MARS CAPITAL PARTNERS

Weekly Macro Review

w/c 13 April 2020

Key Themes

The sudden drop in output, sentiment and employment has so far been unprecedented. We expect this data to remain very weak until quarantine measures start to lift. In the US, and across many countries, stimulus is currently making its way through to households and businesses. This will provide some limited relief as many ride out these extremely difficult times.

Lock downs remain in place across many countries. The exception (for which we have data) is China – which is now lifting quarantine measures. Data this week reflects ongoing consumer weakness, as the sharp decline in retail sales continued in Mar. Industrial production declined at a slower pace, somewhat offset by a rebound in mining. Manufacturing remained weaker across more capital/durable goods sectors while non-durables such as food production continued to grow. Exports rebounded in Mar after a much weaker Feb. The Chinese economy shrank at a record pace in Q1. A sign of things to come for many countries.

In the US, new unemployment claims remained at extreme (high) levels this week. In the last four weeks, over 22m people have filed for unemployment benefits. Housing market conditions fell sharply. The weekly MBA survey highlighted that the purchase index remains weak (down 35% from the start of Mar) – a 4-6wk leading indicator of housing sales.

A look at two regional manufacturing surveys for the first full month of Apr highlighted record-breaking declines across indicators of current activity. The two surveys only differed in the view of conditions in six months' time. From the NY Empire State survey, one of the hardest hit states by the virus, firms only expected a slight improvement in conditions in six months' time. From the Philly Fed survey – firms were far more optimistic about conditions in six months' time.

Retail sales contracted sharply in Mar – with motor vehicle sales and food service the largest drags on growth. Unsurprisingly, grocery sales were very strong. Delivery of stimulus checks in the US commenced on 13 Apr – either electronic or by mail.

The Aus labour market report reflects the conditions the week prior to the implementation of containment policies in mid Mar – little change overall. By late Mar, business confidence for Australia had fallen hard, recording the largest decline in the survey history. Similarly, business conditions deteriorated notably in the month across trading, profitability and employment. The Westpac consumer sentiment survey for Apr shows how far sentiment has fallen since the lock-down came into effect – recording the single largest monthly decline in the survey history. While many of the fiscal support packages have been announced, issues remain with implementation (difficulty in registering for programs etc) and payments are yet to commence.

Contents

US Data

Initial Jobless Claims for wk ending 11 Apr

The initial jobless remained extremely elevated this week.

Advance Claims wk end 11 Apr 2020 (SA); 5,245,000 persons

Initial Claims for the week prior, ending 4 Apr 2020; revised slightly higher to 6,615,000 persons

> The largest increases in initial claims for the week ending April 4 were in Georgia (+256,312), Michigan (+84,219), Arizona (+43,488), Texas (+38,982), and Virginia (+34,872), while the largest decreases were in California (-139,511), Pennsylvania (-127,037), Florida (-58,599), Ohio (-48,097), and Massachusetts (-41,776).

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

Mortgage Applications wk ending 11 Apr

Mortgage application growth rebounded this week but the purchase index continued to decline.

Market Composite Index - mortgage loan application volume; +7.3% (SA) versus the week prior.

Lower rates may have contributed to the weekly increase as well as lenders working through backlogs of applications;

> "The 30-year fixed mortgage rate decreased last week to the lowest level in MBA's survey at 3.45 percent. The decline in rates - despite Treasury yields rising - is a sign that the mortgage-backed securities (MBS) market is stabilizing and lenders are successfully working through their lending pipelines," said Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting.

The purchase index (the number of loans actually finalized) continued to decline in the latest week by <2% and was the fifth week of decline. The purchase index is the closest leading indicator (by 4-6wks) of home sales. Emphasis added;

> **Compared to the first week of March, the purchase index was down around 35 percent**, as the economic downturn and nationwide mitigation practices to slow the spread of COVID-19 have disrupted the spring homebuying season. **The purchase market is still expected to rebound**, as long as the public health measures to reduce the pandemic's spread are successful and result in a broader recovery."

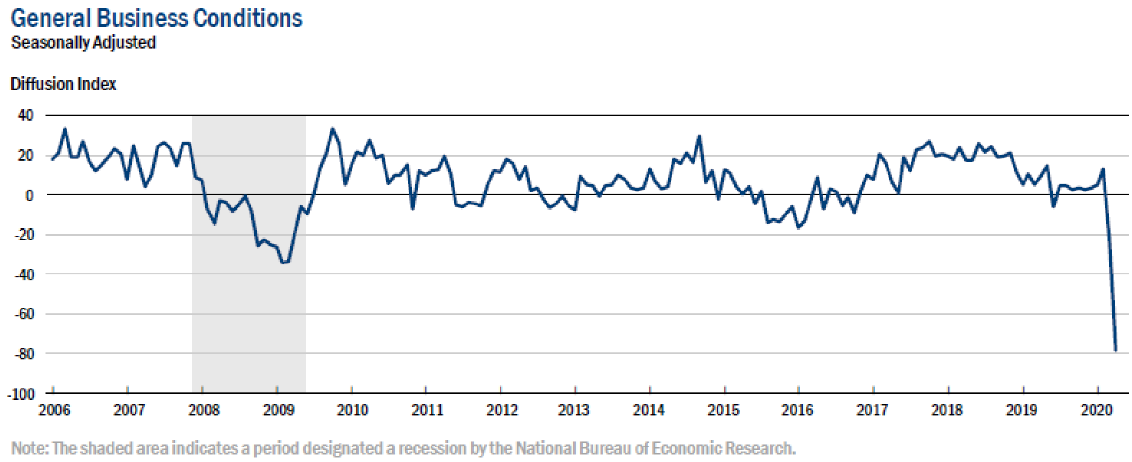
The refinance index increased by +10% versus a week ago and remains +192% ahead of a year ago.

https://www.mba.org/2020-press-releases/april/mortgage-applications-increase-in-latest-mba-weekly-survey-x263475

NY Empire State Manufacturing Index (Apr)

NY has so far been one of the hardest hit states by C-19. The main containment strategies were put into place during Mar. The first full month of lock-down in Apr resulted in the significant contraction of manufacturing activity for the month. General business conditions contracted at almost twice the pace of that at the peak of the GFC. Future conditions in six months' time increased at a faster pace, remaining positive, but low – indicating that firms only see a slight improvement in the future (from this base).

Headline General Business Conditions; Apr -78.2 versus Mar -21.5



The significant decline in conditions this month was the result of less firms reporting higher conditions (from 20% in Mar to only 7% in Apr). But there was a more significant increase in the proportion of firms reporting lower conditions – from 41.6% of firms in Mar to 85.2% of firms in Apr. In other words, and unsurprisingly, the vast majority of firms reported worsening/lower conditions this month.

The underlying key demand components all declined severely this month;

New orders fell to -66.3pts and shipments fell to -68.1pts in Apr.

The decline in unfilled orders was not as extreme – falling to -16.8pts. The proportion of firms that reported higher unfilled orders actually increased slightly this month to 18.1% (higher delivery times/supply chain disruption may have impacted firms' ability to fill orders?). But there was a much larger increase in the proportion of firms that reported lower unfilled orders (double actually from 15% in Mar to 34.8% in Apr) – suggesting some firms were working through the backlogs in the absence of incoming new business. Just under half of firms reported no change in backlogs.

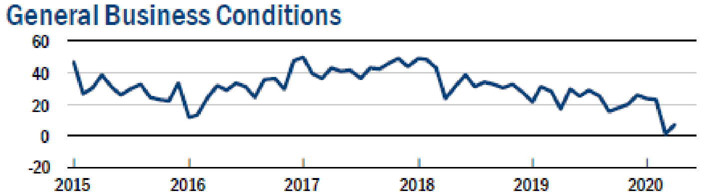
Delivery times increased but again, the pace of increase was not as extreme as other measures. The proportion of firms reporting an increase, as well as a decrease in delivery times, both increased this month.

Adding some further pressure to businesses, prices paid continued to increase, albeit at a much slower pace. Whereas, prices received declined in the month. Across both metrics though, the majority of firms still experienced no change in prices.

The most concerning part of this report is number of employees. From surveys across other regions, it became clear that firms were on a hiring freeze in Mar. In NY this month though, there was a significant increase in firms that reported <u>lower</u> levels of employment. The index fell further from -1.6pts in Mar to -55.3pts in Apr. <u>In Mar, 16.6% of firms reported lower levels of employment – in Apr this increased to 58.6% of firms reporting lower employment</u>. Only 3.3% of firms reported higher levels of employment in Mar. Just under 40% of firms still reported no change.

The decline in the average workweek was similar to the decline in the number of employees.

The forward-looking indicators suggest that, at this stage, firms expect only a small improvement over the next six months;



	Percent Reporting		
	Higher	Lower	Index
Mar	37.9	36.7	1.2
Apr	48.6	41.6	7.0
Change			5.8

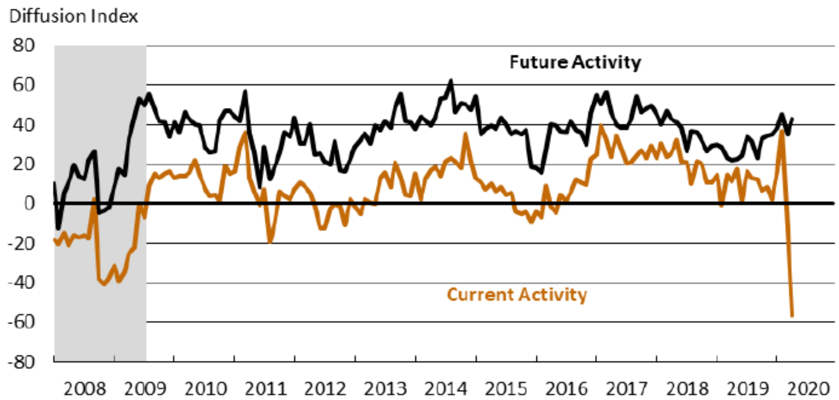
https://www.newyorkfed.org/medialibrary/media/survey/empire/empire2020/esms_2020_4_survey.pdf?la=en

Philly Fed Manufacturing Survey (Apr)

The Philly Fed survey for Apr indicated that manufacturing activity contracted sharply. All indicators of current activity contracted sharply (with delivery times increasing). Many of these indictors recorded the largest pace of decline on record for the survey. The majority of firms reported a decrease in the level of general business activity. But interestingly, the expectations of future activity continued to increase – with most components remaining elevated.

<u>Headline General Activity Index</u>; Mar -56.6 versus Feb -12.7

Chart 1. Current and Future General Activity Indexes
January 2008 to April 2020



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

Conditions in six months' time are expected to improve – in Apr, 53% of firms expected activity to increase. This optimism about future conditions is evident across all components.

Current activity though remains weak as many indicators contracted at a record pace this month.

The new orders index fell to a record low -70.9 (from -15.5 in Mar). There were ZERO firms reporting an increase in new orders this month.

Similarly, the shipments index also fell to a record low of -74.1. Unfilled orders contracted at a faster pace, but not to the extreme levels of orders and shipments.

Both prices paid and prices received shifted into contraction this month. Again, ZERO % of firms in the survey recorded an increase in prices received this month.

The number of employees contracted at the second fastest pace in history of the survey; in Apr the index fell to -46.7. Only at the height of the GFC was the employment index lower in Mar 09 at -51.5. The hiring freeze continues - this month, ZERO % of firms recorded an increase in employment but just over half of respondent firms (52%) reported no change in employment.

The average employee workweek though contracted at a record pace with the index falling to -54.5 – this is well below the peak of the GFC in Feb 09 at -44pts. No firms reported an increase in the work week this month and over half of firms reported a decrease in the average workweek.

https://www.philadelphiafed.org/research-and-data/regional-economy/business-outlook-survey/2020/bos0420

Industrial Production G.17 (Mar)

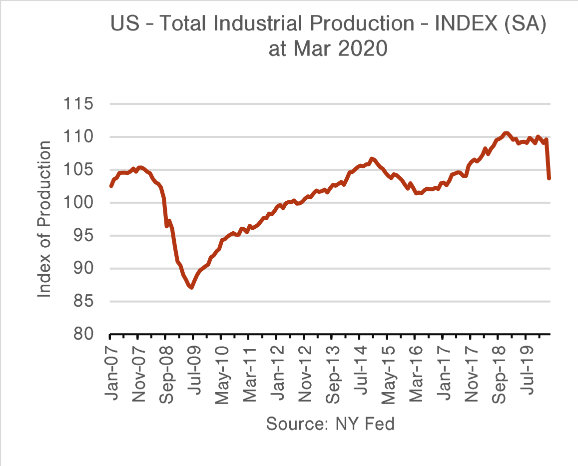
Industrial output recorded a large decline in Mar – both in the month and on an annual basis. Declines in output were recorded across manufacturing (ALL sectors), mining and utilities. The most notable and severe impact was the decline in manufacturing production.

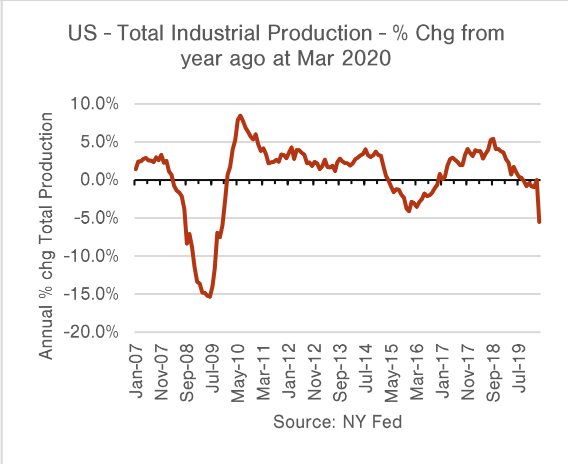
Capacity utilization, which had already been trending lower throughout 2019, also fell sharply in the month – led mostly by manufacturing, and to a lesser degree, mining.

TOTAL INDUSTRIAL PRODUCTION – MONTH CHANGE; Mar -5.4% versus Feb +0.5%

The annual pace of growth shifted from 0% growth in Feb to -5.5% decline in Mar. All areas of industrial output contributed to the decline in the month.

The index of output for total industry is now back at the level of early 2017. The charts below compare the index of output versus the trend of annual growth;





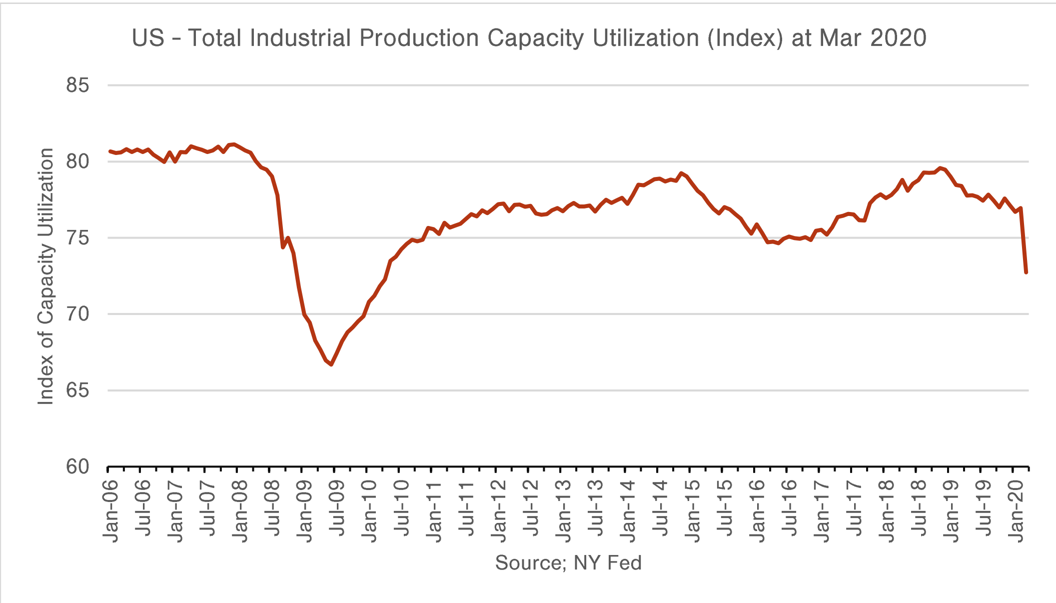
> Total industrial production fell 5.4 percent in March, as the COVID-19 (coronavirus disease 2019) pandemic led many factories to suspend operations late in the month.

The suspension of operations, especially in manufacturing, is reflected in the overall decline in capacity utilization.

> Capacity utilization for the industrial sector decreased 4.3 percentage points to 72.7 percent in March, a rate that is 7.1 percentage points below its long-run (1972–2019) average.

So while production has fallen back to mid-2017 levels, utilization has fallen back to levels not recorded since 2010.

At the peak of the GFC, industrial capacity utilization was estimated to be 66%. In Mar 2020, it was 72%;



There are three broad areas making up the total industrial output estimates – manufacturing, mining and utilities.

<u>Manufacturing Output – month change</u>; Mar -6.3% versus Feb -0.1%

> Manufacturing output fell 6.3 percent; most major industries posted decreases, with the largest decline registered by motor vehicles and parts. The decreases for total industrial production and for manufacturing were their largest since January 1946 and February 1946, respectively.

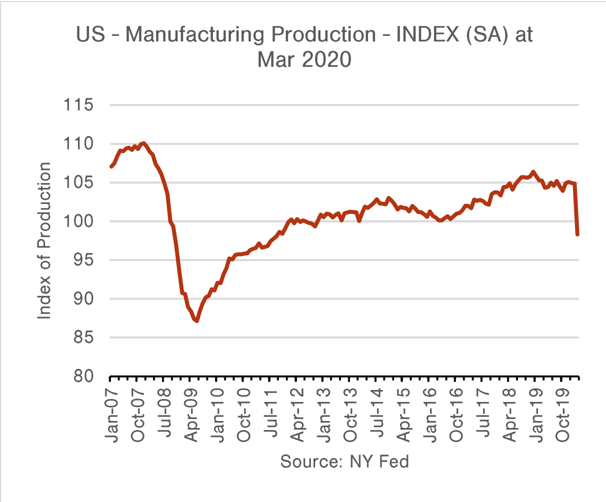
The decline in output was broad based;

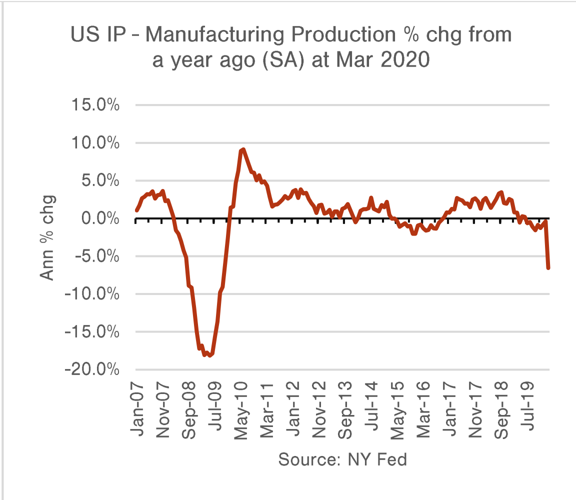
<u>Durable goods manufacturing</u> declined by 9.1% in Mar (+0.2% in Feb). All eleven (11) durable goods sectors recorded declines in the month; the largest decline was for motor vehicles at a -28% decline in production.

<u>Non-durable goods manufacturing</u> output declined by -3.2% (after -0.3% in Feb). Similarly, all nine (9) sectors recorded declines in output in the month – including food and bev production, which declined by -0.8% in the month.

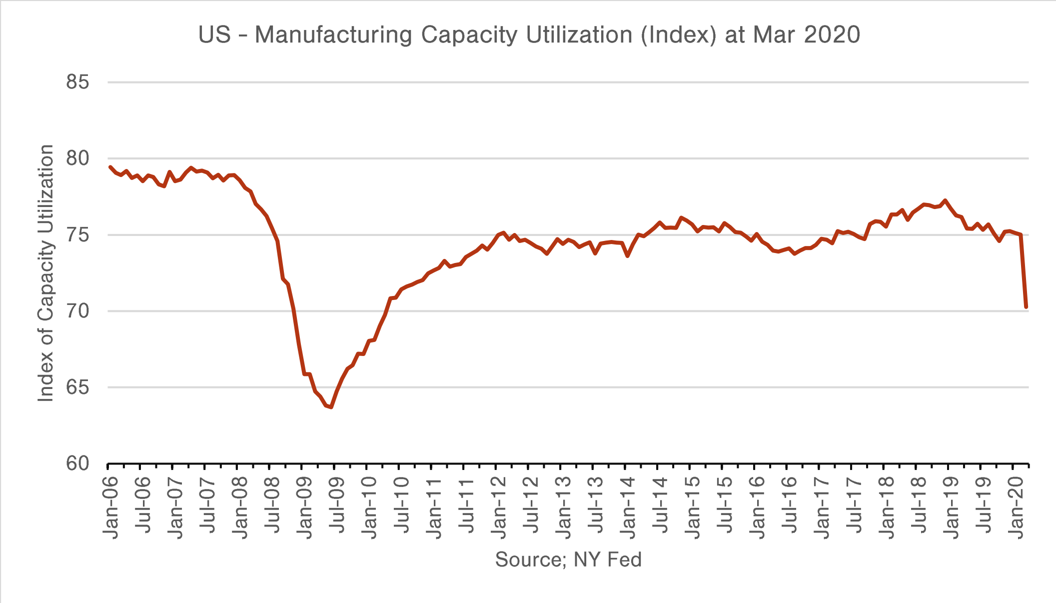
On an annual basis, manufacturing production declined at an accelerated pace of -6.6%.

The index of manufacturing production is back to late 2011 levels;





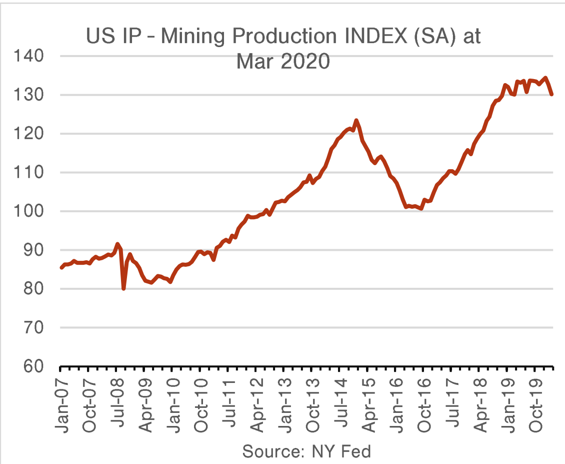
Capacity utilization fell to 70% in Mar – the lowest level since early 2010;

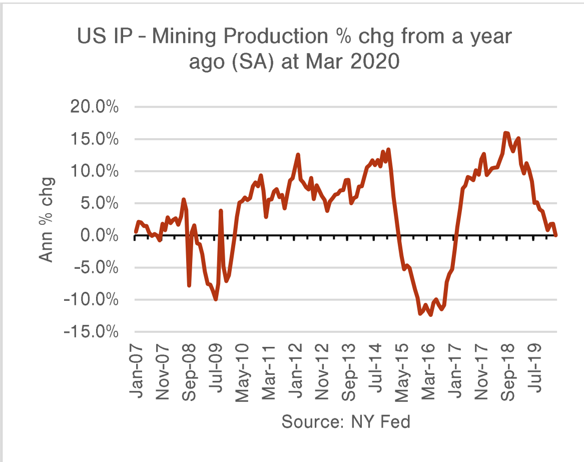


<u>MINING PRODUCTION – MONTH CHANGE;</u> Mar -2% versus Feb -1.3%

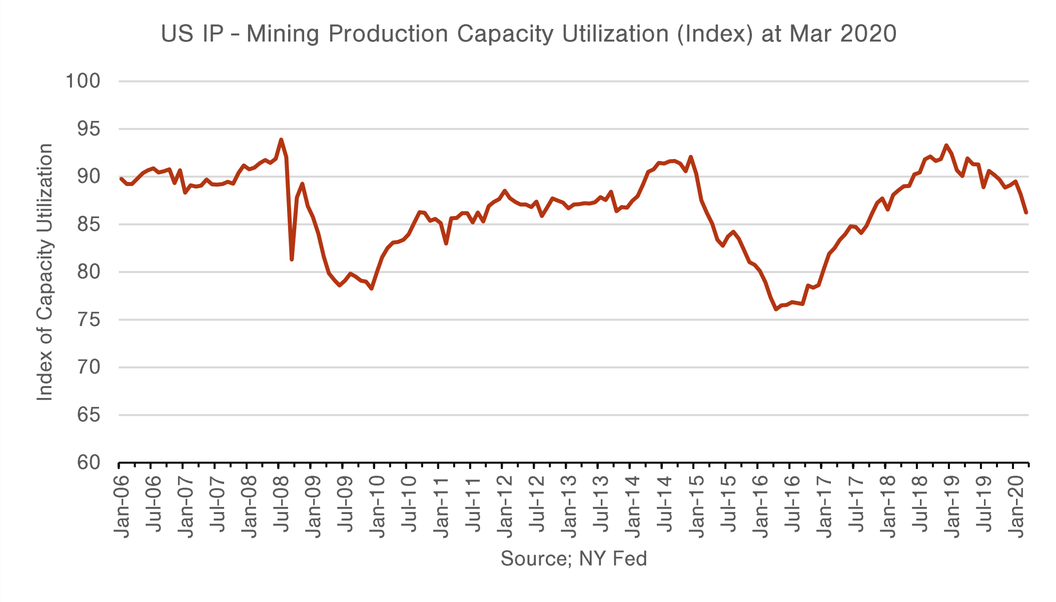
The decline in monthly mining production was not as severe as in manufacturing.

On an annual basis, mining production growth slowed to 0%. Whilst not negative, this indicates that growth has continued to stall after peaking at over 15% in 2018;



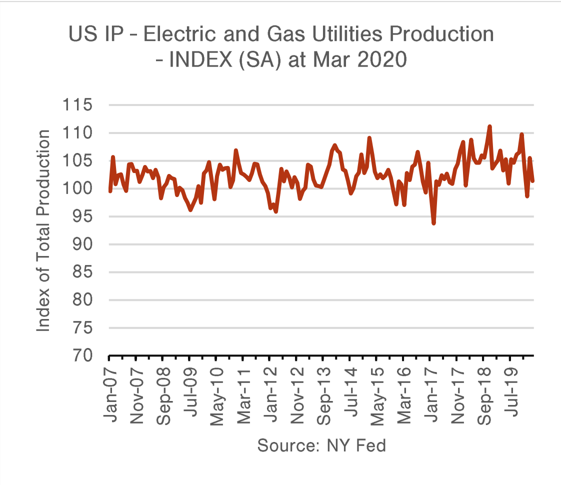


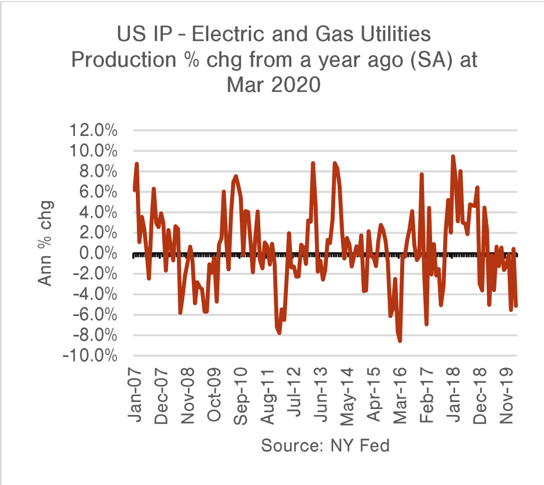
Capacity utilization fell again in the month to 86%, in line with slower growth;



<u>Electric and Gas Utilities Production – month change</u>; Mar -3.9% versus Feb +7%

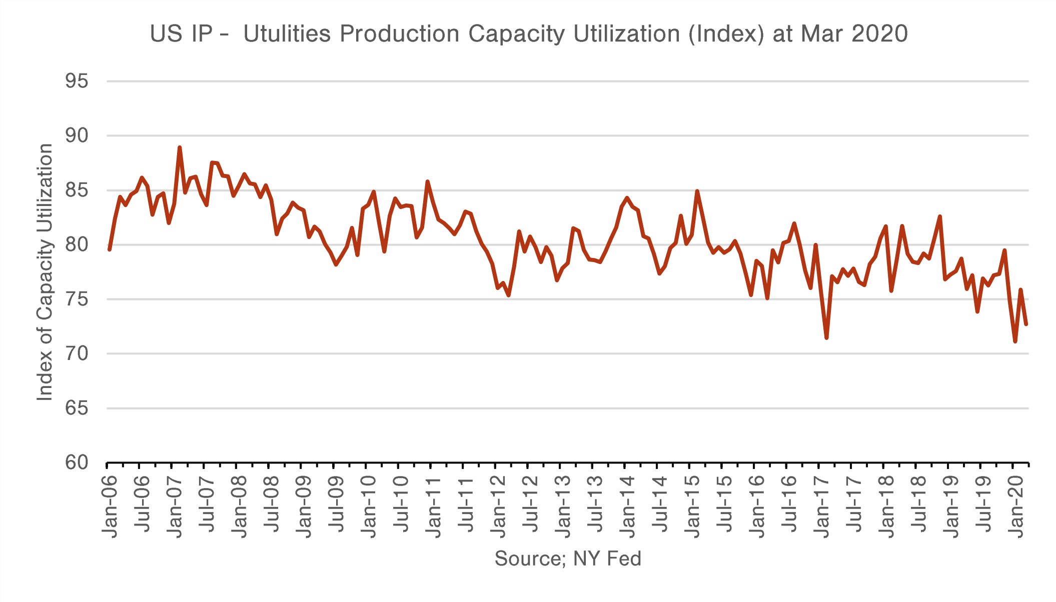
The annual change in production shifted from a +0.4% increase in Feb to -5.1% in Mar.





There appears to be little impact on utilities production from various shutdowns.

Capacity utilization fell to 72% and broadly continues to trend lower.



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

Retail Sales (Mar)

As expected, and as foreshadowed by last weeks' motor vehicle sales data, total retail sales declined sharply in Mar. Most containment policies were introduced towards the latter part of the month.

Note that the survey sample is likely to impacted by shutdowns and quarantine in the future;

> Due to recent events surrounding COVID-19, many businesses are operating on a limited capacity or have ceased operations completely. The Census Bureau has monitored response and data quality and determined estimates in this release meet publication standards.

<u>US Retail Sales (value) – month change</u>; Mar -8.7% (-$46bn) versus Feb -0.4% (-$2.3bn)

The largest contributors to the decline in the month were (% chg versus month prior and value USD);

Motor Vehicle; -25.6% (-$27bn versus month prior)

Food Service and Drinking Places; -26.5% (-$17.5bn)

Clothing Stores: -50% (-$11.3bn)

Gasoline Stations; -17% (-$7.3bn)

"Smaller" declines were recorded across furniture stores, electronics stores, sporting goods, and misc retailers.

These declines were only partly offset by increases in several categories;

Grocery – Food & Bev Stores; +25% (+$16.7bn)

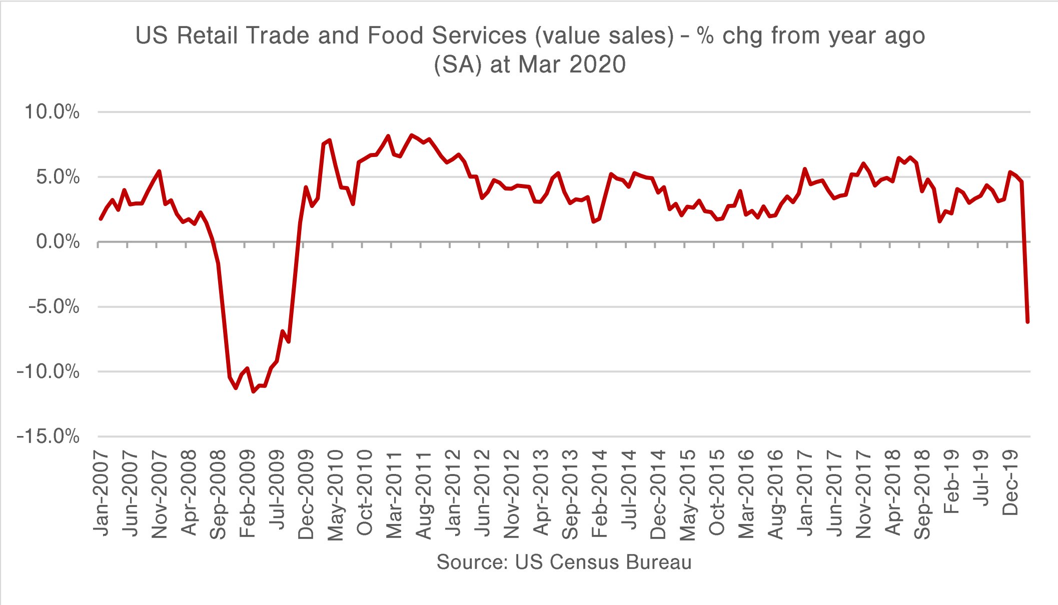
General Merchandise; +6.4% (+$3.8bn)

Non-store retailers; +3.1% (+$2.1bn)

Sales also increased across health and personal care stores and building materials and garden supplies.

On an annual basis, retail sales shifted to decline;

US Retail Sales (value) – annual change; Mar -6.2% versus Feb +4.1%

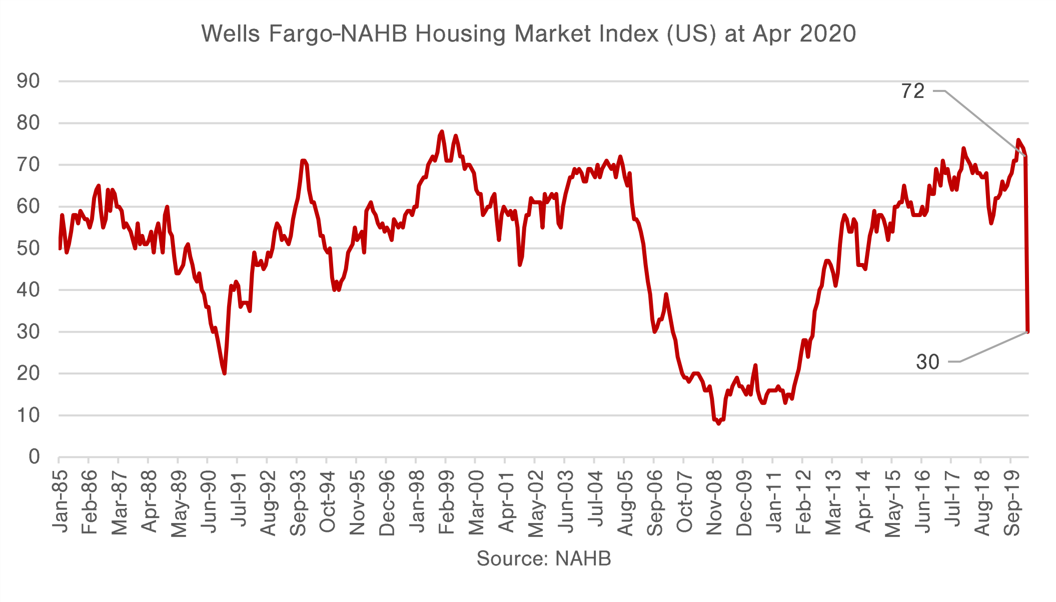


https://www.census.gov/retail/index.html

NAHB Housing Market Conditions Index (Apr)

The NAHB-Well Fargo housing market conditions index is a survey of NAHB members rating current conditions for the sale of new homes at the present time. The Index had been recovering steadily throughout 2019 (conditions had weakened through 2018 due to 'rates normalization'). This month, the conditions index declined back down to Jul 2012 levels.

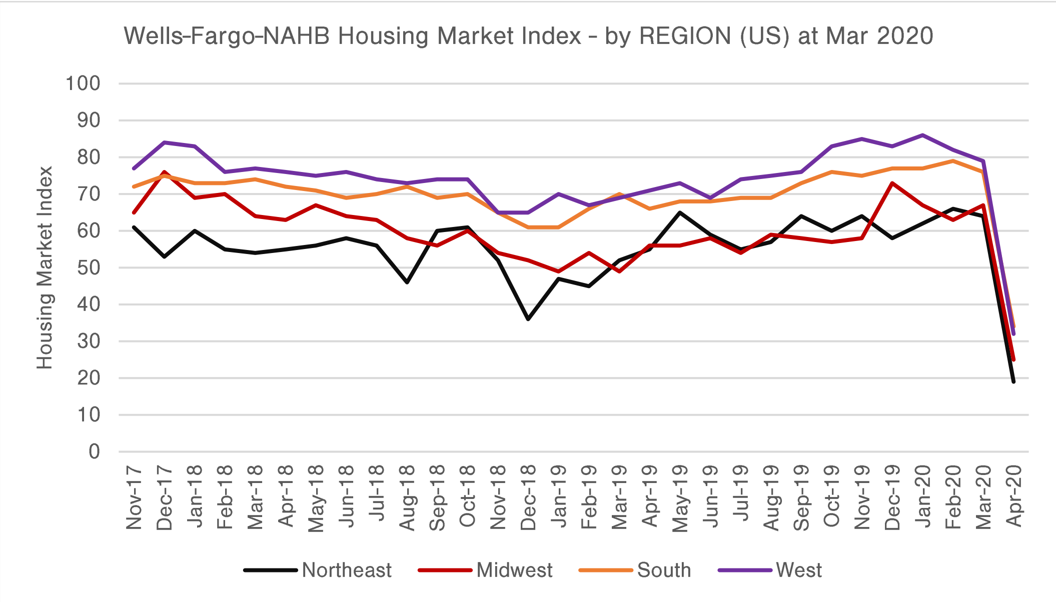
NAHB Housing Market Index – month; Apr 30 versus Mar 72



The present single-family sales index fell from 79 in Mar (Jan and Feb reached a near term peak of 81) to 36 in Apr.

Single family sales for the next six-months' also fell severely from 75 in Mar to 36 in Apr. Expectations for the next six months peaked in Jan at 80.

All regions experienced significant declines. The most notable was the decline in conditions reported in the Northeast – the conditions index fell from 64 in Mar to 19 in Apr.



https://www.nahb.org/News-and-Economics/Housing-Economics/Indices/Housing-Market-Index

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Europe

Industrial Production (Feb)

Production across the Euro area declined slightly in Feb after a much stronger rebound in Jan. Broadly across the EU, production remained unchanged versus the month prior.

Production generally has been trending lower since late 2017 and remains below this peak.

As of Feb, containment measures for C-19 were yet to be widely introduced by EU members.

Euro area Industrial Production – month change; Feb -0.1% versus Jan +2.3%

The only sector to record stronger growth in the month was energy (+0.7% in Feb versus -0.5% in Jan).

Production of intermediate goods increased but at a much slower pace (+0.4% in Feb versus +3.6% in Jan). Similarly, non-durable consumer goods production increased at a slightly slower pace (+0.4% in Feb versus Jan +0.6%).

Production across capital goods and durable consumer goods shifted into decline for the month.

These results were mirrored for the broader EU.

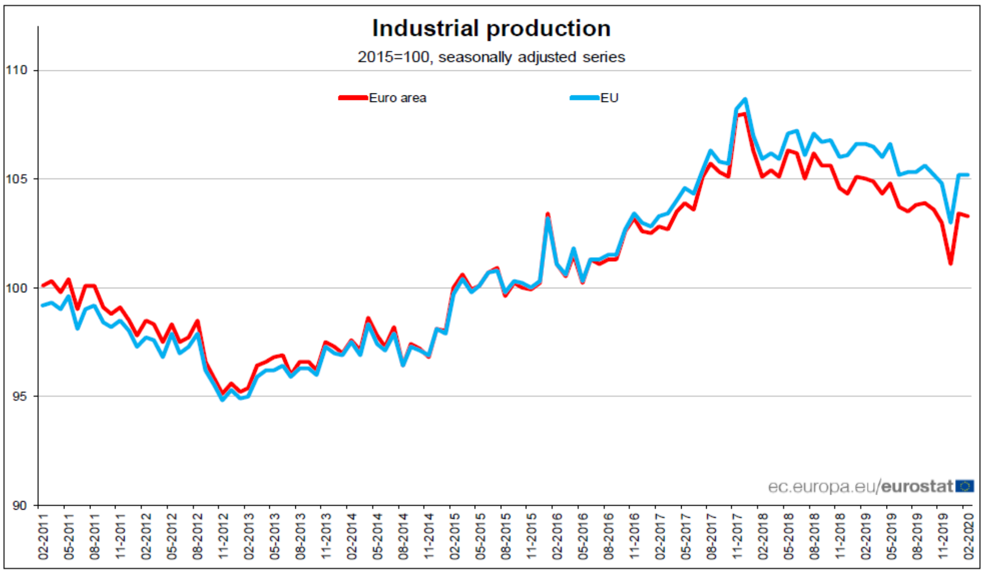
> Among Member States for which data are available, the largest decreases in industrial production were registered in **Luxembourg** (-8.0%), **Ireland** (-6.8%) and **Greece** (-3.5%).

On an annual basis, production levels remained below that of a year ago.

Euro area Industrial production – annual change; Feb-1.9% versus Jan -1.7%

Production continued to decline versus a year ago across intermediate goods, energy and capital goods.

Annual growth in production across durable goods and non-durable consumer goods slowed.



https://ec.europa.eu/eurostat/documents/2995521/10294768/4-16042020-AP-EN.pdf/2c00924c-aa02-5c40-8e6d-0a9dd03f3d69

CPI – Final (Mar)

The annual Euro area CPI growth slowed notably in Mar – led by the much larger fall in energy prices. Excluding energy prices, the annual CPI growth was little changed over the last few months. Excluding energy, food, alcohol & tobacco prices (core CPI), annual growth in prices slowed slightly – due to slower growth in services.

Euro area ALL-Items CPI – annual change; Mar +0.7% versus Feb +1.2% (a year ago Mar 2019 all items CPI annual growth was =1.4%)

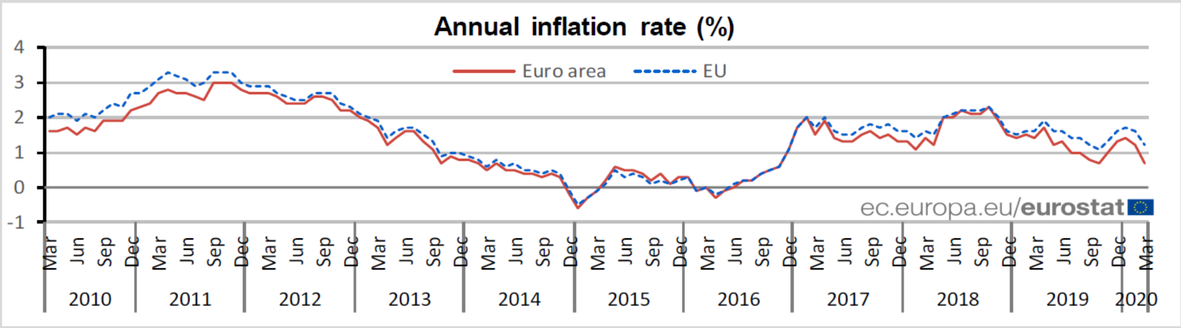
Annual energy prices declined at an accelerated pace; Mar -4.5% versus Feb -0.3%.

Excluding only energy prices, the all-items CPI ex energy annual growth was +1.3% in Mar only slightly lower than +1.4% in Feb.

Food prices continued to accelerate on an annual basis. Food, alcohol & tobacco prices annual growth Mar +2.4% versus Feb +2.1%.

Core CPI growth (ex-energy, food, alcohol & tobacco) slowed slightly; Mar +1% versus Feb +1.2%

This slower growth in core CPI reflect slower annual growth in the prices for services; Mar +1.3% versus Feb +1.6%



https://ec.europa.eu/eurostat/documents/2995521/10294628/2-17042020-AP-EN.pdf/3229e469-7748-a31e-c3e8-60949cea7641

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Japan

Industrial Production – Final (Feb)

The final industrial production report for Feb resulted in production revised lower from growth to decline (although Jan was revised higher for the month). The number of sectors recording growth in production remained very narrow – possibly starting to reflect weakness in orders prior to regional shutdowns. Shipment growth remained positive but was revised lower.

Both annual production and shipments declines were revised lower.

Production – month change; Feb -0.3% versus Jan +1.9%

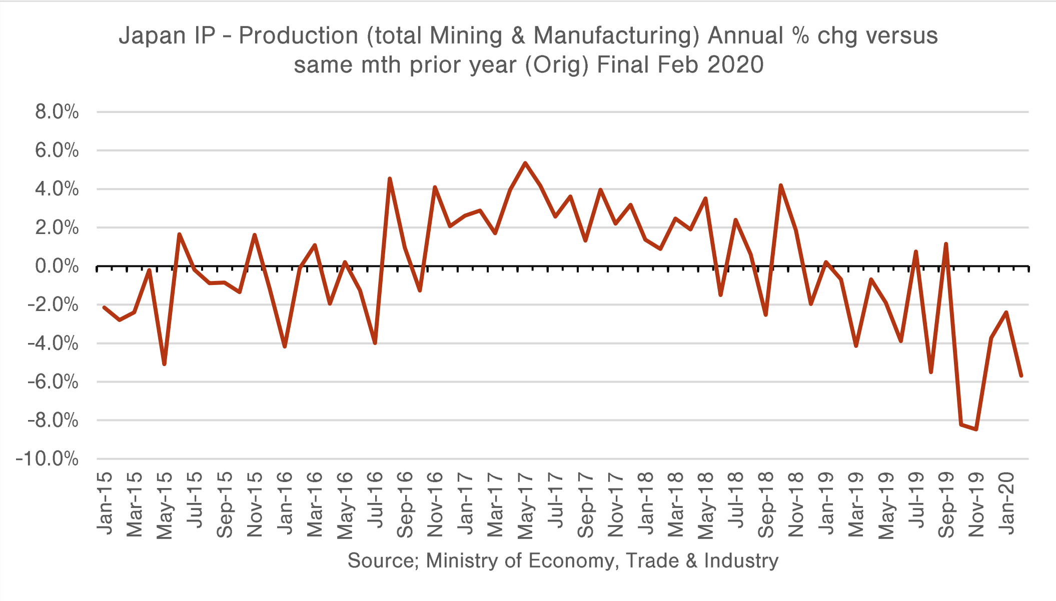
(revised from Feb +0.4% versus Jan +1%)

There were several revisions at a sector level too. Growth in the month remained narrowly focused – iron, steel and non-ferrous metals (+2.5%), Fabricated metals (+2%), electronic parts & devices (+8.3%) and chemicals (+3.2%).

Production across all other sectors declined in the month.

On an annual basis, the decline in Feb was revised lower; Feb -5.7% versus Jan -2.4%

(revised from Feb -4.7% versus Jan -2.3%)



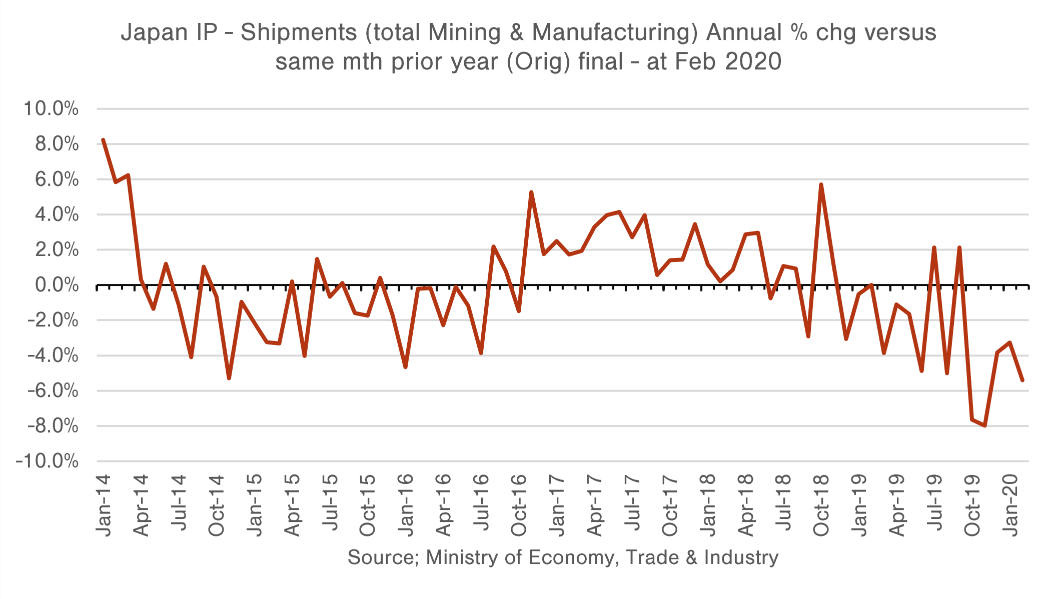
Shipments – month change; Feb +1% versus Jan +0.9%

(revised from Feb +2.6% versus Jan +0.6%)

Shipment growth was revised lower, but remained positive in Feb.

Shipments increased in the month across a broader range of sectors; iron, steel (+4.1%), fabricated metals (+1.5%), general purpose and business oriented equip (+2.4%), electronic parts and devices (+7.6%), chemicals (+2.8%), petroleum and coal (+5.2%), food & tobacco (+0.3%).

The annual growth in shipments was also revised lower; Feb -5.4% versus Jan -3.3%

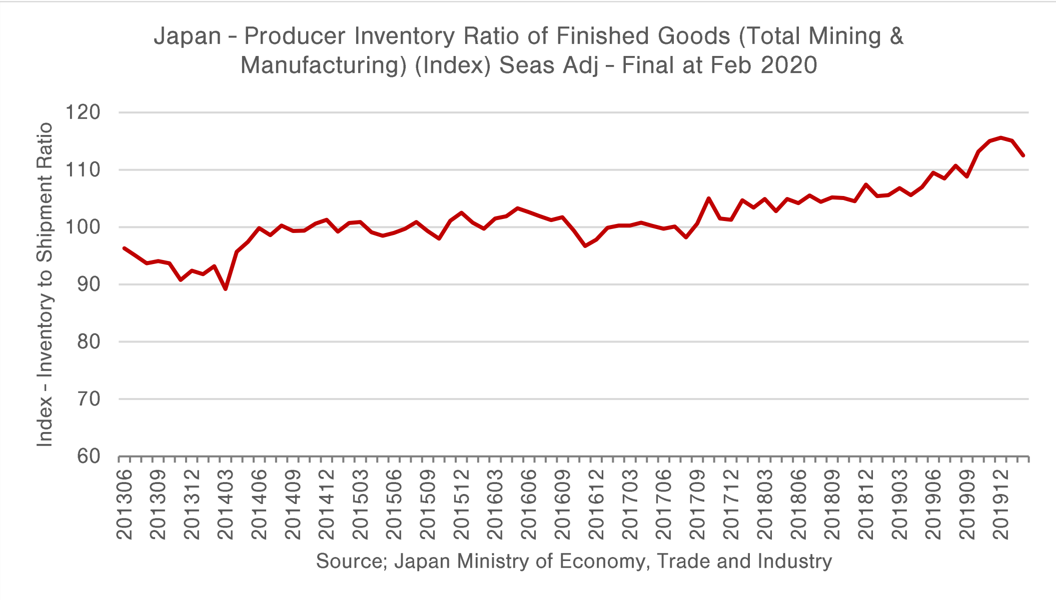


Inventory – month change; Feb -1.7% versus Jan +2.1%

(revised from Feb -2.2% versus Jan +1.6%)

Finished goods inventory was revised to have declined at a slower pace than in the prelim release. The sectors recording declines in finished goods inventory were; fabricated metal (-0.2%), production machinery (-5.2%), general purpose machinery (-0.6%), electrical machinery -6.6%, transport equipment (-13.7%), petroleum and coal products (-7.5%) and food and tobacco (-3.1%).

The inventory to sales ratio declined in the month, but still remains elevated;



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

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Australia

NAB Business Conditions and Confidence (Mar)

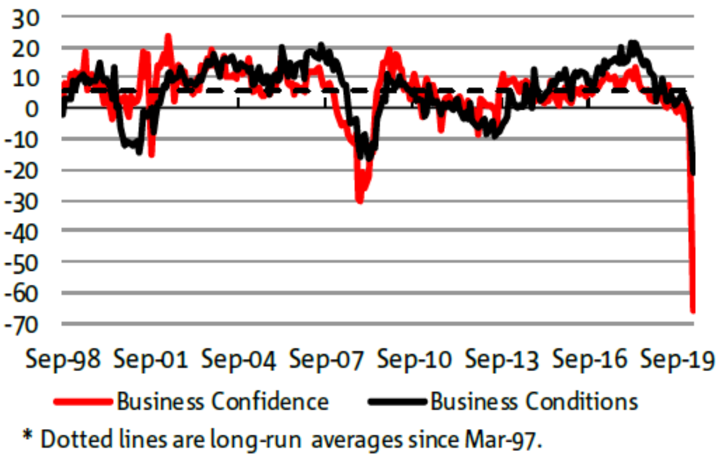
In Mar, business confidence for Australia recorded the largest decline on record. Similarly, business conditions deteriorated notably in the month across trading, profitability and employment.

Note fieldwork for the survey was 25 Mar – 1 Apr, which includes the beginning of National quarantine policies.

<u>Business Confidence – month;</u> Mar -66pts versus Feb -2

This month the NAB has provided the long-term trend of confidence and conditions. The decline in confidence in Mar was the largest on record – by a long way.

CHART 1: CONFIDENCE AND CONDITIONS HIT BY CORONAVIRUS

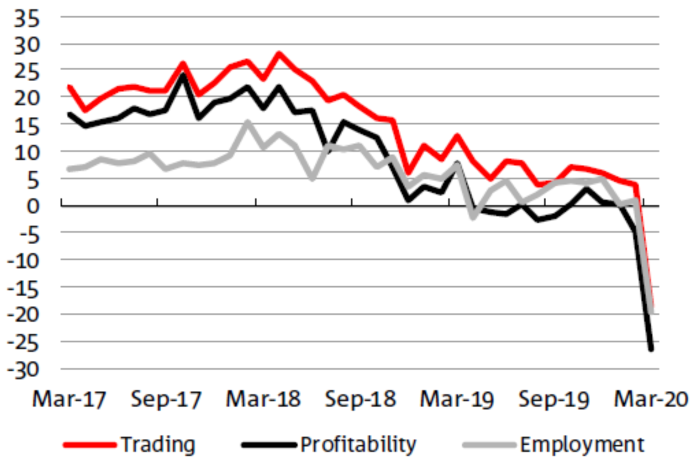


Similarly, business conditions also declined to a new low (going back to 1998);

<u>Business Conditions – month (SA)</u>; Mar -21pts versus Feb 0

All elements of business conditions worsened markedly; trading, profitability and employment all declined sharply in Mar.

CHART 7: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.



The severe decline in forward orders indicates much weaker demand conditions in the future (-29pts in Mar from -4pts in Feb). Stocks and exports both declined at a faster pace but not to the same extremes as other indicators.

Conditions by industry indicated that some sectors were so far holding up better than others; Conditions in construction and transport and utilities remained positive in Mar. Finance, business and property conditions were also positive, but have been slowing. Mining, manufacturing and recreation and personal services all declined the most. Conditions in retail and wholesale remained firmly negative. Note charts below use the trend series while the data above is seas adj;

CHART 23: BUSINESS CONDITIONS BY INDUSTRY (NET BAL., TREND)

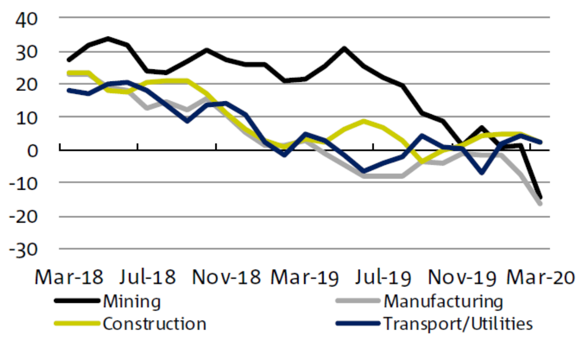
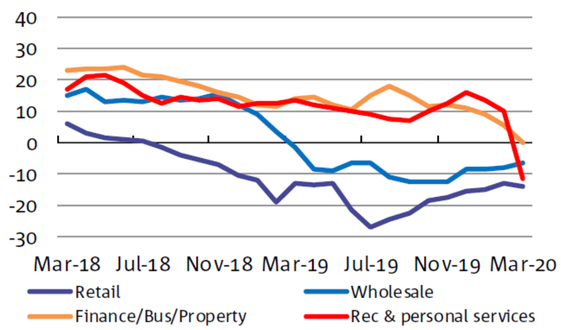


CHART 24: BUSINESS CONDITIONS BY INDUSTRY (NET BAL., TREND)



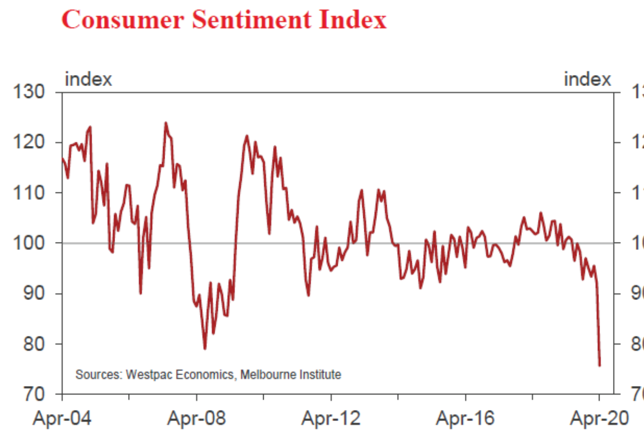
https://business.nab.com.au/wp-content/uploads/2020/04/NAB-Monthly-Business-Survey-March-2020-2.pdf

Westpac Consumer Sentiment (Apr)

Consumer sentiment recorded the largest monthly decline in the survey history this month, as the country came to terms with the arrival of the pandemic, the containment policies and the sudden loss of employment and income experienced by many. While many of the support packages have been announced, issues remain with implementation (difficulty in registering for programs) and payments are yet to commence.

This is the single biggest monthly decline in the forty-seven year history of the survey, taking the Index beyond GFC lows to levels only seen during the deep recessions of the early 1990s (64.6) and early 1980s (75.5).

Consumer Sentiment; Apr 75.6 versus Mar 91.9



There is some cause for optimism in that the pandemic experience has, so far, not been as severe as in other parts of the world (from a public health perspective). But this is not likely to result in a lifting of measures anytime soon.

Sentiment fell across a range of measures. The largest declines versus the prior month were for economic conditions next twelve months (-31%), time to buy a major household item (-31.6%) and house price expectations fell by 50.8% in the month.

The unemployment expectations index increased by 8%.

https://www.westpac.com.au/content/dam/public/wbc/documents/pdf/aw/economics-research/er20200415BullConsumerSentiment.pdf

Labour Market Survey (Mar)

The Mar labour market report does not show a severe deterioration in labour market conditions this month. More timely job ads data indicates that the labour market impact will likely be large. The impact from C-19 containment policies will not start to become apparent until the next month release of data;

> Quality assurance of March data did not identify any major impact to headline statistics, with only some small early impacts evident, particularly in hours worked. It is important to note that the **reference period for March was 1-14 March**, which was before a global pandemic was declared and before the major actions in Australia to contain the spread of the virus.

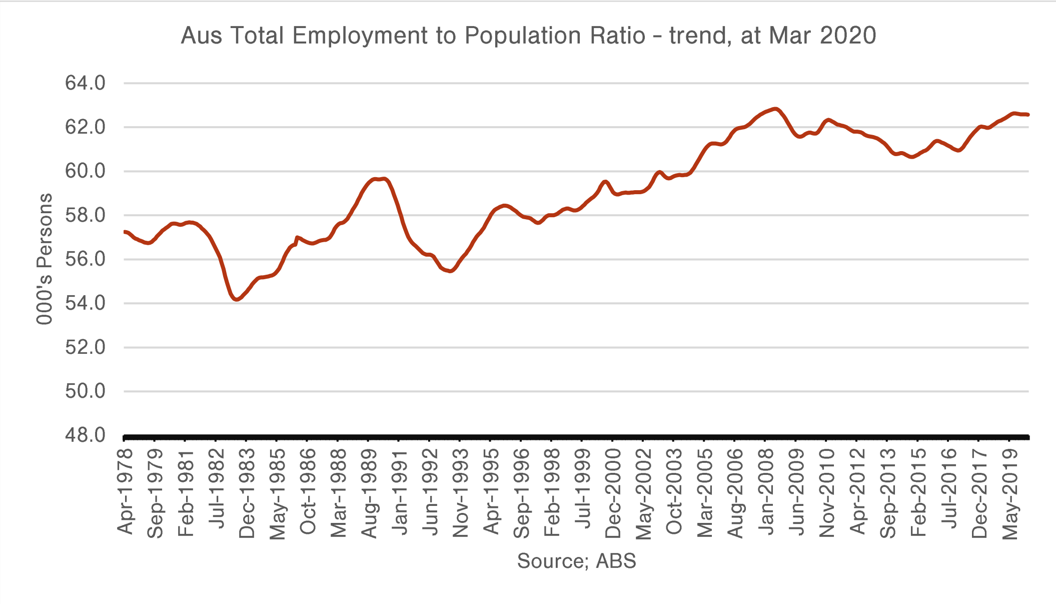
The ABS will commence a series of weekly payroll number releases in the next week to enable more timely data.

The Mar data does indicate though that labour market conditions were again weakening somewhat. In the month, employment growth slowed to below that of the population. Even though there was a small decrease in participation for the month, unemployment still increased.

<u>Employment</u>

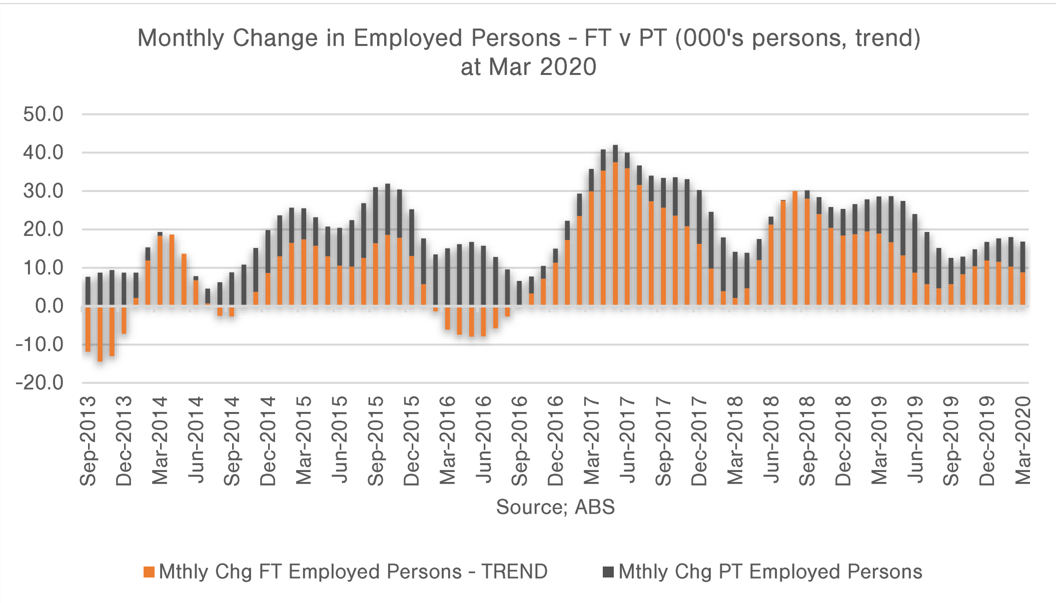
On an annual basis, total employment growth continued to slow. Employment growth slowed from +235k persons in Feb to +224k persons in Mar.

The employment to population ratio was little changed in Mar at 62.57% and remains extremely close to the all-time high (62.84% in Jun 2008)



Employment growth slowed on a monthly basis – led by both full-time (FT) and part-time (PT) employment.

<u>Employment – month change</u>; Mar +16.8k persons versus Feb +18k persons

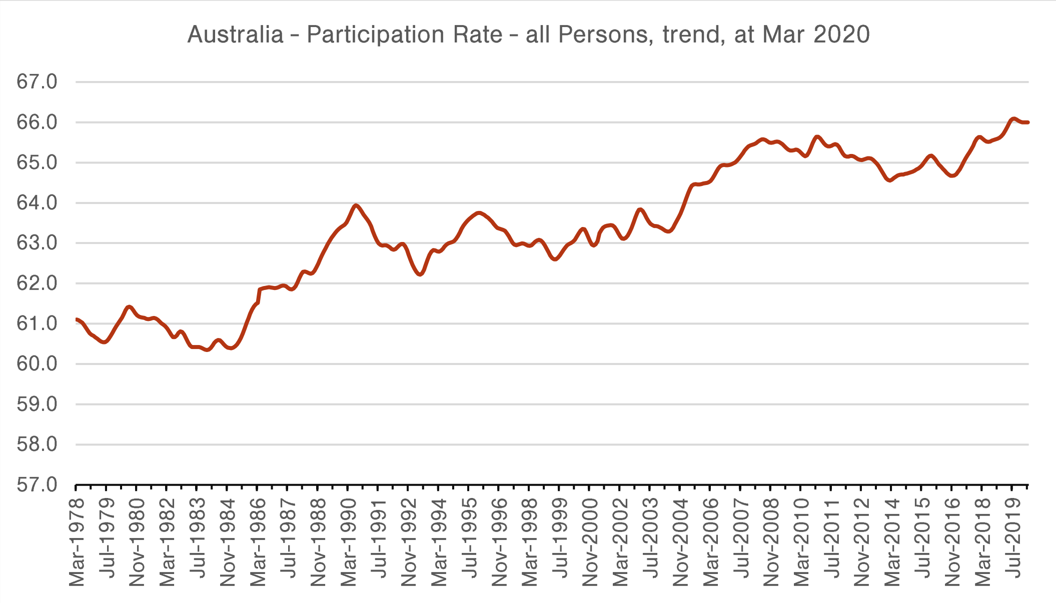


<u>Labour Force</u>

Annual growth of the labour force also slowed this month from +266k persons in Feb to +251k persons in Mar. The estimate of what underlying annual population growth added to the labour force was slightly higher (approx. +209k persons in Mar) but the growth in the labour force due to participation accounted for most of the annual change as of Mar. The slower increase in participation added approx. +42k persons (annual) in Mar versus +59k (annual) in Feb.

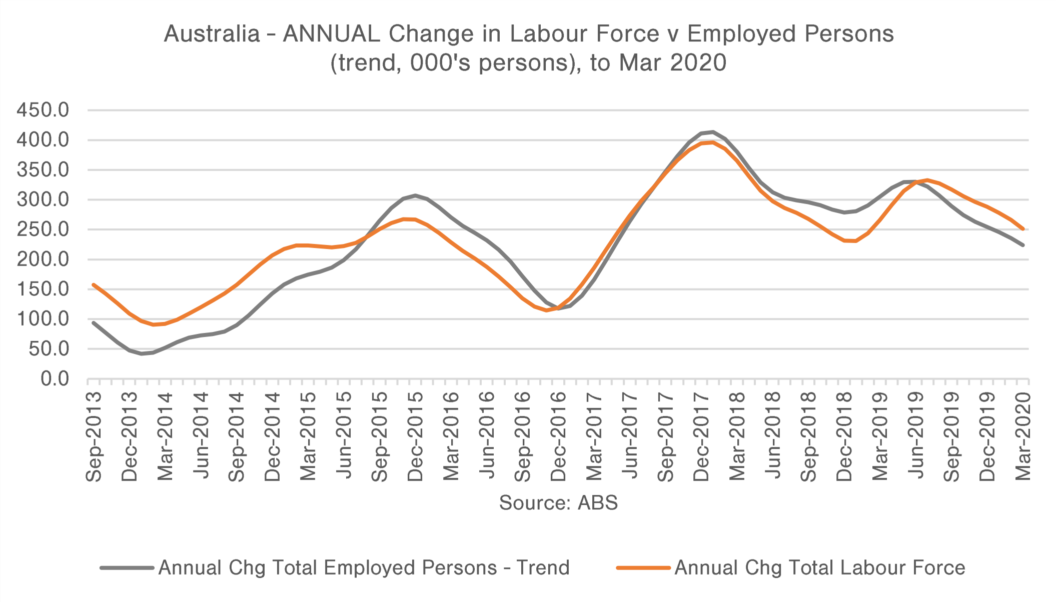
The labour force participation rate declined very slightly in Mar compared to Feb, remaining around 66%. Male participation declined slightly and was partly offset by slightly higher female participation. Female participation reached another new all-time high of 61.33%

The participation rate (total) remains only -0.1% below the all-time higher from Aug 2019;



On a monthly basis, growth in the labour force was little changed. Month change; Mar +20.3k persons versus Feb +20.4k persons.

<u>What is important for the labour market is whether employment growth is exceeding both what population and participation add to the labour force (i.e. the total labour force growth).</u> When employment growth is higher than labour force growth, then unemployment declines. At the moment, the annual growth employment is lower than that of the labour force – and has been for a while;



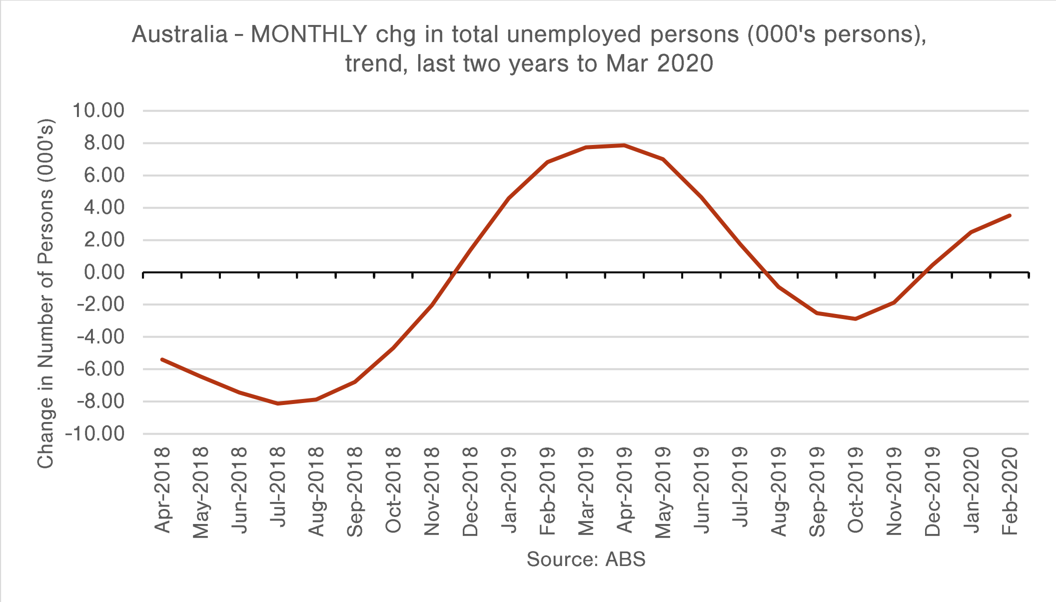
While the <u>annual</u> gap has been narrowing slightly (chart above), the <u>monthly</u> difference increased again this month.

<u>Total Unemployed Persons</u>

On an annual basis, the growth in the number of unemployed persons has been slowing. In Mar annual growth was +27k persons and in Feb it was +30.6k persons. As mentioned above, this slow-down has been due to lower growth in participation which has kept total growth in the labour force lower. So lower growth in participation, rather than employment growth, has been the driver of lower annual unemployment growth.

More important is the trend in monthly unemployment – and, even before containment policies were implemented, monthly unemployment was trending higher. While the growth remained thankfully lower, it was still increasing;

Total unemployed persons – month change; Mar +3.5k persons versus Feb +2.5k persons



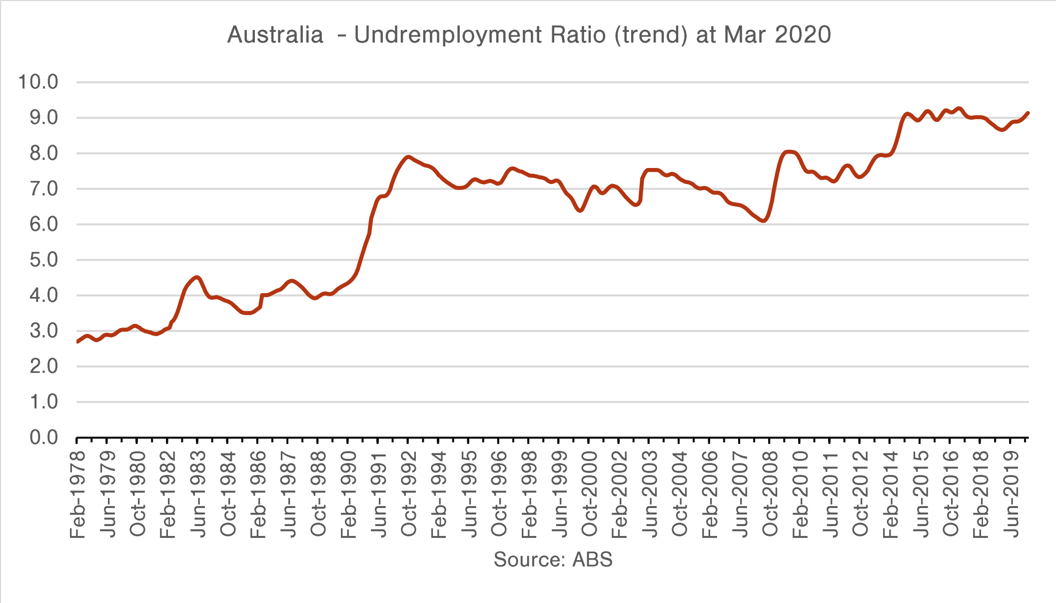
The unemployment rate edged higher to 5.2%.

Labour Underemployment

In the coming months, underemployment, together with employment and unemployment data will help to round out the view of the labour market performance amid C-19. Many displaced workers will likely end up taking whatever work they can in the next few months – which could result in higher underemployment/spare capacity.

Australia already had a relatively elevated underemployment rate. The underemployment ratio is currently 9.1%. This measures the proportion of employed workers that want, and are available for, more hours of work than they currently have (expressed as a % of total employed workers).

A growing proportion of workers want more hours of work in Australia; currently 9.1% and remaining stubbornly high. The peak was 9.3% in Feb 2017;



<u>Summary</u>

Annual picture – unemployment growth is slowing due mostly to slower growth in participation (lowering the growth in the labour force faster than employment growth is slowing).

Monthly picture – employment growth is lower than that of the labour force and as a result, total unemployment is increased.

	000's Persons	
	Annual Chg - Mar	**Month Chg - Mar**
The estimated change in the Labour Force due to pop growth	208.919	20.654
How many jobs available for them? (employment growth)	224.065	16.785
Difference (if positive, employment growing faster than pop est)	15.146	-3.869
Change in labour force due to the change in participation	42.418	-0.348
The reminder is the change in total unemployed persons	27.272	3.521
Double Check - Reported chg in size of the Labour Force	251.337	20.307
Two views of the size of the Labour Force:		
Underlying population growth plus changes in participation	251.337	20.307
Total employed persons plus total unemployed persons	251.337	20.307

https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6202.0Main+Features1Mar%202020?OpenDocument

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China

Trade Balance, Exports & Imports (Mar)

In USD terms, China's exports and imports rebounded versus the month prior, but remained below the same time a year ago. The trade deficit recorded in Feb shifted to a surplus in Mar – mostly due to the rebound in the value of exports.

The General Administration of Customs (GAC) provided only a combined Jan/Feb number. The Mar data provides a month on month % change and we've used that here to estimate separate Jan and Feb export and import figures.

MONTHLY TRADE DATA FOR JAN-MAR

Exports – month change; Mar +129% versus Feb. Mar USD exports were $185bn.

This means that Feb exports fell to an estimated US$81bn – given that the combined Jan/Feb USD exports were USD$292bn. Jan exports were therefore estimated to be $212bn.

The value of exports in Mar still remains below the Jan value - as many trading partners commenced containment policies in Mar.

Imports – month change; Mar +15.8% versus Feb. Mar USD imports were $165bn.

Based on this, we estimate that USD imports in Feb were $143bn and Jan imports were $157bn. The combined Jan/Feb USD value of imports was $299.5bn.

The value of imports in Jan/Feb were less affected by containment policies in China and abroad. The value of imports in Mar was higher than recorded in Jan.

Trade Balance – month; Mar $19. 89b.

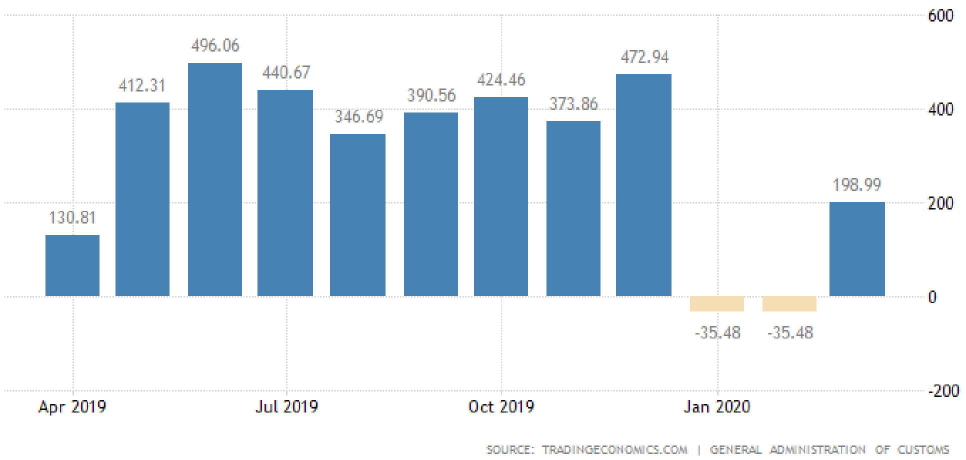
The improvement in the trade balance between Feb and Mar was the result of a stronger rebound in exports, while imports also continued to grow.

Based on the estimated Jan and Feb split of exports and imports; Jan trade surplus was $55bn (which was well above anything in the last year) and Feb trade deficit was $62bn (mostly due to the fall in exports).

The GAC estimate that the total trade balance (surplus) for the YTD is US$13.2bn.

Chart; USD Trade Balance – China

Note that the chart below splits the $7bn Jan/Feb combined trade deficit on a 50/50 basis



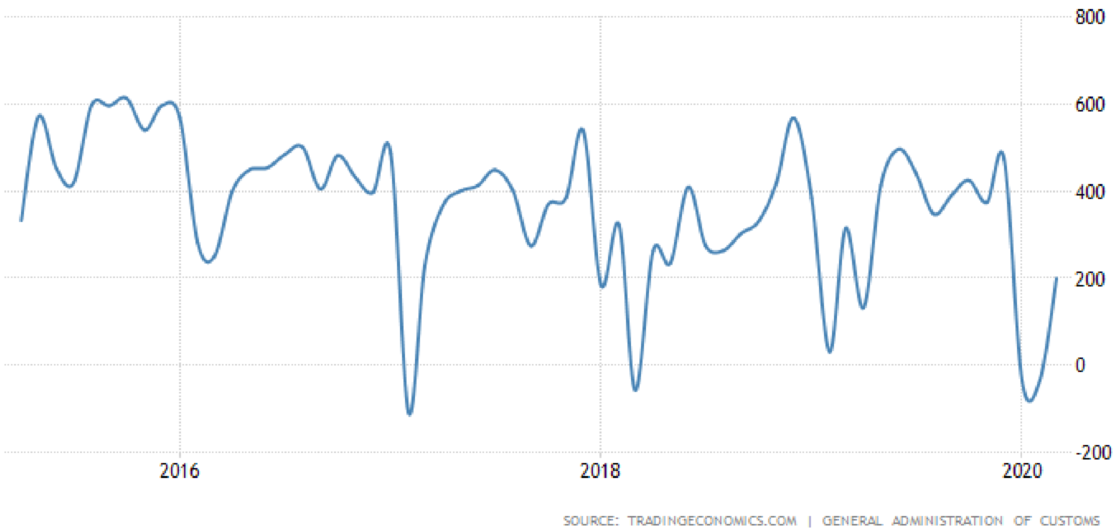
(values are USD100 million)

ANNUAL TRADE PERFORMANCE

Trade Balance

In Mar 2019, the trade surplus was $31.5bn and this year Mar 2020, the surplus was $19.9bn.

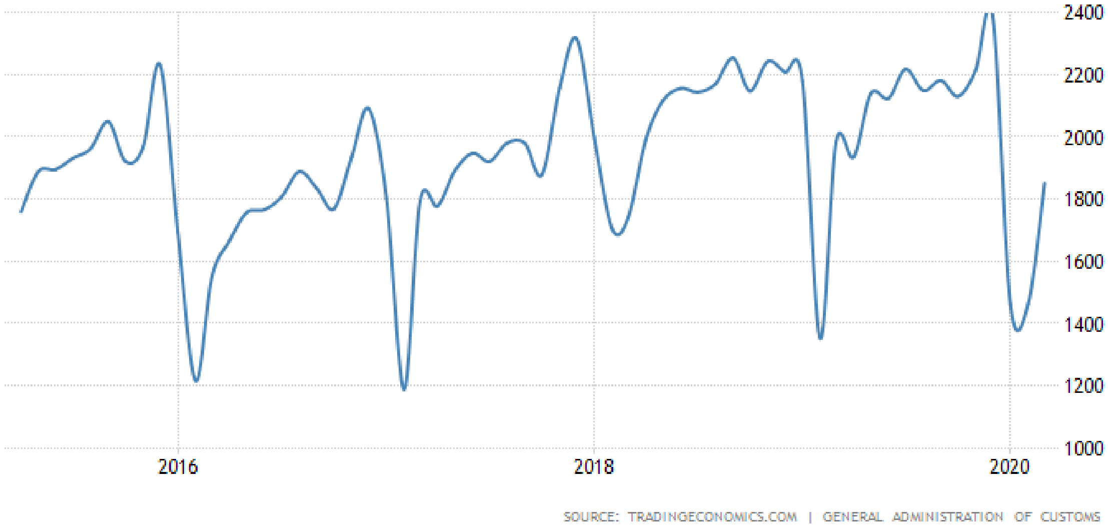
Chart: China Trade Balance by Month (USD)



Exports

YTD exports are still down 13.3% versus a year ago. Mar exports were down -6.6% versus a year ago;

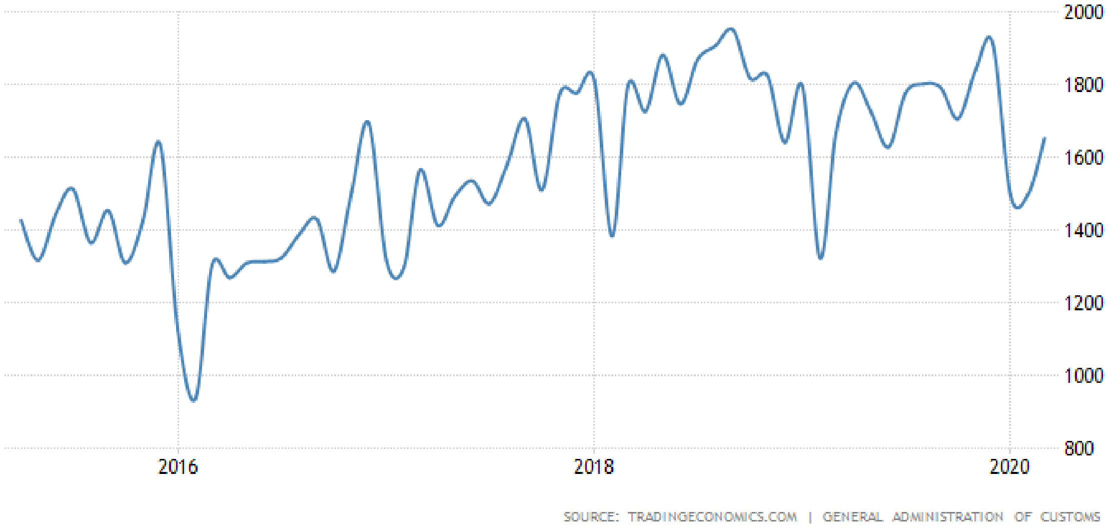
Chart: China Exports by Month (USD)



<u>Imports</u>

The value of imports declined by -0.9% in mar versus a year ago. In the YTD, the value of imports remains 3% below a year ago;

Chart: China Imports by Month (USD)



http://english.customs.gov.cn/Statics/b20ce7f7-a9b8-4607-8601-4a424fe6a815.html

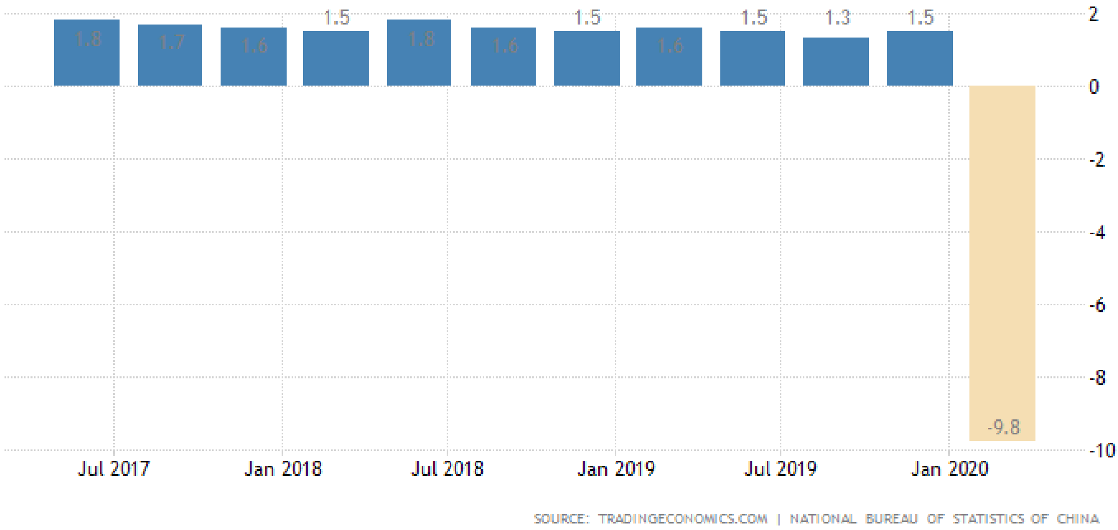
https://tradingeconomics.com/china/balance-of-trade

Data for the following releases has not yet been published on the Chinese National Bureau of Statistics website,

GDP Q1 2020

The decline in GDP for Q1 2020 was "the first quarterly contraction on record"

GDP – quarter on quarter change; Q1 2020 -9.8% versus Q4 2019 +1.5%



On an annual basis, the size of the Chinese economy declined by 6.8% in Q1.

> It is the first GDP contraction since records began in 1992, reflecting the severe damage caused by the COVID-19 outbreak after the authorities enforced a near two-month-long shutdown of all non-essential business activity. The industrial sector dropped 9.6 percent, services fell 5.2 percent and the primary sector went down 3.2 percent. Car production recorded the sharpest decline (-44.6 percent).

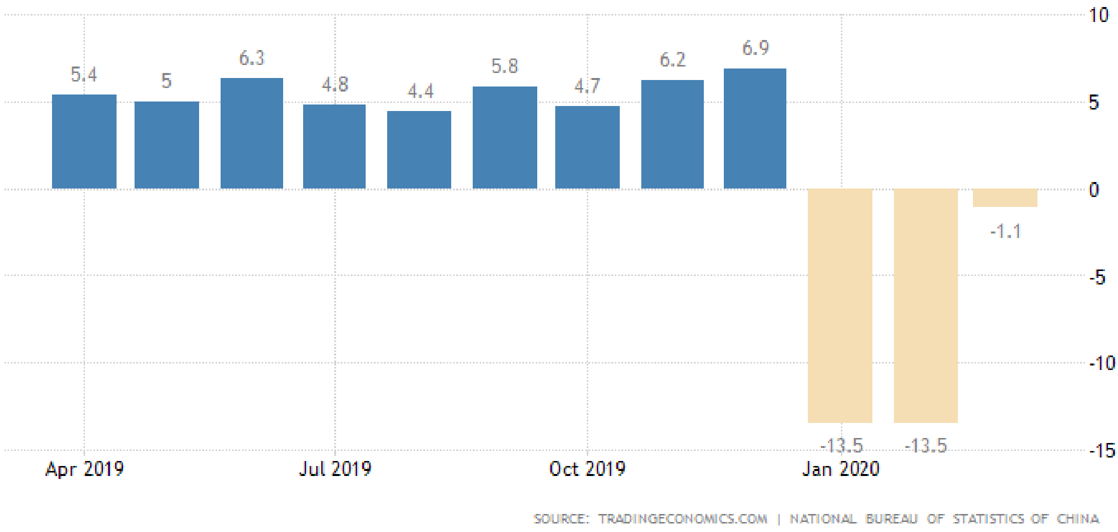
https://tradingeconomics.com/china/gdp-growth

Industrial Production (Mar)

Industrial production declined again in Mar, albeit at a slower pace, after a combined 27% decline in Jan/Feb. The decline reflects continued weakness in output as authorities commenced lifting containment and quarantine measures.

Industrial Production – annual change (same month a year ago); Mar -1.1% versus Jan/Feb -27%

> Output fell at a softer pace for both manufacturing (-1.8% vs -15.7%) and utilities (-1.6% vs -7.1%), while a rebound was seen in mining (4.2% vs -6.5%).



Among major industries, output dropped for automotive (-22.4%), rubber and plastics (-5.5%), general equipment manufacturing (-5.4%), agriculture (-4.8%), non-metallic mineral products (-4.5%), metal products (-1.6%), power equipment (-1.7%), and electrical machinery (-0.4%). In contrast, production grew for food manufacturing (5.7%), chemical raw materials and products (0.7%), pharmaceuticals (10.4%), and ferrous metal smelting (4.1%).

https://tradingeconomics.com/china/industrial-production

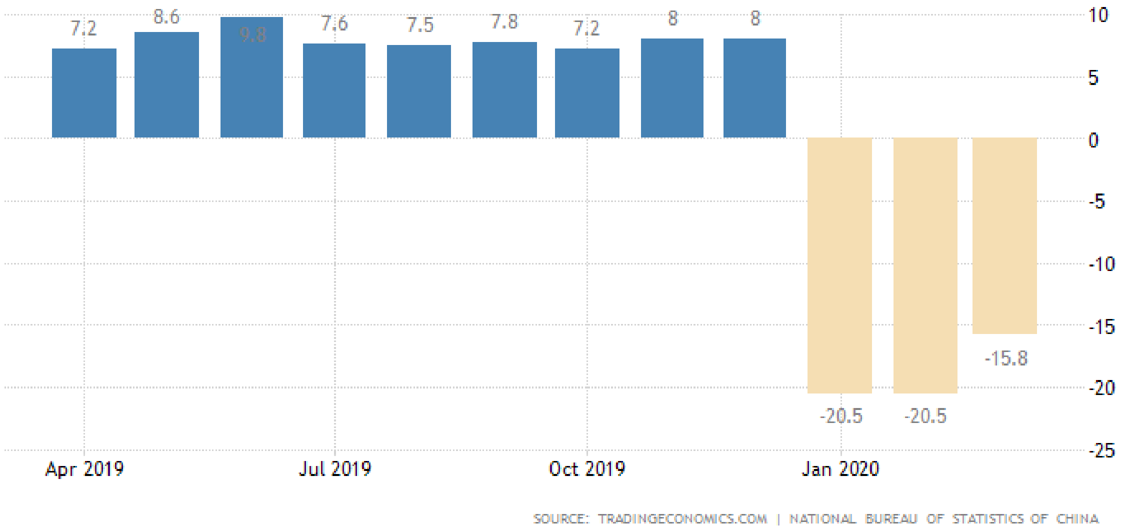
Retail Sales (Mar)

Compared to a year ago, retail sales continued to decline in Mar at a similar pace as the combined Jan/Feb result..

Retail sales – annual change (versus same mth a year ago); Mar -15.8% versus Jan/Feb -20.5%

The decline was the result of continued weaker sales across most categories;

Sales continued to decline for most categories: garments (-34.8 percent vs -30.9 percent in January-February); cosmetics (-11.6 percent vs -14.1 percent); jewelry (-30.1 percent vs -41.1 percent); home appliances (-29.7 percent vs -30 percent); furniture (-22.7 percent vs -33.5 percent); oil, oil products (-18.8 percent vs -26.2 percent); automobiles (-18.1 percent vs -37 percent); and building materials (-13.9 percent vs -30.5 percent). In contrast, sales rebounded for personal care (0.3 percent vs -6.6 percent), office supplies (6.1 percent vs -8.9 percent), and telecoms (6.5 percent vs -8.8 percent)



https://tradingeconomics.com/china/retail-sales-annual

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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 now global pandemic.

The USTR has confirmed progress on the implementation of phase one of the trade deal.

https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/march/usda-and-ustr-announce-continued-progress-implementation-us-china-phase-one-agreement

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%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

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

Now that all parties have ratified the new USMCA, the focus shifts to when the deal will take effect. So far, Jul 1 has been the date agreed for implementation. Some new rules (especially for Auto manufacturing/import), requiring changes to the supply chain, will be difficult to implement by this date, due to current suspension of operations at many plants (esp Mexico).

https://www.reuters.com/article/us-mexico-usmca-autos/mexican-auto-lobby-says-90-days-not-enough-to-meet-usmca-rules-idUSKBN21O310

https://insidetrade.com/daily-news/july-1-now-earliest-usmca-can-enter-force-if-protocol-followed?utm_source=dlvr.it&utm_medium=twitter

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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