

Key Themes

One of our key themes for the week had been growth and sentiment. Wrapped up in this was not only US growth data but also sentiment around trade negotiations.

Trade talks with China remain on hold. China released a white paper over the weekend essentially outlining its side of why and how talks stalled. The official statement advocates for the benefits of co-operation and positions China as 'willing' to work with the US to find solutions. The aim appears to shift the onus of the stalled talks onto the US. The statement from China draws a line in the sand;

“There are bottom lines in consultations. China will not compromise on major issues of principle. China does not want a trade war, but it is not afraid of one and it will fight one if necessary. China’s position on this has never changed.”

President Trump has put a question mark over ratifying the USMCA by commencing a program of increasing tariffs on all imports from Mexico. The tariffs are aimed at halting the flow of illegal immigration into the US.

President Trump and USTR Lighthizer commenced higher level trade talks with Japan last week. While differences remain, President Trump declared that a deal will be announced in August – after the elections in Japan, but also within the 6-month window for the extension of auto-tariff announcements.

Final submissions for the investigation by the US into EU subsidies on large civil aircraft should have also concluded during the week. This is still a live issue and could result in tariffs on both US and EU imports.

Consumer sentiment data out for May has reflected a weakening in sentiment from the stalled talks with China – “confidence significantly eroded in the last two weeks of May” (after the US recommenced raising tariffs on China). The index of current conditions continued to weaken, now 9% below last year, but the headline index of consumer sentiment continued to increase. Affecting sentiment was the inflation expectations from higher prices/tariffs creating a negative impact on current buying conditions.

The already weaker expenditure conditions are visible in the latest GDP and PCE and income reports. The monthly Apr PCE and income release showed that while there was faster growth in incomes (but not employee compensation), expenditure in Apr slowed very quickly – across goods and services. Annual growth in both headline and core prices for PCE accelerated slightly. But within the core PCE price measure – core goods prices (ex-energy & food) declined at the fastest pace since 2007. While at odds with the sentiment and inflation expectations, it signals potentially weaker demand/expenditure conditions.

US Q1 GDP growth was revised slightly lower. The key features of Q1 GDP remain the much lower contribution from personal consumption expenditure and the much higher contribution

from the increase in inventories for the quarter. The contribution from private fixed investment and net exports were revised lower in the latest release.

The two regional surveys indicate continued lacklustre growth in manufacturing during May. One point stands out from the Richmond Fed Survey - stockpiles of raw materials and finished goods inventories have been increasing sharply since Dec 2018. Stockpiles of raw materials reached an all-time high in the May report and finished goods inventories are now 2 pts below the post GFC high.

Also of interest this week was China and the impact of stimulus measures on the economy. Recent data has been disappointing and the official NBS manufacturing and non-manufacturing PMI's for May were no different. Both indexes paint a less than positive picture of economic activity in China during the month. The hopes of 'green-shoots' stemming from massive credit stimulus appear to have been either premature or signal that stimulus has been, at least so far, ineffective in creating a sustained impact on growth.

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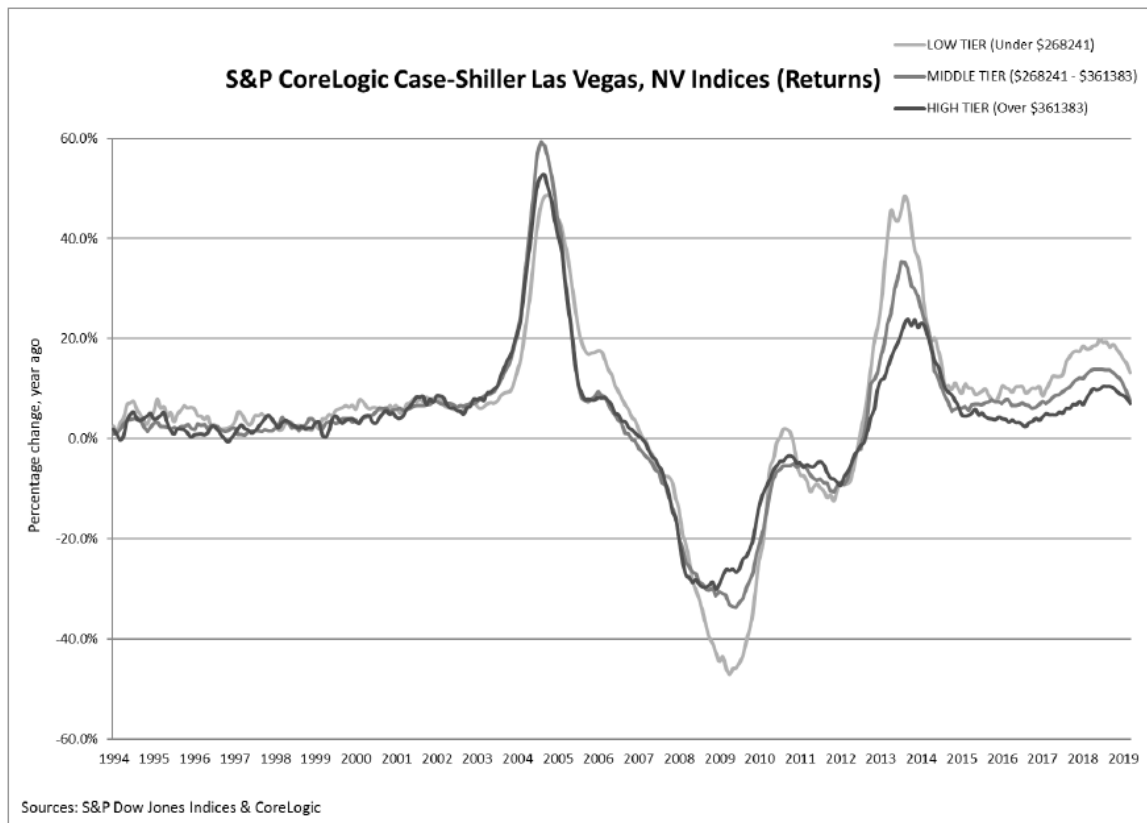
US Data

S&P/Core Logic Case-Shiller House Price Index (Mar)

The annual growth in house prices continued to slow in Mar across the key census divisions.

US House Price Index

| | | | |
|-----------------------------|---------|----------|----------|
| National House Prices (NSA) | Ann Chg | Mar 3.7% | Feb 3.9% |
| 10-City Composite (NSA) | Ann Chg | Mar 2.3% | Feb 2.5% |
| 20-City Composite (NSA) | Ann Chg | Mar 2.7% | Feb 3% |



On a seasonally adjusted monthly basis, growth remained positive at a National level; +0.3%. Growth in the 10-city and 20-city composite index slowed to +0.1% in Mar.

The commentary from the report is interesting (emphasis added);

““Home price gains continue to slow,” says David M. Blitzer, Managing Director and Chairman of the Index Committee at S&P Dow Jones Indices. “The patterns

seen in the last year or more continue: year-over-year price gains in most cities are consistently shrinking. Double-digit annual gains have vanished. The largest annual gain was 8.2% in Las Vegas; **one year ago, Seattle had a 13% gain. In this report, Seattle prices are up only 1.6%.** The 20-City Composite dropped from 6.7% to 2.7% annual gains over the last year as well. The shift to smaller price increases is broad-based and not limited to one or two cities where large price increases collapsed. Other housing statistics tell a similar story. Existing single family home sales are flat. Since 2017, peak sales were in February 2018 at 5.1 million at annual rates; the weakest were 4.36 million in January 2019. The range was 650,000.”

“Given the broader economic picture, housing should be doing better. Mortgage rates are at 4% for a 30-year fixed rate loan, unemployment is close to a 50-year low, low inflation and moderate increases in real incomes would be expected to support a strong housing market. Measures of household debt service do not reveal any problems and consumer sentiment surveys are upbeat. The difficulty facing housing may be too-high price increases. At the currently lower pace of home price increases, prices are rising almost twice as fast as inflation: in the last 12 months, the S&P Corelogic Case-Shiller National Index is up 3.7%, double the 1.9% inflation rate. Measured in real, inflation-adjusted terms, home prices today are rising at a 1.8% annual rate. This compares to a 1.2% real annual price increases in housing since 1975.”

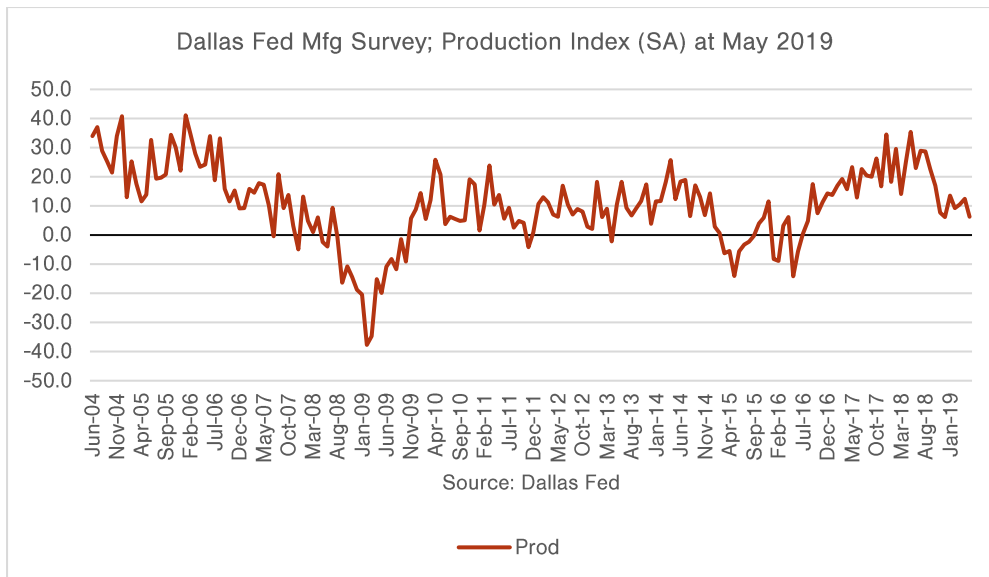
<https://us.spindices.com/index-family/real-estate/sp-corelogic-case-shiller>

Dallas Fed Manufacturing Survey (May)

The headline production index grew at a much slower pace in the latest month. Other key measures of demand and activity also indicated that growth slowed in May. The index of general business activity fell into contraction again after recovering from the Dec 2018 low. Employment growth was stronger, growing at a faster pace.

Data was collected 14-22 May, so firms were able to incorporate the escalation in the trade war into responses. The company outlook index also fell back into contraction again. Several verbatim responses mentioned uncertainties regarding tariffs.

Production Index; May 6.3 versus Apr 12.4



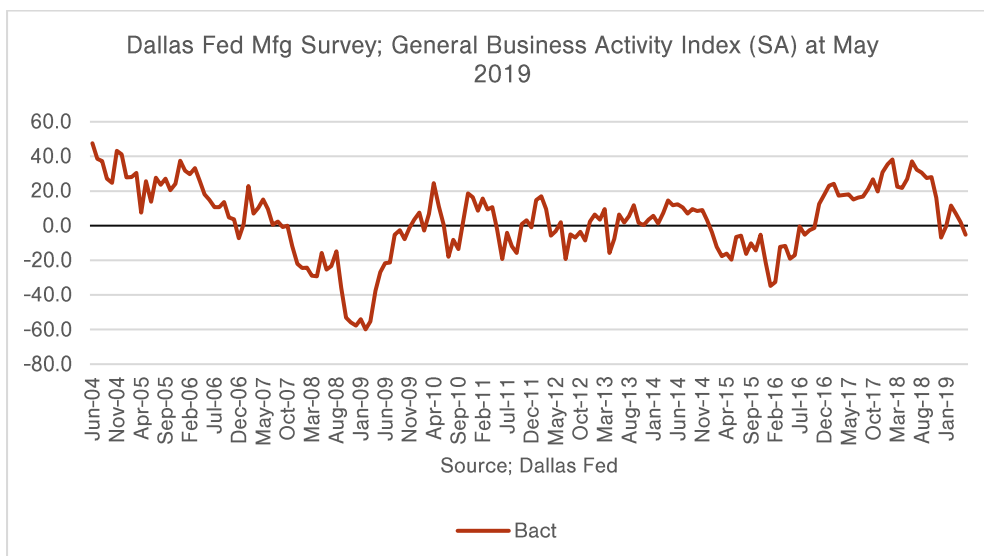
Growth in more forward-looking measures of demand slowed to a lower level of growth; new orders index fell to 2.4, indicating much slower growth - the result of less firms reporting 'increasing' new orders. The proportion of firms reporting 'decreasing' new orders was unchanged from Apr.

The growth rate of new orders also slowed to a more marginal level of growth. Production levels were likely buoyed as firms worked through order backlogs which fell further into contraction in May. Order shipments increased at a slightly faster pace but remain just above the Dec 18 lows.

Greater pressure on selling prices appeared this month. The index of prices received for finished goods slowed by 5.3 pts to 0.7 in May – indicating marginal growth in selling prices. At the same time, the index of prices paid by firms was little changed at 7.4.

Employment growth was positive this month, one of the only areas where growth accelerated this month. The growth in hours worked continued to slow.

The index of general business activity fell into contraction this month as less firms reported improving activity (falling from 21% of firms to 14% of firms). The proportion of firms reporting worsening levels of activity remained unchanged at 19%.



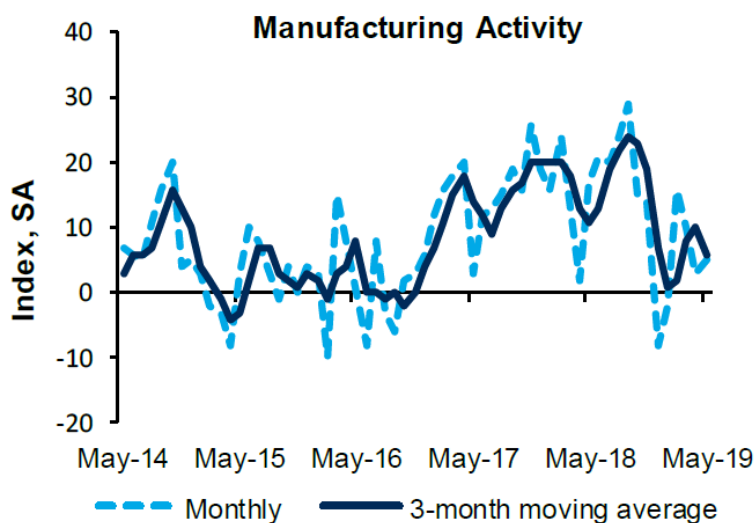
The general business outlook index also fell in contraction again May.

<https://www.dallasfed.org/research/surveys/tmos/2019/1905.aspx>

Richmond Fed Manufacturing Index (May)

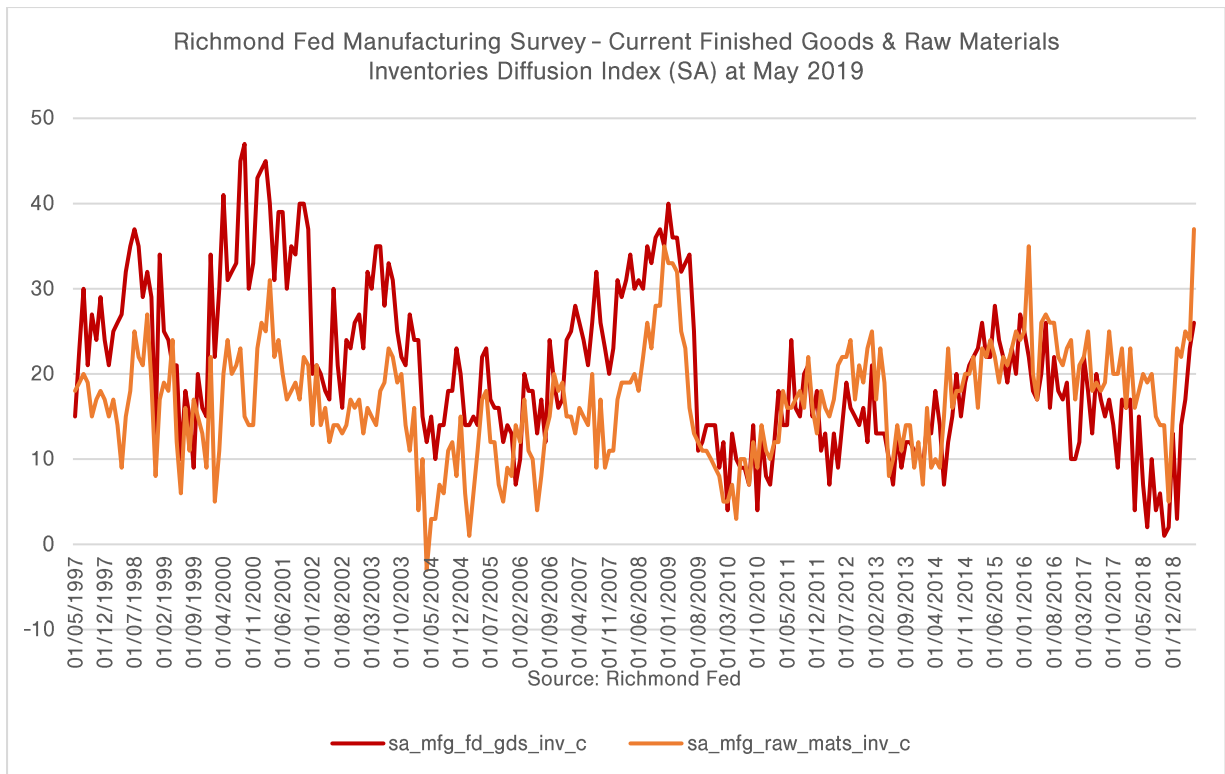
The change in the headline manufacturing index indicated that growth increased to a slightly faster pace in May. The current level of activity/expansion remains moderate overall. There was a slight improvement in growth of shipments. But at the same time inventories for raw materials and finished goods both increased. **The index of raw materials inventories reached a new all time high going back to 1997.** The index of finished goods inventories is only 2 pts below the post GFC peak of June 2015.

Manufacturing Index; May 5 versus Apr 3



Shipments came out of slight contraction this month to grow marginally. The volume of new orders growth was zero after contracting in the month prior. Order backlogs continued to decline but at a slower pace.

One area that stands out is inventory. Finished Goods inventories continued to increase at a faster pace; the index increasing by 3pts to 26 in May. This is very close to the post GFC high reached in June 2015. Raw materials inventories also spiked higher this month; raw materials index increased by 13pts to 37 in May – this is an all-time high reading for raw materials inventories in this series going back to 1997;

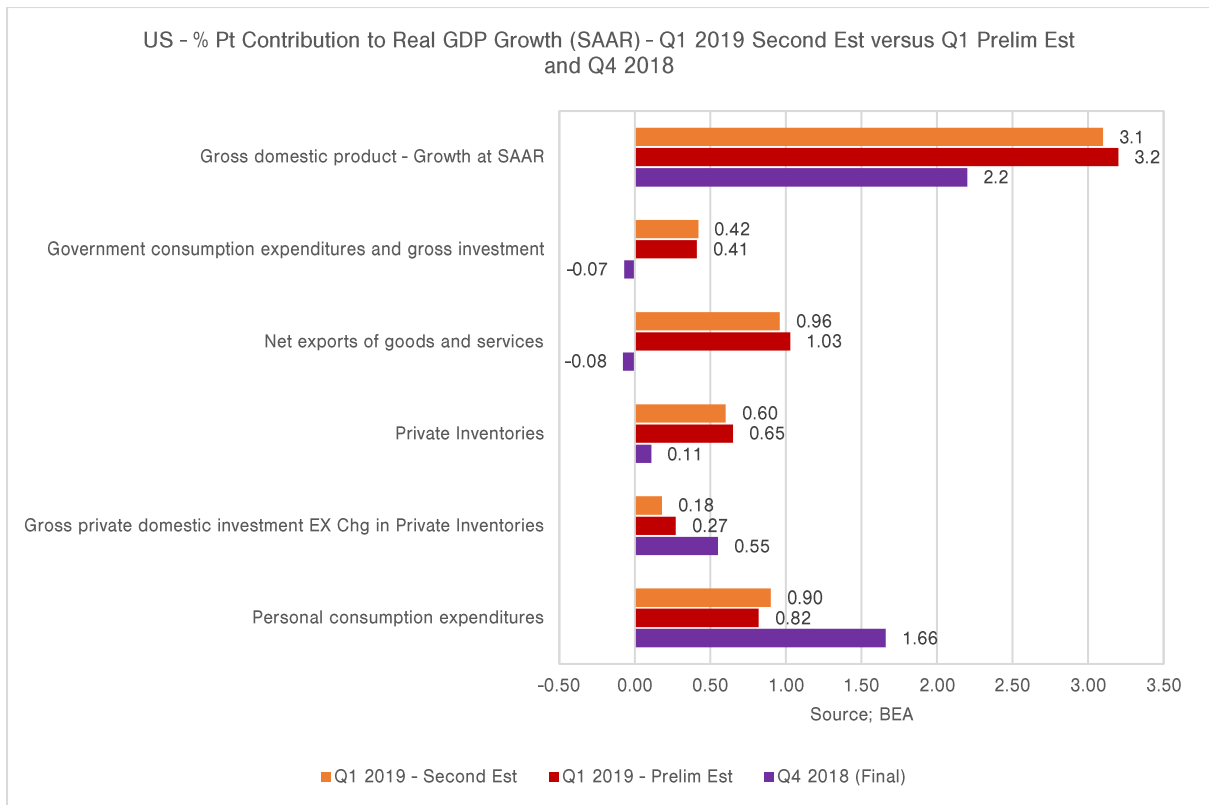


Employment growth was mostly unchanged, but wages increased at a much faster pace. Growth in the average workweek was marginal after a large contraction in the month prior.

https://www.richmondfed.org/research/regional_economy/surveys_of_business_conditions/manufacturing/2019/mfg_05_29_19

GDP Q1 2019 (Second Release)

In the second release of Q1 GDP, growth was revised slightly slower. A slightly larger contribution from personal consumption expenditure was offset by a lower contribution from private fixed investment expenditure, change in inventories and net exports.



Summary – revisions to expenditure categories from the initial estimate:

Personal Consumption Expenditure – revised slightly higher

The larger contribution was the result of smaller decline in durable goods expenditure and revised higher contribution from expenditure on non-durable goods. There was no change in the contribution from expenditure on services.

Q1 growth in personal consumption remains well below that of recent quarters.

Gross Private Domestic Investment – revised lower

The fixed investment component (ex-inventory change) was revised lower. Both residential and non-residential investment expenditure was revised lower from the first estimate. Residential investment expenditure declined further.

The contribution from inventories was revised slightly lower.

Net Exports – contribution was revised lower

Exports made a slightly larger contribution to growth while the contribution from imports was revised lower (imports declined at a slower pace).

Government – revised slightly higher

The slightly higher contribution from Government expenditure was the result of higher state and local investment expenditures

<https://www.bea.gov/data/gdp/gross-domestic-product>

Personal Income and Outlays (Apr)

Despite the stronger growth in personal income and personal disposable income, growth in consumption expenditure slowed in Apr. There was a small uptick in the saving rate.

Personal Income

In Apr, total personal income growth accelerated compared to Mar. This was the result of an increase in income from personal income receipts on assets (after a larger decline in the month prior. This offset slower growth in employee compensation, zero growth in proprietors income (after declining in the month prior) and slower growth in personal current transfers.

As a result, disposable personal income growth also accelerated compared to last several months.

| | | | |
|---------------------------|---------|-----------|-----------|
| Personal Income (Nominal) | Mth chg | Apr +0.5% | Mar +0.1% |
|---------------------------|---------|-----------|-----------|

| | | | |
|--------------------------------------|---------|-----------|-----------|
| Personal Disposable Income (Nominal) | Mth chg | Apr +0.4% | Mar +0.1% |
|--------------------------------------|---------|-----------|-----------|

The main components;

Compensation of employees – growth slowed in Apr compared to Mar, but Mar and Feb were revised higher

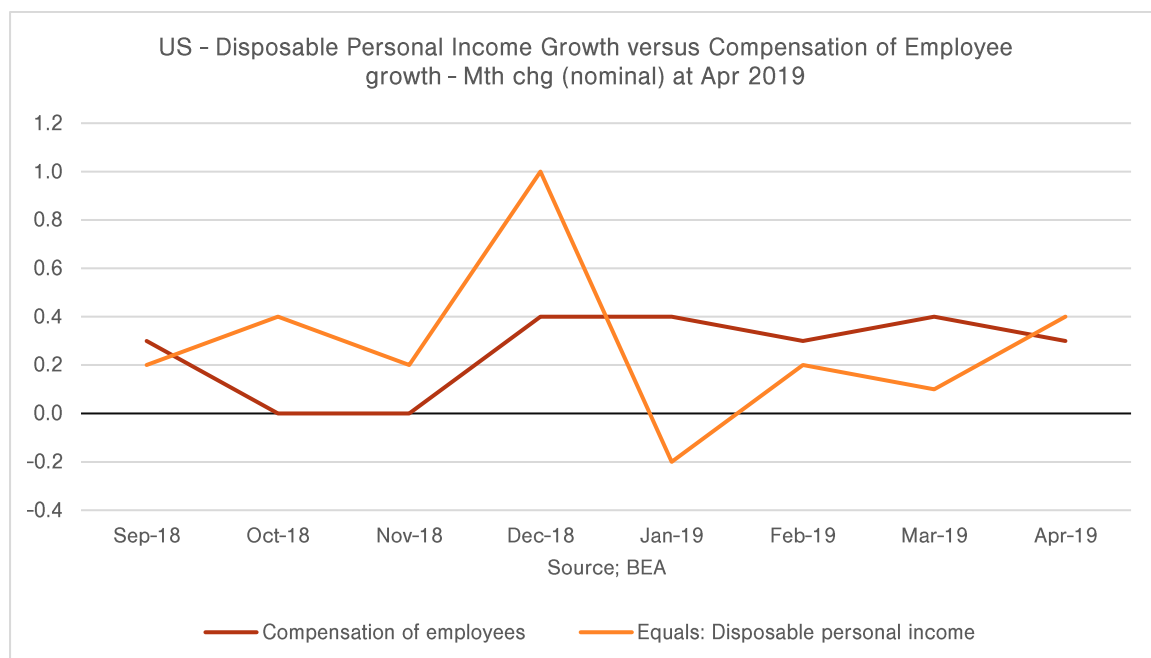
Proprietors income – growth was zero in Apr after a larger 1% decline in Mar

Rental income growth slowed

Personal income receipts on assets increased at a much faster pace and accounted for most of the growth in the month.

Personal current taxes increased at a faster pace.

Overall growth in disposable income increased at a faster pace in Apr;



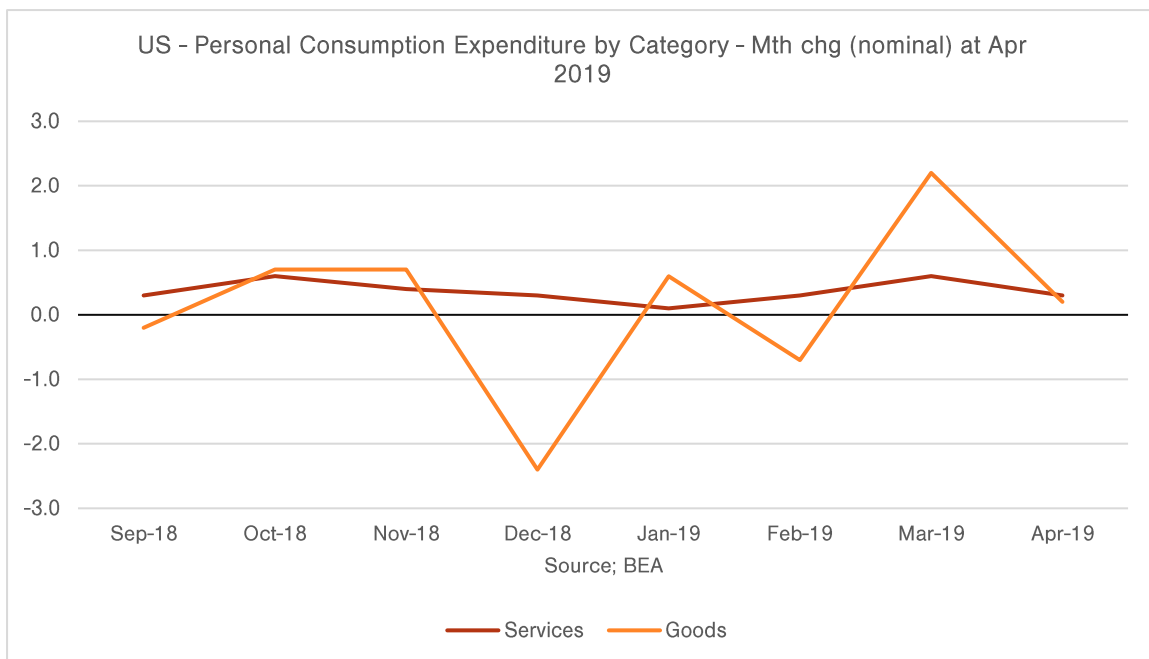
One point to note is that the monthly change in REAL personal disposable income remains very low but did accelerate in Apr to +0.1% versus -0.2% in Mar.

Personal Outlays

Expenditure growth slowed in Apr – this was driven by slower growth across all expenditure categories - durable goods, non-durable goods and services.

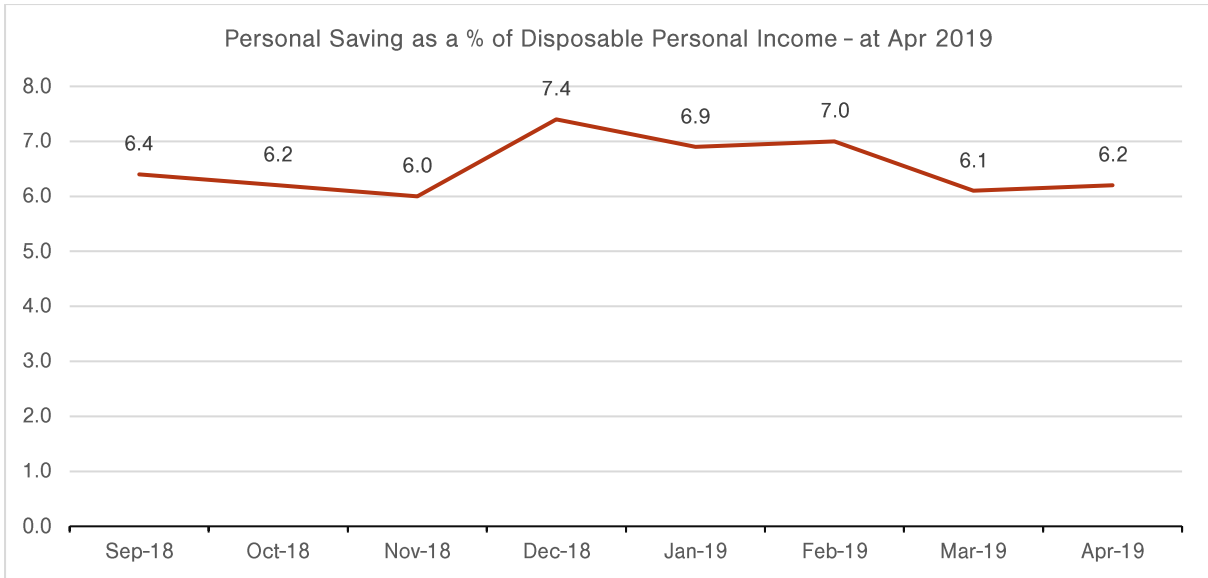
| | | | |
|---------------|---------|-----------|-----------|
| PCE - Nominal | Mth chg | Apr +0.3% | Mar +1.1% |
| PCE - Real | Mth chg | Apr 0% | Mar +0.9% |

In nominal terms, the much slower growth of expenditure on goods was the result of a decline in expenditures on durable goods (compared to the month prior – as indicated by the weaker retail sales numbers). Expenditure growth for non-durable goods and services both halved;



Savings Rate

The savings rate increased slightly in the latest month – as disposable income grew at a faster pace than expenditures;



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

PCE Price Index (Apr)

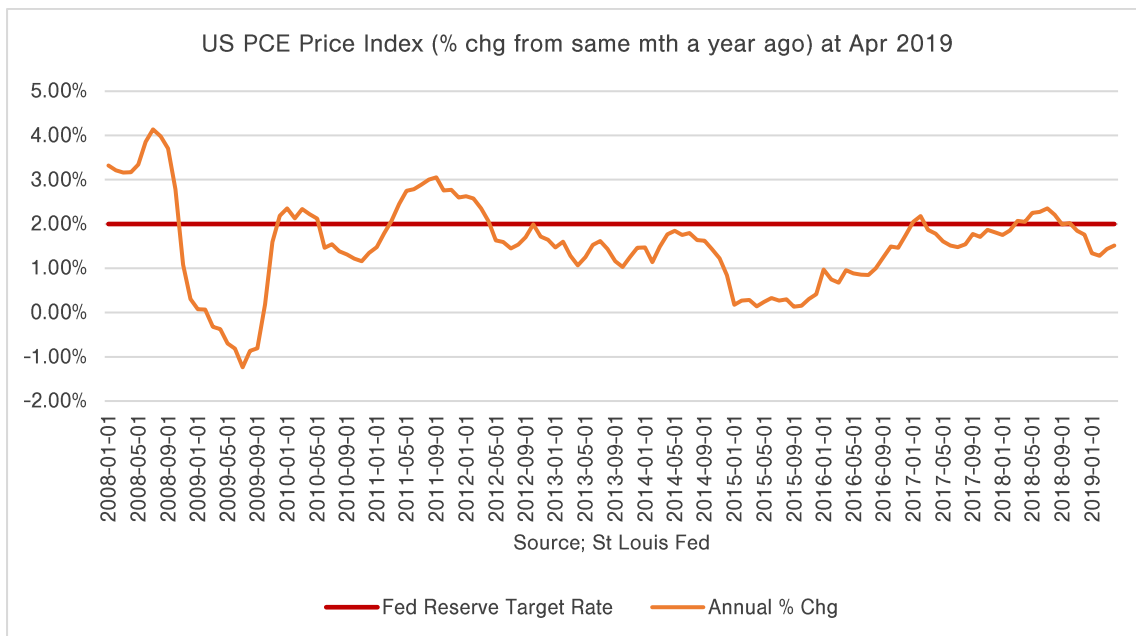
The annual growth in the headline PCE price index increased at a slightly faster rate in Apr. Prices for goods continued to decline and was offset by faster growth in services prices.

Core PCE growth increased at a faster pace. Prices for core services increased at a faster pace and this offset the faster decline in core goods prices. The annual decline in core goods prices was the fastest since 2007.

PCE Price Index - All Items

| | | | |
|-----------------------------|---------|-----------|-----------|
| PCE Price Index – All Items | Mth chg | Apr +0.3% | Mar +0.2% |
|-----------------------------|---------|-----------|-----------|

| | | | |
|-----------------------------|---------|----------|-----------|
| PCE Price Index – All items | Ann chg | Apr 1.5% | Mar +1.4% |
|-----------------------------|---------|----------|-----------|



Major components of the PCE Price Index:

Goods annual chg; Apr -0.5% versus Mar -0.3%

The annual change in goods prices continues to be led lower by declines in durable goods prices;

Durable Goods; Apr -1.8% versus Mar -1.4%

Non-Durable Goods; Apr +0.2% versus Mar +0.3%

Services annual chg; Apr +2.4% versus Mar +2.2%

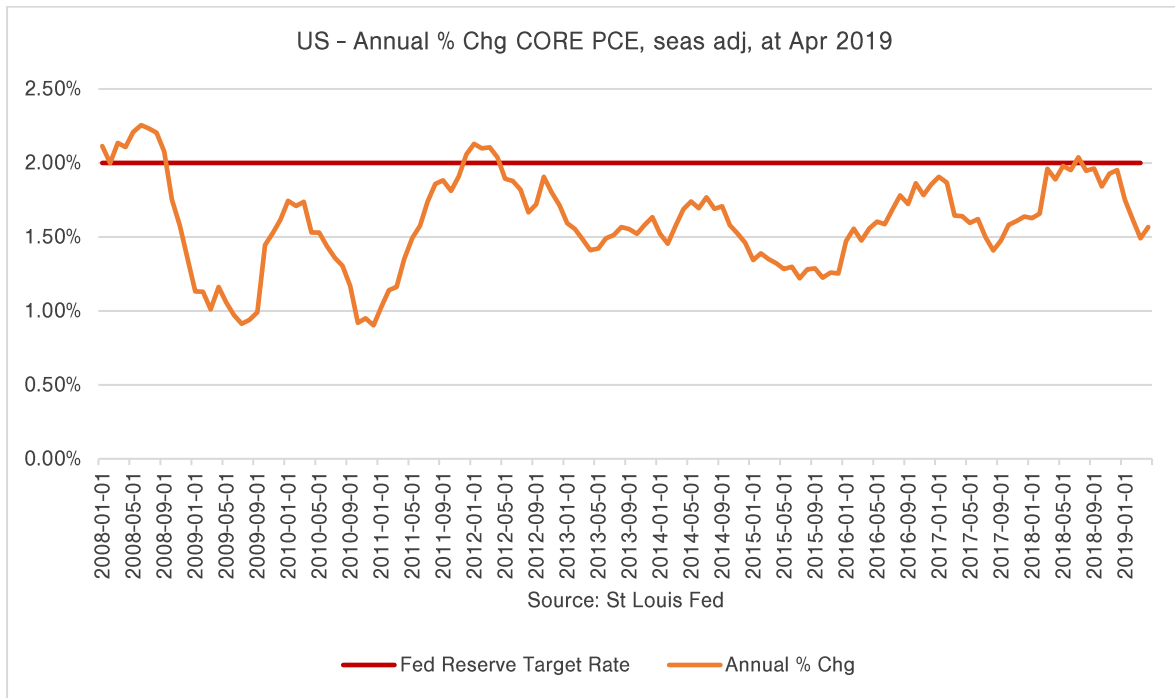
Energy Goods & Services; Annual growth accelerated higher from +0.3% in Mar to +1.7% in Apr. The latest month on month change slowed to +2.9% in Apr from +3.6% in Mar.

Core PCE – excluding Foods & Energy

Core PCE prices increased at a slightly faster pace in Apr;

| | | | |
|--|---------|-----------|-----------|
| Core PCE Price Index – ex food, energy | Mth chg | Apr +0.2% | Mar +0.1% |
|--|---------|-----------|-----------|

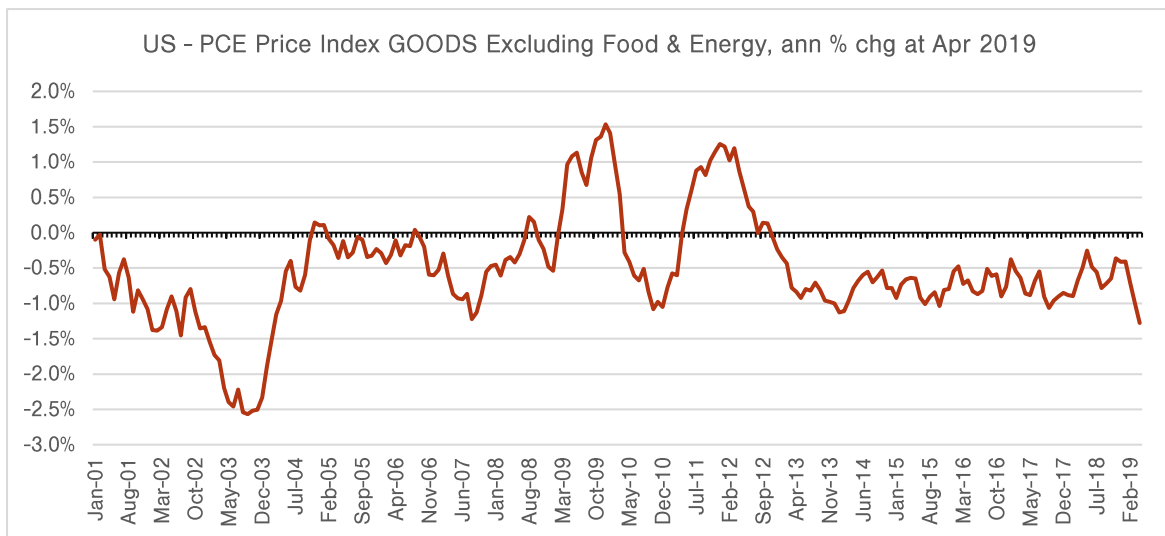
| | | | |
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| Core PCE Price Index – ex food, energy | Ann chg | Apr +1.6% | Mar +1.5% |
|--|---------|-----------|-----------|



This slight acceleration was the result of;

Faster annual growth in PCE Services excluding energy; Apr +2.5% versus Mar +2.3%

This offset the continued decline in Goods excluding food and energy; Apr -1.3% versus Mar -1%. This is the fastest decline in core goods prices since 2007;



Annual price declines accelerated across most durable goods categories in Apr – except for Motor Vehicles (price growth was 0%) and Other Durable Goods (which declined at a slower pace).

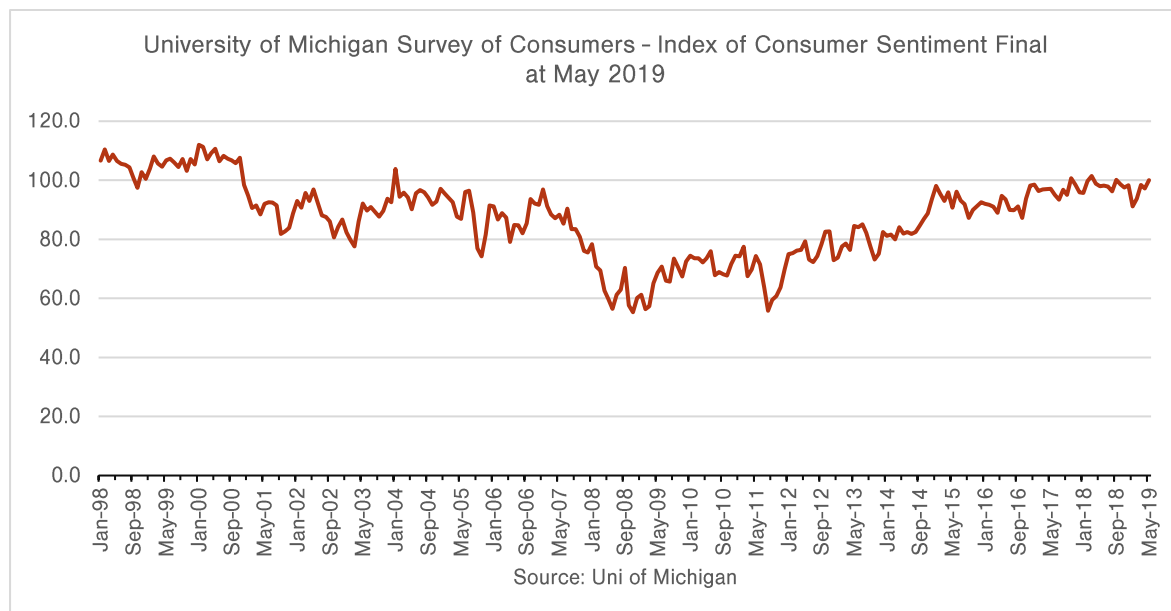
<https://apps.bea.gov/iTable/iTable.cfm?reqid=19&step=2#reqid=19&step=2&isuri=1&1921=underlying>

Uni of Michigan Consumer Sentiment – Final (May)

Measures of consumer sentiment were revised lower in the final release for May. From the report; ‘confidence significantly eroded in the last two weeks of May’. Unaided, unfavourable mentions of tariffs increased back up to the Jul 2018 peak. At the same time, the index of consumer expectations still increased by close to 2 SD’s (based on the last 12-mths). The index of current conditions continued to weaken and remains 9% below the Mar 2018 peak.

Index of Consumer Sentiment

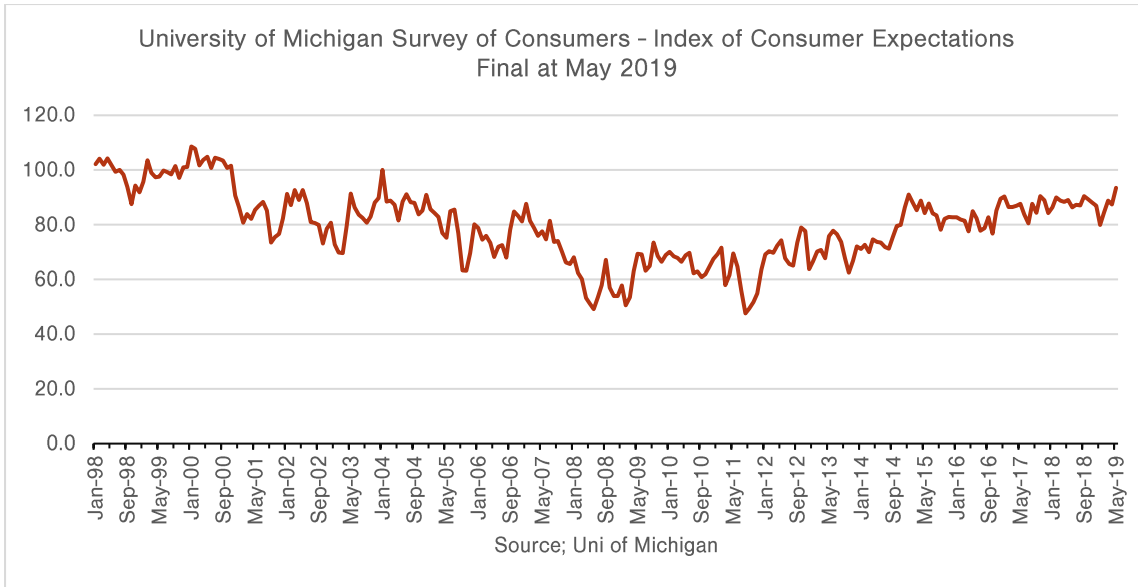
May 100 (revised lower from prelim 102.4) versus Apr 97.2



Index of Consumer Expectations

May 93.5 (revised lower from 96) versus Apr 87.4

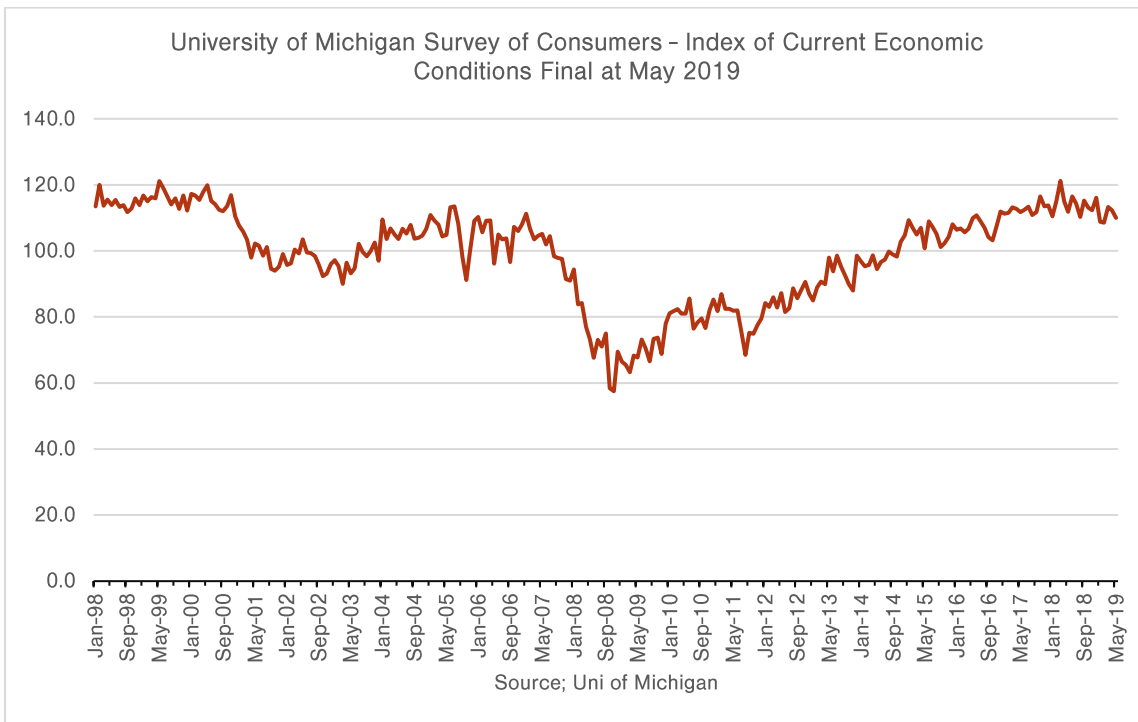
This was still a 2*SD increase in the month and still increased to a new post GFC high.



Index of Current Conditions

May 110 (revised lower from 112.4) versus Apr 112.3

This index continues to slide having peaked back in Mar 2018. The index in May is 9% below this peak.



The report picks up on higher consumer inflation expectations and the negative impact on buying conditions (emphasis added);

“While higher inflation expectations modestly reduced real income expectations, **the largest impact was on buying conditions for appliances**

and other large household durables, which fell to their lowest level in four years.”

An interesting shift in sentiment;

“Consumers now judge economic security more important than a faster pace of growth in their personal incomes or household wealth.”

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

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Japan

Industrial Production – Prelim Apr

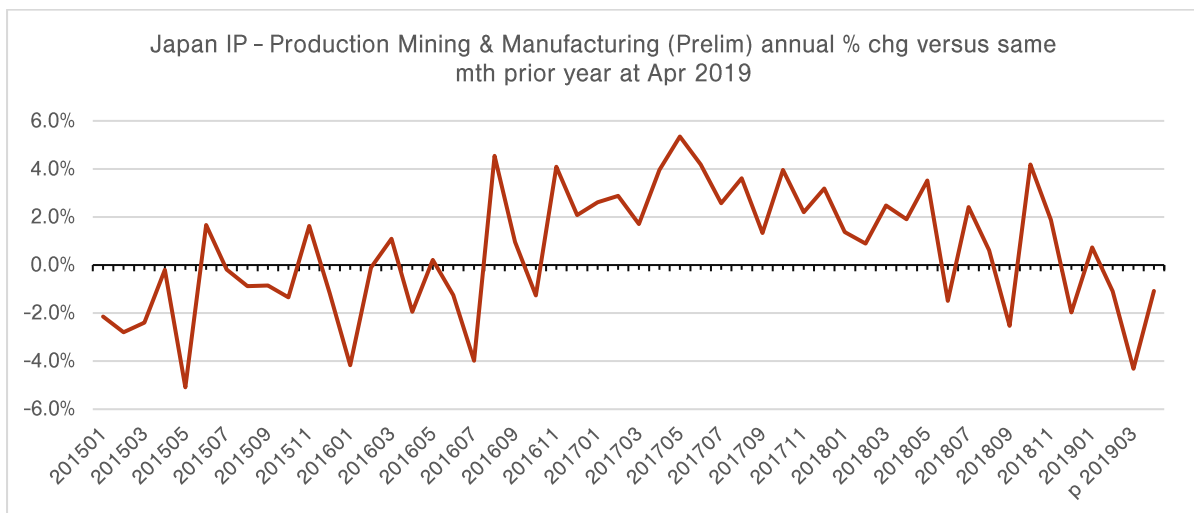
Industrial production increased in Apr with both production and shipments increasing in the month. Despite the monthly increase, both current production and shipments remain below the same month a year ago.

Production

| | | | |
|------------|---------|-----------|-----------|
| Production | Mth chg | Apr +0.6% | Mar -0.6% |
|------------|---------|-----------|-----------|

| | | | |
|------------|---------|-----------|-----------|
| Production | Ann Chg | Apr -1.1% | Mar -4.3% |
|------------|---------|-----------|-----------|

Despite the small uptick in production in Apr, output remains below the same month a year ago;



The survey in Apr for industrial production had forecast production growth of +2.7% for Apr (versus Mar) – which while still positive, came in well below that expectation.

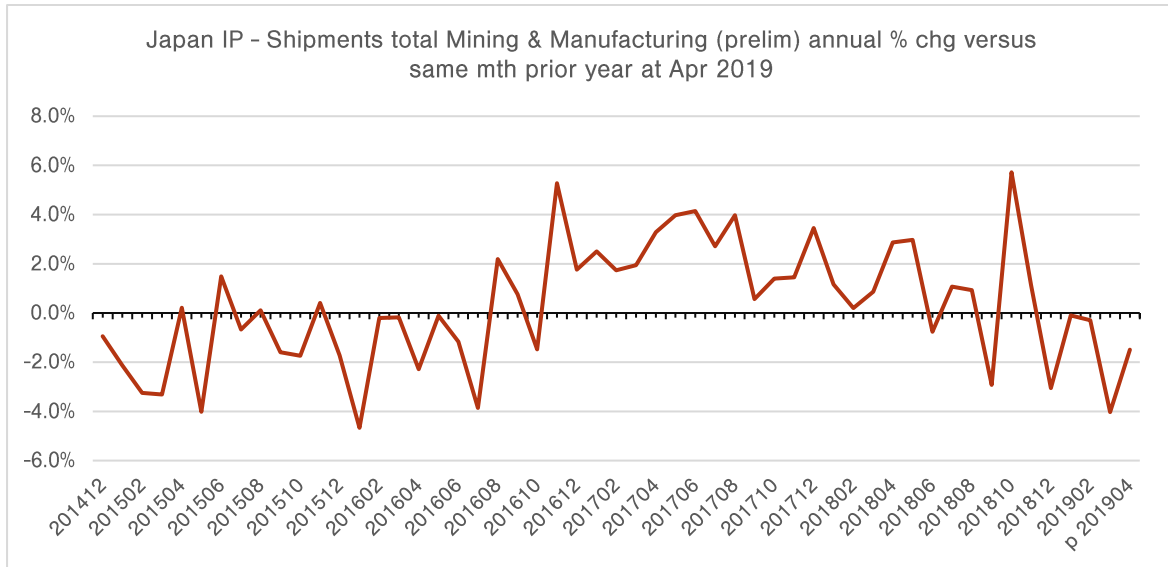
The survey in May now for production in May, forecasts a +5.6% increase in production. The same May survey (current report), is forecasting -4.2% production decline for Jun.

Shipments

| | | | |
|-----------|---------|-----------|-----------|
| Shipments | Mth chg | Apr +1.7% | Mar -1.3% |
|-----------|---------|-----------|-----------|

| | | | |
|-----------|---------|-----------|---------|
| Shipments | Ann Chg | Apr -1.5% | Mar -4% |
|-----------|---------|-----------|---------|

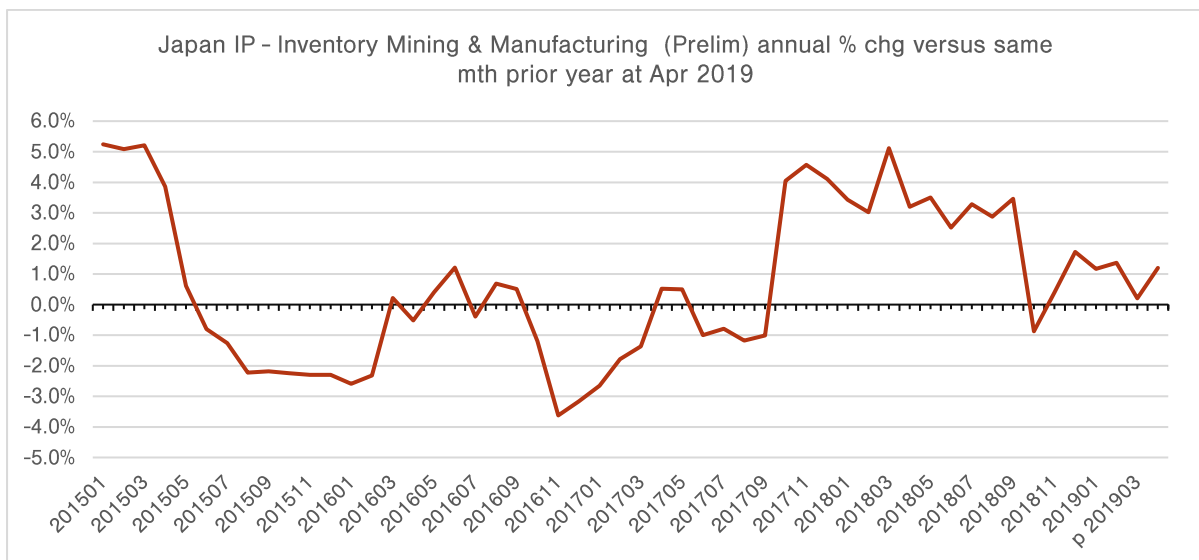
Similarly, despite the increase in shipments in Apr, the current level of activity remains below the same time a year ago;



Inventories

| | | | |
|-------------|---------|-----------|-----------|
| Inventories | Mth chg | Apr 0% | Mar +1.4% |
| Inventories | Ann Chg | Apr +1.2% | Mar +0.2% |

With the lower than forecast production, inventories remain higher than that of a year ago;



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

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United Kingdom

BREXIT

PM May to stand down as Conservative Party leader and PM on 7 Jun 2019. PM May will remain as a caretaker until a new leader is selected which is likely to be completed by late July.

This now raises uncertainty again about the form Brexit will take. Will need to watch the front runners to replace PM May over the next few weeks to understand the implications for Brexit.

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

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

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

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

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Australia

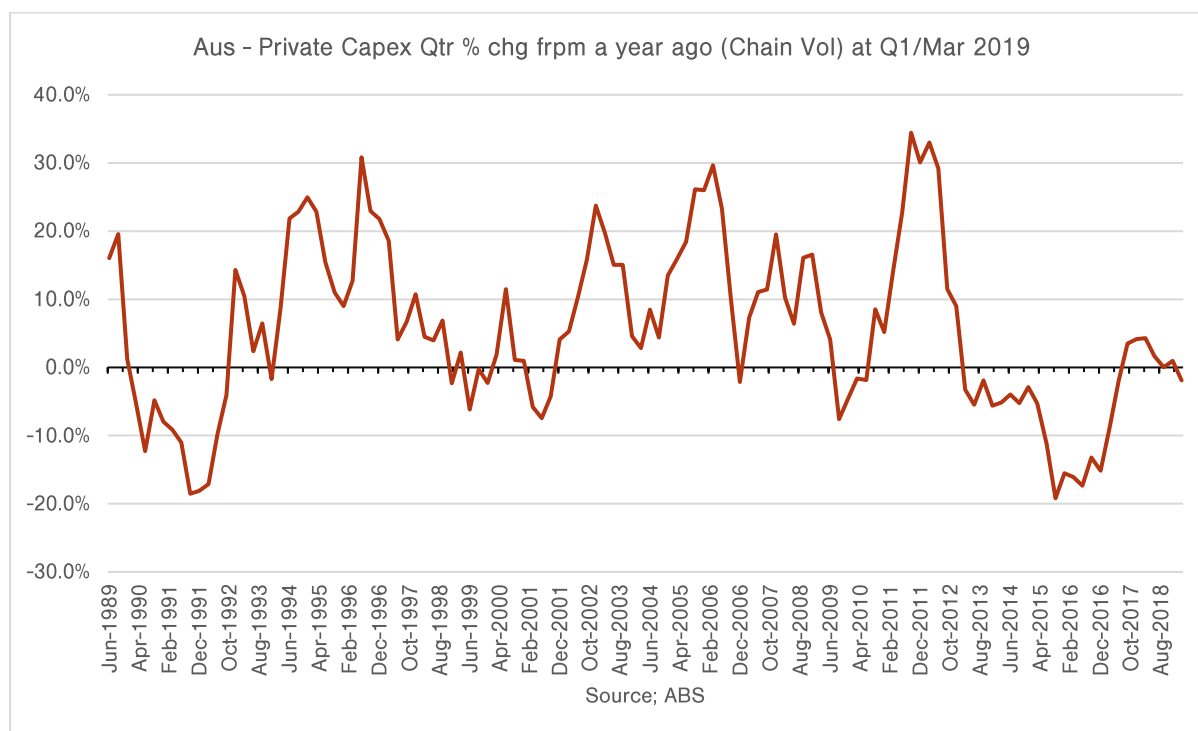
Private New Capital Expenditure Survey (Q1 Mar 2019)

In real terms, private new capex in Australia declined in Q1 2019. Declines were recorded on a quarterly and annual basis. Leading the decline on the annual basis were further declines in capex for Mining and Manufacturing. In the latest quarter, all three main industry groups contributed to the decline.

Total Capex (real terms)

| | | | |
|--------------------------------------|---------|----------------|----------------|
| Total Capital Expenditure (seas adj) | Qtr Chg | 2019 Q1; -1.7% | 2018 Q4; +1.3% |
|--------------------------------------|---------|----------------|----------------|

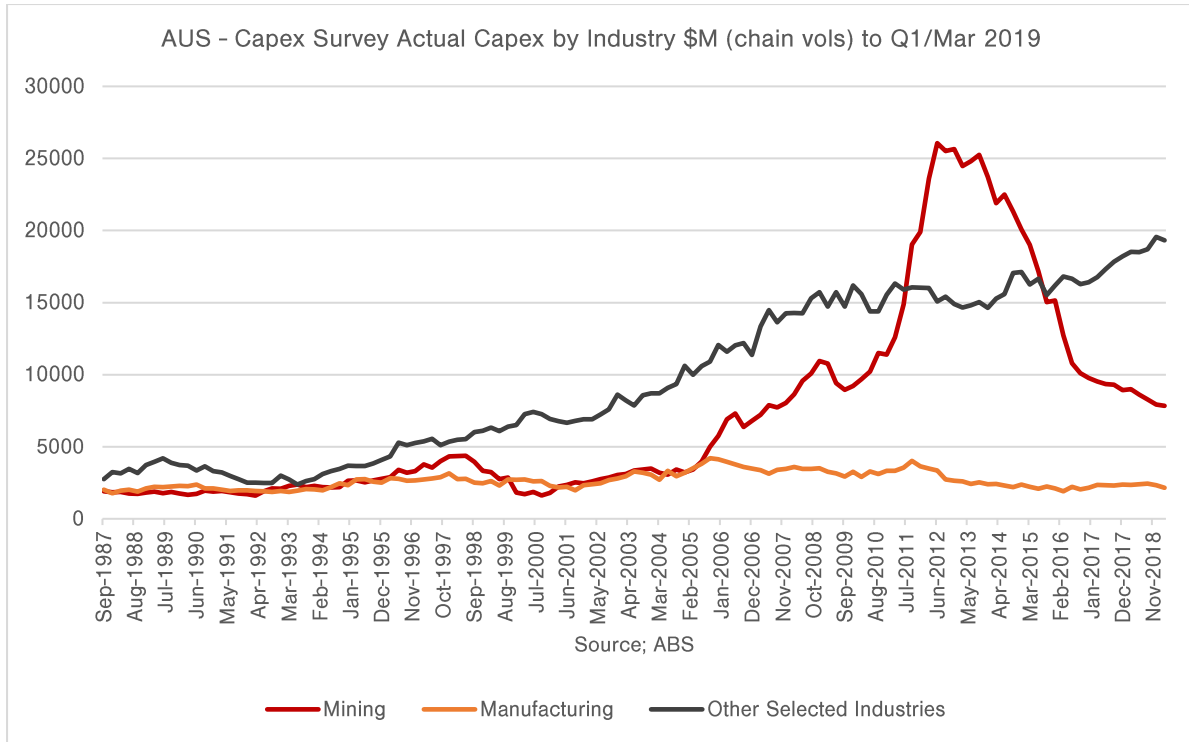
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| Total Capital Expenditure (seas adj) | Ann Chg | Q1; -1.9% | Q4; +1% |
|--------------------------------------|---------|-----------|---------|



Industry

On an industry basis, there were some relatively larger declines in the quarter across their main groups; Mining -1.3%, Manufacturing -7.4% and Other Selected Industries -1.2%.

On an annual basis Mining continued to decline, down -12.8% and Manufacturing -8.5%. Other Selected industries (mostly services) was up +4.3% versus the same quarter a year ago.



<https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5625.0Main+Features1Mar%202019?OpenDocument>

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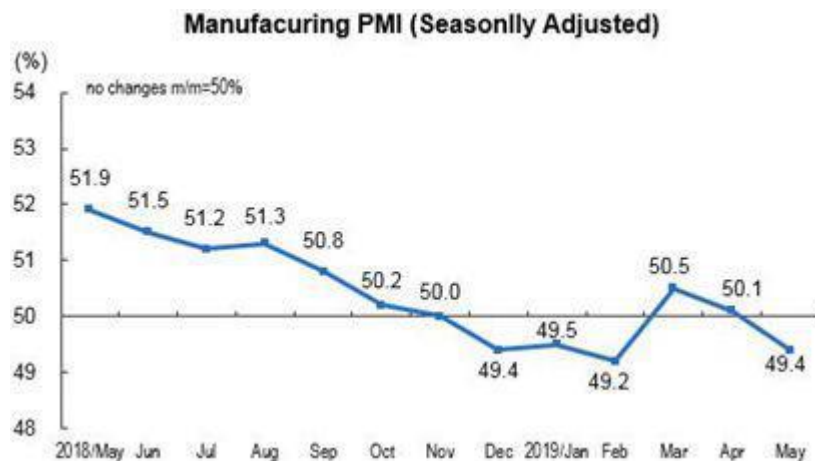
China

NBS Manufacturing PMI (May)

Both the manufacturing and non-manufacturing indexes paint a less than positive picture of the path of economic activity in China during May. The hopes of 'green-shoots' stemming from massive credit stimulus appears to have been either premature or ineffective so far in turning around the weaker growth.

The official NBS PMI recorded a return to contraction for manufacturing activity in May. Production growth slowed and new orders fell back into contraction. Inventory and employment growth both continued to contract with the employment index reaching a low point for the last year.

Headline PMI – Manufacturing; May 49.4 versus Apr 50.1



The new export orders index fell to the lowest point in a year to 46.5 – in May 2018 this was 51.2.

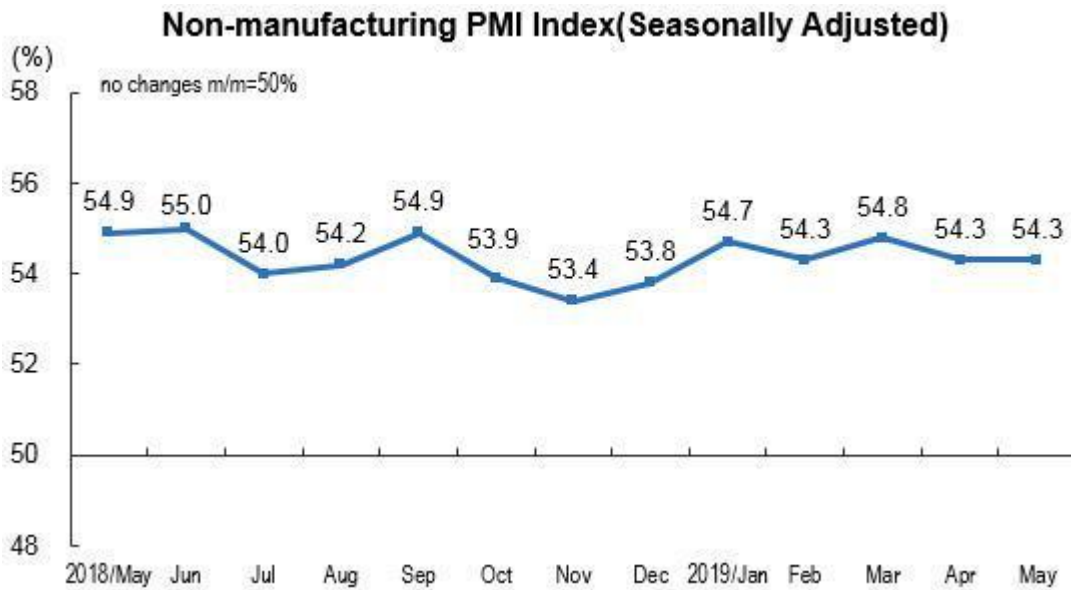
The purchase quantity index increased at a slower pace with growth only marginally above zero. Producer prices contracted. The finished goods index contracted but at a slower pace.

Business expectations were still positive, but sentiment fell slightly.

NBS Non-Manufacturing PMI (May)

The non-manufacturing PMI indicated that services activity continued to expand at a constant pace in the latest month. Its not clear how the individual indices are weighted to get the headline PMI of “no change” from last month – of the nine sub-indexes, only one grew at a faster pace (Supplier delivery times) and two others contracted at a slower pace.

Non-Manufacturing PMI; May 54.3 versus Apr 54.3



The new orders index growth slowed to only marginally above the zero-growth threshold. Foreign new orders fell further into contraction almost equal with the low for the last twelve months.

Input price growth slowed. Output/sales price index fell into contraction (prices declined).

The employment growth index fell further into contraction.

Business expectations remained robust, but growth slowed slightly.

Firms continued to work through backlogs as the unfilled orders index remained firmly in contraction but slightly less negative than in the month prior. The stock index declined at a slightly slower pace.

The supplier delivery times was the only sub-index that grew at a faster pace.

http://www.stats.gov.cn/english/PressRelease/201905/t20190531_1668204.html

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Trade

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

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

Key dates for the USTR investigation;

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

17 June – public hearing in Washington

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

The next key date is the G20 in Osaka on 27-28 Jun – this had been widely touted as a key date for when both President Trump and President Xi would meet. Depending on the status of negotiations, this next round of tariffs could go into effect from late Jun/early Jul around the time of this meeting.

Over the weekend, 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>

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-
united-states-trade)

Special 2019 Section 301 Review

No further notification on progress.

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

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

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

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

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

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

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

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

Notorious Markets List

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

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

The link to the notorious markets reports is here;

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

The first country on the list is China.

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

NAFTA/USMCA

Late last week, US President Trump announced that from 10 Jun, the US will impose a 5% tariff on all imports from Mexico. This tariff will continue to increase each month by 5% pts (up to 25% by Oct) until Mexico acts to halt the flow of illegal immigrants into the US. Once the problem is 'remedied' the tariff will be removed.

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

Awaiting details of the next round of talks. Negotiations between the two countries has commenced. The Japanese Economic Revitalization Minister Toshimitsu Motegi met with USTR Lighthizer last weekend –

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

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

President Trump suggested 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

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

Talks are yet to begin in earnest as the US remains focused on China;

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

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

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

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

It now seems likely that the US and EU will enter talks “on a limited trade agreement, which covers vehicles”. <https://menafn.com/1098537328/EU-set-for-talks-with-US-on-limited-trade-agreement>

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

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

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

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

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

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

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

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

Key dates for this investigation;

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

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

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

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

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

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

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

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

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

US-UK Trade Talks

The USTR has now published the summary of specific negotiating objectives for the US-UK trade negotiations; https://ustr.gov/sites/default/files/Summary_of_U.S.-UK_Negotiating_Objectives.pdf

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