

Key Themes

Data out of China this week was mixed but suggests little in the way of accelerating growth. Industrial production continued to grow at a slower pace while consumers/households face higher prices with CPI growth accelerating on the back of much higher food prices (meat). Exports increased more than expected but imports continued to decline. The increase in new loans issued by banks was less than expected and only marginally above that of Apr – little to suggest this would create a larger impetus for growth.

US annual CPI growth slowed in May – food prices grew at a slightly faster pace and this was offset by a decline in energy prices. Core CPI growth has continued to slow over the last 12 months.

US consumer spending in May was stronger and the good news was that Apr results were also revised higher - consistent with the stronger growth in consumer credit (revolving credit) for Apr. The prelim consumer sentiment reading for Jun mostly reversed the stronger May gains – on the back of increased tariff/cost worries. As the tariffs on imports from Mexico were not implemented, this weaker sentiment result may be reversed.

In terms of output, US industrial production growth indicated a small increase for the month. Production levels remain on par with a year ago, but still below the peak of Dec 2018.

The Aus labour market report for May had some positive signs and some continuing concerns for the RBA. Despite indications of a weakening economy, employment growth increased slightly in the latest month – led by faster growth in part-time employed persons. Unemployment and underemployment remain an issue and both ticked higher in the latest month. The main insight is that increased participation (reaching another new all-time high in the latest month) is contributing to the slower change/reduction in total unemployed workers. Employment growth needs to increase at an even faster pace in order to continue to absorb the increase in participation as well as reduce unemployment at a faster pace (as per RBA commentary regarding wage/inflation pressure).

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US Data

JOLTS (Apr)

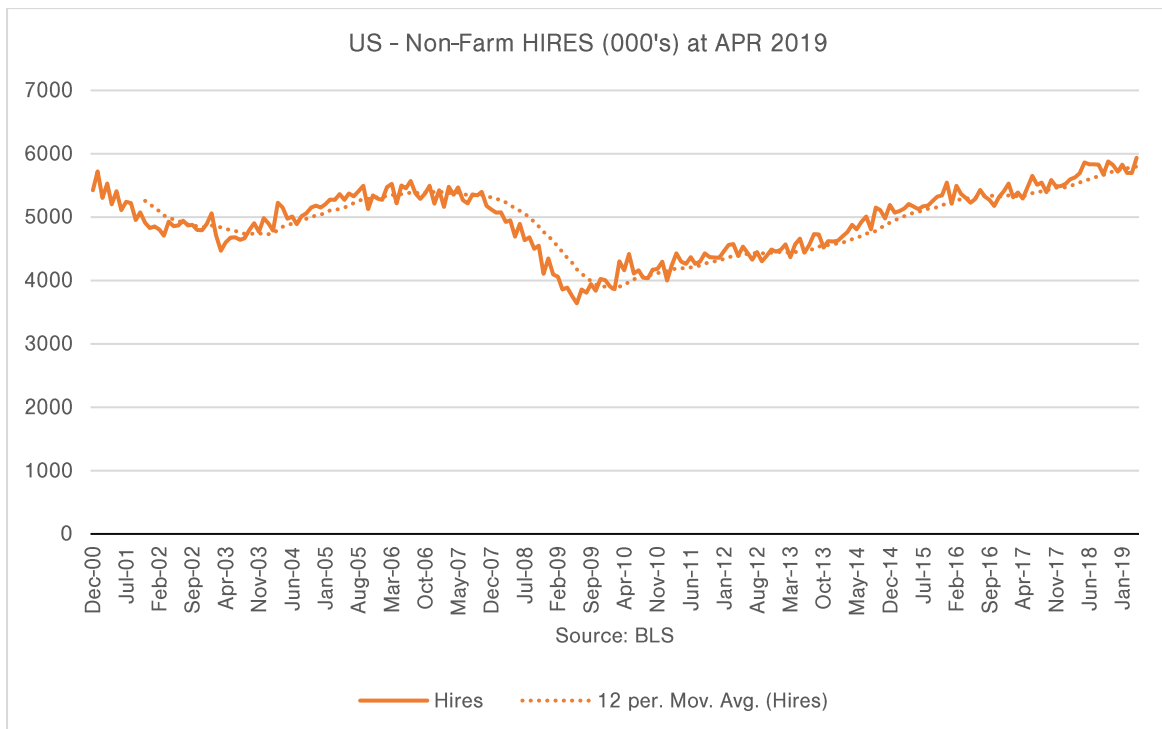
This was a positive JOLTS report. There was a notable increase in hires while job openings fell slightly, remaining at an elevated level. Total separations increased – both layoffs & discharges and quits increased in the month. The main highlight of the JOLTS release was that the number of hires reached a new all-time high in Apr. The hire rate picked up slightly and remains on par with the 12-mth average.

Hires

The number of hires increase in Apr to reach a new all-time high level of hires. The hire rate picked up slightly and remains on par with the 12-mth average

Hires (# of persons)	Mth	Apr 5.937m	Mar 5.697m
Hire Rate (%)	Mth	Apr 3.9%	Mar +3.8%

The change in the number of hires between Apr and Mar represents a 2.8SD increase (based on the last 12-mths). The number of hires in Apr was 2% above the 12-mth average.

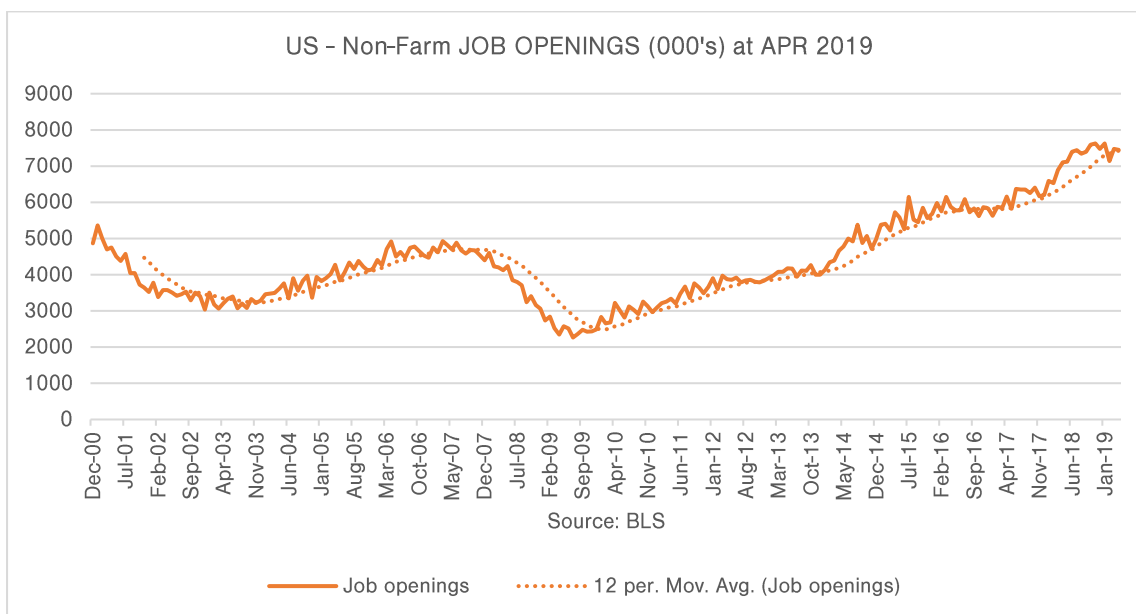


Job Openings

The number of job openings fell slightly in Apr (falling 25k) and the job opening rate was unchanged from the mth prior and is equal to the 12-mth average.

Job Openings (#)	Mth	Apr 7.449m	Mar 7.474m
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Job Opening Rate (%)	Mth	Apr 4.7%	Mar 4.7%
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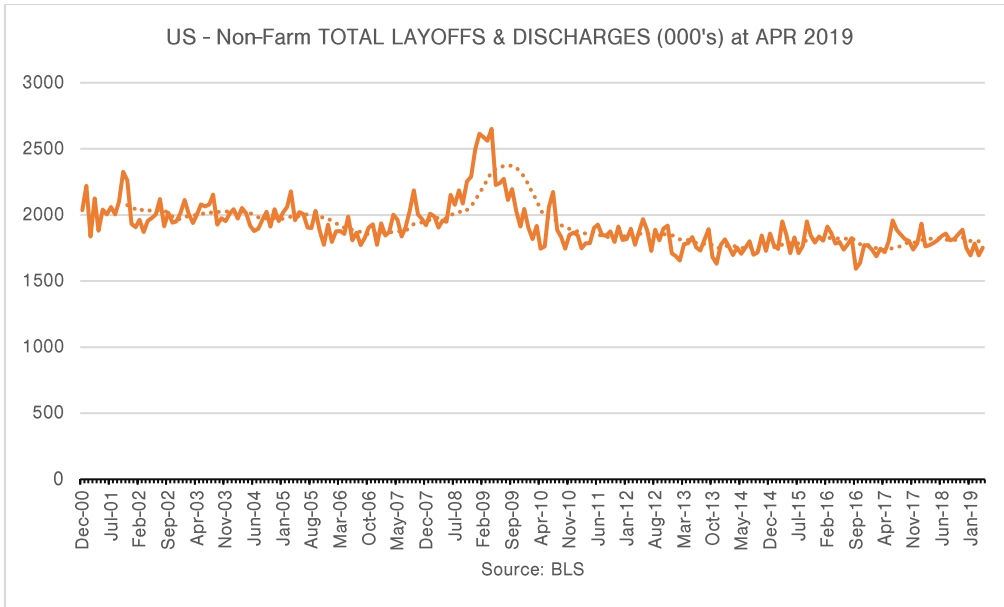
Total Separations

The number of separations increased at a faster pace in the latest month (a 1.1SD increase) and remains on par with the 12-mth average.

Total Separations (#)	Mth	Apr 5.578m	Mar 5.508m
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Total Separation Rate (%)	Mth	Apr 3.7%	Mar 3.7%
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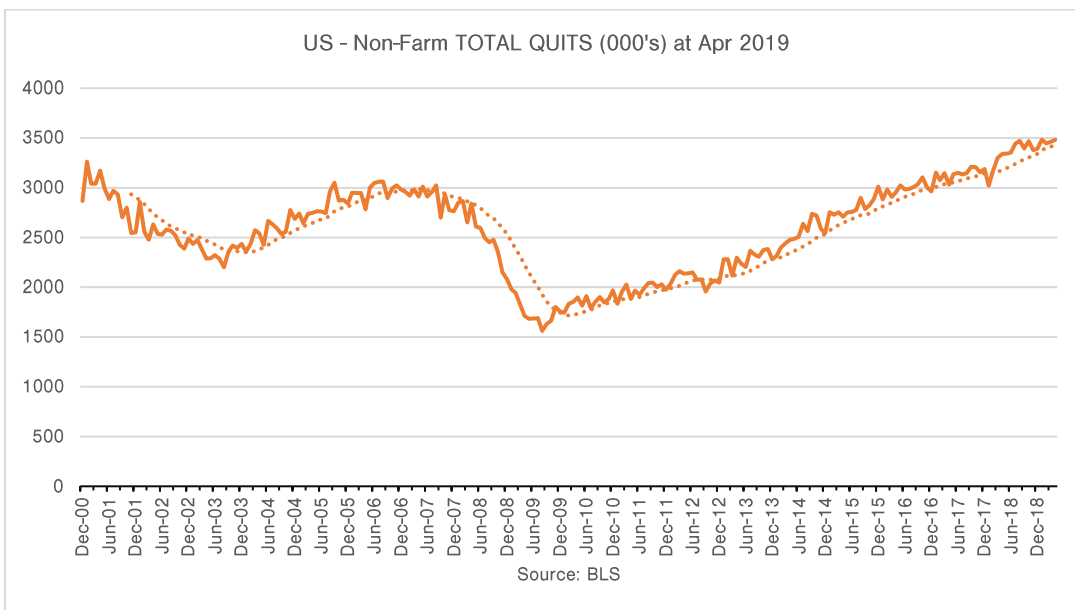
Layoffs and discharges accounted for most of the increase in the month, but the total number of layoffs and discharges (involuntary separations) remains below the 12-mth average; Apr 1.752m versus Mar 1.693m



Quits (voluntary separations) also increased in the latest month to just 1k quits below the all-time high number of quits recorded in Jan 2019.

Apr 3.482m versus Mar 3.461m (all time high Jan 2019; 3.483m)

The number of quits in Apr is 2% above the 12-mth average.



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

PPI (May)

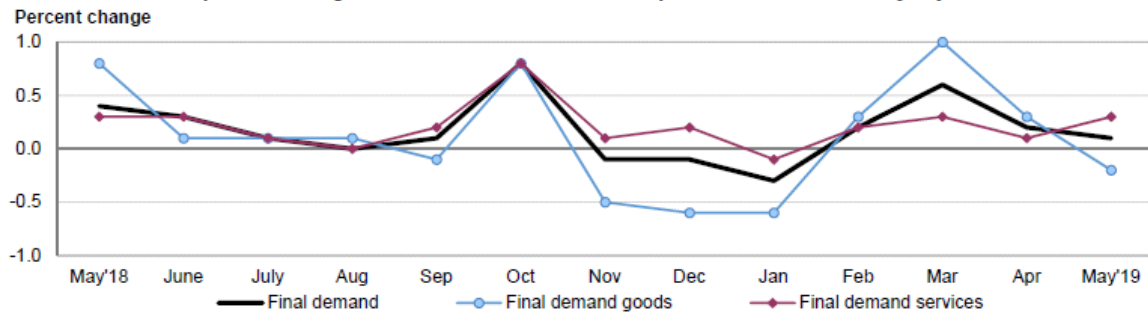
The annual change in producer prices slowed in the latest month – led mostly by a continued slowdown in final demand goods prices (month & annual basis). Final demand services prices continued to increase in the month and grew at the same annual pace.

Producer Prices	Mth % chg	May +0.1%	Apr +0.2%
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Producer Prices	Ann % chg	May +1.8%	Apr +2.2%
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The slower growth in producer prices for the month was the result of declined in final demand goods prices while final demand services prices increased at a faster pace.

Chart 1. One-month percent changes in selected PPI final demand price indexes, seasonally adjusted



Final demand goods; May -0.2% versus Apr +0.3%. Food and energy prices contributed to the shift from growth to declining prices in the month.

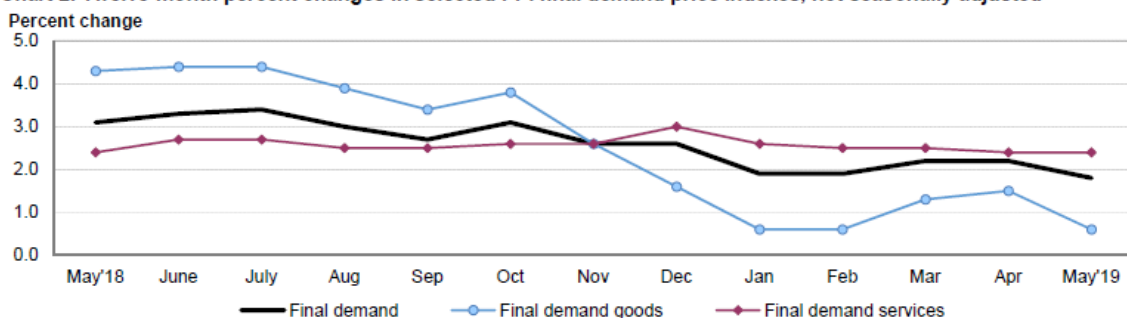
“About three-quarters of the decrease can be traced to prices for final demand energy, which fell 1.0 percent. The index for final demand foods declined 0.3 percent, while prices for final demand goods less foods and energy were unchanged.”

Final demand services; May +0.3% versus Apr +0.1%. Most of the acceleration in prices for the month was the result of ‘other’.

“Prices for final demand transportation and warehousing services climbed 0.7 percent. Conversely, margins for final demand trade services fell 0.5 percent. (Trade indexes measure changes in margins received by wholesalers and retailers.)”

On an annual basis, slower growth in final demand goods prices (+0.6%) also contributed to the slower growth in overall producer prices for the year (services unchanged at +2.4%);

Chart 2. Twelve-month percent changes in selected PPI final demand price indexes, not seasonally adjusted



In contrast, the annual change in core producer prices (ex food, energy and trade) increased at a faster pace; May +2.3% versus Apr +2.2%.

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

CPI (May)

Consumer prices grew at a slower pace in the latest month and on an annual basis.

Headline CPI – All Items

All Items CPI	Mth % chg	May +0.1%	Apr +0.3%
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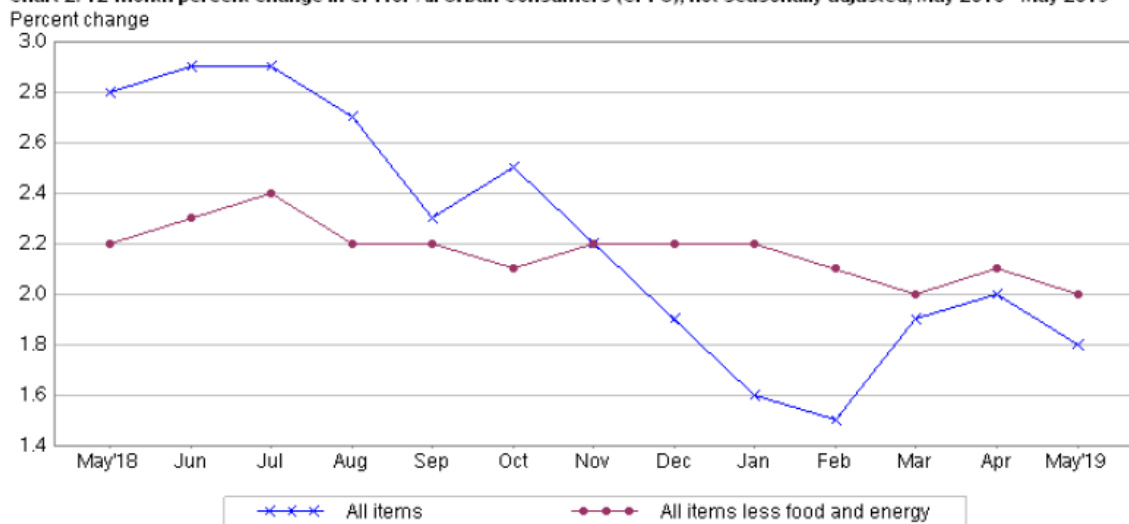
All Items CPI	Ann % chg	May +1.8%	Apr +2%
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The slower growth in the month was the result of a large shift in the growth of energy prices (falling from +2.9% in Apr to -0.6% in May). Food prices accelerated in the month (and contributed half of the monthly increase in the index) and all items ex food and energy grew at the same pace.

On an annual basis, energy prices detracted from headline CPI growth, falling from an annual rate of growth of +1.7% in Apr to -0.5% in May. Food price growth accelerated on an annual basis from 1.8% in Apr to 2% in May.

Annual growth in core CPI – less food and energy grew at a slightly slower pace; Apr +2.1% versus May 2%. This was due to slightly slower growth in Services less energy services. The annual growth in Core CPI has been slowing consistently over the past year;

Chart 2. 12-month percent change in CPI for All Urban Consumers (CPI-U), not seasonally adjusted, May 2018 - May 2019



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

Consumer Sentiment – prelim (Jun)

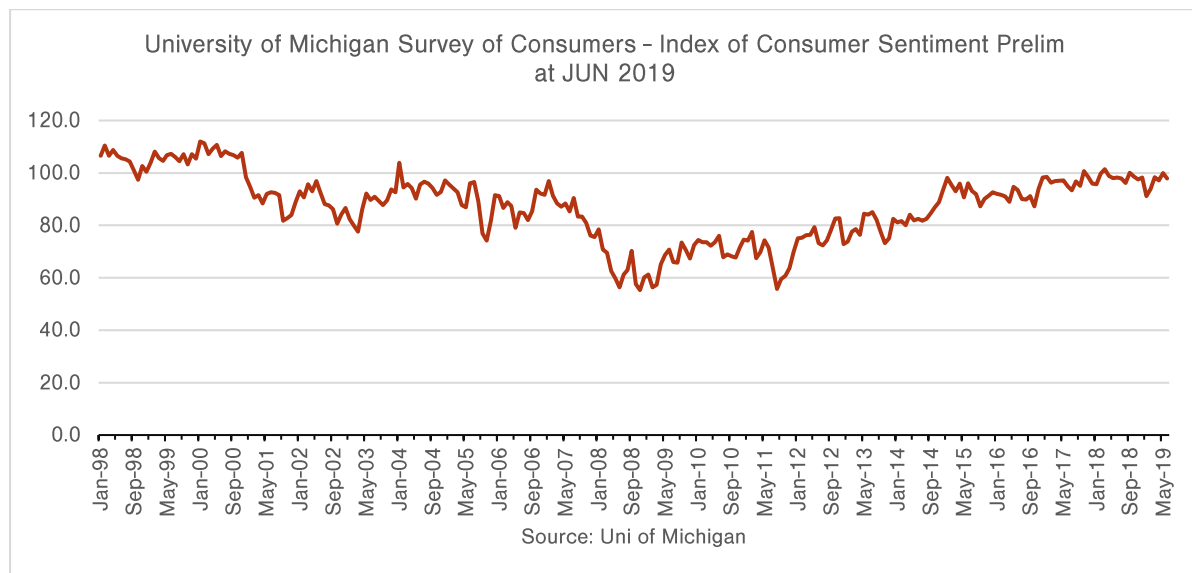
The stronger rebound in sentiment last month appears to have been mostly reversed in the prelim Jun reading. The index of Consumer Sentiment fell 2.1pts almost back to the level of the Apr reading with tariffs, especially on imports from Mexico, having a negative impact on sentiment (which may also be reversed in the final or July reading).

“Some of the decline was due to expected tariffs on Mexican imports, which may be reversed in late June, but most of the concern was with the 25% tariffs on nearly half of all Chinese imports. Consumers responded by lowering growth prospects for the national economy, and as a consequence, reduced the expected gains in employment. “

“The sole component of the Sentiment Index that improved in early June was buying plans for large household durables. That improvement, however, was due to consumers favoring tariff induced buy-in-advance price rationales.”

Index of Consumer Sentiment

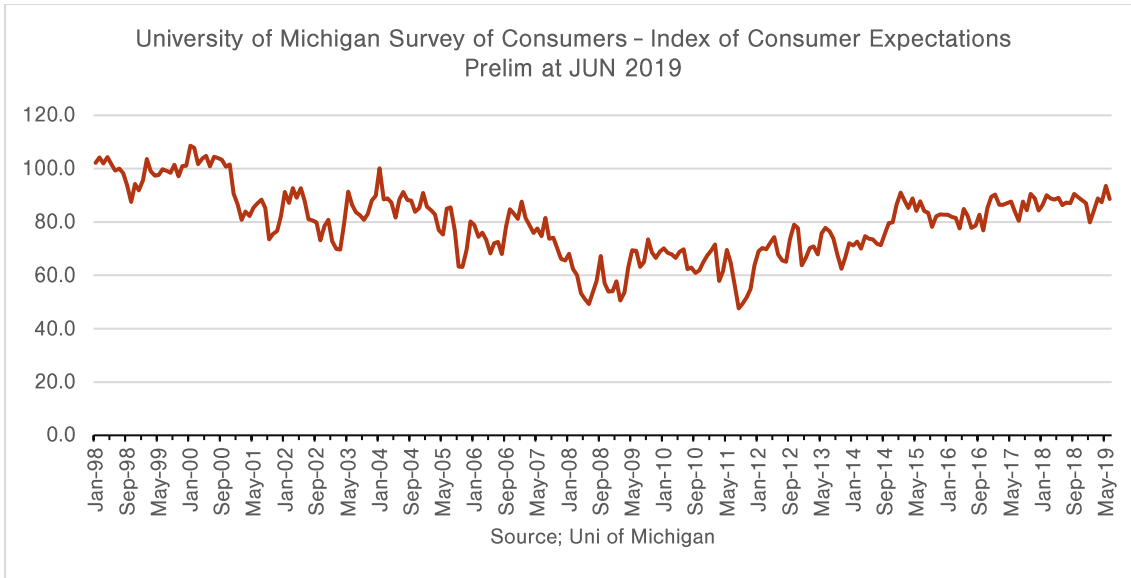
Jun 97.9 versus May 100



Index of Consumer Expectations

This index of sentiment fell the hardest of the three – falling 4.9pts (1.5 SD's based on the last 12 months)

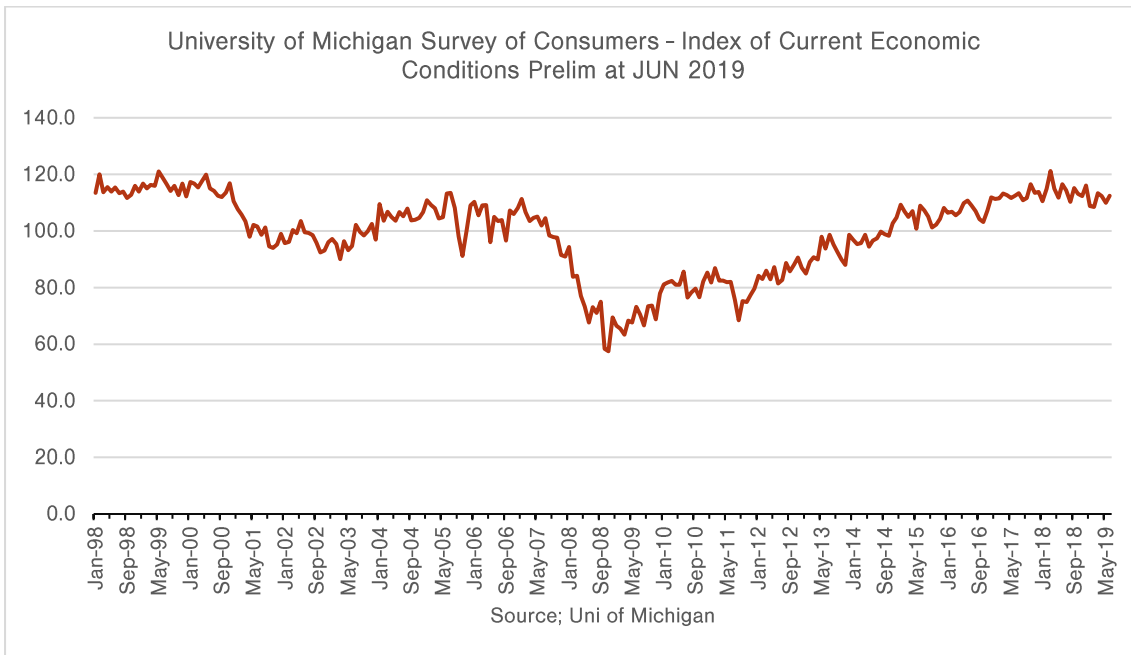
Jun 88.6 versus May 93.5



Index of Current Conditions

This index has been underperforming compared to sentiment and expectations, but in the prelim Jun reading increased by 2.5pts and is now on par with the 12-mth average;

Jun 112.5 versus May 110



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

Retail Sales (May)

Retail sales increased at a faster pace in the latest month and the decline in Apr was revised higher. The revision higher for Apr shifted from a decline to an increase in retail sales value and is consistent with the acceleration in consumer revolving credit for Apr.

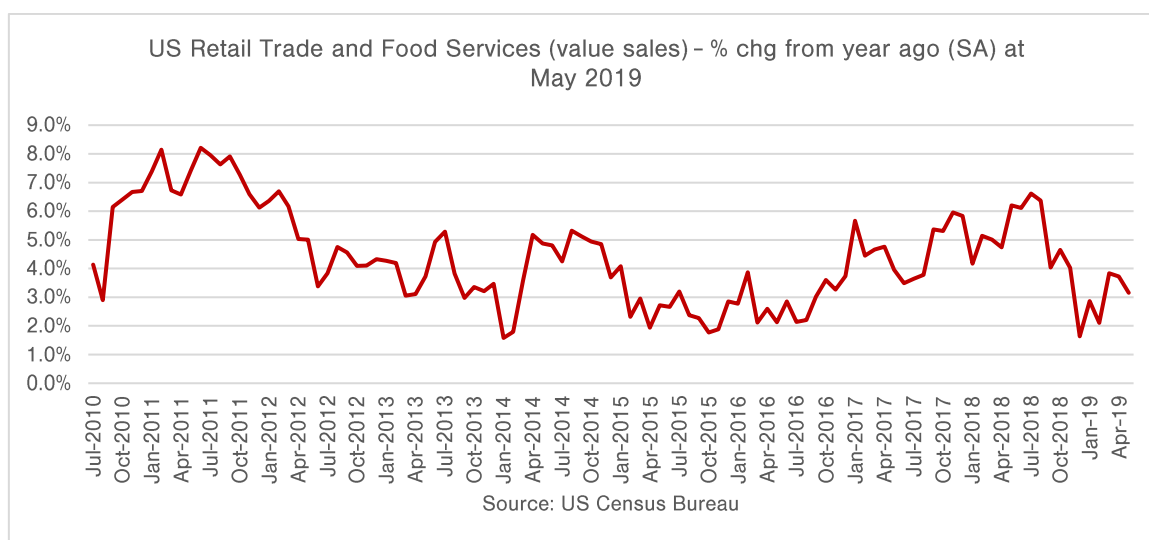
Categories contributing the most to the increase in May were non-store retailers, autos and out of home food service and drinking places.

Annual growth slowed in May.

Retail Sales

Retail Trade & Food Service \$ val SA	Mth % chg	May +0.5%	Apr +0.3% (revised from -0.2%)
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Retail Trade & Food Service \$ val SA	Ann % chg	May +3.2%	Apr +3.7%
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Excluding the value of gasoline sales, retail sales growth was slightly higher (compared to the headline growth above) in the month; May +0.6% versus Apr +0.1%.

Retail Sales by Category

There were several categories that contributed the most to the increase in retail sales in the month; Non-store retailers (+1.4% in May versus +0.5% in Apr), Autos (+0.7% in May versus -0.5% in Apr) and Food Services (+0.7% in May versus +0.3% in Apr).

Electronics and appliance stores, building materials suppliers, and clothing stores all grew in the latest month after declining in the month prior.

Other categories made a smaller contribution than in the month prior or declined; food and beverage stores/grocery, gasoline stations, furniture stores and misc retailers.

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

Business Inventories (Apr)

Distributive trade sales and manufacturer shipments declined in Apr while the month end value of inventories increased.

Total Business Sales/Shipments – month chg; Apr -0.2% (-\$3.4bn) versus Mar

Declines in the value of manufacturer shipments and merchant wholesaler sales were only partly offset by an increase in retail trade sales for the month;

Manufacturer shipments – mth chg; Apr -0.5% (-\$2.7bn)

Retail trade – mth chg; Apr +0.3% (+\$1.3bn)

Merchant Wholesaler trade – mth chg; Apr -0.4% (-\$2bn)

Total Business Inventories – month chg; Apr +0.5% (\$+10.7bn)

The total value of inventories increased at a faster rate (than sales) across all channels and in excess of the increase in sales value for retail trade and merchant wholesalers;

Manufacturers – mth chg; Apr +0.3% (+\$1.8bn)

Retail trade – mth chg; Apr +0.5% (+\$3.5bn)

Merchant wholesalers – mth chg; Apr +0.8% (+\$5.5bn)

Total Inventory to Sales Ratio; Apr 1.39 versus Mar 1.38



The increase in the inventory to sales ratio was led by manufacturers and merchant wholesalers.

Manufacturer inventory to sales ratio; May 1.37 – the seventh consecutive monthly increase.

Merchant wholesaler inventory to sales ratio; Apr 1.34 and remains near the recent peak of 1.35.

Retail Inventories remained unchanged at 1.45 in Apr and are below the recent cycle peak of 1.48 in Feb 2019. But underlying that, the inventory to sales ratio for motor vehicles & parts dealers increased from 2.29 in Mar to 2.32 in Apr (and accounted for over half of the increase in retail inventories for the month).

The inventory to sales ratio for building material supplies and grocery stores also increased in the month – a combination of lower sales and higher inventory growth.

The inventory of clothing stores, general merch stores and dept stores all declined in the month. The inventory to sales ratio for dept stores remains elevated at 1.95 in Apr but fell from 1.99 in Mar.

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

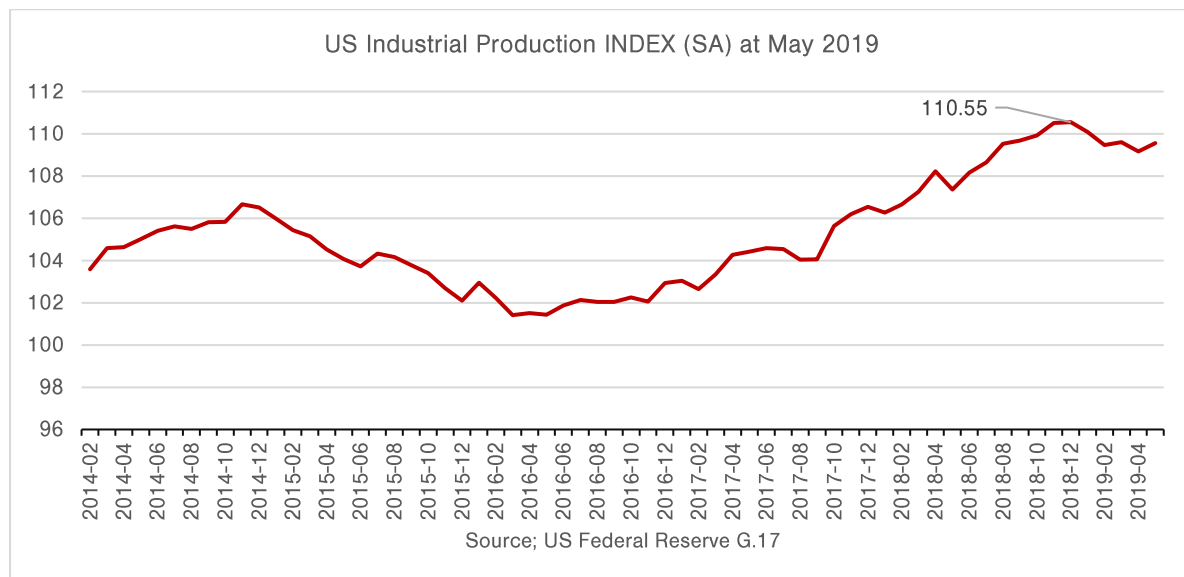
Industrial Production (May)

US industrial production increased at a faster pace in May. Manufacturing and Utilities both rebounded from declines in the month prior and this helped to offset slower growth in Mining.

Total Industrial Production

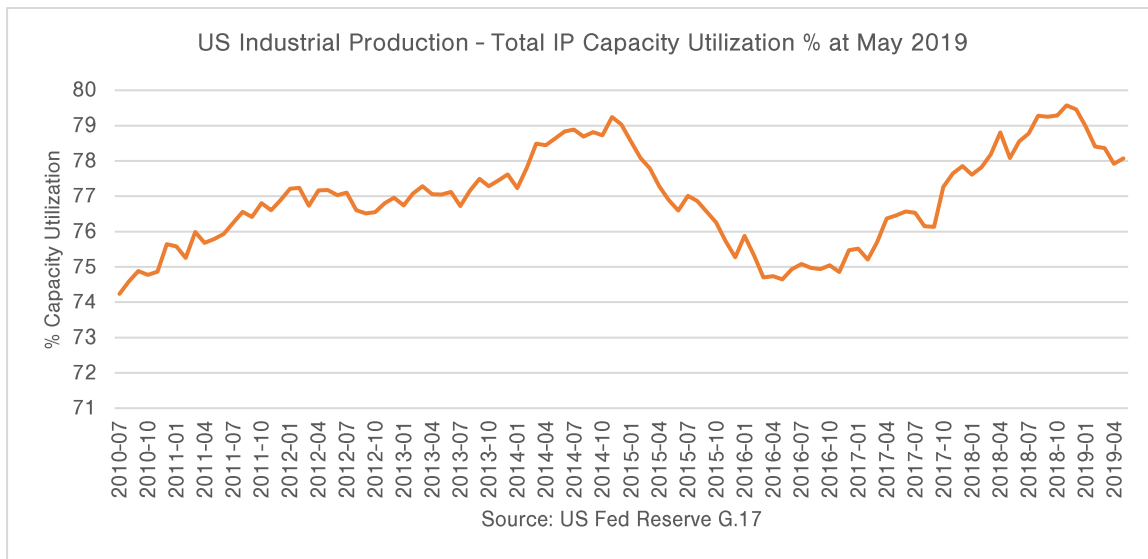
Industrial Production (index) – SA	Mth % chg	May +0.4%	Apr -0.4%
Industrial Production (index) – NSA	Ann % chg	May +1.9%	Apr +0.7%

The trend of the straight index of industrial production highlights the current situation – the production index peaked in Dec 2018 and overall production in May was -1% below this level.



All areas of industrial production grew in the latest month with manufacturing and utilities both increasing at a faster pace.

Capacity utilization increased in the latest month inline with the growth in IP. Utilization levels remain 1.5%pts below the peak in Nov 2018;



Manufacturing Production

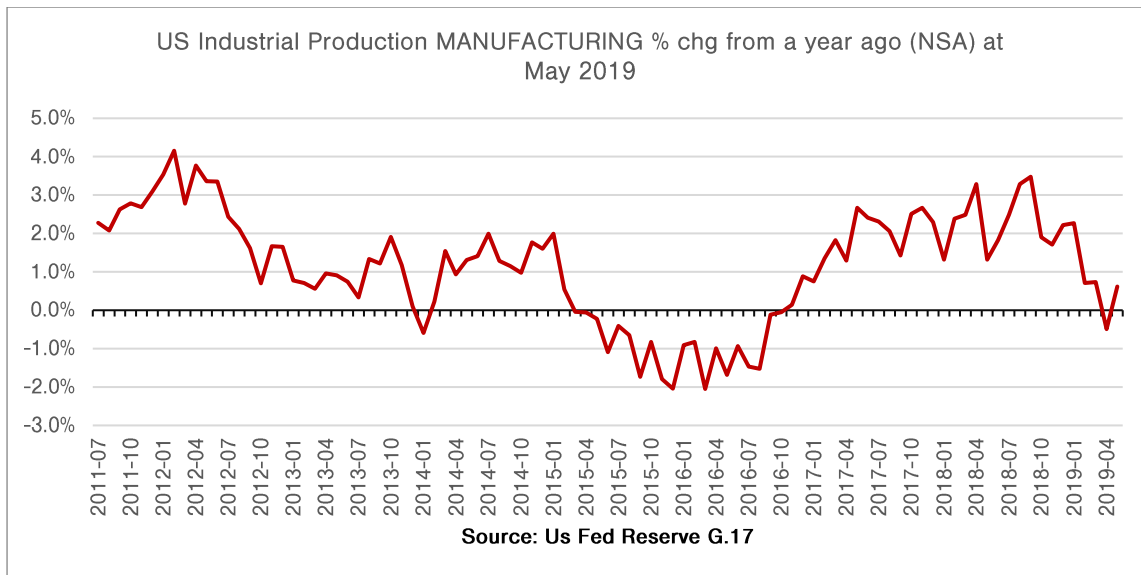
Manufacturing Production (index) – SA	Mth % chg	May +0.2%	Apr -0.5%
Manufacturing Production (index) – NSA	Ann % chg	May +0.6%	Apr -0.5%

The faster growth in the month was led by both durable and non-durable goods manufacturing;

Durable Goods; May +0.3% versus Apr -0.6%. Production of durable goods is -1.8% below the Dec 2018 peak.

Non-Durable Goods; May +0.1% versus Apr -0.3%. Production of non-durable goods peaked earlier in Jul 2018 and is -1.5% below this peak.

Growth in manufacturing production has slowed quickly since Dec 2018 and while manufacturing production is +0.6% ahead of the same month a year ago, the production index remains -1.5% below the Dec 2018 peak.



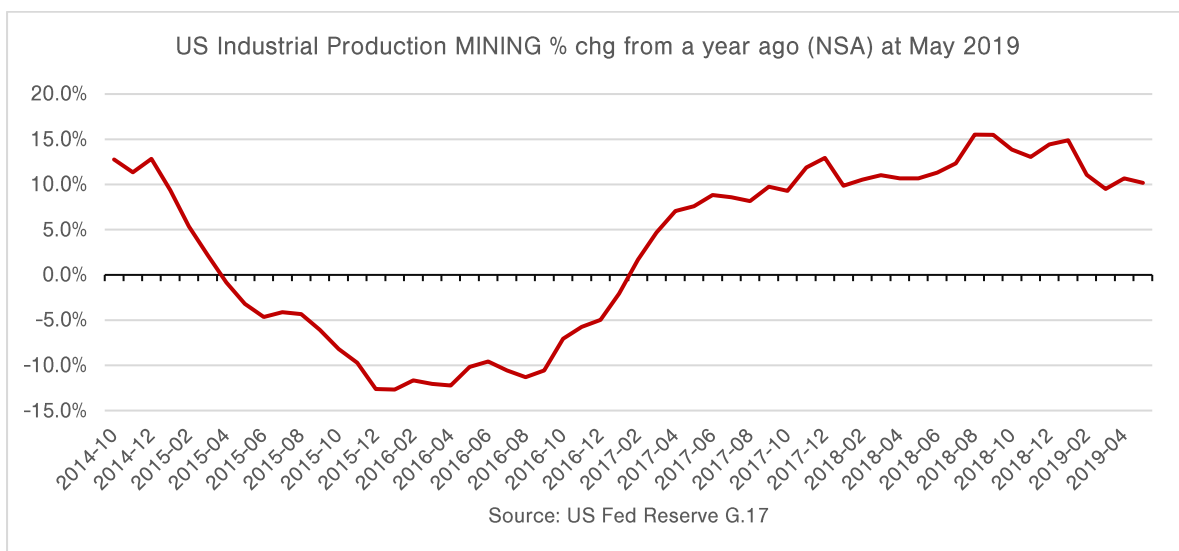
Capacity utilization increased slightly in the month adding +0.06% pts to reach 75.7% in May. The current level of capacity utilization is 2.6%pts below its long-term average.

Mining Production

“The increase in the mining index for May reflected gains in oil and natural gas extraction that were mostly offset by a large decline for oil and gas well drilling.”

Mining Production (index) – SA	Mth % chg	May +0.1%	Apr +2.2%
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Mining Production (index) – NSA	Ann % chg	May +10.2%	Apr +10.7%
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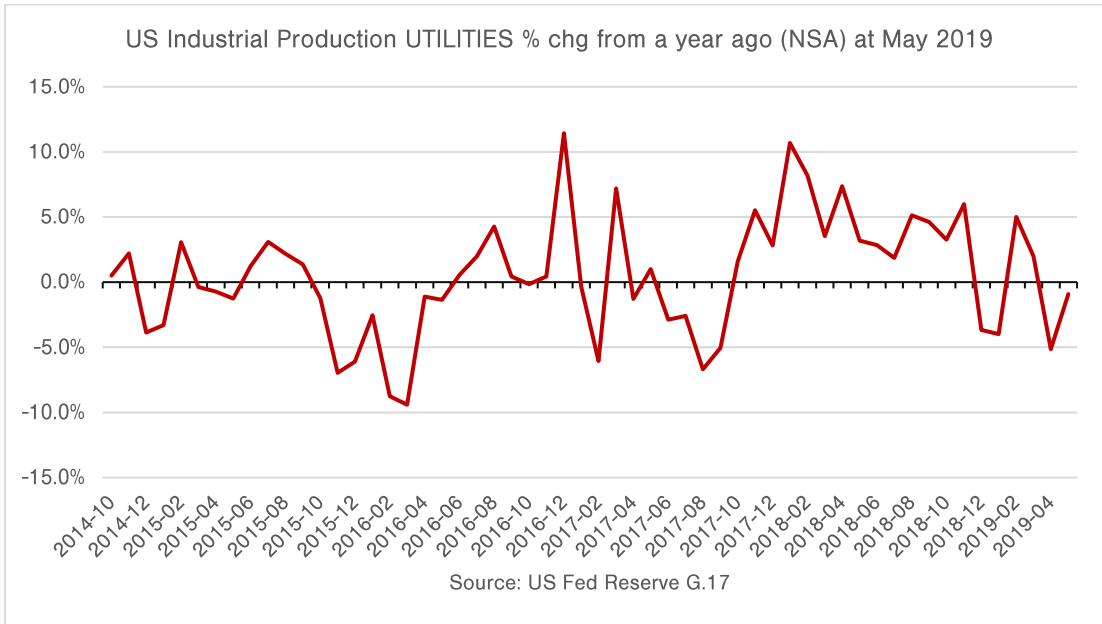
Mining capacity utilization fell -0.3%pts to 91.3% in May.

Utilities – Electricity and Gas

Utilities Production (index) – SA	Mth % chg	May +2.1%	Apr -3.1%
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Utilities Production (index) – NSA	Ann % chg	May -0.9%	Apr -5.1%
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The increase in the month was due to ‘equally sized gains in the indexes for both natural gas and electricity’.



Capacity utilization/operating rate for utilities increased by +1.4%pts in May but remains ‘approx. 8% below its long-run average’.

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

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Europe

Eurozone Industrial Production (Apr)

There was a further fall in Eurozone industrial production in Apr especially across the broader EU28 group. Falls in production in Apr were most notable for Germany -2.3% and the UK -2.7%. Production in the month declined across most segments except for energy production.

Production growth continues to stagnate on an annual basis with production across both regions no longer accelerating as it did throughout 2016-2017. Overall industrial production across the broader EU28 group is -0.1% below the same month a year ago and -0.4% below a year ago for the Euro area.

Monthly Industrial Production

Euro area Mth chg; Apr -0.5% versus Mar -0.4%

Production was lower as a result of a larger decline in the production of intermediate goods, capital goods and durable consumer goods. Production of energy increased after two months of declines. Non-durable consumer goods also increased slightly after falling in the month prior.

EU 28 Group mth chg; Apr -0.7% versus Mar -0.2%

Production in the month was lower across all categories except energy. Of note was the 2% decline in the month for the production of capital goods. Energy production increased after declining in the two months prior.

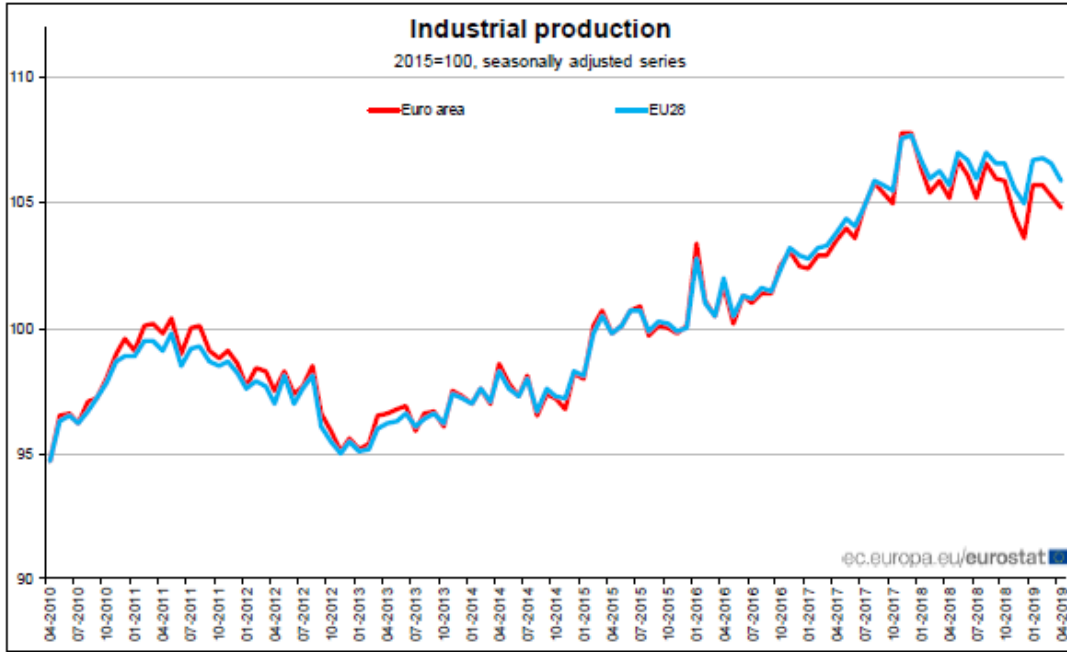
By country; of note were larger declines in industrial production for the month in Germany (-2.3%) and UK (-2.7% - noting that this is the month after the original Brexit deadline).

Annual Industrial Production

On an annual basis, production has fallen below levels from a year ago for the last six months (at a minimum) across the Euro area. Growth in production across the EU28 remains on par with a year ago in Apr. The main point though is that production growth across both regions is no longer accelerating as it did throughout 2016-2017.

Euro area ann % chg; Apr -0.4% versus Mar -0.7%

EU28 ann % chg; Apr -0.1% versus Mar +0.4%



<https://ec.europa.eu/eurostat/documents/2995521/9832204/4-13062019-AP-EN.pdf/34754fde-9c3d-4892-9423-db527057c996>

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Japan

Q1 Real GDP – second prelim release

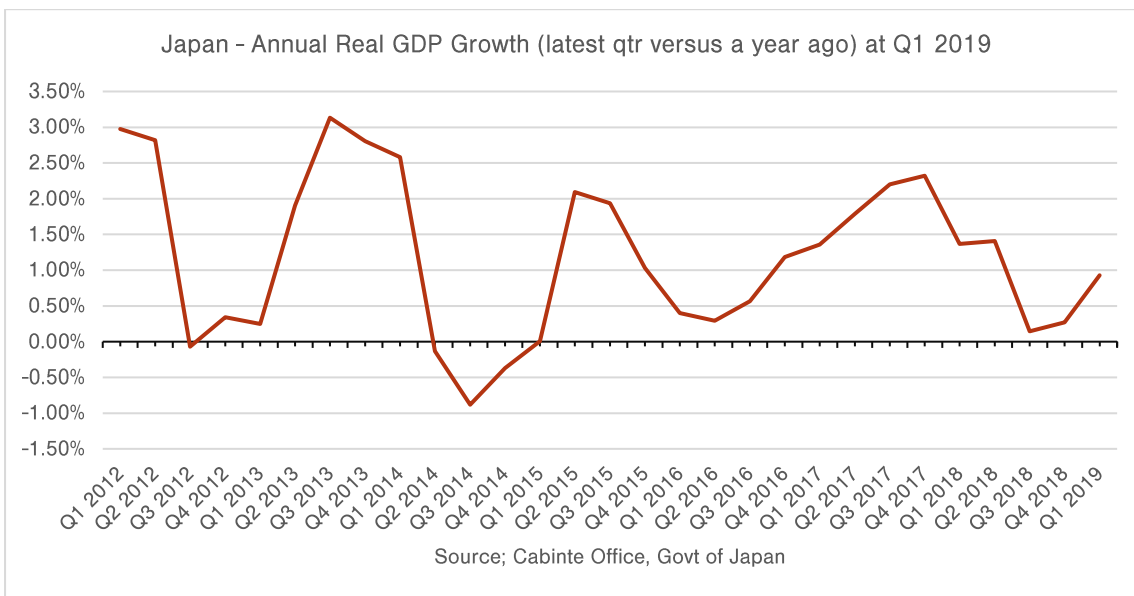
Q1 real GDP growth accelerated slightly in the latest quarter and accelerated at a faster pace on an annual basis.

On a quarterly basis, the results were not as positive as the headline number suggests. Consumption of households and govt declined slightly in the quarter. Private investment made a smaller contribution to growth. The difference between the quarters was the improvement from the contribution of net exports – but both exports and imports declined in Q1 with imports declining more than exports.

The measure of domestic demand slowed quickly in Q1.

Real GDP	Qtr % chg	Q1 2019; +0.55%	Q4 2018; +0.46%
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Real GDP	Ann % chg	Q1 2019; +0.93%	Q4 2018; +0.27%
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GDP Expenditure View

Private consumption expenditure; growth in private consumption expenditure declined slightly in Q1 versus Q4. The contribution from consumption fell from +0.17% pts in Q4 to -0.03% pts in Q1.

Private Residential Investment made a slightly smaller contribution to growth with the overall contribution of +0.02% pts remaining very low (i.e. low growth).

Non-residential Investment made a much lower contribution to growth in Q1, falling from +0.44% pts in Q4 to +0.06% pts in Q1.

The contribution from the Change in Inventories was unchanged between the quarters.

Govt consumption detracted slightly from GDP this quarter; from +0.13% pts in Q4 to -0.02% pts in Q1.

Public investment spending made a larger contribution to growth, increasing from -0.07% pts in Q4 to +0.05% pts in Q1.

The main change was in net exports.

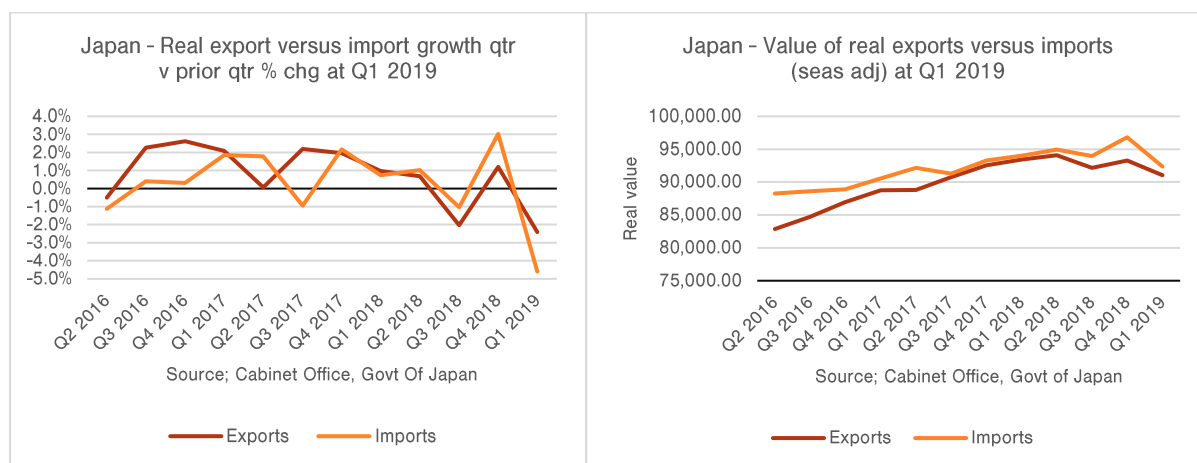
Net exports made a larger contribution to growth in Q1 than in Q4 – **but both imports and exports declined in Q1, with imports declining faster than exports.**

Net exports contribution to headline GDP growth; Q1 +0.41% pts versus Q4 -0.33% pts.

In real terms, exports declined by -2.4% in Q1 versus +1.2% in Q4.

In real terms, imports declined by -4.6% in Q1 versus +3% in Q4.

Below is a comparison between the trend in the real value of exports and imports and the quarter on quarter % chg;



The measure of growth in total domestic demand slowed quickly;

Domestic Demand; Q1 +0.1% versus Q4 +0.8%

https://www.esri.cao.go.jp/en/sna/data/sokuhou/files/2019/qe191_2/gdemenua.html

Industrial Production - Final (Apr)

The final industrial production data was little changed – production and inventory growth were unchanged between the two releases and the month change in shipments was revised slightly higher.

Production; Apr +0.6% versus Mar -0.6%

Shipments; Apr +1.8% (prev +1.7%) versus Mar -1.3%

Inventory; Apr 0% versus Mar +1.4%

<https://www.meti.go.jp/english/statistics/tyo/iip/index.html>

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United Kingdom

BREXIT

The process to select a new leader of the Conservative Party is likely to be completed by late July. The first ballots for the leadership have taken place during the week, reducing the field of contenders. At this stage Boris Johnson remains the favourite.

“In his first broadcast interview of the Tory leadership race, the frontrunner to succeed Theresa May said “fortitude and determination” were needed in the negotiations with the EU. And he vowed to “honour the will of the people” by getting the UK out of the EU this autumn with or without a deal.”

<https://brexitcentral.com/today/brexit-news-for-saturday-15-june/>

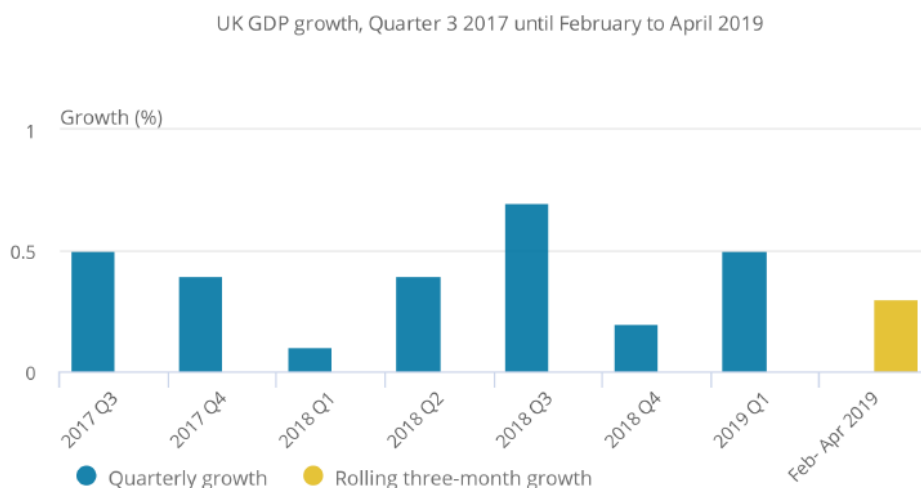
There is a possibility that Boris Johnson may be the only contender for the PM job that is put to a vote by the Tory membership – avoiding 4 weeks of votes/infighting etc.

Monthly GDP (Apr)

UK rolling 3mth GDP growth slowed in the Feb-Apr period but continued to grow at a moderate rate. The issue is that the underlying month by month figures indicate that output contracted again in Apr due mostly to weaker manufacturing. The much stronger Feb result offset a slight decline in Mar and a larger decline in Apr.

GDP Growth – 3mths to Apr

Feb-Apr +0.3% versus Jan-Mar Q1 +0.5%.



In the full 3month period Feb-Apr, all sectors contributed positively to the headline growth. But the underlying monthly result highlights that growth has slowed within the 3-month period, due mostly to the economy ramping up in preparation for Brexit which has now been postponed;

Table 2: Breakdown of GDP growth rates by month

	February 2019	March 2019	April 2019
GDP	0.2%	-0.1%	-0.4%
Index of Services	0.2%	-0.1%	0.0%
Index of Production	0.6%	0.7%	-2.7%
Manufacturing	1.0%	0.9%	-3.9%
Construction	0.5%	-1.9%	-0.4%
Agriculture	-0.6%	-0.1%	0.0%

Source: Office for National Statistics – GDP monthly estimate

“GDP growth showed some weakening across the latest 3 months, with the economy shrinking in the month of April mainly due to a dramatic fall in car production, with uncertainty ahead of the UK’s original EU departure date leading to planned shutdowns.”

“There was also widespread weakness across manufacturing in April, as the boost from the early completion of orders ahead of the UK’s original EU departure date has faded.”

<https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/april2019>

Labour Market Overview (Feb-Apr Qtr)

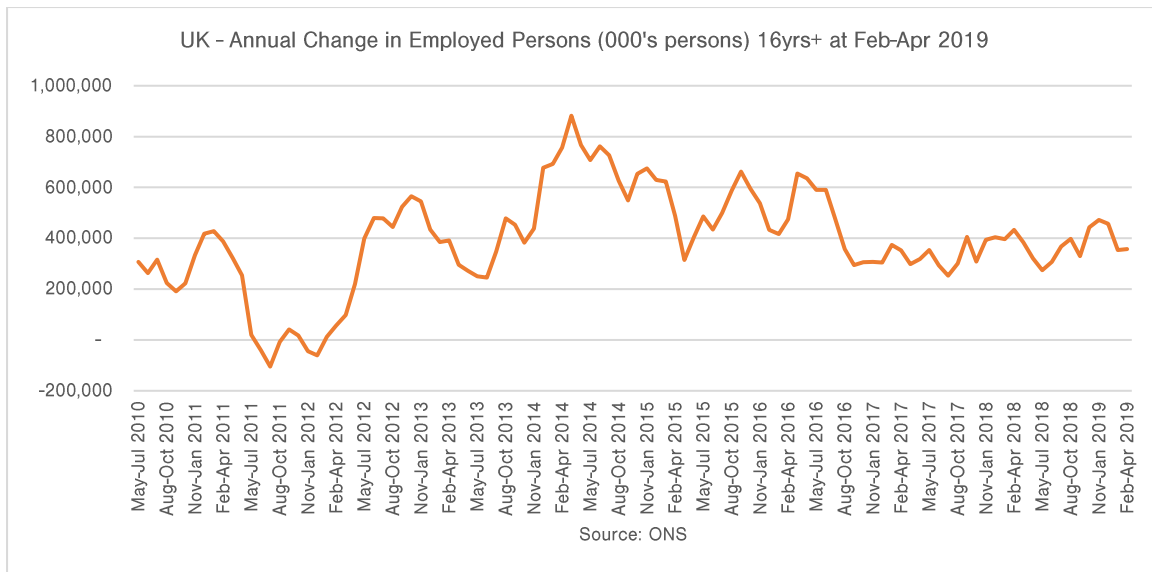
The annual view of the UK labour market remains solid. Employment growth is little changed and, even with increases in participation, total unemployed persons continues to decline.

The rolling quarterly view is mixed. Employment growth has been slowing quickly since the Nov-Jan qtr. In the Feb-Apr period, total employed persons grew at a faster pace than the labour force due only to a decline in participation, which meant that the total size of the labour force declined in the quarter. This was the reason why the number of unemployed persons declined in the quarter.

Total Employment

In the latest year, employment growth has slowed and that slowing has become more evident over the latest rolling quarter;

Total Employed Persons – 16yrs+	Ann chg	Feb-Apr; +357k	Nov-Jan; +472k
Total Employed Persons – 16yrs+	Qtr Chg	Feb-Apr; +32k	Nov-Jan; +222k



In the latest Feb-Apr qtr, employment grew by only 32k persons (16yrs+) – but the important point about that is that employment still grew faster than the total labour force.

Total Labour Force

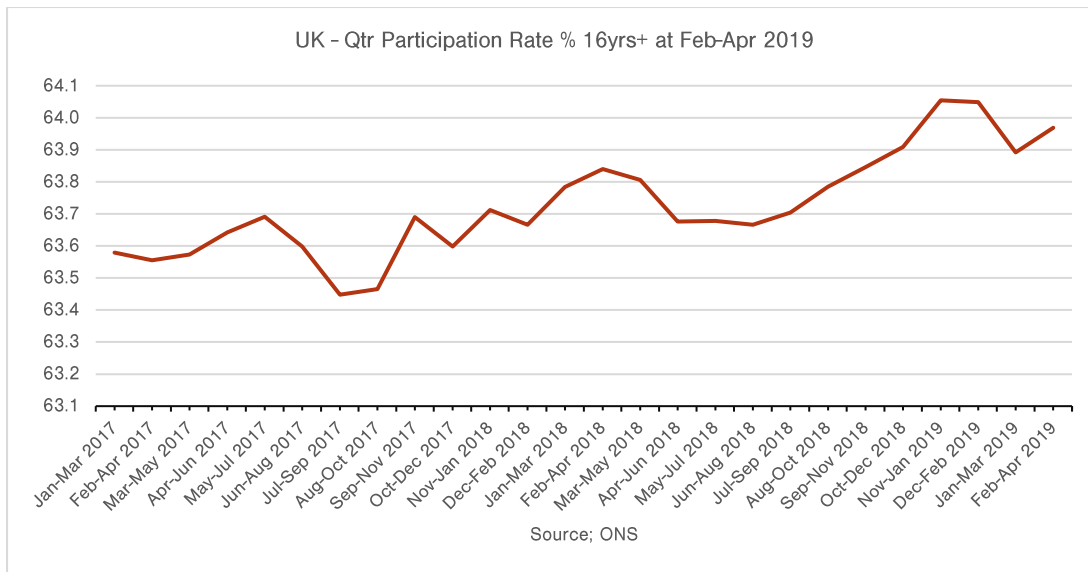
In the latest year, the growth of the labour force has slowed and that slowing has become more evident over the latest rolling quarter;

Total Labour Force – 16yrs+	Ann chg	Feb-Apr; +245k	Nov-Jan; +360k
Total Labour Force – 16yrs+	Qtr Chg	Feb-Apr; -2k	Nov-Jan; +34k

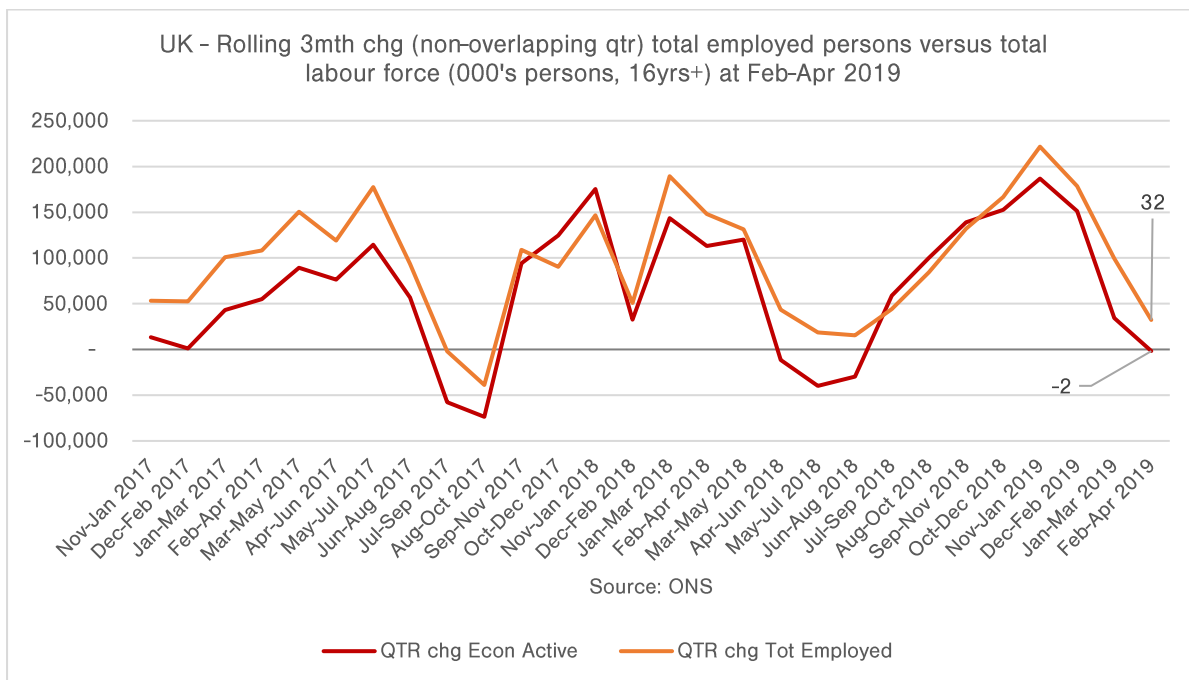
The main reason for the slower growth in the labour force has been the lower contribution from changes in participation.

In the year to Feb-Apr, participation added +68k persons, whereas the annual growth was +181k persons in the Nov-Jan quarter And +150k a year ago). The contribution from the estimate of what population adds to the labour force has remained steady.

In the latest quarter, participation fell (compared to the previous non-overlapping quarter); -0.09% pts or -45k persons. Since 2009, participation has been increasing and has only recently peaked in the Nov-Jan qtr and its these declines in participation that are impacting the growth of the labour force;



Although employment growth has been slowing, so has the growth of the labour force;



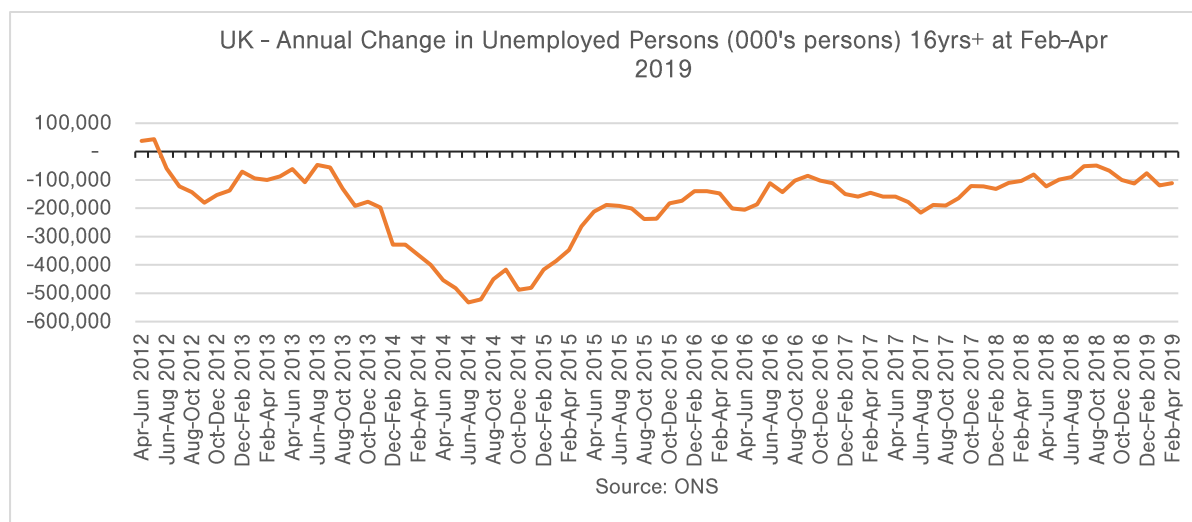
Despite both slowing, total unemployed persons continued to decline (the difference between the two lines).

Total Unemployed Persons

Total Unemployed Persons – 16yrs+	Ann chg	Feb-Apr; -111k	Nov-Jan; -112k
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Total Unemployed Persons – 16yrs+	Qtr Chg	Feb-Apr; -34k	Nov-Jan; -65k
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On an annual basis, the change in unemployed persons was little changed from 3 months ago or from a year ago.



Unemployment continues to decline in the latest quarter – due mostly to a decline in the labour force from a decrease in participation.

Summary of Key Labour Market Elements

From an annual perspective, the UK labour market remains strong. Total employment is growing fast enough to absorb more workers into the labour force AND consistently reduce total unemployment.

On a quarterly basis, employment growth was lower than the estimate of what underlying population growth adds to the labour force. But, because there was a decline in participation, the total number of unemployed persons still declined.

	16yrs+ (000's of persons)		16-64yrs (000's of persons)	
	Latest Qtr Chg Feb-Apr 2019	ANN Chg Feb-Apr 2019	Latest Qtr Chg Feb-Apr 2019	ANN Chg Feb-Apr 2019
Estimated change in the Labour Force due to pop growth (1)	43.579	176.321	15.441	65.447
How many jobs available for them? (employment growth) (2)	32.360	357.084	17.784	277.350
Difference; employment less est chg in labour force due to pop (3) (if positive, then employment growing faster than pop)	-11.219 [█]	180.763	2.342	211.903
Change in the labour force due to the change in participation (4)	-45.441	68.907	-28.047	104.465
The remainder is the chg in total unemployed persons (4) less (3) - if neg, then unemployment decreasing	-34.221	-111.856	-30.389	-107.438
<u>Different views of the Labour Force:</u>				
Double check - change in total economically active (pop + participation)	-1.862 [█]	245.228	-12.605	169.912
Double check - change in total economically active (employ + unemp)	-1.862	245.228	-12.605	169.912
Actual economically active ann chg (as reported)	-1.862	245.228	-12.605	169.912

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/june2019>

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Australia

NAB Monthly Business Survey (May)

In the latest month, business confidence jumped higher from a low point to now just above average. The improvement is likely due to the 'surprise' election result (Liberal Party returned to government – with a business tax cut agenda, rather than the Labor Party with a real estate/investment tax reform agenda) as well as the expectations of a rate cut. The election was held 18 May and the data collection period was 14-24 May. The next month of data may provide a better read of confidence.

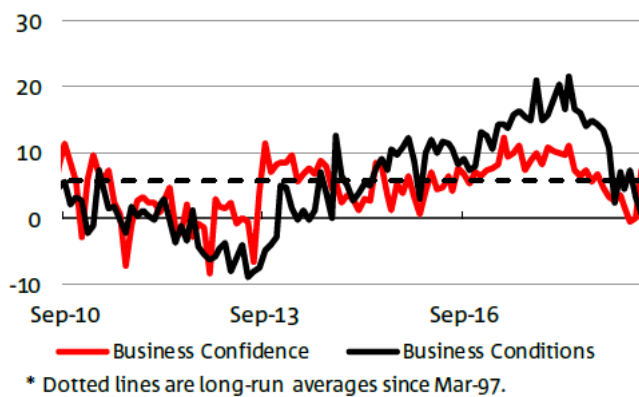
At the same time, business conditions continued to deteriorate.

Headline Confidence and Conditions

Business Confidence; May 7 versus Apr 0 (now above the LR average)

Business Conditions; May 1 versus Apr 3

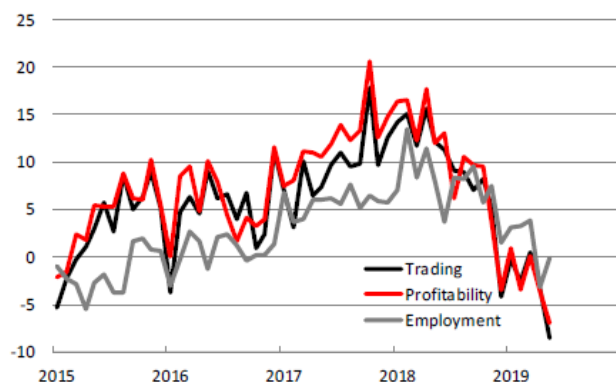
CHART 1: CONFIDENCE IMPROVES BUT CONDITIONS DECLINE FURTHER



Components of Business Conditions

The decline in business conditions has been led by larger falls in trading and profitability over the last 3 months. Employment actually increased slightly in the latest month;

CHART 2: COMPONENTS OF CONDITIONS (DEV FROM AVERAGE PTS.)



The decline in conditions has been recorded across most, if not all industries. Below is a comparison of the (trend series) for conditions and confidence for May 2019 with May 2018 a year ago;

Chart 1; May 2019

CHART 9: BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND)

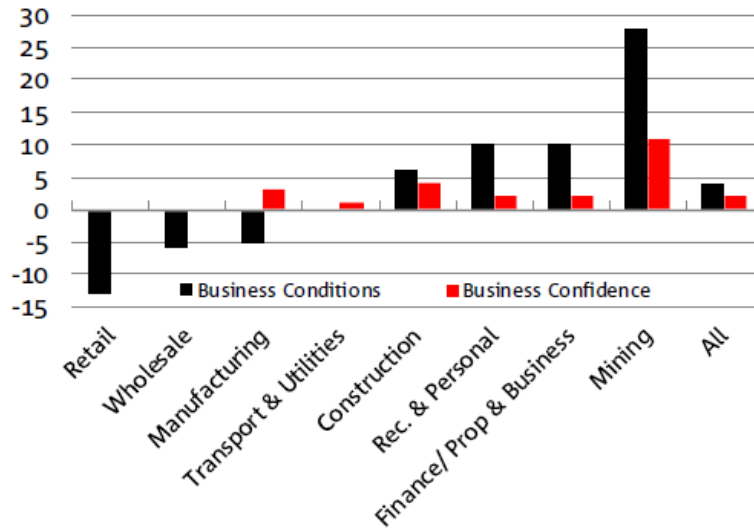
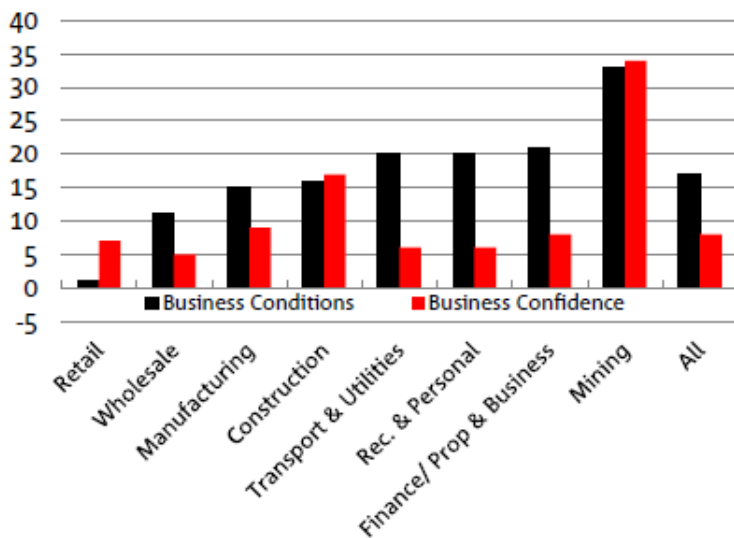


Chart 2; May 2018

CHART 9: BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND)



<https://business.nab.com.au/wp-content/uploads/2019/06/2019m05-NAB-Monthly-Business-Survey.pdf>

<https://business.nab.com.au/wp-content/uploads/2018/06/2018m05-NAB-Monthly-Business-Survey.pdf>

Labour Force Survey (May)

There were some positive signs and some continuing concerns in the current labour market report. Despite indications of a weakening economy, employment growth increased slightly in the latest month – led by faster growth in PT employed persons. Some of the main concerns of the RBA, unemployment and underemployment levels, remain an issue, both ticking higher in the latest month.

The main highlight is that increasing participation (reaching another new all-time high in the latest month) is contributing to the slower change/reduction in total unemployed workers. Employment growth needs to increase at a faster pace in order to continue to absorb the increase in participation as well as reduce unemployment at a faster pace (as per RBA commentary).

Note that the data used here is the trend series as recommended by the ABS.

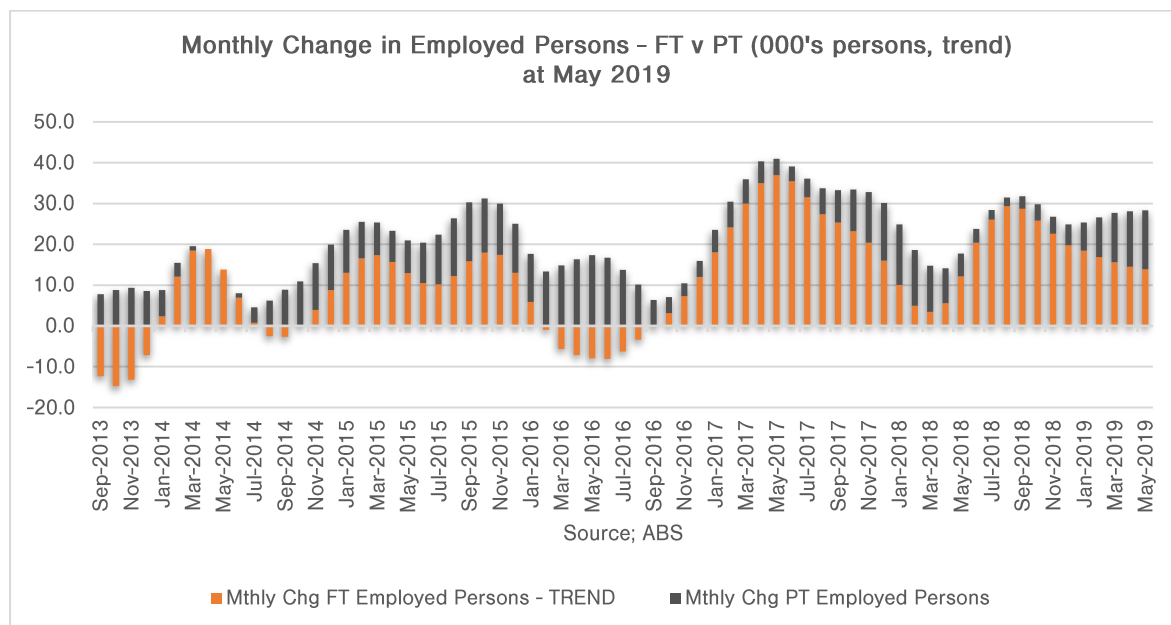
Employment

There has been a small increase in annual employment growth while the monthly growth was unchanged from the month prior.

Total Employed – 000's persons	Ann chg	May; +332.9k	Apr; +322.3k
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Total Employed – 000's persons	Mth Chg	May; +28.3k	Apr; +28.1k
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The composition of this growth has been changing with full-time (FT) employment growth slowing and part-time (PT) employment growth increasing;



The annual increase in FT employed persons is +2.9% versus the annual FT hours worked (the moving annual total to May 2019 versus the Mat to May 2018) +1.9%. A year ago, the annual growth in FT hours worked was +2.9% and FT employment was +2.6%.

The annual increase in PT employed persons is +2% whereas the annual growth in PT hours worked is +3%. A year ago, PT hours worked was growing at 2.7% and PT employed persons by +2.9%.

On an annual basis, employment growth remains higher than that of the labour force - but continues to lag the labour force growth in the latest month.

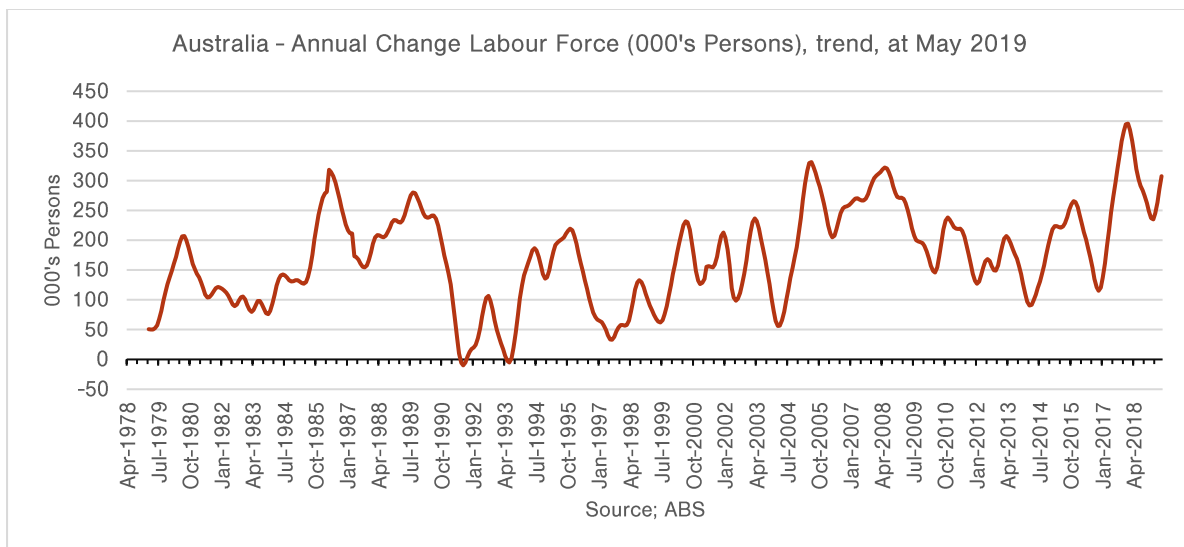
Labour Force

Growth in the total labour force increased at a faster pace in the latest year and was little changed versus the prior month.

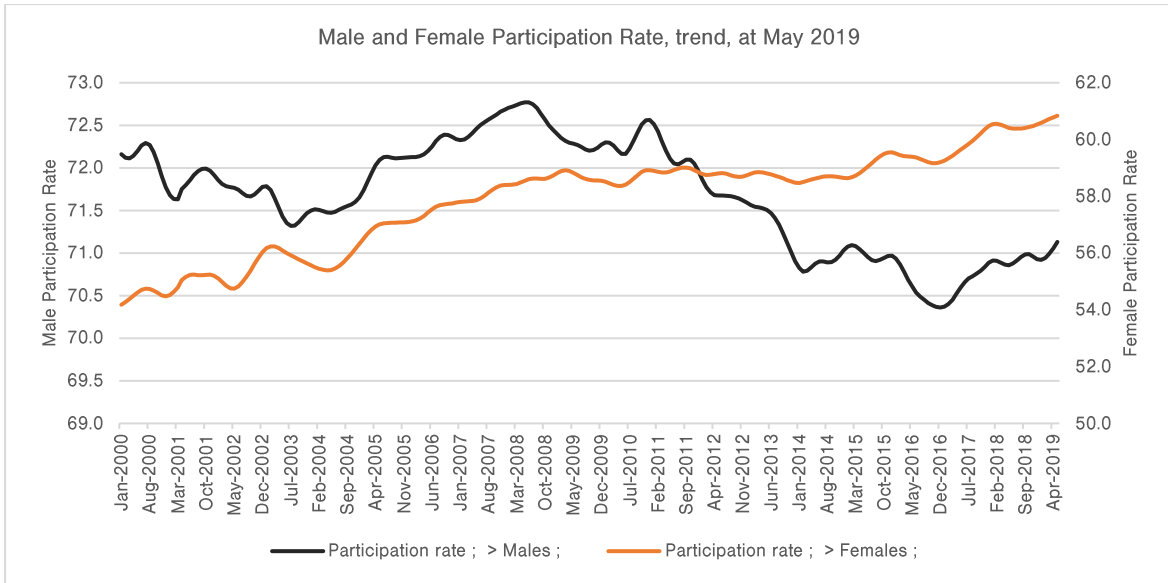
Total Labour Force – 000's persons	Ann chg	May; +307.4k	Apr; +286.2k
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Total Labour Force – 000's persons	Mth Chg	May; +34.1k	Apr; +34.6k
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Whilst the annual growth in the total labour force is not the highest it has been, growth remains elevated;



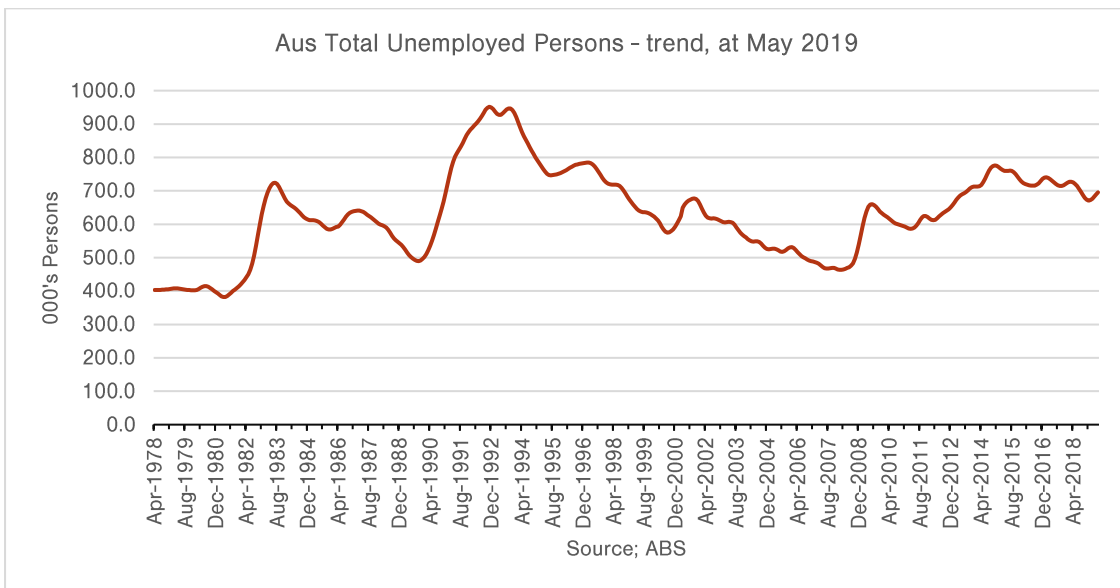
In the latest year (and month), the main driver of growth in the labour force was the increase in participation – increasing by +0.36% pts or +73k persons versus a year ago). The current participation rate reached 65.9% - a new all-time high. Both male and female participation have increased, but the overall increase has been led by the acceleration in female participation (which also reached another new all-time high in May). Male participation has been increasing but remains well below the peak of 79%;



Total Unemployment

From the perspective of the RBA, given the very strong employment growth over the last few years, the total number of unemployed persons has remained elevated.

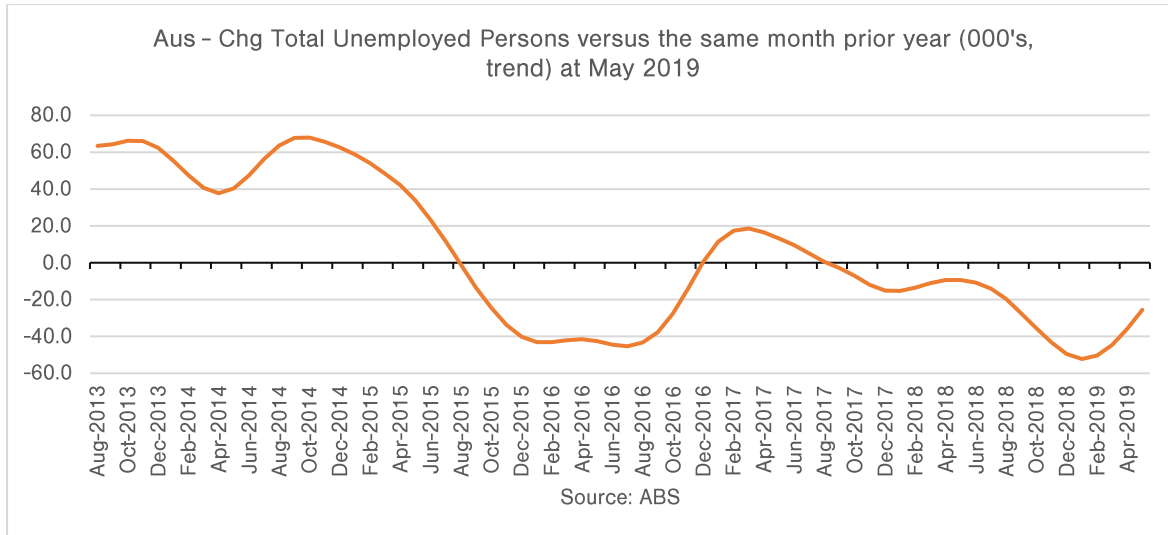
Since the GFC, total unemployed persons peaked at approx. 775k persons in Feb 2015 – and this has only been reduced to 695k persons as of May 2019 (these are levels, not changes);



The problem is that on an annual basis, the decline in unemployed persons is becoming smaller and unemployment is increasing on a monthly basis;

Total Unemployed – 000's persons	Ann chg	May; -25k	Apr; -36k
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Total Unemployed – 000's persons	Mth Chg	May; +5.7k	Apr; +6.5k
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The unemployment rate increased from 5.1% in Apr to 5.14% in May.

The underutilization ratio has also started to increase again in the last three months – now at 13.6% (as a share of the total labour force).

Summary of Labour Market Indicators

Even though there has been a large increase in participation driving further growth in the size of the labour force, employment has continued to grow faster, and unemployment has declined. The main issue is that employment growth needs to increase at an even faster pace in order to absorb both the increase in participation and make greater/faster inroads to reducing both underemployment and unemployment levels.

On a monthly basis, employment growth has fallen below that of the labour force, resulting in the fifth month of an increase in unemployment.

	000's Persons	
	Annual Chg - May	Month Chg - May
The estimated change in the Labour Force due to pop growth	233.952	19.975
How many jobs available for them? (employment growth)	332.920	28.353
Difference (if positive, employment growing faster than pop est)	98.968	8.378
Change in labour force due to the change in participation	73.465	14.175
The reminder is the change in total unemployed persons	-25.503	5.797
Double Check - Reported chg in size of the Labour Force	307.417	34.129
Two views of the size of the Labour Force:		
Underlying population growth plus changes in participation	307.417	34.150
Total employed persons plus total unemployed persons	307.417	34.150

<https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6202.0Main+Features1May%202019?OpenDocument>

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China

Trade Balance (May)

While exports strengthened in May, imports continued to decline;

Exports; May 1,435.8bn yuan, +7.7%

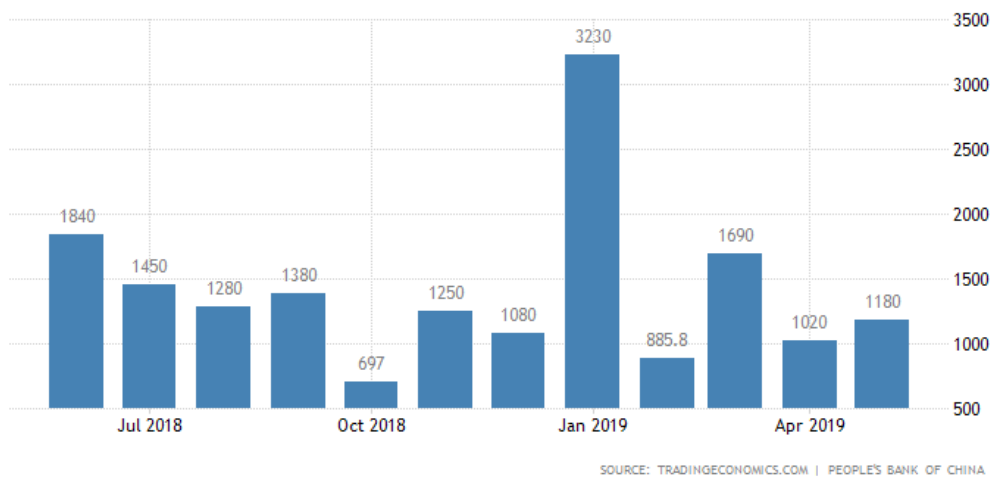
Imports; May 1,156.7bn yuan, -2.5% percent.

Trade surplus May; 279.1bn yuan

http://www.stats.gov.cn/english/PressRelease/201906/t20190614_1670400.html

New Loans (May)

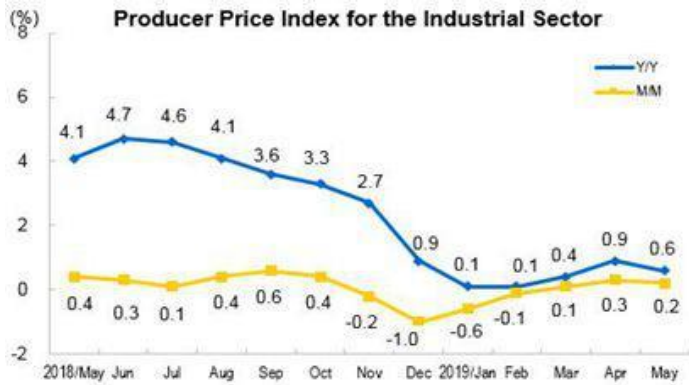
New loans grew at only a slightly faster pace in May; 1,180bn yuan versus Apr 1,020bn yuan



CPI & PPI (May)

Producer prices for manufactured goods; Growth continued to slow on an annual and monthly basis

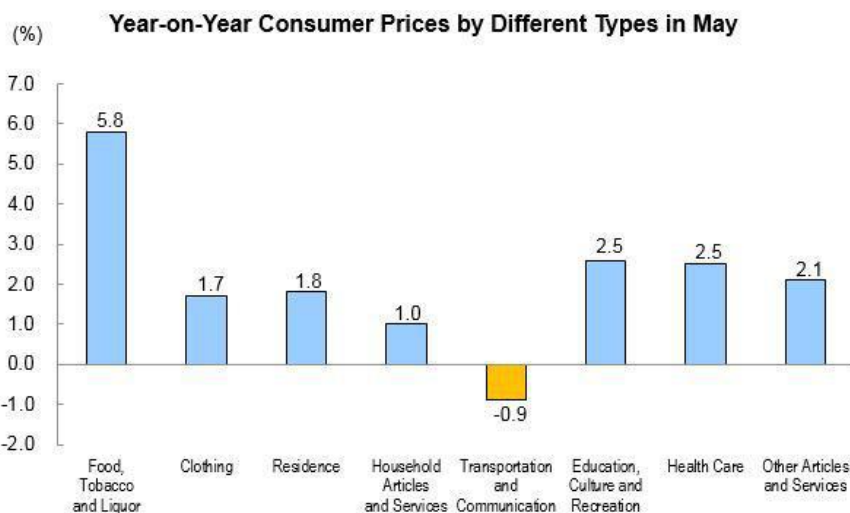
+0.6% versus a year ago and +0.2% versus Apr.



Consumer Prices: Whilst growth slowed in the month, the annual change in consumer prices accelerated further in May.



The largest contributor to this increase was food, tobacco and liquor adding +1.69%pts to the headline growth of +2.7% in May. Of interest is the price of pork; meat prices increased by 12.5%, contributing approx. 0.51% pts to the increase in CPI. Pork prices increased by 18.2%, contributing approx. 0.38% pts to the headline CPI growth.



http://www.stats.gov.cn/english/PressRelease/201906/t20190612_1669887.html

http://www.stats.gov.cn/english/PressRelease/201906/t20190612_1669840.html

Retail Sales (May)

Total retail sales of consumer goods in May reached 3,295.6bn yuan, +8.6% above a year ago (and +7.2% annual growth recorded in Apr).

Grouped by consumption patterns,

Catering; May +9.4%

Retail sales of goods; May +8.5%

Retail sales of cosmetics +16.7%, beverages +12.7%, articles for daily use +11.4% and traditional Chinese and Western medicine by businesses above the designated size +11.2%

http://www.stats.gov.cn/english/PressRelease/201906/t20190614_1670400.html

Industrial Production (May)

Overall industrial production growth continued to slow; May (annual) 5% versus 5.4% in Apr

Main sectors;

Mining; May +3.9% annual

Manufacturing; May +5.0% annual. The value added of high-tech manufacturing grew by +9.4%, +4.4% pts points higher than that of the industrial enterprises above the designated size.

Production and supply of electricity, thermal power, gas and water; May +5.9% annual

http://www.stats.gov.cn/english/PressRelease/201906/t20190614_1670400.html

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Trade

US-China Trade Negotiations

Negotiations appear to remain stalled.

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. Public hearings will commence this coming week on the proposed tariff list for 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 -25 June – public hearings in Washington <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/june/public-hearings-proposed-section-301>

The main G20 Summit in Osaka will be the following weekend 28-29 Jun. This coincides with the completion of public hearings in Washington and a potential meeting between President Trump and President Xi on the sidelines of the G20.

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

Special 2019 Section 301 Review

No further notification on progress.

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

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

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

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

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

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

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

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

Notorious Markets List

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

https://ustr.gov/sites/default/files/2018_Notorious_Markets_List.pdf

The link to the notorious markets reports is here;

https://ustr.gov/sites/default/files/2018_Notorious_Markets_List.pdf

The first country on the list is China.

The full report; https://ustr.gov/sites/default/files/2019_Special_301_Report.pdf

NAFTA/USMCA

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

The next round of talks between USTR Lighthizer and Japanese economic revitalization minister Toshiimitsu Motegi will take place this week on Thursday in Washington.

The latest news is that Japan may consider reducing the tariffs on US agriculture products to levels equal to those applied as a part of the TPP. In return, Japan would be looking for concessions;

“such as removing U.S. levies on Japanese automobiles and vehicle parts”.
<https://japantoday.com/category/politics/japan-eyes-cutting-u.s.-farm-tariffs-immediately-to-tpp-levels>

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.ft.com/content/6ae28e80-698b-11e9-80c7-60ee53e6681d)

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

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

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. The recent EU parliamentary elections will change the composition of the EU parliament – adding some complexity;

“There very likely will be a whole new set of parties with whom to negotiate a transaction,” said Ross. “So my guess is it’s going to take a while to know whether there is any real prospect of a new agreement with the European Commission.” https://www.theepochtimes.com/wilbur-ross-eu-trade-talks-are-far-more-complex-than-negotiating-with-china_2965690.html

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

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

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

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

Key dates for this investigation;

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

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

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

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

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

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

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

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

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

US-UK Trade Talks

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

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