

Key Themes

Brexit was the main highlight during the week. The vote for the alternative backstop was defeated in the UK parliament until the legislation required to implement the bill is passed by the parliament. This situation will continue to unfold throughout next week. A decision on an extension will likely follow once that legislation has been passed/defeated.

There was little further detail on regarding phase one of the US-China trade deal. With the details yet to be put into writing and fully agreed to (we were here back in May), the situation will likely remain tenuous. Even this week, China continued to advocate that agriculture purchases would be made based on market requirements rather than agreeing to a set purchase amount.

US data this week was little changed. Manufacturing has been a weaker part of the US economy and the industrial production report this week indicated that manufacturing output declined in Sep – in line with weaker readings across PMI's. The decline in manufacturing was led by both durables (GM strike affecting auto production in Sep) and non-durables led by lower output of petroleum products.

US retail sales were weaker in Sep – the first monthly decline since Feb 2019. The annual growth in retail sales has recovered to above 4% since the slowdown in late 2018. Consumer sentiment data has strengthened in the prelim Oct release, indicating that sales likely remain solid in the near term.

Manufacturing has also been a weak for Europe and the industrial production release for Aug indicated that output growth remained subdued. Despite slight growth in the month in the Euro area, production remains below the levels from a year ago. The Eurozone headline CPI growth slowed further – led by lower growth in energy prices. Energy prices have affected most CPI reports this week. Core CPI growth increased slightly as services prices continued to grow at a faster pace.

Growth in the BoJ preferred measure of CPI ex-fresh food continued to slow this month, down to +0.3% and remaining well below the 2% target. Again, energy prices continue to influence these CPI figures – ex fresh food & energy, CPI was slightly higher at +0.5%. The introduction of the consumption tax will be incorporated into the CPI data next month.

As the Brexit process continues to unfold, the UK labour market survey indicated worsening trends in employment and unemployment – the deterioration visible in the latest 3-month reading. Annual UK CPI growth was unchanged at 1.7% and retail sales growth steadied.

Trends in the Australian labour market remained weaker. Employment growth slowed, while the supply of labour increased (via participation growth) resulting in an increase in the total number of unemployed persons. These developments will be closely watched by the RBA as it looks to further easing to reduce this spare labour market capacity (which it sees as a key

drag on the CPI via lower wage growth pressure). The RBA minutes on the labour market outlook were less encouraging;

It was also possible that participation was rising partly in response to weak growth in incomes. Moreover, employment growth was forecast to slow over the period ahead.

Data out of China was mixed. Trade data deteriorated further with both exports and imports declining. The fall in imports especially, reflecting further weaker domestic demand and weaker demand for regional exporters into China.

Retail sales indicated that consumer demand remained steady. Domestic retail sales increased at a similar pace month on month with a small acceleration over the year. Consumer price growth accelerated as meat prices, especially pork, have increased markedly.

Industrial production lifted - led by faster growth in manufacturing and mining while output growth for utilities remained steady. Producer prices declined at a faster annual pace, suggesting weaker demand conditions persisted. The largest annual declines in producer prices continued to be driven by chemicals and petroleum.

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US Data

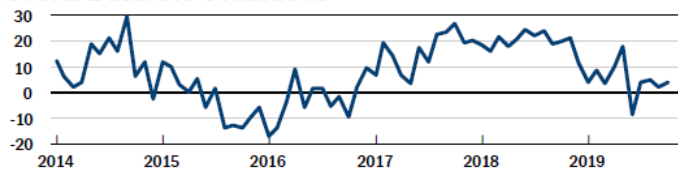
Empire State Manufacturing Index (Oct)

General business conditions in the NY state manufacturing sector increased at only a slightly faster pace in Oct with growth remaining low overall. The increase was led by faster growth in shipments. The growth in shipments was the result of a faster decline in order backlogs while new orders growth remained low, growing at the same pace as the month prior.

General Business Conditions; Oct 4 versus Sep 2

The underlying shift indicated that there was an increase in the proportion of firms that reported both higher and lower conditions;

General Business Conditions



	Percent Reporting		Index
	Higher	Lower	
Sep	27.0	25.1	2.0
Oct	30.2	26.1	4.0
Change			2.0

The new orders index remained at 3.5 indicating no change from the month prior and continued low growth. The proportion of firms reporting higher and lower new orders both increased.

Shipments increased at a much faster pace, likely led by the much larger decline in unfilled orders. The index of inventories indicated that firms continued to run down inventory with the index falling into slight contraction.

Prices paid grew at a slower pace. Prices received also grew at a slower pace. The number of firms reporting lower prices received increased, while the proportion of firms reporting higher prices received remained unchanged.

Employment remained mostly positive. While the growth in the number of employees slowed, the average work week increased at a faster pace.

Firms view of business conditions in 6-months' time improved only slightly. The index of future business conditions remains close to recent lows.

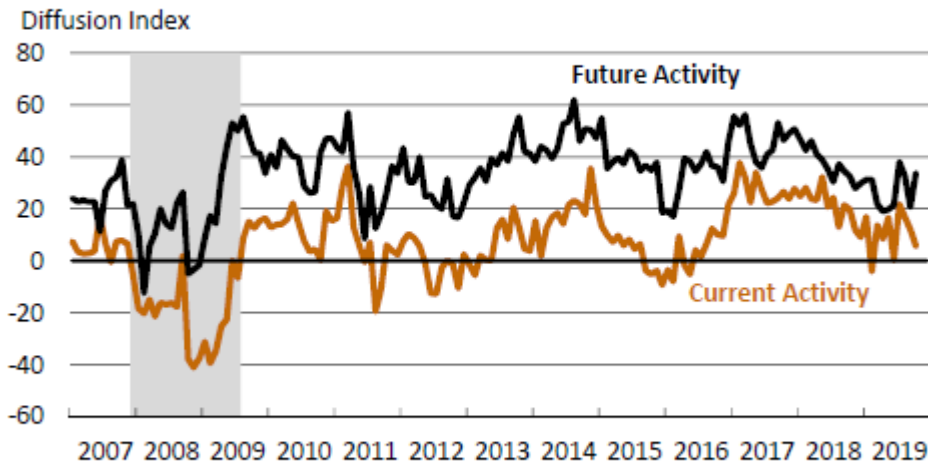
https://www.newyorkfed.org/medialibrary/media/survey/empire/empire2019/esms_2019_10_survey.pdf?la=en

Philadelphia Fed Business Outlook Survey (Oct)

Overall manufacturing growth slowed in the latest month to a lower level of growth. The underlying changes were more positive than the headline slow-down would suggest.

Headline General Business Activity Index; Oct 5.6 versus Sep 12

Chart 1. Current and Future General Activity Indexes
January 2007 to October 2019



Note: The diffusion index is computed as the percentage of respondents indicating an increase minus the percentage indicating a decrease; the data are seasonally adjusted.

Only two of the main sub-indices grew at a slower pace this month. Shipments growth slowed, but remained positive falling to 18.9 in Oct from 26.4 in Sep – the trend in shipments since Mar 2019 has been mostly sideways and this month did not break that trend. Inventories also grew at a much slower pace of 6.6 in Oct from 21.8 in Sep.

Growth in new orders increased slightly. Unfilled orders also increased at a slightly faster pace. Both are important barometers for future production and shipment growth – both are suggesting that output growth should remain steady in the short-term.

Prices paid grew at a much slower pace (a positive for business). Prices received also grew at a somewhat slower pace.

Another positive note was the improvement in employment. The increase in the index of the number of employees increased from 15.8 in Sep to 32 in Oct – reaching a new all-time high in the series. Growth in the average employee workweek slowed slightly.

Expectations for six-months ahead indicated that firms became more optimistic about future manufacturing activity – with the index increasing from 20.8 in Sep to 33.8 in Oct.

<https://www.philadelphiafed.org/-/media/research-and-data/regional-economy/business-outlook-survey/2019/bos1019.pdf?la=en>

Industrial Production (Sep)

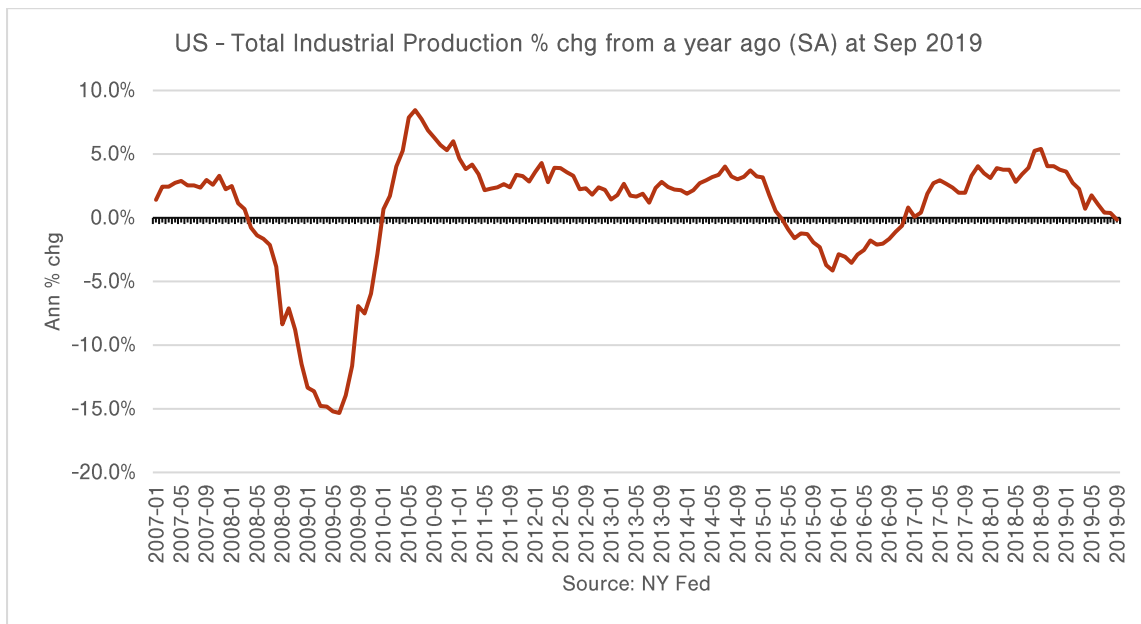
US industrial production declined in the month and declined slightly on an annual basis. Production levels have remained mostly steady throughout 2019.

The decline in the month was led mostly by a decline in manufacturing output (partly the result of the auto workers strike). Mining output also declined in the month while the output of utilities grew at a faster pace.

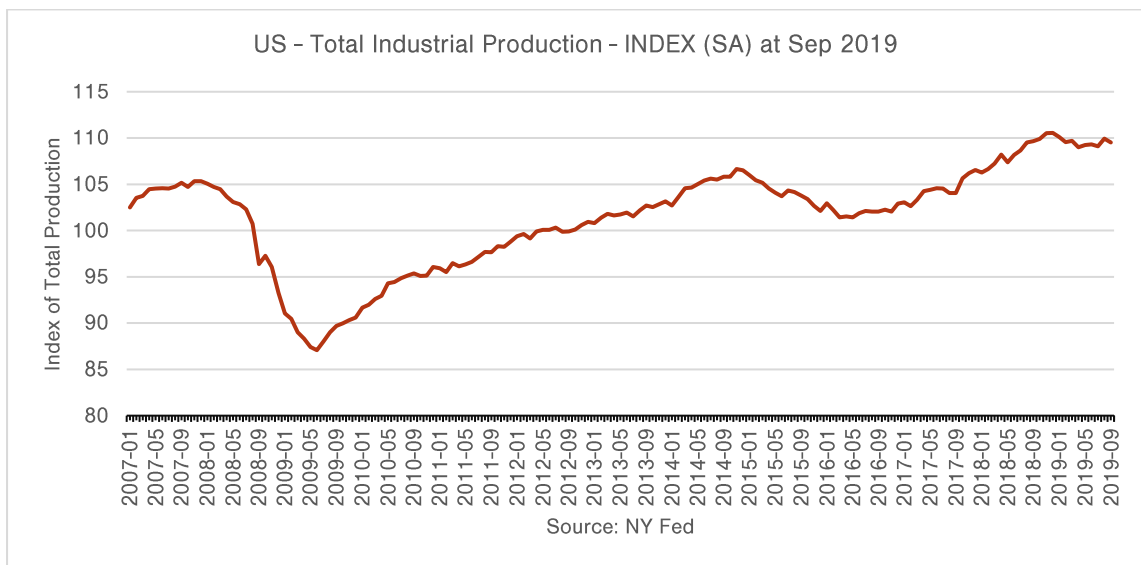
Total US Industrial Production

Month change; Sep -0.4% versus Aug +0.8%

On a year ago basis, production output slowed to -0.1% in Sep;



The index of industrial production shows that production levels have remained steady (rather than increasing) throughout 2019;



Production levels across both manufacturing and mining have been the main drivers of this more steady, sideways trend.

US Industrial Production – Manufacturing

Month change; Sep -0.5% versus Aug +0.6%

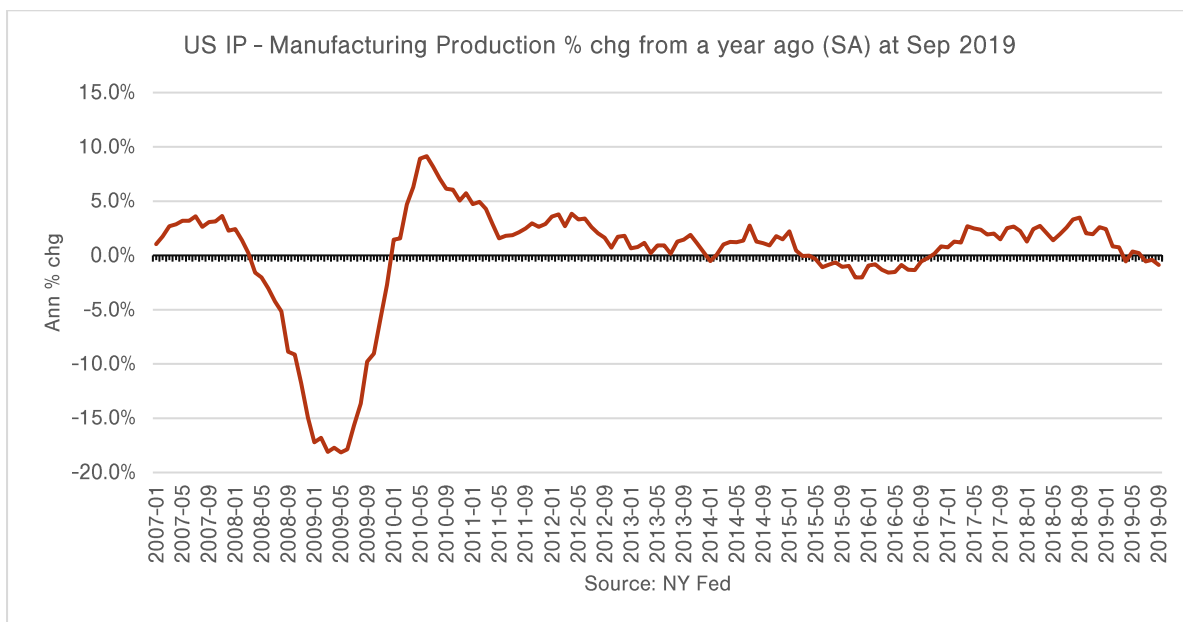
The decline in the month was the result of a fall in both durable and non-durable goods production.

Durable goods – month change; Sep -0.7% versus Aug +0.6%. The decline was led mostly by the GM strike resulting in a -4.2% decline in motor vehicle production. But of the remaining categories, five recorded declines and five recorded increases in the month – worse than in the month prior.

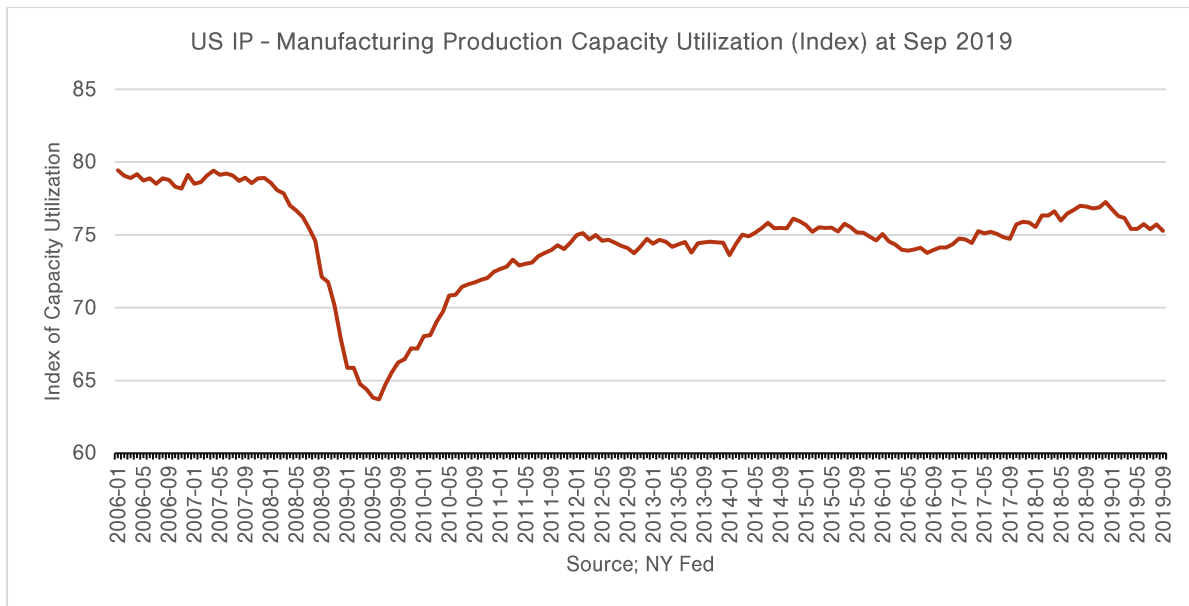
Non-durable goods – month change; Sep -0.2% versus Aug +0.6%. While more non-durable goods categories recorded growth in Sep versus Aug, production still declined in Sep. This was led mostly by a fall in production of petroleum products.

The annual trend in manufacturing production indicates that output growth has been slowing throughout the year, despite the fallout from the current auto workers strike.

Manufacturing – annual change; Sep -0.9% versus Aug -0.4%



Manufacturing capacity utilization fell further in Sep by -0.6% to 75.3%. Manufacturing capacity utilization is now 2.2% below that of a year ago. Utilization started falling at the start of 2019 and has remained steady over the last four months;

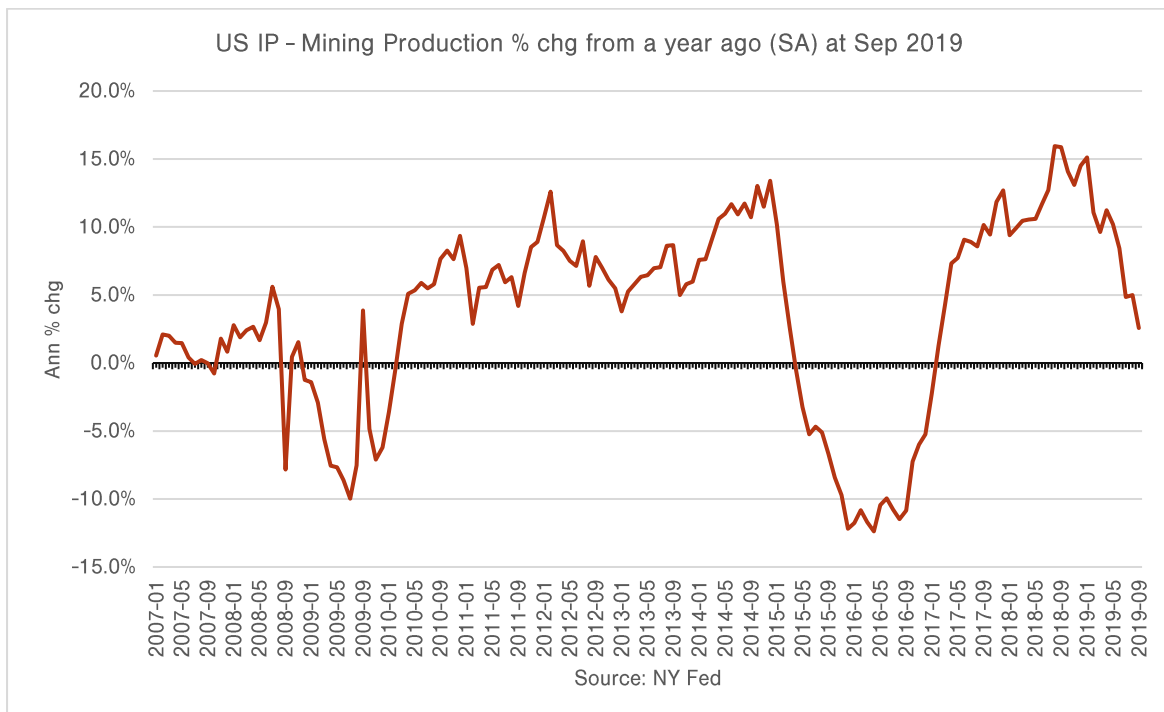


US Industrial Production – Mining

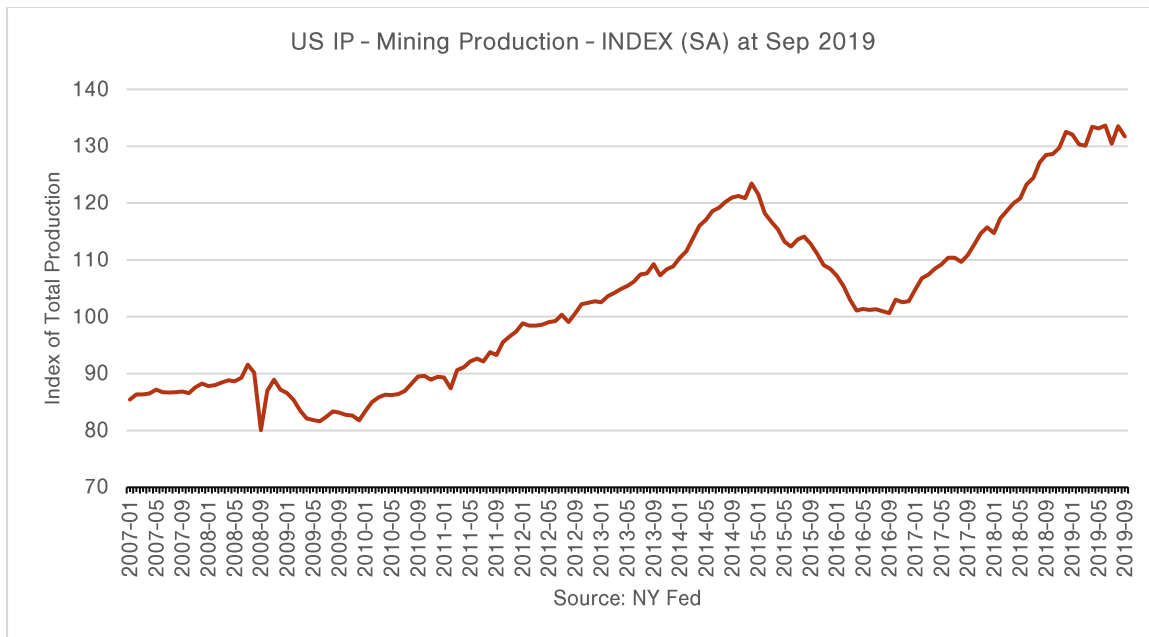
Month change; Sep -1.3% versus Aug +2.4%

Mining output moved down 1.3 percent in September; reductions in crude oil extraction and well drilling contributed to the decline.

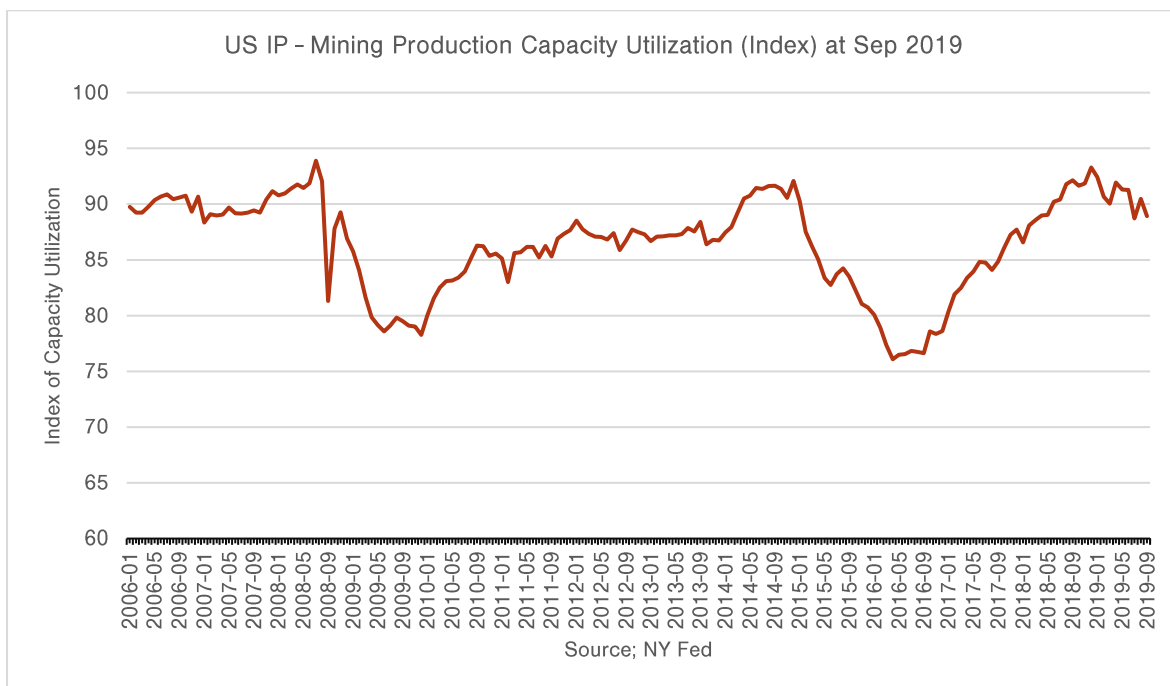
The annual growth in mining production continued to slow in Sep and the trend in slower growth has been in place for a year now. Growth slowed from 5% in Aug to +2.6% in Sep;



The index of mining production highlights that production levels have remained mostly steady over the last 12 months – neither trending up nor down during that time. The index of production remains at near-term highs though;



Mining capacity utilization on the other hand has continued to decline since the start of the year. Utilization declined by -1.7% in Sep and is now -3.5% below the same month a year ago;

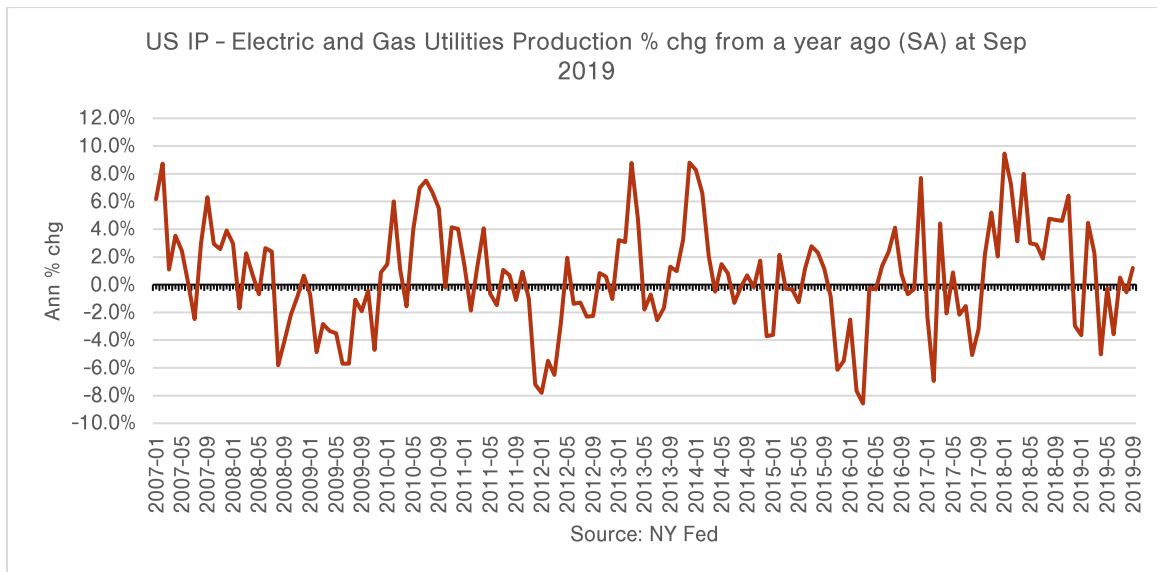


US Industrial Production – Electricity and Gas Utilities

Month change; Sep +1.4% versus Aug +0.2%

The output of utilities moved up 1.4 percent in September, as unseasonably warm weather boosted demand for electricity.

The annual change in utilities output increased by +1.2% in Sep after falling -0.2% in Aug;



Capacity utilization increased in the month to 77.7% and remains 1.3% below the utilization rate from a year ago.

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

Business Inventories (Aug)

Sales via the distributive trade channel plus manufacturer shipments increased at +0.2% in Aug - the same pace as the month prior. Inventory growth slowed to 0% and the sales to inventory ratio remained unchanged at the near-term high of 1.4.

Retail was the strongest channel this month with sales growth remaining positive and inventory declining. The inventory ratio continued to fall, but the actual value of the inventory ratio remains the highest of all three channels (on a SA basis).

Merchant wholesaler sales and manufacturer shipments were flat to declining in the month and inventory levels remained elevated. The wholesale merchant channel was the worst performer this month with sales growth slowing to zero and inventory continuing to grow at +0.2%.

The annual picture at a total level continues to reflect faster growth in inventory than in sales (which have declined on an annual basis) across the distributive channels.

Total Business – Month Change (SA)

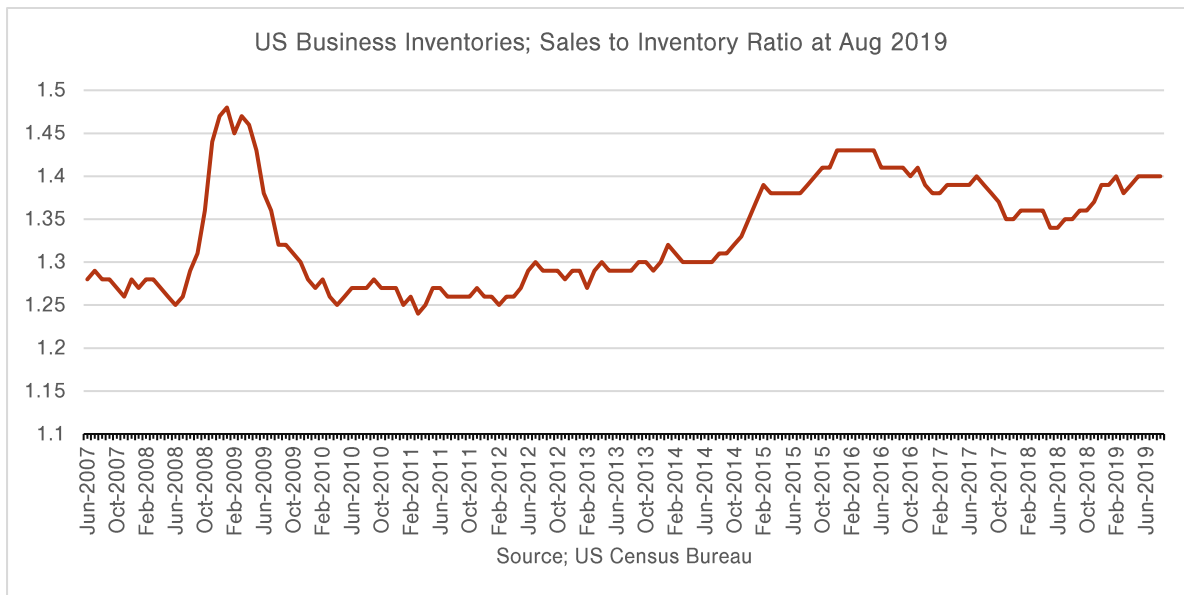
Sales – month change; Aug +0.2% versus Jul +0.2%

Sales in the month were the result of faster sales in the retail channel of +0.6%, while sales/shipments by manufacturers declining slightly by -0.1% and sales of merchant wholesalers were flat to last month.

Inventory – month change; Aug 0% versus Jul +0.3%

Continued growth in inventory for merchant wholesalers was offset by small declines in inventory for retailers and manufacturers.

The inventory to sales ratio was unchanged in the month at 1.4 and has remained steady for the last four month and is still 4% above the same time a year ago.



Total Business – Annual Change (NSA)

At the total level, faster growth in inventory (than sales) remains an issue across the distributive trade;

Sales - annual change; Aug -0.2%

Inventory – annual change; Aug +4.2%

Contributing most to this trend on an annual basis is merchant wholesalers – sales are tracking -3% below a year ago and inventory is up +6%. On an NSA basis, the sales to inventory ratio is up +9.2% to 1.31.

The retail environment is steady with retail sales +5% above a year ago in Aug and inventory growth at 4%. This is still an improvement – with the sales to inventory ratio falling slightly, yet remains elevated at 1.36.

Manufacturer shipments are down 2% and inventory is up 3% versus a year ago. The inventory to sales ratio is up 5% versus a year ago to 1.35.

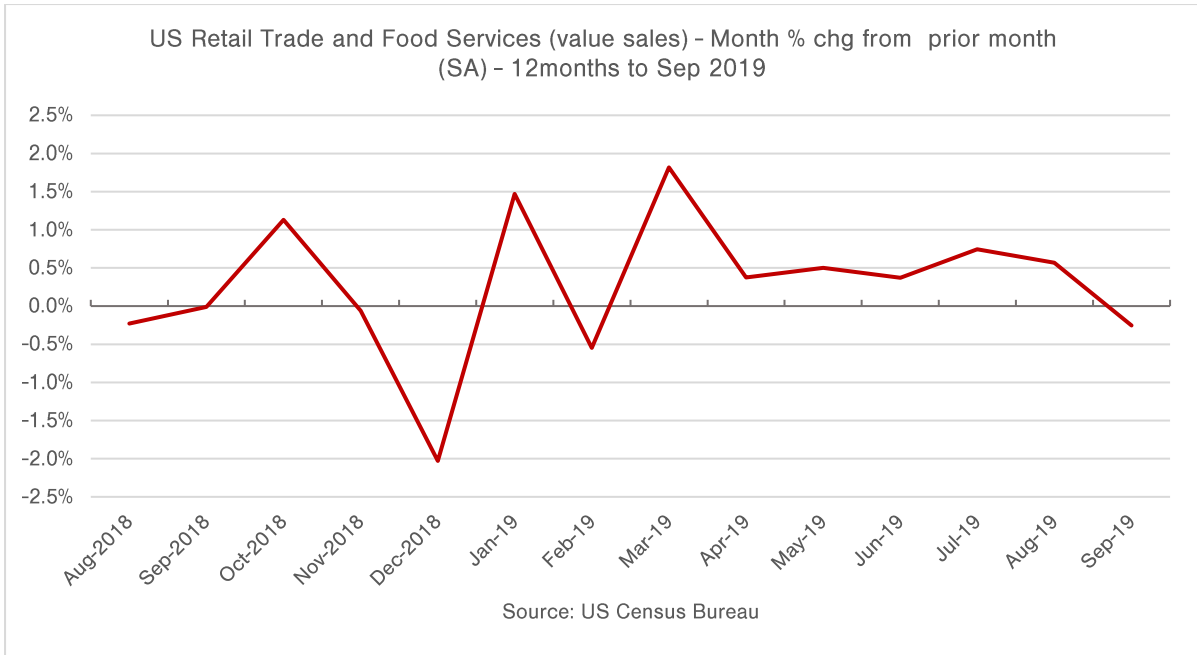
<https://www.census.gov/mtis/index.html>

Retail Sales (Sep)

The value of US retail sales fell in Sep while growth in the prior month was revised higher. Sales across several categories declined in the month led mostly by falls in Auto sales.

Retail Sales Value – month change; Sep -0.3% versus Aug +0.6% (revised higher from +0.4%)

The result in the month ends the period of more consistent monthly growth in retail sales since Mar this year;



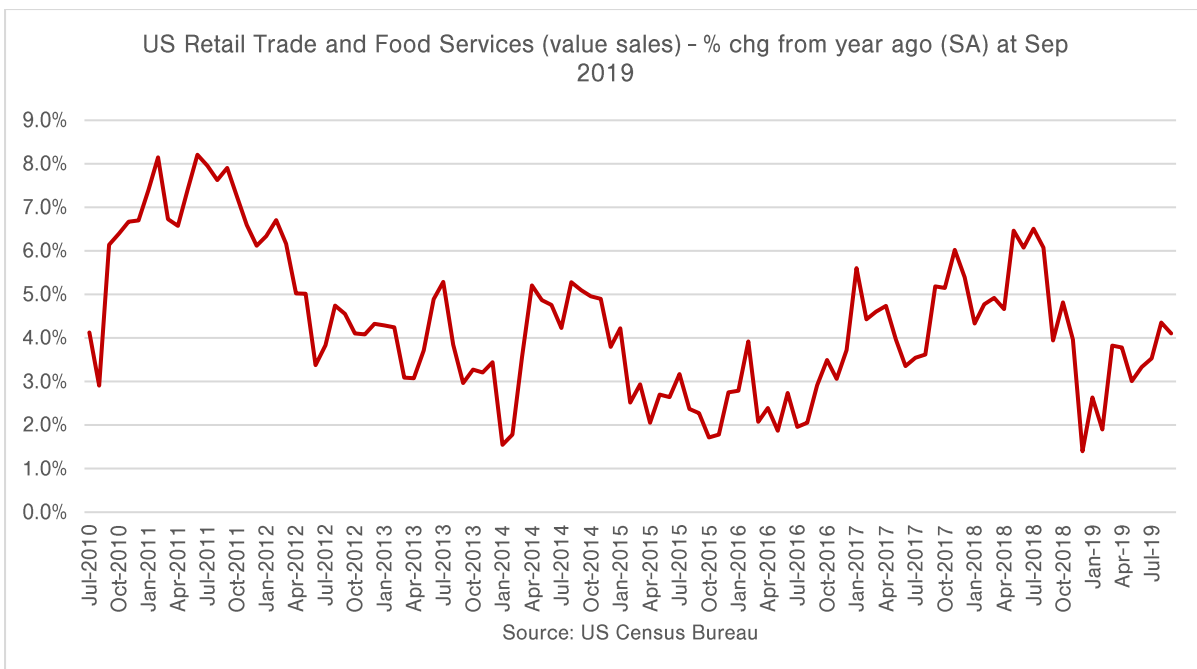
The largest contributor to the decline in sales for Sep was Autos; -0.9% in Sep versus +1.9% in Aug.

Also contributing to the decline in sales was; building materials -1%, food & bev stores -0.1%, gasoline stations -0.7%, sporting goods -0.1%, general merchandise stores -0.3% and non-store retailers -0.3%.

Increases in sales across furniture stores, clothing and food service were not enough to offset the broader decline in the month.

Despite the decline in the month, annual growth only slowed slightly;

Retail Sales Value – annual change; Sep +4.1% versus Aug +4.4%



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

Housing Market Index (Oct)

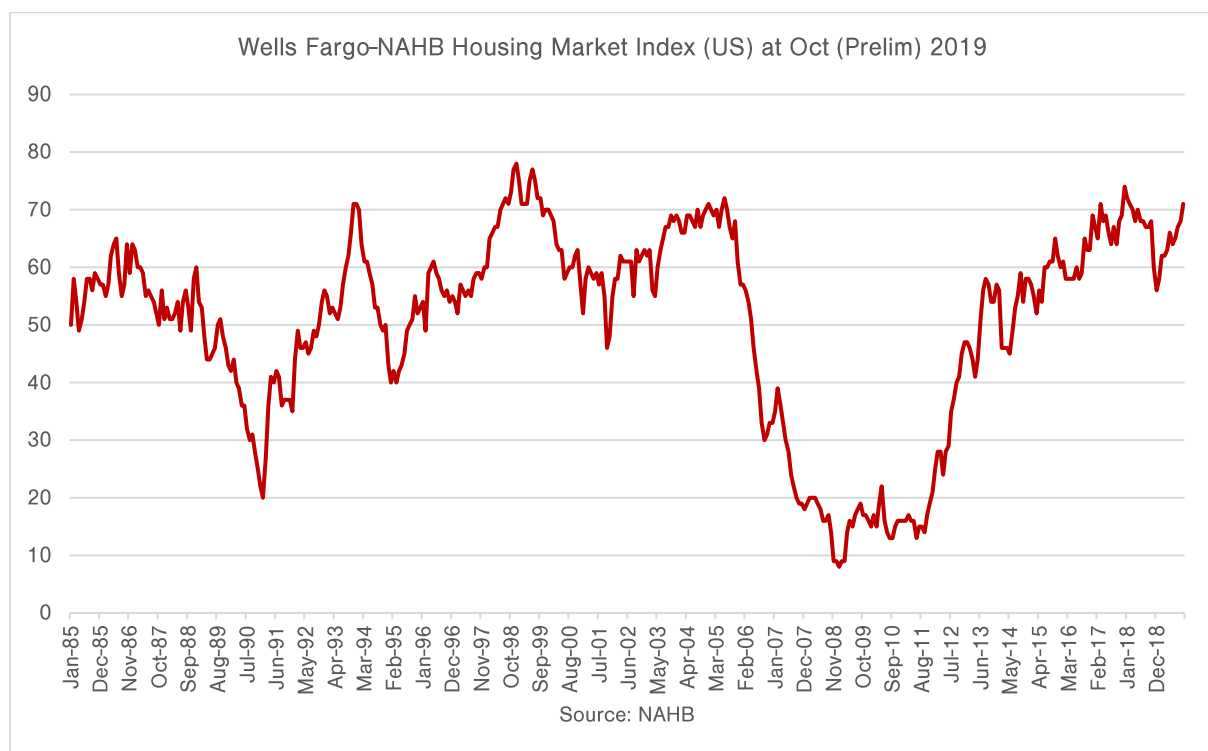
The survey of NAHB members indicated that conditions in the housing market continued to improve in the latest month. Conditions have continued to improve at a National level since Dec 2018 with the index now almost retracing the full 2018 decline - the index of conditions in Oct is now only 3 points below the recent post-GFC peak of 74 reached in Dec 2017.

The headline index of conditions improved with all components increasing in the month. On a regional basis, conditions improved in the South and the West. Housing market conditions declined in the Northeast and eased slightly in the Midwest.

Headline Housing Market Index – National

Oct 71 versus Sep 68

The increase is +0.7 SD's (based on the last 12 months)



Components of the HMI

The index of present single-family sales continued to increase reaching 78 in Oct – which is now also only 2pts below the Dec 2017 peak.

The index of single-family sales in 6-months' time increased to 76 in Oct (a 1.4 SD increase based on the last 12 months). This is 4pts below the Feb 2018 peak.

The index of traffic of prospective buyers increased to 54 from 50 in Sep – now 4pts below the Dec 2017 peak.

Regional Performance

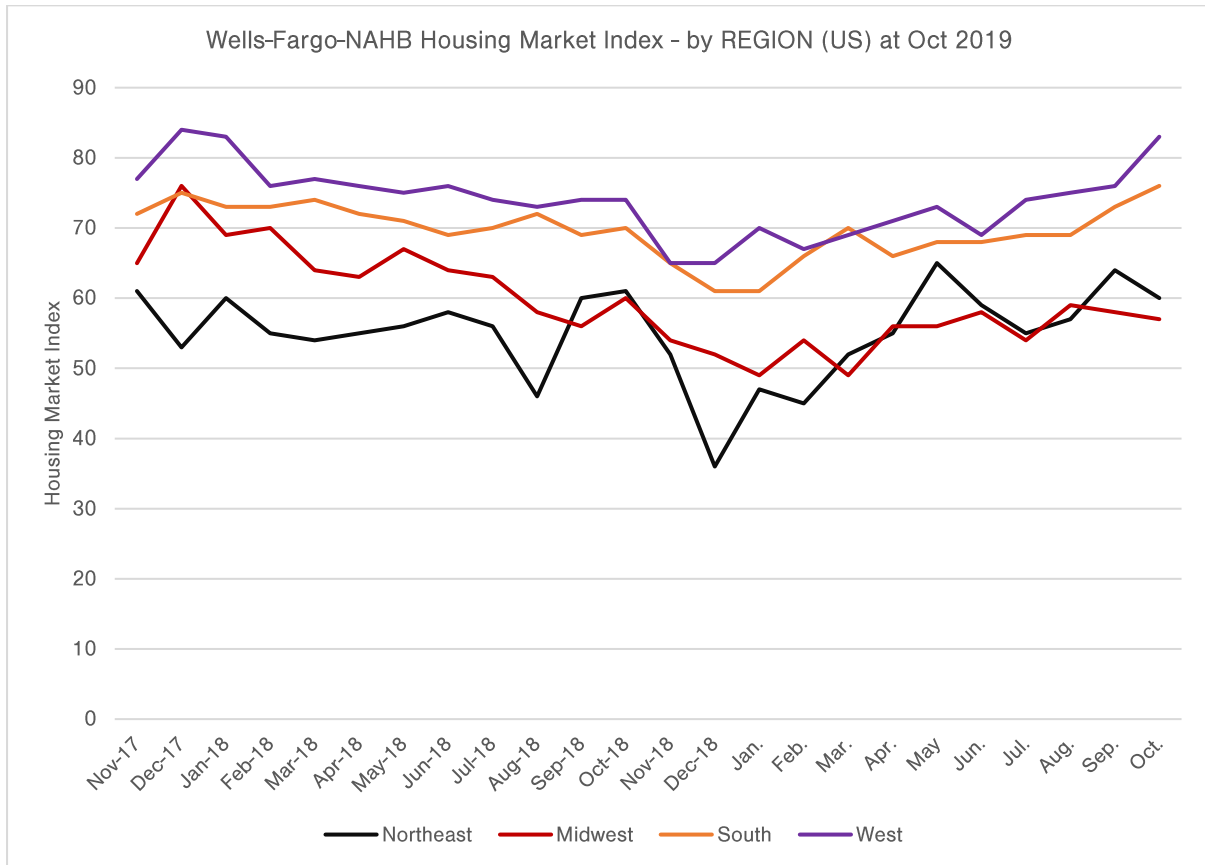
On a regional basis, the performance was mixed this month.

Conditions in the West improved the most with the index increasing to 83 from 76 in the month prior.

Conditions in the South also improved, increasing from 73 in Sep to 76 in Oct.

Conditions in the Midwest were little changed falling from 58 in Sep to 57 in Oct.

Conditions in the Northeast declined from 64 in Sep to 60 in Oct.



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

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Europe

Eurozone Industrial Production (Aug)

Industrial production in the Euro Area increased in Aug after declining in Jul. Production growth across the broader EU 28 remained subdued, increasing slightly in Aug and reversing the slight decline in the month prior. Across the Eurozone, production remains below the same time a year ago – mostly in line with the weaker PMI output indicators.

Euro Area – industrial production

Month change; Aug +0.4% versus Jul -0.4%

The higher growth in the month was the result of growth in intermediate goods +0.3% and slower growth in capital goods of +1.2%. This offset declines in production for energy, durable and non-durable consumer goods for the month.

On an annual basis, the decline in production increased at faster pace in Aug;

Annual change; Aug -2.8% versus Jul -2.1%

Production across most areas remains below the same month a year ago – intermediate goods -3.1%, energy -3.3%, capital goods 2.9% and non-durable consumer goods -2%. Production of durable consumer goods slowed on an annual basis to +0.4% (from -1.8% in Jul).

EU 28 – industrial production

The changes in production were more subdued across the broader EU28 group over the last two months;

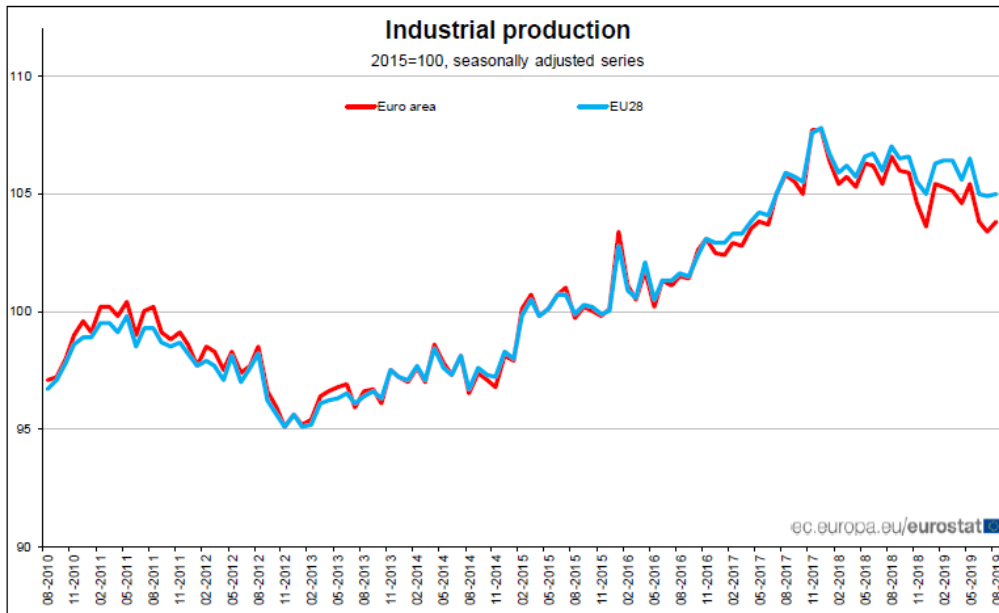
Month change; Aug +0.1% versus Jul -0.1%

Declines in production of energy -0.6%, durable -0.5% and non-durable consumer goods -0.6% were more than offset by growth in production of intermediate goods +0.2% and slower growth in capital goods of +0.8%.

On an annual basis, production across the EU28 also remained below the same month a year ago and that decline gathered pace this month;

Annual change; Aug -2% versus Jul -1.2%

Production of intermediate goods, energy, capital goods and non-durable consumer goods all declined at a faster pace this month. The annual growth in production of durable consumer goods slowed further from +2.1% in Jul to +0.8% in Aug.



<https://ec.europa.eu/eurostat/documents/2995521/10064484/4-14102019-AP-EN.pdf/608ee42a-72fa-ba8f-b723-9629d040ac85>

Eurozone CPI (Sep)

Annual Eurozone headline CPI growth slowed further in Sep – led mostly by an accelerated decline in energy and food, alcohol & tobacco prices. Services prices increased at a slightly faster pace. As a result, annual growth in core CPI increased in Sep.

Headline CPI growth is well below a year ago +0.8% in Sep 2019 versus +2.1% in Sep 2018 and core CPI growth (probably a better indicator) in Sep 2019 was unchanged from a year ago at +1%. Neither indicate that ECB policy has so far been effective in raising the aggregate price level.

Euro Area CPI

All Items/headline CPI - Annual change: Sep +0.8% versus Aug +1%

(a year ago, CPI growth was +2.1%)

Growth in food, alcohol & tobacco prices slowed on an annual basis from +2.1% in Aug to +1.6% in Sep. Food, alcohol & tobacco prices declined by -0.2% in the month of Sep.

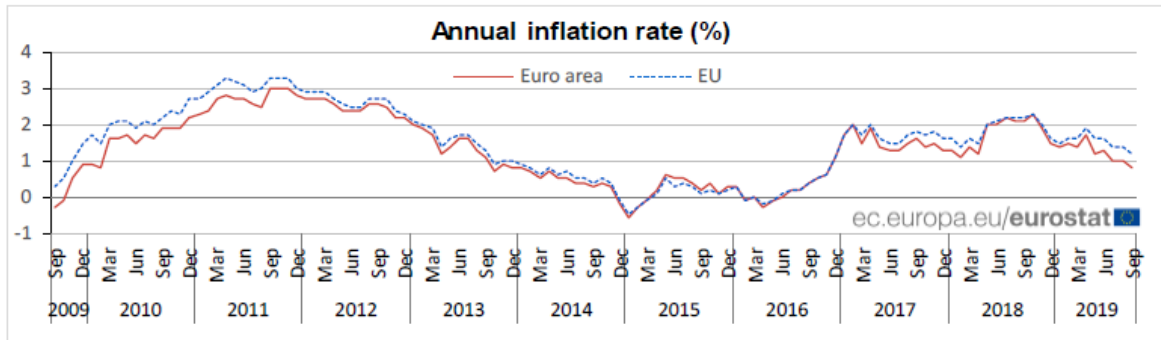
Energy prices also declined at a faster pace on an annual basis from -0.6% in Aug to -1.8% in Sep. Energy prices were unchanged on a monthly basis.

Services prices increased at a faster pace on an annual basis, increasing by +1.5% in Sep versus +1.3% in Aug. In the month though, service prices declined by -1.1%.

Given the acceleration in services price growth on an annual basis, core CPI annual growth increased at a slightly faster pace in Sep;

Core CPI ex energy, food, alcohol & tobacco - annual change: Sep +1% versus Aug +0.9%

(a year ago, core CPI growth was also 1%)



<https://ec.europa.eu/eurostat/documents/2995521/10064334/2-16102019-AP-EN.pdf/e8ba482f143-dbc2-b724-bd7f78a79153>

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Japan

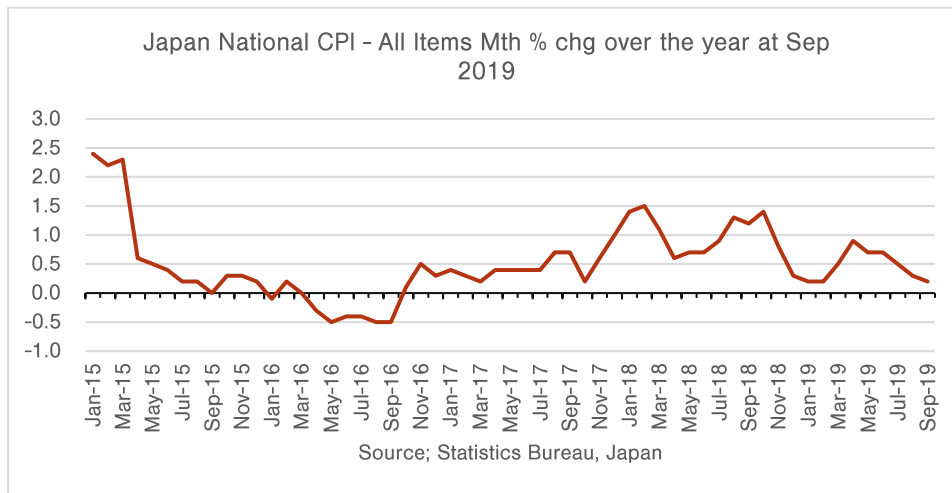
CPI (Sep)

Growth in the BoJ preferred measure of inflation – all items less fresh foods - continued to slow on an annual basis to +0.3% in Sep, and remaining well below the 2% target.

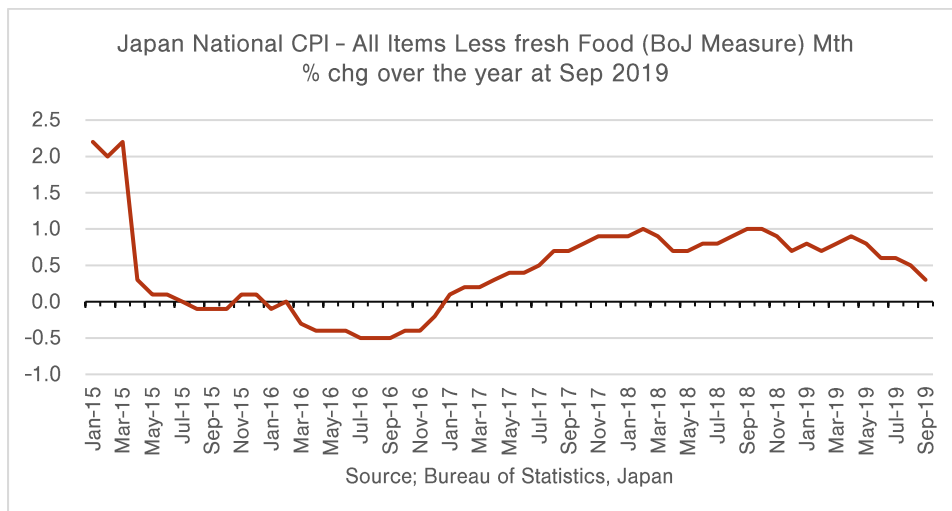
Slower growth in Sep has been led mostly by declines in energy prices, which declined by -1.9% in the year to Sep 2019. Excluding fresh food and energy, CPI growth still slowed slightly in Sep.

The next month CPI will start to incorporate the new consumption tax increase, so it will be difficult to gauge the underlying trend in inflation. At Sep, the change in consumer prices remains low.

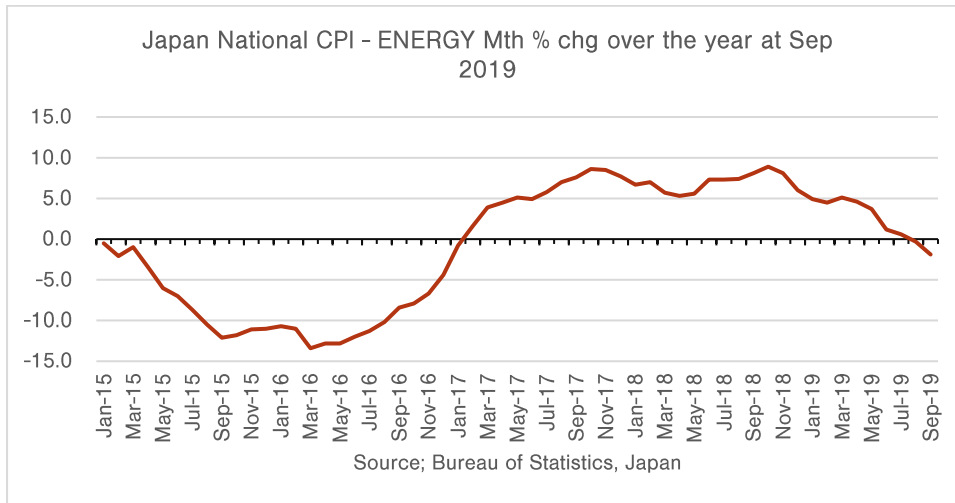
Headline CPI All Items – annual change; Sep +0.2% versus Aug +0.3%



BoJ Preferred CPI Measure – All items Less Fresh Food – annual change; Sep +0.3% versus Aug +0.5%

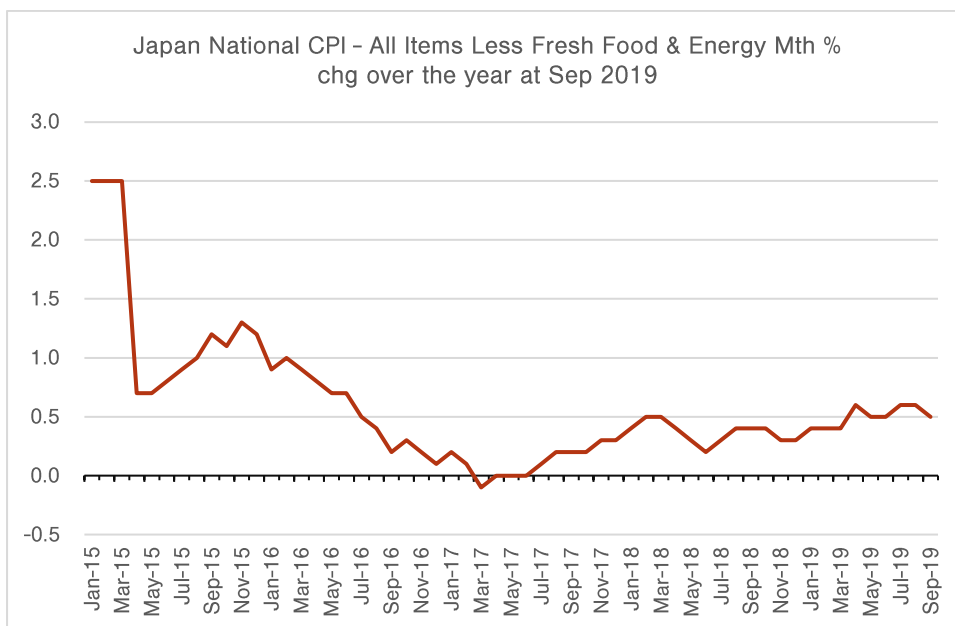


One of the larger contributors to weaker inflation pressure is energy prices. On an annual basis, energy prices in Japan declined at a faster pace in Sep falling by -1.9% versus a year ago (in Aug energy prices declined by -0.3%). Energy accounts for 8% of the CPI weight.



Excluding energy and fresh food, underlying CPI growth remains mostly steady – there is some slight evidence of an increasing trend since mid-2018. This will be harder to ascertain as the consumption tax increase is implemented.

Core CPI ex energy & fresh food – annual change; Sep +0.5% versus Aug +0.6%



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

Industrial Production – Final (Aug)

The final industrial production data for Aug reflected little change from the prelim report two weeks ago. Production and shipments declined in the month with shipments declining slightly less than in the prelim release. Inventories declined slightly in the month, but growth and the inventory ratio (inventory ratio of finished goods) increased at a faster pace and remains highly elevated compared to recent history.

Summary of the final release;

Month change

Production; Aug -1.2% (no change) versus Jul +1.3%

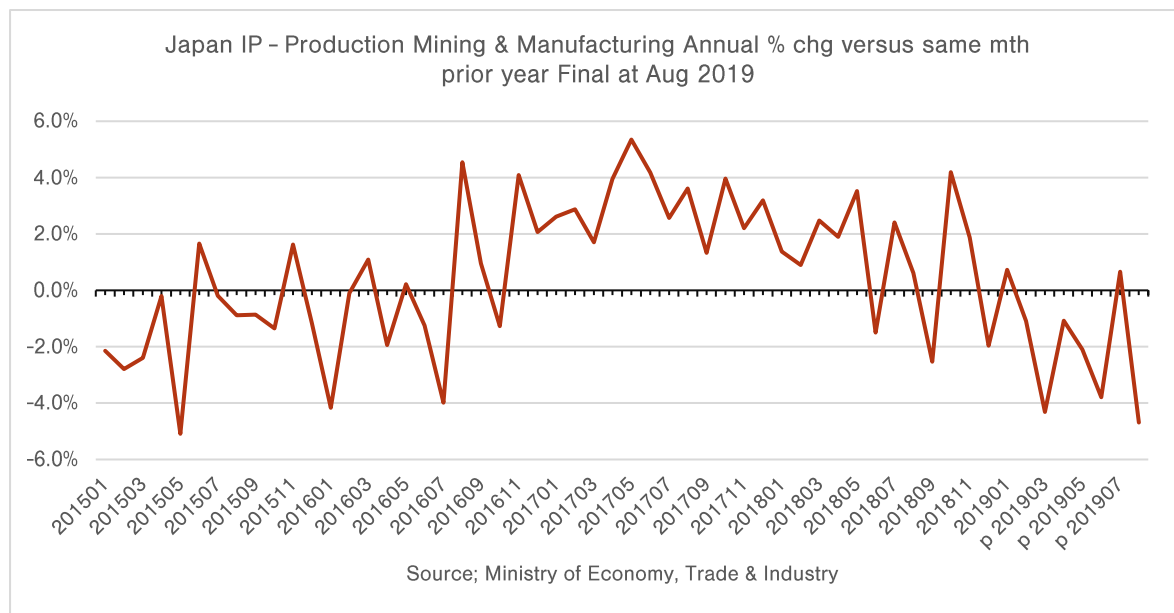
Shipments; Aug -1.3% (was -1.4% in the prelim) versus Jul +2.7%

Inventories; Aug -0.1% (was 0% in the prelim) versus Jul -0.2%

Inventory Ratio; Aug +2.8% (no change) versus Jul -2.1%

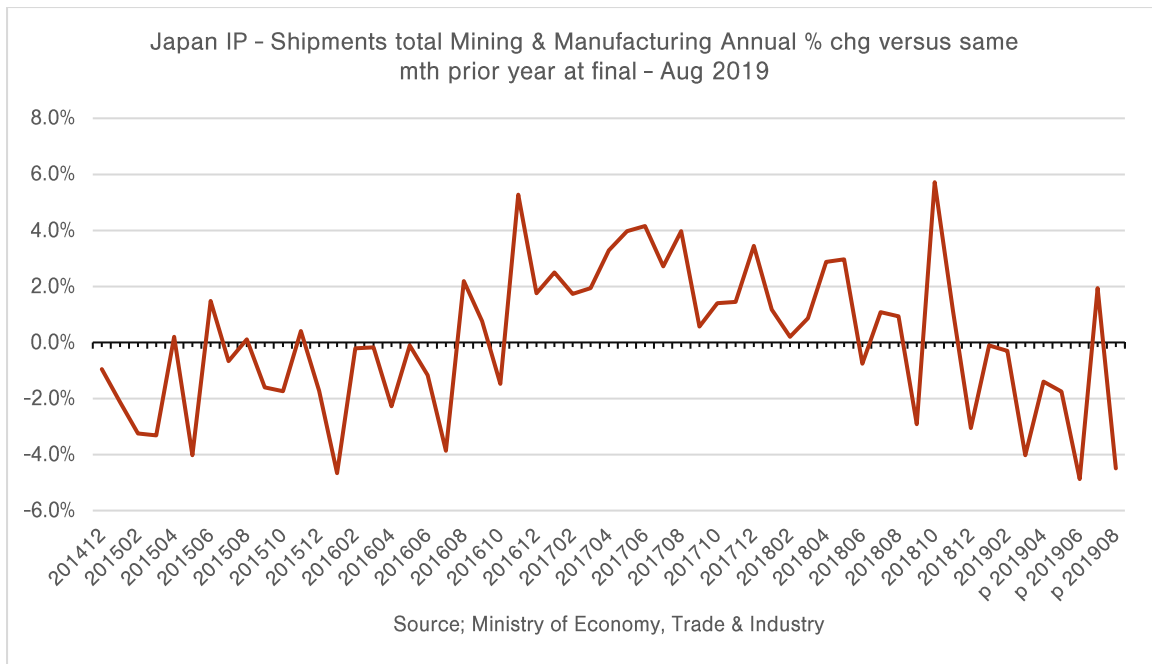
Annual Change

Production; Aug -4.7% (no change) versus Jul +0.7%



Most major product categories recorded annual declines in production in Aug. The exception is Food and Tobacco which grew at +0.5% versus a year ago, a slower annual pace when compared to Jul of +1.3%.

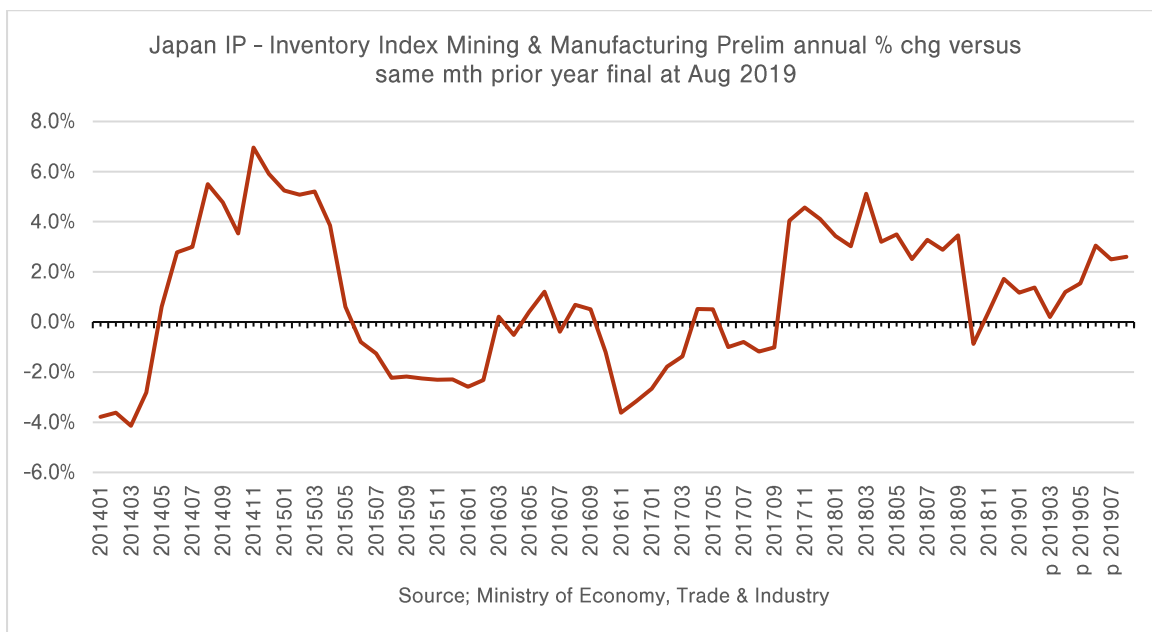
Shipments; Aug -4.5% (was -4.6% in the prelim) versus Jul +1.9%



Shipments were also lower across most product categories. The exception was fabricated structural metal products +22% versus a year ago.

Inventories; Aug +2.6% (was +2.7% in the prelim) versus Jul +2.5%

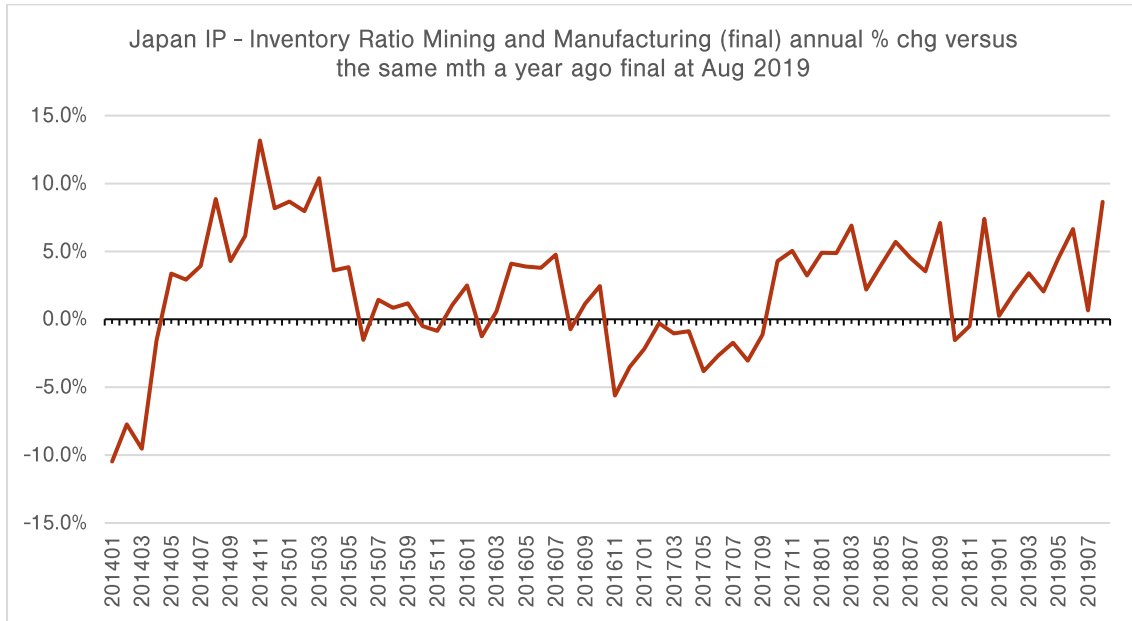
The value of producer's inventories of finished goods increased at a slightly faster pace – despite falls in production and shipments;



This was led only by several categories – iron/steel +3.2%, fabricated metals +2.8%, production machinery +6.2%, general purpose machinery +14.4%, electronic parts +3.8% and chemicals +13% (which has a heavy weight in the inventory index).

Inventory ratio; Aug +8.7% (unchanged) versus Jul +0.7%

The actual index also reached a new high (going back to 2013 in the data).



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

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United Kingdom

Brexit

The Brexit process continues this week with key outcomes still to be decided.

An alternative backstop agreement was negotiated between the EU and the UK at the EC summit last week. The UK Parliament voted against the deal until the legislation required to implement the bill is passed by the UK parliament. That legislation is expected to be introduced into the parliament this week.

There is no further word at this stage whether the EU has granted the deadline extension. The UK PM was required to request an extension, but he also requested that the extension not be granted. This is now up for discussion among EU leaders – likely to be decided once the legislation has been voted on in the UK parliament.

The delay is important to ensure that the UK does not crash out without a deal (as a deal is currently in development). If a deal is approved by the UK parliament before said extended end date, then the deadline becomes less relevant.

If the House of Commons refuses to approve the new Brexit deal in the next couple of weeks, then granting a new extension would be in EU leaders' interest. They are keen not to be blamed by their own citizens for a costly no-deal Brexit.

They [the EU leaders] will want to know what it's for. Are there plans in the UK to hold a general election, a second referendum or a referendum on the new Brexit deal? Or is a bit more time needed to pass Brexit-related legislation?

EU diplomats rule out the idea of further negotiations or amending the new Brexit deal, whatever comes out of the House of Commons over the next few days. <https://www.bbc.com/news/world-europe-50113287>

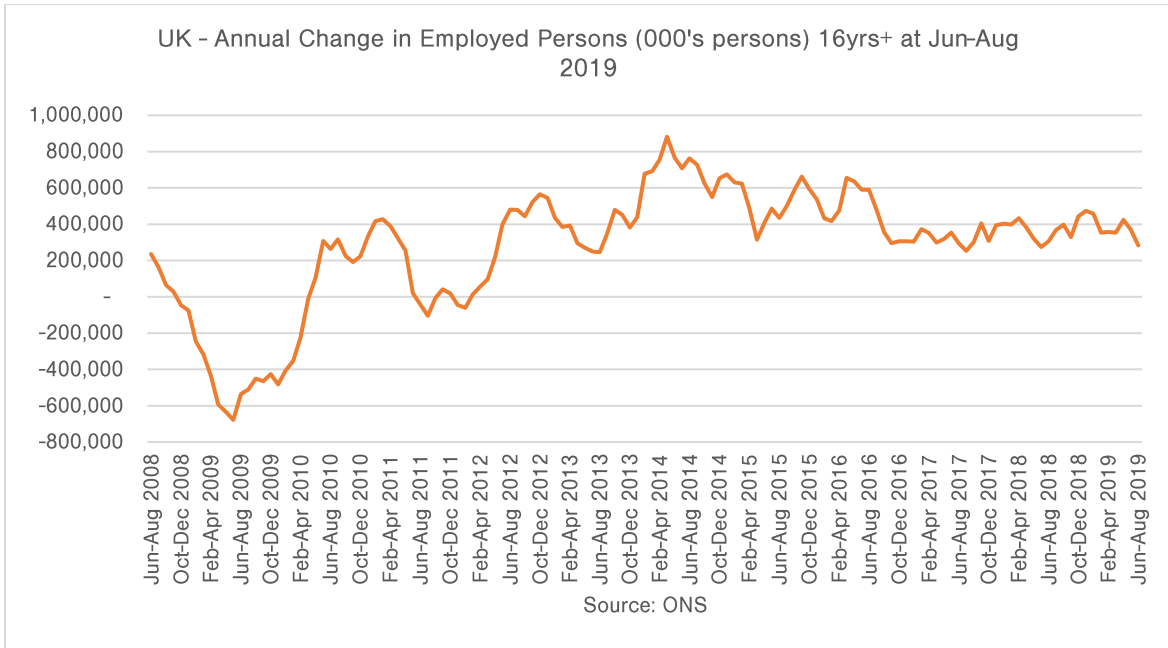
Labour Market Survey (Jul-Aug)

The UK labour market continued to weaken. The annual view showed that employment growth slowed notably, but growth still remains in line with recent lows. Unemployment continues to decline but now at a much slower pace. The real deterioration is visible in the latest 3-month (non-overlapping) period for both the 16yrs+ and the core working age group 16-64yrs. Employment is now declining, and unemployment is increasing. Although there has been a deterioration in employment and unemployment, the levels remain mostly in line with prior recent periods of weakness.

Employment (16yrs+)

Annual change; Jun-Aug +282k versus May-Jul +369k persons

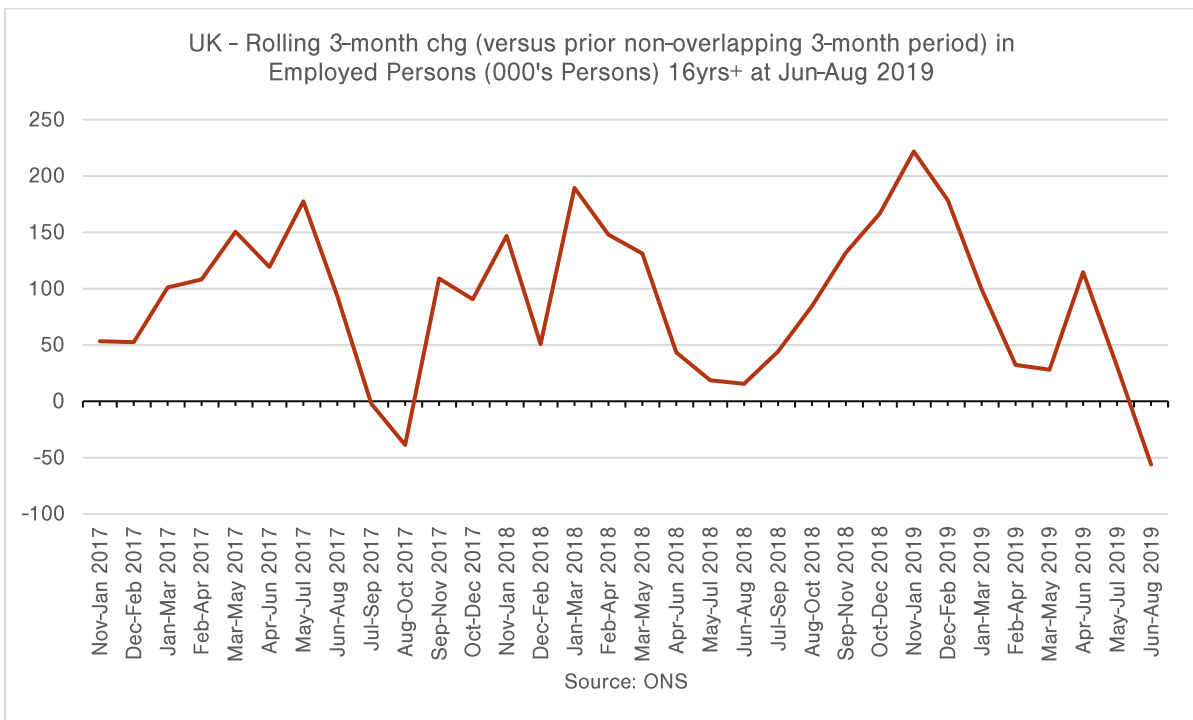
The annual growth has slowed considerably between the last two labour market reports. But the annual growth at 282k remains in line/slightly above some of the recent slower growth periods.



The level of deterioration in the market is more visible on the 3-month basis. Versus the prior non-overlapping 3-month period, employment growth has now started declining after slowing in the prior report;

Employment 3-month change (versus the prior non-overlapping 3-month period);

Jun-Aug -56k persons versus May-Jun +31k persons



On an annual basis, employment growth remains higher than that of the labour force - unemployment continues to decline, but is declining at a slower pace now.

On a 3-month basis though, employment is declining at a faster pace than the labour market, so total unemployed persons is increasing.

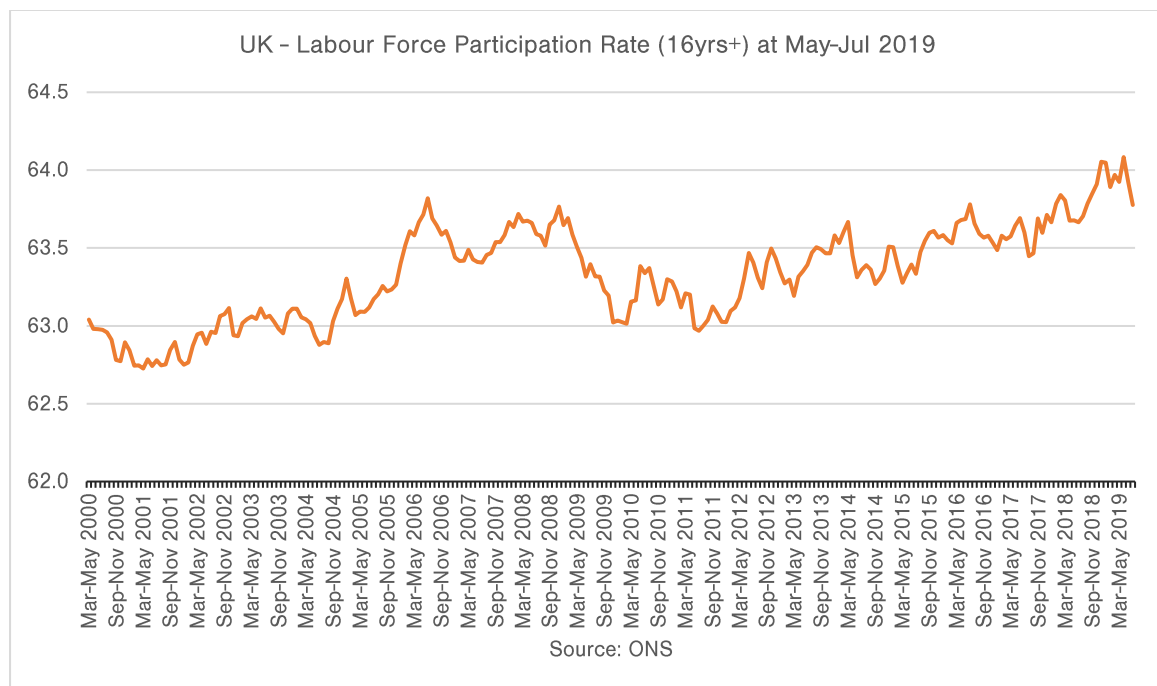
Labour Market/Economically Active

The growth in the total size of the labour market also slowed on an annual basis;

Annual change; Jun-Aug; +233k persons versus May-Jul +305k persons

The slower growth was the result of slower growth in labour market due to participation. In the year to Jun-Aug 2019, the increase in participation added approx. +59k persons the labour force. In the year to May-Jul, the increase in participation added approx. +131k persons.

The participation rate fell in Jun-Aug to 63.8% after reaching a near-term peak of 64.1% in Apr-Jun 2019;



In the latest 3-month period Jun-Aug (versus the previous non-overlapping period), the size of the labour force declined;

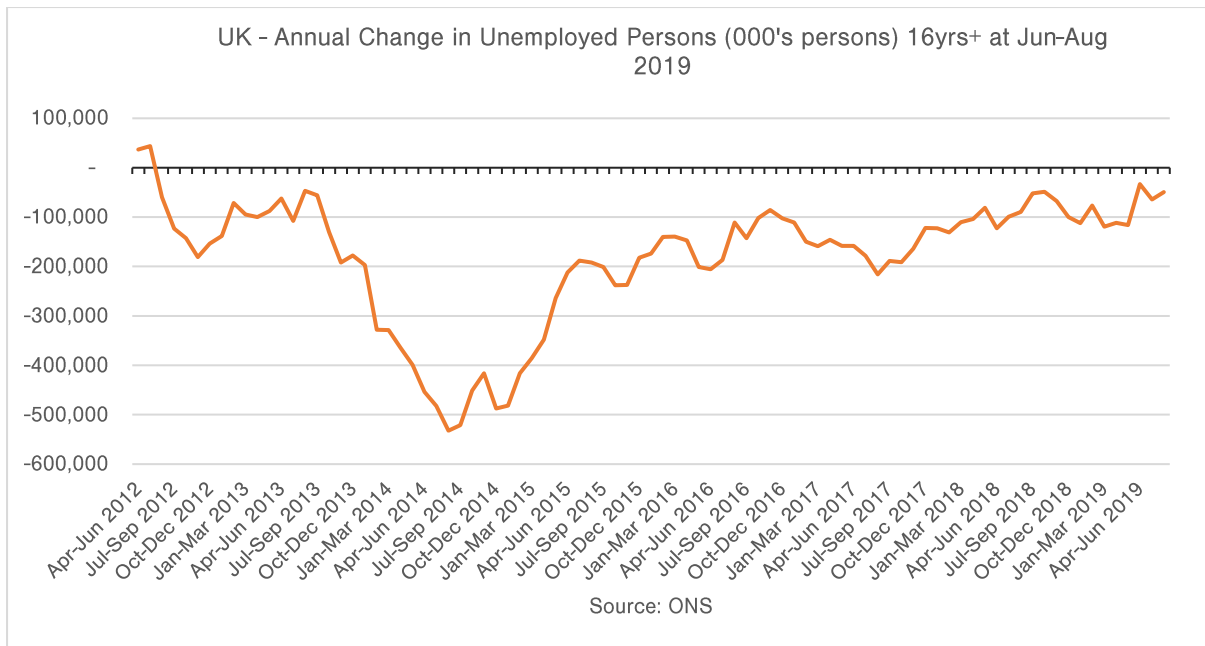
3-month change; Jun-Aug -35k persons versus May-Jul +20k persons

The decline in the 3-month period was the result of a decline in participation of -0.15% pts or -79k persons.

Total Unemployed Persons

On an annual basis, total unemployed persons continued to decline, but that decline remains slower;

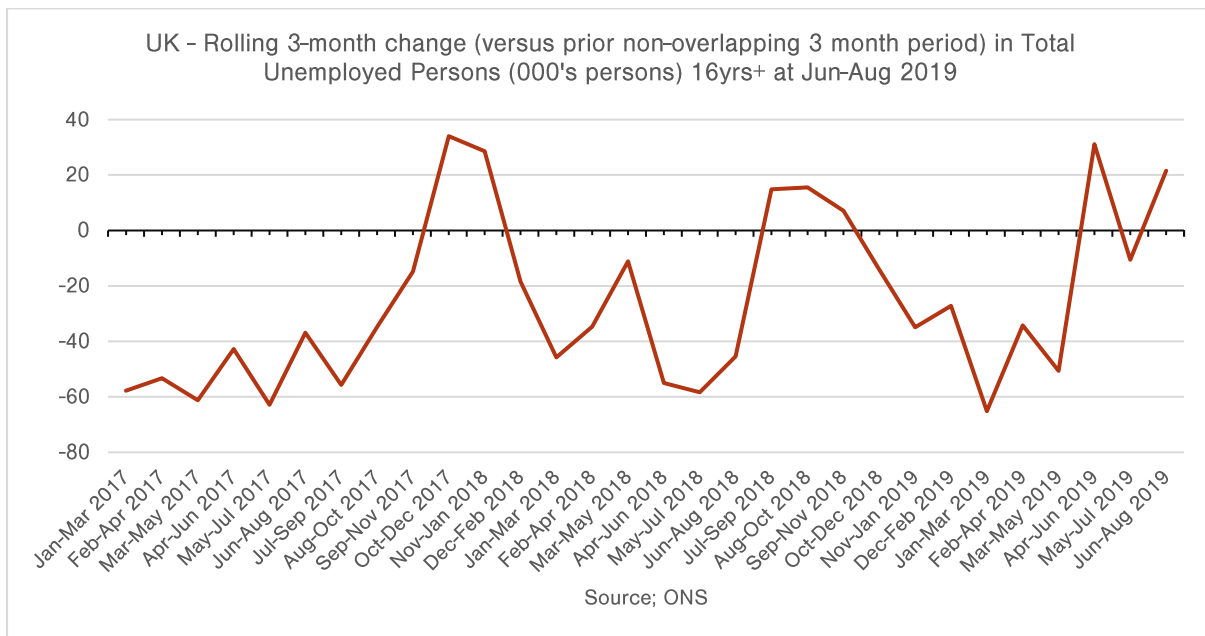
Annual change; Jun-Aug -49k persons versus May-Jul -64k persons.



The slower annual decline in total unemployed persons was the result of slower growth in total employed persons.

On a 3-month basis though, the picture has deteriorated with total unemployment increasing; 3-month change; Jun-Aug +22k persons versus May-Jul -11k persons

This is mostly the result of the decline in employed persons for the period (total employed persons declined faster than that of the labour market).



The unemployment rate also increased in Jun-Aug to 3.9% from 3.8% in May-Jul. The current unemployment rate remains below that of a year ago at 4%.

Summary – Key Labour Market Indicators

	16yrs+ (000's of persons)		16-64yrs (000's of persons)	
	Latest Qtr Chg Jun-Aug 2019	ANN Chg Jun- Aug 2019	Latest Qtr Chg Jun-Aug 2019	ANN Chg Jun- Aug 2019
Estimated change in the Labour Force due to pop growth (1)	44.287	174.516	17.170	63.918
How many jobs available for them? (employment growth) (2)	-56.139	282.375	-55.905	192.436
Difference; employment less est chg in labour force due to pop (3) (if positive, then employment growing faster than pop)	-100.426 [█]	107.859	-73.075	128.517
Change in the labour force due to the change in participation (4)	-78.912	58.806	-52.160	80.633
The remainder is the chg in total unemployed persons (4) less (3) - if neg, then unemployment decreasing	21.514	-49.053	20.916	-47.884
<u>Different views of the Labour Force:</u>				
Double check - change in total economically active (pop + participation)	-34.625 [█]	233.322	-34.990	144.551
Double check - change in total economically active (employ + unemp)	-34.625	233.322	-34.990	144.551
Actual economically active ann chg (as reported)	-34.625	233.322	-34.990	144.551

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/october2019>

CPI (Sep)

The headline CPI-H annual growth rate was unchanged at +1.7% in Sep.

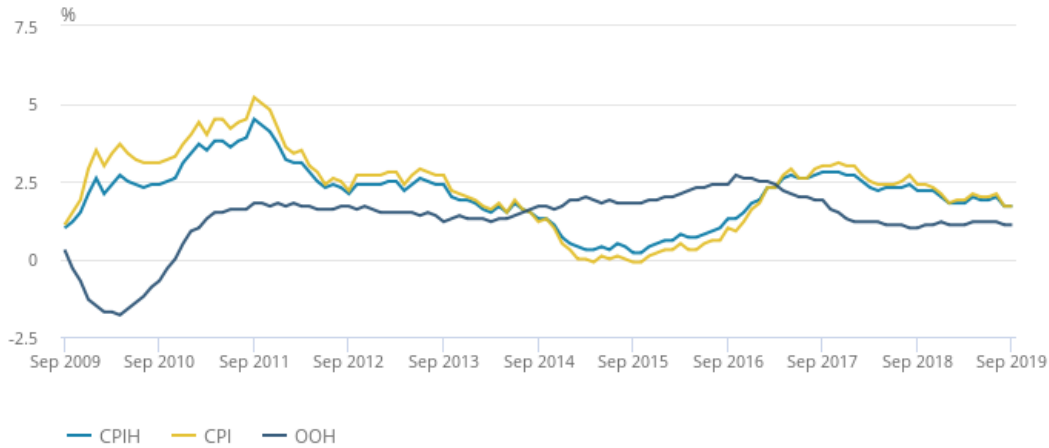
The larger changes underlying the CPI-H growth was that energy prices grew at a slower pace while services prices increased at a slightly faster pace.

CPI-H – All Items annual % change; Sep +1.7% versus Aug +1.7%

A year ago, the all-items CPI grew at +2.2%

Figure 1: CPIH and CPI 12-month inflation rates unchanged at lowest since late 2016

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



Source: Office for National Statistics - Consumer price inflation

Overall, slower growth in Goods prices was offset by faster growth in services prices.

Goods CPI – annual change; Sep +0.9% versus Aug +1.2%

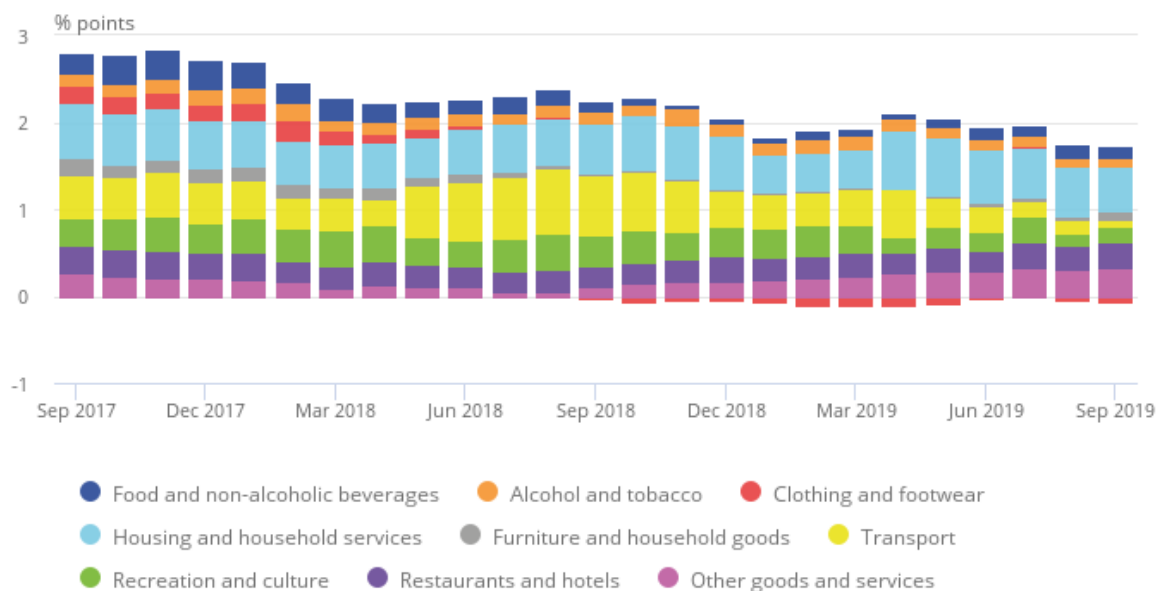
Food, alcohol and tobacco prices were little changed in Sep, with growth slowing only slightly from +2.2% in Aug to +2.1% in Sep. Growth was +2.2% a year ago.

Energy price growth has slowed markedly to +1.4% in Sep from +3.2% in Aug. A year ago, energy prices were growing at +9.4%.

Services CPI – Annual change; Sep +2.2% versus Aug +2%. A year ago, services prices grew by +2%. Faster growth was recorded across recreation and personal services and communication services.

Figure 2: Contribution to inflation from transport falls further

Contributions to the CPIH 12-month rate, UK, September 2017 to September 2019



Source: Office for National Statistics – Consumer price inflation

The growth in underlying or core consumer prices increased at a slightly faster pace in Sep, but has remained mostly steady over the last few years;

Core CPI – ex energy, food, alcohol & tobacco: Sep +1.6% versus Aug +1.5%. A year ago, core CPI was growing at +1.8%.

<https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/sepember2019>

Retail Sales (Sep)

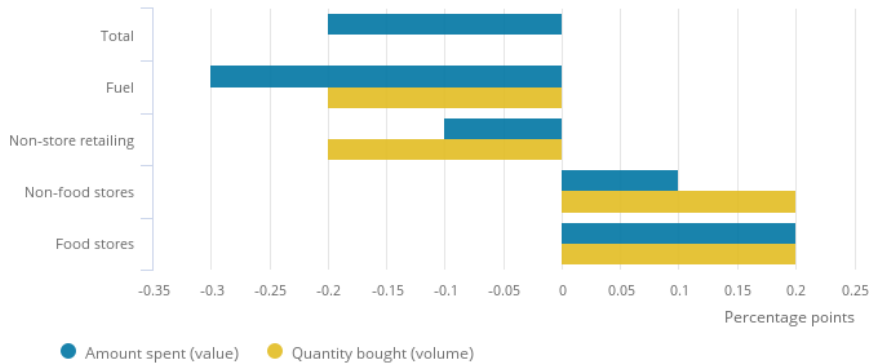
The volume of retail sales was little change in Sep with growth remaining low after declining in the month prior. Declines in sales of fuel and non-store retailers was offset by growth in food and non-food stores.

Retail Sales (vol) – month change: Sep +0.1% versus Aug -0.3%

In the latest month, growth in food (+0.2%) and non-food stores (+0.2%) was offset by a decline in fuel (-0.2%) and non-store retailing (-0.2%);

Figure 3: Food stores and non-food stores were the only positive contributors to the quantity bought and amount spent in September 2019

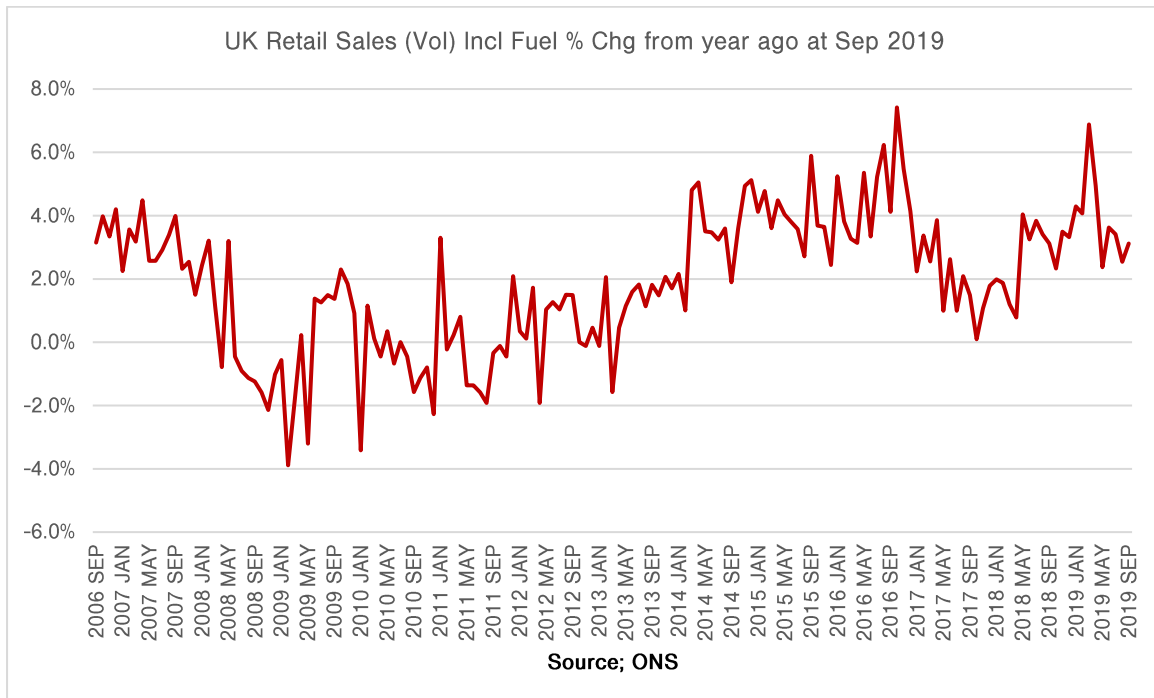
September 2019 compared with August 2019



Source: Office for National Statistics - Monthly Business Survey

Retail Sales (vol) – annual change; Sep +3.1% versus Aug +2.5%

The most recent trend in retail sales growth, despite increasing in Sep, remains below the recent peaks;



<https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/september2019>

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Australia

RBA Minutes – Meeting 1 Oct 2019

At this meeting, the RBA reduced the cash rate to 0.75%

The case for further easing at this meeting was discussed – the aim to provide further support to income and employment growth and greater confidence that inflation would reach the medium-term target.

The RBA forecasts still indicated that unemployment and inflation outcomes over the next few years would likely fall short of the Bank's stated goals.

The most recent run of data had not materially altered this assessment and, on balance, had been on the softer side. The ongoing subdued rate of wages growth also suggested that the economy still had spare capacity. There was therefore a case to respond to the general outlook with a further easing of monetary policy.

The discussion regarding a further cut covered several areas;

Policy already expansionary

The lower exchange rate was already seen to be supporting growth – with mining (and established housing markets) appearing to have reached 'turning points'.

Tax cuts, lower interest rates and lower exchange rate could combine to boost growth more than the individual effects would imply

At the same time, members recognised that it was possible that the effects may be smaller than expected and the global risks were to the downside.

Policy Transmission

Interesting acknowledgement from the RBA that policy stimulus may be less effective;

They recognised that some transmission channels, **such as a pick-up in borrowing or the effect on the home-building sector, may not be operating in the same way as in the past**, and that the negative effect of low interest rates on the income and confidence of savers might be more significant.

But the exchange rate mechanism and the effect of lower rates on household incomes were seen to still work effectively.

Strong employment growth to ease

Despite recent strong employment growth, spare capacity in the labour market had not been reduced due to the increase in participation;

It was also possible that participation was rising partly in response to weak growth in incomes. Moreover, employment growth was forecast to slow over the period ahead.

Stimulus should be kept in reserve for future shocks

Board members noted that it was the level of interest rates, not the change in rates that were the more important determinant of demand. More stimulus now though, could insure against negative outcomes in the future;

Members concluded that the Board could reduce the likelihood of a negative shock leading to outcomes that materially undershot the Bank's goals by strengthening the starting point for the economy.

Risk of over-inflating asset prices?

I've added the unedited version of several key points from the minutes – especially the notes regarding rising asset prices, credit growth and weaker lending standards.

Members acknowledged that **asset prices were part of the transmission mechanism of policy, including by encouraging home building.**

By themselves, higher asset prices were considered unlikely to present a risk to macroeconomic and financial stability.

This assessment would need to be reviewed **if rapidly increasing asset prices were accompanied by materially faster credit growth, weak lending standards and rising leverage.**

The RBA and APRA don't have a great track record in taking timely action to control excessive credit growth, build up of leverage and weak lending standards.

Guidance

Rates will stay low for an extended period. Developments in the labour market will continue to be important for RBA consideration.

The Board would continue to monitor developments, including in the labour market, and was prepared to ease monetary policy further if needed to support sustainable growth in the economy, full employment and the achievement of the inflation target over time.

<https://www.rba.gov.au/monetary-policy/rba-board-minutes/2019/2019-10-01.html>

Labour Force Survey (Sep)

The annual growth in employed persons slowed in Sep, but remains close to recent highs. This growth in employed persons was lower than that of the total labour force for the year, which meant that total unemployed persons increased at a faster annual pace in Sep.

Participation in trend terms reached another new all-time high in Sep, adding further to the supply of labour.

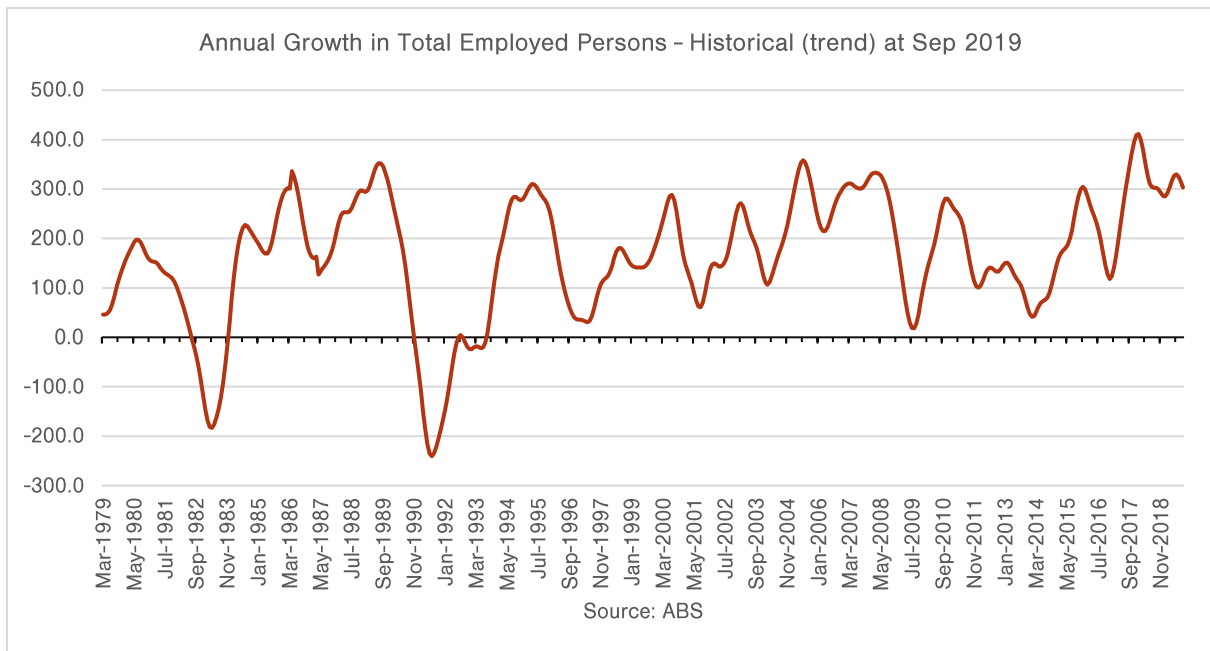
In the latest month, employment growth was little changed, but was also still below that of the labour force. Total unemployed persons continued to increase on a monthly basis.

The data used here is the trend series as recommended by the ABS – which removes much of the noise of the seasonally adjusted data and is the valid series to measure month to month changes in levels.

Employment

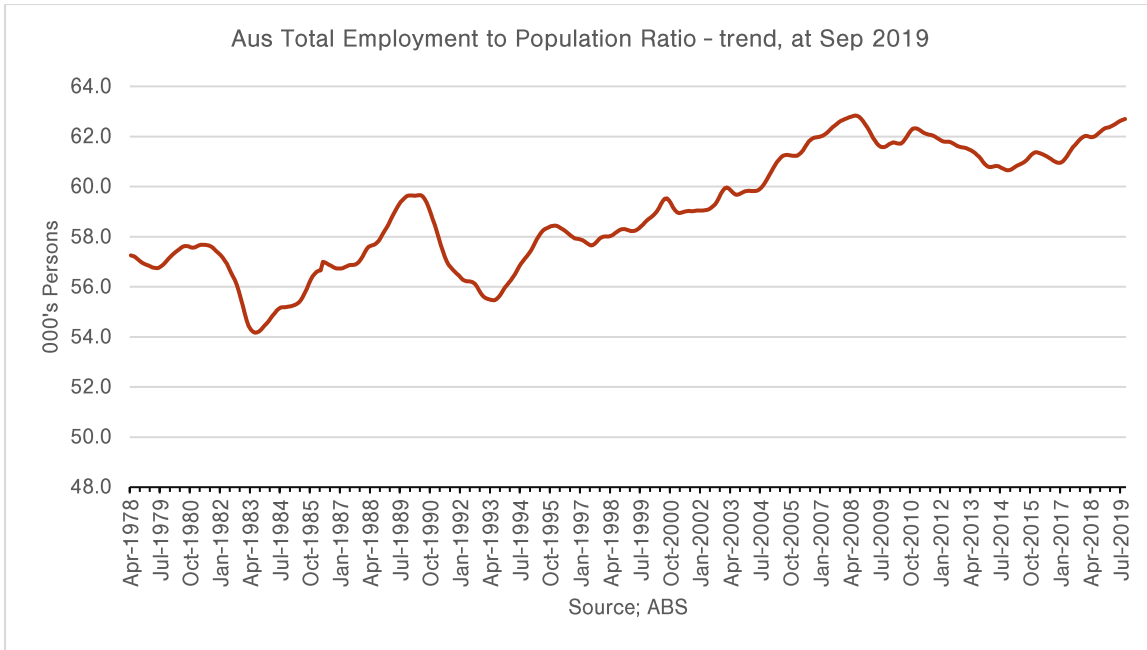
The annual growth in employed persons slowed further in Sep, but still remains elevated by historical levels;

Annual change; Sep +303k persons versus Aug +315k persons



While employment growth has reached historical levels recently (peaking early 2018), the employment to population ratio remains below the peak reached in 2008. While employment growth has been strong in Australia over the last few years, population growth has also been strong. The growth in the supply of labour has likely kept excess capacity in the labour market higher.

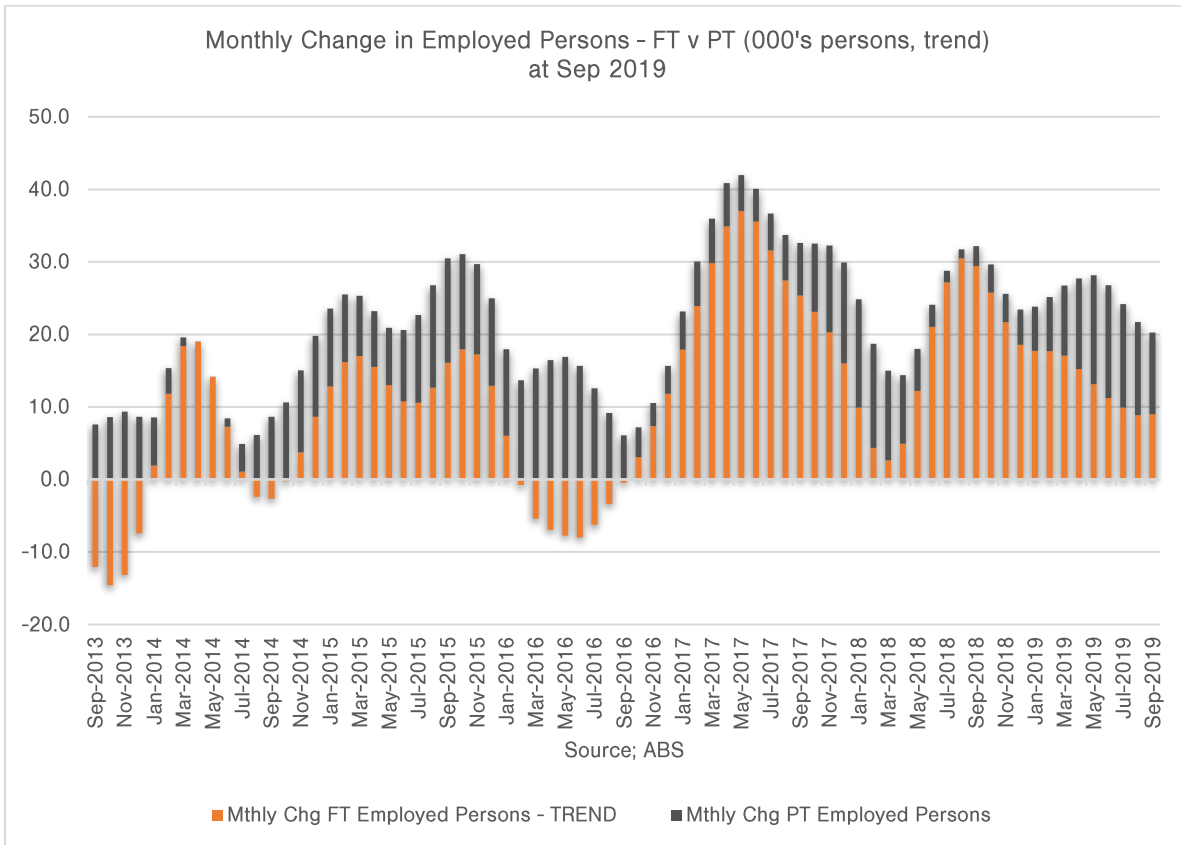
The employment to population ratio is 62.7% -0.13%pts below the Jun 2008 peak of 62.83%;



The month change in employment slowed slightly. Full time (FT) employment growth was little changed and part-time (PT) employment growth slowed;

Month change; Sep +20.2k persons versus Aug +21.7k persons

The ratio of FT to PT employment growth is almost equal.

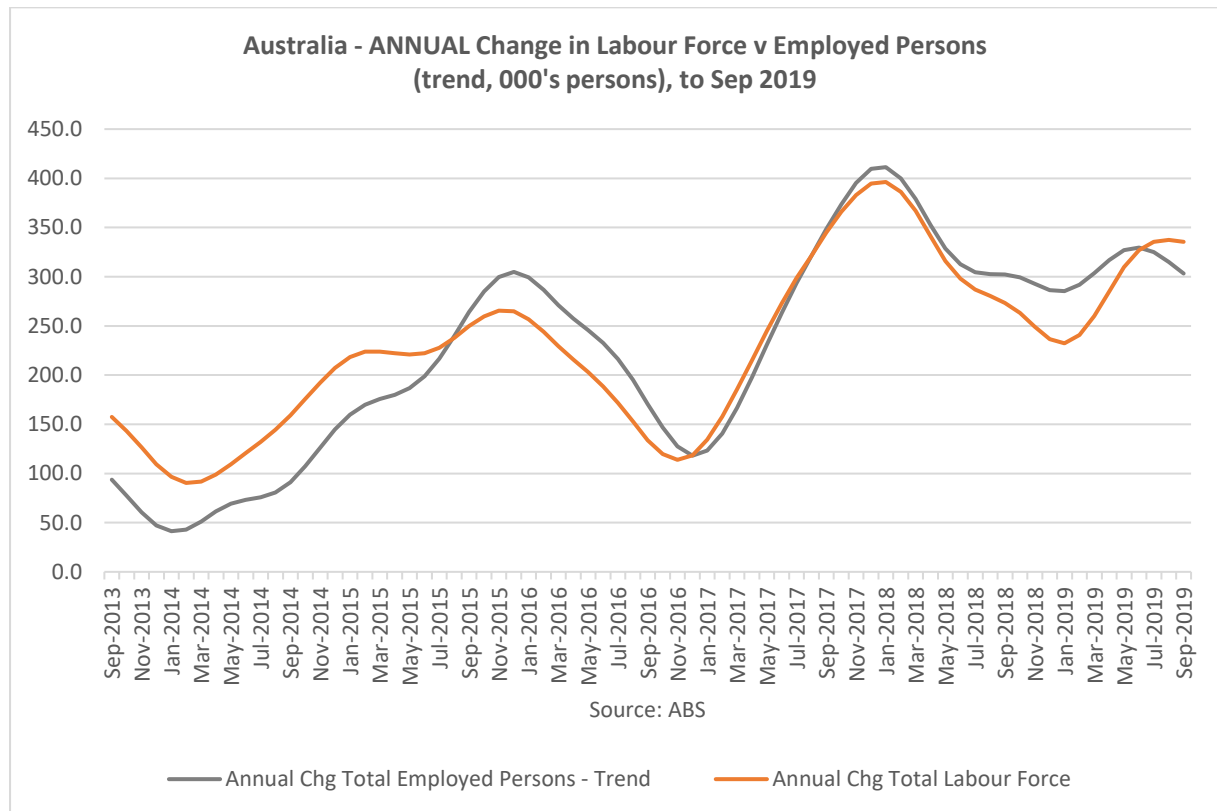


The important point about employment is the growth relative to that of the labour market.

Labour Force

The annual growth in the labour market slowed only slightly in Sep and, importantly, remains above that of employment;

Labour force – annual change; Sep +335.3k persons versus Aug +337.2k persons



The main driver of the growth in the labour force has been the increase in participation. On a trend basis, the participation rate reached another new all-time high in Sep of 66.19%. Over the last year, the increase in participation has added approx. +122k persons to the labour force.

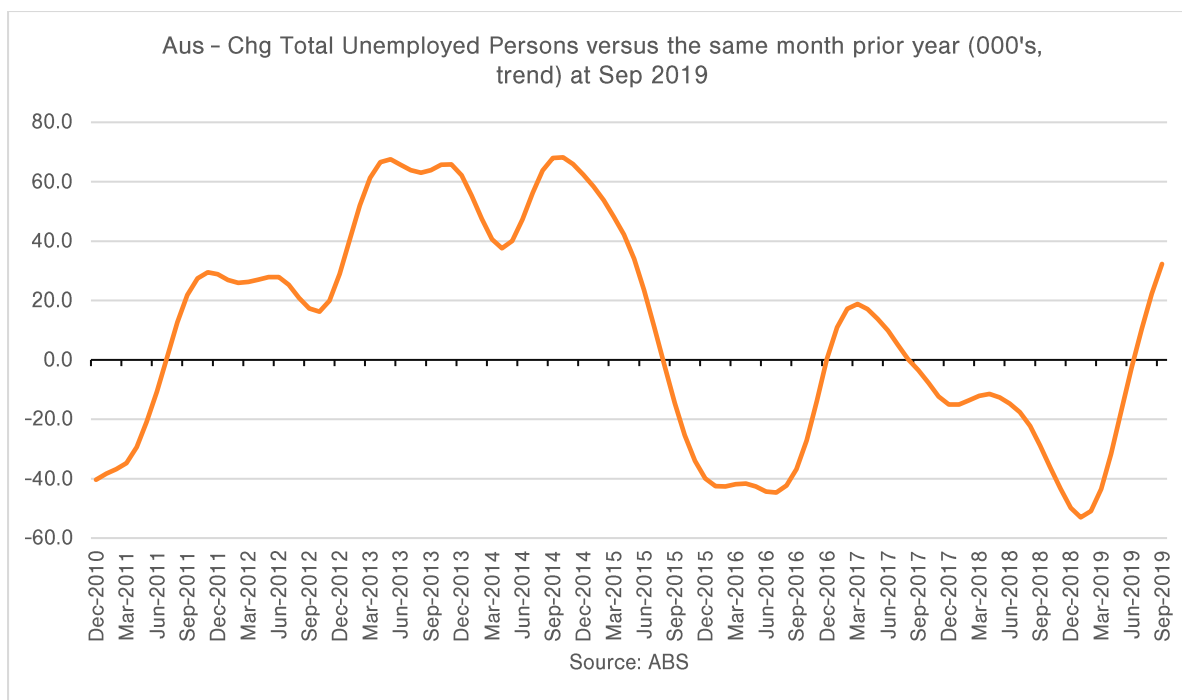
Growth in the labour force also slowed on a monthly basis, led by lower growth from the increase in participation (versus the month prior).

Importantly, on both a monthly and annual basis, the growth of the labour force was larger than that of total employment. This means that total unemployed persons increased on an annual and monthly basis.

Total Unemployed Persons

Total unemployed persons increased a faster annual pace in Sep;

Annual change; Sep +32.3k persons versus Aug +22k persons



On a monthly basis, total unemployed persons still increased, but at a slower pace.

Month change; Sep +1.6k versus Aug +3k persons

The trend in the monthly change of total unemployed persons indicates that the pace growth in unemployed persons may be slowing.

The unemployment rate was unchanged at 5.254% in Sep (versus Aug). A year ago, the unemployment rate was 5.15%.

Summary of key labour market dynamics

On an annual basis, employment growth slowed in Sep. The growth in employed persons was lower than that of what both population and participation added to the labour force – so total unemployed persons increased as a result.

On a monthly basis, total employed persons grew at only a slightly slower pace than the labour force, so there was still a small monthly increase in total unemployed persons. The total labour force growth slowed in the month by a larger amount (led by lower growth from participation) – which is why the unemployment rate was unchanged.

	000's Persons	
	Annual Chg - SEP	Month Chg - SEP
The estimated change in the Labour Force due to pop growth	212.418	14.323
How many jobs available for them? (employment growth)	303.072	20.244
Difference (if positive, employment growing faster than pop est)	90.654	5.920
Change in labour force due to the change in participation	122.924	7.498
The reminder is the change in total unemployed persons	32.269	1.578
Double Check - Reported chg in size of the Labour Force	335.342	21.814
Two views of the size of the Labour Force:		
Underlying population growth plus changes in participation	335.342	21.822
Total employed persons plus total unemployed persons	335.342	21.822

<https://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/6202.0Main%20Features1Sep%202019?opendocument&tabname=Summary&prodno=6202.0&issue=Sep%202019&num=&view=>

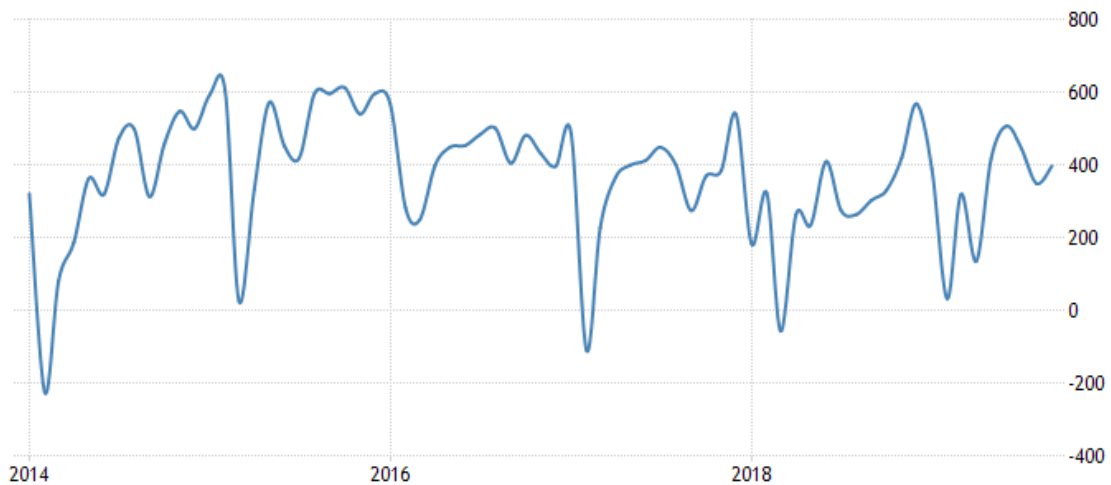
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China

Trade Balance, Imports & Exports (Sep)

The trade surplus for China in Sep (versus a year ago) increased to US\$39.6bn. The increase in the surplus was the result of a decline in exports and a further, larger decline in imports. The decline in imports has been the key reason for the ongoing steady surplus despite the imposition of tariffs by the US.

Chart; China Trade Surplus (USD)



SOURCE: TRADINGECONOMICS.COM | GENERAL ADMINISTRATION OF CUSTOMS

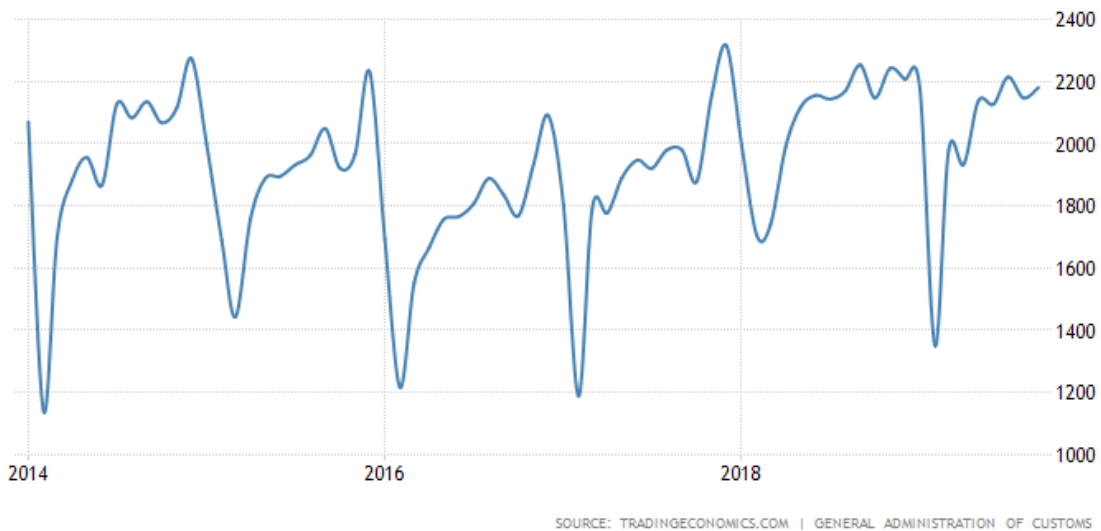
The ongoing decline in imports indicates further pressure, especially, for regional exporters and producers and suggests weaker domestic demand in China. Expect to see regional Asian exports, where China is the main customer, to remain weak.

Exports

Exports declined at a faster pace in Sep, falling by -3.2% versus -1% in Aug (versus a year ago)

This was the steepest yearly drop in overseas sales since February, amid weakening global demand and ongoing trade dispute with the US.

Chart: China Exports (USD)



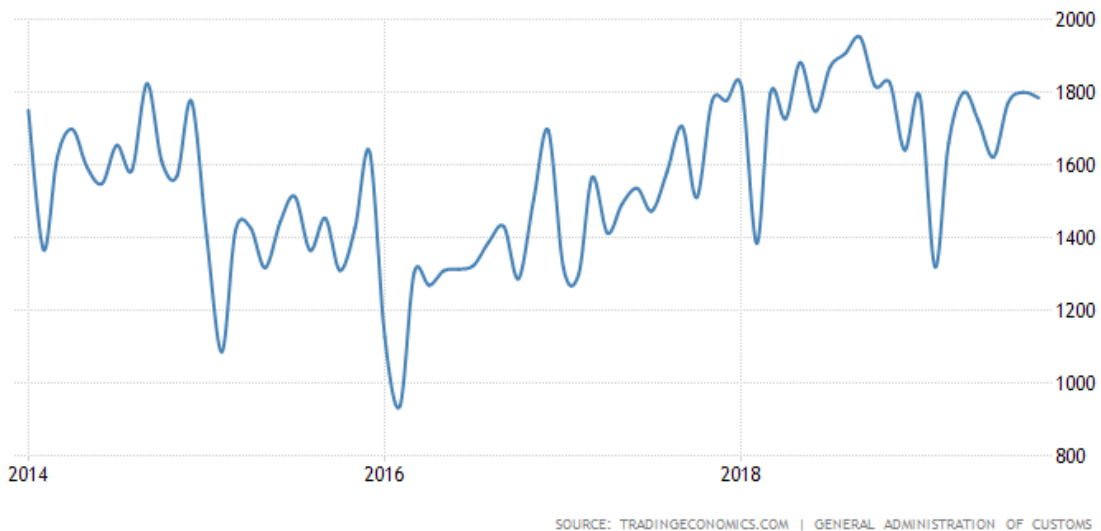
The state of the trade negotiations remains somewhat tenuous despite agreement for phase one of the 'deal'. At the least, there hasn't been an escalation in the tariff rates since this Sep data – but the current tariffs remain in place.

Imports

The value of imports in USD terms declined at a faster pace and more than expected. Imports declined by -8.5% versus the same month a year ago. In Aug, imports declined by -5.6%.

The value of imports has clearly stagnated since mid-2018;

Chart: China Imports (USD)



Purchases declined from the US (-20.6 percent), the EU (-7.1 percent), Japan (-3.7 percent), South Korea (-14.9 percent), and Taiwan (-1.7 percent), but grew from Australia (22.2 percent) and the ASEAN countries (15.1 percent).

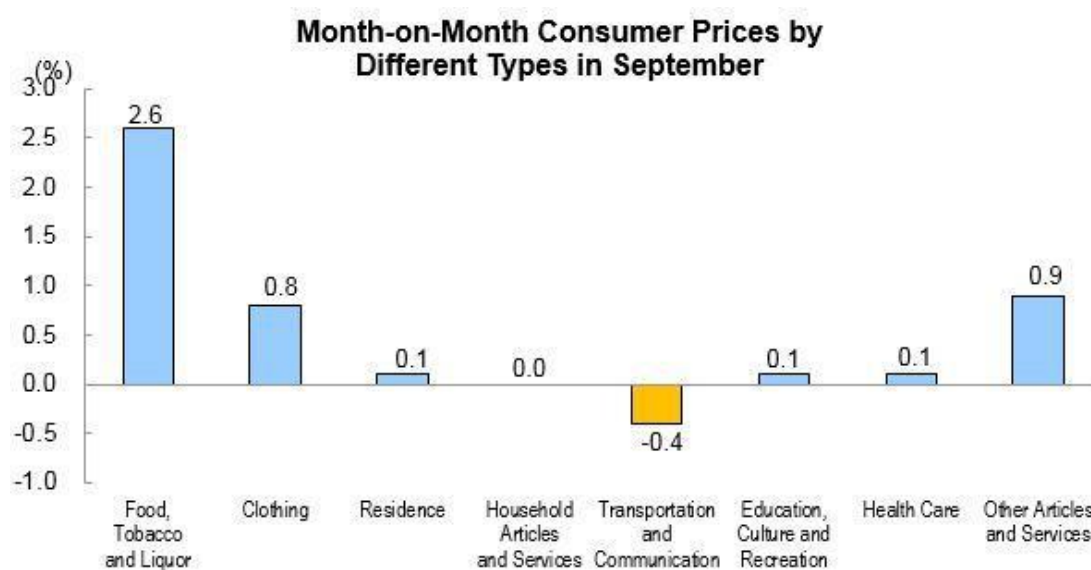
<https://tradingeconomics.com/china/balance-of-trade>

CPI (Sep)

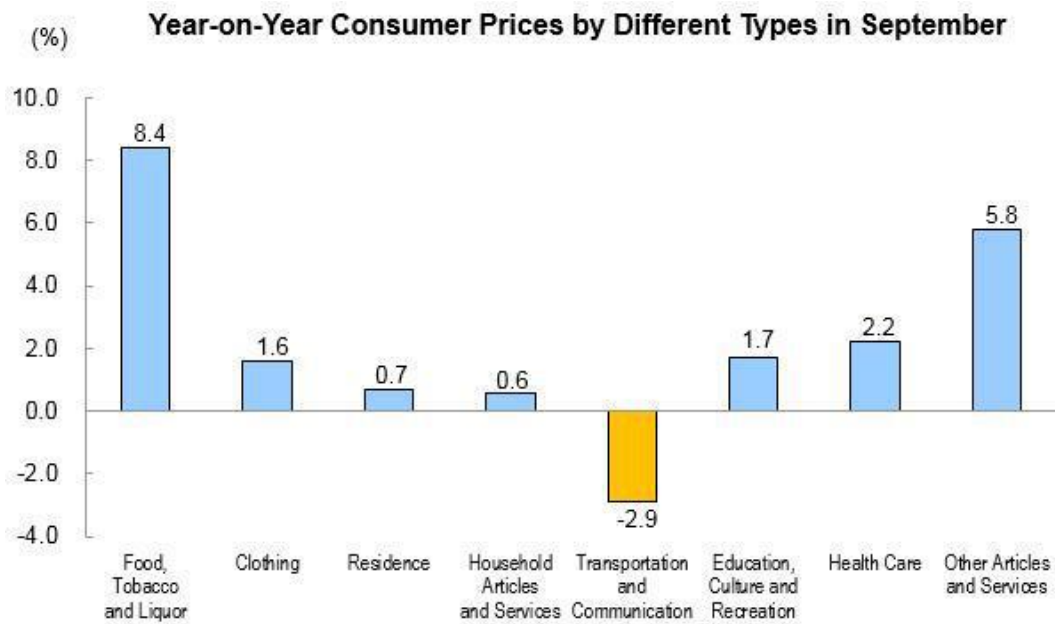
Annual and monthly CPI growth continued to accelerate in Sep – this was led by much higher and faster growth in food prices.

In September, prices of food, tobacco and liquor went up by 8.4 percent year-on-year, affecting nearly 2.49 percentage points increase in the CPI. Of which, livestock meat price up by 46.9 percent, affecting nearly 2.03 percentage points increase in the CPI (**price of pork was up by 69.3 percent**, affecting nearly 1.65 percentage points increase in the CPI), poultry meat up by 14.7 percent, affecting nearly 0.18 percentage point increase in the CPI

CPI – All items – month change; Sep +0.9% versus Aug +0.7%



CPI – All items – annual change; Sep +3% versus Aug +2.8%



Meat prices were up 15% in the month and 46.9% for the year. While pork prices were the main driver of the increase (due to the Swine Flu), prices for beef and mutton were also affected.

The decline for transport and communication prices on an annual basis was led by a 12% decline in prices for fuel for vehicles.

http://www.stats.gov.cn/english/PressRelease/201910/t20191016_1702923.html

Retail Sales (Sep)

Retail sales in China increased at a slightly faster pace in Sep. Growth was mixed among the categories – but auto sales declined at a slower pace.

Retail Sales – month change; Sep +0.7% versus Aug +0.67%

Retail Sales – annual change; Sep +7.8% versus Aug +7.5%

The annual change in retail sales has continued to slow over the last five years. It's unclear though whether the current trend in growth since Apr is a change in trend;

Chart; China Retail Sales – Annual Growth



Sales went up further for cosmetics (13.4% vs 12.8% in August), home appliances (5.4% vs 4.2%), furniture (6.3% vs 5.7%), and telecoms (8.4% vs 3.5%).

In addition, sales fell less for jewellery (-6.6% vs -7%), oil & oil products (-0.4% vs -1.2%), and automobiles (-2.2% vs -8.1%).

Meanwhile, sales growth slowed for garments (3.6% vs 5.2%), personal care (12% vs 13%) and building materials (4.2% vs 5.9%).

Also, sales of office supplies dropped (-0.2% vs 19.8%).

Its unclear whether retail sales include retail food sales. Given the increase in food prices (meat), this could be affecting the value of retail sales and growth.

With the headline CPI growing at +3%, the value of real retail sales is likely growing at slower pace.

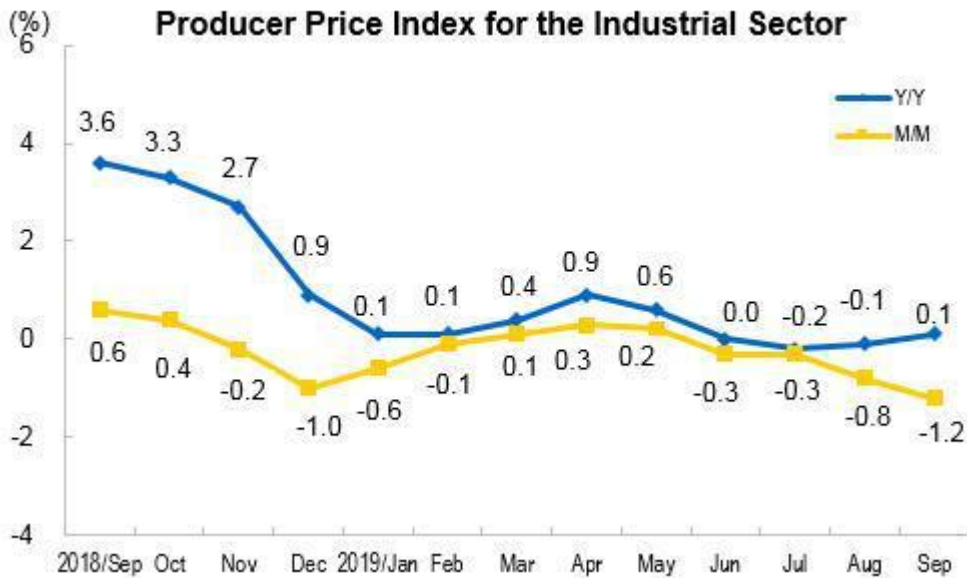
<https://tradingeconomics.com/china/retail-sales-annual>

PPI (Sep)

Producer selling price growth remained under pressure in Sep with the PPI declining at a faster pace. The larger declines were recorded across petroleum and chemical manufacturing. On a monthly basis, the PPI growth remained subdued.

PPI Manufactured Goods – month change; Sep +0.1% versus Aug -0.1%

PPI Manufactured Goods – annual change; Sep -1.2% versus Aug -0.8%



Across the major industries, the largest annual declines in producer prices continued to be driven by chemical and petroleum;

Extraction of Petroleum and Natural Gas; -13.4% versus a year ago

Processing of Petroleum, Coking, Processing of Nucleus Fuel; -9.6% versus a year ago

Manufacture of Chemical Fibers; -13% versus a year ago

Manufacture and Processing of Ferrous Metals; -5.8% versus a year ago

Other industries where producer price growth remains weaker are;

Manufacture of Motor Vehicles; -0.8% below a year ago

Manufacture of Computer, Comms and other Electronic Equipment; -1.7% below a year ago

http://www.stats.gov.cn/english/PressRelease/201910/t20191016_1702928.html

Industrial Production (Sep)

Growth in industrial production increased at a faster pace in Sep. This was led by faster growth in manufacturing and mining while output growth for utilities remained steady.

Industrial production – annual change; Sep +5.8% versus Aug +4.4%

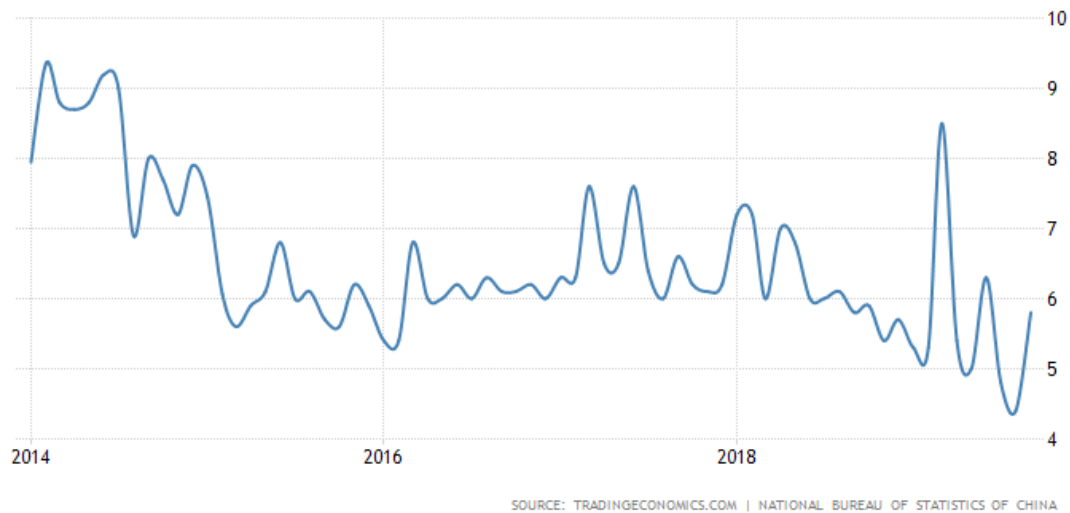
Manufacturing production – annual change; Sep +5.6% versus Aug +4.3%

Mining production – annual change; Sep +8.1% versus Aug +3.7%

Utilities production/output growth – annual change; Sep +5.9% versus Aug +5.9%

Annual growth over the last two years (approx.) has continued follow a slowing trend. Recent stimulus has created some volatility in the data.

Chart; China Annual Growth Industrial Production



By industry;

Production advanced at a faster pace for textiles (0.6% vs 0.1%), chemicals (3.3% vs 1.2%), communication (11.4% vs 4.7%), power equipment (5.4% vs 5.1%), and machinery (12.1% vs 10%).

On the other hand, output growth eased for non-metal minerals (7% vs 8.1%), ferrous metals (9.5% vs 10.4%), and **transport equipment (4.7% vs 7.8%)**.

<https://tradingeconomics.com/china/industrial-production#targetText=Looking%20forward%2C%20we%20estimate%20Industrial,according%20to%20our%20econometric%20models>.

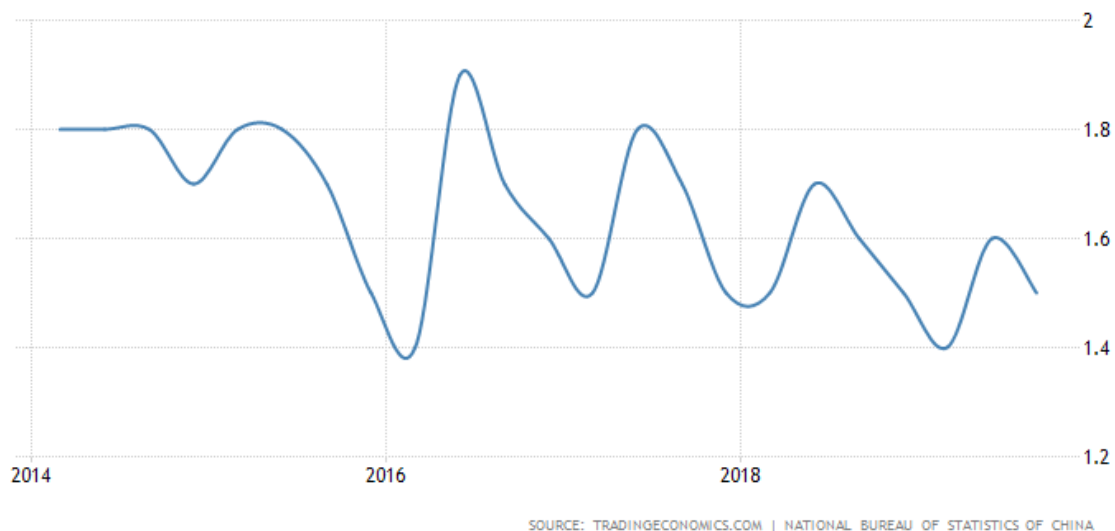
GDP (Q3)

Growth in the Chinese economy slowed further in the third quarter and on an annual basis.

GDP Quarterly Growth; Q3 GDP +1.5% versus Q2 +1.6%

The underlying pace of quarterly growth has been slowing somewhat over the last 18-months-2 years;

Chart; China – Real GDP Growth Quarterly



This is very much reflected in the slower annual GDP growth, which slowed from +6.2% in Q2 to +6% in Q3 2019;

Chart; China – Real GDP Growth Annual

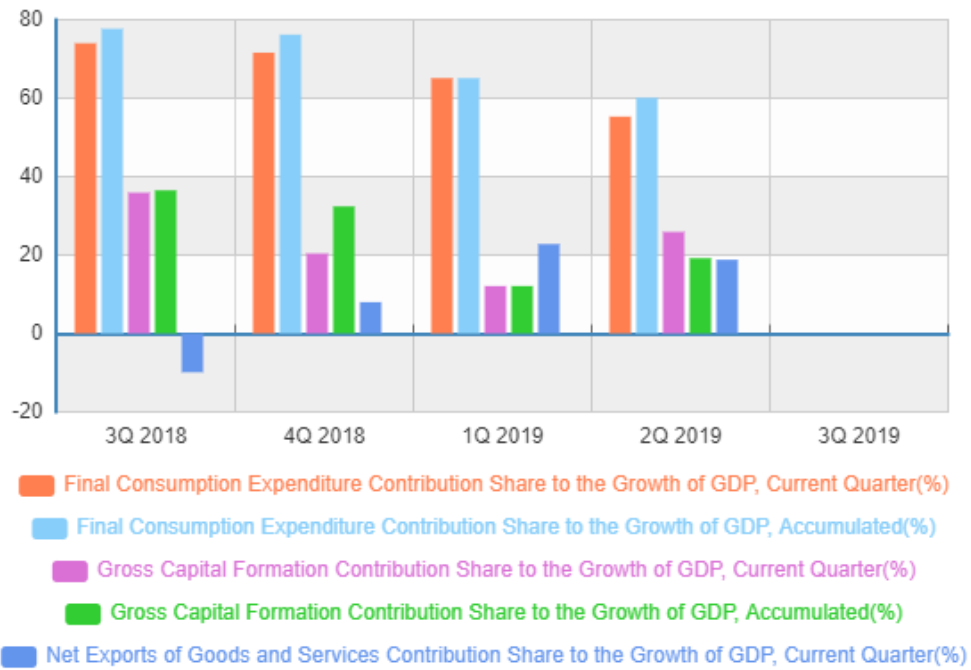


From the NBS, up to Q2 only:

Final consumption expenditure continues to account for the largest portion of GDP growth – but has been getting smaller.

Contribution from capital formation increased in Q2

The contribution from net exports has been positive over the three quarters to Q2 2019



<http://data.stats.gov.cn/english/easyquery.htm?cn=B01>

<https://tradingeconomics.com/china/gdp-growth-annual>

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Trade

US-China Trade Talks

Conflicting reports were circulating early in the week regarding the uncertainties of the first of the phased negotiations between the US and China. The Chinese Vice Premier, Lui He, made his first public remarks regarding the deal last week. The emphasis has been on negotiations on an equal basis;

China and the United States made “concrete progress” in many areas during their latest round of talks to resolve the trade war, but **negotiations must be on an equal basis**, Chinese Vice-Premier Liu He said on Saturday.

“China will work with the United States on the basis of equal and mutual respect to address each other’s core concerns.”

<https://www.scmp.com/news/china/diplomacy/article/3033674/china-us-made-concrete-progress-trade-war-deal-washington-vice>

There is still uncertainty about this phase one deal. The purchase of agriculture has been a key part of this phase (China agreeing to purchase \$40-\$50bn of US agriculture). During the week, and previously, China has stated that it would **make such purchases only according to market need**. Its not clear how the deal can resolve this.

There have also been calls from China for the removal of tariffs – but its not clear whether this has been a stipulation for further negotiations into phase two.

“We hope both sides can continue to work together to advance the negotiations and, as soon as possible, reach a phased agreement and make new progress on canceling tariffs,” Gao said.

In terms of next steps, the phase one deal will likely take 3-5 weeks to develop before both sides could sign the agreement. There are no further plans to meet, although both sides will be in communication. So far, the APEC summit in Chile 16-17 Nov remains the likely place where both Presidents Trump & Xi will sign the agreement.

The additional tariff rate (on imports from China) that was scheduled for 15 Oct did not go ahead as a part of the phase one deal.

The more difficult issues of the negotiations have been reserved for the next phase of the negotiations. This stage of the negotiation will commence after the first deal is signed.

With the details yet to be put into writing and fully agreed to (we were here back in May), the situation will likely remain tenuous.

Two weeks ago, US President Trump announced a two-week delay to the implementation of the tariff increase on \$250bn of imports from China originally planned for 1 Oct. The delay was in observance to the PRC’s 70th anniversary on 1 Oct. This increase in the tariff rate will now not go ahead on the 15 Oct.

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

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

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

US-Japan Trade Talks

On the sidelines of the UN General Assembly last month, the US and Japan signed a limited trade deal that will precede a more comprehensive deal/negotiation to commence next year.

Trump said the first-phase deal would open up Japanese markets to some \$7 billion worth of U.S. products annually, cutting Japanese tariffs on American beef, pork wheat and cheese. Although the agreement does not cover trade in autos, Abe said he had received reassurance from Trump that the United States would not impose previously threatened “Section 232” national security tariffs on Japanese car imports. [https://www.reuters.com/article/us-usa-trade-
japan/us-japan-sign-limited-trade-deal-leaving-autos-for-future-talks-
idUSKBN1WA2D8](https://www.reuters.com/article/us-usa-trade-japan/us-japan-sign-limited-trade-deal-leaving-autos-for-future-talks-
idUSKBN1WA2D8)

The current limited deal still needs to be ratified by the Japanese parliament before it is to take effect from the beginning of Jan 2020. The US Congress does not need to ratify this first more limited deal.

Details from the Congressional Research Service;

<https://crsreports.congress.gov/product/pdf/IF/IF11120#targetText=Japan's%20Diet%2C%20however%2C%20will%20have,effect%20on%20January%201%2C%202020>.

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

[https://ustr.gov/sites/default/files/2018.12.21_Summary_of_U.S.-
Japan_Negotiating_Objectives.pdf](https://ustr.gov/sites/default/files/2018.12.21_Summary_of_U.S.-
Japan_Negotiating_Objectives.pdf)

US-Europe Trade Talks

The WTO found in favour of the US in the Airbus case with a \$7.5bn award. The US has announced that from 18 Oct, tariffs on some EU imports will take effect. This was announced during the week on the Federal Register;

[https://www.federalregister.gov/documents/2019/10/18/2019-22902/technical-adjustments-
to-section-301-action-enforcement-of-us-wto-rights-in-large-civil-aircraft](https://www.federalregister.gov/documents/2019/10/18/2019-22902/technical-adjustments-
to-section-301-action-enforcement-of-us-wto-rights-in-large-civil-aircraft)

“The tariffs will be applied to a range of imports from EU Member States, with the bulk of the tariffs being applied to imports from France, Germany, Spain, and the United Kingdom – the four countries responsible for the illegal subsidies. Although USTR has the authority to apply a 100 percent tariff on

affected products, at this time the tariff increases will be limited to **10 percent on large civil aircraft and 25 percent on agricultural and other products**. The U.S. has the authority to increase the tariffs at any time, or change the products affected.” <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/october/us-wins-75-billion-award-airbus>

The counter-case where the EU is pursuing tariffs against US support for Boeing is running approx. six-months behind.

Amid the current negotiations, the EU will transition to new leadership from the start of Nov including a new lead trade negotiator;

“The decision sets the stage for a showdown between Europe and Washington just as the EU is transitioning to new leadership under incoming Commission President Ursula von der Leyen and Trade Commissioner-designate Phil Hogan. In unveiling her team on Tuesday, von der Leyen signaled **a robust approach to transatlantic disputes on trade and other issues with the Trump administration**” <https://www.politico.eu/article/trump-poised-to-hit-eu-with-billions-in-tariffs-after-airbus-win/>

There are several fronts to the US-EU trade discussions.

Airline Subsidies

The WTO has now ruled in favour of the US (confidential judgement) 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.

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#>

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 process for the latest review has been completed – with no final announcement.

“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

During the week, at her regular press conference, House Speaker Pelosi stated that the Republicans and Democrats were getting closer to 'wrapping up' changes to the USMCA.

Democrats moved at least one step forward in their ongoing negotiations on Thursday when they received a letter from Mexican President Andrés Manuel López Obrador pledging to fully implement sweeping labor forms required under the new agreement.

"There is still fluidity on the labor stuff and enforcement," Neal told reporters. "So we're looking for more assurances.

<https://www.politico.com/news/2019/10/17/pelosi-democrats-trump-administration-usmca-050128>

At this stage, there is some sign that both sides want to finalise changes by Thanksgiving. As always though “there is still a ways to go”.

Canada has yet to approve the deal. It has been reported that Canada will wait to approve the deal until after 21 Oct elections. It was originally reported that Canada would not take steps to approve the deal until the US had ratified the deal. (Source;

<https://www.reuters.com/article/us-usa-trade-usmca/pence-upbeat-that-congress-will-pass-usmca-trade-deal-this-year-idUSKBN1W22FF>)

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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