MARS CAPITAL PARTNERS

Weekly Macro Review

w/c 4 November 2019

Key Themes

There were several important highlights in the US data this week – mostly reinforcing the weaker state of growth.

Factory orders for Sep indicated the continued weakening growth across several of the larger categories – motor vehicle bodies/parts, non-defense aircraft and machinery. The annual decline in orders remains more moderate than in 2014-16 but growth in 2019 has slowed from a much higher level this time. Either way, the slower growth in orders may weigh on future shipment growth.

The factory orders and wholesale sales reports for Sep both highlighted the increasing value of inventory especially across motor vehicles, machinery and metals in Sep.

Motor vehicle sales in Oct fell relatively hard (seas adj basis) – for both autos and SUV's. This suggests that weakness in orders and shipments and increasing inventories is likely to persist.

Consumer credit growth halved in Sep – led mostly by non-revolving credit (helping to explain to the weaker auto sales) but credit card credit also declined for the second month.

Despite the weaker credit growth and declines in new car sales, consumer sentiment data remains robust. The Nov prelim sentiment readings pulled back only slightly from the larger increase in Sep and Oct. Commentary remains positive, although there was a note about consumers becoming more cautious spenders.

The other major highlight in this weeks' data was the JOLTS report. It was widely reported that job openings continued to decline. But there was also a deterioration in the separations data – namely a larger increase in Sep for layoffs and discharges. This has been a one-month event so far, so it will be something to watch.

Reports into services – ISM and Markit seemed to diverge at the headline level. But underlying both reports, was further falls in unfilled orders continuing to support business activity. The new orders index in the ISM indicated a negative underlying shift in firms reporting increasing new orders, yet the new orders sub-index increased anyway. The Markit services PMI indicated declining new orders and employment.

Manufacturing PMI's out of Europe were little changed at the current levels of decline. Services activity improved slightly but the underlying performance detail was less positive.

Germany factory orders in Sep improved – somewhat at odds with the Sep PMI that indicated a further pulse lower in new orders. The factory orders data was weaker only in intermediate goods and durable goods, which was offset by stronger growth in orders across capital, consumer and non-durable goods. On an annual basis though, orders for the domestic and Euro-area markets declined at a faster pace.

Germany industrial production was much weaker in Sep. Levels of manufacturing production in Sep were at their lowest levels since the peak in this part of the cycle – so no sign of a bottom in manufacturing this month. The growth in orders though suggests that this may improve in the near future. Utilities and mining production both recorded growth in the month but remain well below a year ago. Construction was the only area to record growth in the month and on an annual basis.

In Australia, the RBA kept rates on hold. While the Board expected the recent declines in the cash rate to support growth, it acknowledged that it was ready to ease further if required.

The RBA Board noted that a 'gentle turning point' may have been reached in the Australian economy. This was referring mostly to the new upswing in lending for housing and the subsequent anecdotal increase in house prices. Lending for housing has improved somewhat led almost entirely by owner occupiers. At the lowest point, lending for housing was 28% below the peak and that has now improved/grown in several months to be 17% below the peak in lending. Meanwhile Aus retail sales for Sep were disappointing. In real terms, retail sales declined on an annual basis for the first time since the recession of the early 90's. Nominal retail sales growth remained at +2.5% for the year.

In the UK, key sectors such as Services continue to stagnate amid the Brexit uncertainty. But with the general election coming up, firms and the BoE MPC noted that those uncertainties would likely begin to fade and growth would pick up into 2020.

Contents

US Data

Factory Orders (Sep)

The monthly decline in new factory orders indicates continued weakening growth momentum across several of the larger categories – motor vehicle bodies, non-defense aircraft and machinery. The annual decline in orders remains more moderate than in 2014-16 but growth in 2019 has slowed from a much higher level this time.

Shipments also fell in the month – led by machinery and transport equipment. On an annual basis, the decline in shipments has been led by declines in transport as well as petroleum. Excluding both of these categories, the underlying annual growth in shipments remains positive, albeit low.

In the absence of accelerating growth in new orders, the current low level of growth in shipments has been supported by slowing, if not declining, growth in unfilled orders.

<u>NEW ORDERS</u>

The value of new orders declined at a faster pace in Sep and indicates some weakening momentum across transport and machinery categories in particular.

<u>New Orders – month change</u>; Sep -0.6% (-$2.9bn) versus Aug -0.1%

The decline in the month was the result of a fall in Durable Goods orders of -$3bn (or -1.2% versus the month prior).

The main contributor to the decline in the month was transport equipment, with orders down -2.8% in Sep (or -$2.4bn) versus +0.2% in Aug and now down 3.7% in the YTD. This was made up of falls in orders for motor vehicle bodies (-0.8% in Sep and the third month of falls in orders), nondefense aircraft (-11.8% in Sep and now down 40% in the YTD) and ships and boats, still making a large contribution to the overall decline, down -41% in Sep (-$1.4bn) and down 13.4% in the YTD.

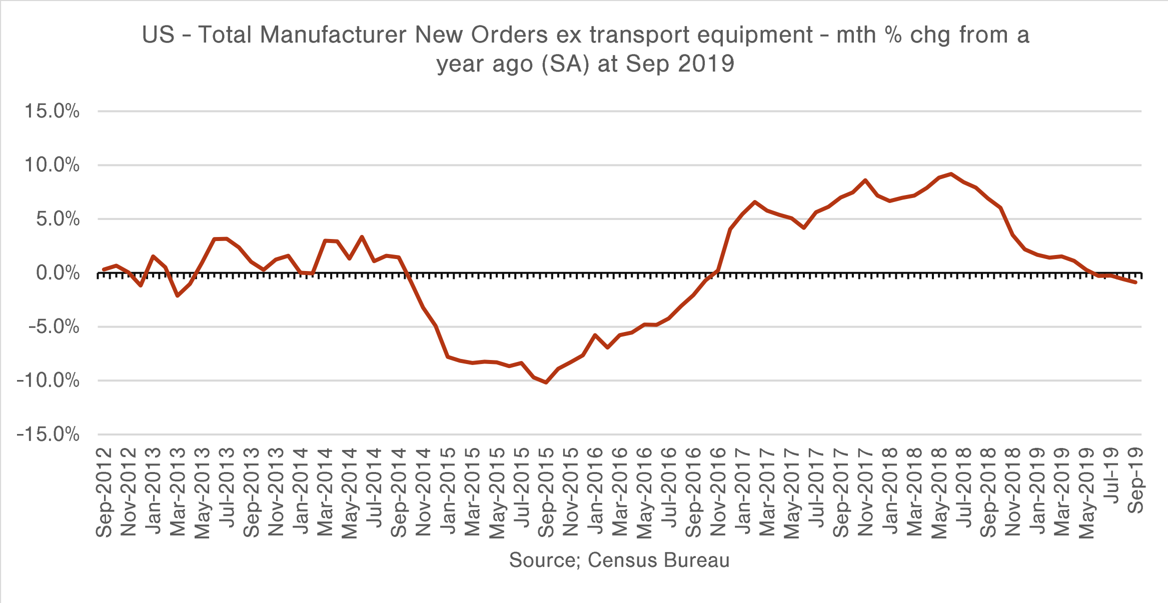
Orders were also down for computers and electronic products by -1.2% in Sep versus -0.1% in Aug.

While total machinery orders were up +0.2% in Sep (after a -0.3% in Aug), there are some pockets of weakness; construction machinery -1.2% in Sep and down -6.1% in the YTD and mining, oil field and gas field machinery -7.7% in Sep and down -8.6% in the YTD. Machinery orders are down -1.4% on an annual basis.

On an annual basis, durable goods orders remain weaker, falling at an accelerated pace both at a total level and excluding transport equipment.

<u>New Orders – annual change</u>; Sep -3.5% versus Aug -1.9%

<u>New Orders ex Transports – annual change</u>; Sep -0.9% versus Aug -0.6%



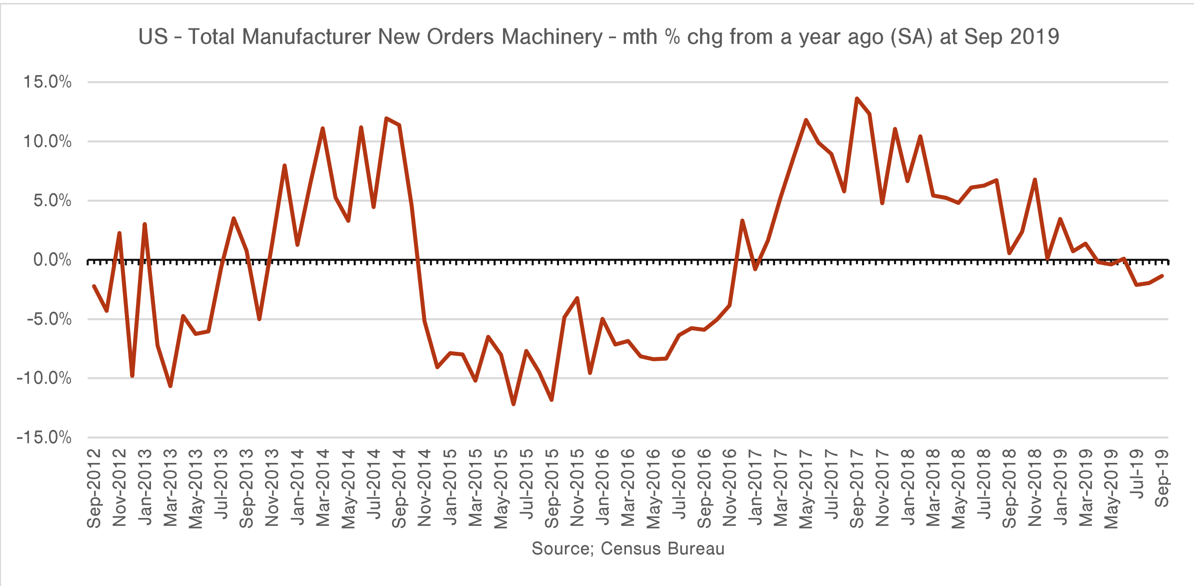
Declining orders suggest some weaker momentum to come in shipments. So far, the decline in new orders remains moderate compared to 2014/15/16.

Key areas of weaker orders on an annual basis;

The value of transport orders is now down 14.5% versus the same month a year ago. Non-defense aircraft orders are down 42% versus a year ago. Orders for motor vehicle bodies are down by -0.2% versus a year ago – the first annual decline in over two years. The value of orders peaked in Mar 2019 and have slowed since then.

Also worth noting that machinery orders have also been falling on an annual basis in five out of the last six months – weak orders are not just an issue related to transport. Last week we saw that wholesale inventories for machinery were starting to grow.

Machinery is the second largest durable goods category (by value of new orders);



SHIPMENTS

The value of shipments also declined in the latest month, driven by falls in shipments of durable goods.

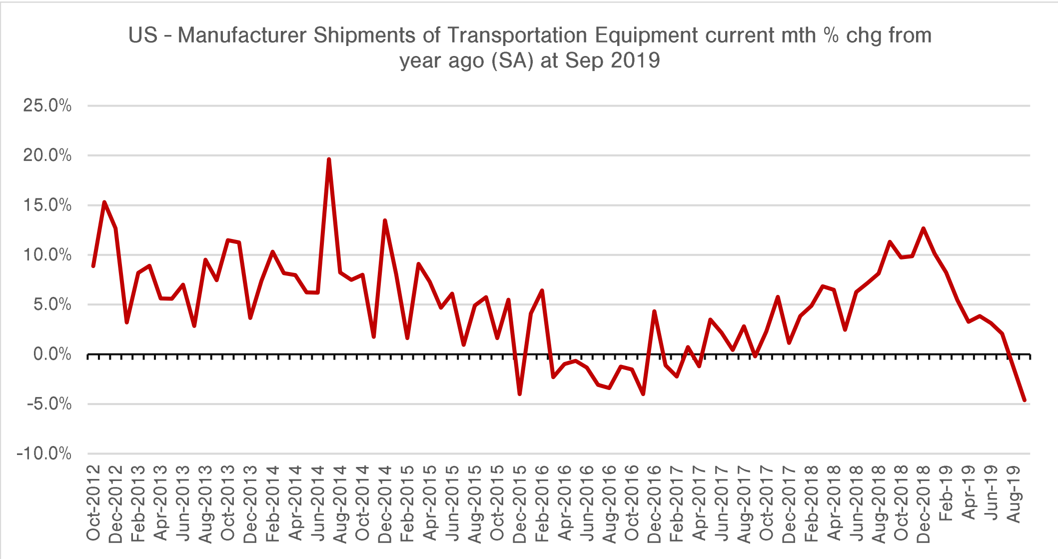
Total shipments – month change; Sep -0.2% (-$1bn) versus Aug -0.3%

The main contributor to the fall in shipments was durable goods, falling by -0.5% in Sep (-$1.2bn) after -0.2% in Aug. (and -1.2% in Jul). Within durable goods; machinery shipments fell by 1.4% in Sep (led by declines in shipments for construction machinery and mining/oil/gas machinery) computer shipments fell by -0.4% and transport equipment shipments fell by -1.3% (noting the 3.4% fall in auto and -3% fall in light truck/SUV shipments).

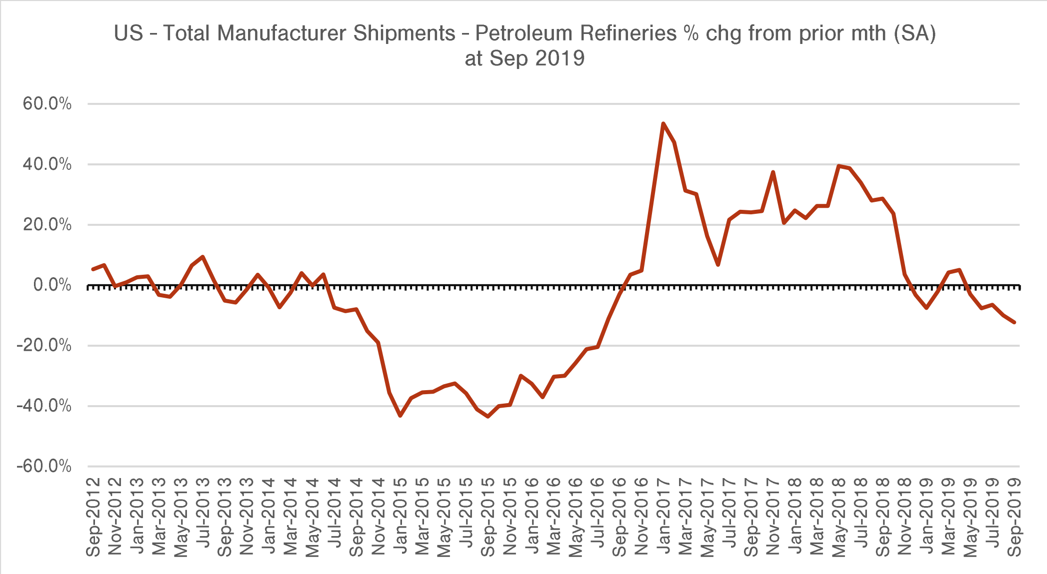
Non-durable goods shipments increased by +0.1% (+$0.1bn) in Sep after falling -0.4% in Aug. The value of food and bev shipments were down in the month and were more than offset by increases in the value of petroleum and chemical shipments.

On an annual basis, total manufacturer shipments are down 1.2% versus the same month a year ago. Falls in transport and petroleum shipments are mostly contributing to this.

Transport shipments – annual change; Sep -4.6% versus Aug -1.3%. A year ago in Sep 2018, transportation equipment shipments were growing at 11.3%.

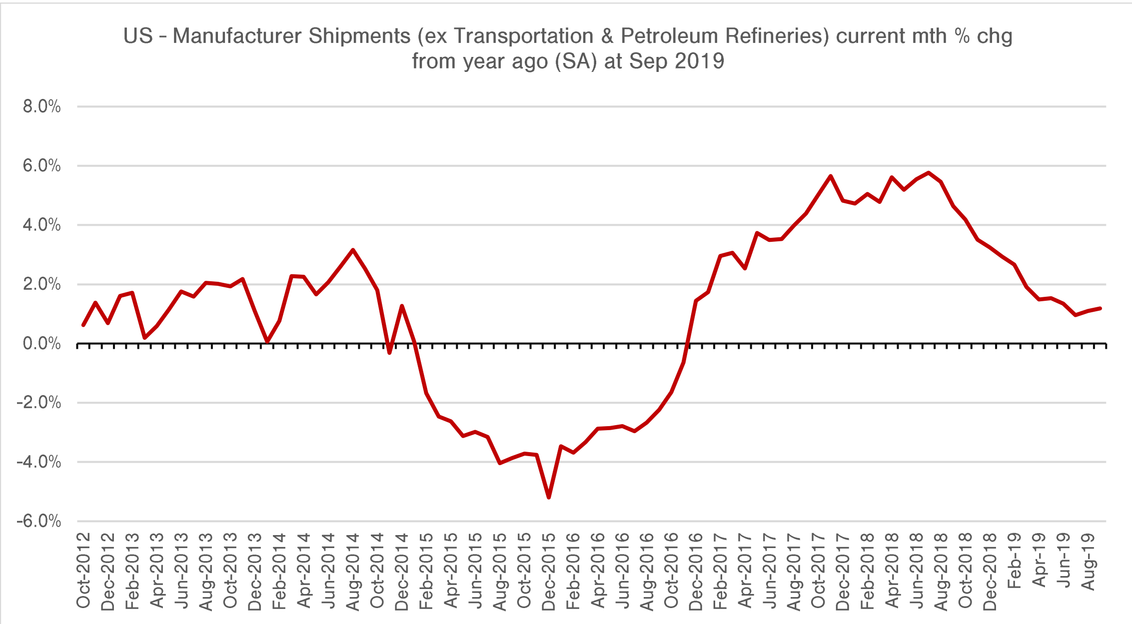


Petroleum shipments – annual change; Sep -12.3% versus Aug -9.9%



The annual growth in value of total shipments ex the value of transport and petroleum shipments has stabilized albeit at a low level of growth;

Total shipments ex transport and petroleum; Sep +1.2% versus Aug +1.1%



UNFILLED ORDERS

The value of unfilled orders was little changed in the latest month;

<u>Total unfilled manufacturer orders – month change</u>; Sep 0% versus Aug +0.1%

The one large underlying change in the month was the large decline in unfilled orders for non-defense aircraft, which was offset by an increase in defense aircraft. This broadly fits with the order/shipments data; despite falling orders for non-defense aircraft, shipments still increased as firms worked through unfilled orders. Similarly for defense aircraft, orders have been increasing lately, but defense aircraft shipments were down in Aug & Sep – likely contributing to the increase in the order backlog.

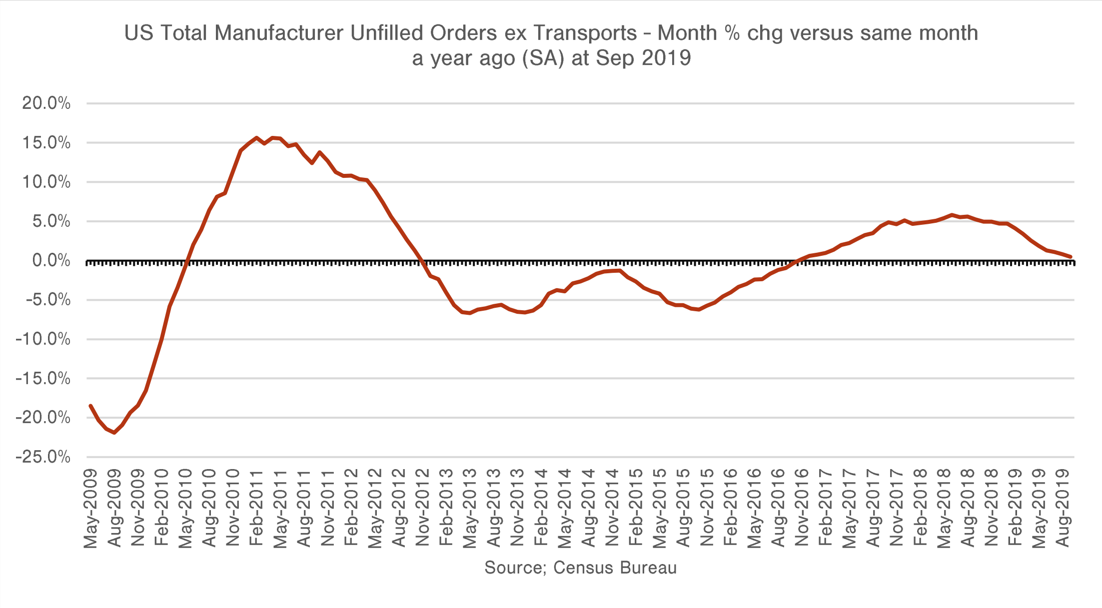
On an annual basis, with the slowdown in new orders, the slowing growth in unfilled orders appears to be supporting shipments across several of the weaker categories.

Unfilled orders – annual change; Sep -1.8% versus Aug -0.8%

Contributing to this is decline in unfilled orders for non-defense aircraft, now declining at 3.8%. The value of unfilled orders for total transport equipment declined by 2.8% in Sep.

Excluding transport equipment, unfilled order growth continues to slow – not enough new order growth to see backlogs rising at an accelerating pace.

Unfilled orders ex transport equipment; Sep +0.5% versus Aug +0.8%



INVENTORY

While new orders and shipment growth slowed in the month, the value of inventory increased.

Total manufacturer inventory – month change; Sep +0.3% (+$2.2bn) versus Aug -0.1%

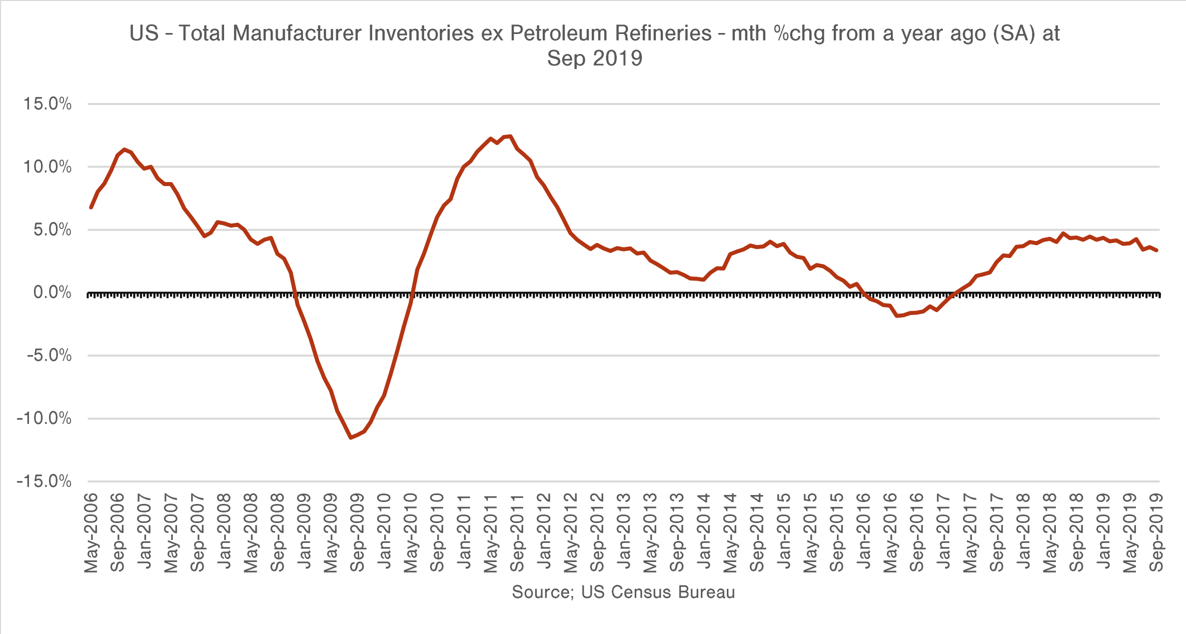
This was led by an increase in durable goods inventory +0.5% in Sep (or +$2bn) after a +0.3% increase in the month prior. Leading the way this month was a +$1.6bn increase in the value of non-defense aircraft inventory. Total transport inventory increased by +$2.1bn in the month.

Non-durable goods inventories increased slightly; Sep +0.1% (+$0.2bn) versus Aug -0.6%

Underlying this though the larger inventory build for Chemicals (led by Pharmaceuticals) was offset by a fall in Petroleum and Coal product inventories.

On an annual basis, inventory growth continues to slow at a total manufacturer level; Sep +2.6% versus Aug +2.9%. That pace of growth is actually HIGHER (but still slowing) when you exclude the value of petroleum (given the fall in value);

Manufacturer inventory growth ex petroleum – annual change; Sep +3.4% versus Aug +3.6%.



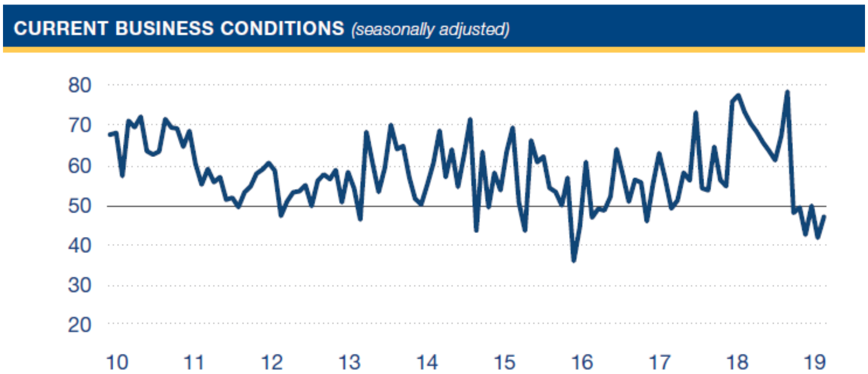
Transport equipment inventory has the largest impact on inventory levels. Excluding transport, annual inventory growth comes down to +1.3% in Sep (ex-petroleum also).

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

ISM-NY Business Conditions (Oct)

Overall business conditions in NY remained somewhat depressed in Oct but the outlook improved.

NY Current Conditions; Oct 47.7 versus Sep 42.8



The six-month outlook increased from net pessimism in Sep (45.2) to optimism in Oct (53.6).

The employment index increased from the 19-month low.

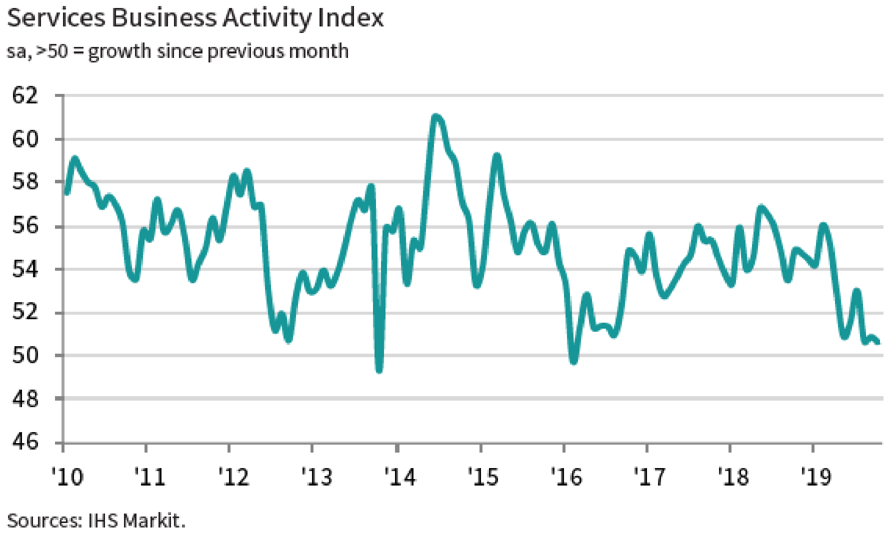
Top-line and forward revenue guidance increased in Oct from the "all-time lows" recorded in Sep, shifting from decline in Sep to growth in Oct.

http://www.ismny.com/wp-content/uploads/2019/11/2019_ISM-NewYork_ReportOnBusiness_October_v02.pdf

Markit Services PMI (Oct)

The services business activity index increased at a slower pace in Oct with growth remaining more subdued.

Business Activity Index; Oct 50.6 versus Sep 50.9



There were several drivers of the weaker increase in services activity.

New orders declined for the first time since the survey began ten years ago. Firms cited

> "…postponement of orders placed by clients and weaker demand underpinned the broad stagnation"

New export orders also declined for the third month, but at a slightly slower pace of decline.

Firms also reduced employment at the fastest pace in a decade.

Orders backlogs declined for the third month, likely supporting the continued positive output growth.

Selling prices were unchanged in Oct after declining in the two months prior.

> The degree of confidence picked up to reach a four-month high. Anecdotal evidence attributed stronger positive sentiment to the development of new service lines and low interest rates. That said, the level of optimism was well below the long-run series trend.

https://www.markiteconomics.com/Public/Home/PressRelease/2bdcabcf5f9b4ebbbf353622934d584f

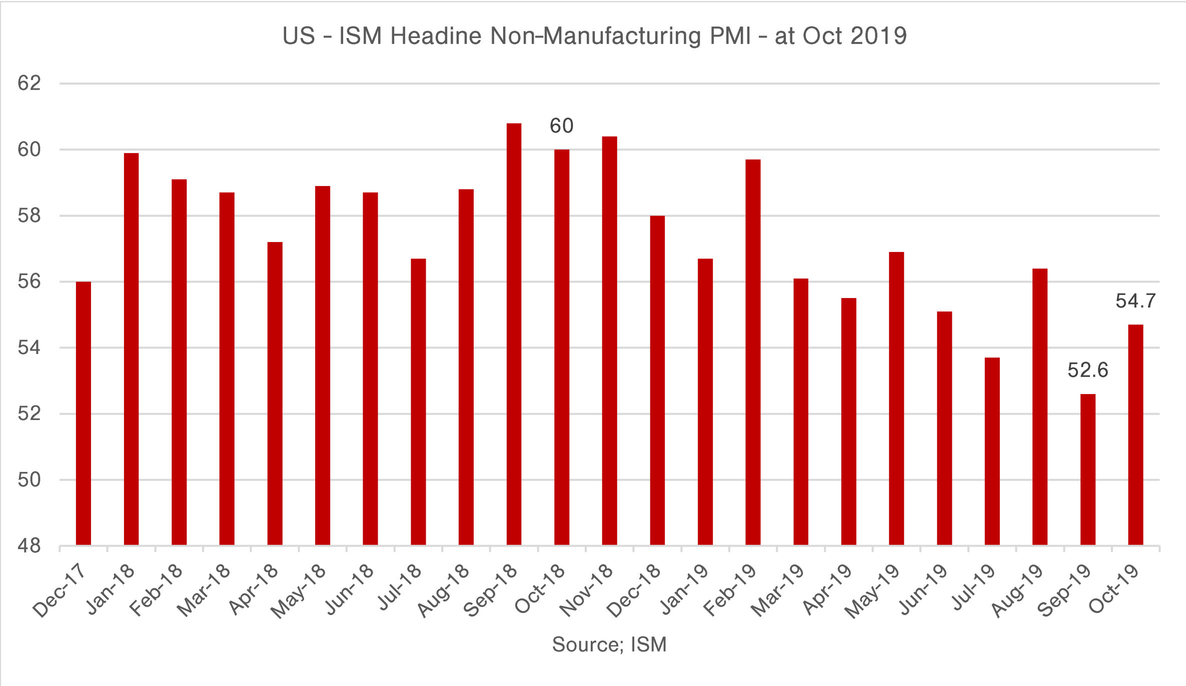
ISM Non-Manufacturing PMI (Oct)

The headline PMI indicated that non-manufacturing activity increased at a faster pace in Oct. This was led by faster growth in business activity, new orders and employment. The underlying shift in new orders, especially, indicates a negative view of the growth in new orders – yet the new orders sub index increased versus the month prior. The further decline in order backlogs likely helped to support the growth in business activity.

The breadth of growth across industries remained broad with thirteen of the eighteen industries reporting growth in Oct; Agriculture, Forestry, Fishing & Hunting; Utilities; Professional, Scientific & Technical Services; Transportation & Warehousing; Real Estate, Rental & Leasing; Management of Companies & Support Services; Health Care & Social Assistance; Accommodation & Food Services; Arts, Entertainment & Recreation; Construction; Finance & Insurance; Public Administration; and Information.

Only five industries recorded declining activity – but note that this includes retail and wholesale activity; Educational Services; Other Services; Retail Trade; Wholesale Trade; and Mining.

<u>Headline non-manufacturing PMI</u>; Oct 54.7 versus Sep 52.6



Business activity, new orders and employment all increased at a faster pace in Oct.

Business activity increased at a faster pace, but underlying this change, there was a larger increase in the proportion of firms reporting lower activity. The proportion of firms reporting higher activity also increased, but there was a larger decline in those firms reporting no change compared to the month prior.

New orders increased at a faster pace in Oct. **The underlying shift though suggests that the new orders index should have actually declined – a lower proportion of firms reported higher new orders and the proportion of firms reporting no change was unchanged (all versus the month prior). The proportion of firms reporting lower new orders also increased.**

Backlogs of orders shifted back into contraction for the month – this would likely have helped to support the faster growth in the business activity index.

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

Wholesale Inventories (Sep)

Total wholesale sales were little changed in the month led by slower growth across both durable and non-durable goods. The value of inventory declined through, led mostly by falls in non-durable inventories.

The overall inventory/sales ratio was unchanged in Sep at 1.36. Durable goods led the overall inventory/sales ratio higher with substantial increases for Auto's, Machinery and Metals. We've previously highlighted potential issues around slowing sales/rising inventories for Auto's and Machinery categories.

<u>Wholesale Sales</u>

Month change; Sep 0% versus Aug -0.1%

A small increase in durable goods sales was offset by a small decline in non-durable goods sales.

Durable goods wholesale sales increased by +0.1% in Sep. A large decline in Auto wholesale sales of -3.1% (as well as declines in Metals and Electrical) was offset by larger increases in wholesale sales of professional and computer equipment.

Non-durable goods wholesale sales were flat in the month. A larger decline in Farm product wholesale sales of -6.3% was offset by increases in drugs, apparel and misc. for the month.

<u>Inventory $ Value</u>

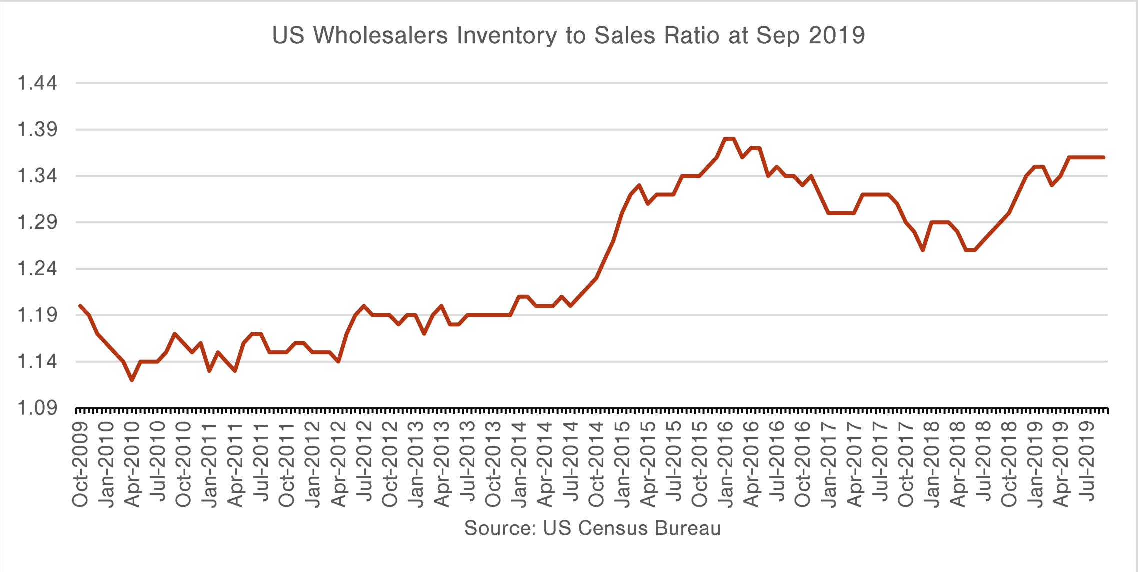
Month change; Sep -0.4% (-$2.8bn) versus Aug +0.1%

The larger decline in the value of inventory for the month was les mostly by a decline of -0.9% in non-durable goods inventories (mostly drugs and farm products)

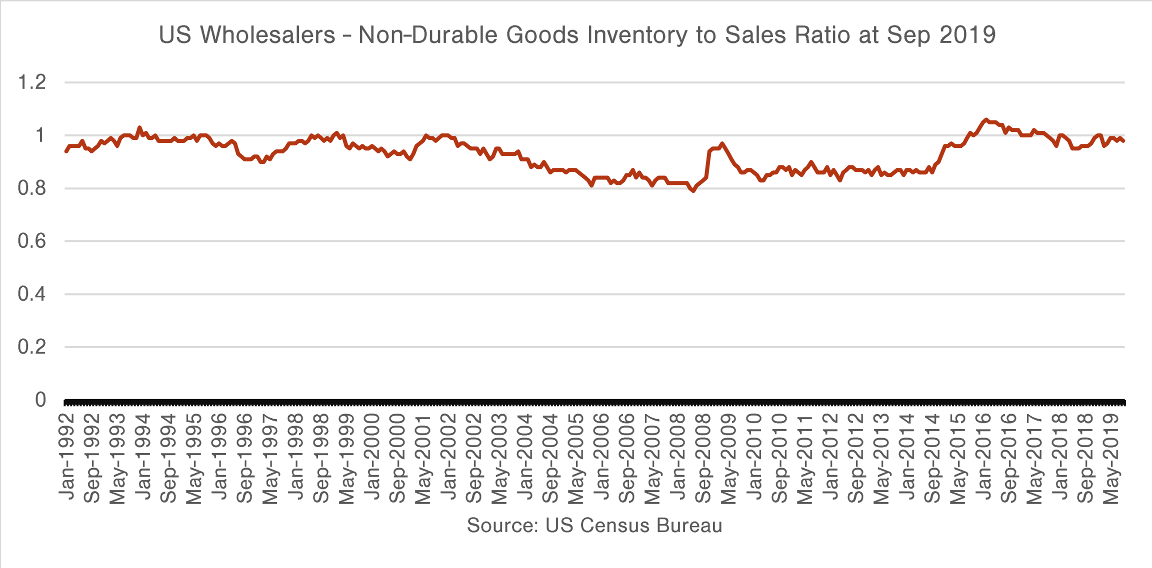
Durable goods inventories declined by -0.1% after a +0.2% increase in Aug. Inventories declined for Autos and Metals in the month.

<u>Inventory to Sales Ratio</u>

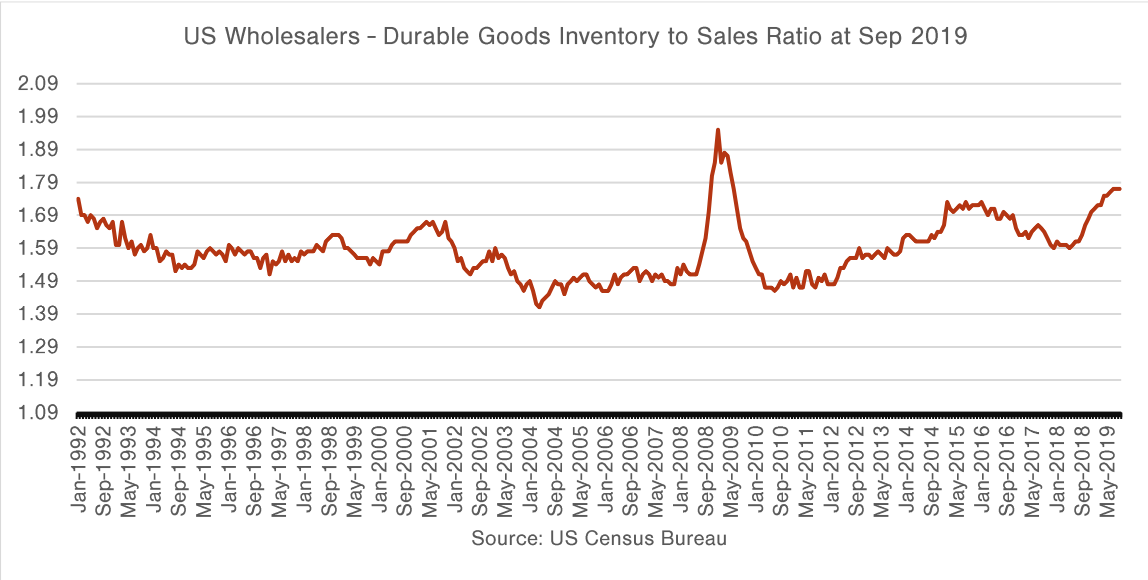
Despite the fall in inventories and the flat sales in Sep, the inventory/sales ratio remained at 1.36 for Sep. This is still an elevated level;



Non-durable goods inventory/sales ratio decreased slightly in the month from 0.99 in Aug to 0.98 in Sep. The sales/inventory ratio a year ago was 0.96 – so there hasn't been much improvement or deterioration during the last year;

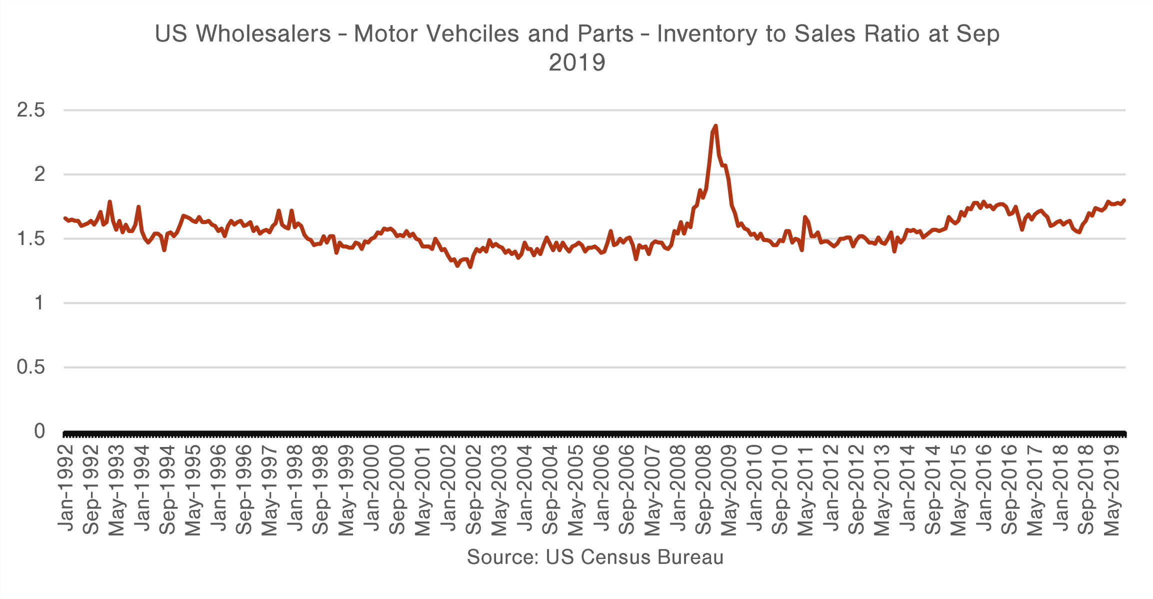


The inventory/sales ratio for durable goods also remained unchanged in Sep at 1.77. A year ago this was 1.63. The only time this ratio has been higher was the GFC;

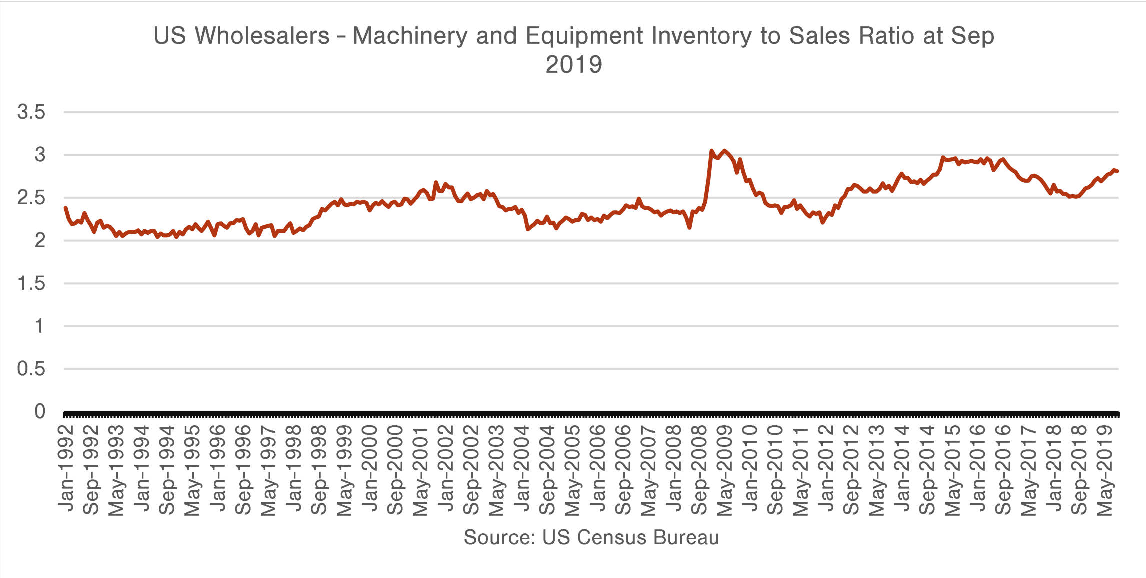


Two areas within durable goods that have an elevated and increasing inventory/sales ratio are Autos and Machinery.

Autos – although the value of inventory declined this month along with sales, the inventory/sales ratio jumped from 1.77 in Aug to 1.80 in Sep. This is the highest level so far in this part of the cycle. There are only ten (10) months during late 2008 (GFC) when the whole sale inventory/sales ratio for Auto's was higher;



Machinery – the inventory to sales ratio for machinery was 2.81 in Sep (after 2.82 in Aug) and remains at an elevated level. A year ago, this inventory to sales ratio was 2.52.

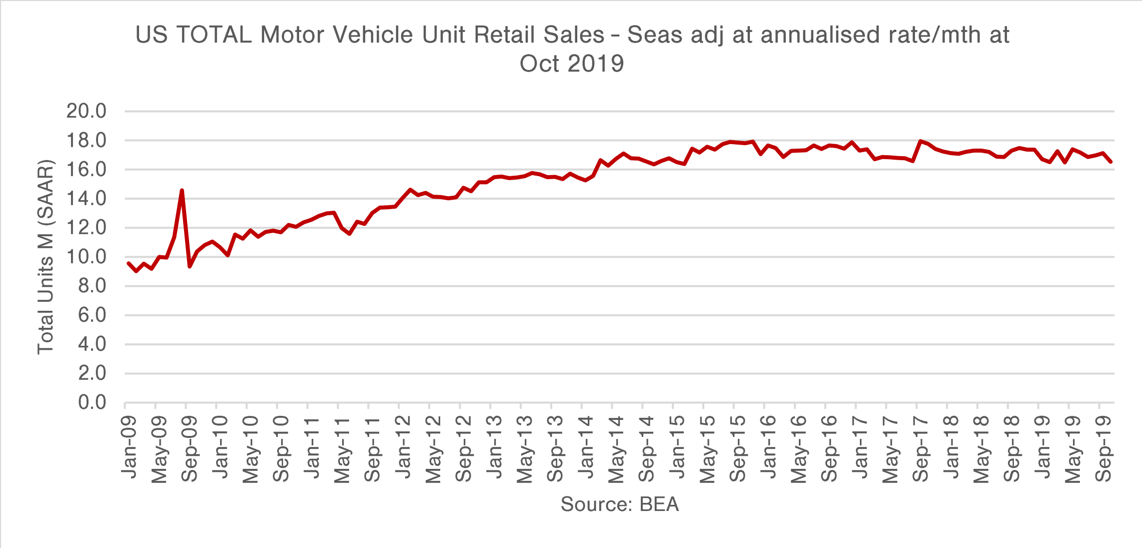


https://www.census.gov/wholesale/index.html

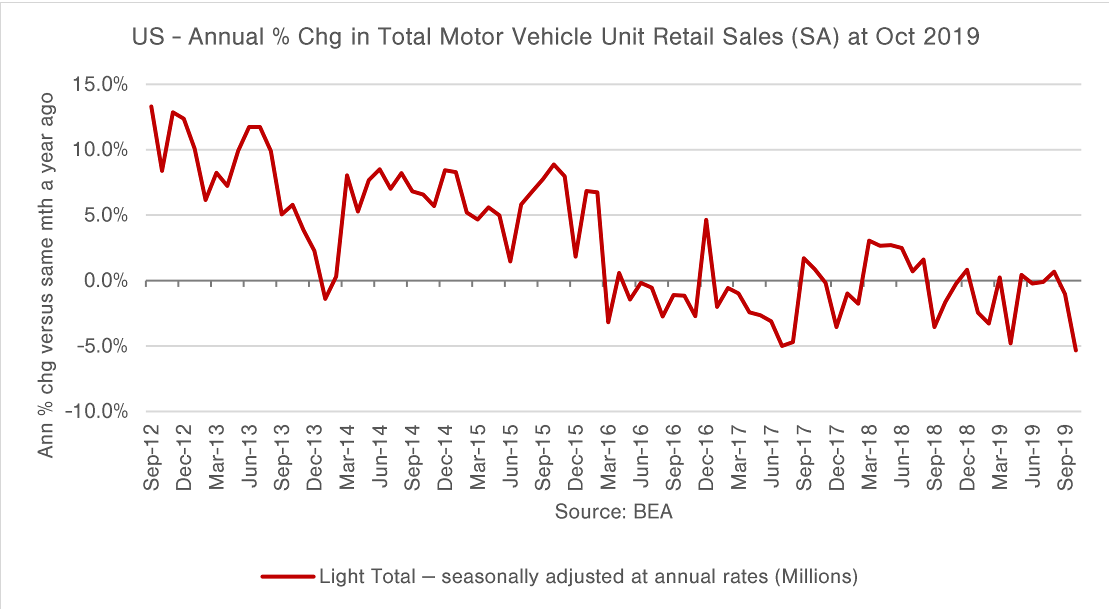
Motor Vehicle Sales (Oct)

Total unit retail sales of Motor vehicles fell relatively hard in Oct down to the 16.5m unit level (SAAR). This was led by declines in both auto and SUV sales. On a seasonally adjusted basis, this is likely to detract from retail sales growth in Oct.

Total Retail Unit Sales Motor Vehicles (Light Vehicles) – Month change (SAAR); Oct 16.54m (-3.4%) versus Sep 17.1m (+1%)



The annual change has now slowed to -5.3% in Oct versus -1% in Sep;

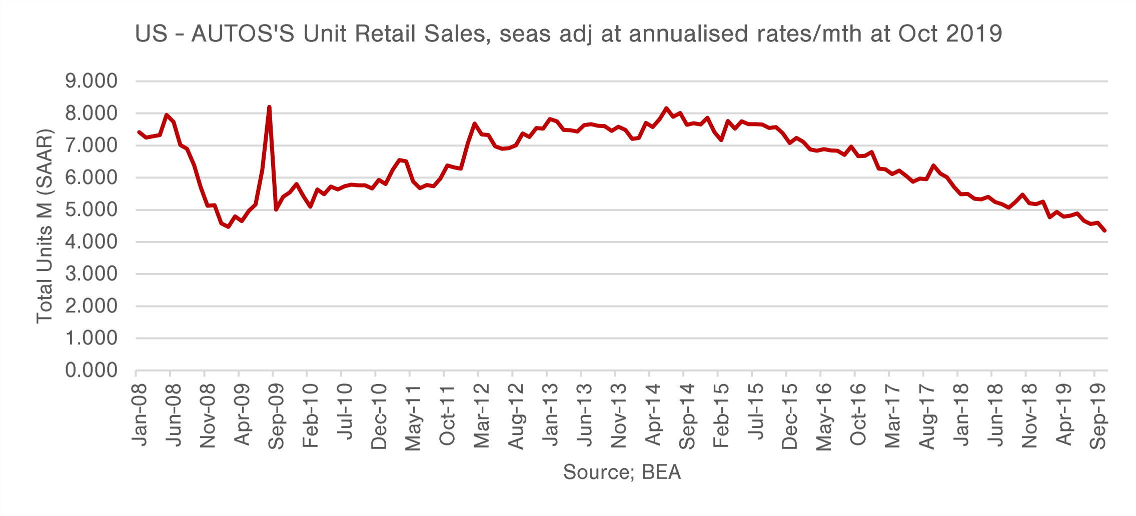


Both Autos and SUV's contributed to the decline this month;

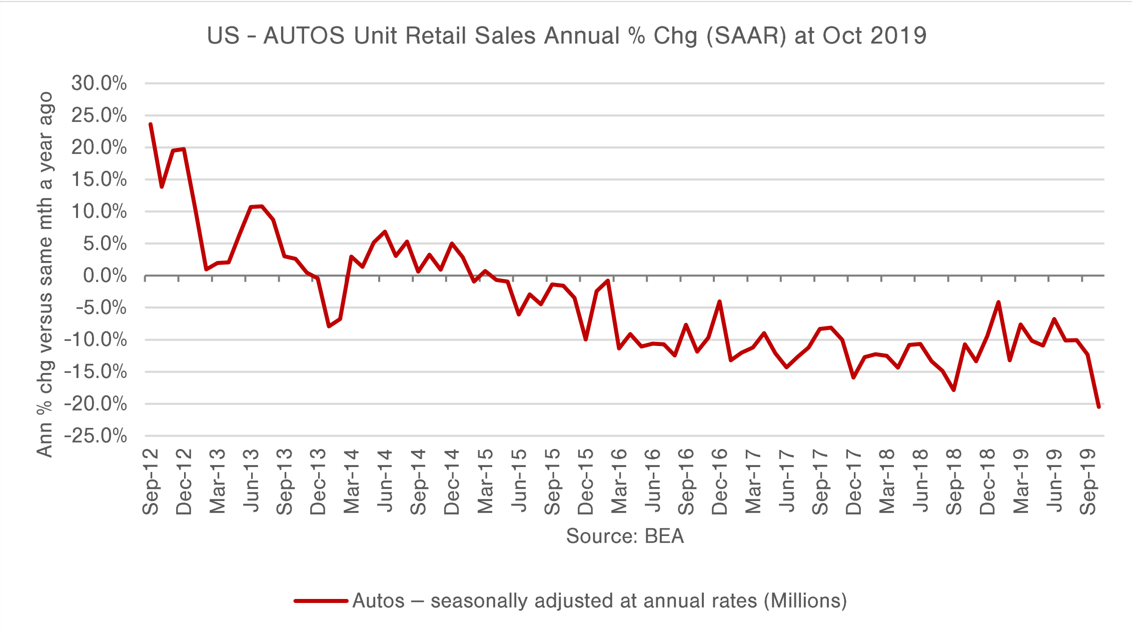
Total Autos

Autos total unit retail sales – month changed (SAAR); Oct 4.3m (-5.4%) versus Sep 4.6m (+0.9%).

The SAAR of sale is now lower than during the GFC;

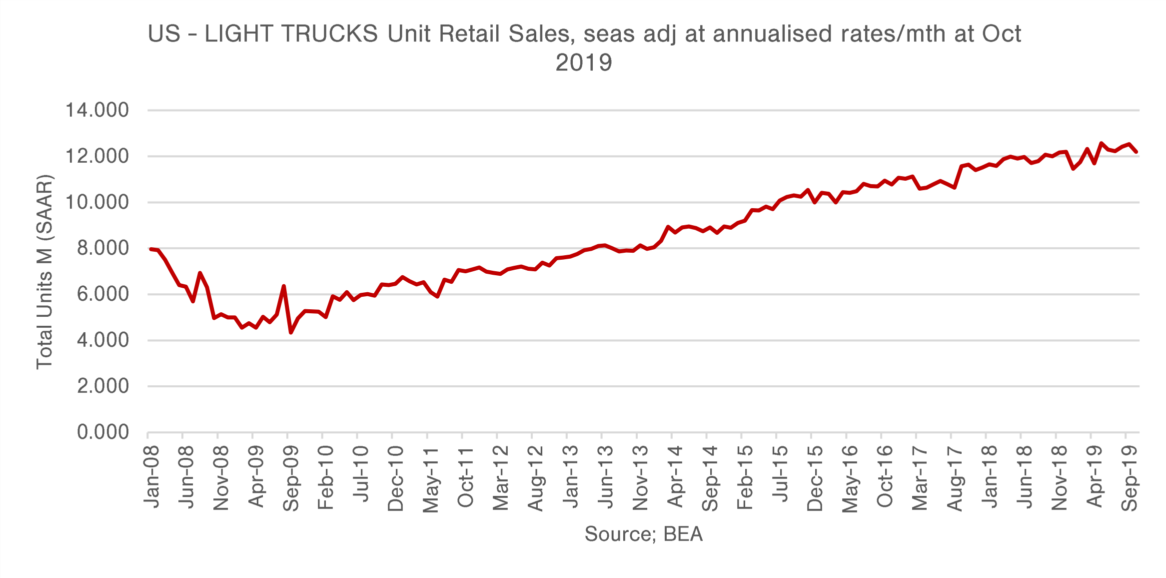


On an annual basis, the decline in Auto sales accelerated to -20% in Oct (from -12% in Sep);

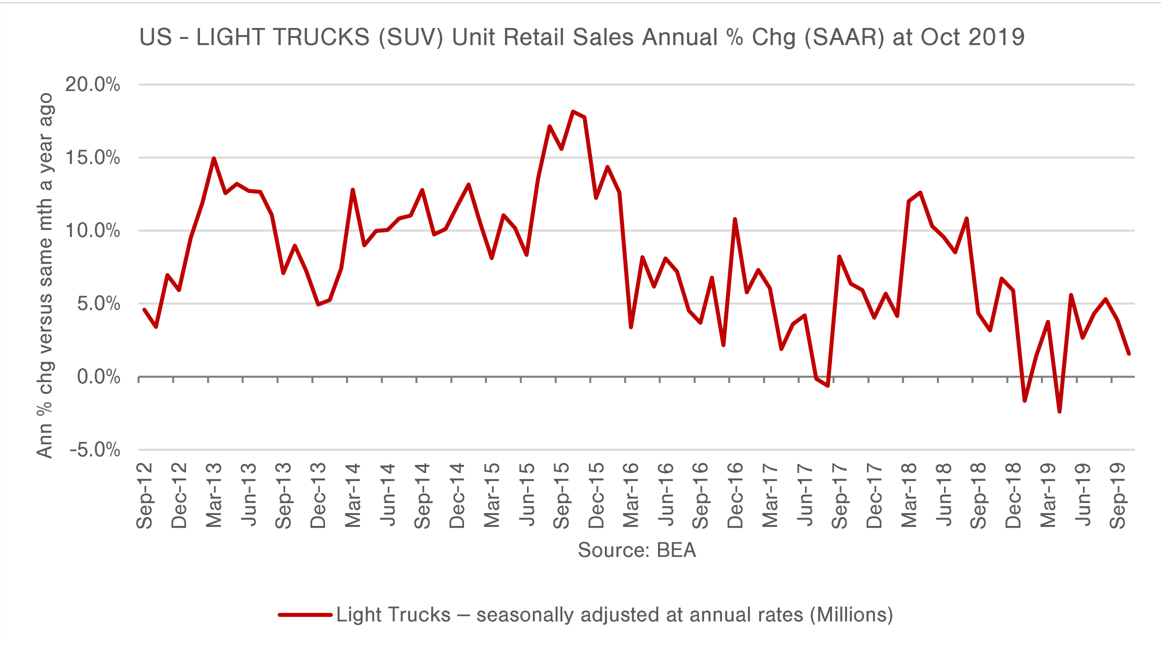


Light Trucks/SUV's

Light trucks/SUV's total unit retail sales – month change (SAAR): Oct 12.2m (-2.7%) versus Sep 12.5m (+1%)



The annual pace of growth remains positive, but also slowed in Oct to +1.6% from +3.9% in Sep;



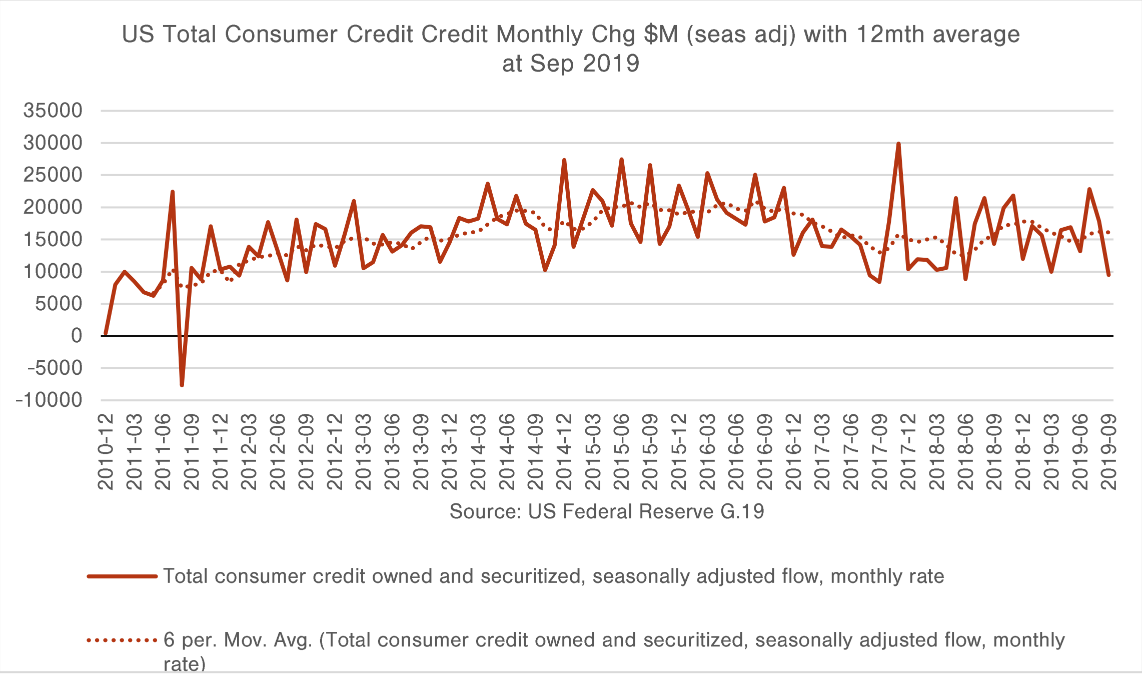
https://www.bea.gov/docs/gdp/auto-and-truck-seasonal-adjustment

Consumer Credit (Sep)

The pullback in consumer credit growth continued this month. The value of non-revolving consumer credit growth halved while revolving credit declined for the second month in a row.

Total Consumer Credit – month change; Sep +$9.5bn versus Aug +$17.8bn

The larger swings in consumer credit growth continue this month. The underlying trend remains flat/sideways;



The annual pace of consumer credit growth was 4.9% in Sep versus 5% in Aug.

The two components of consumer credit are revolving (credit card) and non-revolving credit.

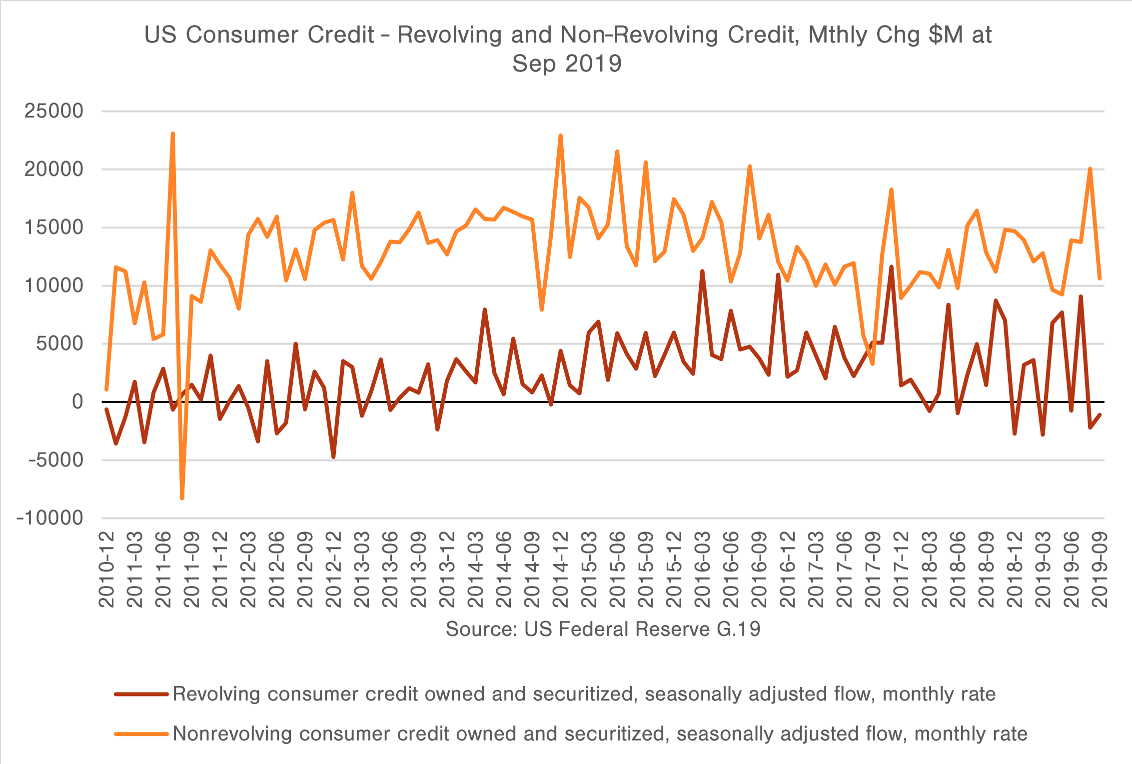
Revolving Credit – (Credit Card)

Month change; Sep -$1.1bn versus Aug -$2.2bn

This is the second month in row where consumer credit has declined, albeit at a slower pace. The annual pace of revolving credit growth slowed to 3.5% in Sep from 3.8% in Aug.

Non-Revolving Credit

Month change; Sep +$10.6bn versus Aug +$20bn



https://www.federalreserve.gov/releases/G19/current/

Uni of Michigan Consumer Sentiment Prelim (Nov)

There was little change in the headline sentiment levels in the prelim Nov reading.

Spontaneous negative mentions of tariffs were still recorded by 25% of respondents, but mentions of the impeachment were 'virtually non-existent'.

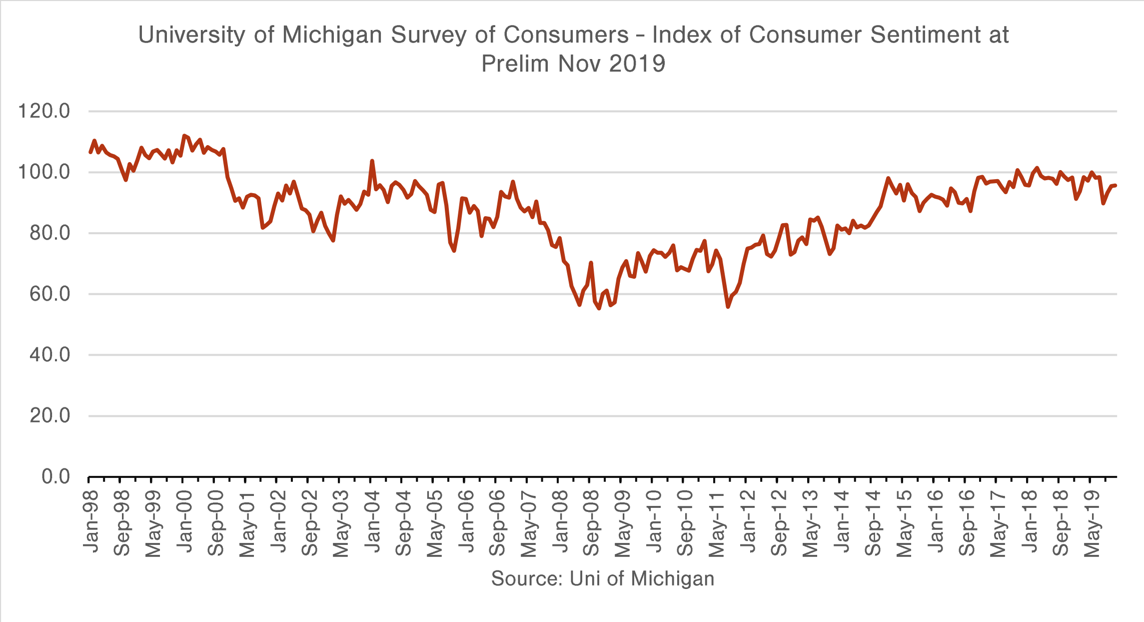
> "Consumers did voice a slightly more positive outlook for the economy, which was offset by a slightly less favorable outlook for their own personal finances."

> "Although consumers have become somewhat more cautious spenders, they see no reason to engage in the type of retrenchment that causes recessions. While most consumers do not anticipate year-to-year increases in the unemployment rate, the majority of consumers expect the unemployment rate to remain largely unchanged at its lowest level in 50 years."

Index of Consumer Sentiment

There was little change in the index of sentiment this month;

Nov-prelim 95.7 versus Oct 95.5

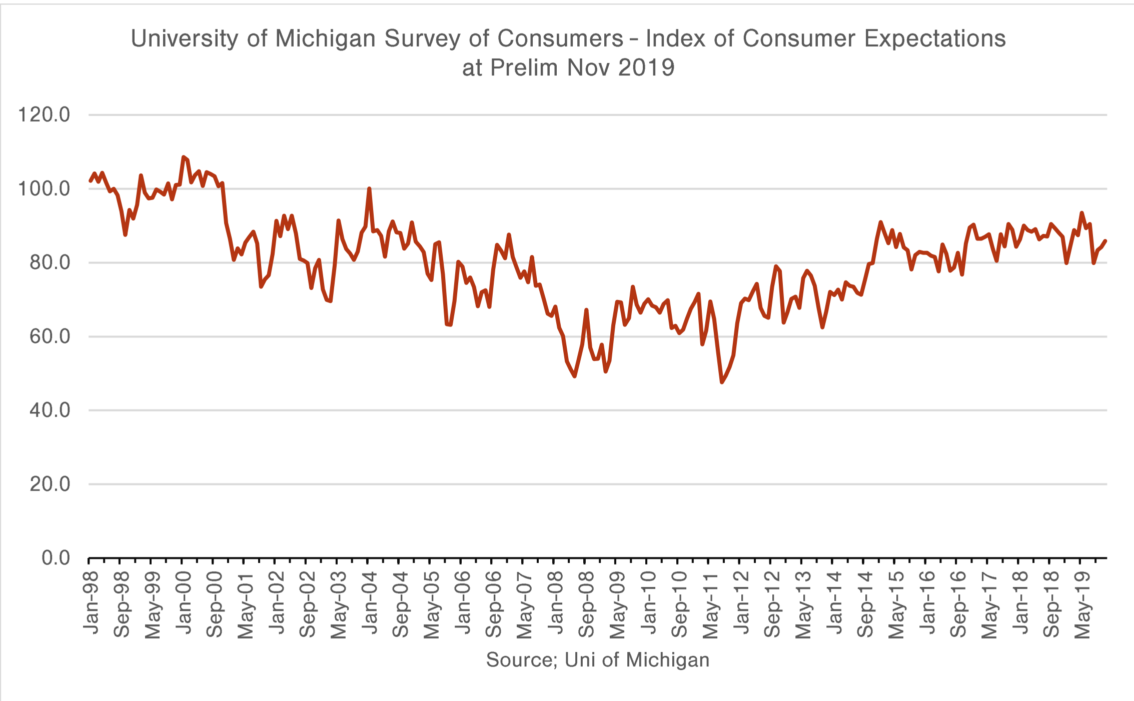


Sentiment levels have been little changed over the last year and the current sentiment index is 2% below a year ago.

<u>Index of Expected Conditions</u>

The index of expected conditions improved slightly in the month but also remains 2.5% below a year ago.

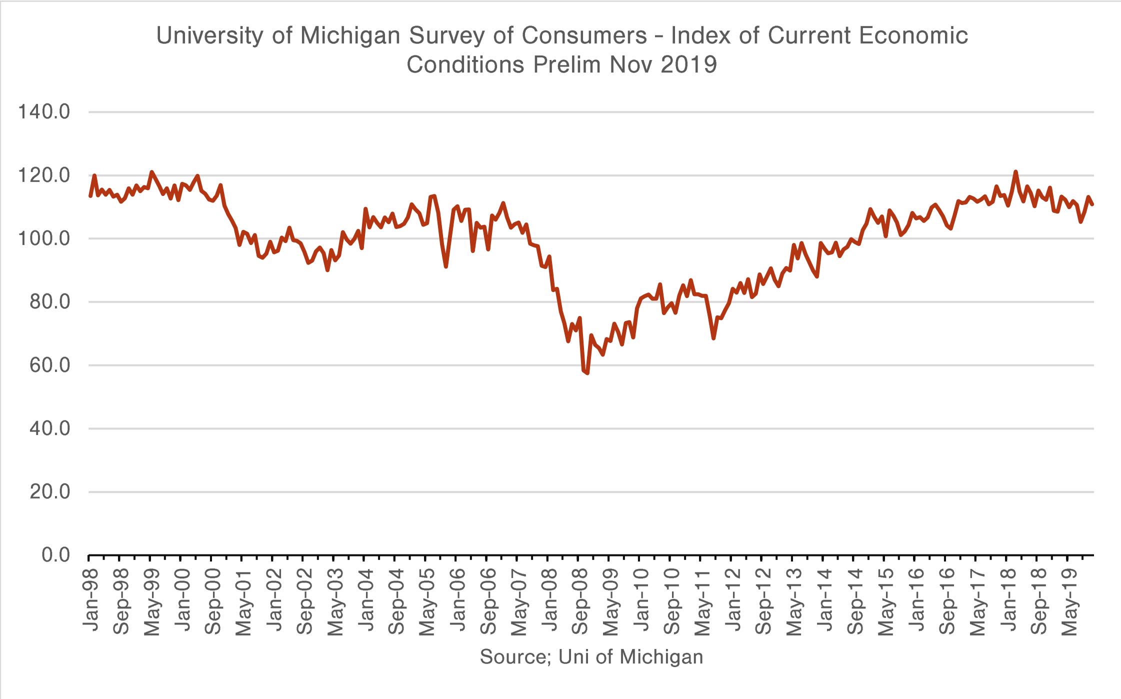
Nov-prelim 85.9 versus Oct 84.2



Index of Current Conditions

The index of current conditions fell in the latest month, almost reversing most of the Oct gain.

Nov Prelim 110.9 versus Oct 113.2



The index of current conditions remains 1.2% below the same time a year ago.

http://www.sca.isr.umich.edu/

JOLTS (Sep)

There were two standouts in the JOLTS data for Sep.

The first was the acceleration in new hires with annual growth now back up to 5%.

In contrast, the number of layoffs and discharges also increased more substantially (up +2 SD's in the month). The increase in layoffs indicates an acceleration in non-voluntary job changes. At the same time, the number of quits has also slowed – indicating less inclination of workers to voluntarily leave their jobs.

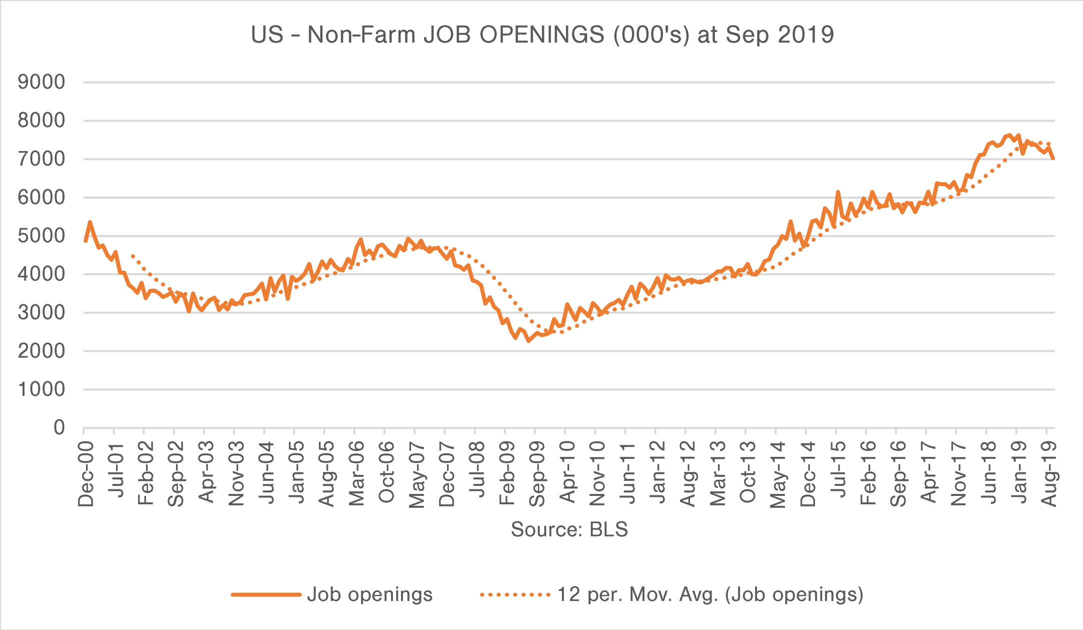
JOB OPENINGS

The decline resumed for the number of job openings recorded in Sep.

Job Openings; Sep 7.02m (-4%) versus Aug 7.3m (+2%)

The decline in Sep was -1.7 SD's below the 12mth SMA and is now 5% below the same month a year prior. On an annual basis, the number of job openings has fallen below a year ago for the last four months.

The pace of job openings had accelerated throughout 2018 well beyond the growth in hires



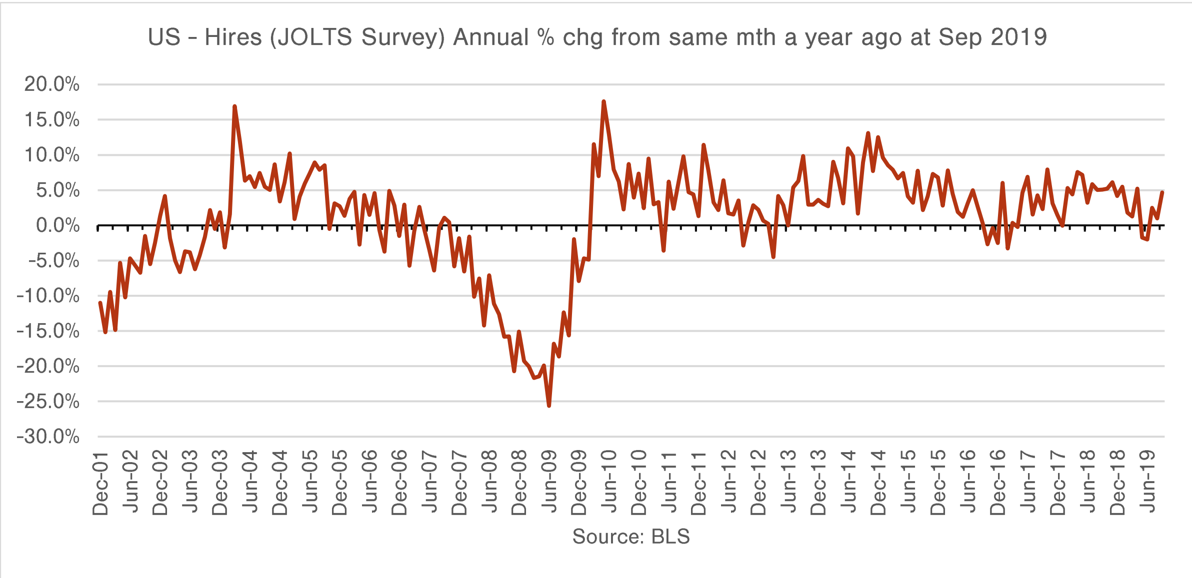
HIRES

The growth in hires has been accelerating, especially on an annual basis;

Job Hires; Sep 5.93 (+1%) versus Aug 5.88m (-2%)

The number of hires is only marginally below the all-time largest number of hires recorded in Apr 2019 of 5.991m hires.

The number of job hires in Sep was +5% above the same month a year ago (versus +1% in Aug);

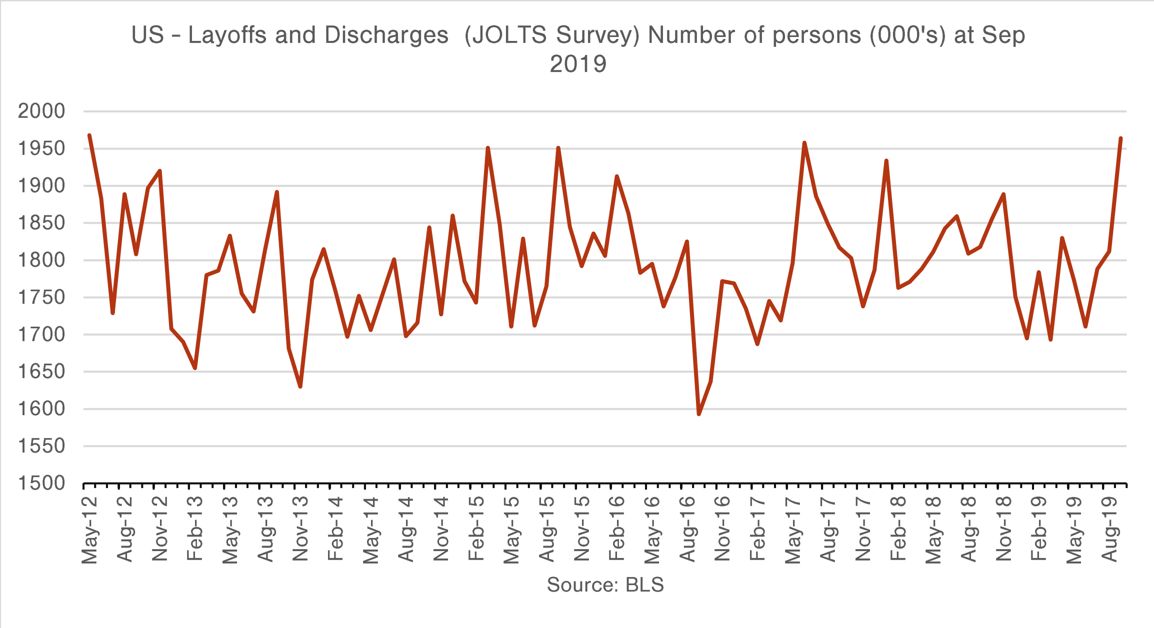


TOTAL SEPARATIONS

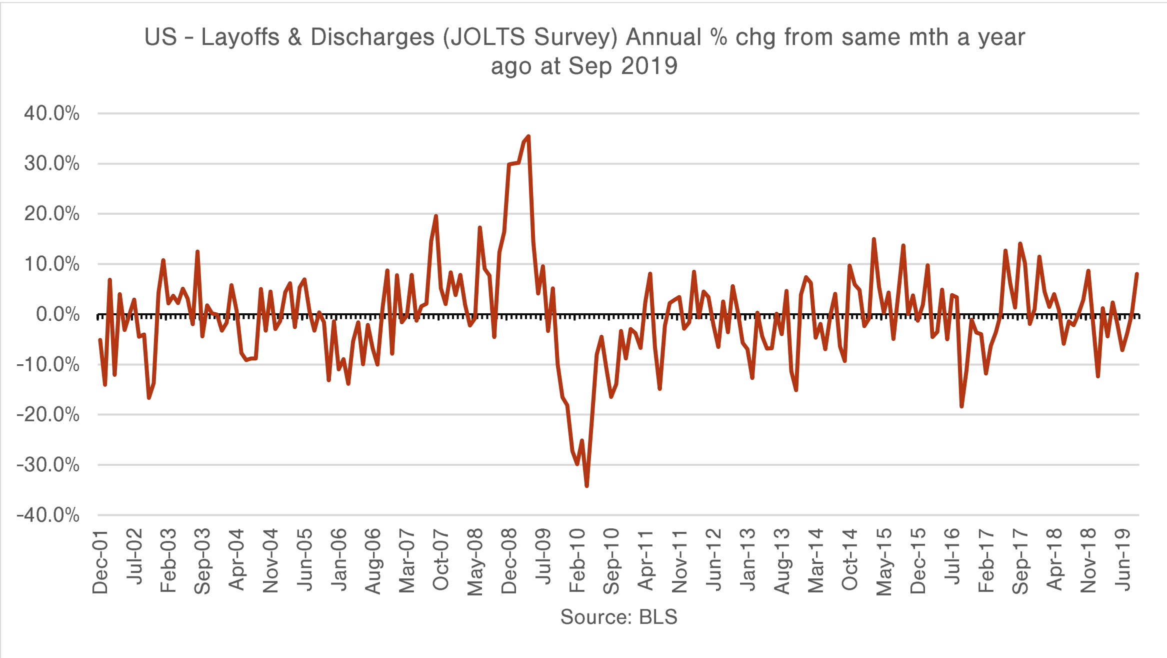
At the total separations level, there was only a small increase in separations recorded in Sep. But underlying that, there was a relatively large increase in the number of layoffs and discharges (non-voluntary leavers). The number of quits (voluntary) declined in the month, partly offsetting the increase in layoffs.

<u>Layoffs and discharges</u>; Sep 1.96m (+8.4%) versus Aug 1.8m (+1%)

The increase in the number of layoffs and discharges in Sep was a +2.1 SD increase (based on the last 12 months). The last time layoffs and discharges were at this level was 2012 (although the layoff <u>rate</u> has been higher than what it is now);



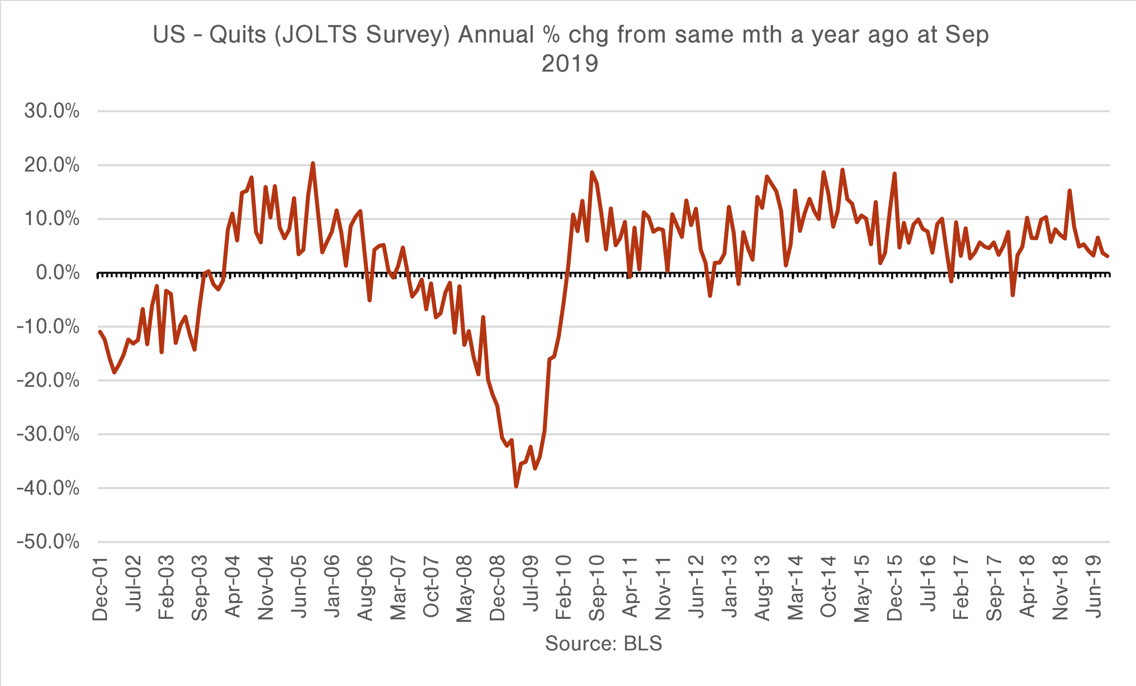
The number of layoffs is now also 8% above the same month a year ago;



<u>Quits</u>; Sep 3.5m (-3%) versus Aug 3.6m (-2%)

The number of quits reached an all time high only in Jul, so the number/level remains relatively high. The assumption is that a growing number of quits suggests workers are comfortable in their ability to move jobs and job availability.

The decline in quits for the month was only 0.6 SD's. The number of quits in Sep is still 3% above the same time a year ago, and continues to slow;



https://www.bls.gov/news.release/jolts.nr0.htm

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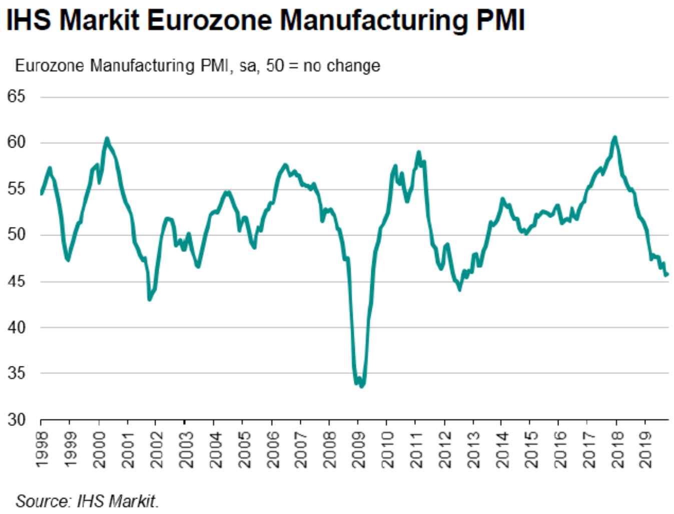
Europe

Eurozone Manufacturing PMI (Oct)

The Eurozone headline manufacturing PMI still declined in Oct but at a slightly slower pace.

Eurozone Manufacturing PMI; Oct 45.9 versus Sep 45.7



From an industry perspective; investment and intermediate goods manufacturing continued to contract while the decline in consumer goods manufacturing was marginal.

New orders continued to decline, although at a slightly slower pace. New export orders declined led by further falls in Germany and Austria.

Output declined at a slightly slower pace too. Order backlogs continued to decline (for the fourteenth month in a row).

Employment declined at a faster pace, most notably in Germany.

Firms continued to manage inventories in the face of weaker demand with both input and finished goods inventories falling.

Although expectations were at their highest for three months, confidence remained historically low.

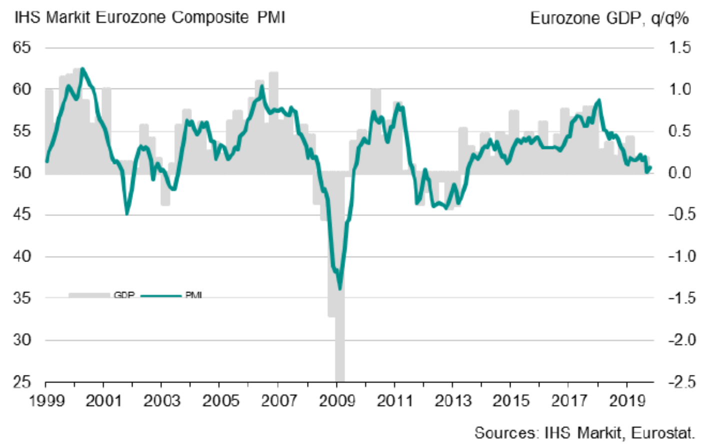
https://www.markiteconomics.com/Public/Home/PressRelease/1c462101cb924c64a158757794c7f13a

Eurozone Services PMI (Oct)

The headline services activity index increased at a faster pace in Oct.

Eurozone Business Activity Index; Oct 52.2 versus Sep 51.6

IHS Markit Eurozone Composite PMI



New orders increased only slightly from the Sep low. Export work continued to contract. Work backlogs fell for the third month in a row – helping to support output/activity growth. Employment growth was unchanged after reaching an eight-month low in Sep.

"…service sector confidence remained well below par in October, falling to a level only slightly above August's near five-year low."

https://www.markiteconomics.com/Public/Home/PressRelease/a227956fa7c844cf8ed86ca390c59214

Eurozone Retail Sales (Sep)

Euro area retail sales increased at a slower pace in Sep versus Aug. Growth accelerated on an annual basis though. The faster pace of annual growth was led by food, drink and tobacco, textiles, clothing and footwear and pharma/medical goods.

Euro Area Retail Sales – month change; Sep +0.1% versus Aug +0.6%

The slower growth in the month was due to a decline in retail sales volume across; food, drink and tobacco (-0.4%), textiles, clothing and footwear (-0.6%), electrical goods and furniture (-0.2%) and computer equipment (-1%).

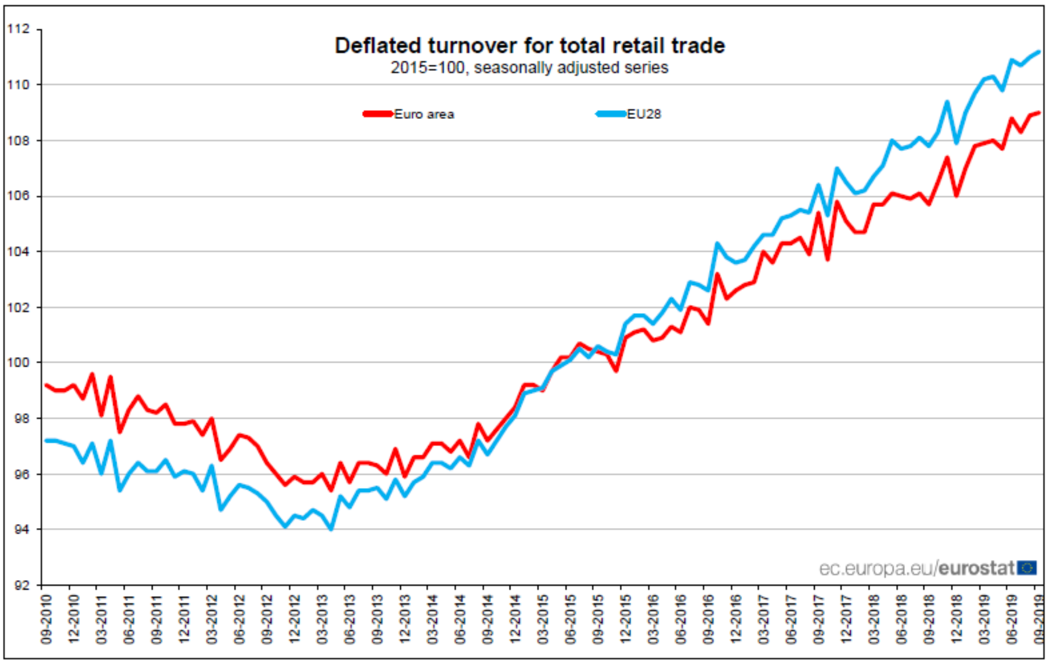
This was offset by slower growth in pharma and medical goods (+0.6%) and mail orders/internet (+0.2%).

The only category where sales increased at a faster pace in Sep was auto fuel (+0.4%).

Euro Area Retail Sales – annual change; Sep +3.1% versus Aug +2.7%

Food drink and tobacco, textiles/clothing and pharma/medical goods all increased at a faster annual pace (despite weaker growth in the latest month).

Although growing at a slightly slower annual pace in Sep, mail orders and internet increased by +10.9% on a year ago in Sep (versus +11.2% in Aug).



https://ec.europa.eu/eurostat/documents/2995521/10075467/4-06112019-AP-EN.pdf/189884da-c733-1f13-3b6e-098dc6ca3e6d

Eurozone PPI (Sep)

Euro area producer selling prices increased slightly in the month after declining in the month prior. On an annual basis prices declined at a faster pace – this was led mostly by and accelerated fall in energy prices. Producer prices ex energy still continued to grow at a slower pace though.

Euro area PPI

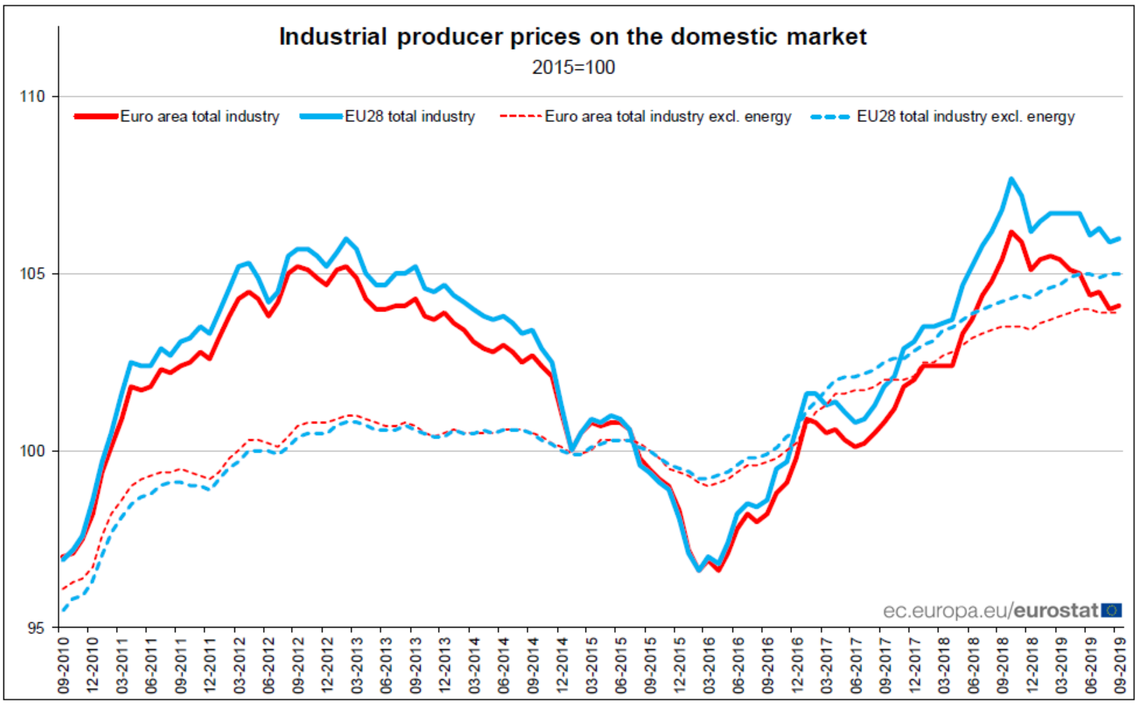
Total Industry – annual change; Sep -1.2% versus Aug -0.8%

Leading the faster decline was energy, which declined by -6.1% in Sep versus -4.9% in Aug.

Excluding energy, industrial prices increased but also at a slower pace; Sep +0.4% versus Aug +0.5% (back in Apr the annual growth was +1.1%)

The other notable fall in prices was the decline in intermediate goods prices, falling by -0.7% in Sep versus -0.4% in Aug.

Prices of capital goods increased at the same pace of +1.5% on an annual basis in Sep. Prices of durable and non-durable consumer goods increased at a faster annual pace in Sep.



https://ec.europa.eu/eurostat/documents/2995521/10075457/4-05112019-AP-EN.docx.pdf/23680801-56f9-1aaf-51c0-96f227147a8c

Germany Factory Orders (Sep)

New factory orders increased in Sep versus Aug – led by stronger growth in the domestic market as well as non-Euro area markets. Orders declined for Euro area markets. Growth in orders were stronger across capital goods, consumer goods and non-durable goods which more than offset declines in orders for intermediate goods and durable goods.

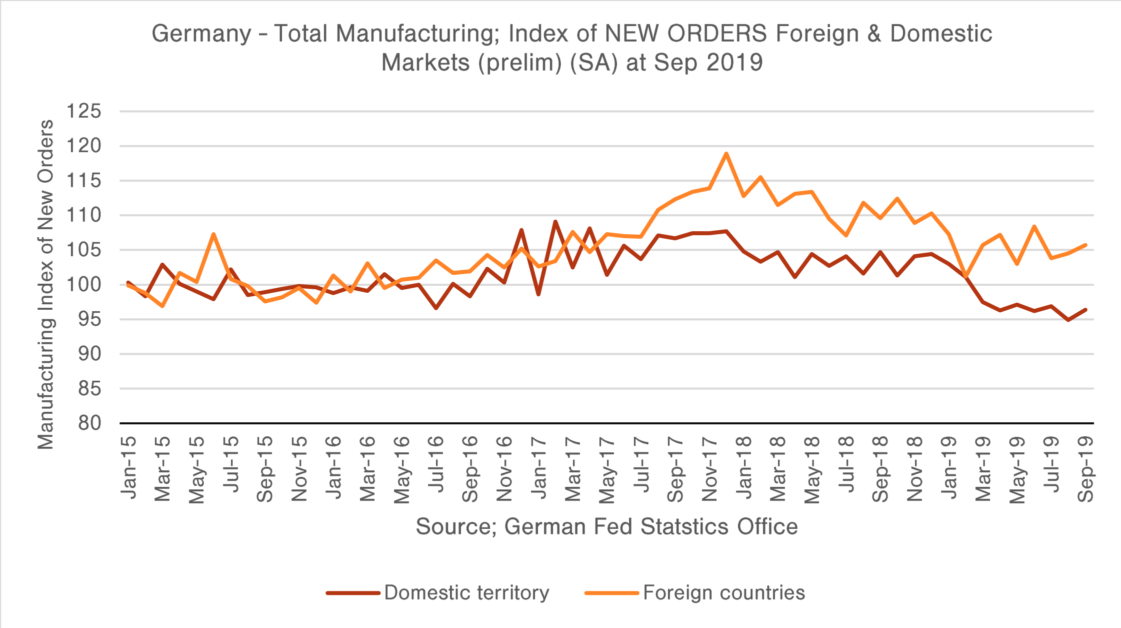
On an annual basis, orders continued to decline at a faster pace in the domestic and Euro area markets. The annual decline in orders slowed across non-Euro area markets.

Note that this result is at odds with the PMI for Sep – which reported a pulse lower in manufacturing activity. The headline PMI fell to its lowest reading since the GFC at 41.7 and recorded 'faster decreases in output, **orders** and employment'.

Total Manufacturing New Orders

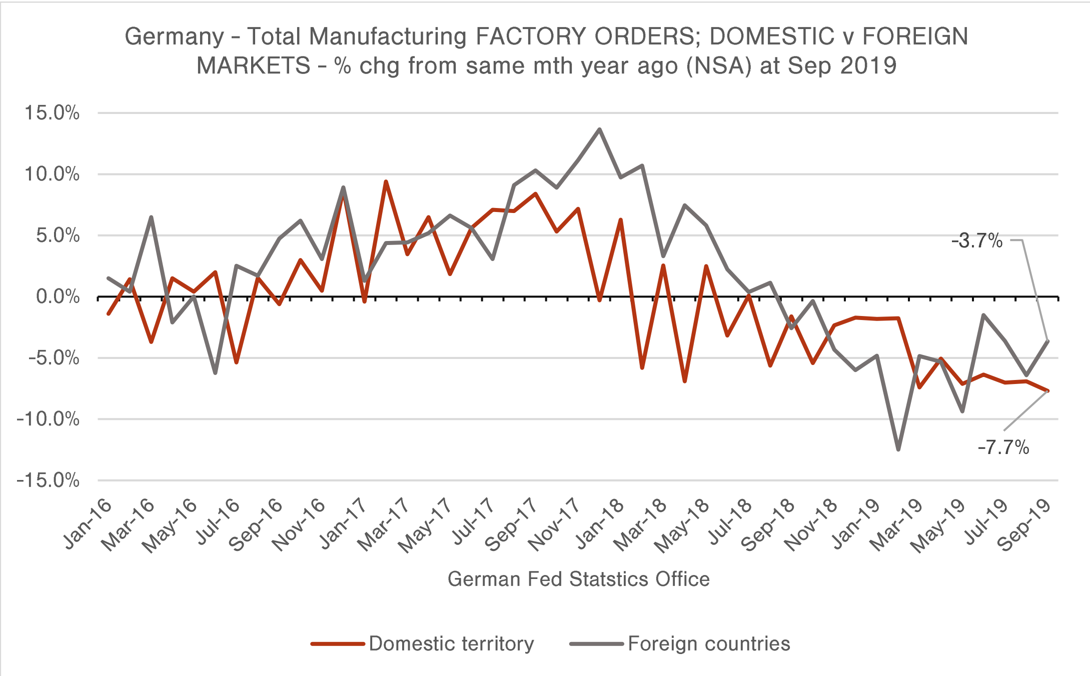
New orders - month change; Sep +1.3% versus Aug -0.4%

The increase in the month was the result of faster growth in orders across the domestic market (+1.6%) and foreign countries (+1.1%). Within foreign countries, new orders from Euro area countries declined and were offset by an increase in orders from non-euro area countries.



Despite the lift in the month, the volume of new orders remains well below a year ago. Annual declines in the volume of new orders accelerated in the domestic market and for Euro area countries. Orders for non-Euro area countries declined at a much slower pace.

New orders – annual change; Sep -5.4% versus Aug -6.6%



Intermediate Goods

New orders for Intermediate goods – month change; Sep -1.5% versus Aug +1.3%

Slightly stronger growth in domestic territory (+0.3%) was offset by weaker orders from foreign countries (-3.3%).

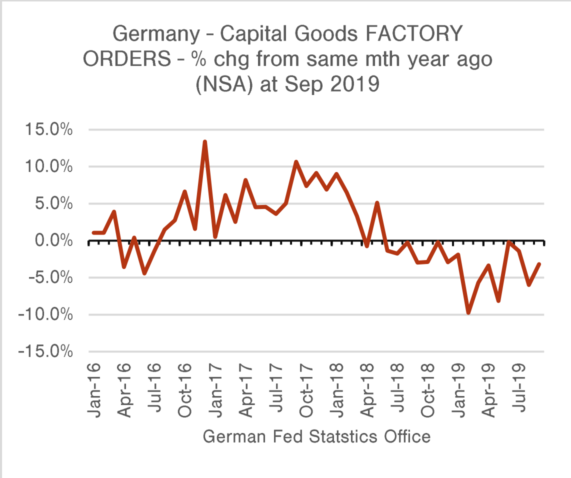
On an annual basis, there was a small acceleration in the decline of new orders; Sep -8.4% versus Aug -7.7%. Domestic orders for intermediate goods remain 11% below a year ago and foreign orders are 5.4% below a year ago.

Capital Goods

New orders for capital goods – month change; Sep +3.1% versus Aug -1.6%

Orders for capital goods increased across all markets this months.

Despite the increase in capital goods orders this month, the volume of orders remains below the same month a year ago by 3.2%. While the decline has been slowing since the start of the year, the index of production indicates at least more stable levels of orders;



Consumer Goods

New orders for consumer goods – month change; Sep +0.8% versus Aug -0.2%

The stronger growth in the month was led by a 3% increase in orders for the domestic market, while foreign orders declined by -0.7%.

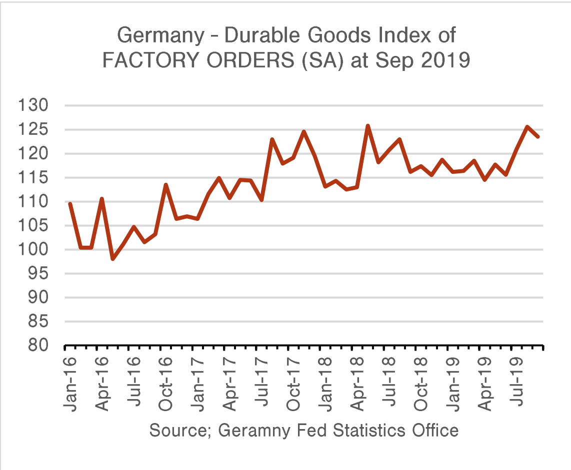
On an annual basis, total orders for consumers remains 6.7% below the same month a year ago. This has been led by a continued decline in orders from Euro area countries (-19% versus a year ago in Feb). The annual change in orders from foreign countries just shifted into decline in Sep. The annual decline in orders from the domestic market slowed to -0.9% in Sep (from -6.7% in Aug);

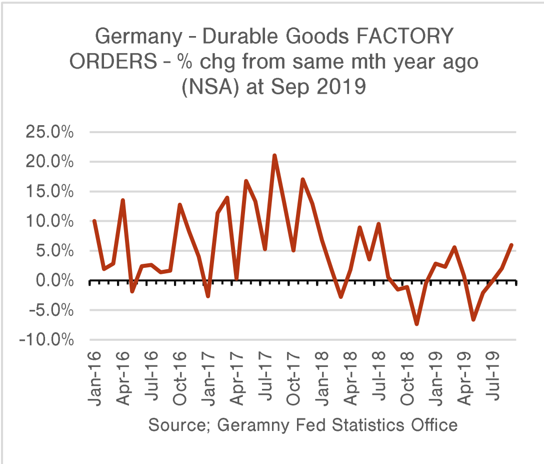
Durable Goods

Orders for durable goods were down slightly in the latest month, but continue to improve versus a year ago.

New orders for durable goods – month change; Sep -1.7% veruss Aug +3.8%

On an annual basis, the growth in orders for durable goods accelerated from 2% in Aug to +6% in Sep. Orders increased on an annual basis across all markets.



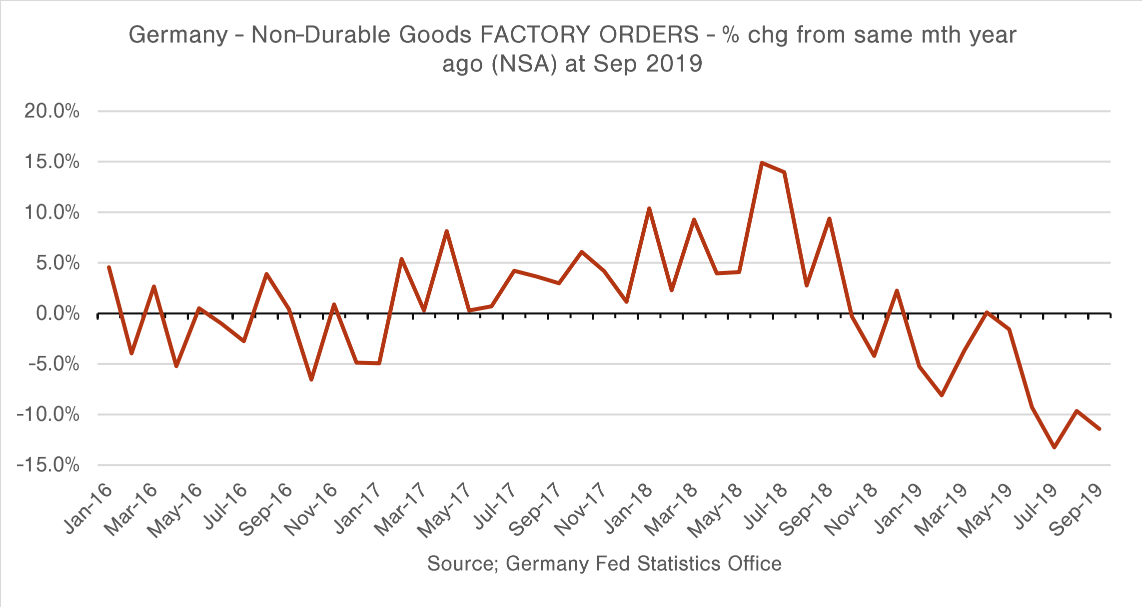


Non-Durable Goods

The volume of orders for non-durable goods increased in the month across most markets, except non-Euro area foreign markets.

New orders for non-durable goods – month change; Sep +1.7% versus Aug -1.7%

On an annual basis, the decline in orders for non-durabl egoods accelerated slightly; Sep -11.4% versus Aug -9.6%. Orders have declined across all markets on a year ago basis.



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Germany Industrial Production (Sep)

Industrial production was much weaker in Sep led by continued falls in manufacturing across all main product groups. Production increased in the month across mining, utilities and construction.

Construction is the only area where production is above the levels of a year ago.

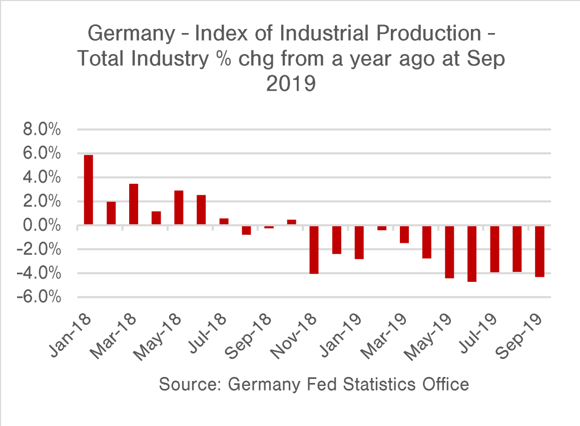
Especially in manufacturing, production levels fell to be either on par with the lowest levels since the peak of this cycle or made a new low in this month. This reinforces that production in Germany, especially in manufacturing, is yet to start to rebound – across intermediate, capital, durable, non-durable and consumer goods.

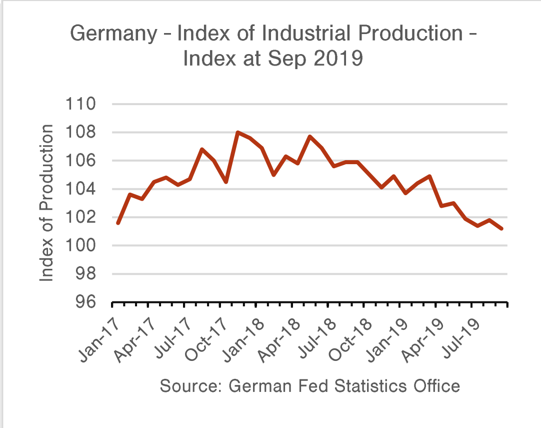
PRODUCTION – TOTAL INDUSTRY

Total production slowed again and this has now opened up the widest gap between current production levels and the recent peak in Nov 2017.

Month change; Sep -0.6% versus Aug +0.9%

On an annual basis, production declined at a somewhat similar pace -4.3% in Sep versus -3.9% in Aug. Production has declined on an annual basis for the last eleven months;





In the recent cycle, production peaked in Nov 2017 and the current level of production is 6.3% below that peak – this is the widest gap since production started to decline.

Of the four key industries, manufacturing has led the overall decline in industrial production, but mining and quarrying and utilities have also contributed to the decline. Construction activity continues to grow.

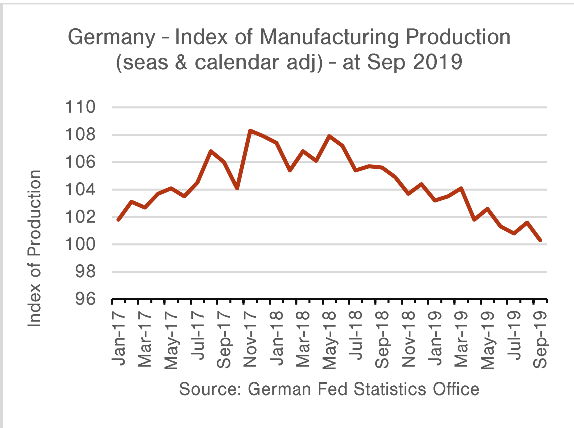
PRODUCTION – MANUFACTURING

There was a further leg down in manufacturing production this month. This has also opened up the widest gap in the current level of production and the recent peak in Nov 2017 – in other words, there is no sign of a change in down-trend at a total level.

Across intermediate, capital, durable, non-durable and consumer goods – production levels fell this month. Most industries were either on par with the widest gap to the peak in production or made a new low. At this stage, production across most industries remains weak.

Month change; Sep -1.3% versus Aug +0.8%

On an annual basis, production growth declined at a slightly faster pace in Sep of -5% versus -4% in Aug. Manufacturing production has declined on an annual basis in thirteen out of the last fourteen months.



Manufacturing production also peaked in Nov 2017 and as of Sep 2019 is 7.4% below that level – the widest gap in production levels since that peak.

Manufacturing by Main Group;

Intermediate Goods

The decline in intermediate goods continued in Sep and remains on a downtrend. Production peaked back in Dec 2017 and this month the level of production fell to 8.7% below that peak – also the largest gap since the peak in 2017.

Month change; Sep -1.3% versus Aug +0.9%

The annual decline accelerated slightly from 4.4% in Aug to -5.1% in Sep.

Capital Goods

Manufacturing of capital goods declined further in Sep. Production had peaked back in Nov 2017 and this month, production fell to -7.6% below that level. This is not quite the widest gap, but is on par with the -7.8% gap recorded back in Apr 2019. In other words, production of capital goods remains weak.

Month change; Sep -1.5% versus Aug +1.3%

The annual decline also accelerated slightly this month from 2.2% in Aug to -4% in Sep. Manufacturing of capital goods has declined on annual basis thirteen out of the last fourteen months.

Durable Goods

Manufacturing of durable goods declined at a faster pace this month. The peak in production was back in Aug 2017 and the production level in Sep was on par with the widest gap to the peak of -5.6%.

Month change; Sep -2.4% versus Aug -0.4%

The annual change shifted back into decline after two months of positive year on year growth; Sep -3.3% versus Aug +0.3%.

Non-Durable Goods

Manufacturing of non-durable goods declined slightly in the month. The peak in production was back in May 2018, and this month production fell to -10.3% below that peak – also the largest gap to the peak.

Month change; Sep -0.1% versus Aug -1%

The annual decline remained on par -9% in Sep versus -9.5% in Aug.

Consumer Goods

The manufacture of consumer goods also continued to decline in Sep. The production of consumer goods peaked back in May 2018 and the level of production in the month was 9.1% below that peak – the also largest gap since the peak.

Month change; Sep -0.5% versus Aug -0.9%

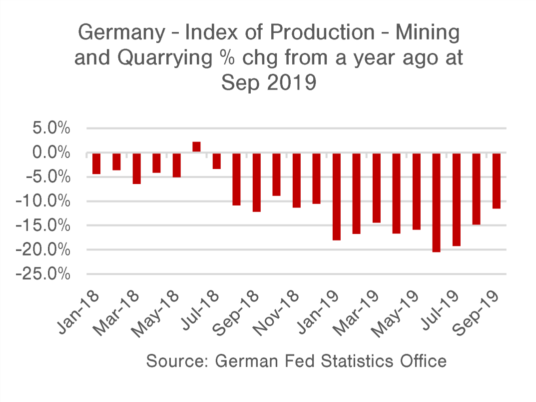
The annual decline in Sep remained at -8% versus a year ago.

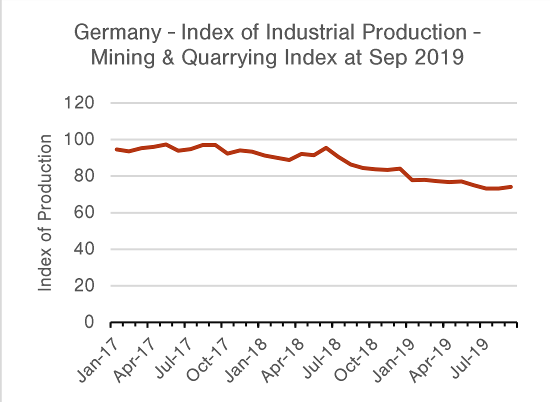
PRODUCTION – MINING AND QUARRYING

Mining and quarrying production levels have been on a downtrend since May 2017. And while production increased in the month, levels remain 24% below the peak. The largest gap to the peak was 25% recorded in the two months prior - Aug & Jul 2019.

Month change; Sep +1.2% versus Aug 0%

The annual decline slowed from -14% in Aug to -11% in Sep.



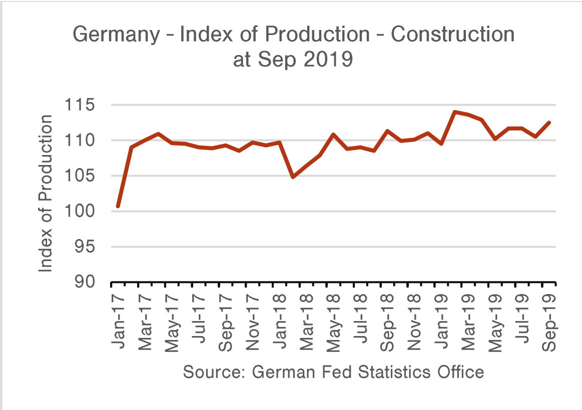


PRODUCTION - CONSTRUCTION

Construction production increased in Sep. Activity continues to increase, although there was a peak in Feb 2019. Production levels in Sep are only 1.3% below that peak having declined to -3.3% at the widest point back in May.

Month change; Sep +1.8% versus Aug -1.1%

The annual change slowed from +1.7% in Aug to +1.2% in Sep.

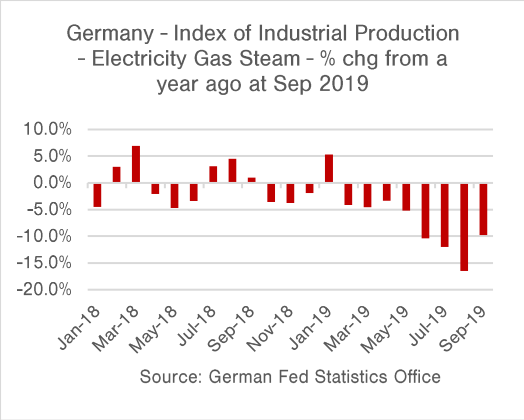


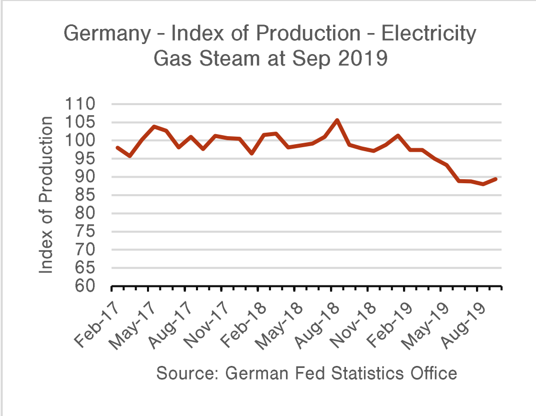
PRODUCTION – STEAM GAS WATER (UTILITIES)

Production of utilities increased in the month, but remains well below the peak. The peak in production in this cycle was reached back in Aug 2018 and current production levels are now 15.8% below that peak, this is only marginally above the largest gap of -16.7% below the peak, reached in Aug 2019.

Month change; Sep +1.6% versus Aug -0.9%

The annual decline slowed from -16.5% in Aug to -10% in Sep.



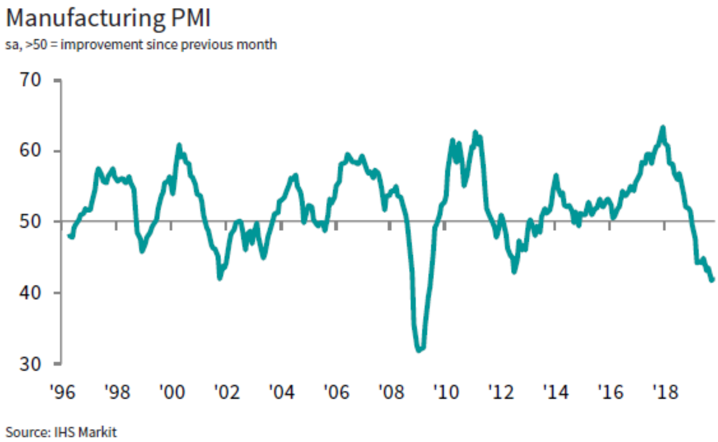


https://www.destatis.de/EN/Press/2019/11/PE19_429_421.html

Germany Manufacturing PMI (Oct)

The headline manufacturing PMI declined in Oct at only a slightly slower pace.

Manufacturing PMI; Oct 42.1 versus Sep 41.7



Output and new orders declined at the current marked pace, but slightly slower than the month prior. Employment declined at a faster pace – the fastest since Jan 2010.

> "Data showed a deterioration in operating conditions across each of the main industrial groupings, led by a steep contraction in the capital goods sub-sector – which includes mechanical engineering and transport equipment."

In light of weaker demand, firms continued to scale back purchases and manage inventory levels.

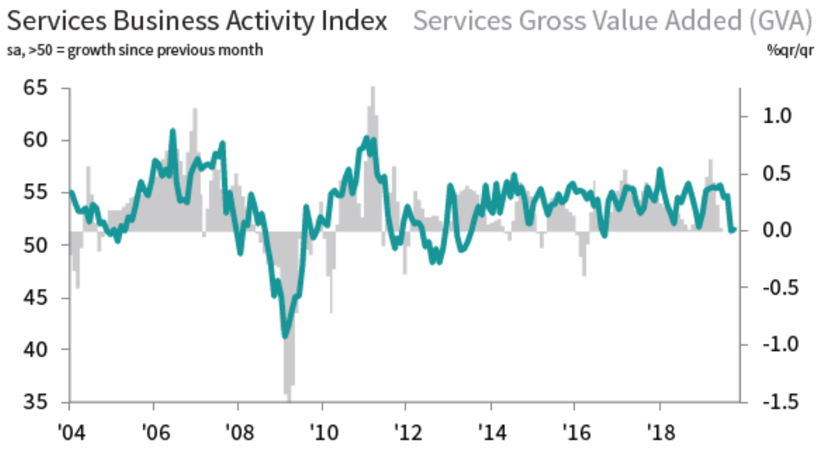
Input prices fell and these falls were passed on in the form of lower output charges.

https://www.markiteconomics.com/Public/Home/PressRelease/cbd30415d7b5492eaed46eca6e550d75

Germany Services PMI (Oct)

The headline business activity index increased at only a slightly faster pace in Oct.

Germany Business Activity Index; Oct 51.6 versus Sep 51.4



Note: Services GVA data include retail, which is not included in the PMI.
Sources: IHS Markit, Federal Statistical Office

> The consumer-focused 'Other Services' sub-sector was the best-performing area for business activity growth, followed closely by Financial Intermediation. The only broad category to see an outright contraction was Transport & Storage.

Despite the more stable output growth, new orders declined for the second month in a row, including weaker new export orders – indicating some potential future weakness in activity.

As a result, order backlogs declined for the third month in a row, supporting the growth in business activity.

Employment growth also slowed, now the weakest pace since May 2018.

Firms expectations about future activity turned negative for the first time since late 2012.

> "For the first time in almost seven years, the number of businesses expecting activity to fall over the next 12 months exceeded those predicting growth."

https://www.markiteconomics.com/Public/Home/PressRelease/c8c1672905614a9f943be90638e14550

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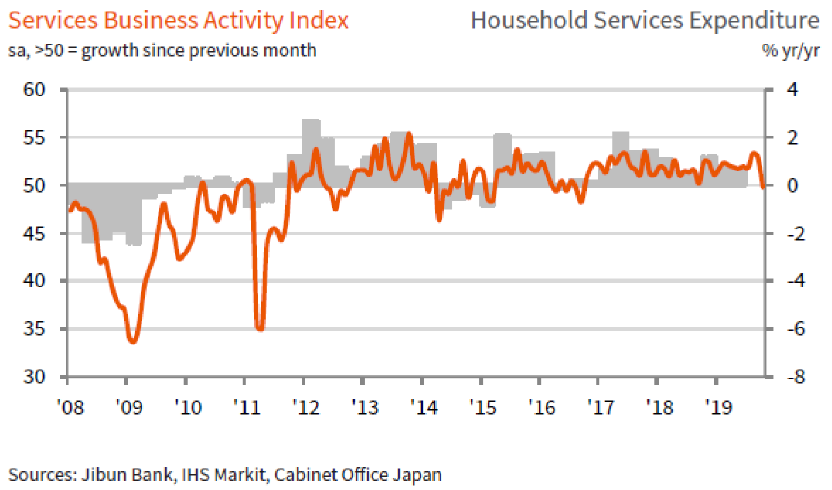
Japan

Services PMI (Oct)

The level of services activity deteriorated further in Oct with the first decline in three years of the headline activity index. Firms cited the typhoon and sales tax increase as contributors to the weaker activity.

Japan Business Activity Index; Oct 49.7 versus Sep 52.8 (-3.1pt decline)



Growth in new orders slowed but remained positive. New export orders also increased with firms citing the Rugby World Cup as a key driver.

Backlogs of orders increased at a slower pace and was marginal overall.

Given the increase in the consumption tax, input prices increased at the fastest pace in over seven months.

Employment growth remained little changed from the month prior.

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United Kingdom

BREXIT

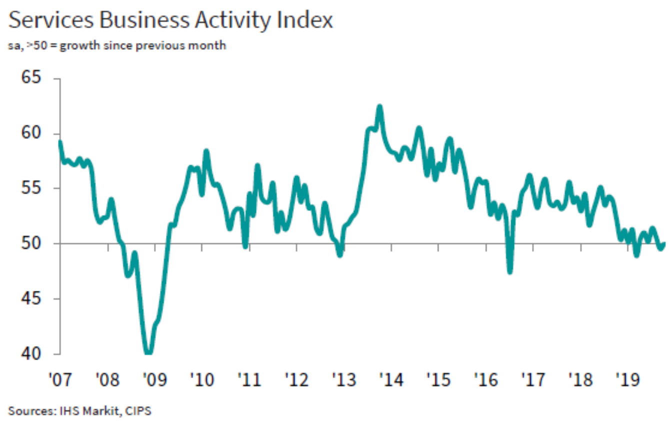
The UK has now had a further Brexit extension approved – until 31 Jan 2020. This will allow time for the general election to be held on 12 Dec 2019.

> 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

Markit Services PMI (Oct)

The headline services activity index indicated no change/no growth in services activity in Oct.

Headline Services Activity Index; Oct 50 versus Sep 49.5



Output growth ticked up slightly after contracting in the month prior. New orders though declined for the second month in a row and have declined (moderately) in seven out of the ten months of the YTD. New export work also declined at a pace on par with the record decline in Sep. Brexit uncertainty was cited as the main issue.

Order backlogs declined for the thirteenth month and at a faster pace.

Employment growth also declined for the fifth month in a row.

Selling price growth remained low.

Optimism lifted slightly as firms cited Brexit uncertainty would be reduced after early 2020.

> "…overall sentiment remained historically weak, with only 39% of firms expecting growth at their units and 16% forecasting a decline."

https://www.markiteconomics.com/Public/Home/PressRelease/8a036061b3ba4085a99c31b28421a1c8

BoE Rates Decision – 6 Nov 2019

The Monetary Policy Committee (MCP) kept rates on hold at 0.75%. This was a 7-2 vote in favour for hold.

The MPC also voted to maintain the current stock of corporate and UK government bond purchases.

The MPC has now based growth assumption son an orderly transition to a "deep trade agreement between the UK and the EU".

Changes since the last meeting

Growth has slowed materially this year – reflecting weaker global growth and the domestic impact of Brexit uncertainty.

> In October, the UK and EU agreed a Withdrawal Agreement and Political Declaration as well as a flexible extension of Article 50. As a consequence, the perceived likelihood of a no-deal Brexit has fallen markedly and the sterling exchange rate has appreciated.

It is expected that this will start to remove the uncertainty and the MPC expects growth to pick up in 2020.

Inflation pressure is expected ease slightly from the effects of falls in regulated energy and water prices. Employment has slowed and pay growth is likely to fall back in the near term.

Guidance

Forward guidance remains firmly fixed on the Brexit outcome but the MPC has also noted that it will also closely monitor "prospects for a recovery in global growth".

> Monetary policy could respond in either direction to changes in the economic outlook in order to ensure a sustainable return of inflation to the 2% target.

If global growth does not stabilise or if Brexit uncertainties persist, monetary policy will likely be eased. But if the risks do not materialise and the economy recovers in line with current projections, then a 'modest tightening of policy, at a gradual pace" may be required to maintain inflation at the target.

https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2019/november-2019

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Australia

AiG – Performance of Industry Reports (Oct)

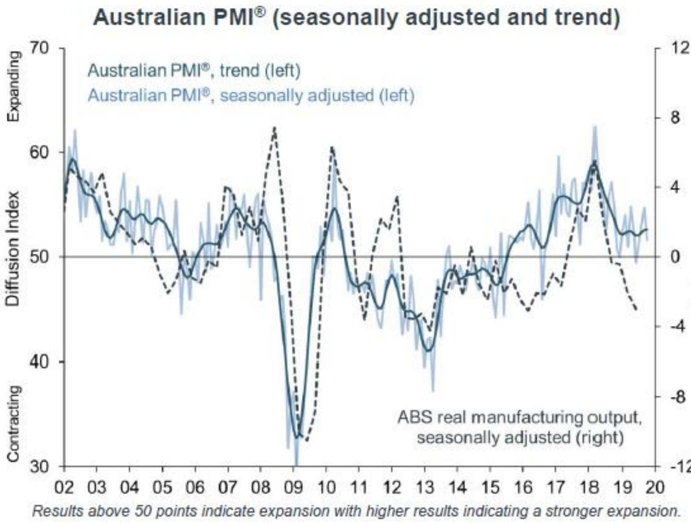
Although there was some improvement at the overall level across all sectors, the one key theme underpinning all three reports was **the ongoing and faster decline in selling prices in Oct**. Discounting is likely helping to maintain/improve activity at this stage.

In Manufacturing, much weaker new orders indicates some further softening of activity is possible. The less-weak construction report was led mostly by house building. Construction across apartments, commercial and engineering remains weaker, and in some cases is continuing to deteriorate.

MANUFACTURING; OCT 51.6 VERSUS SEP 54.7

The slower growth in the month was led mostly by the sharp fall in new orders which fell by 8.8pts and is now in contraction. Employment growth also slowed and selling prices declined further and remain firmly in contraction territory.

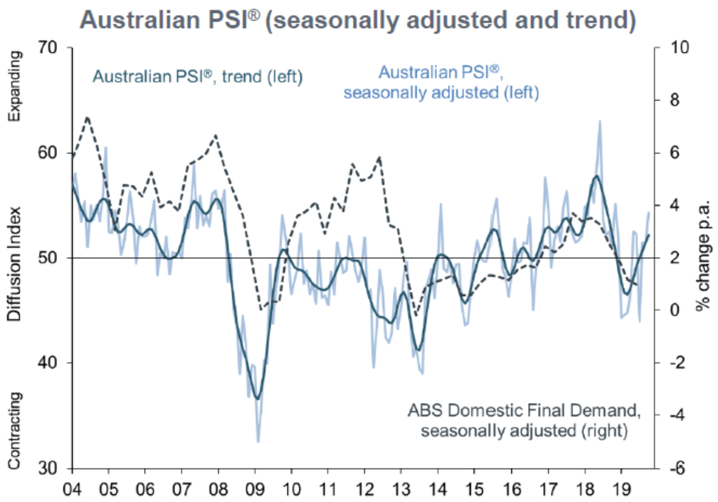
Food & Bev remains the strongest sector, increasing at a slightly faster pace. Machinery and equipment were little changed. Metals products, building and textiles manufacturing all continued to contract. Manufacture of petroleum/coal/rubber grew at a slower pace.



SERVICES; OCT 54.2 VERSUS SEP 51.5

The stronger growth in the month was the result faster growth in sales and employment. New orders were little changed. Input prices were little changed but selling prices remained under pressure – declining at a faster pace.

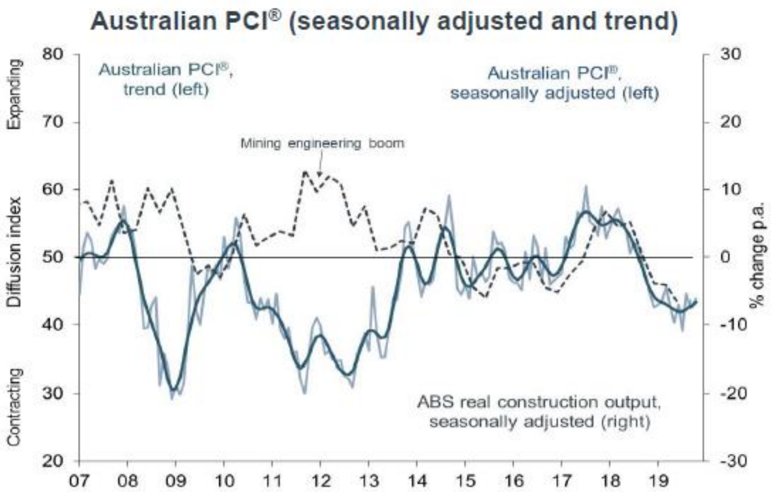
From an industry perspective, business and property and wholesale continued to contract in the month. Finance and insurance, retail and transport & storage grew at a faster pace in the month.



CONSTRUCTION; OCT 43.9 VERSUS SEP 42.6

A slower pace of decline was recorded across activity, employment, new orders and selling prices – but all these areas remained firmly in decline. Input prices and average wages both continued to increase at a faster pace.

House building declined at a slower pace with that pace of decline becoming more moderate. Apartment construction was unchanged and remained firmly in decline. Engineering and commercial construction both declined at a faster pace this month.



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

Retail Sales (Sep)

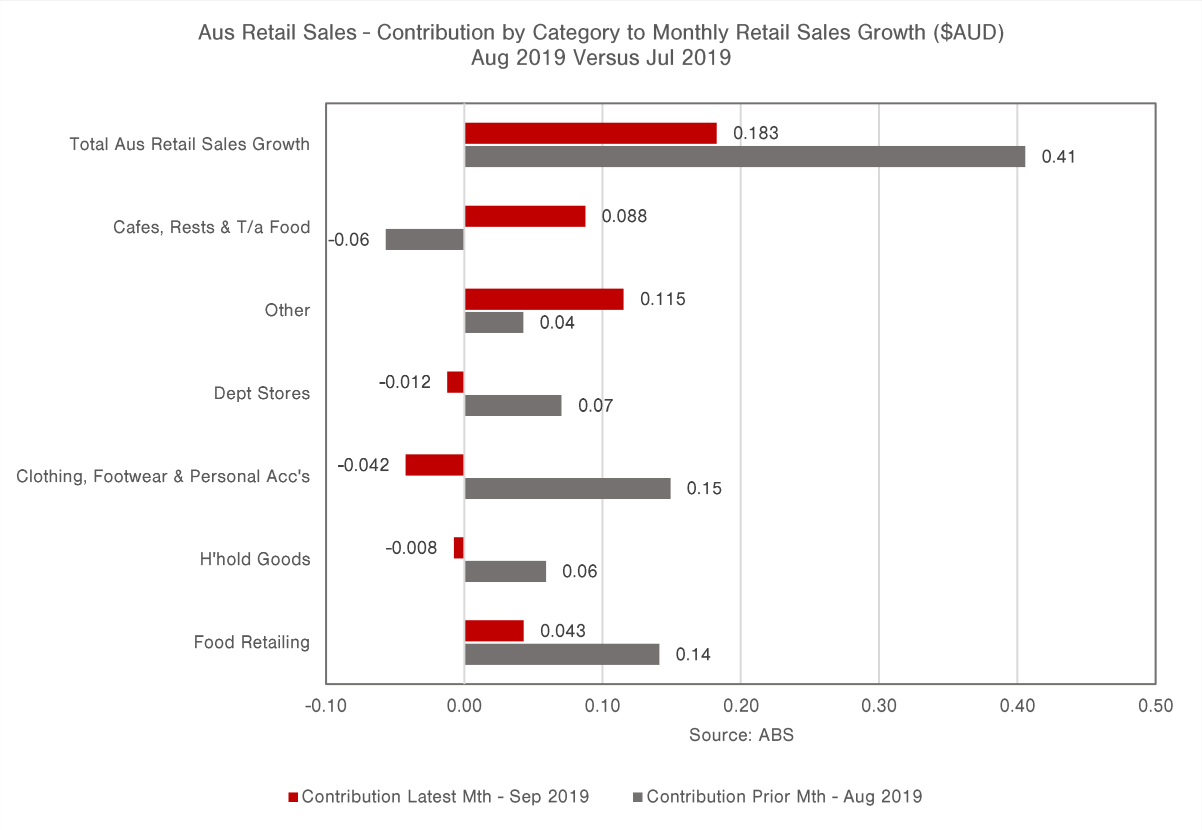
In nominal terms, retail sales growth slowed in the latest month. The quarterly chain volume estimates (real retail sales) indicated that retail sales declined in the Sep quarter and also recorded a rare annual decline. The last time retail sales declined in real terms was the recession of the early 90's.

RETAIL SALES GROWTH – NOMINAL

Nominal Retail Sales - Month Change; Sep +0.2% versus Aug +0.4%

From a category perspective, the slower growth in the month was the result of a decline in clothing/footwear, household goods and dept store retailing. Slower growth in food retailing also contributed to the overall slower growth in the month.

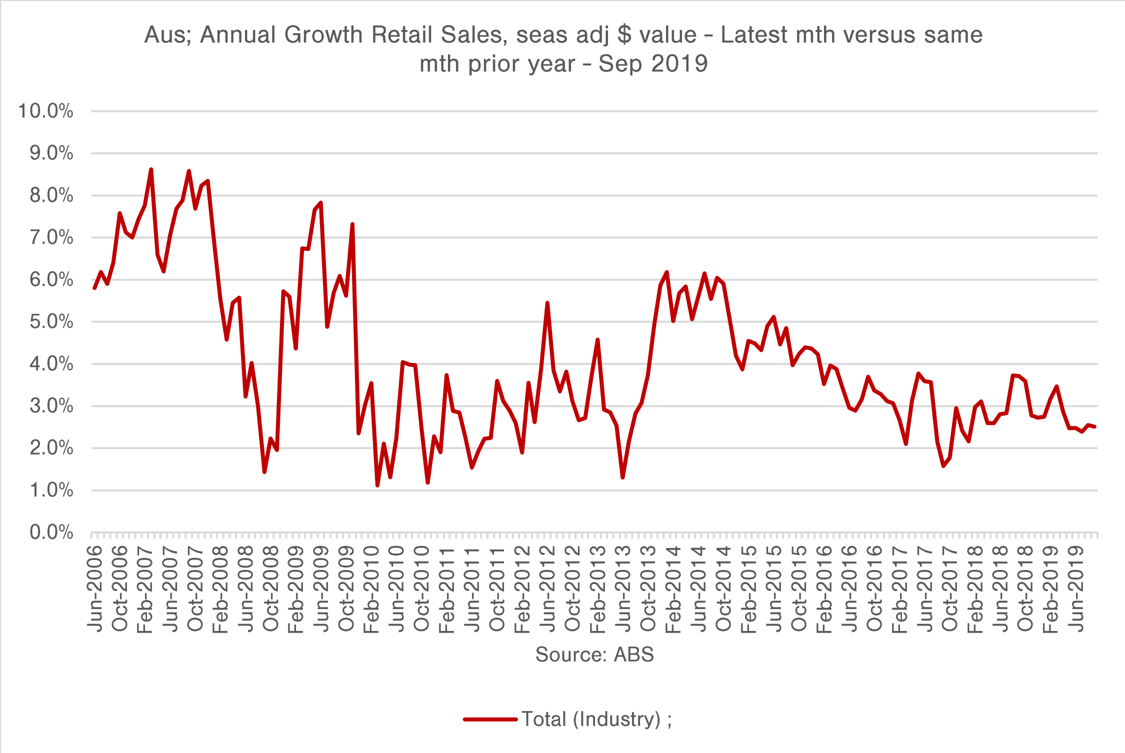
This was offset by stronger sales in other and cafes/takeaway.



From a state perspective, the slower growth in the month was mostly due to the decline in retail sales in QLD (after stronger growth in the month prior). Growth also slowed in Vic, SA, NSW and ACT.

On an annual basis, retail sales growth in nominal terms was little changed;

<u>Nominal Retail Sales – Annual Change</u>; Sep +2.5% versus Aug +2.5%



<u>RETAIL SALES GROWTH – REAL TERMS/CHAIN VOLUMES</u>

The estimate of real retail sales (chain volumes) is released only on a quarterly basis.

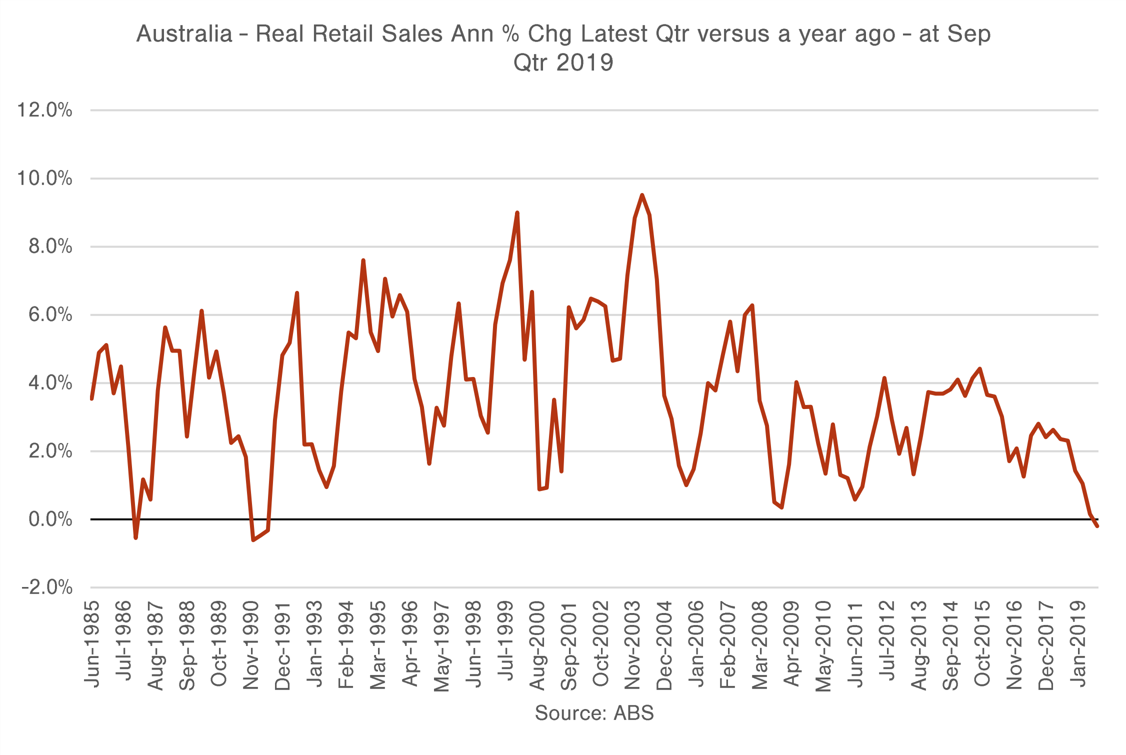
<u>Real Retail Sales - Quarter Change</u>; Sep -0.1% versus Jun +0.1%

Contributing to the decline in the month was mostly the large fall in cafes/restaurants/takeaway real sales. Dept store sales also fell in real terms and food retailing recorded 0% growth in real terms.

On a state basis, real retail sales declined across most states in the Sep quarter. The exceptions were WA, and the smaller states of TAS and ACT.

On an annual basis, real retail sales declined for the first time since the last recession of the early 90's;

<u>Real Retail Sales - Annual Change</u>; Sep -0.2% versus Jun +0.2%



https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/8501.0Main+Features1Sep%202019?OpenDocument

Housing Finance (Sep)

The total value of lending to households for dwellings continued to increase in Sep. This was led by an increase in lending for owner occupiers while the value of lending for investors declined versus the month prior.

Although total lending growth became positive on an annual basis, the value of lending remains 17% below the peak in lending reached in Mar 2017.

This current rebound in housing finance continues to be led by owner occupiers. Growth in lending to investors is lagging such that current lending in Sep remains 50% below the peak reached in Apr 2015.

Continued growth in lending will be positive for house prices, but without the pace of growth in lending behind investors (which accounted for almost half of the monthly lending growth at one point), dwelling price growth will likely remain more subdued.

Lending to Households for Dwellings – Total

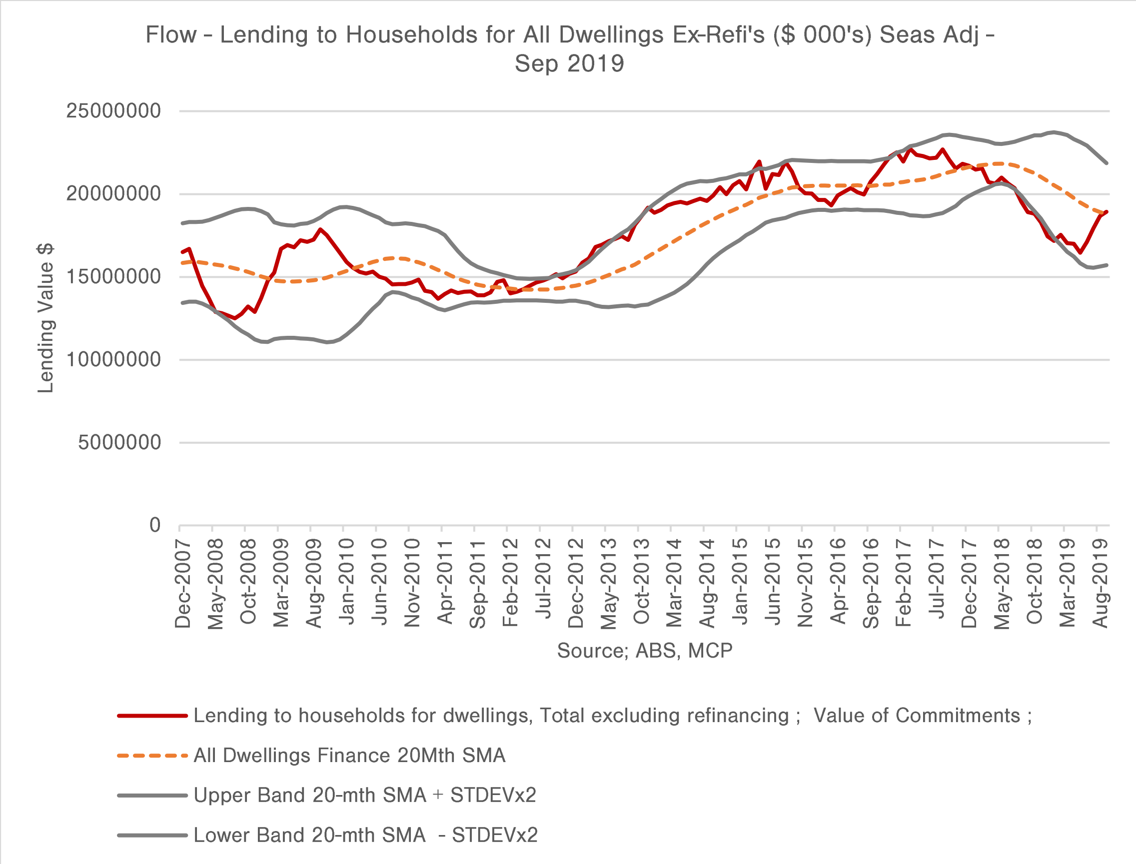
At the total level, lending to households for dwellings (owner occupiers and investors) increased further in the latest month, albeit at a slower pace – growth in lending to owner occupiers offset a decline in lending to investors.

Lending to Households for Dwellings ex refis – month change; Sep +1.3% versus Aug +4.2%

On an annual basis, the value of lending ex refis increased by +0.1% in Sep versus -4.3% in Aug.

Although the annual pace of growth is now positive, its worth noting that **the value of lending in Sep was still 17% below the peak reached in Mar 2017**. This has improved from the lowest point of 28% below the peak in lending in May 2019.

This is the first month where lending increased above the 20mth moving average in this cycle;



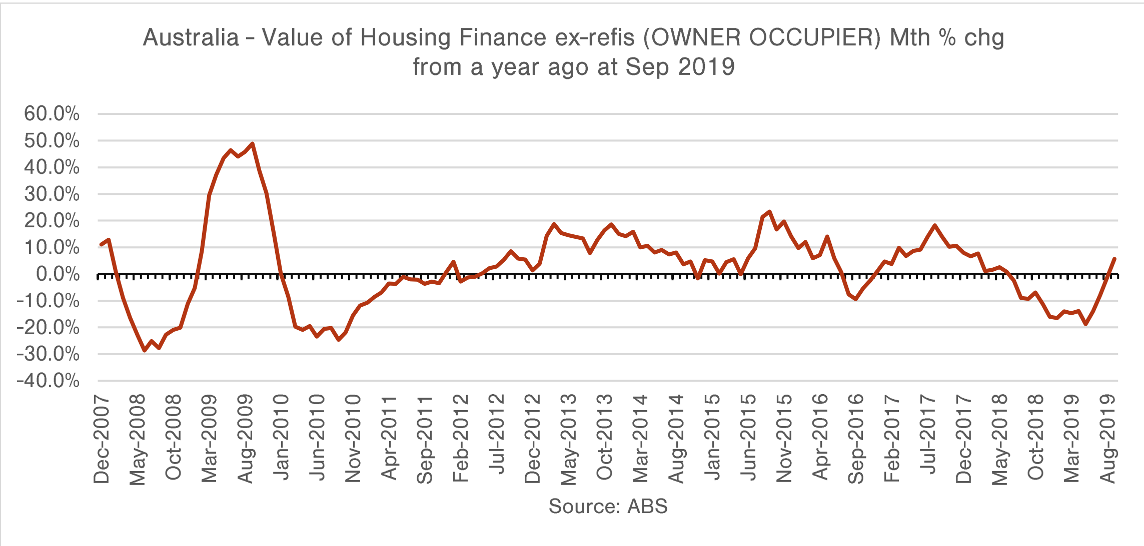
Lending to Households for Owner Occupier Dwellings

Growth in lending for owner occupiers continued to grow at a mostly constant pace in Sep;

Lending for Owner Occupiers ex refis – month change; Sep +3.2% versus Aug +3.4%

Almost all of the growth in lending this month was for the purchase of established dwellings.

The annual pace of growth ex refi's jumped to +6% in Sep after remaining -1% below a year ago in Aug.



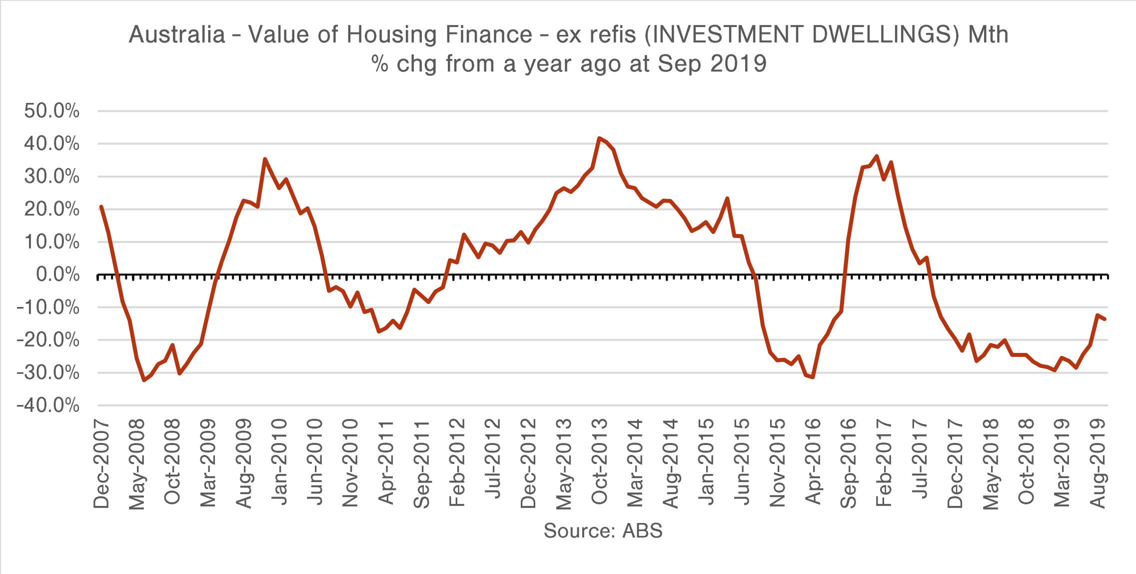
The value of lending for owner occupiers remains 7% below the all-time peak reached in Aug 2017. At the lowest point, lending for owner occupiers was down 21% below that all -time peak.

<u>Lending to Households for Investment Dwellings</u>

Lending for investment dwellings declined in Sep after a larger increase in the month prior.

Lending for Investment Dwellings ex refi's; Sep -4% versus Aug +6.5%

On an annual basis, lending to households for investment dwellings remains well below a year ago; -13.6% in Sep versus -12% in Aug.



The value of lending for investment dwellings remains a very large 50% below the peak of Apr 2015. At the lowest point of lending for investors, the value of lending was 54% below that peak. Compared to owner occupier lending, the rebound has been much smaller.

Its also worth noting that the stock of outstanding investor credit declined for the first time on an annual basis in Sep (RBA data). Underlying that, there was a decline in refinancing and a decline in the flow of new investor mortgages. There was also a continued shift in the loan purpose (from investor to owner occupier).

https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5601.0Main+Features1Sep%202019?OpenDocument

RBA Rates Decision – 5 Nov 2019

The RBA kept the cash rate on hold at 0.75% at this meeting.

<u>Recent Developments</u>

There was some sense of optimism with the RBA board noting that despite some persistent downside risks in the global economy and muted inflation, expectations for further CB easing had been scaled back somewhat.

The board also noted a "gentle turning point" may have been reached in the Australian economy. The board shifted wording to reflect rather than stabilization in house prices, that there was now an upswing in house prices;

The low level of interest rates, recent tax cuts, ongoing spending on infrastructure, the upswing in housing prices in some markets and a brighter outlook for the resources sector should all support growth.

Sources of risk continue to be the modest increases in household disposable income continuing to weigh on spending.

The RBA board added two other uncertainties – the drought in parts of Australia and **the evolution of the housing construction cycle**.

The CPI release last week was broadly as expected. Inflation is only expected to pick up gradually and now 'close to' 2% in 2020 and 2021.

Forward Guidance

An extended period of low rates is to be expected – given global developments and evidence of spare capacity in the economy. So far, rate cuts since Jun are supporting income and employment growth. Low rates will be required in order to reach full employment and the inflation target.

The labour market remains a key data point for the Board.

The Board acknowledged that it will ease policy further if required to support growth, employment and achievement of the inflation target.

https://www.rba.gov.au/media-releases/2019/mr-19-29.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 has been no confirmation at this stage that removal of tariffs has been agreed to by either the US or China.

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 has been reported 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 – 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. 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

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

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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