MARS CAPITAL PARTNERS

Weekly Macro Review

w/c 16 November 2020

Key Themes

Data from the US this week showed that the rebound in activity continued. A slight uptick in initial claims hinted at some possible impact from the growing level of state and regional restrictions. This will be something to watch in the coming weeks. Continuing claims remained elevated and the fall in regular state ongoing claims was mostly offset by an increase in the uptake of federal pandemic programs.

US retail sales growth slowed in Oct. The breadth of growth across categories was narrower this month. The monthly retail growth was led mostly by the increase in non-store retail sales. Year-to-date retail sales are now only -0.1% below the same period a year ago.

Manufacturing activity continued to recover. Industrial production in Oct increased at a faster pace led by faster growth in manufacturing output. Output and utilization remain below a year ago. The regional manufacturing surveys for Nov indicated that growth remained consistent.

Housing conditions were especially strong in Nov – reaching another new high for the conditions index. This was led by single-family sales (present conditions) and further improvement of conditions in the Midwest and the South. Existing home sales also continued to increase at a fast pace, albeit slower than in the prior month. All regions contributed to growth. Mortgage applications recorded an increase in purchase applications – for the second time out of the last eight weeks.

The rebound in Japan, especially for manufacturing and exports, continued. Industrial output in Sep increased for the fourth month in a row, despite the headline contraction in the manufacturing output PMI. Aiding this recovery has been the steady rebound in export growth over the last few months. Two points of caution from the prelim Nov PMI was the renewed contraction in new export work and the faster decline in output prices.

In Australia, the Reserve Bank minutes reiterated that reducing unemployment was a National priority amid concerns over subdued demand conditions. The full suite of exceptional monetary measures introduced in Nov, including QE for the first time, was aimed at providing further traction for the recovery alongside fiscal measures.

Previously, the RBA has acknowledged that inflation would not be likely to return to the 2-3% range until wage growth started to accelerate. This is not likely to happen until labour market slack is greatly reduced. In Q3, annual wage growth slowed to the slowest pace in the series (short) history. The labour market survey for Oct recorded faster growth in the number of employed persons – one of the stronger monthly rebounds in employment since the pandemic shutdowns. The important takeaway is that while employment increased notably, the supply of labour increased by a larger degree (participation had increased). This means that the total number of unemployed persons continued to increase on a monthly and annual basis. For the moment, employment growth/labour demand is lagging behind the increase in the supply of labour. As domestic restrictions continue to be lifted, employment growth will need to accelerate further to reduce the extremely high level of unemployment and underemployment.

Contents

US Data

Initial Jobless Claims (wk ending 14 Nov), Continuing Unemployment Claims (wk ending 7 Nov), and PUA Claims

This week there was a small uptick in initial claims across both state and federal programs. The total number of initial claims was 1.06m in the latest week ending 14 Nov (NSA) – up from 1.02m in the week prior.

There was a further reduction in the total number of persons claiming on-going benefits from 21.1m in the week ending 24 Oct to 20.1m people in wk ending 31 Oct.

Falls in the ongoing state programs, and the PUA program this week, continued to be offset by a further increase in Pandemic Emergency Unemployment Compensation (PEUC).

REGULAR STATE PROGRAMS

Initial Claims wk ending 14 Nov 2020 (NSA): 743,360 new claims by people (this was up from 725,116 claims in the week prior)

Continuing Claims wk ending 7 Nov 2020 (NSA): 6,081,402 ongoing claims. The prior week's total was revised higher to 6,501,072 ongoing claims.

Continuing claims in all regular state programs totalled 6,454,659 in the wk ending 31 Oct.

FEDERAL PANDEMIC PROGRAMS

PUA Initial Claims wk ending 14 Nov 2020 (NSA): 320,237 new claims by people

PUA Continuing Claims wk ending 31 Oct 2020 (NSA): 8,681,647 ongoing claims. This was down from the prior week's total of 9,433,127 claims.

PEUC Ongoing Claims wk ending 31 Oct 2020 (NSA): 4,376,847 ongoing claims. This was slightly higher than the 4,143,389 continuing claims recorded in the week prior.

https://oui.doleta.gov/unemploy/archive.asp

Retail Sales (Oct)

US retail sales growth slowed in Oct. The breadth of growth across categories was narrower this month. Growth was led mostly by the increase in non-store retail sales.

In Oct, total retail sales on a YTD basis were on par with the same period a year ago (no growth). This suggests that the sales lost during the severe declines of Mar and Apr this year have recovered in the subsequent months to be on par with the same period a year ago.

Advance Retail Sales ($ Val) – month change: Oct +0.3% (+$1.4bn) versus Sep +1.6% (+$8.5bn)

The breadth of growth was narrower this month with five categories contributing to the overall increase.

The single largest contributor to growth this month was non-store retailers +3.1% (+$2.65bn) versus Sep -1.7%.

Growth accelerated across building materials suppliers: +0.9% ($0.3bn)

Electronic and appliance store sales increased by +1.2% (+$0.1bn) in Oct versus -1.1% in Sep.

Growth slowed across motor vehicles: +0.4% (+$0.46bn) in Oct versus +2.9% in Sep

Growth slowed across gasoline station sales value: +0.4% (+$0.15bn) in Oct versus +2% in Sep.

All other categories recorded declines in sales value this month including grocery, general merchandise, and foodservice outlets.

Advance Retail Sales ($ Val) – annual change: Oct +5.7% versus Sep +5.9%

The annual pace of growth has slowed but remains above the average annual pace of growth throughout 2019 (+3.5%)

The annual growth (current month versus the same month a year ago) across the various categories reflects how purchase behaviour shifted as a result of shutdowns and restrictions due to the pandemic.

If you take the YTD growth (ten-month total, NSA) versus the same period a year ago, there are standout performances across:

Food and beverage retail (grocery) +12% YTD versus -19.3% for foodservice outlets and drinking places.

Non-store retail +21.9% - purchases were shifted online during the pandemic.

Sporting goods and hobbies +2.8% and building materials and gardening +13.2% - reflecting a focus on home improvements and at-home recreation.

On a YTD basis (NSA), total retail sales are on par with the same period a year ago – 0% growth. On an aggregate basis, the severe declines in sales during Mar and Apr have been recovered (compared to a year ago).

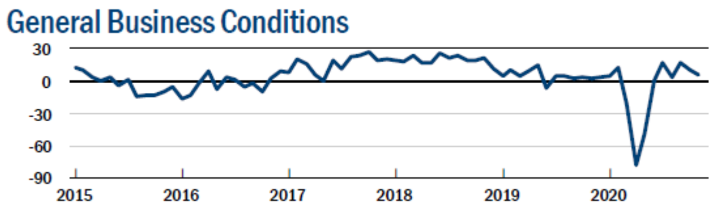
https://www.census.gov/retail/index.html

NY Empire State Manufacturing Index (Nov)

The headline manufacturing index indicated that growth slowed somewhat in Nov. Fewer firms recorded higher/improving conditions, but more firms recorded no change in conditions compared to the prior month. Shipment and new order growth slowed notably. Unfilled orders declined at an accelerated pace. Growth in hours worked also slowed. The slight increase in the employment index reflected fewer firms reducing the number of employees.

Headline General Business Conditions: Nov 6.3 versus Oct 10.5

The slowdown reflects that more firms experienced no change in business conditions and fewer firms recorded improved conditions.



	Percent Reporting		
	Higher	Lower	Index
Oct	35.8	25.3	10.5
Nov	30.8	24.4	6.3
Change			-4.2

The index of new orders slowed notably from 12.3 in Oct to 3.7 in Nov. More firms reported no change in orders and fewer firms reported higher/increasing orders.

Shipment growth also slowed markedly from 17.8 in Oct to 6.3 in Nov. The underlying shift was more negative. While fewer firms reported higher shipments, there was an increase in the proportion of firms reporting a decline in orders compared to the prior month.

The acceleration in the decline of unfilled orders highlights that some spare capacity enabled firms to reduce backlogs. The index of unfilled orders declined by -11.9 in Nov after declining by -6.6 in Oct. More firms reported lower backlogs and fewer firms reported higher backlogs.

The index of the average workweek slowed notably from 16.1 in Oct to 4.8 in Nov. This mostly reflects that more firms recorded no change in hours worked – after a month of stronger growth. There was a large decline in the proportion of firms reporting a higher average workweek (from 26.7% of firms in Oct down to 15.1% in Nov).

Despite the mostly unchanged level of activity, the number of employees index increased slightly from 7.2 in Oct to 9.4 in Nov. The underlying shift reflected that more firms reported no change to employee numbers due to fewer firms reporting a lower number of employees. The proportion of firms reporting higher employment was unchanged in Nov at 20% of firms.

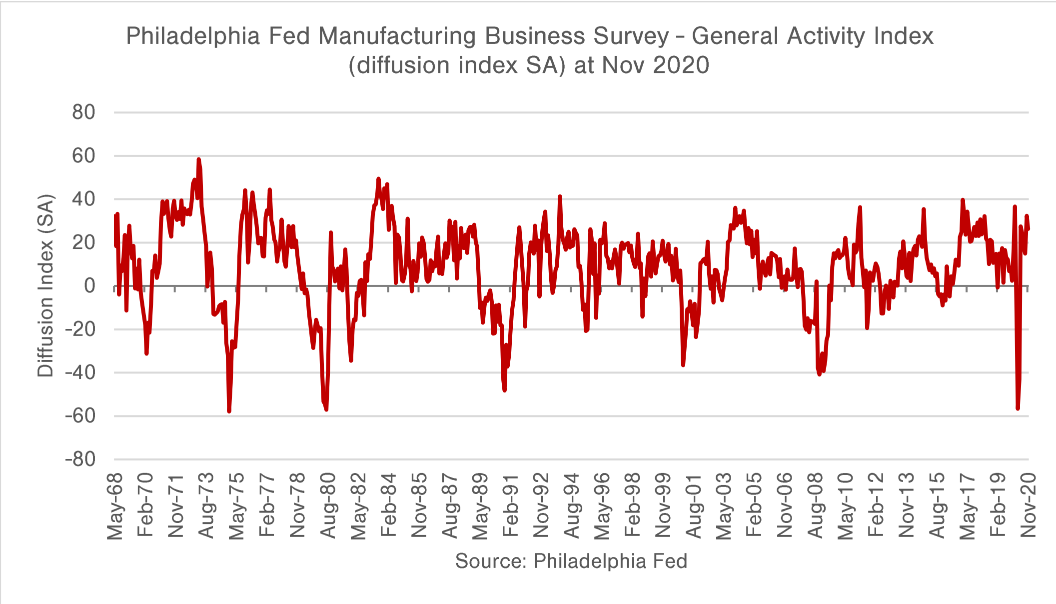
https://www.newyorkfed.org/survey/empire/empiresurvey_overview.html

Philadelphia Fed Manufacturing Survey (Nov)

The headline manufacturing activity index indicated a slower pace of growth this month, but the component indexes indicate that growth and activity remain strong. New orders and shipment growth slowed in Nov but from extremely high levels recorded in the prior month. There was a notable jump in unfilled orders growth – the highest level since 1973. This indicates that order growth was such that capacity constraints resulted in higher backlogs. The employment index increased to close to the all-time high. At the same time, firms continued to increase the average workweek at the same, elevated pace as the prior month. The workweek index in Nov was the second-highest reading in the series history.

<u>Headline General Business Activity Index – month</u>: Nov 26.3 versus Oct 32.3

The underlying shift this month indicated that more firms recorded the same levels of business activity this month compared to the prior month. There was a similar number of firms reporting lower activity and fewer firms were reporting higher activity.



The new orders index fell from 42.6 in Oct to 37.9 in Nov – the level remains elevated. Fewer firms reported higher new orders this month decreasing from 54.6% of firms in Oct to 48.6% in Nov – this is still an extremely high reading. Approx. 40% of firms reported no change in order levels. Only 11% of firms reported a decline in orders (which was the same as last month).

Shipments growth slowed more markedly with the index falling from 46.5 in Oct to 24.9 in Nov. The Oct index level was close to the all-time high. So from this high-level last month, more firms reported the same level of shipments and fewer firms reported continued increases in shipments. There was a small increase in the proportion of firms reporting lower orders compared to the prior month.

Unfilled orders increased at a much faster pace this month increasing from 8.3 in Oct to 22.2 in Nov. While this is not the all-time high, it is the highest level since Mar 1973. The Oct level is the fourth highest in the series. The increase in unfilled orders indicates that growth in orders is such that capacity constraints are possibly resulting in higher backlogs.

As a result, there was a corresponding and notable increase in the employment index from 12.7 in Oct to 27.2 in Nov. The Nov index of 27.2 is only slightly below the all-time high index level of 29.1 from May 2018. This month, more firms recorded higher employment, while fewer firms recorded the same or declining employment levels.

Even as firms were increasing employment, the average workweek continued to increase at the same pace as the prior month. The average workweek index was 25.7 in Nov – which is the second-highest reading in the series history.

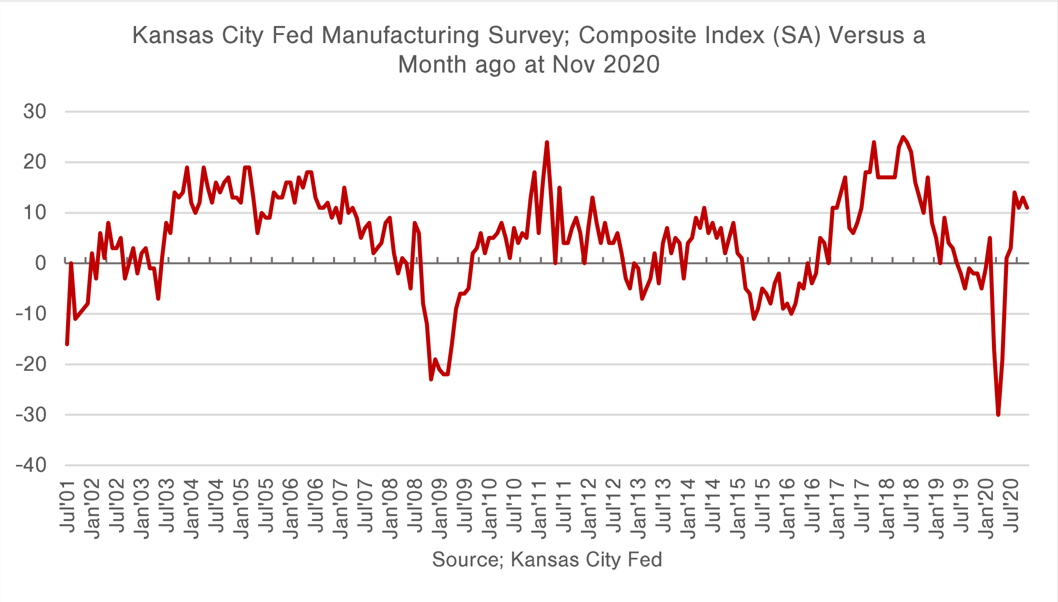
On the prices front, firms continued to report higher input prices. The index increased from 28.5 in Oct to 38.9 in Nov and is the most elevated in two years. More firms recorded higher input prices while fewer firms recorded no change in costs. Zero firms recorded a decrease in costs. There was a corresponding increase in the selling prices index. The underlying shift was identical to input prices. More firms were at least able to pass on higher costs.

https://www.philadelphiafed.org/-/media/frbp/assets/surveys-and-data/mbos/2020/bos1120.pdf

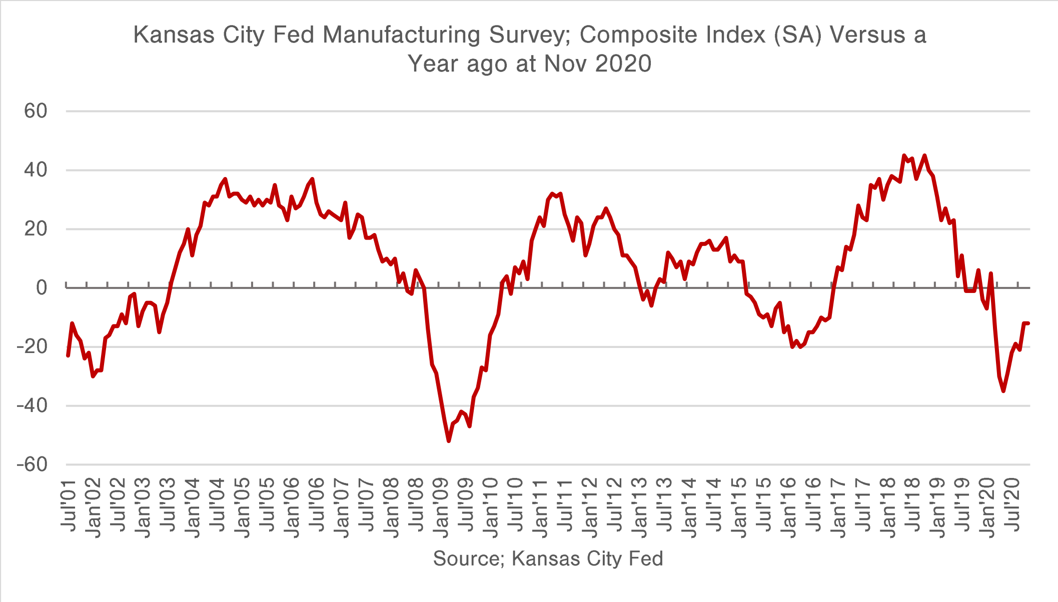
Kansas City Fed Manufacturing Survey (Nov)

The headline composite index was little changed in Nov indicating that growth likely remained constant in Nov. The changes in the underlying indexes indicated little if any acceleration in demand this month. Foreign orders declined notably this month. Backlogs indicated only a slight impact on capacity and employment growth stalled. Growth in the average workweek continued to increase at a steady pace.

Composite Manufacturing Index: Nov 11 versus Oct 13



While the headline index indicates that activity has rebounded since the severe contraction in Apr, activity remains below the level from a year ago. The year-ago composite index in Nov was -12 versus -12 in Oct.



The production index was little changed this month at 20, remaining close to the post-lock-down high of 23 (Aug & Oct).

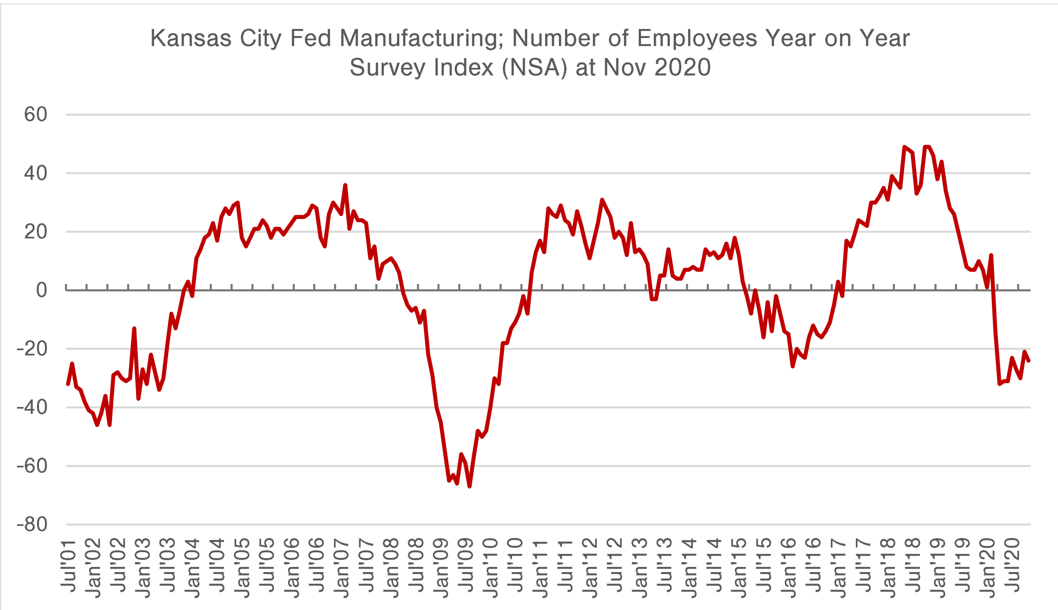
The volume of shipments slowed notably from 22 in Oct to 3 in Nov.

The volume of new orders index also indicated slower growth but the index remained elevated at 19 in Nov. The volume of new orders index is still well below a year ago at -18, worsening from -8 in Oct.

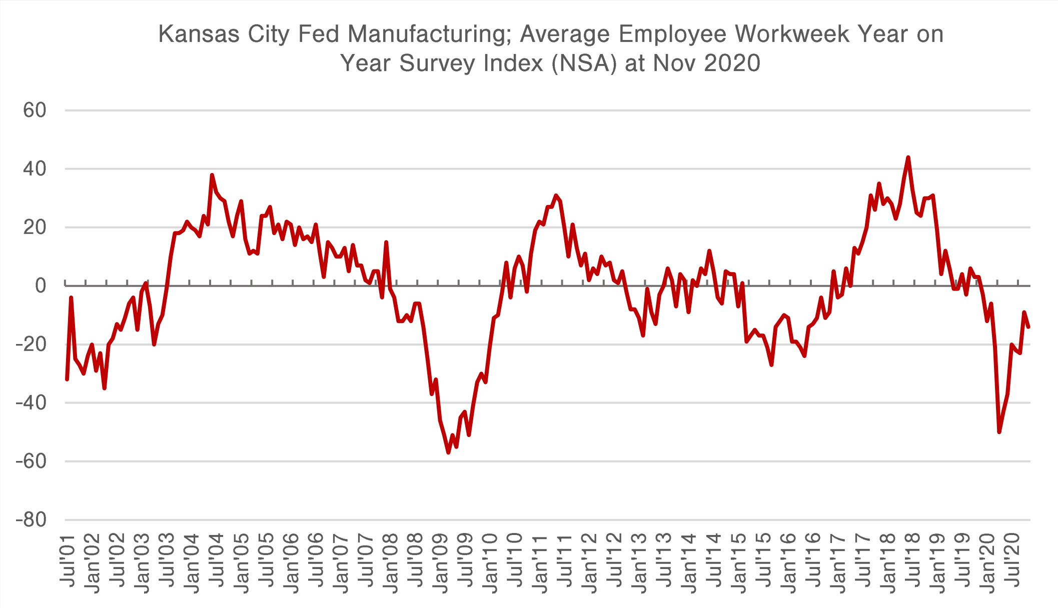
New export orders contracted in Nov with the index falling to -10 from 1 in Oct.

Order backlogs continued to grow marginally, indicating that there was little pressure on capacity.

The employment index fell back to 1 in Nov indicating no change from the prior month increase in employee numbers. On a year-ago basis, there has been little rebound in the number of employees.



The average workweek index indicated that growth remained constant in Nov. The index was at 7 in Nov from 9 in Oct. There has been a larger recovery in hours worked on a year-ago basis.



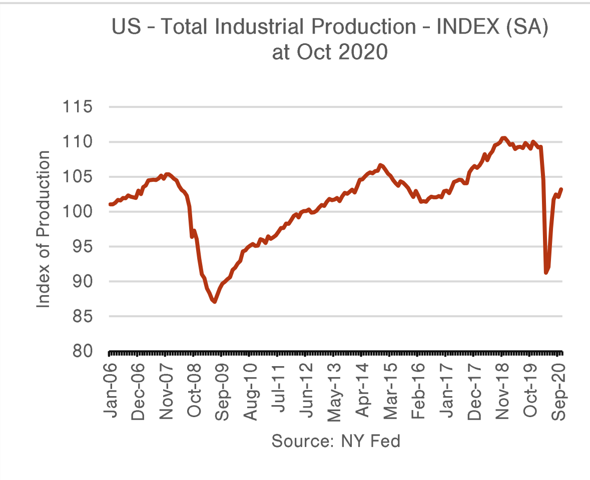
https://www.kansascityfed.org/~/media/files/publicat/research/indicatorsdata/mfg/2020/november192020_kcfedmanufacturingsurvey_release.pdf?la=en

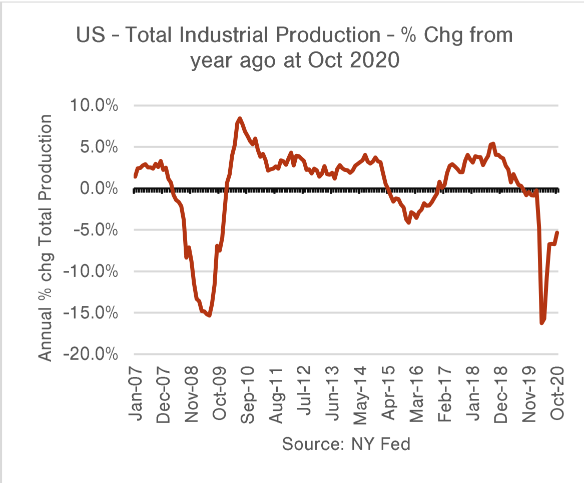
Industrial Production (Oct)

The increase in output this month was led by gains in manufacturing and electric and gas utilities. The output of mining declined in the month.

<u>Total Industrial Production – month change</u>: Oct +1.1% versus Sep -0.4%

Industrial output continues to recover from the Mar-Apr shutdowns. The overall production index is still -6% below the Feb (pre-Covid) level. Overall production levels remain 5.3% below the same month a year ago.





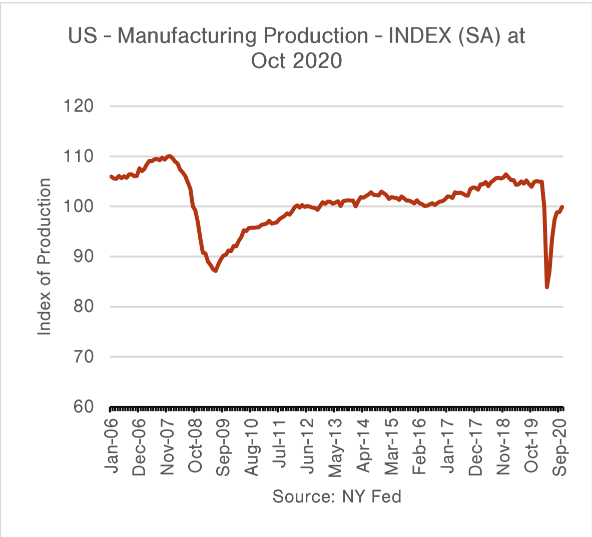
Manufacturing Output – month change: Oct +1% versus Sep +0.1%

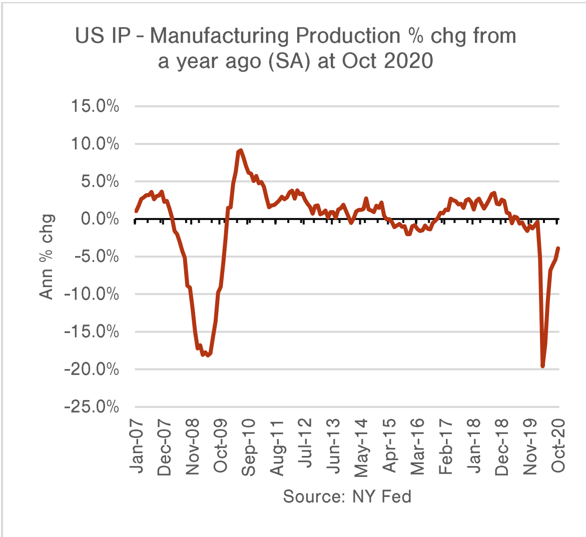
Production levels increased across both durable and non-durable goods this month. Most industries recorded growth in output.

Durable goods output increased by +0.9% in Oct after a smaller +0.1% increase in Sep. Output growth was recorded across many industries except for three. Motor vehicle output declined for the second month, declining by -0.1% in Oct after a -3% decline in Sep. Motor vehicle output remains -5% below the Feb pre-Covid level. Furniture output declined by -1.2% in Oct and output of fabricated metal products also declined by -0.2% in Oct.

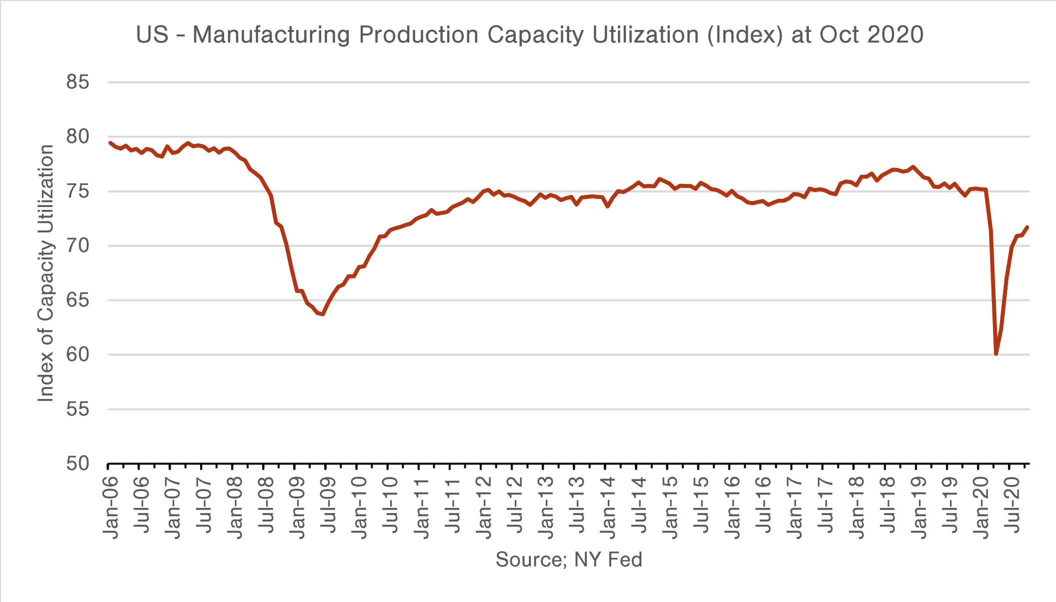
Non-durable goods output increased by +1.2% in Oct after a slight decline of -0.1% in Sep. Only two categories recorded a decline in output for the month – textiles (-1%) and other manufacturing (-1.5%). Growth was stronger across all other non-durable goods industries.

Total manufacturing output remains -5% below the Feb pre-Covid level and -4.2% below the same level a year ago.



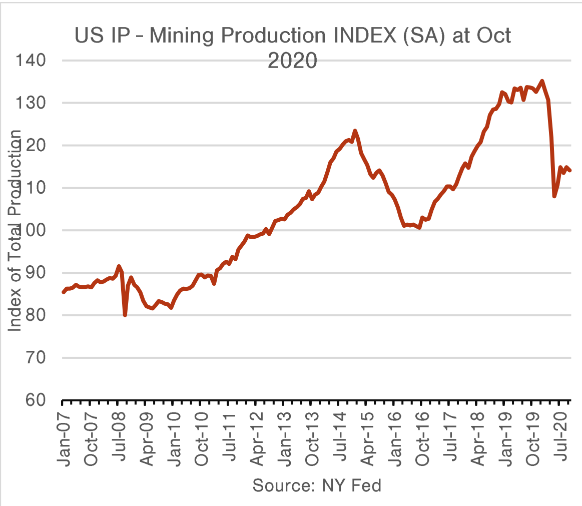


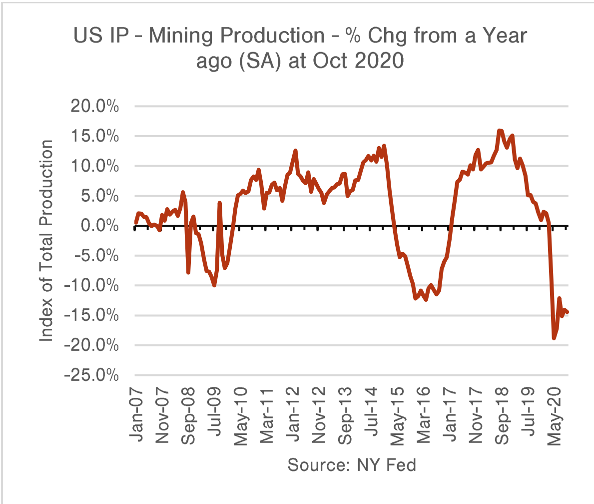
Manufacturing capacity utilization improved this month from 70.9% in Sep to 71.7% in Oct. utilization remains well below the average level during recent years.



<u>Mining Output – month change</u>: Oct -0.6% versus Sep +1.2%

Mining output has barely rebounded from the May low. Mining output is still 16% below the Jan pre-Covid level and is -14.4% below the same month a year ago.

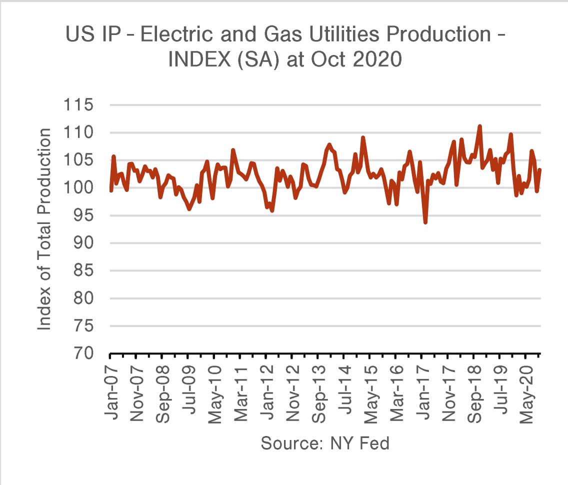


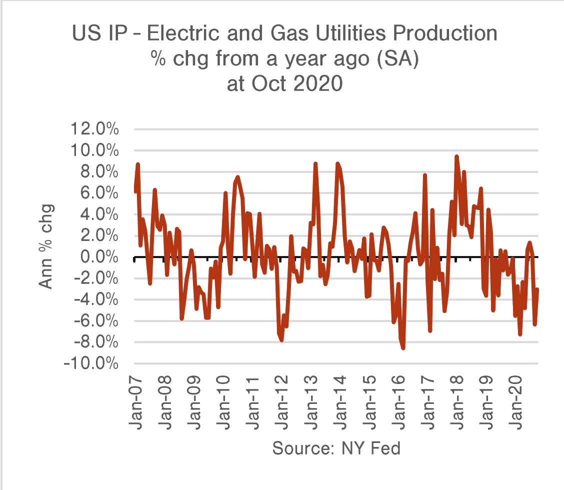


Mining capacity utilization fell in Oct to 77.9% from 78.2% in Sep.

<u>Electric and Gas Utilities Output – month change</u>: Oct +3.9% versus Sep -5.2%

The output of utilities is -3% below a year ago.





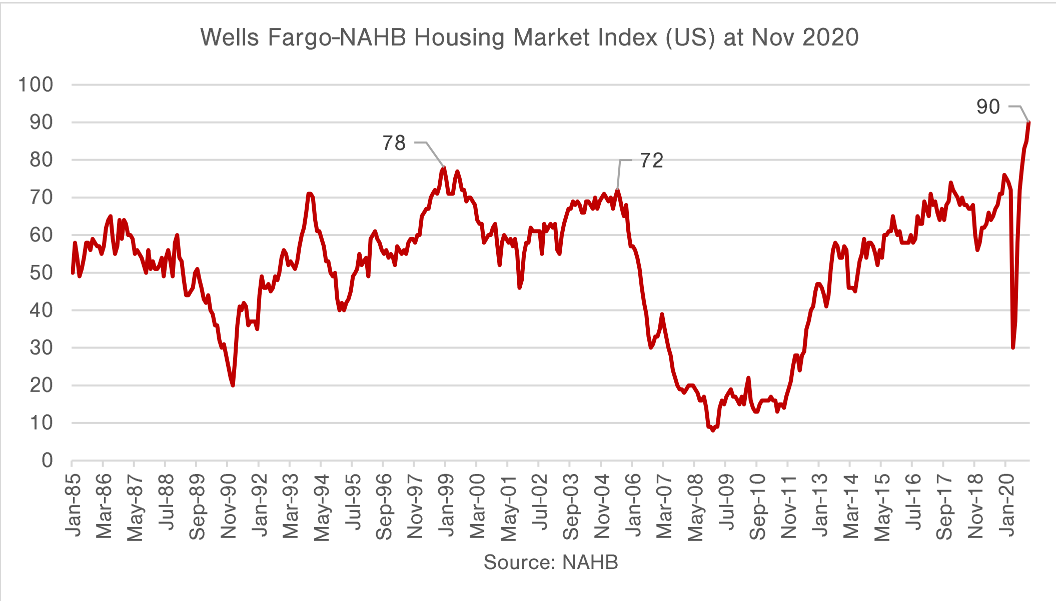
Capacity utilization was higher at 72.7% in Oct, up from 70% in Sep. Utilization levels are still -6% below the same month a year ago (77% in Oct 2019).

https://www.federalreserve.gov/releases/g17/current/default.htm

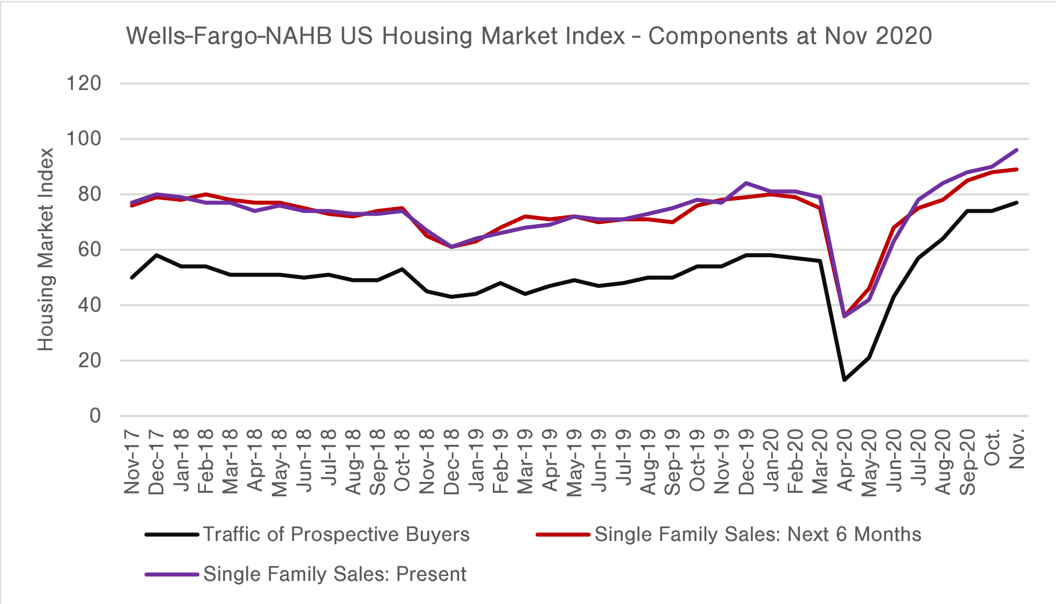
NAHB Housing Market Index (Nov)

The housing market index reached another new all-time high this month. Housing market conditions continued to improve across the index components led by single-family sales (present conditions). Across the regions, the largest improvement was in the Midwest and the South. Conditions declined in the Northeast.

<u>Housing Market Index – month:</u> Nov 90 (+6%) versus Oct 85



Conditions were led higher by the single-family sales (present) index +7%. Conditions for the single-family sales in the next six-months were little changed. There was a smaller improvement in the traffic of prospective buyers +4% in Nov.



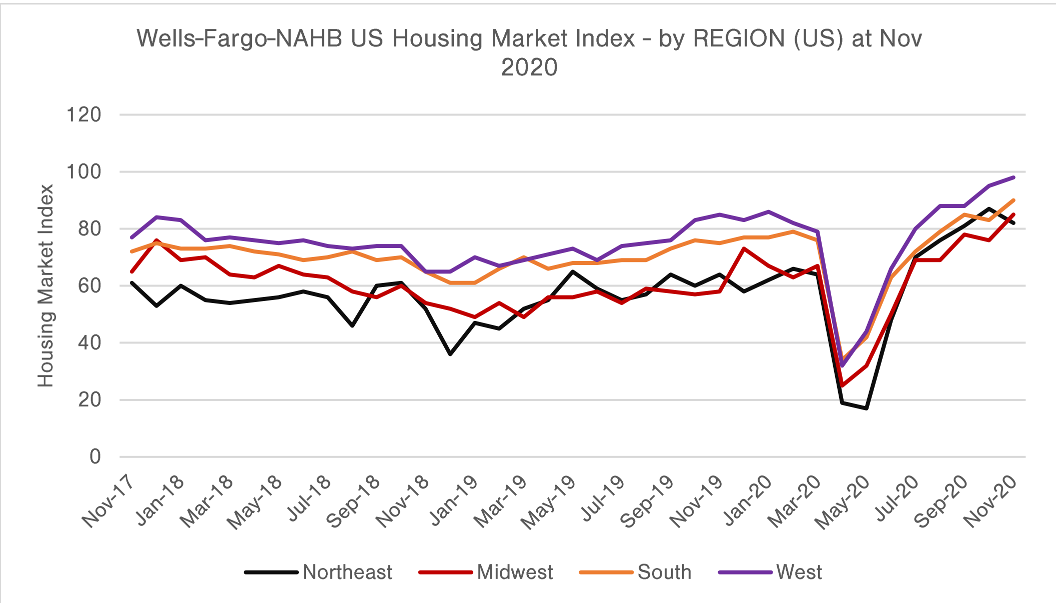
Regional Conditions

The improvement in National conditions was led higher by the Midwest with a 12% increase in the conditions index for that region.

Conditions in the South improved by 8% in the month.

Conditions in the West remained elevated and increased by 3%.

After the surge in the prior month, the conditions index for the Northeast declined by 6% in Nov.



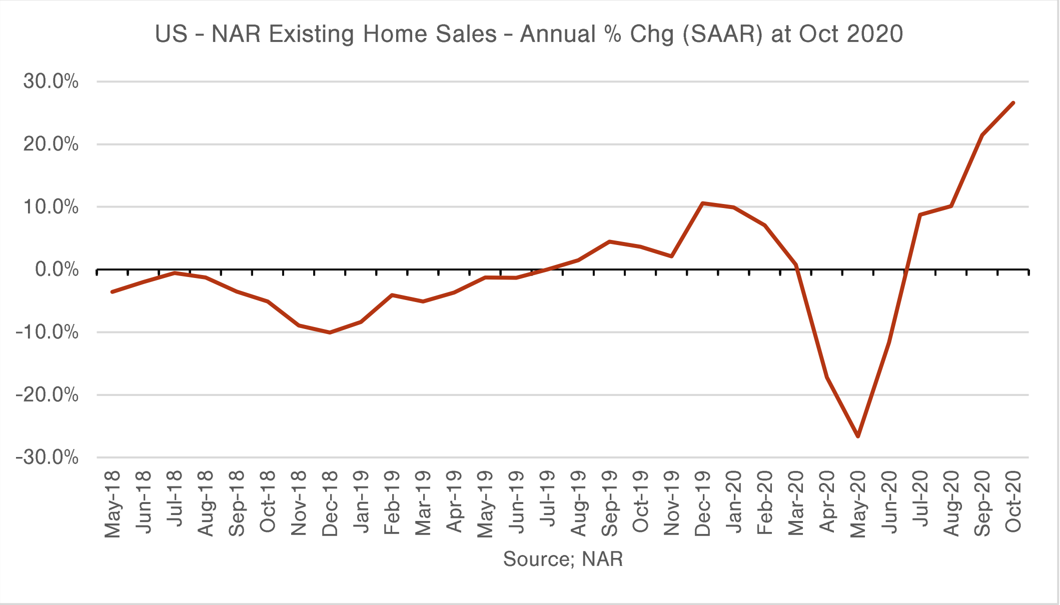
https://www.nahb.org/news-and-economics/housing-economics/indices/Housing-Market-Index

Existing Home Sales (Oct)

There was a further increase in the SAAR of existing home sales in Oct. Growth in the month remained elevated but slowed from the month prior. The increase in the SAAR of sales in the Midwest and the South contributed most of the growth.

Existing Home Sales – SAAR: Oct +4.3% versus Sep +9.9%

On an annual basis, growth of existing home sales accelerated in Oct to be +26% ahead of the same month a year ago (SAAR basis).

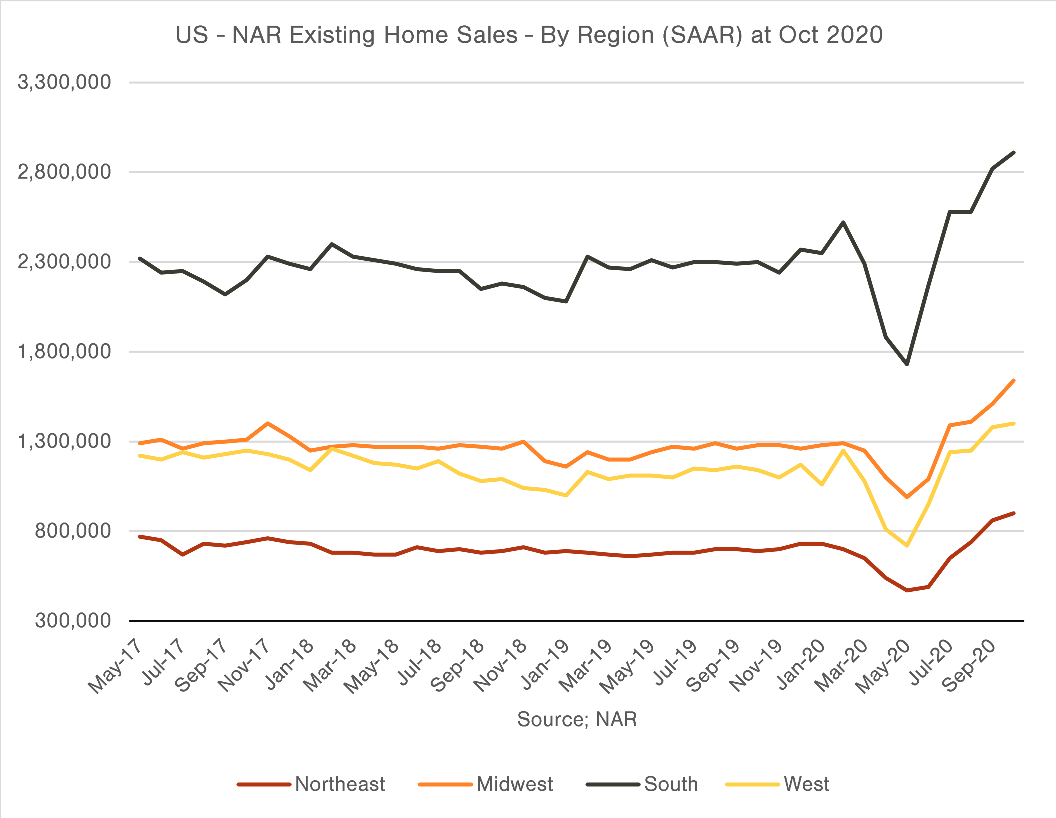


Sales increased across all regions in Oct compared to Sep. The largest increase was recorded in the Midwest with sales increasing by +8.6% in Oct (SAAR-basis).

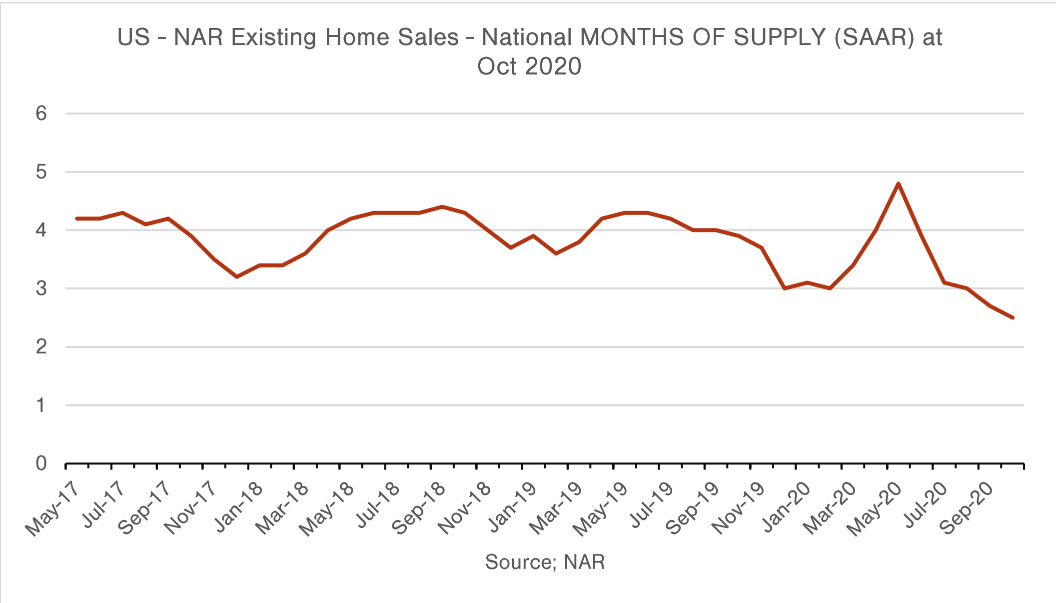
Sales in the South remain higher and growth was +3.2% in Oct.

Sales growth in the West was somewhat slower at +1.4% in Oct.

Sales in the Northeast were stronger, growing at +4.7%.



Inventory (Months of Supply) continued to fall and is now down to 2.5 months.



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

Mortgage Applications wk ending 13 Nov

This was another week where mortgage applications decreased versus the week prior. The dynamic was different though. This week, refi applications declined, and purchase applications increased. This was only the second increase in purchase applications in the last eight weeks.

Mortgage Market Composite Index wk ending 13 Nov: -0.3%

This week the number of refi applications declined.

Refinance Index wk ending 13 Nov: -2% compared to the prior week.

The number of refi applications in the latest week was +98% ahead of the same week a year ago.

> "The refinance index decreased last week - driven by sharp declines in FHA and VA applications - but remained a robust 98 percent above a year ago. The average refinance loan balance of $291,000 last week was the lowest since January. Many borrowers with higher loan balances may have acted earlier on in the current refinance wave."

Purchase Index wk ending 13 Nov: +4%

This is only the second increase in the last eight weeks. The purchase is +26% ahead of the same week a year ago.

> "Mortgage market activity was mixed last week, despite the 30-year fixed rate mortgage staying below 3 percent. The purchase market recovered from its recent weekly slump, with activity increasing 3 percent and climbing above year-ago levels for the 26th straight week. Housing demand remains supported by the ongoing recovery in the job market, and an increased appetite from households seeking more space because of the pandemic,"

https://www.mba.org/2020-press-releases/november/mortgage-applications-decrease-in-latest-mba-weekly-survey-x274076

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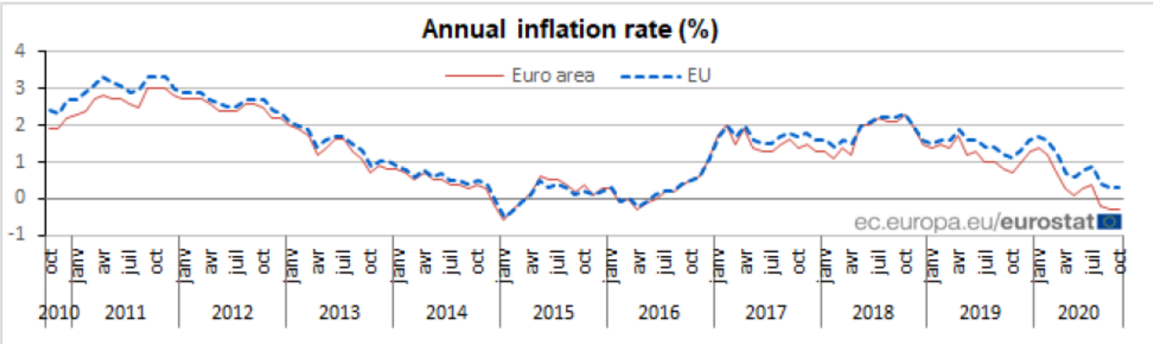
Europe

Eurozone CPI (Oct)

The annual pace of CPI change was unchanged in Oct. In the Euro area (19) annual inflation continued to decline by -0.3%. In the broader EU region (27), annual inflation continued to grow at +0.3%.

Contribution data is provided at the Euro area-level.

<u>**Euro area CPI – annual change**</u>: Oct -0.3% versus Sep -0.3%



The single largest contribution to the decline in the Euro area CPI is energy prices.

Energy prices declined by -8.2% on an annual basis in Oct, unchanged from Sep. This offset increased across all other categories.

The Euro area annual CPI excluding energy prices increased by +0.6% in Oct. This was faster than the annual pace in Sep of +0.5%. This indicates that there is some underlying price growth pressure, albeit still lower than a year ago.

Food, alcohol, and tobacco prices made a slightly higher contribution to CPI. Unprocessed food prices, in particular, made a higher contribution to headline CPI.

Services made a positive contribution to headline CPI. Prices increased at a slower annual pace though.

https://ec.europa.eu/eurostat/documents/2995521/10662215/2-18112020-AP-EN.pdf/73366b60-8a08-eb3a-b0fc-a4d0f69be73e

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Japan

GDP – First Prelim Q3 2020

Growth in Japanese real GDP rebounded in Q3. The two main contributors to the rebound in the quarter were household consumption and net exports. Net exports were less negative in Q3 as exports increased and imports declined at an accelerated pace.

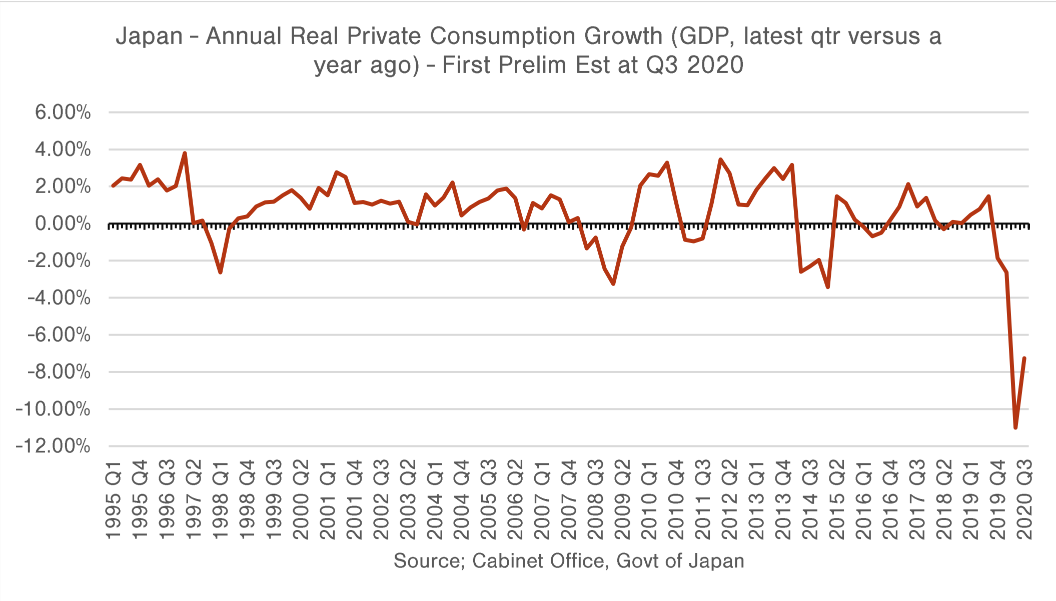
Despite the rebound in Q3, real GDP remains 6% below the same quarter a year ago. This is the fourth quarter in a row where real GDP has declined on an annual basis.

Real GDP – quarter change: Prelim Q3 +5% versus Q2 -8.2%

The rebound in Q3 was led by two expenditure groups.

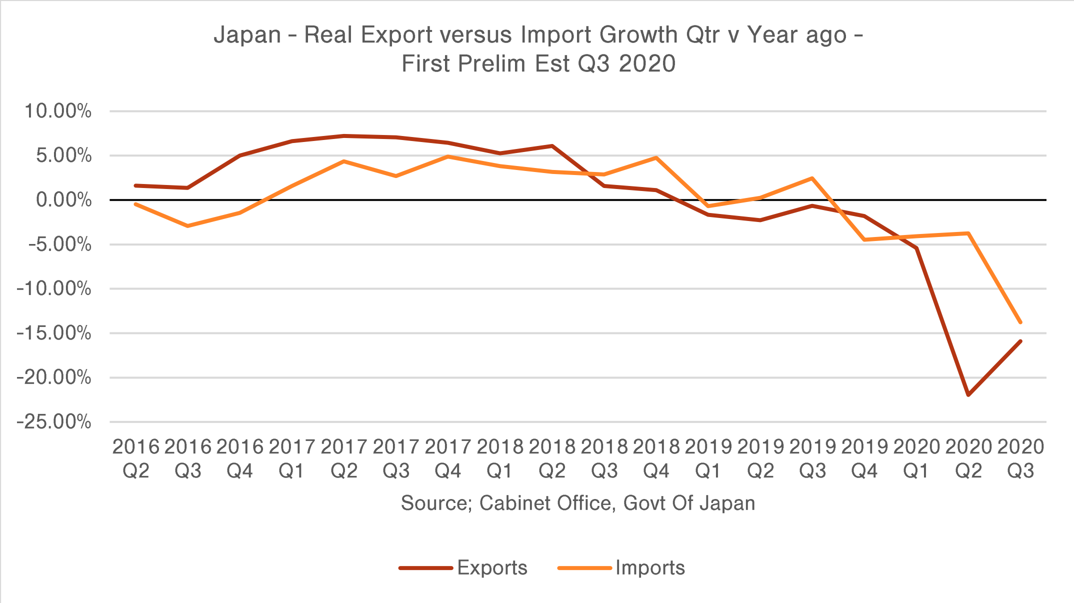
Household consumption increased by +4.7% in Q3 after declining by -8.5% in Q2. Household consumption growth contributed 2.54% pts to the headline 5% GDP growth for the quarter (just half of the growth).

On an annual basis, household consumption remains -4.25% below the same quarter a year ago. Total private consumption growth remained firmly negative in Q3 at -7.25% below the same quarter a year ago.



Net exports also made a larger and positive contribution in Q3 adding 2.90% pts to the headline 5% GDP growth for the quarter. Net exports detracted 3.2% pts from the headline GDP change in Q2. Net exports remained negative in Q3, but to a smaller degree than in Q2. Exports increased by 7% in Q3 after declining by 17.4% in Q2. Imports though declined by -9.8% in Q3 after increasing by 2.2% in Q2.

On an annual basis in Q3, exports are 16% below the same quarter a year ago (real terms) and imports are 14% below the same quarter a year ago.



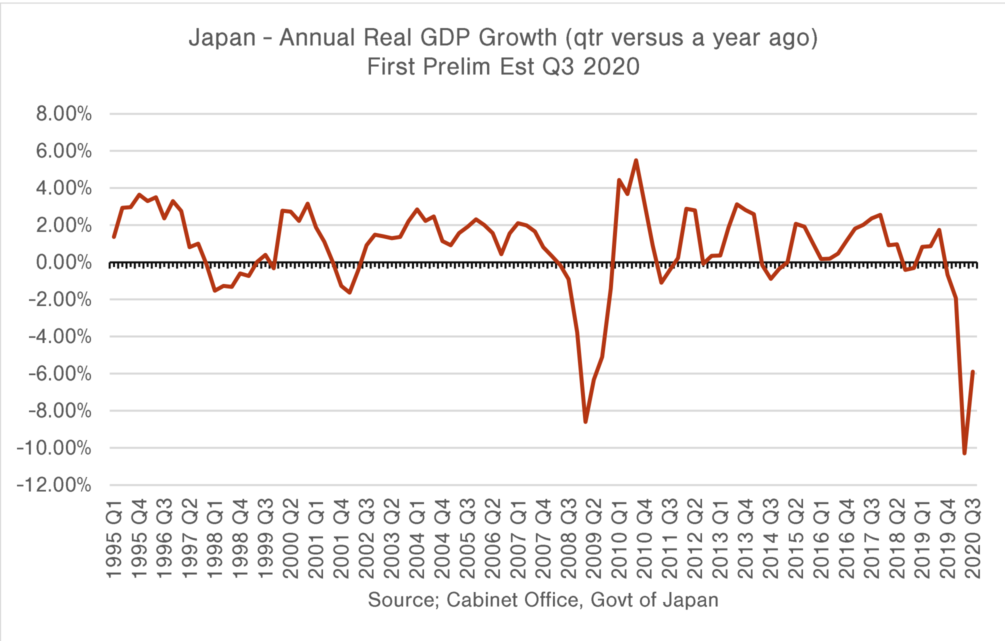
Government consumption expenditure also increased. Expenditure increased by +2.2% in Q3 after a slight decline in Q2 of -0.4%. This added +0.51% pts to headline GDP growth in the quarter.

Private investment declined further in Q3. Residential investment declined at an accelerated pace of -8% in Q3 after declining by -0.5% in Q2. Non-residential investment declined by -3.4% in Q3 after declining by -4.5% in Q2. Together, private investment detracted -0.80% pts from the headline 5% GDP growth for Q3.

The change in private inventories detracted -0.22% pts from headline growth in the quarter.

Real GDP – Annual Change (same qtr a year ago): Prelim Q3 -5.89% versus Q2 -10.3%

Annual real GDP growth has been negative for four quarters in a row.



https://www.esri.cao.go.jp/en/sna/data/sokuhou/files/2020/toukei_2020.html

Merchandise Trade Balance (Provisional - Oct)

The trade surplus (Yen value) increased on an annual basis as exports declined by a smaller degree than imports. The performance of exports has continued to improve and was 'only'-0.2% below a year ago (NSA basis). The rebound has been led by export growth to the US and China. Imports remained below a year ago (-13.3%) on an annual basis – led mostly by the decline in mineral fuel imports (value and quantity). But imports are still below a year ago across most commodity groups.

On a seasonally adjusted basis, both exports and imports have continued to increase after the severe falls in Mar-May this year. The improvement in imports has been more recent.

All values in ¥.

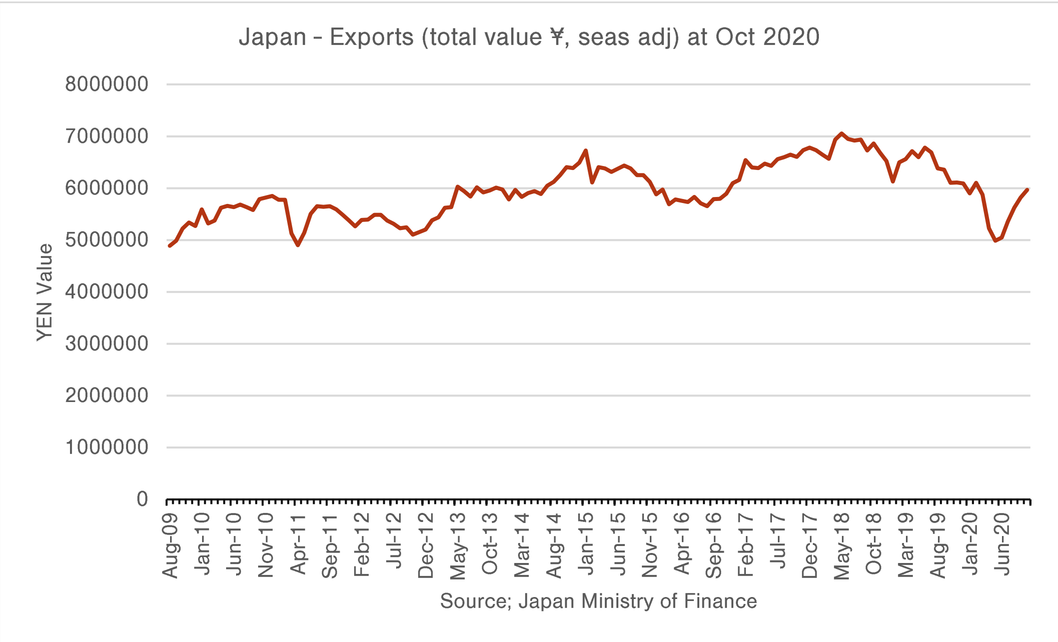
Trade Balance – Surplus (NSA): Oct 2020 872bn versus Oct 2019 11.1bn

The large increase in the surplus this month compared to a year ago is due to the larger decline in imports than in exports.

On a seasonally adjusted basis, the trade surplus in Oct (314bn) declined slightly compared to Sep (440bn). This was the result of faster growth in imports than in exports compared to the prior month.

EXPORTS

Growth in the value of exports has been slowly improving since Jun 2020. On a seasonally adjusted basis, exports have increased now for five months in a row. Exports (val, seas adj) are now only -2.3% below a year ago.



Overall export value has been drifting lower since mid-2018 and the value of exports in Oct remains 15% below that near-term peak.

On an NSA basis, annual export growth has improved from -4.9% in Sep to -0.2% in Oct.

Exports by Region

Annual export growth was positive across some key markets this month – a continued improvement.

The largest export market for Japan is China (in Yen value) and exports to China increased by +10.2% in Oct (slightly slower than the annual 14% growth in Sep).

Exports to the broader Asian region improved from -2.2% in Sep to be +4.4% ahead of a year ago in Oct. There was a notable improvement in exports to Hong Kong, Taiwan, Korea, Thailand, and Malaysia.

US export value has recovered further and is ahead of the same month a year ago by +2.5%.

Exports to Europe were down by -7.9% in Oct after declining by -6.4% in Sep. Exports to most countries within the region were down notably in Oct compared to a year ago. The exception was Germany – and exports to Germany were +7.4% compared to a year ago in Oct.

Exports by Commodity

Two commodity groups made a larger, positive contribution to the annual export performance this month.

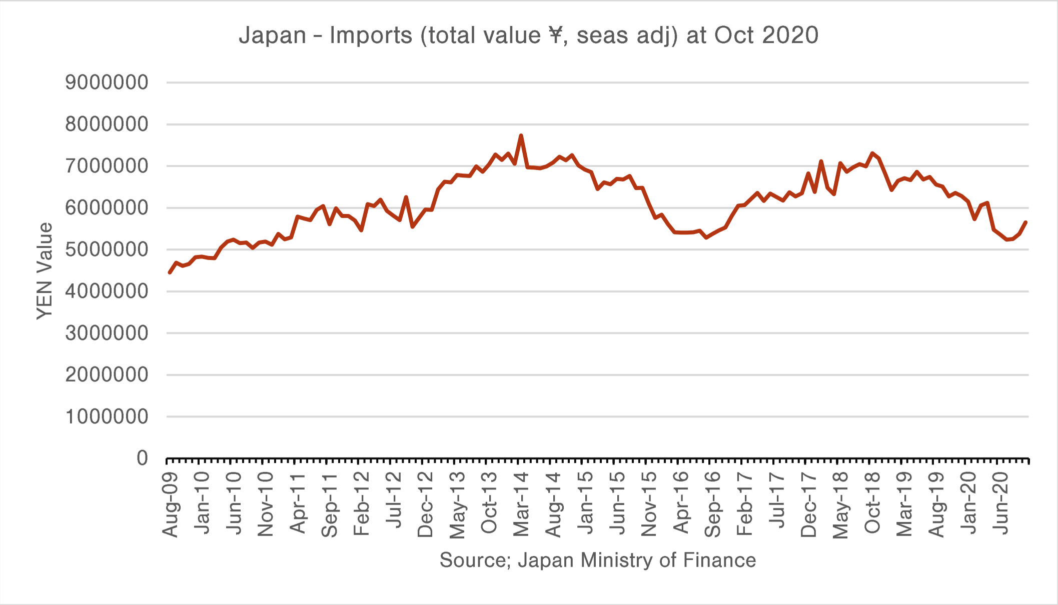
Electrical machinery exports increased by +4.6% in Oct (+1% in Sep) and Chemical exports increased by +8.2% versus a year ago (+1.7% in Sep).

This was still offset by declines across transport equipment (-1.9%), machinery (-2.8%), manufactured goods (-3.7%), and mineral fuels (-68.6%). Only the annual decline in mineral fuel exports accelerated in Oct.

IMPORTS

The growth in imports improved for the third month in a row on a seas adj basis. Imports increased by 5.1% in Oct compared to Sep +2.3%.

On an annual basis in seas adj terms, the value of imports declined at a slower pace of -9.9% in Oct.



On an NSA basis, the value of imports declined by -13.3% in Oct, slower than the -17.2% annual decline in Sep. The larger contributor to the weaker import performance has been the fall in mineral fuel imports (both value and quantity basis).

Imports by Region

China is the single largest import customer for Japan. The annual decline in imports from China improved to only -3.7% below a year ago in Oct (was -11.9% in Sep). Imports from the rest of Asia improved to -6.9% below a year ago.

Imports from the US were 15.6% below a year ago in Oct, slightly worse than the -9.9% decline in Sep.

Imports from Europe remained below a year ago at -10.8%. Except for Sweden, imports continued to decline across most member nations.

There was little improvement in the value of imports from the Middle East. In Oct, the value of imports was -36.8% below the same month a year ago. In Sep, that decline was -41.5%.

Imports by Commodity

The single largest contributor to the annual decline in imports was mineral fuels (accounting for approx. half of the decline) -38.5% in Oct which was little changed from the annual decline in Sep of -38.5%.

But imports across all other commodity groups also declined compared to a year ago. Transport equipment (-31.8%), other (-6.9%), foodstuffs (-9.3%), and manufactured goods (-8.1%) were the other notable declines. Most of these declines were on par with the annual decline recorded last month, indicating only minor improvements. The decline in transport equipment imports was much faster in Oct.

https://www.customs.go.jp/toukei/latest/index_e.htm

Industrial Production Final (Sep)

Industrial output and shipments continued to recover in Sep. While production growth across several of the larger industries was more modest (food and chemicals), output growth was stronger across most other industries including transport equipment. Production of passenger cars for example is almost back on par with a year ago.

Industrial Production – month change (SA): Sep +3.9% versus Aug +1%

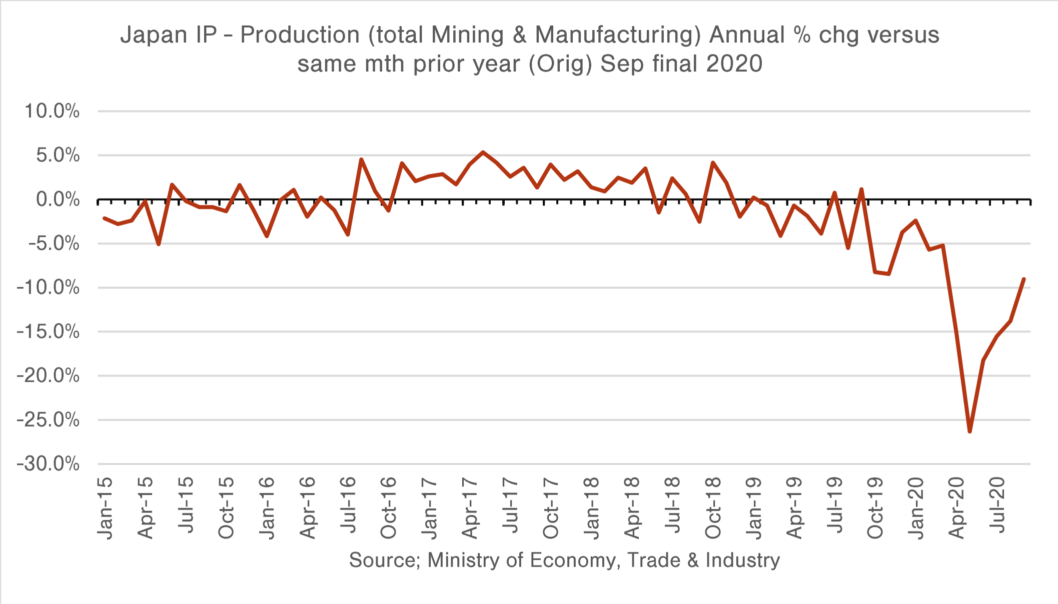
Output increased across most industries. The only major industry to record a decline in production was general purpose and business machinery (-6.9%).

The largest industry by weight in the index is transport equipment and output growth accelerated to +10.1% in Sep from +8.6% in Aug. Production of passenger cars increased by +12.9% in the month.

Food and tobacco are the second largest industry by weight and output growth was more modest at only +0.1% in Sep versus -2.3% Aug.

Chemicals production (the third-largest industry in the index) increased by a modest +0.2% compared to +1% in Aug.

This is the fourth month in a row where the overall output has increased. Despite the growth over the last four months, production levels remain -9% below a year ago.

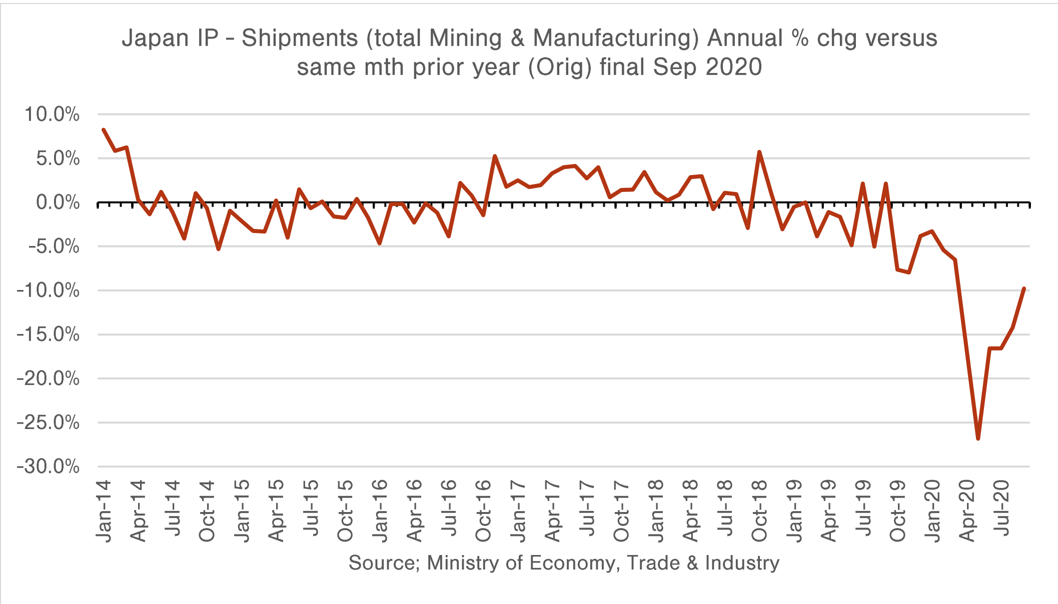


Production across most industries in Sep remains below the same month a year ago. Of the larger industries, transport equipment output is -6.4% below a year ago (passenger car production is only -1.2% below a year ago), food production is -3.5%, and chemicals -5.6%.

Shipments – month change: Sep +3.9% versus Aug +1.5%

This is also the fourth month of growth in shipments. Shipments increased across most industries. The exception was iron, steel, and non-ferrous metals -0.6%, general-purpose and business machinery -3.5%, petroleum and coal -1.3%, and chemicals -0.2%

Shipment growth continues to recover versus a year ago but remains -9.8% below the same month a year ago.

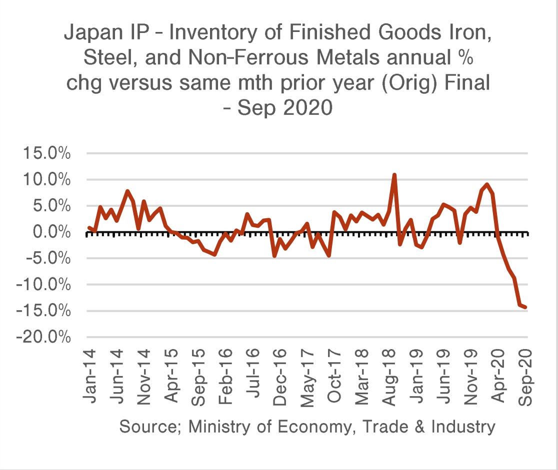


<u>Producer Inventory of Finished Goods – month change (SA):</u> Sep -0.5% versus Aug -1.3%

The overall decline in inventory of finished goods is slightly misleading this month.

The weights by industry are different compared to production and shipments. The largest weight industry in the inventory index is iron, steel, and non-ferrous metals. Inventory levels for iron, steel, and non-ferrous metals have been declining since Mar. While other industries have also recorded lower inventory, much of the overall decline can be traced back to iron & steel.

The overall inventory of finished goods is -5.7% below a year ago. Iron and steel finished goods inventory is -14.3% below a year ago – the largest year on year decline across all industries.



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

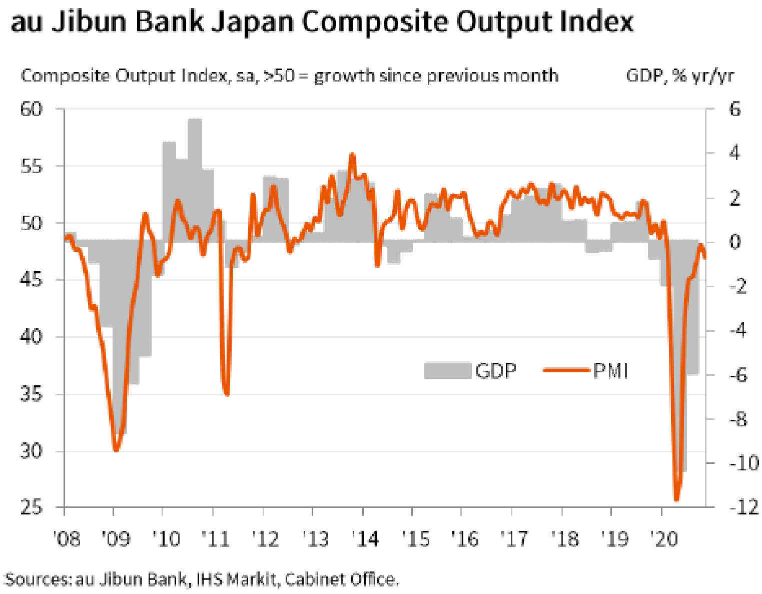
Markit Composite PMI Prelim (Nov)

The composite PMI for Nov indicated that momentum in private sector activity slowed. The output of both services and manufacturing declined at a slightly faster pace in Nov compared to Oct.

The notable shift this month was the faster decline in new orders. For manufacturing, this included a renewed contraction in new export orders. This likely reflects weakness in Europe and the US, to a lesser degree, with renewed restrictions in place. Output prices for firms reflected a stronger deflationary pulse.

The PMI measures the proportion of firms reporting higher, lower, or no change in output/activity. It does not measure actual volume change. The Markit PMI has indicated that manufacturing output has been in contraction for over a year (by varying degrees). The industrial production data indicates that output had started to increase month on month since Jul. It likely means that some firms are recording stronger volume growth than others.

Headline Composite Output PMI: Prelim Nov 47 versus Oct 48



Manufacturing Output PMI: Prelim Nov 47.6 versus Oct 48.7

Output declined at a slightly faster pace this month. This will likely show up as slower growth in the industrial output data for Nov. New orders declined and there was a shift back into contraction for new export orders. This is highlighting some weakness ahead for merchandise trade. Order backlogs declined at a faster pace indicating some spare capacity. Firms continued to reduce employment, albeit at a slower pace. Output prices shifted back to decline. Input prices growth slowed.

Services Business Activity Index: Prelim Nov 46.7 versus Oct 47.7

There was a faster pace of contraction in services output this month. New orders declined at a faster pace indicating further weakness for output. New export work continued to decline. There was a faster pace of decline in work backlogs indicating some spare capacity. Output prices decreased at a faster pace as firms sought to stimulate sales. Input prices declined at a faster pace. Employment, unfortunately, shifted into contraction after no change in the month prior.

Both services and manufacturing firms reported a weaker, yet still positive, outlook for output growth.

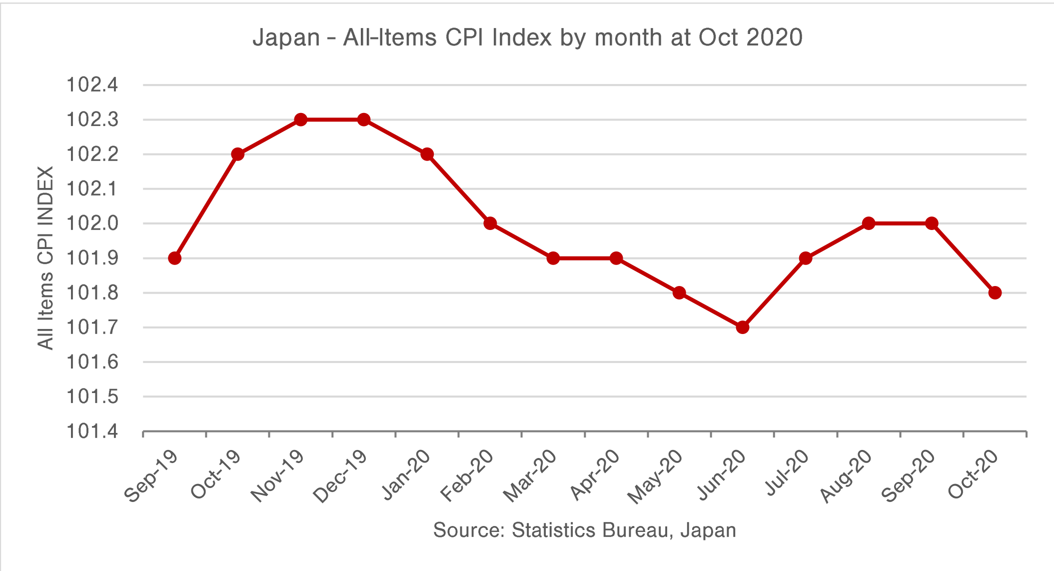
https://www.markiteconomics.com/Public/Home/PressRelease/991afefec9cb449c902e08dad7d1c225

National CPI (Oct)

There was a large pulse lower in annual CPI growth this month – and it was notable across several categories. Note that it is now twelve months since the sales tax hike. The annual decline this month was exacerbated by a 'base effect' from the hike last year together with the trend of slower monthly price growth which started before the pandemic

National CPI All Items – annual change: Oct -0.4% versus Sep 0%

Japan's CPI has declined month on month in six out of the last twelve months. CPI has only increased three times month on month since Oct 2019 – and twice was recently in Jul and Aug. The chart below is the CPI index (not a rate of change). After the Oct sales tax hike, the index increased in Nov 2019, Jul 2020, and Aug 2020.

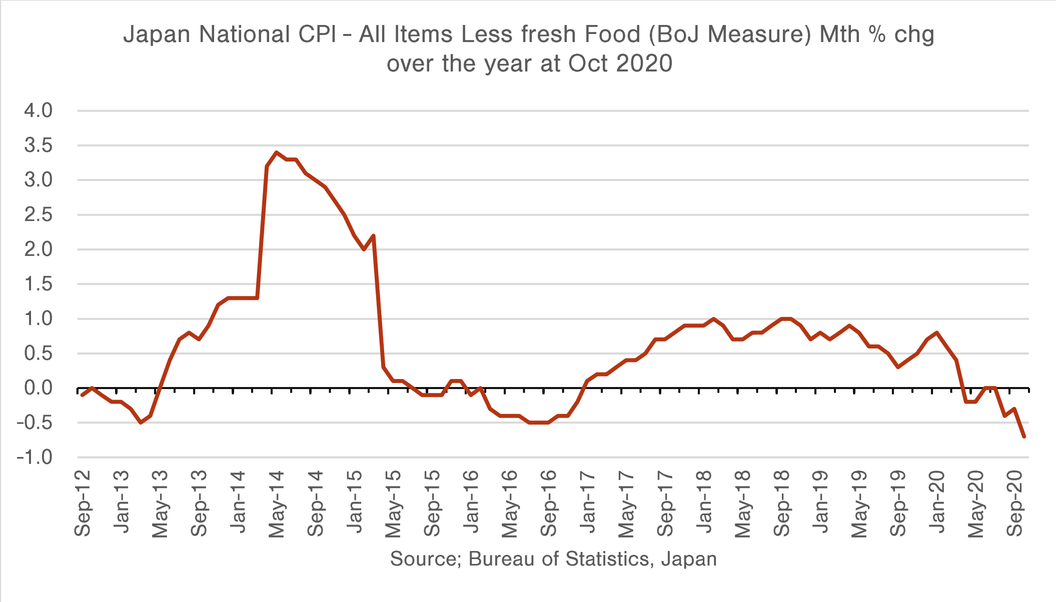


Underlying CPI Components & Core CPI

This month, annual food price growth slowed from +1.9% to +1.1%. Fresh food price growth remained elevated at +5.4%, but slowing from +7.8%.

CPI excluding fresh food, declined at a faster pace than the headline all-items CPI, indicating that there were stronger underlying price declines.

CPI Ex-Fresh Food (BoJ preferred) – annual change: Oct -0.7% versus Sep -0.3%

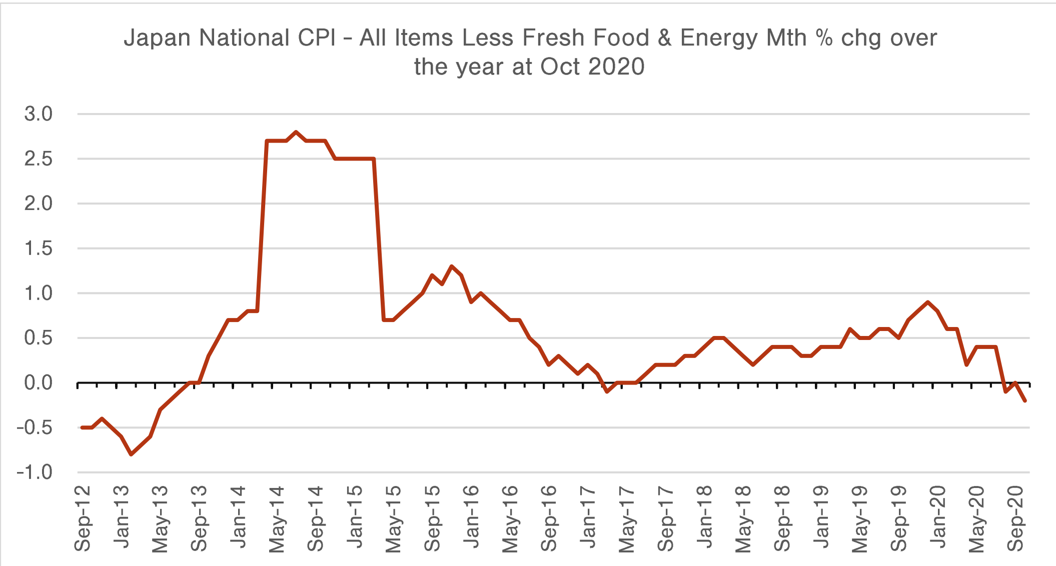


Annual changes of the larger weight items in the index: housing price growth slowed to +0.1%, fuel, light, and water prices declined at a faster pace of -2.9%, transport prices declined by -0.9% (from +0.4%), culture and recreation prices declined by -4% (from -1.8% in Sep), and energy -5.7% (from -3.5% in Sep).

The decline in energy prices has continued to influence overall CPI growth. The annual CPI change excluding energy and fresh food declined at a faster pace in Oct compared to Sep. The pace of decline was not as fast as the headline.

Japan CPI ex-energy and fresh food – annual change: Oct -0.2% versus Sep 0%

The trend of slowing annual growth in underlying CPI has been in place since the start of 2020.



https://www.stat.go.jp/english/data/cpi/1581-z.html

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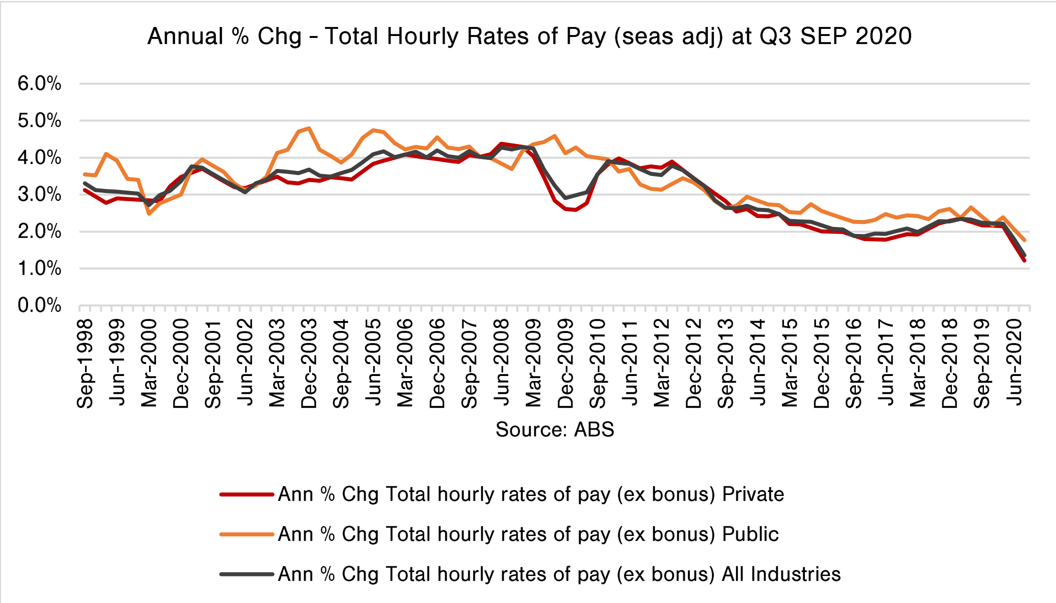
Australia

Wage Price Index Q3

The wage price index indicated that annual growth in total hourly rates of pay continued to slow. Across all industries, the annual growth recorded in Q3 is the slowest on record (going back to the series beginning in 1997).

National Hourly Rate of Pay Index – annual change: Q3 +1.36% versus Q2 +1.82%

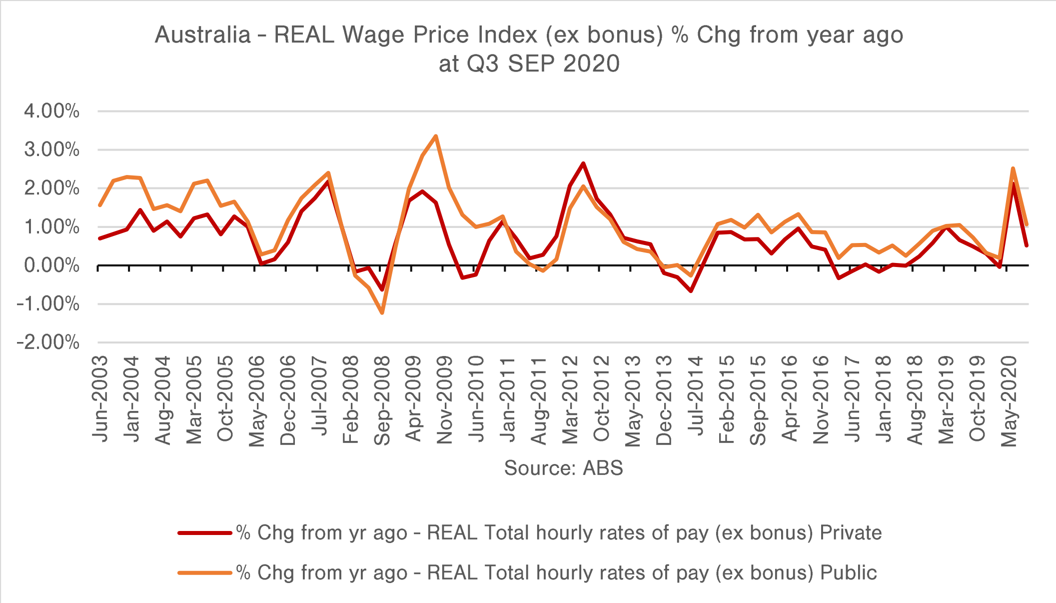
The slowdown in the annual growth this quarter was led by the private sector. Growth in private sector wages slowed from 1.68% in Q2 to 1.21% in Q3. Public sector wage growth also slowed but by a smaller degree +1.77% in Q3 versus +2.07% in Q2.



The quarterly rate of growth was also the slowest on record this month at only +0.07% in Q3 versus Q2.

In real terms (deflated by the headline CPI), real wage growth slowed notably – due partly to the acceleration in CPI for Q3.

National Real Hourly Rate of Pay Index – annual change: Q3 +0.66% versus Q2 +2.26% (CPI growth was negative in Q2)



In real terms, annual private-sector wage growth slowed to +0.52% in Q3 (from +2.12% in Q2). Real public sector wage growth also slowed from 2.52% in Q2 to +1.07% in Q3.

https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/wage-price-index-australia/sep-2020#key-statistics

Employment and Labour Market Survey (Oct)

There was a further strong rebound in employment this month. This was the second-largest monthly increase in employment since the National lock-down of Apr & May. Importantly, in Oct, the largest rebound in full-time employment was recorded since the lockdown. Total unemployment still increased due to the larger increase in participation (people returning to the labour market).

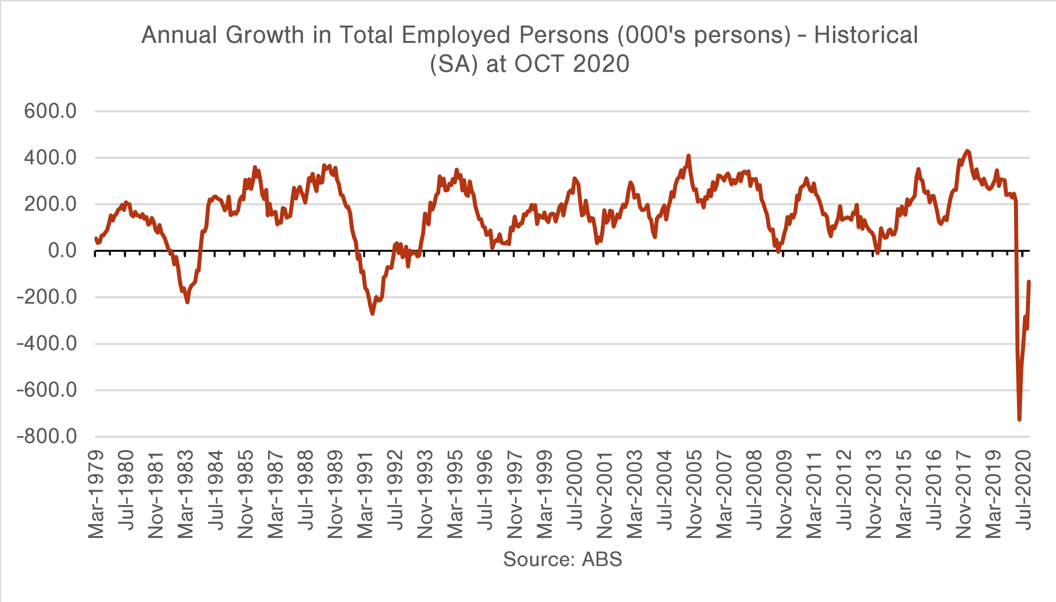
The important take-away this month is that while employment increased notably, the supply of labour increased by a larger degree. This means that the total number of unemployed persons continued to increase on a monthly and annual basis. The participation rate is only -0.345% pts below the pre-pandemic level, so there may still be further increases in labour supply. The important point is that employment growth (labour demand) will need to keep accelerating to reduce total unemployment and keep 'absorbing' future labour supply. This feels like a critical point in the labour market recovery.

Employed Persons – month change: Oct 178k versus Sep -42.5k persons

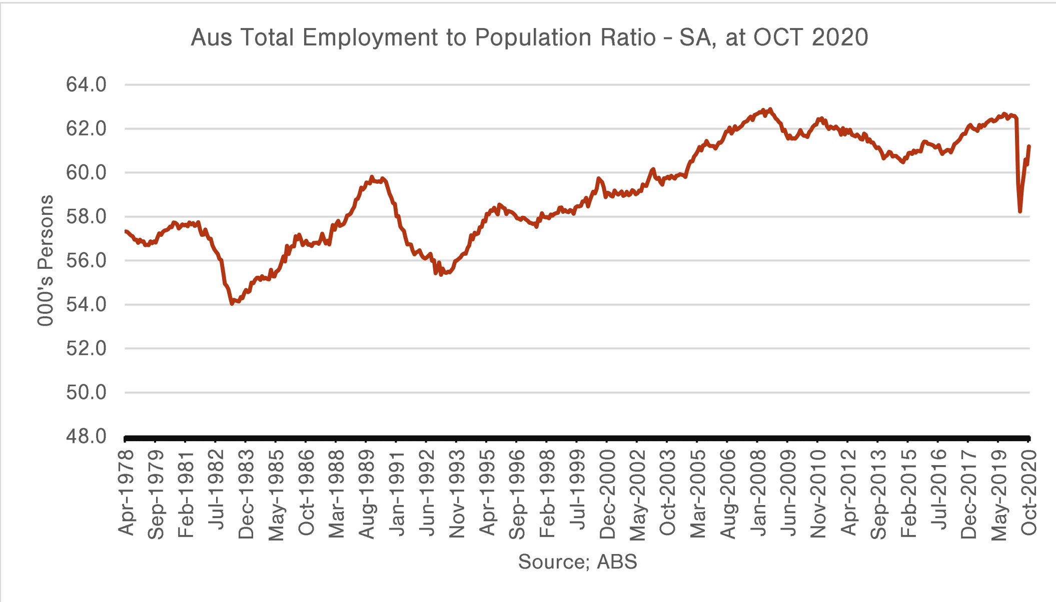
The decline in Sep was revised lower (worse) in this data release – it was initially reported as a -29.45k decrease in persons employed for the month.

The increase in employed persons this month was equally full-time (FT) and part-time (PT) employed persons. Persons employed FT increased by 97k this month – the largest increase since the shut-down. The number of FT employed persons is still -186k below the same month a year ago. PT employed persons increased by +81k after declining by -2k in Sep. The number of PT employed persons is now +54k ahead of the same month a year ago.

On an annual basis, the total number of employed persons is still -132.3k below the same month a year ago – which was an improvement on the -335k deficit in Sep. The annual growth in employed persons before the National shut-down was +245k persons.



The employment to population ratio continued to rebound this month. The employment to population ratio increased to 61.2% in Oct from 60.4% in Sep. This is still 1.48% pts below the pre-pandemic level.

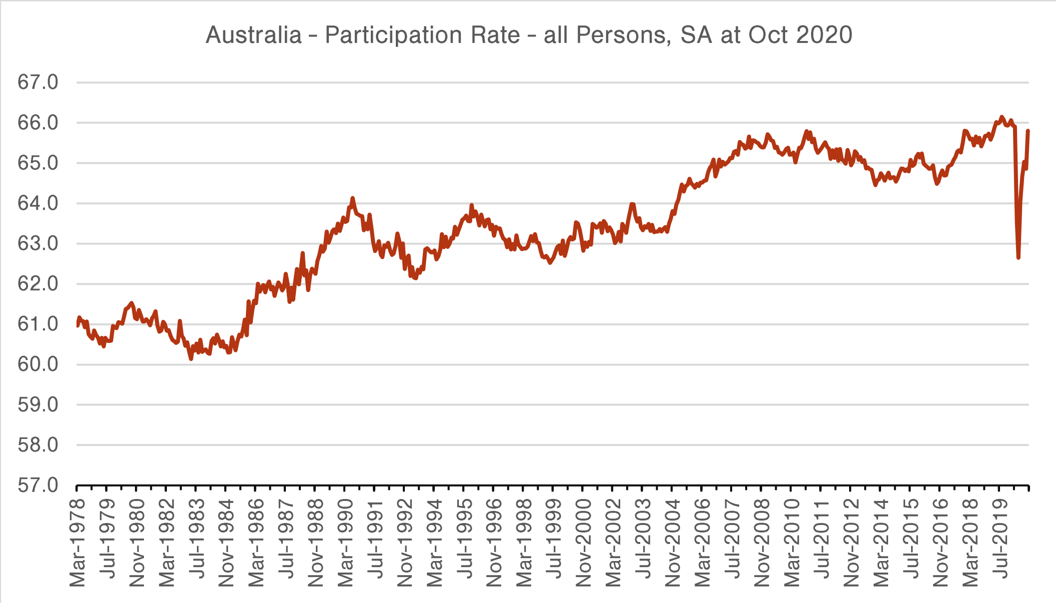


LABOUR FORCE

This month, there was a larger increase in the size of the labour force (increased supply) – and it was larger than the increase in total employed persons. This means that total unemployment increased.

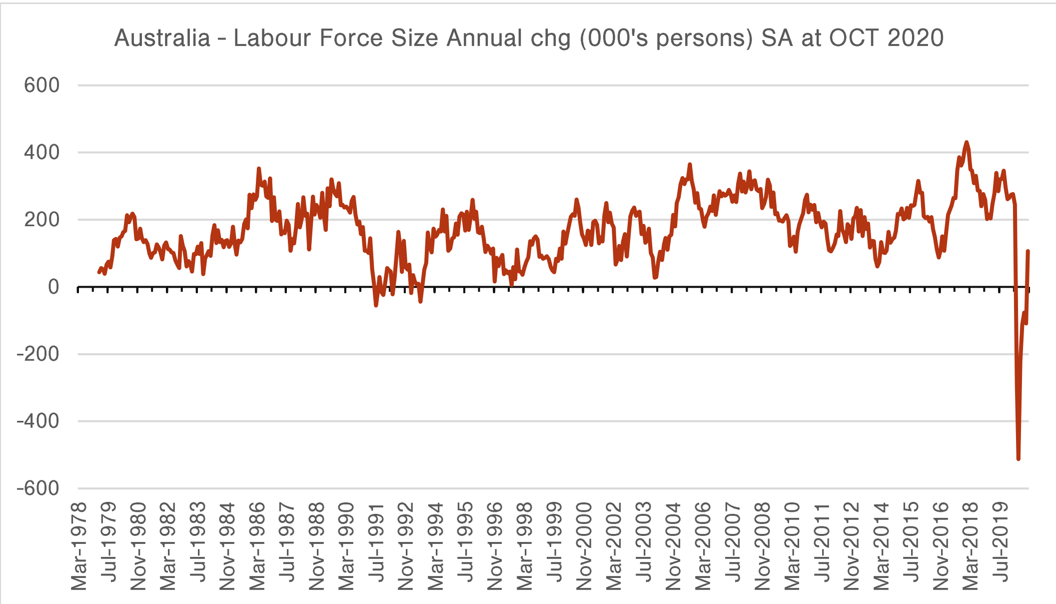
<u>Labour Force Persons – month change</u>: Oct +204.3k persons versus Sep -30.3k persons

Most of the increase in the labour force this month was the result of the increase in participation compared to the previous month. Participation increased from 64.9% in Sep to 65.8 in Oct. This added approx. 197k persons to the labour market growth this month.



This is a marked increase this month. The participation rate is only -0.345% pts below the all-time high recorded in Aug 2019.

The total size of the labour force is now +106k above the same month a year ago.



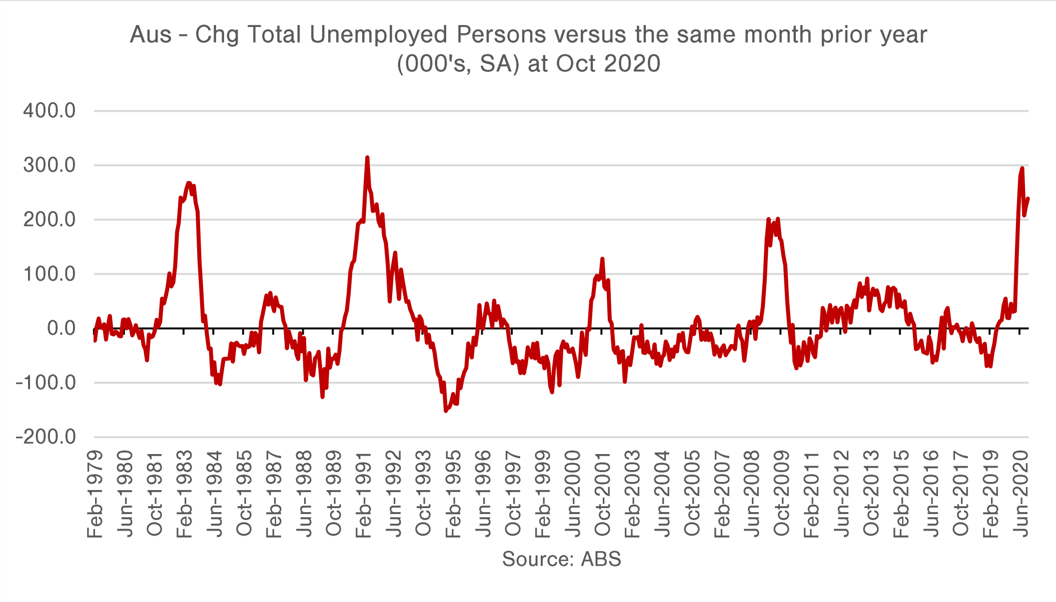
So while more people came back into the labour force this month, employment growth was still lower than growth in the labour force. This means that unemployment continued to increase.

UNEMPLOYED PERSONS

Total Unemployed Persons – month change: Oct +25.5k persons versus Sep +12.2k persons

The total number of unemployed persons increased to 960k persons – the third-highest level since the start of the pandemic. So while there was strong employment growth, the demand for labour was still lower than the increase in the supply of labour this month.

The total number of unemployed persons was +239k higher than in the same month a year ago. There has been far less improvement (reduction) in total unemployment than other metrics.



The unemployment rate ticked up to 7% this month from 6.9% in Sep.

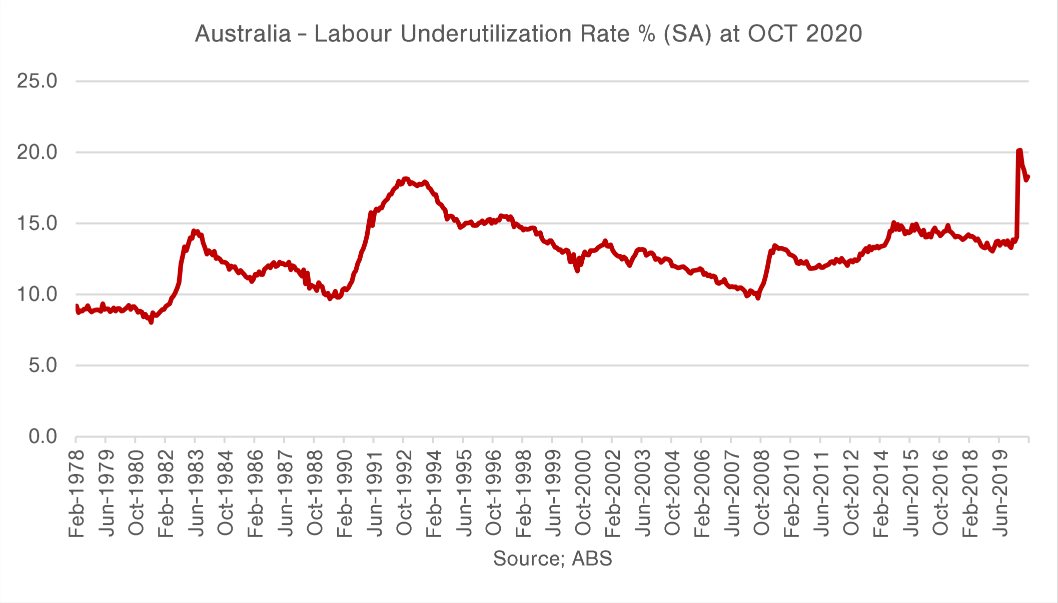
The important point from this labour market report is that employment growth will need to accelerate. If more people will be returning to the labour market (due to the expiration of programs or the end of home-schooling of children etc.), then employment growth will need to keep accelerating to 'absorb' this increase in labour market supply. It is a critical point in the labour market recovery.

TOTAL LABOUR MARKET UNDERUTILIZATION

The underutilization rate declined further this month from 18.3% in Sep to 17.4% in Oct. The underutilization rate is the total number of unemployed and underemployed persons (those that are available and want more hours of work) as a proportion of the labour force.

The last time the underutilization rate was this high was back in the recession of the early '80s.

This is a better indicator of the level of slack that remains in the labour market.



SUMMARY OF KEY LABOUR MARKET INDICATORS – OCT

	000's Persons	
	Annual Chg - OCT	**Month Chg - OCT**
The estimated change in the Labour Force due to pop growth	136.661	6.594
How many jobs available for them? (employment growth)	-132.292	178.824
Difference (if positive, employment growing faster than pop est)	-268.953	172.231
Change in labour force due to the change in participation	-30.068	197.805
The reminder is the change in total unemployed persons	238.885	25.574
Double Check - Reported chg in size of the Labour Force	106.594	204.304
Two views of the size of the Labour Force:		
Underlying population growth plus changes in participation	106.594	204.399
Total employed persons plus total unemployed persons	106.594	204.399

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

RBA Meeting Minutes – 3 Nov 2020 Meeting

At the 3 Nov meeting, the RBA took the extraordinary step of introducing a comprehensive suite of monetary easing which included reducing the overnight cash rate to 0.1% and introducing QE. The Board noted that the measures introduced were complementary and were intended as a package.

> The outlook implied a large shortfall in activity and employment from levels that would be consistent with full employment. To provide additional support for the recovery and complement the significant support from fiscal policy, the Board resolved to introduce a further package of monetary measures…

There was obvious concern regarding the recovery. Overall, the downturn had not been as severe as initially forecast, but recovery was still expected to be 'modest' in the context of what was still "the largest peacetime contraction in GDP since the Great Depression".

> It would take some time for output to reach its pre-pandemic level, and it had become increasingly clear that an extended period of high unemployment was in prospect. The high unemployment rate and excess capacity across the economy more broadly were expected to result in subdued wages growth and inflation over coming years.

The forecast was for Aus GDP to return to pre-pandemic levels in 2021 (assuming no further outbreaks). One of the key features of the outlook was substantially lower population growth. This will be a significant issue for Australia.

Assumptions around the virus remained the key point. The baseline scenario for the recovery featured no further outbreaks of the virus and for domestic restrictions to be lifted. The Board considered several other scenarios where there were further outbreaks of the virus here in Australia and overseas.

The Board noted the substantial fiscal package to support the economy. The Board noted that high uncertainty for firms and expectations of "subdued demand" would still impact business expenditure despite the fiscal measures.

The Board emphasized (and has been consistent on this point) that addressing/reducing unemployment is a National priority. The Board discussed whether to wait to implement further easing, but it was agreed that further information in the coming months was unlikely to change the outlook.

> The Board concluded that it was the appropriate time to implement the package, as it had become clearer that unemployment would remain high and inflation subdued for an extended period, and that further information in coming months was unlikely to change that assessment. The Board viewed addressing the high rate of unemployment as an important national priority.

From the announcement of the measures at the time, the Board noted that further stimulus, and co-ordinated with fiscal policy, would likely gain more traction as the domestic economy started to open up.

> The package would add to the substantial monetary stimulus already provided earlier in the year and would complement the significant steps taken by the Australian Government, including in the recent Budget, to support jobs and

growth. It was also likely that having the various arms of policy all taking steps in the same direction would deliver a greater impact than the sum of the individual parts. This would be especially so during a period in which the economy is opening up and people are more willing and able to spend.

https://www.rba.gov.au/monetary-policy/rba-board-minutes/2020/2020-11-03.html

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