

Key Themes

The prelim PMI's for Sep indicated that the pace of the global rebound was similar compared to Aug growth. The broader Eurozone result was mixed though. Strong manufacturing growth in Europe was led by Germany which recorded accelerated export demand. Eurozone services shifted back to slight decline after no change in Aug. Output growth in the UK remained robust across services and manufacturing, slowing only slightly.

The Japanese PMI's were also little changed from Aug, indicating a similar pace of decline in services and manufacturing output. The Japanese manufacturing PMI had already been weak throughout 2019. The output indexes indicated that most firms reported declines throughout 2020. There is some recent divergence with official industrial production data with Jul manufacturing increasing by +8.7% month on month.

US PMI's for manufacturing and services output indicated a continued and steady pace of growth across firms for Sep. Services output growth was little changed and manufacturing output growth was slightly faster.

The US advance durable goods report for Aug was insightful. Monthly growth in orders and shipments slowed notably after two extremely strong months – and this likely reflects the restart of supply chains, especially for motor vehicle production. Excluding transportation, orders and shipments for industry were on par with a year ago in Aug.

Globally, motor vehicle production has been picking up speed over the last two months (pipeline fill) and this is one important indicator of the lift in global activity. In the US, motor vehicle orders and shipments declined slightly in Aug versus the prior month, but levels remain elevated and are still above those from a year ago. From here, the level of consumer demand will be important. The US manufacturing industry of most concern is non-defense aircraft. Orders have been negative for five of the last six months (representing approx. -\$41bn in likely cancelled orders), leading to bigger falls in unfilled orders, shipments are -44% below a year ago, and inventory is +17% ahead of a year ago.

US initial jobless claims for the 19 Sep remain highly elevated and little changed from the prior week levels at 1.45m people (federal plus state programs). Continuing claims for both state and federal programs were notably lower for 5 Sep (than in the prior week) but remain elevated at 26m people.

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Trade –

Updated: US-China Trade Talks, Brexit

No Update: US-Europe Trade Talks, US-Japan Trade Talks, US S.301 Investigation into Digital Services Taxes, Section 232. Car and Truck Imports, US-UK Trade Talks

US Data

Initial Jobless Claims (wk ending 19 Sep), Continuing Unemployment Claims (wk ending 12 Sep), and PUA Claims

Initial claims for state-based programs in the latest week remained little changed from the week prior and continues to be elevated. Federal claims for Pandemic Unemployment Assistance were lower. The total number of initial claims for unemployment assistance in the wk ending 19 Sep was still 1,454,622 people (NSA).

Based on the most recent week for total continuing claims, 5 Sep 2020, there are still over 26m people claiming benefits across state and federal programs:

The total number of people claiming benefits in all programs for the week ending September 5 was 26,044,952, a decrease of 3,723,513 from the previous week. There were 1,488,601 persons claiming benefits in all programs in the comparable week in 2019.

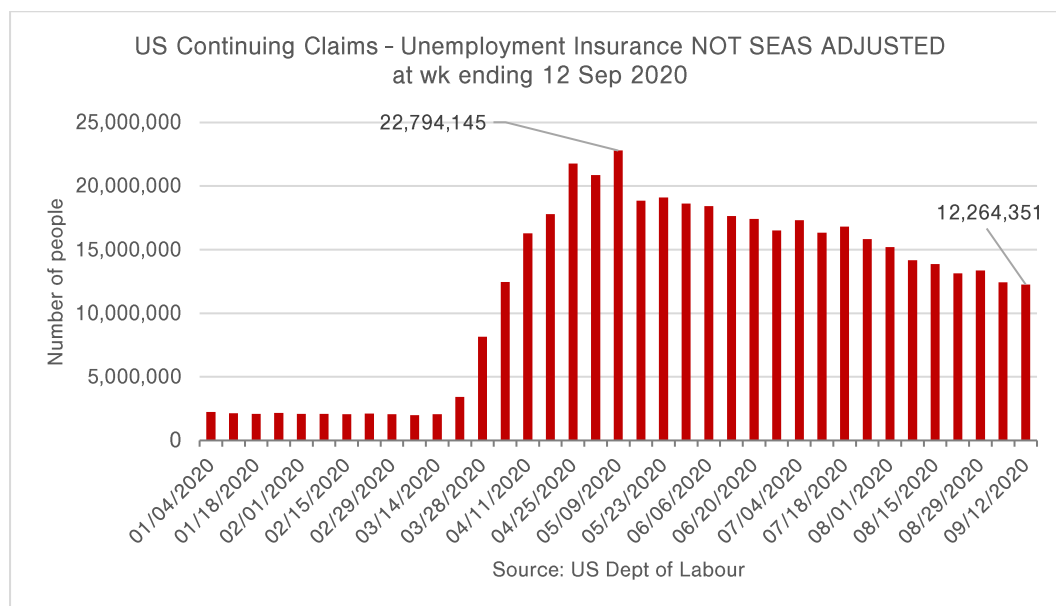
Initial Jobless Claims wk ending 19 Sep (SA): 870,000 people

This was slightly higher than the prior week's claims of 866,000 initial claims by people. The unadjusted initial claims increased by +28k people to 824,542 claims in the wk ending 19 Sep.

Continuing Jobless Claims wk ending 12 Sep: 12,580,000 people or an unemployment rate of 8.6%.

This was a slightly lower number of continuing claims than in the week prior by -167K people.

On an NSA basis, continuing claims were similarly lower and have continued to trend lower. But the unemployment rate remains stubbornly high.



Pandemic Unemployment Insurance (PUA)

The number of people claiming PUA initial claims has slowed to 630,080 people in the week ending 19 Sep. This was 45k lower than in the week prior.

Pandemic unemployment continuing claims are also still extremely elevated and is almost on par with the number of people claiming ongoing assistance in state-based programs. For the week ending 5 Sep, PUA continuing claims totalled 11,510,888 people. Note that this was a reduction of nearly 3m people from the week prior.

Also of note is the rise in the Pandemic Emergency Unemployment Compensation claims. In the latest week ending 5 Sep, this was now up to 1,631,645 people, up from 1,527,166 initial claims made by people in the week prior.

<https://oui.doleta.gov/press/2020/092420.pdf>

Markit US Manufacturing & Services PMI Prelim (Sep)

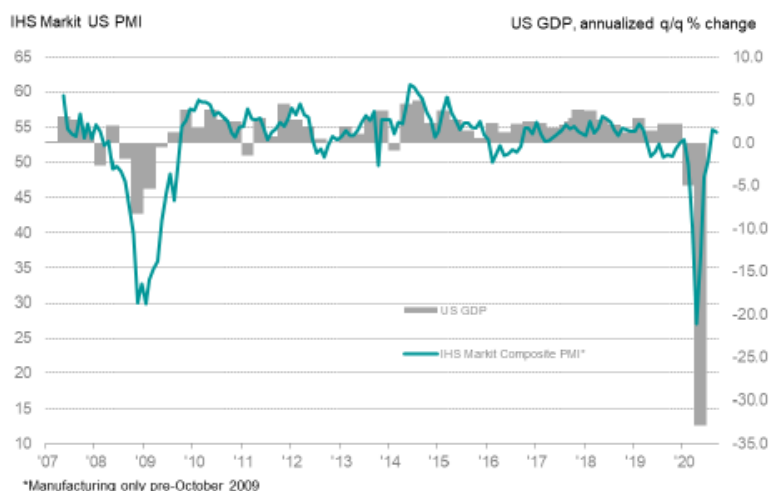
Private sector output increased at a similar pace in Sep (compared to Aug). This was result of slower growth in services business activity while manufacturing output growth increased at a slightly faster pace. The overall pace of growth remains low considering the scale of contraction in the first half of the year.

Covid-19 infection rates remain a major concern and social distancing measures continue to act as a dampener on the overall pace of expansion, notably in consumer-facing services. Uncertainty regarding the presidential election has also intensified, cooling business optimism about the year ahead.

US Composite Output Index: Sep prelim 54.4 versus Aug 54.6

Data collected September 11-22

IHS Markit Composite PMI and U.S. GDP



Sources: IHS Markit, U.S. Bureau of Economic Analysis

Services Business Activity Index: Sep prelim 54.6 versus Aug 55

The Markit release reports that:

“...increased business activity stemmed from the resumption of client operations following lockdowns”.

But the slower pace of output growth indicates that while some firms are resuming operations (and output increased), likely more firms were either recording no change or a decline in output.

New business increased at a faster pace and new export business increased, but at a slower pace. The growth in orders indicates further support for output growth in the near-term.

Backlogs of work increased at a slower pace. Employment continued to increase at a “solid pace”.

Manufacturing Output Index: Sep prelim 53.3 versus Aug 52.7

More firms reported either an increase or at least, no change, in output in Sep compared to Aug. The overall manufacturing PMI increased at a slightly faster pace from 53.1 in Aug to 53.5 in Sep.

New orders increased at a similar pace in Sep compared to Aug. Growth in new export orders was marginal.

Backlogs increased at a slower pace and employment also increased at a slower pace.

<https://www.markiteconomics.com/Public/Home/PressRelease/50e5588ccad143b7a3318c40926a45b9>

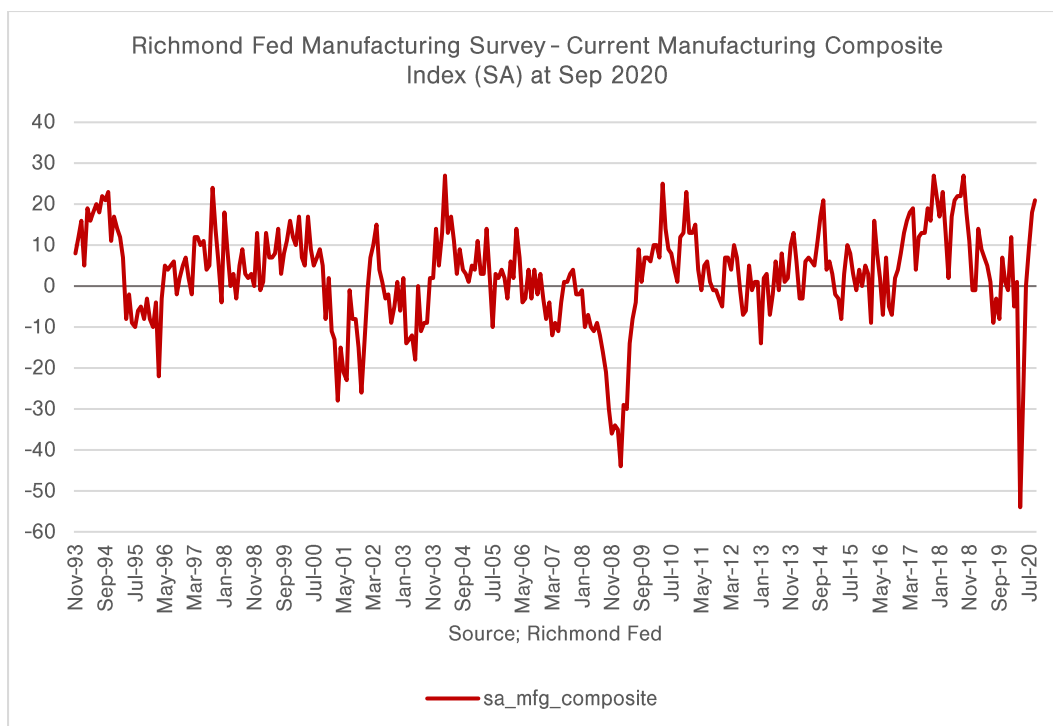
Richmond Fed Manufacturing Index (Sep)

The Richmond Fed manufacturing survey indicated that manufacturing activity continued to rebound in Sep. The pace of expansion accelerated slightly for the third month in a row. The growth in shipments was the only metric to record slower growth.

The report does not make available the proportion of firms reporting increases, no change or decreases in activity.

Manufacturing Composite Index: Sep 21 versus Aug 18

The pace of growth has been increasing and has been positive over the last three months. Consider that the index reached an all-time low of -54 in Apr – meaning that most firms would have recorded declines in activity. Even now with the index at 21, it still indicates that while positive, there has not been as widespread a rebound in activity (as compared to the magnitude of the decline). This reflects the uneven pace of recovery and continued limitations place on firms employing measures to minimise the spread of the virus.



This month, shipments increased, but at a slower pace. But the index for the volume of new orders increased notably to 27 (from 15 in Aug). This will likely be positive for future output and shipments.

Given the increase in orders, order backlogs also increased at a faster pace in Sep. At the same time finished goods inventories were unchanged from the month prior, after increasing in the prior two months.

Capacity utilization rebounded after slowing in the month prior.

What was very positive this month was the further improvement in employment. The employment index increased to 23 from 17 in Aug – indicating the second month on month increase in employment after five consecutive months of decline.

The average workweek index also increased notably.

https://www.richmondfed.org/research/regional_economy/surveys_of_business_conditions/manufacturing/

Kansas City Fed Manufacturing Activity (Sep)

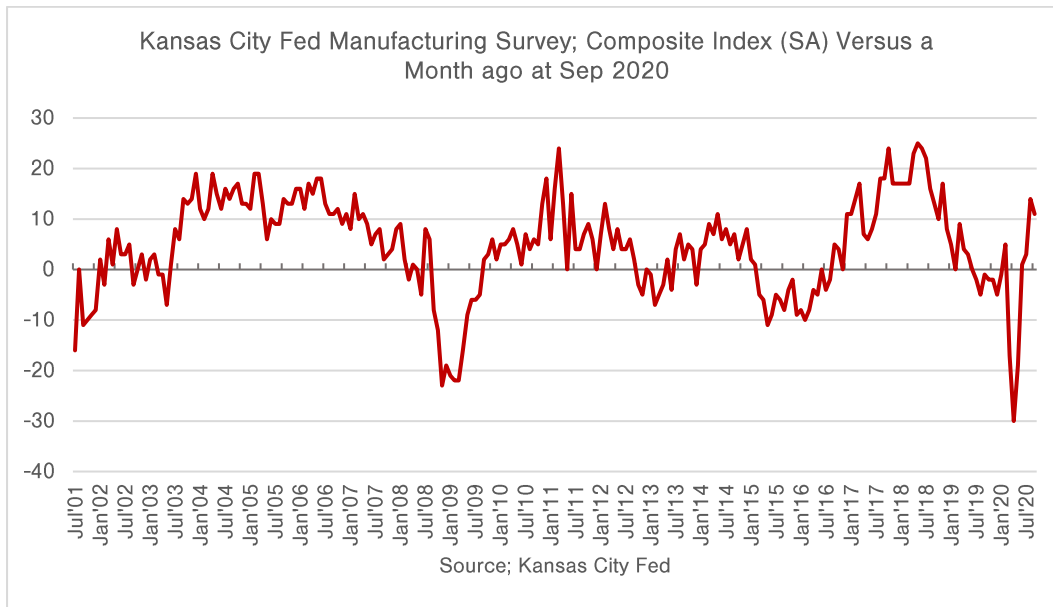
This month there was overall a slower pace of expansion in manufacturing activity. While production and new order growth slowed, the monthly growth remained elevated. Shipment growth slowed notably, and new export orders shifted back into contraction. Growth in the number of employees was little changed and remains low. The average workweek declined slightly compared to the prior month.

The Kansas City Fed manufacturing survey is a good report to delve into because it provides a year on year perspective on activity. Despite indications of growth over the last four months, all the key metrics of demand and output remain firmly negative – below the levels of the same

month a year ago. If anything, the year ago metrics in Sep indicate some stalling of the rebound. Employment is still concerning with little, if any, improvement since the lows of Apr.

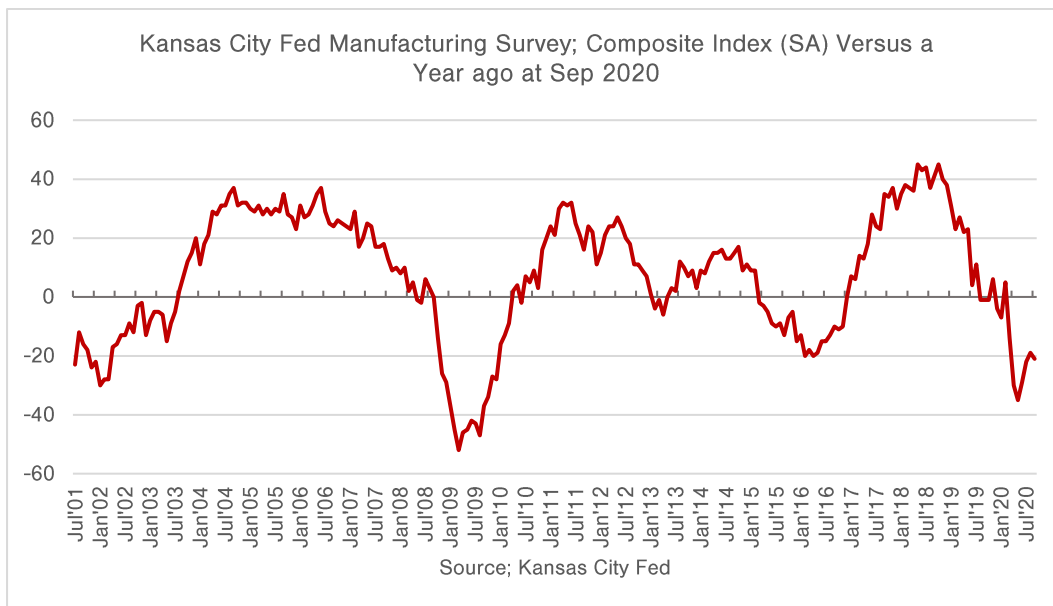
Manufacturing Activity Composite Index: Sep 11 versus Aug 14

The headline composite index indicated that growth in manufacturing activity slowed slightly compared to Aug. This is the fourth month on month increase in activity (counting where the index was positive).



But versus a year ago, the level of activity is still well below that of a year ago and deteriorated further on a year ago basis in Sep.

Consider that in Sep 2019, the year ago composite index was at -1 which indicates that activity/growth has slowed to 'no growth' versus a year ago.

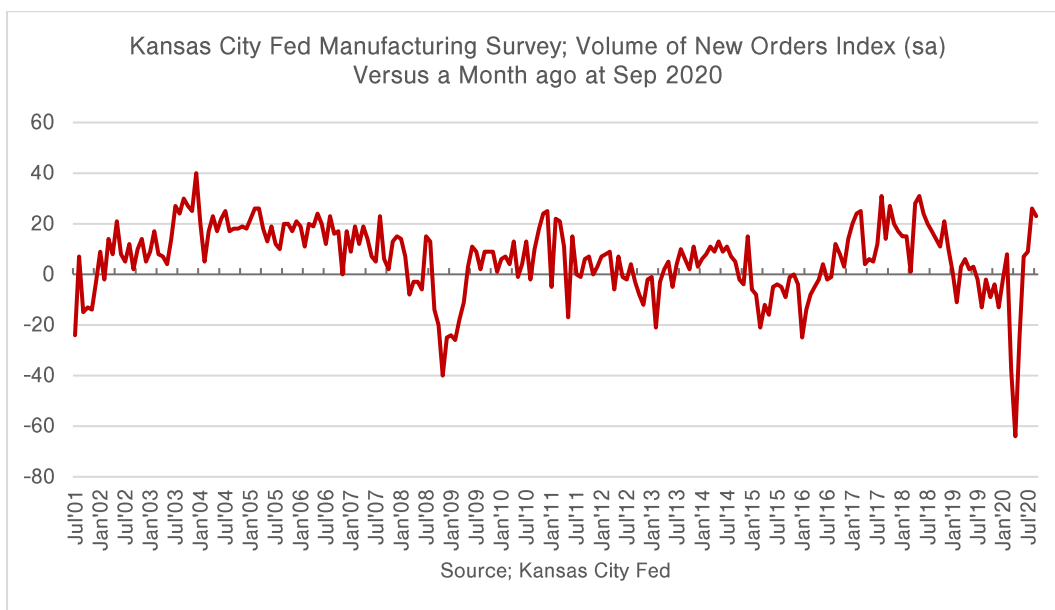


The production index in Sep remained positive but indicated slower growth this month: 18 in Sep versus 23 in Aug. The index versus a year ago remains negative at -31, having improved from the low of -63 in Apr.

“As of now, it appears there will be more sales in late Q4, which will increase the need for production employees. While the company has avoided furloughs and layoffs so far, positions open from terminations, retirements, etc., have not been filled due to lower demand.”

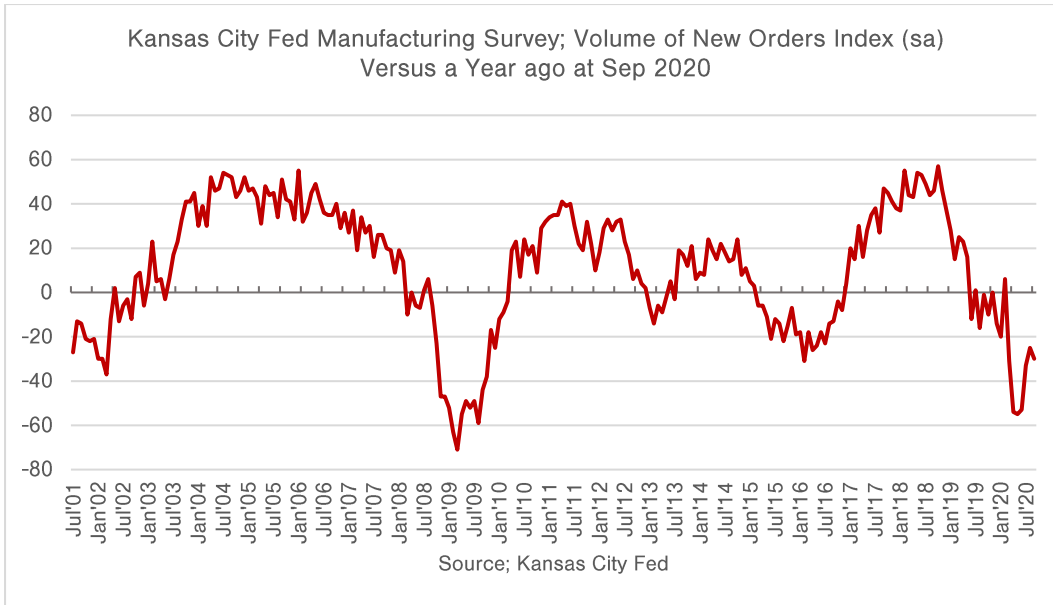
Growth in the volume of shipments also slowed notably this month from 19 in Aug to 9 in Sep. Shipment volumes versus a year ago remain negative.

The growth in the volume of new orders slowed only slightly this month and remains elevated. This is probably one of the better indicators for future growth in output. The month on month momentum is positive.



“We continue to see reasonable activity but some increased difficulty in the new order generation. We are producing and shipping at high levels with confidence that we will be able to obtain the orders in future periods to maintain an active pace. While we see some market pressures around compensation, they are not highly inflationary.”

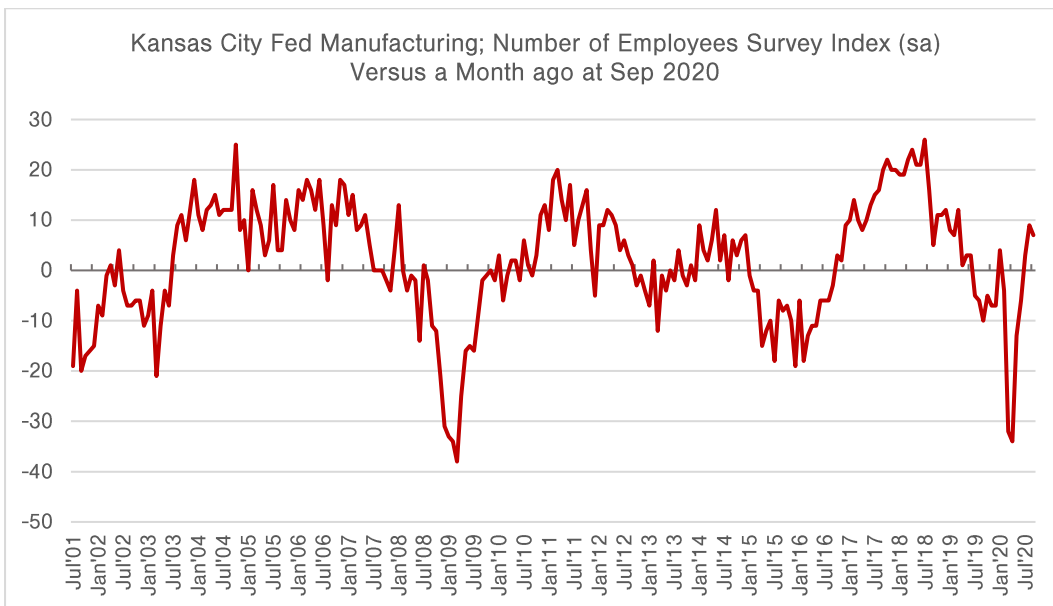
But compared to a year ago though, the volume of new orders worsened from -25 in Aug to -30 in Sep. This is still above the low point of -55 in May.



New export orders continue to struggle, with the index shifting back into contraction this month. There was also a larger deterioration versus a year ago, with the index falling from -8 in Aug to -16 in Sep.

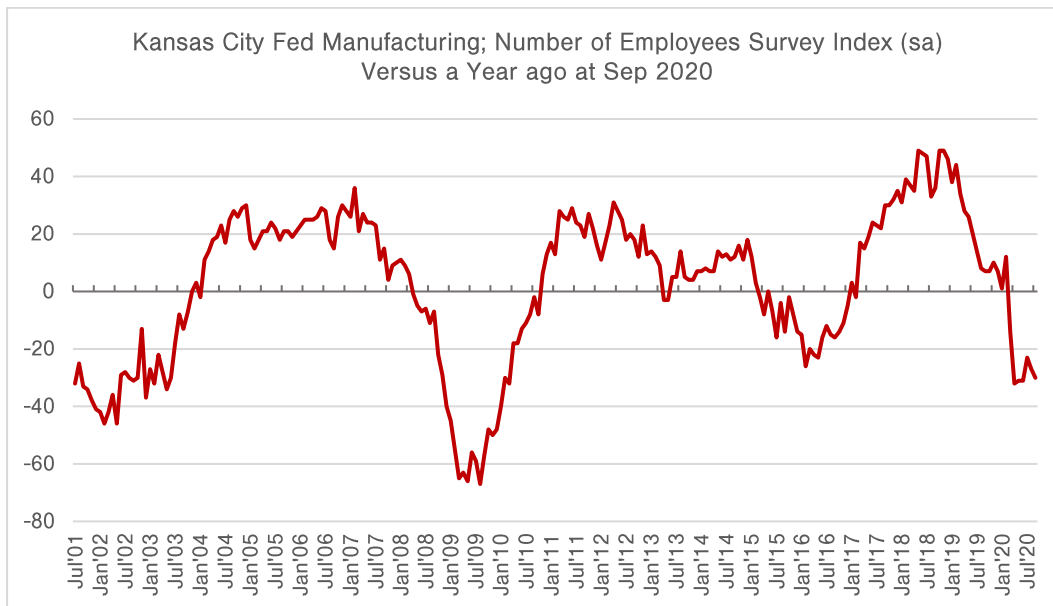
With the monthly momentum in new orders remaining elevated, the backlog of orders has started to increase month on month. Order backlogs are still below the same period a year ago.

The growth in output and demand appears mostly moderate at this stage. This is reflected in the lack of growth in employment so far. The index of the number of employees slowed slightly from 9 in Aug to 7 in Sep. This is a relatively low pace of growth, especially after such a severe fall in Apr:



“Furloughs just occurring now. Wages will be the same per collective bargaining agreement.”

This is also reflected in the comparison versus a year ago – the index of the number of employees is still very close to the low reached during the peak of the shutdowns. The index currently stands at -30 in Sep (worsening from -27 in Aug). At the low, the index was at -32.

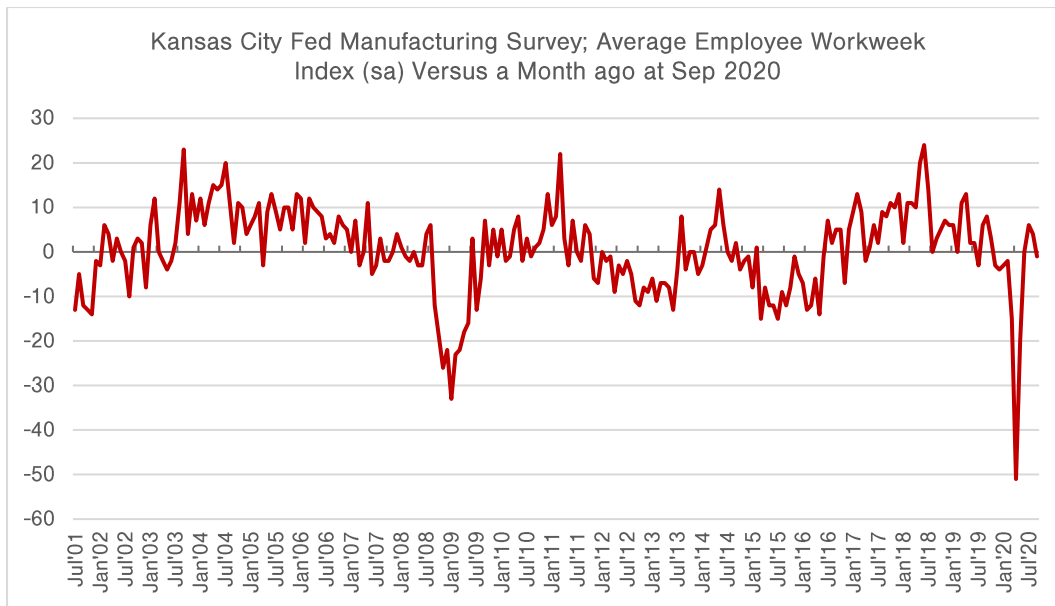


Selected anecdotes from the survey indicate that firms are also finding it difficult to find employees – and wages costs are increasing for some firms as a result.

“It is extremely difficult to find enough employees! Not just here, but at all of our locations, and this is for all level of employees: entry level/operations level/skilled level.”

There is a similar story with hours worked/average workweek. The average workweek shifted back into slight contraction this month: -1 in Sep versus 4 in Aug. Growth in the average workweek has barely increased over the last three months.

“Sales are at rock bottom, no overtime required. We have taken reduction in salary of 20%.”



The peak of the decline in the workweek was in Apr when the index reached -50. Over the last three months, the index has remained around the -20 level, well below a year ago.

<https://www.kansascityfed.org/research/indicatorsdata/mfg>

Advance Durable Goods Orders (Aug)

Durable goods orders and shipments growth for the month suggests that much of the pipeline fill for the restart of manufacturing activity has likely been achieved. The growth in orders and shipments slowed notably on a month basis and levels in Aug are mostly equal to a year ago.

Non-defense aircraft production is a large issue. The actual value of orders for non-defense aircraft remained negative for the fifth time in six months. The total value of new orders for aircraft over the last six months was -\$41bn – which likely reflects cancelled orders. Shipments are -44% below a year ago and inventory is +17% ahead of a year ago. Unfilled orders for non-defense aircraft continue to decline as orders are cancelled. This will have flow-on effects through the supply chain.

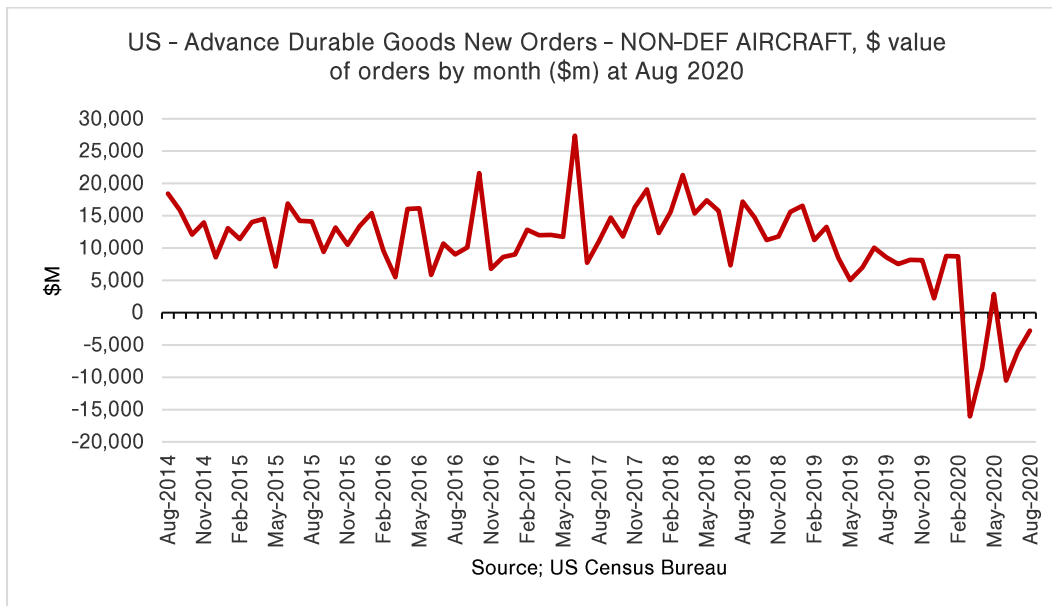
Motor vehicle orders and shipments growth slowed but remained close to prior month levels. Shipments and orders for motor vehicles were slightly ahead of the same time a year ago in Aug.

Durable goods industries excluding transport also recorded slower growth this month in orders and production. But both orders and production levels in Aug were at least back on par with a year ago. Of note was the continued decline in inventory for durable goods industries ex transports.

New Orders Durable Goods – month change: Aug +0.4% (+\$1bn) versus Jul +11.7% (+\$24.3bn)

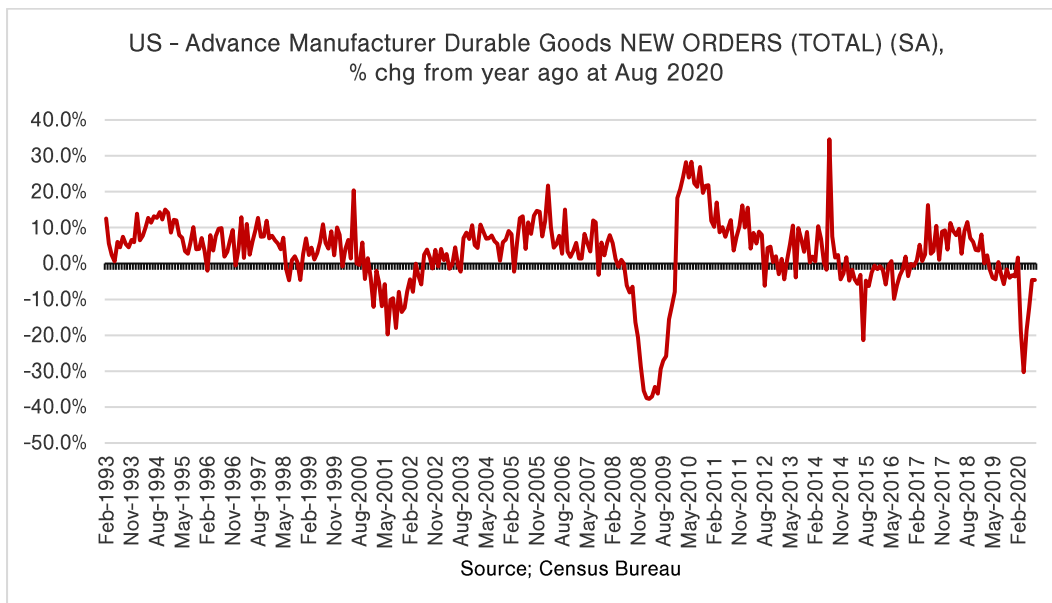
Orders growth slowed across all durable goods industries this month. The largest contribution to the growth in new orders this month was for machinery (+\$0.5bn). Other non-transportation sectors also contributed to growth this month: computers (+\$0.3bn) and primary metals (+\$0.2bn).

Transport equipment orders contributed only +\$0.3bn to the overall growth. There was an anomaly in the data related to non-defense aircraft. The total value of orders for non-defense aircraft continued to decline – indicating that orders were in fact cancelled again. The value of orders for Aug was -\$2.8bn versus -\$6bn in Jul.



Also of note was a -\$2.6bn month on month decline in orders for motor vehicles (-4% in Aug versus +21% in Jul) – likely reflecting some catch-up in pipeline fill. The value of orders for motor vehicles is now +2.1% ahead of the same month a year ago.

Total durable goods orders are -4.6% below the same month a year ago (last month -4.5%).



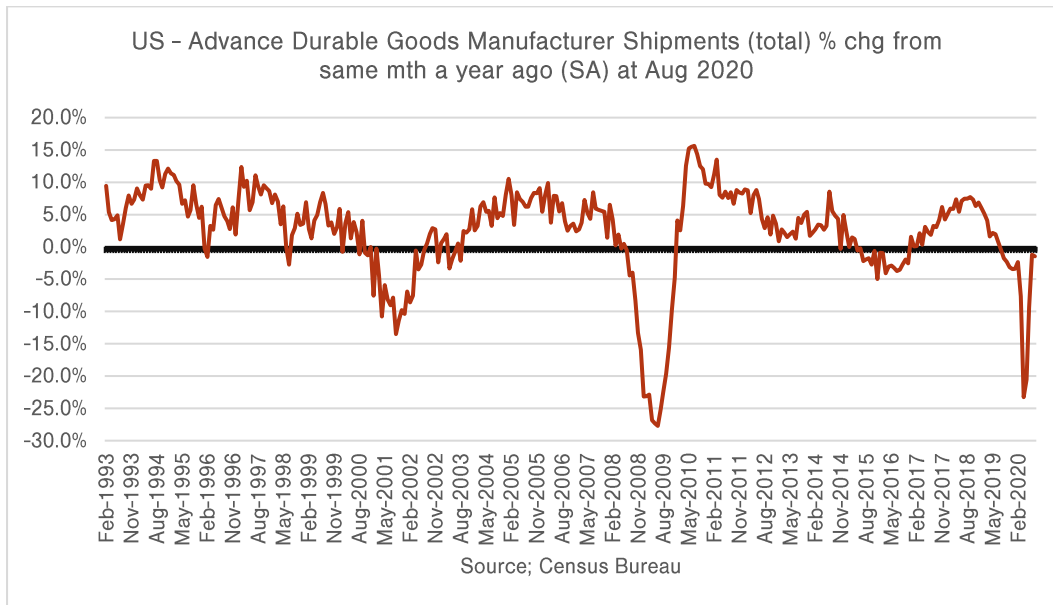
Excluding transport equipment, the value of durable goods orders is +0.1% ahead of the same month a year ago.

Shipments Durable Goods – month change: Aug -0.3% (-\$0.7bn) versus Jul +7.6% (+\$17.3bn)

The largest positive contributor to the growth in shipments this month was again a non-transportation industry (unusual). The largest contributor was the growth in machinery shipments of +1.7% or +\$0.5bn.

Overall durable goods shipments were lower due to a decline in transport equipment shipments. Motor vehicle shipments in Aug were -\$2.8bn after a significant increase of +\$12.3bn in Jul. This was only partly offset by growth of non-defense aircraft shipments of +\$1.4bn in Aug.

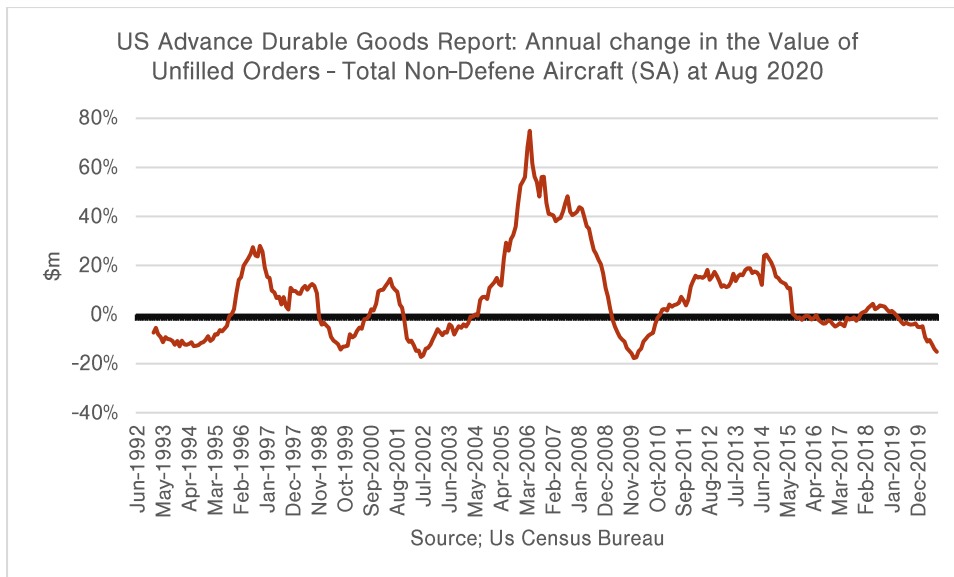
Overall durable goods shipments were -1.5% below the same month a year ago in Aug:



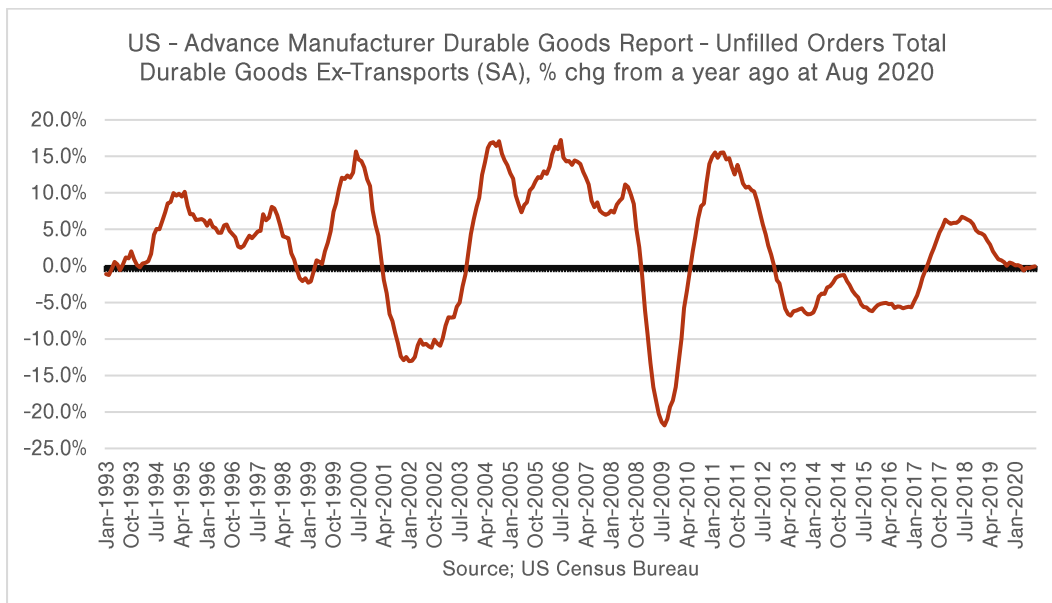
Excluding transports, durable goods shipments are down -0.1% versus the same month a year ago.

Unfilled Orders Durable Goods – month change: Aug -0.6% (-\$6.3bn) versus Jul -0.7% (-\$7.8bn)

The largest decline in unfilled orders was led by transportation equipment -1.6% (-\$6.9bn). This was led by the Aug decline in non-defense aircraft unfilled orders of -\$8.1bn (likely due to cancelled orders). The value of unfilled orders for non-defense aircraft is now -15% below a year ago:



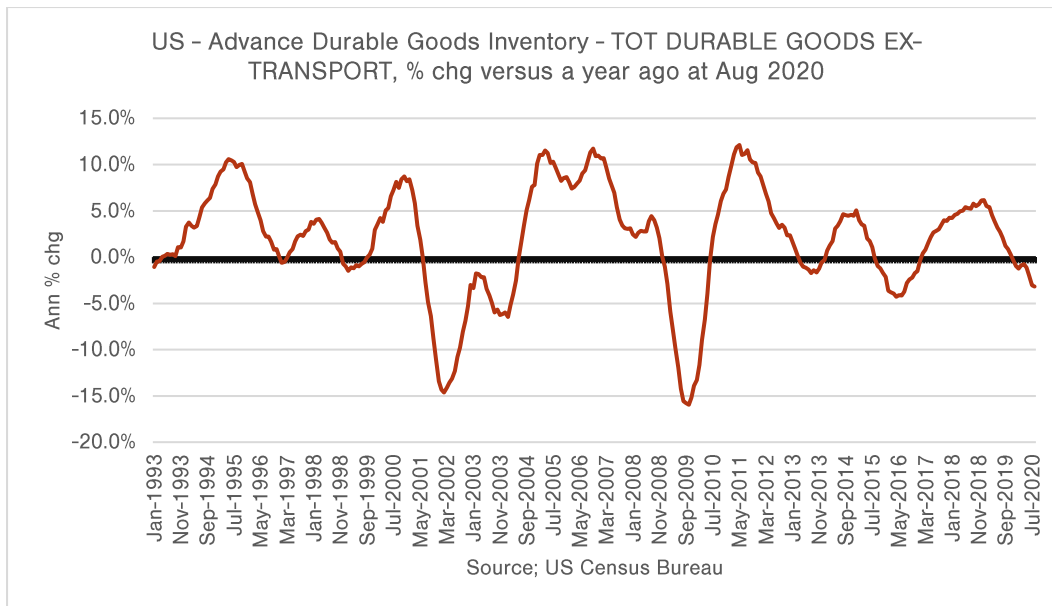
Unfilled orders excluding transports increased at the same pace of +0.2% in Aug (versus +0.2% in Jul) – indicating at least some pressure on capacity with backorders continuing to increase. On an annual basis, unfilled orders for durable goods excluding transports is -0.1% below a year ago. This indicates little change to overall capacity pressure i.e. manufacture is keeping pace with new orders.



Inventory Durable Goods – month change: Aug -0.1% (-\$0.5bn) versus Jul -0.8% (-\$3.5bn)

Overall durable goods inventory continues to decline month on month. Excluding transportation, the decline was even larger at -0.4% or -\$1bn versus the prior month.

Its likely that the non-transportation industries are continuing to reduce inventory exposures. The sales to inventory ratio data will be out in the next release of factory orders but has been historically elevated over the last few months. Currently, durable goods inventory excluding transports is -3.2% below a year ago.



Underlying this decline in inventory exposure is the continued increase in non-defense aircraft inventory, despite orders and shipments significantly below a year ago (-132% and -44%, respectively). Non-defense aircraft inventories are 17% ahead of the same month a year ago and continue to increase month on month. Non-defense aircraft inventory was already increasing prior to the onset of Covid-19 due to the issues around the production halts at Boeing and the 737-Max.

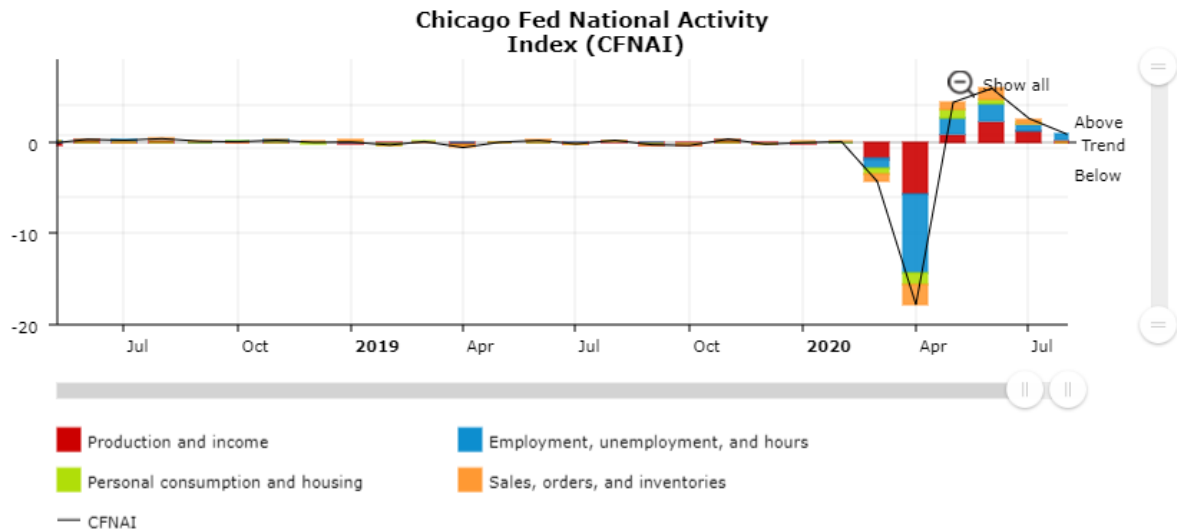
<https://www.census.gov/manufacturing/m3/adv/pdf/durgd.pdf>

Chicago Fed National Activity Index (Aug)

The headline National Activity Index was lower in Aug but still indicated “above trend” growth. The chart below highlights the significant scale of the decline in activity in Mar and Apr – prior activity levels are notably minimized. The subsequent rebound in May and Jun reflects many parts of the economy reopening after shutdowns.

A reading of zero for the index indicates ‘growth at trend levels’.

National Activity Index: Aug 0.79 versus Jul 2.54



The growth in the month was led by employment and hours this month:

Employment, unemployment and hours: +0.63 in Aug (slightly lower than the +0.65 in Jul)

Production and income: +0.23 in Aug, which was much slower growth than +1.26 in Jul

Personal consumption and housing grew at slightly below trend: -0.04 in Aug, lower than +0.09 in Jul

Sales, orders, and inventories also grew at slightly below trend: -0.04 in Aug versus +0.53 in Jul

<https://www.chicagofed.org/research/data/cfnai/current-data>

MBA Mortgage Applications wk ending 18 Sep

There was a large increase in mortgage applications in the wk ending 18 Sep. This was led by a larger increase in refi's but the purchase index also increased notably.

Market Composite Index (mortgage loan application volume) – wk ending 18 Sep: +6.8% versus the week prior.

This was led by much stronger growth in refi applications.

Refi Index – wk ending 18 Sep: +9% versus the week prior and was +86% ahead of the same week a year ago.

The purchase index also recorded a solid increase.

Purchase Index – wk ending 18 Sep: +3.4% versus a week ago. The unadjusted index was +25% ahead of the same week a year ago.

"Mortgage applications activity remained strong last week, even as the 30-year fixed-rate mortgage and 15-year fixed-rate mortgage increased to their highest levels since late August. Purchase applications were up over 25 percent from a year ago, and the demand for higher-balance loans pushed the average

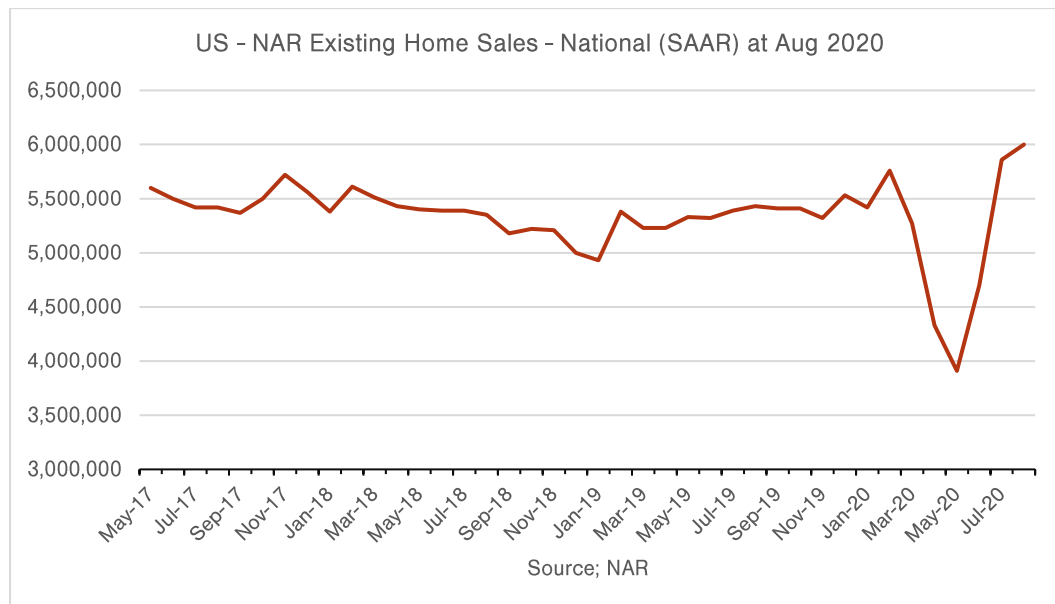
purchase loan size to another record high. The strong interest in homebuying observed this summer has carried over to the fall,"

<https://www.mba.org/2020-press-releases/september/mortgage-applications-increase-in-latest-mba-weekly-survey-x272315>

Existing Home Sales (Aug)

The existing home sales (SAAR basis), increased for the third month and annual growth continued to accelerate. The monthly pace of growth slowed notably compared to the much higher growth in Jun and Jul – which were likely due to working through backlogs of sales after the Apr/May shutdowns.

National Existing Home Sales (SAAR) – month change: Aug 6m (+2.4%) versus Jul 5.86m (+24.7%)

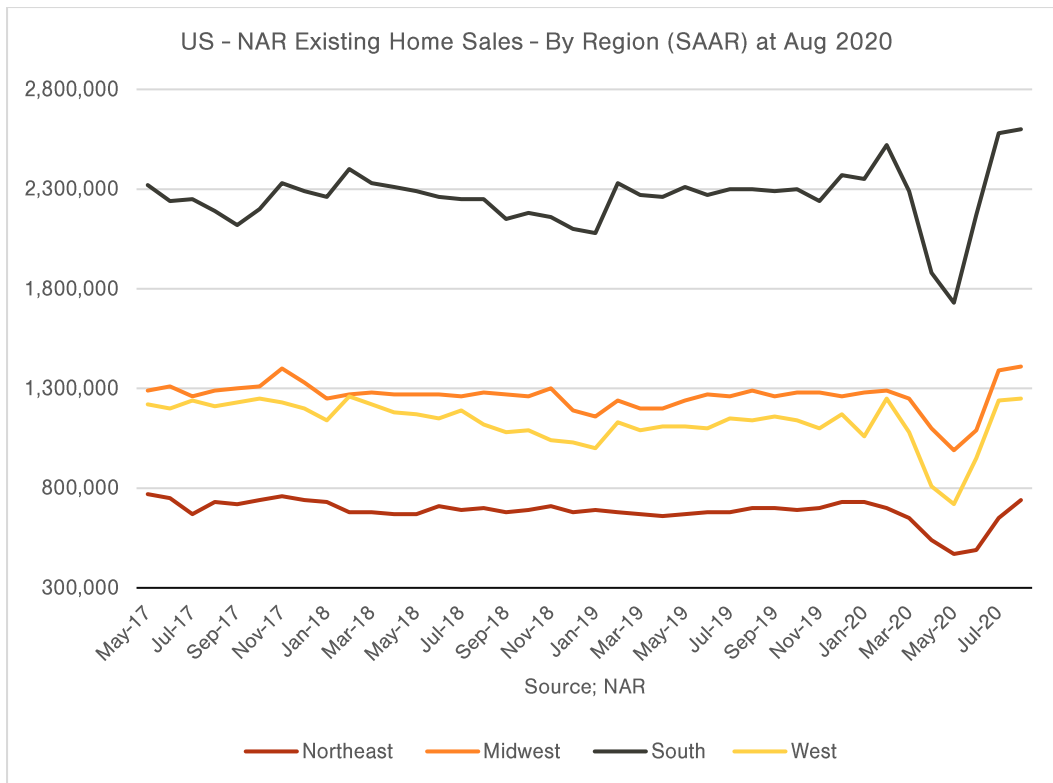


On an annual basis, National existing home sales were +10.5% ahead of the pace in the same month a year ago.

Regional Existing Home Sales

On a regional basis, it was the Northeast that recorded the largest increase in the pace of sales in Aug (+13.8%), contributing the most to the overall increase. Next, sales in the Midwest increased by +1.4% and sales in the South and West both increased by +0.8% versus the prior month.

Sales across all regions are ahead of the same month a year ago.



<https://www.nar.realtor/research-and-statistics/housing-statistics/existing-home-sales>

New Home Sales (Aug)

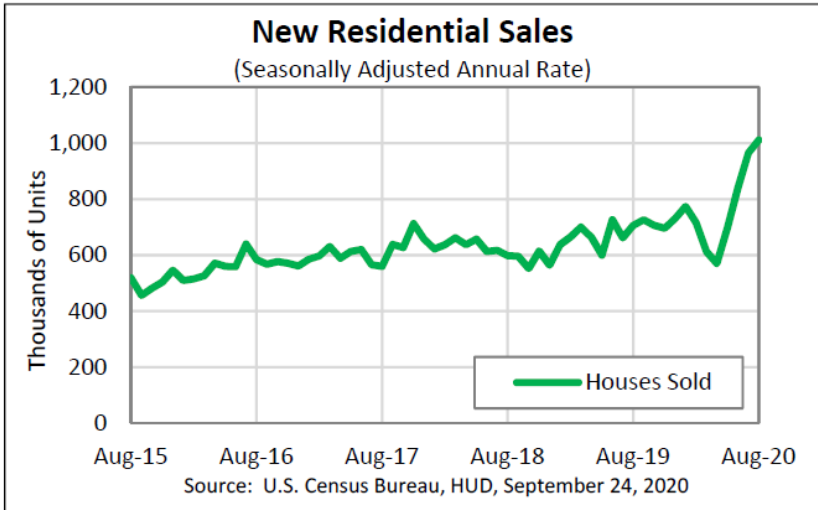
This is a survey-based report, so it is important to note the confidence levels around the monthly growth figures. Prior months are heavily revised, and it takes at least four months to establish the sales trend.

The confidence level around the growth rate for Aug contains zero, so the result is not statistically significant. It is uncertain whether sales increased or decreased this month.

New Home Sales (SAAR-basis) – month change: Aug 1.011m versus Jul 0.965m

This represents a +4.8% growth versus the prior month. But the 90% confidence interval is +/- 10.5% pts. Sales could have increased or decreased this month.

The annual pace of growth though appears to have more certainty attached. The annual growth was +43.2% with a 90% confidence interval of +/- 19.5% - the result is statistically significant.



On a regional basis, only sales in the Midwest recorded a statistically significant change for the month of Aug – and that was the new home sales most likely declined versus the prior month.

Revisions this Month (Jul report revised in the latest Aug release)

Jul 901k – revised in Aug to 956k sales

Jun 791k – revised in Aug to 841k sales

May 687k – revised in Aug to 698k sales

Apr 570k – no revision

<https://www.census.gov/construction/nrs/pdf/newressales.pdf>

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Europe

Eurozone Market Manufacturing & Services PMI Prelim (Sep)

Output across the broader Eurozone slowed to no growth in Sep after recording only modest growth in Aug. Services output declined in Sep while manufacturing output increased at a faster pace. The pace of manufacturing output growth was more robust this month – led mostly by German manufacturing. The services sector weakened across most member countries amid ongoing trading restrictions and renewed outbreaks in some places.

A two-speed economy is evident, with factories reporting that production growth was buoyed by rising demand, **notably from export markets and the reopening of retail in many countries**, but the larger service sector has sunk back into decline as face-to-face consumer businesses in particular have been hit by intensifying virus concerns.

Eurozone Composite Output Index: Sep prelim 50.1 versus Aug 51.9

IHS Markit Eurozone PMI and GDP

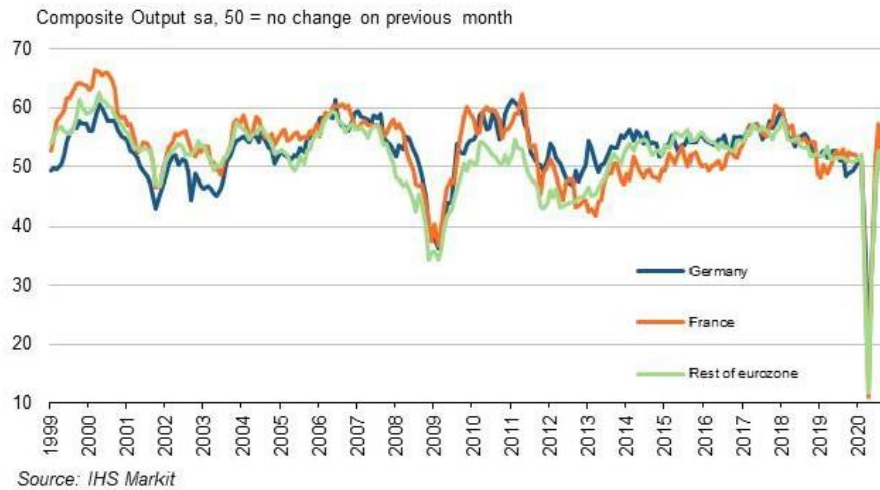


Sources: IHS Markit, Eurostat.

Across the larger core economies: German manufacturing output increased at the fastest pace since Jan 2018 which was somewhat offset by a decline in German services output. In France, the “modest” increase in manufacturing output was mostly offset by declines across services.

All other Eurozone members recorded a decline in output as services activity declined and manufacturing output slowed.

Core v. Periphery PMI Output Indices



Services Business Activity Index: Sep prelim 47.6 versus Aug 50.5

New business declined notably in the month. Firms reduced backlogs due to spare capacity. Firms continued to reduce employment.

Manufacturing Output Index: Sep prelim 56.8 versus Aug 55.6

The overall manufacturing PMI indicated activity expanded at a slightly faster pace in Sep, rising from 51.7 in Aug to 53.7 in Sep.

New manufacturing orders increased at a faster pace this month. Backlogs of work also increased this month. At the same time, firms continued to reduce employment, but the pace of decline slowed.

<https://www.markiteconomics.com/Public/Home/PressRelease/99f2c589c7b24779ad366def3ba979d8>

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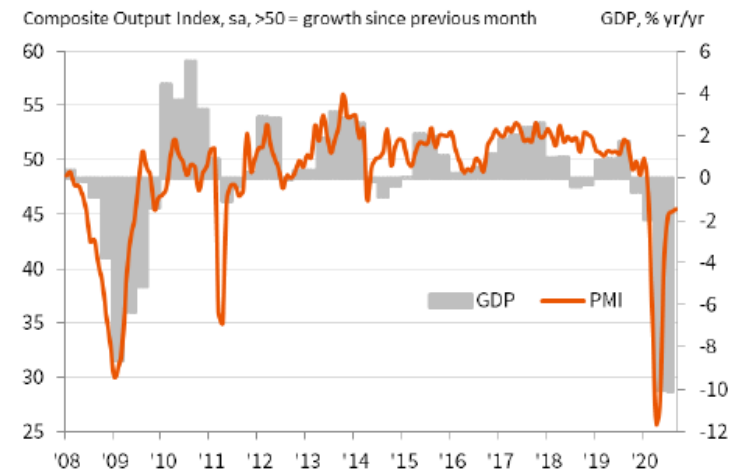
Japan

Japan Market Manufacturing & Services PMI Prelim (Sep)

At the composite level, private sector output continued to decline in Sep and at a similar pace as in Aug. Both services and manufacturing output indexes indicated a similar pace of decline in Sep. Despite the headline decline in output, firms became more positive regarding future output growth.

Japan Composite Output PMI: Sep prelim 45.5 versus Aug 45.2

au Jibun Bank Japan Composite Output Index

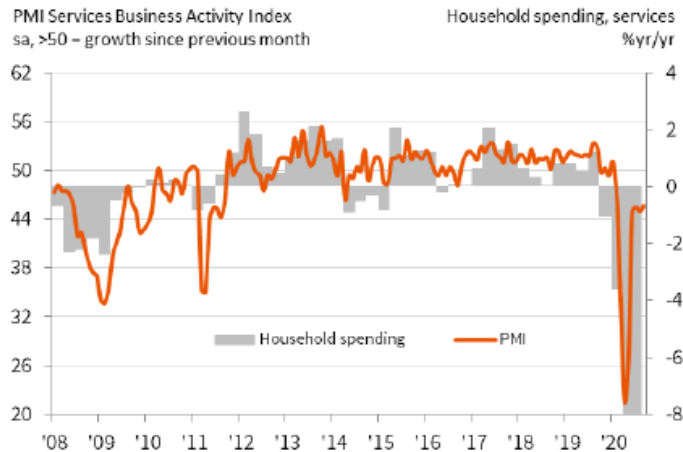


Sources: au Jibun Bank, IHS Markit, Cabinet Office.

Services Business Activity Index: Sep 45.6 versus Aug 45

The rebound from restricted trading has stalled over the last few months:

Services business activity



Sources: au Jibun Bank, IHSMarkit, Cabinet Office.

The pace of output decline in services slowed slightly in Sep. The outlook for services output growth shifted from negative to positive this month.

New orders among service firms also declined at a slower pace, but new export orders continued to decline at an accelerated pace. Backlogs declined at a faster pace indicating continued levels of spare capacity.

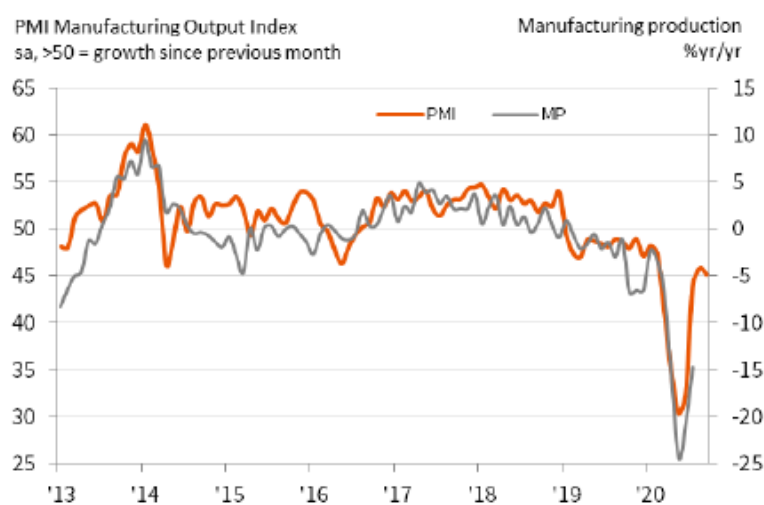
Employment declined for the seventh month in a row, albeit at a slower pace.

Both input and output prices declined.

Manufacturing Output Index: Sep 45.2 versus Aug 45.8

The overall manufacturing PMI was little changed at 47.3 (up from 47.2 in Aug) and indicated a continued decline in manufacturing activity.

Manufacturing output



Sources: au Jibun Bank, IHS Markit, METI.

Both output and new orders continued to decline in Sep after a further decline in Aug. Note the divergence here with the Industrial Production data. According to the Jul manufacturing production data, manufacturing production increased by +8.7% compared to Jun. The Jul and Aug output PMI still indicates that output declined. The PMI measures the proportion of firms reporting higher, lower, or no change in activity and does not indicate the magnitude of the increase or decrease in activity within firms.

Still indicating spare capacity, firms continued to reduce backlogs of work. Stocks of finished goods declined at a faster pace.

Employment continued to decline, but at the slowest pace in four months.

Firms became more positive regarding future output growth.

<https://www.markiteconomics.com/Public/Home/PressRelease/ddeba371cddf4fcb99fd71913c7eb2bc>

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United Kingdom

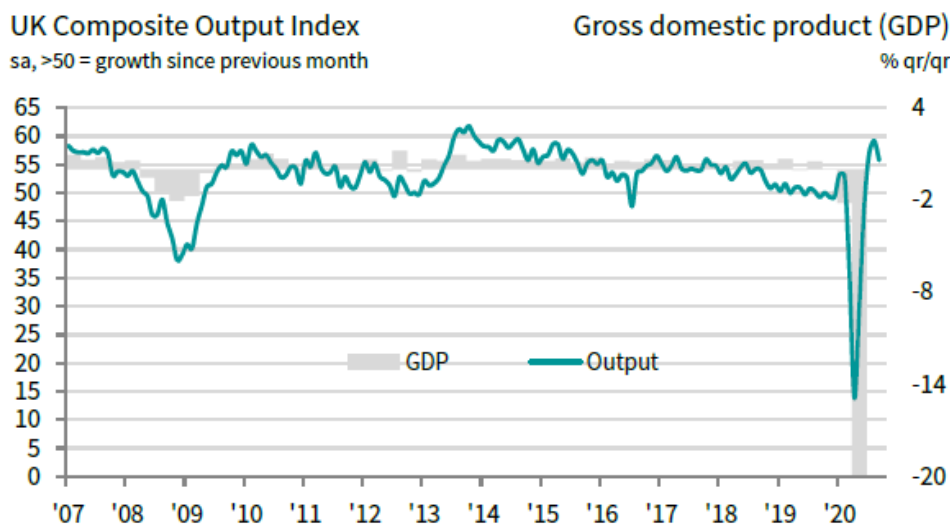
UK Markit Manufacturing & Services PMI Prelim (Sep)

The pace of output growth slowed in Sep after the initial reopening rebound. The UK rebound was one of the strongest among the larger economies. After such an extreme contraction, the composite output index rebounded close to 60 – which is a minimum you would expect.

This month, output growth has slowed, but remains in the mid-50's. The slower growth was the result of slower services output. Manufacturing output continued to expand at a similar pace to the month prior.

While some of the slowdown was the result of the waning of the initial rebound effect, there was a notable fall in business expectations for the future – the degree of optimism fell to the lowest point since May. This was led by weaker optimism in the service sector amid rising infections with the possibility of renewed trading restrictions.

UK Composite Output Index: Sep prelim 55.7 versus Aug 59.1



Sources: IHS Markit, CIPS, Office for National Statistics.

Services Business Activity Output Index: Sep prelim 55.1 versus Aug 58.8

Output growth slowed this month after the initial rebound faded. While some sectors recorded continued growth in output, others noted ongoing impacts to operations. These include most consumer facing services, transportation, international travel, and hospitality generally.

Confidence was lower as concerns over renewed Covid-19 restrictions amid increasing infections. Confidence fell to a four-month low.

Manufacturing Output Index: Sep prelim 59.3 versus Aug 61

The headline manufacturing PMI indicated that overall activity slowed somewhat from 55.2 in Aug to 54.3 in Sep.

New export orders expanded this month, led by orders from Asia. This was the fastest pace of export order expansion since Feb 2018. Confidence in output growth in the future was little

changed this month. Approx. 60% of firms expected an increase in output in the year ahead, while only 11% expect declines.

<https://www.markiteconomics.com/Public/Home/PressRelease/600a279e6825459e92a31041ed25acc0>

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Australia

Weekly Payroll Jobs in Australia (5 Sep 2020)

This is still an experimental data series with little history.

The payroll jobs index continued to drift lower as of 5 Sep 2020. The index was lower compared to 22 Aug by -0.4% and -0.1% compared to 29 Aug.

Many of the larger states contributed to this result - Vic, NSW, QLD, NT, and the ACT.

High level analysis suggests that there were approximately 480,000 fewer payroll jobs in STP-enabled businesses on 5 September 2020 than on 14 March 2020.

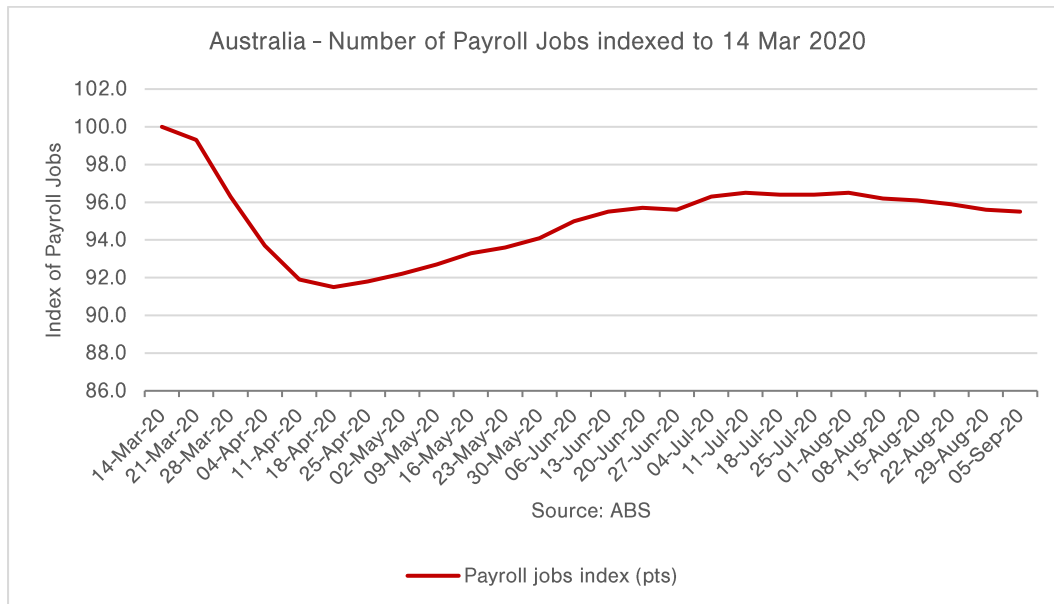
Metro Victoria remains in a stage four lockdown and regional Victoria in stage three (less restrictive).

The 14 Mar reference date was the day that the 100th Covid-19 case was recorded in Australia.

STP refers to single-touch payroll.

National Payrolls – week change 5 Sep versus 29 Aug: -0.1%

The weekly payroll jobs index has improved since the National Stage 2 lock down was initiated from 22 Mar 2020 and is now -4.5% below the level prior to that lock down.



The weeks of 11 Jul and 5 Aug were the near-term peaks when payrolls were only -3.5% below the 14 Mar level.

Impact of Vic lockdowns

The Vic stage 4 lockdown was implemented as of 5 Aug 2020 and this has played a role in the decline in payrolls. Vic payrolls are -8% below the 14 Mar benchmark level. As of 5 Sep, versus 29 Aug, Vic payrolls declined by a further -0.3%.

But the other states are also experiencing weakness in employment growth. The rebound for the payrolls index for Australia excluding Vic peaked around 11 Jul and 1 Aug and has drifted lower. As of 5 Sep, versus 29 Aug, there was zero growth in payrolls.

State Payroll Performance

Payrolls in the largest states are experiencing continued weakness – as of 5 Sep compared to 29 Aug:

NSW payrolls declined by -0.2%

QLD payrolls increased by +0.4%, but declined by -0.7% in the week prior to that

NT payrolls declined by -0.8%

ACT payrolls declined by -0.3%

These declines were offset by increases in SA and Tas of +0.3% respectively, while payrolls in WA recorded zero growth.

Payrolls by Industry

By Industry, the largest % decline in payrolls has been recorded by accommodation and food service. Only four industries have recorded an increase in payrolls since 14 Mar – utilities, financial and insurance, public admin, and health care.

Graph 4 - Percentage change in payroll jobs by Industry
between 14 March 2020 and 5 September 2020



Source: Australian Bureau of Statistics, undefined Week ending 5 September 2020

<https://www.abs.gov.au/statistics/labour/earnings-and-work-hours/weekly-payroll-jobs-and-wages-australia/week-ending-5-september-2020>

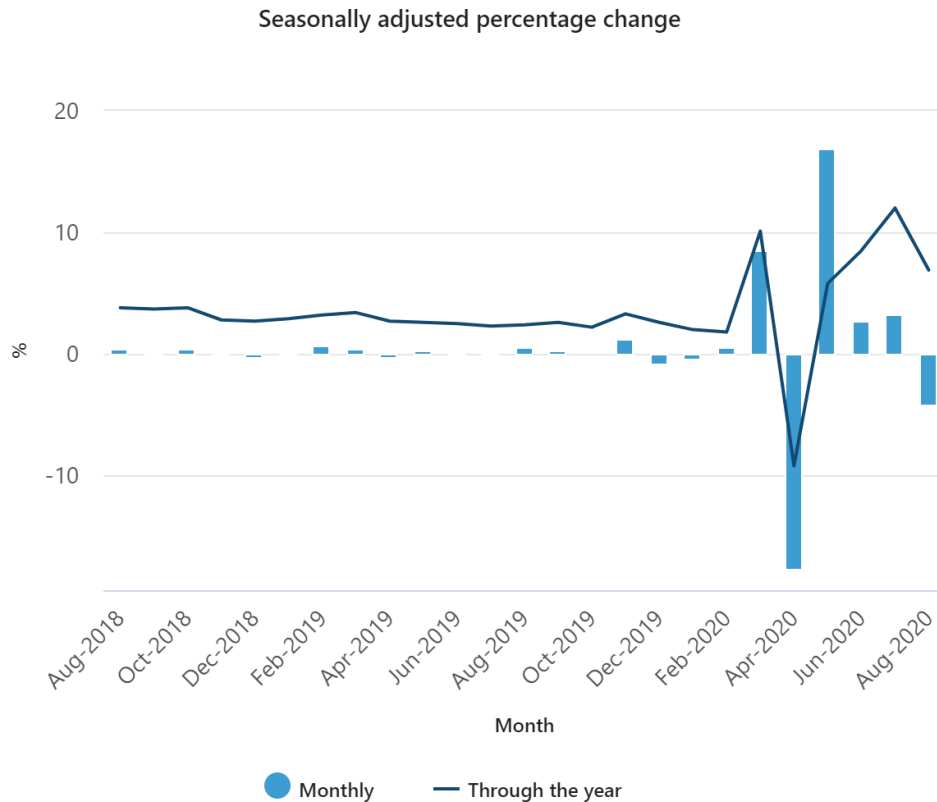
Retail Sales Prelim (Aug)

The prelim release for Aug indicated that retail sales declined by 4.2% in Aug compared to Jul.

The largest contributor to this decline was the shutdown in Vic. Retail sales in Vic declined by 12.6% versus the prior month. But retail sales also declined in the rest of Australia (ex-Vic) by -1.5% compared to Jul.

All industries fell, primarily driven by the Victorian result, although there were falls in most states and territories.

Despite the fall in Aug, National retail sales value remains +6.9% ahead of the same month a year ago (value terms):



Source: Australian Bureau of Statistics, undefined August 2020

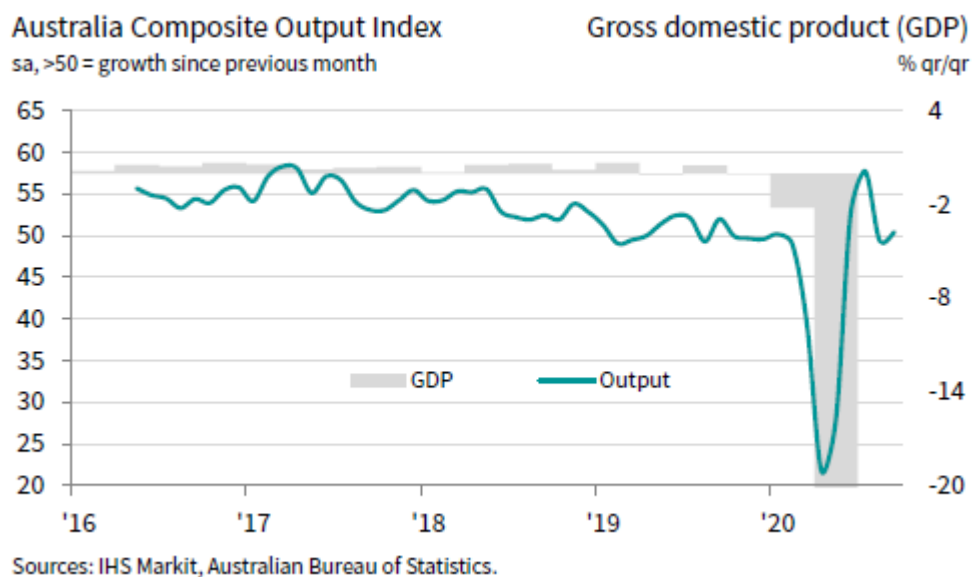
<https://www.abs.gov.au/statistics/industry/retail-and-wholesale-trade/retail-trade-australia-preliminary/aug-2020>

Markit Manufacturing & Services PMI Prelim (Sep)

After declining slightly in Aug, private sector output was unchanged in Sep. This was the result of no change in services output (after declining in the month prior) and slightly faster growth in manufacturing output. The overall manufacturing PMI registered a faster pace of growth in Sep.

Not a bad result considering the state of Vic was in lockdown and most other states have severely limited interstate travel.

Aus Composite Output Index: Sep prelim 50.5 versus Aug 49.4



Services Output Index: Sep prelim 50 versus Aug 49

After declining in Aug, the services output index was unchanged in Sep – while the index ‘increased’ to 50, there were more firms reporting no change to the lower Aug output level.

Firms noted a further increase in spare capacity as order backlogs declined. As a result, employment also declined at a faster pace.

Input costs increased, while output charges declined as firms used discounting to stimulate sales.

Manufacturing Output Index: Sep prelim 53.6 versus Aug 52.5

Growth in manufacturing output increased at a slightly faster pace this month. The overall manufacturing PMI (of which output is one component) increased from 53.6 in Aug to 55.5 in Sep (prelim).

Both output and sales increased this month including the first month on month increase in new export orders in eight months. Firms increased employment for the first time since Nov 2019.

But firms also note continued pressure on supply chains with “delivery delays, import restrictions, and transport capacity issues”.

<https://www.markiteconomics.com/Public/Home/PressRelease/050177f2d2d0473c9c373fbd2681d5c6>

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Trade

US-China Trade Talks

Relations between the US and China appear to remain tense. Last week in his speech at the UN General Assembly, US President Trump demanded that the global community hold China responsible for unleashing “this plague onto the world”.

With just weeks before the presidential election, Mr. Trump also used his speech to highlight what he sees as his foreign-policy achievements: isolating Iran, moving to withdraw forces from Afghanistan and orchestrating normalized ties between Israel and two Gulf Arab countries. But his attempt to shift the blame to China for the coronavirus pandemic — and away from what critics call his own inept response — was a dominant theme in the speech.

“We have waged a fierce battle against the invisible enemy — the China virus,” Mr. Trump said. He spoke of American advances in lifesaving treatments, predicted success in finalizing and distributing vaccines and asserted: “We will end the pandemic, and we will enter a new era of unprecedented prosperity, cooperation and peace.”

<https://www.nytimes.com/2020/09/22/world/americas/UN-Trump-Xi-China-coronavirus.html>

This was another speech by US President Trump likely targeted to his base (appearing tough on China), in the lead up to the election.

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

Last week there was some positive news on the trade deal negotiation front. But the EU aimed to dampen the optimism at this stage questioning whether the UK PM had the support of his party to negotiate the deal.

“We cannot trust this prime minister’s word, so the EU member states are not yet willing to go blind into a tunnel negotiation and see what happens,” said

one source. “It will take more than David Frost [the UK’s chief negotiator] telling us Johnson wants a deal.”

EU officials were on Friday unsure how to read an article by the political editor of the Spectator, James Forsyth, which said Downing Street could see “a deal is coming into view” and extolling the benefits for Johnson’s premiership.

A UK government official rejected the hope of an imminent breakthrough saying “there remains a lot of work to do and either outcome is still possible” warning the EU had to be “realistic” in the coming days.

Next week, negotiations restart in the lead up to the 15-16 Oct European Council meeting. That next EC meeting was originally expected to be the final date allowing enough time for the EC to ratify any agreement. It is likely that a special meeting will be required before the Dec EC summit.

When the next round of negotiations opens next week, the EU is hoping Frost will present a compromise proposal on the key issue of control of state aid to businesses. “There is better mood music but **no substance yet from London to justify it,**” one diplomatic source said.

<https://www.theguardian.com/politics/2020/sep/25/brexit-brussels-punctures-optimism-that-deal-in-sight>

The internal market bill (and the finance bill) has yet to be tabled in the UK Parliament. The timetable for the bills will be an indicator of how talks are progressing between the two sides. The internal markets bill is the proposed UK Brexit legislation that would override the Brexit Withdrawal Agreement.

The proposed legislation would override aspects of a landmark Brexit withdrawal agreement involving the treatment of the border between Northern Ireland, which is part of the United Kingdom, and Ireland, which will remain in the European Union.

<https://www.nytimes.com/2020/09/10/world/europe/brexit-boris-johnson-ireland.html>

The latest minutes from the BoE underlines that current economic projections are based on an orderly Brexit with an established free-trade agreement between the UK and EU. The situation will be reviewed at the Nov BoE meeting – and it is possible that there will not be an agreement in place by then. This may trigger some further stimulus or emergency measures to be taken by the BoE.

A current list of all trade deals that the UK has so far negotiated is available at:

<https://www.gov.uk/guidance/uk-trade-agreements-with-non-eu-countries-in-a-no-deal-brexit#trade-agreements-that-have-been-signed>

The following trade items have recorded no change in status:

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

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%20however%20will%20have.effect%20on%20January%201%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 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.

S.301 US 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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