

## Key Themes

The FOMC reduced the FFR target at the latest meeting. While there had been no notable deterioration in conditions since the last meeting, Chairman Powell spoke of this reduction as more of an insurance against ongoing risks to the US economy – especially from the slow-down in global growth and trade which is already impacting exports, production and investment spending. Barring any worsening in conditions, the Fed appears to be favouring a watch and wait approach, noting that the recent rate cuts will take time to impact activity.

US data this week showed some further signs that growth in the US economy is slowing.

Weakness in manufacturing is likely to persist into Oct given the further decline in the ISM Manufacturing PMI, weaker growth in the Dallas Fed manufacturing report and the renewed contraction in the Chicago PMI. The Markit Manufacturing PMI shows a more positive view of current manufacturing conditions for the second month running.

Wholesale sales/inventory report for Aug showed elevated inventory levels, especially for durable goods (mostly machinery). Faster inventory growth was something that also showed up in the advance durable goods report for Sep last week.

The advance estimate of GDP growth was little changed between Q3 and Q2 coming in at +0.5% for the quarter. On an annual basis, real GDP growth has been slowing since Q3 2018. A similar trend is evident across the annual growth in real personal consumption expenditure, fixed investment, imports and exports.

This persistent slow-down in manufacturing, investment expenditure and exports especially, appear to have had *some* impact on income and employment growth. While income and employment growth are not accelerating, growth remains moderate. The annual growth in personal income has lifted in the latest month but is still below the recent mid 2018 peak in growth. Income growth is elevated relative to 2016/17 though.

Non-farm payroll growth came in lower this month. Despite positive revisions for the two months prior, the 12-month average growth continues to slow – now averaging +175k over the last 12-months, just above the Sep 2017 low of +168k. The slower growth in non-farm payrolls is evident in the household employment survey. Employment growth has slowed to below the average for the last five years. But on an annual basis, employment growth remains higher than that of the labour force, so unemployment has continued to fall.

Headline inflation slowed somewhat in Sep, led mostly by lower energy prices. But even annual core PCE price growth slowed in Sep (had been accelerating for several months).

In Japan – the acceleration in retail sales in Sep was likely the result of bringing forward purchases before the consumption tax increase in Oct. This will likely impact expenditure growth in coming months. Industrial production for Sep was more positive, but there were notable pockets of weakness in production, shipments and inventory especially for motor

vehicles. The manufacturing PMI for Oct slid further into contraction. The BoJ kept rates on hold but shifted its guidance to ensure “closer attention is paid to the possibility that the momentum toward achieving the price stability target will be lost”.

In Australia, headline CPI growth slowed, and measures of core CPI growth were little changed and remain lower. The annual growth of the trimmed mean CPI was unchanged. Headline and core CPI measures are well outside of the 2-3% target range for the RBA.

The official China NBS manufacturing and non-manufacturing PMI's were weaker in Oct – manufacturing activity declined at a faster pace and non-manufacturing activity recorded the slowest growth in a year. In contrast, the Caixin/Markit Manufacturing PMI showed activity expanding at a faster pace.

Finally, the UK will hold a general election on 12 Dec 2019. The Conservative party will aim to increase its current minority position in order to deliver Brexit by 31 Jan 2020.

## **Contents**

[US Data](#) - Chicago Fed National Activity Index (Sep), Dallas Fed Manufacturing Index (Oct), Wholesale Inventories Prelim (Aug), S&P Corelogic House Price Index (Aug), Q3 GDP Prelim Estimate, Challenger Job Cuts (Oct), Personal Income & Outlays (Sep), Non-Farm Payrolls and Employment (Oct), Markit Manufacturing PMI (Oct), ISM Manufacturing Index (Oct)

FOMC Meeting Announcement

[Europe](#) - Germany CPI – Prelim (Oct), Germany Retail Sales (Sep), Eurozone GDP - Prelim Q3, Eurozone CPI – Prelim (Oct)

[Japan](#) – Retail Sales (Sep), Industrial Production – Prelim (Sep), Manufacturing PMI (Oct)

BoJ Rates Decision

[United Kingdom](#) – Brexit, Manufacturing PMI (Oct)

[Australia](#) – CPI Q3, Private Sector Credit – RBA (Sep), CBA Manufacturing PMI (Oct)

[China](#) – NBS Manufacturing and Non-Manufacturing PMI (Oct), Caixin Manufacturing PMI (Oct)

[Trade](#) – US-China Trade Talks, US-Japan Trade Talks, US-Europe Trade Talks, Section 232. Car and Truck Imports, NAFTA/USMCA, US-UK Trade Talks

---

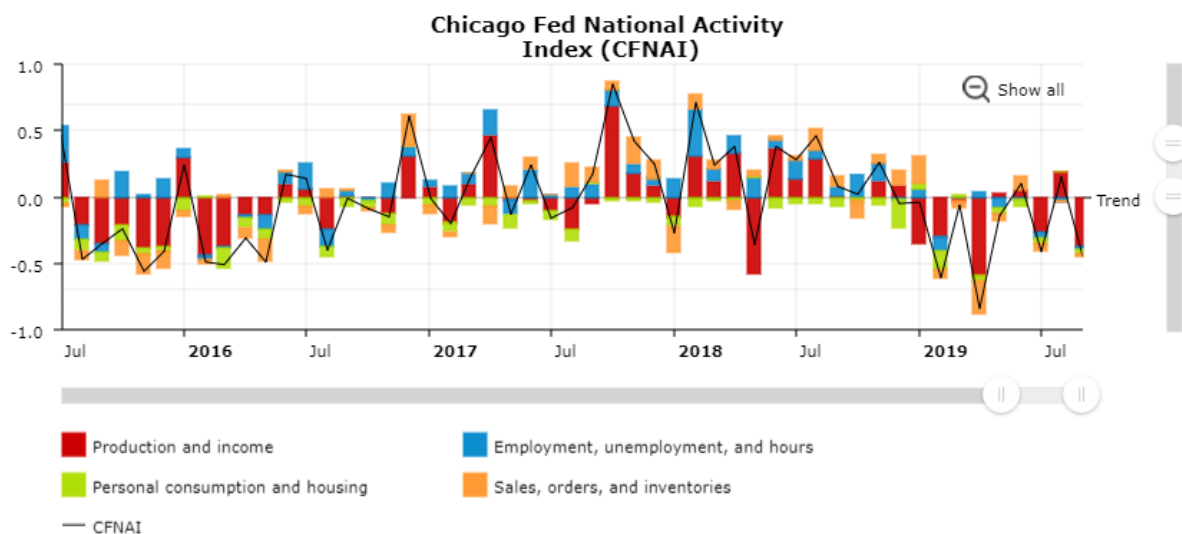
## US Data

---

### Chicago Fed National Activity Index - CFNAI (Sep)

The CFNAI declined in Sep – indicating the growth slowed to below the long-term average. All four of the major sub-indexes contributed to the decline in the month, led mostly by the fall in production and income. This is consistent with the pulse lower in the Sep data such as industrial production and the ISM manufacturing PMI.

Headline Activity Index; Sep -0.45 versus Aug +0.15



Production and income recorded a larger slowdown in growth with the index shifting from +0.19 in Aug to -0.37 in Sep. Production and income growth has trended below long-term average growth for most of the YTD.

Growth in personal consumption and housing slowed slightly from around the long-term average to just below the long-term average (Sep -0.04 versus Aug 0).

Employment growth was little changed from just slightly below the long-term average growth; Sep -0.02 versus Aug -0.03

Sales, orders and inventories were also little changed, growing at just below the long-term average growth; Sep -0.02 versus Aug -0.01

<https://www.chicagofed.org/publications/cfnai/index>

### Dallas Fed Manufacturing Index (Oct)

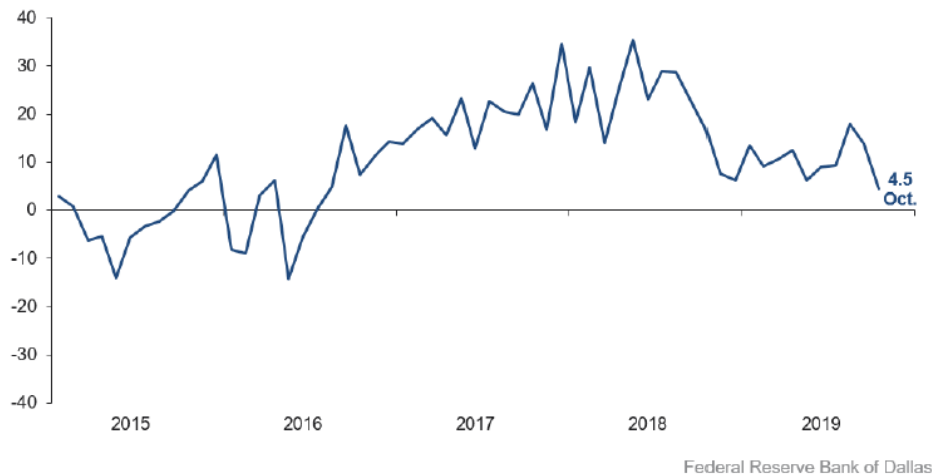
There was a marked deterioration in current manufacturing conditions in Oct. Production output growth slowed to one of the lowest levels since 2016. Demand faltered with new orders shifting into decline and the growth rate of new orders also declining. Production volumes

were likely supported by the further reduction in unfilled orders. The index of general business activity fell into contraction.

### Headline Production Index; Oct 4.5 versus Sep 13.9

#### **Texas Manufacturing Outlook Survey Production Index**

Index, seasonally adjusted



Production and shipment growth slowed markedly but both remained positive. Shipments slowed from 14.7 in Sep to 6.0 in Oct.

New orders shifted into contraction falling from 7.1 in Sep to -4.2 in Oct.

In light of the decline in demand, unfilled orders declined at a faster pace as firms worked through order backlogs.

Finished goods inventories declined at a slower pace.

Prices paid for raw materials and prices received both increased at a faster pace.

Measures of employment were relatively stable. Employment continued to grow but at a slower pace and growth in hours worked only slowed slightly. Wages and benefits increased at a faster pace.

The index of general business activity fell into contraction, falling from 1.5 in Sep to -5.1 in Oct. The outlook uncertainty remained elevated.

The view of 6-months ahead was far more optimistic with expected production and new orders growing at a much faster pace.

<https://www.dallasfed.org/-/media/Documents/research/surveys/tmos/2019/1910/tmos1910.pdf>

## **Wholesale Inventories Prelim (Aug)**

Sales of merchant wholesalers, except manufacturer sales branches and offices.

Wholesale sales growth slowed in Aug while inventory grew at a constant pace. The increase in durable goods wholesale sales was concentrated on misc durables. Inventory of durable goods increased at a much faster pace – due mostly to machinery (the largest value durable goods category – and wholesale sales of machinery declined for the second month in a row).

Sales of non-durable goods declined, offsetting the increase of durable goods sales. The decline was spread broadly across non-durable goods categories. Non-durable goods inventory was lower due mostly to the lower value of petroleum and chemical inventory – most other non-durable goods categories recorded further increases in inventory.

### WHOLESALE SALES

Total Wholesale - month change; Aug 0% versus Jul +0.2%

Growth was zero in Aug as a result of a +0.3% increase in durable goods sales and a -0.3% decrease in non-durable goods sales.

Durable goods – month change; Aug +0.3% versus Jul -0.8%

The increase was the result of much faster growth in misc durable goods (+4.6% in Aug versus -4.5% in Jul) and electrical equipment. Overall, sales in six durable goods categories declined in Aug while sales increased in only four categories.

Non-durable Goods – month change; Aug -0.3% versus Jul +1.1%

Leading the decline was apparel and non-durable misc. Of the nine non-durable categories, only three recorded an increase in sales for the month.

### WHOLESALE INVENTORIES

Total Wholesale Inventories – month change; Aug +0.2% versus Jul +0.2%

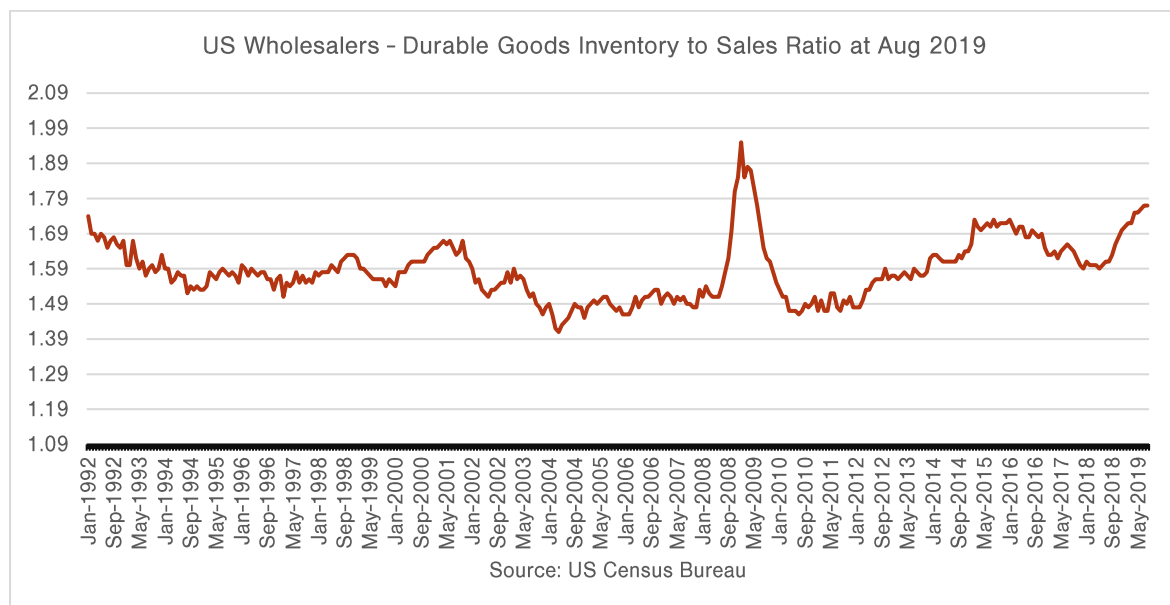
The total inventory to sales ratio remains unchanged at 1.36 in Aug.

Inventories were higher across both durable and non-durable goods, but the majority of the increase in the month was due to durable goods inventories.

Durable goods inventory – month change; Aug +0.3% versus Jul 0%

The biggest increases in inventory were for machinery (the largest value category) +0.9% in Aug versus 0% in Jul and hardware +1.8% in Aug versus Jul -0.4%.

The sale to inventory ratio for durable goods remains elevated at 1.77 – only higher during the GFC.

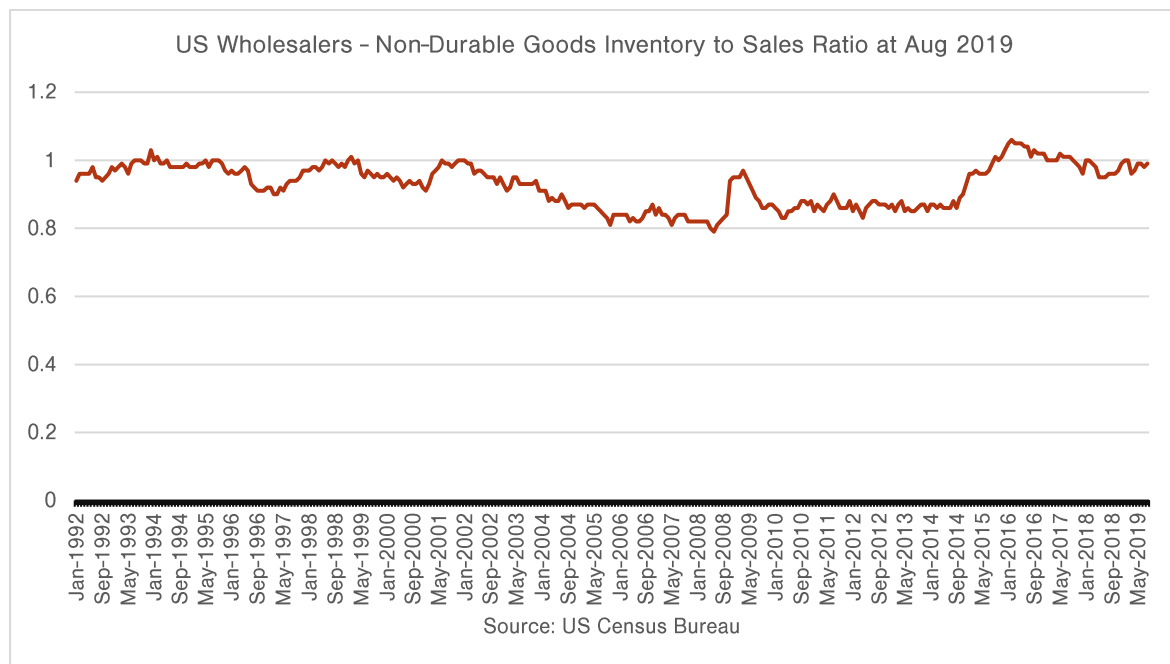


Non-durable goods inventory – month change; Aug +0.1% versus Jul +0.4%

Although non-durable inventory growth slowed, there were some larger movements underlying that change. Inventory declined only substantially in two categories – petroleum (-4.5%) and chemicals (-3.1% in Aug).

Inventory was higher across drugs, apparel and alcohol.

The inventory to sales ratio for non-durable goods is only slightly below the early 2016 peak of 1.05. The current inventory to sales ratio is 0.99.



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

## S&P Corelogic House Price Index (Aug)

A mixed result for house prices in Aug. At a National level, there was a small acceleration in house prices on a monthly and annual basis. However, the major city composite indices indicated that house prices declined in the month and continued to slow on an annual basis. This suggests that the price gains at the National level were driven outside of the major cities;

“Seven of the 20 cities reported greater price increases in the year ending August 2019 versus the year ending July 2019”

### House Price Index – Month Change

National House Price Index – month change (SA); Aug +0.3% versus Jul +0.2%

10-City House Price Index – month change (SA); Aug -0.1% versus Jul -0.1%

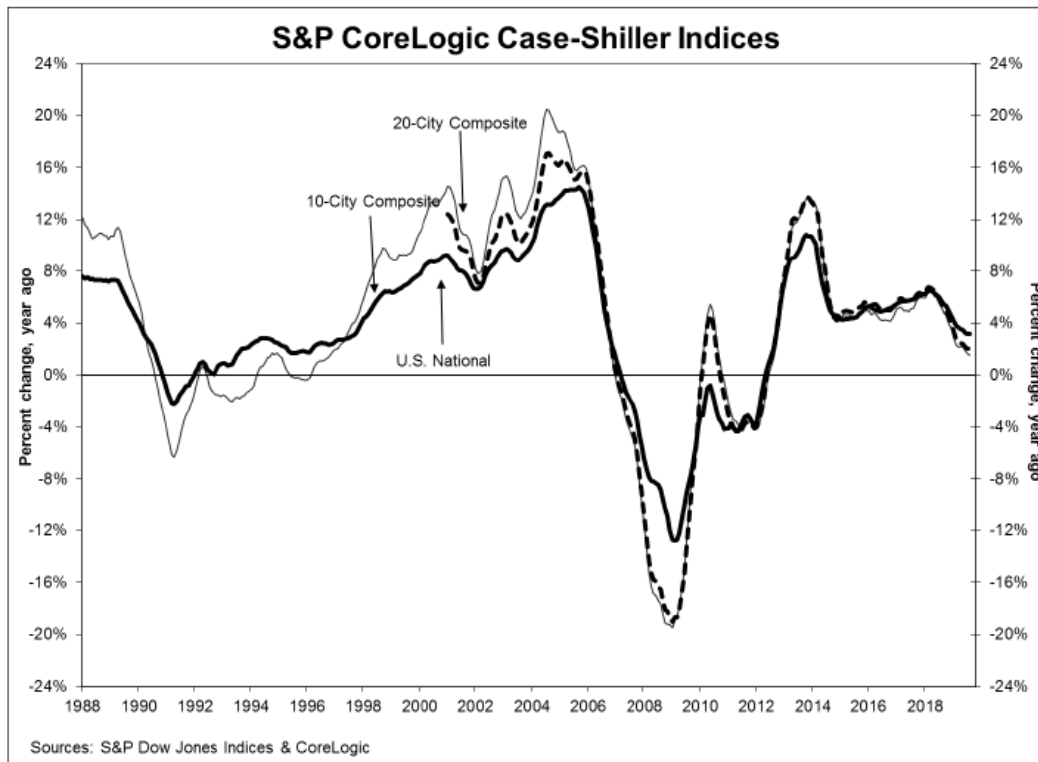
20-City House Price Index – month change (SA); Aug -0.2% versus Jul 0%

## House Price Index – Annual Change

National House Price Index – annual chg; Aug +3.2% versus Jul +3.1%

10-City House Price Index – annual chg; Aug +1.5% versus Jul +1.6%

20-City House Price Index – annual chg; Aug +2% versus Jul +2%



<https://au.spindices.com/index-family/real-estate/sp-corelogic-case-shiller>

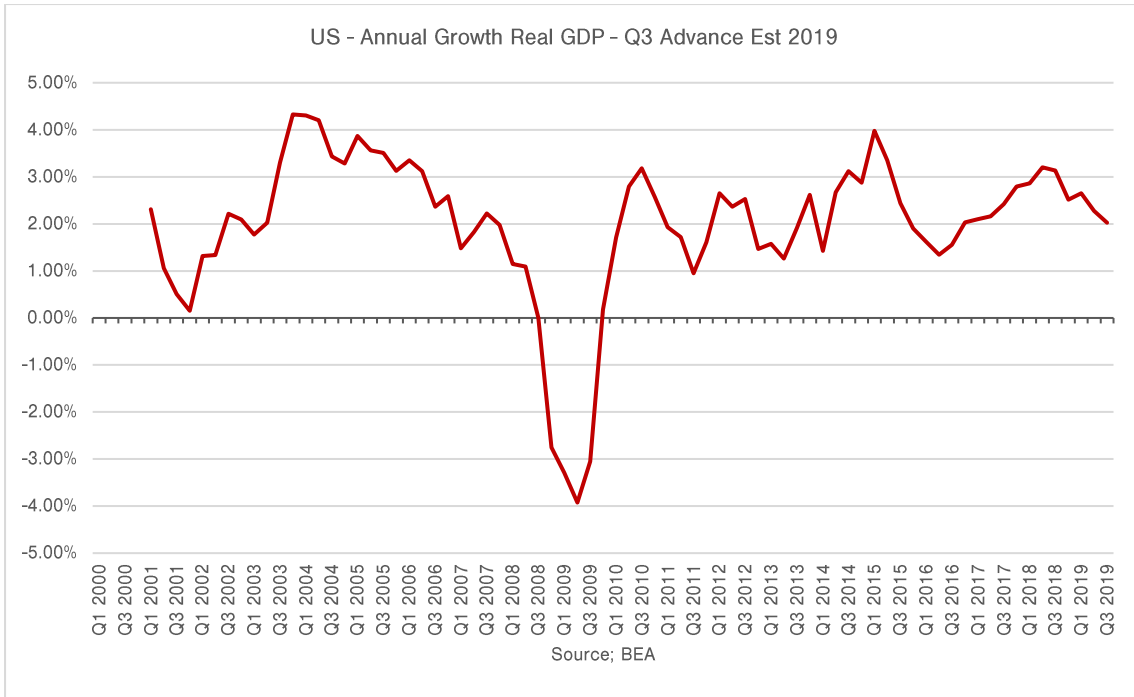
## **GDP Advance Estimate Q3 2019**

The pace of US real GDP growth was little changed between Q2 and the advance estimate for Q3. Growth in Q3 remained at +0.5%. Within Q3, a lower contribution from personal consumption expenditure and government consumption expenditures was offset by a less negative impact from the change in inventories and net exports. Fixed investment continued to contract at a similar pace in Q3 as in Q2.

Quarter change Real GDP; Q3 advance estimate +0.5% versus Q2 +0.5%

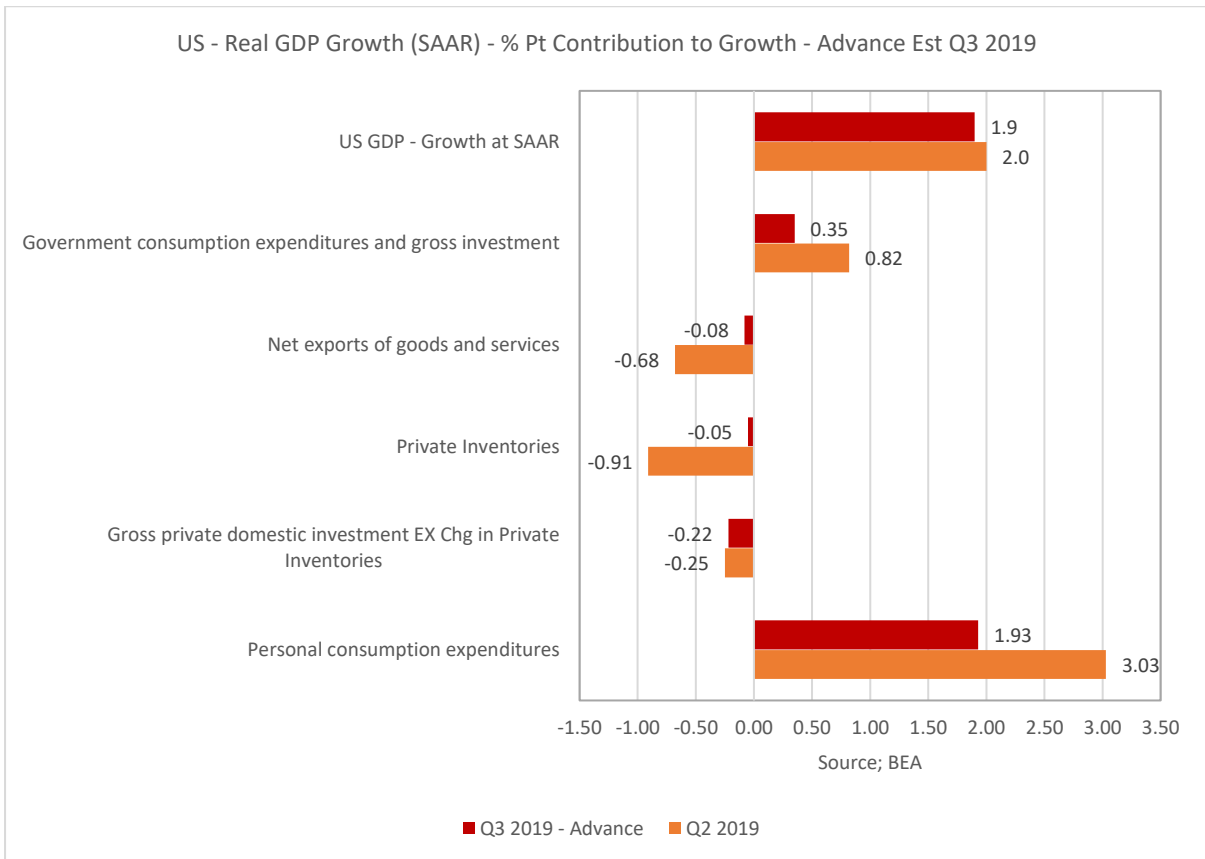
The annual pace of GDP growth (current quarter versus the same quarter a year ago) slowed further;

Annual change Real GDP; Q3 advance estimate +2% versus Q2 +2.3%



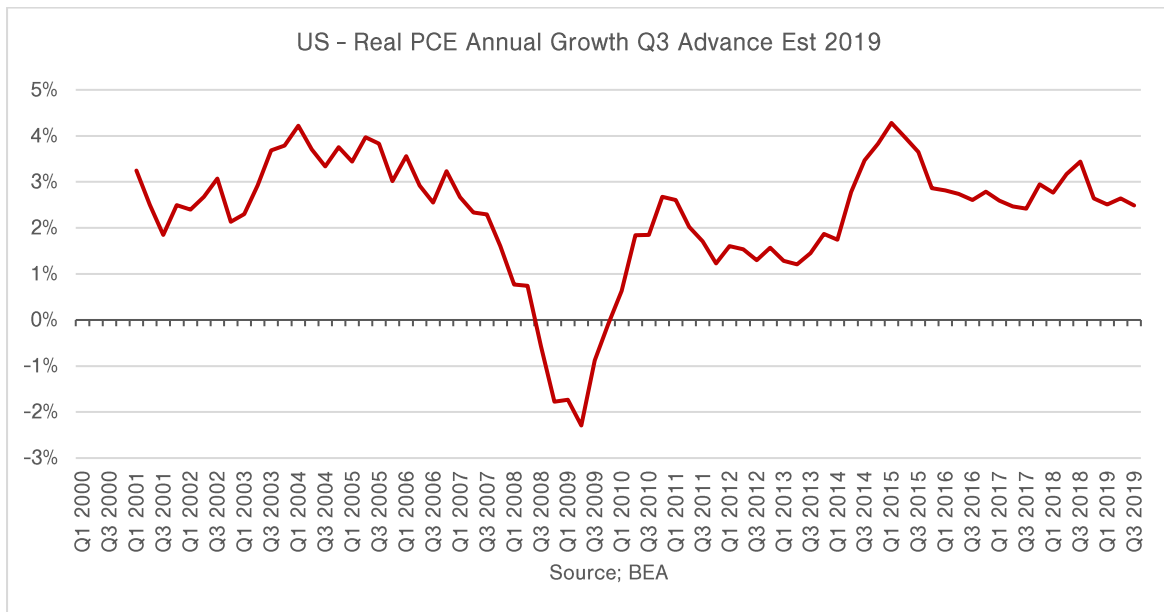
**Expenditure View of GDP Growth (at SAAR)**

The seasonally adjusted annual rate of growth in Q3 slowed to 1.9% from 2% in Q2 (growth in both quarters was +0.5% rounded up). There were several changes in expenditure underlying that result;

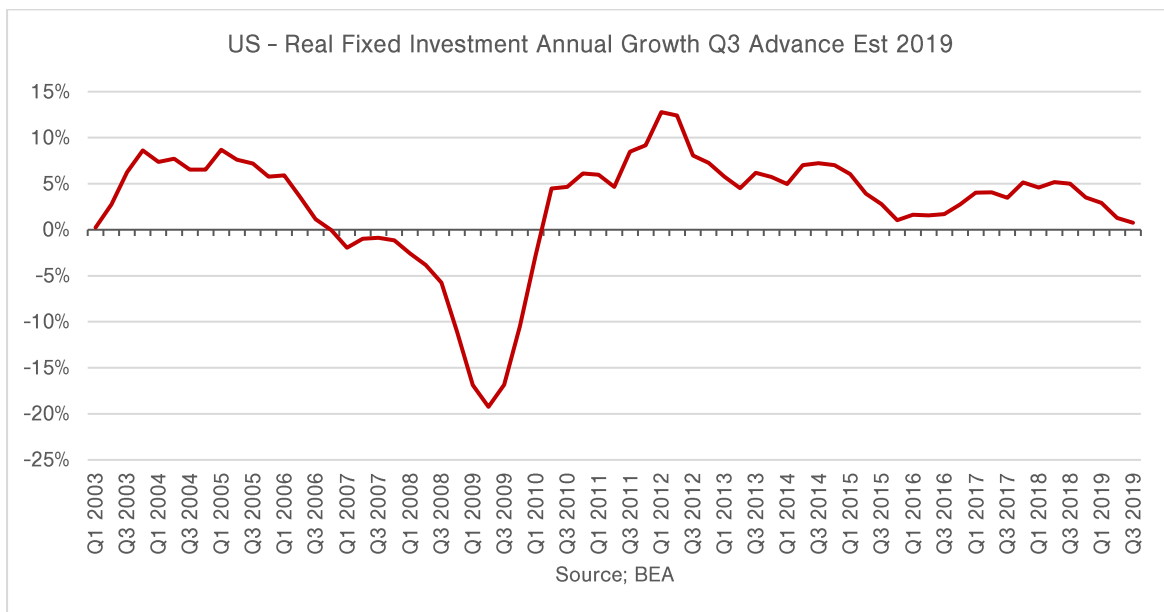




Personal consumption expenditure made a smaller contribution to headline growth. This was due to lower growth across both goods (especially motor vehicles and parts) and services. The annual growth in PCE has slowed to 2.5% (led by lower annual growth in Services of +1.7% while growth in real PCE of Goods has accelerated to 4.3%);



Gross Private Domestic Investment – detracted from growth in the quarter, but to a lesser degree than in Q2. The fixed investment component (ex the change in inventories) declined at a similar pace in Q3 as in Q2 (-0.3%). The annual growth in private fixed investment has slowed to +0.8% from 5% in Q3 2018;

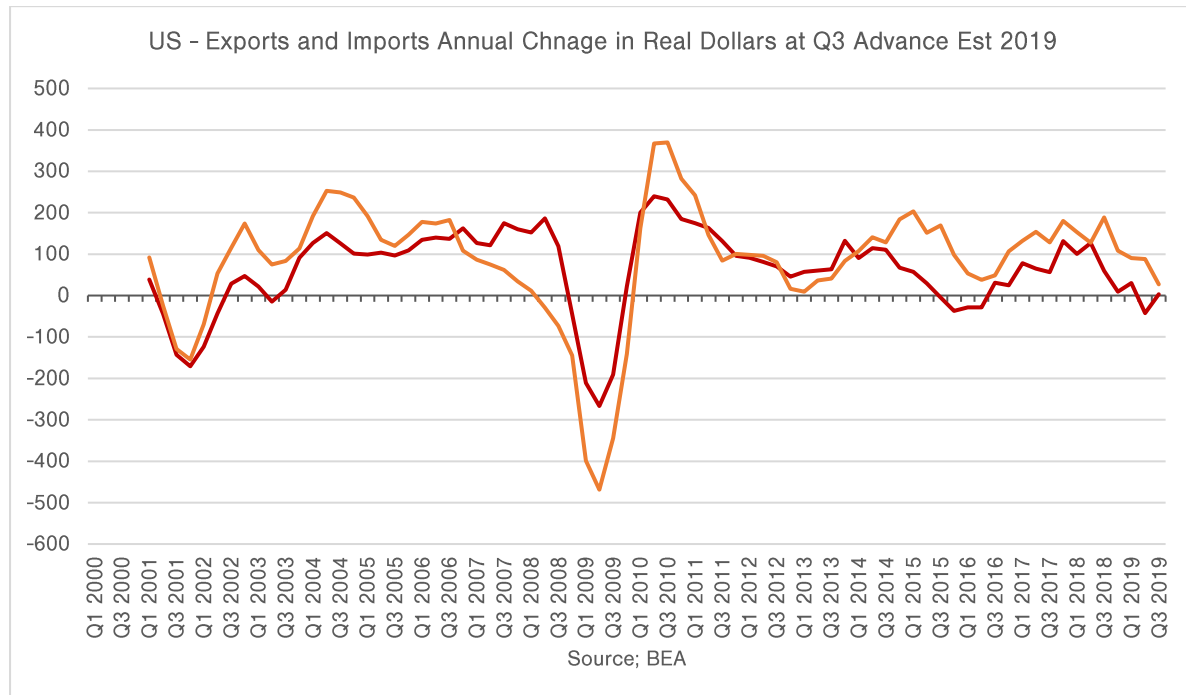


Non-residential investment declined at a faster pace in Q3, detracting -0.4%pts in Q3 versus -0.1%pt in Q2. This was led by both structures and equipment. Residential investment, on the other had helped to somewhat offset this decline, by adding +0.2%pts to GDP growth in Q3.

The change in inventories made a much smaller negative contribution to GDP growth in Q3.

Net exports also had a less negative impact in GDP growth (still detracting from growth, but by a lesser degree than in Q2). In Q3, both imports and exports increased slightly versus the quarter prior – exports +0.2% versus imports +0.3%. The slightly faster growth in imports resulted in the decline in net exports for the quarter. In Q2 however, the decline in exports (-1.4%) was larger than the change in imports (0%) – hence the much larger negative impact on GDP from net exports in Q2.

On an annual basis and in real (dollar) terms, growth of both exports and imports has been slowing over the last four quarters;



Government – overall still made a positive contribution to growth but at a slower pace than in the quarter prior.

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

## Challenger Job Cuts (Oct)

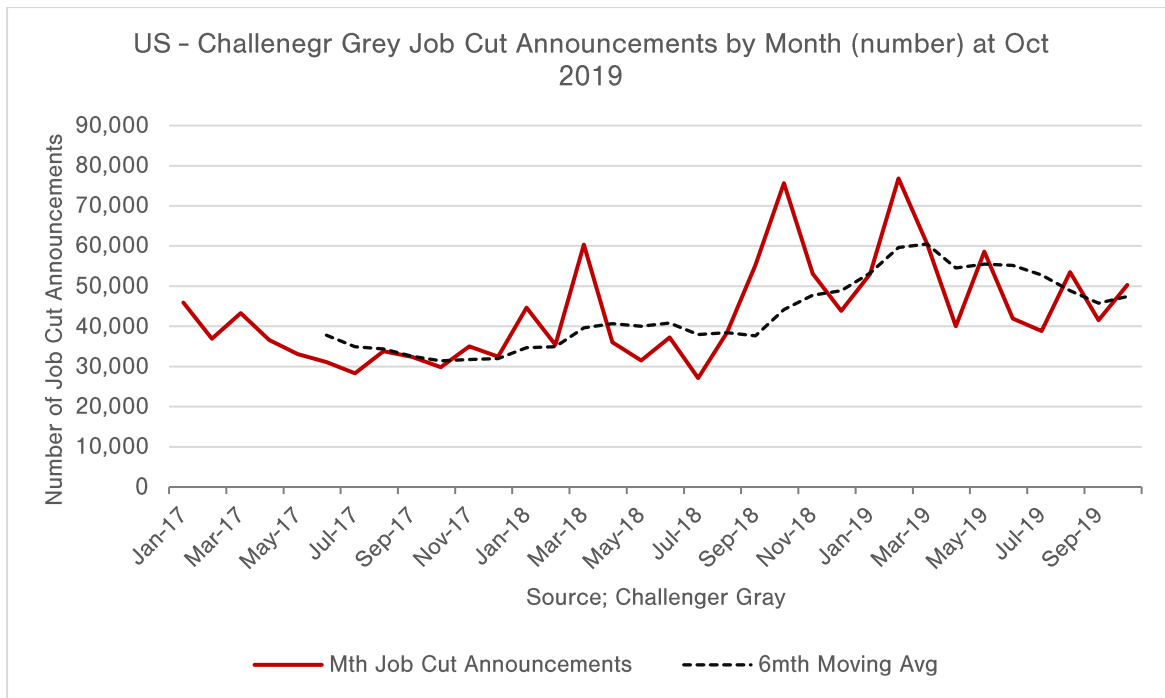
### Job Cut Announcements

Month change; Oct 50.3k job cuts (+21%) versus Sep 41.6k job cuts (-22% from month prior)

On an annual basis, the number of job cuts announcements was lower for the second month;

Annual change (versus same month a year ago); Oct -34% versus Sep -25%.

In Oct 2018 and Feb 2019, there was a relatively large number of job cut announcements. Although the pace of announcements has slowed, the number of job cut announcements have remained Somewhat elevated, especially compared to 2017;



On a YTD basis, job cut announcements are up 17% versus YTD Oct 2018. Both YTD periods (this year and last year) include one of the two large peaks in job cut announcements.

Across the thirty industry classifications, only ten industries have lower job cut announcements versus the YTD a year ago; utilities, telecoms, services, media, insurance, financial, consumer products, retail, legal and electronics.

The main industries contributing to the higher job cuts in the YTD (versus the YTD a year ago);

Technology; an increase of +46k job cut announcements

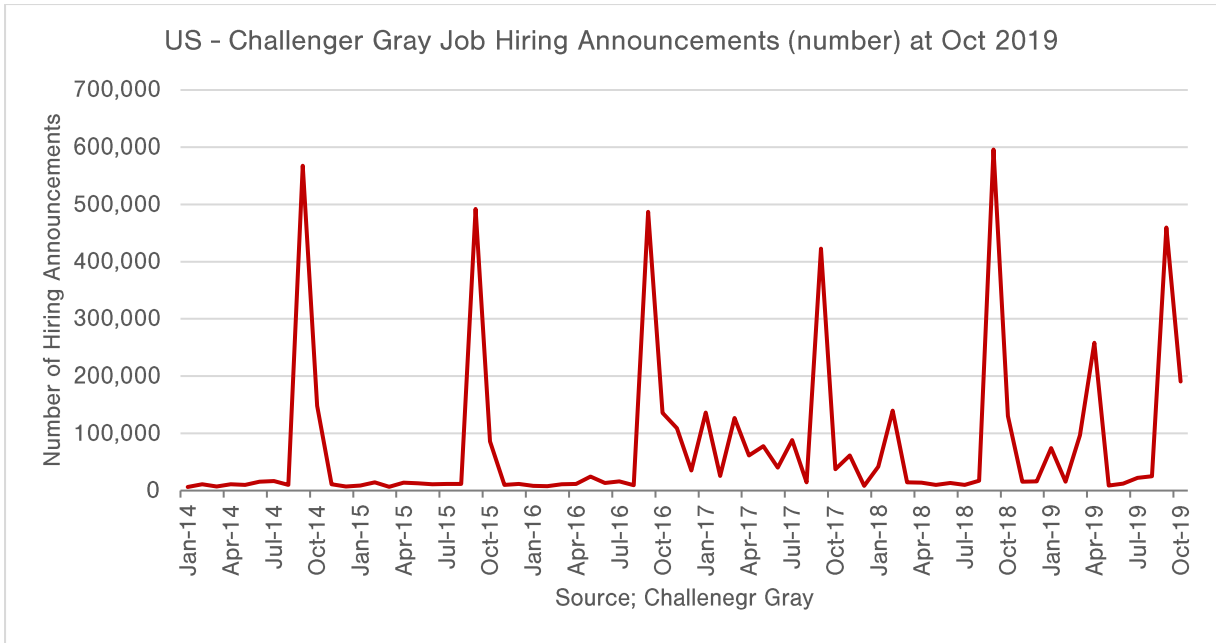
Industrial Goods; an increase of +41k job cut announcements

Automotive; an increase of +28k job cut announcements

#### Job Hire Announcements

On the other side, job hiring announcements numbered +191k in Oct. Of this, 171k were retail hiring announcements (mostly still part of the seasonal hiring pattern).

The Sep & Oct hiring announcements contain the seasonal hiring plans of retailers. The Sep plus Oct 2019 hiring plans were somewhat lower than the year prior (650k versus 725k a year ago);



## Summary of Job Cut versus Hiring Announcements by Industry

	Announced Job Cuts			Offsetting Hiring Announcements
	OCT 2018 YTD	OCT YTD 2019	DIFF	OCT YTD 2019
<b>Aerospace/Defense</b>	5,715	6,727	1,012	5,352
<b>Apparel</b>	1,106	1,823	717	1,295
<b>Automotive</b>	14,489	43,025	28,536	22,868
<b>Chemical</b>	889	1,067	178	10
<b>Construction</b>	1,791	3,710	1,919	5,800
<b>Consumer Products</b>	29,206	15,145	-14,061	2,000
<b>Education</b>	9,134	14,876	5,742	286
<b>Electronics</b>	12,064	1,795	-10,269	1147
<b>Energy</b>	6,722	23,778	17,056	271
<b>Entertainment/Leisure</b>	9,910	12,308	2,398	2940
<b>Financial</b>	41,036	21,089	-19,947	2,020
<b>FinTech</b>	0	1,501	1,501	4,355
<b>Food</b>	11,363	21,172	9,809	2,286
<b>Government</b>	2,502	12,444	9,942	5,000
<b>Health Care/Products</b>	35,143	37,196	2,053	9525
<b>Industrial Goods</b>	22,446	63,505	41,059	4,720
<b>Insurance</b>	5,133	2,930	-2,203	4,260
<b>Legal</b>	124	0	-124	0
<b>Media</b>	11,286	9,198	-2,088	622
<b>Mining</b>	524	5,829	5,305	490
<b>Non-Profit</b>	1,999	2,990	991	0
<b>Pharmaceutical</b>	10,135	10,631	496	3938
<b>Real Estate</b>	357	2,046	1,689	0
<b>Retail</b>	92,735	71,485	-21,250	885,890
<b>Services</b>	26,847	21,530	-5,317	5376
<b>Technology</b>	9,634	56,155	46,521	20,015
<b>Telecommunications</b>	59,518	14,908	-44,610	1,925
<b>Transportation</b>	16,702	25,341	8,639	163,320
<b>Utility</b>	2,309	1,563	-746	250
<b>Warehousing</b>	883	9,377	8,494	6,414
<b>YTD Total</b>	<b>441,702</b>	<b>515,144</b>	<b>16.6%</b>	<b>1,162,375</b>

<http://www.challengergray.com/press/press-releases/2019-october-job-cuts-report-announced-cuts-edge-21-october>

## Personal Income, Outlays and the PCE Price Index (Sep)

In Sep, personal income growth slowed, led by lower growth in employee compensation. Consumption expenditure also slowed slightly, led mostly by services expenditures. The pace of saving halved in the month (versus the month prior) due mostly to the lower income growth.

### Personal Income

Growth in personal income slowed in Sep, led mostly by much slower growth in employee compensation and proprietor's income. Growth in disposable personal income slowed by half in the month.

Personal income - month change; Sep +0.3% versus Aug +0.5%

Employee compensation growth slowed from +0.5% in Aug to +0.1% in Sep. Wages and salaries growth was 0% in Sep.

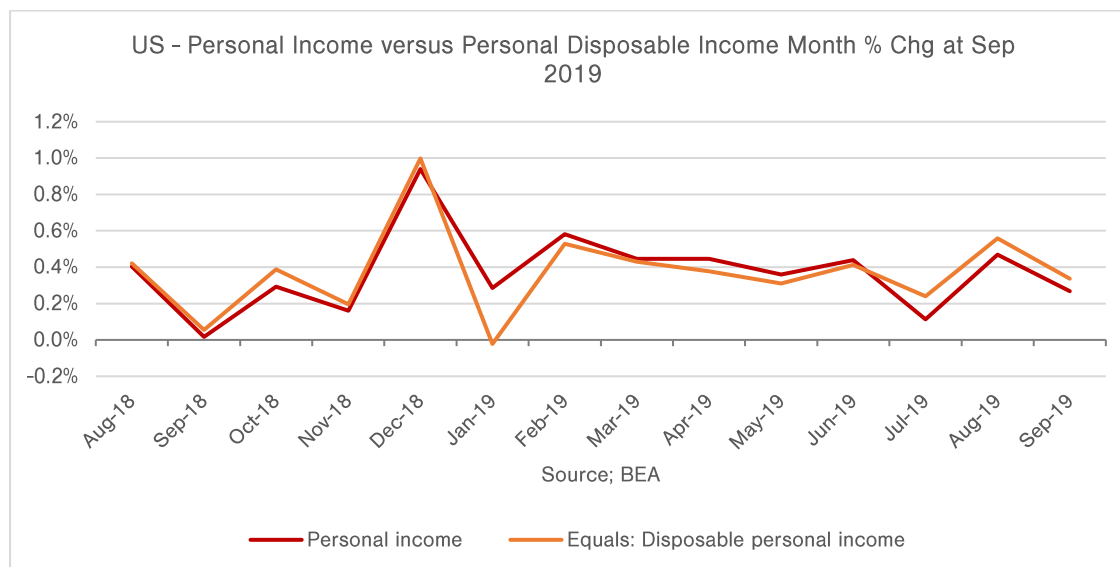
Proprietor's income growth also slowed from +2.3% in Aug to +0.4% in Sep.

Rental income growth remained at 0% in Sep.

Personal current transfer receipts also grew at the same pace of +0.3%.

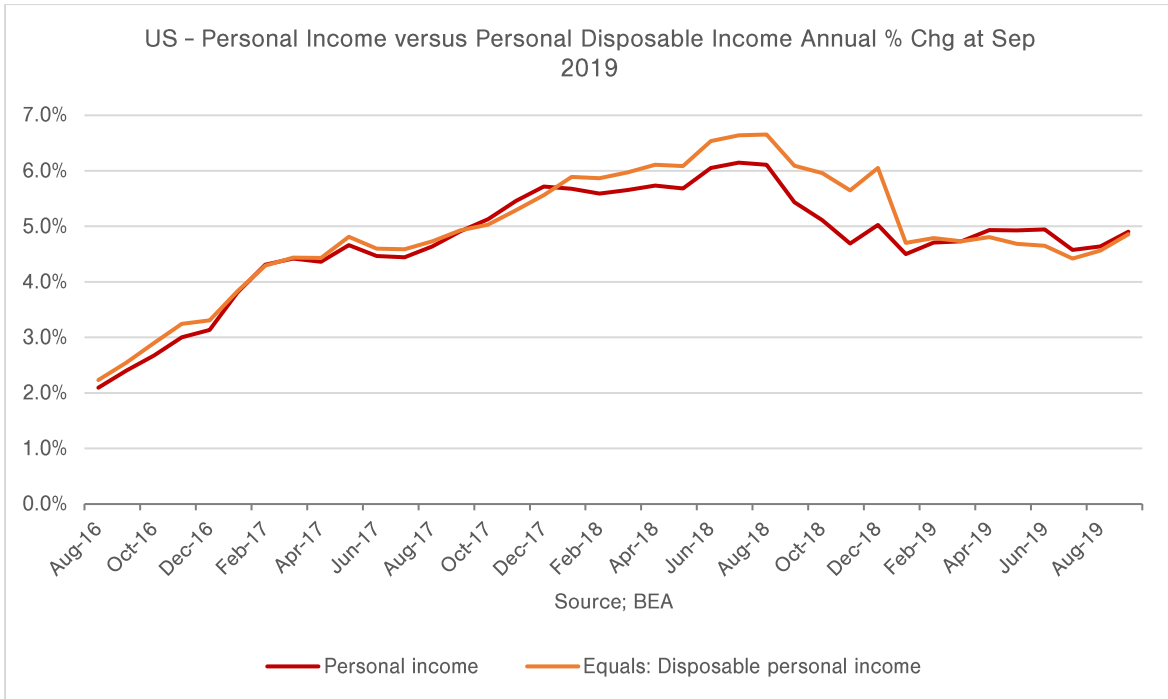
Personal current taxes declined at a slightly faster pace in the month -0.3% in Sep versus -0.2% in Aug.

The resulted in disposable personal income growth slowing from +0.5% in Aug to +0.3% in Sep.



In real terms, personal disposable income slowed slightly in Sep to +0.3% from +0.5% in Aug.

On an annual basis, personal income growth lifted slightly in Sep to +4.9% versus +4.6% in Aug. This remains below the recent peak of 6% in Aug 2018, but still well above the growth recorded throughout 2017;



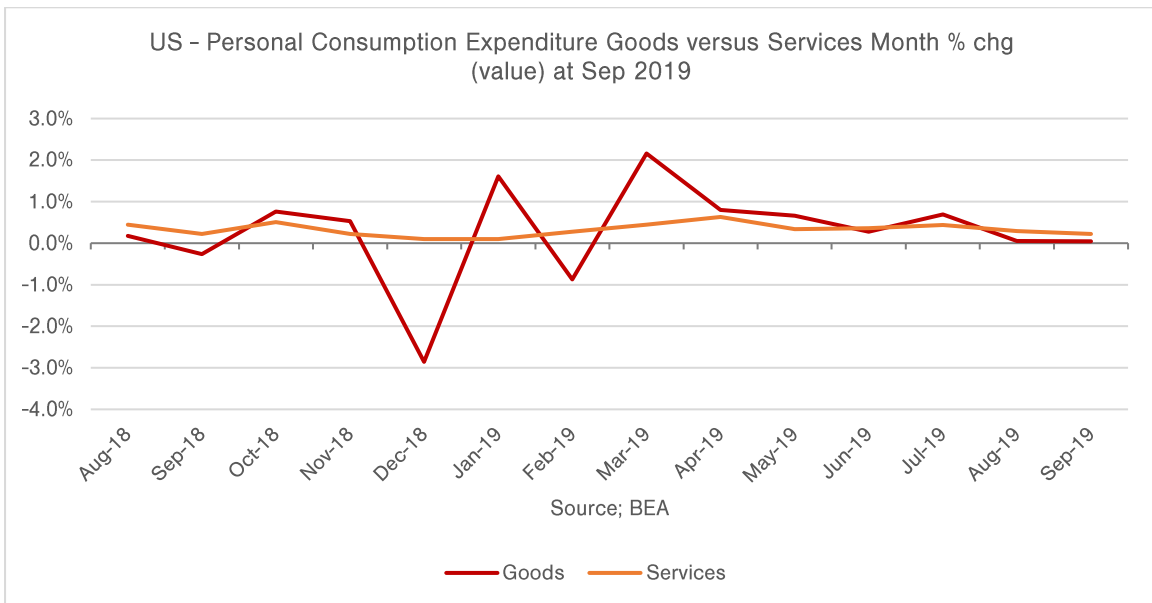
**Personal Consumption Expenditure**

Growth in personal consumption expenditures (total) was slightly lower in Sep versus Aug. The main change in the month was slower growth in services expenditures.

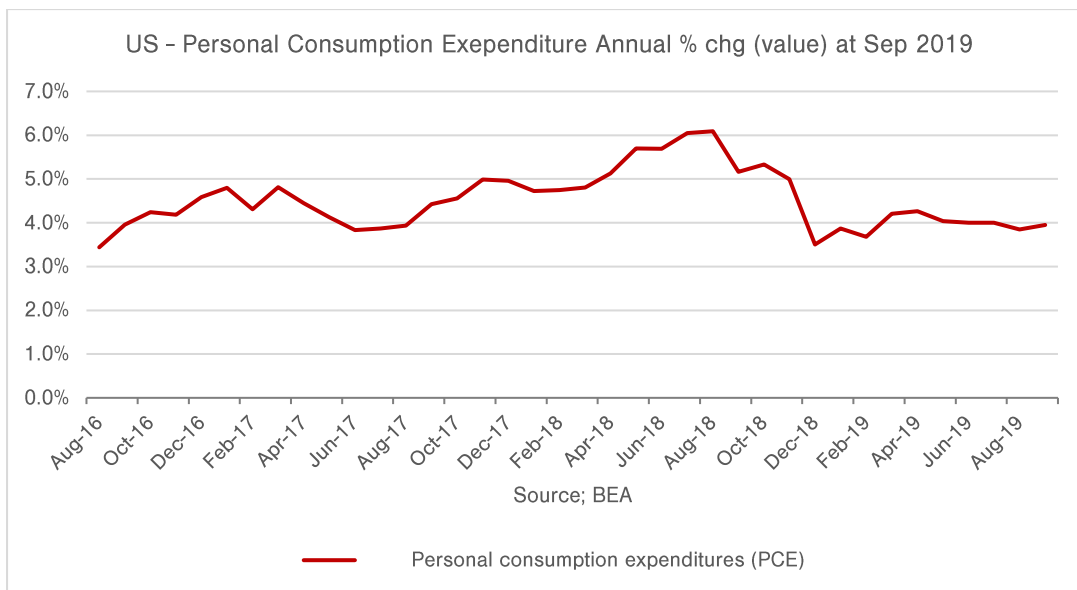
Personal consumption expenditure – month change; Sep +0.17% versus Aug +0.22%

Expenditure on goods slowed from +0.1% in Aug to 0% in Sep. Growth in durable goods expenditure was unchanged at +0.4%, which was offset by the continued decline in the value of non-durable goods expenditure of -0.1% in Sep (as well as Aug).

Expenditure on services slowed from +0.3% in Aug to +0.2% in Sep.



On an annual basis, personal consumption expenditure growth (value) continues to grow at constant pace after slowing through mid-2018;

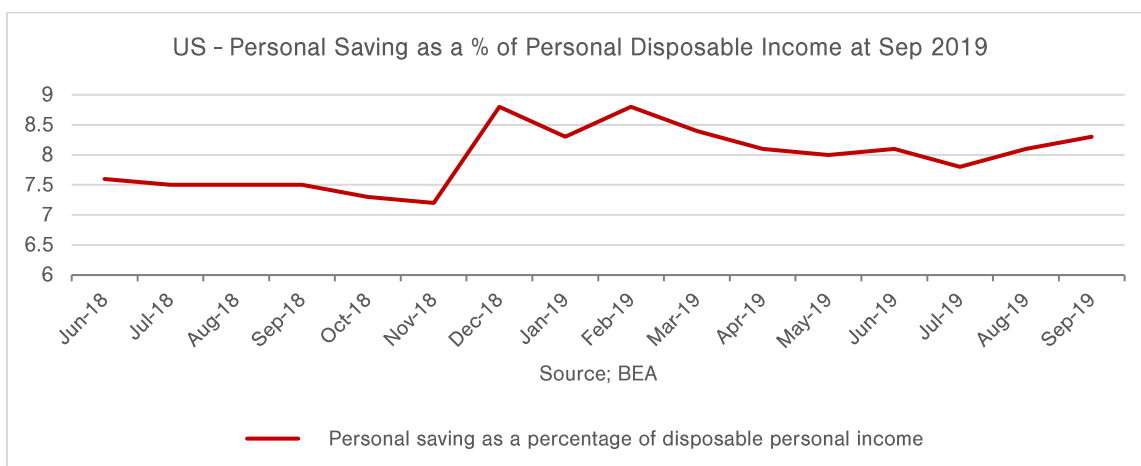


**Personal Saving**

Personal saving increased at slower pace in Sep (the surplus between income and outlays). This was due to the larger slowdown in income growth for the month (larger than the slowdown in expenditures).

Personal saving – month change; Sep +2.4% versus Aug +4.8%

Personal saving as a % of disposable personal income increased slightly in Sep to 8.3.



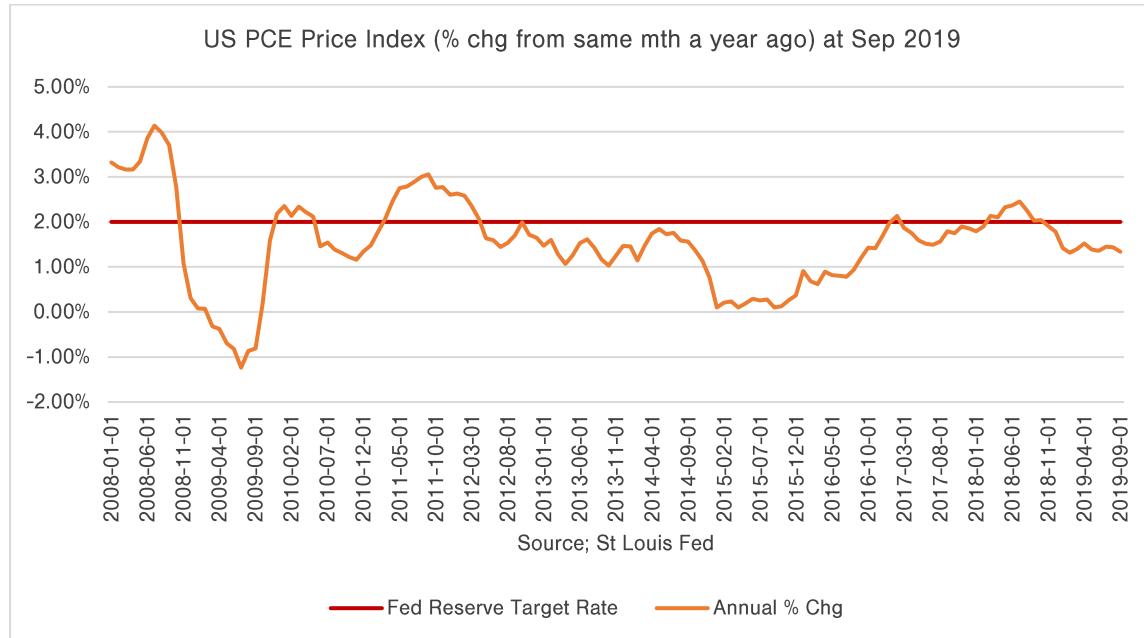
<https://www.bea.gov/news/2019/personal-income-and-outlays-september-2019>



## Personal Consumption Expenditure Price Index (Sep)

This is the US Fed preferred measure of consumer price inflation. Annual growth in both the headline and core PCE price index slowed in Sep. On a monthly basis, both headline and core PCE price indexes slowed to virtually no growth.

**Headline PCE Price Index – annual change; Sep +1.33% versus Aug +1.44%**



The annual change in goods prices continued to decline in Sep by -0.7%. Both durable goods and non-durable goods prices declined on an annual basis in Sep.

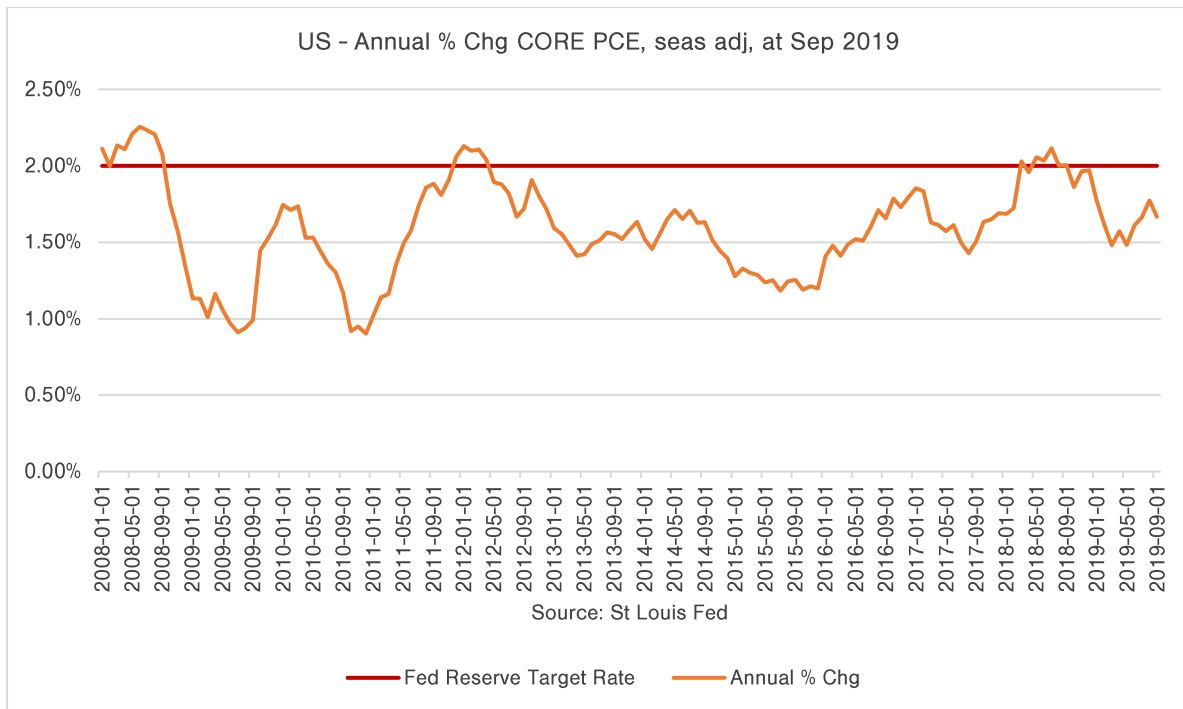
Durable goods prices declined by 1% in Sep. Within that group, recreational goods prices declined by 4% versus a year ago and other durable prices also declined by 2%.

Non-durable goods prices also declined at a slightly faster pace in Sep of -0.6%. This was partly the result of an 8% decline in energy prices (annual).

Services prices increased at a constant pace of +2.3% in Sep.

**Core PCE Price Index – ex food and energy – annual change; Sep +1.7% versus Aug +1.8%**

The annual pace remains well below/outside of the Fed's 2% asymmetric target rate;



Annual growth was also lower across both components of the core PCE price index;

Goods excluding food and energy goods prices declined at a faster pace in Sep of -0.4% versus Aug -0.2%.

Services excluding energy services prices slowed from +2.4% in Aug to +2.3% in Sep.

PCE Price Index Data; <https://fred.stlouisfed.org/series/PCEPILFE#0>

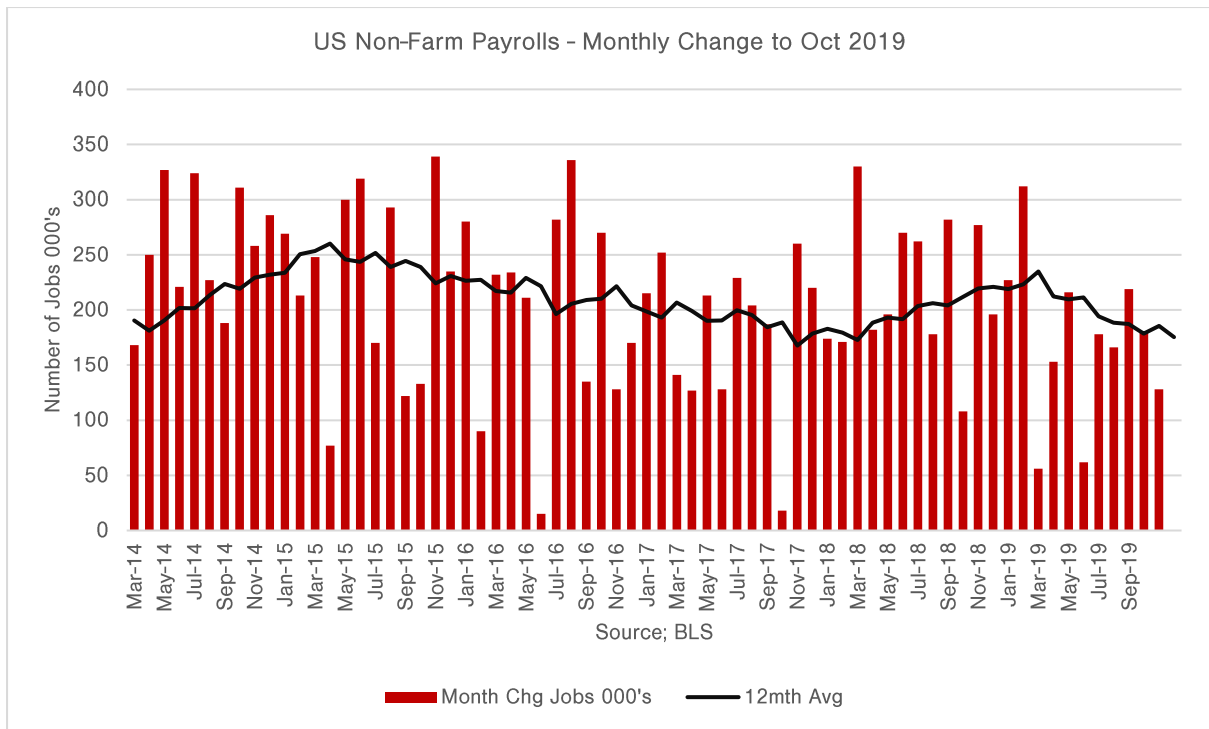
<https://apps.bea.gov/iTable/iTable.cfm?reqid=19&step=2#reqid=19&step=2&isuri=1&1921=underlying>

## Non-Farm Payrolls (Oct)

Growth in non-farm payrolls slowed further in the latest month. The two months prior were revised higher. Despite the positive revisions, the 12-month average growth in payrolls continued to slow again. The 12-month average has been slowing for most of the year to date.

Non-farm payrolls – net month change; Oct +128k employees versus Sep +180k employees (revised higher by 44k).

Aug non-farm payrolls were also revised higher for the second month running – originally reported as 130k growth now up to 219k growth.



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

## Household Employment Survey (Oct)

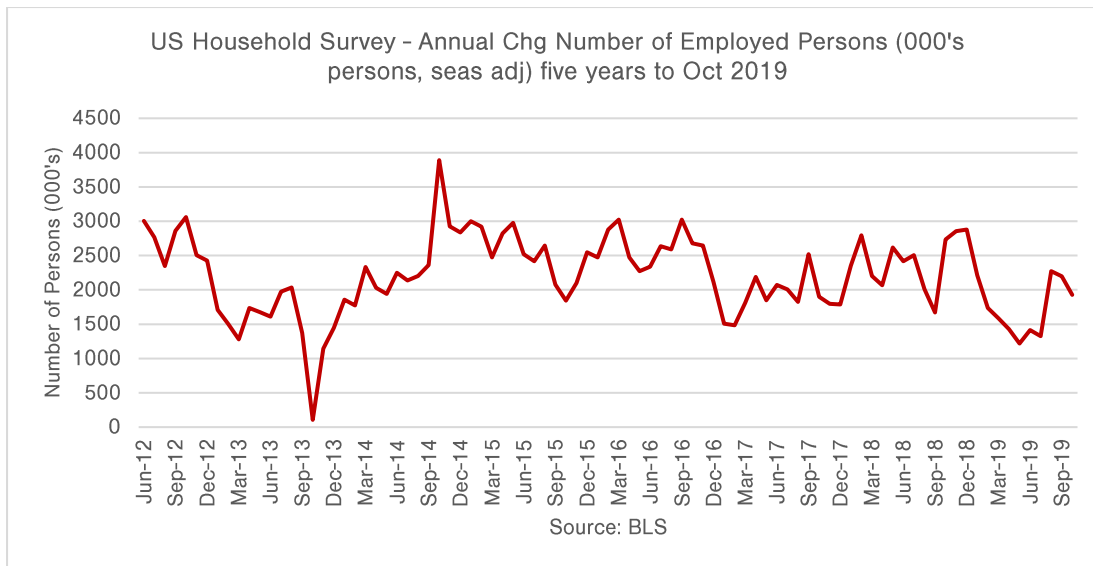
On an annual basis; employment growth slowed slightly in the year to Oct for the 16yrs+ age group. The growth of the labour force slowed more than total employment due to a smaller increase in participation. As a result, total unemployed persons declined at a slightly faster pace.

On a monthly basis though, total unemployed persons increased slightly. This was the result of faster growth in the labour force (due to a larger increase in participation), while employment growth slowed.

### Employment

The annual pace of employment growth slowed in Oct, but remains well above the recent low in May 2019.

Employed persons – annual change; Oct 1.928m persons versus Sep 2.200m persons



On a monthly basis, employment growth also slowed; Oct +241k persons versus Sep +391k persons.

On an annual basis, employment growth remains above that of the labour force, so total unemployed persons declined at a slightly faster pace.

But on a monthly basis, employment growth was lower than that of the labour force, so total unemployed persons increased in the month.

### Labour Force

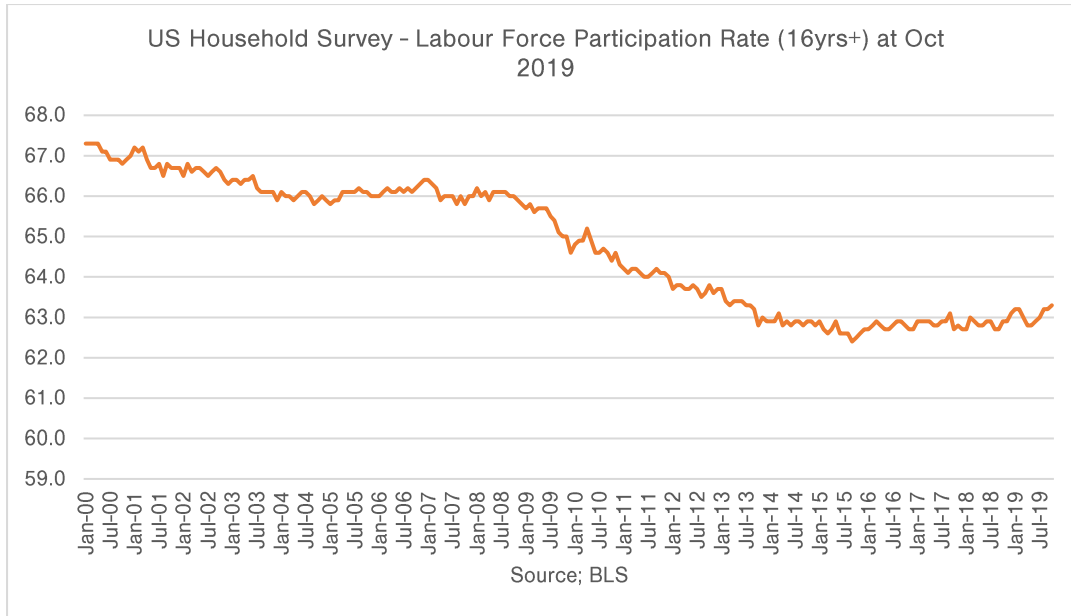
The growth in the labour force slowed on an annual basis and increased on a monthly basis. Over both time frames, the change in participation was the main driver.

Labour force – annual change; Oct +1.67m persons versus Sep +1.984m persons

The slower growth on the annual basis was mostly the result of a smaller annual increase in participation. In Oct, the participation rate increased by +0.4% pts after increasing by +0.5% pts in Sep.

The labour force size increased at a faster pace on a monthly basis; Oct +325k persons versus Sep 117k persons. This was mostly due to a +0.1%pt increase in participation in Oct versus no change in the month prior.

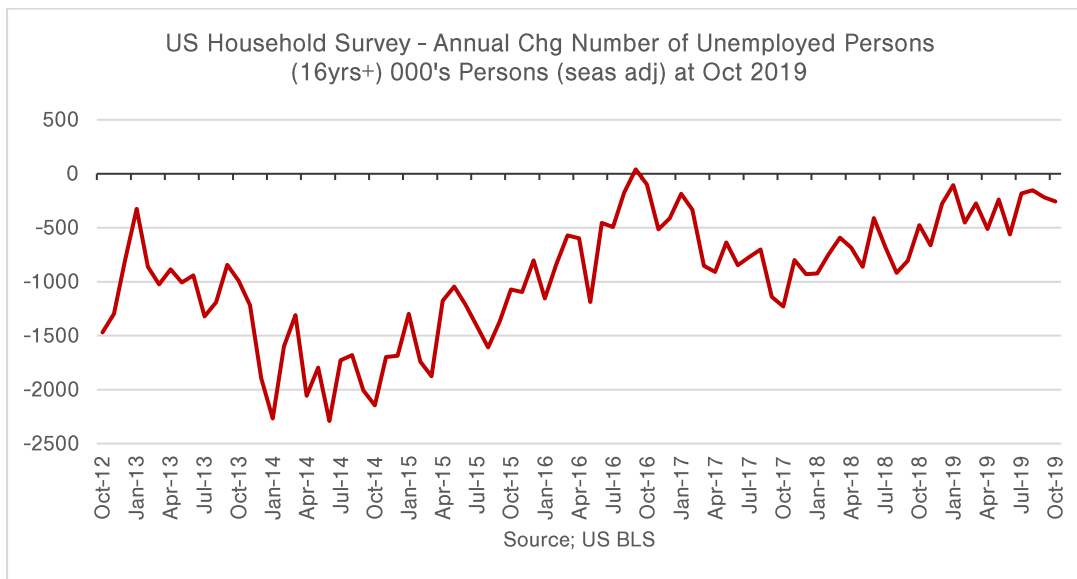
As of Oct, the participation rate is now at 63.3% - the highest since 2013;



**Total Unemployed Persons**

On an annual basis, even though total employed persons grew at a slower pace, total unemployed persons declined further.

Total unemployed persons – annual change; Oct -257k persons versus Sep -217k persons



But on the monthly basis, employment growth slowed, while the labour force increased as participation increased versus the month prior. This resulted in an increase in total unemployed persons for the month.

Total unemployed persons – month change; Oct +86k persons versus Sep -275k persons

The unemployment rate ticked up slightly from 3.52% in Sep to 3.56% in Oct.

### Summary of the main labour market dynamics:

Annual; although employment growth slowed slightly, it remained above that of the labour force. The faster decline in the labour force relative to employment growth resulted in a larger decline in total unemployed persons in the year to Oct 2019.

Month; Employment growth slowed and the size of the labour force increased at a faster pace. The growth in the labour force was due to the increase in participation in the month. As a result, total unemployed persons increased in the month of Oct.

	000's people (16yrs+)	Annual chg - OCT 2019	Monthly Chg - OCT
The estimated change in the Labour Force due to pop growth (1)		631	65
How many jobs available for them? (employment growth) (2)		1,928	241
Difference (if negative, then employment growing faster than what pop adds to the labour force) (3)		- 1,297	-176
Change labour force participation - (if positive, people entering/returning to the labour force) (4)		1,039	260
The remainder is the chg in total unemployed persons (declining if negative) (4) plus (3)		- 258	84
<b>Two views of annual growth in the labour force;</b>			
Total employed persons plus total unemployed persons		1,670	325
Est of what population adds to the labor force plus change in participation		1,670	325
BLS reported change in the size of the labour force		1,670	325

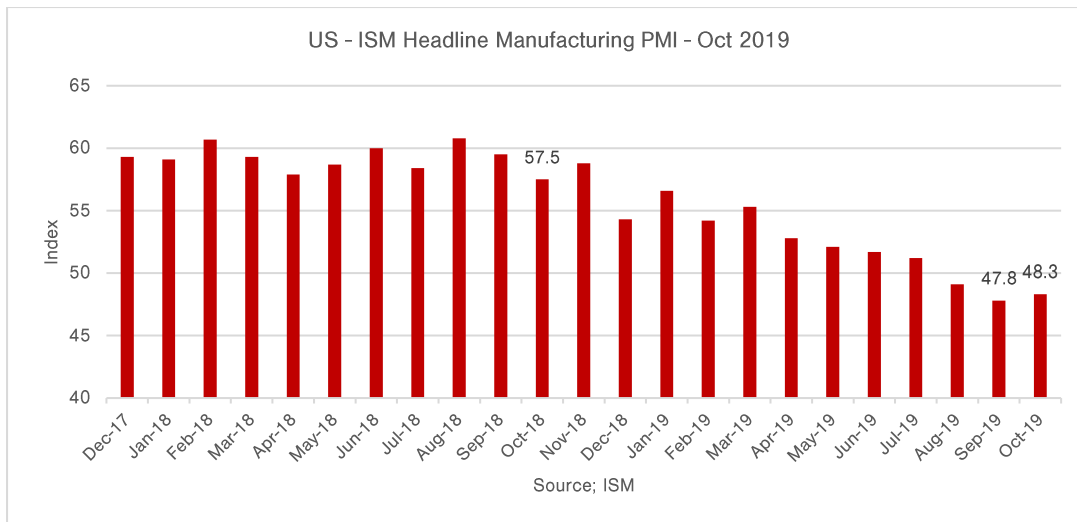
<https://www.bls.gov/news.release/empsit.nr0.htm>

### **ISM Manufacturing Index (Oct)**

The ISM manufacturing PMI remained in contraction for Oct. The pace of decline slowed slightly at the headline level and across most of the sub-indices. There were two exceptions. Prices declined at a faster pace and new export orders increased at a much faster pace for the month, shifting out of contraction.

The breadth of growth across the manufacturing industries remained narrow this month. Only five of the eighteen manufacturing industries recorded growth in Oct - Furniture & Related Products; Printing & Related Support Activities; Food, Beverage & Tobacco Products; Wood Products; and Computer & Electronic Products

Headline Manufacturing PMI; Oct 48.3 versus Sep 47.8



New orders continued to contract, but at a slower pace. The proportion of firms recording ‘higher’ and ‘lower’ new orders both continued to increase.

The large positive for the month was the 9pt increase in new export orders (covering approx. 76% of the survey respondents). New export orders shifted out of contraction to reach 50.4 in the month. Imports on the other hand continued to decline at a faster pace (a sign of weakening demand at firms?) – none of the eighteen manufacturing industries reported growth in imports for the month.

Production declined at a slightly faster pace while backlogs of orders also declined at a faster pace.

Employment growth also continued to decline but at a slower pace. There was at least a more positive shift with more firms recording higher employment and less firms recording lower employment.

Inventories declined at a slower pace.

Prices for raw materials decreased at a faster pace.

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

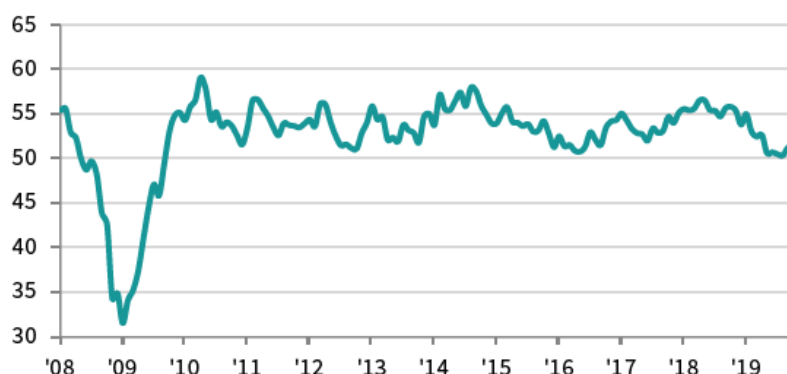
## Markit US Manufacturing PMI (Oct)

In contrast to the ISM report on manufacturing, the Markit manufacturing PMI indicated that conditions continued to improve in Oct. The headline index increased at a slightly faster pace, reaching a six-month high of 51.3. This was led by faster growth in underlying demand, output and employment.

Headline Manufacturing PMI; Oct 51.3 versus Sep 51.1

## U.S. Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

New orders increased at a faster pace and increased overall for the fifth month in a row. Foreign orders also improved in the month, increasing for the first time in three months.

“Firms noted that their clients were exhibiting less hesitancy in placing orders and market conditions had improved.”

Output increased at a faster pace, but growth remained moderate overall. Backlogs of work were unchanged after declining for several months in a row.

Employment growth also increased at a faster pace – partly the result of filling previously open vacancies.

Firms were more optimistic about output growth over the next twelve months.

More favourable market conditions partially drove optimism to its highest level since June. Nonetheless, the overall degree of sentiment was below the long-run series trend.

<https://www.markiteconomics.com/Public/Home/PressRelease/9da0cc4ff534c799b83ca979f389627>

## FOMC Meeting Announcement – 30 October 2019

At this meeting the FOMC lowered the target range for the Fed Funds Rate to 1.5% - 1.75%.

“In light of the implications of global developments for the economic outlook as well as muted inflation pressures, the Committee decided to lower the target range for the federal funds rate...”

There has been no substantial or notable deterioration in activity since the last meeting. But at the press conference, Chairman Powell spoke of this reduction as more of an insurance against ongoing risks.

### Recent Developments

Labour market remains strong and economic activity has been “rising at a moderate pace”. Job gains have been solid and unemployment low. Business investment and exports “remain weak” and manufacturing output has declined.



Inflation and core inflation running at below 2%.

### Guidance

There remains no 'set' path for rates and future changes will be data dependent.

The FOMC appears to have shifted its guidance, removing 'will act as appropriate' with regard to sustaining the expansion and replacing it with 'will assess the appropriate path of the target range for the FFR'. This is a subtle change, but the statement has shifted from a clearly active expression to something more passive. Having implemented several rate cuts, there is a bit more of a 'wait and see' approach.

Regarding guidance, Chairman Powell stated in his press conference that (emphasis added);

“Since **monetary policy operates with a lag**, the full effects of these adjustments on economic growth, the job market, and inflation will be realized over time.”

“Looking ahead, **we will be monitoring the effects of our policy actions**, along with other information bearing on the outlook, as we assess the appropriate path of the target range for the fed funds rate. Of course, if developments emerge that cause a material reassessment of our outlook, we would respond accordingly. Policy is not on a preset course.”

<https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm>

[Return to top](#)

---

## Europe

---

### Germany CPI – Prelim (Oct)

The prelim CPI growth slowed further in Oct. The growth in goods prices slowed further, led by further declines in energy prices and slower growth in food prices. The growth in services prices also slowed.

All items CPI (prelim) – annual change; Oct +1.1% versus Sep +1.2%

Goods prices grew by +0.4% in Oct slowing from +0.6% in Sep. Energy prices declined by 2.2% in Oct after a 1.1% decline in Sep. Growth in food prices has also slowed notably, down to 1.1% in Oct. The annual pace of food price growth was +2.7% in Aug.

Services prices growth slowed to 1.7% in Oct after growing by +1.8% in Sep.

[https://www.destatis.de/EN/Press/2019/10/PE19\\_421\\_611.html](https://www.destatis.de/EN/Press/2019/10/PE19_421_611.html)

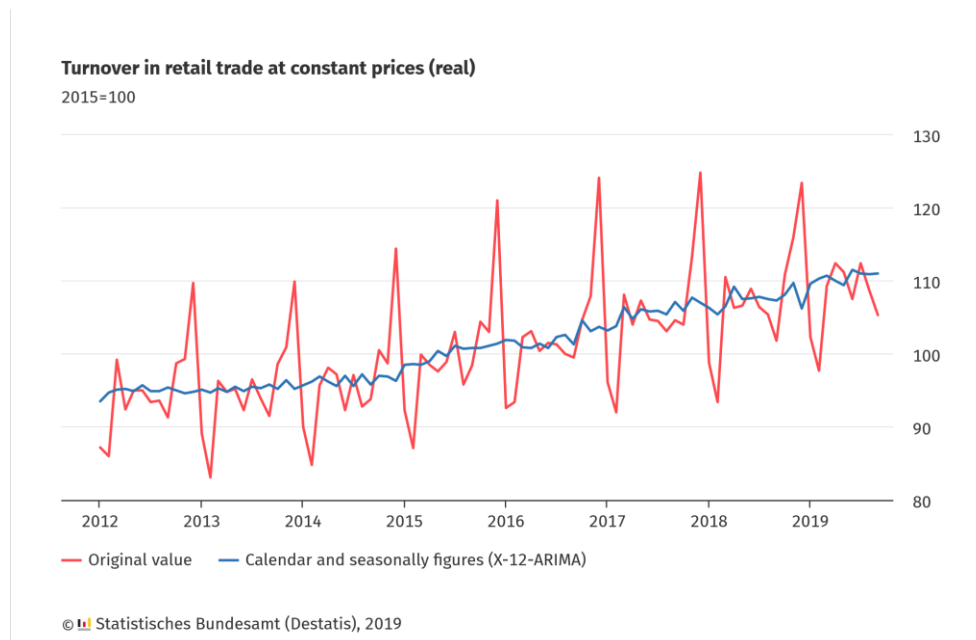
### Germany Retail Sales (Sep)

Retail sales in Germany increased slightly in real terms and declined in nominal terms in Sep.

Retail Sales (calendar and seasonally adjusted)

Real retail sales - month change; Sep +0.1% versus Aug +0.5%

Nominal retail sales – month change; Sep -0.2% versus Aug +0.3%



Annual growth in retail sales slowed in Sep – growth in real terms was +3.1% ahead of a year ago and +3.7% in nominal terms. In August annual growth in real retail sales was +3.2% and +3.8% in nominal terms.

[https://www.destatis.de/EN/Press/2019/10/PE19\\_422\\_45212.html](https://www.destatis.de/EN/Press/2019/10/PE19_422_45212.html)

## Eurozone GDP – Prelim Q3

In Q3, GDP growth in the Euro area remained constant while the pace of growth lifted slightly for the broader EU28 group.

### Euro Area – Real GDP

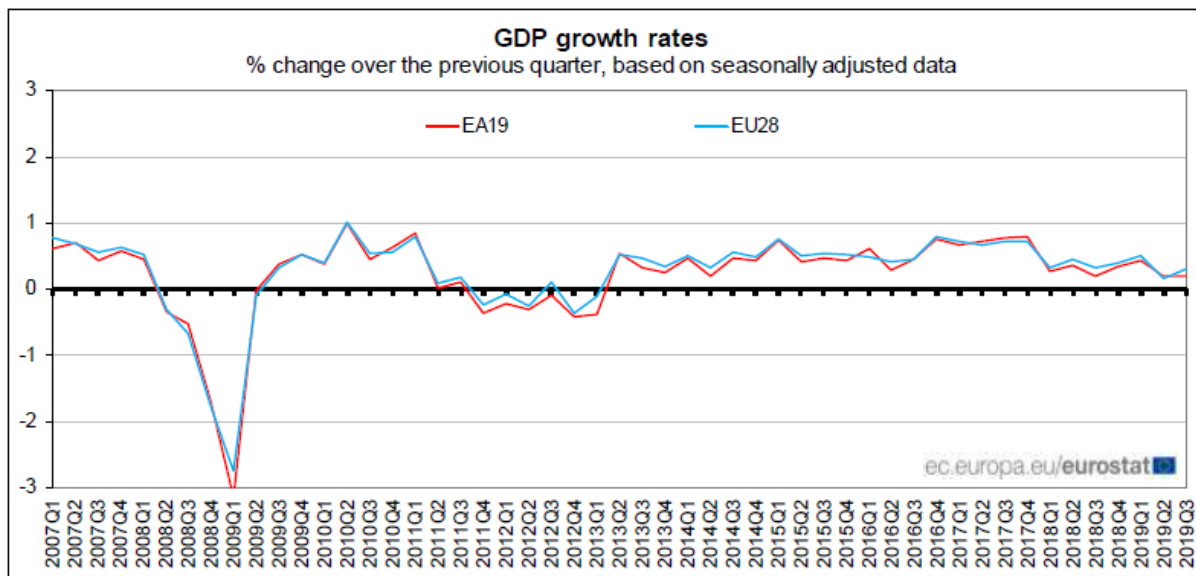
Quarter change; Q3 +0.2% versus Q2 +0.2%

Annual change; Q3 +1.1% versus Q2 +1.2%

### EU28 – Real GDP

Quarter change; Q3 +0.3% versus Q2 +0.2%

Annual change; Q3 +1.4% versus Q2 +1.4%

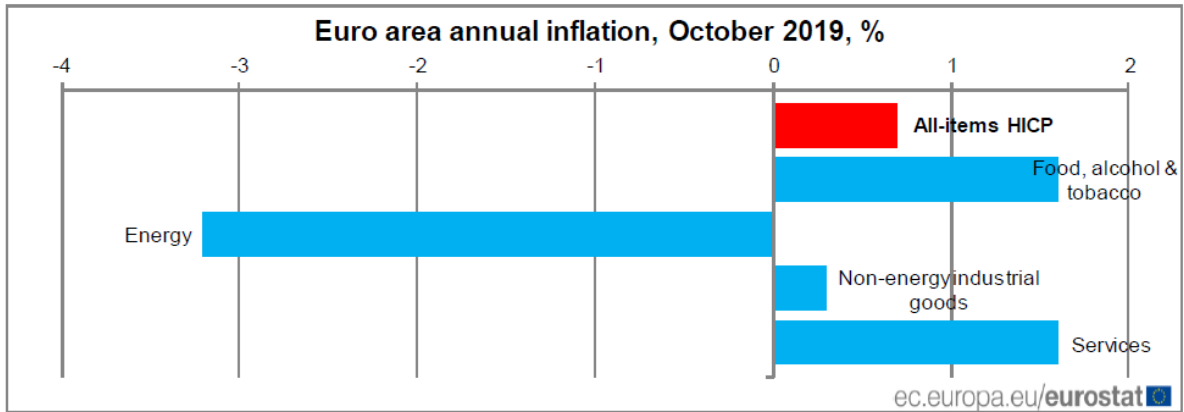


<https://ec.europa.eu/eurostat/documents/2995521/10064429/2-31102019-BP-EN.pdf/231272f8-b6a4-f943-6d77-9b59ac91f44e>

## Eurozone CPI – Prelim (Oct)

The headline annual Euro area CPI growth slowed further in Oct – this was led mostly by a larger decline in energy prices. The view of underlying prices changes indicated that price growth accelerated slightly in the year to Oct.

All items CPI – annual growth; Oct +0.7% versus Sep +0.8%. CPI a year ago was growing at +2.3% - led by much higher growth in food +2.2% and energy prices +10.8%.



At Oct 2019; Food, alcohol and tobacco prices grew at a constant pace +1.6% in Oct and Sep. Energy prices declined at an accelerated pace -3.2% in Oct versus -1.8% in Sep. Non-energy industrial goods prices increased by +0.3%.

Services price growth accelerated slightly in Oct to +1.6% versus +1.5% in Sep. Services prices were growing at an annual pace of +1.7% a year ago.

<https://ec.europa.eu/eurostat/documents/2995521/10064409/2-31102019-AP-EN.pdf/4fe9be63-d202-275f-ebff-84b9197b81bb>

[Return to top](#)

---

# Japan

---

## Retail Sales (Sep)

The value of retail sales growth increased at a marked pace in Sep – the month prior to the increase of consumption tax in Oct. As noted after the faster growth in Aug, it's likely that consumers brought forward purchases ahead of the tax increase.

Categories such as motor vehicles, machinery, general merchandise, medicine and toiletries recorded substantial increases in sales versus the same month a year ago.

### Retail Sales (value)

Month change; Sep +7.1% versus Aug +4.6%

The annual pace of growth accelerated from +1.8% in Aug to +9.1% in Sep;



### Contribution to Retail Sales by Category

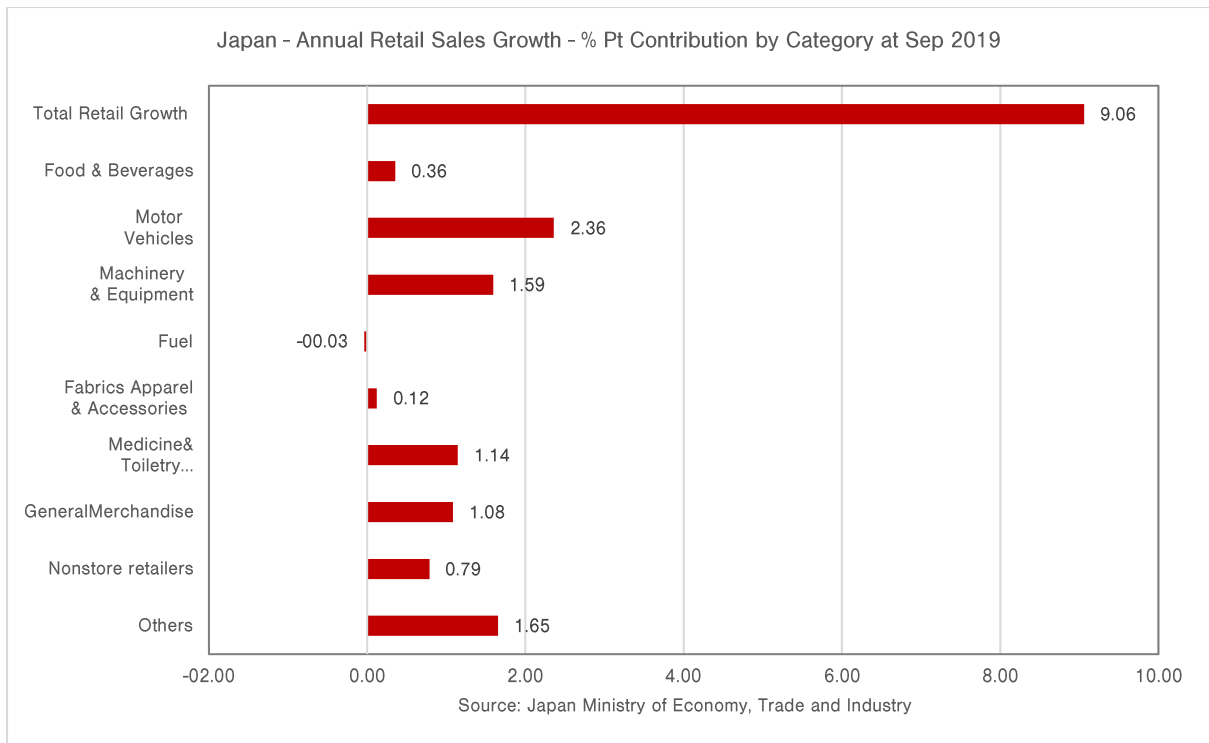
On an annual basis, retail sales growth accelerated. Faster growth was recorded across most categories.

Motor vehicles made the single largest contribution to headline retail growth – with annual growth increasing to 17% in Sep.

Others increased by 11.3% in the year to Sep.

Machinery and equipment increased by 38% versus a year ago.

Smaller increases were recorded for Food, Fabrics and Fuel.



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

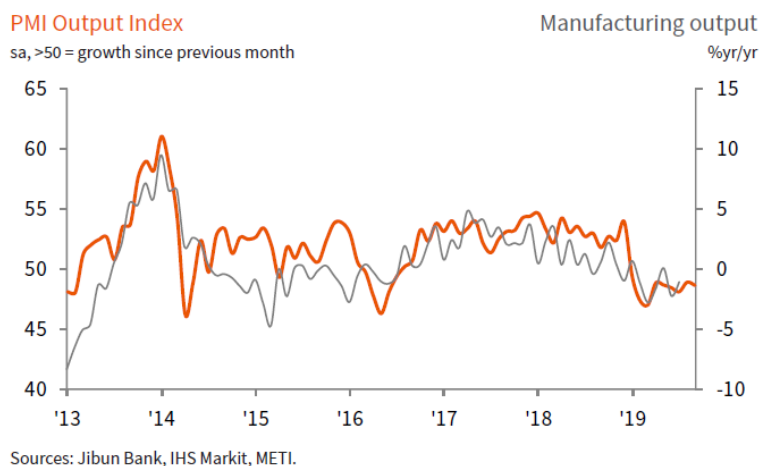
## Japan Industrial Production – Prelim (Sep)

On the surface, this was a more upbeat industrial production result for Sep than the PMI for that month suggested. For the month, production and shipments increased, reversing the declines recorded in Aug. This is at odds with the PMI report for Sep, which reported a faster decline in output for the month.

Note that this is the month leading up to the increase in the consumption tax in Japan. Some categories recorded larger increases in production and shipments for the month (electrical machinery, general purpose and business machinery) and others, such as motor vehicles, still recorded falls in production and shipments for the month.

The annual view of production and shipments is positive again, but that growth remains low.

Manufacturing PMI for Sep 48.9



### Month Change (seas adj) – Total Industrial Production

Production – month change; Sep +1.4% versus Aug -1.2%

Notable increases in the month; production machinery +7.9%, general purpose and business machinery +9.4%, electrical machinery, and information and communication electronics equipment +4%. Production of transport equipment continued to decline, with a larger monthly decrease in the production of passenger cars -3.2% in Sep versus -0.5% in Aug.

Shipments – month change; Sep +1.3% versus Aug -1.3%

Notable increases in shipments for the month; production machinery +7.6%, general purpose and business-oriented machinery +6%, electrical machinery +3.7%. Shipments of passenger cars declined at a faster pace -4% in Sep versus -0.8% in Aug. Shipments of total transport equipment declined by 3% in Sep versus -1.5% in Aug.

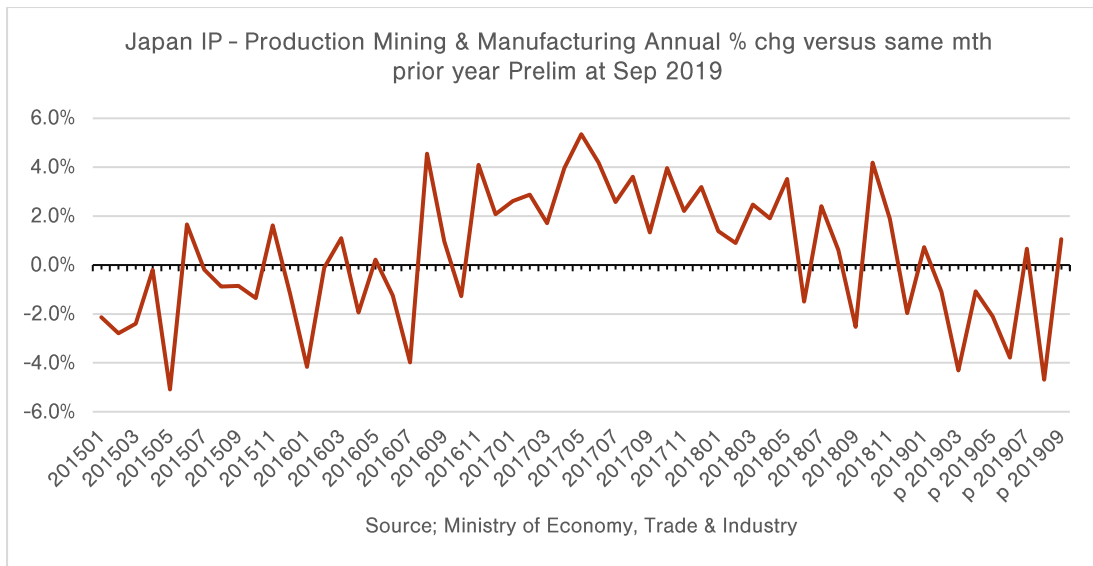
Inventory – month change; Sep -1.6% versus Aug -0.1%

Of note was the large 10% increase in passenger car inventory for the month.

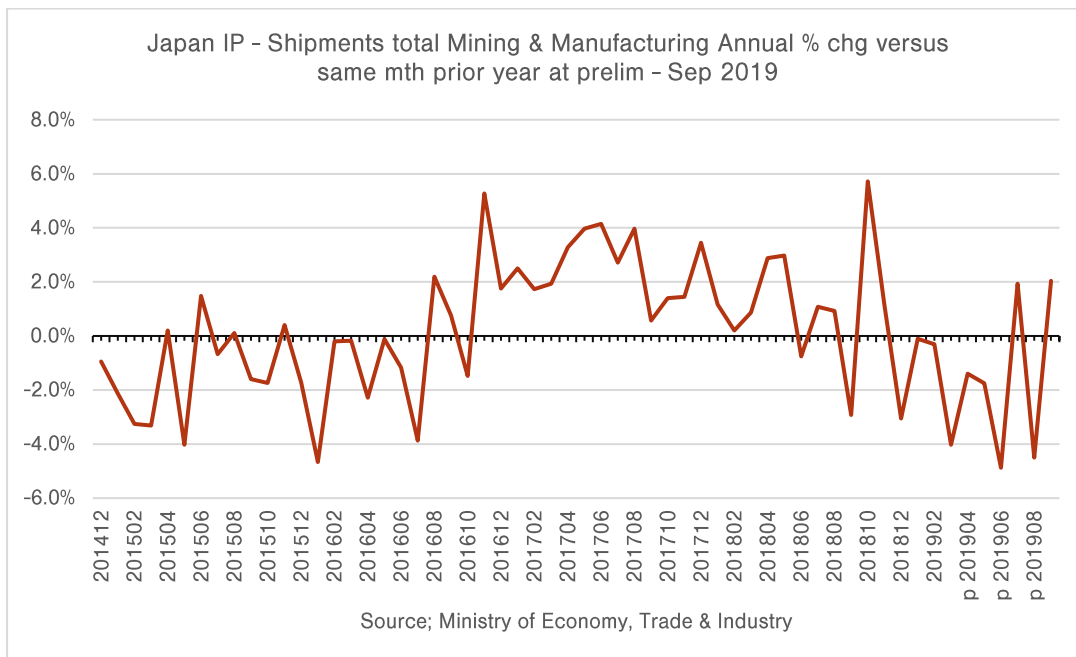
### Annual change (NSA) – Total Industrial Production

One thing that stands out in the trends is the more volatile results over the last few months.

Production – annual change; Sep +1.1% versus Aug -4.7%



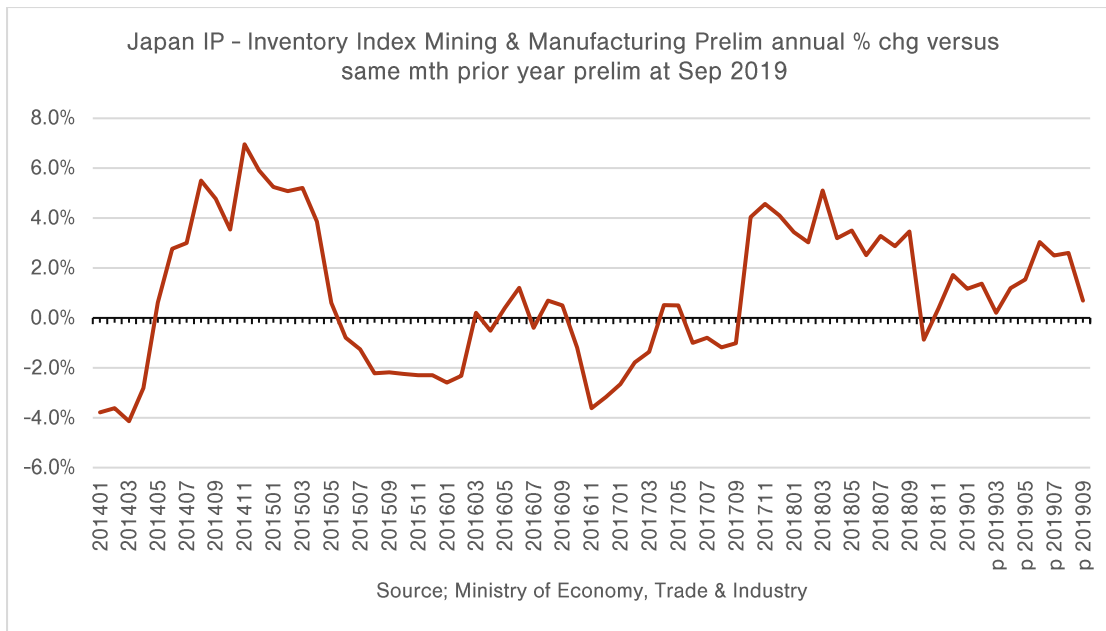
**Shipments – annual change; Sep +2% versus Aug -4.5%**



**Inventory – annual change; Sep +0.7% versus Aug +2.6%**

General purpose and business-oriented machinery and transport equipment and were the only categories to recorded faster annual growth in inventory (+10.3% and +1.3% respectively).





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

## Manufacturing PMI (Oct)

The headline index of manufacturing activity fell further into contraction in Oct, and was revised slightly lower from the prelim reading last week. The PMI fell to a 40-month low, led by a decline in new orders – which was the fastest decline since May 2016. Other factors such as the increase in the consumption tax and typhoon also likely disrupted activity in Oct.

"Although the impact of the typhoon will have temporarily interrupted factory operations in October, panellists reported unfavourable underlying conditions across both domestic and external markets."

**Headline Manufacturing PMI; Oct 48.4 versus Sep 48.9**

### Jibun Bank Japan Manufacturing PMI

sa, >50 = improvement since previous month



Sources: Jibun Bank, IHS Markit.

New orders declined sharply – falling at the fastest pace since May 2016. Both domestic and foreign new orders declined.

According to anecdotal evidence, the month-on-month fall in sales was partly reflective of the end of last-minute purchases before the consumption tax hike, which took effect in October.

Production also declined, falling at the fastest pace in seven months and falling across capital goods, consumer goods and intermediate goods. Some firms cited lower output due to the typhoon as well as weaker demand.

Firms reduced purchasing activity and continued to draw down on pre and post-production inventories. It's not clear whether this is a hand-over from the implementation of the consumption tax increase or as a result of weather disrupted production.

In fact, rates of depletion in both cases accelerated during the month, with stocks of finished goods falling at the fastest rate since survey data were first collected 18 years ago.

Input price growth was unchanged from the month prior and remains the lowest in over three years. Firms took the opportunity to discount selling prices in Oct.

<https://www.markiteconomics.com/Public/Home/PressRelease/55872ef0c3704c3e94c223cc0dc19f14>

## BoJ Rates Decision – 31 Oct 2019

The BoJ kept rates on hold but made an adjustment to forward guidance on rates. At the last meeting in Sep, the BoJ indicated that it would be necessary to pay closer attention to the possibility that momentum toward achieving the price stability target would be lost. This was in light of increasing global downside risks to growth and the implementation of the consumption tax hike in Japan.

At this meeting, the BoJ provided new guidance;

As for the policy rates, the Bank expects short- and long-term interest rates to remain at their present or lower levels as long as it is necessary to pay close attention to the possibility that the momentum toward achieving the price stability target will be lost.

### Policy Settings - Yield Curve Control & Asset Purchases (7-2 majority vote)

ST Rates; -0.1% rate for Policy Rate Balances in current accounts held by financial institutions at the Bank.

LT Rates; continued to purchase JBG's such that the 10yr yield will remain around zero. The purchases will increase such that the amount outstanding will increase at an annual pace of about 80 trillion yen.

Asset Purchases; Purchases of ETF's and J-REIT's to increase at an annual pace of 6 trillion and 90bn Yen annually. Annual CP and corporate bond purchases to increase by 2.2 trillion and 3.2 trillion Yen respectively.

The Bank will continue with QQE with yield curve control in order to achieve the 2% inflation target and for as long as necessary to maintain the target in a stable manner.

In particular, in a situation where downside risks to economic activity and prices, mainly regarding developments in overseas economies, are significant, the Bank will not hesitate to take additional easing measures if there is a greater possibility that the momentum toward achieving the price stability target will be lost.

#### Assessment of the momentum toward achieving the price stability target

Possibility that momentum (toward achieving the price stability target) could be lost given slowdowns in overseas economies and downside risks were increasing.

The Bank has said that there has been no further increase or worsening of conditions, but it was still necessary to pay close attention to the fact that momentum could be lost.

#### Risks

A pick-up on global growth likely to be delayed for longer than expected – due to the intensified and prolonged US-China trade friction and slowdowns continuing in emerging and commodity-exporting economics such as China.

Under these circumstances, Japan's economy is expected to grow temporarily at a somewhat slower pace than its potential, mainly reflecting the effects of continuing relatively weak developments in exports and of the consumption tax hike, and the output gap is likely to narrow temporarily within positive territory.

#### Inflation Expectations

Medium- to long-term inflation expectations have been more or less unchanged on the whole, although they have shown somewhat different developments depending on indicators.

[https://www.boj.or.jp/en/mopo/mpmsche\\_minu/index.htm/](https://www.boj.or.jp/en/mopo/mpmsche_minu/index.htm/)

[Return to top](#)

---

## 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>

### Manufacturing PMI (Oct)

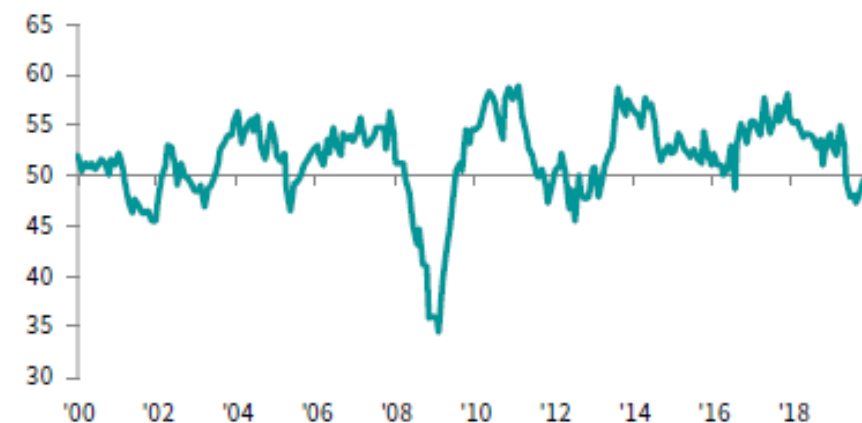
Manufacturing activity continued to contract in Oct. The headline index improved slightly, contracting at a slower pace, but the underlying drivers were less positive. Demand and output continued to contract. Some firms increased production to build stocks ahead of the Oct Brexit deadline. New export orders increased for the first time in seven months as EU based clients bought forward purchases ahead of the deadline. Employment continued to decline. Firms continued to build inventories ahead of the planned exit.

The survey data was taken 11-28 Oct - just before the Brexit deadline was extended and the early Parliamentary General Election Bill was passed on 29 Oct.

Headline Manufacturing PMI; Oct 49.6 versus Sep 48.3

#### Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit / CIPS.

<https://www.markiteconomics.com/Public/Home/PressRelease/6ec3a0438b8249c497ec645bb279d7c1>

[Return to top](#)

---

## Australia

---

### CPI Q3

All items CPI growth slowed on a quarterly basis, but increased slightly on an annual basis. Measures of underlying CPI growth were little changed in Q3 – remaining well below the 2-3% target band.

The domestic versus tradable view of CPI growth indicated that tradable inflation started to make a larger contribution to CPI growth in Q3 with both domestic and imported inflation contributing equally to CPI growth.

#### Headline – All Items CPI

All items - quarter change; Q3 +0.5% versus Q2 +0.6%

All items - annual change; Q3 +1.7% versus Q2 +1.6%

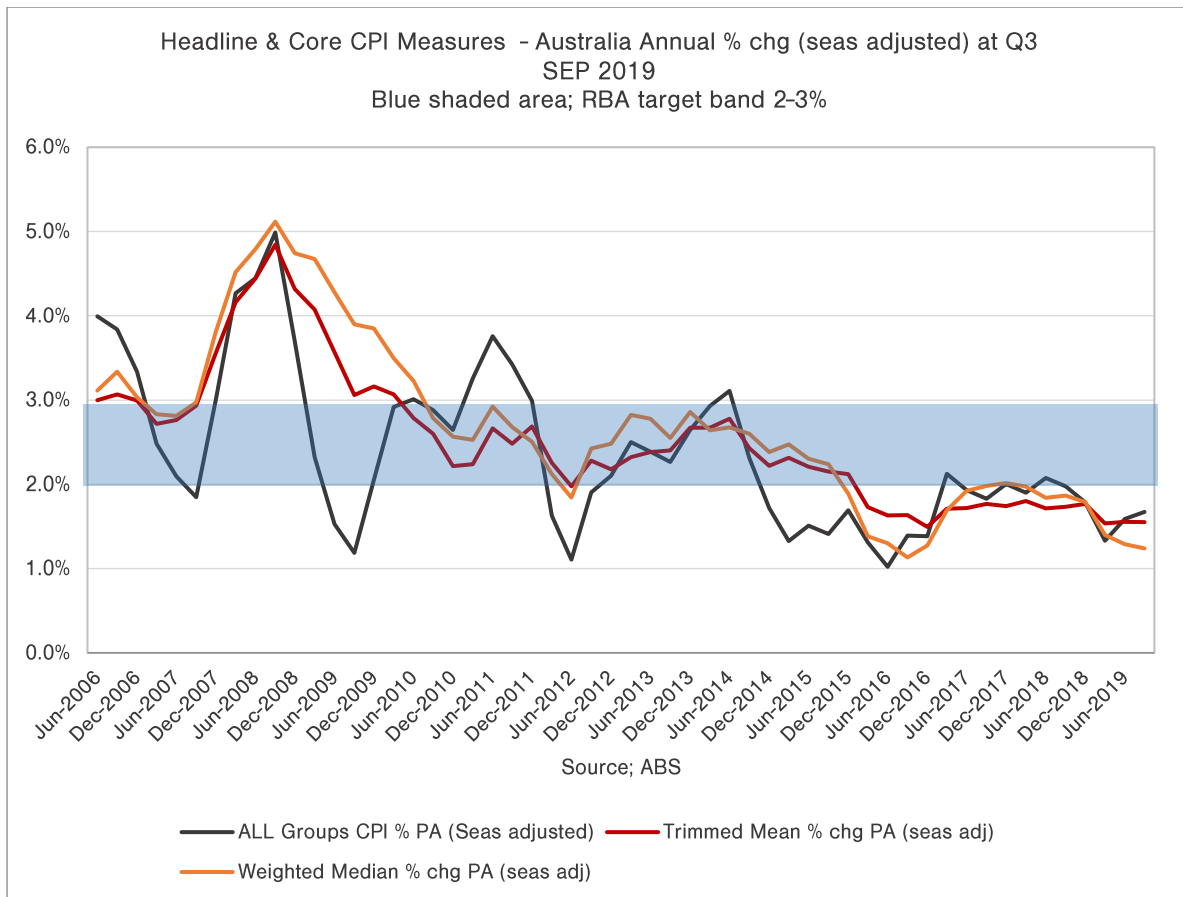
#### Core CPI

Measures of core CPI (the RBA preferred measures of the trimmed mean and weighted median) indicated that underlying consumer price growth slowed in Q3 versus the quarter prior, but were little changed on an annual basis.

Weighted Median – annual change; Q3 +1.24% versus Q2 +1.29%

Trimmed Mean – annual change; Q3 +1.55% versus Q2 +1.55%

Importantly, all measures of CPI remain well outside of the RBA 2-3% band;



One other measure of core CPI, ex food and energy, shows that underlying consumer prices have been accelerating over the last two quarters;

CPI ex-food and energy – quarter change; Q3 +0.8% versus Q2 +0.5%

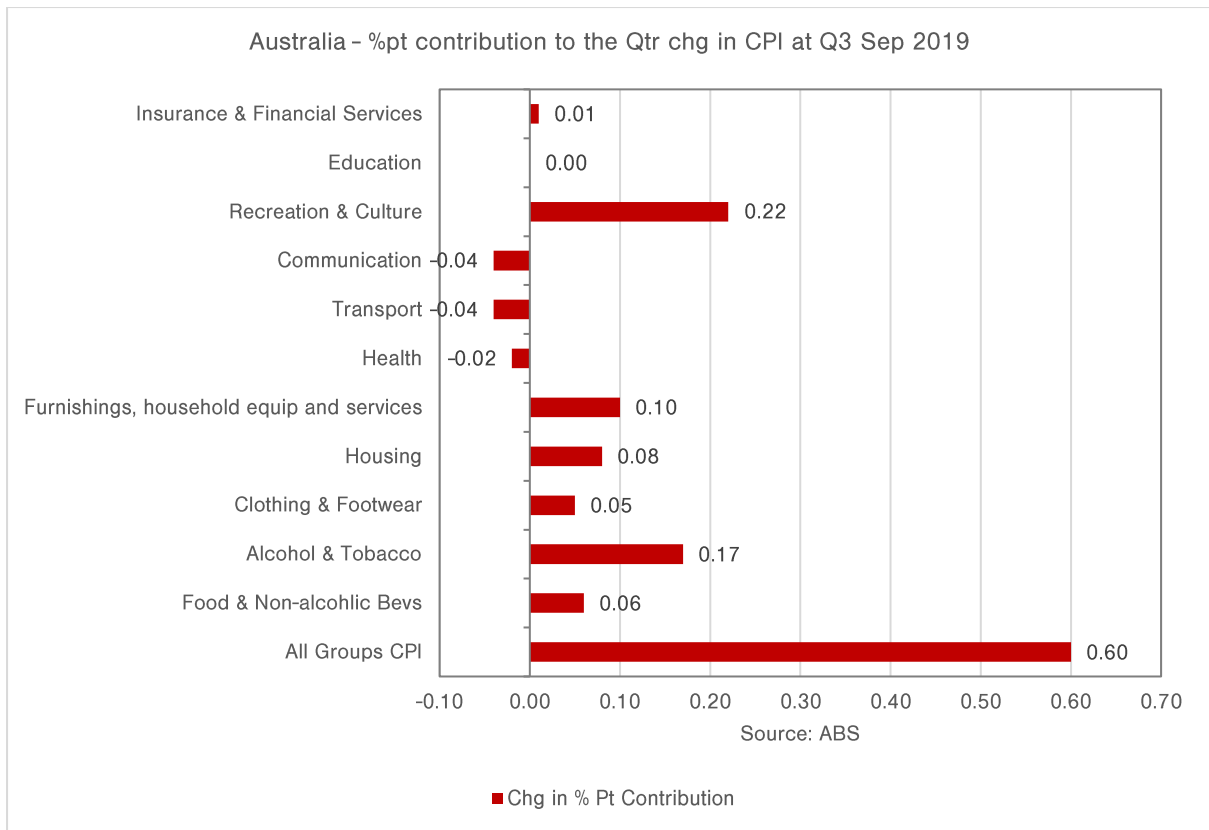
CPI ex food and energy – annual change; Q3 +1.9% versus Q2 +1.5%

#### Contributors to CPI Growth in the Quarter

The biggest contributor to CPI growth in the quarter was recreation and culture (which has the third largest weight in the index), growing at +1.5% in the quarter.

This was followed by alcohol and tobacco (growing at 2% in the quarter).

Furnishings, household equip and services grew at +1.1% in the quarter, with prices for child-care services increasing by +2.7% in the quarter.



Food, which has the second largest weight in the index, made only a small contribution to CPI growth this quarter. The quarterly growth was only +0.4% - partly due to a larger fall in fruit and veg prices in Q3 of -2.7%.

Housing is the single largest item in the index weight and also made a smaller contribution to CPI growth. Total housing CPI grew by +0.3% in Q3. Rent prices were unchanged at 0% and new owner occupier housing decreased by -0.1% in Q3.

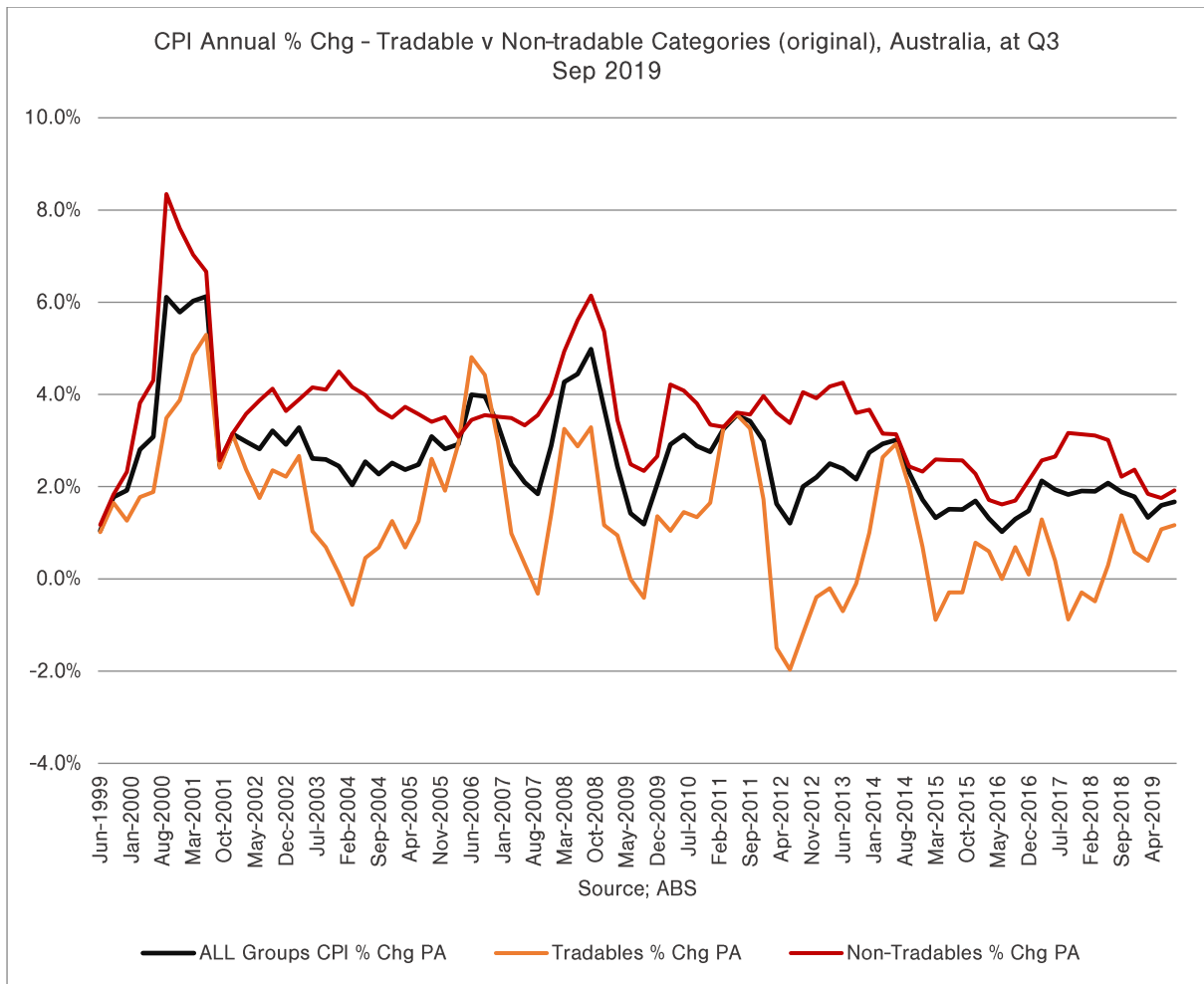
Overall Goods CPI growth slowed in the quarter from +0.7% in Q2 to +0.4% in Q3.

Services CPI growth accelerated in the quarter from +0.4% in Q2 to +0.7% in Q3.

#### Sources of CPI growth – Tradable versus Non-Tradable

The tradable series splits CPI based on exposure to international trade. The tradable component of the series is comprised of items whose prices are determined largely on the world market.

This view still shows that higher domestic inflation is still somewhat offset by lower imported inflation. But over the last two quarters, tradeable inflation has been making a larger (and now positive) contribution to headline CPI growth. In Q3, both tradable and non-tradable inflation made an equal contribution (in %pt. terms) to headline CPI growth.



<https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6401.0Main+Features1Sep%202019?OpenDocument>

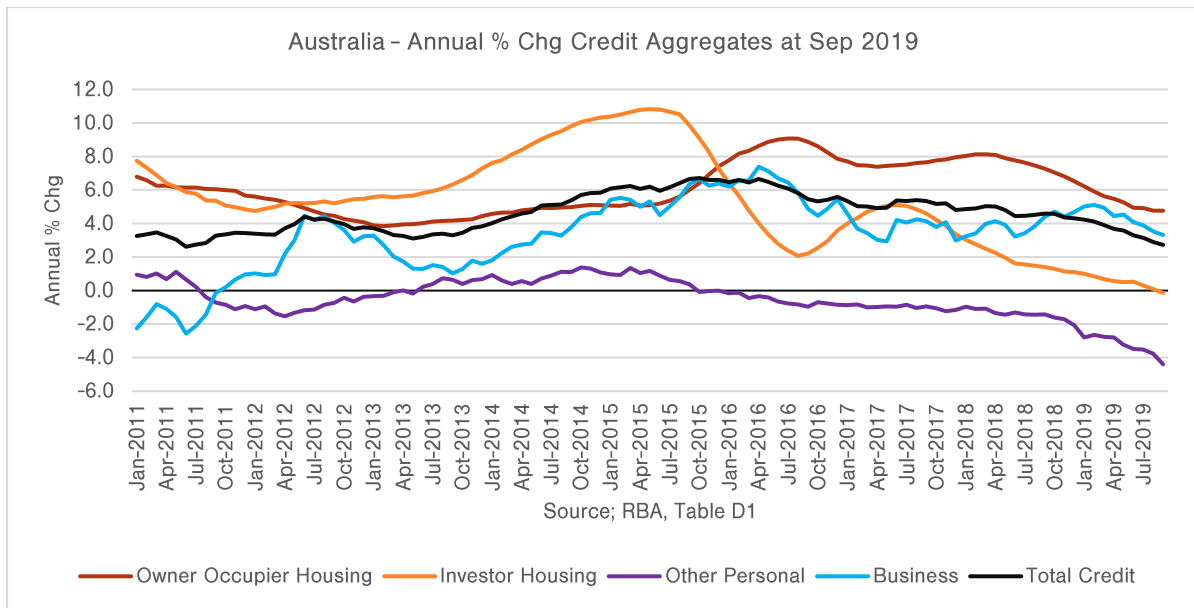
## Private Sector Credit – RBA (Sep)

Total outstanding private sector credit continued to grow at a slower pace on an annual basis in Sep.

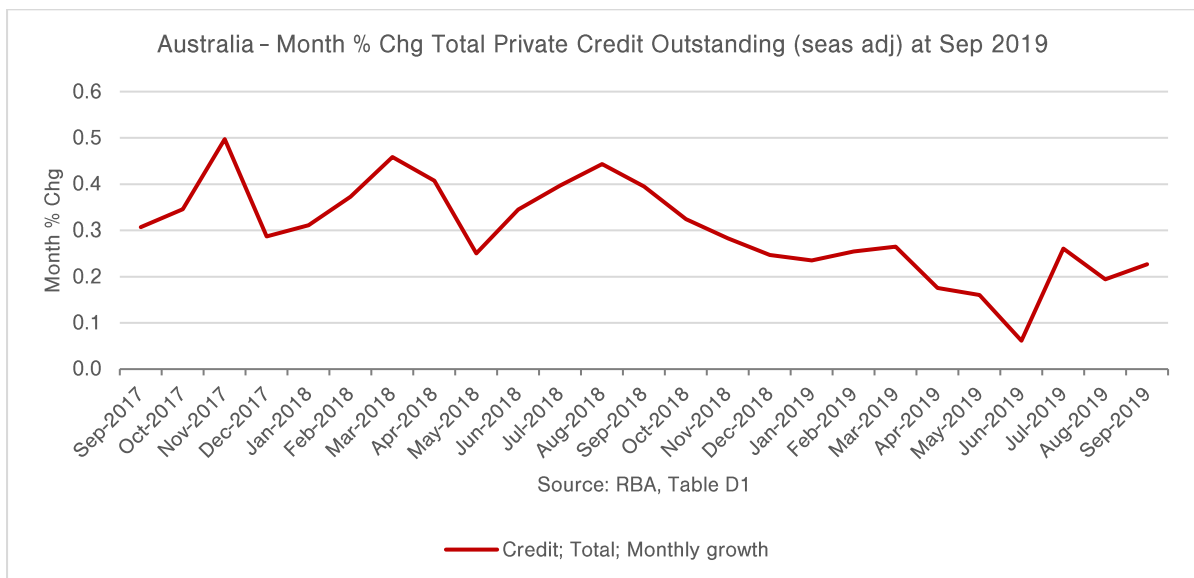
Total Outstanding Private Credit – annual change; Sep +2.7% versus Aug +2.9%

The growth in the value of total private outstanding credit has been slowing consistently throughout the YTD;





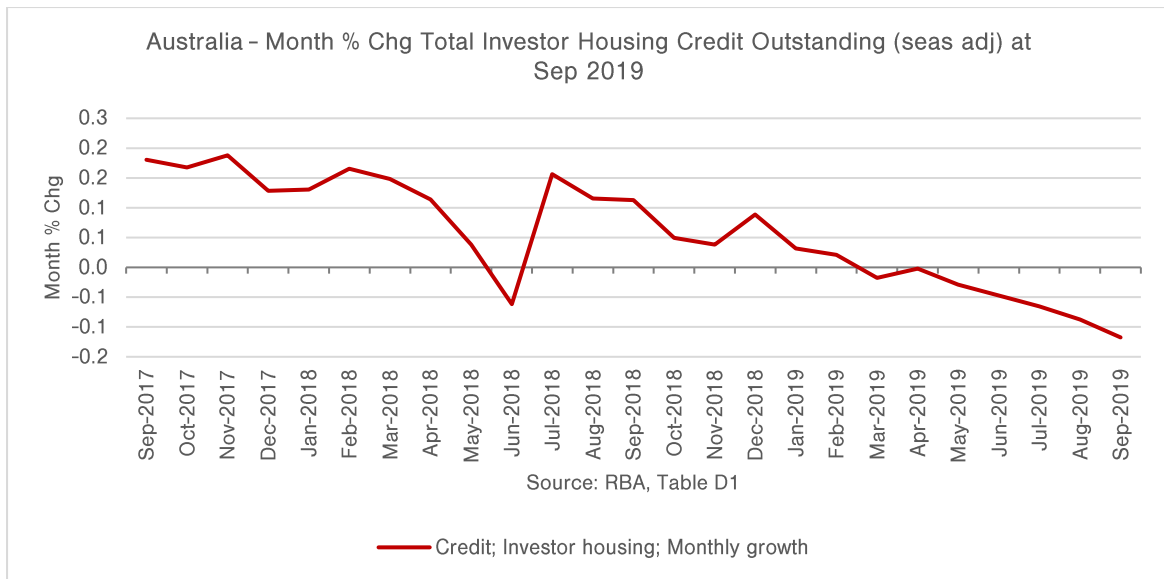
The monthly growth/change though, indicates that there may be some momentum building since Jun;



### Components of Total Private Credit

Annual growth in outstanding owner occupier credit was unchanged at 4.8% in Sep. The monthly growth in owner occupier credit has increased since Jun this year.

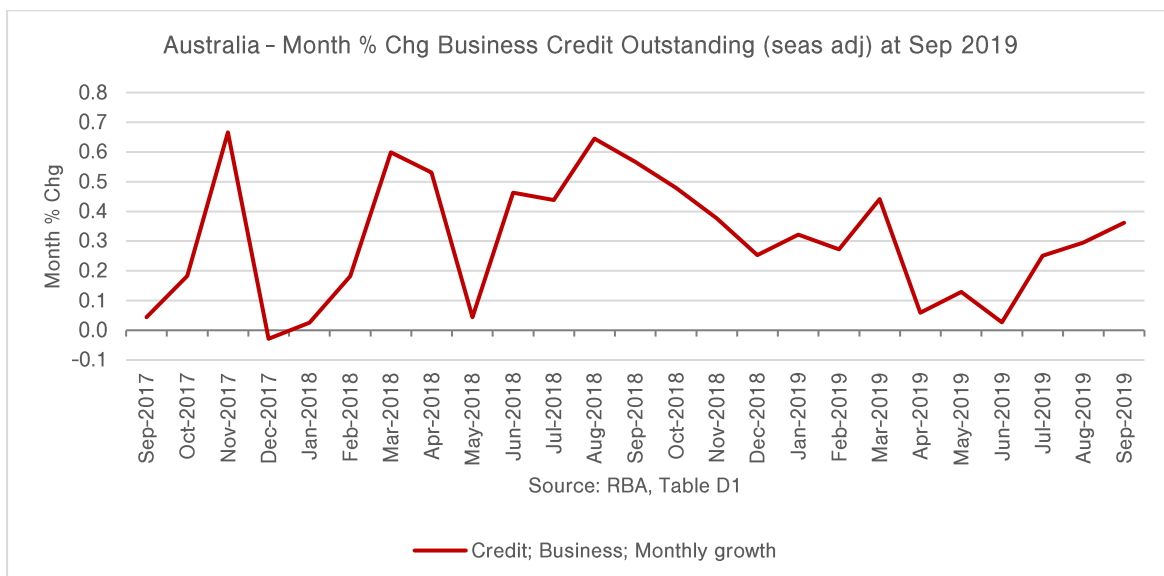
The highlight is the decline in value of outstanding investor credit on an annual basis; Sep - 0.1% versus Aug +0.1%. Outstanding investor credit has been declining month on month for last three months and slowing in the months prior to that;



This means, given the growth in the flow of new investor credit, investors are net deleveraging for the first time in the series history (going back to 1991). This also includes investors that are rolling over I/O loans into P&I loans (owner occupiers). In that case, the monthly repayments usually become higher for those investors.

The amount of outstanding other personal credit also continues to decline – and declined at a faster annual pace this month; Sep -4.4% versus Aug -3.8%

The value of outstanding business credit also grew at a slower annual pace; Sep +3.3% versus Aug +3.5%. The monthly view of outstanding credit growth indicates that there is some momentum building in credit growth for business, with the pace of growth lifting since Jun 2019 – this is generally a positive sign.

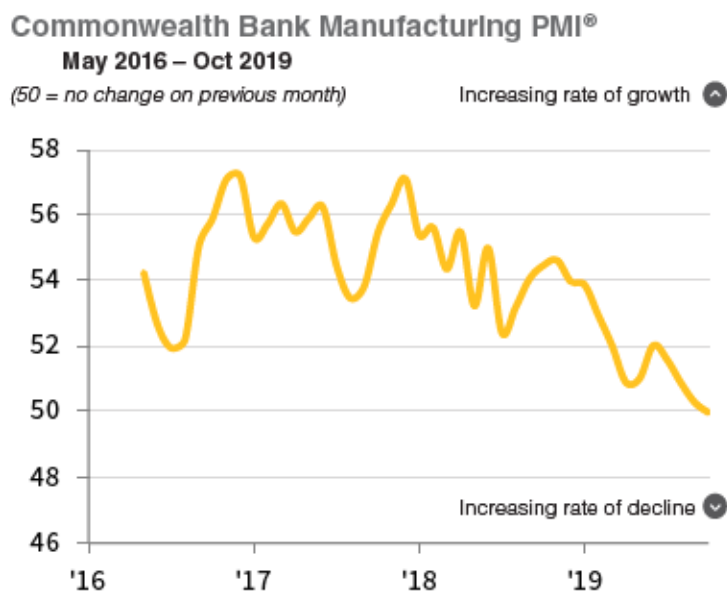


<https://www.rba.gov.au/statistics/frequency/fin-agg/2019/fin-agg-0919.html>

## CBA Manufacturing PMI (Oct)

The headline index of manufacturing activity in Australia slowed further in Oct, reaching the 50/no change level. One of the key changes this month was the decline in new orders – the first such decline since the data series was started in 2016. Despite the weaker demand and production conditions, firms increased employment on the back of more positive projections for future activity.

Headline PMI; Oct 50 versus Sep 50.3



Demand declined in Oct with new orders falling into contraction. New export orders increased in the month, indicating that domestic demand was weaker.

Production contracted in the month and firms continued to reduce order backlogs. Given the fall in new orders, firms also continued to reduce input inventories for the fourth month in a row. Emphasis added;

This contributed to a fourth straight month of depletion in input inventories,  
**with respondents citing destocking efforts amid reduced sales.**

Input prices increased in the month, with firms citing the weaker exchange rate, higher prices for raw materials such as steel, beef and grain and weather-related disruptions (drought).

Employment increased in Oct after declining in Sep. Firms cited more positive projections for future output growth.

<https://www.markiteconomics.com/Public/Home/PressRelease/61d166b4928544149974a758e9cef291>

[Return to top](#)

---

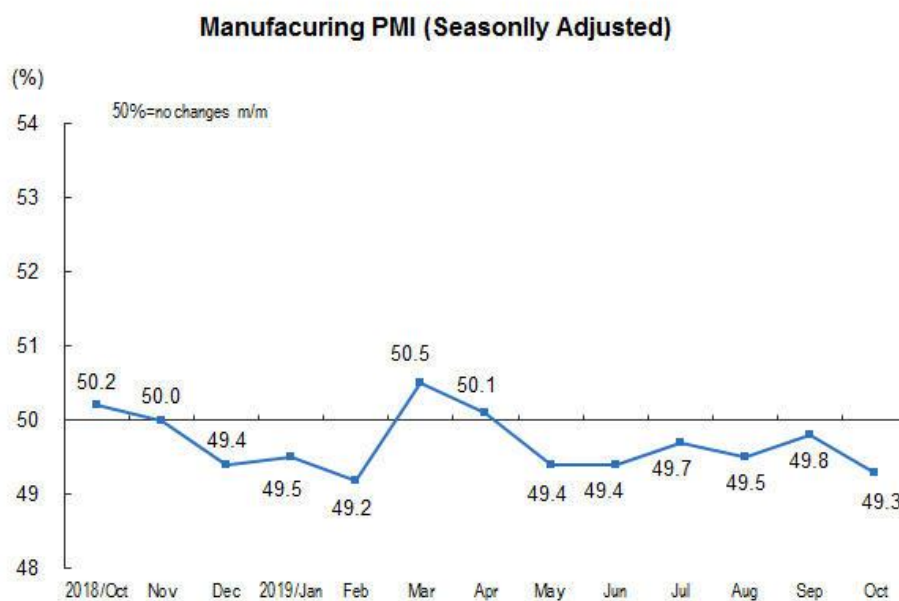
## China

---

### NBS Manufacturing PMI (Oct)

The headline index of manufacturing activity in China fell further into contraction in Oct. Production growth slowed, but remained positive. Demand, especially from overseas continued to contract – likely placing further pressure on output growth in the near term. Firms also cut selling prices at a faster pace in Oct. Expectations for future production and activity remains elevated.

Headline PMI; Oct 49.3 versus Sep 49.8



Production growth slowed notably from 52.3 to 50.8 – still expanding, but now only moderately. Demand fell back into slight contraction with the new orders index falling to 49.6. New export orders fell further into contraction reaching 47 in Oct from 48.2 in Sep. Open orders remains firmly in contraction, likely helping to support production.

Raw materials prices grew at a much slower pace and remaining above 50. The index of producer prices though, fell further into contraction from 49.9 in Sep to 48 in Oct.

Finished goods inventories contracted further.

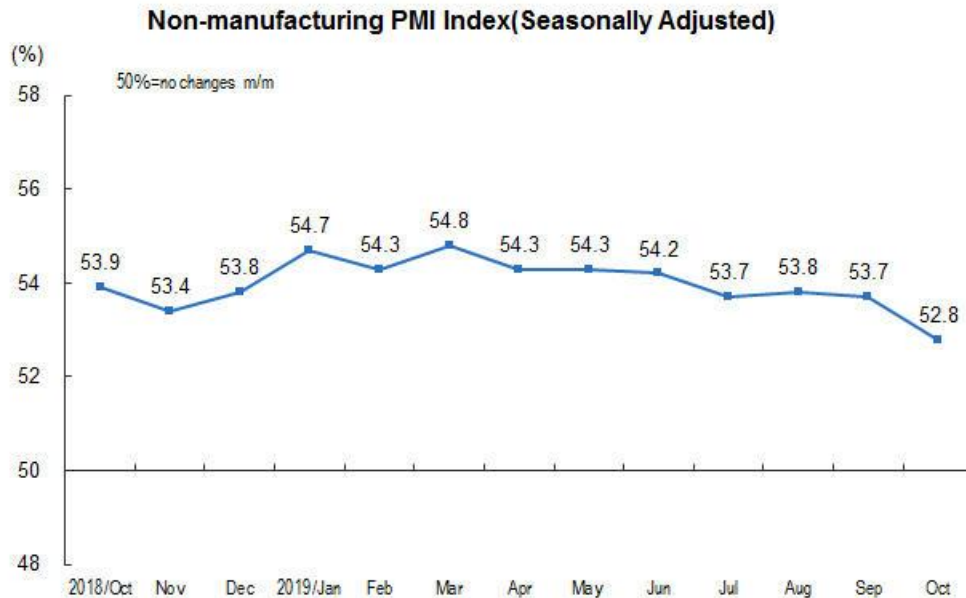
The manufacturing employment index also remained in contraction, with that decline only slowing slightly in Oct.

Most notably, the future production and business activities expectations index remained elevated at around 54.2, falling only slightly compared to Sep.

## Non-Manufacturing PMI (Oct)

The pace of growth in non-manufacturing activity slowed in Oct, with growth remaining moderate. New orders fell into contraction for the month and firms reduced their selling prices while input prices continued to increase. Employment continued to contract. Yet firms' expectations for future business increased further, with the index reaching 60.7.

Headline Non-Manufacturing PMI; Oct 52.8 versus Sep 53.7



One of key reasons behind the slower growth in the month was the contraction in new orders – slipping from 50.5 to 49.4. This is the first decline in twelve months. Foreign new orders remained in contraction also, albeit declining at a slower pace.

Input prices continued to grow but at a slower pace. But firms reduced selling prices again – this was likely helping to support sales volume.

Employment remained in contraction at the same pace as the month prior.

Future business expectations increased at a faster pace – with the index reaching 60.7 in Oct.

[http://www.stats.gov.cn/english/PressRelease/201911/t20191101\\_1706430.html](http://www.stats.gov.cn/english/PressRelease/201911/t20191101_1706430.html)

## Caixin Manufacturing PMI (Oct)

In contrast to the official Chinese NBS manufacturing PMI, the Caixin PMI indicated that activity continued to grow, albeit remaining at a more moderate pace. This was led by a more substantial increase in new orders and 'solid' output growth. Despite the improved demand conditions, firms still reduced employment. The outlook for the year head improved, but remains subdued compared to historical levels.

Headline Manufacturing PMI; Oct 51.7 versus Sep 51.4



Sources: IHS Markit, Caixin.

#### New orders increased at a faster pace;

Total new work received by Chinese goods producers rose solidly in October, with the rate of expansion the quickest recorded for 81 months.

Companies commented on firmer underlying market conditions and improved client demand both at home and abroad. Notably, new export business increased for the first time in five months, albeit marginally.

As a result of the faster growth in new orders, output also increased. Unfilled orders also increased.

Despite the improvement in demand and output, firms continued to cut employment. Firms cited efforts to contain costs.

Firms selling prices declined slightly in an effort to remain competitive. Input prices increased marginally.

Manufacturers expressed the strongest degree of positive sentiment towards the one-year outlook for output since April. However, confidence remained subdued in the context of historical data.

<https://www.markiteconomics.com/Public/Home/PressRelease/f178e9177fb0498b93590cb7967b893e>

[Return to top](#)

---

## Trade

---

### US-China Trade Talks

News out late in the week indicated that trade talks for phase one were “virtually done” regarding agriculture and finance. From senior White House advisor Larry Kudlow;

"The agriculture chapter is about closed down," Kudlow told reporters. "Not only the increase in purchases [of] \$40 to \$50 billion, but the opening up of [agricultural] markets, the lowering of regulations and standards and non-tariff barriers. Very positive."

Talks on financial services were also "virtually done," he said. China is "going to give 100% ownership to American companies in China, securities firms, insurance, investment, and so forth." <https://asia.nikkei.com/Economy/Trade-war/US-China-trade-talks-virtually-done-on-agriculture-and-finance>

The situation is likely to remain tenuous. The purchase of agriculture has been a key part of this phase (China agreeing to purchase \$40-\$50bn of US agriculture). It was also reported last week that the large agricultural purchases were still a major sticking point for China in the talks;

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.

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. It's unclear what the hurdle will be to have that tariff increase suspended.

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

## 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.

The Japanese Cabinet has approved a bill to ratify this trade pact. 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](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](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>

### 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](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](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

Late last week, a Mexican official said that the USMCA was “at the threshold” of its final ratification;

"The end of this complex story is approaching, and we will soon see the United States starting the formal process for the approval of the treaty," said Jesus Seade, undersecretary for North America of the Mexican Ministry of Foreign Affairs, during President Andres Manuel Lopez Obrador's daily press conference. [http://www.xinhuanet.com/english/2019-10/26/c\\_138504592.htm](http://www.xinhuanet.com/english/2019-10/26/c_138504592.htm)

This mirrors comments made by US House Speaker Pelosi that the Republicans and Democrats were getting closer to ‘wrapping up’ changes to the USMCA.

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

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

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

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

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

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

## US-UK Trade Talks

During his visit to the UK, President Trump announced that the US would begin talks with the UK on a trade deal as soon as Brexit was completed. The USTR has now published the summary of specific negotiating objectives for the US-UK trade negotiations;

[https://ustr.gov/sites/default/files/Summary\\_of\\_U.S.-UK\\_Negotiating\\_Objectives.pdf](https://ustr.gov/sites/default/files/Summary_of_U.S.-UK_Negotiating_Objectives.pdf)

[Return to top](#)