

Key Themes

US data highlighted weaker manufacturing activity with ambiguity over services growth and household employment. Both the Markit and ISM PMI's signaled stagnant manufacturing activity – despite some of the stronger regional survey results for Aug. Factory orders data was mixed for Jul as orders increased by the fastest pace since a year ago – supported by an improvement in orders for non-defense aircraft over the last two months. Excluding transports, growth in shipments and orders have slowed to, and remain at, low levels over the year.

There was divergence in the US services PMI data. The Markit services PMI indicated much weaker activity but the ISM indicated much stronger services activity.

Non-farm payrolls growth slowed more than expected and the average monthly growth in payrolls is lagging well behind the pace of a year ago. The household survey was more positive with stronger employment growth in the month leading to both higher participation and a decline in unemployment. It will be important to see whether this acceleration in the household employment will be maintained.

Manufacturing growth remained weaker globally with services activity helping to pick up some of the slack.

Activity in Europe was slightly improved in Aug – lifted by stronger services activity. Of note was the continued weakness in German manufacturing in Aug. Sentiment regarding output fell to the lowest level since data was collected. The weaker German manufacturing PMI data from Jul was confirmed by the sharp decline in new factory orders and industrial production.

In Japan – weaker manufacturing activity was offset by faster growth in services.

At the composite level, activity in the UK contracted in Aug – marginal growth in services activity was offset by declines in manufacturing and construction output. It was another tumultuous week in UK politics leading up to the next Brexit deadline. The political uncertainty continues to constrain business activity and investment decisions.

The RBA kept rates on hold – and will continue to monitor developments in the labour force. Aus annual GDP growth for Q2 slowed to the lowest annual pace since the GFC. Excluding the external sector, expenditure in the domestic economy declined in Q2. PMI data for Aug (AiG reports) showed activity improved in manufacturing and services with construction continuing to decline. Consumer spending remained weaker in Jul with retail sales posting a further decline in Jul – possibly too early for stimulus to impact spending.

In order to support growth, the PBoC announced the first RRR cut in four years - a 50bps decrease. Some smaller banks will receive up to a 100bps decrease. China's PMI's similarly indicated weaker growth in manufacturing while services activity remained more stable.

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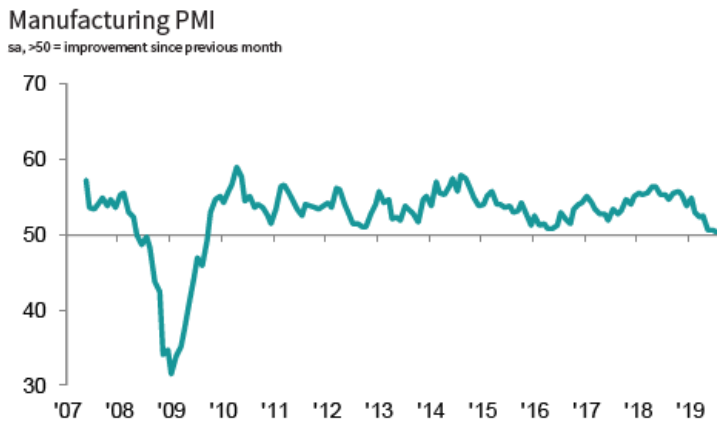
[Trade](#) – US-China Trade Negotiations, Special 2019 S.301 Review, NAFTA/USMCA, S.232 Car and Truck Imports, US-Japan Trade Talks, US-Europe Trade Talks, US-UK Trade Talks

US Data

Manufacturing PMI – Final (Aug)

The final PMI came in slightly higher than the flash estimate but still indicates very low manufacturing growth momentum. Measures of demand remain subdued with output and orders growth remaining low.

Headline PMI; Aug 50.3 (flash 49.9) versus Jul 50.4



Production growth was the slowest in three years but increased slightly from the month prior. The increase in output was the result of firms working through backlogs. New order growth was 'fractional'. Export orders declined by the fastest pace since 2009.

Employment growth was mostly unchanged from the month prior.

Both input and output prices grew at a 'historically muted' pace'. Lower input demand limited supplier pricing power and increased competition for business meant that output price increases were limited.

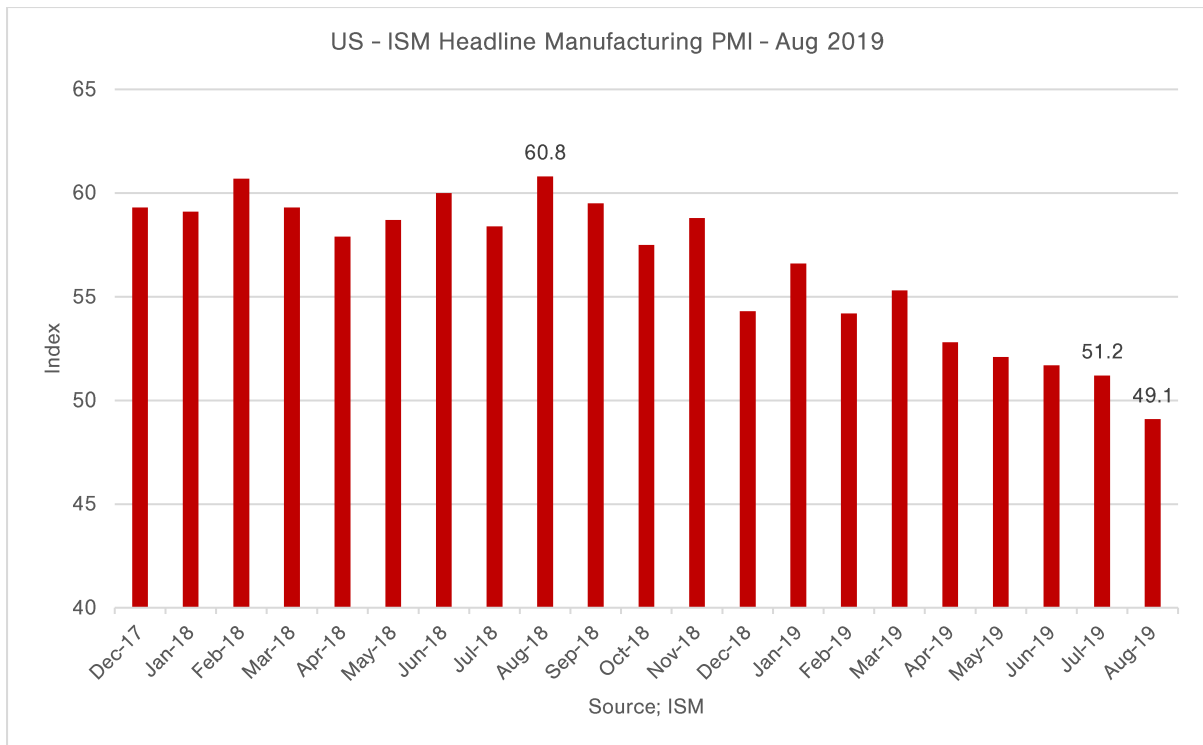
<https://www.markiteconomics.com/Public/Home/PressRelease/2413628f38c94d27bdaed3277c759b41>

US ISM Manufacturing PMI (Aug)

The ISM manufacturing PMI indicated that manufacturing activity contracted slightly in the latest month. The fall in the headline index was led by declines in new orders, production and employment – with all three sub-indices shifting into contraction. New export orders declined at an accelerated pace. Inventories and order backlogs declined at a slower pace.

Headline Manufacturing PMI; Aug 49.1 versus Jul 51.2 (-2.1 pts)

The decline in the headline index was the first since Aug 2016.



Key measures of demand shifted into contraction in the latest month;

New orders; fell from 50.8 in Jul to 47.2 in Aug. The proportion of firms recording higher new orders fell strongly (to 17.5%), more firms reported the same level of new orders growth. There was only a very small increase in the proportion of firms reporting 'lower' growth in new orders (25.9%).

New export orders declined at an accelerated pace, falling from 48.1 in Jul to 43.3 in Aug. The underlying shifts were more significant. While there was a slight increase in the proportion of firms reporting higher export growth, the proportion of firms that report lower exports almost doubled (from 12.2% in Jul to 23.8% in Aug). The proportion of firms that reported the same growth in export orders fell. New export orders data are collected from approx. 75% of respondents in the survey.

Production; shifted from 50.8 in Jul to 49.5 in Aug. While there was an increase in the proportion of firms recording an increase in production, there was a larger increase in firms recording 'lower' production.

Employment; shifted from 51.7 in Jul to 47.4 in Aug. Less firms recorded higher employment and more firms recorded lower employment growth. The proportion of firms with the same employment growth was unchanged.

Inventories continued to decline slightly, but at a much slower, almost neutral pace (49.9).

Order backlogs declined further, but also at a slower pace (43 in Jul versus 46 in Aug).

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

PMI Services – Final (Aug)

There was a marked slowdown in the growth momentum of services firms in Aug. Growth in new orders was marginal and new business from overseas declined. Employment growth was fractional. Overall business optimism declined to a 'fresh series low'.

Headline Business Activity Index; Aug 50.7 versus Jul 53

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

New business growth slowed to the lowest level since Mar 2016 and was marginal overall and new export orders declined for the first time since Jan 2019.

Where firms experienced softer order books, they linked this to less robust corporate spending. That said, some continued to state that a further improvement in consumer demand was driving the sustained expansion.

Input prices declined for the first time in the series history – linked to lower purchase prices. Output charges also declined for the second time in four months with firms citing discounting in order to boost sales.

Employment increased at only a fractional pace and was the lowest since Feb 2010. Most firms noted no change in employment levels.

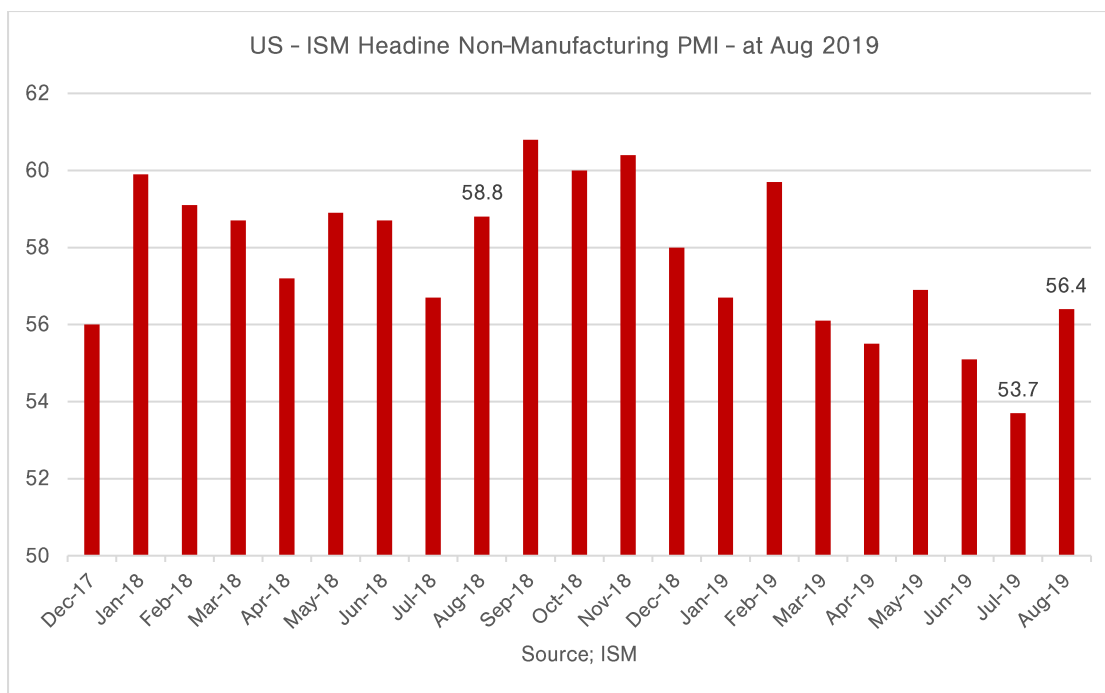
Overall sentiment for the twelve months ahead fell to a new low in the series. Firms cited concerns over trade disputes and a slowdown across the wider economy.

<https://www.markiteconomics.com/Public/Home/PressRelease/0cd4e660c1294096b7aeda466513620a>

ISM Non-Manufacturing PMI (Aug)

Non-manufacturing activity increased at a faster pace in Aug. This was led by stronger growth in business activity/output and new orders. Order backlogs fell into contraction and employment growth slowed.

Headline Non-Manufacturing PMI; Aug 56.4 versus Jul 53.7



Business activity/production; increased at a faster pace increasing by +8.4pts. A larger proportion of firms recorded higher activity and a lower proportion of firms recorded lower activity. Firms cited improvement in sales activity.

New orders; similarly increased at a faster pace, increasing by +6.2pts. A larger proportion of firms recorded higher growth of new orders and a smaller number of firms reported lower growth in new orders.

Employment grew at a slower pace. A larger proportion of firms reported lower employment and a smaller proportion of firms reported higher employment. The proportion of firms reporting the same employment levels was unchanged from the month prior.

Prices paid for inputs and services increased at a faster pace in Aug.

Order backlogs posted a surprise decline in the month – which helped to support activity levels.

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

US Factory Orders (Jul)

Overall annual growth in orders and shipments continues to slow. The decline in unfilled orders is helping to support shipments while inventory growth, although slowing, remains elevated relative to orders and shipments.

Factory orders in Jul increased at a faster pace – with transport equipment (aircraft) the bulk of the increase for the month. Orders for non-defense aircraft have improved for the second month. Excluding transport, orders growth was slower in the month and continued to decline slightly on an annual basis.

The decline in shipments for the month was led by durable goods (mostly non-defense aircraft) whilst the growth in non-durable goods shipments helped to offset the decline. The

total value of unfilled orders declined slightly again on an annual basis and was unchanged versus the month prior.

NEW ORDERS

There was an acceleration in the growth of new orders in Jul – the strongest monthly growth since a year ago;

Total manufacturing new orders - month change; Jul +1.4% (+\$6.9bn) versus Jun +0.5%

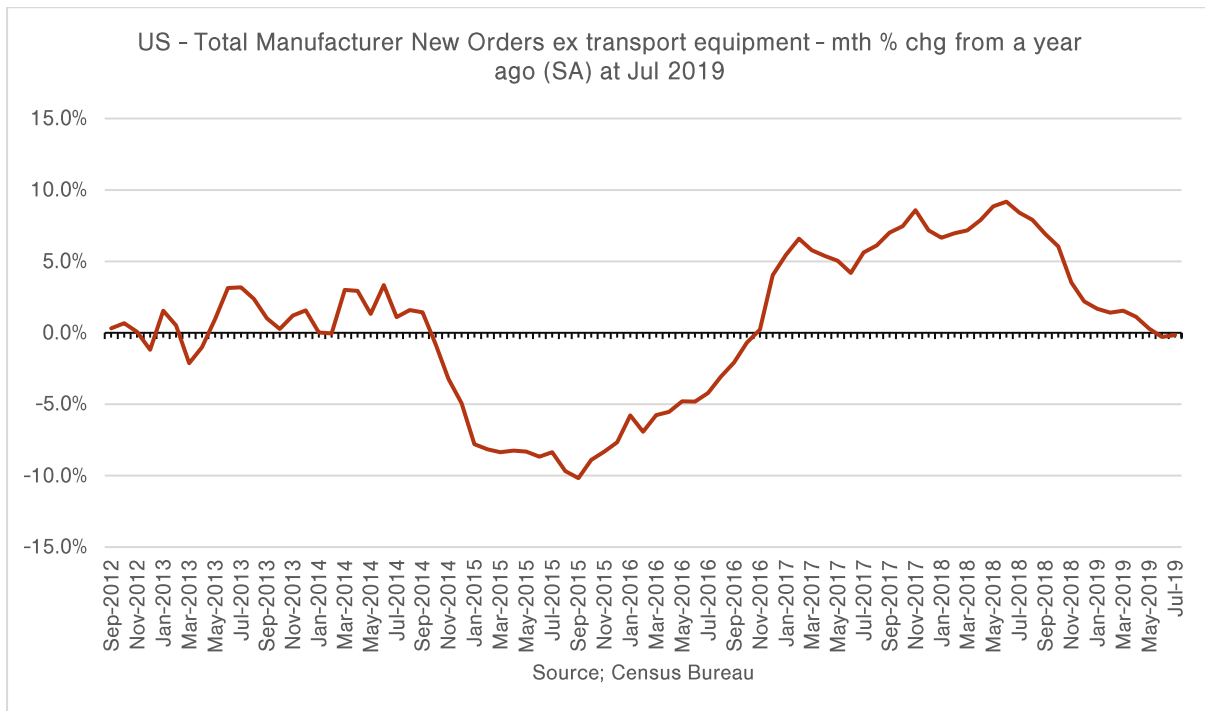
(this figure includes non-durable goods orders growth of +\$2bn which is equal to non-durable goods shipments)

The increase in orders for the month was mostly the result of a larger increase in new orders for transport equipment (+7%), namely non-defense aircraft and parts (+\$3.4bn). Defense aircraft and ships & boats orders also contributed to the increase in the month.

Importantly, aircraft orders are bouncing back. The recent slow-down in orders between Jan and May 2019 has impacted overall orders growth. The momentum over the last two months has been an important driver of the overall improvement in orders.

The only area in transport that did not contribute to faster growth in orders was motor vehicles – new orders growth slowed from 1% in Jun to 0.1% in Jul.

Excluding transports though, new orders increased at a much slower pace (compared to total orders) in the month (+0.3%) and continued to decline slightly on an annual basis by -0.2%;



The forward-looking view of orders for capital goods excluding aircraft still paints a picture of slower momentum in underlying capex;

Non-defense capital goods ex aircraft orders – month change; Jul +0.2% versus Jun +0.9%

On annual basis, non-defense capital goods ex aircraft orders shifted to decline in Jul;



SHIPMENTS

The improvement in orders is yet to show up in shipments with the value of shipments declining in the latest month. The shipments data (as opposed to new orders) is more influenced by the non-durable goods and petroleum.

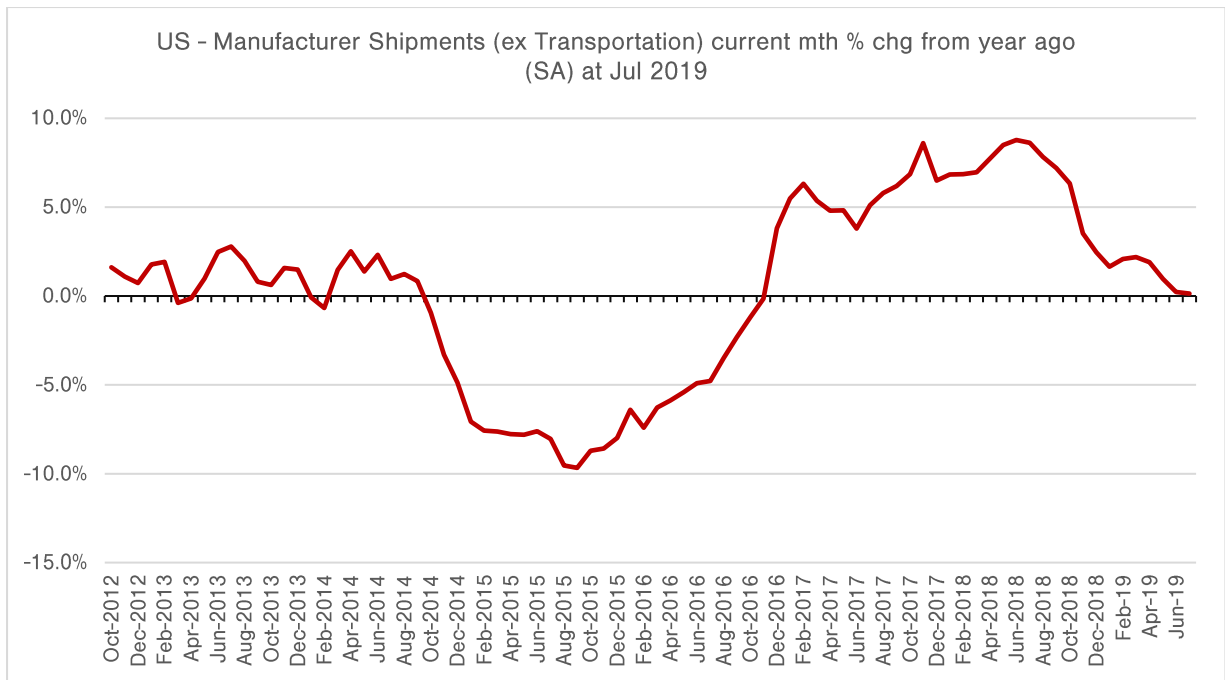
Total manufacturing shipments – month change; Jul -0.2% (-\$0.9bn) versus Jun +0.1%

The main driver was the decline in durable goods shipments of -\$2.9bn while non-durable goods shipments increased by +\$2bn.

The decline in durable goods shipments was led mostly by transport equipment (-\$1.7bn), but most other categories also recorded a decline in shipments in the month.

Non-durable goods shipments increased mostly as a result of shipments from petroleum refineries (+\$1.4bn). There were also stronger increases in shipments of food and beverage and tobacco products.

On an annual basis, growth of shipments ex transports continued to slow; Jul +0.1% versus Jun +0.2%



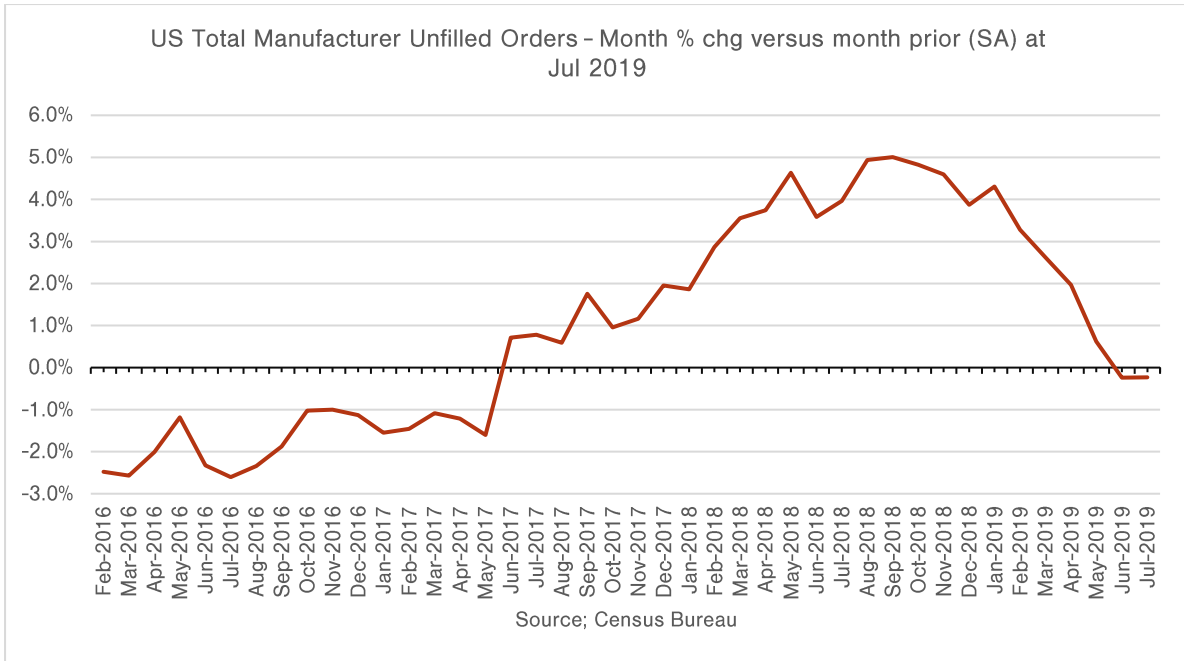
UNFILLED ORDERS

There was little change in the value of unfilled orders this month at a total level this month after a large decline in the month prior. The growth of unfilled orders on an annual basis continued to slow - suggesting that production growth is still faster than orders growth.

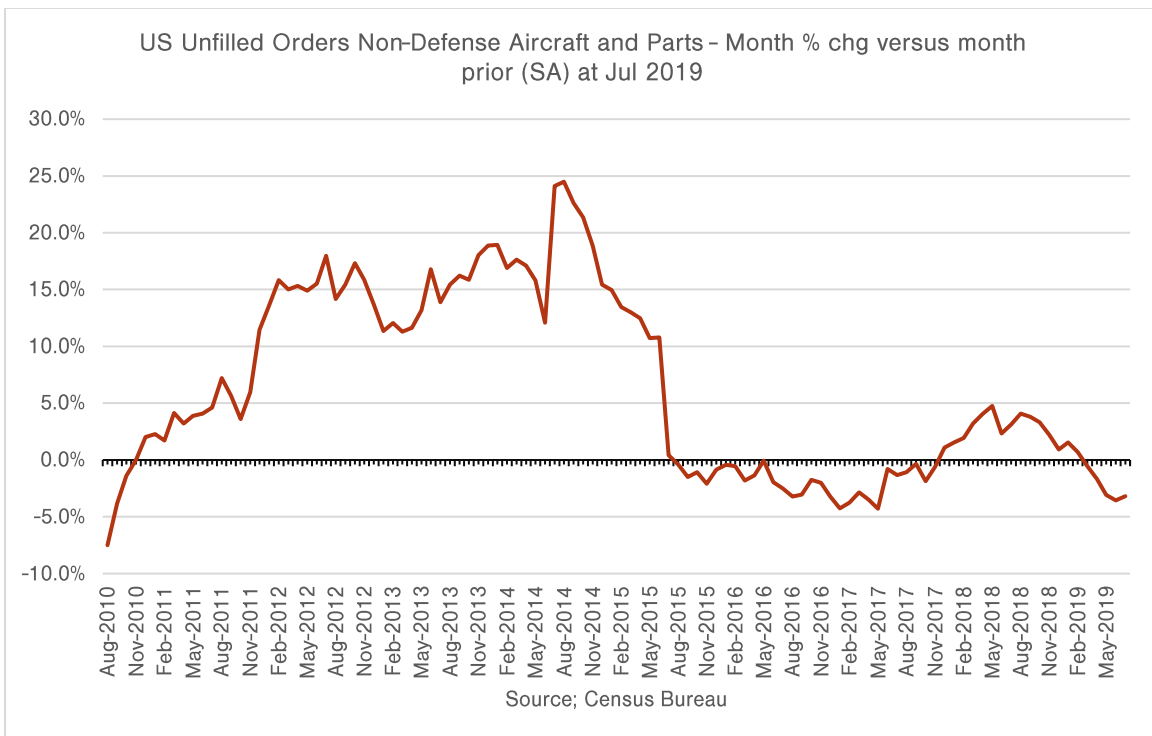
Total manufacturing order backlogs – month change; Jul 0% (+\$0.6bn) versus Jun -0.6%

Transport equipment was not one of the major contributors to the change in the month. Transport unfilled orders declined by -\$0.1bn – but this was the result of an increase in unfilled orders for non-defense aircraft (consistent with orders growth) while defense aircraft unfilled orders declined.

On an annual basis, unfilled orders declined at a similar pace as the prior month; Jul -0.2%;



Looking at non-defense aircraft unfilled orders highlights the weaker performance of new orders for aircraft recently. The annual change in unfilled orders is -3.2% below a year ago, suggesting that firms have been working through backlogs faster than new orders were accumulating;



INVENTORY

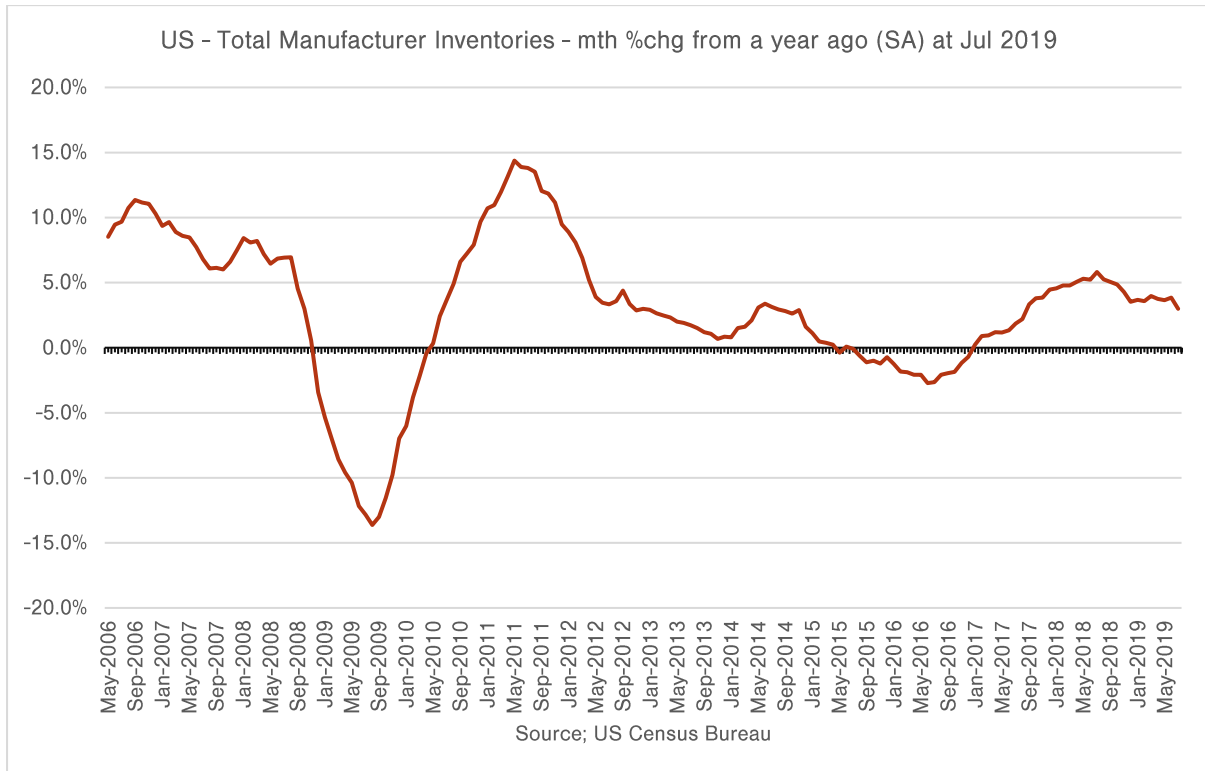
Total inventories increased at a faster pace in Jul. Faster growth in durable goods inventories was offset by a decline in non-durable goods inventories;

Total manufacturing inventory – month change; Jul +0.2% (+\$1.2bn) versus Jun +0.1%

The inventory growth in durable goods was mostly due to non-defense aircraft and parts (+\$1bn).

On an annual basis, inventory growth has been slowing but remains higher than that of shipments and orders;

Total manufacturing inventory – annual change; Jul +3% versus Jun +3.8%



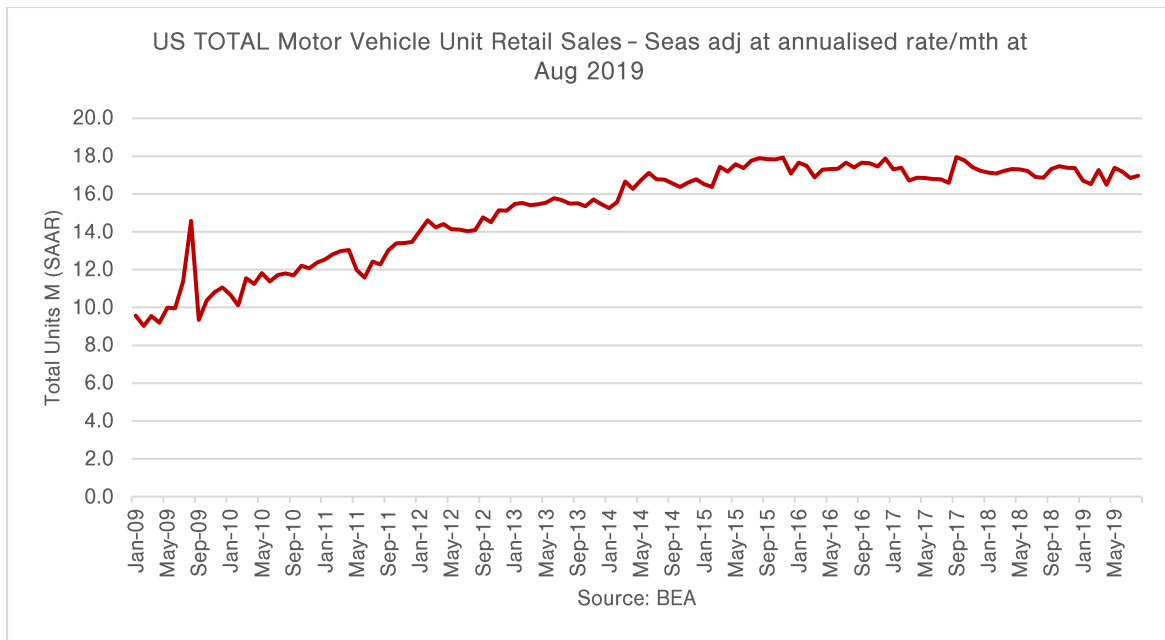
<https://www.census.gov/manufacturing/m3/index.html>

Motor Vehicle Sales (Aug)

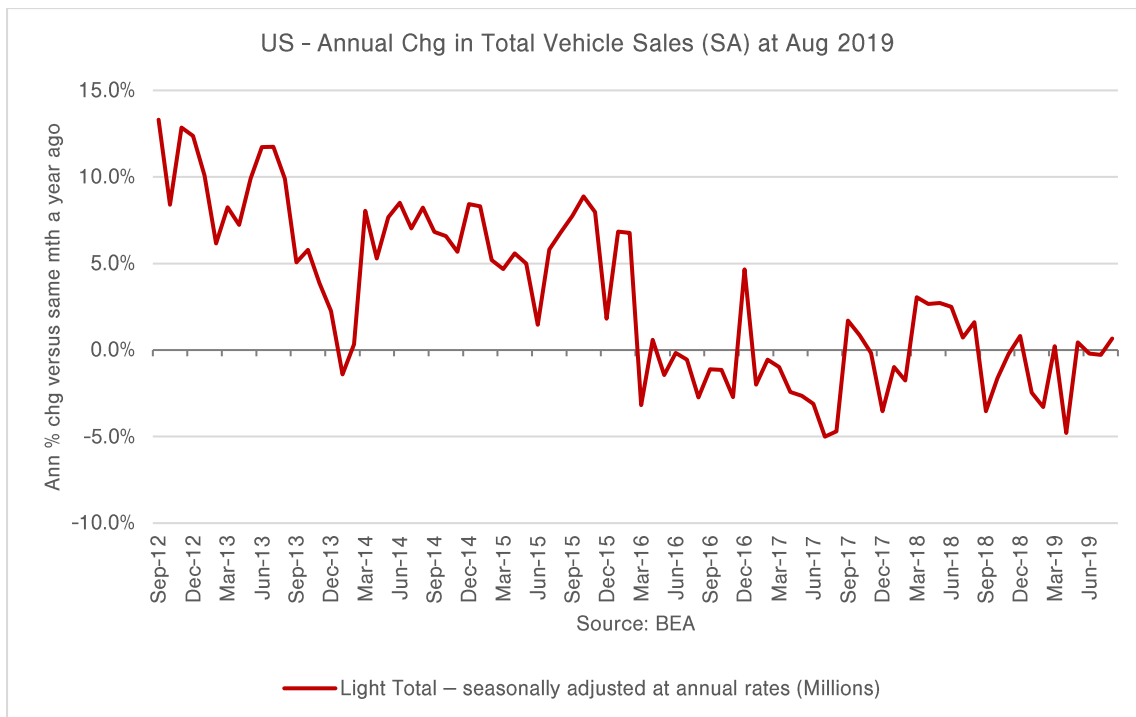
Total vehicle sales increased in the latest month after a larger decline in Jul. The overall growth momentum remains low. Underlying that change, the increase in light truck sales offset the continued decline in auto sales. The overall sales result should still be positive for retail sales in Aug.

Total Light Vehicle Sales

Month sales (SAAR); Aug 17m units versus Jul 16.8m units (+0.7%)



On an annual basis, total vehicle sales are also +0.7% above the same time a year ago – the ‘strongest’ growth rate since a year ago. The growth momentum of overall vehicle sales has remained low;

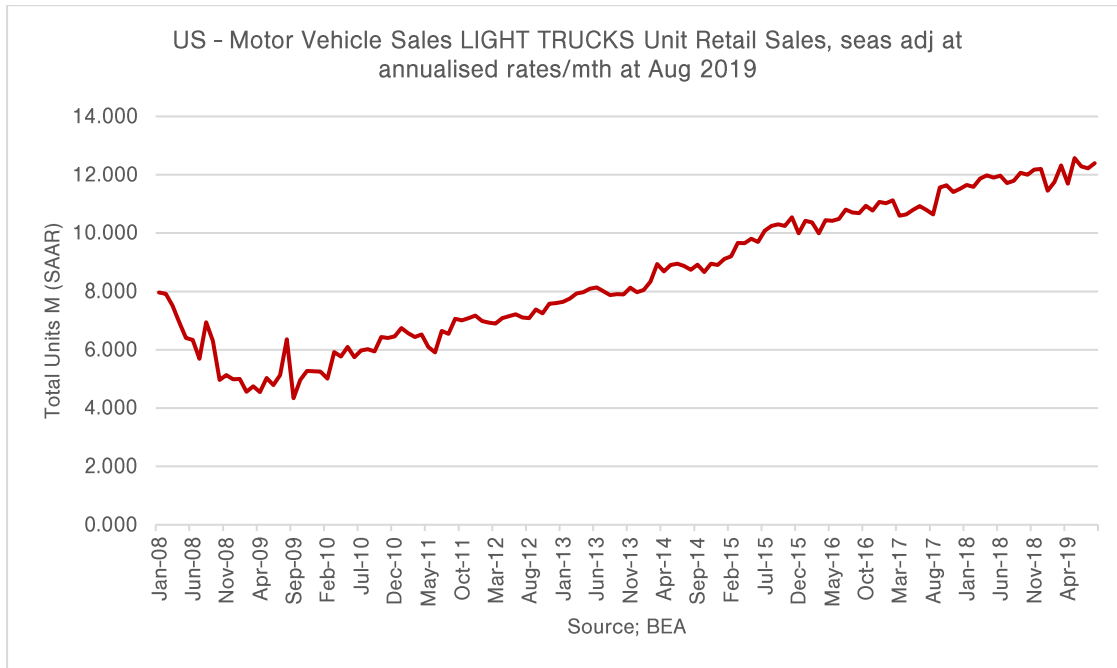


The main driver of overall vehicle sales has been Light Trucks/SUV's, while motor vehicle sales continue to decline.

Total Light Truck (SUV) Sales

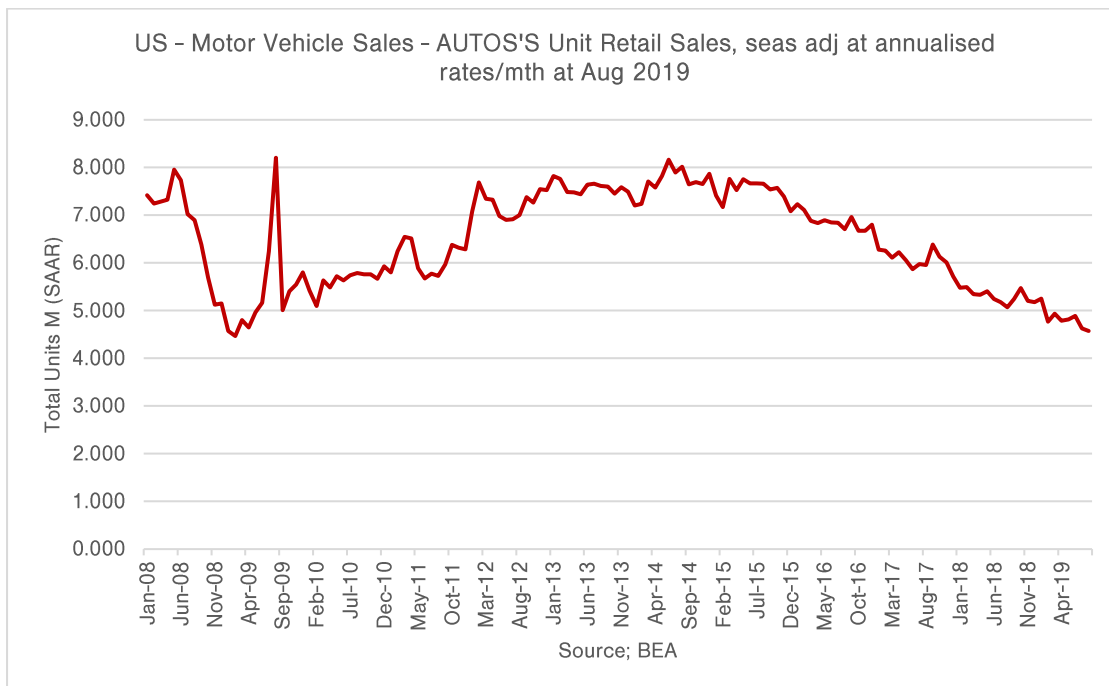
Month Sales (SAAR); Aug 12.4m units versus Jul 12.2m units (+1.4%)

Light truck sales are +5% above a year ago;



Total Auto Sales

Month Sales (SAAR); Aug 4.57m units versus Jul 4.62m units (-1.1%). The decline in Aug comes on the back of the -5.4% decline in Jul.



On an annual basis, total auto sales are 9.7% below that of a year ago.

<https://www.bea.gov/docs/gdp/auto-and-truck-seasonal-adjustment>

Non-Farm Payrolls & Employment (Aug)

Non-farm payroll growth continued to slow in Aug. The lower growth in Aug was also boosted by the hiring of Federal government temporary workers for the 2020 Census. The average growth in the YTD 2019 is well below the average payroll growth a year ago (+158k v +234k).

The employment data from the household survey was more positive this month. Employment growth accelerated in Aug after slowing consistently through the YTD. The faster growth in employment in the month resulted in both an increase in participation and an improvement (decline) in total unemployed persons (versus the month prior). On an annual basis though, the increase in employment resulted in higher participation but the decline in total unemployed persons continued to slow.

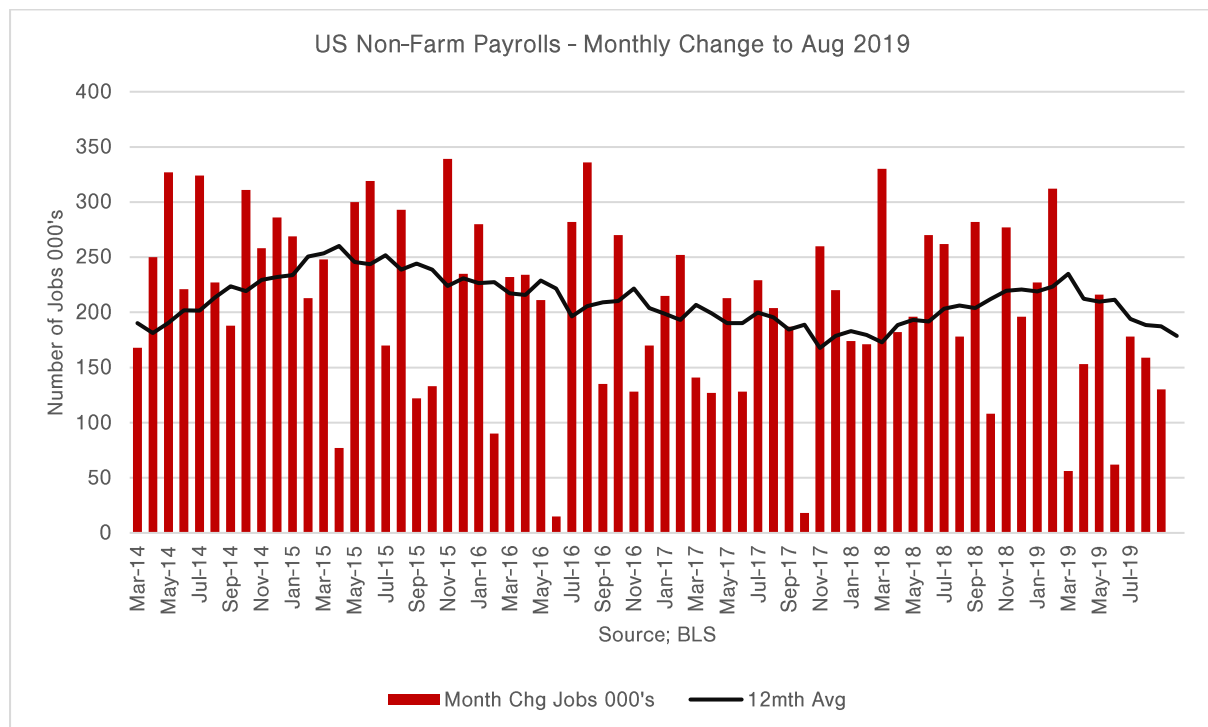
Establishment Survey – Non-Farm Payrolls

Nonfarm payroll growth slowed further in Aug and the prior two months were also revised slightly lower (net -20k employees)

Non-farm payrolls – month change; Aug +130k jobs versus Jul +159k jobs (revised by -5k jobs).

This growth was made up of +96k private sector jobs. Most of the public sector job growth was the result of +25k temporary Federal workers for the 2020 Census.

The rolling 12-month average monthly growth continues to slow and is now +179k jobs;



HOUSEHOLD SURVEY

The household survey was slightly more positive this month – the main feature was the larger increase in participation and employment.

Total Employed Persons

Annual change; Aug +2.27m persons versus Jul +1.32m persons

Month change; Aug +590k persons versus Jul +283k persons

This month represented a large improvement in total employment growth – on both an annual and monthly basis;



The improvement in the growth of total employed persons resulted in an equally large increase in the participation rate.

Total Labour Force

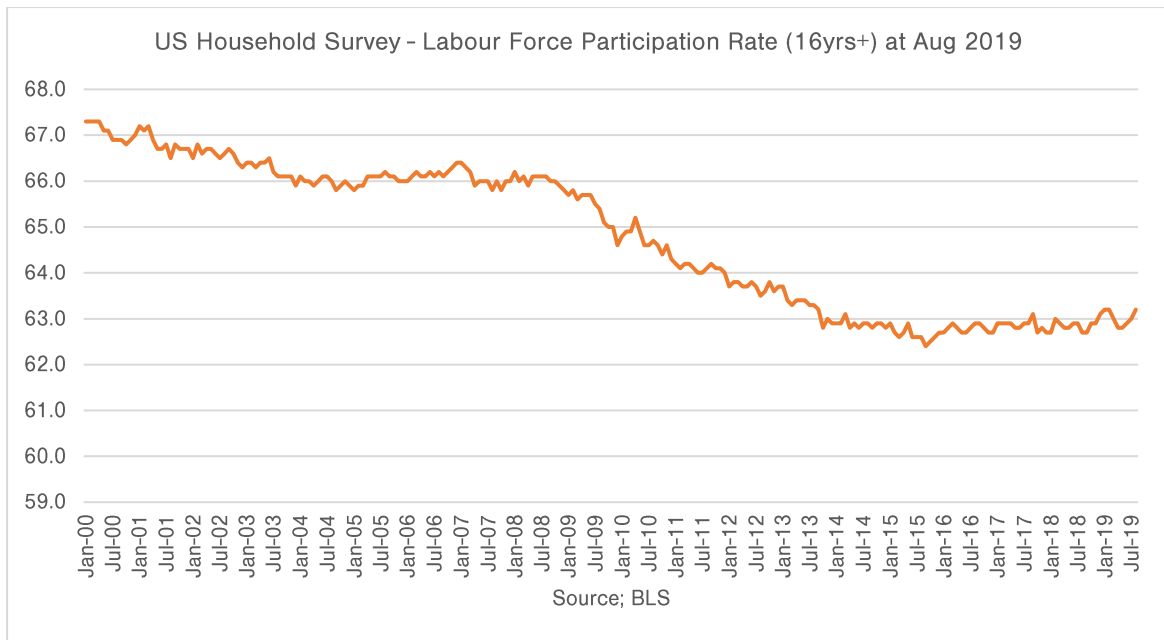
Annual change; Aug +2.12m persons versus Jul +1.14m persons

Month change; Aug +571k persons versus Jul +370k persons

The main contributor to the increase in the size of the labour force was the increase in participation over the month and the year;

Labour force participation rate (LFPR); Aug 63.2% versus Jul 63%.

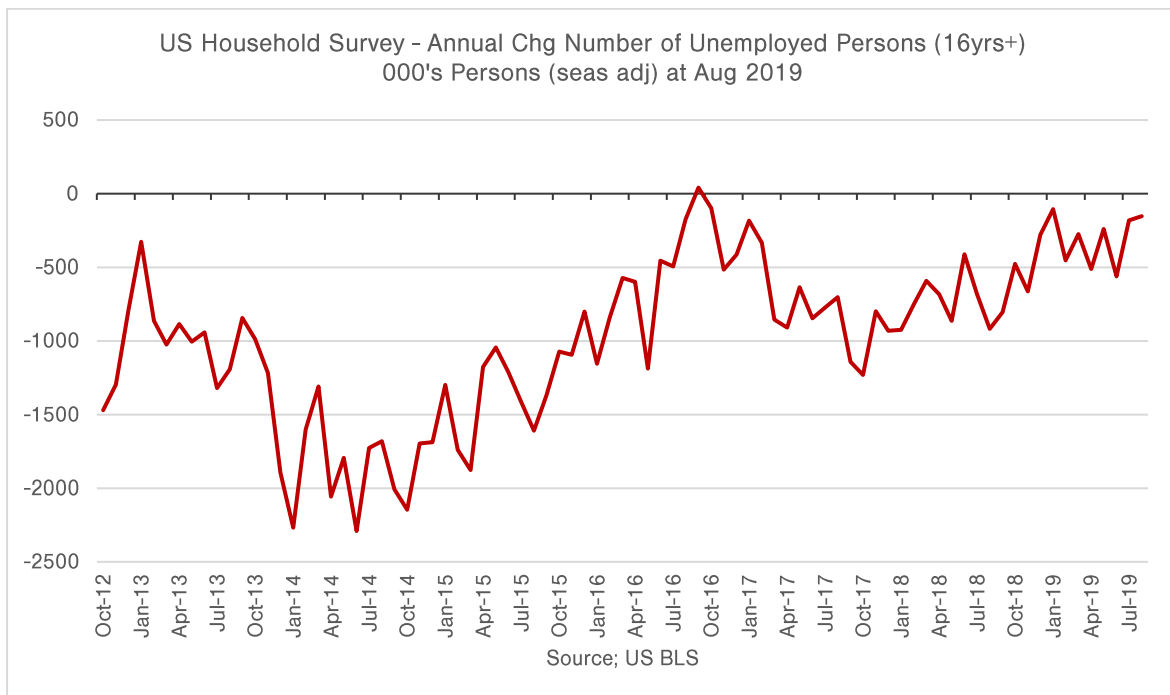
Over the last year, the participation rate has increased by +0.5% pts, the equivalent of approx. +1.3m persons into the 16yrs+ labour force.



Total Unemployed Persons

Annual change; Aug -153k persons versus Jul -182k persons

Month change; Aug -19k persons versus Jul +88k persons



Despite the larger increase in total employment on an annual basis, the decline in total unemployed persons became smaller – this was due to the increase in participation. On a monthly basis though, the change in total unemployed persons improved from an increase in unemployed persons in Jul to a decrease in Aug.

Summary of the main labour market indicators

On an annual basis, the acceleration in total employment growth resulted in an increase in participation (more people in the labour force) but did not result in an acceleration in the decline of total unemployed persons.

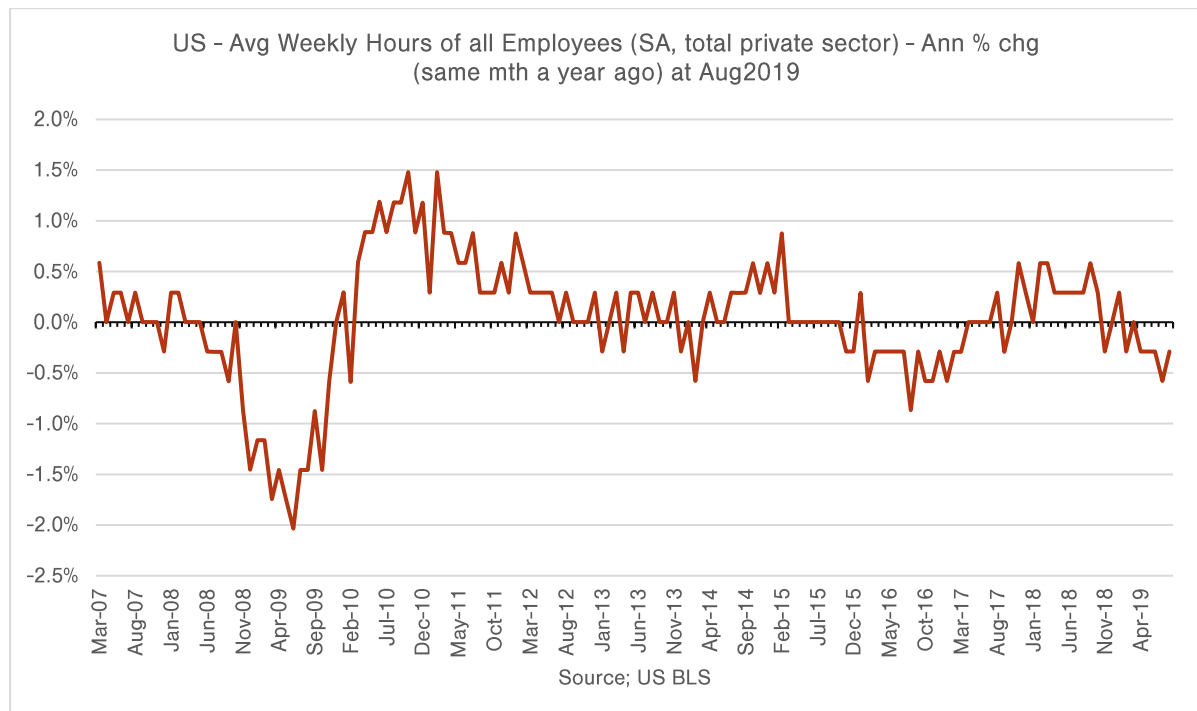
On a monthly basis, the increase in employed persons resulted in both an increase in participation as well as an improvement in the change in total unemployed persons from the month prior (from an increase in Jul to a decline in Aug).

	000's people (16yrs+)	Annual chg - AUG 2019	Monthly Chg - AUG
The estimated change in the Labour Force due to pop growth (1)		823	52
How many jobs available for them? (employment growth) (2)		2,274	590
Difference (if negative, then employment growing faster than what pop adds to the labour force) (3)		- 1,451	-538
Change labour force participation - (if positive, people entering/returning to the labour force) (4)		1,297	519
The remainder is the chg in total unemployed persons (declining if negative) (4) plus (3)		- 154	-19
Two views of annual growth in the labour force;			
Total employed persons plus total unemployed persons		2,120	571
Est of what population adds to the labor force plus change in participation		2,120	571
BLS reported change in the size of the labour force		2,120	571

HOURS WORKED

The annual change in average weekly hours of all private sector employees continued to decline slightly in Aug, albeit at a slower pace. Average hours increased on a monthly basis.

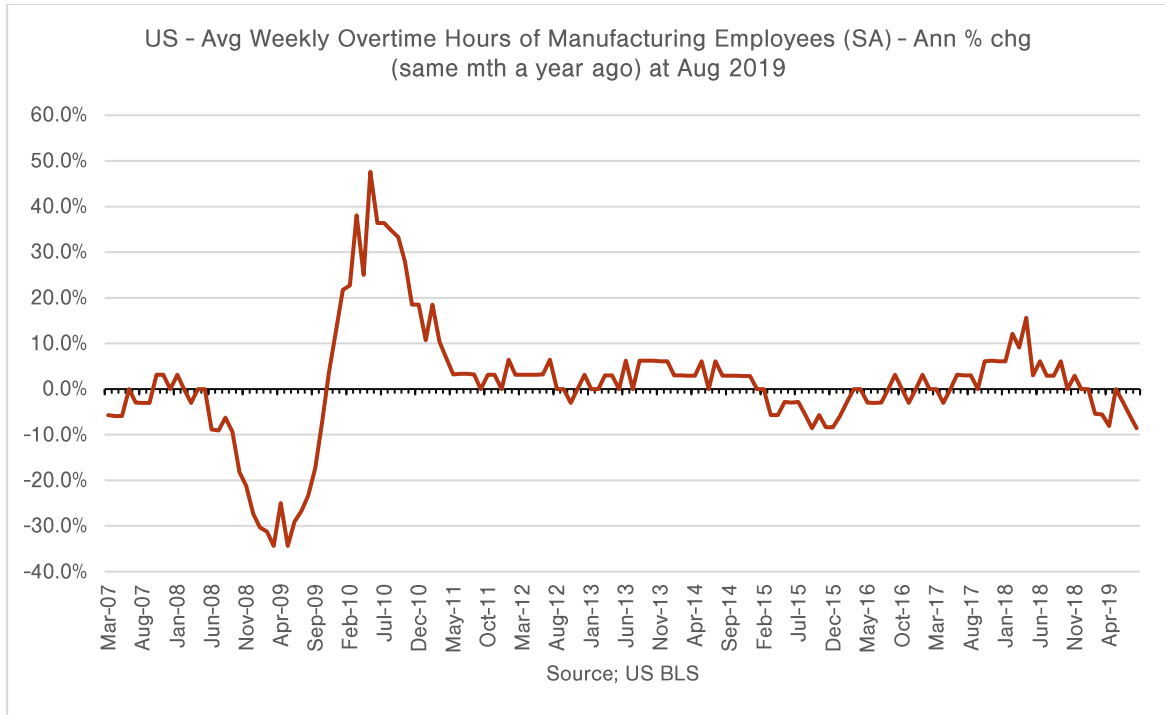
Annual change; Aug -0.3% versus Jul -0.6%



The hours worked data for manufacturing continues to confirm the weaker growth momentum – so far impacting overtime hours.

Average weekly overtime hours of all manufacturing employees continued to decline at a faster pace on an annual basis;

Aug -8.6% versus Jul -5.7%



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

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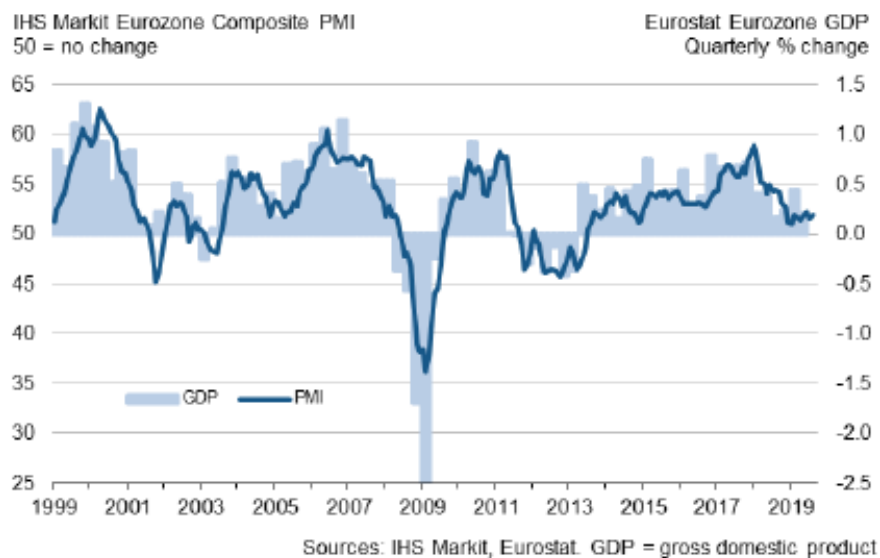
Europe

Eurozone Manufacturing and Services PMI – Final (Aug)

The composite index of private sector activity increased at a slightly faster pace in Aug across the Eurozone. Manufacturing activity continued to decline but the pace of decline slowed in Aug. Services activity grew at a slightly faster pace.

Composite Output Index; Aug 51.9 versus Jul 51.5

IHS Markit Eurozone Composite PMI



Manufacturing PMI; Aug 47 versus Jul 46.5

The strongest expansion of manufacturing activity was recorded in Greece at 54.9 while the manufacturing PMI in Germany remained weak coming in lower than the flash estimate at 43.5.

Manufacturing of intermediate and investment goods remained weak. Production and new orders continued to decline. New export orders also declined but at a slightly slower pace. Order backlogs continued to decline, and employment also declined for the fourth month in a row.

Services Business Activity Index; Aug 53.5 versus Jul 53.2

The slight improvement in the month was the result of growth in new orders and output growth supported by further declines in order/work backlogs. Employment continued to grow but the pace slowed to the lowest level of 2019 so far. Input prices increased at a faster pace while output charges grew at a slower pace. Firms became less confident in the 12-month outlook.

<https://www.markiteconomics.com/Public/Home/PressRelease/b1d84b588d1648559f86c40a9a413778>

<https://www.markiteconomics.com/Public/Home/PressRelease/915b5392fc37412bb5fbd02aa7430d5>

Eurozone PPI (Jul)

Across the Euro area, industrial producer prices increased slightly in the latest month – due mostly to an increase in energy prices. Excluding energy, producer prices declined in Jul – slower price growth continues to indicate that the growth momentum remains weaker.

PPI Total Industry – month change; Jul +0.2% versus Jun -0.6%

Energy prices increased at a faster rate; Jul +1% versus Jun -2.2%

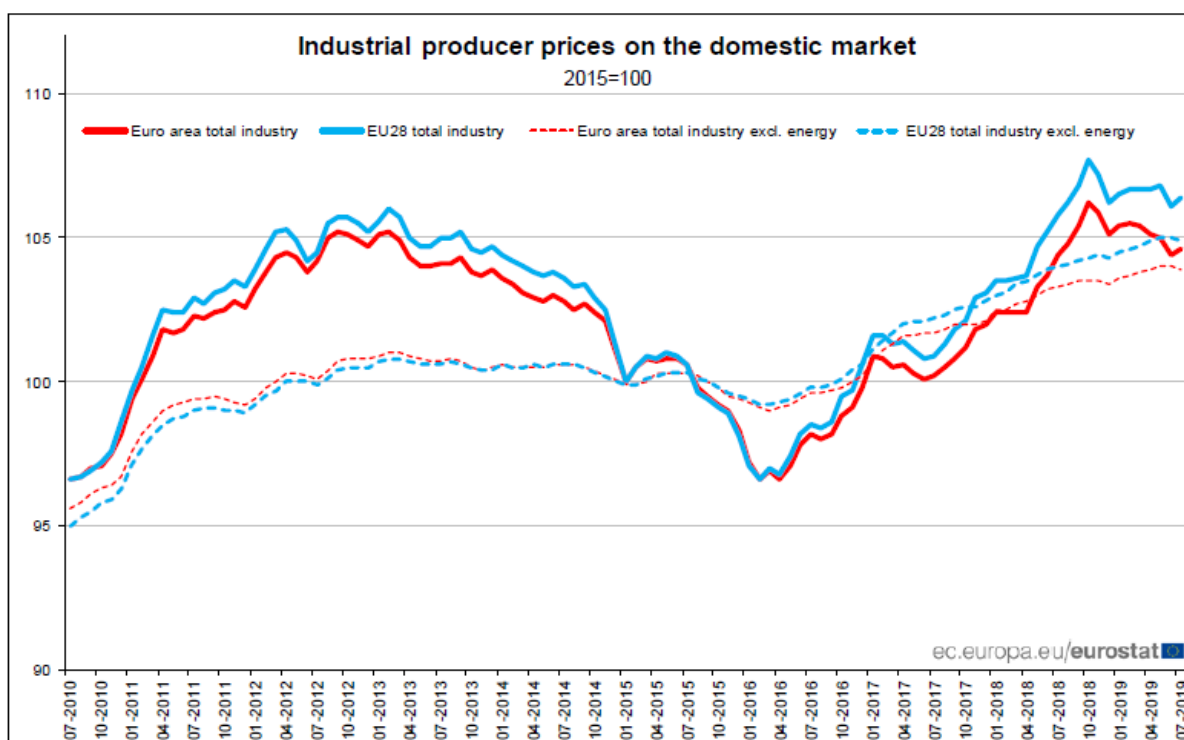
Excluding energy prices, producer prices declined across the Euro area;

PPI Total Industry ex energy – month change; Jul -0.1% versus Jun 0%

Prices of intermediate goods continued to decline. Capital goods prices increased slightly. Prices for durable and non-durable consumer goods slowed to 0%.

On an annual basis, producer price growth has slowed very quickly since the start of 2019.

PPI Total Industry ex energy – annual change; Jul +0.6% versus Jun +0.8%. In Feb 2019, the annual change in the PPI ex energy was +1.2%.



<https://ec.europa.eu/eurostat/documents/2995521/10059825/4-03092019-AP-EN.pdf/fdd006d2-3a8e-4946-a34f-05095e6de818>

Eurozone Retail Sales (Jul)

There was a sharp slowdown in retail sales in the latest month across the Euro-Area. The volume of retail sales fell across most categories. On an annual basis, growth slowed slightly.

Retail Sales (volume) Euro Area – month change; Jul -0.6% versus Jun +1.2%

Sales across most categories declined in Jul;

Food, drink, tobacco; Jul -0.3% versus Jun +1.3%

Non-food; Jul -1% versus Jun +1.1%. The only category within non-food that decline in the month was computer equipment, which increased by +0.1% in Jul versus no change in Jun.

Auto fuel; Jul 0% versus Jun +1.8%

Across countries, the larger declines were recorded across; Croatia, Germany and Belgium.

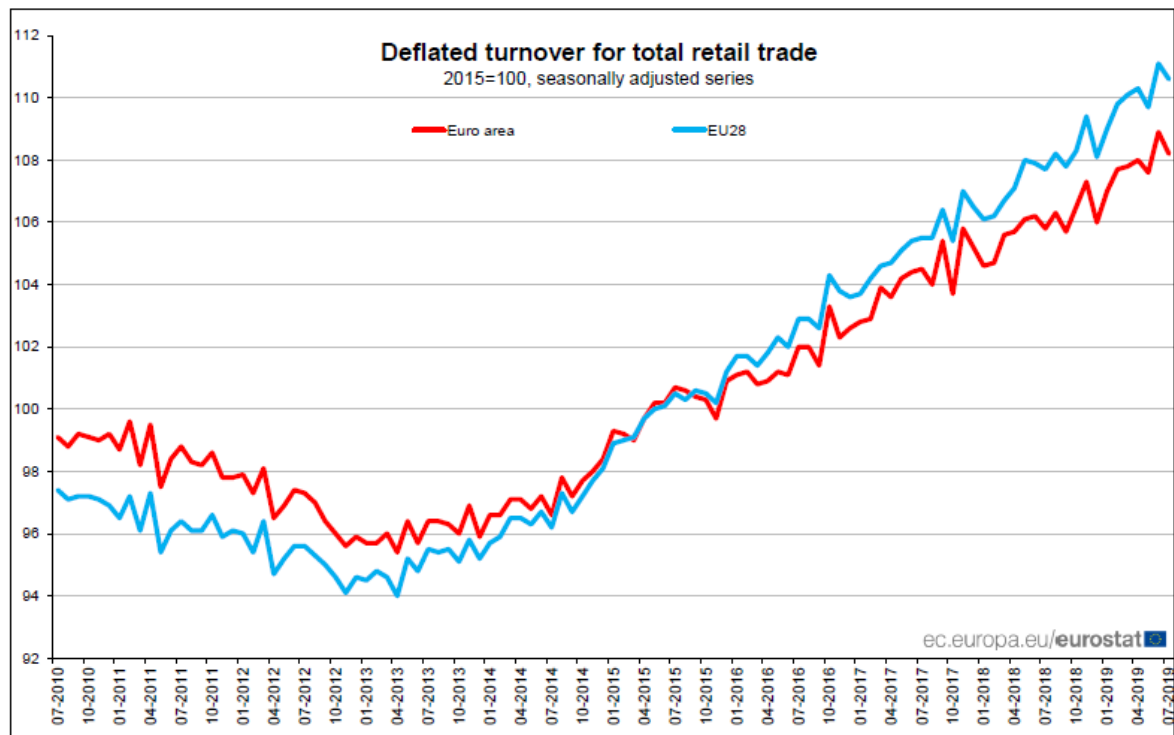
Retail sales (volume) Euro Area – annual change; Jul +2.2% versus Jun +2.8%

The annual growth slowed somewhat due to the weaker Jul sales. The results on an annual basis are more mixed though;

Food, drink, tobacco; Jul +1.3% versus Jun +1.2%

Non-food; Jul +2.8% versus Jun +4.4%. Textile, clothing and footwear and pharma/medical goods sales growth slowed the most.

Auto fuel; Jul +2% versus Jun +1%



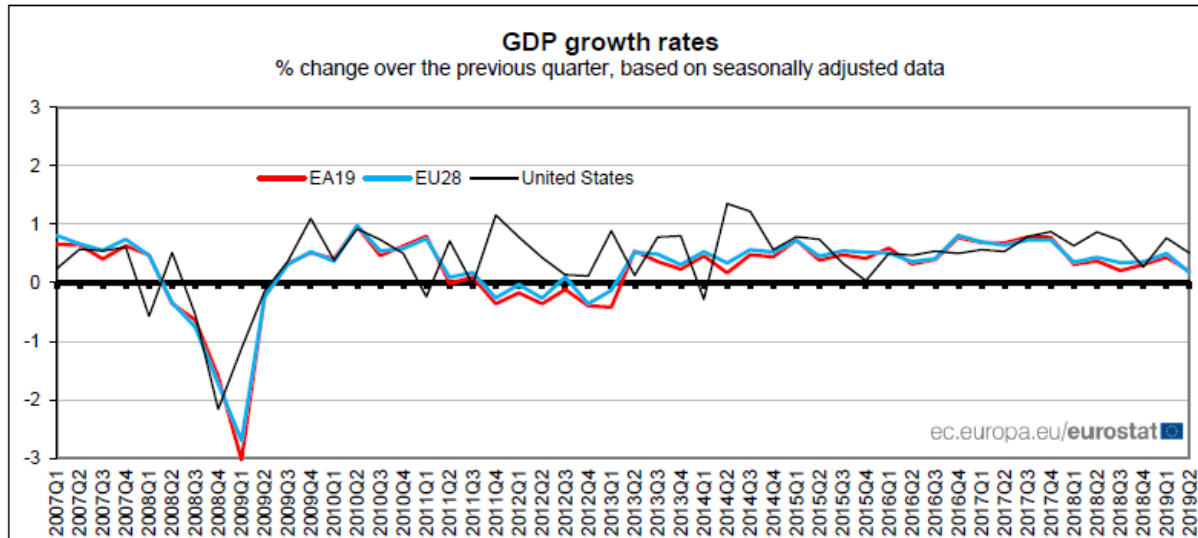
<https://ec.europa.eu/eurostat/documents/2995521/10059810/4-04092019-AP-EN.pdf/4d619d5c-582f-48f2-a610-c15acb38ddae>

Eurozone Q2 GDP (detailed)

Real GDP growth in the Euro Area slowed in Q2 versus Q1 2019. Net exports detracted from growth in Q2 after a larger, positive contribution in Q1. Household consumption growth slowed. This was off set somewhat by a larger contribution from investment spending (GFCF). The change in inventories made little contribution to growth in Q2 after subtracting from growth in Q1.

Real GDP Growth Euro Area – quarter change; Q2 +0.2% versus Q1 +0.4%

On an annual basis, growth has slowed only slightly; Q2 +1.2% versus Q1 +1.3%



Several of the larger economies in the Eurozone posted the weakest results. Real GDP declined in the UK, Germany and Sweden and growth stagnated in Italy.

Expenditure View – Contribution to GDP Growth in Q2 (Euro Area)

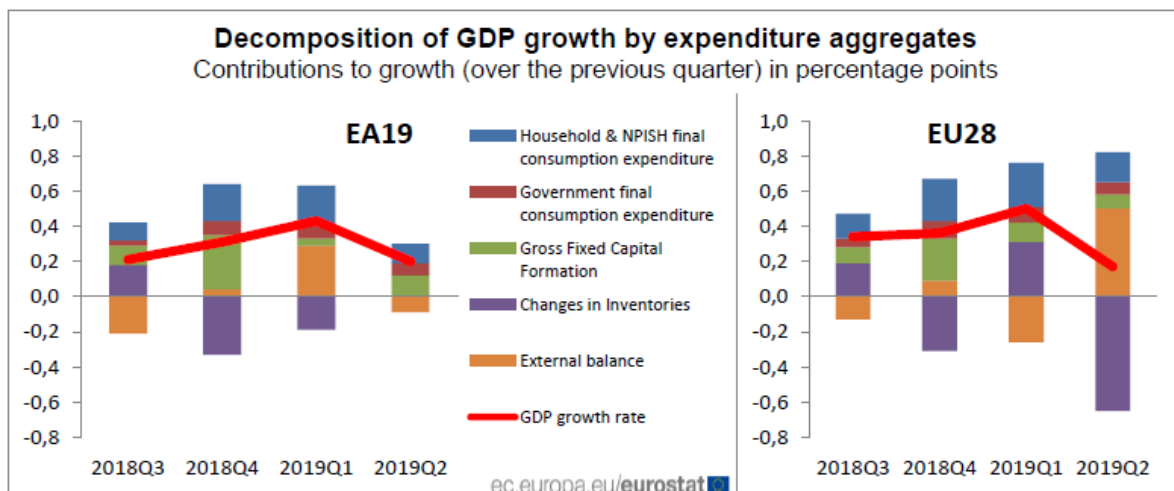
The main driver of the slower growth in Q2 versus Q1 was net exports.

In Q2 net exports detracted slightly from growth after making a larger, positive contribution in Q1. Exports growth was 0% in the Euro area and imports increased by +0.2%.

Household consumption expenditure slowed between the two quarters.

Investment spending increased at a faster pace in Q2 by +0.5% versus +0.2% in Q1.

The change in inventories improved from a negative contribution in Q1 to making zero contribution in Q2.



<https://ec.europa.eu/eurostat/documents/2995521/10059905/2-06092019-AP-EN.pdf/cc94624f-af21-4849-bcb0-b144ad7f9597>

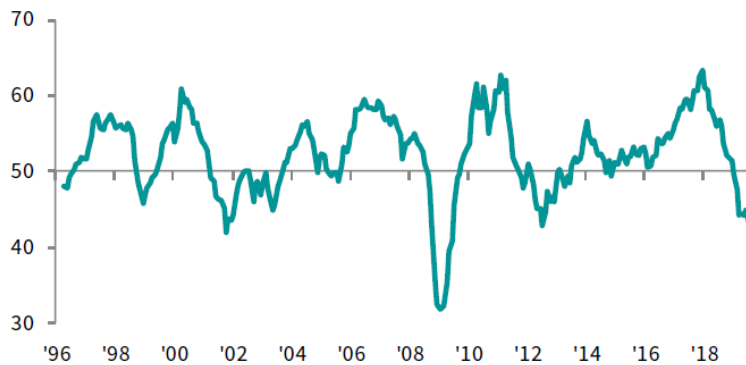
Germany Manufacturing PMI – Final (Aug)

Manufacturing activity in Germany continued to decline in Aug but at a slightly slower pace. This was led by continued falls in new orders while new export orders and production declined at a slower pace. Of note this month was the sharper decline in employment.

Headline Manufacturing PMI; Aug 43.5 versus Jul 43.2

Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit

Output fell for the seventh month in a row, but the pace slowed as firms continued to support output by reducing order backlogs. New orders continued to decline, and new export orders also declined but at a slower pace.

Employment growth fell at a faster rate and firms became even more pessimistic about future output. Sentiment fell to the lowest in the survey record.

Output prices fell for the second month in row – indicating further weaker demand.

<https://www.markiteconomics.com/Public/Home/PressRelease/915b5392fc37412bb5fbd02aa7430d5>

Germany Services PMI – Final (Aug)

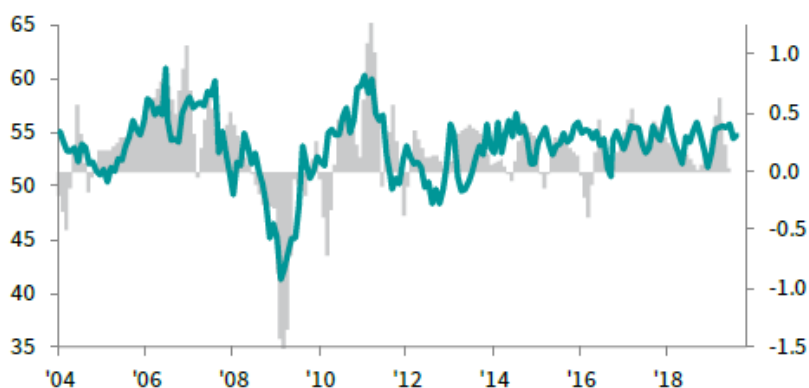
Private sector services activity increased at a slightly faster pace in Aug. Output increased as firms continued to work through order backlogs. Growth in new orders slowed to the lowest level in seven months.

Services PMI Business Activity Index; Aug 54.8 versus Jul 54.5

Services Business Activity Index Services Gross Value Added (GVA)

sa, >50 = growth since previous month

%qr/qr



Note: Services GVA data include retail, which is not included in the PMI.

Sources: IHS Markit, Federal Statistical Office

While output/business activity remained 'solid', new business volume slowed, and growth was only modest. New business from abroad declined at a faster pace.

Business output was supported by firms working through backlogs, as order backlogs declined for the first time since Jan.

The outlook continued to weaken with sentiment now falling for six months in a row – sentiment remains only slightly in positive territory. Firms cited concerns over the economy.

Despite the weaker confidence, employment continued to grow at remained above the series average.

<https://www.markiteconomics.com/Public/Home/PressRelease/25045eb6ebbc4b98a338ce2333e5a638>

Germany Factory Orders (Jul)

Manufacturing factory orders declined in Jul after increasing in Jun. Overall factory orders declined in the domestic market but the larger decline in orders (%-basis) was recorded for orders from foreign non-euro area countries.

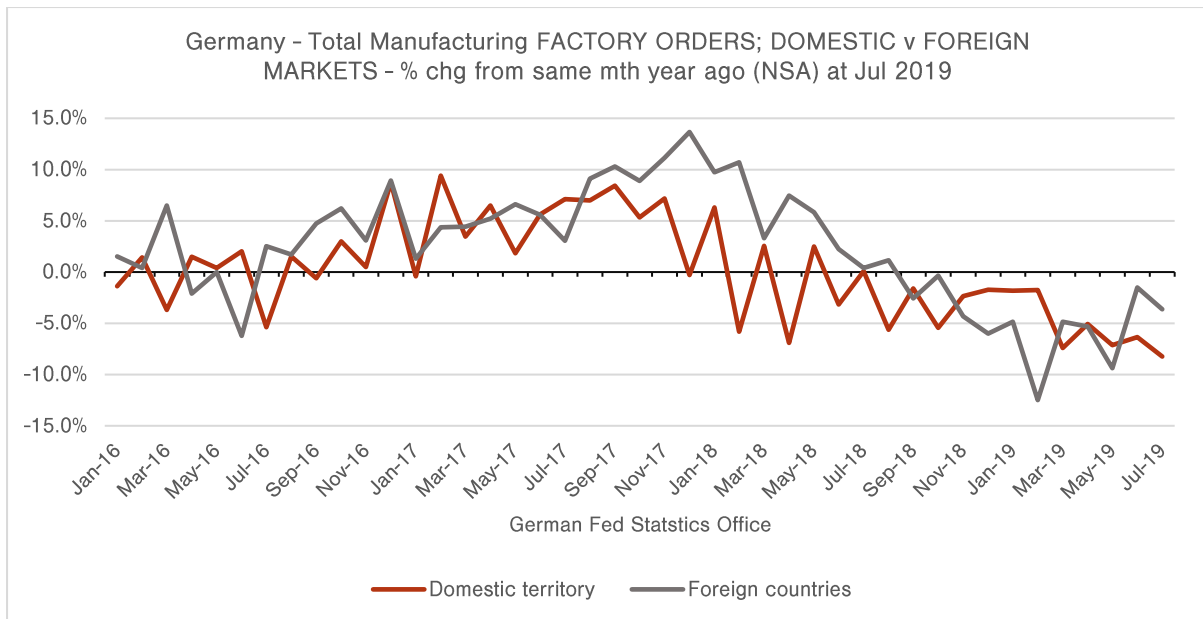
Orders across most categories were weaker in Jul. Intermediate goods and non-durable goods orders fell further and the sharper decline in capital goods orders for the domestic market indicates a continued weakening in domestic conditions. Consumer goods orders remain surprisingly weak especially for foreign markets. Durable goods orders were firmer.

Total Manufacturing Orders

Month change; Jul -2.7% versus Jun +2.7% (Jun revised higher from +2.5%)

Orders from the domestic market declined in the month by -0.5% and orders from foreign market declined by -4.2%.

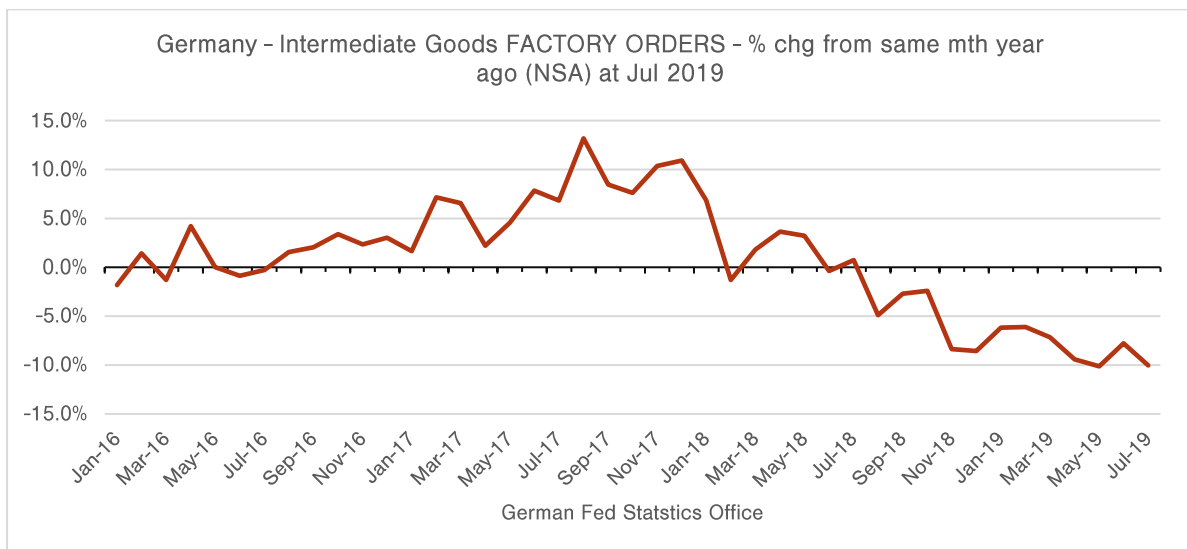
On an annual basis, new orders are now -5.6% below a year ago. The decline in orders from the domestic territory accelerated to -8.2% while orders from foreign countries also fell by -3.6%;



Intermediate Goods New Orders

Month change; Jul -2.2% versus Jun +1%. Orders across both domestic and foreign markets declined in the month.

Annual change; Jul -10% versus Jun -7.8%. Intermediate goods orders for the domestic territory were -11% below a year ago and declined by 9% for foreign markets.



Capital Goods New Orders

Month change; Jul -3% versus Jun +4.2%. Orders for capital goods declined in the domestic territory by -0.6% and by 4.3% for foreign markets.

Annual change; Jul -2% versus Jun -0.2%. The annual decline was led by a 7% decline capital goods orders in the domestic market versus +0.9% for foreign markets.



Consumer Goods New Orders

Month change; Jul -2.4% versus Jun -0.6%. Consumer goods orders were stronger in the domestic market for the month at +1% versus a -4.7% decline for foreign markets.

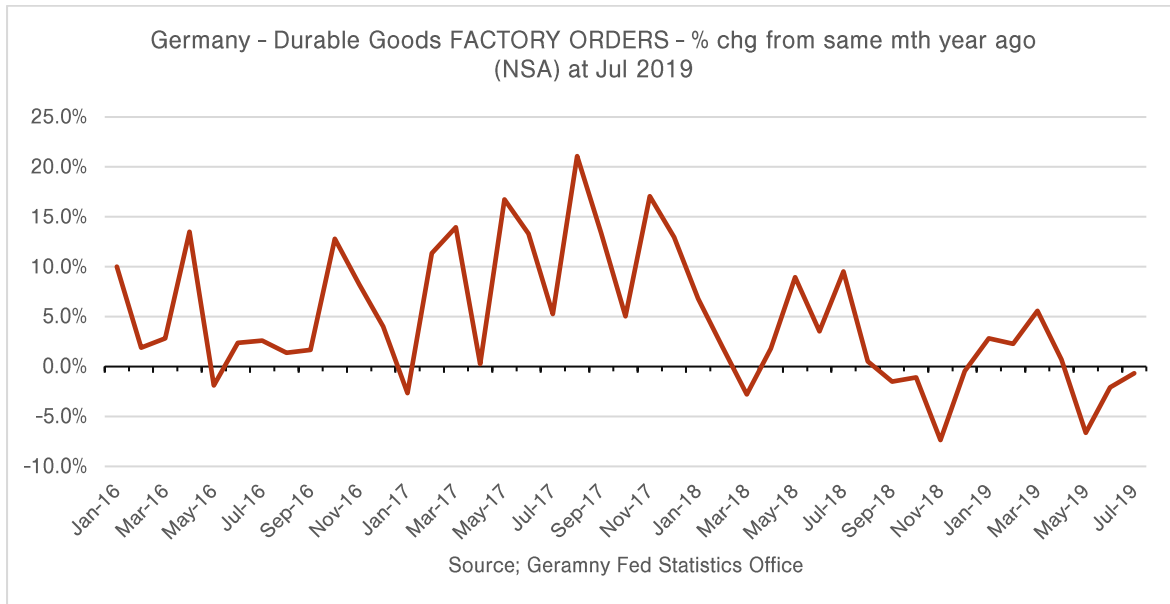
Annual change; Jul -10.3% versus Jun -7.5%. The accelerated decline in consumer goods was the result of a 14% decline for foreign markets and a -3.6% decline for the domestic market.



Durable Goods New Orders

Month change; Jul +4% versus Jun -1.8%. Durable goods bucked the broader trend in the month. Orders for the domestic market were much stronger, growing by 10% in the month while foreign country orders slowed to +0.2%.

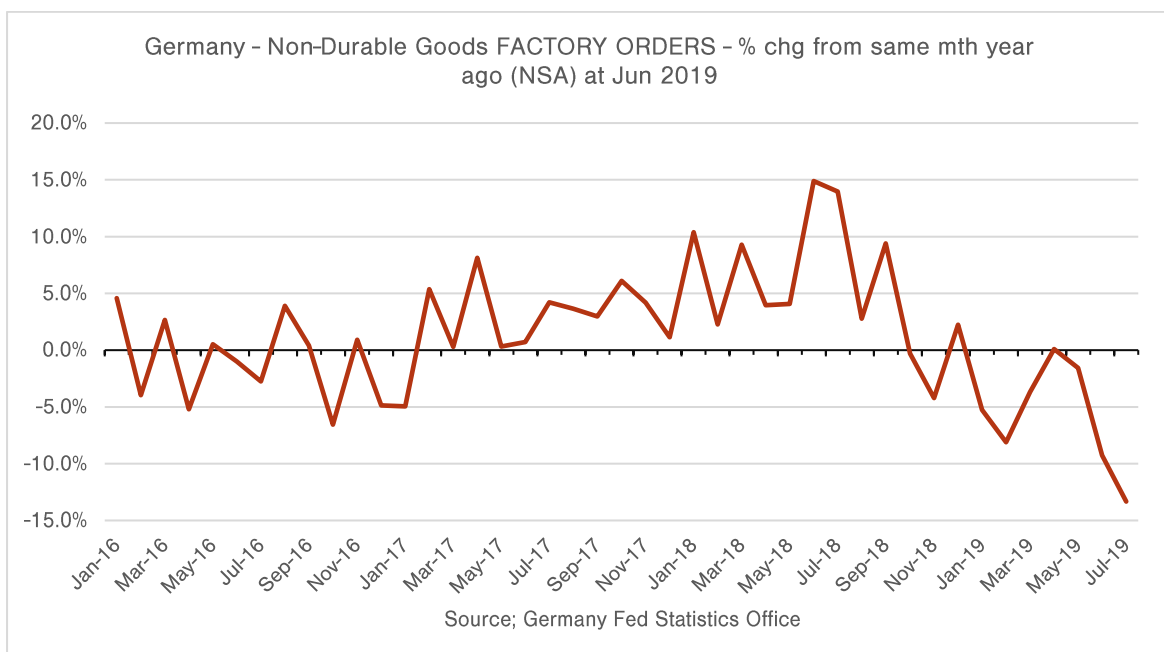
Annual change; Jul -0.7% versus Jun -2.1%. The annual decline has been led by foreign markets with orders -2.3% below a year ago. Orders for the domestic market increased by +1.7%.



Non-Durable Goods New Orders

Month change; Jul -4.8% versus Jun -0.2%. The accelerated decline in the month was the result of declines across the domestic and foreign markets.

Annual change; Jul -13% versus Jun -9%. The accelerated decline was led mostly by the annual decline in orders for foreign countries (-18%) and Euro area countries declined by -40% versus a year ago. Domestic orders of non-durable goods are 5% below a year ago.



https://www.destatis.de/EN/Press/2019/09/PE19_334_421.html

Industrial Production (Jul)

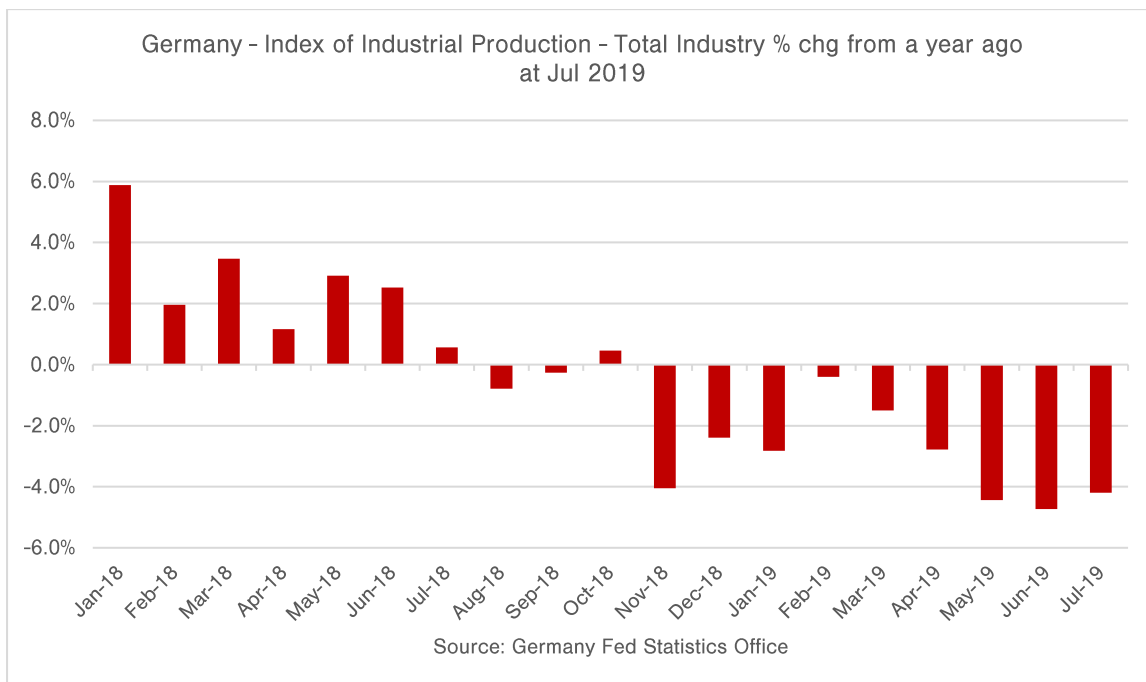
Overall production in industry continued to decline in Jul. Manufacturing production continued to contract, albeit at a slower pace. Mining and utilities production similarly declined at a slower pace. Construction growth slowed to a lower level.

Total Industry

Month change; Jul -0.6% versus Jun -1.1%



Annual change; Jul -4.2% versus Jun -4.7%

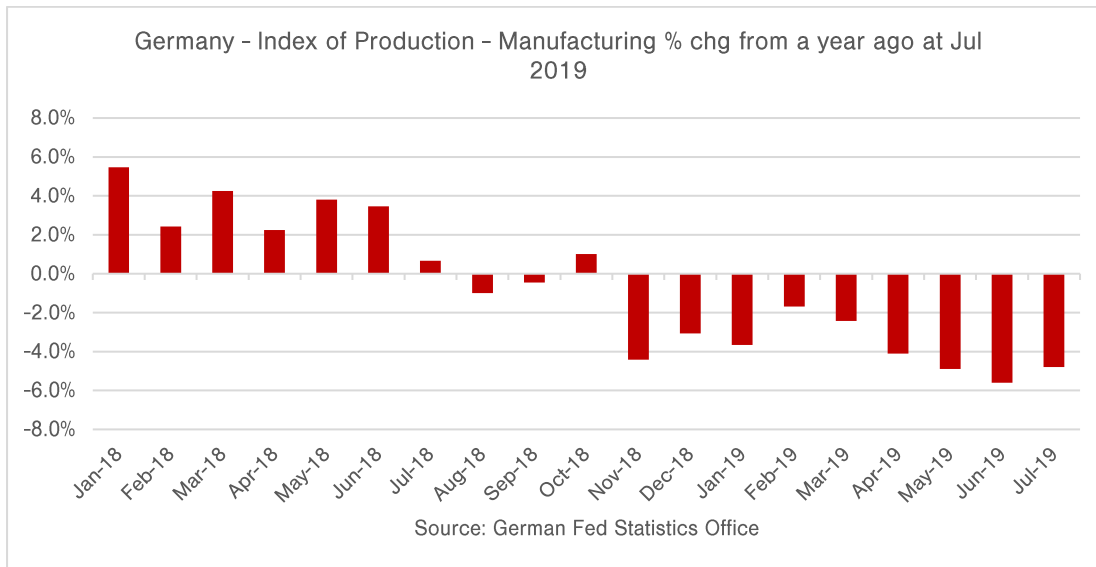


Manufacturing Production

Manufacturing production continued to decline in the month and on an annual basis, albeit at a slightly slower pace.

Month change; Jul -0.8% versus Jun -1.3%. Intermediate goods declined at a slower pace in the month. Production of capital goods declined at a faster pace in the month. Production of consumer goods, durable goods and non-durable goods all increased in the month.

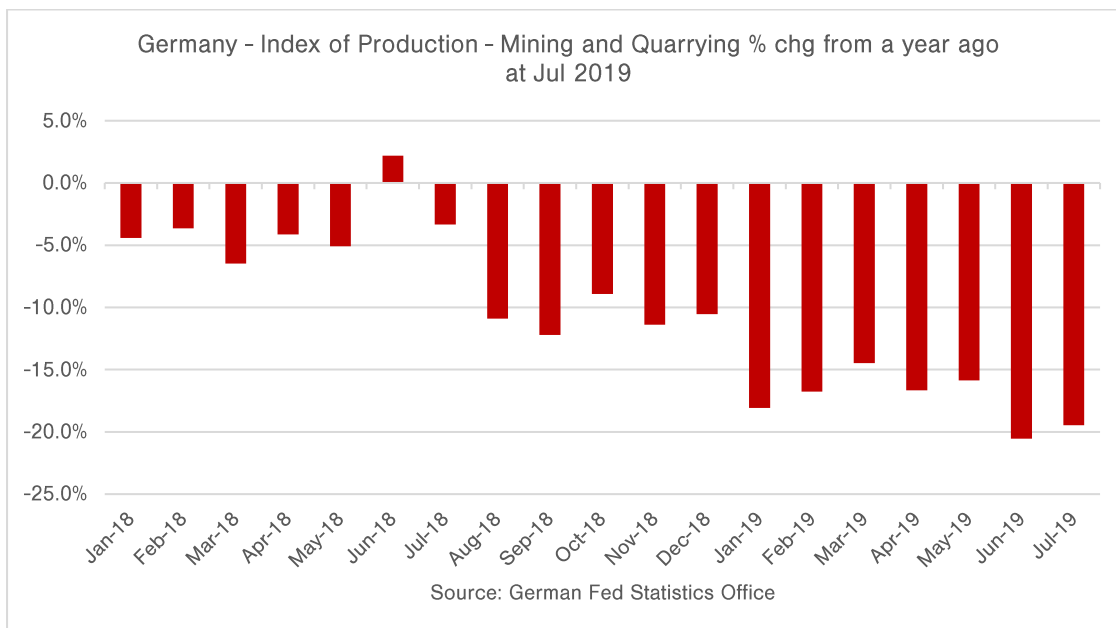
Annual change: Jul -4.8% versus Jun -5.6%



Mining and Quarrying Production

Month change; Jul -2.8% versus Jun -2.6%

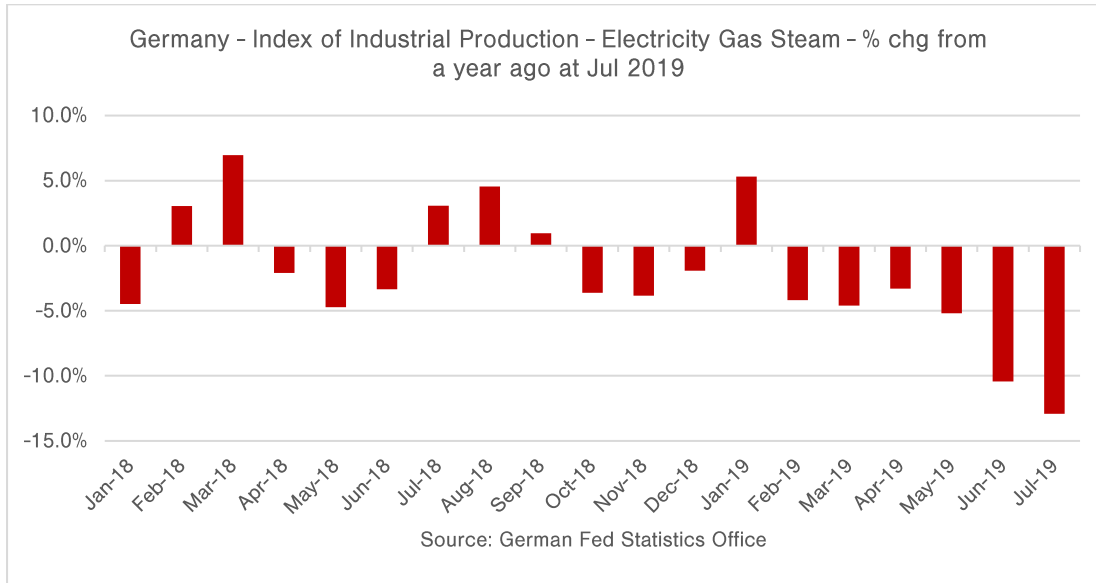
Annual change; Jul -19.5% versus Jun -20.5%



Electricity, Gas, Steam and Air Conditioning Supply (Utilities) Production

Month change; Jul -1.1% versus Jun -4.7%

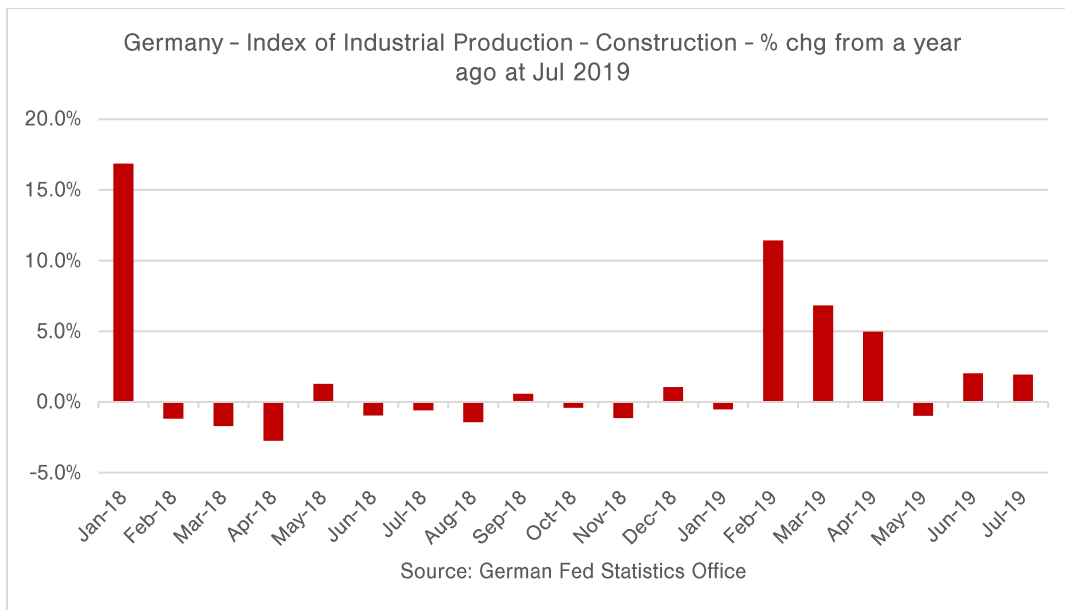
Annual change; Jul -13% versus Jun -10.4%



Construction Production

Month change; Jul +0.2% versus Jun +1.3%

Annual change; +1.9% versus Jun +2%



https://www.destatis.de/EN/Press/2019/09/PE19_339_421.html

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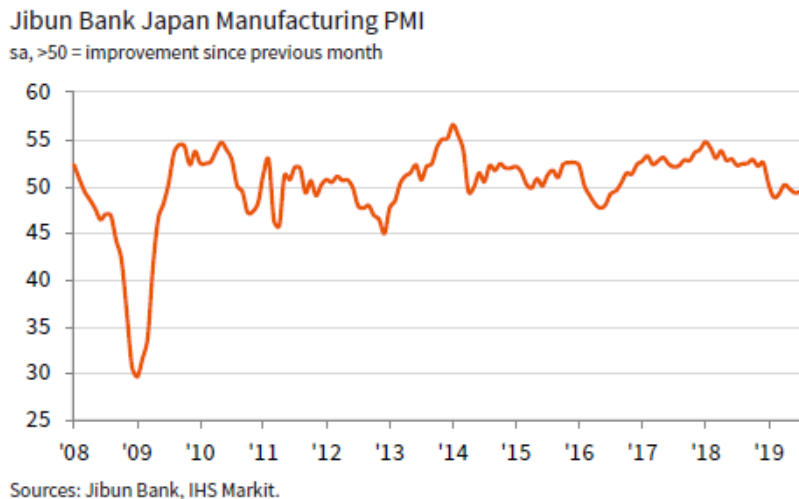
Japan

Manufacturing PMI – Final (Aug)

The modest decline in manufacturing activity continued into Aug with the pace little changed.

“The reduction gathered pace since July and was the fastest in five months. Slower demand was attributed to tougher conditions in both domestic and overseas markets. Panellists also mentioned China as a particular source of weakness, with survey data showing reduced inflows of new export orders.”

Headline Manufacturing PMI; Aug 49.3 versus Jul 49.4



Production volumes declined for the eighth month in a row and new business declined in Aug. the outlook for production was weaker – with the end to Olympic Games related work as well as the consumption tax increase planned for Oct.

Despite the weaker conditions, employment continued to grow at modest levels.

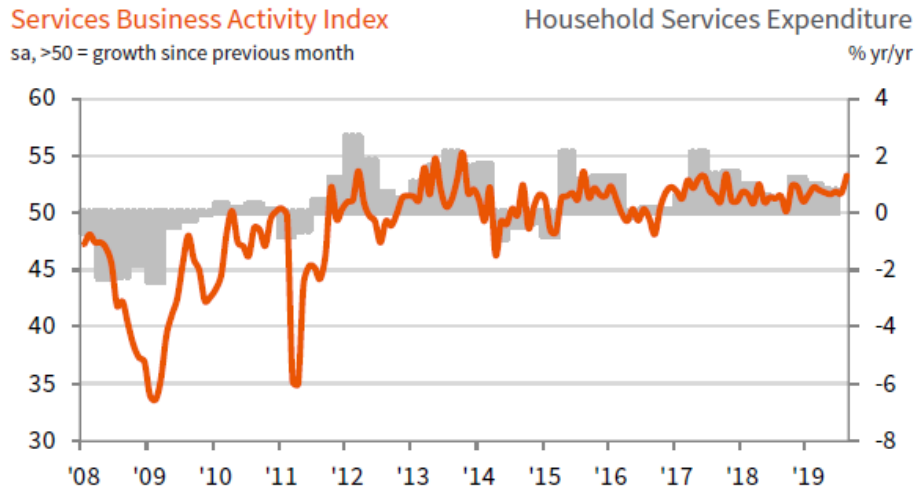
Input prices grew at the slowest pace since Dec 2016. Firms also cut output charges for the third month in a row in order to stimulate demand.

<https://www.markiteconomics.com/Public/Home/PressRelease/09eaa5af192e4360a283b6a45871454e>

Services PMI – Final (Aug)

Business services activity increased at a faster pace in Aug – the rate of expansion was a “notable improvement” over the YTD activity.

Headline Business Activity Index; Aug 53.3 versus Jul 51.8



Sources: Jibun Bank, IHS Markit, Cabinet Office Japan

While new business growth helped to support the increase in activity, the growth in overall new business slowed to the lowest level since Jul 2018. Within that though, new orders from overseas increased at the fastest pace in nine months.

Despite the slower growth in orders, backlogs of work increased at the fastest pace in six months. Employment continued to grow with the pace of growth remaining 'marginal'.

The outlook for activity over the next twelve months was unchanged from a month ago – which was a two-year low. Firms cited concerns over the upcoming increase in consumption tax in Oct.

<https://www.markiteconomics.com/Public/Home/PressRelease/1a78c0928d9f4219af154892ae97cf33>

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United Kingdom

BREXIT

““The situation in Britain is quite a mess now and we don’t know what is happening there,” said Finnish Prime Minister Antti Rinne, whose country currently holds the EU’s rotating presidency.”

<https://www.bostonglobe.com/news/politics/2019/09/06/house-lords-approves-bill-block-deal-brexite-which-will-now-become-law/4OeXa0pMvrUcalYv6zuM7L/story.html>

The return of the UK Parliament last week was as contentious as expected. By the end of the week, the House of Lords and the House of Commons had approved a measure that would block the PM’s plans to leave the EU without a deal. Once given royal approval, the measure will become law and require the PM to extend the Brexit deadline for three (3) further months IF a new deal has not been negotiated by the 19 Oct.

This goes against what PM Johnson had campaigned on – to deliver Brexit on 31 Oct as planned. Conservatives in Parliament sided with the opposition to support legislation to block a no-deal Brexit and many were expelled or resigned as a result.

PM Johnson looked to schedule a snap election to break the deadlock – which has been rejected by Parliament – but a further vote will likely take place this week.

“After discussions Friday, lawmakers from several opposition parties said they would not back an election unless the government asked the EU to postpone Brexit, removing the risk the U.K. could crash out without a deal. **Johnson says he would “rather be dead in a ditch” than delay Brexit.**”

<https://www.bostonglobe.com/news/politics/2019/09/06/house-lords-approves-bill-block-deal-brexite-which-will-now-become-law/4OeXa0pMvrUcalYv6zuM7L/story.html>

In a win for PM Johnson during the week, the UK High Court rejected a challenge that would block the PM from suspending Parliament for several weeks. PM Johnsons prorogation plan was approved by the Queen last week. An appeal will be heard on 17 Sep.

In the meantime, meetings with the EU on Brexit have yielded no progress;

“EU sources have said there is no evidence the British government is even working on “concrete proposals” to strike a Brexit deal, and the latest resignations from the government, recent reports of “sham negotiations” and constant election talk have all contributed to the impression that the government is not serious about finding an agreement.”

<https://www.theguardian.com/politics/2019/sep/08/france-threatens-to-veto-further-brexite-extension>

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-brexit-showdown-when-parliament-returns-tuesday/2019/09/01/ff9dd0a6-cca6-11e9-8c1c-7c8ee785b855_story.html?noredirect=on

UK Composite and Services PMI (Aug)

At the composite level, private sector activity in the UK contracted slightly in Aug. The output index for the combination of services, manufacturing and construction fell to 49.7 in Aug from 50.3 in Jul. Both manufacturing and construction output declined and was only slightly offset by a marginal increase in business services activity.

Given that the new Brexit deadline is approaching (31 Oct) – these output measures may start to improve as firms prepare for Brexit

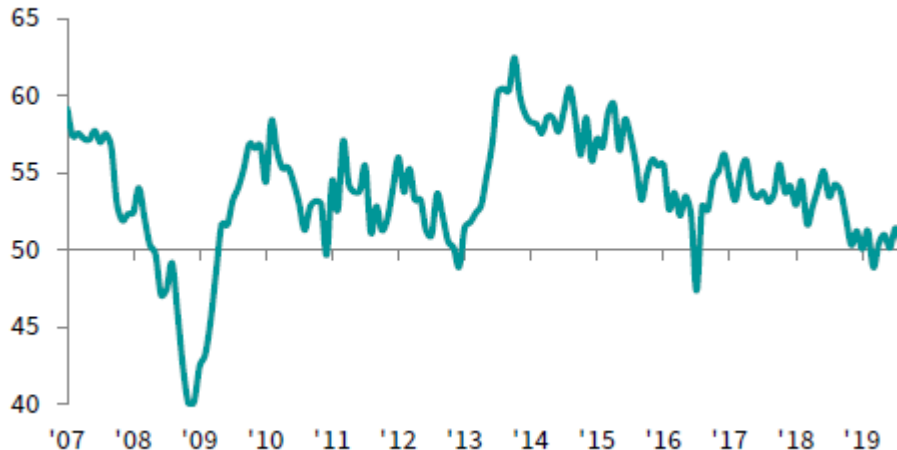
UK Services PMI (Aug)

Services activity, one of the main sectors in UK economy, expanded at a slower pace in Aug.

Headline Business Activity Index: Aug 50.6 versus Jul 51.4

Services Business Activity Index

sa, >50 = growth since previous month



Sources: IHS Markit, CIPS

New business increased at a slower pace and new export orders declined. Firms cited Brexit related uncertainty and subdued corporate spending. While firms noted some boost due to a weaker Pound, this was offset by lower orders from foreign clients, especially from Europe, due to uncertainty.

Output was supported by further declines in order backlogs – this is now the longest period of decline in orders backlogs since 2011/12.

Employment growth remained weak.

Optimism fell for the third month running. The growth outlook is now the lowest in over three years:

“Survey respondents widely commented on concerns that domestic political and economic uncertainty would have a negative impact on business investment and client demand.”

<https://www.markiteconomics.com/Public/Home/PressRelease/bec4ba3ae8ac45008c46a8bc6b71a07d>

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Australia

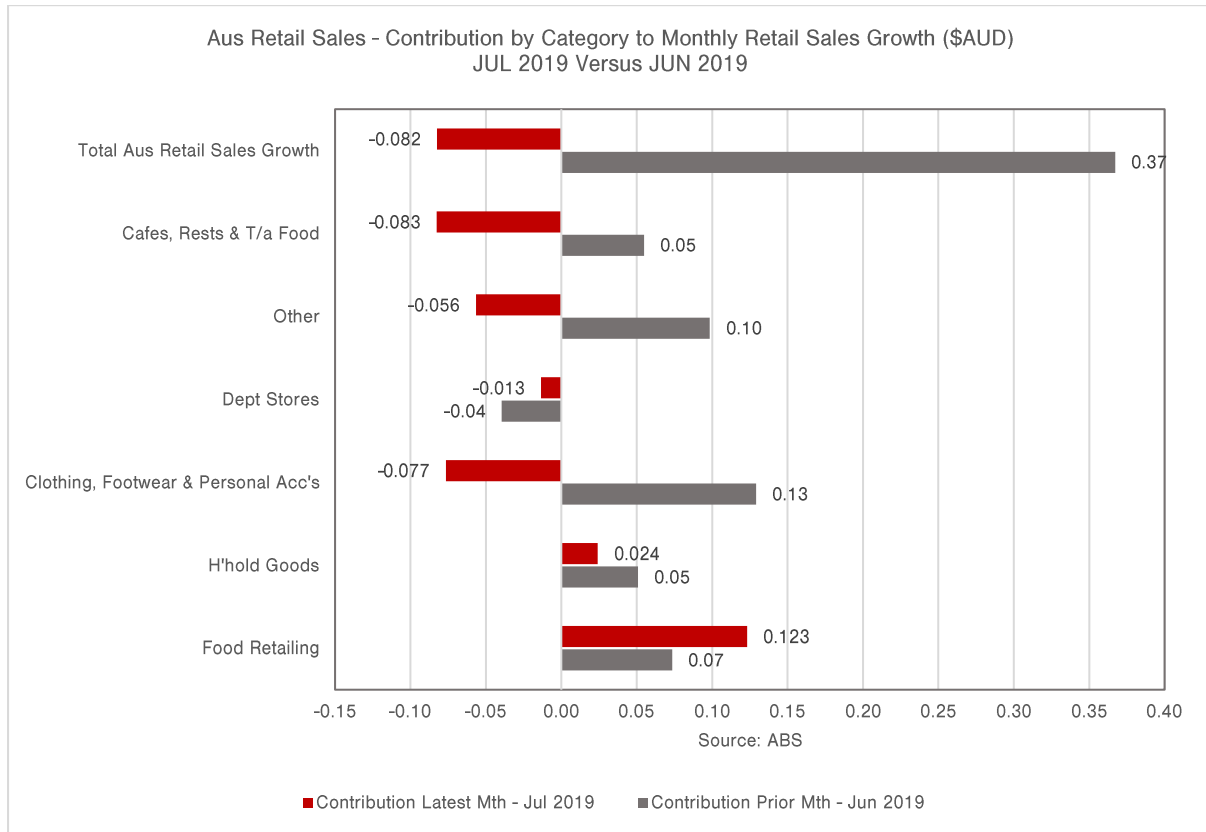
Retail Sales (Jul)

The total value of retail sales declined in Jul. This month of data incorporates both interest rate cuts from Jun and Jul.

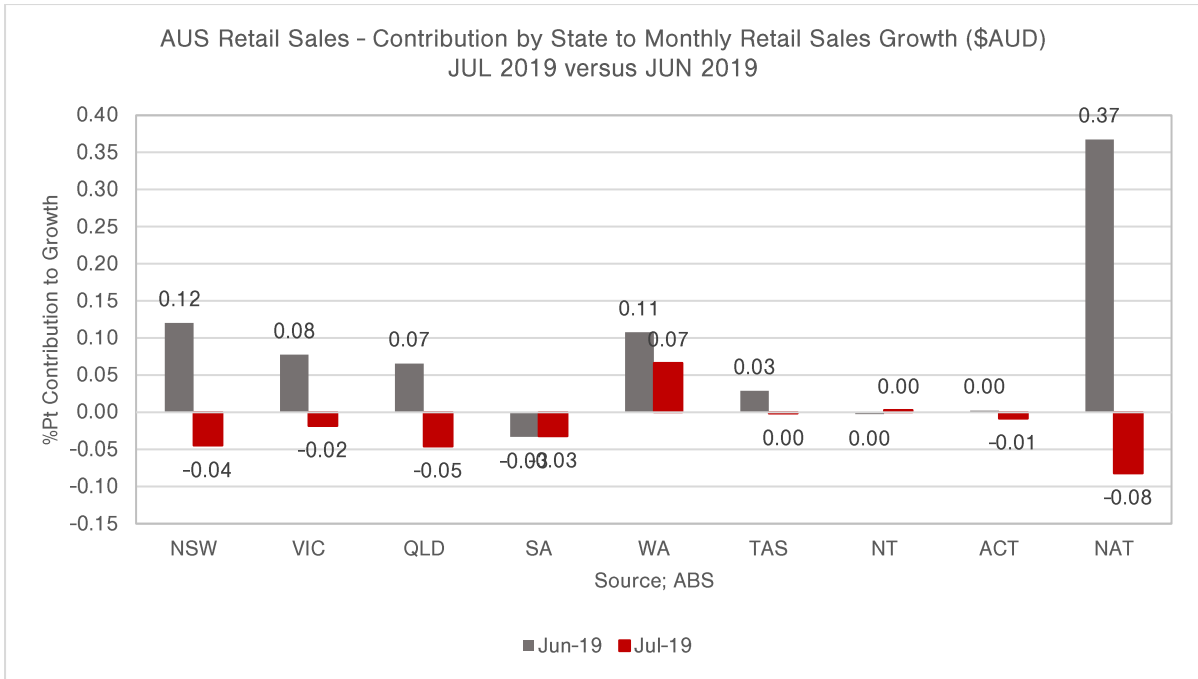
Food and Bev retail was the only category where sales improved in the month. On a state basis, sales growth was at best, slightly lower in WA. All other states recorded declines.

Retail Sales Value – month change; Jul -0.1% versus Jun +0.4%

Retail sales by category were weaker across the board. Only food and bev retail recorded faster growth while household goods retail growth slowed. Sales across all other categories declined versus the month prior;

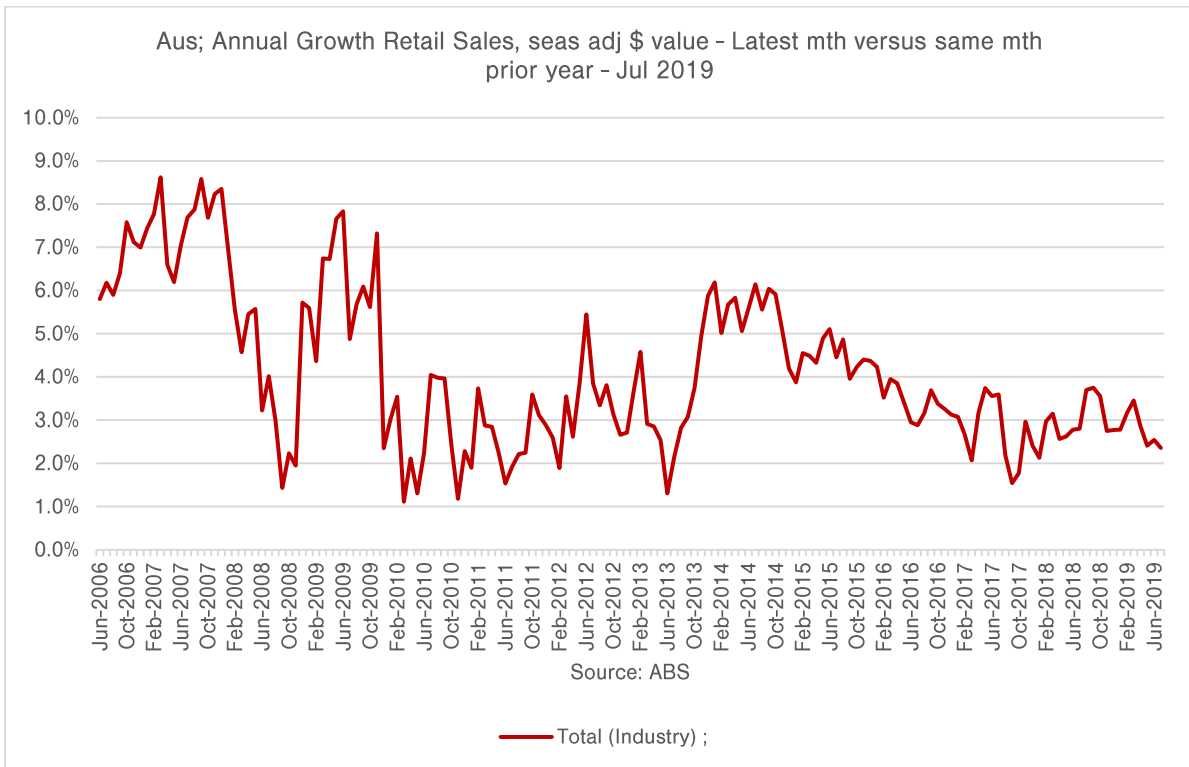


On a state basis, retail sales grew at a slower pace in WA and declined across all other states versus the month prior;



The annual pace of retail sales growth continued to slow but remains somewhat elevated compared to prior weaker periods.

Retail Sales Value – annual change; Jul +2.4% versus Jun +2.5%



<https://www.abs.gov.au/ausstats/abs%40.nsf/mediareleasesbyCatalogue/79EACA2718D0318ACA2581AF001493AA?OpenDocument>

RBA Rates Decision – 3 Sep 2019

The RBA left rates on hold at the Sep meeting with the overnight cash rate at 1%.

Since the last meeting, rates have fallen to record lows in many countries, partly the result of persistent downside risks.

Growth in Australia has been lower than expected led by low income growth and declining house prices. Growth is expected to rebound to 2.5% in 2019 – supported by lower interest rates, tax cuts and infrastructure spending. Domestic consumption remains uncertain – but the RBA is looking at an increase in household disposable income (tax cuts & rate decreases) and a stabilization in housing to support spending.

Little inroad has been made into the reducing spare labour market capacity.

Inflation remains low and it will take longer than expected to return to the 2% rate.

Policy guidance remains unchanged (emphasis added);

“It is reasonable to expect that **an extended period of low interest rates** will be required in Australia to make progress in reducing unemployment and achieve more assured progress towards the inflation target.”

The RBA will continue to monitor the labour market “closely” and will ease policy if required to support sustainable growth in the economy.

<https://www.rba.gov.au/media-releases/2019/mr-19-23.html>

GDP Q2

The latest quarter real GDP growth slowed slightly versus the quarter prior. A larger contribution from net exports and govt consumption expenditure was partly offset by a negative contribution from the change in inventories and public and private investment. Excluding the external sector, expenditure in the domestic economy declined in Q2.

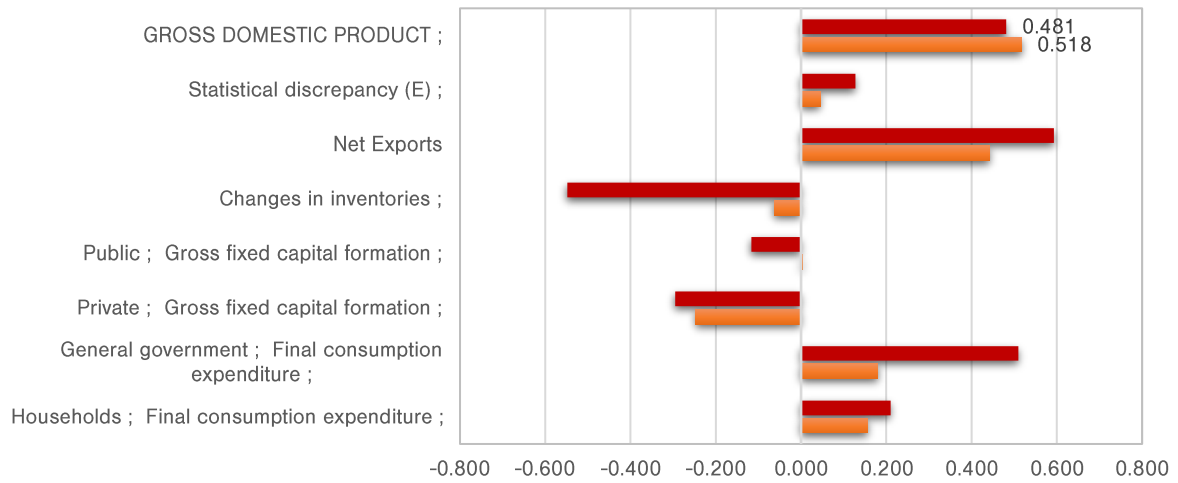
The detail paints a less than rosy picture of demand – both domestic and external. Private investment spending continued to decline and contribution from household consumption is also at the lower end. The larger contribution to growth in the quarter from net exports was less about export growth and more about the decline in imports – which is somewhat related to weaker domestic demand.

Next quarter of data will incorporate more of the rate cut and tax cut stimulus as well as the easing of credit for housing. We will have also cycled over the stronger growth from between Jun 2017 and Jun 2018.

Real GDP Q2 – quarter change; Q2 +0.5% versus Q1 +0.5%

The largest contributors to growth in the latest quarter were net exports and government consumption expenditure. Household consumption expenditure represents the largest proportion of GDP and continued to make a at contribution to growth.

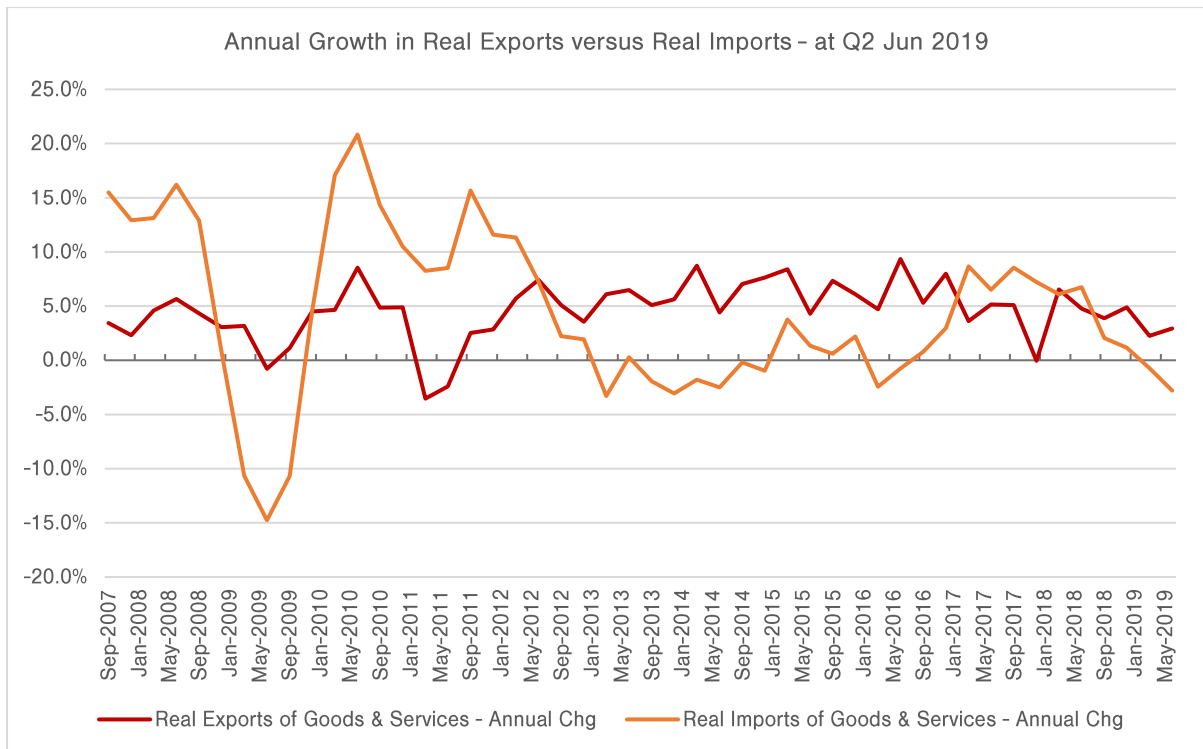
% Pt Contribution to Real GDP Growth Latest Qtr v Prior Qtr (seas adj) at Q2 JUN 2019



	Households ; Final consumption expenditure ;	General government ; Final consumption expenditure ;	Private ; Gross fixed capital formation ;	Public ; Gross fixed capital formation ;	Changes in inventories ;	Net Exports	Statistical discrepancy (E) ;	GROSS DOMESTIC PRODUCT ;
■ Latest Qtr Q2 JUN 2019	0.210	0.510	-0.295	-0.117	-0.548	0.593	0.128	0.481
■ Prior Qtr Mar 2019	0.156	0.180	-0.247	0.005	-0.062	0.442	0.045	0.518

Net exports contributed +0.6%pts to headline growth of +0.5% in the quarter. The real value of exports increased by +1.4% and imports declined by 1.3% versus the month prior. Export growth slowed slightly in Q2 versus Q1 while the decline in imports accelerated. Import growth has been slowing since Q3 2017 and has declined in real terms in three of the last four quarters.

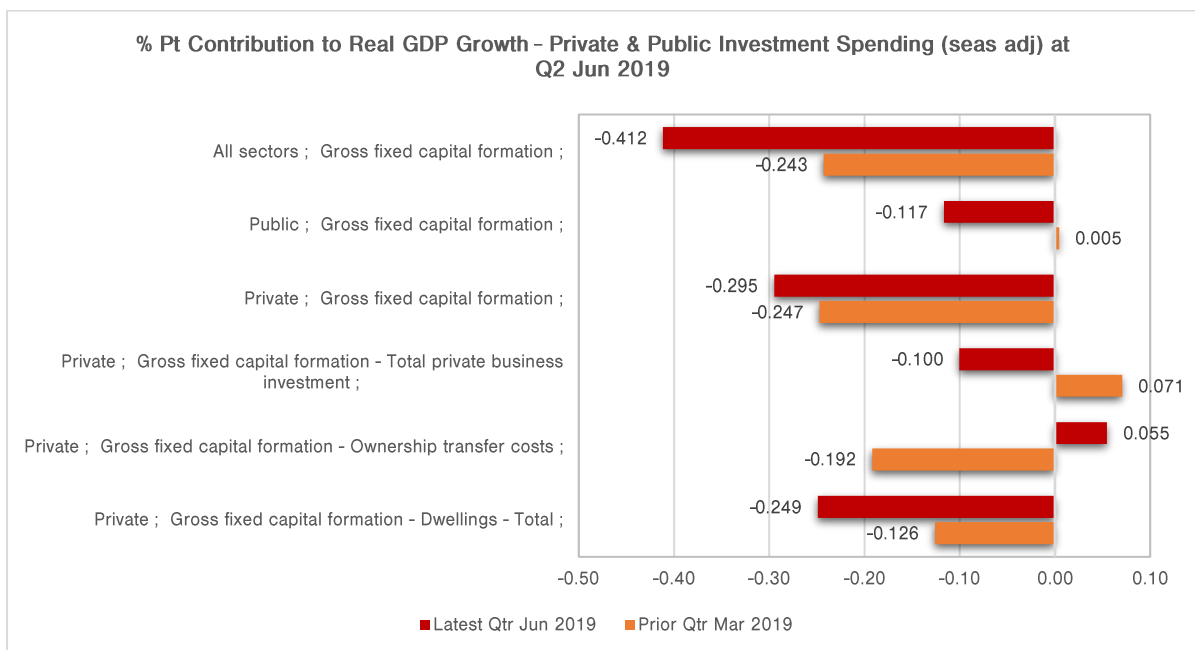
The annual view suggests that real export growth has remained little changed/slightly lower and that the higher contribution from net exports has been the result of declining imports;



The change in inventories subtracted -0.5%pts from headline growth in the quarter.

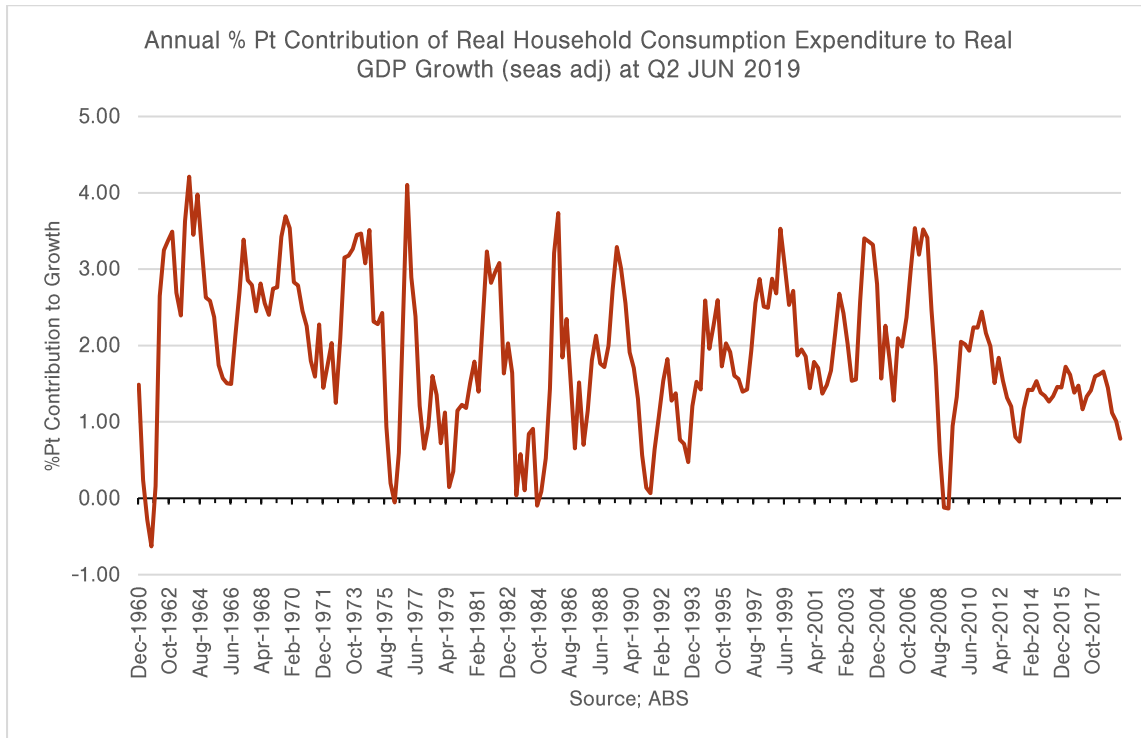
Public investment spending subtracted -0.1%pts from growth in the quarter.

Private investment spending overall, also subtracted -0.3%pts from growth in the quarter – a slightly faster pace of decline on a quarterly and annual basis. The private investment picture remained negative in Q2. Total private business investment spending detracted from growth – the decline in non-dwelling construction was only partly offset by an increase in machinery and equipment expenditure. Dwelling construction also declined in the quarter and is now 9% below a year ago.



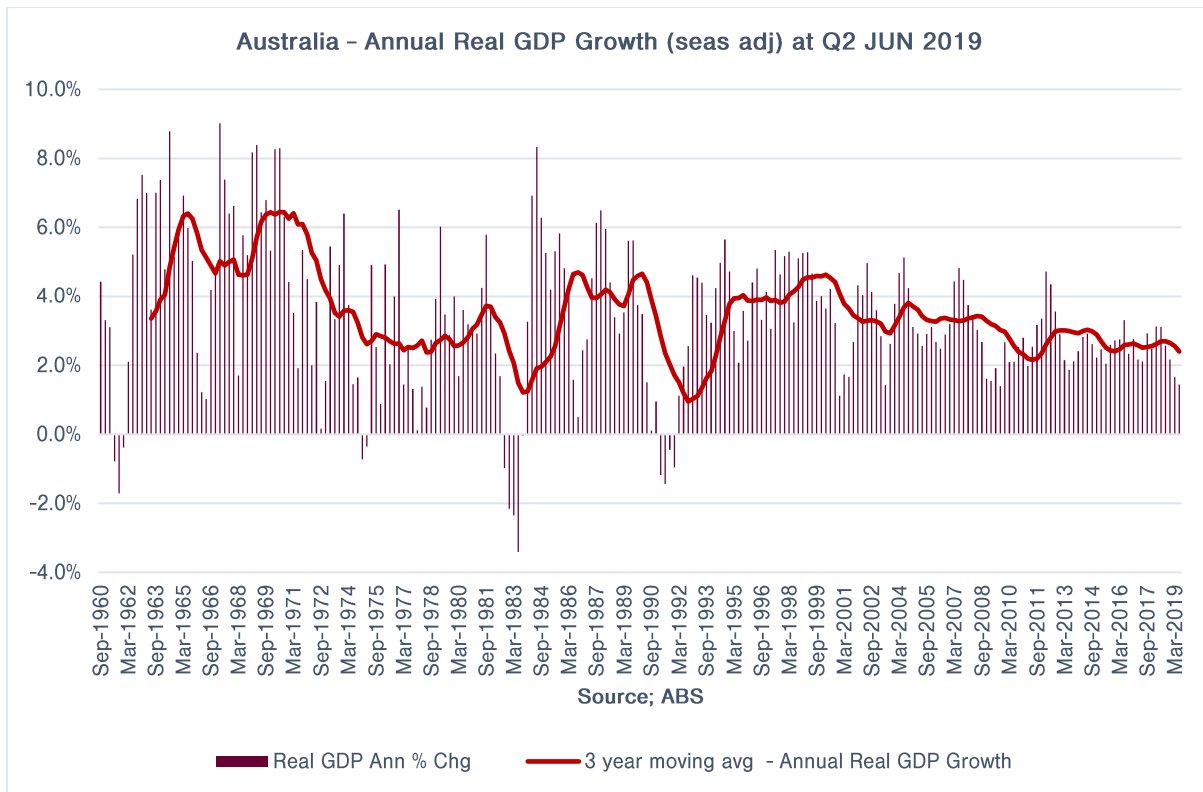
One of the stronger contributors to growth in the quarter was public consumption expenditure, contributing +0.5%pts to the headline growth rate.

Household consumption expenditure made a slightly larger contribution to headline growth in quarter, contributing +0.2%pts (versus +0.16%pts in the quarter prior). This remains at a lower end of expenditure growth. On an annual basis, the contribution from household consumption expenditure growth is approaching the low recorded in mid-2013, but remains well above the weaker period from the GFC;



GDP Q2 – annual change; Q2 +1.4% versus Q1 +1.7%

The annual pace of GDP growth continues to slow – and we continue to cycle over the much stronger growth between Jun 2017 and Jun 2018.



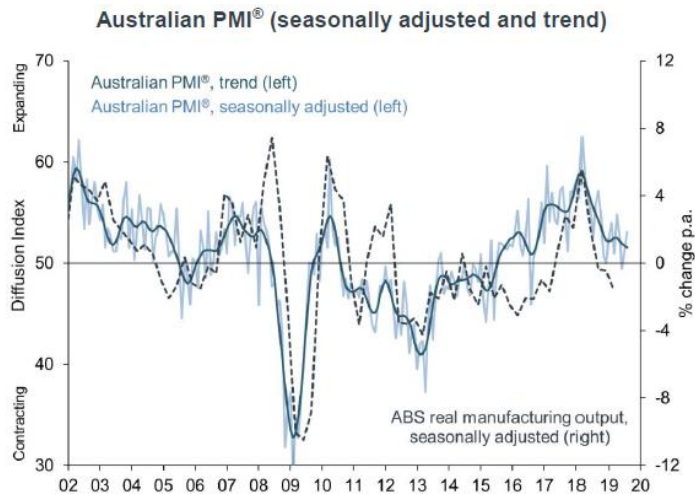
<https://www.abs.gov.au/ausstats/abs%40.nsf/mediareleasesbyCatalogue/C9973AC780DDFD3FCA257F690011045C?OpenDocument>

AiG Perf of Manufacturing, Services and Construction Indices (Aug)

Across all three reports, there was an improvement in overall activity in Aug. Manufacturing activity continued to expand and remained the stronger of the industry groups. Services activity rebounded such that it shifted from sharp contraction in the month prior to marginal growth in Aug. Despite improvements in construction activity, the sector continues to decline.

Manufacturing PMI

The pace of activity improved; Aug 53.1 versus Jul 51.3

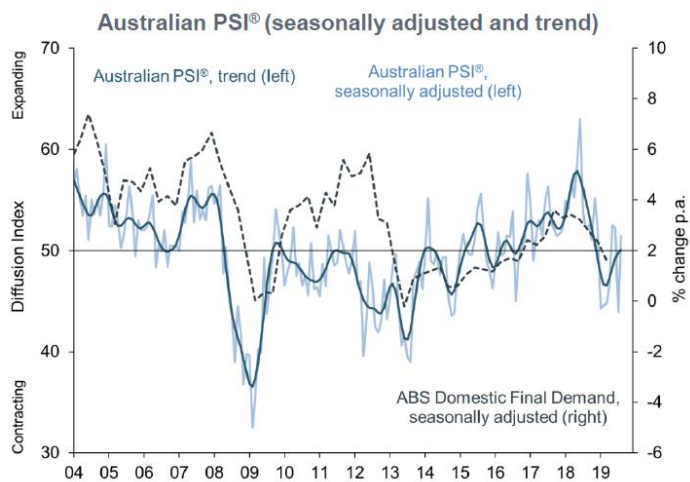


Across industries, machinery and equipment was the only group to record faster growth versus the month prior.

Overall production, sales and finished stocks increased at a faster pace. Employment was the only subindex that recorded slower growth (growth remained positive).

Services PMI

The pace of activity rebounded after a sharper decline/contraction in the month prior; Aug 51.4 versus Jul 43.9

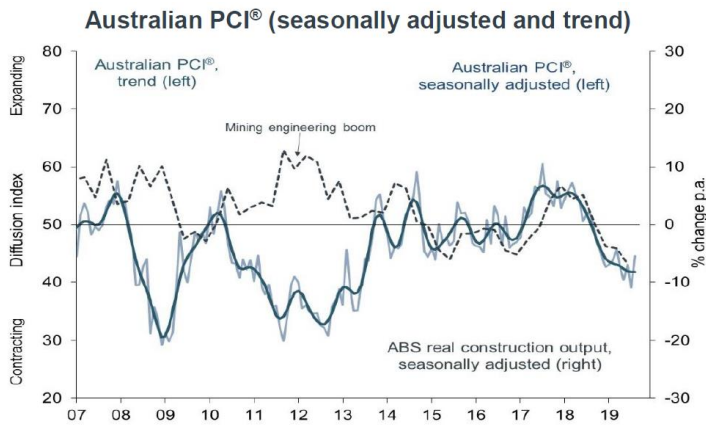


Despite the overall improvement, several industries remain in contraction; business and property (which contracted further in Aug), wholesale trade (which contracted further in Aug), transport and storage (contracted at a slower pace) and retail trade which also continued to contract.

The subindices that led the improvement in the month were; new orders supplier deliveries and a larger increase in employment. This increase lifted employment and new orders out of contraction.

Construction PMI

Construction activity remain in contraction in Aug, but the pace of decline slowed; Aug 44.6 versus Jul 39.1



All industry sectors remained in contraction.

Activity continued to decline. Most other areas, except selling and input prices, improved but remained in contraction.

“...survey respondents continued to indicate significant cost pressures in the delivery of building projects due to **elevated energy prices and relatively high prices for commodities and imported construction materials.**”

<https://www.aigroup.com.au/policy-and-research/economics/economicindicators/>

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China

China – RRR Cut

The first in four (4) years;

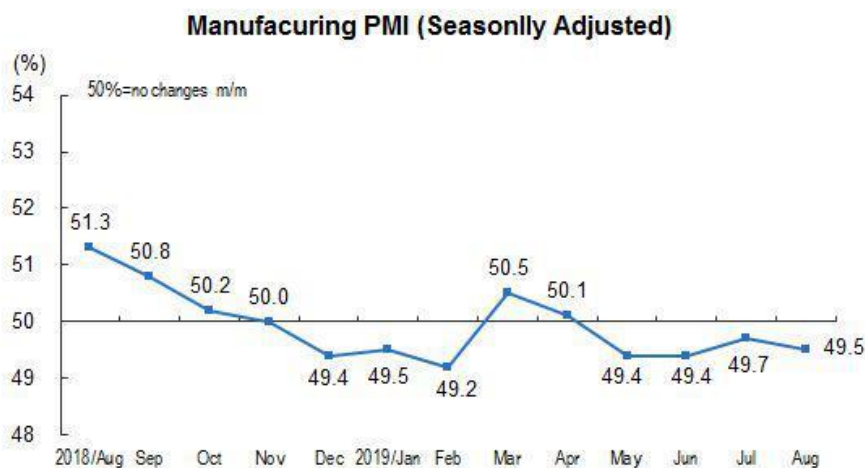
PBoC cut the RRR by -0.5% effective 16 Sep, release 900bn in funding

NBS Manufacturing PMI (Aug)

The NBS PMI's measure the larger, state-owned enterprises.

The headline PMI remained in mild contraction, but activity declined at a slightly slower pace.

Headline manufacturing PMI; Aug 49.5 versus Jul 49.7



Production expanded at a slower pace, supported by a further reduction in open orders. The new orders index remained in slight contraction – new export orders also contracted, but at a slower pace.

Employment declined at a faster pace – the weakest growth in a year.

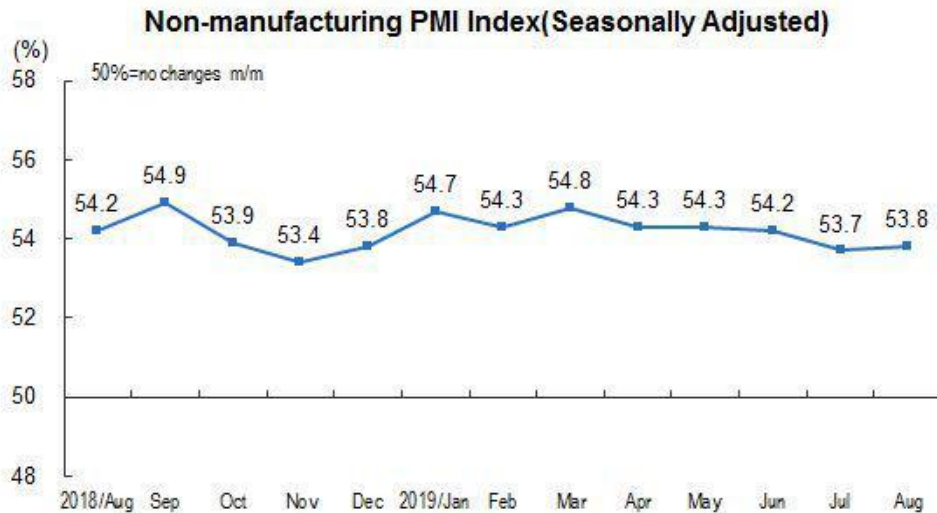
Producer prices declined at a faster pace – highlighting the continued weaker demand environment.

http://www.stats.gov.cn/english/PressRelease/201909/t20190902_1695139.html

Non-Manufacturing PMI (Aug)

The non-manufacturing PMI was little changed, indicating continued growth within the services sector.

Headline Non-manufacturing PMI; Aug 53.8 versus Jul 53.7



Despite the very small change in the headline index, most of the sub-indices indicated slower growth. The new orders index slowed to only marginal growth (50.1) and the input price index also slowed to marginal growth. Sales prices fell into contraction.

The employment index continued to indicate declining employment levels – the pace of decline slowed slightly.

Business activity expectations and foreign orders were the only two subindices that saw larger acceleration in growth.

Unfilled orders continued to contract.

http://www.stats.gov.cn/english/PressRelease/201909/t20190902_1695139.html

Caixin Manufacturing PMI (Aug)

The Markit/Caixin survey covers activity of smaller and private companies in China.

The headline index shifted from slight contraction in Jul to marginal growth in Aug. Overall growth momentum remains subdued.

Headline Manufacturing PMI; Aug 50.4 versus Jul 49.9



Sources: IHS Markit, Caixin.

Production growth increased in Aug after no change in the pace of growth in Jul. Order backlogs increased.

New orders growth was mostly stable – stronger domestic growth helped to offset a further decline in new export orders.

“Manufacturing firms meanwhile saw the steepest reduction in new orders from abroad since November 2018.”

Stocks of inventories increased for the first time in the YTD.

Employment growth was stable.

Input costs declined due to lower raw materials prices. Firms also cut selling prices at the faster pace in Aug – “the rate of discounting was the steepest since Dec 2015”.

“...sentiment regarding the 12-month outlook for output softened to a level that was among the lowest in the series history, with optimism dampened by worries over the future trading relationship of China and the US, as well as signs of weaker global conditions.”

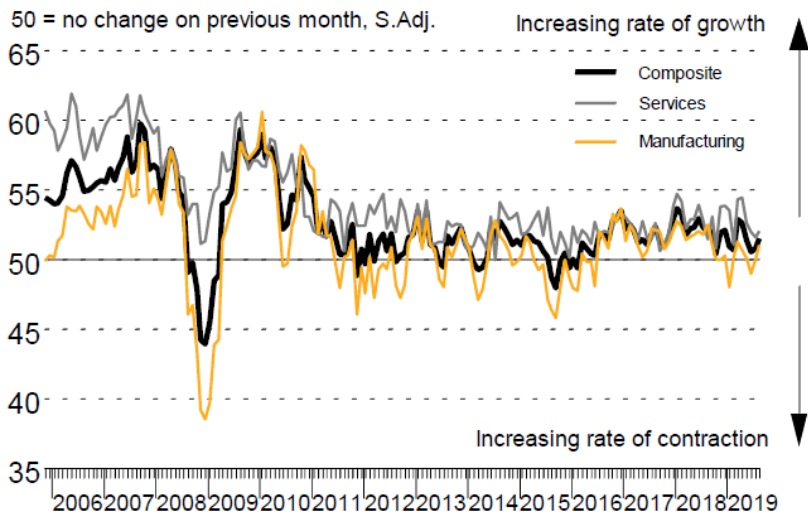
<https://www.markiteconomics.com/Public/Home/PressRelease/9dfddef276024a08b0e3cb49e1a5c529>

Caixin Services PMI (Aug)

Services activity expanded at a faster pace in Aug. This was led by an improvement in new orders as well as a further decline in order backlogs.

Headline Services Output PMI: Aug 52.1 versus Jul 51.6

Caixin China Output PMI



Sources: IHS Markit, Caixin.

The faster growth in services output was supported by a faster increase in new orders – the fastest in four months. Foreign orders increased at a slower pace. The decline in the backlog of work helped to support the improved output growth.

Employment increased at the fastest pace since Jun 2018.

Output charges increased at a modest pace.

Confidence improved somewhat to a five-month high.

<https://www.markiteconomics.com/Public/Home/PressRelease/641f693a8b074baea54f2692929c3b6b>

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Trade

US-China Trade Talks

The main news this week was the announcement that USTR Lighthizer and Vice Premier Liu He will meet in Washington in early Oct. Talks will take place later in Sep in the lead up to, and in preparation for, the meeting in Oct. This was, at least, a positive step towards the two sides beginning to bridge the gap in negotiations.

From last week; new tariff rates went 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 the sidelines of the G7 summit, the US President and the Japanese PM announced a trade deal on 'core principles'.

Both sides are now working through the detail of the deal - with a very tight deadline of having the deal ready to sign on the sidelines of the UN General Assembly later this month (Sep).

The Japan Times reported last week that the original announcement at the G7 had surprised Japanese officials and that the "core principles" didn't include the more contentious issue – namely auto tariffs;

“Japanese officials were caught by surprise when Trump called a news conference at the G7 to announce a deal in principle, people close to the talks said. The situation moved so quickly that the Japanese government didn't even have time to invite journalists to attend the briefing.”

“The announcement also came before a firm agreement on the most contentious issue on the bargaining table, the people said. While Trump told reporters that the U.S. wouldn't impose new tariffs on autos and auto parts imported from Japan “at this moment,” the president wasn't clear on whether he'd agreed to that as a concession. And Trump kept the tariff threat alive by saying he could still impose the levies at a later date.”

<https://www.japantimes.co.jp/news/2019/09/06/business/u-s-japan-trade-deal-trump-deadline/#.XXXQAYgzaUk>

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 has been little news on progress of talks between the US and Europe. Europe has remained steadfast in creating boundaries for the trade negotiations – which has been a source of frustration for the US. If anything, there were several hints by US President Trump over the last week that Europe could be next in line to escalate trade tensions.

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 in 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

The US Congress is due back this week 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

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