MARS CAPITAL PARTNERS

Weekly Macro Review

w/c 3 August 2020

Key Themes

In the US, there was a more notable improvement/reduction in the number of new and continuing claims across both state and federal programs this week. Similarly, non-farm payrolls also recorded further growth in new jobs. But that pace of job growth slowed notably compared to the prior two months – and the levels of continuing claims, despite some improvement, remain extremely elevated.

On the broader tally, 22.16m payroll jobs were lost in Mar and Apr this year. So far, 9.28m payroll jobs have been regained during May-Jul. This month, most of the growth in employment was in part-time rather than full-time jobs.

To provide some context, the proportion of the US population now employed is back down to levels last seen in the 1960's. The employment to population ratio highlights just how much damage has been done to the US labour market – and how critical ongoing fiscal support is for the recovery process.

With no clear resolution on new stimulus from the US congress, President Trump signed executive orders (EO's) for a greatly reduced level ($300/wk) and extension (maybe 6wks) of the PUA benefit (utilizing FEMA funds), deferring some payroll tax, extending the eviction moratorium and continuing the zero-interest for student loans. At this point, its not clear whether these EO's have an enforceable impact – the measures have been described as small, complex and temporary. But at least it might be a short term stop gap as negotiations continue.

Across all PMI's for Jul, firms remain cautious about hiring, despite some headline month on month improvement in output and orders. Growth has been driven by domestic markets, while exports mostly remain weak.

US Manufacturing – the ISM report was quite positive for Jul. The Markit report indicated only marginal growth at best compared to the month prior. Production of motor vehicles has now appeared to gather more pace and this was a highlight of the Factory Orders & Shipments data for Jun. Durable goods ex transport orders were also stronger in Jun. Shipments of durable goods excluding transports is interesting - the decline due to the Covid shutdown was not as severe (as say the contraction in motor vehicle production) – and now shipments are 'only' 4.2% below a year ago (at the worst level, shipments were down by 8.7% in Apr). But shipment growth across durables ex transports was slowing notably in the 18-months leading up to the pandemic – which makes expectations for the recovery unclear.

Non-durable goods performance was likely impacted by higher oil prices this month. But excluding that, shipment growth of chemicals was stronger, and shipment growth of food remains steady.

As supply chains come back on-line, the next few months results will be important barometers of where final demand is at.

US Services – reports this month were lacklustre. Services accounted for most of the job growth this month, but there was little in either the ISM or Markit PMI's that suggested acceleration in growth despite several months now of reopening. The ISM index remained elevated, but the underlying shift in firms reporting higher, no change or lower output suggests that firms, on net, are seeing at best more steady conditions this month, rather than accelerating growth. The Markit index also reflect no change in activity this month compared to the prior month.

Across the other regions, the UK and Aus services PMI's were at levels more consistent with a broader reopening.

Eurozone services PMI recorded stronger month on month growth. Manufacturing growth was only moderate. For context, manufacturing output increased on a month on month basis for the first time this month since the start of 2019, while new orders increased in Jul, month on month for the first time in two years.

In Japan, both services and manufacturing PMI's indicated a continued contraction in activity, although manufacturing contracted at a slower pace in Jul. The industrial production forecasts were for much higher growth in production for Jul – which has not been reflected in the PMI result.

In Australia, price has played a large factor in the return of retail sales in Q2. The trend in the underlying real (volume) of retail sales indicates that sales (versus the same quarter a year ago) have declined notably in Q2 while nominal growth remained positive, albeit slowed. Of note are the severe declines in Q2 volumes in NSW (-4.3%) and VIC (-6.2%) – well before the latest lock-down in Vic. Aus PMI's continued to show further month on month growth in activity in Jul. For now, though, this momentum is likely to stall as severe restrictions are reimposed in Vic due to increased infections.

Contents

US Data

Non-Farm Payrolls and Employment (Household Population Survey) (Jul)

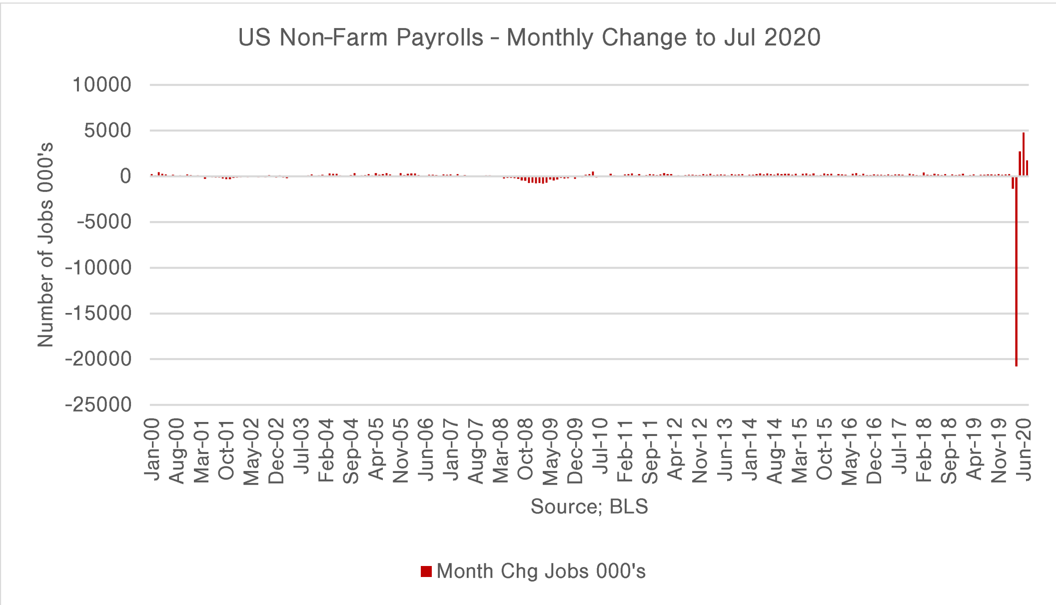
NON-FARM PAYROLLS

There was a further improvement in total non-farm payrolls this month, although the total improvement was lower than in the two months prior. Despite the growth in non-farm payrolls over the last three months, a significant gap in payroll jobs still exists.

Non-Farm Payrolls – month change: Jul +1.76m people versus Jun +4.79m people.

On the broader tally, 22.16m payroll jobs were lost in Mar and Apr this year. So far, 9.279m payroll jobs have been regained during May-Jul.

This leaves a gap of 12.88m payroll jobs to make up the total lost during Mar and Apr this year (this calculation does not account for the lost growth in payrolls during that time).



Most of the gains this month were services jobs, adding +1.423m new payroll jobs. This included +592k leisure and hospitality jobs and +258k retail trade jobs.

Goods producing jobs were little changed overall, adding +39k jobs. Manufacturing added +26k payroll jobs which was mostly all based around production of motor vehicles +39k jobs.

Government added +301k new payroll jobs.

HOUSEHOLD EMPLOYMENT SURVEY

On a monthly basis, employment continued to increase in Jul, albeit at a slower pace than in Jun or May. Most of the growth this month was for part-time employed persons.

The size of the labour force declined in Jul due to a fall in the participation rate. But because employment growth was larger than the decline in the labour force, total unemployment continued to decline.

The annual picture highlights much more progress is required to regain lost jobs, reduce unemployment and return participation to pre-pandemic levels.

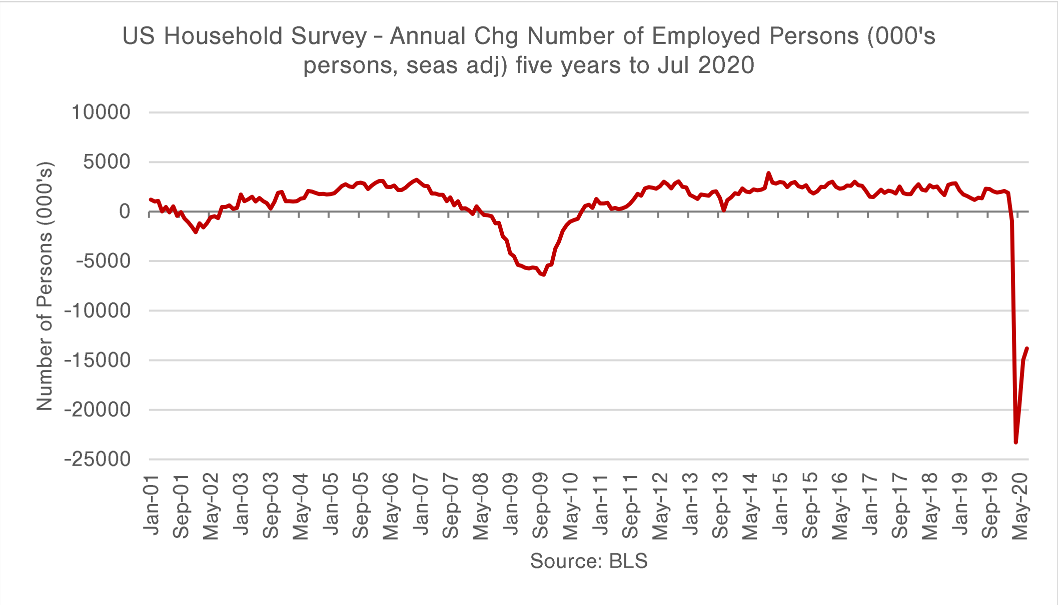
Employment

This month there were further gains in employment, albeit at a slower pace of growth than the two months prior.

Total employed – month change: Jul 1.35m people versus Jun 4.94m people

Most of the employment gain this month was due to part-time employment (+0.8m people) versus growth in full-time employment of +0.6m people. Last month, there were more equal gains in FT and PT employment of +2.4m each.

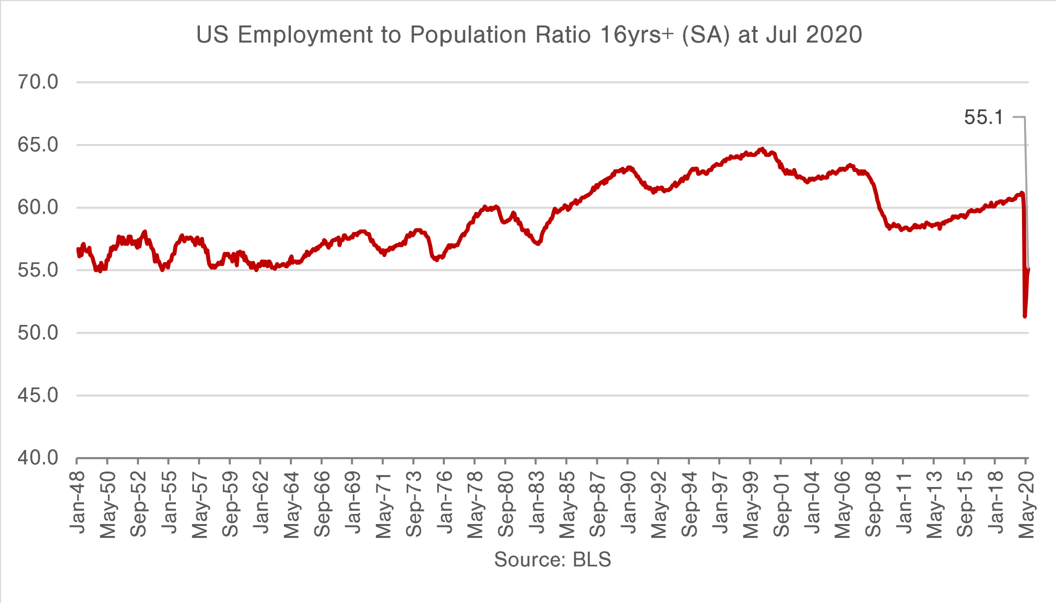
On an annual basis, employment growth is still tracking significantly behind a year ago **at -13.8m fewer employed people than in Jul 2019.**



Employment to Population Ratio

This ratio provides some historical context for just how much damage has been done to the US labour market. The employment to population ratio increased slightly this month to 55.1% putting the level of employment relative to the size of the population back on par with that of the 1960's.

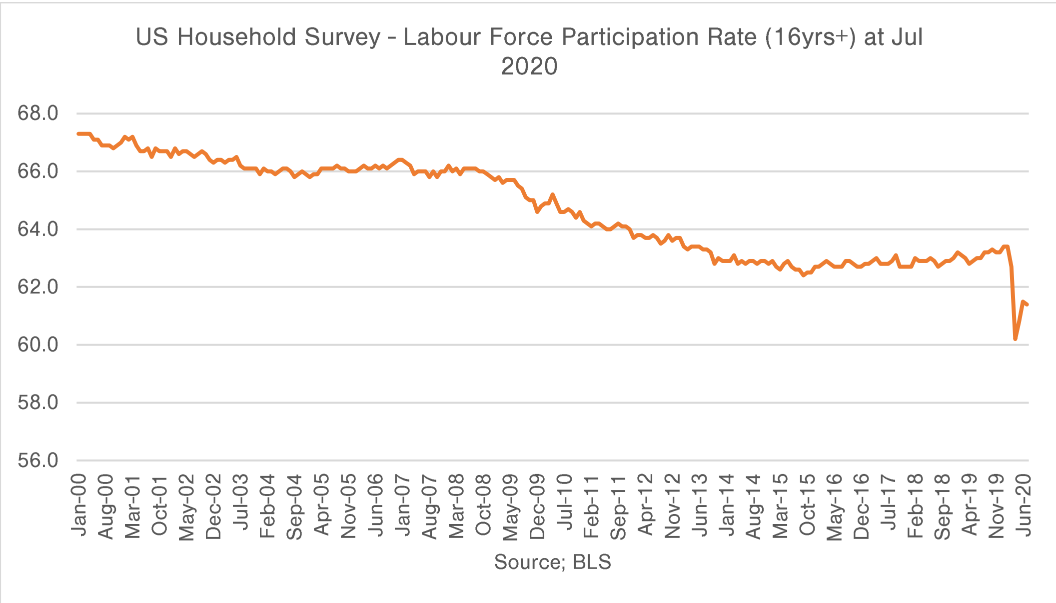
At the lowest point, the employment to population ratio fell to 51.3% in Apr. The recent peak prior to pandemic was 61.2% in Jan 2020 – and it had taken over ten years to reach that level after the fall in the GFC – when the low point was 58.2%.



Labour Force

The total size of the labour force declined slightly in Jul by 62k people. This was the result of a decline in the labour force participation rate of -0.01% pts or -260k persons leaving the labour force versus the prior month. This effectively offset the growth in what the estimated change in population added to the labour force.

The participation rate was 61.4% in Jul and still above the Apr low of 60.2%.



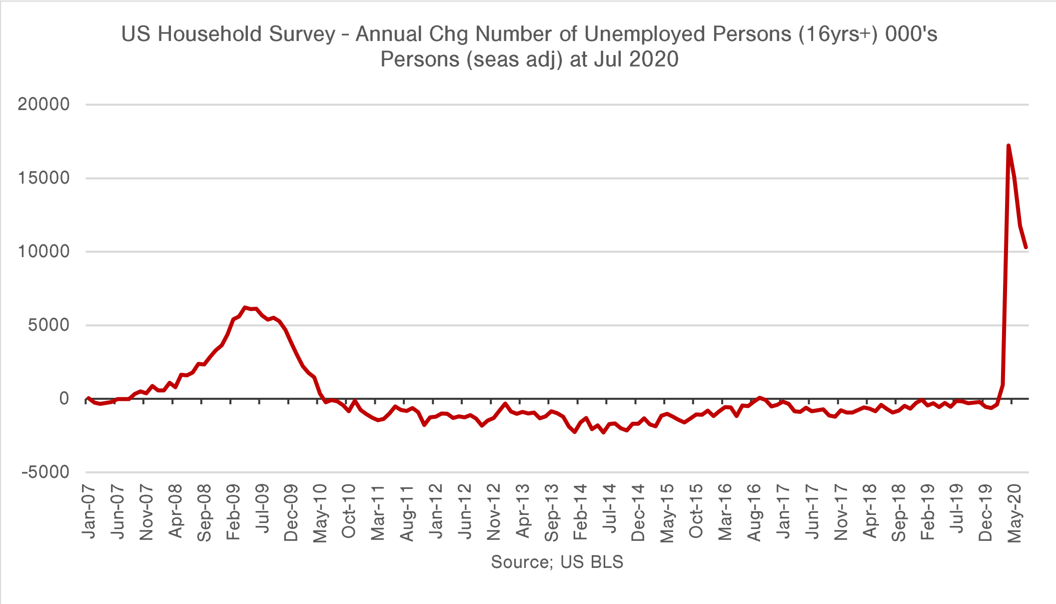
Total Unemployed Persons

Because there was little change in the size of the labour force, the increase in employed resulted in a decline in total unemployed persons in the month. Like employment growth, the decline in total unemployment has also slowed.

<u>Total Unemployed Persons – month change</u>: Jul -1.4m people versus Jun -3.2m people

On an annual basis, total unemployed persons remain +10.3m higher than in Jul 2019.

The peak of unemployment was in Apr when 23.1m people were unemployed (+17m above Apr 2019). In Jul, a total of 16.3m people remain unemployed.



The unemployment rate declined from 11.1% in Jun to 10.2% in Jul. At the peak in Apr, the unemployment rate was 14.75%. A year ago, the unemployment rate was 3.69%.

Summary of key labour market measures:

000's people (16yrs+)	Annual chg - JUL 2020	Monthly Chg - JUL
The estimated change in the Labour Force due to pop growth (1)	663	198
How many jobs available for them? (employment growth) (2)	- 13,814	1350
Difference (if negative, then employment growing faster than what pop adds to the labour force) (3)	14,477	-1152
Change labour force participation - (if positive, people entering/returning to the labour force) (4)	- 4,166	-260
The remainder is the chg in total unemployed persons (declining if negative) (4) plus (3)	10,311	-1412
Two views of annual growth in the labour force;		
Total employed persons plus total unemployed persons	- 3,503	-62
Est of what population adds to the labor force plus change in participation	- 3,503	-62
BLS reported change in the size of the labour force	- 3,503	-62

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

Initial Jobless Claims (wk ending 1 Aug), Continuing Unemployment Claims (wk ending 25 Jul), and PUA Claims

The increase in weekly advanced initial claims and continuing claims continue to slow – and this was more pronounced this week. Initial PUA claims also slowed notably this week (wk ending 1 Aug). Hopefully, that is an early sign of waning requirement for additional assistance.

But the number of new claims and continuing claims across both the federal and state programs remains extremely elevated – despite the improvement. This is now week twenty (20) since the beginning of the pandemic shutdowns and spike in unemployment.

As of wk ending 18 Jul, there are just under 13m people claiming the federal PUA. The PUA benefits officially started to expire on 31 Jul. This will not start to become visible on PUA continuing claims until that data is released in two weeks.

TOTAL ADVANCE INITIAL CLAIMS WK ENDING 1 AUG 2020

A total of over 1.6m people (NSA basis) made new unemployment claims this week. This was made up of a combination of state and federal programs. This was well down from the 2.1m initial claims made in the week prior. This was led by reductions in both state and federal program initial claims.

State-based Initial Claims – wk ending 1 Aug 2020 (SA): 1,186,000 people (last week 1,435,000 claims).

The NSA state based initial claims for wk ending 1 Aug was 984,192 people – also well down on the prior wk ending 25 Jul of 1,207,044 claims.

Federal PUA Initial Claims – wk ending 1 Aug 2020 (NSA): 655,707 people (last week 908,800 – note the large decrease in claims).

CONTINUING CLAIMS

The state-based continuing claims for the wk ending 25 Jul 2020 was lower than the week prior but remains extremely elevated: 16,107,000 (the week prior was 16,915,000 claiming on-going unemployment insurance).

The Federal PUA continuing claims for wk ending 18 Jul (a week behind the state program data): 12,956,478. This was also lower than in the week prior: 13,026,553 claims.

So as of the wk ending 18 Jul the total number of people claiming ongoing/continuing claims across both state and federal programs was 31,308,678.

PANDEMIC EMERGENCY UNEMPLOYMENT COMPENSATION

The level of new claims for pandemic emergency unemployment compensation continued to increase in the wk ending 18 Jul; 1,144,429 people made claims. This was up from 1,055,098 claims in the prior wk ending 18 Jul 2020.

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

https://www.cbpp.org/research/economy/policy-basics-how-many-weeks-of-unemployment-compensation-are-available

ISM Manufacturing PMI (Jul)

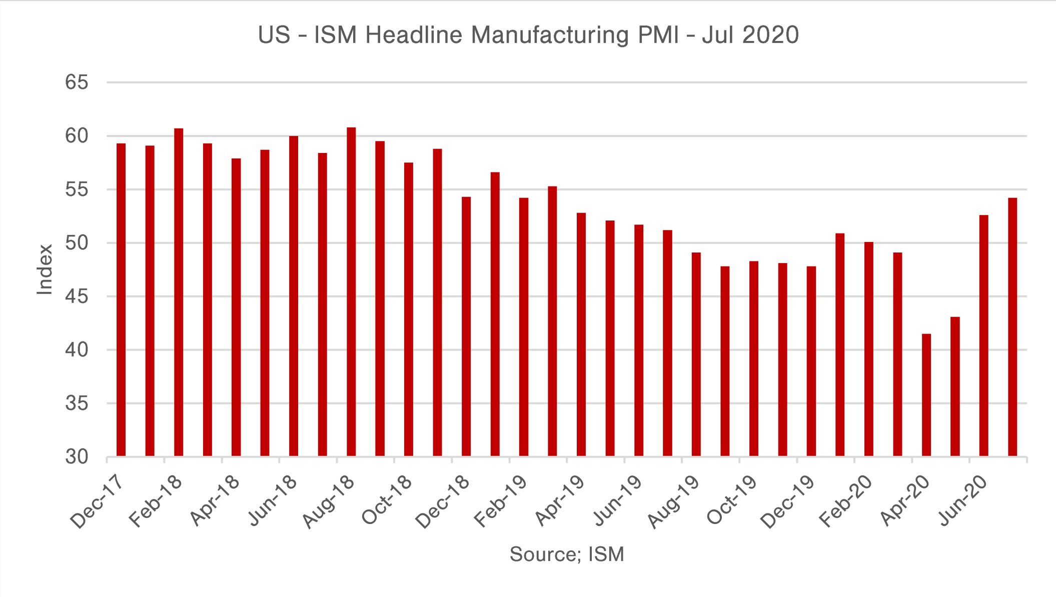
The headline ISM index of manufacturing activity in the US indicated that more firms were reporting better/improving/increasing activity in Jul. Versus the month prior, there was a larger increase in the indexes of production and new orders. Inventory declined slightly and order backlogs increased only slightly.

> Of the 18 manufacturing industries, 13 reported growth in July, in the following order: Wood Products; Furniture & Related Products; Textile Mills; Printing & Related Support Activities; Food, Beverage & Tobacco Products; Plastics & Rubber Products; Chemical Products; Apparel, Leather & Allied Products; Computer & Electronic Products; Primary Metals; Petroleum & Coal Products; Miscellaneous Manufacturing; and Electrical Equipment, Appliances & Components.
>
> The three industries reporting contraction in July are: **Transportation Equipment; Machinery; and Fabricated Metal Products**.

Non-durable goods industries were 'mostly' performing better than durable goods overall.

Despite the improved conditions, firms continued to reduce employment on net. Further consistent growth in demand is required to reduce excess capacity. Survey respondent feedback (selected anecdotes) are mostly downbeat. Three out of the ten selected quotes reflect positively on current conditions (chemical products, food and bev, and computer and electronic products).

Headline ISM Manufacturing PMI; Jul 54.2 versus Jun 52.6



The new orders index increased at a much faster pace increasing to 61.5 in Jul. A lower proportion of firms reported lower orders and a larger proportion of firms reported higher new orders. There was also an increase in firms reporting no change in orders (40%). Only two industries reported a decline in orders – textile mills and paper products.

> "Orders starting to pick up. [An] increase of about 35 percent to 40 percent." (Chemical Products)

New export orders reached 50.4 in Jun. There were as many firms reporting higher orders as there were firms reporting lower orders. But over 71% of firms reported no change in Jul.

> The four industries reporting a decrease in new export orders in July are: Nonmetallic Mineral Products; Fabricated Metal Products; Paper Products; and Machinery. Seven industries reported no change in new export orders in July compared to June. [which included transport equipment]

> "While demand in [the] coming six months is stabilizing, it is at a significant reduction and clear [that] customers have little confidence in the forecasts. Export orders to Brazil, South Africa, [and the] Middle East are largely cancelled for balance of 2020." (Fabricated Metal Products)

Order backlogs increased slightly for the first time in several months, to 51.8 in Jul. There were less firms reporting lower backlogs and most of the change was the increase in the number of firms reporting no change in backlogs – now up to 63%. There were ten industries reporting higher backlogs this month.

The improvement in production was similar, increasing from 57.3 in Jun to 62.1 in Jul. A lower proportion of firms reported lower orders and a larger proportion of firms reported higher new orders. There was also an increase in firms reporting no change in orders (39.9%). At an industry level, no industry in total, reported lower production in Jul versus Jun.

> "Manufacturing outlook has improved greatly in June, as business has resumed at nearly 100 percent. We have implemented a number of safeguards that are costing extra money, but we are running." (Computer & Electronic Products)

Inventories declined slightly in Jul after reaching a neutral level in Jun. Most firms, 51%, still reported no change in inventories this month. The proportion of firms reporting higher inventories was little changed and there was an increase in firms reporting lower inventories.

The employment situation was little changed from the prior month, with firms reducing employment on net. The index increased slightly from 42.1 in Jun to 44.3 in Jul. Overall, the number of firms reducing employment is still larger than the number of firms increasing employment. But most firms, 60% of firms, have not made any change to employment.

> "Overall business remains down almost 70 percent. We are hanging on to as many employees as possible, but we will have to lay off 30 percent or more for at least two to three months until September or October." (Transportation Equipment)

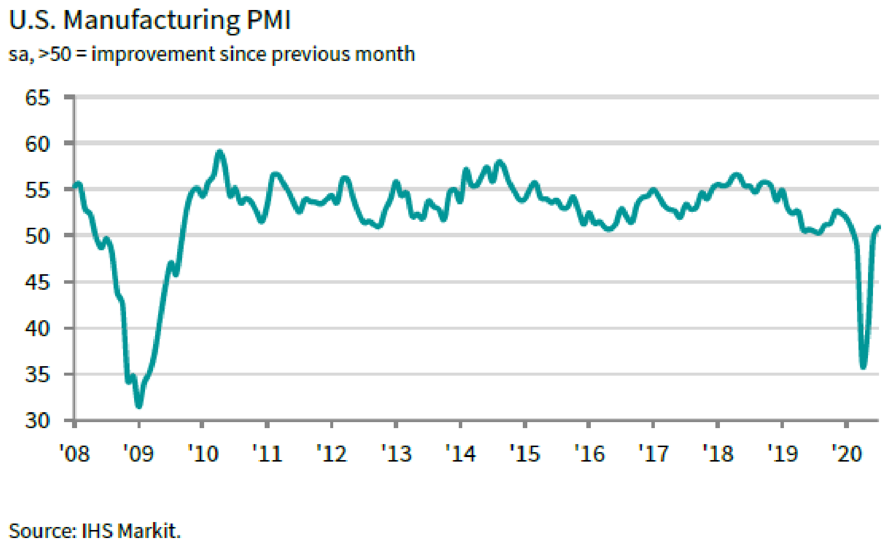
https://www.ismworld.org/supply-management-news-and-reports/reports/ism-report-on-business/pmi/july/

Markit US Manufacturing PMI Final (Jul)

The headline PMI for Jul was slightly higher than in Jun and shifted into marginal expansion. This means that there was marginal growth in manufacturing activity in Jul versus Jun. This was the first time in five months when month on month production increased.

Firms noted that they continued to draw down on finished goods inventories – and once at a lower level, this will also likely result in a boost to production levels.

Headline US Manufacturing PMI: Jul 50.9 versus Jun 49.8



> Output rose only modestly in July, albeit the first expansion in production since February. Where an increase was reported, firms linked this to the resumption of operations at manufacturers and their clients. Some also noted that demand also began to pick up.

The expansion in new orders was also only modest but represented the first month on month increase since Feb 2020. New export orders continued to decline.

Firms continued to keep a focus on costs and reduced input buying. Firms continued to draw down on preproduction inventories as well as finished goods inventories.

But despite the first month on month increase in orders, firms continued to reduce employment.

> Confidence among manufacturers reportedly stemmed from hopes of an upturn in new orders and a return to pre-pandemic output levels, and an end to the COVID-19 crisis. Optimism was solid, but some firms noted concerns for the near-term future as virus cases rise again.

https://www.markiteconomics.com/Public/Home/PressRelease/eebf0a0c78324c0ca8e5ab1defc0aa40

Total Factory Orders (Jun)

This month there was an improvement in shipments & orders. Of note was the continued acceleration in motor vehicle orders and shipments as that industry restarts production. This is likely to continue over the next few months. Sustained consumer demand will be important for ongoing production gains.

Non-defense aircraft continues to struggle in the face of reduced global travel. New orders were again negative this month -$10bn and inventory growth is already at +20% on a year ago.

Ex transports, durable goods orders were stronger – which was a positive this month. Shipments also increased as firms reduced inventories across key industries (primary metals, fabricated metals and machinery). Shipments of durable goods excluding transports is interesting. The decline due to the Covid shutdown was not as severe (as say the contraction in motor vehicle production) – and now shipments are 'only' 4.2% below a year ago (at the worst level, shipments were down by 8.7% in Apr). But shipment growth across durables ex transports was slowing notably in the 18-months leading up to the pandemic – which makes expectations for the recovery unclear.

Non-durable goods performance was likely impacted by higher oil prices this month. But excluding that, shipment growth of chemicals was stronger, and shipment growth of food remains steady.

This month the most insightful point is the still elevated inventory to shipment ratios. Although shipments have increased across the board (and inventory is still declining on an annual basis), the inventory to shipment ratios across both durable and non-durable goods remain elevated. Shipment growth still needs to accelerate.

NEW ORDERS (MEASURING DURABLE GOODS ONLY)

New Orders Durable Goods – month change: Jun +7.6% (+$14.6bn) versus May +15% (+$25.1bn)

The value of new orders increased across most segments this month except for computers and electronic products.

The total value of transport equipment orders increased by $9.3bn in Jun – the largest component of the increase in durable goods orders. Making up that increase was motor vehicle orders +$24.5bn, a decline in non-defense aircraft orders for -$13.2bn, a decline in defense aircraft orders of -$1.1bn and a decline in orders for ships and boats of -$0.5bn.

Note that non-defense aircraft orders recorded a negative print of -$10bn in Jun (the change from the prior month was -$13bn) – this is likely due to further cancelled orders.

Among the other segments, fabricated metals (+$1.4bn), primary metals (+$0.8bn), and machinery (+$0.9bn) contributed most to the top line growth in orders.

On a year ago basis, orders for total durable goods is now -12.5% below the same month a year ago. Excluding transports, orders are now -4.4% below a year ago.

SHIPMENTS

Manufacturer Shipments – month change: Jun +9.8% (+$40.7bn) versus May +3% (+$12bn)

There was a much faster pace of shipments in Jun – both durable goods and non-durable goods shipments increased.

Durable Goods shipments increased by $29bn in Jun (versus +$7.7bn in May). Most of this increase was for shipments of transportation equipment +$24.3bn in Jun (within that motor vehicles +$23.7bn, half of which was for light trucks/SUV's).

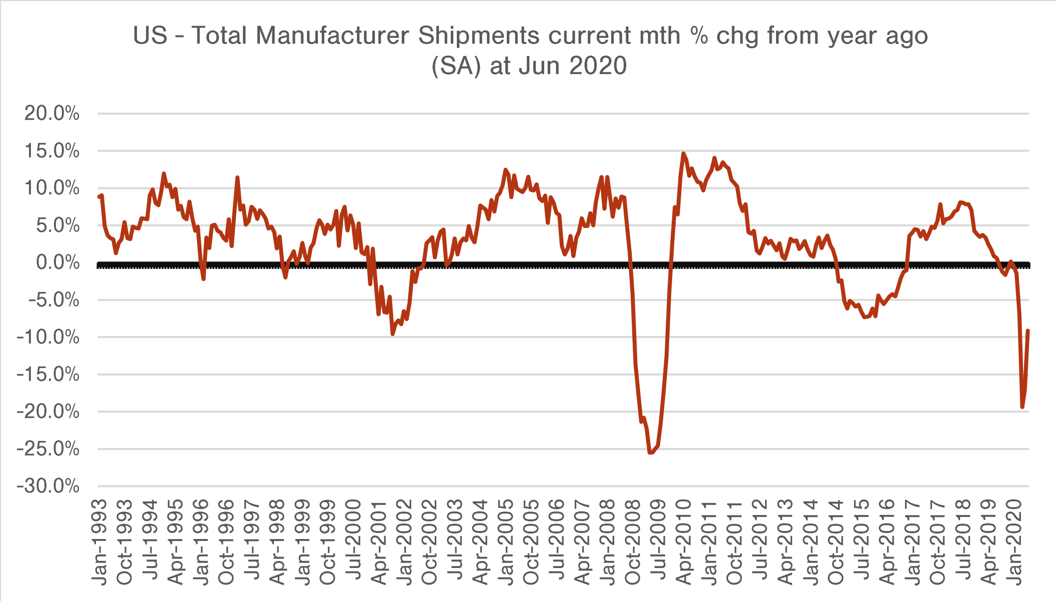
Other durable goods industries also recorded higher growth in shipments: fabricated metals (+$1.5bn), machinery (+$0.9bn), primary metals (+$1bn), and misc (+$1bn).

Non-durable goods shipments were also higher by +$10.9bn in Jun (versus +$4.3bn in May).

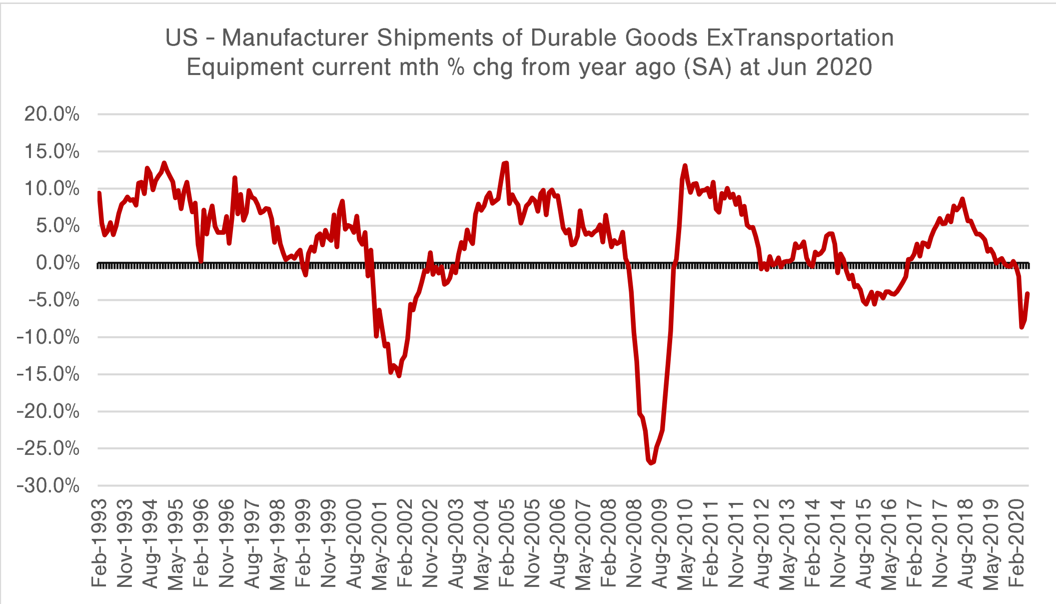
Most of this increase was for the value of petroleum refinery shipments increasing by +$7.4bn in Jun.

An increase in shipments across chemicals (+$1.5bn) and plastics and rubber (+$0.6bn) were the other larger contributors to the increase in non-durable goods shipments.

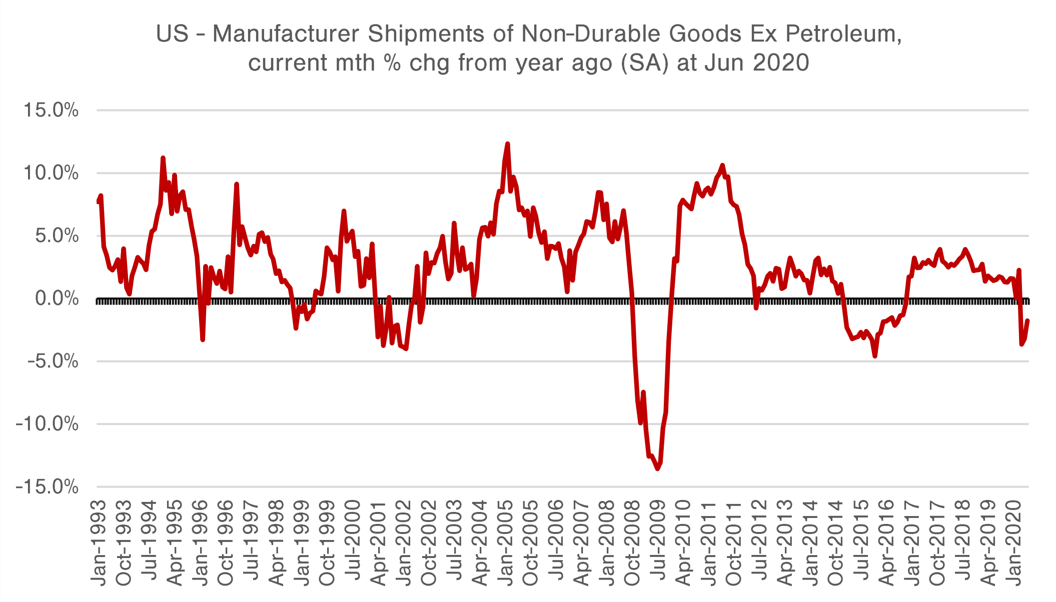
On an annual basis, total manufacturer shipments are now -9.1% below a year ago.



Shipments of durable goods excluding transports is interesting. The decline due to the Covid shutdown was not as severe (as the production contraction in motor vehicle manufacturing) – and now shipments are 'only' 4.2% below a year ago (at the worst level, shipments were down by 8.7% in Apr). But note that shipment growth across durables ex transports was slowing notably in the lead up to the pandemic – which makes expectations for the recovery unclear:



Shipments of non-durable goods excluding petroleum were also little impacted by Covid shutdowns (overall) – at the worst point, shipments fell by -3.6% versus a year ago. Food shipments contributed to this performance. As of June, shipments of non-durables ex petroleum are only -1.8% below a year ago.



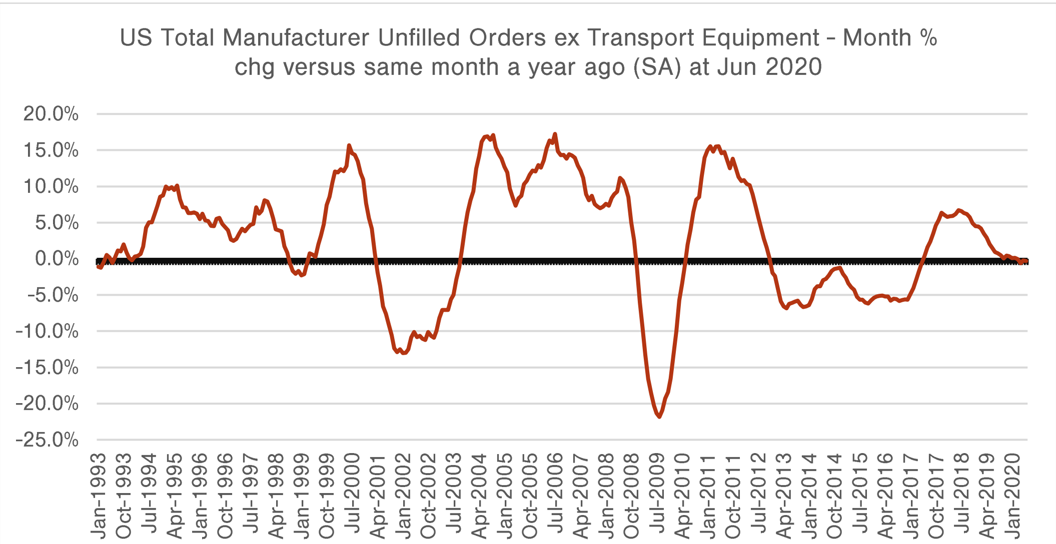
UNFILLED ORDERS

Unfilled Orders Durable Goods – month change; Jun -1.4% (-$15.3bn) versus May 0%

The decline in unfilled orders this month was (likely) the result of the cancellation in aircraft orders. Unfilled orders for non-defense aircraft declined by -$14.5bn in Jun.

So, excluding transport equipment, unfilled orders were little changed at +0.1% in Jun or +$0.3bn – which is more in-line with the growth in orders.

On an annual basis, total unfilled orders excluding transportation equipment is still slightly below a year ago by -0.3%. This suggests most the growth in orders has been such that most firms are still able to keep pace without accumulating backlogs.



Source; Census Bureau

INVENTORY

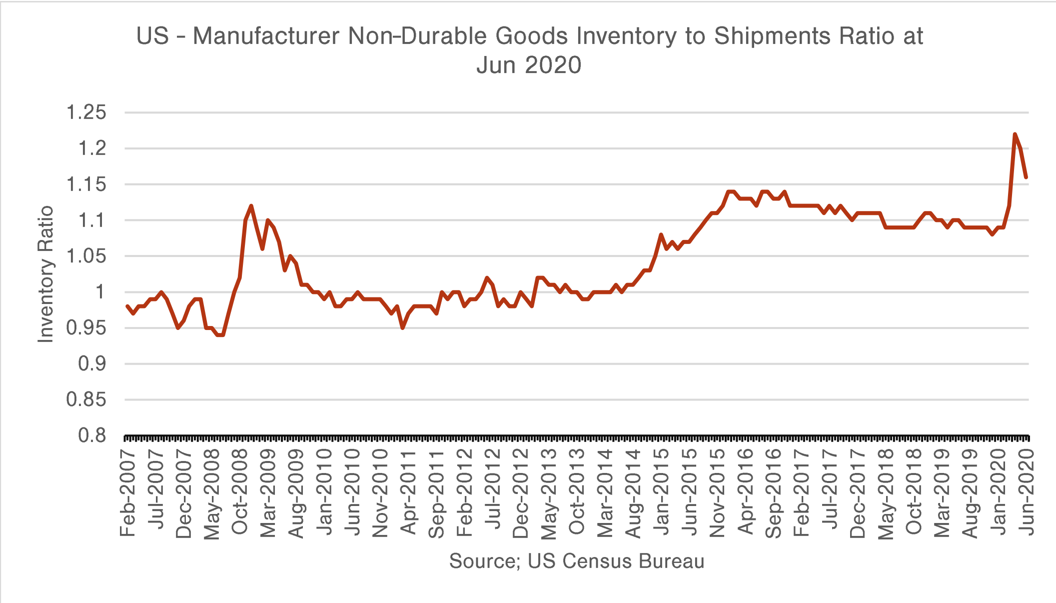
Total Manufacturer Inventory – month change: Jun +0.6% (+$4bn) versus May +0.2% (+$1.1bn)

The single largest contributor to the increase in the value of inventory this month was petroleum refineries – the value of inventory increased by +$3.3bn in Jun.

Durable goods inventories were unchanged at a total level, but there were changes underlying that result. Transport equipment inventory increased by +$2.1bn and was offset by declines across primary metals, fabricated metals, and machinery (shipments were likely run down from inventory).

The inventory to shipment ratio across both durable and non-durable goods remains elevated but has improved from the peaks. **Shipment growth still needs to accelerate further.**

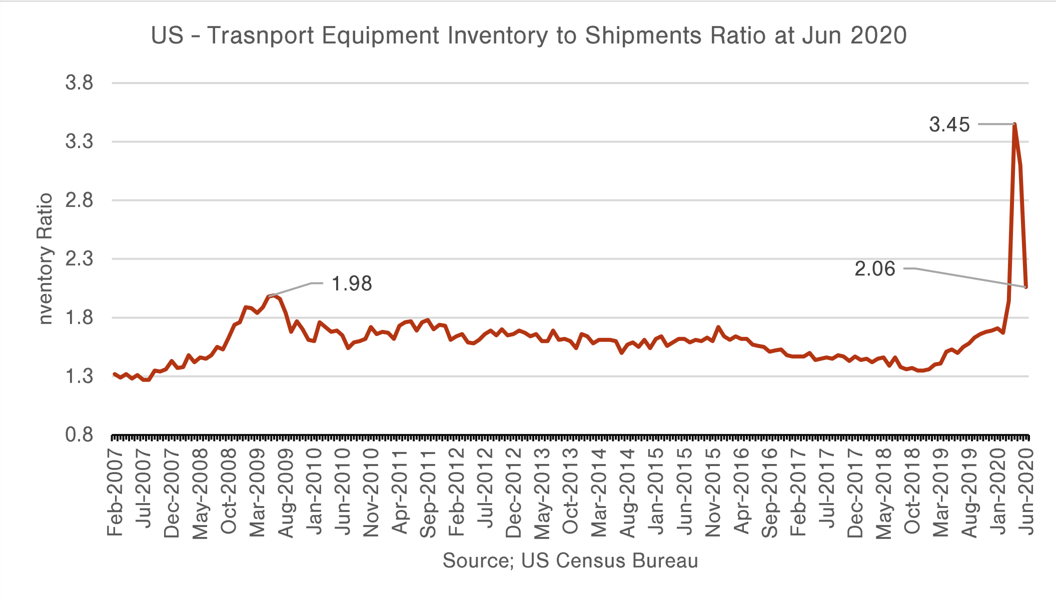
Non-durable goods – the increase in the price of petroleum could impact this ratio, especially if shipments remain stagnant.



Durable goods – the inventory to shipment ratio has eased overall.

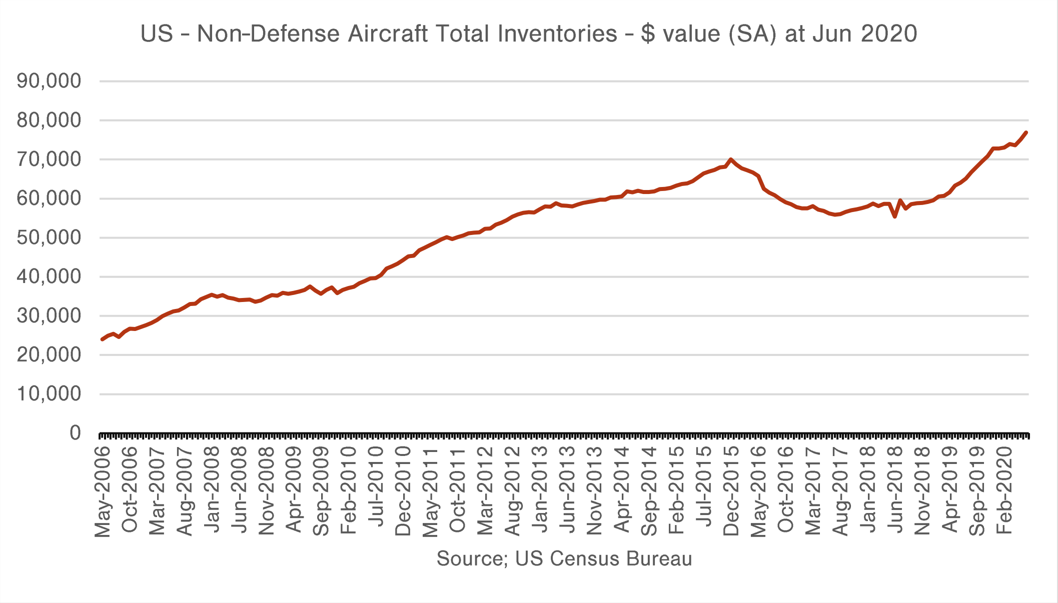
Other durable goods industries are reducing inventory – and shipment growth may not accelerate much further (these industries were not quite as severely impacted as motor vehicle production shutdowns).

The fall in shipments/increase in inventory of across transports resulted in a much higher inventory to shipment ratio. This has now eased, but remains elevated:



There is greater opportunity for the shipment of motor vehicles to accelerate over the next few months. Also, the severe impact on non-defense aircraft production has resulted in high inventory levels and now falling orders.

The value of inventory for non-defense aircraft is growing on an annual basis by +20%:



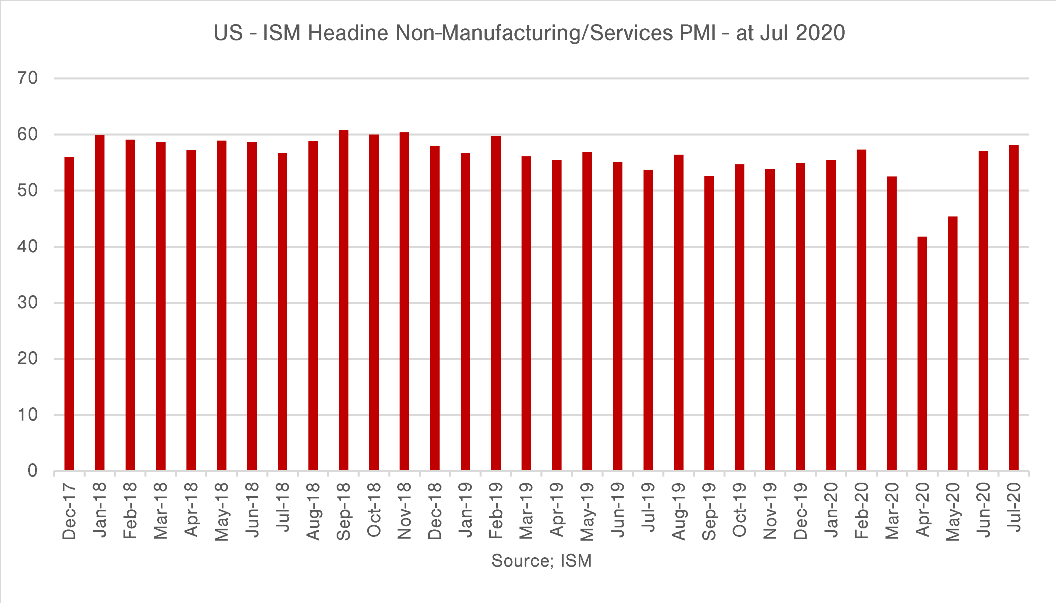
https://www.census.gov/manufacturing/m3/index.html

ISM Non-Manufacturing/Services PMI (Jul)

There was an acceleration in the pace of growth across the service sector in Jul with the index increasing. The indexes of output and new orders increased, but the underlying shift in firms reporting higher, no change or lower output suggests that firms, on net, are seeing at least more steady conditions this month, rather than accelerating growth. Conditions and growth likely remain such that firms are still cautious about hiring and firms continued to reduce employment this month.

Most industries recorded growth in net this month. Only three services industries reported declines: Other Services; Mining; and Professional, Scientific & Technical Services.

Headline ISM Services PMI: Jul 58.1 versus Jun 57.1



The output index increased this month from 66 in Jun to 67.2 in Jul. **But the underlying change was the there was a relatively large decline in the number of firms reporting higher output, which declined from 50.1% of firms in Jun to 42.9% of firms in Jul**. More firms reported no change in output (from 31.1% in Jun to 42.6% of firms in Jul. There was a reduction in the number of firms reporting lower output, now at 14.5%.

Three industries on net reported lower output in Jul: Mining; Other Services; and Information.

> "Some business picking up, but mostly virtual meetings, training and consulting. Time will tell if its profitable. The economic situation is quite dire regionally, so there is no telling if this is a trend or just a short respite. Any business at this point is much appreciated." (Professional, Scientific & Technical Services).

The performance of new orders was similar. The orders index increased from 61.6 in Jun to 67.7 in Jul. But there were less firms that reported higher orders this month (from 47% of firms in Jun down to 41% of firms in Jul). There was a much larger increase in the number of firms reporting no change in orders this month – from 33.7% of firms in Jun to 45.9% of firms in Jul. Only 12% of firms reported lower orders.

> "Orders and business activity are back to pre-pandemic levels. Previously stalled projects are starting back up." (Utilities)

New export orders this month shifted back into slightly decline. The index declined from 58.9 in Jun to 49.3 in Jul. The proportion of firms reporting higher export orders fell notably from 35.8% of firms in Jun to 20.5% in Jul. There was a larger increase in firms reporting no change in export orders (increasing from 46% in Jun to 57.6% of firms in Jul). There was also a small increase in firms reporting lower orders – now 21.9% of firms, up from 18% in Jun.

Despite the shift to more stable conditions overall, the order backlogs index still increased this month, from 51.9 in Jun to 55.9 in Jul. Note that less than half of respondents reported measuring order backlogs.

Conditions and growth likely remain such that firms are still cautious about hiring. This month, the employment index contracted at a slightly faster pace – from 43.1 in Jun to 42.1 in Jul. **The underlying shifts were negative. While there was a small increase in the proportion of firms reporting higher employment (from 16.1% in Jun to 18.2% in Jul), there was a larger increase in the number of firms reporting lower employment. In Jun 25% of firms reported lower employment while in Jul this increased to 31% of firms – well outnumbering the proportion of firms reporting higher employment.** There was also a reduction in the number of firms reporting no change in employment – from 58.8% of firms in Jun to 50.8% of firm in Jul.

There was a larger proportion of industries reporting lower employment this month – a stark contrast to the number of industries reporting higher output:

The five industries reporting an increase in employment in July are: Arts, Entertainment & Recreation; Agriculture, Forestry, Fishing & Hunting; Retail Trade; Health Care & Social Assistance; and Utilities.

The 13 industries that reported a reduction in employment in July — listed in order — are: Real Estate, Rental & Leasing; Educational Services; Management of Companies & Support Services; Other Services; Accommodation & Food Services; Transportation & Warehousing; Mining; Professional, Scientific & Technical Services; Information; Wholesale Trade; Public Administration; Construction; and Finance & Insurance.

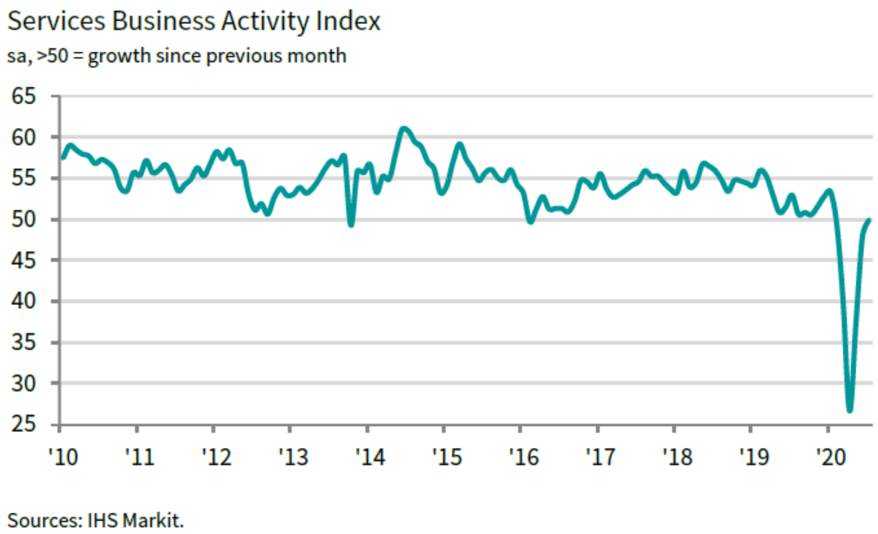
> "Overall positive, but cautious outlook with oil prices stabilizing in the midst of the pandemic spiking again in our region. Our company has begun to put mitigation procedures in place to bring workers back to the office despite the lingering pandemic." (Management of Companies & Support Services)

https://www.ismworld.org/supply-management-news-and-reports/reports/ism-report-on-business/services/july/

Markit US Services PMI Final (Jul)

The Markit services headline business activity index increased from contraction to no change this month. This is still a low pace of growth considering that firms have been reopening. New orders declined at a slightly faster pace this month. But despite the subdued demand conditions, employment increased for the first time since Feb.

US Services Business Activity Index: Jul 50 versus Jun 47.9



There was an improvement in output (as measured by the number of firms reporting an increase or no change in output) this month, but the index indicates that firms were mostly reporting no change in Jul after a bigger improvement in Jun.

New orders declined at a faster pace in Jul (larger contraction than in Jun). New export orders were unchanged from Jun.

Unfilled orders increased marginally in Jul after declining for several months in a row.

Employment also recorded a marginal increase in Jul versus Jun – after recording month on month declines since Feb.

More firms reported an improvement in business confidence.

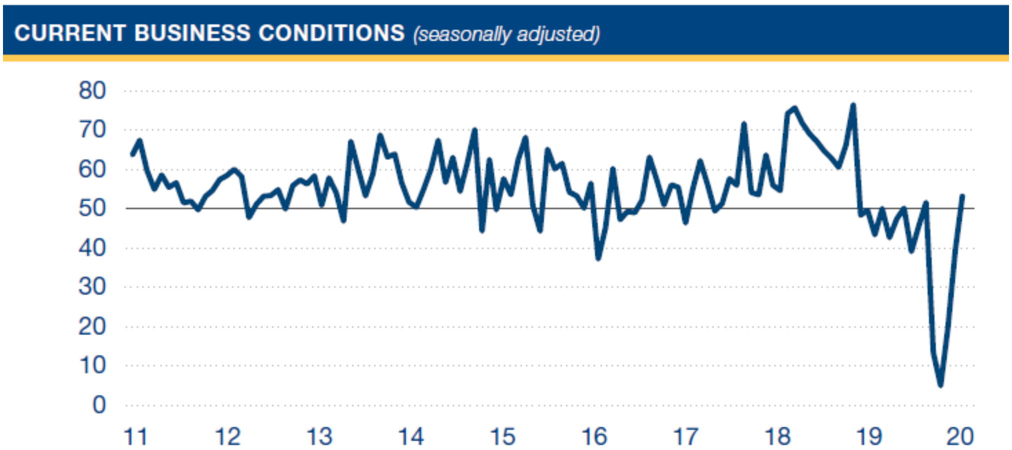
Expectations were buoyed by hopes of a relaxation in lockdown measures and a return to pre-pandemic business practices over the next 12 months.

https://www.markiteconomics.com/Public/Home/PressRelease/f6742aa6258f4d55b092529705208418

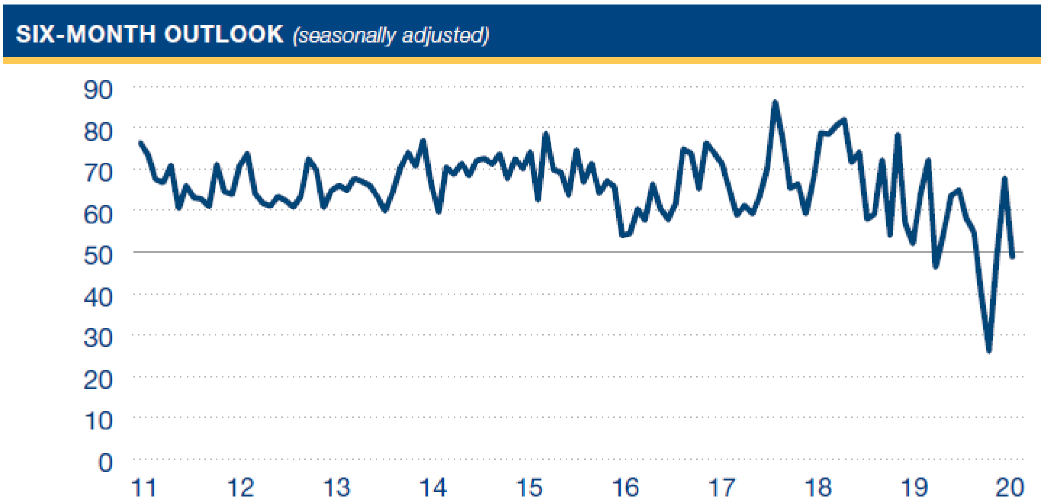
ISM/NY Business Conditions Index (Jul)

This was the first month on month increase in current business conditions for the NY metro area since Feb.

The current conditions index increased from 39.5 in Jun to 53.5 in Jul. Below 50 is considered still contracting.



The more positive outlook recorded in Jun reversed in Jul, with the index falling from 67.1 to 49.6. This was likely the result of further outbreaks in other regions of the US.



On a more positive note, employment recorded the first month on month increase since late 2019. The employment index shifted from 33.5 in Jun to 50.3 in Jul.

http://www.ismny.com/wp-content/uploads/2020/08/2020_ISM-New-York_July-ROB_v01.pdf

Motor Vehicle Sales (Jun)

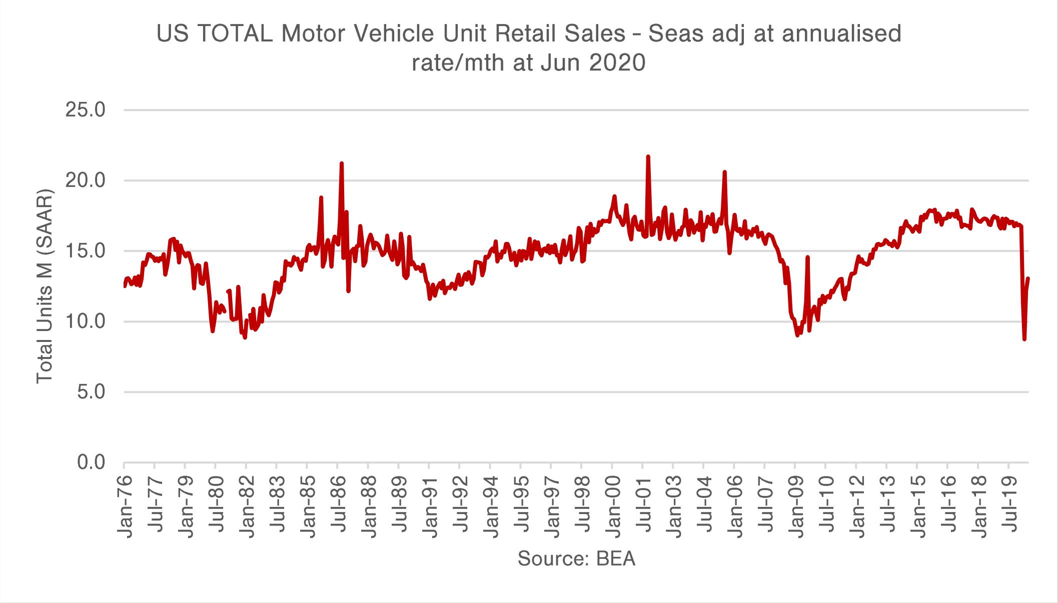
There was a further increase in overall motor vehicle sales (SA) in Jun, but the pace of growth slowed notably. On an NSA basis – sales decreased across all vehicle types compared to May.

The pace of the sales rebound over the last two months has been stronger for Light Trucks than for Auto's, but the overall rebound is yet to recapture the pre-pandemic rates of sale. The one point of caution with the interpretation is that, while it remains a challenging financial environment for many, availability of inventory/out of stocks could also play a role in the (slower) pace of sales recovery.

Total Motor Vehicle Sales (SAAR) – month; Jun 13.1m versus May 12.2m

This +7% on the prior month and sales remain 24% below the same month a year ago.

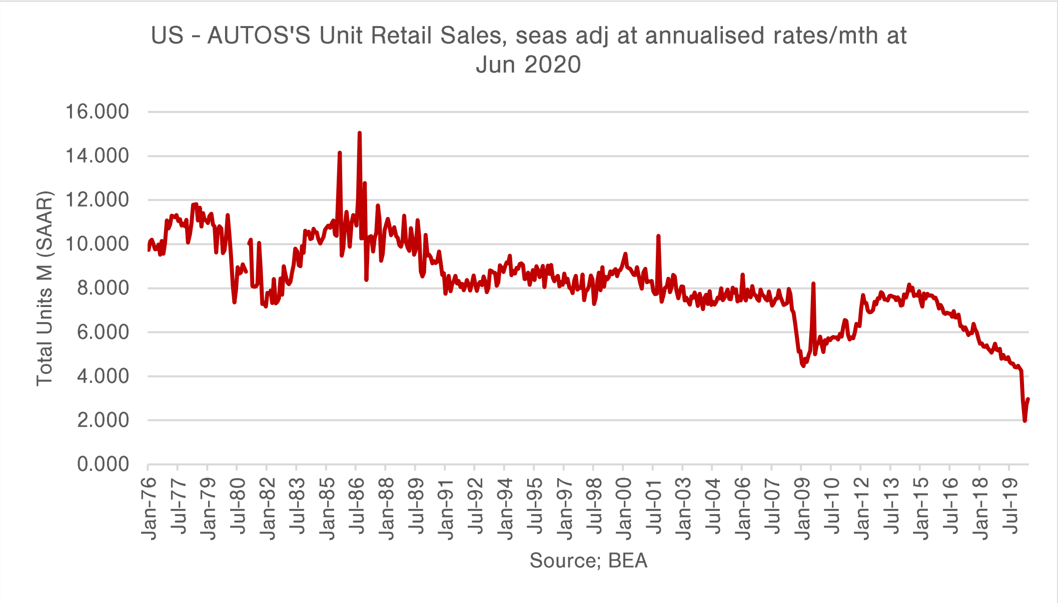
The 2019 average SAAR per month was 17m unit sales.



The two main segments are Auto's and Light Trucks.

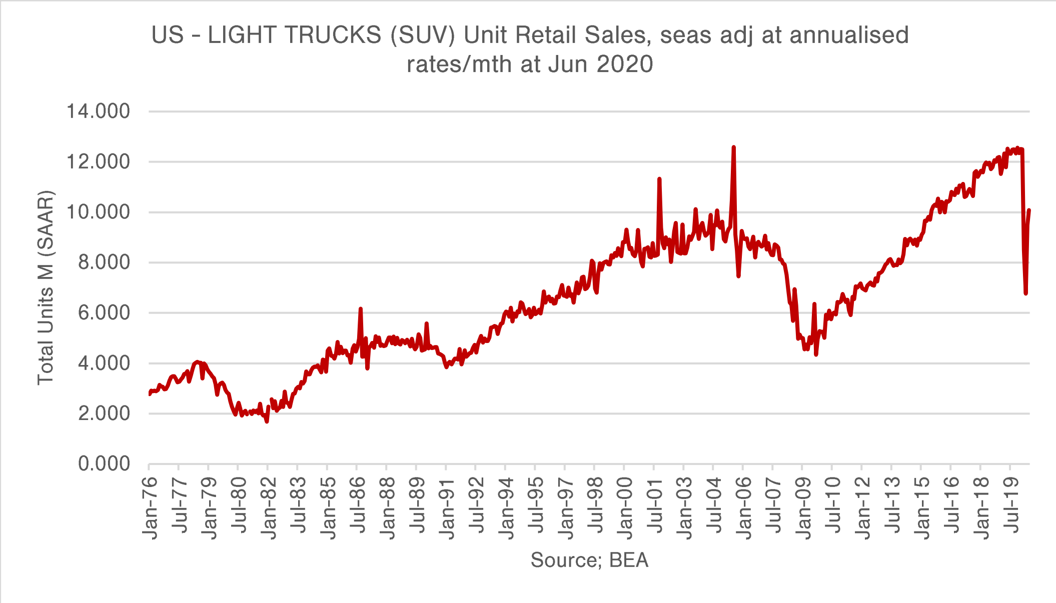
Auto Sales (SAAR) – month: Jun 2.967m units versus 2.708m

Auto sales recorded a +9.6% increase in the rate of sale versus the month prior. Auto sales have slowed notably over the last five-six years and the pandemic shutdown has accelerated the decline. Despite the slight improvement in the month, sales are still 39% below the same month a year ago.



Light Truck Sales (SAAR) – month: Jun 10.086m units versus May 9.487m

Light Truck sales recorded a +6.3% increase in sales versus the month prior. There was a larger increase in sales in May of +40%, which accounted for most of the rebound. Sales of light trucks remain 18% below the same month a year ago:



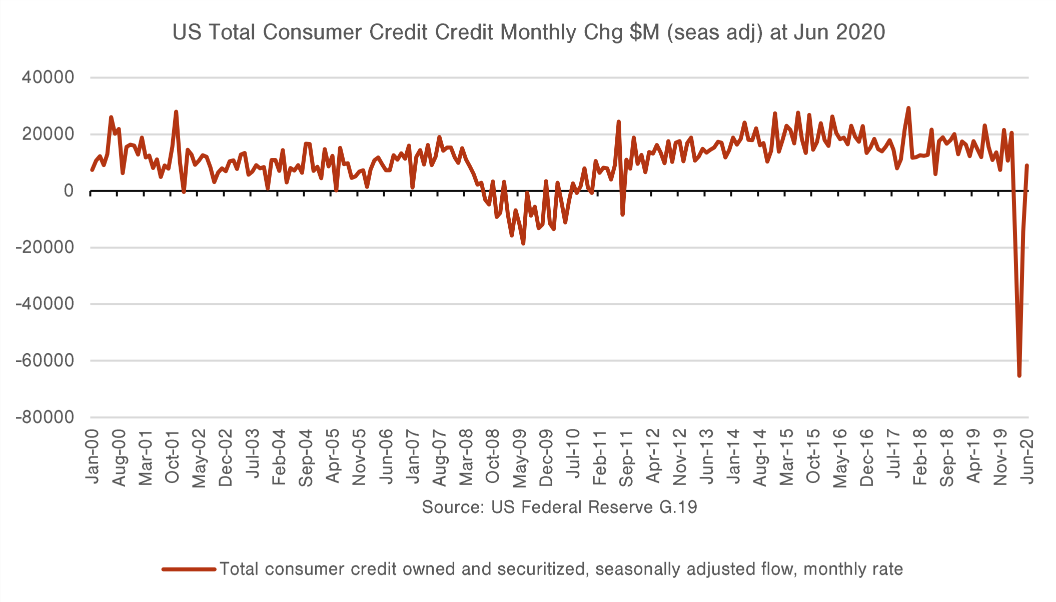
https://www.bea.gov/data/consumer-spending/main

Consumer Credit G.19 (Jun)

After three months of decline, there was an increase in total consumer credit outstanding this month. Revolving/credit card credit continued to decline, albeit at a slower pace than the three months prior. This was more than offset by the increase in non-revolving credit in Jun.

Total Consumer Credit Outstanding – month change (USD): Jun +$8.9bn versus May -$14.4bn

The annual growth in total outstanding consumer credit increased by +0.9% in Jul versus the same month a year ago. This is the slowest pace of growth since Nov 2010.



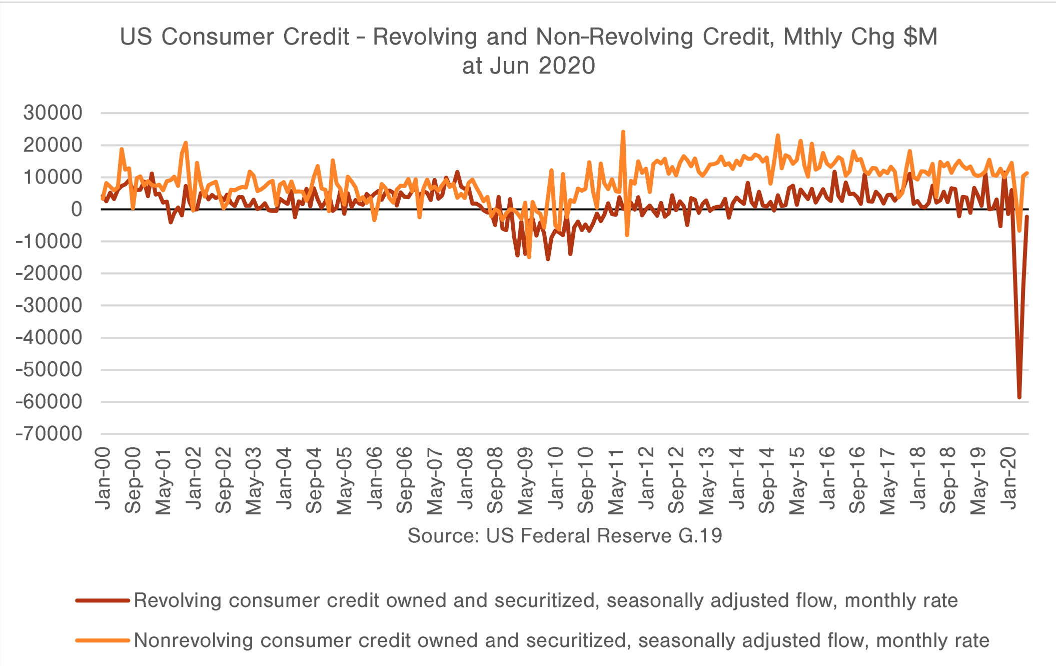
The two main components of consumer credit are revolving (credit card) credit and non-revolving credit.

<u>Revolving Credit – month change (USD):</u> Jun -$2.3bn versus May -$24.7bn

The level of total outstanding revolving credit is -7.5% below the same month a year ago.

<u>Non-Revolving Credit – month change (USD):</u> Jun +$11.3bn versus May +$10.3bn

The level of total non-revolving outstanding credit is now +3.9% above the same month a year ago.



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

MBA Mortgage Applications wk ending 31 Jul

There was another decline in weekly mortgage applications. This was led by a larger fall in refi activity, but the purchase index also fell.

Market Composite Index (mortgage loan application volume) – wk ending 31 Jul 2020; -5.1% versus the week prior.

The refi index declined by 7% from the week prior but remained 84% above the same month a year ago.

The purchase index (a measure of completed loans, a leading indicator of sales) declined by 2% from the week prior. The purchase index remains 20% higher than a year ago.

> "Mortgage rates dropped to another record low last week, falling below the previous record set three weeks ago to 3.14 percent. Refinance activity decreased - despite the decline in rates - but the current pace remains more than 80 percent higher than a year ago when rates were over 4 percent. MBA's forecast calls for rates to remain at these low levels, which will continue to spur strong refinance activity and offer homeowners relief in the form of lower monthly mortgage payments during these uncertain economic times,"

> "Purchase applications also fell slightly, but were still 20 percent higher than a year ago and have now risen year-over-year for 11 straight weeks. **Purchase loan balances continued to climb, which is perhaps a sign that the still-weak job market and tighter credit for government loans are constraining some firsttime homebuyers."**

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

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Europe

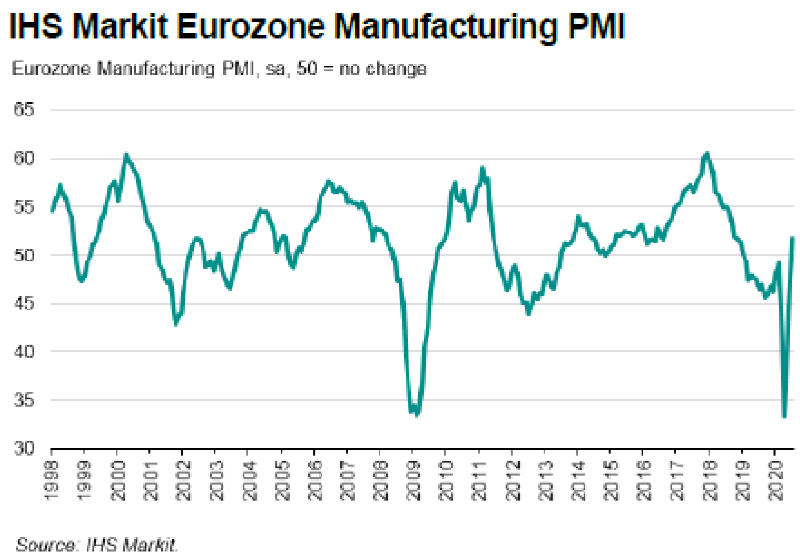
Eurozone Manufacturing PMI Final (Jul)

This was the first month on month increase in manufacturing activity across the broader Eurozone since Feb 2019. The level of growth was moderate, but growth was at least recorded across all industry groups.

> "The next few months numbers will therefore be all-important in assessing whether the recent uplift in demand can be sustained, helping firms recover lost production and alleviating some of the need for further cost cutting going forward."

Only manufacturing sectors in Greece and the Netherlands remained in contraction in Jul.

Eurozone Manufacturing PMI: Jul 51.8 versus Jun 47.4



Both new orders and production recorded the first month on month growth. Output increased on a month on month basis for the first time since the start of 2019, while new orders increased month on month for the first time in two years. New export orders also increased modestly.

The shape of chart looks like a 'v' shaped recovery, but needs to be take in context of the severe falls during Mar, Apr, May of this year and the series of month on month declines since around the start of 2019.

Order backlogs continued to decline indicating that firms continued to work below capacity. Firms continued to reduce employment – this was the fifteenth month of declines in employment which was again "considerable and historically sharp".

Firms continued to reduce inventories for production while input buying was reduced.

Reports mention ongoing supply-side issues with the delivery of inputs – with delivery times still an issue.

Optimism around the next twelve months improved in Jul.

> Firms are hoping that the recent positive trends in activity and new work will continue with a broader recovery from the pandemic.

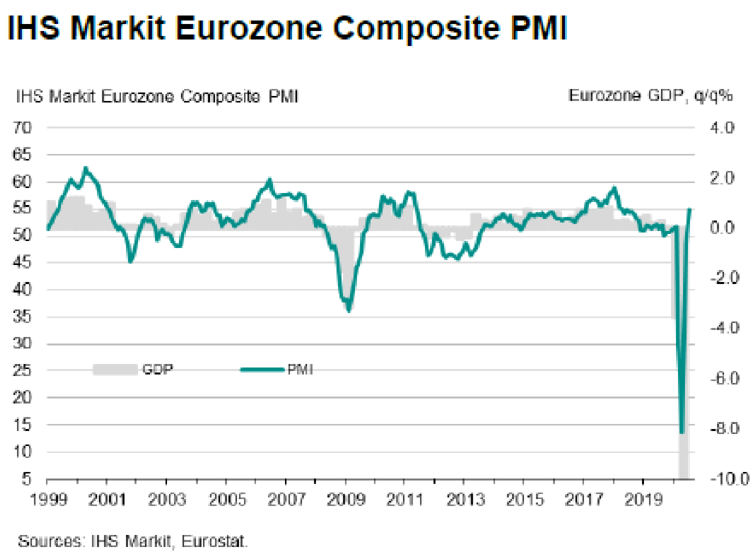
https://www.markiteconomics.com/Public/Home/PressRelease/c4e32989182e4296964138d78fcc1305

Eurozone Services/Composite PMI Final (Jul)

Services activity across the Eurozone also recorded the first month on month growth in five months. The headline index for Jul, while the highest in nearly two years, still needs to be taken in context of the severe falls through Feb-May when the index fell to its lowest point of 12 in Apr. The reading of 12 suggests that most firms in fact recorded declines in activity in Apr. As economies were reopened, growth has 'only' returned to a modest level of growth in business activity by Jul. The pace of recovery has been slow and likely hampered by ongoing restrictions to many forms of trade and travel.

Eurozone Services Business Activity Index: Jul 54.7 versus Jun 48.3

The composite index of manufacturing and services increased from 48.5 in Jun to 54.9 in Jul:



The increase in new orders remained more modest this month, but still expanded slightly for the first time in five months. Foreign export orders continued to decline, and this was the twenty-third month on month decline.

Backlogs of work continued to fall, albeit at a slower pace. Employment also continued to decline, but at a slower pace.

Business confidence for the year ahead continued to increase.

https://www.markiteconomics.com/Public/Home/PressRelease/cb0943a067b54b8eb75e6bdabda13ab5

Eurozone Retail Sales (Jun)

Retail sales, in volume terms, across the Eurozone continued to grow in Jun. The pace of growth, while slower than May, remained strong as more businesses were able to reopen. The level of sales reached in Jun was on par with that of pre-pandemic levels – but obviously has not yet made up for sales lost during Feb-Apr.

EU Total Retail Trade – month change; Jul +5.2% versus Jun +18.3%

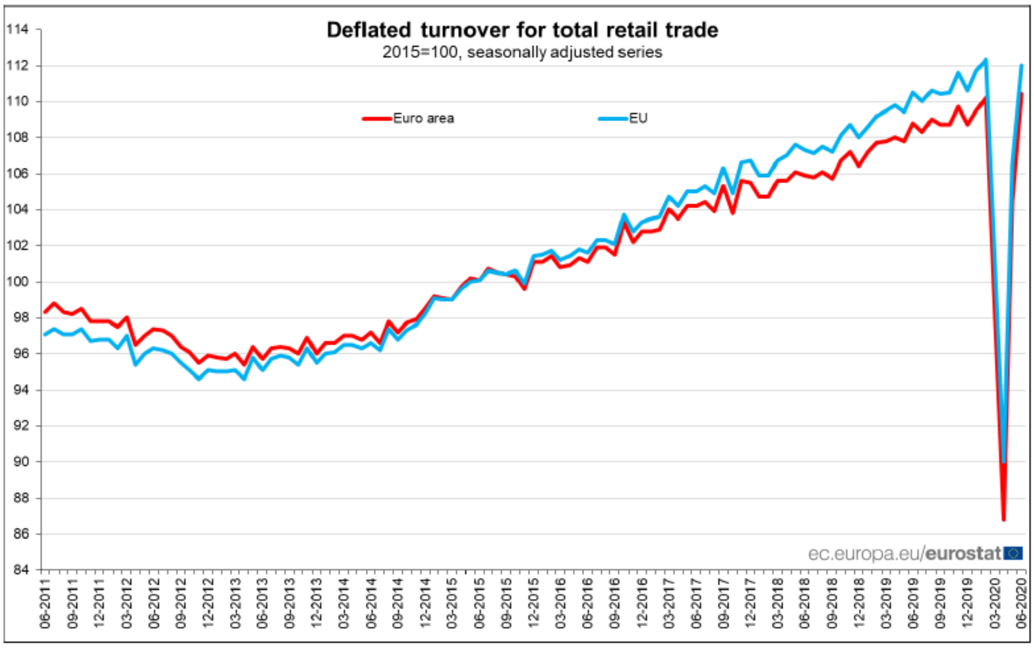
Most categories recorded much stronger month on month sales in May – due to reopening. Further growth was recorded in Jun across most categories. The exception was food, drink, and tobacco (-2.2% in the month) and mail order and internet (-6.1% in the month). Both categories were 'less' affected during the regional shutdowns:

	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
EU						
Total retail trade	1.0	0.5	-9.6	-11.3	18.3	**5.2**
Food, drinks, tobacco	0.9	2.2	5.0	-6.0	2.3	**-2.2**
Non-food products (except automotive fuel), of which:	1.1	-0.2	-18.7	-14.3	33.5	**10.6**
Textiles, clothing, footwear	0.4	-0.7	-54.1	-52.1	192.9	**20.5**
Electrical goods and furniture	1.8	0.5	-23.8	-14.1	53.1	**0.3**
Computer equipment, books and other	2.1	-0.3	-26.4	-19.4	49.3	**3.6**
Pharmaceutical and medical goods	1.2	0.5	3.1	-14.8	4.2	**2.8**
Mail orders and internet	0.3	3.7	2.6	14.6	6.4	**-6.1**
Automotive fuel in specialised stores	2.0	-1.1	-23.4	-26.1	32.3	**16.9**

On an annual basis, retail trade in the EU was above the same level a year ago: Jun +1.3% versus May -2.6%

Sales across several categories remain below a year ago, but continue to improve:

Textiles, clothing, and footwear (-25.6%), computer equipment, books and other (-6%), pharma and medical (-2.4%), and auto fuel (-12.7%).



https://ec.europa.eu/eurostat/documents/2995521/11179856/4-05082020-AP-EN.pdf/7b50a190-c48f-64b2-9174-e45f6a04ce1a

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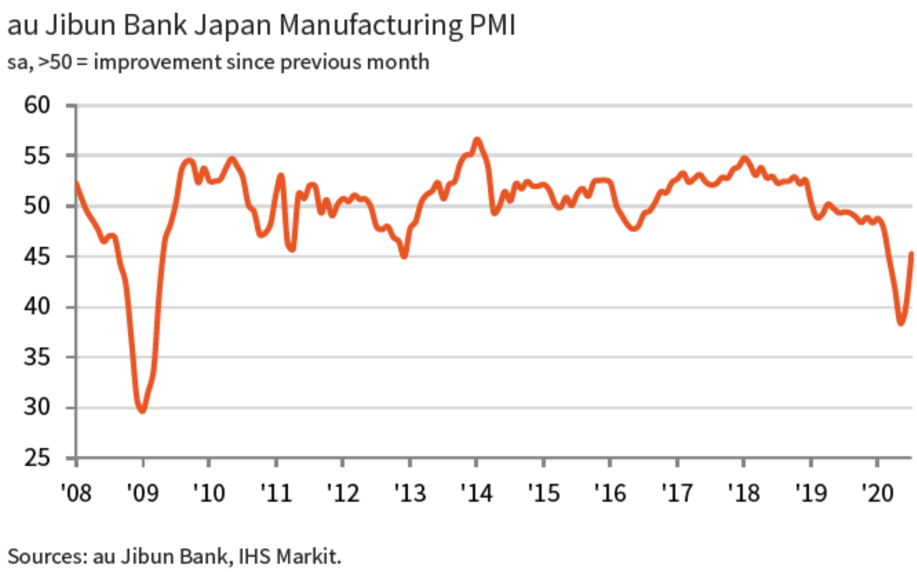
Japan

Markit Manufacturing PMI Final (Jul)

There was a 'slower' pace of decline in the headline manufacturing PMI for Jul. The index remained in contraction for Jul. There was a slower pace of contraction in production and orders.

Goods producers continued to report a severely negative impact on customer demand from the coronavirus disease 2019 (COVID-19) pandemic and worsening global economic conditions. However, some manufacturing firms noted a gradual increase in production schedules since the state of emergency was lifted at home and key export destinations began to emerge from lockdown measures.

Headline Manufacturing PMI: Jul 45.2 versus Jun 40.1



Production declined at the slowest pace in five months. Some firms noted the increase in production as auto plants re-opened globally.

Around 28% of the survey panel reported lower output, while only 21% signalled an expansion.

"Looking at output trends by market group, consumer goods fared better than the rest of the manufacturing sector. Production of consumer goods was close to stabilisation in July, despite a headwind from weaker orders from abroad."

"Capital goods was the worst-performing segment for export sales, highlighting that reduced global investment spending and constrained trade flows are holding back the Japanese manufacturing sector."

New orders also declined at a slower pace. There was also an easing in the pace of decline across export orders.

Given that firms, on net, still reported declines in production and orders, purchasing activity and inventory growth were limited. Firms continued to note transport capacity and international supply chain disruptions.

Employment continued to decline.

Overall optimism was the strongest since Jan 2020 – but remains dependent on the global response to the pandemic.

> "…around one-third of the survey panel (34%) expect an increase in production during the next 12 months, while only 21% foresee a decline."

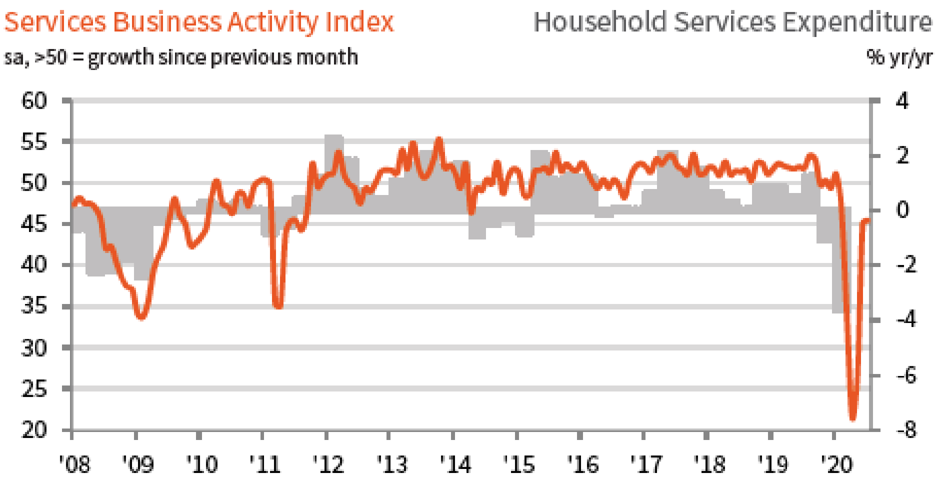
https://www.markiteconomics.com/Public/Home/PressRelease/dd17925fbb0f46cdaca13665442243c2

Markit Services PMI Final (Jul)

Services activity continued to contract on net in Jul – meaning that more firms continued to report lower output than the number of firms reporting higher output. The pace of contraction remained little changed from the month prior – indicating little, if any improvement in conditions. As output continued to fall, new orders also declined, albeit at a slower pace.

Services Business Activity Index: Jul 45.4 versus Jun 45

> Around one-in-four survey respondents (26%) reported a drop in business activity during July, while 21% signalled an expansion. Among the minority reporting growth, this was primarily attributed to a gradual recovery in domestic demand since the state of emergency had been lifted.



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

New orders continued to decline, but at the slowest pace of the last six months. Lower orders were related to tourism, events and pandemic-related factors. Export orders/work declined at an accelerated pace.

Order backlogs declined again – a trend that has been in place since Dec 2019. With little pressure on business capacity, firms again reduced employment.

Despite the current conditions and little improvement, firms business expectations for the next 12-months returned to positive territory – 28% of firms expected growth and 26% of firms expected a decline in activity.

> This represented the strongest degree of confidence since February. Anecdotal evidence mostly cited hopes of an improvement in the pandemic situation and a subsequent rebound in domestic economic conditions.

https://www.markiteconomics.com/Public/Home/PressRelease/abc47fd7e7954531b2856db3dff1a99f

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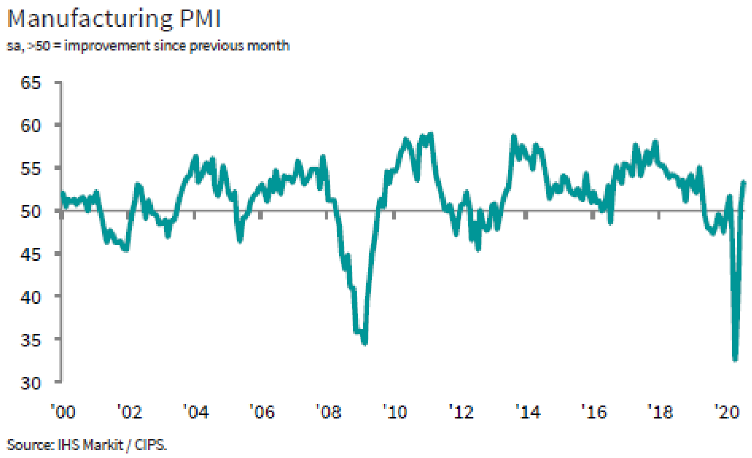
United Kingdom

Markit Manufacturing PMI Final (Jul)

Manufacturing activity increased month on month for the first time in several months and after recording no change in activity in Jun. Measures of demand mostly improved – production increased for the second month, new orders also increased, but new export orders continued to decline. Despite some improvement in conditions firms continued to operate below capacity, continued to experience supply chain disruptions and reduced employment.

Manufacturing PMI: Jul 53.6 versus Jun 50.1



Production increased for the second month:

> Growth was especially marked in the consumer and intermediate goods industries. Investment goods production also rose for the first time in 15 months. In all three sub-sectors higher production was underpinned by improved inflows of new work received.

New orders increased for the first time since Feb 2020 led by domestic orders. New export work continued to decline, albeit at a slower pace.

> Purchasing activity was raised for the first time since last October, but stocks of inputs and finished products both fell further. Supply-chain disruption continued.

Despite the improving conditions, firms continued to reduce employment on net.

Confidence among manufacturers for output in the next twelve months improved with most firms (62%) expecting volumes to be higher one year from now.

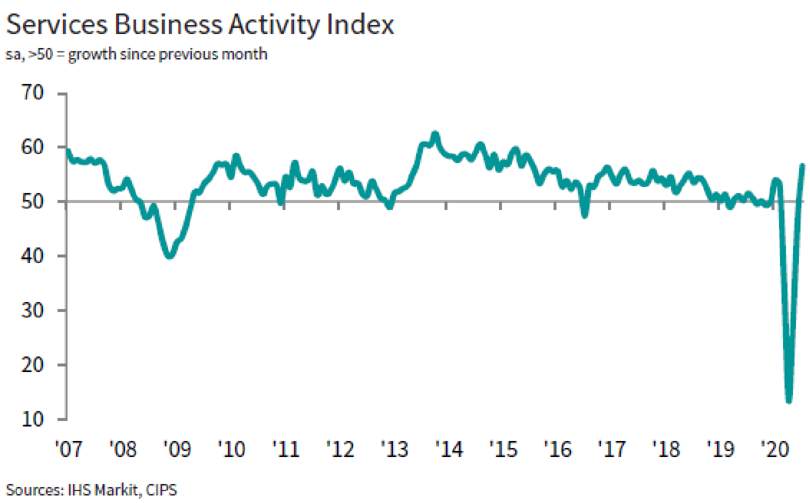
https://www.markiteconomics.com/Public/Home/PressRelease/c40ddc6943f5458c8b929288f6f245d9

Markit Services PMI Final (Jul)

The UK services sector business activity grew at a faster pace in Jul. This is more of the level of rebound in the PMI one would expect after such a widespread shutdown of activity. The extremely low services business activity index reading of 13.4 in Apr – indicated that most firms in the survey recorded declines. The PMI should increase faster (well above 50) after the reopening, just by virtue of rebounding off a low base. How much activity accelerates over the next few months will be important for the UK services sector. Many sectors will remain somewhat limited by ongoing social distancing restrictions.

UK Services Activity Index: Jul 56.5 versus Jun 47.1

> Around 38% of the survey panel reported an increase in business activity during July, while only 24% signalled a decline. The proportion of service providers reporting output growth had previously risen from just 7% in April to 13% in May and 28% in June. Higher levels of business activity were overwhelmingly linked to the easing of lockdown measures and subsequent increase in customer demand. However, survey respondents often noted that output had simply risen from an extremely low base and would take a long time to recover to pre-pandemic levels.



New business increased for the first time, month on month since Jan – linked mostly to reopening of businesses.

> Service providers nonetheless also commented on project cancellations and subdued underlying demand as businesses and households sought to rein in non-essential spending.

Backlogs of work continued to decline as firms continued to work well within capacity. As a result, firms reduced employment further:

> Around one-third of the survey panel reported a drop in employment, while only 11% signalled a rise.

Business optimism improved as lockdown measures eased, enabling firms to return to work.

https://www.markiteconomics.com/Public/Home/PressRelease/550751d74c114f5b93f43c043ead05b5

Bank of England Interest Rate Decision – 4 Aug 2020

At this meeting, the Monetary Policy Committee (MPC) kept rates on hold and made no changes to asset purchase/QE programs.

In the statement, the MPC raised concerns about the impact of the virus on creating a high level of uncertainty for business investment and future employment for workers, especially after support programs unwind.

> The outlook for the UK and global economies remains unusually uncertain. It will depend critically on the evolution of the pandemic, measures taken to protect public health, and how governments, households and businesses respond to these factors.

One of the assumptions in the MPC's central projection of the economy is that social distancing measures continue to ease.

Its surprising that there is no further mention of the potential impact from a no-deal Brexit and the impact of a shift in trade rules should there be no trade deal between the two parties.

Current Policy Settings

Bank Rate: +0.1%

Asset Purchases: programs remain unchanged. UK Govt bond and sterling non-financial investment grade bond purchases (financed by the issuance of central bank reserves) with a target for the total value of outstanding stock of purchases of £745bn.

Factors for Consideration

Spare capacity continues to be a key theme for the MPC. The level of spare capacity is reflected in the levels of unemployment and inflation as well as the pace of GDP growth.

> The risks to the outlook for GDP are judged to be skewed to the downside.

Unemployment is expected to increase to 7.5% by the end of the year.

Inflation is expected to return to 2% in two years' time.

> The MPC's central projection implies that a margin of spare capacity is likely to remain until the end of next year.

Forward Guidance

> The Committee does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably.

https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2020/august-2020

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Australia

Retail Sales (Jun)

The latest month of retail data for Jun incorporates the Q2 figure for real retail sales. Below looks at the latest monthly nominal retail sales for Jun, then compares the Q2 nominal and Q2 real retail sales.

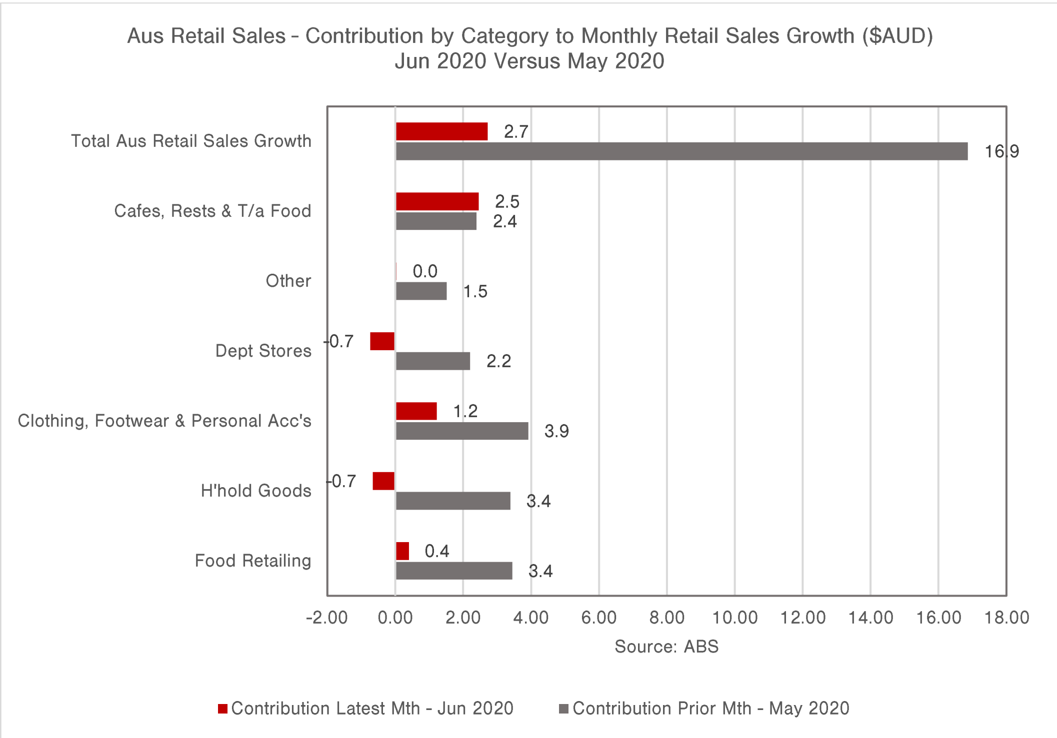
Price has played a large factor in the return of retail sales in Q2. The trend in the underlying real (volume) of retail sales indicates that sales (versus the same quarter a year ago) have continued to weaken. Of note are the severe declines in Q2 volumes in NSW (-4.3%) and VIC (-6.2%). This was before the latest outbreak in VIC. Other states such as WA and QLD are recording higher volume growth than a year ago.

MONTHLY NOMINAL RETAIL SALES - JUN

Aus Retail Sales – month change: Jun +2.7% versus May +16.9%

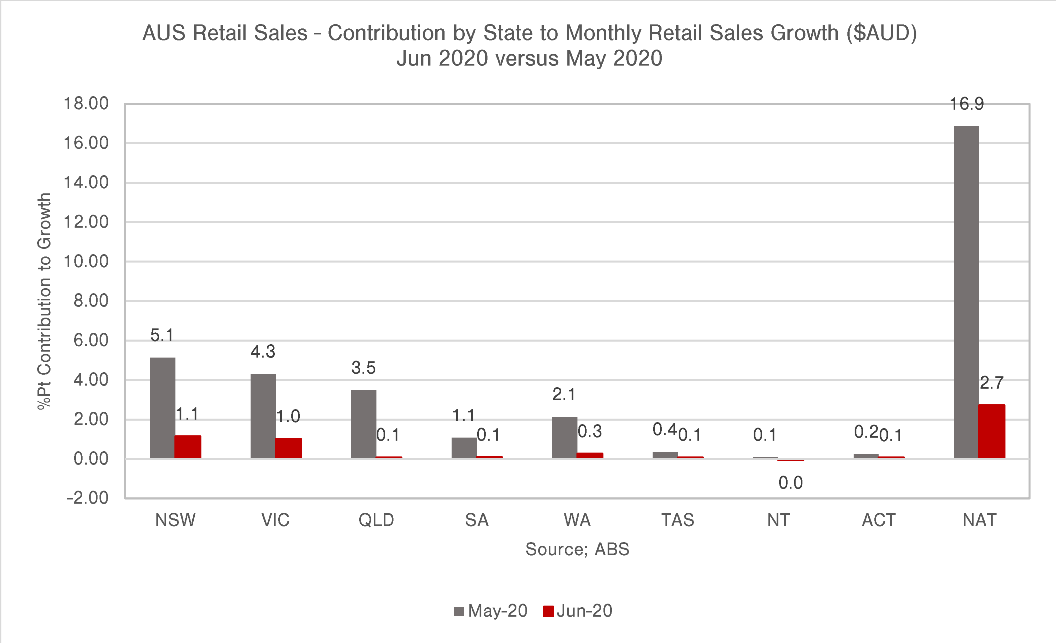
There was a further increase in sales in Jun after the May rebound. The value of retail sales growth was led by the continued growth in Cafes, Restaurants, and Take Away – growth in the month was +28% versus May as further restrictions were lifted on social distancing (monthly on-premise sales are still running at 17% below the same month a year ago).

The other large contributor to growth in the month was clothing and footwear retail sales. Sales of clothing in Jun was only -4.2% below the same month a year ago.



Across the main categories, retail sales in Jun were ahead of a year ago in Grocery (+14%), Household Goods (+24.5%), Dept Stores (+0.2%), and Other (+9.6%).

On a state basis, sales growth was led by the two largest states – NSW and VIC. Unfortunately, Vic is now in lockdown, so this will partly impact Jul figures and will severely impact Aug retail figures.



QUARTERLY REAL (vol) RETAIL SALES – Q2

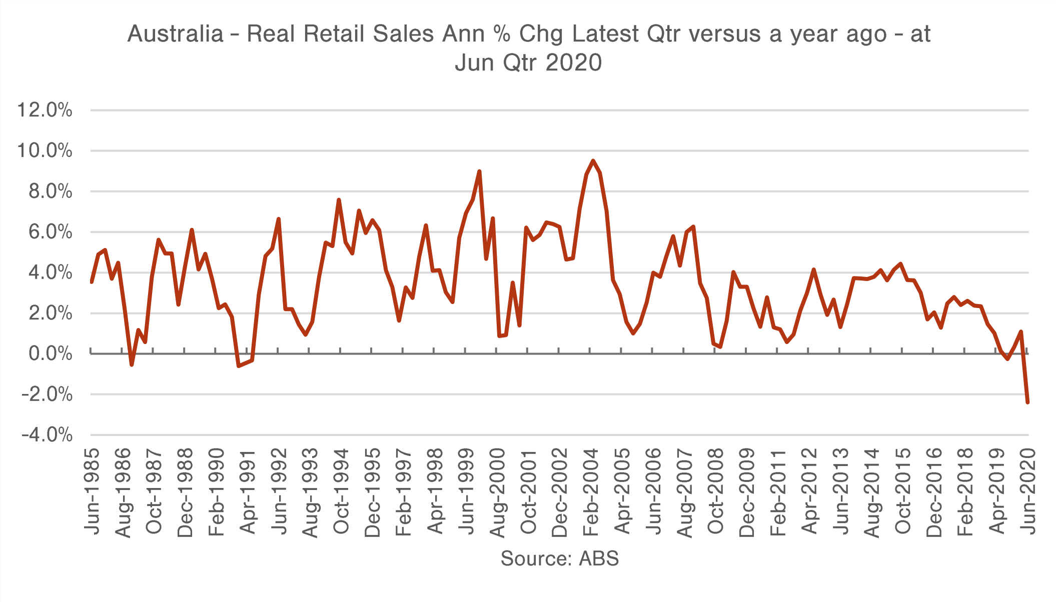
Aus Real Retail Sales – Quarter change: Q2 -3.4% versus Q1 +0.7%

On a year ago basis, Q2 real retail sales were -2.4% versus the same quarter a year ago.

The Q2 nominal sales growth versus the same quarter a year ago was +1.7%.

The year ago basis/annual growth comparison highlights that underlying retail sale volumes are weaker, and the higher nominal growth was likely driven by price increases.

On an annual basis, real retail sales (vol) declined by -2.4% in Q2 versus a year ago:

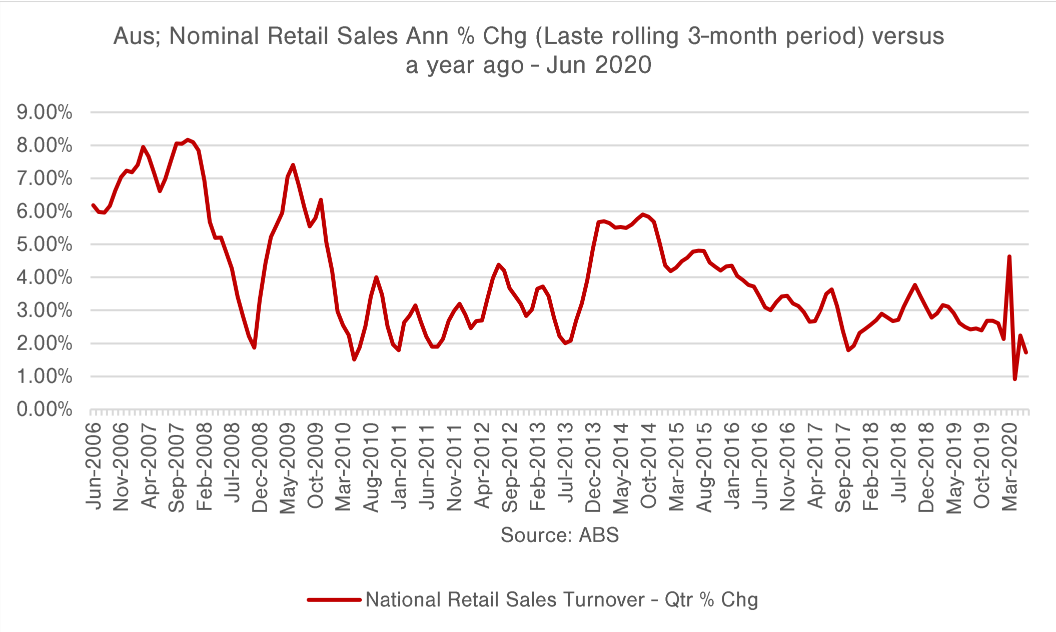


The equivalent nominal chart for the rolling 3month total versus the same period a year ago shows a different picture. In real terms, retail sales in the two largest states are already in severe decline in Q2 versus a year ago: NSW (-4.3%) and Vic (-6.2%).

Higher prices had a bigger impact on sales growth in both the Mar and the Jun quarters in 2020 so far.

In the Mar quarter, nominal sales increased by +4.6% versus a year ago – but volume sales increased by only +1.1% (see chart above – a slow annual pace compared to recent history). The Q1 comparison includes the large panic buying surge in Mar.

In Q2, Nominal sales growth was +1.7%, while volumes declined severely by -2.4%.



https://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/8501.0Main%20Features2June%202020?opendocument&tabname=Summary&prodno=8501.0&issue=June%202020&num=&view=

Housing Finance (Jun)

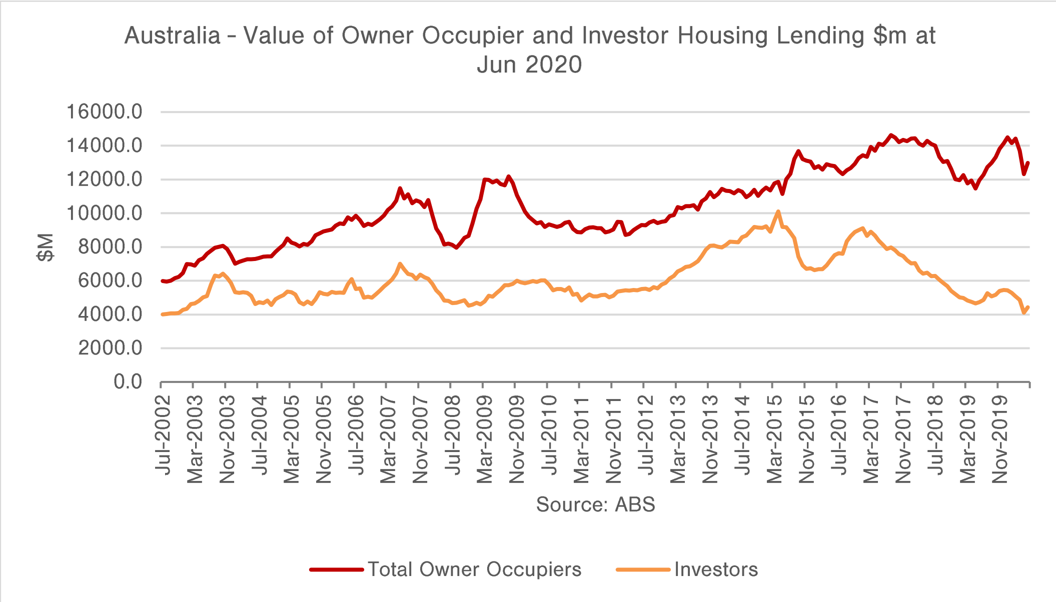
There was a stronger rebound in housing finance in Jun. This likely reflects the increase in housing market activity from the start of the reopening in May.

Most of the growth was led by owner occupier financing, but investor-related housing finance also recorded a more solid increase.

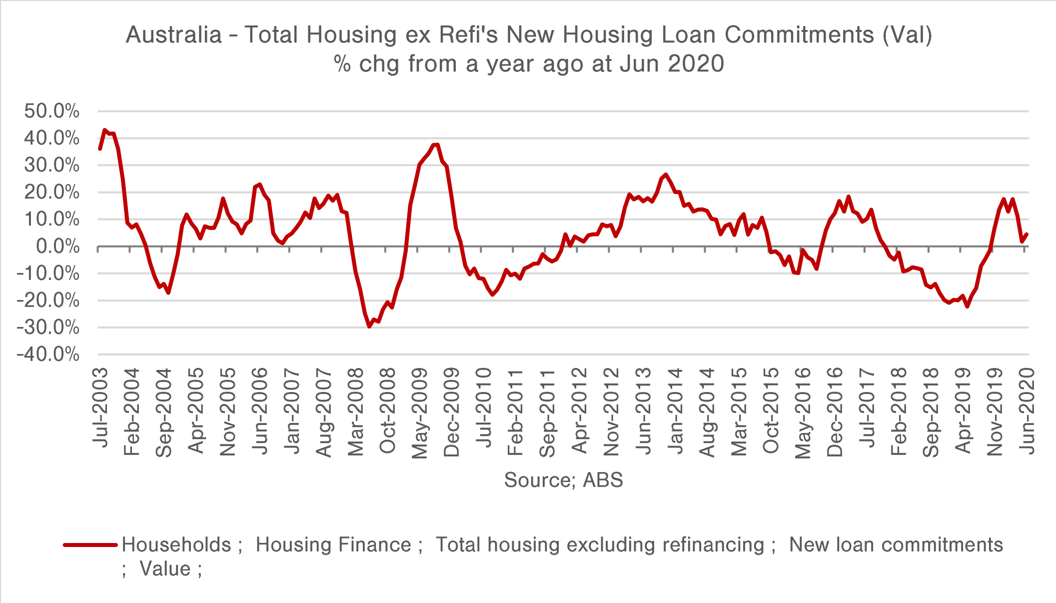
Values in AUD.

<u>Housing Finance – month change</u>: Jun +6.2% (+$1bn) versus May -11.6% (-$2.1bn)

Total housing finance is made up of owner-occupiers (including fist home buyers) and investors. Most of the growth this month was contributed by owner occupiers (+$0.7bn). But investors also made a relatively large contribution to growth this month +$0.3bn.



On an annual basis, the value of housing finance extended in Jun (ex refi's) was +4.5% higher than in the same month a year ago. This was up from +1.8% growth in May. The acceleration in Jun was impressive given that there was also an acceleration in base month (Jun 2019 – just after the federal election).



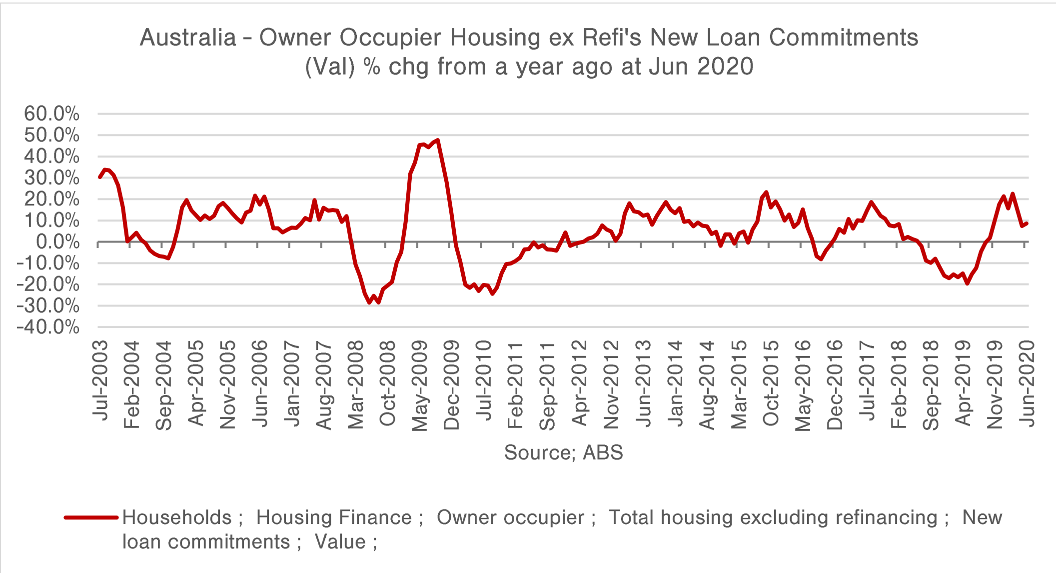
Owner Occupier Housing Finance – month change; Jun +5.5% (+$0.7bn) versus May -10.2% (-$1.4bn)

Both First Home Buyers (FHB's) and owner occupier financing increased in Jun.

FHB's financing increased by +3.3% (+$0.1bn) in Jun after declining by -$0.4bn in May.

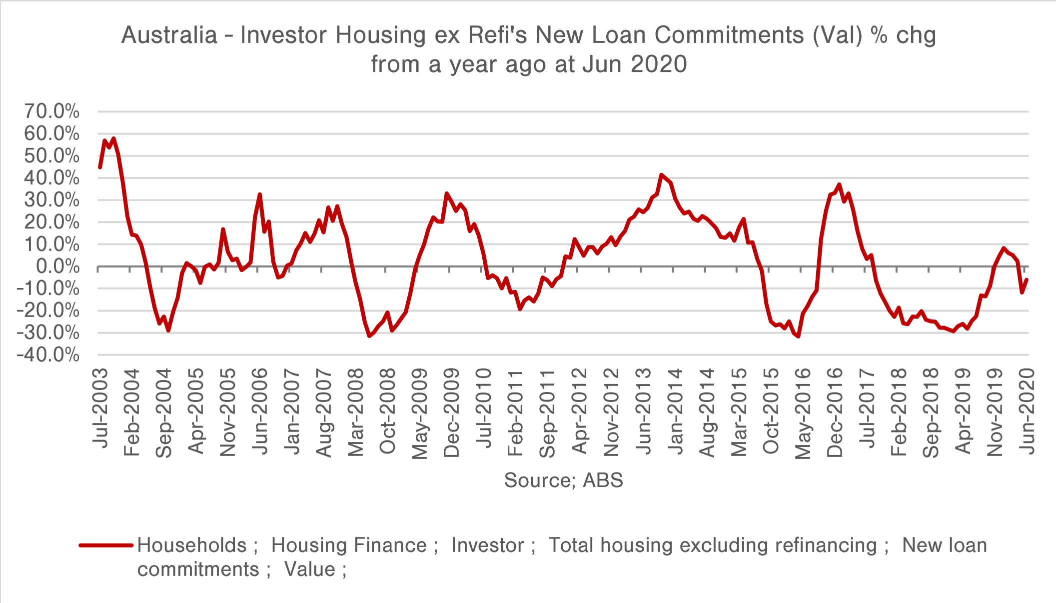
Owner occupier housing finance increased by +6.5% in Jun (+$0.6bn) in Jun after declining by -$1bn in May.

On an annual basis, there was a small acceleration in the value of owner-occupier financing versus a year ago: Jun +8.7% versus May +7.3%



Investor Housing Finance – month change: Jun +8.1% (+$0.3bn) versus May -15.6% (-$0.8bn)

Despite the monthly increase, lending for investors remains -6% below the same month a year ago.

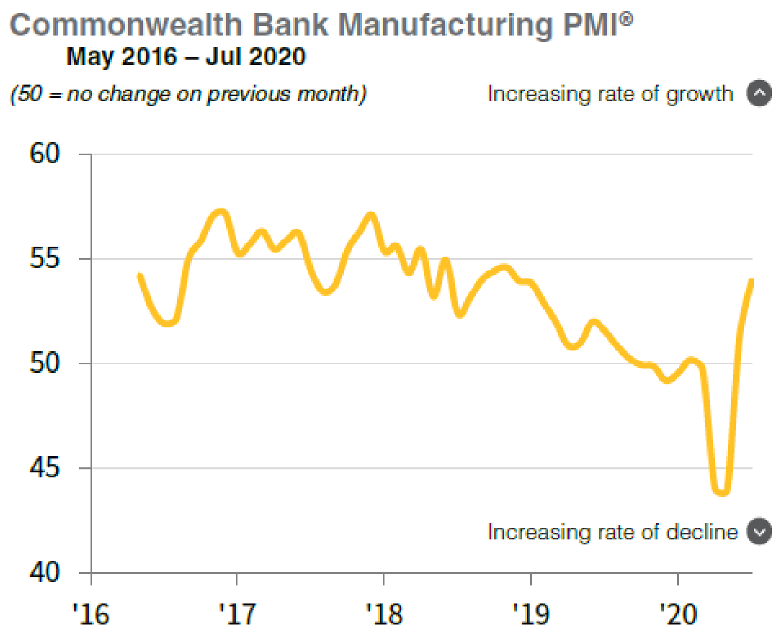


https://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/5601.0Main%20Features2Jun%202020?opendocument&tabname=Summary&prodno=5601.0&issue=Jun%202020&num=&view=

CBA Manufacturing PMI Final (Jul)

The headline PMI indicated that manufacturing activity expanded at a slightly faster pace this month. Both output and orders returned to slight growth this month. This was the second full month where major stay at home restrictions were lifted in Aus. At best, it indicates that slightly more firms are reporting higher/better conditions than in the month prior.

Manufacturing PMI: Jul 54 versus Jun 51.2



The quote below is telling:

> Production volumes rose for the first time in nearly a year during July and at a pace not seen since November 2018.

This is the first time in twelve months where there has been a month on month increase in manufacturing volumes. And the expansion in Jul was only moderate at best. Also, what is being measured is not actual volumes, but the proportion of firms reporting higher, no change, or lower volumes. So, more firms were reporting higher volumes – the pace refers to the number of firms experiencing a volume increase. At the very least you would expect this, after the production volumes for most firms during the shutdown.

New orders also recorded the first month on month increase in ten months. But new export orders declined for the sixth month in a row.

The level of unfilled orders also increased month on month for the first time in a year.

Despite the improvement in Jul, firms continued to reduce employment – but at a slower pace than in Jun.

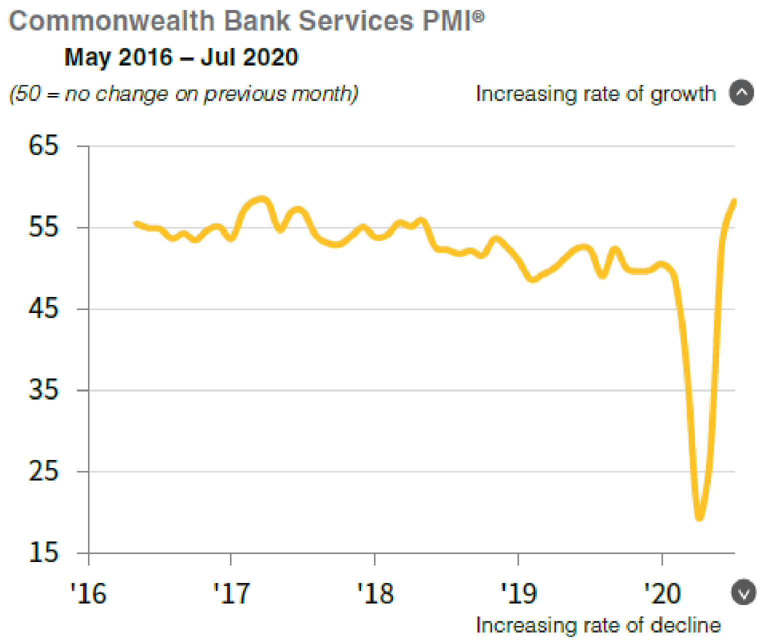
Business expectations were positive in Jul – based on the economy returning to normal, policy stimulus, and increased infrastructure work.

https://www.markiteconomics.com/Public/Home/PressRelease/22867cc0fd5e44bc88ebf8f8be21e89a

CBA Services PMI Final (Jul)

The headline services index indicated that business activity expanded at a faster pace in Jul. Like the pace of growth in UK services, this acceleration in services activity is more consistent with a broad reopening after such a severe decline. Growth is likely coming off a low base, but at least a lift in activity was experienced more broadly by firms.

Services Business Activity Index: Jul 58.2 versus Jun 53.1



Growth in services activity accelerated at the start of the third quarter as the gradual reopening of the economy following a loosening of coronavirus disease 2019 (COVID-19) restrictions led to more businesses returning to work.

New work increased month on month, led by domestic orders. Export work continued to decline – which should highlight that there will continue to be a reduction in overall output for many types of firms usually reliant on export work.

Work backlogs increased only marginally, and firms continued to reduce employment compared to the prior month.

Last month, there was an improvement in business optimism. This month that optimism was lower. The impact of the shut down in Vic will likely impact outlook more in the next month report.

https://www.markiteconomics.com/Public/Home/PressRelease/1e85d3d25a9041a5bcc5e845df34fe51

RBA Rates Decision – 4 Aug 2020

At this meeting, the RBA left rates on hold and maintained the target rate on the 3yr yield. The Board noted that further purchases of Aus Govt Securities would take place to maintain the 3yr yield target.

Despite the recovery underway, the Board also noted the impact of the more severe outbreak in Vic on the broader National economy.

Current Settings

The overnight cash rate: 0.25%

Target 3yr Treasury yield 0.25% - the yield has been somewhat higher than 0.25% over recent weeks and the RBA will recommencing purchases in the secondary market to bring the yield in line with the target.

Considerations for Policy

The impact of the renewed outbreak and severe containment measures in Vic may have a notable impact on the National economy.

Spare capacity Nationally is also an important theme – with higher unemployment and underemployment as well as low inflation. Central scenarios indicate a high level of spare capacity for the next few years

Unemployment is expected to decline gradually to 7% "over the following couple of years". This considers the impact of the current outbreak in Vic.

Inflation measures will likely return to positive territory next quarter as support policy measures are unwound. But inflation is expected to remain low between 1 and 1.5% over the next couple of years – well below the RBA target range of 2-3%.

Confidence in the ability to contain this virus and further outbreaks remains important.

> A stronger recovery is possible if progress is made in containing the virus in the near future. This progress would support an improvement in confidence and a less cautious approach by households and businesses to their spending.

Forward Guidance

Like most other central banks, there are no plans in the short-to-medium term to reduce any policy accommodations.

> This accommodative approach will be maintained **as long as it is required**.
>
> The Board will not increase the cash rate target until progress is being made towards full employment and it is confident that inflation will be sustainably within the 2–3 per cent target band.

https://www.rba.gov.au/media-releases/2020/mr-20-18.html

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Trade & Brexit

US-China Trade Talks

Relations between the US and China remain tense. Tensions were further stoked this week as President Trump attempted to ban operations of TikToc and WeChat in the US due to Chinese ownership. (https://www.wsj.com/articles/tech-financial-firms-discussing-ways-to-save-tiktoks-u-s-operations-from-trump-ban-11597014729?mod=hp_lead_pos1)

Over the last few weeks, attempts have been made to de-escalate the situation between the US and China. US Defence Secretary Mark Esper suggested a meeting by the end of the year after Chinese Foreign Minister Wang Yi called for a reopening of channels of dialogue. But part of reason for the escalation – without a full reescalation in the 'trade war' (so as not to sink 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

It has been unofficially observed that there was a low chance of a phase two trade deal being completed between the US and China. That position has been 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

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

A new timetable for talks has been announced, with the final deadline for a trade agreement, aiming for a round of talks in Brussels 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 latest round of negotiations last week yielded little, if any, progress:

> The two sides completed their latest round of negotiations in London on Thursday without being able to agree on the basic outlines of a deal to reassure businesses about the future, which Boris Johnson had said in June should be possible. https://www.theguardian.com/politics/2020/jul/24/germany-calls-on-uk-show-more-realism-brexit-negotiations
>
> 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

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

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=dsms-auto&utm_medium=email&utm_campaign=Trade+with+the+United+States%3a+Council+authorises+negotiations+on+elimination+of+tariffs+for+industrial+goods+and+on+conformity+assessment

> ""I do not think we will reach an agreement if agriculture is not included," McKinney told reporters on a teleconference during his visit to Brussels, citing concerns raised by U.S. lawmakers and Trump." https://www.reuters.com/article/us-usa-trade-eu/no-u-s-eu-trade-deal-without-agriculture-u-s-official-idUSKCN1TS2SH

The threat of auto tariffs also remains an issue, despite the US missing the S.232 deadline of 14 Nov. https://www.cnbc.com/2019/11/08/trump-wont-impose-tariffs-on-european-cars-eu-juncker-says.html

Digital Services

> France on Monday agreed to suspend a 3% digital tax on U.S. tech companies in exchange for Washington holding off on a threat to impose tariffs of up to 100% on a $2.4 billion list of French imports, a French diplomatic source said. https://www.reuters.com/article/us-usa-trade-deals/after-china-trade-deal-europe-and-uk-next-on-trumps-to-do-list-idUSKBN1ZL2TJ

The USTR S.301 investigation into the digital services tax approved by the French government has been completed and released its report on 2 Dec 2019;

> "USTR's decision today sends a clear signal that the United States will take action against digital tax regimes that discriminate or otherwise impose undue burdens on U.S. companies," Ambassador Robert Lighthizer said. **"Indeed, USTR is exploring whether to open Section 301 investigations into the digital services taxes of Austria, Italy, and Turkey**. The USTR is focused on countering the growing protectionism of EU member states, which unfairly targets U.S. companies, whether through digital services taxes or other efforts that target leading U.S. digital services companies." https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/december/conclusion-ustr%E2%80%99s-investigation

The proposed action includes up to 100% duties on certain French products imported into the US. The USTR is now inviting comments on the proposed action at a public hearing in Washington on 6-8 Jan 2020. https://www.federalregister.gov/documents/2019/12/06/2019-26325/notice-of-determination-and-request-for-comments-concerning-action-pursuant-to-section-301-frances

and

https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/january/public-hearing-proposed-action-frances-digital-services-tax-0

Background

The summary of US negotiating objectives for the US-EU trade talks have been published;

https://ustr.gov/sites/default/files/01.11.2019_Summary_of_U.S.-EU_Negotiating_Objectives.pdf

Section 232 – Car and Truck Imports

Back in May 2019, President Trump has agreed to delay the decision to impose tariffs on auto imports as a part of the s.232 investigation on car and truck imports on national security grounds. A Reuters article during the week reported that President Trump may no longer be able to impose tariffs under this S.232 investigation because of the missed announcement deadline. Source: https://www.reuters.com/article/us-usa-trade-autos/trump-can-no-longer-impose-section-232-auto-tariffs-after-missing-deadline-experts-idUSKBN1XT0TK

> The 1962 act is clear about the time limits that a president has for invoking tariffs to protect U.S. national security.

The article outlines other recent cases where the increase in tariffs have been challenged due to missed deadlines (Turkey and the increase in steel tariffs in 2018).

The article outlines the "escape hatch" for President Trump;

> A clause in the 1962 law may offer an escape hatch for Trump. If an agreement is not reached within 180 days or proves ineffective, "the President shall take such other actions as the President deems necessary to adjust the imports of such article so that such imports will not threaten to impair the national security." It adds that Trump would be required to publish these actions in the Federal Register, but does not specify a time frame.

For the moment, there have been no announcements made by the USTR or by the USTR on the Federal Register.

The threat of auto tariffs is likely to remain as negotiating leverage between the US and Japan and the EU. The S.232 report has not been made public, but President Trump's statement provided some insight as to how the Commerce Dept justified the 'national security' grounds. There are other avenues for how these tariffs may be implemented.

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

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