Weekly Macro Review

w/c 6 July 2020

Key Themes

Last week we reviewed the manufacturing recovery in the US in Jun. This week we look at services/non-manufacturing activity. The easing of lock-down and trading restrictions resulted in some improvement in private sector services activity for the US in Jun.

The more detailed ISM non-manufacturing PMI showed that activity improved in Jun and 'only' three industries reported further overall declines in the month: Mining; Other Services; and Management of Companies & Support Services. Importantly the increase in new orders was stronger – a positive sign for short-term output growth. But order backlogs and employment indicate that spare capacity is still an issue. Eleven industries continued to report net declines in employment in Jun; Management of Companies & Support Services; Educational Services; Mining; Professional, Scientific & Technical Services; Other Services; Retail Trade; Health Care & Social Assistance; Public Administration; Wholesale Trade; Utilities; and Finance & Insurance.

The Markit services PMI for the US showed that activity overall continued to decline in Jun, but at a slower pace than in May. There was more of a general stabilization of activity across key business indicators. There was little in this report to suggest that, on net, there had been a sharp resumption in services business growth in Jun.

JOLTS data was mixed. The total hires and separations for the month were much stronger – with growth in hires reaching an all-time high. On a monthly basis, hires were larger than separations in May by +2.3m people. But the implied loss of employment in Mar and Apr (combined) was 15.4m jobs. So, while May was a positive result, there is still a long way to go before the labour market overcomes those losses. The level of job openings increased marginally. The level of quits remain depressed – indicating less inclination to change jobs during high levels of unemployment.

Initial unemployment claims and continuing claims remain elevated but have at least continued to slow in the last few weeks. There has, instead, been an increase in Pandemic Unemployment Assistance initial and continuing claims.

German factory orders improved in May – a good sign for production in the short-term. Industrial production also rebounded in May – but with mixed performance across industry sectors. Levels of production remain well below the same time a year ago.

In Australia, lending for housing declined at an accelerated pace in May, likely reflecting the impact from the National shutdown in Apr. All sectors of housing finance declined in May. The slow-down in credit growth will most likely impact the growth of house prices over the coming months.

Job ads in Australia improved in Jun after a long period of weakness and are still 45% below the same month a year ago.

Contents

US Data

Initial Claims (to wk ending 4 Jul), Continuing Jobless Claims (to wk ending 27 Jun) and Pandemic Unemployment Assistance (PUA)

The growth in weekly initial claims continues to slow but remains extremely elevated (using the weekly average over the prior 12mths of 218k claims/week). The level of Pandemic Unemployment Assistance claims (initial and continuing) is increasing.

> The total number of people claiming benefits in all programs for the week ending June 20 was 32,922,335, an increase of 1,410,788 from the previous week. There were 1,612,122 persons claiming benefits in all programs in the comparable week in 2019.

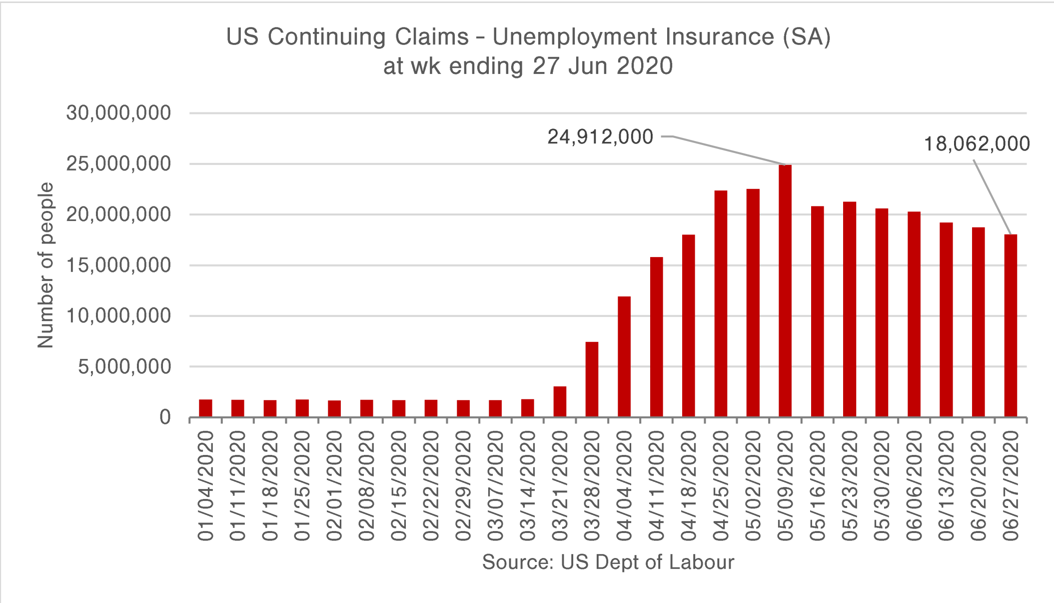
Initial Jobless Claims – wk ending 4 Jul 2020 (SA); 1,314,000 people

The prior week was revised slightly lower to 1,413,000 people.

While the level of continuing claims is also extremely elevated, there was a more substantial reduction in ongoing claims this week of 698k people (on the prior weeks revised level).

Continuing Claims – wk ending 27 Jun 2020 (SA); 18,062,000 people

The prior week was also revised lower by 530k people to 18,760,000 people.



While the growth in initial and continuing jobless claims continue to trend lower, the pandemic unemployment assistance (PUA) claims are increasing.

PUA Initial Claims – wk ending 4 Jul 2020 (NSA); 1,038,905 people (prior week 996,842 people – revised up from 839,563 people)

PUA Continuing Claims wk ending 20 Jun 2020 (NSA); 14,363,143 people

This is a large increase on the prior week total of 12,853,484 continuing PUA claims made by people.

The PUA funding is provided as a part of the CARES Act – for those self-employed or individuals not who would otherwise not qualify for regular unemployment insurance.

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

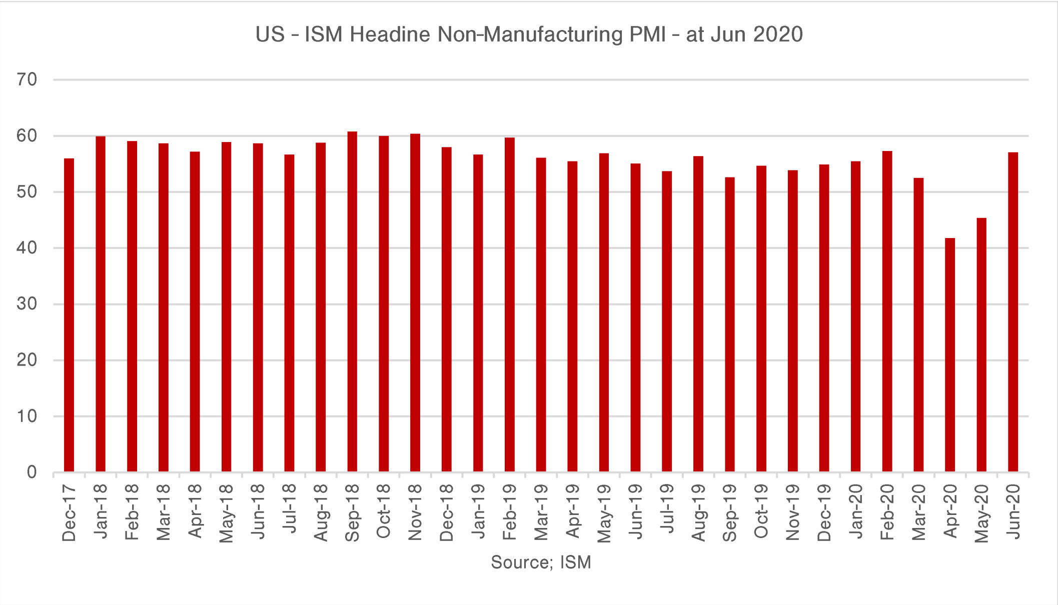
US ISM Non-Manufacturing PMI (Jun)

Most services-based businesses recorded an increase in activity in Jun, after two months of declines due to restricted business operations. Only three industries continued to report declining conditions; Mining; Other Services; and Management of Companies & Support Services.

The headline increase in new orders was stronger this month. But order backlogs and employment still indicate that spare capacity is an issue.

The PMI data does not provide any reference about the level of activity – especially how the Jun level of activity compares to the pre-Covid period.

Headline Non-Manufacturing PMI; Jun 57.1 versus May 45.5



Business activity (output) increased at a faster pace. In Jun half of the firms in the survey recorded higher output in the month. This is not surprising given that many firms were impacted by shut-down orders throughout Mar, Apr, and May. What is unknown is much sales increased. Of the remaining 50% of firms, just over 30% reported no change from the month prior (so, output likely remaining unchanged at lower levels). Approx. 20% of firms still recorded lower output – this is still substantially lower than the 43% of firms that reported lower output in May. Only one industry reported lower output: Other Services.

New orders rebounded in Jun to 61.6 versus the 41.9 index from May. This is a positive indicator for expected growth in short-term activity. The underlying shift was that 47.3% of firms reported higher new orders (up from 28% in May). A lower number of firms, 19%, reported lower orders, down from 43% in May. Only one industry reported a further decline in orders and that was Other Services.

New export orders shifted into expansion from 41.5 in May to 58.9 in Jun. The underlying shift was positive, with 36% of firms reporting higher new export orders. Seven industries reported higher new export orders; Real Estate, Rental & Leasing; Wholesale Trade; Agriculture, Forestry, Fishing & Hunting; Health Care & Social Assistance; Utilities; Construction; and Information.

The index of order backlogs shifted into expansion from 46.4 in May to 51.9 in Jun. This would usually mean that the growth in new orders (positive) was such that it was creating pressure on capacity, resulting in increasing backlogs. In the current environment, increasing backlogs would be a positive indicator (especially given that supplier deliveries were returning to normal this month, helping to rule out supply chain pressures).

But the backlogs number is misleading this month. There was a reduction in the proportion of firms reporting higher backlogs, falling from 24.6% in May to 18% in Jun – its less likely then, that unfilled orders are, on net, increasing. There was also a reduction in the proportion of firms reporting lower backlogs, falling from 31.7% of firms in May to 14% in Jun. Most firms, 67%, reported no change in backlogs in Jun compared to May, up from 43% of firms in May. Order backlogs have been declining through Apr and May. So, while the new orders growth in positive, its not likely that the growth is high enough (yet) to create capacity pressure.

This is also seen in the employment index this month. The index of employment still indicated that more firms were reducing employment, albeit to a lesser degree than in May. In Jun, 16% of firms reported higher levels of employment (increasing from 7% in May), while 25% of firms were still reporting further reductions in employment in Jun (this was down from 41% of firms in May). The breadth of declines in employment across industries was much wider than the overall level of business activity growth. In Jun, eleven industries still reported lower levels of employment; Management of Companies & Support Services; Educational Services; Mining; Professional, Scientific & Technical Services; Other Services; Retail Trade; Health Care & Social Assistance; Public Administration; Wholesale Trade; Utilities; and Finance & Insurance.

Three industries reported growth in employment; Agriculture, Forestry, Fishing & Hunting; Accommodation & Food Services; and Construction.

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

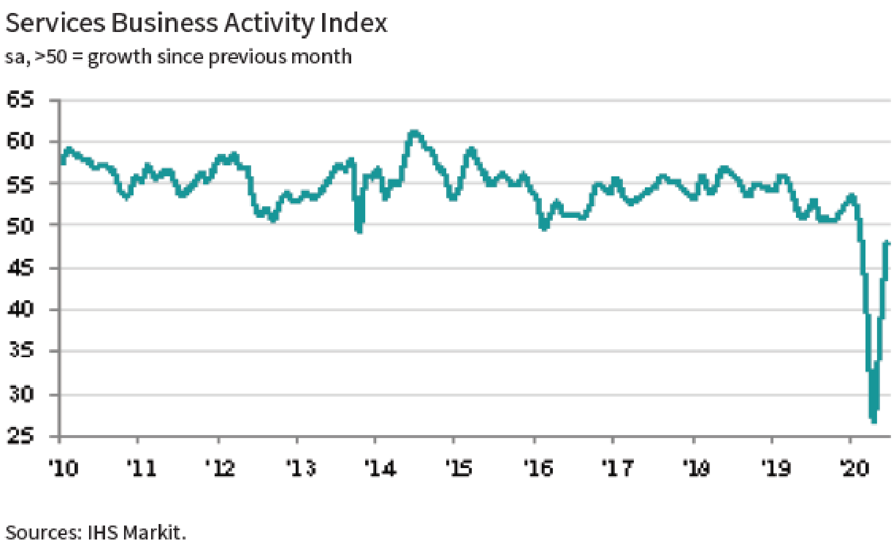
US Markit Services PMI (Jun)

The Markit services PMI for the US indicated that activity overall continued to decline in Jun, but at a slower pace than in May. There was more of general stabilization of activity across key components. There was little in this report to suggest that, on net, there had been a sharp resumption in business growth.

Headline Services Business Activity Index; Jun 47.9 versus May 37.5

The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses.

This means that it is likely that more firms still reported lower levels of activity in Jun than firms reported higher levels of activity, but to a lesser degree than in May.



The easing of lock-down and trading restrictions resulted in some improvement in private sector services activity.

New orders/business was mostly stable in Jun after three months of declines. Which broadly means half of the firms reported higher orders compared to the prior month and half of the firms reported lower orders compared to the prior month.

New export orders increased marginally.

Unfilled orders continued to decline, but at a much slower pace.

Some respondents also stated that strengthening client demand had put pressure on capacity.

Despite that, employment continued to decline in Jun – albeit at a slower pace.

Although some companies noted that layoffs stemmed from ongoing closures and subdued demand, others resumed hiring as new order inflows stabilized.

Both input costs and selling prices increased in Jun. The pace of growth across both was 'solid'.

Sentiment returned to positive territory this month but remained subdued overall.

https://www.markiteconomics.com/Public/Home/PressRelease/ac2981ddd4994b5fb1fbe1a412c668fd

US JOLTS (May)

The US labour market job openings and labour market survey for May showed that there was an increase in job hires for the month and a decline in separations. The monthly change is a positive result after two months of deteriorating conditions. The two main components of hires and layoffs & discharges were so strong, that levels returned to or were better than prior to the pandemic shutdowns.

The job openings and quits components have not rebounded much at all.

The one point that highlights the extent of the damage to the labour market is the interaction between total hires and total separations for the year – the implied employment change.

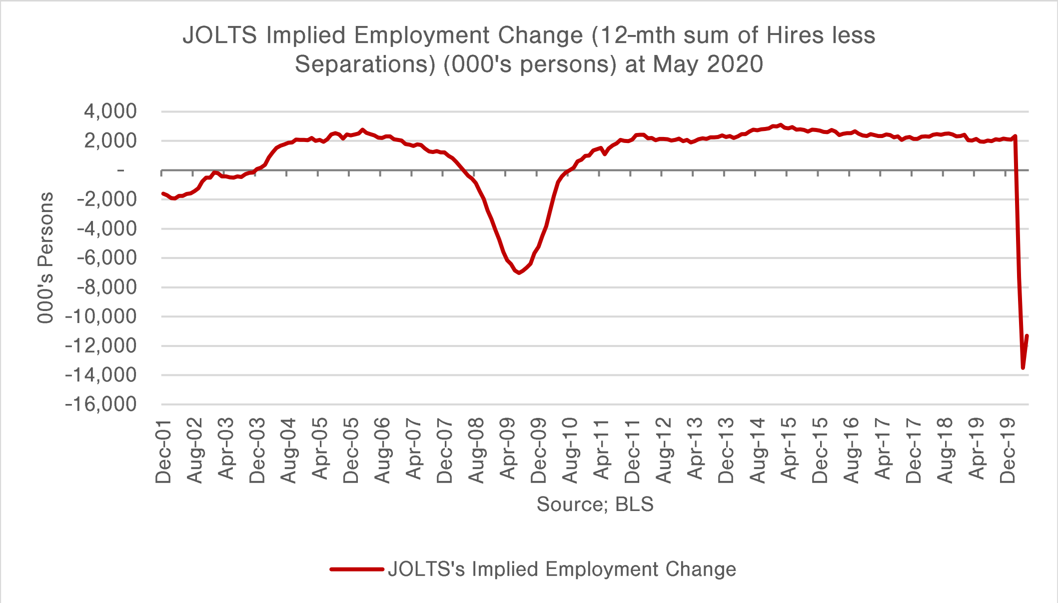
> Over the 12 months ending in May, hires totalled 68.5 million and separations totalled 79.8 million, yielding a net employment loss of 11.3 million.

The data is taken as of the last business day in May.

The BLS also notes that the response rate to the survey has fallen well below the average. In May, the response rate was 45%, whereas the pre-pandemic response rate averaged 54%.

<u>Implied Employment Change</u>

The 12mth total of Hires (68.5m people) less the 12-mth total of Separations (79.8m people) as of May indicates a net employment loss of 11.3m for the year to May 2020. This is a slight improvement on the Apr annual total of -13.5m net employment loss.



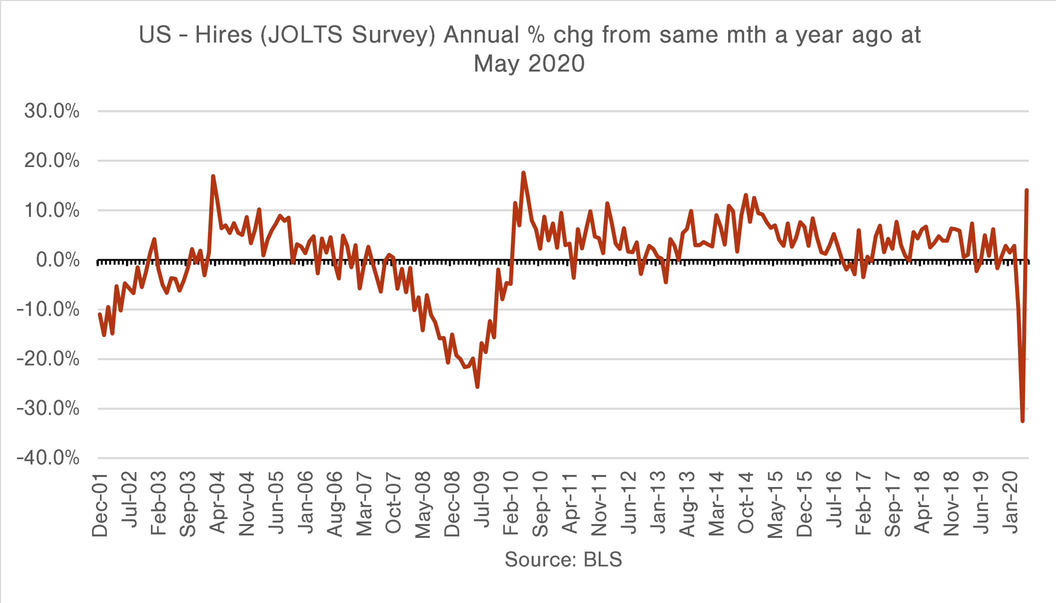
On a monthly basis, hires were larger than separations in May by +2.3m people. But the implied loss of employment in Mar and Apr (combined) was 15.4m. So, while May was a positive result, there is still a long way to go before the labour market overcomes those losses.

<u>Job Hires</u>

The level of job hires was extremely strong in May – reaching a new all-time high.

<u>Job Hires – month</u>; May 6.5m versus Apr 4m

The job hire rate also reached a new all time high of 4.9 in May (from 3.1 in Apr). The annual pace of growth returned to positive +14% ahead of the same month a year ago:

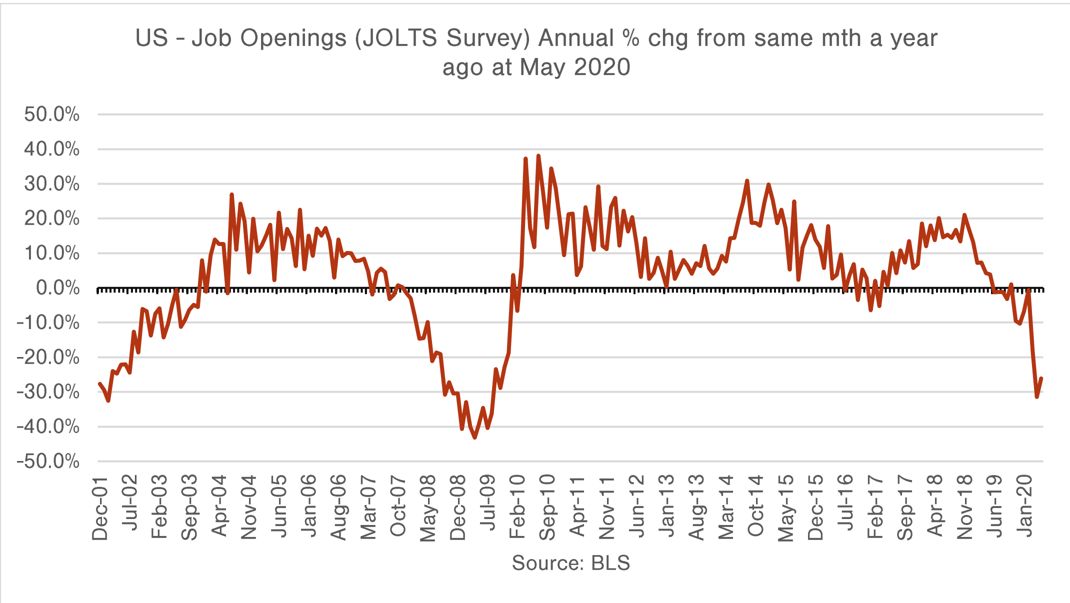


<u>Job Openings</u>

The growth in job openings was far more lacklustre, but at least still increased from the much weaker Mar and Apr result.

<u>Job Openings – month</u>; May 5.4m versus Apr 5m

The job opening rate increased to 3.9 in May (from 3.7 in Apr). On an annual basis, the level of openings remains 26% below the same month a year ago:



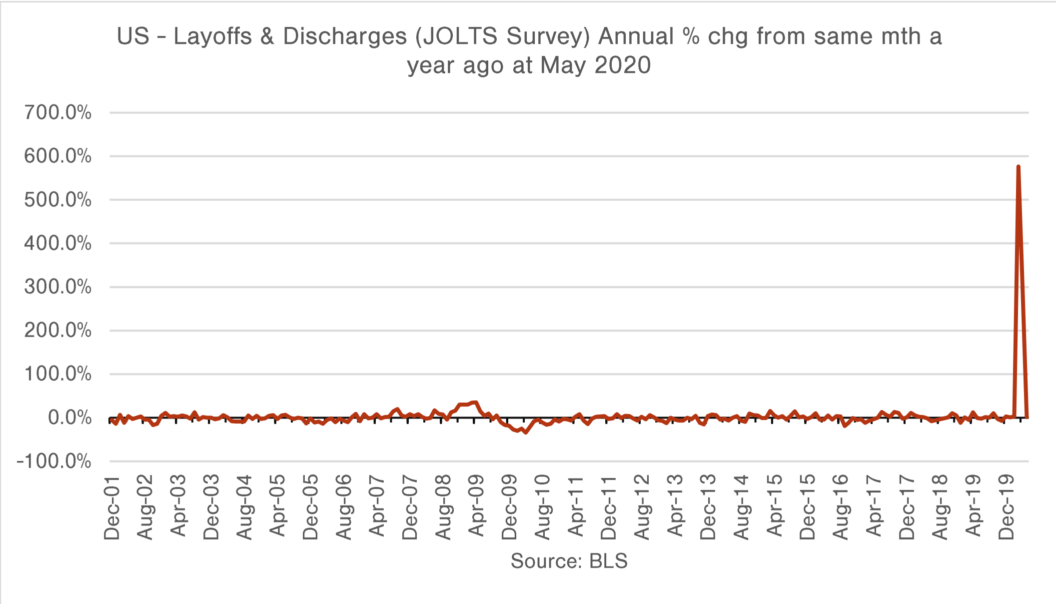
<u>Total Separations</u>

<u>Total Separations – month</u>; May 4.1m versus Apr 10m

The level of total separations (both voluntary and involuntary) declined significantly in May led by much lower layoffs and discharges.

<u>Layoffs & Discharges (Involuntary Separations) – month</u>; May 1.8m versus Apr 7.7m

The level of layoffs and discharges in May was only just above the all-time minimum of 1.5m. The layoff & discharges rate slowed notably from 5.9 in Apr to 1.4 in May. The level in May was only 1.8% above the same month a year ago compared to the Apr result which was 300% above the same month a year ago:

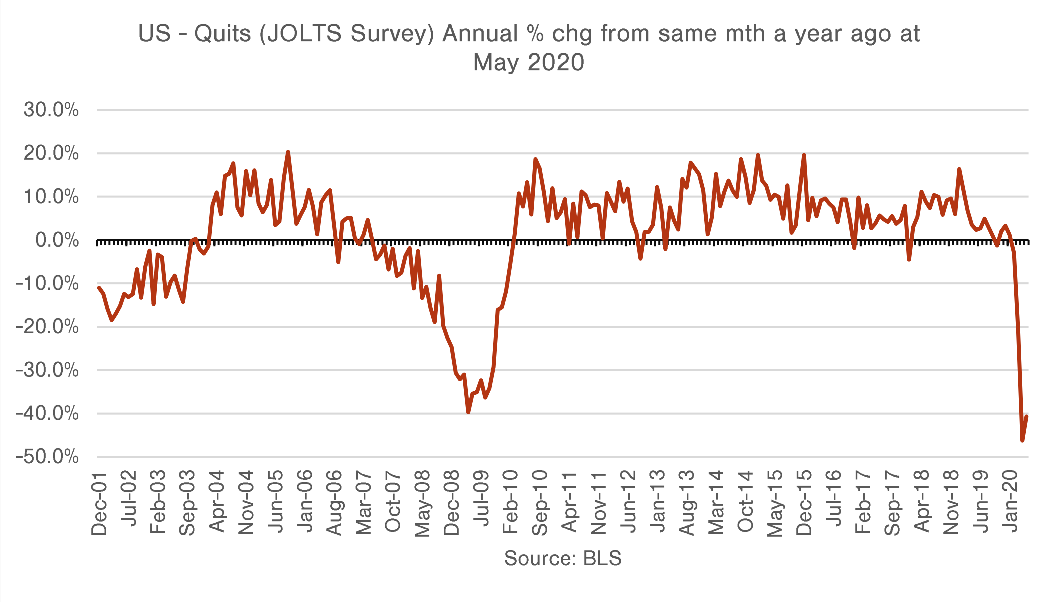


So, while the pace of layoffs and discharges has slowed, the level of quits (voluntary job changes) remains low. This suggests a lower inclination to change jobs during periods of higher unemployment/uncertainty.

<u>Quits (Voluntary Separations) – month</u>; May 2.1m versus Apr 1.9m

The all time low quits was 1.56m back in Aug 2009.

The quit rate increased slightly from 1.4 in Apr to 1.6 in May (the 2019 average quit rate was 2.3). The level of quits in May remained 41% below the same month a year ago:



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

Weekly Mortgage Applications wk ending 3 Jul

In the week ending 3 Jul, mortgage applications increased versus the week prior. Data has been adjusted for the shortened week.

The market composite index (mortgage loan application volume) increased by 2.2% in the latest week.

Refi's increased by only +0.4% versus the week prior but were +111% higher than the same week a year ago. Refi activity fell to 60.1% of mortgage applications from 61.2% in the week prior.

The purchase index (the leading indicator of finalised purchases), increased by 5% versus the week prior. The unadjusted index was +33% higher than the same week a year ago.

"Mortgage rates declined to another record low as renewed fears of a coronavirus resurgence offset the impacts from a week of mostly positive economic data, such as June factory orders and payroll employment. The 30-year fixed rate slipped to 3.26 percent - down 53 basis points since late March. Borrowers acted in response to these lower rates, after accounting for the July 4th holiday,"

"Purchase applications continued their recovery, increasing 5 percent to the highest level in almost a month and 33 percent from a year ago. **The average purchase loan size increased to $365,700 - also another high - as borrowers contend with limited supply and higher home prices.**"

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

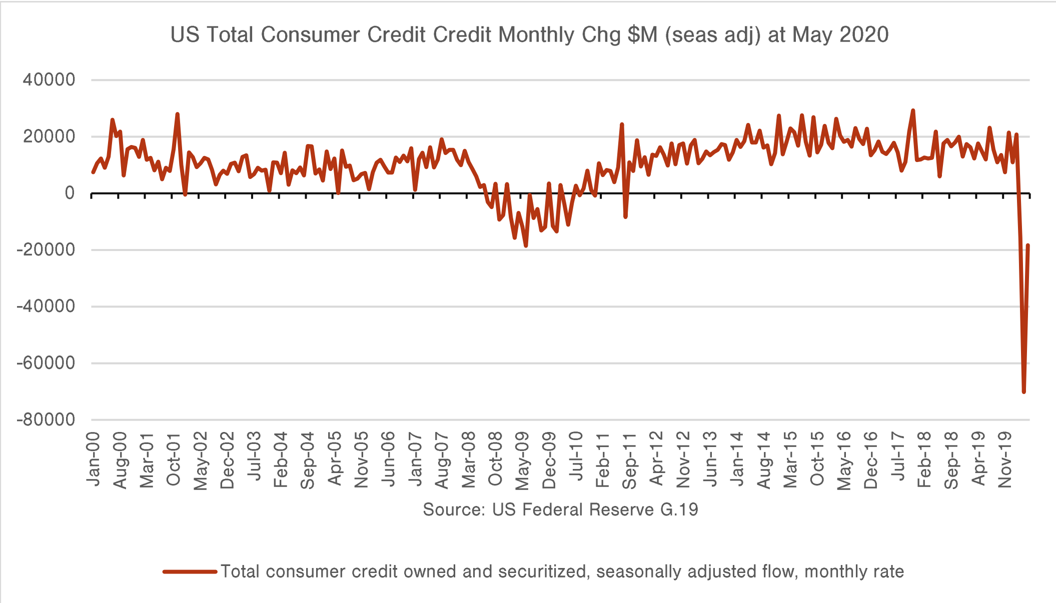
Consumer Credit (May)

Total US consumer credit declined for a second month in a row in May, albeit by a smaller value than the larger decline in Apr.

In May there was a further reduction in the level of outstanding revolving credit (credit card) which more than offset a small increase in non-revolving credit.

Total US Consumer Credit ($) – month change; May -$18.3bn versus Apr -$70bn

The pace of decline in outstanding consumer credit has been severe in this cycle – led by reductions in credit card/revolving credit outstanding.



On a year ago basis, the level of outstanding credit is +0.9% ahead of the same month a year ago. In May 2019, annual credit growth was running at +5.2%.

The current deleveraging is different to the GFC event. During 08-10, actual deleveraging occurred over a period of twenty-three months (approx.) with a smaller series of declines.

There are two components of outstanding consumer credit; revolving (credit card) and non-revolving consumer credit.

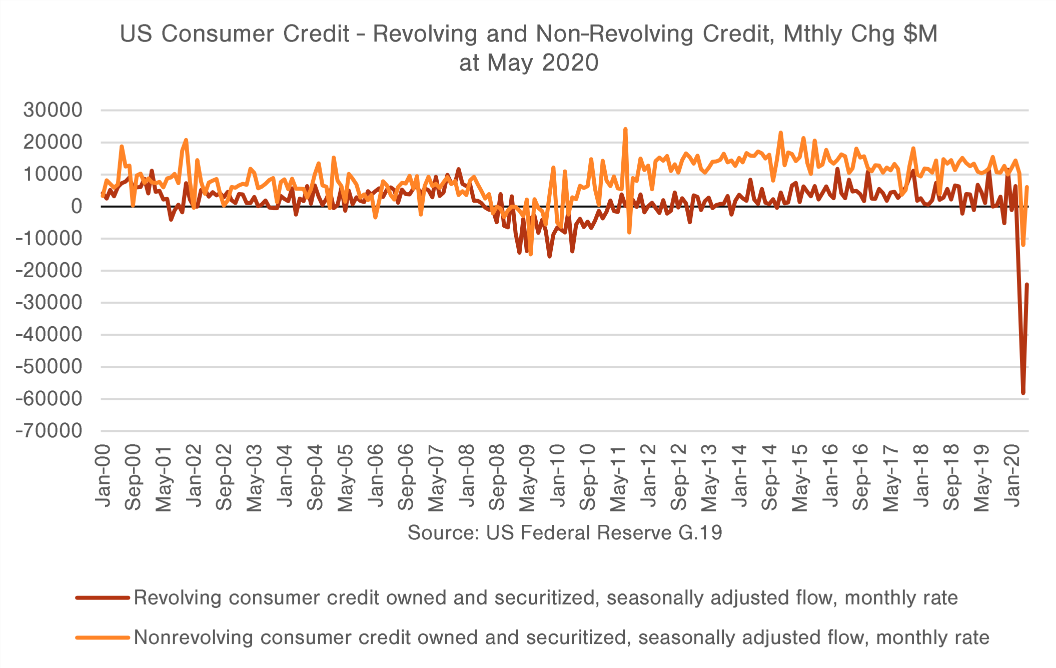
Revolving Consumer Credit ($) – month change; May -$24.3bn versus Apr -$58.2bn

The level of outstanding consumer credit is now 7.2% below the same month a year ago.

Non-Revolving Consumer Credit ($) – month change; May +$6bn versus Apr -$12bn

The level of outstanding consumer credit is +3.8% above the same month a year ago.

The increase in non-revolving credit is also consistent with the improvement in US motor vehicle sales for the month.



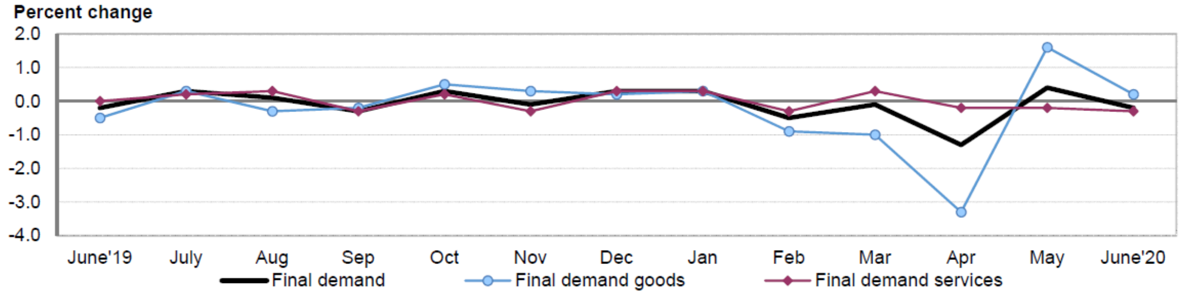
https://www.federalreserve.gov/releases/G19/current/g19.pdf

PPI (Jun)

US producer selling prices continued to decline on a monthly and annual basis in Jun. Excluding food and energy prices, underlying producer prices declined by only -0.1% on an annual basis.

Total Final Demand PPI – month change; Jun -0.2% versus May +0.4%

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



There were two factors contributing to the decline in producer prices in Jun.

Firstly, growth in final demand goods prices slowed notably from +1.6% in May to +0.2% in Jun. A decline food prices helped to offset an increase in energy prices.

> In June, a major factor in the increase in prices for final demand goods was the gasoline index, which rose 26.3 percent. Prices for diesel fuel; jet fuel; natural, processed, and imitation cheese; basic organic chemicals; and fresh and dry

vegetables also advanced. In contrast, prices for meats dropped 27.7 percent. The indexes for residential electric power and **light motor trucks** also declined.

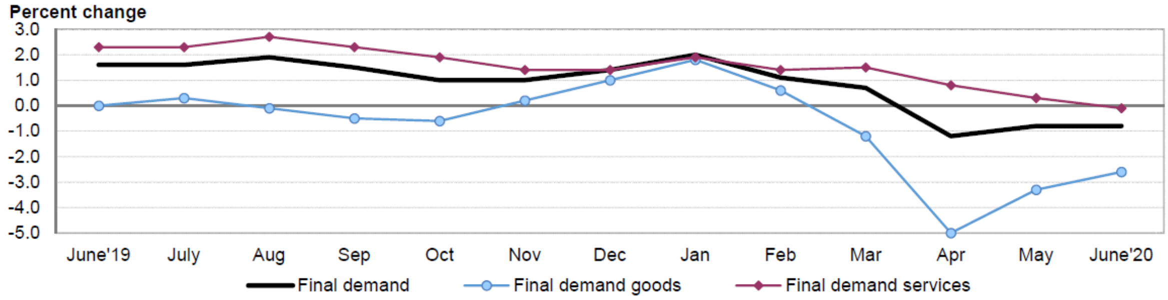
Secondly, prices for final demand services declined at a slightly accelerated pace in the month. This was led mostly by trade prices, as well as slower growth in transportation and warehousing.

Eighty percent of the June decline in the index for final demand services can be traced to a 7.3-percent drop in margins for machinery and **vehicle wholesaling**.

Final Demand PPI – annual change; Jun -0.8% versus May -0.8%

Final demand PPI prices excluding food and energy declined by a slower annual pace of -0.1% in Jun.

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



https://www.bls.gov/news.release/pdf/ppi.pdf

Return to top

Europe

Eurozone Retail Sales (May)

Growth in retail trade across the Euro area rebounded strongly in May. Despite the stronger month, retail trade remained below the same level from a year ago.

The rebound in May comes after two months of severe declines as member countries remained in lockdown. Sales across the Euro area remained more moderate across food and mail order. There was a stronger rebound in May across non-food categories and auto fuel – with sales across most of those categories remaining below a year ago.

Euro Area Retail Trade (Vol) – month change; May +17.8% versus Apr -12.1%

The growth in food, drinks, and tobacco was more moderate at +2.2% in the month but remains 5% ahead of a year ago.

Growth in retail sales of non-food products was much stronger after two extremely weak months:

Textiles, clothing, and footwear sales increased by 147% after two consecutive months of over 55% declines. Sales are still 50% below the same month a year ago.

Electrical goods and furniture sales increased by 38% in May after two consecutive months of around 20% declines. Sales in May remain 14% below the same month a year ago.

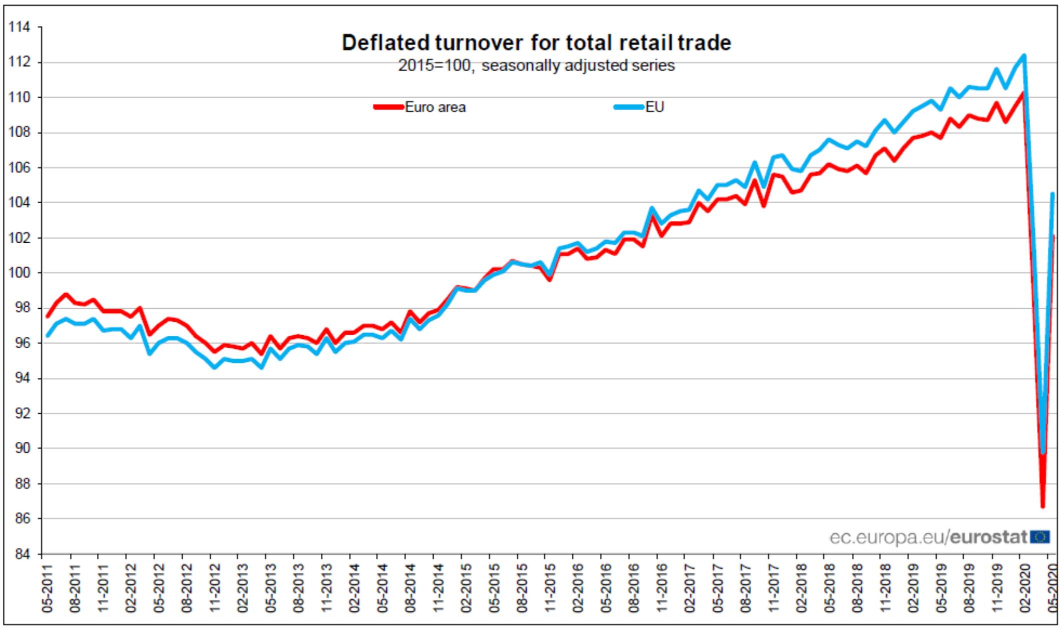
Computer equipment, books, and other sales increased by 27% in May after declining by over 20% in each of the two prior months. Sales are still 26% below a year ago.

Pharma and medical goods increased by 3% in May, but 'only' recorded a 14% decline in Apr. Sales are 6% below a year ago.

Mail order and internet sales remained positive at +4.7% in the month. Sales in May are +31% ahead of the same month a year ago.

Growth in auto fuel (volume) rebounded by +32% in May after over 20% declines in Mar and Apr. Sales are still 27% below the same month a year ago.

Euro Area Retail Trade (vol) – annual change; May -5% versus Apr -19.6%



https://ec.europa.eu/eurostat/documents/2995521/11061414/4-06072020-BP-EN.pdf/422a2c72-8de7-2bb6-2cd6-1829711add76

Germany Factory Orders (May)

Factory orders recorded an increase in May after seven (7) months of decline.

Index of New Orders in Manufacturing – month change; May +10.4% versus Apr -26.2%

Orders increased from the domestic market (+12.3%) as well as foreign markets (+8.8%). Within foreign markets, orders from non-euro area countries increased to a lesser degree (+2%) compared to the month prior.

Orders growth was stronger across capital goods (+20% - after over a year of weakness) and durable goods (+28.9%). Durable goods orders are +1% ahead of a year ago.

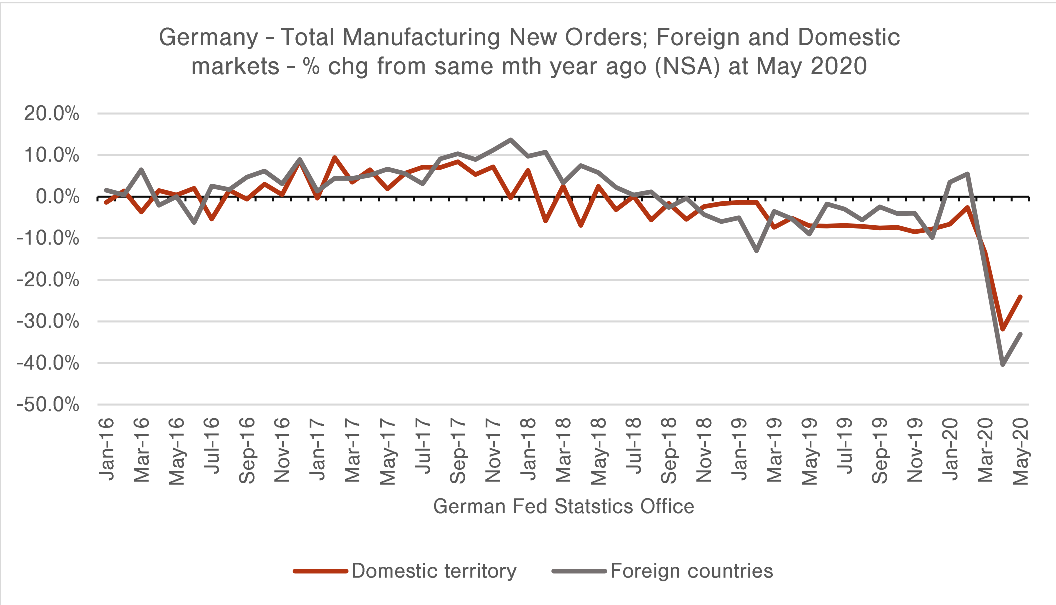
Orders growth was still weak for intermediate goods (+0.4% on the prior month).

Consumer goods orders growth was more moderate (+4.7%).

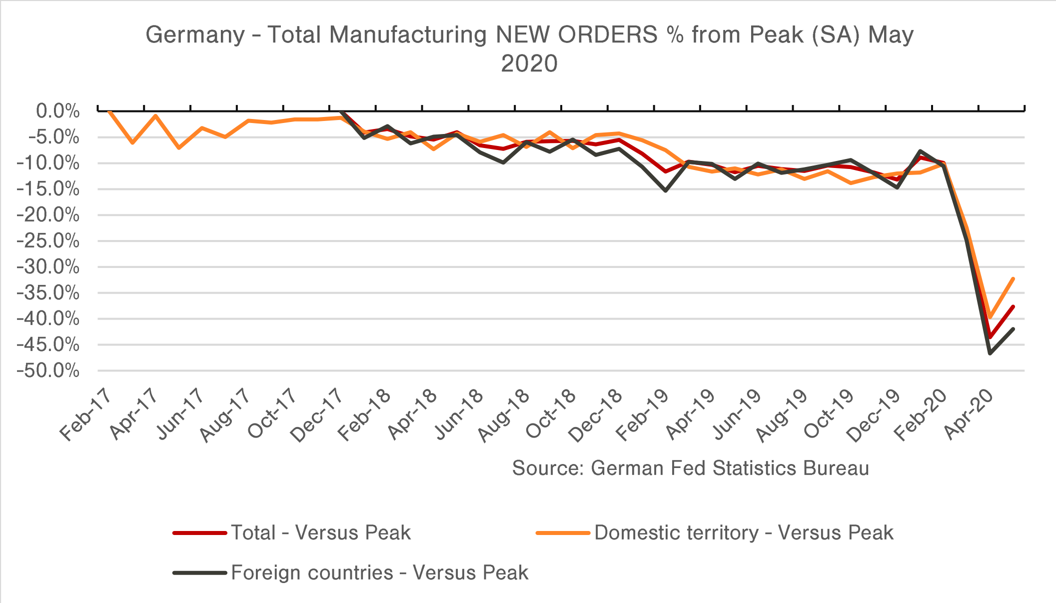
The rebound in the month is positive – especially for future production growth. How orders continue to grow over the next few months will be important.

<u>Index of New Orders in Manufacturing – annual change</u>; May -29.3% versus Apr -37%

The index of orders is well below a year ago across domestic and foreign markets.



It is worth noting that German manufacturing orders peaked well before the onset of Covid-19 – and total orders are still 38% below that peak (Dec 2017). Domestic orders peaked earlier – Feb 2017 and foreign orders peaked later in Dec 2017:



https://www.destatis.de/EN/Press/2020/07/PE20_251_421.html

Germany Industrial Production (May)

Total German industrial production increased in May after severe declines in Mar and Apr. Total industrial production remains well below a year ago. An annual decline in production has been recorded in the last nineteen (19) consecutive months – indicating that there was already some weakness in production prior to the global pandemic.

This month, manufacturing increased at a stronger pace, but mining and quarrying, utilities, and construction growth remained subdued.

Total Industrial Production – month change; May +7.8% versus Apr -17.5%

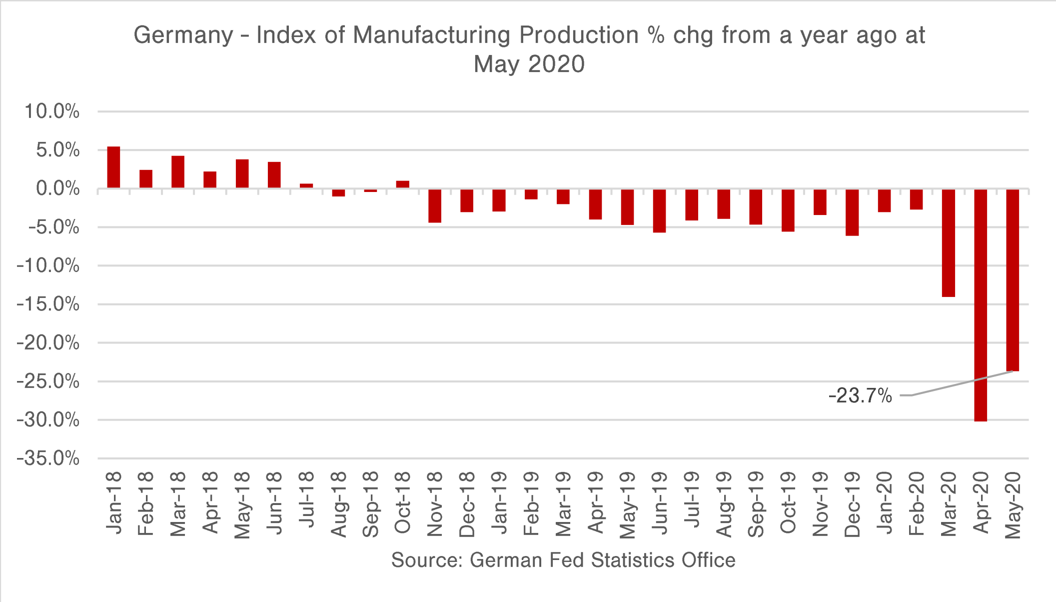
Total industrial production has been declining since Nov 2017, and despite the increase in the month, production levels are still 23% below that peak.

On an annual basis, production is 19% below the same month a year ago:

There are four main industry groups making up total industrial production – manufacturing, mining and quarrying, utilities, and construction.

<u>Manufacturing Production – month change</u>; May +10.4% versus Apr -21%

Manufacturing production increased in May after two months of severe declines. But the trend of weaker production was already well established. The annual change in manufacturing production has declined for the last twenty-two (22) consecutive months.



Manufacturing production peaked back in Nov 2017 and is currently 28% below that peak.

Performance across specific sectors was still mixed this month.

Production of intermediate goods continued to decline slightly in the month; May -0.1% versus Apr -13.7%. On an annual basis, intermediate goods production is 19% below a year ago.

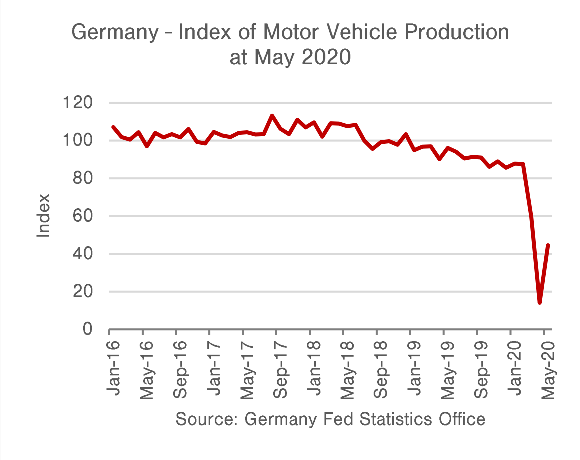
Production of capital goods was stronger in May, but levels remain depressed; May +28% versus Apr -33%. Production is still 31% below a year ago.

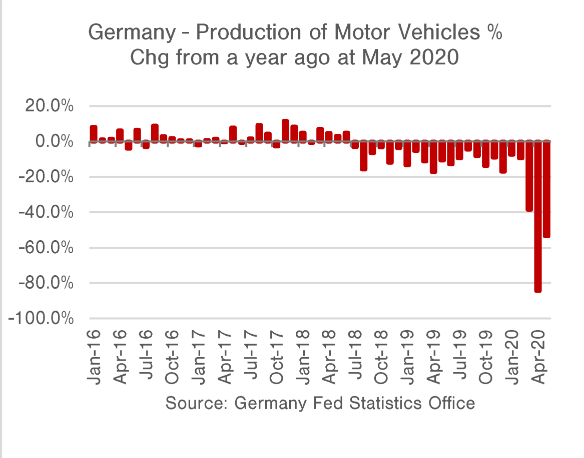
Durable goods production was stronger; May +17% versus Apr -19%. Production of durable goods is still 18% below a year ago.

Production of non-durable goods continued to decline; May -1.4% versus Apr -7%. The annual pace of decline has not been as severe (-14% below a year ago), but this month was a new low in terms of % below the peak (-21% below the May 18 production peak).

The rebound in consumer goods production was moderate; May +1.4% versus Apr -9.1%. Production is 15% below the same month a year ago.

Manufacture of motor vehicles, trailers and semi-trailers increased by a large % this month versus the month prior: +215%. But note levels are still extremely low. Production in May was still 53% below a year ago (-84% in Apr). Production is still 60% below the Aug 2017 peak.

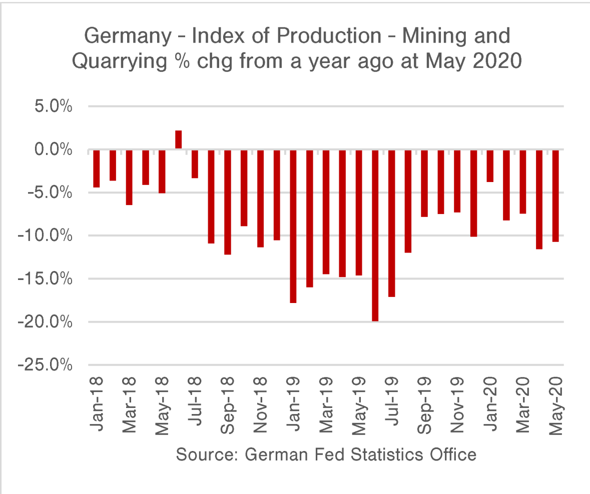




<u>Mining and Quarrying Production – month change</u>; May 1% versus Apr -4.4%

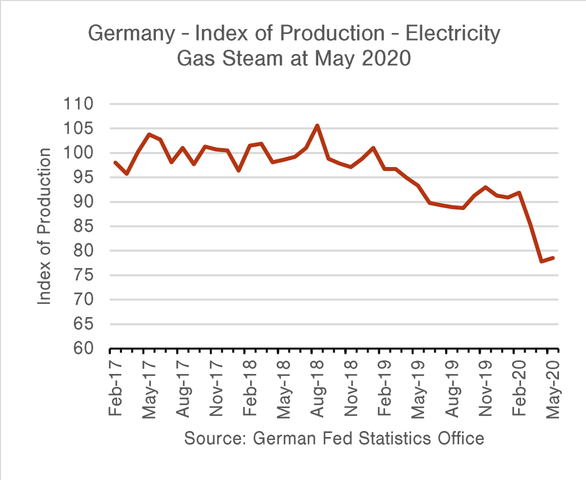
As noted last month, mining and quarrying appeared to be less directly impacted by pandemic shutdowns. But the overall trend of production has been declining since early 2017.

Production is 10% below a year ago and 29% below the May 2017 peak.



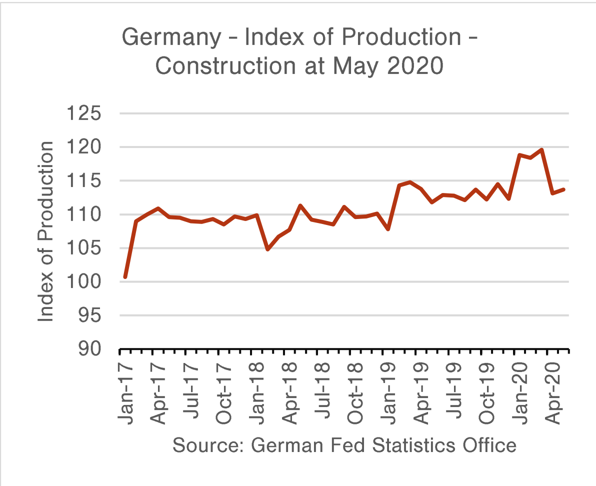
<u>Utilities; Electricity, Gas, Steam, Air-Conditioning – month change</u>; May +0.9% versus Apr -9%

Utilities production has also been weaker over a longer period but was still impacted by the pandemic shutdowns. Production is 16% below a year ago and 26% below the Aug 2018 peak.



Construction Production – month change; May +0.5% versus Apr -5.4%

Construction has been one of the stronger industries – and remains so. Construction production is +1.7% versus a year ago.



https://www.destatis.de/EN/Press/2020/07/PE20_252_421.html

Return to top

Australia

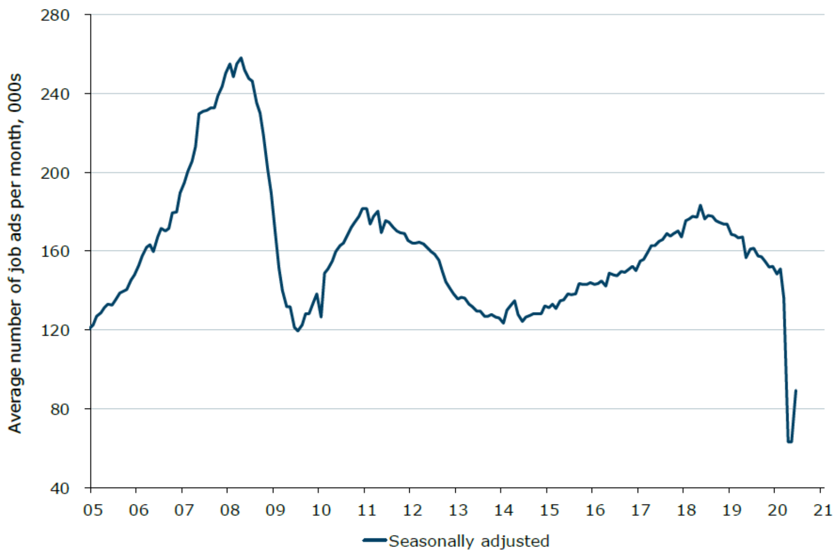
ANZ Job Adverts (Jun)

Job ads recorded an increase in Jun but remain below levels from prior to the pandemic shutdowns. The improvement in the month was the result of further easing of restrictions across most states.

Average weekly job ads were slowing prior to the pandemic shutdowns.

In May job ads increased by 42% versus the level in Apr but remain 44.6% below the May 2019 level.

Chart: ANZ Job Ads – Avg Number of Job Ads per mth (000's)



https://media.anz.com/posts/2020/07/job-ads-rebound-in-june-but-theres-a-long-way-to-go?adobe_mc=MCMID%3D62542987290149514063282464170528242039%7CMCORGID%3D67A216D751E567B20A490D4C%2540AdobeOrg%7CTS%3D1594529052

https://media.anz.com/content/dam/mediacentre/pdfs/mediareleases/2020/July/ANZ%20Job%20Ads%20June%2020.pdf

Aus Lending for Housing (May)

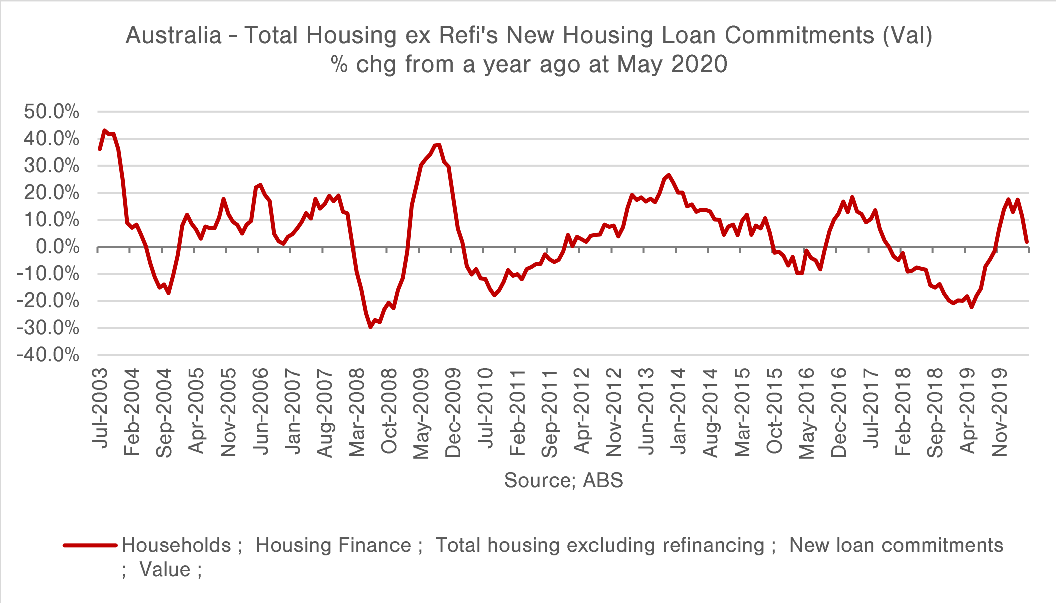
Lending for housing fell extremely hard in May – likely the (lagged) result from the full shutdown in Apr. But looking at the trend, there was already a slowing in housing finance prior to the full lockdown, with the peak back in Jan 2020.

The extent of the fall was severe in the latest release. The value of total housing finance (ex refi's) in May fell to just 1.8% above the 2019 pre-election (monthly) low recorded in May 2019.

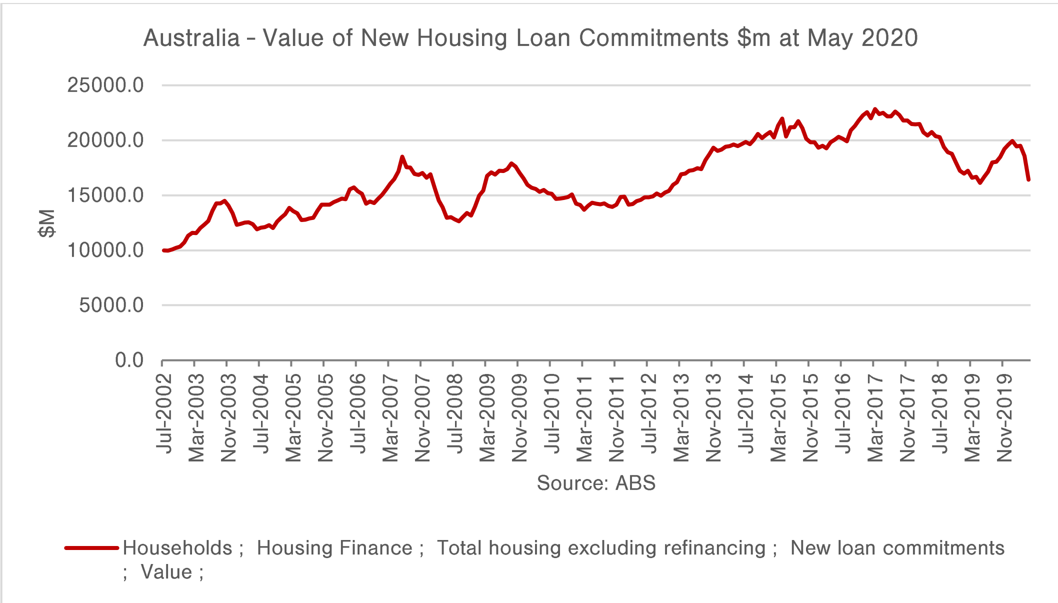
All sectors of housing finance declined in May. The slow-down in credit growth will most likely impact the growth of house prices, especially for the apartment market which 'tends' to rely more heavily on investor lending.

<u>Total Housing Finance (ex-refi's) – month change</u>; May -11.6% versus Apr -4.8%

On an annual basis, total housing finance is now just +1.8% ahead of a year ago. At the start of the year, annual growth had peaked at +17.5%.



The same month a year ago, May 2019, was the low point for lending in this cycle – due to the federal election (and the proposed policies at the time) and the Royal Commission into Banking and Finance.



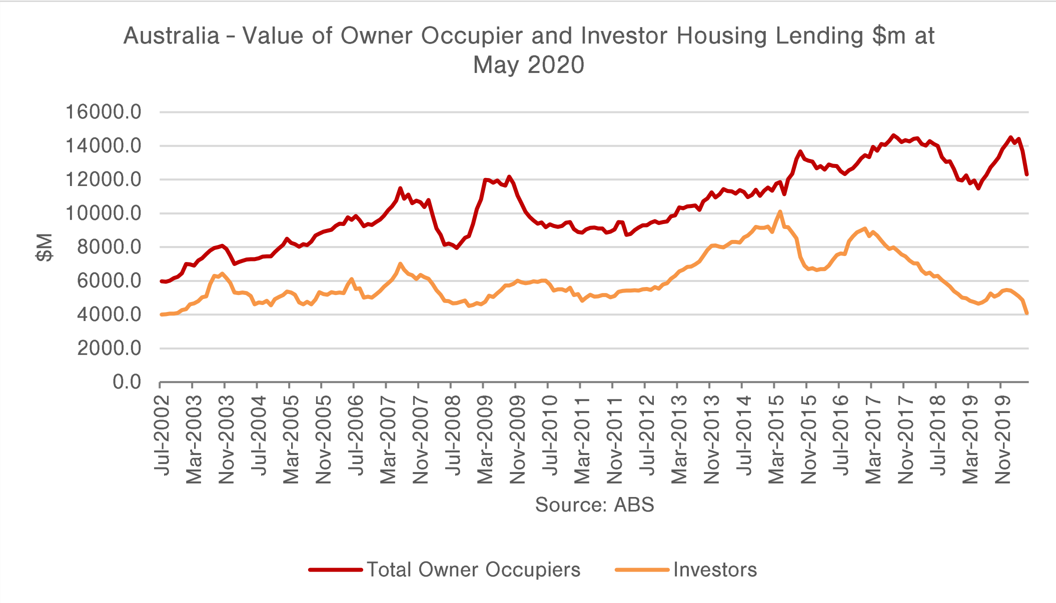
All sectors recorded declines in housing finance this month. The largest value decline was owner occupiers excluding first home buyers. The largest % decline was for investors – and this is the weakest part of the market.

<u>Investor Housing Finance (ex refi's) – month change</u>; May -15.6% versus Apr -4.2%

Investor housing finance growth was already lagging prior to the Covid-19 outbreak. Annual growth reached 8.4% back in Jan 2020 (below total housing finance growth of +17%).

Versus the same month a year ago, investor housing finance is now -12% below the May 2019 level.

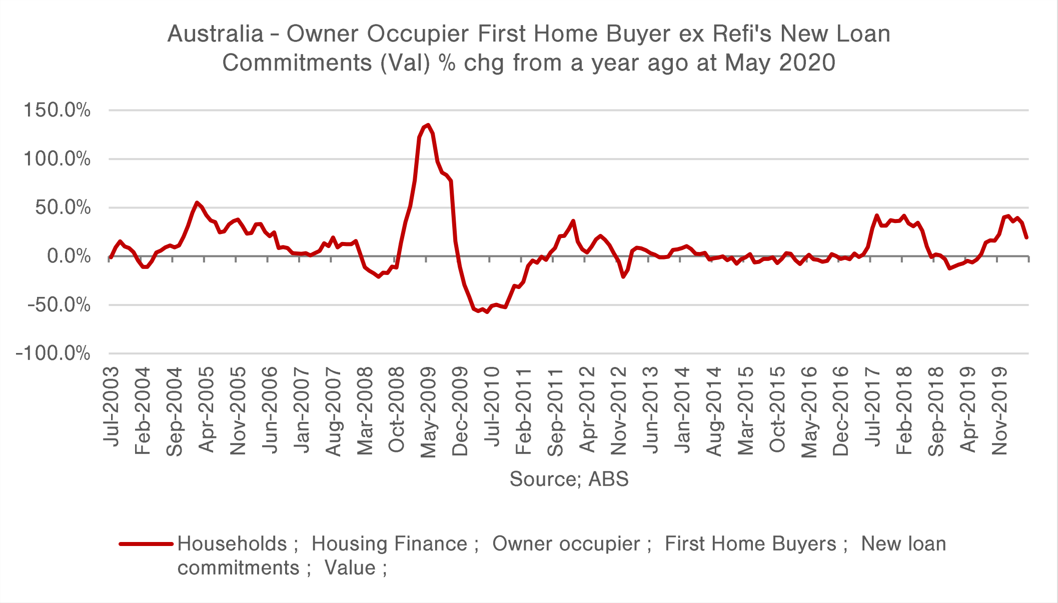
The level of underperformance in lending for investment properties is most highlighted compared to the rebound in owner occupier housing finance: -



<u>Owner Occupier Housing Finance (ex refi's) – month change</u>; May -10.2% versus Apr -5%

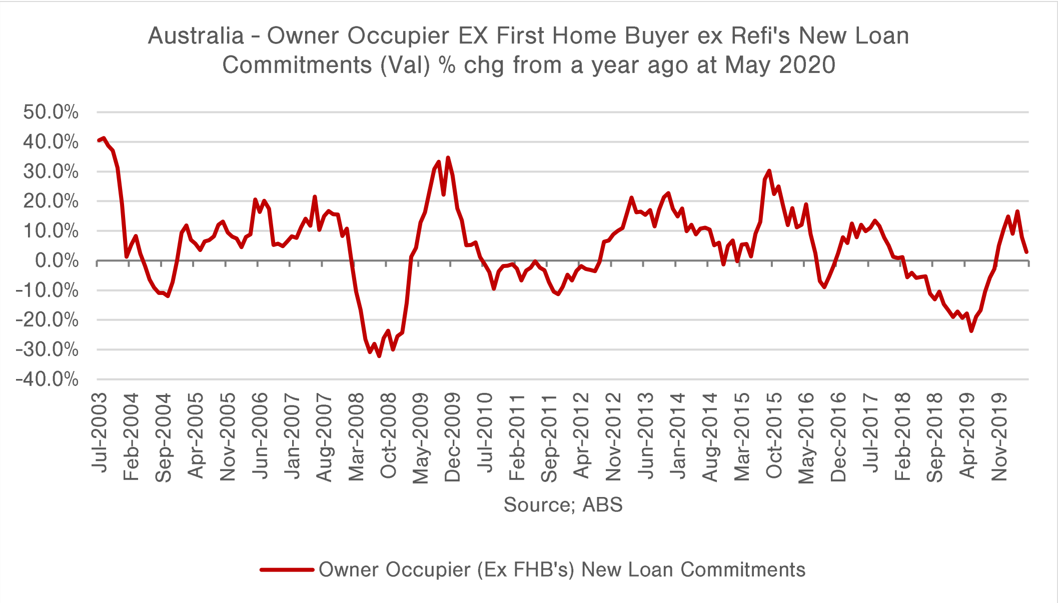
The decline in owner occupier housing finance accounted for most of the decline in housing finance in May. The two main components are First Home Buyers (FHB's) and Owner Occupiers (ex FHB's).

<u>First Home Buyers;</u> The decline in the value of FHB housing finance was also steep in May and accelerated to -10.5% versus Apr -1.9%. Lending for FHB's has been one of the stronger parts of lending over the last year. As of May, and despite the May decline, lending for FHB's remains 20% ahead of the same month a year ago. Annual growth was running at +41% as of Jan 2020:



<u>Owner Occupiers Ex FHB's:</u> This is the largest segment of the market. The decline in owner occupier housing finance (ex-refi's) also accelerated in May to -10% versus -6.3% in Apr.

Lending for owner occupiers ex FHB's is now only 3% above a year ago. As of Jan 2020, the annual pace of growth was +15%.



https://www.abs.gov.au/ausstats/abs%40.nsf/mediareleasesbyCatalogue/CD780691805A926CCA25839E001987B5?OpenDocument

RBA Rates Decision – 7 July 2020

Decision

The RBA kept rates on hold at this meeting – both the overnight cash rate and the yield on the 3 yr Aus Govt bond at +0.25%.

Conditions

Most economies, including Aus, have experienced a severe economic contraction due to the containment strategies. Despite the improvement in leading indicators, the outlook remains uncertain:

> "…the recovery is expected to be bumpy and will depend upon containment of the coronavirus."

But financial conditions have improved notably, and volatility has declined. Asset prices have increased despite the "unprecedented" uncertainty.

Outlook

> The Australian economy is going through a very difficult period and is experiencing the biggest contraction since the 1930s.

The contraction in activity, so far, does not appear to be as severe as initially thought, as conditions have stabilised. But uncertainty about the health situation is affecting buying and investment decisions. Some firms are also having to rethink business models.

> The substantial, coordinated and unprecedented easing of fiscal and monetary policy in Australia is helping the economy through this difficult period. It is likely that fiscal and monetary support will be required for some time.

Forward Guidance

The current accommodative approach will be maintained for as long as required. The cash rate will not be in be increased until there is progress towards full employment and the inflation rate is between 2-3% target range.

https://www.rba.gov.au/media-releases/2020/mr-20-17.html

Return to top

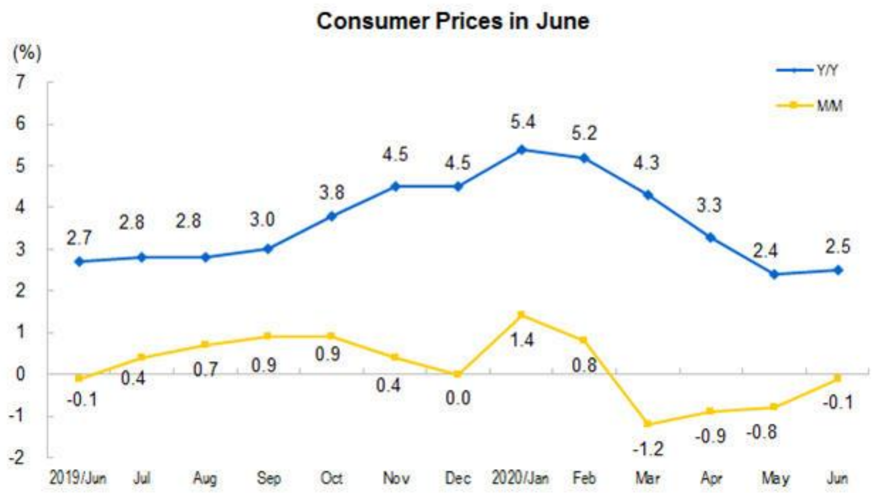
China

China CPI (Jun)

Consumer prices increased at a slightly faster annual pace in Jun as the monthly decline also eased.

Consumer Price Index – annual change; Jun +2.5% versus May +2.4%

For the year, prices were higher across food, tobacco, and liquor, other, healthcare, and education, recreation, and culture. This offset the decline in prices across transport and communication, clothing, and residence for the year.



http://www.stats.gov.cn/english/PressRelease/202007/t20200710_1774875.html

China PPI (Jun)

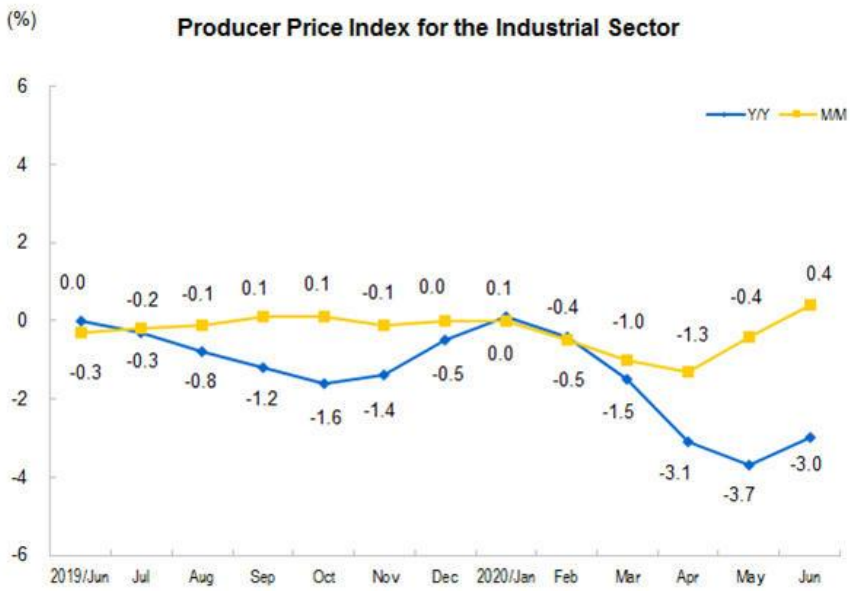
On a monthly basis, the headline purchase price index increased for the first time in four months. The producer price index measures products sold for the first time – so this was the first time in four months when producers increased prices, on net. The annual pace of decline in producer selling prices eased.

The purchase price index measures of the purchase price of intermediate inputs. So, it is possible that the increase in input costs for Jun (also the first increase in four months), added pressure on producers to lift selling prices.

Producer Price Index – month change; Jun +0.4% versus May -0.4%

The annual pace of decline eased from -3.7% in May to -3% in Jun.

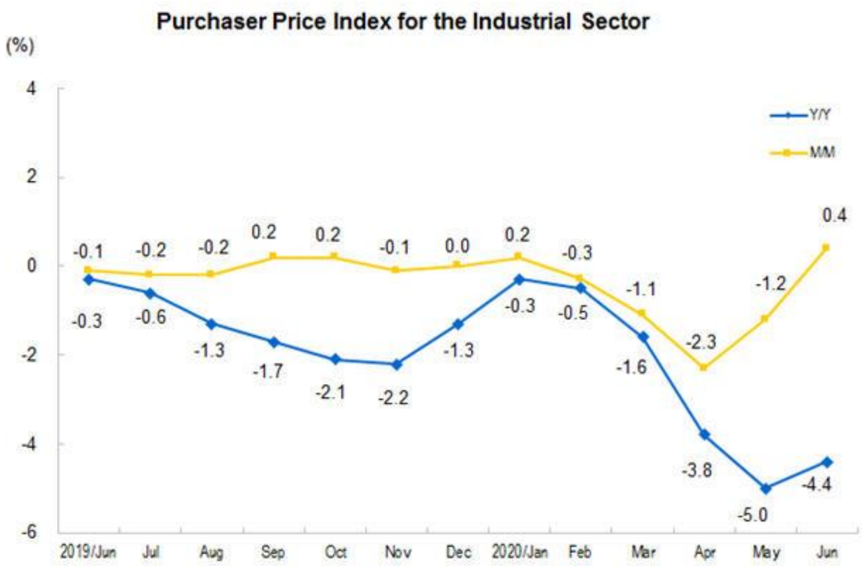
One of the largest changes across the industry segments was the +38% increase in the month for extraction of petroleum and nat gas (after a YTD decline in prices of -27%).



<u>Purchaser Prices Index – month change</u>; Jun +0.4% versus May -1.2%

Prices for intermediate inputs continued to decline on an annual basis, and faster than the produce selling prices, but that pace of decline eased.

Prices were higher in the month led by fuel & power, ferrous metals, and non-ferrous metal/materials/wires. These sector prices remain 14%, 2% and 3%, respectively, below the same month a year ago.



http://www.stats.gov.cn/english/PressRelease/202007/t20200710_1774879.html

Return to top

Trade

US-China Trade Talks

It has been unofficially observed that there was a low chance of a phase two trade deal being completed between the US and China. This week, that position was made somewhat more official:

> President Trump damped expectations for a promised phase-two trade pact with China on Friday, saying the relationship between the countries has been too badly damaged by the coronavirus pandemic.
>
> The economic fallout from the pandemic also made it increasingly unlikely that China would meet its targets for expanded purchases of U.S. goods under the phase-one deal, fueling further doubts about prospects for new talks. https://www.wsj.com/articles/trump-pessimistic-on-phase-two-china-trade-deal-11594400326

It was only recently that USTR Lighthizer acknowledged the second phase of the trade deal in testimony to the House Ways & Means Committee (Jun 2020). https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/HWMCTestimonyon2020TradeAgenda-Final.pdf

As a part of the push to localise production, the US is considering further stimulus for manufacturing. This could have far wider effects than just an impact on Chinese manufacturing. Emphasis added.

> "Put simply, we need to create more manufacturing jobs," Navarro said. "Manufacturing jobs not only provide good wages but also create more jobs both up- and downstream through multiplier effects."
>
> Navarro said House Speaker Nancy Pelosi would like a $3 trillion dollar package, Senate Majority Leader Mitch McConnell would like a $1 trillion dollar package, but President Donald Trump would like a package of "at least $2 trillion dollars that is strategically focused around the President's two simple rules -- Buy American, Hire American -- **along with incentives for American companies to bring offshored jobs back home**."
>
> https://edition.cnn.com/2020/06/13/politics/navarro-white-house-coronavirus-stimulus/index.html

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

In recent testimony, USTR Lighthizer referred to the second phase trade deal negotiations with Japan.

> Last year, the United States also entered into two agreements with Japan that established preferred or zero-rate tariffs on more than 90 percent of U.S. food and agricultural products imported into Japan and enhanced the existing $40 billion in digital trade between our countries.
>
> In the case of Japan, the two countries intend to enter into further negotiations on customs duties, barriers to trade in services and investment, and other trade restrictions.
> https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/HWMCTestimonyon2020TradeAgenda-Final.pdf

Phase two of the deal negotiations were originally planned to commence around Apr/May this year. There is no indication of the timing for the start of phase two negotiations at this stage.

> 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

USTR Lighthizer noted in recent testimony of the intention to continue to pursue negotiations with the EU. This still seems some way into the future – after US elections.

> The United States also seeks to rebalance our trade relationship with the European Union. For many years, U.S. businesses have been at a disadvantage in doing business in the EU. Both tariff and non-tariff barriers in the EU have led to increasing and unsustainable trade deficits with the EU – reaching $179 billion in 2019. With recent changes in EU leadership, the United States is hopeful for more progress **in the coming year**.
> https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/HWMCTestimonyon2020TradeAgenda-Final.pdf

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=dsmsauto&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.

NEW – S.301 Investigation of Digital Services Taxes

The USTR has announced an investigation into various digital services taxes that have been implemented or have been considered for implementation, on US firms.

> "President Trump is concerned that many of our trading partners are adopting tax schemes designed to unfairly target our companies," said USTR Robert Lighthizer. "We are prepared to take all appropriate action to defend our businesses and workers against any such discrimination."

https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/june/ustr-initiates-section-301-investigations-digital-services-taxes

US-UK Trade Talks

There has been no further update on trade negotiations between the UK and the US at this stage. Trade negotiations commenced w/c 4 May and were expected to run in parallel with the EU Brexit/trade negotiations.

A deal is not likely to be finalised until the completion of the UK-EU post-Brexit trade deal. https://www.washingtonpost.com/business/what-trump-johnson-want-from-us-uk-trade-deal/2020/06/10/e116d732-ab75-11ea-a43b-be9f6494a87d_story.html

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

The actual details of the negotiations are largely unknown and causing concern in the UK;

> "The precise details of any UK-US Free Trade Agreement are a matter for formal negotiations, and we would not seek to pre-empt these discussions.
>
> "The Government is clear that when negotiating FTAs we will continue to protect our right to regulate in the public interest where we deem fit." https://www.express.co.uk/news/world/1288548/uk-government-brexit-trade-deal-chlorinated-chicken-farmers-us-trade-liz-truss

USTR Lighthizer also noted in his recent testimony of the US intention to continue to pursue a trade agreement with the UK;

> The Trump Administration has taken numerous steps to pave the way for negotiating a trade agreement with the UK, including a review of public comments, a public hearing, and extensive consultations with congressional and trade advisory committees. USTR published detailed negotiating objectives on February 28, 2019, and aims to reach an agreement with substantive results for U.S. consumers, businesses, farmers, ranchers, and workers as soon as possible. https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/HWMCTestimonyon2020TradeAgenda-Final.pdf

The USTR has published the summary of specific negotiating objectives for the US-UK trade negotiations; https://ustr.gov/sites/default/files/Summary_of_U.S.-UK_Negotiating_Objectives.pdf

BREXIT

Rounds of 'intensive' negotiations between the EU and UK have commenced. These were the first face-to-face meetings since the beginning of the global pandemic. The talks will alternate between Brussels and London for five weeks through Jul and Aug.

> Without a new agreement, the two sides would see ties reduced to minimum standards set by the World Trade Organization, with high tariffs and serious disruptions to business. https://www.japantimes.co.jp/news/2020/06/29/world/eu-uk-brexit/#.Xvlra5MzY_U

The face to face negotiations have so far not appeared to make much progress. This is raising concerns (again) for businesses over the potential disruption from a 'crash out' style exit.

> Analysts at Berenberg said they do not see a Brexit deal being reached by the end of the year, putting a 60% chance on negotiators switching focus to "limit

the immediate economic and social disruptions" of a crash-out exit on 31 December.

Michel Barnier, Europe's top Brexit negotiator, said on 30 June there was "no way member states or the European Parliament would accept" the UK's bid to smooth access to European markets for London's financial district after it leaves the EU. The UK's chief negotiator David Frost said on 2 July that there remained "significant differences" between the two sides "on a number of important issues". https://www.fnlondon.com/articles/fears-of-a-brexit-crash-out-return-to-haunt-the-city-20200706

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

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

Return to top