

Key Themes

Economic and sentiment data, as well as US-China trade tariffs, was the main focus of the week.

The US softened its stance on the next 10% of tariffs on the remaining \$300bn of US imports from China. Some tariffs will still go ahead on 1 Sep, but others, importantly on consumer goods, will be postponed until 15 Dec.

The US consumer and consumption expenditure has been resilient over the last quarter and a brighter spot in the US economy, so the sharp decline in the prelim Aug consumer sentiment data is a red flag. Uncertainty created by further tariffs and the US Fed rate cut were key drivers behind the fall in Aug. Interestingly, the rate cut had increased consumer apprehension about the economy. The Jul retail sales result was broadly stronger, so it will be interesting to see whether the more “heightened uncertainty” expressed in the Aug sentiment spills over into expenditure next month. Growth in consumer prices accelerated in Jul including underlying measures of consumer prices. There was little change in the two regional surveys for Aug – although there was some improvement in new orders across both.

Concerns over global growth remain elevated especially for manufacturing/industrial output. Further declines in industrial production were recorded in Jun across the US, Eurozone, and Japan. While not declining, industrial production growth in China had slowed from a year ago, reaching the slowest pace of growth in a year – despite stimulus measures.

US industrial production declined as a result of a decline in manufacturing and a likely temporary decline in mining activity. Manufacturing production shifted back into decline on an annual basis.

Even after small upward revisions, Japanese industrial production declined in Jun and on an annual basis. Several industries contributed to the decline in the month and of note was the deterioration in passenger car production and shipments in the month (which had been improving).

At the broad EZ level, industrial production declined on a monthly and annual basis across the main industries as well as across most member states. As a result, the Q2 prelim GDP growth slowed/halved across the broader Eurozone and prelim Q2 GDP declined in Germany – led by weaker trade.

UK data was mixed as we head into the final months leading up to Brexit in Oct. Retail sales increased, but at a slower pace, due only to growth in online sales. Consumer prices accelerated in Jul. The labour market outcome for the Apr-Jun period indicated that despite faster employment growth, the larger increase in participation resulted in a much smaller annual decline in total unemployed persons. On a quarter basis, the increase in participation resulted in a further increase in total unemployed.

In Aus, the monthly bus conditions survey deteriorated further – led by further falls in trading and employment conditions. A further decline in forward orders suggests little near-term improvement. Business confidence increased slightly. Wage growth in Q2 was constant for the private sector while public sector wage growth accelerated. The labour market report for Jul was mixed; while employment growth remains elevated, it is not growing fast enough to absorb the increase in participation, which reached another new all-time high. We've been noting the monthly increase in total unemployed persons for the last several months and this month, the labour market recorded the first annual increase in total unemployed persons in two years. The unemployment rate increased. This will be something that the RBA will continue to monitor closely. For the moment, the continued employment growth will remain a positive, but it will likely take time for any monetary stimulus to start to reduce unemployment and underemployment. Until then, it's difficult to see wage growth accelerating in a consistent fashion to support consumption growth.

Data out of China continued to indicate weaker economic activity. New loan growth was much weaker than expected especially as demand for household and corporate loans fell compared to the prior month. Retail sales growth slowed in Jul. The slower growth in industrial production was consistent with the annual decline in the PPI reported last week indicating weaker demand conditions and the manufacturing PMI's that remain in contraction.

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US Data

CPI (Jul)

The US CPI increased at a faster pace in the latest month and over the last year. The measure of underlying core CPI ex food and energy also increased at a faster annual pace.

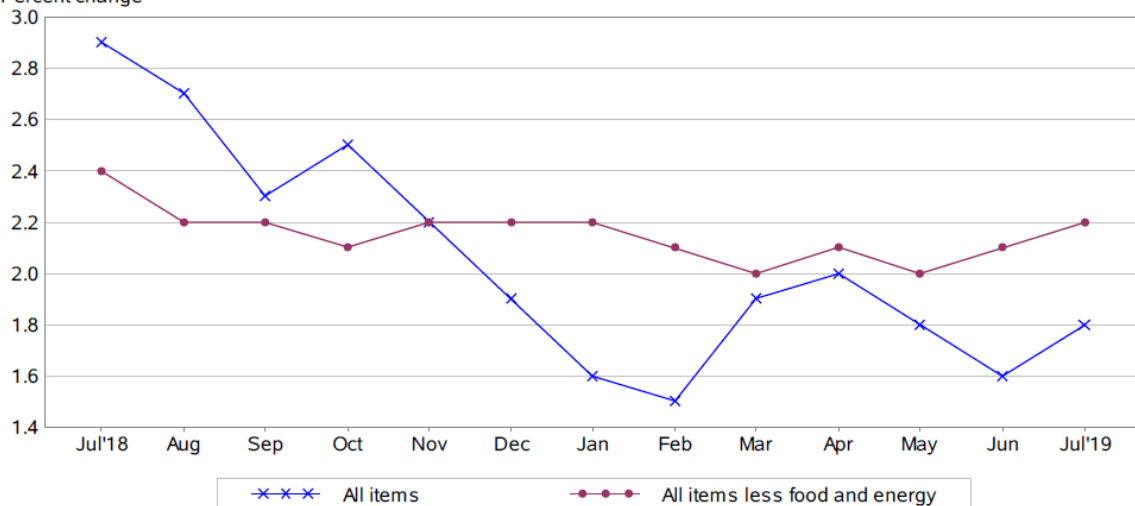
All Items CPI – Month Change; Jul +0.3% versus Jun +0.1%

The main item contributing to the faster growth in the CPI for the month was energy prices. Energy increased by +1.3% in Jul after a -2.3% decline in Jun. Food prices were again unchanged.

Core CPI grew at the same pace in the month at +0.3%. Commodities less energy commodity prices grew at a slightly slower pace while services less energy services prices grew at the same pace as the month prior at +0.3%.

All-Items CPI – Annual Change; Jul +1.8% versus Jun +1.6%

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



On an annual basis, food prices made a smaller contribution to headline growth (adding +0.236%pts to the headline growth in Jul versus +0.253% pts in Jun).

Energy prices made a less negative contribution on an annual basis; Jul -0.158% pts versus -0.236% pts in Jun.

All Items CPI Ex food & Energy (Core CPI) – Annual Change; Jul +2.2% versus Jun +2.1%

Commodities less food and energy commodities made a larger contribution to headline growth. Apparel and medical prices made a less negative contribution. Alcoholic bevs and tobacco prices made a larger contribution to headline growth.

Services less energy services also made a slightly larger contribution to headline growth. The increase in medical care services prices offset slower growth in transportation services prices. The annual change in shelter prices was little changed.

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

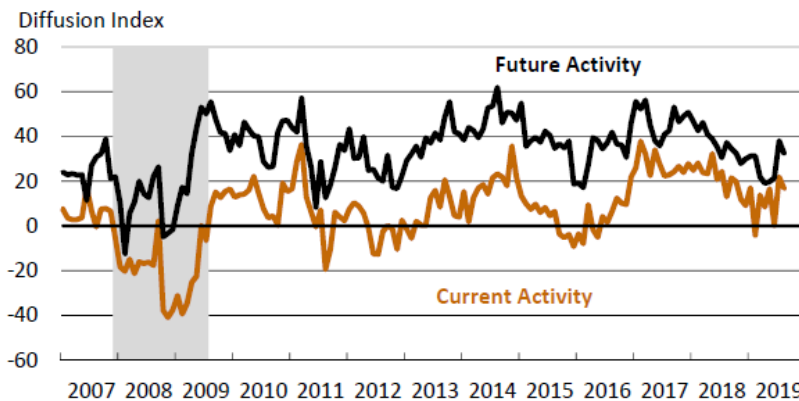
Philadelphia Fed Business Outlook Survey (Aug)

The headline index indicated that general business activity expanded at a slightly slower pace in Aug. The main indicators of demand were mostly good with the new orders index elevated and increasing at a faster pace. The future view of activity increased at a slightly slower pace but remains elevated around the LT average. One area of weakness was employment. Despite the large drop in employment and average hours, both indices remain above the LT average.

General Business Activity Index; Aug 16.8 versus Jul 21.8

Chart. Current and Future General Activity Indexes

January 2007 to August 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.

Underlying performance was mixed, but there were some positive shifts. Importantly, new orders increased at a faster pace and the index of new orders remains elevated relative to history. Shipments also continued to grow, but at a slightly slower pace. Order backlogs increased for the month.

The view of future activity in 6-months' time increased at a slower pace and remains around the LT average.

Employment growth slowed by a larger degree. The current employment index fell by -26pts to 3.6pts in Aug – but note that this is still around the LT average (which is 1.1pts). Similarly, the current average workweek index fell by -16pts to 6.8 pts in Aug, which is still higher than the LT average.

Inventories remained little changed.

Prices paid slowed but prices received increased at a faster pace.

<https://www.philadelphiafed.org/-/media/research-and-data/regional-economy/business-outlook-survey/2019/bos0819.pdf?la=en>

Empire State Manufacturing Survey (Aug)

There was overall little change in manufacturing activity in Aug. The one large improvement was the shift in new orders from contraction to growth in Aug. Shipments continued to grow as firms worked through unfilled orders which declined at a faster pace in Aug.

Despite the small lift in current activity, the business outlook index fell suggesting firms were less optimistic about business conditions in the future.

General Business Conditions Index: Aug 4.8 versus Jul 4.3

A small proportion of firms recorded both higher and lower conditions indicating more firms saw little change in activity from the month prior.

General Business Conditions



	Percent Reporting		Index
	Higher	Lower	
Jul	29.8	25.6	4.3
Aug	27.2	22.4	4.8
Change			0.5

One large positive this month was the improvement in new orders – which contracted in the month prior. In Aug, the new orders index increased by 8.2pts.

Shipments increased at a slightly faster pace as firms worked through unfilled orders, which declined at a faster pace in Aug.

The inventories index increased by a large degree – adding 16.7pts. Inventories shifted from decline to expansion in Aug – possibly reflecting the increase in demand from new orders.

Both prices paid and prices received grew at a slower pace. Prices received remain at a relatively low level with growth in output prices only moderate.

The number of employees continued to decline albeit at a much slower pace. The average workweek index fell 5pts and shifted into decline in the latest week.

The outlook for future business conditions indicated slower growth is expected.

https://www.newyorkfed.org/medialibrary/media/survey/empire/empire2019/esms_2019_08_survey.pdf?la=en

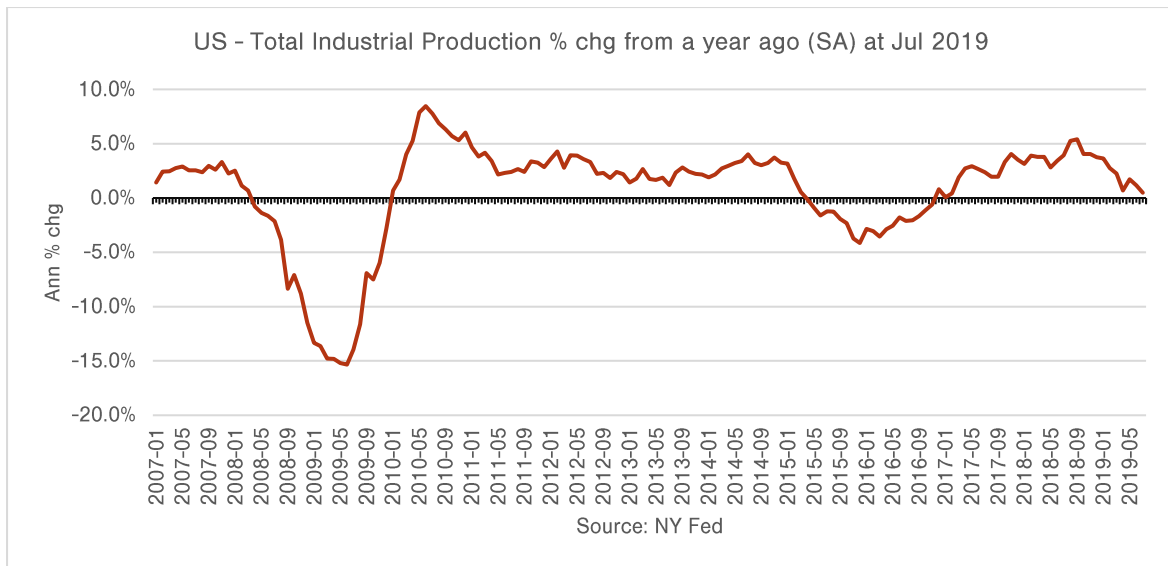
Industrial Production (Jul)

Total US industrial production declined in the latest month and annual growth slowed to only +0.5%. Leading the decline in the month was manufacturing and mining. The relatively large decline in mining was the result of a temporary disruption to oil extraction in the Gulf of Mexico due to Hurricane Barry. Utilities production increased in the latest month.

Total US Industrial Production

Month change; Jul -0.2% versus Jun +0.2%

Annual change; Jul +0.5% versus Jun +1.1%



The index of industrial production peaked in this cycle in Dec 2018 and remains 1% below that level.

Manufacturing

Month change: Jul -0.4% versus Jun +0.6%

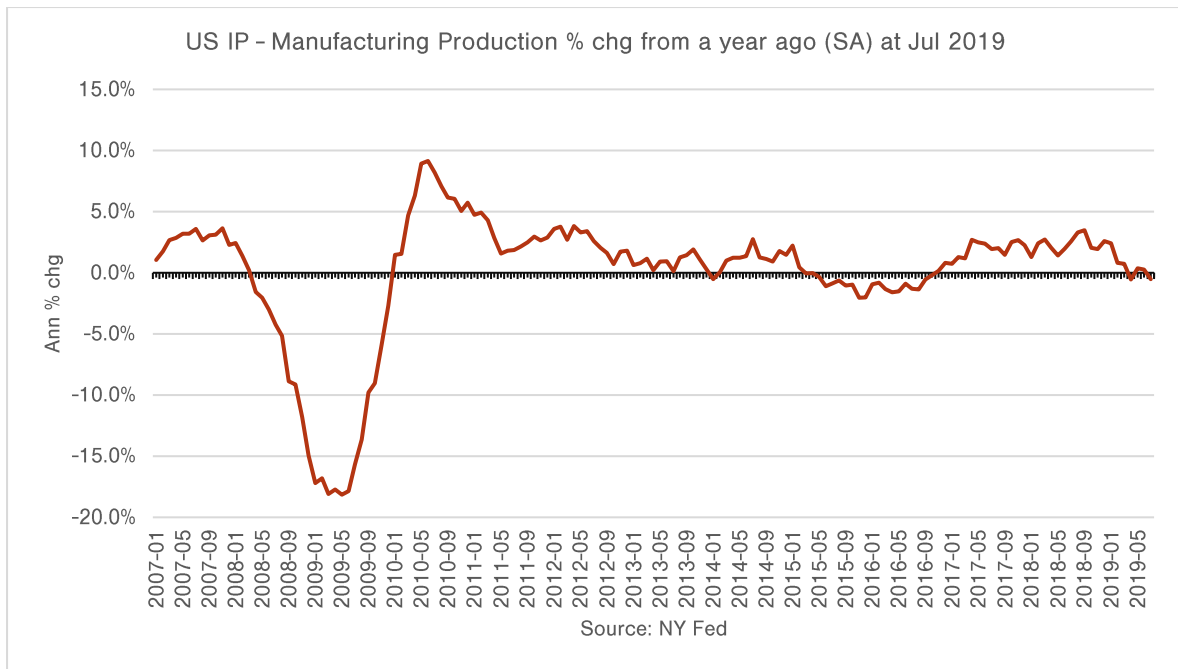
In the latest month production of both durable and non-durable goods in manufacturing declined versus the month prior.

Durable goods production declined across wood products, non-metallic mineral products, fabricated metal products, machinery, electrical equipment and there was a slight decline in motor vehicles & parts.

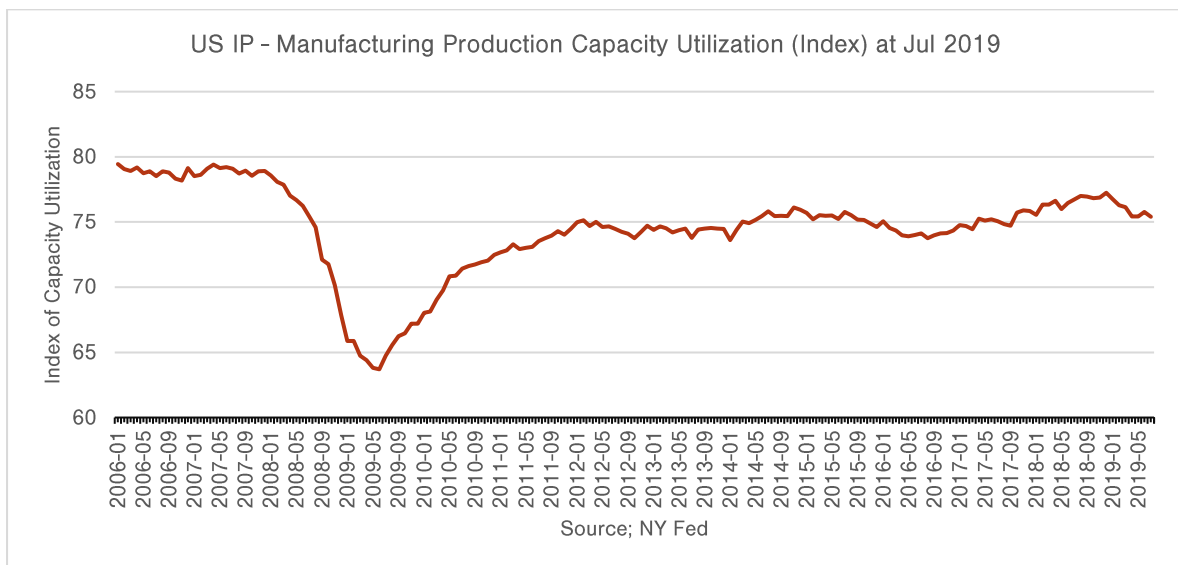
With the exception of paper and apparel and leather goods, the manufacture of non-durable goods declined quite broadly in Jul.

Annual change: Jul -0.5% versus Jun +0.3%

On an annual basis, the production of non-durable goods declined at a faster pace (-2.1% in Jul versus -0.9% in Jun) and the production of durable goods slowed from +1.5% in Jun to +1.1% in Jul.



Capacity utilization for total manufacturing continued to fall; Jul 75.4% versus Jun 75.8%. Manufacturing utilization is -1.7% below the same month a year ago.

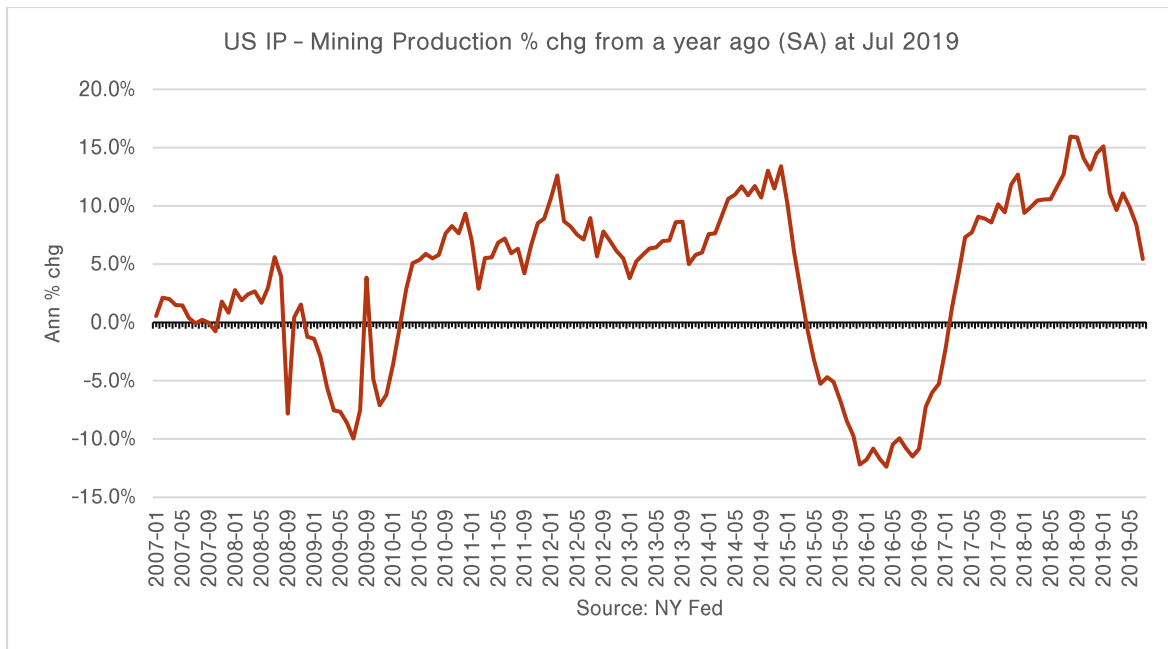


Mining

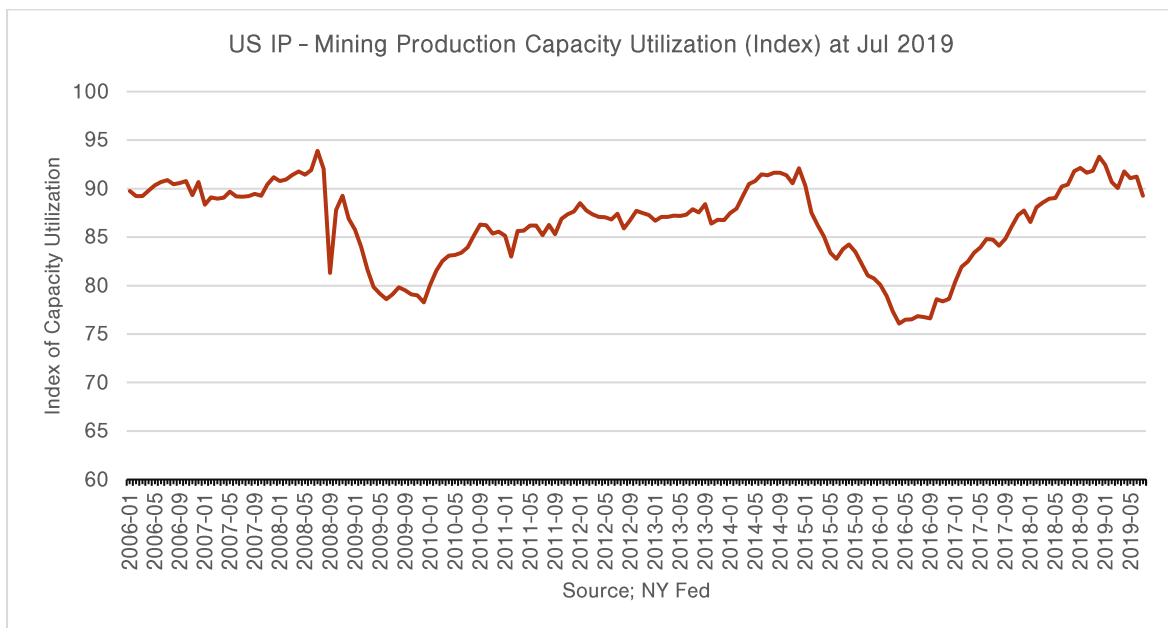
Month change; Jul -1.8% versus Jun +0.6%

The large fall in the month was the result of a disruption to oil extraction in the Gulf of Mexico due to Hurricane Barry. It's worth noting though that despite this month move, annual growth in mining production has been slowing since the latter half of 2018.

Annual change; Jul +5.5% versus Jun +8.4%



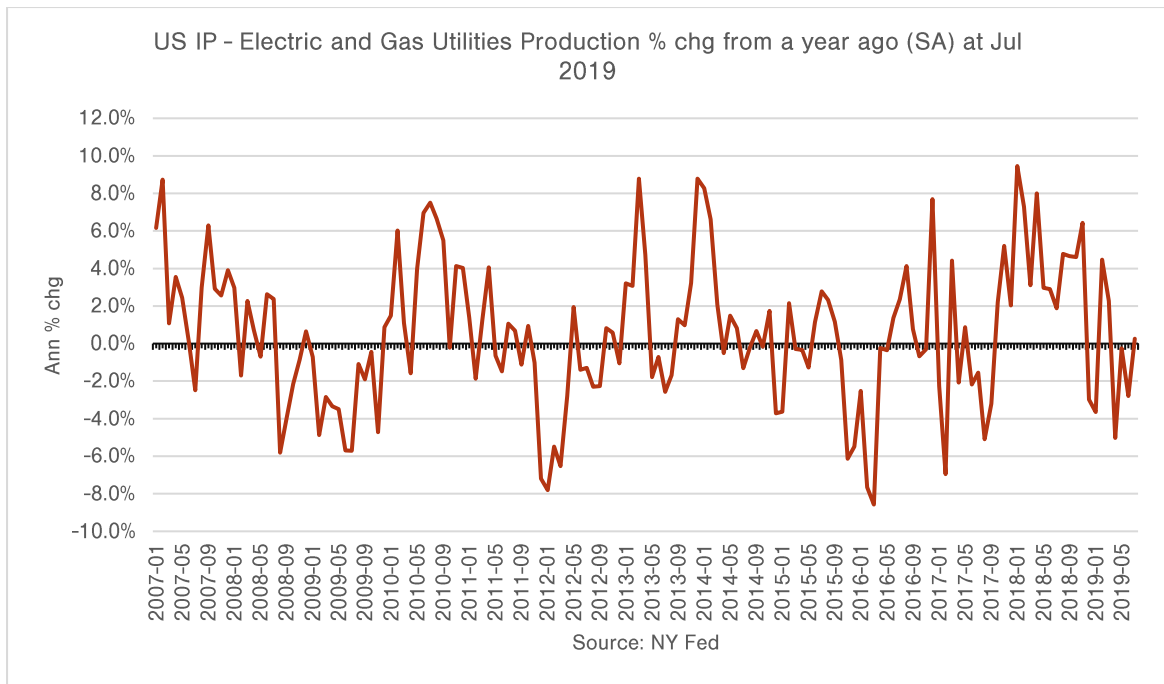
Capacity utilization across mining industries declined further in the month; Jul 89.2% versus Jun 91.2%. Utilization is -1.1% below a year ago.



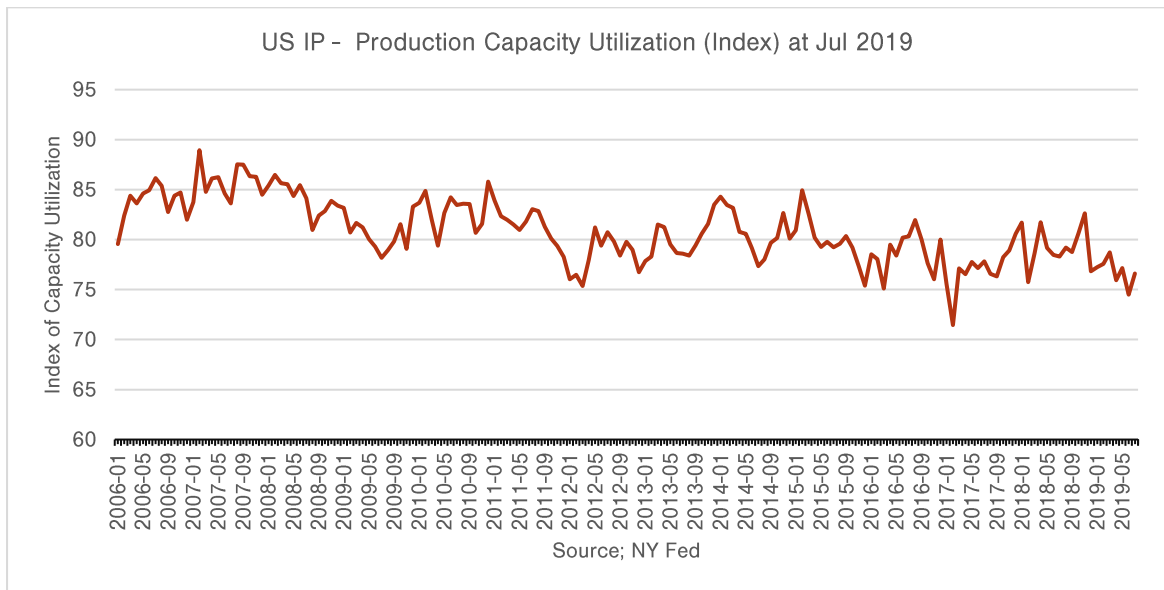
Utilities – Electric and Gas

Month change; Jul +3.1% versus Jun -3.3%

Annual change; Jul +0.3% versus Jun -2.8%



Capacity utilization for utilities increased; Jul 76.6% versus Jun 74.5%. But on an annual basis, utilization remains -2.2% below a year ago.



<https://www.federalreserve.gov/releases/g17/Current/default.htm>

Retail Sales (Jul)

The growth in the value of US retail sales accelerated in the latest month. This was the result of stronger \$ sales growth across several categories; gasoline stations, clothing, general merchandise, non-store retailers and food service. This growth more than offset the decline in sales for motor vehicles and parts for the month.

Month change – Retail Sales (\$ val); Jul +0.7% versus Jun +0.3%

Growth in the month was recorded across most categories;

Of note was the further acceleration in non-store retail sales; Jul +2.8% versus Jun +1.9%

Gasoline station sales shifted from a -2.3% decline in Jun to +1.8% increase in Jul.

Food services increased from +0.7% in Jun to +1.1% in Jul.

Other notable increases included general merchandise stores and clothing & accessory stores.

While the value increase was lower, sales growth across furniture and electronics stores accelerated in Jul.

The notable decline in the month was sales of motor vehicles and parts; Jul -0.6% versus Jun +0.3%.

Annual change – Retail Sales (\$ val); Jul +3.4% versus Jun +3.3%



Excluding the value of gasoline sales, annual retail sales growth was higher: Jul +3.8% versus Jun +3.7%

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

Business Inventories (Jun)

There was an improvement in shipments relative to business inventories across the distributive trade channels this month. The annual view continues to highlight sales growth lagging faster growth in inventories.

Total Business – Shipments and Inventories

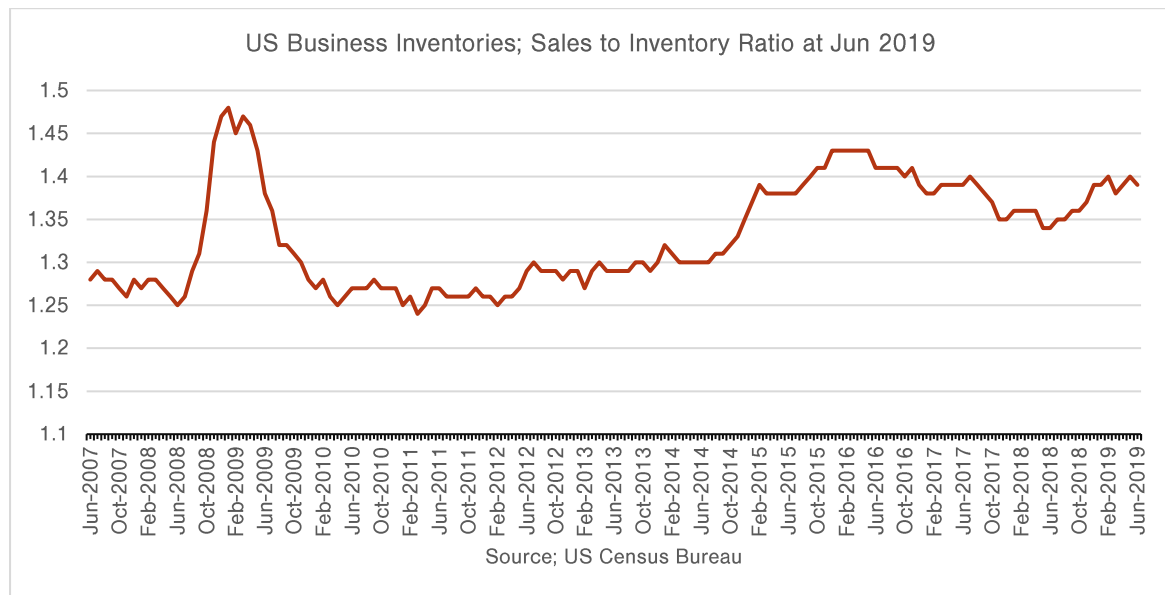
The value of shipments in the month increased by +0.1% across manufacturers, retailers and merchant wholesalers in Jun versus -0.1% in May.

The value of inventories was unchanged at 0% growth after +0.3% growth in May.

On an annual basis though, total business inventories continued to grow at a faster pace while sales declined;

Annual shipments across manufacturers, retailers and merchant wholesalers; Jun -1% (-\$9.6bn) versus inventories +5% (+\$100.5bn) (unadjusted).

The inventory to sales ratio increased from 1.34 in Jun 2018 to 1.39 in Jun 2019.



Manufacturers – Shipments & Inventories

The value of shipments increased at a faster pace; Jun +0.4% versus May +0.1%.

The value of inventories increased at the same pace of +0.2%

On an annual basis (unadjusted), sales remain -0.4% below a year ago (-\$2bn) while inventories are +4% ahead of the same month a year ago (+\$26.7bn).

The seas adj inventory to sales ratio is also higher than a year ago; 1.27 in Jun 2019 versus 1.34 in Jun 2018.

Retailers – Shipments & Inventories

Retail shipments continued to increase; Jun +0.3% versus May +0.4%. At the same time the value of inventories declined in Jun by -0.3% after a +0.3% increase in May.

On an annual basis (unadjusted) retail sales growth continues to lag inventory growth. Annual change retailer shipments +1% (+\$6.4bn) versus inventory +4% (+\$26.5bn).

The inventory to sales ratio is almost back on par with the prior year after increasing through Dec-Feb. Inventory to sales ratio Jun 1.45 versus Jun 2018 1.44.

Merchant Wholesalers – Shipments & Inventories

This month, shipments via merchant wholesalers declined by -0.3% in Jun after declining by -0.6% in May. The value of inventories was unchanged in Jun after increasing by +0.4% in May.

On an annual basis (unadjusted) merchant wholesaler shipments are down -3% (-\$14bn) from a year ago, while inventories increased by 8% (+\$47.3bn).

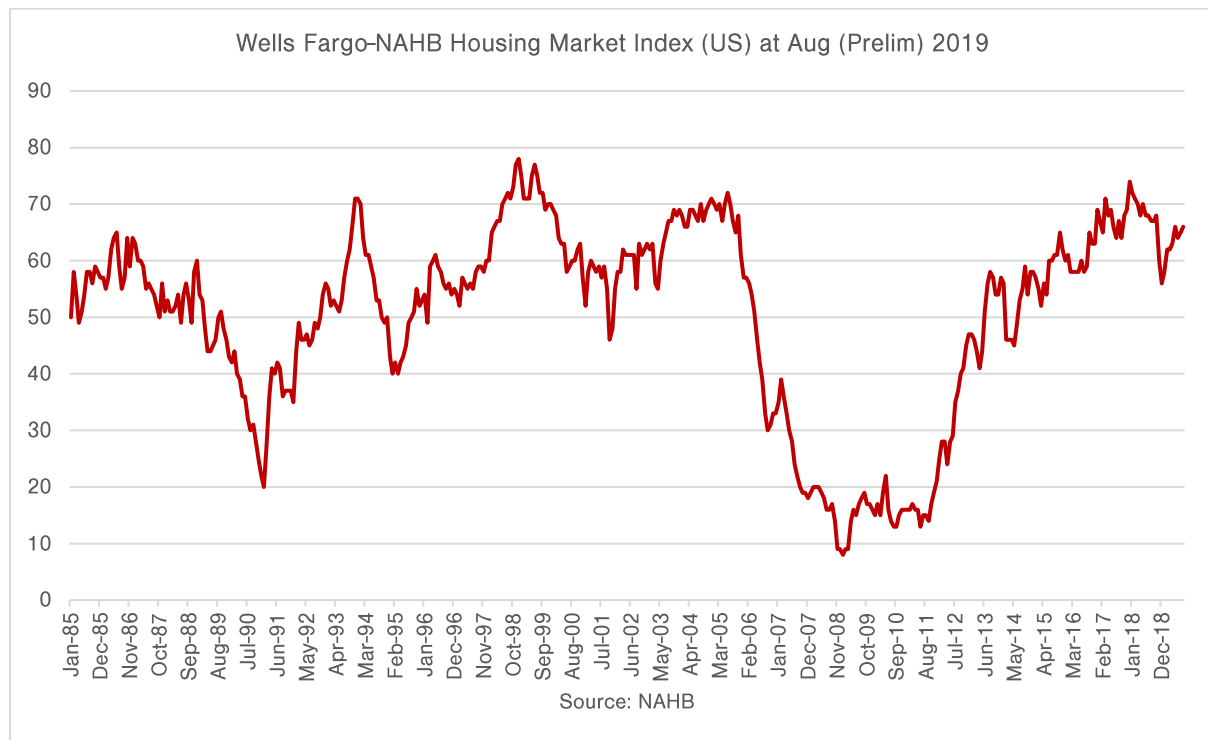
The inventory to sales ratio increased from 1.26 in Jun 2018 to 1.36 as Jun 2019.

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

NAHB Housing Market Index (Aug)

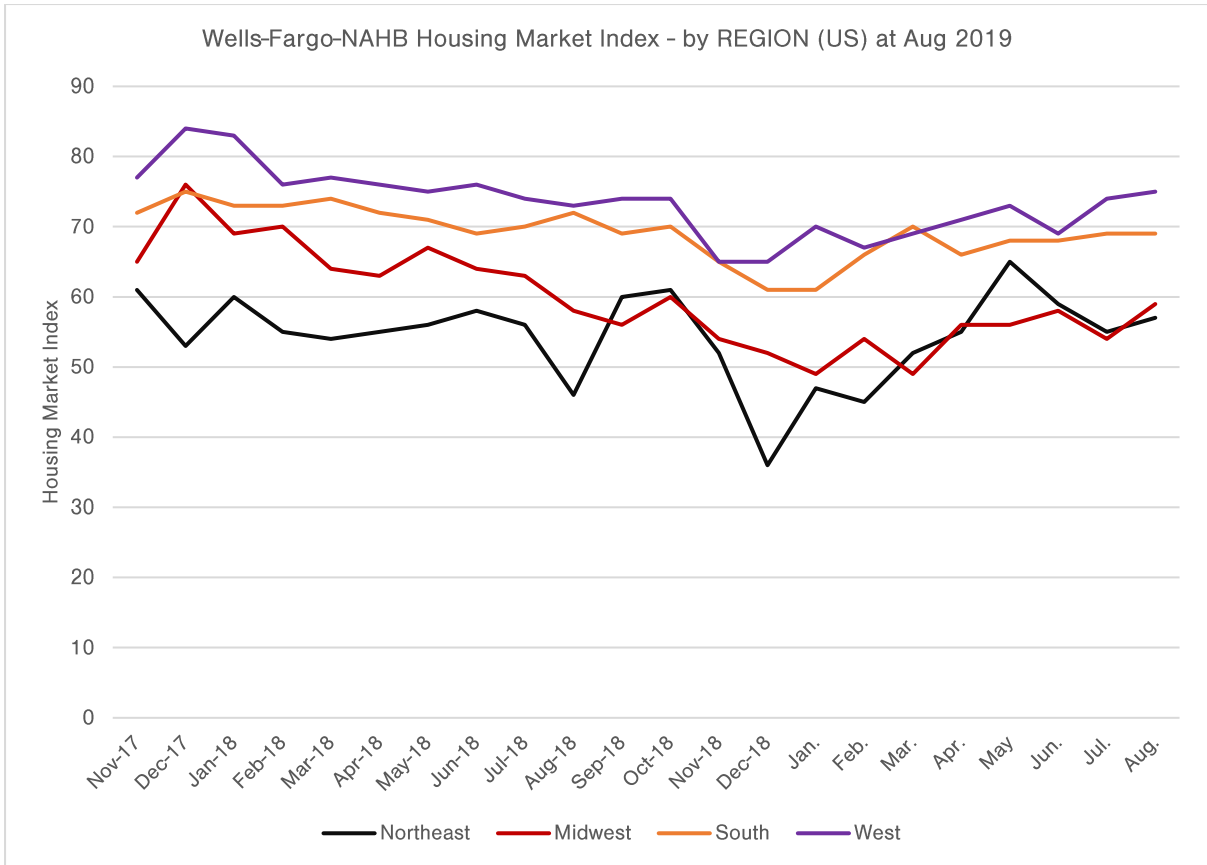
The index of housing market conditions continued to increase slightly in the latest month, indicating continued, albeit small, improvement in in the conditions for new home sales. Improvements were recorded cross the sub-indexes and most regional markets also recorded improved conditions.

National Housing Market Index – New home sales: Aug 66 versus Jul 65



Regional Conditions

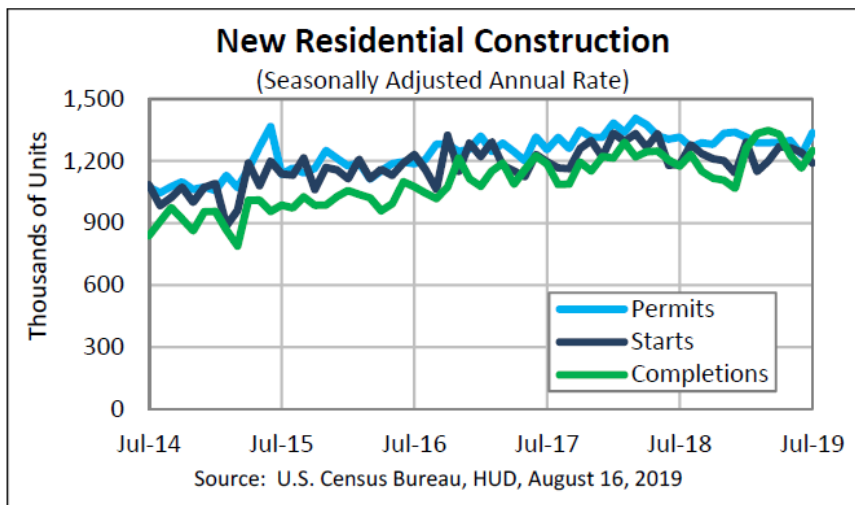
The conditions for the sale of new homes improved across most regions. The only market where conditions did not improve was the South where conditions were unchanged from the month prior.



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

Housing Starts (Jul)

US building permits increased at a faster pace in Jul. The data on housing starts and completions is such that it is uncertain whether starts and completions increased or decreased.



Building Permits

Month change (on the SAAR); Jul-prelim 1.33m units versus Jun-rev 1.23m units

The month change was +8.4% and the 90% confidence interval was +/- 1.1%pts, so it is most likely that the number of permits issued Nationally on a seasonally adjusted annual basis did increase in the month.

Housing Starts

Month change (on the SAAR); Jul-prelim 1.19m units versus Jun 1.24m units

The month decline was -4% and the 90% confidence interval was +/- 8% pts – therefore its not conclusive whether starts increased or declined at a national level.

Completions

Month change (on the SAAR); Jul-prelim 1.25m units versus Jun 1.17m units

The month increase was +7.2% at a National level and the 90% confidence interval was +/- 11.4%. Given that the confidence interval includes zero, the number of completions could have increased or decreased.

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

Consumer Sentiment – Prelim (Aug)

There was no holding pattern in the prelim consumer sentiment data for Aug, with all three main indices of sentiment, expectations and current conditions falling relatively hard.

“Monetary and trade policies have heightened consumer uncertainty—but not pessimism—about their future financial prospects.”

Two factors especially impacted sentiment this month. Consumers responded strongly and negatively to the additional tariffs. Although some elements of the tariffs have been postponed, uncertainty about future prices remains. The other factor negatively affecting sentiment this month was rate cuts;

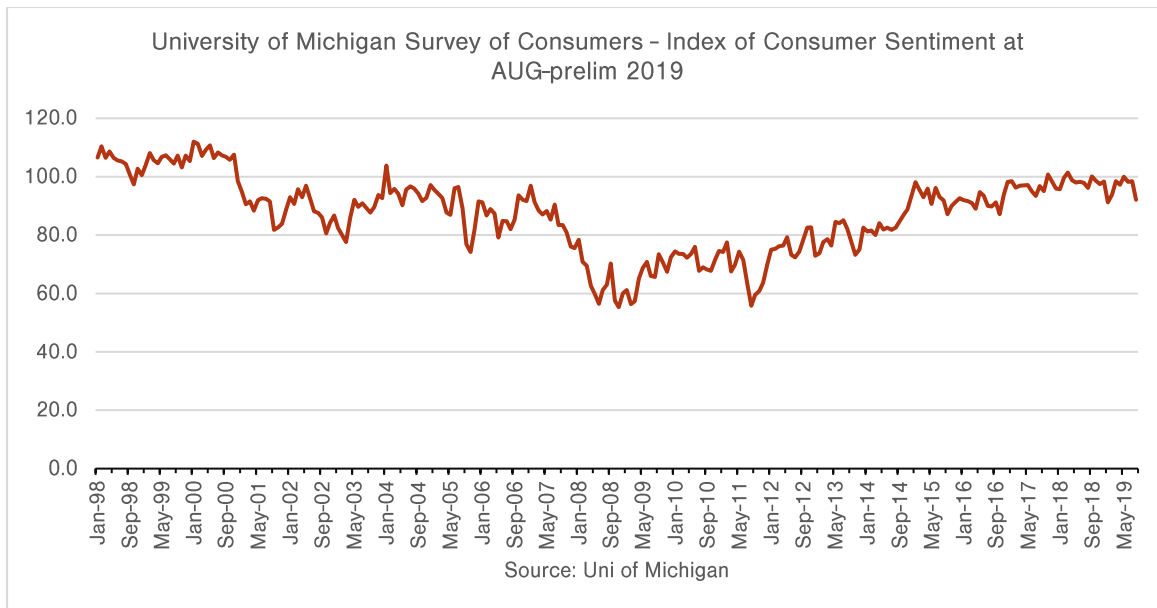
“The main takeaway for consumers from the first cut in interest rates in a decade was to **increase apprehensions about a possible recession**. Consumers concluded, following the Fed’s lead, that they may need to reduce spending in anticipation of a potential recession.”

This resulted in a less favourable view of job and the future pace of income gains.

Index of Consumer Sentiment

Aug Prelim 92.1 versus Jul 98.4

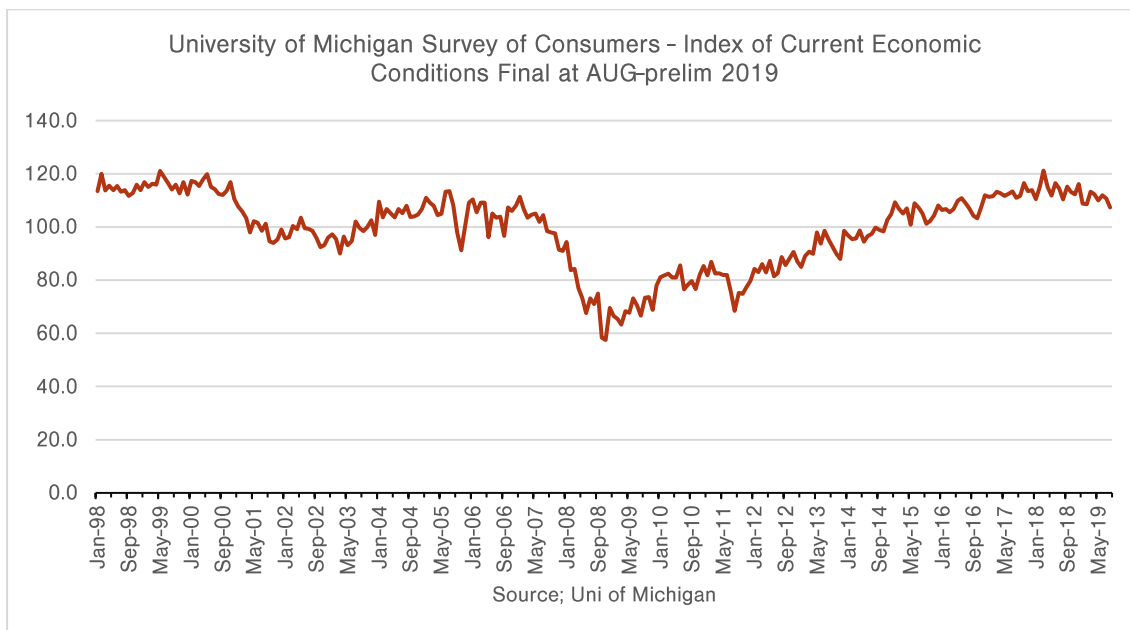
This -6.3pt fall was a 2.2std deviation decline in the month (based on the last 12-months). The index remains only marginally above the low recorded in Jan 2019;



Index of Current Conditions

Aug Prelim 107.4 versus Jul 110.7

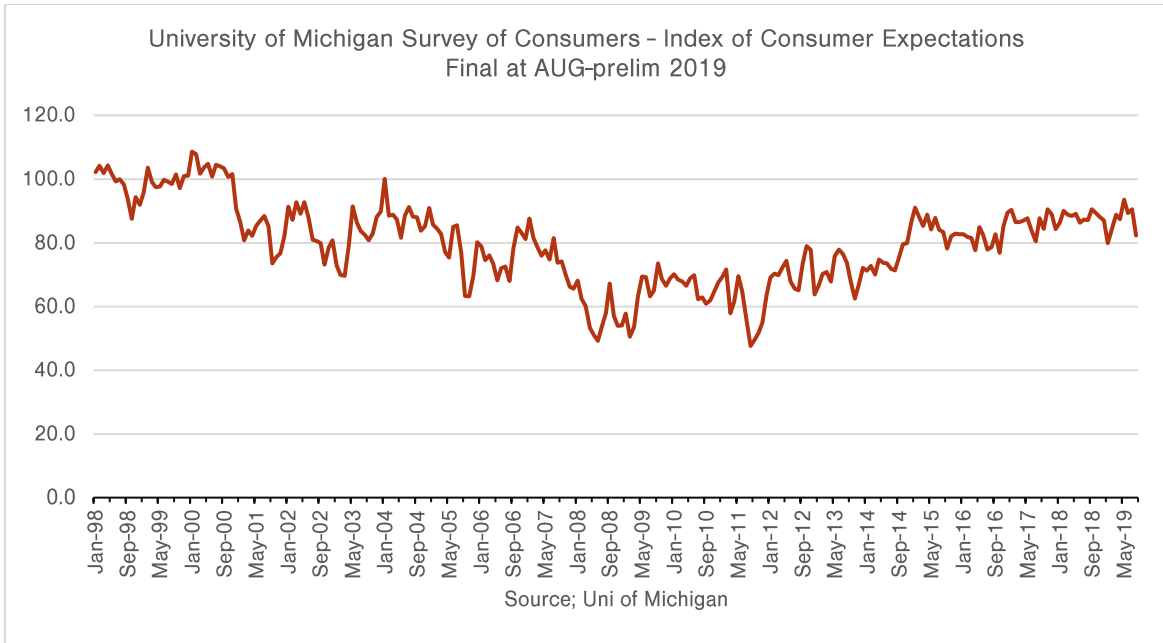
The 3.3pt decline in the month represents a -1.3std deviation decline for the month. The index of current conditions has remained weaker (than sentiment and expectations) throughout 2019



Index of Consumer Expectations

Aug-Prelim 82.3 versus Jul 90.5

The 8.2pt decline in the month represents a -2.3std deviation decline for the month (based on the last 12-months). The index remains marginally above the low recorded in Jan 2019;



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

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Europe

Germany CPI (Jun)

Consumer prices in Germany increased at a faster pace in Jul on both an annual and monthly basis.

All-items CPI – month change; Jul +0.5% versus Jun +0.3%

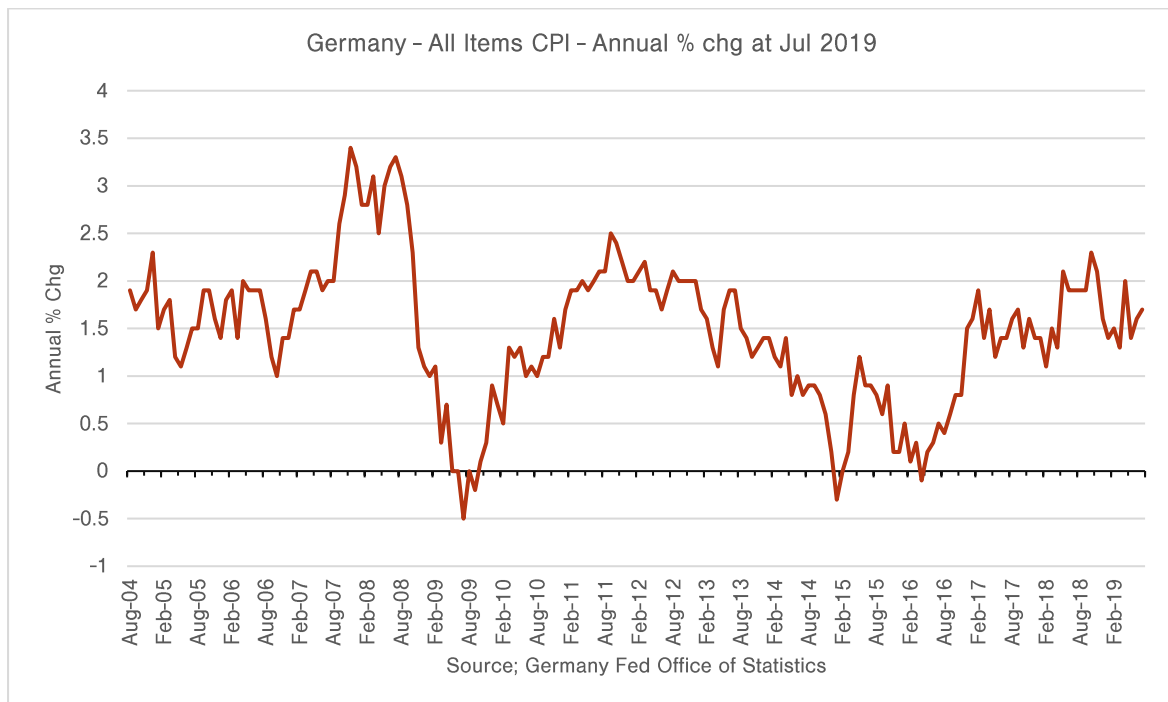
Leading the index higher in the month was mostly recreation and culture up +3.8% in the month. Food prices increased by +0.4% in Jul and overall energy prices fell by -0.2%.

All-Items CPI – annual change; Jul +1.7% versus Jun +1.6%

Goods prices +1.8% in Jul. Energy price growth remains elevated at +2.4%

Services prices +1.5% in Jul

Core CPI (ex food and energy) – annual change; Jul +1.6%



https://www.destatis.de/EN/Press/2019/08/PE19_302_611.html

Germany prelim GDP Q2

The prelim result showed that German real GDP contracted slightly in Q2 versus Q1. On an unadjusted basis, annual GDP growth slowed to 0% in Q2.

Q2 GDP – quarter growth; Q2 -0.1% versus Q1 +0.4%

Both household final consumption expenditure and government final consumption expenditure increased in Q2.

Investment spending increased in Q2, however, gross fixed capital formation in construction declined.

Net exports detracted from the growth - exports recorded a larger quarter-on-quarter decline than imports.

Q2 GDP Growth – annual change (unadjusted); Q2 0% versus Q1 +0.8%

The calendar adjusted (second quarter of 2019 had one working day less than the same quarter a year earlier) annual real GDP growth also slowed; Q2 +0.4% versus Q1 +0.9%.

The detailed results will be released on 27 Aug 2019.

https://www.destatis.de/EN/Press/2019/08/PE19_304_811.html

Eurozone flash estimate GDP Q2

The flash estimate for Eurozone GDP confirmed that growth slowed in Q2 to +0.2% This was in line with the prelim flash estimate for Q2 GDP released two weeks ago.

Euro Area Real GDP Growth

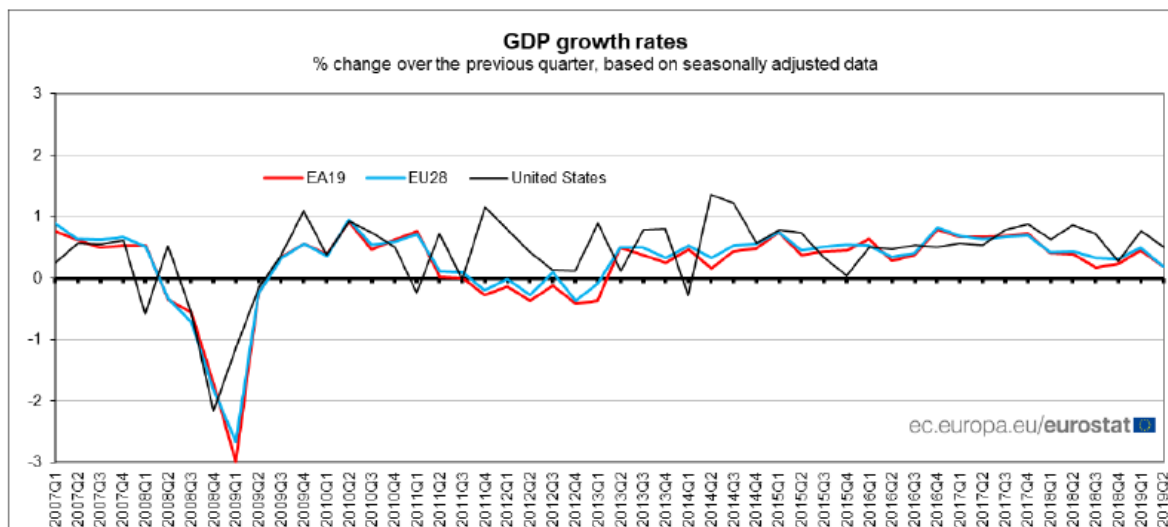
Quarterly change; Q2 +0.2% versus Q1 +0.4%

Annual change; Q2 +1.1% versus Q1 +1.2%

Eurozone/EU28 Group

Quarterly change; Q2 +0.2% versus Q1 +0.5%

Annual change; Q2 +1.3% versus Q1 +1.6%



<https://ec.europa.eu/eurostat/documents/2995521/10030282/2-14082019-BP-EN/b1e4d2ba-ed0d-4f4a-b4e9-3784484de660>

Eurozone Industrial Production (Jun)

Industrial production in the Euro area and across the EU28 group declined in Jun. The monthly decline was broad across the main industries as well as across most member states. Production levels remain below the same month a year ago.

The weaker output and new orders reported in the July PMI suggest that this weakness is likely to persist.

Total Industrial Production – month change

Euro area; Jun -1.6% versus May +0.8%

Declines in the month were recorded across all categories; intermediate goods, energy, capital goods, durable and non-durable consumer goods.

EU28/Eurozone; Jun -1.5% versus May +0.9%

Similarly, declines were recorded across all categories in the month. Larger declines were recorded for capital goods (-3.5% in Jun versus +1.7% in May) and non-durable consumer goods (-2.2% in Jun versus +1.5% in May). Energy production declined slightly after stronger growth in the month prior.

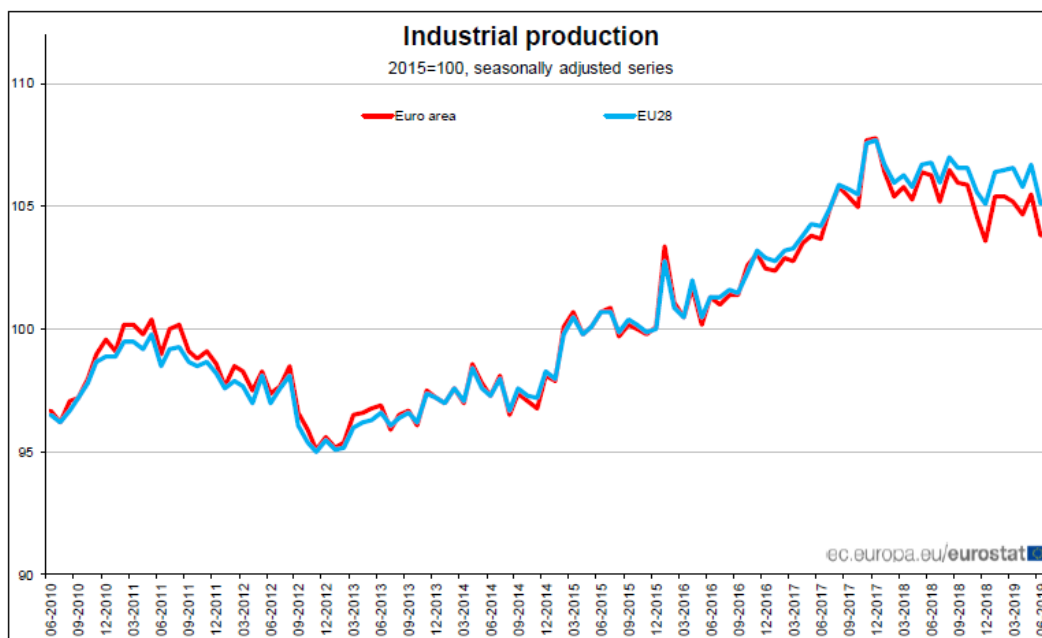
Total Industrial Production – annual change

Levels of industrial production in Jun fell further below a year ago;

Euro area; Jun -2.6% versus May -0.8%

EU28 group; Jun -1.9% versus May +0.1%

The biggest declines in production on an annual basis were recorded for the largest EU economy Germany -6.2% and Portugal and Croatia both down -5.6%



<https://ec.europa.eu/eurostat/documents/2995521/10030267/4-14082019-AP-EN/9bb97c33-d430-4ca2-a226-fc78033bd6e8>

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Japan

Industrial Production – Final (Jun)

The final result for industrial production confirms the weaker result for the month. Production growth was revised slightly higher in the month and on an annual basis, but still declined on both timeframes. Shipments were revised lower for the month and on annual basis. The growth in the inventory ratio accelerated in the month and on an annual basis.

Of note was a deterioration in production of cars for Jun (passenger car production had been improving since mid-2018).

The Jul forecast (by respondents) was for an increase in output while the PMI for manufacturing indicated the Jul output component still declined but at a slower pace.

TOTAL INDUSTRIAL PRODUCTION – MONTH CHANGE (SEAS ADJ)

Production – month change; Jun -3.3% (was -3.6%) versus May +2%

There were several large declines in the month; fabricated metals -4.8%, production machinery -6.9%, electrical machinery and information & comms electrical equipment -4.8%, transport equipment -7.5% (passenger cars -8.5%).

Production of the second largest weight category, food and tobacco, grew by 0% in the month.

Shipments – month change; Jun -4% (was -3.3%) versus May +1.3%

Shipments were lower across several categories, the larger of the declines were; fabricated metals -4%, production machinery -6.5%, electrical machinery and information & comms electrical equipment -9.4%, transport equipment -11.5% (passenger cars -8.6%).

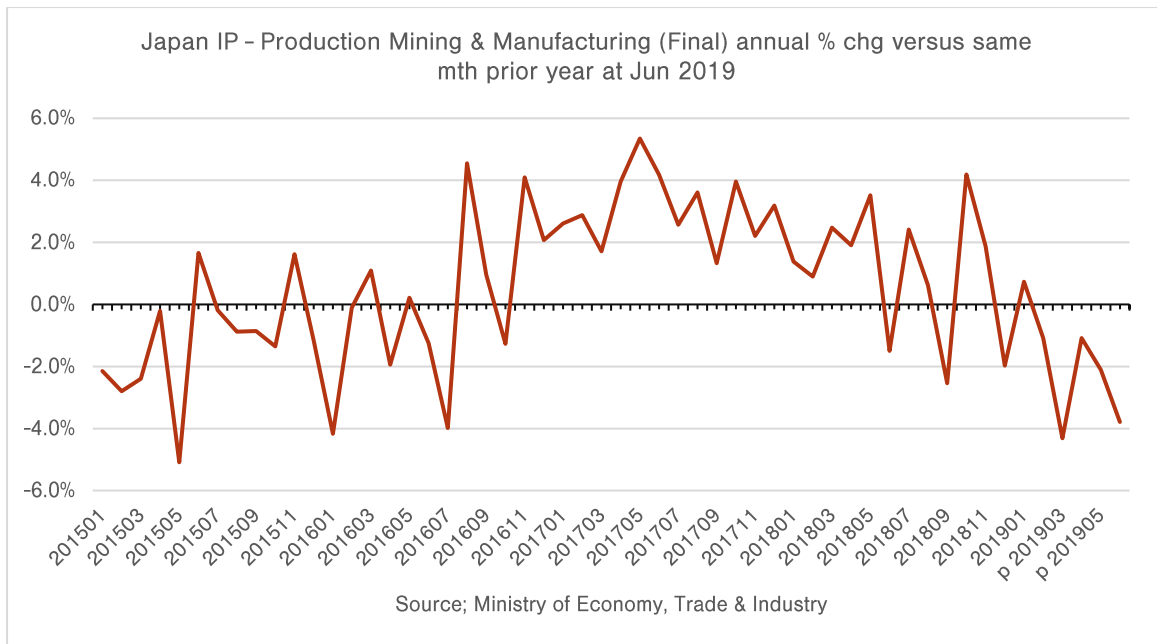
Again, shipments of the second largest category, foods & tobacco, were -0.3% versus the month prior.

Producers Inventories of Finished Goods; Jun +0.4% (was +0.3%) versus May +0.5%

Producers Inventory Ratio of Finished Goods; Jun +3.2% (was +2.8%) versus May +1.7%

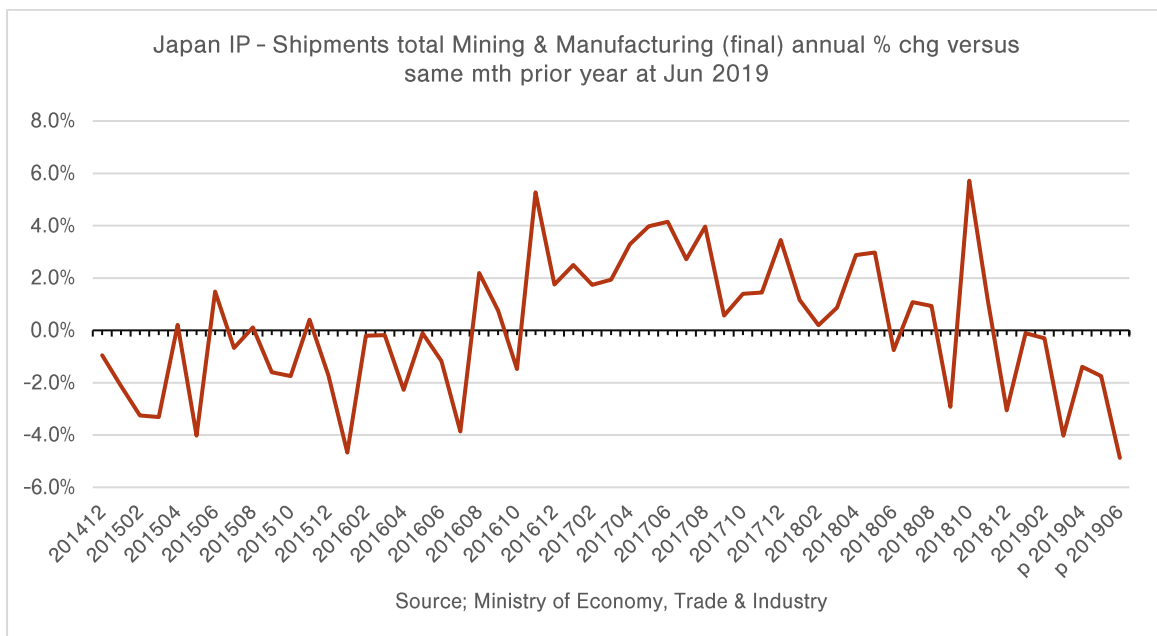
TOTAL PRODUCTION – ANNUAL CHANGE (ORIGINAL INDEX)

Production mining & manufacturing – annual change; Jun -3.8% (was -4.1%) versus May -2.1%



The larger production declines on an annual basis include; Iron, steel & non-ferrous metals - 4.8%, production machinery -5.8%, general purpose & business-oriented machinery -8.9%, electronic parts and devices -13.3% and transport equipment -3.3% (passenger car production is only -0.7% below a year ago but in May was +9.7% ahead of last year, so a bad month for passenger car production).

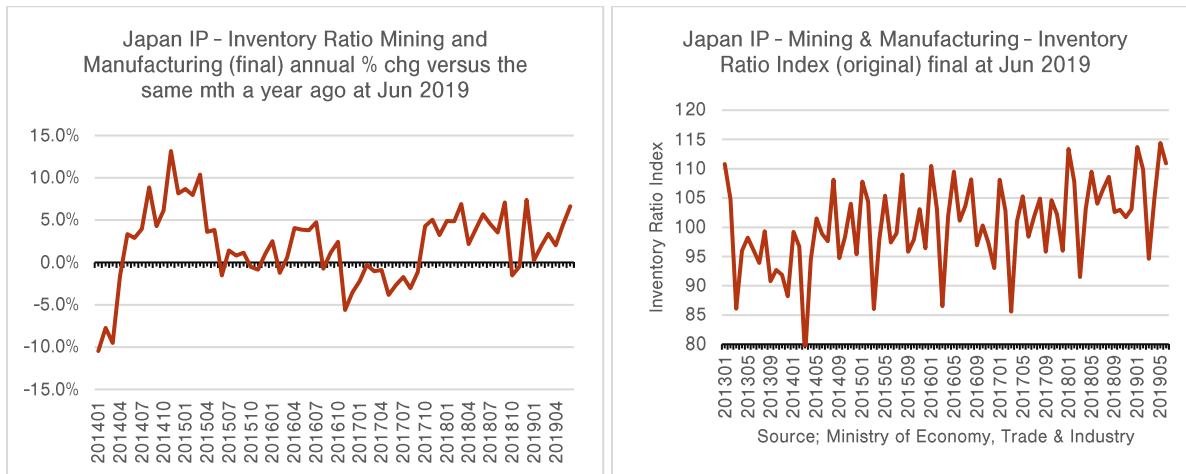
Shipments – mining & manufacturing annual change; Jun -4.9% (was -4.2%) versus May -2.1%



Shipments remain well below a year ago across; Iron, steel & ferrous metals -5.2%, production machinery -6.5%, General-purpose and business oriented machinery -9.8%, electronic parts and devices -10.6%, electrical machinery -8.2% and transport equipment (-7.1% (again, passenger car shipments are only -0.2% below a year ago, reflecting the much worse result for the Jun month).

Producers Inventory of Finished Goods – annual change; Jun +3% versus May +1.5%

Producers Inventory Ratio of Finished Goods – annual change; Jun +6.6% (was +6.3%) versus May +4.5%. The inventory ratio index & annual growth remain elevated;



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

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United Kingdom

BREXIT

With the conservative party leadership now resolved, focus shifts back to the Brexit deadline of 31 Oct.

Interim UK PM Johnston will meet with EU officials this week. While the meeting will revolve around preparations for the G7 summit in France in the following week, it is likely that Brexit will also be discussed. Little change is expected;

“At his meetings with Merkel and Macron, Johnson is expected to reiterate that he will only accept a new deal that abandons the backstop, over concerns that it could trap the UK indefinitely in a customs union.”

“With the EU collectively refusing to budge on the issue, No 10 is only expecting minimal discussion of Brexit with Merkel and Macron – more a restatement of each side’s existing positions.”

<https://www.theguardian.com/politics/2019/aug/18/number-10-furious-leak-document-predicting-no-deal-brex-it-shortages>

Last week, the Irish Premier, Leo Varadkar, also confirmed that there would be no movement on the Irish border backstop. The UK PM and the Irish Premier will meet in Sept.

There are no details at this stage of a restarting of negotiations between the EU and UK on the withdrawal agreement.

The UK government has announced new spending commitments in preparation for a no-deal Brexit.

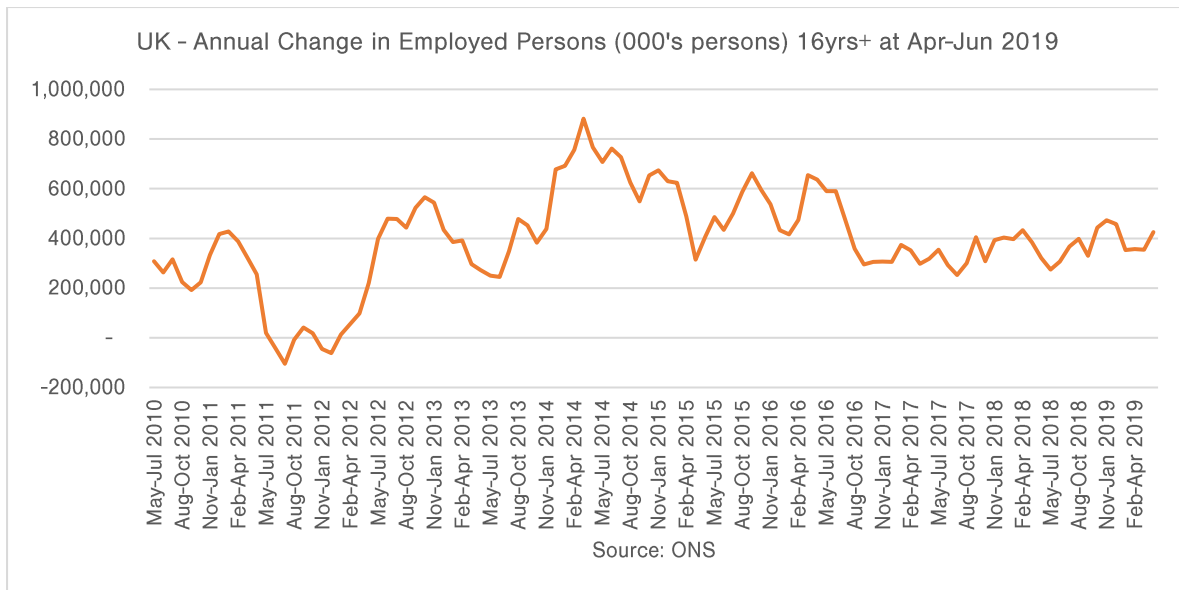
Labour Market Survey (Apr-Jun)

The main feature of the UK labour market report for this month was the relatively large increase in participation. While employment growth increased at a faster pace, the increase in participation was faster. The result was that on an annual basis, the decline in total unemployed persons has become even smaller and, on a rolling 3-month basis, total unemployed persons increased. This resulted in an increase in the unemployment rate for the Apr-Jun period.

Employment

On annual basis, total employed persons did increase at a faster pace;

Total employed persons – annual change; Apr-Jun +424.8k persons versus Mar-May +354.1k persons



On a quarterly basis, employment growth also accelerated (compared to the previous non-overlapping 3month avg);

Employment growth – quarter change; Apr-Jun +115k persons versus Mar-May +28k persons

Labour Force

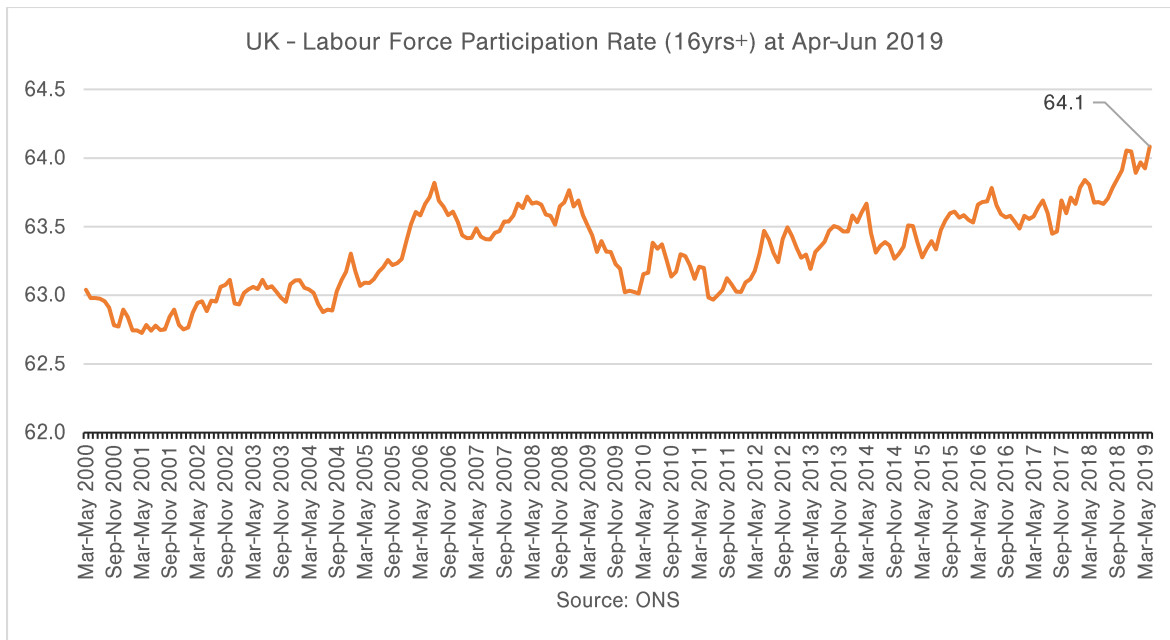
On annual basis the size of the labour force/number of people economically active has increased at a faster pace;

Labour force – annual change; Apr-Jun +391.5k persons versus Mar-May +238k persons.

The large increase has been the result of an increase in participation.

In Apr-Jun, the labour force participation rate increased to 64.1% which is +0.41%pts higher than a year ago and +0.2%pts higher than the prior non-overlapping 3-month period (Jan-Mar).

The participation rate in Apr-Jun of 64.1% is only -0.6% pts below the high of 64.5% recorded back in the 90's.



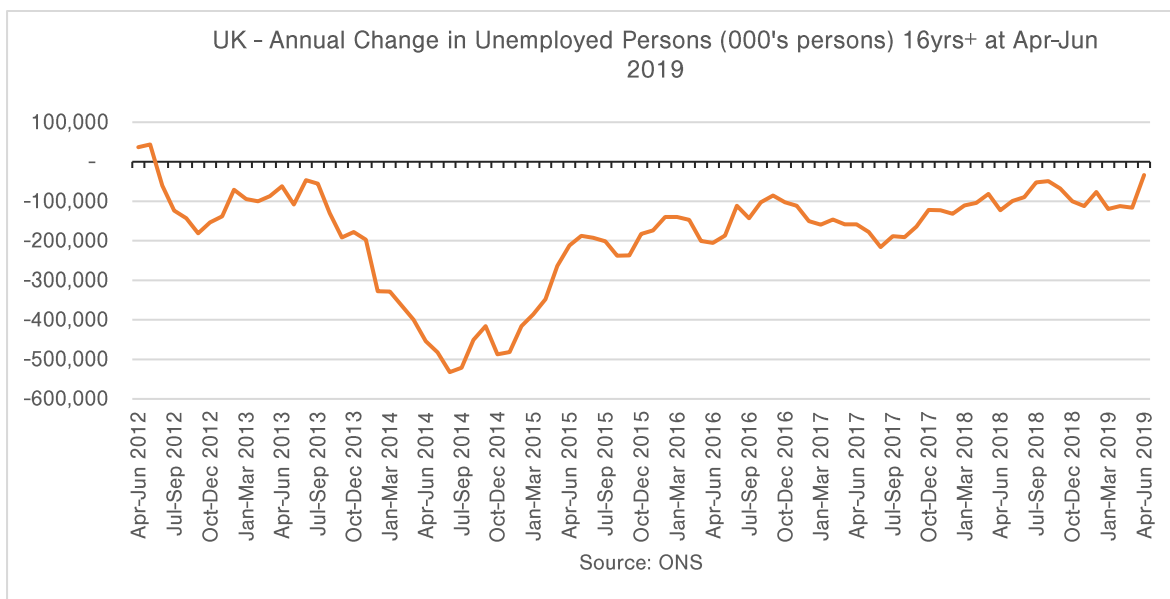
The change in participation is estimated to have contributed +217 persons to the +391k growth of the labour force in the last year.

The increase in participation the latest 3-month period is estimated to have contributed +101k persons to the +145k increase in the labour force for Apr-Jun qtr.

Total Unemployed Persons

On an annual basis, employment growth remains higher than that of the total labour force/economically active, but that difference is becoming smaller. This means that the decline in total unemployed persons has become smaller;

Total unemployed persons – annual change; Apr-Jun -33.2k persons versus Mar-May -115.9k persons



On a quarterly basis, employment growth is no longer growing ahead of the total labour force – this has resulted in an increase in total unemployed persons in the latest 3-month period;

Total unemployed persons – quarter change; Apr-Jun +31k persons versus Mar-May -51k persons.

As a result, the unemployment rate increased from 3.8% Mar-May to 3.9% in Apr-Jun.

Summary of Changes in the Labour Market

Both the 16yrs+ and the core working age group of 16-64yrs have exhibited a similar dynamic this quarter.

On an annual basis, employment growth has increased, but a relatively larger increase in participation has meant that the decline in total unemployed persons has become smaller. Employment growth needs to increase at a faster rate in order to reduce total unemployed persons as a faster pace.

On a quarterly basis, employment growth has not been fast enough to keep pace with the increase in participation – hence total unemployment has increased in the Apr-Jun quarter.

	16yrs+ (000's of persons)		16-64yrs (000's of persons)	
	Latest Qtr Chg Apr-Jun 2019	ANN Chg Apr-Jun 2019	Latest Qtr Chg Apr-Jun 2019	ANN Chg Apr-Jun 2019
Estimated change in the Labour Force due to pop growth (1)	43.766	174.413	15.663	63.219
How many jobs available for them? (employment growth) (2)	114.562	424.810	33.818	289.356
Difference; employment less est chg in labour force due to pop (3) (if positive, then employment growing faster than pop)	70.796 ▲	250.398	18.154	226.137
Change in the labour force due to the change in participation (4)	101.978	217.142	51.044	193.364
The remainder is the chg in total unemployed persons (4) less (3) - if neg, then unemployment decreasing	31.182	-33.256	32.889	-32.773
<u>Different views of the Labour Force:</u>				
Double check - change in total economically active (pop + participation)	145.744 ▲	391.554	66.707	256.582
Double check - change in total economically active (employ + unemp)	145.744	391.554	66.707	256.582
Actual economically active ann chg (as reported)	145.744	391.554	66.707	256.582

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/august2019>

CPI (Jul)

Annual growth in consumer prices increased at a faster pace in Jul. Goods prices, especially non-energy industrial goods made a larger contribution to growth while services continued to grow at the same pace and remains elevated.

Annual change CPI-H; Jul +2% versus Jun +1.9%

Overall, goods prices increased at a faster pace; Jul +1.7% versus Jun +1.5%

This was led by faster growth in non-energy industrial goods (+1.2% in Jul versus +0.6% in Jun), while energy price growth slowed it remained elevated at +3.4%.

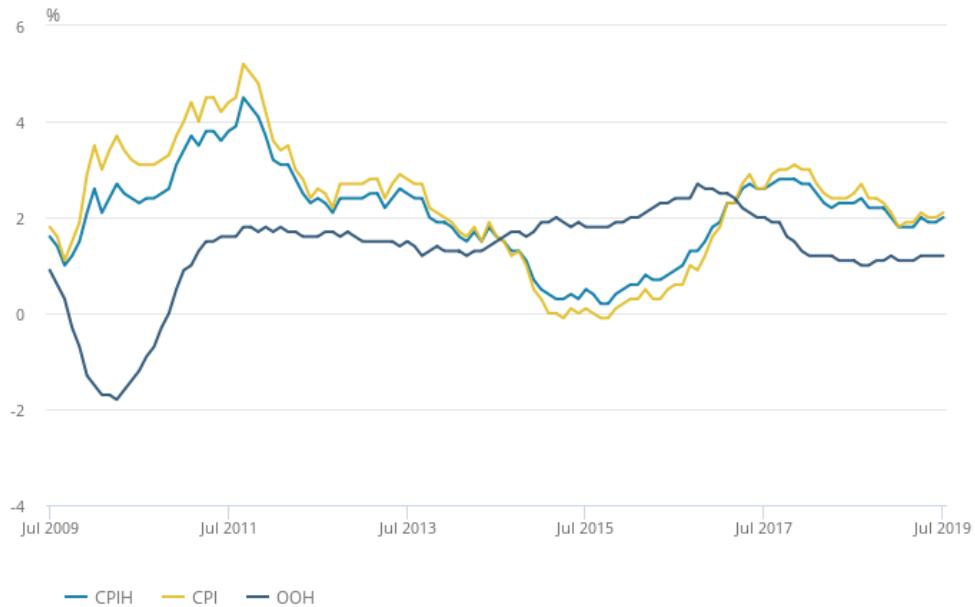
Services prices increased at a higher, but constant pace; Jul +2.2% versus Jun +2.2%.

Core CPI – annual growth

CPIH- ex energy, food, alcohol and tobacco – annual change; Jul +1.9% versus Jun +1.7%

Figure 1: CPIH and CPI 12-month inflation rates rise

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



Source: Office for National Statistics – Consumer price inflation

The faster growth in the annual CPI growth for the month was the result of a larger contribution to overall headline CPI from; clothing and footwear (which had been declining for 10 months on an annual basis), recreation & culture, restaurants & hotels and other goods & services.

This was offset somewhat by a smaller/lower contribution from transport prices to headline CPI growth.

<https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/july2019>

Retail Sales (Jul)

UK retail sales increased at a slower pace in Jul and growth slowed somewhat on an annual basis. The decline in sales recorded for non-food stores and zero growth in food store sales was offset by a large 6.9% increase in non-store retailing sales.

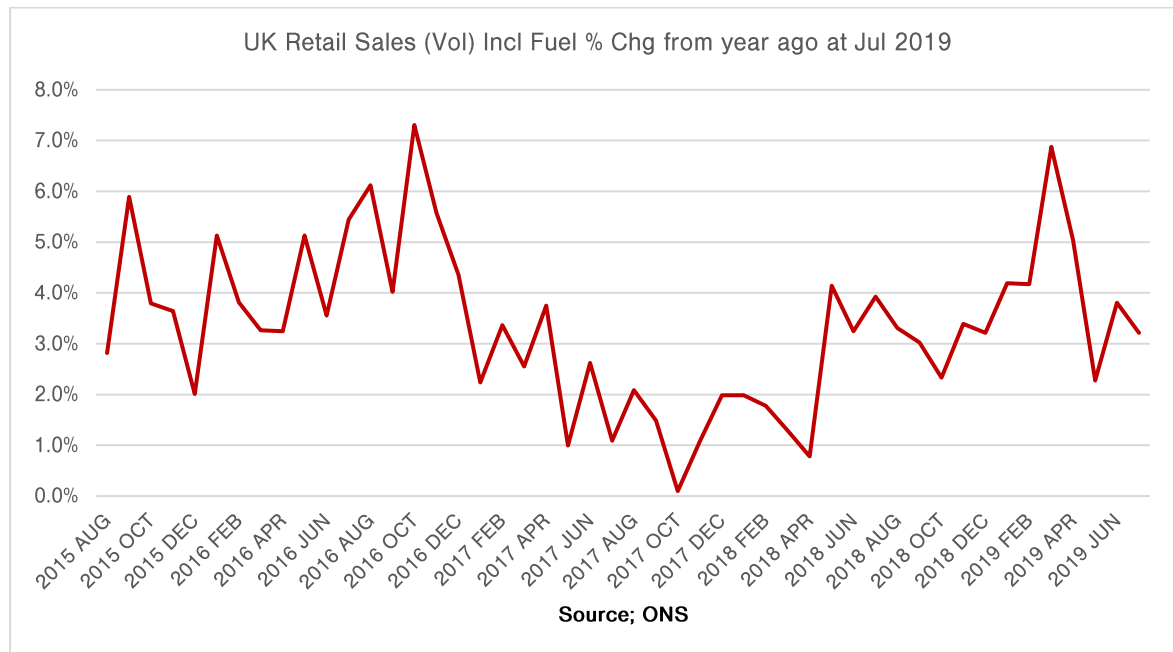
Total Retail Sales (volume) - month change; Jul +0.2% versus Jun +0.9%

Excluding fuel, retail sales growth was similar in the month; Jul +0.2% versus Jun +0.8%

Non-store retailing made the single largest and only positive contribution to growth in the month, adding +0.7% pts (month growth of 6.9%). This was offset by a 0% pts contribution from both fuel and food store sales as well as a decline in non-food store sales which detracted -0.6%pts from the month growth.

Sales of non-food stores declined by -1.4% in the month with textile/clothing/footwear, household goods and other store sales declining in the month. Only dept store sales increased in the month by 1.6% (the first monthly increase in the YTD).

Total Retail Sales (volume) - annual change; Jul +3.2%, slowing from +3.8% in Jun



<https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/july2019>

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Australia

NAB Business Confidence and Conditions – Monthly (Jul)

There was overall little change in business confidence and conditions in Jul. The Jul report now incorporates both rate cuts by the RBA and the easing of some mortgage lending conditions by banks.

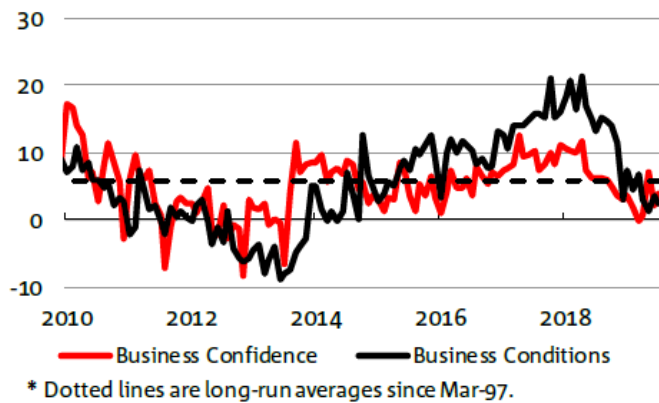
Business confidence increased slightly in Jul, but remains below the LT average. Business conditions fell and the index remains below the LT average. Conditions were lower due to a decline in employment and trading, while business profitability improved to a 'neutral' reading.

Headline Index

Business Confidence - month change; Jul 4 versus Jun 2

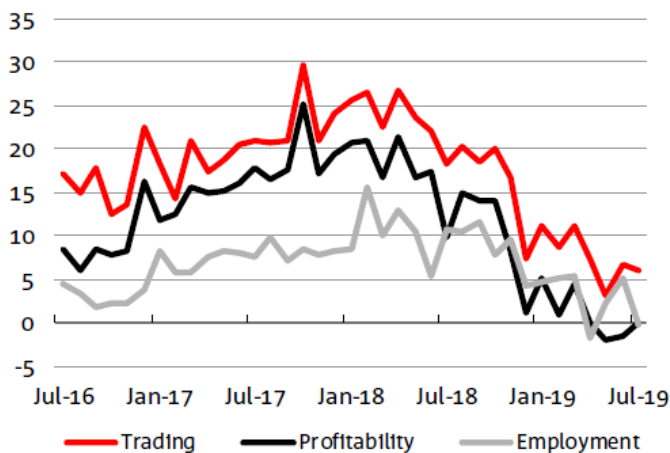
Business Conditions – month change; Jul 2 versus Jun 4

CHART 1: BELOW AVERAGE CONFIDENCE AND CONDITIONS



The decline in business conditions was the result of a small fall in trading conditions, a relatively large fall in the employment sub-index (from 5 in Jun to 0 in Jul) and a small “improvement” in profitability (from -1 in Jun to 0 in Jul – indicating no improvement or further deterioration).

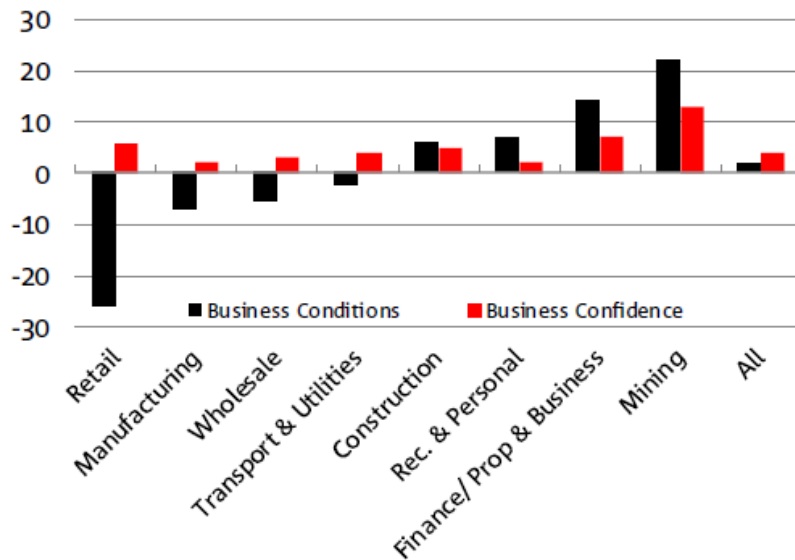
CHART 8: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.



Forward orders remained in contraction but declined by a slower pace; Jul -3 versus Jun -4. With forward orders still declining though, there is little to suggest a near term improvement in activity.

Business conditions remain weakest in retail with a further deterioration in Jul;

CHART 10: BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND)



<https://business.nab.com.au/wp-content/uploads/2019/08/NAB-Monthly-Business-Survey-July-2019.pdf>

Wage Price Index Q2

The wage price index grew at an accelerated pace in Q2. This was led by much faster growth in hourly rates of pay for public sector industries (led mostly by one state – VIC). The hourly rate of pay for private sector industries grew at the same pace as in Q1. So while there was an increase in wages growth in Q2, this has not been a broad-based increase which is something that the RBA is looking for.

Q2 Qtr Growth - Hourly Rate of Pay ex bonuses

All industries - quarter change; Q2 +0.61% versus Q1 +0.46%

In the latest quarter, growth in public sector wages increased at a faster pace;

Public sector – quarter change; Q2 +0.82% versus Q1 +0.45%

Private sector – quarter change; Q2 +0.54% versus Q1 +0.54%

The acceleration in public sector wage growth was led by VIC.

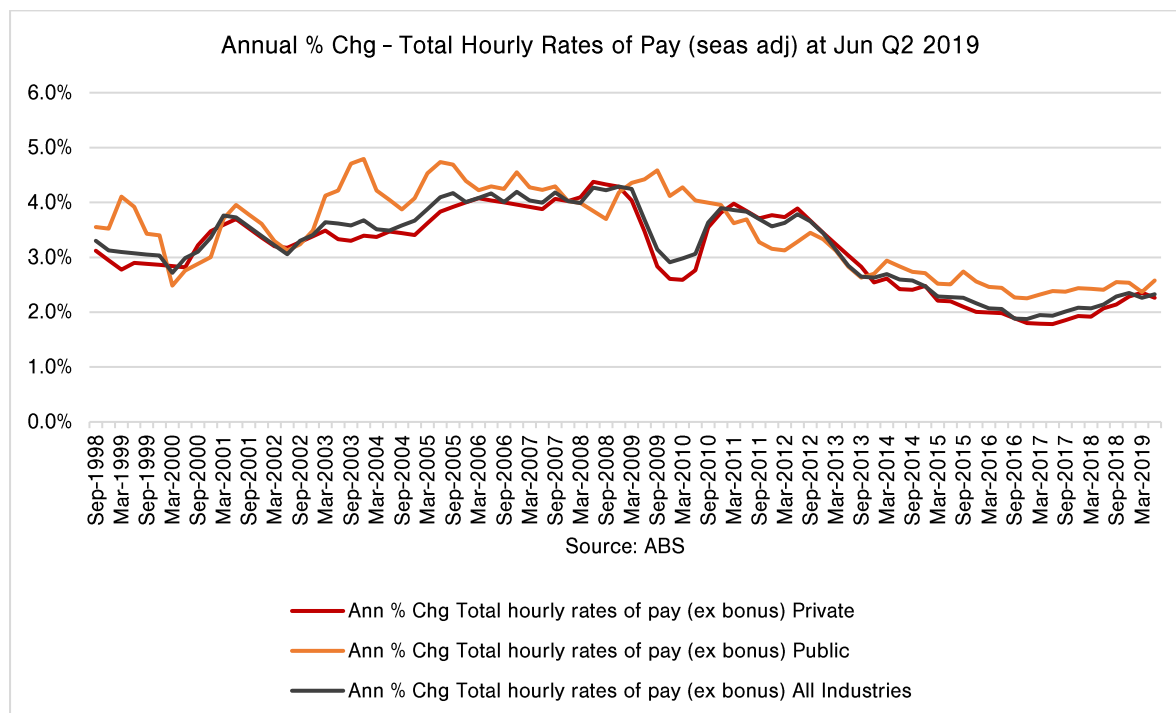
Annual Growth at Q2

On an annual basis, the growth in hourly rates of pay ex bonuses increased at a slightly faster pace at a total level. This was led by faster annual growth in public sector wages while annual growth in private sector wages slowed slightly;

Annual growth – all industries; Q2 +2.33% versus Q1 +2.26%

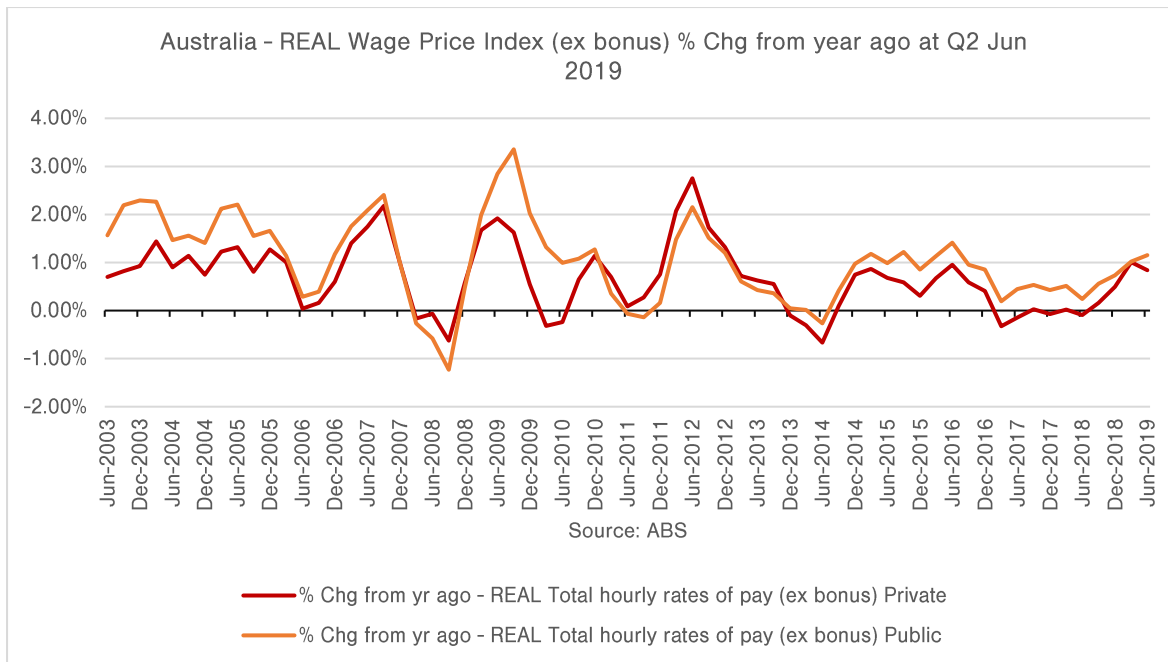
Public sector hourly rates of pay – annual change; Q2 +2.58% versus Q1 +2.37%

Private sector hourly rates of pay – annual change; Q2 2.26% versus Q1 +2.35%



Annual growth in Real Hourly Rates of Pay Ex-Bonus

In real terms (deflated by the seas adjusted headline CPI), the growth in hourly rates of pay slowed for the private sector from +1% in Q1 to +0.8% in Q2. Growth in real public sector hourly rates of pay increased at a faster pace; Q2 +1.15% versus 1% in Q1.



<https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6345.0Main+Features1Jun%202019?OpenDocument>

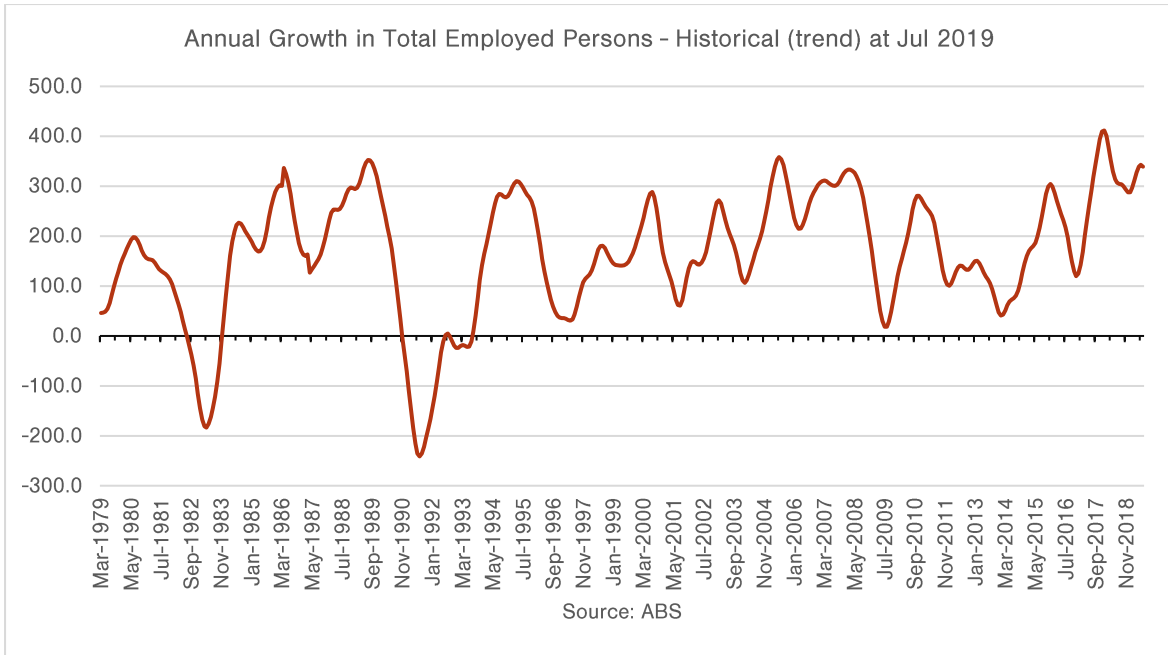
Labour Force Survey (Jul)

The dynamic of the Aus labour market remained unchanged in the month. While employment is growing, it is not growing fast enough to absorb the increase in participation. We've been monitoring the monthly increase in total unemployed persons for the last several months and now this has resulted in the first annual increase in total unemployed persons in two years.

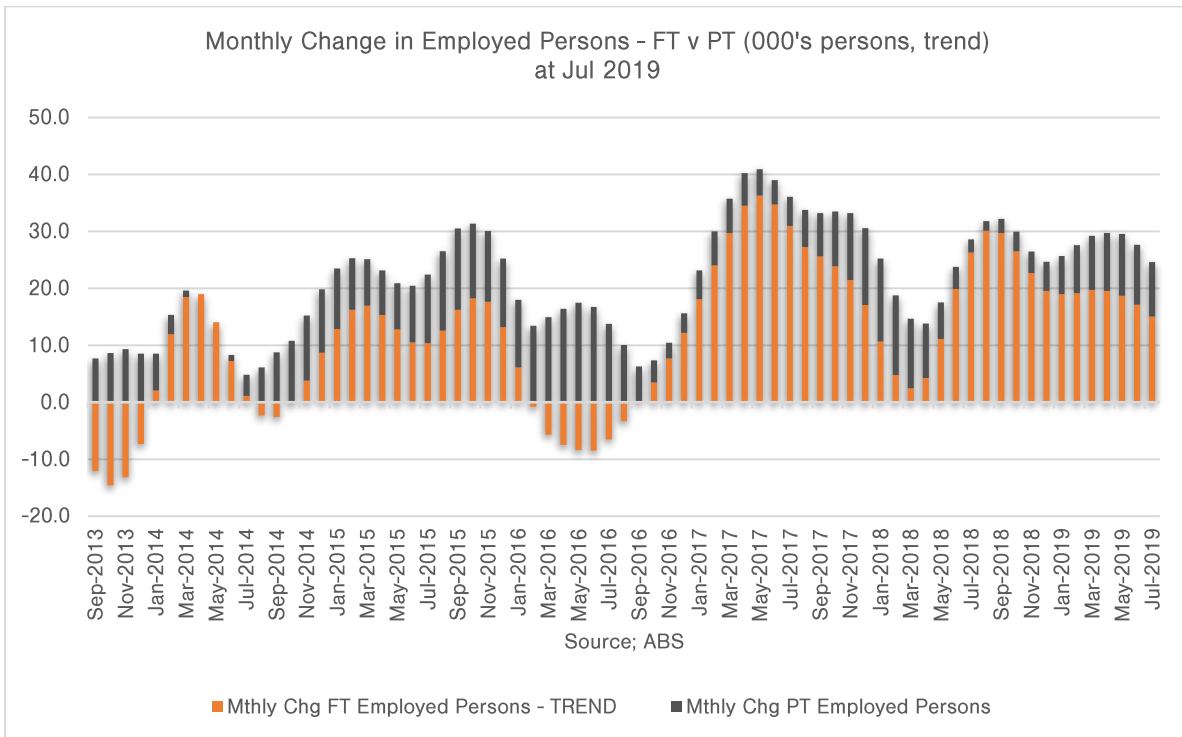
We use the 'trend' data series as recommended by the ABS.

Employment growth

On an annual basis employment growth slowed slightly; Jul +339k persons versus Jun +343k persons. From a historical perspective, annual employment growth remains elevated. The average annual growth for Jul over the last ten years is +210k persons.



In the latest month, employment growth slowed; Jun +24k persons versus Jul +27k. Growth in both full time (FT) and part time (PT) employment slowed;



The important point here though is the while employment is still growing at a relatively healthy pace, it is not growing fast enough to a) absorb the increase in participation and b) reduce total unemployed persons.

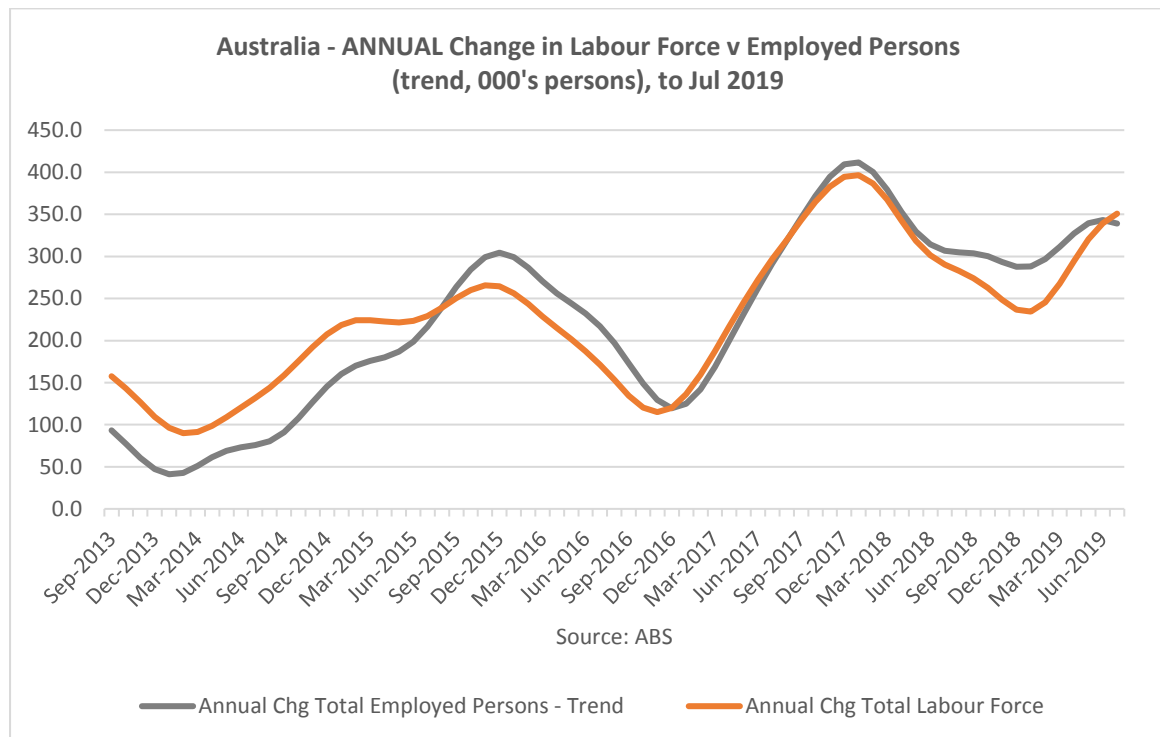
Labour Force

On an annual basis, the size of the Australian labour force increased at a faster pace (contrast with the slower employment growth); Jul +350k persons versus Jun +339k persons.

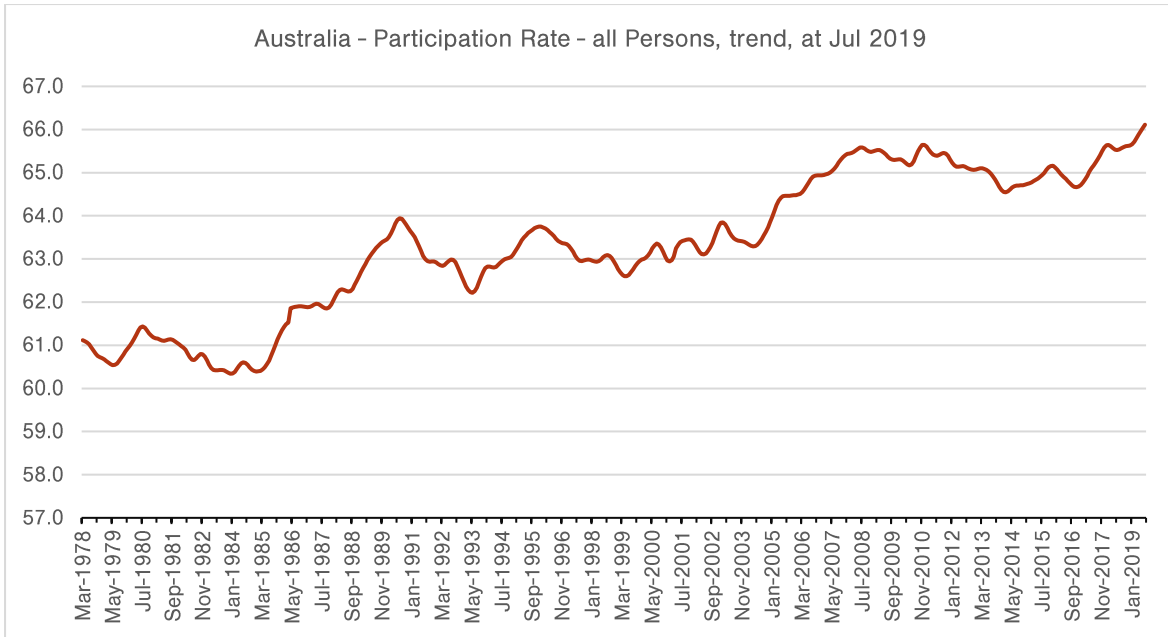
There are two ways to view the total size of the labour force; 1) total employed persons plus total unemployed persons and 2) the estimate of what population added to the labour force plus the change in participation. The second view is most insightful here.

While underlying population has been increasing at a steady pace, and accounts for most of the increase in the size of the labour force, the most recent change in participation has added a further source of growth in the labour force.

This increase in participation has resulted in employment growth < labour force growth over the last year – this means that total unemployed persons is increasing.



In Jul, the participation rate reached another new all-time high; Jul 66.11% versus Jun 66.05%. A year ago, participation was 65.54%.



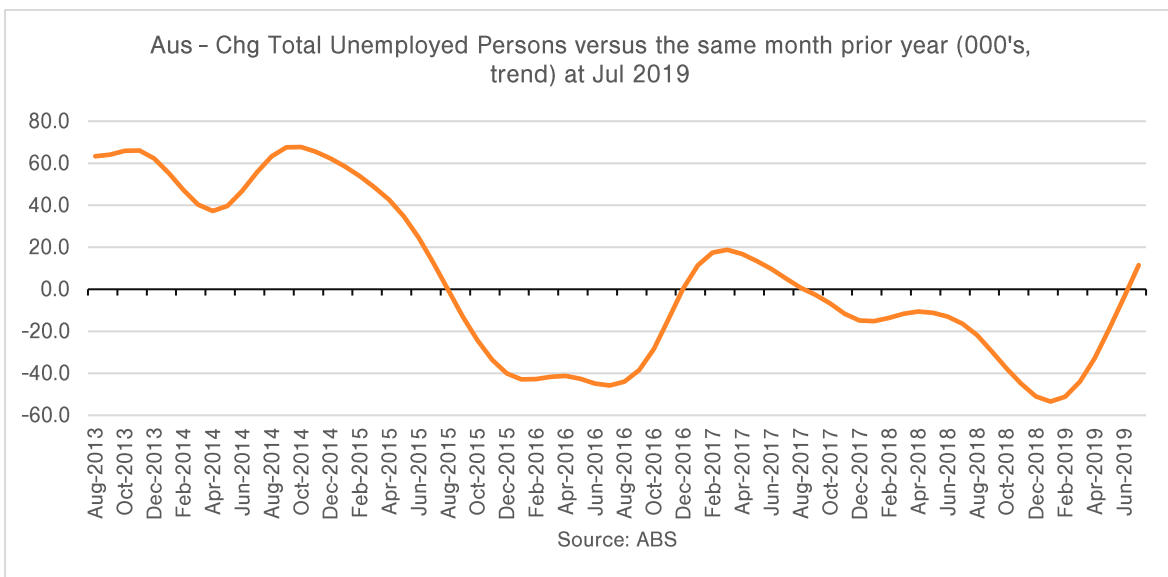
Increases in both male and female participation are contributing to the overall increase. Male participation rates remain well below the peak reached in the late 70's. Female participation though reached another new all time high in Jul of 61.08%.

Participation has been increasing since late 2016 – the problem now is that employment growth, whilst elevated, is lower than the peak reached in early 2018.

Total Unemployed Persons

The RBA board has focused on reducing total unemployed persons. This months data is somewhat of a conundrum given that employment is still growing, and yet total unemployed persons increased for the first time on an annual basis for the last several years;

Total unemployed persons – annual change; Jul +11.5k persons versus Jun -3.6k persons



If there is any consolation, its that at least on a month basis, the increase in total unemployed persons has been low and appears to be slowing; Jul +6.6k persons versus Jun +8k persons.

The unemployment rate (trend) increased to 5.26% in Jul. This was up from 5.22% in Jun.

Summary of Key Employment and Labour Market Metrics

On an annual basis, employment growth has not kept pace with the growth of the labour force (led by higher participation) – this has resulted in the first annual increase in total unemployed persons in the last two years.

The dynamic is identical on a monthly basis.

	000's Persons	
	Annual Chg - Jul	Month Chg - Jul
The estimated change in the Labour Force due to pop growth	233.062	17.587
How many jobs available for them? (employment growth)	339.177	24.640
Difference (if positive, employment growing faster than pop est)	106.115	7.054
Change in labour force due to the change in participation	117.597	13.677
The reminder is the change in total unemployed persons	11.482	6.623
Double Check - Reported chg in size of the Labour Force	350.658	31.246
Two views of the size of the Labour Force:		
Underlying population growth plus changes in participation	350.658	31.263
Total employed persons plus total unemployed persons	350.658	31.263

<https://www.abs.gov.au/ausstats/abs%40.nsf/mediareleasesbyCatalogue/46DFE12FCDB783D9CA256B740082AA6C?OpenDocument>

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China

New Loans (Jul)

Demand for credit was lower in China this month – especially for corporate loans. This suggests that spending/activity weakness may persist.

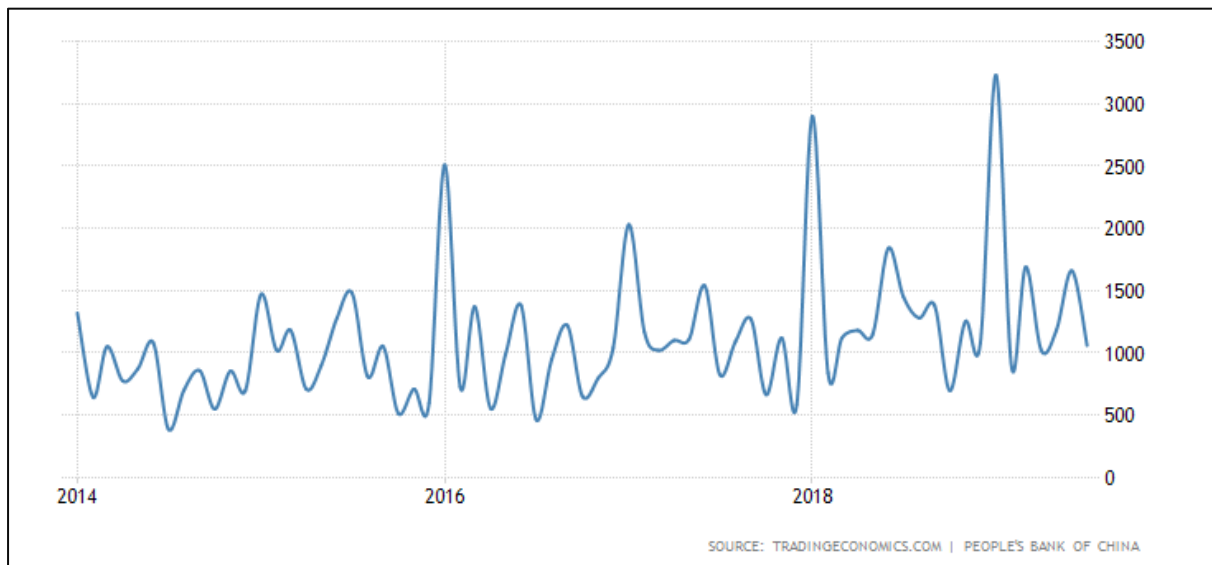
Chinese banks extended CNY 1.06tr in net new yuan loans in Jul versus CNY 1.66tr in Jun. Market expectations were for CNY 1.25tr in new loans.

Household loans, mostly mortgages, declined CNY 511.2bn in Jul versus CNY 671.7bn in Jun.

Corporate loans also fell to CNY 297.4bn in Jul versus CNY 910.5bn in Jun.

Chinese banks usually make fewer loans in July after boosting lending in June – it's worth noting that the CNY value of net new loans in Jun + Jul was lower in 2019 than in 2018.

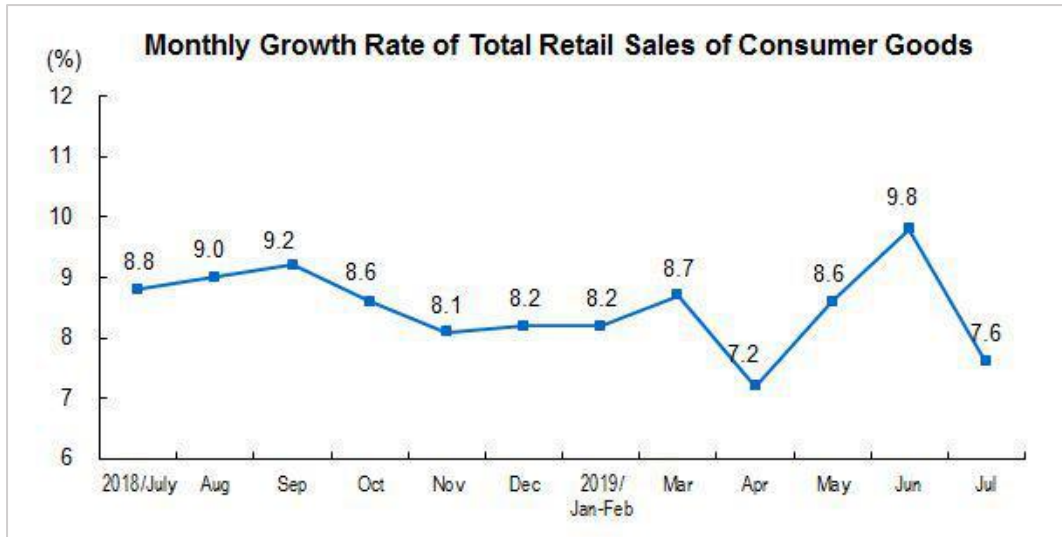
Chart; CNY New Loans



Retail Sales (Jul)

Retail sales in China continued to grow but at a much slower pace in Jul. Growth slowed from +9.8% in Jun to +7.6% in Jul in nominal terms. In real terms, growth slowed to +5.7% in Jul.

In the YTD, retail sales growth is slightly faster at +8.3% (nominal terms).



http://www.stats.gov.cn/english/PressRelease/201908/t20190816_1691653.html

Industrial Production (Jul)

Annual growth in industrial production slowed notably in the latest month from 6.3% in Jun to +4.6% in Jul – the lowest rate of growth in the last year.

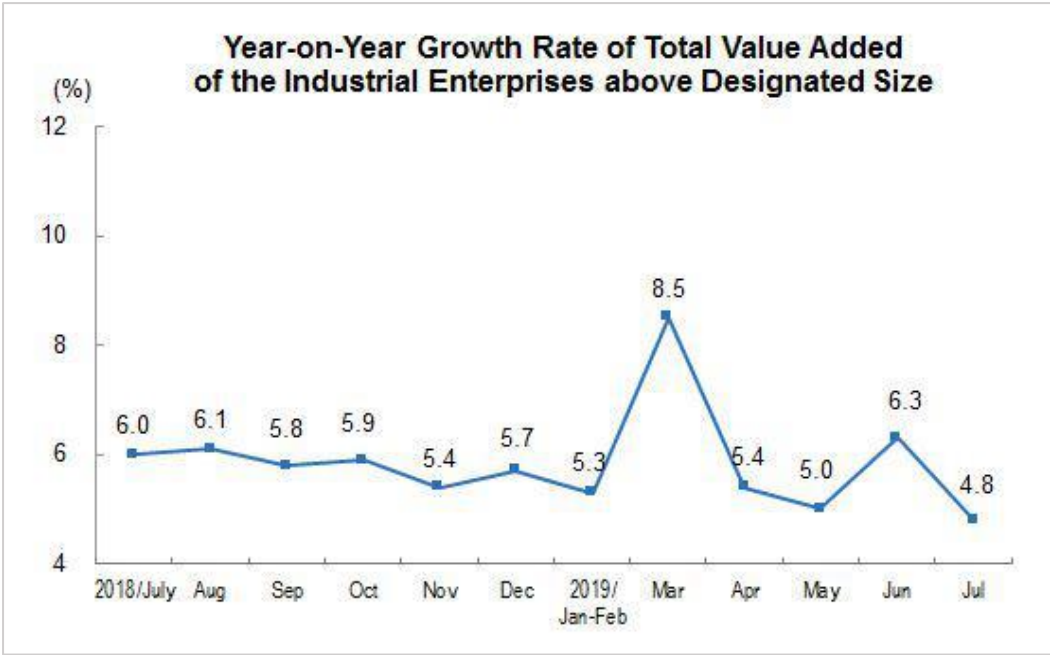
Of the main sectors;

Mining & quarrying; Jul +6.6% (YTD versus a year ago +4%)

Manufacturing; Jul +4.5% (YTD versus a year ago growing at a faster pace of +6.1%)

Manufacture of high-tech industry; Jul +6.6% (YTD versus a year ago growing at a faster pace of +8.7%)

Utilities; Jul +6.9% (YTD versus a year ago also growing at a faster pace of +7.3%)



http://www.stats.gov.cn/english/PressRelease/201908/t20190815_1691517.html

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Trade

US-China Trade Negotiations

Early in the week, US President Trump softened his stance on the next 10% tariff on approx. \$300bn of US imports from China.

The USTR announced that certain products would be removed from the list based on health, safety, national security and other factors.

USTR intends to conduct an exclusion process for products subject to the additional tariff. The USTR will publish in the Federal Register as soon as possible additional details and lists of the tariff lines affected by this announcement.

As well, the implementation of the tariff on some products would be delayed until 15 Dec;

“Further, as part of USTR’s public comment and hearing process, it was determined that the tariff should be delayed to December 15 for certain articles. Products in this group include, for example, cell phones, laptop computers, video game consoles, certain toys, computer monitors, and certain items of footwear and clothing.” <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/august/ustr-announces-next-steps-proposed>

It was also reported that Chinese Vice Premier Liu He and USTR Lighthizer and US Treasury Secretary Mnuchin had phone talks on Tue about US tariffs on Chinese goods. Further talks are planned for the next two weeks.

China has committed to further talks in Washington in Sep. Source: <https://www.scmp.com/news/china/diplomacy/article/3021316/chinese-state-media-questions-whether-us-trade-talks-should>

We previously noted that the progress of talks likely hinges on whether the US and China can move forward on the Huawei/agriculture compromise. <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-idUSKCN1U900N>

The lack of progress on agriculture purchases remained an issue for the US and it became clear that China was not likely to move too much on the issue either;

“The new purchase of American farm products has shown that China is honouring its commitment and also a response to the recent signals of goodwill by the US side,” the Xinhua commentary said.

But it also said China had diversified its imports to include agricultural products from countries such as Brazil and Australia, and to uphold the spirit of self-reliance and ensure a firm grip of its own “rice bowl”, meaning it would rely on domestic output for its food supply.

“No matter how much uncertainty lies ahead of us, China will continue its own path, do its own thing and to strengthen its ability in handling risks and challenges.”

<https://www.scmp.com/news/china/diplomacy/article/3019558/china-us-trade-talks-could-resume-soon-washingtons-tariffs>

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>

US-Japan Trade Talks

The Asian Nikkei Review (19 Aug), is calling talks between the US and Japan as ‘stalled’. A pessimistic light is cast on whether the sides can agree a deal within the timeframe set out – which was Sep 2019.

“Toshimitsu Motegi, Japan's minister in charge of the talks, and U.S. Trade Representative Robert Lighthizer hope to move the stalled negotiations forward over two days of sessions starting Wednesday.”

Talks are to continue next week in Washington – the outcome of which will be important for the deal deadline;

“Under the quickest scenario, Japanese Prime Minister Shinzo Abe and Trump would sign a trade agreement in late September. But for this to happen, Motegi and Lighthizer must find common ground on tariffs for beef, pork, dairy products and auto parts.”

“Many uncertainties persist. For one, it usually takes three months to half a year for countries to iron out the language of a trade deal. Not much time remains until the potential September agreement and the submission to the Diet in October.”

There are several important timing windows, which, if missed will mean that any agreement will not go into effect much before the US 2020 presidential election (making it difficult for President Trump to campaign on).

<https://asia.nikkei.com/Politics/International-relations/Japan-and-US-hurry-trade-talks-with-Trump-calendar-in-mind2>

As previously, noted, the US and Japan will target Sep to agree a ‘broad trade deal’.

“...both sides hope to have a broad trade deal in place by the time Japanese Prime Minister Shinzo Abe meets U.S. President Donald Trump on the sidelines of United Nations’ general assembly scheduled for later in September in New York.” <https://www.reuters.com/article/us-usa-japan-trade/japan-us-target-broad-bilateral-trade-deal-by-september-nikkei-idUSKCN1UU01X>

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

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

https://ustr.gov/sites/default/files/2018.12.21_Summary_of_U.S.-Japan_Negotiating_Objectives.pdf

US-Europe Trade Talks

There are several fronts to the US-Europe trade talks; the outstanding dispute and pending WTO decision on airline subsidies, investigations into digital services, 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

It is now expected that the WTO will rule in favour of the US over illegal European subsidies to Airbus. The EU also has a similar case pending related to Boeing. Both sides have already identified potential areas for further sanctions if matters escalate and the US has already instigated a second process to identify further targets for tariffs.

“An arbitrator for the WTO is expected to decide in September what level of sanctions Washington can impose after winning a case before the WTO about European subsidies to Airbus, with the EU likely to get a decision in its favor several months later.” <https://www.reuters.com/article/us-usa-trade-eu/eu-redoubles-threat-to-retaliate-if-u-s-raises-auto-tariffs-idUSKCN1UH1N5?il=0>

In addition to helicopters and aircraft parts, the U.S. tariffs may also be aimed at goods such as cheese, olives and pasta, along with some types of whiskey in **what the officials see as an effort to gain concessions from EU members to the American agricultural sector.** [bloomberg.com/news/articles/2019-07-15/europe-braces-for-7-billion-u-s-tariff-hit-over-airbus-dispute](https://www.bloomberg.com/news/articles/2019-07-15/europe-braces-for-7-billion-u-s-tariff-hit-over-airbus-dispute)

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;

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

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

The dates for this latest review;

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

August 5, 2019: Due date for submission of written comments.

August 5, 2019: The Section 301 Committee will convene a public hearing in the Main Hearing Room of the U.S. International Trade Commission. <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/august/public-hearing-additional-products>

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

One of the main issues standing in the way of a trade deal is that agriculture has been exempt from the negotiations by the EU.

The key sticking point remains agriculture. The EC authorised negotiations to commence between the EU and the US – but excluding agriculture. Emphasis added;

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

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

Digital Services

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

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>

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

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>

NAFTA/USMCA

The Democrats continue to work with USTR Lighthizer on changes required to the USMCA before the deal can go to Congress for approval. Lawmakers have indicated that they will continue to work on the revisions throughout the recess in August.

Republican President Donald Trump views ratification of the trade deal as a top priority, but Democrats say they will not move forward until their concerns over labor, environmental issues and access to medicine have been addressed.

Officials on both sides now say the deal could move forward in September after lawmakers return from the August recess. <https://www.reuters.com/article/us-usa-trade-usmca/democrat-calls-for-good-faith-talks-with-ustr-on-trade-deal-idUSKCN1UL2A3>

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

US-UK Trade Talks

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

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

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