MARS CAPITAL PARTNERS

Weekly Macro Review

w/c 10 August 2020

Key Themes

The good news in this week's review was the continued slowdown in the pace of US initial and continuing jobless claims. The improvement/reduction in claims was uniform across the US with only four states recording further increases in claims. One possible reason contributing to the improvement is the notable increase in the number of temporary decennial Census workers earning any pay over the last few weeks. The Aug payrolls data will highlight the extent of the growth in government employment. The PMI's for Jul still indicated somewhat weaker employment growth. The JOLT's data also highlights a slower rebound in job openings. The implied employment change (hires less separations) has retraced little of the fall in employment from Mar-Apr.

The Pandemic Unemployment Assistance initial claims were almost halved versus the level of two weeks ago – this could be the result of the program expiration. As of wk ending 25 Jul, 28m people in the US were claiming unemployment insurance across both state and federal programs. The weekly numbers and levels remain extremely elevated. So far, there has only been a temporary Executive Order by US President Trump to extend benefits, while negotiations on the broader stimulus package have stalled. Both the House and the Senate are not due back to Washington until Sep.

Consumer sentiment in early Aug was little changed from the Jul levels – and are only marginally above the Apr lows.

> Two significant changes since April have been that consumers have become more pessimistic about the five-year economic outlook (-18 points) and more optimistic about buying conditions (+21). Lower interest rates by the Fed prompted more favorable buying, especially for homes, and the DC policy gridlock was responsible for the weaker outlook.

The Jul industrial production data was interesting. Manufacturing output and capacity utilization continued to increase month on month but remains below a year ago. One important area of manufacturing that has lagged is the production of motor vehicles. This month, capacity utilization for motor vehicles was almost back on par with a year ago and pre-pandemic levels. Production levels increased notably in Jul. At the same time, motor vehicle retail sales declined in Jul. A function of constrained inventory or weaker demand?

EZ industrial production continued to rebound in Jun – only at a slightly slower pace compared to May.

Data out of China over the last few weeks indicates some recovery in global demand for Chinese exports, but still reflects weakness in domestic conditions. The China trade surplus increased. Exports increased in the month and on a year ago basis. But import growth slowed in the month and declined slightly on a year ago basis. Weaker import demand by China will likely hamper exports/production growth of its key trading partners. Chinese producer prices indicated further pressure on margins as input prices increased at a faster pace than producer selling prices. Consumer prices also increased at a faster pace – food price growth remains elevated and retail sales growth remains weaker.

In Australia, wage growth slowed to the lowest level since the series began. There was also a notable increase in "genuine market-based reductions in jobs paid by individual arrangement to ease financial pressure" – especially for managerial workers. This highlights the risk of broader negative income effects of the shutdowns not just for consumer-facing and hospitality workers.

Aus employment growth continued to rebound, but at a slower pace. The increase in participation though resulted in an increase in total unemployment for the month. The official unemployment rate was 7.5% - or just on 1m people unemployed. The actual number of people claiming the Aus govt Job-Seeker program is 1.6m people – and this suggests the unemployment rate may already be over 10%.

Contents

US Data

Initial Jobless Claims (wk ending 7 Aug), Continuing Unemployment Claims (wk ending 31 Jul), and PUA Claims

The level of initial claims continues to trend lower – this is now the third week of more substantive reductions in the number of initial claims. Initial claims are now below 1m – but even so, remain extremely elevated. Continuing claims also continued to trend lower.

The PUA claims are interesting this week. There was a substantial reduction in the number of initial PUA claims – and numbers have almost halved since the week ending 25 Jul. This program officially ended on 31 Jul and the program future remains uncertain amid stalled negotiations in Congress.

On a state basis – initial claims are available on a non-seasonally adjusted basis only, so week to week comparisons are problematic. But a quick look across each of the states suggests that there was a nationally uniform improvement in initial claims. Only four (4) states recorded an increase in the level of initial claims between wk ending 8 Aug and wk ending 1 Aug – Hawaii, New Mexico, South Dakota, and Wyoming.

TOTAL ADVANCE INITIAL CLAIMS WK ENDING 8 AUG 2020

On an NSA basis, a total of 1.3m people made initial claims for both state and federal (PUA) programs this week. This was down from the 1.6m initial claims from the week prior.

State based Advance Initial Claims – wk ending 8 Aug 2020 (SA): 963,000 people

The week prior, seasonally adjusted claims were 1,191,000 claims.

On an NSA basis, initial claims were also lower for the wk ending 8 Aug: 831,856 people (versus 988,309 claims in the week prior)

Federal PUA Initial Claims – wk ending 8 Aug 2020 (NSA): 488,622 people

This was well down in the week prior initial PUA claims of 655,999. The week ending 25 Jul, PUA claims were 908,800. In the space of two weeks, claims have fallen by 46%. This may have more to do with the expiration of the program.

CONTINUING CLAIMS/INSURED UNEMPLOYMENT WK ENDING 1 AUG 2020

State-based continuing claims (NSA) wk ending 1 Aug 2020: 15,207,671 people (this was -604k lower than the wk ending 25 Jul total of 15,832,355. The insured unemployment rate was 10.4%.

Federal PUA program continuing claims for wk ending 25 Jul (a week behind) was 10,723,396 ongoing claims by people.

As of wk ending 25 Jul 2020, a total of 28,257,995 people claimed ongoing/continuing claims in both state and federal programs.

PANDEMIC EMERGENCY UNEMPLOYMENT COMPENSATION

Pandemic emergency UC claims continued to increase in the wk ending 25 Jul to 1,224,443 (up from 1,157,339 in the wk prior) https://www.dol.gov/ui/data.pdf

Temporary Census Workers

The impact of increasing decennial Census temporary workers is possibly accounting for some of the slow-down in initial and ongoing claims. The Aug payrolls data will highlight the extent of the growth in government employment.

Over the last few weeks, there has been a notable increase in the number of temporary Census workers earning any pay:

Number of 2020 Census Paid Temporary Workers by Weekly Pay Period and Census Bureau Region: July 2020

Census Bureau region	Weekly pay period: July 26–August 1, 2020	July 19–July 25, 2020	July 12–July 18, 2020	July 5–July 11, 2020	June 28–July 4, 2020
Total	**155,239**	**83,809**	**50,404**	**33,226**	**29,261**
New York[1]	23,666	11,899	7,615	4,837	4,476
Philadelphia	26,981	16,710	9,554	6,191	5,013
Chicago	24,143	16,574	7,504	5,450	4,947
Atlanta	18,433	7,297	6,821	3,980	3,684
Denver	27,550	13,908	9,353	6,483	6,091
Los Angeles	34,466	17,421	9,557	6,285	5,050

[1] New York total does not include Puerto Rico.
Note: This table provides the total number of 2020 Census temporary workers that earned any pay during a specific weekly pay period.
Source: Decennial Applicant Personnel and Payroll System (DAPPS).

The level of temporary Census workers earning any pay in the Jun period was more stable:

Number of 2020 Census Paid Temporary Workers by Weekly Pay Period and Census Bureau Region: June 2020

Census Bureau region	Weekly pay period: June 21–June 27, 2020	June 14–June 20, 2020	June 7–June 13, 2020	May 31–June 6, 2020
Total	**26,151**	**22,621**	**22,931**	**24,283**
New York[1]	3,934	3,330	3,515	3,688
Philadelphia	4,258	3,154	3,322	3,249
Chicago	4,056	3,248	3,146	3,201
Atlanta	3,409	2,462	2,258	2,413
Denver	5,679	5,454	5,919	6,856
Los Angeles	4,815	4,973	4,771	4,876

[1] New York total does not include Puerto Rico.
Note: This table provides the total number of 2020 Census temporary workers that earned any pay during a specific weekly pay period.
Source: Decennial Applicant Personnel and Payroll System (DAPPS).

https://www.census.gov/content/dam/Census/newsroom/press-kits/2020/2020-census-weekly-hires.pdf

Advance Retail Sales (Jul)

The pace of monthly growth in the value of retail sales slowed in Jul after several months of stronger growth rebounding from the declines in Feb, Mar, and Apr. In Jul, some trade restrictions were eased across some regions and increased across others due to increasing Covid-19 infections.

The other point to consider is availability of stock. There are still some anecdotes regarding lack of available stock and supply chain disruptions persisting. Weaker sales may not just be a function of weaker demand.

<u>Advance Retail Sales Value – month change</u>: Jul +1.2% (+$6.5bn) versus Jun +8.4% (+$14.2bn)

The largest value contributor to the month increase was Food Service and drinking places +5% or +$2.5bn versus the month prior. Sales remain 19% below the same month a year ago for this sector.

Gasoline station sales also increased (due to volume or price increases?) by +6.2% or +$2.1bn versus the month prior. Sales also remain 15% below the same month a year ago.

The other notable contributor to headline retail sales growth was electronics and appliance stores +22.9% or +$1.5bn versus the month prior. Sales remain 2.8% below a year ago.

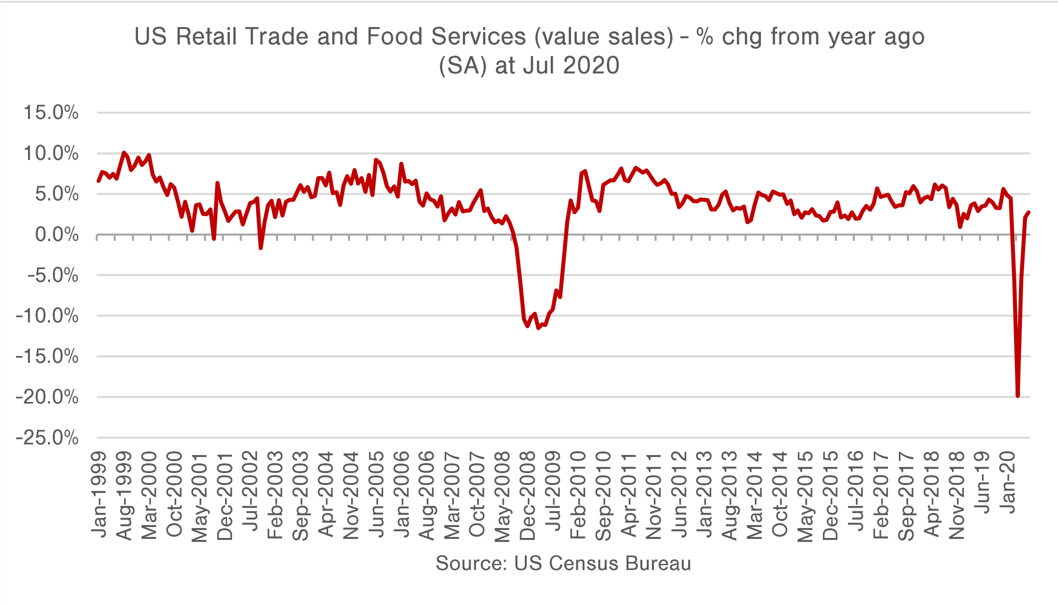
Other categories that recorded low growth this month were still ahead on a year ago basis: grocery stores +0.2% or +$0.2bn versus the month prior but were still +11.1% ahead of the same month a year ago.

Motor vehicle sales were the notable decline this month, falling by -1.2% or -$1.4bn versus the month prior. Sales are still 6.1% ahead of the same month a year ago. It is unclear the degree to which this sales decline is due to falling demand or low inventory. Inventory data up to Jun (Wards Inventory level estimate via the BEA) recorded a small increase in Auto inventory as production began to restart. But inventory levels remain low. The inventory to sales ratio though came back down closer to the pre-Covid shutdown level.

Retail sales also declined across building materials (after several stronger months of sales), sporting goods, general merchandise.

<u>Advance Retail Sales Value – annual change:</u> Jul +2.7% versus Jun +2.1%

The annual pace of growth in retail sales accelerated slightly, but the pace remains down on the pre-shutdown levels.



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

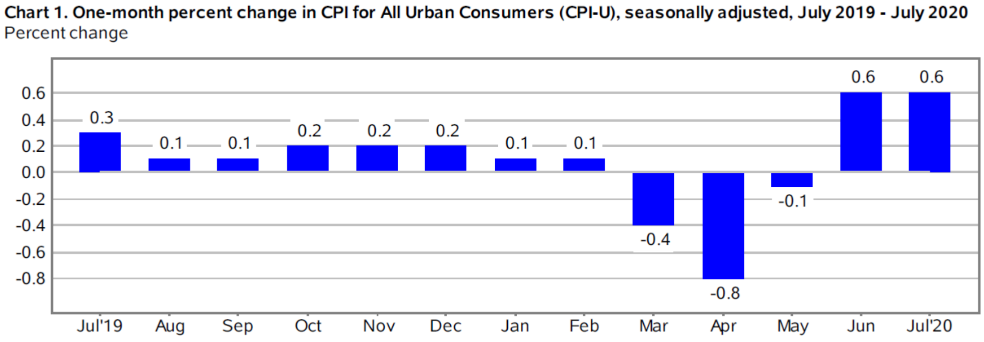
https://apps.bea.gov/iTable/iTable.cfm?reqid=19&step=2#reqid=19&step=2&isuri=1&1921=underlying

CPI (Jul)

The US CPI increased at a constant pace this month – matching the elevated pace of growth in Jun. Energy prices increased, albeit at a slower pace and core CPI also increased at a faster pace. A decline in food prices for the month helped to offset these increases.

Annual CPI growth continued to increase at a faster pace.

CPI – month change: Jul +0.6% versus Jun +0.6%



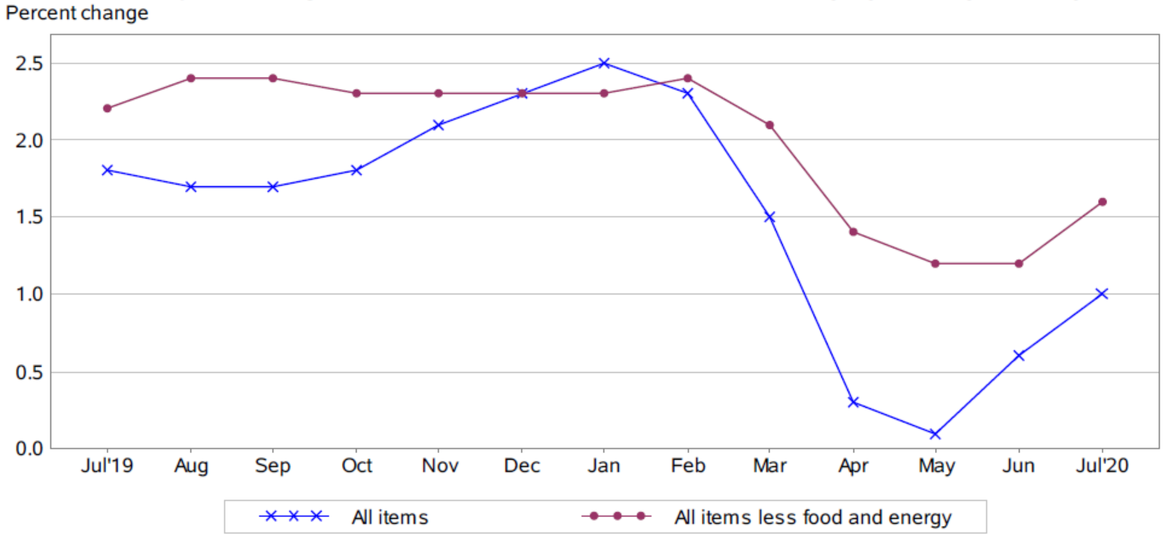
This month, growth in prices for food at home eased from +0.7% in Jun to -1.1% in Jul. Food at home prices are still +4.6% ahead of the same month a year ago. Meat price growth eased this month but is still +8.4% ahead of a year ago.

Energy prices increased at a slower pace, but price growth is still elevated at +2.5% in the month. On an annual basis, energy prices are still 11% below a year ago. Gasoline prices are still 20% below a year ago, but note that in Jul gasoline prices increased by +5.6% after increasing by 12% in Jun.

Core CPI (excluding food and energy prices) price growth accelerated in Jul to +0.6% after increasing by +0.2% in Jun. Both commodities less food and energy commodities and services less energy services prices increased at a faster pace in Jul.

CPI – annual change: Jul +1% versus Jun +0.6%

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



The acceleration in annual price growth was mostly the result of faster growth in core CPI groups of services less energy services (has the largest weight in the index) which increased by +2.3% in Jul (versus +1.9% in Jun). There was also a slower decline in commodities less food and energy commodities prices of -0.5% in Jul (versus -1.1% in Jun).

The slower decline in energy prices also contributed to the faster pace of growth in the annual CPI. Energy prices were 11.1% below the same month a year ago.

These were partly offset by slower growth in food prices. But annual food price growth is still elevated at +4.1%.

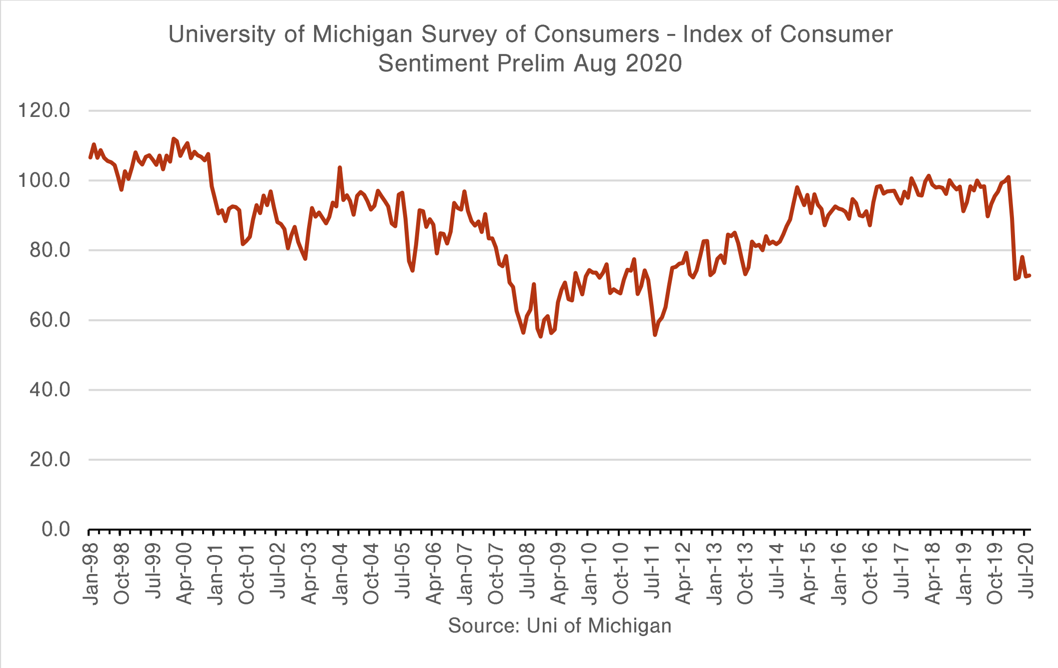
https://www.bls.gov/news.release/cpi.nr0.htm

University of Michigan Consumer Sentiment Prelim (Aug)

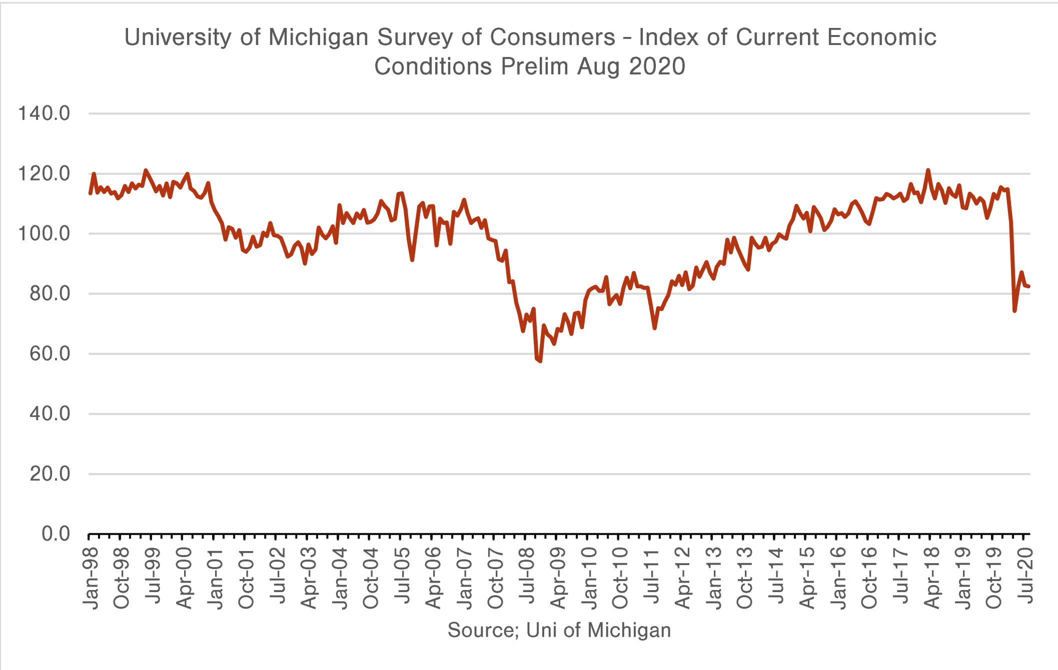
Measures of consumer sentiment in early Aug were little changed from the reading of the final/last half of Jul. The headline index of consumer sentiment and the readings for current and expected conditions remain near the Apr lows.

> Two significant changes since April have been that consumers have become more pessimistic about the five-year economic outlook (-18 points) and more optimistic about buying conditions (+21). Lower interest rates by the Fed prompted more favorable buying, especially for homes, and the DC policy gridlock was responsible for the weaker outlook.

<u>Headline Index of Consumer Sentiment – month</u>: Aug prelim 72.8 versus Jul 72.5

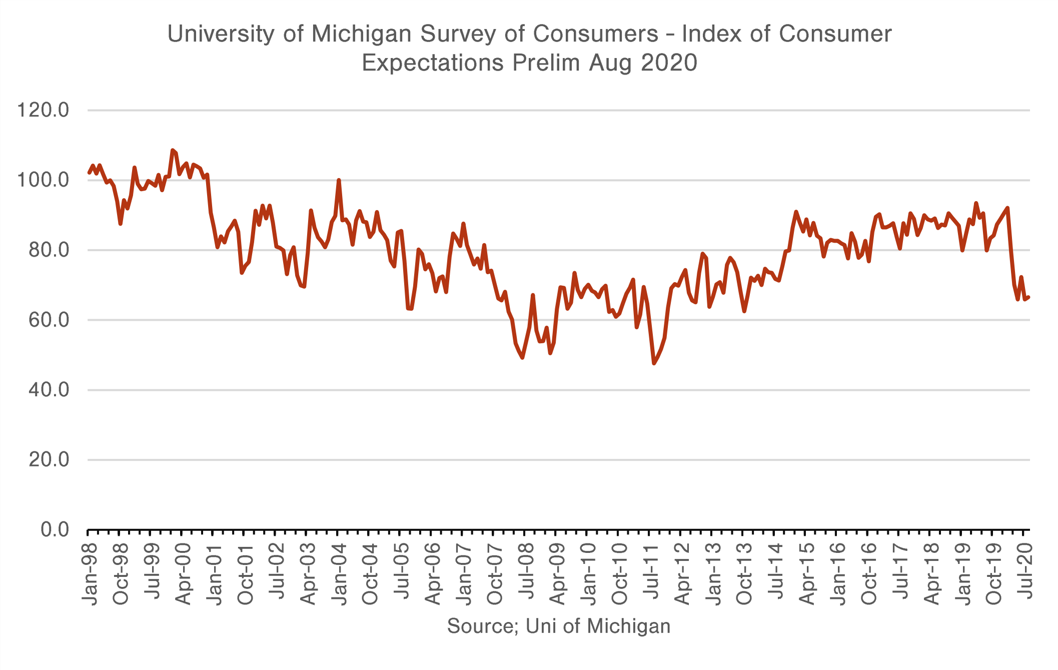


<u>Index of Current Economic Conditions – month</u>: Aug prelim 82.5 versus Jul 82.8



<u>Index of Expected Conditions – month</u>: Aug prelim 66.5 versus Jul 65.9

> Bad economic times are anticipated to persist not only during the year ahead, but the majority of consumers expect no return to a period of uninterrupted growth over the next five years.



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

JOLTS (Jun)

As the economy continued to reopen in Jun, the level of hires was larger than the level of total separations – but by a smaller degree than in May. On an annual basis, there is still a significant gap in the implied employment change.

Job openings continued to increase but remain 18% down on a year ago.

Layoffs and discharges were little change in Jun versus May but quits increased. Usually, higher quits indicates more confidence in the labour market to change jobs – it is hard to imply that about the current situation.

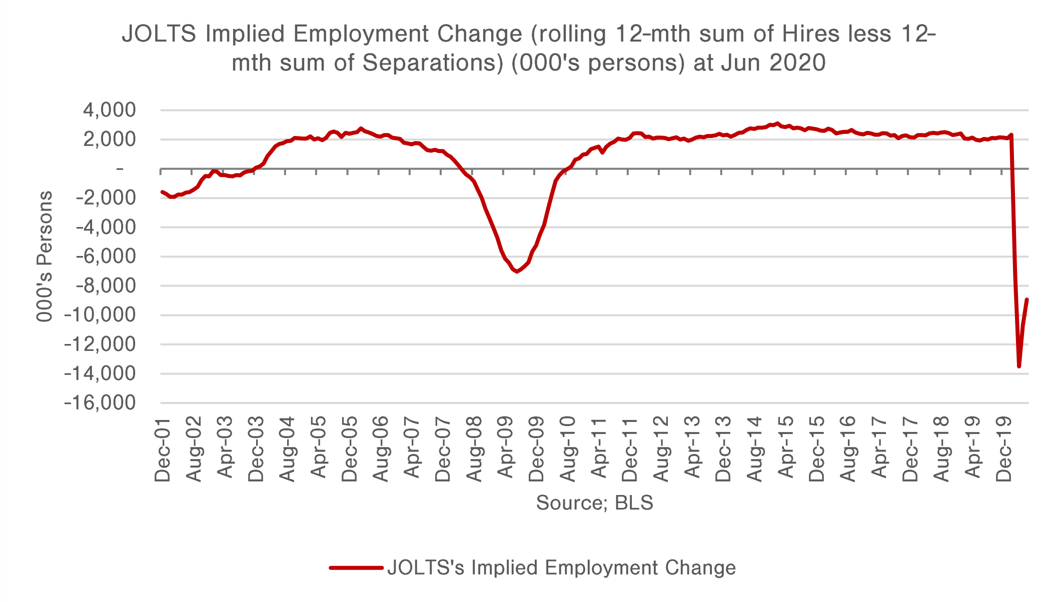
To some degree, furlough programs are helping to keep layoff numbers lower.

JOLTS Implied Employment Change (Hires less Separations)

In Jun, the level of hires remained higher than total separations, but by a lesser degree than the month prior – a +1.9m difference in Jun versus +3m difference in May. Compared to May, the number of hires was lower in Jun, and the number of separations was higher.

On a rolling 12-month basis, the number of hires remains well below the number of separations due to the pandemic shutdowns.

The implied employment change was -8.9m people in the year to Jun, which was somewhat improved from the -10.7m annual employment change in May.

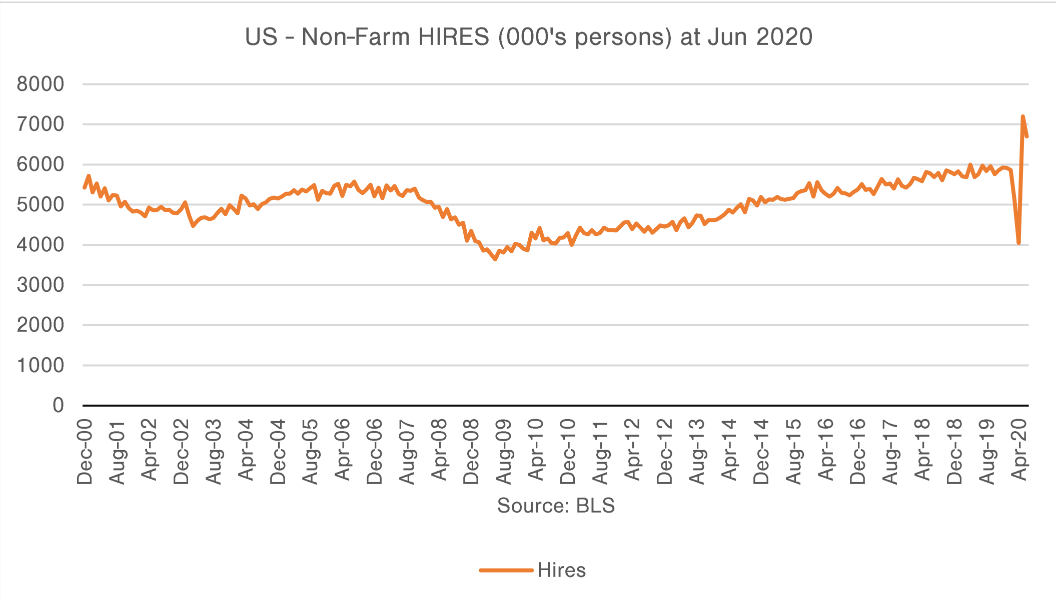


Job Hires

The level of hires was lower in in Jun than in May but was well above the level of hires from a year ago. This is Jun data, so higher levels of new hires were expected as the economy started to reopen.

New Hires – month: Jun 6.7m versus May 7.2m people

The level of new hires in Jun was still extremely elevated – the second largest in the series behind the May result.

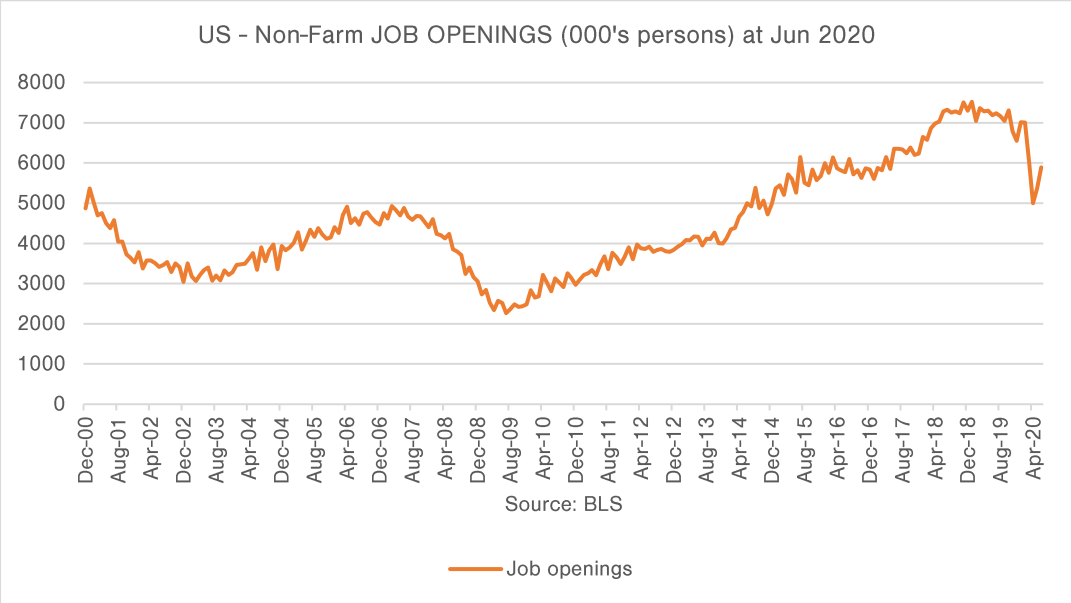


Job Openings

The level of job openings continued to increase in Jun but remains well below a year ago.

Job Openings – month change: Jun 5.9m openings versus May 5.4m openings

A year ago, openings were up to 7.2m.

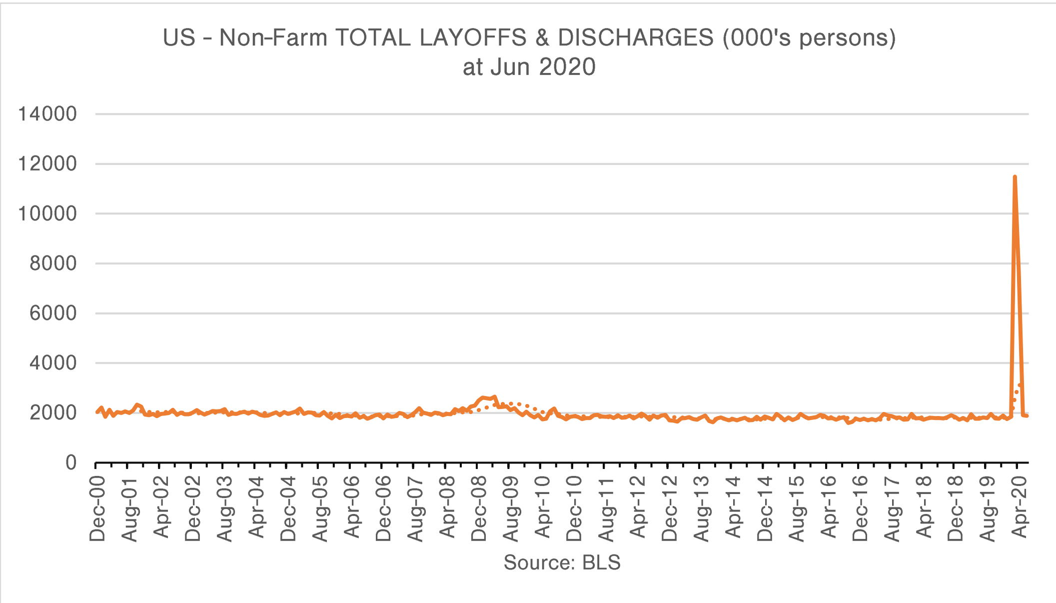


Total Separations

The level of total separations (both voluntary and involuntary) was higher this month (due to quits), but, surprisingly, is still below the same month a year ago (also due to quits).

Layoffs and Discharges (involuntary separations) – month change: Jun +1.9m versus May +1.9m people

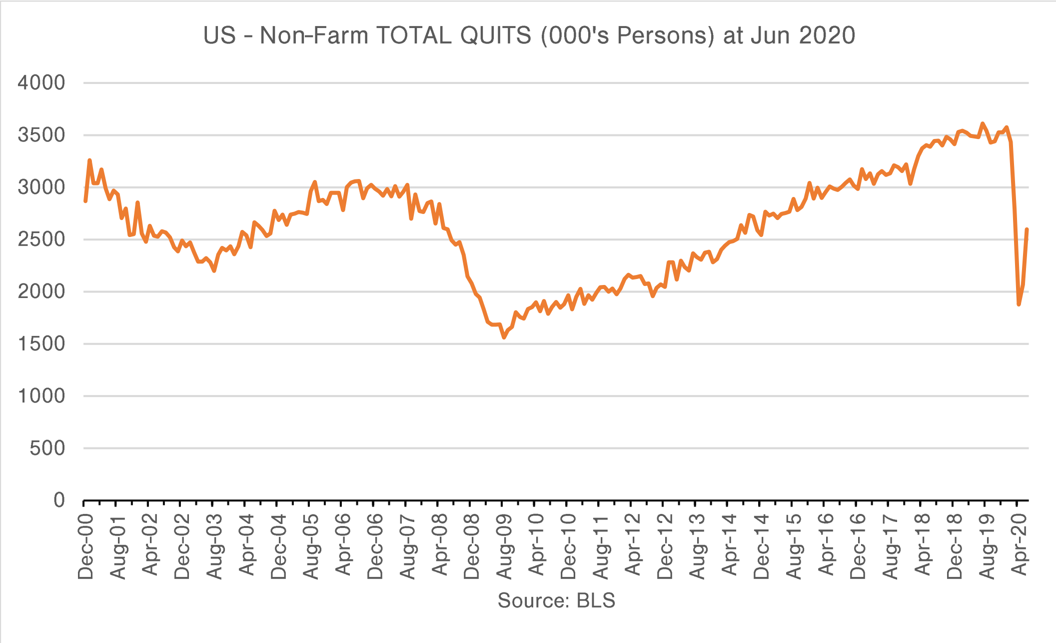
Layoffs and discharges have slowed notably over May and Jun after severe increases in Mar and Apr. But the Jun level of discharges is still above a year ago by +7% - this is hard to see on the chart below due to the severity of the increase in layoffs in Mar and Apr.



<u>Quits (voluntary separations) – month change:</u> Jun +2.6m people versus May 2.1m people

The increase in quits this month was the driver of the overall increase in separations. Usually, higher quits indicates more confidence in the labour market to change jobs – it is hard to imply that about the current situation.

A year ago, quits were higher at +3.5m and rising steadily (and, in fact, the peak was reached in Jul 2019).



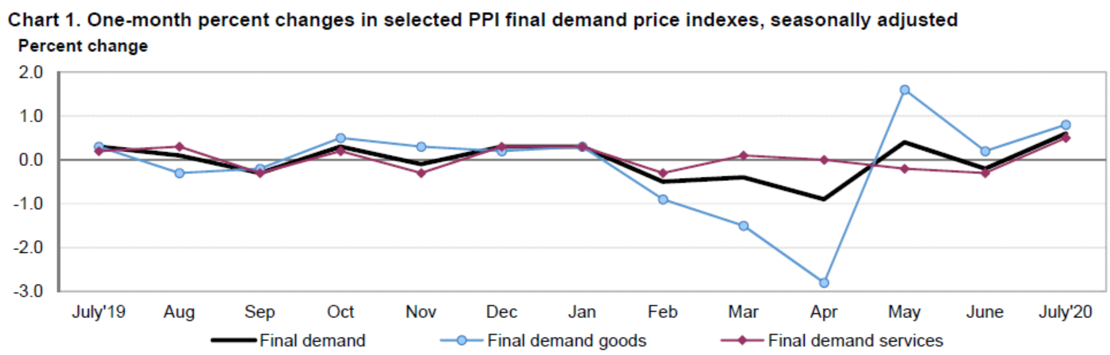
https://www.bls.gov/news.release/jolts.nr0.htm

PPI (Jul)

Producer selling prices increased further in the latest month as both goods and services prices increased. Food and energy prices contributed to overall increase as did higher trade margins. Core PPI (ex food, energy, and trade) prices increased at a constant pace in the month and accelerated slightly on an annual basis.

<u>PPI Final Demand – month change</u>: Jul +0.6% versus Jun -0.2%

Both goods and services contributed to the month on month increase in final demand prices this month.



Goods prices increased at a faster pace from +0.2% in Jun to +0.8% in Jul. Food prices declined at a much slower pace of -0.5%, energy prices increased at slower pace of +5.3%. Price growth for goods excluding both food and energy increased at a constant +0.3% pace in the month.

> Over one-third of the July advance in the index for final demand goods is attributable to gasoline prices, which rose 10.1 percent. The indexes for diesel fuel, home heating oil, electric power, fluid milk products, and industrial chemicals also increased. Conversely, meat prices fell 8.0 percent.

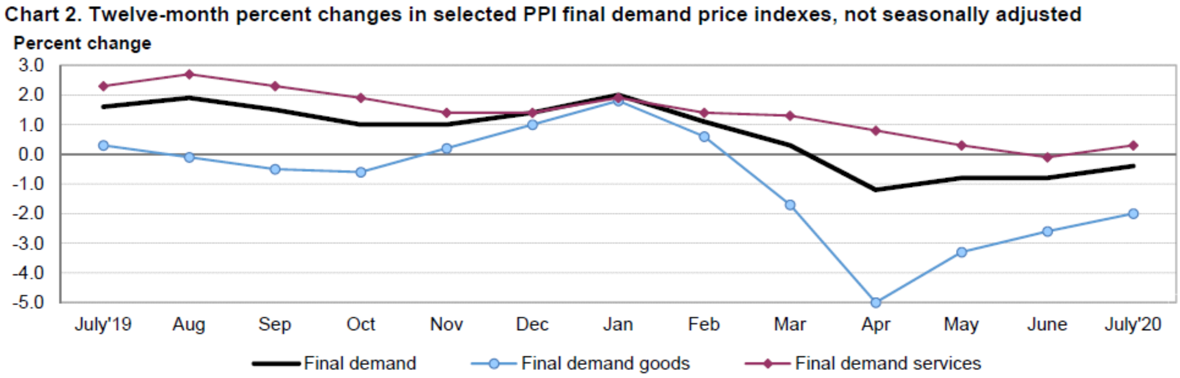
Final demand services prices increased this month by +0.5% after declining by -0.3% in Jun. An increase in trade prices helped to offset a decline in transportation and warehousing prices. Other services prices increased at a slightly faster pace.

> In July, a 7.8-percent rise in the index for portfolio management was a major factor in the advance in prices for final demand services. The indexes for machinery and vehicle wholesaling, automobiles and automobile parts retailing, long-distance motor carrying, legal services, and machinery and equipment parts and supplies wholesaling also moved higher. Conversely, prices for airline passenger services decreased 7.0 percent. The indexes for automotive fuels and lubricants retailing and for guestroom rental also declined.

PPI Final Demand – annual change: Jul -0.4% versus Jun -0.8%

Annual growth in services prices increased slightly in Jul and goods prices declined at a slower pace.

The core measure of the final demand PPI (excluding food, energy, and trade) shifted to an increase on an annual basis in Jul of +0.1%.



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

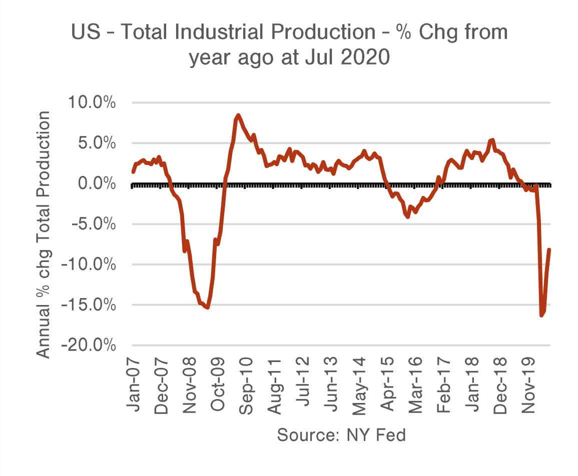
Industrial Production (Jul)

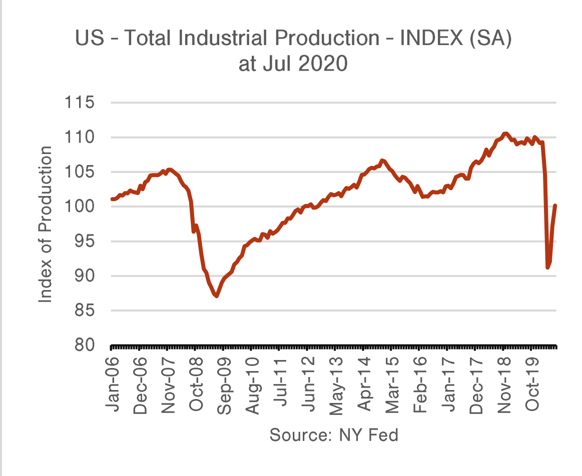
Total industrial output continued to increase in Jul with all three industrial sectors recording higher output. The manufacturing production increase was led by a 28% increase in motor vehicle production for the month. Despite the monthly increase, overall manufacturing levels remain well below a year ago and pre-Covid shut-down levels.

Mining output increased for the first time in five months and overall levels of production and utilization remain depressed.

<u>Total Industrial Production – month change</u>: Jul +3% versus Jun +5.7%

Growth in output was recorded across the main three industrial sectors but the pace of growth slowed compared to the Jun rebound. Despite the improvement in the month, overall production remains 8% below the same month a year ago and -8% below the Feb 2020 level:





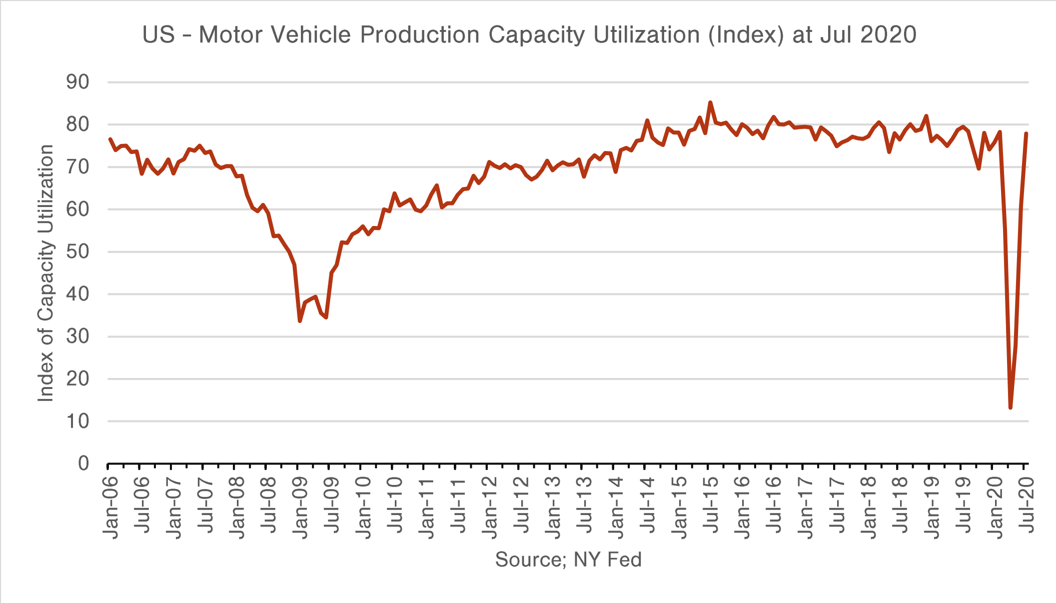
Overall capacity utilization improved in the month but remains well below a year ago and still below the Feb pre-Covid shutdown levels.

<u>Manufacturing Production – month change:</u> Jul +3.4% versus Jun +7.4%

Production growth continued to rebound this month and although growth slowed from the month prior, the pace of growth in Jul was still elevated.

Both durable and non-durable goods production increased again in the month.

Durable goods production increased by +5.5% in Jul (+11% in Jun) – this was led by continued stronger growth in motor vehicle production (+28% in Jul). Production levels are now back to only -1.4% below the same month a year ago. The level of capacity utilization for motor vehicle production is back on par with the pre-Covid shutdown levels.

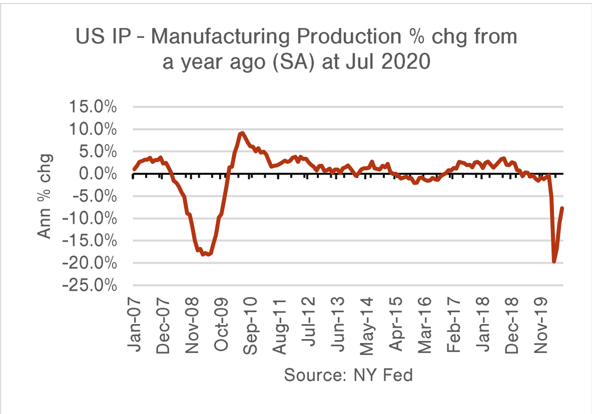


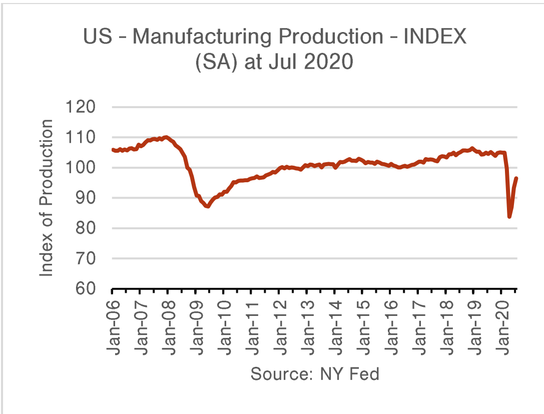
Production increased across most other durable goods sectors except fabricated metals production (-0.5% in Jul).

On a year ago basis, only one durable goods industry recorded production higher than a year ago – computer and electronic products (+2.4%).

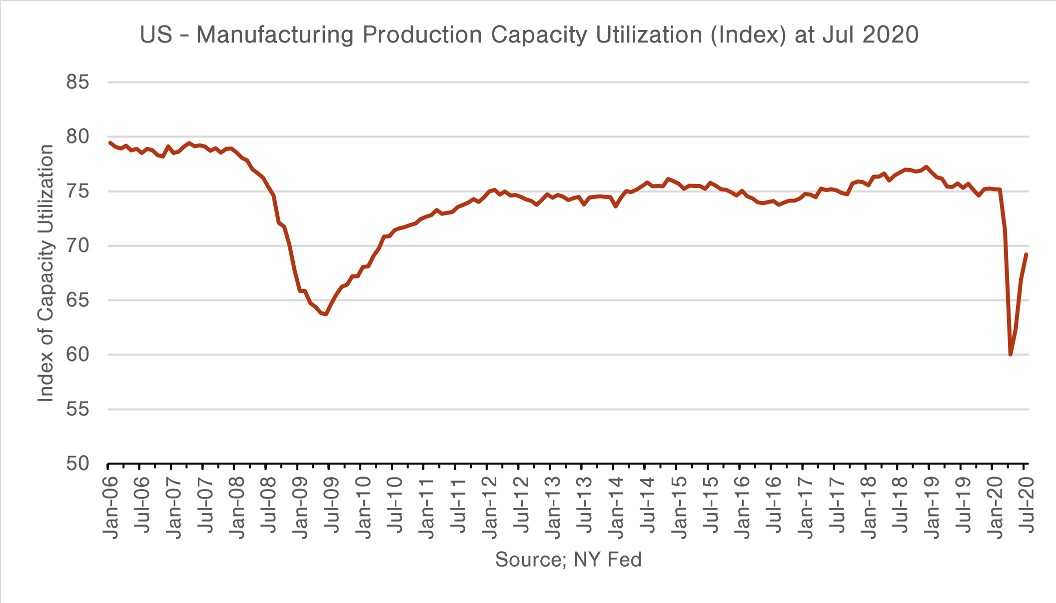
Growth across non-durable goods industries was not quite as fast, but still recorded an increase of +1.3% in Jul (+3.5% in Jun). Production of paper was the only sector where production declined in the month. On a year ago basis, production across all non-durable goods industries remained below the same month a year ago.

Manufacturing production remains -7.7% below the same month a year ago (-11.1% in Jun)



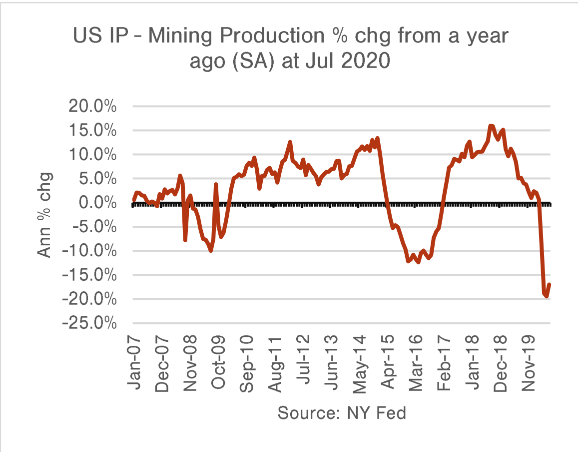


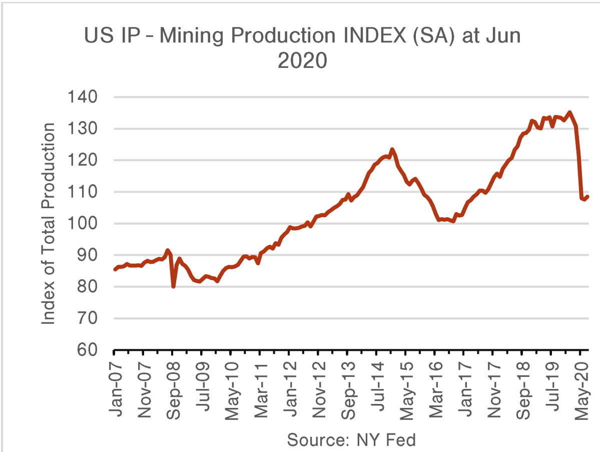
Capacity utilization across the manufacturing sector is still 9% below a year ago.



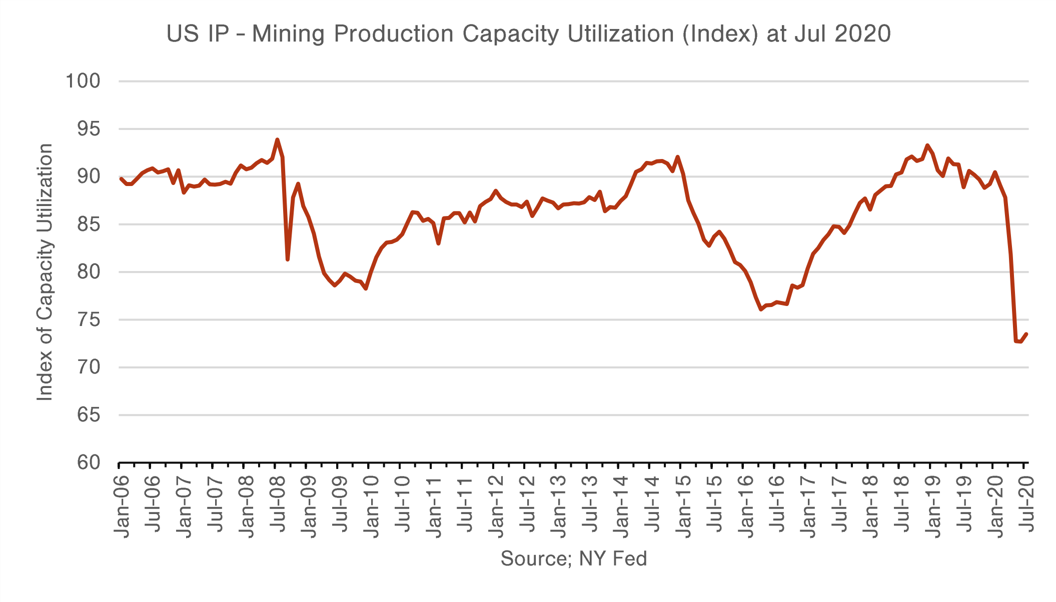
<u>Mining Production – month change</u>: Jul +0.8% versus Jun -0.3%

This was the first monthly increase in five months. Mining production levels remain depressed and are still 17% below the same month a year ago:





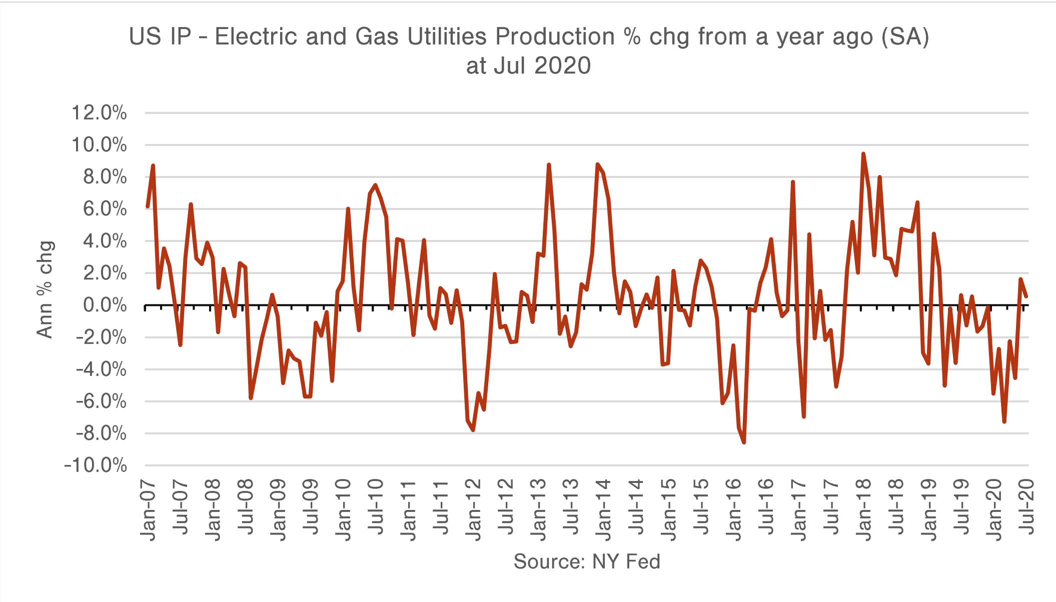
Levels of capacity utilization are also little improved versus the prior month and remain well below a year ago, and are still at extremely low levels:



<u>Utilities Production – month change</u>: Jul +3.3% versus Jun +2%

> The output of utilities increased 3.3 percent, as unusually warm temperatures increased the demand for air conditioning.

Utilities production is still +0.6% above the same month a year ago:



https://www.federalreserve.gov/releases/G17/Current/

MBA Mortgage Applications wk ending 7 Aug

Mortgage application activity increased at a faster pace this week after two weeks of declines. The increase this week was mostly across refi activity, but purchase activity also increased.

Market Composite Index (mortgage loan application volume) wk ending 7 Aug: +6.8% versus the week prior.

The refi index increased by 9% versus the week prior and is now 47% ahead of the same week a year ago. The refi share of mortgage activity in the week increased to 65.7% versus 63.9% in the week prior.

The purchase index, a measure of completed loans and a leading indicator of sales, increased by 2% versus the week prior. The purchase index is +22% ahead of the same week a year ago.

> "Mortgage rates fell across the board last week, as investors grew less optimistic of the economic rebound given the resurgence of virus cases. Loan types such as the 30-year fixed, 15-year fixed, and jumbo all reached survey lows. Refi activity responded to these lower rates, with the refi share reaching almost 66 percent of all applications, its highest level since May. And the refi index jumped 9 percent, reaching its highest level since April, as both conventional and government applications for refinances increased,"

> "Home purchase activity continued its strong run with a 2 percent increase over the week and was up around 22 percent compared to the same week a year ago. While this was still positive news for the purchase market, the gradual slowdown in the improvement in the job market and tight housing inventory remain a concern for the coming months, even as low mortgage rates continue to provide support."

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

Return to top

Europe

Eurozone Industrial Production (Jun)

With restrictions further reduced in Jun, industrial production continued to rebound in Europe. Despite the improvement in May and Jun, production levels remain below a year ago. The Jul PMI's indicate further improvement to come in Jul.

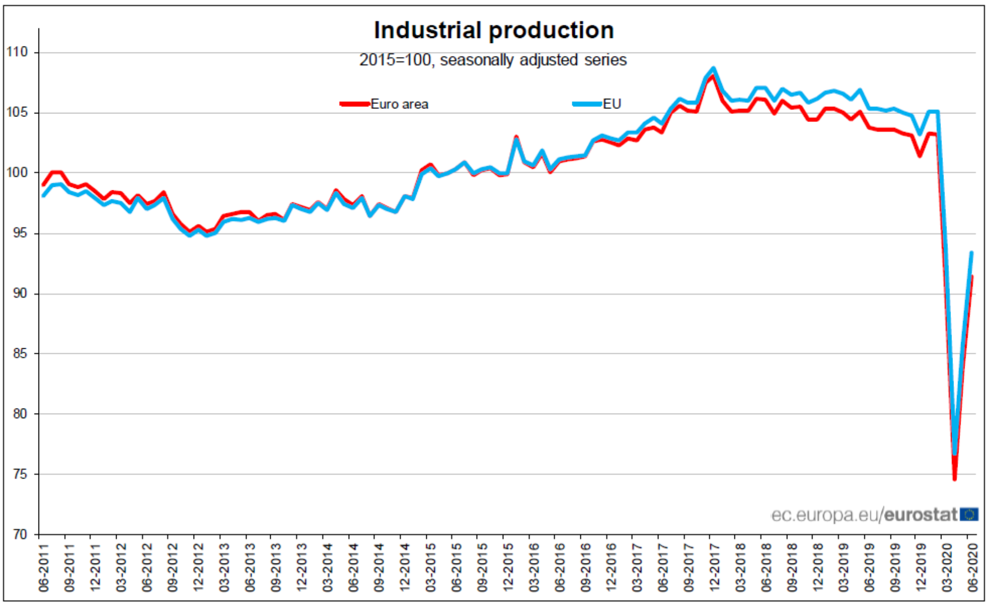
EU Industrial Production – month change: Jun +9.1% versus May +12.3%

Industrial production across the broader EU increased at a similar pace in Jun as in May. Growth was recorded across all major industries:

Intermediate goods (+6.5%), energy (+1.7%), capital goods (+14.2%), durable consumer goods +20.2%), and non-durable consumer goods (+5.6%).

EU Industrial Production – annual change: Jun -11.6% versus May -20.1%

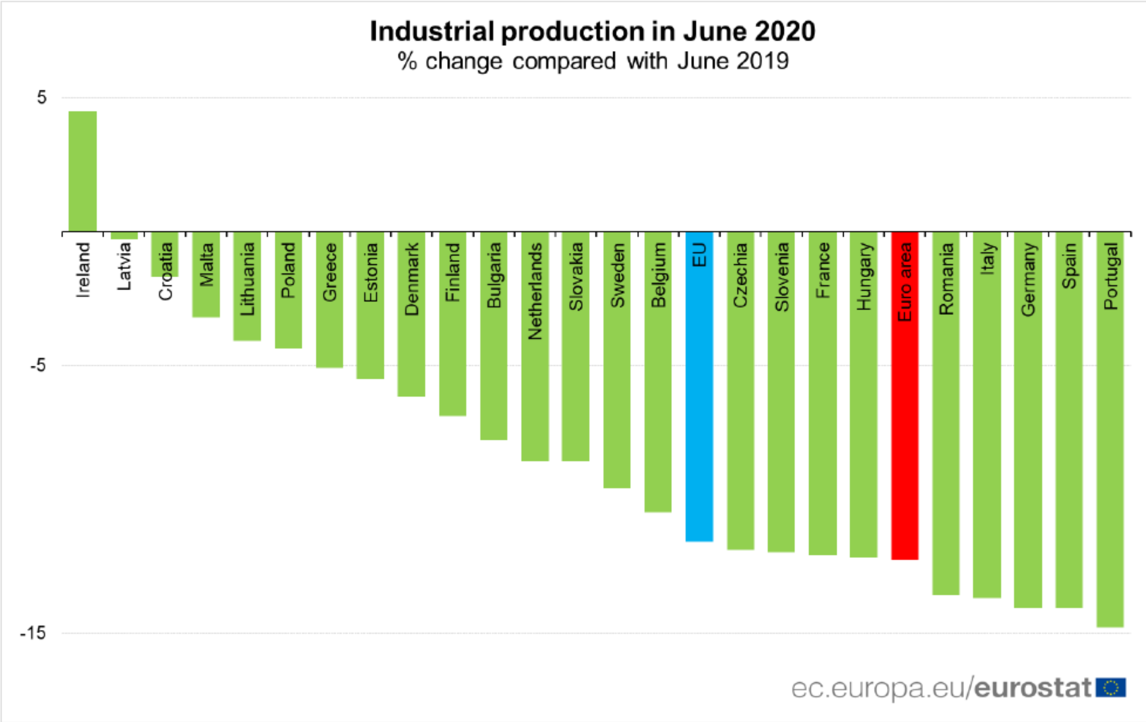
Although there was further improvement in output this month, production levels remain below a year ago. But the Jun result was still a good improvement on May.



Production across all sectors remains below a year ago. But at least there was a slower pace of annual decline recorded across all sectors in Jun.

The annual decline in production is still being led by the larger industrial producers in Europe – Germany, Italy, and Spain. Output growth in France is above that of the Euro Area, but still below the EU average.

Output growth in Ireland is ahead of the same month a year ago.



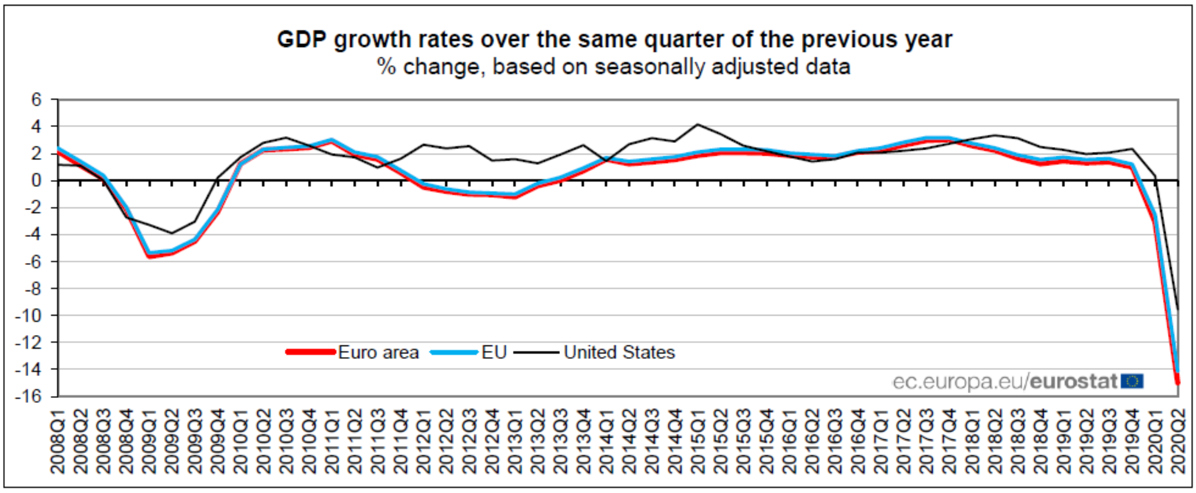
https://ec.europa.eu/eurostat/documents/2995521/10545423/4-12082020-AP-EN.pdf/7c638d68-3e54-d560-73f4-a6aeb6ced59c

Eurozone GDP Prelim Q2

The GDP of the Eurozone decreased sharply in Q2 as many member countries worked to contain outbreaks of Covid-19. Not only was there was severe decline in output, but employment also declined at a historically sharp pace.

EU: Prelim GDP quarter change: Q2 -11.7% versus Q1 -0.1%

On an annual basis, GDP in Q2 2020 was 14.1% below that of the same quarter a year ago. Across both the Euro area and the EU, this was a larger contraction than that recorded in the US:



Again, it was some of the larger economies that recorded the largest declines in output for the quarter (and year): Germany (-10.1%), Spain (-18.5%), France (-13.8%), Italy (-12.4%), and Portugal (-13.9%).

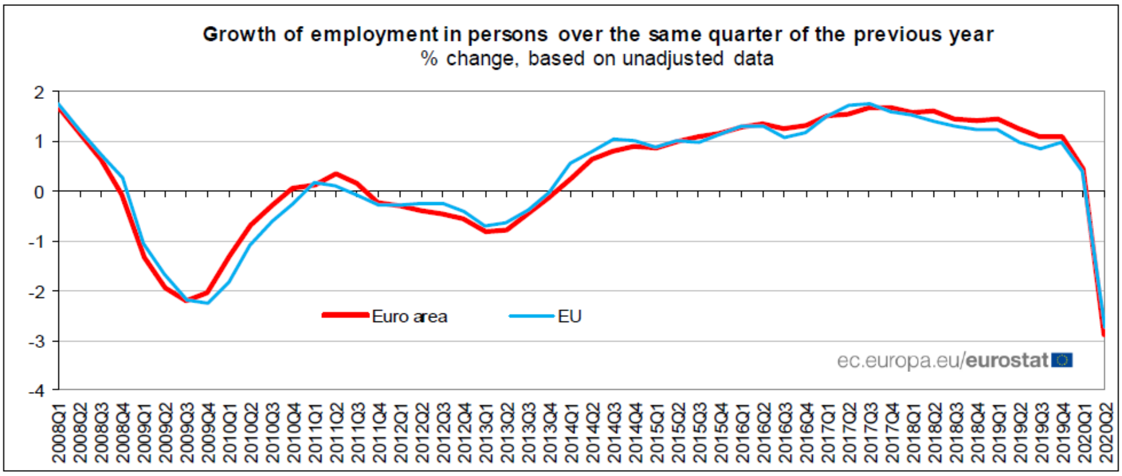
UK GDP declined by -20.4% in Q2 while US GDP declined by -9.5%.

(not all members results are available at this stage)

Employment

The decline in employment was also severe in Q2. Employment across the EU declined by -2.6% in Q2 after decreasing by -0.1% in Q1.

On an annual basis, employment declined by 2.7% versus the same month a year ago in the broader EU. This is the single largest decline in employment since the series began in 1995:



https://ec.europa.eu/eurostat/documents/2995521/10545332/2-14082020-AP-EN.pdf/7f30c3cf-b2c9-98ad-3451-17fed0230b57

Germany Industrial Production (Jun)

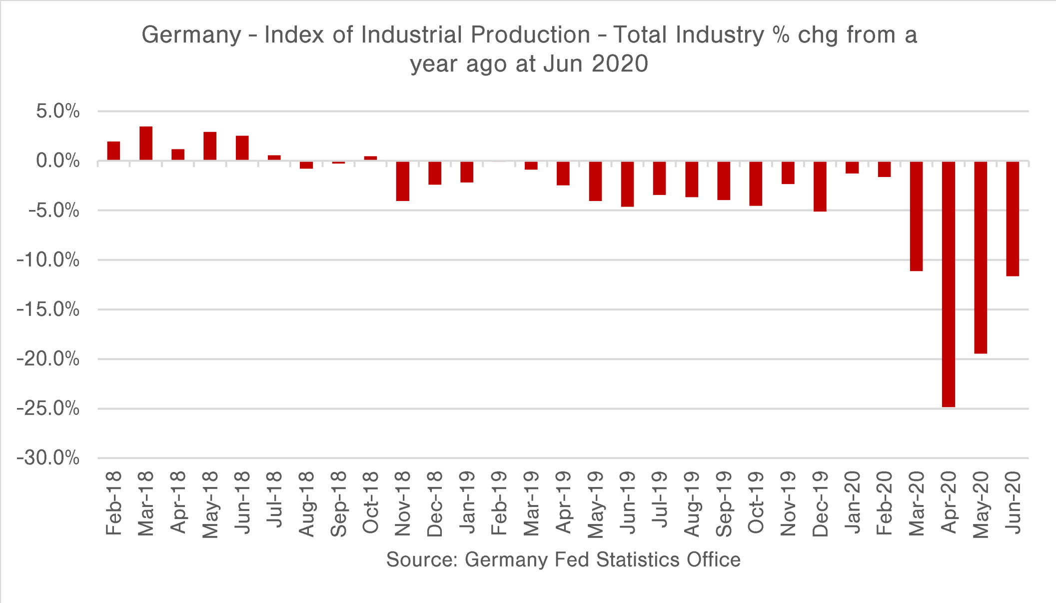
The rebound in Germany industrial output continued this month. Notable increases were recorded across capital goods production (which has lagged) and production of motor vehicles continued to regain lost ground.

Much of the current momentum is driven by a reopening and restocking as supply chains come back online. It is too early to say whether there is going to be a long-term improvement in the pre-pandemic trend of German manufacturing, which was declining and remains 16% below the Nov 2017 peak.

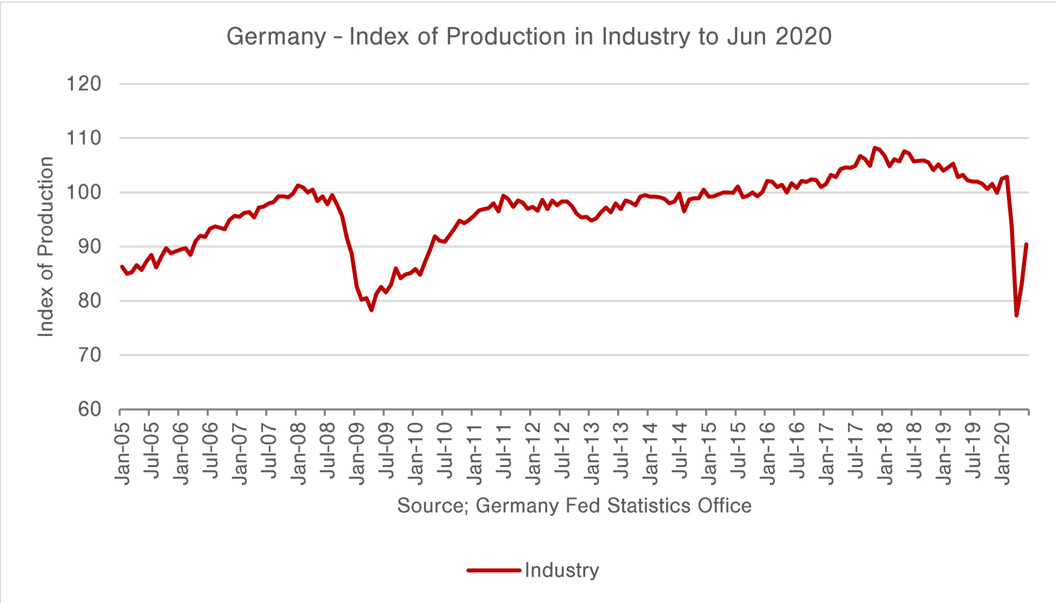
Outside of industry, the output of energy and construction also increased in Jun.

Production in Industry – month change: Jun +8.9% versus May +7.4%

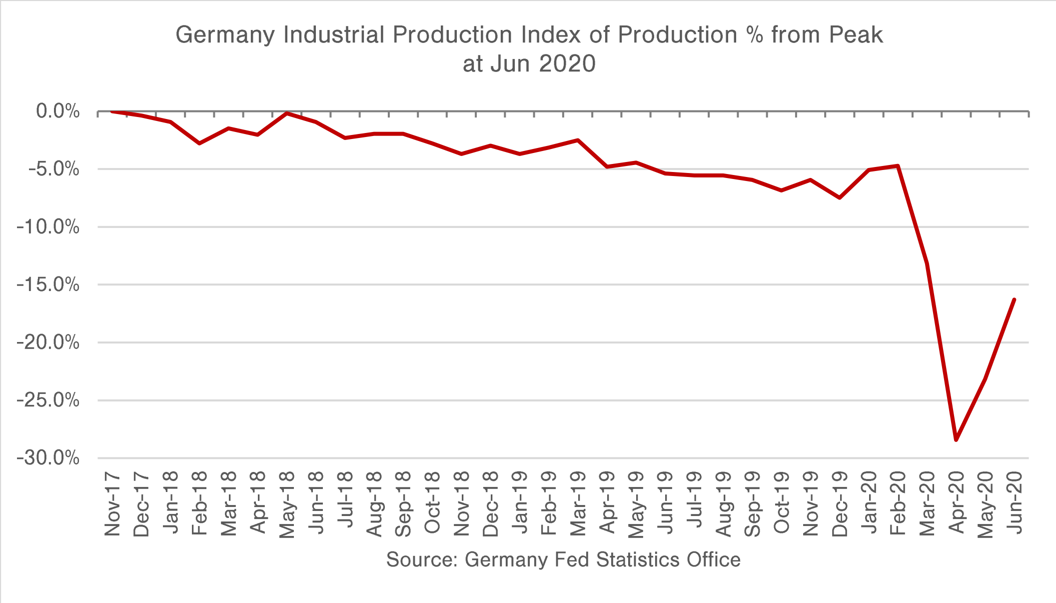
Despite the growth in the last two months, production levels remain below a year ago -11.7%.



The annual view hides some of the longer-term weakness in German industrial production, which peaked back in Nov 2017.



Currently production levels are still 16.3% below the level reached in Nov 2017. Most industry groups follow this same pattern.



Within industry, most segments recorded growth this month.

Intermediate goods recorded a larger increase this month of +5%, but levels remain 14% below a year ago.

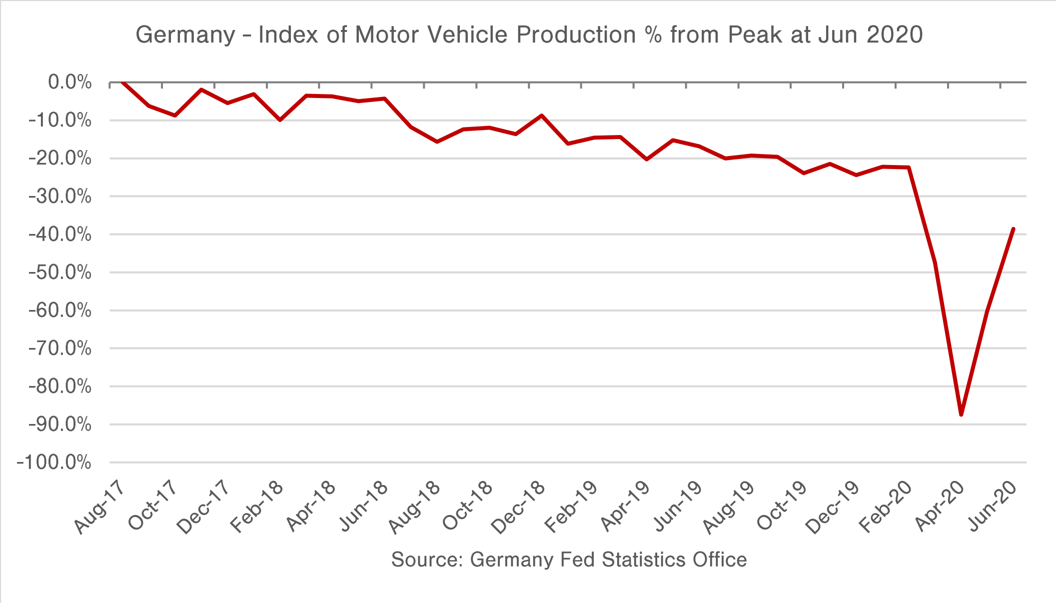
Capital goods production was stronger again. At its worst point, the production of capital goods was 44% below a year ago. This month growth was slightly slower than in May, but still +18% up on May.

Durable goods production growth slowed from 19% in May to 7% in Jun.

Non-durable goods production shifted to growth this month of +7.4% after three months of decline.

Consumer goods production also increased at a faster pace of +7.3% in Jun. But remains 6% below a year ago.

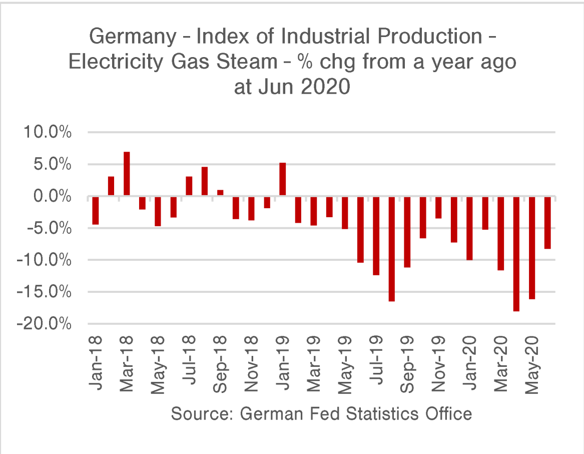
Production of motor vehicles continued to rebound this month. At the lowest point, the production index reached 14.2 (SA). This month production increased by 54% compared to May. Production remains 26% below a year ago. Production remains 38% below the peak reached in Aug 2017. The question is whether the decline resumes and what a 'normal' level of production is:

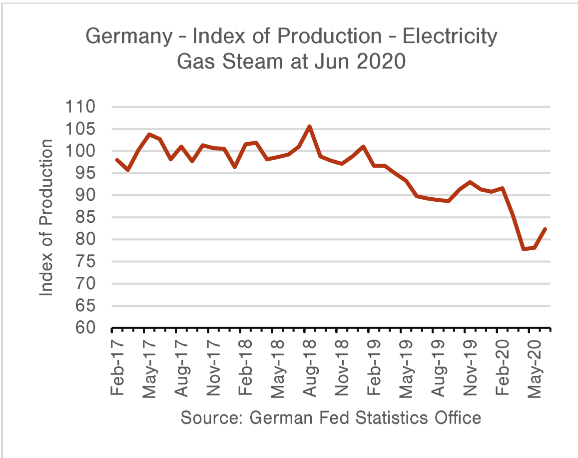


Energy

Electricity, gas, steam, air conditioning supply – month change: Jun +5.4% versus May +0.4%

Energy production remains 8% below a year ago and is 22% below the peak reached in Aug 2018.



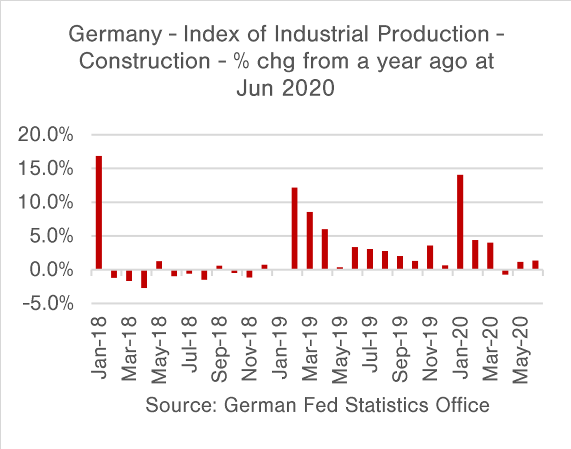


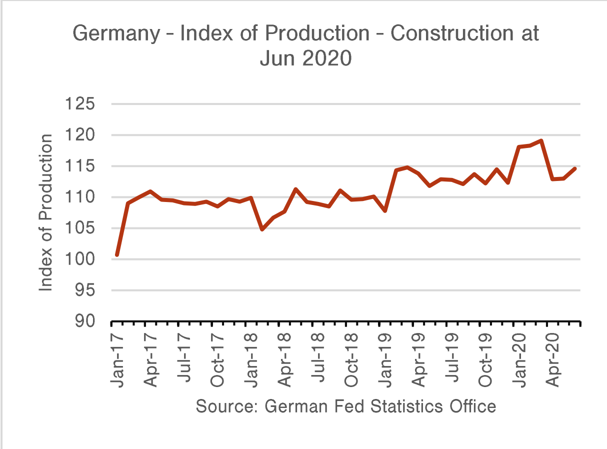
Construction

Construction remains the stronger segment.

Construction production – month change: Jun +1.4% versus May +0.1%

Construction output is +1.4% ahead of a year ago:





https://www.destatis.de/EN/Press/2020/08/PE20_296_421.html

Return to top

Australia

NAB Business Confidence and Conditions (Jul)

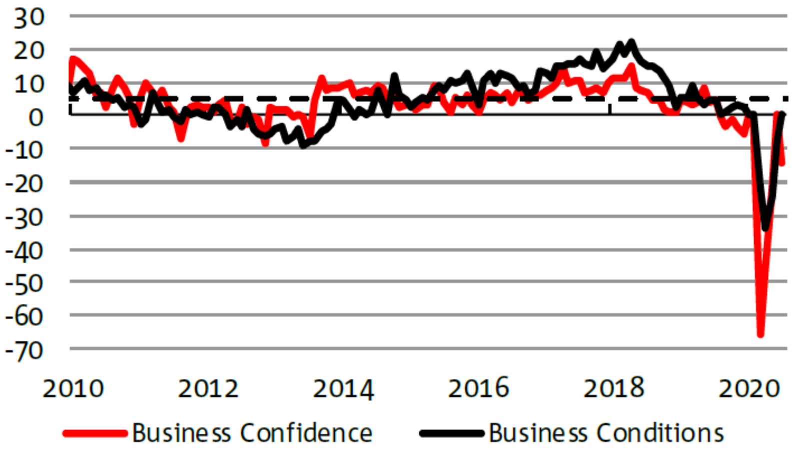
The survey was taken prior to the implementation of stricter lock-down measures for Victoria.

For Jul, the survey indicated that conditions continued to improve, but business confidence declined sharply (on a seasonally adjusted basis).

Business Confidence – month: Jul -14 versus Jun 0 (May -21)

Business Conditions – month: Jul 0 versus Jun -8 (May -24)

CHART 1: CONDITIONS RISE BUT CONFIDENCE FALLS



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

The improvement in business conditions was led by improvement in trading conditions and profitability – both shifted into positive territory. Employment remained slightly negative.

Forward orders still indicate weaker future growth, albeit slightly less so than in the prior month: Jul -7 versus Jun -9 (May -29). Stocks continued to decline, and at a slightly faster pace. Exports also continued to decline, albeit at a slightly slower pace.

Business Confidence

> Confidence fell in all industries led by mining which saw a sharp decline. With the exception of retail and construction, which saw more modest falls, the other industries declined by 17-19pts. Confidence is now weakest in retail and construction.
>
> Confidence fell on the east coast – driven by sharp declines in NSW and VIC and a more modest decline in QLD. Confidence is now negative in all states except WA and Tas, with NSW and Vic significantly weaker than the rest.

https://business.nab.com.au/wp-content/uploads/2020/08/2020m07-NAB-Monthly-Business-Survey-1.pdf

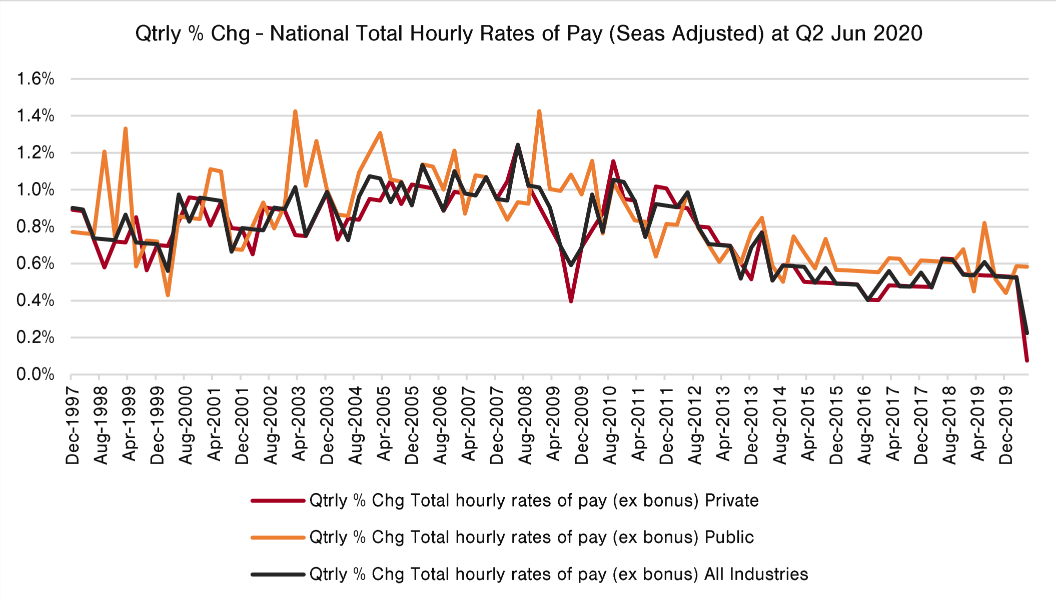
Wage Price Index Q2

Growth in the wage price index slowed to the lowest pace of growth since the series began in 1997. Private sector wages were mostly impacted by shutdowns and further restricted business activity. The slower growth in the wage price index was not limited to consumer facing or hospitality-based industries. Public sector wages were less impacted.

Wage Price Index (All Industries) – quarter change: Q2 +0.2% versus Q1 +0.5%

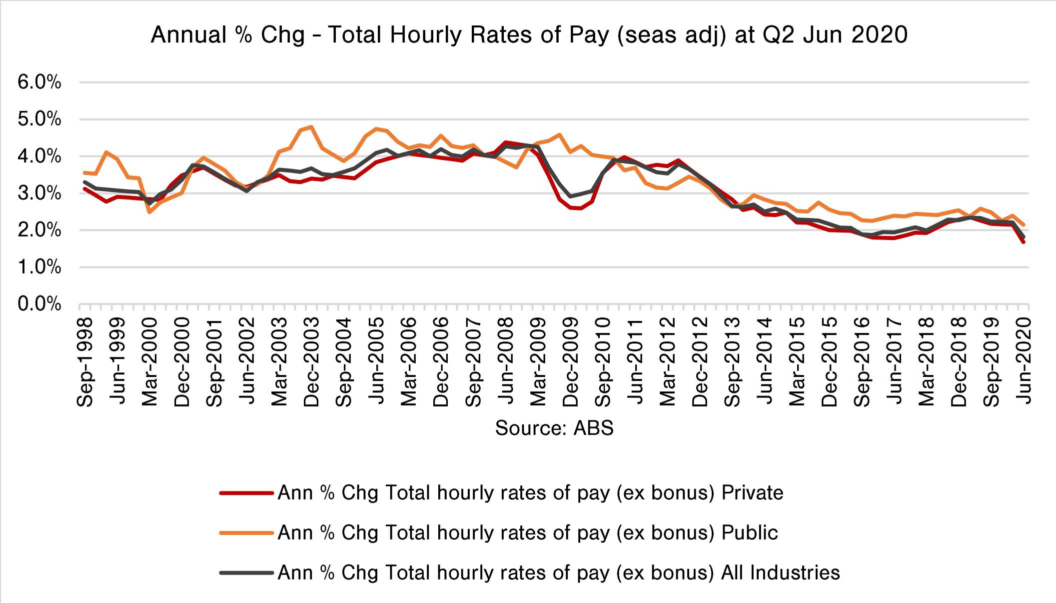
At a total level, this is the slowest quarterly pace of growth since the series began in 1997.

Driving this change was the severe slowdown in private sector wage growth from +0.5% in Q1 to +0.08% in Q2. Public sector wage growth was unchanged at +0.6% in Q2 (same as in Q1).



Wage price Index (All Industries) – annual change: Q2 +1.8% versus Q1 +2.2%

This is also the slowest annual pace of growth in the wage price index since the series began – led by the slower growth in private sector wages.

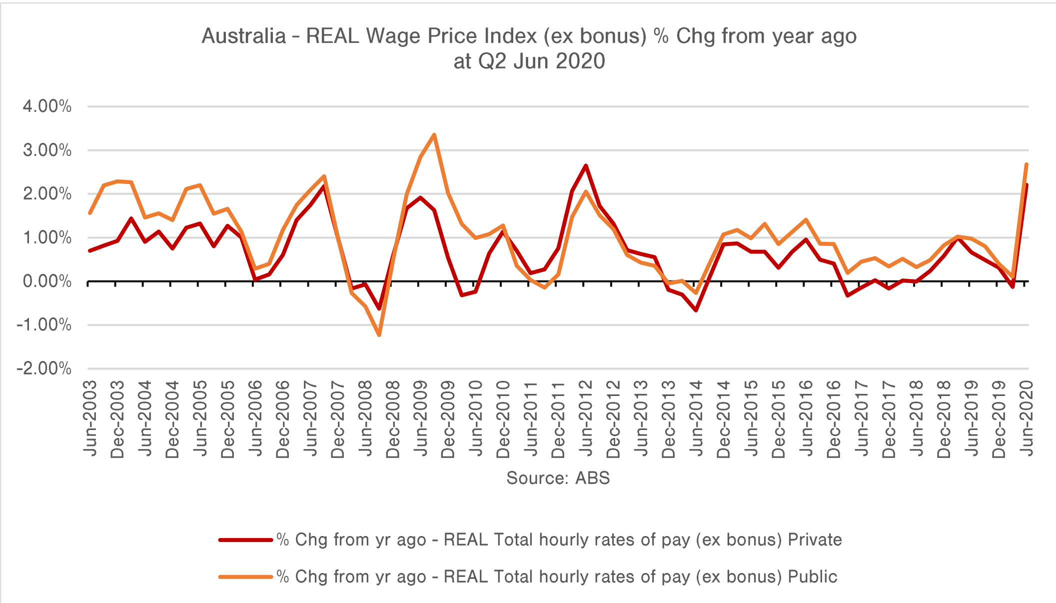


Wage growth decelerated on an annual basis also. This was led by a larger deceleration in private sector wages from +2.25% in Q1 to +1.7% in Q2. There was also a smaller deceleration in annual public sector wage growth from 2.4% in Q1 to +2.1% in Q2.

Real Annual Wage Growth

It all depends on how you measure this. Headline CPI, which declined by -0.5% on an annual basis in Q2 – due to extraordinary support measures in place. The trimmed mean CPI (core CPI) growth slowed from 1.8% to +1.2%. Core CPI is probably a better measure of the underlying changes in prices, but headline CPI also reflects the measures in place to support households through the initial shut-down.

Either way, the slow down (or decline) in consumer price growth boosted the growth in real wages.

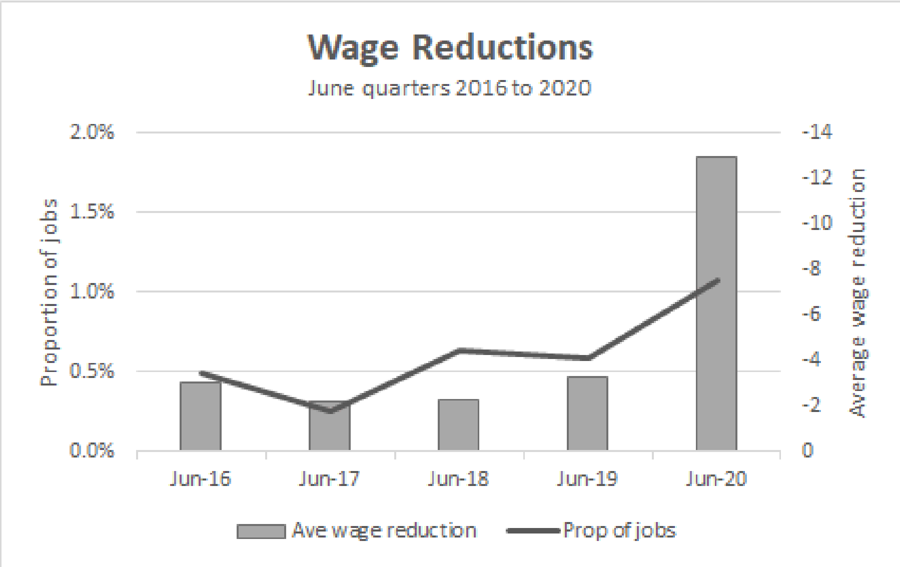


Wage Reductions

The ABS noted this quarter the “genuine market-based reductions in jobs paid by individual arrangement to ease financial pressure”.

June 2020 quarter WPI reported a higher proportion of wage reductions for Manager and Professional roles than for other occupations.

At an industry level, the Professional, scientific and technical services, Construction and Rental, hiring and real estate services industries had the highest proportions of wage reductions.



https://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/6345.0Main%20Features1Jun%202020?opendocument&tabname=Summary&prodno=6345.0&issue=Jun%202020&num=&view=

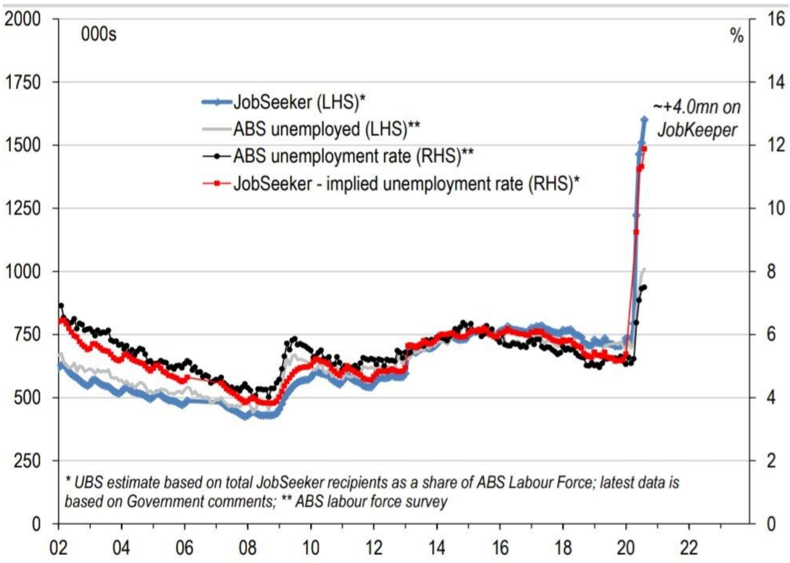
Labour Market and Employment Survey (Jul)

Employment continued to rebound in Jul, albeit at a slower pace than in Jun. The pace of employment growth was not fast enough to absorb the increase in the labour force via increased participation. This resulted in a further increase in total unemployed workers in the month. The increase in total unemployed persons increased at a slower pace than in the month prior, but the level is now over 1m unemployed persons.

JobSeeker & JobKeeper Programs

There are currently 1.6m people receiving the JobSeeker subsidy, indicating that the unemployment rate is likely already over 10%. This month’s labour market report has the unemployment rate at 7.5% (or just over 1m people).

Figure 13: The 1.6m Australian now receiving JobSeeker suggests an unemployment rate at >10% already



Source: ABS, Australian Government, Department of Social Services, UBS

https://twitter.com/Scutty/status/1293848264337309696/photo/1

JobKeeper - is the Federal government program of providing a wage subsidy to firms where revenue has fallen by more than 30% due to the community shut-downs to manage the outbreak of Covid-19. There are currently approx. 4m people receiving JobKeeper.

Both the JobKeeper and JobSeeker payments will begin to reduce in value from the end of Sep. Jobseeker is planned to end at the end of Jan 21 and JobKeeper at the end of Apr 21.

https://www.abc.net.au/news/2020-07-21/jobkeeper-jobseeker-coronavirus-support-numbers/12477186

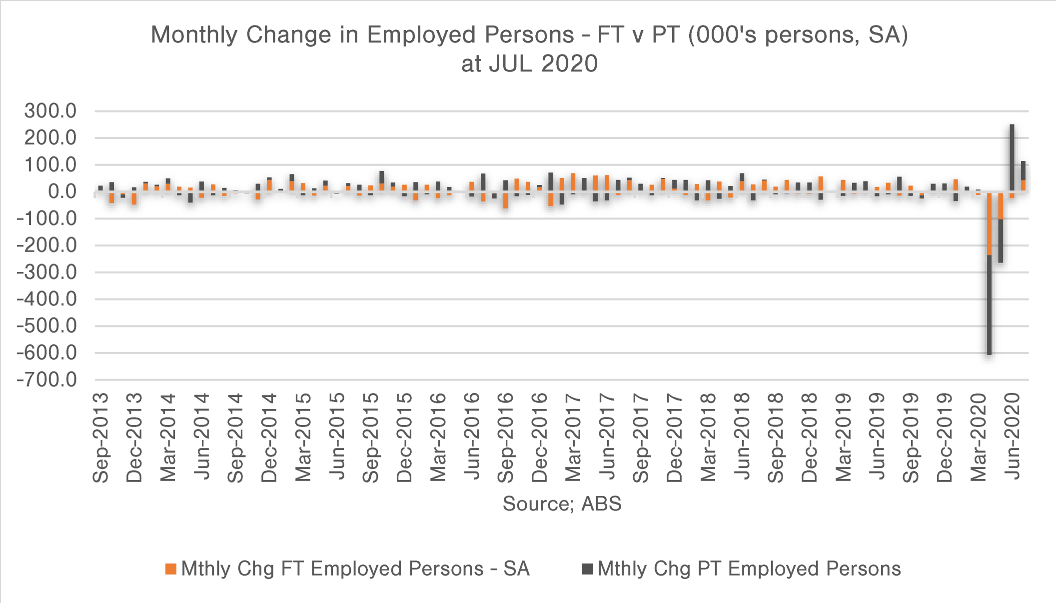
Total Employment

There was a further rebound in total employed persons this month as the economy continued to reopen and restrictions in many places started to ease. The pace of employment growth eased in the month;

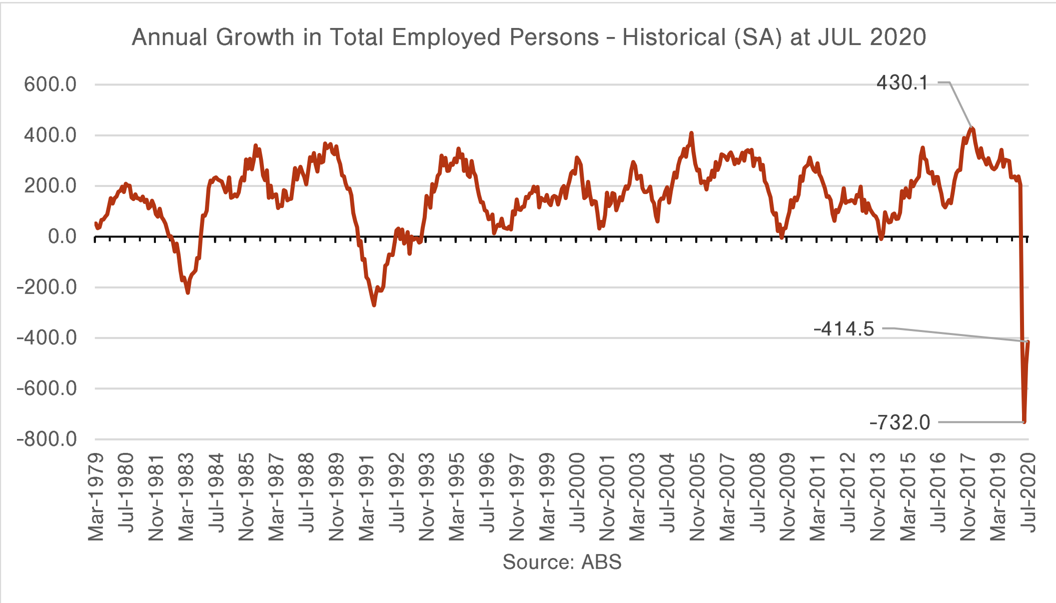
Total Employment – month change: Jul +114.7k persons versus Jun +228k persons

So far, In Jun and Jul, employed persons has increased by 343k persons. But there is still a larger gap to make up after employment decreased by 874k persons in Mar, Apr, and May. The impact of the Victorian lockdown from late Jul may also stall this rebound.

Employment growth this month was the result growth in both full-time (+43.5k) and part-time employment (+71.2k). Last month, FT employment had continued to decline:



On an annual basis, the total number of employed persons remains over 414k lower than in the same month a year ago. Since Jan 2018, annual employment had already started slowing from the peak growth of 430k:



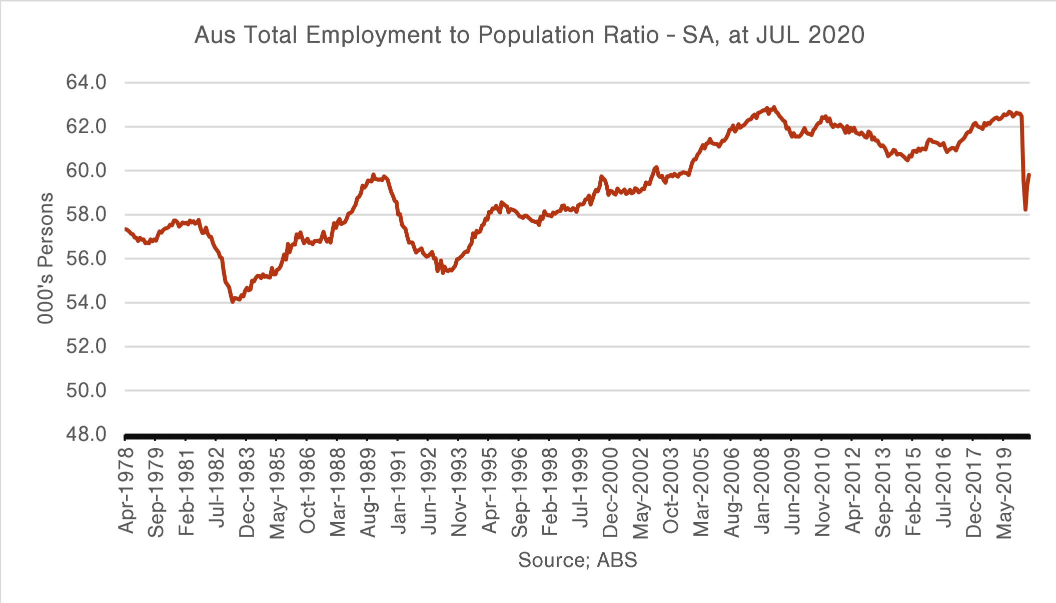
<u>Employment to Population Ratio</u>

This is one of the best views of the state of the labour market (although you cannot see the impact of casualisation/underemployment of the workforce).

In Jul, the proportion of the Australian population currently employed increased slightly to 59.8% - back on par with that of 2004.

Consider that after the GFC and end of the mining boom, it took almost five years for the employment to population ratio to partly recover from the fall to 60.5% to the near-term peak of 62.7% in late 2019.

Employment growth will need to accelerate to stay ahead of population growth and recovery in the participation rate.



<u>Labour Force</u>

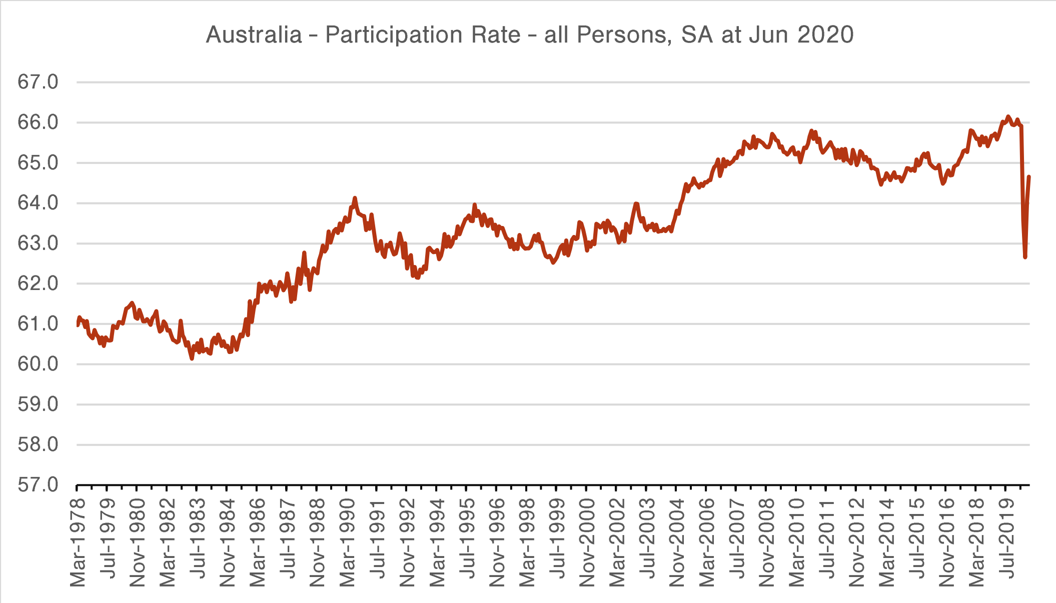
The total size of the labour force increased further in Jul, also at a slower pace than in the month prior.

<u>Total Labour Force – month change</u>: Jul +130.5k persons versus Jun 299.1k persons

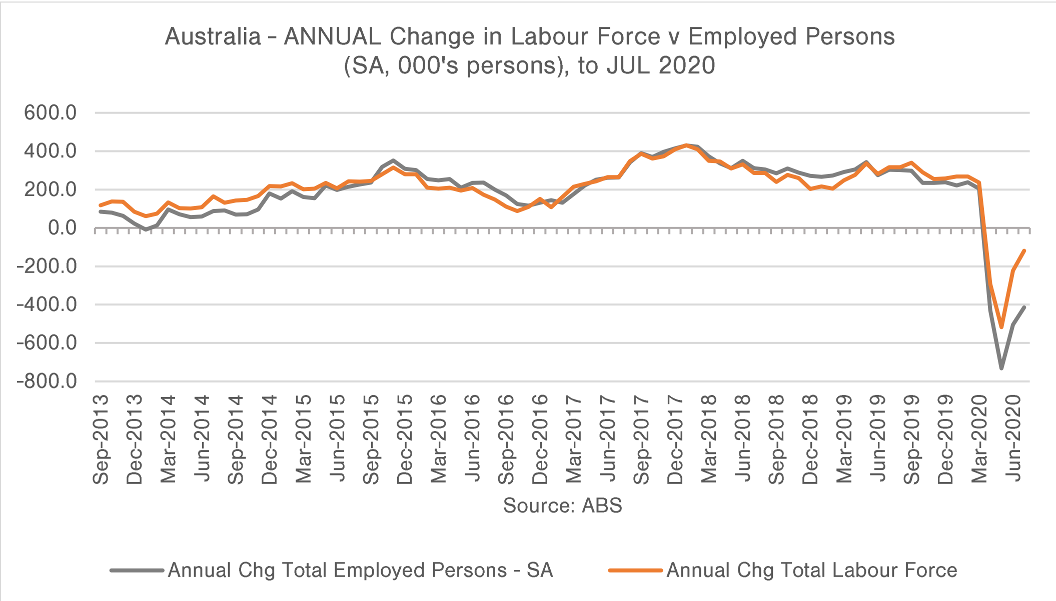
The level of the change in the labour force in both months was due to the increase in participation i.e. people coming back into the labour force.

This month, the increase in participation added approx. 124.7k persons back into the labour force. The estimate of what the underlying change in population added to the labour force remained low around +5k versus the month prior.

Total participation increased from 64.1% in Jun to 64.7% in Jul.



On an annual basis, the growth in the total labour force remains higher than the growth in total employment and therefore total unemployment is still increasing.

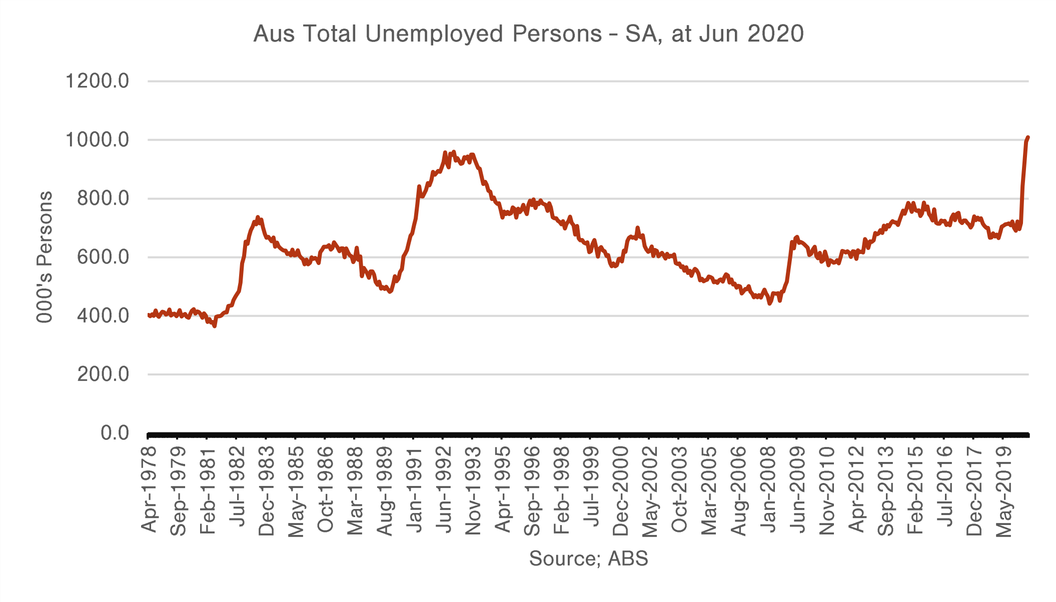


<u>Total Unemployed Persons</u>

The unemployment situation remains particularly ugly. Despite the increase in employment this month, total unemployed persons still increased. One small positive, is that the pace of unemployment growth slowed.

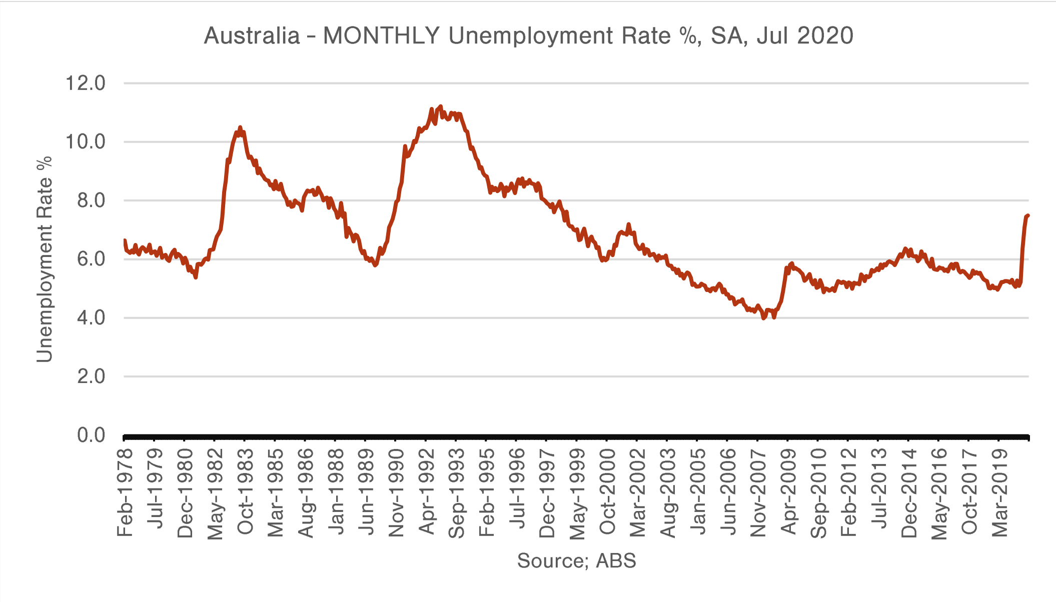
<u>Total Unemployed Persons – month change</u>: Jul +15.7k persons versus Jun +70.7k persons

The total number of unemployed persons just ticked over 1m people this month.

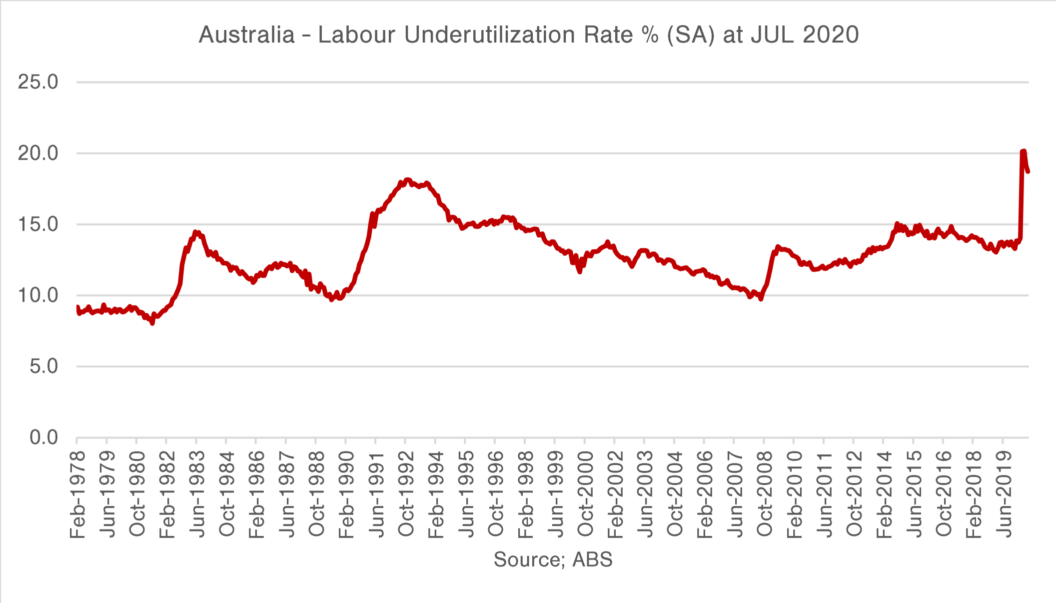


On an annual basis, there were just under +300k more people unemployed in Jul than versus a year ago.

The unemployment rate continued to increase and is now at 7.5% - this is higher than during the GFC, but still below the peaks of the 80's and 90's recession.



But the underutilization rate highlights the high level of unemployment and the number of people in underemployment. The underutilization rate increased to 20.2% in May and has now come back down to 18.7% - this is still above the recessions of 80's and 90's.



Summary of Main Labour Market Indicators

	000's Persons	
	Annual Chg - JUL	Month Chg - JUL
The estimated change in the Labour Force due to pop growth	165.750	5.766
How many jobs available for them? (employment growth)	-414.491	114.716
Difference (if positive, employment growing faster than pop est)	-580.241	108.951
Change in labour force due to the change in participation	-284.078	124.739
The reminder is the change in total unemployed persons	296.164	15.788
Double Check - Reported chg in size of the Labour Force	-118.327	130.451
Two views of the size of the Labour Force:		
Underlying population growth plus changes in participation	-118.327	130.505
Total employed persons plus total unemployed persons	-118.327	130.505

https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6202.0Main+Features1Jul%202020?OpenDocument

[Return to top]

China

China Balance of Trade, Exports and Imports (Jul)

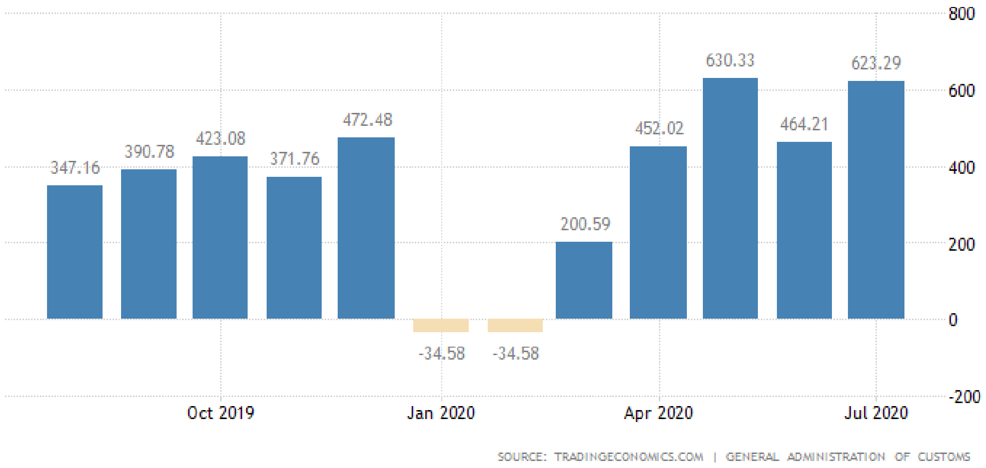
<u>CHINA TRADE BALANCE (SURPLUS)</u>

The Chinese trade surplus increased this month – exports increased at a faster pace (month on month and annual basis) and imports increased at a slower pace in the month and declined on an annual basis.

<u>China Trade Surplus (USD):</u> Jul 62.3bn versus Jun 46.4bn

A year ago, the Jul trade surplus was lower at 44bn.

Chart: China Balance of Trade (USD) 12mths to Jul 2020



<u>EXPORTS</u>

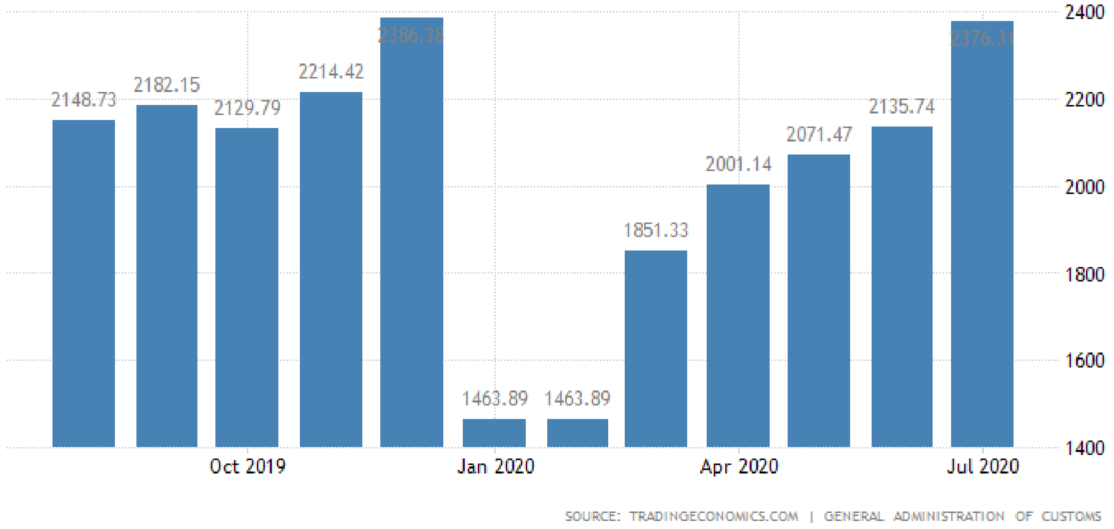
Export growth accelerated this month – on a monthly and annual basis.

<u>Total Exports – month change:</u> Jul 237.6bn (+11.3%) versus Jun 213.5bn (+3.1%)

Exports in Jul were +7.2% ahead of the same month a year ago (Jul 2019 exports 221.7bn).

The country's exports have been boosted by record shipments of medical supplies and robust demand for electronic products.

Chart: China Exports (USD) by Month at Jul 2020



On a YTD basis (versus YTD a year ago) total exports are still 4.1% below the same YTD period a year ago. In the Jun YTD, exports were -6.2% down in the YTD.

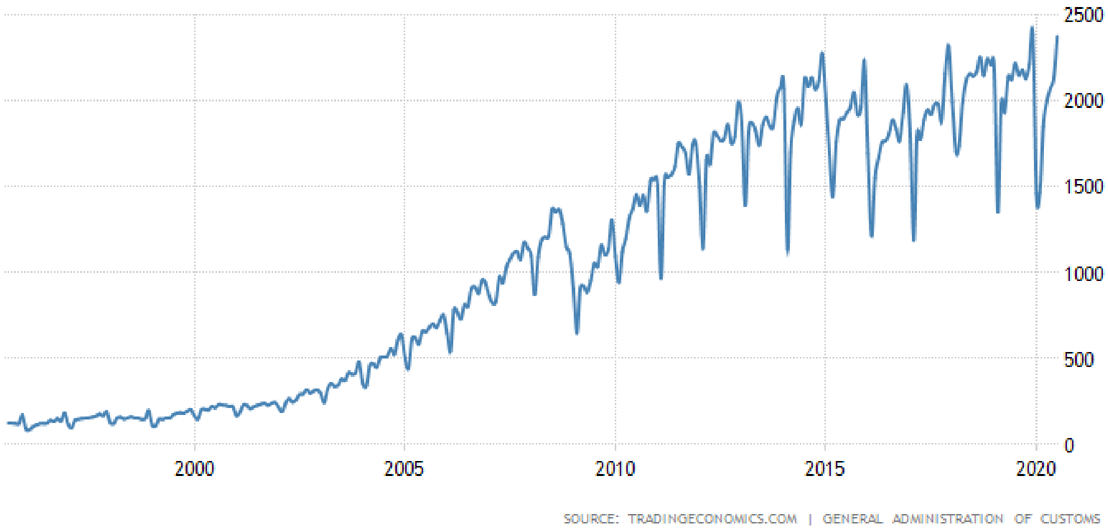
Some of the key markets where China's exports are still below a year ago in the YTD to Jul are:

USA: this is the single largest export market and Chinese exports to the US are still down 7.3% in the YTD.

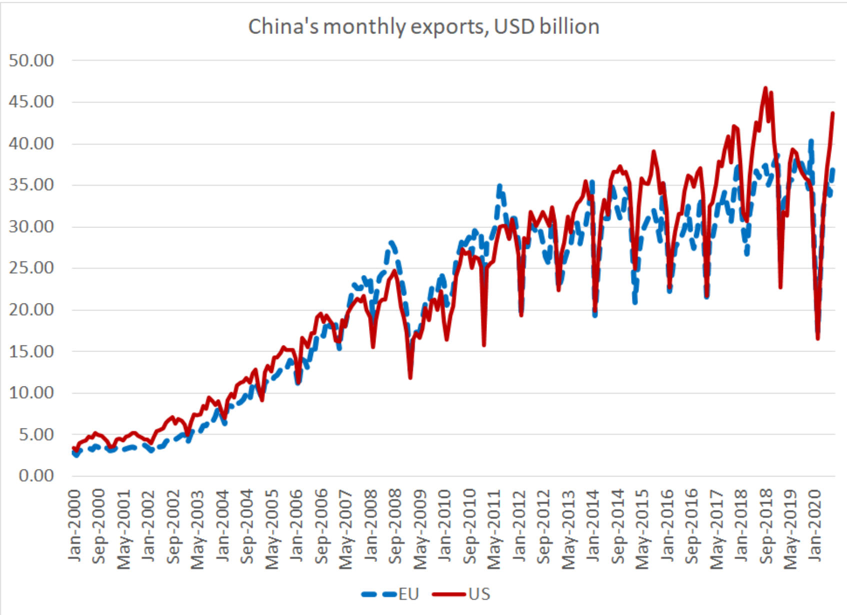
Exports YTD: Hong Kong -9.3%, Japan -3%, Africa -7.3%, Latin America -8.8%, India -24.7%.

<u>Long-term exports</u>

Chinese exports as a proxy for global demand appear to be rebounding. The trajectory of growth is not quite as steep as in the post-GFC period though.



Via the Council on Foreign Relations: Exports to both the US and the EU (in USD terms) have continued to rebound since the start of 2020:



(https://twitter.com/Brad_Setser/status/1293356200034271235)

IMPORTS

Import growth slowed this month versus the month prior and was below the same month a year ago.

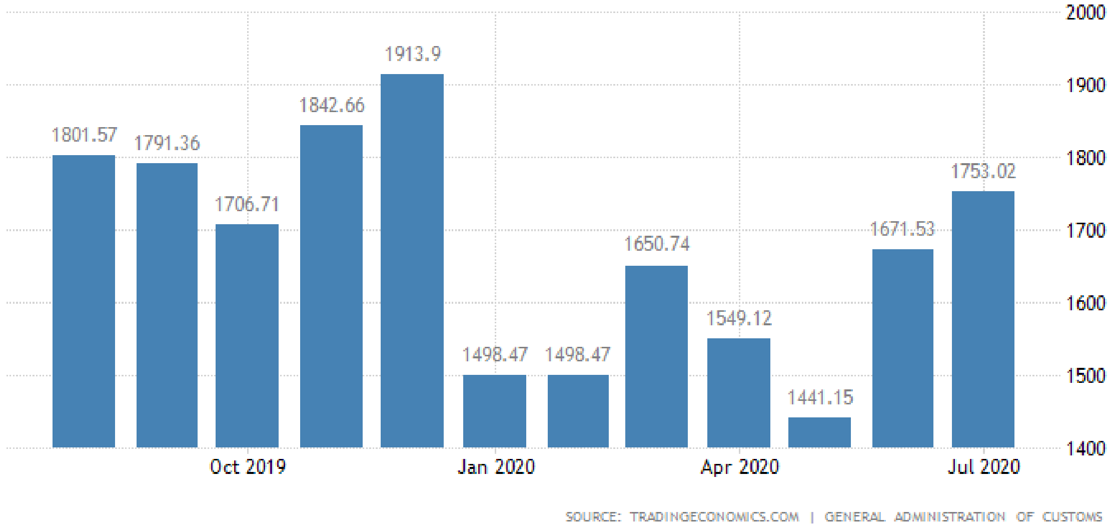
Total Imports – month change: Jul 175.3bn (+4.9%) versus Jun 167.1bn (+16%)

Imports in Jul were -1.4% below the same month a year ago (imports Jul 2019 177.7bn).

Imports to China dropped by 1.4 percent year-on-year to USD 175.3 billion in July 2020, missing market expectations of a 1 percent gain and following a 2.7

percent rise a month earlier, due to weaker commodities prices and payback following strong shipments the previous year. Meanwhile, import volumes of industrial raw materials remained robust, with record imports of iron ore and copper, along with a sharp jump in crude oil.

Chart: China Imports (USD) by Month at Jul 2020



On a YTD basis, imports remain 5.7% below the same period a year ago – highlighting that a full recovery of lost activity is yet to be made.

On a YTD basis, the largest import markets for China are still mostly down, except for imports from Taiwan and the ASEAN group.

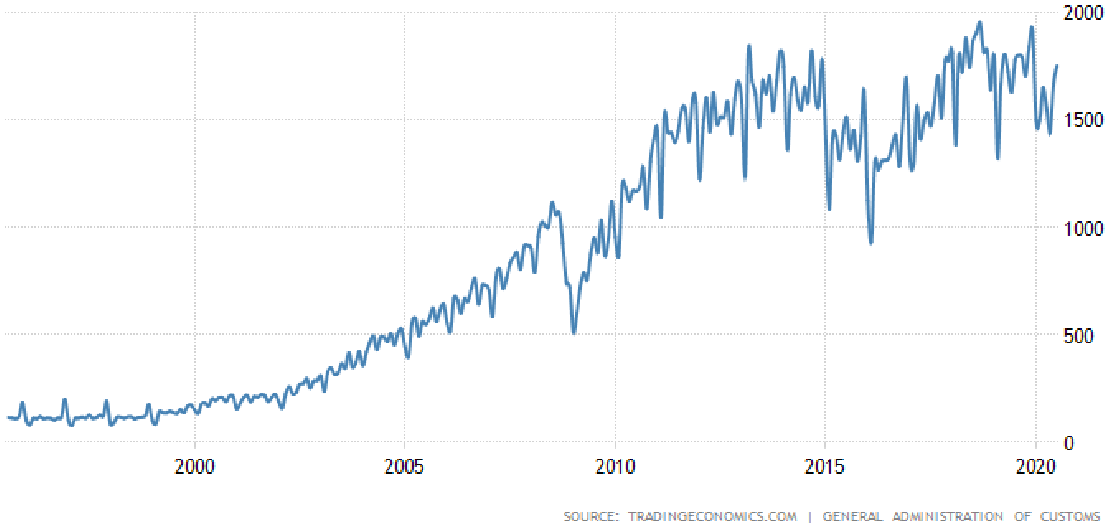
Import growth YTD (versus a year ago): European Union -8.5%, ASEAN group +4.3%, Japan -1.5%, Taiwan +9.1%, Latin America -2.5%.

Imports from the US on a YTD basis are as large as the value of imports from Australia on a YTD basis. Imports from the US are still down -3.5% YTD and Aus imports are down by -4.4%.

<u>Chinese Imports – Long-term View</u>

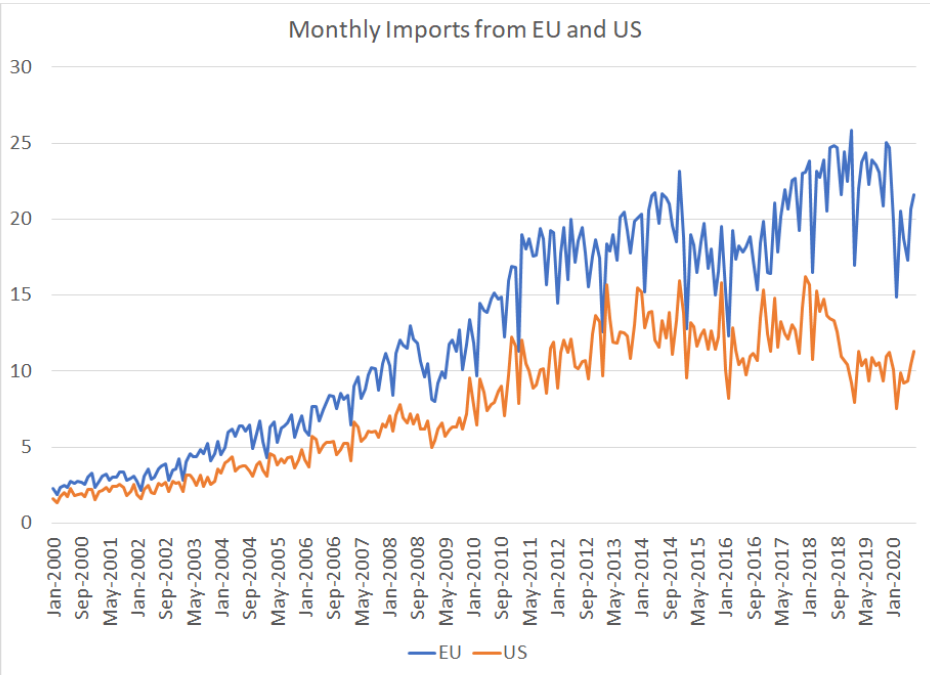
What happens to global production/demand when imports by one of the largest markets grows at a slower pace?

Chart: China Imports (USD) Last 25 years



China's import growth between 2009 and 2015 was a key driver of global demand and recovery after the GFC. This growth slowed notably in 2014. The 'recovery' since 2015 was as steep as the post GFC period. But growth in imports has slowed since early 2018. This is most visible when you break out imports from the two largest import markets for China – the EU and the US.

Via the Council on Foreign Relations:



(https://twitter.com/Brad_Setser/status/1293356200034271235)

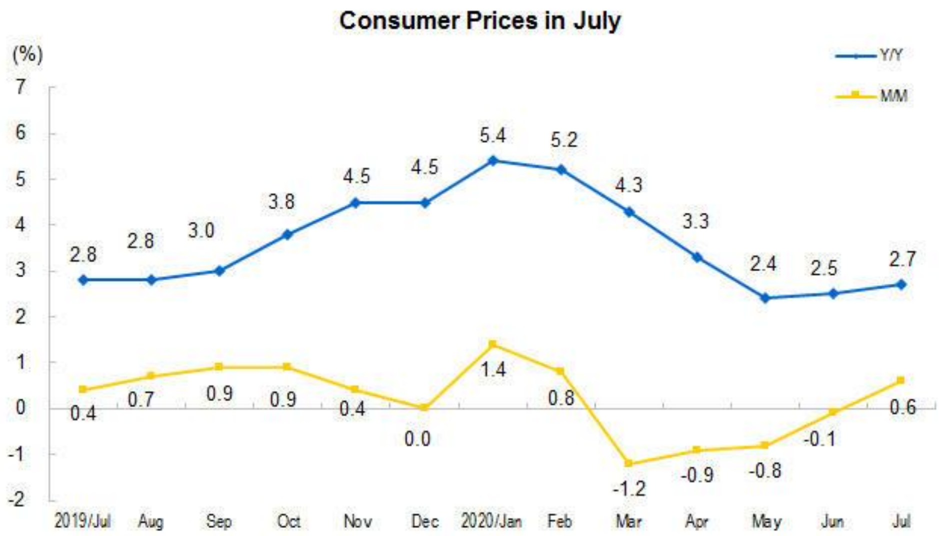
The main question is whether Chinese import demand begins to accelerate again – helping to further spur recovery in global output.

http://english.customs.gov.cn/statics/report/preliminary.html

CPI (Jul)

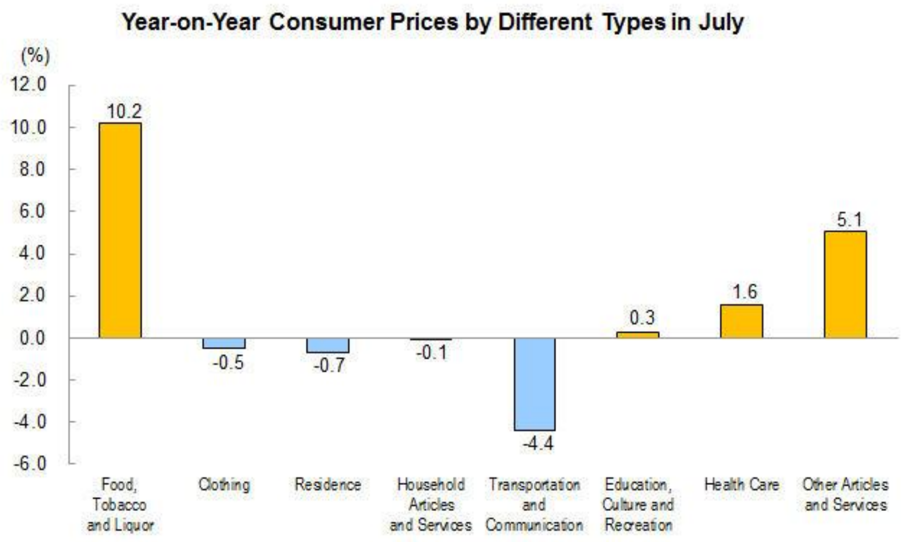
Consumer prices continued to accelerate on a monthly and annual basis in Jul. The largest contributor to the consumer price growth was the growth in food prices and transport prices (fuel prices). On an annual basis, higher growth in food prices, other, and health care prices were somewhat offset by falling clothing, residences and transport (fuel) prices.

CPI – annual change: Jul +2.7% versus Jun +2.5%



Food prices continued to grow at a higher rate in Jul. Even in the month, food prices increased by +2%, including fresh vegetables and meat prices. Pork increased by +10.3% in Jul versus Jun. On an annual basis, meat prices were up over 60% on a year ago. Food prices overall were up +10% on a year ago.

Off-setting this on an annual basis was the decline in transport/comms prices – which was mostly prices for fuels for vehicles which declined by -15.5%. In the month though, energy prices were back up by +2.4%.



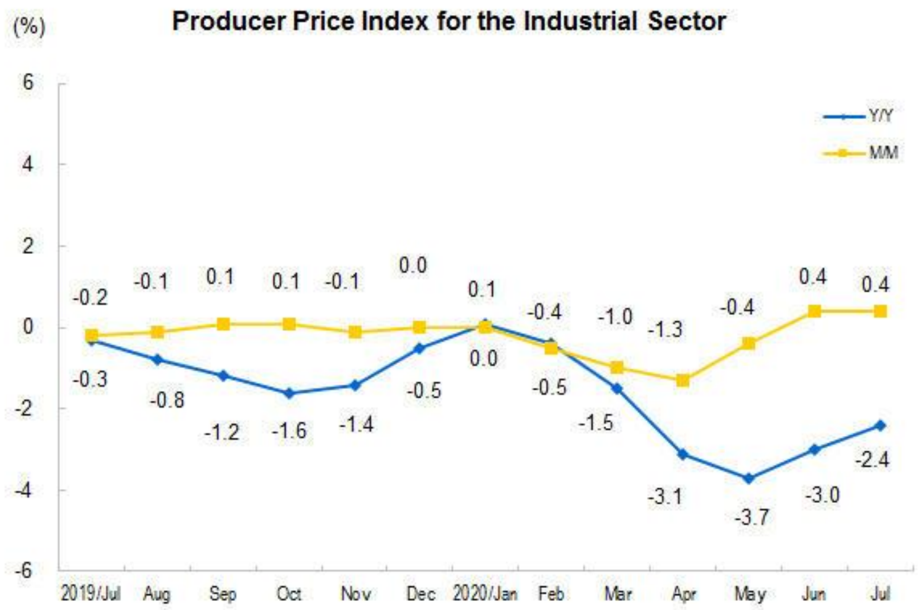
http://www.stats.gov.cn/english/PressRelease/202008/t20200811_1782171.html

PPI (Jul)

This month, producer (selling) prices increased at the same pace as in Jun. But the purchase price index indicated that the growth in the purchase prices for inputs continued to accelerate. This suggests a likely squeeze on margins for producers.

Producer Price Index – month change: Jul +0.4% versus Jun +0.4%

On an annual basis, producer prices are still 2.4% below the same month a year ago.



The means of production selling prices were +0.5% higher this month, but still down -3.5% below a year ago (raw materials prices and mining and quarrying prices were lower). The means of subsistence prices were little changed at +0.1% in the month but were +0.7% ahead of a year ago. The main contributor was higher food price growth of +0.6% in the month and +3.7% ahead of a year ago. This was offset by declines across clothing and articles for daily user. Prices for durable goods were unchanged in the month and down -1.6% versus a year ago.

Purchase Price Index – month change: Jul +0.9% versus Jun +0.4%

Adding to the higher purchase prices this month was growth in fuel and power prices +2.5% in the month, while still -10.8% down on a year ago. This generally has a broad impact on firms.

Also, non-ferrous metals and wires prices were up +3% in the month, but still down -0.3% on a year ago.

Agricultural and side-line products were also up +1.4% in the month and +6.8% on a year ago.

http://www.stats.gov.cn/english/PressRelease/202008/t20200811_1782176.html

Return to top

Trade

US-China Trade Talks

Relations between the US and China remain tense and this is likely to be an enduring theme leading up to the US election in Nov.

Part of reason for the escalation – without a full reescalation in the 'trade war' (so as not to impact the stock market) - is most likely due to the positive impact on President Trump's re-election bid:

> But Wang's conciliatory posture, rather rare in recent months, was met with **an increasingly impatient, hostile administration under embattled US President Donald Trump, who was eager to get tougher on China to revive his imperilled re-election bid**. https://www.scmp.com/news/china/diplomacy/article/3095498/china-us-relations-why-wang-yi-went-back-wolf-warrior-mode

Tensions have been rising over several issues:

> President Donald Trump's administration has clashed repeatedly with Beijing over trade and the coronavirus pandemic, as well as China's imposition of a controversial new security law in Hong Kong. https://www.bbc.com/news/world-asia-china-53522640

> In the weeks leading to the consulate closures on both sides, which Beijing lamented as "unprecedented escalation", Washington significantly piled pressure on Beijing, with muscle-flexing in the disputed South China Sea, sanctions on Hong Kong and Xinjiang and its warming ties with Taiwan. https://www.scmp.com/news/china/diplomacy/article/3095498/china-us-relations-why-wang-yi-went-back-wolf-warrior-mode

A recent speech by US Secretary of State, Mike Pompeo had added further to tensions - "Communist China and Free World's Future" https://www.state.gov/communist-china-and-the-free-worlds-future/

The Chinese foreign ministry denounced the speech:

> "Pompeo made a speech in which he made a malicious attack on the Chinese Communist Party," Mr Wang said, adding: "To this, China expresses strong indignation and resolute opposition." https://www.bbc.com/news/world-asia-china-53522640

A review of the phase one deal was scheduled for the last weekend and did not go ahead.

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

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

BREXIT

The next round of talks between the UK and the EU will commence this week.

This is part of a new timetable for talks with the final deadline for a trade agreement on 2 Oct. https://www.business-standard.com/article/international/britain-european-union-set-new-timetable-of-meetings-for-post-brexit-deal-120080100099_1.html

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

US-Europe Trade Talks

The USTR issued a modification to the products that are authorized by the WTO for additional duties due to the case regarding subsidies for large civil aircraft.

> USTR is removing from the tariff list certain products from Greece and the United Kingdom and adding an equivalent amount of trade from France and Germany. The changes are modest; the amount of products subject to countermeasures will remain unchanged at $7.5 billion and the tariff rates will remain unchanged at 15% for aircraft and 25% for all other products.
>
> "The EU and member states have not taken the actions necessary to come into compliance with WTO decisions," Ambassador Robert Lighthizer stated. "The United States, however, is committed to obtaining a long-term resolution to this dispute. Accordingly, the United States will begin a new process with the EU in an effort to reach an agreement that will remedy the conduct that harmed the U.S. aviation industry and workers and will ensure a level playing field for U.S. companies. " https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/august/ustr-modifies-75-billion-wto-award-implementation-relating-illegal-airbus-subsidies

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=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

The following trade items have recorded no change in status:

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

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

Return to top