occupier commitments fell suggesting that underlying weakness in lending persists – which is likely to be reflected in continued falls in house prices.

Special mention of UK Markit PMI’s – overall indicating that in May, private sector activity grew at a lower more marginal pace. Importantly, the weakness in manufacturing and construction was still offset by faster growth in the services sector. The common theme was that Brexit and political uncertainty was holding back growth.

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US Fed Speeches

[Europe](#) - Eurozone Manufacturing PMI (May), Eurozone CPI – Prelim (May), Eurozone Services PMI (May), Eurozone PPI (Apr), Eurozone Retail Sales (Apr), ECB Rates Decision, Eurozone Q1 GDP, Germany Manufacturing and Services PMI (May), Germany Factory Orders (Apr), Germany Industrial Production (Apr)

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## US Data

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### Markit Manufacturing PMI (May)

The headline index indicated that manufacturing activity slowed sharply in May, with growth falling to a low/marginal rate - the lowest since Sep 2009. Output growth slowed and new orders declined/contracted also for the first time since Aug 2009.

Headline Manufacturing PMI; May 50.5 versus Apr 52.6

#### Manufacturing PMI

sa, >50 = improvement since previous month



Output growth slowed to only a marginal/low level of growth. Firms indicated that output growth was the result of working through order backlogs.

New orders fell into contraction for the first time since 2009. The decline was slight overall. Firms cite weaker demand and clients postponing orders amid uncertainty about the outlook. New business from overseas also contracted for the first time since July last year.

Confidence in the outlook fell to the joint lowest since the series began in 2012. Trade tensions and a 'growing trend' of clients postponing orders were cited as key reasons for the weaker sentiment.

Input and output prices increased only marginally.

Employment grew at a slower pace. Firms reported increases based on replacement of voluntary leavers/retires.

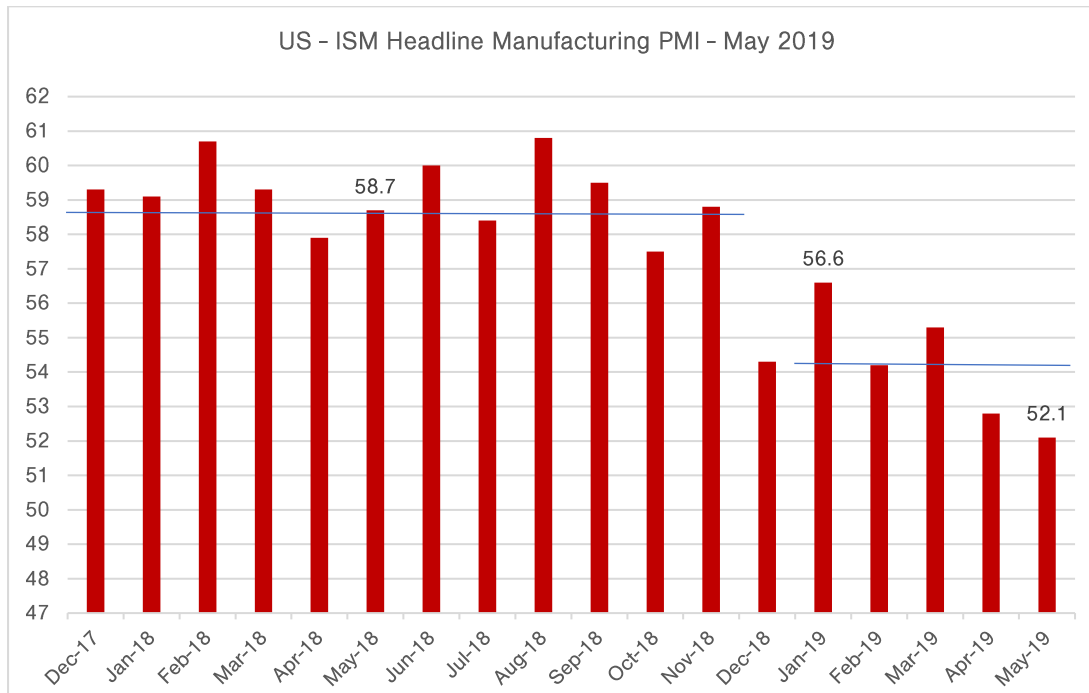
<https://www.markiteconomics.com/Public/Home/PressRelease/21f2aabb766f4eb2b9b7560336d053e8>

### ISM Manufacturing PMI (May)

The headline ISM manufacturing PMI continued to grow at a slower pace. The ISM was not as negative as the Markit manufacturing PMI. Growth in new orders and production were little changed. Of note was that backlogs of orders contracted at a much faster pace – consistent with the Markit PMI report.

## Headline Manufacturing PMI; May 52.1 versus Apr 52.8

The average PMI for 2018 was 58.7 and YTD has slowed to 54.2.



The selected commentary by firms cite issues resulting from tariffs.

New orders increased at a slightly faster pace, remaining mostly stable. Less firms reported both higher and lower new orders – most firms reported no change in new orders.

New export orders increased at a faster pace – importantly after falling into contraction territory in the month prior.

Production/output growth slowed. A larger proportion of firms reported lower production, but most firms reported no change in production levels.

The order backlogs sub-index made the largest move in the month falling 6.7pts into contraction territory. This was the lowest level recorded in the sub-index since Oct 2016.

Employment growth increased at a faster pace. More firms reported higher levels of employment growth. There was also a small increase in the firms reporting lower employment growth. There was a slightly smaller proportion of firms reporting no change in employment.

Inventories grew at a much slower pace, falling to a more marginal rate of growth.

Prices increased at a faster pace;

“Prices rebounded in May, as price issues remain in electronic components, food ingredients, wood products and other areas, which are offset by steel and aluminum declines. Shortages continue for electronic components and integrated circuits,”

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

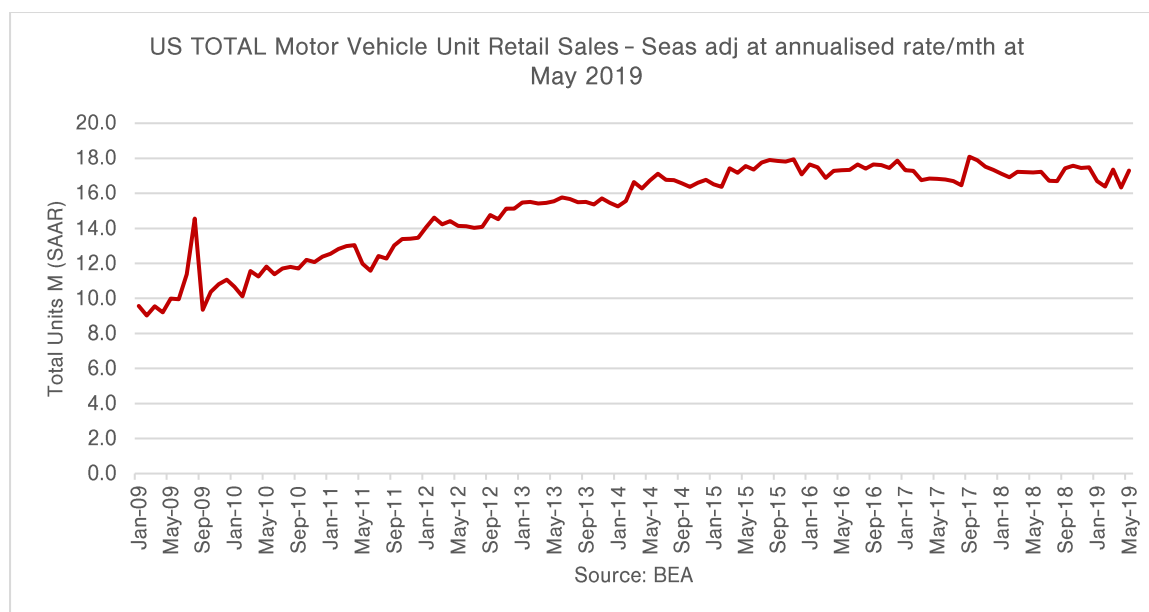
## Motor Vehicle Sales (May)

Sales of motor vehicles rebounded in May. This was led by stronger growth in light trucks as well as a small uptick in autos.

### Total Vehicle Sales

SAAR; May 17.3m units (+5.9%) versus Apr 16.3m units (-5.8%)

Annual change last 12mths v 12mths prior (NSA); May -0.5%



Total vehicle sales remain well below the peak of Oct 2001 of 21.7m units (SAAR).

While growth was stronger, it's still possible that retail sales will decline in the month (emphasis added);

“There's no denying many of the economic indicators we follow support strong sales,” said Cox Automotive analyst Charlie Chesbrough, calling the May results a “complete reversal from a slow April.”

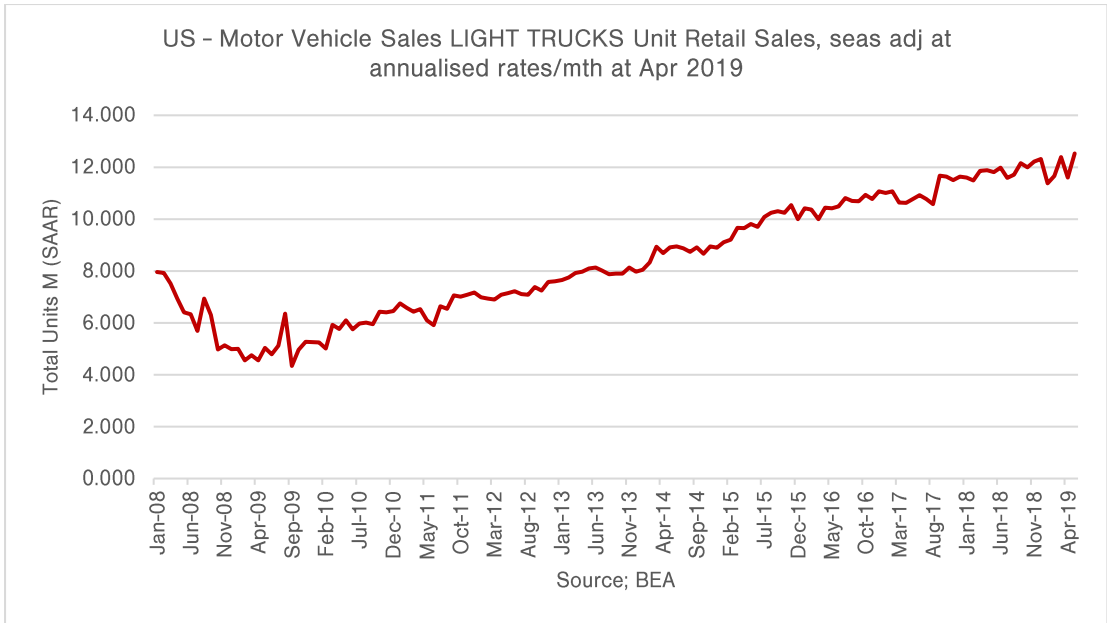
**While retail sales continue to slip, higher fleet shipments** appeared to boost some automakers last month, analysts said.”

### Light Truck Sales

SAAR; May 12.5m units (+8%) versus Apr 11.6m units (-6.4%)

The monthly unit growth was the result of domestic (brand) light truck sales although both foreign and domestic light truck sales grew at a faster pace.

Annual change last 12mths v 12mths prior (NSA); May +5%



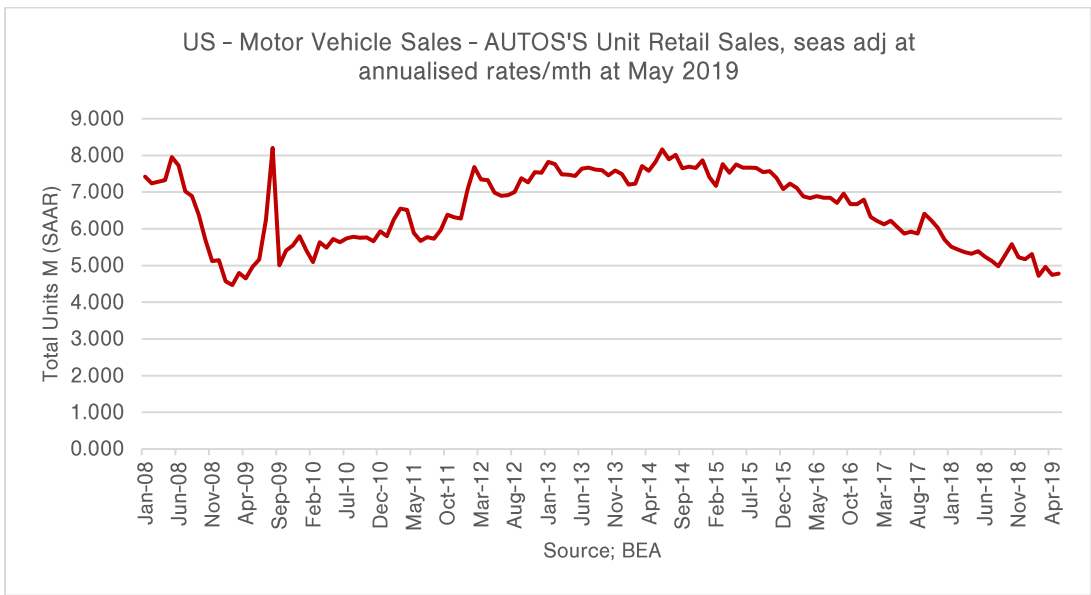
The current annual rate (SAAR) of 12.53m units is only -0.5% below the all time high from Jul 2005.

Auto Sales

SAAR; May 4.78m units (+0.7%) versus Apr 4.74m units (-4.4%)

The monthly growth was the result of foreign auto sales which more than offset a continued decline in US domestic auto sales.

Annual change last 12mths v 12mths prior (NSA); May -12%



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

<https://www.autonews.com/sales/us-sales-skid-hits-5-months-saar-rebounds-174m>

## Factory Orders – Final (Apr)

This month, manufacturer shipments and orders declined, and the stronger Mar data was also revised slightly lower. Despite the weaker monthly growth, the annual change increased at a slightly faster pace – but growth remains well below the 2018 peaks.

### Shipments

Total Shipments	Mth chg	Apr -0.5%	Mar +0.2% (was +0.7%)
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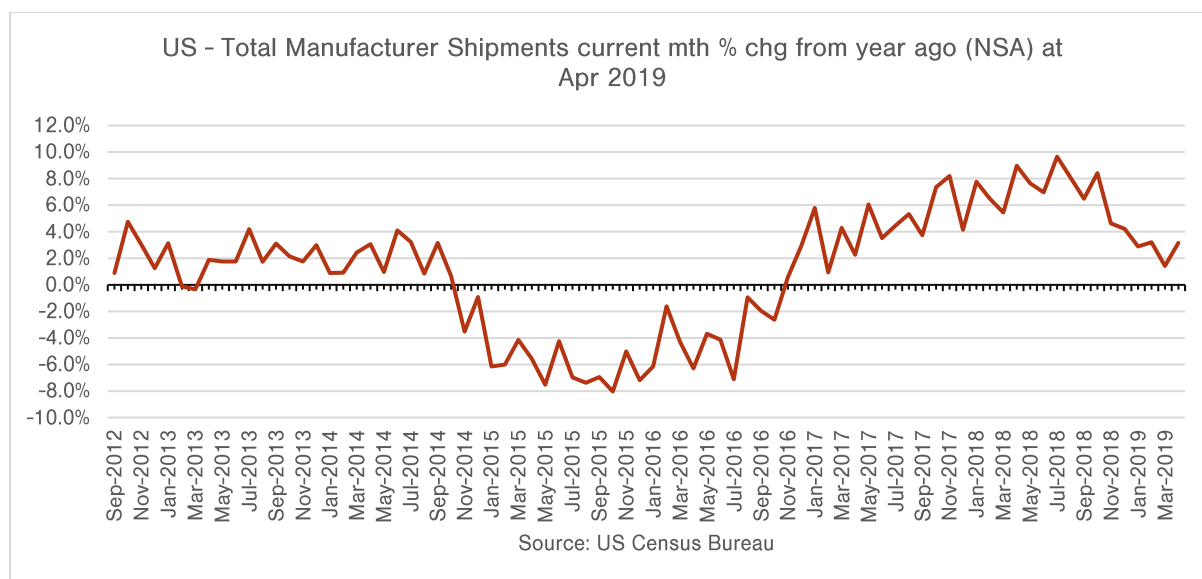
Total Shipments ex Transports	Mth Chg	Apr +0.2%	Mar +0.3% (was +0.7%)
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Total shipments declined by -\$2.7bn in Apr.

This was led by a -\$3.3bn decline in durable goods shipments (transports -\$3.6bn – including autos, light trucks, non-defense air-craft).

Non-durable goods increased by +\$1.1bn the majority of which was petroleum refineries. Shipments of food, beverage and tobacco products contributed to the remaining gain.

On an annual basis, shipments increased by +3.2% in Apr after slowing to +1.4% in Mar;



Excluding both transportation and the impact of petroleum refineries on shipment data suggests that core shipments grew at a faster pace in Apr, despite the weaker monthly change. Annual growth (NSA) accelerated from +0.5% in Mar to +2.7% in Apr. Annual growth was slightly slower on a seasonally adjusted basis.

### New Orders

Total New Orders	Mth chg	Apr -0.8%	Mar +1.3% (was +1.9%)
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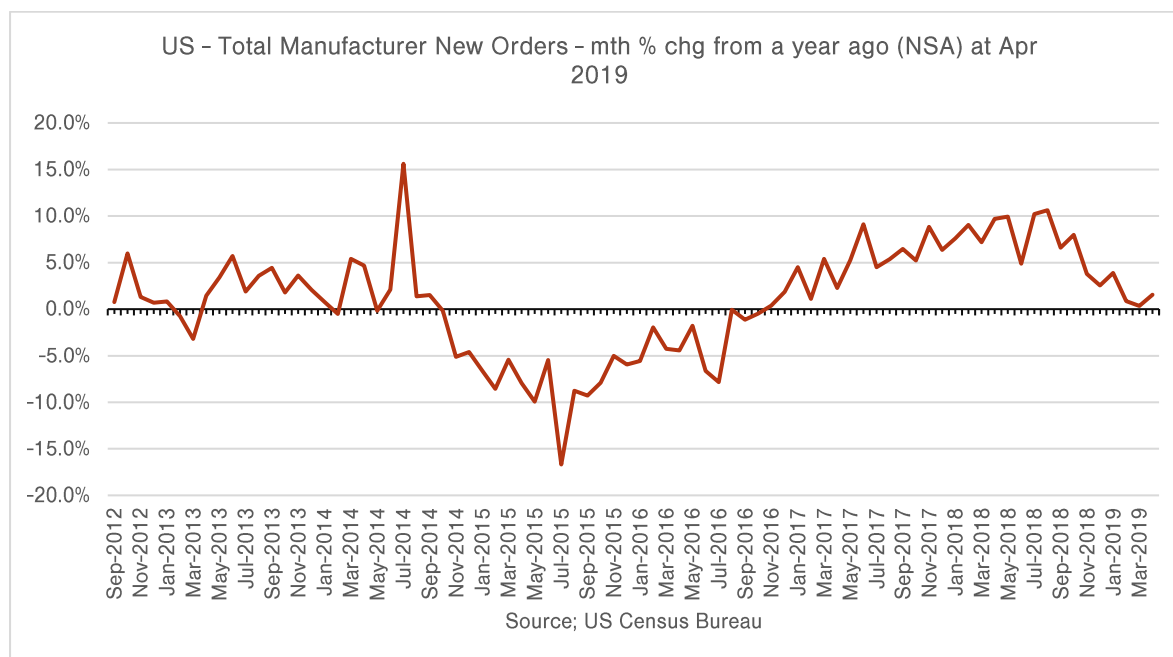
Total New Orders ex Transports	Mth Chg	Apr +0.3%	Mar +0.3% (was +0.8%)
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The value of total new orders declined by -\$4bn in Apr (after increasing by +\$6.5bn in Mar).

Contributing the most to the decline was transportation equipment falling -\$5.3bn. The decline in transportation equipment was recorded across motor vehicles, non-defense aircraft, defense aircraft and ships and boats.

New orders from the remaining categories of durable goods (ex-transports) increased by +\$1.3bn in Apr.

On an annual basis, total new orders increased at a slightly faster pace of +1.6% in Apr versus +0.3% in Mar (NSA basis). On a seasonally adjusted basis, new orders growth slowed to +1%.



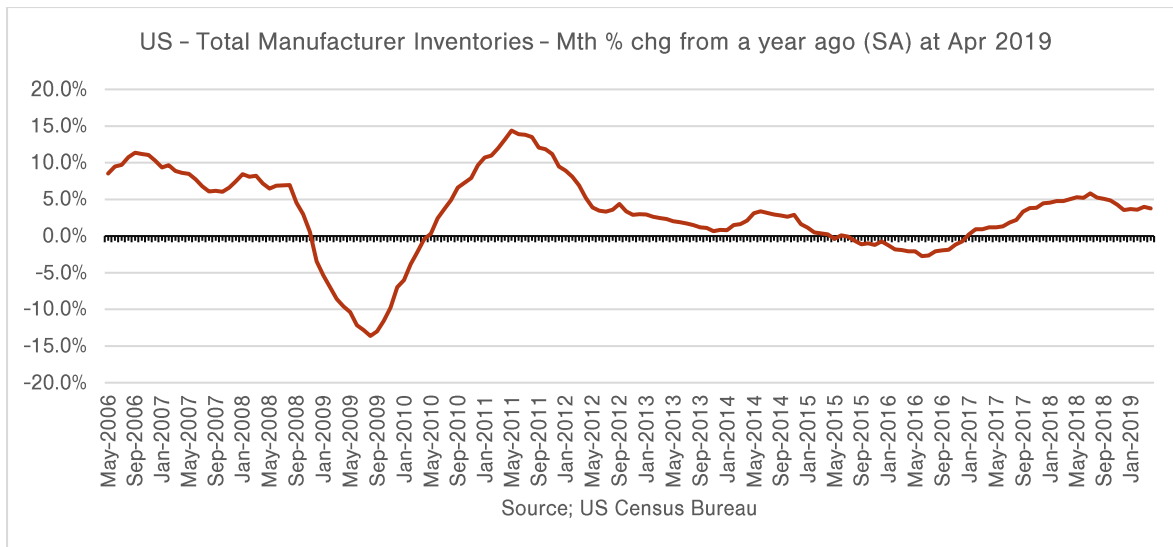
### Inventories

Total Inventories	Mth chg	Apr +0.3%	Mar +0.4% (was +0.4%)
Total Inventories ex Transports	Mth Chg	Apr +0.1%	Mar +0.4% (was +0.5%)

Total inventories increased by +\$1.8bn in the month after a +\$2.8bn increase in the month prior.

Durable goods inventories (transport equipment) made the largest contribution to the increase in the month +\$1.5bn.





Annual growth in inventories has been positive for the last 28 months.

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

## Markit Services PMI (May)

The headline services PMI slowed quickly in May, indicating that growth in services activity slowed to a low/marginal level.

Business Activity Index – Services; May 50.9 versus Apr 53

### Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

Firms cited slower growth in output due in part to greater competition and weaker demand conditions. There was little change in order backlogs in May.

New orders increased at a slower, marginal rate. Firms reported “less robust demand conditions weighed on new business growth”. New export orders growth remains steady at the neutral 50 mark.

Concerns over softer demand conditions resulted in business sentiment falling to the lowest level since Jun 2016. Again, firms cited concerns around weaker demand conditions as well as ongoing trade tensions.

More competitive conditions resulted in some firms reducing output charges. The SA index fell below 50 for the first time since Feb 2016. Increases in input prices were muted overall.

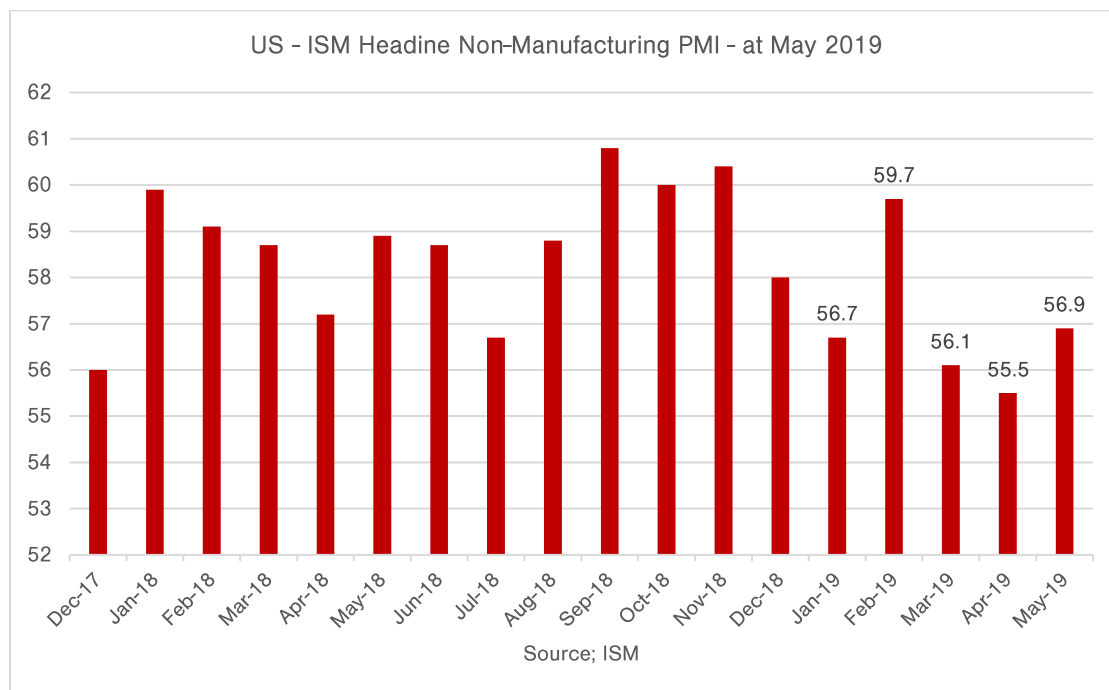
Despite the somewhat slower growth conditions, firms continued to expand employment at a slightly faster pace.

<https://www.markiteconomics.com/Public/Home/PressRelease/3981e1de8be64f7cb80e7e388e7ff83c>

## ISM Non-Manufacturing PMI (May)

A less grim picture of services activity was painted by the ISM non-manufacturing PMI for May. Both output and new orders grew at a somewhat faster pace. Contributing to the increase in output was slower growth in order backlogs.

ISM Non-Manufacturing PMI; May 56.9 versus Apr 55.5



Business activity/output increased at a faster pace. But underlying that, a smaller proportion of firms reported 'higher' levels of output. More firms reported the 'same' level of output. The proportion of firms reporting lower output was unchanged and remain at near-term lows.

New orders grew at a slightly faster pace. Again, the underlying shifts indicated that less firms reported higher levels of new orders (the lowest proportion going back to Feb). More firms reported the 'same' levels of new orders and a slight increase in the proportion of firms reporting lower new orders.

Employment grew at a faster pace – more firms reported higher employment levels in May.

Inventories also increased at a faster pace in May.

Price growth was unchanged from the month prior.

The orders backlog sub-index made one of the larger moves in the month, falling from 55 in Apr to 52.5 in May. Less firms reported both higher and lower backlogs while more firms reported the same levels of backlogs.

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

## Challenger Job Cut Report (May)

The number of job cut announcements increased by 46% versus the month prior and was 85% above the same month a year ago. The YTD job hire announcements are double that of the YTD a year ago.

### Job Cut Announcements

Announced Job Cuts (000's persons)	Mth total	May 58.6k	Apr 40k
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Announced Job Cuts (000's persons)	YTD total	2019 May; 289k (+38%)	2018 May; 208k
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The leading industries for job cut announcements;

**Retail;** 50k job cut announcements YTD (-28% versus YTD year ago). Retail has also a larger number of job hire announcements YTD of 398k (mostly +250k job hire announcement made by McDonalds in Apr 2019).

**Industrial Goods;** 44.5k job cut announcements YTD (+671% versus YTD a year ago). Industrial goods firms have announced only 3.4k job hires in the YTD.

**Automotive;** 21.4k job cut announcements YTD (+211% versus a year ago). Auto firms have announced 19.2k job hires in the YTD.

**Technology;** 18.6 job cut announcements YTD (+342% versus YTD a year ago). Tech firms have announced hires of 9.2k jobs in the YTD.

**Health Care/products;** 17.5k job cut announcements YTD (-18% versus YTD a year ago). Health care firms have announced 5.8k job hires in the YTD.

### Job Hire Announcements

Announced Job Hires (000's persons)	Mth total	May 8.7k	Apr 258.3k
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Announced Job Hires (000's persons)	YTD total	2019 May; 452.6k	2018 May; 220.1k
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The YTD job hire announcements are double that of the YTD a year ago. The YTD job hires were bolstered by an announcement of 250k hires by McDonalds in Apr 2019.

## Summary job cut versus hires YTD

	Announced Job Cuts			Offsetting Hiring Announcements
	MAY YTD 2018	MAY YTD 2019	DIFF	MAY YTD 2019
Aerospace/Defense	2,683	2,878	195	1,784
Apparel	0	1,068	1,068	82
Automotive	6,905	21,446	14,541	19,200
Chemical	487	459	-28	0
Construction	492	2,300	1,808	0
Consumer Products	15,205	10,263	-4,942	600
Education	2,800	10,305	7,505	286
Electronics	6,070	762	-5,308	950
Energy	4,513	12,903	8,390	121
Entertainment/Leisure	4,579	8,081	3,502	0
Financial	6,290	12,436	6,146	1,020
FinTech	N/A	1,180	1,180	1,280
Food	6,044	12,246	6,202	1,178
Government	1,239	5,671	4,432	0
Health Care/Products	21,453	17,514	-3,939	5,789
Industrial Goods	5,782	44,552	38,770	3,410
Insurance	2,185	1,742	-443	3,240
Legal	0	0	0	0
Media	6,200	7,232	1,032	242
Mining	395	1,272	877	240
Non-Profit	769	1,338	569	0
Pharmaceutical	3,908	2,596	-1,312	800
Real Estate	302	776	474	0
Retail	69,316	50,243	-19,073	397,225
Services	19,363	11,348	-8,015	1,080
Technology	4,205	18,568	14,363	9,260
Telecommunications	7,895	11,202	3,307	600
Transportation	7,692	12,957	5,265	4,015
Utility	888	802	-86	250
Warehousing	317	4,870	4,553	0
YTD Total	207,977	289,010		452,652

<http://www.challengergray.com/press/press-releases/may-2019-job-cut-report-announcements-jump-46-58577>

## Non-Farm Payrolls and Employment (May)

We review US employment from two perspectives; non-farm payroll numbers (establishment survey) and labour force and employment statistics from the current population survey.

Non-farm payroll growth has slowed quickly in May and the two months prior were revised lower.

The main insight from the household survey this month is the continued deceleration in employment growth.

Annual view – On an annual basis, the continued deceleration in employment growth resulted in a smaller decline in total unemployed persons. This occurred even while the growth in the total labour force remained low, partly due to no change/contribution from participation.

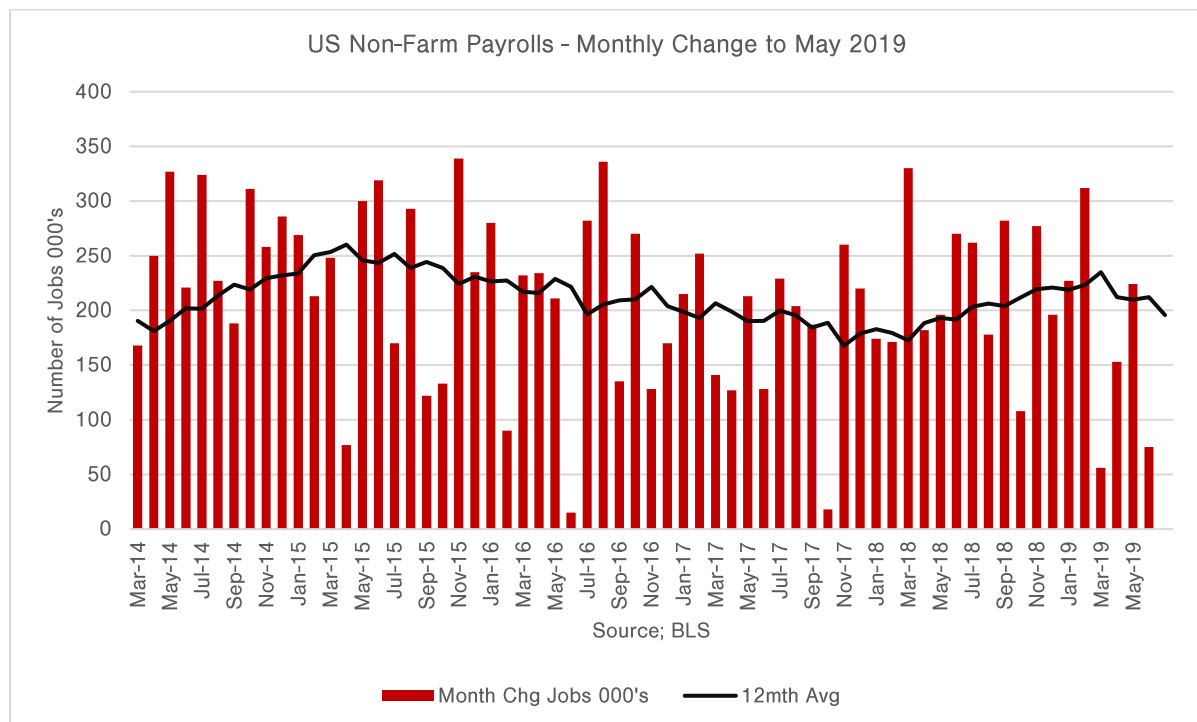
Monthly change – Even though total employment growth was positive compared to the month prior, growth was still below that of the labour force (even though again, there was no contribution from a change in participation). This resulted in a small increase in total unemployed persons in the month. Last month, the situation was similar but a larger monthly decline in participation had technically ‘saved’ a reported increase in unemployment.

### US Non-Farm Payrolls

The monthly change in non-farm payrolls slowed in the latest month and growth was revised lower for Mar and Apr.

May 75k versus Apr 224k (was reported in Apr as 263k)

The slower growth over the last four months in particular has resulted in the 12-month average falling below 200k jobs. The 12-mth average has started to trend lower since the start of 2019 and is currently +196k monthly average change in non-farm payrolls.



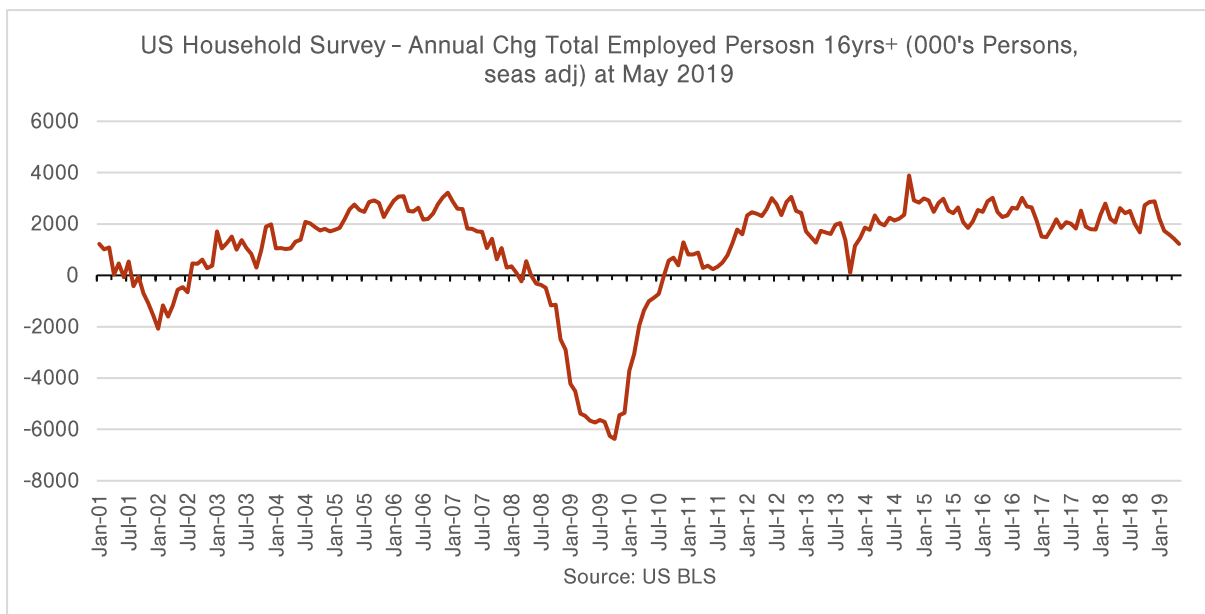
Labour force and Employment Statistics from the Current Population Survey

The main feature this month is the continued deceleration in employment growth. As a result, the decline in total unemployed persons has halved (slowed) in the latest year and has increased slightly in the latest month.

Employment Growth

Total Employed Persons (000's persons)	Mth chg	May +113k	Apr -103k
Total Employed Persons (000's persons)	Ann chg	May +1,219k	Apr +1,429k

On an annual basis employment growth continued to slow, reaching the slowest level of growth since late 2013. Consistent with the non-farm payrolls, annual employment growth has slowed since the start of 2019.



On a monthly basis, total employed persons increased, reversing the decline from the month prior.

But importantly, the monthly change in employed persons was less than that of the total labour force – resulting in a (small) monthly increase in total unemployed persons.

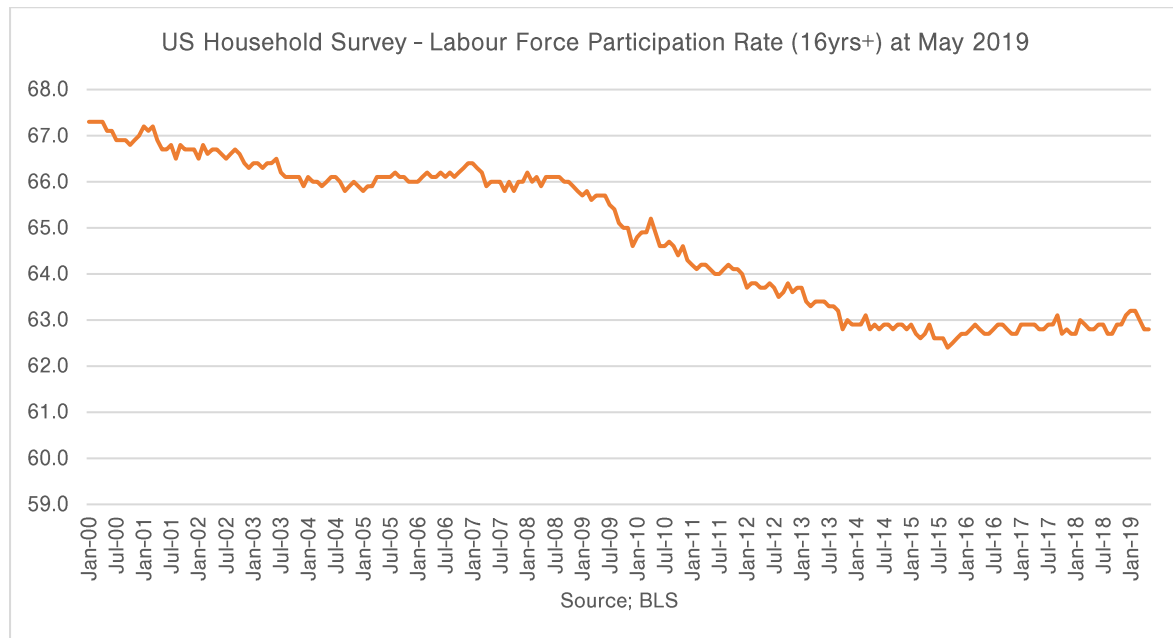
On an annual basis, employment growth remained above that of the total labour force but only because there was no change in participation contributing to the growth in the labour force.

Labour Force Growth

Total Labour Force (000's persons)	Mth chg	May +176k	Apr -490k
Total Labour Force (000's persons)	Ann chg	May +979k	Apr +919k

One view of the change in the labour force is the sum of the est of what population change adds to the labour force plus the change in participation. (the other view is total employed persons plus total unemployed persons).

Both population and participation have contributed to lower growth in the total labour force size. Over the last four months, participation has been slowing after increasing through the last half of 2018. On both an annual and monthly basis in May, participation growth has been zero. The labour force participation rate remains at 62.8%.



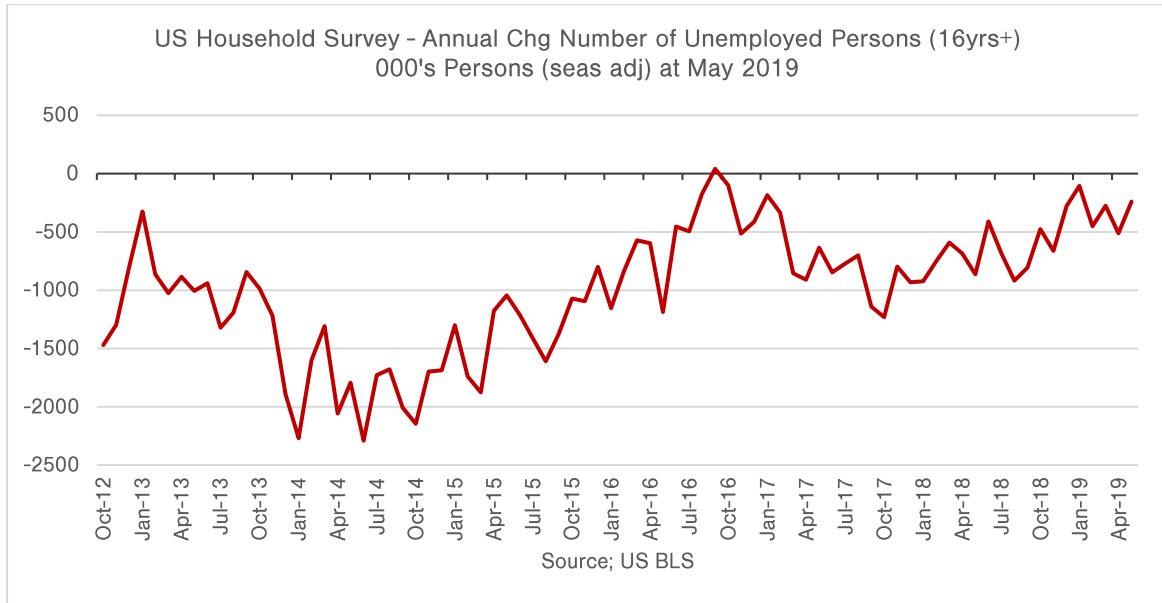
Importantly, total employment growth has remained above that of the labour force over the last year, but the margin between the two has become smaller. This means that the annual decline in total unemployed persons has also become smaller.

On a monthly basis, total employed persons grew at a slower pace than the total labour force – resulting in a small increase in total unemployed persons.

**Total Unemployed Persons**

Total Unemployed (000's persons)	Mth chg	May +64k	Apr -387k
Total Unemployed (000's persons)	Ann chg	May -240k	Apr -511k

Due to the slower employment growth; 1) the annual decline in unemployed persons halved in May (compared to Apr) and 2) total unemployment increased slightly in the month.



The unemployment rate shifted marginally from 3.58% in Apr to 3.62% in May.

**Summary of the main labour market dynamics**

Annual view – on an annual basis, the continued deceleration in employment growth resulted in a smaller decline in total unemployed persons. This occurred even while the growth in the total labour force remained low, partly due to no change/contribution from participation.

Monthly change – Even though total employment growth was positive compared to the month prior, growth was still below that of the labour force (even though again, there was no contribution from a change in participation). This resulted in a small increase in total unemployed persons in the month. Last month, the situation was similar but a larger monthly decline in participation had technically ‘saved’ a reported increase in unemployment.

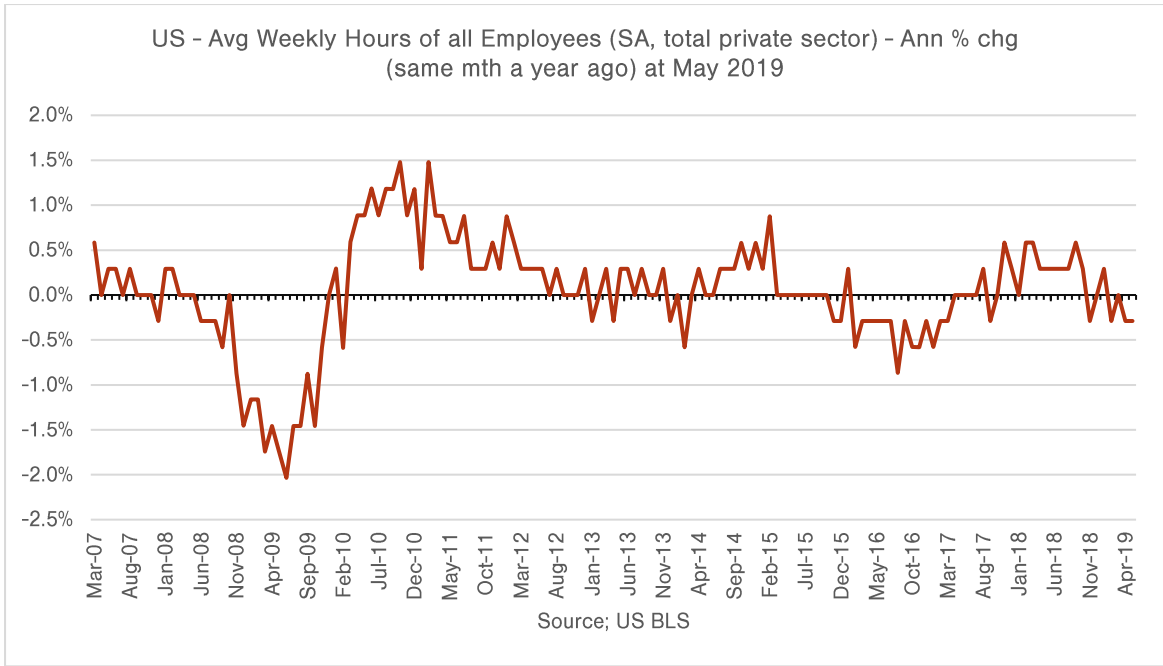
	000's people (16yrs+)	Annual chg - MAY 2019	Monthly Chg - May
The estimated change in the Labour Force due to pop growth (1)		979	176
How many jobs available for them? (employment growth) (2)		1,219	113
Difference (if negative, then employment growing faster than what pop adds to the labour force) (3)		- 240	63
Change labour force participation - (if positive, people entering/returning to the labour force) (4)		-	0
The remainder is the chg in total unemployed persons (declining if negative) (4) plus (3)		- 240	63
<b>Two views of annual growth in the labour force;</b>			
Total employed persons plus total unemployed persons		979	176
Est of what population adds to the labor force plus change in participation		979	176
BLS reported change in the size of the labour force		979	176

**Hours Worked**

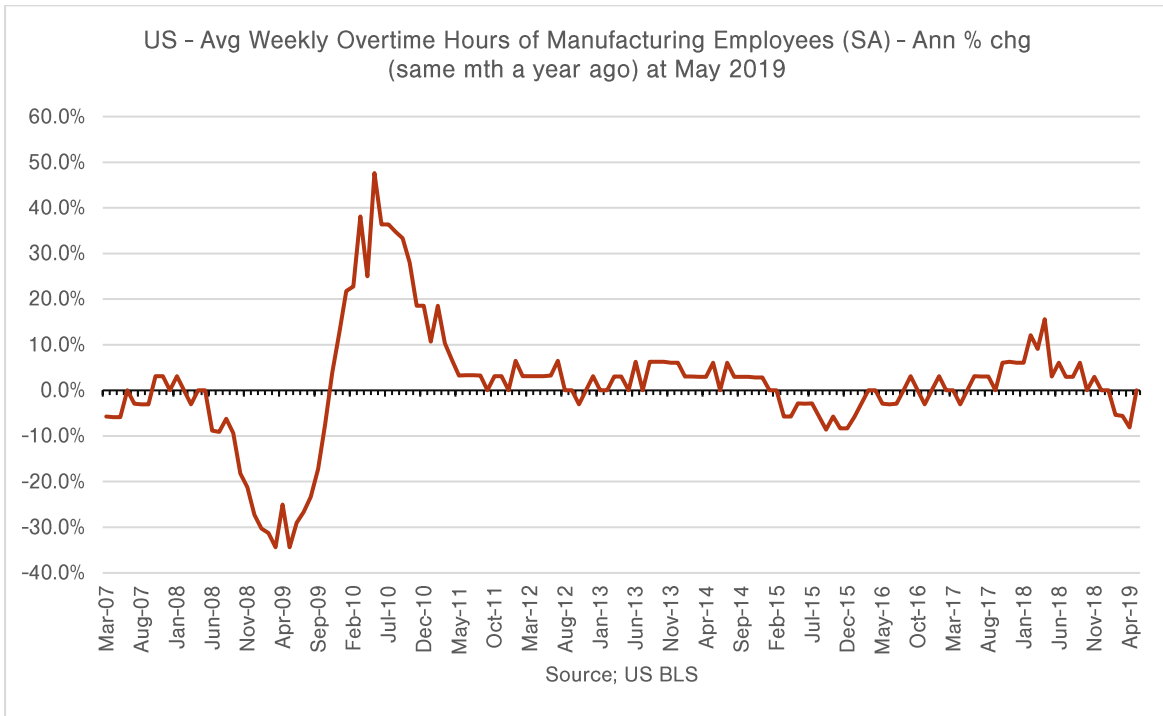
The average weekly hours worked of all private sector employees continued to decline slightly on an annual basis.

In May, the average weekly hours of all private sector employees was 34.4. This was unchanged from the month prior and was -0.3% below the same month a year ago.





Overtime hours of manufacturing employees was unchanged on a monthly and annual basis. The annual change of zero follows three consecutive months where overtime hours declined;



<https://www.bls.gov/news.release/empsit.nr0.htm>

## Wholesale Trade (Apr)

Us wholesale sales declined in the latest month driven by a decline in sales of durable goods. At the same time, non-durable goods grew at a slower pace than in the month prior.

The growth in inventories accelerated – led mostly by automotive which accounted for almost half of the increase in the value of inventories in the month.

### Wholesale Sales

Total wholesale sales declined versus the month prior;

Apr -0.4% versus Mar +1.8% (revised lower from +2.3%)

The decline in the month was the result of a decline in wholesale sales of durable goods;

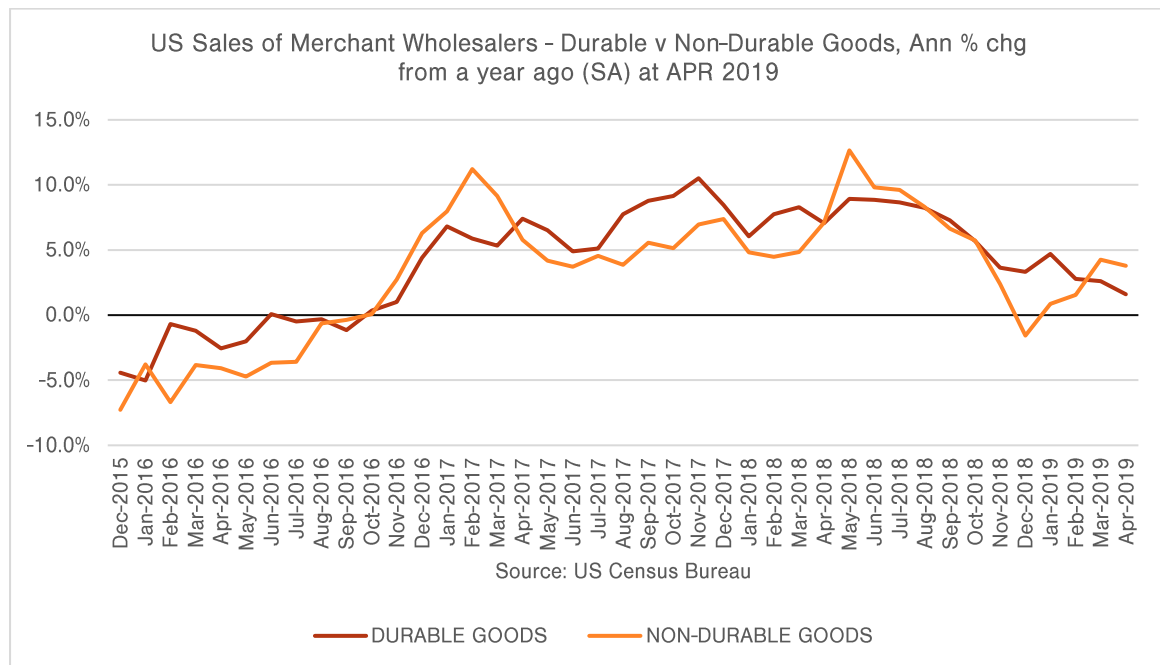
Apr -1.1% versus Mar +0.6%

The decline in durable goods sales can be traced back to several categories; electrical accounted for the largest proportion of the decline (-3.2% in the month), professional equipment, computer equipment, misc durable and furniture.

Wholesale sales of autos grew faster than in the latest month after declining in the month prior. The overall contribution to sales was positive, albeit low.

Wholesale sales of non-durable goods increased at +0.2% in the month, clearly slowing from the +3% recorded in Mar.

On an annual basis, wholesale sales growth has continued to slow across both durable and non-durable goods;

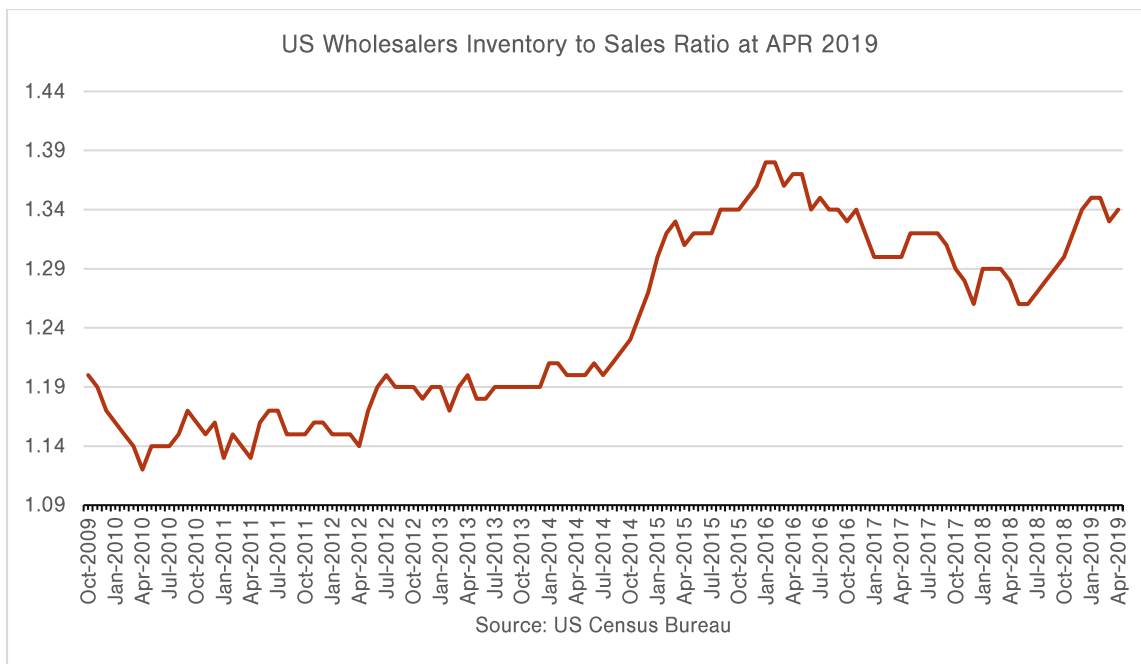


### Wholesale Inventories

Growth in wholesale inventories increased at a faster pace versus the month prior;

Apr +0.8% versus Mar 0%

The faster growth in inventories than sales resulted in a small increase in the inventory to sales ratio – which remains elevated;



Faster growth in inventories was recorded across both durable and non-durable goods, but the increase in durable goods contributed the most to the overall increase;

Durable goods inventories; Apr +1% versus Mar +0.3%

The single largest contributor to the increase in durable goods inventories was automotive (+3.8% in Apr versus -0.3% in Mar). Wholesale sales of automotive was below the increase in inventories so the inventory to sales ratio increased from 1.74 to 1.8 in Apr. Machinery, lumber and misc also made larger contributions to the increase in inventories.

Nondurable goods inventories; Apr +0.5% versus Mar -0.6%.

Most of the increase was the result of an increase in inventories for Drugs (+1.5% in Apr versus -3.4% in Mar).

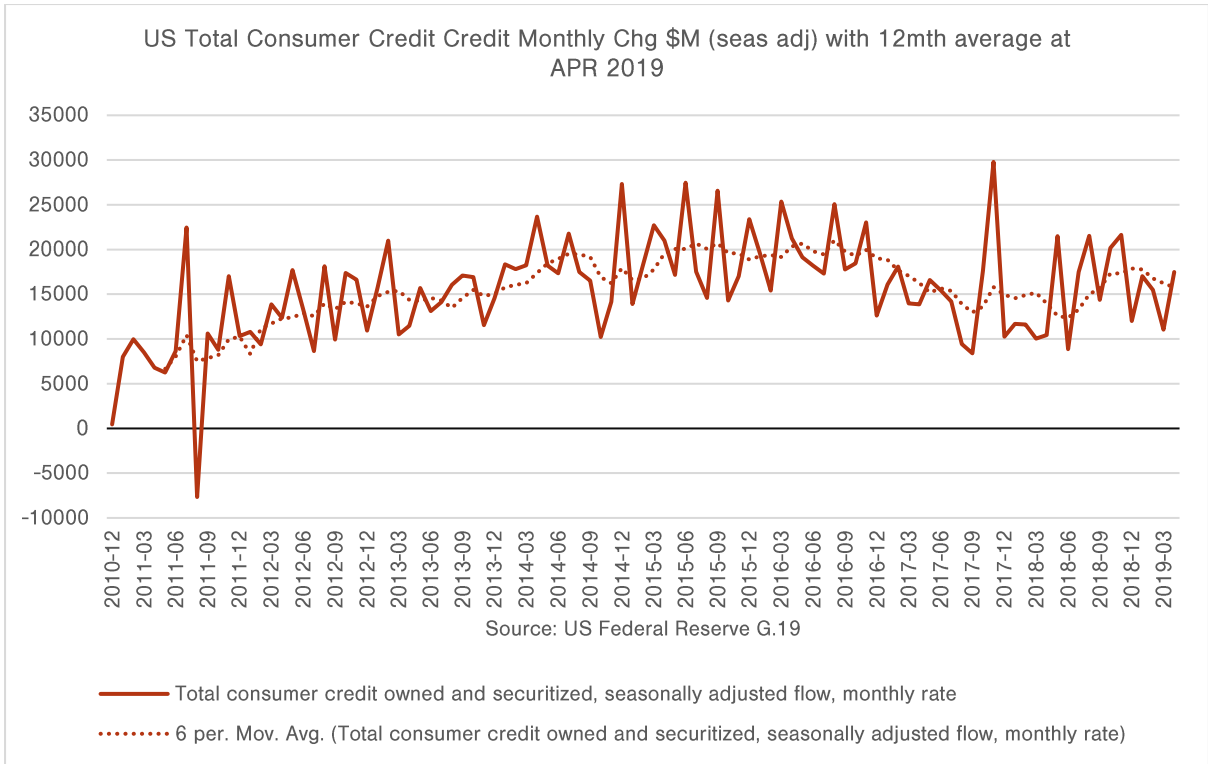
<https://www.census.gov/wholesale/index.html>

## Consumer Credit G.19 (Apr)

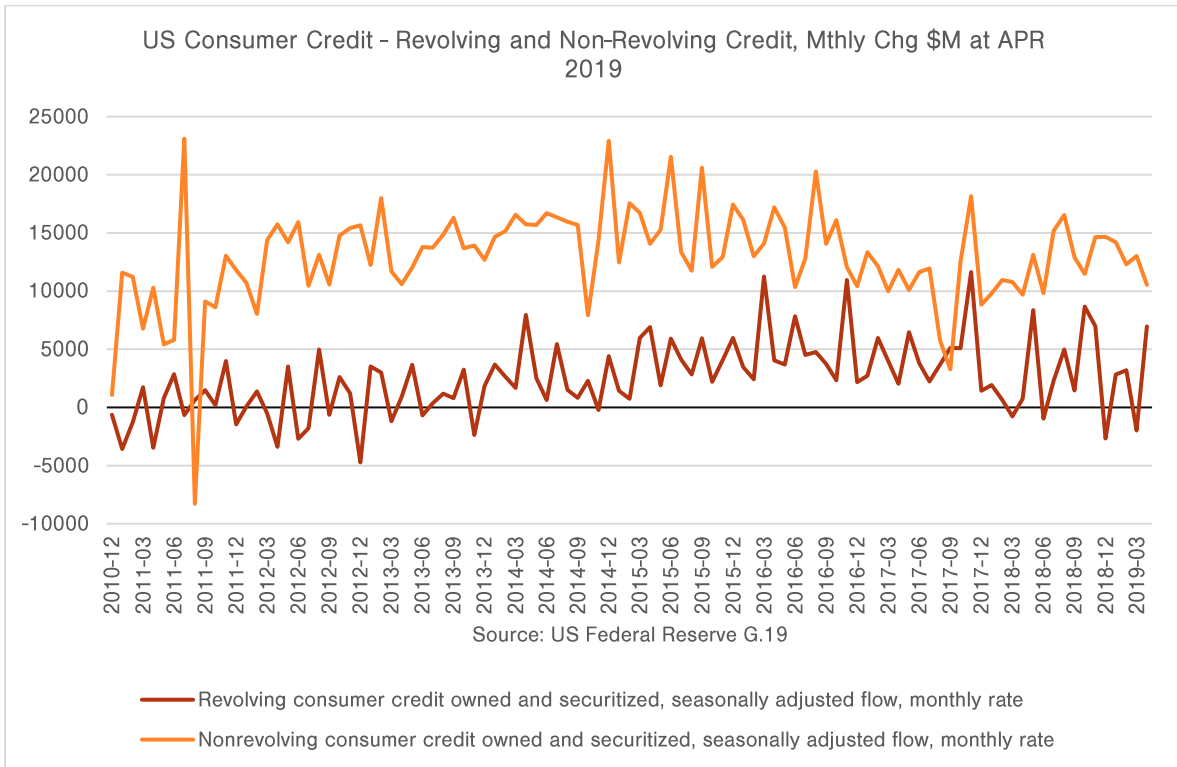
Total consumer credit growth increased at a faster pace in Apr. This was led by faster growth in revolving credit while growth in non-revolving credit growth slowed.

### Total Consumer Credit

Apr +\$17.5bn versus Mar +\$11bn



The two main components of consumer credit are revolving and non-revolving credit. In the latest month, revolving credit grew at a faster pace while non-revolving credit growth slowed.



### Revolving Credit

Growth in revolving credit (credit cards) rebounded in Apr after declining in Mar.

Apr +\$7bn versus Mar -\$2bn

### Non-revolving Credit

Growth in non-revolving credit slowed to the lowest growth since mid-2018

Apr +\$10.5bn versus Mar +\$13bn

<https://www.federalreserve.gov/releases/g19/current/default.htm>

## **US Fed Speeches**

US Fed Chairman Powell - Monetary Policy Strategy, Tools, and Communication Practices - at the Conference on Monetary Policy Strategy, Tools, and Communication Practices (A Fed Listens Event), Federal Reserve Bank of Chicago, Chicago, Illinois

Vice Chairman Clarida – speech Monetary Policy Strategy, Tools, and Communication Practices - at the Conference on Monetary Policy Strategy, Tools, and Communication Practices (A Fed Listens Event), Federal Reserve Bank of Chicago, Chicago, Illinois

Vice Chair for Supervision Quarles - The Next Stage in the LIBOR Transition (via pre-recorded video) - at the Alternative Reference Rates Committee (ARCC) Roundtable, co-hosted by the ARCC and the NYU Stern School of Business and its Salomon Center for the Study of Financial Institutions, New York University, New York

New York Fed President Williams - opening remarks at the "Building Cultural Capital in the Financial Services Industry: Emerging Practices, Risks and Opportunities" event held by the Federal Reserve Bank of New York in New York

New York Fed Bank President Williams - keynote remarks at the Peter McColough Series on International Economics event held by the Council on Foreign Relations in New York

St. Louis Fed President Bullard - presentation on "The US Economy and Monetary Policy" at the Union League Club of Chicago

San Francisco Fed President Daly - speech at the Symposium on Asian Banking and Finance in Singapore

Governor Michelle W. Bowman –Nomination Hearing, testimony before the Senate Banking Committee, Washington, D.C.

Atlanta Fed President Bostic - speech at the Atlanta Regional Housing Forum on housing affordability

Dallas Fed President Kaplan - panel at Boston College's 4th Annual Carroll School of Management Finance Conference

San Francisco Fed President Daly - speech at Singapore Management University

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## Europe

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### ECB Rates Decision – 6 Jun 2019

Key interest rates remained unchanged in the latest meeting;

Main refinancing operations; 0%

Marginal lending facility +0.25%

Deposit facility; -0.40%

Principal payments from maturing holdings of securities will continued to be reinvested in full. This is expected to continue even after the ECB starts to increase rates.

TLTRO – the interest rate on these operations will be set at +10bps above the average rate applied in the Eurosystem’s main refinancing operations over the life of the respective TLTRO.

The main signalling statement;

Rates to remain at present levels now at least through the first half of 2020, or long as required to achieve inflation levels close to 2% over the medium term.

The so called “rates lift off” narrative has now shifted to one of likely rate cuts – even though the ECB stated that rates likely to remain on hold until mid-2020.

While GDP growth had increased at a faster pace in Q1, incoming data suggested weakness into the 2<sup>nd</sup> and 3<sup>rd</sup> quarters. Weaker international trade and prolonged global uncertainties are weighing particularly on Euro area manufacturing.

“The risks surrounding the euro area growth outlook remain tilted to the downside, on account of the prolonged presence of uncertainties, related to geopolitical factors, the rising threat of protectionism and vulnerabilities in emerging markets.”

<https://www.ecb.europa.eu/press/pr/date/2019/html/ecb.mp190606~1876cad9a5.en.html>

Transcript of the press conference;

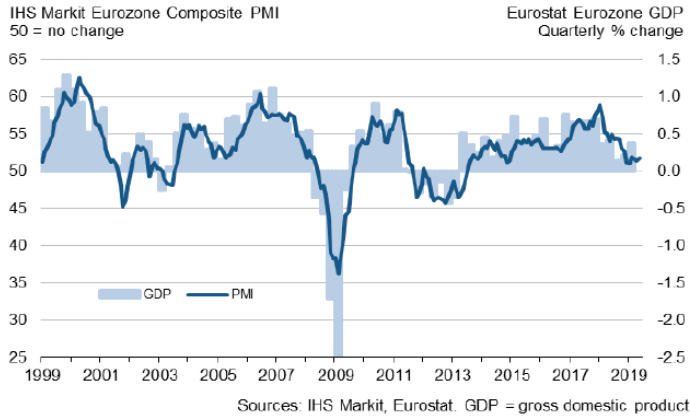
<https://www.ecb.europa.eu/press/pressconf/2019/html/ecb.is190606~32b6221806.en.html>

### Eurozone Composite PMI (May)

The headline composite PMI grew at a slightly faster pace for the Eurozone in May. The driver of growth continued to be services activity, which grew at only a slightly faster pace, while the manufacturing PMI continued to indicate contraction in activity across the Eurozone.

Composite PMI; May 51.8 versus Apr 51.5

## IHS Markit Eurozone Composite PMI



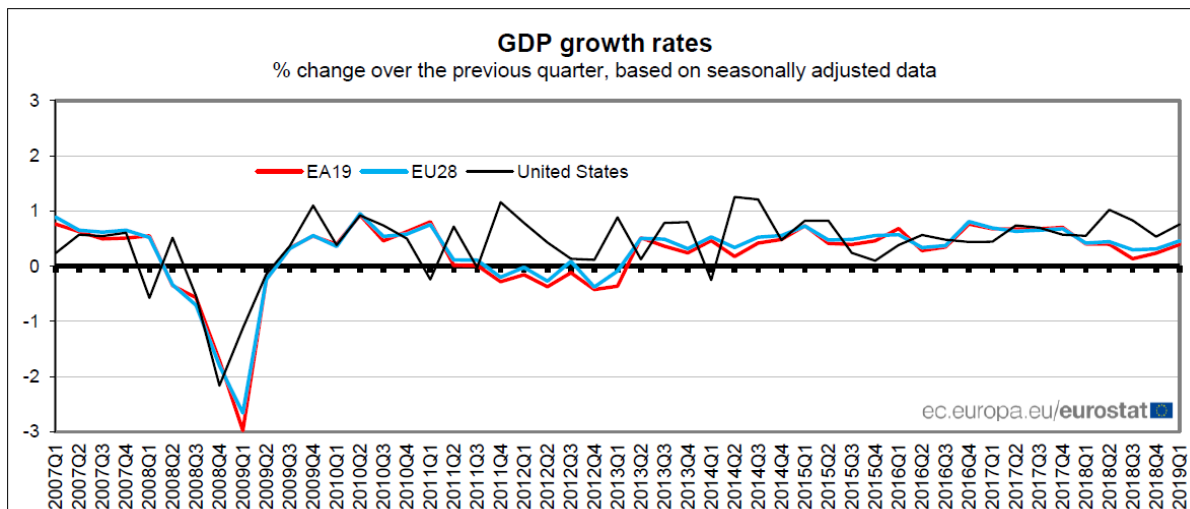
Eurozone Manufacturing PMI; May 47.7 versus Apr 47.9

Eurozone Services Business Activity Index; May 52.9 versus Apr 52.8

<https://www.markiteconomics.com/Public/Home/PressRelease/49aacf710a854d02b0aa633e5445aa62>

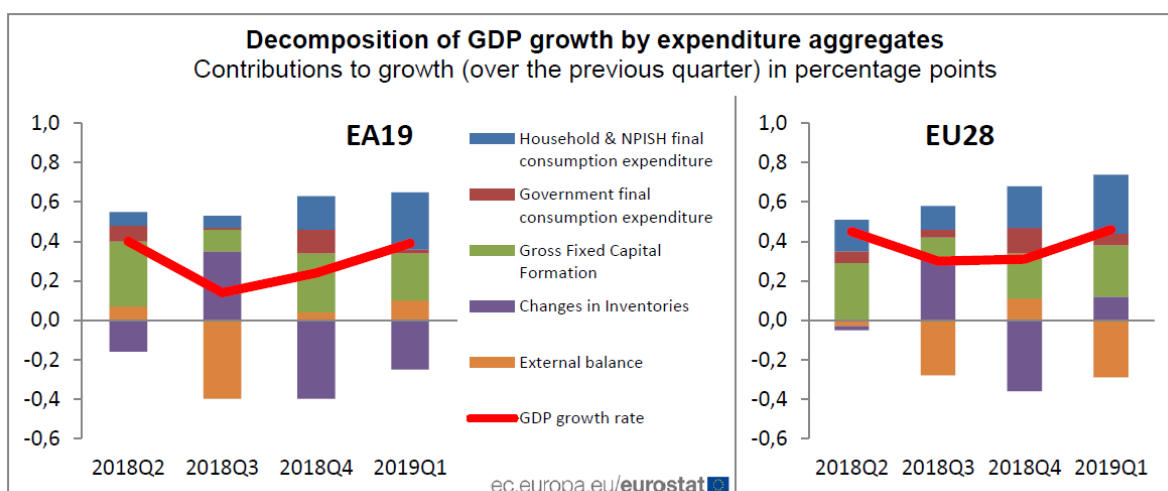
## Eurozone Q1 GDP

The Eurozone GDP growth for Q1 was confirmed at +0.4% for the Euro Area and +0.5% for the EU 28 group, increasing at a faster rate across the Eurozone compared to Q4.



Annual GDP growth remained unchanged for the Euro area at +1.2% and +1.5% for the EU 28.

The latest release expands on the drivers behind the faster growth in Q1. The underlying drivers of growth were mostly positive, especially across the Euro area. Across the broader EU28 region, the main difference was the negative contribution from net exports in Q1 versus Q4.



### Euro Area:

Household consumption made a larger contribution to growth in Q1 versus Q4, helping to offset the lower contribution from govt consumption expenditure.

Net exports made a larger positive contribution to growth in Q1 versus Q4.

Gross fixed capital formation made only a slightly lower contribution to growth.

Inventories were less of a drag on growth in Q1 versus Q4.

### EU28

Household consumption made a larger contribution to growth – also helping to offset a lower contribution from govt consumption expenditure.

Investment spending made a larger contribution to growth in Q1 than in Q4.

But net exports deteriorated in Q1 versus Q4, detracting from growth in Q1.

The change in inventories in Q1 made a positive contribution to growth after detracting from growth in Q4.

<https://ec.europa.eu/eurostat/documents/2995521/9826893/2-06062019-AP-EN.pdf/7fb9b039-72ee-4441-987d-450c185450fc>

## **Eurozone CPI – Prelim (May)**

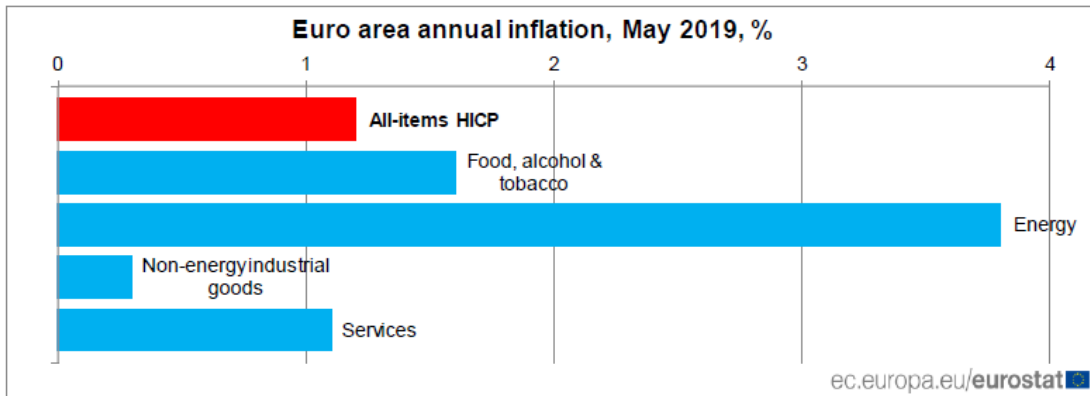
The prelim report indicated that headline CPI growth for the euro area slowed quickly in May. Measures of core inflation also slowed quickly. This is will likely be a concern the ECB;

“If inflation and growth slow, then a rate cut is warranted,” said one of the sources, who requested anonymity because the ECB’s deliberations are confidential. <https://uk.reuters.com/article/uk-g20-japan-ecb/ecb-policymakers-open-to-cut-rates-if-growth-weakens-sources-idUKKCN1TA04N>

### Euro area CPI growth (annual) – All Items

May +1.2% versus Apr +1.7%





Contributing to the slowdown in consumer price growth was;

Slower growth in unprocessed food (annual growth has more than halved; May 2019 +0.4% versus May 2018 +3.6%). Annual growth in overall food, alcohol and tobacco prices was only slightly faster (+1.6%).

Slower growth in energy prices (but remains elevated)

And, mostly a larger slow-down in consumer services prices, slowing from +1.9% annual growth in Apr to +1.1% in May.

Growth in non-energy industrial goods remains low and was little changed in the month.

#### Euro area CPI growth (annual) – ex food, energy

The growth in core CPI also slowed quickly in the latest month – likely due to the slower growth in services and the continued lower growth in non-energy industrial goods.

All items ex food, alcohol, tobacco and energy; May +0.8% versus Apr +1.3%

<https://ec.europa.eu/eurostat/documents/2995521/9819190/2-04062019-AP-EN.pdf/73d7d799-21fb-483a-ac40-04c4651e4f09>

## **Eurozone Retail Sales (Apr)**

Retail sales volume across the Euro area and the EU28 declined versus the month prior. The decline was led by food, drinks and tobacco and non-food product categories.

#### Euro area retail sales volume

Month change; Apr -0.4% versus Mar 0%

Sales of food/drinks/tobacco declined in the month along with non-food products which declined for the second month in a row. Sales volume of auto fuel in specialised stores increased slightly after a larger decline in the month prior.

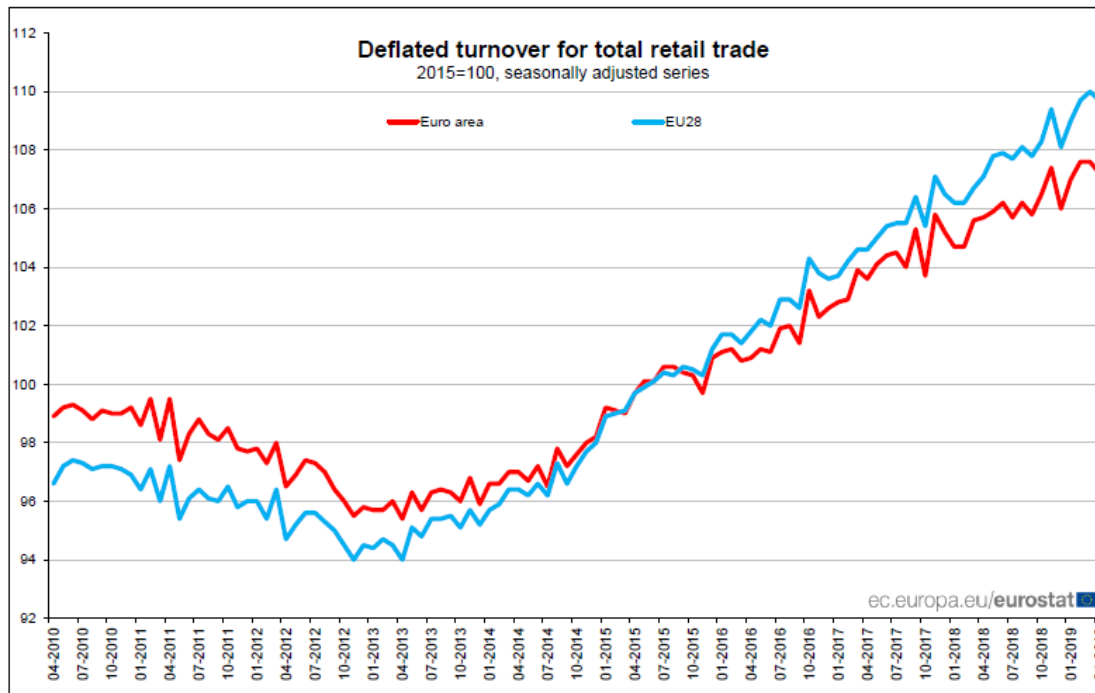
Annual growth slowed to +1.5%

#### EU28 retail sales volume

Month change; Apr -0.3% versus Mar +0.3%

Sales of food/drink/tobacco and non-food products declined in the month. Sales volume of auto fuel also declined across the EU28 after declining in the month prior also.

Annual growth remained unchanged at +2.9%



<https://ec.europa.eu/eurostat/documents/2995521/9829894/4-05062019-BP-EN.pdf/7978d866-8300-4098-afd7-6faefa1f9202>

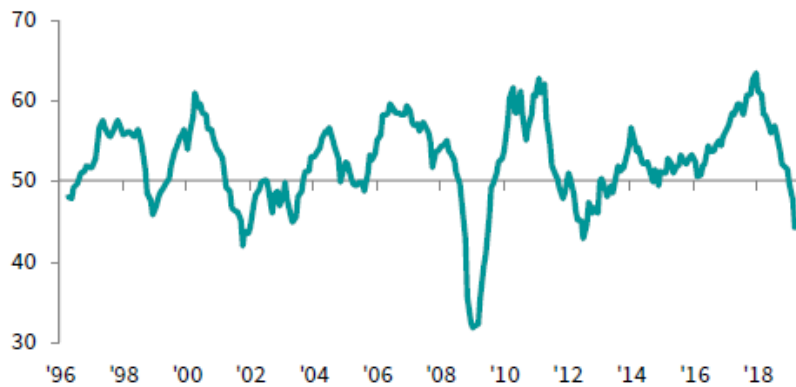
## Germany Manufacturing PMI (May)

The headline PMI indicated that manufacturing activity in Germany continued to contract in the latest month at a slightly slower pace. The key driver of the latest results was the faster pace of decline in employment. Production and new orders continued to decline but at a slower pace.

Manufacturing PMI; May 44.3 versus Apr 44.4

### Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit

While output continued to decline, the pace of decline continued to ease. Consumer goods remained stronger while production of intermediate goods and capital goods declined.

The decline in new orders and new export orders also slowed for the second month (still declined).

Inventories of inputs and finished goods continued to decline.

The key point from the latest report was the decline in employment for the third month – which declined at a faster pace.

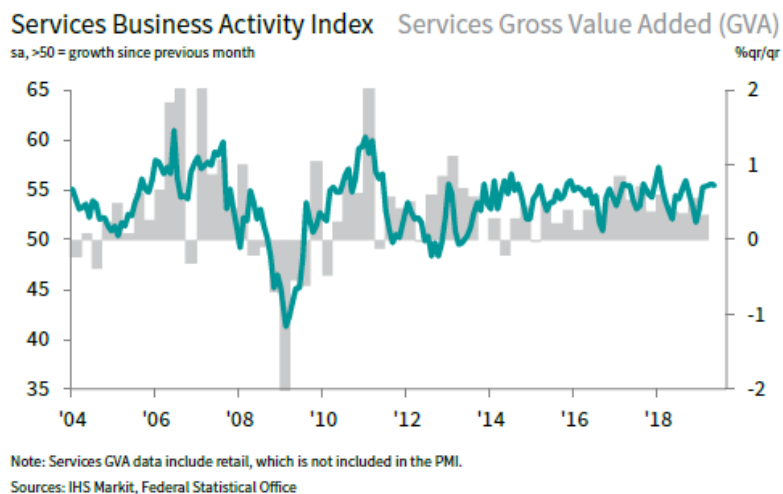
The outlook remained 'downbeat'. Firms cited issues around trade conflict, the auto sector slowdown and Brexit as affecting activity.

<https://www.markiteconomics.com/Public/Home/PressRelease/5254e7a390fb4ea2b8267d1bc42a5162>

## Germany Services PMI (May)

Services activity in Germany continued to expand at a more solid pace, although slowing slightly from the month prior. The higher level of growth in services activity continued to offset the decline in manufacturing activity. The composite index of private sector activity grew at a slightly faster pace in May.

Business Services Activity; May 55.4 versus Apr 55.7



New business continued to grow – but eased from the 7-mth high reached in the month prior. Domestic new orders continued to grow while new work from abroad continued to contract for the third month in a row.

Order backlogs grew at a faster pace. Firms continued to increase employment, which grew at only a slightly slower pace than in the month prior. Combined with manufacturing employment though, the growth in employment across the private sector slowed to the lowest level in three years.

<https://www.markiteconomics.com/Public/Home/PressRelease/dc82fc8874244ce8987543e3583018e2>

## Germany Factory Orders (Apr)

Tracking German factory orders is a good guide of changes in manufacturing activity in the Eurozone. In the latest month, factory orders increased for the second month, albeit at a slightly slower pace. The volume of new orders remains below the peak reached in Dec 2017. Capital goods, consumer goods and non-durable goods orders increased in the latest month while orders for intermediate goods and durable goods continued to decline.

### Total Manufacturing New Orders

Month chg; Apr +0.3% versus Mar +0.8%

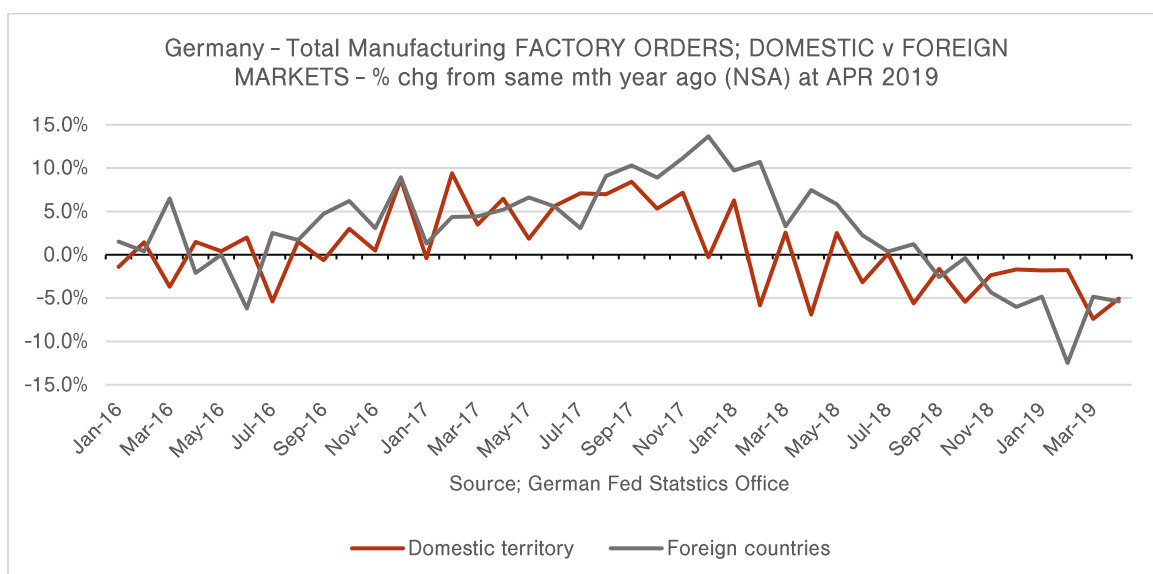
New orders for the month declined in the domestic territory and from euro area countries. New orders increased at a faster pace from non-euro area foreign countries.

The index of new orders highlights that while there has been an uptick in new orders over the last two months, volumes remain 10% below the peak of Dec 2017;



Annual chg; Apr -5.3% versus Mar -5.9%

Annual growth in new orders remains lower across both foreign and domestic markets



Key industrial groups:

Intermediate goods; continued to decline in the month and accelerated lower on an annual basis.

Capital goods; orders increased in the month and remain 3% below the same month a year ago.

Consumer goods; orders grew at a slower pace in the month and is now growing on an annual basis. The volume of new orders remains below the peak of mid-2018.

Durable goods; orders declined at a faster pace in the month (-3.8%) across all key markets. Annual growth in orders slowed to 1%.

Non-durable goods; orders continued to increase in the month and annual growth is now only -0.2% below the same month a year ago.

[https://www.destatis.de/EN/Press/2019/06/PE19\\_211\\_421.html](https://www.destatis.de/EN/Press/2019/06/PE19_211_421.html)

### Germany Industrial Production (Apr)

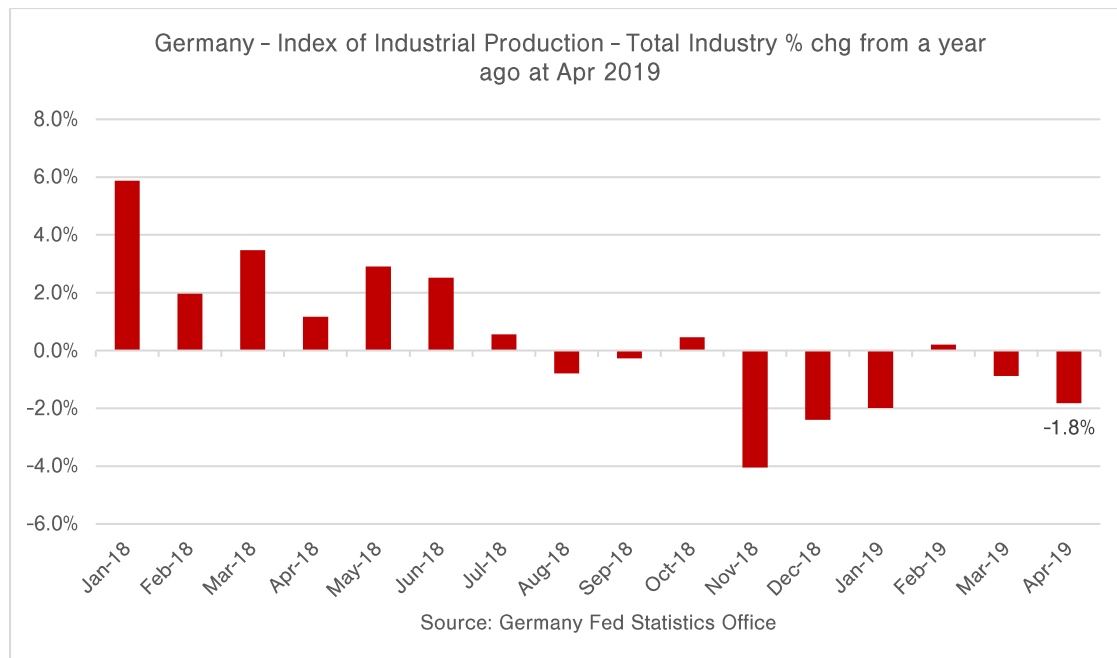
Despite the slightly stronger orders data over the last two months, Germany industrial production declined in the latest month.

Total Industrial Production

Month chg; Apr -1.9% versus Mar +0.5%

The index of production remains 4% below the recent peak of May 2018.

Annual chg; Apr -1.8% versus Mar -0.9%



### Production across Industrial Groups:

**Manufacturing;** production declined by -2.5% in the month and is 3.4% below the same time a year ago. Production remains 5% below the recent peak of Nov 2017;



Most concerning was that production declined in the month across all of the main manufacturing groups;

Intermediate goods; -2.1%

Capital goods; -3.3%

Durable goods; -3.7%

Non-durable goods; -0.1%

Consumer goods; -0.8%

**Mining and Quarrying;** production declined in the month at a faster pace by -2.5%. Production is now 16% below a year ago.

**Electricity, gas, steam, air conditioning supply;** production declined by -0.1% in the month and is -1.2% below a year ago.

**Construction** was the only group where production increased in the month; +0.2% and is +7.6% above the same time a year ago.

[https://www.destatis.de/EN/Press/2019/06/PE19\\_214\\_421.html](https://www.destatis.de/EN/Press/2019/06/PE19_214_421.html)

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## Japan

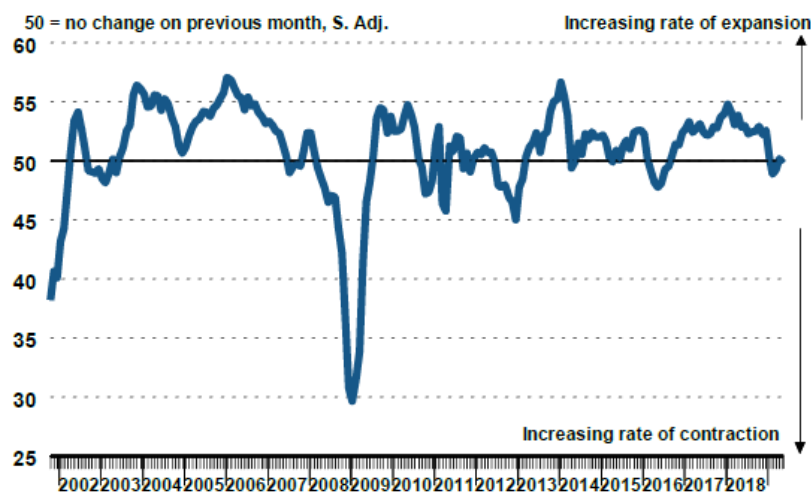
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### Manufacturing PMI – Final (May)

The headline index indicated that manufacturing activity in Japan contracted again slightly in May. Output continued to decline, and firms reduced inventory and purchasing of inputs. The slowdown in employment growth contributed most to the lower headline index. Business outlook shifted to pessimistic for the first time in over six years.

Headline PMI; May 49.8 versus Apr 50.2

#### Nikkei Japan Manufacturing PMI



Sources: Nikkei, IHS Markit

The continued decline in new orders was the result of lower domestic and foreign demand. New exports declined for the sixth month in a row. Firms cited “challenging economic conditions at key trading partners such as China and greater competition internationally”.

Manufacturers of intermediate and capital goods reported falls in sales while consumer goods manufacturers reported increased demand.

Employment growth remained positive but slowed to the weakest level in over two years.

Amid the sustained weaker demand conditions, firms reduced inventory levels and input buying activity. Stocks of finished goods and inputs declined in May.

Input costs increased somewhat, and firms reported modest increases in output charges as a result.

Future output expectations shifted to pessimistic for the first time since Nov 2012. Firms cited concerns over increased trade tensions and the sales tax hike in Oct.

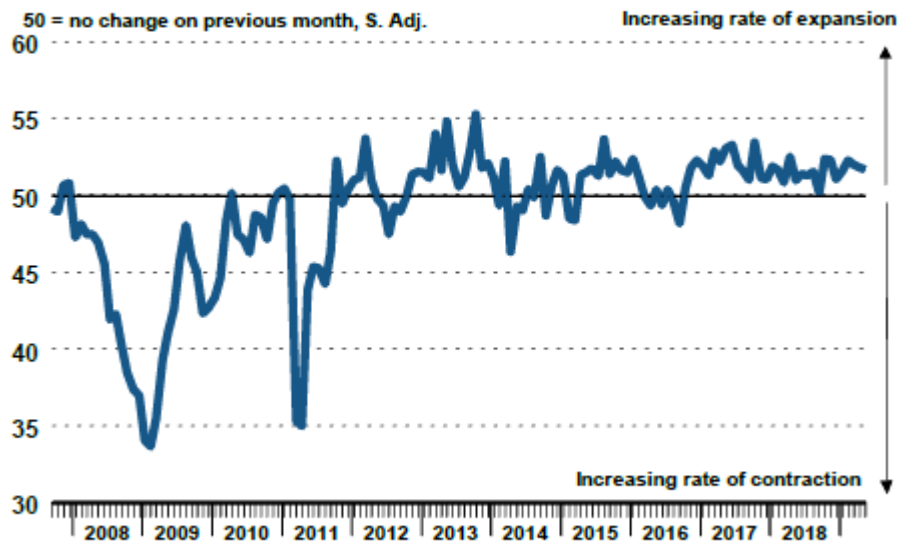
<https://www.markiteconomics.com/Public/Home/PressRelease/5e6a62c46faa41218487878be138ca10>

## Markit Services PMI (May)

Services activity in Japan was little changed in May and continued to offset the weaker manufacturing growth (the headline composite PMI was mostly unchanged). Within the services sector output grew at a similar pace while new orders grew at a faster pace in May.

Business activity index; May 51.7 versus Apr 51.8

### Nikkei Japan Services PMI



Sources: Nikkei, IHS Markit

New orders increased at a faster pace in May. New exports orders also rebounded in May after contracting in Apr. Backlogs of work increased at a marginal rate and was slower than that recorded in Apr.

Employment grew at a faster pace.

Input prices increased at a slower pace while firms increased output prices at a faster pace.

Despite more resilient conditions, business confidence in the outlook for service firms was weaker, now in line with the Mar 2018 low. Firms cited the consumption tax hike as their main concern.

<https://www.markiteconomics.com/Public/Home/PressRelease/b310998e0ec24aaa8025eca17bc38fbc>

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## United Kingdom

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### BREXIT

Theresa May will remain as caretaker PM until a new leader is selected which is likely to be completed by late July. The first ballots for the leadership will take place in the UK parliament next week.

The uncertainty regarding how a new leader will navigate Brexit remains elevated as the process to select a new Tory leader & PM commences. Will need to watch the front runners to replace PM May over the next few weeks to understand the implications for Brexit.

<https://uk.reuters.com/article/uk-britain-eu-leadership-factbox/factbox-deal-no-deal-or-delay-what-will-pm-mays-successor-do-about-brexit-idUKKCN1TA0HV>

### Manufacturing PMI (May)

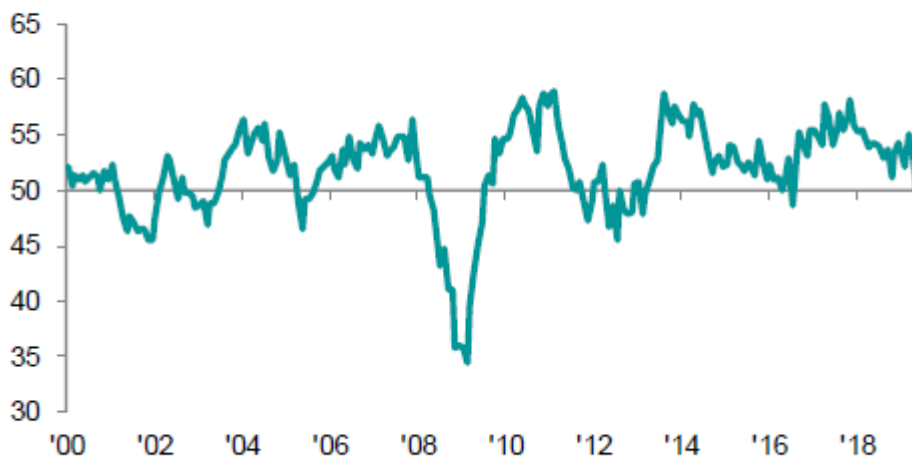
The manufacturing PMI provides some insight into how firms are reacting to the continued Brexit limbo. The May data shows the impact of firms slowing their preparations since the original Mar Brexit deadline. Comments by firms suggest that there may be more structural changes to supply chains in the lead up to the next Brexit deadline.

The headline manufacturing PMI slowed sharply in May. Inventory overhang resulted in lower new orders and declines in output (output increases at larger firms was offset by declines in smaller and medium firms output).

Headline Manufacturing PMI; May 49.4 versus Apr 53.1

#### Manufacturing PMI

sa, >50 = improvement since previous month



New orders growth declined for the first time in seven months and the rate of contraction was the largest of the last six and half years. New export orders declined for the second month in a row;

“Manufacturers reported lower demand from Asia and Europe. There was also mention of Brexit uncertainty, including clients diverting supply chains away from the UK, leading to lower demand from within the EU.”

Manufacturing employment declined for the second month in a row. Firms cited restructuring, natural attrition, difficulties finding staff and improved efficiencies as drivers of the job losses.

The weaker conditions overall appeared to be confined to intermediate and capital goods industries. Consumer goods firms reported increasing output, new orders and employment.

There was a ‘sharp easing’ in the rate of increase of inventory holdings and input buying.

Firms remained optimistic, with half of the respondents expecting output to be higher in the years’ time.

<https://www.markiteconomics.com/Public/Home/PressRelease/eafabe8382054b868b618dcf6f0b98d8>

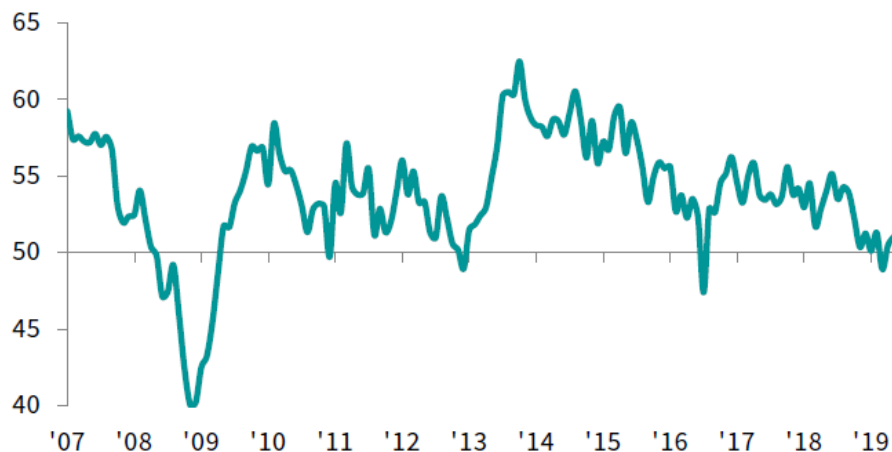
## Services PMI (May)

The services PMI is the more important barometer of activity in the UK given the size of the sector. In the latest month, the headline PMI increased at a faster pace. There was broader improvement across key metrics, but firms still reported that the uncertainty around Brexit held back demand and expectations about near term growth.

Services Business Activity Index; May 51 versus Apr 50.4

### Services Business Activity Index

sa, >50 = growth since previous month



Sources: IHS Markit, CIPS

New business increased for the first time in five months. Growth remains low and firms cited Brexit uncertainty as the reason for more subdued growth.

Backlogs of work continued to decline and has been declining since Oct 2018.

Employment growth increased at a faster pace but remains modest overall.

Input costs increased at the slowest pace in 12-months. While firms increased output charges to the fastest pace since the start of 2019.

Business optimism was the highest for services firms in over eight months. While there were some positives, political and Brexit uncertainty remained the main reasons behind lower growth expectations.

<https://www.markiteconomics.com/Public/Home/PressRelease/a28c5fdb1e4a4947abcbdd8dea05327a>

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## Australia

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### RBA Rate Decision – 4 Jun 2019

As expected, the RBA reduced the overnight cash rate by 25bps to 1.25%.

The RBA has cut rates to ‘assist with faster progress in reducing unemployment’. Changes in the labour market will remain a key focus for the Board.

Globally, downside risks stemming from trade tensions have increased. International trade remains weak.

Domestic – the main uncertainty remains household consumption in light of sustained low-income growth and falling house prices.

Employment remains strong – but (low rates) have yet to make inroads into reducing the unemployment rate and the higher level of underemployment. Wages growth has picked up slightly but remains low. Until unemployment and underemployment is reduced, wage inflation likely to remain muted.

Domestic inflation – low, but expected to pick up in Q2 driven by higher petrol prices (a negative)

Key signalling statement (emphasis added);

Today's decision to lower the cash rate will help make further inroads into the **spare capacity in the economy**. It will assist with **faster progress in reducing unemployment** and achieve more assured progress towards the inflation target. The Board will continue to **monitor developments in the labour market** closely and adjust monetary policy to support sustainable growth in the economy and the achievement of the inflation target over time.

<https://www.rba.gov.au/media-releases/2019/mr-19-15.html>

### Retail Sales (Apr)

Concerns over household consumption growth continue to be warranted as the value of retail sales declined in the month. The decline itself wasn't large, but there was a notable shift in growth across several important categories and states. The decline was led by cafes/restaurants, clothing and household goods. On a state basis, there was a pronounced negative shift in expenditure in the larger states of NSW and Vic.

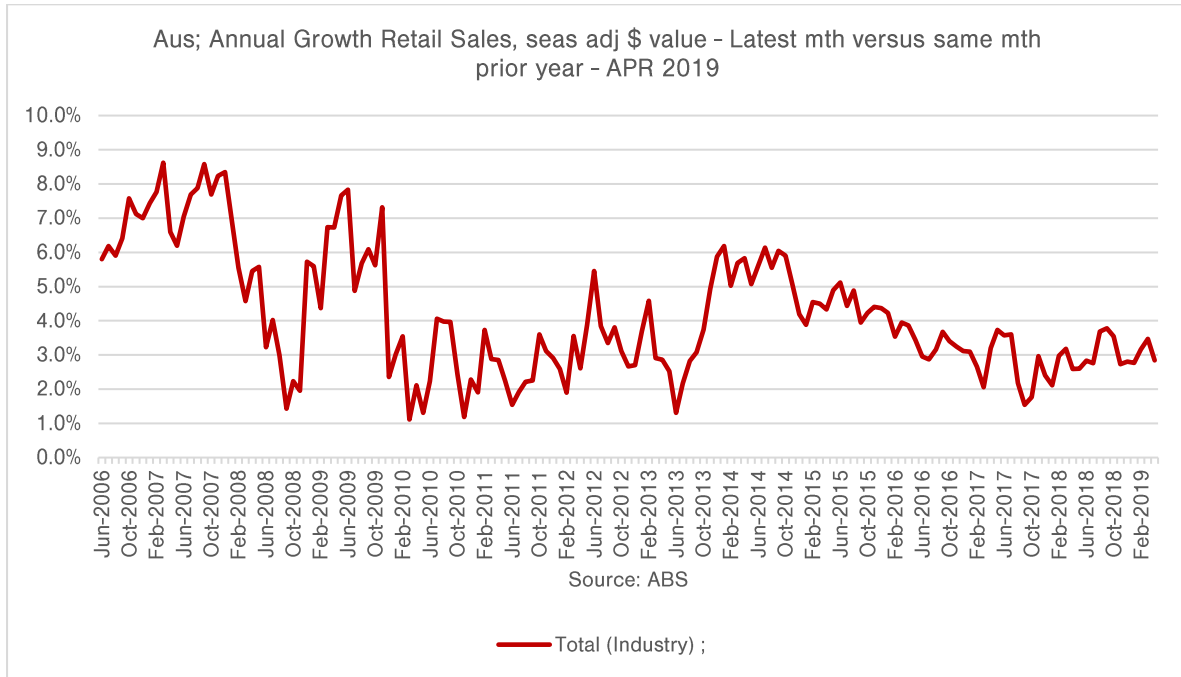
#### Total Retail Sales (value)

Total Retail Sales (\$ value)	Mth chg	Apr -0.1%	Mar +0.3%
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Total Retail Sales (\$ value)	Ann Chg	Apr +2.8%	Mar +3.5%
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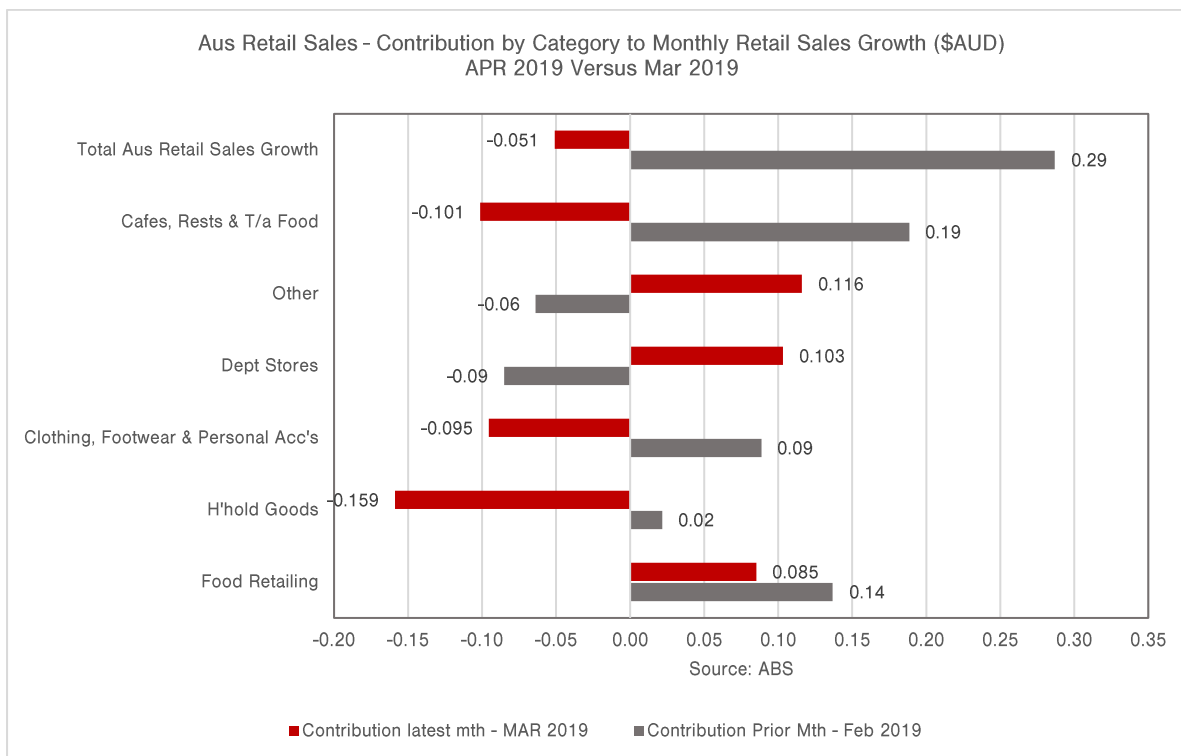
**Annual growth trend (\$ value)**

Annual growth in the value of retail sales slowed in the month;



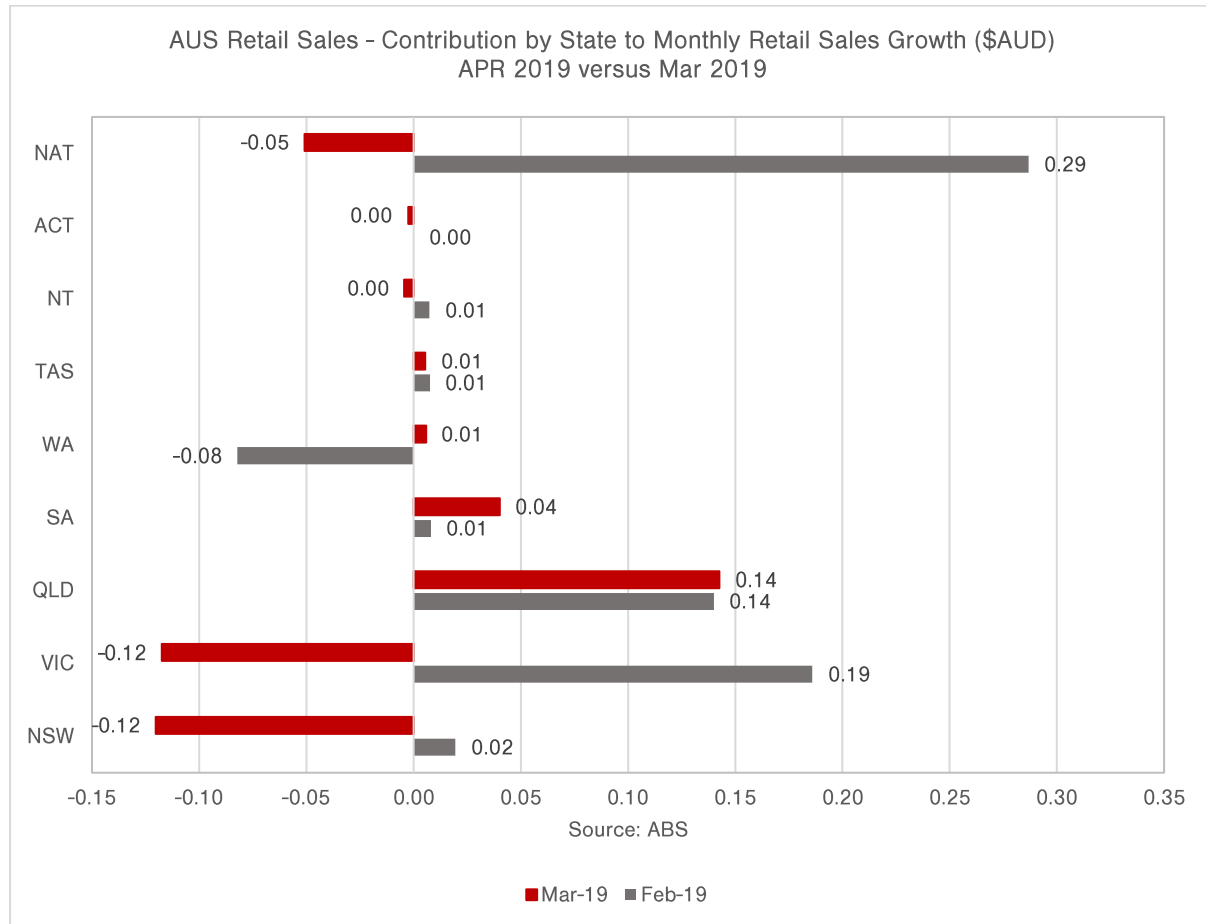
**Retail Sales by Category**

A return to growth across dept stores and 'other' was offset by slower growth in food retailing and larger declines across cafes/restaurants, household goods and clothing/footwear.



## Retail sales by State

This looks concerning from the perspective of the larger states. There was a negative shift in growth in the two largest states of NSW and Vic. The shift in Vic growth was pronounced in the month. This was offset somewhat by stronger growth in SA and WA. Growth in QLD remained on par.



<https://www.abs.gov.au/AUSSTATS/abs@.nsf/ProductsbyCatalogue/3DDA13ECDC094B1CCA257734002042F2?OpenDocument>

## Q1 GDP

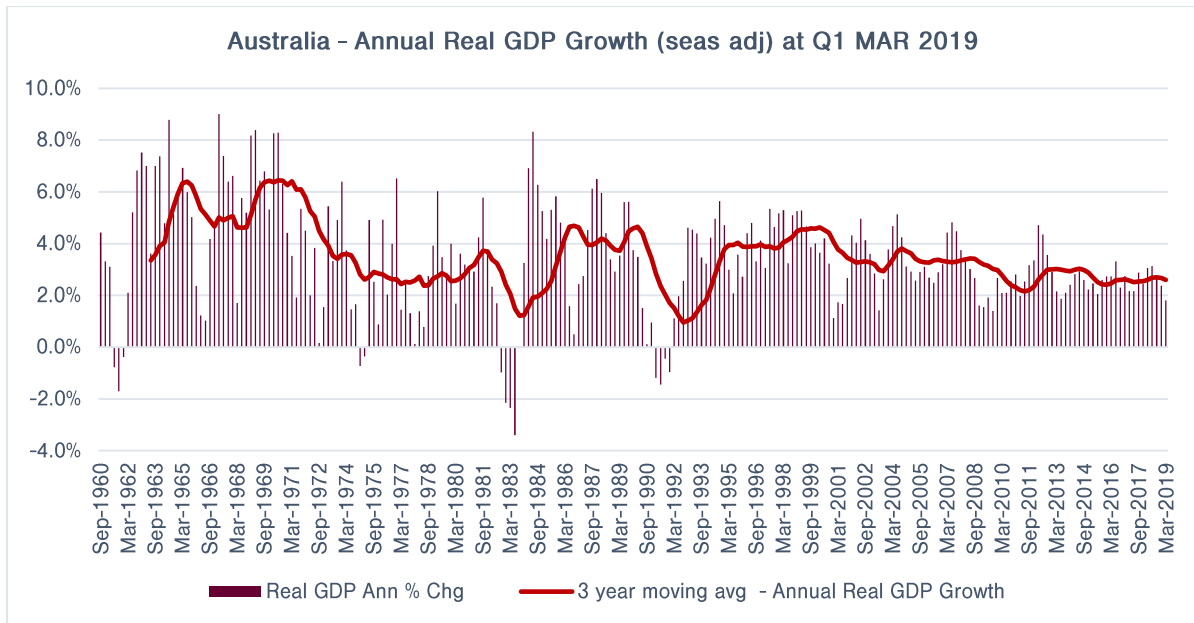
The quarterly growth in GDP increased at a faster pace in Q1 (compared to Q4). Net exports made the largest contribution to headline growth. Excluding the external sector highlights some weakness in the domestic economy with Gross National Expenditure growth at 0%. While consumption growth was lower, there was some improvement in GFCF – private business investment for the quarter.

### Real GDP Growth

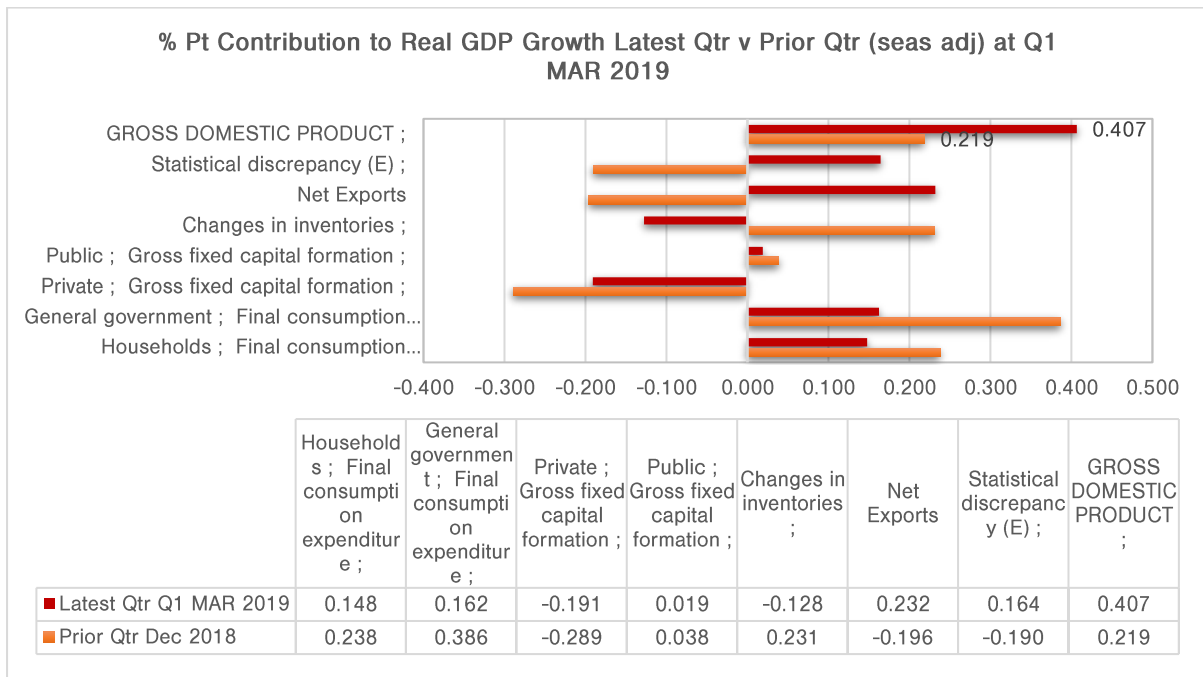
Real GDP Growth	Qtr chg	Q1 +0.4%	Q4 (2018) +0.2%
Real GDP Growth	Ann Chg	Q1 +1.8%	Q4 (2018) +2.3%

## Annual growth – Real GDP

Annual growth slowed quickly in the latest quarter, falling well below the 3-year moving average;



## Quarter GDP Growth – Expenditure Perspective



The largest contributor to growth in the latest quarter was net exports. Exports grew at a faster pace in the quarter while imports declined in real terms.

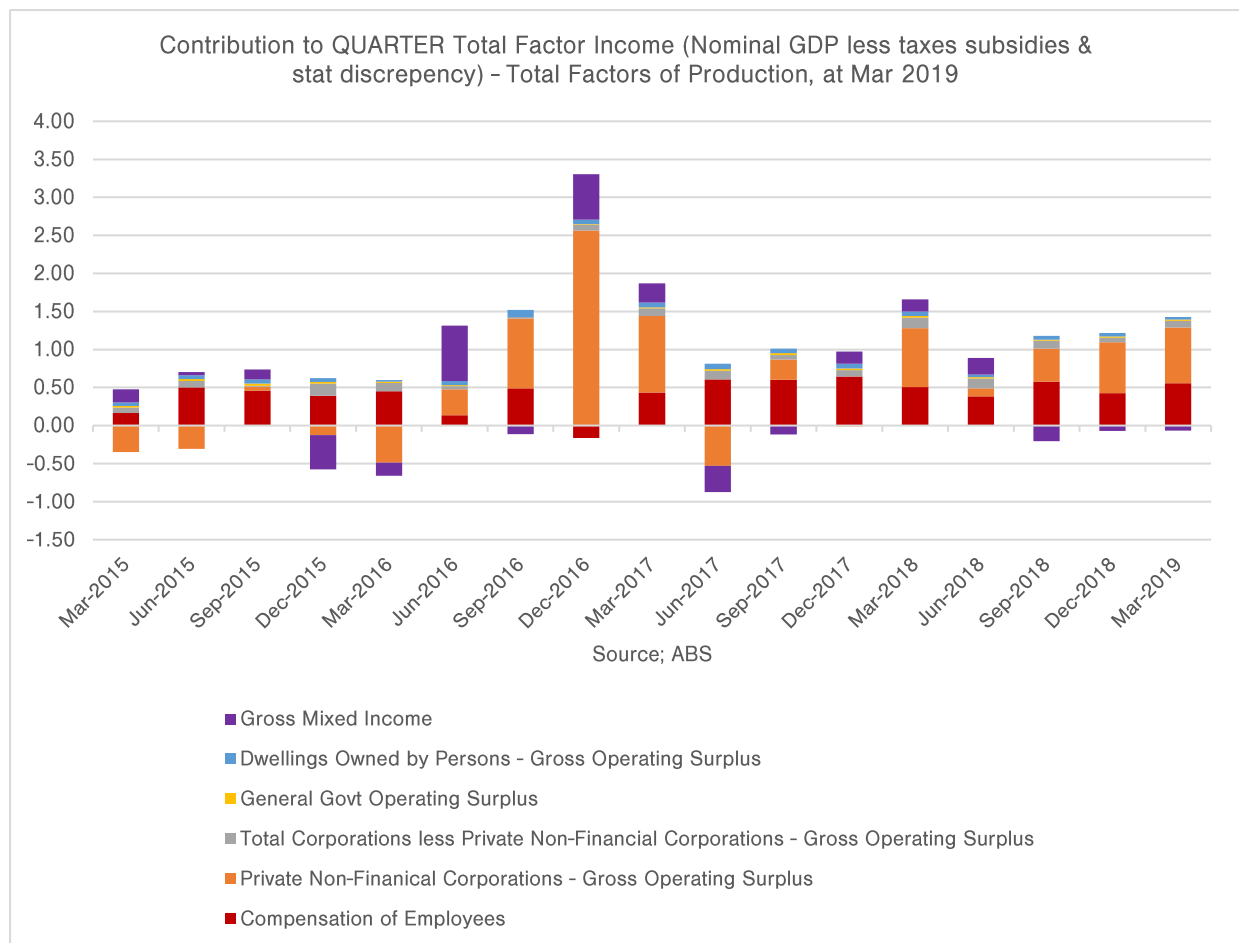
Excluding the external sector, the change in Gross National Expenditure slowed to zero – indicating some weakness in the domestic economy.

Consumption expenditure by households and government both slowed in the latest quarter. The quarterly household consumption expenditure growth slowed to the second lowest rate since the GFC to +0.26%.

Private fixed capital formation continued to detract from GDP growth. The decline in Dwellings (capital formation) and Ownership Transfer Costs offset growth in Private Business Investment in the quarter (Private Business Investment still declined by 1% on an annual basis).

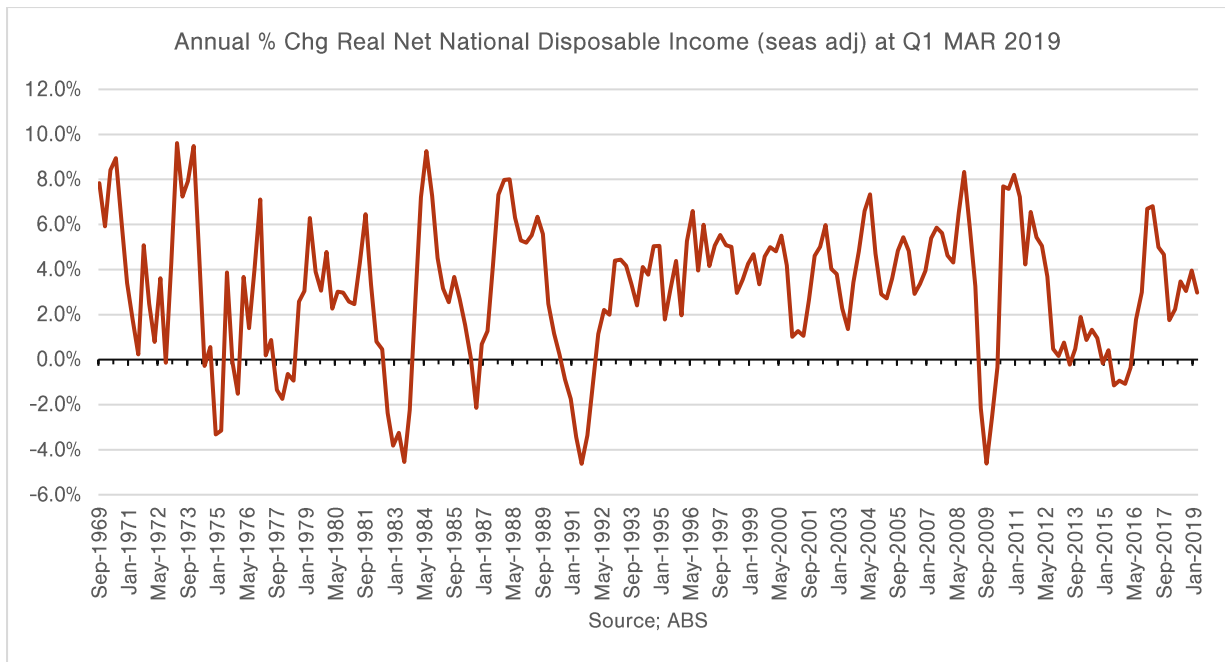
National Income – GDP Income Perspective

In nominal terms, GDP grew by +1.4% in the quarter up from +1.2% in Q4 2018. From a factor perspective, the results were reasonably positive. Compensation of employees grew at a slightly faster pace as did the operating surplus of private non-financial corporations (the two largest groups)



Growth of the main National income measure – Real Net National Disposable Income, slowed on a quarterly and annual basis. Growth remains elevated on an annual basis compared to recent times – this has been driven by further increases in the Terms of Trade (+3% in the quarter – contributing to the growth in the non-financial GOS growth.)





<https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5206.0Main+Features1Mar%202019?OpenDocument>

## Lending for Housing (Apr)

Total housing lending increased in the latest month after a large fall in the month prior. The increase was the result of growth in lending for owner occupiers which offset a further decline in lending for investment properties. This was still the month prior to the Australian Federal election – where significant housing policy changes were proposed (and ultimately voted down in the May election).

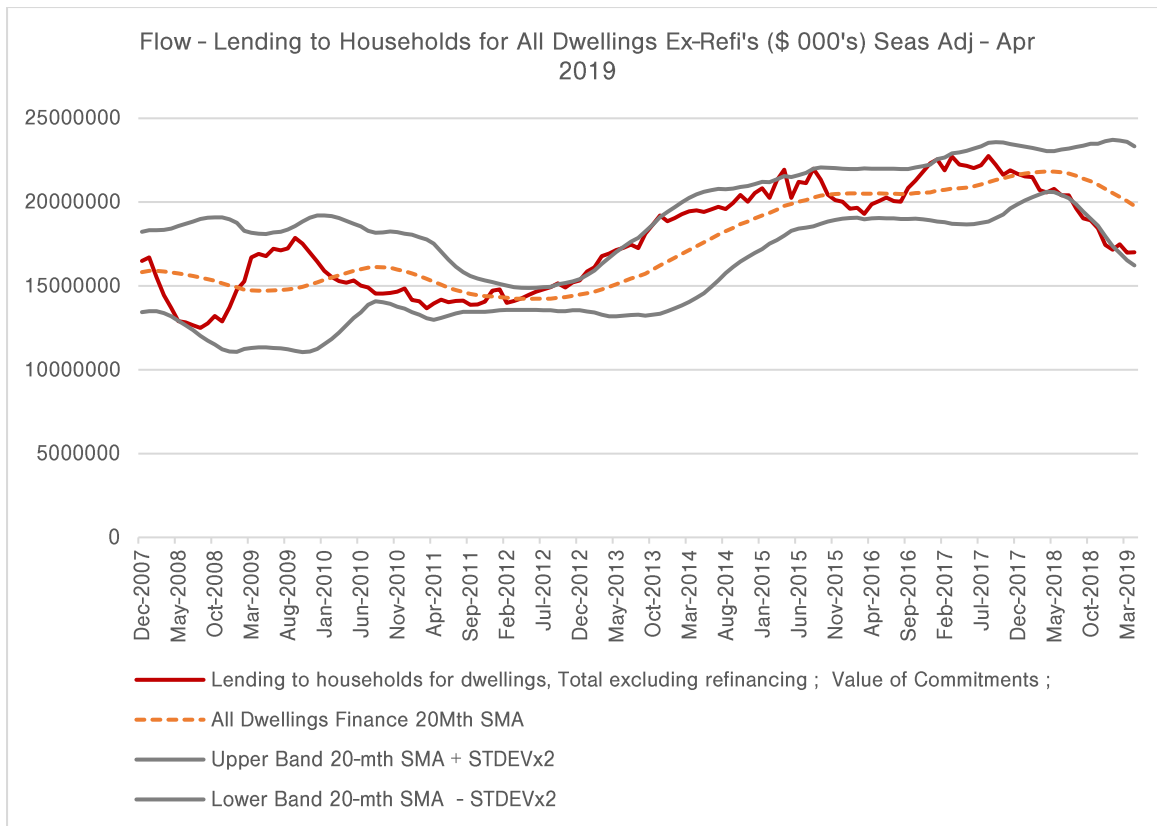
### Total lending for all dwellings

All Dwellings Finance ex refis \$	Mth chg	Apr +0.2%	Mar -2.9%
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All Dwellings Finance ex refis \$	Ann Chg	Apr -17.3%	Mar -18%
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There was a small increase overall in the value of lending for housing. The small increase was led by lending for owner occupiers which offset a further decline in lending for investment properties.

The annual decline (current month versus the same month a year ago) declined at a slightly slower pace. The rate of decline overall is starting ease;



The two main groups making up total lending for housing is owner occupiers and investment properties.

### Lending for Owner Occupier Housing

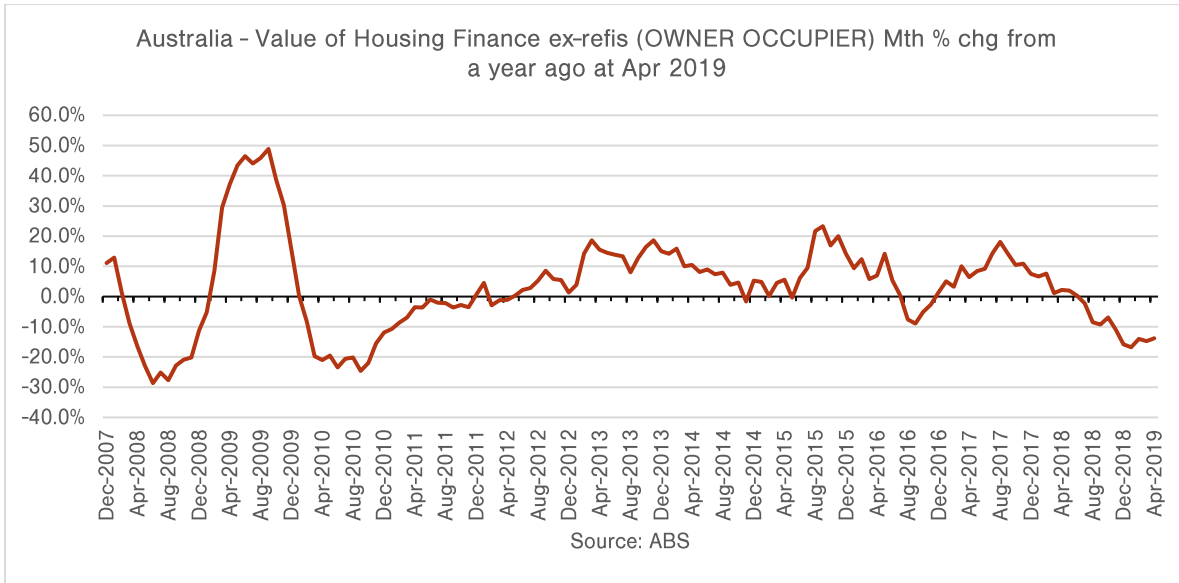
Leading the increase in housing finance this month was an increase in the value of lending for owner occupier housing. The number of housing finance commitments for owner occupiers continued to decline.

Owner Occ Housing Finance ex refis \$	Mth chg	Apr +1%	Mar -3.1%
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Owner Occ Housing Finance ex refis \$	Ann Chg	Apr -14%	Mar -15%
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The increase in the month was the result of equal value growth in lending for **established** dwellings and lending for **new** owner occupier dwellings. Lending for **construction** of dwellings declined by 6% in the month. The increase in lending for new owner occupier dwellings was a 1\*SD increase (relatively large).

The annual change in lending is also starting to slow (rather than continue to accelerate to the downside);



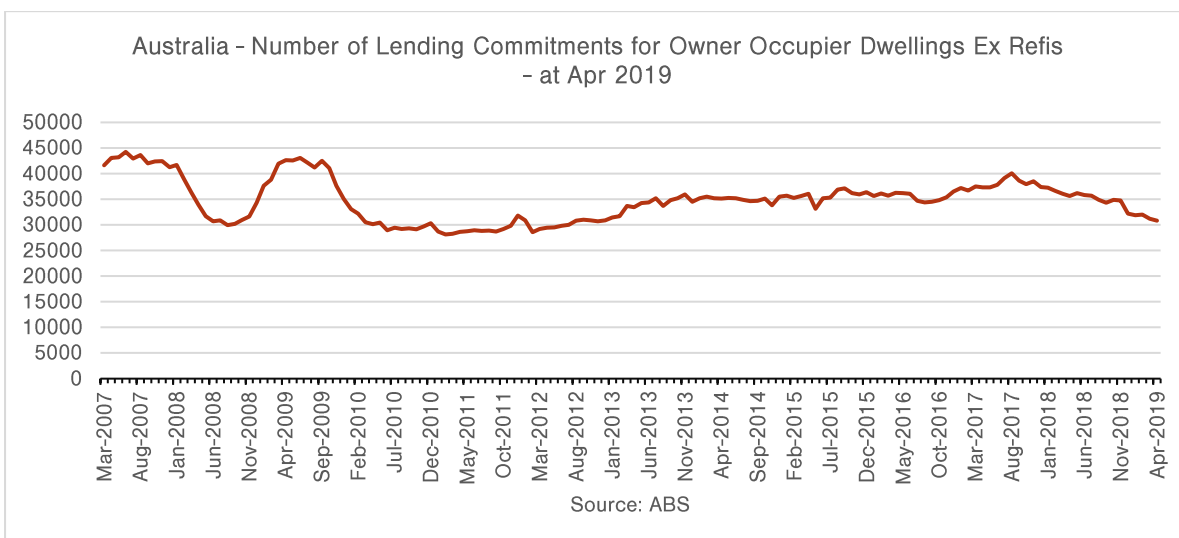
**Number of Lending Commitments for Owner Occupier Dwellings (ex refis)**

While the value of lending increased for owner occupiers, the number of commitments continued to decline, albeit at a slower pace. This suggests that underlying demand remains weaker;

Number of Owner Occ Housing Finance Commitments ex refis	Mth chg	Apr -1.1%	Mar -2.6%
Number of Owner Occ Housing Finance Commitments ex refis	Ann Chg	Apr -14%	Mar -14%

In the latest month, NSW was the only state where the number of commitments for owner occupiers increased – that was an increase of 29 commitments (+0.2% versus the month prior). The number of commitments declined in all other states for the month.

The current monthly total number of owner occupier housing finance commitments is now only 9% above the all-time low of 28,135 commitments/mth.



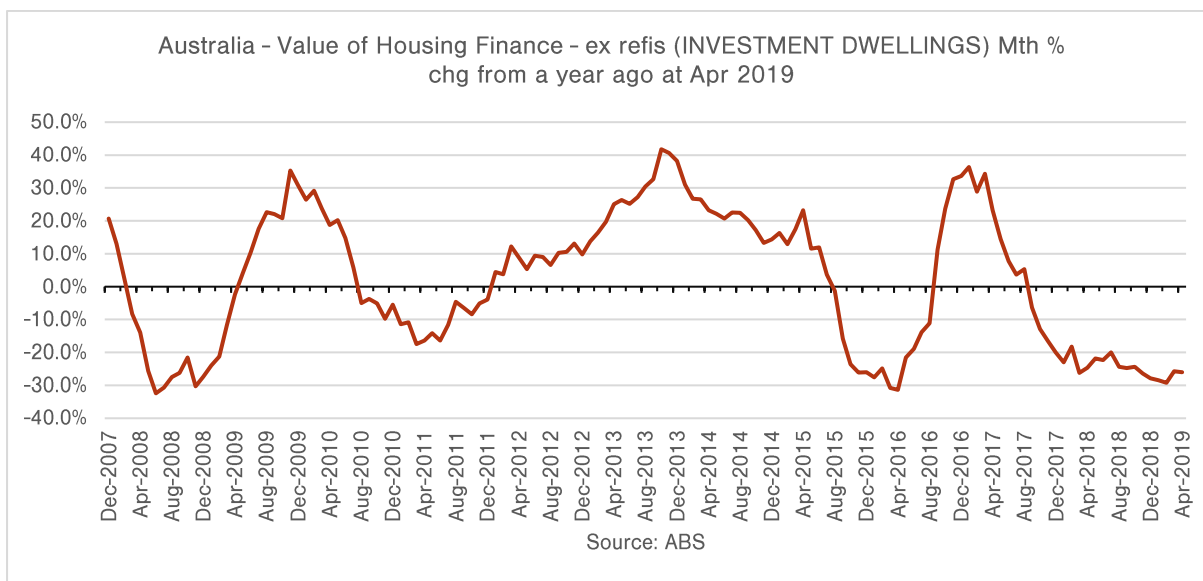
Housing Finance for Investment Properties (ex refis)

Lending for investment properties continues to decline at a similar pace;

Investment Housing Finance ex refis \$	Mth chg	Apr -2.2%	Mar -2.4%
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Investment Housing Finance ex refis \$	Ann Chg	Apr -26%	Mar -25.7%
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The annual decline accelerated slightly;



<https://www.abs.gov.au/ausstats/abs@.nsf/latestProducts/5601.0Media%20Release1Apr%202019>

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## Trade

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### US-China Trade Negotiations

Negotiations remain stalled – awaiting further detail of any steps to recommence talks.

The US has stated that it will be happy to recommence talks ‘on the terms we’ve done’. Talks between Presidents Trump and Xi will possibly take place at the G20 in Osaka later in June – TBC.

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>

Depending on the status of negotiations, this next round of tariffs could go into effect from late Jun/early Jul around the time of the G20 in late June.

Last week, China released its ‘white paper’, “China’s Position on the China-US Economic and Trade Consultations”, (June 2019) The State Council Information Office of The People’s Republic of China. A copy in English can be downloaded here; <https://t.co/NRoiVJypin>

The office of the USTR responded to the white paper during the week - <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/june/us-trade-representative-and-us>

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>

These tariffs will go into effect from 15 June 2019; <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/may/notice-regarding-application-section>

As expected, 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](https://ustr.gov/sites/default/files/2018%20Notorious%20Markets%20List.pdf)

The link to the notorious markets reports is here;  
[https://ustr.gov/sites/default/files/2018\\_Notorious\\_Markets\\_List.pdf](https://ustr.gov/sites/default/files/2018_Notorious_Markets_List.pdf)

The first country on the list is China.

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

## NAFTA/USMCA

After announcing the imposition of a tariff on all imports from Mexico (due to go into effect on Monday 10 Jun), US President Trump announced on the weekend that an agreement was reached with Mexico. Mexico had agreed to take 'strong measures to stem the tide of migration through Mexico to our southern border'. This is likely to aid the progress of ratifying the USMCA.

On 30 May, USTR Lighthizer had submitted a 'statement of administrative action' letter to Congress, allowing the White House to submit the USMCA deal to Congress for vote within 30 days. House speaker Pelosi said;

"The Trump Administration's decision to send Congress a draft statement of administrative action before we have finished working with U.S. Trade Representative Lighthizer to ensure the USMCA benefits American workers and farmers is not a positive step," Pelosi said in a statement Thursday. "It indicates a lack of knowledge on the part of the Administration on the policy and process to pass a trade agreement."

<https://www.washingtonexaminer.com/policy/white-house-to-formally-submit-usmca-trade-deal>

This action means that the House must vote on the deal within 60 days.

Both Canada and Mexico had commenced the process to ratify the deal. Mexico had just submitted the deal to its Republic of the Congress on the same Thursday as President Trump had announced the surprise tariff on imports from Mexico.  
<https://www.washingtonexaminer.com/policy/white-house-to-formally-submit-usmca-trade-deal>

In the week prior, 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 steel and aluminium tariffs was meant to help the process to ratify the new USMCA agreement. The latest development puts a question mark over the deal being ratified.

The administration of the tariff will be handled by the US Dept of Homeland Security – no the USTR. <https://www.japantimes.co.jp/news/2019/06/01/business/economy-business/trumps-top-two-trade-advisers-opposed-decision-impose-tariffs-mexico-sources-say/?hootPostID=82e83d11c4e8f217706d63fb5441175f#.XPSZRBYzZhF>

## 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

A round of talks were held over the weekend with US Treasury Secretary Mnuchin meeting with Japan Finance Minister Aso about trade but also about a requirement to ‘refrain’ from currency manipulation. This is a measure ‘strongly opposed’ by Japan.

“Japan is strongly against the introduction of a currency manipulation rule, which reduces its discretion in trade” <https://asia.nikkei.com/Economy/US-Japan-trade-talks-to-include-currency-manipulation-rules>



President Trump stated that August is the likely deadline for the two countries to announce a deal – after Jul elections. Importantly within the six-month window for auto-tariffs.

<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](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](https://www.hpj.com/ag_news/plenty-of-trade-action-on-several-fronts/article_6ac3fc7d-8eb4-5d6d-965d-602094ce6a66.html)

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

[https://ustr.gov/sites/default/files/2018.12.21\\_Summary\\_of\\_U.S.-Japan\\_Negotiating\\_Objectives.pdf](https://ustr.gov/sites/default/files/2018.12.21_Summary_of_U.S.-Japan_Negotiating_Objectives.pdf)

## US-Europe Trade Talks

There are several fronts to the talks between the US and the EU. The first is the current live investigation by the USTR into EU civil aircraft subsidies. The due date for the submission of written comments was 28 May – awaiting the outcome of that investigation (which should be completed shortly).

The second front is the main talks to negotiate a trade deal between the US and EU. 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](https://www.consilium.europa.eu/en/press/press-releases/2019/04/15/trade-with-the-united-states-council-authorises-negotiations-on-elimination-of-tariffs-for-industrial-goods-and-on-conformity-assessment/?utm_source=dsms-auto&utm_medium=email&utm_campaign=Trade+with+the+United+States%3a+Council+authorises+negotiations+on+elimination+of+tariffs+for+industrial+goods+and+on+conformity+assessment)

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

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

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

Key dates for this investigation;

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

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

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

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

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

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

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

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

[https://ustr.gov/sites/default/files/01.11.2019\\_Summary\\_of\\_U.S.-EU\\_Negotiating\\_Objectives.pdf](https://ustr.gov/sites/default/files/01.11.2019_Summary_of_U.S.-EU_Negotiating_Objectives.pdf)

## US-UK Trade Talks

During his visit to the UK, President Trump announced that the US would begin talks with the UK on a trade deal as soon as Brexit was completed.

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

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