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GLOBAL ECONOMIC HIGHLIGHTS

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US OPTS AGAINST OCTOBER 15 TARIFF HIKE, BUT SCANT PROSPECTS FOR DURABLE DEAL; UK UNEMPLOYMENT RISES

CHINA: President Trump announced October 11 that the US government would not raise tariffs on $250 billion of Chinese goods imports by five percentage points on October 15 as previously scheduled. President Trump described the outcome of the US-China negotiations October 10 and 11 as a "phase one deal," but neither China's government nor its state-controlled media have described the outcome of the meeting as a "deal." The state-controlled China Daily described "substantial progress in the fields of agriculture, intellectual property protection, exchange rates, financial services, expanding trade cooperation, technology transfer, and dispute settlement." US Trade Representative Robert Lighthizer stated October 11 that there is still no agreement on the trade agreement's enforcement mechanism, the most important and contentious aspect of the deal. Secretary of the Treasury Steven Mnuchin said that the phase one agreement includes provisions on the yuan exchange rate, but the lack of a joint statement after the meeting is evidence of the gap between the two sides. Further evidence came from news reports after the meeting: Bloomberg reported October 15 that Chinese negotiators demand the US roll back tariffs before China makes the purchases of US farm goods discussed October 10 and 11, purchases President Trump touted as a key deliverable of the phase one deal. Negotiators are aiming to complete a deal text for Presidents Trump and Xi to sign at the November 16-17 APEC meeting. But the parallel between this "phase one deal" and the Trump-Xi trade truce of December 2018, which fell apart in May 2019, suggests that tariffs are more likely to increase or stay in place than to be rolled back before 2020 election.

The preliminary estimate of third quarter GDP growth, to be released late on October 17 in US time zones, likely will show real GDP growth slowed to 5.8 percent in year-over-year terms from 6.2 percent in the second quarter, which was the slowest since comparable data began in 1992. Annual real GDP grew weaker than this, 3.8 percent, in 1990, after the suppression of anti-government protests in 1989. Imports fell 8.5 percent in year-over-year terms in September, tying for the worst since July 2016 and suggesting domestic demand was weak at quarter-end. CPI inflation accelerated to 3.0 percent in year-over-year terms as pork prices surged 69.3 percent; African swine flu has decimated Chinese pork production. High food prices are reducing consumer confidence and spending on non-food goods and services this year and next.

Credit supply is loosening to cushion the worsening economic slowdown. Aggregate financing to the real economy grew 10.8 percent from a year earlier in September, up from 10.7 percent in August, and growth of the broad money supply M2 picked up to 8.4 percent from 8.2 percent. China's central bank will likely cut the benchmark seven day reverse repo rate by 0.50 percentage point to 2.05 percent by the end of the fourth quarter from 2.55 percent currently to guard against an even more severe downturn. China's government announced plans on October 11 to open domestic financial markets to participation by wholly foreign-owned participants in 2020, allowing foreign firms in the futures industry beginning in January, in the fund management industry in April, and in the securities industry in December.

UNITED KINGDOM: The British labor market is weakening, in line with other signs of a mild recession beginning mid-year 2019. The unemployment rate edged up to 3.9 percent in the three months through August from 3.8 percent in the prior three-month period, and wage growth slowed to 3.8 percent in year-over-year terms from 3.9 percent. Job vacancies in the July-to-September period were 5.6 percent below their cyclical peak in the November 2018 to January 2019 period. The government of Prime Minister Boris

Johnson is reportedly close to reaching a withdrawal agreement with the EU that would keep the border between Northern Ireland and the Republic of Ireland open, but impose customs checks between Northern Ireland and the rest of the UK; prospects for parliament ratifying a deal by the October 31 deadline are unclear. Even if a deal is not passed, the Benn Amendment, which Parliament passed in September, still requires the government to extend the negotiation beyond October 31 to prevent Hard Brexit.

UNITED STATES: A soft Job Openings and Labor Turnover Survey for August corroborates the September jobs report's slower payroll job growth. Job openings fell 1.7 percent in August from July, and July's level of openings was revised down 0.6 percent. Job openings in August were a cumulative 7.5 percent lower than their peak in October 2018. A 10.8 percent monthly plunge in job openings in the Midwest explains all of August's decline; openings rose modestly in other regions. Lower job openings in the Midwest could reflect ripples from the GM strike or manufacturing's contraction. In the 2008 to 2009 recession, job openings started falling approximately one year before employment, but job openings also sounded two false signals of an employment slowdown in 2013 and 2016, so their drop in 2019 is not a conclusive sign of a drop in employment in coming months. Hiring is likely to slow in coming months, but there is no sign of layoffs in initial claims for unemployment insurance, which were little changed at 210,000 the week of October 5, close to their level since the second quarter of 2018, a signal of a very strong job market.

Wholesale sales were unchanged in August from July, and fell 0.7 percent from a year earlier, while inventories rose 0.2 percent on the month and 6.2 percent on the year. The inventory to sales ratio tied for the highest since November 2016; businesses have front-loaded purchases of Chinese imports to avoid potential tariff increases in coming months, a sign that wholesale sales will likely weaken through early 2020. The University of Michigan's Consumer Sentiment Index rose for a second consecutive month in the preliminary release for October, but was still below its level in July (the index dropped to the weakest since 2016 in August). CPI inflation was essentially unchanged in September, 1.7 percent in year-over-year terms after rounding vs 1.8 percent in August (the unrounded numbers only differed by 0.03 percentage points). Core CPI also was unchanged at 2.4 percent in the same terms. Energy prices fell 1.4 percent on the month as gasoline prices dropped 2.4 percent, while shelter costs rose 0.3 percent on the month and medical care services 0.4 percent on the month and 4.4 percent on the year.

The Federal Reserve announced October 11 that they would restart purchases of Treasury bills and lending through their repo facility to grow the Fed's balance sheet and inject cash into financial markets, with the goal of maintaining a stable supply of excess reserves in the financial system (meaning, cash that commercial banks keep on deposit at the Fed), and ensuring that September's spike in repo interest rates does not reoccur. With decent but slowing job growth, a contraction in manufacturing, the ongoing trade war, slower wage growth, and low inflation, the Federal Reserve will cut the fed funds rate by 0.25 percentage point at its October 30 meeting to a range of 1.50 to 1.75 percent.

EUROZONE: The Account a.k.a. minutes of the ECB Governing Council's September 11 and 12 meeting highlighted the controversy over the restart of the ECB's quantitative easing program. "A number of members" of the Governing Council opposed the decision to launch the €20 billion euro per month open-ended asset purchase program. The bar is high for additional ECB easing after incoming President Christine Lagarde assumes office on November 1.

CANADA: September was another great month for headline job gains in Canada. Employment rose 53,700 from August, and the unemployment rate fell to 5.5 percent from 5.7 percent; with the exception of one month earlier this year, September's unemployment rate was the lowest since comparable data began in 1976. Wage growth also was strong in September. Wages of Canadian employees (excluding the self-employed) rose a robust 4.3 percent in September from a year earlier; along with July's 4.5 percent growth in the same terms, Canada is experiencing the strongest wage growth since before the Great Recession.

The quality of job growth was worse than the quantity in September. While full-time employment rose 70,000 and part-time employment fell 16,300, much of the gain in full-time employment is due to a 42,100 increase in the number of self-employed Canadians, who are assumed by the Canadian statistical system to be working full-time. The number of Canadians working as private-sector employees fell 21,000 on the month; public employment rose 32,600. Total hours worked by Canadians rose just 1.3 percent from a year earlier in September, lagging the 2.4 percent gain in employment, and emphasizing the weak composition of job growth. A gap between solid job growth and tepid hours growth is also apparent in Statistics Canada's most recent Survey of Payroll Employment, Earnings and Hours for July, in which average weekly hours worked by Canadians dipped to 32.6 in July from 32.8 hours a year earlier.

Despite September's disappointing composition of job growth, the strong growth of jobs and wages and a very low unemployment rate are sufficient argument against a rate cut by the Bank of Canada at the next monetary policy decision October 30. September's home sales report from the Canadian Real Estate Association, showing sales up 0.6 percent on the month and a cumulative 18 percent from their cyclical low in February 2018, is a further sign that Canada's economy does not yet require a rate cut. Even so, PNC forecasts that the Bank of Canada's next move will be to cut the overnight rate target 0.25 percent percentage point to 1.50 percent, though not until their January 2020 decision. By then, spillover from the US-China trade war, slower growth in the United States, and the drag on Canadian GDP from oil pipeline bottlenecks will slow Canada enough to justify the cut.

BRAZIL: The Central Bank of Brazil's weekly survey of professional forecasters showed the median estimate for real GDP growth in 2019 was 0.9 percent in the October 4th survey, unchanged from the prior week. The median estimate for real GDP growth in 2020 was 2.0 percent, also unchanged from the prior week. Brazil's services sector contracted 0.2 percent in August from the previous month and contracted 1.4 percent on a year-over-year basis according to the Brazilian statistics agency IBGE. The monthly fall was the fifth out of eight this year, and the annual contraction was the fourth out of eight this year. Retail sales in August grew by 0.1 percent from the previous month; this is the fourth consecutive monthly increase. Retail sales in August increased 1.3 percent on a year-over-year basis; this is the fifth consecutive increase.

INDIA: Industrial production in August fell 1.1 percent on a year-over-year basis compared to a growth of 4.6 percent in July; this is the first decline in over two years. 16 out of 23 industry groups reported negative growth. Capital goods production declined 21.0 percent while consumer durables fell by 9.1 percent.

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