

## Key Themes

Global services activity increased at a broadly similar pace in Sep as in Aug. The Eurozone slipped into slight contraction and Japan continued to contract at a similar, marginal pace. The US and UK services PMI's indicated that the pace of growth remained on par with the prior month.

The US ISM business activity and domestic new orders, especially, indicated a faster pace of growth in the services sector.

Given the tentative recoveries so far, especially in services and consumer facing industries the renewed outbreak of infections in Europe, the UK, and starting again in the US will test whether policy makers can balance the economic recovery with controlling another outbreak.

US JOLTS data indicated that employment continued to expand in Aug, but job openings were weaker in the month. The pace of layoffs and discharges fell to a series low – which is inconsistent with the rising permanent layoffs from the household employment survey. On a rolling 12-month basis to Aug, the difference between hires and separations implies a net employment loss of 7m as of Aug. This has improved from the -13.5m employment loss of Apr but remains well below the average growth of +2m prior to the shutdowns.

US consumers continued to pay down credit card debt with revolving credit leading another decline in overall consumer credit for the month. This is the sixth month of decline in the value of outstanding revolving credit (this also happened through the GFC). Non-revolving credit growth also slowed.

This week the MBA released the mortgage credit availability index for Sep. This showed a further tightening in lending standards:

"Across all loan types, there continues to be **fewer low credit score and high-LTV loan programs**. The housing market overall is on strong footing, but the data show that **lenders are being cautious**, given the spike in mortgage delinquency rates in the second quarter, as well as the ongoing economic uncertainty."

Despite the US Fed maintaining very easy/accommodative conditions (and mortgage rates continuing to fall as the Fed buys up MBS), banks are limiting lending due to the weaker economic environment.

In Aus, housing finance recorded a substantial increase in Aug – mostly the result of lenders catching up on backlogs (as noted by the Aus Bureau of Statistics). Still, this has locked in 3 months of gains in mortgage lending commitments. The RBA kept rates on hold this month. After the meeting and the Fed budget release, the probability of another rate cut in Nov increased.

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FOMC Minutes

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RBA Rates Decision

[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

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## US Data

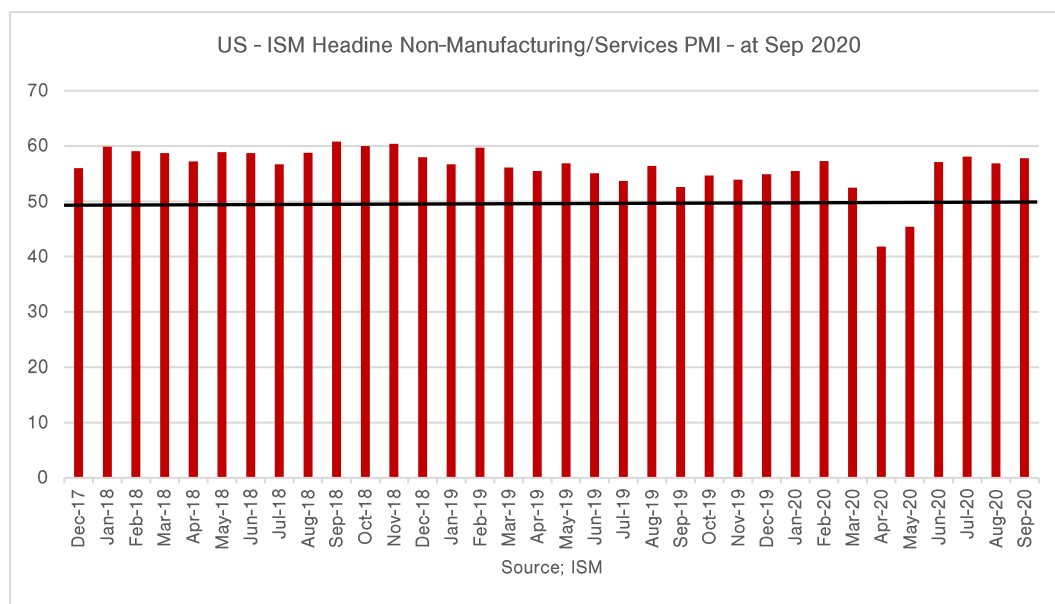
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### ISM Services PMI (Sep)

The ISM report indicated that US services activity expanded at a slightly faster pace in Sep. The pace of growth remained close to the Jul monthly pace of growth. Business activity and domestic new orders, especially, indicated a faster pace of growth.

**Services PMI:** Sep 57.8 versus Aug 56.9

On an industry basis, most sectors reported growth in activity in Sep versus Aug. The only industry reporting a decline/contraction in the PMI was Professional, Scientific & Technical Services.



Business activity/output increased at a slightly faster pace this month. The index components indicated that the proportion of firms reporting a decline in output halved in Sep compared to Aug. More firms reported no change in output. It is unclear whether those firms that no longer reported lower output shifted into 'no change' – which would suggest that output remained at the previous months' lower level.

New orders (domestic) were strong, and this was an important highlight of the report. The index increased from 56.8 in Aug to 61.5 in Sep. The underlying change in the composition was also positive. More firms were reporting higher orders and less firms reported the same and/or declining orders. Only firms in two industries reported a net decline in new orders: Agriculture, Forestry, Fishing & Hunting; and Retail Trade.

New export order growth was slightly slower shifting from 55.8 in Aug to 52.6 in Sep. The underlying composition was less positive. Less firms reported higher orders and slightly more firms reported lower orders (still at a low level). Approx. 69% of firms reported no change in new export orders this month.

Employment shifted into a slight expansion this month – from 47.9 in Aug to 51.8 in Sep. The underlying components were mixed. Less firms reported higher employment growth, but there

was a larger decline in the proportion of firms reporting lower employment. Most firms, 68%, reported no change in employment levels (up from 51.4% of firms in Aug – so this was a big change). This is the largest proportion of firms in the last four months.

In the ISM report, firms in six industries still reported a net decline in employment: Mining; Educational Services; Information; Professional, Scientific & Technical Services; Other Services; and Finance & Insurance.

Note that most of the non-farm payroll growth in Sep was services based. The household employment survey also indicated that most of the growth was part-time.

Order backlogs were unchanged after several months of growth. In Sep, the backlogs index was 50.1 versus Aug 56.6. Over 70% of firms reported no change in backlogs and slightly more firms reported a further decline in backlogs. This is consistent with somewhat higher employment. The growth in new orders this month suggests some near term support for faster growth in output.

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

## Markit Services PMI Final (Sep)

The pace of growth in private sector services business in Sep increased at a slightly slower rate than in Aug. While there was no acceleration overall, the pace of growth remained constant. The PMI provides no insight into the current level of the recovery in output, orders, or employment etc.

**Services PMI:** Sep 54.6 versus Aug 55.0

Output increased again month on month in Aug, but at a slower pace than in Aug. New orders increased at a faster pace – the fourth month on month increase in orders. New export orders also increased this month. Firms expanded employment citing “insufficient capacity to process new orders”. Order backlogs also increased for the third month in row.

Nevertheless, business expectations regarding the outlook for output over the coming 12 months slumped at the end of the third quarter. Although optimistic of a rise in business activity, hesitancy among service providers reportedly stemmed from concerns relating to the ongoing COVID-19 pandemic and the impact on future demand.

### Services Business Activity Index

sa, >50 = growth since previous month



Sources: IHS Markit.

<https://www.markiteconomics.com/Public/Home/PressRelease/12560bb861234dc1b58b3dac48210fa>

## JOLTS (Aug)

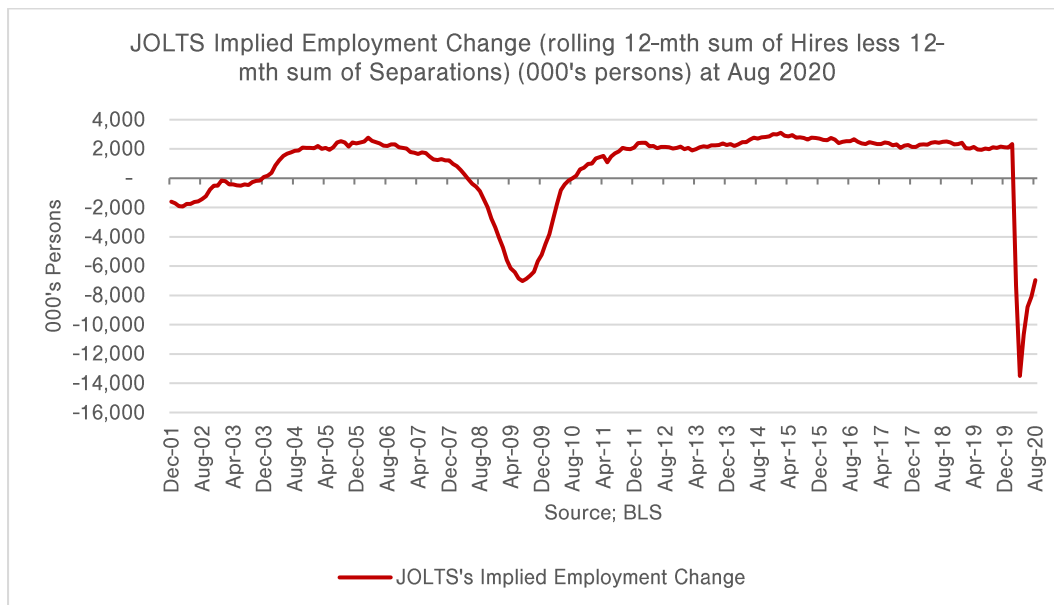
Job openings declined in Aug after a stronger rebound in Jul. Openings have rebounded from the Apr low, but have so far, continued to trend lower.

The level of hires was unchanged in Aug compared to Jul and total separations were lower. The lower separations were due to lower layoffs and discharges as well as lower quits.

On a rolling 12-month basis to Aug, the difference between hires and separations implies a net employment loss of 7m.

### Net Change in Employment

The rolling twelve-month level of hires remains well below the 12-month level of separations. The difference still implies a net employment loss of 7m (includes workers that may have been hired and separated more than once during the year).



Contributing most to this result is the elevated level of separations (rolling 12mth total).

On a monthly basis, the number of hires was still larger than the number of separations, implying a net employment change of +1.3m. This was the second slowest growth of the last four months.

### Job Openings

The level of job openings declined in Aug compared to Jul and after continuing to rebound in Jul.

**Job Openings – month level and change:** Aug 6.5m (-3%) versus Jul 6.7m (+11%)

Over the month, the number of job openings edged down for total private (-242,000) and was little changed for government. Job openings decreased in construction (-68,000), and information (-25,000).

Even excluding the significant fall in Apr, the fall in openings remains in line with the overall trend lower since the start of 2019. The level of openings remains 9% below the same month a year ago (-673k less job openings):



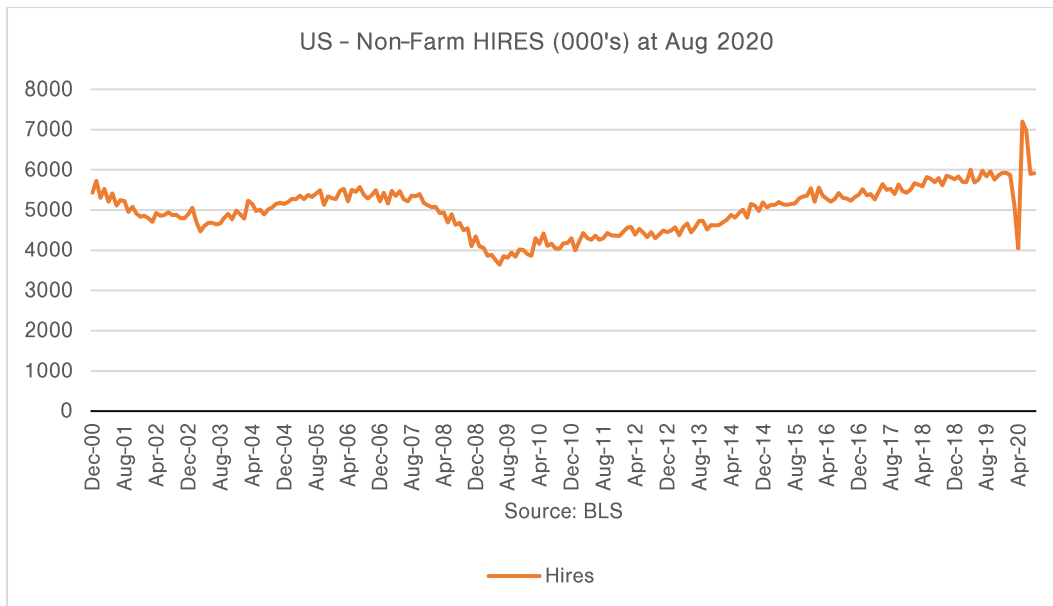
### Hires

The number of hires was little changed this month. While the pace did not accelerate, at least there was no decline.

**Hires – month level and change:** Aug 5.9m (+0.3%) versus Jul 5.9m (-15%)

Hires increased in federal government (+246,000), largely because of temporary 2020 Census hiring. Hires also increased in durable goods manufacturing (+41,000). Hires decreased in accommodation and food services (-177,000), health care and social assistance (-73,000), and real estate and rental and leasing (-28,000). The number of hires was little changed in all four regions.

On an annual basis, the number of hires was only 80k (+1.4%) higher than in the same month a year ago.



### Total Separations

Total separations are made up of two main components: layoffs and discharges (non-voluntary) and quits (voluntary).

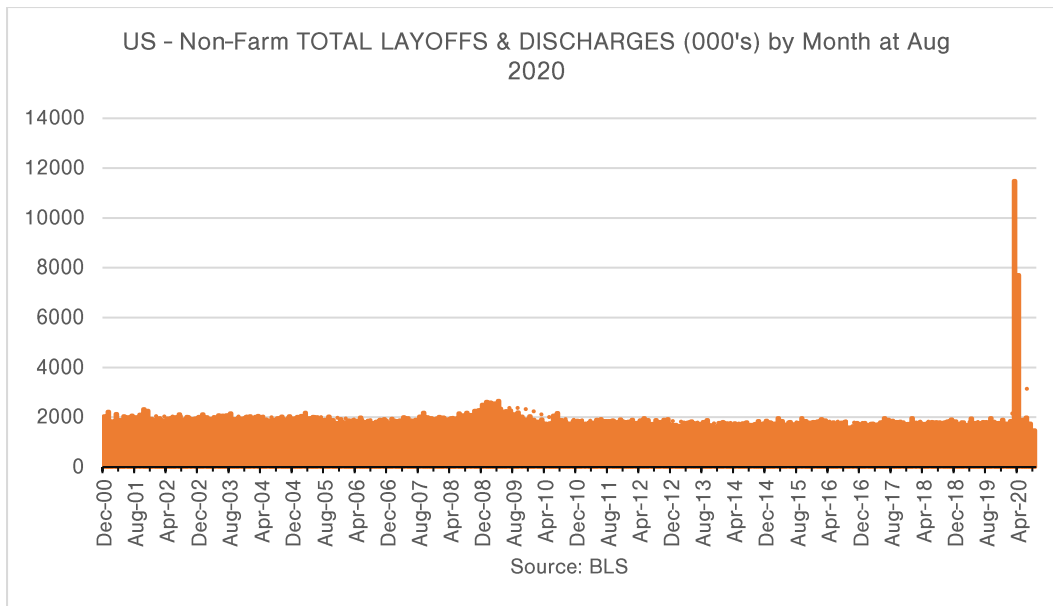
The level of total separations was approx. 400k lower in Aug compared to Jul. This was due mostly to lower layoffs and discharges in the month, but the level of quits was also lower in the month.

### Layoffs and Discharges

The level of layoffs and discharges at the last day of the month in Aug reached a new series low of 1.473m or a 1% discharge rate. This is a positive development but is inconsistent with the Household Employment Survey indicating a rising level of layoffs becoming permanent.

**Layoffs & Discharges – month level and change:** Aug 1.473m (-15.6%) versus Jul 1.7m (-12.5%)

Layoffs and discharges decreased in a few industries, with the largest decreases in professional and business services (-95,000), accommodation and food services (-62,000), and durable goods manufacturing (-42,000). The number of layoffs and discharges increased in federal government (+12,000).



The level of layoffs and discharges in Aug remains 18% below a year ago. But the 12-month total is still extremely elevated.

### Quits

Quits are generally voluntary separations initiated by the employee. Therefore, the quits rate can serve as a measure of workers' willingness or ability to leave jobs.

This month the level of quits declined.

**Quits – month level and change:** Aug 2.8m (-5%) versus Jul 2.9m (+13%)

Quits decreased in a number of industries with the largest decreases in other services (-48,000), construction (-40,000), and arts, entertainment, and recreation (-18,000). The number of quits increased in finance and insurance (+36,000). The number of quits decreased in the Midwest region.

The annual change in quits remains 20% below the same month a year ago.

The slowdown in quits suggests a lower willingness, or ability, of workers to change jobs in the current environment.

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



## MBA Mortgage Applications wk ending 2 Oct

The overall mortgage application index increased in the latest week. This was led by a solid increase in refi applications while the purchase index declined versus a week ago.

**Market Composite Index wk ending 2 Oct 2020:** +4.6%

This was higher due to the increase in refinance applications:

**Refi Index wk ending 2 Oct 2020:** +8%

Refi applications are running at +50% to the same week a year ago. Purchases on the other hand declined in the latest week:

**The Purchase Index wk ending 2 Oct 2020:** -2%

The current level of purchase applications is now 21% above the same week a year ago.

**"Mortgage rates declined across the board last week - with most falling to record lows** - and borrowers responded. The refinance index jumped 8 percent and hit its highest level since mid-August," said Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting. "Continuing the trend seen in recent months, the purchase market is growing at a strong clip, with activity last week up 21 percent from a year ago. The average loan size increased again to a new record at \$371,500, as activity in the higher loan size categories continues to lead growth."

The following quote is very important. In the following section, the decline in the Mortgage Credit Availability Index suggests that banks are tightening lending standards.

**"There are signs that demand is waning at the entry-level portion of the market because of supply and affordability hurdles, as well as the adverse economic impact the pandemic is having on hourly workers and low-and moderate-income households.** As a result, the lower price tiers are seeing slower growth, which is contributing to the rising trend in average loan balances."

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

<https://www.investing.com/economic-calendar/mba-purchase-index-1494>

## Mortgage Credit Availability Index – MCAI (Sep)

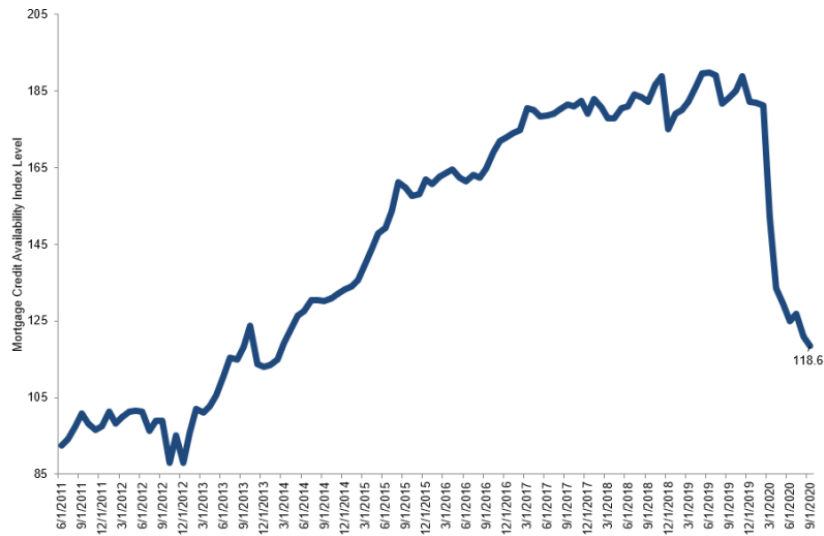
Mortgage credit availability declined in Sep. The MCAI declined by 1.9% indicating that credit conditions were in fact tightening.

The commentary provided by the MBA in last week's Mortgage Applications release highlights that the lower price tiers of the market were "seeing lower growth" in mortgage applications. One of the reasons is that it is likely that credit is tightening for this segment.

"Mortgage credit supply decreased in September to its lowest level since February 2014, driven in part by a 9.5 percent decline in the conforming loan segment. This reduction was the result of lenders discontinuing conforming

ARM loan offerings in advance of the September 30, 2020, application deadline for GSE-eligible, LIBOR-indexed ARM loans,"

**Mortgage Credit Availability Index, Index Level by Month  
(NSA, 3/2012=100)**



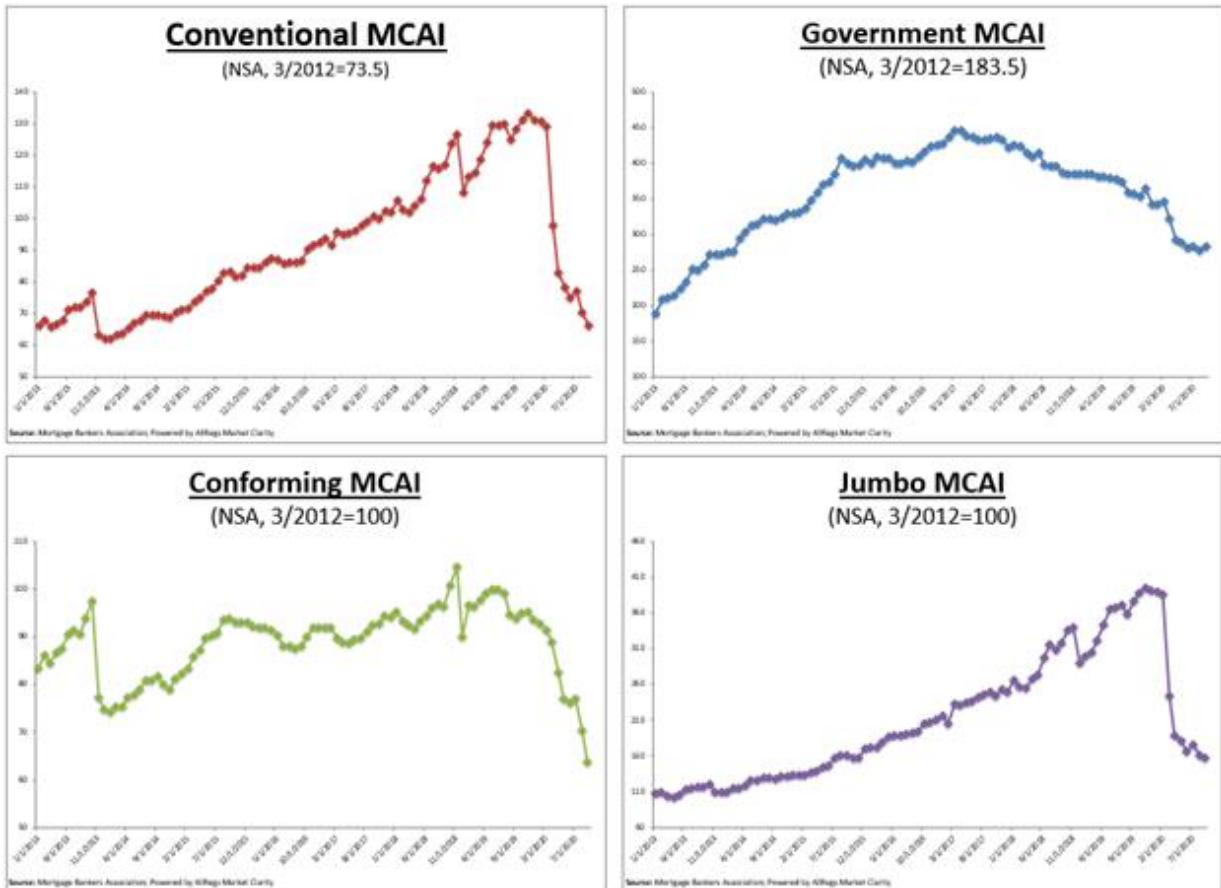
### Conventional, Government, Conforming, and Jumbo MCAI Component Indices

All component indices show that lending standards have been tightening over the last few months.

In the latest week that tightening continued:

The MCAI fell by 1.9 percent to 118.6 in September.

The Conventional MCAI decreased 6.1 percent, while the Government MCAI increased by 1.4 percent. Of the component indices of the Conventional MCAI, the Jumbo MCAI decreased by 2.1 percent, and the Conforming MCAI fell by 9.5 percent.



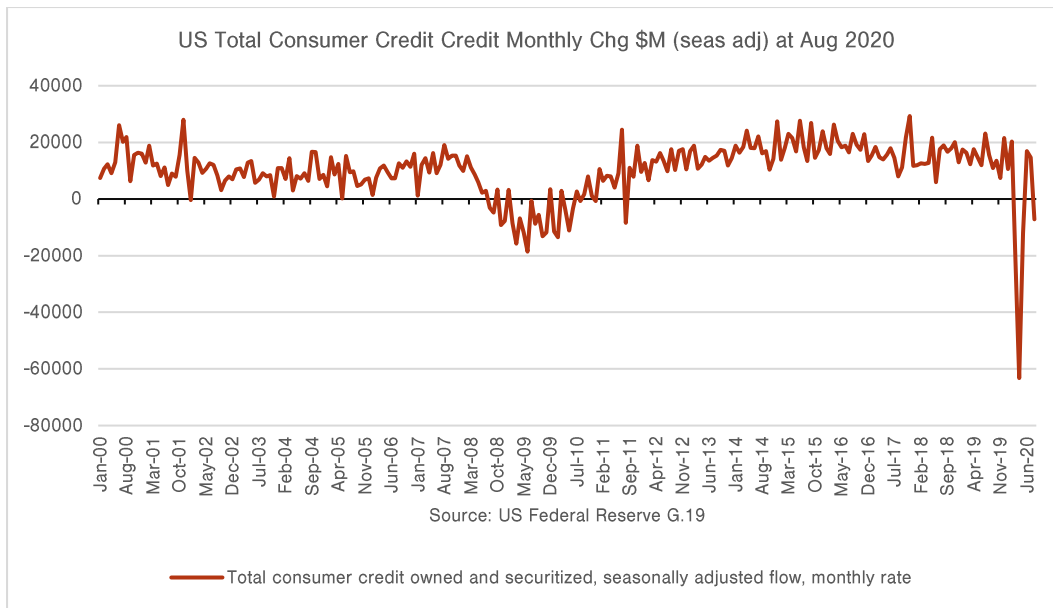
<https://www.mba.org/2020-press-releases/october/mortgage-credit-availability-decreased-in-september>

## Consumer Credit (Aug)

Total consumer credit declined again in Aug after rebounding somewhat in the two prior months. In the YTD, consumer credit has declined in four of the last eight months. This month, the decline was led mostly by a fall in revolving credit (credit card), but non-revolving credit growth also slowed.

Revolving consumer credit has been falling, not just in this period of the pandemic, but has been falling over the last year.

**Total Consumer Credit Outstanding – month change:** Aug -\$7.2bn versus Jul +\$14.7bn

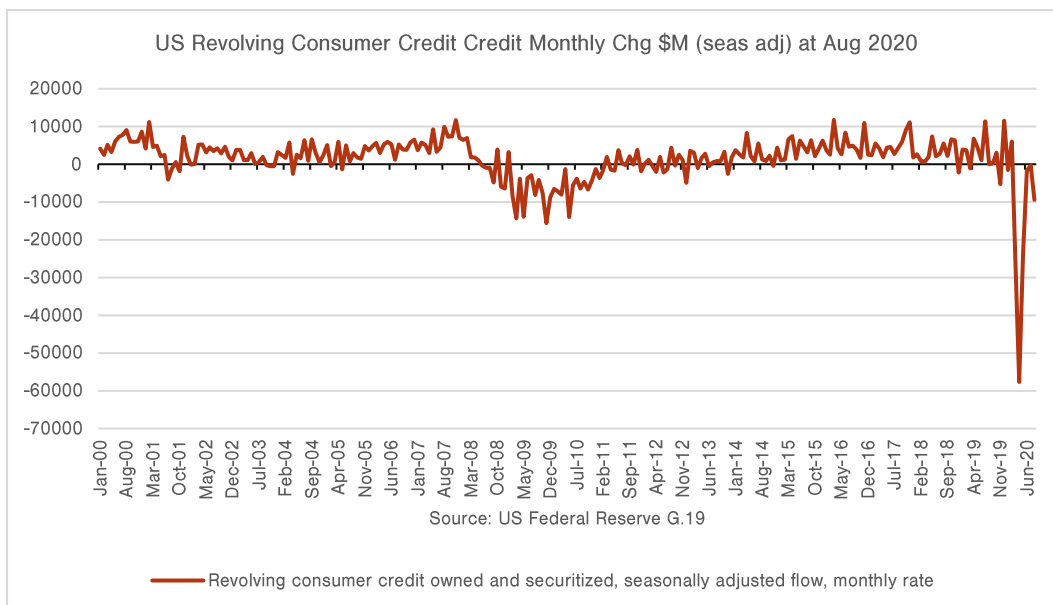


The monthly change highlights the severe declines during Mar, (mostly) Apr, and May – at the height of the lockdowns. Over the last year, the value of outstanding consumer credit has increased by +0.4% (in the year to Aug 2020) compared to 5% growth in the year to Aug 2019.

This has been led mostly by outright declines in revolving consumer credit.

**Revolving Consumer Credit Outstanding – month change:** Aug -\$9.3bn versus Jul -\$0.25bn

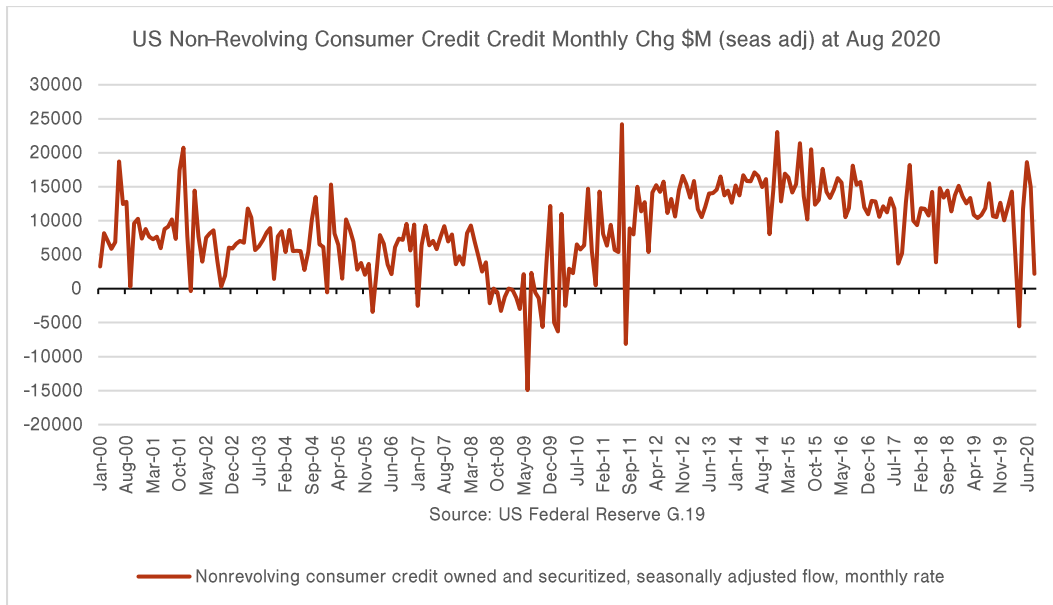
Revolving (credit card) credit has declined for the last six months in a row. But this is not just a pandemic-related phenomenon – revolving credit has declined in eight out of the last twelve months.



The value of outstanding revolving credit has declined by -9.2% compared to the same month a year ago (-\$99.3bn) compared to the +4.1% growth (+\$43bn) for the year to Aug 2019.

**Non-Revolving Credit Outstanding – month change:** Aug +\$2.2bn versus Jul +\$14.9bn

There was a notable slowdown in the pace of growth in non-revolving credit (made up mostly of auto and student loans) this month after three stronger months.



<https://www.federalreserve.gov/releases/g19/current/default.htm>

**Initial Jobless Claims (wk ending 3 Oct), Continuing Unemployment Claims (wk ending 26 Sep), and PUA Claims**

Data this week still reflects the pause in processing for California state unemployment payments. The data here reflects the last week prior to the pause (one week ago). California has accounted for the single largest number of US continuing claims.

Total initial claims (includes state plus federal emergency pandemic programs) for the latest week 3 Oct are 1.268m people. This was down slightly from the week prior and continues to trend lower.

Continuing claims for the latest week, across both state and federal programs, wk ending 19 Sep, still total 25,505,499 people. This is approx. 1m people lower than in the week prior.

**STATE PROGRAMS**

**Advance Initial Claims wk ending 3 Oct 2020 (SA):** 840,000 people

This is approx. 9k lower than the prior weeks revised higher number of 849,000 people.

The NSA initial claims for the week were 804,307 new claims.

**Continuing Claims wk ending 26 Sep 2020 (SA):** 10,976,000 people

The NSA continuing claims for the week were 10,612,021 people

FEDERAL PROGRAMS (Pandemic Unemployment Assistance)

PUA Initial Claims wk ending 3 Oct 2020 (NSA): 464,437 (-44k lower than in the week prior)

PUA Continuing Claims wk ending 19 Sep (NSA): 11,394,832

Pandemic Emergency Unemployment Assistance wk ending 19 Sep 2020 (NSA):  
1,959,953 (this has been trending higher over the previous weeks)

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

## **FOMC Minutes – 15-16 Sep 2020**

<https://www.federalreserve.gov/monetarypolicy/files/fomcminutes20200916.pdf>

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## Europe

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### Eurozone Markit Services PMI Final (Sep)

The broader Eurozone Services sector shifted back into slight contraction in Sep. This was linked mostly to the reintroduction of some measures to reduce the potential for a second wave of infections.

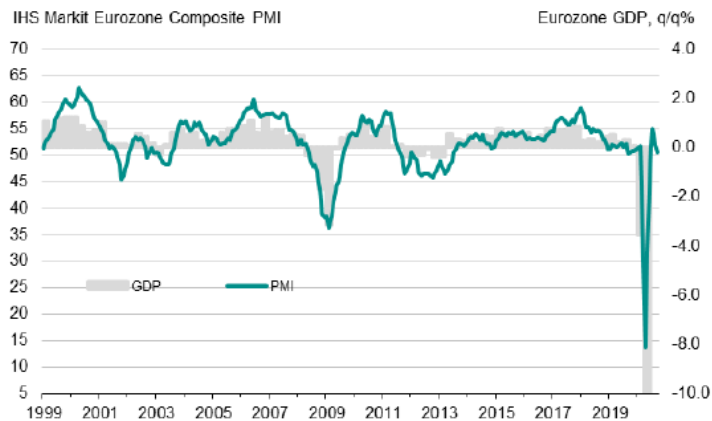
“Much will depend on whether second waves of virus infections can be controlled, and whether social distancing restrictions can therefore be loosened to allow service sector activity to pick up again.”

Of the larger member states, Germany recorded the stronger result with no change in activity compared to the prior month. German Services recorded no change in Sep after recording growth in Aug, Italy Services sector remained in contraction at 48.8 (from 47.1 in Aug), France Services shifted back into contraction in Sep 47.5 from slight growth in Aug 51.5 and Spain services sector contracted at a faster rate in Sep of 42.4 versus 47.7 in Aug.

**Eurozone Services Business Activity Index:** Sep 48 versus Aug 50.5

The combination of weaker services and some growth in manufacturing (due mostly to German manufacturing) resulted in the composite output PMI slowing back to no change in Sep 50.4.

### IHS Markit Eurozone Composite PMI



Sources: IHS Markit, Eurostat.

Within the services sector, new business growth decline across both domestic and export markets. New orders declined for the second month while new export orders have continued to decline over the last two years.

Employment continued to decline. Services employment in Spain declined at the fastest pace, and further declines were recorded in Italy, France, and Ireland. Germany recorded a slight expansion.

<https://www.markiteconomics.com/Public/Home/PressRelease/559ad4d179154ed181fba2569d738e6d>

## Euro Area Retail Sales (Aug)

There was a further rebound in the volume of retail trade throughout the Euro area and broader EU this month. The monthly retail trade volume increased in Aug after declining in Jul. The volume of retail trade is now +3.7% ahead of a year ago in the Euro area and in the broader EU.

**Euro area retail trade (vol) – month change:** Aug +4.4% versus Jul -1.8%

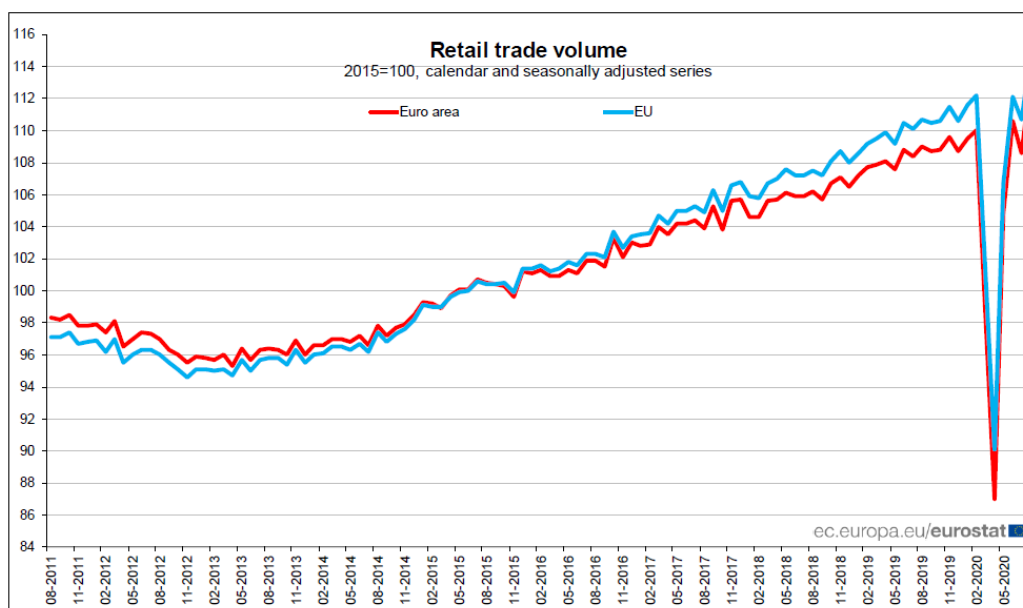
Growth in sales accelerated across food, drinks & tobacco (+2.4%) and non-food products (+6.1%).

Within Non-Food, mail order and internet sales shifted from a -11% decline in Jul to a +12.4% increase in Aug. Electrical goods and computer equipment categories both recorded an accelerated decline.

Auto fuel sales growth slowed from 9% in Jul to 2% in Aug.

Among Member States for which data are available, the highest yearly increases in the total retail trade volume were registered in **Belgium** (+12.9%), **Ireland** (+9.8%) and the **Netherlands** (+8.3%). The largest decreases were observed in **Bulgaria** (-12.2%), **Malta** (-7.5%) and **Slovenia** (-6.6%).

**Euro area retail trade (vol) – annual change:** Aug +3.7% versus Jul -0.1%



<https://ec.europa.eu/eurostat/documents/2995521/10663810/4-05102020-AP-EN.pdf/f35894fa-382a-3b54-1029-70cc146d21ed>

## Germany Industrial Production (Aug)

The rebound since Apr has taken a pause in Aug with a small decline in overall production this month. Manufacturing declined and there was a further decline in construction – which had been one of the stronger performing industries.



While most of the focus is on the rebound from the Covid shutdowns, production in Germany had been trending lower since 2017. Across the manufacturing, mining and utilities, production levels remain below the peaks from 2017.

**Total Industrial Production – month change:** Aug -0.2% versus Jul +1.4%

The small decline in industrial production this month was the result of small declines across manufacturing (led by a decline in capital goods, non-durable goods, and consumer goods production for the month) and construction.

Mining and utilities production increased this month after declining in Jul.

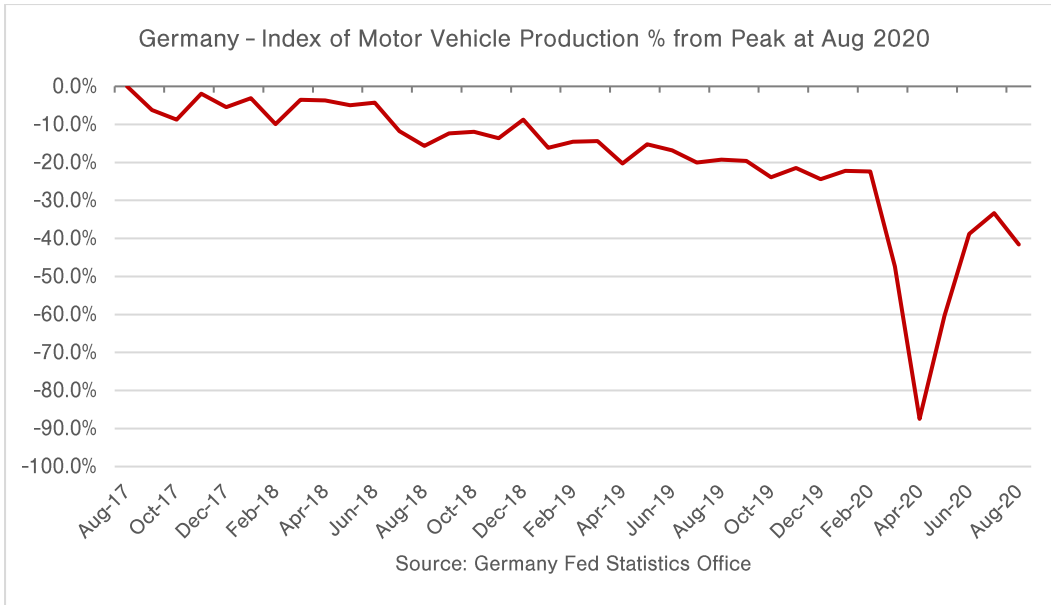
Despite some rebound since Apr, overall production levels remain 10% below a year ago and are still 15% below the production peak of Nov 2017.



**Manufacturing Production - month change:** Aug -0.7% versus Jul +3.1%

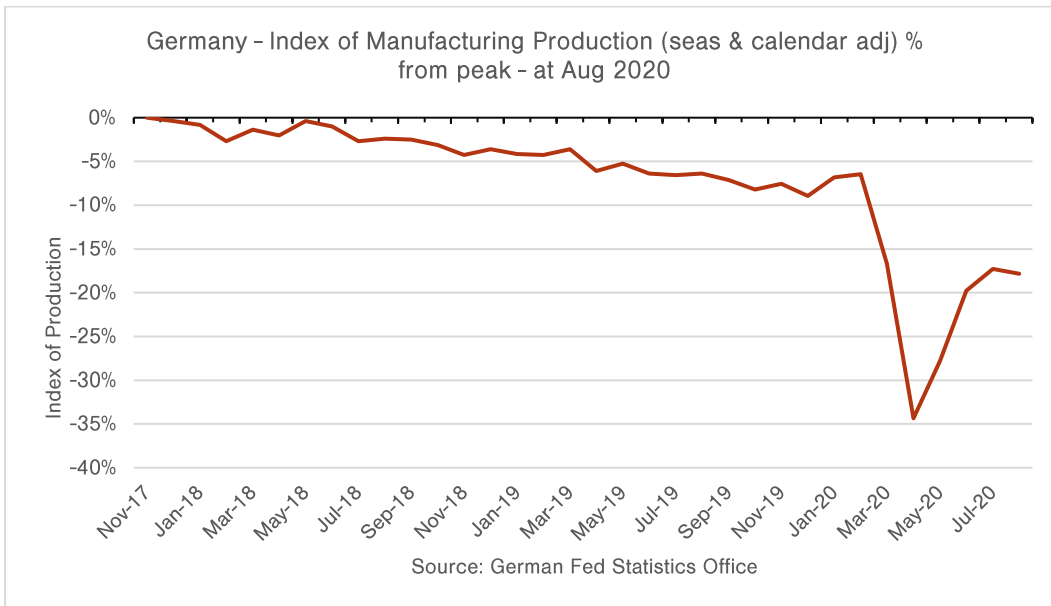
Production was lower this month after three months of gains. The decline this month was the result of a fall in production of capital goods (-3.6%), non-durable goods (-2.5%), and consumer goods (-1.3%).

Manufacture of motor vehicles, trailers, and semi-trailers declined notably this month by -12.5%. Commentary indicated seasonal shutdowns were likely behind the fall. Production is still down -27% from a year ago. On a longer timeframe, production levels in Aug were -41% below the Aug 2017 peak:



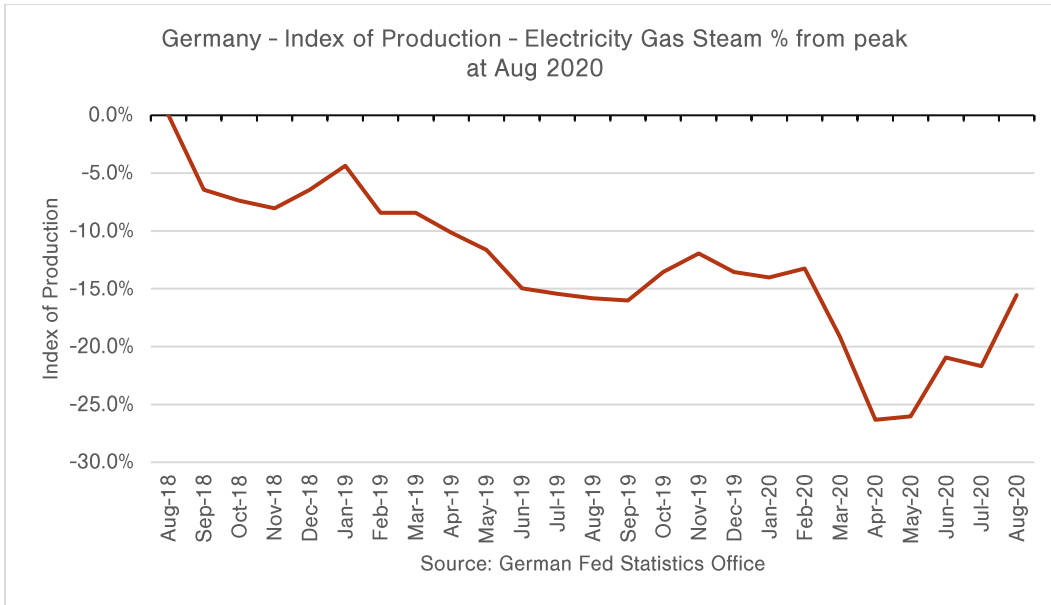
Production increased across intermediate goods (+3.3%) and durable goods (+4.1%).

All areas of manufacturing production remain below a year ago. Overall manufacturing production is -12% below a year ago and 18% below the Nov 2017 peak:



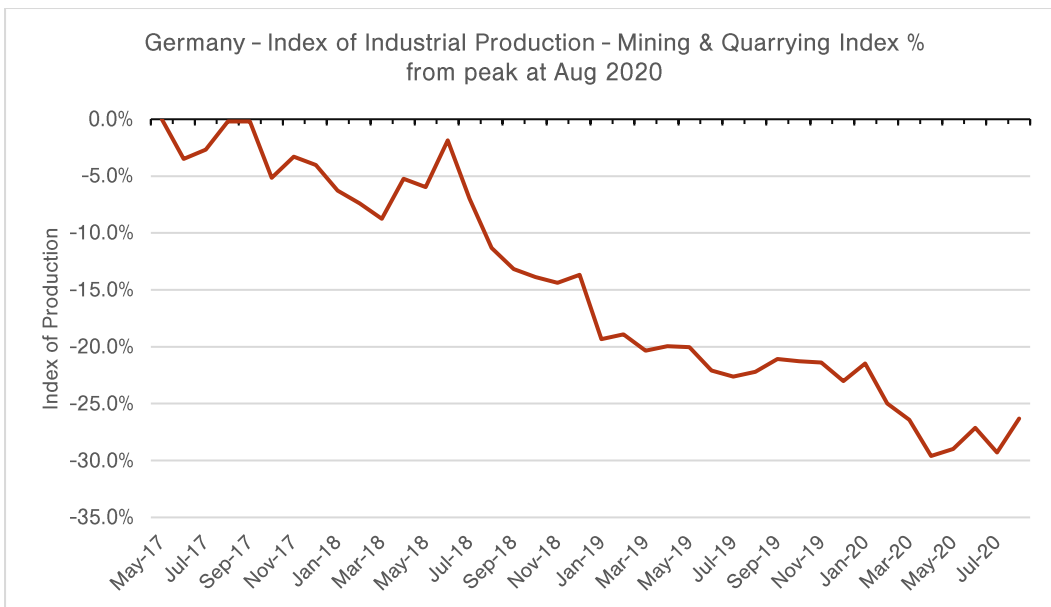
**Utilities (electricity, gas, and air-conditioning supply) Production – month change: Aug +8% versus Jul -1%**

The index of utilities production has been trending lower since Aug 2018. On an annual basis, production levels are back to +0.4%. But levels are still -15% below this Aug 2018 peak:



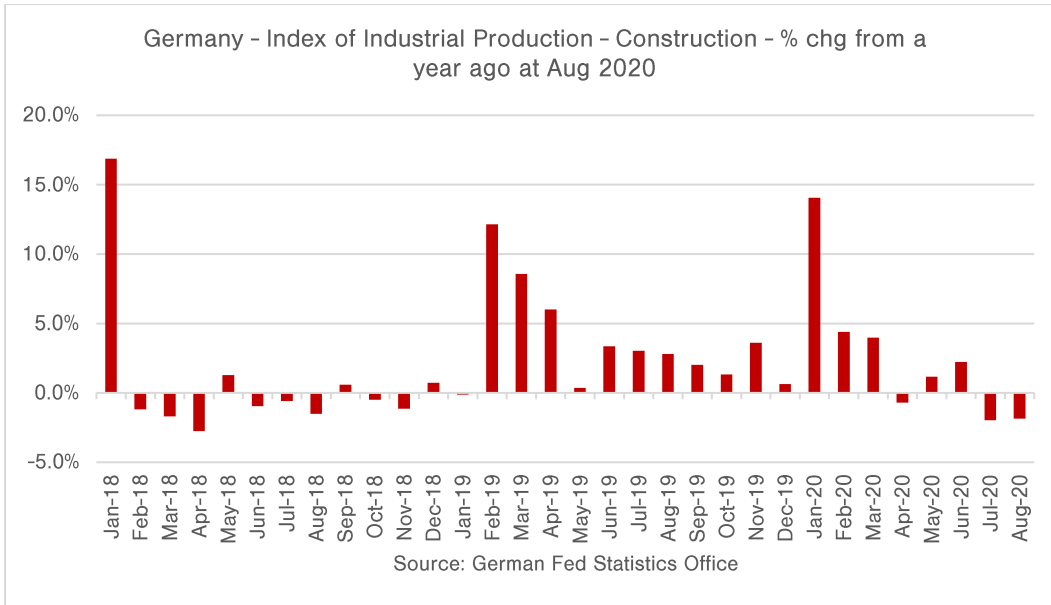
**Mining and Quarrying Production – month change: Aug +4.2% versus Jul -3%**

Production has been little impacted by Covid-19 shutdowns – in fact, levels have stabilized since Apr 2020. Production is still down by -5% on a year ago basis. The annual view does not show the longer-term decline – production has been slowing since May 2017. Production levels in Aug are still 26% below the May 2017 peak:



**Construction – month change: Aug -0.3% versus Jul -4.4%**

Some weakness is creeping into one of the stronger segments in the German economy. Construction levels in Aug are now down -1.8% from a year ago – this had been growing consistently through 2019 and most of 2020:



[https://www.destatis.de/EN/Press/2020/10/PE20\\_391\\_421.html;jsessionid=F7EFDE75F2C3E7A99B65D0DF44EF635A.internet8732](https://www.destatis.de/EN/Press/2020/10/PE20_391_421.html;jsessionid=F7EFDE75F2C3E7A99B65D0DF44EF635A.internet8732)

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# Japan

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## Markit Services PMI Final (Sep)

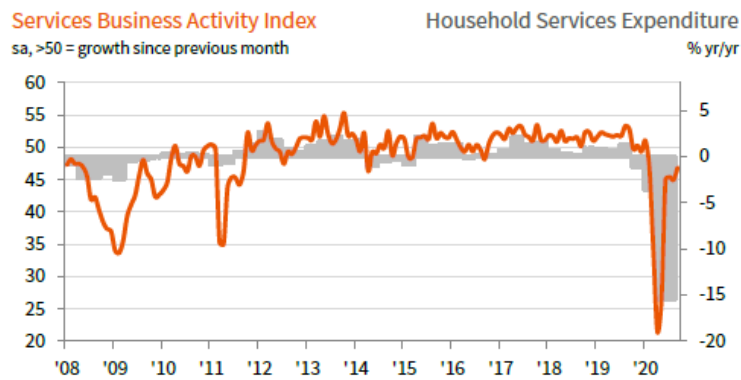
Services business activity remained in contraction in Sep, albeit at a slower pace than in Aug.

**Business Activity Index:** Sep 46.9 versus Aug 45

Output, new orders, and employment continued to decline in Sep, but at slower pace than in Aug. New export orders though declined at an accelerated pace compared to Aug. Firms cited restricted travel and business closures as reasons behind the decline. Order backlogs continued to decline.

Employment continued to contract and has fallen for eight months in a row.

Despite the continued weakness in the service sector, business confidence shifted into positive territory for Sep



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

<https://www.markiteconomics.com/Public/Home/PressRelease/61179a536e674a0da3f6abda7684d6bf>

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## United Kingdom

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### Markit Services PMI Final (Sep)

The UK services sector continued to rebound in Sep. While the pace of growth slowed, this was the third month of a relatively strong pace of growth. Despite the continued rebound, firms remained cautious about the outlook – with infections increasing and the threat of restrictions reinstated on operations, as well as the rising uncertainty around a no trade deal Brexit.

**Services Business Activity Index:** Sep 56.1 versus Aug 58.8

Headline growth in output and new business was led by business to business services while there was a 'downturn' in more consumer facing sectors.

Those sub-sectors more exposed to social contact such as Hotels, Restaurants & Catering reported a downturn in business during the month, exacerbated in part by the withdrawal of government schemes or the tightening of restrictions related to COVID-19.

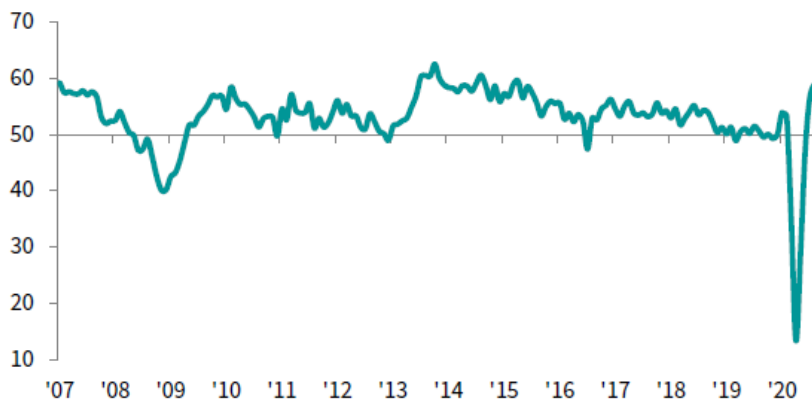
Restricted international travel was also cited by firms as weighing on new business growth.

However, the near-term outlook remains unusually uncertain and firms continued to take an extremely cautious approach to cost management and hiring.

Employment continued to decline in Sep. The decline was slower than in Aug but remained relatively steep.

#### Services Business Activity Index

sa, >50 = growth since previous month



Sources: IHS Markit, CIPS

<https://www.markiteconomics.com/Public/Home/PressRelease/56a9e43a11ec447d84c7b36edf0fb5e3>

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# Australia

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## Services PMI Final (Sep)

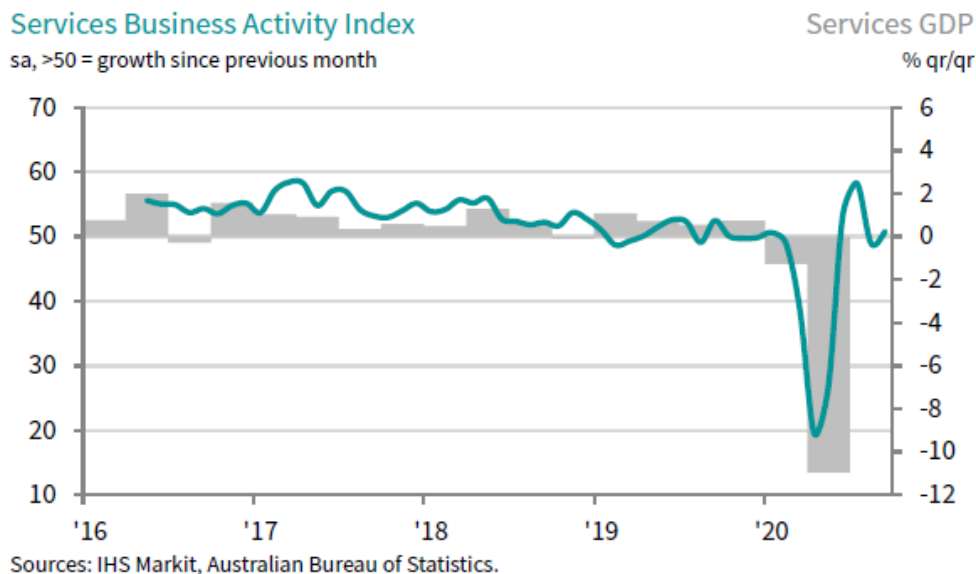
The Aus services sector recorded no change in activity in Sep after declining slightly in Aug. Despite the subdued business environment, sentiment for the year ahead continued to improve. This was based on optimism about falling infections and further government stimulus.

**Aus Services Business Activity Index:** Sep 50.8 versus Aug 49

Firms reported that the very small easing of restrictions in Vic (later in the month of Sep) helped to lift activity. New business increased after a larger decline in Aug. Domestic orders led the growth while new business from overseas declined for the eighth month. Despite the rebound in orders, work backlogs continued to decline at a sharper pace:

“...firms reported a further decline in backlogs of work and one that was amongst the sharpest in the survey history, surpassed only by the steep contractions recorded between March and May, at the peak of the pandemic.”

Unfortunately, employment continued to decline, and the pace of the decline was the fastest since May. The Markit report highlights that redundancies were “again, widely reported”.



<https://www.markiteconomics.com/Public/Home/PressRelease/144d46c8b55942f2894d2c54b103fd55>

## Housing Finance (Aug)

There was a significant increase in the value of borrower accepted housing finance this month. At a National level, housing finance increased by 12.6% versus the prior month. A note from the ABS indicates that the result this month was likely due to some catch-up on the part of lenders – emphasis added below.

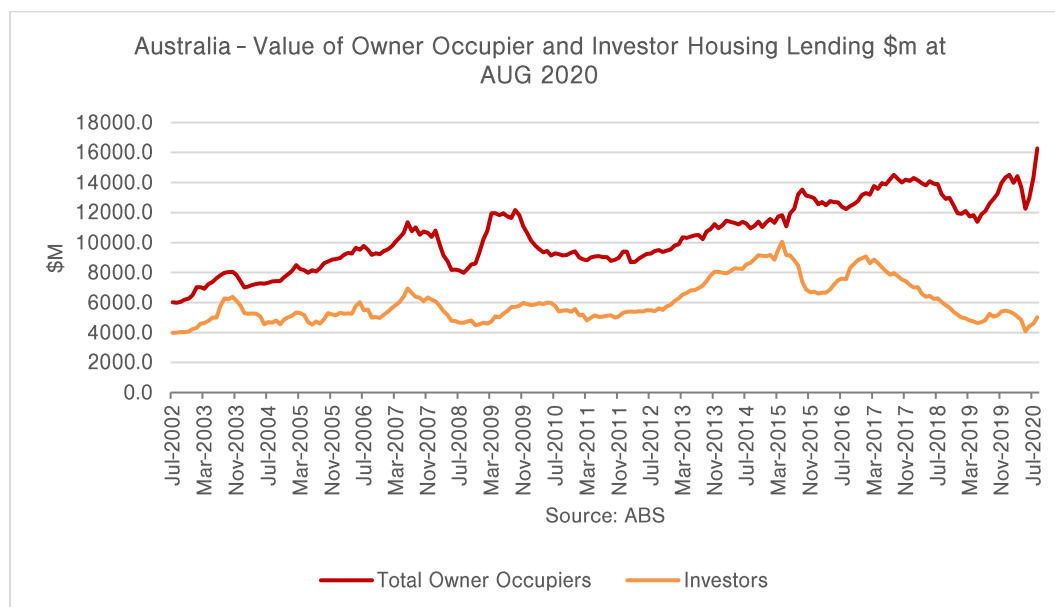
Large increases were seen across all states and territories, apart from Northern Territory. Borrower-accepted commitments in August **reflect customer demand in earlier months.**

Borrower behaviour and lender processing times have been strongly affected by the COVID-19 pandemic over the last five months, which is impacting the month-on-month movements. **“Lenders are reporting to us that current processing times mean that August commitments reflect customer demand in June and early July, prior to Victoria imposing stage 3 and stage 4 restrictions”**, she said.

All data is excluding refi's.

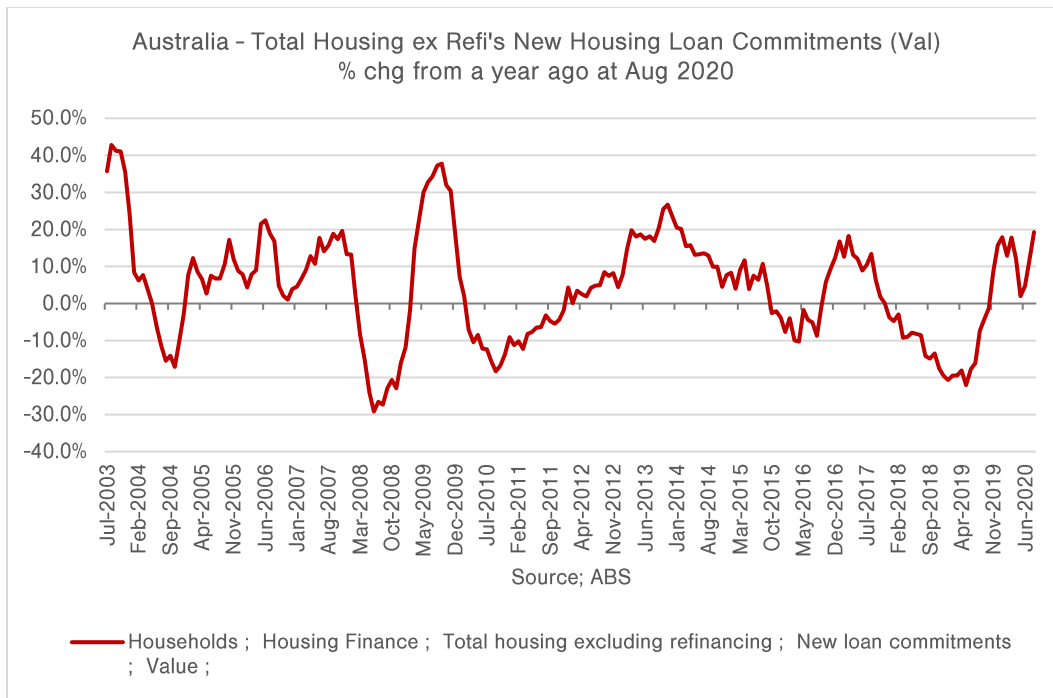
**National Housing Finance – month change:** Aug +12.6% versus Jul +8.8%

Both owner occupier housing and investor housing finance contributed to the increase this month (value growth of +\$2.4bn). The chart below highlights that owner occupier housing finance continues to lead the growth in housing finance – and in fact reached a new all-time high for the month. While there was lift in investor housing finance reported in Aug, the levels remain well below the 2015 and 2017 peaks:



The total value of commitments in Aug was +19% ahead of the same month a year ago.



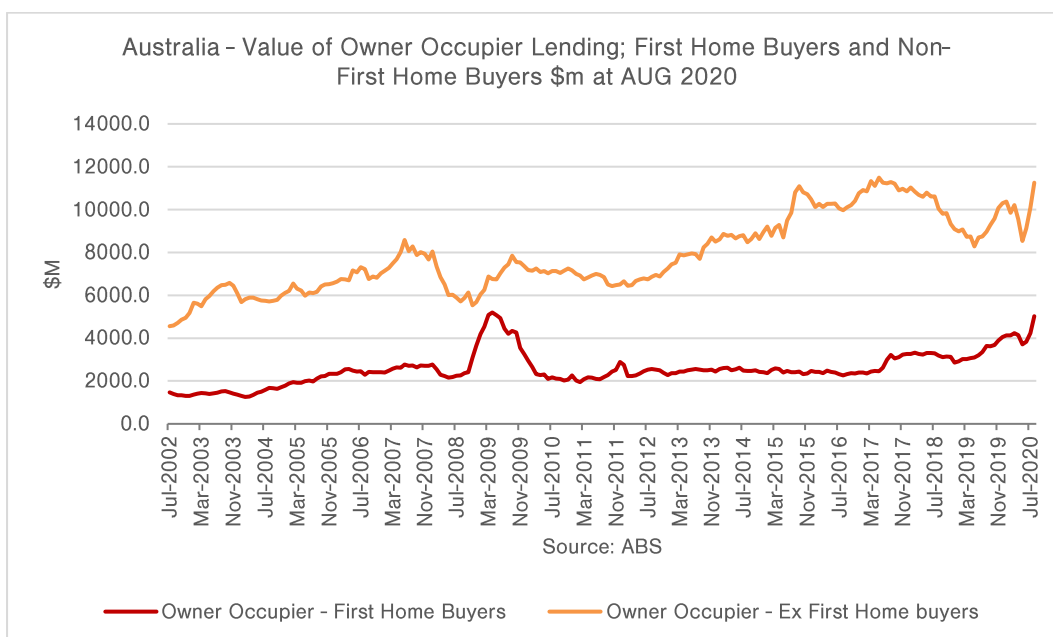


The main segment that has been contributing to overall growth in housing finance has been owner occupiers.

**Owner Occupier Housing Finance – month change:** Aug +13.6% versus Jul +10.7%

Within this segment, the rate of growth of First Home Buyer (FHB) housing commitments increased by 18.4% this month (growth of +\$780m in the month). Non-FHB owner occupier housing finance increased by 11.6% or +\$1.2bn versus Jul.

Neither have yet recorded a new peak in lending finance, but owner occupier (ex FHB's) lending is only 2% below the 2017 peak. Lending for FHB's is only -3% below the peak set during the GFC when there was a significant subsidy for FHB's. Part of the reason for the stronger growth in FHB's lending is likely less competition with investors.

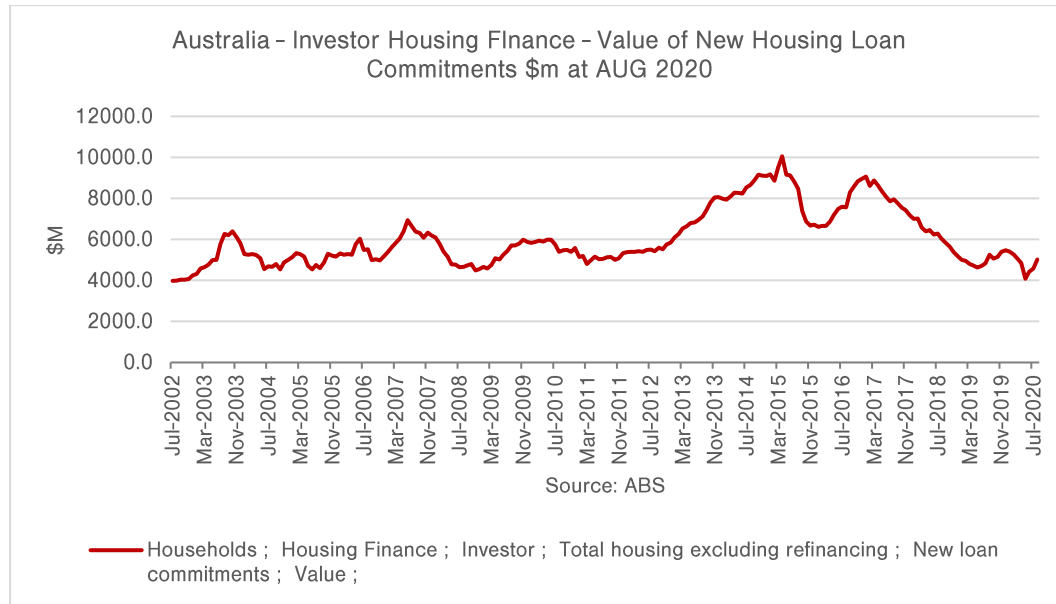


FHB housing finance is +38% ahead of the same month a year ago and owner occupier (ex FHB's) housing finance is 26% ahead of the same month a year ago.

**Investor Housing Finance – month change:** Aug +9% versus Jul +3.5%

There has been a larger lift in investor lending over the last 3 months. In Aug, the value growth was +\$430m versus Jul.

But the value in Aug remains 50% below the peak in 2015:



The total value of investor housing finance is still -5% below the same month a year ago.

<https://www.abs.gov.au/statistics/economy/finance/lending-indicators/aug-2020>

## RBA Rates Decision – 6 Oct 2020

The RBA kept rates and current policy settings on hold this month.

The Bank's policy package is working as expected and is underpinning very low borrowing costs and the supply of credit to households and businesses.

### Current Settings

Overnight cash rate: +0.25%

Purchases to support a lower 3yr govt bond yield of 0.25%

Early in September, the Bank bought a further \$2 billion of Australian Government Securities (AGS) in support of its 3-year yield target, bringing total purchases of government securities since March to \$63 billion.

Expanded Term Funding Facility (TFF)

\$81 billion of low-cost funding for authorised deposit-taking institutions (ADIs) has been advanced under the initial allowance of the Term Funding Facility. ADIs currently have access to a further \$120 billion under this facility. As this is drawn down, there will be a further very significant expansion of the Reserve Bank's balance sheet.

### Current Conditions

The recovery is underway. There has been an improvement in output and the overall decline has been smaller than expected. The current outbreak/resulting lockdown in Vic is impacting output growth. The recovery is likely to remain “bumpy”.

Employment conditions have improved and the peak in unemployment is expected to be lower than previously forecast. But underemployment remains a problem. Wage and inflation pressures “remain subdued”.

Updated forecasts will be published at the next meeting.

### Forward Guidance

The 3yr yield will be maintained until:

“...progress is being made towards the Bank's goals of full employment and the inflation target. The Bank's expectation, though, is that the yield target will be removed before the cash rate is increased.”

The RBA board has underlined its focus on supporting labour market improvement.

The Board views **addressing the high rate of unemployment as an important national priority**. It will maintain highly accommodative policy settings as long as is required and will not increase the cash rate target until progress is being made towards full employment and it is confident that inflation will be sustainably within the 2–3 per cent target band.

There has been an increase in expectations that the RBA might ease policy further by the end of the year. The minutes this month hint at further considerations:

Over the past couple of weeks, 3-year yields have fallen to around 18 basis points **as markets price in some probability of further monetary policy easing**.

The Board continues to consider how additional monetary easing could support jobs as the economy opens up further.

[https://www.rba.gov.au/media-releases/2020/mr-20-24.html?utm\\_campaign=monetary-policy-decision-2020-oct&utm\\_content=media-release&utm\\_medium=social&utm\\_source=twitter](https://www.rba.gov.au/media-releases/2020/mr-20-24.html?utm_campaign=monetary-policy-decision-2020-oct&utm_content=media-release&utm_medium=social&utm_source=twitter)

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## Trade

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### BREXIT

The EU-UK trade Brexit deal has yet to be negotiated and the upcoming EC summit could prove to be an important for proceedings. The EC meeting on 15-16 Oct has been a key milestone for negotiations.

The European Council will take stock of the implementation of the withdrawal agreement and review the state of the negotiations on the future EU-UK partnership. Leaders will discuss preparatory work for all scenarios after 1 January 2021. <https://www.consilium.europa.eu/en/meetings/european-council/2020/10/15-16/>

One thing that both sides have agreed on is that a deal needs to be struck in October to ensure sufficient time for ratification, before the end of the transition period.

But negotiators are unlikely to get until the end of the month.

Mr Johnson has previously said he wants to agree a free trade deal by the time of an EU summit in the Belgian capital - **which is next week, on Thursday 15 October.**

Mr Johnson has said the two sides should "move on" if nothing is agreed by then. <https://www.bbc.com/news/uk-politics-54493246>

This upcoming EC meeting was originally expected to be the final date for negotiating the trade relationship, 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 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-brexit#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 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](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](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](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://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](https://ustr.gov/sites/default/files/Summary_of_U.S.-UK_Negotiating_Objectives.pdf)

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