

Key Themes

US data was more positive regarding manufacturing growth. The Dallas Fed, Richmond Fed, and Chicago PMI regional manufacturing surveys recorded at least moderate growth and improved conditions in Aug (after the much weaker Jul readings). The Jul data reported this week still reflected the somewhat weaker production conditions. Chicago Fed National Activity Index fell further below average due to lower production and income growth. Growth in durable goods orders for Jul was led predominantly by an improvement in new orders for aircraft (non-defense aircraft and parts). Excluding transportation, new orders declined in the month and on an annual basis. Shipments declined in the month and inventory growth remains higher than orders.

The large decline in the Uni of Michigan consumer sentiment, expectations and conditions data was an important highlight. The decline was led by concern over increased tariffs. Despite the large one-month decline, sentiment remains at a level consistent with a more moderate rate of consumption growth.

US personal incomes grew at a slower pace in Jul led mostly by much slower growth in wages and salaries. Lower growth in taxes somewhat offset the weaker income growth resulting in only slightly slower growth in disposable income (versus the month prior). Personal consumption expenditures increased at a faster pace in Jul – providing a relatively strong start to Q3. Personal savings declined as a result of disposable income growth < consumption growth.

There was little change in the annual growth of the headline PCE price index this month, growing at +1.38% and remaining well below the Fed 2% target. Core PCE prices growth was similarly little changed on an annual basis. Faster growth in the PCE price index for the month was led by energy goods and services. Core prices grew at a slightly slower pace in the month.

Prelim Eurozone data indicated that CPI growth was constant at 1% in Aug. The fall in annual energy prices was offset by faster growth in food, alcohol and tobacco prices and slightly faster growth in services prices.

Industrial production in Japan for Jul increased moderately as expected, after larger falls in the month prior. Japanese retail sales recorded a relatively large decline in Jul.

Contents

US Data - Durable Goods Orders (advance) (Jul), Chicago Fed National Activity Index (Jul), Dallas Fed Manufacturing Survey (Aug), CoreLogic Case Shiller House Price Index (Jun), Richmond Fed Manufacturing Index (Aug), GDP 2nd Est – Q2, Pending Home Sales (Jul), Personal Income and Outlays (Jul), Chicago PMI (Aug), Uni of Michigan Consumer Sentiment – Final (Aug)

Europe - Germany GDP Q2 – Detailed, Germany CPI – prelim (Aug), Germany Retail Sales (Jul), Eurozone Prelim CPI (Aug)

Japan – Industrial Production – prelim (Jul), Retail Trade (Jul)

United Kingdom – Brexit

Australia – Private Sector Credit (RBA) (Jul)

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

US Data

Durable Goods Orders (advance report) (Jul)

Durable goods orders grew at a faster pace in Jul – this was led predominantly by a continued improvement in new orders for aircraft (non-defense aircraft and parts). Excluding transportation, new orders actually declined in the month – suggesting some ongoing weaker growth to be expected in shipments.

Shipments declined overall in Jul while unfilled orders were little changed on the month prior.

New Orders

Total Durable Goods New Orders – month change; Jul +2.1% (+\$5bn) versus Jun +1.8%

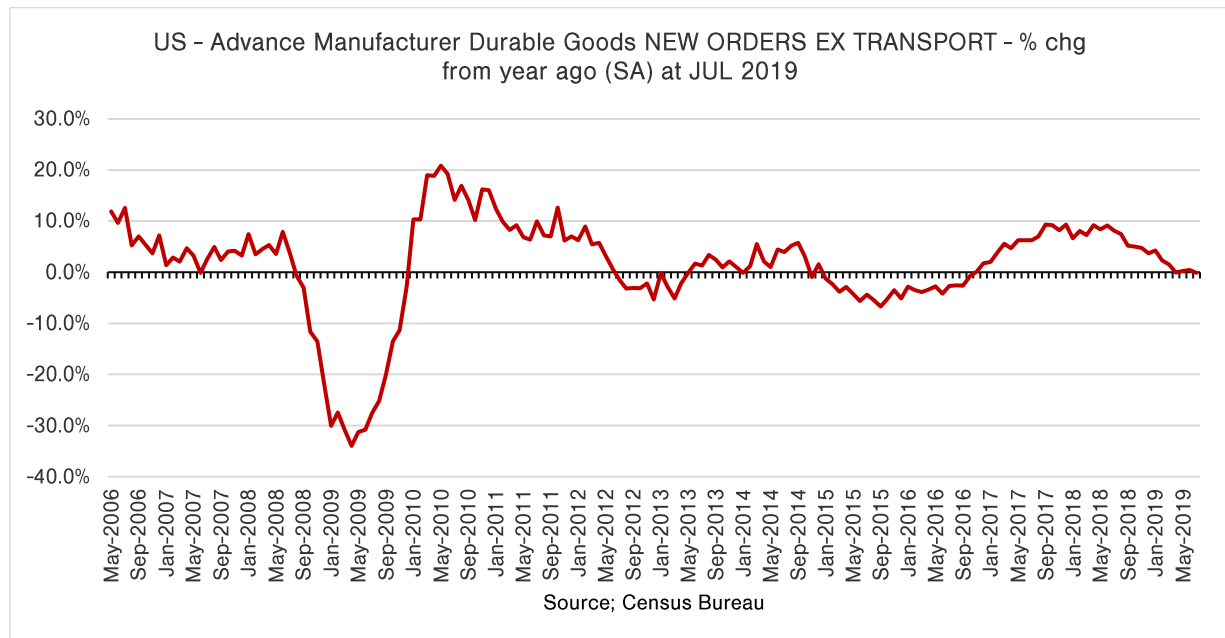
The acceleration in growth this month was due to an increase in new orders for aircraft of +\$4.3bn (both defense and non-defense aircraft).

New orders for motor vehicles and parts grew at a slower pace of +0.5% in Jul versus +2.7% in Jun.

Total Durable Goods New Orders EX-transport – month change; Jul -0.4% (-\$0.6bn) versus Jun +0.8%

Orders for primary metals, fabricated metals, machinery and computer and electronics all declined in the month.

On an annual basis, durable goods new orders increased by +1% after falling in the three months prior. The annual growth this month is due to the large increase in new orders for aircraft. Excluding transportation, the annual growth in new orders declined slightly by -0.1% in Jul – indicating underlying loss of growth momentum;



Shipments

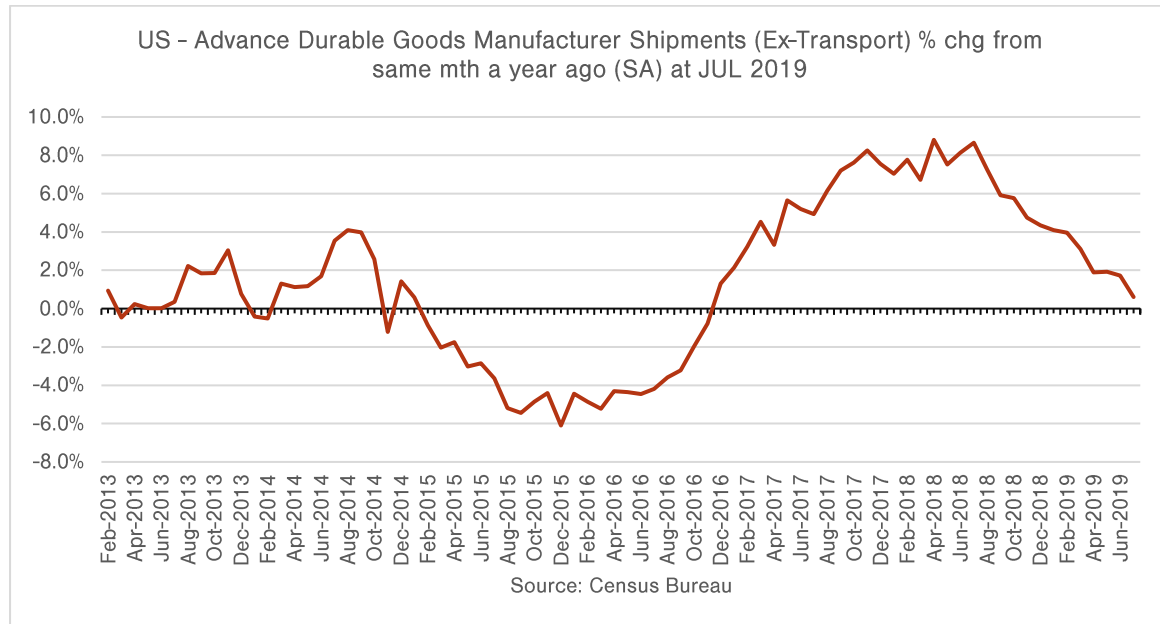
Total Durable Goods Shipments – month change; Jul -1.1% (-\$2.9bn) versus Jun +1%

The decline in shipments was widespread in Jul. The only durable good categories where shipments increased was electrical equipment and motor vehicles.

The decline in overall transportation shipments (-\$1.8bn) accounted for two thirds of the overall decline in shipments in the month.

Given the increase in new orders for Jul, shipments in transports should rebound in the coming months.

But excluding transports, the slow-down in shipments growth continues. Annual growth in durable goods shipments ex transports have slowed further in the latest month; Jul +0.6% versus Jun +1.7%



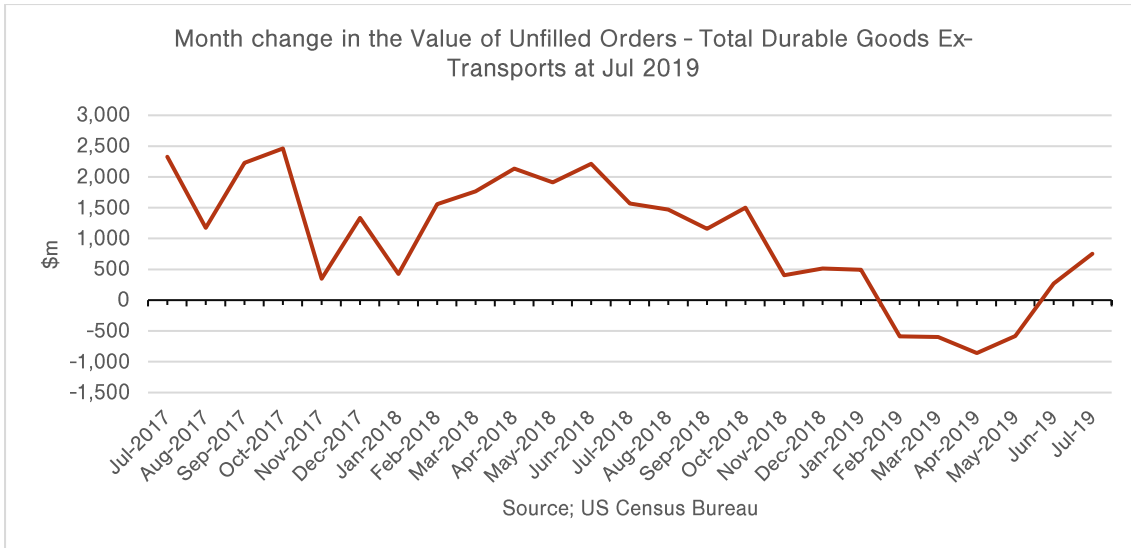
Unfilled Orders

Total Durable Goods Unfilled Orders – month change; Jul +0.1% versus Jun -0.6%

The small increase in unfilled orders in the month (+\$0.6bn) comes after the much larger fall in the month prior of -\$7.3bn.

Transportation equipment unfilled orders were unchanged in the month, but the increase in non-defense aircraft orders was offset by further declines in defense aircraft unfilled orders. There were also small increases in unfilled orders across most categories.

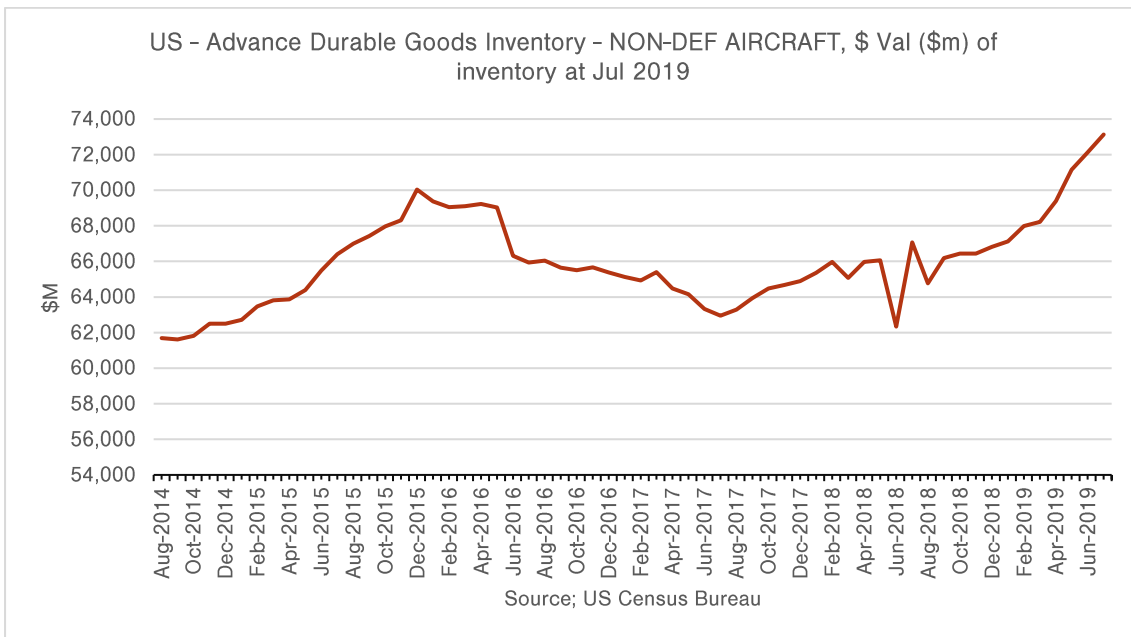
Excluding transportation, unfilled orders growth continues to slow on an annual basis; Jul +1.1% versus Jun +1.3%. The slower growth suggests that firms have been working through order backlogs to support shipments in the absence of accelerating growth in new orders. A year ago, unfilled orders were growing at +5.6%. But there is some evidence that monthly unfilled orders have started to increase again (durable goods ex transports);



Inventories

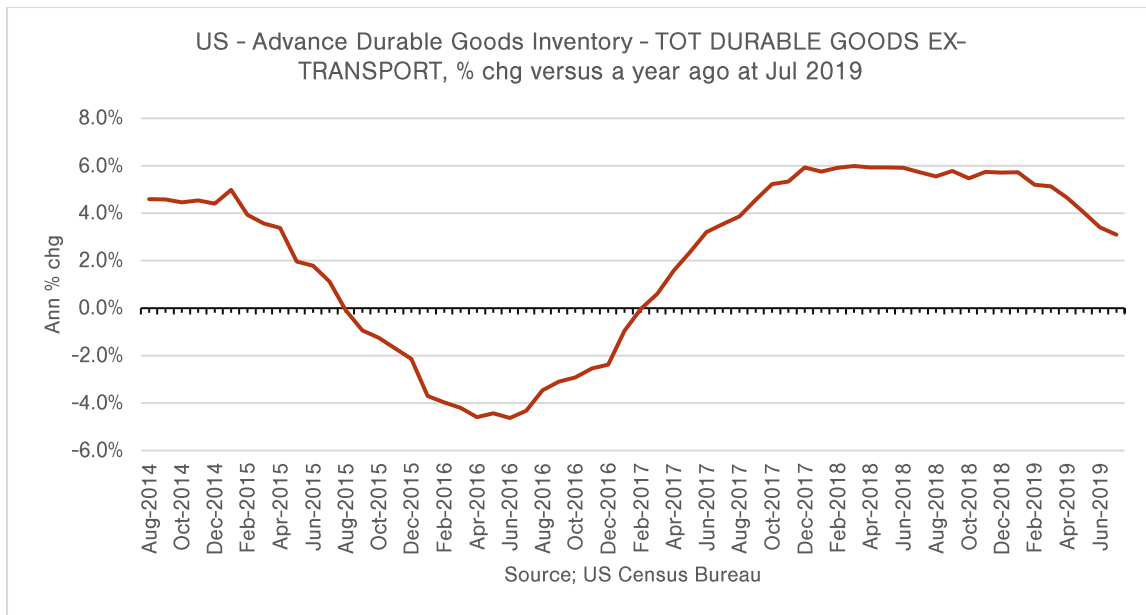
Total Durable Goods Inventories – month change; Jul +0.4% (+\$1.5bn) versus Jun +0.3%

The increase in inventories was led mostly by non-defense aircraft and parts (+\$1bn). While this is in line with the increase in new orders for month, the value of non-defense aircraft and parts inventory remains elevated and is growing at +9% versus a year ago;



This also suggests that there may be lower upside for suppliers with regard to demand created by the new orders.

Excluding transport, underlying inventory growth continues to slow, but note that growth is still higher than the annual growth in orders and shipments. Annual change in inventory for durable goods ex-transports; Jul +3.1% versus Jun +3.4%

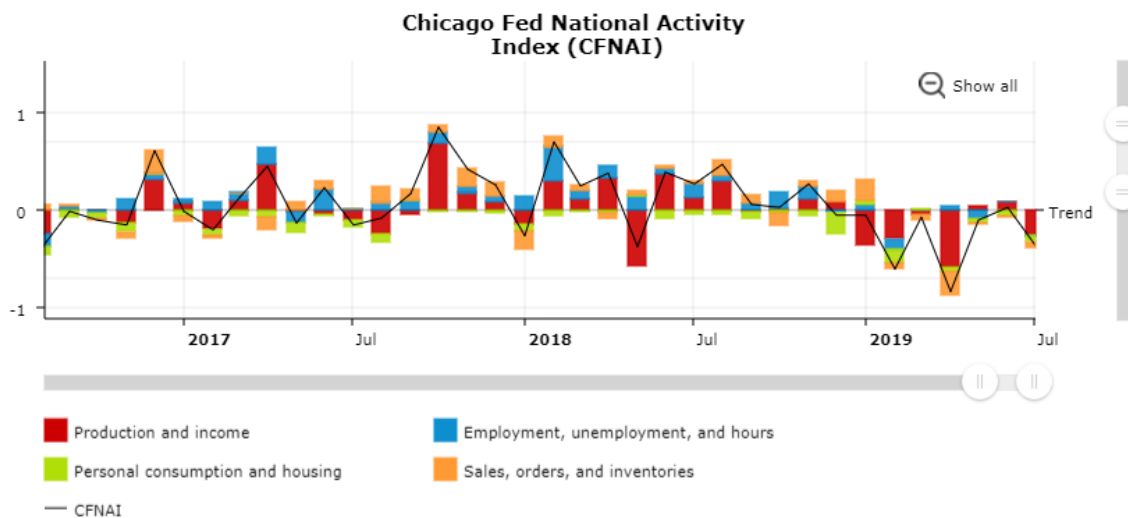


<https://www.census.gov/manufacturing/m3/index.html>

Chicago Fed National Activity Index (CFNAI) (Jul)

The CFNAI decline in Jul indicating lower than average growth in the month. All of the major sub-indices declined in the month, but it was the decline in production and income that was the main driver.

CFNAI; Jul -0.36pts versus Jun +0.03pts



Production and income growth fell to below average growth; Jul -0.36pts versus Jun +0.9pts

Employment, unemployment and hours growth also slowed to slightly below average; Jul -0.01pts versus Jun 0pts

Personal consumption and housing continued to grow at below average; Jul -0.06pts versus Jun -0.05pts

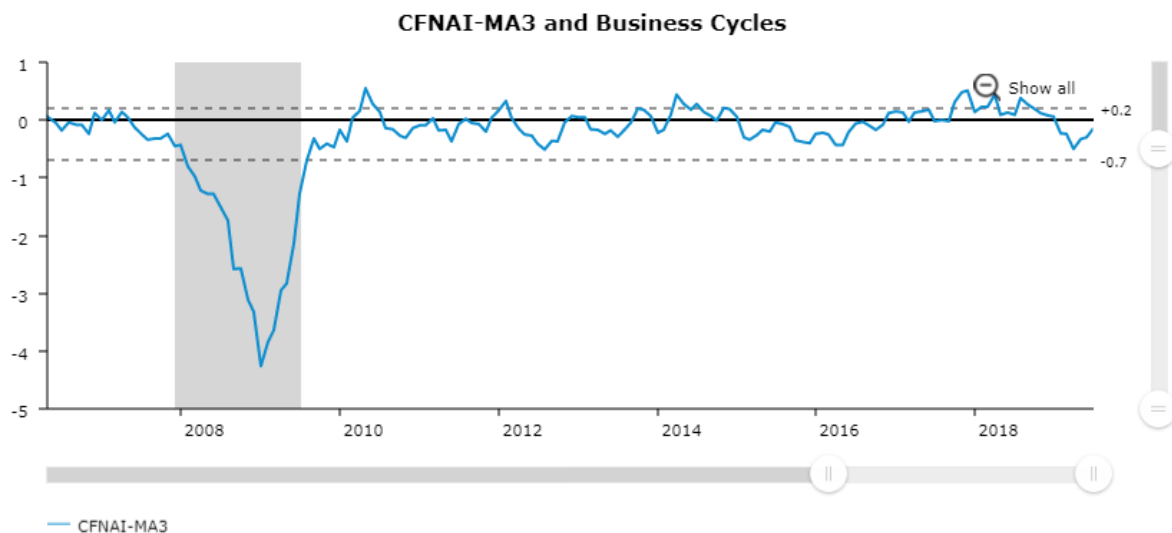
Sales, orders and inventories growth also slowed to further below average; Jul -0.05pts versus Jun - 0.01pts

The 3month moving average increased slightly but remains below the longer-term average growth rate.

In terms of how this current period of weakness compares to prior cycles - the recent low in the 3mth moving average reached in Apr 2019 was on par with prior periods of weaker activity in 2012 and 2016 and has remained within the 'tolerance' of likelihood of expansion;

“Following a period of economic expansion, an increasing likelihood of a recession has historically been associated with a CFNAI-MA3 value below -0.70.

Conversely, following a period of economic contraction, an increasing likelihood of an expansion has historically been associated with a CFNAI-MA3 value above -0.70 and a significant likelihood of an expansion has historically been associated with a CFNAI-MA3 value above +0.20.”



<https://www.chicagofed.org/research/data/cfnaï/current-data>

Dallas Fed Manufacturing Survey (Aug)

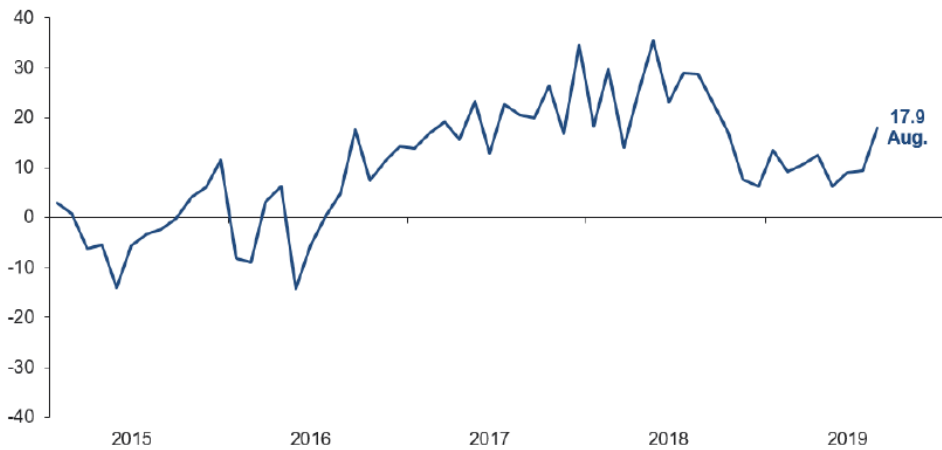
Indicators of current manufacturing activity in Texas improved in Aug. This was led by faster growth in production output, new orders and shipments. The index of outlook uncertainty increased by a much larger degree and sits well above the series average. The outlook for six months' time was little changed and remained well below the series average.

Headline Production Index; Aug 17.9 versus Jul 9.3

General Business Activity; Aug 2.7 versus Jul -6.3

Texas Manufacturing Outlook Survey Production Index

Index, seasonally adjusted



Federal Reserve Bank of Dallas

Production, new orders and shipments all grew at a faster pace in Aug – a sign of more positive demand conditions. Unfilled orders continued to contract but at a slower pace. Inventories of finished goods continued to decline at a similar pace.

Employment was slightly less positive. Employment growth slowed by a larger degree, from well above the series average to now below the series average. Hours worked also grew at a slower pace but remains above the series average.

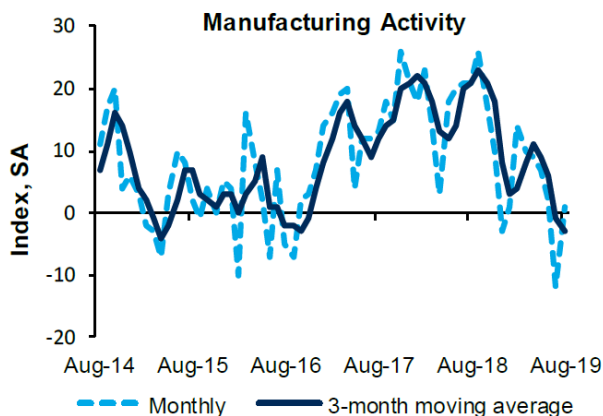
Unsurprisingly, the indicator of outlook uncertainty increased by a larger degree; Aug 18.6 versus Jul 9.7. The outlook for six months ahead was little changed though, increasing/improving by a slightly faster pace – but remaining well below the series average. Similarly, the index of general business conditions expected for six-months ahead slowed to a very low level of growth and also remaining well below the series average.

<https://www.dallasfed.org/research/surveys/tmos/2019/1908.aspx>

Richmond Fed Manufacturing Index (Aug)

Manufacturing activity rebounded in the latest month from contraction to a moderate/low level of growth. This was led by an improvement in shipments and new order volumes. Order backlogs declined at a slower pace. The number of employees continued to decline while the average work week increased at a faster pace. Growth in prices received slowed to a new recent low level.

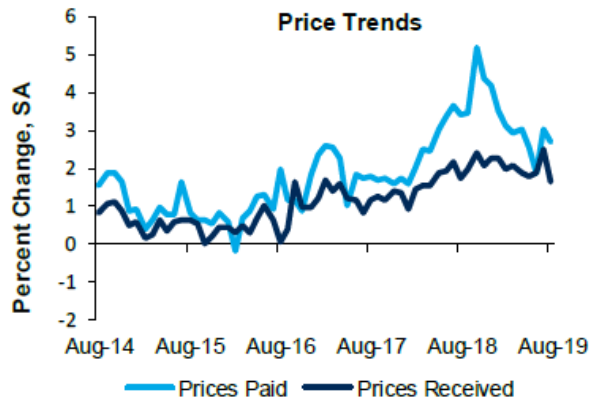
Headline Manufacturing Index; Aug +1 versus Jul -12



Both shipments and new orders increased at a faster pace after declining in the month prior. Order backlogs continued to decline but at a slower pace. Finished goods inventories increased at a somewhat slower pace. Raw materials growth remained little changed.

Employment conditions were mixed. The number of employees continued to decline while the average workweek improved after contracting in the month prior.

Price trends show that prices paid grew at a slower pace, but that prices received also slowed to a new recent low level.



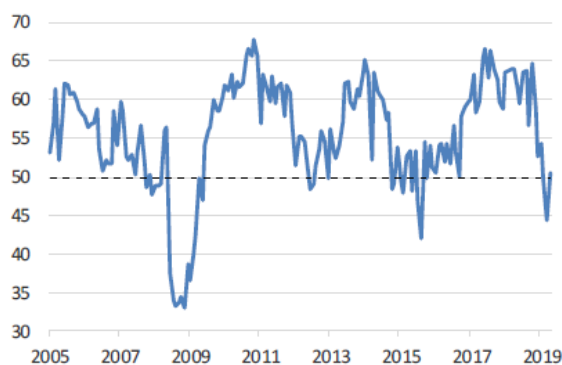
https://www.richmondfed.org/-/media/richmondfedorg/research/regional_economy/surveys_of_business_conditions/manufacturing/2019/pdf/mfg_08_27_19.pdf

Chicago PMI (Aug)

The index of business activity in Chicago improved in the latest month after declines (contraction) in the two months prior. The rebound in activity suggested only a low pace of growth in the month.

Headline PMI; Aug 50.4 versus Jul 44.4

Chicago Business Barometer™



© 2019 ISM – Chicago, Inc. and MNI Indicators
The Chicago Business Barometer is a trademark of ISM – Chicago, Inc.

Production growth remained low, albeit improved. New orders shifted back to expansion. Backlogs of orders increased at a faster pace and also shifted from decline in the three months prior. Inventories recorded a large monthly decline – as firms continued to manage/lower inventory levels.

Employment indicators remained weak and in contraction territory.

<https://s3.amazonaws.com/images.chaptermanager.com/chapters/b742ccc3-ff70-8eca-4cf5-ab93a6c8ab97/files/mni-chicago-press-release-2019-08.pdf>

US GDP Second Est – Q2 2019

US Real GDP growth in Q2 was revised slightly lower in the second estimate.

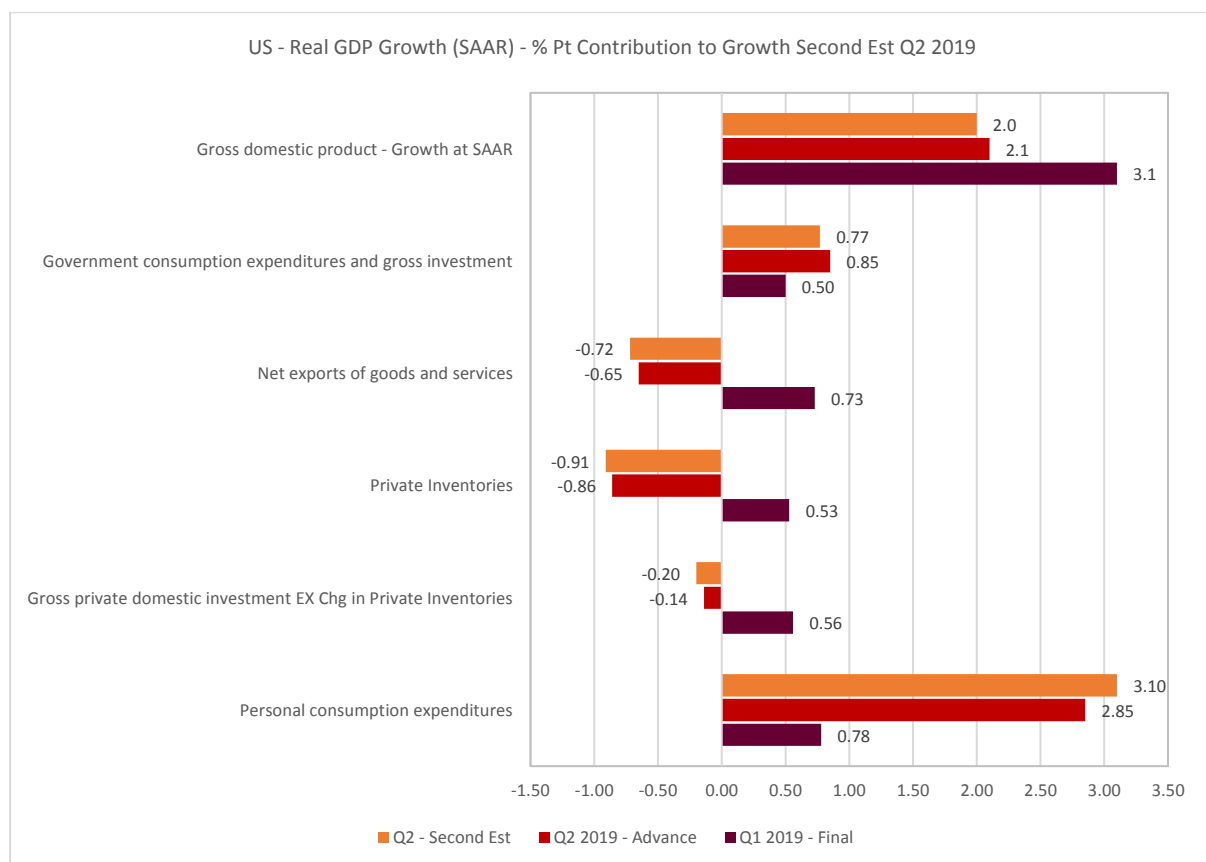
Q2 GDP growth (at seas adj annual rates); +2% (revised from +2.1%)

This remains well below the final growth rate recorded in Q1 2019 of +3.1%.

Expenditure View – Main Revisions

From an expenditure perspective, there were several revisions. The main one was the relatively large upward contribution from personal consumption expenditure. The (SAAR) of personal consumption expenditure growth was revised from +4.3% to +4.7%. Expenditure growth in goods and services was revised higher. The overall driver of the faster growth was expenditure on goods +8.8% versus services +2.8%.

This helped to offset a lower contribution (between the advance and second estimate) from Government expenditure, net exports, private inventories and gross private domestic investment;



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

CoreLogic Case Shiller House Price Index (Jun)

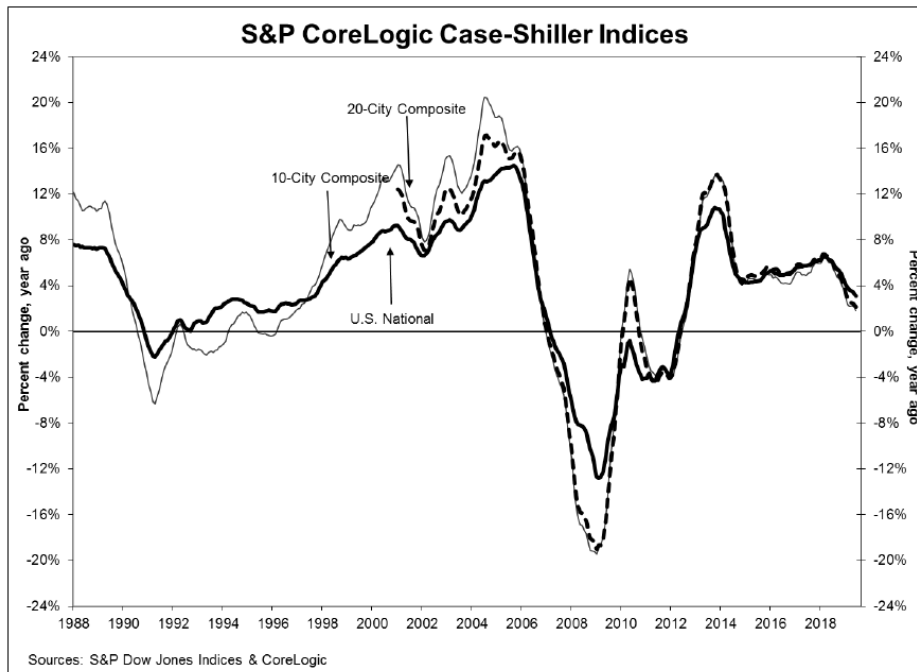
Growth in house prices continued to slow on an annual basis at a National level as well as at the 10 and 20-city composite levels.

Annual change:

US National House Prices; Jun +3.1% versus May +3.4%

10-City Composite Index; Jun +1.8% versus May +2.2%

20-City Composite Index; Jun +2.1% versus May +2.4%



https://au.spindices.com/documents/indexnews/announcements/20190827-981359/981359_cshomeprice-release-0827.pdf?force_download=true

Pending Home Sales (Jul)

The estimate of pending home sales declined in Jul. Pending home sales is a leading indicator for housing, measuring contract activity. Pending home sales generally lead existing home sales by one or two months.

National Pending Home Sales – month change; Jul -2.5% versus Jun +2.7%

The decline in the month was experienced across all markets; Northeast -1.6%, Midwest -2.5%, South -2.4% and West -3.4%.

On an annual basis, National pending home sales fell just below the same month a year ago;

National Pending Home Sales – annual change; Jul -0.3%

The Northeast and Midwest pending home sales in Jul were below a year ago by -0.9% and -1.2% respectively. Pending sales in the South and West remain mostly on par with a year ago.

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

Personal Income and Outlays (Jul)

Personal incomes grew at a slower pace in the month. This was led mostly by much slower growth in wages and salaries than in the month prior. At the same time, personal consumption expenditures increased at a faster pace. As a result, personal savings declined.

There was little change in the annual growth of the headline PCE price index this month, growing at +1.38% and remaining well below the Fed 2% target. Core PCE prices growth was similarly little changed on an annual basis. Faster growth in the month was led by energy goods and services. Core prices grew at a slightly slower pace in the month.

Personal Income

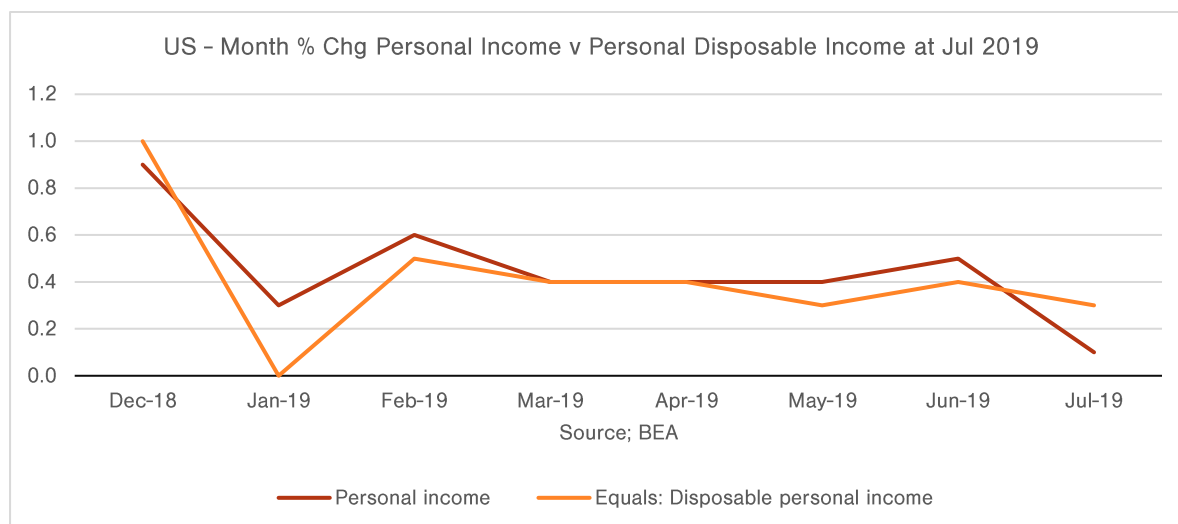
Personal Income – month change; Jul +0.1% versus Jun +0.5%

The slower growth was mostly the result of lower growth in wages and salaries (+0.2% in Jul versus +0.5% in Jun).

Growth in other areas of personal income was mixed; Proprietors income grew at a faster pace, rental income grew at a slightly slower pace and transfer receipts also grew at a slower pace.

This was offset by lower personal current taxes (-0.9% in Jul versus +0.6% in Jun). As a result, personal disposable income growth slowed by a lesser degree;

Personal disposable income – month change; Jul +0.3% versus Jun +0.4%



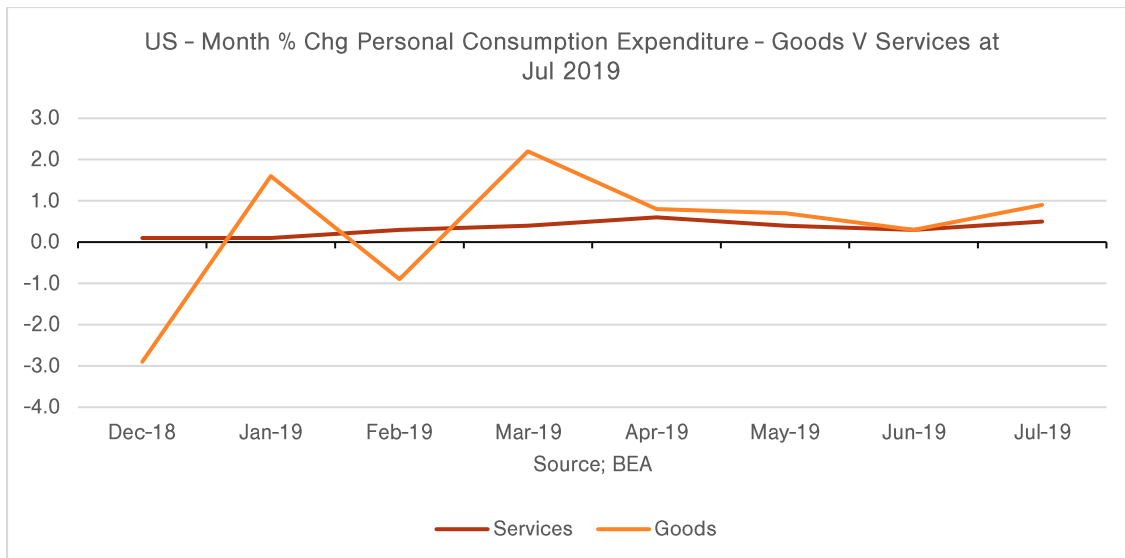
In real terms, personal income growth slowed to +0.1% in Jul from +0.3% in Jun. Excluding transfer payments, real personal income growth declined slightly by -0.1% in Jul.

Personal Consumption Expenditure

Consumption expenditure increased at a faster pace in Jul.

Personal consumption expenditure – month change; Jul +0.6% versus Jun +0.3%

The acceleration in expenditure for the month was mostly the result of an increase in non-durable goods sales (+1.1% in Jul versus +0.3% in Jun). Expenditure on durable goods also increased at a slightly faster pace. Expenditure on services increased at a faster pace also; Jul +0.5% versus Jun +0.3%.

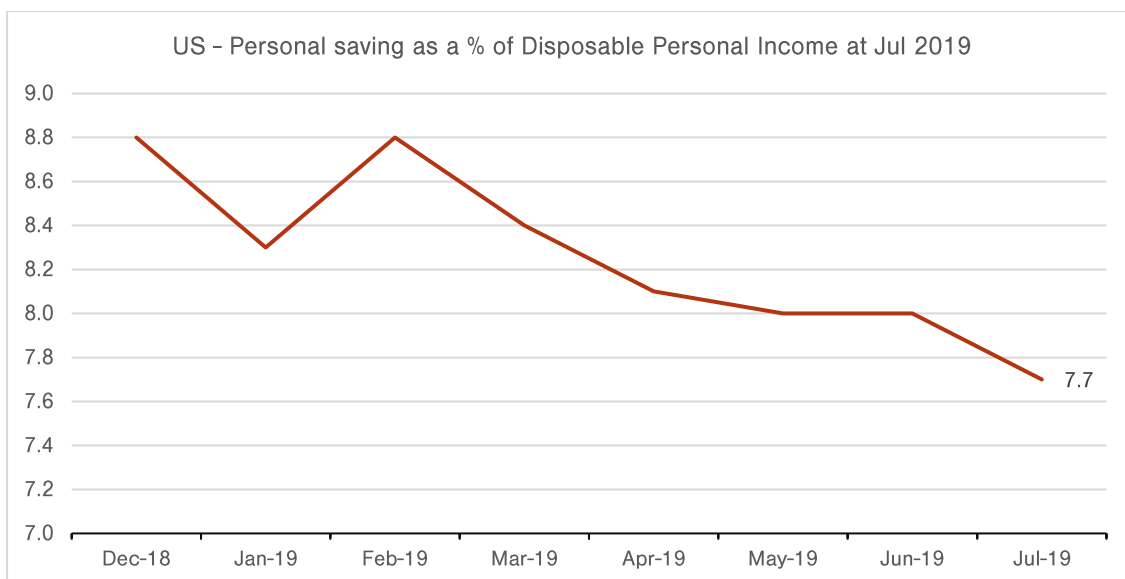


Personal Saving

As a result of lower income growth and higher consumption expenditure, personal savings declined in Jul.

Personal Saving – month change; Jul -3.9% versus Jun +1.4%

The savings rate (personal savings as a percentage of disposable personal income) has been falling steadily through out the YTD;

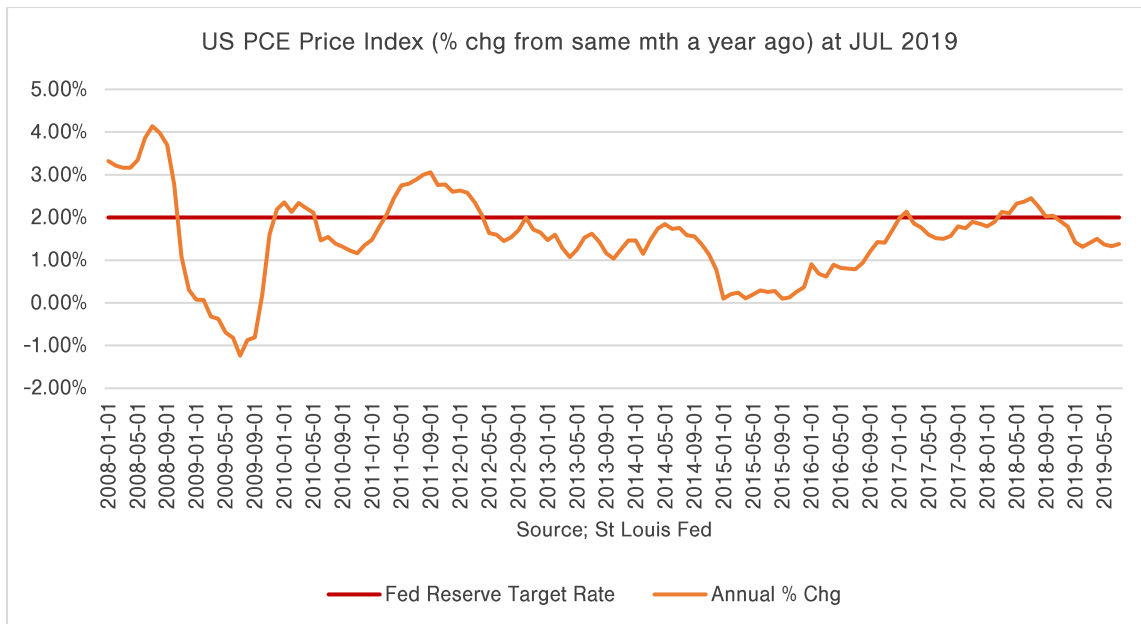


Personal Consumption Expenditure – Price Indexes

This is the US Fed preferred measure of the change in consumer prices. The headline PCE price index increased at a slightly faster pace;

Headline PCE Price Index – annual change; Jul +1.38% versus Jun +1.33%

This remains well below the 2% symmetric target for inflation;



The monthly change though, indicated that prices grew at a faster pace in Jul than in Jun (+0.21% in Jul versus +0.12% in Jun). This was led by faster growth in energy goods & services;

Food prices continued to decline slightly; Jul -0.06% versus Jun -0.07%.

Energy prices (goods and services) increased at a faster pace; Jul +1.4% versus Jun -2.3%.

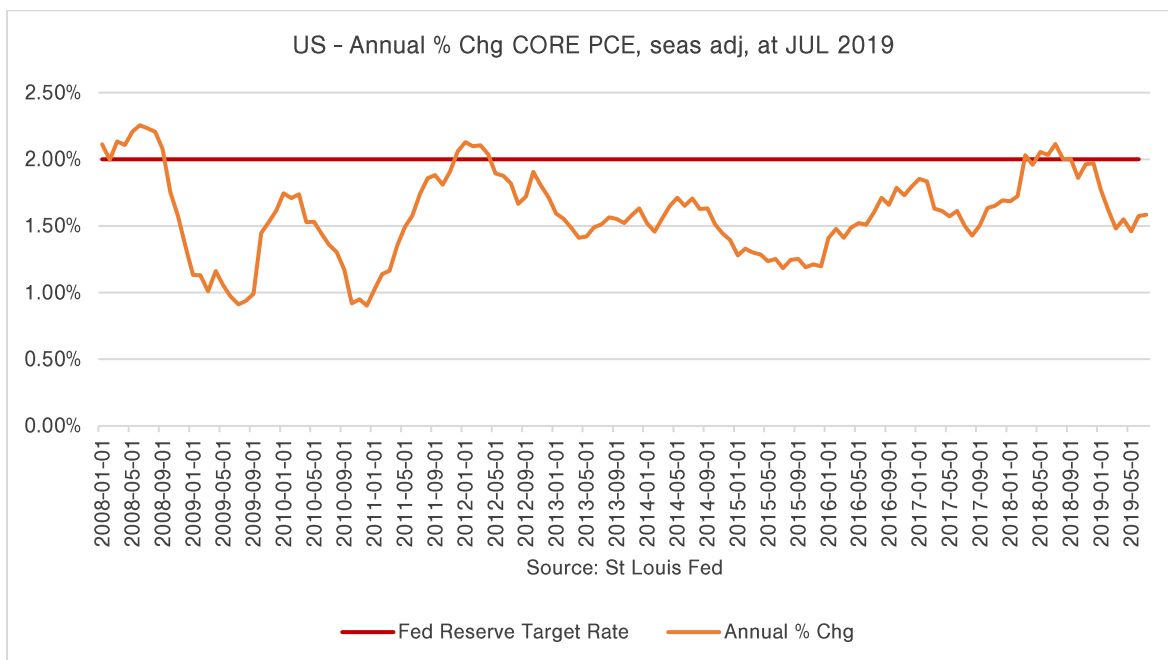
Over the full year, core PCE prices were little changed;

Core PCE Price Index – annual change; Jul +1.58% versus Jun +1.57%. This remains well below the price growth recorded a year ago of 2.11%.

Price growth was slower over the month also;

PCE Goods ex food and energy goods; Jul +0% versus Jun +0.23%.

PCE Services ex energy services prices grew at a similar pace; Jul +0.24% versus Jun +0.25%.



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

<https://apps.bea.gov/iTable/iTable.cfm?reqid=19&step=2#reqid=19&step=2&isuri=1&1921=underlying>

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

Uni of Michigan Consumer Sentiment – Final (Aug)

Measures of consumer sentiment were revised lower in the final version for Aug. The declines were substantial, representing at minimum, a 2SD decline versus the month prior.

The main cause of the decline was the increase in concern over tariffs;

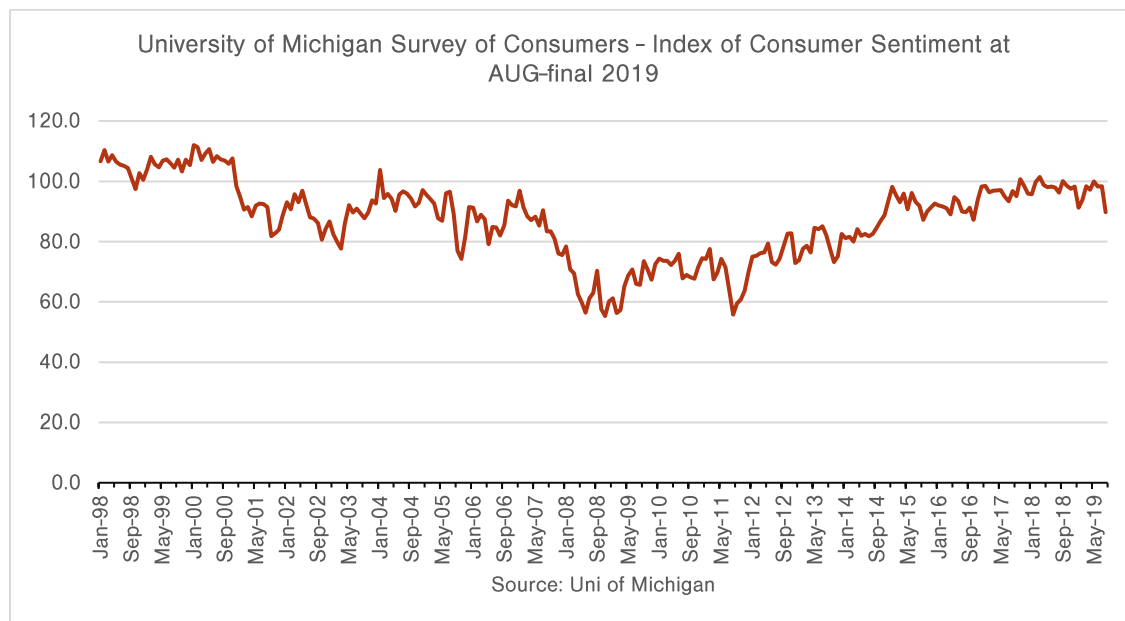
“The data indicate that the erosion of consumer confidence due to tariff policies is now well underway. Compared with those who did not reference tariffs, consumers who made spontaneous negative references to tariffs also voiced higher year-ahead inflation expectations, more frequently expected rising unemployment, and expected smaller annual gains in household incomes.”

For the moment, overall sentiment levels are consistent with continued moderate growth in consumption.

Index of Consumer Sentiment

Aug 89.8 (revised from 92.1) versus Jul 98.4

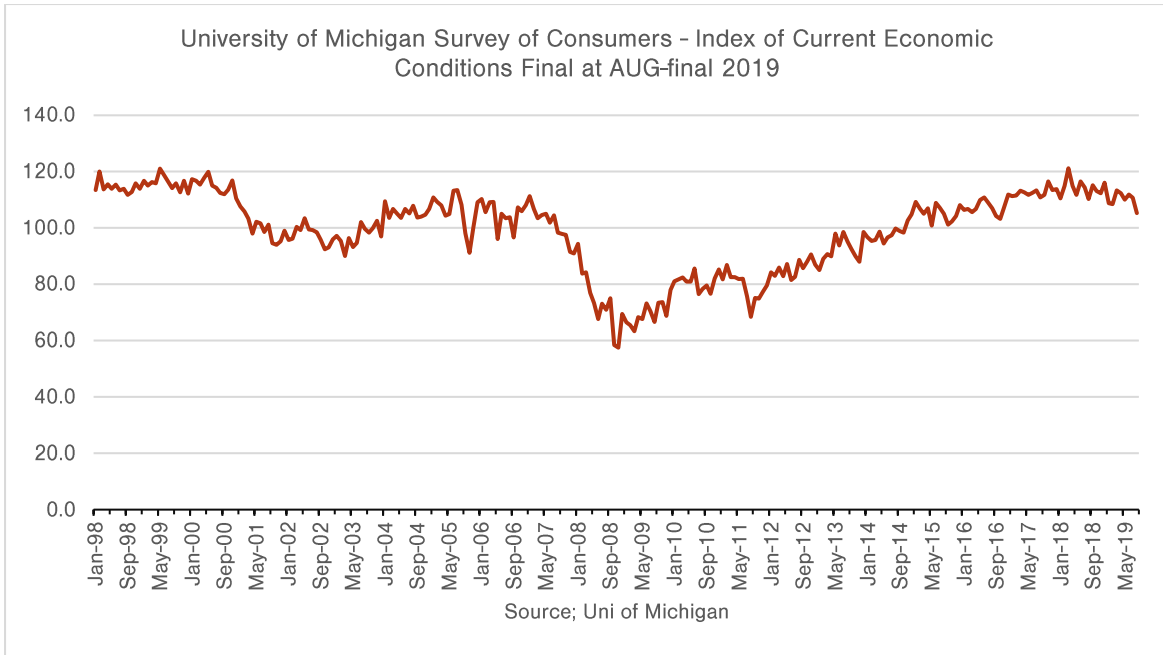
This 8.6pt decline versus the month prior represents a 2.7SD decline. The index of consumer sentiment is now 6.7% below the same time a year ago;



Index of Current Economic Conditions

Aug 105.3 (revised from 107.4) versus Jul 110.7

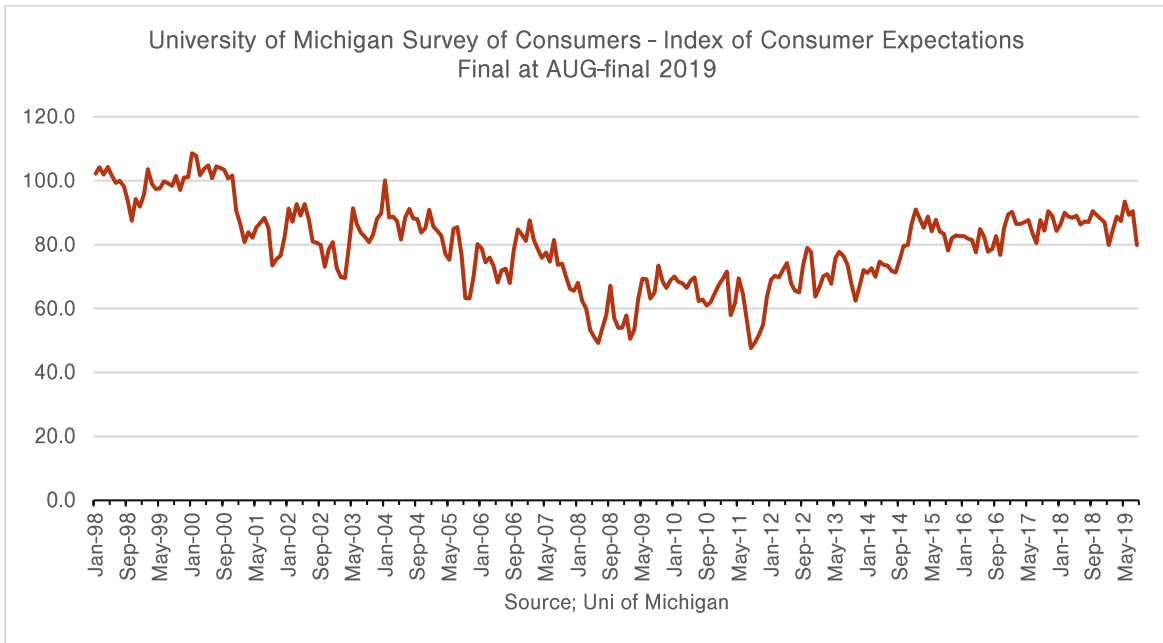
This 5.4pt decline represents a 2SD decline versus the month prior. The index of current conditions remains 4.5% below the same month a year ago;



Index of Expected Conditions

Aug 79.9 (revised from 82.3) versus Jul 90.5

This was a 10.6pt decline versus the month prior and represented a 2.7SD decline versus the month prior. The index of expected conditions is now 8.3% below the same time a year ago;



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

[Return to top](#)

Europe

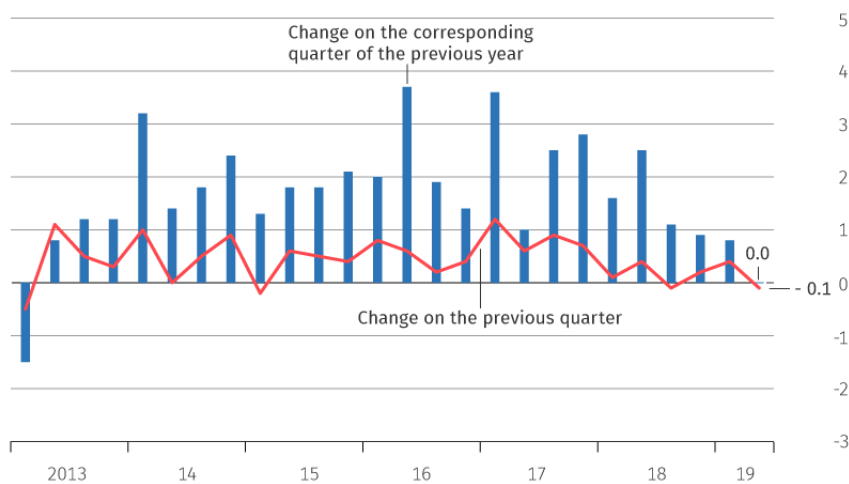
Germany GDP Q2 – Detailed

Real GDP in Germany declined in Q2 on a seasonally and calendar adjusted basis compared to Q1.

Real GDP Growth – quarterly change: Q2 -0.1% versus Q1 +0.4%

On an annual basis, real GDP growth in Germany was 0% in Q2.

Gross domestic product
price-adjusted in %



© Statistisches Bundesamt (Destatis), 2019

Growth in domestic demand was offset by a decline in net exports.

Household and Government final consumption expenditure increased

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

Net exports detracted from overall domestic growth due to a larger decline in exports than imports versus the prior quarter.

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

Germany CPI – prelim (Aug)

The prelim CPI for Aug indicated that consumer price growth continued to slow on an annual basis and that prices declined on a monthly basis.

Headline CPI – month change; Aug -0.2%

Headline CPI – annual change; Aug +1.4% versus Jul +1.7%

One the main contributors to the lower growth in prices was energy;

Annual growth in energy (HH energy and motor fuels) prices slowed to +0.6% in Aug from +2.4% in Jul. This contributed to goods price growth slowing from +1.8% in Jul to +1.3% in Aug.

Services prices increased at a faster pace on an annual basis; Aug +1.6% versus Jul +1.5%

https://www.destatis.de/EN/Press/2019/08/PE19_329_611.html

Germany Retail Sales - Provisional (Jul)

Retail sales in real terms declined in Jul versus the month prior. This is a weak start to the third quarter from a consumption and growth perspective.

Real Retail Sales – month change; Jul -2.2% versus Jun +3%

Even in nominal terms, retail sales declined in Jul by -2.1%.

On an annual basis, real retail sales remain +4.4% above the same month a year ago.

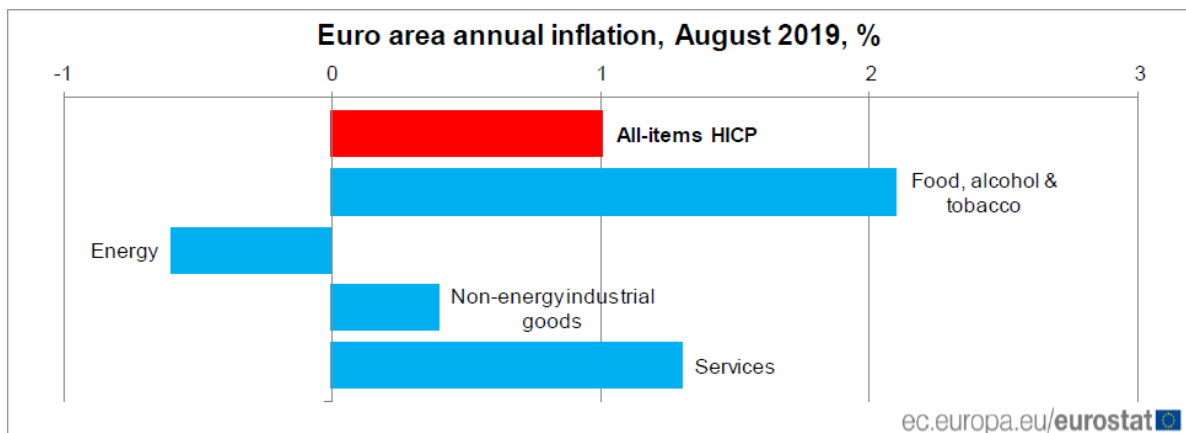
https://www.destatis.de/EN/Press/2019/08/PE19_330_45212.html

Eurozone Prelim CPI (Aug)

The prelim Euro area CPI grew at a constant pace in Aug versus Jul.

Headline Euro Area CPI – annual change; Aug 1% versus Jul 1%

The fall in annual energy prices of -0.6% was offset by faster growth in food, alcohol and tobacco prices +2.1% and slightly faster growth in services prices of +1.3%.



<https://ec.europa.eu/eurostat/documents/2995521/10080605/2-30082019-AP-EN.pdf/628c0063-c8f4-464a-9158-a04b4c451abe>

[Return to top](#)

Japan

Industrial Production – prelim (Jul)

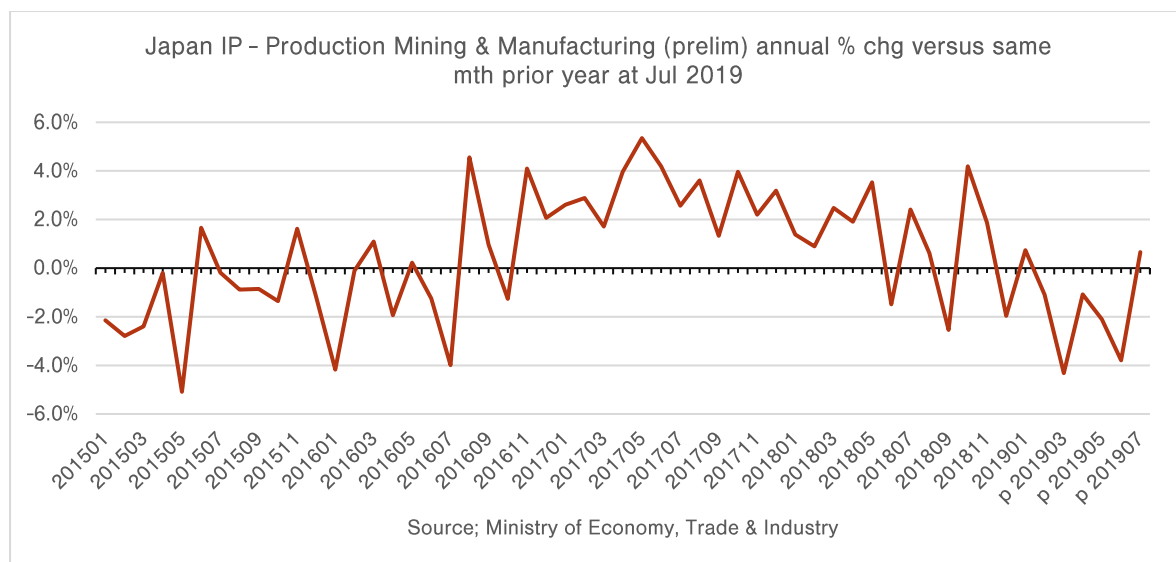
Industrial production increased moderately in Japan in Jul after a sharper decline in the month prior. The expectations were for an increase in production. Shipments also increased in Jul and inventories declined slightly.

Production

Month change; Jul +1.3% versus Jun -3.3%

Most areas recorded an increase in production after the prior month decline. The exception was electrical machinery and info and comms electronics equipment which still declined by -0.2% in Jul (after a -4.8% decline in Jun).

Annual change; Jul +0.7% versus Jun -3.8%



Production Forecast; As of Aug for the month of Aug, the forecast production growth is +1.3%. As of Aug for the month of Sep, production is forecast to decline by -1.6%.

Shipments

Month change; Jul +2.6% versus Jun -4%

Despite the overall increase in shipments, some areas remained weaker recording little growth in the month.

One of the stronger areas this month was transport equipment. Motor vehicles recorded only a modest increase in shipments of +1.2% in Jul versus -9.1% in the month prior. Shipments of transport ex motor vehicles though, increased by +13.2% in Jul versus a +3.2% increase in Jun.

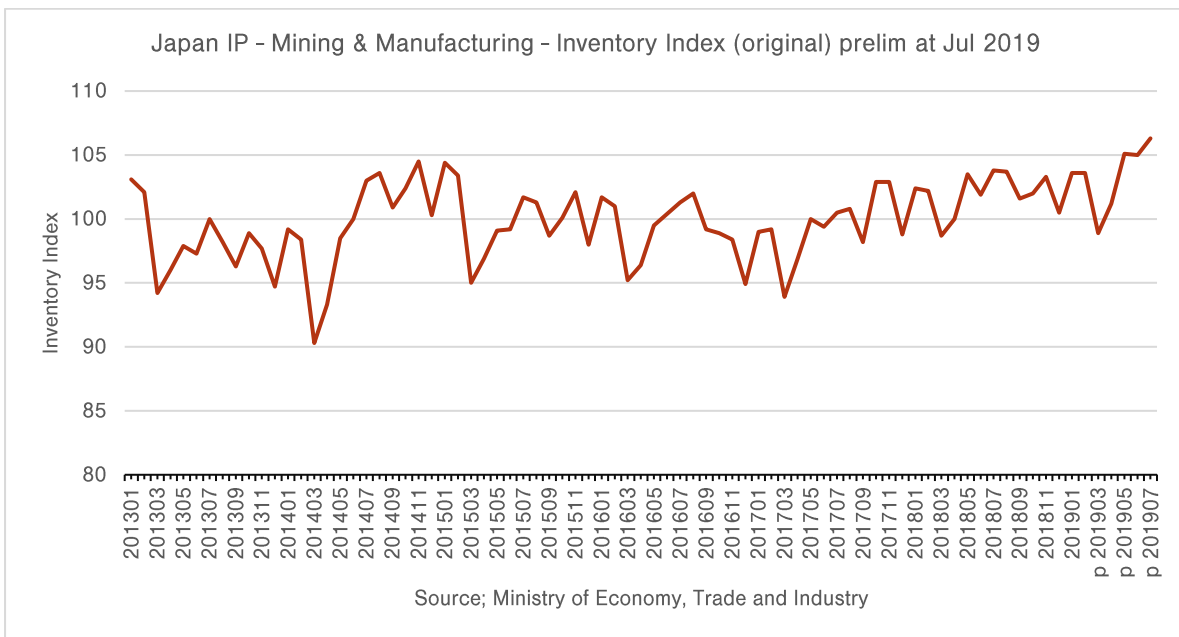
Annual change; Jul +1.8% versus Jun -4.9%



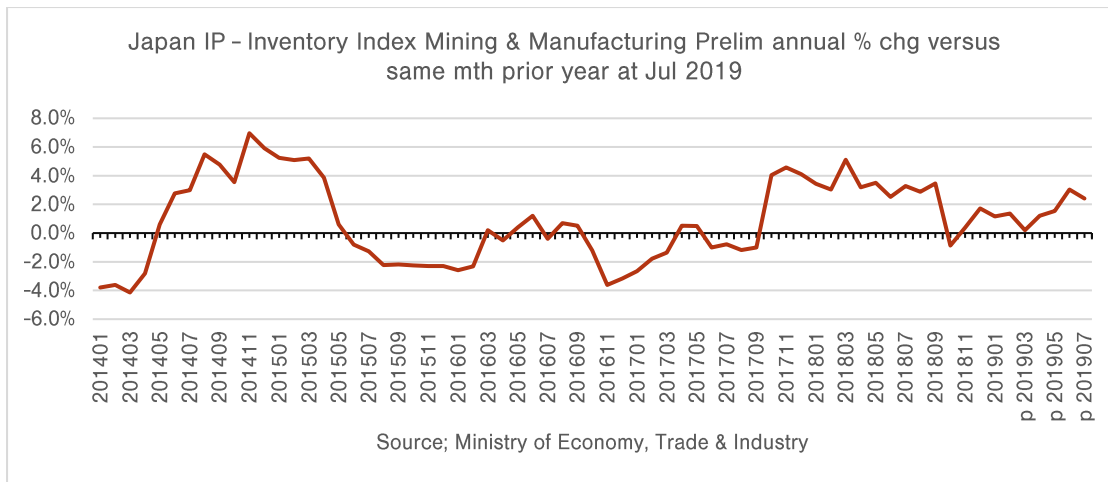
Inventory

Month change; Jul -0.3% versus Jun +0.4%

The index of producers inventory of finished goods remains at near-term highs;



Annual change; Jul +2.4% versus Jun +3%



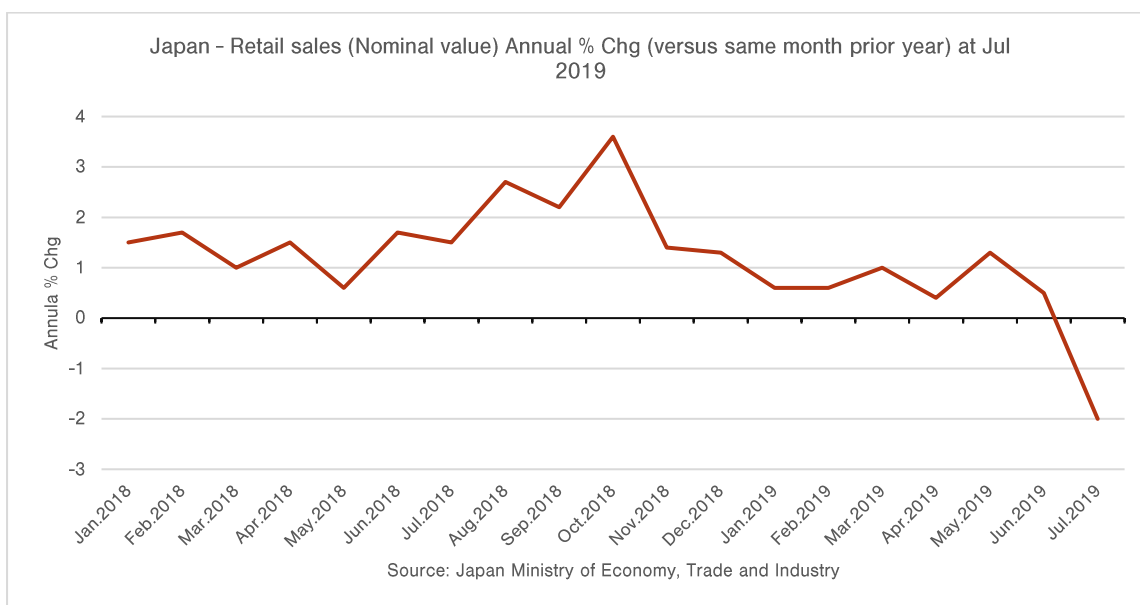
<https://www.meti.go.jp/english/statistics/tyo/iip/index.html>

Retail Trade – Prelim (Jul)

Retail sales were weaker in Jul with sales declining sharply in the month versus the month prior. Annual retail sales have continued to slow and declined in Jul.

Retail Sales (val) – month change; Jul -2.3% versus Jun 0%

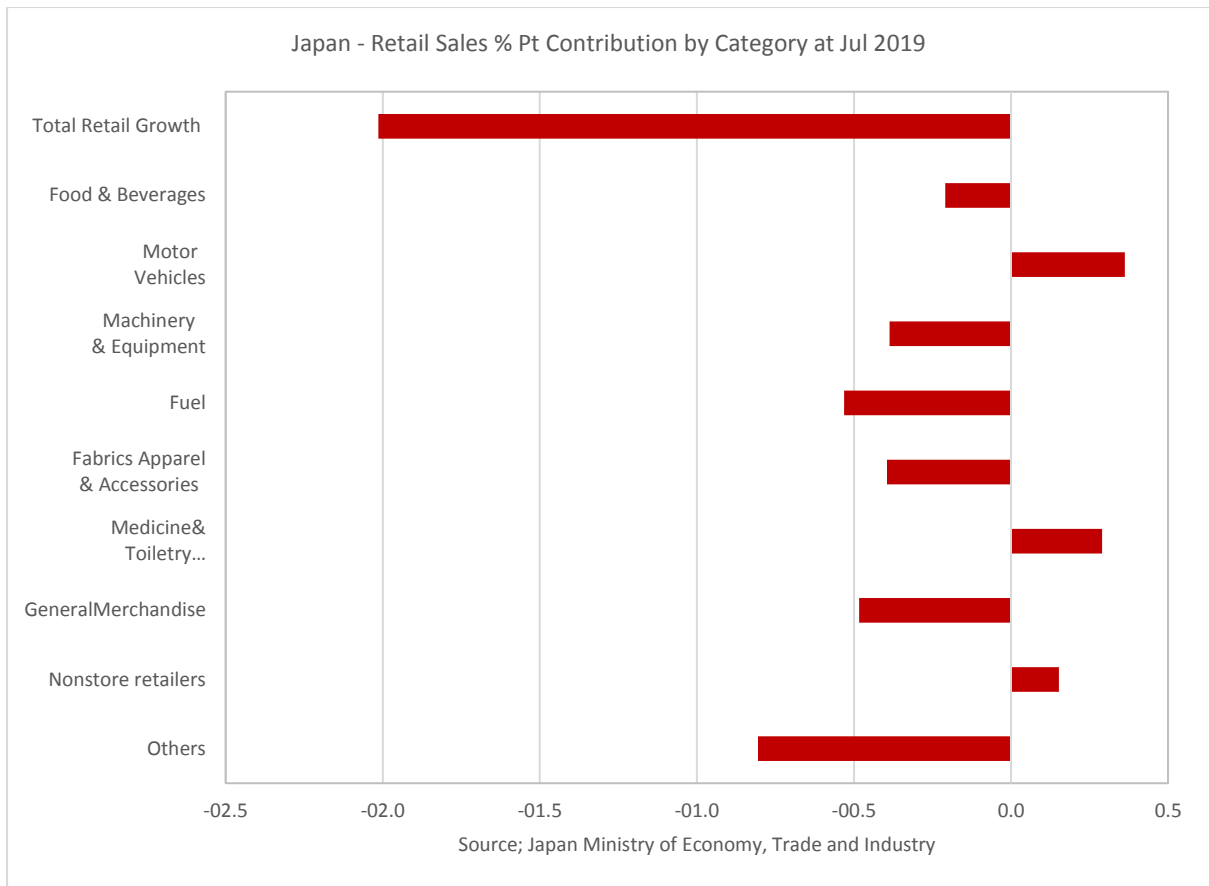
On an annual basis, retail sales value growth has been slowing since the start of the year and declined in Jul by 2% versus the same month a year ago;



On a year ago basis, declines in retail sales were recorded across most categories.

“Other” made the largest contribution to the 2% decline.

The only categories to make a positive contribution to annual growth in Jul were; motor vehicles, medicine and toiletries and non-store retailers.



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

[Return to top](#)

United Kingdom

BREXIT

We are now approx. eight weeks away from the new Brexit deadline of 31 Oct 2019. The focus is on the return of the UK parliament this week and a political showdown regarding the UK PM's plans/announcement to suspend parliament in the lead up to the Brexit deadline. This decision has created further unrest;

“Suspending Parliament at this time of year is fairly typical. But doing it for so long — and with such a hugely significant political decision looming — is highly unusual. It’s also a major political gamble for Johnson, who has staked his job on a promise of Brexit by Halloween, “do or die.””

In the meantime, preparations for a no-deal Brexit continue;

“The British government on Sunday launched a giant “Get Ready for Brexit” campaign, featuring billboards and ads directing Britons to a website with detailed information about how to prepare themselves and their businesses for a no-deal Brexit.” https://www.washingtonpost.com/world/europe/britains-johnson-corbyn-headed-for-ferocious-brexite-showdown-when-parliament-returns-tuesday/2019/09/01/ff9dd0a6-cca6-11e9-8c1c-7c8ee785b855_story.html?noredirect=on

During the week, the Dutch Foreign Minister stated that ‘serious talks’ had taken place in Brussels last week – emphasis added;

“But he warned “we are not there yet” in terms of bridging divides with the UK to prevent a no-deal exit from the European Union.

“It is up to the British Parliament to judge. We still hope it will be possible to avoid a no-deal Brexit and **we’re looking forward to any proposals from the British government that fit in to the Withdrawal Agreement,**” Blok said, speaking to reporters in Helsinki on Thursday.”

<https://edition.cnn.com/uk/live-news/brexit-johnson-parliament-intl-gbr/index.html>

[Return to top](#)

Australia

Private Sector Credit (RBA) (Jul)

Changes to methodology and improved seasonal adjustments have been implemented this month. The value of outstanding credit has not been adjusted for the new series breaks and as such we can only look at the adjusted growth rates (series D1 adjusted) to gauge growth in total outstanding credit.

The annual growth in total outstanding private sector credit continued to slow; Jul +3.1% versus Jun +3.3%.

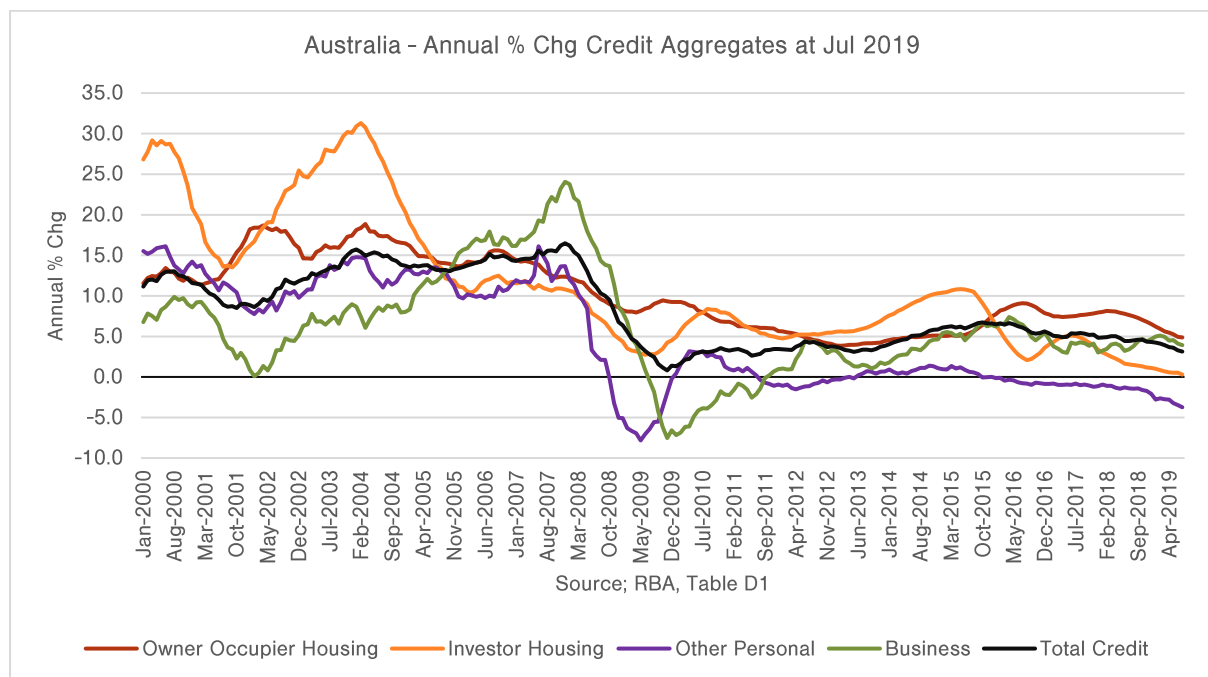
This was led by slower growth across all main areas of credit;

The growth in total outstanding Business credit slowed from +4.1% in Jun to +3.9% in Jul.

Outstanding credit for owner occupier mortgages grew at a constant 4.9% pace in Jun and Jul.

The value of outstanding investor mortgage credit slowed further from +0.5% in Jun to +0.3% in Jul.

The value of outstanding 'other personal' credit declined at an accelerated pace; Jul -3.7% versus Jun -3.5%.



<https://www.rba.gov.au/statistics/frequency/fin-agg/2019/fin-agg-0719.html>

[Return to top](#)

Trade

US-China Trade Talks

New tariff rates have gone into effect as of 1 Sep.

China; imposed a 5% tariff on crude oil imports as well as further duties on an unspecified range of imports from the US;

“In retaliation, China started to impose additional tariffs on some of the US goods on a \$US75 billion (\$111 billion) target list. Beijing did not specify the value of the goods that face higher tariffs from Sunday. The extra tariffs of five per cent and 10 per cent were levied on 1,717 items from a total of 5,078 products originating from the United States.”

<https://www.abc.net.au/news/2019-09-01/us-china-trade-war-escalates-with-additional-tariffs/11468922>

US; tariffs were increased to 15% on approx. \$125bn of imports from China (Annex A) and increasing the planned 10% tariff on the remaining of \$300bn of imports to a 15% tariff from 15 Dec (Annex C). <https://www.federalregister.gov/documents/2019/08/30/2019-18838/notice-of-modification-of-section-301-action-chinas-acts-policies-and-practices-related-to>

The USTR made a request for comments on increasing the original 25% tariff on \$250bn of imports to 30% from 1 Oct. <https://www.federalregister.gov/documents/2019/09/03/2019-18946/request-for-comments-concerning-proposed-modification-of-action-pursuant-to-section-301-chinas-acts>

On 23 Aug, Reuters reported that the US was still planning face to face meetings with Chinese officials regarding trade – dates in Sep are yet to be confirmed;

““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>

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

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

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

The meetings were held as part of the agreement reached by President Donald J. Trump and President Xi Jinping in Buenos Aires to engage in 90 days of negotiations **with a view to achieving needed structural changes in China**

with respect to forced technology transfer, intellectual property protection, non-tariff barriers, cyber intrusions and cyber theft of trade secrets for commercial purposes, services, and agriculture.

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

US-Japan Trade Talks

On sidelines of the G7 summit, the US President and the Japanese PM announced a deal on 'core principles';

“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.

Over the next month, negotiators will work through the detail of the deal.

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

US-Europe Trade Talks

There are several fronts to the US-Europe trade talks; the outstanding dispute and pending WTO decision on airline subsidies, investigations into digital services, the main trade negotiation and the special trade channel (Instex) set up to bypass the US sanctions on Iran to enable trade between Europe and Iran.

Airline Subsidies

It is now expected that the WTO will rule in favour of the US over illegal European subsidies to Airbus. The EU also has a similar case pending related to Boeing. Both sides have already

identified potential areas for further sanctions if matters escalate and the US has already instigated a second process to identify further targets for tariffs.

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

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

The USTR has commenced another review; “Additional Products for Tariff Countermeasures in Response to Harm Caused by EU Aircraft Subsidies” (1 Jul 2019) <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/july/ustr-proposes-additional-products#>

The US is considering more products for tariffs thereby reinstating the threat of tariffs in the EU.

Among other things, this announcement builds on the current investigation “to enforce U.S. rights in the World Trade Organization (WTO) dispute against the European Union (EU) and certain EU member States addressed to EU subsidies on large civil aircraft.”

[As outlined previously...key dates for that investigation; May 6, 2019: Due date for submission of requests to appear at the public hearing and summary of testimony. May 15, 2019: The Section 301 Committee will convene a public hearing. Details; <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/may/public-hearing-proposed-countermeasures>. May 28, 2019: Due date for submission of written comments, including post-hearing rebuttal comments. <https://www.federalregister.gov/documents/2019/04/12/2019-07267/initiation-of-investigation-notice-of-hearing-and-request-for-public-comments-enforcement-of-us-wto>]

According to the Federal Register announcement;

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

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

The dates for this latest review;

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

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

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

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

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

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

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

Trade Negotiations

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

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

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

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

““I do not think we will reach an agreement if agriculture is not included,” McKinney told reporters on a teleconference during his visit to Brussels, citing concerns raised by U.S. lawmakers and Trump.”

<https://www.reuters.com/article/us-usa-trade-eu/no-u-s-eu-trade-deal-without-agriculture-u-s-official-idUSKCN1TS2SH>

Instex

The EU confirmed that Britain, France and Germany had established a special trade channel (Instex) that would enable trade with Iran that circumvents the US sanctions. It was announced last year that the EU would work on developing the channel.

<https://www.reuters.com/article/us-iran-nuclear-talks-statement/europe-says-iran-trade-channel-operational-statement-idUSKCN1TT2RL>

President Trump made some mention of this development at the G-20;

“President Donald Trump said there was “absolutely no time pressure” in dealing with Iran as European nations pushed to salvage what remains of the 2015 nuclear accord and avert a slide toward war.”

<https://finance.yahoo.com/news/trump-chats-putin-shakes-hands-081017994.html>

The Instex system enables trade with Iran without the use of U.S. dollars or US banks. The US has previously stated opposition to this;

“According to Bloomberg, the Treasury Department’s undersecretary for terrorism and financial intelligence, Sigal Mandelker, sent a letter on May 7 warning that Instex, the European SPV to sustain trade with Tehran, and anyone associated with it could be barred from the U.S. financial system if it goes into effect.”

“Separately, during a visit to London on May 8, Mike Pompeo also warned that there was no need for Instex because the U.S. allows for humanitarian and medical products to get into Iran without sanction.”

““When transactions move beyond that, it doesn’t matter what vehicle’s out there, if the transaction is sanctionable, we will evaluate it, review it, and if appropriate, levy sanctions against those that were involved in that transaction,” Pompeo said. “It’s very straightforward.””

Digital Services

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

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

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

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

“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

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

Congress is due back 9 Sep and, given the increased volatility around trade, there is even more pressure on both sides to approve the USMCA;

“Industries from big business to farming and auto manufacturing are pressing Congress to pass the deal and provide a shred of certainty amid a volatile trade

environment. Trump's spat with China and off-the-cuff tariff announcements are causing much of the anxiety over trade, but Canada and Mexico are now the United States' biggest trading partners, and locking in the new North American deal could go a long way toward boosting morale among exporters and importers and sparking new investments, supporters say."

<https://www.politico.com/story/2019/08/31/democrats-trade-trump-1691486>

The Democrats continue to work with USTR Lighthizer on changes required to the USMCA before the deal can go to Congress for approval.

"The end of 2019 has become an informal deadline to get the deal approved amid concerns that it will get lost in the noise of the presidential election if it bleeds into 2020. But the campaign itself could add to pressure for action sometime over the fall, as Democrats seek to defend their House majority."

<https://www.politico.com/story/2019/08/31/democrats-trade-trump-1691486>

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

[Return to top](#)