

Key Themes

The US Fed and the BoJ made changes to policy and guidance citing downside risks from weak global growth and trade policy uncertainty. The US Fed cut the FFR by 25bps and has ended quantitative tightening. The BoJ added to its guidance that ‘the bank will not hesitate to take additional easing measures’ in the case where downside risks regarding developments from overseas economies are significant.

Both decisions were issued before the announcement made by US President Trump that another 10% tariff would be applied on the remaining \$300bn of imports from China from 1 Sep. This has amounted to a re-escalation of tensions with China. At the time of writing, China has allowed its currency to fall through the 7.00 level and Chinese state-owned enterprises have been asked to suspend the import of US agriculture products.

Uncertainty on trade and the implications for growth has impacted firms and consumer sentiment.

Consumer sentiment data for Jul indicated that US consumers had a ‘renewed sense of personal financial optimism’ – while there was no expectation of a rapid acceleration in income, there was also no expectation of changes in inflation and unemployment rates. That said, US consumers are taking precautionary measures and that policy uncertainties might outweigh any falls in interest rates on spending decisions;

“Consumers have not ignored mounting policy uncertainties as they have **begun to take precautionary measures to increase savings and reduce debt. Favorable buying attitudes toward homes and vehicles have significantly receded from their cyclical peaks despite declining interest rates.**”

This sentiment mirrored the income and consumption data for Jun – with incomes growing slightly faster and consumption expenditure growth slowing. Savings increased.

For the Fed this week, the headline PCE price index growth continued to slow, but core price growth increased at a faster pace to +1.6%.

Of note this week was US non-farm payrolls – the growth of which continues to slow. But the household employment survey is also showing some concerning employment trends – especially in the core working-age group of 25-54yrs with annual employment growth declining for the first time since 2013.

Growth of average weekly hours worked, and overtime hours of manufacturing employees are also starting to mirror the weaker manufacturing reports – both declined at an accelerated pace this month.

The Jul manufacturing and output data were mostly weaker. The ISM index continues to grow at a slower pace with firms reporting a notable slowdown in production and employment growth. Across most reports, with weaker new orders growth, production growth continues to be supported for the moment as firms work through order backlogs. Global risks, trade tensions and lower growth expectations were the key concerns facing firms. The latest escalation with China this week will likely weigh further.

Trade concerns and slower global growth were also issues cited across the continued contraction of manufacturing activity across the broad Eurozone and Japan in Jul. Industrial production in Japan declined faster in Jun. Firms cited issues around China and escalating conflict with South Korea. In Europe, Q2 GDP growth slowed and both headline and core CPI growth also slowed.

Aussie CPI growth picked up slightly but growth in core measures continued to slow led by lower growth in prices from the domestic economy. Retail sales growth (vol) returned to positive territory but, despite the election result and one rate cut, growth remains moderate. Annual growth in retail sales volumes of just +0.2% is a new low in momentum since the GFC.

Late in the week, the US signed into law a two-year agreement that increases the US government's borrowing limit and suspends the debt ceiling until Jul 2021. The US Treasury reissued the Q3 funding requirements with an additional \$273bn in new money to be raised in Q3 (ST bills).

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US Data

US Manufacturing PMI (Jul)

The PMI index showed that manufacturing activity expanded at a low pace in Jul – “the lowest since Sep 2009” (as activity began to improve post GFC).

Even though the PMI remained in positive territory, the report makes for some sobering reading. Production and new orders growth remained muted and grew only slightly. New export orders declined for the second time in three months. Employment declined slightly for the first time since 2013. Output expectations for the next twelve months fell to a series low.

Manufacturing PMI: Jul 50.4 versus Jun 50.2

Manufacturing PMI

sa, >50 = Improvement since previous month



Production and new orders increased marginally in Jul. Order backlogs continued to decline. Purchasing activity also declined for the first time since Apr 2016. Other reports have noted that firms are managing inventories and working through backlogs and this is flowing through as lower demand for inputs;

“The sustained slowdown was linked by panellists to softer demand conditions compared to earlier in 2019, notably for goods supplied as inputs to other companies.”

New export orders declined for the second time in three months. Firms cited issues in autos and the ongoing impact of tariffs.

Output expectations also fell to a series low – business conditions are predicted to remain challenging over the coming 12-months.

Employment declined slightly for the first time since Jun 2013.

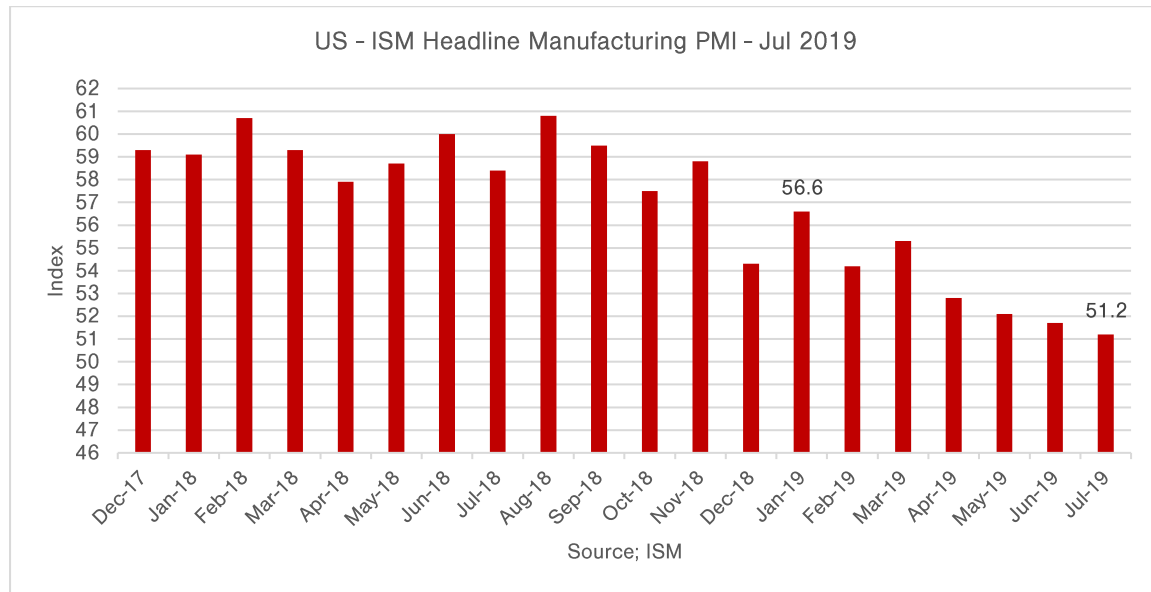
<https://www.markiteconomics.com/Public/Home/PressRelease/5d26dd60063444448aaa1dec7831b182>

ISM Manufacturing PMI (Jul)

The ISM measure of manufacturing activity continued to expand at a slower pace in Jul. This trend has been in place since at least late 2018. There was a notable slow-down in production and employment in the latest month, with growth now at lower levels. The further decline in order backlogs continued to support the lower growth in production. New orders growth lifted slightly, but there was a larger proportion of firms reporting 'lower' new orders.

Headline ISM Manufacturing PMI: Jul 51.2 versus Jun 51.7.

In Jul 2018, the PMI was 58.4. The average reading for 2019 YTD is now 55.4



New orders lifted slightly from the reading of zero growth in the month prior. The underlying shift was less positive. A higher proportion of firms reported a lower number of new orders and less firms reported higher or the same number of new orders;

New Orders	% Higher	% Same	% Lower	Net	Index
Jul 2019	23.0	52.1	24.9	-1.9	50.8
Jun 2019	24.6	55.9	19.5	+5.1	50.0

Production growth slowed by a larger degree; from 54.1 in Jun to 50.8 in Jul. Further production was likely supported by firms working through backlogs which contracted at a faster pace.

Firms continued to manage inventories with the index declining for the second month in a row. On inventories – emphasis added;

“The index contracted for the second straight month. Inventories were again depleted relative to production, due to production-output strength. Many respondents noted that **they continue to watch inventories closely to align with softening demand,**” says Fiore.

Employment growth slowed.

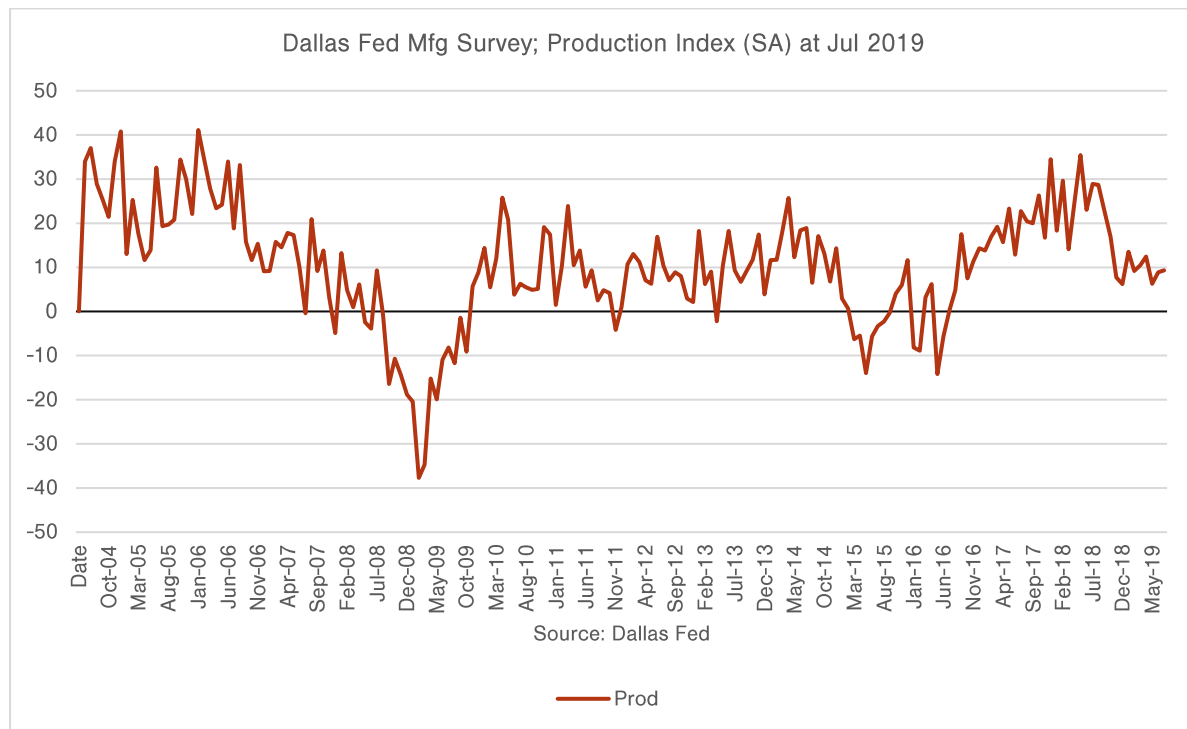
<https://www.instituteforsupplymanagement.org/ISMReport/MfgROB.cfm?SSO=1>

Dallas Fed Manufacturing Business Index (Jul)

Production activity expanded at a slightly faster pace in Jul. The latest month report shows a small improvement across new orders, production and shipments. Firms continue to run down inventories of finished goods and unfilled orders also declined. There was a somewhat more optimistic view of the outlook.

Production Index; Jul 9.3 versus Jun 8.9

Despite the small improvement in the month, growth in production remains more moderate;



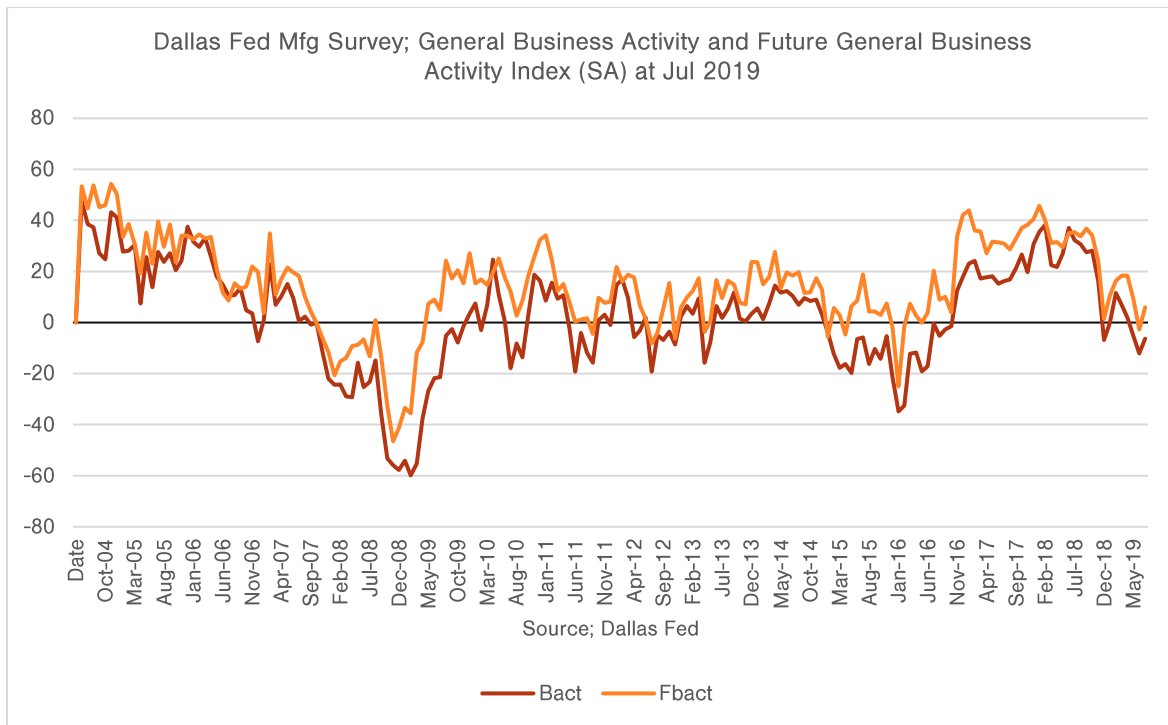
New orders increased at a slightly faster pace. The new orders index increased to 5.5 in Jul – a year ago that index was at 24.9. The growth rate of new orders rebounded from the decline in the month prior.

Shipments increased at a faster pace while firms continued to work through backlogs of orders (unfilled orders declined slightly in Jul).

Firms also continued to manage inventories with finished goods inventories contracting at the fastest pace since 2013.

Employment increased at a faster pace while growth of the average workweek remained more moderate. In a more optimistic signal, firms were much more upbeat about further growth in employment and the average work week.

The readings for current business activity declined at a slower pace while expectations for future business activity rebounded from the decline in the month prior.



<https://www.dallasfed.org/research/surveys/tmos/2019/1907.aspx>

Chicago PMI (Jul)

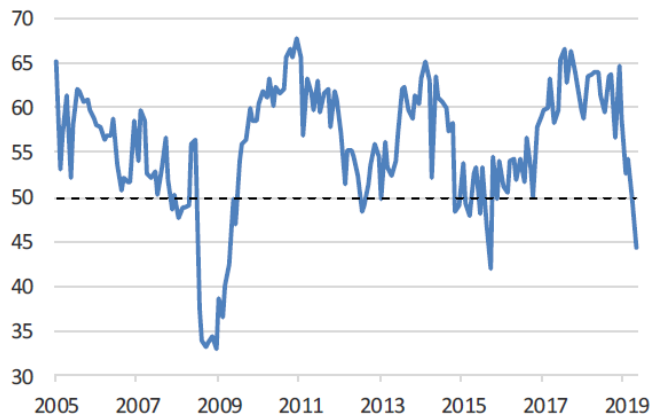
The Chicago PMI barometer of business activity contracted more substantially in Jul. Several of the key areas fell into contraction including production, new orders and employment. Of note was the fading of sentiment among firms;

“Global risks, trade tensions, slowdown in demand and sombre growth expectations, all jeopardize business conditions. Firms are not panicking yet, but the latest report isn’t adding to the cheer.”

At the time of writing, US President Trump has again escalated the trade tensions with China with the announcement of further tariffs to be now levied on the remaining value of imports from China. If the tariffs go head, on Sept 1, then this is likely to continue to impact sentiment.

Chicago PMI: Jul 44.4 versus Jun 49.7

Chicago Business Barometer™



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Production and new orders continued to contract. Production indicators fell to the lowest levels in ten years. Order backlogs continued to decline, albeit at a slower pace.

Inventories increased.

The employment indicator fell into contraction and 'hit the lowest level since October 2009'.

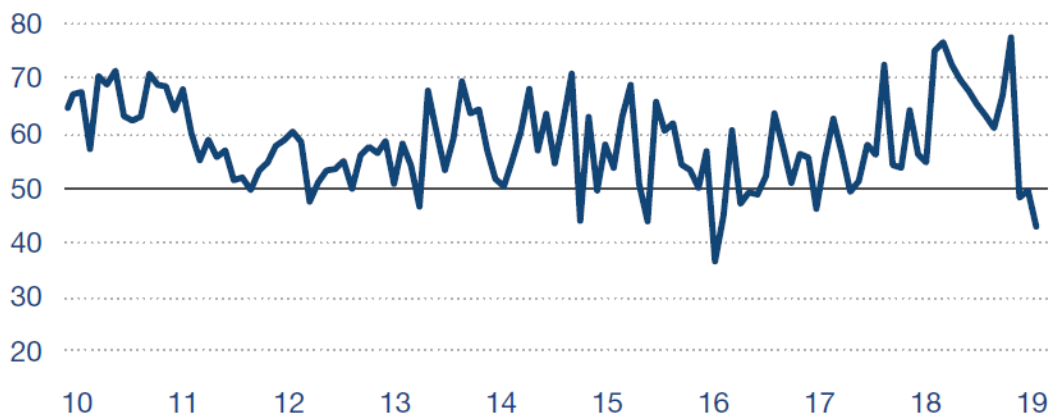
<https://s3.amazonaws.com/images.chaptermanager.com/chapters/b742ccc3-ff70-8eca-4cf5-ab93a6c8ab97/files/mni-chicago-press-release-2019-07.pdf>

ISM NY Business Conditions (Jul)

Current business conditions for the NY metro area continued to deteriorate in the Jul report but there was an improvement in the 6-month outlook.

Current Conditions: Jul 43.5 versus Jun 50

CURRENT BUSINESS CONDITIONS *(seasonally adjusted)*



Employment grew at only a slightly slower pace. Firms remained cautious as the quantity of purchases continued to contract, albeit at a slower pace. Prices paid increased at a faster pace, as did revenues which recovered from the decline in the month prior.

Conditions for 6-months head increased at a faster pace from 51 in Jun to 63.2 in Jul.

http://www.ismny.com/wp-content/uploads/2019/08/2019_ISM-NewYork_ReportOnBusiness_July_v02.pdf

Factory Orders – Final (Jun)

Consistent with the prelim report, durable goods new orders increased at a faster pace in Jun due mostly to an increase/rebound in non-defense aircraft orders in the month. Ex transports, new orders growth remained low for the month and recorded the first annual decline since 2016.

Total shipments increased at a faster pace led by transports. The faster growth in shipments for the month was supported by a continued decline in unfilled orders. On an annual basis, unfilled orders also declined for the first time since 2017.

New Orders

Total new orders increased at a faster pace in the latest month;

Month change; Jun +0.6% (+\$3.1bn) versus May -1.3%

Stronger growth in durable goods offset a decline in non-durable goods for the month.

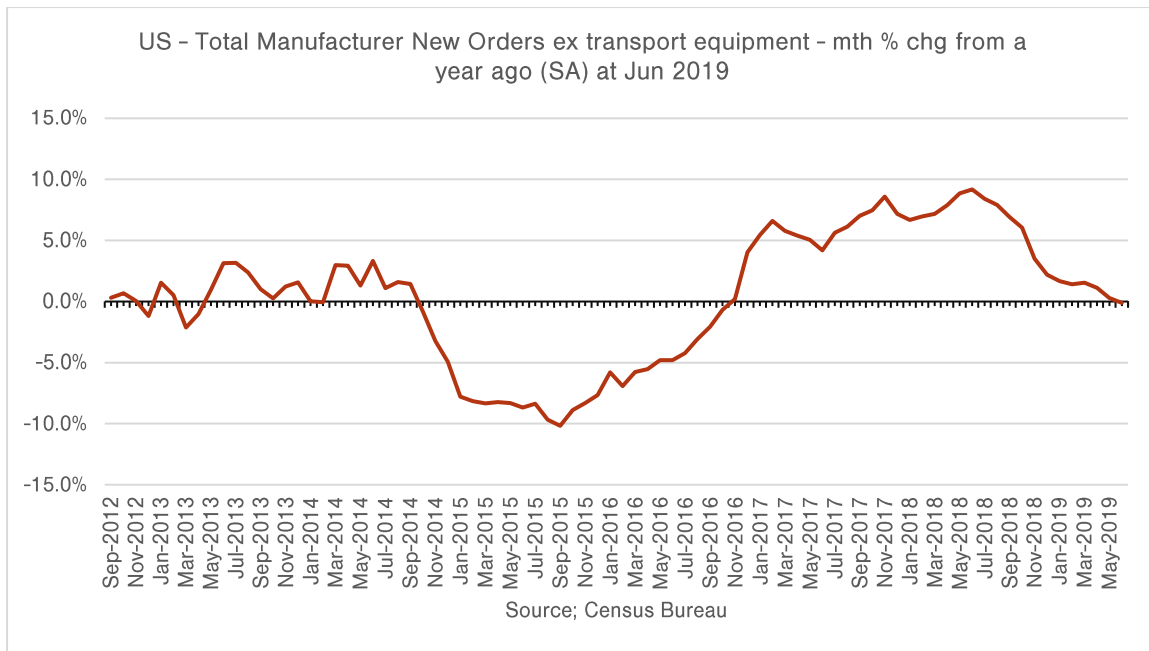
Durable goods +\$4.4bn versus non-durable goods -\$1.3bn

Durable goods; transports contributed most to the increase with new orders for non-defense aircraft & parts increasing by +\$2.7bn – the value of new orders for aircraft remains 52% below the same month a year ago though.

Excluding transports, new orders growth remained subdued due to the drag created by non-durables

Month change; Jun +0.1% (+\$0.3bn) versus May 0%

Annual growth of new orders ex transports declined slightly by -0.1%;



Shipments

Total manufacturer shipments increased at a faster pace in the latest month;

Month change; Jun +0.4% (+\$1.9bn) versus May +0.1%

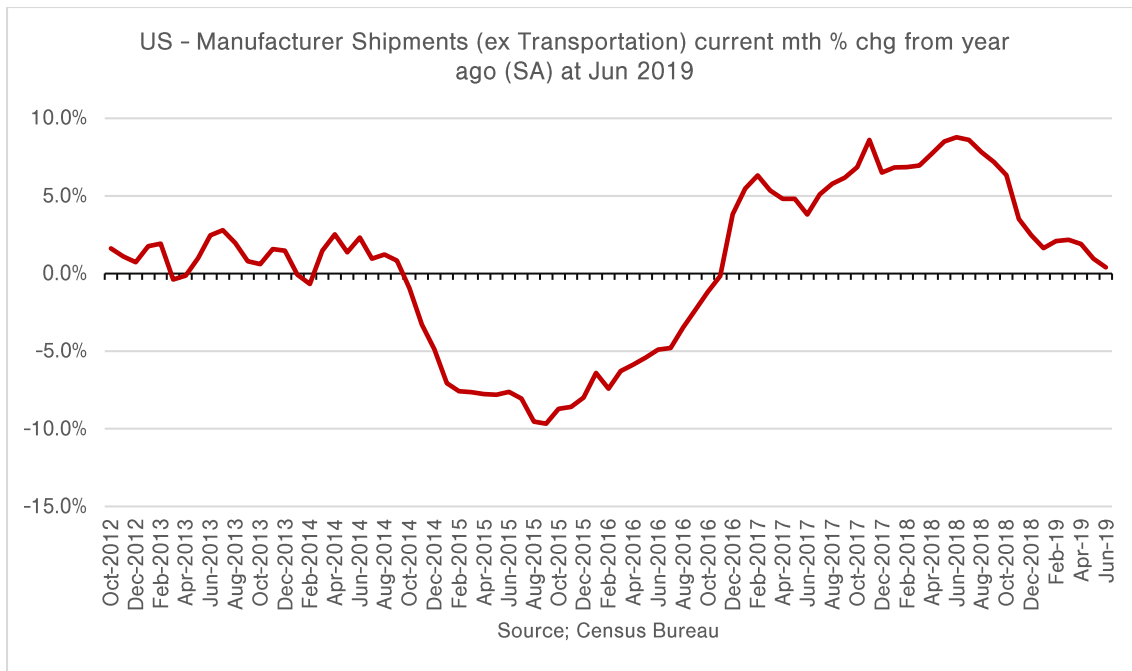
Growth in durable goods shipments (+\$3.2bn) offset a decline in non-durable goods shipments (-\$1.3bn)

Durable Goods – contributing the most to the increase in durable goods shipments was transport equipment +\$2.5bn of which the bulk was an increase in light truck and utility vehicle shipments +\$1.4bn.

Non-durable goods shipments decline by -\$1.3bn led by a decline of -\$2.2bn in the value of petroleum shipments.

Excluding transports, shipments declined slightly in the month; Jun -0.2% versus May -0.1%

On a year ago basis, growth in shipments excluding transport equipment slowed to just +0.4%;



Unfilled Orders

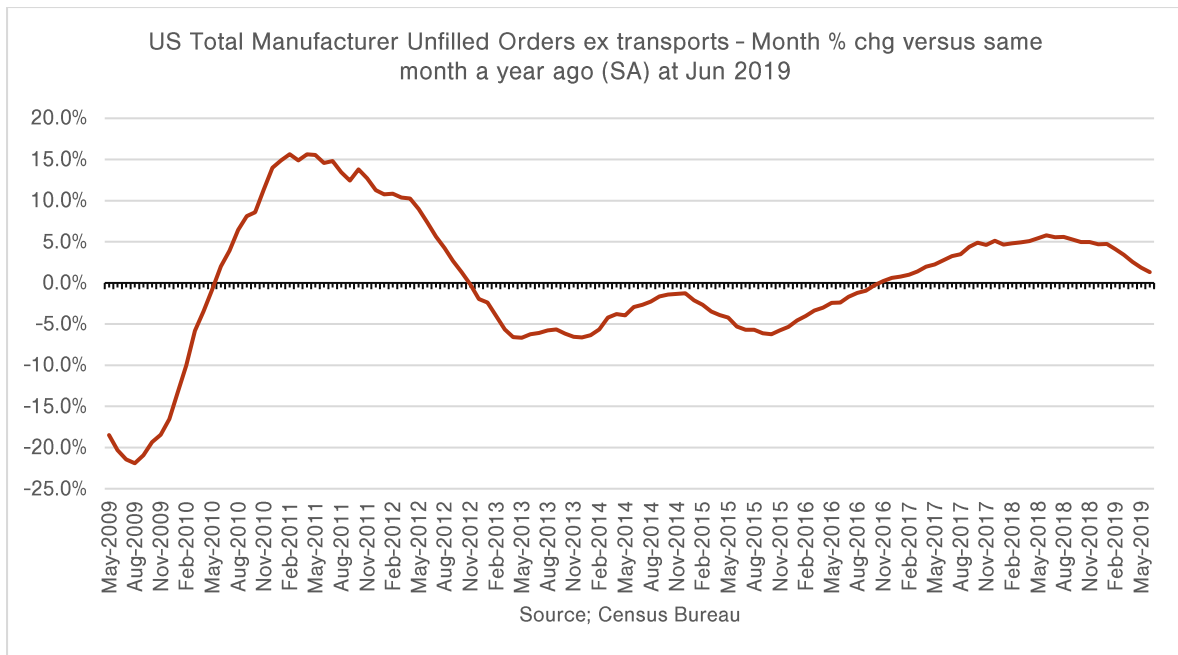
The value of unfilled orders continued to decline in the latest month and, recorded the first annual decline at a total level since mid-2017.

Total unfilled orders – month change; Jun -0.7% (-\$7.9bn) versus May -0.8%

The decline was led by a continued decline in unfilled orders for transport equipment of -1% or -\$8.3bn. This was across non-defense aircraft (which is yet to show up in higher shipments which increased by +\$0.6bn), defense aircraft and ships/boats.

Excluding transports, unfilled orders increased slightly in the month, consistent with the increase in orders; Jun +0.1%.

On an annual basis, the value of unfilled orders excluding transports continues to grow at a slower pace – and is now growing by +1.3% versus the same month a year ago – this suggests that new order growth is no longer high enough to result in a faster/accelerating increase in backlogs;



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

Personal Income and Consumption Expenditure and PCE Price Index (Jun)

While personal incomes grew at a faster pace in Jun, consumption growth slowed. This resulted in an increase in savings (after declining in the month prior). Saving as a % of disposable income ticked slightly higher.

Sentiment data for Jul might shed some light on the reason behind the shift in behaviour (see section on Uni of Michigan Consumer Sentiment);

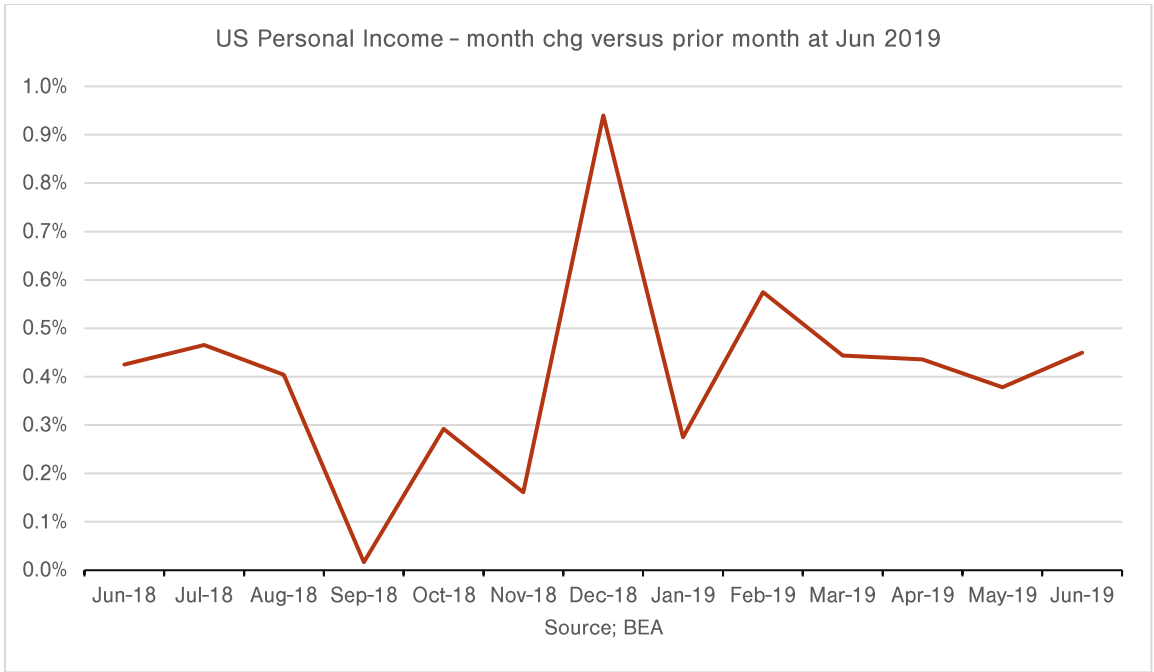
“Consumers have not ignored mounting policy uncertainties as they have **begun to take precautionary measures to increase savings and reduce debt. Favorable buying attitudes toward homes and vehicles have significantly receded from their cyclical peaks despite declining interest rates.**”

Personal Income

Total personal income grew at a slightly faster rate in Jun.

Personal Income; Jun +0.45% versus May +0.38%

The monthly trend in personal income growth has remained more constant since Feb 2019;



Most areas of personal income increased in Jun. The only decline was personal dividend income.

Most of the growth in the month was the result of an increase in employee compensation. Wages and salaries were the bulk of the growth (accelerating from +0.1% in May to +0.5% in Jun). Other forms of income also grew at a faster pace; supplements to wages and salaries, rental income and current transfer receipts.

This helped to offset slower growth in proprietors income and personal income receipts on assets.

The trend of real personal disposable income growth has remained steady over 2019 so far, having slowed somewhat since mid-2018;

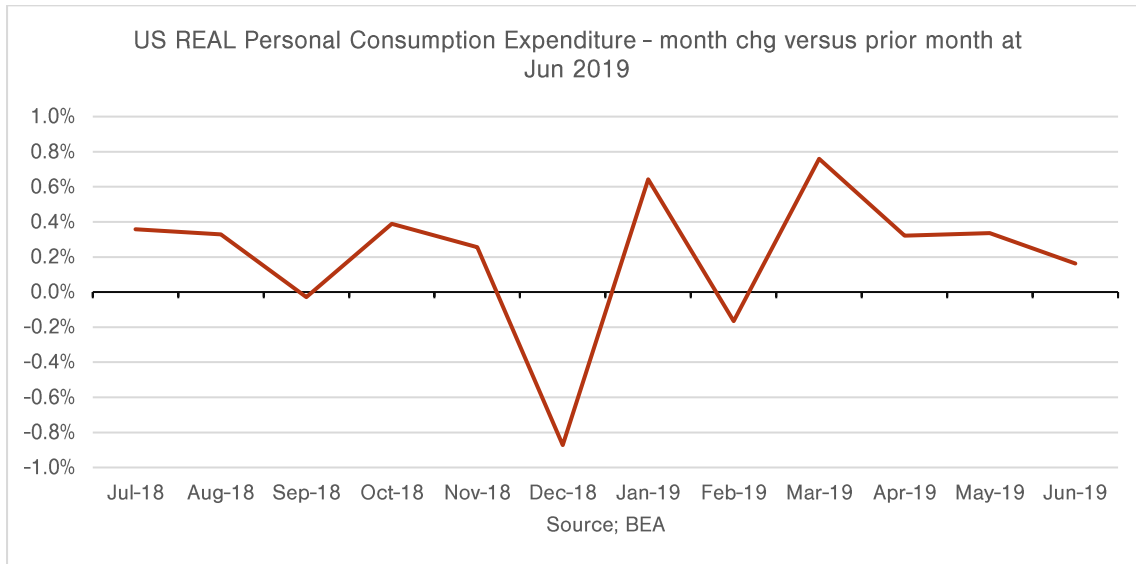


Personal Expenditures

In both real and nominal terms, personal consumption expenditures increased at a slower pace in Jun.

Nominal Personal Consumption Expenditure; Jun +0.3% versus May +0.5%

Real Personal Consumption Expenditure; Jun +0.2% versus May +0.3%



The slower growth in the month was the result of slower growth across both goods and services expenditures.

In real terms of durable goods expenditure declined while expenditures on non-durable goods increased at a faster pace.

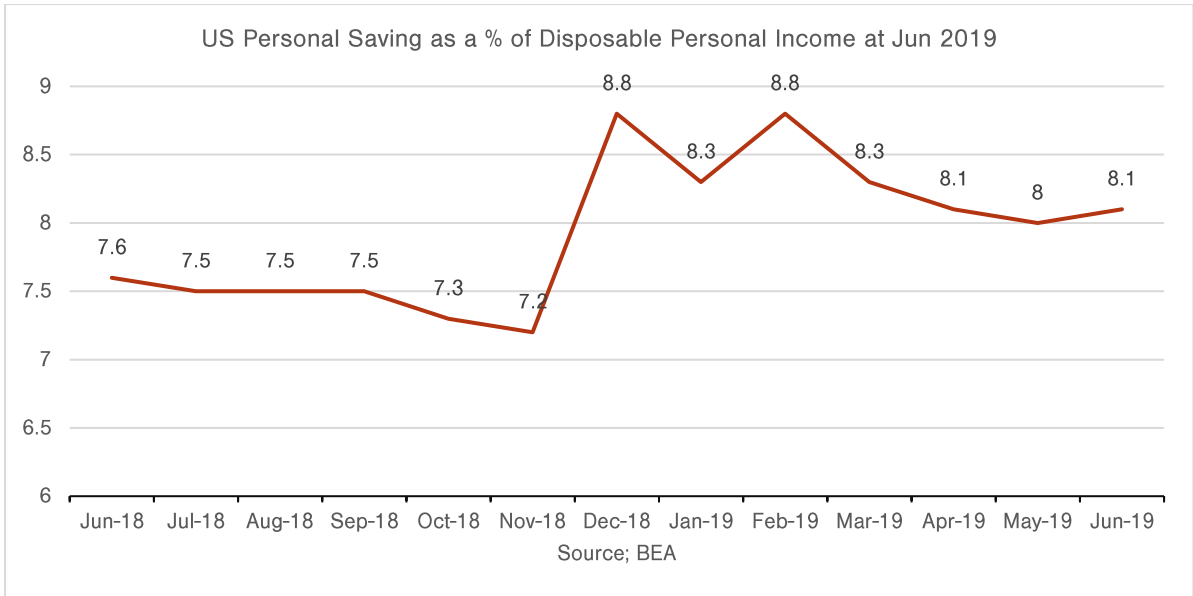
Growth in services also slowed from +0.3% in May to +0.1% in Jun.

Personal Saving

In the latest month, given the slower growth in consumption and the faster growth in income, personal saving has increased;

Personal Saving; Jun +2% versus May -1.1%

As a % of disposable income, personal savings increased slightly in the month. Data has been revised versus last month with the saving rate now above 8% (in May it was around 6%).



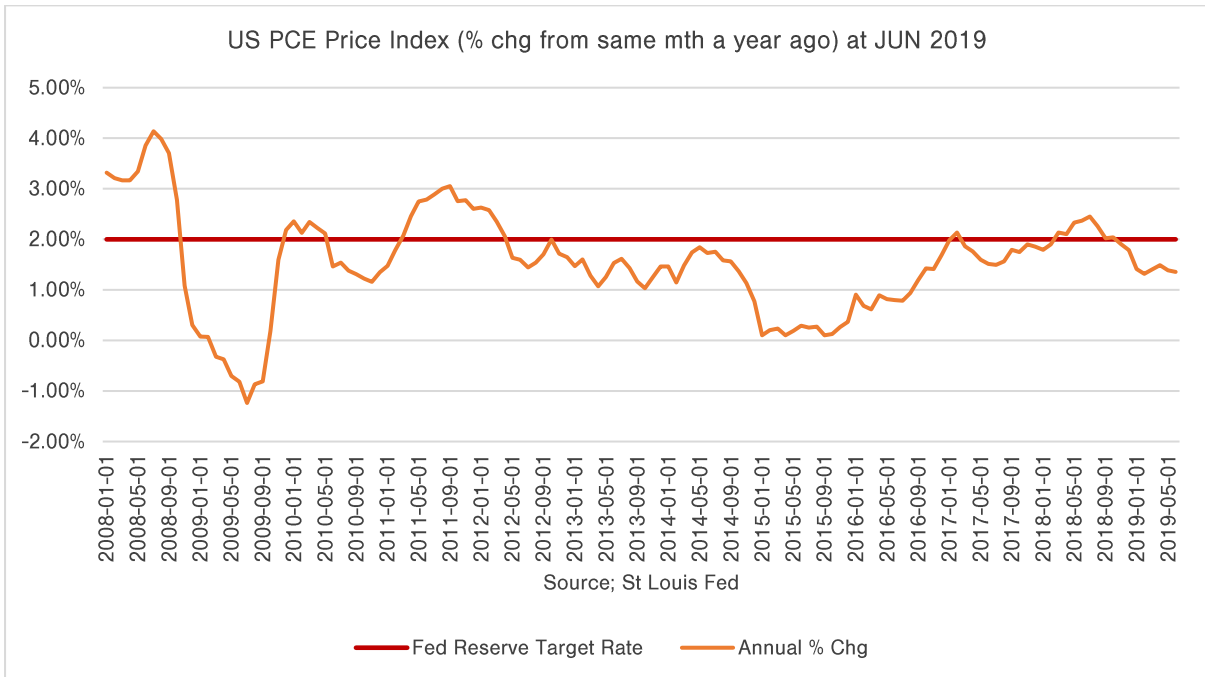
Personal Consumption Expenditure Price Indexes (Jun)

This is the US Fed preferred measure of consumer price changes. This month, headline growth in the PCE price index slowed due mainly to the downward impact of non-durable goods/energy price declines. But underlying, core inflation increased at a faster pace – as both goods and services ex food and energy both grew at a faster pace.

Headline PCE Price Index

Month change; Jun +0.12% versus May +0.13%

Annual change; Jun 1.35% versus May 1.39%



Prices for goods declined in the latest month led by non-durable goods, namely energy prices.

Durable Goods prices increased at a faster pace; Jun +0.47% versus May +0.12%. All categories contributed to the faster growth in prices this month

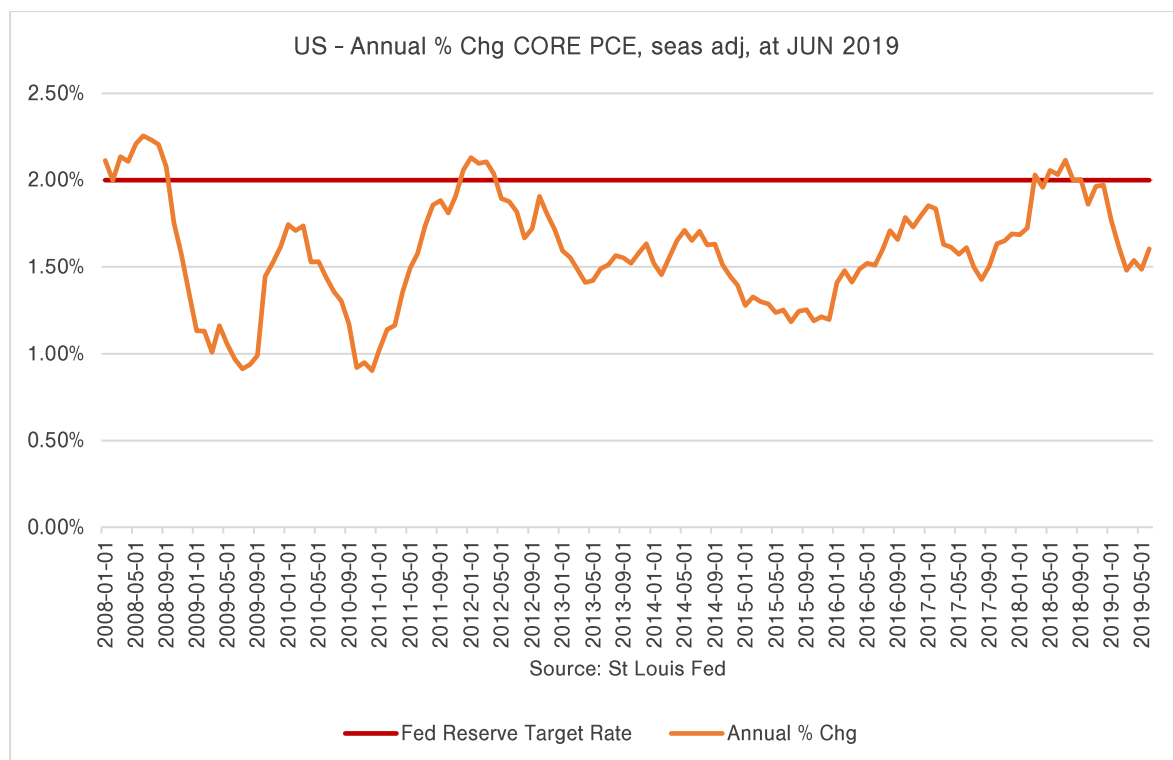
Non-Durable Goods prices declined; Jun -0.42% versus May +0.07%. Gasoline and other energy declined by -3.42% versus the month prior.

Prices for services also increased at a faster pace in the month; Jun +0.23% versus May +0.15%.

Core PCE – ex Food and Energy

Month change; Jun +0.25% versus May +0.15%

Annual change; Jun +1.6% versus May +1.49%



Underlying annual inflation of consumer prices increased at a faster pace due mostly to a slower pace of decline in goods less food and energy goods;

PCE Goods ex food and energy has been declining and the annual change/decline became smaller this month; Jun -0.57% versus May -0.98%.

The annual growth in services less energy services grew at the same pace; Jun +2.3% versus May +2.3%.

<https://www.bea.gov/news/2019/personal-income-and-outlays-june-2019>

Non-Farm Payrolls and Current Employment Survey (Jul)

Growth in non-farm payrolls slowed somewhat and the prior two months were also revised lower. The 12-month average growth has continued to slow.

The employment survey has shown some weakening in the month trend for the broader 16+yrs age group. On an annual basis, employment growth remains higher than what population and participation have added to the labour force. The annual decline in total unemployed persons has become smaller due to the increase in participation over the last year.

On a monthly basis, even though employment growth increased slightly, it was still not high enough to absorb the increase in participation. This was the third month change in a row where total unemployed persons increased.

There has been some deterioration in the employment situation for the core working age group of 25-54yrs. On an annual basis, employment recorded the first annual decline since 2013. The only reason why total unemployed persons still declined on an annual basis was due to the decline in participation.

On a monthly basis, employment declined by a larger amount. Even with a large decline in participation, total unemployed persons still increased.

NON-FARM PAYROLLS (JUL)

In Jul, non-farm payrolls increased at a slower pace than the month prior;

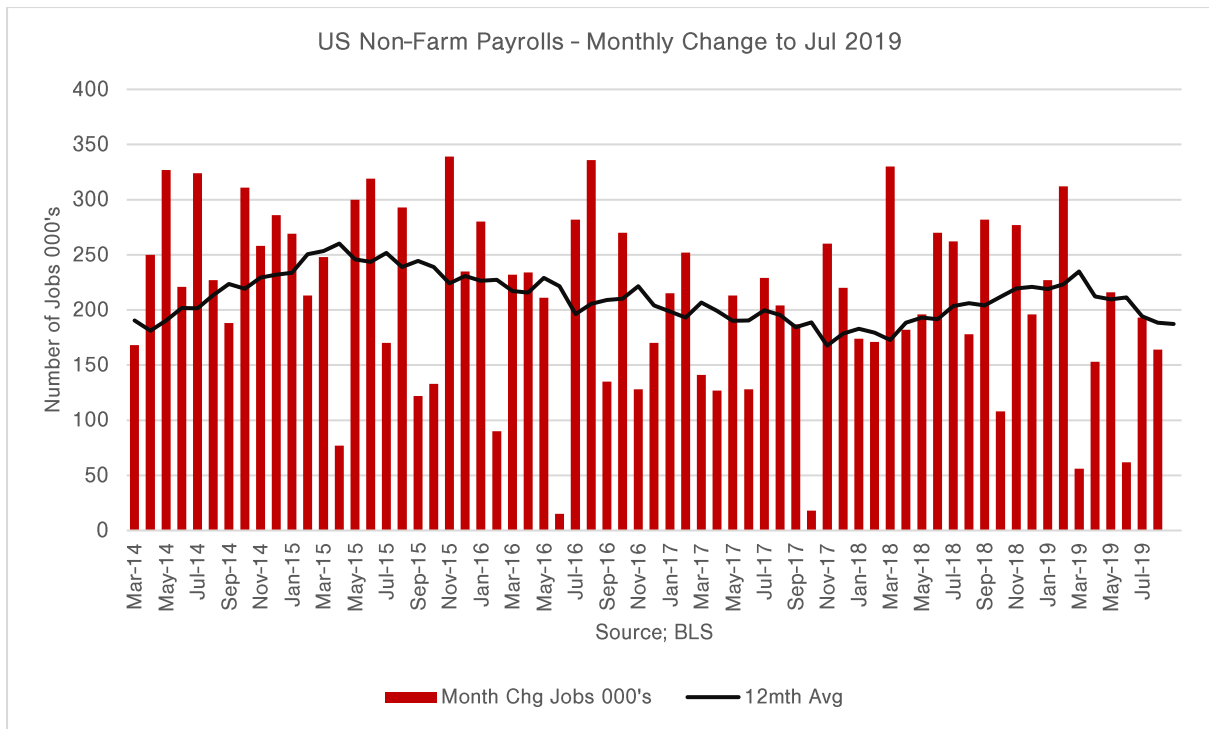
Jul +164k employees versus Jun +193k employees.

Revisions;

Jun non-farm payroll growth was revised lower from 224k to 193k employees

May non-farm payroll growth was further revised lower from +72k to +62k employees

The 12-month average growth continued to slow and is now +187k growth;



HOUSEHOLD EMPLOYMENT SURVEY (JUL)

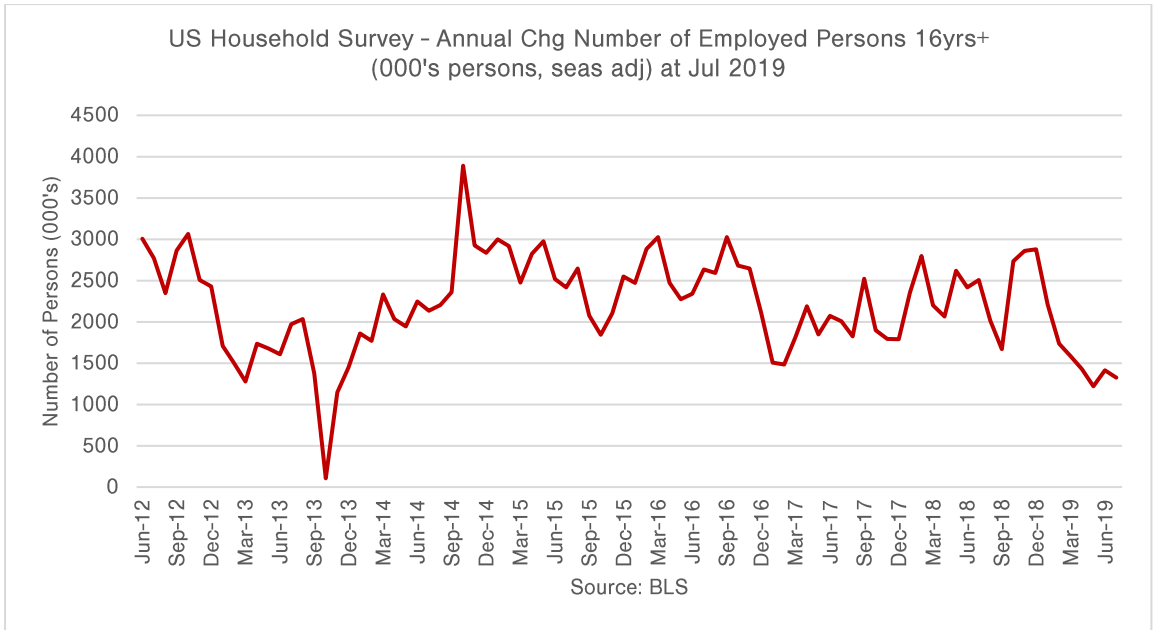
The household survey is different to non-farm payrolls in that it measures the work-status of the population without duplication – each person is classified as either employed, unemployed or not in the labour force.

Employment

Annual employment growth slowed in Jul while the monthly change increased slightly for the 16yrs+ age group;

Annual change; Jul 1,324k persons versus Jun 1,413k persons

Month change; Jul +283k persons versus Jun +247k persons



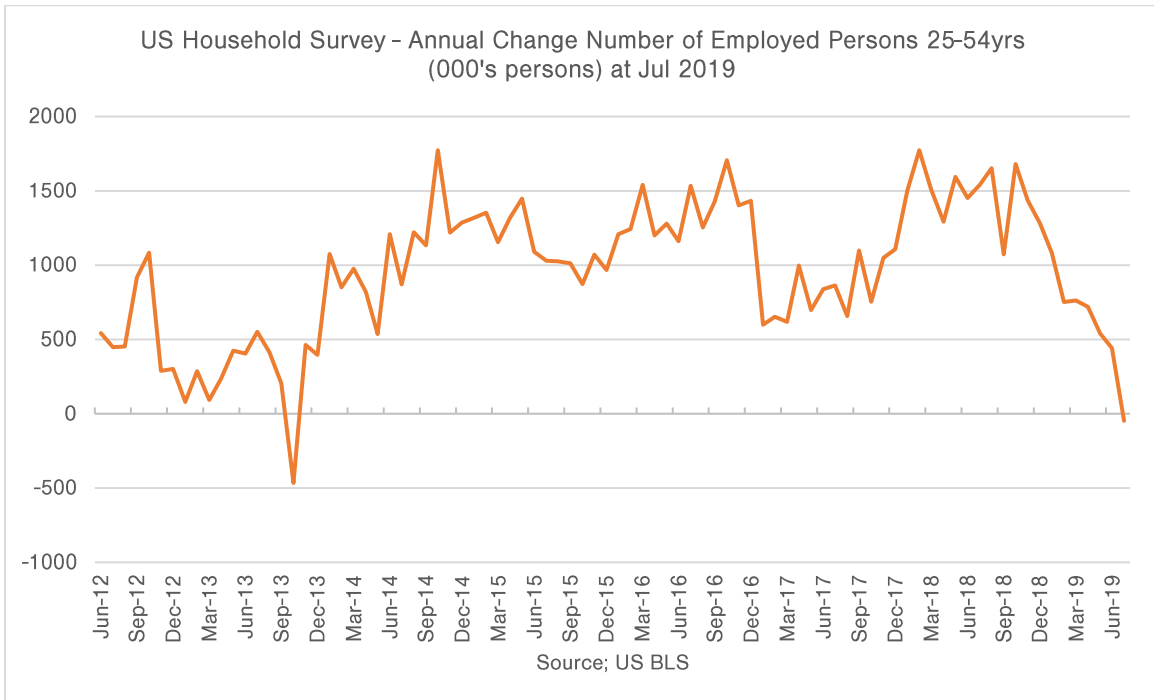
For the 16yrs+ age group, employment growth importantly remains high enough to absorb both population and increases in participation over the last year. But on a monthly basis, employment growth was not high enough to absorb the increase in participation.

Employment growth for the core working age group 25-54yrs is concerning.

Annual employment growth just turned negative for the 25-54yr age group in the latest month and monthly employment declined hard in Jul

Annual change; Jul -47k persons versus Jun +442k persons

Month change; Jul -292 persons versus Jun +29k persons



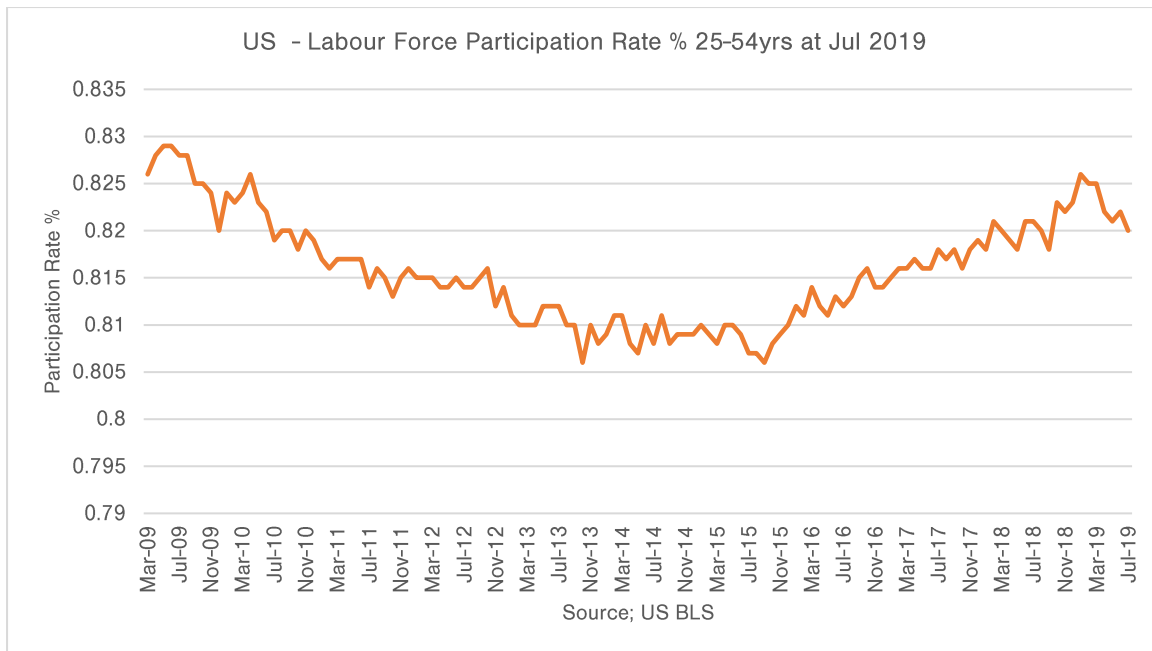
Labour Force

Growth in the labour force increased this month due to a small increase in the estimate of what population added to the labour force and an increase in the participation rate.

Participation for 16yrs+ increased by +0.1% pt in the latest month and on annual basis to 63%.

The annual increase in participation meant that the decline in unemployed persons became smaller. On a monthly basis, the increase in participation for the 16yrs+ group meant that total unemployed persons increased.

For the 25-54yr age group, participation continues to decline and notably so since Feb 2019;



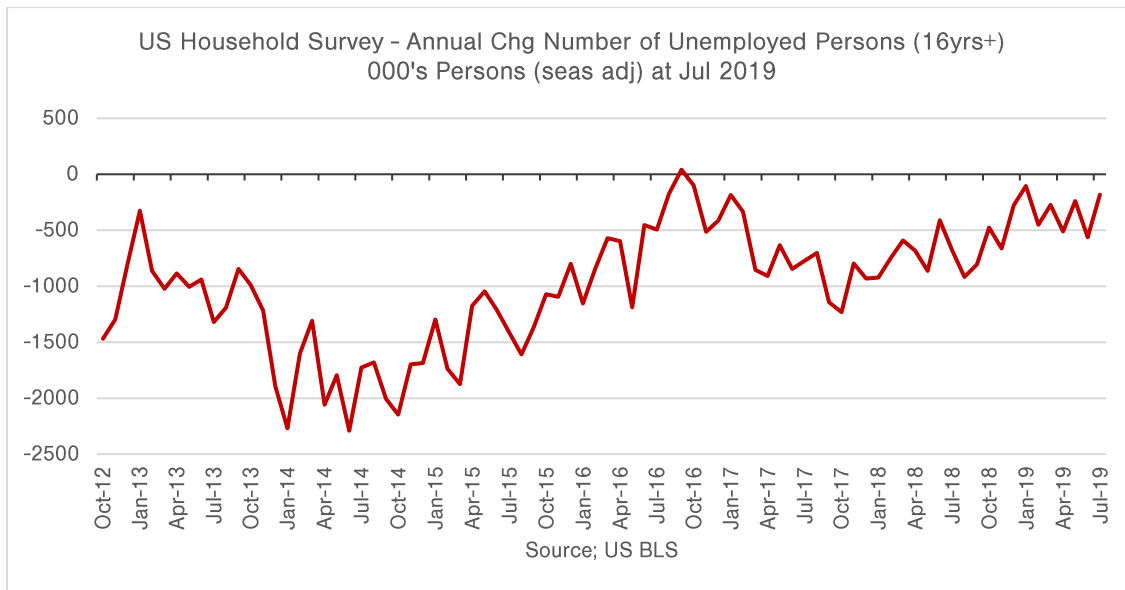
Since Feb, participation for the 25-54yr age group has declined by -0.5% pts.

Versus a year ago, participation for this group has declined by -0.1% pt or approx. 126k persons leaving the labour force. This is the only reason why the annual change in unemployed persons declined for the 25-54yr age group.

Total Unemployed Persons

On an annual basis, total unemployed persons for the 16yrs+ age group continued to decline, but unfortunately, that decline is becoming smaller;

Annual change; Jul -182k persons versus Jun -562k persons



On a monthly basis though, total unemployed persons increased – this was due to the increase in participation for the month, even though employment growth increased at a slightly faster pace in Jul.

This is now the third month in a row where total unemployed persons have increased for the 16yrs+ age group;

Month change; Jul +88k persons versus Jun +87k persons

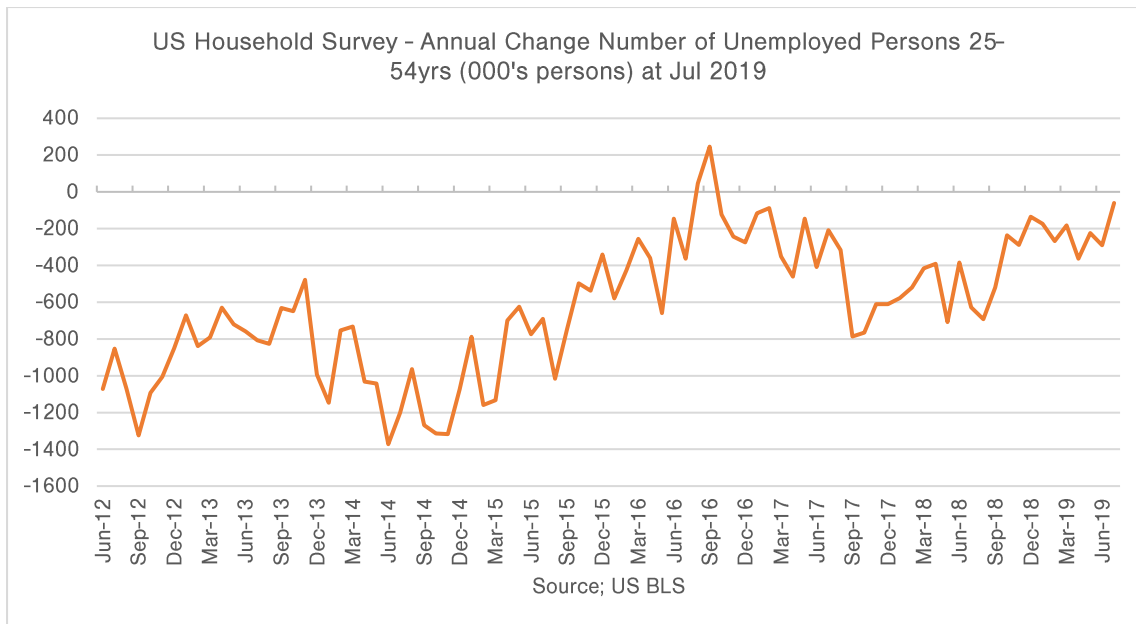
The unemployment rate ticked up very slightly; Jul 3.71% versus Jun 3.67%. This is still below where it was a year ago at 3.85%.

For the 25-54yr age group, the annual change in unemployed persons is also becoming smaller.

The concerning thing here; this is due to the slow down/decline in employment growth. This is on top of declining participation which should help reduce total unemployed persons.

Annual change; Jul -61k persons versus Jun -290k persons

Month change; Jul +71k persons versus Jun +127k persons



Summary – 16yrs + Group

On an annual basis, employment growth remains higher than what population and participation have added to the labour force. As a result, total unemployed persons have continued to decline. This decline in total unemployed persons has become smaller due to the increase in participation over the last year.

On a monthly basis, even though employment growth increased slightly, it was still not high enough to absorb the increase in participation. This was the third month change in a row where total unemployed persons increased.

	000's people (16yrs+)	Annual chg - JUL 2019	Monthly Chg - JUL
The estimated change in the Labour Force due to pop growth (1)		883	111
How many jobs available for them? (employment growth) (2)		1,324	283
Difference (if negative, then employment growing faster than what pop adds to the labour force) (3)		- 441	-172
Change labour force participation - (if positive, people entering/returning to the labour force) (4)		259	259
The remainder is the chg in total unemployed persons (declining if negative) (4) plus (3)		- 182	87
Two views of annual growth in the labour force;			
Total employed persons plus total unemployed persons		1,142	370
Est of what population adds to the labor force plus change in participation		1,142	370
BLS reported change in the size of the labour force		1,142	370

Summary – 25-54yrs Core Working Age Group

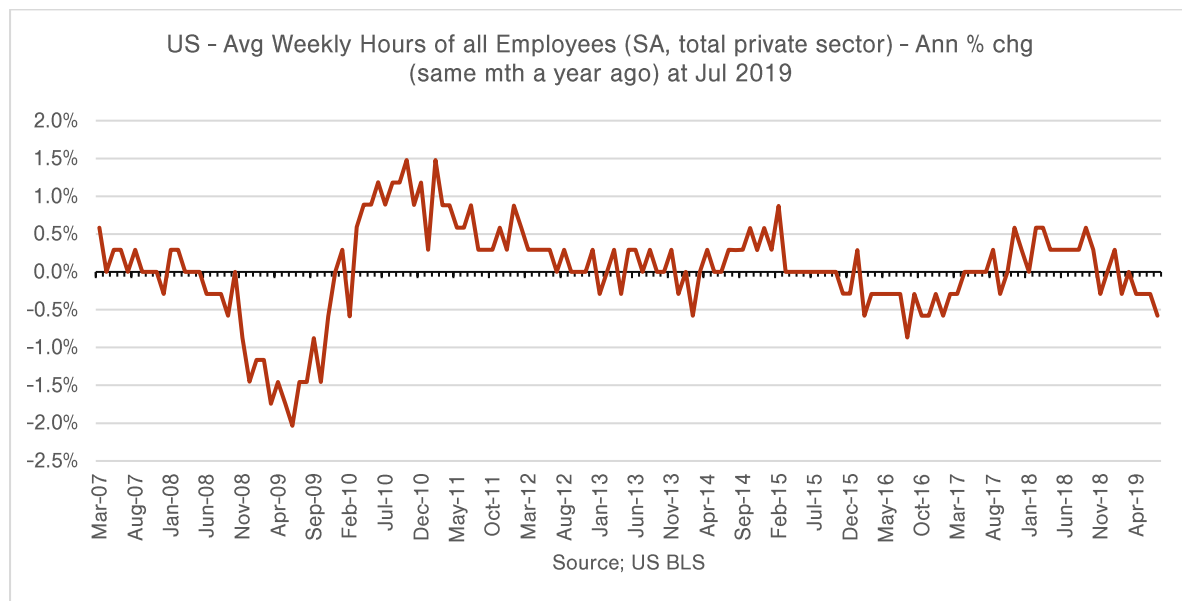
On an annual basis, employment recorded the first annual decline since 2013. The only reason why total unemployed persons still declined on an annual basis was due to the decline in participation.

On a monthly basis, employment declined by a larger amount. Even with a large decline in participation, total unemployed persons still increased.

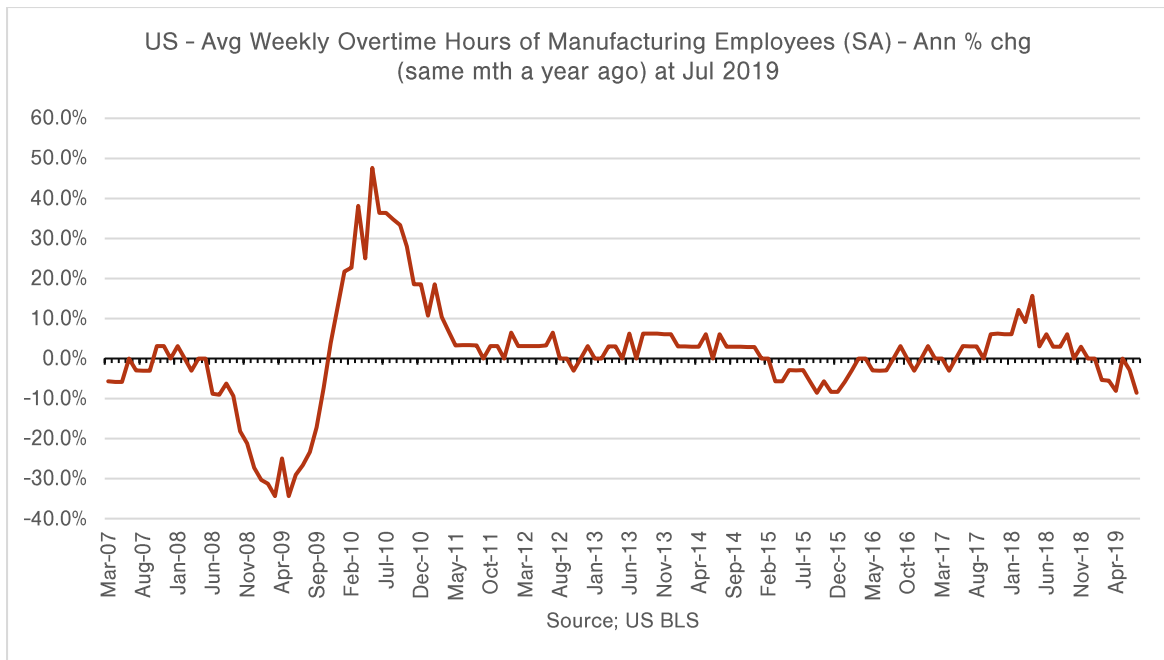
	000's people (25-54yrs)	Annual Chg - JUL 2019	Monthly Chg - JUL
The estimated change in the Labour Force due to pop growth (1)		17.34	32
How many jobs available for them? (employment growth) (2)		-47.00	-292
Difference (if negative, then employment growing faster than what pop adds to the labour force) (3)		64.34	324
Change labour force participation - (if positive, people entering/returning to the labour force) (4)		-126.34	-253
The remainder is the chg in total unemployed persons (declining if negative) (4) plus (3)		-62.00	71
Two views of annual growth in the labour force;			
Total employed persons plus total unemployed persons		-109.00	-221
Est of what population adds to the labor force plus change in participation		-109.00	-221
BLS reported change in the size of the labour force		-109.00	-221

HOURS

The annual change in average weekly hours continued to decline in Jul. While the decline is still small the pace has increase since the prior month;



The change in overtime hours of manufacturing employees is starting to 'catch-up' with some of the worsening data that has been coming out of the manufacturing surveys. Overtime hours of manufacturing employees fell by 8.6% versus a year ago in Jul;



The annual decline in overtime hours of employees working in both durable and non-durable goods industries is picking up;

Durable Goods avg weekly overtime hours – annual change; Jul -8.6% versus Jun -5.7%

Non-Durable Goods avg weekly overtime hours – annual change; Jul -5.7% versus Jun -2.8%

<https://www.bls.gov/news.release/pdf/empsit.pdf>

Case-Shiller House Price Index (May)

The National House Price Index indicated that annual growth in house prices through the US continued to slow in May. Both the 10 and 20 city composite index of growth slowed in May. The seasonally adjusted monthly price changes were positive, but remained low.

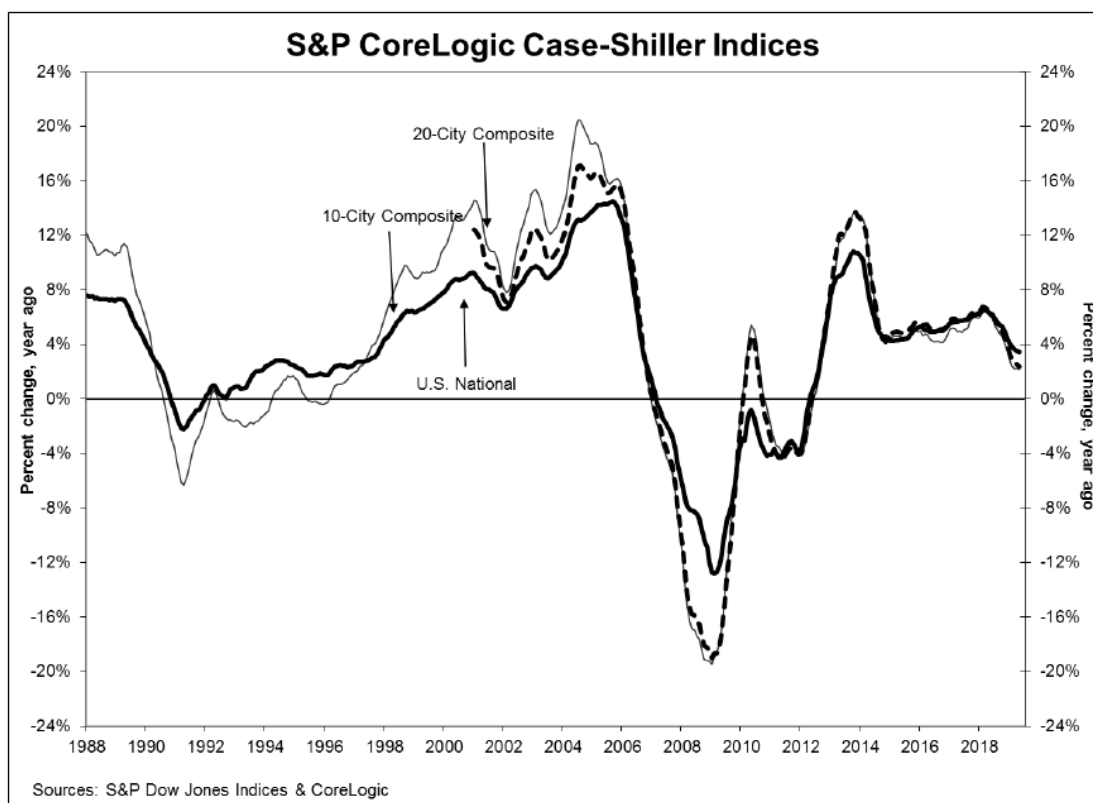
Annual change:

National House Price Index; May +3.4% versus Apr +3.5%

10 City Composite; May +2.2% versus Apr +2.3%

20 City Composite; May +2.4% versus Apr +2.5%

““Nationally, year-over-year home price gains were lower in May than in April, but not dramatically so and a broad-based moderation continued,” says Philip Murphy, Managing Director and Global Head of Index Governance at S&P Dow Jones Indices. “Among 20 major U.S. city home price indices, the average YOY gain has been declining for the past year or so and now stands at the moderate nominal YOY rate of 3.1%.”



https://au.spindices.com/documents/indexnews/announcements/20190730-965771/965771_cshomeprice-release-0730.pdf?force_download=true

Uni of Michigan Consumer Sentiment – Final (Jul)

The headline measures of consumer sentiment remained little changed from the prelim report issued mid-month. Performance of the index of current economic conditions continues to lag sentiment and expectations. Sentiment and expectations are little changed;

“The resilience displayed has been primarily due to a renewed sense of personal financial optimism.”

“Indeed, recent surveys have recorded the most favorable net personal financial expectations since May 2003. Positive job and income prospects, gains in net household wealth, and low inflation have bolstered optimism. At present, consumers do not anticipate a rapid acceleration in income growth rates, nor do they expect significant changes in inflation and unemployment rates.”

The follow is probably the most important statement on the bridge between consumer sentiment and action. Despite this ‘renewed personal financial optimism’;

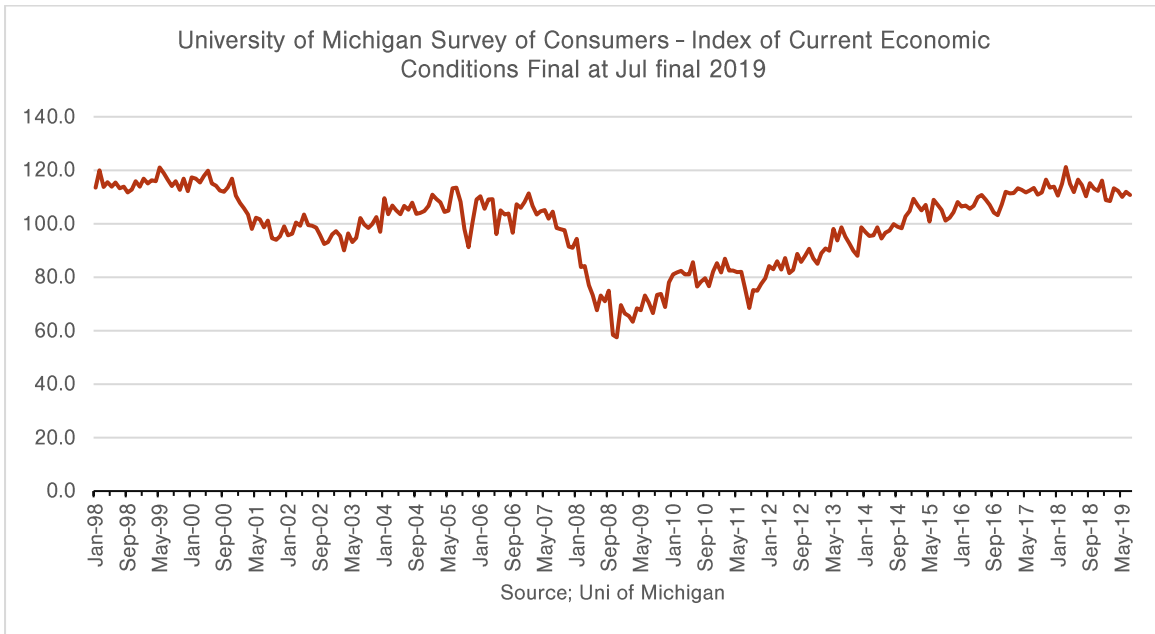
“Consumers have not ignored mounting policy uncertainties as they have **begun to take precautionary measures to increase savings and reduce debt. Favorable buying attitudes toward homes and vehicles have**

significantly receded from their cyclical peaks despite declining interest rates.”

Index of Current Economic Conditions

Jul 110.7 versus Jun 111.9

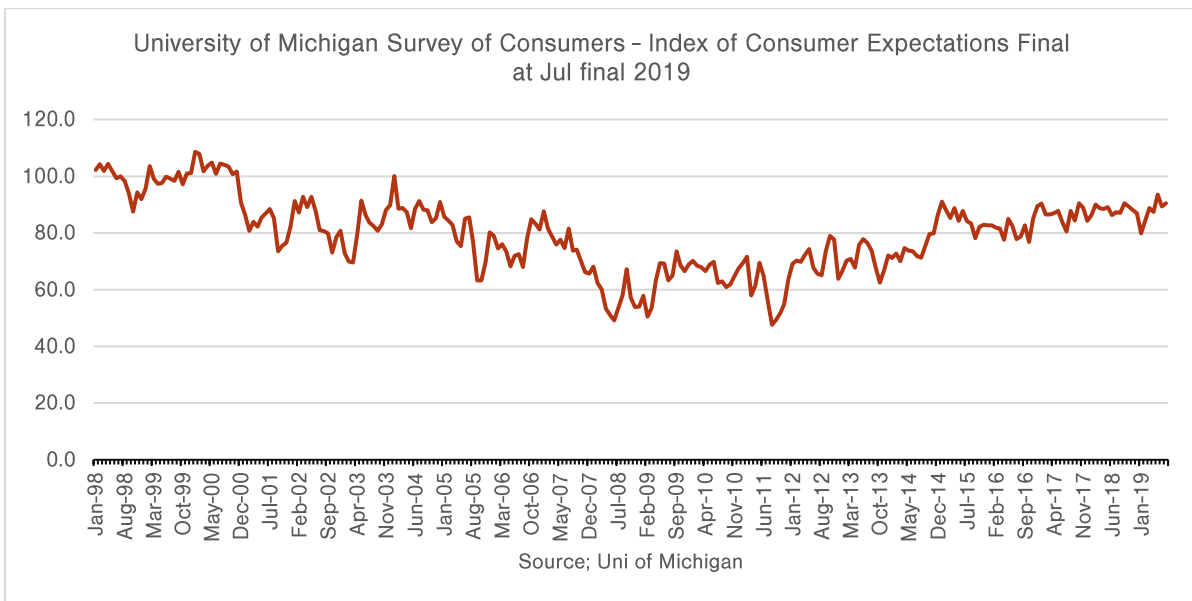
The Jul reading is 3.2% below a year ago and is 9% below this cycle peak in Mar 2018.



Index of Consumer Expectations

Jul 90.5 versus Jun 89.3

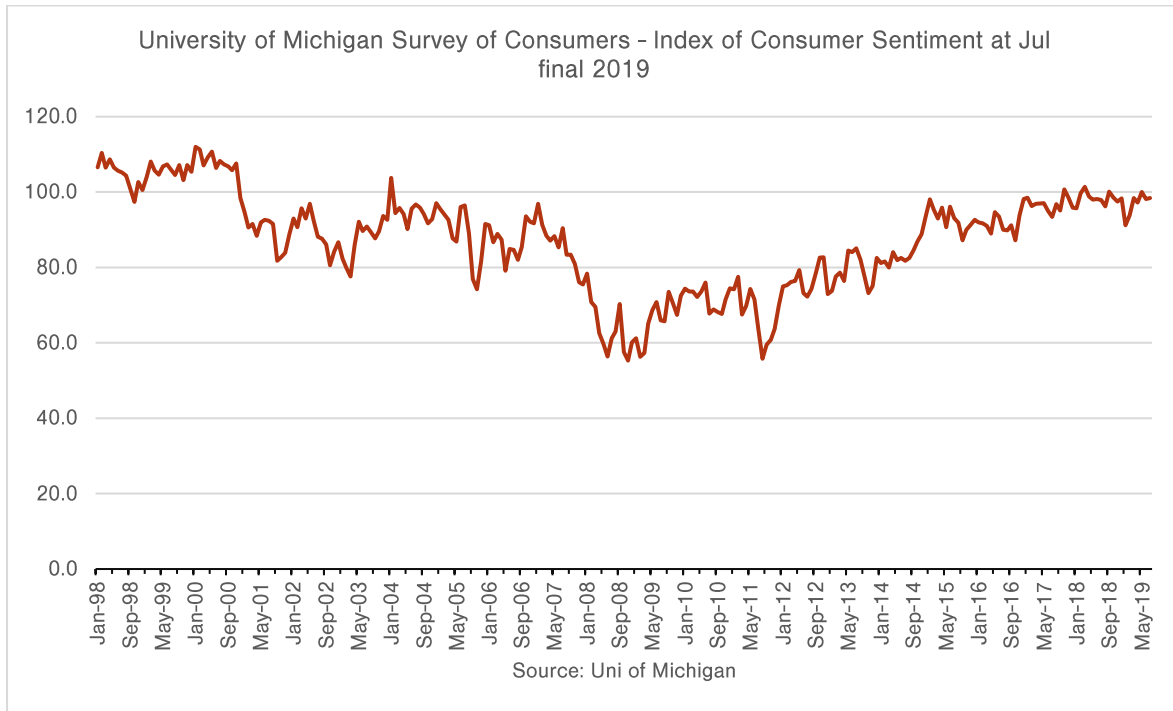
The Jul reading is +3.7% above the reading from a year ago.



Index of Consumer Sentiment

Jul 98.4 versus Jun 98.2

The index of sentiment is only 0.5% above the same time a year ago.



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

FOMC Statement on Monetary Policy Decision – 31 Jul 2019

As expected, the FOMC reduced the FFR target range by 25bps to 2-2.25%.

The statement was on balance little changed from the month prior. Commentary in the statement about current conditions is somewhat positive and concerns about global uncertainties and muted inflation do not seem to have been heightened since the last meeting. The press conference confirmed that this was an 'insurance cut';

“The outlook for the U.S. economy remains favorable and this action is designed to support that outlook. It is intended to insure against downside risks from weak global growth and trade policy uncertainty; to help offset the effects these factors are currently having on the economy; and to promote a faster return of inflation to our symmetric 2 percent objective.”

There were two dissenting votes this month – Esther George and Eric Rosengren voted to leave rates unchanged.

Key concerns for the FOMC were reworded from the month prior. In the June statement; “in light of uncertainties and muted inflation pressure” was replaced with “in light of the implications of global developments for the economic outlook as well as muted inflation pressure” in the July statement.

Current conditions – the opening sentence quotes a ‘strong labour market’ and economic activity that had been rising at a moderate rate. Household spending has improved while business fixed investment has been ‘soft’.

Guidance was unclear – the bolded part of the statement reflects the one change/addition to the statement this month;

“As the Committee contemplates the future path of the target range for the federal funds rate, it will continue to monitor the implications of incoming information for the economic outlook and will act as appropriate to sustain the expansion, with a strong labor market and inflation near its symmetric 2 percent objective.”

The main guidance statement by the FOMC provides little clarity over the path for rates;

“In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its maximum employment objective and its symmetric 2 percent inflation objective.”

Comments in the press conference though suggest more easing is possible;

“The median Committee participant’s assessments of the neutral rate of interest and the longer run normal rate of unemployment have also declined this year, reinforcing the case for a somewhat lower path for our policy rate.”

Quantitative Tightening

This month, the FOMC decided to halt the balance sheet reduction program as of 1st Aug rather than Oct – emphasis added;

Effective August 1, 2019, the Committee directs the Desk to **roll over at auction all principal payments from the Federal Reserve's holdings of Treasury securities and to reinvest all principal payments from the Federal Reserve's holdings of agency debt and agency mortgage-backed securities** received during each calendar month. Principal payments from agency debt and agency mortgage-backed securities up to \$20 billion per month will be reinvested in Treasury securities to roughly match the maturity composition of Treasury securities outstanding; principal payments in excess of \$20 billion per month will continue to be reinvested in agency mortgage-backed securities.

<https://www.federalreserve.gov/newsevents/pressreleases/monetary20190731a.htm>

<https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20190731.pdf>

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Europe

Eurozone Prelim GDP Q2

Eurozone GDP growth slowed in Q2 across both the Euro area and the broader EU29 group. Growth also decelerated on an annual basis.

Euro area (EA19)

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

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

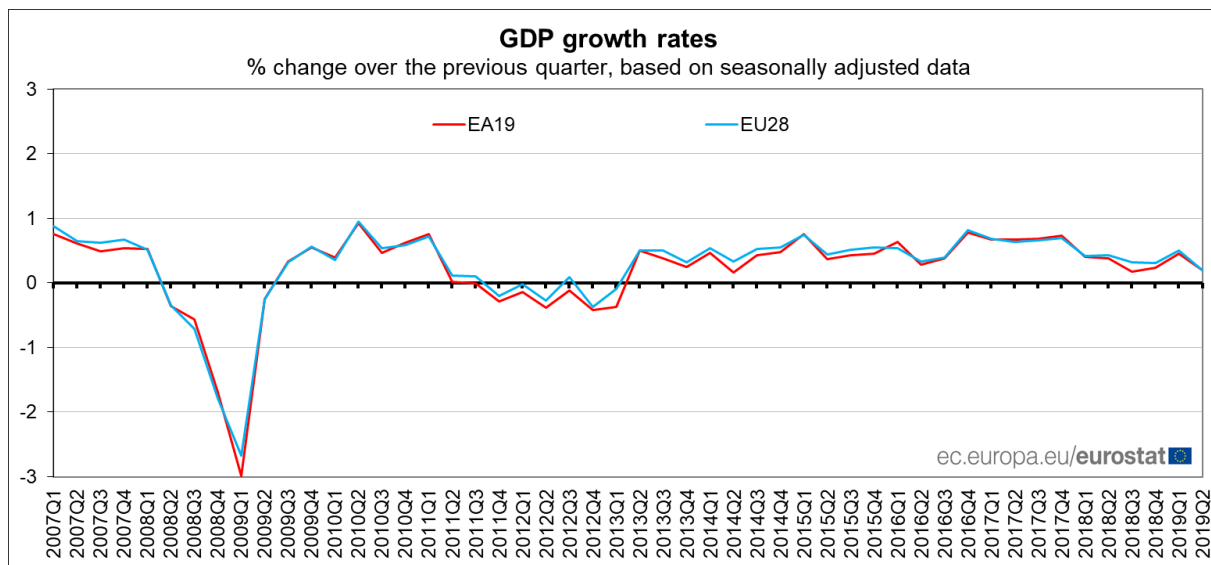
While the quarterly rate of growth is in line with Q3 and Q4 2018, the annual change in the Euro area has slowed from +1.7% in Q3 2018 to +1.1% in Q2 2019.

EU 28

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

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

The quarterly growth is slowest/lowest in the last four quarters and annual growth across the broader EU has slowed from +1.9% in Q3 2018 to +1.3% in Q2 2019.



<https://ec.europa.eu/eurostat/documents/2995521/10014300/2-31072019-BP-EN.pdf/b270fc1b-691b-4c8a-b8c0-6934b3fbba54>

Eurozone Prelim CPI (Jul)

The prelim report showed that Euro area annual CPI growth slowed further in Jul.

While there was acceleration in food, alcohol and tobacco prices over the year, this was more than offset by slower growth in energy and services prices. Core CPI (all-items ex energy, food, alcohol & tobacco) price growth also slowed.

Headline CPI

Annual change; Jul +1.1% versus Jun +1.3%

Food, alcohol and tobacco prices increased at a faster pace; Jul +2% versus Jun +1.6%

Energy prices grew at a much slower pace; Jul +0.6% versus Jun +1.7%

Services prices also decelerated; Jul +1.2% versus Jun +1.6%

Core CPI – All items ex energy, food, alcohol & tobacco

Annual change; Jul +0.9% versus Jun +1.1%

<https://ec.europa.eu/eurostat/documents/2995521/10014280/2-31072019-AP-EN.pdf/180b0d0a-6659-4287-a452-3e2a47371ae1>

Eurozone Manufacturing PMI (Jul)

Manufacturing activity contracted at a faster pace across the broader Eurozone in Jul.

Producers of intermediate and investment goods continued to experience a decline in activity while producers of consumer goods continued to experience broadly better conditions. Conditions were weaker across key economies; conditions in Germany deteriorated to the lowest level in seven years. The manufacturing PMI contracted in France, Ireland, Italy and Spain.

Eurozone Manufacturing PMI; Jul 46.5 versus Jun 47.6

IHS Markit Eurozone Manufacturing PMI



Source: IHS Markit.

The downturn was the result of a sharper decline in new orders – the second largest decline in the survey (the largest was in Mar 2019). Export trade continued to deteriorate – by the greatest degree since Nov 2011.

Output and purchases of materials both declined. Data in Jul indicated that purchases of stocks fell the most in nearly six years.

Order backlogs continued to decline. Firms responded with a ‘notable’ reduction in employment – the sharpest decline since May 2013.

The outlook also worsened;

“July’s survey data indicated a sharp fall in sentiment to its lowest level since the end of 2012. Germany recorded by far the most pessimistic outlook for production over the next 12 months.”

<https://www.markiteconomics.com/Public/Home/PressRelease/5ea690f5df6b47c2b4789aa9d34e5e3e>

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Japan

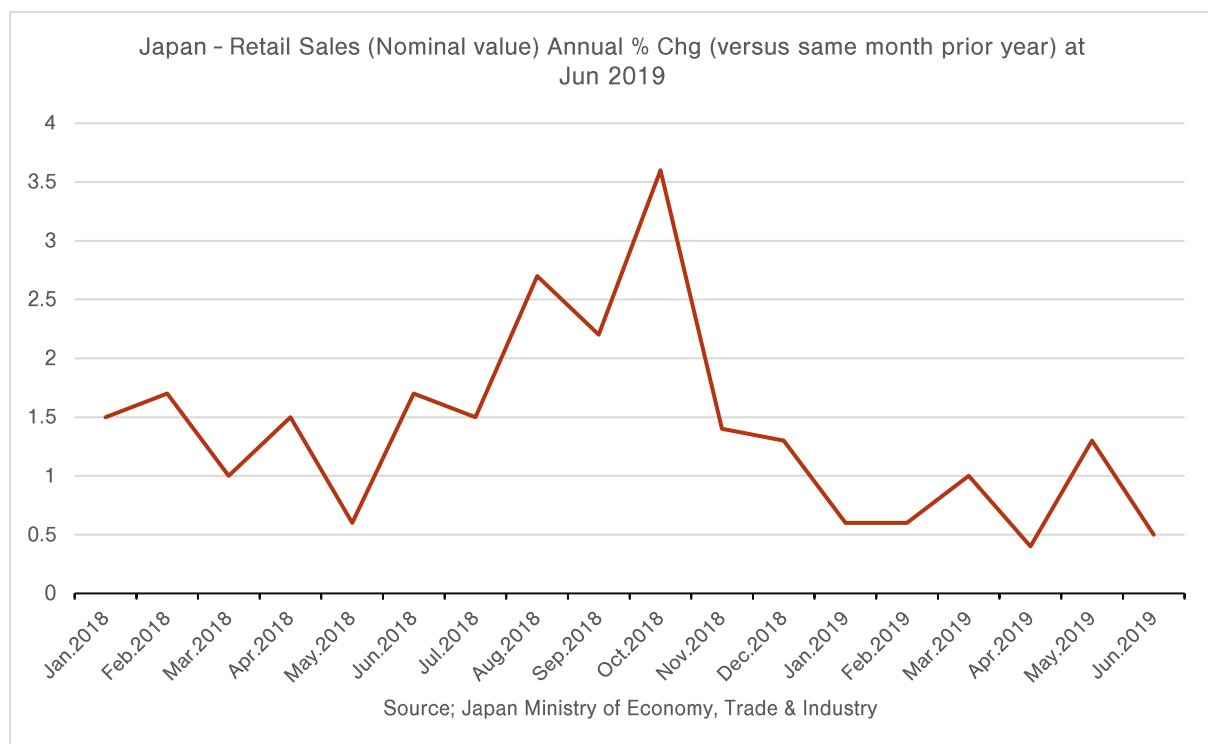
Retail Sales (Jun)

The value of nominal retail sales was unchanged in Jun, growing by 0%. Annual growth slowed due mostly to a decline in nominal fuel sales.

Annual Change:

Annual growth of retail sales slowed again in Jun and the trend of growth remains lower;

Jun +0.5% versus May +1.3%

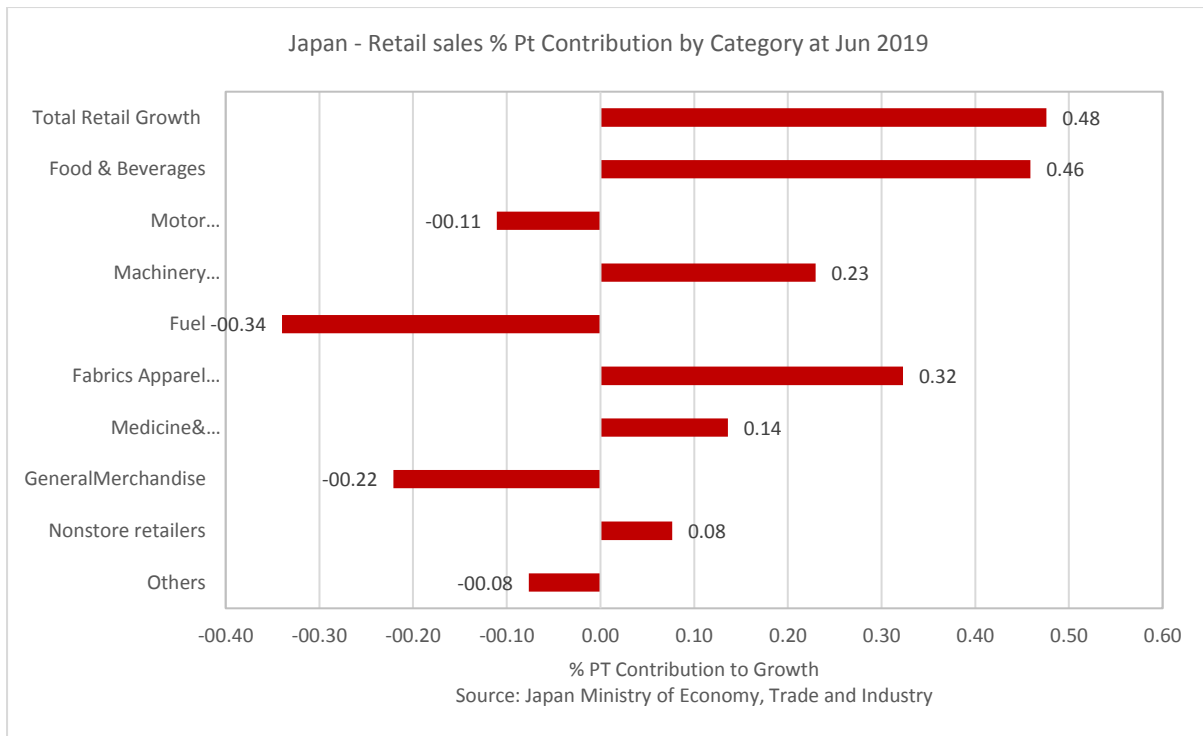


Contribution to annual growth by category

The retail sales result was mixed in Jun. Several categories continued to contribute to overall growth. This was offset by declines, most notably, in the value of fuel sales, but also in motor vehicle sales, general merchandise and other.

Note that in Jun, Food CPI accelerated from +0.8% in May to +1.4% in Jun – this is likely influencing the higher contribution of food and bevs.

In a similar vein, the annual growth in energy prices slowed from +3.7% in May to +1.2% in Jun – likely contributing to the lower value of retail sales growth versus a year ago.



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

Industrial Production – prelim (Jun)

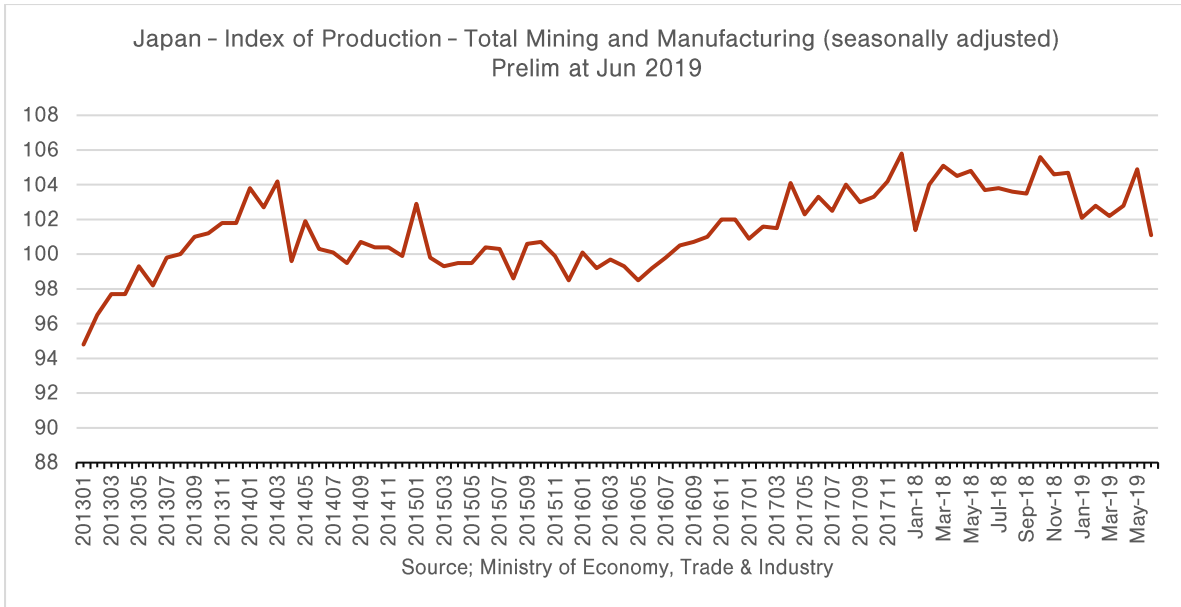
Industrial production and shipments declined heavily in the prelim report for Jun. Inventories and the inventory ratio both increased. On an annual basis, production and shipments continue to decline versus the same month a year ago.

The decline in production for Jun was forecast and is consistent with the decline in output reported by the Markit manufacturing PMI for Jun. The forecast is for an increase in output for Jul – whereas the prelim manufacturing PMI for Jul still indicates a decline in output, albeit a smaller decline.

Month Change

Production – Mining and Manufacturing; Jun -3.6% versus May +2%

To understand the scale of the decline in production for the month, the trend of the index of production fell to the second lowest point in the last 18 months;



One area that had been performing well over the last few months had been production of transport equipment. In this month though, production of transports equipment declined by 8% with passenger cars down 9% (versus +1.6% int eh month prior).

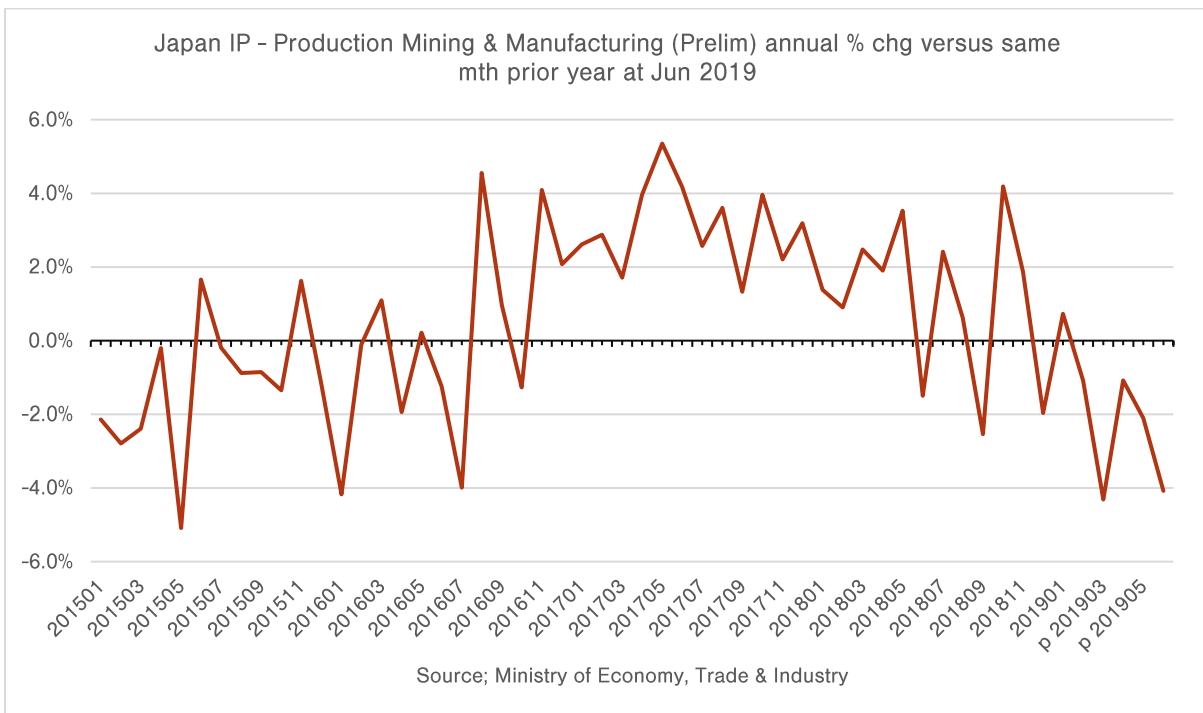
Shipments – mining and manufacturing; Jun -3.3% versus May +1.3%

Producers inventory of finished goods; Jun +0.3% versus May +0.5%

Producers Inventory ratio of finished goods; Jun +2.8% versus May +1.7%

Annual Change

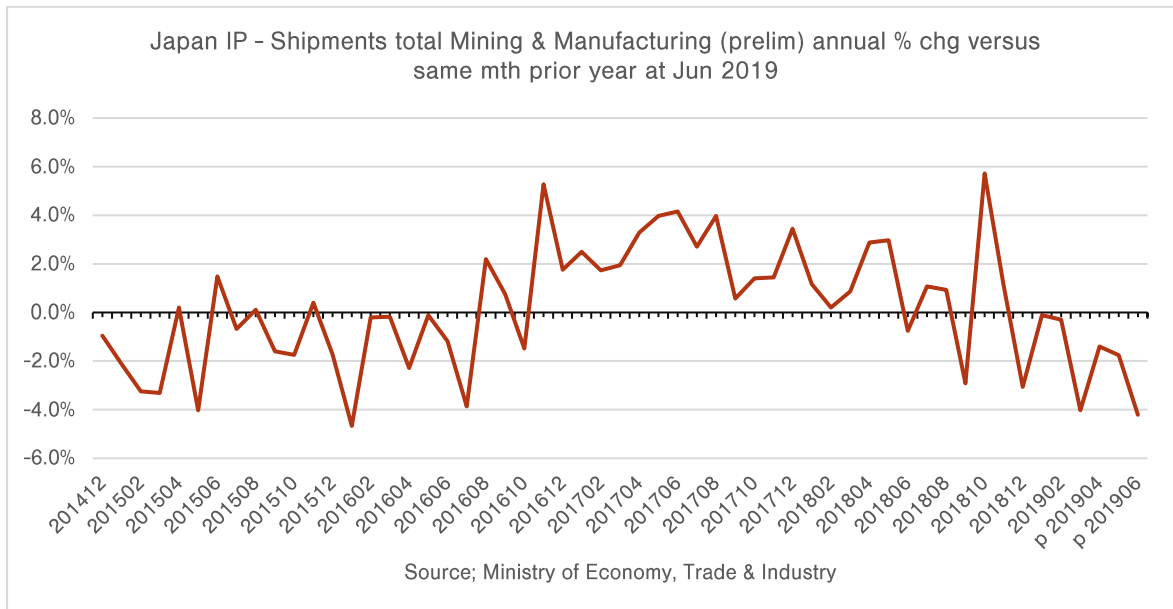
On an annual basis, total industrial production continued to decline; Jun -4.1% versus May -2.1%



At this prelim stage, production across all the categories is below a year ago; Some standouts are;

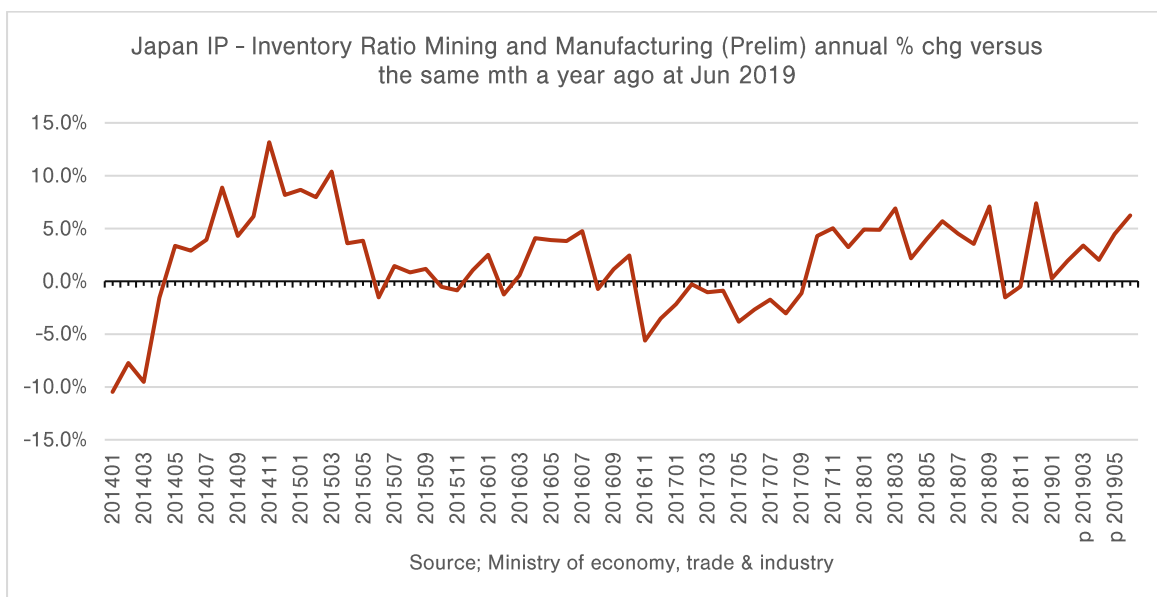
General purpose and business machinery production is now 8.8% below a year ago. Production of electronic parts and devices is 13% below a year ago. Even transport equipment production is 4% below a year ago.

Shipments versus a year ago declined at a faster pace; Jun -4.2% versus May -2.1%



Shipments versus a year ago for fabricated structural metal products was one of the few main categories that remains above a year ago. Annual passenger car shipments slowed notably in Jun to -0.8% versus May +9.6%.

Inventory of finished goods continues to grow, and the inventory ratio is now +6.3% above a year ago in Jun.



Forecast for July

In the latest prelim release, the forecast for production in Jul is for a +2.7% increase – this has improved from the Jun forecast for a +0.3% increase in production for Jul.

As of Jul, the forecast for production in Aug is so far for a smaller increase of +0.6%.

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

Japan Manufacturing PMI (Jul)

Manufacturing activity continued to contract at a somewhat modest pace in Jul. The pace of decline was little changed from the month prior. New orders and production continued to decline.

Manufacturing PMI; Jul 49.4 versus Jun 49.3

Jibun Bank Japan Manufacturing PMI

sa, >50 = improvement since previous month



Sources: Jibun Bank, IHS Markit.

New orders continued to decline due to both domestic and new export orders. As result, firms continued to reduce production. Firms continued to reduce order backlogs and inventories of finished goods.

As demand weakened, firms reduced output prices – with output prices falling at the fastest pace in over 3-years. Input price growth slowed and remained relatively low.

Despite the weaker overall conditions, manufacturing firms continued to increase employment levels.

The outlook for production over the next 12-months remained ‘subdued’;

“Spill-over effects from the US-China trade conflict, as well as potential escalations of tensions with South Korea reportedly dented optimism. Concerns that weak domestic and global growth would continue to restrict sales was also mentioned.”

<https://www.markiteconomics.com/Public/Home/PressRelease/daa3dbc8f1d043768141174fe4e081b0>

BoJ Interest Rate Decision

There was no change in the policy settings this month but there was some change in the guidance regarding the need for any additional measures due to developments in overseas economies. This is in response to a perceived heightened level of risk to growth – from the BoJ outlook statement this month (emphasis added);

“Downside risks concerning overseas economies are likely to remain significant, and **uncertainties regarding the effects of protectionist moves in particular have been heightening**. It also is necessary to pay close attention to the impact of such downside risks on firms' and households' sentiment in Japan.”

Policy Settings - Yield Curve Control & Asset Purchases

ST Rates; -0.1% rate for Policy Rate Balances in current accounts held by financial institutions at the Bank.

LT Rates; continued to purchase JBG's such that the yields will remain around zero. The purchases will increase such that the amount outstanding will increase at an annual pace of about 80 trillion yen.

Asset Purchases; Purchases of ETF's and J-REIT's to increase at an annual pace of 6 trillion and 90bn Yen annually. Annual CP and corporate bond purchases to increase by 2.2 trillion and 3.2 trillion Yen respectively.

Guidance

The guidance provided by the BoJ is that the 'extremely low' rates will be maintained for an extended period of time. This statement was unchanged from the month prior;

“As for policy rates, the Bank intends to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, at least through around spring 2020, taking into account uncertainties regarding economic activity and prices including developments in overseas economies and the effects of the scheduled consumption tax hike.”

What was new this month was a statement regarding 'additional easing measures' – emphasis added;

“In particular, in a situation where downside risks to economic activity and prices, mainly regarding developments in overseas economies, are significant, **the Bank will not hesitate to take additional easing measures if there is a greater possibility that the momentum toward achieving the price stability target will be lost.**”

http://www.boj.or.jp/en/announcements/release_2019/k190730a.pdf

Outlook Statement

There has been a slight lowering of forecasts of real GDP and core CPI for the fiscal 2019 year;

Forecasts of the Majority of Policy Board Members

	y/y % chg.		
	Real GDP	CPI (all items less fresh food)	(Reference) Excluding the effects of the consumption tax hike and policies concerning the provision of free education
Fiscal 2019	+0.6 to +0.9 [+0.7]	+0.8 to +1.1 [+1.0]	+0.6 to +0.9 [+0.8]
Forecasts made in April 2019	+0.7 to +0.9 [+0.8]	+0.9 to +1.2 [+1.1]	+0.7 to +1.0 [+0.9]
Fiscal 2020	+0.8 to +1.0 [+0.9]	+1.1 to +1.4 [+1.3]	+1.0 to +1.3 [+1.2]
Forecasts made in April 2019	+0.8 to +1.1 [+0.9]	+1.2 to +1.5 [+1.4]	+1.1 to +1.4 [+1.3]
Fiscal 2021	+0.9 to +1.2 [+1.1]	+1.3 to +1.7 [+1.6]	
Forecasts made in April 2019	+0.9 to +1.2 [+1.2]	+1.4 to +1.7 [+1.6]	

<http://www.boj.or.jp/en/mopo/outlook/gor1907b.pdf>

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United Kingdom

BREXIT

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

The new UK Brexit secretary, Stephen Barclay has 'called on' his counterpart in the EU, Michel Barnier to request a new mandate for Brexit in order to avoid a 'no-deal' Brexit. The hard-line approach on a no deal Brexit has been promised by this new administration;

“The Brexit secretary warned Mr Barnier that no deal was “coming down the tracks” and said the “political realities have changed” since negotiations began.” <https://www.independent.co.uk/news/uk/politics/brexit-eu-no-deal-latest-michel-barnier-stephen-barclay-boris-johnson-a9038506.html>

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

The UK government has already announced new spending commitments in preparation for a no-deal Brexit. Details of the expenditure are yet to be released.

“At the same time, Sajid Javid, the new chancellor, told the Sunday Telegraph there would be “significant extra funding” this week to get Britain “fully ready to leave” the EU on 31 October, with or without a deal.” <https://www.theguardian.com/politics/2019/jul/28/boris-johnson-turbo-charging-no-deal-brexit-plans-say-ministers>

BoE Rates Decision – 1 Aug 2019

The MPC decided to leave rates unchanged with the current bank rate at 0.75%.

Other policy measures remain unchanged;

Maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at £10 billion.

Maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at £435 billion.

Current Conditions

Continue to be dominated by global trade and mostly by Brexit;

“Since May, global trade tensions have intensified and global activity has remained soft.”

“An increase in the perceived likelihood of a no-deal Brexit has further lowered UK interest rates and led to a marked depreciation of the sterling exchange rate.”

Although a smooth adjustment to EU withdrawal is still the assumed path, Brexit is still likely to result in some disruption during the first year. As the uncertainties dissipate, growth is projected to accelerate.

Policy Guidance

Given the appointment now of Boris Johnson to PM, the chances of a no deal Brexit are increasing – and this is being reflected in rates and currency. The Bank forecasts are based on a smooth EU withdrawal. The MPC now notes that;

These projections are affected by an inconsistency between the smooth Brexit conditioning assumption underpinning the forecast and the prevailing market asset prices on which the forecasts are also conditioned.

There is now increased uncertainty about the nature of the EU withdrawal. The more optimistic view of policy tightening is still a possibility according to the Bank. This has been somewhat tempered now though;

The appropriate path of monetary policy **will depend on the balance of the effects of Brexit on demand, supply and the exchange rate.** The monetary policy response to Brexit, whatever form it takes, will not be automatic and could be in either direction. In all circumstances, the Committee will set monetary policy appropriately to achieve the 2% inflation target.

The Bank continues to hold onto the view that tightening may still be appropriate in the medium term;

Assuming a smooth Brexit and some recovery in global growth, a significant margin of excess demand is likely to build in the medium term. Were that to occur, the Committee judges that increases in interest rates, at a gradual pace and to a limited extent, would be appropriate to return inflation sustainably to the 2% target.

<https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2019/august-2019>

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Australia

Private Sector Credit (Jun)

The growth in the stock of outstanding private sector credit slowed further in the latest month. The slowdown in growth was led by outstanding mortgage credit for owner occupier housing and other personal. Growth in the outstanding stock of business credit increased at a faster pace and investor housing credit growth stabilized.

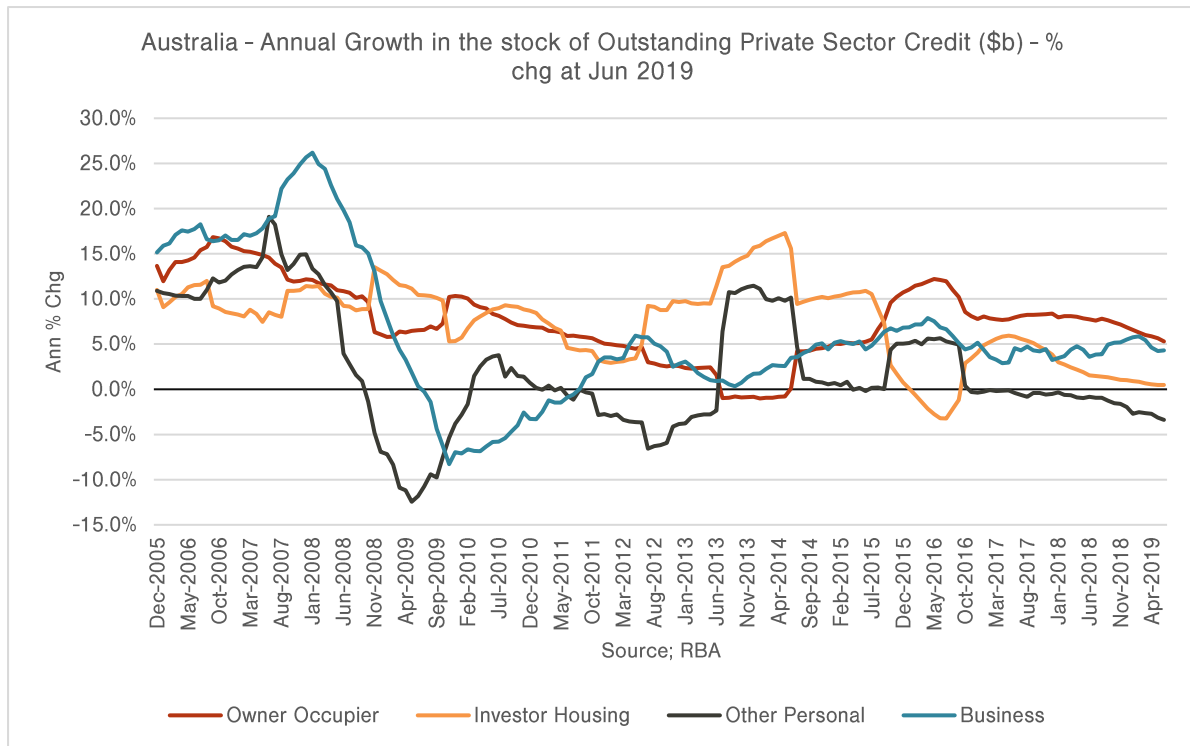
While the annual growth slowed, the change in new credit (the growth of the growth) became 'less negative' this small acceleration will likely be supportive of new spending growth – especially because it was led by business.

Stock of Outstanding Private Sector Credit

Annual change; Jun +3.5% versus May +3.6%

While the annual change in total outstanding credit slowed, the growth in new credit accelerated slightly (despite remaining negative);

Annual change in new credit; Jun -\$24bn versus May -\$29bn



The stock of outstanding investor housing credit stabilized this month, growing annually at +0.49%. The growth in new credit for investor housing credit has been 'less-negative' over the last three months – suggesting at least some stabilization or very small acceleration in growth.

The annual growth in the stock of owner occupier housing credit slowed more notably this month from +5.6% in May to +5.3% in Jun. The change in new credit continues to decelerate – this is leading an overall deceleration in the growth of new credit for housing.

The stock of other personal outstanding credit continues to decline (deleverage) on an annual basis.

Offsetting the change in the deceleration of housing and other personal credit growth was business credit. The annual change in the stock of outstanding business credit increased at a faster pace in Jun – likely consistent with the improvement in confidence measures at the time. The question is whether this continues given that business confidence figures retracted the election-induced improvement.

The result was that the growth in new credit for the total private sector remained negative, but accelerated (became less negative) in Jun. This will likely be supportive of spending increases.

<https://www.rba.gov.au/statistics/frequency/fin-agg/2019/fin-agg-0619.html>

Q2 CPI

The headline measure of consumer price growth increased at a faster pace in the quarter and over the latest year – but remains well below of the RBA target band of 2-3%. The tradeable/non-tradable split of items highlights that the acceleration in price growth was not led by the domestic market.

Both preferred measures of core underlying CPI growth continued to slow.

Headline All-Items CPI

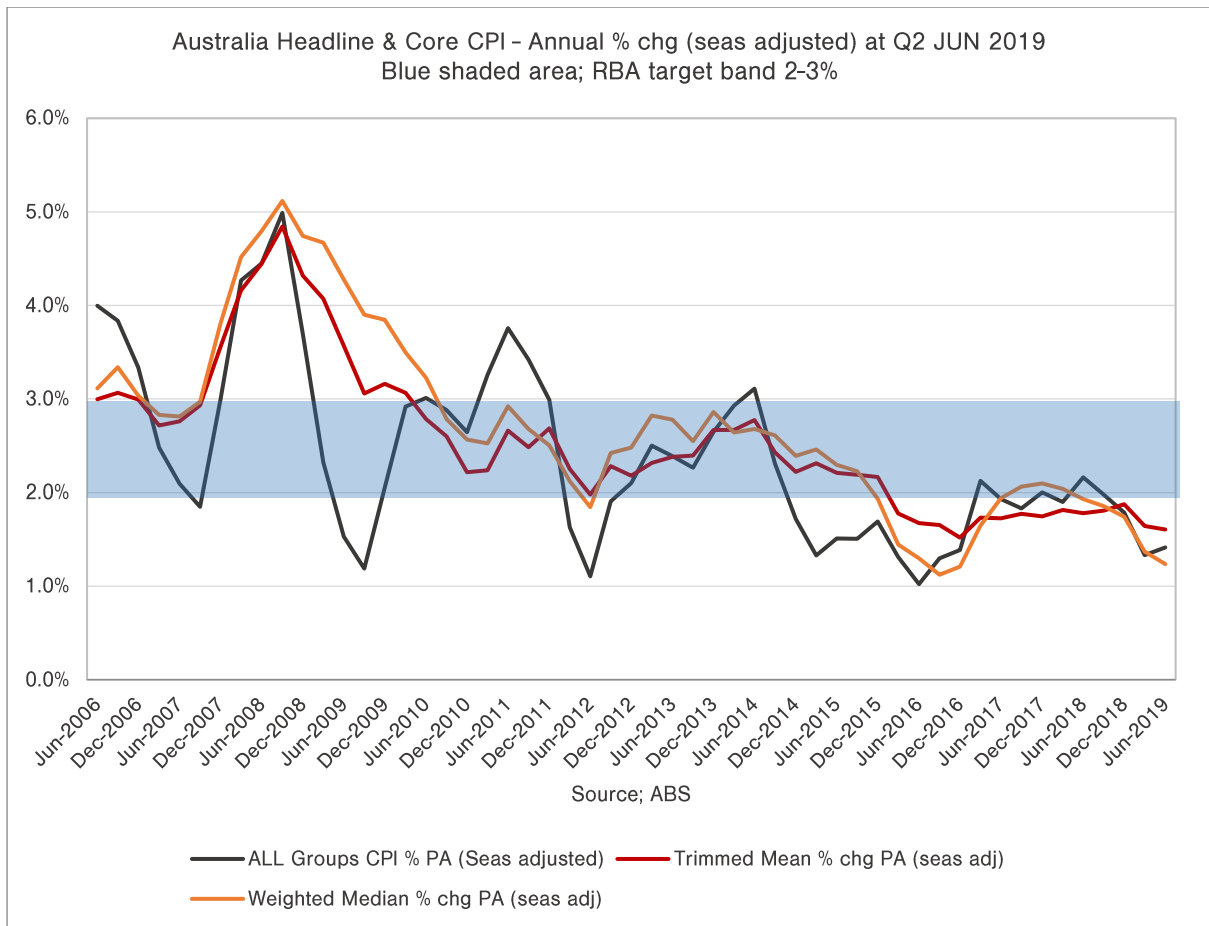
Quarter change; Q2 +0.6% versus Q1 0%

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

Core CPI

Weighted Median – annual change; Q2 +1.2% versus Q1 +1.4%

Trimmed Mean – annual changed; Q2 +1.6% versus Q1 +1.64%

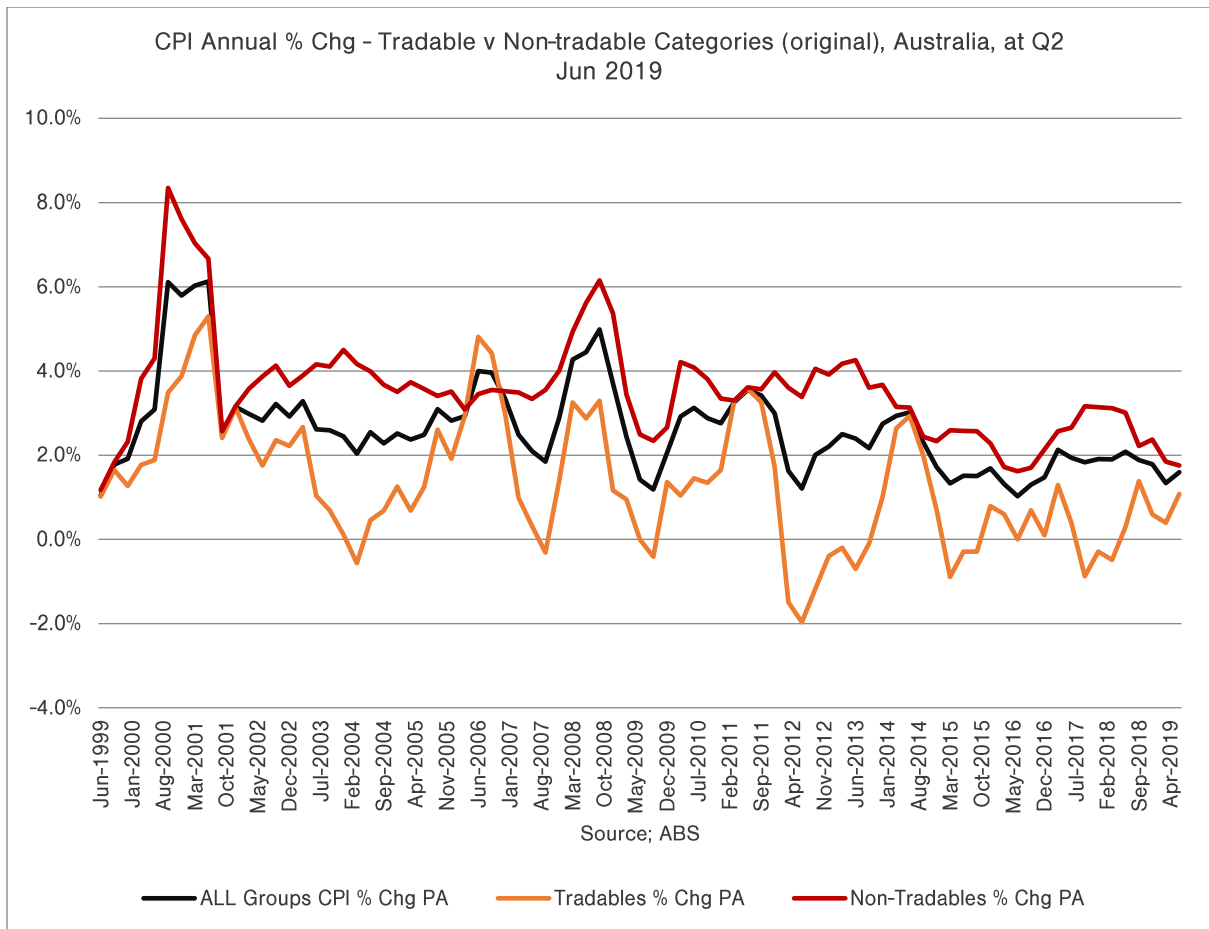


Tradeable/Non-tradeable CPI

The breakdown of the tradeable/non-tradeable components highlights that price pressures are not emanating from the domestic market. Tradeable prices grew at a faster pace in Q2 but remain below the growth in all-items. Trend-wise though it has appeared to be the main influence in the latest quarter lift;

Tradeable CPI (items whose prices are largely determined on world markets); Q2 +1.1% versus Q1 +0.4%. The quarterly growth in tradable CPI increased at a much faster pace; Q2 +1.2% versus Q1 -0.6%.

Growth in the more domestically-focused non-tradeable items continued to slow. Growth remains above the all-items average, but the gap is becoming narrower. Annual change; Q2 1.75% versus Q2 +1.84%. The quarterly growth also slowed and remains relatively low; Q2 +0.25%



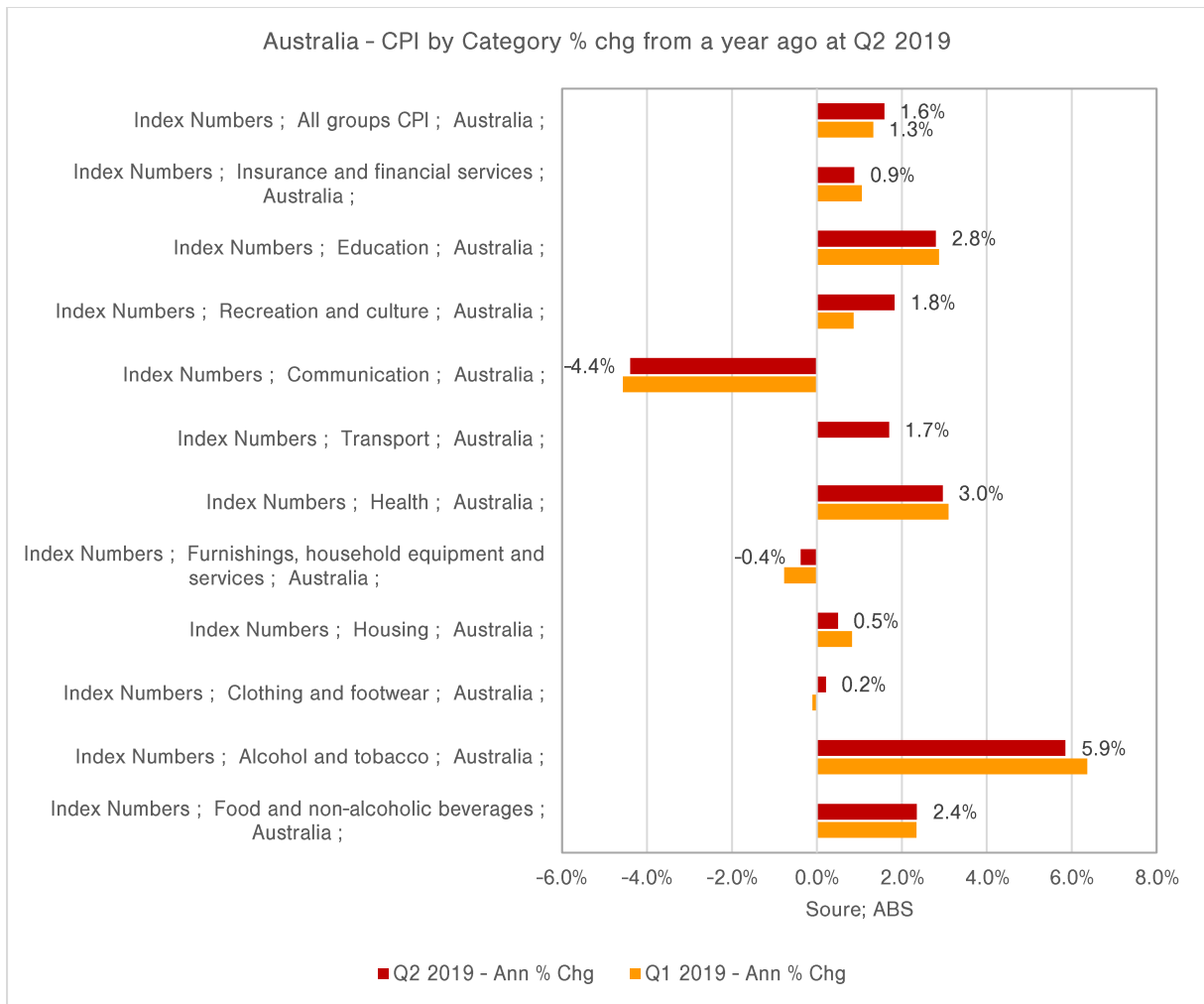
CPI by Category

A broad range of categories contributed to the annual headline growth in prices in Q2.

The notable accelerations were; transport and recreation & culture. In the quarter, the 10% increase in auto fuel prices made transport the single largest contributor to the quarterly increase in CPI.

Growth remained high for health, education, alcohol & tobacco and food & bevs.

Falls in prices of communication helped to offset some of the increase. Housing growth slowed on an annual basis and declined on a quarterly basis due to falls in electricity prices, other household fuels and new dwelling purchases by owner occupiers.



<https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6401.0Main+Features1Jun%202019?OpenDocument>

Retail Sales (Jun)

The Jun retail sales reflects at least one full month post-election and one rate cut. The result was that retail sales growth accelerated in Jun in both value and volume terms. The growth remained more moderate though.

Despite the improvement in the month and quarter, the annual trend in real sales volume growth has slowed to a mere 0.2% - the lowest growth rate since the GFC.

Most categories contributed to improvement in sales volumes in the latest quarter, except for food retailing.

Value of Retail Sales

Month change; Jun 0.4% versus May +0.1% (growth in Apr was also +0.1% in nominal terms).

Annual change; Jun +2.5% versus May +2.4%

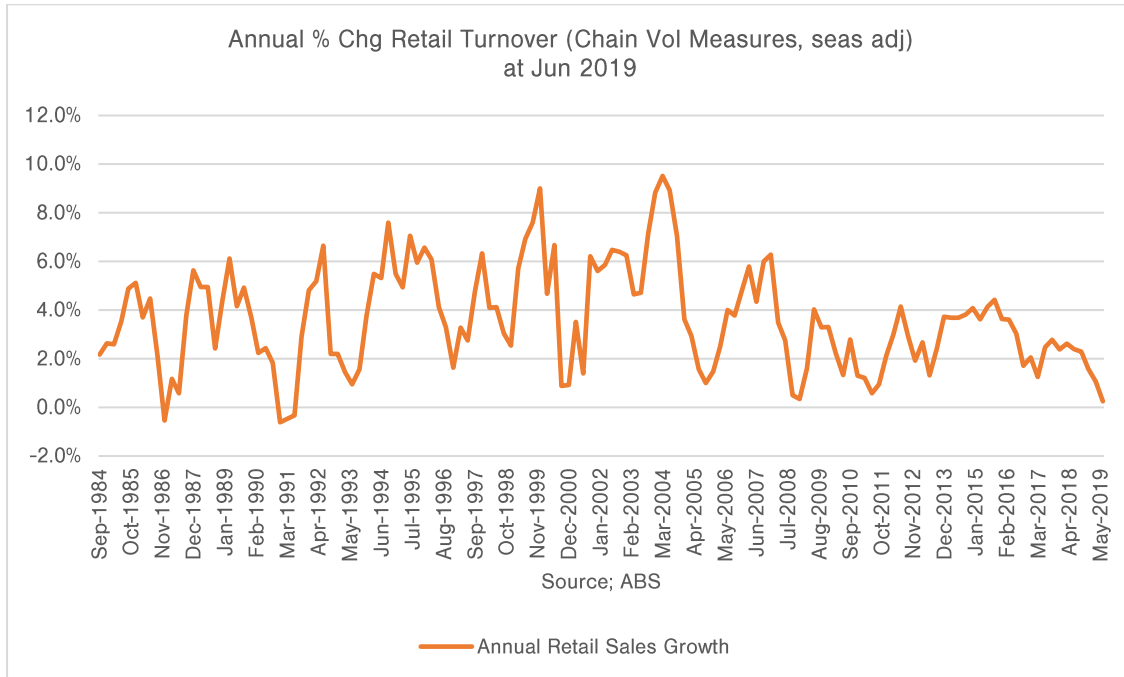
Volume of Retail Sales – Qtrly Result

The volume data is available on a quarterly basis and in the latest quarter growth accelerated slightly;

Quarter change; Q2 +0.2% versus Q1 -0.1%

The annual change has slowed further, and growth is now below that recorded during the GFC;

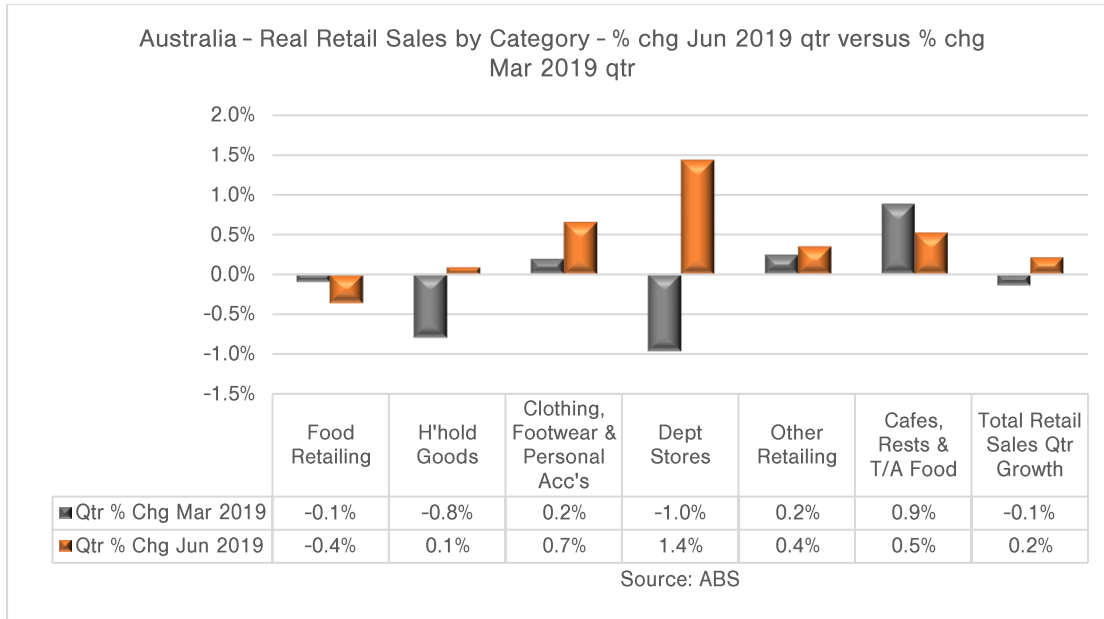
Annual change; Q2 +0.2% versus Q1 +1.1%



The trend in retail sales volume growth has rarely been negative – only declining slightly during the last recession in the early 90's.

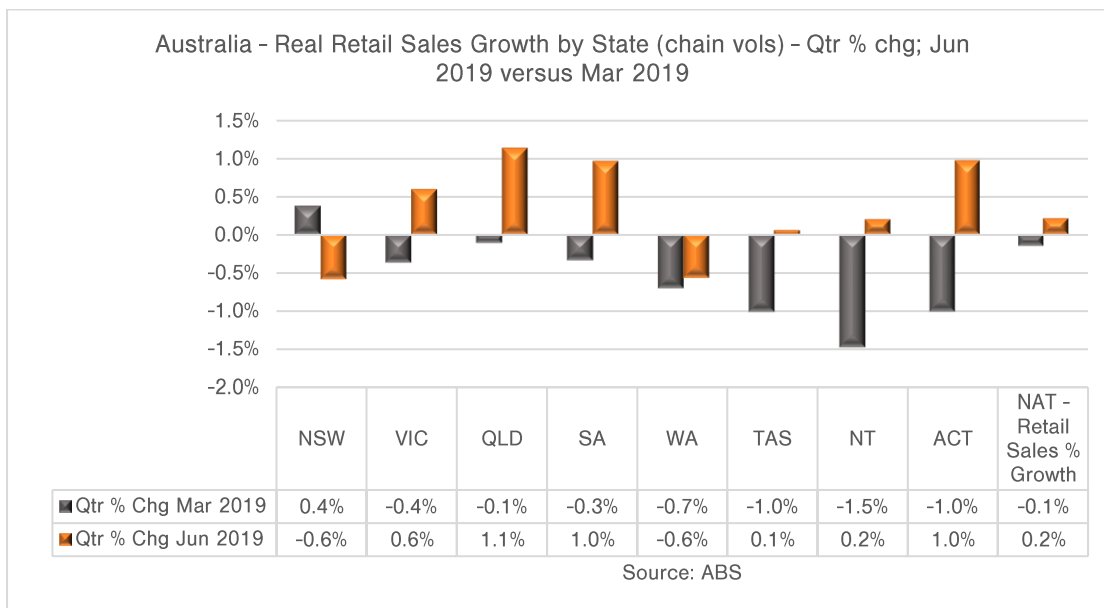
Retail Sales Volume – by Category

Most categories contributed to the stronger performance in volumes this quarter. The only exception was food retailing which declined at a faster pace;



Retail Sales by State

There was an improvement in sales across most states in Q2 but sales deteriorated in NSW and remained negative in WA.



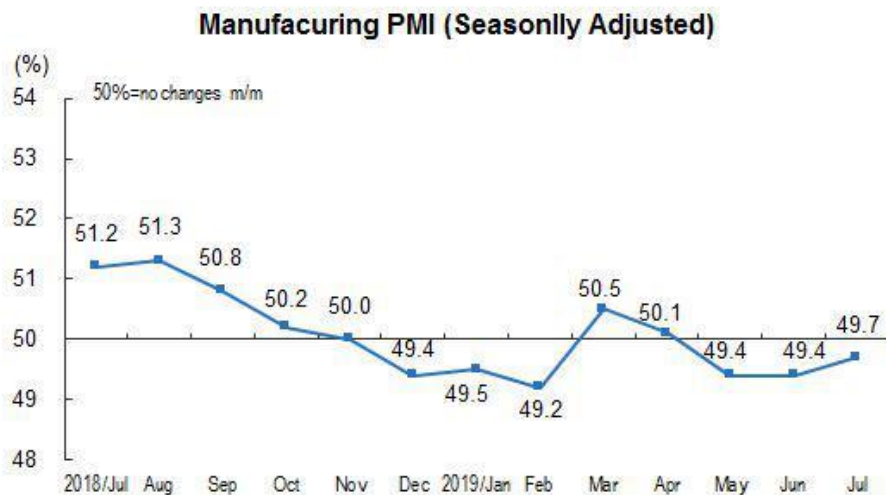
<https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/8501.0Main+Features1Jun%202019?OpenDocument>

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China

NBS Manufacturing PMI (Jul)

Manufacturing activity in China continued to contract in Jul, albeit at a slower pace. Larger firms contributed to slower decline while activity of smaller and medium firms continued to contract at a slightly faster pace.



Production continued to expand at a faster pace, while overall new orders declined for the third month in a row. New export orders continued to decline indicating the domestic orders have likely deteriorated over the last three months.

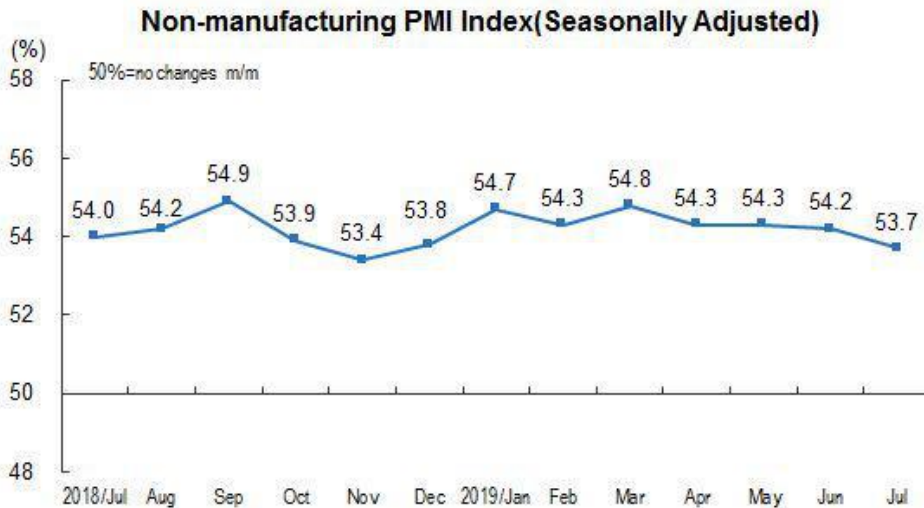
Open orders continued to decline, likely supporting production growth in the absence of new orders growth.

Employment also continued to decline.

NBS Non-Manufacturing PMI (Jul)

Non-manufacturing business activity continued to expand, albeit at a slower pace in Jul.

The non-manufacturing PMI for Jul is at 53.7.



There is only one sub-index that has registered a higher reading than the overall 53.7 non-manufacturing PMI - business expectations slowed but remained elevated at 59.8.

Four other sub-indices are below this PMI reading but above 50 and four sub-indices are below 50.

The composite index of manufacturing plus non-manufacturing activity is only slightly lower than the non-manufacturing PMI;

Composite index; Jul 53.1 versus Jun 53

http://www.stats.gov.cn/english/PressRelease/201907/t20190731_1683178.html

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Trade

US-China Trade Negotiations

President Trump announced a new round of tariffs on imports from China this week – amounting to a re-escalation of tensions between the two countries.

The new tariffs will come into effect on 1 Sep; 10% on \$300bn (the value of the remaining imports from China).

The response from China was that counter-measures would be implemented.

Depreciation of the currency was likely one of those counter-measures with the CNY and CNH both breaking 7.00 during 5 Aug. A press release from the Chinese State Administration of Foreign Exchange (SAFE);

Reporter: Why is the RMB exchange rate "breaking 7" ?

A: Affected by unilateralism and trade protectionism measures and the imposition of tariff increases on China, the RMB has depreciated against the US dollar today, breaking through 7 yuan, but the renminbi continues to be stable and strong against a basket of currencies. This is the market. Supply and demand and the reflection of fluctuations in the international currency market.

<http://www.safe.gov.cn/safe/2019/0805/13792.html>

There were also reports that Chinese state buyers were asked to halt US agricultural imports.

Despite the announcement of the new round of tariffs, 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>

There were reports during the week that a decision on special licenses for US companies to sell to Huawei could be announced this week. <https://www.reuters.com/article/us-huawei-tech-usa-ross/u-s-could-decide-on-licenses-for-companies-to-sell-to-huawei-by-next-week-ross-idUSKCN1UP2A9>

The lack of progress on agriculture purchases remained an issue for the US. Notes from last week suggest 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>

Special 2019 Section 301 Review

No further notification on progress.

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

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

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

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

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

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

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

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

Notorious Markets List

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

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

The link to the notorious markets reports is here;

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

The first country on the list is China.

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

NAFTA/USMCA

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.

Section 232 – Car and Truck Imports

President Trump has agreed to delay the decision to impose tariffs on auto imports as a part of the s.232 investigation on car and truck imports on national security grounds. But he has **stated that he agrees with the conclusion of the Commerce Dept report that imports harmed national security by causing declining market share for US-owned carmakers.**

“I concur in [Commerce Secretary Wilbur Ross'] finding that automobiles and certain automobile parts are being imported into the United States in such quantities and under such circumstances as to threaten to impair the national security of the United States,” Trump said in a proclamation outlining his decision.” <https://www.politico.com/story/2019/05/17/donald-trump-auto-tariffs-1330014>

As a part of the announcement, US President Trump also...

“directed U.S. Trade Representative Robert Lighthizer to pursue the negotiation of agreements with the EU, Japan and other countries that address the alleged national security threat posed by auto imports.

Lighthizer was directed to update the president on the status of those talks within 180 days.” <https://www.politico.com/story/2019/05/17/donald-trump-auto-tariffs-1330014>

The tariffs remain as negotiating leverage between the US and Japan and the EU. The S.232 report has not been made public, but President Trump’s statement provided some insight as to how the Commerce Dept justified the ‘national security’ grounds;

“The rapid application of commercial breakthroughs in automobile technology is necessary for the United States to retain competitive military advantage and meet new defense requirements,” the proclamation said.

The proclamation added that the U.S. defense industrial base depends on the “American-owned automotive sector” for development of technologies essential to military superiority. Foreign imports have eroded the ability of U.S. companies to compete and research and develop new technologies, the proclamation said.

“The lag in R&D expenditures by American-owned producers is weakening innovation and, accordingly, threatening to impair our national security,” the proclamation stated. <https://www.politico.com/story/2019/05/17/donald-trump-auto-tariffs-1330014>

US-Japan Trade Talks

It was announced during the week that the US and Japan would 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>

After meetings during the week, the Japanese Economy Minister Toshimitsu Motegi said that both sides made ‘significant’ progress on narrowing the differences on trade. Another round of talks will take place later this month.

Washington seeks early opening of Japan’s agriculture sector including reductions in 38.5% tariffs on U.S. beef imports, while Japan calls for abolition of U.S. tariffs on Japan’s industrial goods such as car parts.

<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, 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.

On a positive note this week, the US and the EU announced a ‘breakthrough’ agreement on US beef exports to the EU – nearly tripling annual duty-free exports of beef to the EU. <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/august/united-states-and-european-union>

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 during the week;

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

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

The dates for this latest review;

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

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

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

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

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

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

Trade Negotiations

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

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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