MARS CAPITAL PARTNERS

Weekly Macro Review

w/c 16 December 2019

Key Themes

Trade news continued to create a positive context this week. While few details are yet to emerge on the US-China deal, a deal is expected to be drafted and signed by early 2020. The USMCA was approved in Congress by a large majority and that deal now goes to the Senate for approval.

Data on US manufacturing conditions were mostly stable, with growth remaining low. The improvement in manufacturing industrial production for Nov was led mostly by the end of the GM strike. The prelim manufacturing PMI for Dec was little changed from Nov. The regional data for Dec was mixed, with the only deterioration reported in the Kansas City Fed survey. Philly Fed survey headline conditions worsened, but all the underlying indicators remained positive.

US consumer readings indicate that any weakness has yet to broadly spill-over into consumer metrics. Sentiment continues to increase, albeit led by the higher income groups. Income and outlays for the first two months of Q4 indicate stronger growth than in Q3. Services activity continues to grow. From last week, the labour market remained stable. JOLT's data was mixed with weaker growth in hires, but a rebound in involuntary separations from the month prior. The growth in voluntary separations, quits, continue to slow – indicating a reduced willingness to voluntarily change jobs.

More broadly, the prelim PMI's for Dec indicated a worsening in manufacturing activity in Europe/Germany, but offset by services activity.

In Japan, there appears to be little rebound so far after the Oct increase in the sales tax and weather disruptions. The prelim composite PMI for Dec indicated stagnant conditions – with a slight worsening in manufacturing activity. The Nov merchandise trade data remained weaker with exports and imports declining again. The decline in exports was broad-based. Similar to Oct, almost half of the decline in imports was attributed to a decline in petroleum imports, but declines in imports were still recorded across most commodity groups. Annual core inflation increased only slightly. The BoJ kept policy and rates unchanged, noting risks from external factors affecting the domestic economy.

The BoE kept rates on hold – although there were two votes to loosen policy further at this time. The PMI data reflected much weaker conditions in Dec as firms continued to work through Brexit uncertainty. Retail sales data is unclear because Black Friday promotion data in 2019 will fall into the Dec report. The labour market for Aug-Oct remains resilient. Progress on the approval of the EU Withdrawal agreement is underway with the bill passing its second reading. Some uncertainty is likely to remain regarding Brexit as PM Johnson amended the Brexit Bill such that there can be no extension granted to the UK-EU trade deal negotiations – with the deadline at the end of 2020.

Aus prelim PMI's for Dec continued to show weaker conditions across both manufacturing and services. The labour market also remains resilient and there are some signs of stabilising employment growth.

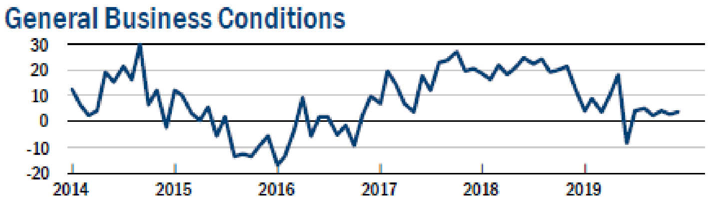
Contents

US Data

Empire State Manufacturing Index (Dec)

General business conditions were little changed in Dec. New orders growth continued to slow. Shipments increased at a faster pace as firms worked through orders backlogs.

Headline General Business Conditions; Dec 3.5 versus Nov 2.9



	Percent Reporting		
	Higher	Lower	Index
Nov	28.4	25.5	2.9
Dec	28.4	24.9	3.5
Change			0.6

The growth of new orders slowed in the month to a more neutral level. The proportion of firms reporting higher new orders decreased, while the proportion of firms reporting lower new orders was unchanged.

Shipments still increased at a faster pace. This was aided in part by a further accelerated decline in back orders. Delivery times continued to decline also.

The growth in inventories shifted out of contraction and into expansion again.

Growth in prices paid and prices received both slowed further.

Growth in the number of employees was unchanged from the pace in the prior month. But growth in the average workweek slowed and growth was only marginal in the month.

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

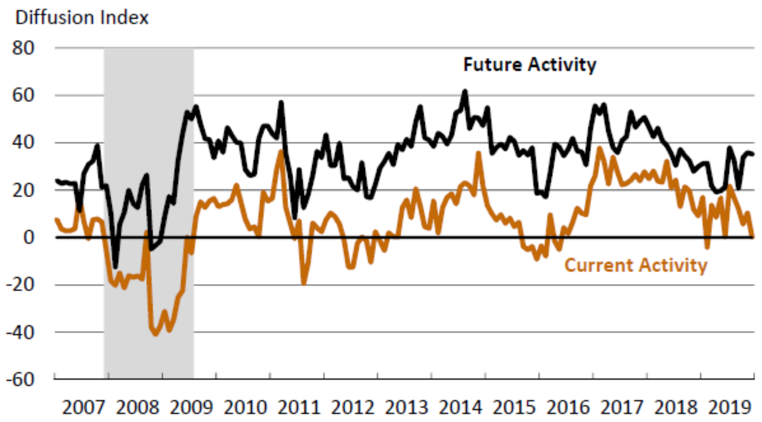
Philadelphia Fed Business Outlook Survey (Dec)

The manufacturing business outlook survey for Dec indicated activity in the region was flat in the month with the headline index falling to (close to) zero. The activity of the underlying indices was far more positive than the headline slowdown would suggest. As well, indexes of future activity though remained elevated as optimism was at least maintained.

Headline General Business Activity; Dec 0.3 versus Nov 10.4

> The diffusion index for current general activity fell 10 points this month to 0.3, its lowest reading in six months (see Chart 1). The percentage of firms reporting increases was equal to the percentage reporting decreases (29 percent).

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



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

The performance of the underlying indices of activity were much stronger than the decline in the headline index would suggest!

New orders growth increased slightly. Shipments growth also increased at a faster pace. As a result, order backlogs continued to increase at a faster pace.

Inventories shifted out of decline and started to increase – in line with growth in new orders and an increase in backlogs.

Growth in prices received slowed slightly.

Growth in the number of employees also slowed, but the index remained elevated; Dec 17.8 versus Nov 21.5. The average employee workweek increased at a slightly faster pace.

https://www.philadelphiafed.org/-/media/research-and-data/regional-economy/business-outlook-survey/2019/bos1219.pdf?la=en

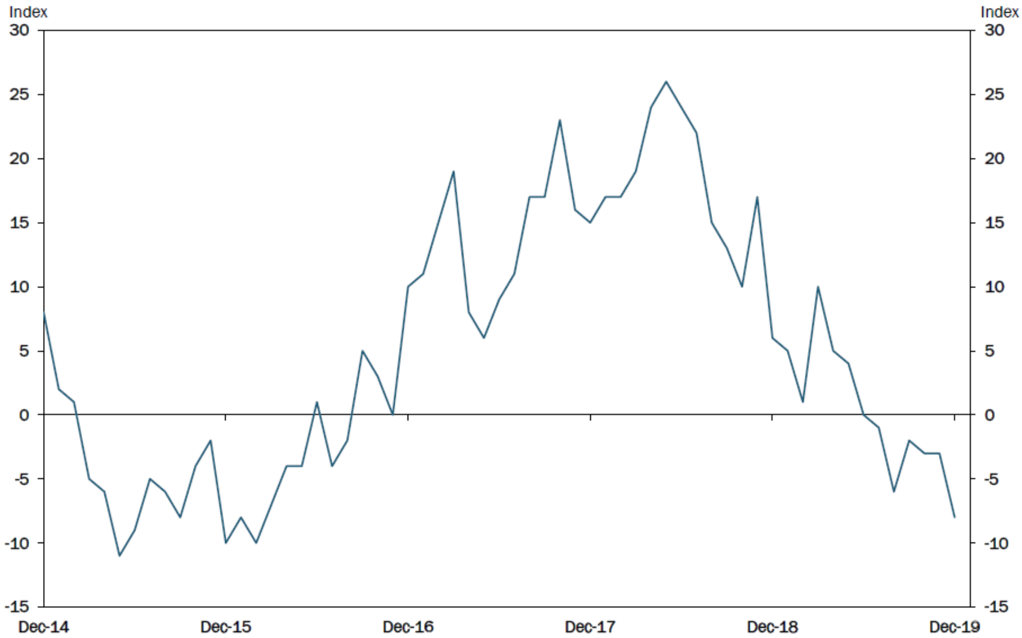
Kansas City Fed Manufacturing Survey (Dec)

The composite index of manufacturing activity decreased/declined further in Dec. Key measures of demand remain weaker with production, shipments and new orders all declining.

> The decrease in district manufacturing activity continued to be driven by weak activity at durable goods plants, especially from declines in: wood products, nonmetallic mineral products, primary metal, fabricated metal products, machinery, and computer and electronic products manufacturing.

Composite Manufacturing Index; Dec -8 versus Nov -3

Chart 1. Manufacturing Composite Index vs. a Month Ago



Production declined at a slightly faster pace in Dec. The volume of shipments shifted into decline for the first time in four months. The volume of new orders declined at a much faster pace (-3 in Nov versus -16 in Dec – equalling the faster decline in measured in Aug). New export orders also declined at a faster pace.

Order backlogs also declined at a faster pace – the steeper decline in Dec was in line with the weakest recordings of the year.

The number of employees and the average employee workweek also continued to decline at a slightly faster pace.

Prices for finished goods shifted into decline for only the second time this year.

Inventories of finished goods declined at a faster pace.

Despite the much weaker current conditions (equally the worst of the last twelve months), expectations for six months' time remain positive, but those indices related to production, shipments and new orders have halved in the latest month.

https://www.kansascityfed.org/~/media/files/publicat/research/indicatorsdata/mfg/2019/2019dec20.pdf?la=en

US Composite PMI Prelim (Dec)

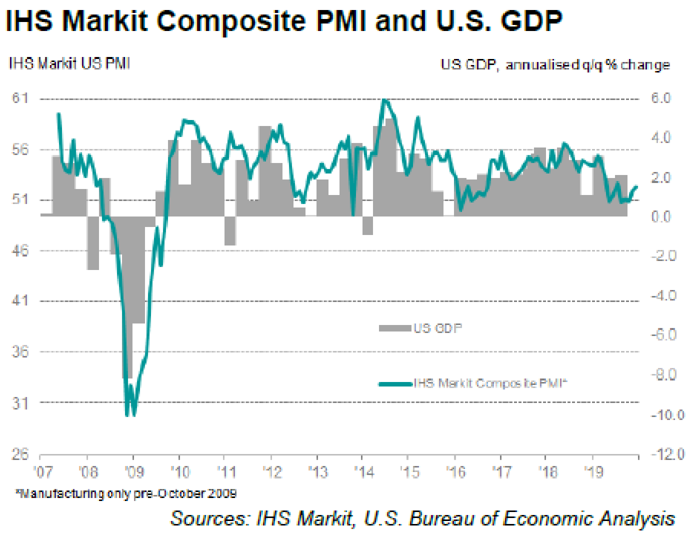
The prelim composite PMI indicated little change in the pace of private sector activity, lifting to 52.2 in Dec from 52 in Nov. Services business activity increased at a slightly faster pace while manufacturing growth was little changed.

Manufacturing PMI; Dec 52.5 versus Nov 52.6

There was little change in the pace of manufacturing activity. Output and new orders growth slowed. Employment continued to grow. Future output expectations improved to the highest level since Jun 2019.

Services Activity Index; Dec 52.2 versus Nov 51.6

New business increased but growth remained subdued. Export orders increased for the first time in four months. Employment increased marginally.



https://www.markiteconomics.com/Public/Home/PressRelease/4a024793587146b3b3531072a063f56d

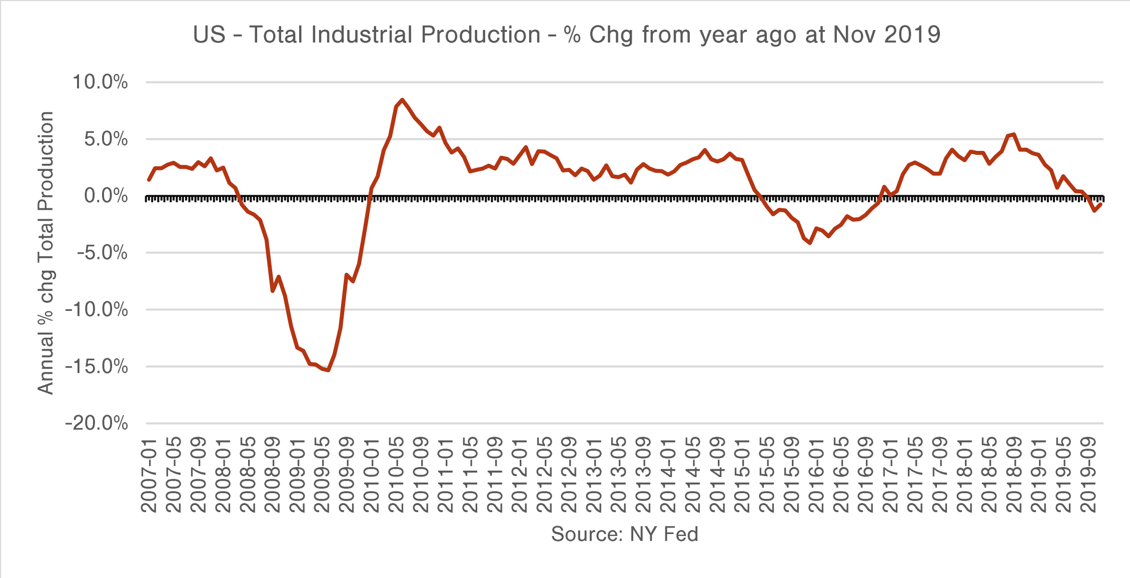
Industrial Production (Nov)

There was a stronger rebound in industrial production in the month. This was led by accelerated growth in manufacturing as the strike at GM ended and production resumed.

Total Industrial Production – month change; Nov +1.1% versus Oct -0.9%

This month, the rebound in manufacturing production led the index higher. But excluding the rebound in car manufacturing, total industrial production only increased by +0.5%. The production of utilities also increased in the month after declining in the month prior. Mining production declined again, albeit at a slower pace.

On an annual basis, total industrial production remains -0.8% below a year ago;



Total industrial production capacity utilization increased slightly in the month (+0.9%) but remains 3% below a year ago.

<u>Result by Industry</u>

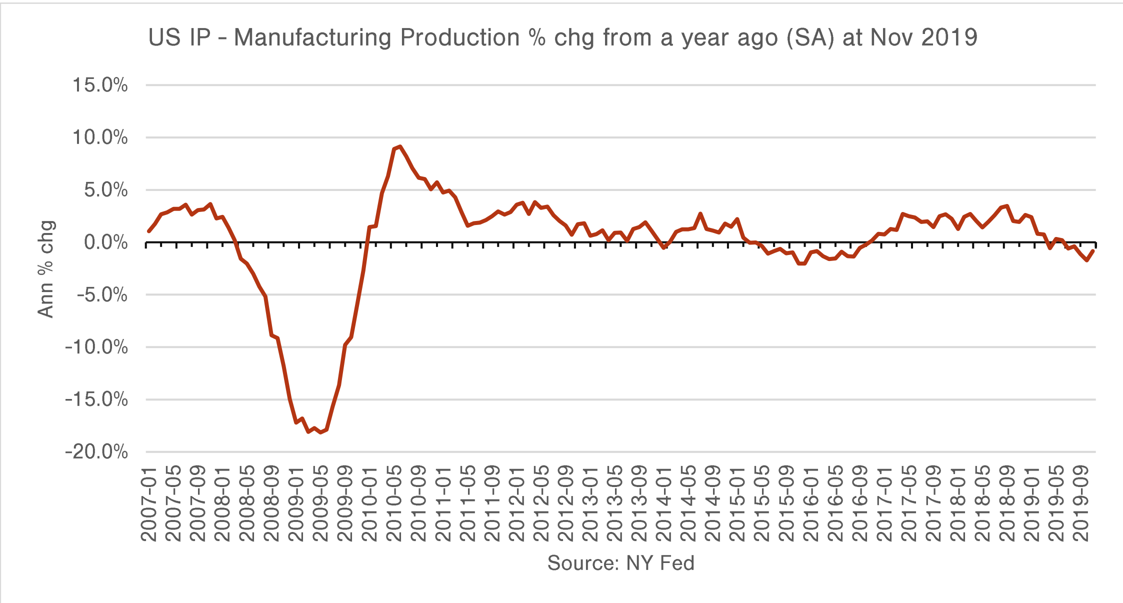
<u>Manufacturing industrial production – month change</u>; Nov +1.1% versus Oct -0.7%

The result this month was the result of a rebound in durable goods production led by motor vehicles. Motor vehicle production had declined by 6% in Oct (and 5% in Sep) – as the strike ended, production growth rebounded to +12.4% in Nov.

Non-durable goods production increased slightly from -0.2% in Oct to +0.1% in Nov.

Excluding the growth in motor vehicle production, total manufacturing growth was +0.3%.

On an annual basis, the index of manufacturing production remained -0.8% below a year ago;

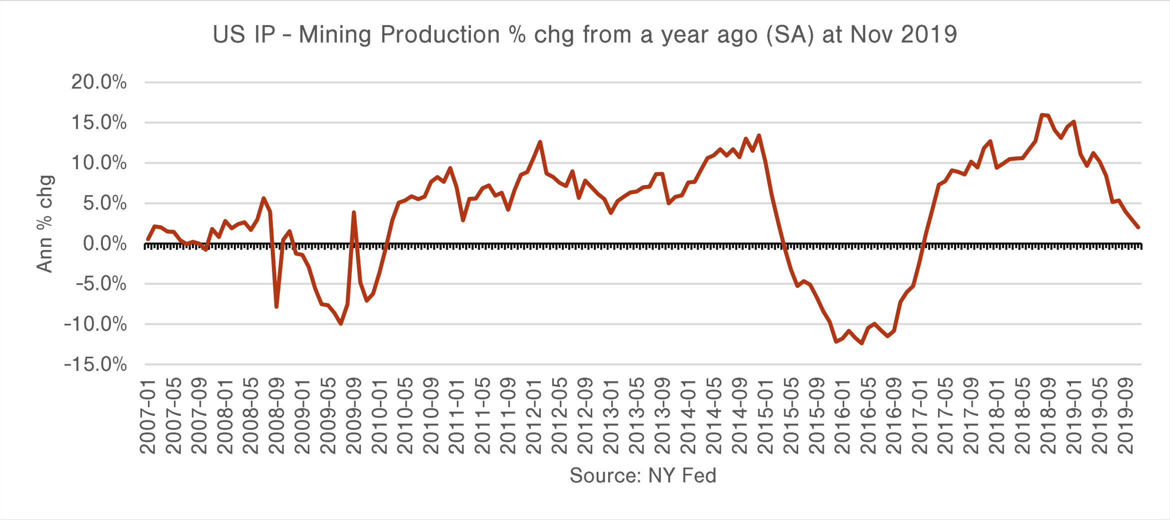


Manufacturing capacity utilization lifted in the month by +1%, but remains 2% below a year ago. Utilization currently sits at 75%.

<u>Mining industrial production – month change</u>; Nov -0.2% versus Oct -0.8%

> Mining output slipped 0.2 percent in November following a larger decrease in October. Declines in drilling and related support activities for oil and gas wells have weighed down the index for mining for several months.

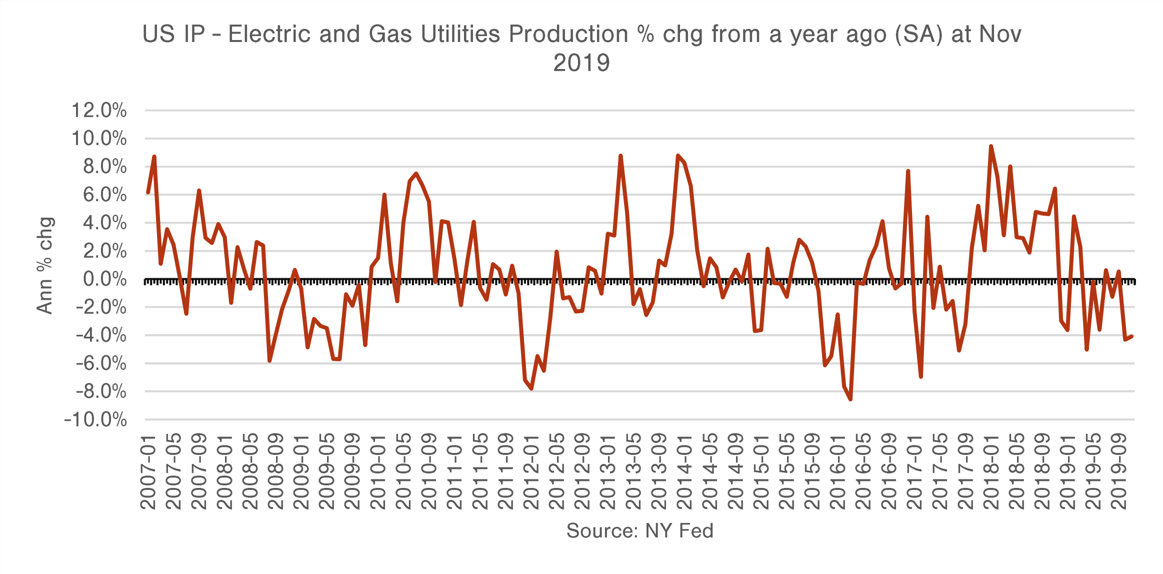
On an annual basis, mining production growth continued to slow, but remains positive. Annual growth at Nov was +2% versus +3% in Oct.



Mining capacity utilization continues to fall and is now 3.5% below the same time a year ago at 88% utilization.

<u>Utilities industrial production - month change</u>; Nov +2.9% versus Oct -2.4%

On an annual basis, utilities production remained little changed from the month prior, falling by 4%;



Capacity utilization increased slightly in the month to 77% and remains 6.5% below a year ago.

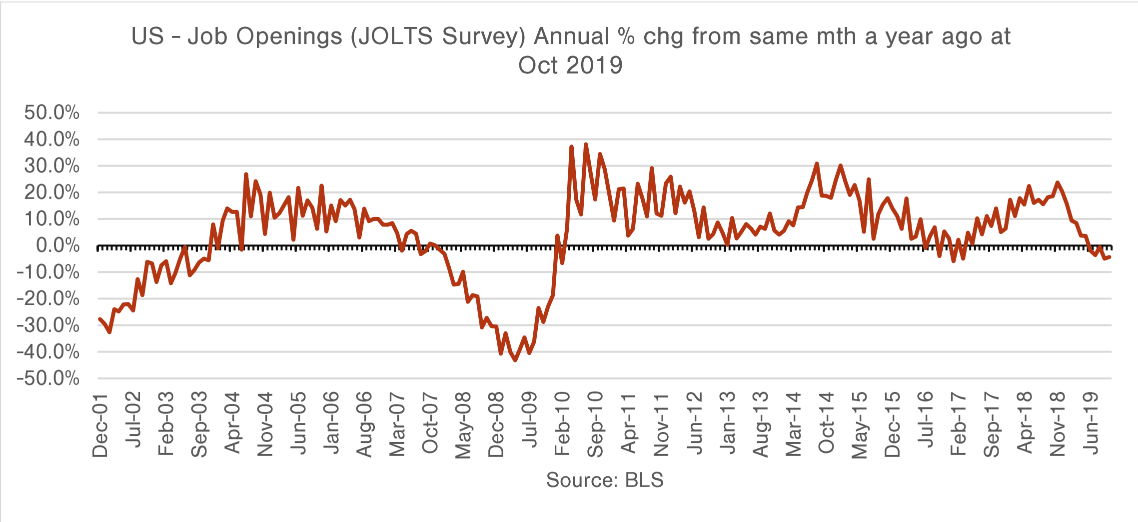
https://www.federalreserve.gov/releases/g17/current/

JOLTS (Oct)

Some mixed results for JOLTS measure's this month. The number of hires and the hire rate declined. The number of hires also fell below a year ago. But growth in job openings rebounded this month after a larger decline in the month prior (Sep). The level/rate of involuntary separations declined in the month after rising in Sep. Workers continue to temper their willingness to change jobs voluntarily with the growth in quits continuing to slow.

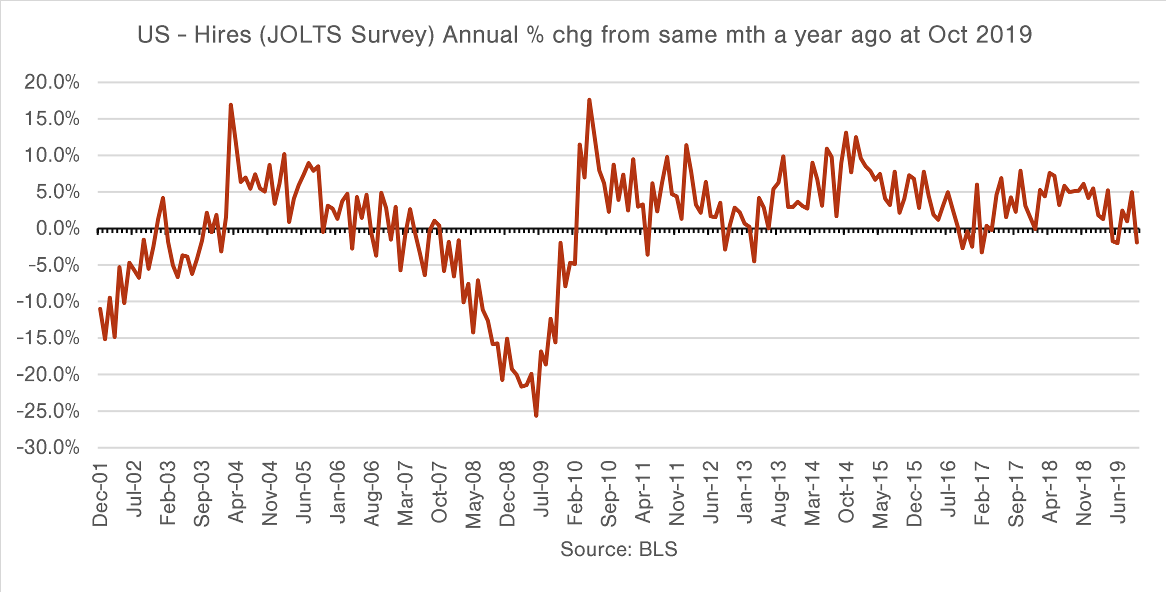
Job Openings – month change; Oct +3.3% versus Sep -3.7%

Despite the stronger month, the level of job openings remains 4% below the same month a year ago. The level of job openings peaked back in Nov 2018 and was 5% below that level in Oct;



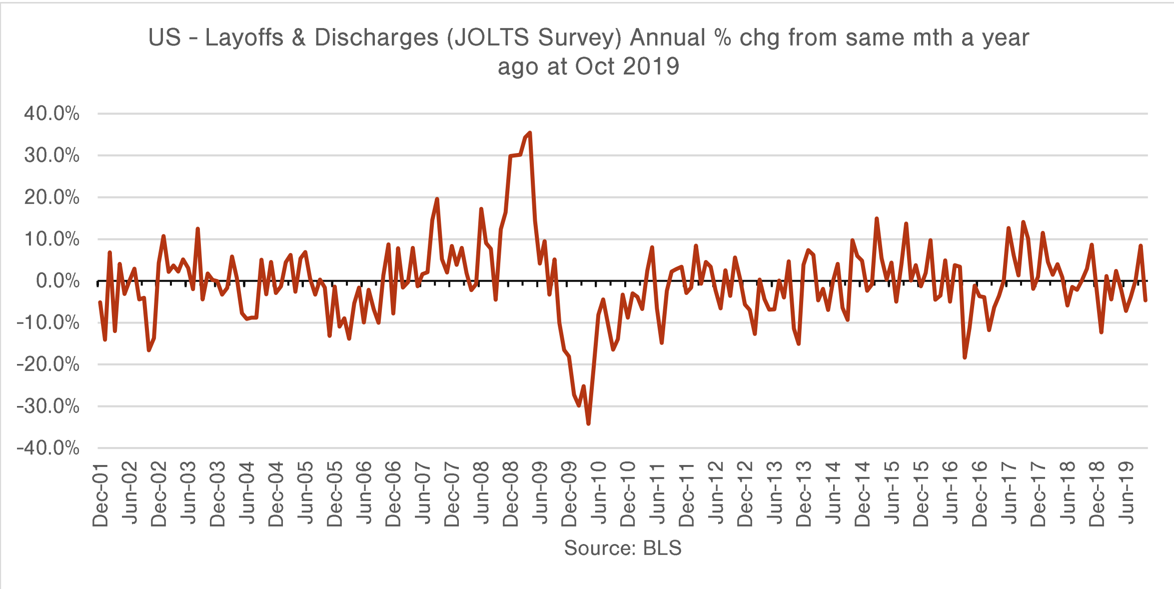
Job Hires – month change; Oct -1.9% versus Sep +5%

The number of hire in Oct fell to -2% below a year ago. The hire rate is 3.8 and just below the 12-month average of 3.9;



<u>Separations; Layoffs and Discharges – month change</u>; Oct -4.6% versus Sep +8.4%

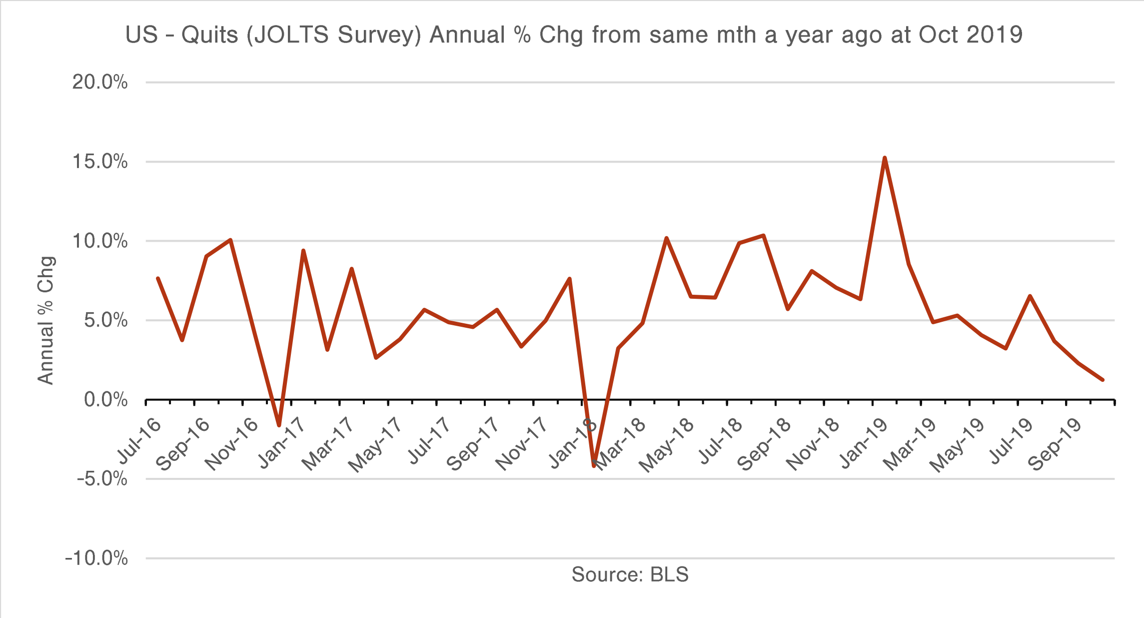
The (welcomed) decline in involuntary separations in Oct comes after the much larger increase in Sep. The Oct level of layoffs and discharges is now back down to 10% below a year ago. The rate of layoffs and discharges remains in line with the 12-month average at 1.2.



<u>Separations; Quits – month change;</u> Oct +1.2% versus Sep -3.6%

Despite the small increase in quits for the month, the annual pace of change slowed further in Oct and is only +1.2% above a year ago – annual growth has slowed since peaking at 15% in Jan 2019.

The quit rate in Oct is also in line with the 12-month average of 2.3.



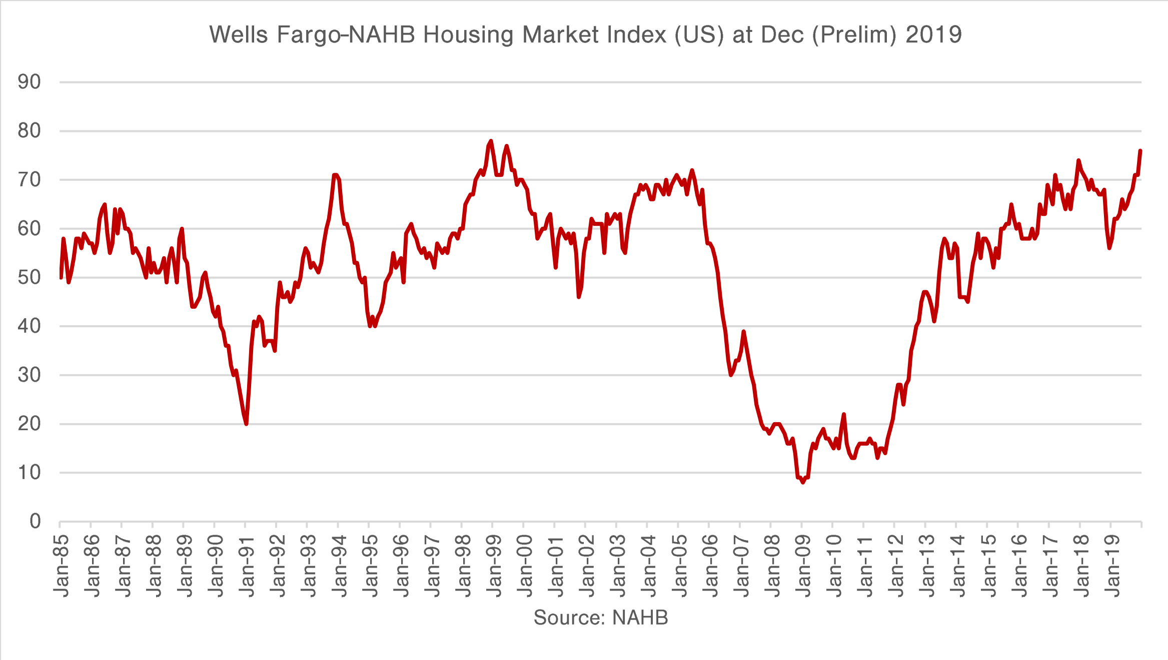
https://www.bls.gov/news.release/jolts.nr0.htm

Housing Market Index (Dec)

The Wells-Fargo NAHB's Housing Market Index increased to a new post GFC level. There are only three other times when the HMI was higher than the Dec 2019 index – Nov and Dec 98 and Jun 99. The all-time high reading of the index was 78 in Dec 1998.

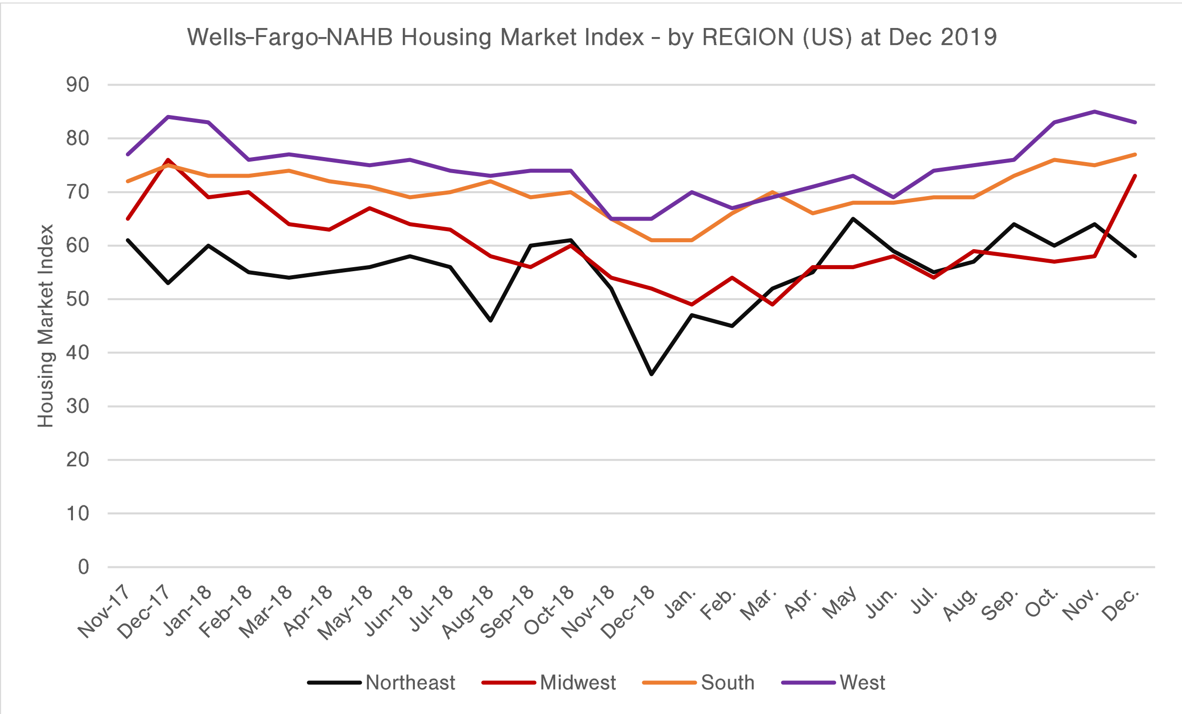
National Housing Market Index; Dec 76 versus Nov 71

The improvement in housing market conditions has now retraced the entire fall during 2018;



Regional Markets

The recovery in market conditions has been led by improvements in the South, West and, especially in the latest month, Midwest. Conditions in the Northeast are around the 12-month average;



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

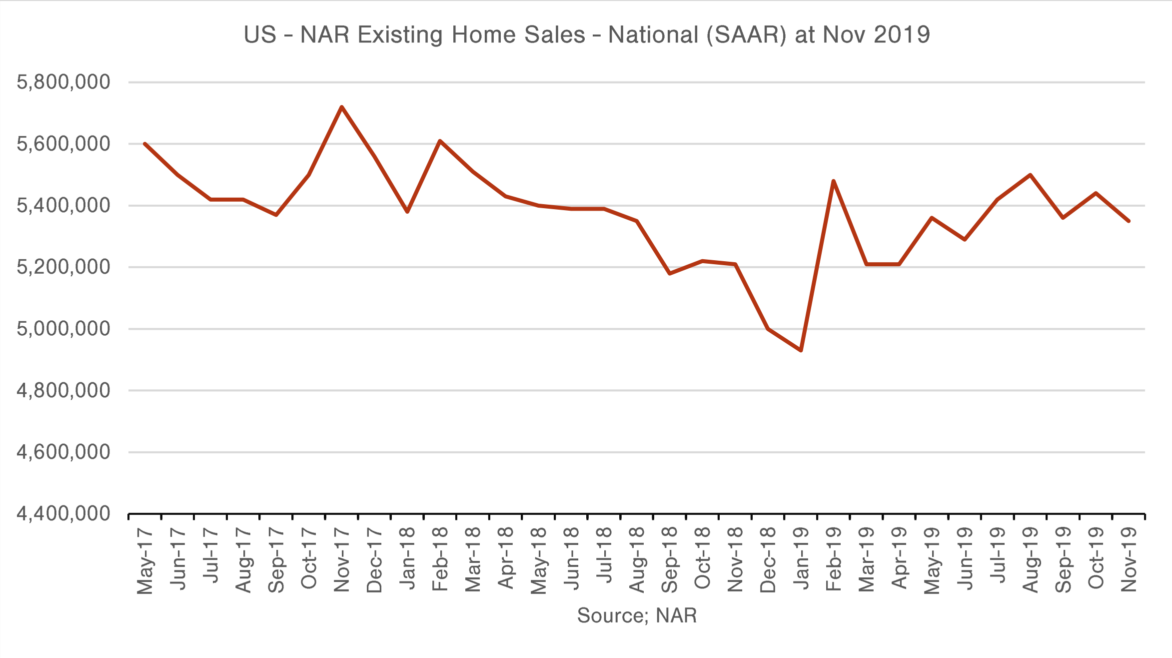
Existing Home Sales (Nov)

US existing home sales declined in the latest month (Nov) but remain 3% above a year ago. The month decline was led by steeper falls in the South and West regional markets. Sales across both of these markets remain well above a year ago.

Given the much larger increase in conditions reported for Dec, there may be a stronger rebound next month, especially for the Midwest. The pace of sales in the Northeast are yet to exceed the year prior.

Headline US Existing Home Sales – seas adj ann rate; Nov 5.35m versus Oct 5.44m

On an annual basis, sales are +3% above that of a year ago. There may be some base effects coming into the annual growth rate given the steeper falls in sales leading into Jan 2019;



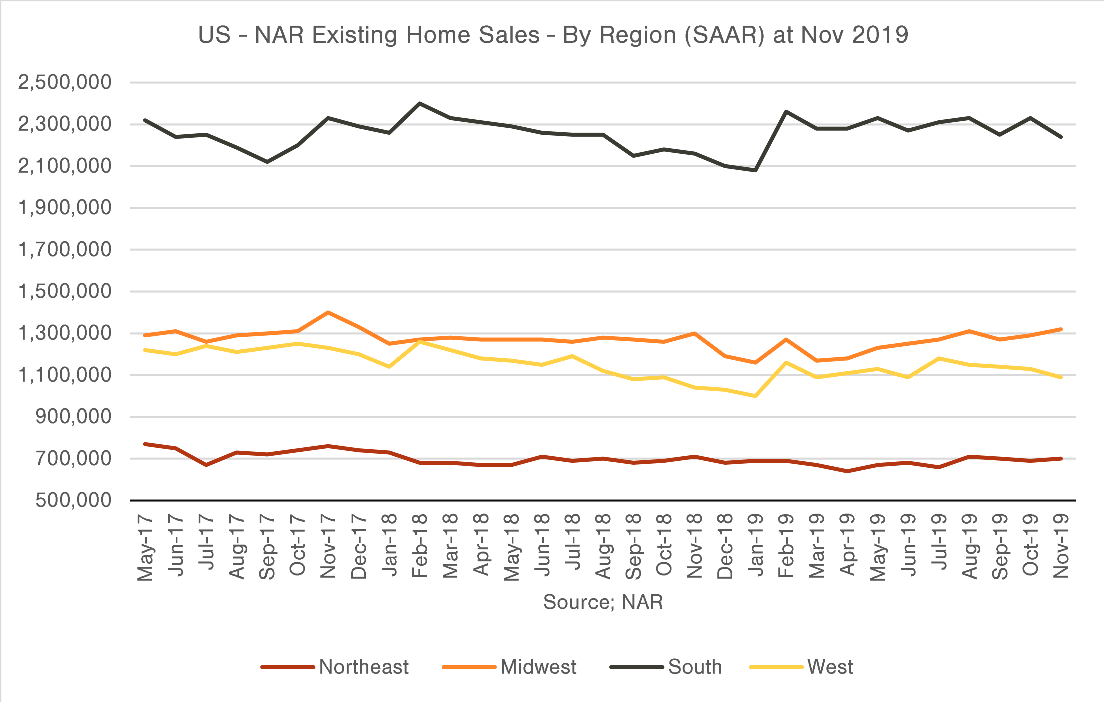
The months supply and inventory continue to fall on a monthly and annual basis.

Regional Results

The decline in existing home sales for the month of Nov was led by falls in the South (-3.9%) and West (-3.5%). Despite the falls in the month, sales remain up +3.7% and +4.8% respectively versus a year ago.

Sales in the Northeast increased by +1.4% in Nov but remain 1.4% below a year ago.

Sales in the Midwest increased by +2.3% in Nov and are now +1.5% head of a year ago. There was a much larger increase in housing market conditions in Dec for this region – so there could be further upside in sales next month.



https://www.nar.realtor/research-and-statistics/housing-statistics/existing-home-sales

GDP (third Est) Q3

While the annual headline GDP growth rate was unchanged, there were several offsetting changes underlying the result.

Real GDP Growth – seas adj ann rate; Q3 +2.1% versus Q2 +2%

Changes to the Expenditure View

The contribution from several areas of expenditure were revised higher;

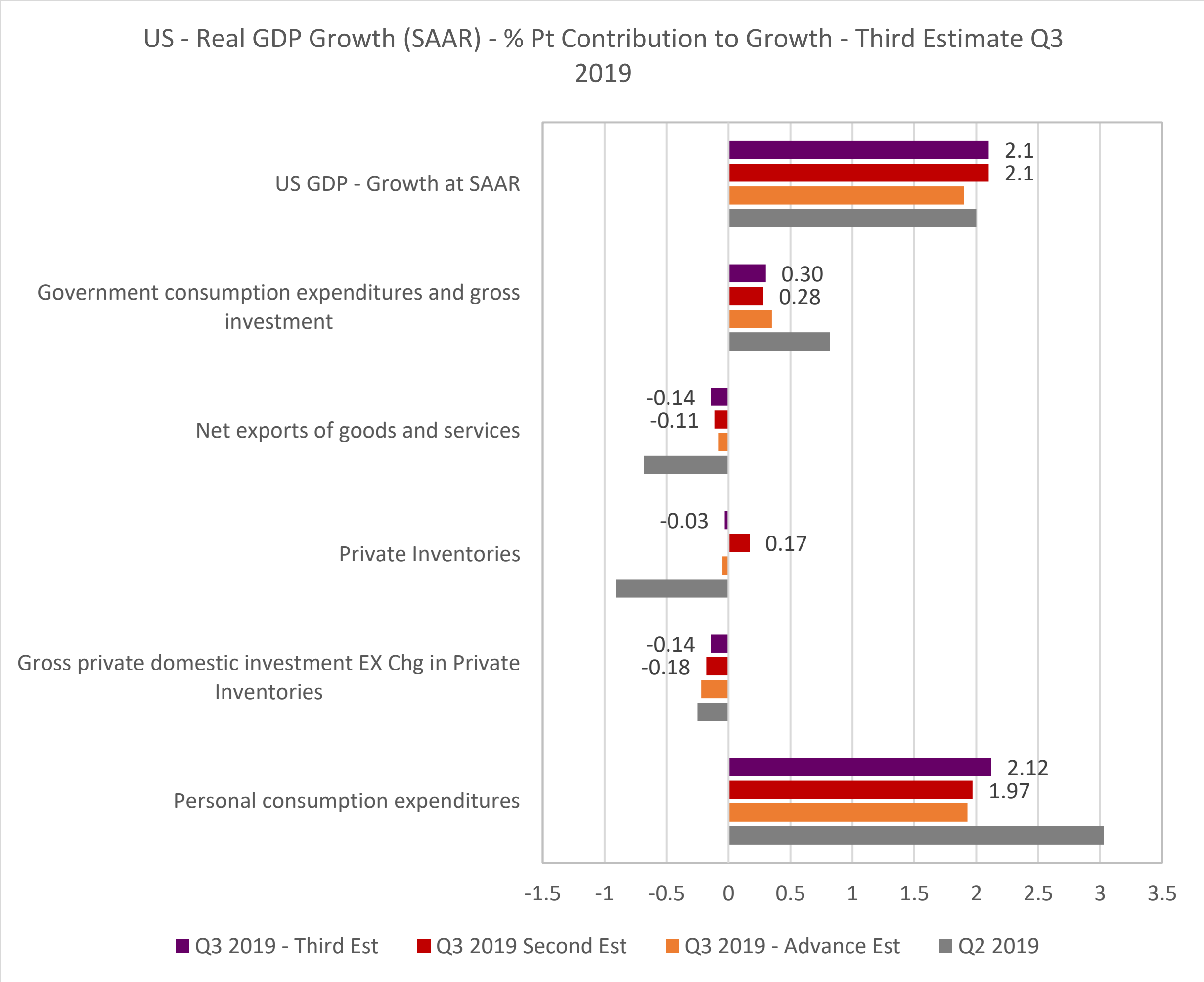
Personal consumption expenditure was revised higher. Growth was revised from +2.9% to +3.2%.

Government expenditure was also revised slightly higher.

Private investment declined by a slightly slower pace -0.8% versus -1% reported in the second estimate.

This helped to offset the larger revision to inventory – which shifted back to detracting from growth in the quarter.

Net exports also detracted from headline growth by a slightly larger degree (faster growth in imports).



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

Personal Income and Outlays (Nov)

Personal income growth increased at a faster pace in Nov – due to growth in proprietors' income and personal income receipts on assets. Growth in wages and salaries (the largest component) was little changed at +0.4%. Personal outlays grew at only a slightly faster pace in the month. This resulted in an increase in personal saving.

Personal Income

Growth in total personal income accelerated in Nov. While growth in wages and salaries remained constant compared to the month prior, the faster growth was due to proprietor's income and inventory valuation.

Total Personal income; Nov +0.5% versus Oct +0.1%

The wages and salaries component grew at a slightly slower pace; Nov +0.4% versus Oct +0.5%. But the annual growth in wages continued to accelerate.

The drivers of the faster growth this month though were;

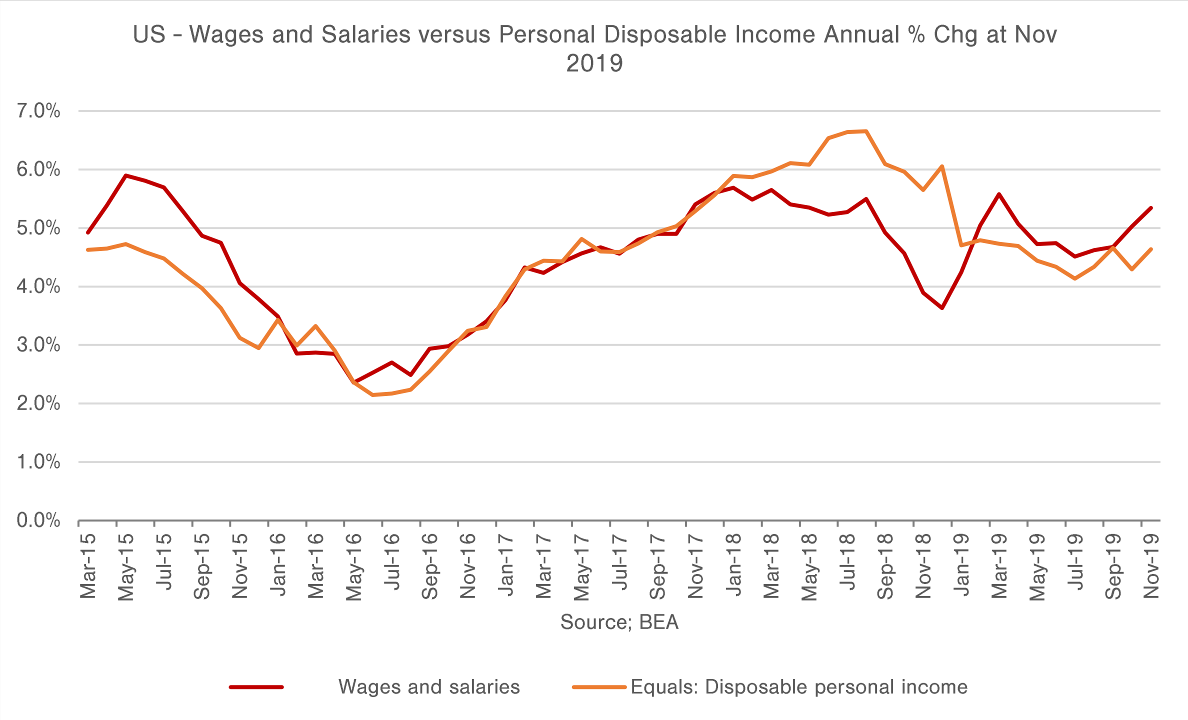
Proprietors income growth, shifting from decline; Nov +1.9% versus Oct -1.1%

Personal income receipts on assets; Nov +0.8% versus Oct -0.7%

This helped to offset slower growth in personal current transfer receipts: Nov +0.1% versus Oct +0.4%

There was little change in the contribution from personal current taxes.

As a result, personal disposable income growth also accelerated; Nov +0.5% versus Oct 0%.



Personal Outlays

Total personal consumption expenditure increased at a slightly faster pace in Nov. This was led by faster growth on expenditure on durable goods.

Total personal consumption expenditure; Nov +0.4% versus Oct +0.3%

Expenditure on goods accelerated; Nov +0.5% versus Oct +0.2%. Durable goods growth shifted from -0.9% in Oct to +1% in Nov. Growth in non-durable goods slowed slightly, while growth in services remained at +0.4% in Nov.

The pace of growth in Q3 was +0.98% and the first two months of Q4 are on par at +0.96%.

Personal Saving

In Nov, income increased at a faster pace than expenditure growth. As a result, savings increased in Nov.

Personal saving; Nov +1.5% versus Oct -3.7%

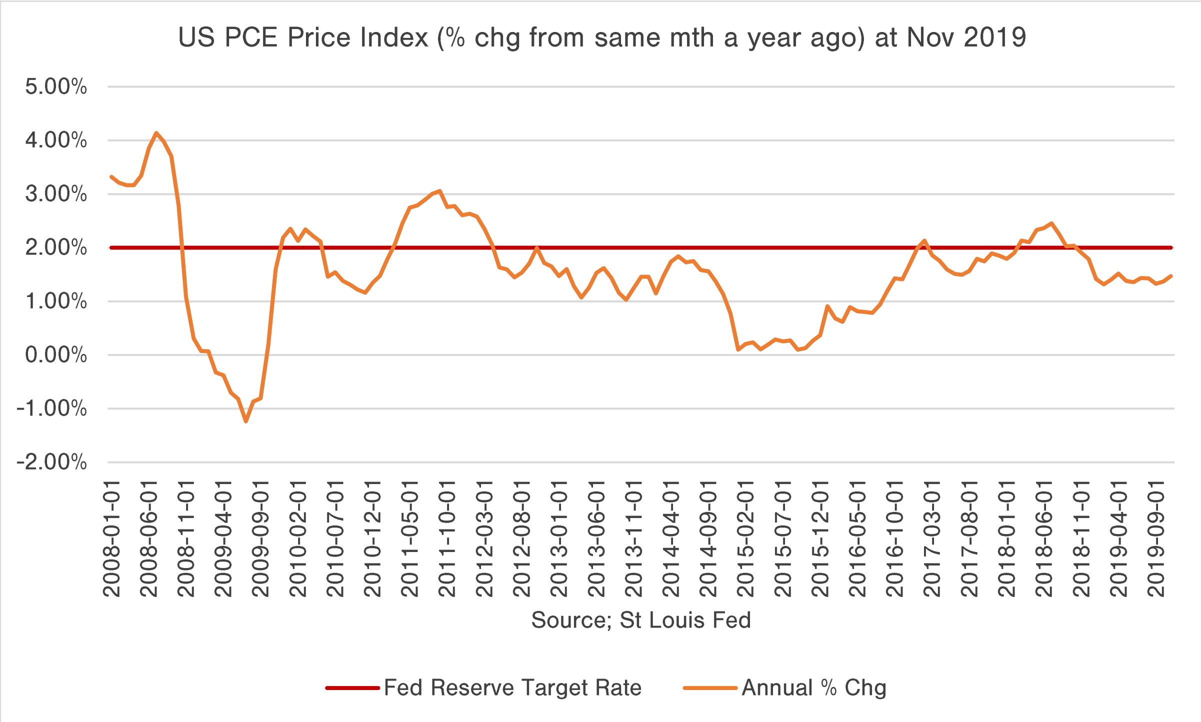
The personal savings rate increased slightly from 7.8% in in Oct to 7.9% in Nov.

https://www.bea.gov/news/2019/personal-income-and-outlays-november-2019

Personal Consumption Expenditure Price Index (Nov)

The headline PCE price index increased at a slightly faster annual pace in Nov. This was led mostly by a slower decline in goods prices (energy prices), while services price growth remained constant. Growth in underlying consumer prices slowed slightly on an annual basis, but remains higher than headline/all items inflation.

Headline PCE Price Index – annual growth; Nov +1.5% versus Oct +1.4%



The slightly faster annual growth was due to a slower decline in goods prices.

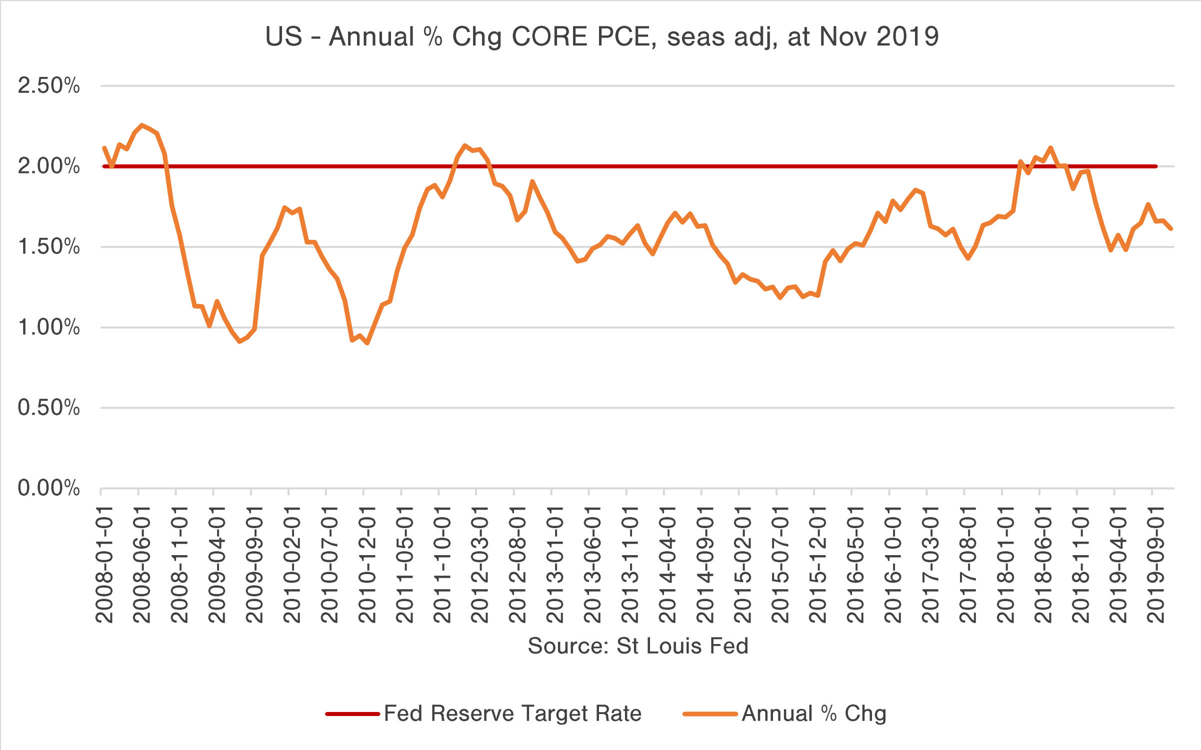
Goods – annual change; Nov -0.2% versus Oct -0.6%

Durable goods prices declined at a slightly faster pace (recreational goods prices and furnishings and durable HH equipment prices). Non-durable goods prices increased on an annual basis by +0.3% after declining by -0.4% in Oct. Gasoline and other energy prices declined at a slower annual pace (-1.6% in Nov versus -7.3% in Oct) as well as clothing and footwear prices.

Services prices growth slowed slightly; Nov +2.2% versus Oct +2.3%

Excluding food and energy, personal consumption price growth slowed further; Nov +1.6% versus Oct +1.7%.

This was led by a slightly faster decline in goods ex food and energy. Services less energy services prices increased at a constant pace; Nov +2.3% versus Oct +2.3%.



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

Consumer Sentiment – Final (Dec)

There was little change in the gains to consumer sentiment in the final report for Dec. Measures of consumer sentiment remained stronger in Dec with gains recorded across current sentiment, expected conditions and current economic conditions. Most measures have now improved to be mostly in line with sentiment readings from a year ago.

> Most of the December gain was among upper income households, with those in the top third of the income distribution gaining 7.5% from last month and those in the bottom two-thirds posting a gain of just 0.8%.

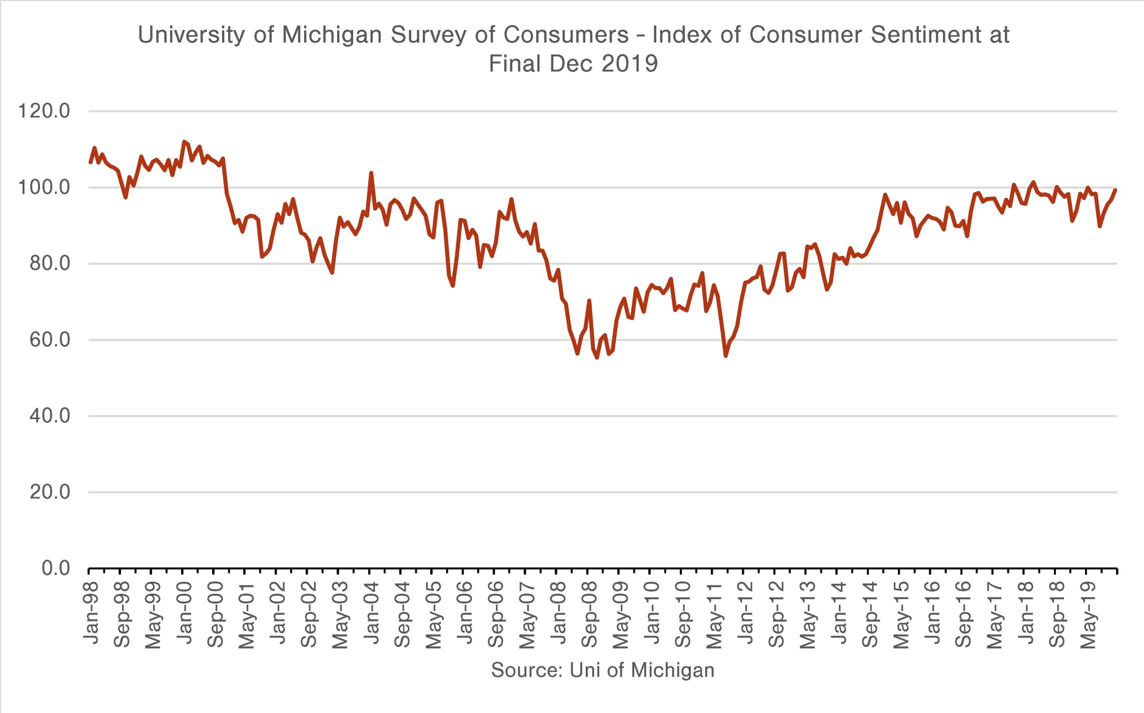
So far, the impeachment has had little impact on consumer sentiment;

> The impeachment hearing had a barely noticeable impact on economic expectations, as it was mentioned by just 2% of all consumers in the December survey.

Index of Consumer Sentiment

Dec (final) 99.3 versus Nov 96.8

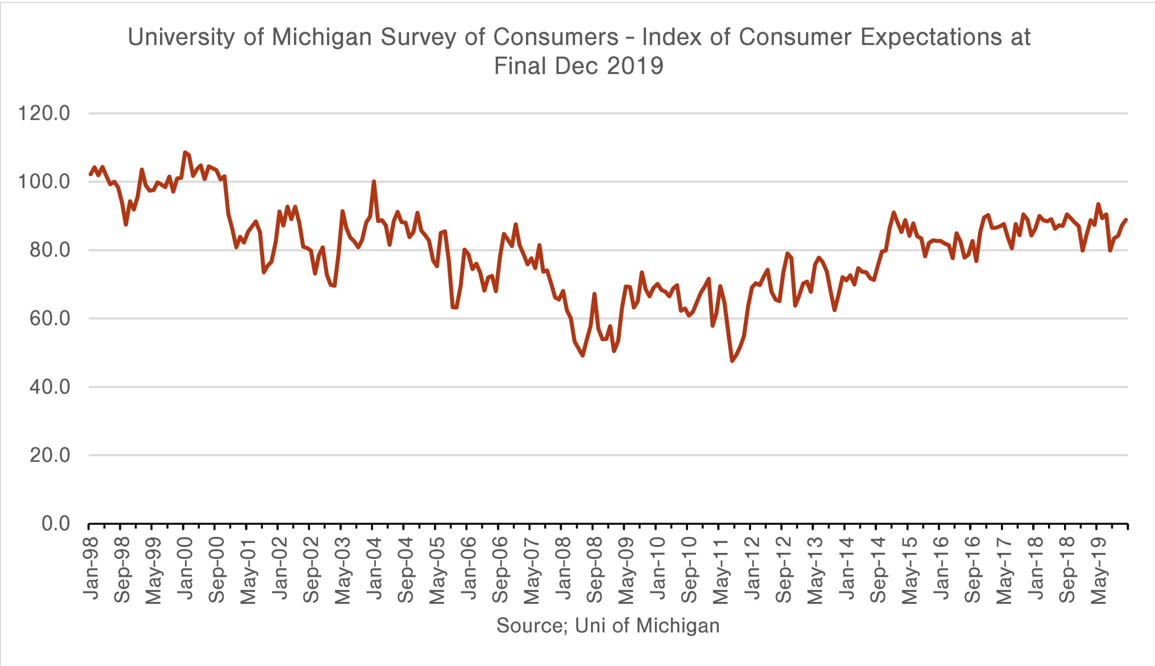
The current reading is now 1% above that of a year ago;



Index of Consumer Expectations

Dec (final) 88.9 versus Nov 87.3

Consumer expectations are now 2% above the readings from a year ago;

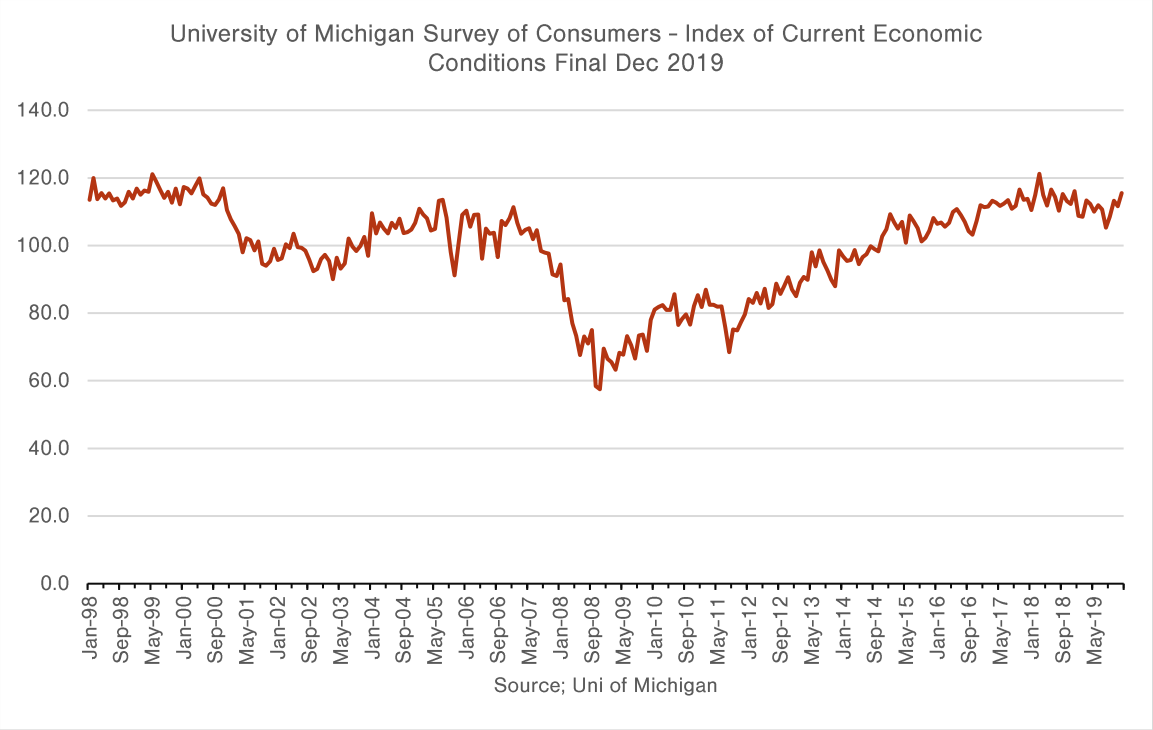


Index of Current Conditions

Consumer assessment of current conditions jumped nearly 4pts in Dec (+1.2SD's)

Dec (final) 115.5 versus Nov 111.6

The consumer assessment of current conditions had lagged somewhat, but has been improving of late and is now only -0.5% below the reading from a year ago;



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

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Europe

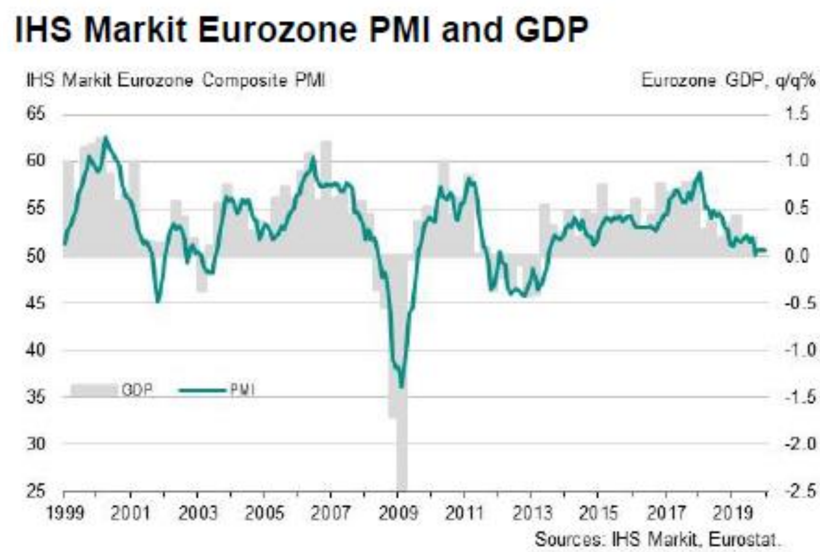
Eurozone Composite PMI Prelim (Dec)

The Eurozone prelim composite index indicated private sector activity continued to expand at a marginal pace. An improvement in services activity was offset by an accelerated decline in manufacturing output.

Manufacturing PMI; Dec 45.9 versus Nov 46.9

Services Activity Index; Dec 52.4 versus Nov 51.9

The decline in manufacturing output was the fastest since Oct 2012. Overall new orders increased led by faster growth in services new work while manufacturing orders continued to decline. The decline in order backlogs slowed led by services, while the decline for manufacturing increased. Employment growth slowed as manufacturing employment declined at a faster pace. Output prices increased at a slower pace – led by declines in output prices across manufacturing.



https://www.markiteconomics.com/Public/Home/PressRelease/744e10d0074244fd8f007451da9de4f8

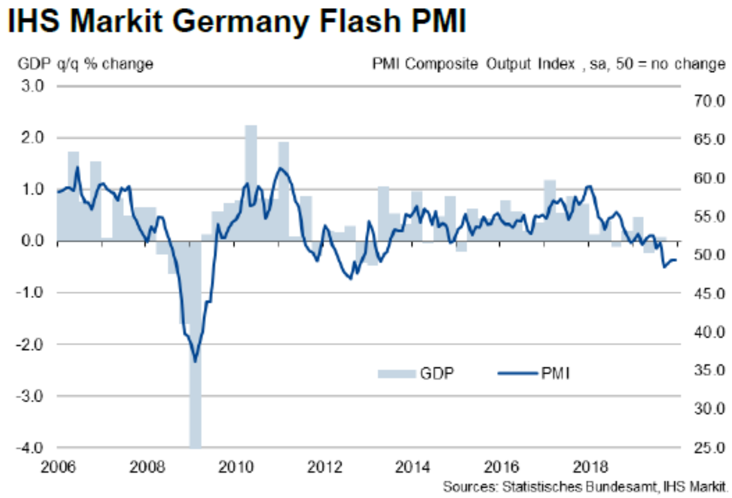
Germany Composite PMI Prelim (Dec)

The prelim composite result indicates that overall private sector activity continued to decline in Dec. A small improvement in the pace of services activity was offset by a further deterioration in manufacturing.

Overall output continued to decline, led by a faster decline in manufacturing output. New orders declined but at a slower pace across both services and manufacturing. Outstanding work continued to decline. Employment was broadly unchanged, but this masked a deeper decline in manufacturing employment. Stronger confidence in the service sector led to an overall improvement in business confidence.

Manufacturing PMI; Dec 43.3 versus Nov 44.1

Service Activity Index; Dec 52 versus Nov 51.7



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Japan

Composite PMI Prelim (Dec)

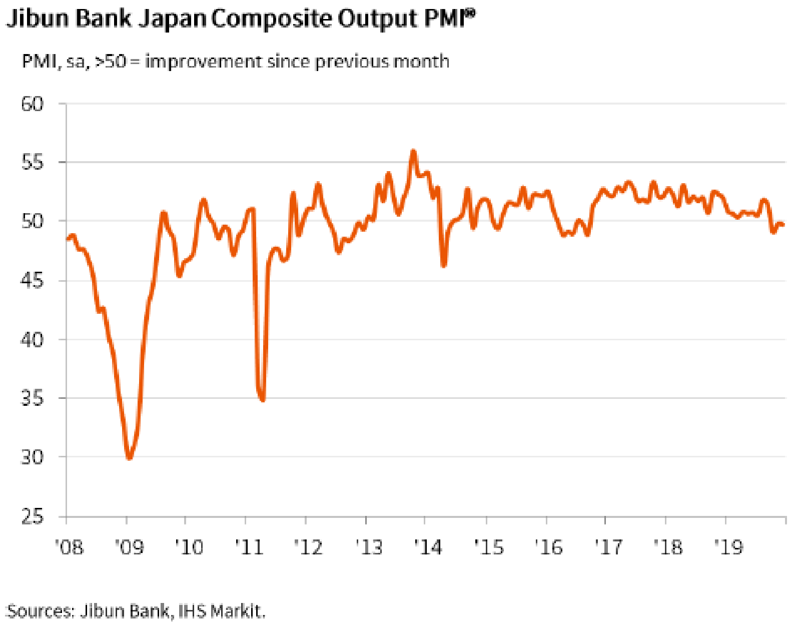
The composite index indicates more stagnant conditions in Dec. Underlying that headline, manufacturing activity continued to contract while services activity increased marginally. There is little evidence in this report of a rebound, especially in manufacturing activity after the much weaker Oct industrial production data.

Manufacturing PMI; Dec 48.8 versus Nov 48.9

Survey commentary remained downbeat – output and new orders declined "amid reports of unfavourable demand conditions". Firms cut output prices further in order stimulate sales. Order backlogs continued to decline.

Services Activity Index; Dec 50.6 versus Nov 50.3

The marginal expansion in Dec reflects little momentum in recovery from the Oct sales tax hike or weather disruption.



https://www.markiteconomics.com/Public/Home/PressRelease/3a0fc101070843889329ca6eb9887de8

Merchandise Trade (Nov)

There was little improvement in the merchandise trade data this month – despite moving past the consumption tax and weather disruptions. On an annual basis, exports declined by 7.9% (NSA) and imports declined at a faster pace of -15.7% (NSA).

The decline in exports was recorded across the vast majority of markets and most commodity groups. In other words, it was again a broad-based decline.

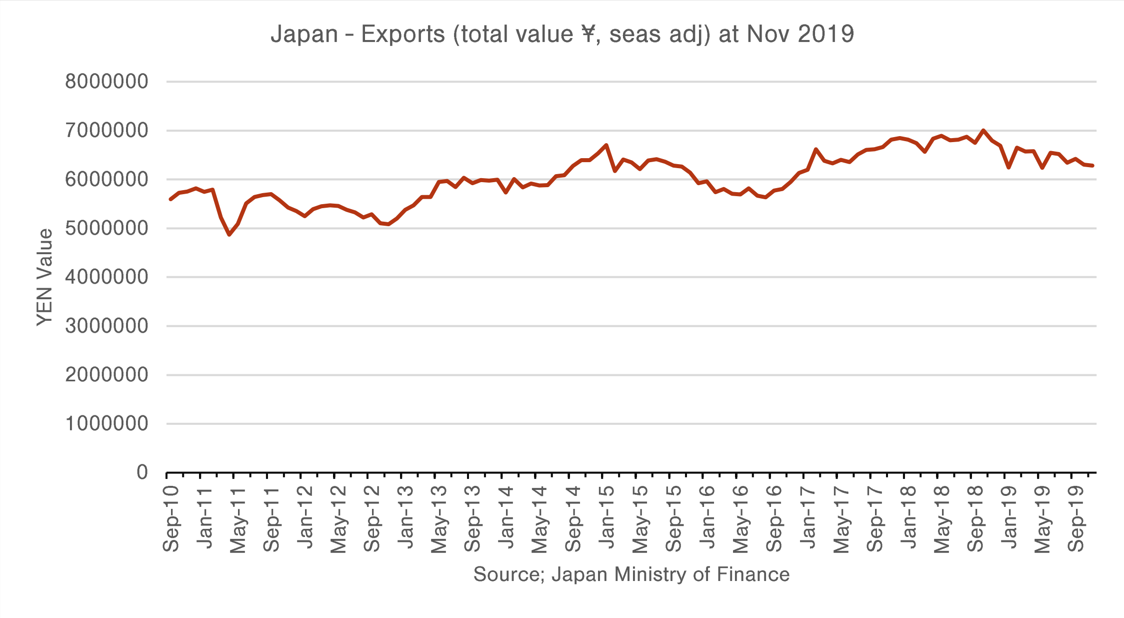
Similar to Oct, almost half of the decline in imports was attributed to a decline in petroleum imports. But declines in imports were still recorded across most commodity groups.

<u>EXPORTS</u>

On a Yen and seas adj value basis, exports declined again in Nov, but at a slower pace;

Annual change; Nov -7.5% versus Oct -10%

Exports also declined on a monthly basis; -0.3% in Nov versus -1.8% in Oct



<u>Exports by Market</u>

Data is NSA and year ago basis. On this basis total exports declined by 7.9%.

Exports declined across all regions on a year ago basis with the exception of the Middle East.

Exports to the largest trading partner, China, declined by 5.4% (less that the total pace of decline). Exports remained below a year ago across all of the major Asian exports markets.

Exports to the US, the second largest export market, were down by 12.9%.

Exports to Western Europe were down by 6.1%. This was led by a 10% decline in exports to Germany. Declines in the value of exports were record across most of the major European export markets, expect Switzerland.

<u>Exports by Commodity</u>

Declines in exports in Nov versus a year ago were recorded across most commodity groups. Only two smaller categories recorded export growth.

The largest declines, in order of the largest contribution to the overall export decline;

Machinery exports -12.6%

Transport Equipment -9.7% - half of which was a further decline in car exports (volume also declined by -2.2%). Motor vehicle exports to the US were down 17% in value and 9% in volume – this category is the bulk of the value of exports to the US.

Manufactured goods exports -11.1% with declines recorded across all areas, including volume declines, where reported.

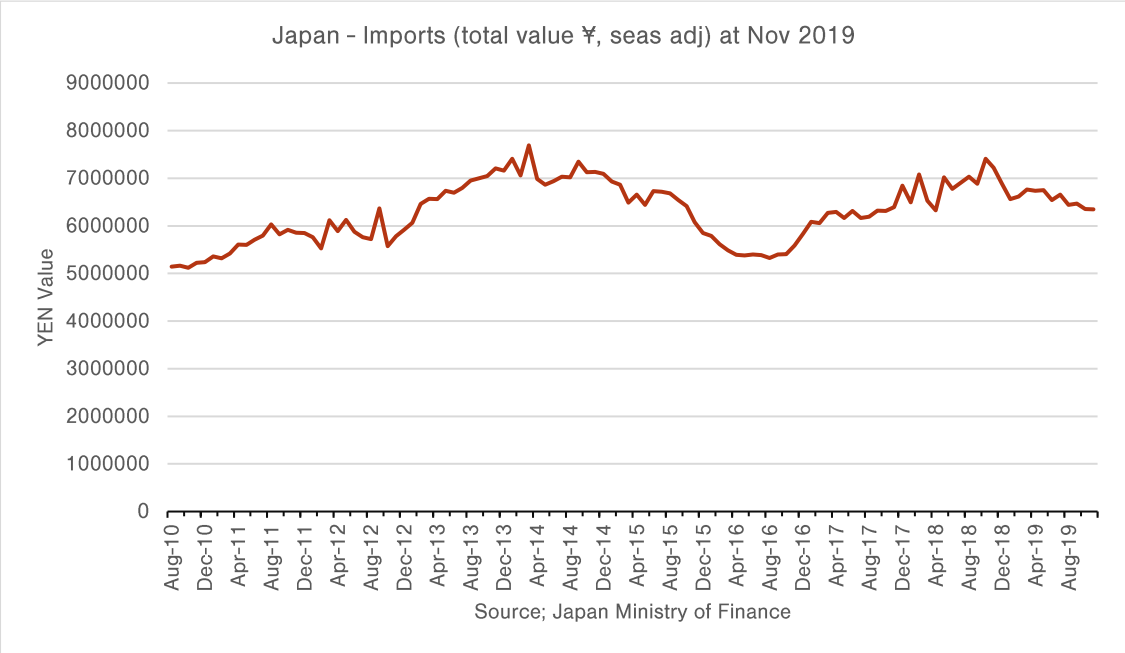
Electrical machinery -5.4%. There were less severe declines in exports in this group – e.g. semiconductor exports declined by -1.3% and volume increased by +0.9%.

IMPORTS

On a Yen and seas adj value basis, imports declined again in Nov, but also at a slower pace;

Annual change; Nov -12.1% versus Oct -14.2%

Exports also declined on a monthly basis; -0.1% in Nov versus -1.8% in Oct



Imports by Market

A similar picture for imports with annual declines recorded across most markets.

The largest % decline in imports continues to be the Middle East with imports declining by 32%. This is mostly all mineral fuel imports (petroleum).

Imports from China (the largest import market), declined by 16% (electrical machinery, chemicals, machinery, manufactured goods and others incl clothing and accessories).

Similarly, imports from all the main Asian markets declined in Nov.

Imports from the US were down -10% (mostly machinery and electrical machinery imports)

Imports from Western Europe were down but not by as much -5.6%. But imports from Germany were down 14%. Imports from the total EU were down mostly on machinery and electrical machinery imports. The import of transport equipment (cars) was up 17.7%.

Imports by Commodity

Nearly half of the 15.7% decline in imports was due to the decline in mineral fuel imports – which declined by 30% in Nov (versus a year ago). But declines were not limited to petroleum.

The next largest decline was for electrical machinery -18%, machinery -17.3%, others -8.8% and chemicals and manufactured goods declined by 10% and 11% respectively.

https://www.customs.go.jp/toukei/shinbun/trade-st_e/2019/201911ce.xml

Japan CPI (Nov)

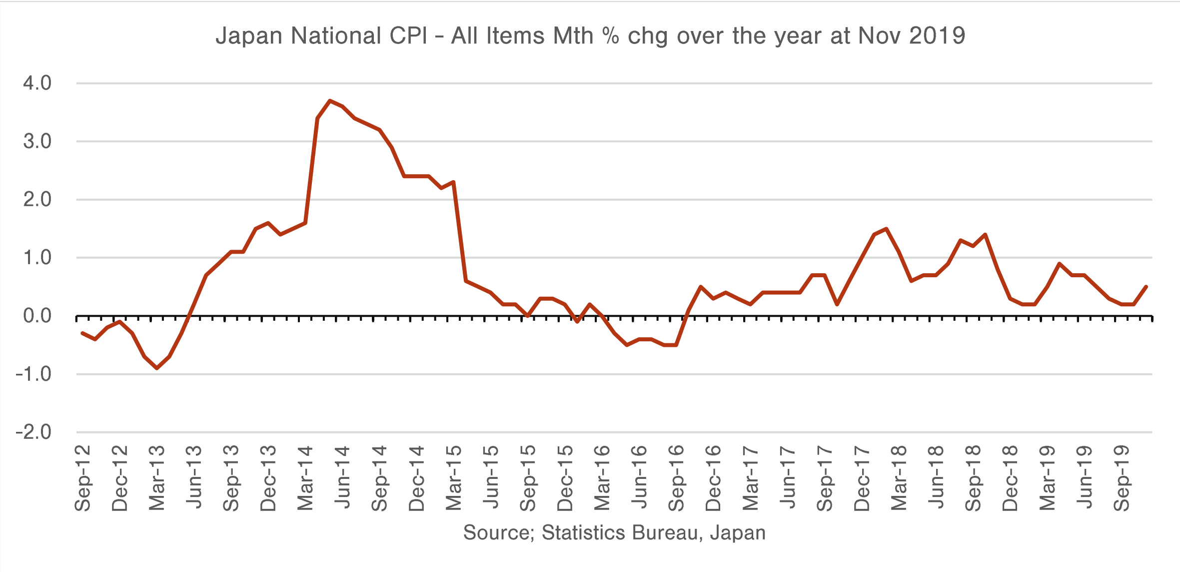
The annual pace of CPI growth continued to accelerate slightly – this was partly due to a base effect with the index falling in the year prior. The monthly pace of headline and core CPI growth slowed (but still increased) in Nov, the month after the consumption tax increase.

All items CPI – month change; Nov +0.1% versus Oct +0.3%

Food prices declined in the month, led by a -2.1% decline in fresh food. Housing price growth also slowed in the month. These two categories alone represent half the weight of the CPI.

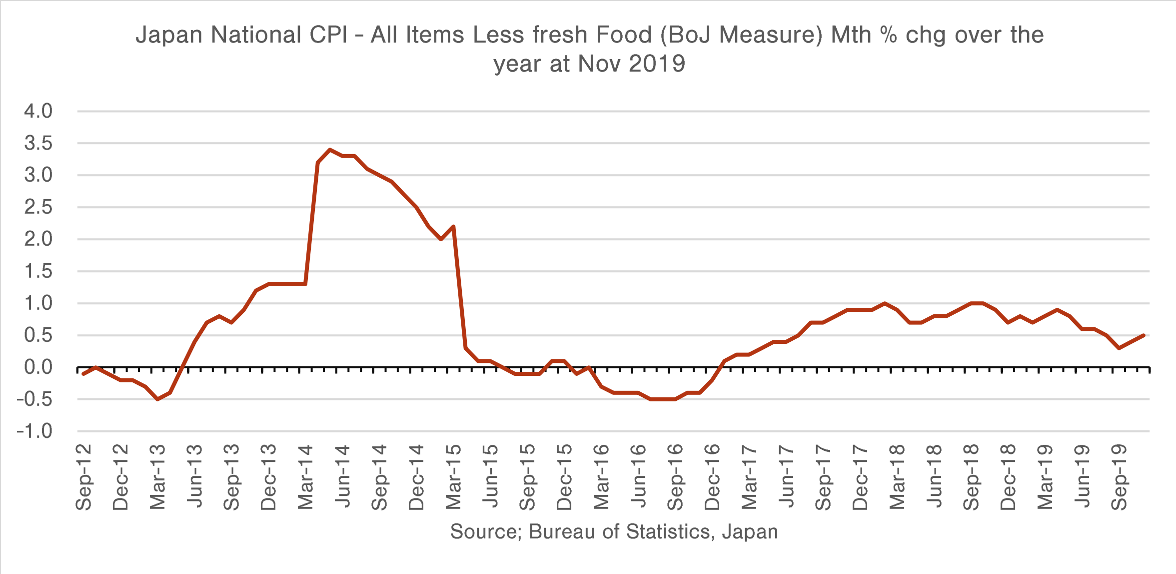
The only category where prices increased at a faster pace in the month was fuel, light and water changes (-0.2% in Oct to +1.5% in Nov).

All items CPI – annual change; Nov +0.5% versus Oct +0.2%



The measure followed by the BoJ is all-items CPI ex fresh food. In Nov, the annual growth increased only slightly;

All items CPI ex Fresh Food – annual change; Nov +0.5% versus Oct +0.4%



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

BoJ Rates Decision 18-19 Dec 2019

The BoJ voted to keep rates and policy measures unchanged. The vote was 7-2 in favour of no change. Of the two dissenting votes (emphasis added);

> "Voting against the action: Mr. Y. Harada and Mr. G. Kataoka. Mr. Y. Harada dissented, considering that allowing the long-term yields to move upward and downward to some extent was too ambiguous as the guideline for market operations decided by the Policy Board. Mr. G. Kataoka dissented, **considering that it was desirable to strengthen monetary easing by lowering the short-term policy interest rate**."

Current Conditions

The decision noted some weakness in domestic activity – production, exports and business sentiment especially. But firmly holds the reason is mainly due to "the slowdown in overseas economies and natural disasters".

The weakness in consumption (latest retail sales) was seen within the context of 'fluctuations due to the effects of the consumption tax hike" but "steady" improvement in employment and income.

CPI growth remained below the target with inflation expectations remaining unchanged.

The outlook remains little changed. Risks to the outlook are all external events.

> "Downside risks concerning overseas economies seem to remain significant, and it also is necessary to pay close attention to their impact on firms' and households' sentiment in Japan."

Guidance;

Policy rates will stay **at this level or lower**, QQE and expansion of the monetary base will continue, **for as long as necessary** to achieve the price stability target of 2% (and maintain at that level).

The Bank affirmed its willingness to take swift action in the case where downside risks were seen as significant. Again, those risks were externally focused – emphasis added;

> "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."

https://www.boj.or.jp/en/announcements/release_2019/k191219a.pdf

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United Kingdom

Brexit

The EU withdrawal agreement bill passed its second reading in the UK parliament this week.

> After comfortably passing its second reading by 358 votes to 234, the withdrawal agreement bill is on track to complete its passage through both houses of parliament in time to allow Brexit to happen at the end of January.
> https://www.theguardian.com/politics/2019/dec/20/brexit-pm-asks-britons-to-move-on-as-mps-debate-withdrawal-bill

The next focus shifts to the negotiation of the trade agreement – with the transition period to end on 31 Dec 2020. During the week, PM Johnson amended the Brexit bill regarding any possible extension to that trade negotiation period;

> He altered his Brexit bill this week to make it unlawful for the government to extend the trade talks into 2021, giving negotiators an unprecedented 11 months to reach a free-trade agreement.
> https://www.theguardian.com/politics/2019/dec/21/johnson-dances-around-varadkar-claims-he-is-on-hard-brexit-path

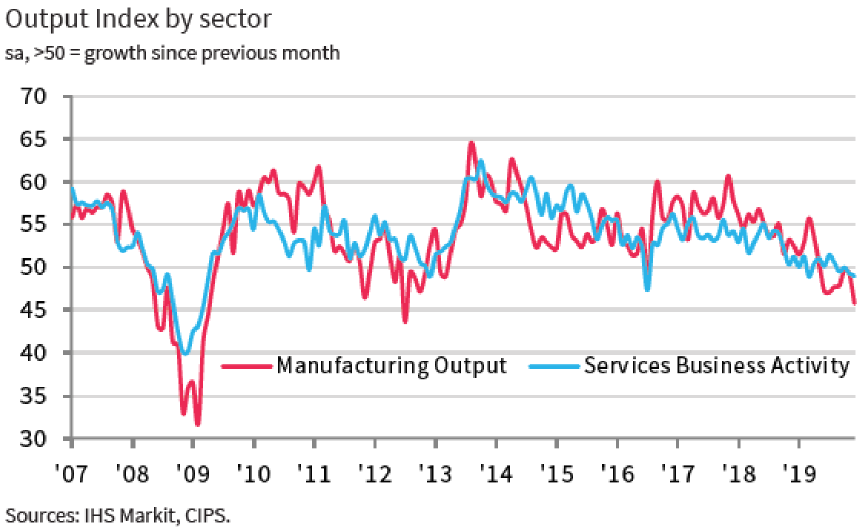
Manufacturing & Services PMI Prelim (Dec)

The UK will likely close out the year with a further decline in private sector activity. The prelim composite PMI declined at a faster pace, led by a further decline in services and an accelerated decline in manufacturing activity. With both Brexit and the general election results confirmed, its possible we will start to see some rebound in early 2020.

Manufacturing PMI; Dec 47.4 versus Nov 48.9

Services Activity Index; Dec 49 versus Nov 49.3

Overall output declined across both manufacturing and services with manufacturing output falling to 45.8 (from 49.1 in Nov) – an 89-month low. This was exacerbated by firms looking to manage inventory levels lower. New business declined overall at a faster pace and employment declined for the fourth month. Weaker overall activity was attributed to Brexit uncertainty and subdued global conditions.



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Employment Survey (Aug-Oct)

Annual employment trends in the UK were little changed. Annual employment growth slowed slightly. Annual growth in the labour force slowed by a larger number – due to slower growth in participation. The slower growth in participation resulted in a larger decline in total unemployed persons. Overall trends remain reasonably strong.

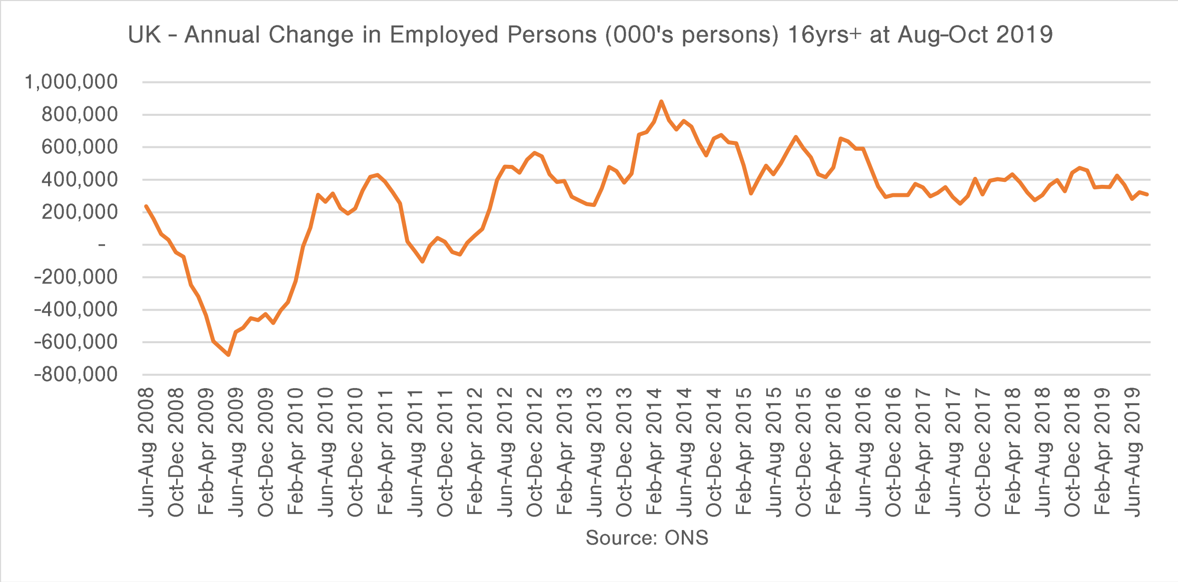
On a monthly basis, employment growth increased. But the level of employment growth was not as large as the estimate of what population growth added to the labour force – meaning employment was not growing faster than population (also supported by the slower growth in vacancies). But the decline in participation resulted in total unemployment declining.

Data based on 16+yrs.

Employment

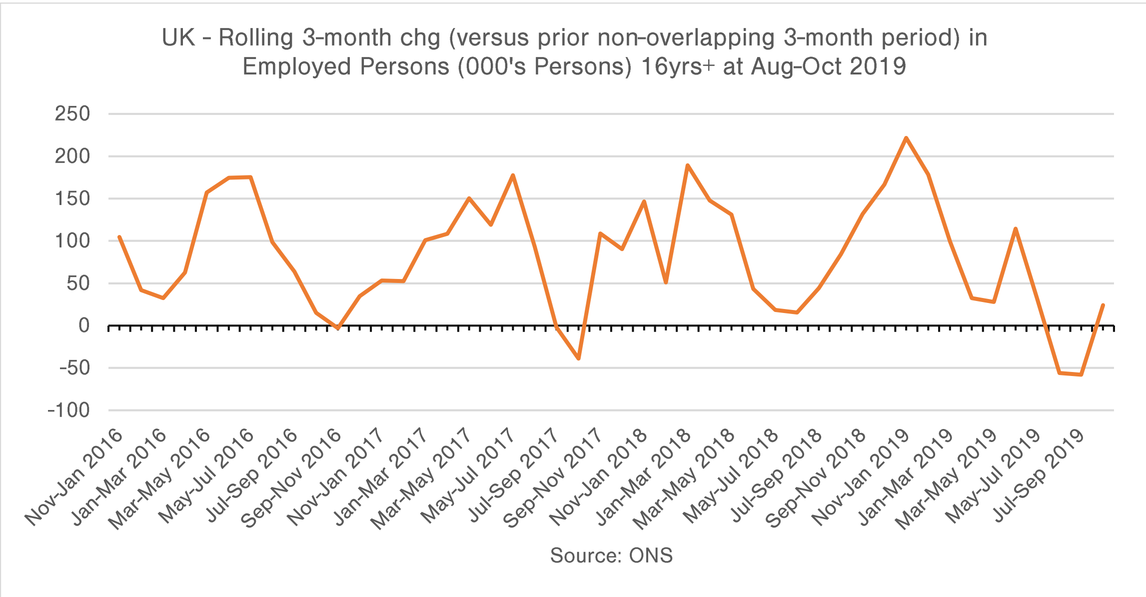
Annual change; Aug-Oct +309k versus Jul-Sep +322k

Annual growth has been little changed since late 2016 and current annual growth in employment remains near the lower end of growth during that time;



On a quarterly basis (current Aug-Oct qtr versus the prior non-overlapping qtr of May-Jul), employment growth rebounded;

<u>Employment – qtr chg</u>; Aug-Oct +24k persons versus Jul-Sep -58k persons



<u>Labour Force</u>

Growth in the labour force slowed on an annual basis;

<u>Labour Force – annual change</u>; Aug-Oct +216k versus Jul-Sep +251k

This slower growth in the labour force was the result of slower annual growth in participation – but participation still increased to 63.86% (adding +0.08% pts)

The important point is that on an annual basis, employment growth remained higher than that of the total labour force. The difference between the two numbers equals the annual change in unemployment.

In the latest quarter, growth in the labour force also rebounded after a much larger decline in Jul-Sep.

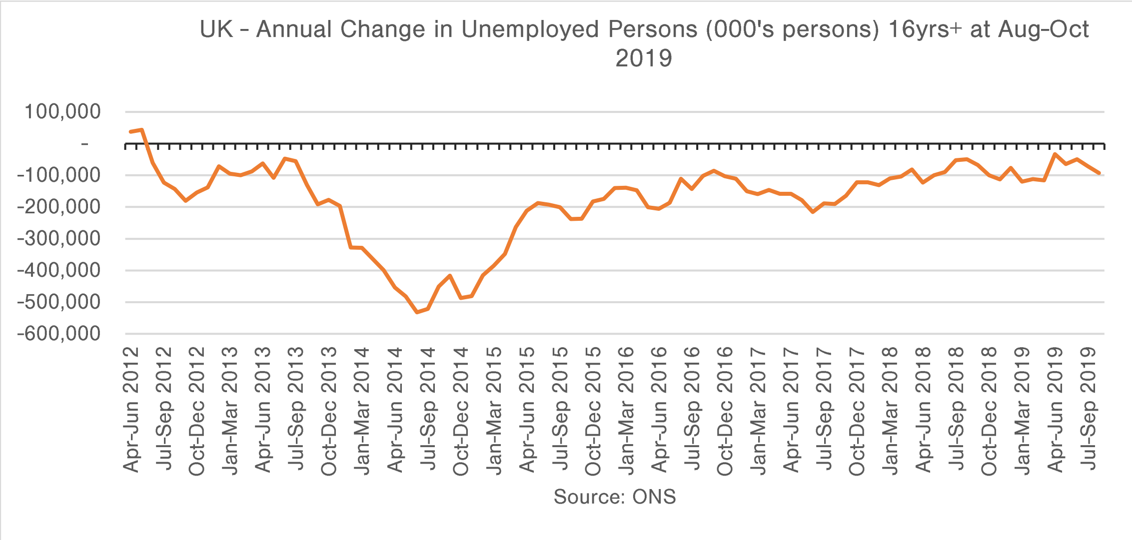
<u>Labour force – qtr change</u>; Aug-Oct +11k versus Jul-Sep -81k

In Aug-Oct, the increase was made up of an increase in the growth of population and was mostly the smaller quarter on quarter decline in participation (than what was reported in the Jul-Sep change).

<u>Unemployed Persons</u>

The annual decline in unemployed persons increased slightly (a positive development);

<u>Annual change</u>; Aug-Oct -92k persons versus Jul-Sep -71k persons



The larger decline in total unemployed persons was recorded despite slower annual growth in employment. The faster decline in unemployed persons is more the result of the slowdown in the labour force growth – led predominantly by the slower growth in participation.

The quarterly situation is different. The decline in total unemployed persons was lower.

<u>Total unemployed persons – qtr chg</u>; Aug-Oct -13k persons versus Jul-Sep -23k

The reason why unemployment declined in the Aug-Oct period was not due to the increase in employment growth. In fact, employment growth was lower than that of what population added to the labour force (see table below). The reason comes down to the decline in participation versus the prior quarter. This decline in participation resulted in lower growth in the labour force relative to employment and unemployment declined.

Summary of key Labour Market Indicators

	16yrs+ (000's of persons)		16-64yrs (000's of persons)	
	Latest Qtr Chg Aug-Oct 2019	ANN Chg Aug-Oct 2019	Latest Qtr Chg Aug-Oct 2019	ANN Chg Aug-Oct 2019
Estimated change in the Labour Force due to pop growth (1)	45.098	175.601	19.352	66.385
How many jobs available for them? (employment growth) (2)	24.300	309.332	29.607	246.082
Difference; employment less est chg in labour force due to pop (3) (if positive, then employment growing faster than pop)	-20.798	133.731	10.255	179.697
Change in the labour force due to the change in participation (4)	-33.979	40.883	-13.720	77.553
The remainder is the chg in total unemployed persons (4) less (3) - if neg, then unemployment decreasing	-13.182	-92.848	-23.975	-102.144
Different views of the Labour Force:				
Double check - change in total economically active (pop + participation)	11.118	216.484	5.632	143.939
Double check - change in total economically active (employ + unemp)	11.118	216.484	5.632	143.939
Actual economically active ann chg (as reported)	11.118	216.484	5.632	143.939

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

Retail Sales (Nov)

There was a relatively large decline in the reported pace of retail sales growth in Nov. This is partly due to the Black Friday promotions which will be reported this year mostly in Dec. From the ONS;

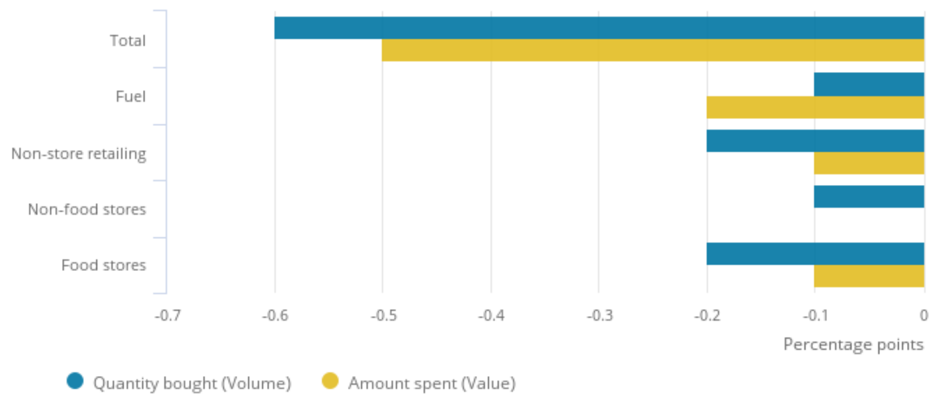
> In 2019, the official Black Friday was on 29 November; this is six days after the end of our November reporting period, which covers four weeks from 27 October to 23 November. The official Black Friday date will fall into our December release with only early promotions captured in our November estimates.

Retail Sales (Volume Index) – Month change; Nov -0.6% versus Oct 0%

In the month, all sectors contributed to the negative result;

Figure 3: All sectors contributed negatively to the quantity bought in November 2019

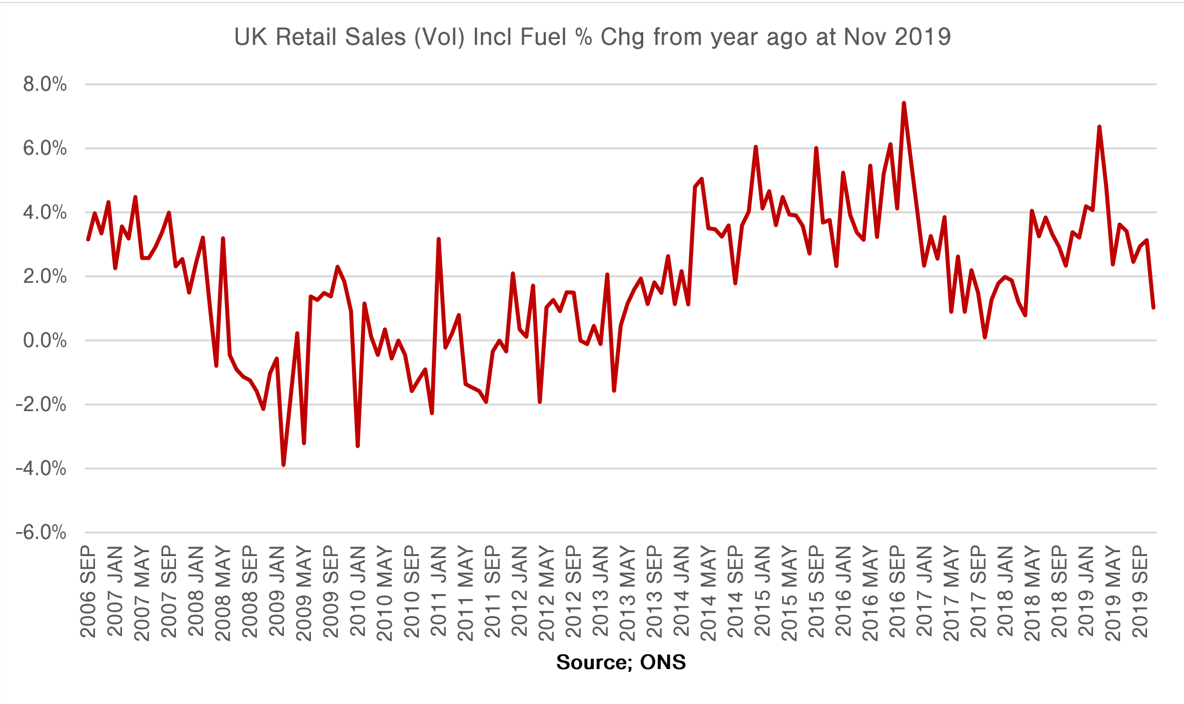
Great Britain, November 2019 compared with October 2019



Source: Office for National Statistics – Monthly Business Survey – Retail Sales Inquiry

<u>Retail Sales (Volume Index) – Annual change</u>; Nov 1% versus Oct +3.1%

The relatively large slowdown in the annual growth was likely related to the Black Friday promotions falling in a different month than the year prior. We will be able to fully evaluate the impact once Dec retail sales are reported.



https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/november2019

BoE Rates Decision – 19 Dec 2019

The BoE Monetary Policy Committee (MPC) left the Bank Rate on hold at 0.75%. The vote was a 7-2 majority.

Two members had favoured loosening policy at this meeting (by 25bps);

> The economy had been a little softer than expected, and there was a modest but rising amount of spare capacity. Core inflation was subdued. Employment growth was slowing and seemed likely to weaken further given trends in vacancies and firms' hiring intentions. Downside risks remained to the MPC's projections from a weaker world outlook and Brexit uncertainties. With relatively limited space to cut Bank Rate, risk management considerations favoured a prompt response to downside risks at present in order to ensure a sustained return of inflation to the target.

The stock of assets on the BoE balance sheet were to be maintained at current levels; Sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at £10 billion and the stock of UK government bond purchases, financed by the issuance of central bank reserves, at £435 billion.

Data has been broadly in line with projections. Projections were based on an orderly 'transition' from the EU which would reduce uncertainty, an easing of fiscal policy and a 'modest' recovery in global growth. In Q3, consumption has continued to grow but investment and exports have been weak.

Labour market showing some signs of 'loosening' as employment growth slows and vacancies have fallen.

<u>Guidance</u>

Policy could go in either direction depending on the outlook. Outlook is based on now whether Brexit uncertainties remain 'entrenched' or if global growth fails to stabilize.

> The Committee will, among other factors, continue to monitor closely the responses of companies and households to Brexit developments as well as the prospects for a recovery in global growth.

If the economy recovers in line with projections, then;

> "…some modest tightening of policy, at a gradual pace and to a limited extent, may be needed to maintain inflation sustainably at the target."

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

https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-summary-and-minutes/2019/december-2019.pdf?la=en&hash=16E51A7C06CEDB3F35EE019F8A4F845EF12389C6

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Australia

Composite PMI Prelim (Dec)

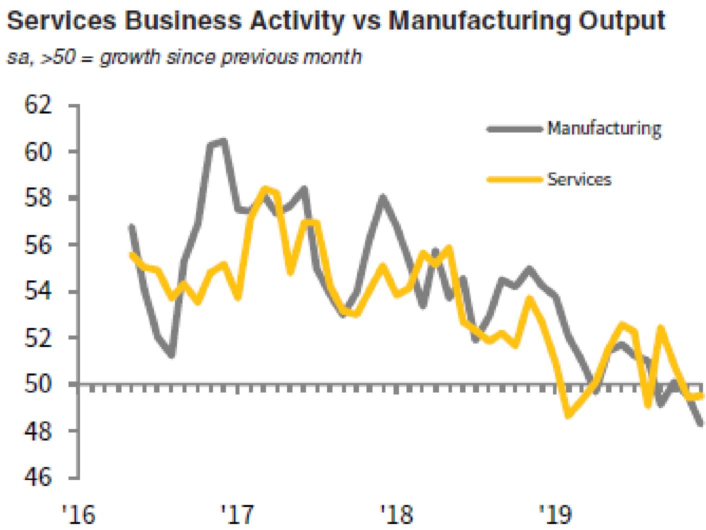
The composite PMI indicated weaker conditions continued into the last month of Q4. This was led by a slightly faster decline in manufacturing and services activity.

Manufacturing PMI; Dec 49.4 versus Nov 49.9

The report cites some disruption from bushfires. New orders declined at a faster pace while order backlogs continued to decline. Employment shifted back into decline

Services Activity Index; Dec 49.5 versus Nov 49.7

Output declined while new orders increased to a 6-month high. Employment declined for the first time in five months.



https://www.markiteconomics.com/Public/Home/PressRelease/af083dbfc32a4220b5a3275e74cd5529

Housing Finance (Oct)

This is the new housing finance series by the ABS, so not comparable to the prior Lending Finance data.

In the month of Oct, lending increased across all key borrower segments, but the larger growth was recorded by owner occupiers (excluding first home buyers).

The rebound in lending from mid-2019 has been led by first home buyers (FHB's) (that are owner occupiers). This group has accounted for the majority of the growth in lending over the last year and effectively offset the decline in investor lending. With further federal government support to come into effect in early 2020, lending for FHB's is likely to continue to grow.

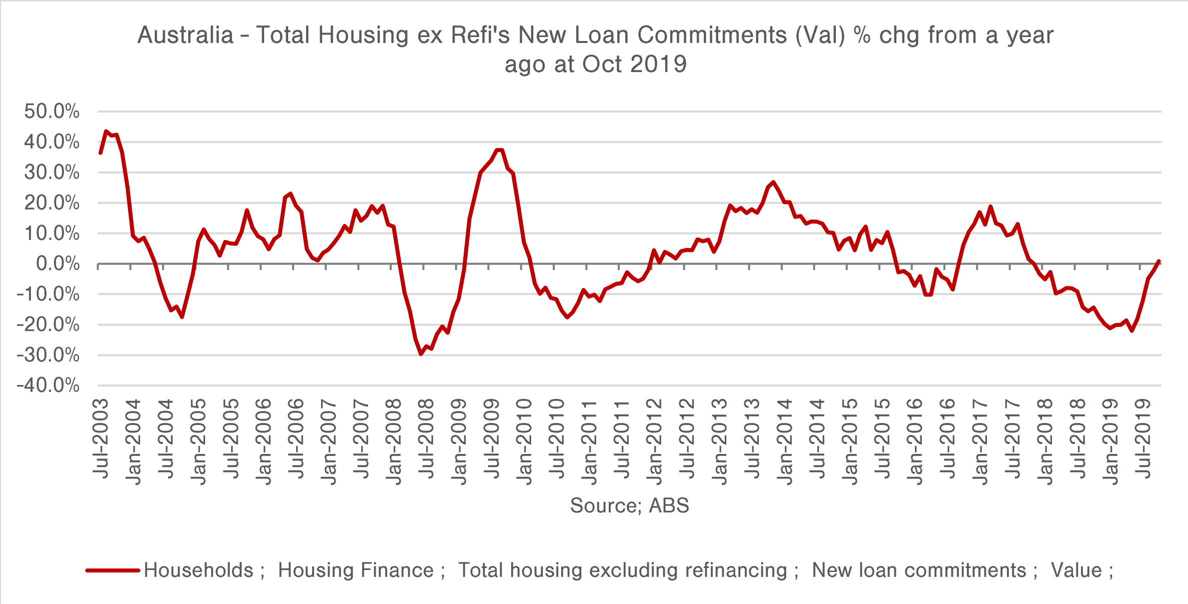
Growth in investor lending, which at its peak accounted for at least half of the value of all housing finance commitments, remains low and has barely rebounded since May 2019.

While total lending continues to rebound and turn positive on an annual basis, total housing lending remains 18% below the peak.

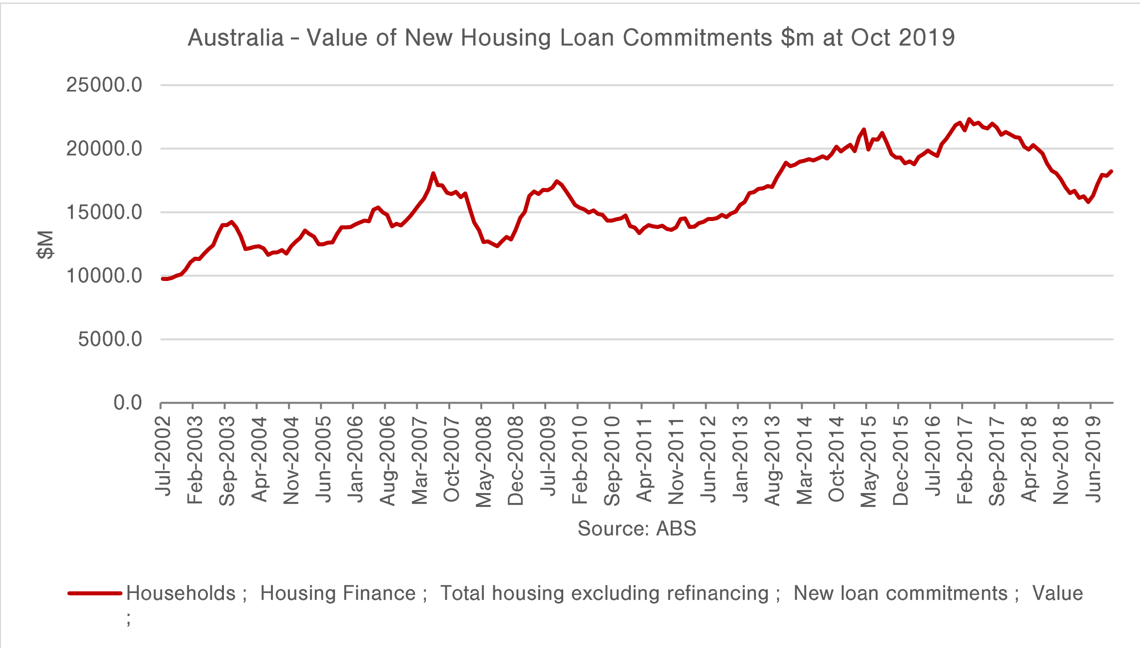
<u>Total Housing Finance – month change</u>; Oct +2% versus Sep -0.4%

All three segments contributed to the growth in Oct – owner occupiers, first-home buyers (owner occupiers) and investors. But the growth was drive n predominantly by owner occupiers excluding first home buyers.

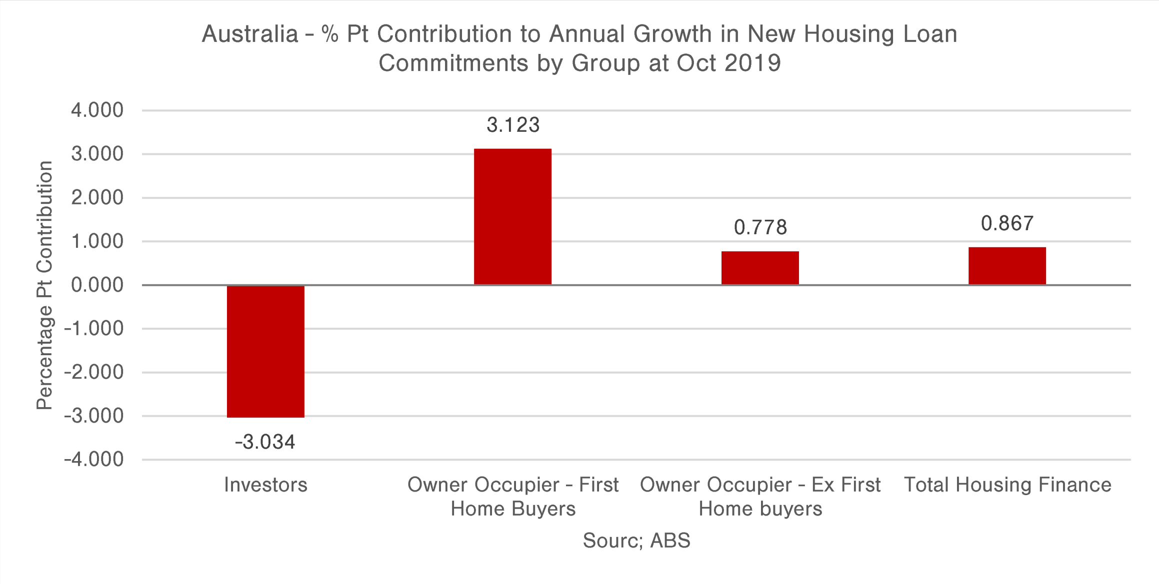
On an annual basis, housing finance returned to positive growth; Oct +0.9% versus Sep -2.3%



The total value of new housing loan commitments (ex refi's) remains 18% below the recent peak;

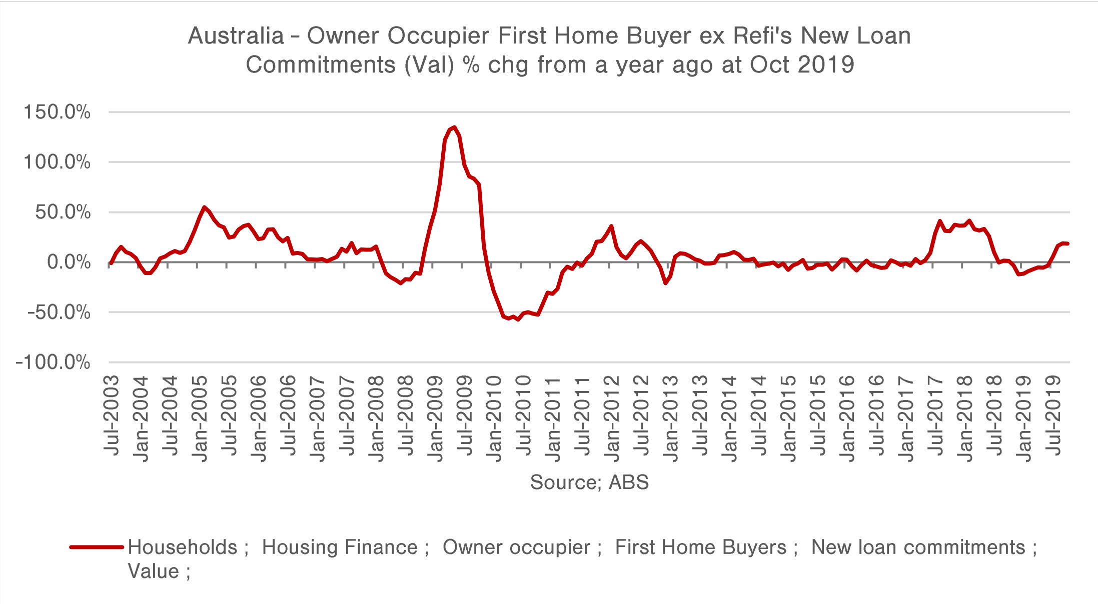


The annual growth was led by much higher growth in owner occupier lending – but mostly by first home buyers;



Even though the size of first home buyer commitments is smaller, this is where most of the annual growth has come from. The fall in house prices and interest rates has likely enabled many of these buyers to enter the market, where they may have been priced out before.

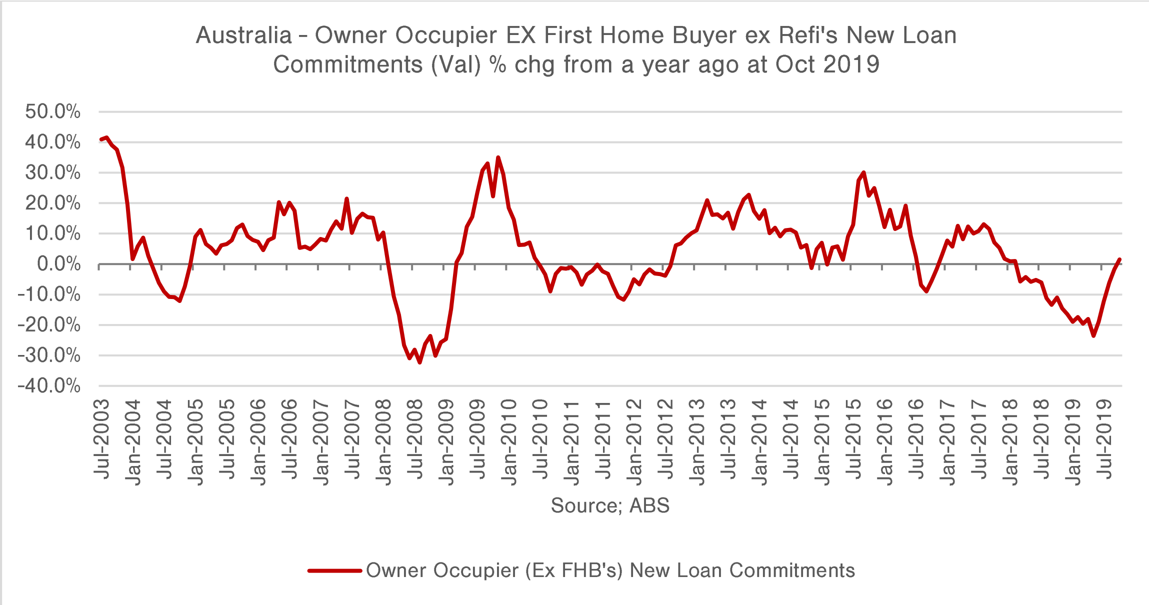
First Home Buyers (Owner Occupiers) – annual change; Oct +18.4% versus Sep +18.9%.



The value of first home buyer new housing loan commitments remains 29% below the peak.

Lending to the rest of the owner occupiers (ex FHB's) has also improved in the last year, but at a more moderate pace;

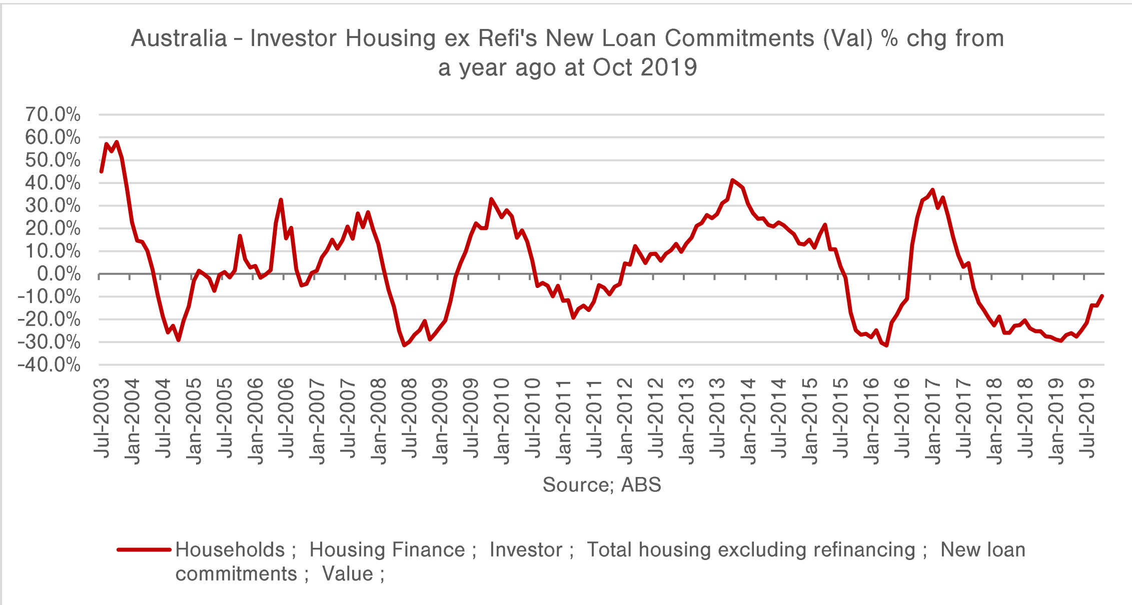
Owner occupiers (ex-First Home Buyers) – annual change; Oct +1.5% versus Sep -1.8%.



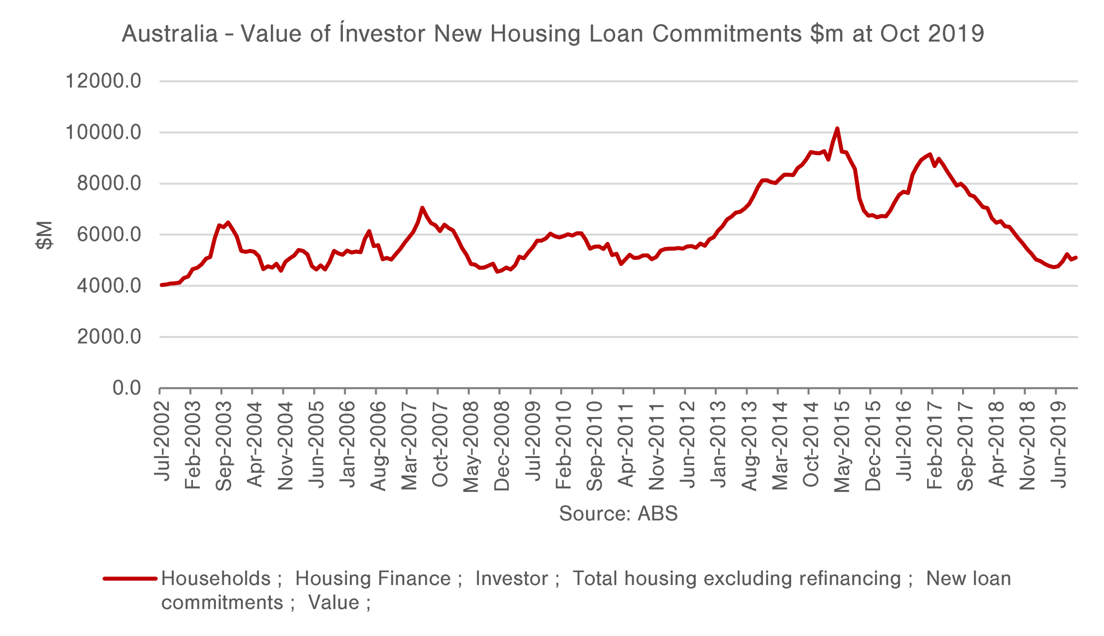
The value of lending commitments for owner occupier's ex FHB's is still 15% below the peak.

The final group is investors. This group was responsible for much of the growth leading up to the peak. Growth in investor lending remains elusive;

<u>Investor housing commitments – annual change</u>; Oct -9.7% versus Sep -14%



While the pace of the annual decline has slowed, it's important to note that the monthly value of investor lending has barely rebounded – and remains 50% below the peak back in 2015. At the low in investor lending (May 2019), lending was 53% below the 2015 peak.



https://www.abs.gov.au/ausstats/abs%40.nsf/mediareleasesbyCatalogue/CD780691805A926CCA25839E001987B5?OpenDocument

Labour Market Survey (Nov)

This month, the ABS implemented changes to the trending methods for the Labour Force as a part of the annual seasonal re-analysis. This has resulted in shifts in the shape of some of the growth trends.

There are several important insights this month. While the annual growth in employed persons slowed, the monthly trend has shifted to a more positive growth trend – led by both FT and PT growth. This is somewhat at odds with the leading vacancy and job ads data – but a positive development, nonetheless.

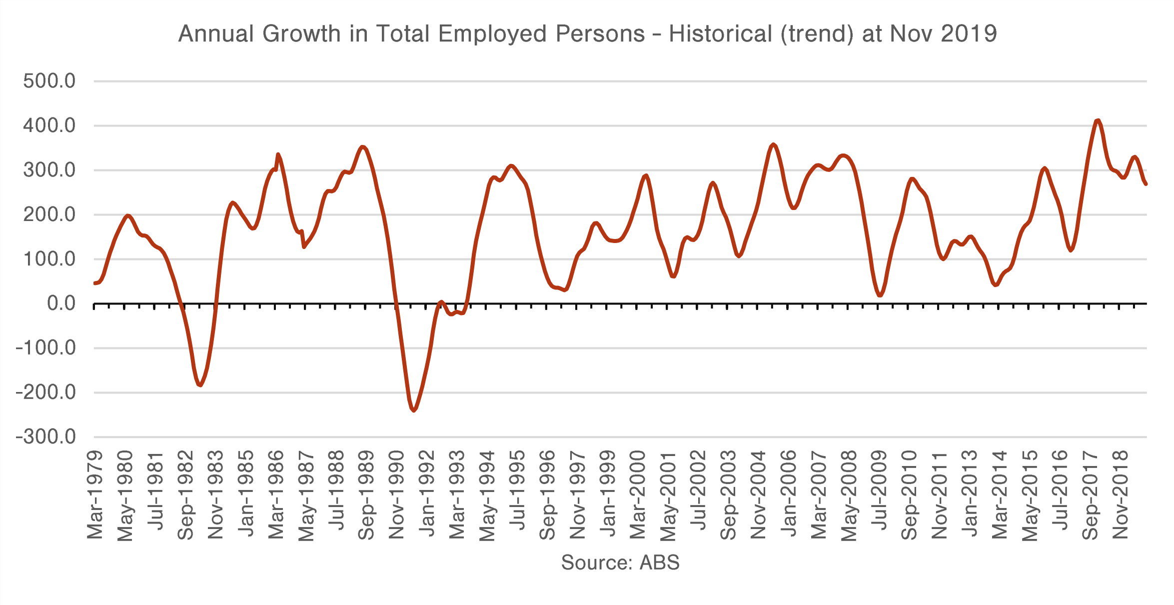
On an annual basis, total unemployed persons continued to increase at a faster pace – this is not a positive trend. The monthly change though, indicated that unemployed persons may have started to decline. This should be a good development too. But while monthly employment growth accelerated slightly, it was really the decline in monthly participation that delivered the small decline in total unemployed persons. The unemployment rate was little changed at 5.2% in Nov.

There was no real deterioration that would concern the RBA Board with this report. There are some very small positive signs of improvement in employment growth.

Employment

Employed persons – annual change; Nov 268k persons versus Oct 278k persons

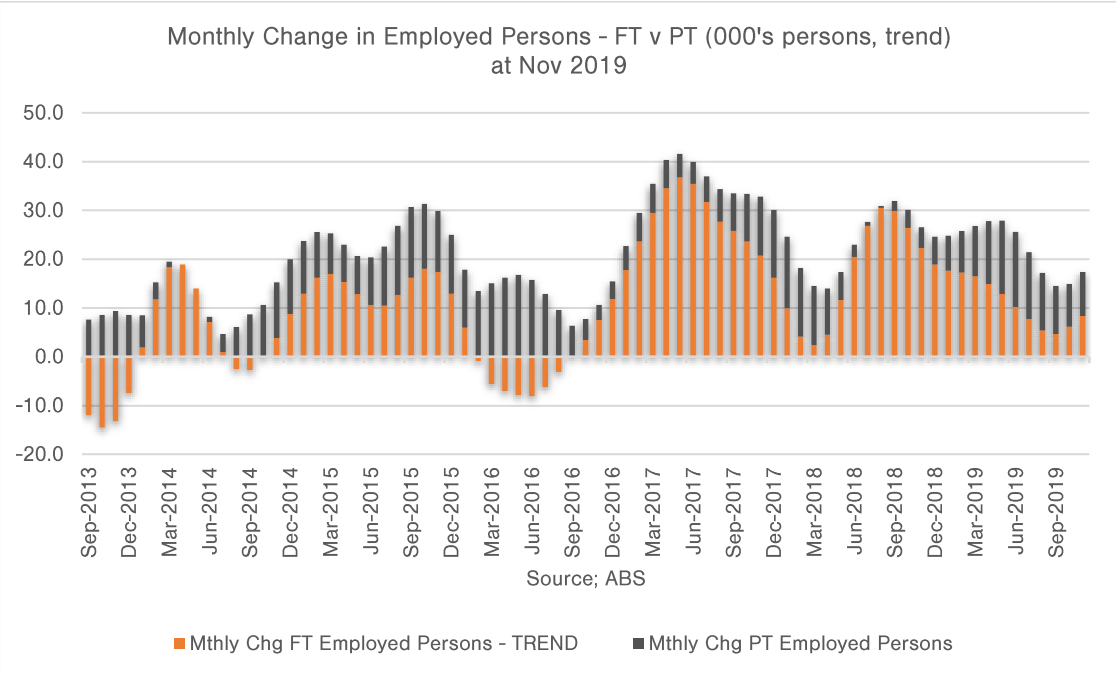
Growth is still well above the ten-year average annual growth of +209k persons.



On a monthly basis, employment growth increased;

<u>Employed persons – month change</u>; Nov +17.4k persons versus Oct +14.9k persons

Both full time and part time jobs growth contributed to this growth;



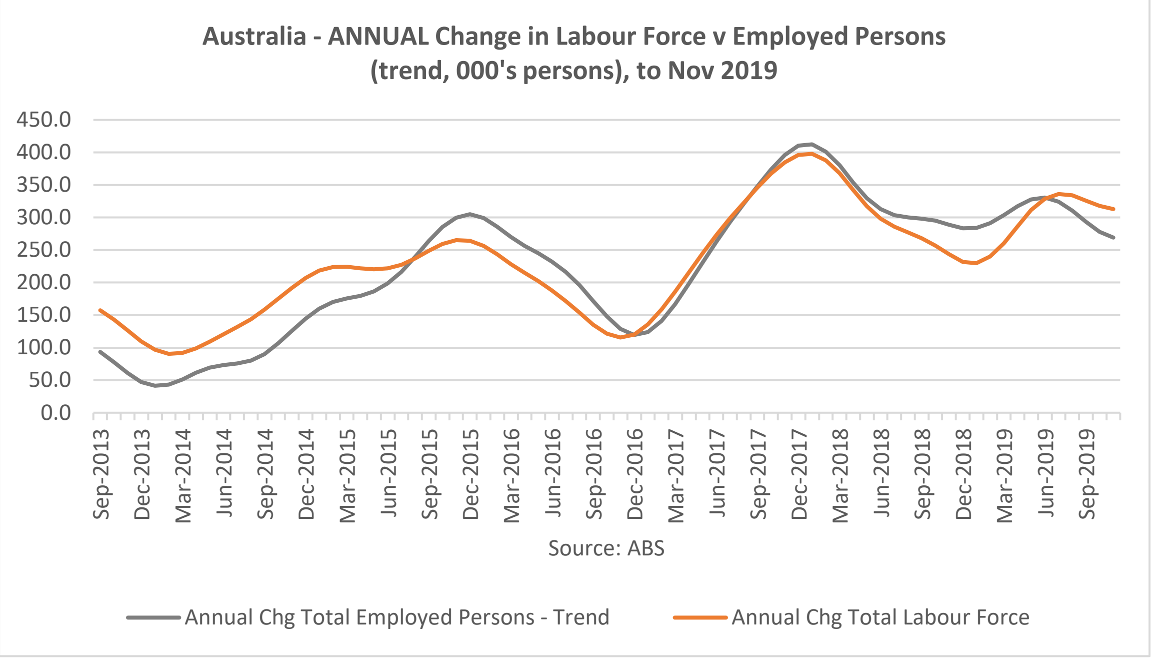
<u>Labour Force</u>

The annual growth in the labour force slowed only slightly in Nov;

<u>Labour Force – annual change</u>; Nov +313k persons versus Oct +318k persons

The slight slow down was the result of slightly slower annual growth in participation between Nov and Oct. The participation rate was 66.06% in Nov – just shy of the all time high of 66.1% recorded in Aug. Female participation recorded another new all time high in Nov of 61.23%.

Importantly though, the growth of the labour force remains well above that of employment on an annual basis. The gap between the two equals the annual increase in unemployed persons.



Unemployment

Total Unemployed persons – annual change; Nov +44k persons versus Oct +40k persons

On a monthly basis, there is slightly better news. Total unemployed persons shifted to decline;

Total unemployed persons – month change; Nov -1.1k persons versus Oct -0.5k persons

The monthly dynamic is different. Employment growth was lower than population. This means that IF participation had increased or even stayed unchanged, unemployment would have increased. But in fact, participation declined in the month (-0.01%pts or approx. -2.2k persons left the labour force) – which resulted in a decline in total unemployed persons.

The unemployment rate in Nov declined very slightly; Nov 5.237% versus Oct 5.251%

Summary of Labour Force Indicators

	000's Persons	
	Annual Chg - Nov	Month Chg - Nov
The estimated change in the Labour Force due to pop growth	219.162	18.371
How many jobs available for them? (employment growth)	268.918	17.368
Difference (if positive, employment growing faster than pop est)	49.756	-1.003
Change in labour force due to the change in participation	93.753	-2.197
The reminder is the change in total unemployed persons	43.997	-1.194
Double Check - Reported chg in size of the Labour Force	312.915	16.177
Two views of the size of the Labour Force:		
Underlying population growth plus changes in participation	312.915	16.174
Total employed persons plus total unemployed persons	312.915	16.174

https://www.abs.gov.au/ausstats/abs%40.nsf/mediareleasesbyCatalogue/F00771E26218DFB1CA258479001AAD2E?OpenDocument

MYEFO – Dec 2019

Overall the budget underlying FORECAST cash balance has been reduced from an estimated $7.1bn to $5bn

This has been revised lower due to weaker receipts growth, which as been revised lower by $3bn in 2019-20 and by $32.6bn over the forward 4-year estimate.

> The downward revision in 2019-20 is mainly driven by downgrades to superannuation fund taxes and GST, as well as non-tax receipts.
>
> The downward revision from 2020-21 to 2022-23 is mainly driven by downgrades to the forecasts for individuals taxes, company tax and GST.

No additional spending or stimulus measures were announced;

> The recovery in growth over the next couple of years reflects policy settings including personal income tax relief and an increase in spending on infrastructure across all levels of government, as well as lower interest rates.

Table 1.2: Major economic parameters[(a)]

	Outcomes	Forecasts		Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
Real GDP	2.0	2 1/4	2 3/4	3	3
Employment	2.5	1 3/4	1 3/4	1 1/2	1 1/2
Unemployment rate	5.2	5 1/4	5 1/4	5	5
Consumer price index	1.6	2	2 1/4	2 1/2	2 1/2
Wage price index	2.3	2 1/2	2 1/2	2 3/4	3
Nominal GDP	5.3	3 1/4	2 1/4	4 3/4	4 3/4

(a) Year-average growth unless otherwise stated. From 2018-19 to 2020-21, employment and the wage price index are through-the-year growth to the June quarter. The unemployment rate is the rate for the June quarter. The consumer price index is through-the-year growth to the June quarter.
Source: ABS cat. no. 5206.0, 6202.0, 6345.0, 6401.0, and Treasury.

https://www.budget.gov.au/2019-20/content/myefo/download/MYEFO_2019-20.pdf

RBA Minutes – Meeting 3 Dec 2019

At this meeting the RBA Board left rates on hold. Given the long and variable lags, the Board decided to assess the "evidence of how easing of monetary policy was affecting the economy".

The Board noted that it would 'reassess' the outlook in Feb 2020. The Board also highlighted that it 'has "the ability to provide further stimulus to the economy, if required".

Guidance; was unchanged, in that it was reasonable to expect an extended period of low rates in order to achieve full employment and inflation targets.

Current Conditions

> Domestically, after a soft patch in the second half of 2018, the Australian economy appeared to have reached a gentle turning point.

Overall there had been little change to the outlook since the prior meeting – global conditions had been more positive and domestic conditions somewhat mixed.

Continued weak household income growth posed a risk to consumption spending. Business investment remained lower. Labour market conditions were little changed. Without further improvement in the labour market, there was little expectation for wages growth to accelerated higher. Inflation was not likely to rise too quickly. Business conditions, confidence and consumer confidence remained below average.

The upturn in the housing market was the most positive development. This was expected to help support further consumption growth. While more positive conditions were evident in the established housing market, there was only "some early signs of a stabilisation in housing construction activity". Construction activity remained subdued.

Several important points from the minutes to highlight;

> "…households continued to switch away from interest-only loans towards principal-and-interest loans at lower interest rates. These trends were expected to continue."

This is an important and somewhat underappreciated point which is likely to be impacting household expenditure at the margin. Prior to the Murray Inquiry and the Banking Royal Commission, banks had approved interest only loans for investors and owner occupiers (lower monthly repayment). Even with a lower borrowing rate for a principal and interest loan, the switch from an interest only to a principal and interest loan can increase repayments by 30-40% per month. As well, the minutes note that;

> "…only a small share of borrowers had actively adjusted their scheduled mortgage payments following the reductions in interest rates."

Indicating that interest rate reductions were not likely being transmitted through to incremental spending via an increase in household disposable income. As we saw in this month's housing lending data, the easing of credit conditions in May, together with lower house prices, as well as lower interest rates, encouraged/enabled first home buyers into the market (the leading driver of housing credit growth in the year).

Finally, some note by the Board on weaker demand for credit by business, as also reflected in the RBA lending and credit aggregates. Something to watch for further weakening in business investment;

> "Despite the accommodative funding conditions for large businesses, growth in business debt had slowed, suggesting that demand for finance had softened. Lending to small businesses had been little changed over the preceding year, and access to finance for small businesses remained restricted."

https://www.rba.gov.au/monetary-policy/rba-board-minutes/2019/2019-12-03.html

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Trade

US-China Trade Talks

There was no further detail regarding the trade deal between the US and China. News from the US side indicates that the signing of a deal will likely take place in early 2020, once the trade agreement is fully drafted.

The increase in the tariff rate scheduled for 15 Dec for Chinese imports did not go ahead. China also announced that it would temporarily suspend scheduled tariff increases that were expected to take effect on 15 Dec.

The USTR made a statement and outlined some 'details' regarding the agreement. https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/december/united-states-and-china-reach

The USTR announced that the US will maintain a 25% tariff on approx. $250bn of Chinese imports as well as the Sep 15% tariff cut to 7.5% on approx. $120bn of imports.

Fact sheet https://ustr.gov/sites/default/files/US-China-Agreement-Fact-Sheet.pdf)

There are still conflicting stories regarding some details of the agreement (initial quantities of goods purchases announced the President were then revised lower), what will be and won't be made public and what benchmarks will be placed in writing.

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

Last week, the Upper House of the Japanese Parliament approved phase one of the trade deal. The US Congress does not need to approve the deal, so phase one will come into force in early 2020.

The focus in early 2020 will be on phase two of the deal;

> After the deal enters into force, the countries have agreed to conclude consultations for further trade talks within four months. Then discussions between their lead negotiators, Foreign Minister Toshimitsu Motegi and U.S. Trade Representative Robert Lighthizer, will start again in earnest.

The United States is seeking a full-fledged free trade agreement that covers areas including services and investment. https://www.japantimes.co.jp/news/2019/12/04/business/economy-business/upper-house-approves-united-states-japan-trade-deal/#.Xe3HTegzaUk

The issue for phase two talks is auto tariffs;

Japan has said it has received U.S. assurance that it would scrap tariffs on Japanese cars and car parts, and that the only remaining issue was the timing. But Washington has not confirmed that.

https://www.reuters.com/article/us-usa-trade-japan/japan-lower-house-passes-u-s-trade-deal-auto-tariffs-still-in-question-idUSKBN1XT0IK

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.

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, despite the US missing the S.232 deadline of 14 Nov. https://www.cnbc.com/2019/11/08/trump-wont-impose-tariffs-on-european-cars-eu-juncker-says.html

Digital Services

The USTR S.301 investigation into the digital services tax approved by the French government has been completed and released its report on 2 Dec 2019;

> "USTR's decision today sends a clear signal that the United States will take action against digital tax regimes that discriminate or otherwise impose undue burdens on U.S. companies," Ambassador Robert Lighthizer said. **"Indeed, USTR is exploring whether to open Section 301 investigations into the digital services taxes of Austria, Italy, and Turkey**. The USTR is focused on countering the growing protectionism of EU member states, which unfairly targets U.S. companies, whether through digital services taxes or other efforts that target leading U.S. digital services companies." https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/december/conclusion-ustr%E2%80%99s-investigation

The proposed action includes up to 100% duties on certain French products imported into the US. The USTR is now inviting comments on the proposed action at a public hearing in Washington on 6 Jan 2020. https://www.federalregister.gov/documents/2019/12/06/2019-

26325/notice-of-determination-and-request-for-comments-concerning-action-pursuant-to-section-301-frances

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. A Reuters article during the week reported that President Trump may no longer be able to impose tariffs under this S.232 investigation because of the missed announcement deadline. Source: https://www.reuters.com/article/us-usa-trade-autos/trump-can-no-longer-impose-section-232-auto-tariffs-after-missing-deadline-experts-idUSKBN1XT0TK

> The 1962 act is clear about the time limits that a president has for invoking tariffs to protect U.S. national security.

The article outlines other recent cases where the increase in tariffs have been challenged due to missed deadlines (Turkey and the increase in steel tariffs in 2018).

The article outlines the "escape hatch" for President Trump;

> A clause in the 1962 law may offer an escape hatch for Trump. If an agreement is not reached within 180 days or proves ineffective, "the President shall take such other actions as the President deems necessary to adjust the imports of such article so that such imports will not threaten to impair the national security." It adds that Trump would be required to publish these actions in the Federal Register, but does not specify a time frame.

For the moment, there have been no announcements made by the USTR or by the USTR on the Federal Register.

The threat of auto tariffs is likely to 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. There are other avenues for how these tariffs may be implemented.

NAFTA/USMCA

The US House of Representatives approved the revised USMCA trade deal (an overwhelming majority).

https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/december/ambassador-lighthizer-issues-statement-house-passage-usmca

The USMCA now needs to go to the Senate for approval.

Canada has yet to approve the deal – this is likely to happen once 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

The UK election now decided and Brexit likely to happen by the end of Jan 2020. The US President reconfirmed his eagerness to begin talks with the UK on a trade deal, once 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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