

## Key Themes

Speeches by US Fed officials created confusion over signalling this week. Chairman Powell signalled the likelihood of a rate cut at the next meeting. An expectation for a 50bp cut had somehow become embedded and the Williams speech was widely interpreted as signalling that the rate cut would be 50bps. This was then walked back. Current target rate probabilities continue to suggest that a 25bp cut is likely.

US data this week was better and absent was evidence of a deterioration in performance.

The first look at Jul manufacturing data saw both regional surveys rebound. The Empire State headline index rebounded back to positive territory – the outlook for 6-months ahead was more positive while current conditions were slightly less positive – measures of demand remained weaker and declining inventories suggested firms are still wary of conditions. The Philly Fed rebound was very strong – new orders growth was very strong and employment growth was a highlight.

It's possible that the Jun-specific spike lower in these regional surveys a response to the heightened uncertainty created by the threat of tariffs on imports from Mexico (as well as the uncertainty regarding US-China tariffs). That said, weaker manufacturing conditions have persisted throughout 2019 – confirmed by the lower trend in the ISM index, durable goods and also in the manufacturing component of the industrial production report so far this year. Manufacturing output was slightly higher this month but remains below the Dec 2018 peak. Overall industrial production growth this month slowed to zero %.

On the consumer side, US retail sales continued to grow in Jun with sales increasing across many categories and more than offsetting a relatively large decline in the value of gasoline sales. The first look at consumer sentiment for Jul was little changed.

The improvement in retail sales over the last few months has yet to impact inventories. The manufacturing and trade inventories and sales data highlighted that despite an improvement in sales, the sales to inventory ratio remained unchanged in May.

In Europe, economic expectations (Zew) fell further into negative territory. There was no obvious trigger for the spike lower, instead;

“...the experts seem to lose confidence that current uncertainty factors like the trade conflict between China and the US, the design of Brexit and resolve the recent escalation in the Iran conflict in the medium term. The experts' expectation of an imminent depreciation of the dollar against the euro is also likely to be a source of economic pessimism.”

Euro area CPI and core CPI both increased at a faster pace in Jun. The ECB meets in the next week and there is some uncertainty surrounding further monetary accommodations.

In Japan, both exports and imports declined in Jun (versus a year ago), continuing the trend of weaker growth. CPI growth and the BoJ measure of core CPI both slowed further in Jun. Core prices excluding energy remained unchanged.

The RBA minutes indicated that the easing bias remains in place but expectations for a third cut in Aug are low. There was little change in the employment report – with the annual view of employment growth remaining positive. But the monthly trend of increasing unemployment continued. Employment growth in Australia will need to accelerate in order to a) continue to absorb the increase in participation and b) reduce unemployment at a faster pace.

## **Contents**

[US Data](#) - Empire State Manufacturing Index (Jul), Retail Sales (Jun), Industrial Production (Jun), Business Inventories (May), Housing Market Index (Jul), MBA Mortgage Applications wk ending 12 Jul, Philadelphia Fed Business Outlook Survey (Jul), University of Michigan Consumer Sentiment – prelim (Jul)

US Fed Speeches

[Europe](#) - Zew Economic Sentiment Survey (Jul), Eurozone CPI (Jun)

[Japan](#) – Merchandise Trade Balance (Jun), CPI (Jun)

[United Kingdom](#) – Brexit, Labour Market Survey (Mar-May), CPI (Jun), Retail Sales (Jun)

[Australia](#) – RBA Meeting Minutes (Jul meeting), Labour Market Survey (Jun)

[China](#) – GDP Q2, Industrial Production (Jun), Retail Sales (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

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## US Data

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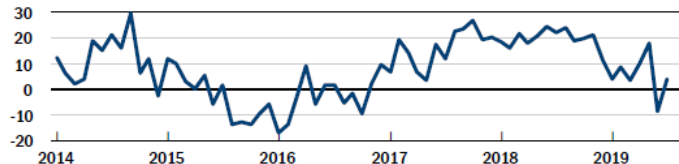
### Empire State Manufacturing Index (Jul)

The headline index of manufacturing business conditions returned to positive territory in Jul. The underlying shifts in conditions are somewhat less positive. It appears that supplier delivery times and the average employee workweek were the only indicators that shifted from negative to positive territory in the month. New orders continued to decline albeit at a slower pace. Growth in shipments still appear to be somewhat supported by firms working through backlogs. Inventories declined at a much faster pace – suggesting firms are closing managing inventory levels.

Optimism in the outlook increased, led by an increase in new orders. Shipments six-months out remained unchanged.

General Business Conditions; Jul 4.3 versus Jun -8.6

#### General Business Conditions



	Percent Reporting		Index
	Higher	Lower	
Jun	21.8	30.4	-8.6
Jul	29.8	25.6	4.3
Change			12.9

New orders continued to decline, albeit at a slower pace. Shipments continued to grow but at a slower pace. Unfilled orders continued to decline.

Inventories continued to decline and at a faster pace.

The number of employees also continued to decline at a faster pace.

Looking 6-months ahead, general business conditions for manufacturing was expected to grow at a faster pace. New orders were also forecast to increase at a faster pace – with the index now more in line with the average of 2018. No change in the outlook for shipments. There was also no change in the outlook for average workweek (remaining close to a neutral, zero growth reading). The number of employees was expected to grow at a slower pace.

[https://www.newyorkfed.org/medialibrary/media/survey/empire/empire2019/esms\\_2019\\_07\\_survey.pdf?la=en](https://www.newyorkfed.org/medialibrary/media/survey/empire/empire2019/esms_2019_07_survey.pdf?la=en)

### Philadelphia Fed Business Outlook Survey (Jul)

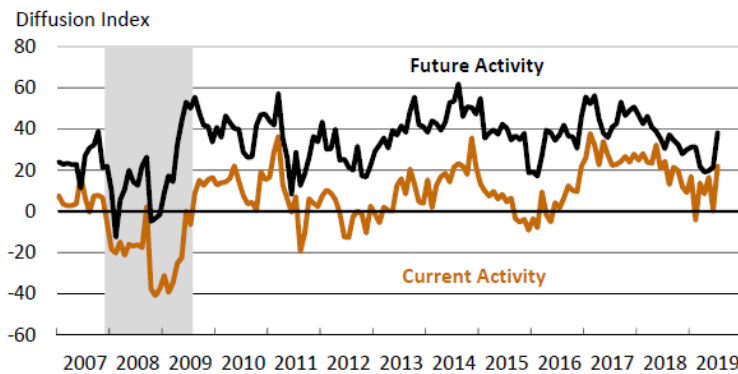
The index of manufacturing activity and conditions rebounded strongly in Jul. The index was led higher by faster growth in new orders, which is a very positive sign. Shipments also increased at a faster rate, while unfilled orders grew at a slower pace. There was strong growth in the number of employees and the average workweek. In fact, the diffusion index for the number of employees reached the second highest level in the history back to May 1968.

Headline Current Activity Index; Jul 21.8 versus Jun 0.3

The increase in the outlook for six-months ahead suggests some renewed optimism.

**Chart 1. Current and Future General Activity Indexes**

January 2007 to July 2019



Note: The diffusion index is computed as the percentage of respondents indicating an increase minus the percentage indicating a decrease; the data are seasonally adjusted.

New orders have continued to rebound since the decline in Feb. New orders increased at a faster pace in Jul.

Shipments have also continued to grow but slowed slightly in Jul. Unfilled order grew at a slower, more moderate pace.

The stand-out this month was the increase in employment. The increase in the diffusion index for the month to 30, was only slightly below the all-time high reached in Oct 2017 of 30.2. Similarly, the average employee workweek grew at a much faster pace, with the index of 23 – the second largest reading in the diffusion index going back to 1968 (the all-time high was May 2018 with a reading of 31.3).

Future expectations increased in the latest month, likely fuelling the increase in employment and hours. New orders for six months out increased from 31.5 in Jun to 45.7 in Jul.

Expectations for capex also increased at a faster pace; Jul 36.9 versus Jun 28. The index remains elevated.

<https://www.philadelphiafed.org/research-and-data/regional-economy/business-outlook-survey/2019/bos0719>

## Industrial Production (Jun)

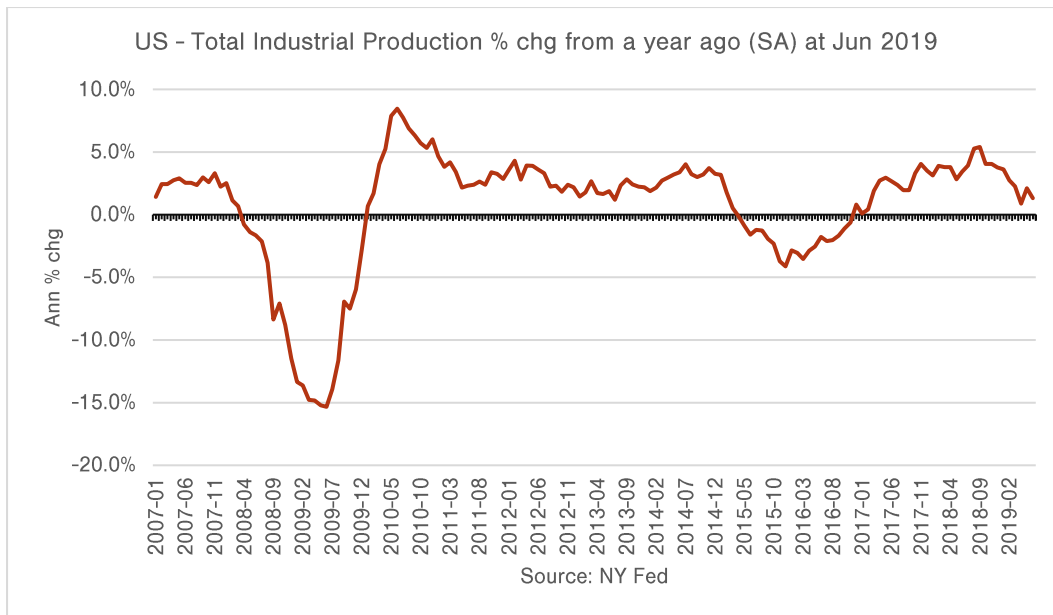
Total industrial production growth stalled in Jun, growing at 0%. Production of manufacturing increased at a faster pace in the latest month and mining increased at the same pace as the month prior. This offset a decline in electric and gas utilities production.

### Total Industrial Production

Month change; Jun 0% versus May 0.4%

The annual growth in industrial production continued to slow in Jun;

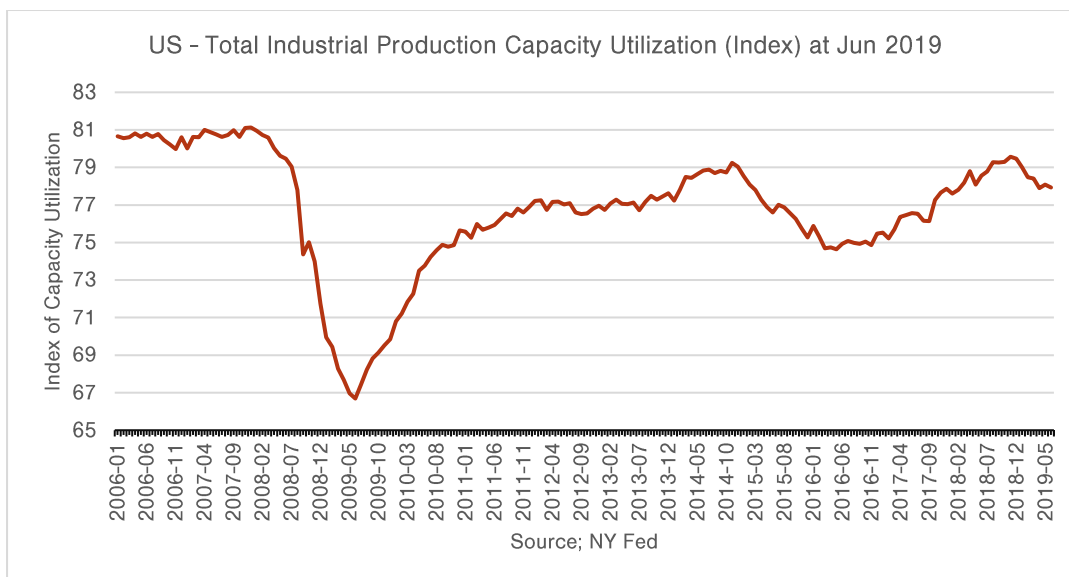
Annual change; Jun +1.3% slowing from +2.1% in May



The trend in growth highlights that the slow-down in activity has not reached similar levels to recent periods of economic weakness – i.e. 2015. The actual index of production peaked in Dec 2018 (compared back to the start of 2007) and is currently only 1% below that peak.

Industrial capacity utilization slowed further in the month; Jun 77.9% versus May 78.1%

In the latest cycle, utilization peaked in Nov 2018 at 79.5% - this remains below the utilization reached prior to the GFC;



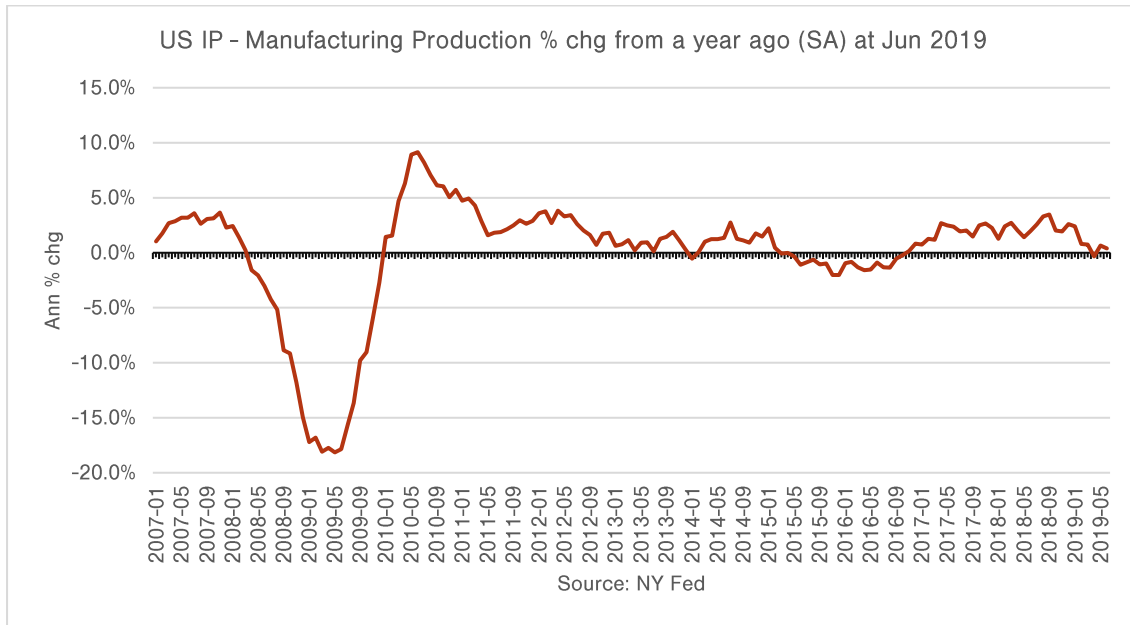
### Manufacturing Production

Month change; Jun +0.4% versus May +0.2%

This is the second month where manufacturing production in increased – the index of production peaked back in Dec 2018 for durable goods and July 2018 for non-durable goods. Manufacturing production remains below these near-term peaks.

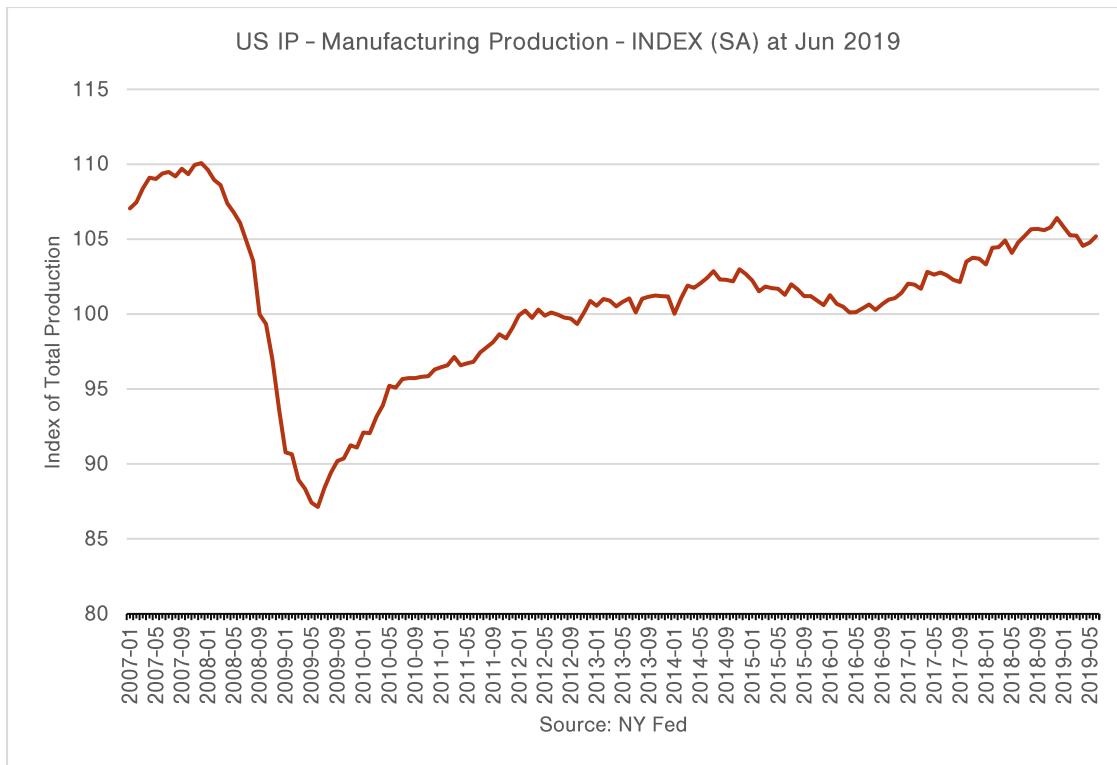
The faster growth in the month was due to the growth in the production of non-durable goods (+0.5% in Jun versus +0.1% in May). Durable goods production continued to grow at 0.4% in Jun.

The annual growth in manufacturing production continued to slow again; Jun +0.4% versus May +0.7%. The slower pace of growth is not far above that of the slow-down in 2015 but remains well above that of the GFC.



It's worth noting that the index of manufacturing production remains elevated compared to recent highs but is still below the recent peak of Dec 2018.

The total index of production is still below the levels recorded prior to the GFC – this is due to lower production of non-durable goods, whereas the index of durable goods manufacturing exceeded the pre-GFC peak again at the start of 2018 and remains above that level.



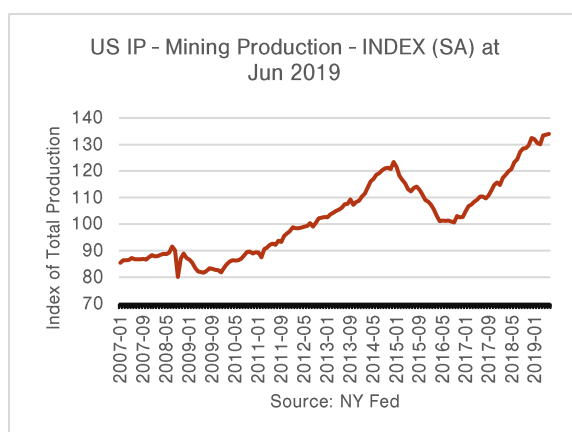
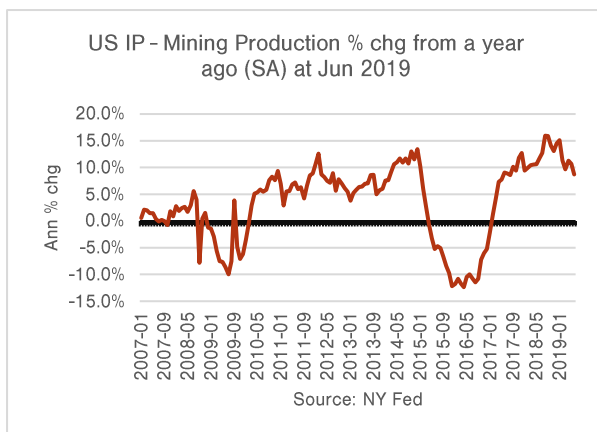
Manufacturing capacity utilization increased slightly from 75.6% in May to 75.9% in Jun.

### Mining Production

Month change; Jun +0.2% versus May +0.2%

“...a gain in oil and gas extraction was partly offset by declines in coal mining and in support activities for mining.”

The annual growth in mining production slowed but remains elevated; Jun +8.7% versus May 10.7%. The index of mining production reached a new high in the month;



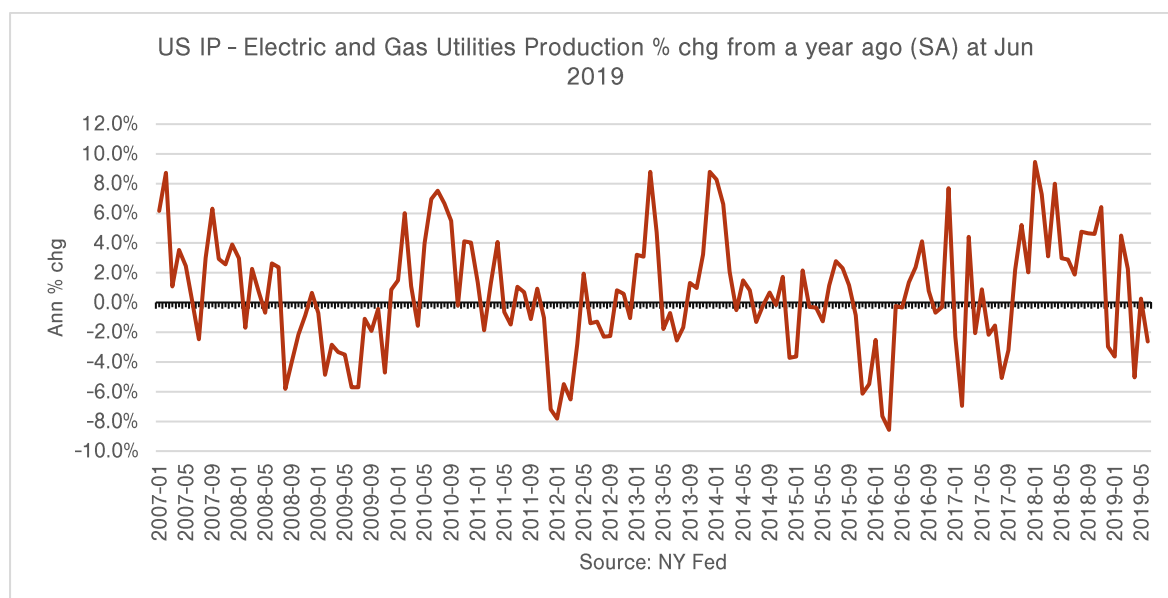
Capacity utilization for mining remains elevated; Jun 91.5% versus May 91.7%.

### Electric and Gas Utilities Production

Month change; Jun -3.6% versus May +2.4%

Both natural gas and electric utilities production declined in the month.

On an annual basis, production declined further; Jun -2.6% versus May +0.2%. The annual change figure is quite volatile, but the overall trend suggests slowing production growth since the start of 2018;



Capacity utilization continues to fall; Jun 74.6% versus May 77.5%. The recent peak was Nov 2018 at 82.6%.

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

## Business Inventories (May)

The value of shipments of distributive trade channels and manufacturers increased at a faster pace in May – manufacturers, retailers and merchant wholesalers all contributed to overall growth. The value of inventories in these channels increased at a faster pace than sales across all channels. Despite the acceleration in sales, the inventory to sales ratio remained unchanged in May.

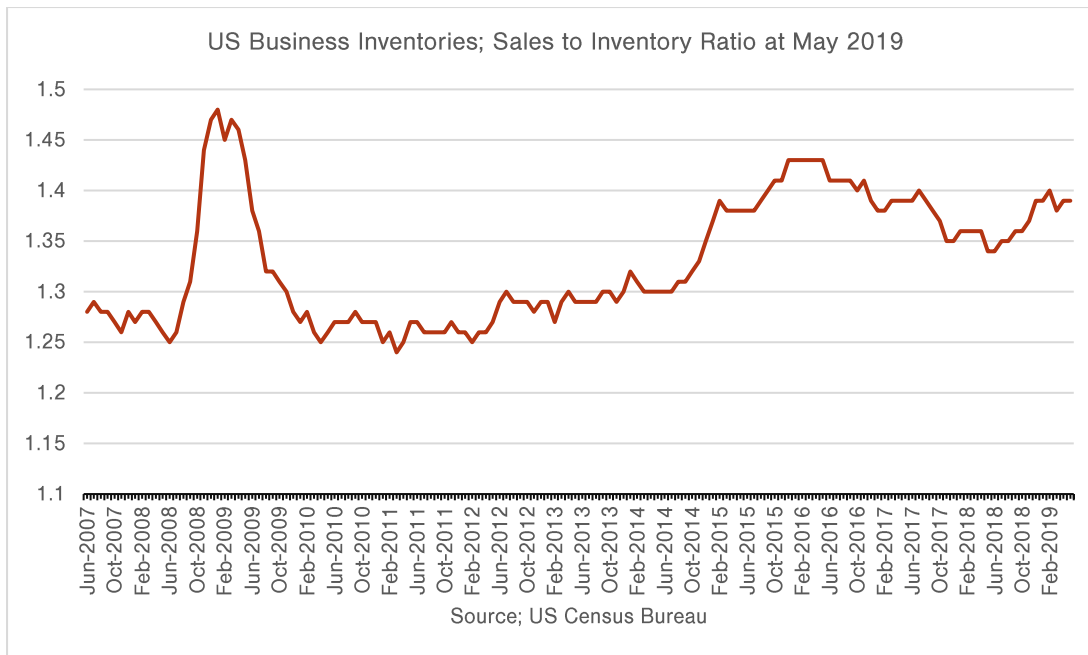
### Total Business

The value of total shipments via manufacturers, retail and merchant wholesalers increased at a faster pace; May +0.2% or +\$2.3bn versus Apr -0.2%

The value of inventories increased at a slightly faster pace than sales; May +0.3% or +\$6.5bn versus Apr +0.5%.

The inventory to sales ratio at a total level remained unchanged at 1.39 in May.





### Manufacturers

The value of shipments increased slightly after declining in the month prior; May +0.1% or +\$0.4bn versus Apr -0.6%.

The value of inventories increased by +0.2% in May or +\$1.4bn. The inventory to sales ratio increased from 1.37 in Apr to 1.38 in May.

### Retailers

The value of retailer shipments increased by +0.3% in May or +\$1.5bn versus Apr +0.3%. The value of inventories increased at faster pace compared to sales; May +0.4% or +\$2.7bn.

The inventory to sales ratio was unchanged at 1.46 in May.

### Merchant Wholesalers

The value of merchant wholesaler shipments increased slightly in May after declining in the month prior; May +0.1% or +\$0.5bn versus Apr -0.4%.

The value of inventories in the channel increased by +0.4% or +\$2.4bn. This was slightly lower than in the month prior, but still higher than the value of shipments. As a result, the inventory to sales ratio increased from 1.34 in Apr to 1.35 in May.

### Annual Perspective

On an annual basis (NSA), the value of inventory growth has far outstripped growth in shipments across all the channels;

### Total Business

Shipments; May +1% versus a year ago (+\$21.1bn)

Inventory; May +5% versus a year ago (+\$102.2bn)

The inventory to sales ratio was 1.28 in May 2018 and is now 1.32 in May 2019 (on an unadjusted basis).

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

## Retail Sales (Jun)

US retail sales increased further in the latest month, continuing the trend of sales growth since Mar. Retail sales were stronger across many categories led by non-store retailing and motor vehicle parts and dealers (despite the small decline retail sales of autos reported in the week prior). This growth more than offset a 2.8% decline in the value of gasoline station sales in the month.

Retail sales – month change; Jun +0.4% versus May +0.4% (revised from +0.5%)

Retail sales excluding gasoline increased at a faster pace in the month; Jun +0.7% versus May +0.5%

The leading contributors to growth in the month were;

Non-store retailers; sales grew by +1.7% in Jun (same pace as in May).

Motor vehicle parts and dealers; sales grew by +0.7% in Jun (the auto retail sales report from a week ago recorded a -0.6% decline in retail sales of autos).

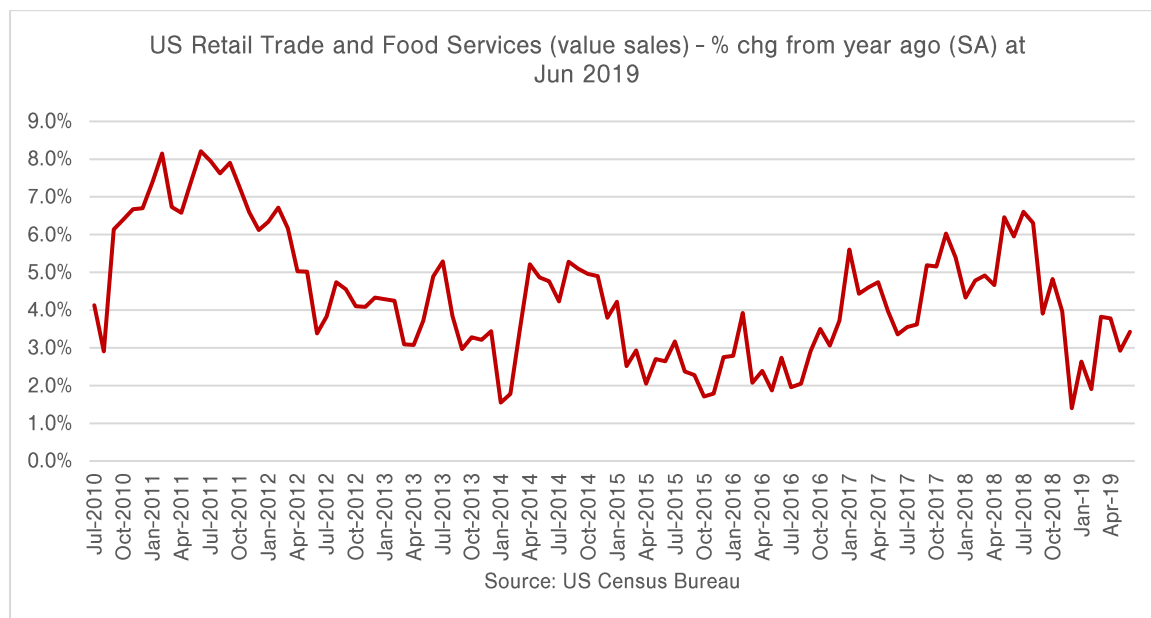
Food services and drinking places; sales grew by +0.9% in Jun, only slightly lower growth than in May.

Food and beverage; sales grew at a faster pace +0.5% in Jun versus +0.1% in May.

Faster growth was also recorded across furniture and home furniture stores, building materials and garden equipment, and clothing and clothing accessories.

This growth more than offset a 2.8% decline in the value of gasoline station sales for the month.

Retail sales – annual change (SA); Jun +3.4% versus May +2.9%



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

## University of Michigan Consumer Sentiment – prelim (Jul)

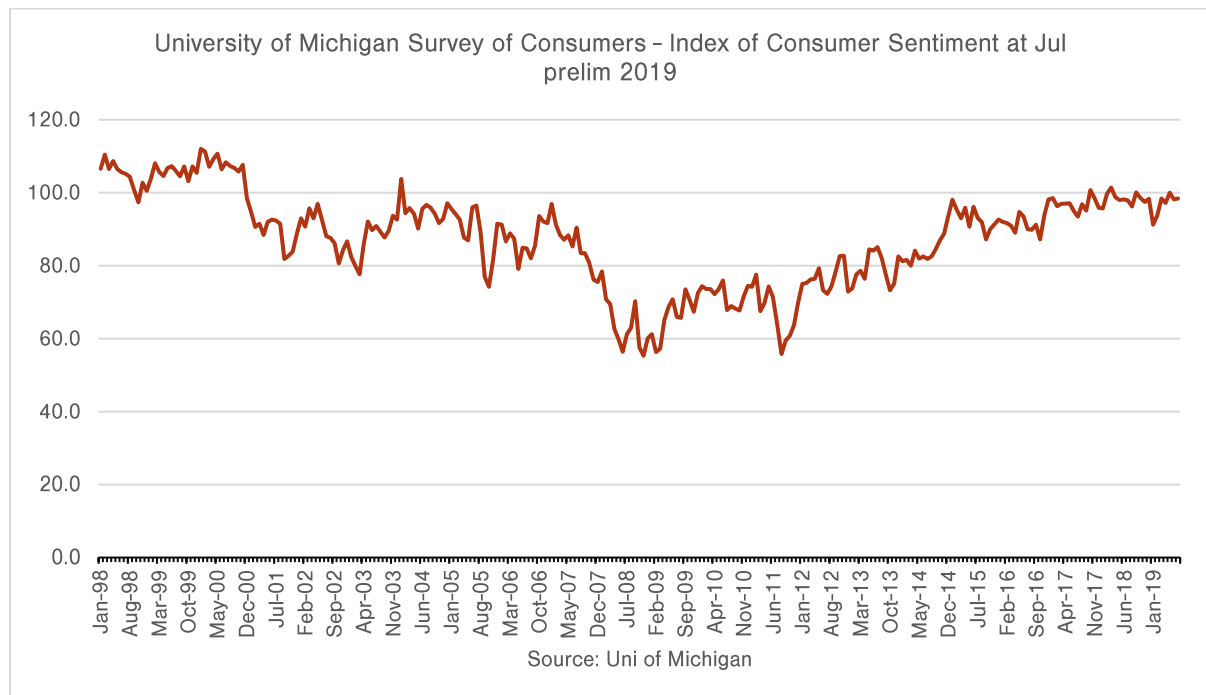
The index of consumer sentiment was little changed in the prelim reading for Jul. the index of current conditions drifted lower while the index of consumer expectations increased. The changes across these three indices were very small.

Commentary this month is interesting as it relates to consumer expectations on inflation, growth and employment.

### Index of Consumer Sentiment

Headline sentiment was little changed; Jul 98.4 versus Jun 98.2

The current reading is +0.5% above the same month a year ago. Overall, sentiment remains fairly stable.

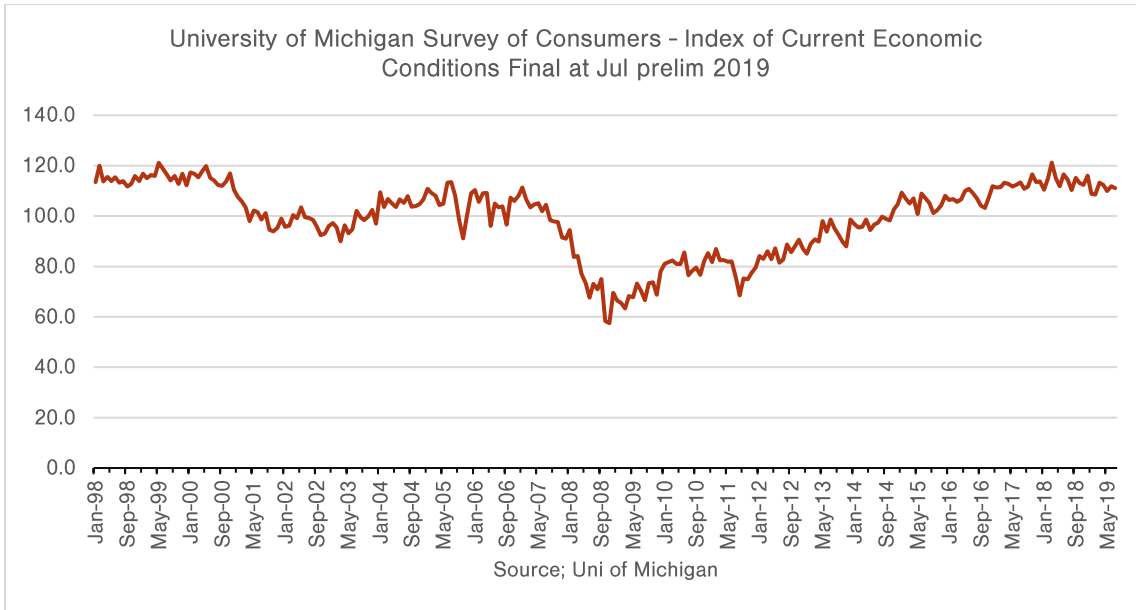


### Index of Current Economic Conditions

While sentiment remains fairly stable, the current conditions index remains more subdued. The index fell slightly in the latest month and remains 3% below the same month a year ago;

Jul 111.1 versus Jun 111.9

The current index is 8% below the peak reading of 121.2 in Mar 2018;

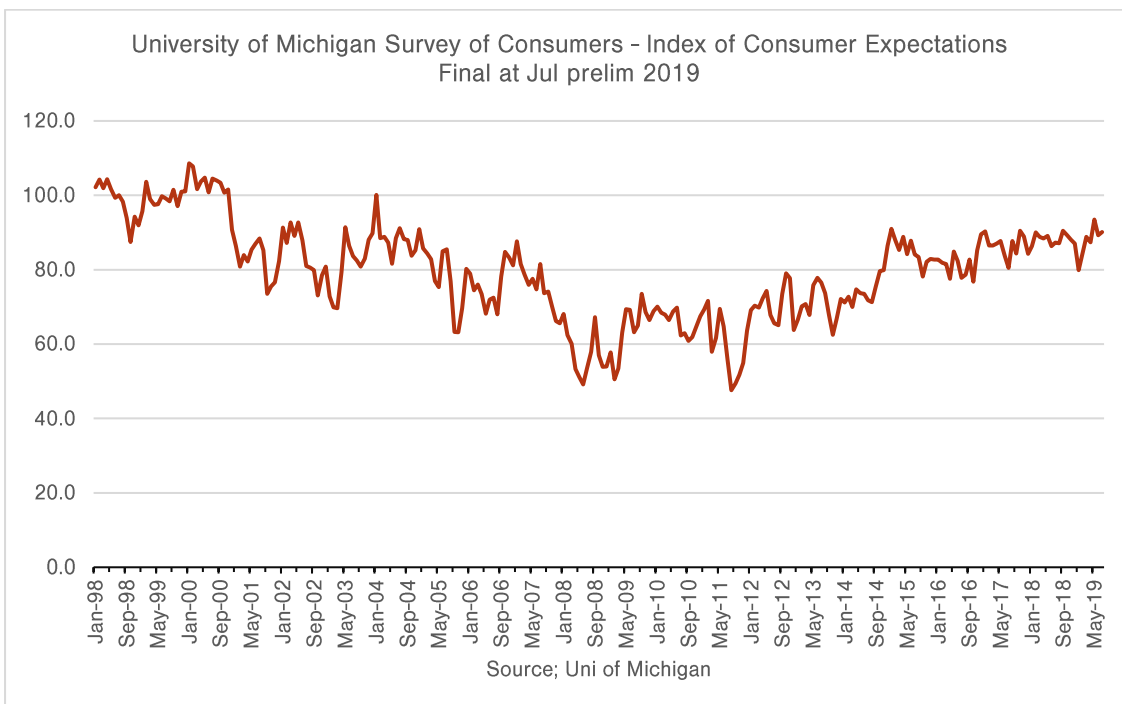


**Index of Consumer Expectations**

Consumer expectations, however, remain more robust, with the index increasing in the latest month. The index remains below the near-term peak recorded in May 2019 (of 93.5)

Jul 90.1 versus Jun 89.3

Expectations are more favourable with the reading now +3% above a year ago;

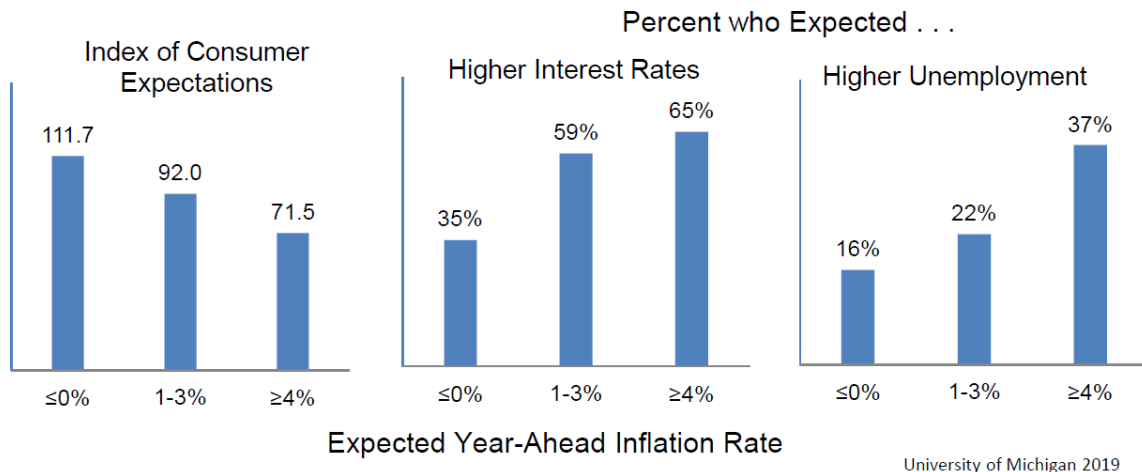


## Featured Chart – Inflation

“Perhaps the most interesting change in the July survey was in inflation expectations, with the year-ahead rate slightly lower and the longer term rate moving to the top of the narrow range it has travelled in the past few years.”

The chart below breaks down those with a year-end inflation rate of 0%, 1-3% and 4%+.

The main insight is that as inflation expectations increase, consumers associate that with higher interest rates, higher unemployment and have lower expectations of the future conditions/growth.



This seems to suggest that Fed talk for higher inflation or expectation for higher inflation to be detrimental for sentiment – in the absence of higher wage growth.

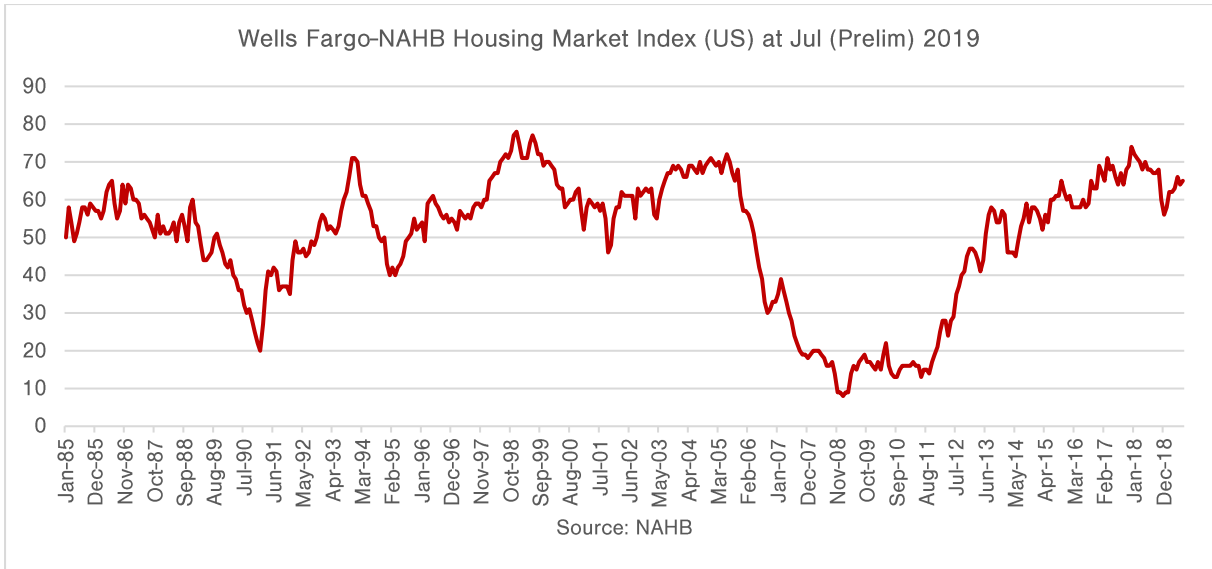
“Consumers’ views appear to be more consistent with the stagflation thesis, which holds that inflation and unemployment move in the same direction.”

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

## Housing Market Index (Jul)

The housing market index was little changed overall in Jul, increasing by one (1) index point. The housing market index components all increased in the month. Regional markets were mixed – conditions in the South and West regions improved while conditions in the Northeast and Midwest deteriorated. The Midwest is one of the weaker regions with the conditions index well below that of a year ago.

Housing Market Index of conditions for the sale of new homes: Jul 65 versus Jun 64



**Regional Markets**

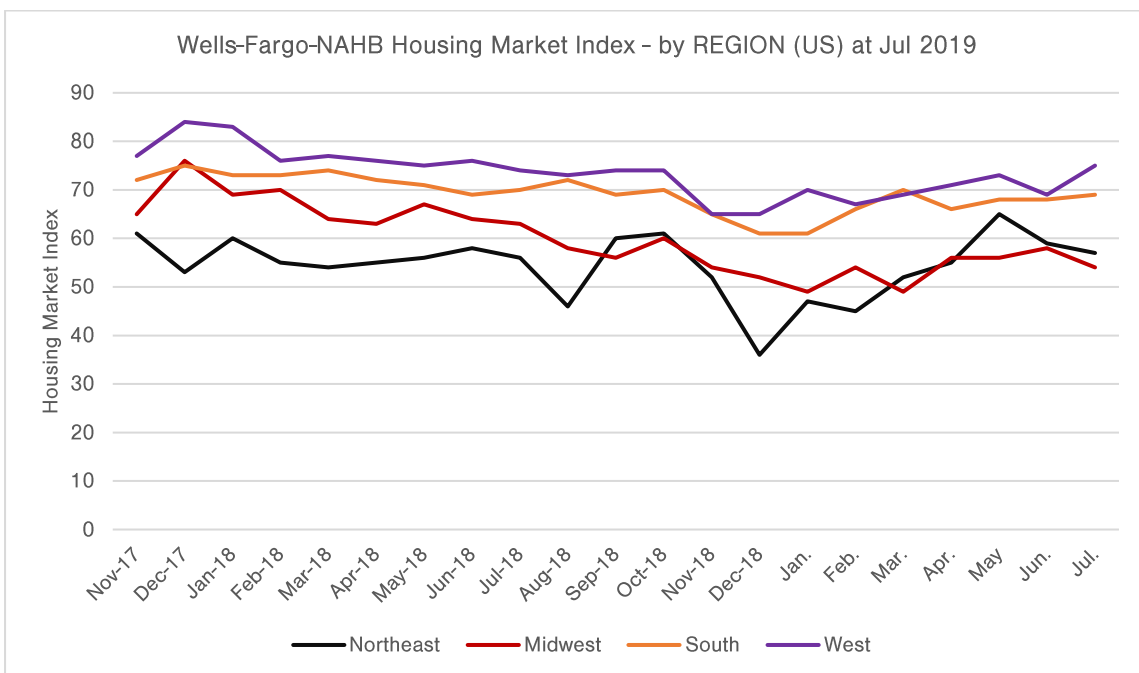
The results by region were mixed.

The strongest increase in conditions were recorded in the West going from 69 in Jun to 75 in Jul (a 1.7 SD increase based on the last 12 months). This reading is above the index from a year ago.

Conditions in the South also improved increasing by one (1) index point in Jul to 69. This is just below the reading for the same month a year ago.

After peaking in May, conditions in the Northeast have begun to deteriorate again with the index falling for a second month from 59 in Jun to 57 in Jul. This remains slightly above the same time a year ago.

Conditions in the Midwest declined markedly in the latest month from 58 in Jun to 54 in Jul (a 1.1 SD decline based on the last 12 months). This reading is well below the same time a year ago.

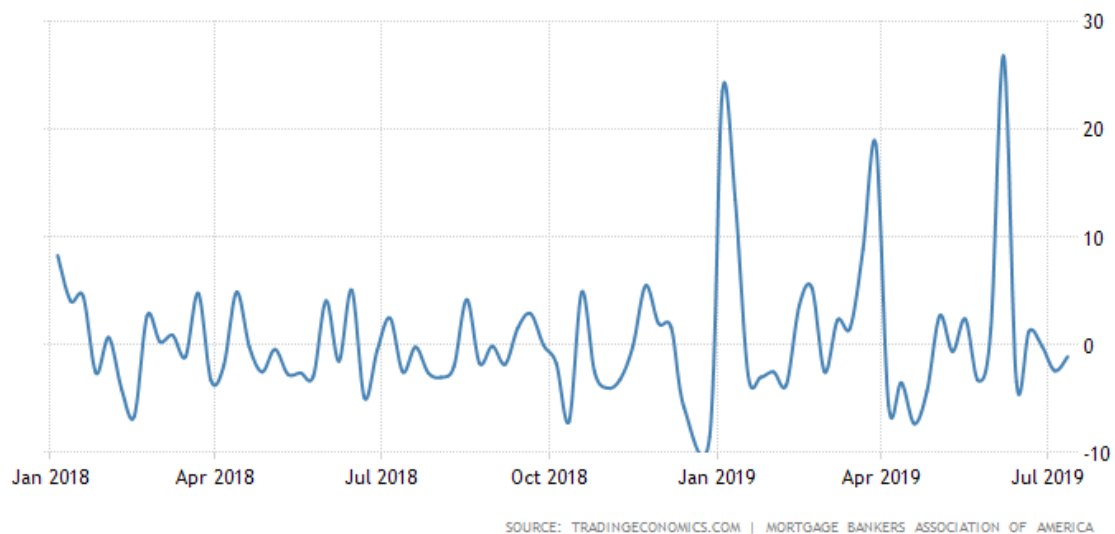


<https://www.nahb.org/en/research/housing-economics/housing-indexes/housing-market-index.aspx>

## MBA Mortgage Applications wk ended 12 Jul 2019

Mortgage applications declined for the third week in Jul by -1.1% but remained 7% above a year ago.

The trend since the start of 2018 highlights that there has been some lift in weekly applications during 2019 to date;



From the MBA;

"Mortgage rates increased across the board, with the 30-year fixed rate mortgage rising to its highest level in a month to 4.12 percent, which is still below this year's average of 4.45 percent," said Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting. "Coming out of the July 4th holiday, applications were lower overall, with purchase activity slipping almost 4 percent. Refinance applications increased, with activity reaching its highest level in a month, driven mainly by FHA applications. Historically, government refinance activity lags slightly in response to rate changes."

<https://www.mba.org/2019-press-releases/july/mortgage-applications-decrease-in-latest-mba-weekly-survey-x256682>

## US Fed Speeches

Fed officials comments about rate cuts dominated the markets this week.

Chairman Powell's speech in Paris reiterated the main points from the latest minutes (the strengthening of the case for cuts), confirming expectations that a rate cut was likely at the Jul meeting.

Confusion reigned though, due to expectations of a 50bp cut. With talk/discussion of a 50bps already out in the market, the Williams speech was widely interpreted as signalling the likelihood that the rate cut would be 50bps (within context);

“When you have only so much stimulus at your disposal, it pays to act quickly to lower rates at the first sign of economic distress,”

After the speech, FFR futures expectations for a 50bp cut increased (jumping from 23% a week ago to 60.2% on 18 Jul). The comments were walked back;

“This was an academic speech on 20 years of research. It was not about potential policy actions at the upcoming FOMC meeting,” the spokesman said late Thursday.

In an interview on Fox, Vice Chairman Clarida supported the view that cutting rates quickly was a good strategy – with the expectations now for a 25bps rate cut at 77.5% as of 19 Jul.

#### Speeches:

US Fed Chairman Powell – Speech “Aspects of Monetary Policy in the Post-Crisis Era”, at the French G7 Presidency 2019 – Bretton Woods: 75 Years Later, Thinking About the Next 75, Paris, France

NY Fed President Williams - keynote remarks at the "LIBOR Transition Briefing: The Transition to Alternative Reference Rates" held by SIFMA in New York

NY Fed President Williams - Keynote address on Monetary Policy at the 2019 Annual Meeting of the Central Bank Research Association in New York

St. Louis Fed President Bullard – Speech on technology and the future of the monetary and financial system at the Central Bank Research Association (CEBRA) 2019 Annual Meeting at Columbia University's Kellogg Center in New York

Boston Fed President Rosengren - Panel about central bank independence at the Annual Meeting of the Central Bank Research Association at Columbia University's School of International and Public Affairs in New York City

[Return to top](#)



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## Europe

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### Zew Economic Sentiment Survey (Jul)

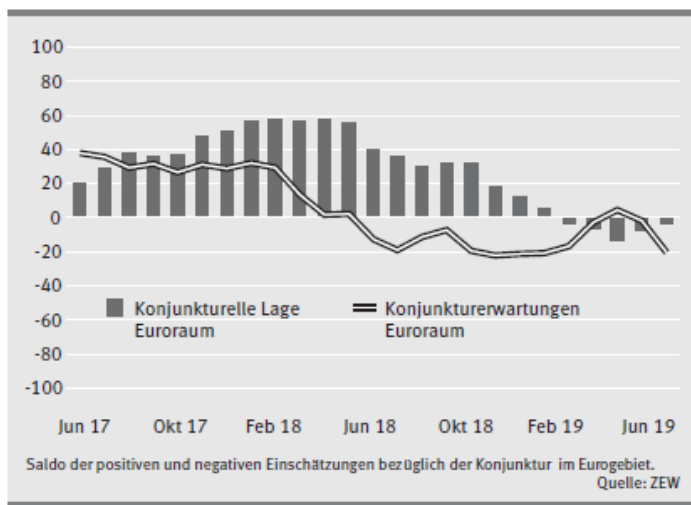
Economic expectations fell further into negative territory in Jul while current conditions remained slightly negative.

Chart headline: Economic expectations and Assessment; Eurozone

*Bars; Economic Situation*

*Line; Economic Expectations*

#### Konjunkturerwartungen und Lageeinschätzung Eurozone



In Jul the index of economic expectations fell from -18.6 in Jun to -20.2.

“There was no event between the previous May poll and the current poll. Rather, the experts seem to lose confidence that current uncertainty factors like the trade conflict between China and the US, the design of Brexit and resolve the recent escalation in the Iran conflict in the medium term.”

“The experts' expectation of an imminent depreciation of the dollar against the euro is also likely to be a source of economic pessimism.”

<http://ftp.zew.de/pub/zew-docs/frep/072019.pdf>

### Eurozone CPI (Jun)

The annual change in Euro area inflation increased slightly in the latest month to +1.3%. This is still well below the 2% recorded in Jun 2018 (when energy and food prices were adding more significantly to price pressures). Core CPI accelerated due to an increase in services prices. Core CPI growth increased to +1.1%.

CPI was unchanged in the broader EU group at +1.6%.

**Euro Area**

**Annual Headline CPI: Jun +1.3% versus May +1.2%**

The two key changes were a large slow-down in the growth of energy and an acceleration in services prices.

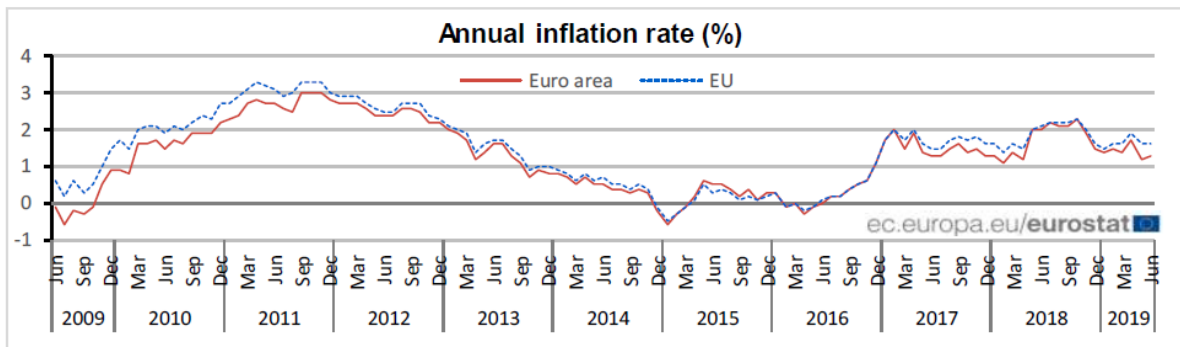
Food alcohol and tobacco; prices grew at a slightly faster pace due to an increase in processed food prices. The contribution from food, alcohol and tobacco prices was +0.30%pts in Jun (+0.29% pts in May).

Energy prices increased at a slower rate; Jun +1.7% versus May +3.8%. Energy prices declined by 1.2% in the month alone. Energy prices made a much smaller contribution to headline CPI growth in Jun +0.17%pts versus +0.38%pts in May.

**Annual Core CPI ex energy, food, alcohol and tobacco; Jun +1.1% versus May +0.8%**

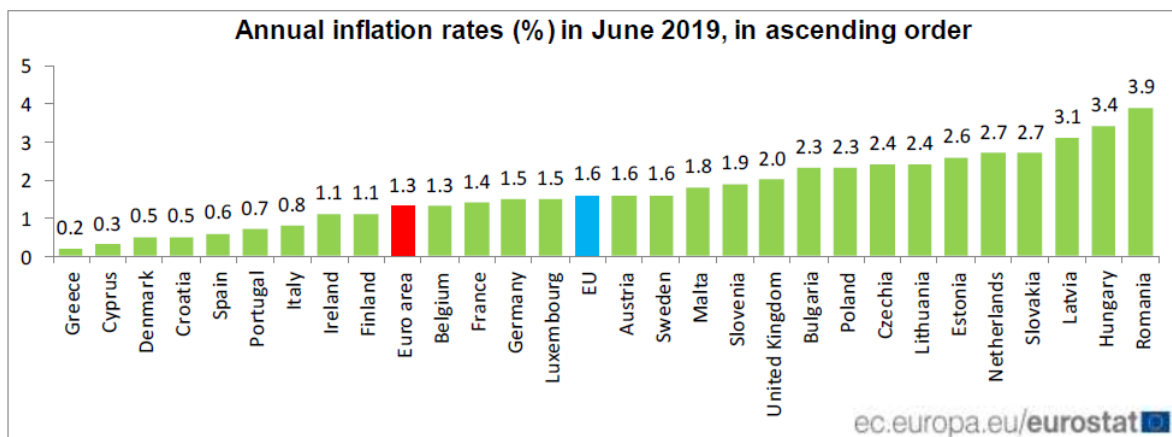
Non-energy industrial goods grew at an annual pace of +0.3% - unchanged from the month prior.

Services prices increased at a faster pace; Jun +1.6% versus May +1%. Services made the single largest contribution to growth in the CPI in Jun; +0.73% pts versus 0.47% pts in May.



**CPI by Country**

CPI in some of the larger economies is growing below the Euro area rate; Italy, Spain, Portugal. Consumer prices in France and Germany is growing at around the EU average.



Data for the United Kingdom are for May 2019

<https://ec.europa.eu/eurostat/documents/2995521/9984108/2-17072019-AP-EN.pdf/e507c971-54f9-4c0f-96d6-d619a8a912aa>

[Return to top](#)

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# Japan

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## Merchandise Trade Balance (Jun)

In Jun the trade surplus in Japan was 19% below the same month a year ago. The value of exports declined at a faster pace than imports, with exports falling 6.2% and imports 5.2% lower than the same month a year ago.

Exports to Japan's largest trading partner, the US, bucked the trend in the month and increased by 4.8%. Exports to China, the second largest trading partner, declined by 10%. Imports declined across all of the broad geographic regions.

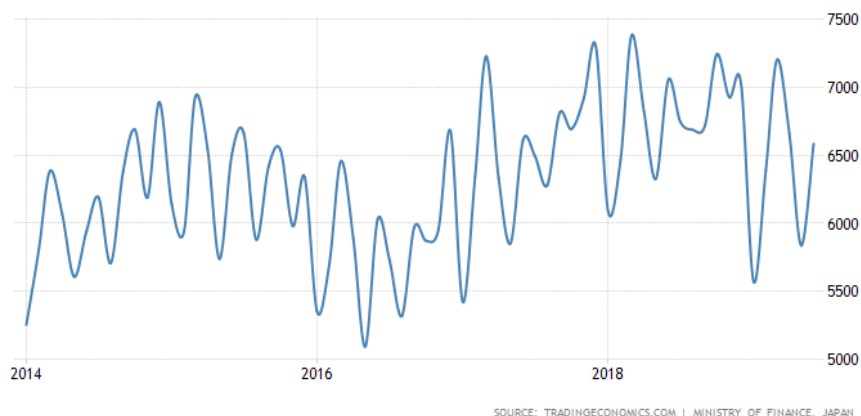
### Trade Balance

In Jun, the trade surplus declined versus a year ago; -19%

**Exports – versus a year ago; -6.7%**

The underlying trend is no longer accelerating as it was in 2016-7 and the value of exports remains below the same month a year ago

Chart 1. Exports (Yen)



**Imports – versus a year ago; -5.2%**

There has been a clear change in trend for the value of imports in late 2018 and early 2019.

Chart 2. Imports (Yen)



## Key Trading Partners

### **Exports;**

The value of exports declined across most trading partners in Jun (versus a year ago). But exports to Japan's largest export customer, the US/Nth America, was the only market where exports increased.

US; Exports +4.8% (imports declined versus a year ago and the trade surplus for Japan increased by 13% - this will continue to place pressure on trade negotiations).

China is the second largest export customer and exports to China declined by 10%. Broadly, exports to Asia were down 8% versus a year ago.

Exports to Western Europe were also down by 9.4%. Only exports to the UK increased by 5.3%.

### **Imports;**

The value of imports was also down across most trading partners.

Japan's largest source of imports is China – by a long way. China represents approx. 22% of all imports for the month. Imports from China were down -5.3% (in line with the total decline in imports). Broadly, imports from Asia declined by 6.3%.

The US is the next single largest import customer (about half the value of imports from China). Imports declined by 2.5% for the month.

Imports from western Europe declined by 2.4% - also lower than the average. But there were some larger declines among the larger trading partners such as Germany. Imports from Germany declined by 10%.

The value of imports from the Middle East declined by 6% versus the same month a year ago.

## Commodities

### **Exports;**

Declines in exports were recorded across most commodity groups in Jun. Food Stuffs, Mineral Fuels, and Chemicals were the only categories where exports increased in the month – combined, these categories contributed +0.4% pts to overall export growth in the month. This was more than offset by declines across all other categories.

The largest contribution to the overall decline was Transport Equipment contributing -1.8% pts to the decline. The value declined by 7.6% - led by motor vehicles (but cars increased), parts, motor-cycles, and ships.

Electrical Equipment contributed -1.6%pts to the decline. The value of exports falling 9.3%.

Machinery contributed -1.6%pts to the decline, with exports falling 8%.

Manufactured Goods contributed -1%pt, with exports falling 8.6%.

Others contributed -0.8% pts to the decline, with exports falling 5.9%.

#### Imports:

Similarly, the value of imports declined across most categories. The only category where imports increased in the month was Chemicals – which contributed +0.1%pt to growth in the month and growth was +0.6%.

'Other' made the single largest contribution to the decline in the month, adding -1.2%pts to the decline in the month. The value of imports declined by 8.2%.

Manufactured Goods declined by 11% in the month and contributed -1%pt to the overall decline in the imports.

[http://www.customs.go.jp/toukei/shinbun/trade-st\\_e/2019/201906ce.xml](http://www.customs.go.jp/toukei/shinbun/trade-st_e/2019/201906ce.xml)

## **CPI (Jun)**

The annual growth in the headline CPI was unchanged in the latest month, with prices continuing to grow at +0.7% over the last year to Jun. The BoJ measure of core CPI, ex fresh food, continued to moderate with growth slowing to +0.5% over the last year.

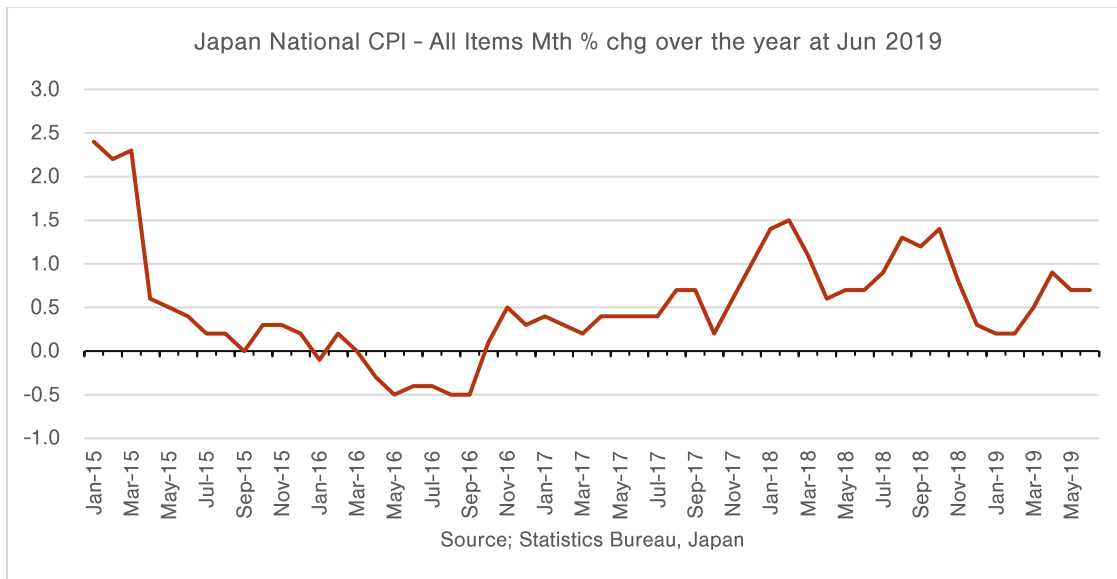
The trend of consumer prices and underlying core inflation suggests that the BoJ easing is having little effect in stimulating an acceleration in prices – core inflation growth is slowing. This is likely benefitting consumer spending. The upcoming consumption tax increase is likely to have a negative impact on spending, but there will be a short-term impact on prices.

#### All-Items CPI

Month change; Jun -0.1% versus May 0%. Prices for both goods and services declined in the month. Prices declined for fuel, light and water charges, furniture, clothing and footwear, and transport and communication.

Food prices increased in the month (+0.2%) and fresh food prices also continued to increase (+0.6% in Jun versus +0.2% versus the month prior).

Annual change; Jun +0.7% versus May +0.7%. Prices for Goods grew at +1% and Services by +0.4%.



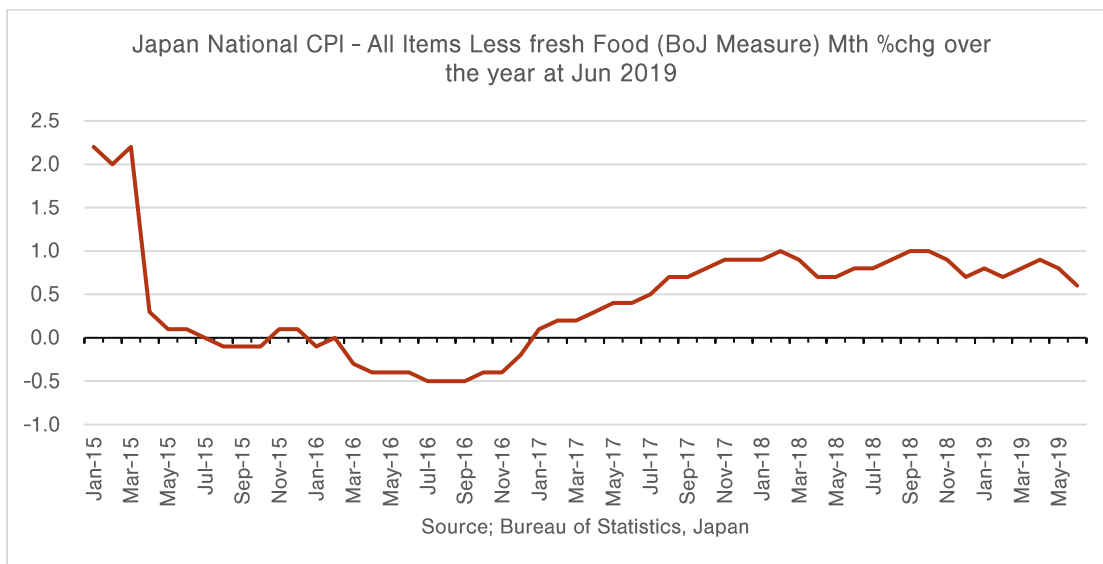
**BoJ – Core CPI ex Fresh Food**

Month change; Jun -0.2% versus May 0%

The decline was more pronounced (than all-items CPI) in the month due to removing the positive impact from the increase in fresh food prices in the month.

On an annual basis, this measure of core CPI continued to moderate – which will be an ongoing concern for the BoJ (but likely a reducing pressure on consumers).

Annual change; Jun +0.6% versus May +0.8%

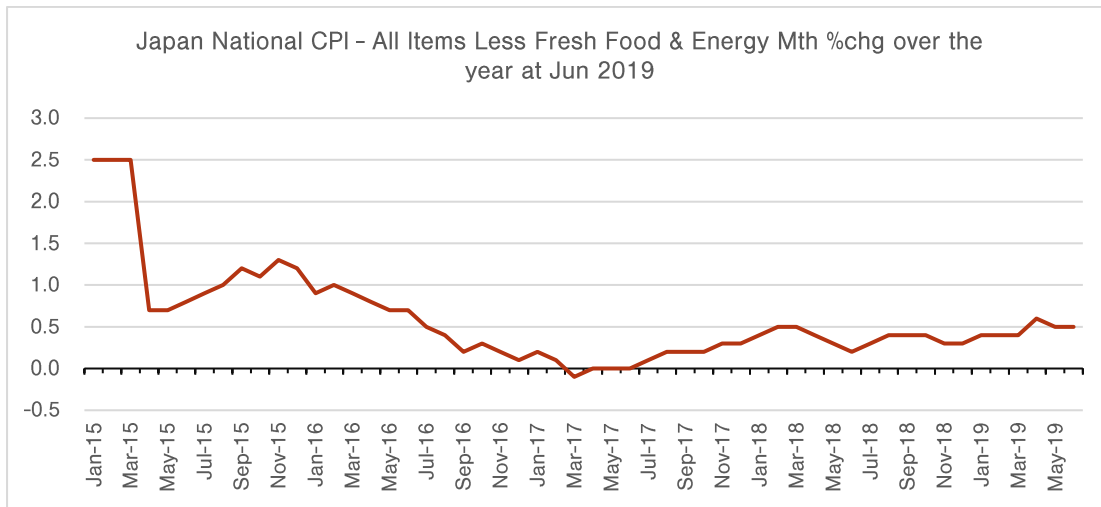


**Core CPI – All items less fresh food and energy**

Month change; Jun -0.1% versus May -0.1%

The more underlying view of price movements shows that consumer prices continued to decline in Jun. On an annual basis, growth in this measure of core CPI remained low and in line with the annual change recorded in the month prior;

Annual change; Jun +0.5% versus May +0.5%



<https://www.stat.go.jp/english/data/cpi/1581-z.html>

[Return to top](#)



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## United Kingdom

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### Brexit

The results of the leadership poll are expected to be announced on 23 Jul 2019.

<https://www.theguardian.com/politics/2019/jul/13/johnson-leads-hunt-by-two-to-one-in-tory-leader-race-poll>

Boris Johnson remains the favourite. His approach is to leave the EU by 31 Oct with or without a deal – although this quote tempers the ‘do or die’ view;

“Johnson has said he would ramp up preparations for a no deal if he becomes prime minister to try to force the EU’s negotiators to make changes to the deal that Prime Minister Theresa May sealed with Brussels and UK lawmakers voted down.”

It has been reported that there is growing opposition within the UK parliament to a no deal Brexit. Key members of parliament still think there is a chance for a ‘negotiated’ Brexit deal, even though the EU continues to refuse to renegotiate. <https://www.cnbc.com/2019/07/21/uk-finance-minister-hammond-to-resign-on-wednesday-over-no-deal-brexit.html>

Re-iterating the Brexit views among the five (5) contenders for the Tory leadership;

Mr Johnson and Mr Javid both said they would opt to leave the European Union without an agreement rather than delay Brexit beyond October 31. Mr Gove and

Mr Hunt both said they would support another postponement if needed to secure a deal, but only for a short time.

Mr Stewart said "there would never be no-deal" Brexit if he was prime minister because it would be too damaging to the economy. He said was the only candidate facing up to political reality, arguing the only way to leave the EU was to get Parliament to approve outgoing Prime Minister Theresa May's unpopular Brexit deal.

<https://www.abc.net.au/news/2019-06-19/boris-johnson-has-increased-his-lead-in-tory-contest/11223170>

### Labour Market Survey (Mar-May)

On an annual basis, employment growth remains robust – slowing only slightly. Employment growth over the last year was high enough to absorb new entrants into the labour market, an increase in participation and continued to reduce total unemployed persons. The decline in unemployed persons increased slightly. Participation increased by 0.118% pts in the year for the 16yrs+ group.

What stands out though is that employment growth has yet to rebound in the 3-month data. In the latest 3-month period Mar-May, employment growth for those 16yrs+ slowed further and remains at a low level. Employment growth was lower than the estimate of what population added to the labour force, but a large reduction in the participation rate meant that total

unemployed persons still declined. Whilst a decline in total unemployed workers is always welcome, it would be a more positive story if employment growth was accelerating.

**Employment**

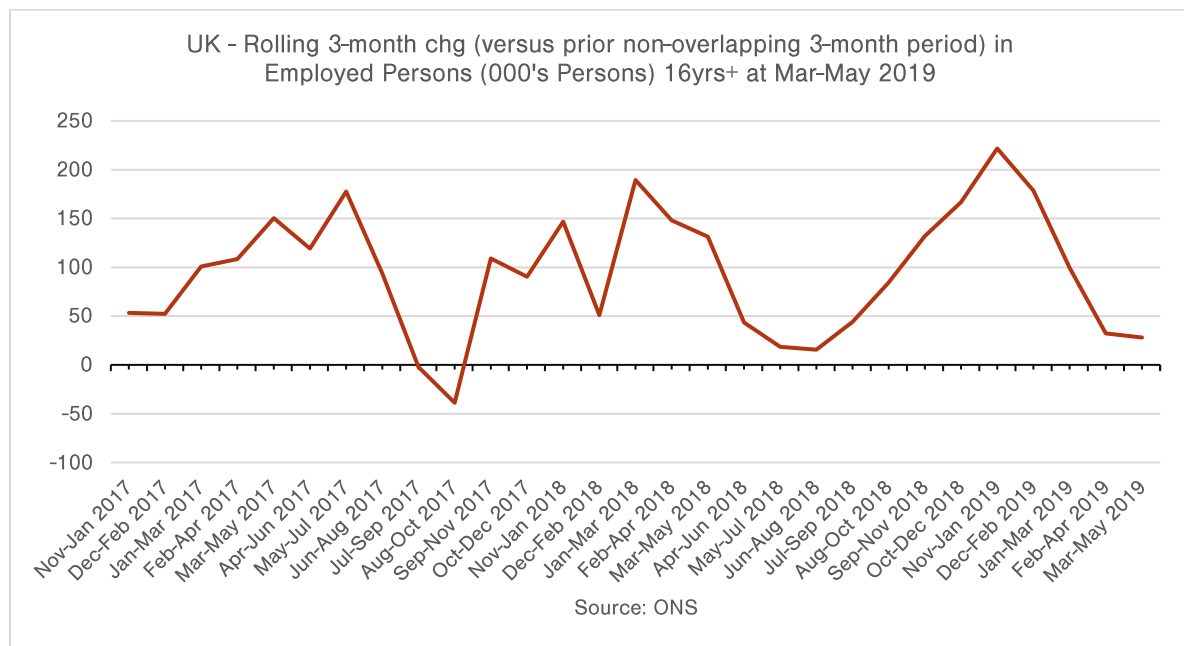
Annual employment growth remains robust and little changed from the prior period;

Annual change; Mar-May +354.1k persons versus Feb-Apr +357.1k persons



On the rolling 3-month basis (versus the previous non-overlapping 3-month period) though, employment growth continued to slow;

3-month change; Mar-May +28k persons versus Feb-Apr +32k persons



**Labour Force**

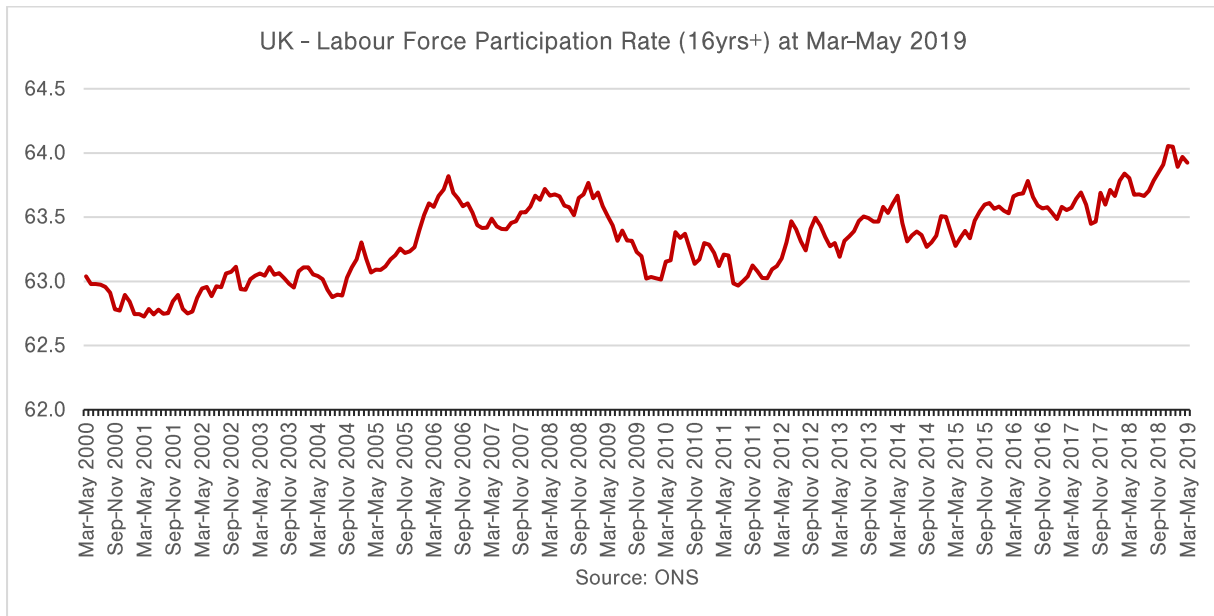
The annual growth in the labour force slowed slightly in the last year;

Annual change; Mar-May +238.1k persons versus Feb-Apr 245.2k persons

On the rolling 3-month basis, the total labour force declined in size;

3-month change; Mar-May -22k persons versus Feb-Apr -2k persons

The key reason behind the decline in the latest two 3-month periods has been the decrease in labour force participation since the Dec-Feb 3-month period.

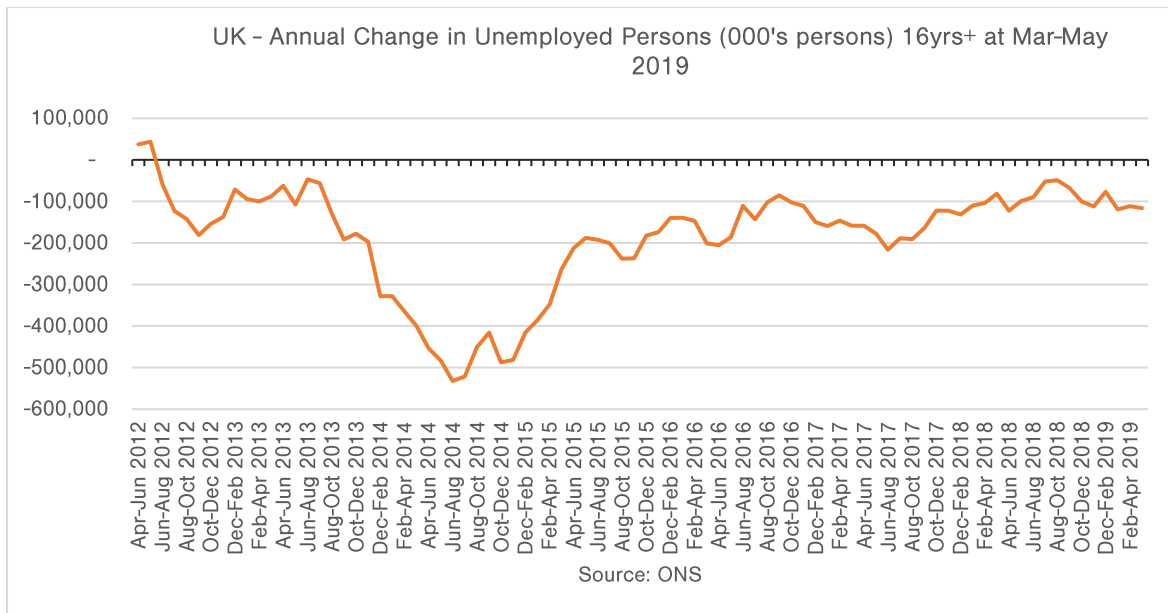


In the Mar-May period (versus the prior non-overlapping 3-month period), participation fell by -0.12%pts to 63.9%. This equated to approx. 66k persons leaving the labour force in that period – which was the key reason behind the decline in the labour force of the Mar-May period.

### Unemployed Persons

On an annual basis, total unemployed persons continued to decline;

Annual change; Mar-Mar -115k persons versus Feb-Apr -111k persons.



The decline in total unemployed persons increased slightly even though employment growth had slowed slightly – this was due to the slower growth in the labour force (compared to the Feb-Apr period).

On a monthly basis, total unemployed persons also declined – this was mostly due to the larger decline in participation given that employment growth also slowed.

Month change; Mar-May -51k persons versus Feb-Apr -34k persons

### Summary of Main Labour Market Indicators

	16yrs+ (000's of persons)		16-64yrs (000's of persons)	
	Latest Qtr Chg Mar-May 2019	ANN Chg Mar-May 2019	Latest Qtr Chg Mar-May 2019	ANN Chg Mar-May 2019
Estimated change in the Labour Force due to pop growth (1)	43.710	175.136	15.714	64.012
How many jobs available for them? (employment growth) (2)	28.066	354.100	-17.162	233.761
Difference; employment less est chg in labour force due to pop (3) (if positive, then employment growing faster than pop)	-15.644	178.964	-32.877	169.749
Change in the labour force due to the change in participation (4)	-66.203	63.018	-79.189	59.939
The remainder is the chg in total unemployed persons (4) less (3) - if neg, then unemployment decreasing	-50.559	-115.946	-46.312	-109.811
<b>Different views of the Labour Force:</b>				
Double check - change in total economically active (pop + participation)	-22.494	238.154	-63.474	123.951
Double check - change in total economically active (employ + unemp)	-22.494	238.154	-63.474	123.951
Actual economically active ann chg (as reported)	-22.494	238.154	-63.474	123.951

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/july2019>

### CPI (Jun)

The annual growth in the headline CPI-H was unchanged in Jun, growing at 1.9%. The annual growth in services prices continued to slow and is now back in line with that of late 2018 at +2.2. The annual change in goods prices grew at the same pace as the prior month +1.5%.

Core CPI-H excluding energy, food, alcoholic beverages and tobacco also grew at the same pace of +1.7% in Jun.

### CPI-H

Annual change; Jun +1.9% versus May +1.9%

Owner occupier housing cost growth was unchanged at +1.2% in Jun.

Figure 1: CPIH and CPI 12-month inflation rates unchanged in June 2019

CPIH, OOH component and CPI 12-month rates for the last 10 years, UK, June 2009 to June 2019



Source: Office for National Statistics – Consumer price inflation

### Contribution to headline growth

Lower contribution from housing, transport and restaurants was somewhat offset by a larger contribution to headline CPI from food and clothing

Housing and household services continues to make the largest contribution to CPI-H growth, but make a smaller contribution to growth in the latest month; Jun +0.62% pts versus May +0.62% pts

Similarly, contribution from the change in transport prices was negative; Jun +0.28% versus May +0.33%. This is the lowest contribution from transport categories in the last 25 months.

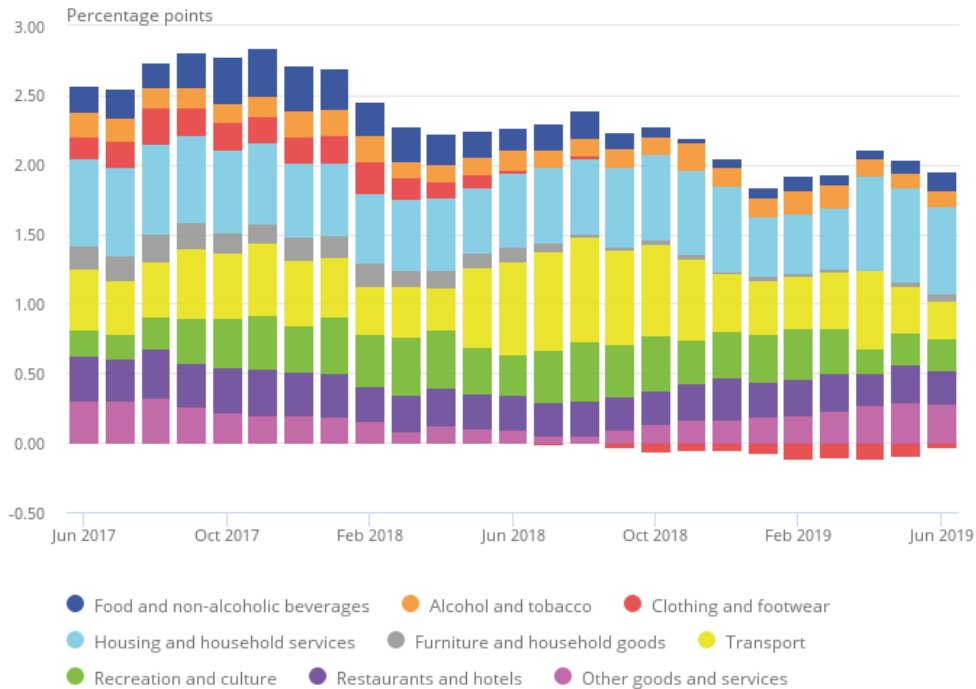
Offsetting these lower contributions were food and clothing.

Food continued to make one of the smaller contributions to headline CPI growth adding +0.14% in Jun, up from +0.09%pts in May.

Clothing and footwear continued to decline in Jun, but made a smaller negative contribution; Jun -0.03% pts versus May -0.09% pts.

Figure 2: Largest contributions to inflation continue to come from housing and household services, and transport

Contributions to the CPIH 12-month rate, UK, June 2017 to June 2019



Source: Office for National Statistics – Consumer price inflation

<https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/june2019>

## Retail Sales (Jun)

The volume of retail sales rebounded in the latest month, helping to offset the two weaker months prior. Growth in the month was recorded across most categories.

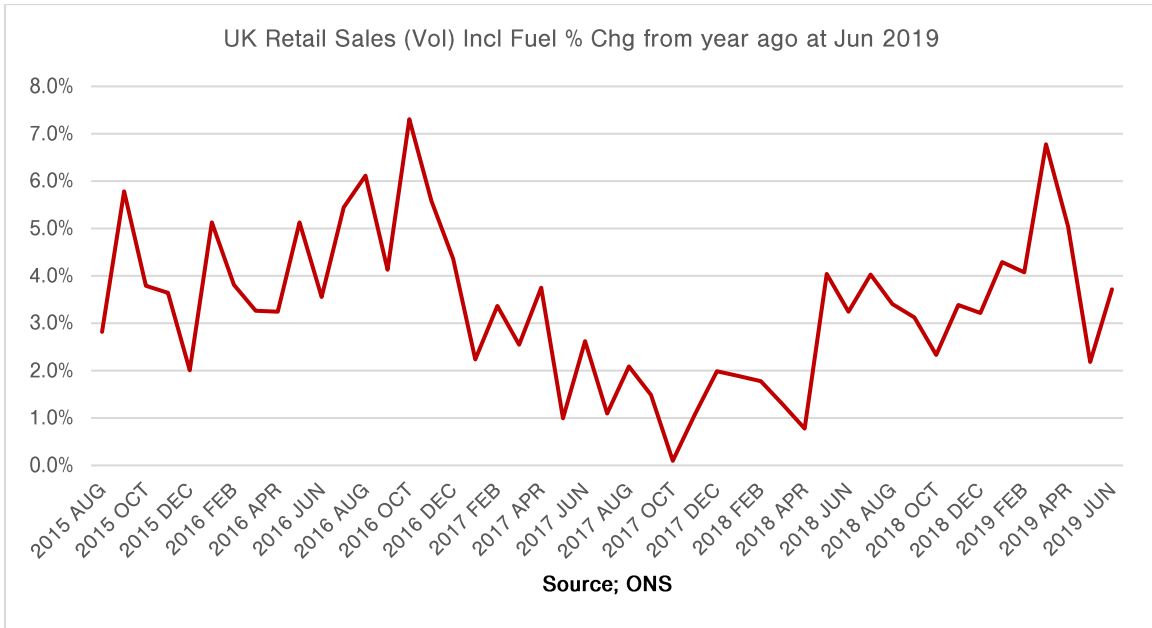
**Retail Sales (incl fuel) – month change;** Jun +1% versus May -0.6%

Non-food stores made the largest contribution to growth in the month (+0.7% pts), followed by fuel (+0.2%pts), food stores (+0.1% pt) and non-store retailing (+0.1% pt).

Within Non-food stores, household goods, textiles and clothing and ‘other’ all made a positive contribution to growth. Dept store sales declined.

**Retail Sales (incl fuel) – annual change;** Jun +3.7% versus May +2.2%

On an annual basis, Non-store retailing and non-food retailing both contributed +1.6%pts to the annual growth in retail sales. Fuel contributed +0.6% pts and food made a zero contribution (qty/volume basis).



<https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/june2019>

[Return to top](#)

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## Australia

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### RBA Meeting Minutes (2 Jul Meeting)

At this meeting, the RBA board decided to cut the overnight cash rate by another 25bps to 1%.

A key change in the minutes was the main signalling statement – which was completely rewritten.

In June, that statement included the following reference;

“Given the amount of spare capacity in the labour market and the economy more broadly, members agreed that **it was more likely than not that a further easing in monetary policy would be appropriate in the period ahead.**”

As well as a nod to ‘other options’ – which presumably included fiscal policy;

“**...lower interest rates were not the only policy option** available to assist in lowering the rate of unemployment, consistent with the medium-term inflation target.”

Both were removed in the July minutes, but the easing bias remained (emphasis added);

“Taking into account all the available information, the Board decided that it was appropriate to lower the cash rate by 25 basis points. This decision, together with the reduction in the cash rate decided at the previous meeting, would assist in reducing spare capacity in the economy and making faster progress in reducing the unemployment rate. **Lower interest rates would provide more Australians with jobs and assist with achieving more assured progress towards the inflation target.** The Board would 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.**”

While the easing bias remains, the minutes confirmed that at the very least, expectations for another cut at the next meeting in August were low.

The minutes were released on 16 Jul and expectations for a rate cut were unchanged from the day before at 17%. By the end of the week, expectations for a rate cut edged up slightly to 20% (after the labour market report). <https://www.asx.com.au/prices/targetratetracker.htm>

<https://www.rba.gov.au/monetary-policy/rba-board-minutes/2019/2019-07-02.html>



## Labour Market Survey (Jun)

Using the trend data, employment on an annual basis continued to grow at a faster pace in Jun. While employment growth is still larger than what population and participation add to the labour force, the resulting annual decline in unemployed persons is becoming smaller again.

Our key insight remains the same; higher participation is contributing to the slower reduction in total unemployed persons on an annual basis.

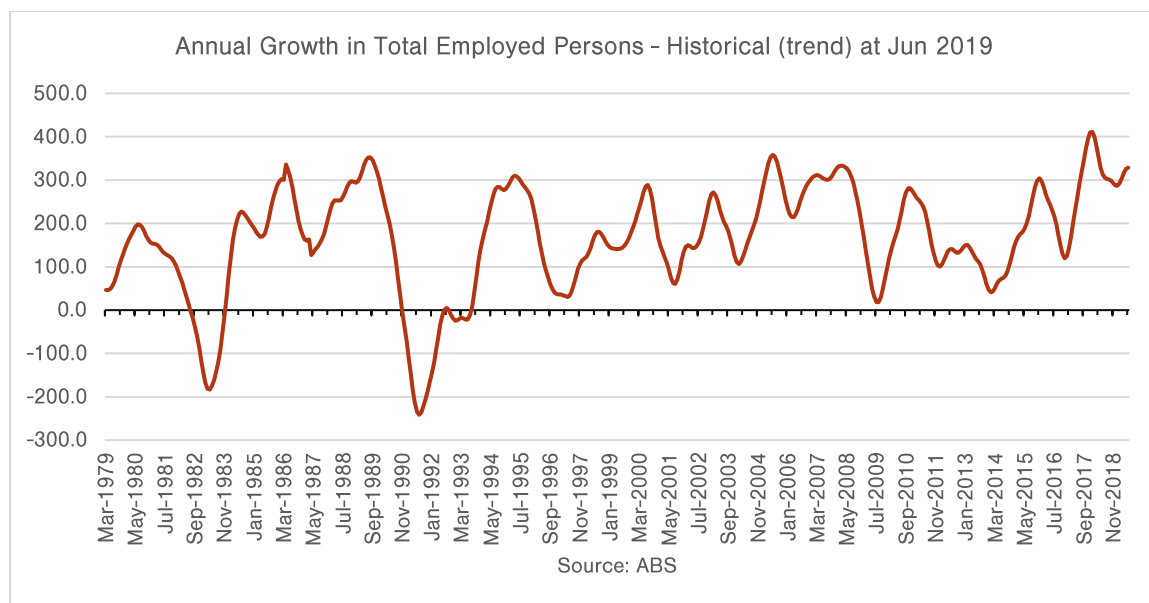
Total labour force participation reached a new all-time high in the latest month of 65.96%.

On a monthly basis, employment growth was little changed from the month prior. The increase in participation was the highest in over 18-months for the month. As we've seen in prior months, employment growth was less than that of the labour force resulting in total unemployed persons increasing for the sixth month in a row.

Employment growth will need to accelerate in order to a) continued to absorb the increase in participation and b) reduce unemployment at a faster pace.

### Employment Growth

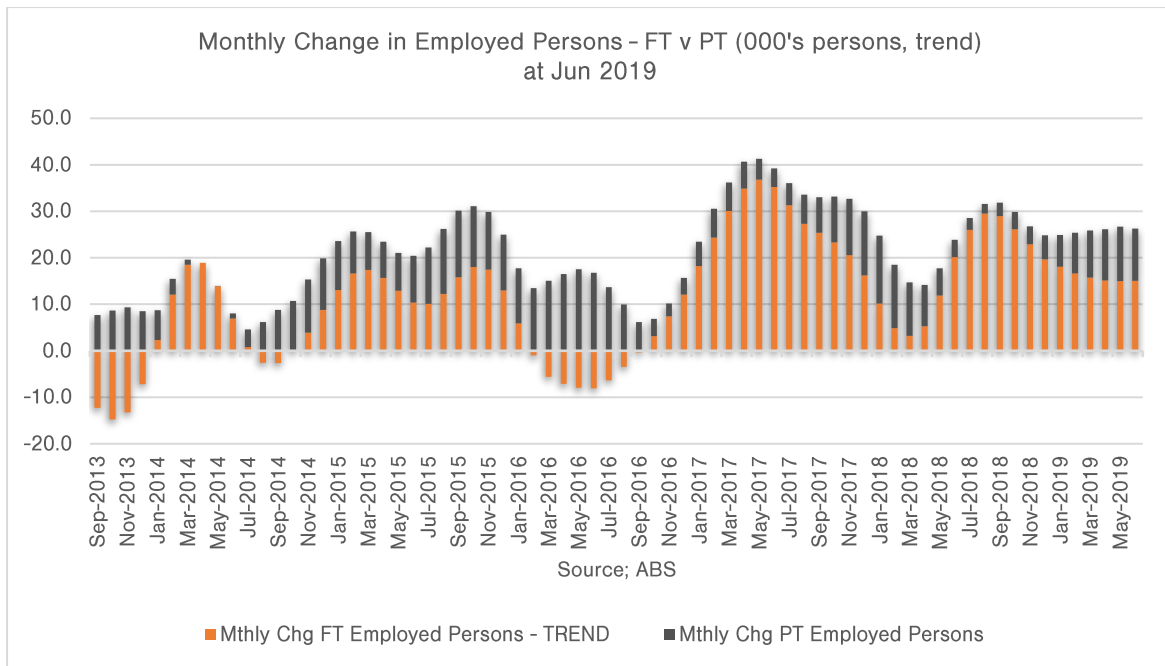
Annual change; Jun 328.7k persons versus May 326.3k persons



On a monthly basis, total employment growth slowed only slightly from the month prior;

Month change; Jun 26.3k persons versus May 26.7k persons

Growth in FT employed persons was unchanged while growth in PT employed persons slowed slightly.



### Labour Force

The annual growth in the labour force increased in the latest month;

Annual change; Jun 317.1k persons versus May 303.5k persons

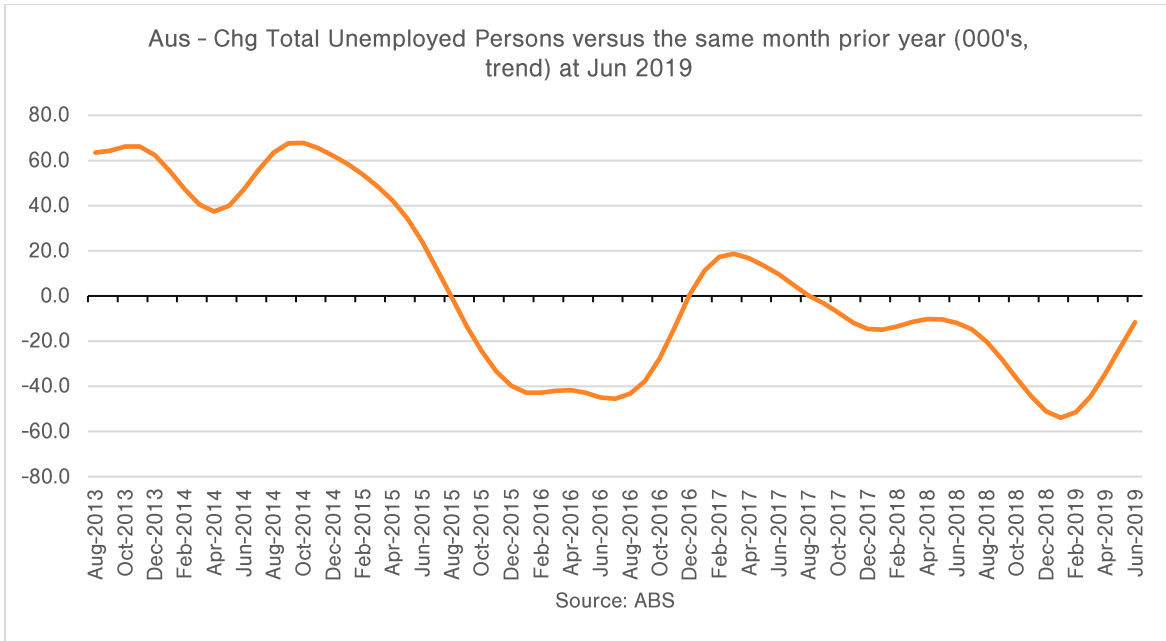
The faster growth in the labour force over the last year was the result of a further increase in participation. The labour force participation rate increased in Jun, reaching a new all-time high of 65.96%. Both male and female participation increased over the last year. Female participation also reached another new all-time high in Jun.

On a monthly basis, the labour force growth slowed; Jun +30.9k persons versus May 33.3k persons.

### Total Unemployed Persons

On an annual basis, total unemployed persons continued to decline, but that annual decline has become smaller.

Annual change; Jun -11k persons versus May -22k persons



On a monthly basis, total unemployed persons continued to increase (albeit at a slower pace) for the sixth month in a row; Jun +4.7k persons versus May +6.6k persons.

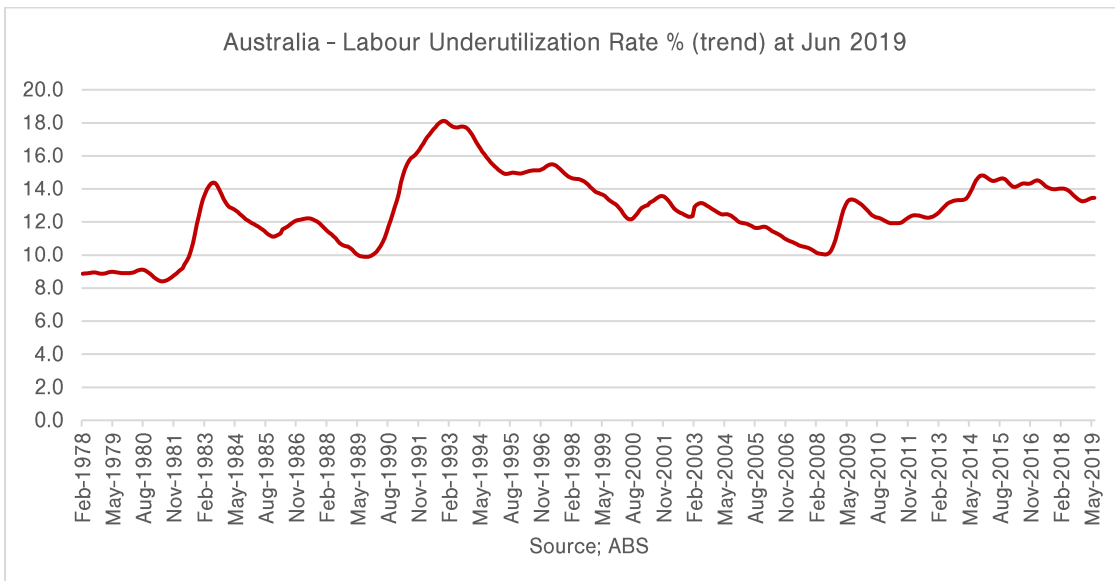
In the latest month, the unemployment rate increased slightly again; Jun 5.17% versus May 5.15%. Note that this is still below the Jun 2018 unemployment rate of 5.4%.

**Underutilization**

One of the key issues mentioned by the RBA is the ‘slack’ still in the labour force. One measure of that slack is the underutilization ratio;

“The sum of the number of persons unemployed and the number of persons in underemployment, expressed as a proportion of the labour force.”

The underutilization ratio has ticked up slightly to 13.5% over the last two months. The peak in this cycle was reached in late 2014 at 14.7% - underutilization remains elevated;



## Summary of Labour Market Indicators

	000's Persons	
	Annual Chg - Jun	Month Chg - Jun
The estimated change in the Labour Force due to pop growth	227.783	15.831
How many jobs available for them? (employment growth)	328.734	26.306
Difference (if positive, employment growing faster than pop est)	100.951	10.475
Change in labour force due to the change in participation	89.355	15.174
The reminder is the change in total unemployed persons	-11.596	4.700
Double Check - Reported chg in size of the Labour Force	317.138	30.988
<b>Two views of the size of the Labour Force:</b>		
Underlying population growth plus changes in participation	317.138	31.006
Total employed persons plus total unemployed persons	317.138	31.006

<https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6202.0Main+Features1Jun%202019?OpenDocument>

[Return to top](#)

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## China

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### GDP Q2 – Prelim

The prelim Q2 GDP growth indicated that quarterly growth accelerated but the annual rate as of Q2 slowed.

Q2 quarterly growth increased at a faster pace:

Qtrly growth; Q2 prelim; +1.6% versus Q1 +1.4%

The prelim Q2 annual GDP growth was somewhat slower in Q2:

Annual GDP Growth; Q2 prelim; +6.2% versus Q1 +6.4%

Growth in primary and secondary industry lagged the overall 6.2% growth rate, growing by 3.3% and 5.6% respectively. Tertiary industry group increased by 7.7%.

[http://www.stats.gov.cn/english/PressRelease/201907/t20190716\\_1676493.html](http://www.stats.gov.cn/english/PressRelease/201907/t20190716_1676493.html)

### Industrial Production (Jun)

Total industrial production increased at a faster pace in Jun.

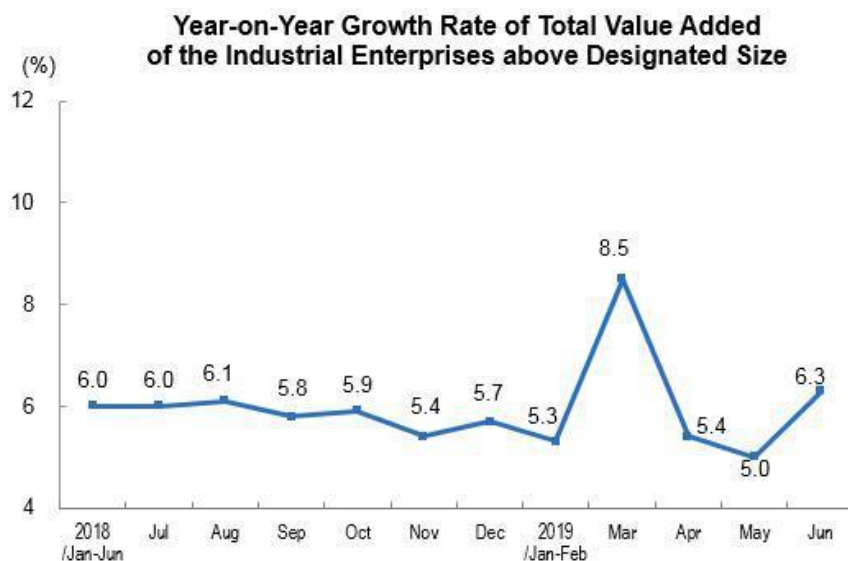
Growth across the three main sectors was mixed;

Mining and quarrying; +7.3%

Manufacturing; +6.2% (below the headline rate)

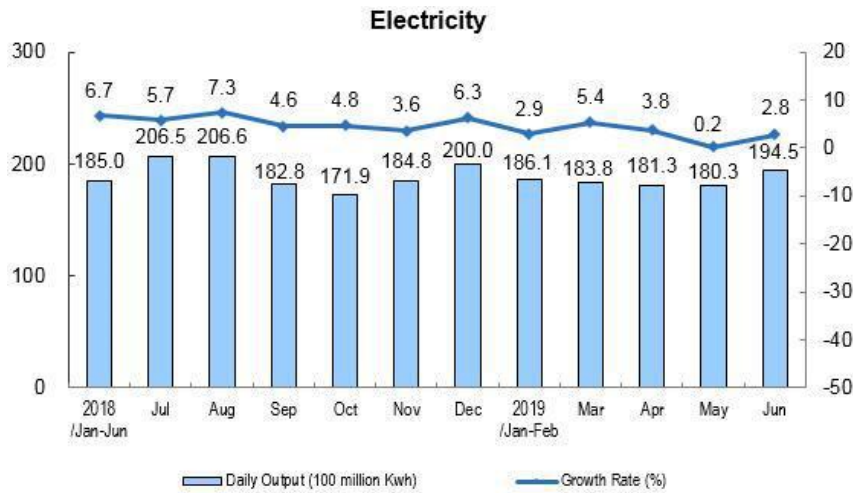
    Manufacture of High-Tech; +9.6%

Utilities; +9.6%



Interestingly, electricity production picked up slightly versus the month prior.

The Mar spike in total industrial production was not met with a corresponding increase in electricity output versus the month prior...



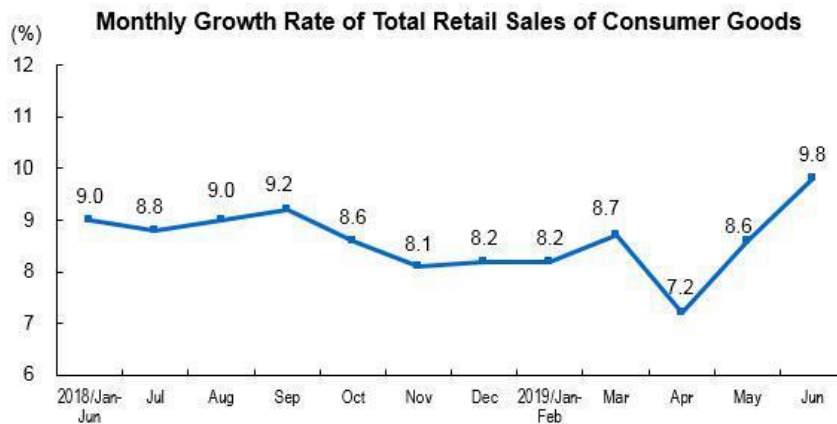
[http://www.stats.gov.cn/english/PressRelease/201907/t20190716\\_1676440.html](http://www.stats.gov.cn/english/PressRelease/201907/t20190716_1676440.html)

## Retail Sales (Jun)

Nominal growth in retail sales increased further in Jun (noting that annual CPI has been growing at was +2.7% in Jun).

Month change; Jun +0.96% versus May +0.75%

Annual change; Jun +9.8% versus May +8.6%



[http://www.stats.gov.cn/english/PressRelease/201907/t20190717\\_1676774.html](http://www.stats.gov.cn/english/PressRelease/201907/t20190717_1676774.html)

[Return to top](#)

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## Trade

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### US-China Trade Negotiations

There has been little progress reported on talks since the G20 – despite phone calls between the two sides.

The progress of talks likely hinges on whether the US and China can move forward on the Huawei/agriculture compromise. The lift on the US ban to supply Huawei, where there was no threat to US National security, was offered in return for an increase in the purchase of US agriculture by China. Reports indicate that US firms may be allowed to start supplying Huawei again in several weeks. <https://www.reuters.com/article/us-huawei-tech-usa-blacklist-exclusive/exclusive-u-s-firms-may-get-nod-to-restart-huawei-sales-in-2-4-weeks-official-idUSKCN1U90ON>

<https://www.wsj.com/articles/u-s-china-talks-stuck-in-rut-over-huawei-11563393280>

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>

“China and the United States remain divided over which negotiating text to base their revived trade talks on, with Washington demanding a longer document be used that lists earlier promises made by Beijing, according to observers.”

<https://www.scmp.com/news/china/diplomacy/article/3019373/china-us-said-be-wrangling-over-text-trade-talks-can-resume>

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

The first country on the list is China.

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

## NAFTA/USMCA

The US Congress will commence summer recess on 27 Jul, and it was possible that the USMCA might be ratified prior to the recess. This is now looking unlikely;

“Most Democrats say mid-fall is a more likely time to take up the agreement, given that the July agenda is full and Congress will then recess until after Labor Day.”

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>

Previously, the chief economic adviser Larry Kudlow has said that the legislation will be submitted once the House Speaker Pelosi approves the vote for the legislation. USTR Lighthizer continues to work with the Democrats on key issues;

“Lighthizer has said that we will submit formal legislation when she gives the green light on the vote,” he said in an interview at CNBC’s Capital Exchange event. Mrs. Pelosi, who has a monthly meeting with Mr. Lighthizer, as well as phone calls, according to an aide, **has said the deal may need to be reopened with surgical precision to accommodate Democrats’ requests.**”

<https://www.wsj.com/articles/lighthizer-charms-congress-but-struggles-to-sell-usmca-11563355920>

Once the US approves/ratifies the USMCA, Canada will take steps to approve the USMCA in parliament.

## 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

Shinzo Abe’s ruling coalition retained a majority in the Upper House elections over the weekend. They did not retain the two-thirds ‘supermajority’ though.

<https://www.japantimes.co.jp/news/2019/07/22/national/politics-diplomacy/u-s-reiterates-commitment-alliance-election-sticky-bilateral-trade-talks-await-abe/#.XTU9NPlzZHE>

Trade talks are now likely to continue;

“The Wall Street Journal marked upcoming trade talks with the United States as one of the biggest challenges the LDP leader will face, with President Donald Trump pushing for greater market access while threatening to raise auto tariffs.

Trump had said that he expected to announce something “very good for both countries” in August after the election.”

<https://www.japantimes.co.jp/news/2019/07/22/national/politics-diplomacy/u-s-reiterates-commitment-alliance-election-sticky-bilateral-trade-talks-await-abe/#.XTU9NPIzZhE>

Key issues for the US remain the trade deficit, access for agriculture and auto exports, as well as currency clauses to ‘prevent competitive devaluations’.

[https://www.washingtonpost.com/business/whats-at-stakein-us-japan-trade-talks/2019/05/24/62d6104a-7e5d-11e9-b1f3-b233fe5811ef\\_story.html?utm\\_term=.776b6d909b48](https://www.washingtonpost.com/business/whats-at-stakein-us-japan-trade-talks/2019/05/24/62d6104a-7e5d-11e9-b1f3-b233fe5811ef_story.html?utm_term=.776b6d909b48)

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

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

## US-Europe Trade Talks

Undeterred by the USTR investigation into the digital services tax to be approved by the Govt of France, the EU has opened its own investigation into possible anti-competitive conduct of Amazon;

“The European Commission has opened a formal antitrust investigation to assess whether Amazon's use of sensitive data from independent retailers who sell on its marketplace is in breach of EU competition rules.”

[https://ec.europa.eu/commission/presscorner/detail/en/ip\\_19\\_4291](https://ec.europa.eu/commission/presscorner/detail/en/ip_19_4291)

Last week the USTR opened a S.301 investigation into the digital services tax approved by the French government;

“The services covered are ones where U.S. firms are global leaders. The structure of the proposed new tax as well as statements by officials suggest that France is unfairly targeting the tax at certain U.S.-based technology companies.” <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/july/ustr-announces-initiation-section-301>

On Wednesday trade representative Robert Lighthizer said an investigation would “determine whether it is discriminatory or unreasonable and burdens or restricts United States commerce”. <https://www.bbc.com/news/world-europe-48947922>

There are several fronts to the US-Europe trade talks; 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

The USTR has commenced another review; “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 that 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](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=dsm-auto&utm\\_medium=email&utm\\_campaign=Trade+with+the+United+States%3a+Council+authorises+negotiations+on+elimination+of+tariffs+for+industrial+goods+and+on+conformity+assessment](https://www.consilium.europa.eu/en/press/press-releases/2019/04/15/trade-with-the-united-states-council-authorises-negotiations-on-elimination-of-tariffs-for-industrial-goods-and-on-conformity-assessment/?utm_source=dsm-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)

““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

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

### **US-UK Trade Talks**

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

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

[Return to top](#)