

Key Themes

The more timely indicators of activity for Mar indicate a severe drop in economic activity.

To further support the supply of dollar liquidity, the US FOMC announced on Mon morning that QE would effectively be open ended. Last week in our briefing we noted that the Fed had already likely purchased \$275bn *in the first week* of a proposed \$500bn QE target for “a couple of months”. From the FOMC this week;

The Federal Reserve will continue to purchase Treasury securities and agency mortgage-backed securities in the amounts needed to support smooth market functioning and effective transmission of monetary policy to broader financial conditions.

<https://www.federalreserve.gov/newsevents/pressreleases/monetary20200323a.htm>

The Mar prelim PMI's for the US, Europe and Asia confirmed that output and employment growth contracted sharply. Services business activity was hit very hard. The manufacturing PMI's declined, but not to the same extent – in most cases lengthening supplier lead times (usually a positive indicator of rising activity, but not in this case) offset historic falls in output and new orders.

The two regional US manufacturing surveys for Mar were mixed. The Richmond Fed index was little changed but the fall in new orders indicates weakness in future output is possible. The Kansas City Fed survey for Mar indicated a much more severe decline in activity was underway. There was an important anecdote in that survey;

“\$30 per barrel oil is a much bigger problem that people are not focusing on because of C-19.”

The increase in US initial jobless claims for the week prior was shocking at 3.28m new claims – even though we knew to expect an extremely high number.

Consumer sentiment is deteriorating quickly. Prelim Mar results were revised sharply lower in the final report for this week. The indexes haven't recorded historic falls yet – but the 7-day moving average, should it stabilize at these levels, indicates that Apr may set-up for a historic fall of over 30pts in a 2-month consecutive period. While financial support can help to mitigate an adverse financial situation for many, it's not likely to tip the scales from pessimism to optimism and this sets the expectation for large shifts in spending and saving.

US mortgage applications also declined again this week. Refi activity also declined in the week, but remains up over +195% versus the same week a year ago.

"The 30-year fixed mortgage rate reached its highest level since mid-January last week, even as Treasury yields remained at relatively low levels..."

"...this week's additional actions taken by the Federal Reserve to restore liquidity and stabilize the mortgage-backed securities market could put downward pressure on mortgage rates, allowing more homeowners the opportunity to refinance."

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US Data

Uni of Michigan Consumer Sentiment – Final (Mar)

There was a further deterioration in consumer sentiment in the final reading for Mar. The sharply lower revisions between the prelim and final readings for Mar indicates more rapidly deteriorating sentiment. Further, significant falls in sentiment are most likely.

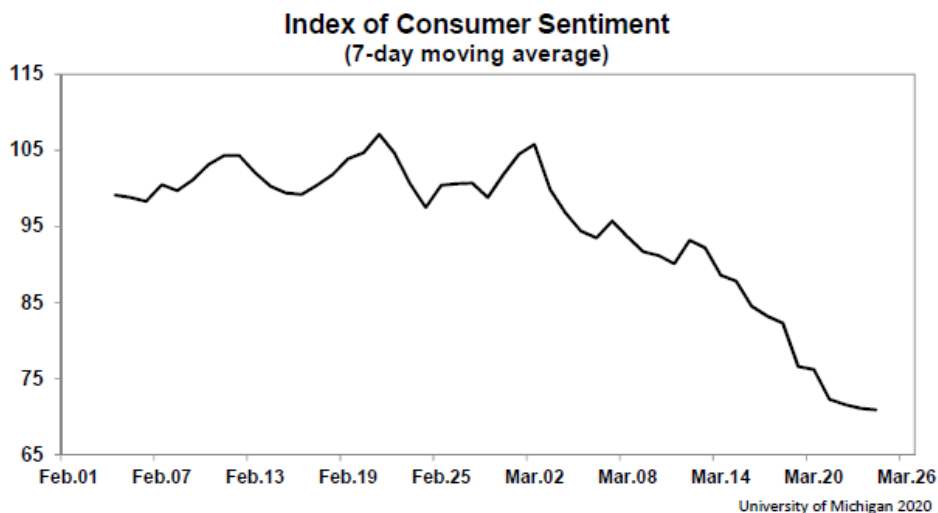
While financial support can help to mitigate an adverse financial situation for many, it's not likely to tip the scales from pessimism to optimism and this will translate into shifts in spending, saving and income patterns.

Consumer sentiment dropped 11.9 Index-points in March, the fourth largest one-month decline in nearly a half century.

The final report has some interesting comparisons with other points in time when sentiment declined sharply (emphasis added);

A more comparable prior decline occurred in August 1990, when the Sentiment Index fell by 11.8 points due to the invasion of Kuwait, and subsequently recorded an all-time record gain of 17.3 points in March 1991. **Those two outsized changes in the Sentiment Index defined the start and end of the 1990-91 recession.**

The more micro 7 day moving average of consumer sentiment has continued to fall sharply throughout late Mar;

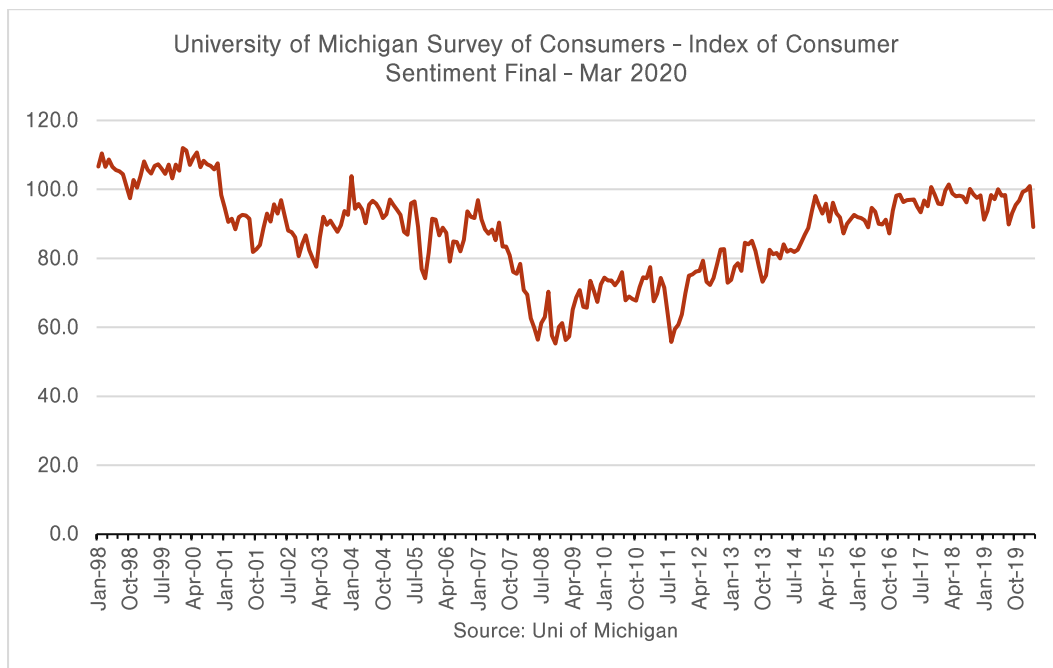


Following trendless variations in February, the Index posted sharp declines in March. **If the Consumer Sentiment Index were to stabilize at its most recent seven-day average, it would imply an additional decline of nearly 18.2 Index-points in April, which would amount to a record setting two-month decline of 30.1 points.**

Stabilizing confidence at its month's end level will be difficult given surging unemployment and falling household incomes.

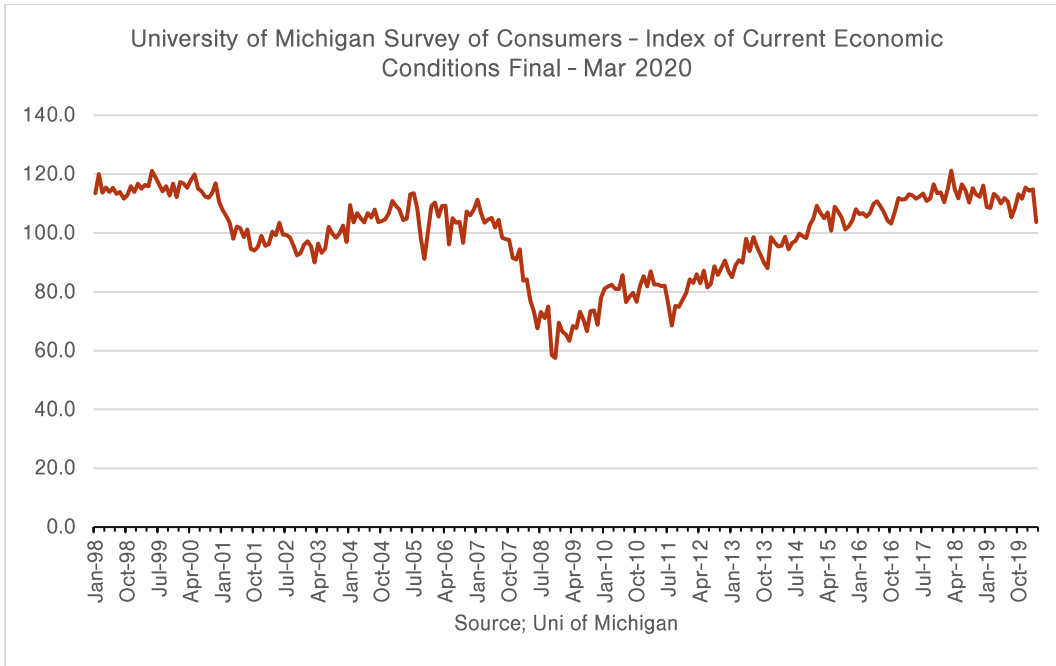
Index of Consumer Sentiment – month change; Mar 89.1 (revised lower from 95.9 in prelim Mar result) versus Feb 101

The index is now 9.5% below a year ago.



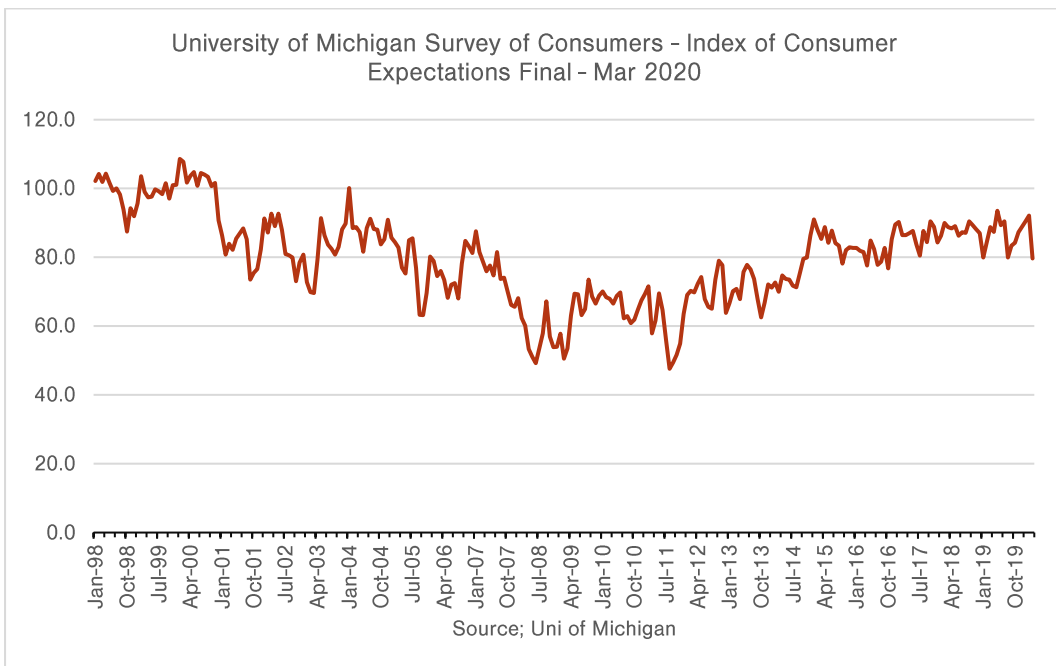
Index of Current Economic Conditions – month change; Mar 103.7 (revised lower from 112.5 in prelim Mar result) versus Feb 114.8

The index of current conditions had been lagging slightly in early 2019 and had started to lift in the last quarter of 2019. The index is now 8.5% below a year ago.



Index of Consumer Expectations (Expected Index) – month change; Mar 79.7 (revised lower from 85.3 in the prelim Mar result) versus Feb 92.1

The index is now 10.2% below a year ago.



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

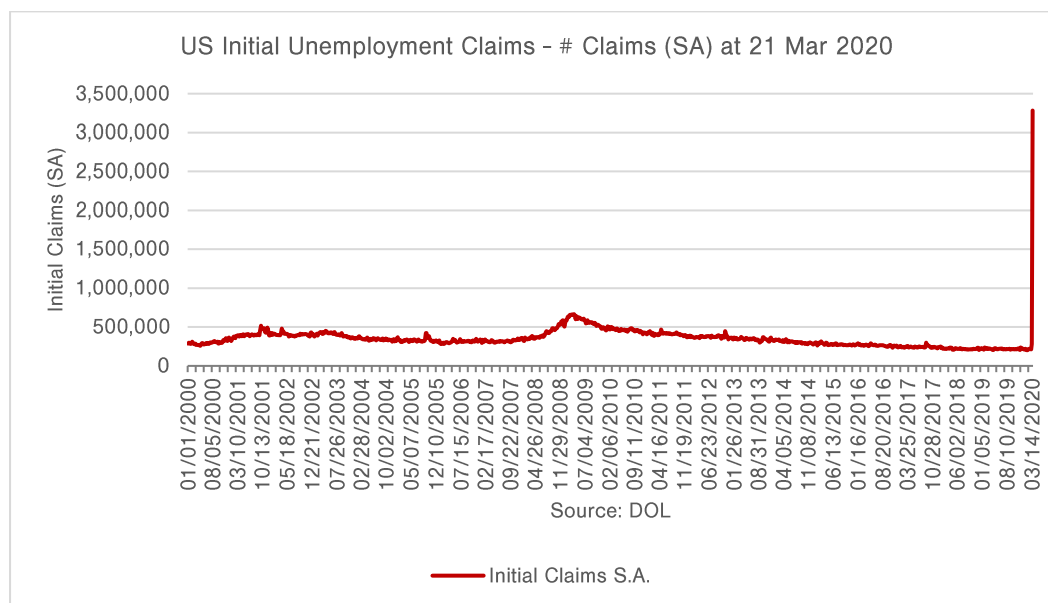
Initial Jobless Claims (21 Mar)

This is an historic report in the sheer scale of the increase in initial unemployment claims in just one week. The gravity of this situation should weigh heavily as we think about the impact on those experiencing those job losses. Among the data, analysis and forecasts, we can't lose sight of the fact that the economy is these people.

New claims are likely to remain elevated over the coming weeks as many US states increase distancing measures to deal with continued increases in cases of the virus.

Latest wk ending 21 Mar; 3.28m

Prior wk ending 14 Mar; 282k (revised higher +1k)



The increase in the number of new claims in wk ending 21 Mar is a 23 SD change (since the start of 2000) and is a 7 SD change based on the last year.

<https://www.dol.gov/ui/data.pdf>

Personal Consumption Expenditure, Income and PCE Price Index (Feb)

While personal income increased at the same pace in Feb as in Jan, disposable income growth slowed slightly. This was still higher/faster than growth in outlays. Growth in personal consumption remained lower at +0.2%. A decline in expenditure on goods for Feb was offset by faster growth in expenditure on services.

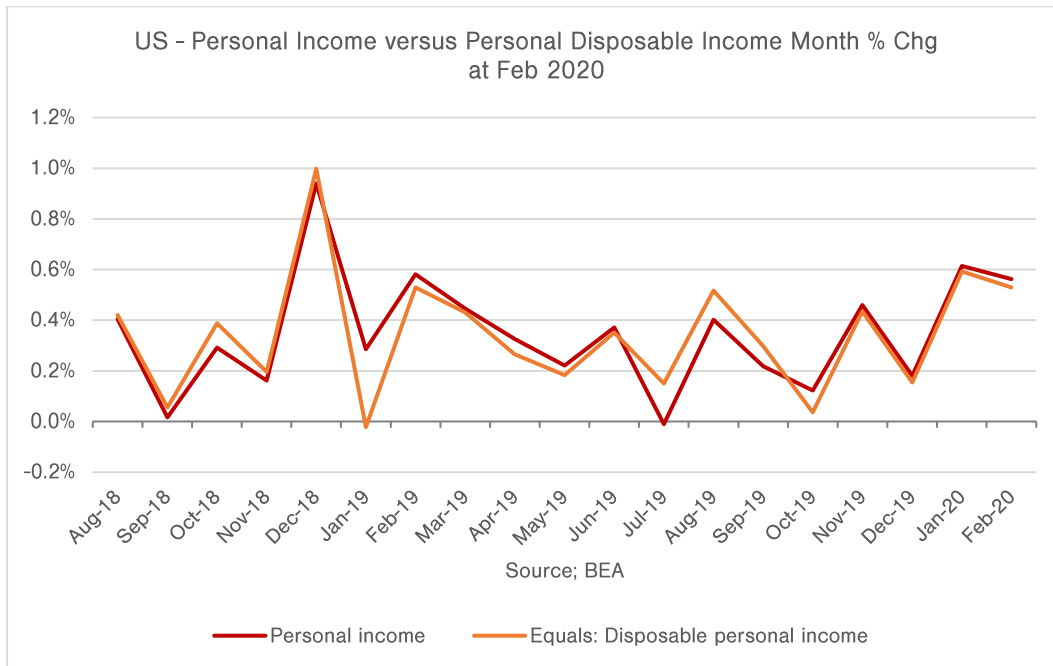
As a result, there was an increase in the pace of 'saving'.

Annual headline inflation for Feb was in line with the annual growth recorded in Jan with prices increasing at +1.8%. Annual growth in core PCE prices accelerated further and is now also growing at +1.8%.

Personal Income

In Feb, US personal income growth was little changed from the month prior.

Personal Income – month change; Feb +0.6% versus Jan +0.6%



Wages and salaries growth was in line with the month prior at +0.5%.

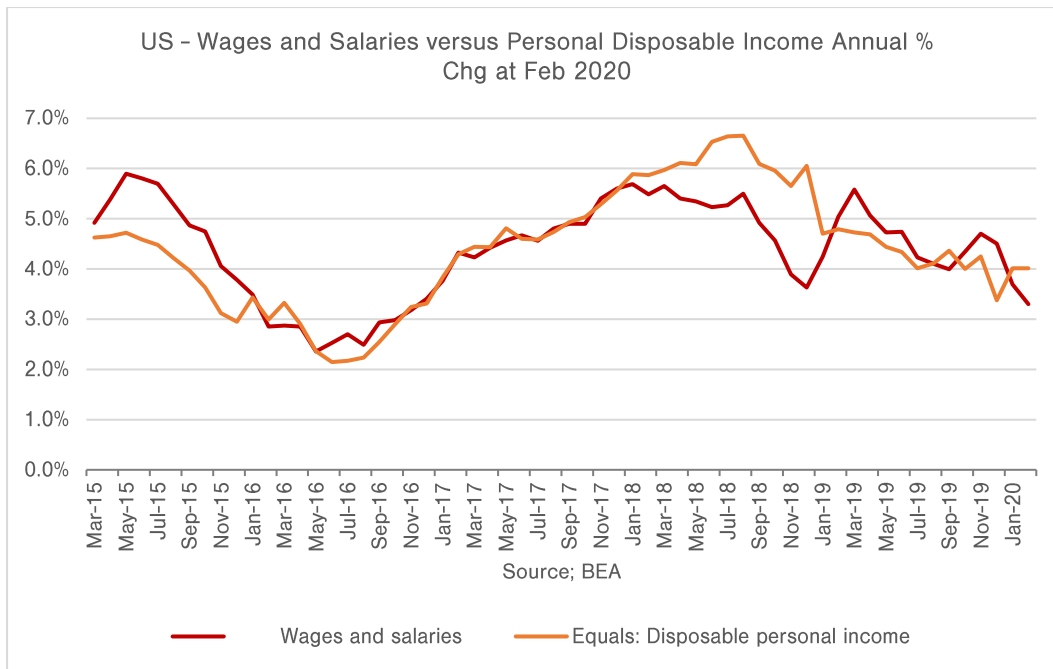
Proprietors income grew at a much faster pace in the month (+2.8% in Feb versus +0.9% in Jan), which helped to only partly offset a decline in personal income receipts on assets and much slower growth in personal current transfer receipts (govt social benefits to persons).

Contributions for govt social insurance grew at a slower pace.

Personal current taxes increased at the same pace as in Jan; +0.8%.

This overall resulted in slightly slower growth in personal disposable income; Feb +0.5% versus Jan +0.6%

Annual growth in wages and salaries, the largest component of personal income slowed further to 3.3% versus a year ago. Annual growth in personal disposable income was unchanged at 4%;



Personal Outlays

In Feb, personal outlays/personal consumption expenditure growth was in line with the month prior. Expenditure on goods declined which was offset by an acceleration in services expenditure.

Personal Consumption Expenditure – month change; Feb +0.2% versus Jan +0.2%

Expenditure on goods declined by -0.3% in Feb as expenditure on both durable goods (-0.5%) and non-durable goods (-0.2%) declined versus the month prior.

Expenditure on services increased by +0.4% in Feb versus +0.2% in Jan.

Annual growth across goods and services accelerated in Feb;



Personal Saving

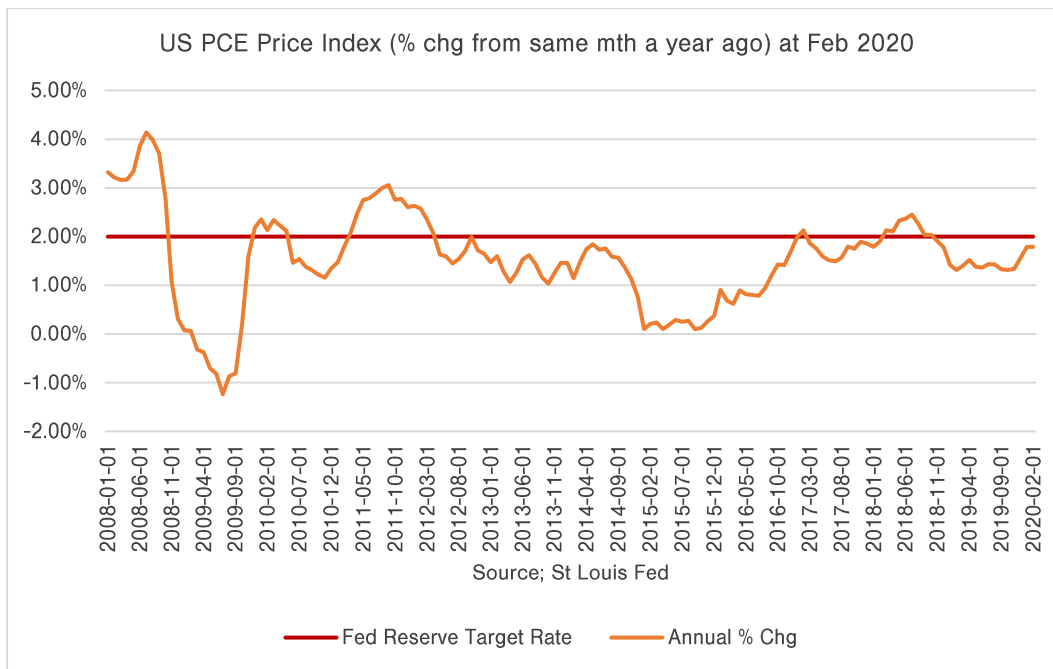
In Feb, personal disposable income still increased at a faster pace and by a larger amount. This resulted in a further increase in personal savings of +4.5% versus Jan. The saving rate (personal saving as a percentage of disposable personal income) increased further to 8.2;



PCE Price Index

This is the Fed preferred measure of consumer price inflation. Annual headline inflation for Feb was in line with the annual growth recorded in Jan. Annual growth in core PCE prices accelerated further and is now equal to that of headline/all-items.

PCE Price Index (All Items) – annual change; Feb +1.8% versus Jan +1.8%

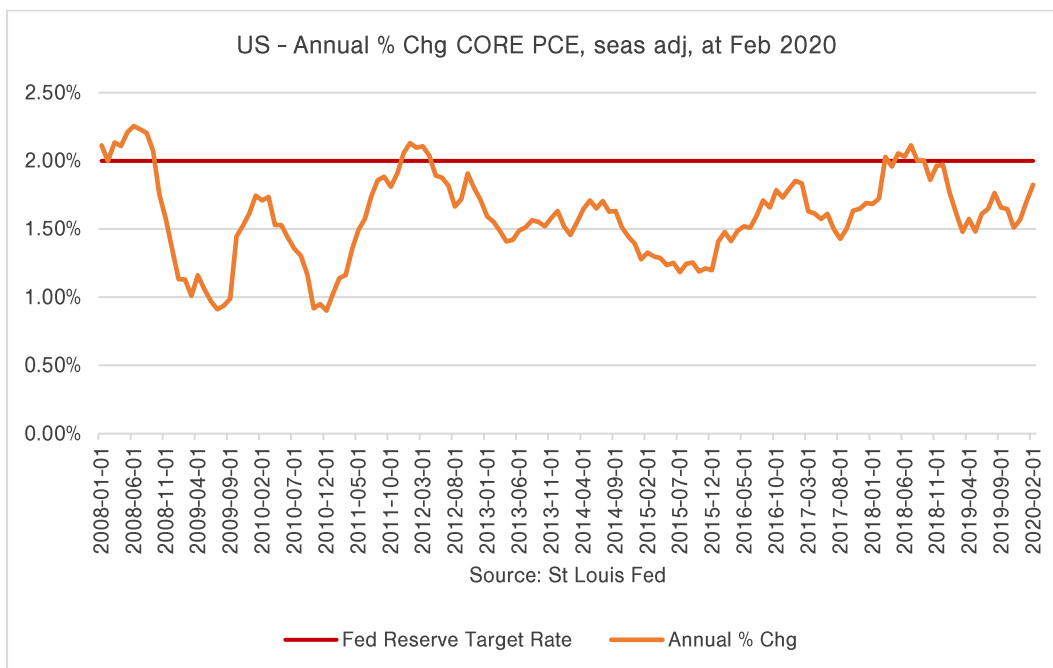


Food price growth accelerated slightly in the month but annual growth was unchanged at +0.8% in Feb.

Energy price growth declined sharply in the month (-3.4% in Feb versus -1.5% in Jan) which resulted in annual growth slowing from +10.8% in Jan to +5.6% in Feb.

Together, annual growth in food and energy prices declined in the month and slowed on an annual basis from +2.5% in Jan to +1.5% in Feb.

The remaining core PCE annual price growth increased from +1.7% in Jan to +1.8% in Feb.



Annual growth for prices of goods excluding food and energy goods (core goods) was less negative; Feb -0.6% versus Jan -0.9%.

Services less energy services (core services prices continued to increase at the same paces as in Jan at +2.6% - still higher growth in prices compared to goods.

<https://www.bea.gov/data/income-saving/personal-income>

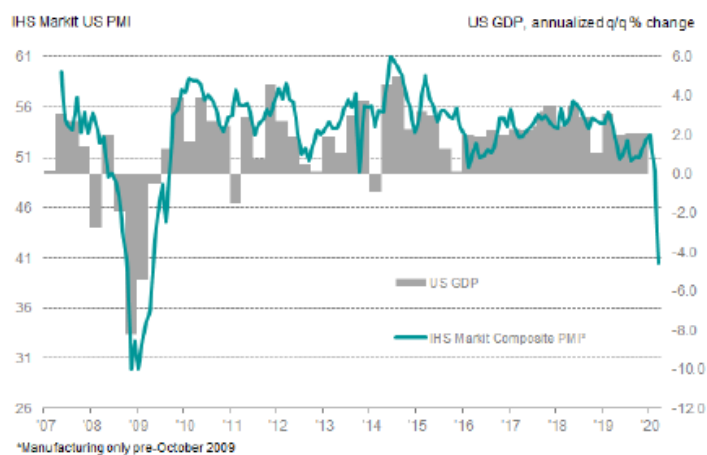
Prelim Markit Manufacturing & Services PMI (Mar)

The prelim reading for manufacturing PMI in Mar shifted slightly into contraction – this number is not representative of the large contraction in output and new business due to the offsetting factor of lengthening supplier lead-times (reflecting the supply shock). The headline services activity index fell at a much faster pace – reaching a new series low.

US Composite Output Index; Mar 40.5 versus Feb 49.6

Data collected March 12-23

IHS Markit Composite PMI and U.S. GDP



Sources: IHS Markit, U.S. Bureau of Economic Analysis

Services Business Activity Index; Mar 39.1 versus Feb 49.4

This was the fastest level of contraction in the series history. Most components recorded steep declines in activity; new business, especially in consumer facing activity, employment and the 12-mth outlook. Uncertainty about the outlook was the at the weakest level in the survey history.

Manufacturing PMI; Mar 49.2 versus Feb 50.7

It's important to note that the headline PMI has been boosted by the extended supplier lead times. The remaining components indicated a much larger decline in manufacturing activity.

Steep rates of contraction were signalled for production and new orders, both of which fell to the greatest extent since 2009.

New orders were reduced and in some cases cancelled and refunded. Employment declined;

Although some stated that retained employees were working from home, others noted that a large proportion of their workforce were made redundant

Input prices increased at a weak rate;

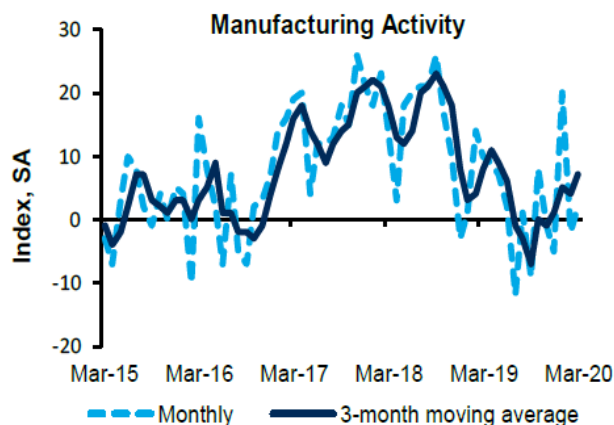
raw material shortages broadened out, but weak demand and discounting meant the overall increase was the weakest for almost three years.

<https://www.markiteconomics.com/Public/Home/PressRelease/7bf04abd12954a8581c25bc4d9f5e93a>

Richmond Fed Manufacturing Survey (Mar) – survey represents first half of Mar.

There was little change in the headline manufacturing index, improving from a slightly contraction to low growth. Shipment growth was more robust as the backlog of orders continued to decline at a faster pace. New orders were unchanged after a larger decline in the month prior. Local business conditions index contracted at a much faster pace as firms expected conditions to weaken and firms reduced employment.

Manufacturing Index; Mar 2 versus Feb -2



Shipment growth rebounded in Mar, but remains well below the near-term peak in Jan. Shipments were bolstered by a further decline in order backlogs. Concerningly, there was no growth in new orders in Mar – after a contraction in Feb. Capacity utilization declined. Both finished goods and raw materials inventories increased but at slower pace as firms worked through backlogs.

Local business conditions shifted firmly into contraction (-15) after recording slower growth in the month prior. Firms expected conditions to deteriorate further in the coming months. As a result, employment declined. The average workweek increased slightly after contracting in the month prior.

Prices paid and prices received both declined versus the month prior.

https://www.richmondfed.org/-/media/richmondfedorg/research/regional_economy/surveys_of_business_conditions/manufacturing/2020/pdf/mfg_03_24_20.pdf

Kansas City Manufacturing Activity (Mar)

The manufacturing composite index declined sharply in Mar. Most components of the index recorded notable declines in the month. The report highlights some of the comments from local industry with several points, aside from just the impact of the lockdown, to note and keep in mind in the coming months;

“\$30 per barrel oil is a much bigger problem that people are not focusing on because of C-19.”

“Margins can't get much worse. We may have to shut down.”

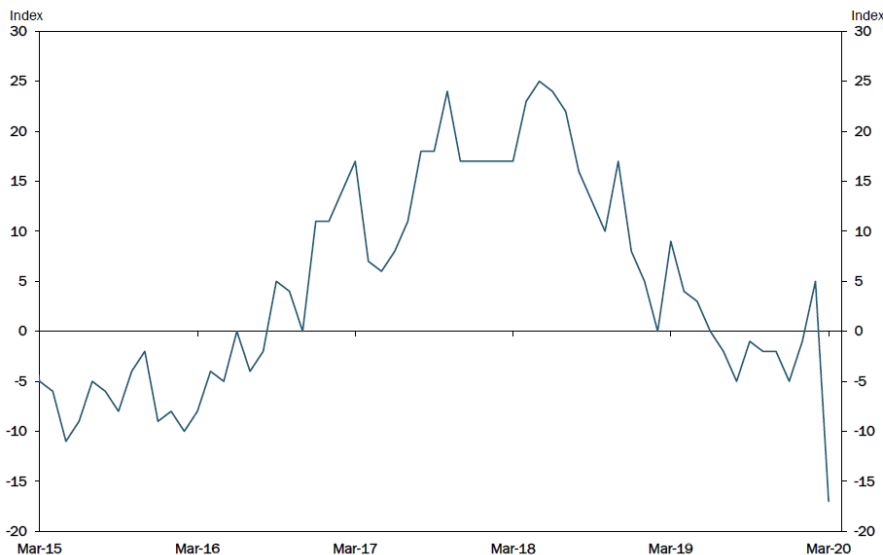
“Losing production employees who live paycheck to paycheck. We are trying to keep them on but if this thing lasts more than a month we will have to lay many people off.”

Highlights the obvious issues for employers as employees – and also highlights the scope for further employment decline.

“Customers are cancelling orders already booked. Also cancelling work not finished and asking that you hold it for them.”

Headline Manufacturing Composite Index; Mar -17 versus Feb 5

Chart 1. Manufacturing Composite Index vs. a Month Ago



There was a notable and sharp decline in production, volume of shipments and volume of new orders, including volume of new export orders. Note that for the last year, growth in these metrics had already been more subdued. This is also evidenced by the decline in order backlogs throughout the past year (firms had more capacity to . The decline in backlogs in Mar took a further, larger decline (from -16 in Feb to -41 in Mar) – there is some likelihood that part of this further decline is existing orders are being cancelled.

The even more concerning decline was in number of employees, falling further from -4 in Feb to -32 in Mar. The average workweek also declined sharply.

Prices received and prices paid both declined sharply.

Inventories also declined sharply.

The expectation for activity (across all index components) in six months' time deteriorated sharply.

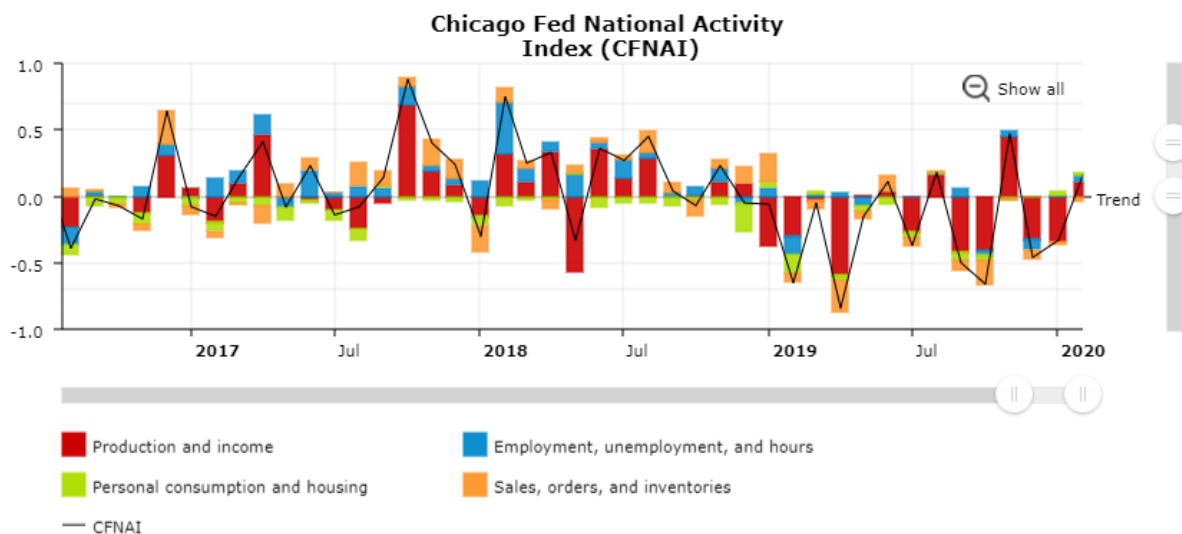
<https://www.kansascityfed.org/~//media/files/publicat/research/indicatorsdata/mfg/2020/march-2020-tenth-district-manuf-activity-kc-fed.pdf?la=en>

Chicago Fed National Activity Index (Feb)

The National Activity Index increased in Feb indicating that growth picked up in the month – due mostly to a rebound in income and production. The rebound in Feb was relatively small, (but positive nonetheless) resulting in the 3mth moving average remaining in negative territory.

Chicago Fed National Activity Index; Feb +0.16 versus Jan -0.33

3mth moving average Dec-Feb -0.26

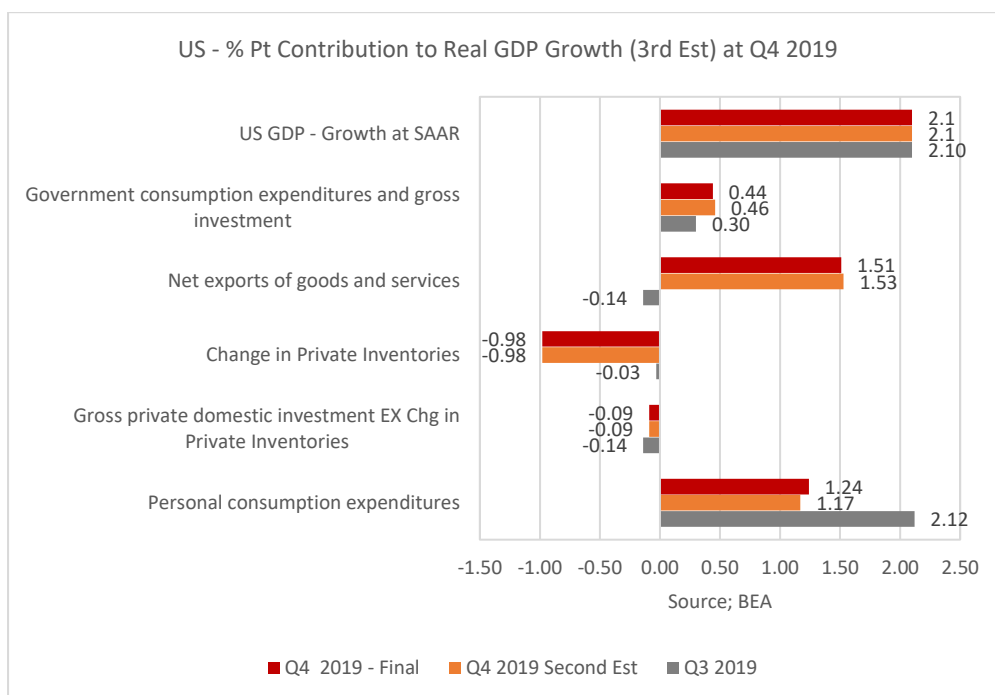


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GDP Q4 (third est)

There was no change to the seas adj annual rate of GDP growth in Q4. Growth remained at 2.1%. Underlying that, there were several revisions; there was a small upward revision to PCE, which was offset by small downward revisions to Govt expenditure and net exports.

GDP Growth – SAAR; Q4 +2.1% versus Q3 +2.1%



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

Durable Goods Orders (Feb)

The advance durable goods report indicated that defence capital goods were the main driver of the faster growth in orders for the month. Excluding defense, growth in orders was little changed from a month ago.

Durable Goods Orders – month change; Feb +1.2% (\$2.9bn) versus Jan +0.1%

The acceleration in new orders for durable goods was led by transport equipment (growing by +\$3.8bn in orders versus Jan). This was partly motor vehicles (+\$1.1bn) and other transport equipment. Non-defence and defence aircraft orders both declined in Feb versus Jan.

The increase in orders was mostly capital goods-based. Non-defence capital goods orders increased by +0.5% in Feb (+\$0.4bn) while defence capital goods orders increased by +25.7% versus Jan or +\$3.1bn.

Ex-defense, durable goods increased by only +0.1% in Feb, well below the headline +1.2% pace.

Orders for machinery, fabricated metals, primary metals and computers and electronic products all declined in Feb versus Jan.

On an annual basis, total durable goods orders were now only -0.1% below a year ago. Excluding transports, durable goods orders remained -0.9% below a year ago;



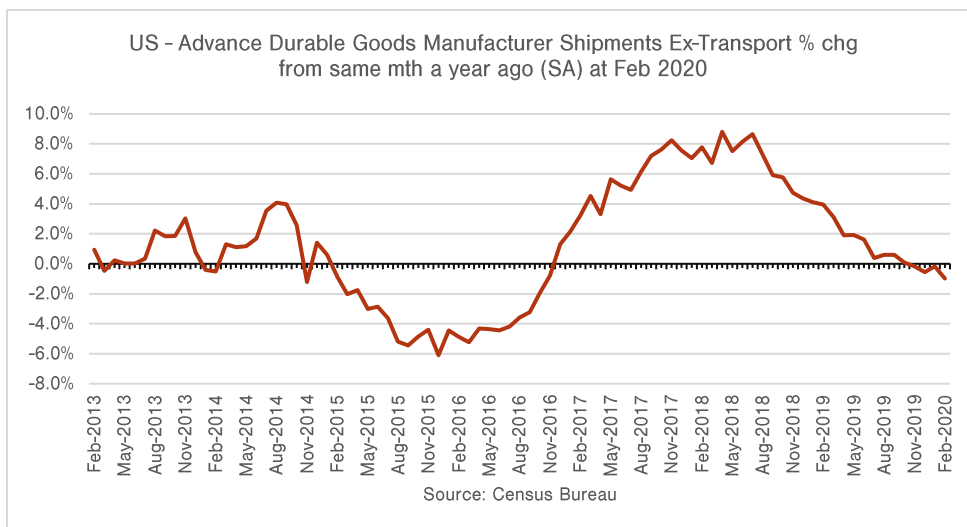
Annual growth in orders for transports shifted back to positive territory in Feb +1.5%. But key components such as orders for motor vehicles remain 2.6% below a year ago and non-defense aircraft 23.5% below a year ago.

Durable Goods Shipments – month change; Feb +0.8% (+\$2.1bn) versus Jan -0.1%

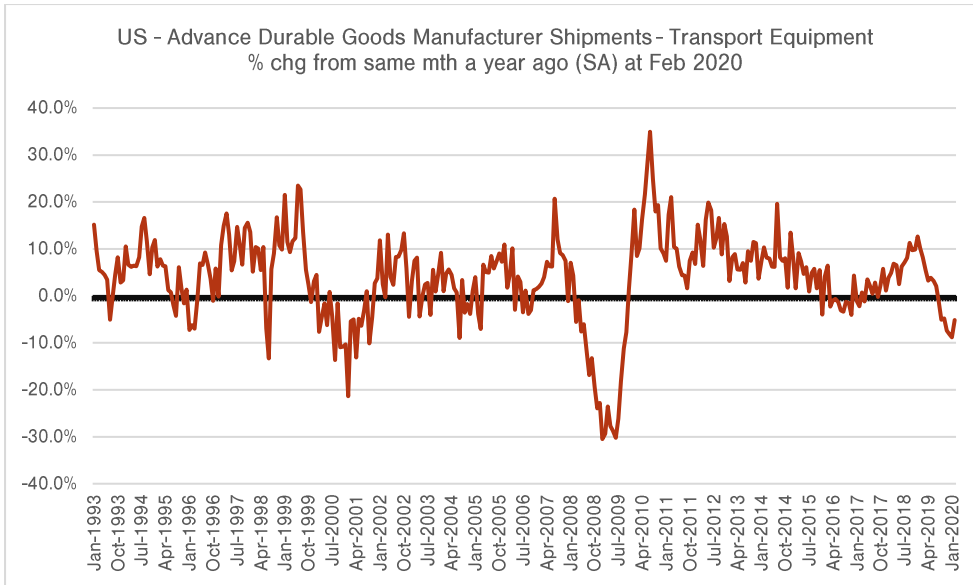
Similarly, most of the growth in shipments for the month was transport equipment of +\$2.4bn. This was made up of mostly motor vehicle shipments +\$1.2bn and non-defence aircraft shipments of +\$1.4bn.

Shipments excluding transports actually declined by -0.2% versus the month prior.

Annual growth in shipments of durable goods was 2.4% below a year ago. Excluding transports, annual shipments were only 1% below a year ago.



Shipments of transport equipment on an annual basis remain under pressure with non-defense aircraft shipments still 32% below a year ago and motor vehicle shipments 3% below a year ago.

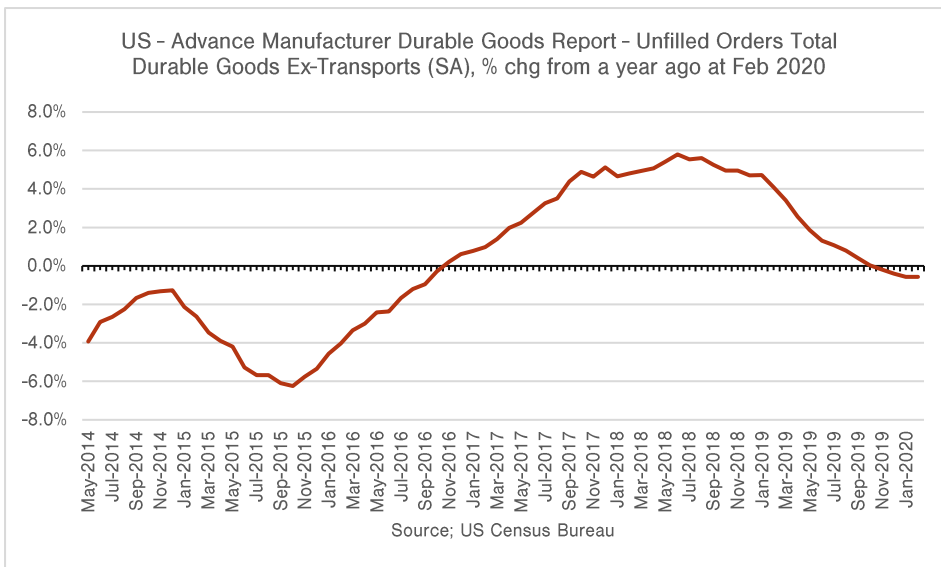


Durable Goods Unfilled Orders – month change; Feb +0.1% (+\$1.4bn) versus Jan 0%

Unfilled orders were only higher across transport equipment – linked to the growth in new orders for defense capital goods of +\$2.1 bn.

Excluding defense, unfilled orders declined by -0.1% or -\$0.8bn. The decline in outstanding orders (ex defense) is likely supporting the operation for firms in the absence of more substantial new orders growth.

On an annual basis, unfilled orders remain -1.7% below a year ago. Excluding transports, orders are only -0.6% below a year ago.

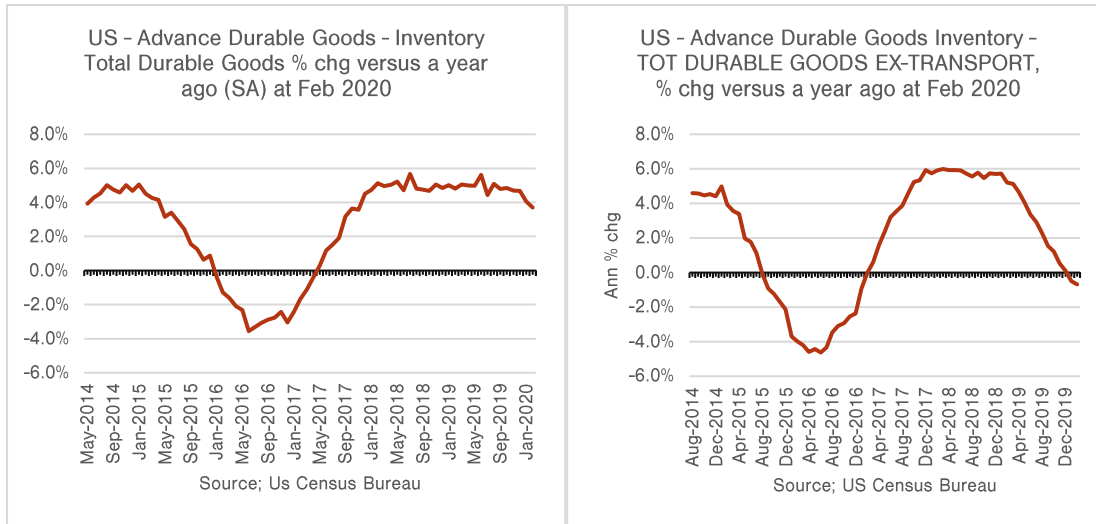


Durable Goods Inventory – month change; Feb 0% versus Jan -0.1%

There was no change in the value of inventory of durable goods in Feb versus Jan.

On an annual basis though, inventory growth remains higher.

Total durable goods inventory increased by +3.7% on an annual basis. Ex transports, the annual change in the value of durable goods inventory declined by -0.7% in Feb;



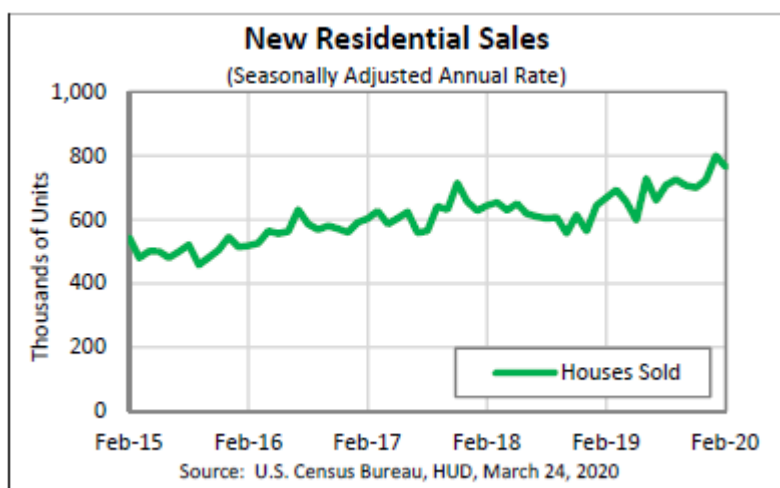
Transportation is one of the largest groups of durable goods, and inventory increased by +13% in Feb versus a year ago. Most of that was attributed to a +21.3% increase in non-defense aircraft and parts inventory.

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

New Home Sales (Feb)

US new home sales were forecast to have declined by -4.4% in Feb. The 90% confidence interval was +/-14.8% pts meaning that there is a chance that sales could have increased or decreased. The change was not statistically significant. It takes 4 months to establish a trend.

Excluding the last four datapoints still indicates that the trend had been improving;



None of the regions recorded statistically significant increases for the month.

<https://www.census.gov/construction/nrs/pdf/newressales.pdf>

Mortgage Applications (20 Mar)

There was a very sharp decline in mortgage applications in the week ending 20 Mar.

Market Composite Index (mortgage loan application volume); -29.4% versus the week prior (SA) and -29% on an NSA basis

While refi's also declined by 34% versus the week prior, they were still +195% above the same week a year ago.

The commentary on rates is insightful (emphasis added);

"The 30-year fixed mortgage rate reached its highest level since mid-January last week, even as Treasury yields remained at relatively low levels. Several factors pushed rates higher, including increased secondary market volatility, lenders grappling with capacity issues and backlogs in their pipelines, and remote work staffing challenges," said Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting. **"With these higher rates, refinance activity fell 34 percent, and both the conventional and government indices dropped to their lowest level in a month. Looking ahead, this week's additional actions taken by the Federal Reserve to restore liquidity and stabilize the mortgage-backed securities market could put downward pressure on mortgage rates, allowing more homeowners the opportunity to refinance."**

<https://www.mba.org/2020-press-releases/march/mortgage-applications-decrease-in-latest-mba-weekly-survey-x263222>

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Europe

Eurozone Prelim Markit Manufacturing & Services PMI (Mar)

The Eurozone composite output index fell to a record low in Mar. The headline services activity recorded a severe contraction across the region falling to 28.4 in Mar from 52.6 in Feb. While the headline manufacturing PMI contracted at a less severe pace, but underlying components highlight the degree of the demand contraction.

Headline Composite Output Index: Mar 31.4 versus Feb 51.6

This was a significant decline;

IHS Markit Eurozone PMI and GDP

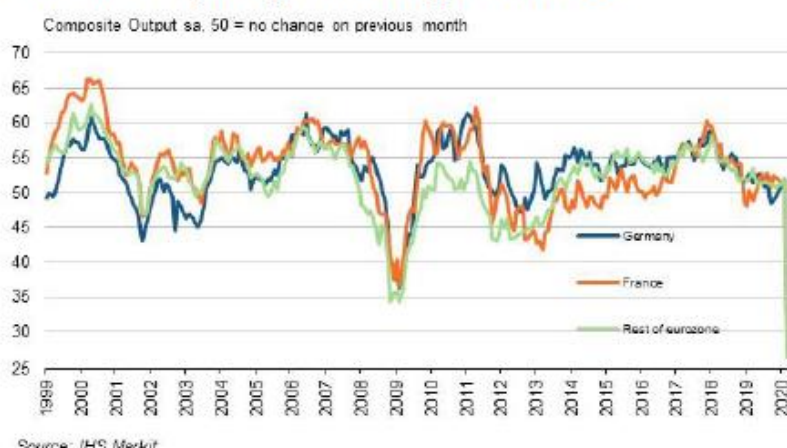


Data indicates that the sharp contraction in output was led by periphery countries, but also experienced by Germany and France;

The **rest of the euro area** reported an even steeper decline than seen in both France and Germany, led by comfortably the sharpest fall in service sector activity ever recorded, though manufacturing output also shrank at the steepest rate for almost 11 years.

French activity contracted at the fastest pace in over 22 years; The composite output index fell to 30.2 in Mar from 52 in Feb. The fall in German output was not as severe, but declined nonetheless, with the output index falling to 37.2 in Mar from 50.7 in Feb.

Core v. Periphery PMI Output Indices



Eurozone Services Activity Index; Mar 28.4 versus Feb 52.6

This was quite a severe contraction in activity for services across the region and easily a new record low for the index since 1998. Most components recorded marked declines; output, new orders, order backlogs and employment all declined. Input prices increased but at a slower pace while selling prices decreased at the fastest pace in a decade.

Eurozone Manufacturing PMI; Mar 44.8 versus Feb 49.2

Declines were also recorded across all components – especially output which contracted at a much faster pace (39.5 in Mar from 48.7 in Feb). New business declined with a record decline in new export business. Employment was reduced, but not to the same extent as in services firms.

Expectations of future output also deteriorated markedly to reach an all-time low, with record degrees of pessimism about the year ahead seen in both manufacturing and services.

<https://www.markiteconomics.com/Public/Home/PressRelease/30078c37216c413bb410af22ae547068>

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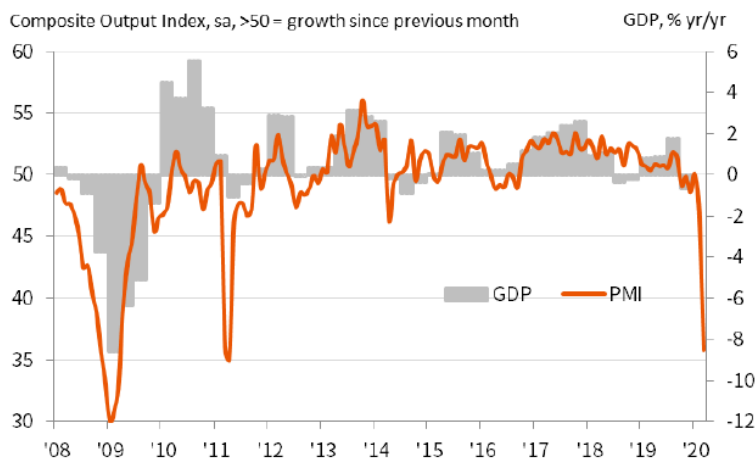
Japan

Prelim Markit Manufacturing PMI (Mar)

The prelim composite PMI for Mar indicated that growth in activity declined notably, after posting a further small decline in Feb. The Mar result was led by a more significant fall in services activity – with the services PMI falling to the lowest reading since data collection started in 2007. Manufacturing activity also continued to decline.

Headline Composite Index; Prelim Mar 35.8 versus Final Feb 47

au Jibun Bank Japan Composite Output Index



Sources: au Jibun Bank, IHS Markit, Cabinet Office.

Services were hardest hit with the business activity index falling from 46.8 in Feb to 32.7 in Mar. *This was the lowest recorded Services PMI since the data collection started in 2007.* Declines were recorded across all components – output, new orders, backlogs, employment and prices. Only finished goods inventory declined at a weaker pace.

Manufacturing activity also continued to decline at an accelerated pace with the PMI falling from 47.8 in Feb to 44.8 in Mar. Similar to services, declines were recorded across all components of the manufacturing PMI. This was overall the sharpest decline since Apr 2009.

<https://www.markiteconomics.com/Public/Home/PressRelease/f0bcf3ca96f647368554acfea2232163>

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United Kingdom

BREXIT

Now the UK PM, and both the UK and EU chief Brexit negotiators have tested positive for Coronavirus.

Brexit negotiations are still planned to go ahead in the coming week as the UK 'insists' that there will be no change to the timeline.

The EU outlined a draft legal agreement for the future of the EU-UK partnership. The link to the draft is embedded in the release.

Emphasis added;

The UK has indicated that it will put forward some texts covering some of the elements of the future EU-UK relationship outlined in the Political Declaration.

Given developments related to COVID-19, EU and UK negotiators are currently exploring alternative ways to continue discussions, including if possible the use of video conferences. Both sides remain in close contact with one another.

Substantive work on the legal texts on both sides will continue over the coming weeks. https://ec.europa.eu/commission/presscorner/detail/en/IP_20_447

https://ec.europa.eu/commission/presscorner/detail/en/STATEMENT_20_455

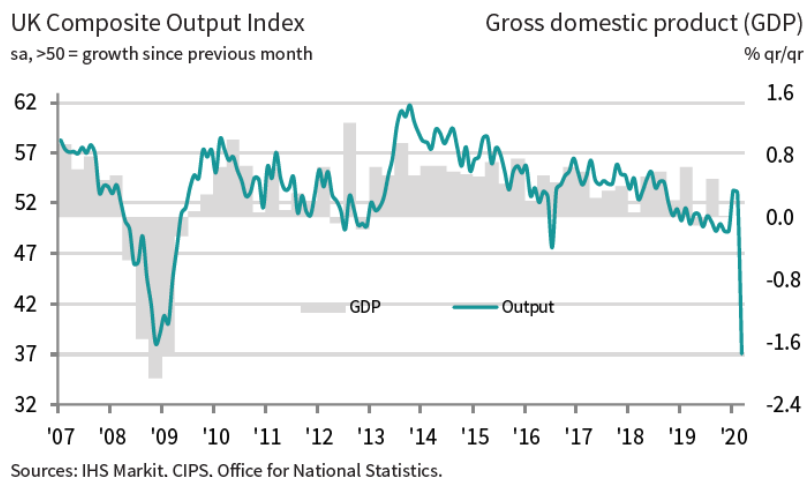
The UK has also published a set of negotiating objectives;

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/868874/The_Future_Relationship_with_the_EU.pdf

Prelim Markit Manufacturing & Services PMI (Mar)

The prelim headline UK composite PMI indicated that economic growth declined significantly in Mar. The output index declined to a new survey low point, led by a much steeper decline in services activity. The broader UK shut down was only just enacted this week (w/c 23 Mar) – with more draconian measures likely to be reflected next month.

Headline Composite Output Index; Mar 37.1 versus Feb 53.0



UK Services Business Activity Index: Mar 35.7 versus Feb 53.2

The previous record low for the services index was 40.1 in the GFC. Consumer facing business mostly led the fall in activity.

UK Manufacturing PMI: Mar 48 versus Feb 51.7

The decline in the headline PMI number was not as severe as the new orders, output and employment components. This was due to a slower decline in the stock of purchases and a record lengthening in supplier lead times.

Overall employment growth declined notably – and for the moment remains above that GFC, despite output falling below the GFC record low;



<https://www.markiteconomics.com/Public/Home/PressRelease/0f164ac0128b429ea1c329104afd62c3>

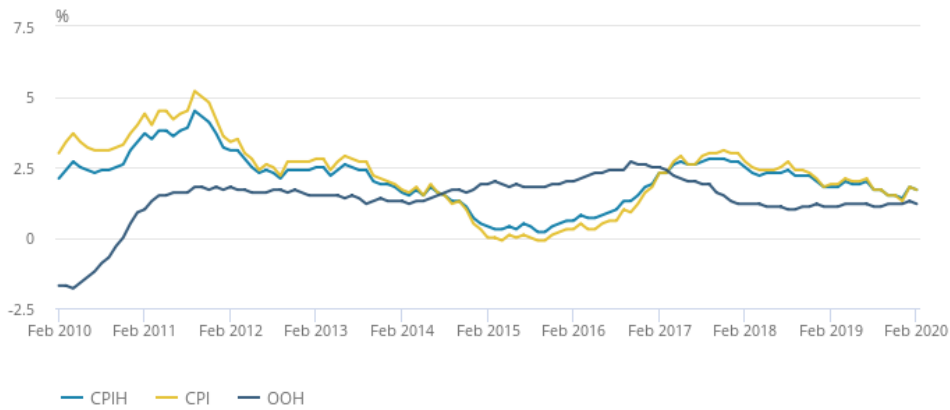
CPI (Feb)

The annual UK headline CPI growth (CPIH) slowed slightly in Feb. The change in % point contribution to annual CPI growth was relatively small across the main categories.

CPI-H – annual growth; Feb +1.7% versus Jan +1.8%

Figure 1: CPIH and CPI 12-month inflation rates ease slightly in February 2020

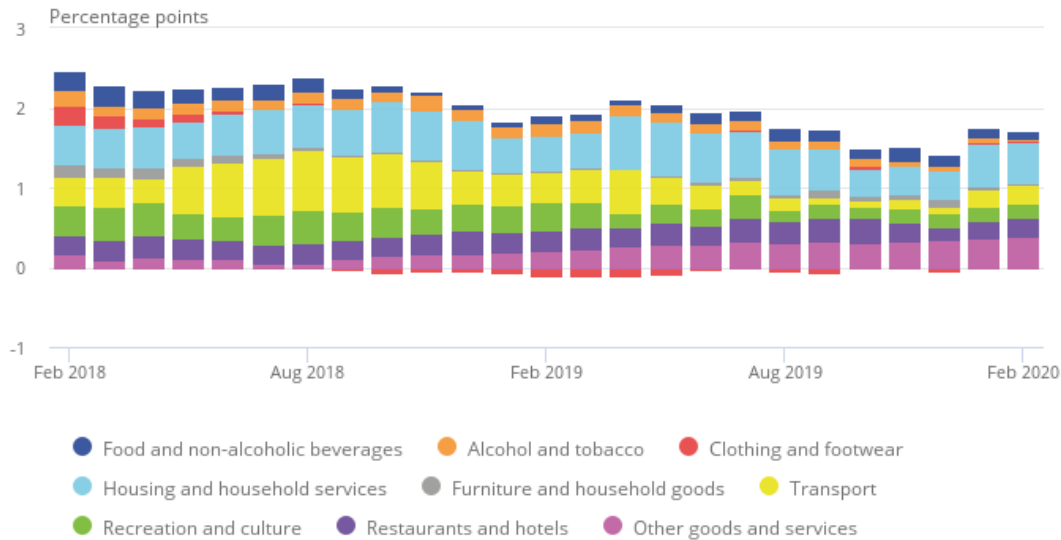
CPIH, OOH component and CPI 12-month rates for the last 10 years, UK, February 2010 to February 2020



Source: Office for National Statistics – Consumer price inflation

Figure 2: Contribution to inflation from transport has shown widest variation over recent years

Contributions to the CPIH 12-month rate, UK, February 2018 to February 2020



Source: Office for National Statistics – Consumer price inflation

Housing and household services has remained the largest contributor to headline price growth, but there was only a small change in annual % pt contribution in Feb (-0.03% pts).

Restaurants and hotels are the third largest contributor to headline CPI growth. Between Jan and Feb, the % pt contribution increased by only +0.04% pts.

Food, alcohol and tobacco made smaller contributions to CPI growth in Feb (-0.05 % pts).

<https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/february2020>

Retail Sales (Feb)

UK retail sales (vols) fell in Feb after a stronger increase in Jan. The much weaker monthly growth over the last seven months has result in a further slow down in annual retail volume growth – which has now slowed to +0.1% in Feb versus a year ago. Retail sales were weakening ahead of the broader shut-downs instituted in Mar.

Retail Sales Incl Fuel (vol) – month change; Feb -0.3% versus Jan +1%

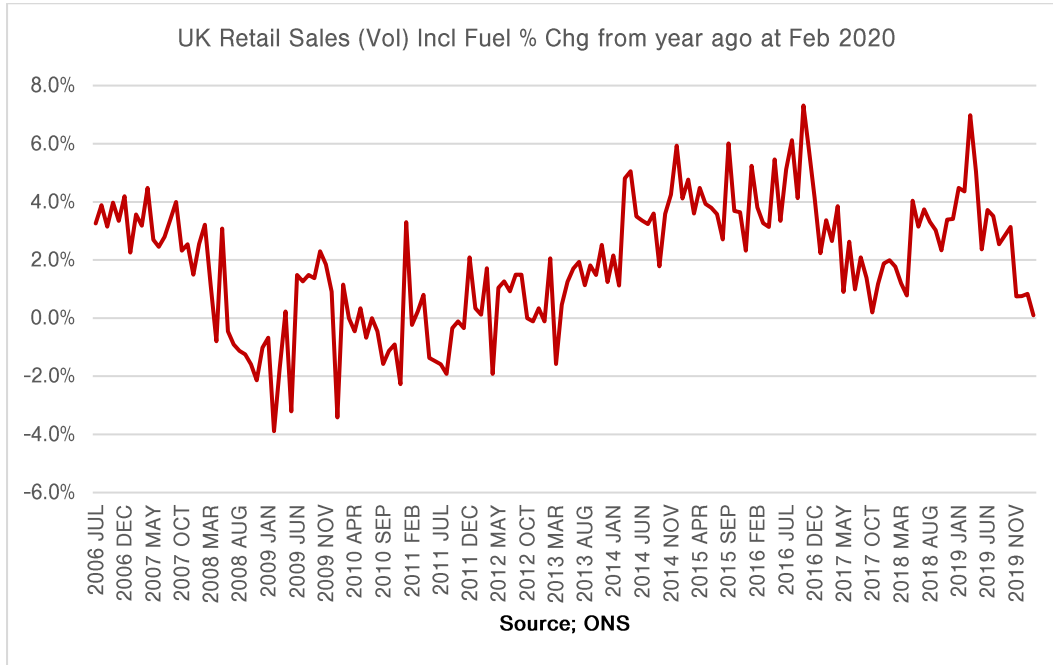
Sales declines in the month were recorded across food stores (-0.4%), department stores (-1%) and non-store retailing (-2.8%). Note that non-store retailing growth had been much stronger in the two months prior.

Sales of fuel stores increased by +1.4% in Feb.

There was a large decline of 2.8% in non-store retailing, with feedback from retailers suggesting that extreme rainfall affected markets and stalls in this

sector, while a limited number of online retailers commented on a reduction of sales shipped from China because of the impact of COVID-19

The annual growth in the volume of retail sales slowed further in Feb to a mere +0.1%;



<https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/february2020>

BoE MPC Meeting – 25 Mar

The scheduled meeting of the MPC went ahead on 25 Mar, after more significant policy measures were already announced on 19 Mar. At this meeting on 25 Mar, there were no further changes announced.

The spread of the [Coronavirus] disease and the measures that are likely to be needed to contain it have evolved significantly. The economic consequences of these developments are becoming more apparent and a very sharp reduction in activity is likely. Given the severity of that disruption, there is a risk of longer-term damage to the economy, especially if there are business failures on a large scale or significant increases in unemployment.

There is little evidence as yet to assess the precise magnitude of the economic shock from Covid-19. It is probable that global GDP will fall sharply during the first half of this year. Unemployment is likely to rise rapidly across a range of economies, as suggested by early indicators.

The MPC voted unanimously to;

Maintain Bank Rate at 0.1%

Continue with the programme of £200 bn of UK government bond and sterling non-financial investment-grade corporate bond purchases, **financed by the issuance of central bank reserves**, to take the total stock of these purchases to £645 bn

Regarding the impact of asset purchases, gilt yields fell significantly following the previous week's special MPC meeting and the commencement of additional gilt purchase operations from 20 March. If needed, the MPC can expand asset purchases further.

Summary of the policy changes announced 19 Mar 2020;

<https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2020/monetary-policy-summary-for-the-special-monetary-policy-committee-meeting-on-19-march-2020>

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Australia

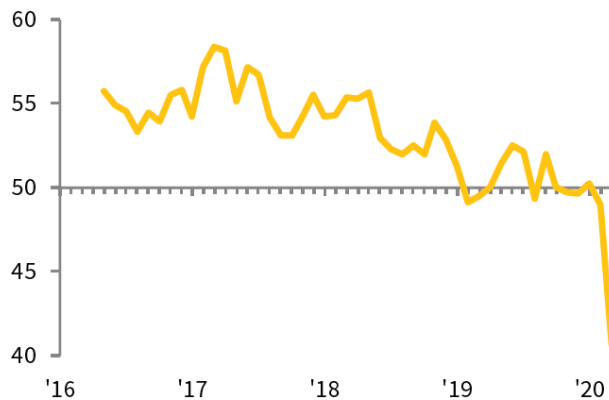
Prelim CBA Manufacturing & Services PMI (Mar)

Overall output is forecast to have contracted at a much faster pace in Mar – led by a large contraction in services activity in Australia. Both services and manufacturing recorded faster declines in output.

Headline Composite PMI: Mar 40.7 versus Feb 49

Commonwealth Bank Flash Composite Output Index

sa, >50 = growth since previous month



Services Business Activity: Mar 39.8 versus Feb 49

While both output and new business declined, the decline in employment was reported as 'more modest' and 'broadly in line with that seen in Feb'.

Manufacturing PMI: Mar 50.1 versus Feb 50.2

The headline PMI was little changed partly as a result of lengthening supplier lead times – usually seen as a positive reflection of increased demand. Not in this case. Although;

That said, there were some reports of manufacturers expanding output due to a lack of goods coming from China.

Overall manufacturing output declined at a faster pace along with a sharper decline in new orders.

What is likely to become a problem for the economy;

A depreciation of the Australian dollar led to higher input costs, with the rate of inflation accelerating to a 17-month high. Selling prices were also raised at a faster pace at the end of the first quarter.

<https://www.markiteconomics.com/Public/Home/PressRelease/07753a5a387f4f0b832d0c08b0c7c128>

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Trade

US-China Trade Talks

Timing for the commencement of the second phase of the deal remains unclear amid the breakout of the Coronavirus;

The question right now is the timing of a theoretical phase two agreement. China's fight against a mysterious viral infection that's infected hundreds of thousands is clouding the near-term outlook.

https://finance.yahoo.com/news/steve-schwarzman-on-phase-two-trade-deal-outlook-130000221.html?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuZ29vZ2xLLmNvbS8&guce_referrer_sig=AQAAACX-q3at62V2Tic-8dQFYsO1aYKy56Lwh_6LcNtLmeyzxwicbFsdFp168Cx5LAZZJx1cdA7B-dBre56Zxr9XEMmOuIR3iiddF_XyFQqms-UNgh2buYJVvCLcD7FgW_p7AVgGOLJhvB5vCwefUnQJQX7HxB51j19htdO6Pqw3zeE

Reconfirming what a 'win' in the negotiations with China looks like – a statement of the key negotiating goals as outlined by the USTR from the initial USTR objectives (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

The focus in early 2020 will be on phase two of the deal – originally planned to begin from April or May this year;

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%20however%20will%20have,effect%20on%20January%201%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

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

Airline Subsidies

From 18 Oct, the US had implemented tariffs on some EU imports as a part of the WTO ruling on the Airbus case. This week, the USTR announced a further increase in the tariff rate in aircraft imported from the EU into the US from 10% to 15% - effected from 18 Mar 2020.

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/february/ustr-revises-75-billion-award-implementation-against-eu-airbus-case>

The counter-case where the EU is pursuing tariffs against US support for Boeing is running approx. six-months behind.

Trade Deal 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

France on Monday agreed to suspend a 3% digital tax on U.S. tech companies in exchange for Washington holding off on a threat to impose tariffs of up to 100% on a \$2.4 billion list of French imports, a French diplomatic source said.

<https://www.reuters.com/article/us-usa-trade-deals/after-china-trade-deal-europe-and-uk-next-on-trumps-to-do-list-idUSKBN1ZL2TJ>

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 6-8 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>

and

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/january/public-hearing-proposed-action-frances-digital-services-tax-0>

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 2019, 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 Canadian parliament rushed through the ratification of the USMCA last week.

The House of Commons lower chamber, which had weeks of deliberations left, agreed the instant approval on Friday after opposition legislators dropped their objections. The upper Senate chamber backed the pact later in the day, Deputy Prime Minister Chrystia Freeland told reporters.

In a letter to the U.S. Congress on Wednesday, Lighthizer sent notice of an entry-into-force date of June 1 for USMCA, according to a spokesman for the Senate Finance Committee, which oversees tax and trade issues.

<https://www.reuters.com/article/us-usa-trade-usmca-canada/canadian-parliament-rushes-through-ratification-of-usmca-trade-pact-idUSKBN2102I5>

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/march/ambassador-lighthizer-statement-canadas-approval-usmca>

US-UK Trade Talks

The likely priority for the UK will be the UK-EU trade deal negotiation to complete the Brexit transition.

The USTR has 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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