

## Key Themes

The G20 delivered over the weekend. From our review last week;

“The G20 is a perfect venue for these gestures, with its traditionally grand shows of diplomatic pleasantries. If Trump and Xi appear together, shake hands and smile, consider that a small victory”

<https://www.scmp.com/comment/opinion/article/3015396/no-trade-war-breakthrough-no-problem-xi-and-trump-are-meeting-g20>

The outcome of meetings between President Trump and President Xi was as good as could be expected – a truce or a pause in any further escalation. One difference this time is that there has been no time limit imposed on achieving an outcome.

Our attention regarding trade tensions shifted to the US-EU relationship. The EU formally announced that Britain, France, and Germany had established a special trade channel (“Instex”) that would enable trade with Iran that avoids the US sanctions. Repercussions for the EU-US relationship are possible.

On the data front, US manufacturing data mostly disappointed. The overarching theme was manufacturing growth stalling at the broader level. The advance durable goods report for May highlights the large adjustment underway regarding non-defense aircraft production, orders, and inventory. But even excluding all transportation, the advance report highlights slowing annual growth in orders and shipments and firms working through unfilled orders, which are also growing at a much slower pace. Within this context, inventory growth, while also slowing, remains elevated. The regional reports into manufacturing and business activity confirm that low and slowing manufacturing activity persisted into June.

The annual change in the headline US PCE price index slowed slightly in the latest month – led by lower annual growth in both goods and services prices. In the latest month though, headline PCE prices growth halved – due mostly to a shift in energy prices, but both overall goods and services prices growth slowed in the month. Underlying core inflation was also little changed on an annual basis, slowing slightly. The current FOMC projection for PCE inflation was revised lower (at the latest meeting) to 1.5% for 2019 (currently at that level) and core PCE was revised lower at the June meeting to 1.8% – which is still well above the current level of +1.6% as of May.

It’s worth noting the stronger industrial production data for Japan in May. Growth in production and shipments accelerated in May and this was across most product areas. Of note was the much faster growth in production and shipments of transport equipment, including passenger cars (which has been an area of weakness recently).

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[Europe](#) - Eurozone CPI – Prelim (Jun)

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## US Data

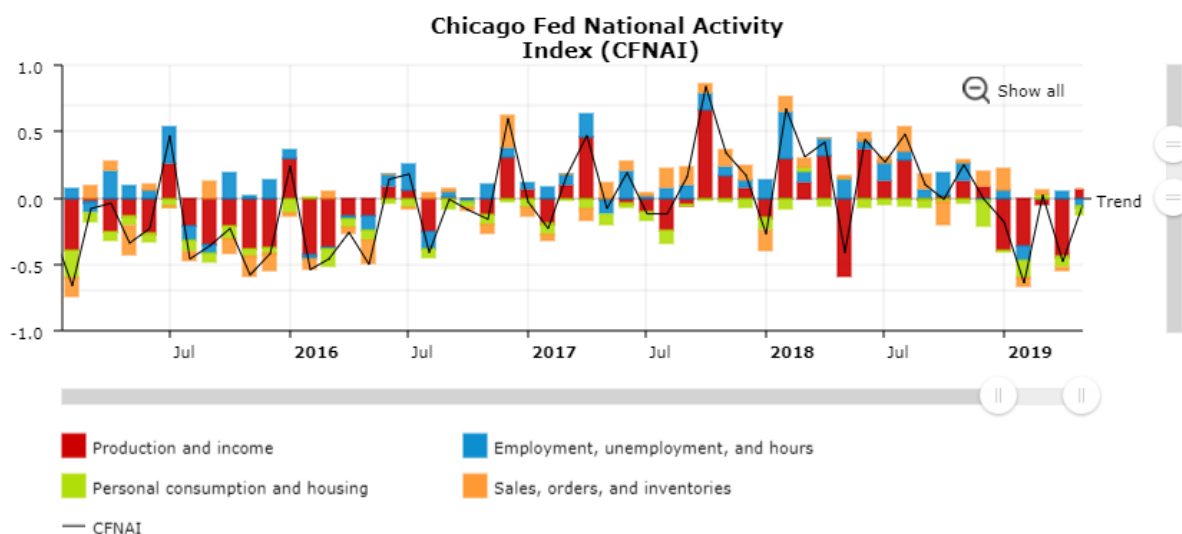
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### OUTPUT & PRODUCTION

#### Chicago Fed National Activity Index (May)

The headline index of National activity expanded at a faster pace in May versus the month prior – with the shift in the headline index indicating that growth in the economy returned to around the historical average.

Headline index; May -0.05 versus Apr -0.48



#### Index Components

The change in the headline index was mostly the result of an improvement in production and income.

Production and Income; May +0.07 versus Apr -0.44

Employment, unemployment and hours shifted to growing below trend; May -0.06 versus Apr +0.05

Personal Consumption and Housing continues to grow slightly below trend; May -0.06 versus Apr -0.08

Sales, orders and Inventories were little changed; May 0 versus Apr -0.02

<https://www.chicagofed.org/publications/cfnai/index>

#### Dallas Fed Manufacturing Survey (Jun)

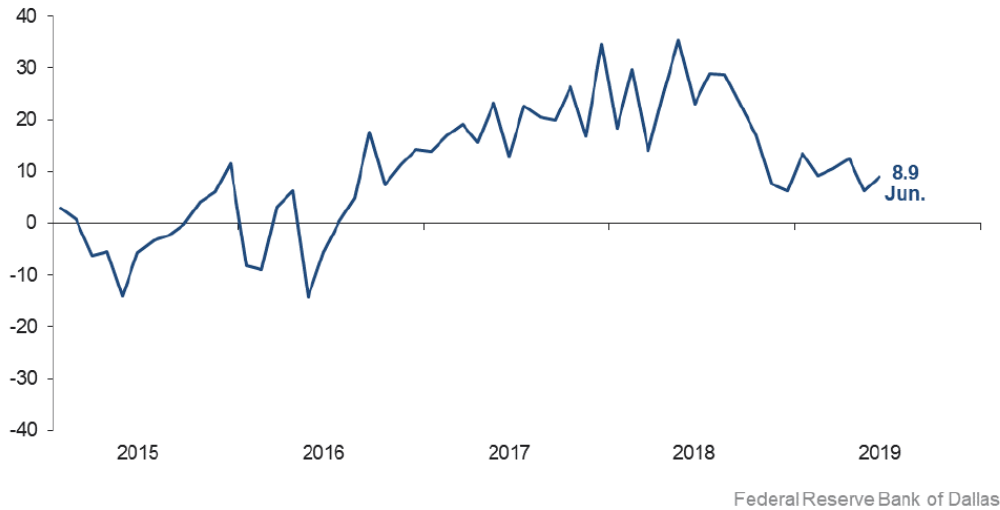
While manufacturing activity continued to expand at a slightly faster pace in Jun the company outlook and general level of business activity indicators contracted further.

The change in the current production index showed that output increased at a slightly faster pace; Jun 8.9 versus May 6.3

Despite the small acceleration in Jun, the growth rate in output remains well below the peak of 2018;

#### Texas Manufacturing Outlook Survey Production Index

Index, seasonally adjusted



New orders increased at a slightly faster pace, but the growth rate of new orders fell into contraction. The expected growth rate of new orders in 6-months abruptly slowed from 35.2 in May to 22.3 in Jun (still relatively high).

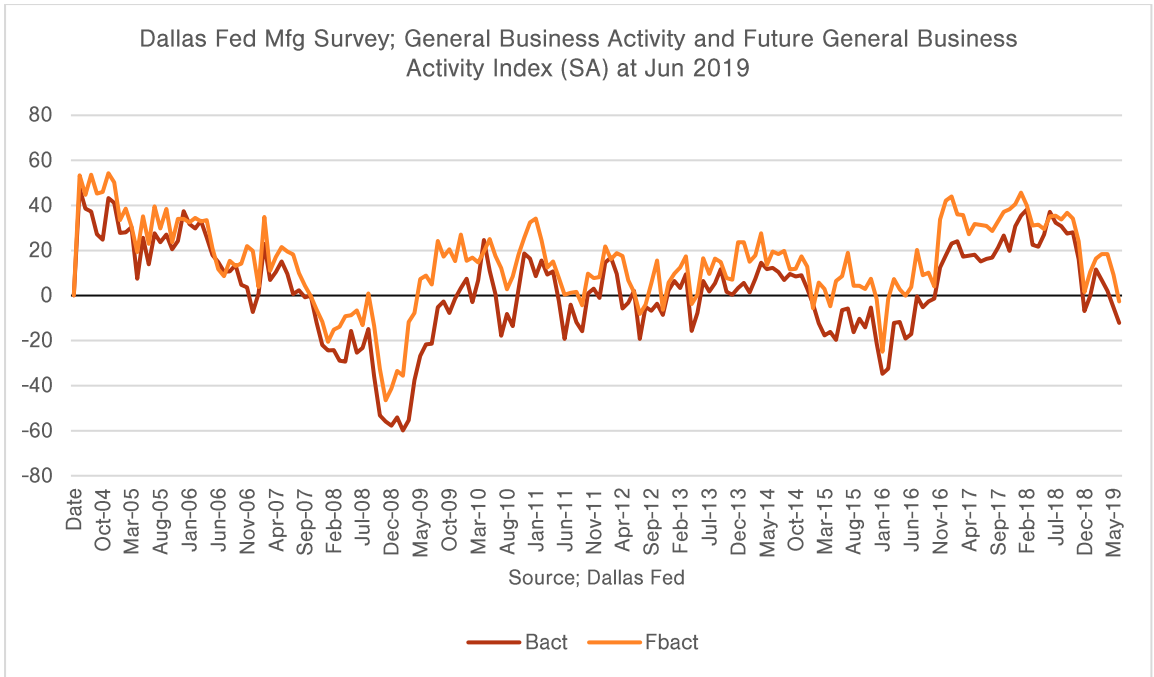
Unfilled orders shifted back to increasing after contracting in May. The Shipments indicator slowed to virtually no growth in Jun. Finished goods inventories were little changed and continued to contract/decline for the third month in a row.

Prices paid increased at a much faster pace while the growth in prices received remained very low.

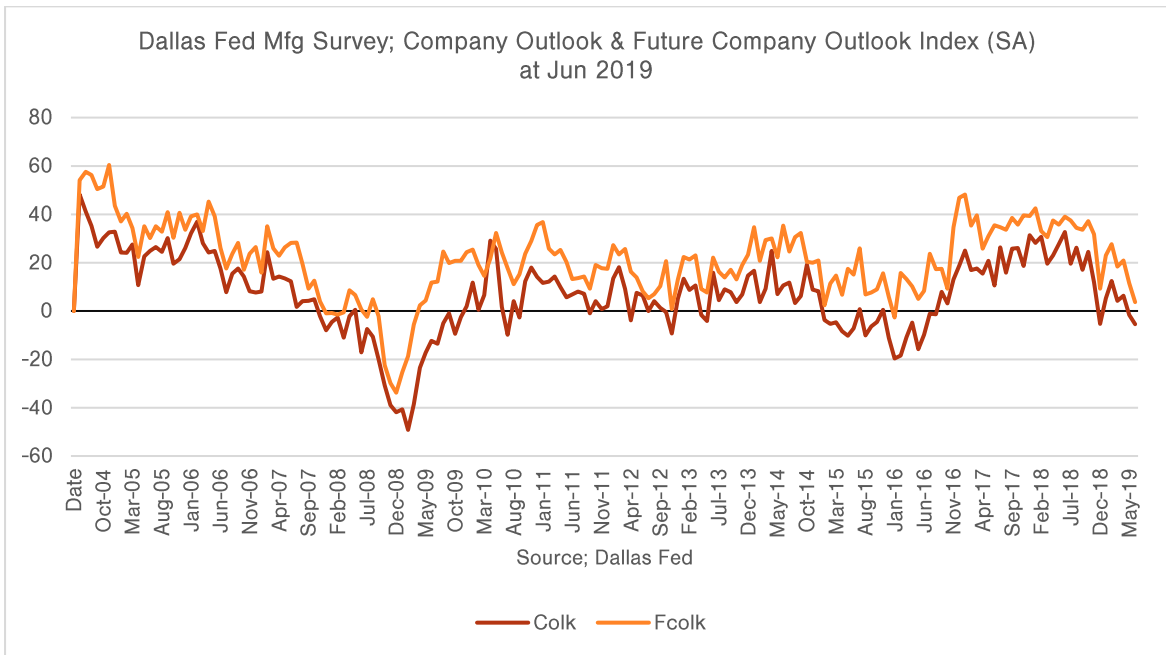
Employment and hours worked both grew at a slower pace and growth remained low.

The indicators of general business conditions continued to deteriorate;

The index of general business activity fell further into contraction in the month; Jun -12.1 versus May -5.3. The expectations for activity in 6-months' time also fell into contraction again after rebounding from the negative reading in Dec 2018;



The company outlook fell further into contraction and the future company outlook for 6-months' time slowed further, indicating little/no growth in the outlook period.



The outlook uncertainty, only measured since Jan 2018, increased to its highest reading

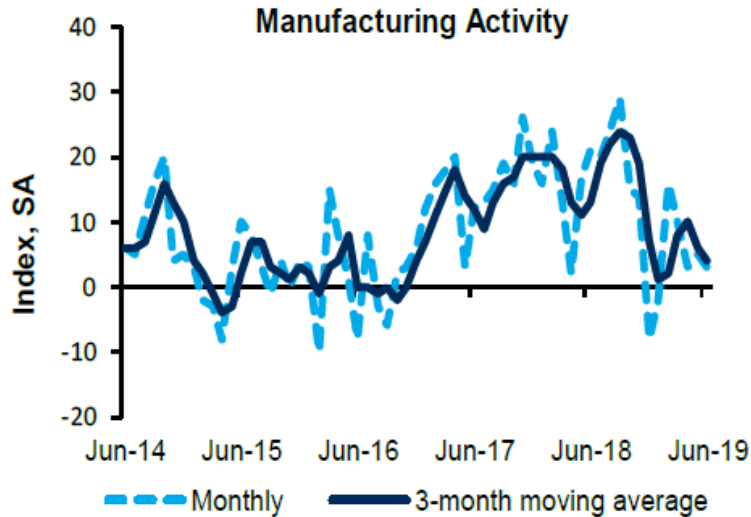
<https://www.dallasfed.org/research/surveys/tmos/2019/1906.aspx>

## Richmond Fed Manufacturing Survey (Jun)

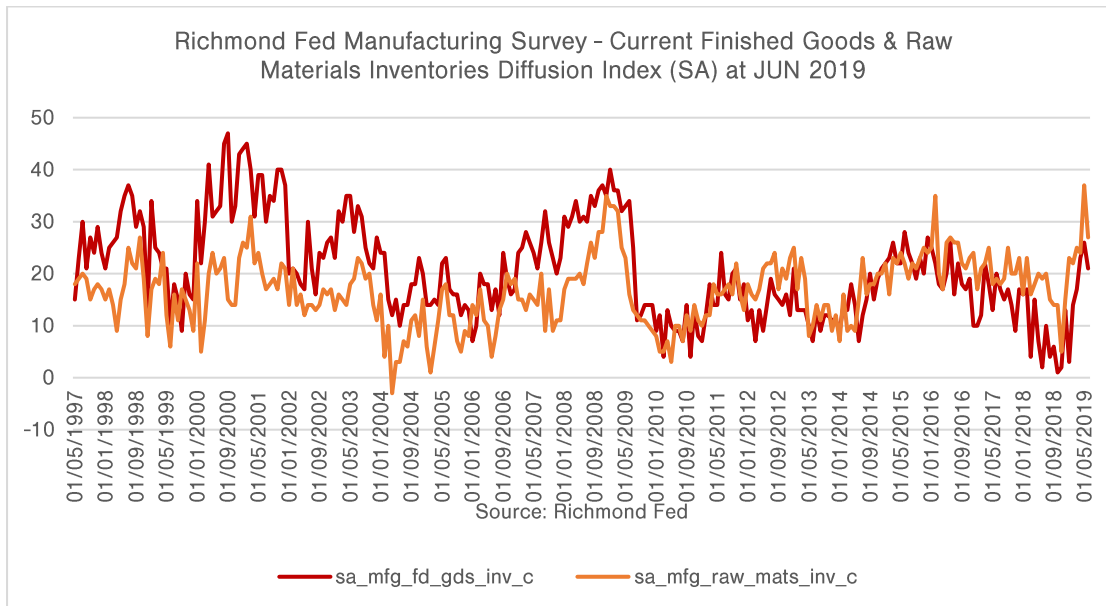
The headline index of manufacturing activity in the region was little changed in Jun, slowing slightly and remaining at a low level of growth. The rapid slow-down in employment growth for

the month was only somewhat offset by a small improvement in shipments and new orders. Inventories of finished goods fell from its near-term highs.

Manufacturing Index; Jun 3 versus May 5

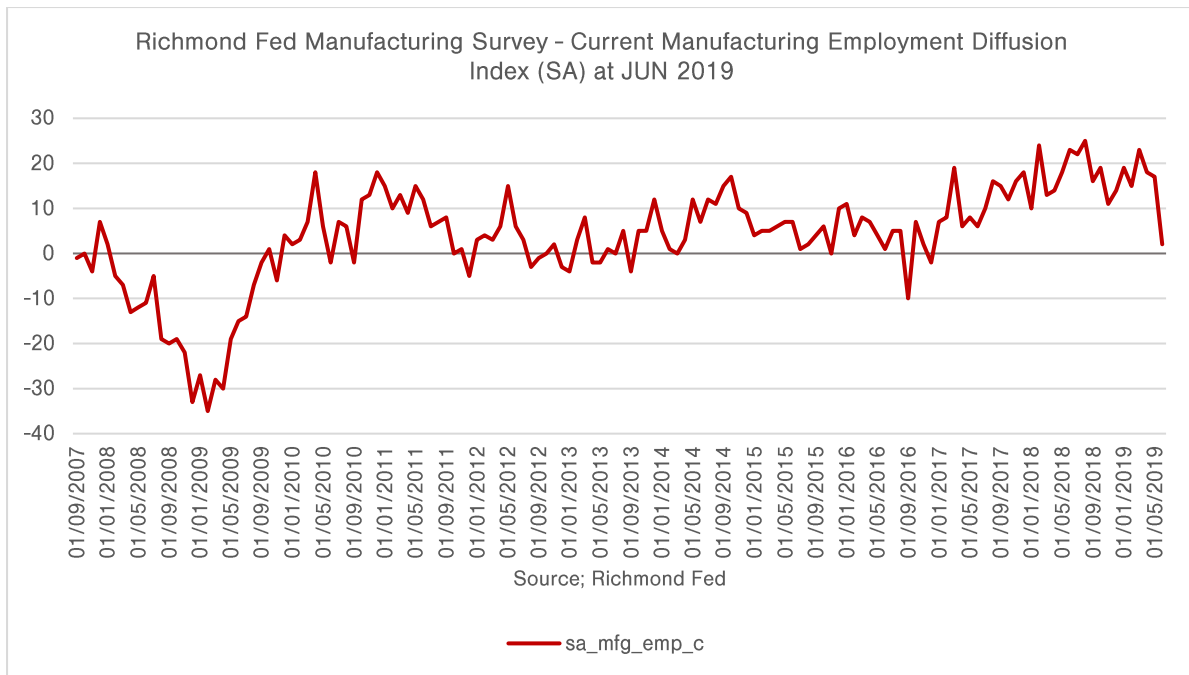


Growth of shipments increases in the month. At the same time, finished goods inventories pulled back from the near-term high reached in May.



New orders improved only slightly and remain at a level suggesting stagnating order growth. Growth in order backlogs have moved back up to zero after firms spent the last six months working through/reducing order backlogs.

The one area that slowed rapidly in the month in employment growth. The employment growth index slowed from 17 in May to 2 in Jun.



Wages growth also slowed quickly in the month. The average workweek declined slightly and remains little changed from the month prior (after a larger decline in Apr).

Overall prices paid continued to slow quickly in the month and prices received were little changed.

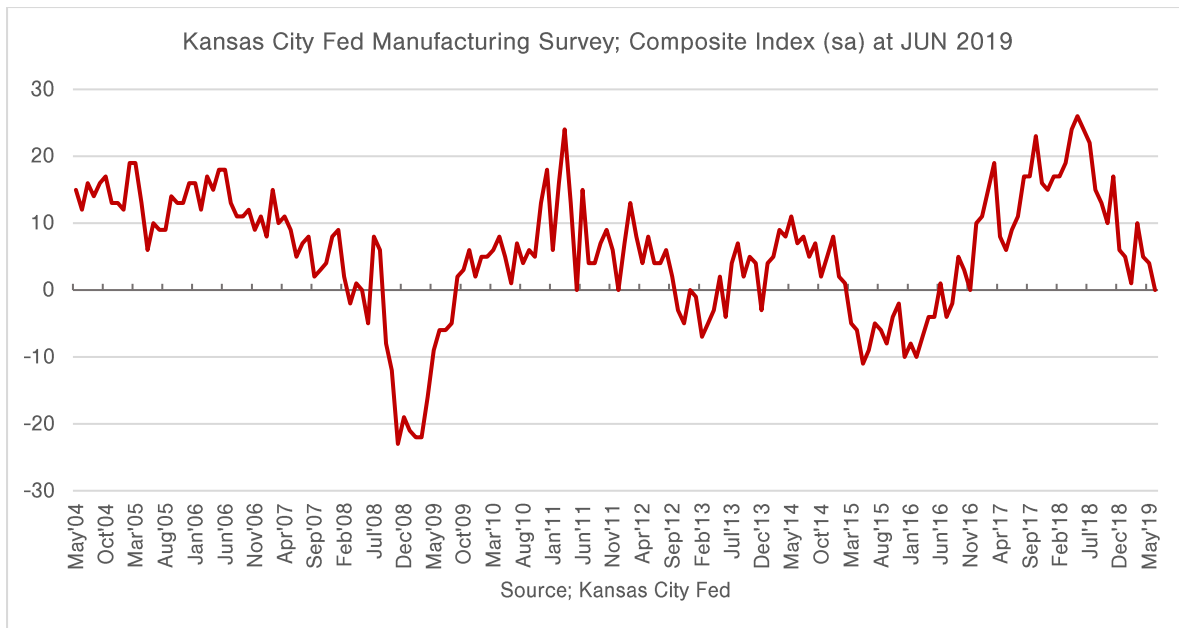
[https://www.richmondfed.org/-/media/richmondfedorg/research/regional\\_economy/surveys\\_of\\_business\\_conditions/manufacturing/2019/pdf/mfg\\_06\\_25\\_19.pdf](https://www.richmondfed.org/-/media/richmondfedorg/research/regional_economy/surveys_of_business_conditions/manufacturing/2019/pdf/mfg_06_25_19.pdf)

## Kansas City Fed Manufacturing Index (Jun)

The composite index of manufacturing activity slowed further in the month, falling to a reading of zero – broadly indicating little/no growth in manufacturing activity in the region. Production and shipment slipped into contraction while new orders growth remained unchanged.

“The change in manufacturing activity was mostly driven by a decline at durable production plants, especially for computers, electronic products, and transportation equipment.”

Manufacturing composite index: Jun 0 versus May 4



Production slipped back into contraction since rebounding in Feb 19. The volume of shipments also declined at a faster pace this month.

The volume of new orders was little changed and while the index remains positive, overall growth is low.

Firms continued to work through order backlogs in the absence of accelerating growth in orders. Order backlogs continue to contract in Jun and have fallen for five out of the last 6 months.

Growth in the number of employees increased at a similar pace to the month prior. Growth remains positive, but low; Jun 2019 index of 5 versus a year ago reading of 23.

Growth in the average workweek slowed to zero growth versus the month prior.

Growth in prices received index slowed quickly in the month from 15 in May to 3 in Jun. Prices paid for raw materials also slowed.

Inventories of raw materials declined in the month and growth has remained low in the YTD. Inventories of finished goods has increased at a slightly faster pace in the last two months.

<https://www.kansascityfed.org/research/indicatorsdata/mfg>

## Chicago PMI (Jun)

The Chicago business barometer fell into contraction in the latest month. This is another in a wider range of regional and national readings of manufacturing and business activity highlighting a slowdown in growth this month.

Chicago Business Barometer: Jun 49.7 versus May 54.2



## Chicago Business Barometer



Demand weakened for the fourth month, resulting in the headline index falling into contraction (only slightly). Production fell by 15% in the quarter to a three-year low. Firms continued to work through backlogs with outstanding orders remaining in contraction also.

Inventories continued to increase in the month and were higher in overall quarter amid the slower demand.

Business confidence fell in Q2 by 13% compared to Q1. The special question in the month about the impact of tariffs may shed some light on the driver of the fall in confidence. Approx. 80% of firms reported they were negatively impacted by tariffs – via increased prices for their goods and lower orders.

<https://www.ism-chicago.org/insidepages/reportsonbusiness/>

### Advance Durable Goods Orders (May)

The advance durable goods report for May showed that new orders fell for a second month. Shipments increased slightly from the month prior and the value of unfilled orders declined. The value of inventory increased faster than both shipments and orders.

This appears to be led by an adjustment currently underway in non-defense aircraft (transport equipment) – where growth in orders and shipments are declining hard while inventory growth is accelerating. A summary is provided at the end of this section.

Excluding transportation, annual growth in orders have been slowing quickly and are now only +0.2% above a year ago. Shipments growth remains higher at 2% but are also slowing. Firms are working through unfilled orders, which are also growing at a slower pace now down to +1.9%. Within this context, inventory growth, while also slowing, remains higher at +4.1%.

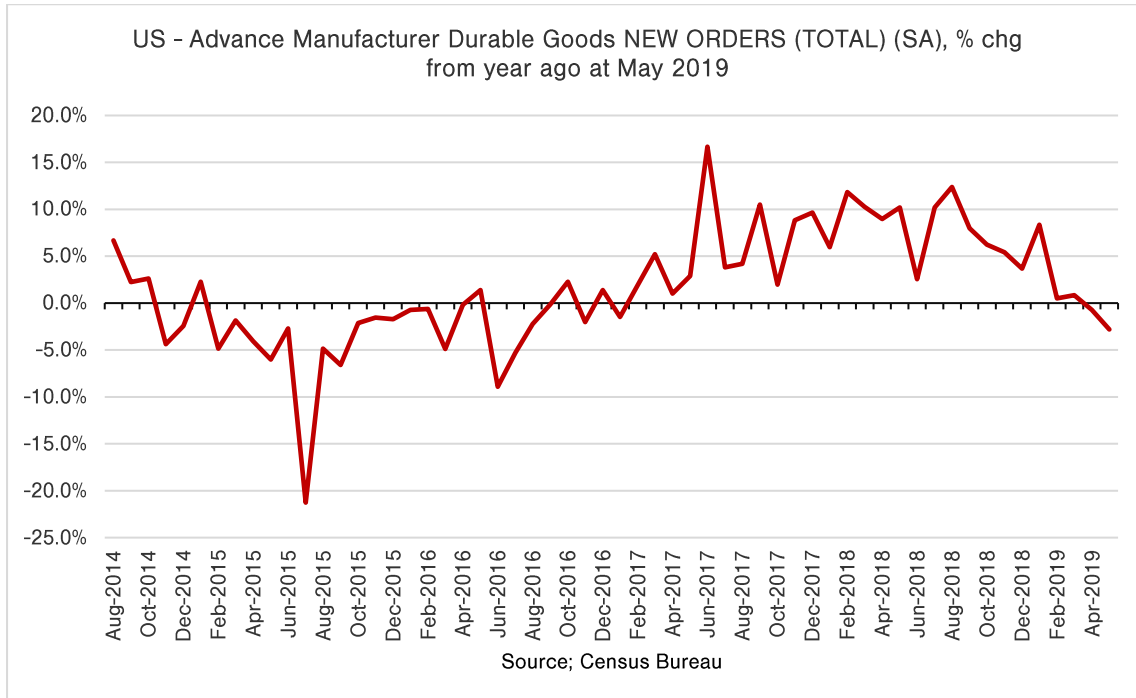
#### New Orders – Durable Goods (seas adj)

New orders (\$ val)	Mth	May -1.3%	Apr -2.8%
New orders (\$ val)	Ann chg	May -2.8%	Apr -0.8%

The fall in the value of new orders in the month was  $-\$3.3\text{bn}$ . Leading the decline in the month was; non-defense aircraft and parts ( $-\$2.1\text{bn}$ ) and defense aircraft and parts ( $-\$0.8\text{bn}$ ).

Excluding transport, new orders increased in May by  $+0.3\%$  or  $+\$0.5\text{bn}$ .

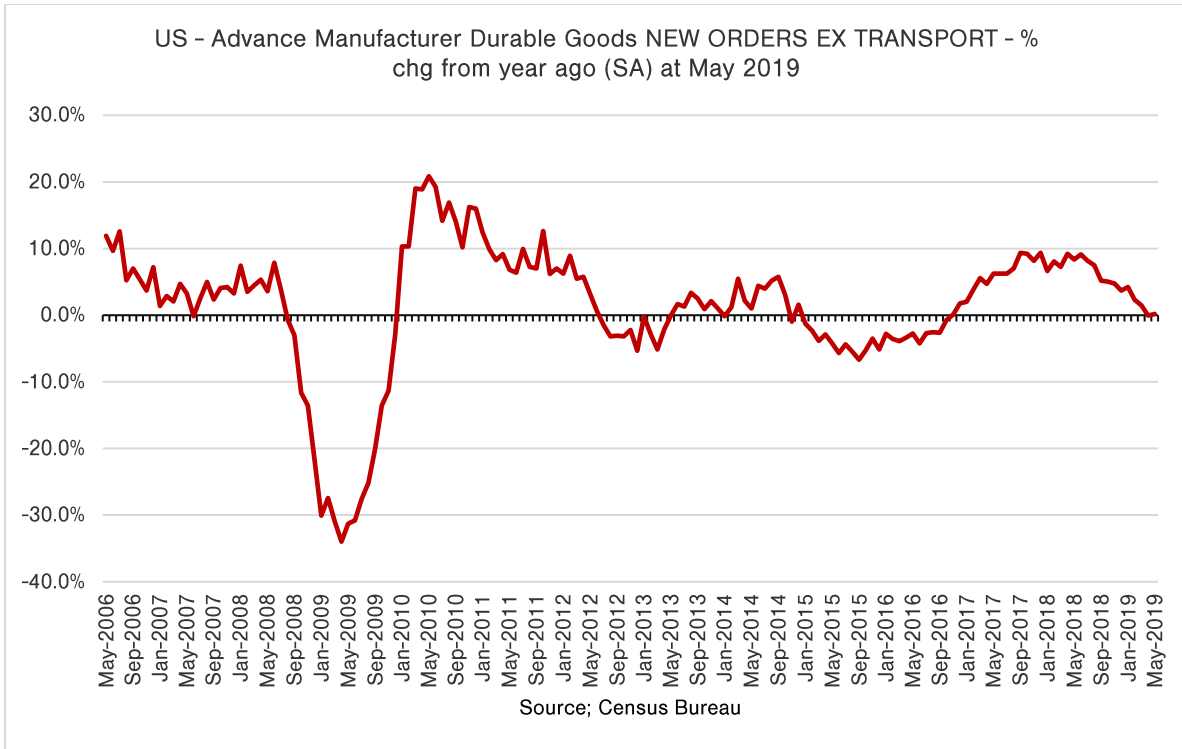
On a year ago basis, total new orders declined further in May;



Declines in new orders for transport equipment has been a large driver of the annual decline in new orders. Transport equipment new orders declined by  $-8.4\%$  versus a year ago in May – this has been heavily influenced by the fall in non-defence aircraft new orders ( $-65\%$  versus a year ago or  $-\$10\text{bn}$  in value).

Orders for Motor Vehicles has been running higher on an annual basis – the value of new orders seems to have peaked only in Mar 2019 and is growing at  $+9.1\%$  versus a year ago.

But even excluding transport equipment, annual new orders growth has slowed to virtually zero versus a year ago. The annual change at May was  $+0.2\%$  or  $+\$0.3\text{bn}$ ;



Without accelerating growth in new orders, growth in shipments may slow further, especially as unfilled orders growth is slowing.

Unfilled orders Durable Goods ex-transportation equipment

Annual change; May +1.9% or +\$6.8bn versus Apr +2.6% or +\$9.4bn



### Shipments – Durable Goods (seas adj)

Growth in shipments of durable goods has been slowing but not to the same extent as orders at this stage (unfilled orders are still close to recent peaks, but are declining on a monthly basis over the last 4 months);

Shipments (\$ val)	Mth	May +0.4%	Apr -1.6%
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Shipments (\$ val)	Ann chg	May +2.4%	Apr +2.3%
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In the latest month, shipments increased by +\$0.9bn and increased across most durable goods categories in the month. The only two categories where shipments declined were primary metals (-\$0.2bn) and electrical equipment which declined only marginally.

The small improvement in shipments of transport equipment in the month (+\$0.24bn) comes after a much larger decline in the month prior of -\$4bn.

Overall shipments of durable goods versus a year ago are still growing at around 2% having slowed from around 9% early in 2018;



Shipments excluding transport equipment is growing at a similar pace to total shipments +1.9% versus a year ago and follows an identical slowing trend.

Shipments of total transport equipment grew at 3.4% versus a year ago in May but has slowed from +12% annual growth in Dec. In the last year to May, the annual decline in shipments of non-defense aircraft & parts has been offset by growth in Motor Vehicle shipments. Non-defense aircraft shipments have been falling hard recently – see end of this section.

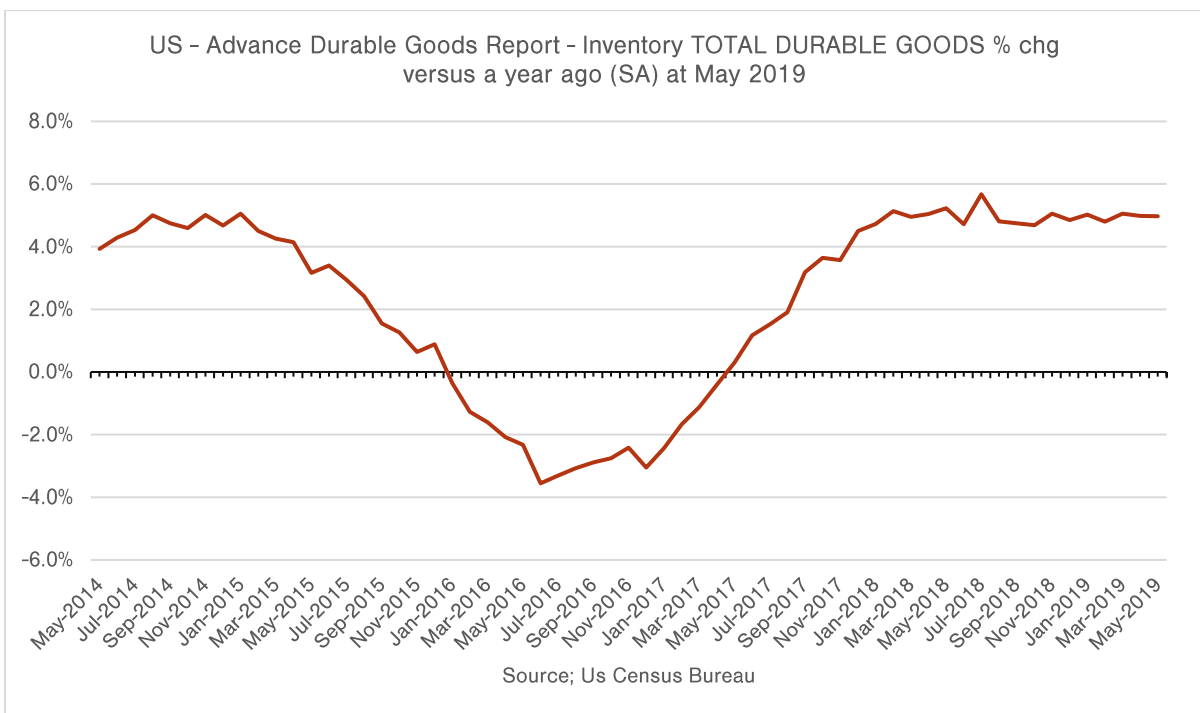
Inventories – Durable Goods (seas adj)

The value of total inventories increased again in the latest month and the annual growth has remained steady, averaging around 5% annual growth since the start of 2018. Inventory continues to grow faster (% chg) than both shipments and new orders at a total level – this is being led by transport equipment – mostly non-defense aircraft.

The value of total inventory increased by +\$2.1bn in May.

Inventory (\$ val)	Mth	May +0.5%	Apr +0.4%
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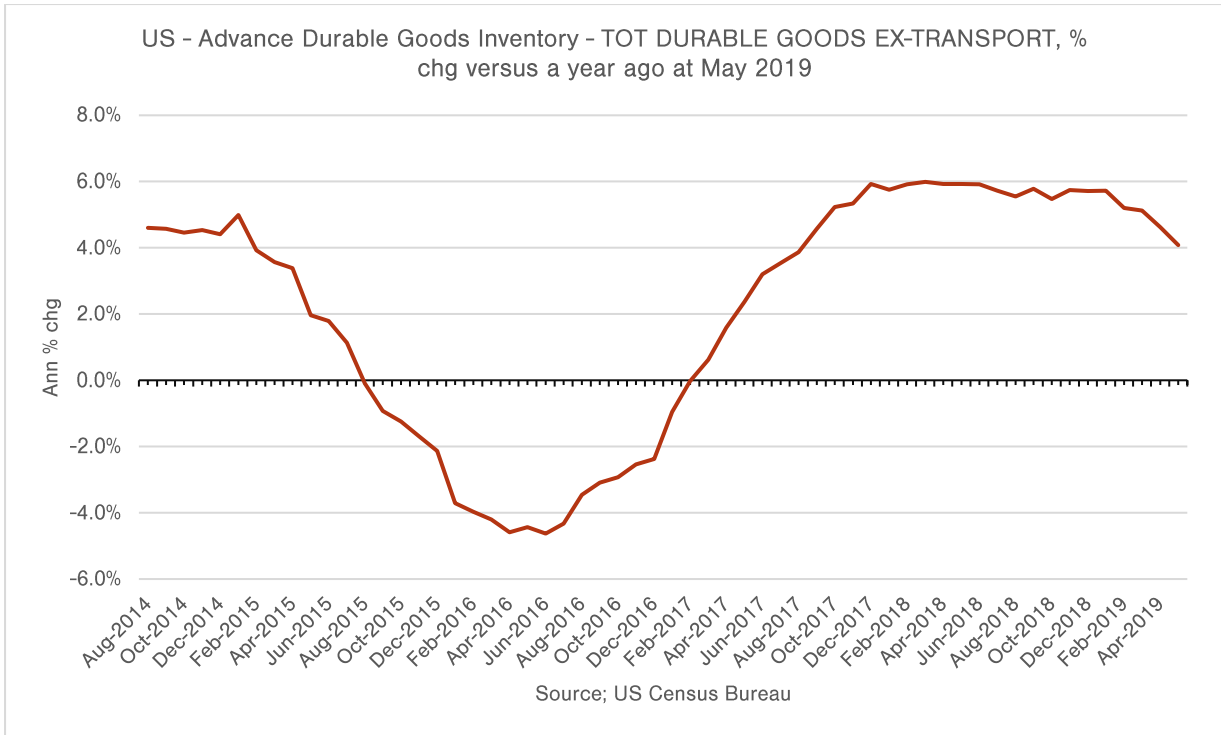
Inventory (\$ val)	Ann chg	May +5%	Apr +5%
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The month increase in inventory was led mostly by inventory for non-defense aircraft and parts of +\$1.7bn.

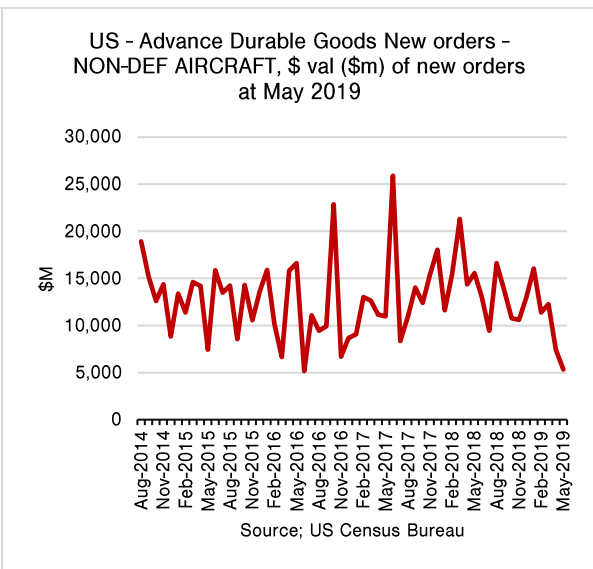
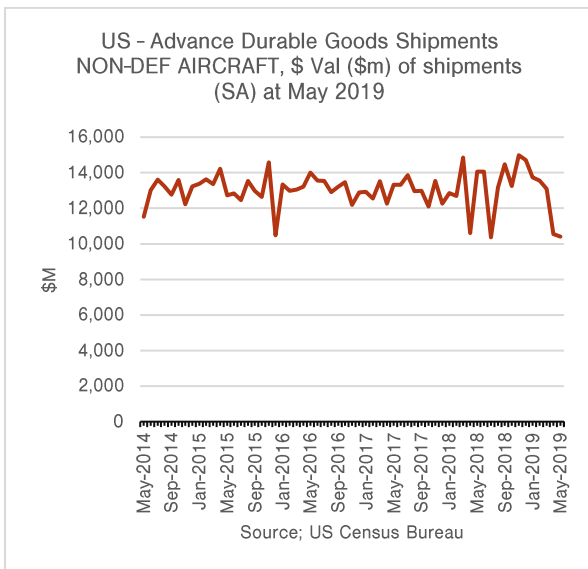
Inventory growth of durable goods ex transports was unchanged in the month but has been growing at a somewhat slower annual rate; May +4.1% versus Apr +4.6%.

A +4.1% increase in the value of inventory equates to approx. +\$11.2bn increase in the value versus a year ago.

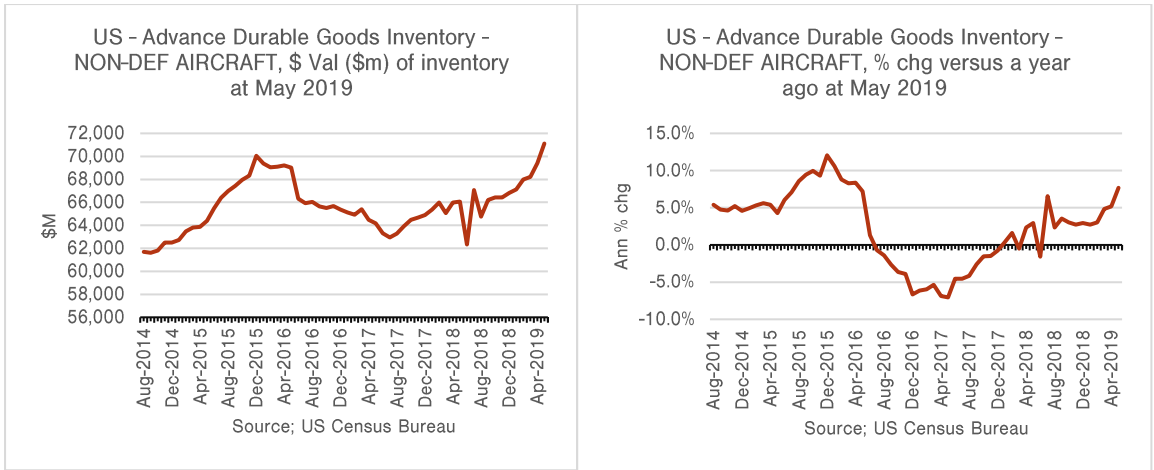


**Non-Defense Aircraft - Summary**

While inventory growth has increased, non-defense aircraft orders have fallen by 65% versus a year ago as of May and shipments are down -26% versus a year ago. Unfilled orders are currently declining by -2.8%. This is likely related to the Boeing order cancellations. Shipments and orders \$ values are presented below to provide context – both have fallen to near-term lows;



The value of inventory for non-defense aircraft and parts increased by 7% versus a year ago and growth in that inventory growth has been accelerating;

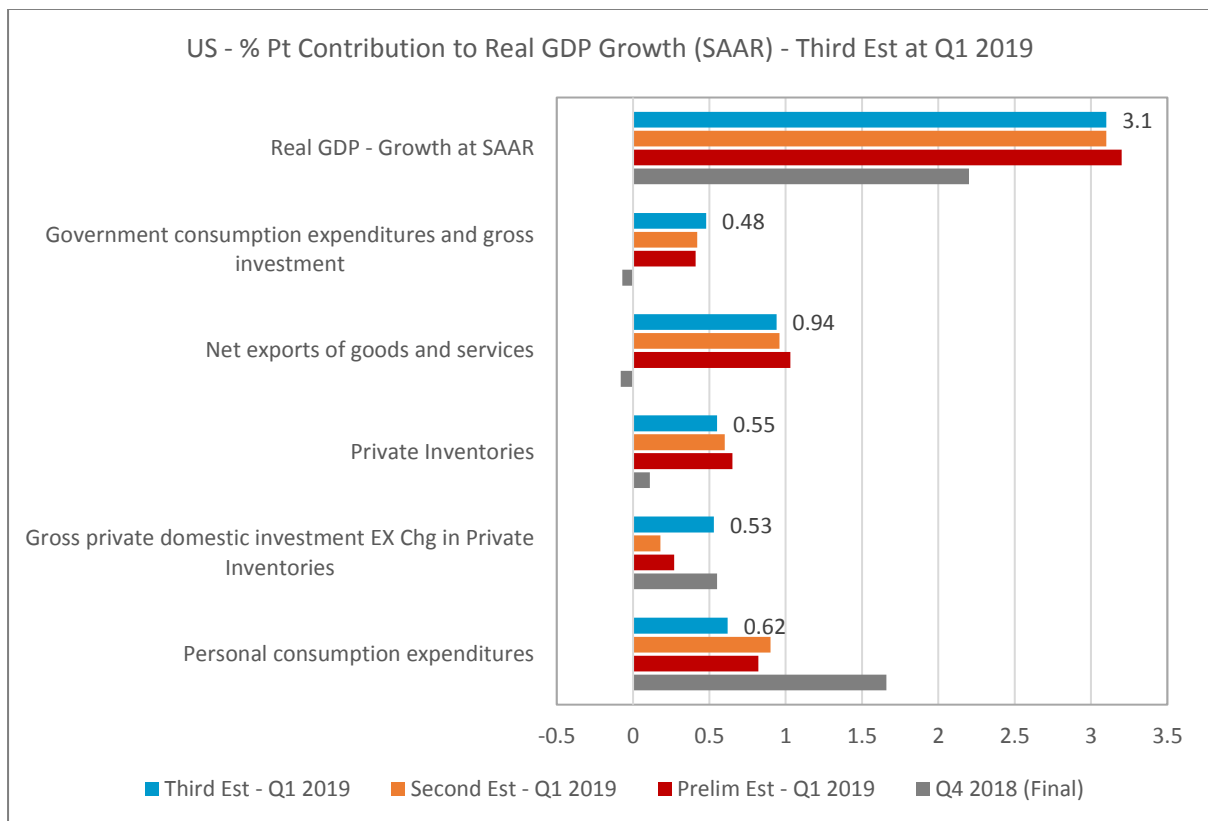


<https://www.census.gov/manufacturing/m3/index.html>

### GDP Q1 (Third Est)

There was no change to the annual rate of GDP growth in the latest revision to Q1 GDP. On a seas adj ann basis, real GDP growth remained at +3.1%. There were several revisions underlying the headline rate of growth, the main ones; personal consumption expenditure was revised lower and private fixed investment expenditure was revised higher.

#### Contribution to GDP Growth – Expenditure View



Personal consumption expenditure growth was revised lower for the quarter – and contribution to GDP growth was revised from +0.9% pts to +0.6%pts. The smaller decline in durable goods expenditure was more than offset by the lower growth in services (growth in services expenditure was reduced by half).

Fixed investment growth was revised much higher and contribution to overall GDP growth increased from +0.2% pts to +0.5% pts. Growth in non-residential investment expenditure was revised higher. The decline in residential investment was revised lower (smaller decline).

The contribution from inventories was revised slightly lower.

Net exports made a similar overall contribution to growth between the two estimates. Underlying that though export growth was revised higher (services exports). The decline in imports was also revised lower due to higher growth in services imports.

Government consumption and investment expenditure was little changed.

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

## **HOUSING**

### **CoreLogic Case-Shiller House Price Index (Apr)**

The US National house price index increased at a similar pace in the latest month, but annual growth continued to slow.

#### **US National House Price Index**

Month chg (SA); Apr +0.3% versus Mar +0.3%

Ann chg (NSA); Apr +3.5% versus Mar +3.7%

#### **20-City Composite Index**

Month chg (SA); Apr 0% versus Mar +0.3%

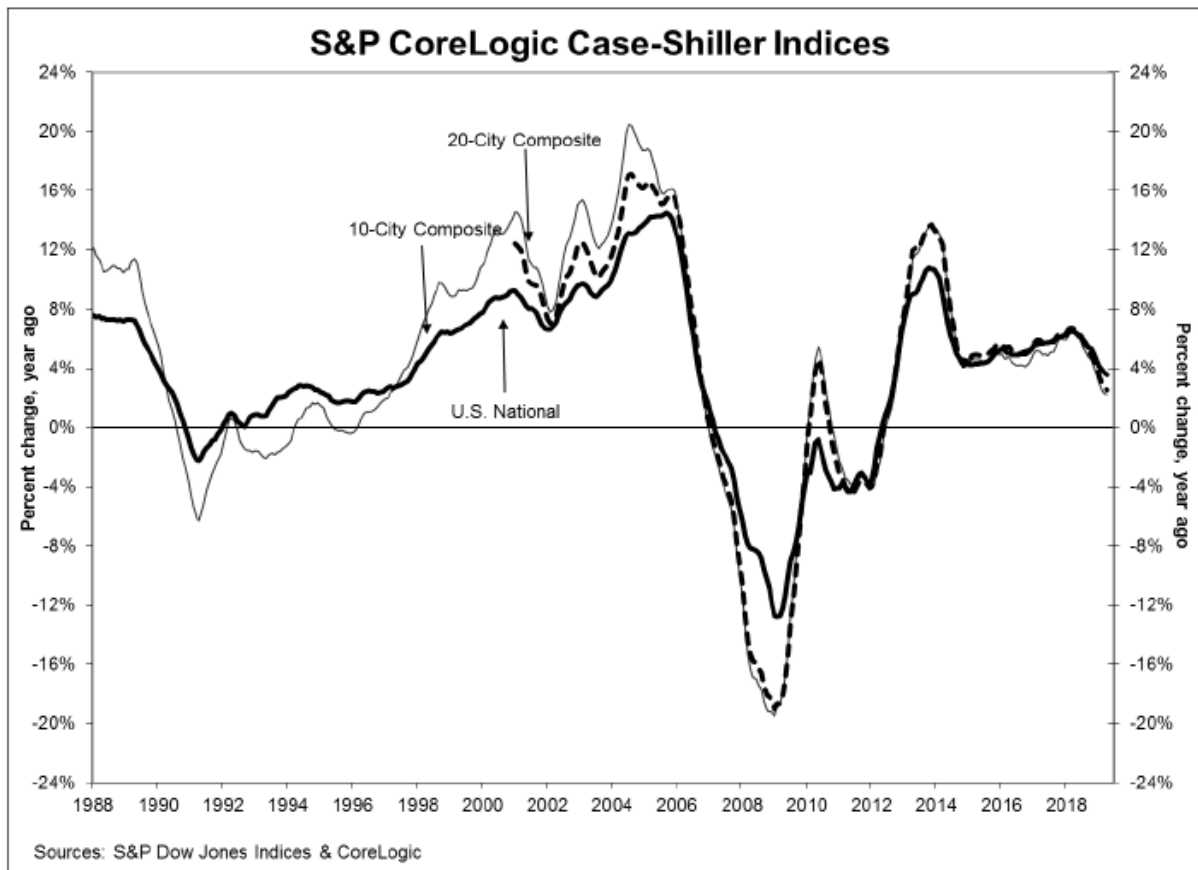
Ann chg (NSA); Apr +2.5% versus Mar +2.6%

#### **10-City Composite Index**

Month chg (SA); Apr +0.2% versus Mar +0.1%

Ann chg (NSA); Apr +2.3% versus Mar +2.2%





An important point from the commentary noting that while 30yr fixed rates have now come down below 4% the moderation in house prices has not changed (emphasis added);

“The national average 30-year fixed mortgage rate rose from below 4% in late 2017 to briefly reaching almost 5% by the latter part of 2018. Peak YOY changes in the 20-City Composite coincided with the upward turn in mortgage rates during the first quarter of 2018. **In 2019, mortgage rates reversed course again and the 30-year fixed mortgage rate is again under 4%, yet the YOY house price moderation that coincided with the 2018 uptick in rates has not changed course. Other industry statistics are consistent with this observation. For example, the national supply of housing is trending upward and suggesting weaker demand.** Perhaps the trend for the moment is toward normalization around the real long run average annual price increase. Comparing the YOY National Index nominal change of 3.5% to April’s inflation rate of 2.0% yields a real house price change of 1.5% - edging closer to the real long run average of 1.2% cited by David Blitzer last month.”

We noted last week in the existing home sales report that while there had been some improvement in the rate of existing home sales, inventory (months of supply) had continued to increase.

<https://us.spindices.com/indices/real-estate/sp-corelogic-case-shiller-20-city-composite-home-price-nsa-index>

## New Home Sales (May)

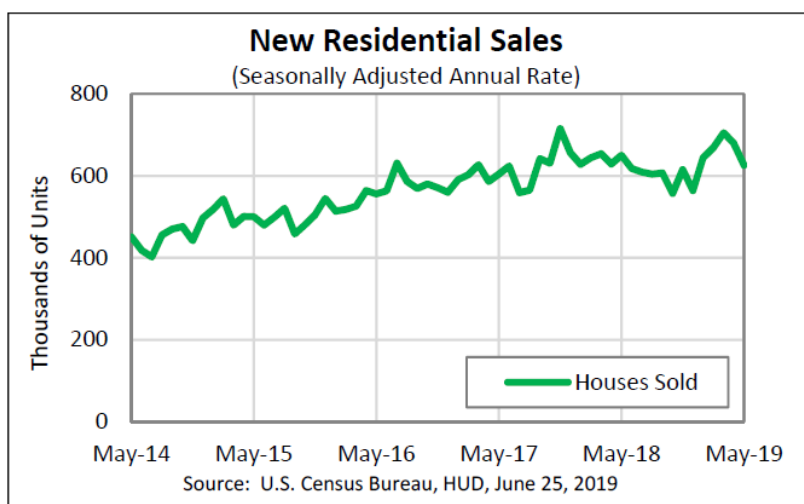
New residential sales continued to slow in the latest month. The estimated 90% confidence intervals remain wide and contain zero; meaning that there is uncertainty as to whether sales increased or decreased. From the US Census Bureau; “it takes 4-months to establish a trend for new houses sold”. The current decline is only 2-months in the making (decline started in Mar 2019)

### US – National New Residential Sales (SAAR)

May prelim 626k versus Apr revised 679k

A decline in the month of -7.8% (the 90% confidence interval is +/- 14.7% pts)

The annual change is similar; -3.7% versus a year ago (+/- 15% pts)



### Regional Results - SAAR

Only the result in the West has any certainty;

West; May prelim 125k versus Apr revised 195k – a decline of 36% in the month (the 90% confidence interval is +/- 17.3% pts – so most likely sales did decline in the month).

The largest market for new home sales is the South; May prelim 389k versus Apr revised 371k – an increase of 4.9%, but with a 90% confidence interval of +/- 25.5%, so sales could have increased or decreased.

Sales in the Midwest also increased in the month; +6.3% but with a 90% confidence interval of +/- 40.6% pts. As this range includes zero, sales could have increased or decreased.

New home sales in the Northeast declined by -17.6% in May. The 90% confidence interval is +/- 42.5% - again meaning that there is no certainty whether sales actually increased or decreased.

<https://www.census.gov/construction/nrs/index.html>

## Pending Home Sales (May)

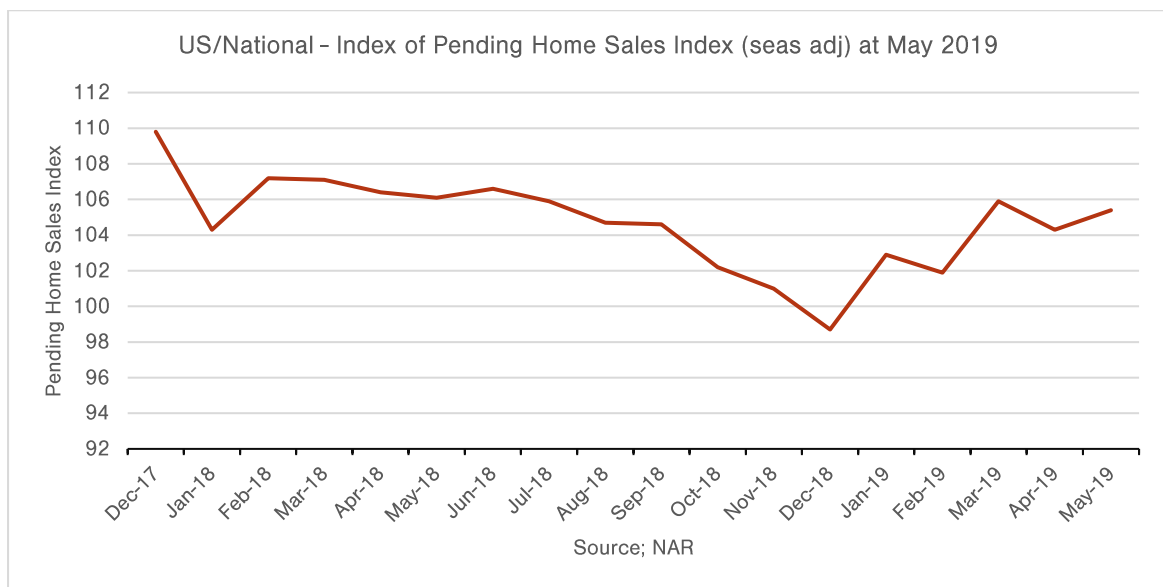
The index of pending existing home sales increased at a National level this month. Regional results were somewhat mixed; much stronger growth in pending sales in the Northeast and Midwest this month while there was little change in the South and a further decline in pending home sales in the West.

This is generally a forward indicator of sales – “a sale is listed as pending when the contract has been signed but the transaction has not closed, though the sale usually is finalized within one or two months of signing.”

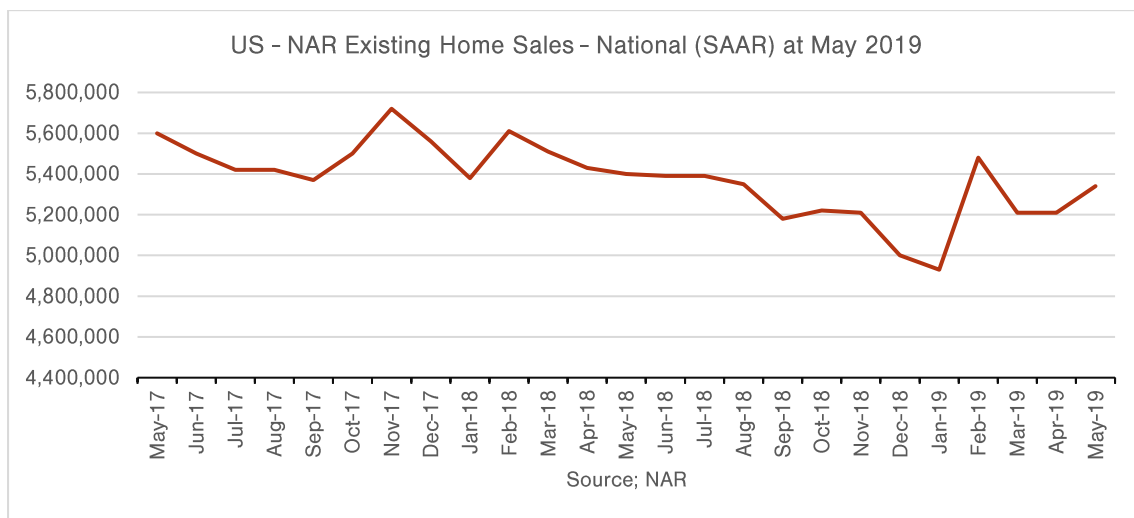
The pending home sales index has been improving since Dec 2018 at a National level;

Month chg; May 2019 +1.1% versus the month prior

Ann chg; May 2019 -0.7% versus a year ago



Existing home sales (reported last week) have followed a somewhat similar pattern (with associated lag), although sales growth has not been as consistent since the large increase in actual sales in Feb 2019;



## Regional Results

The sales rebound in the South has been the strongest and is the only market ahead of a year ago; +0.7%. Pending home sales increased by +0.1% in the month and, more relevant for upcoming sales, pending home sales growth has been slower over the last two months.

In the West, pending home sales declined by 1.8% in the month – for the second month in a row. The index remains 3% below a year ago.

Pending home sales in the Midwest have been increasing faster over the last three months and increased by +3.6% in May.

In the Northeast, pending home sales increased by +3.5% in the latest month – the first monthly increase since the ‘flat’ result in Jan 2019.

<https://www.nar.realtor/newsroom/pending-home-sales-bounce-back-1-1-in-may>

## **CONSUMPTION**

### **Personal Consumption and Income and PCE Price Index (May)**

Income growth remained unchanged, while consumption expenditure slowed. Savings increased versus the month prior.

#### Personal Income

Personal income grew at the same pace in May as in Apr and growth in Apr was revised slightly higher.

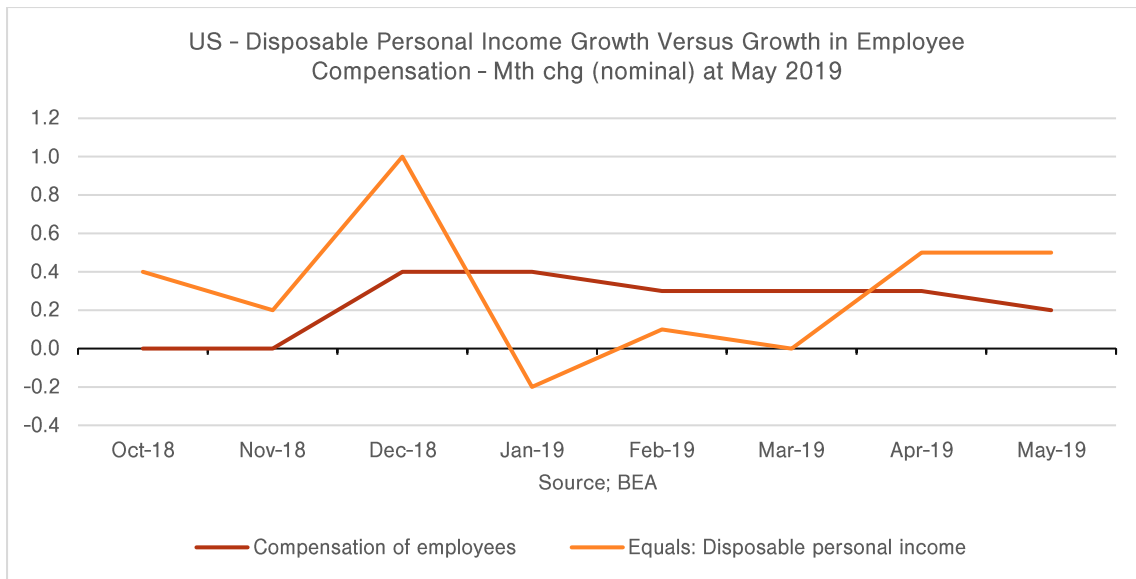
Month chg – Total Personal Income; May +0.5% versus Apr +0.5%

Compensation of employees grew at a slightly slower pace in May – both wages and salaries grew at a slower pace as did supplements to wages.

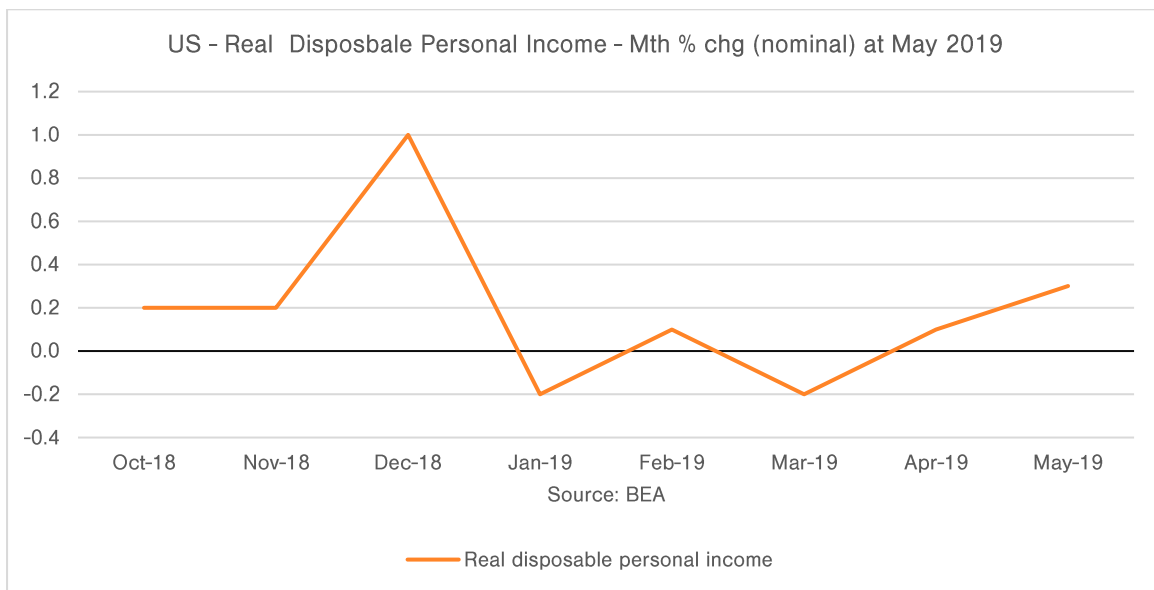
Slower growth in employee compensation was offset by faster growth in proprietors income.

The change in current personal taxes was slightly lower than in the month prior.

As a result, personal disposable income also grew at the same pace in May as in Apr;



In real terms, personal income growth has accelerated over the last two months after falling/recording lower growth throughout Q1;



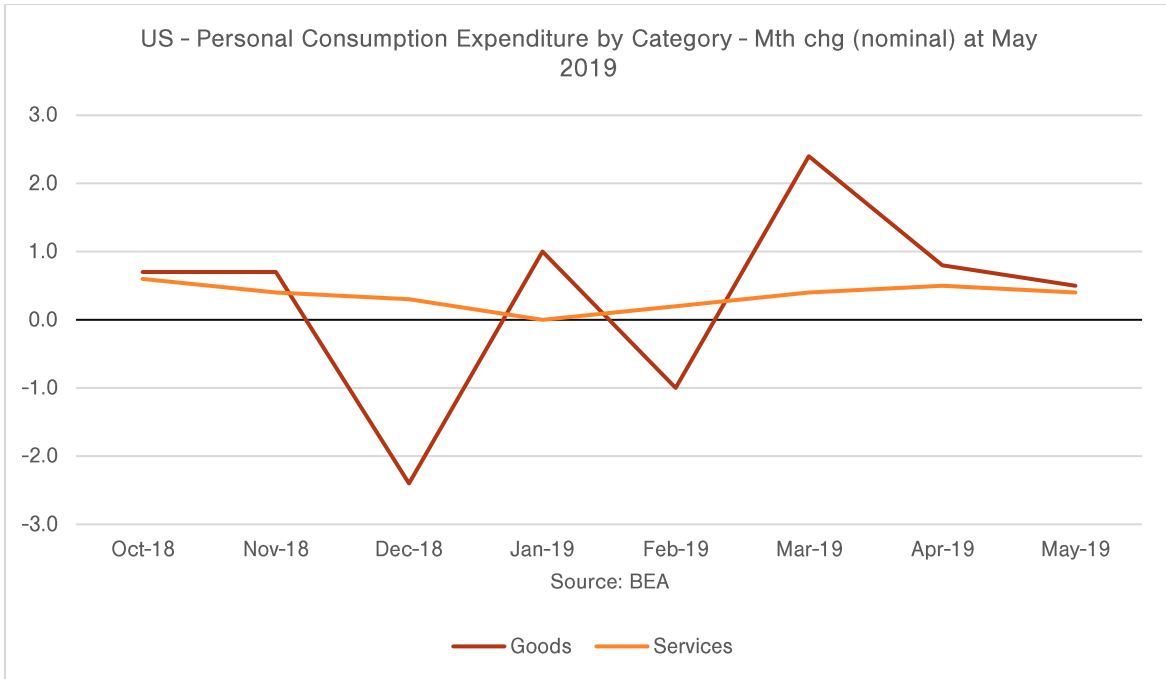
### Personal Consumption Expenditure

Personal consumption expenditure growth slowed in May for the second month after stronger growth in Mar.

Monthly chg – Personal Consumption Expenditure; May +0.4% versus Apr +0.6%

Growth in expenditure on goods slowed from +0.8% in Apr to +0.5% in May. An increase in expenditure on durable goods was more than offset by a monthly decline in expenditure on non-durable goods.

The growth in expenditure on services also slowed slightly from +0.5% in Apr to +0.4% in May.

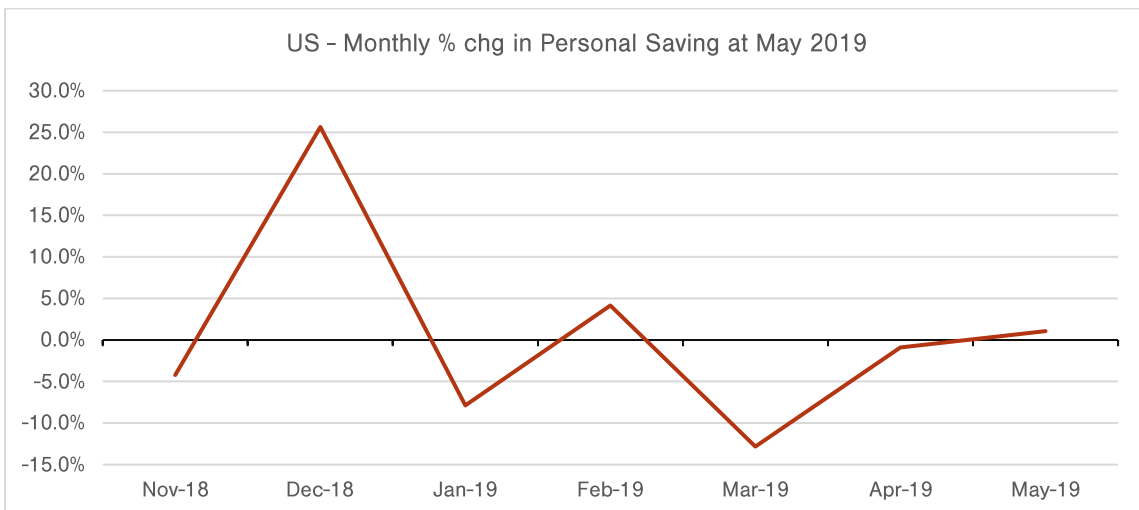


### Personal Saving

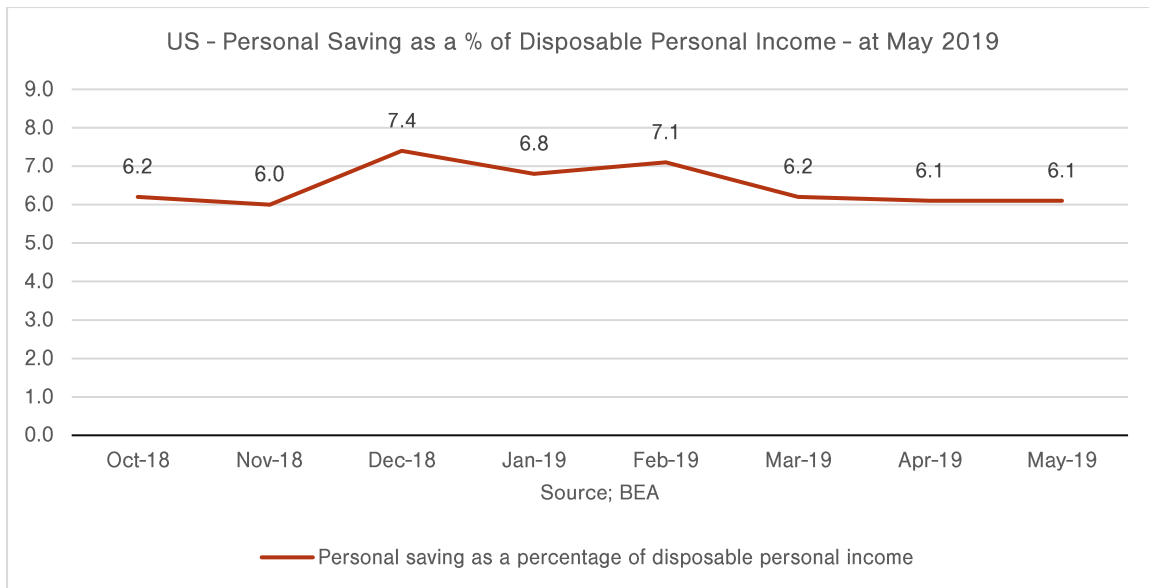
Given the more constant growth in income this month together with the slower growth in consumption expenditures, there was an increase in the level of personal saving this month.

Monthly chg – Personal Saving; May +1.1% versus Apr -0.9%

The monthly change in the value of ‘personal saving’ (which is a calculation of a ‘surplus’) has been increasing over the last two months after a large decline in savings in Mar versus Feb (consistent with the larger peak in spending growth in that month).



As a % of disposable personal income though, the saving rate remained unchanged at 6.1% in May;



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

## PCE Price Index (May)

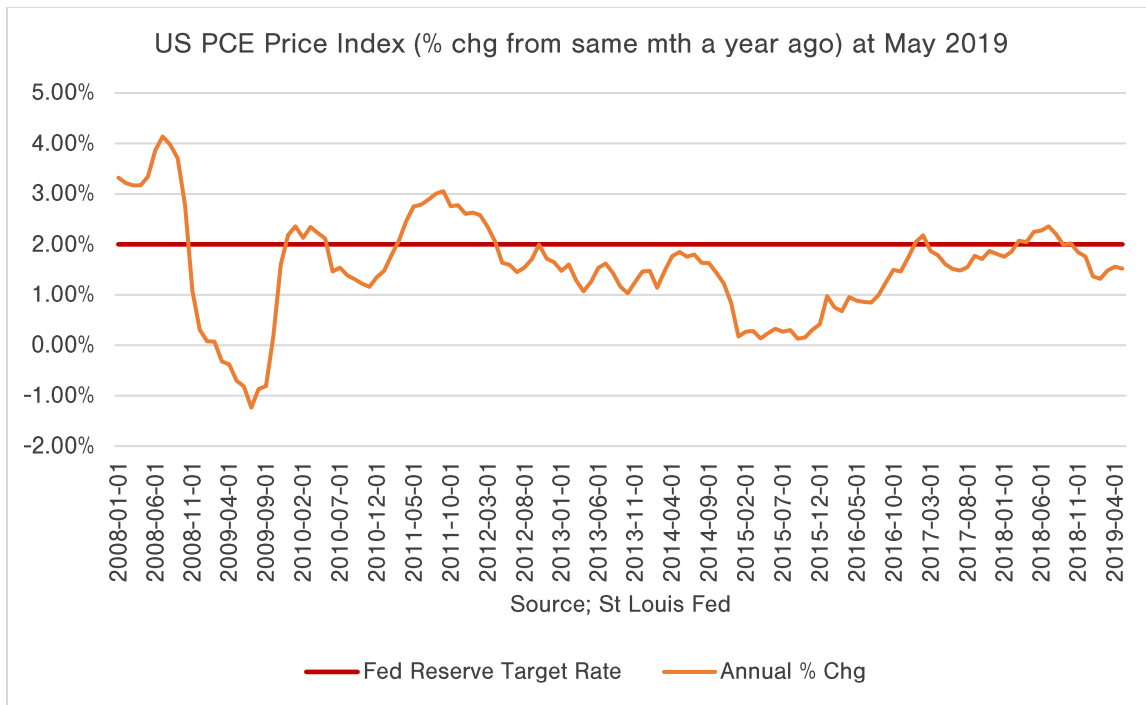
The annual change in the headline PCE price index slowed slightly in the latest month – led by lower annual growth in both goods and services prices. In the latest month though, headline PCE prices growth halved – due mostly to a shift in energy prices, but both overall goods and services prices growth slowed in the month.

Underlying core inflation was also little changed on an annual basis, slowing slightly. Similarly, core inflation slowed on a monthly basis.

The current FOMC projection for PCE inflation was revised lower to 1.5% for 2019 (currently at that level) and core PCE was revised lower at the June meeting to 1.8% - which is still well above the current level of +1.6% as of May.

### Headline PCE Price Index

Annual chg; May 1.52% versus Apr +1.56%

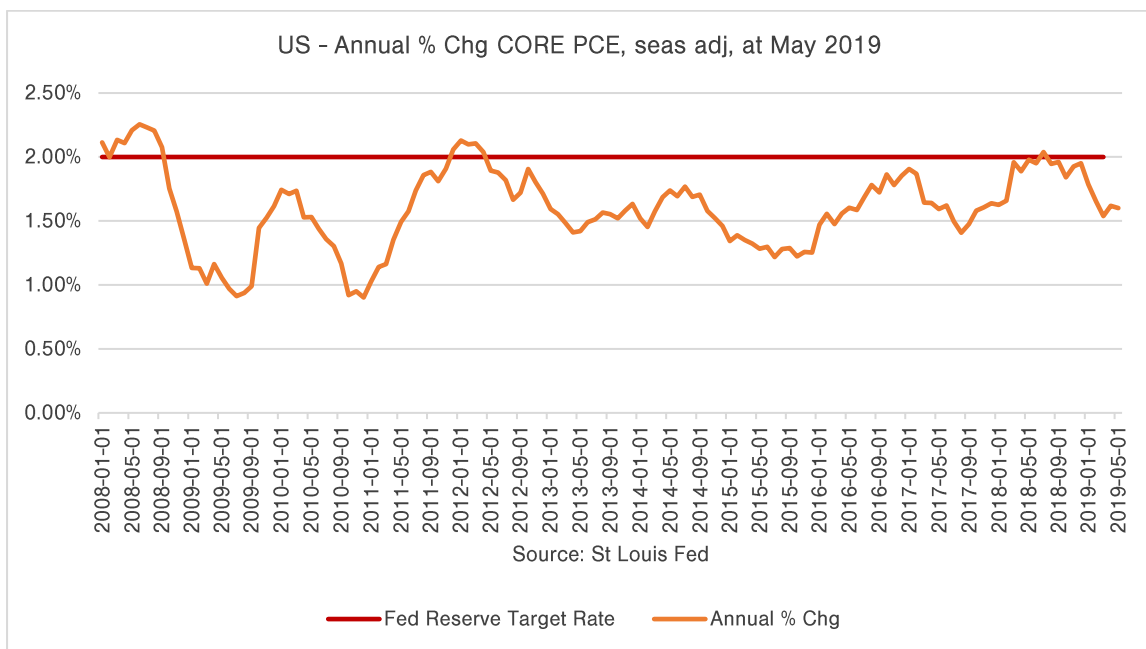


The monthly change in the headline PCE price index halved from +0.32% in Apr to +0.16% in May. Both goods and services contributed to this lower growth. Goods prices continued to decline in the month led by non-durable goods (energy prices contributed to the slower growth. Energy prices grew by +3% in the month of Apr and declined by -0.6% in May). The monthly change in services prices also halved in May (+0.2%) versus Apr (+0.4%).

### Core PCE Price Index

Even excluding food and energy, core PCE prices slowed slightly month on month and growth was also slightly lower on an annual basis;

Annual chg - Core PCE ex food & energy; May +1.6% versus Apr +1.62%

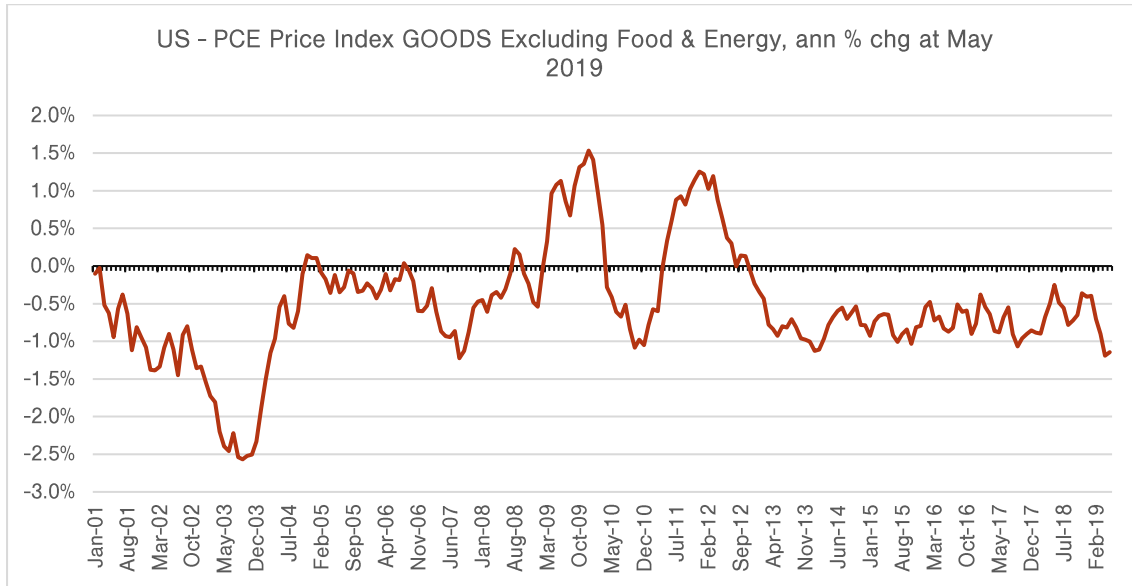




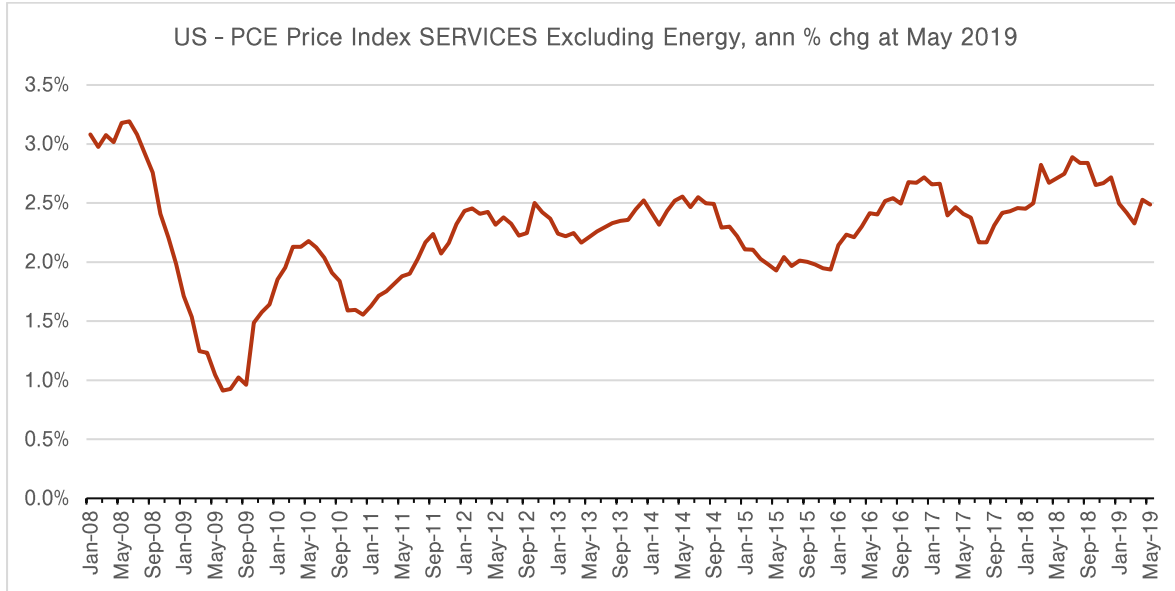
Slower annual growth in core goods and services prices contributed to the lower overall core inflation, although the annual decline in core goods prices was somewhat less in May;

Annual chg – PCE Goods excluding energy and food; May -1.14% versus Apr -1.19%

The annual decline in core goods prices remains at one of the lower points since 2007;



Annual chg – PCE Services excluding Energy; May +2.49% versus Apr +2.53%



<https://fred.stlouisfed.org/series/PCEPILFE#0>

## Consumer Sentiment – final (Jun)

The final release of consumer sentiment data was little changed from the prelim reading. The index of current consumer sentiment pulled back slightly from the previous month high and remains unchanged from a year ago. Current conditions were little changed from the month

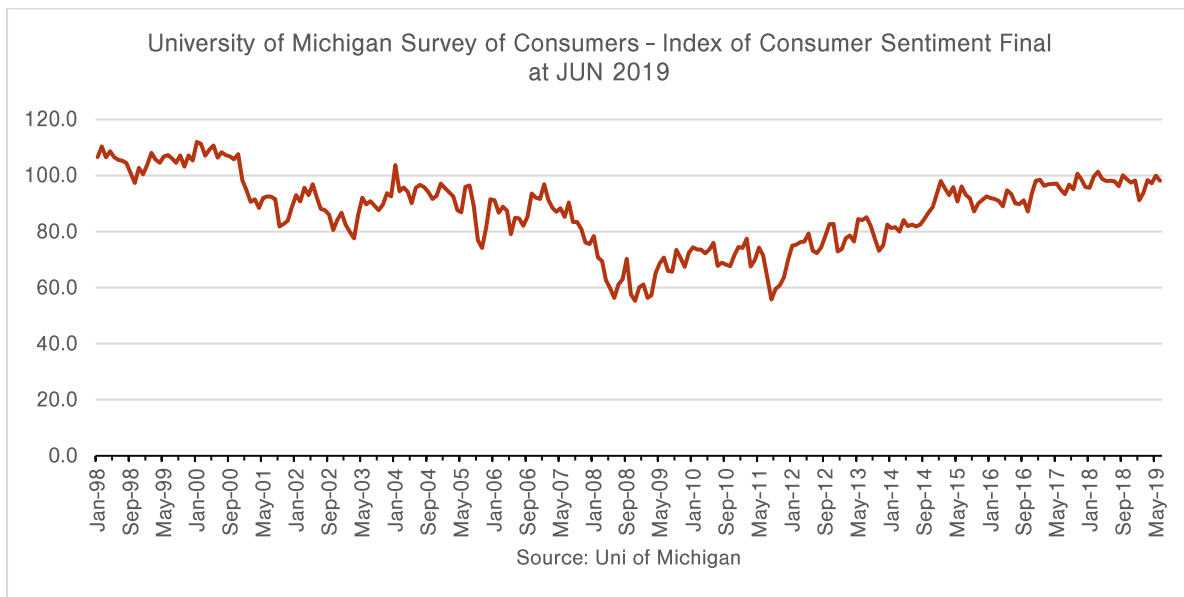
prior and continues to track below a year ago. The index of expected conditions pulled back a little more in the current month – but remains ahead of a year ago.

“While more negative trade news will act to decrease consumer spending, **the persistent overall strength in consumer confidence** is still consistent with growth of real personal consumption expenditures by 2.5% during the next twelve months.”

**Index of Consumer Sentiment**

Jun (final) 98.2 versus May 100

The Jun reading of sentiment is unchanged from a year ago.

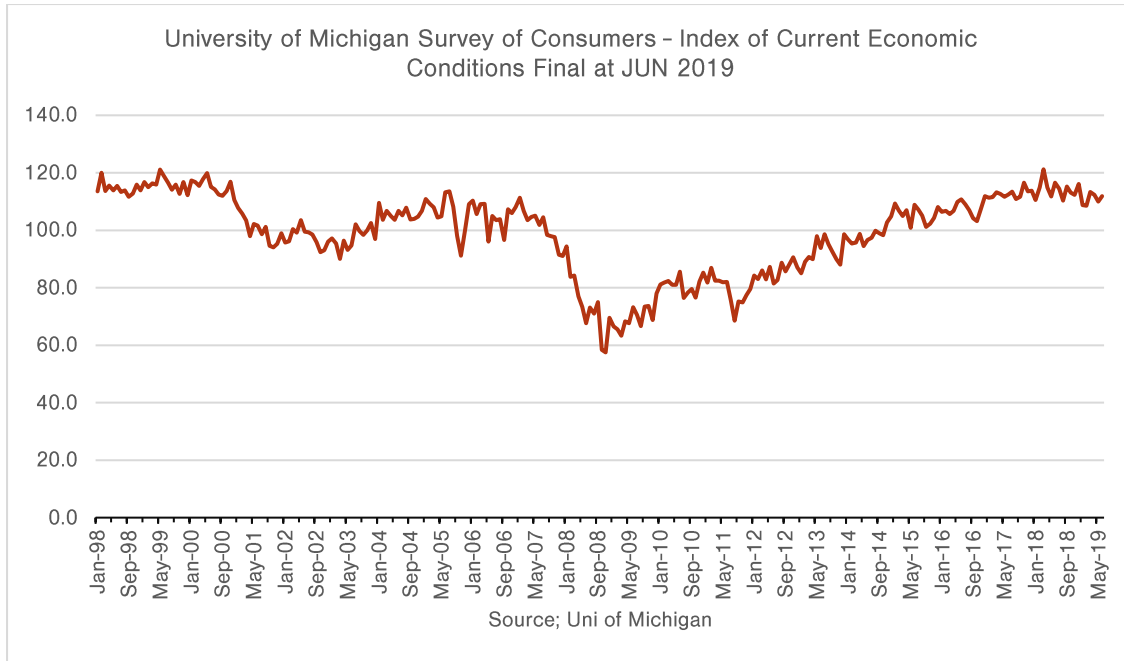


“June's small overall decline was entirely due to households with incomes in the top third of the distribution, who more frequently mentioned the negative impact of tariffs, cited by 45%, up from 30% last month.”

**Index of Current Economic Conditions**

Jun (final) 111.9 versus May 110

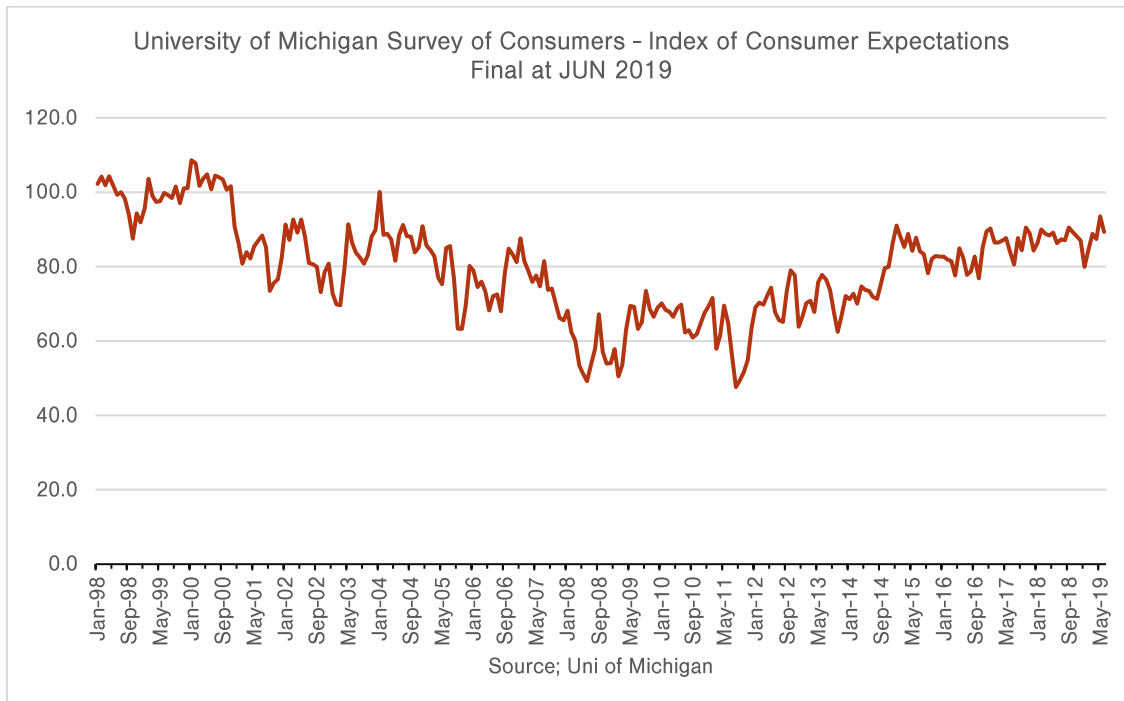
The Jun reading is 4% below the same time a year ago.



**Index of Expected Conditions**

**Jun (final) 89.3 versus May 93.5**

The fall in the current month was a little larger (1.3 SD's based on the last 12 months) – but remains elevated and is +3.5% higher than a year ago.



“Most of the June slippage was concentrated in prospects for the national economy, with the unemployment rate expected to inch upward instead of

drifting downward in the year ahead. Interest rates were anticipated to rise by the fewest respondents in six years, and declines in mortgage rates have begun to have a positive impact on home buying.”

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

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## Europe

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### Eurozone CPI – Prelim (Jun)

In the prelim report, the annual growth in the Euro area headline CPI was unchanged in Jun. Slower growth in energy prices was offset by slightly faster growth in food, alcohol and tobacco prices and a larger increase in Services prices over the year.

All items CPI; Jun +1.2% (est) versus May +1.2%

Core CPI growth accelerated in Jun. CPI ex food, energy and tobacco; Jun +1.1% versus May +0.8%.

<https://ec.europa.eu/eurostat/documents/2995521/9861182/2-28062019-AP-EN.pdf/cac50377-a8f1-4ab4-940b-30f154a9972f>

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# Japan

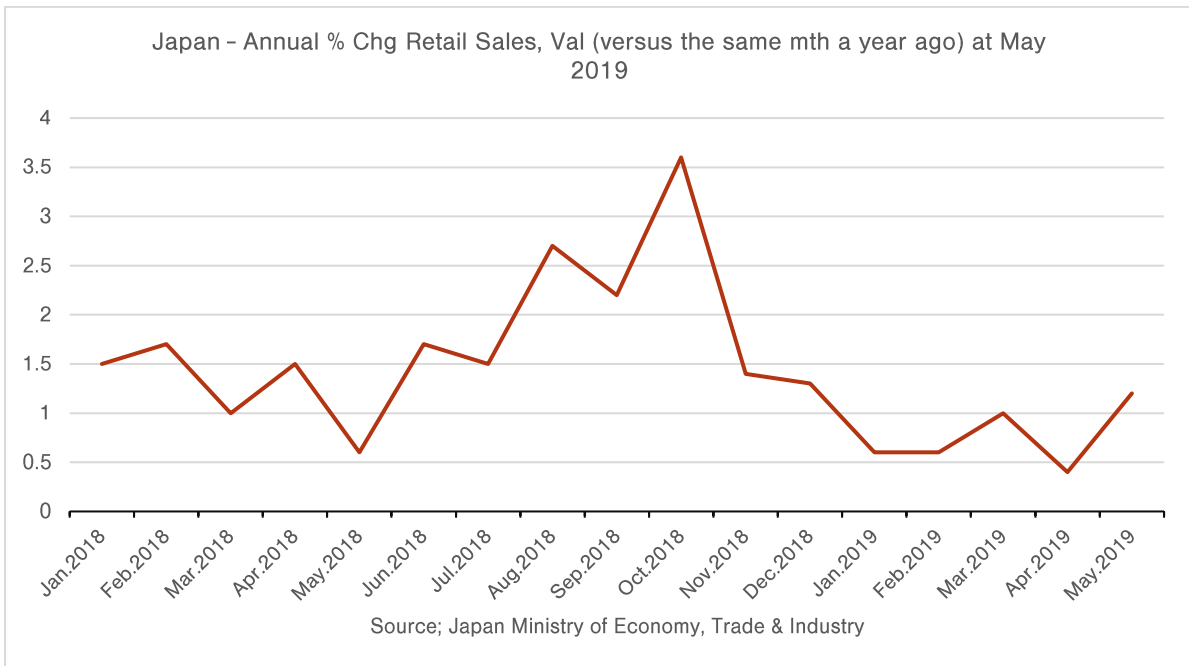
## Retail Trade (May)

On an annual and monthly basis, retail sales increased at a faster pace in May. Most categories contributed to the faster annual growth in May, led by motor vehicles, fabrics, apparel and accessories and machinery and equipment.

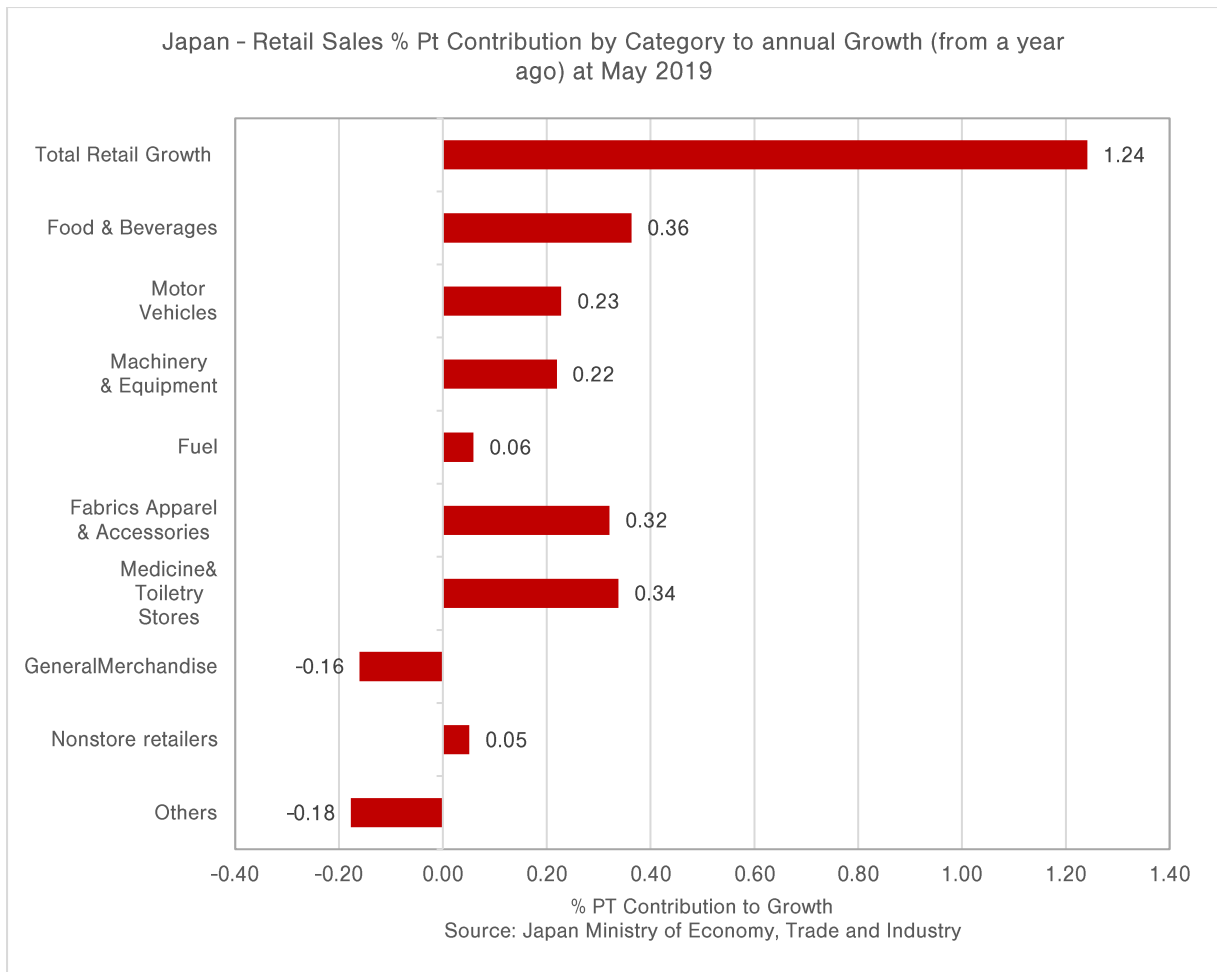
### National Retail Sales

Retail Sales (Val)	Mth % chg	May +0.3%	Apr -0.1%
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Retail Sales (Val)	Ann % chg	May +1.2%	Apr +0.4%
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Most categories contributed to retail sales growth in the month;



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

## Industrial Production - Prelim (May)

The monthly growth in production and shipments accelerated in May and this was across most product areas. On an annual basis though, production and shipments remain below the level from the same month a year ago. Inventory and the inventory ratio continue to increase.

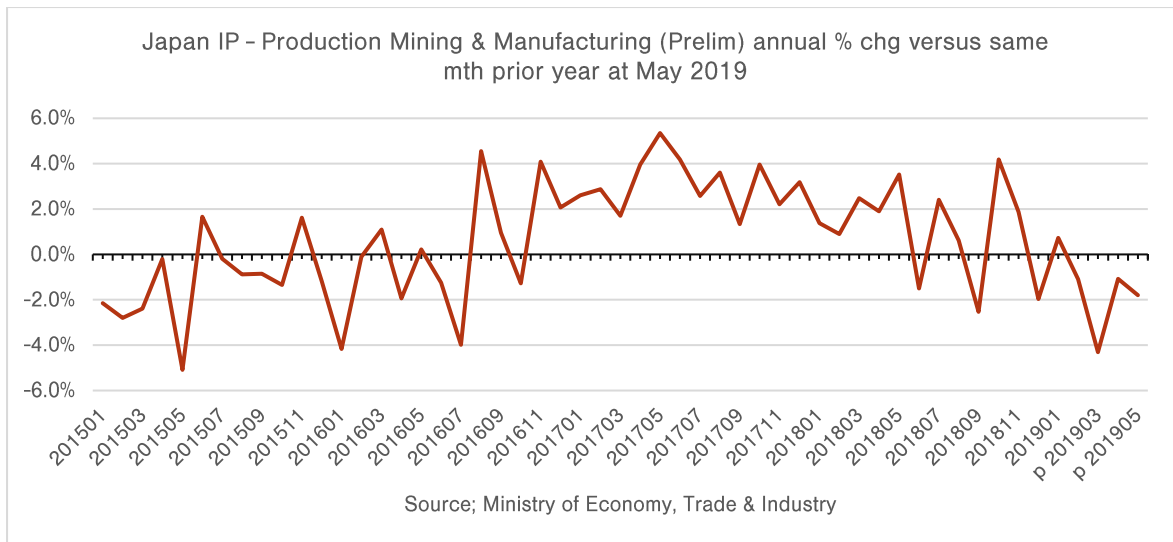
### Index of Industrial Production

Production (SA)	Mth % chg	May +2.3%	Apr +0.6%
Production (Original)	Ann % chg	May -1.8%	Apr -1.1%

In Apr, the industrial production forecast for May was for +5.6% growth. So, while this was a positive result in the month, growth was below forecast expectations.

The survey for production growth in Jun as of this May report is for a -1.2% reduction in production.

Despite the stronger growth in the month, production (original index) remains below the same time a year ago and declined slightly faster in May;

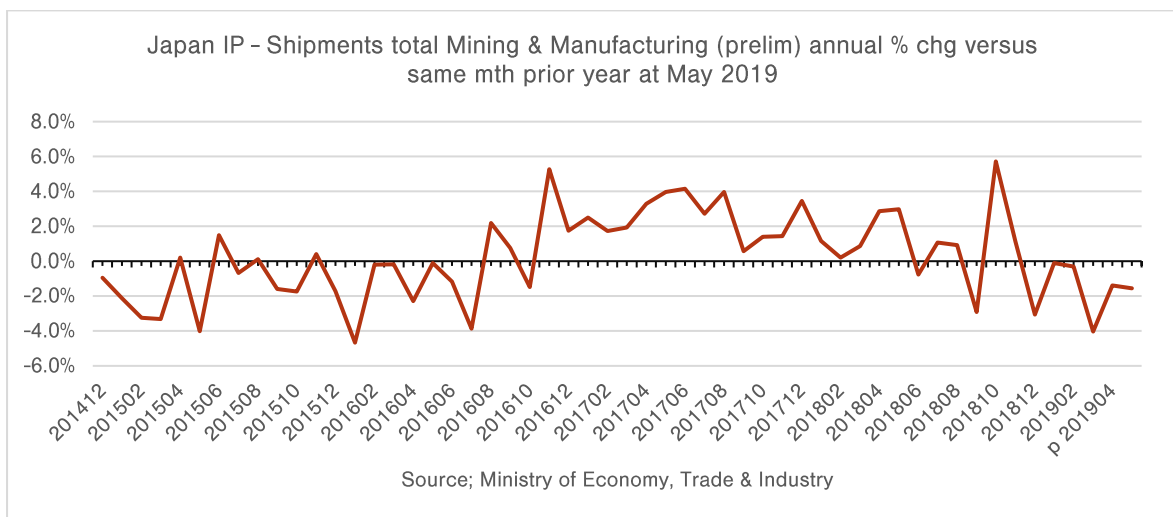


Production levels remain below a year ago across most categories. One area that has recorded stronger growth in production is transport equipment – especially passenger cars with annual growth in production accelerating to +9.7% in May.

### Index of Shipments

Shipments (SA)	Mth % chg	May +1.6%	Apr +1.8%
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Shipments (Original)	Ann % chg	May -1.5%	Apr -1.4%
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Shipments remain below the same level from a year ago across most categories – again the exception is transport equipment. Shipments of transport equipment is +8.4% ahead of the same month a year ago and passenger car shipments are +9.6% ahead of the same month a year ago.

### Inventory

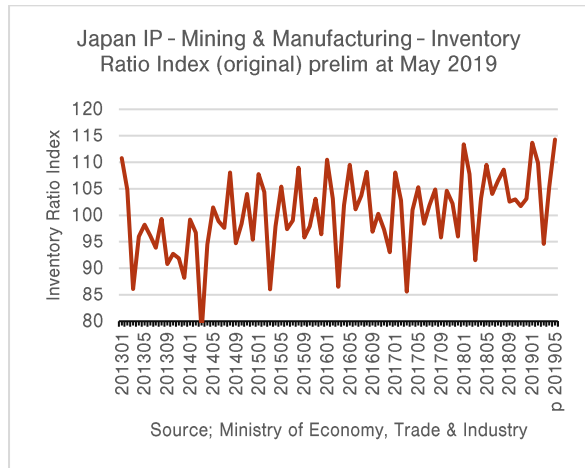
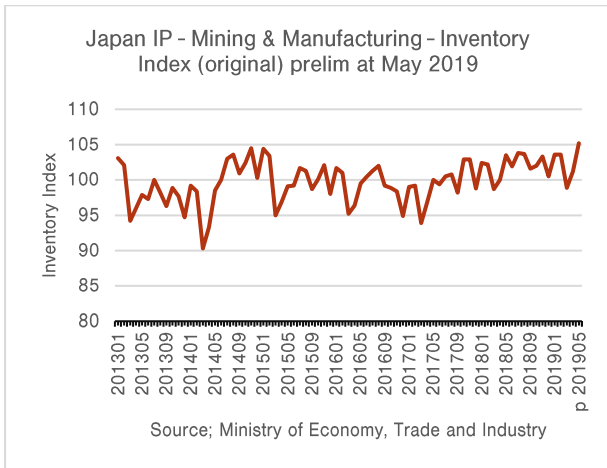
Given both production and shipments have increased, inventory levels have also increased.



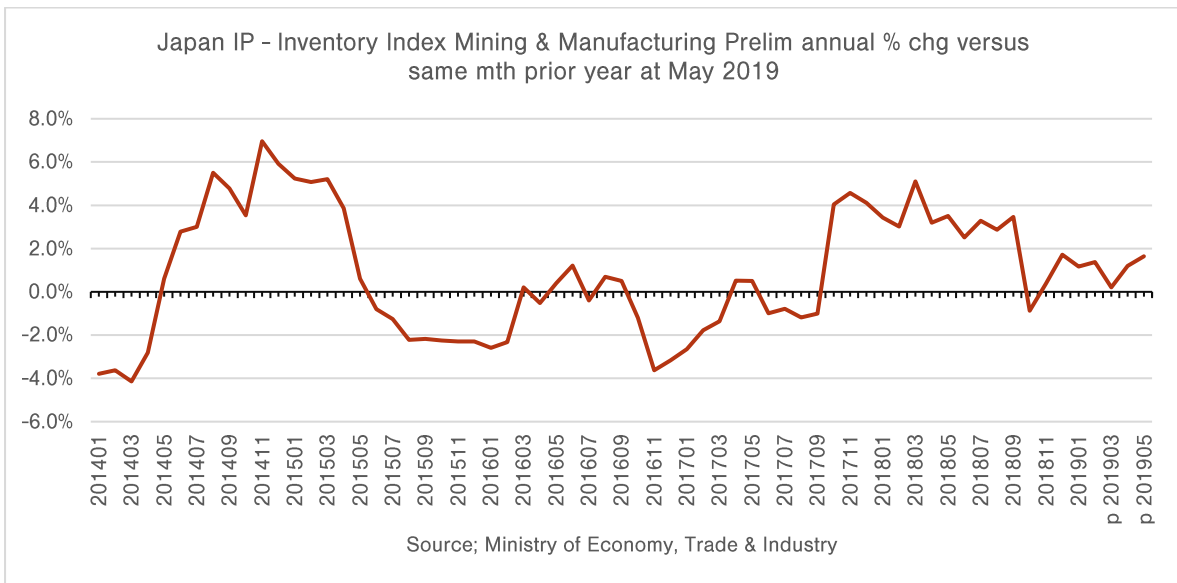
Inventory	Mth % chg	May +0.6%	Apr 0%
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Inventory	Ann % chg	May +1.6%	Apr +1.2%
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In the latest month, the index of inventory and the index of the inventory ratio both reached new highs (data going back to 2013 only).



Annual growth in inventory has increased over the last few months – likely in line with the forecasts for higher production levels;



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

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## United Kingdom

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### Brexit

The process to select a new leader of the Conservative Party continues.

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

“...has promised to take the UK out of the EU “do or die” on October 31, and has refused to rule out shutting down parliament in order to force through Brexit, as he bids for the votes of the overwhelmingly pro-Brexit Conservative membership.” <https://www.businessinsider.com.au/stop-brexit-boris-johnson-boosts-campaign-against-leaving-eu-2019-6?r=US&IR=T>

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

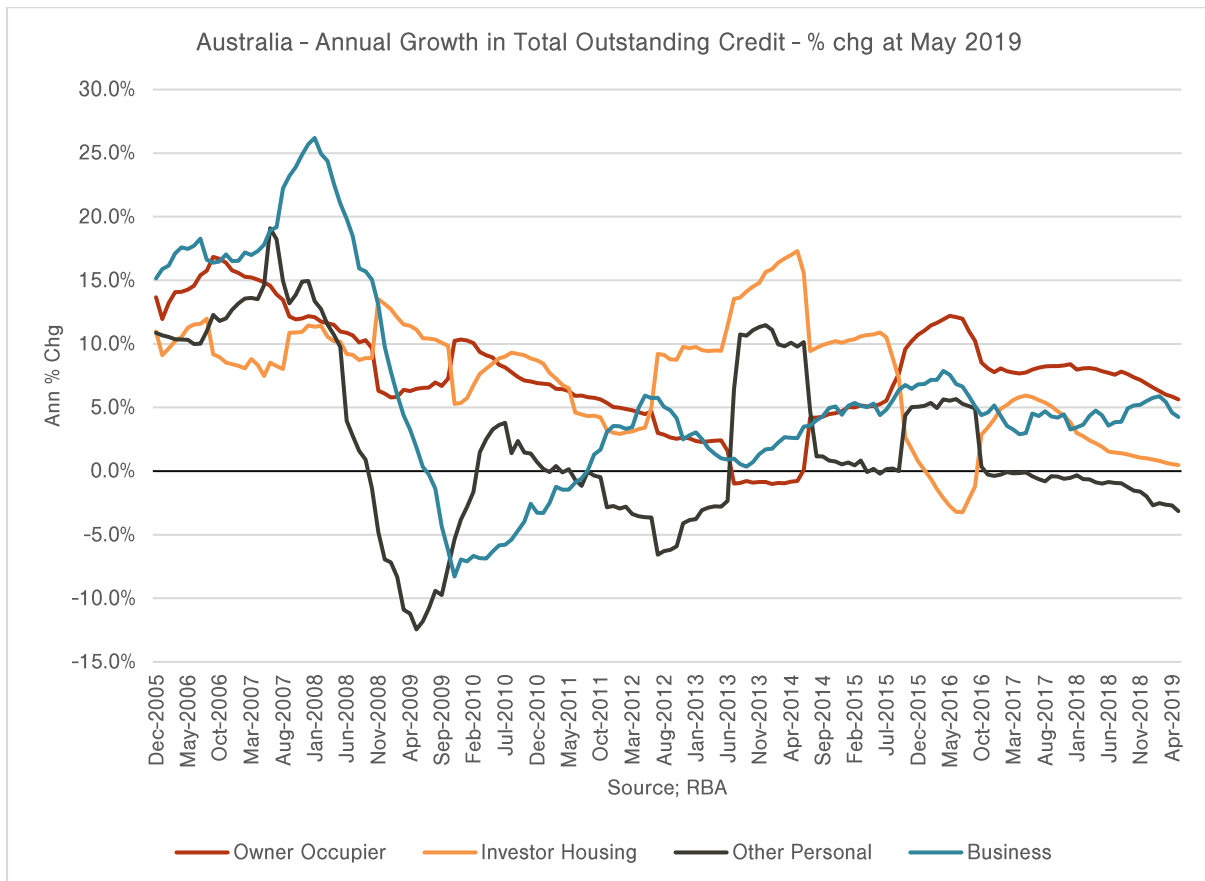
“The result of the postal ballot will be announced in the week of July 22.” <https://www.reuters.com/article/uk-britain-eu-leader/pm-favourite-johnson-reiterates-desire-for-october-31-brexit-idUSKCN1TN0MX>

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# Australia

## Private Sector Credit (May)

Total outstanding private sector credit growth slowed further in the latest month to +3.6%. Outstanding mortgage and business credit contributed the most to the slow-down while other personal credit continues to decline (deleverage).



Together, owner occupier mortgages and business credit outstanding represent approx. 75% of all outstanding private sector credit in Australia.

Business credit growth has been slowing quickly over the last 3 months – this could be in response to the election held in May (holding off until the result). More broadly, the Jun/Jul data should provide some insight as to whether the election was a factor in the current trends.

Owner occupier mortgage growth has also been slowing – mostly since 2016. The value of outstanding owner occupier mortgages grew by +5.7% in the year to May – a year ago that growth was +7.8%.

The value of outstanding investor mortgages represents approx. 20% of outstanding private sector credit. Annual growth has slowed to a mere +0.5%.

The outstanding stock of 'other personal' credit has continued to decline. This decline has begun to gather some pace over the last 6-8-months.

The fact that the annual growth in outstanding credit has begun to decelerate across all areas is important. Growth in the stock of outstanding credit needs to accelerate in order to see acceleration in spending growth.

More important than the growth in credit is the growth/change in new credit – its “the growth of the growth” in credit together with incremental growth of income that determines/drives new spending (growth) in the economy.

<https://www.rba.gov.au/statistics/frequency/fin-agg/2019/fin-agg-0519.html>

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## Trade

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### US-China Trade Negotiations

The US and China have agreed to restart trade negotiations. There is speculation that talks would not restart until later this year - Dec 2019. No deadline for a deal was announced this time.

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.

““There is no point in escalating the trade war now and creating problems in the economy and losing the election”, Ed Yardeni said of Trump’s position.”  
<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>

It was reported that several concessions were made in order to secure a commitment to restart negotiations; pause on further tariffs on imports from China, China to purchase more US farm goods (although this has been reported differently in China), removal of some restriction on US companies selling to Huawei “as long as the sales did not involve equipment that threatened US national security”.

<https://www.scmp.com/news/china/diplomacy/article/3016717/despite-donald-trump-and-xi-jinpings-g20-handshake-mistrust>

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**

Last week Mexico’s Senate passed the USMCA – the first of the three parties to ratify the agreement.

“The move is welcome news for the Trump administration as it pushes for the U.S. Congress to approve the deal this summer. But Democrats have said they will not be rushed into passing the deal until the administration makes changes to the agreement’s provisions on enforcement, labor, the environment and drug pricing.”

“Canada, for its part, has already introduced an implementation bill in the country’s Parliament. But Canadian officials have expressed a desire to approve the deal at roughly the same time as any final votes are held in the U.S. Congress.” <https://www.politico.com/story/2019/06/19/mexico-passes-usmca-1538543>

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.

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

### Background:

Along with the postponement of the auto tariffs, USTR Lighthizer has also confirmed that the US will not push for import quotas as a part of the trade deal.



Agriculture as well as auto tariffs remain important to the negotiations. Representatives have previously stated that Japan would not soften its stance on agriculture (import tariffs have been high);

Donald Trump's hopes of completing a trade deal with Japan next month have been severely dented after he failed to persuade prime minister Shinzo Abe to give the US greater access to the country's agricultural market. <https://www.ft.com/content/6ae28e80-698b-11e9-80c7-60ee53e6681d>

Japan wants to ensure it gets something in return for granting US farmers greater market access to its market, namely removing the threat of tariffs on car imports on the basis of US national security. <https://www.ft.com/content/6ae28e80-698b-11e9-80c7-60ee53e6681d>

A group of major US farm groups has lobbied USTR Lighthizer regarding the trade talks with Japan and access to the Japanese market (emphasis added);

“In recent weeks, Japan cut tariffs for the second time on agricultural imports from the European Union and CPTPP member countries. **As a result, U.S. exporters of wheat, beef, pork, dairy, wine, potatoes, fruits and vegetables, and other products are facing collapse of their Japanese market share as these lucrative sales are handed over to their competitors.**” [https://www.hpj.com/ag\\_news/plenty-of-trade-action-on-several-fronts/article\\_6ac3fc7d-8eb4-5d6d-965d-602094ce6a66.html](https://www.hpj.com/ag_news/plenty-of-trade-action-on-several-fronts/article_6ac3fc7d-8eb4-5d6d-965d-602094ce6a66.html)

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

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

## US-Europe Trade Talks

While not directly related to the trade talks, a statement released by the EU over the weekend could result in a negative escalation between the EU and the US.

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.””

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

The second relates to the main talks to negotiate a trade deal between the US and EU. The ongoing problem – that the EU mandate does not include agriculture in the scope of negotiations.

““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>

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

Background –

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

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

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

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

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

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

Key dates for this investigation;

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

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

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

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

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

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

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

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

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

## US-UK Trade Talks

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

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

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