

## Key Themes

Trade uncertainty, and escalation in tariff levies on US-China trade, slower growth, and central bank policy responses were the main themes this week.

The most pressing development late last week was the announcement by US President Trump of a further increase in tariffs to be applied to imports from China. This has amounted to a further escalation in the trade dispute between the US and China. A candid speech from the RBA Governor Phillip Lowe at the Jackson Hole symposium provides an interesting perspective;

“One way of looking at the world economy at the moment is that we are experiencing a series of significant political shocks – the serious issues between the United States and China, Brexit, the problems in Hong Kong, the tensions between Japan and South Korea, and the stresses in Italy.”

“...these shocks are generating considerable uncertainty.”

The minutes of central bank meetings of the US Fed, ECB and RBA released this week, all mentioned similar risks; slowing global growth, trade policy, and weak inflation. In this same speech, the RBA Governor goes on to question whether monetary policy can effectively deal with these shocks;

“Central banks are seeking to offset the effects of these shocks with lower interest rates and/or more monetary stimulus. This is entirely understandable, **although it remains to be seen how effective it will be.**”

“... monetary policy is just one of the levers that are potentially available for managing the economy. And, arguably, given the challenges we face at the moment, **it is not the best lever.**”

This acknowledgment doesn't mean that CB's won't continue to ease policy in response though. The Fed minutes indicate an easing bias, although guided by incoming data. The ECB has indicated that further easing is likely at the next meeting. The RBA has already shifted to easing policy. All three CB's also cite weak or muted inflation as reasons for further easing.

Adding to concerns over trade and growth, the prelim PMI's provided little expectation of any improvement in manufacturing activity into Aug. Broadly, services activity continues to offset some of the manufacturing weakness – except for in the US and Australia this month.

The US Prelim composite PMI showed that private sector growth had slowed to a slight pace – with manufacturing falling into contraction and signs that the usually stronger services sector also experienced weakness in Aug. The Kansas City Fed manufacturing index also

declined further in Aug and respondents cited concerns over tariffs (before this latest escalation);

“Regional factory activity had its largest monthly drop in over three years, and over 55 percent of firms expect negative impacts from the latest round of U.S. tariffs on Chinese goods,”

Housing is showing some promise with continued improvement in existing home sales, as interest rates fall.

Employment growth has been a bright spot for the US economy. The BLS released the prelim revision to non-farm payroll growth this week, expecting that US non-farm payrolls will be revised lower by -501k persons in the Jan 2020 release. This likely will undermine one important point of confidence in the US economy.

The prelim composite PMI out of Eurozone was little changed overall – services growth was slightly higher while manufacturing activity continued to contract. Broadly, Euro area CPI growth slowed further – likely a large concern for the ECB. The ongoing slowdown in the German PPI reflects the weaker demand conditions.

The decline in Japanese exports continues to confirm the current weaker demand conditions in Asia. The overall decline in Japanese exports in Jul versus a year ago was mostly led by Asia (esp. China). The prelim PMI was improved due to stronger growth in services while manufacturing continued to contract.

The prelim composite PMI for Aust was concerning with the composite index falling into contraction. This was led by much weaker activity in services in Aug while manufacturing growth was little changed.

## **Contents**

[US Data](#) - FOMC Minutes, Existing Home Sales (Jul), Composite PMI – Prelim (Aug), Kansas City Fed Manufacturing Survey (Aug)

Jackson Hole Economic Symposium, US Fed Chairman Powell speech “Challenges for Monetary Policy”.

[Europe](#) - Eurozone CPI (Jul), Germany PPI (Jul), ECB Meeting Minutes, Germany Composite PMI – Prelim (Aug), Eurozone Composite PMI – Prelim (Aug)

[Japan](#) – Merchandise Trade Balance (Jul), Nikkei Manufacturing PMI – Prelim (Aug), National CPI (Jul)

[United Kingdom](#) – Brexit

[Australia](#) – RBA Meeting Minutes, Commonwealth Bank Composite PMI – Prelim (Aug)

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

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## US Data

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### FOMC Minutes – Meeting 30-31 July

At this meeting, the Fed cut the FFR range for the first time since the GFC by -25bps.

The minutes positioned this rate cut as a part of a “recalibration of the stance of policy, or mid-cycle adjustment in response to the evolution of the economic outlook over recent months”, rather than the start of a new easing cycle. So an easing bias remains, but this cut does not represent the start of an easing cycle;

“The phrase "as the Committee contemplates the future path" of the target range for the federal funds rate **was added to underscore the Committee's intention to carefully assess incoming information before deciding on future policy adjustments.** The statement noted that the Committee would "continue to monitor the implications of incoming information for the economic outlook" and would "act as appropriate to sustain the expansion, with a strong labor market and inflation near its symmetric 2 percent objective.”

The minutes revealed that those voting for the rate cut were split.

Some members thought a 50bps cut was appropriate – “favouring a stronger action to better address stubbornly low inflation”.

Two members thought no change was appropriate (Esther L. George and Eric Rosengren);

“...judging that the real economy continued to be in a good place, bolstered by confident consumers, a strong job market, and a low rate of unemployment. These participants acknowledged that there were lingering risks and uncertainties about the global economy in general, and about international trade in particular, but they viewed those risks as having diminished over the intermeeting period”

Ultimately, there were three broad reasons for the 25bp reduction;

1. Some signs of deceleration in economic activity over the last few quarters. Factors influencing this deceleration; slowing growth in overseas economies and developments and uncertainties around trade, sluggish manufacturing output had lingered, and agriculture remained a challenge.
2. An easing of policy would be ‘prudent from a risk management perspective’. Insurance in other words.
3. Concerns over the outlook for inflation and wages remain heightened.

Recent events have provided a more updated view of points in the minutes. The question now is whether another cut be likely in Sept, despite this not being viewed as the start of a new easing cycle? The current target rate probabilities (as of 23 Aug) attached a 95% probability of another 25bps cut in Sep (Source: [https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html?utm\\_source=cmegroup&utm\\_medium=friendly&utm\\_campaign=fedwatch&redirect=/fedwatch](https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html?utm_source=cmegroup&utm_medium=friendly&utm_campaign=fedwatch&redirect=/fedwatch)). Trade tensions had already flared since the last FOMC meeting and have now

escalated even further this week. The minutes reflected concern over the downside risks of trade uncertainty;

“Participants generally judged that the risks associated with trade uncertainty would remain a persistent headwind for the outlook, with a number of participants reporting that their business contacts were making decisions based on their view that uncertainties around trade were not likely to dissipate anytime soon.”

“Some participants expressed the view that **the effects of trade uncertainty had so far been modest** and referenced reports from business contacts in their Districts that investment plans were continuing, though with a more cautious posture.”

This week, the BLS announced that prelim revisions to non-farm payroll job gains were much lower than previously announced by -501k persons. This will impact the view of the strength of the labour market (which has been a persistently positive point) but the final revision won't be issued until Feb 2020 (for Jan 2020 data).

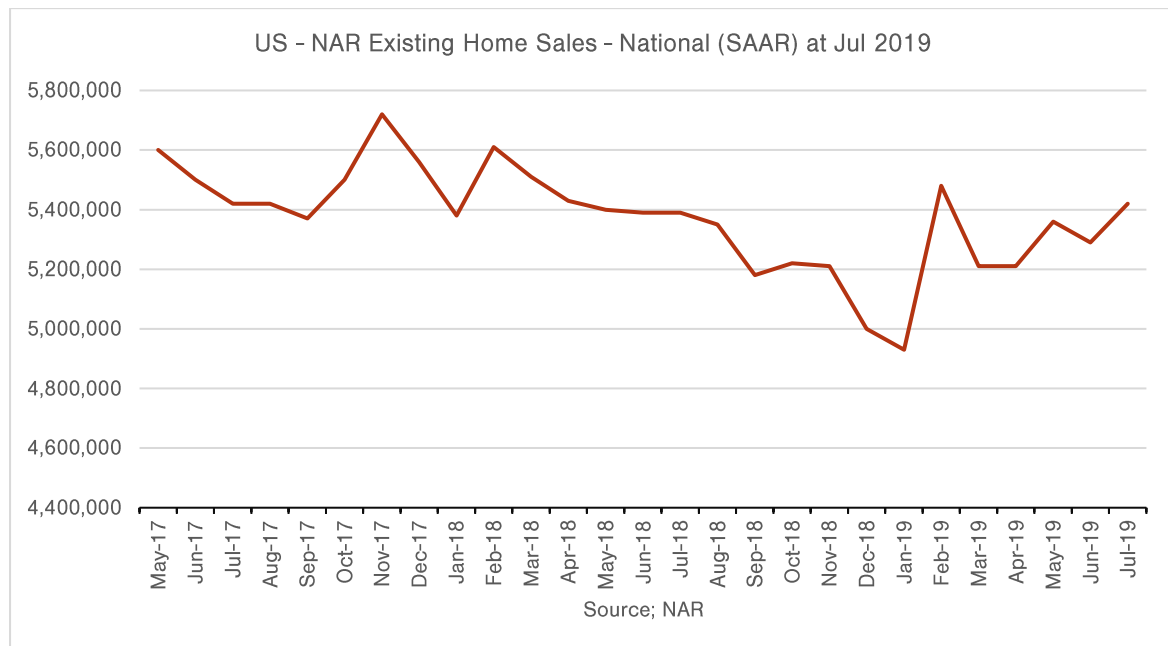
<https://www.federalreserve.gov/monetarypolicy/fomcminutes20190731.htm>

## NAR Existing Home Sales (Jul)

The prelim number of existing home sales increased in Jul and is now ahead of the same time a year ago at a National Level.

Number of Existing Home Sales (SAAR): Jul 5.420m units (+2.5%) versus Jun 5.290m units

On an annual basis, the number of existing home sales increased by +0.6%.



Most regional markets contributed to the increase in the month.

Midwest; Jul +1.6% versus Jun and +0.8% ahead of a year ago.

South; Jul +1.8% versus Jun and +2.7% ahead of a year ago.

West; Jul +8.3% versus Jun and still -0.8% below a year ago.

The Northeast was the only market where existing home sales did not increase in the month;

Northeast; Jul -2.9% versus Jun and remains -4.3% below a year ago.

Along with the increase in sales, the months supply of inventory declined; Jul 4.2 versus Jun 4.4

<https://www.nar.realtor/research-and-statistics/housing-statistics/existing-home-sales>

## US Composite PMI – Prelim (Aug)

The prelim reading for Aug shows that private sector growth slowed to only a slight pace of growth. This reflected much weaker growth in services activity (which had been stronger) and manufacturing activity that dipped slightly into contraction.

Composite PMI; Aug 50.9 versus Jul 52.6

### IHS Markit Composite PMI and U.S. GDP



Sources: IHS Markit, U.S. Bureau of Economic Analysis.

Manufacturing PMI; Aug 49.9 versus Jul 50.4

This was the first time that manufacturing activity contracted since Sep 2009. While output growth improved from the decline in the month prior, new orders growth declined. Although orders declined only marginally, it was the largest decline in ten years. Export orders also experience the fastest decline since Aug 2009. Firms cited weaker conditions in autos.

Services Business Activity Index; Aug 50.9 versus Jul 53 (-2.1 pts)

The expansion in services activity was only marginal in Aug. Demand conditions deteriorated with growth in new orders/work slowing to the lowest level since 2016. Backlogs of work

declined. Business expectations for the next 12 months eased – reaching the lowest level since the index began ten years ago.

<https://www.markiteconomics.com/Public/Home/PressRelease/8d045df65df54d4694039324224684e0>

## Kansas City Fed Manufacturing Survey (Aug)

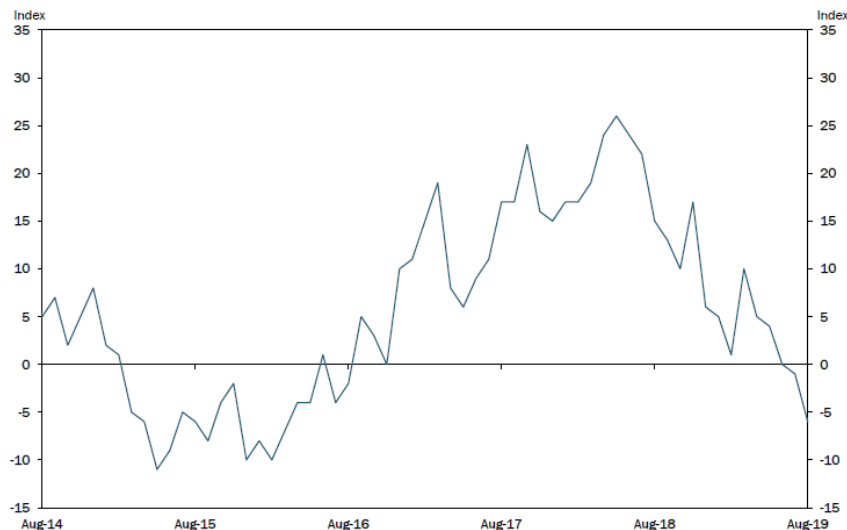
A timely report on manufacturing activity from the Kansas City Fed;

“Regional factory activity had its largest monthly drop in over three years, and over 55 percent of firms expect negative impacts from the latest round of U.S. tariffs on Chinese goods,”

The headline composite index indicated manufacturing activity contracted at a faster pace in Aug. This was led mostly by a further decline in shipments, new orders and order backlogs.

### Composite Index: Aug -6 versus Jul -1

Chart 1. Manufacturing Composite Index vs. a Month Ago



Production declined again albeit at a slower pace – somewhat aided by a further decline in order backlogs. The volume of new orders declined at a much faster pace. The volume of shipments also declined at a faster pace than the month prior.

Employment continued to decline at a similar pace, but the average employee workweek shifted into expansion.

Materials/input inventories increased at a faster pace, but firms continued to run down inventories of finished goods.

Expectations for future business conditions (composite index) increased slightly but levels remain well below a year ago. Aug 2019 index 11 versus Aug 2018 index 29.

<https://www.kansascityfed.org/~ /media/files/publicat/research/indicatorsdata/mfg/2019/2019aug22mfg.pdf?la=en>

## Non-farm Payrolls – revision

This week the BLS announced the prelim revisions to non-farm payroll growth.

“The preliminary estimate of the benchmark revision indicates a downward adjustment to March 2019 total nonfarm employment of -501,000 (-0.3 percent).”

This is something to bear in mind when considering the strength of the labour market and non-farm payrolls. Data will be update once the final benchmark revision is issued in Feb 2020 for the Jan 2020 data release.

**Table 1. National Current Employment Statistics March 2019  
Preliminary Benchmark Revisions by Major Industry Sector**

	<b>Benchmark revision (in thousands)</b>	<b>Percent benchmark revision</b>
<b>Total nonfarm</b>	-501	-0.3
<b>Total private</b>	-514	-.4
<b>Mining and logging</b>	-16	-2.2
<b>Construction</b>	-9	-.1
<b>Manufacturing</b>	-3	(2)
<b>Trade, transportation, and utilities</b>	-104	-.4
<b>Wholesale trade (1)</b>	-32.8	-.6
<b>Retail trade (1)</b>	-146.4	-.9
<b>Transportation and warehousing (1)</b>	78.7	1.4
<b>Utilities (1)</b>	-3.5	-.6
<b>Information</b>	33	1.2
<b>Financial activities</b>	20	.2
<b>Professional and business services</b>	-163	-.8
<b>Education and health services</b>	-69	-.3
<b>Leisure and hospitality</b>	-175	-1.1
<b>Other services</b>	-28	-.5
<b>Government</b>	13	.1

Footnotes:  
 (1) Series are part of trade, transportation, and utilities.  
 (2) Less than 0.05 percent.

<https://www.bls.gov/web/empsit/cesprelbnk.htm>



## Jackson Hole Economic Symposium, US Fed Chairman Powell speech “Challenges for Monetary Policy”.

With regard to the current context and forward guidance, the message from the US Fed Chairman was unchanged – that the Fed will ‘act as appropriate’ with regard to policy. This reiterates the point from the latest minutes that the Fed doesn’t see itself in a new easing cycle at this stage.

In his speech, the Fed Chairman stated that the outlook for the economy remained favourable. While business investment and manufacturing weakened, job growth and rising wages have supported growth in consumption.

There are three factors weighing on the favourable outlook; slowing global growth, trade policy uncertainty, and muted inflation. The FOMC has reacted to these factors by communicating its reduction of the path of the FFR;

Along with July's rate cut, the **shifts in the anticipated path of policy** have eased financial conditions and help explain why the outlook for inflation and employment remains largely favorable.

The Fed Chairman then outlines further factors that have added to market volatility since the last meeting and rate cut; the announcement of new tariffs on imports from China, further evidence of a global slowdown, notably in Germany and China, geopolitical events such as the growing possibility of a hard Brexit, rising tensions in Hong Kong, and the dissolution of the Italian government.

The factors that the fed will continue to monitor for its policy decision include consumer spending (because its leading overall growth), employment growth (no mention of the BLS prelim revision) and inflation. Emphasis added;

Meanwhile, the U.S. economy has continued to perform well overall, driven by consumer spending. Job creation has slowed from last year's pace but is still above overall labor force growth. Inflation seems to be moving up closer to 2 percent. Based on our assessment of the implications of these developments, **we will act as appropriate** to sustain the expansion, with a strong labor market and inflation near its symmetric 2 percent objective.

<https://www.federalreserve.gov/newsevents/speech/powell20190823a.htm>

[Return to top](#)



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# Europe

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## Eurozone CPI (Jul)

Consumer prices declined in the latest month across the EU and Euro area and annual growth continued to slow.

The slower growth in annual CPI was the result of lower growth in energy and services prices. Core CPI growth remained lower than the headline and also slowed mostly as a result of slower growth in services prices.

Overall slower growth in the CPI will remain a concern for the ECB.

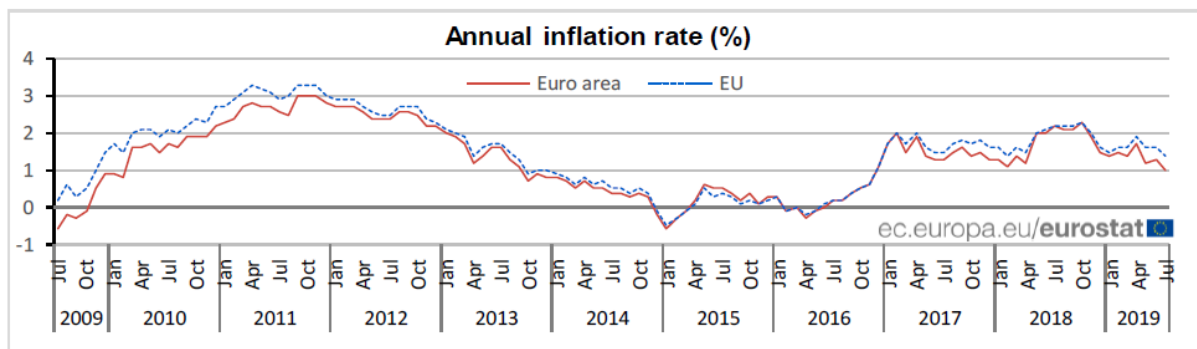
### CPI – Month Change

Euro area; Jul -0.5% versus Jun +0.2%. The month change in Jul 2018 was -0.2%.

The Euro area CPI decline was the result of a -0.6% decline in energy prices a -3.3% decline in non-energy industrial goods prices. Food alcohol and tobacco prices and services prices both increased in the month.

### CPI – Annual Change

Euro area; Jul +1% (prelim was +1.1%) versus Jun +1.3%. The annual pace a year ago was +2.2%.



The slower annual pace of consumer price growth was the result of;

Slower annual growth in energy prices; Jul +0.5% versus Jun +1.7%. A year ago, energy prices were growing at an annual pace of +9.5%. The weight assigned to energy in the index is approx. 10%.

Services price growth also slowed; Jul +1.2% versus Jun +1.6%. Services account for 44% weight in the index. Services made the single largest contribution to the annual growth in CPI in Jul, adding +0.53% pts to the headline rate (down from +0.73% pts in the month prior).

Other categories;

Food alcohol and tobacco prices increased at a faster pace; Jul +1.9% versus Jun +1.6%. A year ago, food prices were growing at +2.5%. Food prices added +0.37%pts to headline growth.

The annual growth of non-energy industrial goods remained mostly constant at +0.4%, making a relatively small contribution to headline growth of +0.08% pts.

### Core CPI – Annual growth

The annual growth in Euro area core CPI Ex energy, food, alcohol and tobacco slowed further in the latest month due mostly to the lower contribution from services prices.

Core CPI; Jul +0.9% versus Jun +1.1%. A year ago, core CPI was growing at +1.1% on an annual basis.

<https://ec.europa.eu/eurostat/documents/2995521/10072454/2-19082019-AP-EN.pdf/debca185-deaa-48bd-86cc-fd9efcfb85e2>

## Germany PPI (Jul)

The weakness in German industrial production continues to show up in slower growth of producer prices of industrial products. Prices grew at a slightly faster pace in Jul after declining in Jun and annual growth continued to slow.

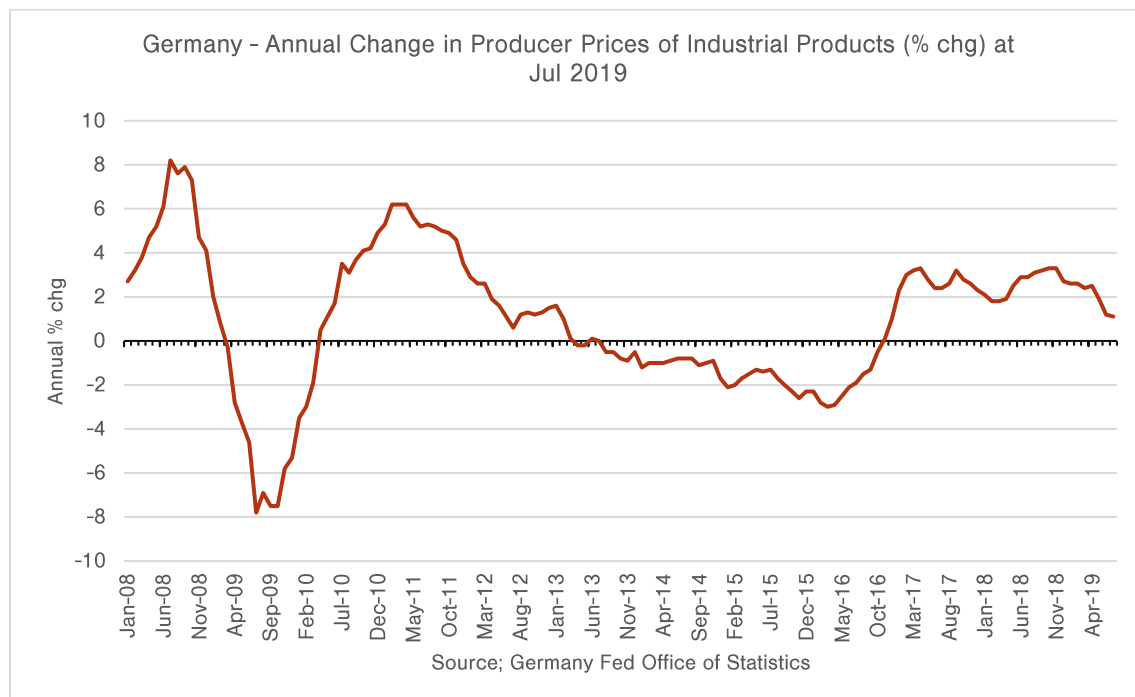
### Producer Prices – Month change

Jul +0.1% versus Jun -0.4%

Both non-durable consumer goods and intermediate goods prices declined in the month by -0.2% and -0.4% respectively. Durable consumer goods prices were unchanged at 0%. Energy prices increased by +0.7%.

### Producer Prices – Annual change

Jul +1.1% versus Jun +1.2%. A year ago in Jul 2018, producer prices were growing at +2.9%.



On an annual basis, intermediate goods prices declined by -0.7%;

“Prices of intermediate goods decreased by 0.7% compared to July 2018 (-0.4% on June 2019). **Prices decreased especially regarding electronic integrated circuits (-14%)**. Metallic secondary raw materials were down 13.6% on July 2018, prices of metals 2.7%.”

Prices for consumer durables increased by +1.3%, non-durables +1.7% and energy prices by +2.1%.

[https://www.destatis.de/EN/Press/2019/08/PE19\\_313\\_61241.html;jsessionid=398C4D41E809CFDFE6789C4A0CBB9673.internet722](https://www.destatis.de/EN/Press/2019/08/PE19_313_61241.html;jsessionid=398C4D41E809CFDFE6789C4A0CBB9673.internet722)

## ECB Minutes; Meeting 24-25 Jul 2019

While policy was not eased at this meeting, the ECB indicated its intention to do more, “underscoring its preparedness to act at its forthcoming meetings should the inflation outlook fail to improve”. Note that the Jul CPI reported lower growth across both headline and core CPI for the Euro area.

“The balance of risks remained tilted to the downside, reflecting the prolonged presence of uncertainties, related to geopolitical factors, the rising threat of protectionism, and vulnerabilities in emerging markets.”

It was also considered that these downside risks had become more pervasive and that their persistence could ultimately also necessitate a revision to the baseline growth scenario.

The following decisions were proposed;

“...first, to adjust the forward guidance on the key ECB interest rates by reintroducing an easing bias; and, second, to task the relevant Eurosystem Committees with initiating preparatory work on policy options, including ways to strengthen the forward guidance on policy rates, mitigating measures, such as the design of a tiered system for reserve remuneration, and the modalities of potential new net asset purchases.”

Members supported the reintroduction of the easing bias to forward guidance to address the risk of unwarranted tightening of monetary conditions.

Options for future policy measures; some discussion focused on the short-end of the yield curve, providing some possible hints to policy direction;

“In particular, it was argued that the term premium on long-term euro area bonds had already been compressed for quite some time and that the risk of an unwarranted tightening of financial conditions was higher at the short end than at the long end of the yield curve.”

Policy options should be seen as a ‘package’ rather than a sequence of selective actions.

<https://www.ecb.europa.eu/press/accounts/2019/html/ecb.mg190822~63660ecd81.en.html>

## Germany Composite PMI – Prelim (Aug)

The headline index of private sector business activity increased at a faster pace in Aug. Services activity expanded at only a slightly slower pace. Manufacturing activity continued to contract but a slightly slower pace of decline.

Composite PMI-Prelim; Aug 51.4 versus Jul 50.9

Overall, new orders declined for the third time in four months. Service firm orders increased only slightly. New export orders declined across both sectors. Business confidence decreased in Aug – due to concerns regarding the car industry and geopolitical tensions. More firms expected output to decline in the next 12-months than those that expected output to increase.

Order backlogs declined across both sectors, continuing to support output growth. Orders backlogs at service firms declined for the first time in seven months.

Employment growth continued to slow.

### IHS Markit Germany Flash PMI



Manufacturing PMI; Aug 43.6 versus Jul 43.2

Services Business Activity Index; Aug 54.4 versus Jul 54.5

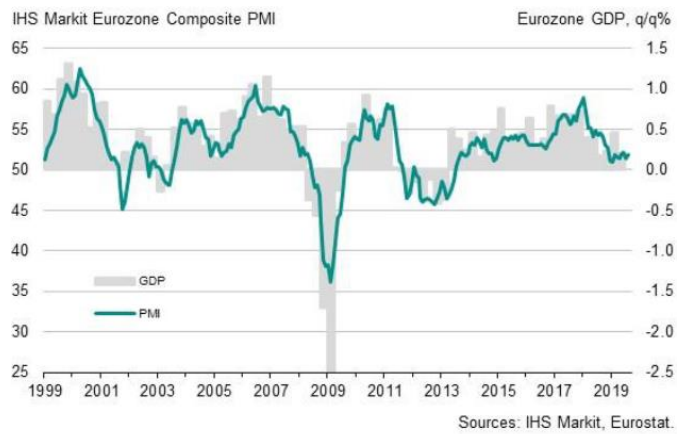
<https://www.markiteconomics.com/Public/Home/PressRelease/a38ce17ae00e414cb906d11536c94ca4>

## Eurozone Composite PMI – Prelim (Aug)

The headline index of private sector activity showed growth increased slightly in the latest month. Services activity remained stronger with growth increasing while manufacturing activity continued to contract albeit at a slower pace.

Composite PMI-Prelim; Aug 51.8 versus Jul 51.5

## IHS Markit Eurozone PMI and GDP



Manufacturing PMI; Aug 47 versus Jun 46.5

Services Business Activity Index; Aug 53.4 versus Jul 53.2

<https://www.markiteconomics.com/Public/Home/PressRelease/608e6723ccc442bb817d795b47608b18>

[Return to top](#)

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# Japan

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## Merchandise Trade Balance (Jul)

On a non-seasonally adjusted basis, the value of exports and imports declined versus last year. The trade deficit increased versus a year ago.

On a seasonally adjusted basis, exports declined in Jul versus Jun while imports increased.

The trade data continues to confirm the current weaker demand conditions in Asia. The overall decline in Japanese exports in Jul versus a year ago was mostly led by Asia (esp. China) – machinery, electrical machinery, manufactured goods and transport equipment (motor vehicle parts) all led the decline.

Imports declined due mostly to lower imports from Western Europe (Germany and chemicals and cars) and the Middle East (mineral fuels).

All values quoted in ¥.

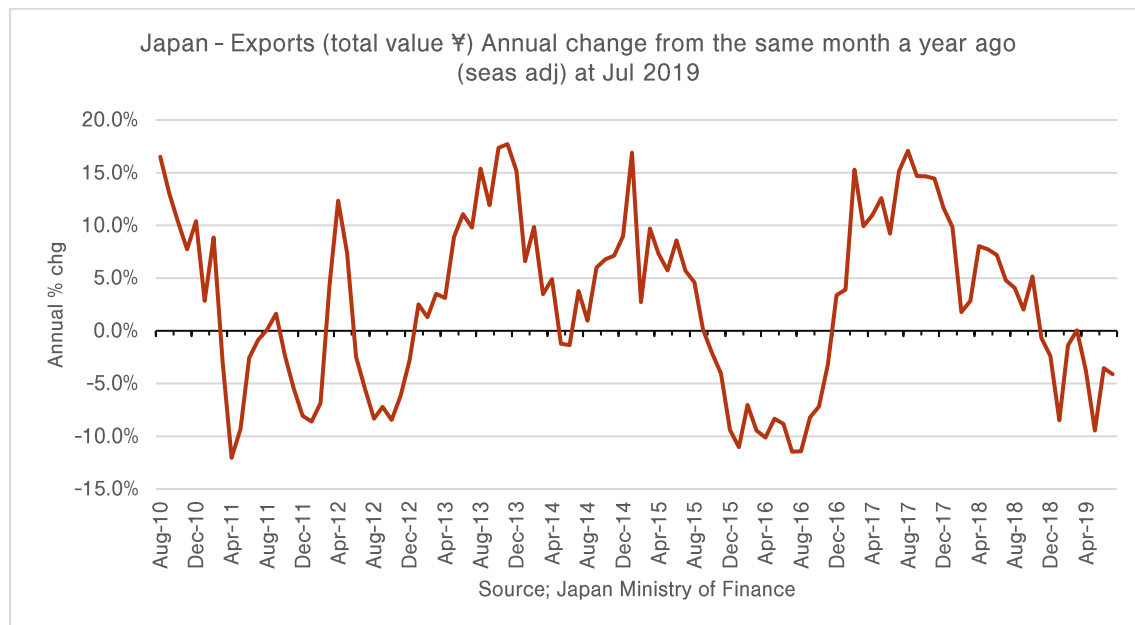
### Trade Balance

Trade deficit Jul 2019; -249bn (+9.8% versus -227bn a year ago Jul 2018)

### Total Exports

Annual change – not seas adjusted; Jul -1.6%

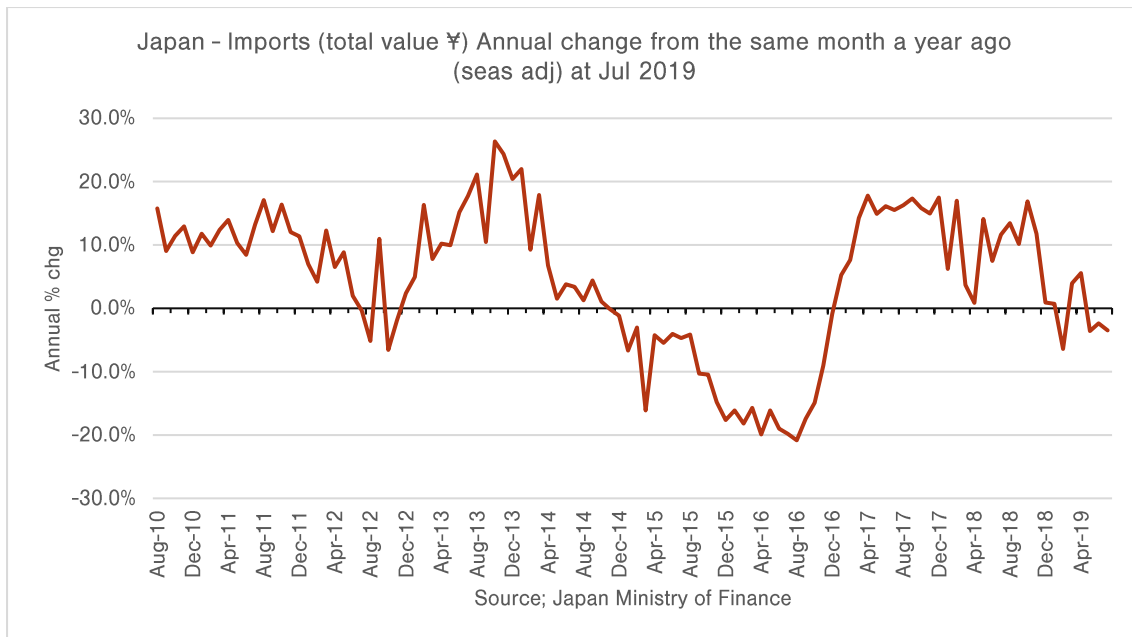
Month change – seas adjusted; Jul -0.2% versus Jun +5.2%



### Total Imports

Annual change – not seas adjusted; Jul -1.2%

Month change – seas adjusted; Jul +1.2% versus Jun -2.7%



## Japan Regional Trade

**Overall exports -1.6% versus a year ago.** Export performance for Japan remains weaker in Asia than in the US. The two largest export customers are the US and then China.

Exports to the US increased by +8.4% in Jul (led by increased exports of Machinery and Other).

Exports to China declined by -9.3% (most export categories declined but led by declines in machinery and electrical machinery exports). Exports to Asia more broadly declined by -8.3% on a year ago.

Exports to Western Europe increased by +5.2% - but with mixed results; exports to Germany declined -0.9%, no change to the UK. Exports to the EU were led by a 34% increase in the value of transport equipment (cars) – which helped to offset declines in exports across most other commodity categories.

**Overall imports -1.2% versus a year ago.** China is by far the single largest import market for Japan and imports were up +2.8% versus a year ago (led by manufactured goods and machinery).

Imports from the US were also up +3.5% - led by transport equipment, manufactured goods and mineral fuels, while imports of machinery and electrical machinery declined.

The stronger imports from the US and Asia were more than offset by declines in imports from Europe and the Middle East. Imports from Western Europe declined by -2.2% - this was led by a 15% decline in chemical imports and a 18% decline in transport equipment imports (cars - 17%).

Imports from the Middle East declined by -11.7% (which was mostly all declines in the import of mineral fuels).



## Major Commodity Trade

The overall decline in exports was led by a 7% decline in exports of machinery and electrical machinery and a 5% decline in manufactured goods. Exports of transport equipment increased by 7% (motor vehicles, aircraft and ships)

The overall decline in imports was led by larger declines in mineral fuel imports (-9%) and chemical imports (-7%).

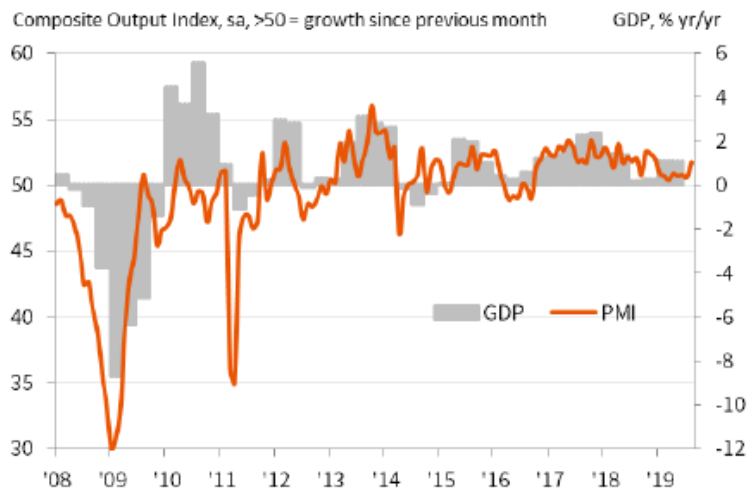
[http://www.customs.go.jp/toukei/latest/index\\_e.htm](http://www.customs.go.jp/toukei/latest/index_e.htm)

## **Jibun Bank Composite PMI – Prelim (Aug)**

The prelim result shows that private sector activity increased at a faster pace in Aug. This was led by faster growth in Services activity while Manufacturing activity continued to contract.

Composite PMI-Prelim; Aug 51.7 versus Jul 50.6

### **Jibun Bank Japan Composite Output Index**



Sources: Jibun Bank, IHS Markit, Cabinet Office.

Services Business Activity Index-Prelim; Aug 53.4 versus Jul 51.8

Overall, panellists cited improved demand conditions for services as the reason behind the increase in services activity in the month. Output, new orders and employment recorded faster growth in the month. Growth in order backlogs were little changed. Both input and output charges increased at a faster pace. Despite the stronger performance of services firms, the outlook weakened but remained positive.

Manufacturing PMI-Prelim; Aug 49.5 versus Jul 49.4

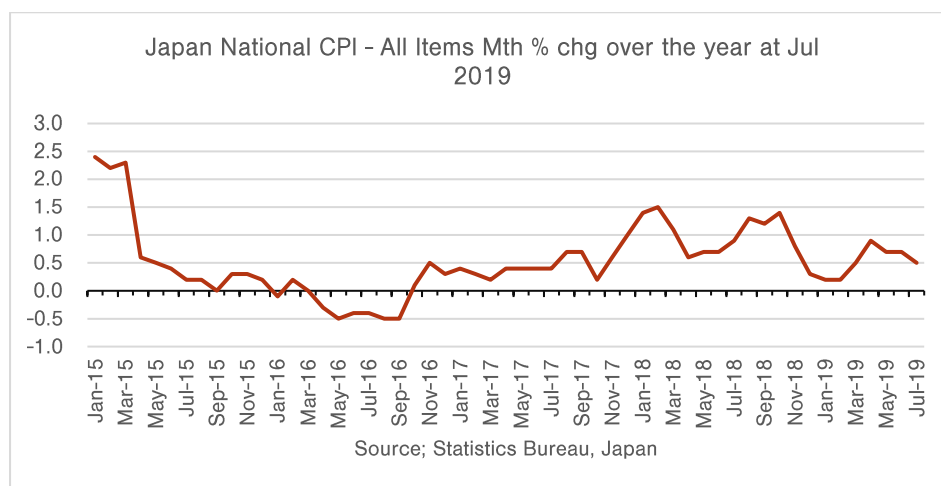
Manufacturing sector activity remained in contraction, the pace little changed from the month prior. Output and new orders continued to decline but at a slower pace. New export orders declined at a faster pace – a sign of likely continued weaker trade. Order backlogs continued to decline but at a slower pace. Employment continued to grow but at a slower pace. Output prices continued to decline while input prices grew at a slower pace. Firms remained cautious with inventories – stocks of purchases, quantity of purchases and stocks of finished goods still declined. Manufacturers also maintained a weaker, yet still positive outlook.

## National CPI (Jul)

The headline annual CPI growth slowed in the latest month. The BoJ preferred core measure of annual CPI growth was unchanged.

Headline CPI – Annual growth; Jul +0.5% versus Jun +0.7%

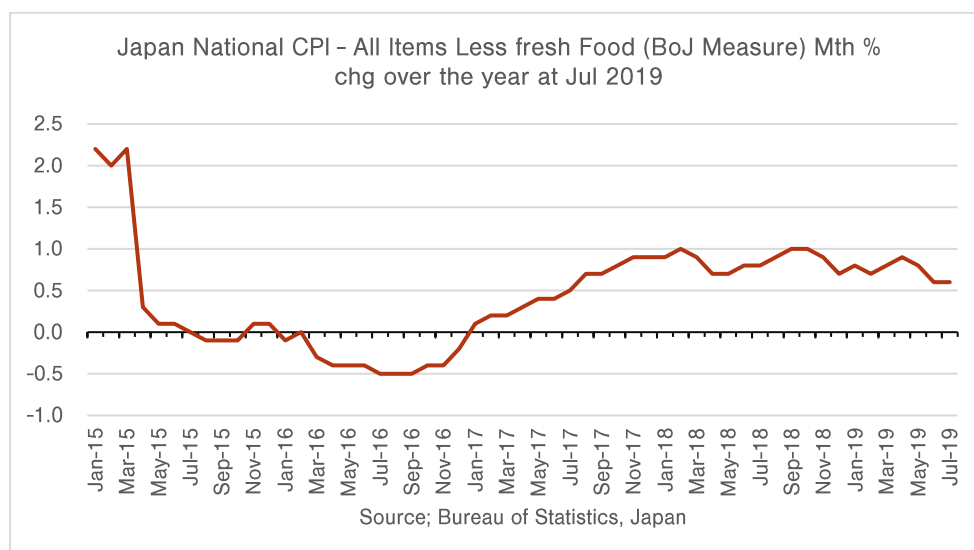
Annual growth in total food slowed led by declines in fresh food prices (ex-fresh food, food prices grew at the same pace). Annual growth in power, light and water charges slowed and recreation and culture annual price growth also slowed. The overall annual growth in energy prices halved.



Core CPI – All Items ex Fresh Food – Annual growth; Jul +0.6% versus Jun +0.6%

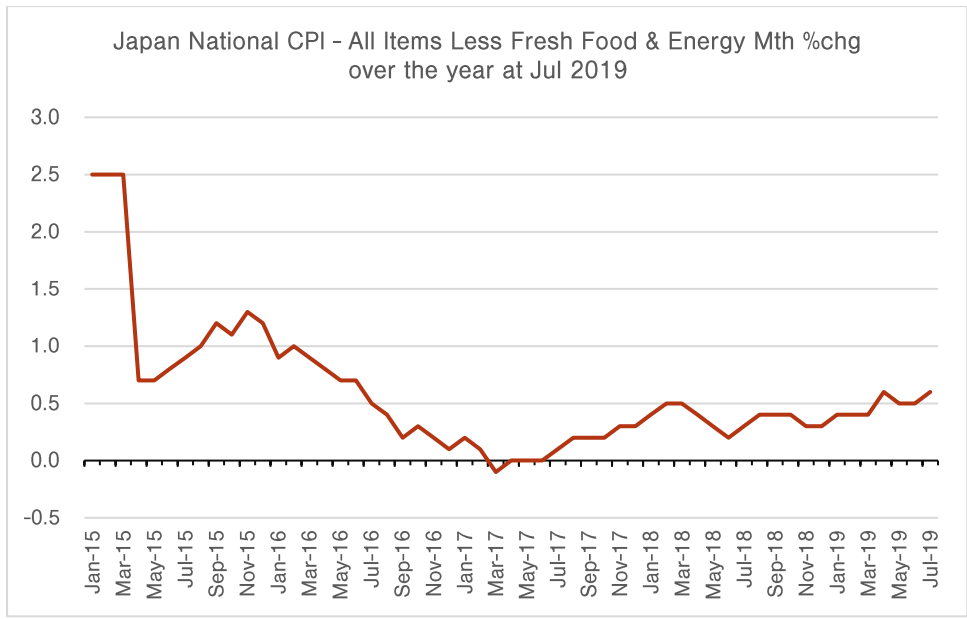
Core CPI growth excluding fresh food was unchanged – this is the BoJ preferred measure.

In the headline index the annual decline in fresh food prices offset increases elsewhere - Fresh food prices annual change; Jul -0.7% versus Jun +2.8%.



Core CPI – Ex fresh food and energy – annual change; Jul +0.6% versus Jun +0.5%

Removing the influence of the more volatile fresh food and energy prices shows that underlying consumer price growth continues to accelerate slightly – but remains low.



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

[Return to top](#)

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## United Kingdom

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### BREXIT

With the conservative party leadership now resolved, focus shifts back to the Brexit deadline of 31 Oct. We are now approx. eight weeks out from this deadline. The experience from the last deadline was that there was a lift in activity leading up to the original deadline in Mar. It's likely that we will start to experience that lift in UK activity. Firms stockpiling might be more pronounced this time given the proximity to the holiday trading period. The UK government has also been clearer about preparing for a no deal Brexit and has again allocated expenditure for preparations;

"But the important thing is to get ready to come out without a deal."

Interim UK PM Johnston met with G7 nations prior to and at the G7 summit during the week. Discussions around Brexit shed little light on progress;

"Speaking on the sidelines of the summit, Mr Johnson said that in the last few days, following visits to France and Germany, it has dawned on the EU what "the shape of the problem is for the UK"."

"As the clock runs down to the October 31 exit date, Johnson injected doubt into hopes that a deal might be struck, despite previously saying the odds of a no-deal Brexit were "a million to one". "<https://www.abc.net.au/news/2019-08-26/boris-johnson-uses-rock-as-metaphor-for-brexit/11447122>

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.

[Return to top](#)

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## Australia

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### RBA Meeting Minutes – for 6 Aug 2019 Meeting

At this meeting it was decided that rates would remain on hold after two 25bps rate decreases in each of the two prior meetings.

#### Key points from the minutes:

Rates falling to record lows around the world incl Aus. CB's making moves to continue easing, and inflation is low.

Risks tilted to downside due to trade disputes and weaker global trade.

#### Domestic conditions:

Backdrop in Aust; Easing cycle re-started – risks to growth tilted to downside.

Tightening of credit availability (due to RC) resulted in house price declines. Some of these measures for tighter lending criteria were being unwound but demand for some investor lending remained low. Weaker housing market impacting construction and investment.

Unemployment & underemployment remain high – wage pressures were low and outlook for wage growth remained low. Consumption outlook remained uncertain. Tax cuts and lower rates were forecast to help increase incomes (disposable).

#### Guidance

'Reasonable' to expect an extended period of low rates.

A further easing of policy to be considered;

“...if the accumulation of additional evidence suggested this was needed to support sustainable growth in the economy and the achievement of the inflation target over time.”

#### Unconventional Monetary Policy

One point that stands out is the discussion of 'unconventional monetary policy'. Measures comprised; very low and negative policy interest rates; explicit forward guidance; lowering longer-term risk-free rates by purchasing government securities; providing longer-term funding to banks to support credit creation; purchasing private sector assets; and foreign exchange intervention.

“Members considered the key lessons from the international experience, noting that a full evaluation could not be undertaken as many of these measures were yet to be unwound.”

Measures were taken in relation to the issues each economy faced – but the RBA board notes that a 'package of measures tended to be more effective than measures implemented in isolation'.

<https://www.rba.gov.au/monetary-policy/rba-board-minutes/2019/2019-08-06.html>

## Commonwealth Bank Composite PMI – Prelim (Aug)

The composite measure of private sector activity fell into contraction in the latest month. While manufacturing activity continued to expand at a slower pace, services activity shifted from expansion to decline in the month. The weakness in services resulted in the decline of the overall composite index.

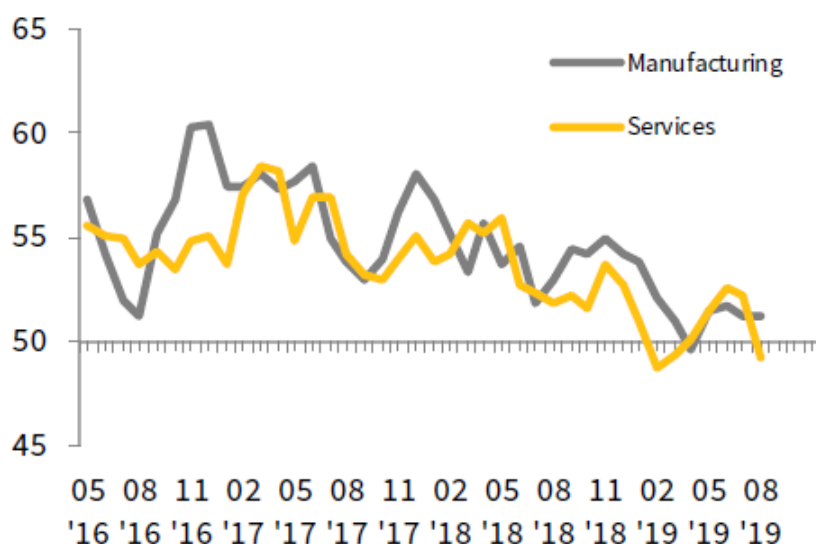
Overall, business confidence improved;

“Despite the falls in output and new orders seen in August, business sentiment improved to the highest since February. Confidence reflected hopes of an improvement in economic conditions both in Australia and globally, as well as the launch of new products.”

Composite Output PMI-Prelim; Aug 49.5 versus Jul 52.1

### Services Business Activity vs Manufacturing Output

*sa, >50 = growth since previous month*



Manufacturing PMI-Prelim; Aug 51.3 versus Jul 51.6

There were moderate increases in output and new orders. Employment growth was ‘slight’. Exports increased for the first time since May. Input costs increased at a sharper pace – on the back of a weaker AUD.. Output price growth slowed.

“The challenges faced by the RBA in their attempts to return inflation to the 2-3% target band are also highlighted in the survey. The lower Aussie dollar is putting upward pressure on input prices. But the competitive trading environment is limiting the flow through to output prices.”

Services PMI-Prelim; Aug 49.2 versus Jul 52.3 (-3.1pts)

The relatively large decline in the month was the result of a decline in output and new orders. The decline in new orders in services resulted in the decline of orders at the composite level.

Employment increased slightly after declining in Jul. Input costs and output prices both increased at a slower pace than the month prior.

<https://www.markiteconomics.com/Public/Home/PressRelease/c6f7ef1a470d4e9f88ef6fc192235b46>

[Return to top](#)



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## Trade

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### US-China Trade Negotiations

On 23 Aug, Reuters reported that the US was still planning face to face meetings with Chinese officials regarding trade (emphasis added);

““The deputies’ call [with Chinese officials] **was quite constructive** and this may lead to a meeting of the principals here in Washington, D.C.,” Kudlow said, referring to a teleconference involving deputy-level officials on Wednesday.”

<https://www.reuters.com/article/us-usa-trade-china/us-chinese-officials-held-productive-trade-call-white-house-adviser-idUSKCN1VC2NR>

US President Trump then announced late on Fri 24 Aug that a further escalation in tariffs on Chinese imports;

Additional 5% on \$550bn of imports; increasing the original 25% tariff on \$250bn of imports to 30% from 1 Oct. and increasing the planned 10% tariff on \$300bn of imports to a 15% tariff (from 15 Dec).

China responded with an additional 5-10% tariff on \$75bn of US imports and to resume tariffs on US auto imports.

Even with the truce announced in Osaka, the threat of re-escalation was not far away;

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

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

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

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

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

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

## US-Japan Trade Talks

On sidelines of the G7 summit, the US President and the Japanese PM announced a deal in principal;

“The U.S. and Japan agreed in principle on a trade deal that would slash Tokyo’s tariffs on American beef, pork and other agricultural products, while delaying for now the threat of additional levies on Japanese auto exports to the U.S.”

“As I expected, Japan gave ground on agriculture and didn’t win anything on autos,” former Japanese Prime Minister Yukio Hatoyama, an opponent of Abe’s long-ruling Liberal Democratic Party, said on Twitter. “This kind of obsequious diplomacy makes Abe happy, and hurts the people.”

“U.S. Trade Representative Robert Lighthizer said the proposed deal would **open markets to \$7 billion of American products including ethanol, as well as beef, pork, dairy products and wine.** He said tariffs on some Japanese industrial products would be reduced, but that these wouldn’t include cars. The proposed agreement also includes a clause on e-commerce, he said.”

<https://finance.yahoo.com/news/trump-says-very-close-japan-075851225.html>

The full details are not yet available, but it is expected that the deal will be signed at the UN General Assembly in NY in Sep.

It’s not clear at this stage whether this deal covers currency clauses to ‘prevent competitive devaluations’. [https://www.washingtonpost.com/business/whats-at-stakein-us-japan-trade-talks/2019/05/24/62d6104a-7e5d-11e9-b1f3-b233fe5811ef\\_story.html?utm\\_term=.776b6d909b48](https://www.washingtonpost.com/business/whats-at-stakein-us-japan-trade-talks/2019/05/24/62d6104a-7e5d-11e9-b1f3-b233fe5811ef_story.html?utm_term=.776b6d909b48)

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

[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

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](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](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](https://ec.europa.eu/commission/presscorner/detail/en/ip_19_4291)

Further to the USTR S.301 investigation into the digital services tax approved by the French government, a public hearing on the tax implications was held during the week;

“The French DST law imposes a 3% tax on annual revenues generated by some companies that provide certain digital services to, or aimed at, French users. The tax applies only to companies with annual revenues from the covered services of at least €750 million globally and €25 million in France. The services covered are ones where U.S. firms are global leaders.”

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/august/public-hearing-section-301>

### Background

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

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

## 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](https://ustr.gov/sites/default/files/Summary_of_U.S.-UK_Negotiating_Objectives.pdf)

[Return to top](#)