Weekly Macro Review

w/c 11 November 2019

Key Themes

US manufacturing data remained weak in Sep. Total industrial production declined in Sep and manufacturing led the decline. Drilling down, auto manufacturing was a notable area of weakness. Production declined at an accelerated pace of -7.1% in Oct after falling -5.5% in Sep. The NY Fed Industrial Production report still cited the GM strike as the cause of the fall in Sep. Yet, there also appears to be a demand problem. Retail sales of autos only partly rebounded in Oct after the larger fall in Sep – the official BEA data last week had total motor vehicle sales declining in Oct. Last week in the wholesale inventories report for Sep, we saw the inventory to sales ratio for autos jump to 1.8 – there are only ten months during the GFC in 2008 when the inventory to sales ratio was higher.

Prelim Q3 GDP was a highlight - growth remains subdued across Germany, Europe and Japan. There was a small acceleration in the UK Q3 GDP growth.

The German economy narrowly averted a technical recession. While Q2 GDP growth was revised lower to -0.2%, the prelim Q3 GDP growth was reported as +0.1%. The full detail will be released next week 22 Nov.

The prelim Q3 Eurozone GDP growth was little changed, growing at +0.2% in Q3 across the Euro area.

GDP growth in Japan in slowed from +0.4% in Q2 to +0.1% in Q3. The annual pace accelerated though. The lower Q3 growth was the result of lower private consumption growth, the change in inventories detracting from growth and net exports also detracting from growth. The complete industrial production report for Sep saw production and shipments revised higher – possibly stronger ahead of the consumption tax increase. Despite the strong growth in the report, both shipments and production of one of the largest weight industry groups, transport/passenger cars, continued to decline.

Auto production remains a problematic area for Japan. In the negotiation of the phase one trade deal, the US provided no assurance that tariffs were off the table. The Japanese parliament is currently debating the US-Japan phase one trade bill with some risk that approval is delayed (at best).

In the UK, the lagging GDP data recorded a rebound in Q3 due to a less negative contribution from private investment. The labour market report for Jul-Sep continued to show deterioration in the more recent 3-month change – with employment continuing to decline. There was no corresponding increase in unemployed persons because participation declined over the same period. Weakness in consumption growth appears to have persisted into Q4 with the decline in retail sales in Oct.

Aussie data will provide some concern for the RBA. The Q3 wage growth was unchanged in the quarter and slowed on an annual basis. The labour market in Oct remained weaker with low employment growth. Unemployment increased and would have been worse except that participation recorded the first monthly decline in fifteen months. The underutilization rate increased in Oct – this is likely a large reason why wages growth has remained lacklustre and this will not be good news for the RBA. Over the last year, the combination of slower employment growth and increased labour supply are the key drivers of the higher underutilization rate.

Activity in China continued to expand, but growth/momentum remains at some of the lowest levels recorded. This lower pulse of activity is likely impacting global demand and trade – given the large influence that prior Chinese stimulus and expenditure on fixed asset investment/capital goods had on global growth in the post-GFC period. Chinese consumers are also likely seeing a squeeze on real purchasing power as annual CPI growth accelerated to +3.8% on the back of higher food (meat) prices. Retail sales slowed to the equal lowest pace of growth of the last 12-months. Autos were a large contributor to the weaker retail growth, declining by -3.3% versus Oct a year ago.

Contents

US Data

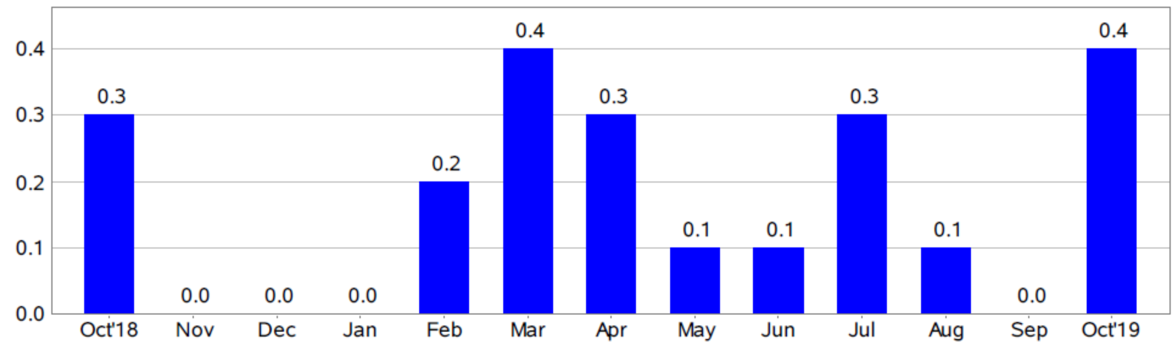
CPI (Oct)

The headline growth in annual CPI accelerated slightly in Oct. This was led by faster annual growth in food prices and a slightly slower decline in energy prices (than the annual growth recorded in Sep). Core CPI growth slowed in Oct slightly but remains above 2% - faster growth in core services (ex-energy services) was offset by slower growth in core goods (commodities less energy commodities).

Highlights from the report; the continued acceleration in the annual price index for medical services from +4.4% in Sep to +5.1% in Oct (total weight in the index is 7%).

<u>Headline CPI growth – month change</u>; Oct +0.4% versus Sep 0%

Chart 1. One-month percent change in CPI for All Urban Consumers (CPI-U), seasonally adjusted, Oct. 2018 - Oct. 2019
Percent change



The acceleration versus the month prior was due to;

Slightly faster growth in food prices (led by food at home); Oct +0.2% versus Sep +0.1%

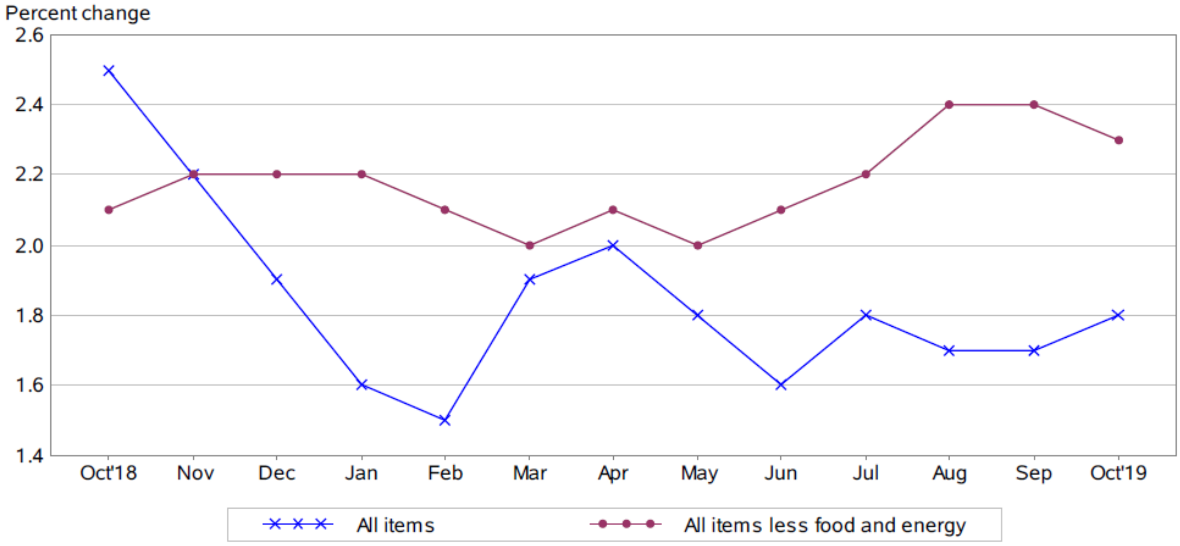
Faster growth in energy prices; Oct +2.7% versus Sep -1.4%

Core CPI also accelerated slightly; Oct +0.2% versus Sep +0.1%. Core commodities prices declined at a slower pace while core services prices increased at a slightly faster pace.

The faster pace of core services prices in the month was led by an acceleration in medical services prices – which more than offset slower growth in transportation services and shelter.

<u>Headline CPI growth – annual change</u>; Oct 1.8% versus Sep +1.7%

Chart 2. 12-month percent change in CPI for All Urban Consumers (CPI-U), not seasonally adjusted, Oct. 2018 - Oct. 2019



The acceleration in the annual all-items CPI growth was the result of an acceleration in food and energy prices.

Food; Oct +2.1% versus Sep +1.8%

Energy; Oct -4.2% versus Sep -4.8%

The annual growth in core CPI (ex food and energy) made a slightly smaller contribution to the annual CPI growth, which helped to offset the faster growth in food and energy prices. The annual growth in core CPI remains elevated.

Core CPI (ex food and energy) – annual change; Oct +2.3% versus Sep +2.4%

Core goods (commodities less energy commodities) made a smaller contribution to annual headline CPI growth of +0.059%pts in Oct (versus +0.128%pts in Sep). Apparel and used cars and trucks led this result. The annual change in the index of apparel prices declined by 2.3% in Oct (versus -0.3% in Sep). The annual growth in used car and truck prices slowed from +2.6% in Sep to +1.4% In Oct.

Core services (services less energy services) made a larger contribution to headline annual CPI growth of 1.784%pts in Oct versus 1.747%pts in Sep. This was led by medical services contributing a very large +0.363%pts to headline CPI growth in Oct despite only accounting for 7% of the index weight. Annual growth in medical services increased to +5.1% in Oct from +4.4% in Sep. The annual contribution from shelter prices was lower, but growth still remains elevated. Annual growth in the shelter price index slowed from +3.5% in Sep to +3.3% in Oct.

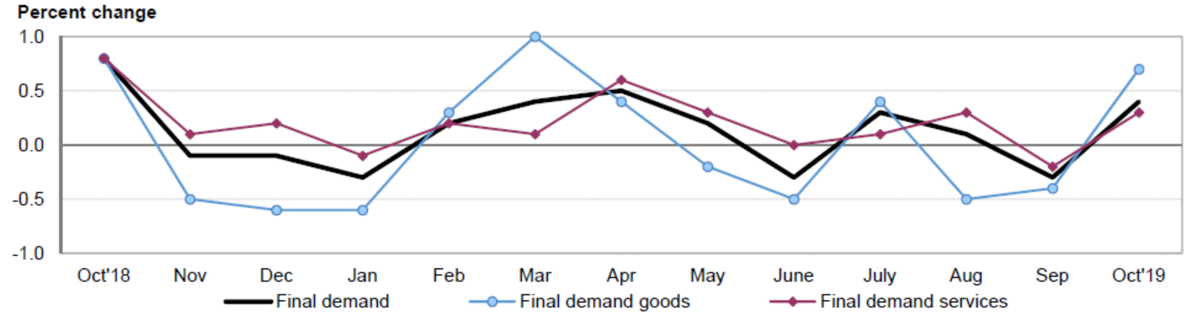
https://www.bls.gov/news.release/pdf/cpi.pdf

PPI (Oct)

Growth in producer prices for final demand (goods and services) rebounded in the month. On an annual basis, growth in producer prices continued to slow.

Producer Prices Final Demand – month change; Oct +0.4% versus Sep -0.3%

Chart 1. One-month percent changes in selected PPI final demand price indexes, seasonally adjusted



The acceleration in the monthly growth was led by both good and services this month.

Final demand goods – month change; Oct +0.7% versus Sep -0.4%. High growth in goods prices were led by higher growth in food and energy prices. Goods less food and energy prices were unchanged from the month prior.

> Almost half of the October advance in the index for final demand goods can be traced to prices for gasoline, which moved up 7.3 percent. The indexes for fresh and dry vegetables, residential electric power, basic organic chemicals, corn, and diesel fuel also increased. Conversely, prices for iron and steel scrap fell 15.7 percent. The indexes for chicken eggs and passenger cars also declined.

(New model year passenger cars and light trucks were introduced into the PPI in Oct)

Final demand services – month change; Oct +0.3% versus Sep -0.2%

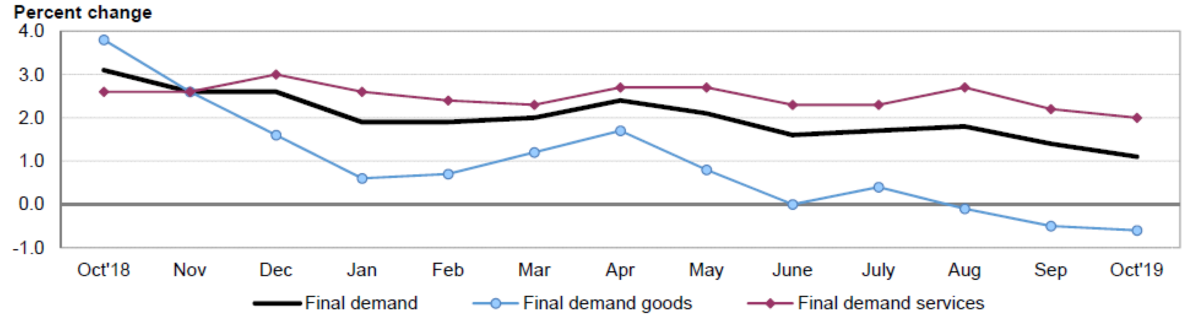
The acceleration in services prices was led by trade and transportation/warehousing prices.

> Over 70 percent of the broad-based increase can be traced to a 0.8-percent advance in margins for final demand trade services. (Trade indexes measure changes in margins received by wholesalers and retailers.)

Producer prices final demand – annual change; Oct +1.1% versus Sep +1.4%

On an annual basis, producer price growth continued to slow – led by slower growth in both goods and services prices;

Chart 2. Twelve-month percent changes in selected PPI final demand price indexes, not seasonally adjusted



https://www.bls.gov/news.release/pdf/ppi.pdf

Retail Sales (Oct)

The value of retail sales rebounded in Oct by +0.3% after declining by -0.3% in the month prior. Leading the rebound in sales were; non-store retailers and gasoline stations. Retail sales of motor vehicles, food and bev stores and general merchandise all rebounded from declines in the month prior but only partly retraced the prior month falls. Annual growth in retail sales value slowed to 3.1%.

Retail sales – month change; Oct +0.3% versus Sep -0.3%

Retail sales in Sep were revised slightly lower, but the pace of growth was unchanged.

Faster growth in the month of Oct was the result of;

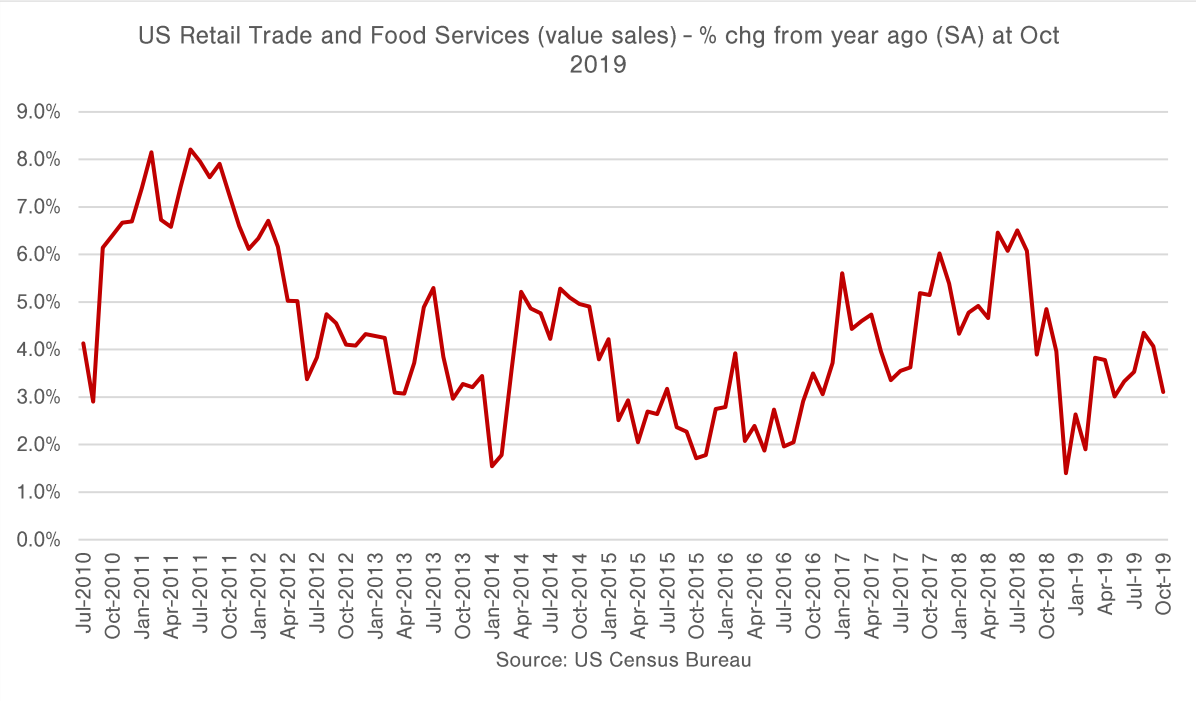
Acceleration in sales (versus the month prior) across; non-store retailers (+0.9% in Oct) and gasoline stations (+1.1% in Oct).

Sales across the following categories rebounded in Oct but did not retrace the full decline from Sep; motor vehicles (-1.3% in Sep versus +0.5% in Oct), food & bev stores (-0.6% in Sep versus +0.5% in Oct) and general merchandise stores (-0.4% in Sep versus +0.4% in Oct).

The growth in these categories still more than offset the declines across food services and drinking places, clothing, building materials and smaller declines across furniture, electronics, sporting goods and misc retailers.

Retail sales – annual change; Oct +3.1% versus Sep +4.1%

The pace of growth is lower than that of a year ago.



But excluding the value of gasoline stations sales, annual growth in retail sales still slowed from +4.6% in Sep to +3.9% in Oct – which is on par with the same time a year ago.

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

Business Inventories (Sep)

There was another weak result for Sep within the distributive trade and manufacturer shipments versus inventory growth for Sep. At a total business level, sales declined and inventory increased slightly in the month. Manufacturers and retailers led the decline in sales for the month while there was no growth in sales across the merchant wholesaler channel.

The inventory to sales ratio remained unchanged. On an annual basis, the value of inventory continued to grow at a much faster pace than sales.

MONTH CHANGE – SALES AND INVENTORY

Total Business Sales - month change; Sep -0.2% (-$3.2bn) versus Aug +0.2%

Sales declined in month for manufacturers (-0.2%) and retailers (-0.5%). Sales via merchant wholesalers was unchanged at 0%.

Total Business Inventory – month change; Sep +0.05% (+$1bn) versus Aug 0% (+$0.4bn).

The increase in inventory in the month was the result of a further +0.3% increase in manufacturer inventory and a +0.2% increase in retailer inventory. This was mostly offset by a fall in the value of merchant wholesaler inventory for Sep of -0.4%.

ANNUAL CHANGE – SALES AND INVENTORY

The faster growth in inventory than sales is more pronounced on an annual basis – at both a total business level and at the channel level. Data are seasonally adjusted.

Total Business

Sales – annual change; Sep +0.5% or +$7.4bn

Annual growth in the value of inventory was much higher;

Inventory – annual change; Sep +3.7% or +$73.3bn

Manufacturer Channel

Sales – annual change; Sep -1.2% or -$6.3bn versus a year ago

Yet inventory growth is much higher;

Inventory – annual change; Sep +2.6% or +$17.6bn

Retailer Channel

Sales – annual change; Sep +3.8% or +$16.8bn

While inventory growth is running at the same pace, the value is higher;

Inventory – annual change; Sep +3.8% or +$24.5bn

Merchant Wholesaler Channel

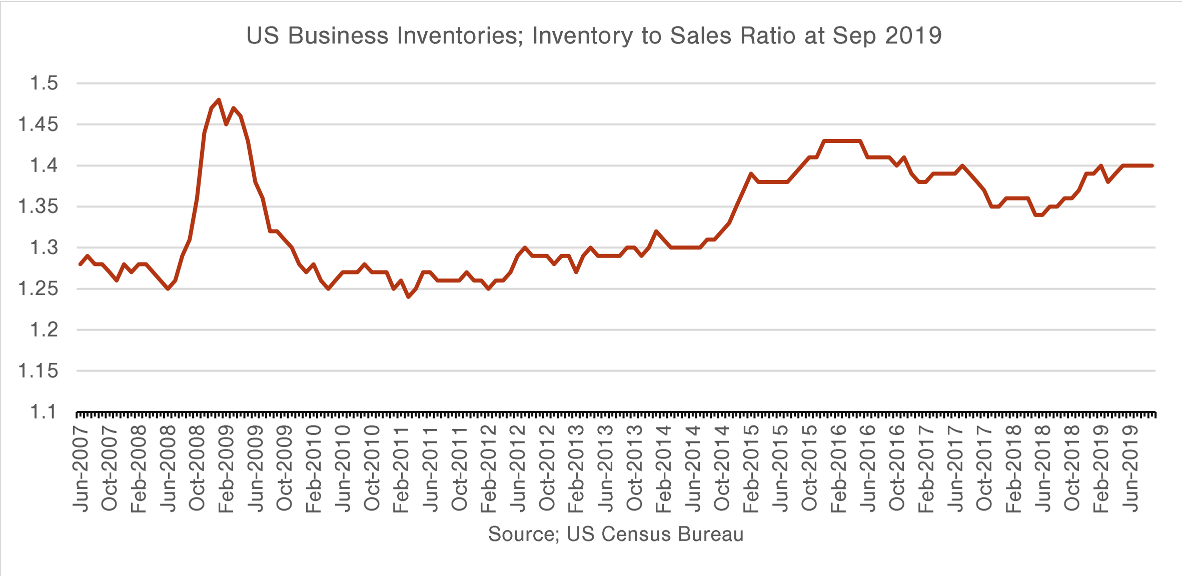
Sales – annual change; Sep -0.6% or -$3.1bn

Yet inventory growth is much higher;

Inventory – annual change; Sep +4.8% or +$31.2bn

INVENTORY TO SALES RATIO

There was little change in the inventory to sales ratio this month, remaining at the high point of this cycle at 1.4;



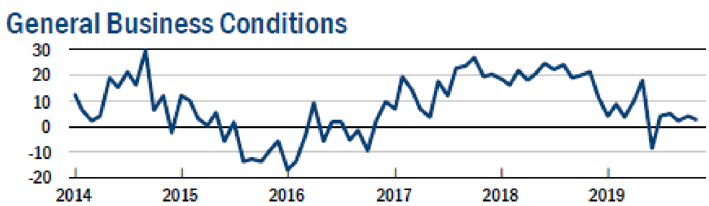
The inventory to sales ratio remains at 1.39 for manufacturers and at 1.36 for merchant wholesalers. The inventory to sales ratio for the retail channel increased from 1.44 in Aug to 1.45 in Sep.

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

Empire State Manufacturing Index (Nov)

General business conditions remained somewhat subdued in Nov with the manufacturing index expanding but at a slower pace. New orders growth lifted slightly while shipment growth slowed. Employment increased at a slightly faster pace while the average workweek still increased but growth slowed to a low level.

General Business Conditions; Nov 2.9 versus Oct 4



	Percent Reporting		
	Higher	Lower	Index
Oct	30.2	26.1	4.0
Nov	28.4	25.5	2.9
Change			-1.1

While demand improved slightly in Nov with new orders increasing at a slightly faster pace, demand growth remains subdued.

Growth in shipments slowed (remaining at a more moderate level). Unfilled orders still declined, albeit at a slower pace. Inventories declined at a faster pace. Both prices paid and prices received still increased, but at a slower pace.

Growth in the number of employees lifted a little but growth in the average workweek slowed to a lower level.

Future business conditions in six months' time lifted slightly.

https://www.newyorkfed.org/survey/empire/empiresurvey_overview.html

Industrial Production (Oct)

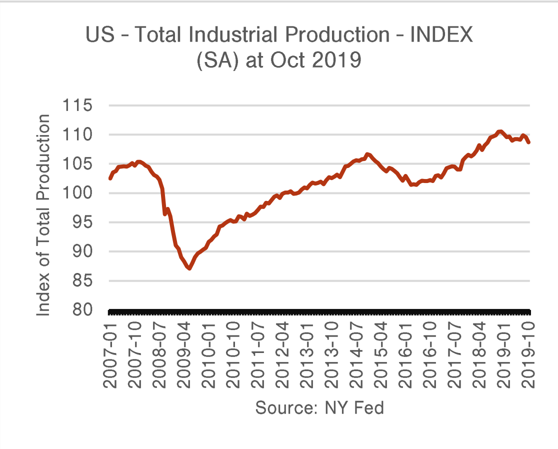
Total industrial production declined at a faster pace in Oct after a fall in the month prior. This was led by a slightly faster decline in manufacturing production (led mostly by a decline in durable goods production), a further decline in mining and a decline in utilities production.

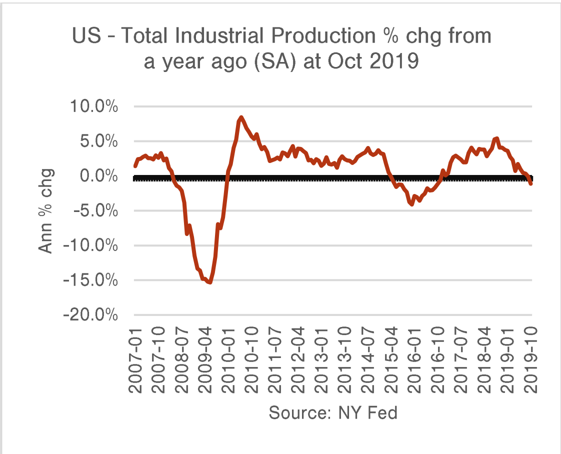
TOTAL INDUSTRIAL PRODUCTION

Month change; Oct -0.8% versus Sep -0.3%

Manufacturing, mining and utilities production all declined in the month.

The annual decline in industrial production accelerated from -0.1% in Sep to -1.1% in Oct.





Overall capacity utilization fell 1% in Oct and is now 3.2% below the same time a year ago.

MANUFACTURING PRODUCTION

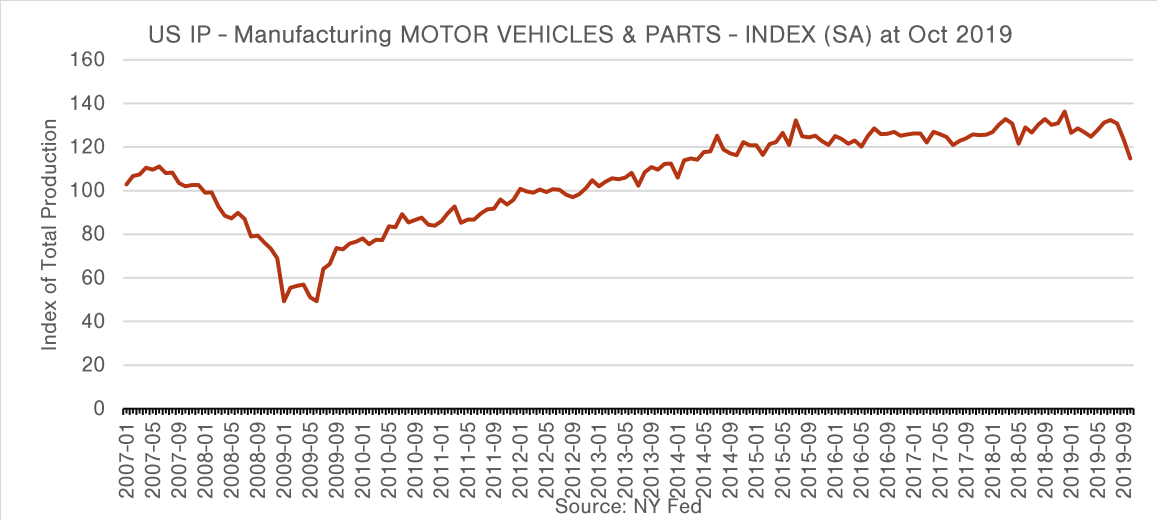
Total Manufacturing - month change; Oct -0.6% versus Sep -0.5%

The overall decline in manufacturing production again this month was mostly the result of a faster decline in durable goods production.

Durable goods production – month change; Oct -1.2% versus Sep -0.9%

The breadth of declines remained broad and was slightly higher than the month prior (seven categories out of eleven in Oct). There were several notable declines;

Motor vehicle production declined at an accelerated pace in the month; Oct -7.1% versus Sep -5.5%



The cause of this decline is still cited as the result of the GM strike.

Even excluding the decline in motor vehicle production, total manufacturing production still declined by -0.1%. Other declines included computer equipment, electrical equipment and misc.

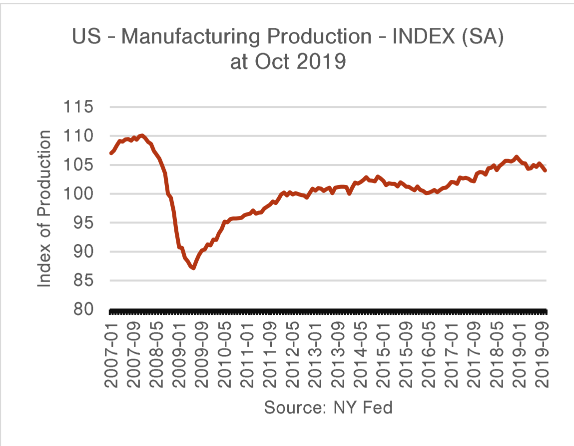
<u>Non-durable goods production – month change</u>; Oct 0% versus Sep -0.2%

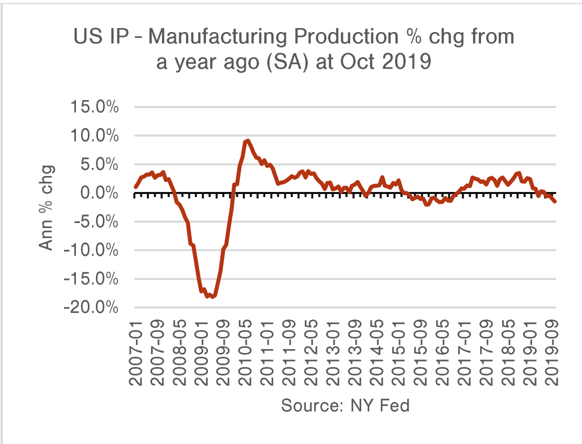
While the breadth of declines increased in the month (now seven out of nine categories with a monthly decline in Oct), there was no change in production after the decline in Sep.

The only two categories where production increased in Oct were food, bev's and tobacco production and printing and related support activities.

The overall annual decline in manufacturing production accelerated in Oct;

<u>Manufacturing production – annual decline</u>; Oct -1.5% versus Sep -0.9%





Manufacturing capacity utilization declined further in Oct falling to 74.7% a fall of -0.7% from Sep and is now 2.8% below a year ago.

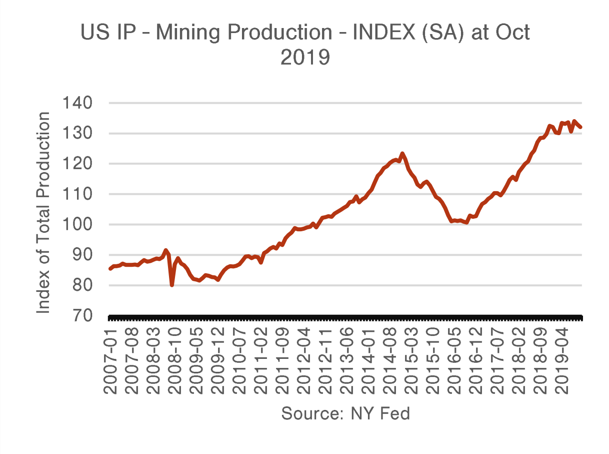
<u>MINING PRODUCTION</u>

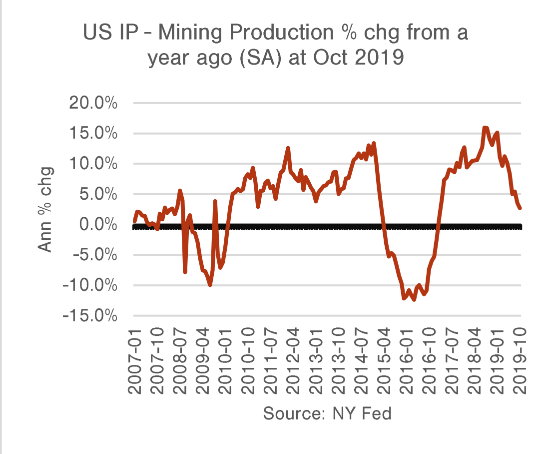
Month change; Oct -0.7% versus Sep -0.8%

The annual change of mining production remains above a year ago, but has been slowing since Sep 2019.

Mining production – annual change; Oct +2.7% versus Sep +3.5%

Viewing the index of mining production provides context to the slowdown in growth – production appears to have stalled at a very high level;





But mining capacity utilization has continued to fall. In Oct, utilization fell by -1.1% and is 3% below the same time a year ago.

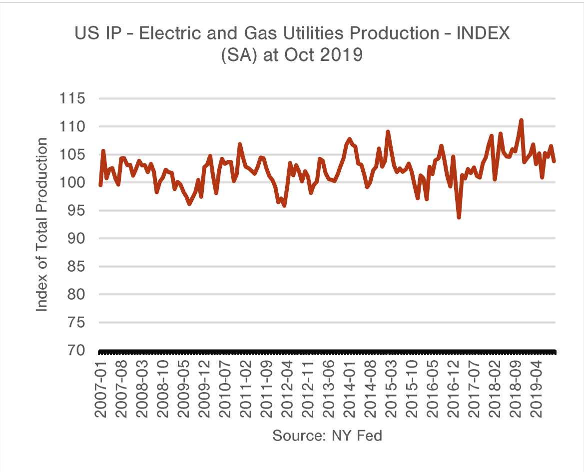
UTILITIES PRODUCTION

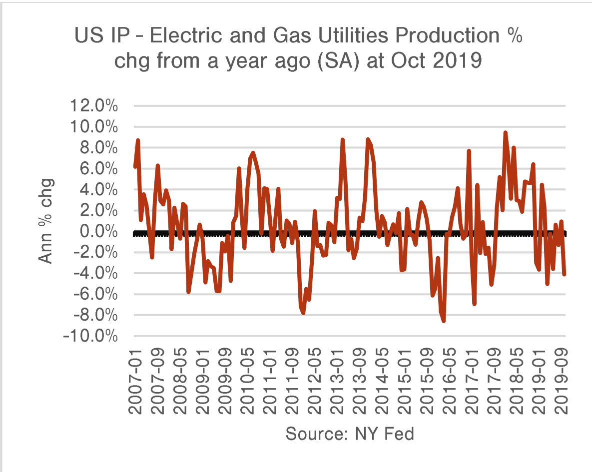
Month change; Oct -2.6% versus Sep +1.9%

> The output of utilities fell 2.6 percent in October; a decrease in the output of electricity more than offset an increase in the index for natural gas utilities.

On an annual basis, the production of utilities fell – there is generally more volatile moves in this area.

Utilities production – annual change; Oct -4.1% versus Sep +0.9%





Capacity utilization also fell harder in Oct, falling to 75.4% and is now 6.5% below the same month a year ago.

https://www.federalreserve.gov/releases/g17/current/

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Europe

Germany CPI (Oct)

The annual pace of consumer price growth was confirmed at +1.1% for Oct 2019. On a harmonised basis (For European purposes), annual growth was unchanged at +0.9%.

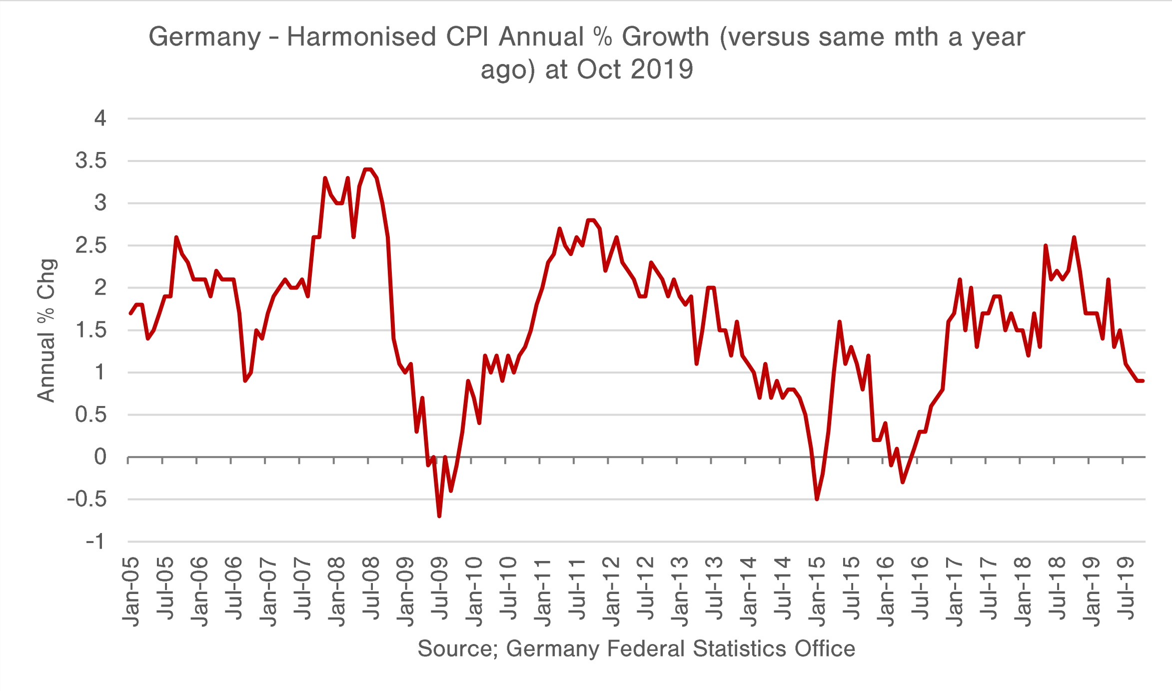
CPI – Annual change; Oct +1.1% versus Sep +1.2%.

The growth in goods prices remained low at +0.4% for the year. The decline in energy prices continued to exert downward pressure on goods prices and the CPI. Energy prices declined by -2.1% in the year to Oct.

Excluding energy, annual CPI growth was higher at +1.4%.

Services prices grew at +1.7% in Oct.

Harmonised CPI – Annual change; Oct +0.9% versus Sep +0.9%



https://www.destatis.de/EN/Press/2019/11/PE19_434_611.html;jsessionid=7F80DBA239EFC1088BDCA10A517E73BA.internet712

Germany GDP – prelim Q3

There was a small rise the Germany Q3 GDP growth. For now, barring any downward revisions, this means that Germany narrowly averts a technical recession.

Note that Q2 GDP growth was revised to a larger decline from -0.1% to -0.2% in this report.

Germany Real GDP – quarter change; Q3 prelim +0.1% versus Q2 -0.2%

The increase in GDP between Q2 and Q3 was mostly the result of consumption;

> Compared with the second quarter of 2019, household final consumption expenditure increased, and so did government final consumption expenditure. Exports rose, while imports remained roughly at the level of the previous quarter. Also, gross fixed capital formation in construction was up on the previous quarter. Gross fixed capital formation in machinery and equipment, however, was lower than in the previous quarter.

On an annual and calendar adjusted basis, real GDP increased by +0.5% in Q3. On an unadjusted basis, annual GDP growth was +1%.

The detailed results will be released 22 Nov 2019.

https://www.destatis.de/EN/Press/2019/11/PE19_436_811.html;jsessionid=7F80DBA239EFC1088BDCA10A517E73BA.internet712

Eurozone GDP – Prelim Q3

The prelim estimate indicated that real GDP growth was little changed for the Euro area and EU28 in Q3.

Euro area Real GDP Growth – quarter change; Q3 +0.2% versus Q2 +0.2%

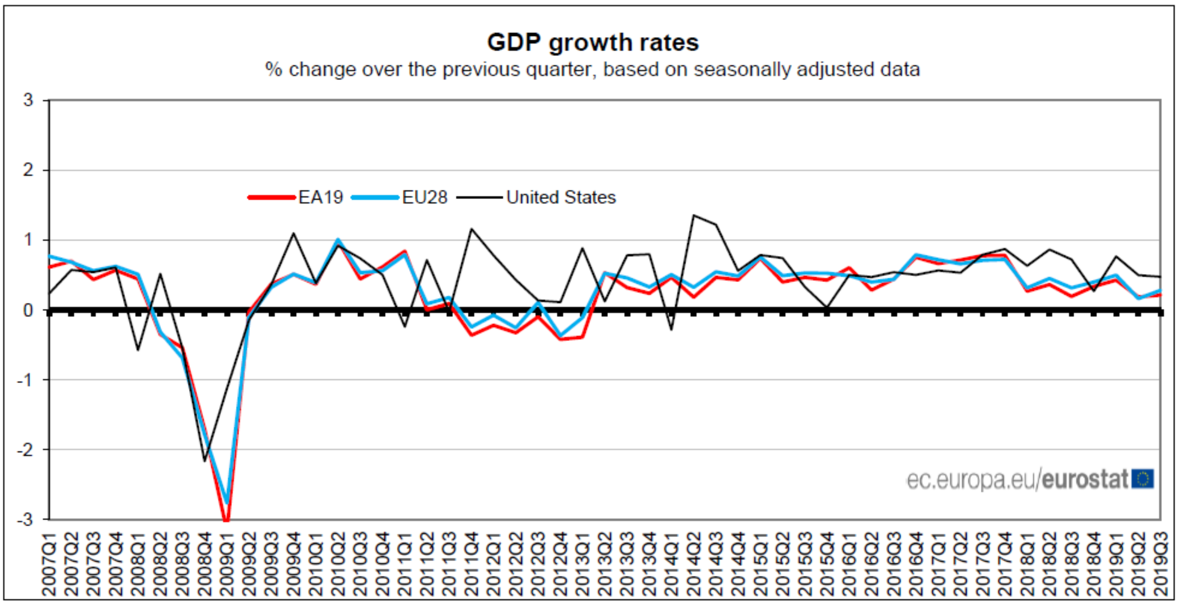
Annual growth in real GDP remained unchanged at +1.2% in the Euro area.

Across the broader Eurozone, the pace of GDP growth lifted slightly.

EU28 Real GDP Growth – quarter change; Q3 +0.3% versus Q2 +0.2%

The annual growth in real GDP slowed slightly from +1.4% in Q2 to +1.3% in the Q3 prelim estimate.

The quarterly growth rates remain at a relatively low level across both the Euro area and the EU28;



https://ec.europa.eu/eurostat/documents/2995521/10075412/2-14112019-AP-EN.pdf/c29b43ca-1bc8-d863-cbcd-31cc05068ddf

Eurozone CPI (Oct)

Annual consumer price growth slowed further across the Euro area in Oct, led by a further annual fall in energy prices. Annual core CPI growth in the Euro area lifted slightly to +1.1% in Oct.

Euro Area Headline CPI – annual change; Oct +0.7% versus Sep +0.8%

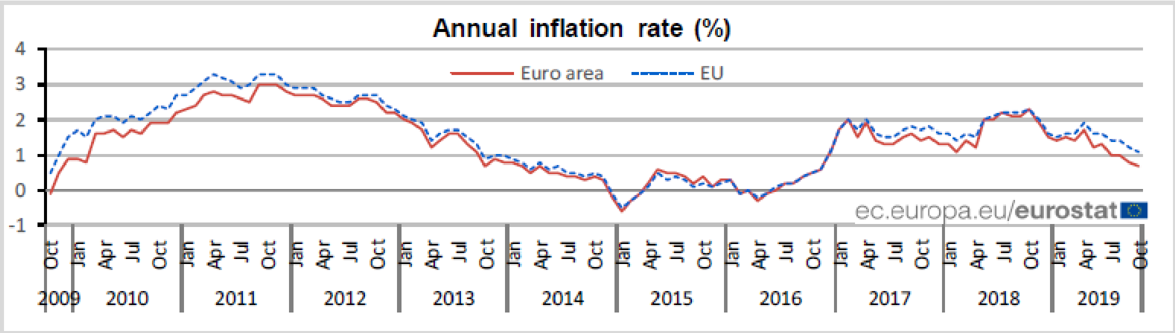
Food, alcohol and tobacco price growth slowed slightly from +1.6% in Sep to +1.5% in Oct – but overall still made an identical contribution to headline annual CPI growth of +0.29% pts in Sep & Oct. A year ago, food, alcohol & tobacco contributed +0.42%pts to CPI growth.

Annual energy prices declined by -3.1% in Oct versus -1.8% in Sep. and detracted -0.32%pts from headline annual CPI growth in Oct. A year ago, energy price growth contributed +1.02%pts to headline CPI growth.

Excluding Food and Energy prices, core CPI growth accelerated slightly from 1% in Sep to +1.1% in Oct.

Non-energy industrial goods prices grew by +0.3% in Oct and made a small +0.07%pt contribution to annual CPI growth.

Services price growth was unchanged; Oct +1.5% versus Sep +1.5%. A year ago services prices were growing at an annual pace of +1.7%, so little change over the last year. Services continue to make up the larger overall component of the CPI, adding +0.69%pts to headline CPI growth in Oct.



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Eurozone Industrial Production (Sep)

Industrial production in the Euro area and the EU28 group increased in the latest month but at a slower pace than in Aug. Growth was led by faster growth in non-durable consumer goods. Production of capital goods also increased but at a slower pace than in the month prior.

Annual industrial production in both the Euro area and the broader EU28 remained below the same level a year ago, declining at an annual pace of -1.7%.

Euro area industrial production – month change; Sep +0.1% versus Aug +0.4%

The slower growth in the month was the result of;

A further decline in the production of intermediate goods by -0.9% in Sep versus +0.1% in Aug.

A decline in energy production of -0.8% in Sep after a -0.2% decline in Aug.

A further decline in the production of durable goods of -0.7% in Sep after a -0.6% in Aug.

Production of capital goods continued to increase but at a slower pace of +0.6% in Sep (versus +1.1% in Aug).

Production of non-durable consumer goods increased at a faster pace in Sep of +1% versus +0.3% in Aug.

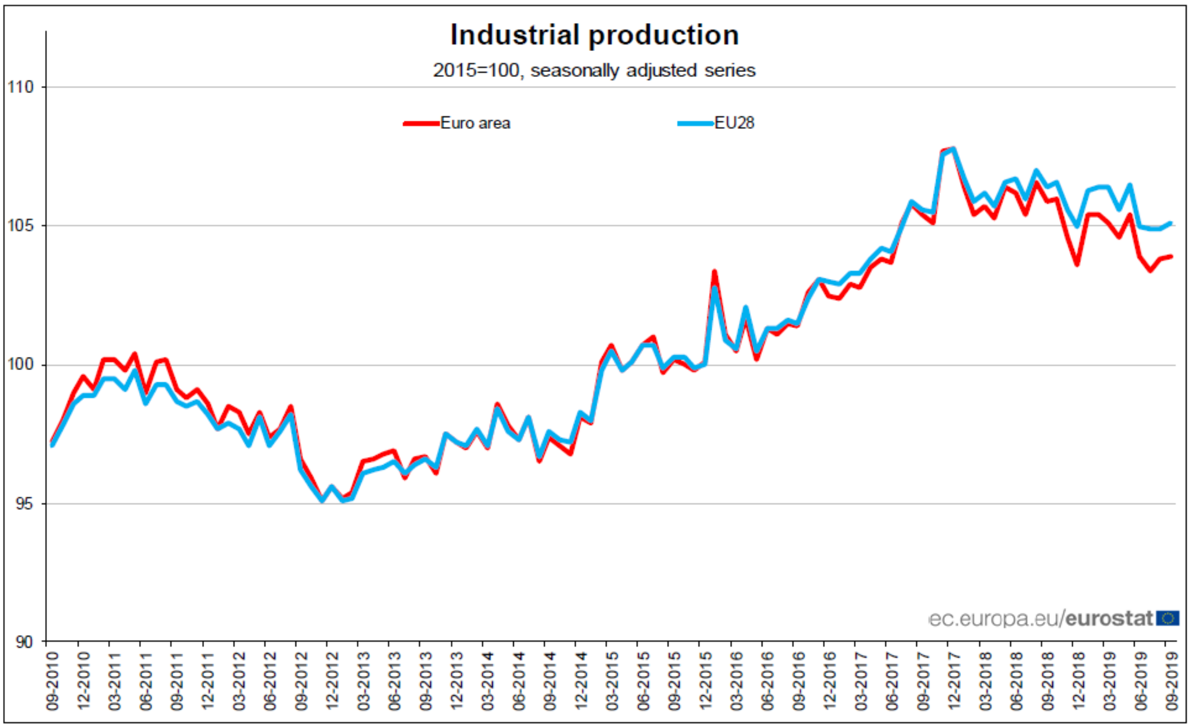
On an annual basis, industrial production remains below the same time a year ago across both the Euro area and the EU28. In both cases the decline slowed in Sep;

Euro area industrial production – annual change; Sep -1.7% versus Aug -2.8%

Industrial production remains below a year ago across; intermediate goods -3.9%, energy -2.6%, capital goods -1.4% and durable consumer goods -0.8%. Non-durable consumer goods are the only area where production is ahead of last year by +1.6%.

EU28 industrial production – annual change; Sep -1.2% versus Aug -2%

Across the broader EU28, production of durable and non-durable goods remains above a year ago. Production of intermediate goods, energy and capital goods declined versus a year ago.



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Japan

GDP – Prelim Q3

The first prelim release for GDP showed that growth slowed in Q3 versus Q2, but that annual real GDP growth accelerated.

Japan Real GDP – Quarter Change; Q3 +0.1% versus Q2 +0.4%

Several areas of expenditure contributed to the slower growth in the quarter;

Private consumption expenditure slowed from +0.6% in Q2 to +0.4% in Q3 – household consumption growth halved.

Private residential and non-residential investment increased at a faster pace, but made a small contribution overall.

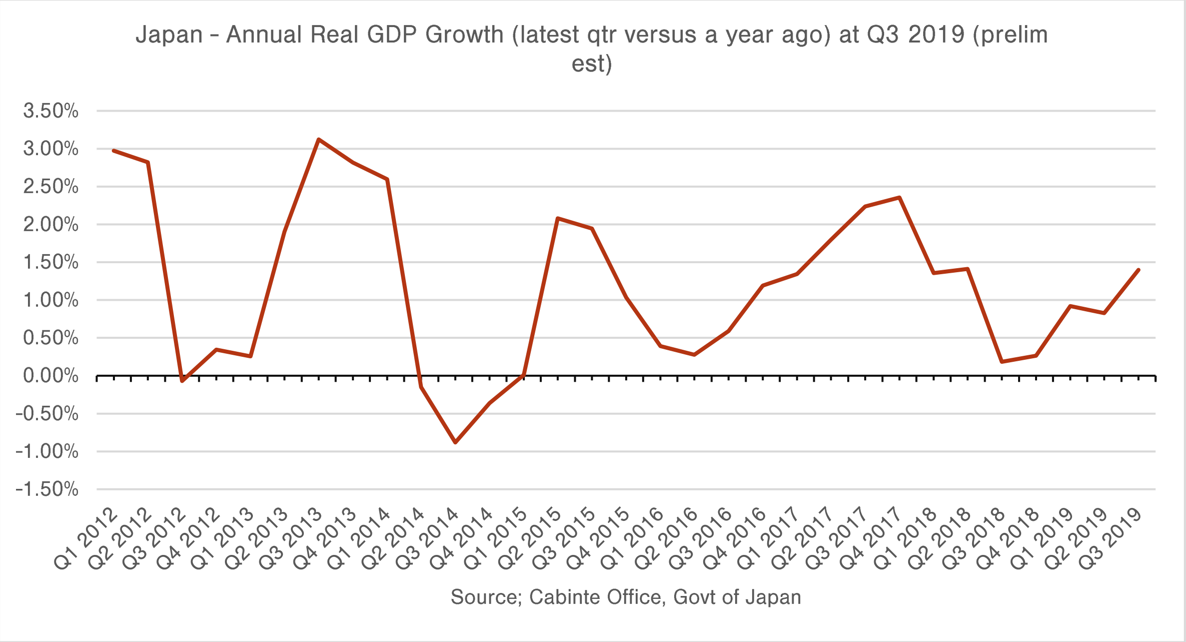
The change in inventories detracted further from growth in Q3 by -0.3%pts versus -0.1%pt in Q2.

Government consumption and public investment expenditure growth both slowed in Q3.

Net exports continued to detract from growth in Q3 by -0.2%pts, slightly less than the -0.3%pts in Q2. There was a slightly different dynamic this quarter with net exports – exports declined in the quarter (-0.7%) and this was partly offset by slower import growth (+0.2% in Q3 versus +2.1% in Q2).

In annual terms though, real GDP growth accelerated;

Japan Real GDP – Annual Change; Q3 +1.4% versus Q2 +0.8%



On an annual basis (versus the same quarter a year ago), several areas of expenditure contribution to the faster annual growth;

Private consumption growth increased at a faster pace in Q3 led mostly by faster growth in household consumption versus a year ago.

Both private residential and non-residential investment made a larger contribution to annual growth versus the quarter prior. This was offset by the annual change in private inventories which detracted from growth in Q3 after adding to growth in Q2.

Both government consumption and public investment made a larger contribution to annual growth.

Net exports continued to detract from growth in Q3 by a slightly larger degree. In Q3 though, exports detracted less from growth (than in the annual picture in Q2), but import growth had accelerated. In other words, import growth still increased faster than the improvement in the decline in exports.

https://www.esri.cao.go.jp/en/sna/data/sokuhou/files/2019/qe193/gdemenuea.html

Industrial Production - Final (Sep)

In the final release of data for Sep there was a reasonable upward revision to production and shipments. As with the prelim report, the headline production numbers look stronger this month, but there are notable pockets of weakness and underperformance especially in the two largest weight categories of transport equipment and food/bev production.

The decline in inventory was revised to a slightly smaller decline in the final report.

We may not know for several months if there is/will be any overhang in production/shipments/inventory due to the increase in the consumption tax.

TOTAL INDUSTRIAL PRODUCTION – MONTH CHANGE

Production total mining and manufacturing – month change; Sep +1.7% (revised higher from +1.4% with complete data) versus Aug -1.2%

There are several larger areas of weaker production this month including the two largest weight categories in the index transport equipment and food/bev; fabricated metals -0.6%, electronic parts and devices -1.8%, transport equipment -0.2% (within which passenger car production declined by 3.2% in the month), chemicals -3.2% and food and tobacco +0.5%

Shipments total mining and manufacturing – month change; Sep +1.5% (revised higher from +1.3% with complete data) versus Aug -1.3%.

There were similarly pockets of weaker shipments in the month; transport equipment -2.4% (within which passenger car shipments were down -3.9%), electronic parts and devices -6.4%, chemicals +0.6%. Growth in food and tobacco shipments performed slightly below par, growing at +1.1%.

Inventory total mining and manufacturing – month change; Sep -1.4% (revised lower from -1.6% with complete data) versus Aug -0.1%.

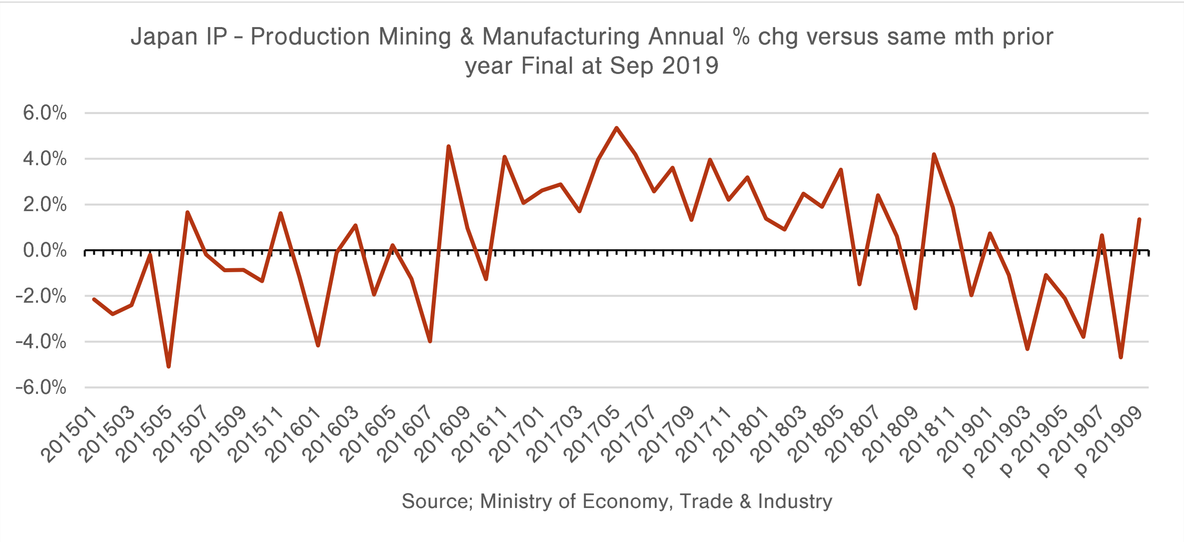
Passenger car inventory increased by 10% in Sep.

The largest weight in the inventory index is for iron, steel and ferrous metals – and inventory declined by -1.9% in the month.

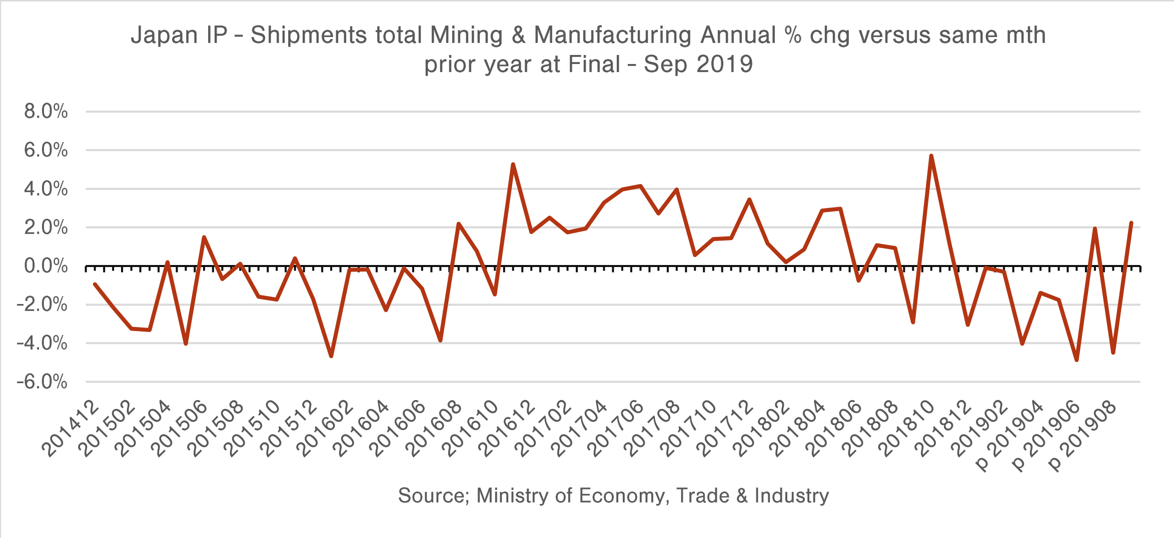
TOTAL INDUSTRIAL PRODUCTION – ANNUAL CHANGE

The stronger performance in production for the month resulted in annual growth rebounding from decline to growth in Sep;

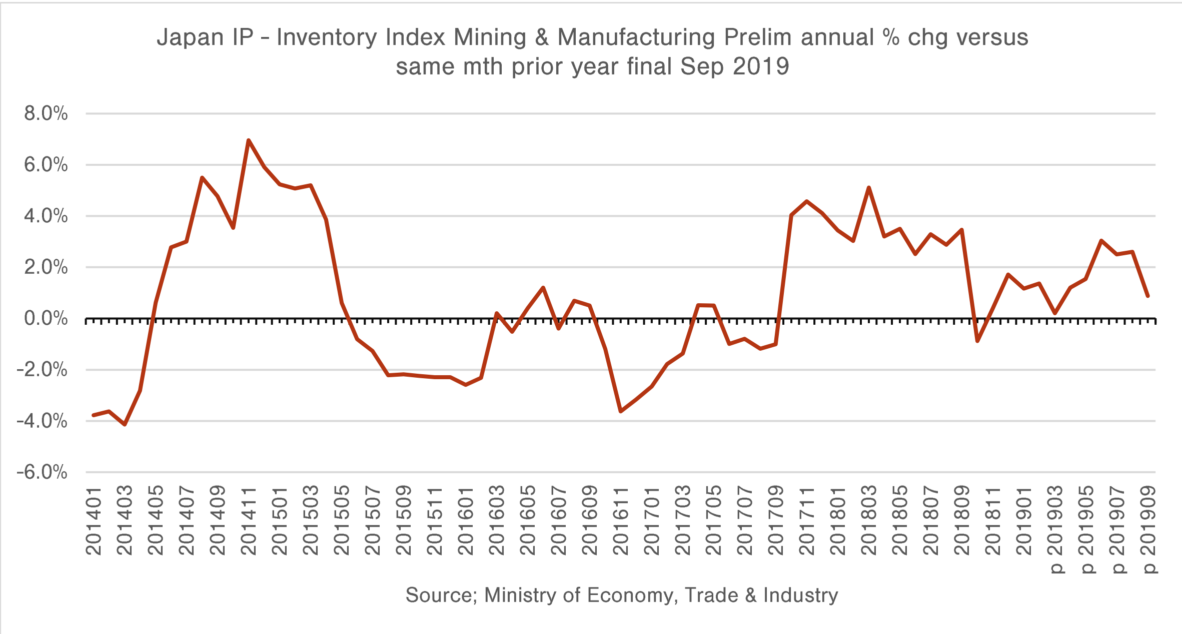
Production – annual change; Sep +1.3% (revised higher from +1.1% in the prelim report) versus Aug -4.7%



Shipments – annual change; Sep +2.2% (revised higher from +2% in the prelim report) versus Aug -4.5%



Inventory – annual change; Sep +0.9% (revised higher from the +0.7% in the prelim report) versus Aug +2.6%



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

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United Kingdom

Brexit

The UK has now had a further Brexit extension approved – until 31 Jan 2020. This will allow time for the general election to be held on 12 Dec 2019.

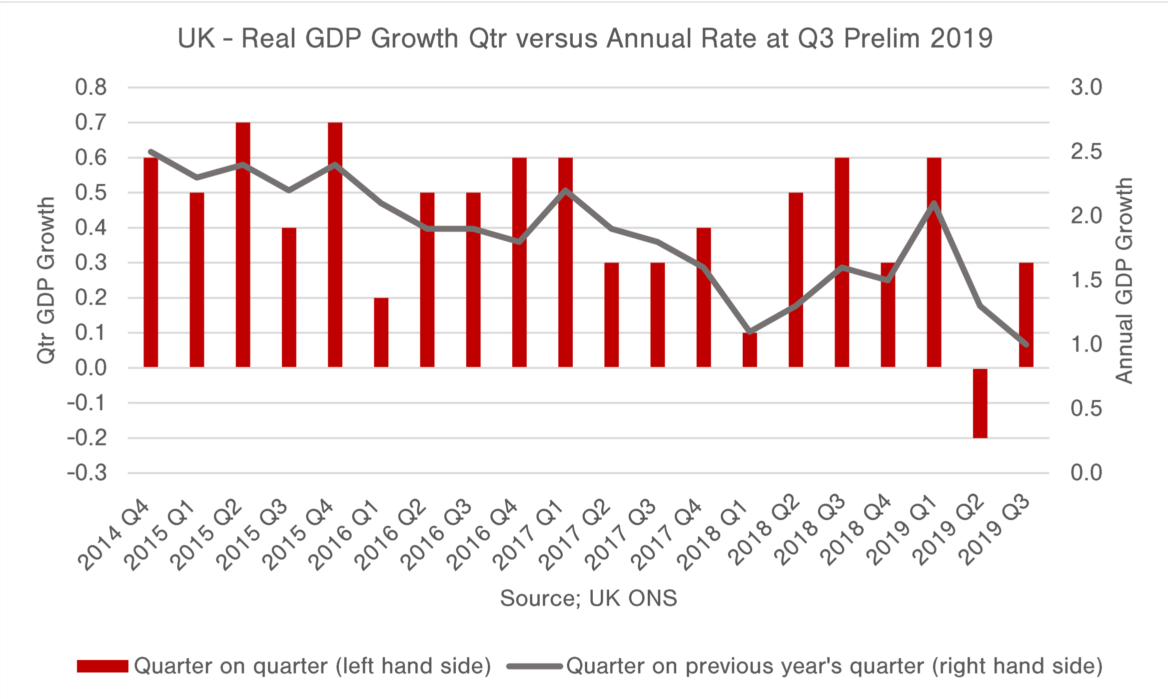
> Despite doing the seemingly impossible and getting a new deal from the EU, he [PM Johnson] simply doesn't have the numbers in Parliament to pass the legislation required to deliver Brexit. Holding an election in which he secures a fresh majority was his only real option.
> https://edition.cnn.com/2019/11/02/uk/boris-johnson-brexit-risk-intl-gbr/index.html

GDP – Prelim Q3

The prelim report showed that real GDP growth increased slightly in Q3 after declining in Q2. The annual growth in real GDP slowed further

Real GDP Growth – Quarter; Q3 +0.3 versus Q2 -0.2%

The annual pace of growth also slowed from 1.3% in Q2 to 1% in Q3.



Contributions to Real GDP Growth – Output View

The main changes between Q2 and Q3 were;

Production was no longer a drag on growth; in Q2 production detracted -0.24%pts from growth and in Q3 production growth was flat.

Manufacturing experienced volatility in Q2 with activity bought forward in preparation for the first Brexit date. The partial car manufacturing shutdowns in Apr and the generally subdued manufacturing output affected performance in Q3.

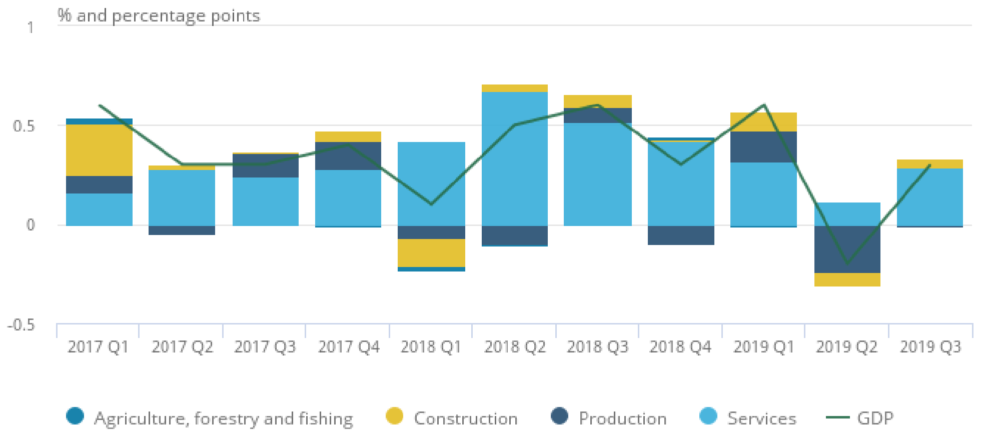
> The British Chambers of Commerce also reported a deterioration in manufacturing activity, reporting how the "manufacturing sector continues to toil under the weight of diminishing cashflow, weakening global demand and disrupted supply chains."

Construction made a slightly positive contribution to growth adding +0.04%pts in Q3 versus -0.07%pts in Q2

Services made a larger contribution to growth adding +0.29%pts in Q3 versus +0.12% pts in Q2. Other services made up the largest part of growth in quarter, with info and comms and professional/scientific making up a smaller part of growth. Retail remained subdued.

Figure 2: There has been a pickup in services and construction growth while growth in the production sector was flat in Quarter 3 2019

UK, Quarter 1 (Jan to Mar) 2017 to Quarter 3 (July to Sept) 2019



Source: Office for National Statistics – GDP first quarterly estimate

<u>Contribution to Real GDP Growth - Expenditure View</u>

The key changes were;

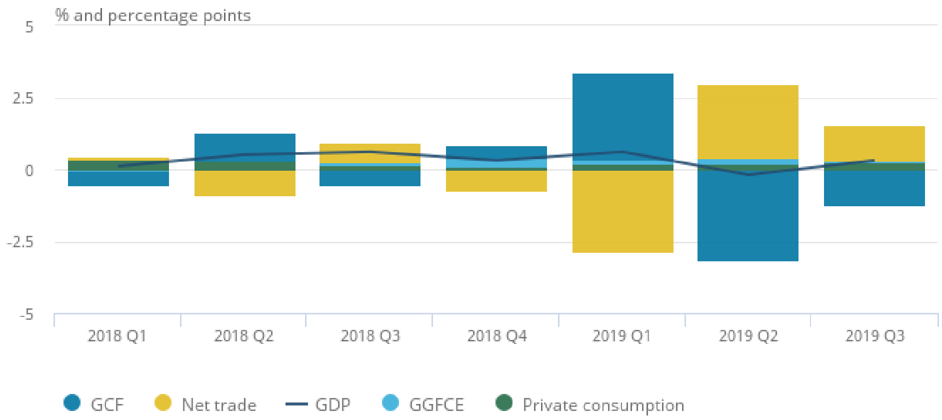
A somewhat smaller drag on growth from the decline in private investment.

Only a slightly larger contribution to growth from private consumption.

Net trade made a somewhat smaller, yet still positive contribution to growth.

Figure 6: The pickup in GDP in Quarter 3 2019 was largely a result of net trade, though this was unrelated to movements in unspecified goods

UK, Quarter 1 (Jan to Mar) 2018 to Quarter 3 (July to Sept) 2019



Source: Office for National Statistics – GDP first quarterly estimate

https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/julytoseptember2019

Labour Market Survey (Jul-Sep)

On an annual basis, there was a small improvement in the growth of total employed persons and in the decline of total unemployed persons. Both remain at more moderate levels.

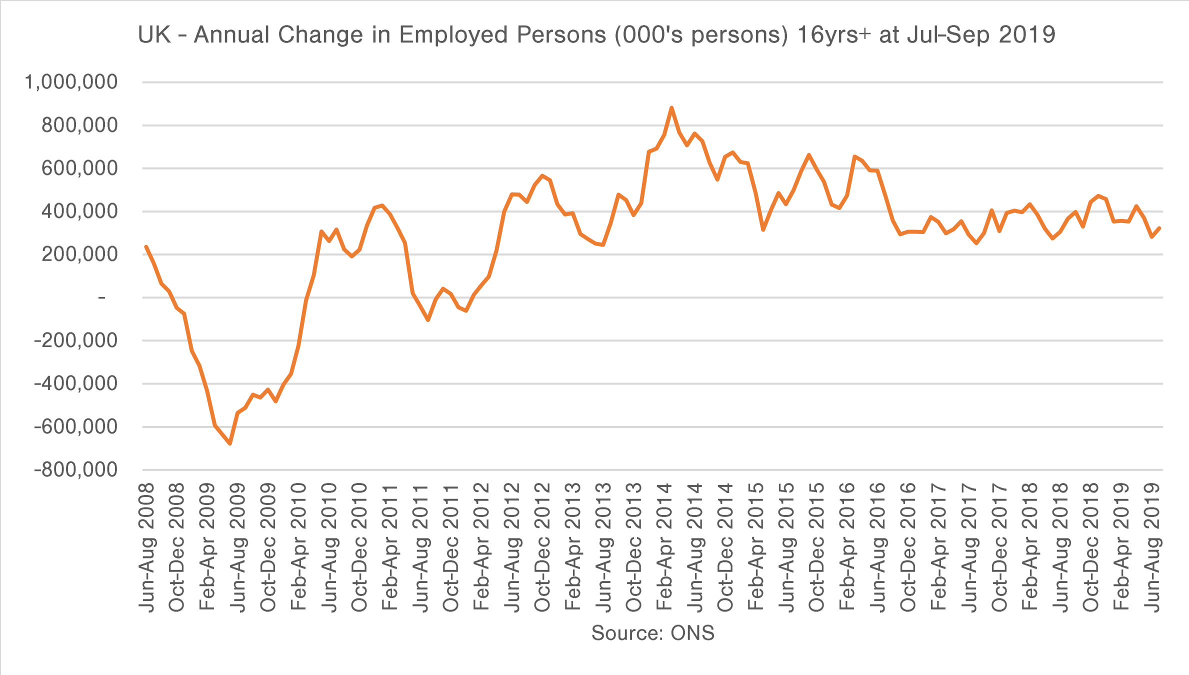
In the latest quarter (versus the prior non-overlapping 3-month period) though, there is continued decline in employment. The total number of unemployed persons still declined, along with the unemployment rate, only because of the larger fall in participation.

EMPLOYMENT GROWTH

There was a small lift in the annual employment growth at Jul-Sep 2019 versus the annual growth recorded in Jun-Aug 2019;

Employment growth (persons) – annual change; Jul-Sep +322k versus Jun-Aug +282k

This pace of growth is slightly below the average annual pace over the last three years;



On a 3-monthly basis though, employment continued to decline. This compares the 3-month growth at Jul-Sep (versus the prior non-overlapping 3-month period Apr-Jun) and compares that to the 3month change at Jun-Aug (versus that prior non-overlapping 3-month period of Mar-May).

Employment growth – 3-month change; Jul-Sep -58k persons versus Jun-Aug -56k persons

The pace of 3-monthly employment growth has been slowing consistently since the start of 2019;

LABOUR FORCE/ECONOMICALLY ACTIVE

On an annual basis, the total size of the labour force increased but at a slower pace than employment. This resulted in a slightly faster annual decline in total unemployed persons.

Labour force/Economically active – annual change; Jul-Sep +251k persons versus Jun-Aug +233k persons

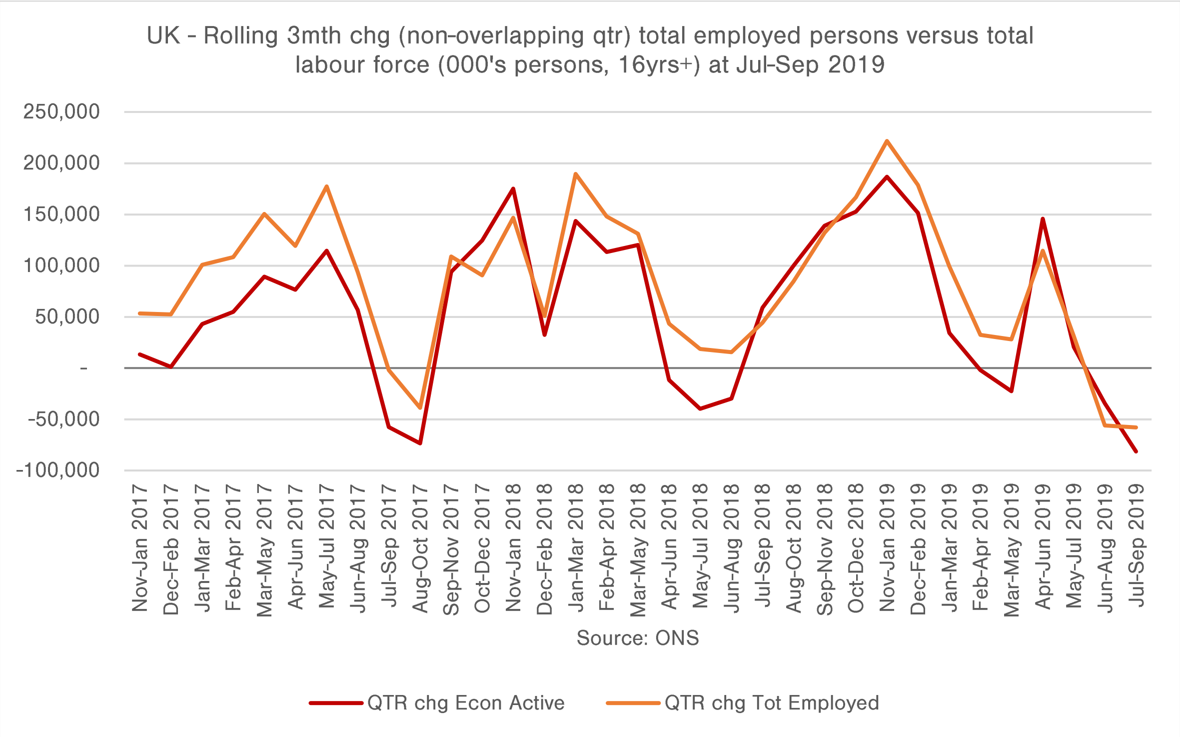
The slightly faster pace of growth in the labour force was the result of an annual increase in participation of +0.1%pts. The participation rate increased from 63.7% in 2018 to 63.8% in 2019.

In the latest 3-month period though, the size of the labour force declined at a faster pace. The decline in the labour force over this period was due to a larger quarterly fall in the participation rate.

Labour force/Economically active – 3-month change; Jul-Sep -81k persons versus Jun-Aug -35k persons

The further decline in the labour force in the 3-month period of Jul-Sep was due mostly to a -0.24%pt decline in the participation rate. This resulted in approx. 126k persons leaving the labour force over that 3-monht period. The participation rate fell from 64.1% in Apr-Jun to 63.8% in Jul-Sep.

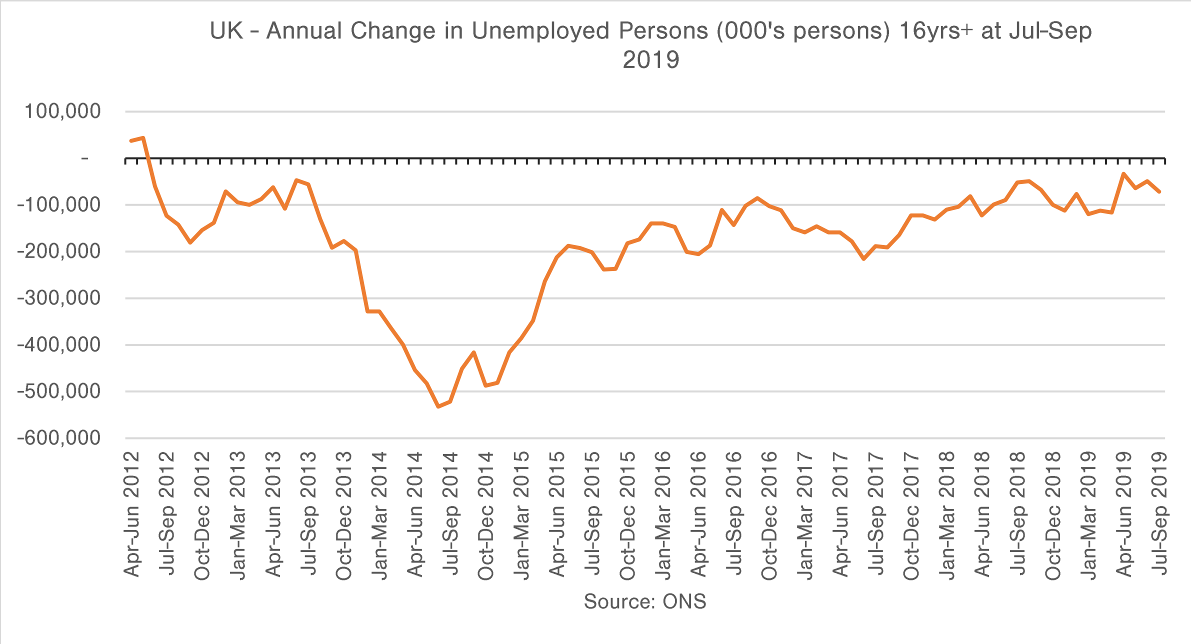
So, despite the decline in employment during the 3-month period Jul-Sep, **total unemployed persons still decreased due to the larger fall in the size of the total labour force/those economically active;**



Total Unemployed Persons

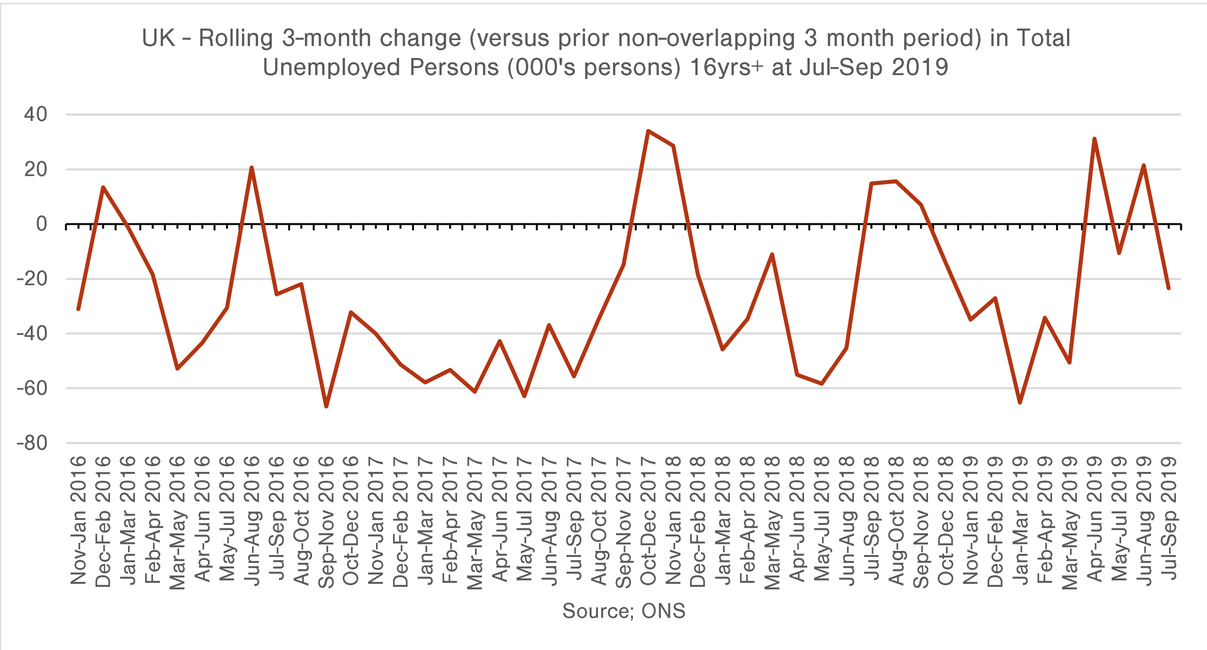
On an annual basis, the decline in total unemployed persons was slightly faster in the Jul-Sep period. The annual decline though remains at one of the lower/smaller levels.

Total unemployed persons – annual change; Jul-Sep -71k persons versus Jun-Aug -49k persons



On a 3-monthly basis, total unemployed persons still declined, despite the fall in employment. As mentioned, this was due to the larger decrease in participation which resulted in the total labour force declining more than employment in the quarter.

Total unemployed persons – 3-month change; Jul-Sep -23k persons versus Jun-Aug +22k persons



As a result, the unemployment rate declined from 3.9% in Aug-Jun to 3.8% in Jul-Sep.

SUMMARY OF MAIN LABOUR MARKET INDICATORS

Annual employment growth lifted slightly and, importantly, remains above that of the total labour force. The annual growth in the labour force increased slightly due to a larger contribution from the annual growth in participation. As a result, total unemployed persons declined at a slightly faster pace.

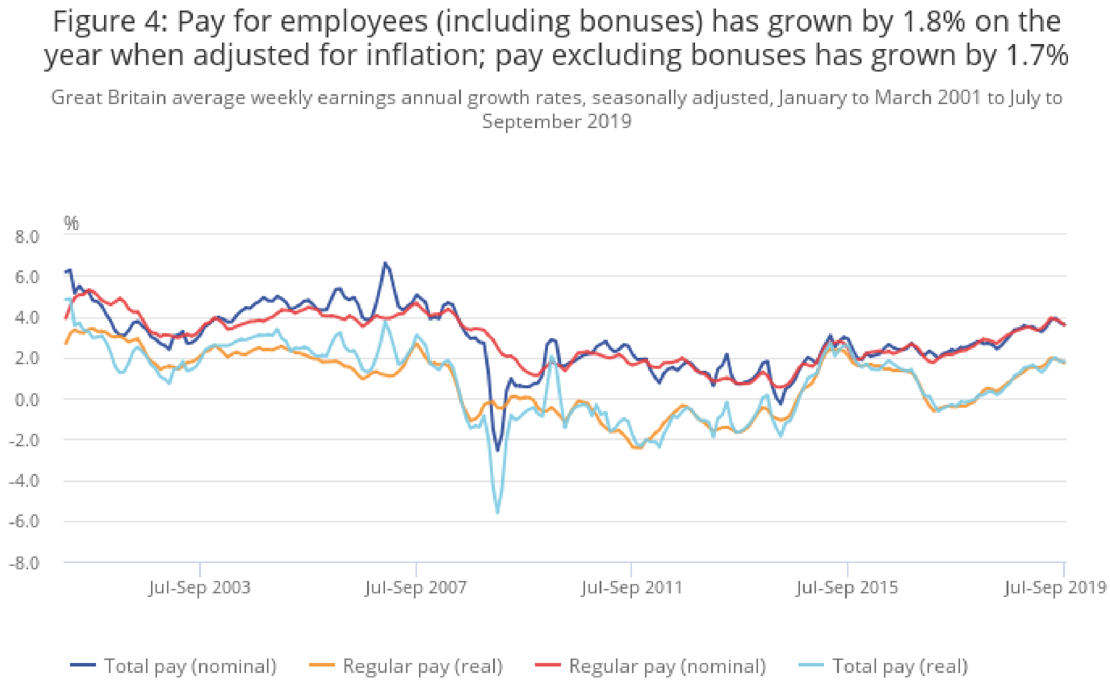
On a 3-monthly basis though, total employed persons declined for the second period in a row (compared to the prior non-overlapping 3-month period). Despite this fall, total unemployed persons still declined due to the larger decline in participation resulting in approx. 126k persons leaving the labour force.

	16yrs+ (000's of persons)		16-64yrs (000's of persons)	
	Latest Qtr Chg Jul-Sep 2019	ANN Chg Jul-Sep 2019	Latest Qtr Chg Jul-Sep 2019	ANN Chg Jul-Sep 2019
Estimated change in the Labour Force due to pop growth (1)	44.867	175.022	18.432	65.115
How many jobs available for them? (employment growth) (2)	-57.979	322.664	-5.343	266.631
Difference; employment less est chg in labour force due to pop (3) (if positive, then employment growing faster than pop)	-102.846	147.642	-23.775	201.516
Change in the labour force due to the change in participation (4)	-126.330	76.071	-48.593	127.688
The remainder is the chg in total unemployed persons (4) less (3) - if neg, then unemployment decreasing	-23.484	-71.571	-24.818	-73.828
Different views of the Labour Force:				
Double check - change in total economically active (pop + participation)	-81.463	251.092	-30.161	192.803
Double check - change in total economically active (employ + unemp)	-81.463	251.092	-30.161	192.803
Actual economically active ann chg (as reported)	-81.463	251.092	-30.161	192.803

UK Employee Pay

Pay including bonuses increased by 1.8% in real terms in Jul-Sep – up from +0.75% a year ago.

Pay excluding bonuses increased by 1.7% in real terms in Jul-Sep up from +0.83% a year ago.



Source: Office for National Statistics – Monthly Wages and Salaries Survey

https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/latest

CPI (Oct)

Annual growth in the UK CPI including housing costs, continued to slow in Oct. This was led also mostly by lower household energy prices.

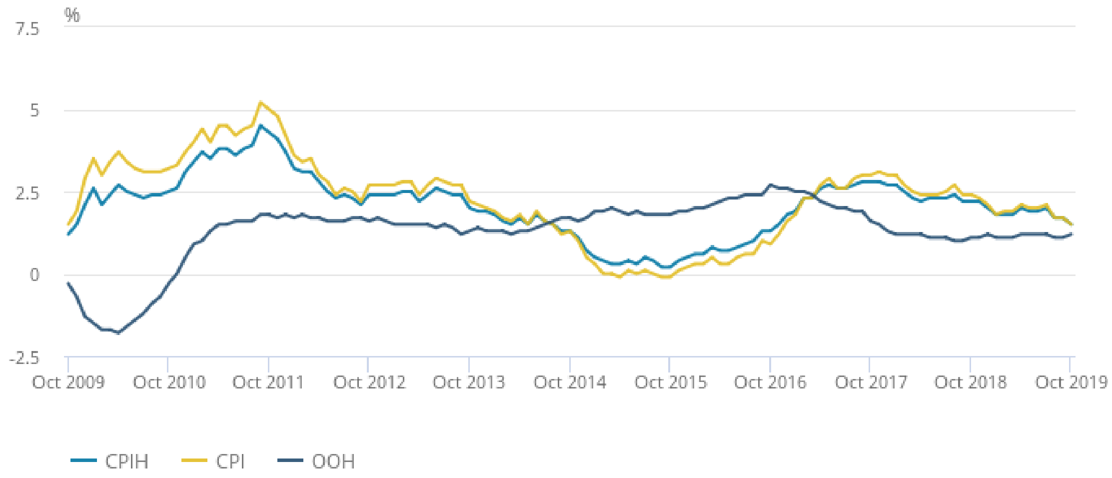
UK CPI-H – annual change; Oct +1.5% versus Sep +1.7%

The annual growth in core CPI ex food, alcoholic bevs, tobacco and energy increased at a slightly faster pace. While the pace remains below that recorded earlier in the year, growth in core CPI is still elevated compared to headline CPI;

UK CPIH Ex Energy, Food, Alcoholic Bevs and Tobacco – annual change; Oct +1.7% versus Sep +1.6%

Figure 1: CPIH and CPI 12-month inflation rates fall to lowest since late 2016

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



Source: Office for National Statistics – Consumer price inflation

<u>Contribution to annual CPI Growth</u>

The single largest change contributing to the lower growth in the headline CPI was Housing and Household Services.

The contribution to annual CPIH growth from Housing and Household Services was much lower in Oct +0.34%pts versus +0.52%pts in Sep;

> Since November 2018, the largest upward contribution to the CPIH 12-month inflation rate has come from housing and household services. However, the prices of electricity, gas and other fuels fell by 2.0% in the year to October 2019 and made a negative contribution of 0.05 percentage points to the headline rate. In October 2019, the Office of Gas and Electricity Markets (Ofgem) changed the energy price cap, which meant that energy prices fell by 4.4% between September and October 2019 but increased by 2.3% between the same two months a year ago. However, this was more than offset by positive contributions from owner occupiers' housing costs (OOH) (a 0.19 percentage point contribution), and Council Tax and rates (a 0.12 percentage point contribution), resulting in the contribution from housing and household services to the overall rate falling to 0.34 percentage points, from 0.52 percentage points in September.

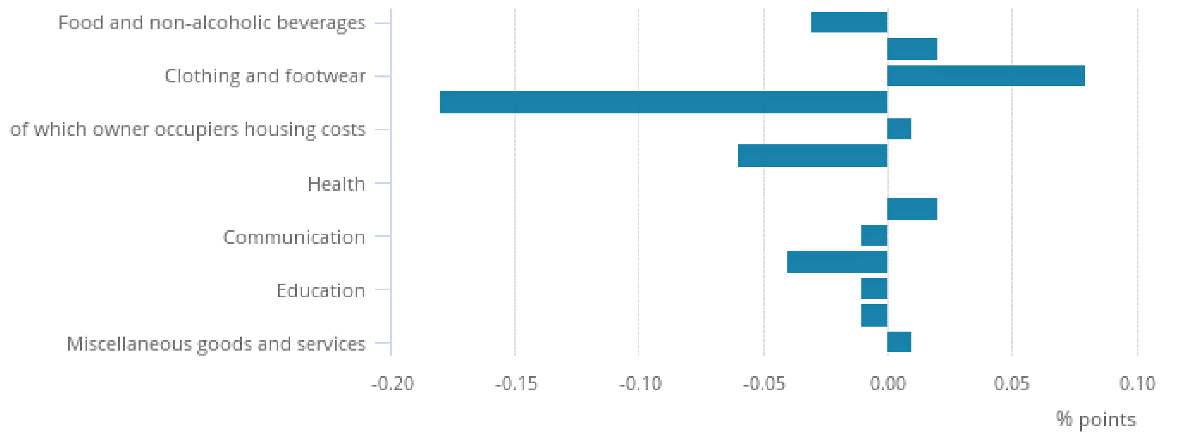
Contributions from the other categories mostly offset each other.

Smaller contributions from food/non-alcoholic bevs, furniture, recreation and culture and other (total -0.13%pts) were offset by increased contribution from alcohol and tobacco, clothing/footwear and transport (+0.12%pts).

There was no change in the contribution of restaurants and hotels to the annual headline CPI growth.

Figure 3: Reduced utility prices contribute to falling headline inflation rate

Contribution to change in the CPIH 12-month inflation rate, UK, between September and October 2019



Source: Office for National Statistics – Consumer price inflation

https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/october2019

UK Retail Sales (Oct)

Retail sales growth in the UK remained weaker this month, declining slightly after posting no growth in the month prior. This is a somewhat surprising result given the possibility of bringing forward purchases due to the upcoming second Brexit deadline of 31 Oct.

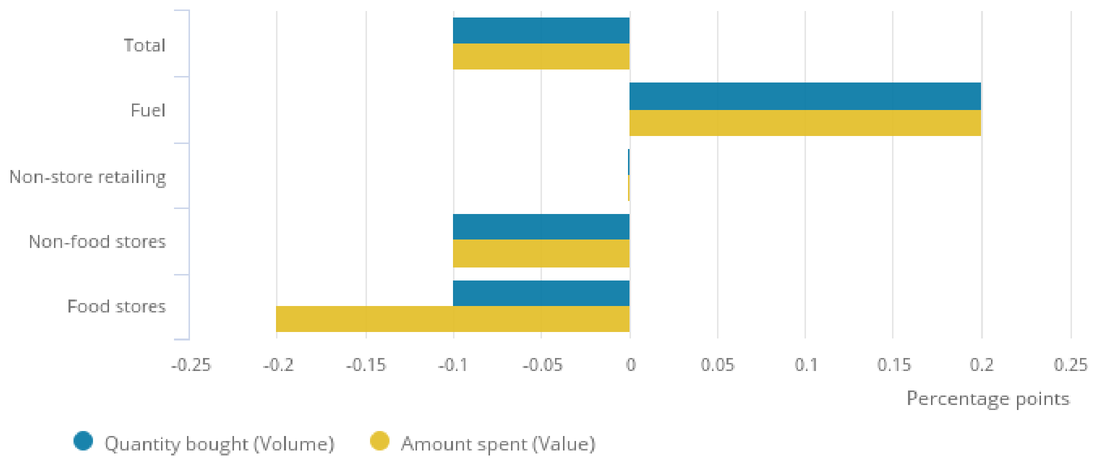
Excluding fuel, the volume of retail sales declined at a faster pace.

UK Retail Sales Incl Fuel (vol) – month change; Oct -0.1% versus Sep 0%

UK Retail Sales Ex Fuel (vol) – month change; Oct -0.3% versus Sep +0.2%

Figure 3: Fuel was the only positive contributor to the amount spent and quantity bought in October 2019

Great Britain, October 2019 compared with September 2019



Source: Office for National Statistics – Monthly Business Survey

In the month, Fuel was the only positive contributor to retail sales growth. Sales vol in Fuel Stores increased by +1.5% in Oct.

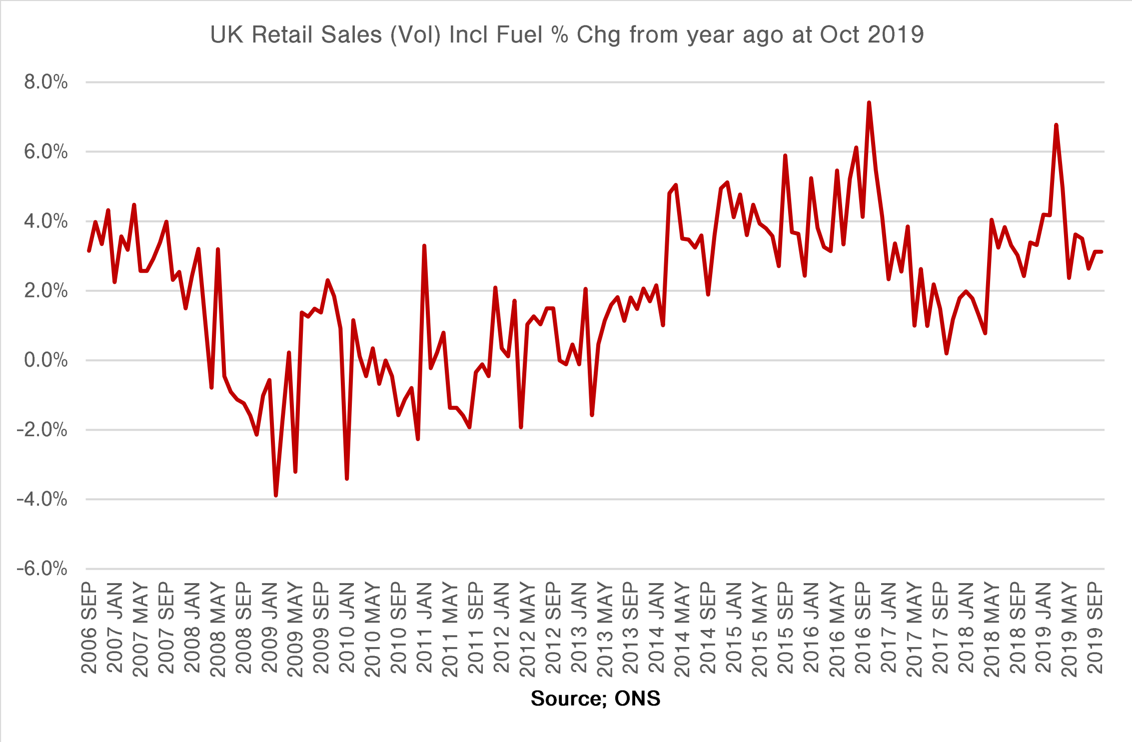
Food Store sales declined by -0.2% in volume terms and Non-Food Store sales also declined by -0.3% in Oct.

Within Non-Food Stores; growth in sales from Dept Stores (+2%) was offset by declines in clothing/footwear (-1%), household goods (-1.3%) and other stores (-0.4%).

Non-Store Retailing sales declined by -0.2% in Oct.

On an annual basis, there was little change in the pace of retail sales vol growth, but growth slowed slightly excluding fuel.

UK Retail Sales incl Fuel (vol) – month change; Oct +3.1% versus Sep +3.1%



Excluding fuel, the volume of retail sales increased at a slower pace of +2.6% in Oct versus +2.9% in Sep.

https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/october2019

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Australia

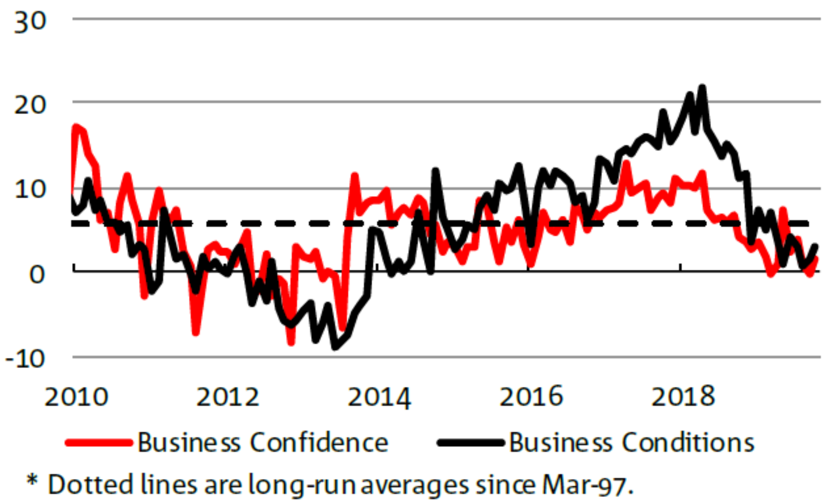
NAB Business Conditions and Confidence (Oct)

There was a small improvement across business conditions and confidence in Oct – both measures remain below the long-run average though.

Business Confidence; Oct 2 versus Sep 0

Business Conditions; Oct 3 versus Sep 2

Chart; Australia Business Conditions and Confidence



The improvement in business conditions was recorded across two of the three main elements, with employment remaining unchanged.

Trading; Oct 7 versus Sep 4

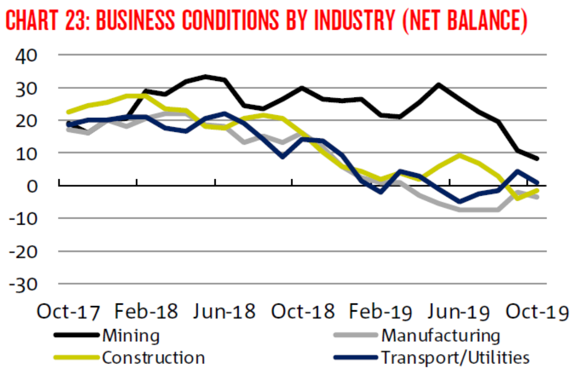
Profitability; Oct 0 versus Sep -2

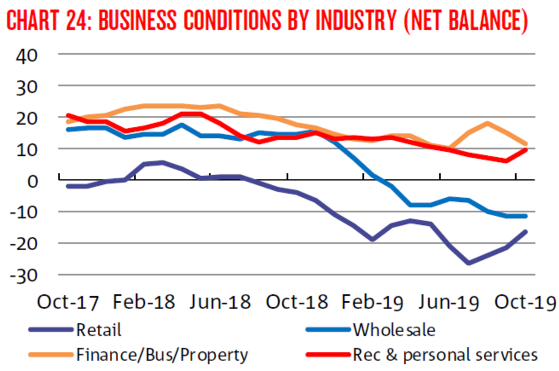
Employment; Oct 4 versus Sep 4

Forward orders also improved in the month from -2 in Sep to 3 in Oct. Stocks were slightly lower from 2 in Sep to 1 in Oct. Exports also improved slightly from 0 in Sep to 1 in Oct.

<u>Business Conditions by Industry</u>

There was a mixed result in business conditions by industry. Conditions improved in three out of the eight main industries; Construction (but remains in contraction), Retail (which also remains in contraction) and Rec and Personal Services. Most other industries recorded either no change or further deterioration in conditions.





https://business.nab.com.au/wp-content/uploads/2019/11/NAB-Monthly-Business-Survey-%E2%80%93-October-2019.pdf

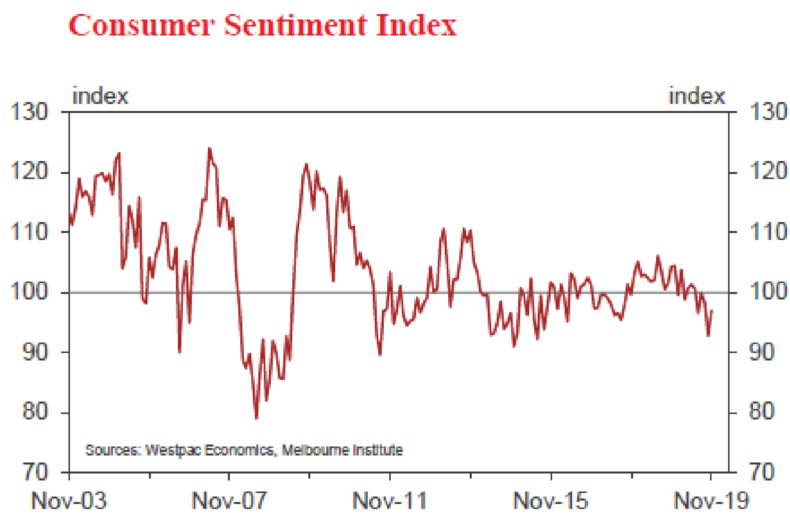
Westpac Consumer Confidence (Nov)

Th index of Australian consumer sentiment rebounded some of the large fall from the month prior.

Headline Consumer Sentiment; Nov 97 versus Oct 92.8

The pattern of confidence falling in response to a rate cut and recovering when the RBA remains on hold repeats what we saw earlier in the year when the Index fell by 4.1% following the July cash rate cut only to recover 3.6% in August, when the RBA left rates unchanged.

This result continues to support the general view that consumers are somewhat unnerved by the announcement of low rates and media controversy around the banks' responses.



All of the sentiment indexes increased in the latest month. Of note; family finances versus a year ago, family finances next 12 months and economic conditions next 12-months. All three remain below the average and below the same time a year ago.

Time to buy a dwelling recorded a small increase and is above the same time a year ago by 4%. House price expectations dipped slightly in the month, is on par with the average reading and the index remains 37% above a year ago.

The unemployment expectations index increased by 4% in the month, is above the average and the index is 13% above the same month a year ago.

https://www.westpac.com.au/about-westpac/media/reports/australian-economic-reports/

Wage Price Index Q3

The wage price index increased at a constant pace in the latest quarter. This was led by slower growth in the public sector wage index (after a larger increase in Q2). The private sector wage price index increased at a constant pace.

The annual growth in the wage price index for all industries (public and private) decelerated to +2.2% in Q3, in line with the RBA forecast of 2.2% and the Aus Budget forecast of 2.75% for the fiscal year 2019-20.

The lack of acceleration highlights that both tax cuts and monetary policy are yet to impact the performance of wage growth. Without wage growth, likely led by some marked tightening in the labour market, the RBA will remain concerned about reaching the 2-3% inflation target.

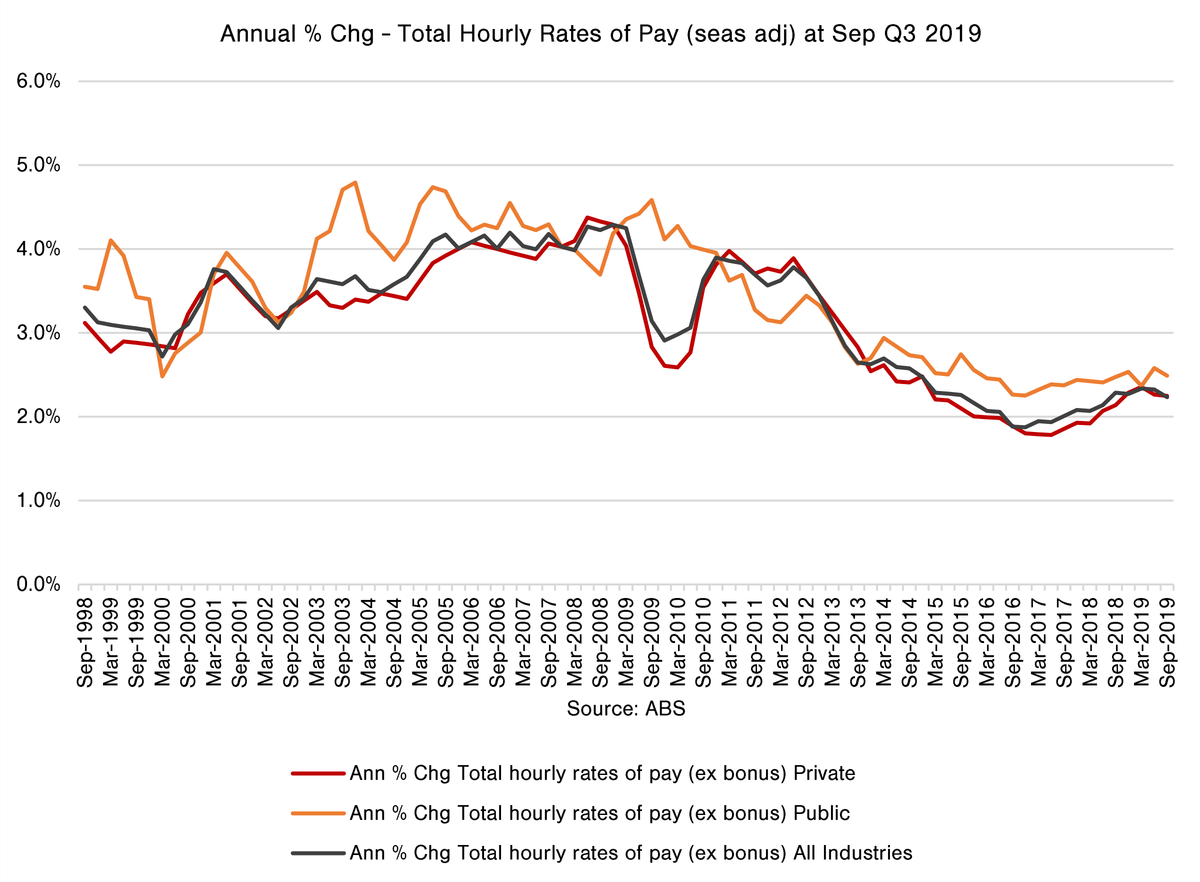
Wage price index all industries - quarter change; Q3 +0.53% versus Q2 +0.53%

The public sector wage price index increased at a slower pace from +0.82% in Q2 to +0.52% in Q3. The private sector wage price index was little changed from +0.54% in Q2 to +0.53% in Q3.

Growth decelerated/stalled on an annual basis led by slower growth in public sector wages.

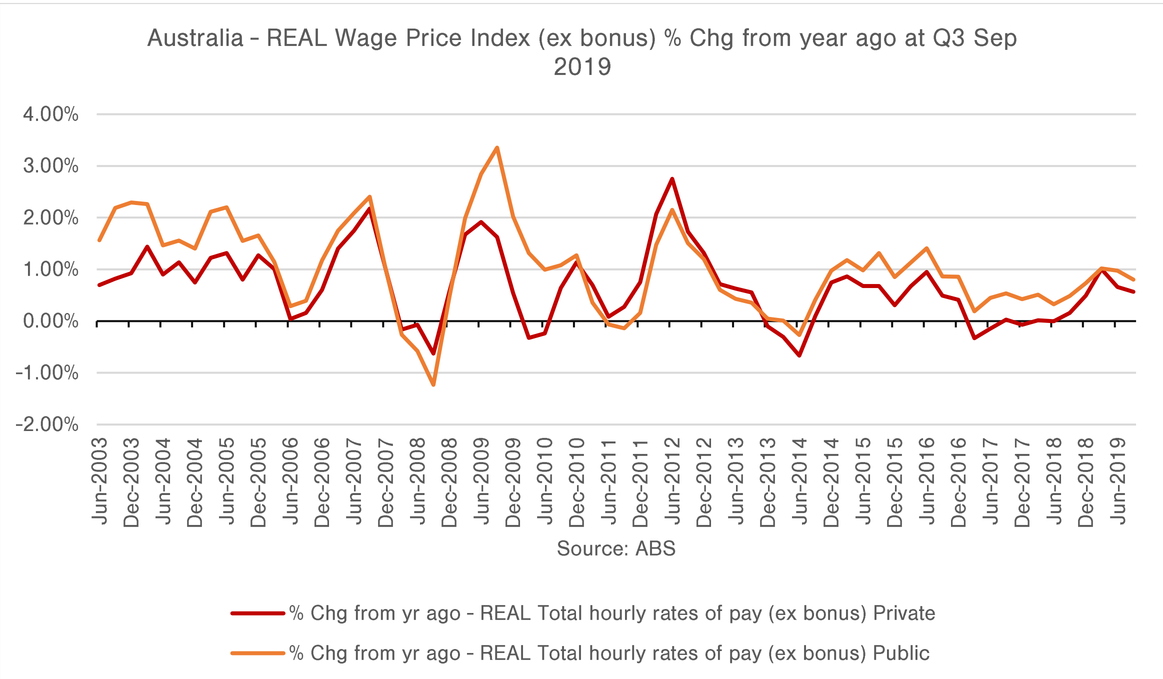
Wage price index all industries – annual change; Q3 +2.2% versus Q2 +2.3%

Annual growth in private sector wages remains at 2.2% in Q3 and public sector wage growth slowed from 2.6% in Q2 to 2.5% in Q3.



In real terms (deflated by the CPI seas adj), public and private sector wage growth continues to slow.

Total industry real wage growth (annual) slowed to +0.55% in Q3 from +0.7% in Q2. Both public and private sector real wage growth slowed;



https://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/6345.0Main%20Features2Sep%202019?opendocument&tabname=Summary&prodno=6345.0&issue=Sep%202019&num=&view=

https://www.budget.gov.au/2019-20/content/bp1/download/bp1.pdf

https://www.rba.gov.au/publications/smp/2019/nov/forecasts.html

Labour Market Survey (Oct)

This analysis utilizes the 'trend' dataset. The ABS recommend the trend data especially when comparing month to month changes. The media continues to report using the seasonally adjusted data – which this month recorded some headline declines in employment. This is different to the underlying trend data at this point.

In relation to the trend data, it's worth noting that in the next data release in Nov there will be a change to the trending method used – this is likely to affect the 'shape' of the trend data.

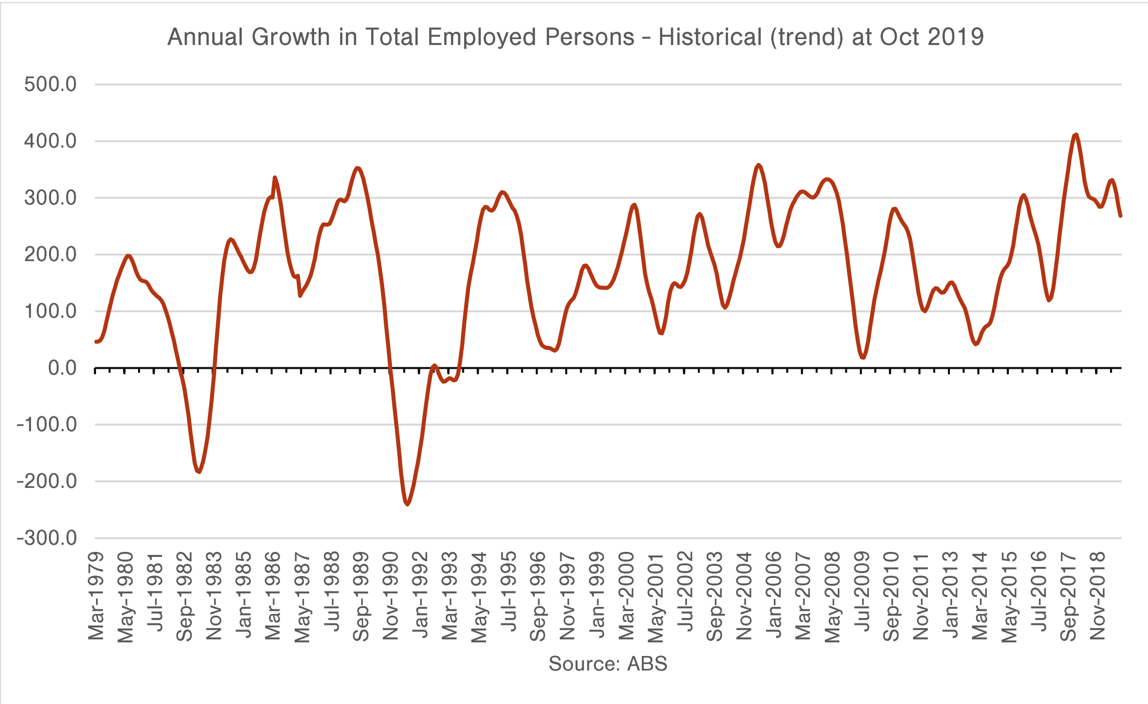
On an annual basis, the growth in total unemployed persons continued to increase. This was the result of slower growth in employment together with a larger, albeit slower, increase in labour supply (participation).

This was somewhat reversed in the more micro monthly change. Total unemployed persons continued to increase but the pace of that increase slowed. This was due to slightly faster growth in employment together with a decline in participation (reduced labour supply) versus the month prior. This was the first monthly decline in participation in the last fifteen months.

TOTAL EMPLOYED PERSONS

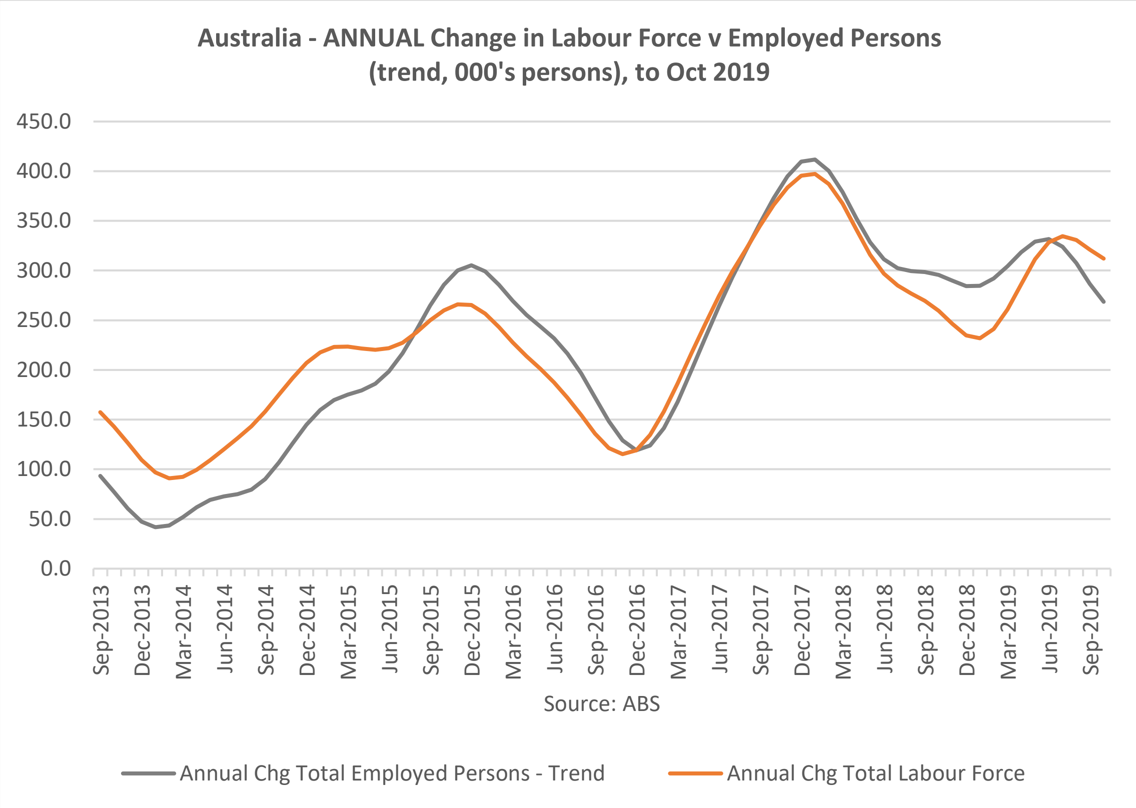
There was a relatively large slowdown in the pace of annual employment growth this month.

Employed persons – annual change; Oct 268k persons versus Sep 286k persons.



Annual employment growth remains elevated and the employment to population ratio remains only -0.25%pts below the peak back in Jun 2008.

But the important point is that employed growth has continued to slow faster than that of the total labour force – the widening gap represents the increase in total unemployed persons.



On a monthly basis, employment growth was somewhat faster – led by slightly faster growth in FT employed persons.

Employed persons – monthly change; Oct 12.3k persons versus Sep 11.7k persons

<u>TOTAL LABOUR FORCE</u>

On an annual basis, growth in the labour force has slowed in Oct.

Labour force – annual change; Oct 312k persons versus Sep +321k persons

Accounting for most of that slowdown was slower growth in what participation added to the labour force.

In the year to Oct, the participation rate increased by +0.48%pts to 66.09%. In Sep that increased was +0.515%pts to 66.1%.

Female participation reached another new all-time high this month of 61.28%. Male participation pulled back a little further to 71.09%.

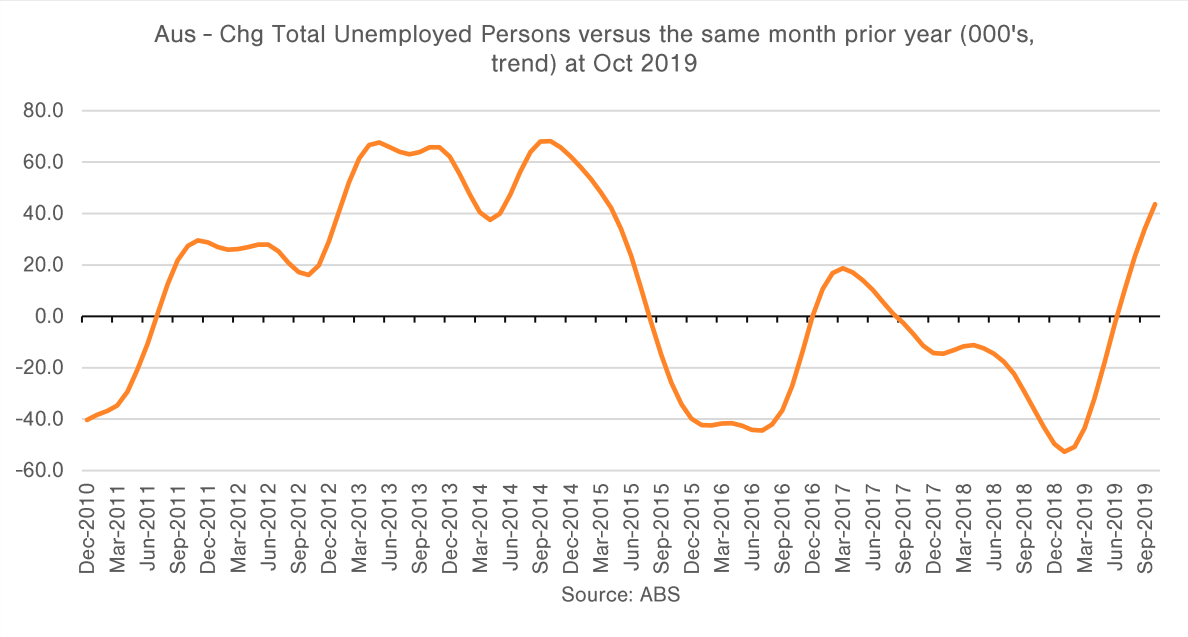
On a monthly basis, the total size of the labour force increased at a similar pace in Oct versus Sep of +14k persons. The difference in the month was that participation declined by -0.01%pts in Oct versus Sep, but this was offset by a larger increase in the estimate of what population growth added to the labour force.

TOTAL UNEMPLOYED PERSONS

The annual growth in total unemployed persons increased at a faster pace in Oct. This was due to employment growth slowing faster than that of the labour force.

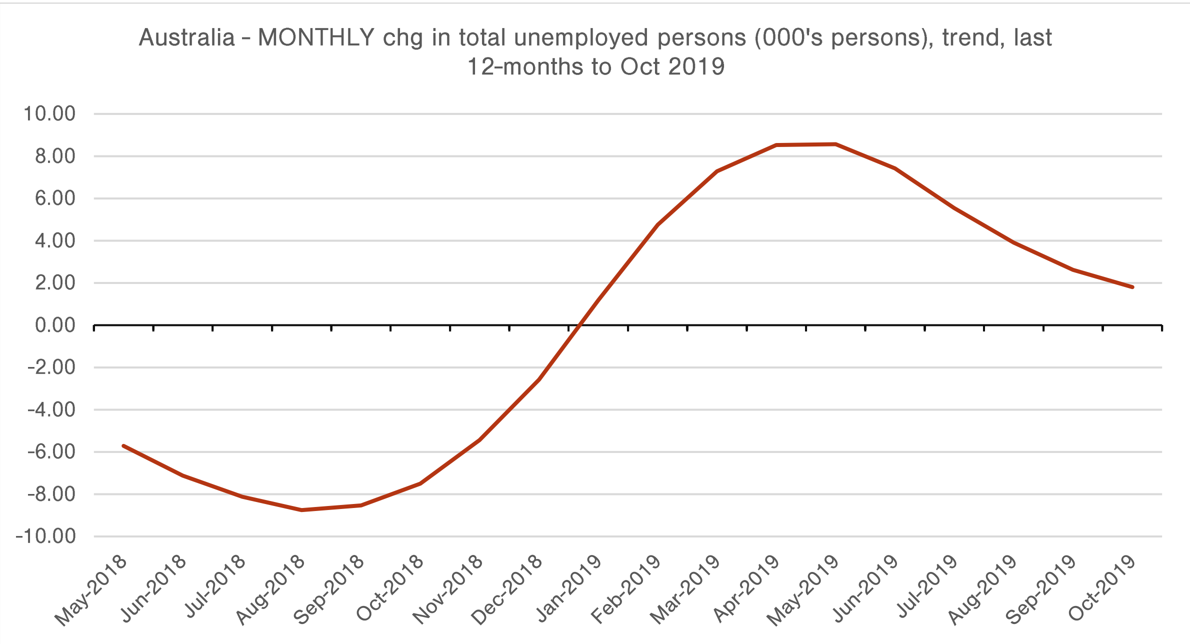
Total unemployed persons – annual change; Oct +43.6k persons versus Oct +34.3k persons

The faster growth in total unemployed persons is the result of slower growth in total employment combined with an increase in the supply of labour (growth in participation).



The recent monthly increases in unemployment have been slowing and continued to do so in the latest month;

Total unemployed persons – month change; Oct +1.8k persons versus Sep +2.6k persons

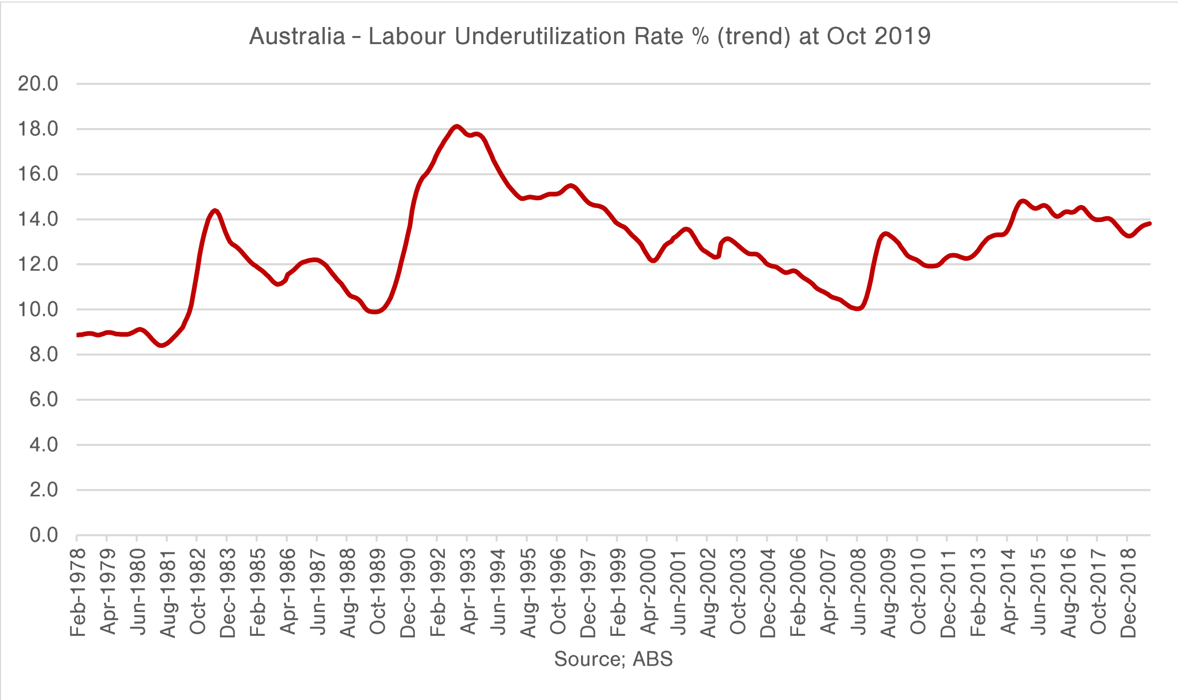


The pace in the growth of total unemployed persons slowed slightly – this was due to a combination of slightly faster employment growth and a decline in participation versus the month prior.

On trend basis, the total number of unemployed persons ticked up to 722k persons in Oct. The unemployment rate has also ticked up very slightly to 5.285%.

The underutilisation rate – which is the sum of total unemployed and underemployed persons expressed as a proportion of the labour force – has been steadily, but slowly, increasing over the last ten months. The underutilization rate is now 13.81% - up from 13.37% a year ago.

This is likely a large reason why wages growth has remained lacklustre and this will not be good news for the RBA. **The combination of slower employment growth and increased labour supply are the key drivers of this latest upward trend.**



SUMMARY OF THE MAIN LABOUR MARKET DYMANICS

	000's Persons	
	Annual Chg - OCT	Month Chg - OCT
The estimated change in the Labour Force due to pop growth	213.141	16.278
How many jobs available for them? (employment growth)	268.512	12.313
Difference (if positive, employment growing faster than pop est)	55.371	-3.965
Change in labour force due to the change in participation	98.963	-2.159
The reminder is the change in total unemployed persons	43.591	1.805
Double Check - Reported chg in size of the Labour Force	312.103	14.121
Two views of the size of the Labour Force:		
Underlying population growth plus changes in participation	312.103	14.119
Total employed persons plus total unemployed persons	312.103	14.119

https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6202.0Main+Features1Oct%202019?OpenDocument

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China

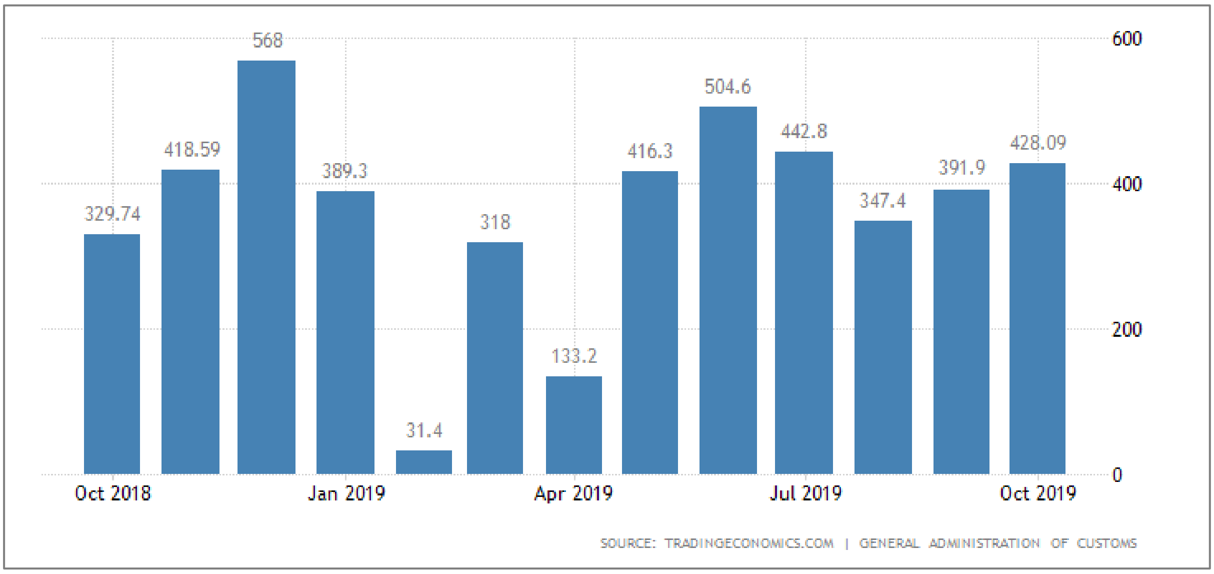
Activity in China continues to expand, but growth remains at lower levels. This lower pulse of activity is likely impacting global demand and trade – given the large influence that China, Chinese stimulus and expenditure on investment/capital had on global growth in the post-GFC period.

Trade Balance (Oct)

The Oct trade balance increased in USD terms versus the same month a year ago. The theme remains the same – the wider trade surplus has been driven by lower imports.

Trade balance – Oct 2019; $42.8bn (USD)

Chart; China Trade Balance (Surplus) USD at Oct 2019

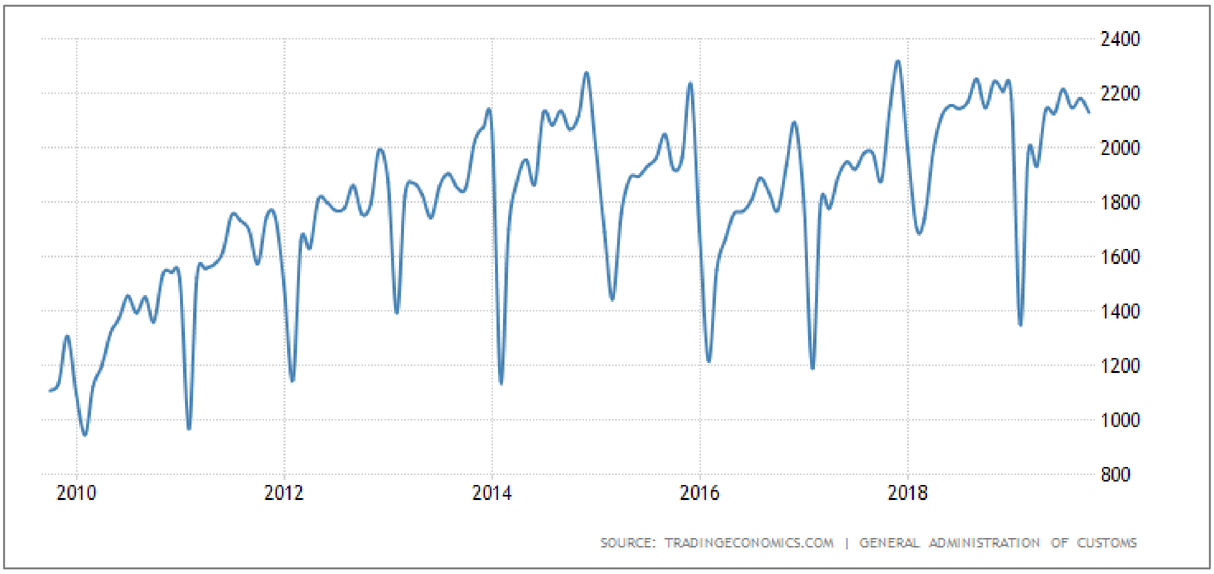


The wider trade surplus in Oct was the result of a small decline in exports but a larger decline in imports.

<u>Exports from China – Oct;</u> $212.9bn (USD), -0.9% versus a year ago (in Sep, exports declined by -3.2% versus a year ago)

> Among major trade partners, exports fell to the US (-16.2 percent), Japan (-7.8 percent), and Australia (-0.6 percent); but rose to South Korea (5.5 percent), Taiwan (19.7 percent), the EU (3.1 percent), and the ASEAN countries (15.8 percent)

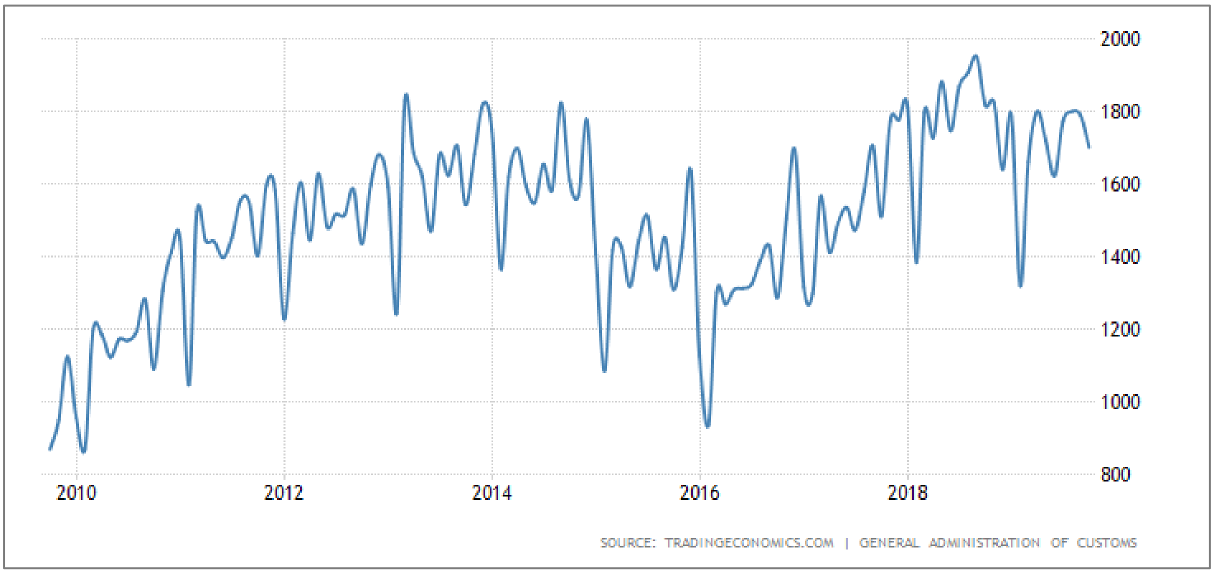
Chart; China Exports (USD) at Oct 2019



<u>Imports into China – Oct</u>; $170.12bn (USD), -6.4% versus a year ago (in Sep, imports declined by -8.5% versus a year ago)

Purchases declined from the US (-14.3 percent), Japan (-7.3 percent), and Taiwan (-5.4 percent); but increased from the EU (16.6 percent), Australia (11.5 percent), and the ASEAN countries (2.3 percent).

Chart; China Imports (USD) at Oct 2019



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

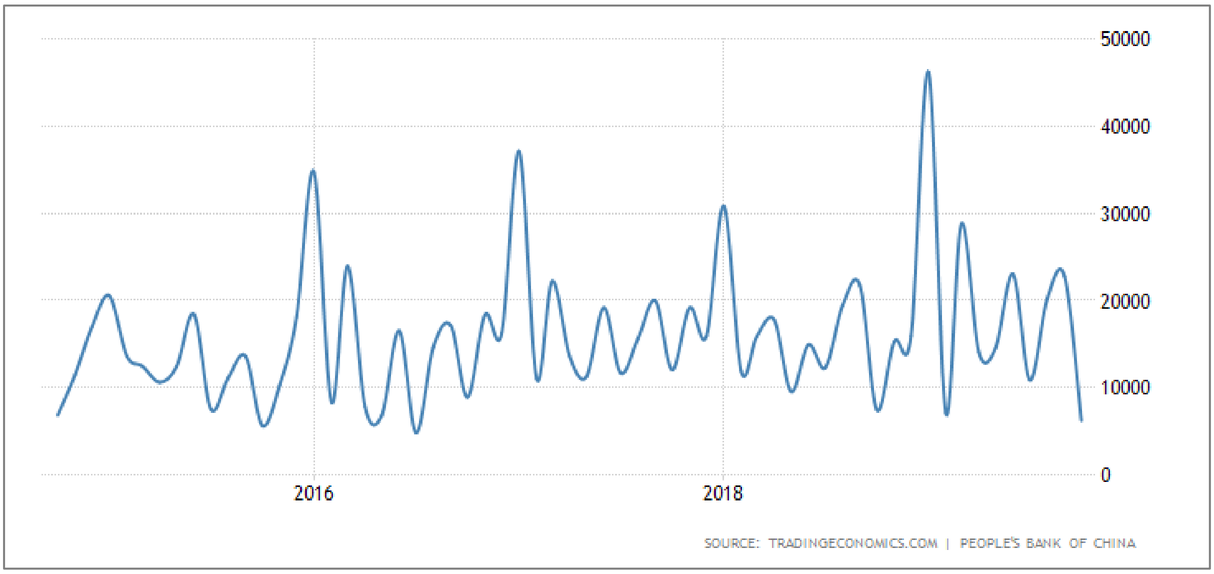
New Loans (Oct)

In Oct, Total Social Financing (TSF) slowed to CNY 618.9bn more than halving from the previous month total.

The Oct value of TSF was the lowest since Jul 2016. The annual pace of growth in TSF slowed to +10.7%.

Total social financing in China is a broad measure of credit and liquidity which includes off-balance sheet forms of financing that exist outside the conventional bank lending system, such as initial public offerings, loans from trust companies and bond sales.

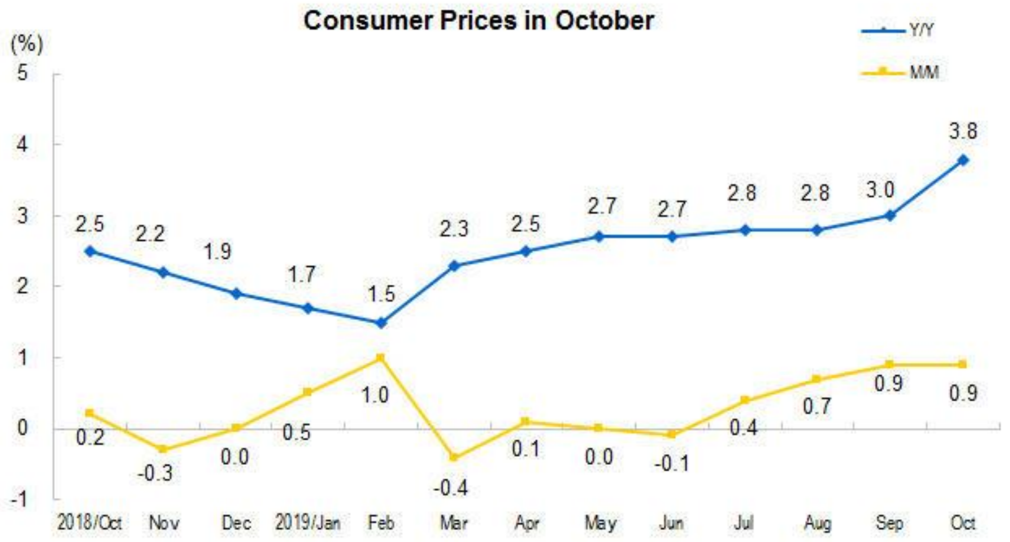
Chart: China Total Social Financing (CNY) at Oct 2019



https://tradingeconomics.com/china/loan-growth

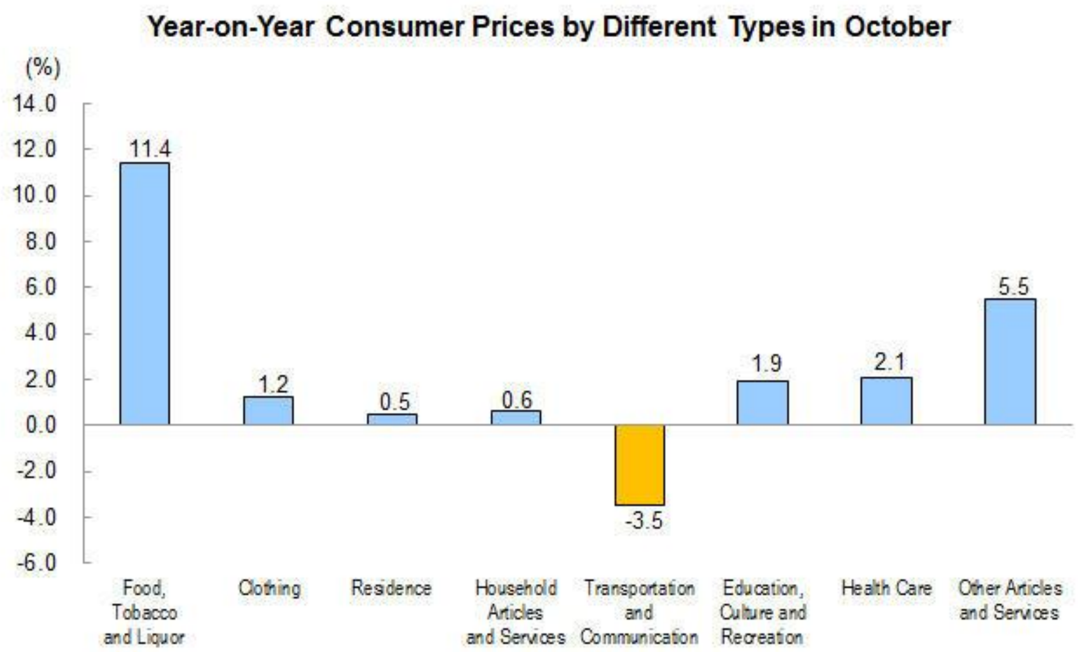
CPI (Oct)

Consumer price growth was unchanged at +0.9% in Oct but the annual pace of change accelerated from 3% in Sep to +3.8% in Oct.



The main contributor to acceleration in consumer prices was Food, Alcohol & Tobacco prices which increased by 11.4% year on year. Chinese consumers continue to feel the effects of lower supply of livestock, especially pork, due to the Swine Flu outbreak. Prices across Pork and other livestock (substitutes) have increased at an accelerated pace;

> "livestock meat price up by 66.8 percent, affecting nearly 2.92 percentage points increase in the CPI (price of pork was up by 101.3 percent, affecting nearly 2.43 percentage points increase in the CPI); poultry meat up by 17.3 percent, affecting nearly 0.21 percentage point increase in the CPI. The price of eggs rose by 12.3 percent, affecting the CPI up by about 0.07 percentage point"



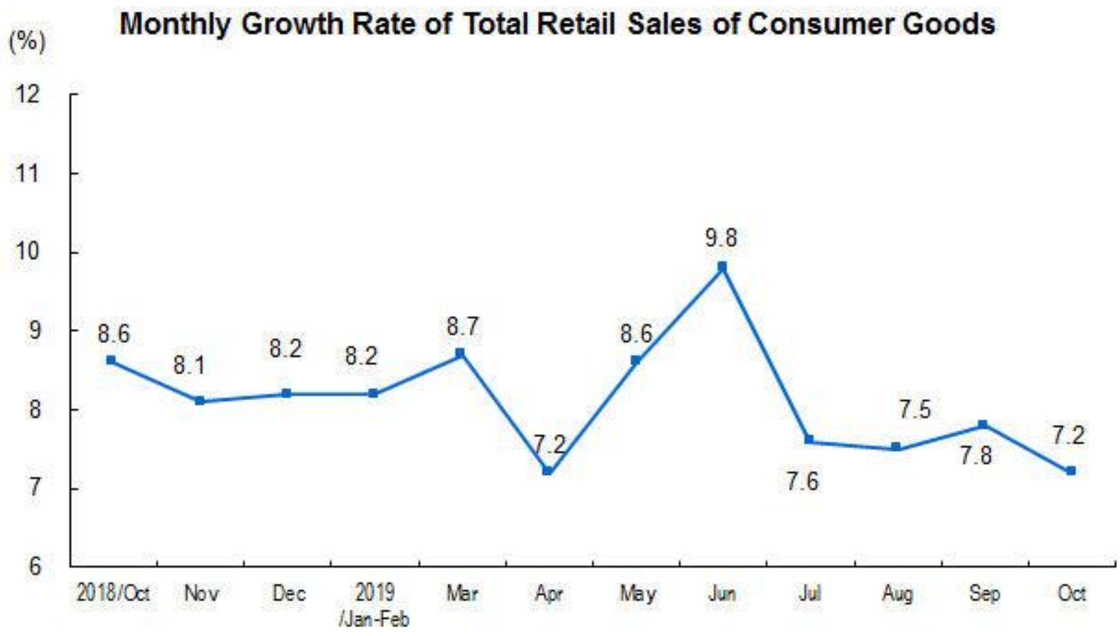
http://www.stats.gov.cn/english/PressRelease/201911/t20191111_1708287.html

Retail Sales (Oct)

Annual growth in retail sales slowed further again in Oct, equalling the lowest pace of the year so far. Given the acceleration in consumer prices, its likely that real retail sales are slowing at a faster pace. The official annual real rate of retail sales growth is 4.9% in Oct.

Retail sales – annual change; Oct +7.2% versus Sep +7.8%

Excluding autos, retail sales growth (value) increased at a slightly faster annual pace of +8.3%.



The value of auto sales declined by -3.3% in Oct (versus a year ago) and declined by -1% in the YTD to Oct versus a year ago. This is the single largest category by value and was the only category where sales declined on a YTD basis.

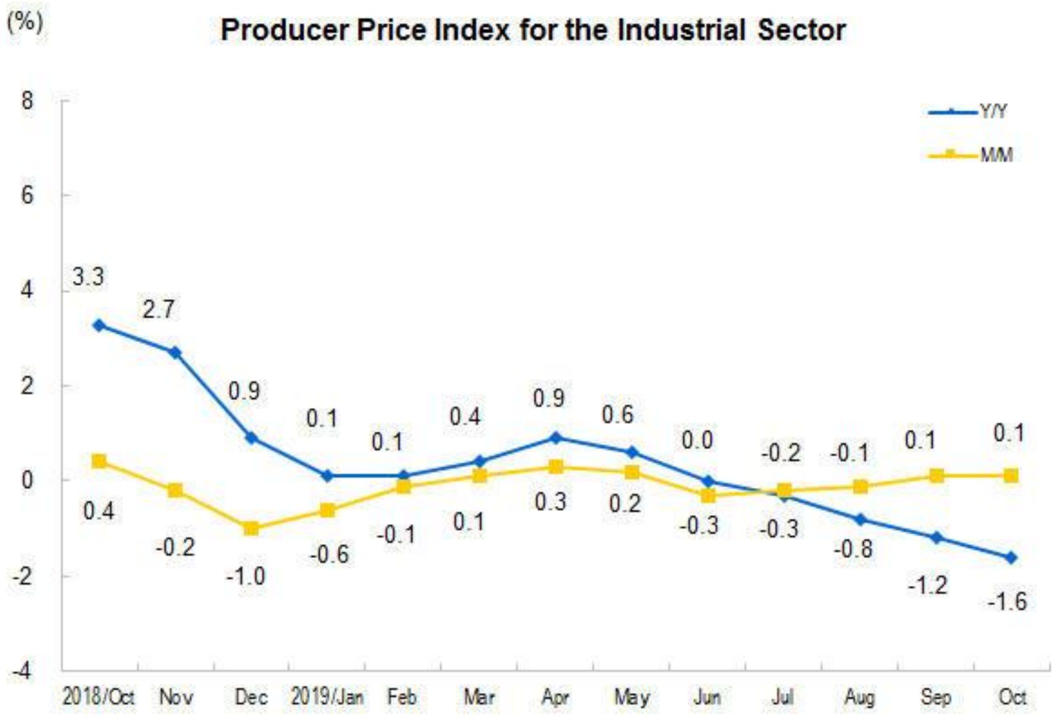
On an annual basis in Oct, sales declined across; garments/footwear/hats by -0.8%, gold/silver jewellery by -4.5%, cultural and office appliances -3.4%, petroleum 4.5% and autos by -3.3%.

http://www.stats.gov.cn/english/PressRelease/201911/t20191115_1709602.html

PPI (Oct)

The growth in producer selling prices for the industrial sector grew at the same pace of +0.1% in Oct as in Sep. On an annual basis, producer selling prices declined at an accelerated pace. While the weaker pace of growth in producer prices reflects somewhat lower contribution from energy prices, declining producer prices across other non-energy categories still likely reflect weaker demand conditions.

Producer Selling Prices Industrial Sector – Annual chg: Oct -1.6% versus Sep -1.2%



On an annual basis, producer price changes across major industries highlights some of the larger declines in prices for extraction of petroleum and natural gas (-18%) and processing of petroleum, coking, processing of nucleus fuel (-12%).

Annual declines were also recorded for; manufacture of paper/paper products (-6.6%), processing of ferrous metals (-6.1%), manufacture of chemical fibres (-13.6%) and manufacture of raw material and chemical products (-6.2%).

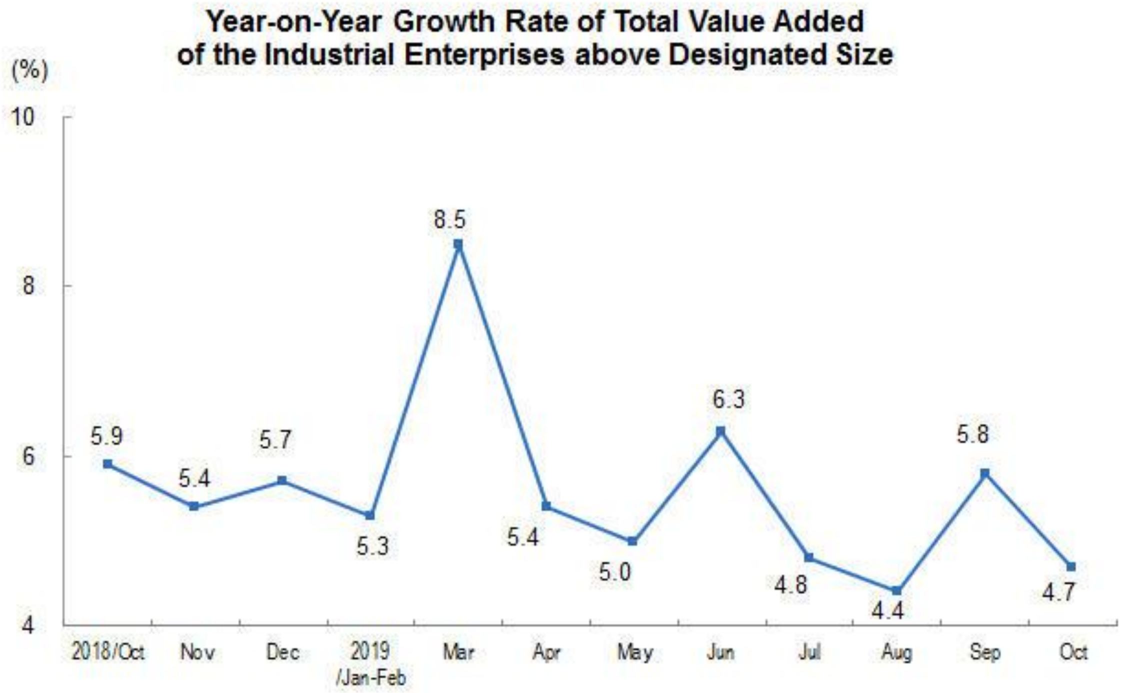
Producer prices for the manufacture of motor vehicles declined by -0.7% on an annual basis and prices for manufacture of computer equipment declined by -2% on an annual basis.

http://www.stats.gov.cn/english/PressRelease/201911/t20191111_1708253.html

Industrial Production (Oct)

The annual growth in industrial production slowed again in Oct. Growth was slower across mining and quarrying and manufacturing while growth increased slightly across the production and distribution of utilities.

Industrial production – annual change; Oct +4.7% versus Sep +5.8%



Mining and quarrying; Oct +3.9% (-4.2%pts lower than the annual pace in Sep)

Manufacturing; +4.6% (-1%pt lower than in Sep)

Distribution and production of electricity, heating, gas and water; +6.6% (+0.7%pts than in Sep)

http://www.stats.gov.cn/english/PressRelease/201911/t20191115_1709585.html

Fixed Asset Investment (Oct)

One of the more insightful reports on activity in China is the further slowdown in the growth of fixed asset investment. The impact of this slower growth is evident across slower industrial production and is also likely a source of lower global trade growth via lower demand for capital and intermediate goods.

Fixed Asset Investment Spending – annual change; Jan-Oct +5.2% versus Jan-Sep +5.4%

In China, urban investment in fixed assets is one of the main measures of capital spending. It refers to investment in construction projects with a total planned investment of 5 million yuan; machinery and equipment and real estate development in both urban and rural areas.

Chart; China Annual Growth in YTD Fixed Asset Investment at Jan-Oct YTD v year ago

This was the weakest reading on record, as private investment growth slowed (4.4% vs 4.7% in Jan-Sept) while public investment growth was little-changed (7.4% vs 7.3%).

The slower growth in the YTD was due to;

Slower growth in;

Mining investment; Jan-Oct +25.1% versus Jan-Sep +26.2% - which is still a very high rate of change

Transport, storage and postal industry investment; Jan-Oct 4.6% versus Jan-Sep +4.7%

Water conservancy, environment and public facilities investment; Jan-Oct +2.7% versus Jan-Sep +3.5%

A further decline in investment in agriculture; Jan-Oct -2.2% versus Jan-Sep -2.1%

Fixed-asset investment grew faster for manufacturing YTD to Oct +2.6% versus YTD to Sep +2.5% and utilities YTD to Oct +1.9% versus YTD to Sep +0.4% - but both remain below the headline pace of fixed asset investment growth.

Most areas of manufacturing investment recorded declines in fixed asset investment in the YTD to Oct. But looking across the manufacturing industries, there is one standout with regard to a much higher pace of fixed asset investment growth; manufacture of telecoms equipment, computers and other electronic equipment with YTD growth of +13.6% in fixed asset investment.

Investment in facilities for the manufacture of autos was -0.3% in the YTD (versus a year ago).

https://tradingeconomics.com/china/fixed-asset-investment

http://www.stats.gov.cn/english/PressRelease/201911/t20191115_1709588.html

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Trade

US-China Trade Talks

Headline risk remains very high around the trade talks and the phase-one deal details.

> "There have been conflicting reports about the state of trade negotiations in recent days. The talks hit a stalemate this week as the U.S. pushes Beijing for greater concessions on intellectual property rights and forced technology transfers in exchange for a rollback of tariffs" https://www.cnbc.com/2019/11/17/china-and-us-had-constructive-discussions-about-phase-one-trade-deal.html

The situation is likely to remain tenuous. The purchase of agriculture has been a key part of this phase of the deal (China agreeing to purchase $40-$50bn of US agriculture). The purchase of a specific quantity of agricultural commodities remains a sticking point – and China has been consistent on this point over time;

> "Beijing, for its part, is hesitant to include a specific amount of agricultural purchases in a deal, The Wall Street Journal reported. Trump has claimed Beijing agreed to purchase up to $50 billion in U.S. farm goods." https://www.cnbc.com/2019/11/17/china-and-us-had-constructive-discussions-about-phase-one-trade-deal.html

Back in late Oct (and prior to that), Chinese officials continued to voice concerns over agricultural purchases;

> Commerce ministry spokesman Gao Feng told reporters on Oct. 17 that China would "increase U.S. farm purchases based on domestic demand and market principles, while the U.S. would provide favorable conditions."
>
> The hefty agricultural purchases Trump is asking for are market distortive, Lamb-Hale said. China is telling Trump they are "just not feasible."
>
> https://www.cnbc.com/2019/10/30/us-china-trade-talks-beijing-wary-about-us-pressure-to-buy-farm-goods.html

Chile will no longer host the APEC summit, so the timing of the signing of the agreement is now unclear – with some reports that a signing may not happen until Dec.

> Trump still sounded an optimistic note on Thursday. "China and the USA are working on selecting a new site for signing of Phase One of Trade Agreement," Trump said on Twitter. "The new location will be announced soon. President Xi and President Trump will do signing!" https://asia.nikkei.com/Economy/Trade-war/US-China-trade-talks-virtually-done-on-agriculture-and-finance

There is a further tariff increase scheduled for 15 Dec.

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.

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

This is an important week in Japan for the ratification of the US-Japan phase one of the trade deal. It's worth noting that there appears to be some risk of delay or complication;

> Depending on where you get your news, **Japan's lower house will pass the deal on Nov. 19 – or delay voting indefinitely.** The odds of a delay are rising. The same goes for when the upper house might take up the bill.
> https://www.asiatimes.com/2019/11/article/tokyos-trumpian-trade-troubles/

The trade bill hasn't been fast-tracked because lawmakers are requesting to see transcripts of the summit meetings between Abe and Trump. Lawmakers are most concerned about the remaining threat of auto tariffs;

> When negotiating the first phase, Abe's team failed to extract a firm commitment that Trump won't suddenly ruin Japan Inc.'s 2020. Such levies would upend supply chains in unpredictable ways.
> https://www.asiatimes.com/2019/11/article/tokyos-trumpian-trade-troubles/

The bill will now be up for debate in the extraordinary session of Parliament. This session ends on 9 Dec, in time to have pact ratified for the Jan 2020 deadline.
https://mainichi.jp/english/articles/20191015/p2g/00m/0bu/046000c

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

US-Europe Trade Talks

On 1 Nov, the new EU commissioners take up office. Phil Hogan takes over as EU Trade Commissioner – a key role in the negotiation with the US. Once the new commissioners are in place, there will likely be further progress on the US-EU trade negotiations, as well as Brexit/EU-UK trade deal negotiations.

https://www.ft.com/content/d5d1e928-e9c6-11e9-a240-3b065ef5fc55

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

Airline Subsidies

From 18 Oct, the US has implemented tariffs on some EU imports as a part of the WTO ruling on the Airbus case. This was announced during the week on the US 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

> "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.

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

Trade Negotiations

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

The threat of auto tariffs also remains an issue. After postponing a decision on auto tariffs (based on National security issues) back in May, US President Trump may decide on 13 Nov (or around this time). https://www.cnbc.com/2019/11/08/trump-wont-impose-tariffs-on-european-cars-eu-juncker-says.html

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

Back in May, 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. The six-month delay means that the release of the report and the decision on tariffs may be made this week, or around the next few weeks – there is some headline risk.

Previously, President Trump 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

It is possible that the US House of Representatives could vote on the USMCA either this coming week or the following week before Thanksgiving.

While on a caucus conference call last week, Peterson says Pelosi talked about the push to pass USMCA. "She wouldn't be doing that if she didn't want this to get done," Peterson explained. "So, this is going to get done." https://www.hoosieragtoday.com/peterson-usmca-vote-possible-week-next/

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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