MARS CAPITAL PARTNERS

Weekly Macro Review

w/c 9 November 2020

Key Themes

Headline US consumer sentiment and expectations of future conditions both declined markedly at the start of Nov. This was the result of the election outcome and growing concern over the increase in Covid-19 infections. Current conditions remained little changed. The rebound in sentiment since Apr has been mixed and all three sentiment indexes are still more than 20% below a year ago.

A potential Covid-19 vaccine was announced at the start of the week with a possible roll-out date for mid-2021. The situation in the US and other major economies is concerning for the next few months.

The number and growth of Covid-19 infections in the US are now more severe than in the two prior peaks this year. A National shutdown is unlikely, but affected states are implementing restrictions locally to manage the outbreak. This is happening against the backdrop of a federal political impasse – at least until Jan 20, 2021. The US Congress is yet to progress on any form of emergency funding or extensions to programs at this stage.

The US weekly initial claims still recorded over 1m new claims made by people for the week ending 7 Nov – across both state and federal programs. The continuing claims data highlights that while uptake of state-based programs is falling, people are moving over to the emergency federal programs. The net result is that total continuing claims for the wk ending 24 Oct was little changed at 21.1m people (down from 21.5m people in the prior week). Of this total, over 13m people are utilizing federal programs that are due to expire at the end of the year.

According to the global PMI's in Sep and Oct, Germany remained the key to overall growth in EU manufacturing output. In Sep, German output increased after declining in Aug, but output remains well below a year ago. Across the broader Eurozone, industrial production was mostly flat for Sep. While output has improved it remains below a year ago. The tenuous recovery will likely be impacted by another severe wave of Covid-19 infections and subsequent restrictions.

The Chinese Oct trade data for China showed that imports fell by -11% for the month – affecting some of the larger markets. Imports from Germany fell by -15% in Oct (Germany is the third-largest import market for China), after increasing by 16.8% in Sep. Imports from the broader EU region were down by -11.4% in Oct. The Chinese import data also highlighted some weaknesses for Japanese exporters in the short-term.

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Europe - Eurozone Industrial Production (Sep), Eurozone GDP Flash Est Q3, Germany Industrial Production (Sep)

Australia – NAB Business Conditions & Confidence (Oct)

China – Net Trade, Exports, and Imports (Oct), CPI and PPI (Oct)

US Data

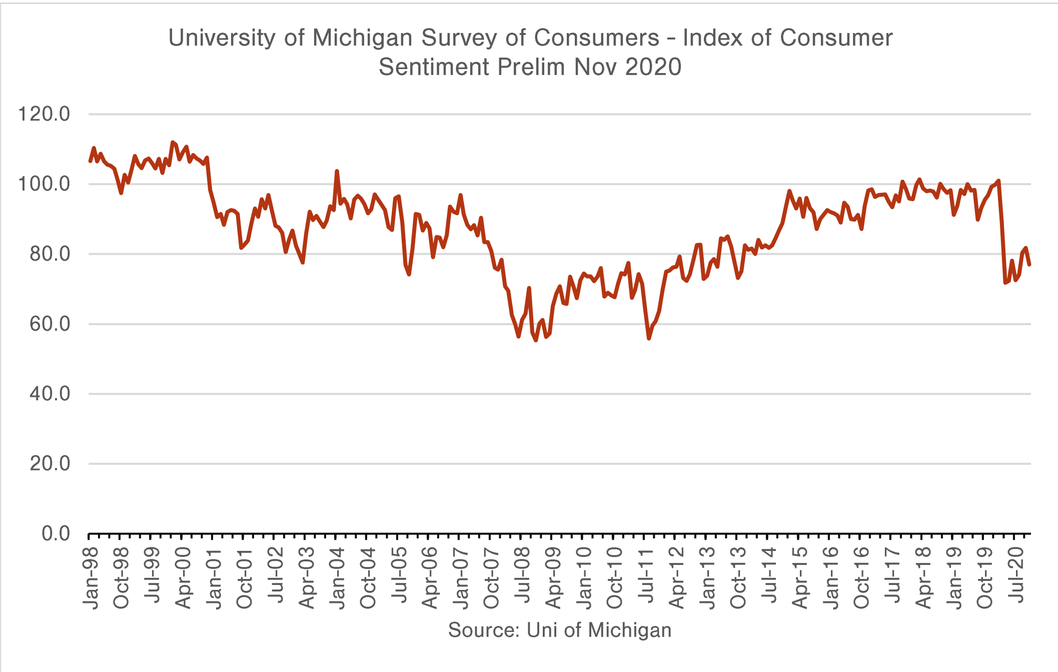
University of Michigan Consumer Sentiment Prelim (Nov)

The headline consumer sentiment index fell in early Nov. This reflected election results and rising Covid-19 infections. The index of future economic conditions fell – led by a fall in those identifying as Republican. Those identifying as Democrat recorded no change in expectations of future economic conditions. The sentiment around current economic conditions was little changed.

> The outcome of the presidential election as well as the resurgence in covid infections and deaths were responsible for the early November decline.

<u>**Index of Consumer Sentiment**</u>: Nov Prelim 77.0 versus Oct 81.8

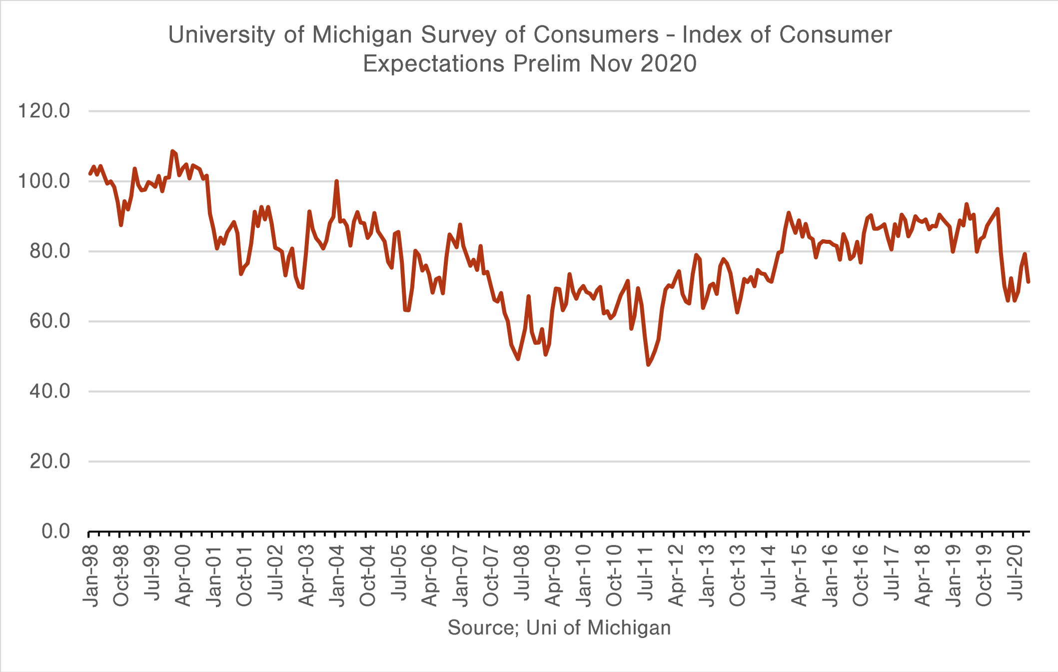
This was a 6% decline in the month. The index remains 20% below the same month a year ago. Aggregate sentiment levels have only rebounded slightly since the Apr low of 71.8.



<u>**Index of Consumer Expectations**</u>: Prelim Nov 71.3 versus Oct 79.2

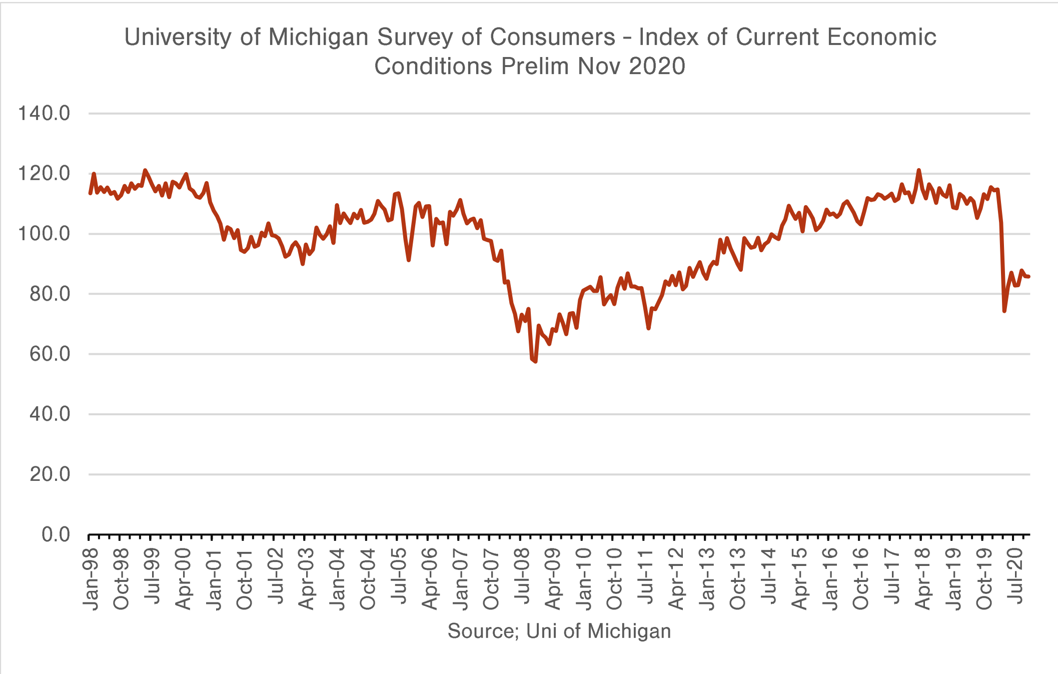
Expected conditions fell 10% in early Nov and the index is now 23% below the level from the same month a year ago.

> Interviews conducted following the election recorded a substantial negative shift in the Expectations Index among Republicans, but recorded no gain among Democrats. It is likely that Democrats' fears about the covid resurgence offset gains in economic expectations: 59% of Democrats reported that their normal life had changed to a great extent due to the coronavirus compared with just 34% among Republicans.



Index of Current Economic Conditions: Nov Prelim 85.8 versus Oct 85.9

There was little change in consumers' assessment of current conditions at the start of this month. The index level is -23% below the same time a year ago.



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

Initial Jobless Claims (wk ending 7 Nov), Continuing Unemployment Claims (wk ending 30 Oct), and PUA Claims

The trend highlighted last week remains in place. Initial claims and continuing claims in state-based programs continue to fall and there has been a corresponding uptake in the federal unemployment programs.

The total number of people on continuing claims for both state and federal programs was little changed for the latest week of data (which lags). For the wk ending 24 Oct, a total of 21.16m people claimed benefits across all programs (NSA) – last week that number was 21.51m people.

The Pandemic Unemployment Assistance (PUA) was intended for those that are not covered by regular state programs (e.g. self-employed/gig workers). The Pandemic Emergency Unemployment Compensation (PEUC) program provides a further 13-week extension for expiring state benefits. Both PUA and PEUC claims continue to increase.

The next signal to watch for will be a lift in initial claims as the virus takes hold again and affected states start to implement restrictive measures.

STATE PROGRAMS

Initial Claims wk ending 7 Nov 2020 (NSA): 723,105 claims by people.

In the week prior, initial claims were 743,904.

Continuing Claims wk ending 31 Oct 2020 (NSA): 6,486,000 ongoing claims

In the wk prior, continuing claims were 6,888,298 claims

As the number of people utilizing state-based programs falls, there has been an increase in the number of people accessing federal programs.

FEDERAL PROGRAMS

PUA Initial Claims wk ending 7 Nov 2020 (NSA): 298,154 claims

PUA initial claims were 361,959 in the week prior.

PUA Continuing Claims wk ending 24 Oct 2020 (NSA): 9,433,127 ongoing claims

PUA Continuing claims in the week prior totalled 9,332,610 claims.

PEUC Claims for wk ending 24 Oct 2020 (NSA): 4,143,389 claims

In the week prior, PEUC claims 3,983,613 claims.

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

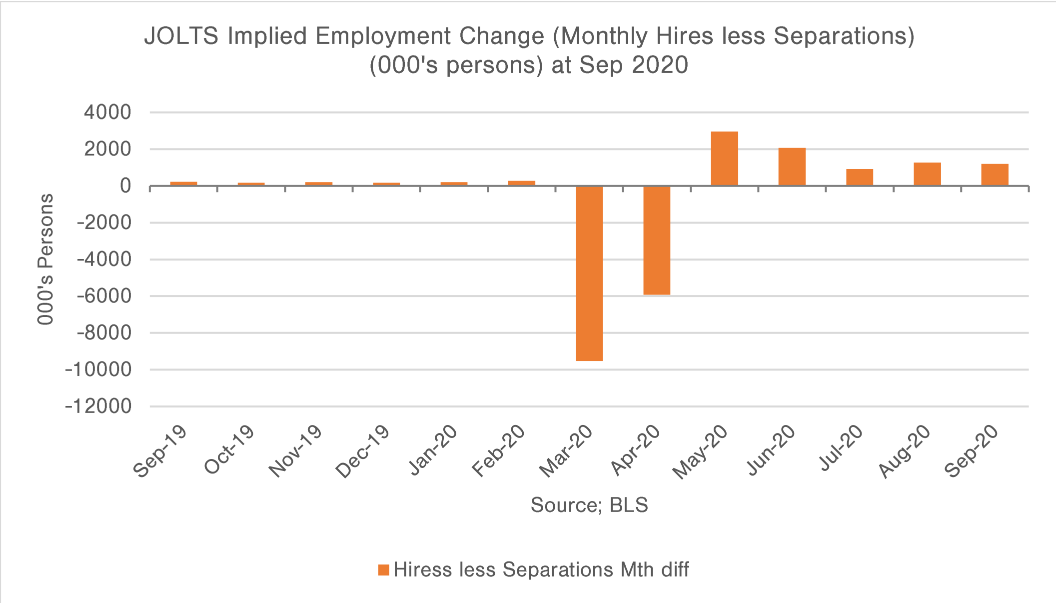
JOLTS (Sep)

The level of hires and job openings were adversely impacted by the COVID-19 shutdowns back in Mar and Apr. Both have now returned to pre-Covid levels and appear to have resumed the pre-shutdown trends. This is somewhat disappointing because there does not appear to be stronger growth momentum in either metric. Continued acceleration in hires and openings would be needed to help address the continued high level of unemployment.

On the positive side, the level of layoffs and discharges fell to a new low this month. The falling post-Covid level of layoffs and discharges indicates that there is little continuing momentum in job shedding after the severe cuts in Mar and Apr. This could be a function of 1) the recovery underway, 2) the job cuts in Mar and Apr were extremely severe, and 3) job furlough programs.

Net Employment Change

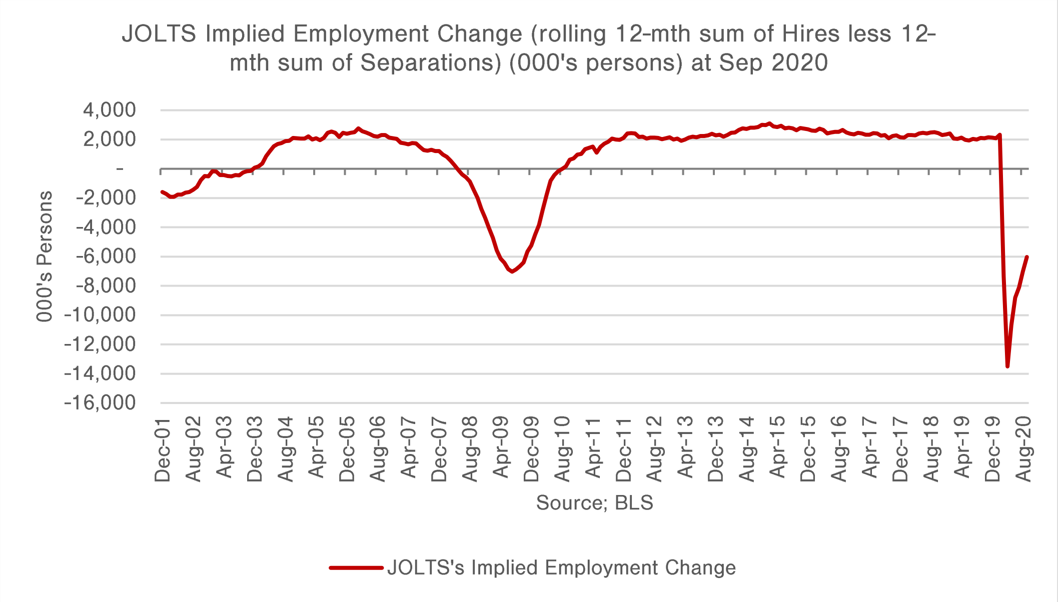
Employment increases when hires exceed separations. This month hires continued to exceed separations. This is now the fifth month where the number of hires has exceeded the number of separations. But the gains of the last five months are yet to recover the net employment loss from Mar and Apr.



The net employment change for Sep was +1.2m.

Over the last twelve months, the net change is a net loss of -6m in employment. The rolling 12-month total of hires is 70.3m and the rolling 12-month total of separations is 76.4m.

The “normal” annual net employment gain has averaged over +2m between 2012 and 2019.

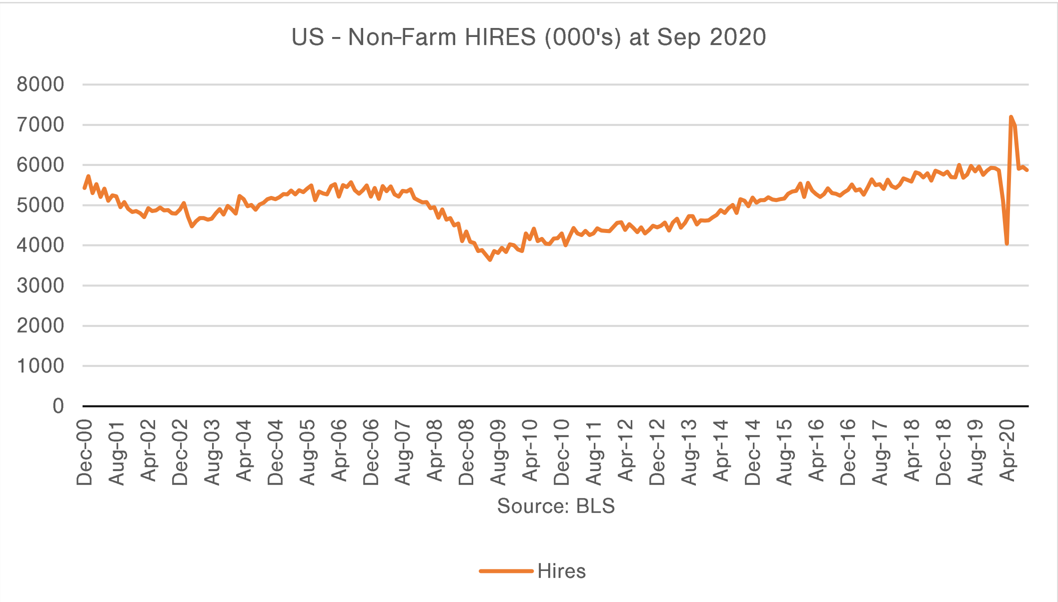


<u>Hires – month change</u>: Sep 5.87m versus Aug 5.95

> Hires decreased in federal government (-256,000), largely due to a drop in demand for temporary 2020 Census workers. Hires also decreased in retail trade (-105,000) and educational services (-23,000). The number of hires increased in accommodation and food services (+137,000), wholesale trade (+73,000), and transportation, warehousing, and utilities (+46,000).

The level of hires this month is on par with the 12-month moving average. On an annual basis, the number of hires is only 1.5% below the same month a year ago.

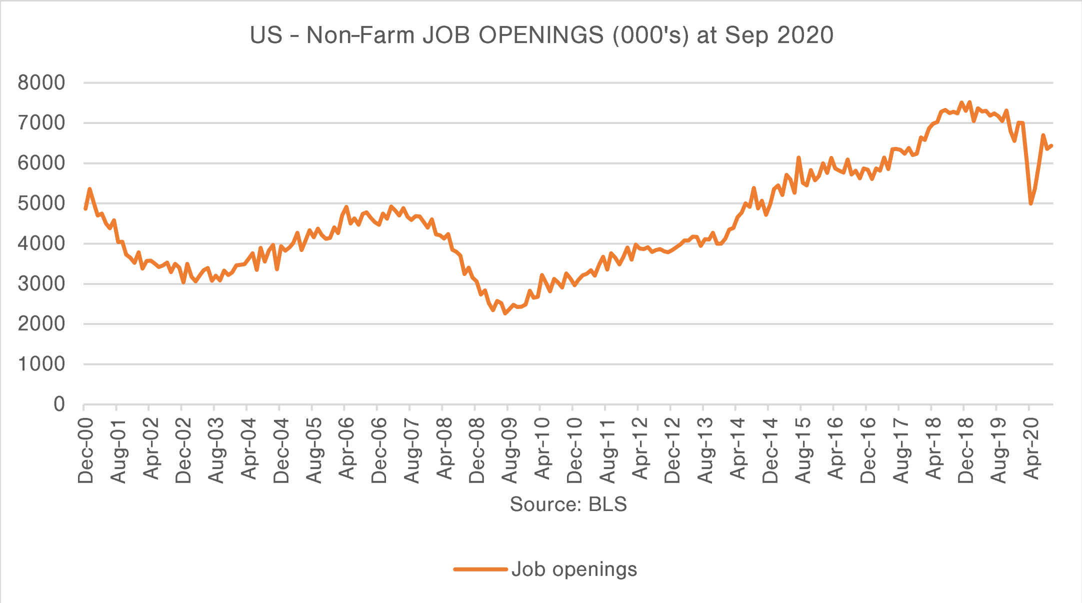
There was some acceleration in hires after the Mar and Apr shutdowns – but the pace of growth has stalled over the last three months. Hires appear to be back down in line with the pre-Covid trend – which is not great news because it will take longer to recover the net employment loss.



<u>Job Openings – month change</u>: Sep 6.43m versus Aug 6.35m

There was only a small rebound in job openings this month after the 5% decline in Aug. Job openings is still 8.7% below the same month a year ago.

The pre-Covid trend was indicating a slowdown in the number of job openings since late 2018. The post-Covid rebound appears to have, so far, returned to that slowing trend.

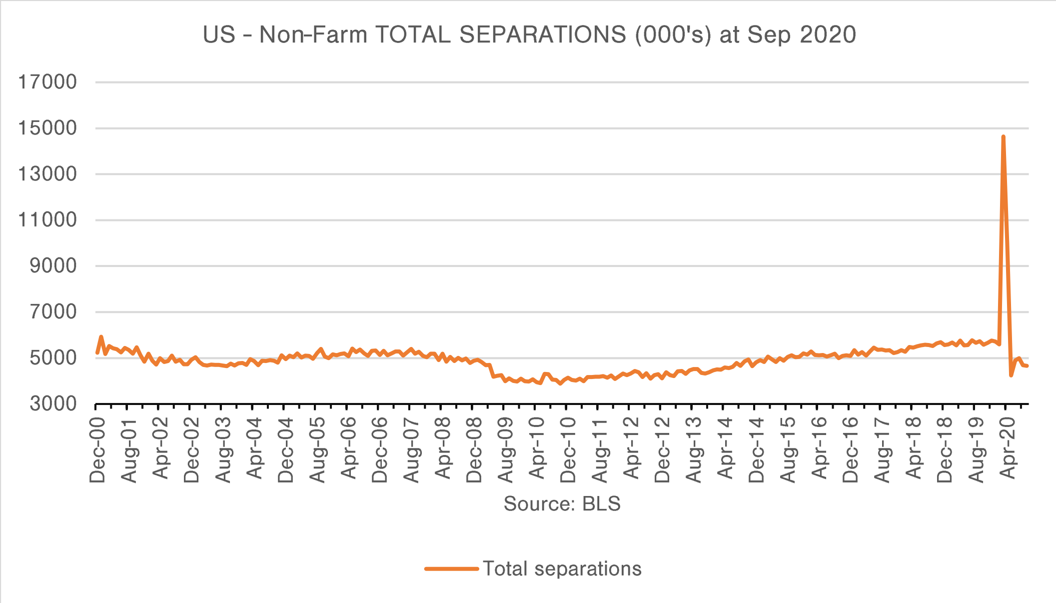


<u>Total Separations – month change</u>: Sep 4.66m versus Aug 4.69m

Total separations continued to decline this month. Despite a lack of ongoing momentum in the recovery of hires and openings, separations continued to fall – and the fall is notable.

> The total separations level increased in other services (+77,000). Total separations also increased in federal government (+31,000), largely the result of temporary 2020 Census workers.

Total separations are 18.7% below the same month a year ago and the trend since the spike higher from the Mar and Apr shutdowns has remained lower. But the 12-month total of separations remains extremely elevated.

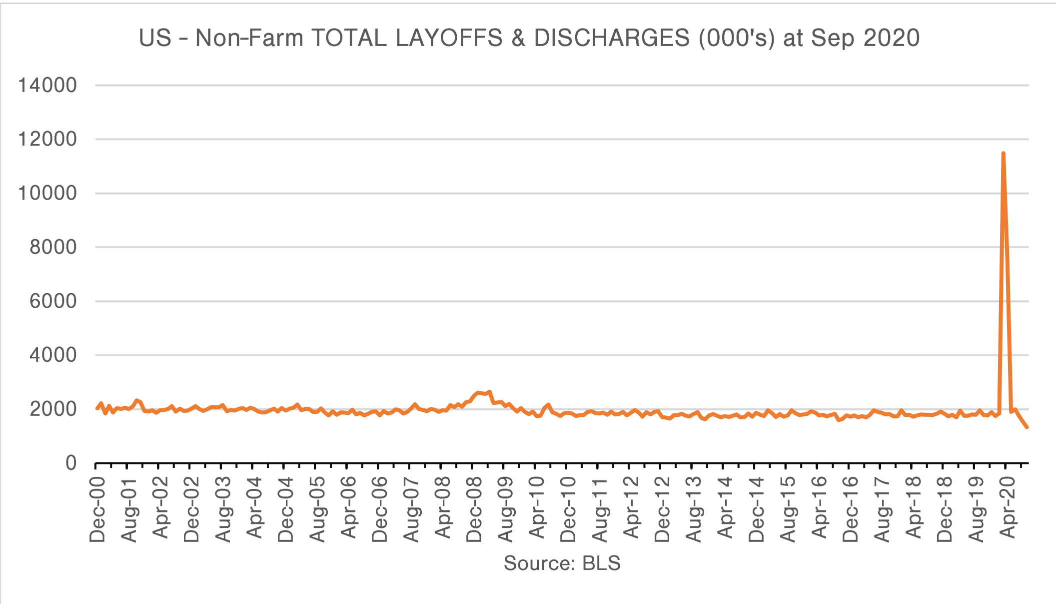


Layoffs and discharges and quits are the two main components of total separations.

Layoffs and discharges represent non-voluntary separations, initiated by the employer. The number of layoffs and discharges not only declined in the month but also recorded a new monthly low (since Dec 2000). So unlike hires and job openings, the trend in layoffs and discharges has not returned to the pre-Covid trend and has improved (i.e. fallen to new lows).

<u>Layoffs & discharges – month change</u>: Sep 1.33 versus Aug 1.53

The number of layoffs and discharges in the month is 32% below the same month a year ago.

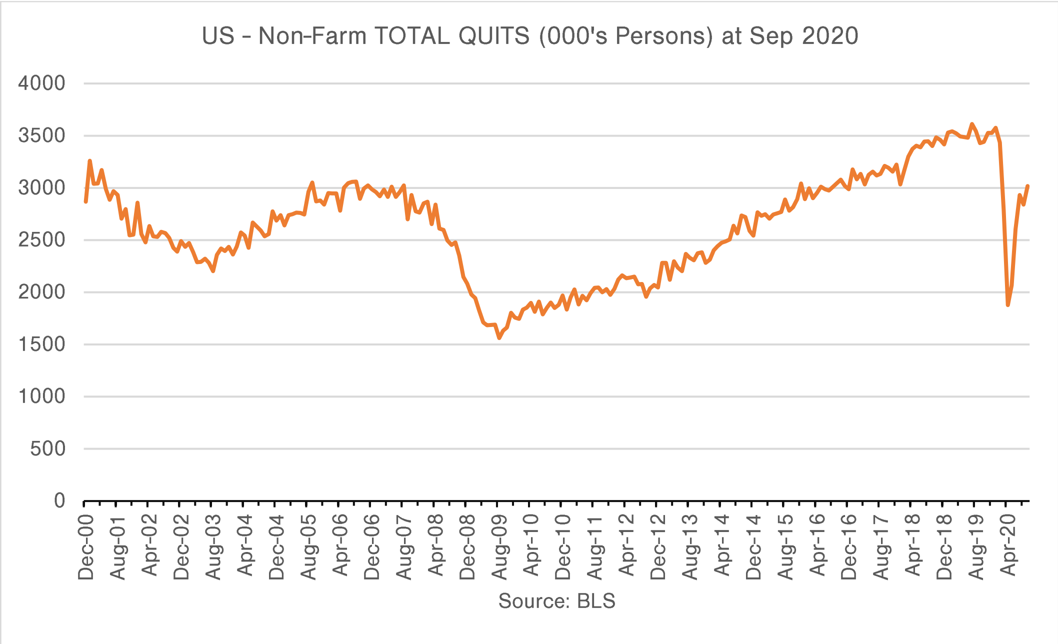


Quits represent voluntary job changes.

> 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.

<u>Quits – month change</u>: Sep 3m versus Aug 2.84m

The level of quits in Sep is now just above the 12-month average but remains 12% below a year ago.



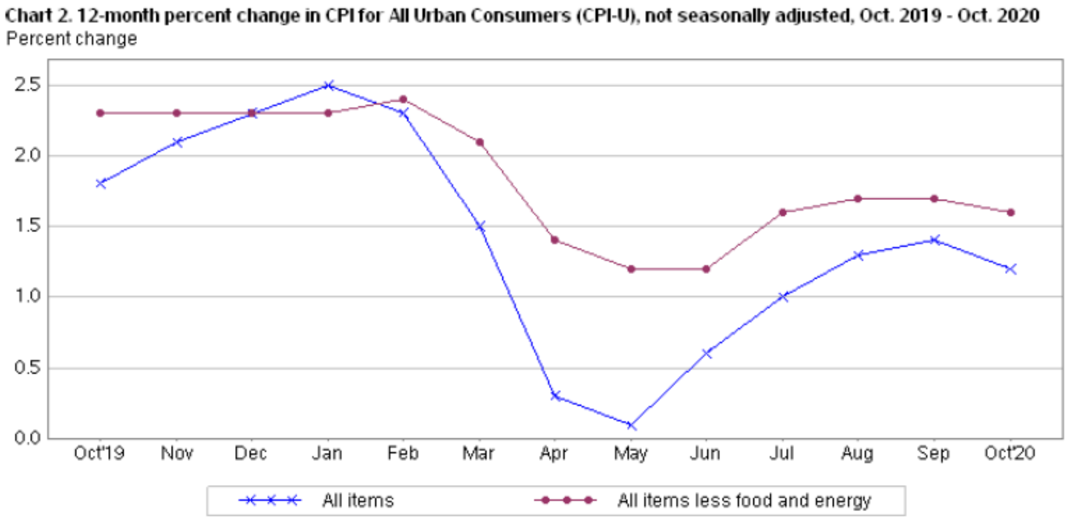
https://www.bls.gov/news.release/jolts.nr0.htm

CPI (Oct)

The growth in the annual headline CPI slowed in Oct compared to Sep. The slower growth was due to 1) a faster annual decline in energy prices, making a larger negative contribution to headline CPI, 2) slower growth in services, and 3) no change in the pace of growth of food prices, which remains elevated.

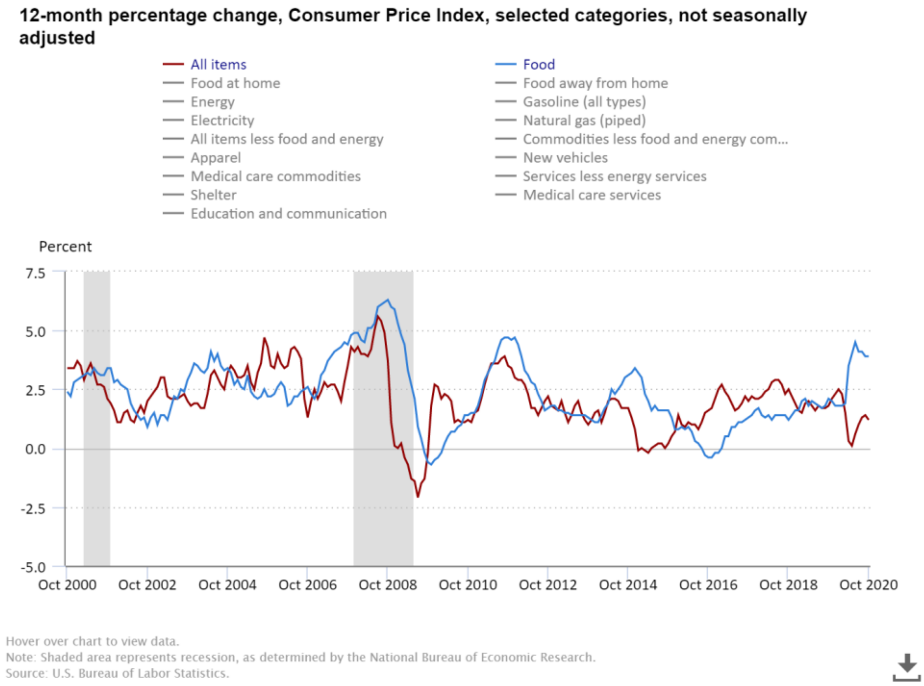
Annual core CPI growth also slowed slightly. The acceleration in used car prices eased this month (-0.1%) but remains elevated on an annual basis (+11.5%). This was offset by slower growth across services.

<u>Headline All-Items CPI – annual change</u>: Oct +1.2% versus Sep +1.4%



The slower growth was due to 1) a faster annual decline in energy prices, making a larger negative contribution to headline CPI, 2) slower growth in services, and 3) no change in the pace of growth of food prices, which remains elevated.

Food prices increased by +3.9% over the year to Oct. This was unchanged from the Sep pace of growth and food price growth made a similar contribution to headline CPI growth in Oct as In Sep. The annual growth in food prices peaked in Jun at +4.5% and growth remains elevated.



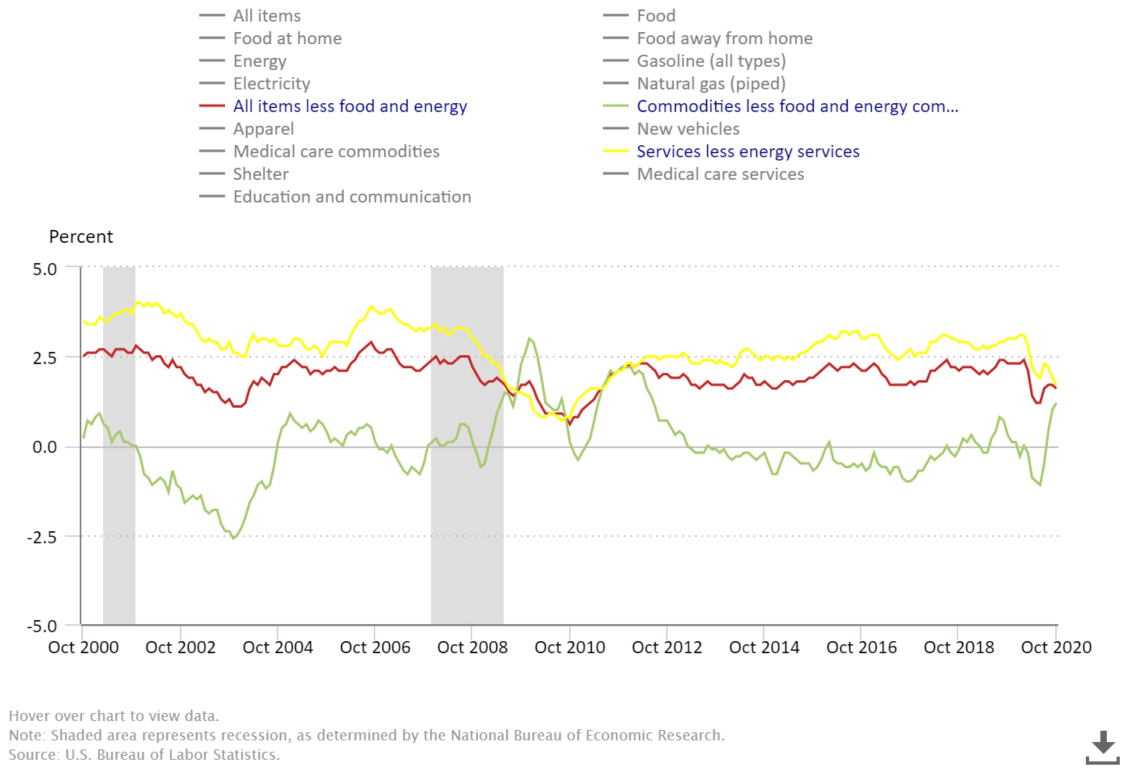
The further fall in energy prices detracted from the headline CPI growth this month. Energy prices declined by -9.2% in the year to Oct. In Sep, the annual decline was -7.7%. In Oct, prices for energy commodities declined at an accelerated pace – both on an annual and monthly basis. This was only partly offset by an increase in the prices for energy services.

Excluding both food and energy price changes, provides some insight into underlying, “less volatile” price changes.

<u>Core CPI – annual change</u>: Oct +1.6% versus Sep +1.7%

Growth in underlying consumer prices slowed slightly. The annual increase in commodities (less food and energy commodities) was offset by slower growth in services excluding energy services.

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



Growth in core commodities prices has been led higher over the last few months due to used car prices. Used car price increases contributed approx. 27% of the overall increase in annual headline CPI in Oct. Used car prices increased by +11.5% in Oct. But this was the first month since Jul that the monthly price increase of used cars eased slightly (-0.1%).

Services prices have slowed notably from the consistent prices growth since Feb 2020. Shelter price growth has eased, and transport service prices have declined severely. Prices for medical services have also eased but remains elevated.

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

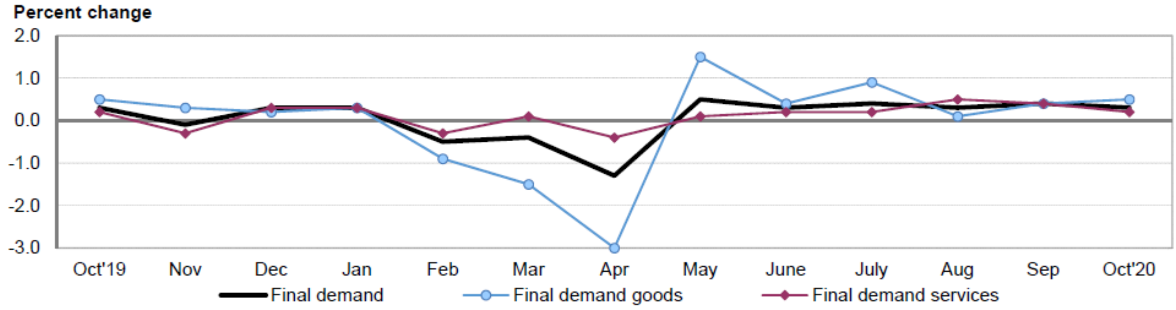
PPI (Oct)

Producer prices were little changed on a monthly and annual basis. The growth in producer selling price slowed slightly in the month. The annual change in producer prices was slightly faster.

<u>**PPI Final Demand – month change**</u>: Oct +0.3% versus Sep +0.4%

Slightly faster growth in final demand goods prices was offset by slower growth in final demand services prices this month.

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



Final demand goods prices increased by +0.5% in Oct after increasing by +0.4% in Sep. Food price growth accelerated from +1.2% in Sep to +2.4% in Oct. Energy prices also shifted from a -0.3% decline in Sep to a +0.8% increase in Oct. Core goods prices (ex-food and energy) were unchanged in Oct.

In October, a major factor in the increase in prices for final demand goods was the index for fresh and dry vegetables, which rose 26.8 percent. Prices for gasoline, meats, chicken eggs, and thermoplastic resins and materials also moved higher.

Prices for light motor trucks, packaged fluid milk and related products, and passenger cars also decreased. (In accordance with usual practice, most new-model-year passenger cars and light motor trucks were introduced into the PPI in October.

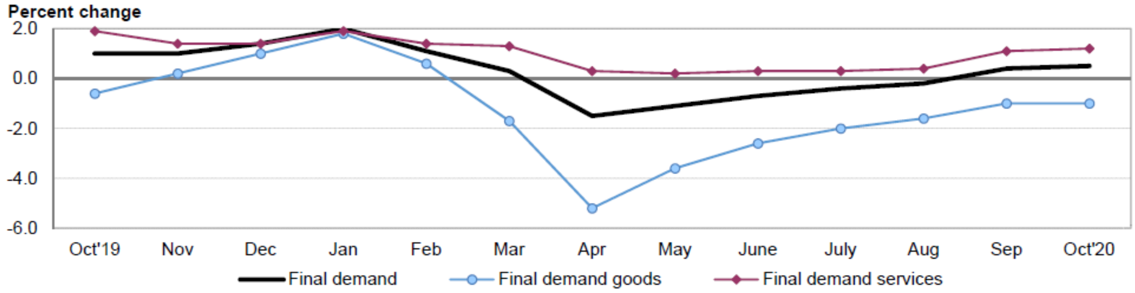
Final demand services prices increased at a slower pace of +0.2% in Oct versus +0.4% in Sep. An acceleration in the growth of transport and warehousing prices was offset by slower growth in Other services prices.

Over a quarter of the advance in the index for final demand services can be traced to prices for long-distance motor carrying, which rose 1.9 percent. The indexes for hardware, building materials, and supplies retailing; securities brokerage, dealing, and investment advice; automotive fuels and lubricants retailing; hospital inpatient care; and automobile retailing (partial) also moved higher. Conversely, margins for chemicals and allied products wholesaling fell 2.6 percent.

PPI Final Demand – annual change: Oct +0.5% versus Sep +0.4%

Annual growth in final demand goods and services prices were little changed this month. The slight acceleration in the final demand services prices offset the continued annual decline in final demand goods prices (led by energy price declines).

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



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

Mortgage Applications wk ending 6 Nov 2020

There was a slight decline in overall mortgage applications last week. The underlying trend of the last six weeks remains in place – refinance applications increased, and purchase applications declined. The decline in purchase applications versus the prior week was notable again. This is the sixth week of declines in purchase applications in the last seven weeks.

Market Composite Index (mortgage loan application volume) wk ending 6 Nov 2020: -0.5% compared to the week prior.

Refinance Applications wk ending 6 Nov 2020: +1% compared to the week prior.

Refi applications are +67% ahead of the same week a year ago – highlighting the pace of the increase in refi activity. Refi's as a percentage of total applications jumped to 70% in the latest week (last week was 68.7%).

> "Mortgage application activity was mixed last week, despite the 30-year fixed rate decreasing to 2.98 percent - an all-time MBA survey low. The refinance index climbed to its highest level since August, led by a 1.5 percent increase in conventional refinances,"

Purchase Applications wk ending 6 Nov 2020: -3% compared to the week prior.

Compared to a year ago, the growth of purchase applications is now down to 16%.

> "The purchase market continued its recent slump, with the index decreasing for the sixth time in seven weeks to its lowest level since May 2020."

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

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Europe

Eurozone Industrial Production (Sep)

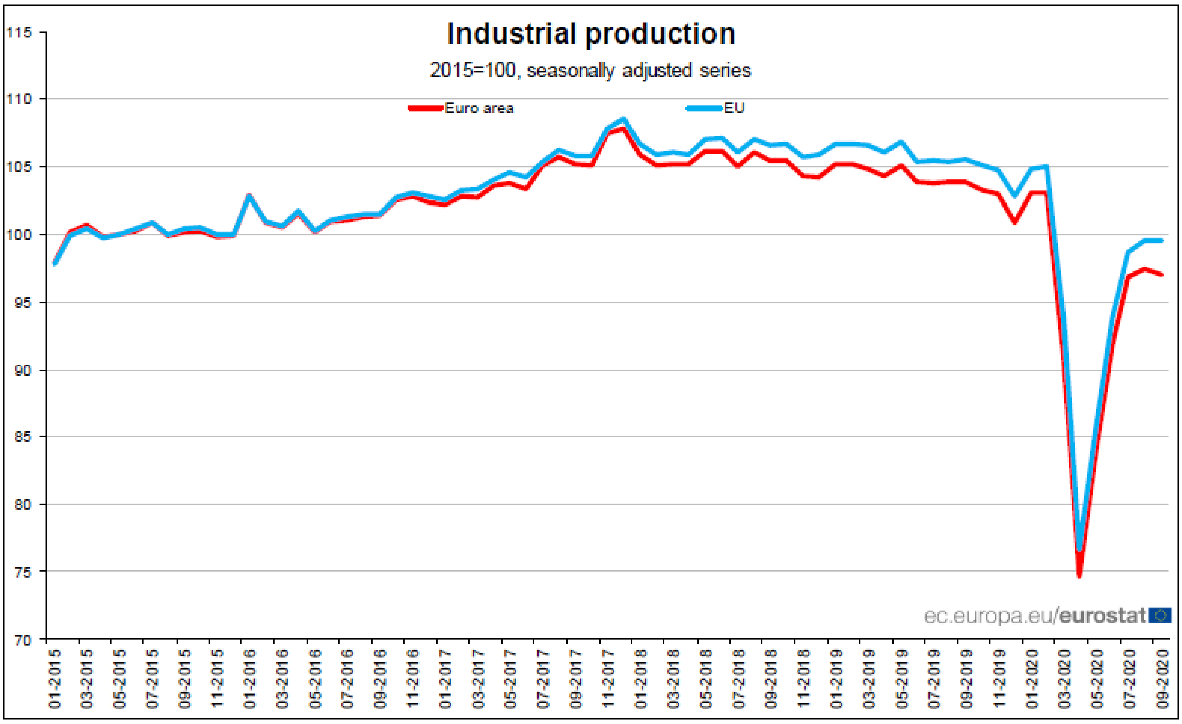
Industrial production across the broader EU was unchanged in Sep. Within the Euro area, production declined slightly for the month. This is consistent with the PMI reports which have highlighted stronger manufacturing output in Germany (see report below) helping to offset weaker output across other EU member states.

Euro Area Production – month change: Sep -0.4% versus Aug +0.6%

Production was led lower by declines in energy and durable consumer goods output.

EU Production – month change: Sep 0% versus Aug +0.9%

Production declined across energy and durable consumer goods. Output growth was slower across intermediate goods.

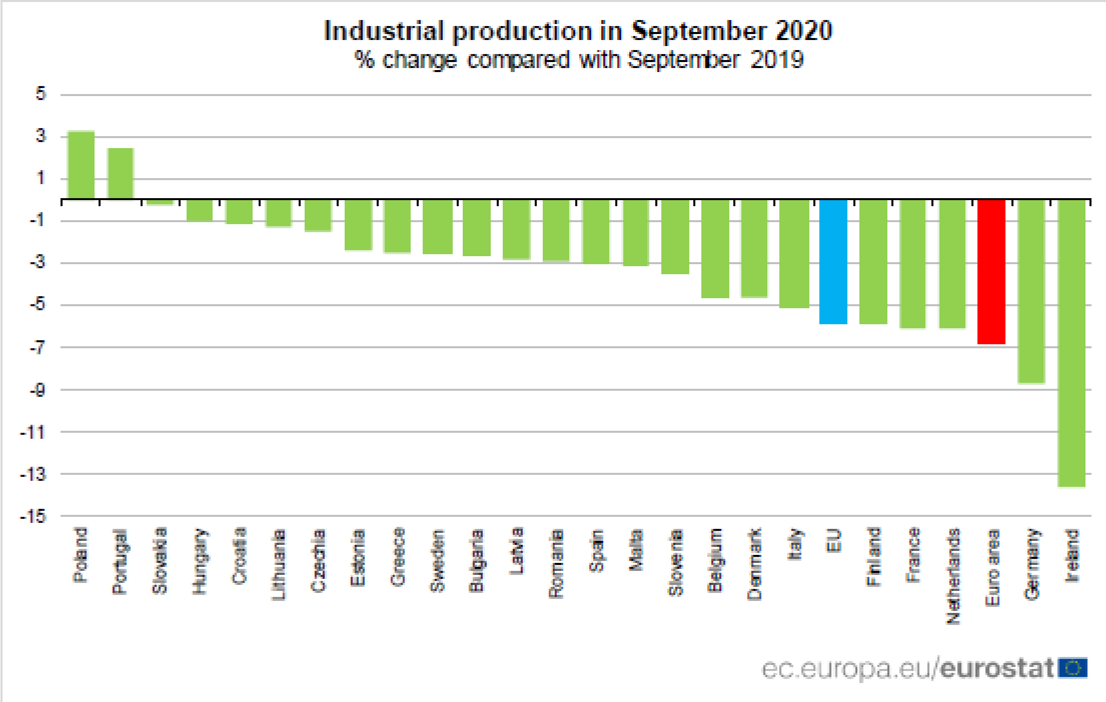


Production across the EU remains -5.8% below the same month a year ago. Most industries remain below a year ago.

Capital goods production is the weakest with output remaining -11.9% below a year ago.

The only industry where output growth has recovered to be ahead of a year ago is durable consumer goods. Durable consumer goods output is +0.7% ahead of Sep 2019.

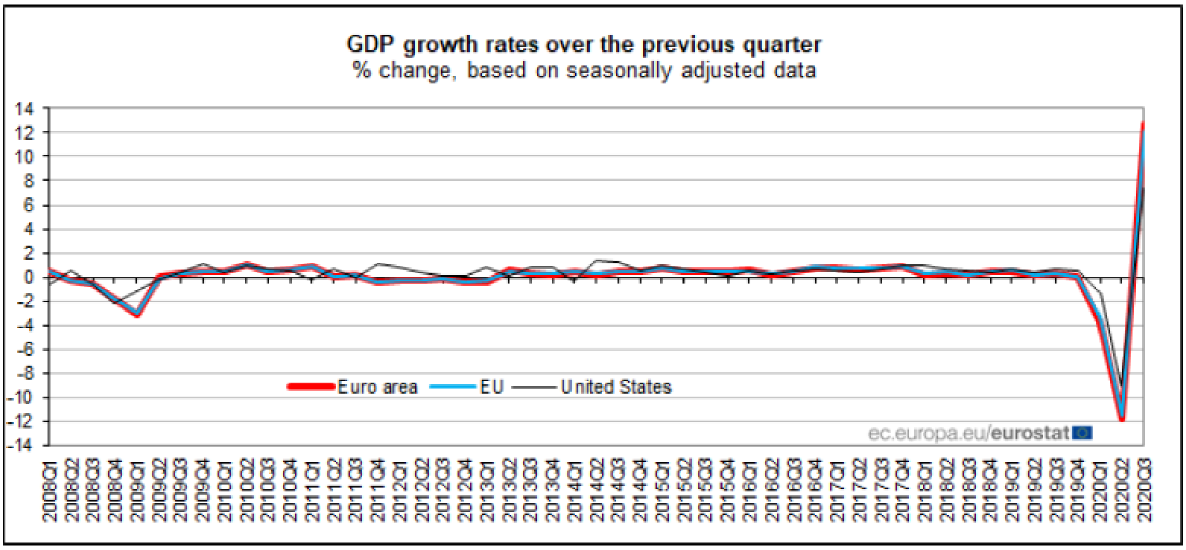
On a regional basis, most markets reported that industrial production remained below a year ago. Some of the larger manufacturing nations were notably weak on an annual basis: Ireland, Germany, Italy, and France.



https://ec.europa.eu/eurostat/documents/2995521/10662169/4-12112020-AP-EN.pdf/918d5a7e-3b3f-464b-e365-ae70af4031d6

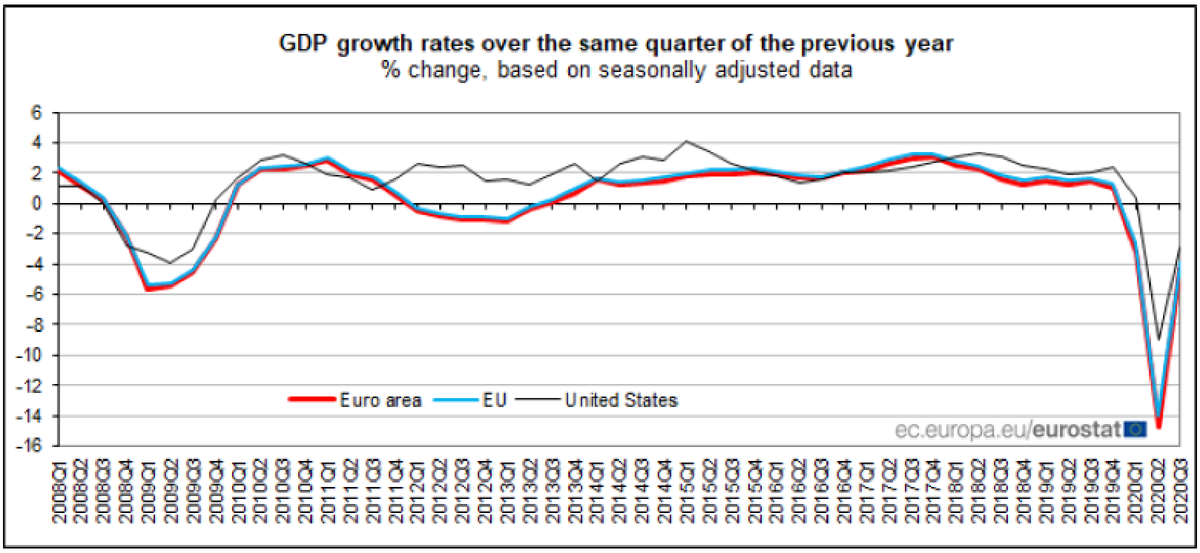
Euro Area GDP – Flash Est Q3

The flash estimate for GDP growth in the EU for Q3 was +11.6% versus Q2.



While output across the EU rebounded in Q3 compared to the severe decline in Q2, the rebound was such that GDP remains below the same quarter a year ago:

EU flash estimate GDP – annual change: Q3 -4.3% for the EU



https://ec.europa.eu/eurostat/documents/2995521/10662173/2-13112020-AP-EN.pdf/0ac3f053-f601-091d-ea21-db1ecaca7e8c

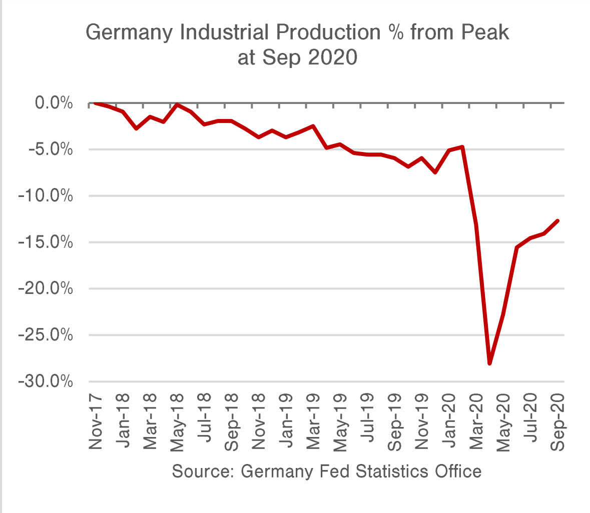
Germany Industrial Production (Sep)

Overall industrial production continued to rebound in Sep for the fifth month in a row, especially as global trade continued to recover. Output growth was recorded across manufacturing, mining and quarrying, and construction industries. The output of utilities fell.

Industrial Production – month change: Sep +1.6% versus Aug +0.5%

Industrial output remains -7.3% below the same month a year ago in Sep. This is only slightly better than the -8.7% decline in Aug. On a year-ago basis, this is the second worst-performing market in the EU.

The broader issue has been the slump in industrial output that has been in place since Nov 2017. Industrial production remains 12.7% below that peak.



Manufacturing Output – month change: Sep +2% versus Aug +0.1%

This is the fifth month of the rebound in manufacturing output. Most industry sectors contributed to the growth in the month:

Intermediate goods +1.4% in Sep versus +3.4% in Aug

Capital goods +2.2% in Sep versus -2.3% in Aug

Non-durable goods +4.4% in Sep versus -1.7% in Aug

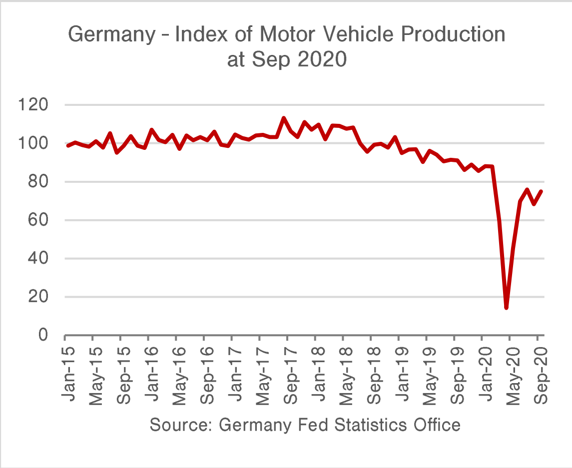
Consumer goods +3% in Sep versus -1% in Aug

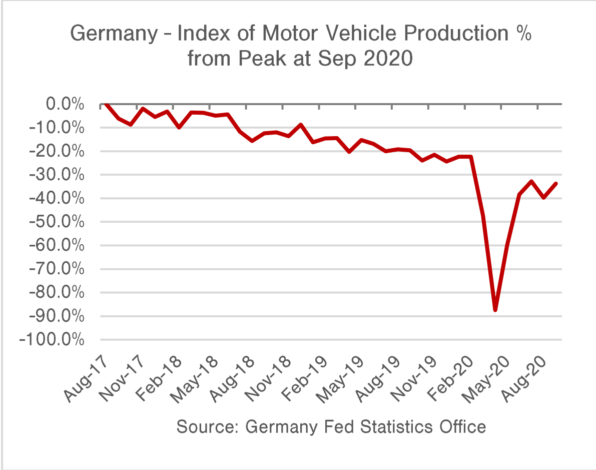
The only sector where output declined was durable goods:

Durable goods -4.1% in Sep versus +2.7% in Aug

The production of motor vehicles, which is a significant industry and somewhat of a bellwether for the rebound in global production and trade, increase this month. Motor vehicle production increased by 10% in Sep after declining by -10.3% in Aug. Motor vehicle production in Germany is still 17.5% below the same month a year ago in Sep – this is still well below the broader manufacturing rebound. This highlights the complexity of stopping and restarting a globally integrated supply chain.

Motor vehicle production though was already weaker, having reached a near-term peak in Aug 2017. Vehicle output in Sep 2020 remains -33.7% below the peak in Aug 2017.





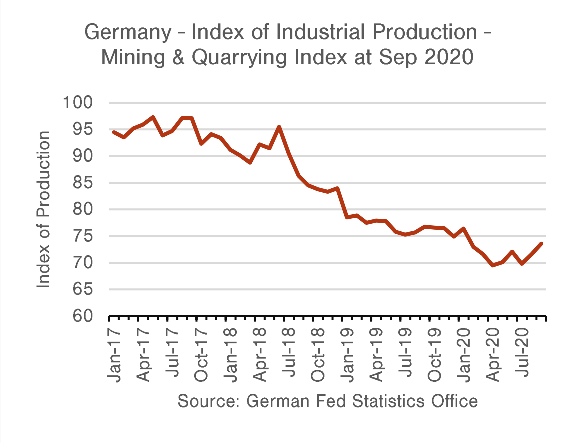
Overall manufacturing output was -8.7% below the level of the same month a year ago. This was an improvement of the -10.8% decline in Aug.

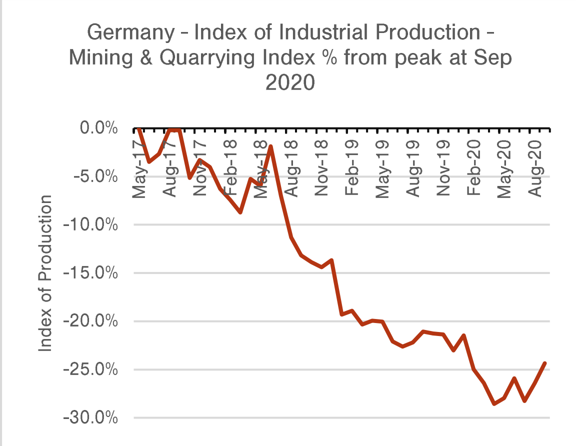
Manufacturing output remains 15% below the peak of Nov 2017:

<u>Mining and Quarrying Output – month change</u>: Sep +2.8% versus Aug +2.6%

This is the second month on month increase in output. Production remains 4.3% below the same month a year ago.

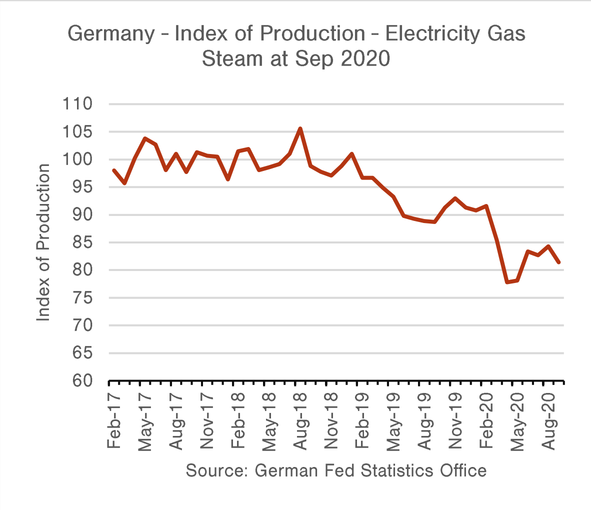
The larger issue is that output is still 24% below the near-term peak in output reached in May 2017.





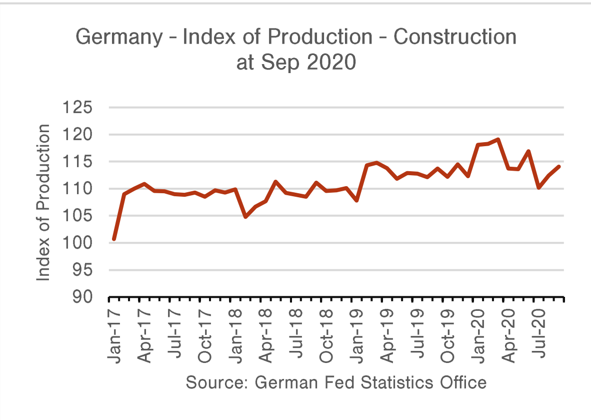
Utilities Output – month change: Sep -3.4% versus Aug +1.9%

With the decline in the month, output slipped to -8.5% below the same month a year ago. Output across utilities sectors is 23% below the near-term peak of Aug 2018.



Construction Output – month change: Sep +1.5% versus Aug +2%

Construction output growth has remained resilient. The output of construction is +0.3% ahead of the same month a year ago. There is little evidence at this stage of any near-term peak.



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Australia

NAB Business Conditions & Confidence (Oct)

Business confidence continued to rebound due to the large gain in Vic (confidence remains negative in Vic on a trend basis).

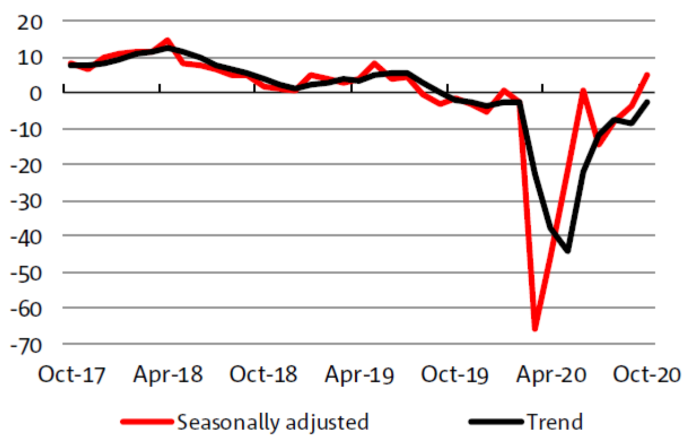
However, while the improvement in confidence is encouraging, the results across other survey variables (and regions) were mixed.

Conditions overall improved but employment remains in contraction – indicating that more firms continue to reduce employment than increase it. Forward indicators of business activity (orders, stocks, and exports) indicate weaker demand conditions still exist and short-term output growth will likely remain low.

Capacity utilization is the key metric here. While there has been an improvement in utilization, significant slack remains. Demand growth will need to increase at a faster pace to reduce excess capacity and reduce unemployment.

Business Confidence – month: Oct 5 versus Sep -4

CHART 6: BUSINESS CONFIDENCE (NET BALANCE)



The trend series of business confidence remains negative – but has improved since Apr. The NAB report provides an industry and state breakdown of business confidence using only the trend series.

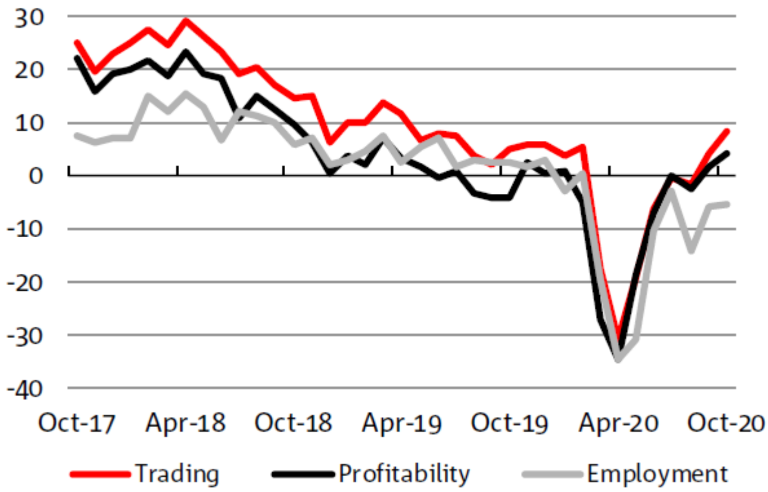
The recovery in business confidence (trend terms) is uneven among the states. Confidence remains negative in Vic, NSW, and SA. Confidence was neutral in Qld and positive in WA and Tas.

By industry, business confidence was slightly higher in construction, transport, and wholesale.

Business Conditions – month: Oct 1 versus Sep 0

There was only a marginal improvement in business conditions this month. Of the three main components, trading conditions improved from 4 in Sep to 8 in Oct, profitability increased from 1 in Sep to 4 in Oct, and employment remained negative “improving” slightly from -6 in Sep to -5 in Oct.

CHART 8: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.



Conditions on a trend basis remain negative. The NAB report provides the industry and state conditions only on a trend basis.

Among the states, business conditions were positive in SA, WA, and Tas. Conditions remained firmly negative in VIC and QLD, and neutral in NSW.

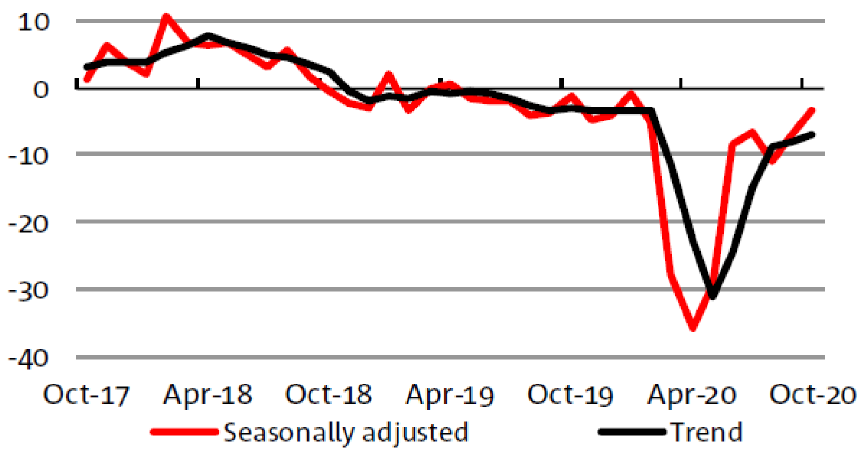
By industry, conditions were positive in wholesale and retail only.

Forward Indicators

There is some concern regarding the performance of the forward indicators.

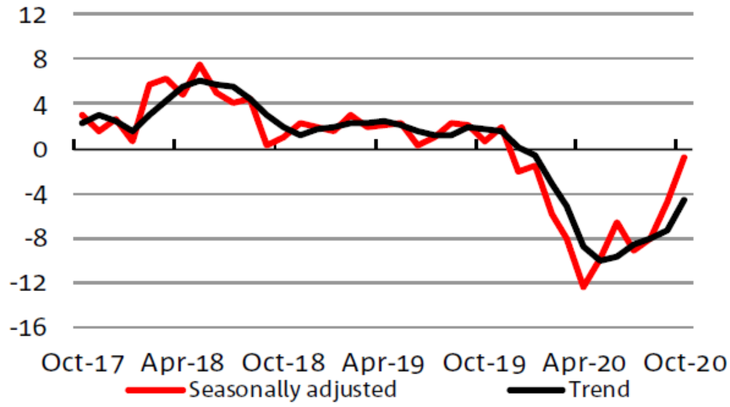
Forward orders "improved" but remained in contraction in Oct at -4 (versus -7 in Sep). There was an improvement in the forward orders index across the states, but only in WA are forward order indicators positive. Overall this suggests that demand conditions remain weak and short-term output growth may remain under pressure.

CHART 12: FORWARD ORDERS (NET BALANCE)



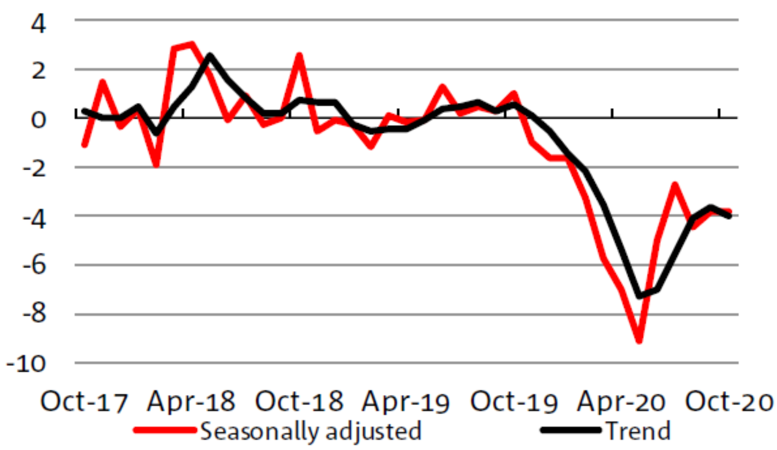
Stocks continued to decline, but at a reduced pace. This indicates some accumulation of stocks after a period of severe depletions. Supply chain issues have also impacted how firms manage stocks.

CHART 16: STOCKS (NET BALANCE)



Most concerning is the performance of exports. After an initial rebound in export growth, indicators suggest some flatlining in export recovery. This also points to some weaker external demand conditions still faced by firms.

CHART 18: EXPORTS (NET BALANCE)

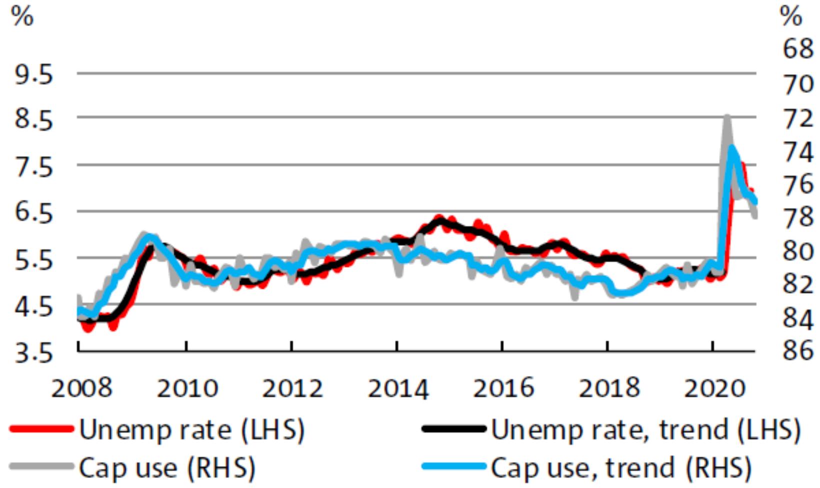


Capacity Utilization

While levels of capacity utilization improved this month, overall utilization remains well below pre-Covid shutdown levels.

Note that in the chart below, the utilization axis is inverted. Demand conditions will need to improve notably for utilization to improve and unemployment to decrease.

CHART 14: CAPACITY UTILISATION AND UNEMPLOYMENT



https://business.nab.com.au/wp-content/uploads/2020/11/NAB-Monthly-Business-Survey-October-2020.pdf

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China

China Net Trade, Exports, and Imports (Oct)

The Chinese trade surplus increased this month. While there was a slight decline in exports, the value of imports declined by a larger value. The decline in imports comes after a much larger increase in imports in Sep.

On a YTD basis, exports have recovered to be +0.4% ahead of the same period a year ago. But imports in the YTD are still -2.3% below the same period a year ago. This may reflect some ongoing weakness in Chinese domestic demand.

All values in USD.

Trade Balance – month: Oct Trade Surplus $58.4bn versus Sep Surplus $37bn

The increase in the trade surplus in Oct was due to the larger decline in imports compared to the prior month. Exports also declined slightly compared to the prior month, but imports declined by a greater value.

The trade surplus a year ago was lower at $42.3bn.

Exports – month change: Oct $23.7bn versus Sep $23.9bn

There was only a marginal 1.1% decline in the value of exports in Oct compared to the prior month.

The value of exports in Oct was +11.4% ahead of the same month a year ago.

The strongest indicator of the recovery in Chinese exports was the growth in the YTD value of exports by +0.4%.

Exports by Region

Export performance by region, especially the larger export markets, was mostly stable.

The US remains the largest export market for China and in Oct exports declined marginally by -0.3%.

Exports to the EU were down -2.9% in Oct - worse than the headline decline. Within the EU, exports to France were down over 12% for the month – which was offset by gains elsewhere in the region.

Exports to Japan and Hong Kong were down -1.7% and -1.2%, respectively.

Import – month change: Oct $17.8bn versus Sep $20.2bn

The decline in imports this month was notable, declining by -11.8% compared to Sep. This was after the stronger import growth of +15% in Sep.

The value of imports in Oct was +4.7% ahead of the same month a year ago.

The YTD value of import is yet to recover and is -2.3% below the same period a year ago.

The overall weaker import recovery likely reflects some ongoing weakness in Chinese domestic demand.

Imports by Region

Imports were weaker across most markets this month.

The ASEAN region is the largest import market for China and imports were down across the region by over 16% this month. There was a notable decline in imports from Malaysia, Thailand, Singapore, Indonesia, and the Philippines. Imports from Vietnam were down by -9%.

Imports from the EU were down by 11% which was in line with the headline monthly pace of decline. There was a notable 15% decline in imports from Germany.

Imports from Japan were down by 13% in the month.

Imports from Taiwan were down by 10%, slightly better than the headline pace of decline.

Imports from the US were down by -5.7% in Oct, after increasing by +25% in Sep. Imports from the US in the YTD are +3.3% ahead of the same period a year ago.

Imports from Australia was the only major customer to record an increase in the month of +1.3%. Imports from Australia in the YTD are still down by over -6%.

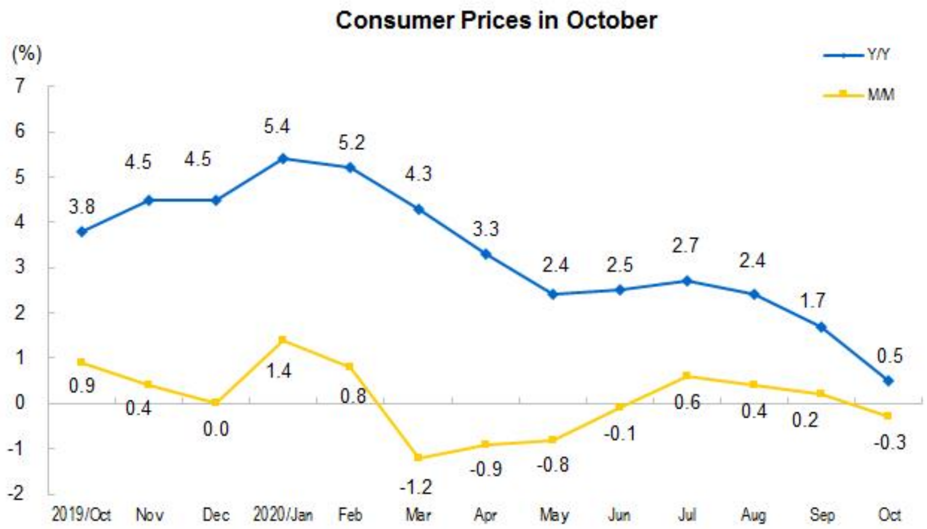
http://english.customs.gov.cn/

CPI (Oct)

The annual change in consumer prices eased notably in Oct. Food price growth has eased markedly, along with "Other articles and Services".

China Headline CPI – annual: Oct +0.5% versus Sep +1.7%

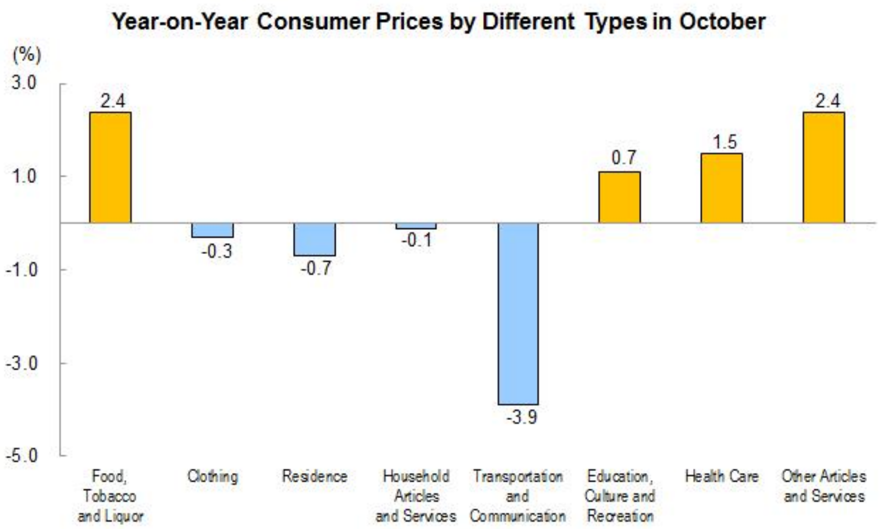
A year ago, consumer prices were growing at 3.8% p/a.



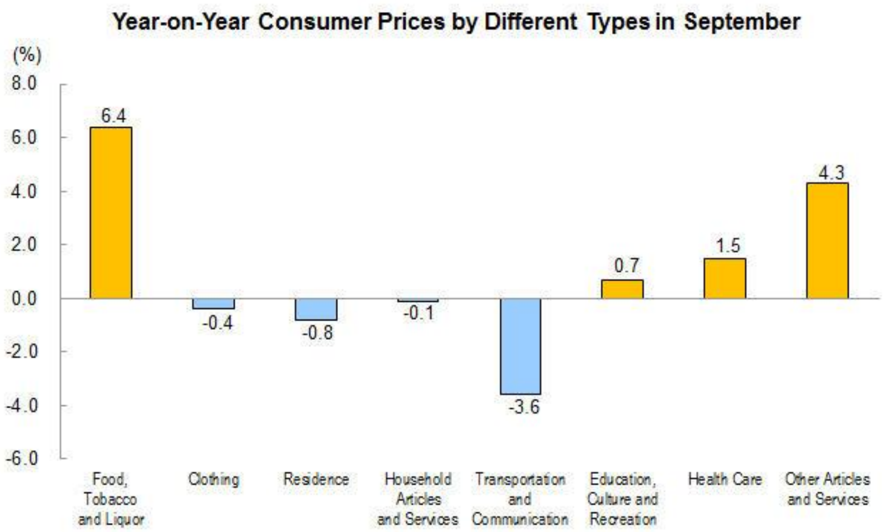
One of the larger contributors to the slowdown in consumer price growth was food prices. Food prices still represented a large part of the overall increase for the year, adding +0.76% pts. In the prior month (Sep), the annual growth in food prices was +6.4% and in Oct price growth slowed to +2.4%.

The increase in prices for education, healthcare, and "other" also contributed to the annual growth in prices this month. The annual growth in prices among these three sectors slowed compared to the Sep result.

This was offset by declines in clothing, residence, household articles, and transport & communication. The decline in prices in these categories was on par with Sep.



Annual growth in consumer prices from the Sep 2020 release for comparison.



http://www.stats.gov.cn/english/PressRelease/202011/t20201111_1800442.html

PPI (Oct)

There are two views of the PPI presented in the official NBS data. The first is the industrial producer price index:

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

The second is the purchase price index:

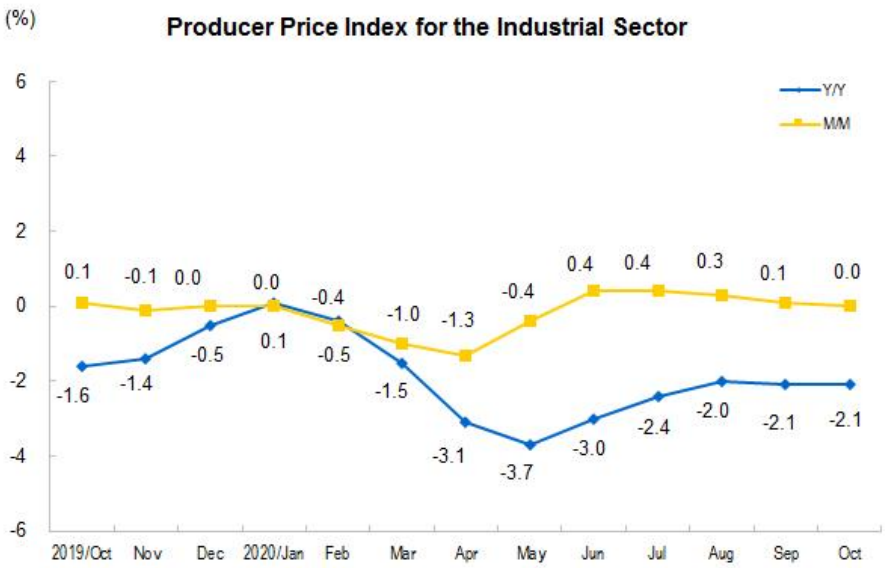
The industrial purchaser price index reflects the trend and level of price changes for the products purchased by the industrial enterprises as intermediate inputs.

Producer selling prices for products sold for the first time declined at the same annual pace in Oct as in Sep. An acceleration in the decline of producer prices for consumer goods was offset by a slightly slower decline for producer prices for the means of production.

Intermediate goods prices declined at a slightly faster pace, as fuel and power prices decreased by -9.9%. This would have helped to ease margin pressures from falling selling prices.

<u>Producer Price Index – annual change</u>: Oct -2.1% versus Sep -2.1%

Producer selling prices for products continued to decline at the same pace of -2.1% in Oct.



Prices declined across the means of production for the year by -2.7% (slightly slower than the annual -2.8% decline in Sep). This included a -5% decline in mining and quarrying prices, a -6% decline in raw materials, and a -1.2% decline in processing prices.

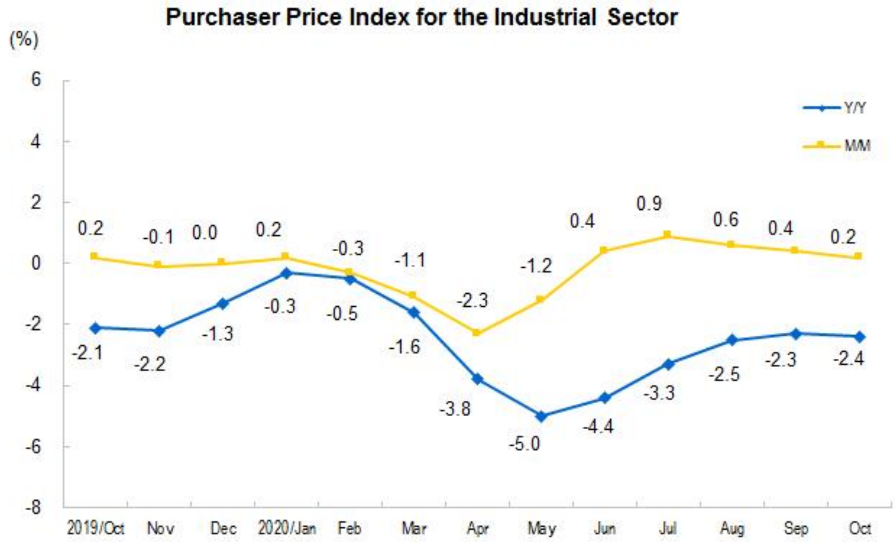
Means of subsistence prices also fell – and this was a larger acceleration over the last two months. In Aug, producer prices for consumer goods were growing at +0.6% and prices declined by -0.5% in Oct (from -0.1% in Sep). Food prices increased by +0.8%. This was offset by declines in clothing prices of -1.7%, prices for articles of daily use of -0.7%, and a -1.8% decline in prices for consumer durable goods.

Across major industries, the producer prices for petroleum and related products remain the largest impact on the PPI. For example, prices for the extraction of petroleum and nat gas declined by -30.4% in the year to Oct.

<u>Purchaser Price Index – annual change</u>: Oct -2.4% versus Sep -2.3%

There was a slight acceleration in the decline in producer input prices this month. This would be positive for producer margins.

One of the largest declines year on year is for fuel and power with prices declining by -9.9%. Even in the month, fuel and power prices declined by a further -0.3%. Prices for chemical raw materials also declined by -7% versus a year ago.



http://www.stats.gov.cn/english/PressRelease/202011/t20201111_1800443.html

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