Weekly Macro Review

w/c 20 April 2020

MARS CAPITAL PARTNERS

Key Themes

The Mar data has continued to show the first downside impacts to economic activity from the Covid-19 shutdowns.

The frontline of the US durable goods manufacturing impact in Mar was motor vehicles and non-defense aircraft. Both recorded severe declines in orders and shipments. Most of the decline in new orders for Mar can be traced back to a -$16bn print in new orders for non-defense aircraft – likely order cancellations. Excluding transport, the declines were more muted. The total value of unfilled orders across durable goods industries remained elevated in Mar.

But the start to Q2 looks to be even worse. The Apr PMI data is indicating an acceleration in output declines compared to Mar. The prelim PMI's across most of the major regions recorded new series lows in the pace of output contraction. This has also been reflected in US regional manufacturing surveys for Apr.

In many cases, the decline reflects the first full month of restricted trade for many businesses. We are now almost at the start of May and many regions/countries/states are wary, and even unable, to lift quarantine restrictions at this stage – possibly setting up for an even worse Q2 unless something changes.

Extremely high levels of unemployment – now over 26m people in the US have filed an initial unemployment claim in the last five weeks - is placing greater pressure on governments around the world to begin to ease restrictions.

Sentiment remains fragile. There is an expectation across businesses and households that economic conditions are likely to improve once restrictions are lifted. But a resurgence in virus infections, and the re-imposition of restrictions, could see a further negative shift in sentiment.

> The risks associated with these decisions are not equally balanced, with an incorrect decision to reopen having serious repercussions.

Stimulus will likely start to have an impact on households and income from mid-late Apr. Retail sales globally exhibit a similar pattern – extremely strong sales for grocery items (stockpiling included), some household goods and home office supplies. Weaker sales have been recorded across more discretionary categories such as clothing as well as those areas under greater social distancing restrictions, such as food service. Spending patterns will likely shift for a while a) while restrictions remain in place and 2) while incomes remain constrained.

The USTR announced this week that the new USMCA agreement would enter into force from 1 Jul 2020. From that statement (emphasis added);

"The crisis and recovery from the Covid-19 pandemic demonstrates that **now, more than ever, the United States should strive to increase manufacturing capacity and investment in North America**."

Likely to see greater focus on reconfiguring US manufacturing supply chains – driving more 'local' rather than 'global' solutions.

The other point to note this week was the more negative tone of Brexit trade talks. Whether or not this is posturing, the deadline for the extension of the trade deal negotiation is coming up at the end of Jun. The UK has been consistent in saying that it would not request an extension.

Contents

US Data

Initial Jobless Claims wk ending 18 Apr

The increase in new jobless claims remained extremely elevated last week.

Advance claims for the wk ending 18 Apr 2020 (SA); +4,427,000 people

The prior week was revised slightly lower – 11 Apr; 5,237,000 people (revised lower by 8,000 persons)

This brings the total for the last five weeks to 26,453,000 in new initial unemployment claims made by people.

By state for the week prior;

> The largest increases in initial claims for the week ending April 11 were in Colorado (+58,246), New York (+50,250), Missouri (+10,668), Florida (+10,534), and North Carolina (+2,733), while the largest decreases were in California (-263,342), Michigan (-166,347), New Jersey (-73,416), Georgia (-70,551), and Ohio (-66,874).

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

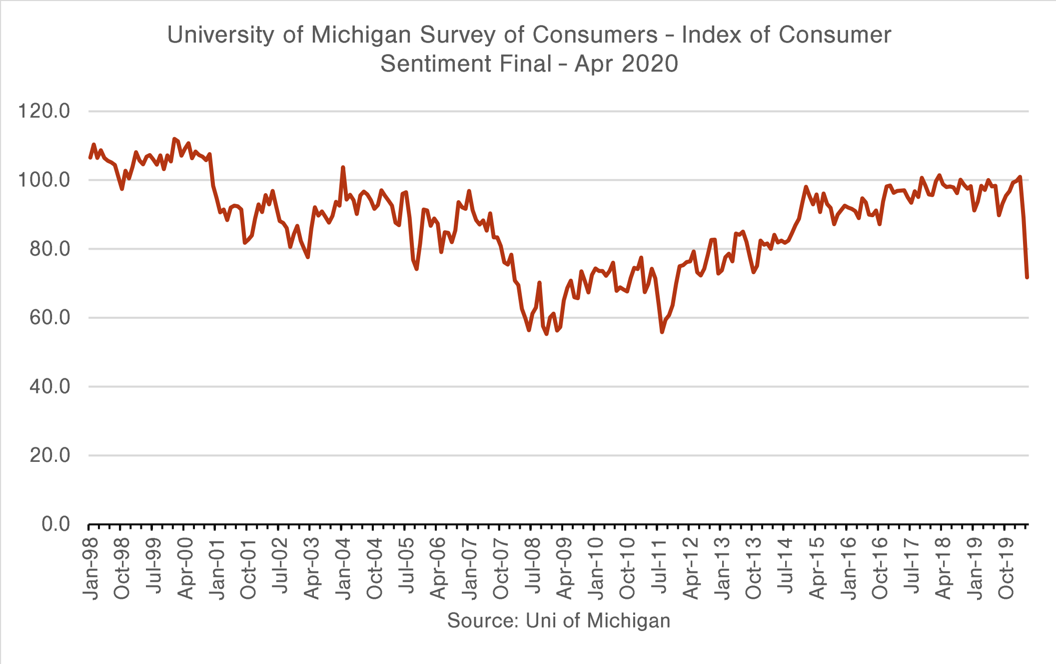
University of Michigan Consumer Sentiment Final (Apr)

There was little change in the sentiment indexes since the release two weeks ago of the prelim data for Apr. This is somewhat positive, in that sentiment did not continue to fall. In fact, the underlying 7-day moving average improved around mid-month – but then promptly reversed. A gap continues to exist between the much weaker sentiment around current conditions and the 'less negative' expected conditions.

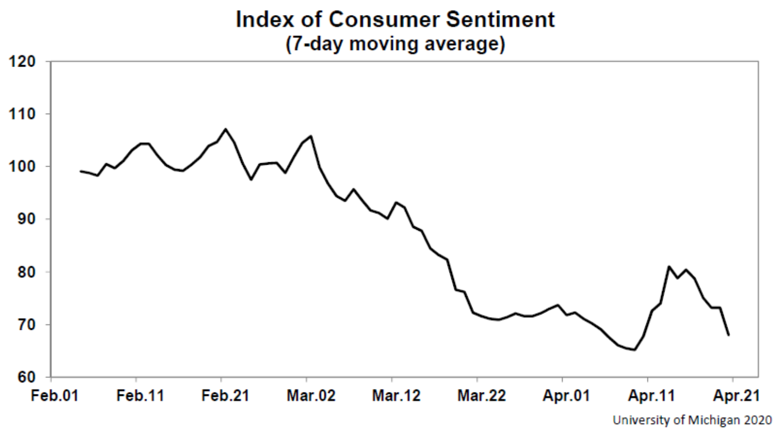
Sentiment is fragile. Pressure remains on states to reopen/lift restrictions to improve economic prospects. But a resurgence in virus infections, and the reimposition of restrictions, will see a further negative shift in sentiment.

> The risks associated with these decisions are not equally balanced, with an incorrect decision to reopen having serious repercussions.

Headline Consumer Sentiment – month; Apr 71.8 (Prelim 71) versus Mar 89.1



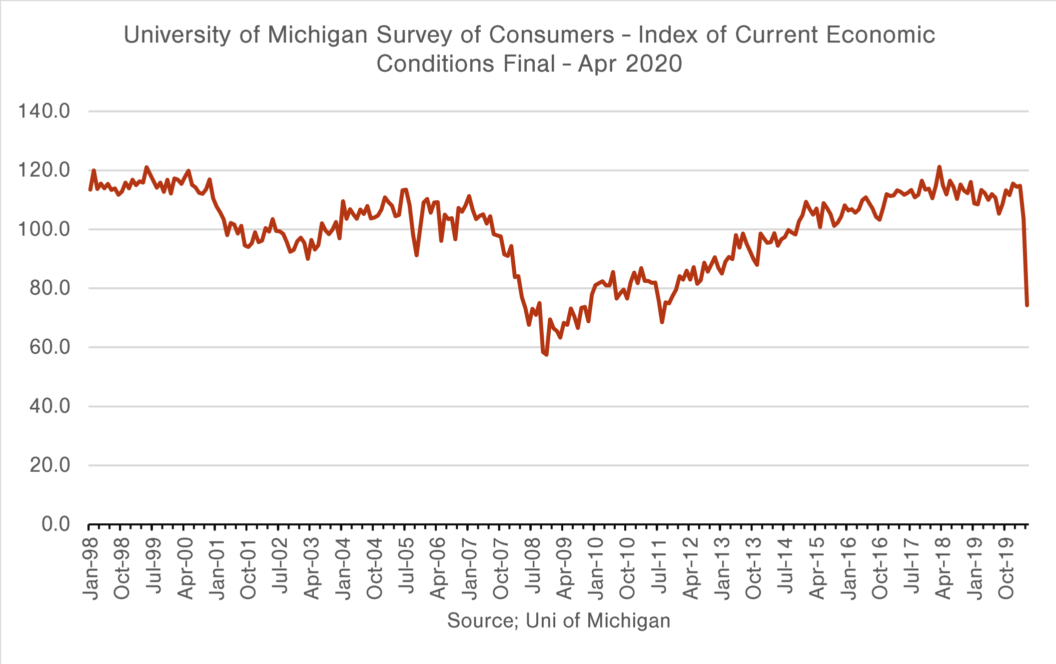
In between the prelim and final report, the seven (7) day moving average of the headline consumer sentiment index actually improved leading into mid-month – and then reversed back down.



The reason for the improvement (and subsequent decline) is unclear. But the improvement in sentiment does coincide with the delivery of stimulus checks around mid-month.

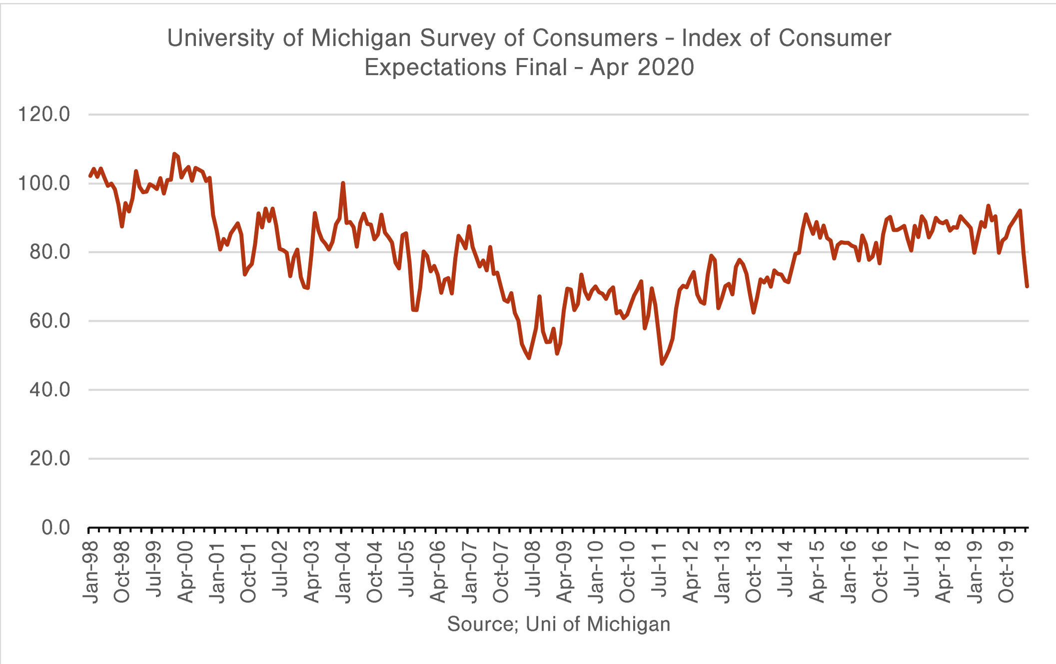
<u>Index of Current Economic Conditions – month</u>; Apr 74.3 (prelim 72.4) versus Mar 103.7

The sharp and severe deterioration in current conditions reflects the significant impact that restrictions to stop the spread of the virus have had on household income and employment.



Index of Expected Economic Conditions – month; Apr 70.1 (prelim 70) versus Mar 79.7

Expected conditions has not fallen to the same degree as current conditions. This is somewhat based on the anticipation that the virus spread will slow and restrictions will start to be lifted, enabling people to get back to work. How this expectation evolves of the new few weeks will be important.



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

Markit Prelim Manufacturing and Services PMI (Apr)

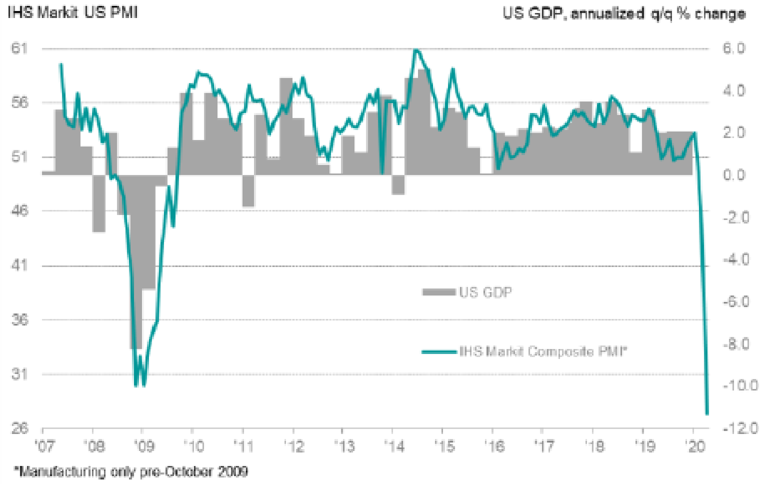
Private sector manufacturing and services activity contracted at an even faster pace reflecting the first full month of quarantine and shutdown restrictions. The composite output index reached a new series low and output contracted at a record pace across services and manufacturing. Business confidence turned pessimistic for the first time in that series history (since 2012).

The headline manufacturing PMI reflects an offsetting impact from slower delivery times and increased inventory. The manufacturing output index is a more accurate reflection of factory activity.

Composite Output Index; Apr 27.4 versus Mar 40.9

Data collected April 7-22

IHS Markit Composite PMI and U.S. GDP



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

Service Business Activity Index; Apr 27.4 versus Mar 40.9

Manufacturing Output Index; Apr 29.4 versus Mar 46.5

The contraction in activity was broad-based. Both domestic and foreign demand continued to fall as firms closed (temporarily or other), or were restricted to trade due to quarantine.

> The cancellation and postponement of orders led firms to reduce their workforce numbers at a rate far exceeding anything seen previously over the survey history at the start of the second quarter. Although some highlighted efforts to furlough staff, many stated that redundancies had to be made following a sharp drop in revenue.

Business confidence shifted into pessimism for the first time – due to concerns over the longevity of the outbreak and ongoing restrictions and shutdowns.

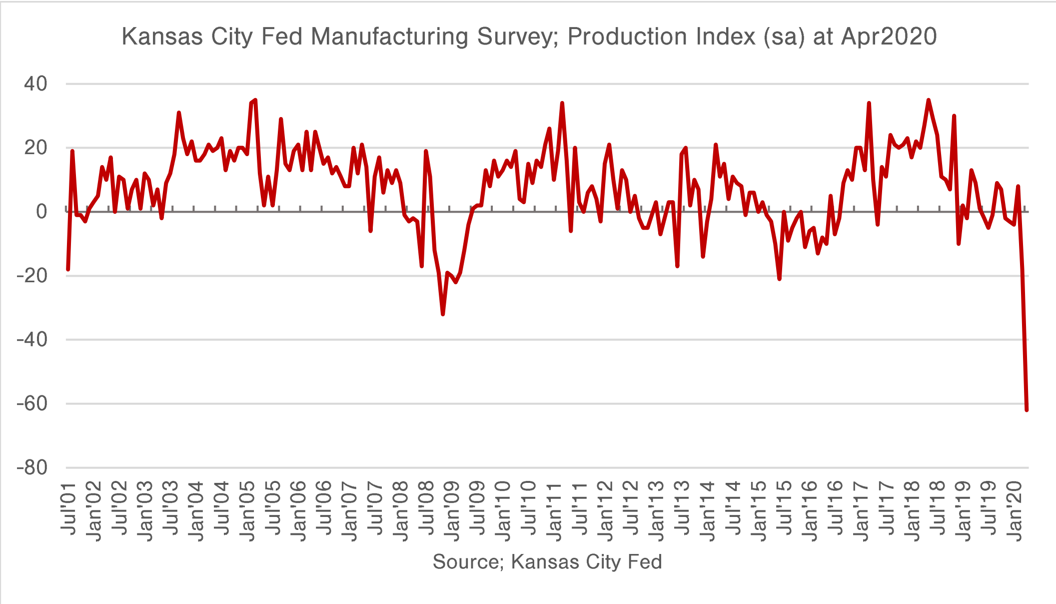
https://www.markiteconomics.com/Public/Home/PressRelease/63cdd746043d4473bd49c2730287049a

Kansas Fed Manufacturing Survey (Apr)

Manufacturing activity contracted at a record pace this month. Firms reported severe declines in new orders both domestically and overseas. Backlogs declined at a record pace. While there was more of a shift to reducing employment in Apr, there was still an overall emphasis on maintaining staff (just on half of the firms reported no change in employment) – firms opted to reduce hours instead where possible.

Production Index; Apr -62 versus Mar -18

We would normally report the headline composite index, but the production index is likely a better indicator of factory activity at the moment – given the offsetting impact of delivery times and inventory. The composite and the production index both declined at a record pace this month



Most of the indicators contracted at a record pace this month.

In Apr, approx. 65% of firms reported a decline in production. Only 12% of firms reported an increase in the month. The contraction in production versus Mar was the largest on record (going back to 2001).

> "Business levels for us have been increasing for low ticket priced products. Higher priced products have seen lower order activity, but more active than 2008-09."

Even though the outlook improved (was less negative) for production in six months' time, firms still expected production to be lower than currently on net. The index of expected production was -8 in Apr, an improvement from the -36 reading in Mar (although actual production declined severely in Apr instead). A larger proportion of firms this month (37%) expected higher production in six months (last month it was only 18% of firms).

> "We have seen a good bit of projects put on hold until this crisis is over. I think sales will rebound strongly once there is a light at the end of the tunnel."

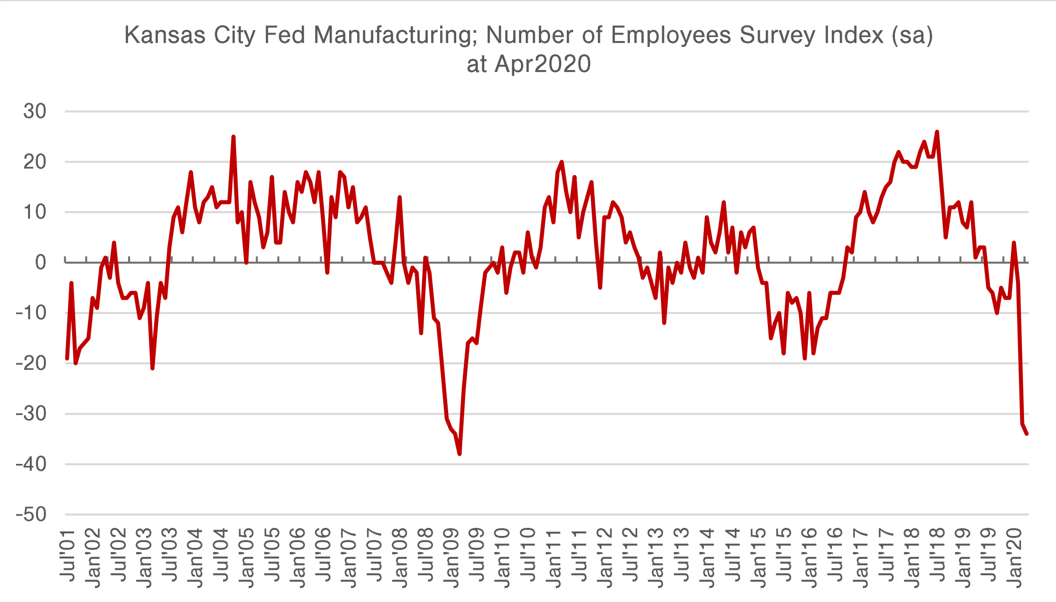
New work in Apr declined at a record pace. There were still 16% of firms that recorded an increase in new work for the month. But 69% of firms recorded lower new orders.

> "If the situation doesn't improve in the next 4-6 weeks we will be instituting large scale layoffs."

New export orders also contracted at a record pace this month reaching -29 in Apr. Only 3% of firms record an increase in new orders for the month. But interestingly, 64% of firms – the majority – recorded no change to new export orders. This is only slightly down from the 69% of firms that recorded no change in new export orders in Mar.

Order backlogs were reduced at a significantly faster pace this month. Firms used the opportunity to retain staff and work through backlogs – although the impact of cancelled orders cannot be ruled out. Approx. 62% of firms recorded a decline in order backlogs.

Employment contracted at a similar pace this month with the index at -34 in Apr versus -32 in Mar. This is just above the peak reached in the GFC of -38.



While manufacturing employment has dropped, the decline does not appear as severe as experienced in services at this stage. There is a core theme here regarding employment – the hiring freeze. Only 6% of firms recorded higher employment this month. But 54% of firms recorded "no change" to employment – while 40% of firms recorded lower employment (last month it was 35% of firms recording lower employment).

> "We are critical infrastructure, are open for business, and hiring."

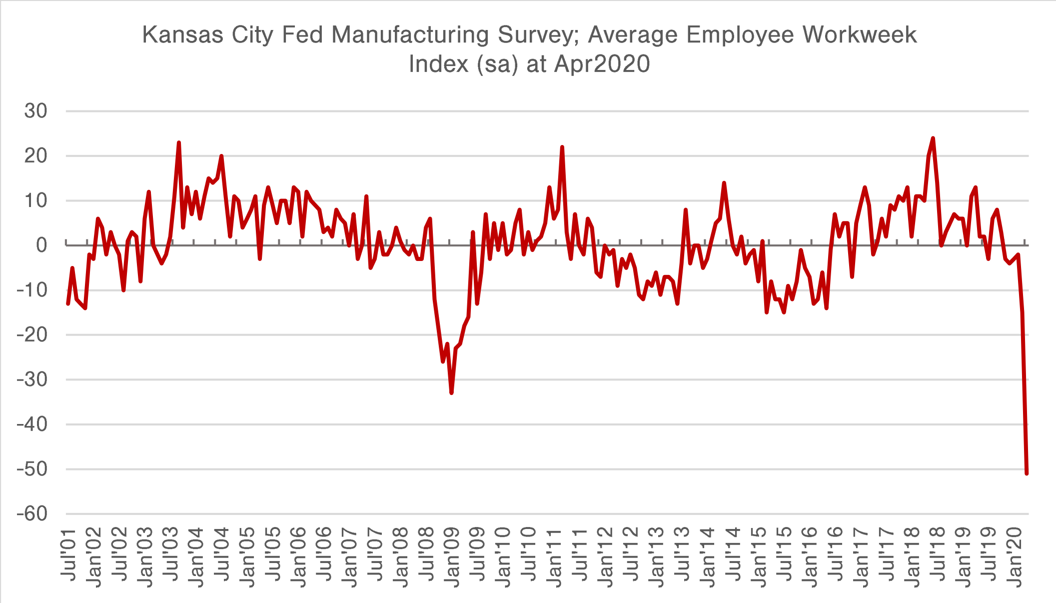
> "We have furloughed around 17% of our workforce, while maintaining their benefits. Business is off considerably and bookings are way down… the instability and low price of oil is also going to have a devastating impact on business."

> "We have not lowered wages; however, overtime has been eliminated. Employment has been maintained where necessary and layoffs based on

productivity. Revenues are diminished considerably due to the price of oil on top of COVID-19."

The average work week, on the other hand, has suffered considerably. For the second month in a row, hours contracted. The fall in the average workweek in Apr was at a record pace of -51.

"We reduced hours in manufacturing until PPP came along. Now we're back to full strength."



Prices received for finished goods and prices paid for raw materials both declined in the latest month. Both declined at a similar pace.

Inventories of materials and finished goods also declined at a similar pace.

https://www.kansascityfed.org/~/media/files/publicat/research/indicatorsdata/mfg/2020/april2020manufsurvey_tenthdistrict.pdf?la=en

Advance Durable Goods Orders (Mar)

The advance durable goods report for Mar has started to reflect the impact from the Covid-19 shutdowns. The frontline of the durable goods manufacturing impact in Mar was motor vehicles and non-defense aircraft – both recording severe declines in orders and shipments. Excluding transport, the declines were more muted.

New orders declined sharply in the month. Of note was the cancellation of non-defense aircraft orders contributing -$16bn to the headline decline in orders (nearly half of the headline decline in $ value). This is also reflected in the larger fall in unfilled orders.

All values USD.

Durable Goods New Orders – month change; Mar -14.4% (-$36bn) versus Feb +1.1% (+$2.6bn)

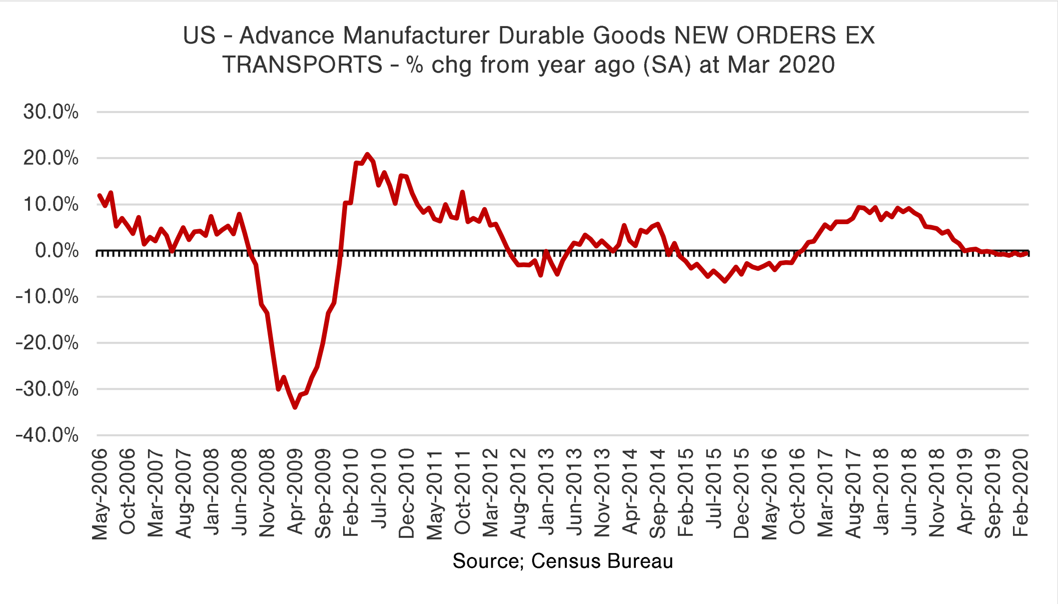
The single largest contributor to the decline in orders this month was transport equipment.

Transport equipment orders declined by -41% in Mar (-$35.6bn of the headline -$36bn decline). Motor vehicle orders declined by 18% (-$11bn).

But the larger contributor was the **negative print in new orders for non-defense aircraft – meaning that orders were likely cancelled**. **Orders for non-defense aircraft were -$16bn** in Mar. This is NOT the monthly change, but the actual value of orders. The change versus the prior month was -$24.5bn.

Outside of transport equipment, the decline in orders was more muted; -0.2% versus Feb (or -$0.4bn). Increases in orders for electrical equipment and "other" durable goods helped to offset declines across all other industries.

On an annual basis, new orders declined by 16% in Mar. This mostly reflects the large impact from transports. Excluding transport equipment, the value of new orders in Mar was -0.7% below the same month a year ago;

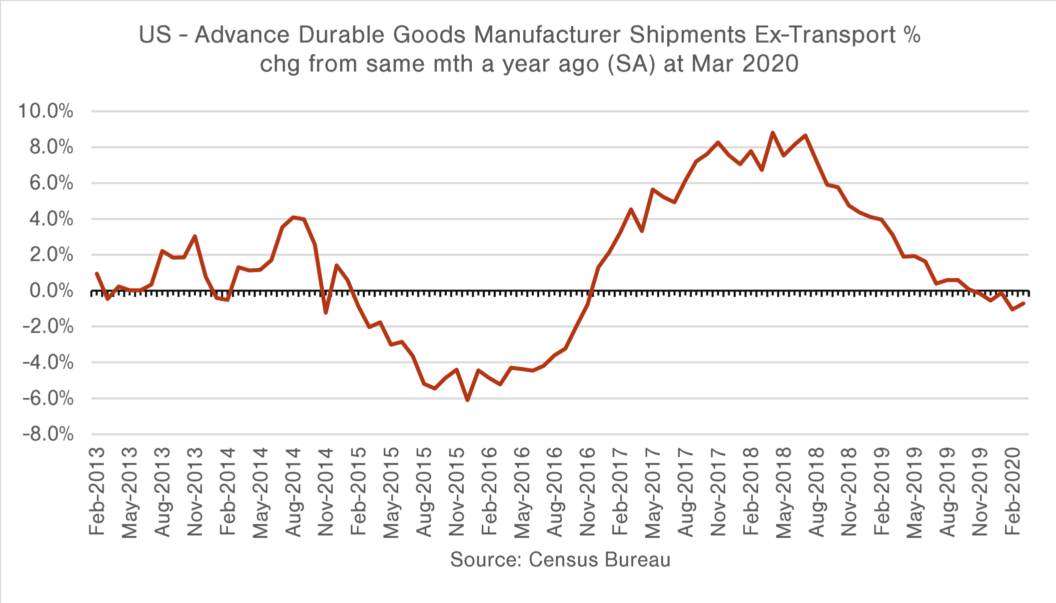


Durable Goods Shipments – month change; Mar -4.5% (-$11.4bn) versus Feb +0.8%

The vast majority of the decline in durable goods shipments this month was transports. Transport equipment shipments declined by -12% (-$10.8bn) in Mar versus Feb. The larger -$11.1bn decline in motor vehicle shipments was partly offset by a small increase in non-defense aircraft shipments.

Excluding transports, the value of shipments declined by -0.3% (-$0.6bn). Similar to orders, increases in shipments for electrical equipment and "other" durable goods helped to offset declines across all other industries.

On an annual basis, total durable goods shipments declined by 6.5% versus the same month a year ago. Again, excluding the larger impact of transports, the value of shipments was -0.7% versus a year ago.

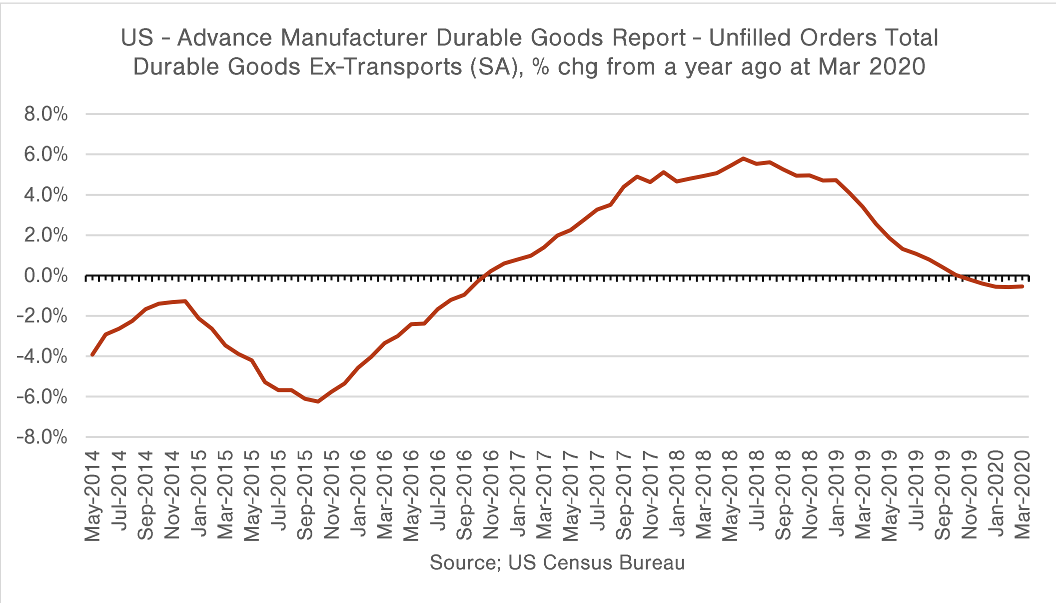


<u>Durable Goods Unfilled Orders – month change</u>; Mar -2% (-$23.4bn) versus Feb +0.1% (+$1.3bn)

The large decline in unfilled orders can be traced back to non-defense aircraft where the value of unfilled orders declined by 4.7% in the month or -$26.8bn. The value of unfilled orders for non-defense aircraft as of Mar is still $538bn – which is half of the value of total unfilled orders outstanding. We will need to continue to track this in the coming months.

Excluding transports, unfilled orders declined slightly by -0.1% (-$0.5bn)

On an annual basis, the value of total durable goods unfilled orders declined by -4% versus the same month a year ago. Excluding transports, unfilled orders were -0.5% below a year ago;

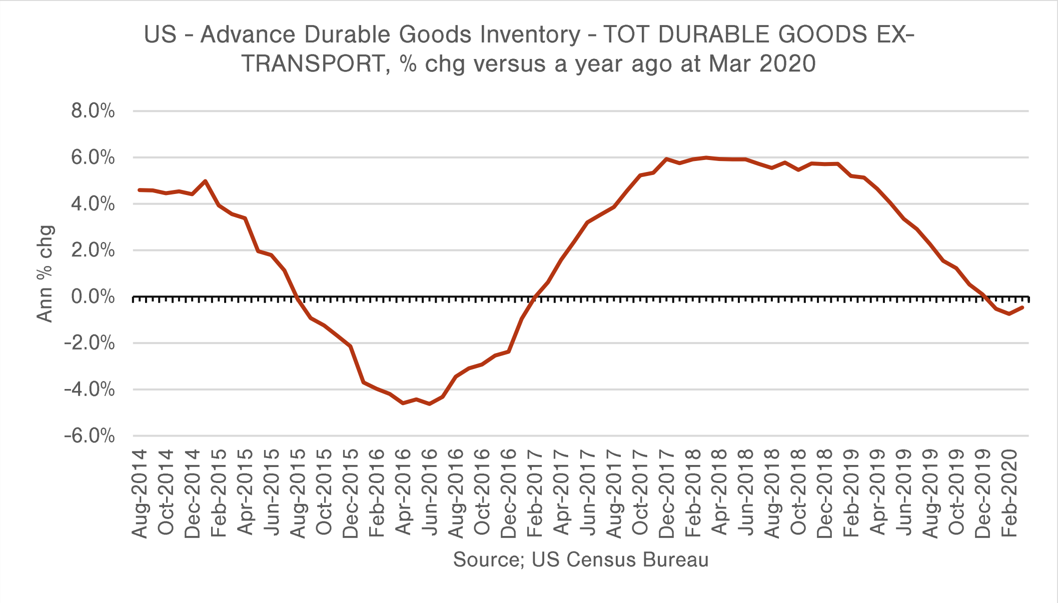


<u>Durable Goods Inventory – month change</u>; Mar +0.6% (+$2.7bn) versus Feb 0%

The increase in inventory was more broadly distributed across industries in Mar. The increase in transportation inventory was +0.6% (+0$.9bn). Excluding transports, the value of inventory also increased by +0.6% in Mar (+$1.8bn).

The annual picture is somewhat different – with transports (non-defense aircraft) contributing more to the annual increase in total inventory.

The total value of durable goods inventory increased by 4% versus the same time a year ago. Excluding the value of transport equipment inventory, the value of durable goods inventory declined by -0.5% versus a year ago;



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

Chicago Fed National Activity Index (Mar)

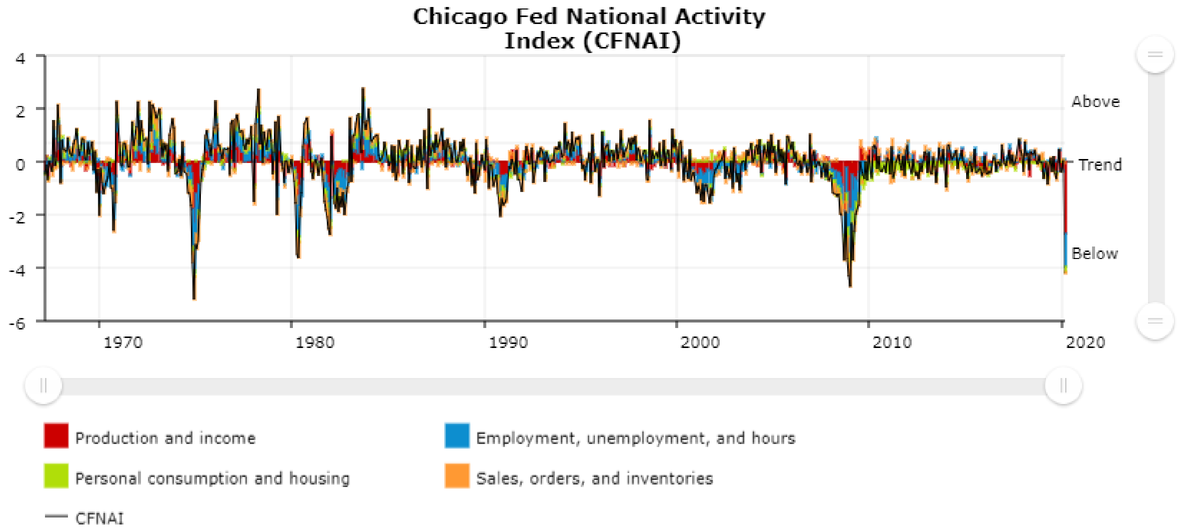
The Chicago Fed National Activity Index fell firmly into negative territory in Mar. Most components of the index contributed to the fall in the month, especially production and income and employment, unemployment, and hours.

A reading of zero indicates growth in line with the long-term trend. The decline in Mar was well below the long-term trend and the only two periods when the index was lower was in early 2009 and 1975.

<u>Chicago Fed National Activity Index</u>; Mar -4.17 versus Feb +0.06

Due to the severity of the fall in the month of Mar, the 3-mth moving average declined to -1.47 in Mar. The 3mth moving average of the index in Feb was -0.2.

Following a period of economic expansion, an increasing likelihood of a recession has historically been associated with a CFNAI-MA3 value below –0.70.



Most of the components of the index contributed to the decline in the month;

Production and income; Mar-2.72 versus Feb +0.06

Employment, unemployment, and hours; Mar -1.23 versus Feb +0.07

Personal Consumption and housing; Mar -0.19 versus Feb -0.02

Sales, orders and inventories; Mar -0.05 versus Feb -0.06

https://www.chicagofed.org/research/data/cfnai/current-data

Mortgage Applications wk ending 17 Apr

Last week, mortgage applications declined slightly versus the week prior.

Market Composite Index (mortgage loan application volume); -0.3%

Refis also decreased slightly versus the week prior (-1%) but remain +225% ahead of a year ago. Refis account for approx. 75% of total applications.

The purchase index measures the number of loans finalized. This was 2% higher than in the prior week – but 31% below a year ago. This is a 4-6wk leading indicator of home sales.

Emphasis added;

> Mortgage applications were essentially unchanged last week, as a slight drop in refinance activity was offset by a 2 percent increase in purchase applications. California and Washington, two states hit hard by COVID-19, saw another week of rising activity - partly driving the overall increase. **Despite the weekly gain, the purchase index remained close to its lowest level since 2015, and was over 30 percent lower than a year ago,"**

Actual purchase applications for the three (3) main states impacted so far remained well below a year ago;

State	Week-Over-Week Change		Year-Over-Year Change	
	% Change: Week Ending 4/17/2020	% Change: Week Ending 4/10/2020	% Change: Week Ending 4/17/2020	% Change: Week Ending 4/10/2020
WA	12.3	16.4	(45.8)	(52.5)
CA	2.9	1.8	(47.9)	(49.0)
NY	(8.3)	0.8	(59.2)	(58.4)

NOTE: Not seasonally adjusted, home purchase applications only

Source: Mortgage Bankers Association Weekly Applications Survey

https://www.mba.org/2020-press-releases/april/mortgage-applications-decrease-in-latest-mba-weekly-survey-x263483

Existing Home Sales (Mar)

US existing home sales shifted into decline for the month at a faster pace. Declines versus the prior month were recorded across all regions, led by larger declined in the South and West regions.

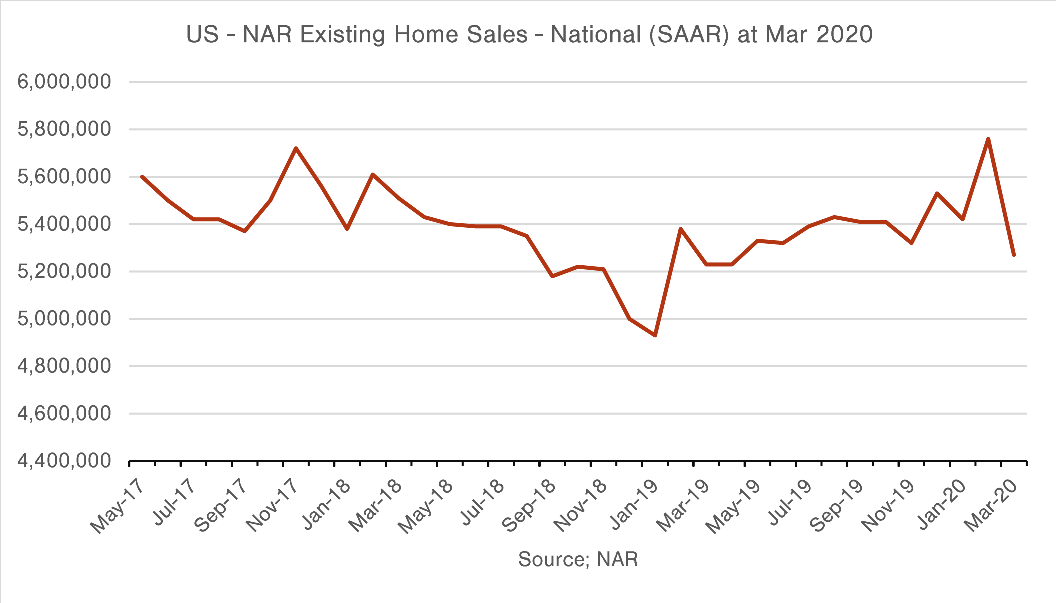
At a National level, sales are virtually flat to a year ago.

From the weekly mortgage application data – the purchase index, a 4-6-week leading indicator of home sales, has fallen by 35% since the start of Mar 2020. This suggests that further falls in sales are possible.

> "Purchase applications decreased less than 2 percent last week - the fifth straight weekly decline. 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. https://www.mba.org/2020-press-releases/april/mortgage-applications-increase-in-latest-mba-weekly-survey-x263475

Existing Home Sales – month (SAAR): Mar 5.27m (-8.5%) versus Feb 5.76m (+6.3%)

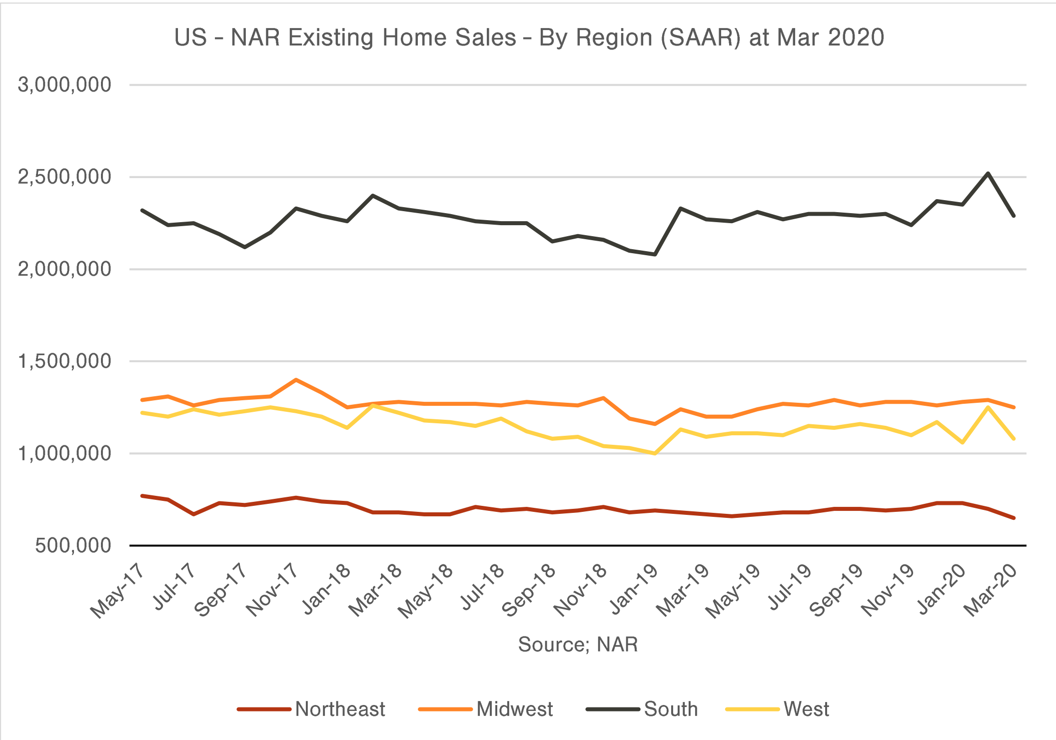
Sales are +0.8% versus a year ago.



The decline in sales for the month was recorded across all regions.

The largest falls were recorded in the South (-9.1%) and the West (-13.6%). Sales also declined in the Midwest by 3.1% and in the Northeast by 7.1%.

Existing home sales in the Midwest and the South are still ahead of a year ago (+4.2% and +0.9%, respectively).



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

New Home Sales (Mar)

The estimate of new home sales declined at an accelerated pace in Mar.

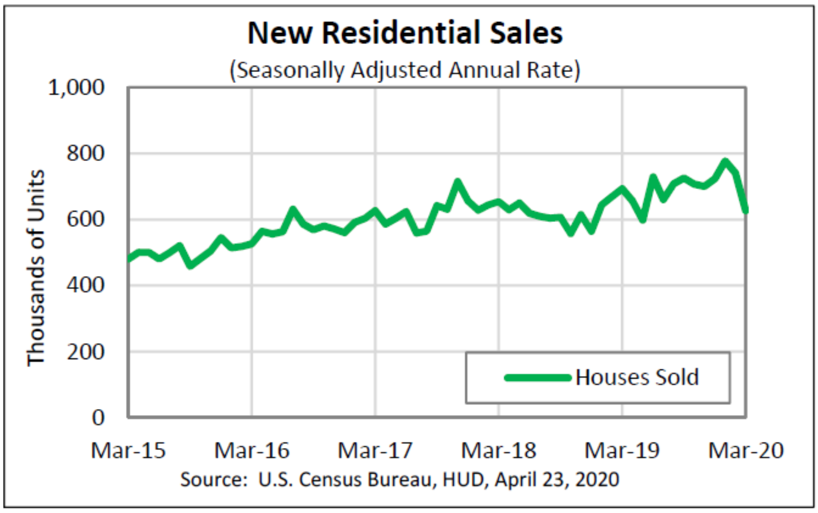
New Home Sales – (SAAR); Mar 627k versus Feb 741k

The decline in Mar was -15.4% with a 90% confidence interval of +/- 14.8%.

These results are based on sample data. The confidence interval this month does not contain zero (the value is likely to be between -30.2% and –0.6%), which means that sales most likely declined in the month.

The annual decline is more uncertain. The 9.5% decline in Mar versus a year ago has a wider confidence interval of +/-14.6% - which contains zero so sales could have increased or decreased.

The trend of new home sales takes approx. 4 months to establish. Sales had been on an upward trend throughout 2019. The last two months of sales has trend lower – which is in line with other indicators.



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

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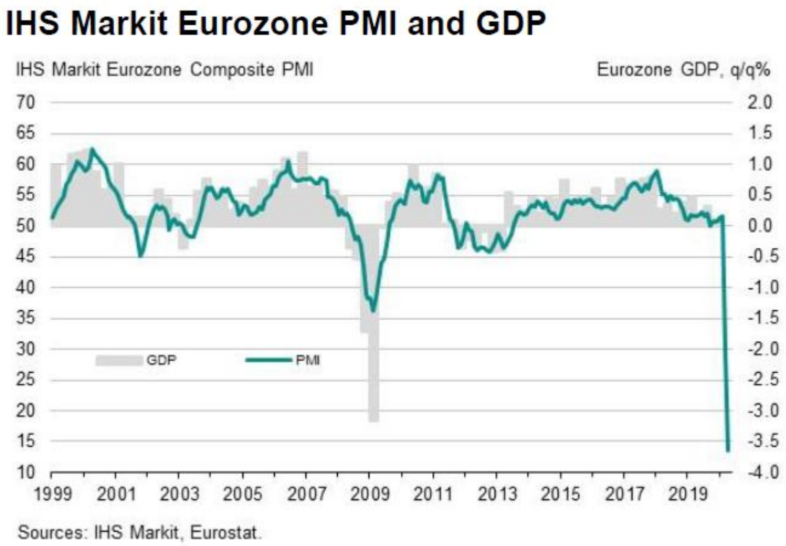
Europe

Eurozone Prelim Services and Manufacturing PMI (Apr)

The pace of contraction across private sector output, across the entire Eurozone, in Apr remained severe and unprecedented. The composite PMI output index reached a new series low. Both services and manufacturing output continued to decline at an accelerated pace.

Prelim Headline Composite Output Index; Apr 13.5 versus Mar 29.7



This has been the fastest pace of decline in the series history and far exceeding the decline recorded during the GFC. Across both main sectors, new work declined at a record pace as did order backlogs.

Services activity continued to lead the decline.

Services Business Activity Index; Apr 11.7 versus Mar 26.4

The contraction in services activity in Apr was a new series low. Firms operating in the hospitality industry continued to be hardest hit by restrictions to contain the virus.

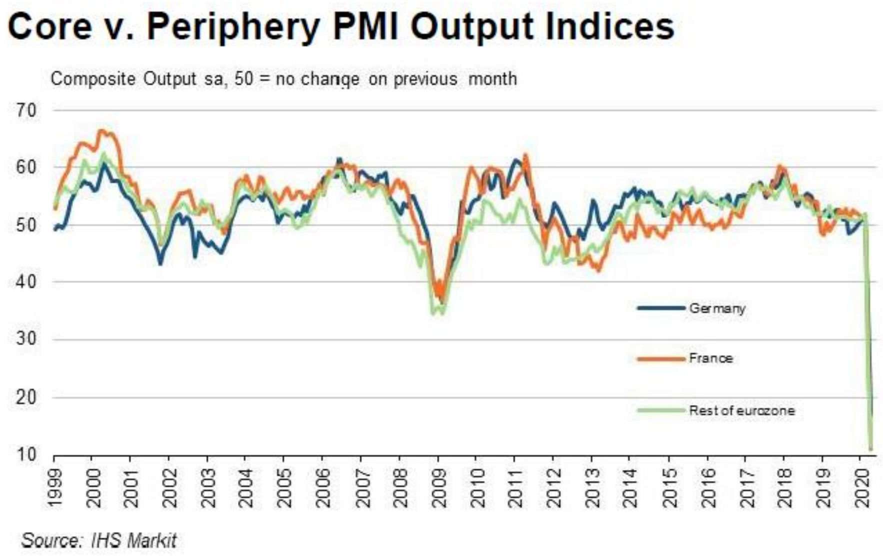
Manufacturing output also contracted at a much faster pace this month as firms were shutdown, experienced significantly lower demand or were impacted by supply chain disruptions.

Manufacturing Output Index; Apr 18.4 versus Mar 38.5

Manufacturing employment declined by a somewhat slower pace than in services.

Overall expectations for growth in the next twelve months fell further this month – this was led by a new series low for manufacturing pessimism this month.

Most regions were hit hard by shutdowns this month;



By region, the unprecedented scale of the collapse was broad-based, with composite flash PMI output indices hitting all-time lows of 17.1 and 11.2 respectively in Germany and France (down from 35.0 and 28.9 in March), while the rest of the region saw the composite PMI slide from 25.0 to 11.5.

https://www.markiteconomics.com/Public/Home/PressRelease/b9c4af250a8e40efabbb1b120b368e6f

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Japan

Merchandise Trade (Mar)

The value of the Japanese trade balance (surplus) fell heavily versus the surplus from a year ago. This was the result of a much larger decline in the value of exports in Mar. Imports also declined, but to a lesser degree than exports.

The decline in exports was led by transport equipment (including both value and vol of motor vehicles) as global demand slowed. The decline in imports was led mostly by mineral fuels. There was some indication that consumer-based clothing, accessories imports were weaker but overall there was no indication of a large contraction in import demand.

Values in YEN

<u>TRADE BALANCE – SURPLUS</u>

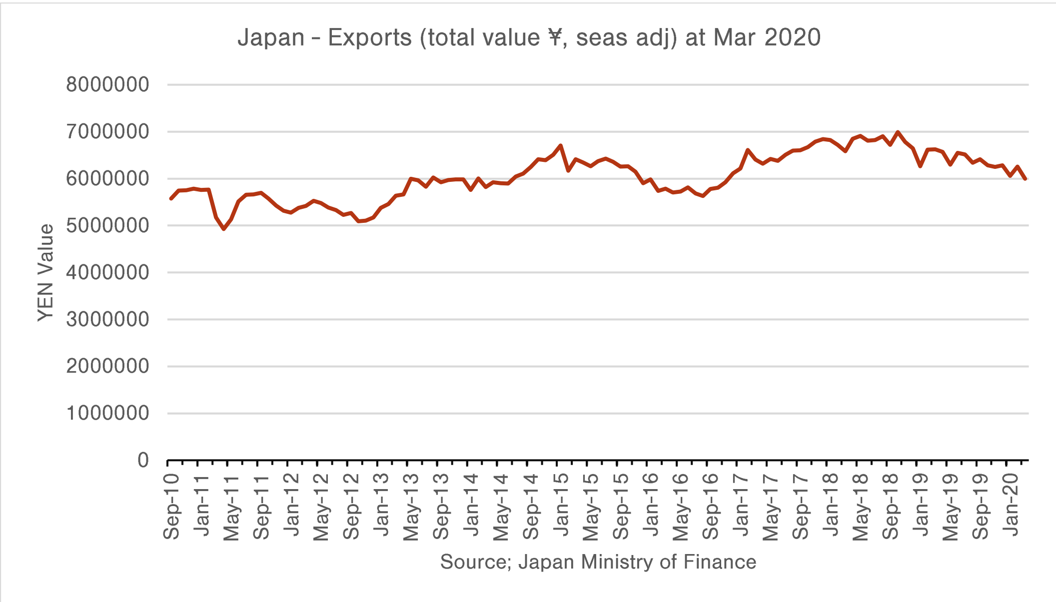
Mar (20) 4.9bn versus Mar (19) 517bn

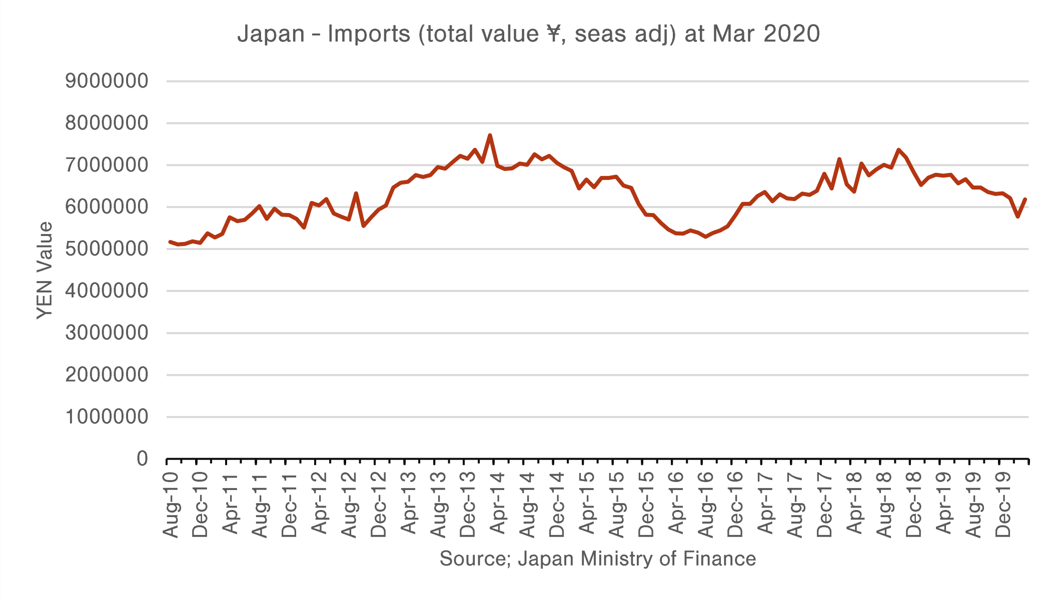
(The Mar 2018 surplus was 784bn)

The much smaller surplus in Mar 2020 was the result of exports falling 11.7% below a year ago. Imports were also -5% versus a year ago.

On a seasonally adjusted basis, exports declined by 4% versus the month prior, but imports were +7% on the month prior.

The value of imports and exports has been trending lower throughout the last year;





<u>**EXPORTS (-11.7% on a year ago, non-seasonally adjusted)**</u>

<u>Regional Performance</u>

Of the two main exports markets for Japan, exports to the US declined at a faster pace in Mar by 16%. Exports to China were down by 9% and exports to Asia generally, were down by 9%.

Exports to Western Europe declined by 13% versus a year ago.

<u>Commodity Performance</u>

There were several main contributors to the decline in exports (in order of impact);

Transport equipment -18% with all segments of transport exports declining (contributed -4.4% pts to the headline 11.7% decline)

Machinery -18% also with all segments of machinery exports declining (contributed -3.8% pts to the decline)

Others -15% (contributed -1.9% pts to the decline)

<u>**IMPORTS (-5% on a year ago basis, non-seasonally adjusted)**</u>

The value of imports declined heavily in Feb versus a year ago (-14%) and was again lower in Mar versus a year ago. On a monthly basis, the value of imports rebounded slightly, but there is no break down by region or commodity for the seasonally adjusted data.

<u>Regional Performance</u>

The main import market for Japan is China. This month, imports from China declined by 4.5% versus a year ago. Last month (Feb) the very sharp decline in imports from China (-47% versus a year ago) was one of the leading drivers of the overall 14% decline in imports.

Imports from Asia were generally down by -4%.

The next single largest import market is the US and imports actually increased by +1.3% versus a year ago.

Imports from Europe were down the most by -13% (the total size of Euro imports = the total size of US imports).

Imports from the Middle East (only slightly behind the value of US and Euro imports) also declined by 9%. But imports from the UAE were up 25% versus a year ago.

Commodity Performance

The single largest contributor to the decline in imports versus a year ago was mineral fuels. The import of mineral fuels declined by 11.6% (contributing -2.7% pts to the headline import decline).

The "other" category made the second largest contribution to the decline in imports, and includes scientific, optical, clothing and accessories, furniture and bags. Imports declined by 8% and contributed -1.1% pts to the decline.

The import of machinery and transport equipment both declined, but contributed <1% pts to the headline decline.

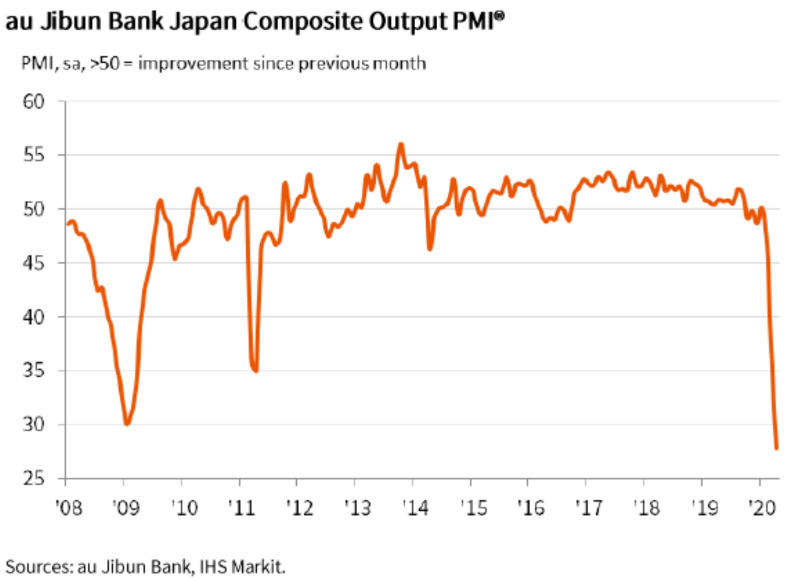
The import of electrical machinery, chemicals, raw materials and food stuffs all increased versus a year ago.

https://www.customs.go.jp/toukei/latest/index_e.htm

Prelim Composite PMI (Apr)

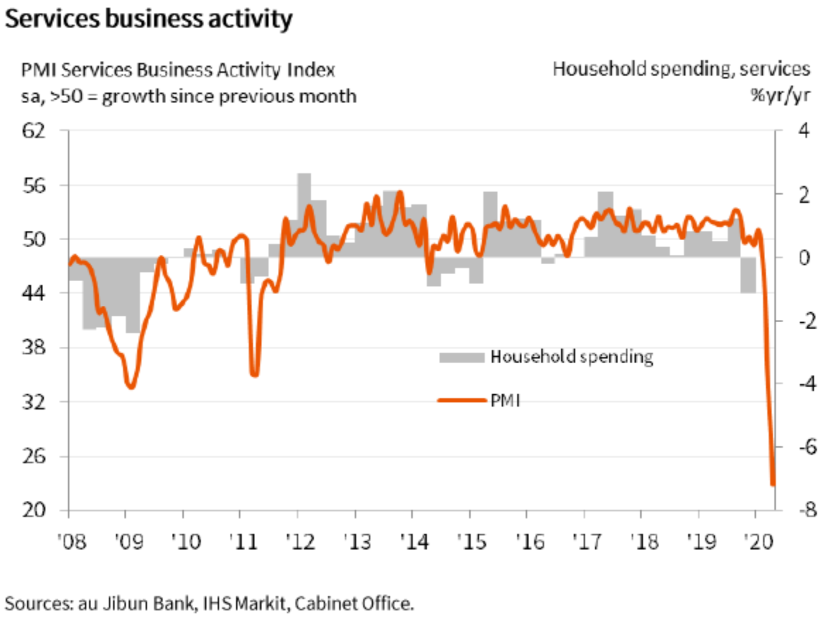
Private sector output across services and manufacturing contracted at a record pace in Apr. The survey period was 7-21 Apr and the Japanese PM announced the state of emergency for some parts of the country on 7th, which was extended Nationally on 16 Apr. This suggests that the economic impact was already severe before the full National lockdown was announced.

Composite Output Index – prelim; Apr 27.8 versus Mar 36.2



Both services and manufacturing activity contracted at an accelerated pace in Apr.

Services Activity Index; Apr 22.8 versus Mar 33.8



Manufacturing PMI; Apr 43.7 versus Mar 44.8

The headline manufacturing PMI decline was somewhat offset by extended delivery times and inventory effects. The manufacturing output index – which is likely a better barometer of current activity fell to 37.8 in Apr from 41.1 in Mar. The contraction in manufacturing output was the strongest since 2009. Compared to other markets, the decline manufacturing output in Japan has not been as severe so far.

https://www.markiteconomics.com/Public/Home/PressRelease/211669757e2d4b73b524edc355c711ba

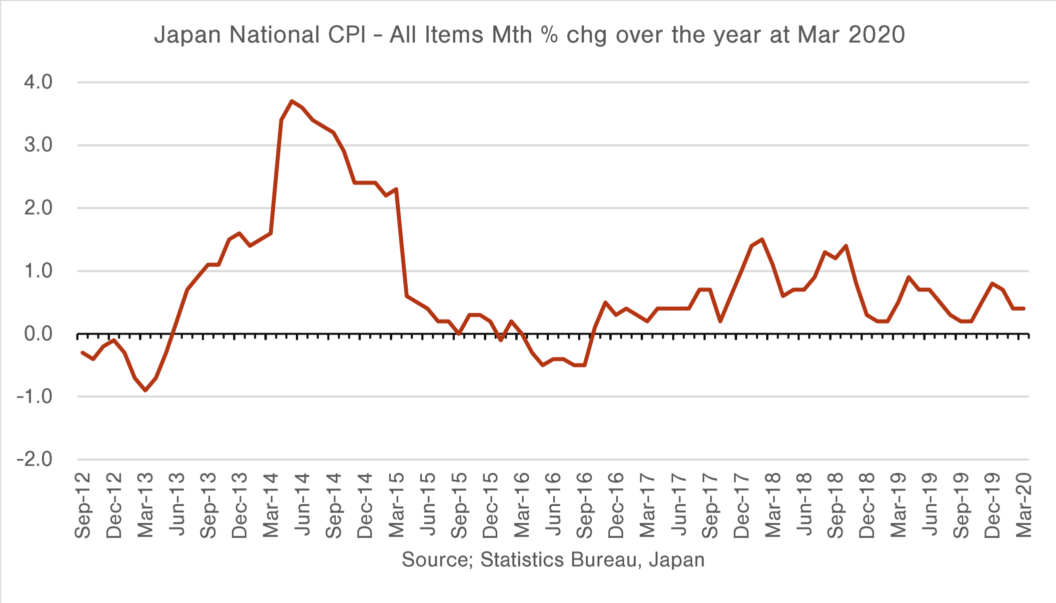
National CPI (Mar)

Annual growth in the headline Japanese CPI was unchanged in Mar (versus the annual growth in Feb). The BoJ preferred measure of CPI excluding Fresh Food, indicated that the underlying annual growth in prices continued to slow.

In the month, CPI growth was 0% versus the month prior. Declines in prices for food, fuel, household items, and transport/comms were offset by increases in prices for clothing, and smaller increases across medical, education and misc prices.

On an annual basis, consumer price growth was unchanged from the annual pace in the month prior;

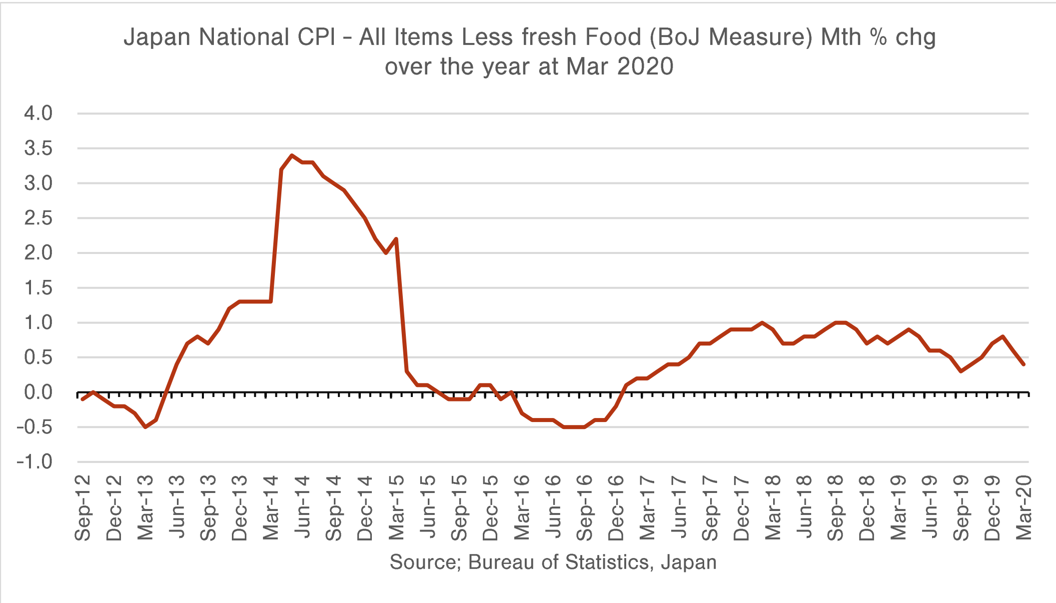
Headline All-Items CPI – annual change; Mar +0.4% versus Feb +0.4%



The preferred measure of consumer price inflation for the BoJ is all-items excluding fresh food.

<u>All-Items CPI Ex Fresh Food – annual change</u>; Mar +0.4% versus Feb +0.6%

In Mar, the annual growth in fresh food prices shifted from -1.9% in Feb to +0.3% in Mar. Fresh Food is only 4% weight in the overall index, but still helped to offset overall weaker price growth elsewhere.



The main contributors the slower growth in annual prices were;

Fuel, Light, and Water Charges (approx. 7% of the index weight); -1.4% in Mar versus -1% in Feb

Transport and Communication Charges (approx. 15% of the index weight); Mar +0.7% versus Feb +1.4%

Education charges remained firmly negative at -7.9% and unchanged from the annual pace in Feb (also -7.9%).

Misc Prices (6% of index weight); Mar -3% versus Feb -2.9%

There was also slower annual growth in Food less fresh Food prices (22% of index weight) in Mar +1.6% versus Feb +1.8%.

The annual change in prices across all other expenditure categories was constant in Mar versus Feb.

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

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United Kingdom

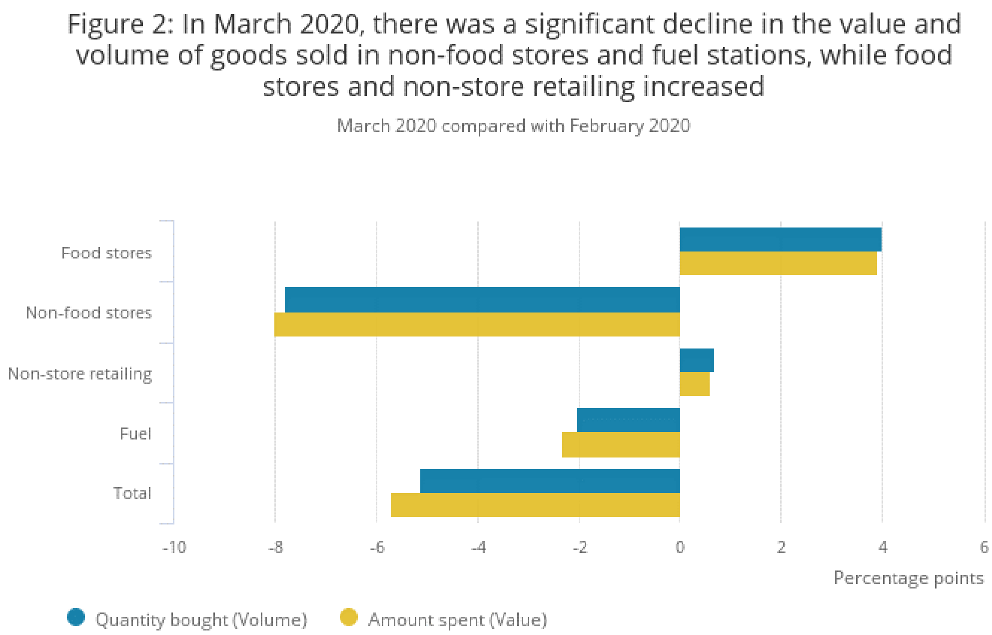
Retail Sales (Mar)

Retail sales across the UK fell sharply in Mar. From the 23 Mar, many non-essential stores were shut down as a part of the broader virus containment strategy in the UK. The full reporting period for retail sales was 1 Mar to 4 Apr – so two weeks out of the five-week period was affected by the quarantine measures.

The monthly report noted that approx. 25% of retail stores in the survey returned the monthly survey reporting that they temporarily ceased trading.

Retail Sales (vol) – month change; Mar -5.1% versus Feb -0.4%

The decline in the month was led by non-food stores and fuel. This was only partly offset by an increase in food store sales in the month.

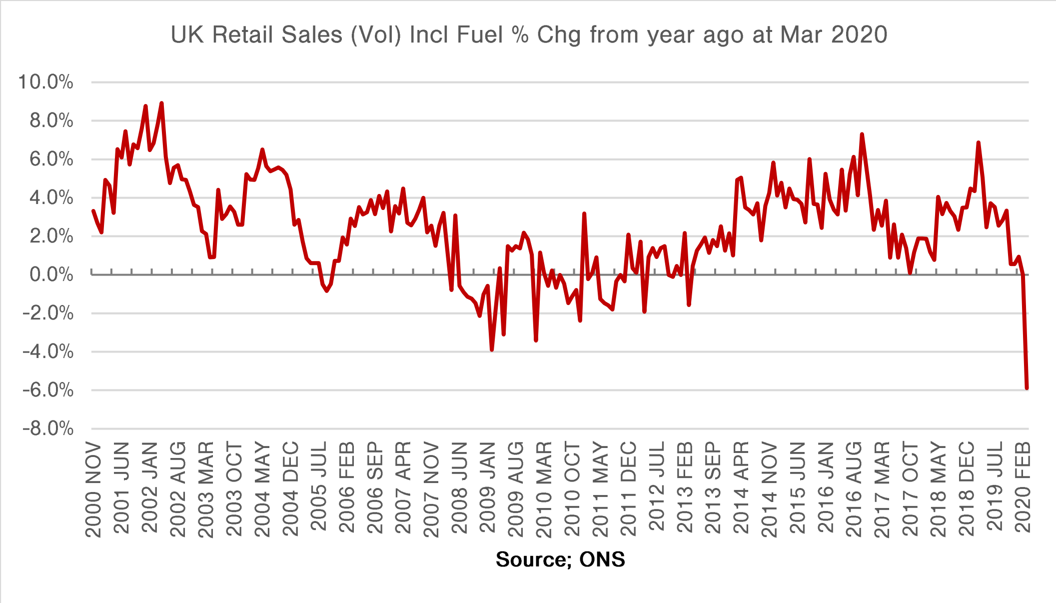


Source: Office for National Statistics – Monthly Business Survey – Retail Sales Inquiry

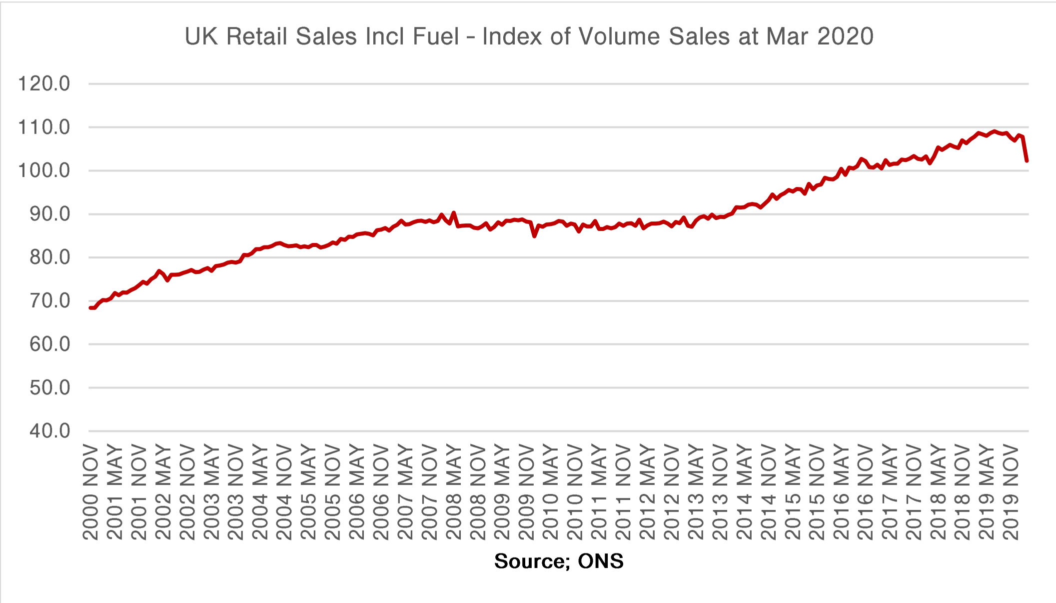
On an annual basis, sales declined well below a year ago;

Retail Sales (vol) – annual change; Mar -5.9% versus Feb 0%

This is the single fastest pace of decline going back to the start of this data series (1997).



For broader context, while the pace of decline was severe in Mar, the volume index is back on par with sales in Mar 2018;



From the two charts above, it's obvious that this time this is quite different to the GFC – which is the other notable weak period for retail sales. There was no sharp decline in 2008, but sales volumes remained weaker right through to 2013.

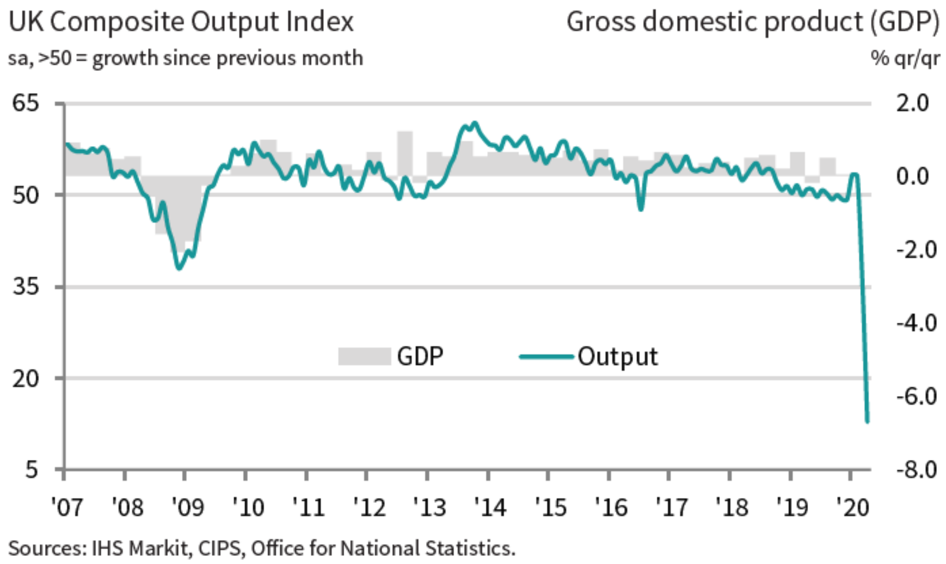
https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/march2020

Markit Prelim Services and Manufacturing PMI (Apr)

In the UK, private sector activity contracted at a new record pace in Apr – which was the first full month of the broader quarantine restrictions in the UK. The severe fall in output was recorded across both services and manufacturing in Apr.

<u>Headline Composite Output Index</u>; Apr 12.9 versus Mar 36

The majority of both service and manufacturing firms reported lower output in the month as new orders declined. About half of the firms reported lower employment – there was some note of the use of the government scheme to place workers on furlough.



<u>Services Business Activity Index;</u> Apr 12.3 versus Mar 34.5

The decline in output of the important services sector was a new series record. Most of the decline can be accounted for by broader business closures (e.g. more consumer facing businesses such as hospitality). Some respondents noted modest growth in online retail or clients related to the public sector.

> The least marked downturn was seen in financial services, though even here the scale of the decline was unprecedented, joining all major sub-sectors of services seeing record falls in business activity by wide margins.

<u>Manufacturing Output Index;</u> Apr 16.6 versus Mar 43.9

The overall decline in output across manufacturing accelerated at a much faster pace in Apr.

> Goods producers overwhelmingly linked lower output to plant shutdowns or reduced production capacity, as well as cancelled orders across manufacturing supply chains following the COVID-19 pandemic.

https://www.markiteconomics.com/Public/Home/PressRelease/0cc61064d82b43249fc9e7218dbce20b

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Australia

Weekly Payroll Jobs and Wages – 21 Apr 2020

The Australian Bureau of Statistics is now providing weekly data on jobs and wages impact due to the C-19 virus.

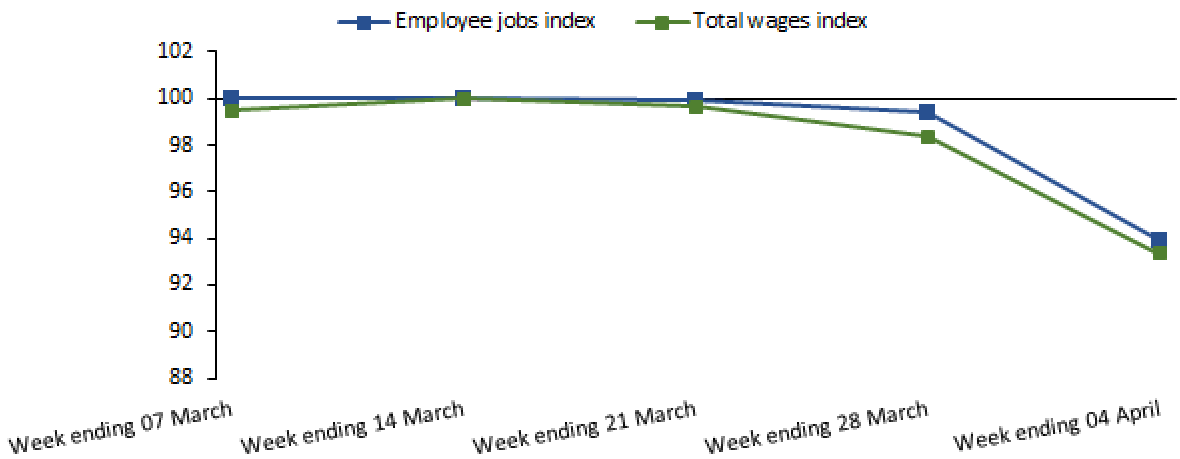
> The new Weekly Payroll Jobs and Wages in Australia estimates are derived from data reported by businesses through the Australian Taxation Office (ATO) Single Touch Payroll (STP) system, providing even more timely and frequent information.

This first round of data references the three weeks between 14 Mar and 4 Apr.

Employment/Payrolls

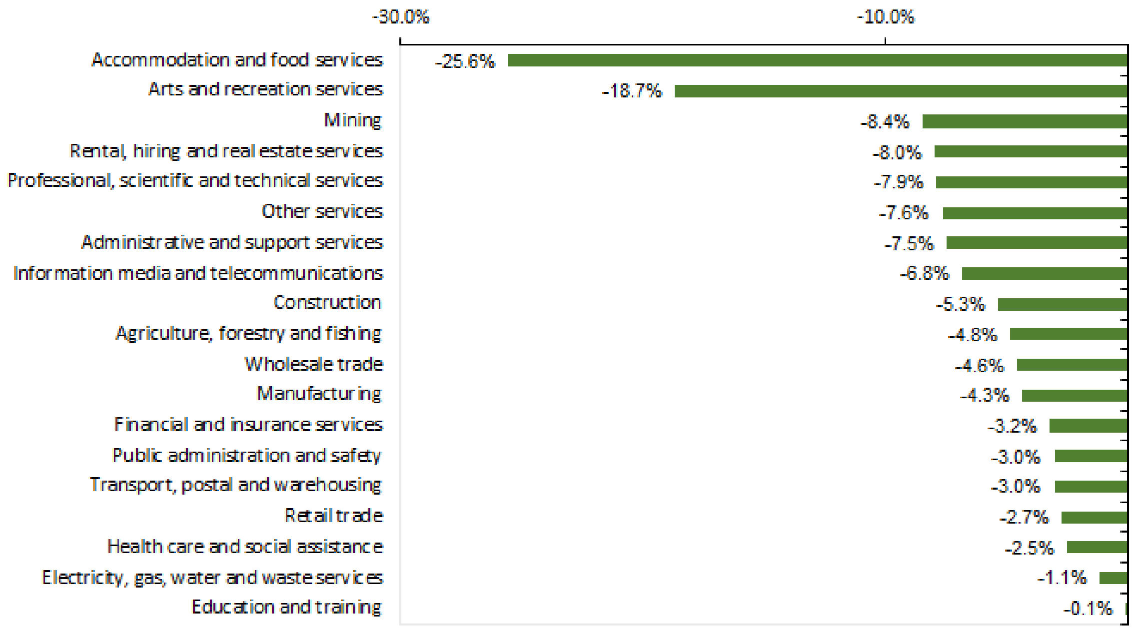
For this three-week period, employee jobs declined by 6.0% (the change between the 14 Mar and 4 Apr), with most of the fall occurring in the latter week of that period, the wk ending 4 Apr.

> "The largest impact of net job losses, in percentage terms, was for people aged under 20, for whom jobs decreased by 9.9%."



Employment by Industry

The largest % decline in employment was recorded for accommodation and food services during the 3-week period. Looking at the ranking of the top eight (8) industry sectors, the decline in services employment was generally more severe;



<u>Wages</u>

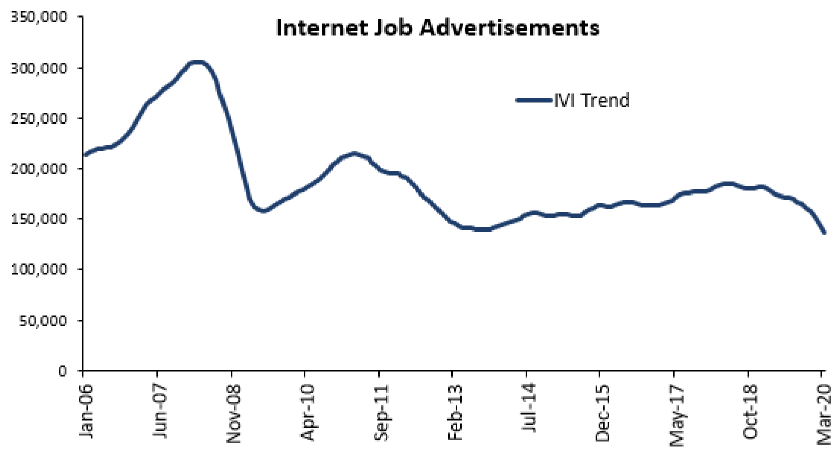
At a National level, total wages declined by -6.7% during the 3-week period.

https://www.abs.gov.au/ausstats/abs%40.nsf/mediareleasesbyCatalogue/400084FDCC1353C9CA2585500026370F?OpenDocument

Job Vacancies (Mar)

The internet vacancy index fell "significantly" in Mar.

New job ads declined by 5.3% (-7,700 ads) in Mar as the country started to implement containment policies for the C-19 virus. On an annual basis, new jobs are now down 22% - falling to a new series low;



https://lmip.gov.au/default.aspx?LMIP/VacancyReport

Prelim Retail Turnover (Mar)

Growth in retail sales was extremely strong in Mar – as households responded to the lockdowns with "unprecedented demand" for food, certain household items and home office supplies.

Prelim retail turnover – month change; Mar +8.2%

> The rises were slightly offset by strong falls in industries including cafes, restaurants and takeaway food services, and clothing, footwear and personal accessory retailing, which were impacted by new social distancing regulations introduced in March.

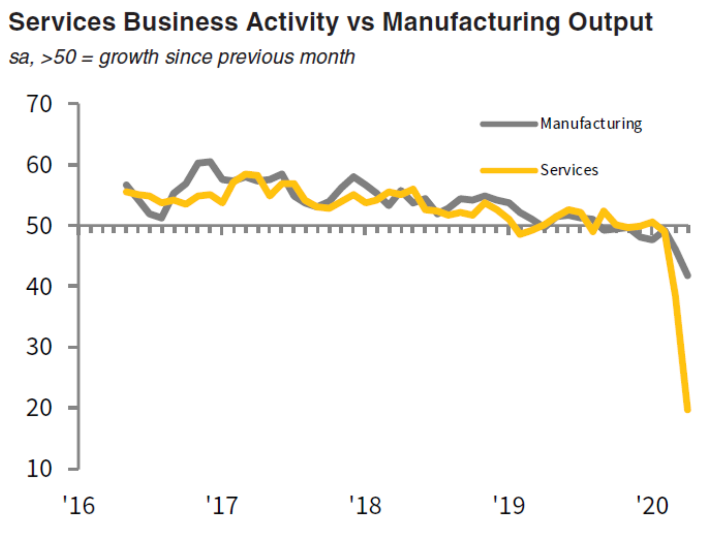
The final monthly estimate will be published 6 May.

https://www.abs.gov.au/ausstats/abs%40.nsf/mediareleasesbyCatalogue/2927B2B34EA54818CA25852E0079A627?OpenDocument

CBA Prelim Services and Manufacturing PMI (Apr)

The decline in private sector activity in Aus accelerated in Apr. The pace of decline was the fastest on record (short history though). The contraction in activity was recorded across both services and manufacturing, but the decline in services activity was relatively severe.

Prelim Composite Output Index; Apr 22.4 versus Mar 39.4



Services Activity Index; Apr 19.6 versus Mar 38.5

Services output and new work continues to be hit hard as the country remains in quarantine lockdown. Employment declined at a faster pace for the third month. Input prices also declined due to lower wages and fuel prices.

Manufacturing PMI; Apr 45.6 versus Mar 49.7

While manufacturing output declined for the eighth month in a row (already some weakness before Covid-19), the decline in Apr was the largest since the survey began in 2016. Domestic and export demand, as well as employment, also declined notably on the month prior. Delivery times continued to lengthen.

An important note is that input cost inflation reached a survey high in Apr (yes, a short survey history). Currency depreciation and supply shortages were cited by firms.

https://www.markiteconomics.com/Public/Home/PressRelease/616702f42fa34b5799519780ef2274e9

RBA Minutes – Meeting 7 Apr 2020

There was no change to policy settings at this meeting.

Settings

Overnight Cash rate; 0.25%

Aus Govt 3yr bond yield target; 0.25% (the RBA also announced that it would purchase bonds across the yield curve if required)

Term funding facility to support credit to businesses, particularly small and medium-sized businesses (collateralised funding, total $90bn – 3yrs term, 25 basis points)

Interest rate of 10 basis points on Exchange Settlement balances held by financial institutions at the Bank.

The RBA has also conducted OMO's injecting approx. $50bn in liquidity, also at longer terms than usual (from 30 days to 70 days)

Forward Guidance

Target for 3-year yields would be maintained until progress made on inflation moving sustainably into 2-3% range and reach full employment. The 3yr yield target will be removed before the overnight cash rate is increased.

Risks/Highlights

> business balance sheets in Australia were generally in a healthy state, as most companies had relatively low levels of gearing and sufficient liquid assets to weather a moderate shock to their income.

The bigger issue for Australia is the amount of outstanding household (mortgage debt). The RBA minutes continue to highlight that buffers exist in the system;

> Most households with mortgages had significant buffers of accumulated prepayments, with around half of these loans having prepayments that exceeded six months of payments; the share of mortgages that may not have a buffer of liquid assets was around 15 per cent.

The minutes note that approx. 5% of households had enquired about deferring mortgage repayments.

The minutes also note a deterioration in commercial property markets. Even before the Covid-19 quarantine, growth in property prices had outstripped growth in rents.

> Prior to the COVID-19 outbreak, parts of the retail property market were facing challenging conditions owing to weak consumer spending and heightened competition.

Commercial rents were now coming under further pressure due to the shutdown.

https://www.rba.gov.au/monetary-policy/rba-board-minutes/2020/2020-04-07.html

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Trade

US-China Trade Talks

Timing for the commencement of the second phase of the deal remains unclear amid the 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

Last week the USTR notified the US Congress that both Mexico and Canada taken the measures required to comply with new USMCA and that the agreement would enter into force on 1 Jul 2020.

A quote from the release highlights further focus on manufacturing in the US, especially in the post-pandemic world;

> “The crisis and recovery from the Covid-19 pandemic demonstrates that now, more than ever, **the United States should strive to increase manufacturing capacity and investment in North America**. The USMCA’s entry into force is a landmark achievement in that effort. Under President Trump’s leadership, USTR will continue working to ensure a smooth implementation of the USMCA so that American workers and businesses can enjoy the benefits of the new agreement,” said Ambassador Robert Lighthizer. https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/april/usmca-enter-force-july-1-after-united-states-takes-final-procedural-steps-implementation

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

BREXIT

The restart of talks last week has not been positive so far. The next round of official talks via videoconference is scheduled for 11 May. https://www.consilium.europa.eu/en/policies/eu-uk-negotiations-on-the-future-relationship/

> After five days of videoconference talks, involving a total of 100 officials, the prospects of an agreement by the end of the year seemed remote as the two sides emerged from the negotiations to attack each other.
>
> Barnier appeared exasperated by the British team, led by David Frost, who has said the UK will leave the single market and customs union with or without a deal by the end of the year. https://www.theguardian.com/politics/2020/apr/24/britain-running-down-the-clock-in-brexit-talks-says-michel-barnier-eu

The deadline for extending the negotiations is approaching fast – end of June 2020;

> Asked whether the EU could request an extension if the British did not, Barnier said it was not up to one side to be the "demandeur" (seeker), but it had to be a common decision for both parties before 30 June, as stated in the withdrawal agreement.

Talks have failed to bridge the divide on trade between both parties;

> "We regret that the detail of the EU's offer on goods trade falls well short of recent precedent in free trade agreements it has agreed with other sovereign countries," the spokesman said. "This considerably reduces the practical value of the zero-tariff, zero-quota aspiration we both share."https://www.theguardian.com/politics/2020/apr/24/britain-running-down-the-clock-in-brexit-talks-says-michel-barnier-eu

The UK has continued to reject suggestions to extend the final Brexit date of 31 Dec 2020.

> "Transition ends on 31 December this year," Frost said on Twitter last week. "We will not ask to extend it. If the EU asks, we will say no."
>
> If the two sides can't reach a deal, the UK would default to trading on terms set by the World Trade Organisation, meaning the return of tariffs and quotas where there are none today. https://www.straitstimes.com/world/europe/brexit-talks-resume-with-time-for-a-deal-running-out

At this stage, both sides have shared draft legal agreements;

Link to the EU draft is embedded in the release; https://ec.europa.eu/commission/presscorner/detail/en/IP_20_447

The UK negotiating objectives; https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/868874/The_Future_Relationship_with_the_EU.pdf

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