

## Key Themes

Data this week provided more robust confirmation of the scale of the decline in economic activity – especially in Apr. The Apr data reflects at least one full month of restrictions across most countries, except China where restrictions have been lifted since Mar.

“The scope and speed of this downturn are without modern precedent, significantly worse than any recession since World War II. We are seeing a severe decline in economic activity and in employment, and already the job gains of the past decade have been erased.” , US Fed Chairman Powell

In the US, the 11% decline in industrial production in Apr was led by all areas of manufacturing. Manufacturing production levels fell to the lowest levels recorded during the GFC. Motor vehicle production all but stopped in Apr with production falling 70% in the month.

Regional manufacturing activity in NY for May recorded a slower pace of decline. There at least appears to be some slow down in the decline of employment. Firms also expected stronger growth in six months, albeit from this low base of activity.

US initial unemployment claims continued to be measured in the millions. Now eight weeks since the beginning of restrictions, over 36m people have filed an initial unemployment claim.

Retail sales were extremely weak for Apr with sales declining by \$80bn versus the \$43bn decline in Mar. Only one segment in retail recorded a month-on-month increase – non-store sales. Sales in segments such as clothing stores are now down by 90%.

Prelim consumer sentiment in the US for May was little changed overall, increasing by a few points. Sentiment around current conditions improved as income support started to make its way through to households. Consumers noted that health remained their largest concern. But that social isolation had overtaken concerns over personal finances (finances became less of an issue due to support received). Yet expectations about future economic conditions continued to deteriorate.

In Europe, Q1 data reflected accelerated declines in activity. Industrial production across the Eurozone fell sharply in Mar and PMI's indicate that this is likely to be even worse in Apr. The Eurozone GDP contracted in Q1 by 3.3%. The German economy is likely already in recession as Q4 GDP growth was revised to negative and Q1 GDP declined by 2.2%.

In Aus, the Apr labour force report provided the first view of the impact of restrictions on the labour market. The sharp increase in unemployment was moderated by a large decline in participation as workers were limited in their ability to look for work. Significant labour market slack now exists. Despite that, consumer sentiment in May rebounded strongly (but still negative) due to fiscal support but also the “worst fears” for the virus have not been realised.

The focus will start to shift to recovery as many countries commence lifting domestic restrictions. In some cases, sovereign borders will remain closed for the meantime. In the US, the vast majority of states are now reopening (as of 18 May 2020), regardless of the status of new case counts. Domestic restrictions are being relaxed across Europe, Australia, and parts of Asia.

Recoveries will rely heavily on; the number of countries (especially larger trading partners with interconnected supply chains) relaxing restrictions, maintaining low case counts to enable further easing of restrictions and the extent to which fiscal support is available and maintained.

Data from late May (high frequency) and June will likely start to provide insight on the pace of recovery for most countries from a production and consumption perspective. It will be a process.

“Returning to normal lives as workers versus returning to normal lives as consumers” *M.Pettis*

<https://twitter.com/michaelxpettis/status/1262055347365138432>

Activity in China for Apr saw few signs of improvement. Firms noted that the global nature of weaker demand, as well as weaker domestic conditions, were still impacting the Chinese economy.

## Contents

[US Data](#) - Initial & Continuing Jobless Claims wk. ending 8 May, University of Michigan Sentiment Index Prelim (May), Retail Sales (Apr), Mortgage Applications wk. ending 8 May, NY Empire State Manufacturing Index (May), Industrial Production (Apr), CPI (Apr), PPI (Apr)

US Fed Chairman Powell – Speech

Appendix – Status of US States and Covid-19 at 18 May 2020

[Europe](#) - Eurozone Industrial Production (Mar), Germany Q1 GDP – Prelim, Eurozone GDP Flash Estimate Q1

Appendix – Status of EU Members and Covid-19 at 18 May 2020

[United Kingdom](#) – GDP Prelim Q1

[Australia](#) – NAB Business Confidence and Conditions (Apr), Westpac Consumer Confidence (May), Wage Price Index Q1, Employment and Labour Force Report (Apr)

[China](#) – New Loans (Apr), CPI & PPI (Apr), Fixed Asset Investment, Industrial Production and Retail Sales (Apr)

[Trade](#) – US-China Trade Talks, US-Japan Trade Talks, US-Europe Trade Talks, Section 232. Car and Truck Imports, NAFTA/USMCA (completed), US-UK Trade Talks, Brexit

---

## US Data

---

### Initial & Continuing Jobless Claims wk. ending 9 May

New jobless claims continued to increase by a significant number in the latest week. This is the now the eighth week in a row where initial claims have been measured in the millions.

Advance Claims wk. ending 9 May 2020 (SA): 2,981,000

Advance claims from the week prior were revised slightly higher (by +7k persons) to 3,176,000 persons.

The total number of new claims made by people over the last eight weeks is 36,471,000.

The increase in the level of continuing claims was less pronounced in the latest week but remains extremely elevated;

Advance claims for insured unemployment for wk. ending 2 May 2020: 22,833,000

This is an increase of +456k ongoing claims from the week prior. The insured unemployment rate increased to 15.7% for the wk. ending 2 May 2020.

The highest insured unemployment rates in the week ending April 25 were in California (27.7), Michigan (23.1), Nevada (22.0), Pennsylvania (21.2), Rhode Island (20.6), Georgia (20.2), Vermont (20.0), New York (18.6), Connecticut (18.0), and Washington (18.0).

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

### University of Michigan Sentiment Index Prelim (May)

There was little change in the overall level of consumer sentiment in the prelim reading for May. Underlying that result there was an improvement in the consumer assessment of the current economic conditions as unemployment insurance, stimulus checks and other forms of income boosted household finances. The expectations for the outlook though continued to deteriorate.

This month the survey asked consumers to identify top concerns regarding the pandemic ;

“ ...was it the threat to their health, the required social isolation, or the impact on family finances? The **health threat dominated** in both months, cited by **61% in April and 57% in May**. The original hypothesis was that as their primary concerns shifted from health to finances, consumers would become less accepting of constraints on reopening the economy.”

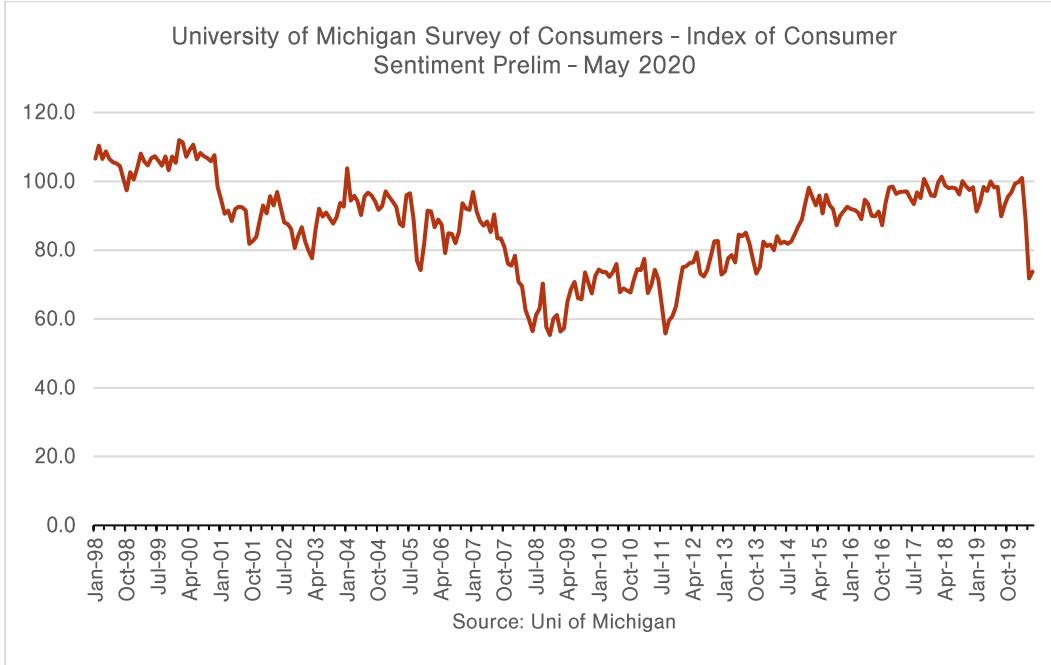
“**Those that cited damages to their finances as their top concern fell to 17%** in May from 22% in the prior month.”

Social isolation appears to be becoming more of an issue than damage to financial situation;

“Surprisingly, it was **greater concerns about social isolation** that increased, cited as the top concern by 21% in May up from 14% in April. While these shifts

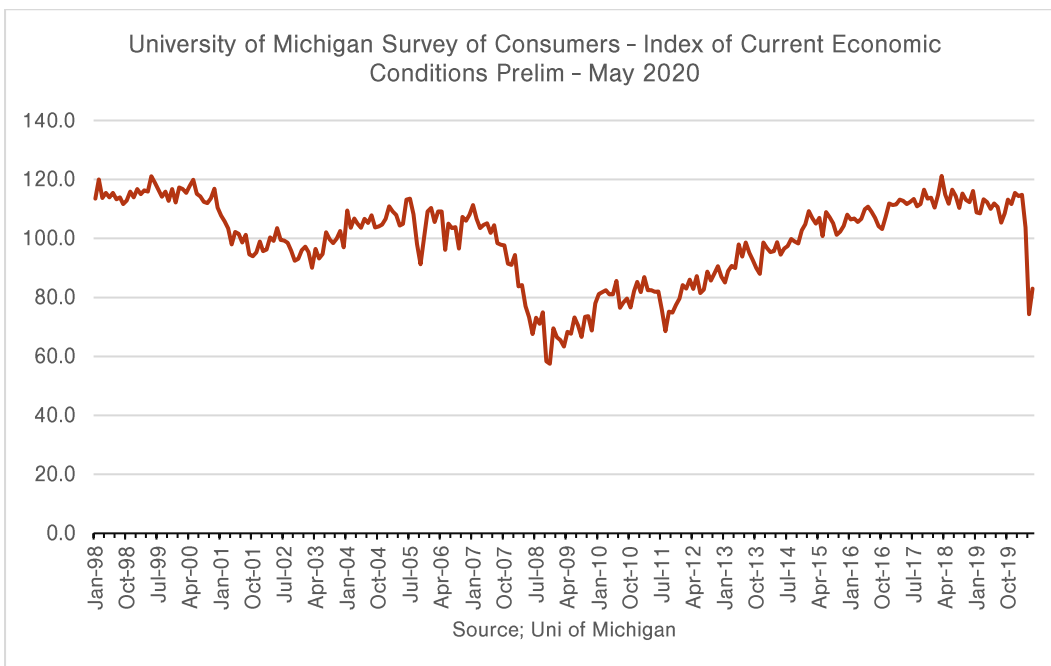
were quite small, they indicate the growing costs of social isolation and its potential to shift opinions about reopening the economy.”

**Headline Consumer Sentiment Index – month; prelim May 73.7 versus Apr 71.8**



**Index of Sentiment of Current Economic Conditions – month; prelim May 83 versus Apr 74.3**

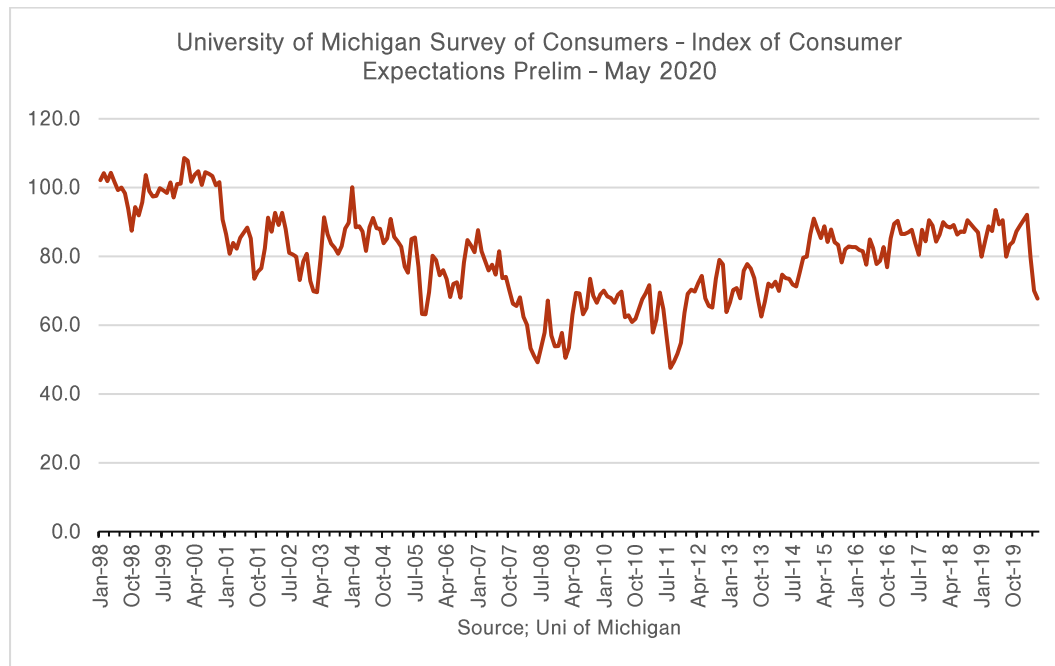
There was a somewhat larger increase in the sentiment around current conditions this month. Boosting sentiment over the last few weeks has been receipt of stimulus checks, unemployment insurance income and lower interest rates. At the same time, widespread discounting improved buying attitudes.



**Index of Consumer Expectations – month: prelim May 67.7 versus Apr 70.1**

Expectations fell further this month after a smaller fall in the month prior.

“...personal financial prospects for the year ahead continued to weaken, falling to the lowest level in almost six years, with declines especially sharp among upper income households.”



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

**Advance Retail Sales (Apr)**

The decline in retail sales accelerated in Apr. The decline across most categories was severe. Only one retail category recorded a month on month increase in sales (value) in Apr – that was non-store retailers.

**US Retail Sales (value) – month change: Apr -16.4% (-\$79.5bn) versus Mar -8.3% (-\$43.8bn)**

The scale of the decline across some categories this month is difficult to fathom. For example, clothing and clothing accessories stores recorded an 80% month on month decline in sales in Apr – which was after a 50% decline in Mar. Sales declined by -\$8.8bn in Apr to record total sales in the month of \$2.3bn. Sales are 90% below the same month a year ago.

Other categories with similar performance this month include; furniture and home furniture stores (-66.3% versus the same month a year ago), electronics and appliance stores (-65% versus a year ago), sporting goods (-50% versus a year ago) and food service (-50% versus a year ago).

**The top three categories by size all declined further this month;**

Grocery sales declined by 13% (-\$10.7) in Apr after a +29% increase in Mar. Sales are still +13% ahead of a year ago.

Motor vehicle retail sales declined at a slower pace -12% (-\$9.7bn) in Apr after a -26% decline in Mar. Motor vehicle sales are 32% below a year ago.

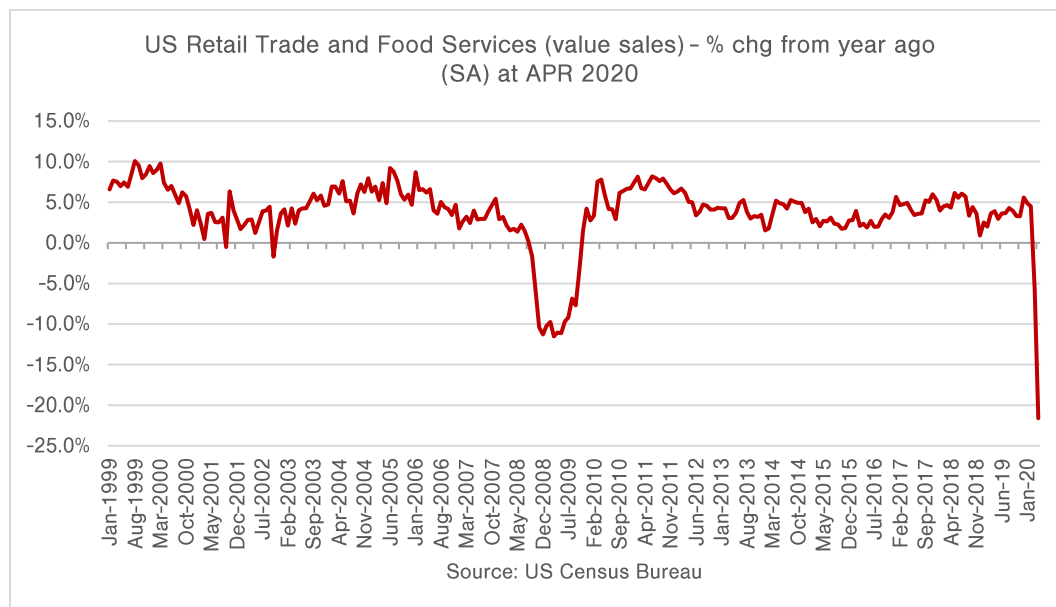
Gasoline station sales declined at a faster pace this month -29% (-\$10bn) after a 16% decline in the month prior. Gasoline station sales are 43% below a year ago.

**Best performances this month:**

Non-store retailers; +8.4% (+\$6.1bn) in Apr versus +5% in Mar. Sales are +21% ahead of a year ago.

Building materials and garden equipment; -3.5% (-\$1.1bn) in Apr versus -0.5% in Mar. Sales are +1.2% ahead of the same month a year ago.

**US Retail Sales (value) – annual change (SA): Apr -21.6% versus Mar -5.7%**



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

**Mortgage Applications wk. ending 8 May**

Mortgage applications and purchases show continued signs of improvement as mortgage rates remain near historical lows.

Mortgage market composite index (loan application volume): wk. ending 8 May +0.3% versus the week prior.

Refi index; wk. ending 8 May -3% versus the week prior, but still +201% ahead of the same week a year ago. This was the fourth week in a row that refis have declined. Refis have declined to 67% of application activity (from 70% the week prior).

The purchase index (a measure of the number of loans finalised and a leading indicator of home sales) increased by +11% versus the prior week and is -10% below the same week a year ago.

<https://www.mba.org/2020-press-releases/may/mortgage-applications-increase-in-latest-mba-weekly-survey-x264000>

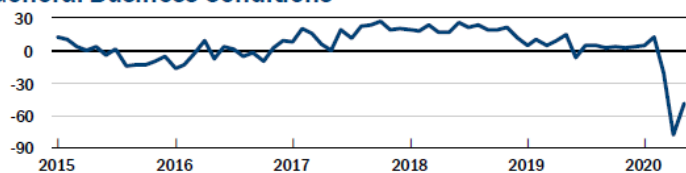
## NY Empire State Manufacturing Index (May)

The headline general business conditions index indicated that manufacturing activity continued to contract in May, albeit at a slower pace after the historic fall in Apr. Most measures of demand remained firmly negative this month, while expectations for future activity improved and importantly, there was an improvement in employment conditions.

Headline General Business Conditions Index; May -48.5 versus Apr -78.2

Manufacturing activity is continuing to decline, but the pace moderated somewhat in early May. The majority of firms (63%) still reported lower activity levels than in Apr. This was less than the 85% of firms reporting lower activity in Apr. But there was only a smaller increase in the proportion of firms reporting higher activity (from 7% to 14%). It follows then that 14.6% more firms reported 'no change' in activity in May – in other words, no change versus the extremely low levels of activity recorded in Apr.

### General Business Conditions



	Percent Reporting		Index
	Higher	Lower	
Apr	7.0	85.2	-78.2
May	14.5	63.1	-48.5
Change			29.7

A similar dynamic was recorded across new orders and shipments. New orders continued to decline, albeit at a slower pace. This month, 60% of firms reported continued lower new orders.

Shipments also declined, but at a slower pace. Just over 57% of firms reported lower shipments in May. In Apr, that number was 75%.

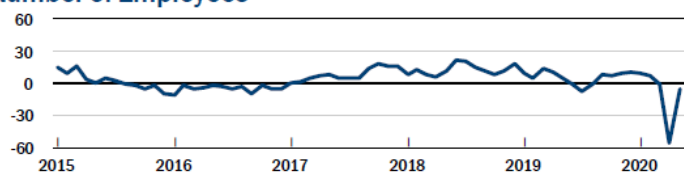
The level of unfilled orders continued to decline at a faster pace – helping firms maintain some workflow.

Delivery times started to slow.

Prices paid for inputs increased at a slower pace but margins remained under pressure as prices received continued to decline.

The decline in employment slowed. At least there was an increase in the proportion of firms recording higher levels of employment and hours. Consider the underlying shift below;

## Number of Employees



	Percent Reporting		Index
	Higher	Lower	
Apr	3.3	58.6	-55.3
May	14.7	20.8	-6.1
Change			49.2

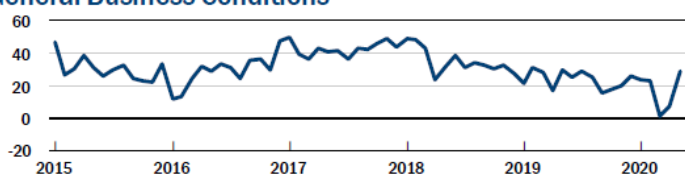
This month, 20.8% of firms reported continued declines in the number of employees. This is an improvement on the 58.6% that were cutting workforces last month. Last month 38.1% of firms reported no change in employment levels – this increased to 64.5% of firms reporting no change in workforces this month. This suggests that the difference between the two months, the increase of 26% of firms, instead opted to maintain (“no change”) the historic low employment levels of the month prior.

There was a similar dynamic at play with the average work week.

Firms optimism regarding future conditions improved from low levels last month to at least more moderate growth this month. The majority of firms now expect higher/improved conditions from here. Consider that this improvement is from the perspective of the current low levels of activity;

*Future Business Conditions – six-months ahead;*

## General Business Conditions



	Percent Reporting		Index
	Higher	Lower	
Apr	48.6	41.6	7.0
May	55.8	26.6	29.1
Change			22.1

[https://www.newyorkfed.org/survey/empire/empiresurvey\\_overview.html](https://www.newyorkfed.org/survey/empire/empiresurvey_overview.html)

## Industrial Production (Apr)

The severe decline in US industrial production in Apr confirmed the leading Apr PMI manufacturing data.

Total industrial production fell 11.2 percent in April for its largest monthly drop in the 101-year history of the index, as the COVID-19 (coronavirus disease 2019) pandemic led many factories to slow or suspend operations throughout the month.

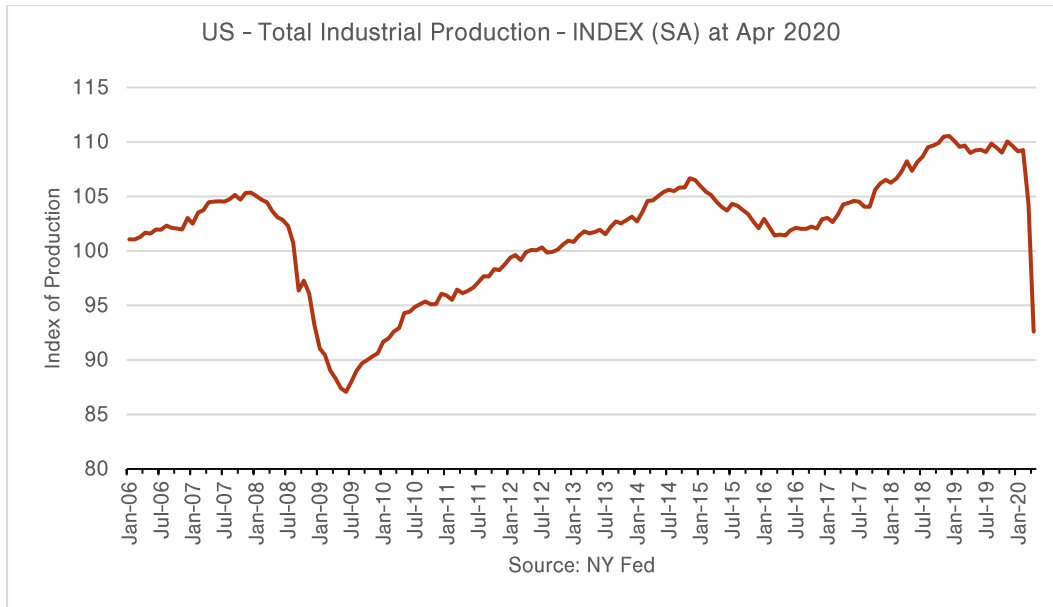
The review below includes the trend of the index as well as the rate of change, in order to highlight the levels of production activity. Leading the decline in the month was manufacturing – with production levels in the month falling to the lowest levels recorded during the GFC. Mining activity also declined at a faster pace. Production by utilities was only slightly down in the month.

The decline in capacity utilization was led mostly by the fall in manufacturing capacity utilization.

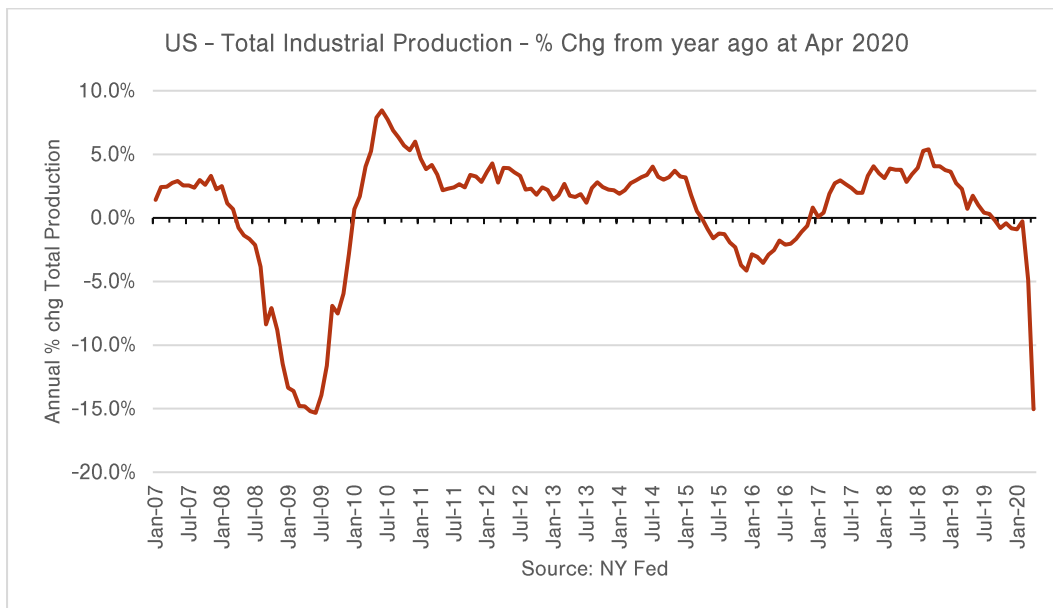
Total US Industrial Production – month change: Apr -11.2% versus Mar -4.5%



Production in Apr fell back to 2010 levels;



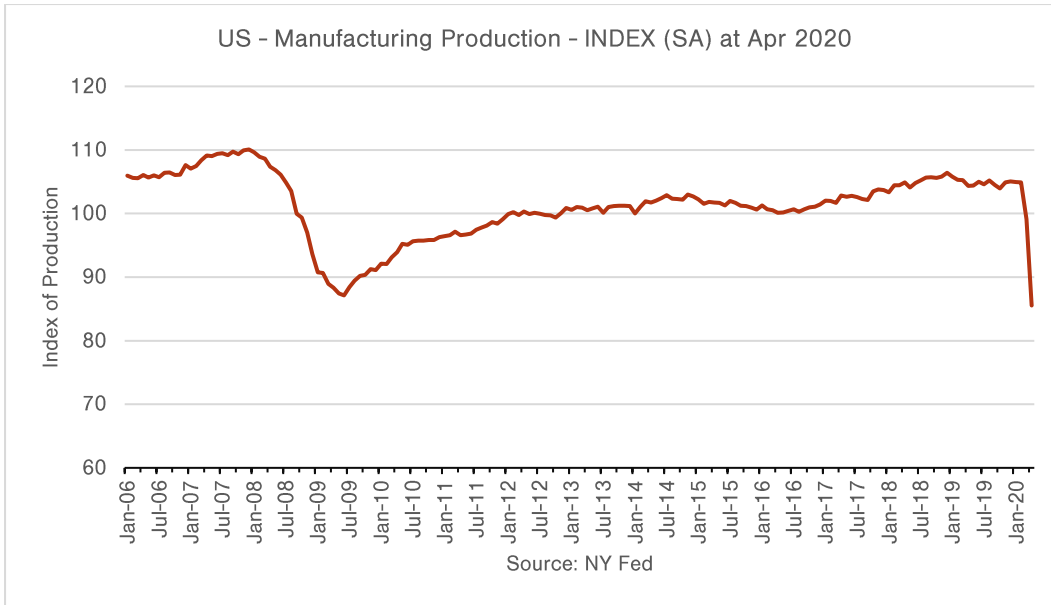
The pace of the fall was so severe this month that production levels fell to -15% below a year ago.



Leading the overall decline was the fall in manufacturing production. But mining and utilities production also declined in the month, albeit at a less extreme pace.

Manufacturing Production – month change: Apr -13.7% versus Mar -5.5%

Manufacturing production in Apr fell to GFC levels;

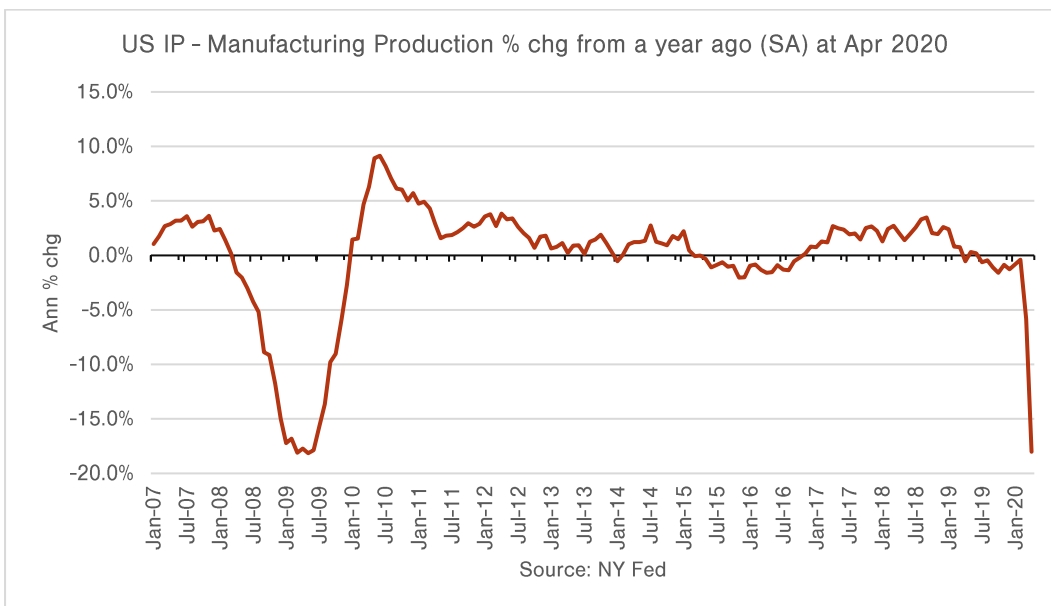


Declines in production were led by a notable acceleration in the decline of durable goods manufacture; Apr -19.3%. Production across all durable goods classifications declined at a faster pace than in Mar.

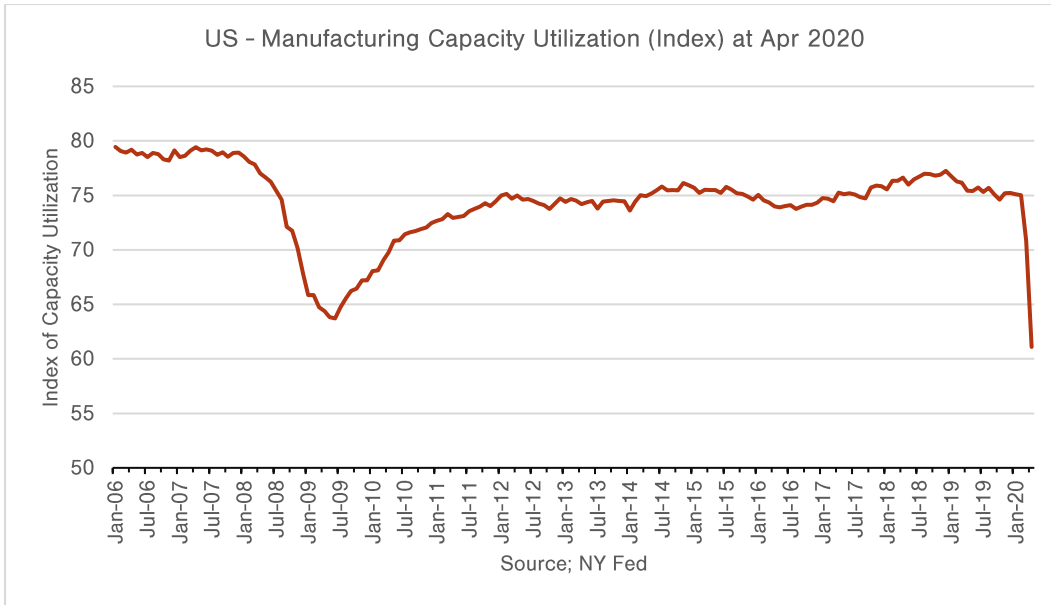
Most notable was the 70% decline in motor vehicle production in Apr – the production index fell to 25 (from 130 in Feb) – meaning that production was almost completely stopped.

The production of non-durable goods also declined at a faster pace, albeit not as severely; Apr -8.2%. Production of all non-durable goods classifications declined at a faster pace than in the month prior – including the production of food, beverage, and tobacco (production declined by -7.1% in Apr).

On an annual basis, total manufacturing production levels fell to -18% below a year ago;

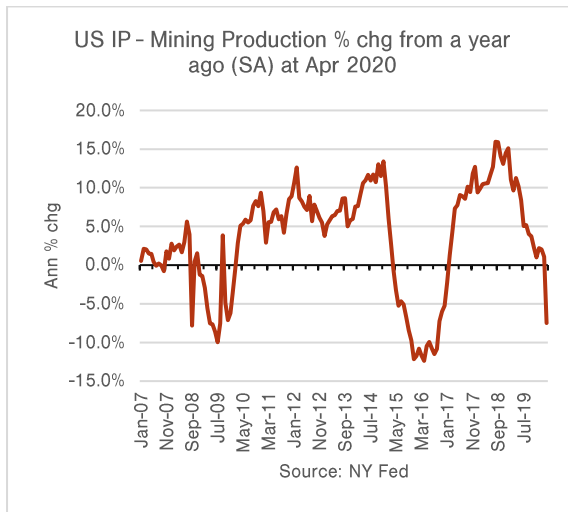
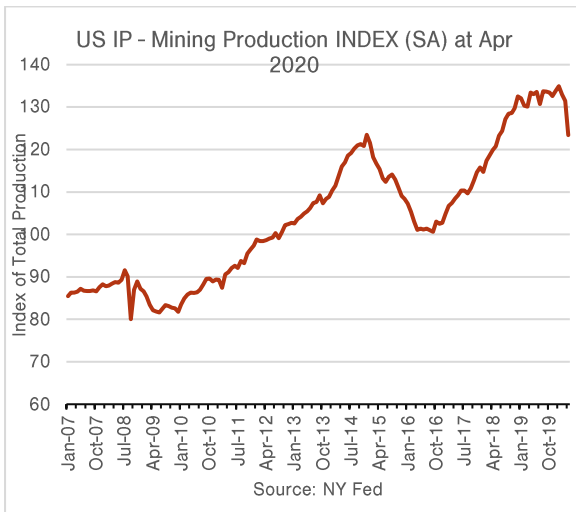


Manufacturing capacity utilization fell to 61% and is 19% below that of a year ago;



**Mining Production – month change; Apr -6.1% versus Mar -1.1%**

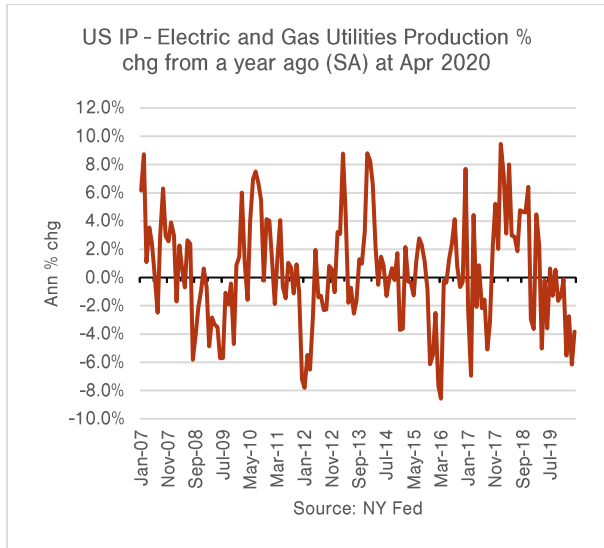
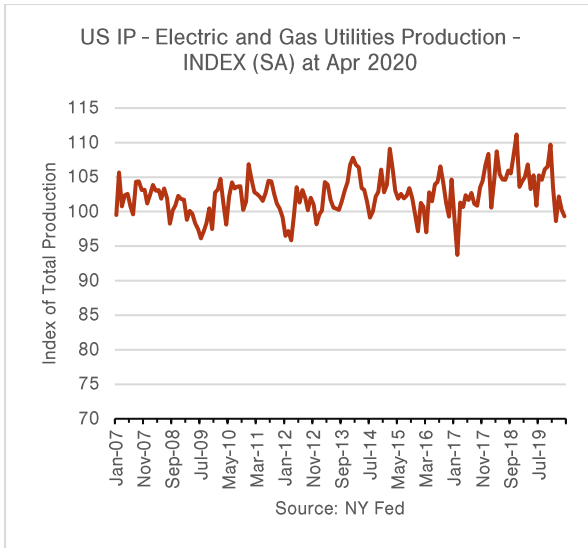
The decline in mining production was less severe, but still accelerated in the month. The index of mining production fell to 7.5% below a year ago.



Mining production capacity utilization fell to 81% in Apr – which is 11% below that of a year ago

**Utilities Production – month change; Apr -0.9% versus Mar -1.9%**

There was little change in the production of electric and gas utilities this month. Overall production levels were -3.8% below the same time a year ago;



Capacity utilization was little changed in the month, falling slightly to 71% and remains 6% below a year ago.

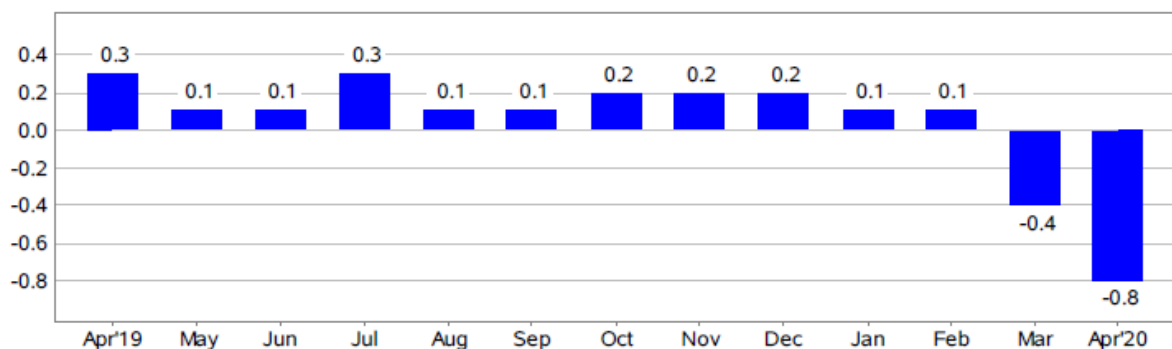
<https://www.federalreserve.gov/releases/g17/current/default.htm>

## CPI (Apr)

The headline CPI growth declined in the month and slowed notably on an annual basis. There were some extreme changes to consumer prices underlying this result; the large decline in energy prices, an acceleration in food at home prices and a slow-down in the growth of core CPI components led by transport services.

**CPI ALL-ITEMS – MONTH CHANGE;** Apr -0.8% versus Mar -0.4%

Chart 1. One-month percent change in CPI for All Urban Consumers (CPI-U), seasonally adjusted, Apr. 2019 - Apr. 2020  
Percent change



The accelerated decline in Apr was led by energy prices, which declined by -10.1% versus Mar.

Growth of food prices in the month accelerated from +0.3% in Mar to +1.5% in Apr. The food at home price index increased faster from +0.5% in Mar to +2.6% in Apr.

The components of core CPI (ex food and energy) declined at a faster pace in the month;

Core CPI – month change; Apr -0.4% versus Mar -0.1%

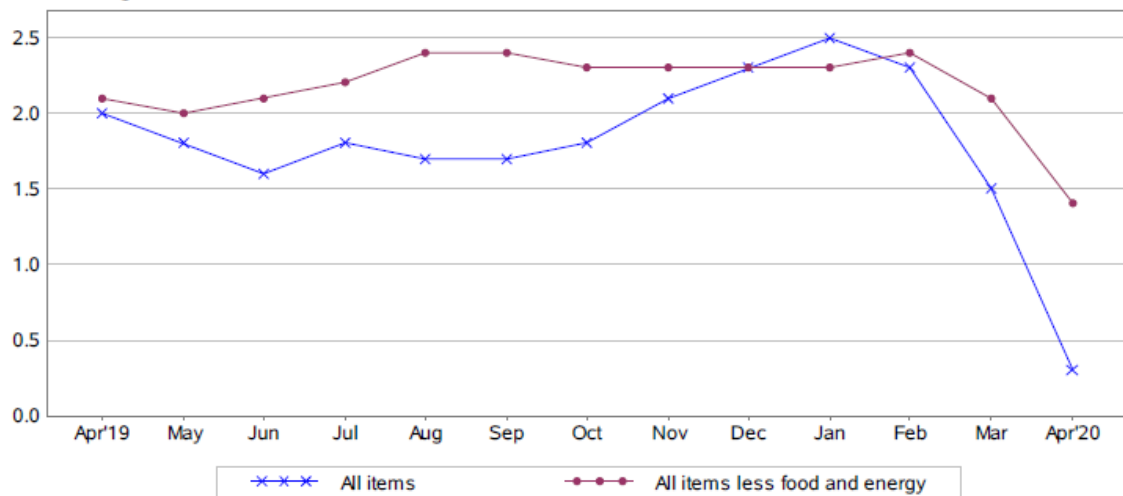
Commodities less food and energy commodities declined at a faster pace led by apparel (-4.7%).

Services less energy services also shifted into decline for the month, with prices falling by -0.4%. This was mostly led by some slowdown in growth in shelter, but prices for transportation services declined by -4.7%, which includes a -15.2% decline in airline fares.

The declines in the month contributed to a large slow-down in the annual growth of consumer prices;

CPI ALL-ITEMS – ANNUAL CHANGE; Apr +0.3% versus Mar +1.5%

Chart 2. 12-month percent change in CPI for All Urban Consumers (CPI-U), not seasonally adjusted, Apr. 2019 - Apr. 2020  
Percent change



The single largest contributor to the slower annual growth in all-items CPI was energy prices, which declined by -17.7% versus a year ago. In Mar, that annual decline was -5.7%.

The annual growth in food prices accelerated in Apr, with prices increasing by +3.5% versus a year ago. Food at home increased by +4.1% - led by poultry, meat, fish and eggs, dairy products, and non-alcoholic beverages. In Mar, the annual change in food prices was +1.9%.

The largest weight in the CPI index are the components of core CPI – all items excluding food and energy. Approx. 80% of the index weight in Apr.

Core CPI – ex Food and Energy – annual change; Apr +1.4% versus Mar +2.1%

Annual growth in core CPI slowed. The two main core CPI components are;

1. Commodities less food & energy – annual change; Apr -0.9% versus Mar -0.2%

The decline in prices accelerated due to apparel (-5.7%), new vehicles (-0.6%) and used cars and trucks (-0.7%).

2. Services less energy services – annual change; Apr +2.2% versus Mar +2.8%

This is a notable slowdown in services prices. There was some slow-down in shelter prices (which is the single largest weight item in the index at 34% weight) as growth slowed from 3% in Mar to +2.6% in Apr.

Medical services prices accelerated in Apr to +5.8% growth.

The decline in transportation services prices accounted for most of the slow-down on an annual basis, with prices declining by -5.5% in Apr. Within that, airline fares declined by 24% versus a year ago in Apr (down by -10% in Mar).

<https://www.bls.gov/news.release/cpi.nr0.htm>

## PPI (Apr)

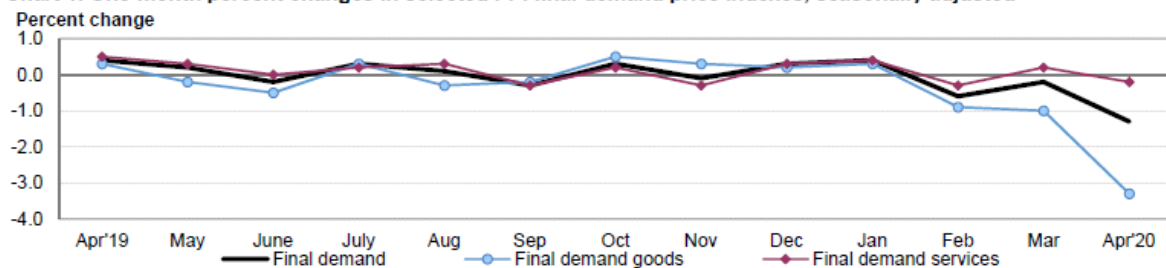
The producer price index is different to the consumer price index in that it measures the prices received by producers for domestically produced goods and services.

The final demand portion of the FD-ID structure measures price change for commodities sold for personal consumption, capital investment, government, and export. The system is composed of six main price indexes: final demand goods; final demand trade services; final demand transportation and warehousing services; final demand services less trade, transportation, and warehousing; final demand construction; and overall final demand.

This month, the PPI for final goods declined further, recording the largest monthly decrease since the index series was started in 2009. This was led mostly by the much larger falls in energy prices.

**PPI FINAL DEMAND – MONTH CHANGE:** Apr -1.3% versus Mar -0.2%

**Chart 1. One-month percent changes in selected PPI final demand price indexes, seasonally adjusted**



The decline in the month was led mostly by a 19% decline in energy prices, but declines across most categories contributed to change in the month.

Final demand goods prices declined by 3.3% in the month – led mostly by energy -19%. But food prices also declined by -0.5% in Apr after posting no change in Mar. Goods less food & energy prices also declined at a faster pace of -0.4% in Apr.

Two-thirds of the April decrease in the index for final demand goods can be traced to prices for gasoline, which dropped 56.6 percent. This is the largest decrease since the series began in February 1947. The indexes for jet fuel, diesel fuel, basic organic chemicals, home heating oil, and corn also moved lower. In contrast, prices for beef and veal rose 12.6 percent.

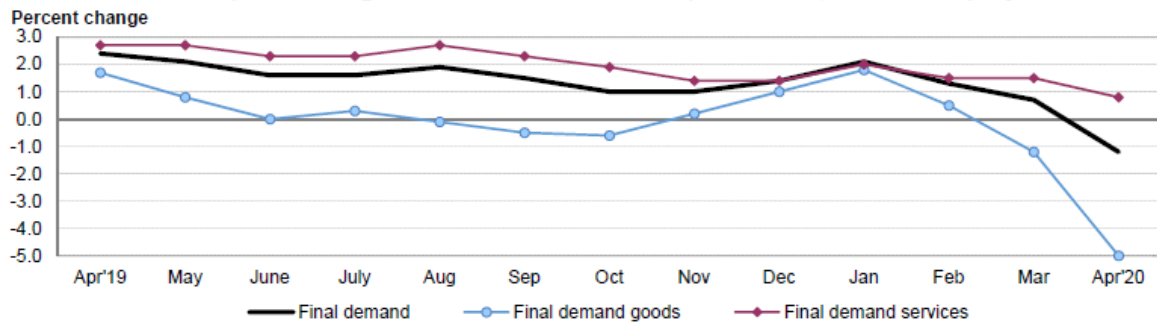
Final demand services declined at a more modest pace of -0.2% in Apr versus the month prior. Trade prices increased at a faster pace, but transportation and warehousing prices continued to decline at a faster pace of -3.5% in the month.

Leading the decrease, prices for final demand services less trade, transportation, and warehousing moved down 0.9 percent. The index for final demand transportation and warehousing services declined 3.5 percent. Conversely, margins for final demand trade services increased 1.6 percent.

**PPI FINAL DEMAND – ANNUAL CHANGE:** Apr -1.2% versus Mar +0.7%

The accelerated decline in the annual PPI was led by goods (energy prices). Annual PPI services price growth also slowed, but remained positive.

**Chart 2. Twelve-month percent changes in selected PPI final demand price indexes, not seasonally adjusted**



<https://www.bls.gov/news.release/ppi.nr0.htm>

**Speech by US Fed Chairman Powell – Current Economic Issues – 13 May**

This was a brief speech given by Chairman Powell – outlining key issues as well as policy response to date.

Several speeches now reference the role of the Fed. While reinforcing the point that the Fed has ample ammunition, Chairman Powell continues to highlight the shortcomings of that ammunition and policy response (emphasis added);

At the Fed, we will continue to use our tools to their fullest until the crisis has passed and the economic recovery is well under way. Recall that **the Fed has lending powers, not spending powers**. A loan from a Fed facility can provide a bridge across temporary interruptions to liquidity, and **those loans will help many borrowers** get through the current crisis.

Chairman Powell continues to place part of the recovery onus back onto the US Congress for support;

But the recovery may take some time to gather momentum, and the passage of time can turn liquidity problems into solvency problems. Additional **fiscal support could be costly, but worth it if it helps avoid long-term economic damage and leaves us with a stronger recovery**. This tradeoff is one for our elected representatives, who wield powers of taxation and spending.

The Chairman also referenced a report released later in the week regarding the impact of Covid-19 on the economy and households;

A Fed survey being released tomorrow reflects findings similar to many others:  
Among people who were working in February, almost 40 percent of those in households making less than \$40,000 a year had lost a job in March.

Report link; <https://www.federalreserve.gov/newsevents/pressreleases/other20200514a.htm>  
<https://www.federalreserve.gov/newsevents/speech/powell20200513a.htm>

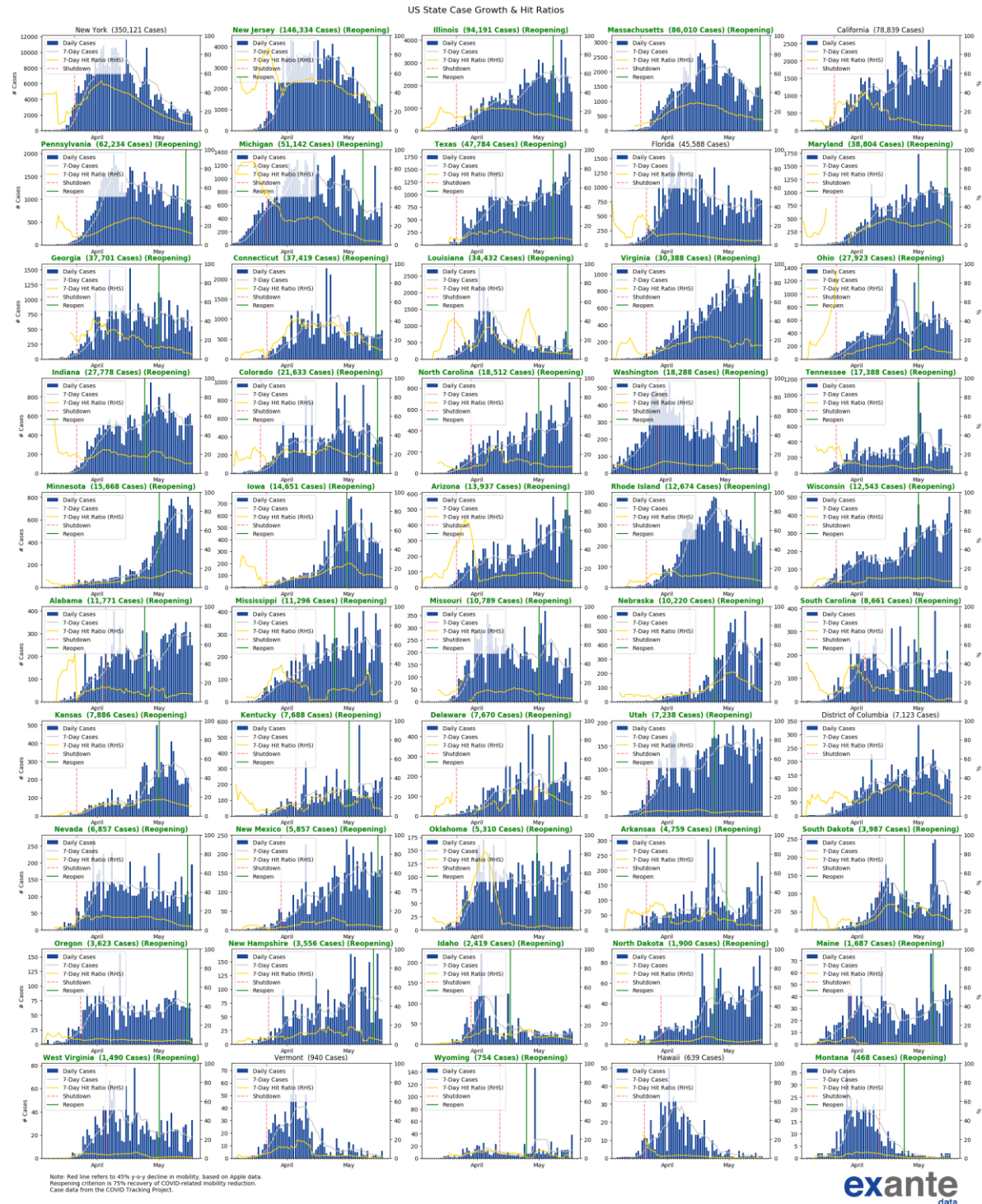


## Appendix – Status of US States and Covid-19 at 18 May 2020

Source: Exante Data (@ExanteData)

“The 50-panel grid shows daily new confirmed cases in levels (blue), the weekly trend in new cases (gray) and testing hit ratio (gold), along with indicators of social distancing enactment (red) and relaxation (green).”

Green headlines indicate states in the process of re-opening – which is the majority of states.



[Return to top](#)

---

# Europe

---

## Eurozone Industrial Production (Mar)

Industrial production declined severely in Mar. The contraction in activity has fallen below levels reached during the European debt crisis of 2012. The Mar PMI's indicated that activity would decline sharply. Unfortunately, the Apr PMI's indicate that the contraction is likely to have become even deeper in Apr.

TOTAL EU INDUSTRIAL PRODUCTION – MONTH CHANGE: Mar -10.3% versus Feb 0%

Declines in production were recorded across all industry areas in the month;

Intermediate goods production -9.9%

Energy -3.5%

Capital goods production -15.1%

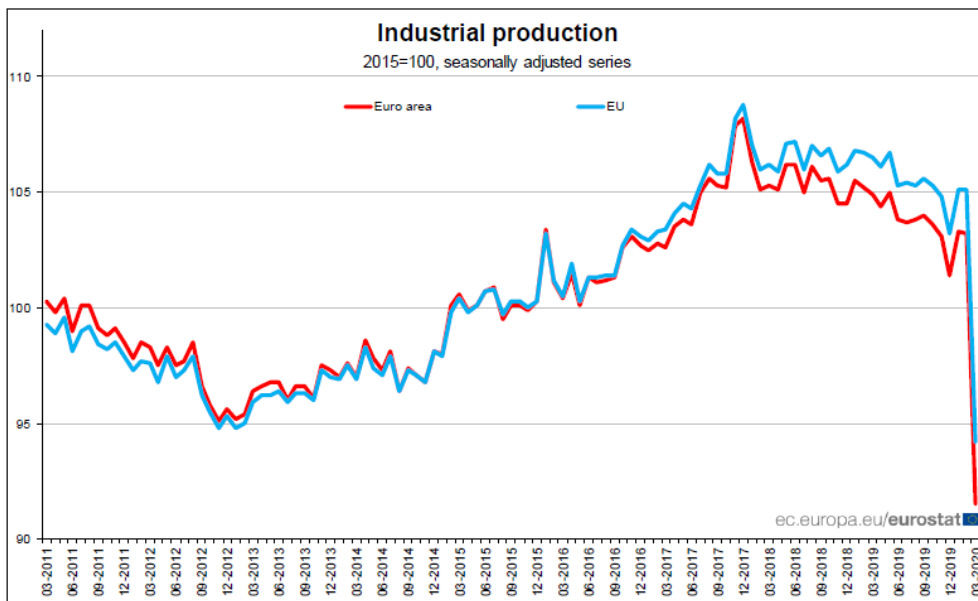
Durable Consumer Goods Production -23.8%

Non-Durable Consumer Goods Production -1.2%

Regions: the largest declines were recorded in Italy (-28.4%), Slovakia (-20.3%) and France (-16.4%). While some markets bucked the trend, most notably Ireland; Ireland (+15.5%), Greece and Finland (both +1.9%) and Lithuania (+0.7%).

TOTAL EU INDUSTRIAL PRODUCTION – ANNUAL CHANGE: Mar -11.8% versus Feb -2.2%

As a result of the larger declines in Mar, the index of industrial production across the EU fell sharply to -11.8% below the same month a year ago. The index had already been trending lower from its 2017 peak:



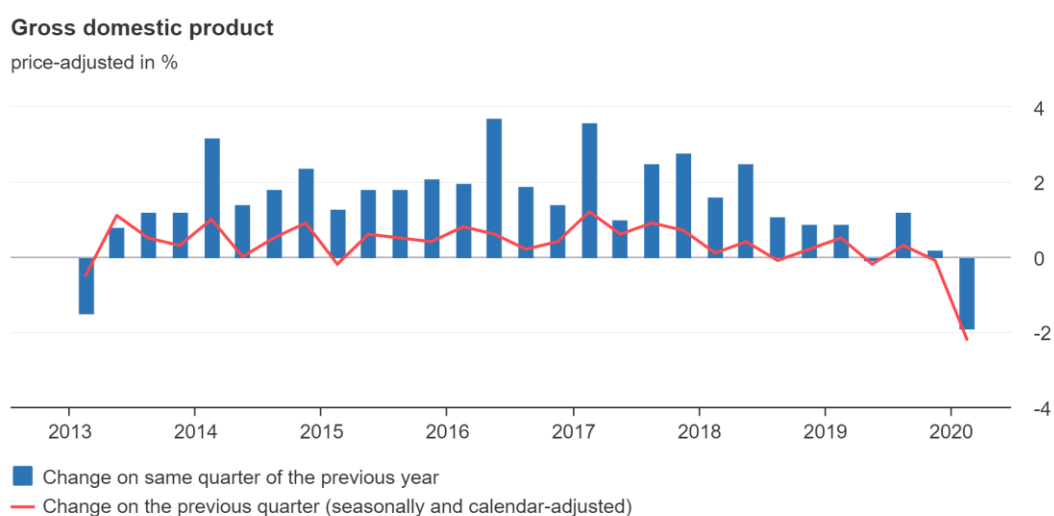
<https://ec.europa.eu/eurostat/documents/2995521/10294804/4-13052020-AP-EN.pdf/dfa765ad-4a32-8135-f98f-69e565347750>

## Germany GDP Prelim Q1

Real GDP in Germany declined by 2.2% in Q1 due to the impact of Covid-19 containment policies. Most of the negative impact in the quarter was recorded from mid-Mar;

The corona pandemic hits the German economy hard. Although the spread of the coronavirus did not have a major effect on the economic performance in January and February, the impact of the pandemic is serious for the 1<sup>st</sup> quarter of 2020.

Unfortunately, the German economy was already weakening and Q4 2019 GDP growth was revised lower to -0.1%. This means that, technically, Germany may already be in a recession (red line below is quarterly growth);



© Statistisches Bundesamt (Destatis), 2020

The impact in Q1 2020 was significant enough that even annual GDP declined by -1.9% in Q1 (versus Q1 in 2019).

There is a technical note advising that the impact of Covid-19 has been so significant that not all source data has been available for this release. Estimation models have been used to develop this GDP result. The estimation models are based on past relationships “part of which no longer apply in the current situation”.

Nevertheless, due to the greater uncertainties, the estimations may lead to larger revisions than usual.

The next release of GDP will be 25 May – and larger revisions will also impact the broader EU results.

## GDP Detail

Growth in construction and government consumption expenditure helped to offset declines across household consumption and private investment. This was partly confirmed by the stronger construction data in the German industrial production release last week.

Both exports and imports recorded a “strong decline” versus the Q4 2019.

[https://www.destatis.de/EN/Press/2020/05/PE20\\_169\\_811.html](https://www.destatis.de/EN/Press/2020/05/PE20_169_811.html)

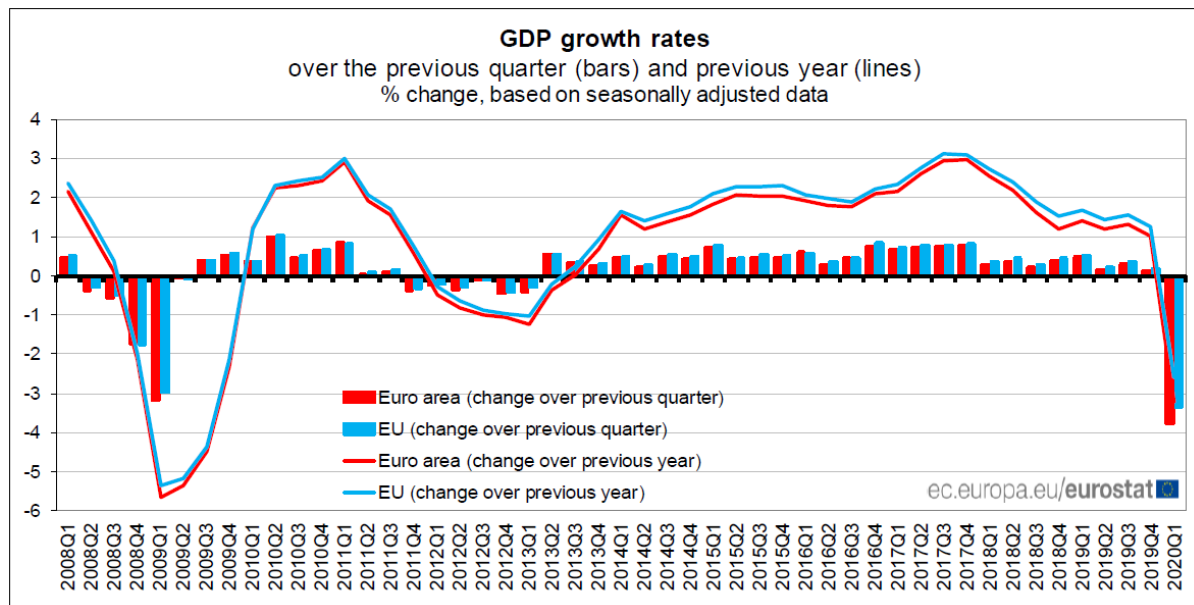
## Eurozone GDP Q1 – Flash Estimate

The prelim 3.8% decline in Q1 GDP for the Euro area was confirmed in the flash estimate released this week. The decline in GDP across the EU was confirmed at 3.3%.

Most of the containment measures for Covid-19 were introduced in Mar 2020.

Euro area GDP – quarter change; Q1 -3.8% versus Q4 2019 +0.1%

Euro area GDP – annual change; Q1 -3.2% versus Q4 2019 +1%



<https://ec.europa.eu/eurostat/documents/2995521/10294864/2-15052020-AP-EN.pdf/5a7ea909-e708-f3d3-8375-e2510298e1b8>

## Appendix – European Covid-19 Case Counts by Country

Via [endcoronavirus.org](http://endcoronavirus.org)

### Containment is possible.

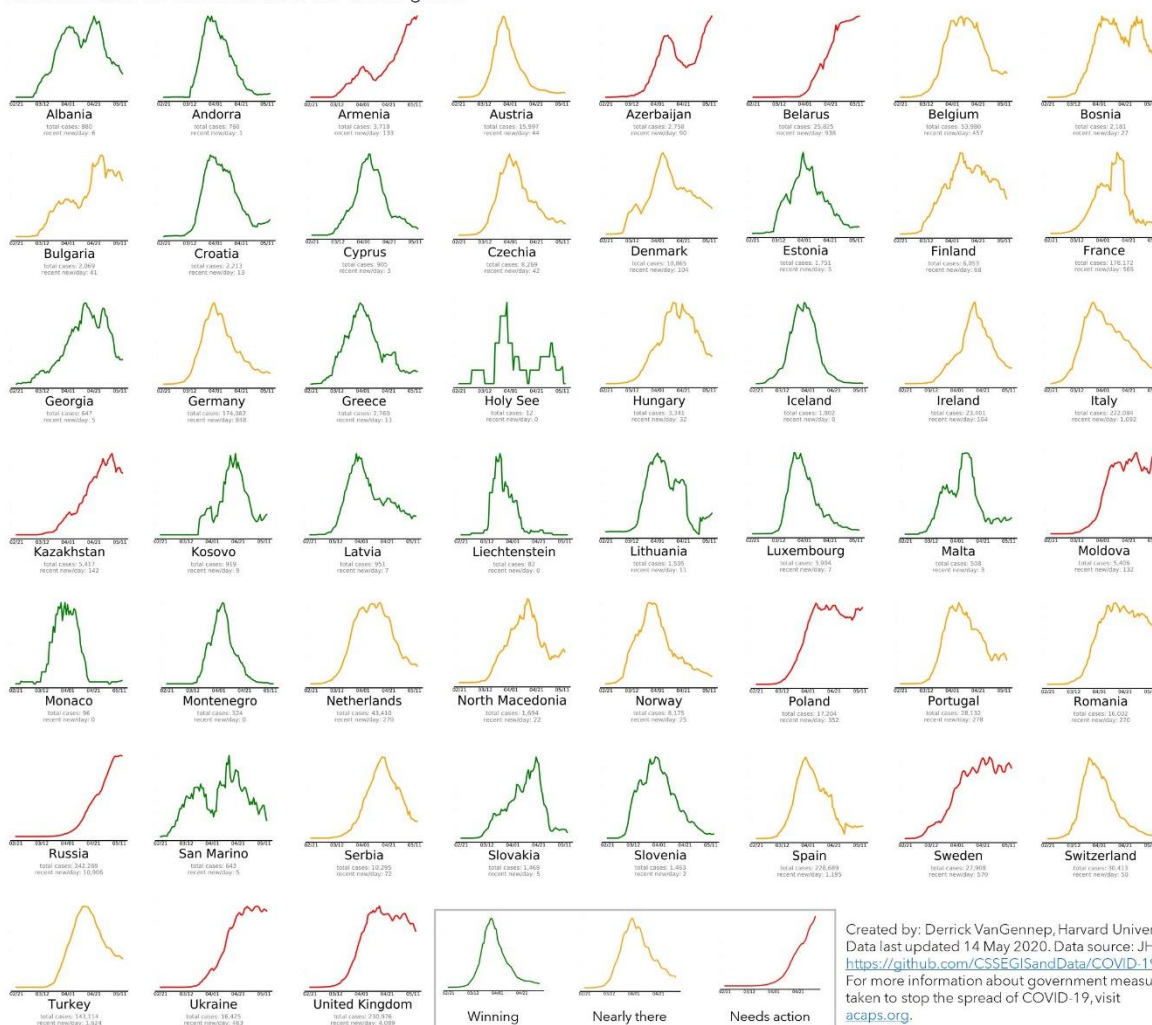
The success of many countries shows that acting quickly, imposing travel restrictions, requiring face masks, improving testing, and isolating the sick away from home can bring new cases down to zero. It only takes several weeks. There is no second wave if the virus is gone.

Normalized daily new COVID-19 cases vs time, 10-day average



**END CORONAVIRUS.org**

"recent new/day" shows the new cases per day, averaged over the last week



[Return to top](#)

---

## United Kingdom

---

### GDP Q1 – First Quarterly Estimate

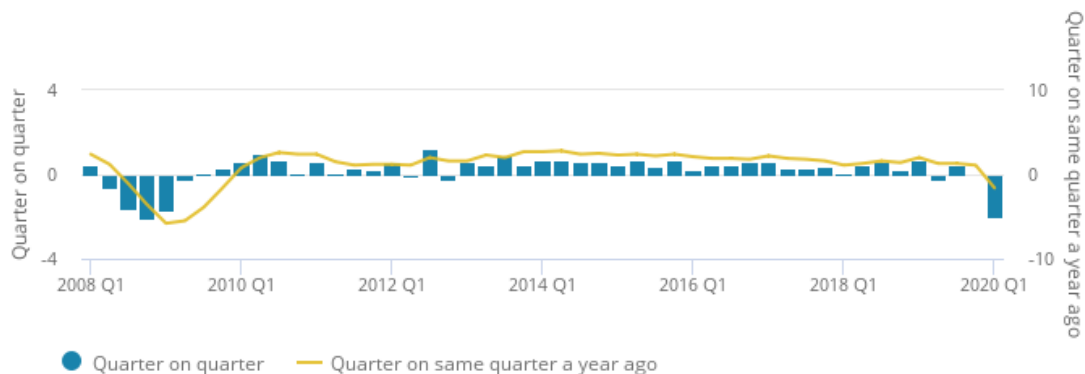
UK GDP declined in Q1 and declined versus a year ago. The decline was the result efforts to contain Covid-19. The impact on the economy was broad.

UK Real GDP – quarter change: Q1 -2% versus Q4 2019 +0.5%

UK Real GDP – annual change: Q1 -1.6% versus Q4 2019 +1.1%

Figure 1: Real GDP fell by 2.0% in Quarter 1 2020, reflecting the imposing of public health restrictions and voluntary social distancing

UK, Quarter 1 (Jan to Mar) 2008 to Quarter 1 (Jan to Mar) 2020



Source: Office for National Statistics – GDP first quarterly estimate

### Expenditure View of GDP

Most areas of expenditure contributed to the decline in Q1 GDP (versus the quarter prior);

Private Consumption – household consumption expenditure declined by 1.7% in Q1.

Government Consumption expenditure declined by 2.6% in Q1

Gross Fixed Capital Formation declined by 1% in Q1 – led by lower investment spending on dwellings and government investment.

Business investment was flat in Q1 – many firms reported placing projects on hold from the last few weeks in Q1.

Inventory levels declined in Q1 – the result of difficulty in replenishment of stocks as well as some evidence of increased stockpiling by firms and households.

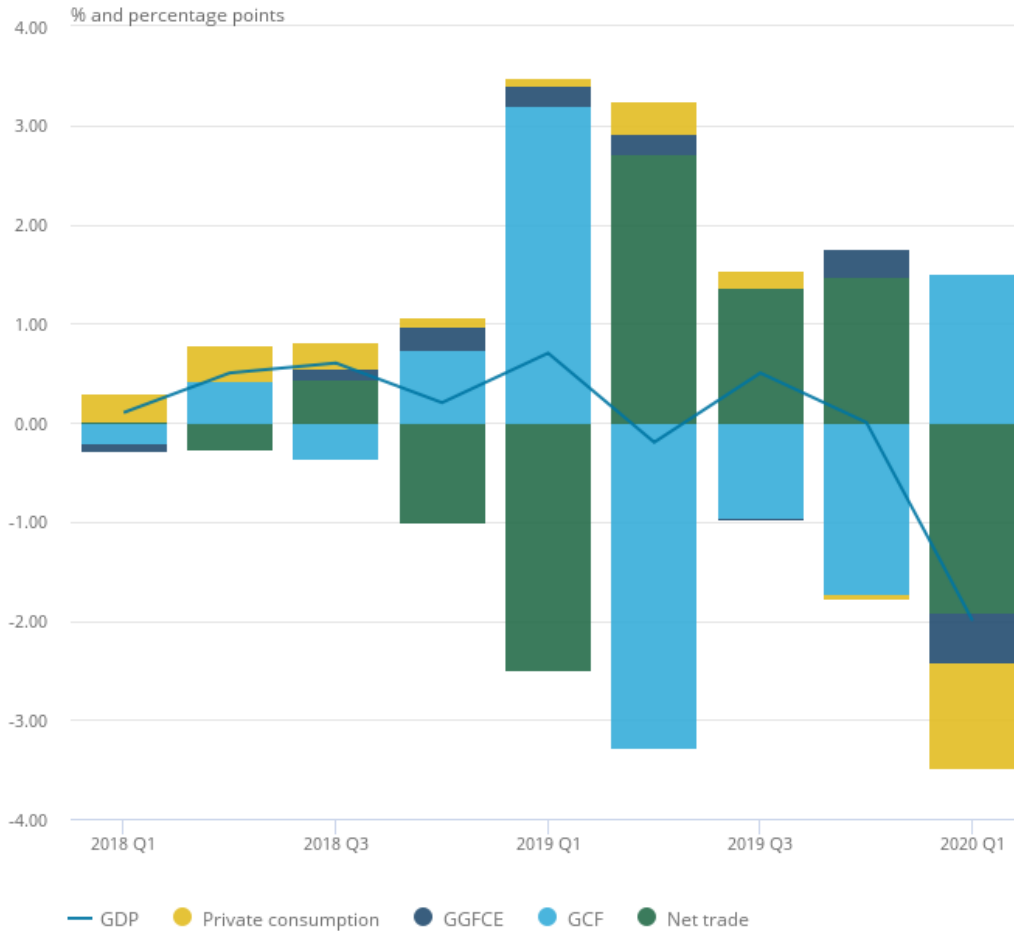
Overall Gross Capital Formation made a positive contribution to headline GDP growth, despite the declines in gross fixed capital formation, business investment and inventories;

An upwards contribution came from valuables, which offset the downwards drag on gross fixed capital from GFCF and the change in inventories.

Net trade was one of the larger contributors to the decline in GDP in Q1 – export volumes declined by 10.8% in Q1 and import volumes declined by 5.3%.

Figure 7: Private consumption, government consumption and net trade subtracted from growth in Quarter 1 2020, with only gross capital formation contributing positively to growth

UK, Quarter 1 (Jan to Mar) 2018 to Quarter 1 (Jan to Mar) 2020



Source: Office for National Statistics – GDP first quarterly estimate

<https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/januarytomarch2020>

[Return to top](#)

---

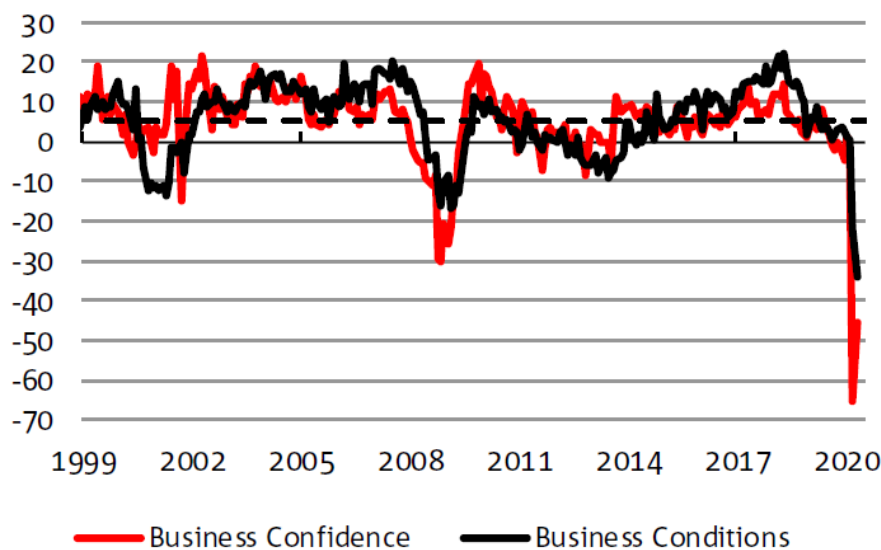
## Australia

---

### NAB Business Confidence and Conditions (Apr)

The Apr report reflects the first full month of social distancing restrictions in Australia. This month, business confidence rebounded slightly, but remained extremely negative, and conditions continued to deteriorate, falling below the worst levels of the GFC.

#### CHART 7: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE



\* Dotted lines are long-run averages since Mar-97.

#### Business Confidence; Apr -46 versus Mar -65

Confidence remained firmly negative, but there was improvement recorded across most industries; the exception of manufacturing which was flat. Service industries, manufacturing and transport & utilities now have the weakest outlook.

#### Business Conditions; Apr -34 versus Mar -22

The deterioration in conditions was broad-based. The individual components all recorded further steeper declines this month;

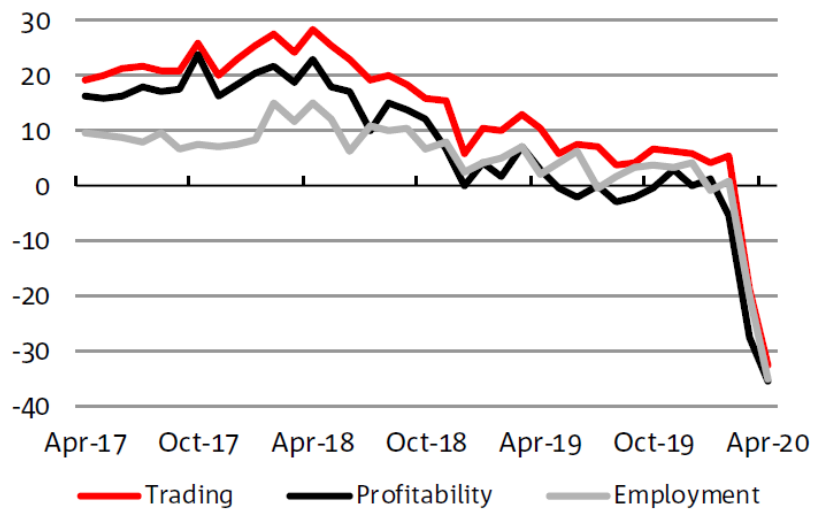
Trading conditions; Apr -33 versus Mar -19

Profitability; Apr -35 versus Mar -28

Employment; Apr -35 versus Mar -20



**CHART 6: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.**



Despite the small rebound in business confidence, the forward view of activity also continued to deteriorate. Forward orders declined further from -28 in Mar to -36 in Apr. Capacity utilization also fell further to 72% - indicating that conditions and activity will need to improve significantly before businesses consider expanding.

<https://business.nab.com.au/wp-content/uploads/2020/05/2020m04-NAB-Monthly-Business-Survey.pdf>

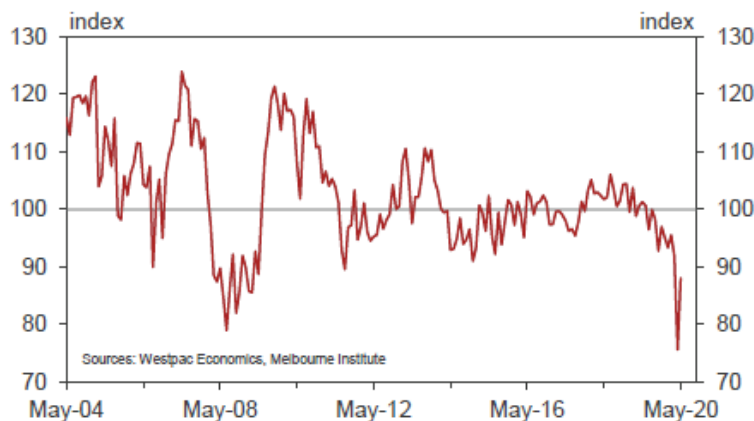
## Westpac Consumer Confidence (May)

Better news for the economy was the improvement in consumer confidence in May. The reference week was 4-8 May which included the Federal Government announcement of the phased plan to ease restrictions. The underlying shift in sentiment seems to be driven by the prospect of earlier than expected re-opening together with better than expected virus containment. The context of underlying fiscal and monetary support cannot be discounted either. So the “worst fears” for the virus have, so far, been “soothed”.

Headline Aus Consumer Sentiment Index; May 88.1 (+16.4%) versus Apr 75.6

This represents an impressive recovery in Confidence. Consumers are clearly heartened by Australia’s success in containing the Coronavirus which has justified the easing of some of the social restrictions that have been so painful for individuals and the economy over the last two months.

## Consumer Sentiment Index



State based results were mixed. Outsized gains were made in WA and NSW as both states performed well on containment and with earlier than expected easing of restrictions. Whereas in Vic, the gain in confidence was smaller on news of further outbreaks as well as uncertainty over restrictions.

Confidence gains were strongest in those industries hardest hit by distancing restrictions and virus concerns. Confidence posted a 30% gain across hospitality, health, and consumer services.

The component detail showed gains across the board but was led by the sub-indexes that are most sensitive to the direct effects of the shutdown and showed the heaviest falls in April.

<https://www.westpac.com.au/content/dam/public/wbc/documents/pdf/aw/economics-research/er20200513BullConsumerSentiment.pdf>

## Employment and Labour Force Report (Apr)

This month report reflects the first full month of containment restrictions. Employment growth declined severely and unemployment increased. The increase in total unemployed persons was notably tempered by a large fall in participation. This resulted in a much smaller than expected increase in the unemployment rate but a larger decline in the size of the labour force.

At this point it's important to appreciate the unique nature of the 'temporary' shutdown on labour market activity. Consider that, for example, part of the reason for leaving the workforce was that once someone became unemployed, they no longer had the same opportunity to find work – especially with social distancing restrictions still in place. The mutual obligation requirement of government assistance has also been paused during the crisis. These factors have likely led to the larger decline in the participation rate.

Social distancing rules are likely to have impacted people's job search activities, while changes to schooling arrangements may have impacted people's availability for work, or ability to look for work.

Those paid on the JobKeeper subsidy: the ABS expect that they are classified as “employed” regardless of hours actually worked e.g. even if stood down. The job attachment is maintained.

Those on JobSeeker allowance: are not automatically classified as unemployed. How they are categorised depends on how they answer questions around labour market activity. Recent changes to the JobSeeker program as result of COVID-19 also mean that recipients do not have to meet the usual mutual obligation requirements (such as looking for work).

Given these unique labour market conditions, the increase in the unemployed (of around 100,000) and increase in the unemployment rate (1.0 pts) only partially reflect the impact on employment. More significant were the large changes in hours worked (down by 9.2%), the participation rate (down 2.4 pts to 63.5%), the employment to population ratio (down 2.9 pts to 59.6%), the underemployment rate (up 4.9 pts to 13.7%) and the underutilisation rate (up 5.9 pts to 19.9%).

Note that the analysis this month utilizes the seasonally adjusted series – as the trend series has been suspended for the time being.

### Employment

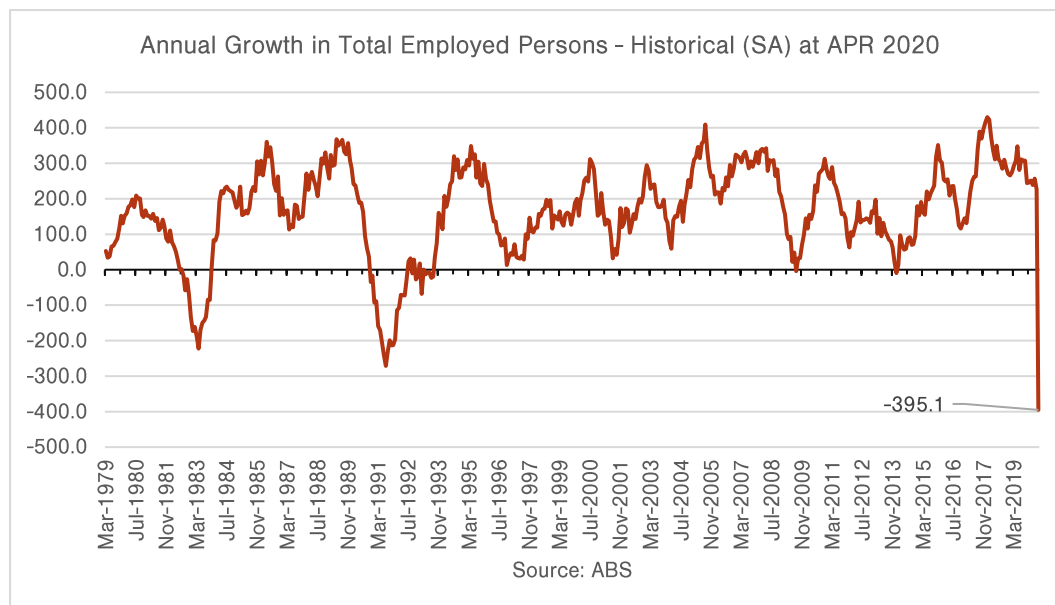
Employment declined severely in the month. Note that those receiving the JobKeeper allowance, no matter how many hours they worked, are still classified as “employed”.

Employed persons – month change; Apr -594k persons versus Mar +0.68k persons.

Annual employment also declined as a result of the large fall in the month;

Employed persons – annual change; Apr -395k persons versus Mar +227k persons.

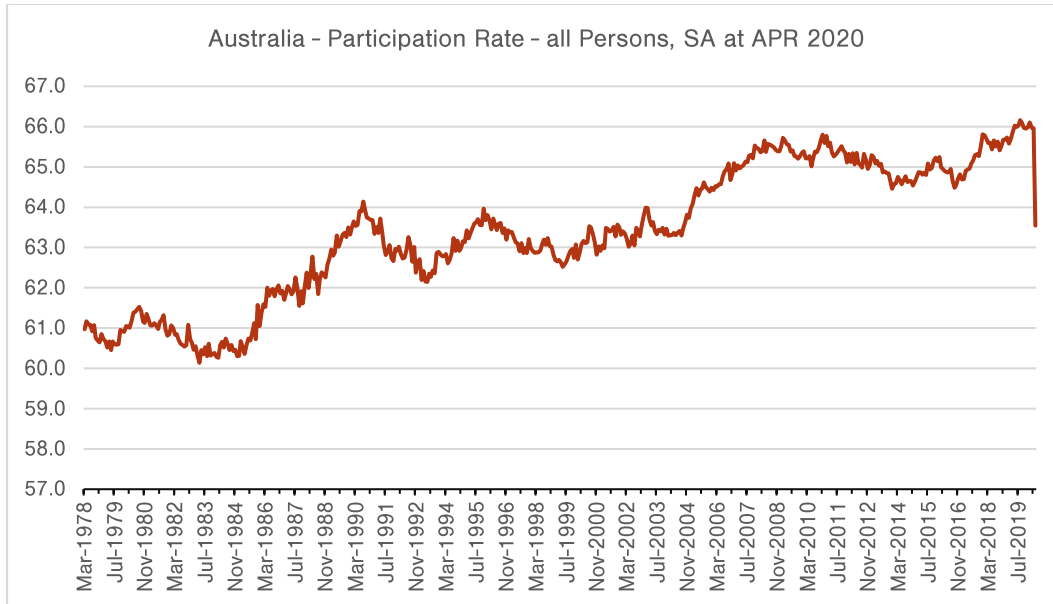
From a historical perspective, the annual decline in employment was the largest going back to the late 70's;



## Labour Force

The total size of the labour force declined substantially in the latest month. This was the result of a large decline in the participation rate.

The participation rate in Apr fell to 63.5% (from 66% in Mar). The participation rate in Apr 2020 fell back to the level of participation from Sep 2004.

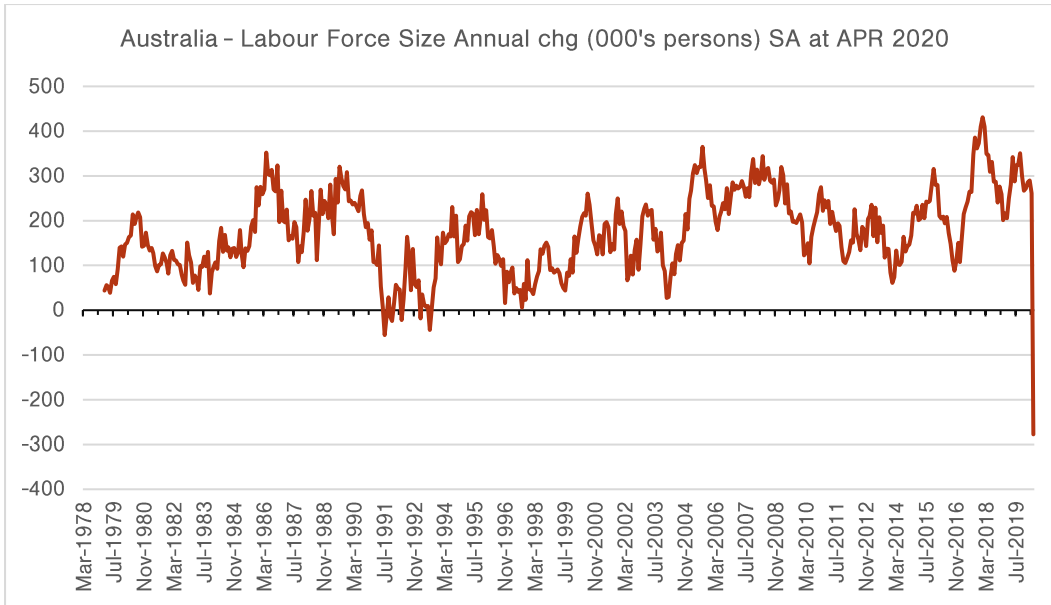


On a monthly basis, the decline in participation was the equivalent of over 500k people leaving the labour force.

Part of the large decline in participation can be traced back to social distancing rules. Once someone has become unemployed, social distancing can make it difficult to go out and look for work (required to stay home), and jobs in certain industries are not currently available. Also consider that if someone was stood down from a job, and then had to home school a child. They would be counted as not in the labour force as they likely did not look for work or were not available for work. This is why the mutual obligation requirement of looking for work has been suspended for the JobSeeker program for the time being.

Total labour force – month change; Apr -489k persons versus Mar +20k persons.

The annual change was also significant at -277k persons in the month;

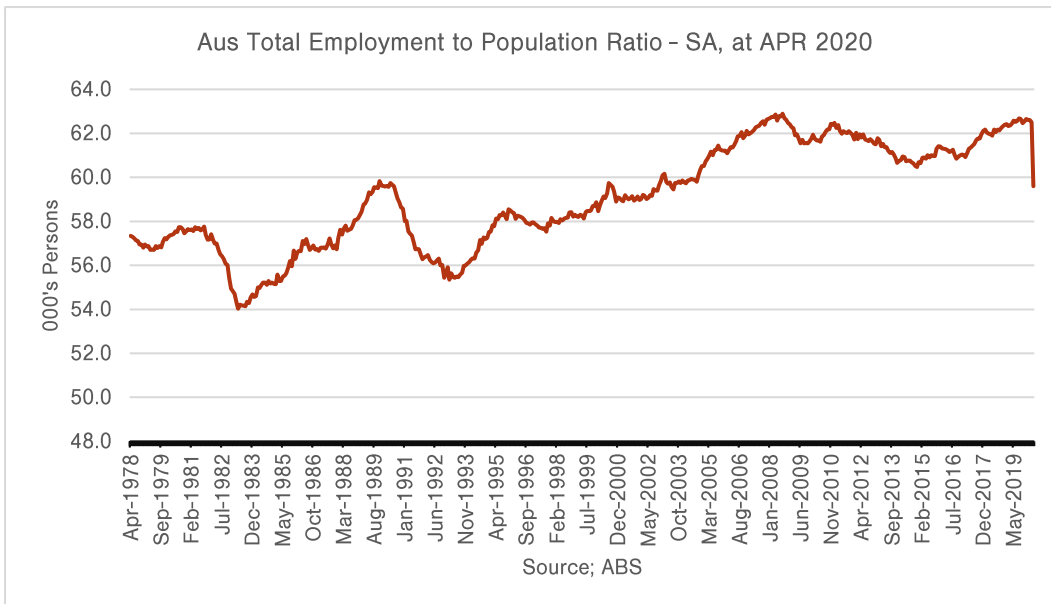


The decline in the labour force size and people leaving the labour force, rather than classified as unemployed, means that unemployment is likely understated – several other indicators highlight the level of slack currently in the labour force.

**Employment to Population Ratio**

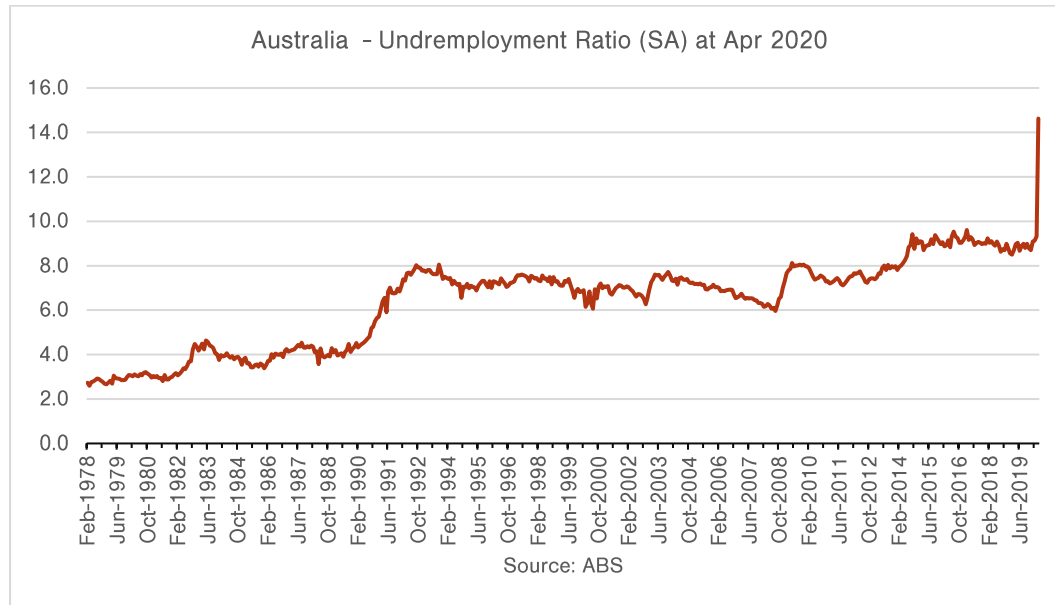
This ratio removes the reference to the labour force size to give a view on how much of the population is now employed. In Apr, the employment to population ratio fell to 59.6% from 62.5% in Mar.

For context, the ratio has not been this low since Jul 2003.



## Underemployment

The underemployment ratio (those people employed who want more hours than they currently have expressed as a % of total employed persons). This ratio has increased well beyond any historical measure – partly impacted by a lower denominator too. This also indicates that the “quality” of employment has deteriorated for many people.



## Total Unemployed Persons

The increase in the total number of unemployed persons was smaller relative to the decline in employment (especially on a historical level). This is not to diminish the devastating impact of unemployment.

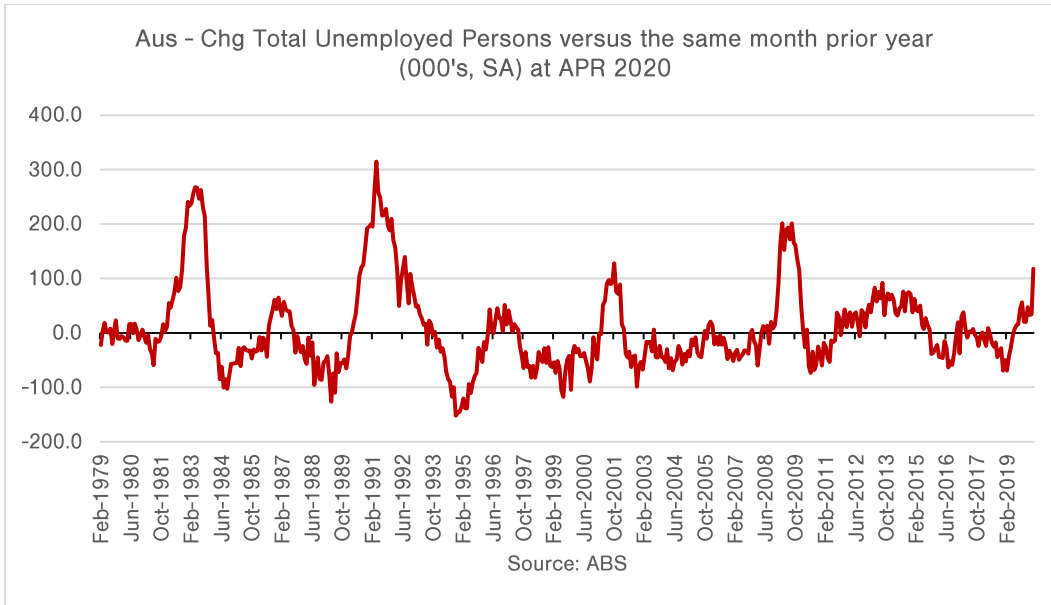
The reason behind this somewhat smaller than expected decline was the large decline in participation – i.e. people classified as leaving the labour force instead of classified as unemployed. At this stage, given the nature of the Covid-19 situation, it means that it is difficult to know the “true” impact on total unemployment.

That said, there was still a large increase in the month – the largest monthly increase in the series history.

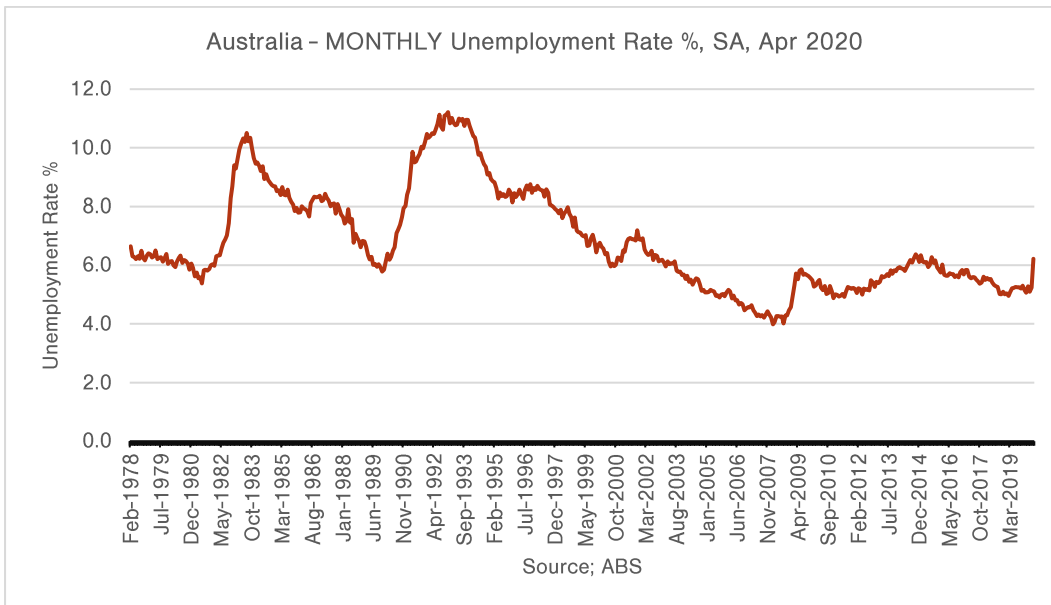
Total unemployed persons – month change: Apr +104k persons versus Mar +20k persons.

The total number of unemployed persons increased to 823k persons in Apr.

The annual change at this stage remains below the GFC and recession peaks. The annual change in Apr was +117k persons, which was still a large jump from the annual change in Mar of +34k persons.



The unemployment rate increased from 5.2% in Mar to 6.2% in Apr. This is understated by the large decline in the labour force. If participation had remained unchanged from the month prior, the unemployment rate would have been 9.6% - and much closer to the levels recorded in the 80's and 90's recessions;



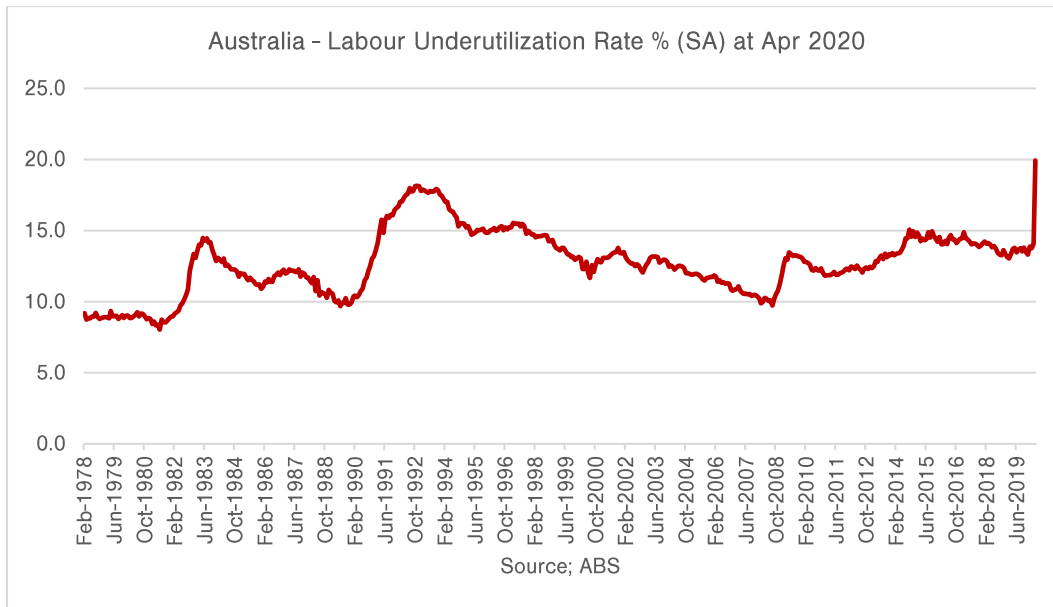
Its only once restrictions are lifted and people can start to look for work, will we get a better indication of the rate of unemployment.

### Underutilization

Measures of underutilization are likely a better indicator of the amount of slack or spare capacity in the labour force at the moment. The underutilization rate is still expressed as a proportion of the labour force, so could still be understating the problem. The underutilization

rate is the sum of the number of persons unemployed and underemployed, expressed as a proportion of the labour force.

In Apr, this rate increased to 19.9% - the highest proportion in the series history;



### Summary of the Main Changes to the Labour Market

	000's Persons	
	Annual Chg - APR	Month Chg - APR
The estimated change in the Labour Force due to pop growth	209.282	12.878
How many jobs available for them? (employment growth)	-395.059	-594.280
Difference (if positive, employment growing faster than pop est)	-604.341	-607.158
Change in labour force due to the change in participation	-486.595	-503.193
The reminder is the change in total unemployed persons	117.746	103.965
Double Check - Reported chg in size of the Labour Force	-277.313	-489.825
<b>Two views of the size of the Labour Force:</b>		
Underlying population growth plus changes in participation	-277.313	-490.315
Total employed persons plus total unemployed persons	-277.313	-490.315

<https://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/6202.0Main%20Features1Apr%2020?opendocument&tabname=Summary&prodno=6202.0&issue=Apr%202020&num=&view=>



## Wage Price Index Q1

Nominal wage growth in Australia remained low in the latest year. Annual growth in private hourly rates of pay were mostly stagnant while public wages increased at a faster pace.

In real terms, annual rates of pay in the private sector declined in Q1.

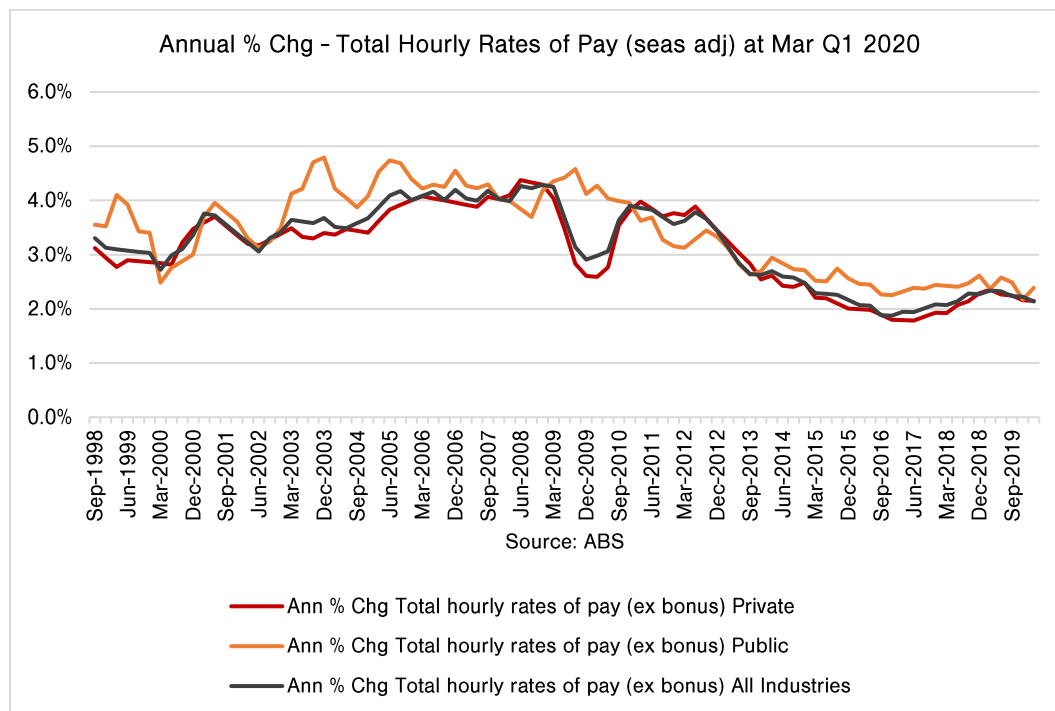
HOURLY RATES OF PAY (EX BONUS) ALL INDUSTRIES – QTR CHANGE; Q1 2020 +0.52% versus Q4 2019 +0.53%

In the quarter, growth in private sector rates of pay were unchanged at +0.53%.

Public sector hourly wages increased at a faster pace in Q1 by +0.59% versus +0.44% in Q4.

HOURLY RATES OF PAY (EX BONUS) ALL INDUSTRIES – ANNUAL CHANGE; Q1 2020 +2.13% versus Q4 2019 +2.22%

The annual growth in private sector hourly rates of pay slowed slightly to +2.15% in Q1, while public sector hourly rates increased at a faster pace of +2.39%.



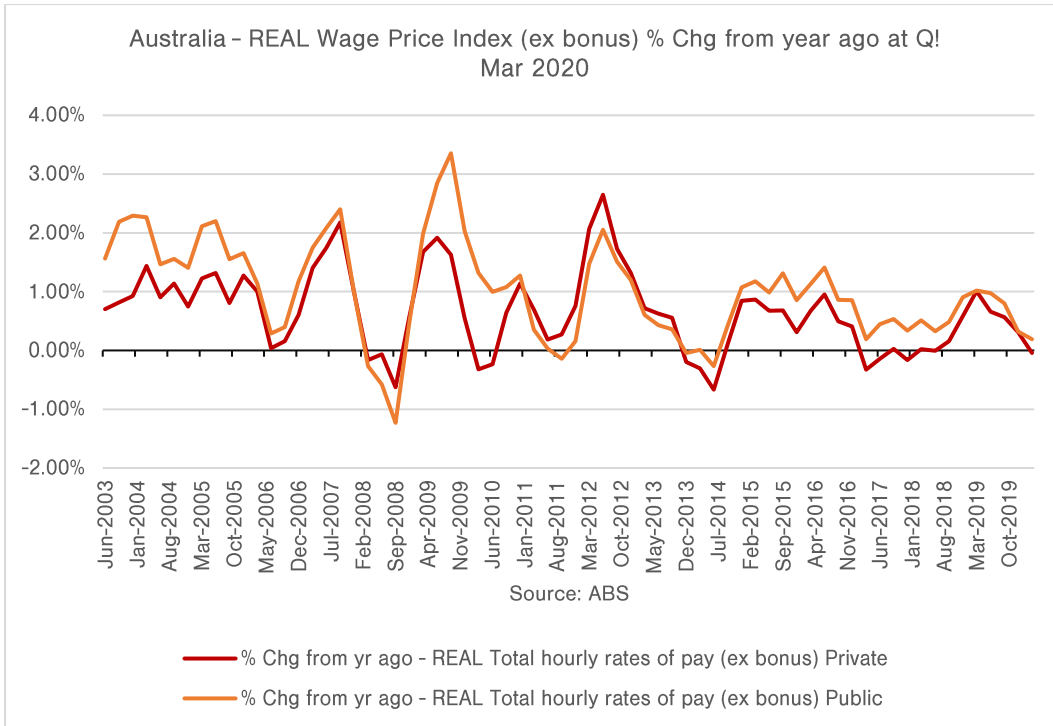
Deflating the wage price index by the CPI reveals that hourly rates of pay declined in Q1;

REAL HOURLY RATES OF PAY (EX BONUS) ALL INDUSTRIES – ANNUAL CHANGE; Q1 2020 -0.06% versus Q4 +0.37%

On an industry basis, private sector wages went backwards by -0.04% versus a year ago in real terms.

Public sector wage growth in real terms remained positive, but also continued to slow.

The trend over the last year indicates that wage growth has been slowing relative to consumer prices;



<https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6345.0Main+Features1Mar%202020?OpenDocument>

[Return to top](#)

---

## China

---

Activity in China for Apr saw few signs of improvement. Firms noted that the global nature of weaker demand, as well as weaker domestic conditions, was still impacting the Chinese economy.

“The overall economy has not yet returned to normal levels,” Liu Aihua, a spokeswoman for the statistics bureau, said in a briefing Friday, warning that a combination of global recession and domestic joblessness would pose “unprecedented” challenges for the Chinese economy.

<https://www.wsj.com/articles/chinese-economys-recovery-from-coronavirus-starts-off-slowly-11589527393>

This is an important insight regarding the ‘uneven’ nature of the recovery as global economies start to reopen.

One area of continued improvement in China was industrial production growth. While production continues to come back online, the decline in the PPI indicates that prices and demand remains an issue.

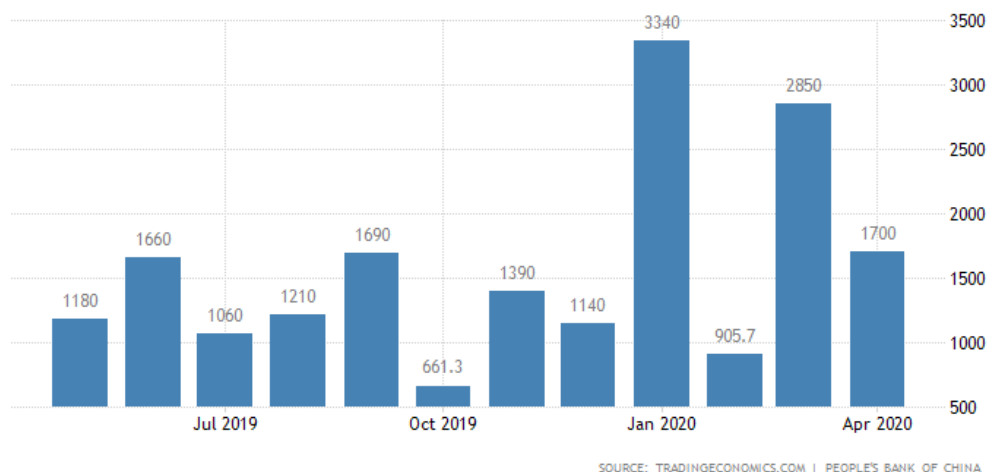
Despite an acceleration in the growth of total social financing in China, household demand is still under pressure with retail sales falling again versus a year ago. Declines in domestic employment and increased unemployment are likely impacting spending patterns. Fixed asset investment also continued to decline.

This so far tepid recovery is now occurring with the backdrop of increasing tensions between the US and China.

### New Loans (Apr)

Loan growth in China slowed in Apr compared to Mar. A total of CNY 1.70 trillion in new yuan loans were extended in Apr 2020, compared to CNY 2.85 trillion in the previous month.

*Chart; China New Loans (CNY)*



Household loans, mostly mortgages, decreased to CNY 666.9 billion from CNY 989.1 billion in Mar.

Corporate loans also decreased to CNY 956.3 billion in Apr from CNY 2.05 trillion in Mar.

Outstanding yuan loans increased by 13.1% on a year ago, faster than the 12.7% increase in the previous month.

Chart: China Outstanding Loans Annual Growth (CNY)



Total social financing, a broad measure of credit and liquidity in the economy, fell to CNY 3.09 trillion yuan from CNY 5.15 trillion in Mar.

<https://tradingeconomics.com/china/banks-balance-sheet>

## CPI (Apr)

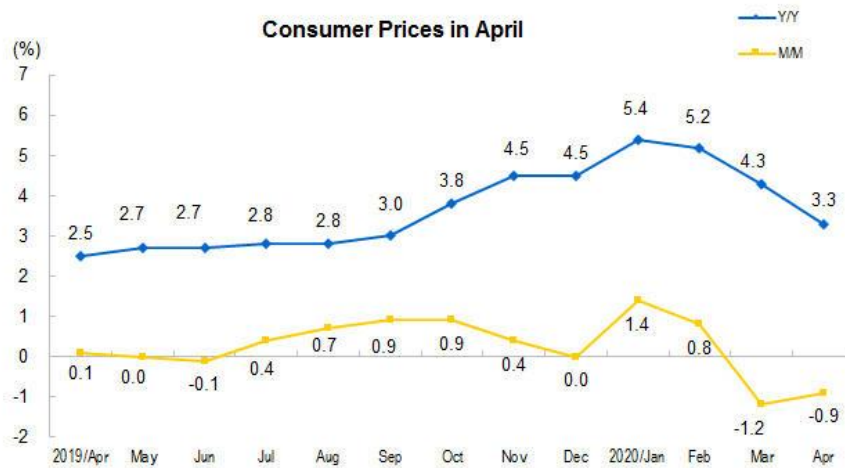
The annual growth in consumer prices continued to slow, as price growth on a monthly basis declined at a slower pace.

China CPI – month change; Apr -0.9% versus Mar -1.2%

Prices across most expenditure categories declined in the month – the exception was healthcare which increased by +0.2%. Healthcare prices are +2.2% ahead of a year ago.

Most notable was the decline in food, alcohol, and tobacco prices of -2.1% in the month (led by declines in fruit and veg prices and livestock meat). On an annual basis, food prices are still +11.3% ahead of last year and is one of the main contributors to higher overall CPI.

China CPI – annual change; Apr +3.3% versus Mar +4.3%



[http://www.stats.gov.cn/english/PressRelease/202005/t20200513\\_1744998.html](http://www.stats.gov.cn/english/PressRelease/202005/t20200513_1744998.html)

## PPI (Apr)

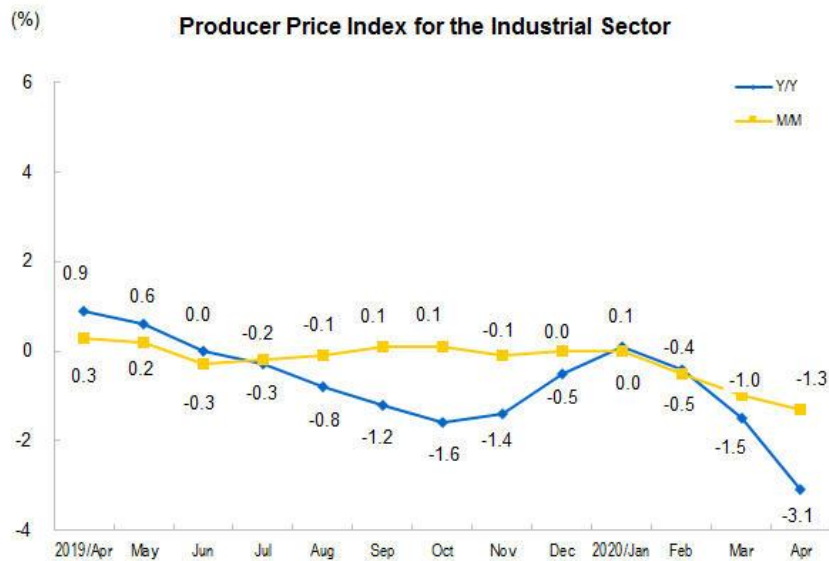
Producer price deflation for manufactured goods has continued to accelerate into Apr. Declines were recorded across most segments of manufacturing.

PPI – Industrial Sector Manufactured Goods – month change: Apr -1.3% versus Mar -1%

In the year, producer prices for manufactured goods declined by -3.1% in Apr – down further from the -1.5% annual decline in Mar.

The means of production prices declined by -1.8% in Apr – led by a 7.2% decline in mining and quarrying prices. Raw materials and processing prices for manufactured goods declined by -3.3% and -0.7% respectively in the month. Means of production prices declined by -4.5% versus a year ago.

Prices for the manufacture of consumer goods declined by -0.1% in the month and declines were recorded across all categories. The annual change in manufactured consumer goods prices remain +0.9% ahead of a year ago - higher food price growth of +3.7% offset declines in manufacturer prices across clothing, articles for daily use and durable consumer goods.



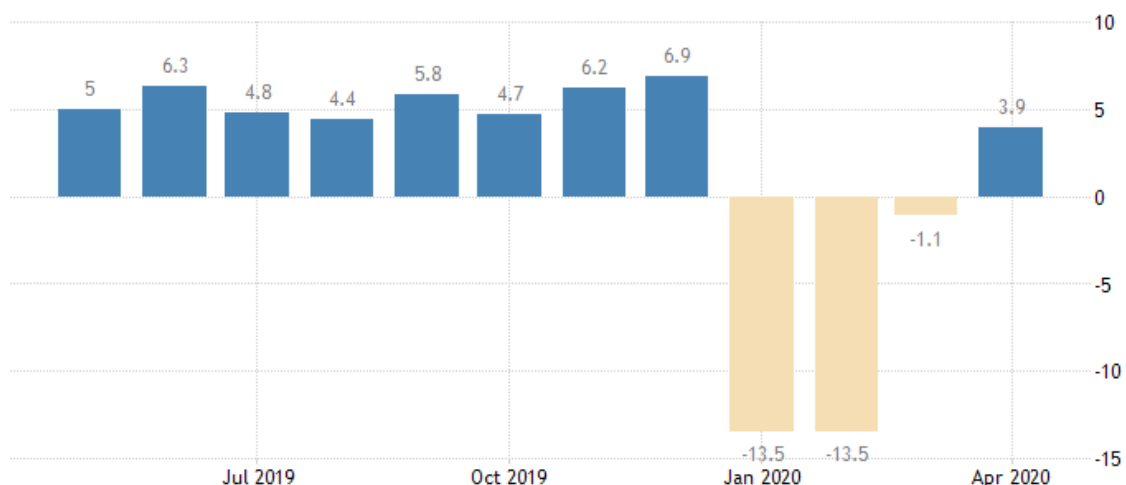
[http://www.stats.gov.cn/english/PressRelease/202005/t20200513\\_1745006.html](http://www.stats.gov.cn/english/PressRelease/202005/t20200513_1745006.html)

## Industrial Production (Apr)

The pace of industrial production growth increased in Apr after declining in Mar (versus a year ago). While there was an improvement in Apr, the annual pace of industrial production growth has yet to recover to the pre-outbreak trend.

Industrial production (enterprises above the designated size) – annual change: Apr +3.9% versus Mar -1.1%

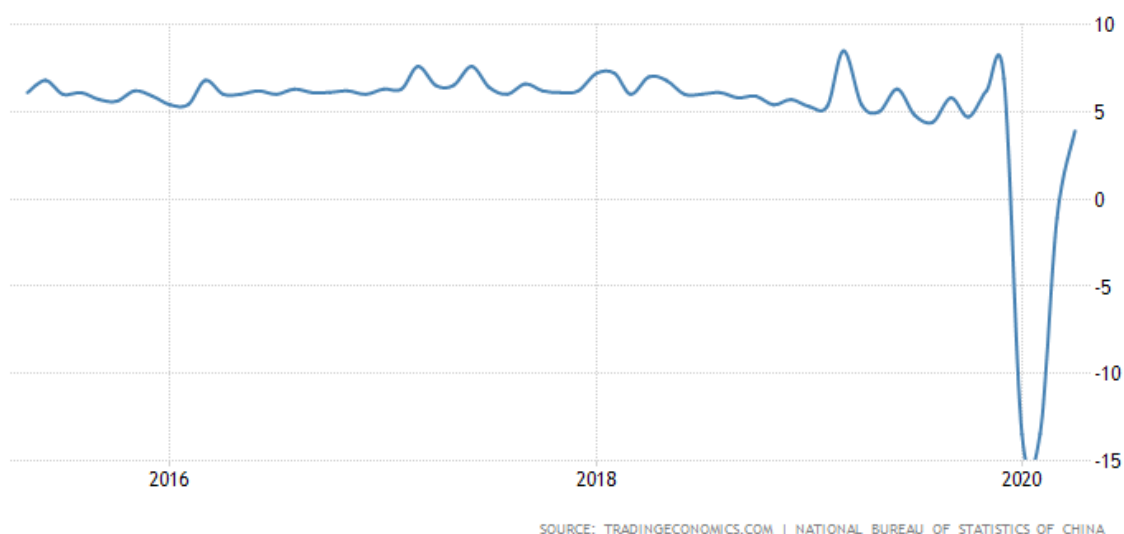
*Chart; China Industrial Production versus a year ago (last 12 months)*



SOURCE: TRADINGECONOMICS.COM | NATIONAL BUREAU OF STATISTICS OF CHINA

In the first four months, industrial production declined by 4.9% year on year, or 3.5% pts slower than the decline of the first quarter.

Chart: China Industrial Production versus a year ago (last 5-year trend)



### Sectors:

Mining; +0.3% versus a year ago

Manufacturing; Apr +5% versus Mar -1.8%

High-tech manufacturing and equipment manufacturing witnessed fast growth.

In April, the value added of high-tech manufacturing and equipment manufacturing grew by 10.5 percent and 9.3 percent respectively, 6.6 percentage points and 5.4 percentage points higher than that of the industrial enterprises above the designated size. Specifically, the production of cables, excavators and shovelling machinery, integrated circuits, industrial robots and micro computers grew by 43.8 percent, 40.8 percent, 29.2 percent, 26.6 percent and 26.2 percent respectively.

Supply of electricity, thermal power, gas, and water; + 0.2% versus a year ago

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

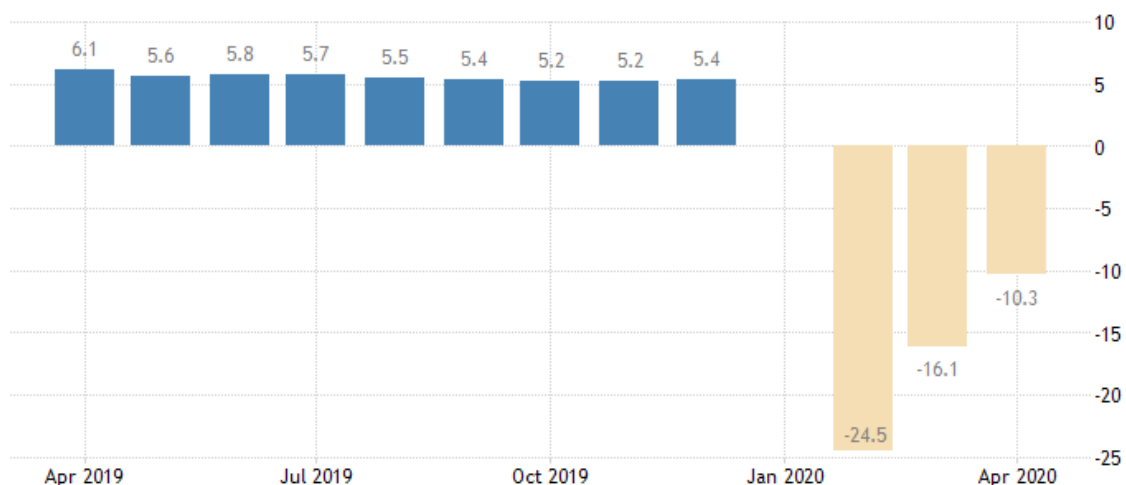
[http://www.stats.gov.cn/english/PressRelease/202005/t20200515\\_1745635.html](http://www.stats.gov.cn/english/PressRelease/202005/t20200515_1745635.html)

### **Fixed Asset Investment (Apr)**

Fixed asset investment in China continued to decline in Apr – albeit at a slower pace than in Mar.

Fixed Asset Investment – annual change; Apr -10.3% versus Mar -16.1%

Chart; China Fixed Asset Investment annual change



SOURCE: TRADINGECONOMICS.COM | NATIONAL BUREAU OF STATISTICS OF CHINA

Investment in infrastructure; -11.8% versus a year ago

Investment in manufacturing; -18.8% versus a year ago

In terms of high-tech manufacturing, the investment in manufacturing of computers and office devices grew by 15.4 percent.

Investment in real estate development; -3.3% versus a year ago

Investment by Industry:

Primary industry; -5.4% versus a year ago

Secondary industry; -16% versus a year ago

Tertiary industry; -7.8% versus a year ago

[http://www.stats.gov.cn/english/PressRelease/202005/t20200515\\_1745635.html](http://www.stats.gov.cn/english/PressRelease/202005/t20200515_1745635.html)

<https://tradingeconomics.com/china/fixed-asset-investment>

## Retail Sales (Apr)

Retail sales have been much slower to recover so far in China. Domestic weakness regarding income and employment continue to weigh as does weaker global demand for the moment.

Retail sales – annual change; Apr -7.5% versus Mar -15.8%



Chart: China Retail Sales Annual change



In the first four months, the total retail sales of consumer goods declined by -16.2% versus a year ago.

The largest increases in sales occurred across;

Grain, oil, and food +18.2% and that of beverages +12.9%

Sales of upgraded consumer goods improved with telecommunication equipment and cultural and office appliances up by 12.2% and 6.5% respectively

The online retail sales were active. The national online retail sales in the first four months reached 3,069.8 billion yuan, up by 1.7 percent year on year, while that in the first quarter dropped by 0.8 percent. Of the total, the online retail sales of physical goods grew by 8.6 percent, 2.7 percentage points higher than that in the first quarter, accounting for 24.1 percent of the total retail sales of consumer goods, 0.5 percentage point higher.

[http://www.stats.gov.cn/english/PressRelease/202005/t20200515\\_1745635.html](http://www.stats.gov.cn/english/PressRelease/202005/t20200515_1745635.html)

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

## Urban Surveyed Unemployment (Apr)

In the first four months, the newly increased employed people in urban areas numbered 3.54 million, **1.05 million less than that in the same period last year.**

In April, the urban surveyed unemployment rate was 6.0 percent, **0.1 percentage point higher than that in March.**

The urban surveyed unemployment rate in 31 major cities was 5.8 percent, **0.1 percentage point higher than that in March.**

In April, the employees of enterprises worked on average 44.3 hours per week, 0.5 hour less than that in March.

[http://www.stats.gov.cn/english/PressRelease/202005/t20200515\\_1745635.html](http://www.stats.gov.cn/english/PressRelease/202005/t20200515_1745635.html)

[Return to top](#)

---

## Trade

---

### US-China Trade Talks

Tensions between the two countries have increased over the last few weeks. The delicate trade truce between the two countries now appears to be at risk again. Both sides continue to up the ante regarding trade restrictions.

The US continues to focus on strengthening and/or returning to more local supply chains. There are reports that the US is planning to actively promote a return to local supply chains;

The Trump administration is “turbocharging” an initiative to remove global industrial supply chains from China as it weighs new tariffs to punish Beijing for its handling of the coronavirus outbreak, according to officials familiar with U.S. planning.

“I think it is essential to understand where the critical areas are and where critical bottlenecks exist,” Krach said, adding that the matter was key to U.S. security and one the government could announce new action on soon.

<https://www.reuters.com/article/us-health-coronavirus-usa-china-idUSKBN22G0BZ>

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%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](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

The US has officially notified the WTO that it has complied with the dispute raised by the EU on US subsidies to Boeing. The US has now enacted the Senate Bill that eliminates the preferential tax treatment for aerospace manufacturing.

The removal of the subsidy fully implements the WTO's recommendation to the United States, bringing an end to this long-running dispute.

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/may/us-notifies-full-compliance-wto-aircraft-dispute>

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>

### 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](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](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

Trade negotiations between the UK and the US commenced w/c 4 May. These negotiations will run in parallel with the EU Brexit/trade negotiations.

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/may/statement-ustr-robert-lighthizer-launch-us-uk-trade-negotiations>

Initial talks will be held via videoconference and are expected to run for two weeks.

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](https://ustr.gov/sites/default/files/Summary_of_U.S.-UK_Negotiating_Objectives.pdf)

## BREXIT

Trade talks last week yielded little progress after prior rounds of negotiations also resulted in little progress. Negotiations are set to resume on 1 Jun ahead of the EU summit later that month.

With a trade deal of huge complexity to negotiate, for the moment taking place over video links, the European Union and the U.K. have yet to agree even on the basic elements of an accord—including whether there should be a single overarching agreement with one set of rules and oversight or multiple smaller ones. <https://www.wsj.com/articles/brexit-talks-go-nowhere-adding-new-european-economic-headache-11589559642?mod=searchresults&page=1&pos=2>

The deadline for extending the negotiations is approaching at the end of June 2020. The UK maintains that an extension will not be requested.

"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>

Link to the EU draft is embedded in the release;  
[https://ec.europa.eu/commission/presscorner/detail/en/IP\\_20\\_447](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](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/868874/The_Future_Relationship_with_the_EU.pdf)

[Return to top](#)