

Key Themes

PMI's out last week indicated that the global slowdown in activity continued into Sep. In many cases manufacturing activity contracted at a faster pace while there was also a notable slowdown in services activity in several countries/regions.

The US Markit manufacturing PMI was slightly more positive, but the ISM manufacturing PMI weakened, falling further into contraction and affecting a broader base of industries. The services PMI was mostly stable after a larger fall in the month prior and the ISM non-manufacturing PMI caught up this month indicating a larger degree slowdown in services growth. Regional activity was mixed. There was further deterioration in Chicago and NY business conditions while manufacturing growth in the Dallas Fed survey was only slightly slower.

Growth in non-farm payrolls slowed further and came in below consensus. This was partly offset by positive revisions in the two months prior, so the twelve-month average increased slightly.

From the household survey, the key feature was the decline in the unemployment rate. This occurred even though household employment growth had slowed in the month. The fall in the unemployment rate was mostly the function of slower growth in the labour force because there was no increase in labour force participation in the month.

Manufacturing activity weakened further in the Eurozone led by a further deterioration in German manufacturing conditions. Manufacturing in Germany recorded its worst performance since the GFC. Services activity, while remaining positive, also slowed markedly.

Across the broader Eurozone, the composite PMI slowed to just 50.1 – indicating virtually zero growth in private sector activity across the Eurozone. The EZ PPI growth for Aug slowed to zero but was led by sharper declines in energy prices. Weakness in producer prices is still evident for intermediate goods. Despite the gloomier picture painted by the PMI's, Euro area retail sales still rebounded in Aug.

Manufacturing conditions in Japan remained weaker with industrial production declining again in Aug. The decline in the Sep PMI indicates that this is not likely to improve. The services PMI also slowed. This week, the increase in consumption tax was rolled out and this has been one of several issues weighing on business confidence. One bright spot in the Japanese data was the stronger rebound in retail sales for Aug after a sharper decline in Jul. It's possible that retail purchases may have been/are being bought forward ahead of the tax increase.

The UK PMI's painted a picture of an economy mired in Brexit uncertainty with services, manufacturing and construction activity all contracting in Sep. There appear to be little momentum behind preparations for the next Brexit deadline of 31 Oct. The process and path of Brexit remains unclear. Details of the negotiations on an alternative to the Irish border

backstop indicate that a wide gap remains between the UK and the EU. The key date remains the next EU summit on the 17-18 Oct.

Finally, in Australia, the RBA lowered the cash rate again to 0.75% - mostly as a result of weaker employment data/stubbornly high spare labour market spare capacity leading to muted inflation pressure. There were several changes in the decision with a shift in focus from 'lowering unemployment' to a policy target of 'full employment'. Total private sector outstanding credit continued to grow at a slower pace and building permits continued to decline. The number of permits on a moving annual total basis as of Aug was 26% below that of a year ago. Retail sales rebounded in Aug after a small decline in Jul as tax cuts, tax refunds and interest rate cuts start to kick in.

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Personal Income, Outlays and PCE Price Index – Month (Aug)

Europe – Germany Retail Sales (Aug), Germany CPI Prelim (Sep), Eurozone and Germany Manufacturing PMI (Sep), Eurozone CPI Prelim (Sep), Germany & Eurozone Services & Composite PMI (Sep), Eurozone PPI (Aug), Eurozone Retail Sales (Aug)

Japan – Industrial Production Prelim (Aug), Retail Sales (Aug), Manufacturing & Services PMI (Sep)

United Kingdom – Brexit, PMI's – Services, Manufacturing & Construction (Sep)

Australia – Private Sector Credit (Aug), RBA Rates Decision, Building Permits (Aug), Retail Sales (Aug)

China – Caixin Manufacturing PMI (Sep)

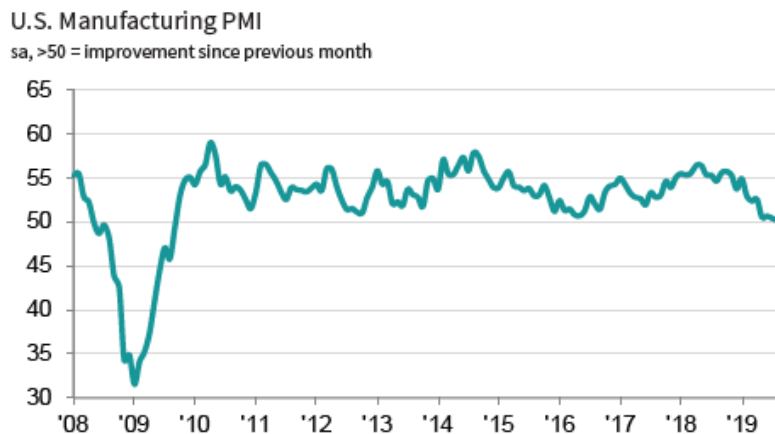
Trade – US-China Trade Negotiations, Special 2019 S.301 Review, NAFTA/USMCA, S.232 Car and Truck Imports, US-Japan Trade Talks, US-Europe Trade Talks, US-UK Trade Talks

US Data

Markit Manufacturing PMI (Sep)

The Markit manufacturing PMI final for Sep indicated that manufacturing growth had improved slightly. While growth remained low, production improved at a faster pace and new orders growth also increased.

Headline Manufacturing PMI; Sep 51.1 versus Aug 50.3



Source: IHS Markit.

Production growth picked up somewhat in Sep. This was attributed to both stronger client demand and further reductions in order backlogs.

New orders increased at a faster pace after reaching a low in Aug. Domestic demand led the growth as new export orders continued to contract.

Employment growth remained marginal.

Input cost growth increased moderately, and output charges also increased modestly.

<https://www.markiteconomics.com/Public/Home/PressRelease/a8267cc27e4f495ab9b5422d7cd606ea>

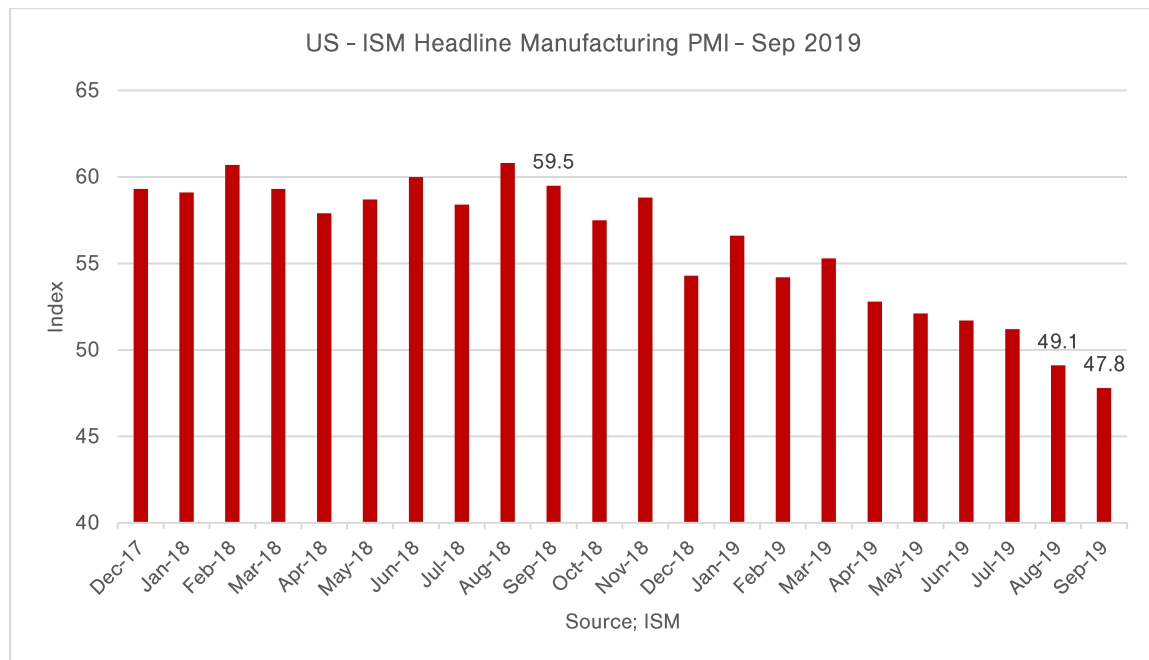
ISM Manufacturing PMI (Sep)

The headline index of manufacturing activity in the US contracted at a faster pace in Sep. Most sub-indexes continued to contract. Production contracted at a faster pace while new orders remained little changed from the month prior (still contracting). New export orders declined at a faster pace and remain firmly in contraction territory. Employment also contracted at a faster pace.

The decline was also broad across industries – with 15 of the 18 industries covered in the survey reporting contraction in Sep.

Respondent comments were mostly negative noting the weaker demand conditions/flat sales and increased uncertainty.

Headline Manufacturing PMI; Sep 47.8 versus Aug 49.1



The index of new orders was little changed, remaining at 47.3 in Sep. Underlying that change though, more firms reported a lower number of new orders. New export orders fell at a faster pace with the index falling 2.3pts to 41 (back in Jun, the new export orders index was at 50.5).

Production contracted at a faster pace, with the index falling 2.2pts to 47.3. Only three industries reported growth in production (chemicals, computer and electronics and misc. manufacturing). A larger proportion of firms reported lower production levels while the proportion of firms reporting higher or the same production levels declined.

Supporting some growth in production was the further contraction in order backlogs.

Inventories contracted at a faster pace as firms remained cautious regarding new order flows.

Employment growth also contracted a faster pace, falling by 1.1pts to 46.3. Back in Jun, the employment index was at 54.5. The internals weakened with a larger increase in the proportion of firms reporting lower employment levels. There was a lower number of firms reporting no change or higher employment.

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

Factory Orders (Aug)

Growth in new goods orders for durable goods slowed in Aug, the result of a decline in transport orders. Shipments continued to decline in Aug as a result of a fall in the value of petroleum and transport shipments. Excluding petroleum and transport, shipment growth increased at a faster pace in Aug. Unfilled orders also continued to increase slightly on a monthly basis indicating at least a small increase in activity in Aug.

New Orders

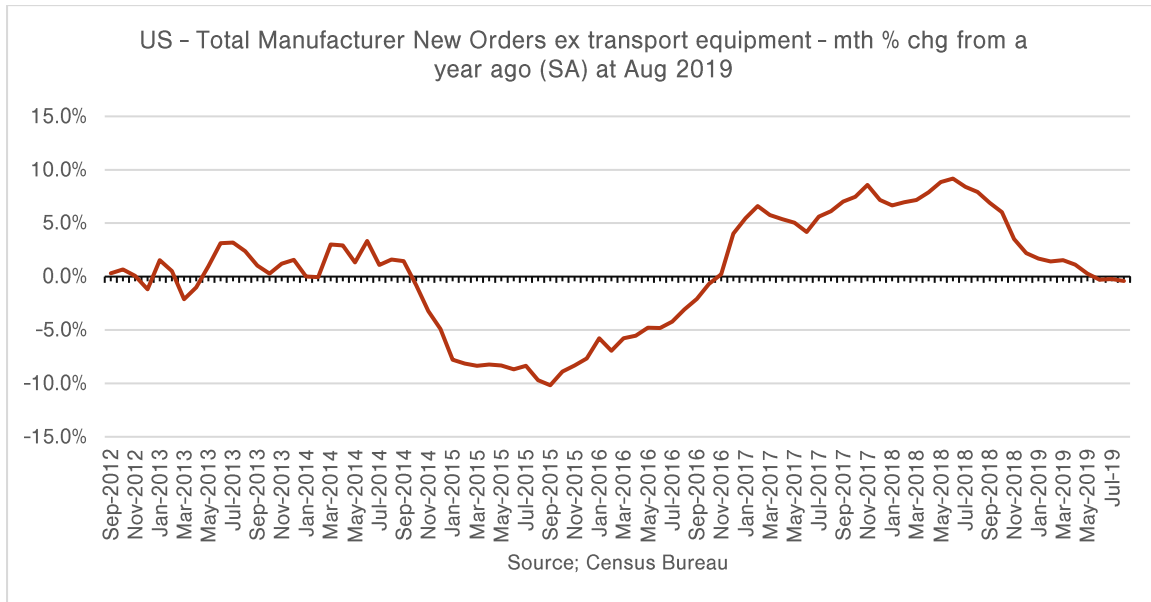
Total Manufacturing New Orders - month change; Aug -0.1% versus Jul +1.4%

The durable goods new orders increased at a slower pace than the month prior (+0.2% in Aug versus +2.1% in Jul) and this was partly due to a decline in orders for transportation equipment (-0.4% in Aug versus +7.3% in Jul).

New orders for non-durable goods industries declined in Aug by -0.3%.

Manufacturing new orders ex transports – month change; Aug 0% versus Jul +0.2%

New orders ex-transport continue to decline slightly versus a year ago;



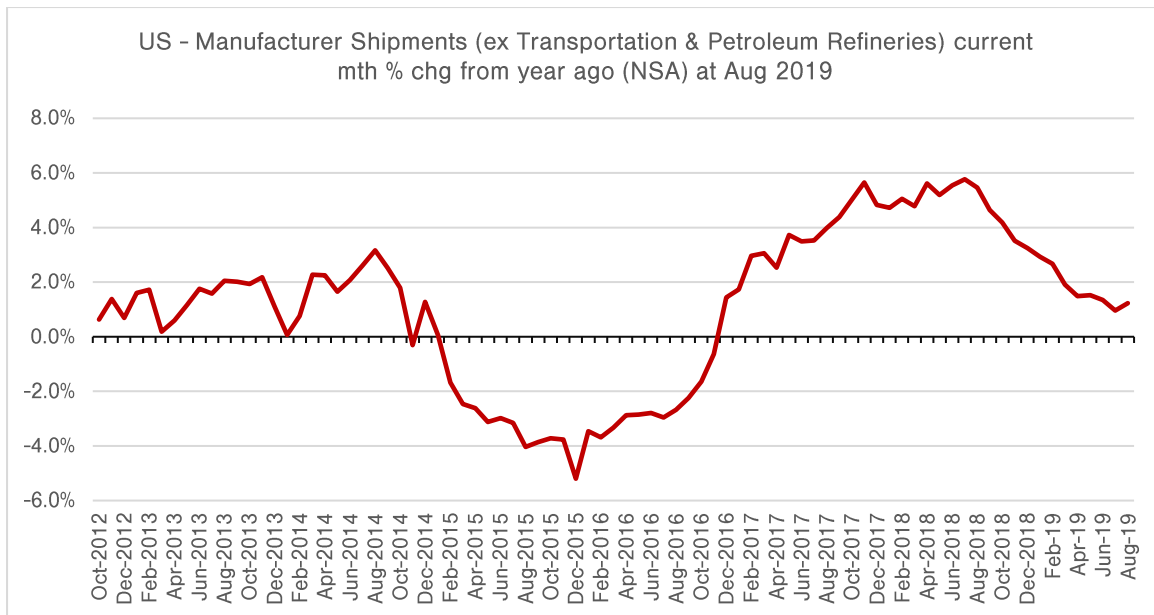
Shipments

Total Manufacturer Shipments – month change; Aug -0.1% versus Jul -0.3%

The continued decline in shipments this month was led by a fall in the non-durable goods shipments (mostly due to a decline in the value of petroleum shipments); Aug -0.3% versus Jul +0.7%.

This offset the slower growth of durable goods shipments; Aug +0.1% versus Jul -1.2%. The decline in the shipments of transportation equipment continued this month; Aug -0.7% versus Jul -1.9%.

Excluding both the value of petroleum and transport, the annual picture in underlying shipments is somewhat more positive, although has also slowed over the last year;

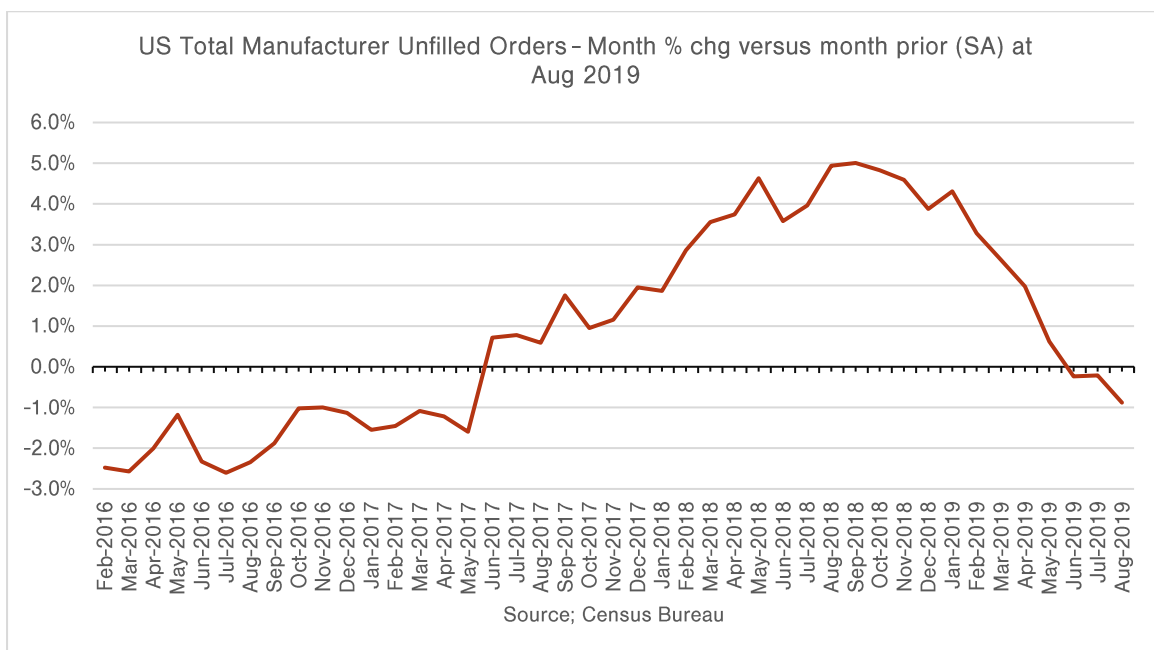


Unfilled Orders

To some degree, the slower annual growth in orders has enabled firms to reduce the value of unfilled/back orders. This has helped to support shipment growth over the YTD especially. Over the last two months though, unfilled orders have increased slightly on a monthly basis – suggesting some lift in activity.

Total manufacturer unfilled orders – month change; Aug +0.1% versus Jul +0.1%

The annual decline accelerated slightly in Aug though;

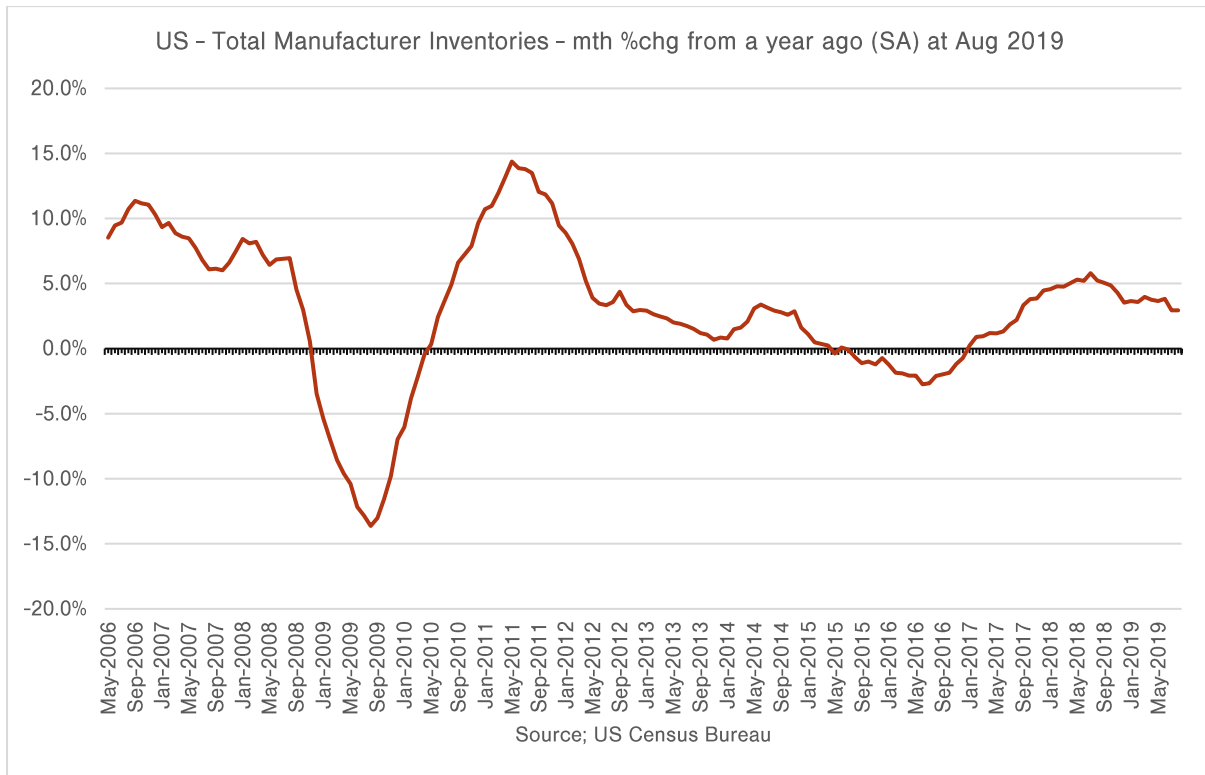


Inventory

Total manufacturer inventory growth slowed to zero from the month prior;

Total manufacturer inventory – month change; Aug 0% versus Jul +0.1%

The annual change in inventory remains higher than shipments, but has also slowed over the last year;



The inventory to shipment ratio remains elevated at this stage of the current cycle, but well below the peaks of 2009 and 2016;



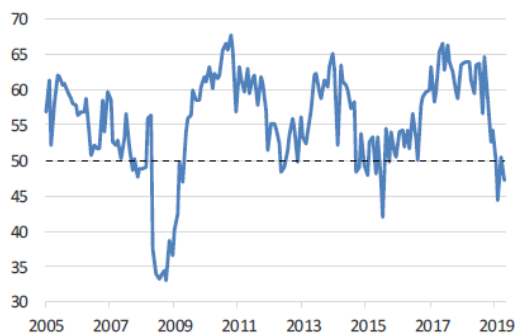
<https://www.census.gov/manufacturing/m3/index.html>

Chicago PMI (Sep)

The headline index of production activity fell back into contraction in the latest month. This was led by falls in key demand indicators of production and new orders. Business confidence also fell into contraction – reaching the lowest quarterly reading since 2009.

Headline PMI; Sep 47.1 versus Aug 50.4

Chicago Business Barometer™



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Production recorded a large decline of -7.6pts to 40.4 – which is the lowest reading since 2009. New orders also fell back into contraction with the index reaching 48.5.

Order backlogs also shifted back into decline in Sep reaching 46.8.

Inventories continued to decline with the index reaching 41.7 in Sep.

Employment continued to decline but did so at a slower pace this month.

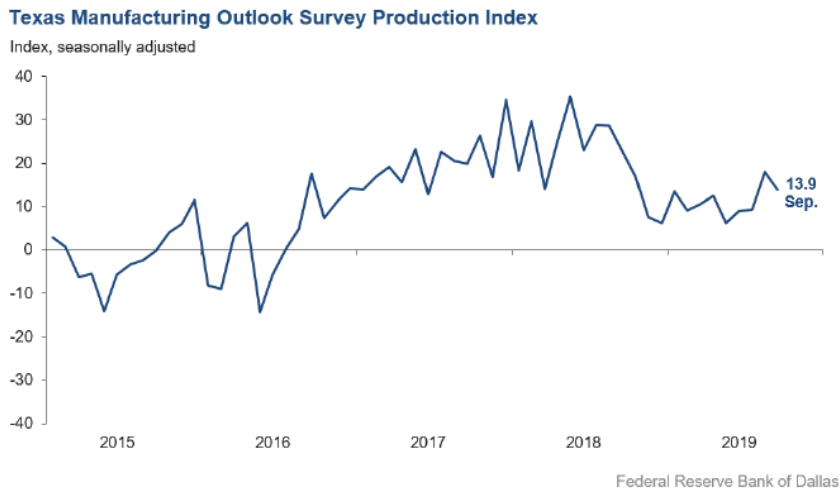
<https://www.ism-chicago.org/insidepages/reportsonbusiness/>

Dallas Fed Manufacturing Survey (Sep)

Manufacturing activity continued to expand but at a slower pace in Sep. Production, shipments and new orders growth slowed. Unfilled orders declined at a slightly faster pace. Measures of employment strengthened. Of note was a large acceleration in the prices paid for raw materials. The index of general business activity continued to expand but at a slower pace.

Headline Production Index; Sep 13.9 versus Aug 17.9

Production Index



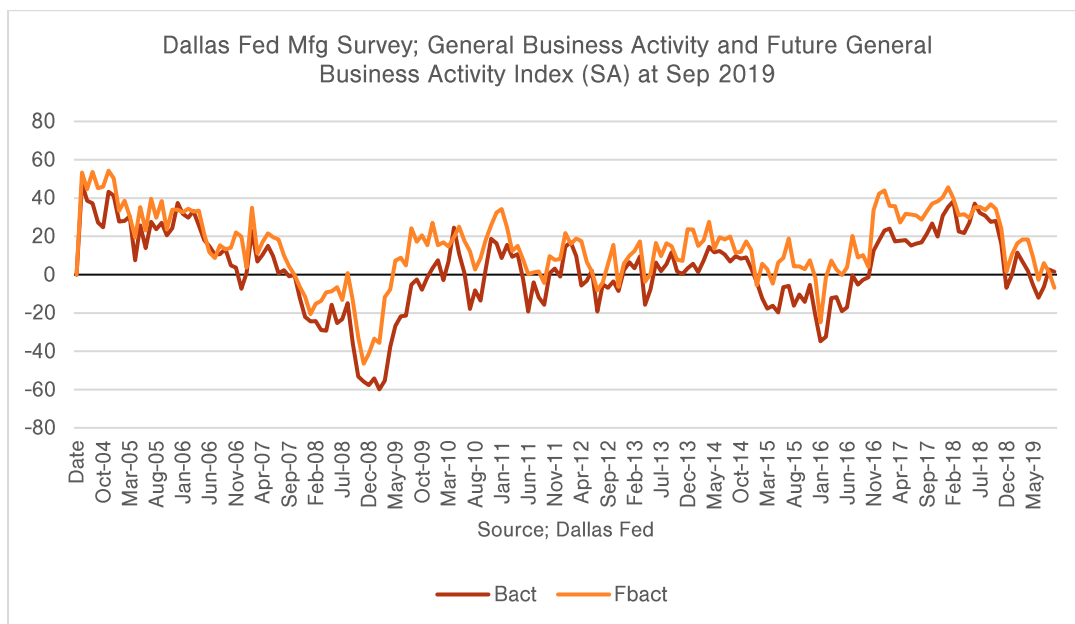
Production, shipments and new orders all continued to grow in Sep but at a slower pace.

A further, faster decline in order backlogs helped to support production growth. Finished goods inventories contracted but at a slower pace.

Employment indicators were mostly stronger. Employment increased at a much faster pace. Hours worked increased at a slightly faster pace. Growth in wages and benefits slowed though.

Of note was the much larger increase in the growth of prices paid for raw materials increasing from 9.8 in Aug to 20.3 in Sep. The Sep index though remains well below the near term 2018 peak of 53.8.

The current general business activity index remained positive, but increased at a slower pace. The future business activity index though shifted into contraction;



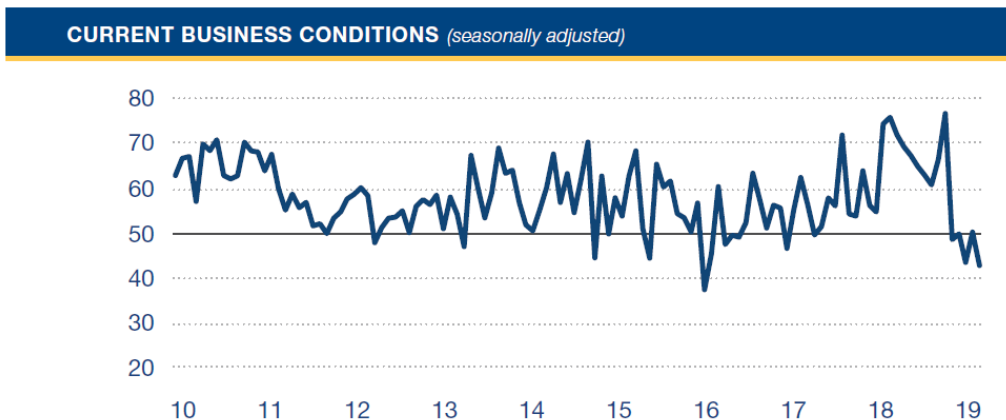
<https://www.dallasfed.org/-/media/Documents/research/surveys/tmos/2019/1909/tmos1909.pdf>

ISM NY (metro) Business Conditions (Sep)

The headline index of current business conditions in NY fell back into contraction territory in Sep. The forward-looking indicator fell over 26pts to the lowest level in over 10 and a half years.

In September, New York City purchasing managers expressed milestone pessimism about the long-term indicators, the Six-Month Outlook and Expected Revenues, according to the survey taken by the Institute for Supply Management-New York.

Current Business Conditions; Sep 42.8 versus Aug 50.3



Growth in employment slowed. The employment index fell from 69 in Aug to 52.5 in Sep.

The quantity of purchases also shifted back into negative territory, falling from 50 in Aug to 38.6 in Sep.

Prices paid increased at a faster pace with the index increasing from 66.1 in Aug to 71.4 in Sep.

The impact on revenues was negative with the index of current revenue falling from 50 in Aug to 38.1 in Sep.

Six-month outlook

The outlook for six months' time fell by 26pts in Sep, reaching a ten and a half year low.

Six-month outlook; Sep 45.2 versus Aug 71.4

SIX-MONTH OUTLOOK *(seasonally adjusted)*



The expectations for revenues in six-months fell sharply into contraction. The index fell from 82.3 in Aug to 45.2 in Sep.

http://www.ismny.com/wp-content/uploads/2019/10/2019_ISM-NewYork_ReportOnBusiness_September_v02.pdf

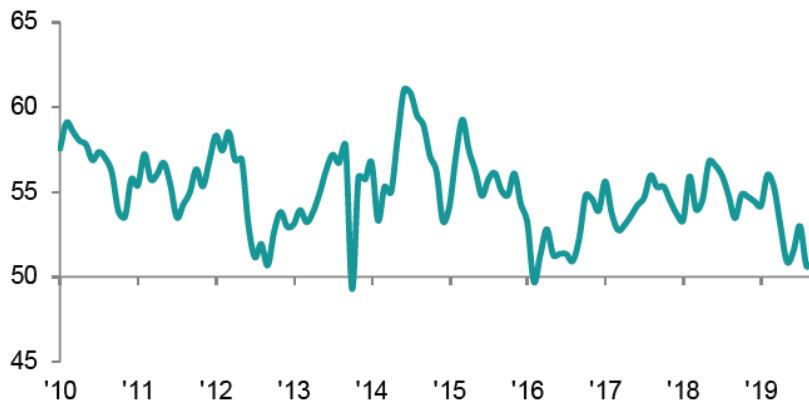
Markit Services PMI (Sep)

There was only a slight improvement in the pace of services growth in Sep after the much larger slowdown in Aug. New orders growth slowed to the lowest pace since data was collected in Oct 2009 and employment declined for the first time since early 2010.

Headline Business Activity Index; Sep 50.9 versus Aug 50.7

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

New business growth slowed to the lowest level in the series history. Firms cited weak demand and tough competition. New export orders also declined for the second month in a row.

As a result, employment declined for the first time since Feb 2010. The fall in employment was partly the result of not finding suitable candidates but also headcount reduction to reduce costs.

Input costs also declined for only the second time in the series history (ten years). Firms were then able to reduce output charges in order to remain competitive.

The outlook remained weak – also the second weakest reading since the series started.

Many firms highlighted concerns surrounding ongoing business uncertainty and gloomier global economic growth projections.

<https://www.markiteconomics.com/Public/Home/PressRelease/ca1384c7acd74adca76a0c2aa0353292>

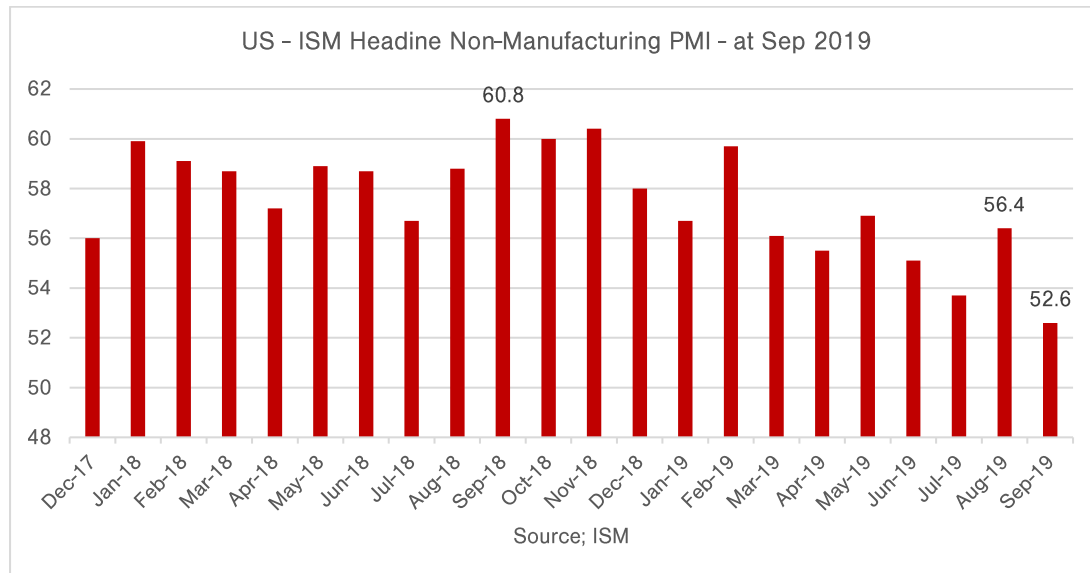
ISM Non-Manufacturing PMI (Sep)

The headline non-manufacturing PMI grew at a slower pace in Sep, reversing the stronger gains in Aug. Most of the subindices remained in expansion territory but growth slowed notably across some of the key indicators.

According to the NMI, 13 non-manufacturing industries reported growth. The non-manufacturing sector pulled back after reflecting strong growth in August. The respondents are mostly concerned about tariffs, labor resources and the direction of the economy.”

Non-Manufacturing PMI; Sep 52.6 versus Aug 56.4

This is a 3.8% decline on the month prior and it represents a 1.5 SD decline (based on the last 12 months).



Leading the slower growth in the month was the larger slowdown in business activity/production. The index fell from 61.5 in Aug to 55.2 in Sep – still expanding though. The underlying shift was a decline in the proportion of firms that reported higher production. There was a corresponding increase in the number of firms reporting no change and lower production activity.

The new orders index also indicated that growth in new work had slowed. The index fell from 60.3 in Aug to 53.7 in Sep. The underlying shift was also somewhat negative – less firms reported higher orders and a larger number of firms reported lower orders.

New export orders increased at a somewhat faster pace after recording minimal growth in Aug.

Order backlogs increased in Sep after declining in Aug.

Employment growth also slowed with the index falling from 53.1 in Aug to 50.4 in Sep. The trend over the last few months has also been more negative – there has been a shift from more firms reporting higher employment to more firms reporting lower employment – both are now almost on par. The proportion of firms that have reported no change in employment levels has remained unchanged at 60%.

Prices paid continued to increase at a faster pace with the index increasing from 58.2 in Aug to 60 in Sep.

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

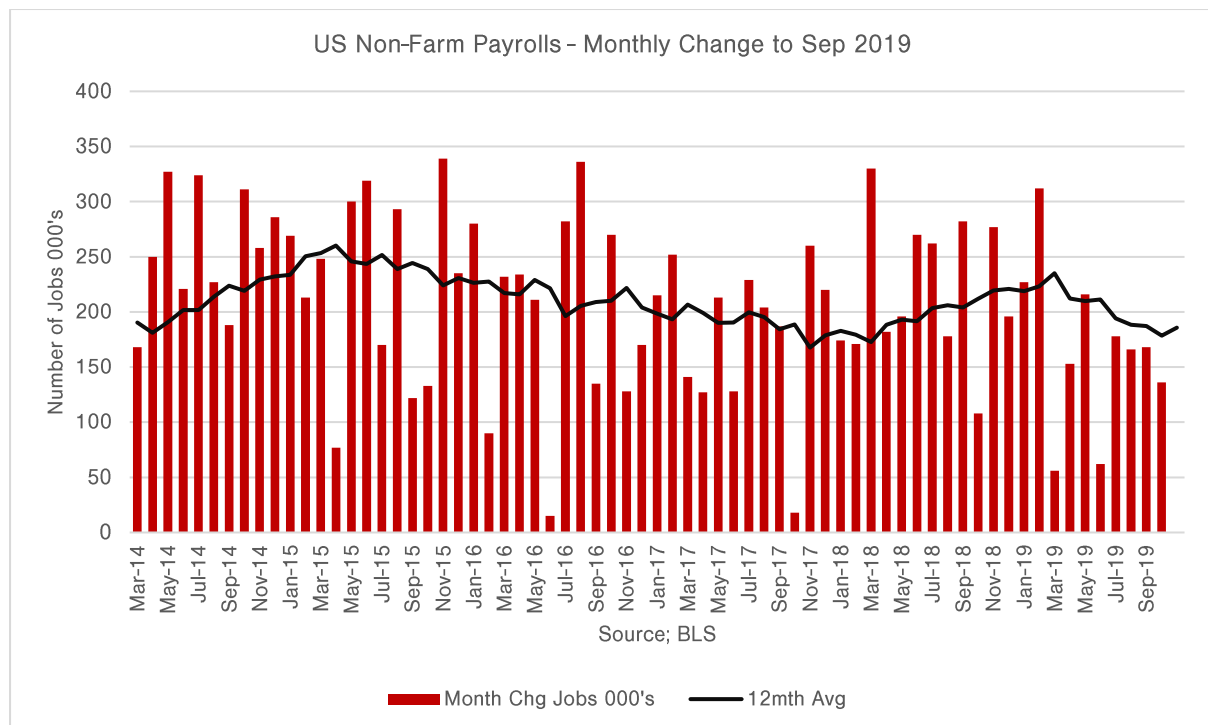
US Non-Farm Payrolls and Employment (Sep)

NONFARM PAYROLLS

The monthly change in non-farm payrolls slowed further in the latest month, while the prior two months were revised higher.

Month change; Sep +136k persons versus Aug +168k persons (revised higher from +130k persons)

The 12month average increased slightly, but the current pace of non-farm payroll growth remains below the 12-month average.



HOUSEHOLD EMPLOYMENT

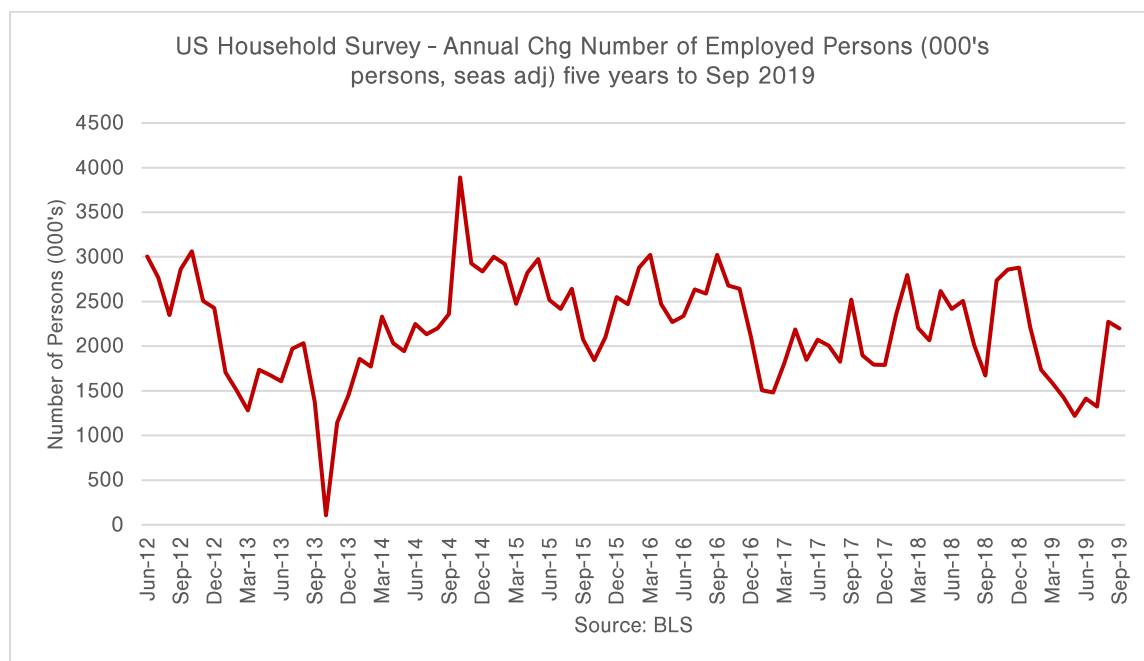
Household employment growth slowed slightly on an annual basis and also slowed on a monthly basis. The total number of unemployed persons declined at a slightly faster annual pace in Sep due to the slower growth in the labour force.

The unemployment rate declined in Sep even though employment growth also slowed in the month. This was due to the notably slower growth in the labour force given there was no change in the participation rate between Aug and Sep.

Total Employment (16yrs+)

Annual change; Sep +2,200k persons versus Aug +2,274k persons

The annual growth in total employed persons slowed only slightly in Sep after the larger increase in Aug.



The month change in employed persons slowed slightly;

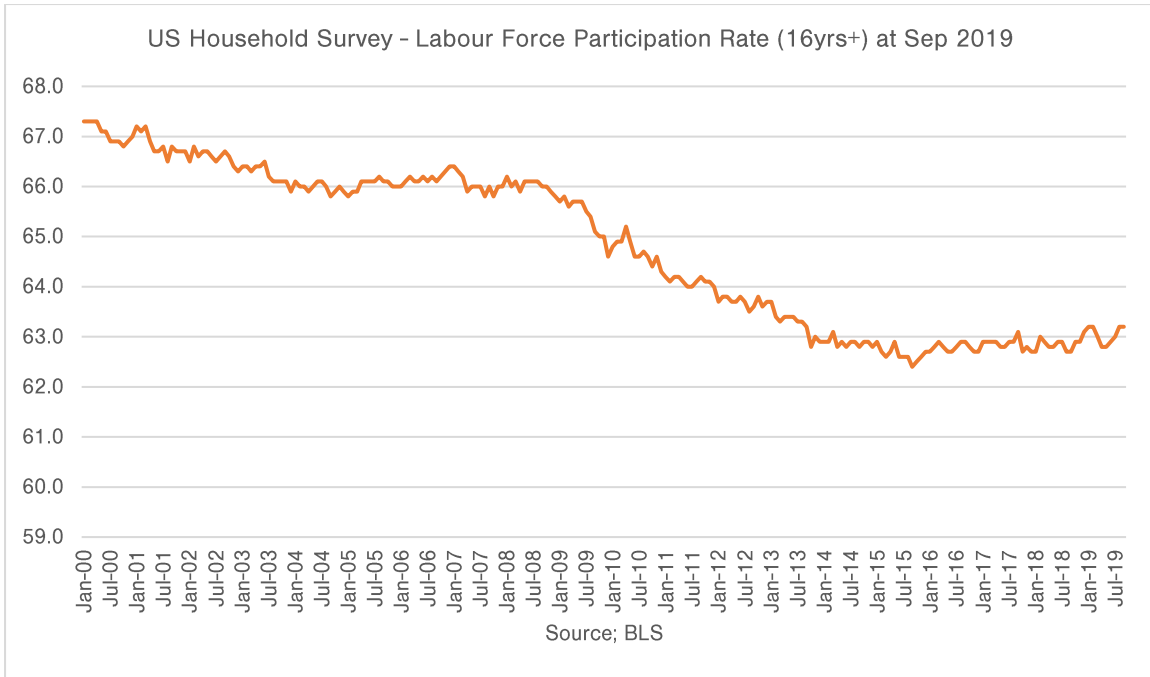
Month change; +Sep 391k persons versus Aug +590k persons

Labour Force

Annual change; Sep +1,984k persons versus Aug +2,120k persons

The annual labour force growth slowed despite the annual change in participation remaining constant at +0.5% pts. The estimated change in the labour force due to population growth slowed in Sep.

Participation increased from 62.7% a year ago to 63.2% in Sep;



Importantly, the annual growth in the total labour force remained below that of total employment and, as a result, the decline in total unemployed persons increased slightly.

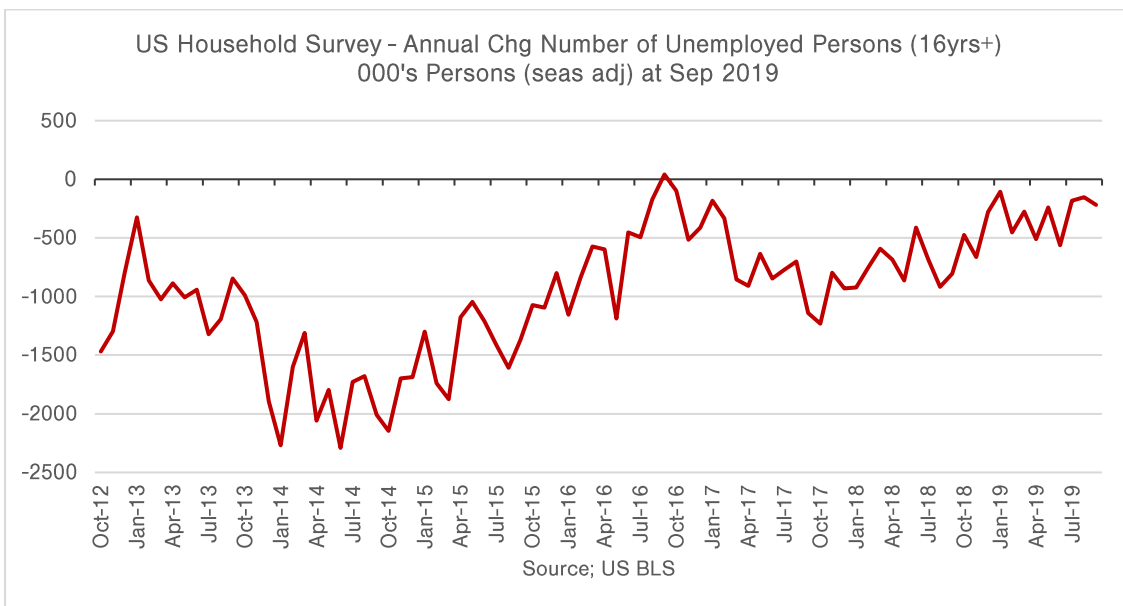
The monthly growth in the labour force slowed notably though versus the month prior;

Month change; Sep +117k persons versus Aug +571k persons

The reason for the slower growth was that there was no increase in participation that added to the growth of the labour force. This much slower growth in the labour force was the main reason why the unemployment rate declined.

Total Unemployment

Annual change; Sep -271k persons versus Aug -153k persons



On a monthly basis, the decline in total unemployed persons also accelerated;

Month change; Sep -275k persons versus Aug -19k persons

The unemployment rate declined from 3.7% in Aug to 3.52% in Sep. The main reason for that was that the growth in the labour force slowed faster than the growth in total employment versus the month prior.

Summary – 16yrs+ Age Group

On an annual basis, employment growth has remained higher than what both population and participation have added to the labour force. Annual employment growth was little changed from the prior month while growth in the labour force slowed – the relatively high contribution from the increase in participation was offset by a lower contribution from the (estimated) population growth. As a result, total unemployed persons declined at a slightly faster pace.

On a monthly basis, employment growth slowed but the growth in total labour force slowed faster. The slower labour force growth was the result of no change (no increase) in participation. As a result, there was a relatively large decline in total unemployed persons and the unemployment rate declined.

	000's people (16yrs+)	Annual chg - SEP 2019	Monthly Chg - SEP
The estimated change in the Labour Force due to pop growth (1)		686	117
How many jobs available for them? (employment growth) (2)		2,200	391
Difference (if negative, then employment growing faster than what pop adds to the labour force) (3)		- 1,514	-274
Change labour force participation - (if positive, people entering/returning to the labour force) (4)		1,298	0
The remainder is the chg in total unemployed persons (declining if negative) (4) plus (3)		- 216	-274
Two views of annual growth in the labour force;			
Total employed persons plus total unemployed persons		1,984	117
Est of what population adds to the labor force plus change in participation		1,984	117
BLS reported change in the size of the labour force		1,984	117

Summary – 25-54yrs Age Group

On an annual basis, there has been an acceleration (improvement) in total employment growth over the last two months. This corresponds to a larger increase in participation which has been the main driver of growth in total labour force size. So, despite the acceleration in employment growth, the increase in participation has meant that the annual decline in unemployment has continued to slow.

On a monthly basis, even though employment growth slowed after the prior month increase, the labour force growth slowed by a much faster pace. Growth in total labour force for Sep was the result of no increase in (or contribution from) participation. As a result, total unemployed persons declined at a faster pace.

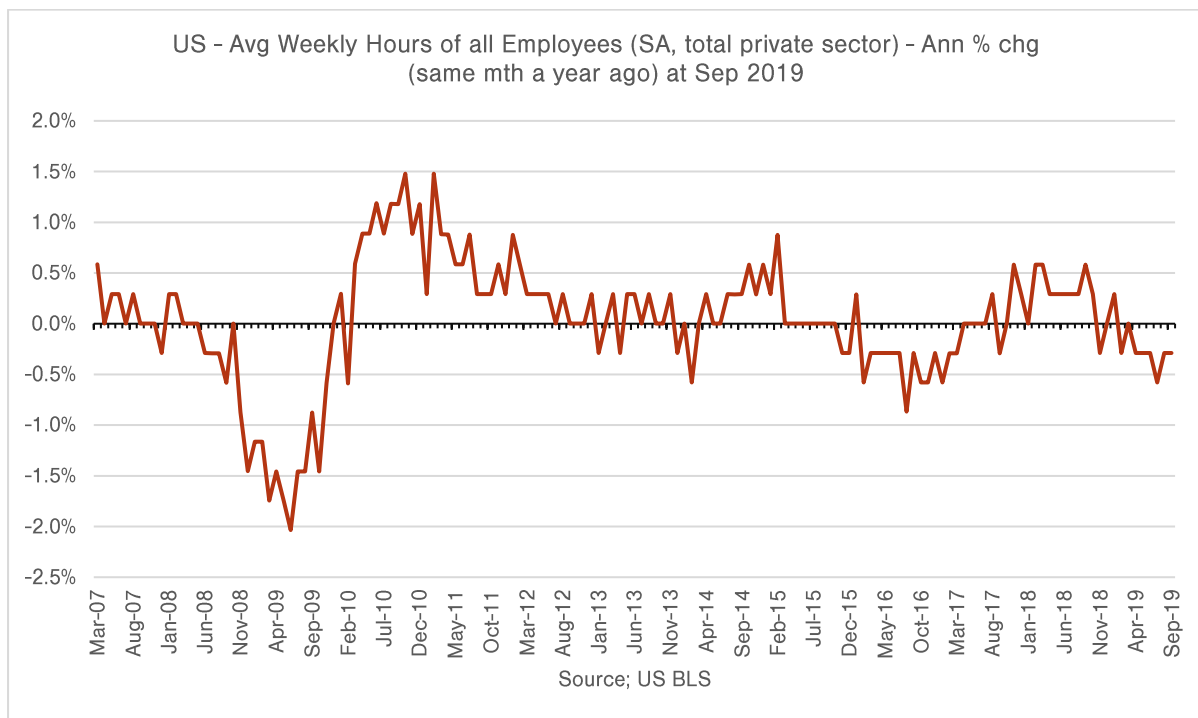
	000's people (25-54yrs)	Annual Chg - SEP 2019	Monthly Chg - SEP
The estimated change in the Labour Force due to pop growth (1)		-221.96	27
How many jobs available for them? (employment growth) (2)		818.00	109
Difference (if negative, then employment growing faster than what pop adds to the labour force) (3)		-1039.96	-82
Change labour force participation - (if positive, people entering/returning to the labour force) (4)		1009.96	0
The remainder is the chg in total unemployed persons (declining if negative) (4) plus (3)		-30.00	-82
Two views of annual growth in the labour force;			
Total employed persons plus total unemployed persons		788.00	27
Est of what population adds to the labor force plus change in participation		788.00	27
BLS reported change in the size of the labour force		788.00	27

AVERAGE WEEKLY HOURS

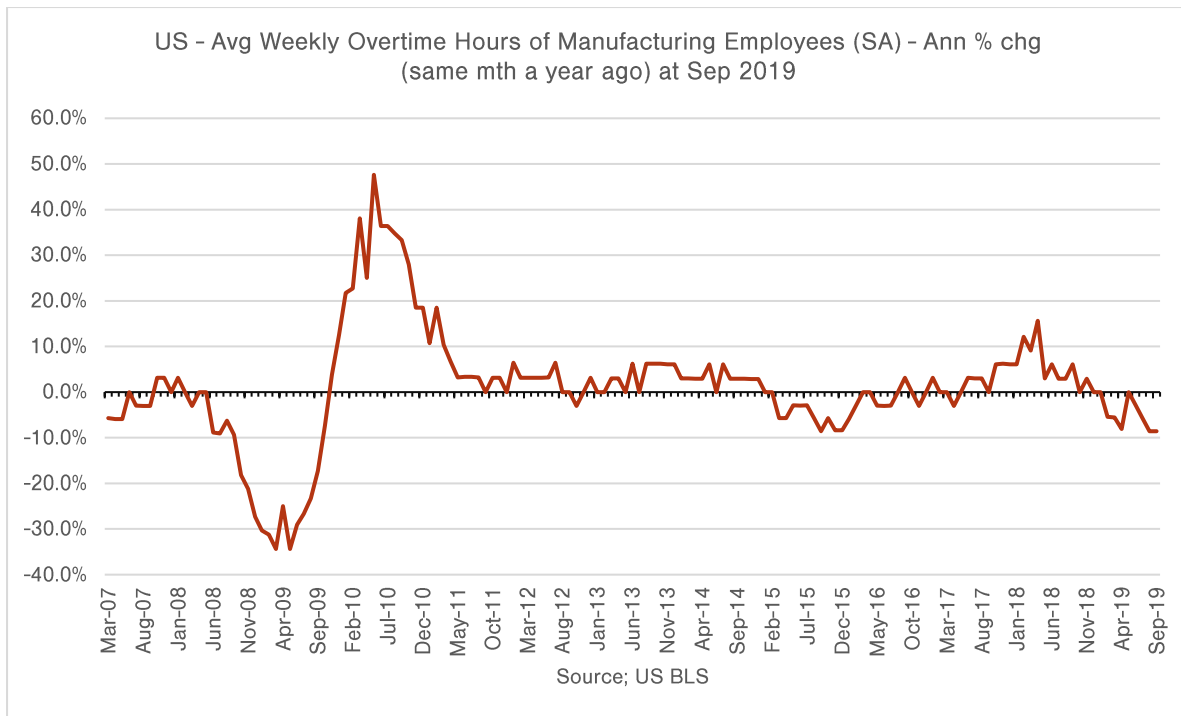
There was little change in the pace of decline of average weekly hours.

Average weekly hours all employees private sector – annual change; Sep -0.3% versus Aug -0.3%

There was no change in average hours between Aug and Sep.



The annual decline in the average weekly overtime hours of manufacturing employees was also unchanged at -8.6% in Sep. Again, there was no change in the average overtime hours between Aug and Sep.



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

Challenger Job Cut Report (Sep)

Job cut announcements declined in Sep compared to the prior month and compared to a year ago. On a YTD basis though, total job cut announcements remain higher than a year ago. Hiring announcements remain well ahead of a year ago.

Job Cut Announcements

Month change; Sep 41.6k persons versus Aug 53.5k persons

The job cut announcements in Sep were 25% below the same month a year ago.

Quarter change; Q3 +134k persons versus Q2 +140k persons

The job cut announcements in Q3 2019 were 10% ahead of a year ago.

On a YTD basis, the number of job cut announcements is running +27% ahead of a year ago;

YTD change; 2019 YTD 465k persons versus 2018 YTD 366k persons

To some degree, there have been off-setting job hire announcements. In the YTD the number of announcements is +976k persons, which is well above the YTD job cut announcements. Much of that total is for retail jobs +714k retail job hire announcements.

Summary of YTD Job Cut Announcements and Job Hire Announcements by Industry

	Announced Job Cuts			Offsetting Hiring Announcements
	SEP 2018 YTD	SEP YTD 2019	DIFF	SEP YTD 2019
Aerospace/Defense	4,950	5,953	1,003	4,102
Apparel	1,024	1,606	582	1,295
Automotive	13,963	41,060	27,097	22,468
Chemical	819	963	144	10
Construction	1,615	3,325	1,710	5,800
Consumer Products	28,489	13,772	-14,717	2,000
Education	8,716	14,628	5,912	286
Electronics	10,475	1,795	-8,680	1147
Energy	6,567	22,767	16,200	271
Entertainment/Leisure	8,599	10,861	2,262	2940
Financial	38,935	19,417	-19,518	2,020
FinTech	0	1,501	1,501	3,855
Food	10,089	20,036	9,947	2,286
Government	2,116	12,367	10,251	0
Health Care/Products	32,997	31,796	-1,201	9525
Industrial Goods	20,699	60,943	40,244	4,720
Insurance	3,973	2,880	-1,093	3,510
Legal	124	0	-124	0
Media	8,480	8,478	-2	622
Mining	395	4,512	4,117	490
Non-Profit	1,999	2,753	754	0
Pharmaceutical	7,638	8,388	750	3889
Real Estate	357	2,046	1,689	0
Retail	85,385	65,358	-20,027	714,590
Services	26,455	19,769	-6,686	5006
Technology	9,485	40,257	30,772	15,891
Telecommunications	12,902	14,731	1,829	1,650
Transportation	15,620	24,034	8,414	161,503
Utility	2,309	1,163	-1,146	250
Warehousing	883	7,710	6,827	6,414
YTD Total	366,058	464,869	27.0%	976,540

<http://www.challengergray.com/press/press-releases/2019-september-challenger-report-announcements-fall-22-august>

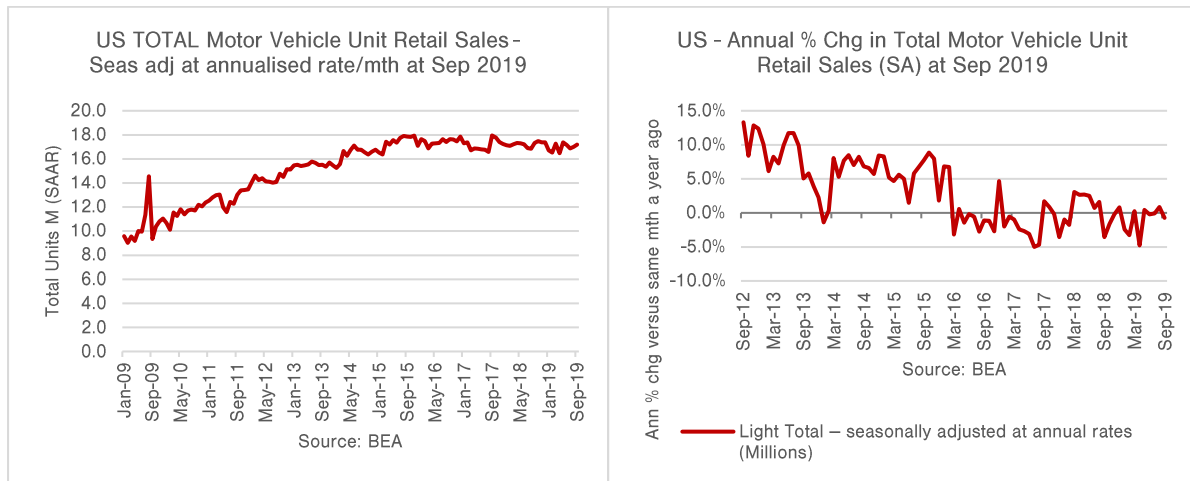
Motor Vehicle Sales (Sep)

On a seasonally adjusted basis, total motor vehicle sales increased in Sep. This was led by growth in sales of both autos and light trucks – this will likely be positive for retail sales data. On an annual basis, total motor vehicle sales remain below the same time a year ago.

Total Motor Vehicle Sales

Month change (SAAR); Sep 17.2m (+1.1%) versus Aug 17m (+0.8%)

Annual change (SAAR); Sep -0.7% versus Aug +0.9%

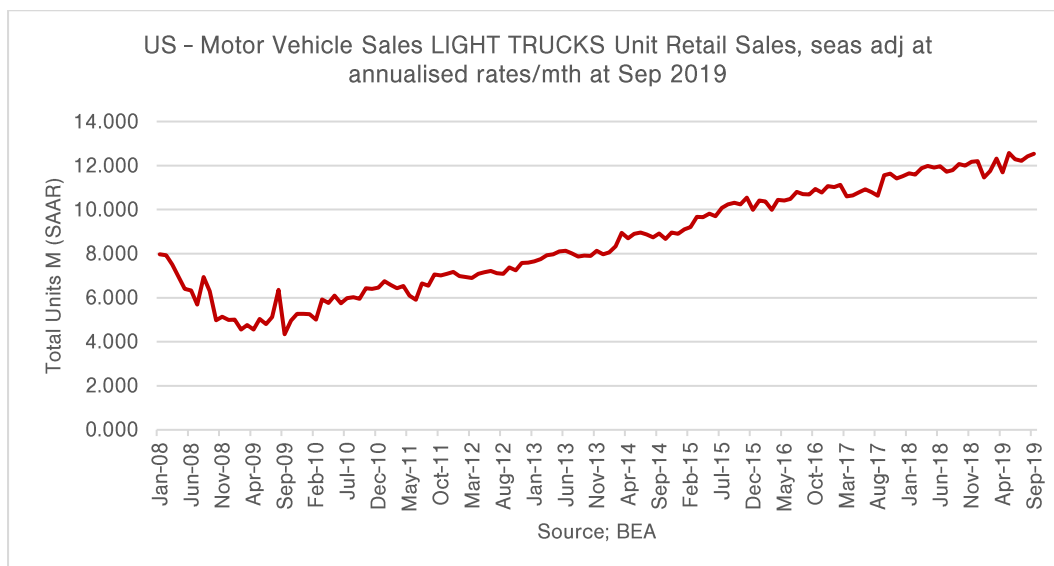


The annual growth in total motor vehicle unit sales has remained relatively weak over the last few years. This has been the result of faster growth in light trucks (SUV's) and falling auto sales.

Light Truck (SUV's) Retail Unit Sales

Month change (SAAR); Sep 12.5m units (+1%) versus Aug 12.4m units (+1.6%)

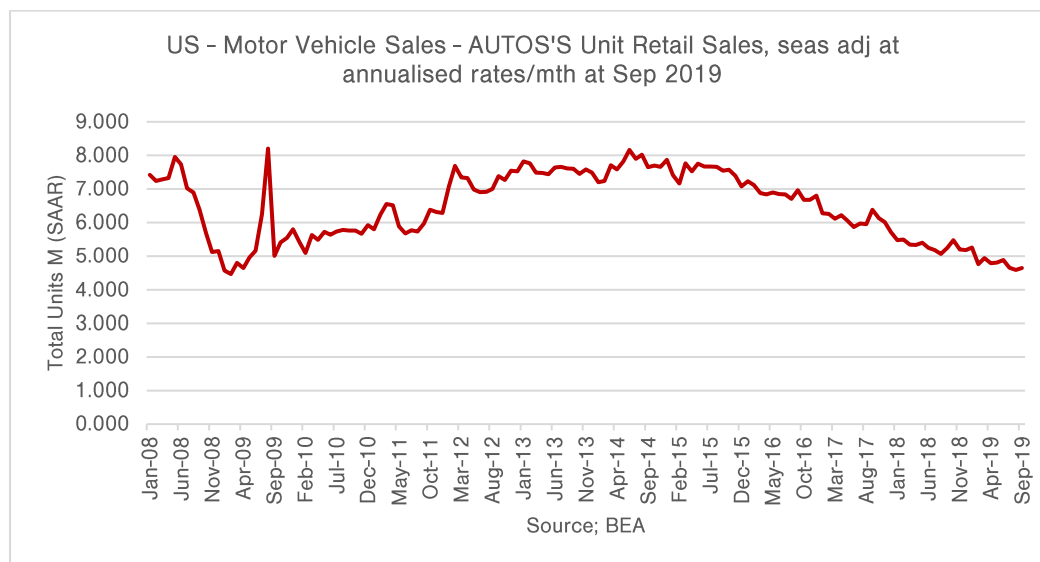
Annual change (SAAR); Sep +4% versus Aug +5%



Auto Unit Retail Sales

Month change (SAAR); Sep 4.64m units (+1.3%) versus Aug 4.58m units (-1.5%)

Annual change (SAAR); Sep -11.4% versus Aug -9.5%



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

From the 27 Sep 2019 -

Personal Income, Outlays and PCE Price Index – Month (Aug)

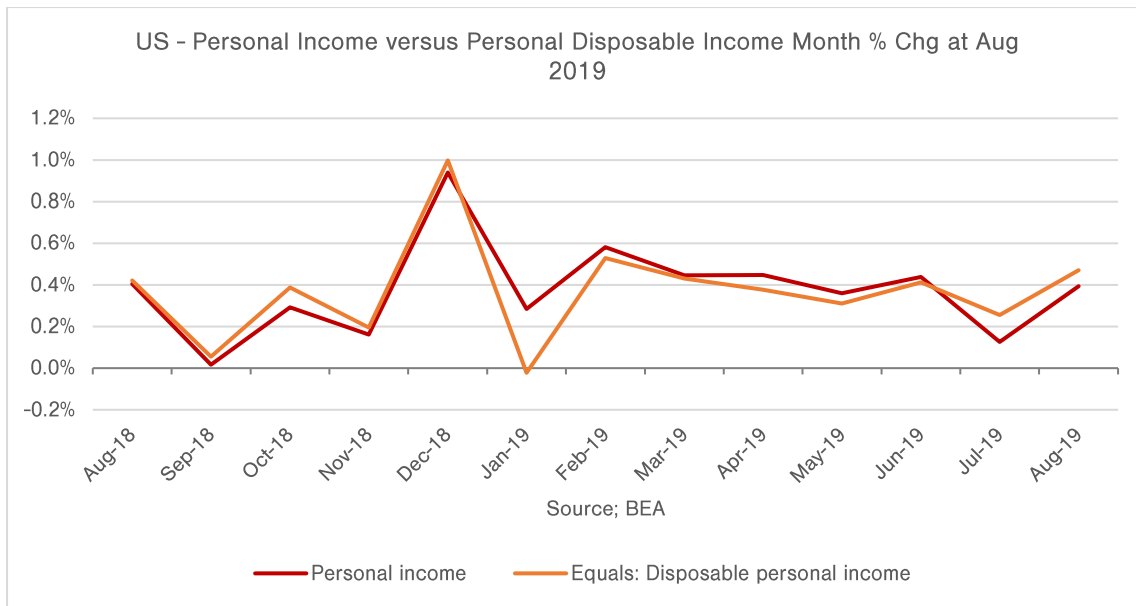
Personal Income

The growth in personal income grew at a faster pace in Aug after slowing Jul;

Month change; Aug +0.4% versus Jul +0.1%

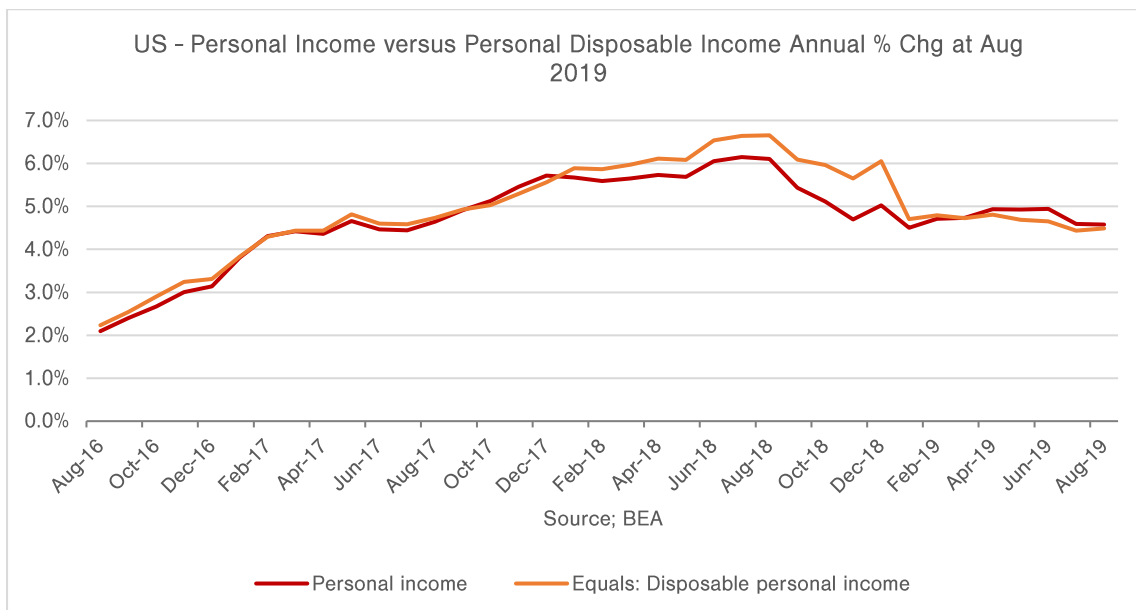
The faster growth was mostly the result of faster growth in wages and salaries in the month (+0.6% in Aug versus +0.2% in Jul). Most other areas of personal income grew at a similar pace as the month prior.

Also helping to boost personal income was a further decline in personal current taxes. As a result, personal disposable income grew at a faster pace; Aug +0.5% versus Jul +0.3%.



In real terms, personal income growth accelerated in Aug to +0.44% from virtually no growth in Jul.

The annual change in incomes has slowed over the last year but growth remains well above that of three years ago;



Personal Consumption Expenditure

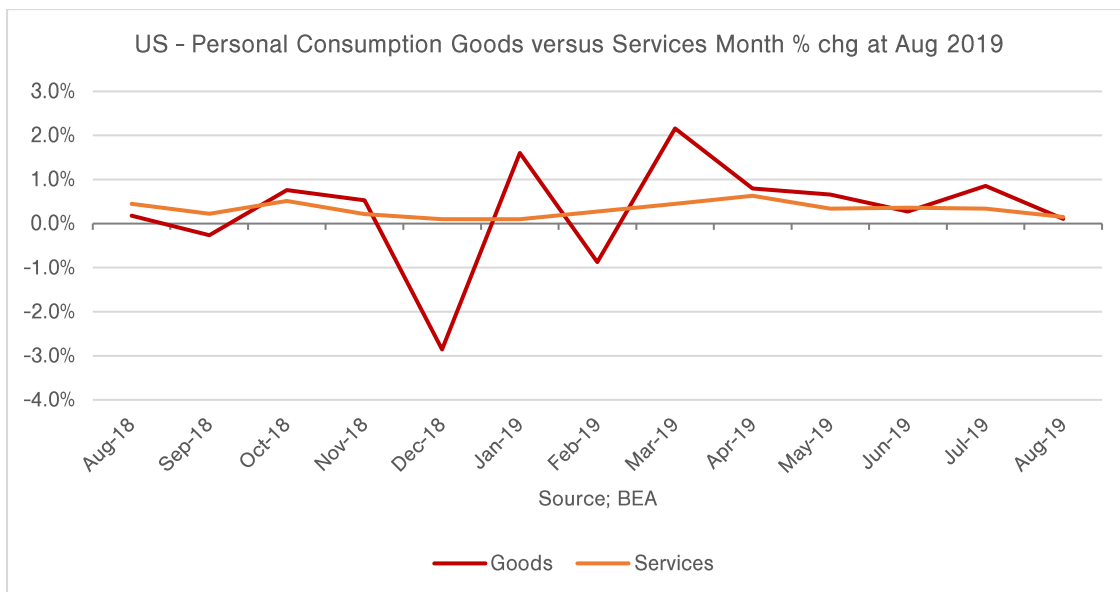
Consumption expenditure growth slowed in Aug;

Month change; Aug +0.1% versus Jul +0.5%

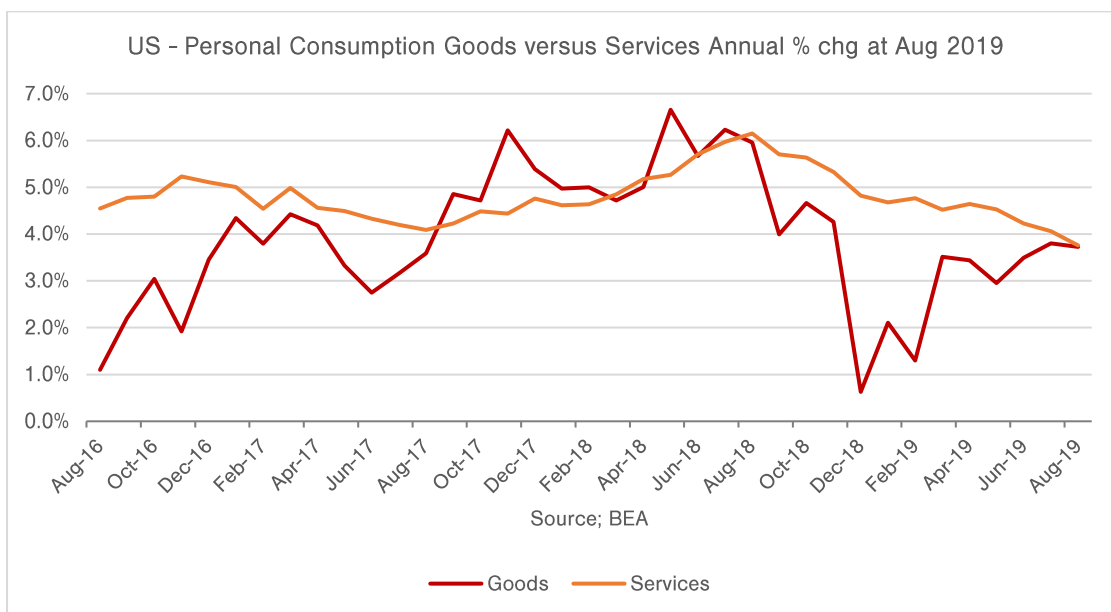
The slower growth in the month was the result of both goods and services growth slowing;

Outlays on goods slowed from +0.85% in Jul to +0.1% in Aug. Durable goods growth increased at a faster pace, while non-durable goods consumption declined versus the month prior.

The growth in services consumption also slowed from +0.34% in Jul to +0.15% in Aug.



On an annual basis, growth in the consumption of goods has rebounded throughout 2019 after slowing in the last half of 2018. Growth in services has continued to slow;

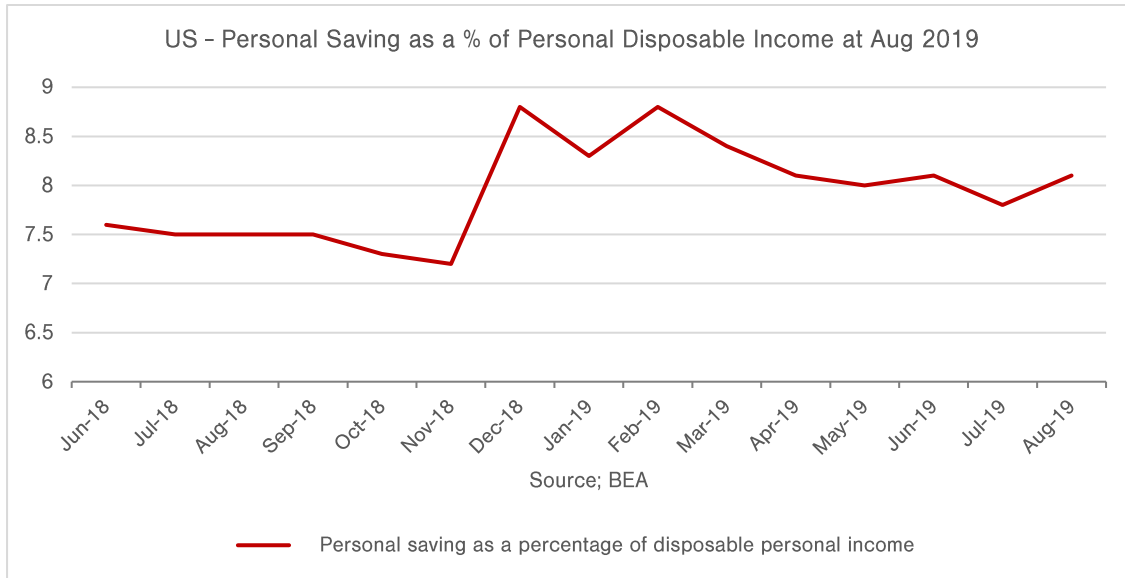


Personal Saving

As a result of the faster growth in income and the slower growth in consumption, personal savings increased in Aug.

Month change; Aug +4% versus Jul -2.5%

Personal saving as a percentage of disposable personal income increased this month after falling steadily throughout the YTD. The savings rate remains higher than a year ago;



Personal Consumption Expenditure – Price Indexes

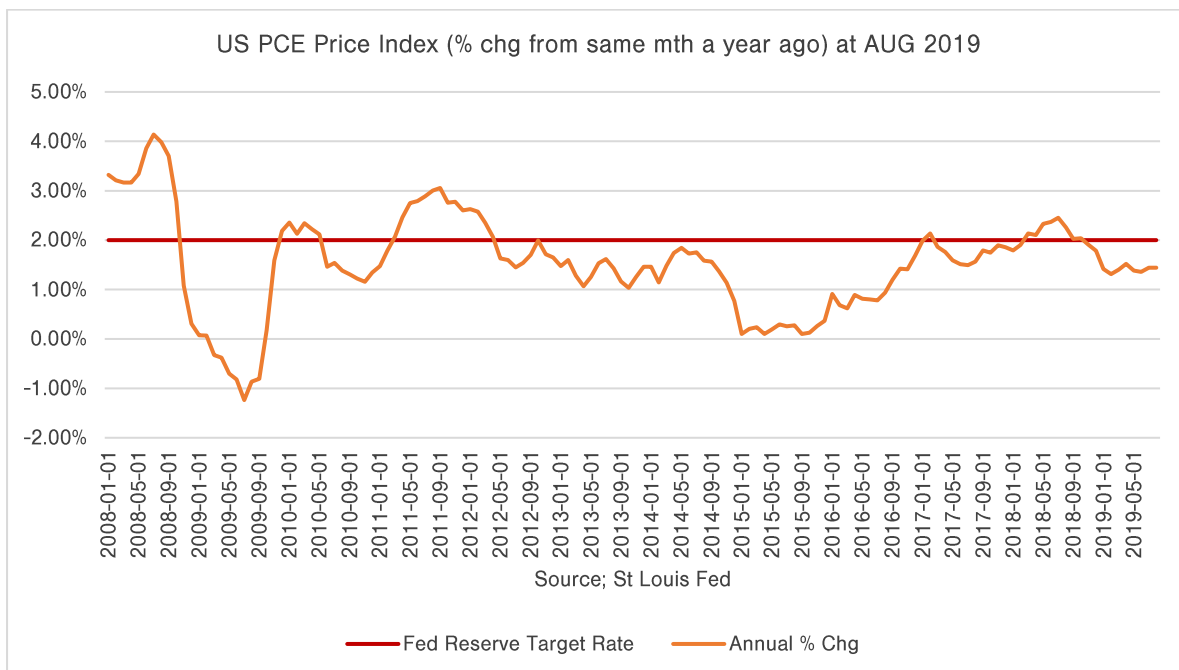
The PCE price index is the preferred measures of inflation used by the US Fed.

The annual change in the headline PCE price index was unchanged in Aug at +1.4%. The monthly change was virtually zero. This was led by a decline in goods prices (non-durable goods) while services prices grew at a slower pace.

The main measure of underlying annual price growth accelerated in Aug.

Headline PCE Price Index – annual change; Aug +1.44% versus Jul +1.44%.

The headline growth remains well below the 2% symmetric target;



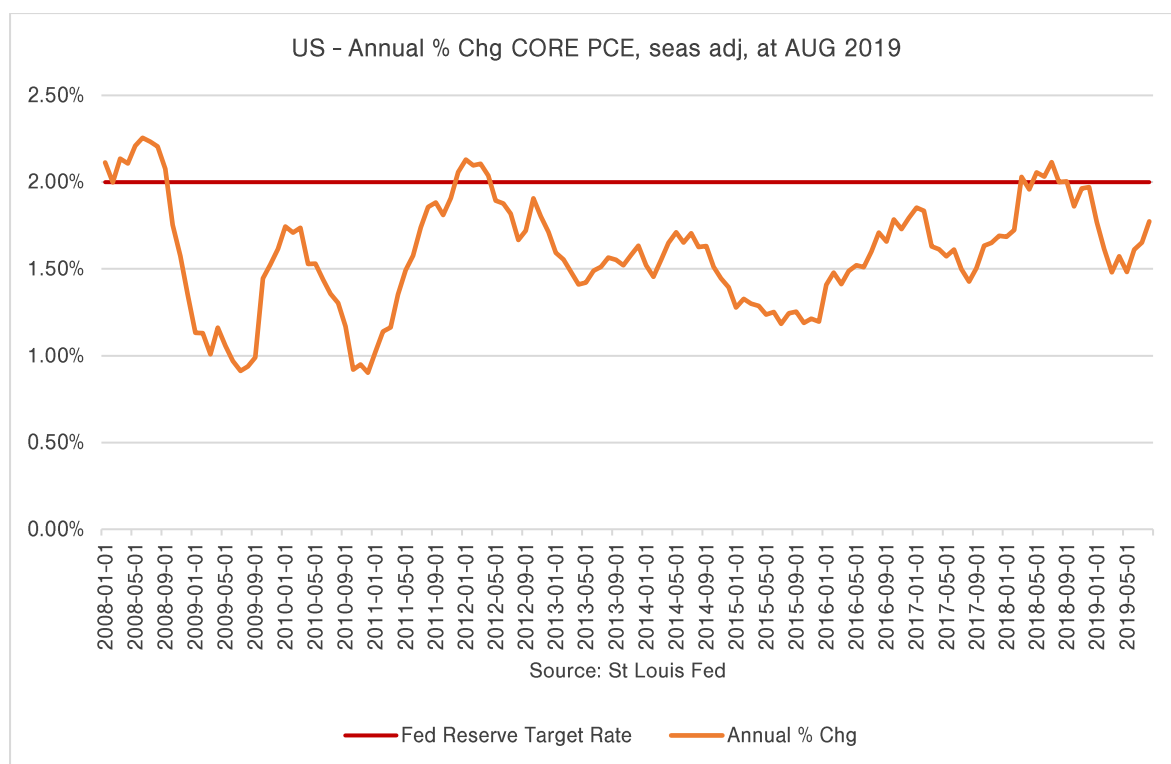
Food prices declined at a faster pace in the month (-0.18%) and annual growth slowed to +0.8%.

Gasoline and other energy goods declined at a much faster pace in the month of -3.2% in Aug versus +2.4% in Jul. The annual decline in energy prices accelerated to -7% in Aug.

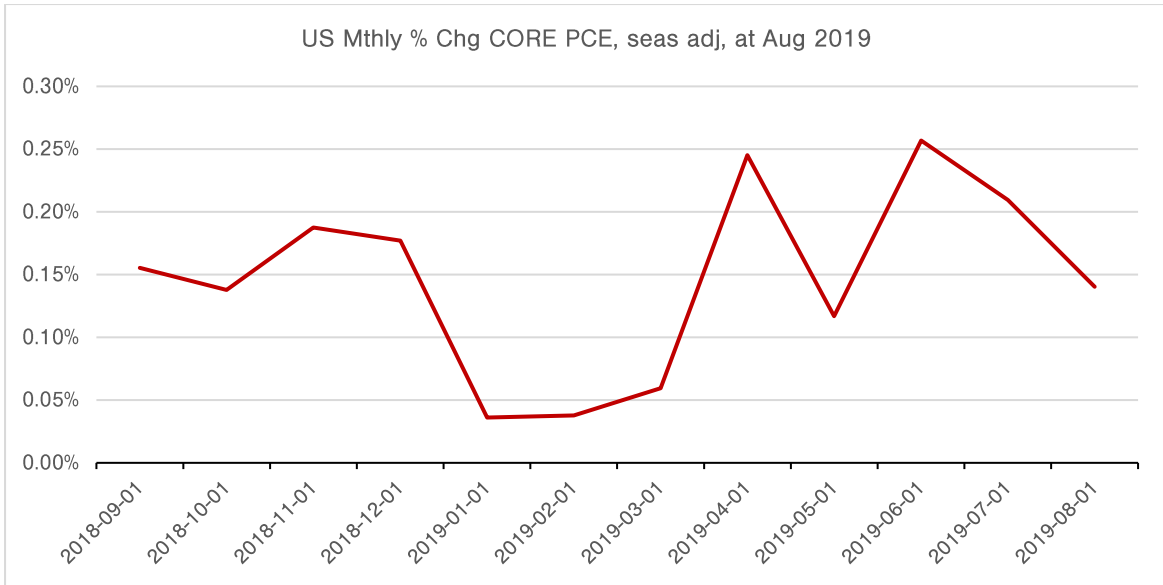
Services prices grew at a slightly slower pace in the month while the annual growth remained unchanged at 2.3%.

Removing the downward pressure from food and energy prices, shows that growth in the core PCE price index (ex food & energy) accelerated in Aug;

Core PCE – annual change: Aug +1.8% versus Jul +1.7%



Breaking down the current annual growth shows that much of the price acceleration has occurred in 2019 so far – and that the monthly growth has started to slow again;



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

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Europe

Germany Retail Sales - Provisional (Aug)

Provisional data indicated that retail sales increased in both real and nominal terms in Aug.

Real Retail Sales

Month change; Aug +0.5%

Annual change; Aug +3.2%

https://www.destatis.de/EN/Press/2019/09/PE19_385_45212.html

Germany CPI - Prelim (Sep)

The prelim CPI data indicated that headline consumer price growth slowed further in Sep.

Headline CPI; Sep +1.2% versus Aug +1.4%

Contributing to the slower annual growth in consumer prices was goods, specifically, energy prices. Prices for services increased at a slightly faster pace in Sep.

Goods CPI; Sep +0.6% versus Aug +1.3%

Goods prices including energy declined by -1.1% in Sep versus +0.6% in Aug. The annual growth in food prices also slowed; Sep +1.3% versus Aug +2.7%

Services CPI; Sep +1.8% versus Aug +1.6%

https://www.destatis.de/EN/Press/2019/09/PE19_388_611.html

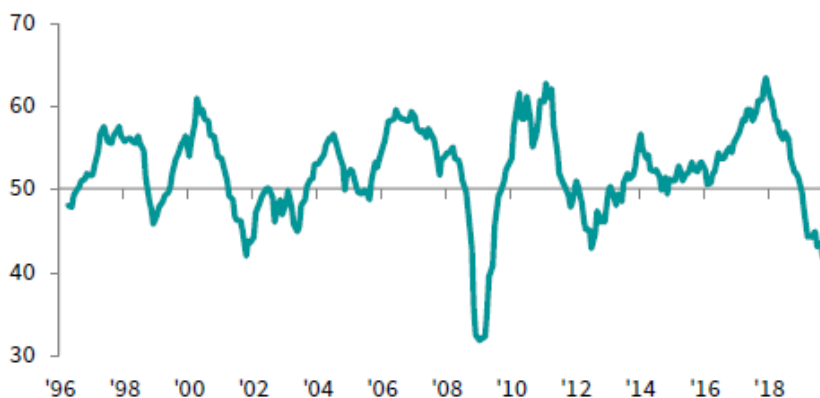
Germany Manufacturing PMI Final (Sep)

The Sep manufacturing PMI indicated a further deterioration in conditions in Germany – recording its worst performance since the GFC. Output and new orders continued to decline, and employment fell to largest degree in over ten years.

Headline Manufacturing PMI; Sep 41.7 versus Aug 43.5

Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit

Output fell for the eighth month in a row and that decline accelerated in Sep.

New orders also declined at an accelerated pace – falling to the greatest extent since Apr 2009. New export orders declined at the same pace in Sep as in Aug.

Firms that reported a decrease in new business commented on clients postponing, scaling down and even cancelling orders, often due to uncertainty about the outlook.

Firms reduced employment at the fastest pace since Jan 2010.

Inventory buying continued to fall and fell sharply in Sep. As a result of the lower demand for inputs, prices for inputs declined again, albeit at a slower pace.

Firms continued to discount selling prices with output charges falling at the most marked pace in over 3 years.

Firms remained pessimistic about the outlook, albeit less so than in Aug.

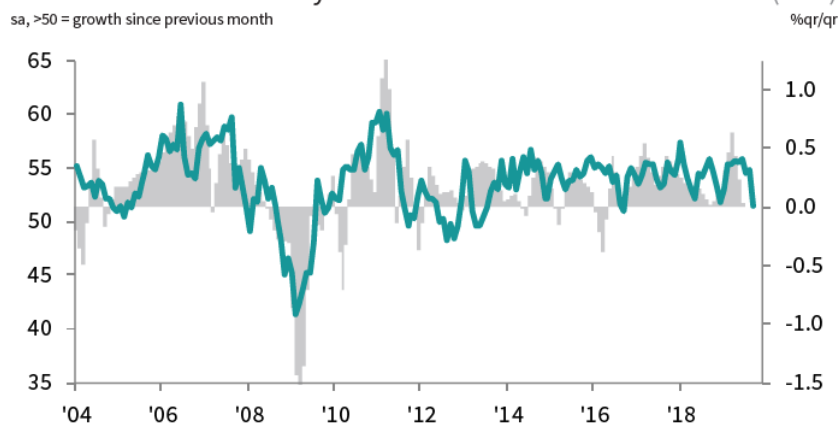
<https://www.markiteconomics.com/Public/Home/PressRelease/ade884e8882b462f9f87c1195486cf96>

Germany Services PMI (Sep)

The pace of services activity in Germany slowed markedly in Sep. The slow-down in activity was led by the first decline in new orders since Dec 2014 and indicating some weakness emerging in the domestic economy. The level of growth in services was not enough to offset the continued weakness in manufacturing and it's likely that private sector output contracted in Sep overall.

Services Business Activity Index; Sep 51.4 versus Aug 54.8

Services Business Activity Index Services Gross Value Added (GVA)



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

Sources: IHS Markit, Federal Statistical Office

The decline in new business was observed in both domestic and foreign markets. Orders declined overall for the first time since Dec 2014. New export work declined at the fastest pace in over five years.

Ongoing business activity growth was supported by a further decline in unfilled orders in Sep.

Firms optimism about the outlook remained subdued, but still improving slightly versus the month prior. Despite the outlook concerns, firms continued to increase employment in the month.

Both input and output charges increased albeit at a slower pace.

<https://www.markiteconomics.com/Public/Home/PressRelease/fd2797072af949af98dc14e157372e66>

Eurozone Manufacturing PMI Final (Sep)

Manufacturing conditions also worsened across the broader Eurozone in Sep. Led by sharper declines in Germany, output and new orders fell at an accelerated pace. With only two countries recording growth in new orders, weakness is becoming broad-based. Order backlogs and employment continued to fall. Weaker demand is creating a deflationary environment with both input and output charges declining across the region in Sep.

Headline Manufacturing PMI; Sep 45.7 versus Aug 47

IHS Markit Eurozone Manufacturing PMI



From an industry perspective, all three major groups recorded a contraction in activity this month – investment goods recorded the largest falls, followed by intermediate goods. Consumer goods manufacturing activity fell below 50 for the first time since Nov 2013.

Germany recorded the largest contraction in activity in Sep. This was followed by Austria, Spain, Italy and Ireland.

New orders were the main source of weaker activity. Only member countries where new orders did not fall were Greece and the Netherlands.

Output recorded the largest month on month fall since the end of 2012. Order backlogs continued to decline. Employment declined as a result – and this was the sharpest decline in jobs since Apr 2013.

With falling demand, inventory continued to be scaled back. Average purchase prices for inputs continued to decline and this enabled firms to reduce output charges.

Finally, with ongoing concerns over Brexit and the negative effect on trade of the US-China trade war, confidence about the future was little-changed since August, when sentiment was at its lowest level since November 2012.

<https://www.markiteconomics.com/Public/Home/PressRelease/4925e67a1f414e10b68fd6571eb29464>

Eurozone Composite & Services PMI (Sep)

Services activity across the Eurozone slowed in Sep. The level of services activity was able to somewhat offset the weaker manufacturing sector with the composite PMI indicating virtually zero growth across the Eurozone.

Composite PMI; Sep 50.1 versus Aug 51.9

IHS Markit Eurozone Composite PMI



Services business activity slowed from 53.5 in Aug to 51.6 in Sep. Whilst growth is still positive, this is the slowest pace so far of 2019.

The slower growth was the result of weaker growth in new orders, which recorded virtually no change in Sep. New business from foreign markets continued to decline “at a series record rate”.

Output growth was supported as firms worked through order backlogs which declined for the second month running. Employment continued to grow, but the pace of growth slowed to an eight-month low.

While confidence was stronger in Sep versus Aug, it remained subdued overall.

“The deteriorating picture is being led by a downturn in Germany, but France and Italy are also close to stalling and Spain has seen growth slow to the joint-lowest in around six years.

“The growing risk of recession, coupled with a further moderation of inflationary pressures, will add to expectations that the ECB will need to do more to stimulate the economy in coming months.”

<https://www.markiteconomics.com/Public/Home/PressRelease/51de396b073d4d3889b1afe7b9a36872>

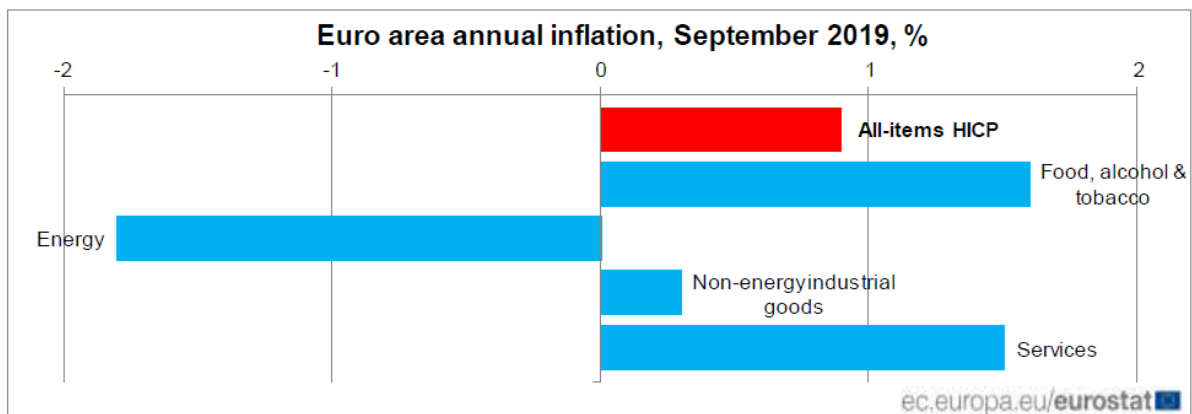
Eurozone CPI Prelim (Sep)

The prelim estimate indicates that the Euro area inflation rate slowed further in Sep. This was led by slower growth in food, alcohol & tobacco prices and a further decline in energy prices. Annual growth in core CPI increased at a slightly faster pace.

Headline CPI – annual change; Sep +0.9% versus Aug +1%

The slower growth was the result of a slowdown in food, alcohol & tobacco prices; +1.6% in Sep versus +2.1% in Aug. The annual growth in energy prices also declined at a faster pace; Sep -1.8% versus Aug -0.6%.

Services prices increased at a faster pace; Sep +1.5% versus Aug +1.3%



The annual growth in core CPI accelerated slightly;

CPI ex energy, food, alcohol & tobacco – annual change; Sep +1% versus Aug +0.9%

<https://ec.europa.eu/eurostat/documents/2995521/10064259/2-01102019-AP-EN.pdf/be3ca391-cb47-9809-e56c-a5e28beb201e>

Eurozone PPI (Aug)

Producer industrial selling price growth remained very low in Aug. Excluding energy, which recorded the largest fall in prices, producer prices were unchanged from the month prior.

Producer Industrial Prices – ex energy – month change; Aug 0% versus Jul -0.1%

In the Euro Area – prices were unchanged for intermediate goods after declining by -0.4% in Jul. Capital goods prices slowed from 0.2% in Jul to 0% in Aug. Durable consumer goods prices grew at the same pace of +0.1%. Prices of non-durable consumer goods increased at a faster pace from -0.1% in Jul to +0.2% in Aug.

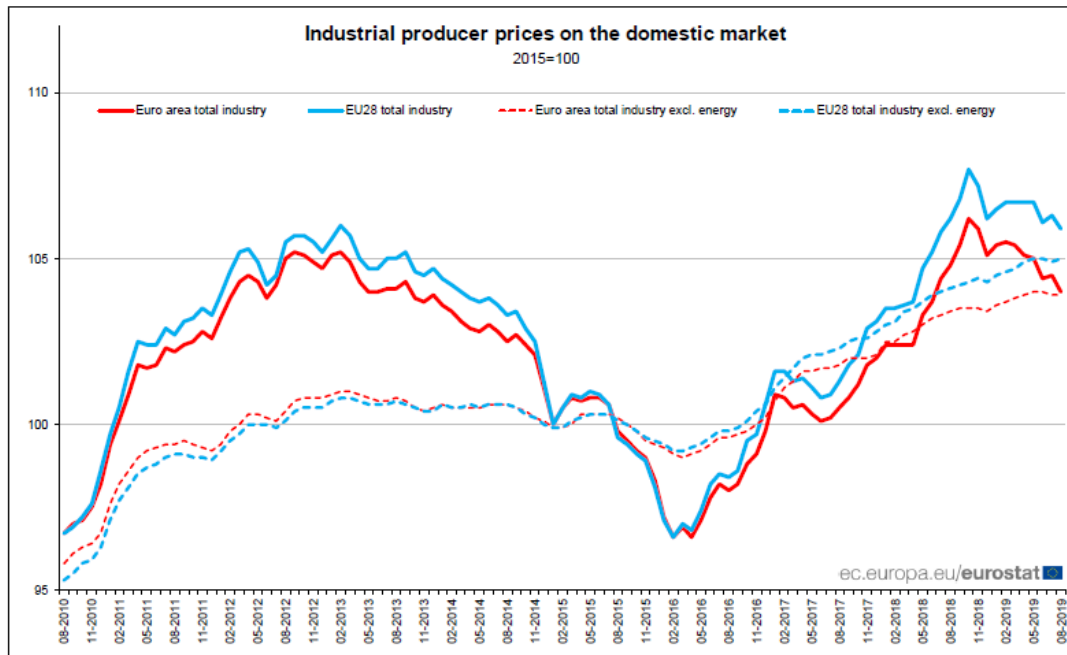
Energy prices declined sharply in Aug by -1.9% versus a +0.7% increase in Jul – skewing the overall view of producer industrial prices.

On an annual basis, producer prices (ex-energy) continued to increase at a slower pace within the Euro Area;

Producer Industrial Prices – ex energy – month change; Aug +0.5% versus Jul +0.6%

On an annual basis, intermediate goods prices declined at a faster pace falling by -0.4% in Aug versus -0.3% in Jul. Capital goods prices remained firmer growing at 1.5%. Durable consumer goods increased at a constant pace of +1.4%. Non-durable consumer goods increased at a slightly faster pace of +1% in Aug.

Annual energy prices declined at a markedly faster pace in Aug by -4.1% versus Jul -1.3%.



<https://ec.europa.eu/eurostat/documents/2995521/10064454/4-03102019-AP-+EN.pdf/556c7fab-330e-9cce-d20e-90ad7f18d63c>

Eurozone Retail Sales (Aug)

Euro area and broader EU retail trade increased at a faster pace in Aug after declining in Jul. The annual change in retail sales volume was little changed in Aug.

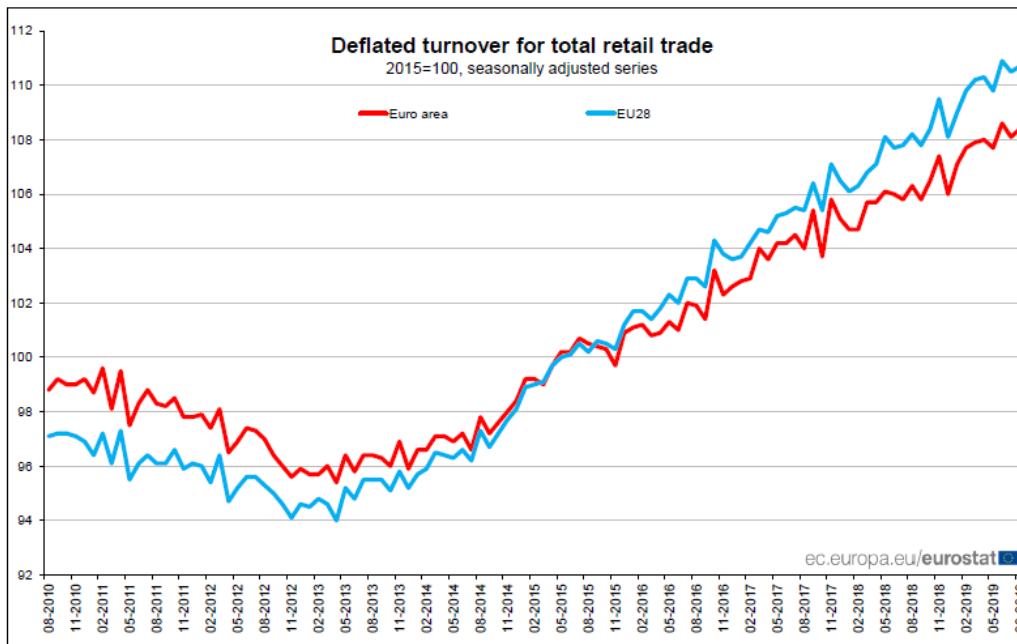
Euro Area Retail Sales Volume

Month change; Aug +0.3% versus Jul -0.5%

The faster growth in sales in the month was the result of an increase in non-food sales (ex-fuel). Auto fuel sales also increased in the month.

Food, alcohol & tobacco sales were flat in Aug after declining by -0.7% in Jul.

Annual change; Aug +2.1% versus Jul +2.2%



<https://ec.europa.eu/eurostat/documents/2995521/10064479/4-03102019-BP-EN.pdf/49288a28-e0e0-c3e4-0fd5-50925cda04a4>

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Japan

Industrial Production Prelim (Aug)

The prelim industrial production data indicated that production and shipments both shifted back to decline in the latest month. The annual decline increased at a faster pace. Inventory was unchanged versus the month prior but the inventory to ratio increased at a much faster pace.

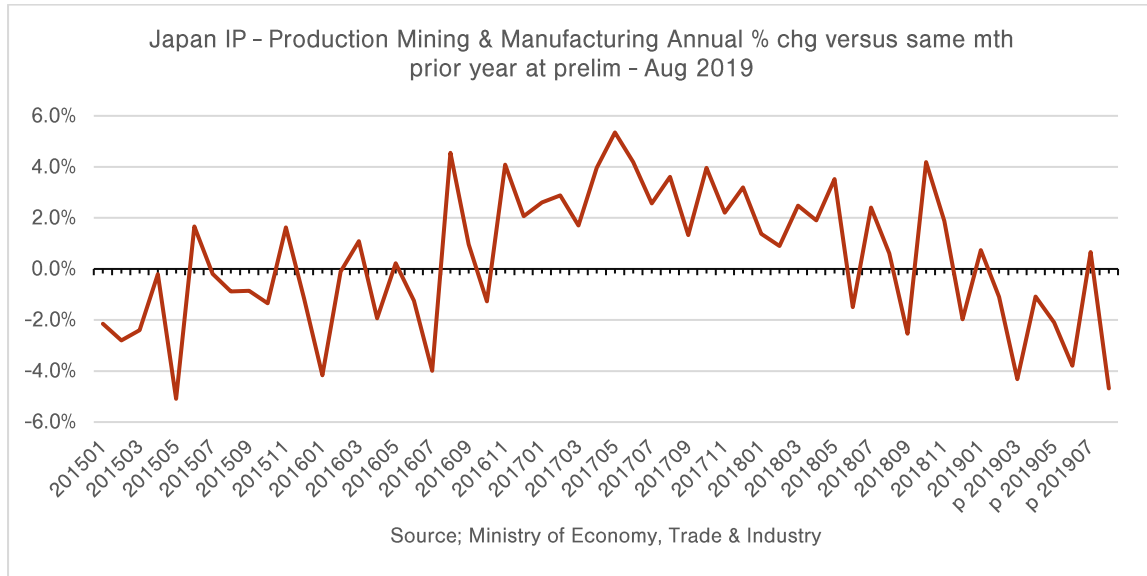
The decline in production is consistent with contraction in output and the generally weaker PMI reading for Aug.

Industrial Production

Month change (seas adj); Aug -1.2% versus Jul +1.3%

Production across most industries declined in Aug versus Jul; Iron, steel and Non-ferrous metals, Fabricated metals, Production machinery, General-purpose and business-oriented machinery, Electrical machinery, and Information and communication electronics equipment and transport equipment. The decline in passenger car production was somewhat slower than the overall decline in production.

Annual change (orig); Aug -4.7% versus Jul +0.7%



The annual decline accelerated across most industries. The exception was Electronic parts and devices – which declined at a slower pace. The strong annual growth in passenger car production in Jul of 15.4% was reversed this month to an annual decline of -1.3%.

Industrial production forecast;

Sep is +1.9% increase in production and a -0.5% decline in Oct.

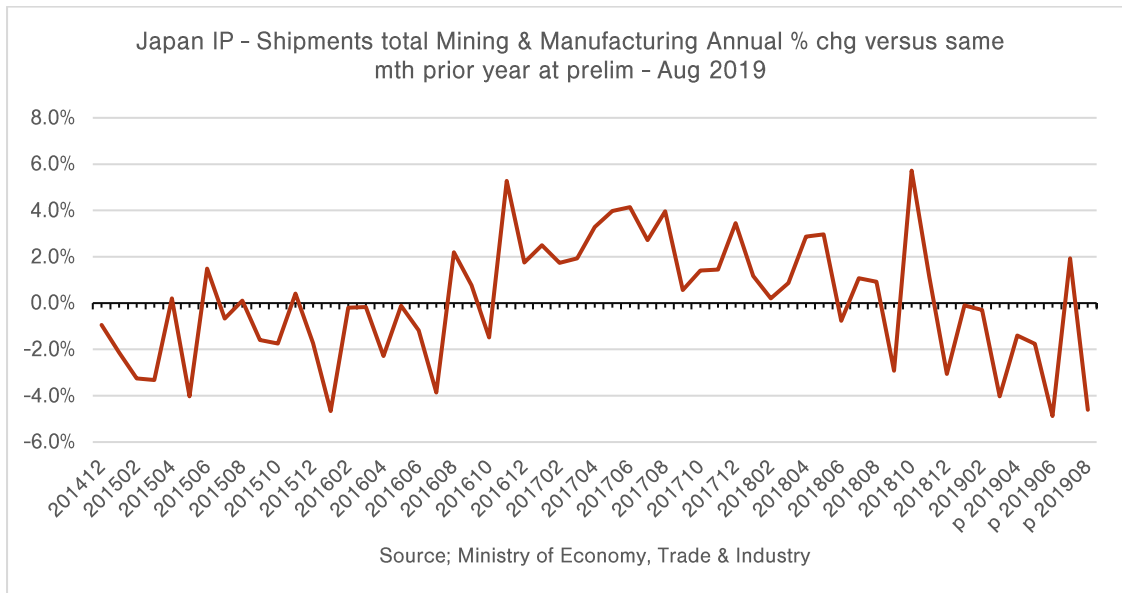
Shipments

Month change (seas adj); Aug -1.4% versus Jul +2.7%

The decline in shipments was not as widespread. Categories where shipments continued to increase were general purpose and business-oriented machinery, electronics parts and devices (+9.9% in Aug), electronic machinery and info comms.

Contributing most to the decline was transport equipment (based on weight in the index) -2.2% in Aug versus +7% in Jul. Transport equipment shipments were down -12.8% - which was consistent with the large decline in exports of the same equipment/parts to China in Aug.

Annual change; Aug -4.6% versus Jul +1.9%



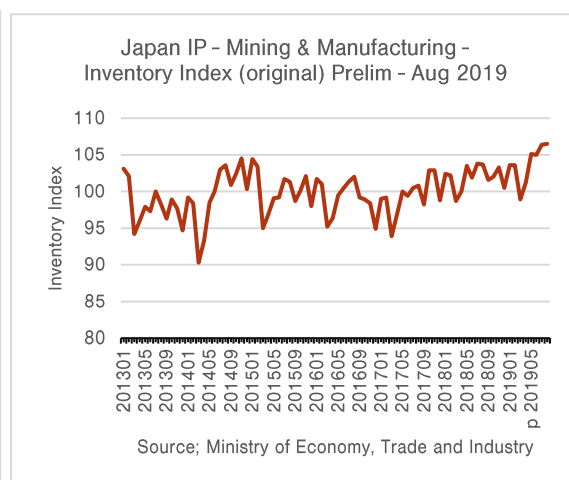
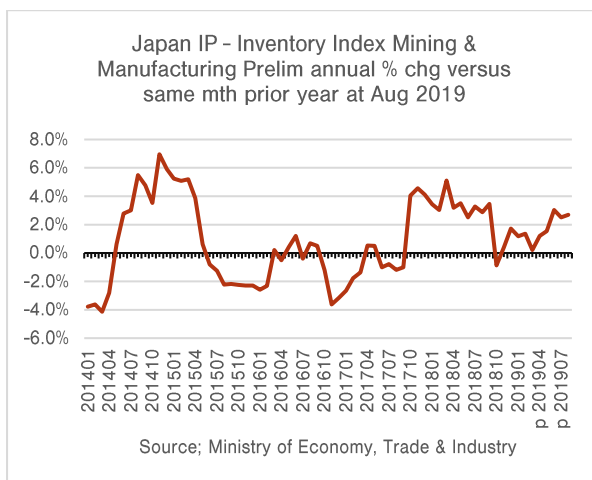
From an index perspective, the Aug shipment index was the lowest since Aug 2016.

Inventory

Month change; Aug 0% versus Jul -0.2%

On an annual basis, inventory continued to grow at a slightly faster pace. The inventory index reached another near-term high;

Annual change; Aug +2.7% versus Jul +2.5%



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

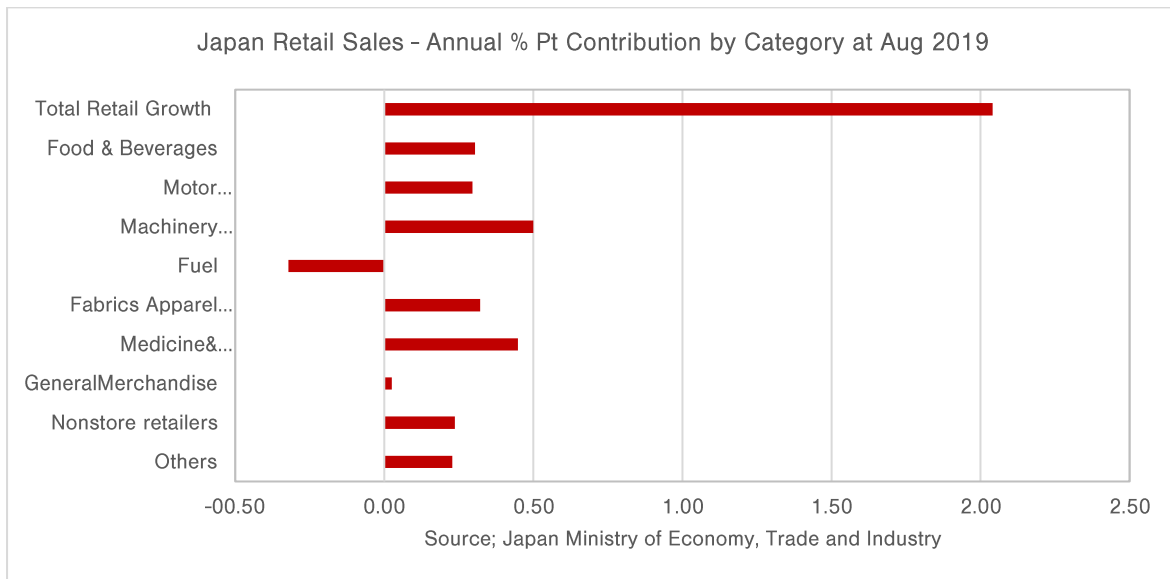
Retail Sales (Aug)

The growth in nominal retail sales increased at a much faster pace in Aug after declining in Jul. The acceleration in the month could be the result of bringing forward purchases ahead of the Oct sales tax hike. The annual growth in retail sales also accelerated with most categories contributing to the annual increase.

Month change (seas adj); Aug +4.8% versus Jul -2.3%

Annual change (orig); Aug +2% versus Jul -2%

In Aug, most categories contributed to the faster annual growth in retail sales. The exception was retail fuel sales which declined year on year.



The acceleration in the annual growth of retail sales in Aug has arrested the slowing trend recorded throughout late 2018/early 2019.



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

Manufacturing PMI Final (Sep)

Manufacturing activity in Japan continued to deteriorate in Sep. The headline PMI indicated that activity declined at a faster pace. The main driver of the weaker performance was the further decline in production and new orders.

Headline Manufacturing PMI; Sep 48.9 versus Aug 49.3

Jibun Bank Japan Manufacturing PMI

sa, >50 = improvement since previous month



Sources: Jibun Bank, IHS Markit.

Panellists indicated that underlying demand conditions had weakened in Sep. Output and new orders both declined at a faster pace in Sep. New orders declined in both the domestic and export markets. New export orders declined for the tenth successive month. Orders from China and Europe declined.

In line with the weaker new orders, firms continued to reduce inventory. Both pre-production and finished goods inventories declined further.

Employment continued to grow, but growth remained muted.

Selling prices declined for the fourth month in a row.

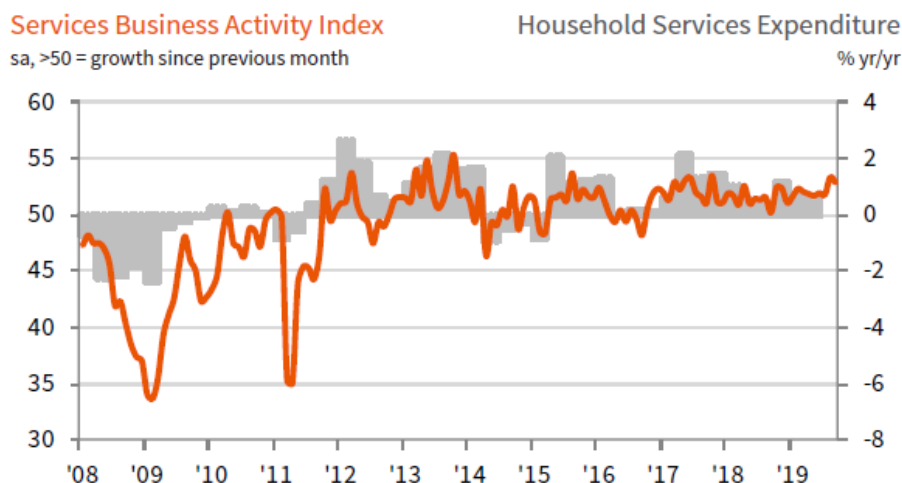
Meanwhile, the Future Output Index – the only sentiment-based gauge of the survey – showed a subdued outlook towards the coming 12 months. Survey comments suggested that global trade frictions and fears of a domestic economic slowdown adversely impacted confidence.

<https://www.markiteconomics.com/Public/Home/PressRelease/acd5b2dc32d44018b94de0a8e3e60594>

Services PMI Final (Sep)

Services activity continued to expand in Sep, but the pace of growth slowed. New work grew at a similar pace to Jul and Aug and remained lower than in the first half of the year. There was a small increase in the pace of employment growth.

Services Business Activity Index; Sep 52.8 versus Aug 53.3



Sources: Jibun Bank, IHS Markit, Cabinet Office Japan

New business continued to increase in Sep at around the same pace as Jul and Aug. The pace of new order growth remains below that of the first half of 2019.

Backlogs of work increased in Sep at the fastest pace in seven months.

Employment growth remained subdued and only slightly above the recent Aug low.

Input prices increased at a faster pace in Sep. The increase in selling prices was low and was the slowest of the last two years.

Overall confidence improved but firms remained cautious about the impact of the sales tax hike.

<https://www.markiteconomics.com/Public/Home/PressRelease/27e6b4e21ba845648cd78aa06f44e63b>

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United Kingdom

Brexit

We are now into the final four weeks leading up to the next Brexit deadline on 31 Oct 2019.

The first important date leading up to the 31 Oct is the EU Summit on 17-18 Oct. This summit is important because if no alternative Irish border solution is agreed to by the end of the EU Summit, the UK PM is now required by law to request a delay to Brexit, to avoid a 'no deal' Brexit. The UK PM has campaigned heavily on delivering Brexit without further delays and continues to promote the hard Brexit option.

During the week, the UK put forward an alternative plan for the current Irish border backstop that would see Northern Ireland leave the customs territory but remain in the single market for goods. The EU rejected that plan;

“...Barnier said that there were serious problems with the plans which threatened the EU single market and did not answer EU concerns on the need for customs checks: “We are a single market. That’s a complete ecosystem, with common rights, common norms, common standards, common rules, a common legal system. It requires checks at its borders.”

<https://www.theguardian.com/politics/2019/oct/05/michel-barnier-blame-boris-johnson-brexit-talks-eu-uk>

As a result, talks/negotiations appear to have stalled;

Downing St had suggested before the weekend that the prime minister would be touring EU capitals this week to try to make progress towards a deal.

But in a firm rebuff, the European Commission made clear there was insufficient basis for more negotiation as the gulf between the two sides remained too wide, and it did not want to give the impression that progress could be made when it could not.

“If they do not change, I do not believe, on the basis of the mandate I have been given by the EU27, that we can advance,” Barnier said on Saturday at an event in Paris organised by Le Monde.

If the UK was still serious about a deal it would return with “different proposals” this week and the EU side would be prepared to talk, he said.

<https://www.theguardian.com/politics/2019/oct/05/michel-barnier-blame-boris-johnson-brexit-talks-eu-uk>

While talks are set to continue this week between the UK and the EU, the Conservative party remains firm on threatening to leave without a deal.

At a meeting of government advisers on Friday night, Johnson’s closest aide, Dominic Cummings, said if Brussels did not soften its opposition to the UK’s

proposals, the UK would be ready to leave with no deal.

<https://www.theguardian.com/politics/2019/oct/05/michel-barnier-blame-boris-johnson-brexit-talks-eu-uk>

UK PMI Summary – Services, Manufacturing & Construction Sep 2019

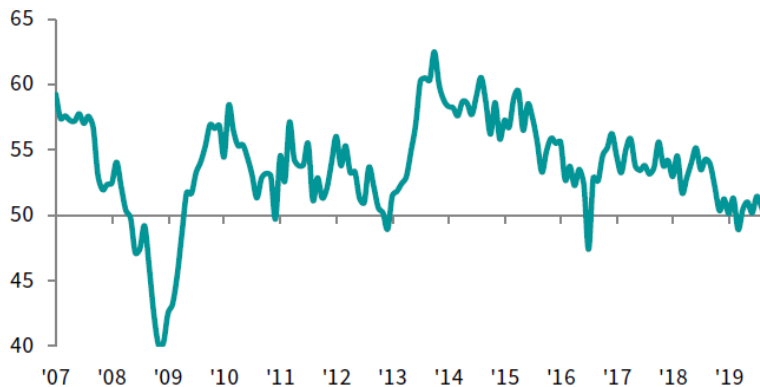
These PMI's cover the month prior to the next Brexit deadline of 31 Oct. Unlike in the lead up to the Mar deadline, the pick-up in activity in preparation for Brexit (stockpiling etc) appears limited to manufacturing and was not enough this month, at least, to offset weakness elsewhere. The PMI's indicate that the economy remains mired by uncertainty, with output, new orders and employment all likely declining.

Services PMI/Business Activity Index; Sep 49.5 versus Aug 50.6

This is one the larger sectors in the UK economy and activity shifted into slight contraction in Sep. New orders were postponed by clients and overall orders declined. New export business declined at the largest decline since the series started in 2014. Employment in services firms declined at the fastest pace since Aug 2010.

Services Business Activity Index

sa, >50 = growth since previous month



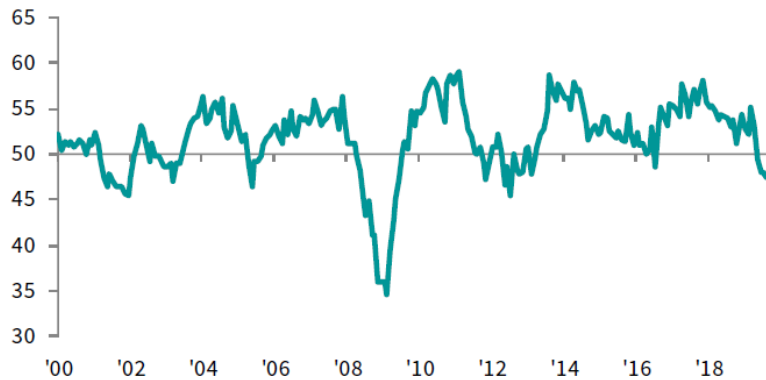
Sources: IHS Markit, CIPS

Manufacturing PMI: Sep 48.3 versus Aug 47.4

One positive is that the pace of decline slowed somewhat in Sep. But output, new orders, new export orders and employment all declined further. Stocks of purchases and input buying volumes increased for the first time in several months in preparation for the next Brexit deadline.

Manufacturing PMI

sa, >50 = improvement since previous month



Construction PMI; Sep 43.3 versus Aug 45

Deterioration in construction activity continued as firms cited weak demand, client hesitancy and low confidence. Activity overall fell at the second fastest rate since the GFC. New orders also recorded a steep decline. Firms reduced employment at the fastest pace since the end of 2010. There was some level of confidence though that activity would pick up in the next twelve months.

<https://www.markiteconomics.com/Public/Home/PressRelease/6a2e286facf749a289f710c3701be4a2>

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Australia

RBA Rates Decision – 1 October 2019

The RBA board lower the overnight cash rate to 0.75% (-25bps) at this meeting.

A new statement was added to the decision this month outlining the reasons for the lower rates. There were two reasons 1) lower rates to help reduce spare capacity and 2) lower rates to counter the forces that are driving rates lower globally which is affecting the Aus economy.

The Board took the decision to lower interest rates further today to support employment and income growth and to provide greater confidence that inflation will be consistent with the medium-term target. **The economy still has spare capacity and lower interest rates will help make inroads into that.** The Board also took account of the **forces leading to the trend to lower interest rates globally and the effects this trend is having on the Australian economy and inflation outcomes.**

Global Conditions

Global outlook remains reasonable, but risks tilted to the downside. The uncertainty of the US-China trade dispute is affecting trade and investment(capex) flows. Rate are at very low levels globally and more easing is expected.

Domestic Conditions

Growth in the Aus econ came in at 1.4%. There was cautious optimism regarding the pace of GDP on the first half of 2019 versus the second half of 2018.

Some cause for optimism; lower interest rates and tax cuts, ongoing spending on infrastructure, signs of stabilization in some established housing markets and a 'brighter' outlook for the resources sector.

Domestic consumption spending is the main domestic uncertainty – this statement was changed from “a pick-up in growth and stabilization in the housing market was expected” to “the sustained period of only modest increases in household disposable income continuing to weigh on consumer spending”.

On the labour market; forward indicators suggest that employment growth will slow from the current pace. Unemployment remains at 5.25%. Demand for labour is being met with increased supply (all time high participation now).

Inflation pressure remains subdued.

Housing – signs of a turnaround in established housing but new dwelling activity slowed. [This is very important – with little uptick yet from lower rates on new dwellings/construction, the impact of lower rates will be limited on broader economic outcomes compared to the last easing cycle starting back in late 2011].

Forward Guidance

Some fairly larges changes to wording. Rather than making progress towards to reducing unemployment, the focus has shifted to reaching full employment. Labour market outcomes remain a key factor in assessing upcoming policy changes.

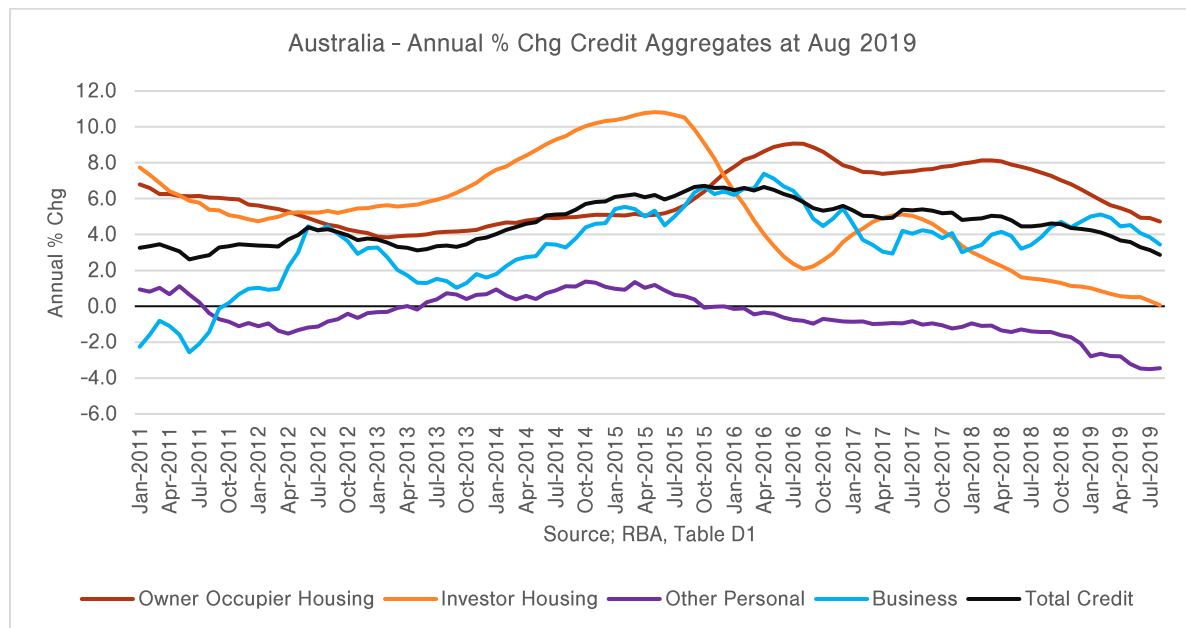
It is reasonable to expect that an extended period of low interest rates will be required in Australia to **reach full employment** and achieve the inflation target. The Board will continue to monitor developments, including in the labour market, and **is prepared to ease monetary policy further if needed to support sustainable growth in the economy, full employment and the achievement of the inflation target** over time.

https://www.rba.gov.au/media-releases/2019/mr-19-27.html?utm_source=twitter&utm_medium=social&utm_content=media-release&utm_campaign=monetary-policy-decision-2019-oct

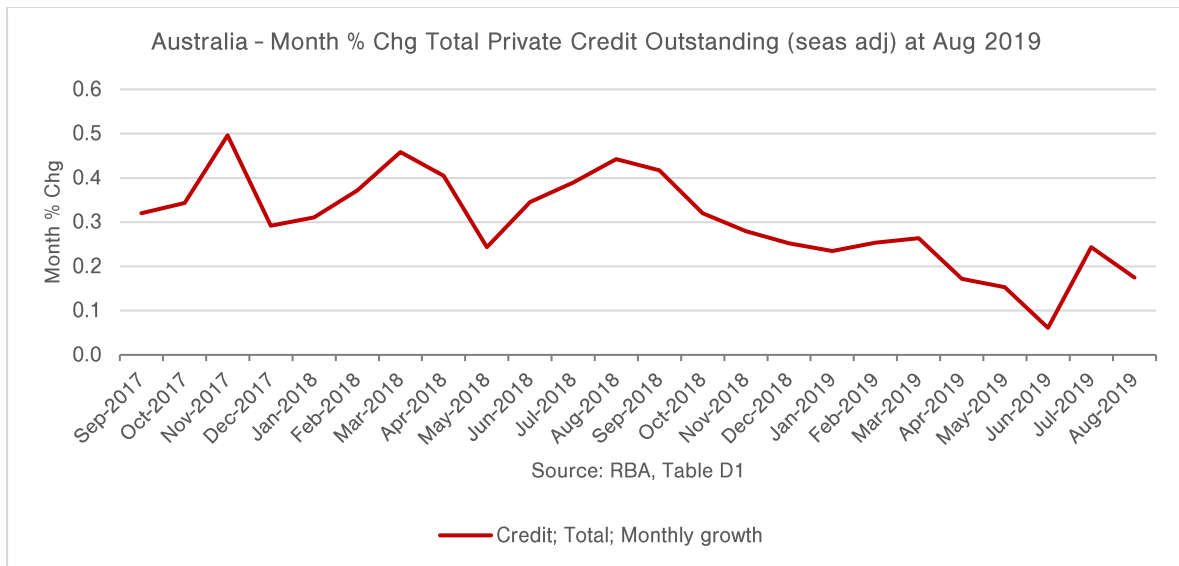
Private Sector Credit (Aug)

The annual growth in the total outstanding value of private sector credit continued to slow across all measures in Aug. There are signs of a pick-up in outstanding credit growth for business on a monthly % chg basis. Outstanding owner occupier credit growth slowed after the stronger Jul (reflected by the faster growth in the flow of new credit). The monthly decline in investor housing credit outstanding has continued to accelerate in Aug despite the faster growth in the flow of new credit in Jul – and the annual growth has slowed to a mere +0.1%.

Total private sector credit outstanding increased at an annual pace of +2.9% in Aug, slowing from +3.1% in Jul.



The trend of the monthly change indicates that while growth in outstanding credit had slowed up to Jun 2019, there has been some small uptick in the monthly pace of change. In the latest month though, growth in outstanding credit slowed again from +0.24% in Jul to +0.17% in Aug;

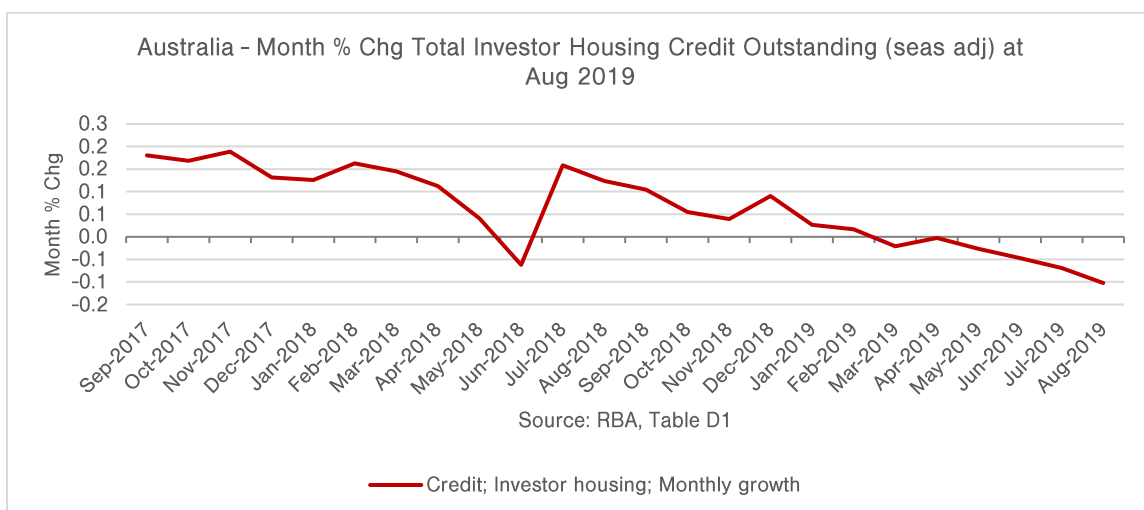


There was some difference across the segments;

Business Credit outstanding - The month change in total outstanding business credit has continued to accelerate since the Jun low of +0.1% to Aug +0.25%. The annual change in outstanding business credit continued to slow though (From +3.9% in Jul to +3.4% in Aug).

Owner Occupier Credit outstanding - The month change in total outstanding owner occupier credit slowed in Aug compared to Jul. Note that the flow of new owner occupier credit in Jul was very strong +5.3% - the month change in the stock for Aug suggests that the growth in the flow may also slow in Aug (OR there are more debt paydowns on net than new flows). The annual pace also continues to slow.

Investor Housing Credit outstanding - The monthly decline in the total amount of housing investor credit outstanding has been accelerating and continued to do so this month. Consider though that the flow of new investor credit increased in Jul (latest data available) by +4.7%. This stock outstanding data suggests that investors are on net deleveraging (on a monthly basis) and that the credit impulse is still likely negative.



<https://www.rba.gov.au/statistics/frequency/fin-agg/2019/fin-agg-0819.html>

Building Permits (Aug)

The total number of dwelling building approvals declined in Aug compared to Jul. This was led by a further fall in approvals for houses. Approvals for dwelling units excluding houses increased versus the month prior. On an annual basis, the number of permits remains well below a year ago across both houses and units/apartments.

The fall in building approvals is probably the most important detail for the Australian economy right now alongside the labour market conditions. The boom in dwelling construction since 2012 did help to underpin employment & income growth back in the eastern seaboard states as mining investment slowed in the western states. The question remains whether further rate cuts now will 'reignite' the level of construction on units/apartment buildings.

Total dwelling approvals – month change; Aug -1.1% versus Jul -9.7%

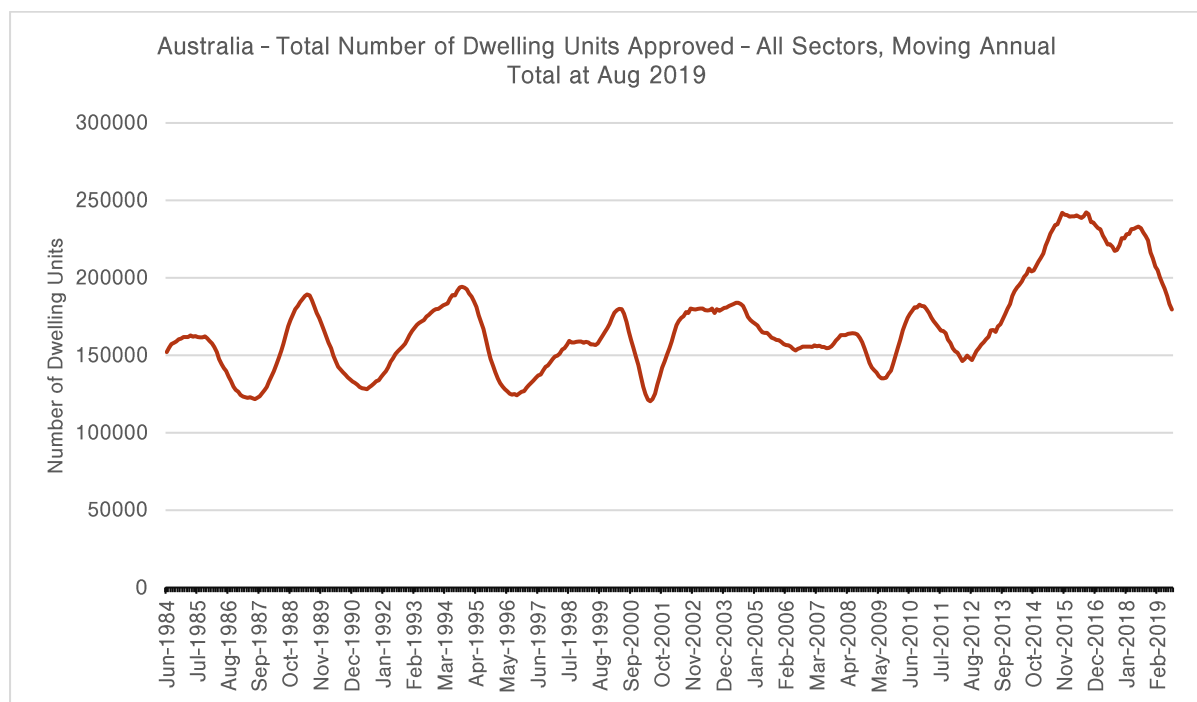
Approvals for houses fell by 2.6% while approvals for dwellings excluding houses increased by +3.1% (private sector only).

The annual change provides the better context for how far approvals have fallen.

Total dwelling approvals – annual change (current month v same mth a year ago); Aug -21.5% versus Jul -28.2%

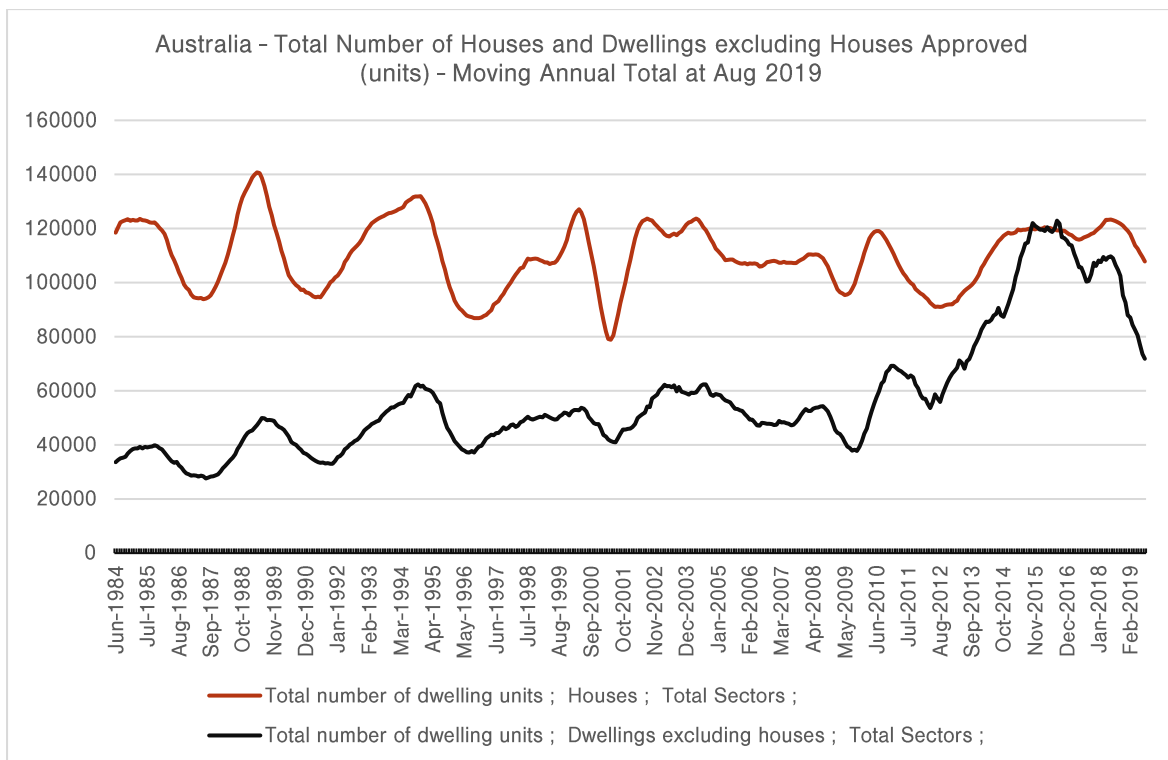
Approvals for houses are running at 17% below a year ago and dwellings excluding houses is 28% below a year ago.

The moving annual total basis also provides a stronger historical context. From the early 80's until 2012, the moving annual total number of building permits cycled consistently around an average of 157k approvals. This changed in late 2011 when the RBA embarked on a series of rate cuts to offset the effects of the mining boom shifting from the investment (labour-intensive) phase to the production phase;



Total approvals (annual basis) peaked at 242k for the year ended Aug 2016. The annual total at Aug 2019 is 26% below that level.

This boom in approvals (and subsequent construction) was led mostly by apartment building;



<https://www.abs.gov.au/ausstats/abs@.nsf/mf/8731.0>

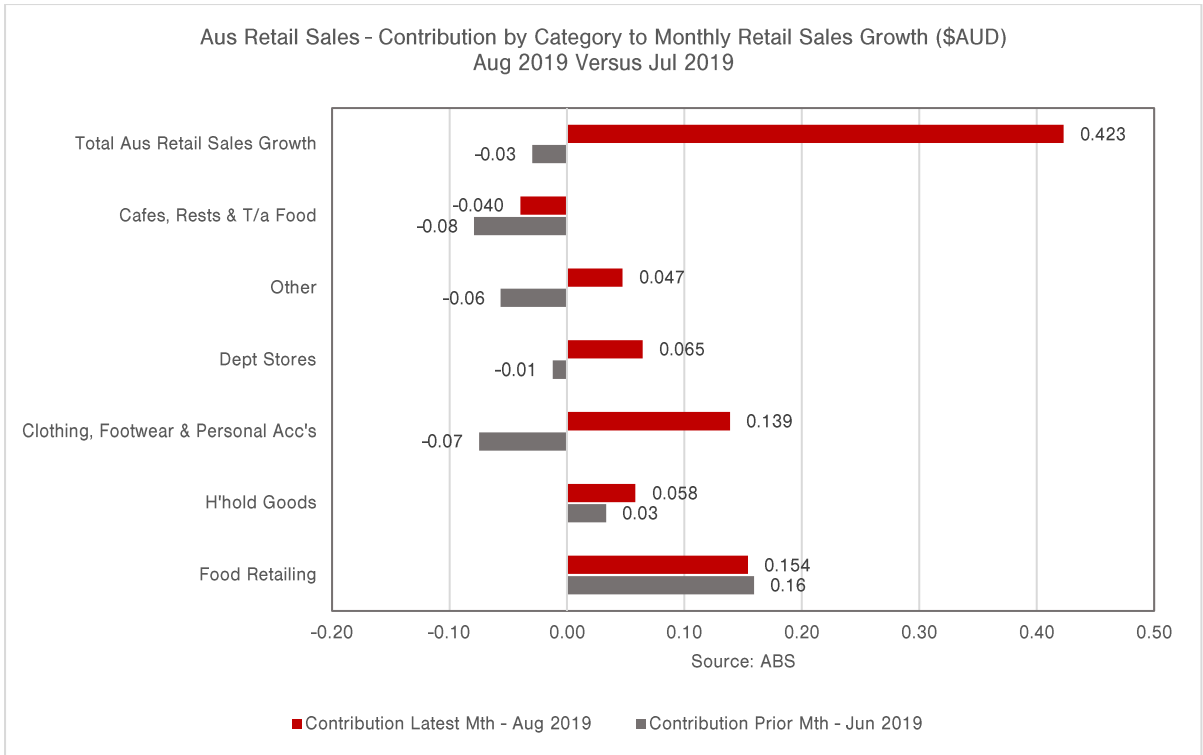
Retail Sales (Aug)

The growth in the value of retail sales rebounded in Aug after declining in Jul. There was a small increase in the annual pace of growth. Most categories contributed to the stronger growth in the month. Sales of cafes, restaurants and take-away was the only category to record a decline. Most states also contributed to the increase in retail sales this month, with QLD recording that largest increase. Sales continued to decline in WA and NT on a monthly basis.

Retail Sales – month change; Aug +0.4% versus Jul -0.03%

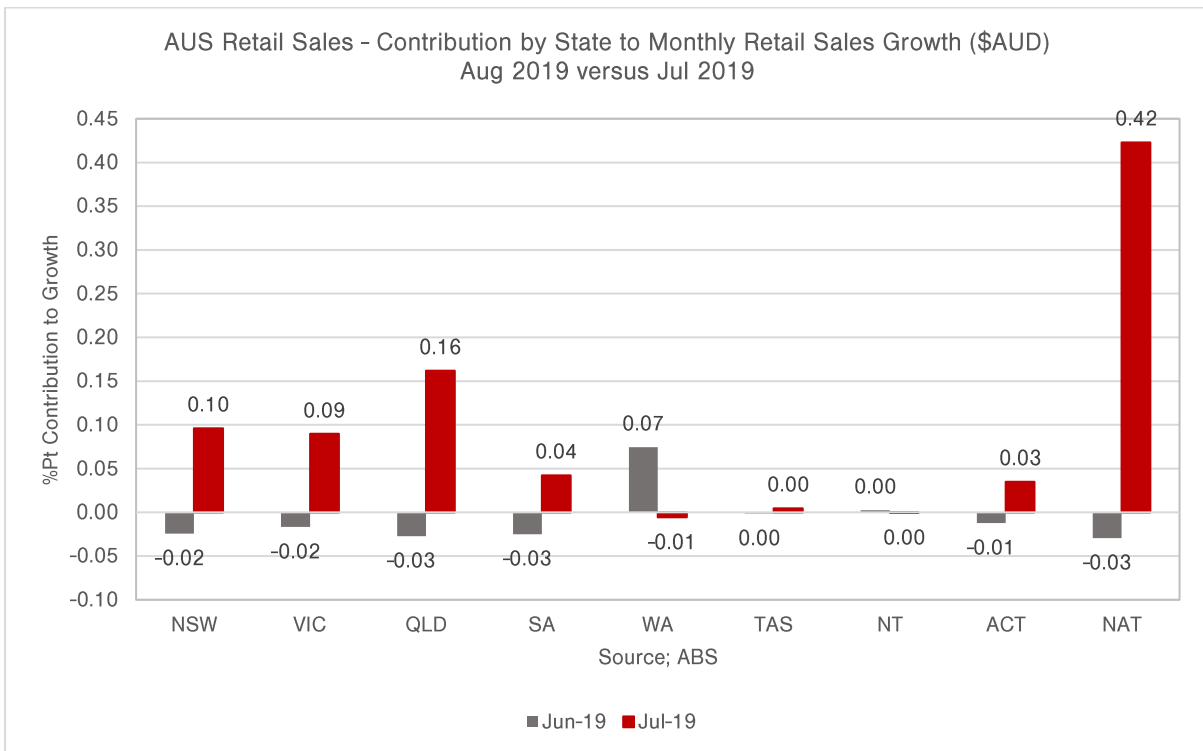
Retail Sales by Category

Contributing most the turnaround in the month was food retailing, followed by clothing, footwear and personal accessories. Cafes, restaurants and take-away food continued to decline in Aug.



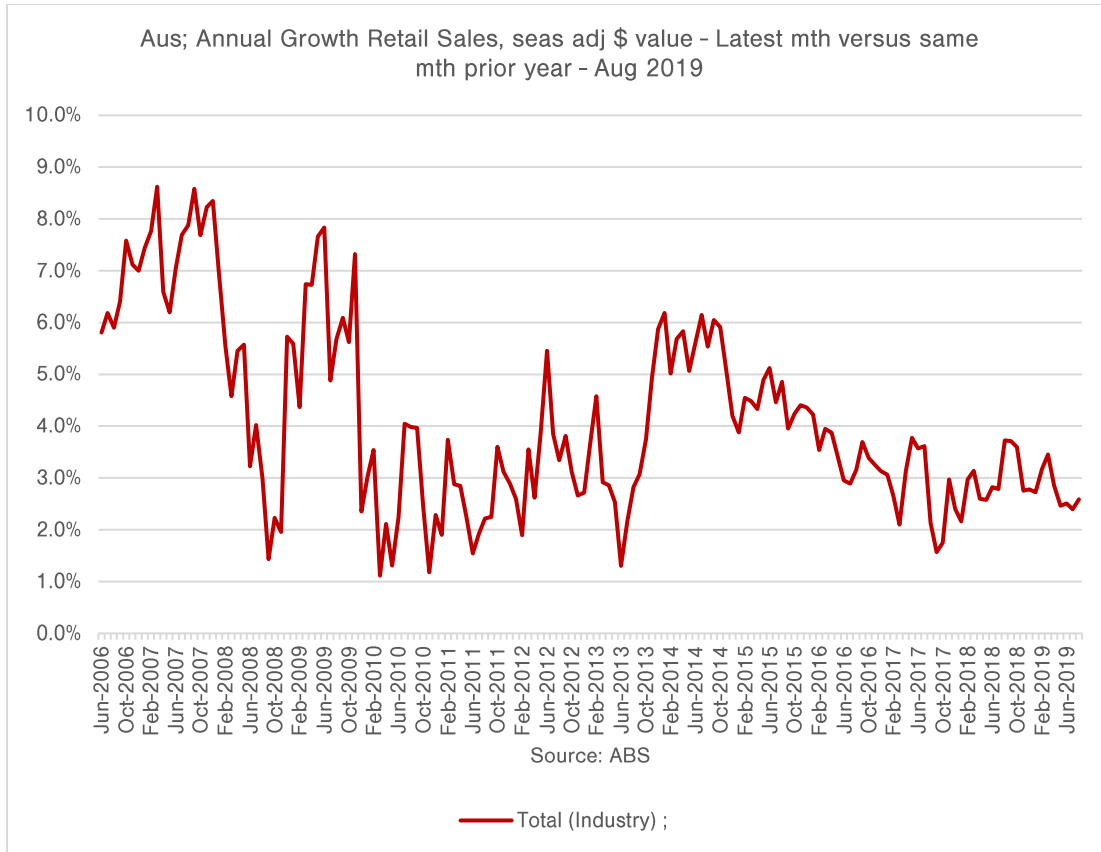
Retail Sales by State

The improvement in retail sales from a state perspective was also broad-based. The exception was WA and NT where sales growth remained weaker.



Despite not being the largest state, QLD contributed most to the overall increase in the month.

Retail Sales – annual change; Aug +2.6% versus Jul +2.4%



The pace of annual growth of retail sales in QLD is now the largest of all the states at +5.1%. Annual retail sales growth in the largest state, NSW, has slowed notably and is now only +0.3%.

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

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China

Caixin Manufacturing PMI (Sep)

The headline manufacturing PMI indicated that conditions had improve in Sep and growth increased at a faster pace. This was led by a modest improvement in new orders, although new export orders continued to decline. Output increased and employment remained unchanged.

Headline manufacturing PMI; Sep 51.4 versus Aug 50.4



Sources: IHS Markit, Caixin.

New orders increased at a slightly faster pace. This was led by stronger domestic demand while new export orders continued to contract (albeit at a slower pace). Production increased as a result. Backlogs of work increased at a faster pace as firms kept employment levels unchanged.

Input buying remained marginal as firms continued to manage lower inventory levels. Stocks of finished goods increased for the second month in a row.

Input costs increased in Sep after declining in Aug. Output charges were unchanged from the month prior.

Optimism towards the one-year outlook for output remained relatively weak in September, with concerns over future trade conditions commonly cited by panel members.

<https://www.markiteconomics.com/Public/Home/PressRelease/f99161d414664978aa46d4631e7e3094>

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Trade

US-China Trade Talks

Vice Premier Liu He will fly to Washington this week Oct 10-11 for the next round of talks with the US on trade negotiations.

There could now be a shift in the shape of the agreement between the two countries – more of a truce in the short-term, dealing with agriculture and energy purchases and then rolling back some tariffs etc as long as progress is made on a deal regarding the main issues of industrial policy and intellectual property protections.

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. There is a weeklong celebration of the founding of the PRC this week,

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 (now postponed by 2 weeks). <https://www.federalregister.gov/documents/2019/09/03/2019-18946/request-for-comments-concerning-proposed-modification-of-action-pursuant-to-section-301-chinas-acts>

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 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>

The current limited deal still needs to be ratified by the Japanese parliament and is likely to take effect from the beginning of Jan 2020.

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

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;

“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

Both sides of politics in the US continue to support the passing of the USMCA trade deal. The key issues to address remain labor, environment, enforcement and prescription drug provisions.

The Democrats are working 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>

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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