MARS CAPITAL PARTNERS

Weekly Macro Review

w/c 30 March 2020

Key Themes

Data this week showed that services, especially consumer facing service industries, have so far been most heavily impacted by quarantine policies to deal with the pandemic. That said, across the US, Asia and Europe private sector activity across both services and manufacturing sectors contracted in Mar.

US data across PMI's and employment highlighted severe falls in services employment, output and new work in Mar. It was an even more shocking reading for initial jobless claims in the latest week with 6.6m new claims recorded. The majority of the -700k decline in Mar non-farm payrolls were recorded for leisure and hospitality workers – even worse, is that the reference week for Mar non-farm payrolls was prior to the severe deterioration in initial claims over the last two weeks. The ISM non-manufacturing PMI indicted that growth in activity had only slowed overall – but this headline result was buoyed by a lengthening in supplier delivery lead-times. The changes in output indicate that contraction was underway.

US manufacturing activity has also been impacted further. The manufacturing PMI's and regional surveys indicate quite acute falls in output and especially new work. But some differences by industry were noted. Manufacturing conditions were generally better across healthcare and food & beverage sectors – although there were disruptions to these supply chains impacting output. Petroleum and more capital-based manufacturing were generally weaker (transport, machinery etc). In some cases, backlogs of work were helping to maintain workforces. **The pace of growth in new work will be crucial going forward, especially for manufacturing employment**. The ISM manufacturing report highlighted that most firms, 70%, reported unchanged manufacturing employment – up slightly from the month prior. This was similar to the Dallas Fed manufacturing survey in Mar. There is an obvious freeze on manufacturing employment though, and other reports highlighted that hours worked and overtime hours had both declined.

Input price falls were recorded in the ISM/Markit surveys. The degree to which this is led by a fall in oil prices is unclear. Elsewhere, the lengthening of supplier lead times suggests some 'scarcity' of other inputs. Over time, this could impact input and/or consumer prices.

The overall contraction in Eurozone services activity was severe in Mar, with the pace of decline in services business activity the worst on record. Manufacturing activity also contracted further.

In Japan, both manufacturing and, especially services, activity declined sharply in Mar. Aggregate demand had already contracted notably in Q4 2019, so this is a further blow for the Japanese economy. More consistent services growth had previously helped to offset some the persistent weaker growth seen in manufacturing over the last year.

Many noted the expansion in the official Chinese manufacturing and non-manufacturing PMI's for Mar. The sharp increase from a record low reading indicates that there was at least some growth in Mar versus Feb. Even the Chinese National Bureau of Statistics highlights that the result “**did not mean that China's economic operation had returned to normal”**. Growth in demand and output was mostly led by the domestic market. New export orders (both manufacturing and non-manufacturing industries) continued to decline in Mar after larger declines in Feb. Most external trade partners began to implement strict quarantine policies in Mar, impacting demand. Manufacturing employment growth was unchanged in Mar after a much larger decline in Feb. Chinese non-manufacturing employment continued to decline.

Contents

US Data

Initial Jobless Claims wk ending 27 Mar

This was another shocking and brutal week for initial jobless claims.

Advance claims Wk ending 28 Mar (SA); 6,648,000

The NSA breakdown by state indicates significant increases across most states. Notable increases for California, Florida, Michigan, New Jersey, New York, Ohio, Pennsylvania and Texas.

Nevada, New Hampshire, Minnesota and Rhode Island were the only states to record lower initial claims this week than versus the week prior.

Initial Claims for the Week Prior – 21 Mar 2020

The week prior was revised slightly higher; wk ending 21 Mar 3,307,000 (revised higher by +24,000)

There were some very concerning shifts in initial claims for the wk ending 21 Mar.

> All states reported increases in initial claims for the week ending March 21. The largest increases were in Pennsylvania (+362,012), Ohio (+189,263), Massachusetts (+141,003), Texas (+139,250), and California (+128,727), while the smallest increases were in the Virgin Islands (+79), South Dakota (+1,571), West Virginia (+2,671), Vermont (+3,125), and Wyoming (+3,136).

https://oui.doleta.gov/unemploy/claims_arch.asp

Non-Farm Payrolls and Labour Market Report (Mar)

According to the BLS, this Mar report captures the early response to the coronavirus pandemic. The reference week was 8-14 Mar.

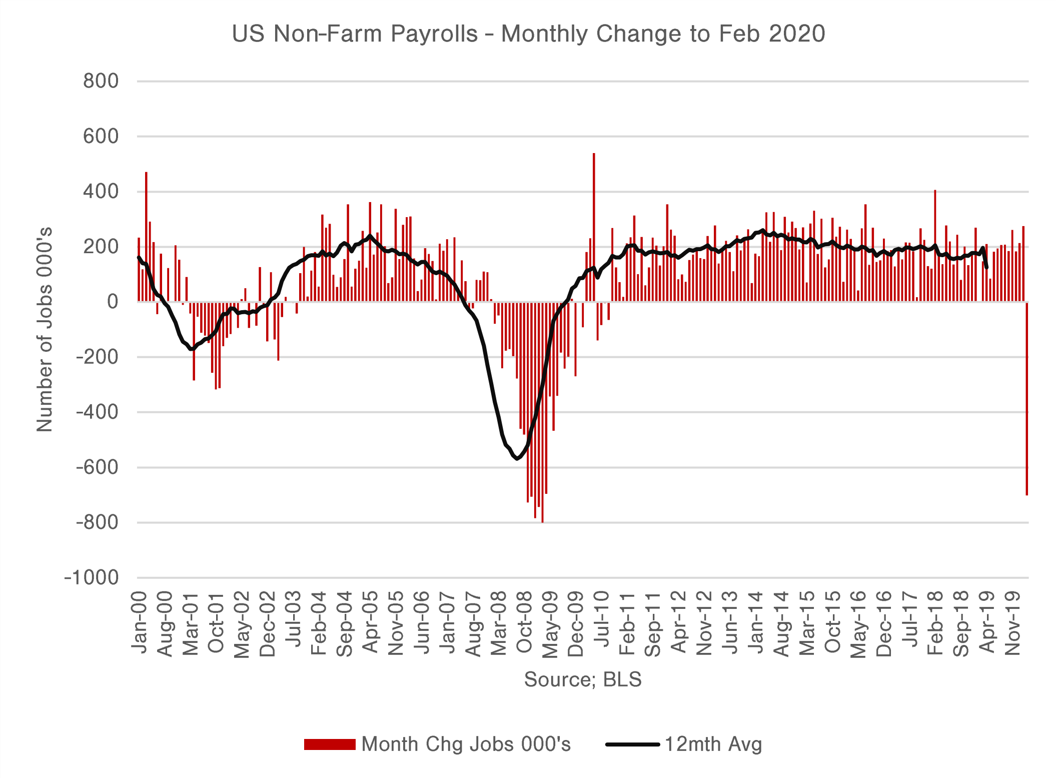
> Note that the March survey reference periods for both surveys (establishment and household) predated many coronavirus-related business and school closures that occurred in the second half of the month.

ESTABLISHMENT SURVEY; NON-FARM PAYROLLS (MAR)

From above, we know that the initial claims spike occurred from the following week commencing 16 Mar, which only makes this non-farm payrolls report even more shocking given the scale of the decline already underway in this Mar report.

Non-Farm Payrolls (SA); Mar -701k persons versus Feb +275k persons

> Employment in leisure and hospitality fell by 459,000, mainly in food services and drinking places. Notable declines also occurred in health care and social assistance, professional and business services, retail trade, and construction.



<u>HOUSEHOLD SURVEY; LABOUR FORCE REPORT (MAR)</u>

The household survey reflects the early impact of the pandemic response on employment levels. Employment declined, and there was a corresponding increase in total unemployed persons. There was a large decline in participation which only partly offset the decline in total unemployment figures.

There were some classification nuances given the circumstances of 'temporary shutdowns';

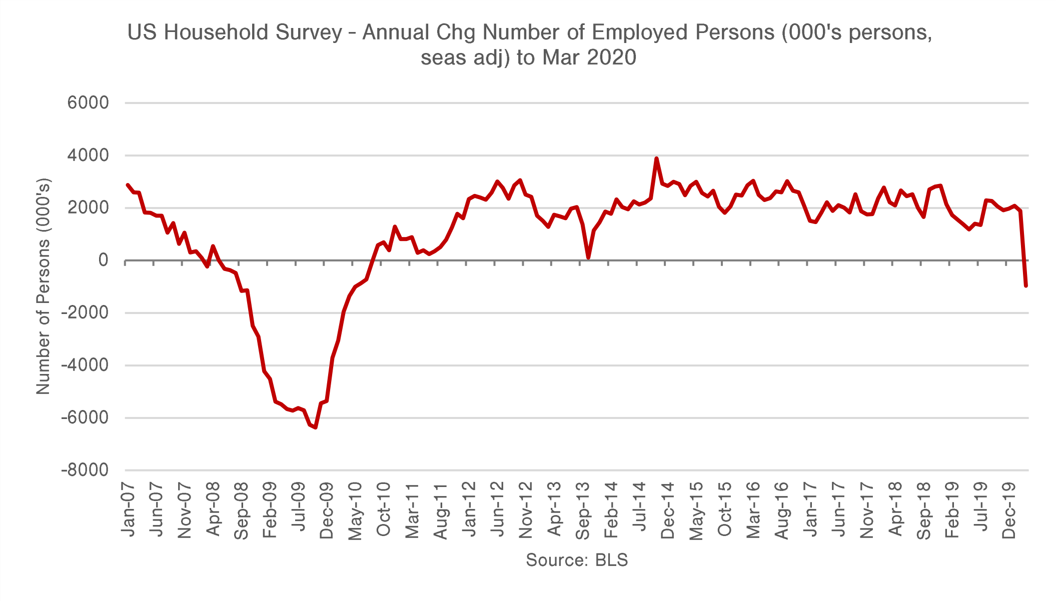
> Workers who indicate they were not working during the entire survey reference week and expect to be recalled to their jobs should be classified as unemployed on temporary layoff. In March 2020, there was an extremely large increase in the number of persons classified as unemployed on temporary layoff.

<u>Employment</u>

In the month, total employed persons declined substantially;

<u>Employed persons – month change</u>; Mar -3m persons versus Feb +45k persons

Given the large monthly fall, the annual change in Mar reflected that total employment levels had fallen below a year ago; Mar -946k versus Feb +1.9m

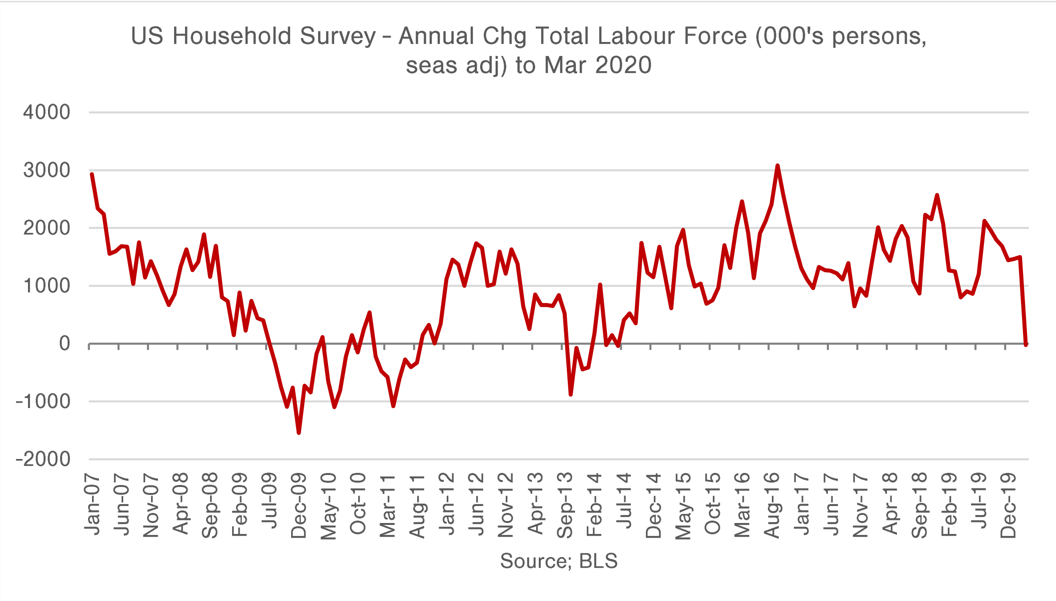


<u>Labour Force</u>

The total size of the labour force declined in the month – this was led by a relatively large fall in participation.

<u>Labour Force – month change</u>; Mar -1.6m persons versus Feb -60k persons

On an annual basis, the size of the total labour force was slightly lower than a year ago; Mar -22k versus +1.5m in Feb



The main driver behind the decline in size of the labour force was the decrease in participation in Mar. The labour force participation rate fell to 62.7 in Mar from 63.4 in Feb, which approx. equates to 1.8m persons leaving the labour force.

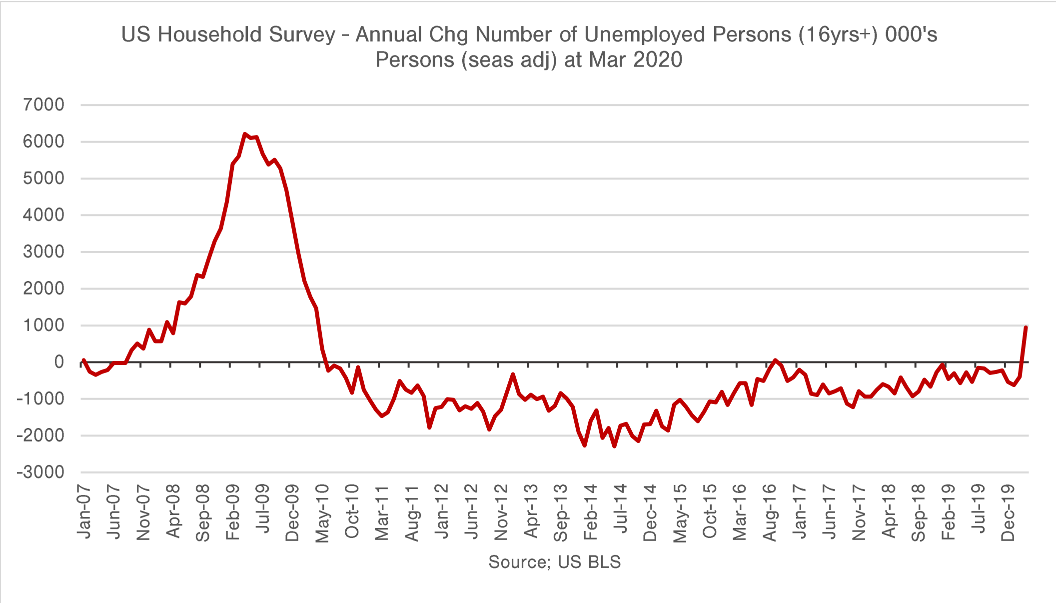
Total Unemployed Persons

The increase in total unemployed persons was equally severe. There is some caution by the BLS regarding classification errors;

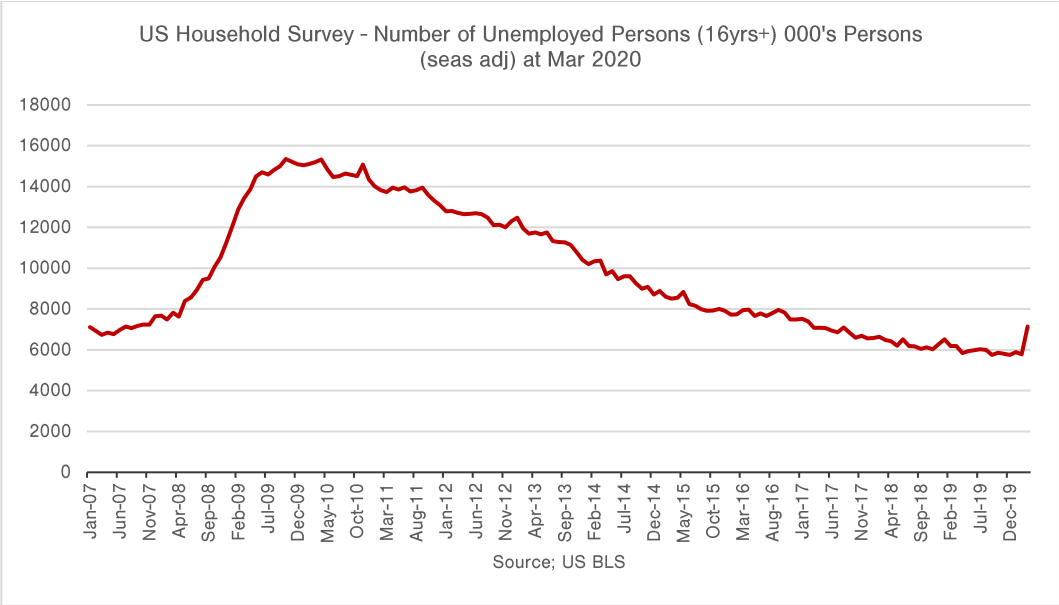
> However, there was also a large increase in the number of workers who were classified as employed but absent from work. Special instructions sent to household survey interviewers just before data collection started for March called for all employed persons absent from work due to coronavirus-related business closures to be classified as unemployed on temporary layoff. **However, it is apparent that not all such workers were so classified**.

Total unemployed persons – month change; Mar +1.4m versus Feb -105k persons

The annual change in total unemployed workers jumped notably; Mar +946k persons versus Feb annual change of a decline in total unemployed persons by -394k.



The levels of total unemployment will also be important to monitor. In Mar, the number of unemployed persons increased to 7.1m (the +1.4m increase) from the month prior.



The unemployment rate increased from 3.5% in Feb to 4.4% in Mar.

Summary;

In the month of Mar, employment declined sharply. This resulted in an equally severe increase in total unemployed persons, even despite the decline in participation/people leaving the labour force.

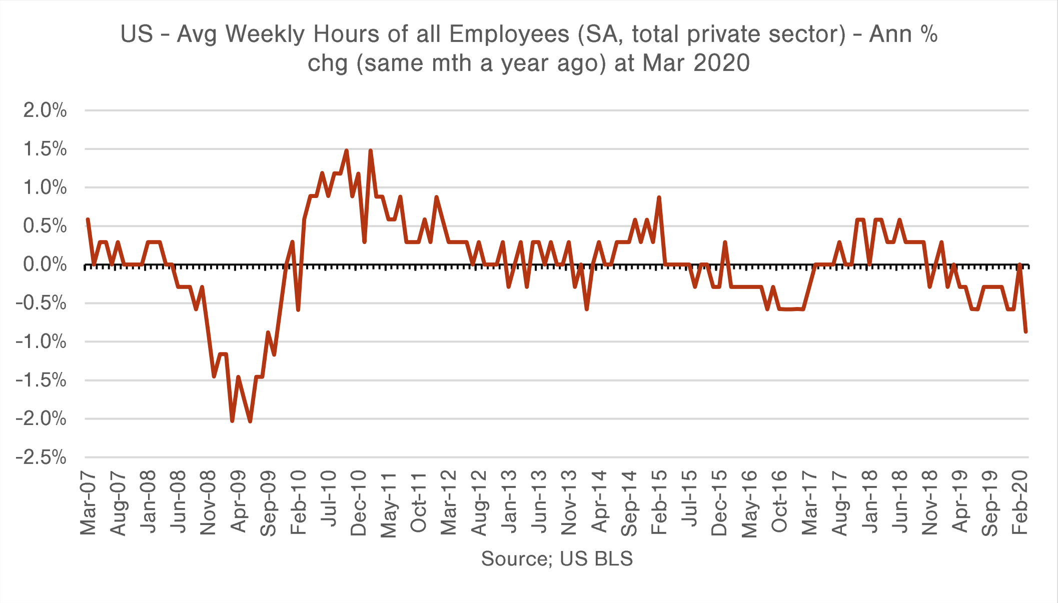
Given the sharp declines in the month, the measures of employment, unemployment and labour force size all fell below the levels from a year ago.

000's people (16yrs+)	Annual chg - MAR 2020	Monthly Chg - MAR
The estimated change in the Labour Force due to pop growth (1)	757	184
How many jobs available for them? (employment growth) (2)	- 969	-2987
Difference (if negative, then employment growing faster than what pop adds to the labour force) (3)	1,726	3171
Change labour force participation - (if positive, people entering/returning to the labour force) (4)	- 779	-1819
The remainder is the chg in total unemployed persons (declining if negative) (4) plus (3)	947	1352
Two views of annual growth in the labour force;		
Total employed persons plus total unemployed persons	- 22	-1635
Est of what population adds to the labor force plus change in participation	- 22	-1635
BLS reported change in the size of the labour force	- 22	-1633

Average Weekly Hours Worked - All employees (private sector)

Month change; Mar -0.6% versus Feb +0.3%

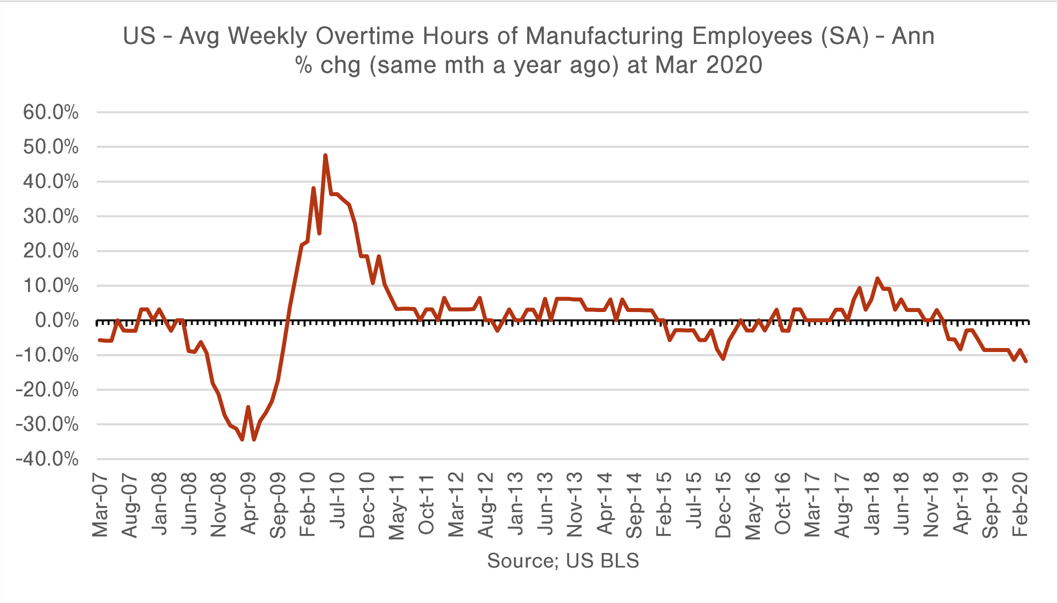
On an annual basis, there had already been a trend towards slowing growth, and now outright declines, in average hours worked since early 2019. In Mar, average weekly hours worked declined at a slightly accelerated pace of -0.9% versus a year ago;



Average Weekly Over-time Hours – All employees (private sector)

Month change; Mar -6% versus Feb +3%

Similarly, there had already been a trend in place of declines in average weekly over-time hours since the start of 2019. That annual decline accelerated slightly to -12% in Mar;



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

Mortgage Applications wk ending 27 Mar

A fall in mortgage rates helped to lift application volumes, but the decline in purchase volumes continued for the second week. The proportion of refi activity continued to increase.

Market Composite Index (mortgage loan application volume); +15.3% (SA) versus a week ago

Refi's Index; +26% versus a week ago and +168% versus a year ago.

> The refinance share of mortgage activity increased to 75.9 percent of total applications from 69.3 percent the previous week.

Purchase Index; -11% versus a week ago (SA) and -24% versus same week a year ago (NSA)

Commentary (emphasis added);

> "Mortgage rates and applications continue to experience significant volatility from the economic and financial market uncertainty caused by the coronavirus crisis. After two weeks of sizeable increases, **mortgage rates dropped back to the lowest level in MBA's survey**, which in turn led to a 25 percent jump in refinance applications," said Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting. "The b**leaker economic outlook, along with the first wave of realized job losses** reported in last week's unemployment claims numbers, likely caused potential homebuyers to pull back. **Purchase applications were down over 10 percent, and after double-digit annual growth to start 2020, activity has fallen off last year's pace for two straight weeks**."

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

ISM Manufacturing PMI (Mar)

The headline PMI (the actual index number) indicated that manufacturing activity contracted a marginal pace in Mar.

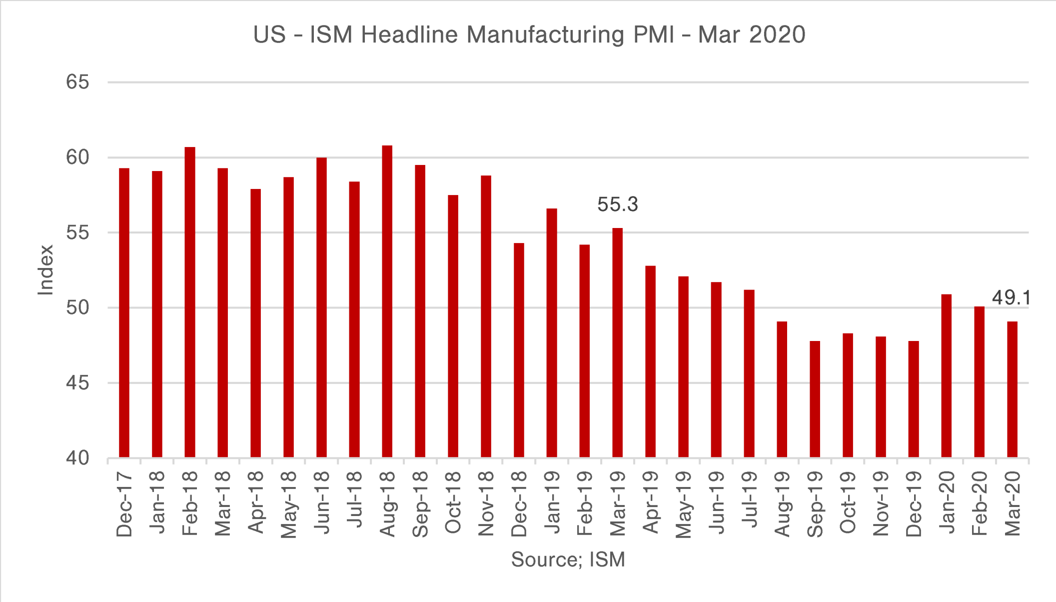
There was a more significant lift in supplier delivery lead times, which to some extent offset deterioration in demand (as reflected in a single index number). But even though new orders declined at a faster pace (and it was similar to the contraction in 09), only 50% of industries reported declines in new orders. Employment was the most interesting indicator – while employment growth continued to contract overall, the majority of firms in the survey (70%) reported no change to employment – this was unchanged from Feb. The view of changes to hours is not visible in this report.

Still, ten of the eighteen industries covered in this report recorded growth in Mar. This was mostly led by more essential goods and healthcare. Industries that reported declines were petroleum and more capital-intensive industries. Overall weaker demand is driven so far by; Petroleum & Coal Products; Textile Mills; Transportation Equipment; Furniture & Related Products; Fabricated Metal Products; and Machinery.

Industries reporting growth; Printing & Related Support Activities; Food, Beverage & Tobacco Products; Apparel, Leather & Allied Products; Wood Products; Paper Products; Chemical

Products; Computer & Electronic Products; Primary Metals; Miscellaneous Manufacturing; and Plastics & Rubber Products.

<u>Headline ISM Manufacturing PMI</u>; Mar 49.1 versus Feb 50.1



New orders declined at an accelerated pace. The new orders index fell from 49.8 in Feb to 42.2 in Mar. Less firms reported higher new orders (23.5% of firms, down from 28.8%), while 44% of firms reported the same new orders (which was down from 49.1% in Feb). There was a larger increase in the number of firms reporting lower new orders from 22% of firms in Feb to 32% of firms in Mar.

> Of the 18 manufacturing industries, nine reported growth in new orders in March, in the following order: Wood Products; Printing & Related Support Activities; Apparel, Leather & Allied Products; Food, Beverage & Tobacco Products; Electrical Equipment, Appliances & Components; Plastics & Rubber Products; Paper Products; Chemical Products; and Computer & Electronic Products.

New export orders shifted into contraction, with the index falling from 51.2 in Feb to 46.6 in Mar.

Production shifted into contraction; from 50.3 in Feb to 47.7 in Mar. Interestingly, the proportion of firms reporting 'the same' levels of production was slightly higher at 53.7% of firms (last month it was 53.5%). There was a lower proportion of firms that reported higher production and a higher number of firms that reported lower production. Seven out of eighteen industries reported growth in production, five recorded declines and six recorded no change.

A reduction in order backlogs likely helped production in the absence of new order growth. Although increases in backlogs across some industries is likely attributed to longer supplier lead-times and disruptions to the supply chain.

Employment growth shifted further into contraction. The index fell from 46.9 in Feb to 43.8 in Mar. There was a further decline in the number of firms reporting higher employment (8.6% of firms reporting). **But there was a slight increase in the number of firms reporting the same levels of employment – approx. 70.1%.** This suggests that so far in Mar, most manufacturing firms have mostly held onto staff. There was only a small increase in the proportion of firms reporting lower levels of employment (from 19.2% in Feb to 21.3% in Mar).

Supplier deliveries increased substantially from an index of 57.3 in Feb to 65 in Mar. Back in Dec, that index reading was just above neutral at 52.2.

Inventories declined at a similar pace; Mar 46.9 versus Feb 46.5.

Raw materials prices declined at a faster pace with the prices index falling from 45.9 in Feb to 37.4 in Mar. While oil prices suffered a significant shock in Mar, most industries (fifteen) recorded declines in input prices (extent to which oil is input for most industries?). Input price declines seem consistent with capital intensive industries that contracted in Mar. Emphasis added;

> "Prices contracted in March, driven primarily by scrap steel, aluminum, corrugate, copper, **heating oil and other energy sources**. Prices contracted to their lowest level since January 2016, when the index registered 33.9 percent," says Fiore.

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

Markit Manufacturing PMI (Mar)

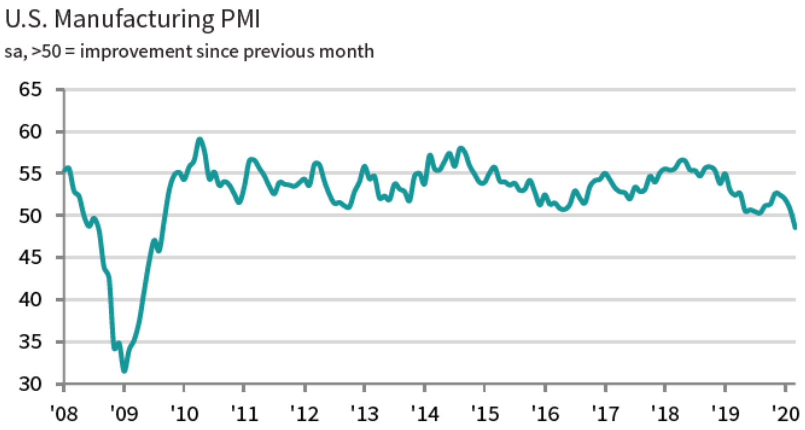
The headline Markit manufacturing PMI was revised lower from the flash reading and indicated a "moderate" contraction in manufacturing activity. The changes in activity reported here appear broadly consistent with the ISM manufacturing PMI results.

Across both ISM and Markit reports, the decline/contraction is being led by more capital-intensive industries (including machinery, transport, and likely petroleum as well, but not mentioned here). Higher demand for essential goods, such as food, beverages and medical equipment is likely helping to offset the deterioration in other industries.

There was a similar reporting peculiarity regarding an increase in supplier delivery times on the headline PMI;

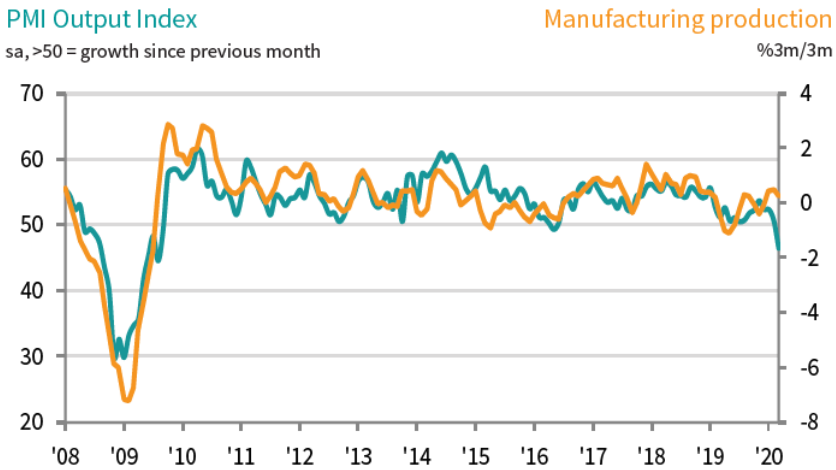
> The overall deterioration in the health of the manufacturing sector was the fastest since August 2009, but was buoyed by a marked decline in vendor performance (usually a sign of strengthening demand conditions but currently reflecting widespread supply shortages linked to the COVID-19 pandemic).

Headline Manufacturing PMI; Mar 48.5 (revised slightly lower from 49.2 prelim result) versus Feb 50.7



Source: IHS Markit.

Output declined at the fastest pace since Jun 09. This was the result of a further falls in both domestic and new export orders. Order backlogs decreased further.

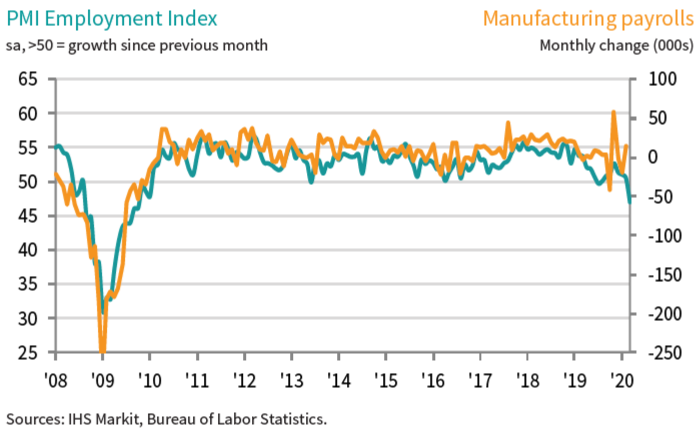


Sources: IHS Markit, U.S. Federal Reserve.

"Growing numbers of company closures and lockdowns as the nation fights the COVID-19 outbreak mean business levels have collapsed. While **some producers reported being busier as a result of stockpiling and anti-virus activities, notably in the food and healthcare sectors, these are very much the minority,** and most sectors reported a rapid deterioration in demand and production."

"Orders for capital equipment have deteriorated at a rate not seen since data were first available in 2009 as firms stopped investing in machinery. Companies have meanwhile reined-in spending on inputs and households have pulled back sharply on many forms of spending, especially for non-essential and big ticket items."

Employment also declined on the back of lower output and declining new orders.



Prices will be important going forward. In Mar, input prices increased at the slowest pace since 2017, led by lower demand. But at the same time, some shortages of inputs drove the increase in prices. Again, the impact of oil price changes is not mentioned here.

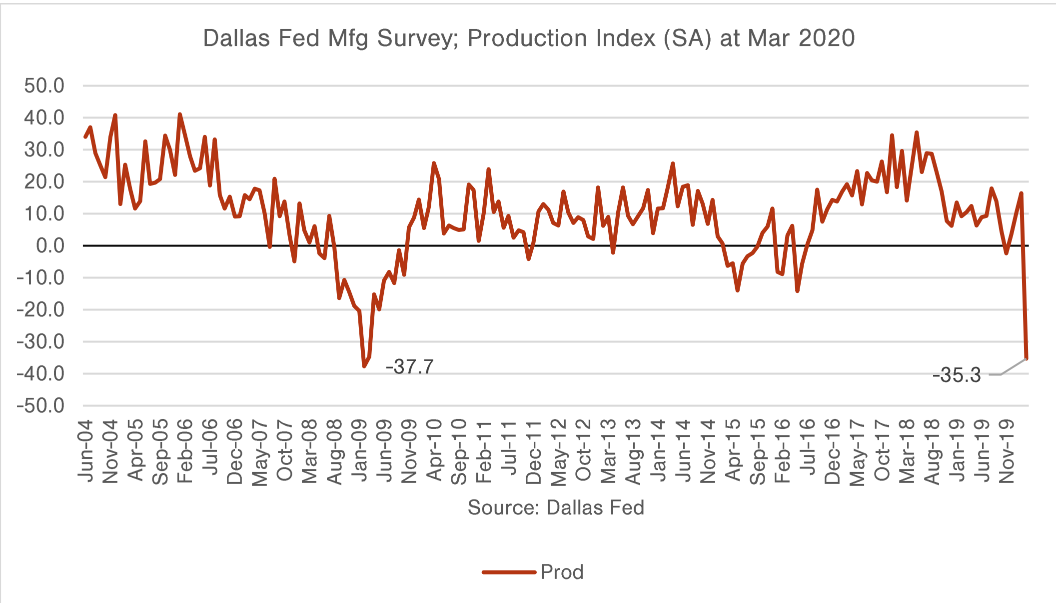
https://www.markiteconomics.com/Public/Home/PressRelease/a6d2c2c9e0c34576a3e0334997f25555

Dallas Fed Manufacturing Business Index (Mar)

There was a more severe contraction in business manufacturing activity in Texas in Mar. The pace of contraction in Mar across production and new orders was only just above the peak pace of decline recorded in early 2009. The pace of decline in the general business activity index was the largest going back to the start of 2004. Employment is yet to contract at the same pace (although is still declining at a notable pace), but firms have all but stopped increasing workforces and hours worked have declined as a result.

Data was collected 17-25 Mar.

Headline Production Index: Mar -35.3 versus Feb 16.4

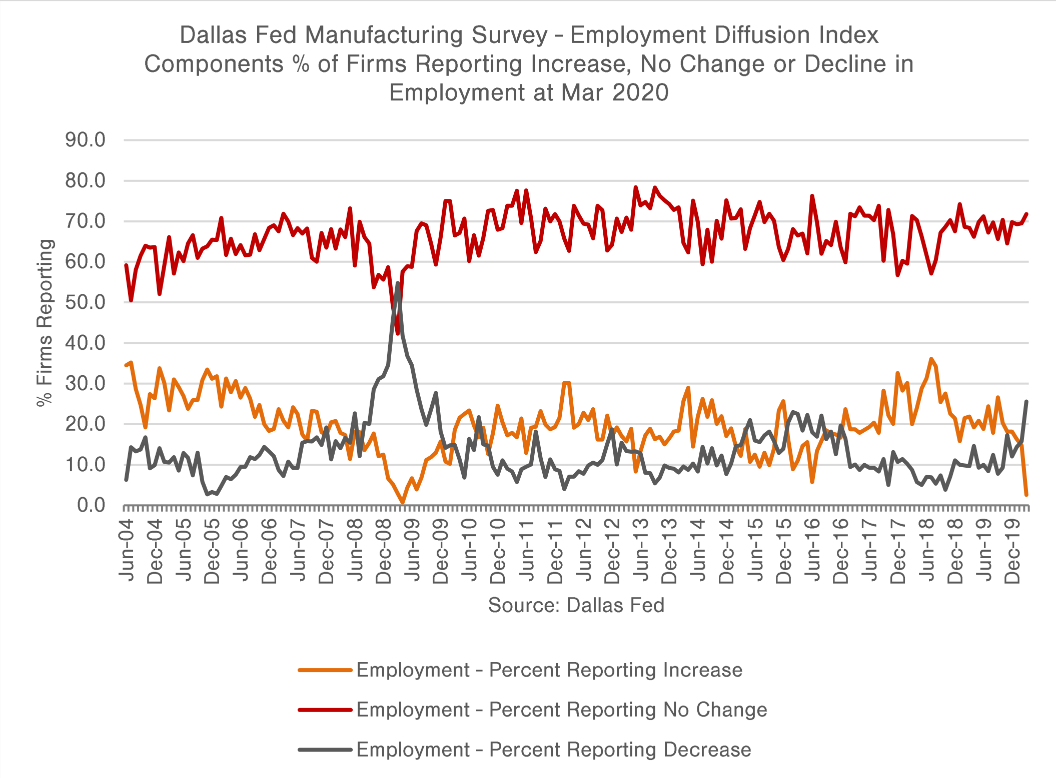


This was the smallest proportion of firms reporting an increase in production (only 8.7%) in the series history. The proportion of firms reporting a decline in production more than doubled versus the month prior – from 20% of firms to 44% of firms. The peak in 09 was 49% of firms reporting a decline in production. The pace of decline in production is at least as bad as 09 – but note that LEVELS of production will be different to 09.

The proportion of firms expecting future production declines increased notably from 10% of firms in Feb to 46% of firms in Mar – an all time high.

New orders have similarly contracted with the index falling from 8.4 in Feb to -41.3 in Mar. This is only marginally above the fastest pace of decline recorded in the depths of the GFC – which was -43 in Mar 09. Unfilled orders and shipments also contracted severely, but not to the same extent as orders and production.

The employment index contracted further, falling from a slight contraction in Feb -0.9 to -23 in Mar. The underlying data suggests that falls in employment are **so far**, less severe than historical peaks. But the steps to lower employment are in place – the first being to stop increasing the workforce. There was a large decline in the proportion of firms reporting higher employment from 14.8% in Feb to 2.6% of firms in Mar – the all-time low is 0.7% of firms (back at the start of '09);

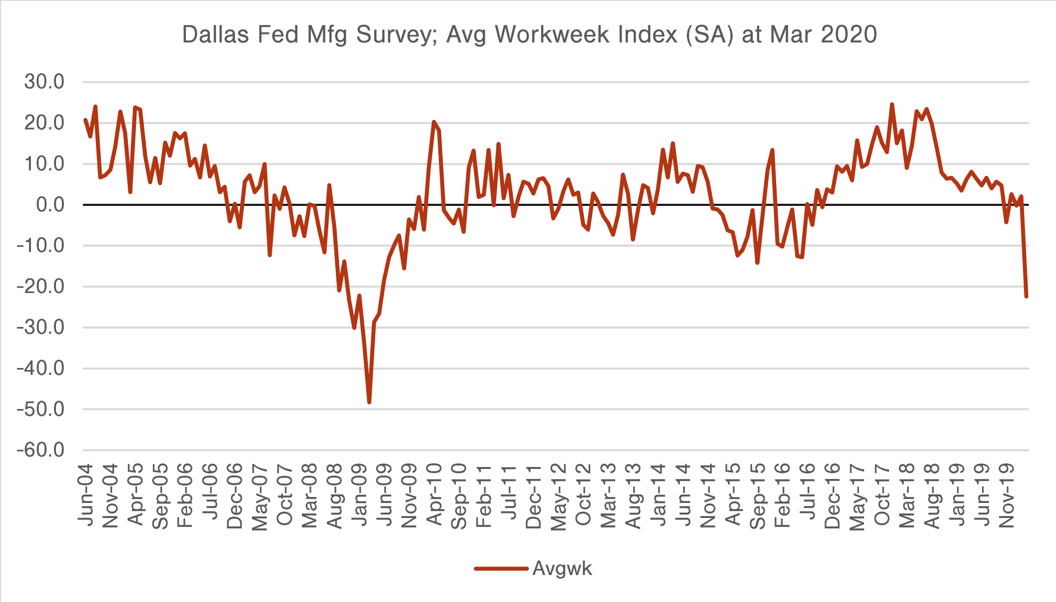


The slightly better news is that so far, approx. 72% of firms reported no change to employment levels (up from 69% in Feb). At the peak of the GFC, this had fallen to 42% of firms – and that period of time is a clear outlier in the data.

The proportion of firms reporting lower employment increased from 16% in Feb to 25% in Mar. The peak in the number of firms reporting lower employment was back in Mar 09 when 54% of firms reported lower levels of employment.

The continued absence of new orders for many manufacturers will be the key determinant for employment levels. The exception appears to be food manufacturing, with comments indicating an increase in activity with some supply chain disruption.

Hours worked also contracted in Mar. The pace of decline in the average workweek accelerated from +2.1 in Feb to -22 in Mar. This is still well below the pace of decline recorded in the GFC;

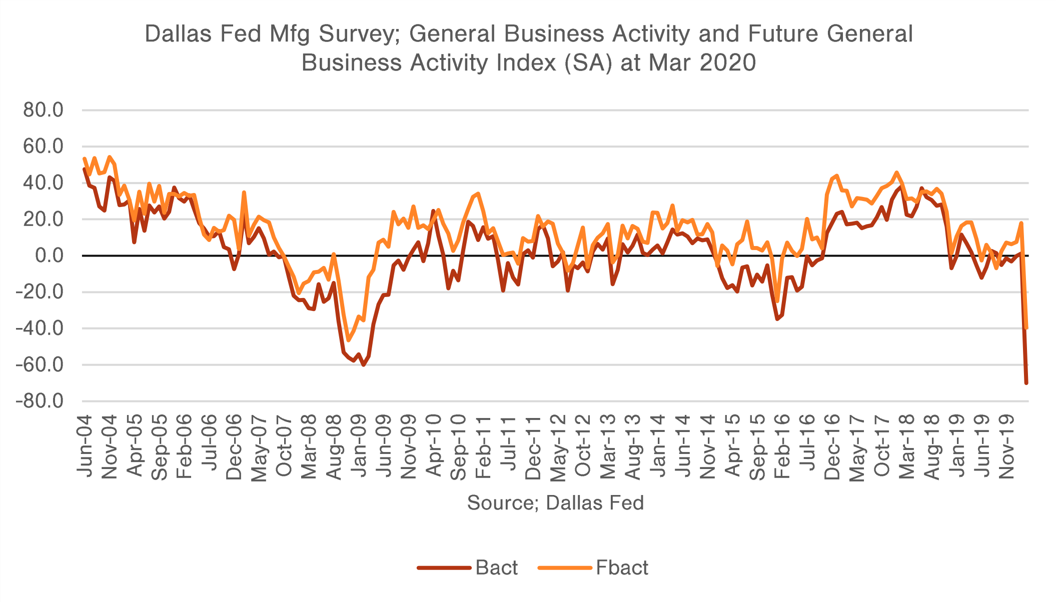


The work week data indicates that although most firms (72%) kept workforces unchanged, the proportion of firms that kept hours unchanged fell from 62% in Feb to 56% in Mar. Less firms increased hours and more firms reduced hours. None of these measures are even close to historic levels at this stage.

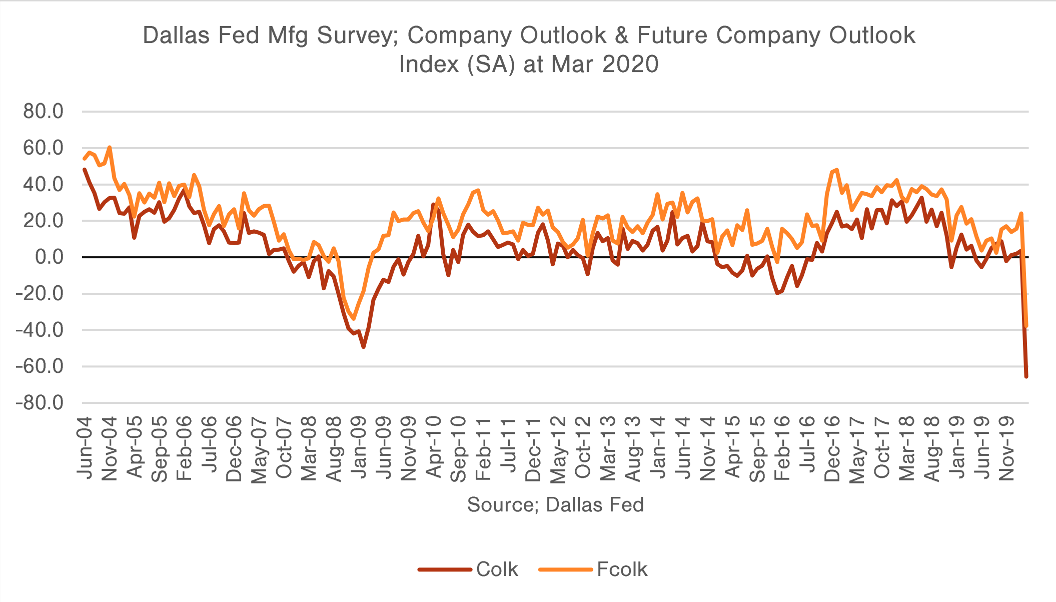
Both prices paid for raw materials and prices received for finished goods declined in Mar.

Of the key differences in this report is that supplier delivery times were little changed.

The general business conditions index and future business conditions index declined at the fastest pace in the series history;



Similarly, the company outlook and future company outlook both deteriorated;



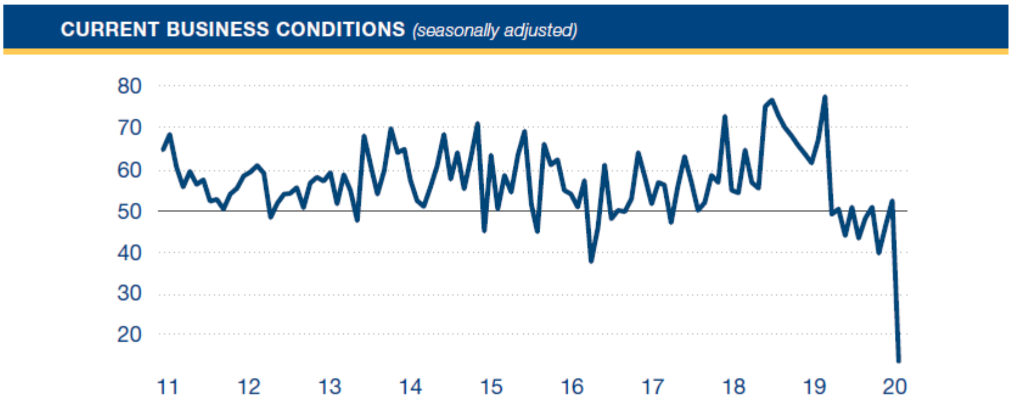
https://www.dallasfed.org/research/surveys/tmos/2020/2003.aspx

NY Business Conditions (Mar)

The index of current conditions in NY fell to a series low in Mar.

Current Conditions; Mar 12.9 versus Feb 51.9

Conditions a year ago were 66.9



The six-month outlook also deteriorated, falling from 53.8 to 37.9.

The employment index fell further into contraction in Mar (the latest advance initial jobless claims shows a much larger surge in initial claims in the last week of Mar).

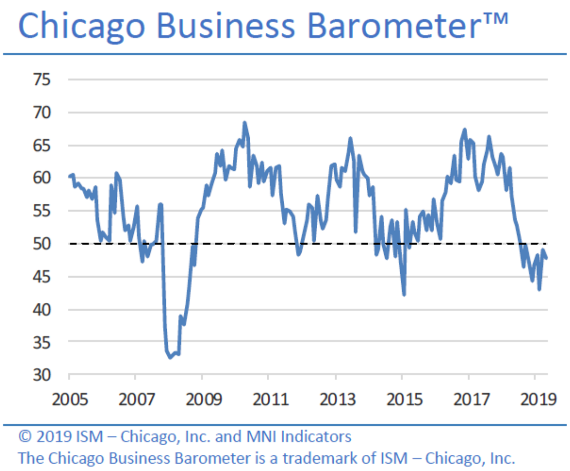
Prices paid index shows little change (index of 50) in the price level paid for goods and services. Revenues on the other hand contracted sharply – the index fell from 58.3 in Feb to 28.6 in Mar.

http://www.ismny.com/wp-content/uploads/2020/04/2020_ISM-NewYork_March-ROB_v01.pdf

Chicago PMI (Mar)

The headline PMI for the Chicago area continued to contract slightly for the ninth month in a row. Production and new orders declined sharply, while supplier deliveries increased due to delivery delays and supply chain disruptions.

Headline Chicago PMI; Mar 47.8 versus Feb 48.9



Production shifted back into contraction. New orders also contracted. Some firms reported increases in orders due to client stockpiling. Order backlogs increased in the month, but remain at their lowest level on a quarterly basis since Q3 2009.

There was a small gain in employment after a much larger decline in Feb.

Prices increased at a faster pace, “rising by 7.2%”.

https://s3.amazonaws.com/images.chaptermanager.com/chapters/b742ccc3-ff70-8eca-4cf5-ab93a6c8ab97/files/mni-chicago-press-release-2020-03.pdf

Factory Orders (Feb)

The increase in new orders (durable goods) for the month was led by one category of Boats and Ships (within transportation equipment). So even in Feb there was some evidence of weakening new orders across other industries. Shipments were weaker on the back of the lower value of petroleum shipments. But increases in durable goods shipments in transport equipment partly helped to offset that decline.

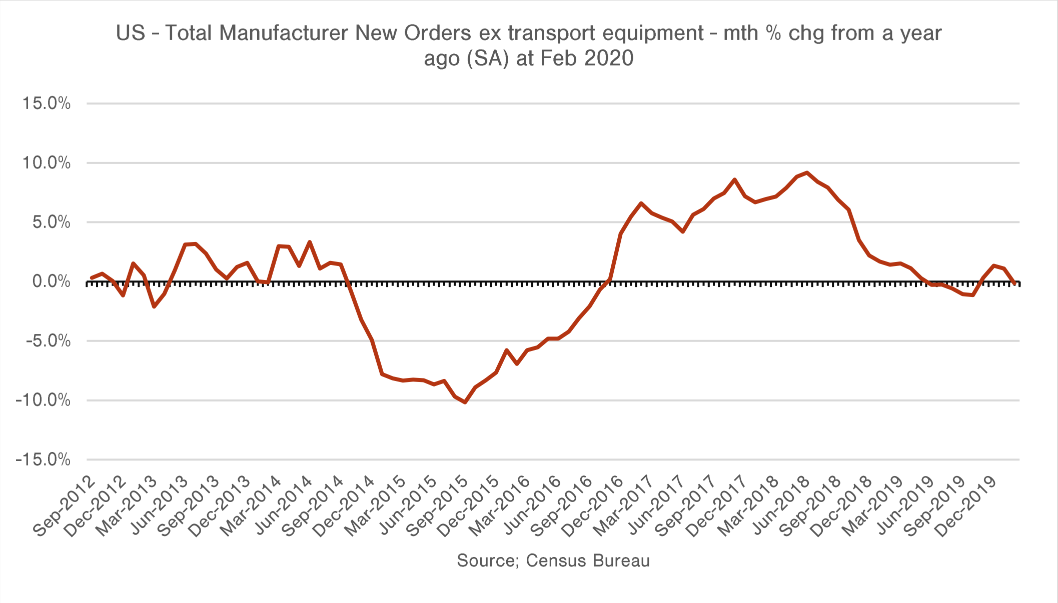
New Orders

The headline decline in new orders was the result of non-durable goods. The non-durable goods shipment data is the same as the new orders data, so instead we’ll focus on durable goods as an indicator of orders.

New Orders – Durable Goods – month change; Feb +1.2% (+$2.95bn) versus Jan +0.1%

The vast majority of the increase in orders for the month was driven by Ships and Boats (+$2.8bn in orders in Feb). Orders for electrical equipment also increased by +$0.2bn in Feb. The other major industries recorded declines in orders for Feb.

The value of new orders versus a year ago, both including and excluding transport is virtually flat to a year ago.



Shipments

Shipments in Feb declined further, but at a slower pace than in Jan;

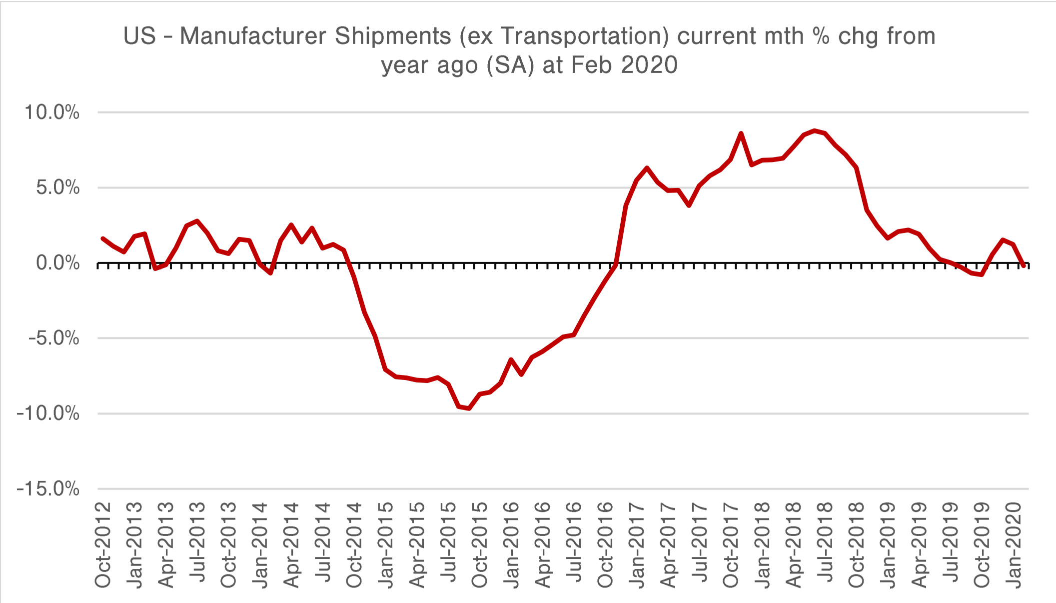
Shipments – month change; Feb -0.2% (-$0.8bn) versus Jan -0.6%

The decline in the month was the result of a larger decline in non-durable goods shipments (-$3bn) which was only partly offset by an increase in durable goods shipments (+$2.2bn).

The decline in non-durable goods was led mostly by the value of petroleum shipments. There were also notable declines in shipments of beverage and tobacco products, chemicals and plastics/rubber products.

The increase in durable goods shipments was led mostly by non-defense aircraft and parts as well as autos and light trucks.

Shipments excluding transports are virtually also flat to a year ago;



<u>Unfilled Orders</u>

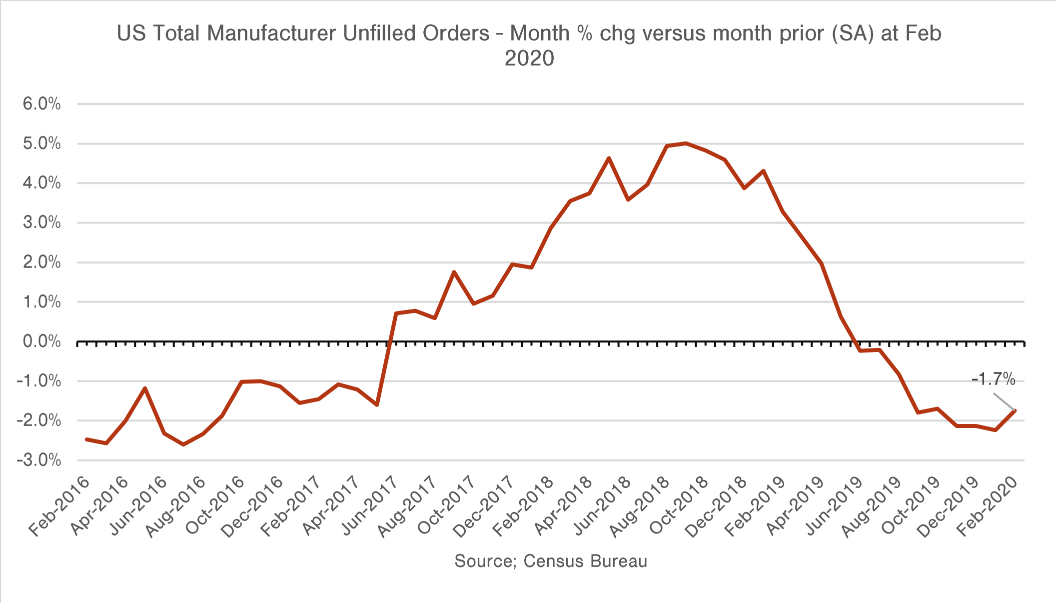
There was a larger increase in total unfilled orders in Mar as a result of the increase in Ship and Boat orders. The increase in shipments of non-defense aircraft also had a notable impact (reduction) on unfilled orders.

<u>Unfilled orders – month change</u>; Feb +0.1% (+$1.4bn) versus Jan 0%

The increase in Ship and Boat orders added +$2.2bn to unfilled orders. This was offset by declines/shipments in fabricated metal products, non-defense and defense aircraft and parts.

Given the enormous supply and demand shock as a result of the pandemic, it may be possible that unfilled orders record some declines in the coming months. The collapse of new orders will enable firms to work through backlogs, but there is also some possibility that existing orders may be cancelled amid the uncertainty.

Total manufacturer unfilled orders have been slowing and declining on an annual basis since 2018;



Excluding transports, this decline is lower, only declining by -0.6% to a year ago.

<u>Inventory</u>

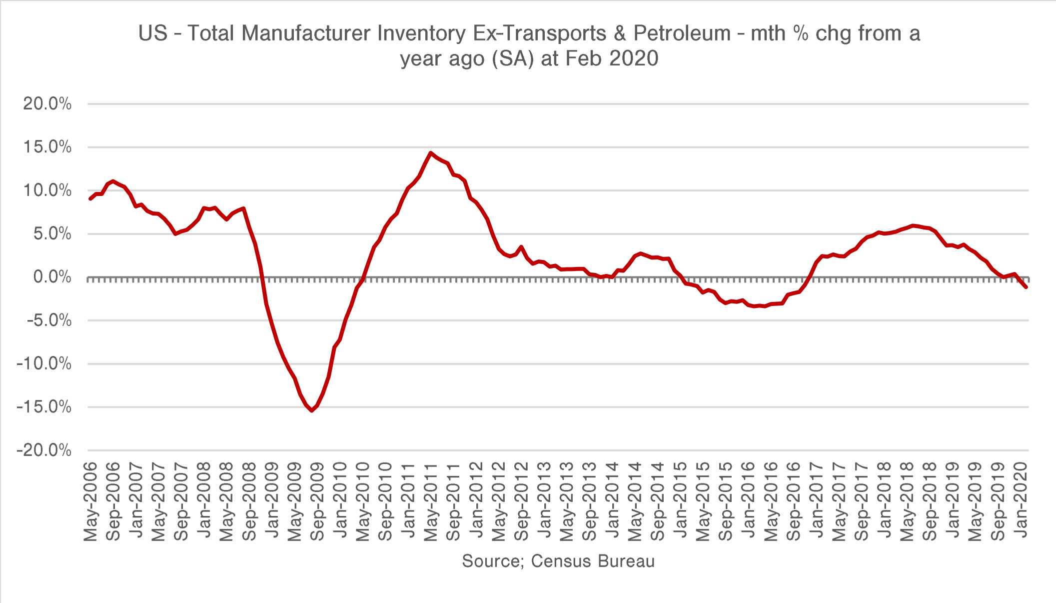
Total inventory values declined at a faster pace in Feb. This was led mostly by a decline in the value of petroleum inventory.

<u>Inventory – month change</u>; Feb -0.4% (-$2.6bn) versus Jan -0.3%

The value of inventory of durable goods was unchanged in Feb (0%). A further increase in non-defense aircraft inventory was offset by declines in inventory across a range of durable goods industries.

The value of non-durable goods industries decreased by -$2.5bn in Feb. Most of this was led by a decline in the value of petroleum inventory. But other industries such as chemicals, plastic/rubber products and paper products also recorded declines in inventory.

Excluding the impact of changes in petroleum values and the higher value of transport inventory, underlying manufacturer inventory has only just started declining on an annual basis;



https://www.census.gov/manufacturing/m3/prel/pdf/s-i-o.pdf

ISM Non-Manufacturing PMI (Mar)

The headline ISM non-manufacturing PMI indicated the growth in non-manufacturing activity slowed notably in Mar – basically receding from the 12-month high in Feb to the 12-month low in Mar.

Growth slowed or contracted across the key components of the ISM. Supplier deliveries increased substantially (emphasis added);

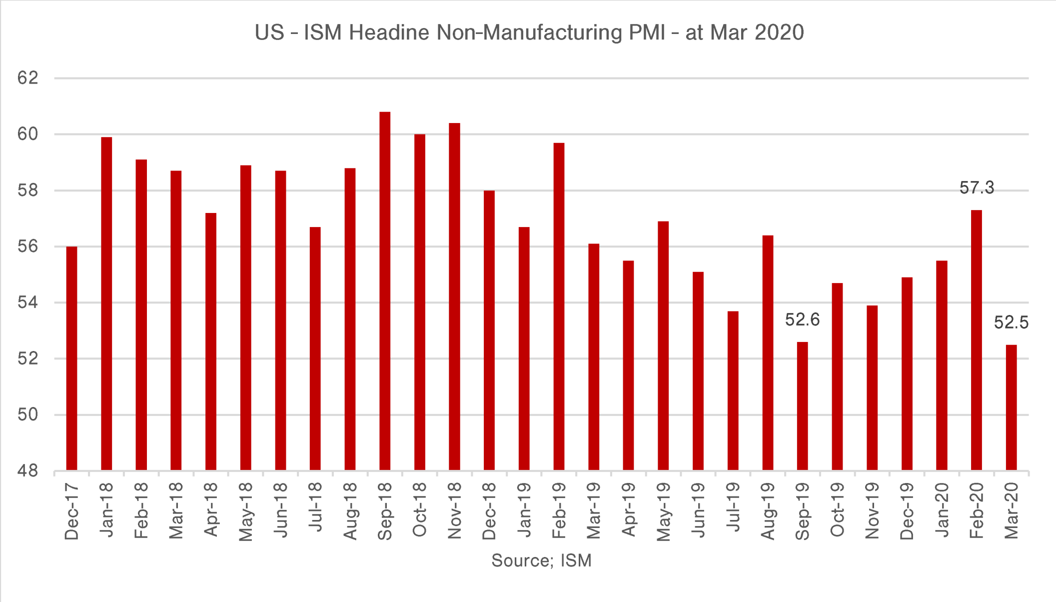
> "The Supplier Deliveries Index registered 62.1 percent, up 9.7 percentage points from the February reading of 52.4 percent, and **limited the decrease in the composite NMI®**. The Supplier Deliveries Index is one of four equally weighted subindexes that directly factor into the NMI®, along with Business Activity, New Orders and Employment. Supplier Deliveries is the only ISM® Report On Business® index that is inversed;

Industry comments from both Healthcare and Social Assistance and Public Administration was that there are "significant shortages" in personal protective equipment and basic medical supplies.

Most industries covered in the report still experienced growth overall in the month; Health Care & Social Assistance; Real Estate, Rental & Leasing; Public Administration; Utilities; Finance & Insurance; Construction; Management of Companies & Support Services; Wholesale Trade; and Information.

The industries reporting a decline in activity; Arts, Entertainment & Recreation; Transportation & Warehousing; Professional, Scientific & Technical Services; Mining; Other Services; Retail Trade; and Educational Services.

<u>Headline Non-Manufacturing PMI</u>; Mar 52.5 versus Feb 57.3



Business activity/output shifted into slight decline after more substantial growth in Feb; Mar 48 versus Feb 57.8. There was a large increase in the proportion of firms recording lower activity (from 9% in Feb to 30% of firms in Mar).

New orders growth slowed in Mar, but slowed from a very high level; Mar 52.9 versus Feb 63.1. Only five industries reported increases in new orders (lower breadth); Real Estate, Rental & Leasing; Health Care & Social Assistance; Accommodation & Food Services; Public Administration; and Construction.

The majority of industries, nine industries, recorded a contraction in new orders - Other Services; Arts, Entertainment & Recreation; Retail Trade; Educational Services; Professional, Scientific & Technical Services; Wholesale Trade; Mining; Management of Companies & Support Services; and Information.

New export orders fell firmly into contraction – Mar 45.9 after faster growth recorded in Feb of 55.6. Only three industries reported growth in new export orders in Mar.

Employment shifted into contraction; Mar 47 versus Feb 55.6. Ten industries reported a decline in employment; Transportation & Warehousing; Accommodation & Food Services; Arts, Entertainment & Recreation; Construction; Mining; Other Services; Professional, Scientific & Technical Services; Educational Services; Utilities; and Information.

The hiring freeze is obvious – as no industries reported increases in employment (and only 9% of firms reported an increase in employment). The remaining industries reported no change to employment levels.

Supplier deliveries became slower in Mar. The index jumped from 52.4 in Feb to 62.1 in Mar. ALL fourteen industries reported slower deliveries in Mar.

Inventories declined in Mar.

Of the total respondents in March, 44.1 percent indicated they do not have inventories or do not measure them.

Prices paid were little changed. The index in Mar was at 50, indicating no change from the month prior. Growth in Feb had slowed to only a marginal increase in prices after faster growth in Dec & Jan.

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

Markit Services PMI (Mar)

Overall services activity declined at a much faster pace in Mar. All components in the survey indicated a substantial decline in activity.

Services Business Activity Index; Mar 39.8 versus Feb 49.4

The pace of output decline was the fastest on record since data collection started in Oct 09. New orders also declined at the steepest pace in the survey history. New export orders also declined at a "substantial" pace. Order backlogs declined at the fastest pace in the series history – partly as firms worked through order backlogs but also possibly due to order cancellations.

Employment declined as firms reduced workforces.

> "In line with weak demand conditions, service providers registered the lowest degree of confidence in the outlook for output over the coming year since data collection began in October 2009."

https://www.markiteconomics.com/Public/Home/PressRelease/24eff455e8f2413e9c49fa2da78e27f8

Challenger Job Cuts (Mar)

As expected, there was a significant increase in the number of job cut announcements in Mar. The total jumped from 56.6k in Feb to 222.3k in Mar.

At the same time, there were some significant job hiring announcements also made in Mar – totalling 824k.

Job Cut Announcements

Mar 222.3k versus Feb 56.6k announced job cuts

Q1 job cut announcements are running +82% head of the same time a year ago.

The largest contributors to job cut announcements by industry for Q1 are; entertainment/leisure +97k, services +40k, retail +29k and technology +27k.

The regions hardest hit so far in Q1;

West Q1 2020; 110.4k job cut announcements +117% versus Q1 2019

Midwest Q1 2020; 79.2k job cut announcements +116% versus Q1 2019

East Q1 2020;110.2k job cut announcements +57% versus Q1 2019

South Q1 2020; 46.9 job cut announcements +41% versus Q1 2019

Announced Hiring Plans

There was still an increase in job hiring announcements. Announced hiring plans jumped significantly from 88k in Feb to 824k in Mar. This is well outside of any seasonal pattern;

CHALLENGER, GRAY & CHRISTMAS, INC.
JOB CUT ANNOUNCEMENT REPORT
Table 6: ANNOUNCED HIRING PLANS

By Month

	2020	2019	2018	2017	2016	2015	2014
January	23,229	74,040	41,890	136,501	8,362	8,774	6,312
February	88,202	15,279	139,925	25,765	7,539	14,574	11,054
March	824,610	96,368	14,525	127,006	10,997	6,412	6,860
April		258,302	13,842	61,537	11,557	13,898	11,145
May		8,663	9,889	77,447	24,732	12,598	10,141
June		11,946	13,504	40,095	13,564	11,176	15,530
July		22,316	9,823	88,142	16,051	11,637	16,544
August		24,937	17,274	14,530	9,101	11,778	9,657
September		459,689	595,997	422,726	487,075	492,306	567,705
October		190,835	130,338	37387	135,532	86,107	147,935
November		19,063	15,422	61,300	108,994	10,026	11,291
December		26,313	15,999	8,218	35,198	11,465	7,332
TOTAL	936,041	1,207,751	1,018,428	1,100,654	868,702	690,751	821,506

NOTES:
In January 2020, Dollar General announced it would add 8,000 jobs.
In February, The Home Depot announced 80,000 hires.
In March, COVID-19 caused companies to announce 821,810 hiring plans.

Retail and transportation appear to be the largest contributors to hiring plans – as firms attempt to adapt to changes in spatial distancing and work from home policies.

CHALLENGER, GRAY & CHRISTMAS, INC.
JOB CUT ANNOUNCEMENT REPORT
Table 8: COVID-19 HIRING PLANS

Month	Company	Industry	Hiring Announcement
March	Instacart	Transportation	300,000
March	Walmart	Retail	150,000
March	Amazon	Retail	100,000
March	CVS	Retail	50,000
March	Dollar General	Retail	50,000
March	Lowe's	Retail	30,000
March	Albertson's	Retail	30,000
March	Pizza Hut	Entertainment/Leisure	30,000
March	Kroger	Retail	20,000
March	7-Eleven	Retail	20,000
March	Papa John's	Entertainment/Leisure	20,000
March	Walgreens	Retail	9,500
March	Pepsi	Food	6,000
March	Lineage Logistics	Transportation	2,000
March	Hungry Howie	Entertainment/Leisure	2,000
March	Dominos	Entertainment/Leisure	1,000
March	Schnuck's	Retail	500
March	Honeywell	Industrial Goods	500
March	Synchrony	Financial	300
March	Puzzle Warehouse	Retail	10
		TOTAL	821,810

http://www.challengergray.com/press/press-releases/2020-march-job-cut-report-222288-cuts-announced-march-most-jan-2009-covid

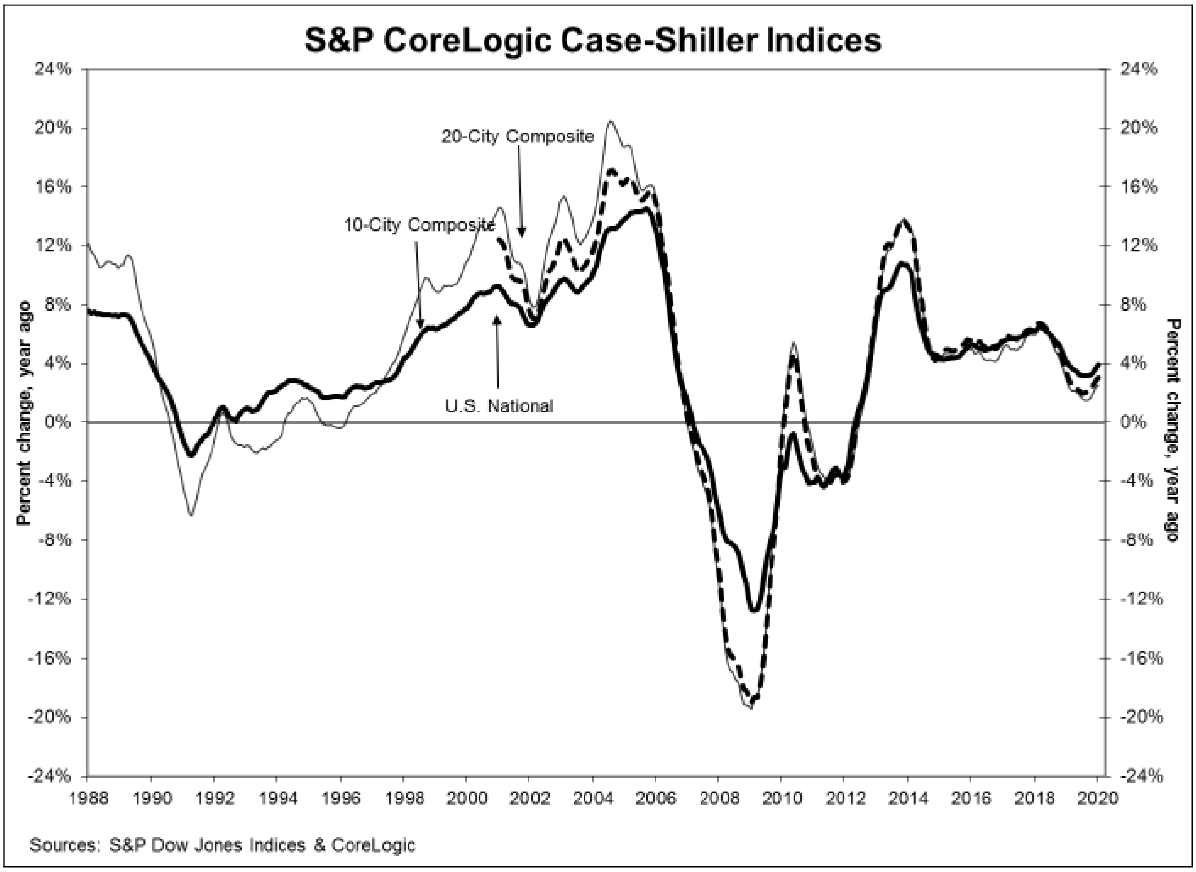
Case-Shiller Home Price Index (Jan)

At the end of Jan, the annual change in house prices continued to increase across the US and the 10 and 20-City increases. In the month, price changes were flat across these area divisions. Data here reflects transactions completed to the end of Jan.

National House Price Index; Jan +3.9% versus Dec +3.7%

10-City Composite Index; Jan +2.6% versus Dec +2.3%

20-City Composite Index; Jan +3.1% versus Dec +2.8%



https://us.spindices.com/index-family/sp-corelogic-case-shiller/sp-corelogic-case-shiller-composite

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Europe

Eurozone CPI Prelim (Mar)

The prelim annual CPI growth in Mar is expected to slow in Mar. There are some important shifts in the underlying CPI components.

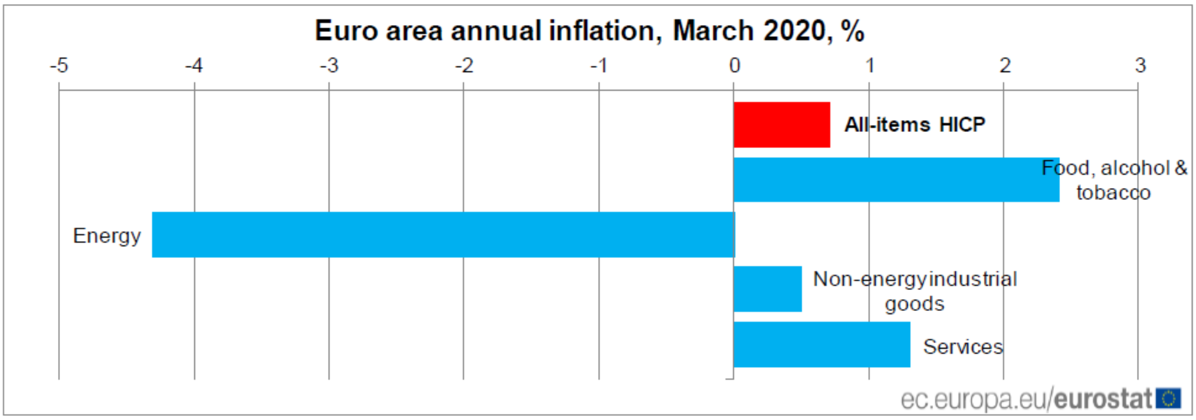
Euro-Area All-Items CPI – annual change; Mar +0.7% versus Feb +1.2%

A year ago (Mar 2019), annual CPI growth was +1.4%.

The sharp slow down in the pace of growth is due to a larger fall in energy prices. Energy prices fell by 3.1% in the month and declined by 4.3% versus a year ago in Mar (was -0.3% in Feb).

Food, alcohol and tobacco prices accelerated; Mar +2.4% versus Feb 2.1% (annual growth in Mar 2019 +1.8%). Processed food, alcohol and tobacco prices increased versus a year ago to +2.1% (and up +0.6% in the month). While unprocessed food was +3.5% above a year ago (but declined by 0.5% in the month).

Services remain the single largest weight of the CPI. Annual Services price growth slowed from +1.6% in Feb to +1.3% in Mar, growing at only +0.1% in the month.

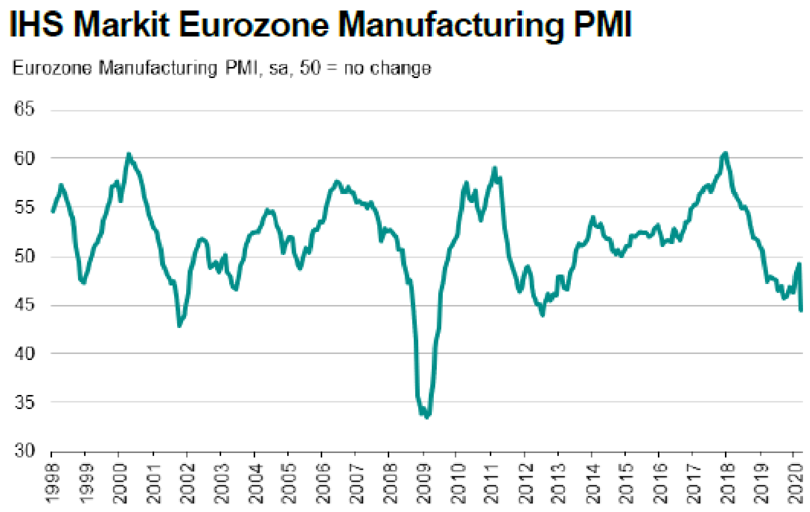


https://ec.europa.eu/eurostat/documents/2995521/10649445/2-31032020-AP-EN.pdf/ddeeaeaf-e91c-f433-dd9b-1e13a58b07a9

Eurozone Manufacturing PMI (Mar)

The headline PMI contracted sharply in Mar indicating an accelerated decline in manufacturing activity across the Eurozone in Mar.

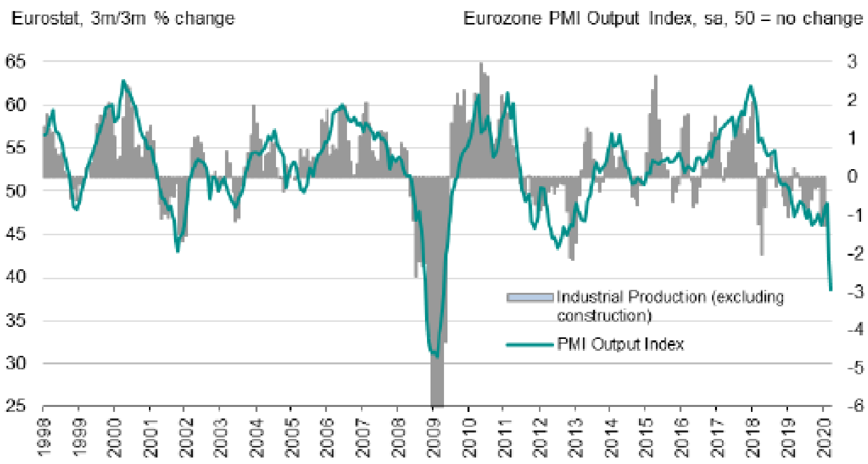
Eurozone Manufacturing PMI; Mar 44.5 versus Feb 49.2



Source: IHS Markit.

<u>Components</u>

The fall in the overall index hides a much more severe decline in output for the month. The pace of the decline in Mar exceeds that of European debt crisis.



Source: IHS Markit, Eurostat

New orders also declined sharply – at the fastest pace in eleven years. Employment was reduced at a more marked pace – the most notable declines in employment were recorded in Germany, Ireland and Austria.

Input prices declined in Mar as well as output prices. Output prices declined at the fastest pace in four years.

The outlook became more pessimistic;

> Sentiment fell to the greatest month-on-month degree in the series history (which began July 2012) and was also the lowest recorded by the survey to date.

Conditions worsened across most countries with PMI's either slowing or contracting at a faster pace in Mar.

Countries ranked by Manufacturing PMI: March		
Netherlands	50.5	2-month low
Austria	45.8	5-month low
Spain	45.7	83-month low
Germany	45.4 (flash: 45.7)	2-month low
Ireland	45.1	127-month low
France	43.2 (flash: 42.9)	86-month low
Greece	42.5	55-month low
Italy	40.3	131-month low

https://www.markiteconomics.com/Public/Home/PressRelease/2a0769b33c2244a4b48a6deb55f72db9

Eurozone Markit Services PMI (Mar)

The services business activity index indicated that growth declined substantially across the Eurozone in Mar. The drop in the output index indicated quite a severe contraction.

Eurozone Services Business Activity Index; Mar 26.4 versus Feb 52.6

The level of output growth reached an all time series low for the entire Eurozone in Mar.

> Both sectors covered by the survey recorded notable falls in output during March, with the greater decline seen in services where a series record fall in activity was registered.

At the composite level (the combination of manufacturing and services activity), major European economies recorded record low growth; Germany, France, Spain and Italy all recorded record low levels of growth at the composite level. At the services level, Italy recorded an all-time low PMI reading of 17.4

Countries recorded severe declines across output and new orders. There was also a considerable decline in confidence in the business outlook. Employment also declined for the first time in five years.

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Japan

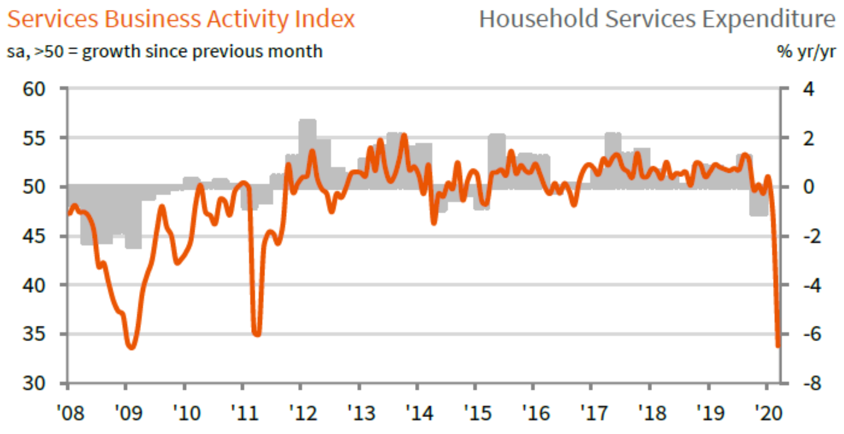
Markit Services PMI (Mar)

The services business activity index indicated a more severe decline in services output in Mar.

Japanese GDP already declined sharply in Q4 2019. This is a further blow for the Japanese economy, as services activity had been relatively stronger, helping to offset some the persistent weaker growth seen in manufacturing over the last year.

> "During the March survey period (12-26 March), the outbreak in Japan was not even close to the scale seen in Europe and the latest combined manufacturing and services PMI data already point to GDP contracting at an annual rate of around 8%. If the outbreak were to escalate in Japan such that widespread lockdowns are imposed, GDP in the second quarter could be poised for an annual decline in excess of 10%."

Services Business Activity Index; Mar 33.8 versus Feb 46.8



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

Driving the decline in output was a sharp contraction in new orders. The pace of decline in new export business was the fastest since the series commenced in Sep 2014.

Order backlogs declined at the fastest pace in over nine years.

Employment was reduced. Firms cited an in increase in ‘retirements. While employment growth shifted into contraction, it has not yet been as severe as 2009 or even 2015. But services employment growth has slowed from a much higher level in 2019.

The outlook for the next twelve months became firmly negative.

Input cost growth slowed. Output charges were reduced at the fastest pace since Jan 2012 - firms continued to compete for business as demand contracted.

> "The global COVID-19 pandemic caused severe disruption to Japan's services economy in March. There had already been some knock back in February from

reduced tourism, particularly from China, but latest data show that the economic impact has become widespread.

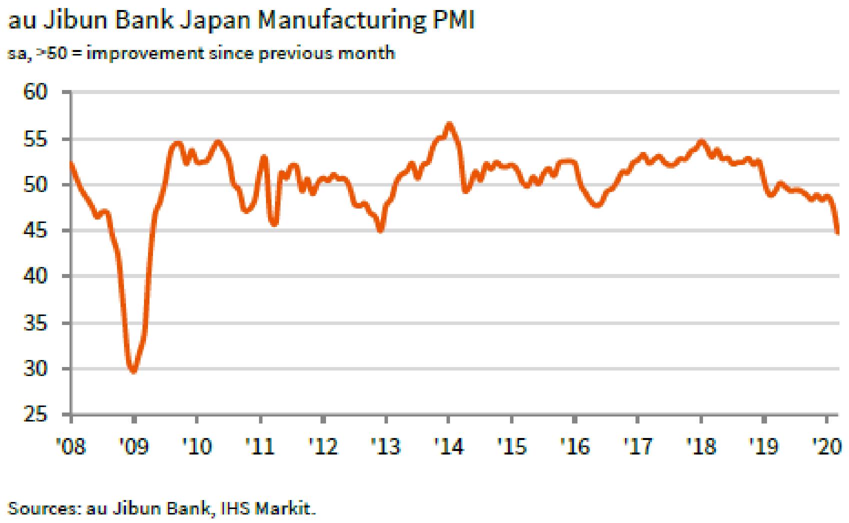
https://www.markiteconomics.com/Public/Home/PressRelease/2d0e1c6942c84adaa4d4cdc16383779e

Manufacturing PMI Final (Mar)

Due to pandemic, there was an acceleration in the contraction of manufacturing activity in Japan in Mar.

Order cancellations and severe supply chain disruptions further compounded demand-side losses. Supplier delivery times lengthened markedly, while employment fell for the first time September 2015.

Manufacturing PMI; Feb 44.8 versus Jan 47.8



There was a further substantial decline in both new order and output activity. New orders declined across the domestic and export market. Output was reduced, or production stopped altogether. Production growth was also hindered by input supply shortages.

Its worth noting that input delivery times increased at an even faster pace than in Feb as the pandemic shut-down interrupted global supply chains, especially for China.

Employment declined for the first time since 2015, albeit at a marginal pace.

The 12-month outlook for manufacturers deteriorated to a new series low.

https://www.markiteconomics.com/Public/Home/PressRelease/cc5be534a47144df870e919d7325368d

Industrial Production Prelim (Feb)

The prelim report highlights slower production growth for the month – with growth led by only several of the larger industries. On an annual basis, production declined at a faster pace in Feb.

At the same time, shipment growth accelerated in Feb – as firms recorded declines in finished goods inventories. This dynamic could be the result of the emerging supply chain/raw materials shortages, especially as China slowed in Jan/Feb. Recall also that imports for Japan declined by 14% in Feb – of which imports from China (one of its largest trading partners) declined by 47% versus a year ago.

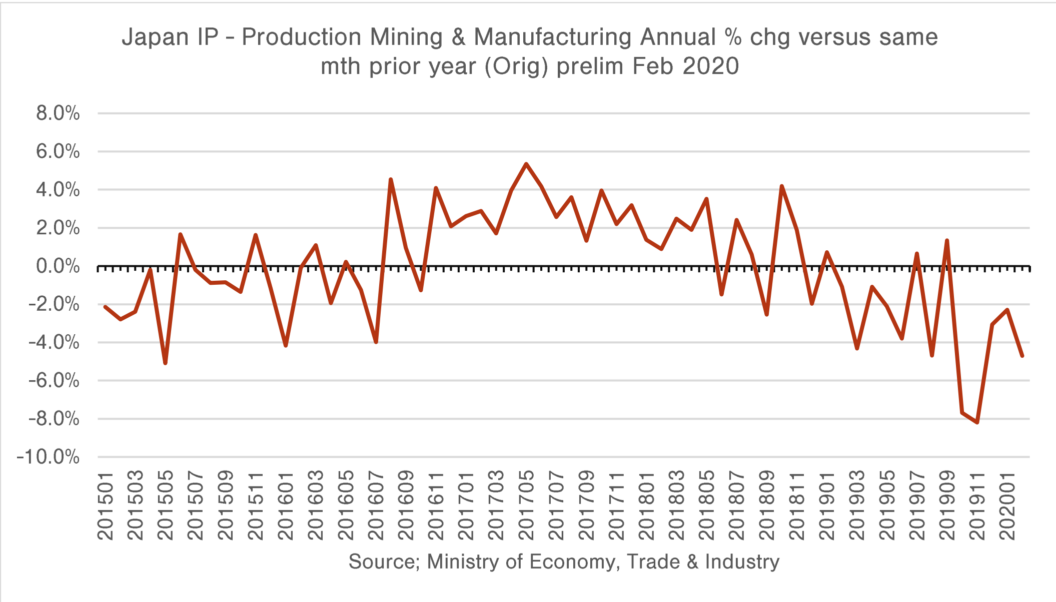
<u>Production – month change</u>; Feb +0.4% versus Jan +1%

Production growth slowed in Feb and results at the industry level were mixed.

Growth in production for the month was led by fabricated metals (+4%), iron, steel and non-ferrous metals (+3.2% and electronic parts & devices (+10.7%).

Production across other industries was either slower than the +0.4% headline pace (electrical machinery 0%) or declined (production machinery, general purpose and business machinery and transport equipment).

On an annual basis, and despite the lift in the month, overall industrial production declined at a faster pace; Feb -4.7% versus Jan -2.3% (versus the same month a year ago).



On an annual basis, production declined at a faster pace across most industries; fabricated metals, production machinery, general purpose machinery, electrical machinery and transport equipment (the annual decline in production shifted from -1.5% in Jan to -9.7% in Feb).

<u>Shipments – month change</u>; Feb +2.6% versus Jan +0.6%

Growth in shipments were much faster in Feb, despite the slower growth in production. Shipment growth was positive across most industries. The exception was production machinery, for which shipments declined by -0.2% in Feb.

Inventory – month change; Feb -2.2% versus Jan 1.6%

The difference between the slower growth in production and the faster growth in shipments was the decline in finished goods inventory for the month.

Some of the larger declines in finished goods inventory were recorded for; production machinery (-5%), electronic machinery (-5%) and transport equipment (-13%, within which the finished goods inventory of passenger cars declined by 14%).

The inventory ratio declined for the second month in a row, but remains elevated (note that this is the index, not the rate of change):

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

Retail Trade (Feb)

Retail sales increased at a slower pace in Feb. Larger declines across general merchandise were offset by growth in food & bev, motor vehicles and fuel in the month.

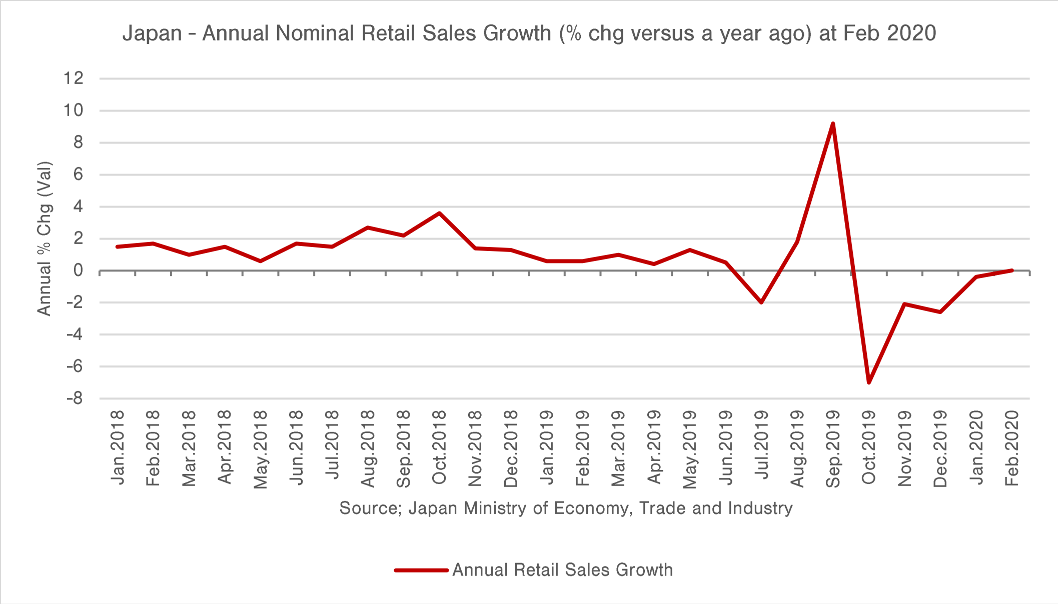
On an annual basis, retail sales increased versus a year ago for the first time in four months.

Retail Sales (val) – month change; Feb +0.6% versus Jan +1.5%

Slower growth in the value of retail sales was the result of an accelerated decline in sales via general merchandise stores (-4.7% in the month) and fabrics, apparel and accessories (-4.7% in the month also) and other (-0.2%).

Growth was faster across food and bevs (+0.7%), motor vehicles (+1.8%) and fuel (+3.5%). Machinery sales via retail slowed to +3.4% in the month.

On an annual basis, the value of retail sales growth improved slightly; Feb +1.7% versus Jan -0.4%



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

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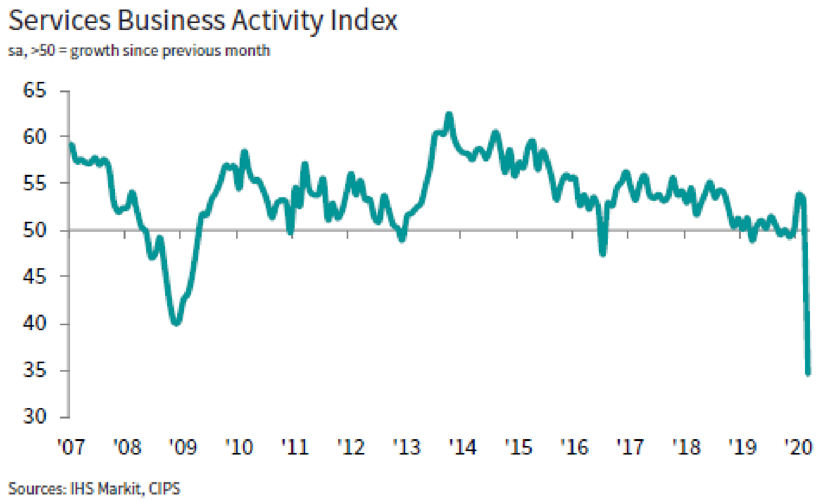
United Kingdom

Markit UK Services PMI (Mar)

UK private sector services activity recorded the fasted pace of decline since the survey started in Jul 1996. In mar, the UK implemented a range of policies aimed at slowing the growth in the pandemic.

Headline Services Business Activity Index; Mar 34.5 versus Feb 53.2



Activity declined across a broad range of services industries. Only technology services recorded pockets of business expansion.

The pace of decline in new orders was faster than at any time seen during the GFC. New export orders also declined severely amid travel restrictions and closures throughout Europe. Firms noted that some existing projects had been placed on hold.

Order backlogs declined sharply also – firms likely worked through some backlogs but there is also a likelihood that some existing orders were/have been cancelled.

Employment declined for the first time in five months. Some firms announced hiring freezes and others placed staff on furlough (helping to cushion some of the unemployment blow).

Meanwhile, business expectations for the next 12 months dropped to the lowest in more than twenty years of data collection.

https://www.markiteconomics.com/Public/Home/PressRelease/61f043b216da42618ff2559dd8435bc6

BREXIT

The UK PM, and both the UK and EU chief Brexit negotiators have tested positive for Coronavirus. At the time of writing, the UK PM had now been admitted to hospital.

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

Emphasis added;

> The UK has indicated that it will put forward some texts covering some of the elements of the future EU-UK relationship outlined in the Political Declaration.
>
> Given developments related to COVID-19, EU and UK negotiators are currently exploring alternative ways to continue discussions, including if possible the use of video conferences. Both sides remain in close contact with one another. **Substantive work on the legal texts on both sides will continue over the coming weeks**.
> https://ec.europa.eu/commission/presscorner/detail/en/IP_20_447

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

The UK has also published a set of negotiating objectives; https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/868874/The_Future_Relationship_with_the_EU.pdf

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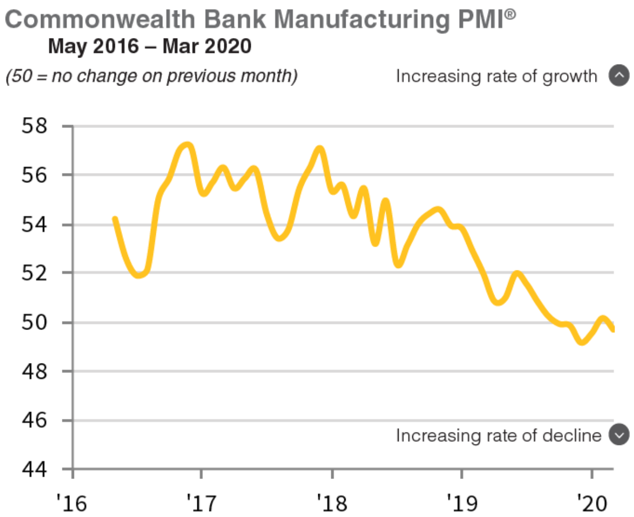
Australia

CBA Manufacturing PMI (Mar)

Manufacturing activity in Australia shifted into a slight contraction in Mar. Underlying this result were record falls in output and new orders. Firms also reduced hiring, purchasing activity and inventory. Of note were supply shortages and a weaker AUD leading to input price inflation.

> In recent months, the headline index has been heavily influenced by the coronavirus-related pressure on supply chains as reflected by the severe lengthening of delivery times, which under normal circumstances will reflect a busier manufacturing economy.

Manufacturing PMI; Mar 49.7 versus Feb 50.2



Firms reported delivery delays and material shortages – this resulted in the supplier lead times extending at the fastest pace in the series history.

New orders fell at an accelerated and record pace. Both the Covid-19 pandemic and the bushfires were cited as having impacted demand.

As a result, output fell at an accelerated pace – for the seventh month in a row. The Covid-19 outbreak has exacerbated an already weak situation. Backlogs of orders declined at the fastest pace on record and spare capacity increased. Firms reported either temporary shutdowns or reduced workforces.

Importantly, input costs increased at the fastest pace in nearly two years. This was due to both supply shortages as well as a weaker AUD. Firms passed on some of those costs (output prices increased to a one-year high). Firms are in a difficult position here – passing on higher costs (and reducing demand) as well as further reducing profitability at a time when demand is falling.

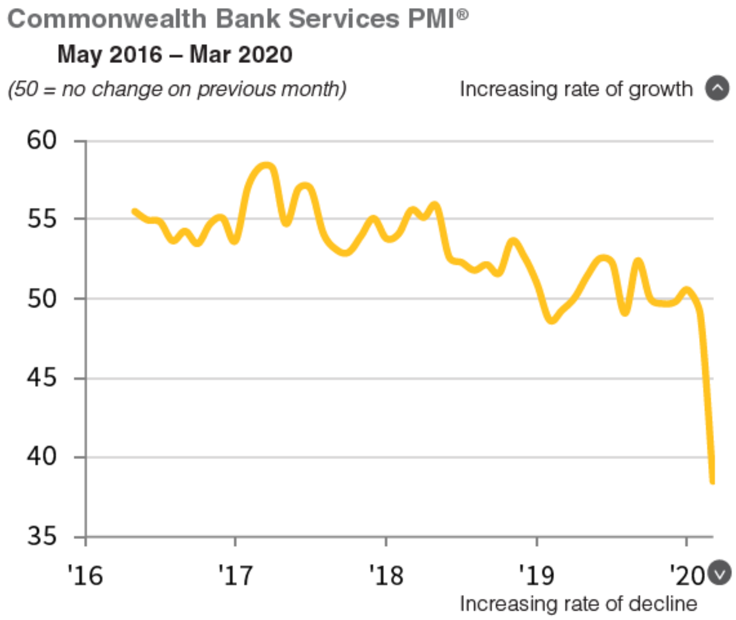
Confidence in the outlook fell to a new series low.

https://www.markiteconomics.com/Public/Home/PressRelease/097cacc12e424234b7e3f1aed0eff662

CBA Services PMI (Mar)

Services business activity contracted at a significantly faster pace in Mar. The implementation of spatial distancing policies and limiting tourism has severely impacted demand for many consumer services businesses. Some firms also still cited impacts from bushfires.

Headline Business Services Activity; Mar 38.5 versus Feb 49



Overall new work/new business inflows declined at the fastest pace in the series' history (only 4 yrs). Foreign demand for services also declined substantially.

Expectations for future output fell to the lowest level in the series' history.

Employment declined at a record pace.

Firms reduced prices in an effort to boost business. The pace of growth in input prices also eased to the lowest on record.

https://www.markiteconomics.com/Public/Home/PressRelease/f3d5720571b543c29e4a774dbadfb0a5

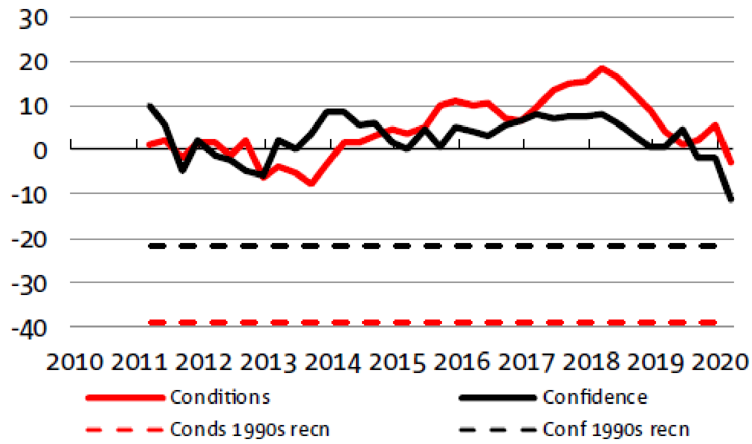
NAB Quarterly Business Survey – Q1 Mar 2020

The early release of the quarterly survey (based on 950 firms between 18 Feb and 13 Mar). Both conditions and confidence declined notably in Q1.

Business Confidence; Q1 2020 -11 versus Q4 2019 -2

There was a notable drop in confidence in Q1, but remains above the levels seen in the last recession in the early 90's.

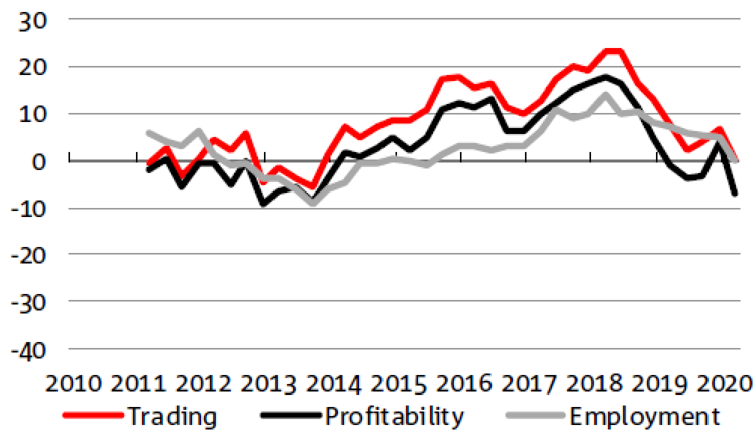
CHART 4: BUSINESS CONDITIONS & CONFIDENCE (NET BALANCE S.A.)



<u>Business Conditions</u>; Q1 2020 -3 versus Q4 2019 6

All elements of business conditions deteriorated. Both trading and employment growth slowed to zero growth. Profitability shifted into a sharp decline.

CHART 5: BUSINESS CONDITIONS COMPONENTS (NET BALANCE, S.A.)



The view of forward orders also deteriorated, falling from 0 Q4 2019 to -6 in Q1 2020. The exports index also shifted into decline.

https://business.nab.com.au/nab-quarterly-business-survey-march-2019-39200/

Retail Sales (Feb)

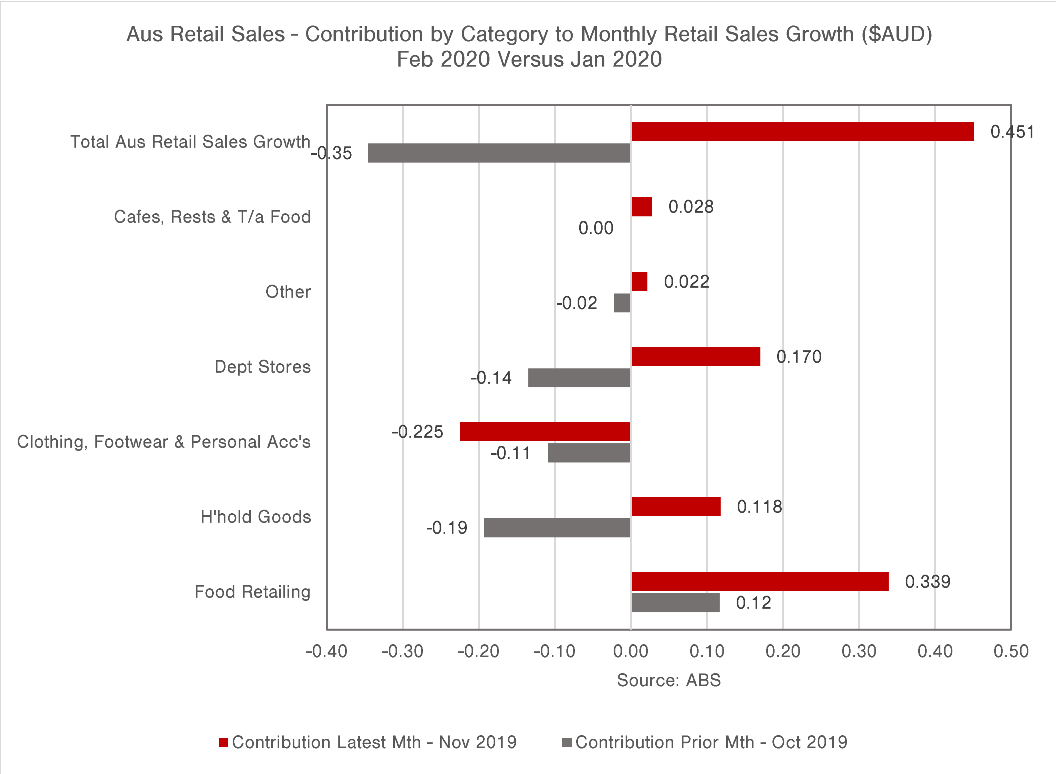
Retail sales in Australia rebounded in the month of Feb. The rebound was led by much stronger growth in food retailing, dept store sales and household goods sales. Consumers responded to the virus outbreak by stockpiling food and buying additional household and hardware goods. Most of the impact of the sales increase was in the latter weeks of Feb, so this pattern is likely to be amplified in Mar.

Sales across states such as Vic, Qld and WA accelerated after declining in the month prior.

<u>RETAIL SALES (VALUE) – MONTH CHANGE</u>; Feb +0.5% versus Jan -0.3%

<u>Sales by Category</u>

The rebound in retail sales in Feb was led by faster growth in food retailing, household goods and department store sales.



From the Aus Bureau of Statistics;

> Individual retail businesses reported a range of impacts attributed to COVID-19:
>
> Select businesses, especially in the Supermarket and grocery stores and Pharmaceutical, cosmetic and toiletry goods retailing subgroups, saw an increase in turnover related to the virus.
>
> Some businesses, especially those reliant on tourism, reported adverse impacts to turnover.
>
> Other businesses saw little impact in February from COVID-19 but expect significant impacts in the March reference month, as restrictions on trading were increased.

The shift in consumer spending patterns is highlighted by a further look at grocery sales;

> The analysis shows that retail turnover for discretionary and non-discretionary groceries (excluding fresh food) increased **by 6.1% and 9.4%** respectively in February 2020 compared to February 2019.

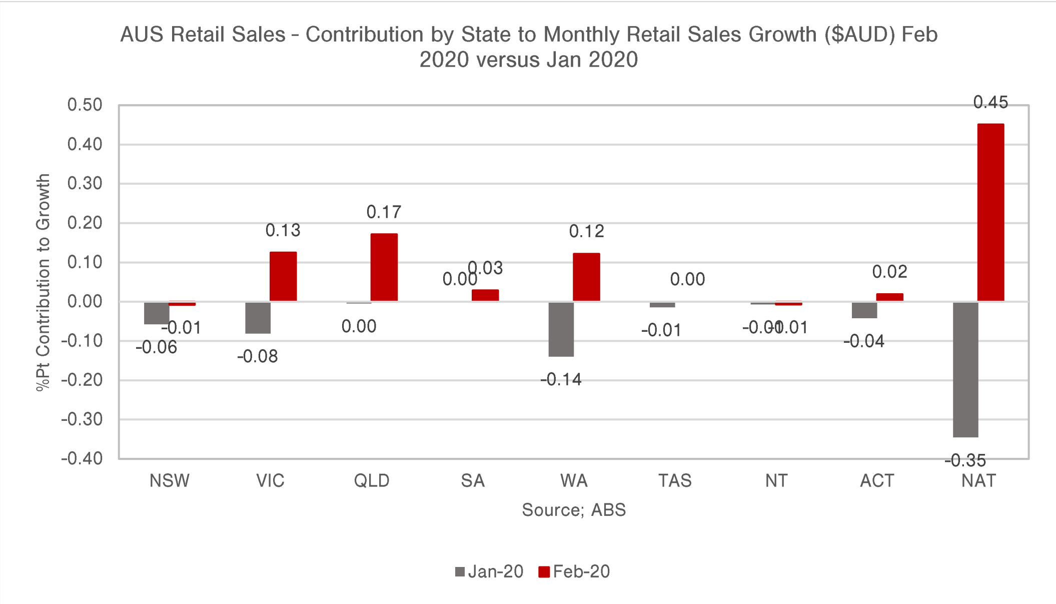
Note that total food retailing (nominal value) is growing at 3% versus the same month a year ago in Feb.

> The largest rises were in non-discretionary goods such as: frozen and canned fruit and vegetables; cereals and breads; toilet and other tissue paper products; pharmaceuticals and personal care products; and infant food and hygiene products. **Businesses reported that sales increased in the last week of February.**

For household goods, sales growth was driven by hardware, building and garden supplies and electrical and electronic goods.

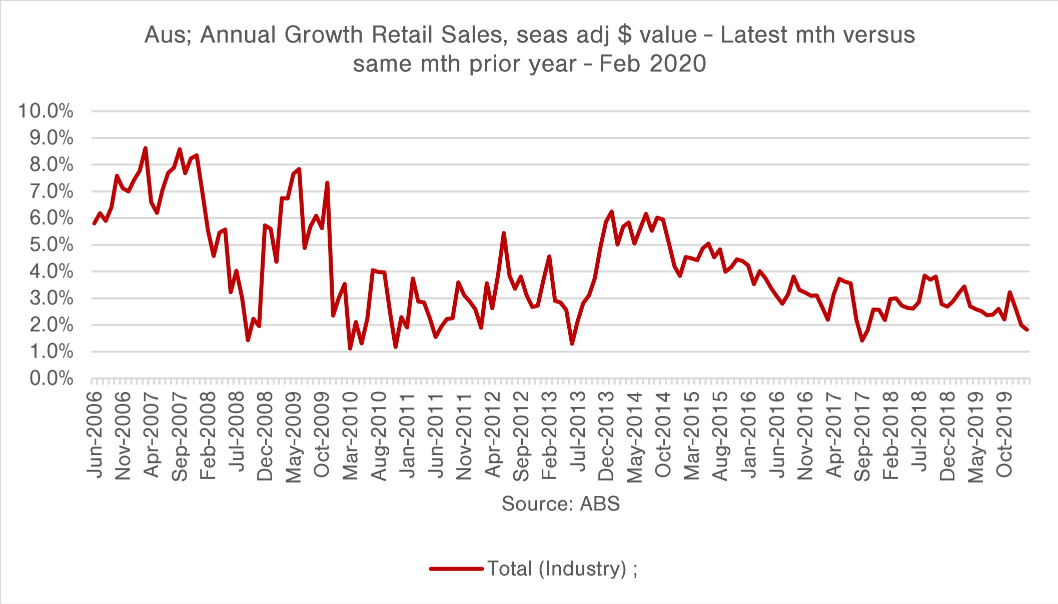
<u>Sales by State</u>

The rebound in sales for the month was led by a turnaround in Vic, QLD and WA. Retail sales in NSW remained weak in Feb and actually declined on a year ago basis as well.



<u>RETAIL SALES (VALUE) – ANNUAL CHANGE</u>; FEB +1.8% VERSUS JAN +2%

Annual retail sales growth continued to slow in Feb;



TIMING IMPACTS;

From the ABS website;

> The World Health Organisation (WHO) commenced daily situation reports of the coronavirus (COVID-19) outbreak on 21 January 2020 and identified it as an international health emergency on 30 January. From 1 February, the Australian Government placed travel restrictions on those travelling to Australia from mainland China.
>
> COVID-19 did not impact data collection activities for the February 2020 reference month.

https://www.abs.gov.au/ausstats/abs@.nsf/mf/8501.0

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China

NBS Manufacturing and Non-Manufacturing PMI (Mar)

After the severe contraction in the month prior, manufacturing activity rebounded only marginally. The 50-mark of the diffusion index is the difference between growth (>50) and contraction (<50). Both manufacturing and non-manufacturing activity increased at slightly faster pace than the in the month prior.

From the Chinese NBS:

> The recovery of PMI above the threshold in March was the rebound after the sharp drop in February, which more reflects that more than half of the surveyed enterprises had returned to work and production better than last month, **and did not mean that China's economic operation had returned to normal.** As of March 25, the return to work rate of large and medium-sized enterprises in the national purchasing manager survey was 96.6 percent, 17.7 percentage points higher than that in February.

Manufacturing PMI; Mar 52 versus Feb 35.7

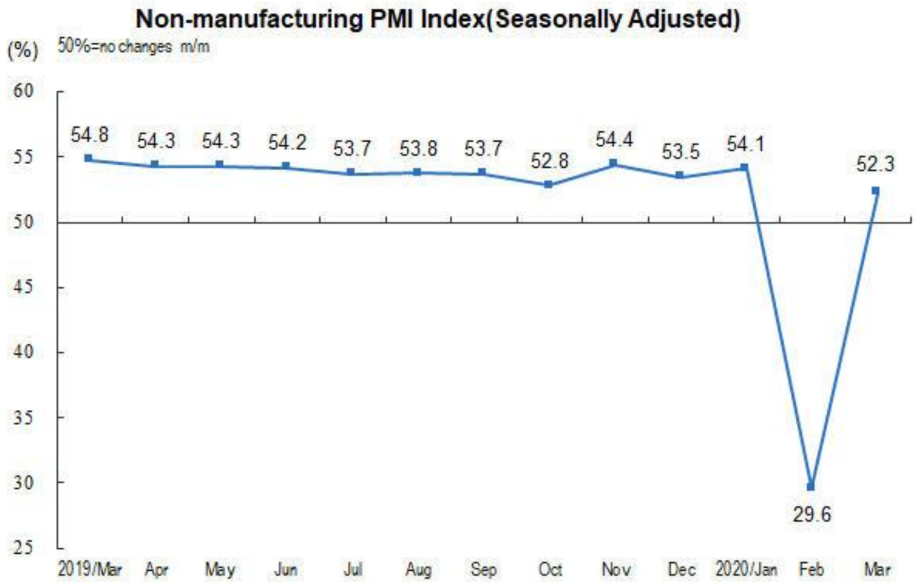
Most index components recorded faster growth after more severe contractions in the month prior; production, new orders, purchasing and expected production conditions all increased compared to the month prior.

Employment growth was unchanged at 50 after falling to 31.8 in the month prior – which means that employment levels were unchanged from the fall in Feb.

New export orders remained in contraction; Mar 46.4 versus 28.7 in Feb – also meaning that there was a further decline in the levels of new export orders in Mar versus Feb.

Open orders continued to decline, which likely helped to boost production levels in Mar.

Non-Manufacturing PMI; Mar 52.3 versus Feb 29.6



Most of the different services segments recorded improvement in Mar including service business activity and construction.

The new orders index remained in contraction after a much larger decline in Feb; Mar 49.2 versus Feb 26.5. This means that the levels of new orders declined again in Mar after the larger decline in Feb.

Foreign new orders also declined at a steep pace, but not to the same degree as Feb; Mar 38.6 versus Feb 26.8. This highlights that Mar foreign export orders declined further after the steeper decline in Feb. This is consistent with demand from the rest of the world contracting in Mar.

This was similar for employment which continued to contract, but at a slower pace than the steep decline in Feb.

Selling prices also continued to decline – a sign that firms needed to remain competitive.

http://www.stats.gov.cn/english/PressRelease/202004/t20200401_1736207.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 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. This is so far likely to be early Jul 2020.

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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