MARS CAPITAL PARTNERS

Weekly Macro Review

w/c 2 Dec 2019

Key Themes

Global manufacturing weakness persisted into Nov across the US, Europe, Japan and Australia. But one of the main sources of recent weakness, China, was the stronger performer this month with activity rebounding into expansion. If this continues, it could have a positive impact on activity across key markets.

US manufacturing activity remained lackluster (across various indicators) – the accelerated decline in manufacturing overtime hours in Nov was an important highlight this week.

The ISM for Nov manufacturing activity continued to contract at a slightly faster pace. Yet the Markit PMI recorded faster growth in Nov. The detailed Oct factory orders report was little changed – orders increased in the month led mostly by defense aircraft orders. Excluding defense orders, new order growth was flat to the month prior. Manufacturing weakness still seems mostly focused on transport equipment, but orders continue to decline on an annual basis including and excluding transports.

Services activity reported across the Markit and ISM reports indicated that growth remained low in Nov. The ISM recorded a small deceleration in growth while the Markit report recorded a slight acceleration.

Employment and sentiment data suggested little impact on the consumer despite the deceleration in activity. Non-farm payrolls growth for Nov was higher – partly led by the return of striking manufacturing workers. The household survey indicated that annual growth in employment had slowed slightly, but total unemployed persons still declined. Employment growth slowed notably on a monthly basis – but unemployed persons still declined due to a larger decrease in participation in the month.

Growth in hours of all employees indicated no change on an annual basis (0% growth). But the average overtime hours of manufacturing employees declined at an accelerated pace of -11%.

The prelim consumer sentiment reading for Dec was stronger across current sentiment, current conditions and expected conditions. Sentiment readings are now at the "upper end of the favourable range is has travelled since the start of 2017".

> "Nearly all of the early December gain was among upper income households, who also reported near record gains in household wealth, largely due to increased stock prices."

Europe - Growth in Q3 was slightly faster across the broader Eurozone – led by households and improvement in the external sector. This helped to offset a lower contribution from private investment spending. So far Q4 results remain weaker, with little improvement regarding the decline in Eurozone manufacturing activity. Services activity also continued to slow. Retail sales in Oct declined at a faster pace.

Weakness in manufacturing persisted in Oct for the largest EU member Germany. New orders, especially for the domestic market continued to decline. Industrial production also declined at an accelerated pace in Oct – led by manufacturing and construction. Overall production levels are now 8% below the peak of Nov 2017.

Japan - There was little evidence of a rebound in Japan manufacturing conditions in Nov. Services activity improved, recording marginal growth. Overall, a fairly neutral result after the increase in the sales tax and rebound from storm disrupted trade and manufacturing in Oct.

Australia – Growth slowed further in Q3 led by lower contributions from households, government and trade. Private investment also continued to decline, but at a slower pace. The RBA was likely hoping to see some positive impact from interest rate cuts, tax relief and small increases in house prices on consumption. But households tightened expenditure in Q3. While household income growth has not been accelerating, household disposable incomes were boosted by tax relief in Q3. Instead of spending that additional disposable income, households increased saving. There has been a shift in household sentiment and behaviour.

Retail sales in Oct (nominal value) recorded no growth in the month. Several factors to consider; drought and bushfires in NSW & QLD could be impacting performance and consumers could be holding out for the Nov US-style Black Friday promotions.

The RBA rates decision was made prior to the release of this data and the Board kept rates on hold. The performance of the labour market will be an important datapoint over the next few weeks.

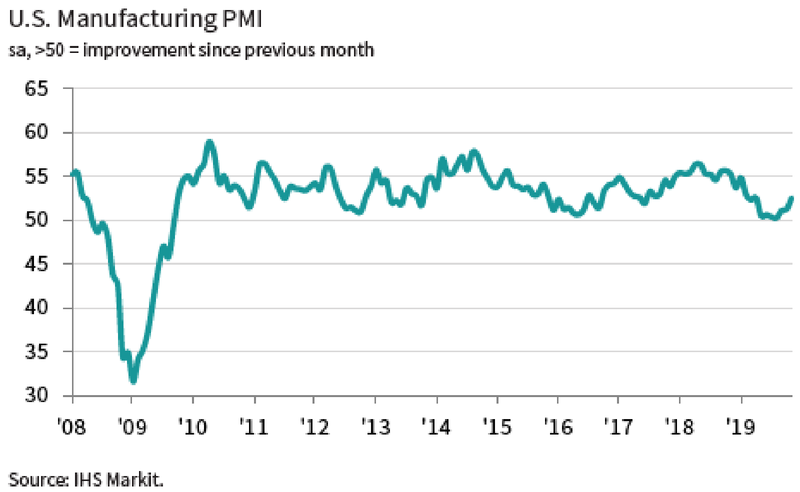
Contents

US Data

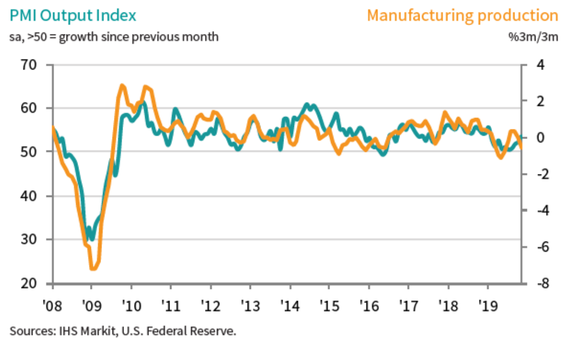
US Markit Manufacturing PMI (Nov)

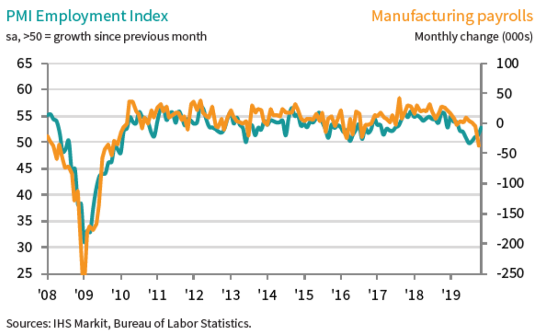
The Markit manufacturing PMI increased at a faster pace in Nov. This was the result of generally stronger output, demand, employment and growth in purchasing activity. Despite the improvement in activity over the last two months, sentiment of future activity continued to wane, falling to the lowest level in 3 months. While overall activity has expanded, growth remains below the long-run average.

Manufacturing PMI; Nov 52.6 versus Oct 51.3



There remains some discrepancy between the PMI output and employment indices and the official Fed Reserve manufacturing production and BLS payroll data;





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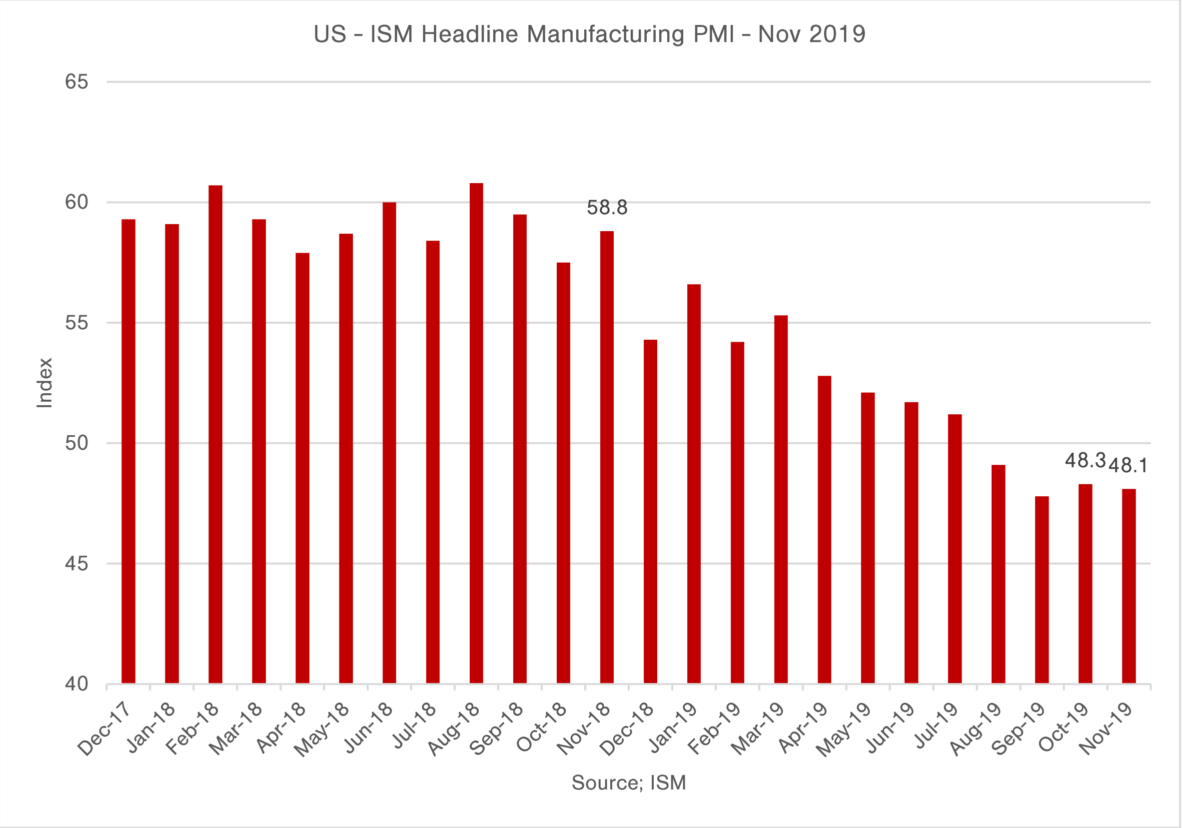
ISM Manufacturing PMI (Nov)

For Nov, the ISM report indicated that manufacturing activity continued to contract, and at a slightly faster pace. This was led by a further decline in new orders, order backlogs and employment. Production continued to decline, but at a slower pace – partly supported by the further contraction in order backlogs.

The breadth of the slower activity remained broad – and unchanged from the month prior;

> Of the 18 manufacturing industries, five reported growth in November: Apparel, Leather & Allied Products; Food, Beverage & Tobacco Products; Paper Products; Miscellaneous Manufacturing; and Computer & Electronic Products.

Headline ISM Manufacturing PMI; Nov 48.1 versus Oct 48.3



New orders continued to contract at a faster pace. There was an increase in the number of firms reporting a lower volume of new orders. New export orders (approx. 77% of firms) slid back into contraction.

Production, while still contracting, declined at a slower pace sitting closer to a neutral level. The improvement was the result of less firms reporting lower production and more firms reporting the same level of production as the month prior. There was a small decline in the number of firms reporting higher production.

Supporting the improvement in production was a further acceleration in the decline of order backlogs.

Employment contracted at a faster pace. Less firms reported higher employment and there was an increase in firms reporting the same levels of employment. There was a small decline in the proportion of firms reporting lower employment levels.

Inventories contracted at a faster pace. Customer inventories also contracted at a faster pace with a solid decline in firms reporting inventories 'too high'.

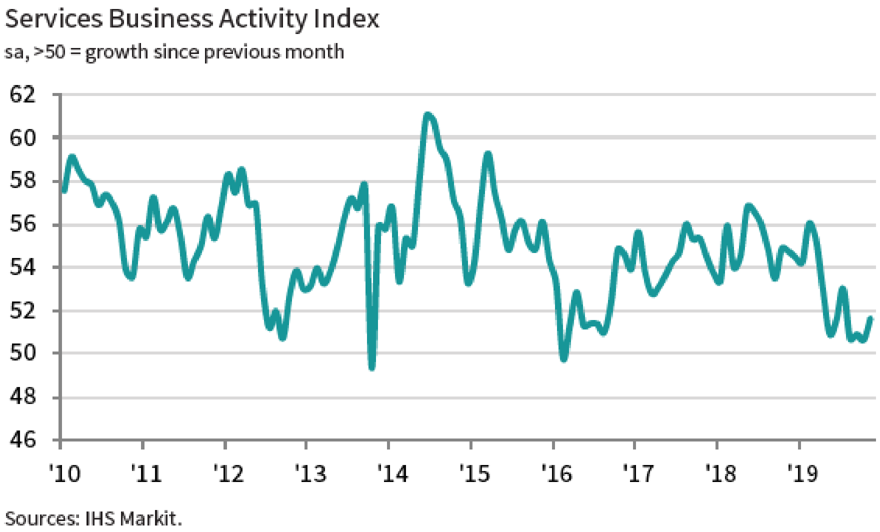
Firms importing activity (approx. 82% of firms in the survey) continued to contract, albeit at a slower pace this month.

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

Markit Services PMI (Nov)

The Markit services activity index in the US increased at a slightly faster pace in Nov.

Headline Services Activity Index; Nov 51.6 versus Oct 50.6



New orders rebounded from the decline in the month prior but within that, new export orders continued to decline. Overall backlogs increased. Employment increased slightly for the first time since Aug. Selling prices increased fractionally.

Sentiment for the output growth over the next 12-months remained subdued.

https://www.markiteconomics.com/Public/Home/PressRelease/742a7acf2bbc418699e19482ce3e0670

ISM Non-Manufacturing PMI (Nov)

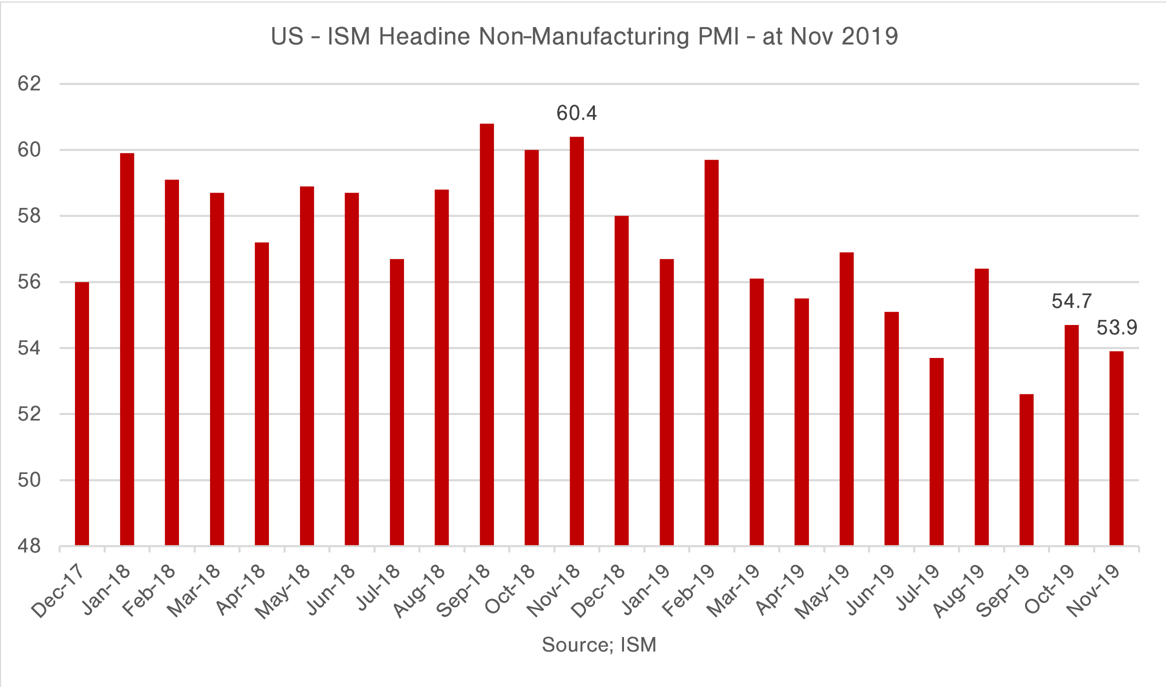
There was slightly slower growth for the ISM non-manufacturing PMI in Nov. Overall activity/output growth was lower in Nov, but there was a small increase in new orders and employment.

The breadth of increase remained broad with twelve industries out of seventeen recording growth in the month;

The 12 non-manufacturing industries reporting growth in November — listed in order — are: Real Estate, Rental & Leasing; Health Care & Social Assistance; Arts, Entertainment & Recreation; Accommodation & Food Services; Retail Trade; Finance & Insurance; Transportation & Warehousing; Management of Companies & Support Services; Information; Utilities; Professional, Scientific & Technical Services; and Public Administration.

The five industries reporting a decrease are: Agriculture, Forestry, Fishing & Hunting; Mining; Wholesale Trade; Construction; and Other Services.

Headline Non-Manufacturing PMI; Nov 53.9 versus Oct 54.7



Output growth slowed more notably this month – from 57 in Oct to 51.6 in Nov. Less firms recorded higher output and more firms recorded lower output. Backlogs of orders were unchanged and remained in contraction.

There was a small lift in the pace of new orders growth (+1.5%pts). New export orders also increased at a faster pace from a neutral level in the month prior. Employment growth increased at a slightly faster pace (+1.8%pts).

Imports continued to contract at a faster pace – now at 45 in Nov versus 48.5 in Oct. The contraction in imports could suggest sluggish demand.

The nine industries that reported a decrease in imports in are: Arts, Entertainment & Recreation; Retail Trade; Other Services; Mining; Construction; Transportation & Warehousing; Wholesale Trade; Professional, Scientific & Technical Services; and Information.

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

US Factory Orders - Final (Oct)

The full report for Oct did not change much with the inclusion of non-durable goods.

New orders increased in the month led mostly by defense aircraft orders. Excluding defense orders, new order growth was flat to the month prior. Orders continue to decline on an annual basis both including and excluding transports.

Shipments remained weak with 0% growth in the month – both durable and non-durable goods shipments grew by 0%. Shipments also continue to decline on an annual basis – led by weaker transports.

Unfilled orders increased slightly due to defense orders. But on an annual basis, unfilled orders continue to decline. Ex transports, unfilled orders growth has slowed to 0% - indicating firms are relying more on working through back orders in light of weaker new orders.

Inventory growth remains elevated – led mostly by transport equipment.

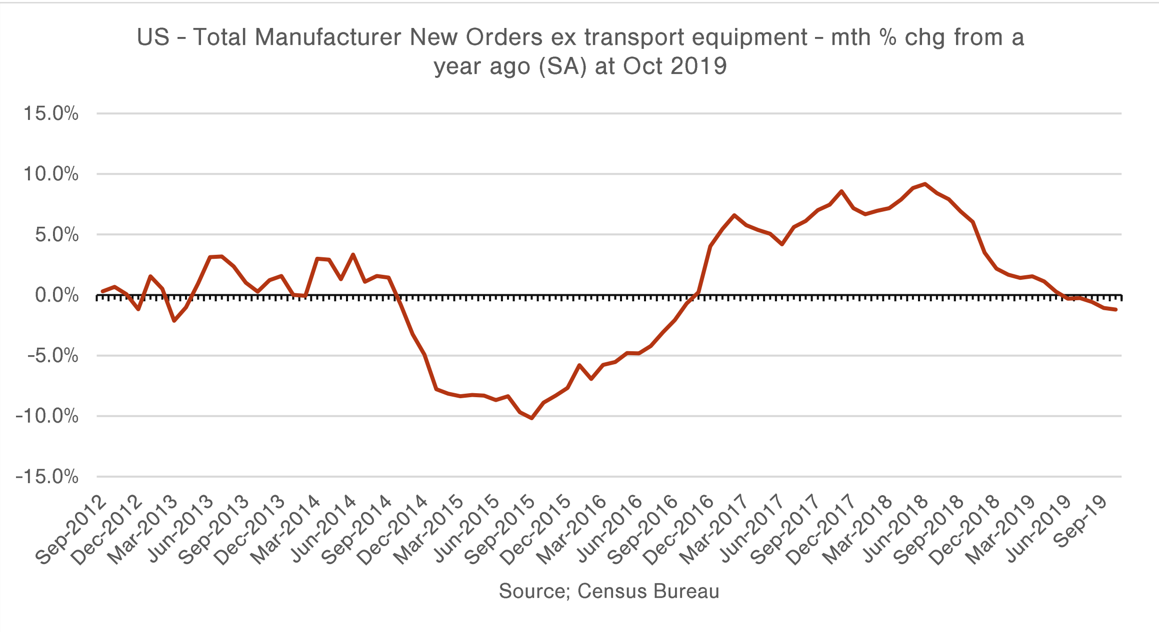
<u>New Orders</u>

<u>New Orders – month change</u>; Oct +0.3% (+$1.4bn) versus Sep -0.8%

The majority of the increase was the result of an increase in durable goods orders. Leading the increase in orders was transport equipment – order for defense (+$1.1bn) and non-defense aircraft (+$0.8bn) both made the larger contribution. Orders for motor vehicle bodies declined for the third month.

Orders also increased for fabricated metal products and machinery.

On an annual basis, new orders for all total manufacturing declined at a slower pace; Oct -1.2% versus Sep -3.7%. Excluding transportation, and despite the lift in the month, overall orders declined at a slightly faster pace; Oct -1.2% versus Sep -1.1%



Shipments

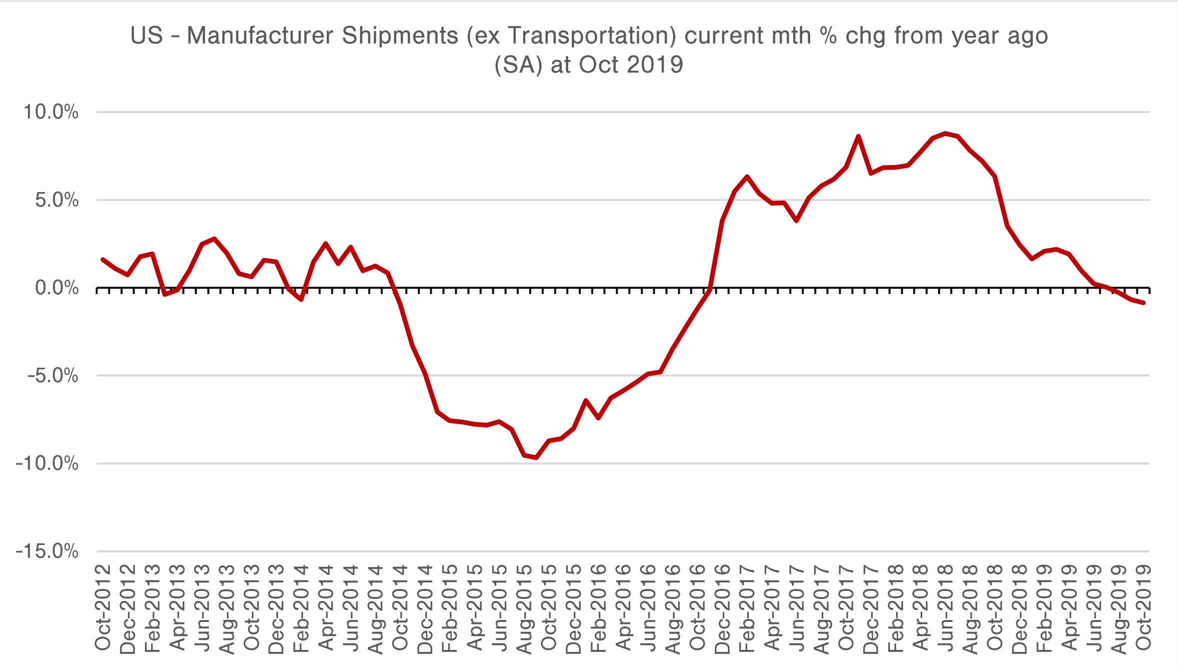
The performance of shipments remained weak even with the addition of non-durable goods in this report.

Shipments – month change; Oct 0% versus Sep -0.4%

Durable goods shipments increased by 0% in Oct. Shipments declined across transport equipment (autos, light truck/SUV's and motor vehicle bodies all declined offsetting an increase in defense and non-defense aircraft shipments), electrical equipment, primary metals and non-metallic mineral productions. This was offset by increases in shipments for machinery, computer equipment, furniture and misc.

Non-durable goods shipments also increased by 0% in the month. The larger increase in petroleum & coal and chemical shipments were offset by declines in food and beverage & tobacco shipments.

On an annual basis, shipments declined at a slightly faster pace for total manufacturing; Oct -1.5% versus Sep -1.4%. Excluding transportation, shipments are only marginally below the same time a year ago; Oct -0.8% versus Sep -0.7%.



The annual decline in the value of transportation shipments continues to drag on total manufacturing; Oct -5% versus Sep -5%. This remains the key difference between the weakness in 2015-16 and 2018-19.

Unfilled Orders

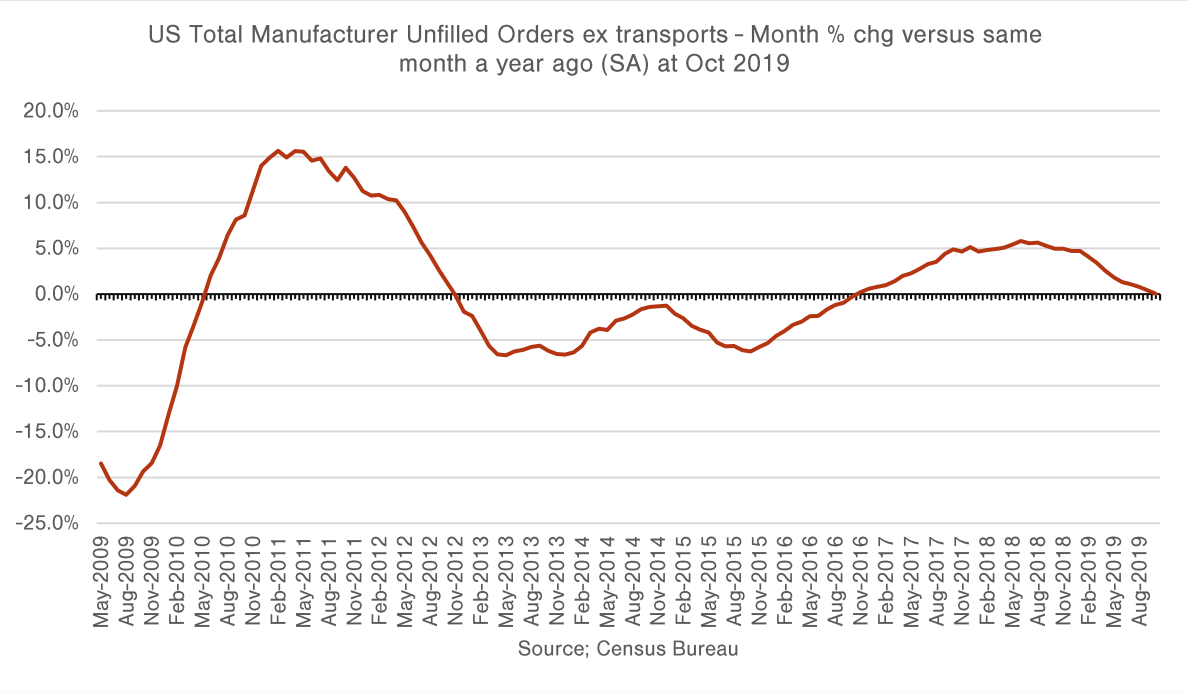
Unfilled orders – month change; Oct +0.1% (+$1.03bn) versus Sep 0%

This is only measured for durable goods.

The increase in unfilled orders was the result of an increase in unfilled orders for defense aircraft of +$3bn (as per the advance report). Non-defense aircraft unfilled orders declined (by -$2bn) versus the prior month even though there was still a lift in orders for the month.

Primary metals unfilled orders also increased in the month.

On an annual basis, total manufacturing unfilled orders continue to decline – indicating that with the weaker orders growth, firms are relying more on working through order backlogs in the short term. Total manufacturing unfilled orders declined by -1.6% versus a year ago in Oct. Transports have remained a large component of this decline. But even excluding transportation, unfilled orders for durable goods are no longer growing on an annual basis; Oct 0% versus Sep +0.4%



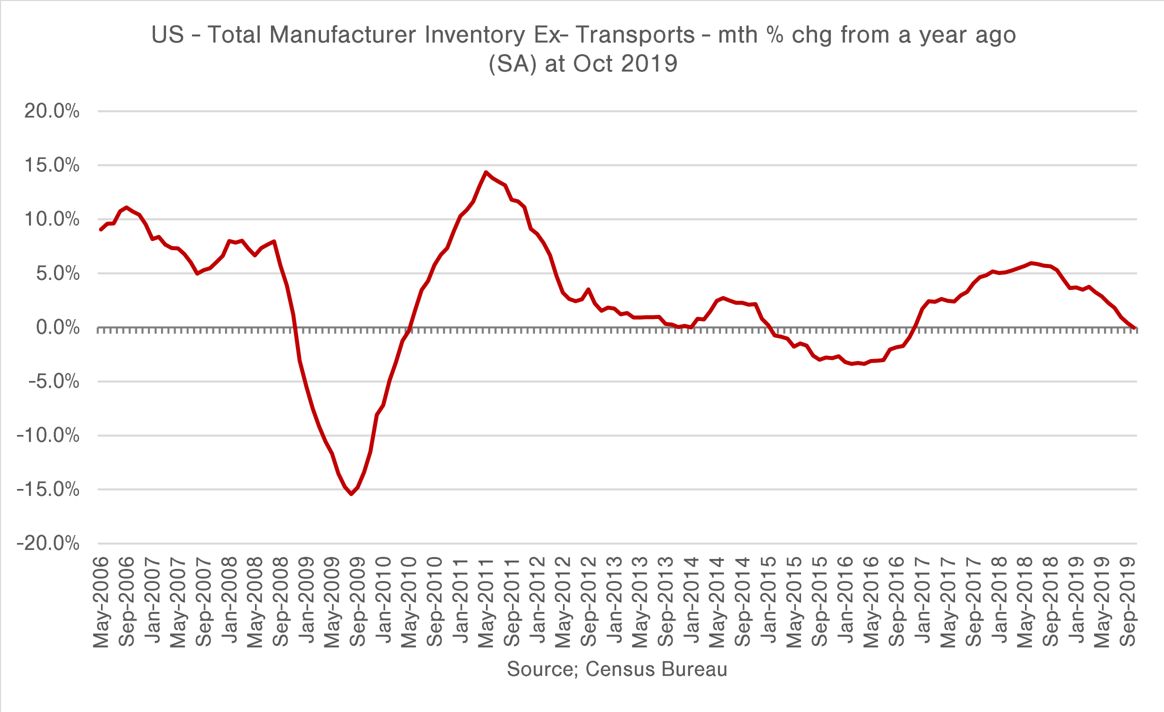
<u>Inventory</u>

<u>Inventory – month change</u>; Oct +0.1% (+$0.9bn) versus Sep +0.3%

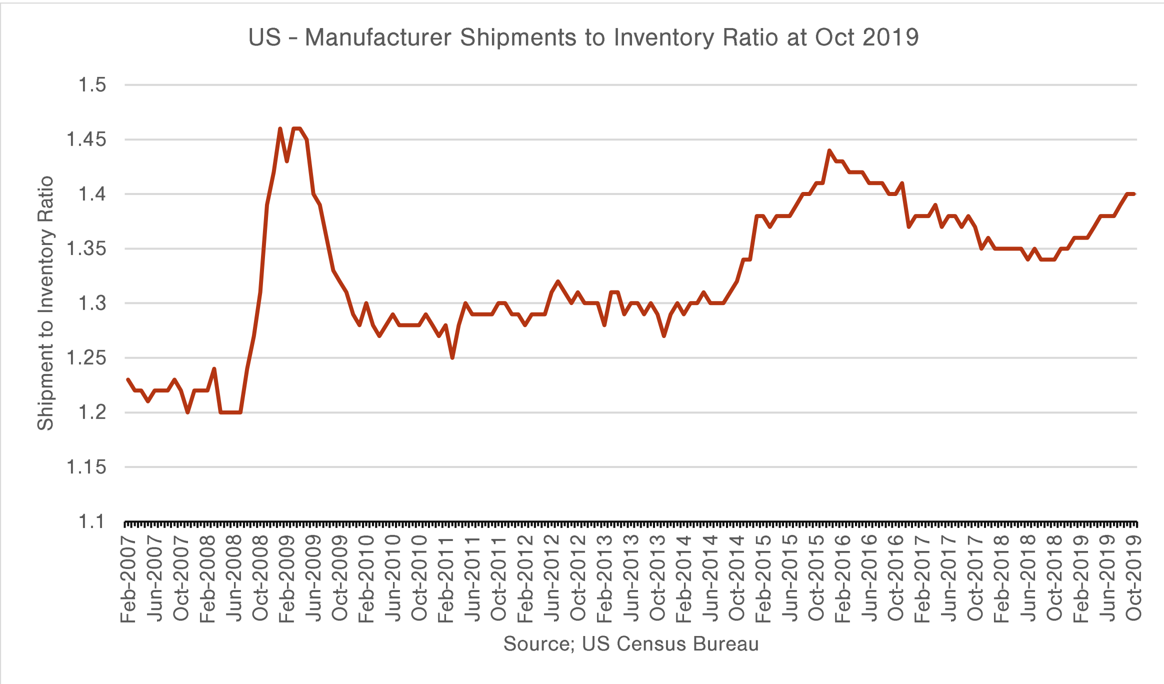
The increase in inventory this month was led by durable goods; Oct +0.4% (+$1.6bn). This was predominantly an increase in the value of transport equipment inventory (+$1.8bn). The largest increase in transport equipment inventory was non-defense aircraft (+$1.5bn) – even though orders only increased by +$0.8bn after declining by -$1.7bn in Sep, but unfilled orders declined by $2bn in Oct (and also declined by -$2bn in Sep).

Non-durable goods inventory declined by -0.3% in Oct (-$0.7bn). Food and chemical product inventories led the decline in the month.

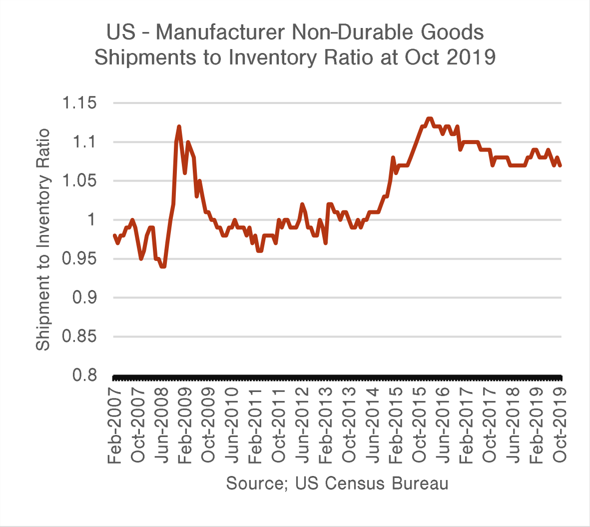
On an annual basis, the value of inventory continues to grow at a faster pace than orders or shipments. Total Manufacturing inventory annual change +2.4% in Oct. This increase has been slowing. Again, the value of transport equipment inventory is a key contributor to the overall increase. Excluding transport equipment, the annual growth in the value of inventory slowed to 0% in Oct.

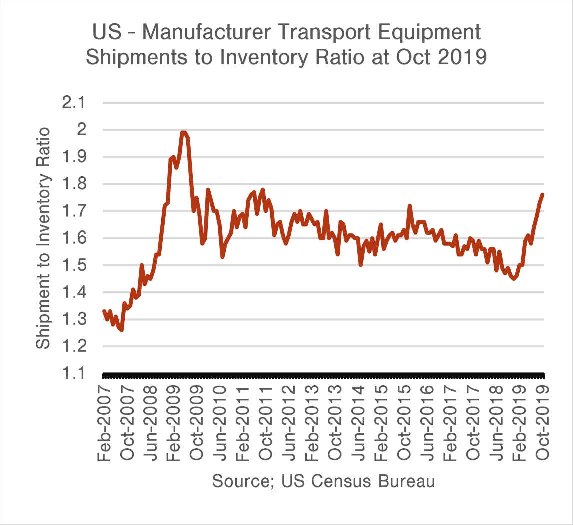


Another view of the value of inventory is the inventory to shipment ratio. At the total manufacturer level, the ratio remains elevated, but below the 2015-16 period of weakness;



This has been led by both durable and non-durable goods – although non-durable goods ratio has improved, it remains elevated. Within durable goods, transport equipment shipment to inventory ratio is now higher than the peak in Dec 2015 almost on par with 2011;





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

Non-Farm Payrolls and Household Employment Survey (Nov)

US NON-FARM PAYROLLS

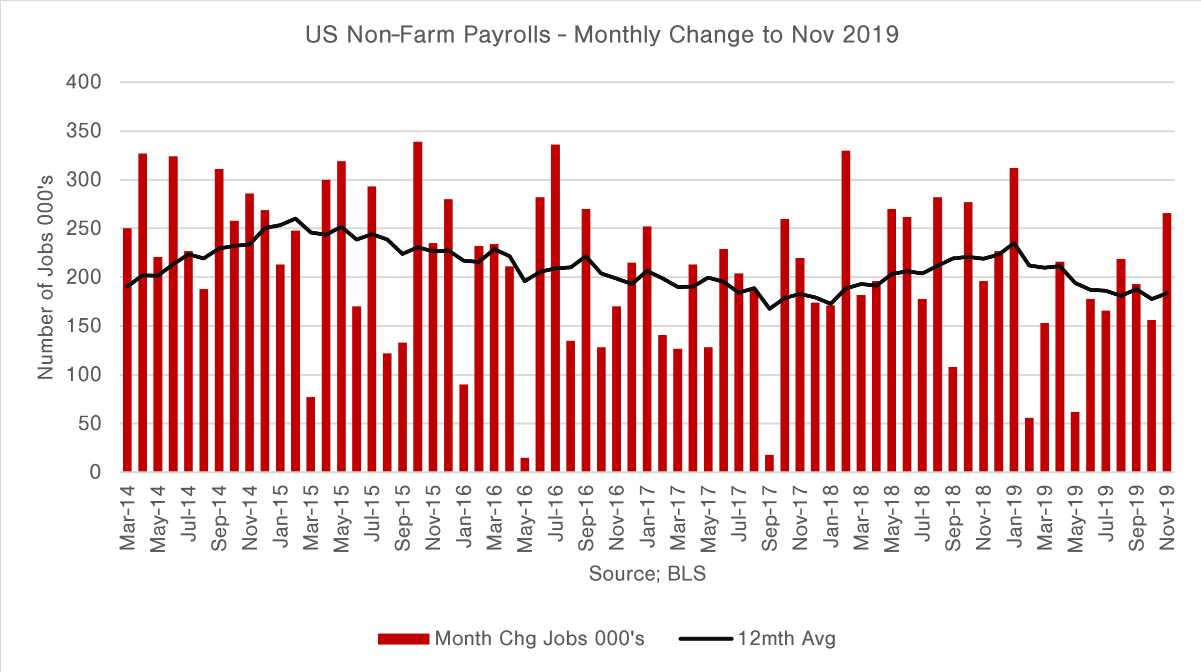
Non-farm payrolls increased at a faster pace this month and the growth in the two prior months were revised higher.

Non-farm payrolls – month change; Nov 266k versus Oct 156k (Oct revised higher from 128k)

The 12-month average lifted slightly to 184k which remains below the prior 12-month average to Nov 2018 of 201k.

The most notable job gains were in health care, professional and technical services and manufacturing. From the BLS;

> Manufacturing employment rose by 54,000 in November, following a decline of 43,000 in the prior month. Within manufacturing, employment in motor vehicles and parts was up by 41,000 in November, reflecting the return of workers who were on strike in October.



<u>HOUSEHOLD EMPLOYMENT SURVEY (NOV)</u>

On an annual basis, key elements of the labour market remain strong. Although annual employment growth has slowed, it remains above the growth in the total labour force. The annual decline in total unemployed persons slowed slightly due mostly to the slower employment growth.

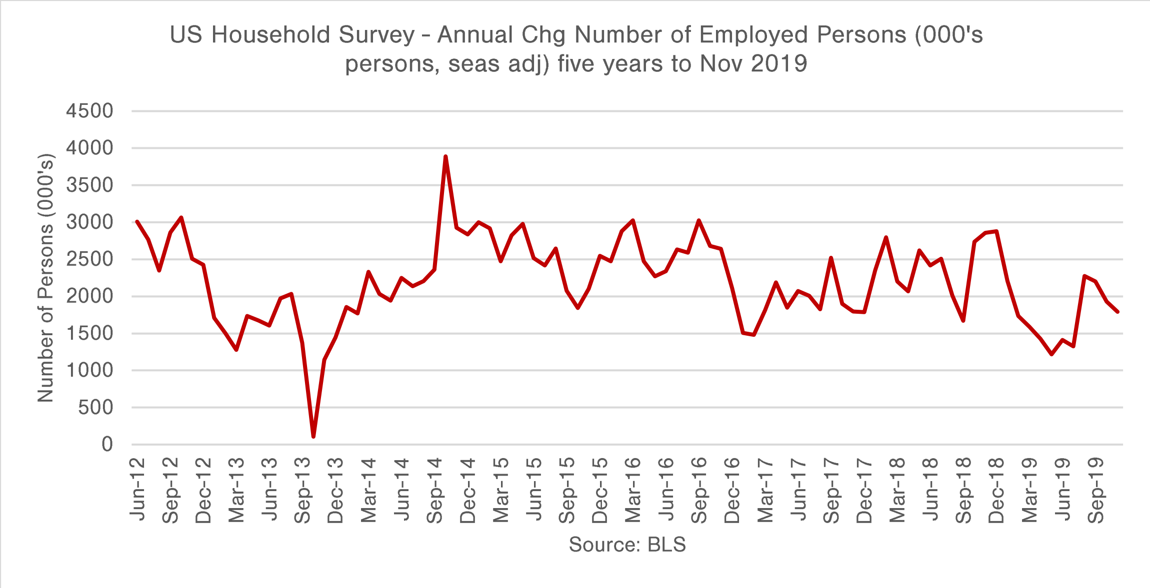
On a monthly basis though, employment growth slowed notably. But employment growth still remained above that of the total labour force – because participation declined in Nov versus Oct. The total number of unemployed persons declined in the month but the unemployment rate remained little changed.

While the total average weekly hours of all employees were unchanged on an annual basis (0% growth), the number of overtime hours declined at an accelerated pace of -11%.

<u>Employment</u>

Both annual and month employment growth slowed in Nov;

<u>Total employed persons – annual change</u>; Nov 1.79m persons versus +1.93m persons



The annual growth remains above what both population and changes in participation added to the labour force – hence total unemployed persons continued to decline in the year to Nov.

On a monthly basis, employed growth slowed notably;

<u>Total employed persons – month change</u>; Nov +83k persons versus Oct +241k persons

Despite the slower monthly growth in employment, total unemployed persons still declined in the month because there was a larger decline in participation for the month (which offset a larger increase in the est of what population growth added to the labour force).

<u>Labour Force</u>

Growth in the total size of the labour force also continued to slow this month and on an annual basis.

Labour Force – annual change; Nov 1.58m persons versus Oct 1.67m persons

The primary driver of the slower growth in the labour force was the slower pace of growth in participation. In Nov, the annual increase in participation added approx. 780k persons versus Oct when the annual increase in participation added approx. 1m persons to the labour force.

This was similar on a monthly basis;

Labour Force – month change; Nov +40k persons versus Oct +325k persons

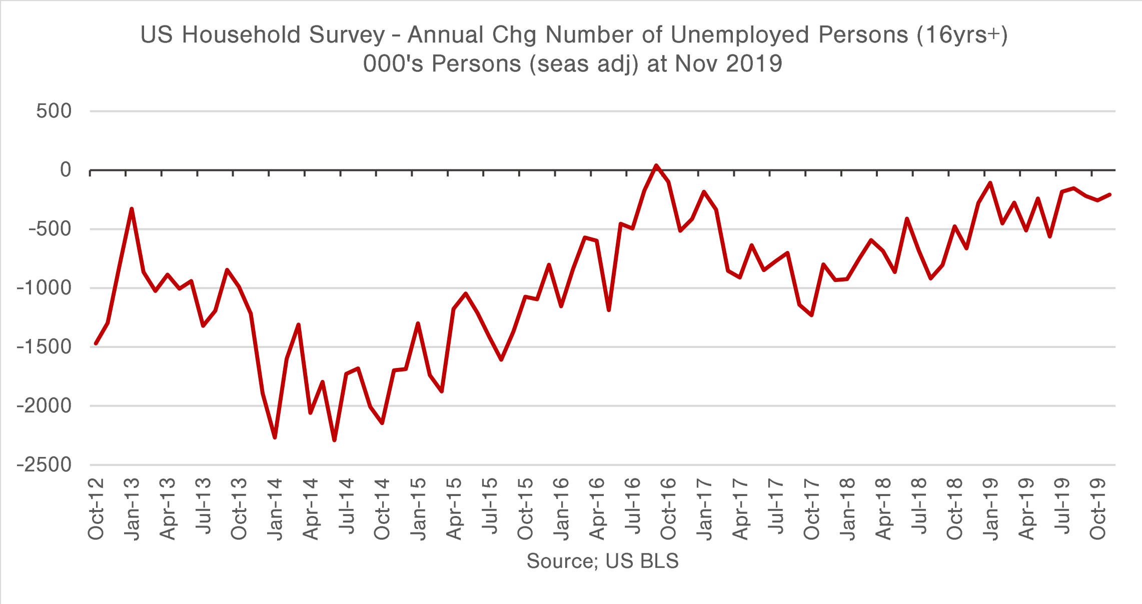
The reason for the much slower growth in the labour force in the month was due to the decline in participation versus the month prior. The participation rate declined from 63.3% in Oct to 63.2% in Nov which accounted for approx. 260k persons leaving the labour force in the month.

The monthly decline in participation was the main reason why unemployed persons did not increase in the month – given that employment growth slowed notably in the month.

<u>Total Unemployed Persons</u>

The annual decline in total unemployed persons slowed slightly due to the slower annual growth in total employed persons;

Total unemployed persons - annual change; Nov -207k versus Oct -257k



On a monthly basis, total unemployed persons also shifted back to decline after increasing in the month prior;

Total unemployed persons – month change; Nov -44k persons versus Oct +86k persons

The main reason why total unemployed persons declined in Nov was due to the decline in participation. This helped to offset weaker employment growth and higher contribution of pop growth to the labour force.

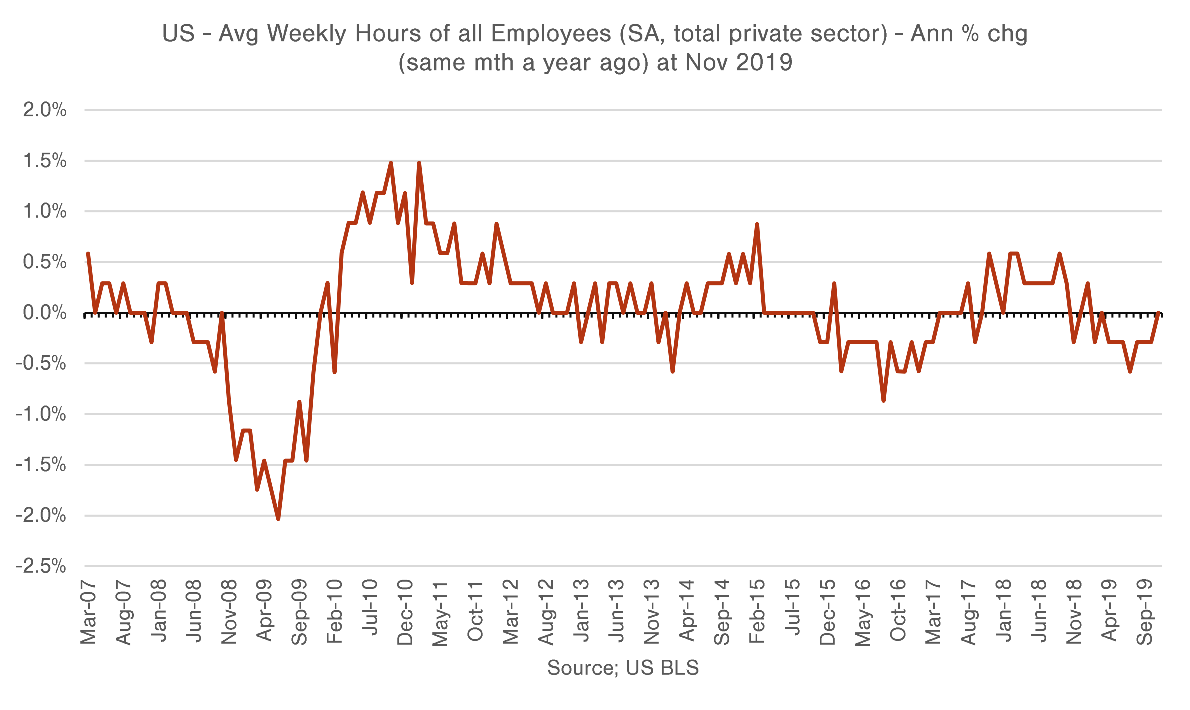
The unemployment rate was little changed in the month; Nov 3.53% versus Oct 3.56%

Summary of the Labour Market Indicators

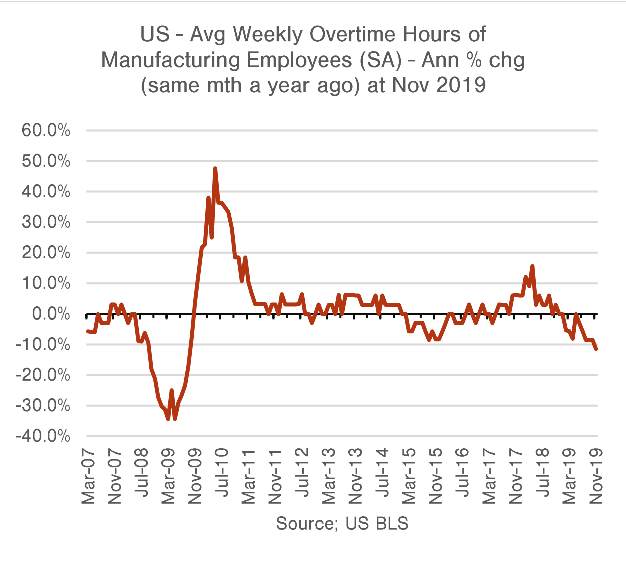
000's people (16yrs+)	Annual chg - NOV 2019	Monthly Chg - NOV
The estimated change in the Labour Force due to pop growth (1)	803	300
How many jobs available for them? (employment growth) (2)	1,790	83
Difference (if negative, then employment growing faster than what pop adds to the labour force) (3)	- 987	217
Change labour force participation - (if positive, people entering/returning to the labour force) (4)	780	-260
The remainder is the chg in total unemployed persons (declining if negative) (4) plus (3)	- 207	-43
Two views of annual growth in the labour force;		
Total employed persons plus total unemployed persons	1,583	40
Est of what population adds to the labor force plus change in participation	1,583	40
BLS reported change in the size of the labour force	1,583	40

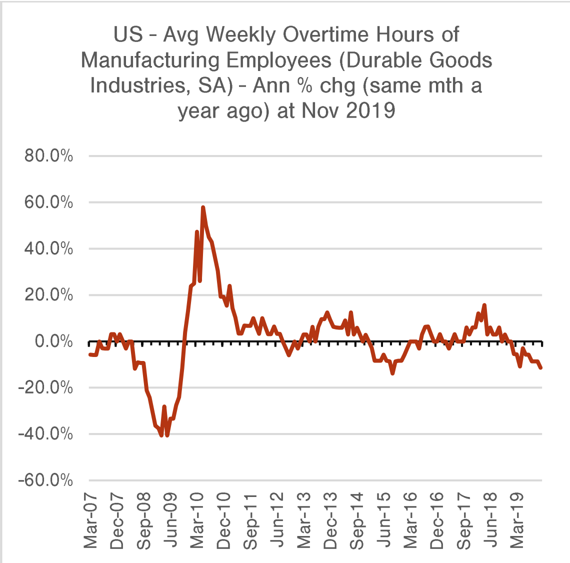
Average Weekly Hours

The annual employment situation remains fairly steady. Of note is that employment growth is slowing. On an annual basis, hours worked were unchanged with growth at 0%;



Consistent with the theme of weakness in the manufacturing sector is that overtime hours for manufacturing employees have continued to decline. In Nov, that annual decline accelerated to -11.4% from -8.6% in Oct. This is the exactly the same for overtime hours of manufacturing employees in durable goods industries – and this was the month when manufacturing jobs increased by 54k persons in the non-farm payrolls.





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

Wholesale Sales and Inventories (Oct)

US Wholesales sales declined in the month at an accelerated pace – both durable goods and non-durable goods contributed to the decline. The value of inventory increased at a total level

– the decline in durable goods inventory for the month was offset by an increase in non-durable goods inventory (mostly Drugs).

Wholesales sales – month change; Oct -0.7% versus Sep -0.1% (revised lower from 0%)

Durable goods wholesale sales declined by -0.6% in Nov. Lumber, machinery and autos were the only categories that recorded growth in the month, which was more than offset by declines across all other durable goods categories. The largest decline was recorded for misc durable.

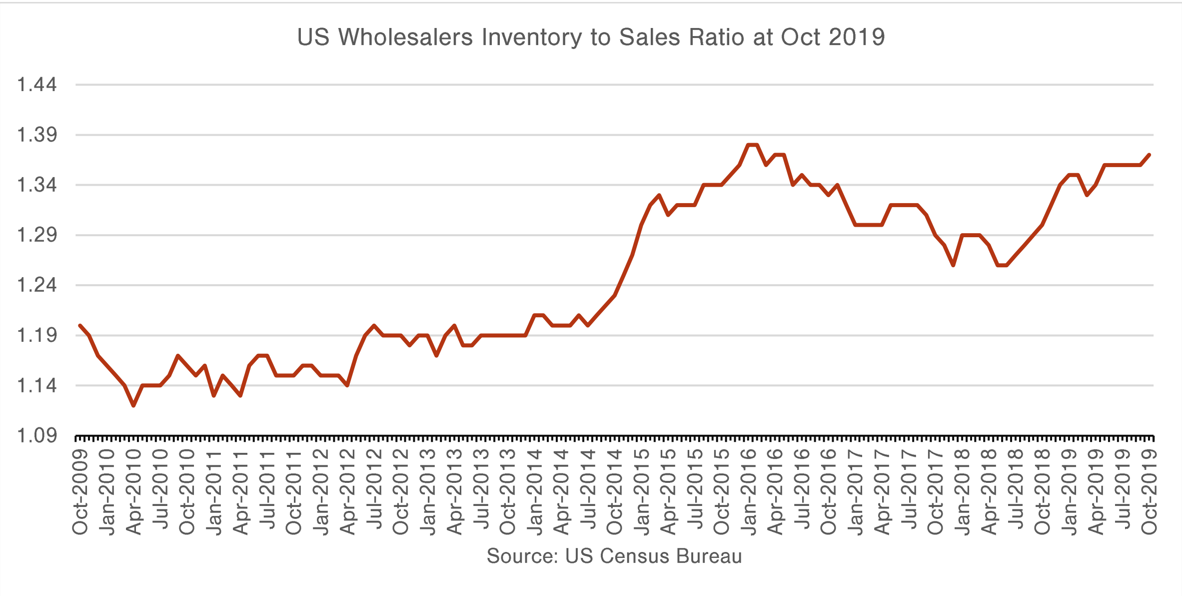
Non-durable goods wholesales sales declined by -0.9% in Nov. The two single largest declines were for farm products and misc non-durable.

Inventory – month change; Oct +0.1% versus Sep -0.7%

The increase in inventory for the month was the result of growth in non-durable goods inventory – of which Drugs accounted for most of the increase. Despite the increase in inventory, the inventory to sales ratio remains on par with the year prior.

Durable goods inventory declined by -0.3% - led by declines in inventory for autos, professional equipment, metals and misc durables.

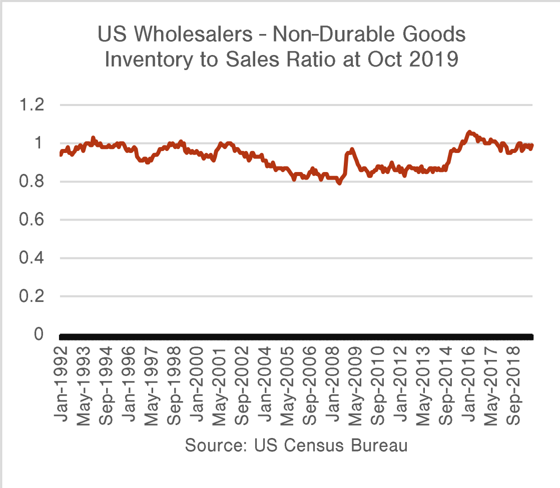
Inventory to Sales Ratio; Oct 1.37 versus Sep 1.36



The small lift in the inventory to sales ratio for the month was led by non-durable goods, but over the year, the increase in the inventory ratio to sales ratio has been led by durable goods;

Inventory to sales ratio – non-durable goods; Oct 0.99 versus Sep 0.97 (Oct 2018; 0.96)

Inventory to sales ratio – durable goods; Oct 1.77 versus Sep 1.77 (Oct 2018; 1.66)



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

Uni of Michigan Consumer Sentiment Prelim (Dec)

Consumer sentiment continued to strengthen in the prelim reading for Dec;

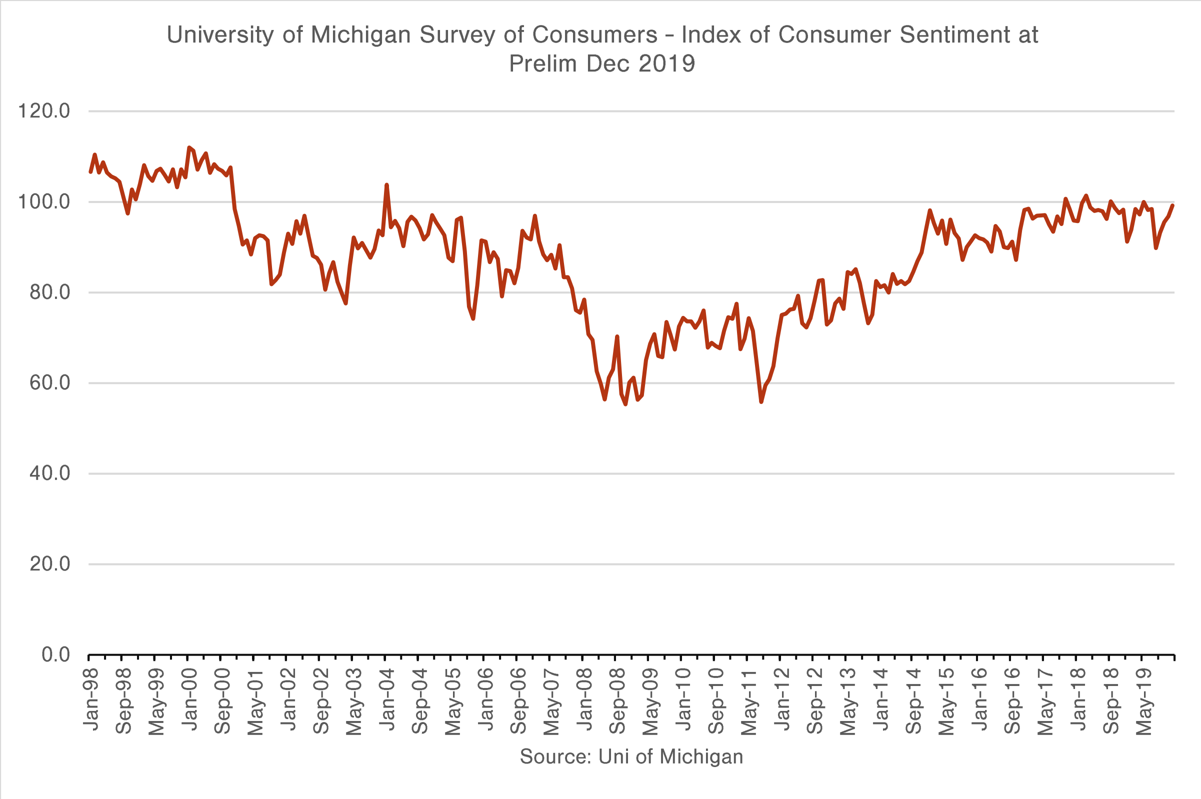
> "Consumer sentiment rose to the upper end of the favorable range it has traveled since the start of 2017."

> "Nearly all of the early December gain was among upper income households, who also reported near record gains in household wealth, largely due to increased stock prices."

Index of Consumer Sentiment

Index of consumer sentiment – month change; Dec 99.2 versus Nov 96.8

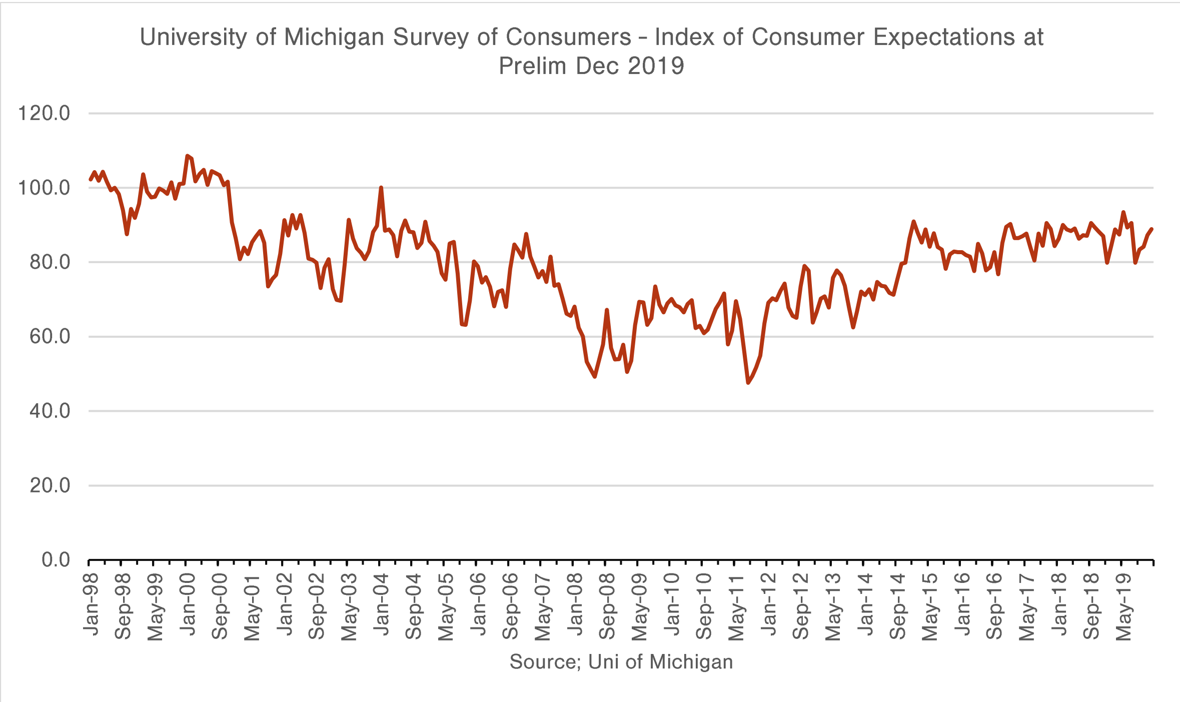
The index is now 1% above where it was a year ago (the larger decline last year occurred in Jan 2019).



<u>Index of Consumer Expectations</u>

<u>Index of consumer expectations – month change</u>; Dec 88.9 versus Nov 87.3

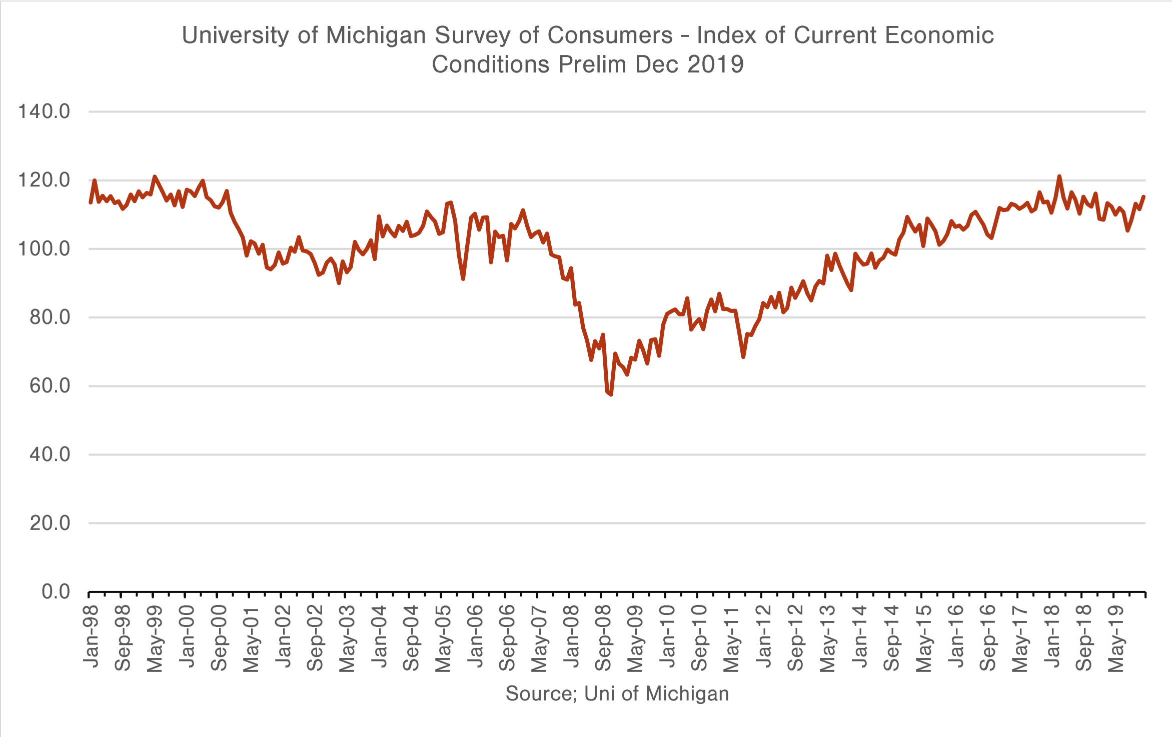
The index is now 2% above a year ago;



Index of Current Conditions

Index of current economic conditions – month change; Dec 115.2 versus Nov 111.6

The index is now only 1% below a year ago and remains 5% below the peak in Mar 2018;



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

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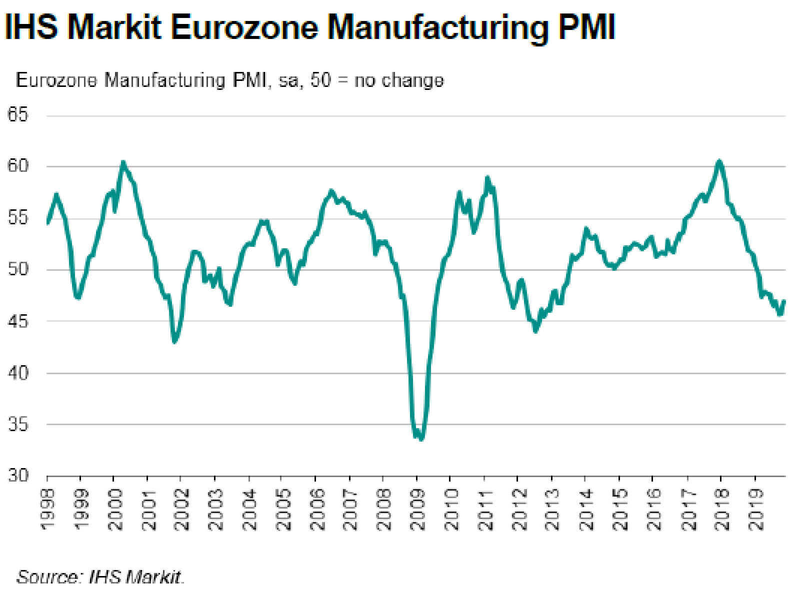
Europe

Eurozone Manufacturing PMI (Nov)

The Markit Manufacturing PMI remained in contraction in Nov, but the pace of contraction slowed.

Headline Eurozone Manufacturing PMI; Nov 46.9 versus Oct 45.9



At the broad Eurozone level, output and new orders continued to decline – both at a slower pace. New export orders also continued to decline at a slower pace.

Order backlogs continued to decline, although also eased. But firms reduced employment now for the seventh month in a row.

Input costs continued to fall. Firms also reduced selling prices for the fifth month in order to offset weaker demand conditions. The level of discounting was the largest since Apr 2016.

Business sentiment continued to improve – with all member countries reporting optimism that output would increase in twelve months' time.

https://www.markiteconomics.com/Public/Home/PressRelease/9c664d0a75e844989d68f4a649338e68

Eurozone Services PMI (Nov)

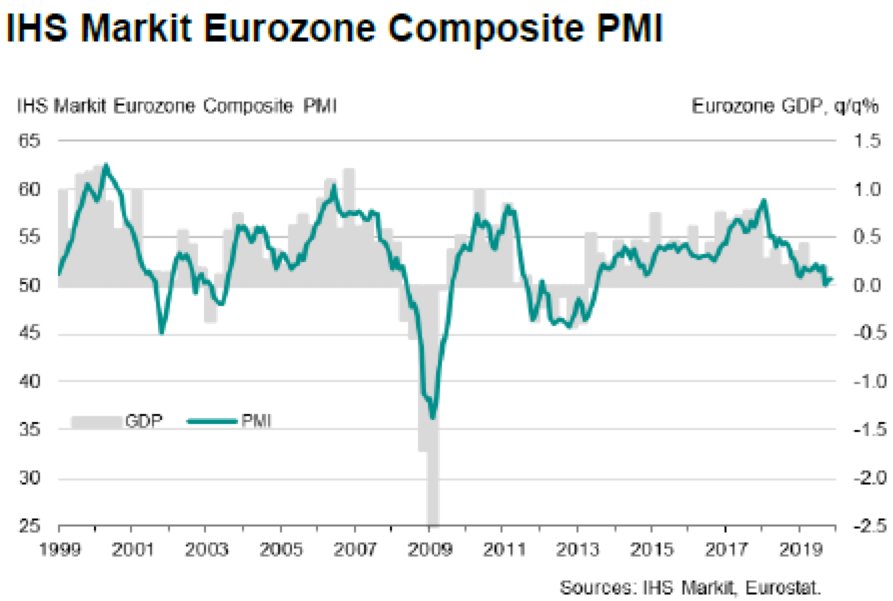
The overall services activity growth slowed in Nov.

Headline Services Activity Index; Nov 51.9 versus Oct 52.2

Along with the slower growth in output, growth in new orders also remained muted. Domestic order growth helped to offset continued falls in service export orders. Order backlogs continued to decline for the fourth month. Employment growth was sustained. While there was a lift in input cost growth, output charges only increased modestly.

Business sentiment increased to the highest level since Jul, but remains subdued compared to historical levels.

At the composite level, output growth remained marginal. The slower growth in services and the weaker decline in manufacturing resulted in no change in the headline composite output index; Nov 50.6 versus Oct 50.6



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Eurozone GDP Q3

Real GDP grew at a constant pace in the Euro Area in Q3 versus Q2 – led by a less negative impact from the external sector and a larger contribution to growth from household consumption.

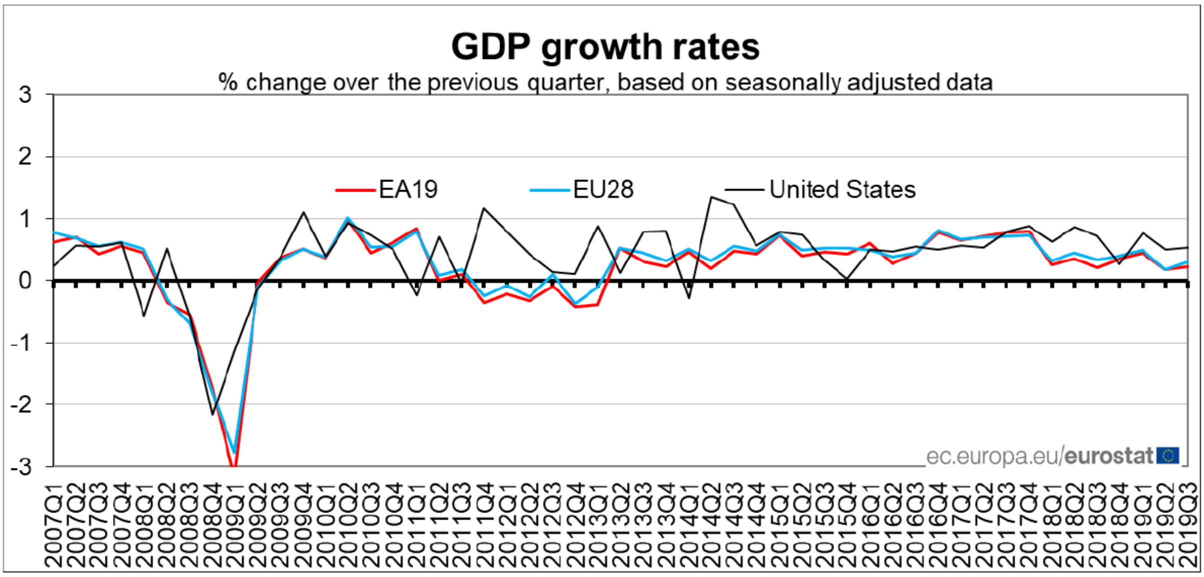
Real GDP growth lifted in the broader EU group – led by a shift to a positive contribution to by the external sector, a less negative impact from the change in inventories and a larger contribution from household consumption.

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

Annual GDP growth in the Euro area was unchanged at +1.2% in Q3 after growing at +1.2% in Q2.

EU 28 Real GDP – quarter change; Q3 +0.3% versus Q2 +0.2%

Annual GDP growth in the broader EU group was unchanged in Q3 at +1.4% (in Q2 the annual real GDP growth was also +1.4%).



Contribution to GDP – Expenditure View

Euro Area

Although the pace of growth was unchanged between Q2 and Q3 there were several shifts in the expenditure view;

Gross fixed capital formation made a much smaller contribution to growth adding only +0.1%pts to headline growth versus +1.2%pts in Q2.

Households made a slightly larger contribution to growth adding +0.3%pts (versus +0.1%pts in Q2).

Net exports still detracted from growth slightly (-0.1%pts) but not to the same degree as in Q2 which was -1.1%pt.

The contribution from the change in inventories was unchanged.

EU 28

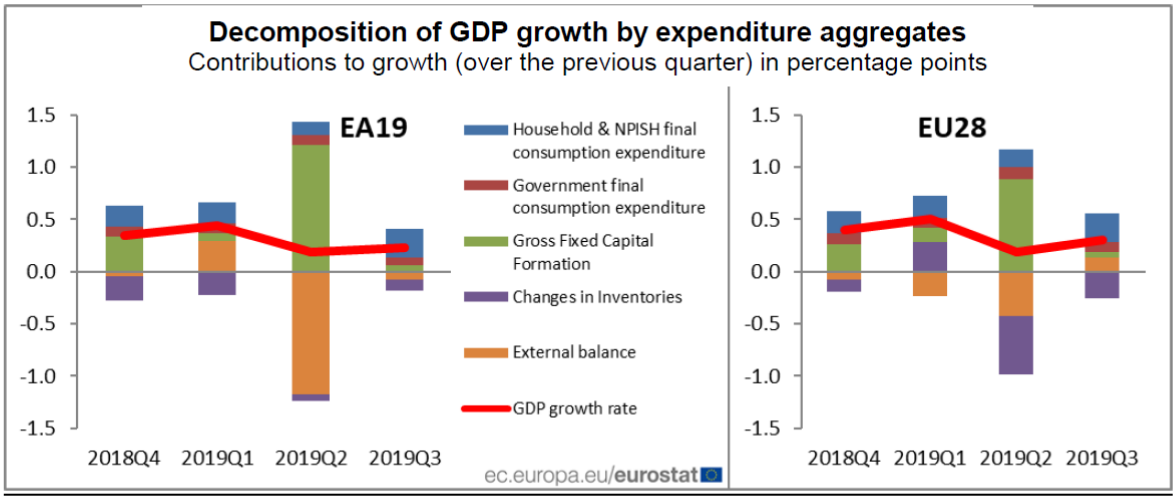
Improvement across several areas contributed to the slightly faster growth in the quarter;

Household consumption made a slightly larger contribution to headline growth adding +0.3%pts (versus +0.2%pts in Q2).

Net exports made a positive contribution to growth (+0.2% pts) after detracting from growth in the quarter prior (-0.1%pts)

The change in inventories made a less negative impact on growth, but still detracted from headline growth by -0.3%pts in Q3.

These helped to offset the smaller contribution to growth from private investment which added +0.1%pts to growth in Q3 after adding +0.9%pts in Q2.



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Eurozone Retail Sales (Oct)

Both Euro area and broader EU retail sales declined at a slightly faster pace in Oct. Annual sales growth across both areas slowed.

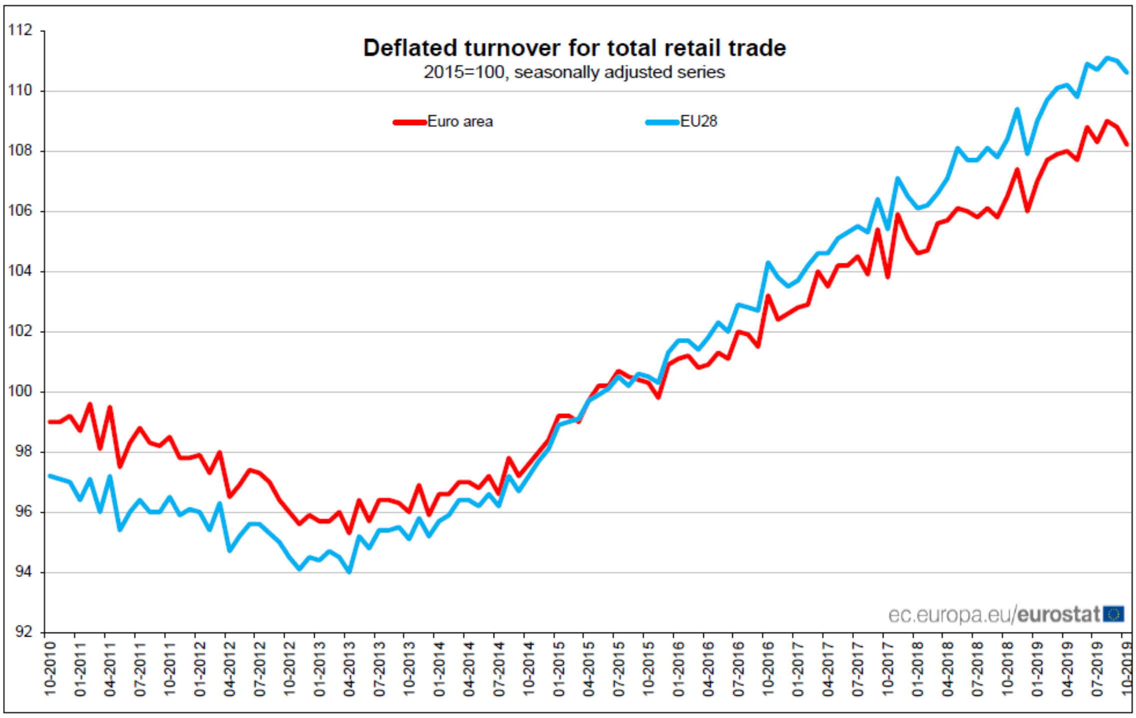
Euro Area Retail Sales (volume) – month change; Oct -0.6% versus Sep -0.2%

The decline in sales for the month was led by declines in non-food categories such as textiles & clothing, electrical goods, computer equipment, pharma goods and a larger decline in mail order and internet sales.

Sales of food, drink & tobacco and fuel increased in the month.

On an annual basis, retail sales in the Euro Area slowed (almost halved) from 2.7% in Sep to +1.4% in Oct.

Annual retail sales growth in the broader EU group also slowed by more than half; Oct +1.9% versus Sep +3%.



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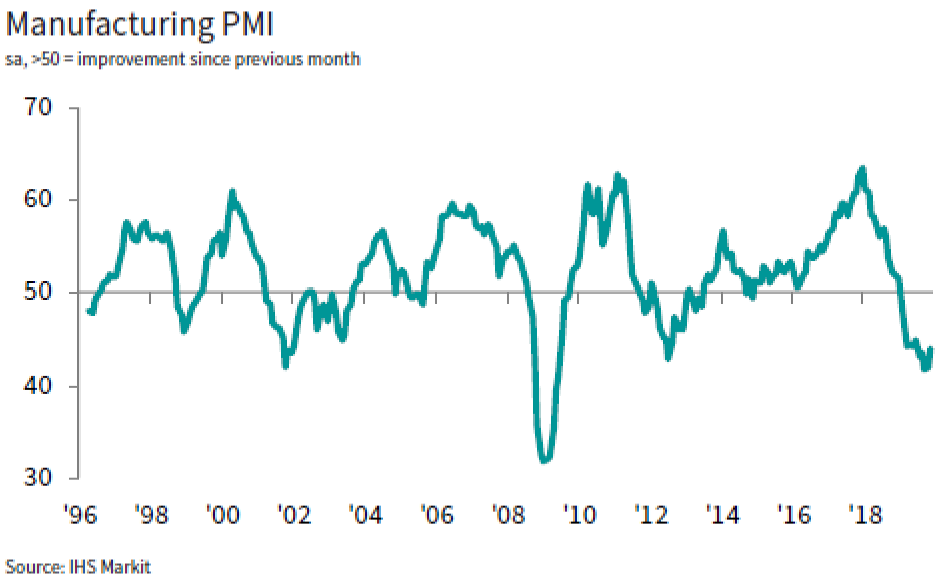
Germany Manufacturing PMI (Nov)

The Germany Manufacturing PMI continued to decline. While the pace of decline eased in Nov, activity still remains firmly in contraction.

> Data showed easing rates of decline across all main industrial groupings: consumer, intermediate and investment. The worst-performing category remained the investment goods sector, which includes mechanical engineering and transport equipment.

Headline Manufacturing PMI; Nov 44.1 versus Oct 42.1



Output and new orders continued to decline – albeit at a slightly slower pace. Th pace of decline in new orders eased for the second month – but the decline is still large by historical standards.

The employment decline was the weakest in 3 months, but still among the fastest recorded declines of the last ten years.

Input prices continued to fall. Firms used this opportunity to further reduce selling prices amid weaker demand conditions. The pace of decline in selling prices eased from the Oct record low and remained close to the fastest since 2009.

Sentiment for output in twelve months' time improved again and shifted into positive territory for the first time since Jun. Despite the improvement, the general level of sentiment was subdued.

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Germany Services PMI (Nov)

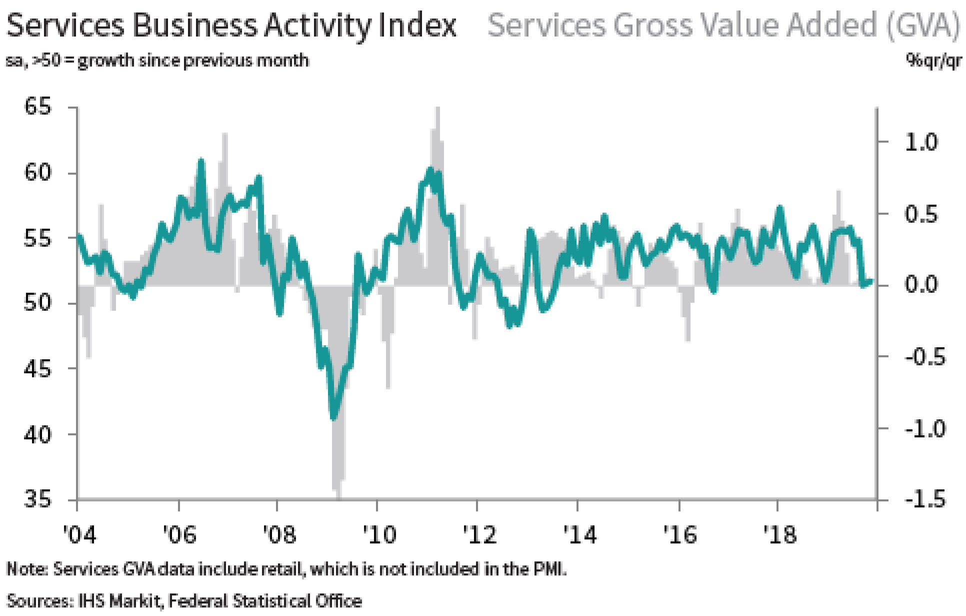
There was little change in the headline services activity index for Nov – indicating a constant, yet subdued pace of services growth. New orders continued to decline albeit at a slower pace. New export work also continued to decline. A marked decline in order backlogs helped to support the growth in output this month in the absence of growth in orders. Employment growth lifted slightly.

Business confidence picked up slightly in Nov and shifted back into positive sentiment. The decline in sentiment in Oct was the first fall in the history of the report.

Activity increased across industries;

> Five of the six monitored services categories recorded business activity growth, led by strong increases in the Hotels & Restaurants, Financial Intermediation and Post & Telecommunications sectors. The only decrease in activity was in Transport & Storage.

Headline Services activity index; Nov 51.7 versus Oct 51.6



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Germany Factory Orders (Oct)

New factory orders returned to decline in the month. This was led by a larger decline in domestic orders for the month while there was an increase in foreign orders. There was a notable increase in Euro-area foreign orders this month.

From a category perspective, the overall decline in the month was led by capital goods and a larger decline across durable goods.

On an annual basis, new factory orders declined at accelerated pace.

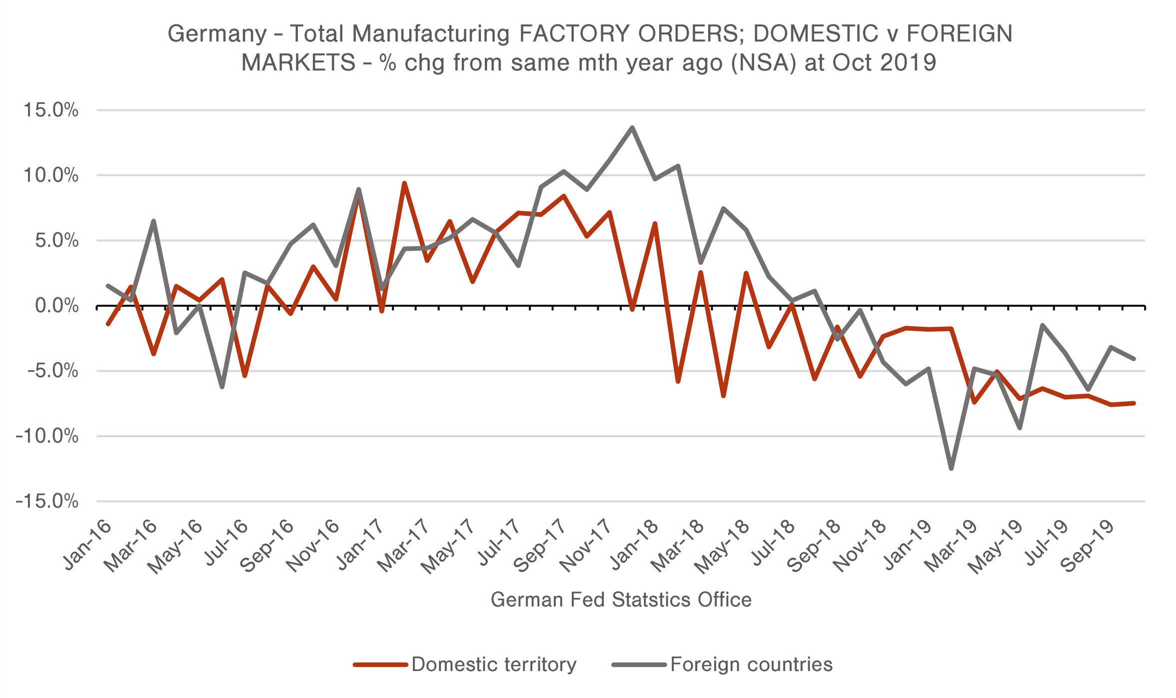
Manufacturing New Orders – month change; Oct -0.4% versus Sep +1.5%

Domestic orders declined by -3.2% in the month. This was led by a 5.7% decline in capital goods orders but orders across intermediate, consumer and non-durable goods all declined in the month within the domestic market.

Total foreign orders increased by 1.5%. Within total foreign orders, Euro-area orders increased by +11.1% in Oct – led by larger increases in capital goods and intermediate goods orders. Total non-Euro area orders declined by -4.1% - led by larger declines in durable, capital and intermediate goods orders.

Manufacturing New Orders – annual change; Oct -5.5% versus Sep -5%

Domestic orders for the year declined at a similar pace in Oct at -7.5% (-7.6% in Sep). Total foreign orders declined at a slightly faster pace of -4.1%.



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Germany Industrial Production (Oct)

Total industrial production declined at a faster pace in Oct. Declines were recorded across manufacturing and construction in the month. Mining and utilities production increased in the month, but both remain well below the recent peak in production.

Total Industrial production declined at a faster annual pace and also reached the largest gap from the peak.

Total Industrial Production – month change; Oct -1.7% versus Sep -0.6%

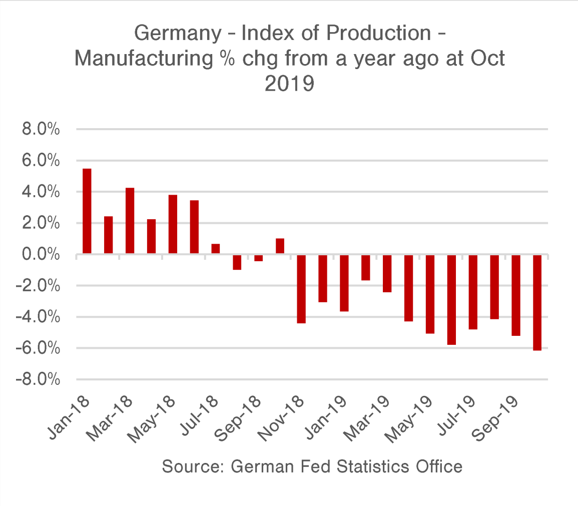
On an annual basis, production declined by 5.3% and is now 8% below the peak of Nov 2017

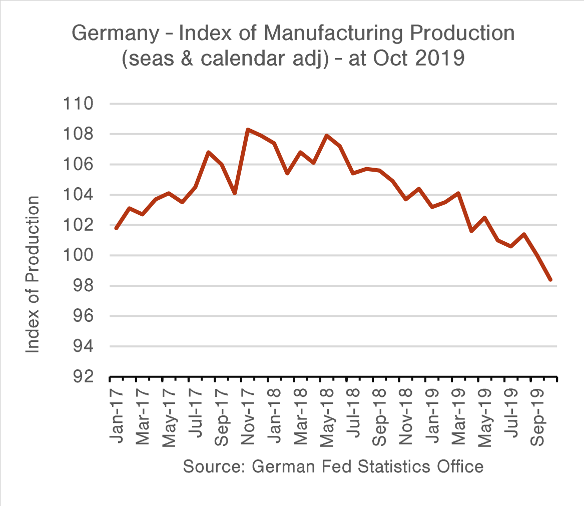
Manufacturing Production – month change; Oct -1.6% versus Nov -1.4%

On an annual basis, manufacturing production declined at an accelerated pace of -6.1% and production is now 9.1% below the peak in production – the largest gap from the peak. The further deterioration in orders indicates that manufacturing production growth is likely to remain weaker (at a total level).

They key areas where manufacturing production declined in the month; capital goods (-4.4%) and non-durable goods (–0.2%). Production increased across consumer goods (+0.3%), intermediate goods (+1%) and durable goods (+2.5%).

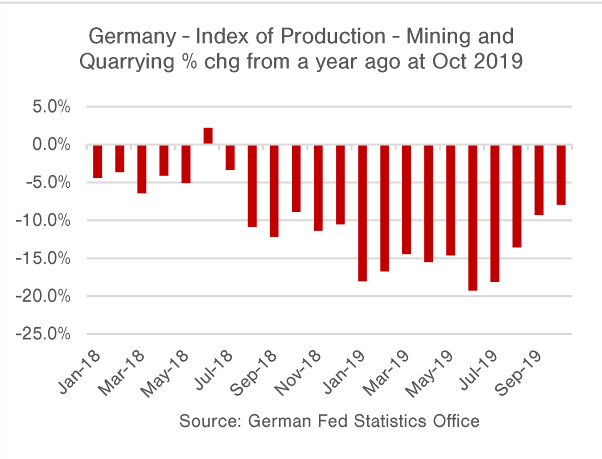
On an annual basis, manufacturing production declined by -6.1% and the index of production was -9.1% below the peak;

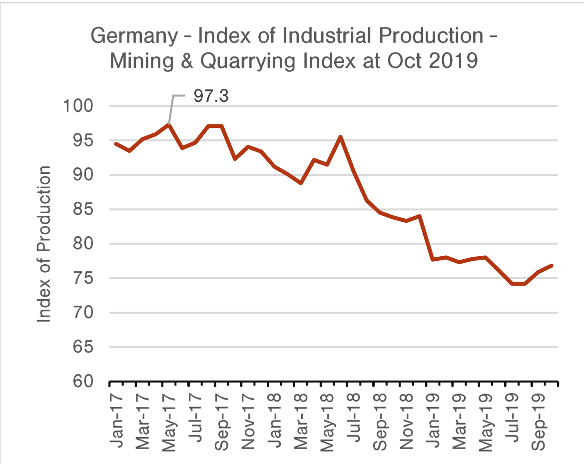




Mining and Quarrying – month change; Oct +1.2% versus Sep +2.3%

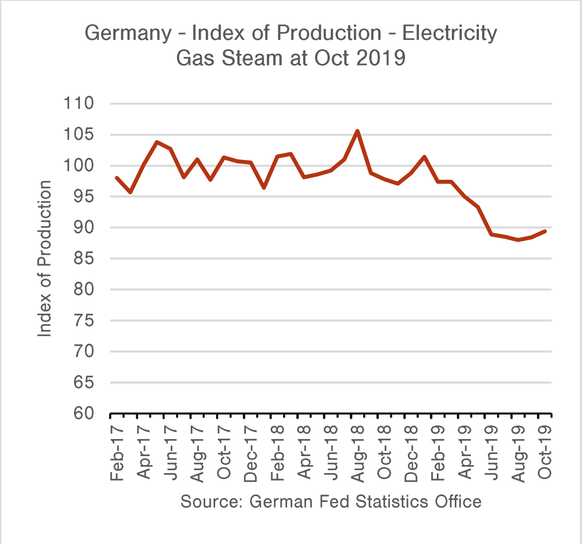
The annual pace of decline slowed from 9.3% in Sep to -8% in Oct. But mining production remains -21% below the recent peak in May 2017. The largest gap to the peak was -23.7%, so there has been little 'recovery';





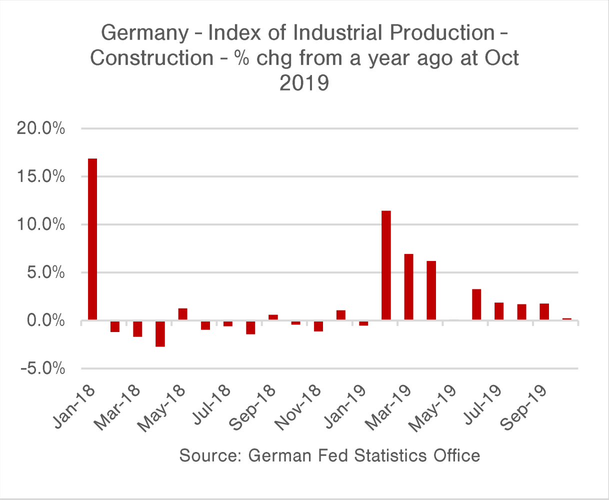
Utilities Production – month change; Oct +1.1% versus Sep +0.5%

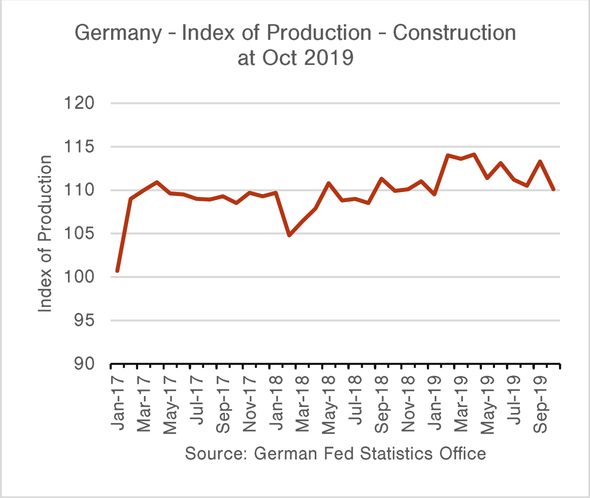
The annual pace of decline in the production of utilities eased in Oct to -8.7% from -10.9% in Sep. Production remains 15.3% below the peak of Aug 2018 – the largest gap was -16.7% in Aug 2019, so there has only been a marginal improvement.



Construction – month change; Oct -2.8% versus Sep +2.5%

The decline in the month resulted in annual construction growth slowing to a mere +0.2%. Construction peaked back in Feb 2019 and production is now 3.4% below that peak – the largest gap recorded so far.





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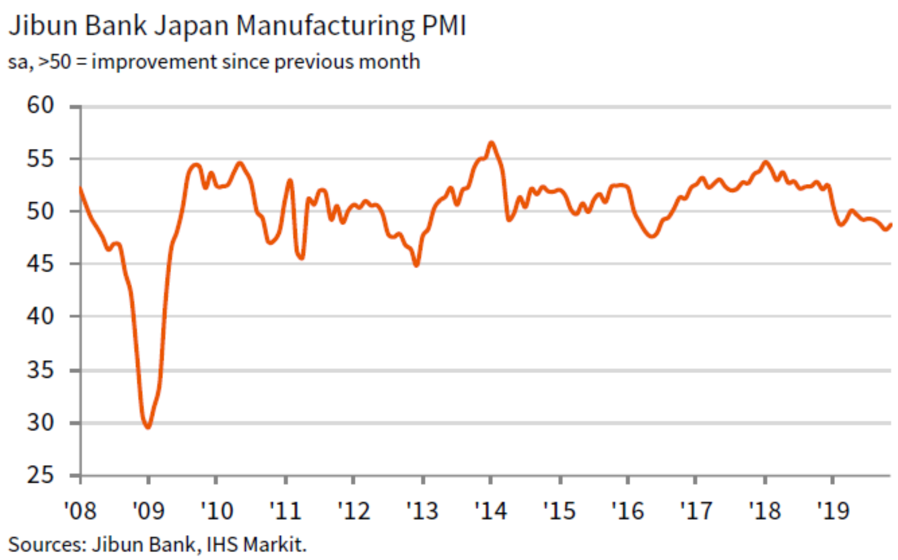
Japan

Markit Manufacturing PMI (Nov)

Although there was a slight improvement in the manufacturing PMI, activity remained in contraction. This is the first indication of activity in the second month after both weather disruption and the implementation of the consumption tax in Oct. There was little evidence to suggest a strong rebound at this stage;

> Economic decline was apparent in the investment and intermediate goods sub-categories, while consumer goods makers observed a marginal improvement from October.

<u>Headline Manufacturing PMI</u>; Nov 48.9 versus Oct 48.4



Output declined, but at a slightly slower pace. Firms cited weak demand as the main reason for further production cutbacks. The further decline in order backlogs helped to support the weaker decline in output.

New orders continued to decline – the second fastest pace since mid-2016. Weaker demand was broad-based in Nov;

> Anecdotal evidence indicated that underlying demand conditions had deteriorated further, while numerous firms mentioned weakness had stemmed from foreign sources, particularly China.

New export orders declined at a faster pace this month.

Purchasing activity slowed as firms reduced stocks of inputs. Preproduction inventories declined at the fastest pace in three years.

Despite the weaker growth in output and the decline in demand, employment growth started to increase.

Due to the weaker demand conditions, firms reduced selling prices.

Confidence remains subdued – with weaker external and domestic conditions expected to impact growth next year.

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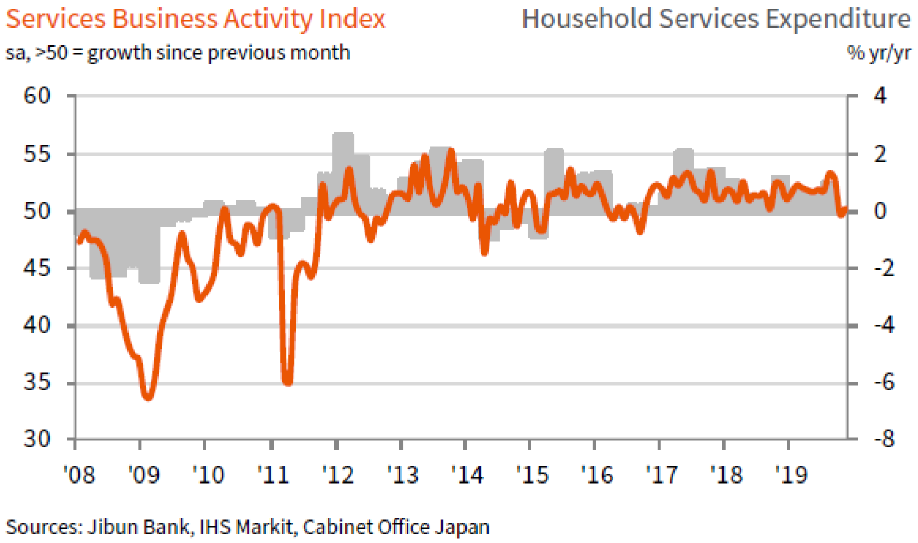
Markit Services PMI (Nov)

There was a small rebound in services activity in Nov. The services activity index shifted from contraction in Oct to slight expansion in Nov. The level of growth in activity was only marginal. Yet employment growth remained strong and the outlook remained optimistic.

Headline Services Activity Index; Nov 50.3 versus Oct 49.7



The volume of new orders increased but growth remained very low. New export orders were unchanged at the neutral 50 level.

Order backlogs were unchanged.

Employment continued to increase – with the Nov recording the strongest increased since Jun.

Business confidence for the next twelve months also improved – firms cited the Olympics and new customer orders.

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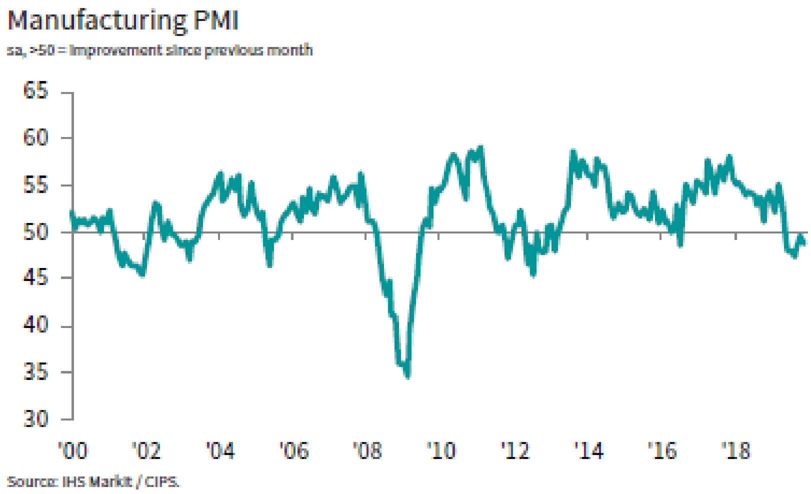
United Kingdom

Manufacturing PMI (Nov)

The headline manufacturing PMI declined at a faster pace in Nov. Output declined at a slightly faster pace and new orders continued to fall amid firms working through stockpiling after the second delay t Brexit. Employment declined at a faster pace. Finished goods inventories fell as firm scaled back activity.

Headline Manufacturing PMI; Nov 48.3 versus Oct 49.6



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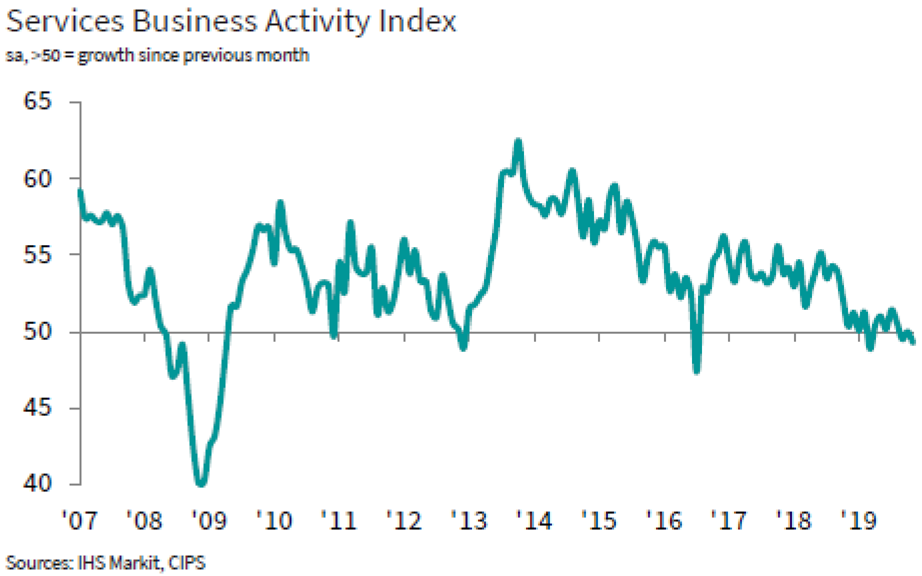
Markit Services PMI (Nov)

The headline services activity index shifted into contraction in the latest month. Firms continued to cite domestic political uncertainty for cautious business and consumer spending. While output/activity contracted, new work/orders declined for the third month and new export orders also declined at a faster pace. Order backlogs continued to contract helping to support, albeit lower, output growth. Employment growth stabilised.

Business optimism lifted, but remained subdued from a historical context.

Headline Services Activity Index; Nov 49.3 versus Oct 50



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Australia

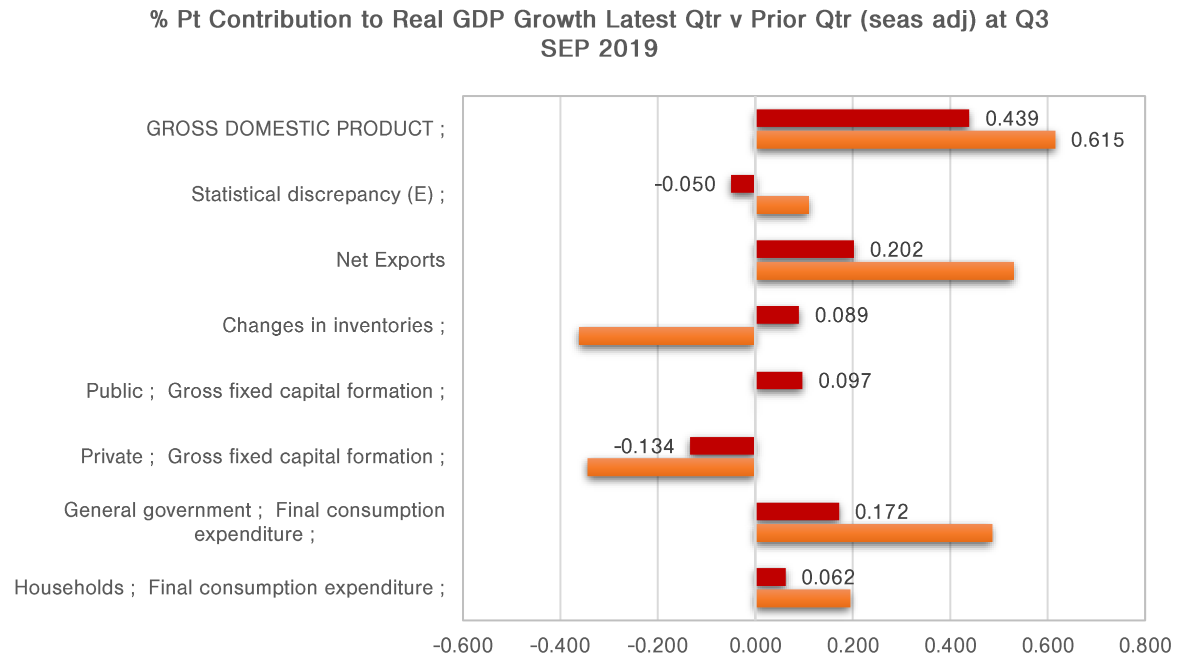
GDP – Q3 2019

Real GDP growth slowed in the third quarter of 2019. The main contributors to the lower growth in Q3 were (in order); government consumption expenditure, net exports and household expenditure. Private investment continued to detract from growth, but at a slower pace.

The single largest area of GDP expenditure is household consumption – and growth has slowed on an annual basis to +1.2%. **This is the lowest growth since 2009**. Household income and consumption data paints a picture of households tightening up on spending – household income growth isn't accelerating. Consumption was previously supported in part by a lower saving ratio. In this quarter though household disposable incomes were boosted by tax relief. Instead of spending that additional disposable income, households increased saving by almost double. There has been a clear shift in household sentiment and behaviour.

There was a small acceleration in the annual pace of GDP growth as a result of Q2 growth revised higher.

Real GDP – quarter change; Q3 +0.4% versus Q2 +0.6% (previously reported +0.5%)

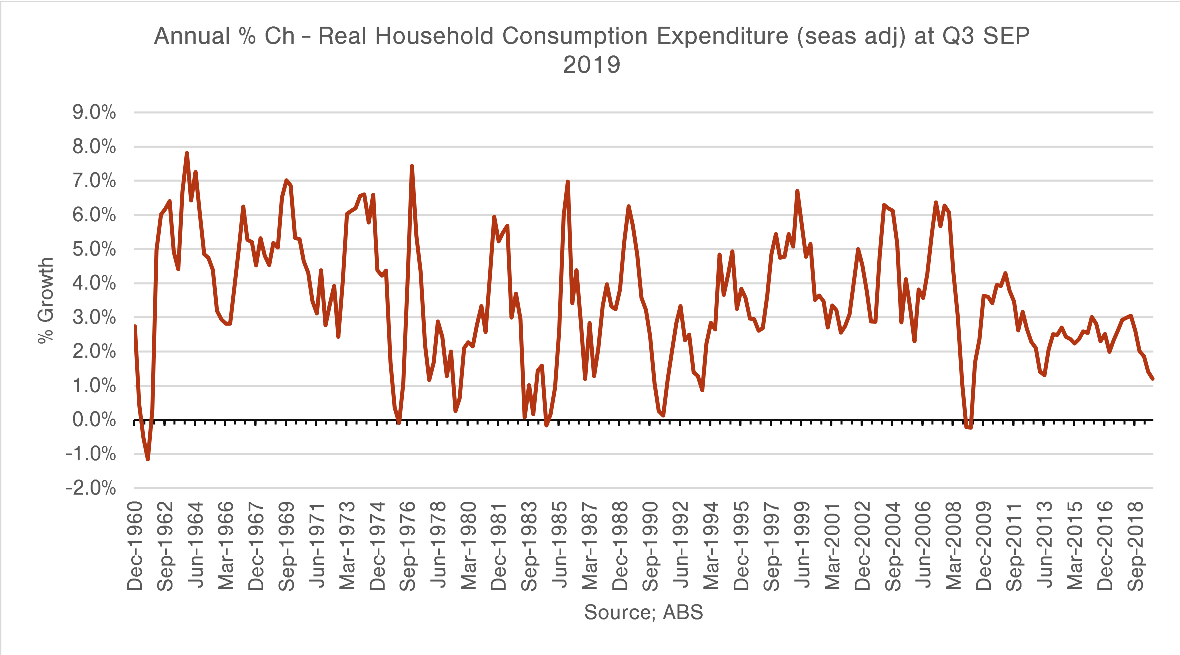


	Households ; Final consumption expenditure ;	General government ; Final consumption expenditure ;	Private ; Gross fixed capital formation ;	Public ; Gross fixed capital formation ;	Changes in inventories ;	Net Exports	Statistical discrepancy (E) ;	GROSS DOMESTIC PRODUCT ;
Latest Qtr Q3 SEP 2019	0.062	0.172	-0.134	0.097	0.089	0.202	-0.050	0.439
Prior Qtr 2 JUN 2019	0.195	0.486	-0.344	0.001	-0.362	0.530	0.110	0.615

Several areas of expenditure contributed to the lower growth in Q3;

Household expenditure – the contribution to growth in Q3 was much lower at +0.06%pts. Growth in household consumption expenditure slowed to a mere +0.1% on a quarter basis and to +1.2% on an annual basis – the weakest annual pace of growth now since 2009. This weaker result was expected based on the much weaker retail sales numbers for Q3.

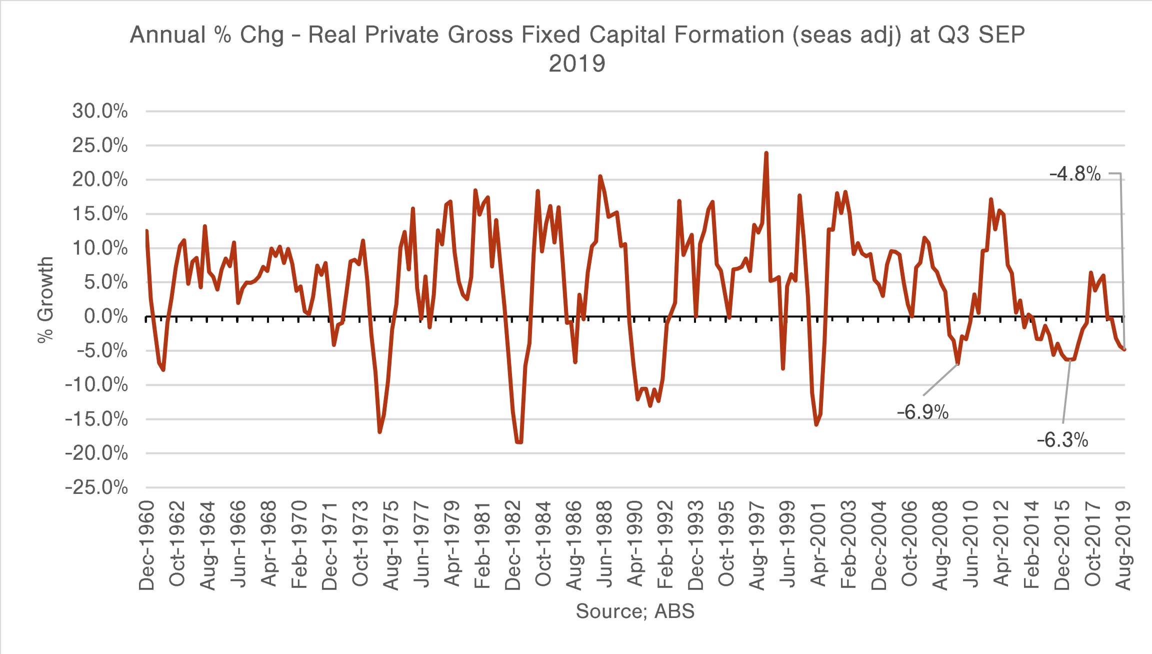
Household consumption expenditure accounted for approx. 56% of the value of real GDP in Q3.



Government expenditure – also made a much smaller contribution to growth in Q3 (accounting for much of the slow-down in growth), but was still the second largest contributor to growth in the quarter. On an annual basis, government consumption expenditure is growing at +6% in real terms.

Private Investment – still detracted from growth in the quarter, but to a lesser degree than in Q2. The key components here; total private business investment declined at a similar pace -0.1%pt from headline growth. The decline in private capital formation of dwellings also continued to detract from growth, but by a smaller amount -0.09%pts. Given the lift in housing credit, ownership transfer costs added to GDP this quarter +0.057%pts.

The annual pace of decline in private investment accelerated slightly in Q3;

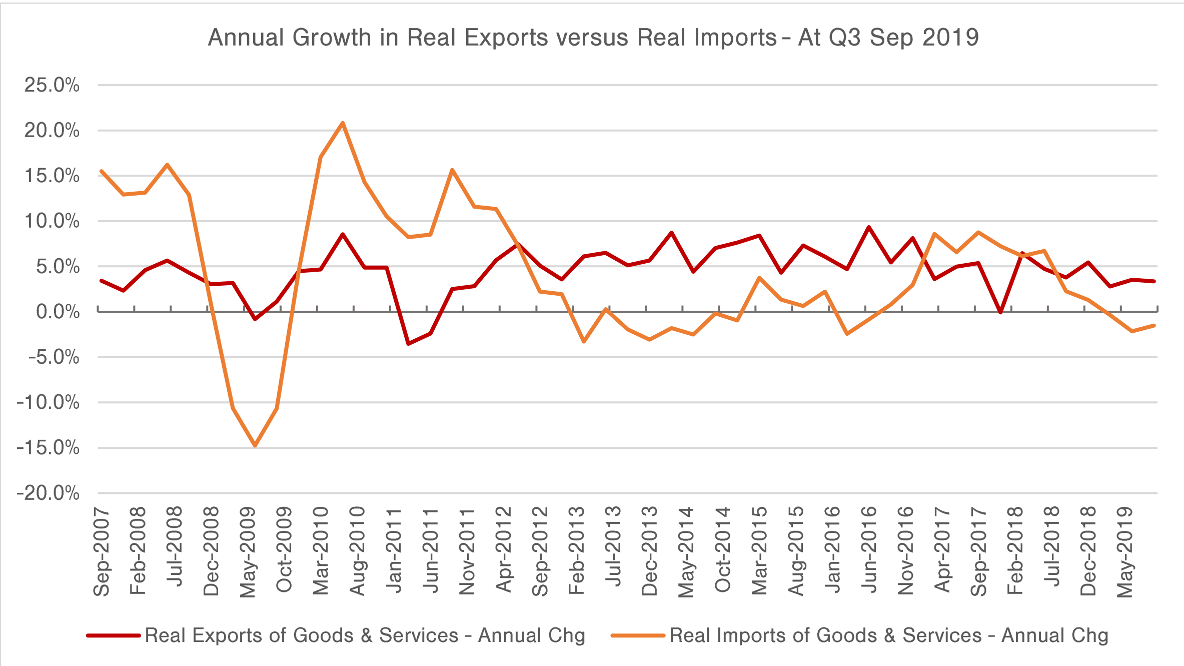


[Public investment expenditure]{.underline} – added to GDP growth +0.97%pts after zero contribution in the quarter prior.

Change in Inventories – added to GDP this quarter +0.089%pts (rather than detracting -0.287%pts in the quarter prior).

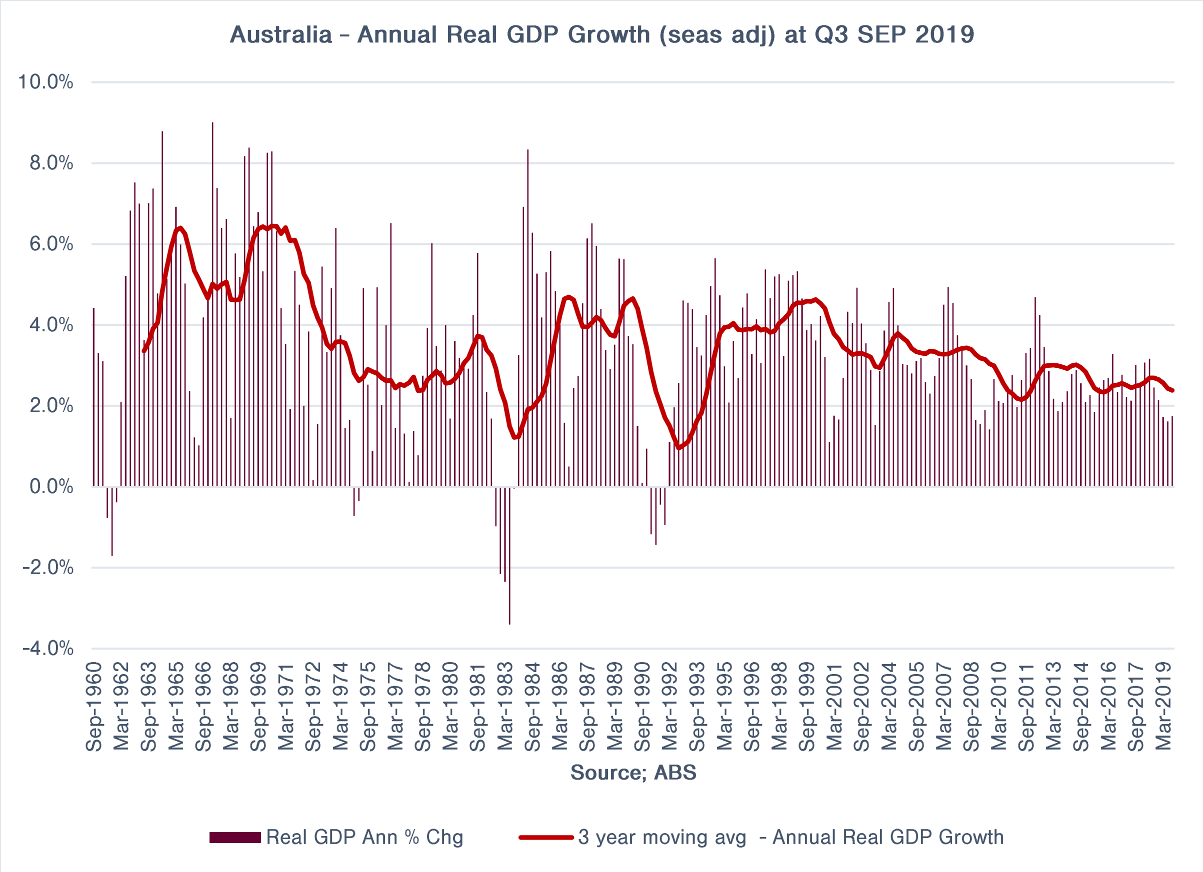
Net Exports – made a much smaller contribution to the headline growth this quarter but was still the overall largest contributor to growth in the quarter, adding +0.2%pts. In Q3, growth in exports slowed while imports declined at a slower pace (compared to growth in Q2).

On an annual basis, export growth slowed somewhat. The decline in imports continued;



Annual GDP Growth

In real terms, Australia's GDP grew at an annual pace of +1.7% in Q3 versus +1.6% in Q2. Growth remains the 3-year moving average;



Factor Income

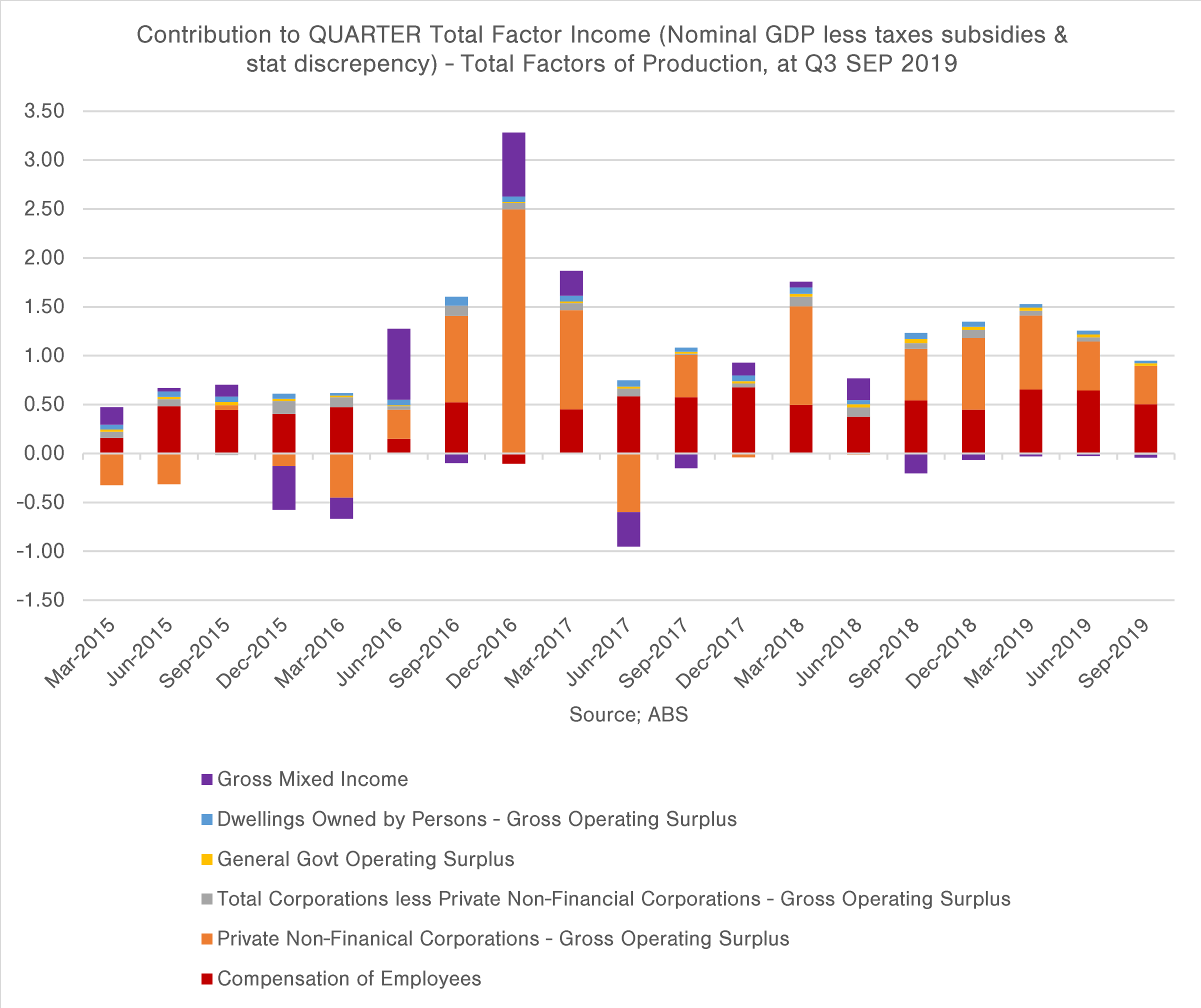
The income view of GDP (nominal GDP) highlights that growth of the main income components of National Income decelerated in the latest quarter.

In the quarter, total factor income growth slowed from 1.4% growth in Q2 to +1% in Q3.

The single largest component of income is employee compensation (approx. 47% of total income in Q3). Growth decelerated from +1.4% in Q2 to +1.1% in Q3.

Similarly for private non-financial corporations gross operating surplus (profit proxy) – growth slowed from 2.6% in Q2 to 2% in Q3.

Together, these two components made a smaller contribution to growth in factor income in the latest quarter:



Household Income

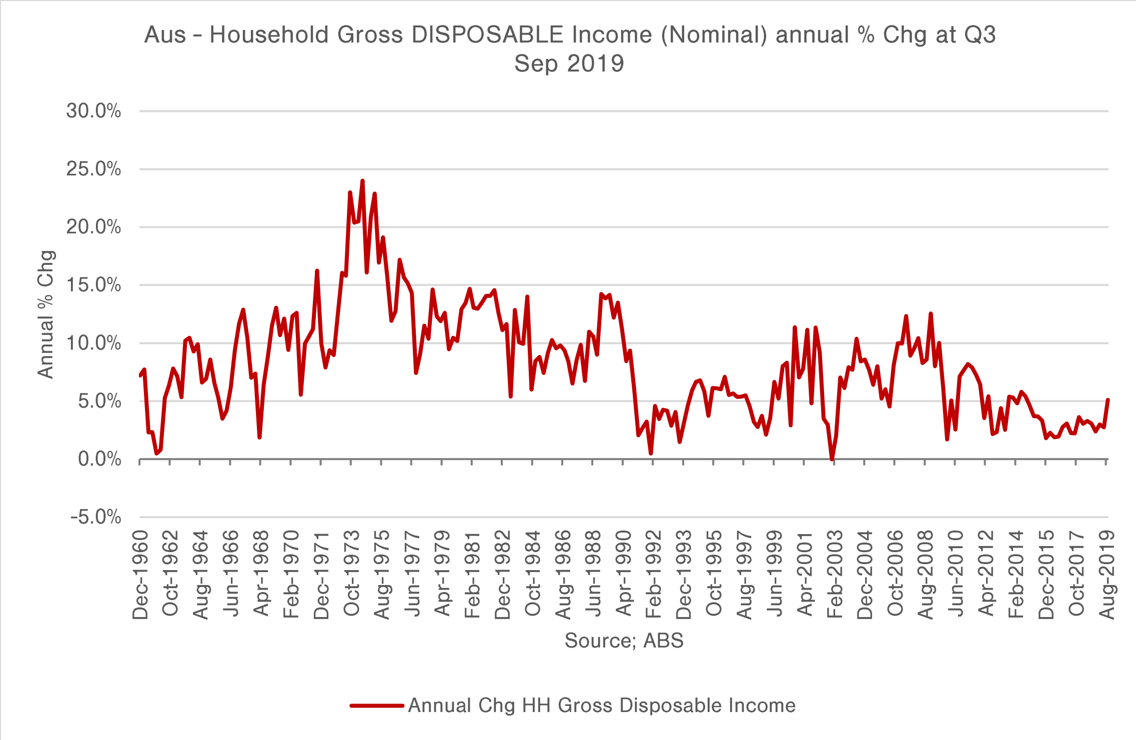
The household income data provides an interesting story of households in the aggregate. In short, income growth isn't accelerating, but household disposable incomes were boosted by tax relief in Q3. Instead of spending that additional disposable income, households increased saving.

There are two components of household income – primary (which is mostly employee compensation) and secondary (which are mostly transfers).

Total Gross Household Income growth increased slightly from +0.7% in Q2 to +0.8% in Q3. The acceleration in secondary income (transfers) offset the slower growth in primary income (employee compensation). On an annual basis, growth in gross income has remained fairly stable (on a nominal basis) – and remains well below historical levels of income growth.

But total Household Gross Disposable Income accelerated at a much faster pace; Q3 +2.5% versus Q2 0.3%.

Despite annual growth lifting to +5.1% in nominal terms, growth has been very low in historical terms;

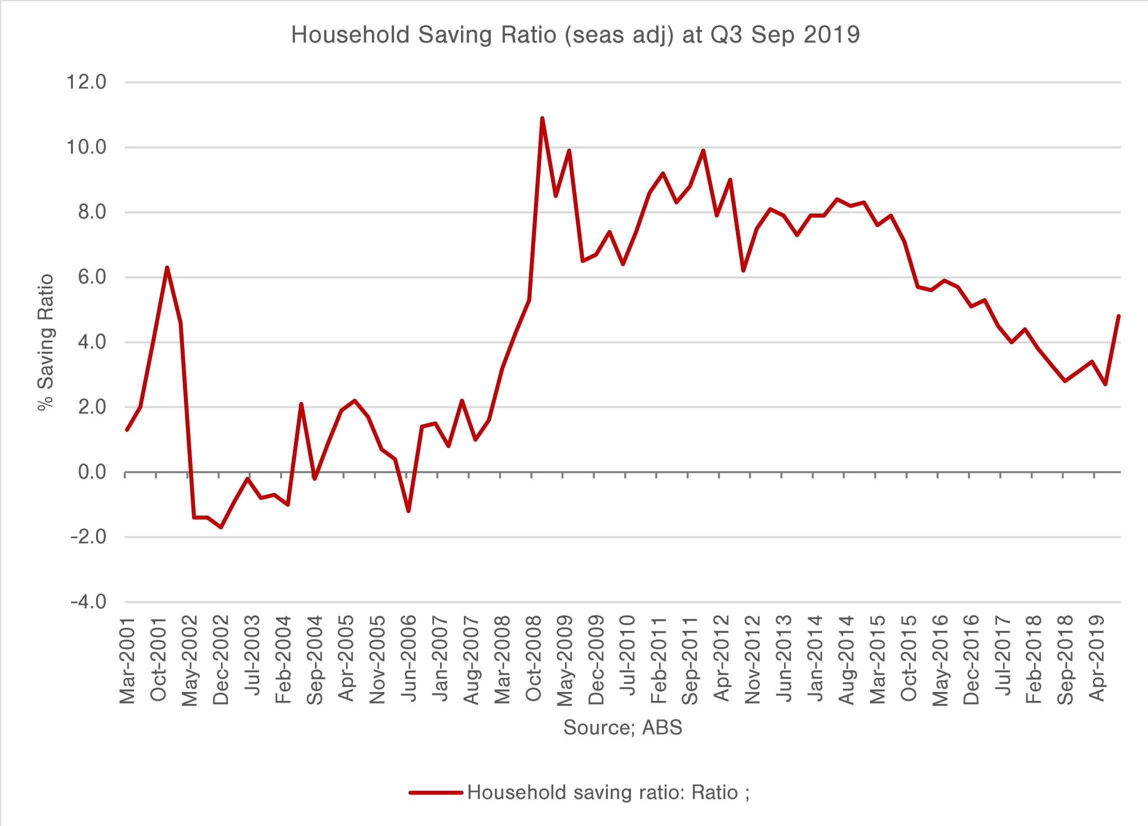


The reason for the lift in Q3 was the lower payment of total income payable (mostly a decline in income tax); total income payable declined by -4.7% in Q3 versus a +1.8% increase in Q2.

[Deflating this by the implicit price deflator for household consumption also highlights that household income growth has been much lower. Real disposable household income – annual change; Q3 +3.1% versus Q2 +0.8%.]

Despite the boost to household gross disposable income in Q3, consumption growth still slowed.

In fact, household net savings almost doubled between the two quarters and the saving ratio (household net saving/household net disposable income) almost doubled (off a low base);



Since 2014, households have been saving less while income growth slowed/stagnated – this supported the slower growth in household consumption. Since approx. Q3 in 2018 (a year ago), households shifted from consumption to saving.

Q3 Sep 2018; saving ratio was 2.8 and consumption growth +4.4%

Q3 Sep 2019; saving ratio 4.8 and consumption growth +3.1% (this is the slowest pace of nominal growth since the Mar qtr 2009).

Neither the tax relief, nor the lift in house prices have gone into accelerated consumption growth. This reflects a clear shift in household sentiment and behaviour.

https://www.abs.gov.au/ausstats/abs%40.nsf/mediareleasesbyCatalogue/C9973AC780DDFD3FCA257F690011045C?OpenDocument

Building Permits (Oct)

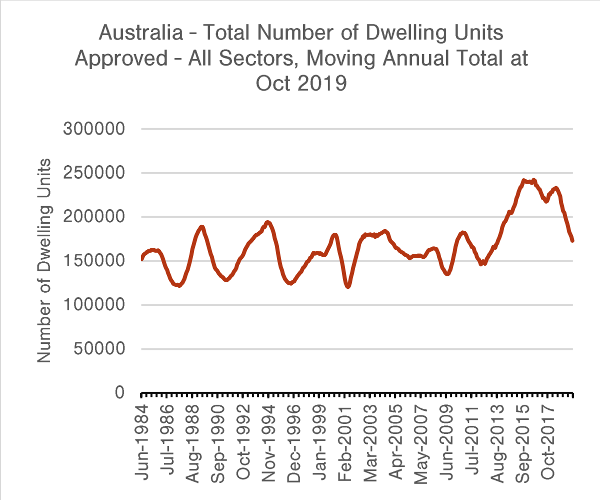
The building approval data for Oct indicates further weakness is likely for dwelling construction. The total number of permits declined by 8% in Oct (National). The 12-mth total number of permits is now 22% below the 12-mth total for the year prior.

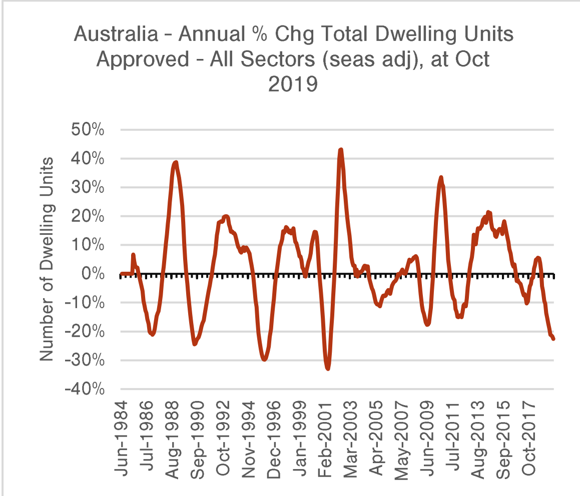
Building Permits – month change; Oct -8% versus Sep +7%

The monthly data tends to be volatile. The moving annual total highlights that the total number of permits is now moving closer to the long run average (approx. 157k permits on an annual basis).

Building Permits – Moving annual total; Oct 173k versus Sep 177k

The annual decline accelerated in Oct to -22%;





Both Houses and Dwellings excluding Houses have contributed to the decline in permits.

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Retail Sales (Oct)

This was another weak retail sales result. The Oct data is in nominal value.

Retail sales declined slightly/mostly flat. Across the main industry groups, sales either declined at a faster pace or growth slowed. There was no category where growth accelerated.

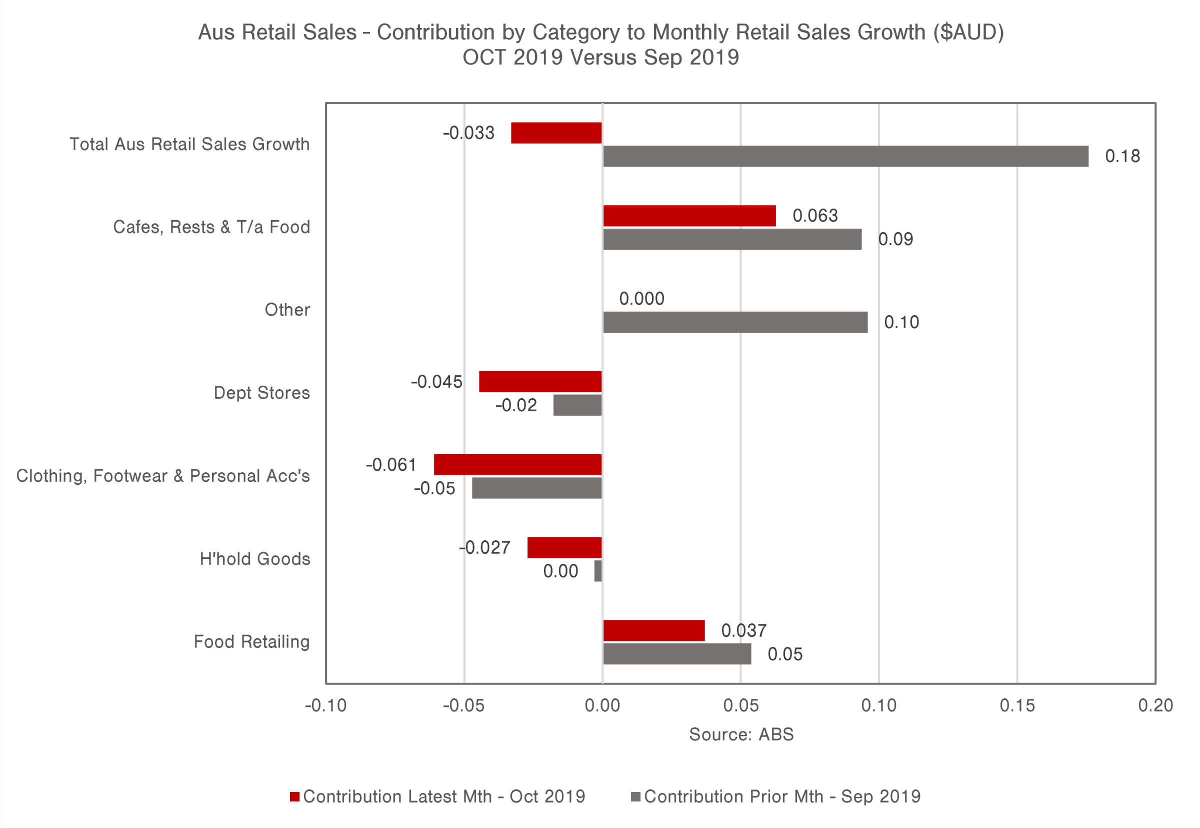
On a state basis, there was only a minor improvement in sales across QLD and the much smaller states of Tas and NT. Retail sales declined across the two biggest states – NSW and Vic.

It's unclear whether retailers are applying deep discounts and whether retail volumes are in fact holding up. It's also possible that consumers were holding off on expenditure in anticipation of retail promotions in Nov (US-led promotions such as Black Friday).

National Retail Sales (value) – month change; Oct -0.03% versus Sep +0.2%

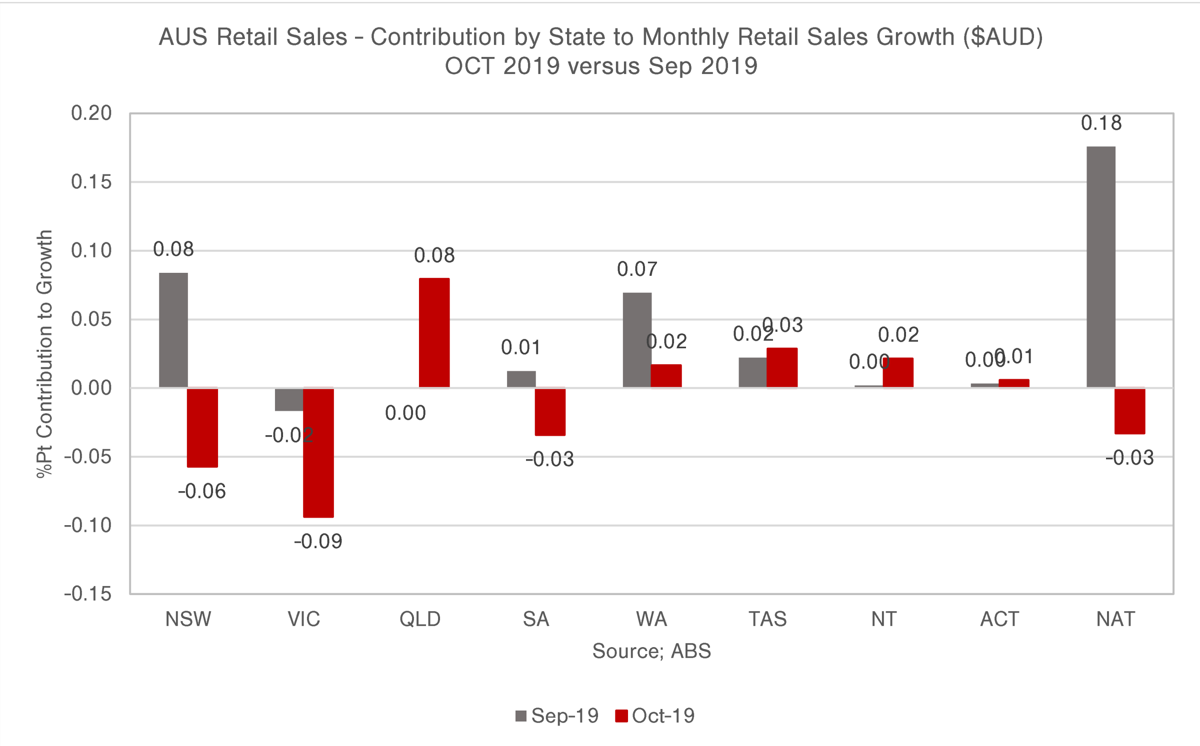
Retail sales by Category

Sales performance deteriorated across all categories in Oct versus Sep. Clothing and footwear, department stores and household retailing all declined in the month. Cafes and restaurant sales slowed, but remained positive and contributed the most to overall sales in the month;



Retail Sales by State

Sales in the two largest states (where house prices are supposedly accelerating), declined in the month with both making the largest contribution to the National decline.



On an annual basis, growth in Vic has decelerated notably since a year ago; growth in Oct 2018 was +6.4% - in Oct 2019 growth is now +1.3%. In NSW, annual growth has picked up slightly, but this seems to be mostly a base effect.

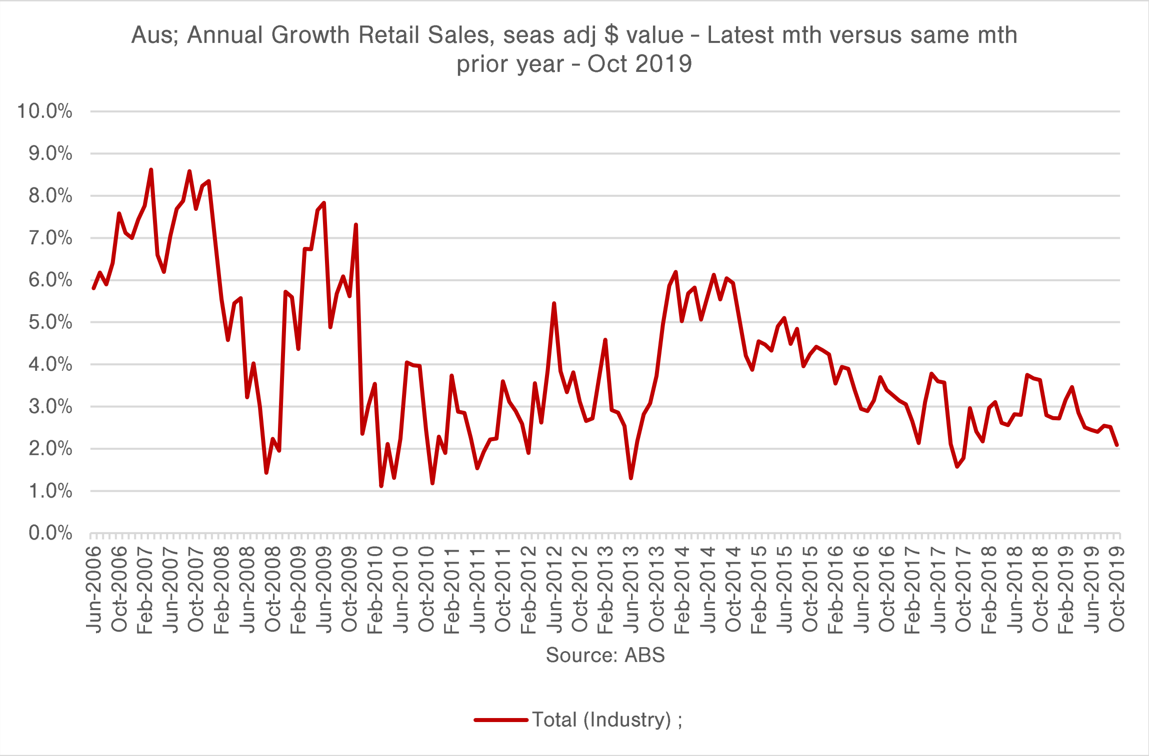
The states where there does appear to be some genuine improvement in sales; WA and NT. There is a one-month spike in NT retail sales, so it's not a clear trend yet.

Other states are mostly flat-lining.

Annual Retail Sales

There was a further deceleration in the value of retail sales growth (versus the same month a year ago);

Retail Sales (value) – annual growth; Oct +2.1% versus Sep +2.5%



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

AiG Performance of Manufacturing, Services and Construction PMI's (Nov)

Across all three sectors, there was either further contraction in activity or momentum in growth slowed.

Performance of Manufacturing Index; Nov 48.5 versus Oct 51.6

This is now the weakest reading since 2015. New orders contracted at a faster pace in Nov.

Performance of Services Index; Nov 53.7 versus Oct 55.2

While service activity continues to grow, this is the fourth month where conditions decelerated. New orders strengthened in Nov, while employment and sales growth decelerated but remained positive.

> "The Australian PSI® indicated expansion in three sectors, stability in one sector and contraction in two sectors in November (trend). Among the business-oriented sectors finance & insurance reported positive results, logistics (wholesale trade, transport & storage) was stable, while business & property services contracted."

Performance of Construction Index; Nov 40 versus Oct 43.9

The headline index indicated that activity contracted at a sharper pace in Nov. New orders overall fell at a faster pace.

Housing and apartment construction contracted at a slower pace, but remained firmly negative. Commercial and engineering construction continued to decline. Emphasis added;

> "Reports from residential building respondents to the Australian PCI® indicated that new home buyer demand was showing some improvement in response to interest rate cuts and an easing in bank lending restrictions. However, some house builders noted that uncertainty surrounding the economic outlook and associated risk aversion remained a brake on housing activity. **Concerns were also expressed about the continued pull-back by investors in the apartment market**."

https://www.aigroup.com.au/resourcecentre/economics/

RBA Rates Decision - 3 Dec2019

As telegraphed in Governor Lowes speech last week, the RBA kept rates on hold with the overnight cash rate at 0.75%.

According to the RBA, the easing of monetary policy throughout 2019 is supporting employment and income growth;

> "The lower cash rate has put downward pressure on the exchange rate, which is supporting activity across a range of industries. It has also boosted asset prices, which in time should lead to increased spending, including on residential construction. Lower mortgage rates are also boosting aggregate household disposable income, which, in time, will boost household spending."

Note that we have included a special section on household income from the Q3 GDP results which indicates that, in aggregate, household income growth has been unchanged. The boost to household disposable income was led by the lower tax payments in Q3. The effects on consumption are yet to be seen - consumption expenditure in Q3 and in the Oct retail sales release still slowed.

> “Given these effects of lower interest rates and the long and variable lags in the transmission of monetary policy, the Board decided to hold the cash rate steady at this meeting while it continues to monitor developments, including in the labour market. “

Guidance remained unchanged; that is was reasonable to expect an extended period of low rates.

The RBA will continue to look at labour market conditions – a deterioration is likely to prompt further action on rates/QE.

https://www.rba.gov.au/media-releases/2019/mr-19-33.html

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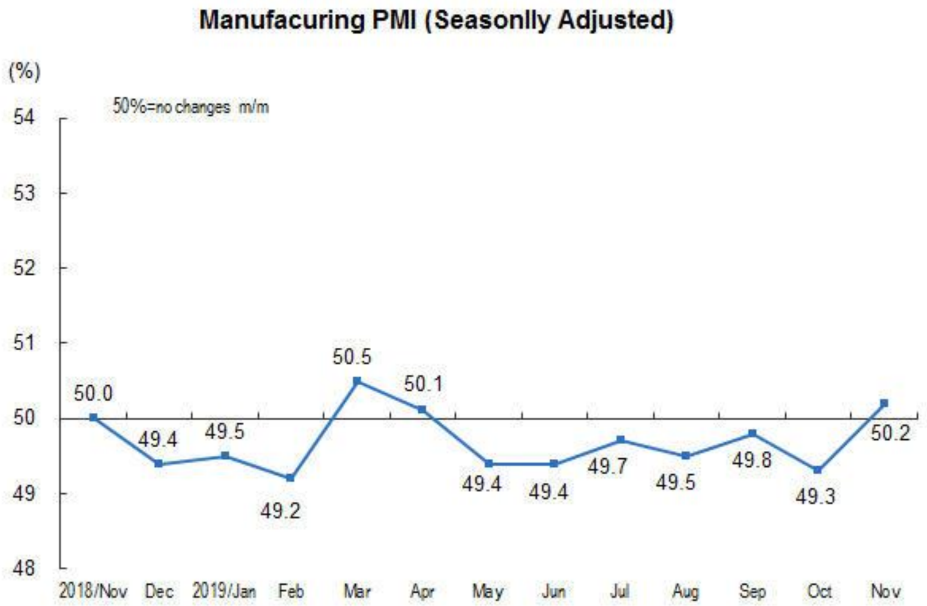
China

NBS Manufacturing PMI (Nov)

The headline index of manufacturing activity in China shifted back into slight expansion in Nov.

Headline Manufacturing PMI; Nov 50.2 versus Oct 49.3



Leading the index higher was faster growth in production. The new orders index shifted back into expansion, but new export orders continued to decline. Back orders continued to contract at a constant pace – supporting growth in production.

The import index continued to decline – albeit at a slower pace.

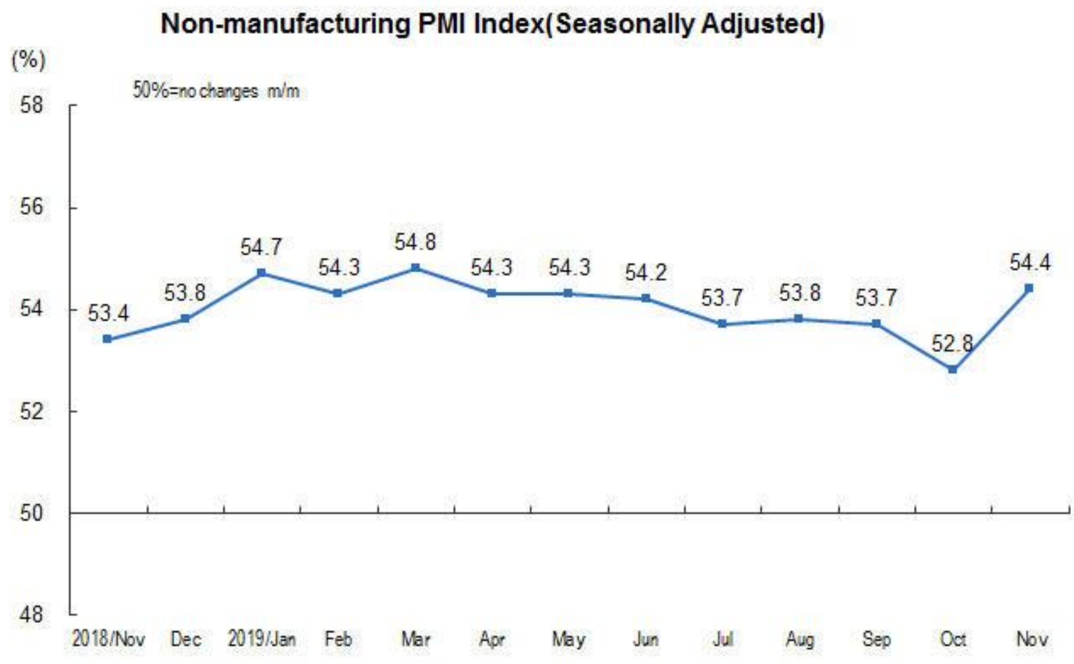
Employment continued to contract at a constant pace.

Producer prices declined at a faster pace.

NBS Non-Manufacturing PMI (Nov)

There was a much larger increase in the pace of non-manufacturing activity growth in Nov.

Headline Non-manufacturing Index; Nov 54.4 versus Oct 52.8



The index was led higher by faster growth in output/activity. New orders also shifted back into expansion, but new foreign orders continued to decline, albeit at a slower pace. Unfilled orders continued to decline, helping to support output growth.

Sales prices increased at a faster pace while input price growth also continued to increase at a faster pace.

Employment continued to decline, but at a slower pace.

http://www.stats.gov.cn/english/PressRelease/201912/t20191202_1712936.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. An important milestone is approaching - the 15 Dec schedule increase in tariff rates on Chinese imports into the US.

The current points of contention are; the US support of the HK Democracy Bill, China requesting a rollback of all tariffs as a part of the phase one deal (not just a postponement of upcoming tariff increase) and the quantity of purchases of US agriculture products.

During the week, US President Trump stated that the deal may not get done until after the 2020 election.

While reports are mixed, there are indications that the US will likely postpone the tariffs scheduled to increase on 15 Dec. Nothing is confirmed and this will likely depend on the progress of talks. As always, the situation is likely to remain tenuous.

The purchase of a specific quantity of agriculture has been a key sticking point for China.

> "Beijing, for its part, is hesitant to include a specific amount of agricultural purchases in a deal, The Wall Street Journal reported. Trump has claimed Beijing agreed to purchase up to $50 billion in U.S. farm goods."

The more difficult issues of the negotiations have been reserved for the next phase of the negotiations. This stage of the negotiation will commence after the first deal is signed.

Reconfirming what a 'win' in the negotiations with China looks like – a statement of the key negotiating goals as outlined by the USTR (emphasis added);

> The meetings were held as part of the agreement reached by President Donald J. Trump and President Xi Jinping in Buenos Aires to engage in 90 days of negotiations **with a view to achieving needed structural changes in China with respect to forced technology transfer, intellectual property protection, non-tariff barriers, cyber intrusions and cyber theft of trade secrets for commercial purposes, services, and agriculture**.

https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/january/statement-united-states-trade

US-Japan Trade Talks

This 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

"Work continues" on negotiating changes to the USMCA. There are further indications that the deal and changes are close to completion;

"We're getting close, I'm confident," Jésus Seade, the deputy foreign minister for North America, told reporters outside the US trade representative's office. He said he would probably return on Monday to continue talks.

One point of contention is over steel, after the US trade representative, Robert Lighthizer, made a last-minute demand for a revised definition of what would constitute North American steel under automotive rules of origin. https://www.theguardian.com/us-news/2019/dec/07/trump-usmca-mexico-canada-trade-pelosi

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

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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