

Key Themes

The current US initial and continuing jobless claims are still missing up-to-date California figures. This is likely to be updated in the following week. As of the 26 Sep, continuing claims across all programs still totalled more than 25m people.

US retail sales growth in Sep was stronger. The general theme reflected the ongoing shift in consumer behaviour from lockdowns and restricted activity (mainly home-based consumption) to more on-the-go consumption.

US consumer prices increased at a slightly faster pace in Sep. Underlying CPI growth was little changed. Some acceleration in core goods prices (used cars mainly) offset some slower growth in core services, including shelter.

Despite more positive Sep figures, sentiment at the start of Oct reflected increased concern for current weakening conditions. But there was an improvement in expectations for future conditions.

Slowing employment growth, the resurgence in covid-19 infections, and the absence of additional federal relief payments prompted consumers to become more concerned about the current economic conditions.

US industrial production was weaker in Sep, especially for manufacturing and utilities output. The two regional manufacturing surveys for Oct were quite strong though – suggesting some firming of activity.

Employment in Australia declined in Sep – led by a decline in full-time employment. This only partially offset the stronger employment growth from the prior month. Total unemployed persons increased. The increase in total unemployed persons would have been larger if not for the decline in participation. The underutilisation rate increased slightly to 18.3%. Aside from the four months between Apr and Jul 2020, the underutilization rate in Sep is still the highest in the series history – highlighting the weakness and slack that remains in the labour market.

Chinese trade data reflected more moderate export growth in Sep. Import growth though was stronger for the month – this included a larger increase in imports from the US for the month.

Contents

US Data - Initial Jobless Claims (wk ending 9 Oct), Continuing Unemployment Claims (wk ending 2 Oct), and PUA Claims, Retail Sales (Sep), Uni of Michigan Consumer Sentiment Prelim (Oct), CPI (Sep), Industrial Production (Sep), NY Empire State Manufacturing Index (Oct), Philadelphia Fed Manufacturing Survey (Oct), PPI (Sep), MBA Mortgage Applications wk ending 9 Oct

Europe - CPI (Sep)

Japan – Industrial Production Final (Aug)

Australia – Employment and Labour Market Survey (Sep)

China – Balance of Trade, Exports & Imports (Sep), CPI & PPI (Sep)

Trade – Updated: Brexit

No Update: US-China Trade Talks, 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 9 Oct), Continuing Unemployment Claims (wk ending 2 Oct), and PUA Claims

It appears that the California data is yet to be updated as prior weeks' results are still provided as estimates for the latest week. Despite that, there were some larger increases in state based initial claims this week.

Initial claims (NSA) for the latest week (state & fed) was 1,258,776 claims (wk ending 10 Oct).

Continuing claims across all programs for the latest week (26 Sep – so this lags) was 25,290,325 people.

STATE PROGRAMS

Initial Jobless Claims (NSA) – wk ending 10 Oct: 885,885 claims

This was higher than in the week prior which was 809,215 initial claims

Continuing Claims (NSA) – wk ending 3 Oct: 9,631,588

This was lower than the 10,819,790 claims in the week prior (26 Sep).

FEDERAL PROGRAMS (PANDEMIC UNEMPLOYMENT INSURANCE - PUA)

Initial Claims PUA (NSA) – wk ending 10 Oct: 372,891 claims

Continuing Claims PUA (NSA) – wk ending 26 Sep: 11,172,335, which was lower than the week prior

Pandemic Emergency UC (NSA) – wk ending 26 Sep: 2,778,007 claims

This was a significant increase of +818k from the week prior. This suggests that as some benefits start to expire, there has been increasing demand for this federal program:

PEUC is a temporary program that provides up to 13 weeks of 100% Federally-funded benefits to individuals who: 3 • **have exhausted all rights to regular compensation under state law or Federal law with respect to a benefit year that ended on or after July 1, 2019;** • have no rights to regular compensation with respect to a week under any other state UC law or Federal UC law, or to compensation under any other Federal law; • are not receiving compensation with respect to a week under the UC law of Canada; and • are able to work, available to work, and actively seeking work, while recognizing that states must provide flexibility in meeting the “actively seeking work” requirement if individuals are unable to search for work because of COVID-19, including because of illness, quarantine, or movement restriction.

https://wdr.doleta.gov/directives/attach/UIPL/UIPL_17-20.pdf

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

Retail Sales (Sep)

US retail sales increased at a much faster pace in Sep compared to Aug. This was the result of faster growth across many retail sectors but the larger contributors to growth in the month were motor vehicles, clothing stores, general merchandise, and food service.

The general theme of this report reflected consumers slowly shifting from lockdowns and restrictions (mainly home-based consumption) to more outside and on-the-go consumption.

The annual pace of growth in Sep was +5.4% ahead of the same month a year ago – this is now more in line with the annual pace of growth prior to the pandemic.

Retail Sales (value) – month change: Sep +1.9% (+\$10.3bn) versus Aug +0.6% (+\$3.1bn)

The largest dollar contributors to growth this month were:

Motor vehicles: Sep +3.6% (+\$4bn) versus Aug +0.7%. Motor vehicle sales are now +14% ahead of the same month a year ago.

Clothing Stores: Sep +11% (+\$1.9bn) versus Aug +1.4%. This was finally a good month for clothing stores which had suffered significantly during the Apr-May period. Despite a much stronger month, sales of clothing stores remain 12% below the same month a year ago.

Food Service and Drinking Places: Sep +2.1% (+\$1.1bn) versus Aug +4.3%. Growth slowed slightly this month but remains positive. Compared to the same month a year ago, sales of food service outlets remain 14% below Sep 2019.

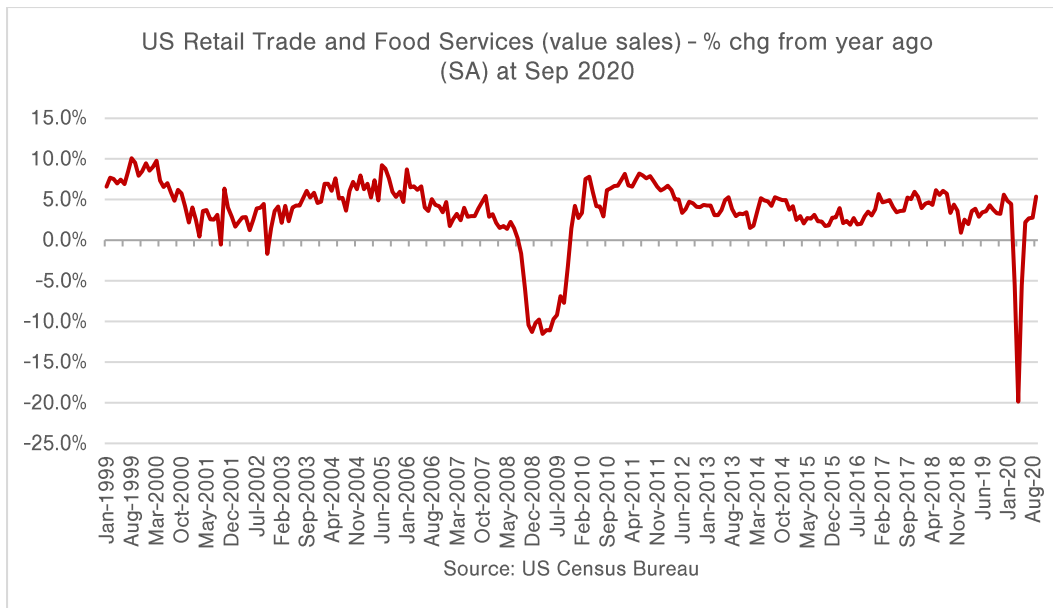
The second largest retail sales category is grocery & beverage stores. Growth in Sep was a lacklustre 0% after declining by -1.4% in Aug. Some of this expenditure has likely been diverted to food service. Grocery sales remain elevated at +11% versus a year ago.

Faster growth was also recorded for: health and personal care, gasoline stations, sporting goods, and non-store retail. Non-store retail sales were extremely elevated during the pandemic as trading restrictions were implemented. Monthly growth has slowed to +0.5% (+\$0.4bn) but sales remain +27% ahead of the same month a year ago.

Retail sales slowed across: electronics and appliances, building materials, furniture, and misc stores.

Retail Sales (value) – annual change: Sep +5.4% versus Aug +2.8%

While the annual growth accelerated in Sep, the pace is now just back on par with the levels of growth recorded in the months prior to the pandemic.



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

Uni of Michigan Consumer Sentiment Prelim (Oct)

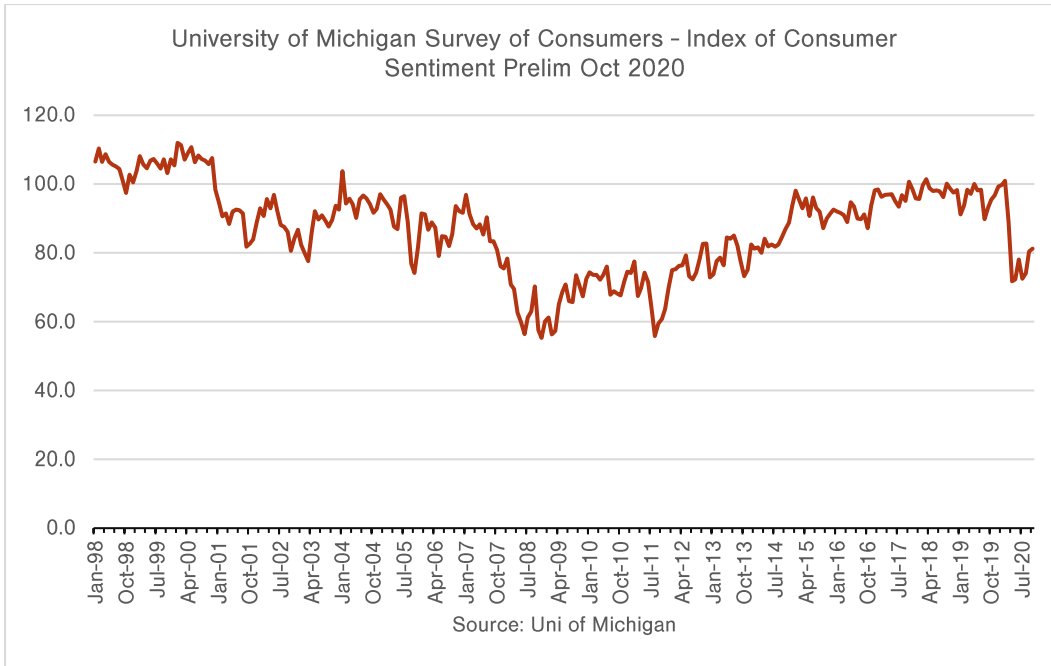
Small gains were made across the headline consumer sentiment index and the index of expectations for the year ahead. But the index of sentiment around current conditions shifted lower again.

Slowing employment growth, the resurgence in covid-19 infections, and the absence of additional federal relief payments prompted consumers to become more concerned about the current economic conditions.

Those concerns were largely offset by continued small gains in economic prospects for the year ahead.

Headline Consumer Sentiment Index: Oct Prelim 81.2 versus Sep 80.4

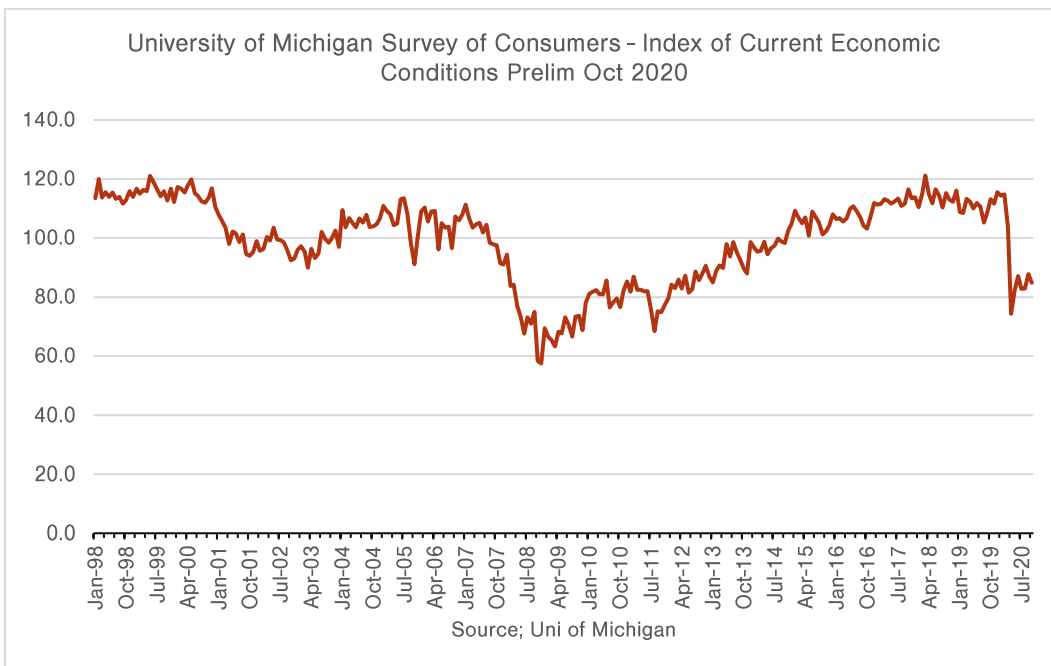
Despite the small gain at the start of Oct, the index remains well down on the prior peak of 101 in Feb 2020. The index is still currently 15% below the same month a year ago.



Index of Current Economic Conditions: Prelim Oct 84.9 versus Sep 87.8

The index of current economic conditions fell at the start of Oct, reflecting the growing concern over delayed stimulus and slowing employment growth.

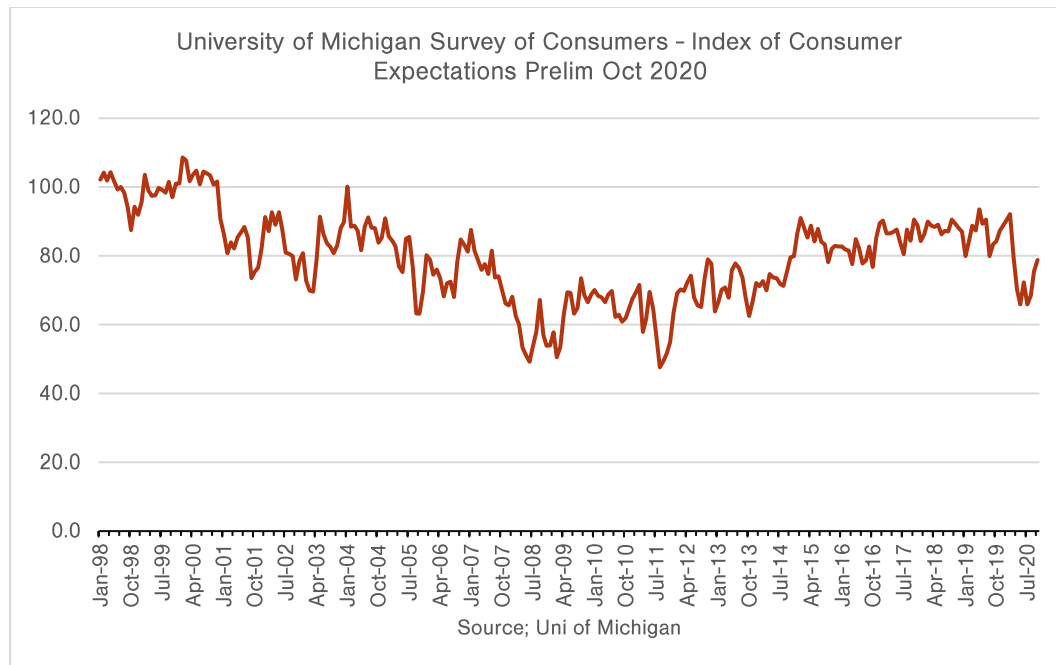
The index remains 25% below the same month a year ago. The post GFC peak was back in Mar 2018.



Index of Expected Conditions: Prelim Oct 78.8 versus Sep 75.6

Expectations around future conditions continued to increase. Gains were likely the result of expectations around further stimulus payments/clarity after the election.

Despite the gain at the start of Oct, the index is still 6% below the same month a year ago and 14% below the Feb 20 near-term peak. The post GFC peak was in May 2019.



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

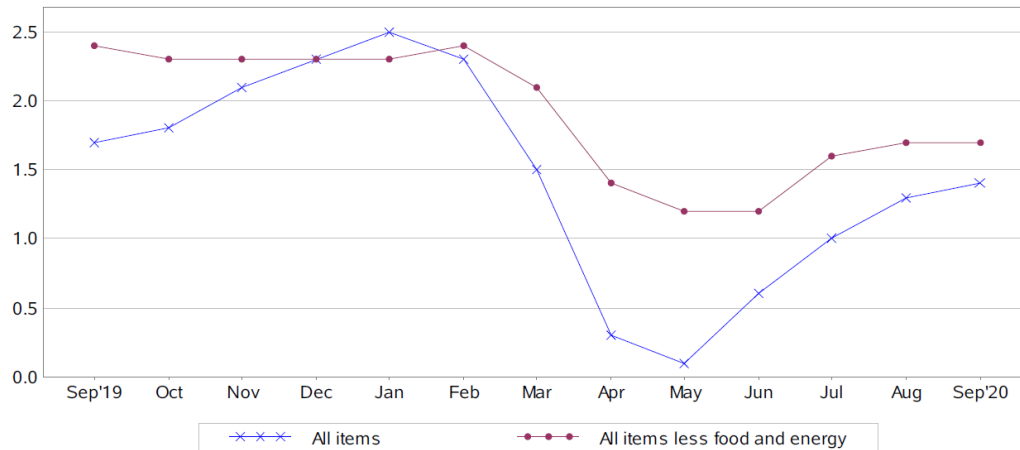
CPI (Sep)

US consumer price growth increased at a slightly faster pace this month. Underlying CPI growth was little changed in Sep, growing at the same pace as at Aug. Some acceleration in core goods prices (used cars mainly) offset some slower growth in core services, including shelter. Annual growth in food prices remains elevated while energy prices continue to decline. On a monthly basis, food price growth has stabilized, but energy price increases have been accelerating.

All Items CPI – annual change: Sep +1.4% versus Aug +1.3%

The slight acceleration in the CPI was the result of no change in the pace of growth in core prices, while energy prices declined at a slower pace, and food prices overall increased at a slower pace.

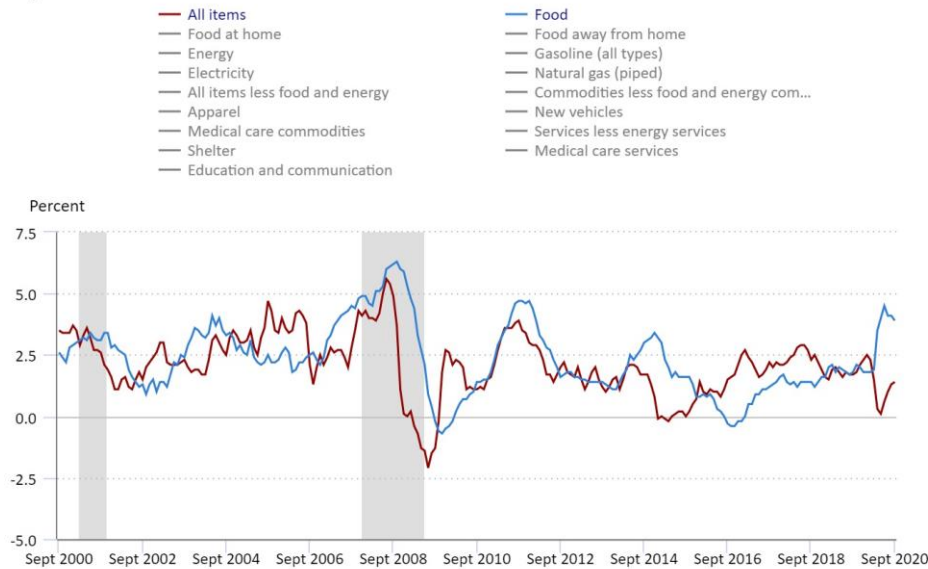
Chart 2. 12-month percent change in CPI for All Urban Consumers (CPI-U), not seasonally adjusted, Sep. 2019 - Sep. 2020
Percent change



Food prices increased by +3.9% on an annual basis as of Sep, well above the level of recent years. This has been led by accelerated growth in food at home prices +4.1% annual growth and food away from home prices, +3.8% (which has started accelerating).

Food price growth on a monthly basis has stabilized over the last few months.

12-month percentage change, Consumer Price Index, selected categories, not seasonally adjusted

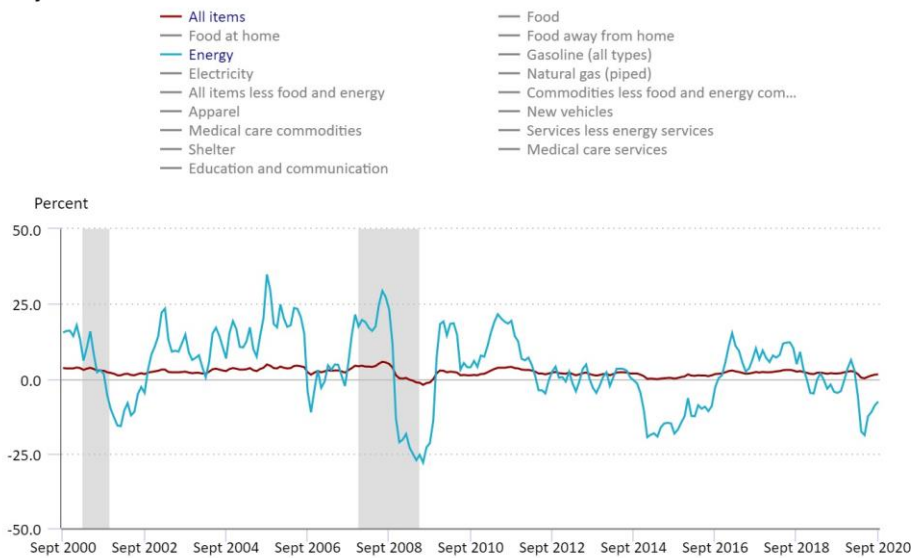


Hover over chart to view data.
Note: Shaded area represents recession, as determined by the National Bureau of Economic Research.
Source: U.S. Bureau of Labor Statistics.



Energy prices have continued to decline on a year ago basis – Sep -7.7% (versus Aug -9%). On a monthly basis though, energy prices have been increasing again. The scale of the shift in energy prices has been large – almost offsetting the increase in food prices (despite a smaller weighting in the CPI).

12-month percentage change, Consumer Price Index, selected categories, not seasonally adjusted



Hover over chart to view data.
 Note: Shaded area represents recession, as determined by the National Bureau of Economic Research.
 Source: U.S. Bureau of Labor Statistics.

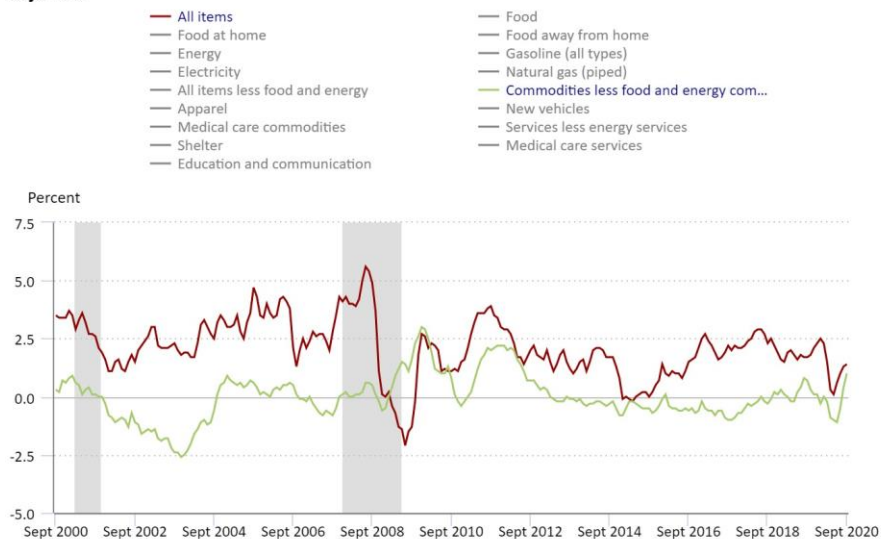


All items excluding food and energy prices (core CPI) increased at a similar annual pace in Sep of +1.7% versus Aug +1.7%.

There have been some larger shifts in price growth within core CPI.

Core CPI Goods (commodities less food and energy commodities) – annual change: Sep +1% versus Aug +0.4%

12-month percentage change, Consumer Price Index, selected categories, not seasonally adjusted



Hover over chart to view data.
 Note: Shaded area represents recession, as determined by the National Bureau of Economic Research.
 Source: U.S. Bureau of Labor Statistics.



The large acceleration this month was the result of used car prices (which we also noted in the PCE price index data for Aug). Used cars and trucks increased by +10.3% on an annual basis in Sep and +6.7% in the month of Sep versus Aug!

This offset a further decline in Apparel prices. Apparel retail sales were extremely weak and hit heavily during the shutdown in Apr-May.

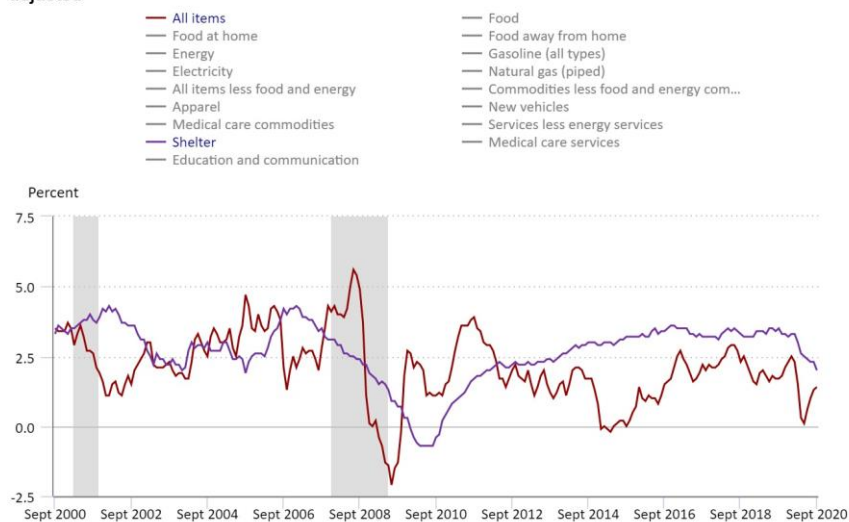
The single largest weight in the CPI is services and accounts for most of the contribution to the annual growth in the CPI.

Core CPI Services (services less energy services) – annual change: Sep +1.9% versus Aug +2.2%

The slowdown in the annual price growth was led by slower growth in shelter, medical services, and the continual decline in transport services prices.

Shelter prices make up the single largest weight in the index and accounted for about 50% of the CPI annual growth in Sep. Price growth for shelter, which includes rent, has been slowing. This is also a function of some continuation of eviction moratoriums. Shelter prices as of Sep increased by 2% versus +2.3% in Aug.

12-month percentage change, Consumer Price Index, selected categories, not seasonally adjusted



Hover over chart to view data.
 Note: Shaded area represents recession, as determined by the National Bureau of Economic Research.
 Source: U.S. Bureau of Labor Statistics.



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

PPI (Sep)

The annual growth in the PPI increased for the first time since Mar this year. This comes after five months in a row of prices increases. Core PPI increased at a faster annual pace in Sep and was faster than headline which indicates some underlying price pressures.

The Producer Price Index (PPI) of the Bureau of Labor Statistics (BLS) is a family of indexes that measures the average change over time in prices received (price

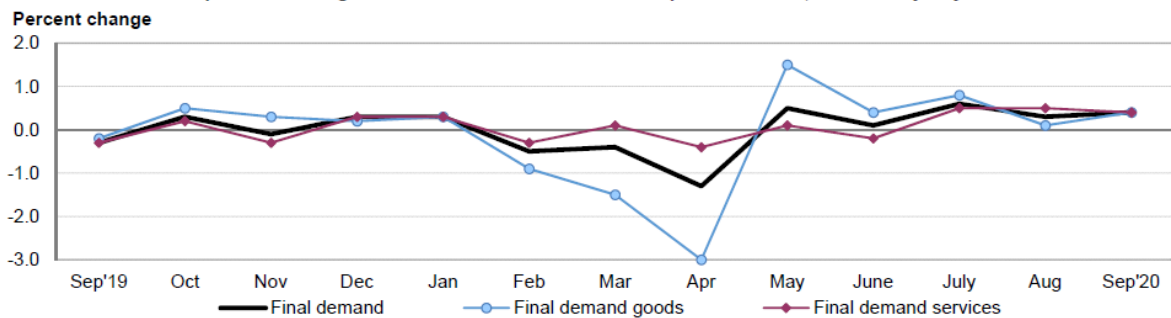
changes) by producers for domestically produced goods, services, and construction. PPIs measure price change from the perspective of the seller.

The final demand portion of the FD-ID structure measures price change for commodities sold for personal consumption, capital investment, government, and export.

PPI Final Demand (SA) – month change: Sep +0.4% versus Aug +0.3%

This was the fifth month where the headline PPI increased month on month.

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



The month on month change was the result of faster growth in final demand goods prices and only slightly slower growth in final demand services prices.

Final Demand Goods Prices – month change: Sep +0.4% versus Aug +0.1%

Goods prices have increased for five months in a row now, after the significant decline in Apr. Although there was a +1.2% increase in Foods prices for Sep, underlying growth in goods producer prices (ex food and energy goods) was higher: Sep +0.4% versus Aug +0.1%.

A 14.7-percent rise in prices for iron and steel scrap was a major factor in the September advance in the index for final demand goods.

Prices for fresh and dry vegetables, residential electric power, corn, beef and veal, and oilseeds also moved higher. In contrast, the gasoline index fell 2.8 percent.

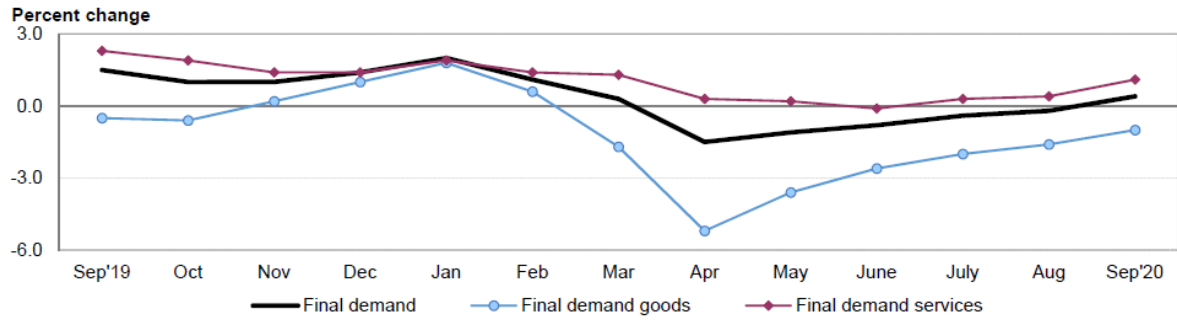
Final Demand Services Prices – month change: Sep +0.4% versus Aug +0.5%

Within services, results were mixed. Growth in trade prices (measures changes in margins for retail and wholesale) slowed notably from +1.2% in Aug to +0.2% in Sep. Prices for transportation & warehousing and other both increased at a faster pace.

A 3.9-percent advance in the index for traveler accommodation services was a major factor in the September rise in prices for final demand services. The indexes for hardware, building materials, and supplies retailing; fuels and lubricants retailing; transportation of passengers (partial); food wholesaling; and hospital inpatient care also moved higher.

PPI Final Demand (NSA) – annual change: Sep +0.4% versus Aug -0.2%

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

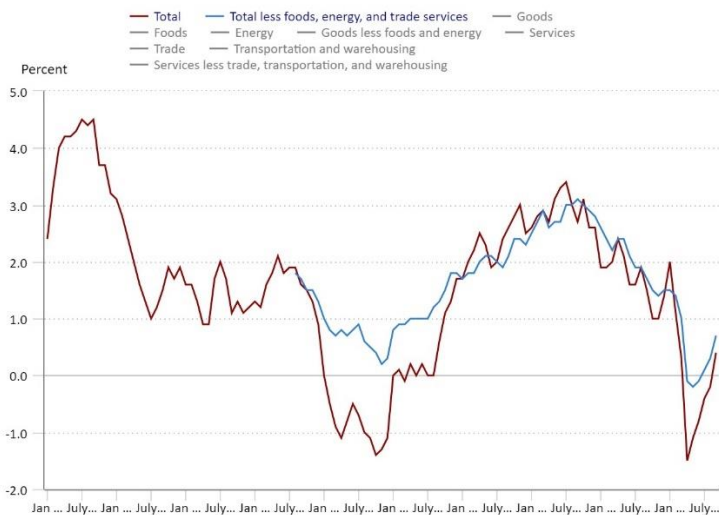


On an annual basis, the PPI increased ahead of a year ago for the first time since Mar this year.

The annual change in core PPI Final Demand increased at an accelerated pace in Sep.

Core PPI Final Demand Ex Food, Energy, Trade (NSA) – annual change: Sep +0.7% versus Aug +0.3%

PPI for final demand, 12-month percent change, not seasonally adjusted

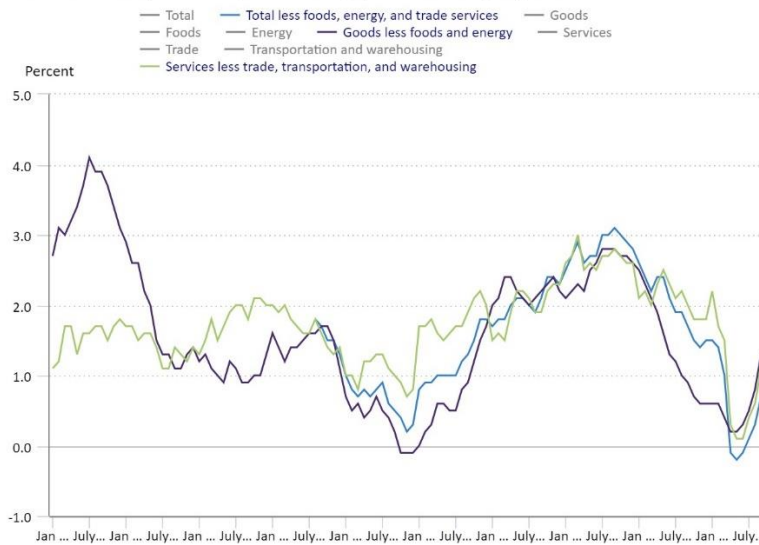


Hover over chart to view data.
 Source: U.S. Bureau of Labor Statistics.
 All data are subject to revision 4 months after originally published.



Of note was that underlying core goods and core services prices have contributed to the annual growth in the underlying PPI:

PPI for final demand, 12-month percent change, not seasonally adjusted



Hover over chart to view data.
 Source: U.S. Bureau of Labor Statistics.
 All data are subject to revision 4 months after originally published.



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

Industrial Production (Sep)

US industrial production declined in Sep compared to Aug. This was the first monthly decline after four consecutive months of rebound in output. The decline in Sep was led by a fall in manufacturing and utilities output. The fall in manufacturing was led by a decline in durable goods output, notably another 4% decline in motor vehicle output.

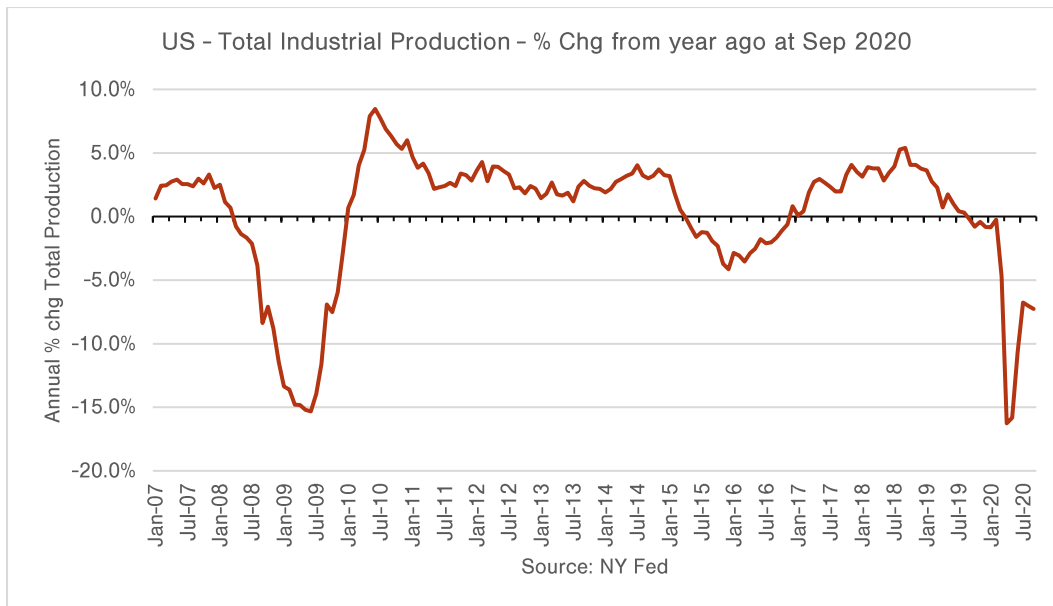
Mining output increased slightly but remains well below a year ago.

Although production has recovered more than half of its February to April decline, the September reading was still 7.1 percent below its pre-pandemic February level.

Overall capacity utilization also declined in Sep and remains around 71%.

Total Industrial Production Output – month change: Sep -0.6% versus Aug +0.4%

On a year ago basis, output declined by -7.3% in Sep, slightly faster than in Aug.



There are three main sectors with the total industrial output view: manufacturing, mining and utilities. This month, manufacturing and utilities output declined while mining increased slightly.

Manufacturing Output – month change: Sep -0.3% versus Aug +1.2%

This month the decline in manufacturing output was led by a fall in durable goods production (-0.6%). The decline was broad with eight out of the eleven durable goods categories recording monthly growth of less than 0%.

Of note was the second consecutive fall in motor vehicle output: Sep -4.6% versus Aug -4.3%. Output peaked in Jul. Motor vehicle production capacity utilization has also declined. On a year ago basis though, output is +0.4% ahead of the same month a year ago.

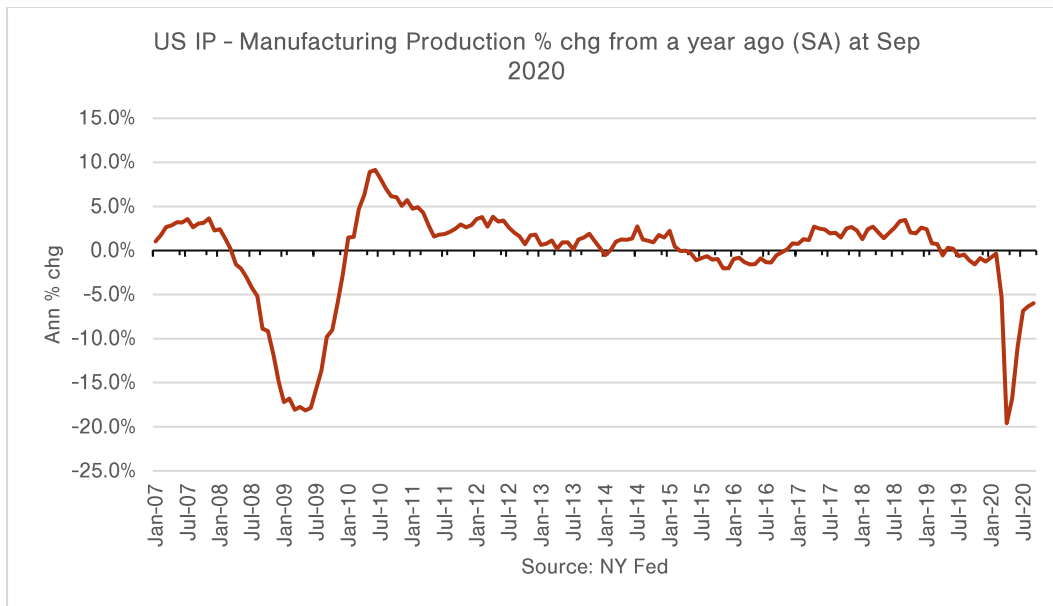
Output was only higher across aerospace, fabricated metals, and primary metal production for the month.

Non-durable goods production growth was lacklustre at 0% after a +1.7% increase in the month prior. This month, five out the nine non-durable goods industries recorded growth lower than 0%.

The largest decrease this month was petroleum and coal production -3.5% and apparel and leather goods -2.1%.

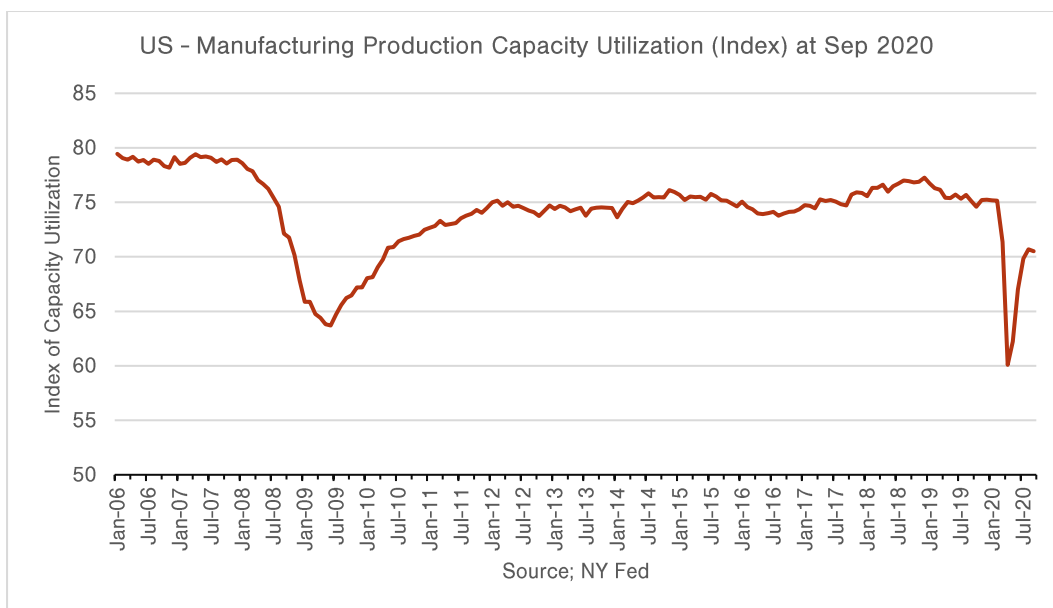
Food and beverage production declined by -0.4% in Sep after a +1.4% increase in Aug.

On a year ago basis, manufacturing output is still 6% below a year ago. Leading that decline is weaker Durable goods output at -7.1% below a year ago, while non-durable goods output is -4.2% below a year ago.



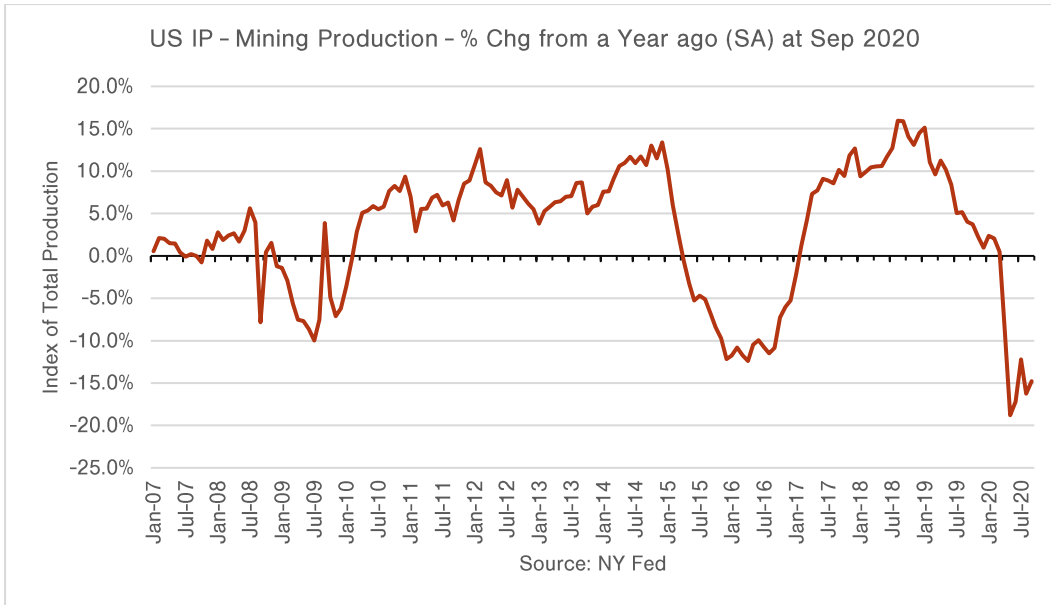
Total manufacturing capacity utilization highlights the ongoing weakness in the sector. Manufacturing utilization fell to 70.5% in Sep, still well down on the 77% from Sep 2019.

The rebound in utilization still has a long way to go to recover pre-pandemic levels – and this will have implications for ongoing business investment. But note that lower utilization levels were already apparent since Dec 2018.



Mining Output – month change: Sep +1.7% versus Aug -2.4%

Mining output growth has been slowing on an annual basis since Sep 2018. Output started to contract severely since Jan 2020 and remains 14.8% below the same month a year ago.

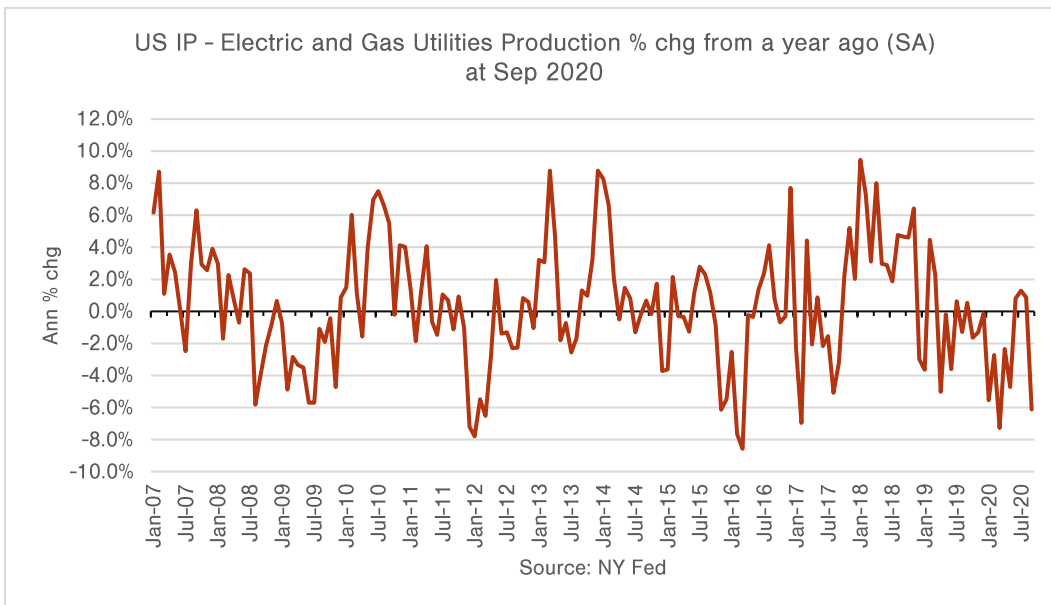


Mining capacity utilization recovered slightly in Sep, back up to 77.6% - off its May low of 72%.

Utilities Output – month change: Sep -5.6% versus Aug -1%

The output of utilities dropped 5.6 percent, as demand for air conditioning fell by more than usual in September.

After the fall in output for the month, utilities production was 6% below the same month a year ago.



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

NY Empire State Manufacturing Index (Oct)

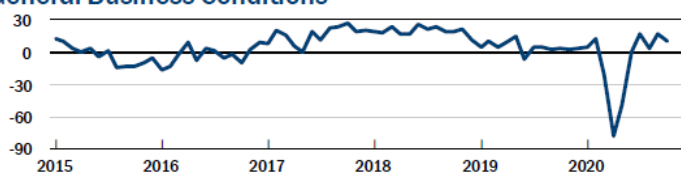
The slower increase in the headline general business conditions is not consistent with the improvement in the underlying components of the survey this month. New orders, shipments, employment and the average employee workweek all increased at a faster pace and the underlying shifts in firms performance were positive.

Inventory has continued to decline. This is happening at the same time as prices paid for inputs is increasing at a much faster pace than prices received.

General Business Conditions Index: Oct 10.5 versus Sep 17

There was a less positive underlying shift in firms reporting of general business conditions compared to Sep. Less firms reported improving conditions and more firms reported worsening conditions.

General Business Conditions



	Percent Reporting		Index
	Higher	Lower	
Sep	39.8	22.8	17.0
Oct	35.8	25.3	10.5
Change			-6.5

But the business activity components this month were all mostly positive.

The new orders index increased at a faster pace, rising from 7.1 in Sep to 12.3 in Oct. More firms reported higher orders and less firms reported lower orders.

The shipments index also indicated a faster pace of growth, increasing from 14.1 in Sep to 17.8 in Oct. There were slightly more firms reporting higher shipments and approx. the same number of firms reporting lower shipments compared to Sep.

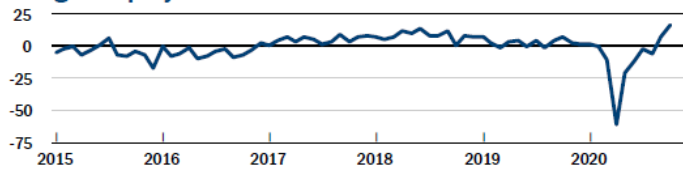
Unfilled orders continued to decline, but at a slower pace. The index improved from -9.4 in Sep to -6.6 in Oct. Again, more firms reported higher unfilled orders and less firms reported lower unfilled orders. This overall suggests some improvement/reduction in spare capacity.

Inventories continued to decline and at a much faster pace. It is unclear whether this is a deliberate strategy by firms to reduce inventory levels (likely given the uncertainty on conditions) or whether there are supply issues remaining (also possible). The index fell from -3.6 in Sep to -14.6 in Oct. There was a big jump in the proportion of firms reporting lower inventory.

The number of employees increased at a slightly faster pace with the index increasing from 2.6 in Sep to 7.2 in Oct. More firms reported higher employment while a similar number of firms reported lower employment compared to Sep.

The average workweek increased at a much faster pace. The index increased from 6.7 in Sep to 16.1 in Oct. As noted in other surveys, many manufacturing firms left employment little changed during the shutdowns and reduced hours instead. This has been one of the first more substantial increases in hours worked since Apr.

Average Employee Workweek



	Percent Reporting		Index
	Higher	Lower	
Sep	19.2	12.5	6.7
Oct	26.7	10.6	16.1
Change			9.4

The prices paid & prices received indexes still indicate that firms are generally facing weaker demand conditions. Prices paid continued to increase at a faster pace. The index in Oct was 27.8, with on third of firms reporting higher prices. Only 5% of firms reported lower prices (higher prices for inputs may also be a driver of lower inventories).

At the same time, price received increased, but at a slower pace. The index fell from 6.5 in Sep to 5.3 in Oct. This overall suggests that margins are likely being squeezed.

https://www.newyorkfed.org/medialibrary/media/survey/empire/empire2020/esms_2020_10_survey.pdf?la=en

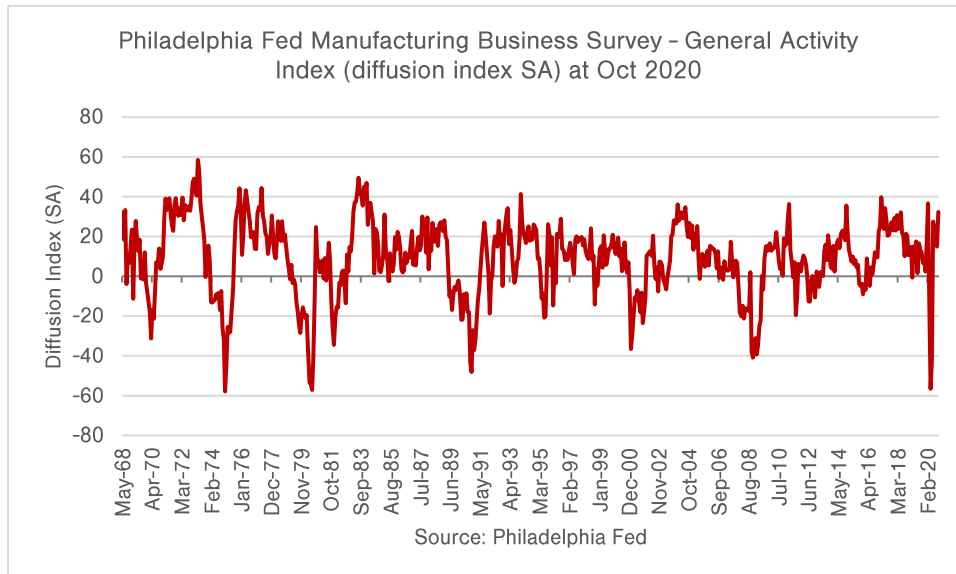
Philadelphia Fed Manufacturing Survey (Oct)

The headline index of manufacturing activity indicated a faster pace of growth this month. This was reflected across the important measures of demand and output this month. Employment growth remained constant, but hours worked increased at a much faster pace.

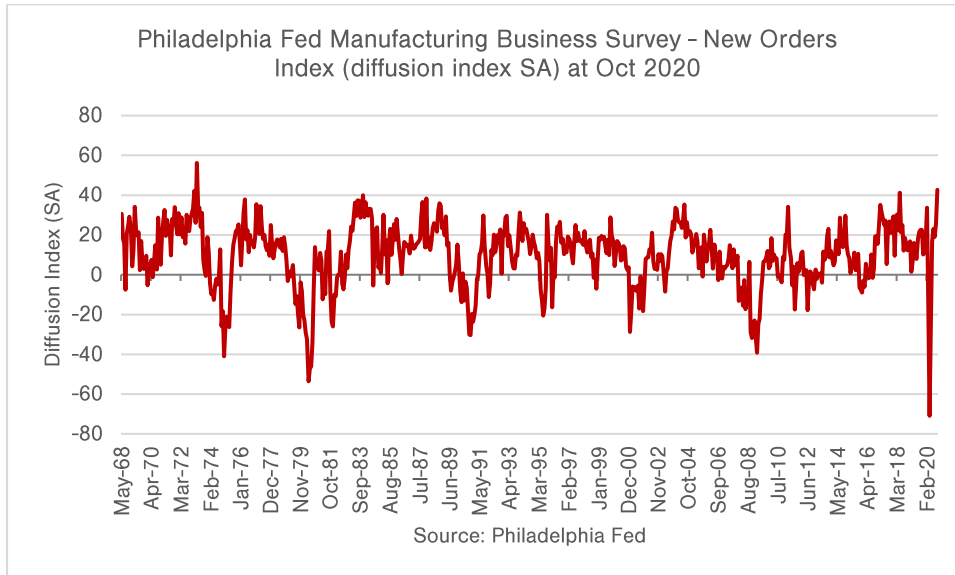
Most future indexes increased and continue to reflect optimism among firms about growth over the next six months.

General Business Activity Index: Oct 32.2 versus Sep 15

There was a further increase in the proportion of firms reporting an improvement in activity and a decline in the proportion of firms reporting a decline in activity levels.



Of note this month was the much larger increase in the new orders index. The index increased from 25.5 in Sep to 42.6 in Oct. Over half of all firms reported an increase in new orders in Oct up from 42% of firms in Sep. There was also a decline the proportion of firms reporting lower orders. Given the significant fall in activity in Apr when zero firms reported an increase in orders, this level of rebound is starting look more like what you would expect.

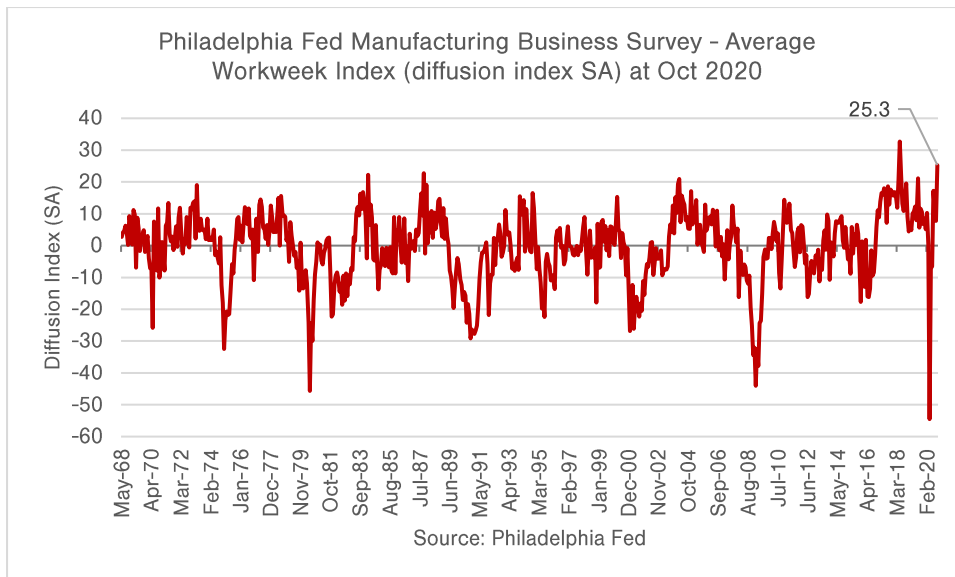


The shipments index also increased this month, indicating faster growth in shipments. Nearly 60% of firms reported an increase in shipments in Oct compared to Sep.

The unfilled orders index increased more notably this month increasing from 0.4 in Sep to 8.3 in Oct. While more firms reported an increase in unfilled orders, there was also a slight increase in the number of firms reporting a decrease in orders. Overall, the increase suggests that firms orders are increasing such that spare capacity is being reduced.

The employment index indicted that growth slowed slightly in Oct. The index fell from 15.7 in Sep to 12.7 in Oct. The main change was that more firms reported no change to employment. The proportion of firms reporting both higher and lower employment, declined in Oct compared to Sep.

Instead, the average workweek index indicated a more solid expansion in firms activity this month. The index increased from 7.8 in Sept o 25.3 in Oct.



Only 4% of firms reported a decline in average hours worked this month. Two thirds of firms reported no change in hours. But there was a larger increase in the number of firms reporting higher hours worked this month – from 18% of firms in Sep to 30% of firms in Oct.

The prices paid index indicated that more firms had recorded no change in prices. Firms reporting higher prices was unchanged at 28% of firms. Zero % of firms reported a decline in prices paid.

The prices received index remains lower than the prices paid. This month, the index fell from 18.4 in Sep to 14 in Oct. No firms reported a decline in prices received, but only 14% of firms reported an increase in prices received (down from 22% of firms in Sep). Just on 86% of firms reported no changes to selling prices. This suggests little price power, especially as prices paid has been increasing.

<https://www.philadelphiafed.org/-/media/research-and-data/regional-economy/business-outlook-survey/2020/bos1020.pdf?la=en>

MBA Mortgage Applications wk ending 9 Oct

There was a further fall in mortgage applications in the latest week. While there was a small decline in refi applications, purchase applications declined by a larger %. This was despite another new low for the 30yr fixed mortgage rate

Market Composite Index (loan applications volume) wk ending 9 Oct 2020: -0.7% versus the week prior

Both refis and purchases declined this week.

Refinance Index wk ending 9 Oct 2020: -0.3% versus a week ago

Refis remain +44% ahead of the same week a year ago.

The refinance share of mortgage activity increased to 65.6 percent of total applications from 65.4 percent the previous week.

The purchase index for wk ending 9 Oct 2020: -2% versus a week ago.

The purchase index is now 24% ahead of the same week a year ago.

"Mortgage applications for refinances and home purchases both decreased slightly last week, despite the 30-year fixed mortgage rate declining to a new MBA survey low of 3.00 percent. Applications for government mortgages offset some of the overall decline by increasing 3 percent, driven by a solid gain in government purchase applications and an 11 percent jump in VA refinance applications,"

"Refinance and purchase activity continue to run well ahead of last year's pace, fueled by record-low rates and strong homebuyer demand. Housing supply is a challenge for many aspiring buyers, but activity should continue to stay strong the rest of the year."

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

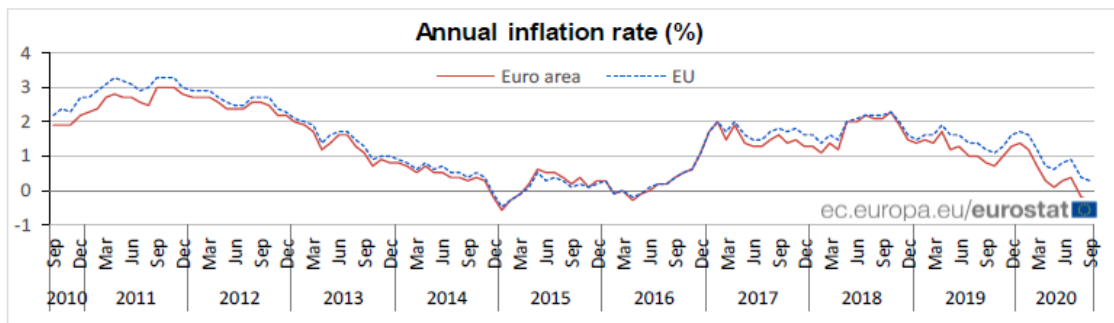
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Europe

Euro Area CPI Final (Sep)

The annual decline in the headline Euro area CPI accelerated in Sep. This was led mostly by a further acceleration in the decline in energy prices, but the contribution from services was also smaller.

Euro Area Headline CPI – annual change: Sep -0.3% versus Aug -0.2%

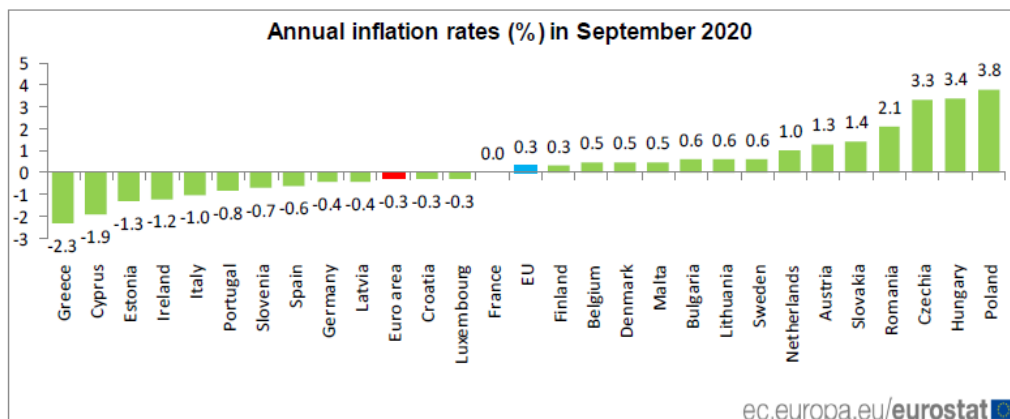


The contribution from Food, alcohol and tobacco prices was little changed. An acceleration in unprocessed food prices (+3.1%) somewhat offset processed food prices (+1.4%).

Energy prices declined at an accelerated annual pace falling by -8.8% in the year to Sep versus 7.8% in the year to Aug. This decline more than offset the increase from food and services prices.

Services prices, which has the largest weight in the CPI, continued to grow at a much slower annual pace. At Sep, annual growth was +0.5% - compared to the annual growth recorded in Sep 2019 of +1.5%.

Falling consumer prices have been recorded across many of the larger EU members:



<https://ec.europa.eu/eurostat/documents/2995521/10663702/2-16102020-AP-EN.pdf/24c495e2-62ac-8f65-9e87-47db57cf62f7>

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Japan

Industrial Production Final (Aug)

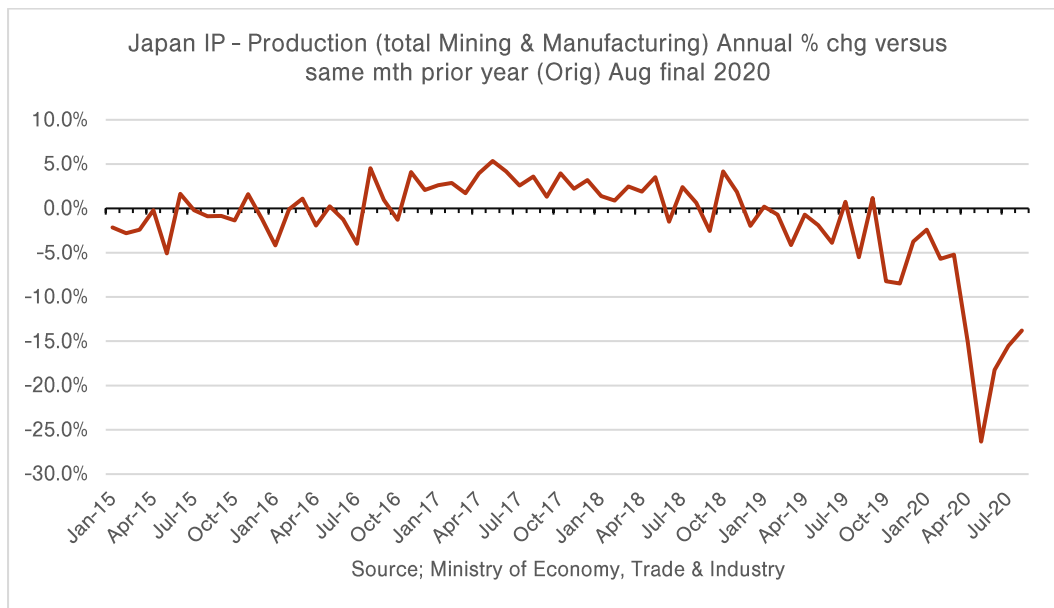
The Aug growth in industrial production and shipments was revised lower in the final release.

Japan Industrial Production – month change: Aug +1% (revised lower from +1.7%) versus Jul +8.7%

Production growth was higher than overall output growth in the following industries for Aug: iron & steel, general purpose & business machinery, electronic parts & devices, and transport equipment.

Output declined across production machinery, electrical machinery, and foods and tobacco production.

Output in Aug fell to 14% below the same month a year ago:

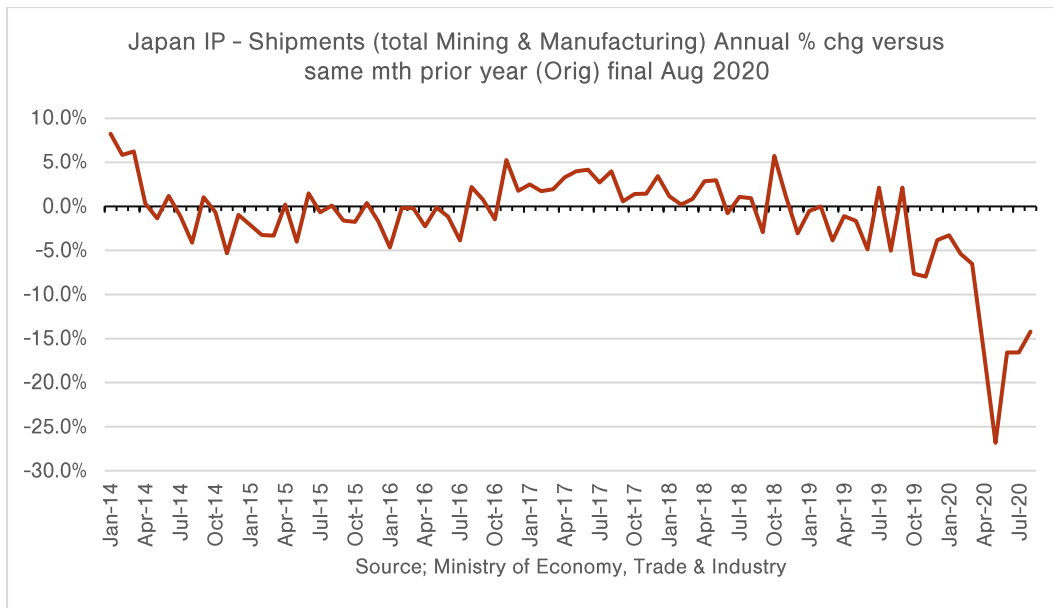


Shipments – month change: Aug +1.5% (revised lower from +2.2%) versus Jul +6.6%

Shipment growth remained stronger across only several industries: iron & steel, transport equipment and chemicals.

Shipments declined for fabricated metals, production machinery, electronic parts, electrical machinery, petroleum & coal, and foods & tobacco.

On an annual basis, shipments were -14% below the same month a year ago:



Inventory of Finished Goods – month change: Aug -1.3% (revised from -1.4%) versus Jul - 1.5%

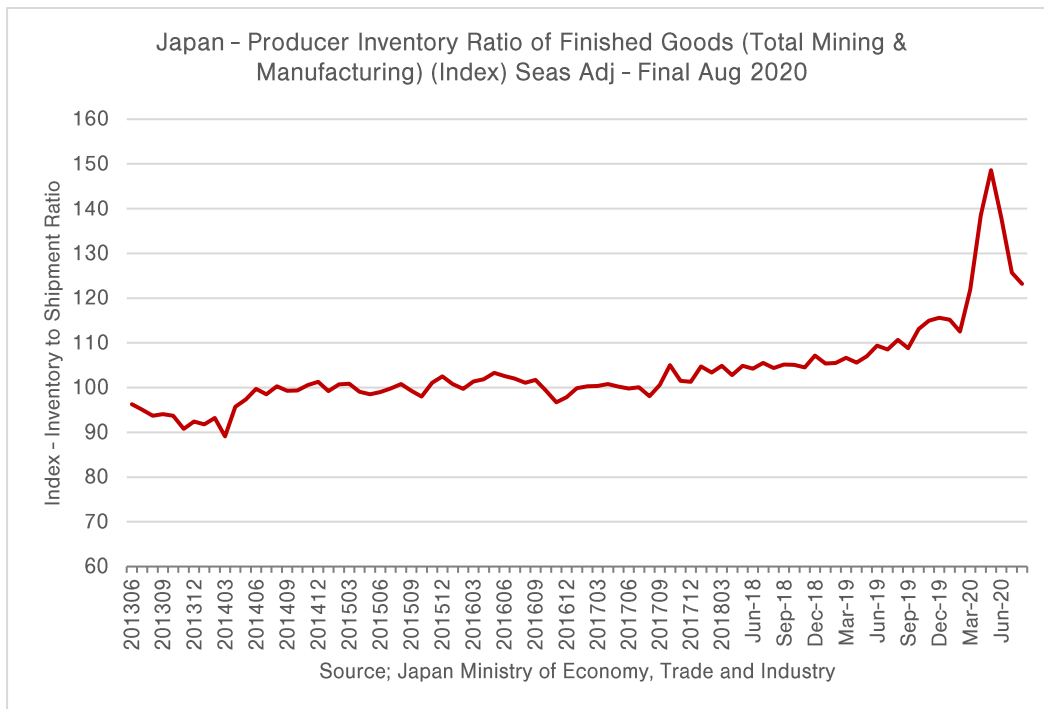
As noted in the prelim release, the overall decline in finished goods inventory has been led by the largest weight item in the index (17% weight) iron, steel and non-ferrous metals. Inventory declined by -5.3% in Aug.

There were some smaller declines of finished goods inventories across most industries. These were only partially offset by +7.7% increase in inventory for transport equipment and a +4.4% increase in finished goods inventory for electronic parts and devices.

The overall index of producers inventory of finished goods has been falling since Mar 2020. The annual pace of decline accelerated slightly in Aug to -5.9% from -4.8% in Jul.



Despite this fall/reduction in finished goods inventory, the current inventory ratio remains extremely elevated – likely reflecting the slower pace of shipments.



<https://www.meti.go.jp/english/statistics/tyo/iip/index.html>

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Australia

Employment and Labour Market Survey (Sep)

There was a decline in employment this month – led by a decline in FT employment. Total unemployed persons increased. The increase in total unemployed persons would have been larger if not for the decline in participation.

The concerning point is that despite the JobKeeper program, employment still declined.

Despite the stronger growth in employment in the month prior (mostly all PT), employment has only increased at a faster pace than the labour force in four out of eight months. Which means that total number of unemployed persons has increased in eight out of the last twelve months.

Total underutilization remains extremely elevated at 18.3% - highlighting the significant slack that remains in the labour market.

Aside from the four months between Apr and Jul, the underutilization rate in Sep is the still the highest in the series history.

This will likely weigh on wages growth for some time to come.

All data reported are the seasonally adjusted series.

EMPLOYMENT

Total employed persons – month change: Sep -29.45k persons versus Aug +129k persons

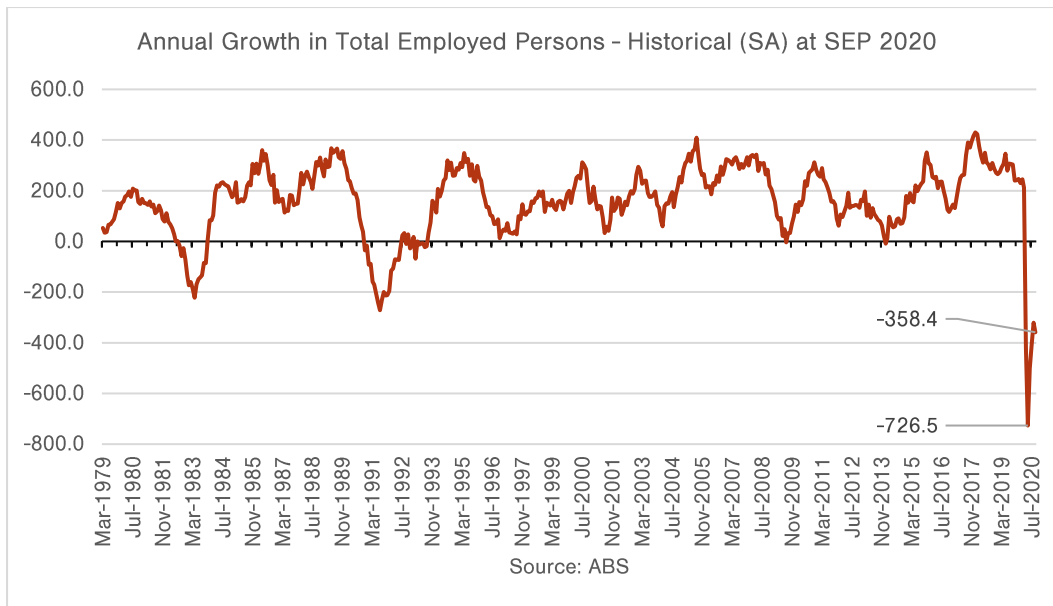
The decline in employment this month was led mostly by the fall in Vic. Employment growth in NSW was flat. Employment also declined in TAS, NT, and the ACT – all smaller states. Growth in QLD and SA was stronger (neighbouring states to VIC). Employment in WA was also little changed.

The fall in employment is concerning given that the Federal Govt JobKeeper program is targeted to supporting an ongoing attachment to a job. The program extension at the lower funding rate came into effect from the end of Sep. If you are on JobKeeper, you should be counted as 'employed', even if you have not worked any hours in the reference week.

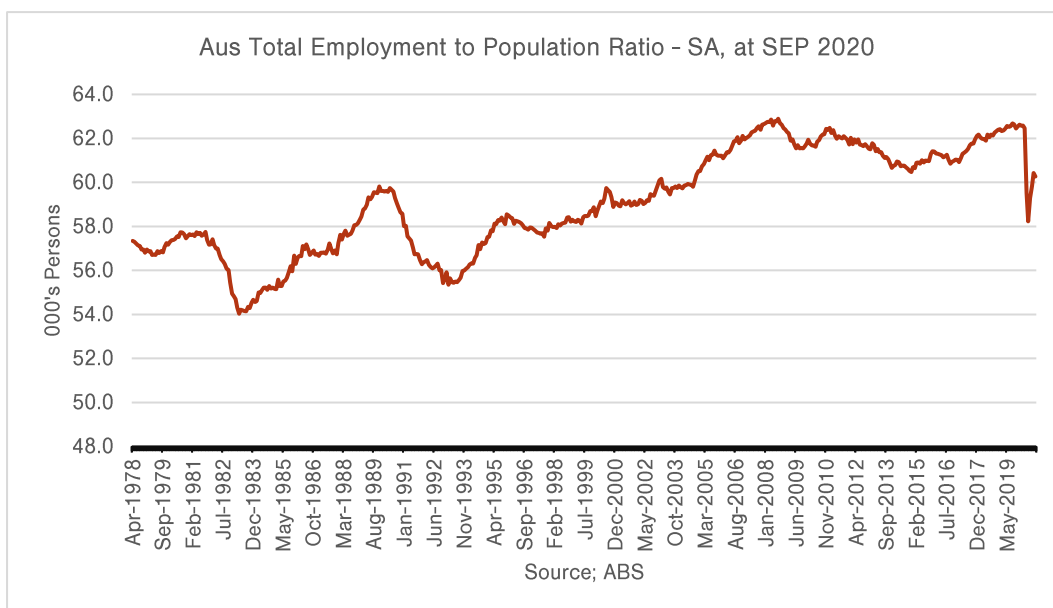
The ABS expects that people who are paid through the JobKeeper scheme will answer the questions in a way that results in them being classified as employed, regardless of the hours they work (e.g. even if they are stood down). People paid through JobKeeper may work less hours, the same hours, or more hours, than usual.

Most of the decline in employment was full-time (FT) employed persons of -20k. Part-time (PT) employed persons declined by -9k in Sep, after a much stronger increase of +117k in the prior month.

On an annual basis, the decline in employment increased to -358k persons below the same month a year ago.



Given the fall in employment this month, the employment to population ratio also turned down again, falling from 60.4% in Aug to 60.3% in Sep. Aside from the shutdown this year, the last time the employment to population ratio was this low was back in Sep 2004.

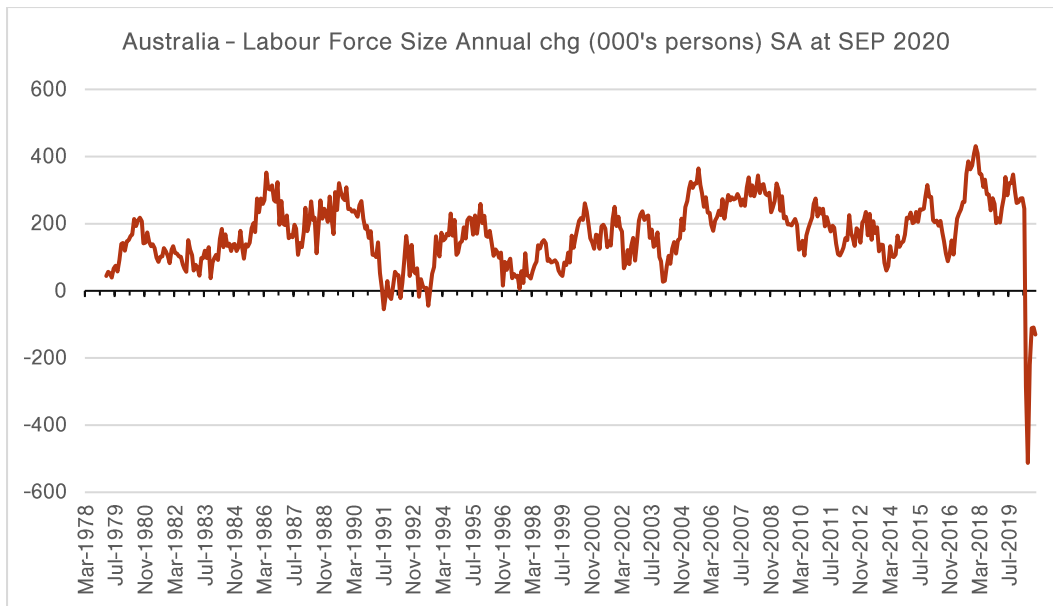


TOTAL LABOUR FORCE

Helping to mitigate the impact of the decline in employment was the decline in the labour force size this month. This was led by a further decrease in participation.

Total labour force - month change: Sep -18k versus Aug +46k persons

The total size of the labour force remains approx. 130k persons lower than in the same month a year ago.



The change this month was the result of a further decline in participation, which decreased to 64.8% versus 64.9% in Aug. This equated to approx. 24k persons leaving the labour force. If participation had not declined, the increase in total unemployed persons would have been larger.

On an annual basis, the decline in participation equates to approx. 270k fewer people in the labour force.

The other component of the labour force is population growth – which has been slowing notably on a monthly basis since Apr.

Given the decline in employment this month was larger than the decline in the labour force, total unemployment increased.

TOTAL UNEMPLOYED PERSONS

Total unemployment shifted back to increasing again in the latest month. There have only been four months in the last twelve months where total unemployed person declined in the month. This also indicates some weakening of the labour market even before there were shutdowns in the economy.

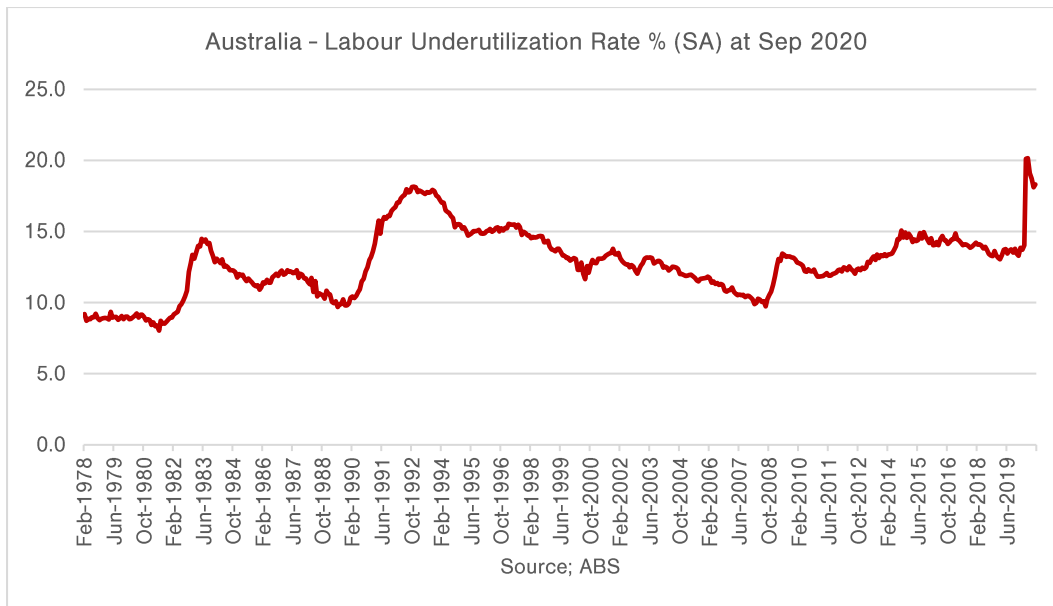
Total unemployed persons – month change: Sep +11k persons versus Aug -82k persons

The total number of unemployed persons remains +228k ahead of the same month a year ago. The unemployment rate increased slightly to 6.9%.

TOTAL UNDERUTILIZATION

The sum of the number of persons unemployed and the number of persons in underemployment, expressed as a proportion of the labour force.

The underutilization rate increased to 18.3% up from 18.1% in Aug. Whilst this is an improvement from the 20.2% underutilization rate from May, the level remains extremely elevated. This represents significant slack remaining in the labour force:



Aside from the four months between Apr and Jul, the underutilization rate in Sep is the still the highest in the series history.

SUMMARY OF KEY LABOUR MARKET INDICATORS

	000's Persons	
	Annual Chg - SEP	Month Chg - SEP
The estimated change in the Labour Force due to pop growth	144.330	5.700
How many jobs available for them? (employment growth)	-358.360	-29.539
Difference (if positive, employment growing faster than pop est)	-502.689	-35.239
Change in labour force due to the change in participation	-274.567	-23.999
The reminder is the change in total unemployed persons	228.123	11.240
Double Check - Reported chg in size of the Labour Force	-130.237	-18.289
Two views of the size of the Labour Force:		
Underlying population growth plus changes in participation	-130.237	-18.299
Total employed persons plus total unemployed persons	-130.237	-18.299

<https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia/sep-2020#key-statistics>

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China

Balance of Trade, Exports & Imports (Sep)

This month the Chinese trade balance (USD) was lower than in the prior month. This was the result of faster growth in imports than in exports.

Export growth in the month was more muted at +1.9% compared to the 15% increase in imports for the month. The substantial lift in imports for the month will likely have a positive impact on activity in key import market markets.

The pace of exports and imports have rebounded on a monthly basis to be ahead of the same month a year ago. But on a year to date basis, exports & imports and yet to recover from the Jan-Feb decline and the YTD total remains below the same period a year ago.

All data in USD.

Trade Balance – month: Sep \$37bn versus Aug \$58.9bn

The trade balance a year ago in Sep 2019 was \$39bn.

EXPORTS

Exports – month change: Sep +1.9% versus Aug -1%

On a year ago basis in Sep, the total value of exports was +9.9% ahead of Sep 2019.

Despite the improvement in exports since the Jan-Feb decline, the YTD value of exports is still below a year ago by -0.8%.



Exports were stronger across most of the larger export customers but not to the two largest export customers this month.

Exports to the US were down -1.8% and exports to the EU were down -3.2%, of which there was a -7.2% decline in exports to Germany.

IMPORTS

Imports – month change: Sep +15% versus Aug +0.6%

On a year ago basis, imports in Sep were +13.2% ahead of Sep 2019.

Despite the improvement in imports since the start of the year, the total value of imports in the YTD to Sep remains 3.1% below the same period a year ago.



Imports were much stronger across many of the larger import markets.

Imports from Taiwan increased by +13.3%.

Imports from Japan in Sep increased by +20.7% - which confirms the stronger Japanese industrial production in Aug and the forecast for Sep.

Imports from Korea increased by +22%.

Imports from the US increased by +25.4%.

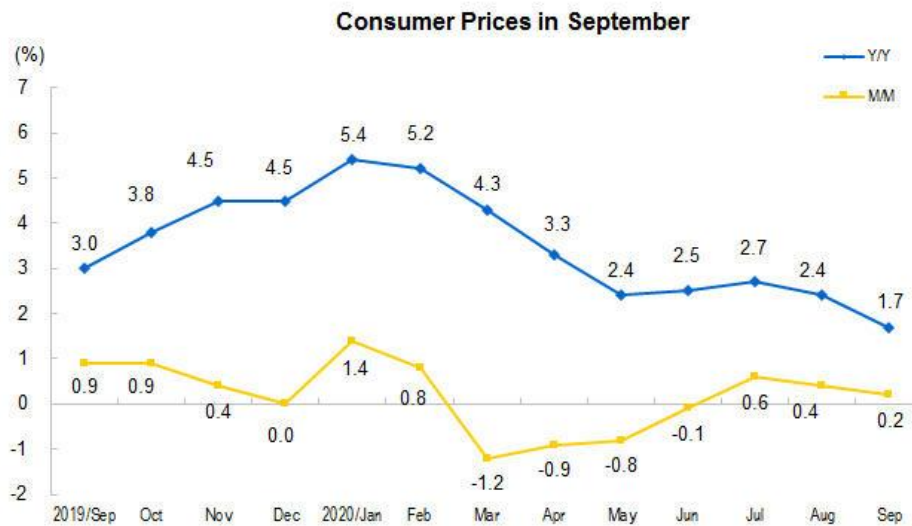
<http://english.customs.gov.cn/statics/report/preliminary.html>

CPI (Sep)

Growth in consumer prices slowed in the month and on an annual basis. The annual change in consumer prices has been decelerating throughout 2020 after a relatively fast pace of growth during 2019. This was linked mostly to food price inflation. Food prices continued to grow quickly on an annual basis. Larger growth in food prices and other articles and services has been somewhat offset by a decline across transport and comms prices (mostly fuel prices), clothing, and residence.

Headline CPI – annual change: Sep +1.7% versus Aug +2.4%

The headline CPI growth continues to slow and the month growth in consumer prices overall continues to abate after accelerating notably between Jun and Jul:



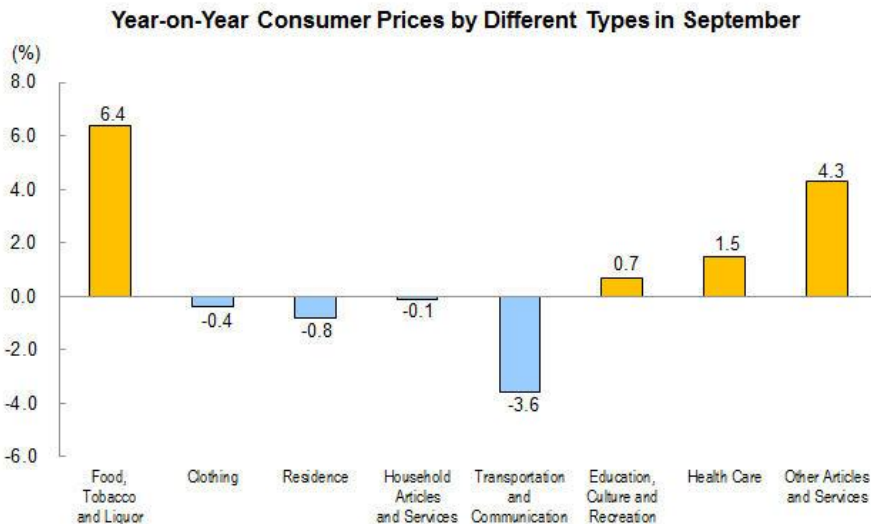
On an annual basis, food price growth remains elevated at 6.4%. Food prices increased by a more moderate +0.3% in Sep.

Driving the higher food prices has been meat & livestock - and prices remain extremely elevated on an annual basis.

livestock meat price went up by 22.6 percent, affecting nearly 1.39 percentage points increase in the CPI (price of pork was up by 25.5 percent, affecting nearly 1.00 percentage point increase in the CPI)

There was a minor fall in livestock meat in the month of -0.8%.

The higher food prices have been somewhat offset by a decline in transport & comms prices of -3.6%. Within this, motor fuel prices had fallen by 14.7% versus a year ago.



http://www.stats.gov.cn/english/PressRelease/202010/t20201016_1794303.html

PPI (Sep)

There are two views of the PPI for manufactured goods in the NBS data. The industrial producer price index and the purchaser price index:

The industrial producer price index reflects the trend and level of prices change when the products are sold for the first time.

The industrial purchaser price index reflects the trend and level of prices change for the products purchased by the industrial enterprises as intermediate inputs.

This month, the producer price index declined at a slightly faster annual pace while the month change in prices remained positive, but also slowed (following a similar pattern to the CPI).

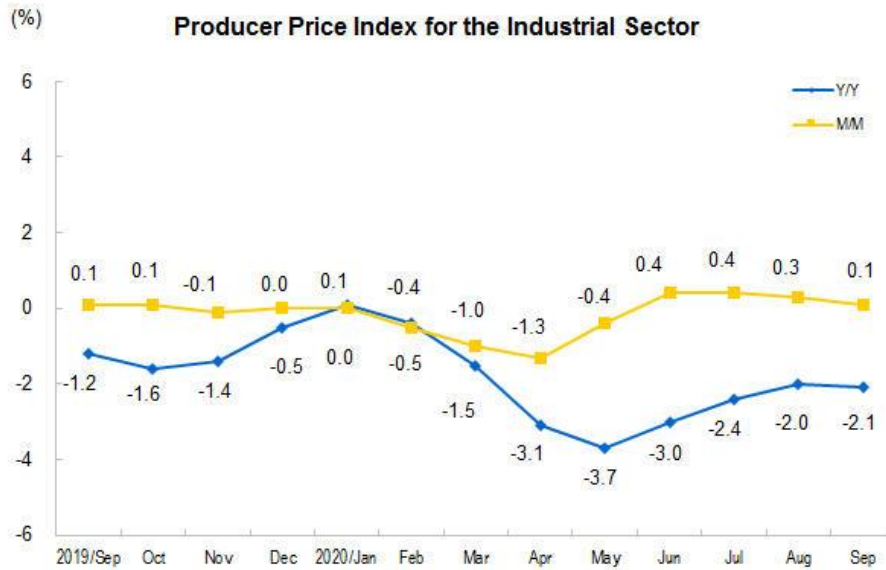
Helping to offset this decline in selling prices for producers has been a continued decline in input prices. Purchase prices continued to decline on an annual basis, but at a slightly slower pace. Producer purchase prices have rebounded somewhat after significant declines in May – mostly linked to falling oil prices.

Over recent months though, the monthly growth increase in purchaser prices has been growing faster than producer selling prices – likely eroding some margin on net.

Producer Price Index Industrial Sector – annual change: Sep -2.1% versus Aug -2%

The industrial producer price index reflects the trend and level of prices change when the products are sold for the first time.

So overall, producers selling prices have been lower versus a year ago:



There are two main PPI classifications:

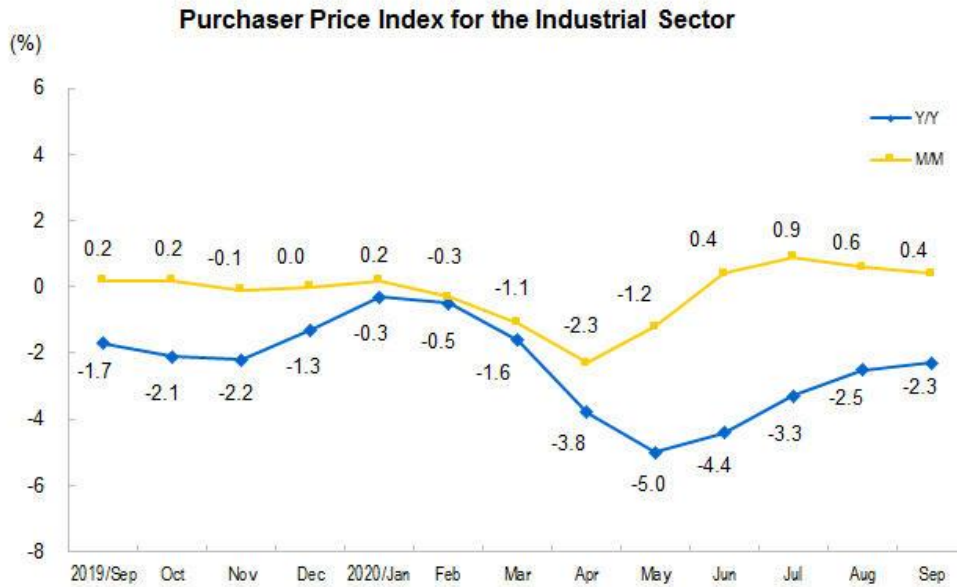
Means of production – which prices continue to decline (-2.8%) across mining & quarrying, raw materials, and processing on an annual basis.

Means of subsistence – prices are mostly on par with a year ago (-0.1%) but have been slowing. Food prices were the only category to record an annual increase (+2.1%). Consumer goods prices have slipped into decline though on a monthly basis.

Purchaser Price Index Industrial Sector – annual change: Sep -2.3% versus Aug -2.5%

The industrial purchaser price index reflects the trend and level of prices change for the products purchased by the industrial enterprises as intermediate inputs.

It is likely a positive for producers as input prices overall remain below a year ago, although have been edging higher on a monthly basis since Jun:



Most of the decline in purchase prices has been linked to oil. For example, fuel and power prices -9.3% versus a year ago, chemical raw materials -7.8%. There have been few offsetting higher prices.

Similar across industries: extraction of petroleum and nat gas -26.2%, processing of petroleum -16.9% and manufacture of chemical fibres -15.6%.

http://www.stats.gov.cn/english/PressRelease/202010/t20201016_1794307.html

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Trade

BREXIT

Given the lack of progress on trade deal negotiations, the UK-EU posturing ramped up in earnest leading into the EC summit on 15-16 Oct last week. The EC summit was a key milestone for the negotiations, and this has now been missed. Talks are currently at a standstill.

The UK firmed its position regarding negotiations with a series of announcements on Friday morning last week. By the afternoon on Friday, a spokesperson for the PM announced that negotiations were over:

"Trade talks are over. The EU have effectively ended them by saying they do not want to change their negotiating position." <https://www.bbc.com/news/uk-politics-54566897>

EU & UK lead negotiators held a call on Monday (19 Oct) and it is not clear at this stage whether Michel Barnier will travel to London this week for a series of more concentrated talks to come to an agreement.

Downing Street welcomed the "constructive discussion" but called for a further shift in position from Brussels before agreeing to resume formal negotiations.

"The UK has noted the EU's proposal to genuinely intensify talks, which is what would be expected at this stage in a negotiation," a Number 10 spokesman said.

"However, the UK continues to believe there is no basis to resume talks unless there is a fundamental change of approach from the EU.

"This means an EU approach consistent with trying to find an agreement between sovereign equals and with acceptance that movement needs to come from the EU side as well as the UK.

"The two teams agreed to remain in close touch."

<https://news.sky.com/story/brexit-eu-remains-available-to-intensify-talks-after-chief-negotiator-told-to-abandon-trip-to-london-12108524>

Late last week, there appeared to be some more flexibility on key issues from the EU.

Barnier has already said he wants to speed up the talks. The German chancellor, Angela Merkel, speaking on Friday, had said there was "leeway" in the negotiations. The French president, Emmanuel Macron, offered to compromise on fisheries, even though until now there has been stubborn resistance from Paris to any changes in the distribution of catches in British waters. <https://www.theguardian.com/politics/2020/oct/18/brexit-negotiations-expected-to-resume-despite-uks-tough-rhetoric>

Statements from the EU leaders still indicated a tough negotiation ahead.

After the EU summit concluded on Friday, German Chancellor Angela Merkel said it would be best to get a deal and that compromises on both sides would be needed.

French President Emmanuel Macron said the UK needed a Brexit deal more than the EU did. <https://www.bbc.com/news/uk-politics-54566897>

From the minutes of the EC meeting – preparedness is becoming a focus:

EU leaders called to step up their work on preparedness and readiness at all levels and for all outcomes, including that of no agreement.

<https://www.consilium.europa.eu/en/meetings/european-council/2020/10/15-16/>

If there is no trade deal negotiated in time for the deadline:

The UK and EU had been hoping for a "zero-tariff" agreement to govern their trading relationship once the UK's post-Brexit transition period ends on 31 December.

If no deal is reached, they will operate on World Trade Organization rules, meaning tariffs are imposed. <https://www.bbc.com/news/uk-politics-54566897>

The internal market bill (and the finance bill) has still been making its way through the UK Parliament:

The Bill completed its passage through the House of Commons on 29 September, having been amended by the Government to clarify some aspects of its intended operation. It is currently making its way through the House of Lords, where it is expected to have a more difficult passage.

<https://www.lexology.com/library/detail.aspx?g=bfa6cb0c-9f71-49aa-8c72-444615e32a44>

MPs have given their final backing to government plans to override parts of its Brexit agreement with the EU.

Amid concerns that the move would break international law, ministers agreed to give Parliament a say before ever using the powers they would be granted by the Internal Market Bill. <https://www.bbc.com/news/uk-politics-54341534>

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-brexith#trade-agreements-that-have-been-signed>

The following trade items have recorded no change in status:

US-China Trade Talks

There has been little change on the US-China trade front. The focus over the next few weeks will be the US Presidential election.

Relations between the US and China appear to remain tense. In a recent 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>

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%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 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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