

Key Themes

The manufacturing slow-down in the US and abroad is continuing to evolve. The ongoing lack of growth in new orders is manifesting now as falling order backlogs and, anecdotally, reduced input buying. In some cases, finished goods inventories are increasing. The reduction in input buying suggests further pressure on output for suppliers further back up the supply chain. The reduction in order backlogs continues to support output growth for now.

In the US, the PMI, ISM and factory orders data highlighted the continued trend of slowing/stalling US manufacturing activity. Services activity helped to offset the slower manufacturing activity. Despite the stronger services PMI reading, some concern was raised over the expectations for future growth in new business. Non-farms payrolls came in stronger and the household survey recorded a small improvement in annual employment growth. Unemployment increased in the month though due to an increase in participation.

The PMI's for manufacturing activity contracted in Europe, including Germany, UK, Japan, Australia, and China. Similar patterns were also evident – declining new orders resulting in further declines in backlogs of work, which was helping to maintain some output growth. Further anecdotal evidence that firms were reducing input buying to reduce costs in the face of lower orders. The German manufacturing sector recorded an accelerated decline in new orders in May – the result of lower orders across most segments and more generally, external orders.

European production and exports were dealt another potential blow this week as the USTR announced plans to review additional products for tariffs as a part of the dispute on civil aircraft subsidies.

Broadly, the services PMI's offset the weaker manufacturing results.

The exception was in the UK where services growth slowed to almost zero. The Jun PMI's for the UK indicated that there has been some renewed slowdown across manufacturing, services and construction in the UK.

In Australia, the RBA cut rates for the second time in two months. The rate cuts, along with the May election result, will likely impact sentiment and spending. This month we reviewed the AiG performance of industry indexes for Jun to gain a reading of activity after the first full month since the election and the first interest rate cut. The services index increased for the second month running with some service firms calling conditions a 'return to business as usual'. Manufacturing fell back into contraction and construction continued to contract, albeit at a slightly slower pace. Retail sales growth was subdued in May.

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RBA Interest Rate Decision and Statement

China – NBS Manufacturing and Non-Manufacturing PMI (June), Caixin Manufacturing PMI (Jun), Caixin Services PMI (Jun)

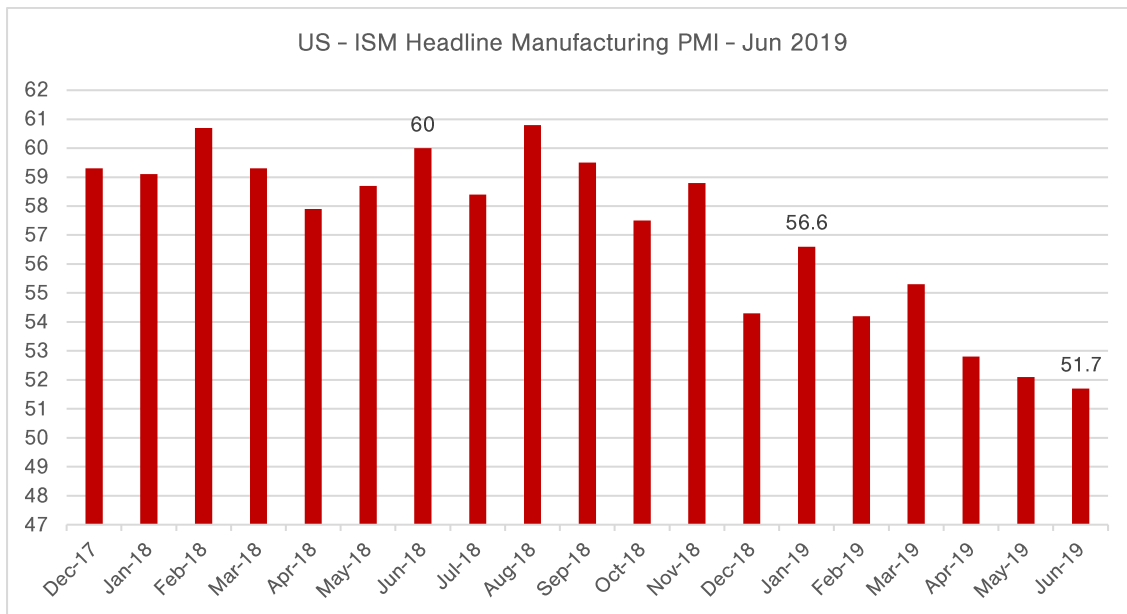
Trade – US-China Trade Negotiations, Special 2019 S.301 Review, NAFTA/USMCA, S.232 Car and Truck Imports, US-Japan Trade Talks, US-Europe Trade Talks, US-UK Trade Talks

US Data

ISM Manufacturing PMI (Jun)

Activity in the manufacturing sector grew in Jun, but the pace of growth continued to slow. From a demand perspective, new orders recorded zero expansion and new export order growth slowed further to a low level of growth. Production and employment continued to expand. At the same time, inputs (inventory) declined indicating supply managers are managing inventory levels.

Headline PMI; Jun 51.7 versus May 52.1



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

Manufacturing PMI – Final (Jun)

The Markit PMI indicated a slower rate of growth in manufacturing activity in Jun (although slightly faster than the prelim reading).

Headline Manufacturing PMI; Jun 50.6 versus May 50.5

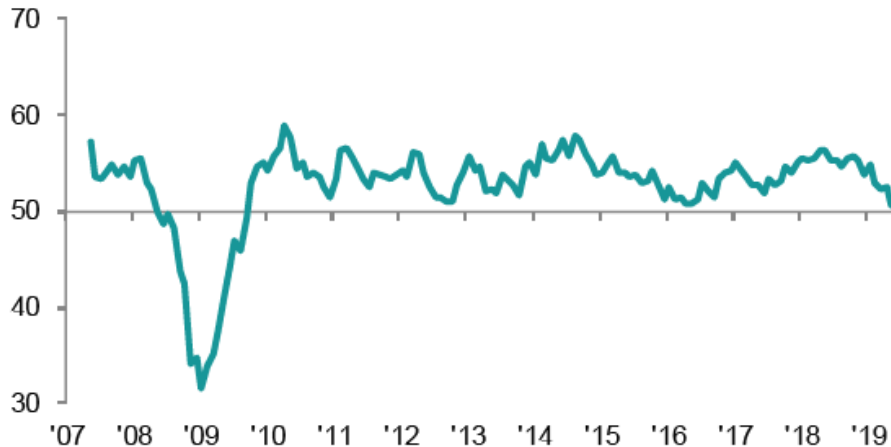
New orders returned to slight growth but remained low overall. Production growth also remained low. Firms continued to report 'difficult demand conditions'. Employment growth slowed on weaker output growth expectations.

“Expectations of production growth over the coming year remained solemn and among the weakest in the survey history in June.”

“In line with muted demand conditions, firms continued to deplete their stocks. Notably, pre-production inventories fell at the quickest rate since the start of 2014 as input buying rose only fractionally.”

Manufacturing PMI

sa, >50 = improvement since previous month



<https://www.markiteconomics.com/Public/Home/PressRelease/53d67f8f09fc416791d73ca523b3c5e7>

Factory Orders – Final (May)

New orders continued to decline in the latest month, led mostly by a decline in new orders for nondefense aircraft and parts. But even excluding transportation equipment, new orders growth remained subdued for the month.

The change in unfilled orders provides the more sobering insight for manufacturing. The monthly growth in unfilled orders ex-transport has been slowing since mid-2018 – meaning that new order growth has not been high enough to see a build-up in order backlogs - which is what you would expect to see in an accelerating manufacturing sector.

Growth in shipments was positive in May after falling in the month prior. The overall trend in monthly shipment growth continues to slow. The shipment to inventory ratio continues to increase.

New Orders

Across manufacturing industries, new orders declined in the month and continued to slow on an annual basis. This will have implications for future growth in shipments.

Month change; May -0.7% versus Apr -1.2%

The decline in the month of -\$3.6bn in orders was the result of a decline in new orders for transport of -\$3.8bn. Within transport, non-defense aircraft was most of the decline, but not all of it, accounting for -\$2.1bn in the decline of new orders.

New orders for non-defense aircraft declined by 28% in May and is 65% below a year ago (-\$10bn in the value of new orders).

Despite the adjustment in new orders for non-defense aircraft, new orders growth for all manufacturing industries continues to slow.

Annual change – all manufacturing new orders; May -1.2% versus Apr +0.6%

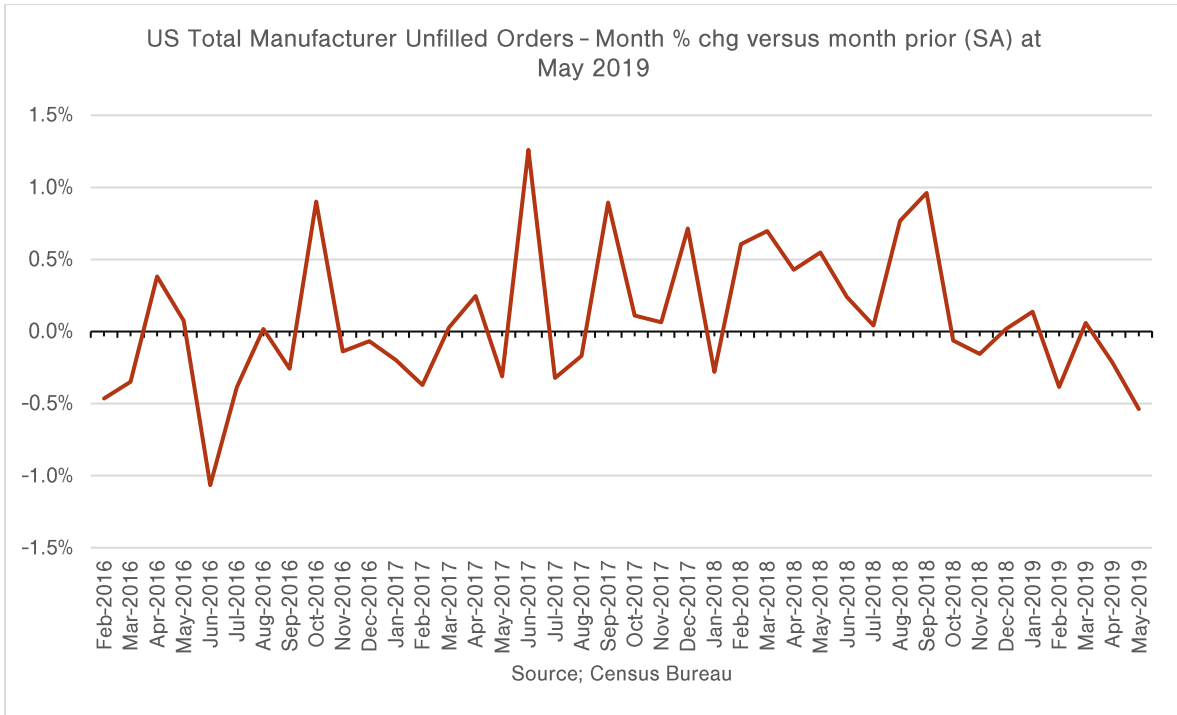
Annual change – all manufacturing excluding transportation; May +0.4% versus Apr +1.1%



Given the slow down in new orders growth, the value of unfilled orders has also grown at a slower pace as firms have continued to work through existing orders.

Month change unfilled orders – all manufacturing industries; May -0.5% versus Apr -0.2%. This decline in May is the largest decline since Jun 2016 – but the slowing trend has been in place since late 2018 – consistent with the slower growth in orders.

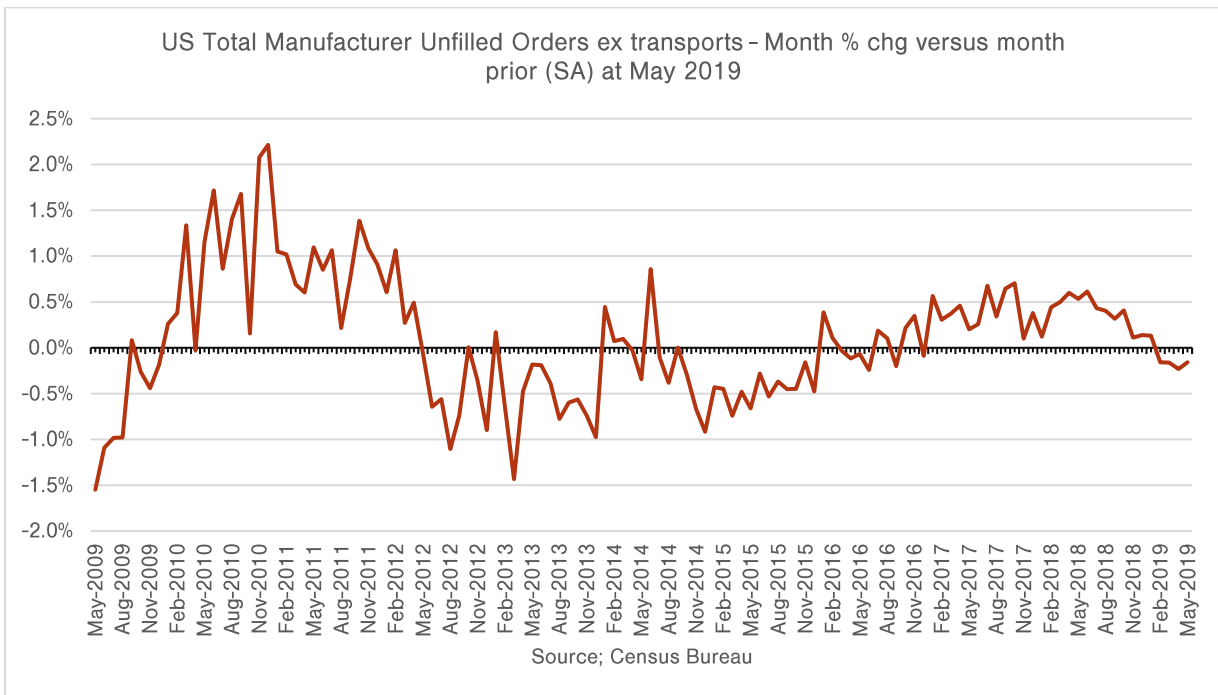
Note this chart of the monthly change (which is usually ‘noisy’ but does show a slowing month trend);



The slow-down in transport manufacturing (non-defense aircraft) continues to impact the results. The monthly decline in unfilled orders equates to approx. -\$6.3bn for all manufacturing industries. Excluding transport, the decline is smaller at -\$0.6bn.

The most informative data point is the trend in the monthly change in unfilled orders excluding transports. The monthly growth in unfilled orders ex-transports has been slowing since mid-2018 – meaning that new order growth has not been high enough to see a build-up in order backlogs, which is what you would expect if manufacturing growth was accelerating.

The longer-term trend of the month on month change highlights that the slow-down in new orders has not been confined to issues within transport equipment industries;



In absence of accelerating growth in new orders, firms working through unfilled orders will continue to support shipments for the meantime.

Shipments

Growth in shipments for the month was positive after declining in the month prior. The month growth remained subdued though;

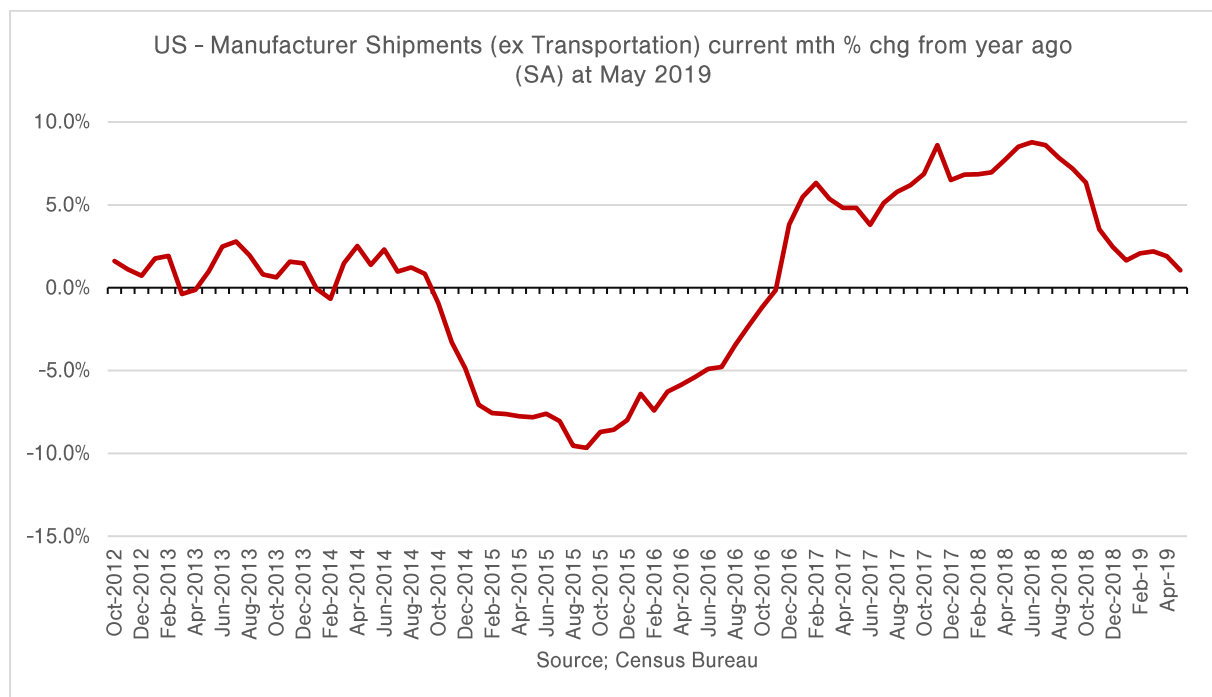
Month change – shipments all manufacturing industries; May +0.1% versus Apr -0.6%.

The increase in the value of shipments for May was a mere +\$0.4bn. The slightly faster growth in durable goods shipments (+\$0.8bn) was partly offset by a decline in non-durable goods shipments (-\$0.4bn).

The annual change in shipments also continues to slow;

Annual change – shipments all manufacturing industries; May +1.4% versus Apr +2.1%. In May 2018, the annual growth in shipments was +7.4%.

The situation is similar for shipments excluding transport equipment; May +1.1% versus Apr +1.9%. A year ago, the annual growth as of May 2018 was +8.5%.



Inventories

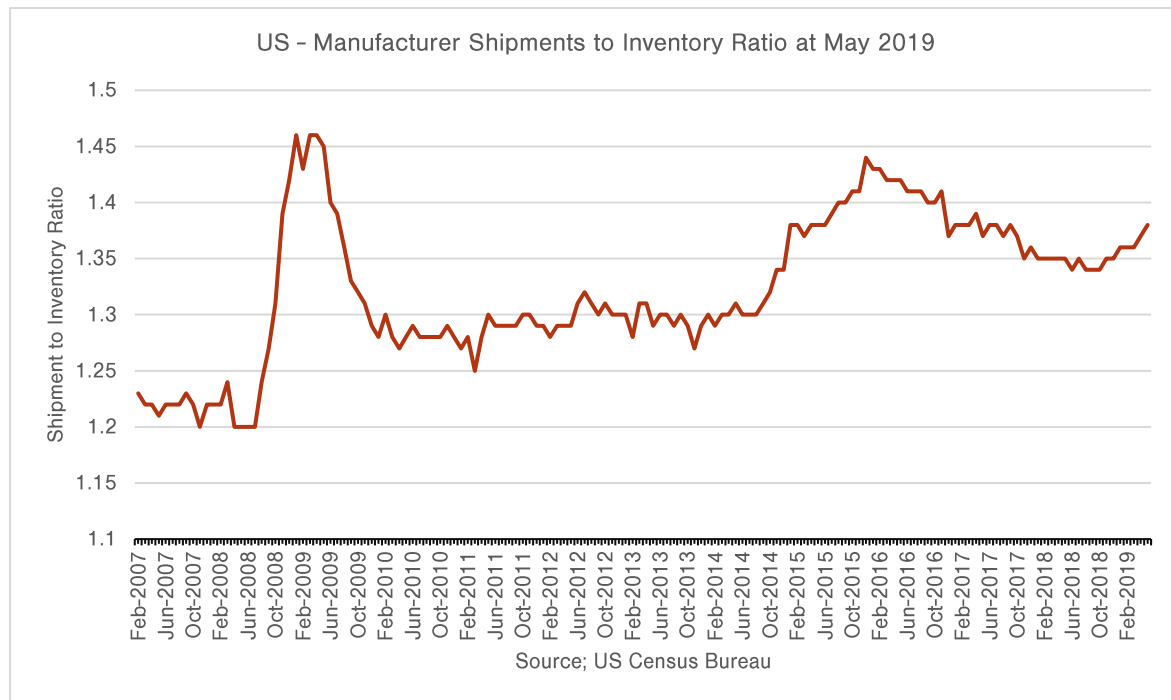
The change in the value of inventory is not slowing to the same degree as shipments or orders at this point.

The total value of inventory increased at a constant pace in May; +0.2% versus Apr +0.2%. Excluding transportation, the value of inventory declined in May by -0.1%.

Durable goods inventory increased by +\$1.9bn and this was mostly the result of non-defense aircraft which grew by +\$1.7bn versus the month prior.

Inventory of non-durable goods declined by -\$0.6bn.

The inventory to shipment ratio has been increasing steadily since late 2018, and remains below the recent Jan 2016 peak;



Over the last several months, several areas have contributed to the increase in the shipments to inventory ratio; transportation equipment, leather and allied products (small segment), primary metals, machinery, misc. durable goods, textile products, and apparel. The only area that has seen a larger decline in the inventory to shipment ratio over the last four months has been beverage and tobacco products (due to much faster growth in the value of tobacco shipments).

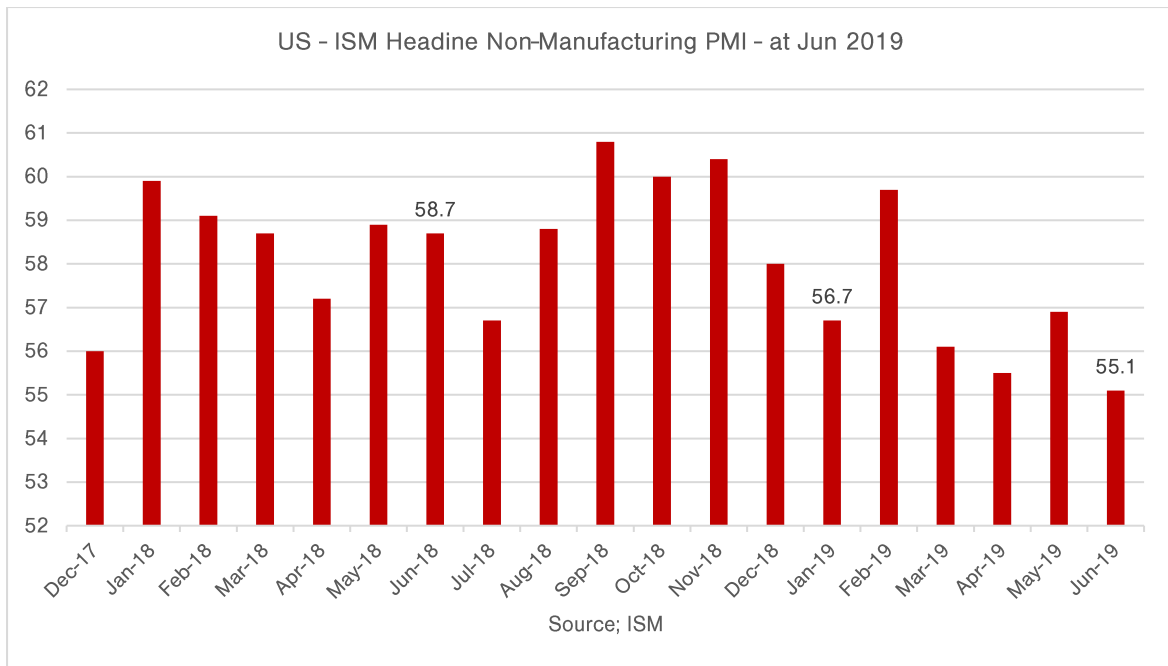
<https://www.census.gov/manufacturing/m3/index.html>

ISM Non-Manufacturing PMI (Jun)

The headline index of private sector non-manufacturing activity indicated that growth continued to slow in Jun.

Headline Non-Manufacturing PMI; Jun 55.1 versus May 56.9

The Jun reading is the lowest in the index since Jul 2017. The key measures of demand all grew at a slower pace but remain elevated. Business activity growth and new orders growth both slowed. Order backlogs increased at a faster pace. Employment growth also slowed. Prices increased at a faster pace.



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

Services PMI – Final (Jun)

The headline services PMI indicated a slightly faster rate of growth in services activity in Jun.

Headline Services Business Activity Index; Jun 51.5 versus May 50.9

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

Leading the increase in the latest month was slightly faster growth in new orders. This led to a small increase in order backlogs. Employment growth continued to increase and was in-line with the 2019 average. Despite the pick-up in new order growth for the month, firms cited ongoing softer demand conditions. This resulted in a lower degree of business confidence in the outlook;

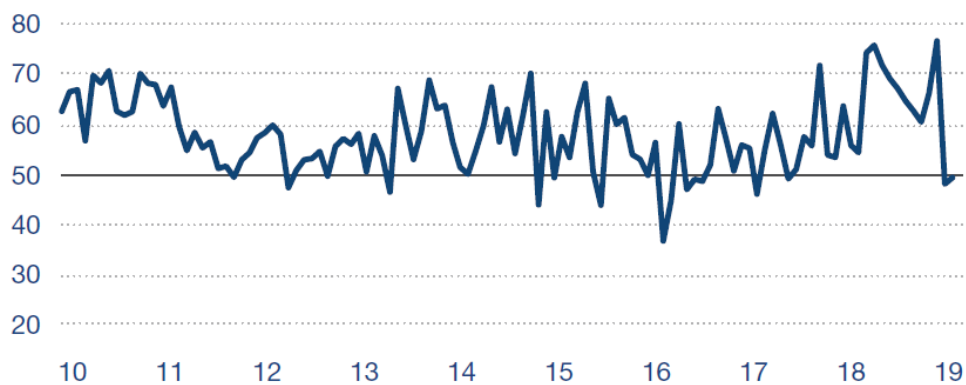
“Optimism was weighed down by greater competition and concerns surrounding the strength of future new order growth.”

ISM NY Business Conditions (Jun)

There was a small improvement in business conditions in the NY Business Conditions report – zero expansion in Jun after contracting in May. While current conditions stabilized in Jun, the 6-month outlook continued to deteriorate, falling to the lowest level since 2009.

Current Conditions; Jun 50 versus May 48.6

CURRENT BUSINESS CONDITIONS *(seasonally adjusted)*



Six-month Outlook; Jun 51 versus May 56.3

The index of the six-month outlook fell to the lowest level since 2009 (May 2009 reading of 50.7).

“The six-month outlook has been a reliable short-run guide for current business conditions over time.”

SIX-MONTH OUTLOOK *(seasonally adjusted)*



Despite the outlook falling to a 10-year low, employment growth improved/accelerated; Jun 60.9 versus May 54.6.

The quantity of purchases 'decreased significantly'; Jun 34.2 versus May 56.6.

Again, this is the lowest reading of this indicator since Jul 2009 (31.8). This indicator has only fallen by 20+ points on 9 occasions since 1993 and all of those were recorded between 2002 and 2008.

The top-line and forward revenue guidance both fell in Jun also.

Prices paid also declined, falling to a 12-month low in Jun.

http://www.ismny.com/wp-content/uploads/2019/07/2019_ISM-NewYork_ReportOnBusiness_June_v01.pdf

Challenger Job Cut Report (Jun)

Job cut announcements were lower in Jun versus May by 28%. In the YTD though, announcements were 35% higher than the YTD a year ago.

Key industries where job cut announcements are higher in the YTD;

Automotive +21k more announcements in the YTD than a year ago. Any potential offsetting YTD hiring announcements are now well below the job cut announcements.

Industrial Goods +40.4k more announcements in the YTD. Only a total of 3k job hiring announcements have been made in the YTD.

Technology +16k more job cut announcements in the YTD and only 13k hiring announcements in the YTD.

Energy +9k more job cut announcements than YTD a year ago. Only 121 hiring announcements in the YTD.

Retail continues to offset the performance of other industries;

Retail 19k less job cut announcements (a total of 53k job cut announcements in the YTD Jun). Job hiring announcements were +400k (concentrated on two employers; McDonalds and Home Depot).

<http://www.challengergray.com/press/press-releases/2019-june-job-cut-report-challenger-report-shows-highest-first-half-total-2009>

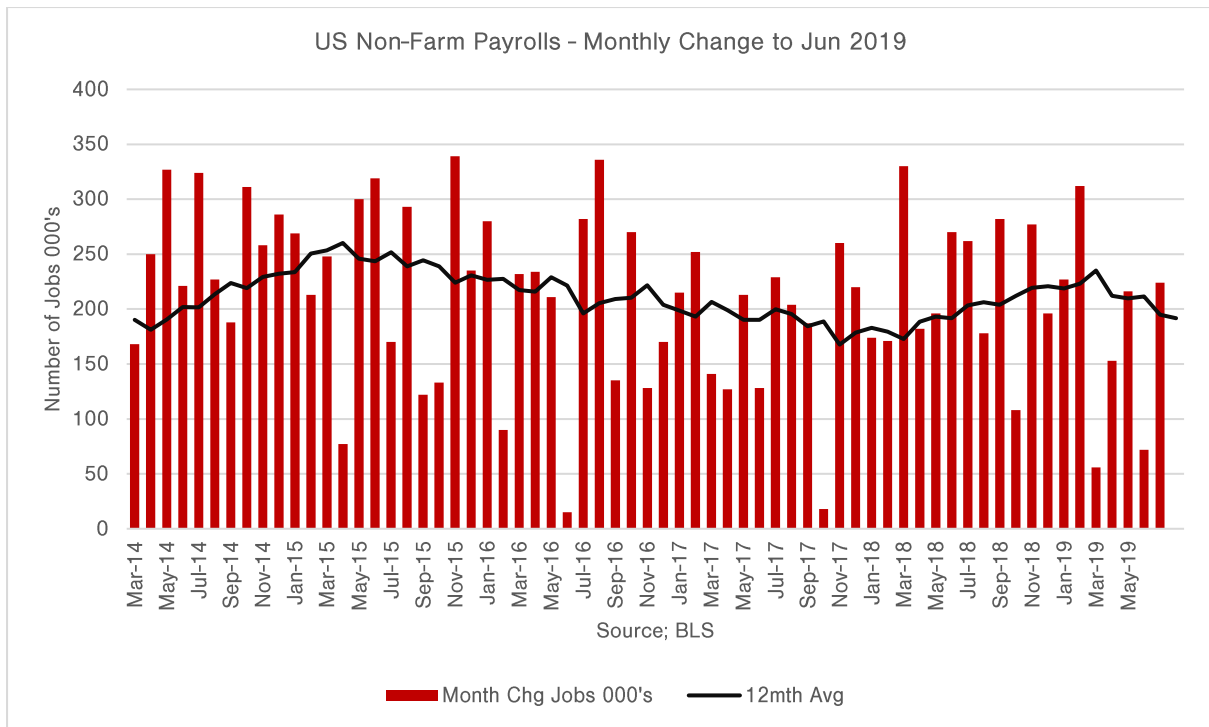
Non-Farm Payrolls & Employment (Jun)

NON-FARM PAYROLLS

The establishment survey for Jun recorded faster growth in non-farm payrolls. The two prior months were revised slightly lower;

Monthly change – non-farm payrolls; Jun 224k persons versus May 72k (revised lower from 75k)

Despite the improvement in the latest month payroll growth, the 12-month average slowed further;



HOUSEHOLD SURVEY – EMPLOYMENT REPORT

Employment growth improved on both an annual and monthly basis. On an annual basis, employment growth increased at a faster pace and the labour force grew at a slower pace – this meant that total unemployed persons declined by a larger number (which is a positive outcome).

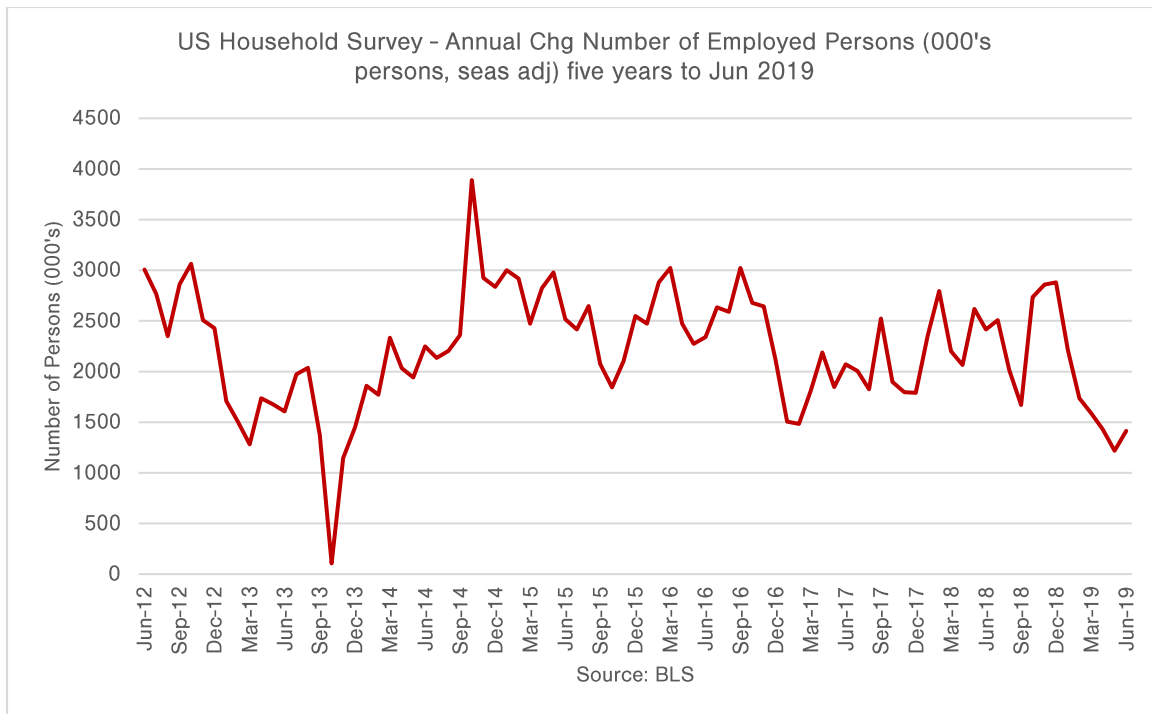
The month situation is different. Despite the larger increase in total employed persons for the month, the total number of unemployed persons still increased. This was the result of faster growth in the labour force due to higher participation.

Employment

The annual and monthly growth in total employed persons increased in Jun.

Annual change; Jun +1,413k persons versus May 1,219k persons

While there was a small improvement in growth, the annual growth remains subdued compared to 2018 and 2017;



Importantly, the annual change in employed persons was larger than that of the labour force in Jun – resulting in a further larger annual decline in total unemployed persons.

The situation was slightly different on a monthly basis. The monthly change in employed persons also increased at a faster pace;

Month change; Jun +247k persons versus May +113k persons

Despite the faster monthly employment growth, the change in the labour force was larger due to a monthly increase in participation. This resulted in a further monthly increase in total unemployed persons.

Labour Force

On an annual basis, the growth in the labour force continued to slow;

Annual change; Jun 852k persons versus May 979k persons

The reason for the slower annual growth over the last three months is that participation has not increased on an annual basis.

Participation rate; Jun 62.9% versus Jun prior year 62.9%

But participation did increase on a monthly basis;

Participation rate; Jun 62.9% versus May 62.8%.

This added an estimated +259k persons to the labour force in Jun and contributed to the faster monthly change in the total labour force;

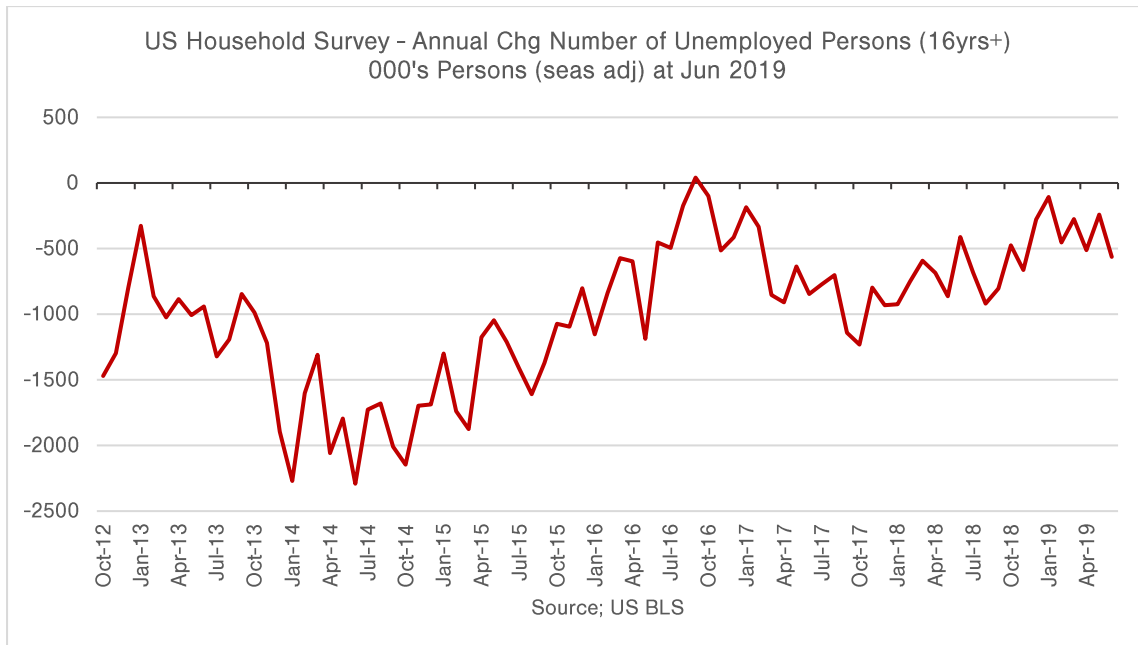
Month change; Jun +335k persons versus May +176k persons

Unemployed Persons

On an annual basis, total unemployed persons decreased at a faster pace as of June;

Annual change; Jun -562k persons versus May -240k persons

The faster annual decline was the result of slightly faster employment growth and slower growth in the size of the labour force (partly due to no change in participation);



On a monthly basis though, total unemployed persons increased;

Month change; Jun +87k persons versus May +64k persons.

This increase in total unemployed persons in the month was the result of labour force growth > employment growth in the month.

The unemployment rate in Jun increased slightly from 3.6% in May to 3.7% in Jun.

Summary of the Labour Market

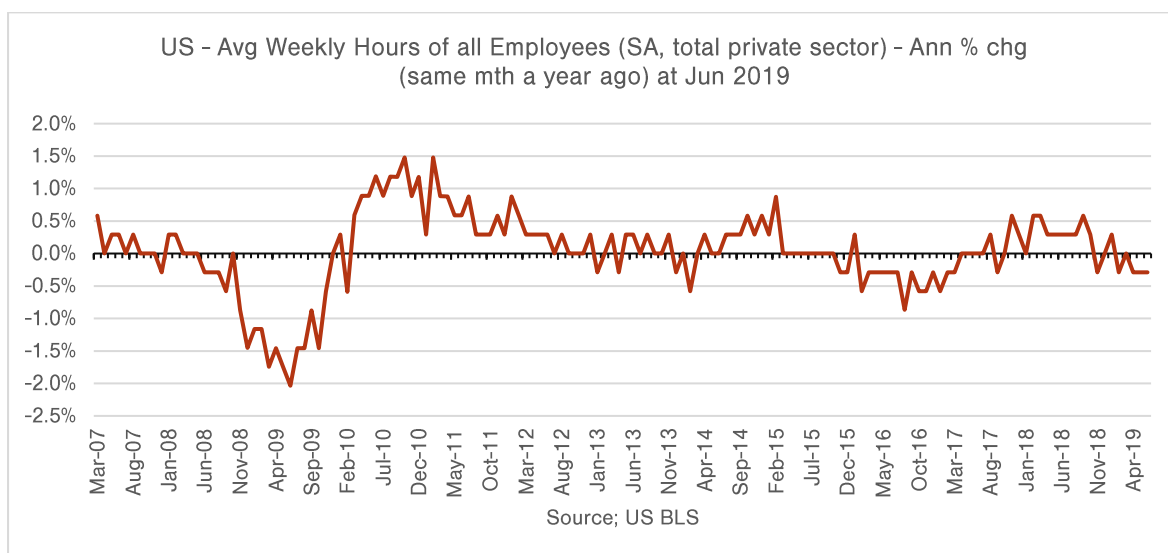
On an annual basis, faster growth in employment and lower growth in the labour force resulted in a larger decline in total unemployed persons.

On a monthly basis, even though employment growth increased at a faster pace, the labour force increased by a larger number of persons due to an increase in participation. This resulted in an increase in total unemployed persons for the second month in a row.

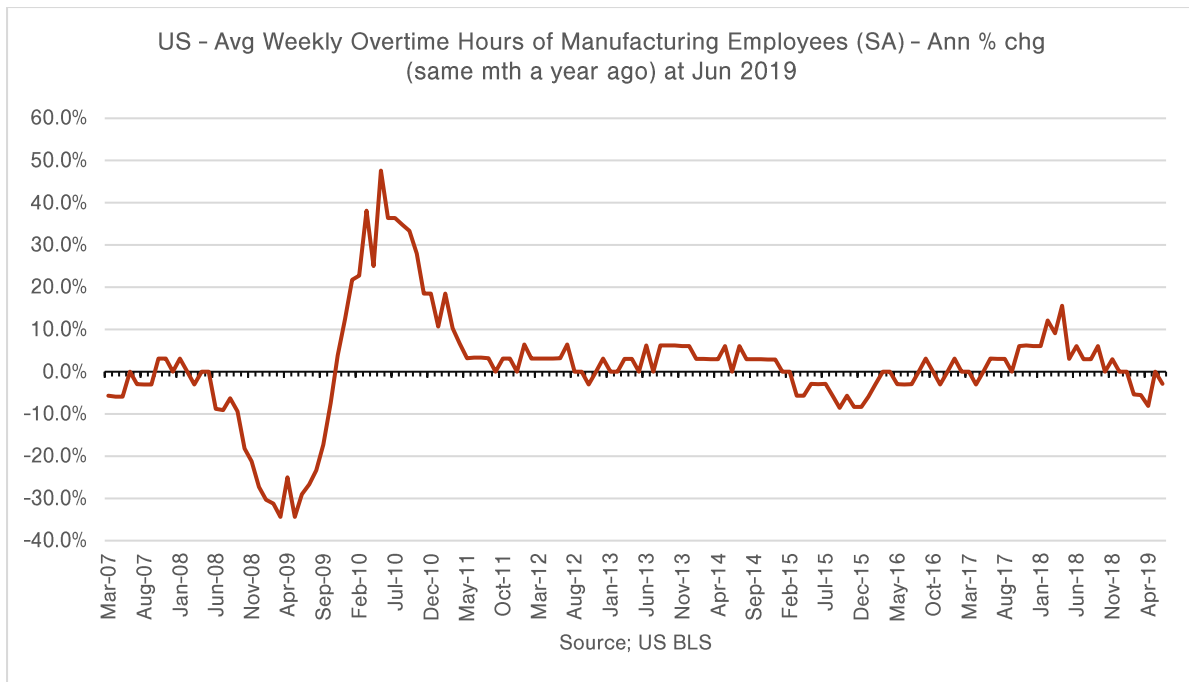
	000's people (16yrs+)	Annual chg - JUN 2019	Monthly Chg - JUN
The estimated change in the Labour Force due to pop growth (1)		852	76
How many jobs available for them? (employment growth) (2)		1,413	247
Difference (if negative, then employment growing faster than what pop adds to the labour force) (3)		- 561	-171
Change labour force participation - (if positive, people entering/returning to the labour force) (4)		-	259
The remainder is the chg in total unemployed persons (declining if negative) (4) plus (3)		- 561	88
Two views of annual growth in the labour force;			
Total employed persons plus total unemployed persons		852	335
Est of what population adds to the labor force plus change in participation		852	335
BLS reported change in the size of the labour force		852	335

TOTAL HOURS

On an annual basis, total hours continued to decline slightly at a constant pace; Jun -0.3% versus May -0.3%. There was no change in average weekly hours on a monthly basis;



Average weekly overtime hours (manufacturing) declined at a faster pace compared to a year ago; Jun -2.9% versus May 0%. On a monthly basis, average weekly over time hours was unchanged from the month prior;



<https://www.bls.gov/ces/>

Total Motor Vehicle Sales (Jun)

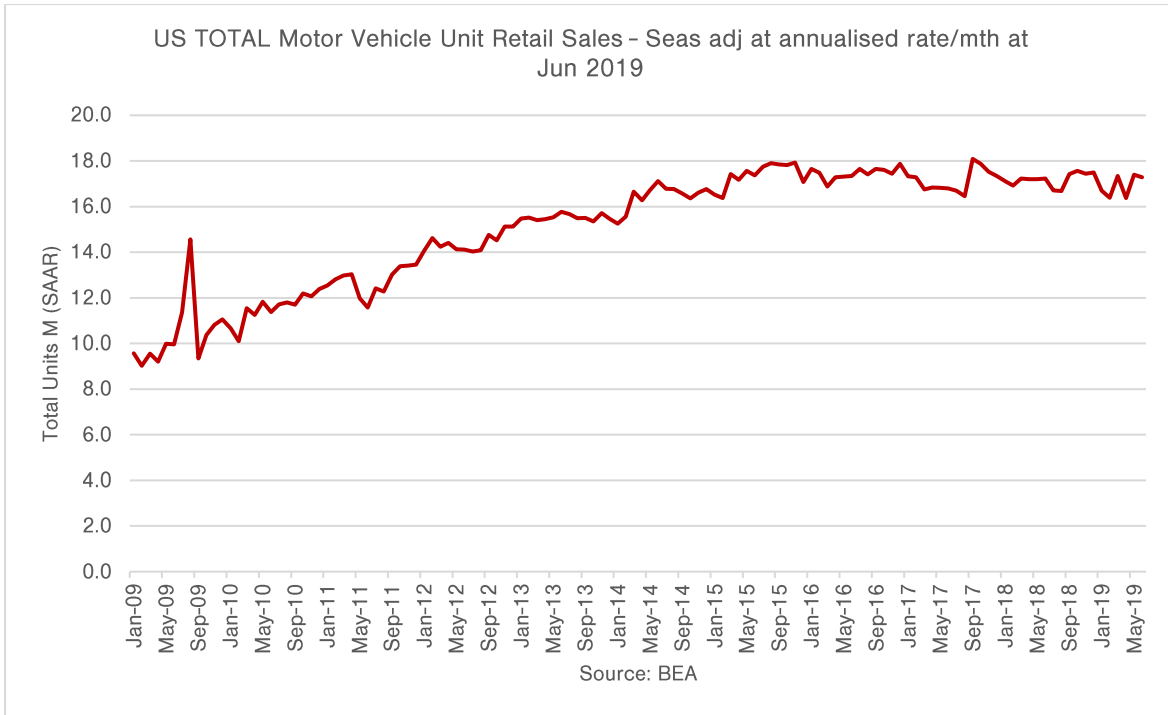
At a total level, motor vehicle sales stalled in the latest month. The seasonally adjusted annual rate of sale slowed from 17.9m units in May to 17.8m units in Jun – this will likely result in a slightly negative contribution to Jun retail sales.

The small increase in auto sales was offset by a decline in light truck sales for the month.

Total Motor Vehicle Sales

The seasonally adjusted annual rate (SAAR) of sale declined in Jun;

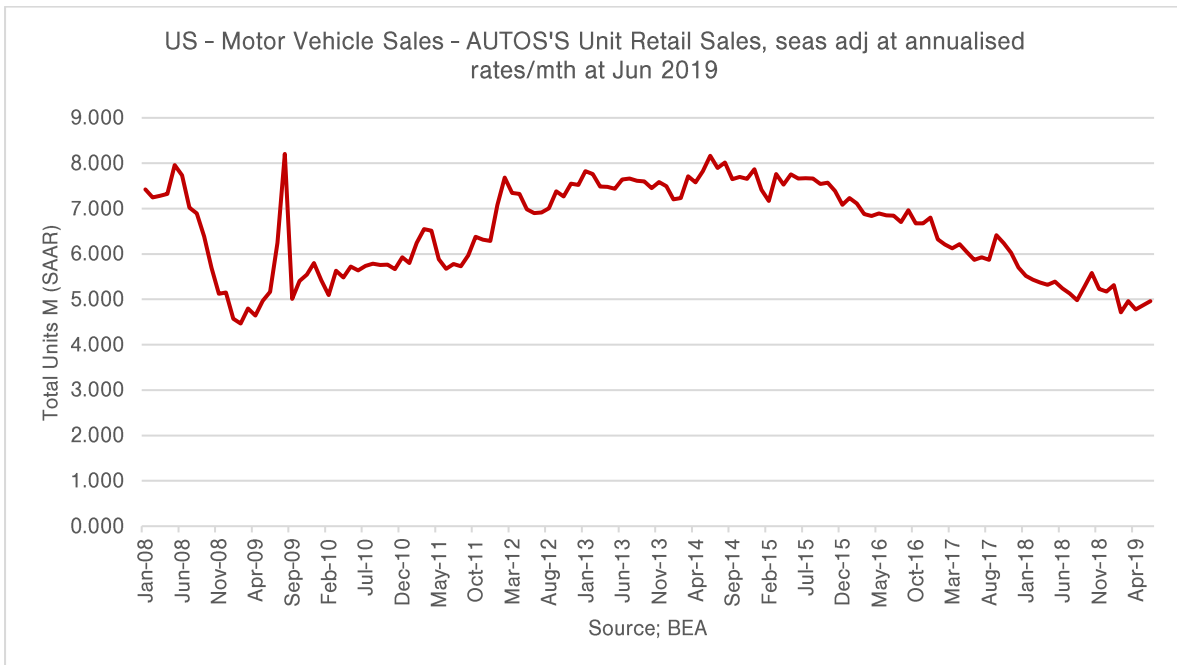
June 17.8m units versus May 17.9m units. The rate of sale in Jun remains only 1% above a year ago;



Auto Sales

The SAAR of sale increased further in the latest month;

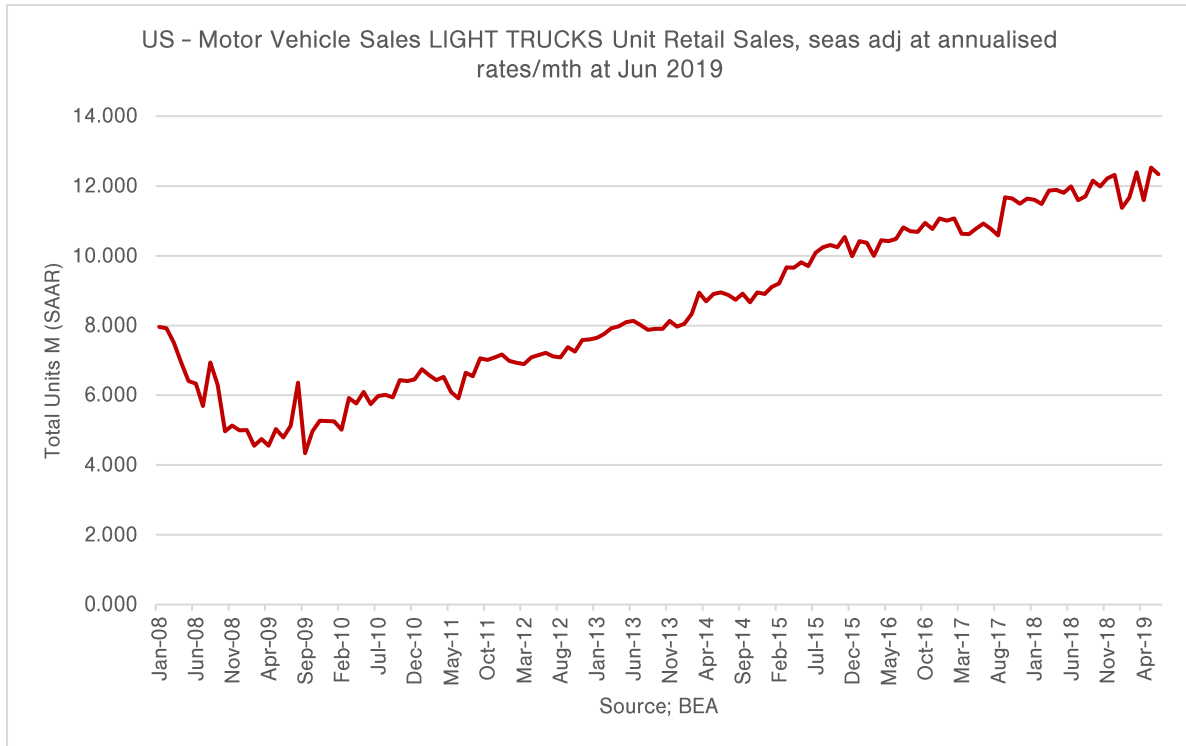
Jun 4.96m units versus May 4.87m units. The annual rate of sale in Jun remains 5% below a year ago;



Light Truck (incl SUV's) Sales

The SAAR of sale slowed in the latest month;

Jun 12.3m units versus May 12.5m units. The seas adjusted annual rate of sales recorded in Jun is still 3% above a year ago;



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

<https://www.autonews.com/sales/hyundai-and-fca-big-rivals-down-another-soft-sales-month>

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Europe

Eurozone Composite PMI (Jun)

The broader composite measure of private sector services and manufacturing activity grew at a faster pace in Jun. This was led by faster growth in service sector activity while manufacturing continued to contract.

Eurozone Composite PMI; Jun 52.2 versus May 51.8

Eurozone Manufacturing PMI (Jun)

Manufacturing activity in the Eurozone continued to contract in Jun at a similar pace as May.

Headline Manufacturing PMI; Jun 47.6 versus May 47.7

Conditions for consumer goods industries improved while intermediate and capital goods producers recorded marked contractions.

Overall new orders and new export orders continued to contract. This is the ninth month orders have contracted. As a result, production declined slightly, and firms continued to work through backlogs. As a result of lower production, employment fell for the second month – led by Germany, Italy and Spain.

Input prices fell while firms increased output charges at a slower pace.

“Deteriorating inflows of new work meanwhile meant manufacturers increasingly focused on keeping costs down, notably by cutting staff numbers and warehouse stocks.”

IHS Markit Eurozone Manufacturing PMI



<https://www.markiteconomics.com/Public/Home/PressRelease/52c623205f25490ab65c895834f78408>

Eurozone Services PMI (Jun)

Services activity across the Eurozone grew at a faster pace in the latest month;

Services Business Activity Index: Jun 53.6 versus May 52.9

Eurozone members in the survey recorded an increase in services activity in Jun.

New business volumes increased at a constant pace. This resulted in the largest increase in backlogs of work since last Nov.

Despite the expansion in activity, business sentiment slumped to a four-and-a-half-year low during June. German and French service providers were the least confident of a rise in activity from present levels in 12 months' time.

<https://www.markiteconomics.com/Public/Home/PressRelease/006e6688b50348e88796968e77580bf5>

Eurozone Retail Sales (May)

The volume of retail sales declined for the second month in a row across both the Euro-area and the EU28 group.

Euro area – Retail Sales

Month change; May -0.3% versus Apr -0.1%

The decline in the month was led by food, drinks and tobacco and automotive fuel sales. Sales of non-food products declined slightly by -0.1%, led only by textiles, clothing and footwear.

EU-28 Retail Sales

Month change; May -0.4% versus Apr -0.1%

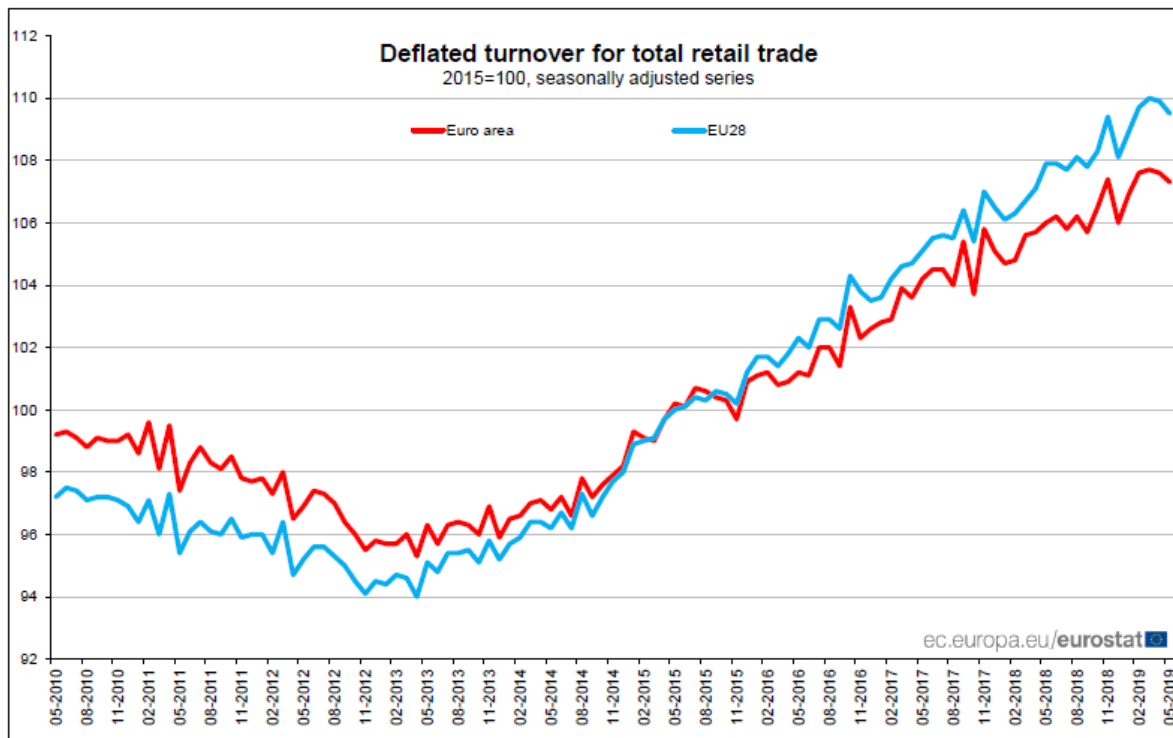
The decline in sales for the month was more widespread; food, drink and tobacco, non-food categories, and auto fuel all declined in the month.

Annual Growth – Retail Sales

Annual growth in retail sales volume slowed further in May across the Eurozone;

Euro area – annual change; May +1.3% versus Apr +1.8%

EU28 Group – annual change; May +1.3% versus Apr +3.2%



<https://ec.europa.eu/eurostat/documents/2995521/9961063/4-04072019-AP-EN.pdf/6d783cf6-1d46-4de2-9731-2cfd93a10e22>

Germany Composite PMI (Jun)

The composite measure of private sector activity across manufacturing and services in Germany was unchanged in the month. The weaker performance of the manufacturing sector continues to be at least offset by stronger growth in the services sector.

Composite PMI; Jun 52.6 versus May 52.6

Germany Manufacturing PMI (Jun)

Manufacturing activity in Germany continued to contract in Jun, albeit at a slower pace than in May;

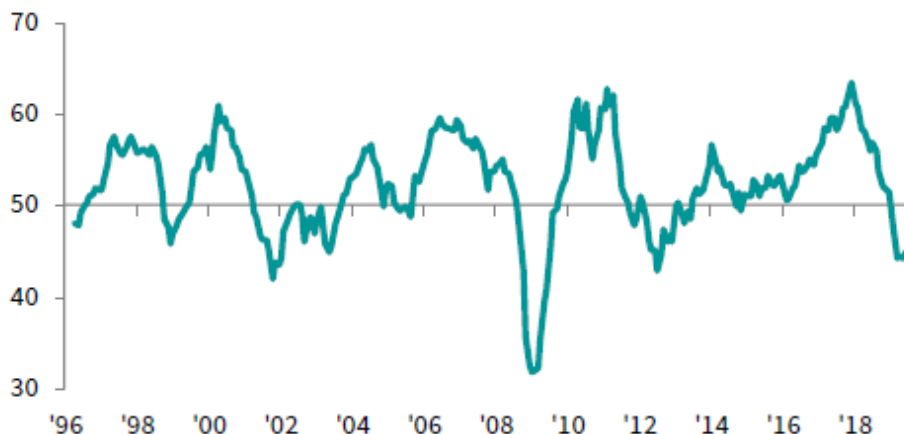
Headline Manufacturing PMI; Jun 45 versus May 44.3

Consumer goods firms recorded overall growth while intermediate and capital goods firms continued to record declining/contracting activity.

While new orders continued to decline in Jun, that decline slowed (rather than accelerated). New export orders continued to weaken – amid reports of lower demand especially from Asia. A somewhat disturbing combination - output declined at a slightly accelerated pace, order backlogs continued to decline, and stocks of finished goods increased. Manufacturing employment declined for the fourth month at a slightly slower pace – focusing on non-replacement of leavers. With lower production requirements, firms also reduced input buying – stocks of inputs were ‘reduced markedly’.

Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit

<https://www.markiteconomics.com/Public/Home/PressRelease/e5f91c7b711840b0970ae2208909066c>

Germany Services PMI (Jun)

The services sector continues to post stronger growth helping to offset the weaker manufacturing sector.

Germany Services Activity Index; Jun 55.8 versus May 55.4

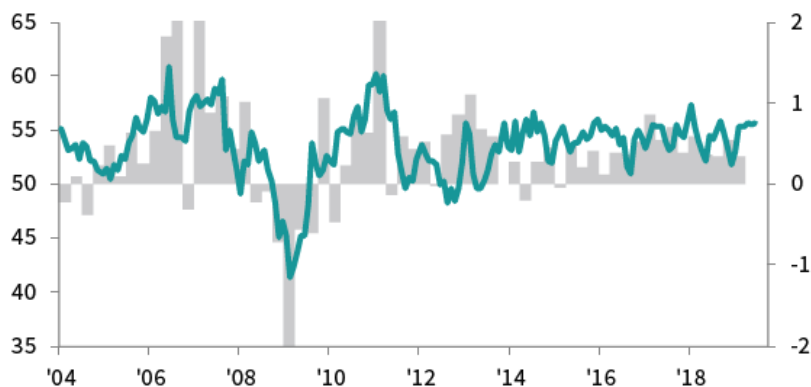
New orders growth in services continued to driver the overall performance of the services results. New orders growth was faster than in May – led by the domestic market while new orders from abroad continued to decline. Overall growth in orders resulted in continued growth in employment.

Despite the current performance, the index of the outlook for activity in six-months' time fell to the lowest point since 2015.

Services Business Activity Index Services Gross Value Added (GVA)

sa, >50 = growth since previous month

%q/q



Note: Services GVA data include retail, which is not included in the PMI.

Sources: IHS Markit, Federal Statistical Office

Germany Factory Orders (May)

Manufacturing new orders declined faster in May. This was led by a much larger decline in foreign new orders (non-euro area countries). New orders from euro-area countries also declined but orders from the domestic market increased in the month. On an annual basis, new orders remain well below a year ago across all markets.

Total New Orders in Manufacturing

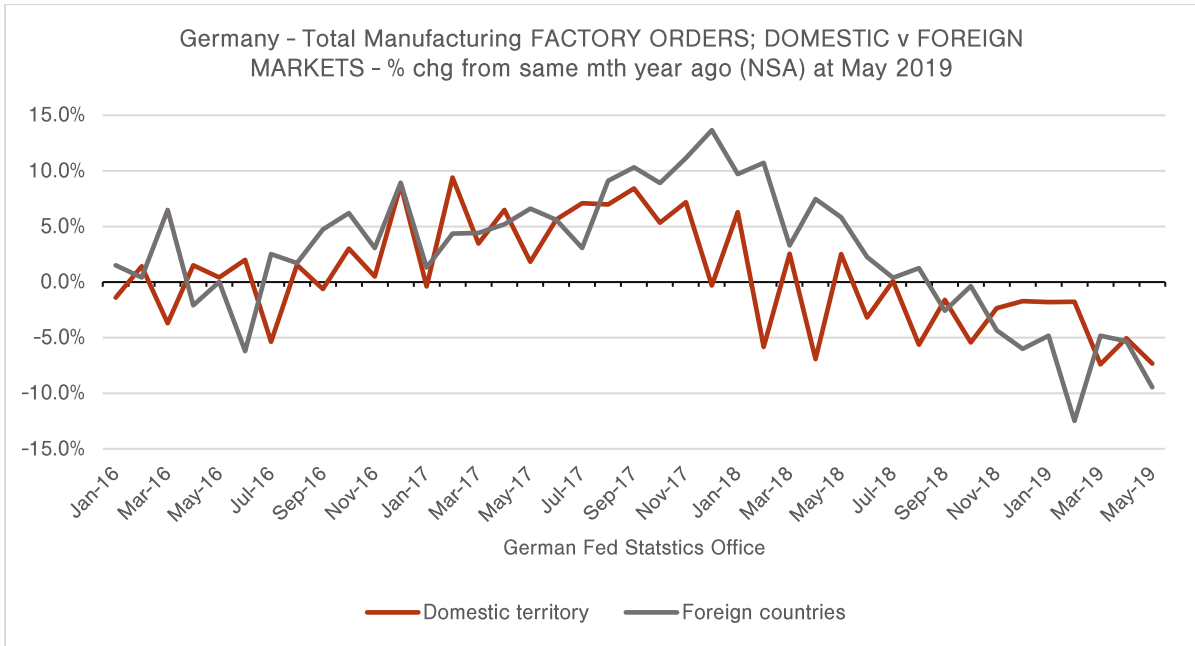
Month change: May -2.2% versus Apr +0.4%

Domestic market – new orders +0.7% versus foreign market new orders -4.3%.

Annual change: May -8.6% versus Apr -5.3%



The annual growth in new orders for manufacturing are lower across both domestic and foreign markets, despite the improvement in domestic orders in the month;



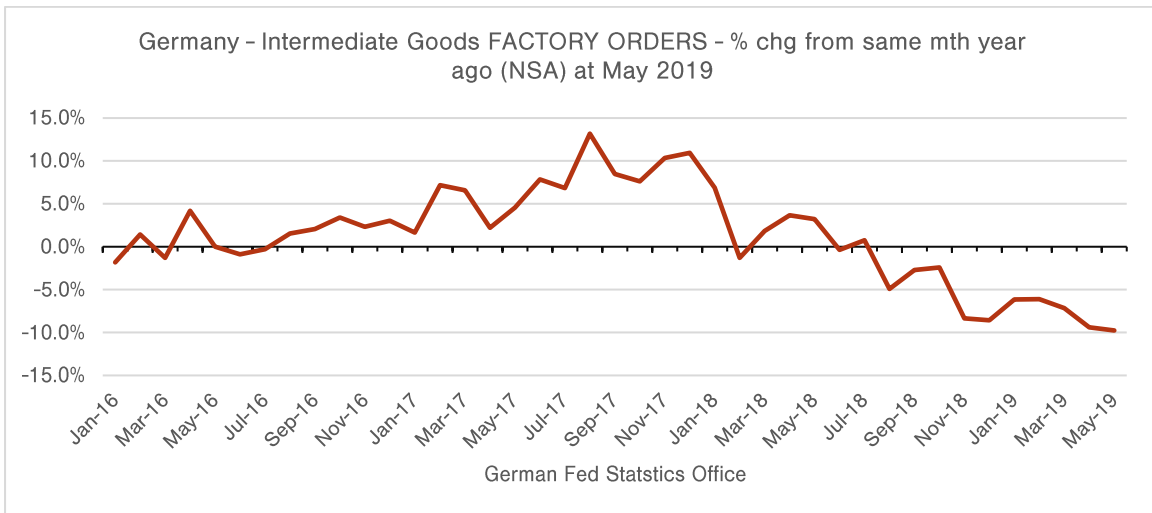
New Orders by Main Industry

Intermediate Goods

Month change in new orders; May -1.5% versus Apr -0.3%

Orders were lower in the month due to foreign markets -3.3% while domestic orders were +0.3%.

On an annual basis, new orders for intermediate goods are -9.8% below a year ago;



Capital Goods

Month change in new orders; May -2.8% versus Apr +0.7%

Orders were lower in the month due to foreign markets -5.1% while domestic orders were +1.4%.

On an annual basis, new orders for capital goods are -8.5% below a year ago;



Consumer Goods

Month change in new orders; May -0.7% versus Apr +0.1%

Orders were lower in the month due to foreign markets -0.6% and domestic orders -1%.

On an annual basis, new orders for consumer goods are -3% below a year ago;



Durable Goods

Month change in new orders; May +2.3% versus Apr -3.4%

Orders were higher in the month due to growth across both foreign market orders +2.1% and domestic orders +2.7%.

On an annual basis, new orders for durable goods are -7% below a year ago;

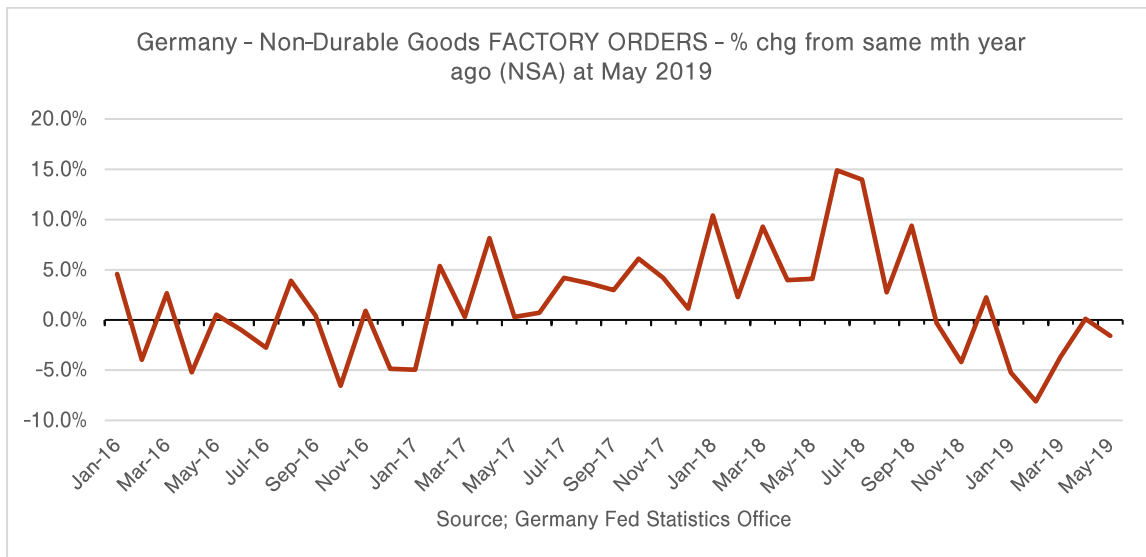


Non-Durable Goods

Month change in new orders; May -1.9% versus Apr +1.4%

Orders were lower in the month due to a decline in orders across both foreign markets -1.5% and the domestic market -2.4%.

On an annual basis, new orders for non-durable goods are -1.5% below a year ago;



https://www.destatis.de/EN/Press/2019/07/PE19_255_421.html

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Japan

Composite PMI – Final (Jun)

Overall private sector business activity in Japan expanded at a slightly faster pace in Jun. The level of growth remained lower overall as weaker manufacturing activity was somewhat offset by stronger growth in services activity.

The Japan Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.

Headline Composite PMI; Jun 50.8 versus May 50.7

Manufacturing PMI – Final (Jun)

Broadly, manufacturing activity continued to contract somewhat in Jun.

Headline Manufacturing PMI; Jun 49.3 versus May 49.8

The PMI report notes that US-China trade friction and ‘subdued auto sector trends’ had contributed to weaker manufacturing performance. Overall a further fall in new orders, new export orders and production was experienced in the month. Orders backlogs declined by the largest amount since Jan 2013. Growth in employment slowed further. Firms became more cautious about inputs with buying falling at the fastest pace in 4-months. Inventories of inputs declined while finished goods inventories increased at a faster pace.

Jibun Bank Japan Manufacturing PMI

sa, >50 = improvement since previous month



Sources: Jibun Bank, IHS Markit.

We will have to see how this translates to the June industrial production data. The May PMI indicated little change in output and new orders – both of which had been stalling/declining in the May. Yet the prelim May industrial production data (production) indicated stronger growth in output for the month. It’s worth noting that the May prelim industrial production levels and growth for autos/motor vehicles was quite strong.

Based on the PMI for Jun, as well as the forecast for production growth from the May IP report, it’s possible that IP output will fall in Jun.

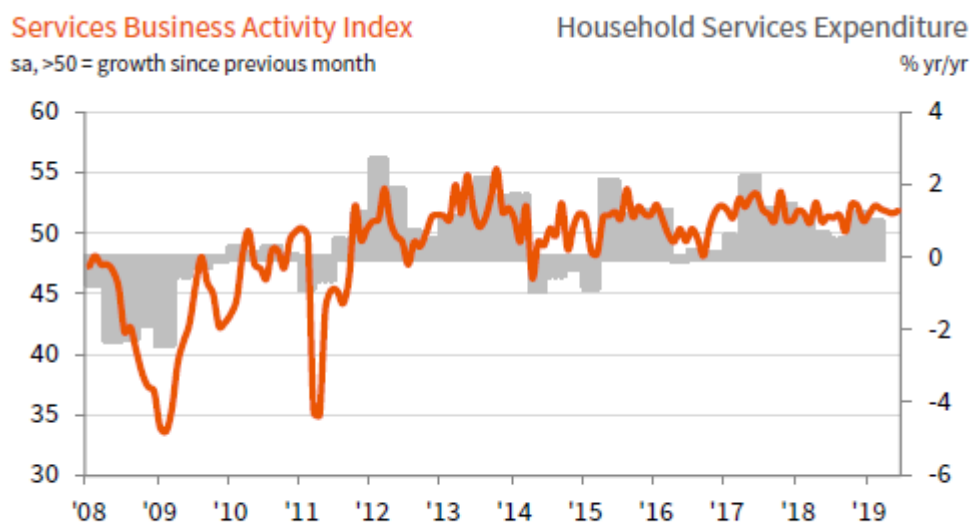
<https://www.markiteconomics.com/Public/Home/PressRelease/2a0cf4974d9d495eb82eaa24eb8ee785>

Markit Services PMI (Jun)

The services PMI indicated that the volume of business activity continued to expand at a slightly faster pace in Jun. The general level of growth remained in-line with recent performance.

Headline Services PMI; Jun 51.9 versus May 51.7

Domestic conditions remained stronger which helped to offset a further decline in external orders. Output continued to grow. Order backlogs also increased. Employment continued to expand but that expansion was the slowest in four-months (non-replacement of retiring employees). Input price growth slowed further while output prices increased only modestly. Business optimism remained little changed as firms forecast stronger demand.



Sources: Jibun Bank, IHS Markit, Cabinet Office Japan

<https://www.markiteconomics.com/Public/Home/PressRelease/48ef2bdabc6446d6af68b20d9e0fc4b6>

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United Kingdom

BREXIT

The process to select a new leader of the Conservative Party continues. It is now only several weeks until the Conservative party leadership ballot is finalised.

Boris Johnson remains the favourite to win the leadership and has been advocating for a 'hard-line Brexit';

Both candidates to replace Theresa May as prime minister, Boris Johnson and Jeremy Hunt, have promised to take the UK out of the EU this year, with or without a deal, with Johnson insisting that leaving on October 31 is "do or die."
<https://www.businessinsider.com.au/no-deal-brexite-british-are-stockpiling-food-medicine-and-clothes-2019-7?r=US&IR=T>

In the same article, it was reported that approx. 40% of households in the UK had begun stockpiling food and medicine given the harder-line both candidates had taken. If this is correct, then retail sales growth is likely to start to accelerate again over the coming months. The stand taken by both candidates may also begin to impact firms decisions to build inventories leading into the end of Oct.

Conservative Party members, approx. 160k members, will vote on the leadership.

"The result of the postal ballot will be announced in the week of July 22."
<https://www.reuters.com/article/uk-britain-eu-leader/pm-favourite-johnson-reiterates-desire-for-october-31-brexite-idUSKCN1TNOMX>

Markit Services PMI (Jun)

After a somewhat moderate improvement in activity in May, business services activity slowed to almost zero growth in Jun. The uncertainty around Brexit continues to be cited by firms as a handbrake on growth.

Business Services Activity Index: Jun 50.2 versus May 51

New orders declined slightly in the month and lower new orders have been recorded in five of the last six months. The backlog of work continued to decline for the ninth month. Despite the slow down in activity, employment continued to grow – firms cited long-term business expansion plans.

"Survey respondents noted that they had started to find it easier to fill long-term vacancies."

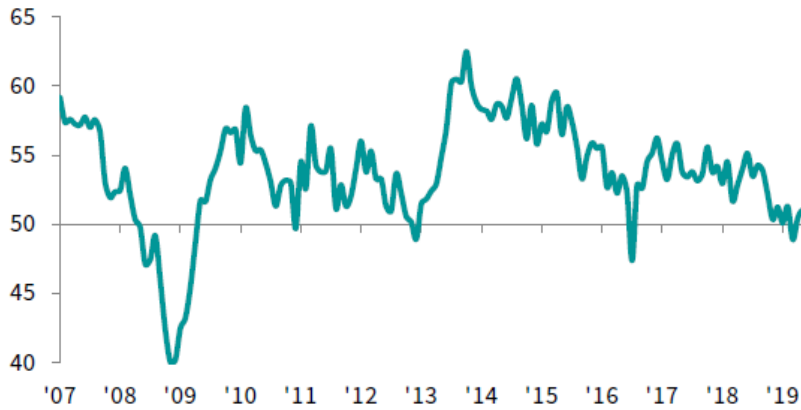
Confidence fell slightly in the latest month –

"Anecdotal evidence revealed a wide range of views in relation to the business outlook, with some firms anticipating a rebound in demand following greater clarity about the path to Brexit. On the other hand, there were also widespread reports that growth expectations remained subdued amid concerns that

domestic political uncertainty and subdued global economic conditions would continue to hold back corporate spending.”

Services Business Activity Index

sa, >50 = growth since previous month



Sources: IHS Markit, CIPS

<https://www.markiteconomics.com/Public/Home/PressRelease/03e2ca7232564acf8d8867ca7bc1dbd3>

Manufacturing PMI (Jun)

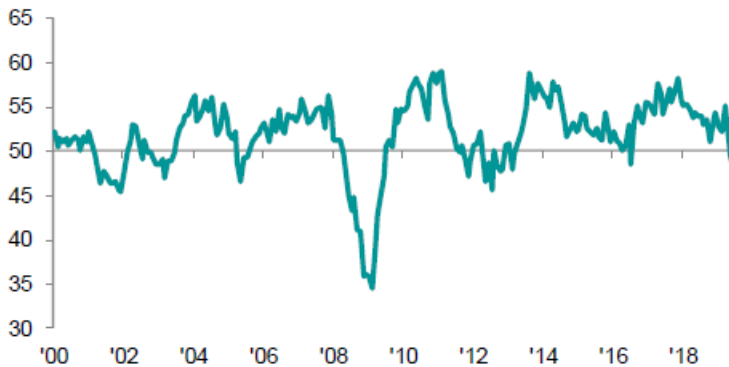
The manufacturing sector in the UK contracted at a faster pace in Jun.

Headline Manufacturing PMI; Jun 48 versus May 49.4

The effect of stockpiling prior to the original Mar Brexit date continues to be felt as firms lower production. New orders continue to contract amid declining domestic and export demand. Reduced export orders were mentioned from the US, Europe and Australia. Employment fell for the third month in the sector. Stocks of finished goods grew at a slower pace and input inventories declined as firms reduced purchasing activity.

Manufacturing PMI

sa, >50 = improvement since previous month



<https://www.markiteconomics.com/Public/Home/PressRelease/afba065ed17f42b7abab1dfabf37c33b>

Construction PMI (Jun)

The construction PMI has been included due to the abrupt nature of the decline in activity this month. While a contraction in activity was expected, the actual decline was much larger than expected.

Headline Construction PMI; Jun 43.1 versus May 48.6

The level of the decline in activity is now the largest since the GFC. Activity and new business both fell at the fastest pace in over ten-years. Heightened political and economic uncertainty were reasons cited for greater risk aversion.

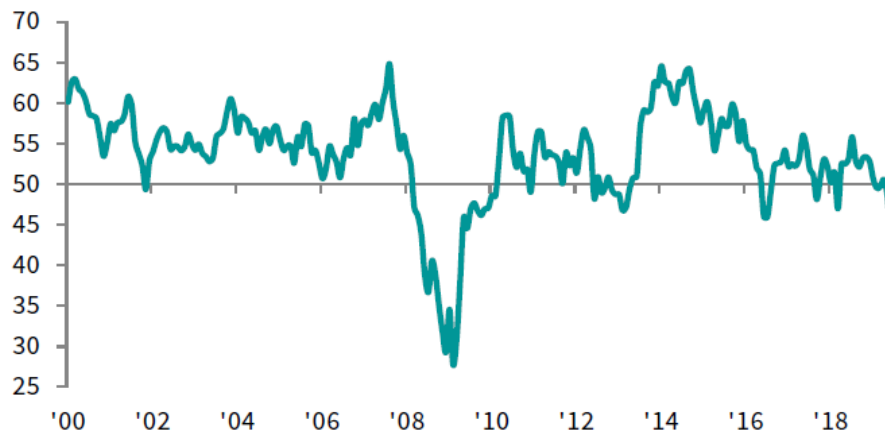
House building – recorded the largest decline in three years.

Commercial building – fell for the sixth consecutive month and ‘remained the worst performing area of construction activity.

Civil engineering activity – declined at a sharp pace, the fastest contraction since Oct 2009.

Total Activity Index

sa, >50 = growth since previous month



There was only a marginal decline in employment – firms still anticipate a recovery in sales/activity.

Optimism in the outlook for construction remained ‘subdued’ near the current seven-month low.

While the performance in the month is worrying, this provides some context and balance;

"However, we are still a long way off the level of entrenchment seen in the last economic crisis, **as payroll numbers remained relatively steady as any job cuts were just delays in replacing staff.** But with the onslaught of indecision combined with a weakening global economy, this could easily turn into more months of contraction as future optimism remains subdued."

<https://www.markiteconomics.com/Public/Home/PressRelease/92a5c843504548d8ac454df07bdd97ee>

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Australia

RBA Interest Rate Decision and Statement – 2 Jul 2019

The RBA cut the overnight cash rate for the second month in a row by 25bps to 1.0%

“Today's decision to lower the cash rate will help make further inroads into the spare capacity in the economy. It will assist with faster progress in reducing unemployment and achieve more assured progress towards the inflation target.”

Outlook

Continues to be marred by trade disputes, creating uncertainty. Global trade is slowing, especially in Asia.

Current Conditions

The main domestic uncertainty remains the outlook for consumption amid low income growth and declining house prices. Aus economy grew at below trend in Q1.

Despite strong employment growth in recent years, little inroads made into reducing underemployment (incl unemployment). Wages growth not likely to start rising until this is reduced.

Inflation pressures remain subdued. The RBA statement notes that;

“Inflation is still, however, anticipated to pick up, and will be boosted in the June quarter by increases in petrol prices.”

[Quite an absurd statement. Rising inflation via cost-push within the current context of low consumption and wages growth would create a tax on the economy right when it doesn't need it.]

Housing market remains weak, but the RBA is noting some stabilization in price falls.

Key guidance statement - Jul

“The Board will continue to monitor developments in the labour market closely and adjust monetary policy if needed to support sustainable growth in the economy and the achievement of the inflation target over time.”

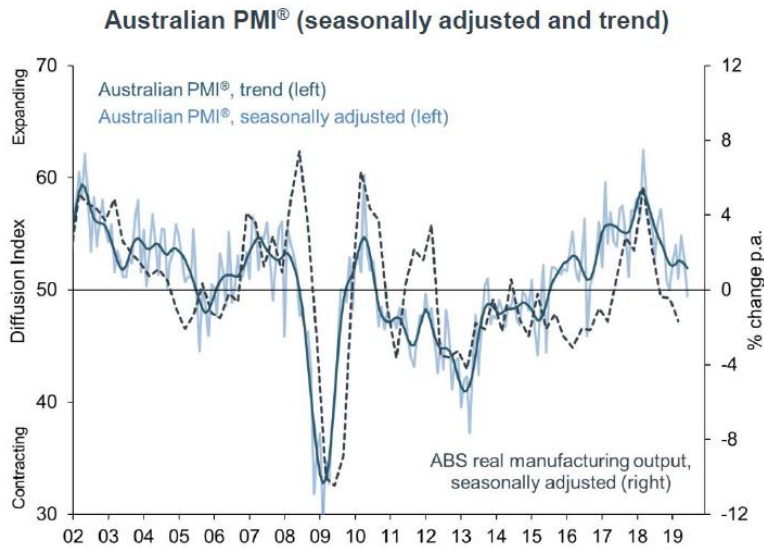
This statement is unchanged from Jun (the last rate cut) – suggests that the RBA will maintain its easing bias.

Further speeches by Governor Lowe throughout the week may shed further light on the sense of urgency of the RBA for more cuts.

<https://www.rba.gov.au/media-releases/2019/mr-19-18.html>

AiG Manufacturing, Services & Construction Perf Index (Jun)

Manufacturing Performance Index; Jun 49.4 versus May 52.7

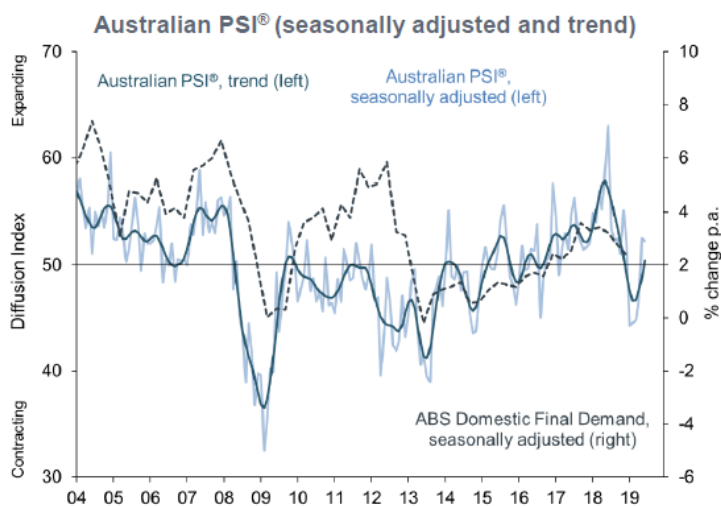


Machinery & Equipment (47.2) and Metal Product (40.8) industries continue to contract – impacted by downturn in housing construction and drought conditions in some parts of the country. The drought is also impacting food prices as inputs for food manufacturers.

Export demand for food, bevs, pharma and other consumer products continues to support growth in food & bev (60.6) and chemical (54.7) manufacturing industries.

Key indicators; Overall lower PMI due to slow down in employment growth (now 50.1), New orders falling into a slight contraction, supplier deliveries and finished stocks also contracting in the month. Exports grew at a faster pace. Sales growth slowed to further to 50.8. Input prices (67.4) remain elevated while selling prices declined (49.6).

Services Performance Index; Jun 52.2 versus May 52.5



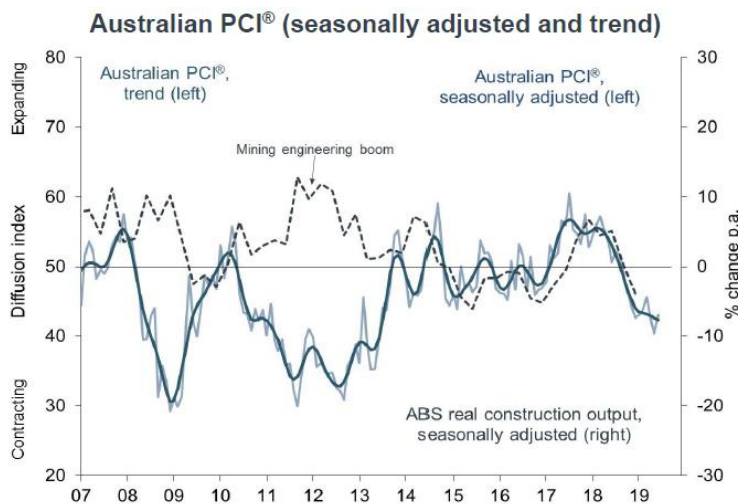
Is this the first hint at some rebound in the economy?

“For many respondents, June felt like a return to ‘business as usual’. They said local sales are improving due to a combination of a higher number of uninterrupted trading days, increased certainty following the Federal election and lower interest rates for mortgagee households following the Reserve Bank of Australia’s (RBA) cut to the official cash rate. Increased activity in the mining sector was an additional positive factor for some participants, while others noted that the lower trading range for the Australian dollar is helping them stay competitive against low-cost imports.”

This was the second month where services activity expanded at a faster pace (albeit Jun was slightly slower). All service sectors recorded improved activity in the latest month. One of the weaker performers has been retail trade – which ‘improved’ in the latest month from 44.4 in May to 47.1 in Jun.

The slower growth in the month was the result of a shift to a decline in employment in the month. Wages growth slowed. Selling prices declined while input price growth slowed.

Construction Performance Index; Jun 43 versus May 40.4



Similarly, activity across most areas increased at a faster pace in Jun – although most sectors remain in contraction (<50);

AUSTRALIAN PCI® 43.0 ↑ 2.6 POINTS (seasonally adjusted)	ACTIVITY 44.9 ↑ 5.2 POINTS (seasonally adjusted)	NEW ORDERS 41.5 ↑ 2.1 POINTS (seasonally adjusted)	EMPLOYMENT 43.6 ↑ 4.1 POINTS (seasonally adjusted)
HOUSE BUILDING ACTIVITY 36.3 ↑ 0.2 POINTS (trend)	APARTMENT ACTIVITY 37.9 ↑ 1.2 POINTS (trend)	ENGINEERING ACTIVITY 51.6 ↑ 0.4 POINTS (trend)	COMMERCIAL ACTIVITY 46.1 ↑ 0.7 POINTS (trend)

<https://www.aigroup.com.au/>

Retail Sales (May)

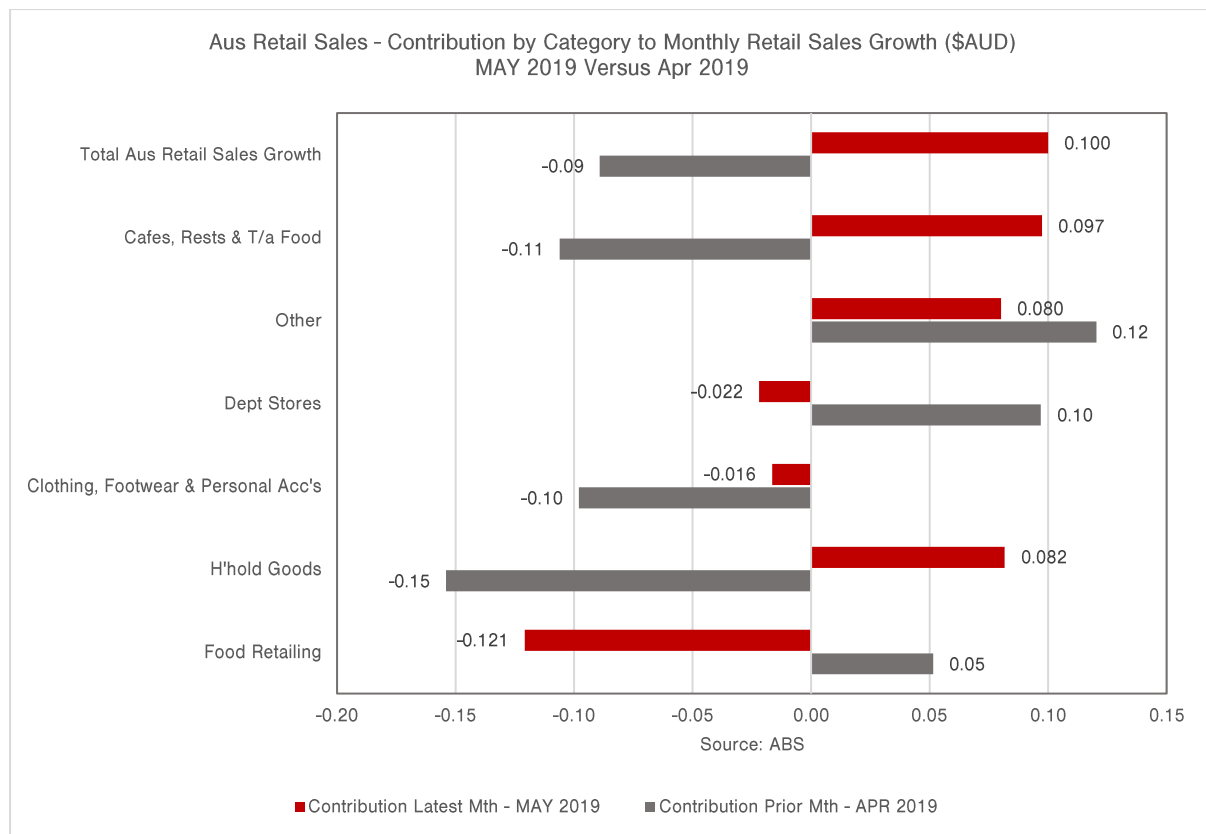
Retail sales growth in Australia was subdued in May after declining slightly in the month prior. Growth in cafes, restaurants and takeaway, household goods, and other helped to offset declines in dept stores and food retailing. On a state basis, growth in retail sales was led higher mostly as a result of one state – Vic.

The slowing annual retail spending continues to concern the RBA. Over the next few months we will see whether the interest rate cuts (from Jun & Jul) and the election results shift spending and sentiment.

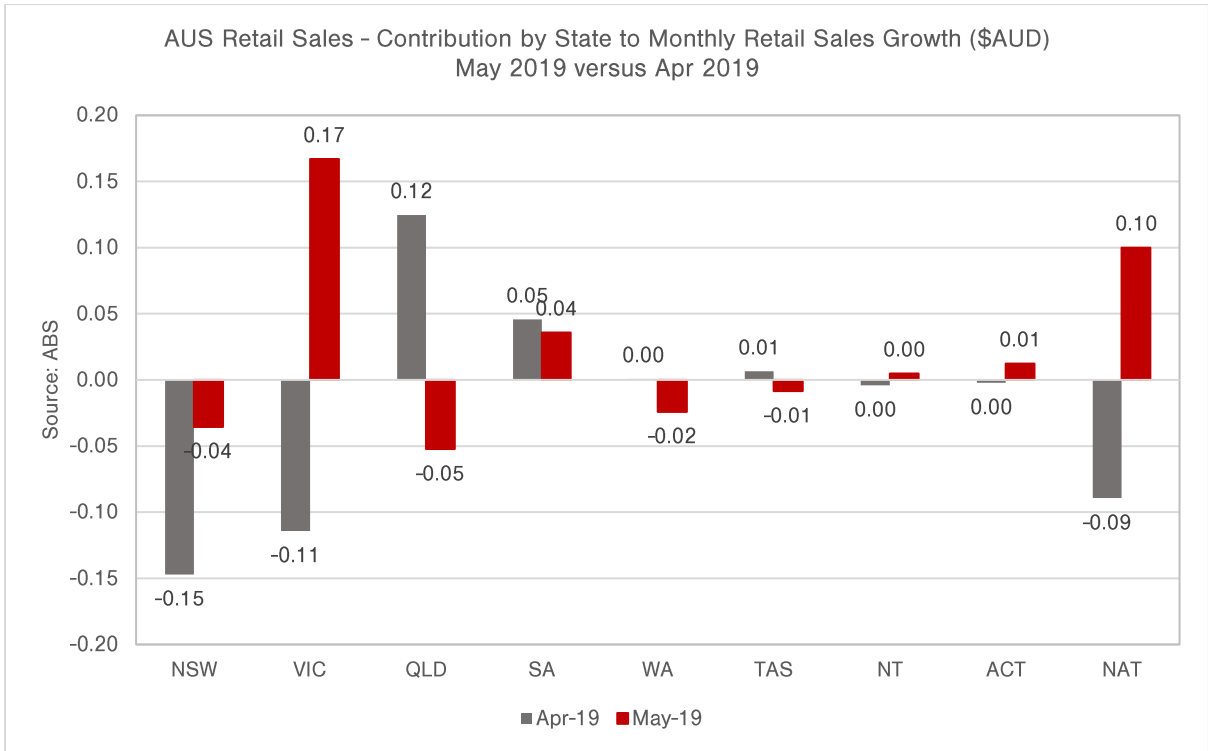
Retail Sales – month chg:

May +0.1% versus Apr -0.1%

The shift in the month was the result of faster growth in cafes, restaurants and takeaway and household goods. This offset declines in food retailing, dept stores and clothing & footwear.



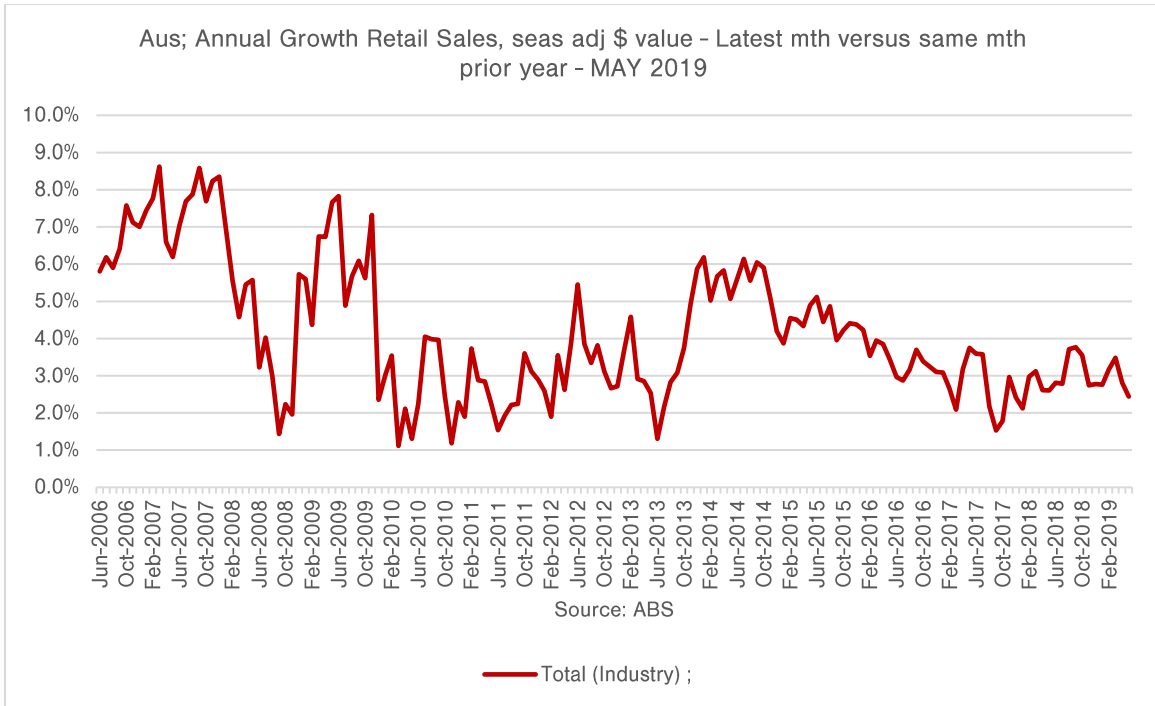
On a state basis, the improvement in the latest month sales was the result of faster growth in Vic. This offset a further decline in NSW retail sales and a slight decline in QLD.



The most notable state result is TAS. This is a very small state, but it has been out-performing most other states recently across a broad range of measures. The change in retail sales this month indicates a shift in spending patterns in that state and the annual growth in sales has slowed now to a mere 0.6% in May.

Retail Sales – Annual change

The value of retail sales slowed further; May +2.4% versus Apr +2.8%.



<https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/8501.0Main+Features1May%202019?OpenDocument>

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China

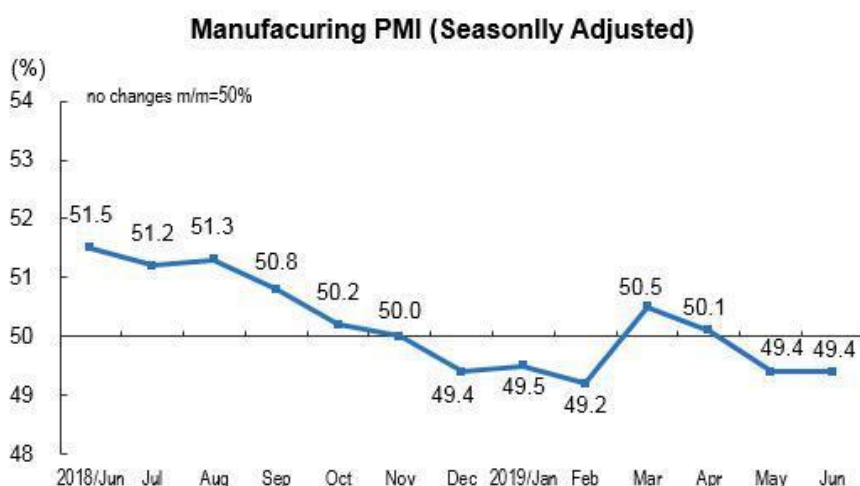
NBS Manufacturing and Non-Manufacturing PMI (June)

The official NBS data indicates that growth in activity of services firms continued to offset a further decline in manufacturing activity in Jun. Given that the composite PMI grew at only a slightly slower pace of 53 in Jun versus 53.3 in May indicates that the composite index is weighted more towards services firms.

Manufacturing PMI; Jun 49.4 versus May 49.4

This is now the second month of contraction after a brief reprieve in Mar and Apr.

New orders declining at the equal lowest pace for the last 18 months and new export orders at the second lowest pace since Feb. Employment decline at the fastest pace in 18-months. Production growth still positive but slowing as open orders continue to contract. Finished goods inventories declined. Firms reduced purchases and raw materials inventories continued to decline.



Non-Manufacturing PMI; Jun 54.2 versus May 54.3

Services/non-manufacturing activity continued to expand in at a constant pace.

Overall new orders grew at a faster pace. Foreign new orders declined for the fourth month, albeit at a slower pace. And unfilled orders continued to decline. Input prices increased but at a slower pace while sales prices declined for the second month running (suggesting some weakness in sales?). Further evidence that all may not be well – employment growth declined at the fastest pace in the last 18 months.

Expectations remain elevated and continue to expand.



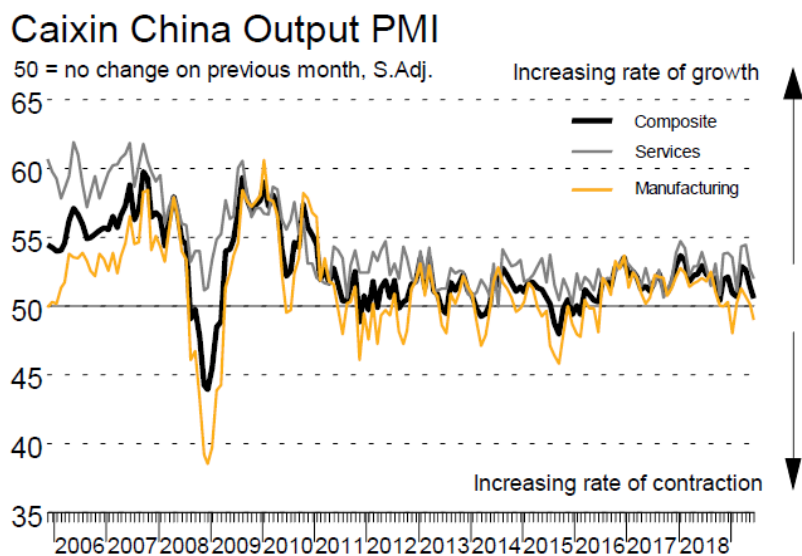
http://www.stats.gov.cn/english/PressRelease/201907/t20190701_1673518.html

Caixin Composite PMI – (Jun)

Private sector business activity continued to expand at a somewhat slower pace in Jun. This was led by slower growth in service and a further contraction in manufacturing activity;

Headline Composite PMI; Jun 50.6 versus May 51.5

“Lastly, expectations at Chinese firms regarding future activity fell to a record-low for the second consecutive month in June. While service sector companies remained strongly optimistic, the outlook among manufacturers was only marginally positive overall. Some companies expected the launch of new products and expansion plans to boost output in the year ahead, while others were concerned about the China-US trade tensions.”



Sources: IHS Markit, Caixin.

Caixin Manufacturing PMI (Jun)

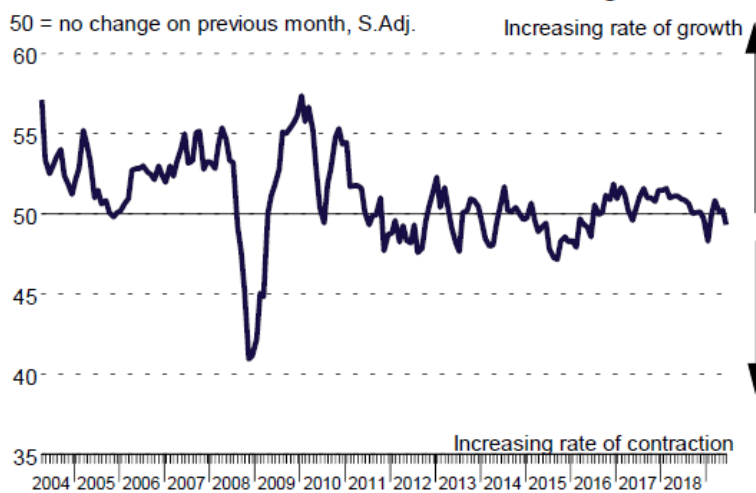
The Caixin manufacturing survey is more focused on small, private manufacturing firms. This month, the activity of these manufacturing firms shifted back into slight contraction.

Headline Manufacturing PMI: Jun 49.4 versus May 50.2

Total new business and export orders declined, and output was also cut amid the lower orders. Consumer goods focused firms recorded growth in the month. With lower production and orders, firms reduced employment and quantities of input purchases. Finished goods inventories decreased but input inventories still increased despite lower purchases.

Sentiment remained neutral.

Caixin China General Manufacturing PMI



Sources: IHS Markit, Caixin.

<https://www.markiteconomics.com/Public/Home/PressRelease/7081cdf2121749cb9b12e78b9c28edf1>

Caixin Services PMI (Jun)

Services activity grew at a slower pace in Jun.

Headline Services Business Activity Index: Jun 52 versus May 52.7

Orders grew at a slightly faster pace in Jun. Stronger domestic orders offset a decline in new orders from overseas clients, which declined for the first time in nine-months. Employment growth was mostly unchanged – and declined at the composite level. Backlogs of work declined. Service firms remained optimistic about future activity.

<https://www.markiteconomics.com/Public/Home/PressRelease/0b31d26dbe4a41a4afeb9d9d8175b0b0>

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Trade

US-China Trade Negotiations

Talks are set to resume in the coming week in Beijing.

During the week, China announced plans to name foreign companies as a risk to National security. This list of 'unreliable entities' and other measures such as the purchase of US agriculture will possibly be used if talks stall again.

“The plan, first announced in May, would see foreign companies that are deemed to hurt China’s legitimate interests or pose a risk to national security added to the blacklist.”

<https://www.scmp.com/news/china/diplomacy/article/3017475/chinas-threat-blacklist-us-firms-security-risk-could-be-key>

For the moment, the pause means that the threat of the further 25% tariff on the remaining \$300bn is on hold. All other current tariffs remain in place. President Trump has also allowed US firms to start supplying Huawei again. This was in return for China buying more US agriculture.

The threat of talks stalling is likely still high – nothing has really changed;

“There have been no signs either side is willing to back down from their red lines, which begs the question: if one side must back down, which will it be? Surely, whether a deal can be made will depend on how much Beijing agrees to Washington’s terms, rather than vice versa. Trump has repeated often that China should be ready to strike a deal or tariffs will rise “very, very substantially”.” <https://www.scmp.com/week-asia/opinion/article/3017495/us-china-trade-war-ignore-hype-trump-and-xi-are-no-closer-deal>

The issue of intellectual property remains a key obstacle to the deal;

“Indeed, China’s Vice Premier Liu He has only reiterated Beijing’s position that a deal must be balanced and “expressed in terms that are acceptable to the Chinese people and do not undermine the sovereignty and dignity of the country.” <https://www.cnbc.com/2019/06/29/g20-summit-trump-and-xi-agree-to-talks-but-offer-no-clear-path-to-end-the-trade-war.html>

Reconfirming what a ‘win’ in the negotiations with China looks like – a statement of the key negotiating goals as outlined by the USTR (emphasis added);

The meetings were held as part of the agreement reached by President Donald J. Trump and President Xi Jinping in Buenos Aires to engage in 90 days of negotiations **with a view to achieving needed structural changes in China with respect to forced technology transfer, intellectual property protection, non-tariff barriers, cyber intrusions and cyber theft of trade secrets for commercial purposes, services, and agriculture.**

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

Special 2019 Section 301 Review

No further notification on progress.

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

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

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

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

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

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

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

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

Notorious Markets List

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

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

The link to the notorious markets reports is here;

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

The first country on the list is China.

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

NAFTA/USMCA

While Mexico has become the first of the three nations to ratify the new USMCA, officials continue to work with the US to close a loophole on labour and environment that may help to get approval for the deal from the Democrats in the US.

<https://dailytimes.com.pk/425004/mexico-and-us-try-new-trade-fix-to-win-over-democrats-official/>

The issue now relates to the timing of the approval of the USMCA in the US. The US Congress will commence summer recess on 27 Jul. 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 – which is approx. the end of July, in line with the commencement of the summer recess.

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

Talks continued at the G20, but little in the way of concrete progress was revealed;

Japanese and U.S. officials will meet next month to accelerate progress toward a trade deal, Economy Minister Toshimitsu Motegi told reporters after meeting Lighthizer, but added that they did not discuss a target date.

<https://www.reuters.com/article/us-g20-summit-trump-abe/trump-talks-trade-at-g20-as-chinas-xi-others-warn-of-risks-of-protectionism-idUSKCN1TT00H>

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

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 US-Europe trade talks – all of which are inter-related; the outstanding dispute and pending WTO decision on airline subsidies, the main trade negotiation and the special trade channel (Instex) set up to bypass the US sanctions on Iran to enable trade between Europe and Iran.

Airline Subsidies

This week the USTR published a press release outlining “Additional Products for Tariff Countermeasures in Response to Harm Caused by EU Aircraft Subsidies” (1 Jul 2019) <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/july/ustr-proposes-additional-products#>

The US is considering more products for tariffs thereby reinstating the threat of tariffs in the EU.

Among other things, this announcement builds on the current 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.”

[As outlined previously...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>

According to the Federal Register announcement during the week;

“A number of public comments submitted in response to the April 12 notice requested that the U.S. Trade Representative consider additional products that were not included in the April 12 list for possible inclusion on the final list of products to be subject to additional duties.”

https://ustr.gov/sites/default/files/enforcement/301Investigations/Notice_for_Additional_Products.pdf

The dates for this latest review;

July 24, 2019: Due date for submission of requests to appear at the public hearing and summary of testimony.

August 5, 2019: Due date for submission of written comments. August 5, 2019: The Section 301 Committee will convene a public hearing in the Main Hearing Room of the U.S. International Trade Commission, 500 E Street SW, Washington DC 20436 beginning at 9:30 a.m.

August 12, 2019: Due date for submission of post-hearing rebuttal comments.

Also, from the USTR announcement this week, if there is a decision on the case before the end of the public comment phase, then additional duties could be imposed before that process is complete;

“In the event the Arbitrator issues its decision prior to completion of the public comment process on the supplemental list, the USTR may immediately impose increased duties on the products included in the initial list, and take further possible actions with respect to products on the supplemental list.”

Also hanging over the negotiations are the US threats of tariffs on auto imports from Europe.

Trade Negotiations

The key sticking point remains agriculture. The EC authorised negotiations to commence between the EU and the US – but excluding agriculture. 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+authorities+negotiations+on+elimination+of+tariffs+for+industrial+goods+and+on+conformity+assessment](#)

“I do not think we will reach an agreement if agriculture is not included,” McKinney told reporters on a teleconference during his visit to Brussels, citing concerns raised by U.S. lawmakers and Trump.”

<https://www.reuters.com/article/us-usa-trade-eu/no-u-s-eu-trade-deal-without-agriculture-u-s-official-idUSKCN1TS2SH>

Instex

Last week, the EU confirmed that Britain, France and Germany had established a special trade channel (Instex) that would enable trade with Iran that circumvents the US sanctions. It was announced last year that the EU would work on developing the channel.

<https://www.reuters.com/article/us-iran-nuclear-talks-statement/europe-says-iran-trade-channel-operational-statement-idUSKCN1TT2RL>

President Trump made some mention of this development at the G-20;

“President Donald Trump said there was “absolutely no time pressure” in dealing with Iran as European nations pushed to salvage what remains of the 2015 nuclear accord and avert a slide toward war.”

<https://finance.yahoo.com/news/trump-chats-putin-shakes-hands-081017994.html>

The Instex system enables trade with Iran without the use of U.S. dollars or US banks. The US has previously stated opposition to this;

“According to Bloomberg, the Treasury Department’s undersecretary for terrorism and financial intelligence, Sigal Mandelker, sent a letter on May 7 warning that Instex, the European SPV to sustain trade with Tehran, and anyone associated with it could be barred from the U.S. financial system if it goes into effect.”

“Separately, during a visit to London on May 8, Mike Pompeo also warned that there was no need for Instex because the U.S. allows for humanitarian and medical products to get into Iran without sanction.”

““When transactions move beyond that, it doesn’t matter what vehicle’s out there, if the transaction is sanctionable, we will evaluate it, review it, and if appropriate, levy sanctions against those that were involved in that transaction,” Pompeo said. “It’s very straightforward.””

Background

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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