Weekly Macro Review

w/c 14 December 2020

Key Themes

Last week we noted that sentiment across many countries had been buoyed by news of a Covid-19 vaccine. But this has not stopped the rolling outbreaks from continuing to affect economies and households. In many cases, countries or regions within countries are reinstating travel and distancing restrictions. This is affecting the trajectory of the recovery from the more severe shutdowns at the start of the year.

In the US, the severity of the current outbreak of Covid-19 is worse (absolute numbers) than at the start of the year. But this time there has been no nationally mandated shutdown or restrictions – this has been handled on a local basis. Data continues to reflect at least a slowing of recovery momentum. US manufacturing is faring better than services. Data for Dec is reflecting ongoing growth, just no further acceleration in that growth. Services activity slowed notably in Dec but stayed positive. Retail sales for Nov were weak – especially given the Thanksgiving holiday. Initial and continuing claims have been increasing again since Thanksgiving. A sizeable level of unemployment remains, and the US Congress appears to have finally made some progress on a relief bill to help fill the income gap through cash payments and an extension to benefits. The FOMC made no changes to its high levels of monetary easing. The Chairman reinforced that accommodative policy would remain in place until inflation at least averages 2%.

In Europe, restrictions had been imposed again in many countries through Nov and Dec. The Oct production data remained strong – led by stronger growth in Germany. The Dec data suggests some broadening of manufacturing growth among countries. Services remain weak as a result of restrictions.

In the UK, the severe decline in services activity in Nov eased in Dec. Unfortunately, this is likely to be short-lived as greater restrictions have just been announced to combat a new strain of the virus. This will impact the UK and also Europe, which imposed travel bans on the UK. Manufacturing activity was boosted in Dec somewhat by preparations for the final Brexit deadline. At this stage, there is no UK-EU trade deal yet ahead of the 31 Dec deadline. The BoE made no changes to the current stance of policy.

In Japan, the rebound in activity is mixed. There has been a recent rise in cases and some restrictions have been reimposed. Manufacturing production continues to rebound and is still 3% below a year ago. The PMI recorded a contraction led by services, which declined at a faster pace in Dec. The Nov merchandise trade reflected some domestic weakness in demand as well as weaker global export demand. The Dec manufacturing PMI noted an accelerated decline in new export orders. The National CPI declined at an accelerated pace – even excluding fresh food and energy. This reflects some of the weakness experienced in the services sector. The BoJ announced that it will assess further options for 'effective monetary easing' likely to be announced at the Mar 2021 meeting (within the current QQE with YCC framework). The Committee judges that current economic activity and inflation will remain under 'downward pressure' for a 'prolonged period' due to the pandemic.

In Australia, local community transmissions flared up in NSW. The states have been quick to reimpose border restrictions. The Nov employment survey was more positive. Even though employment growth slowed, there was a slower increase in the supply of labour too. This helped to reduce total unemployment in the month. The one caution is that most of the employment growth was the result of the easing of restrictions in Vic while employment across several of the larger states declined in Nov.

Contents

US Data

Initial Jobless Claims (wk ending 12 Dec), Continuing Unemployment Claims (wk ending 5 Dec), and PUA Claims

There was a further deterioration in initial and continuing claims data this week.

Initial claims for the latest week ending 12 Dec across both state and federal programs remained elevated at 1.39m new claims. This was slightly higher than the 1.37m new claims in the week prior – due to a larger increase of PUA claims.

The total number of ongoing claims as of the wk ending 28 Nov (Thanksgiving week) also increased notably by +1.6m continuing claims. The total number of people claiming ongoing benefits increased to 20.6m.

<u>REGULAR STATE PROGRAMS</u>

Initial Unemployment Claims (NSA) wk ending 12 Dec 2020: 935,138k claims made by people. This was a slight decline of -21k claims compared to the week prior.

Continuing Unemployment Claims (NSA) wk ending 5 Dec 2020: 5,492,701 ongoing claims. This was approx. -312k claims lower than in the week prior.

<u>FEDERAL PANDEMIC UNEMPLOYMENT ASSISTANCE (PUA) PROGRAMS</u>

PUA Initial Claims (NSA) wk ending 12 Dec 2020: 455,037. This was, unfortunately, an increase of +40k compared to the prior week.

PUA Continuing Claims (NSA) wk ending 28 Nov 2020: 9,244,556 ongoing claims. This was a more severe increase of +689k continuing claims compared to the prior week. Note that this is for the wk ending 28 Nov (Thanksgiving week).

Pandemic Emergency Unemployment Assistance (PEUC) Continuing Claims (NSA) wk ending 28 Nov 2020: 4,801,408. This is an increase of +268k claims compared to the week prior.

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

Retail Sales (Nov)

US retail sales declined notably in Nov compared to Oct. Retail sales growth in Oct was also revised from growth to a slight decline.

Despite the Thanksgiving holiday sales, retail growth across most of the more discretionary categories declined in Nov. The largest declines were across on-premise food services, motor vehicles, and clothing. These were all the same categories that were hit hard by the initial shutdowns. The decline across the discretionary categories was not offset by a more substantial increase in non-store retail – despite the sales period. This is a weak indicator of demand.

The decline in on-premise dining was only partially offset by the increase in grocery sales for the month. Some of this decline will be out of concern for the pandemic and limiting large social gatherings.

Advance Retail Sales ($ val) – month change: Nov -1.1% (-$6bn) versus Oct -0.1% (-$0.3bn)

The advance retail sales growth for Oct was originally reported at +0.3% (+$1.4bn).

Category Performance

This month, there were only three categories that recorded month on month growth:

Food and beverage stores (grocery) +1.6% or +$ 1.1bn (after declining by -0.7% in the month prior). Food and beverage store retail sales are +8.5% ahead of the same month a year ago.

Building materials and garden supplies +1.1% or +$0.4bn (after increasing by +0.1% in Oct). Sales are +17.2% ahead of a year ago.

Non-store retailers +0.2% or +$0.2bn (after increasing by +2.4% in the month prior). Non-store retail sales are still +30% ahead of the same month a year ago. Surprisingly, growth was not higher given the Thanksgiving holiday sales.

The remaining categories recorded a decline in sales for the month. The largest declines were across:

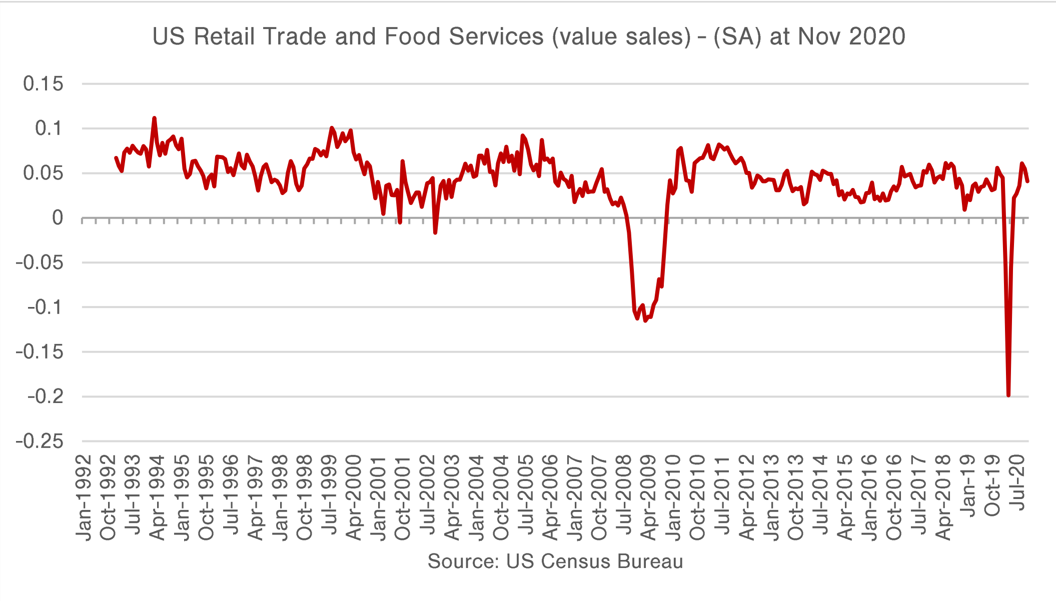
Food services and drinking places -4% or -$2.2bn (after a -0.5% decline in the month prior). On-premise food and drink sales are -19.3% below the same month a year ago.

Motor Vehicles -1.7% or -$1.9bn (after no change in Oct). Auto sales are +2.9% above the same month a year ago.

Clothing and accessories store sales declined by -6.8% or -$1.35bn (after a -3.4% decline in the month prior). Clothing store sales are still -19% below the same month a year ago.

Declines were also recorded across gasoline stations (-2.4%), furniture (-1.1%), electronics and appliance stores (-3.5%), health and personal care (-0.7%), sporting goods (-0.6%), general merchandise (-1%), and misc. (-0.5%).

On an annual basis, total retail sales ($ value) are still +4.1% ahead of the same month a year ago.



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

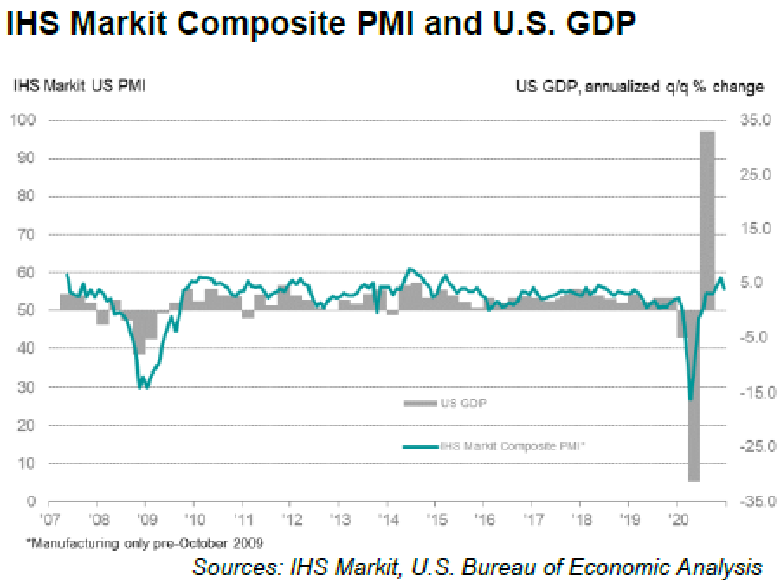
Markit Composite PMI Prelim (Dec)

The pace of private sector growth slowed this month but remains elevated.

There was a more notable slowdown in services business activity and manufacturing output growth also slowed. Within the manufacturing sector, a further deterioration in vendor performance/lead times contributed to the headline PMI remaining elevated. Firms noted "severe" raw materials shortages, reduced supplier capacity, and logistical constraints. In the services sector, firms recorded record growth in input prices due to a shortage of PPE.

> The outlook for output over the coming year remained upbeat in December, but was tempered by renewed uncertainty regarding the pandemic and surging costs. Business expectations fell to a three-month low. Hesitancy was also reflected in slower employment growth, as backlogs of work rose at only a fractional pace.

Composite Output PMI: Dec 55.7 versus Nov 58.6



Manufacturing Output Index: Dec 57.3 versus Nov 59.2

Manufacturing output growth slowed but remains at a robust level. Output and new order growth remained positive. The headline PMI was only marginally lower at 56.5 in Dec from 56.7 in Nov. This was partially due to the deterioration in supplier performance. Again, this was the result of supply chain disruptions due to shutdowns rather than resulting from a robust increase in demand. Input prices increased sharply. Firms continued to run down inventories. Order backlogs continued to increase.

Firms continued to increase employment. The outlook for output remained positive, only easing slightly from Nov levels.

> "However, while November had seen business buoyed by increased activity around Thanksgiving as well as a surge in business confidence following the Presidential election and encouraging vaccine news, December has seen companies rein in their expectations, given the higher virus case numbers and

tougher lockdown stances adopted in some states. Lockdowns in other countries were meanwhile reported to have hit exports.

<u>**Services Business Activity Index**</u>: Dec 55.3 versus Nov 58.4

As reported virus cases increased once again, firms stated that restrictions and softer demand weighed on total activity.

Growth in new work slowed, especially among consumer-facing industries. New export work recorded the first decline since May due to restrictions in key export markets. The growth in hiring slowed.

Input price increases accelerated to a record survey high.

The rate of cost inflation accelerated once again to a new record high, as supplier prices and the soaring cost of PPE pushed cost burdens up.

Optimism in the outlook eased somewhat as a result of the pandemic and weaker global growth.

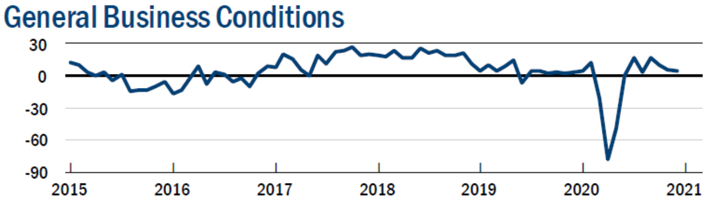
https://www.markiteconomics.com/Public/Home/PressRelease/3d16f42eb4c045f3b3e507628577ef10

NY Empire State Manufacturing Index (Dec)

The headline conditions index for the region slipped slightly, but it reflects that more firms recorded no change in conditions from the month prior. The notable increase was in input prices as more firms reported higher input prices.

<u>**General Business Conditions Index:**</u> Dec 4.9 versus Nov 6.3

While fewer firms reported higher/better conditions, there were also fewer firms that reported lower or deteriorating conditions. Most firms (approx. 53%) reported no change in conditions from the month prior.



	Percent Reporting		
	Higher	Lower	Index
Nov	30.8	24.4	6.3
Dec	25.8	20.9	4.9
Change			-1.4

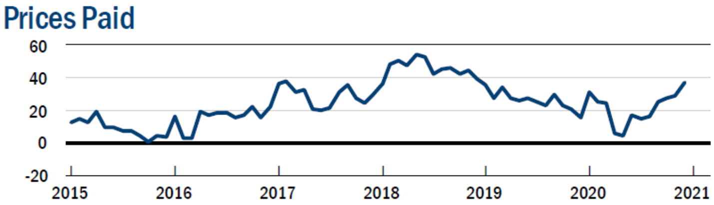
New orders increased at a similar pace in the month. Again, more firms reported no change in the level of new orders compared to the prior month.

The shipment index suggests that growth increased at a faster pace. But again, there was a larger number of firms reporting no change in the level of shipments compared to the prior month.

Unfilled orders still declined but at a slower pace.

Delivery times increased at a slightly faster pace and firms continued to reduce inventories.

Prices paid continued to increase and at a faster pace this month. More firms reported higher prices and almost no firms reported lower prices.



	Percent Reporting		
	Higher	Lower	Index
Nov	33.1	4.0	29.1
Dec	37.9	0.7	37.1
Change			8.0

Prices received were little changed this month but continued to grow. This suggests that margins will remain under pressure for some firms.

The index for the number of employees increased. There was no increase/change to the proportion of firms reporting higher employment. But fewer firms reported lower employment. Most firms (approx. 73%) reported no change to employment this month.

There was also no change in the pace of growth in the average workweek.

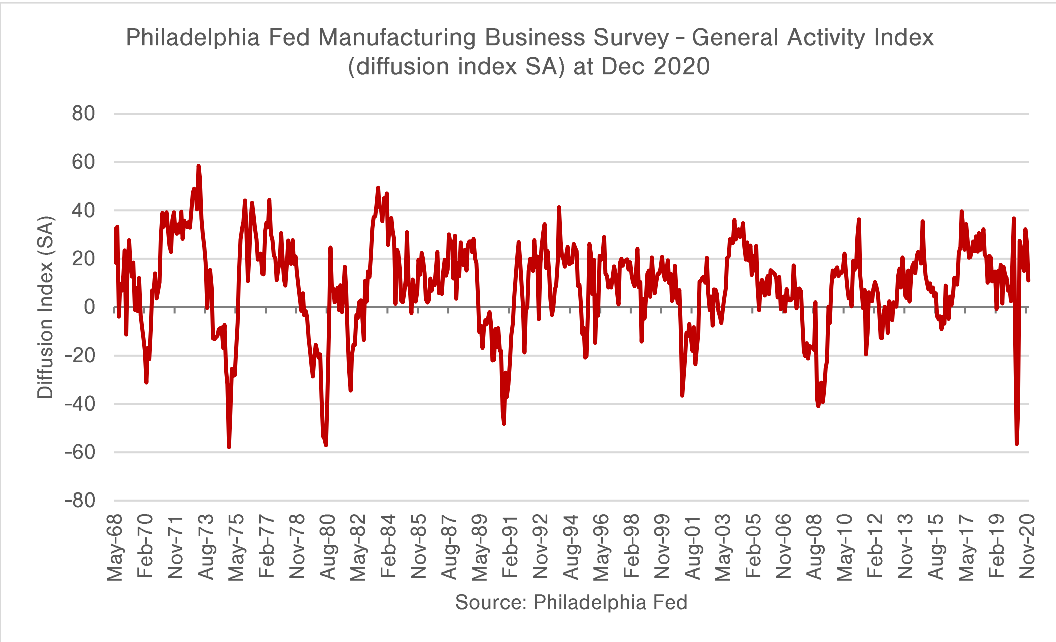
https://www.newyorkfed.org/medialibrary/media/survey/empire/empire2020/esms_2020_12.pdf?la=en

Philadelphia Fed Manufacturing Survey (Dec)

Mostly no change in current activity this month. The one caution in this report was the notable slowdown in new orders compared to the prior month, possibly reflecting some slowdown in demand.

General Business Activity: Dec 11.1 versus Nov 26.3

The headline conditions index was lower this month but remained positive. There were notably fewer firms reporting higher/improved conditions and only a small increase in firms reporting lower/deteriorating conditions. Most of the shift was more firms reporting no change in conditions for the month.



The new orders index fell notably this month from 37.9 in Nov to 2.3 in Dec. The underlying shift in orders was not positive and also reflects slowing demand. The proportion of firms reporting higher orders fell from 49% of firms in Nov to 31% of firms in Dec. There was a corresponding increase in the number of firms reporting a decline in new orders from 11% of firms in Nov to 28% of firms in Dec.

The shipments index also slowed this month but remained firmly positive. There was a similar shift from firms reporting higher shipments to a larger proportion of firms reporting lower shipments.

The current level of the unfilled orders index slowed from 22.2 in Nov to 1.4 in Dec. Firms generally were reporting no increases to unfilled orders – reflecting more capacity available in the absence of stronger growth in new orders.

The inventories index indicated that inventories increased at a faster pace this month with more firms reporting higher inventories.

Growth in prices paid and prices received eased this month.

The growth in the number of employees slowed from 27.2 in Nov to 8.5 in Dec. This reflected fewer firms increasing employment levels compared to the prior month. But there was no corresponding increase in firms reporting lower employment either (which is positive). Most firms (approx. 71%) reported no change to employment in Dec.

The average workweek was little changed indicating only a slightly slower pace of growth. Fewer firms reported a higher average workweek and there was a larger number of firms (72% of firms) reporting no change in the workweek. Only 5% of firms reported a decline in the workweek.

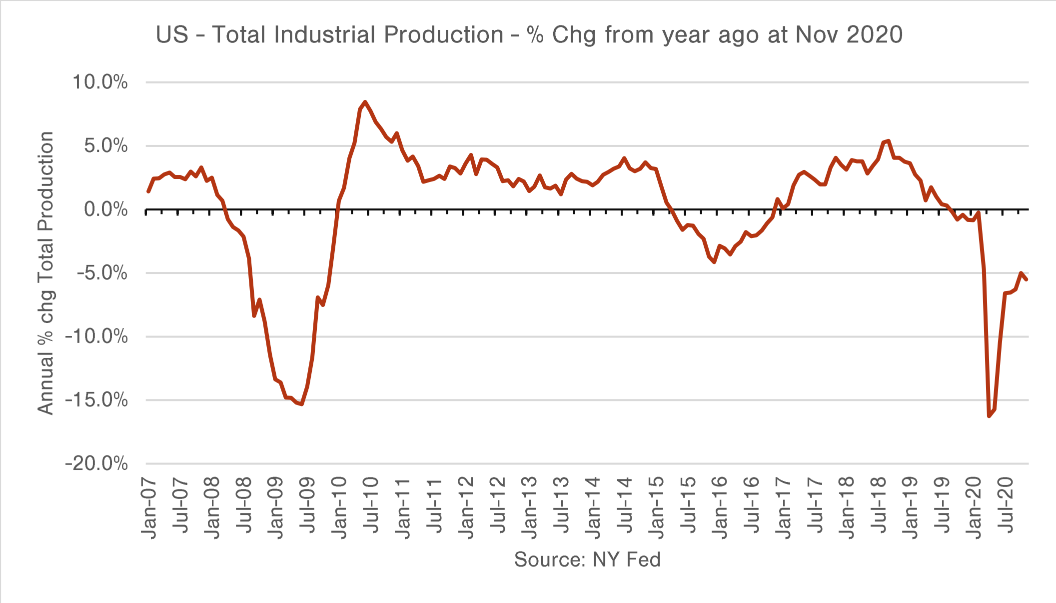
https://www.philadelphiafed.org/surveys-and-data/regional-economic-analysis/mbos-2020-12

Industrial Production (Nov)

A further acceleration in mining output was offset by slower growth in manufacturing and a decline in utilities output for the month.

Industrial Production – month change: Nov +0.4% versus Oct +0.9%

Compared to a year ago, industrial output declined slightly faster by -5.5%. Annual growth had already been slowing since late 2018:



<u>**Manufacturing Output – month change**</u>: Nov +0.8% versus Oct +1.1%

> An increase of 5.3 percent for motor vehicles and parts contributed significantly to the gain in factory production; excluding motor vehicles and parts, manufacturing output moved up 0.4 percent.

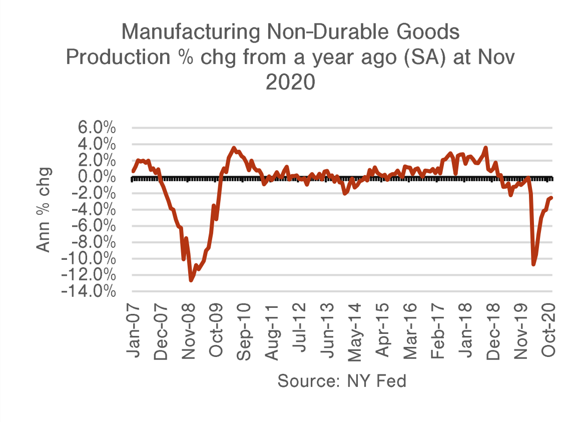
Growth in durable goods manufacturing contributed most to growth this month while non-durable goods output slowed to almost no change.

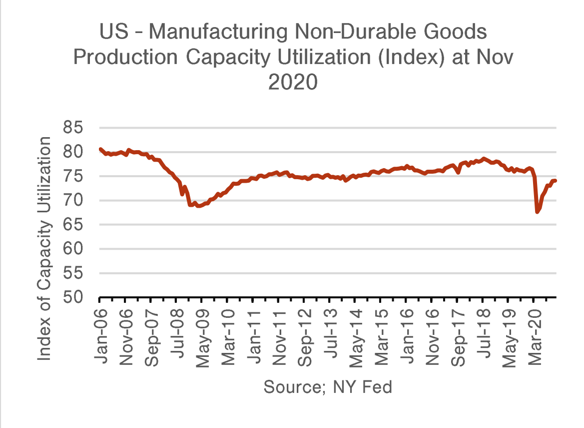
Overall manufacturing output is -3.7% below the same month a year ago. Capacity utilization also remains -3.4% below the pre-Covid level.

<u>Durable goods output</u> increased by +1.5% in Nov (+1.1% in Oct). Most of this growth was led by the +5.3% increase in motor vehicle output. But growth remained positive across industries this month and only three industries recorded a decline compared to Oct. Durable goods manufacturing is still 4.3% below a year ago. Capacity utilization peaked in this part of the cycle back in Dec 2018 and the level as of Nov is still 7% below that peak.

<u>Non-durable goods output</u> growth slowed to +0.1% in Nov (from +1.4% in Oct). The breadth of the decline across industries was also broad with seven out of nine industries recording

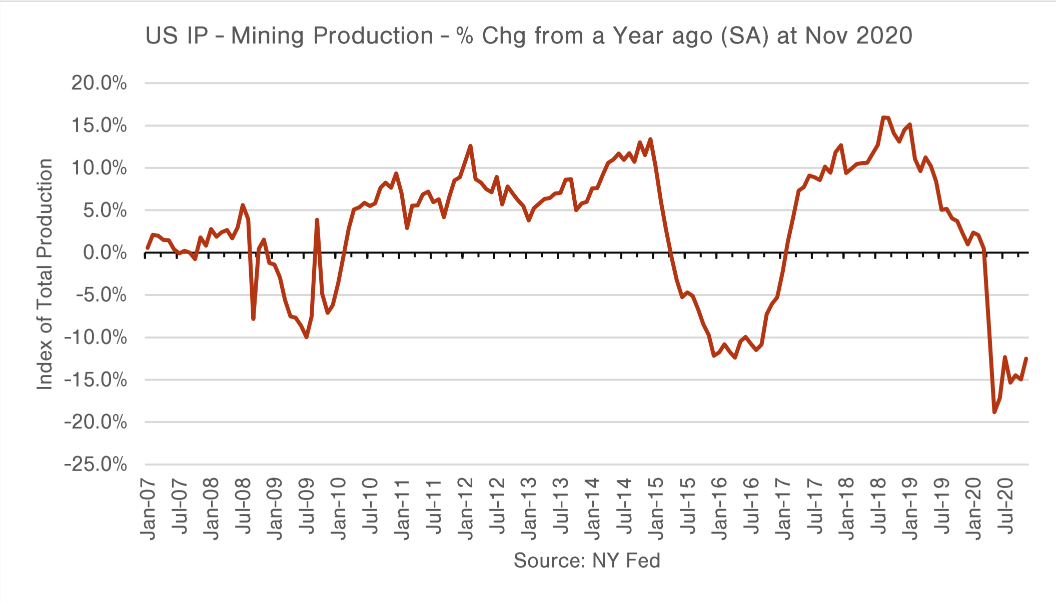
declines in Nov (compared to only three industries in decline in Oct). The output of non-durable goods industries was just -2.6% below the same month a year ago.





<u>Mining Output – month change</u>: Nov +2.3% versus Oct -0.7%

There was at least some further improvement in mining output this month. The output levels in Nov remain -12.5% below a year ago. Output growth had been slowing notably since approx. Sep 2018 but declined severely around Apr and May.



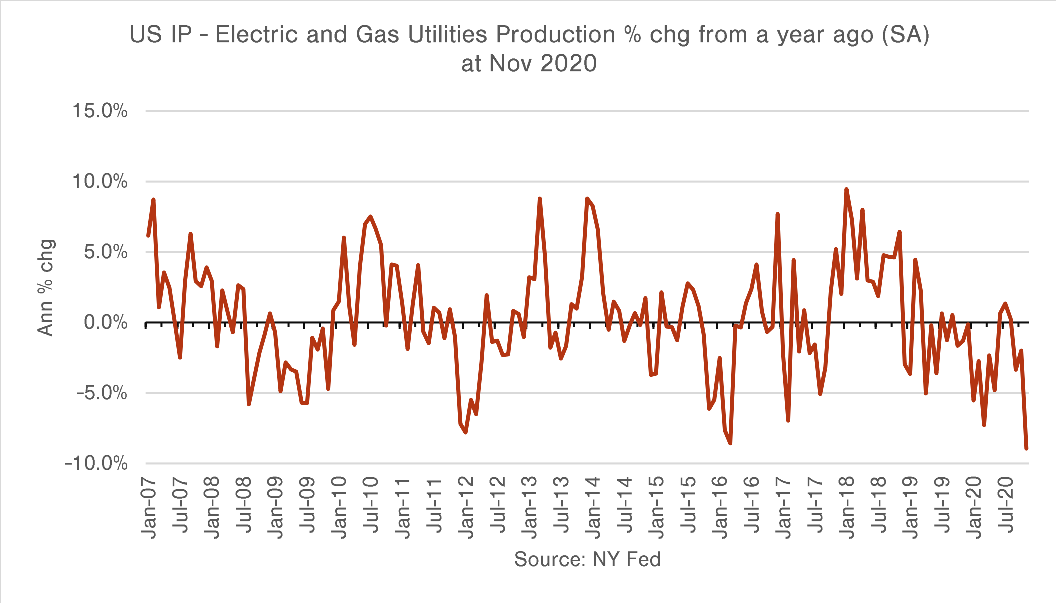
Mining capacity utilization also remains -10% below the same month a year ago.

<u>Electric and Gas Utilities Output – month change</u>: Nov -4.3% versus Oct +1.8%

The severe decline this month was temperature related:

> The output of utilities declined 4.3 percent, as warmer-than-usual temperatures reduced the demand for heating.

Utilities output in Nov was -8.9% below the same month a year ago.



https://www.federalreserve.gov/releases/G17/Current/

Mortgage Applications wk ending 11 Dec

There was a further increase in mortgage applications this week. This was the result of an increase in both refinance and purchase applications.

> "….Mortgage rates as a result fell to another survey low, with the 30-year fixed mortgage rate dropping five basis points to 2.85 percent,"
>
> "Homeowners once again acted on the decline in rates, with refinance activity rising for the second straight week and up 105 percent from a year ago."

Market Composite Index – total loan application volume wk ending 11 Dec: +1.1% versus a week ago

The increase this week was the result of increases in both refinancing and purchase activity.

Refinance Index – wk ending 11 Dec: +1% versus a week ago

The level of refinancing applications is now +105% higher than the same week a year ago.

Purchase Activity Index – wk ending 11 Dec: +2% versus a week ago

Purchase applications are +26% ahead of the same week a year ago.

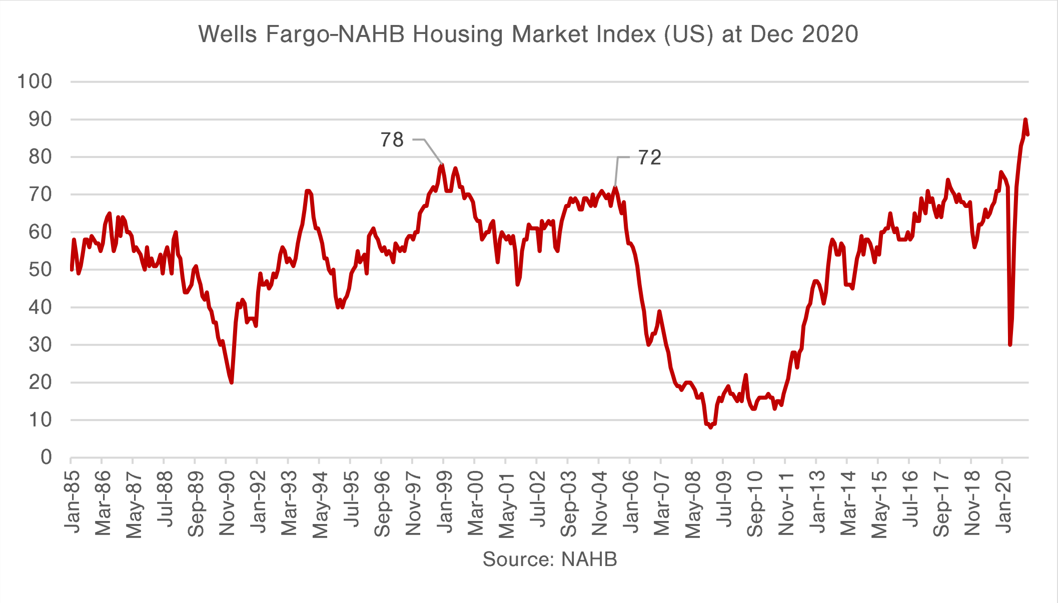
https://www.mba.org/2020-press-releases/december/mortgage-applications-increase-in-latest-mba-weekly-survey

NAHB Housing Market Index (Dec)

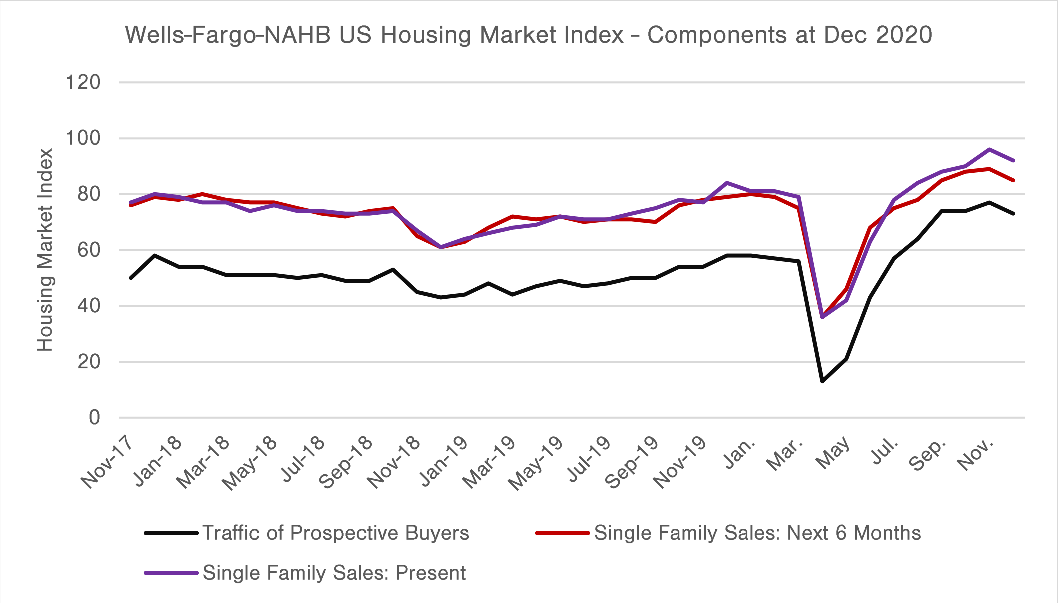
Housing market conditions eased slightly in Dec after reaching an all-time high in Nov.

Conditions eased across all three of the main index components as well as across each region. The decline was consistent across the regions as well as across the index components.

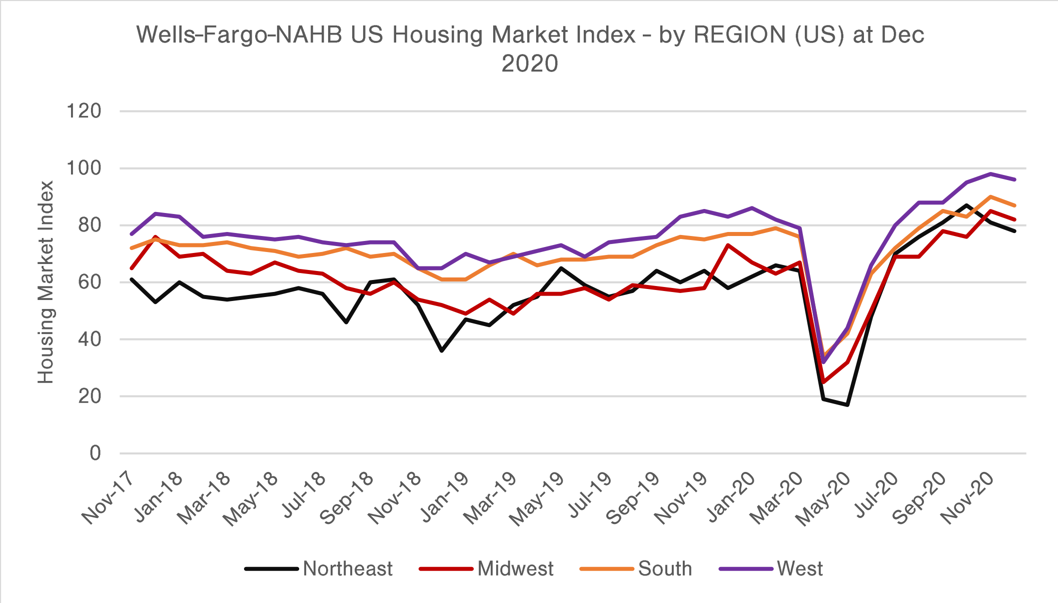
NAHB Housing Market Index: Dec 86 versus Nov 90



All three components declined at a similar pace (-4% compared to the month prior):



Conditions across the four main regions also declined at a similar pace, although conditions eased to a lesser degree in the West (-2%) and the South (-3%). The housing market index declined by 4% in the Northeast and the Midwest in Dec (compared to Nov).



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

Building Permits and Housing Starts (Nov)

The number of building permits issued this month increased at a notable pace – on a national and regional level. The 90% confidence interval for the sample survey results in Nov indicated that it was likely that permits increased this month. The number of permits issued on a SAAR basis is now +8.5% ahead of the same month a year ago.

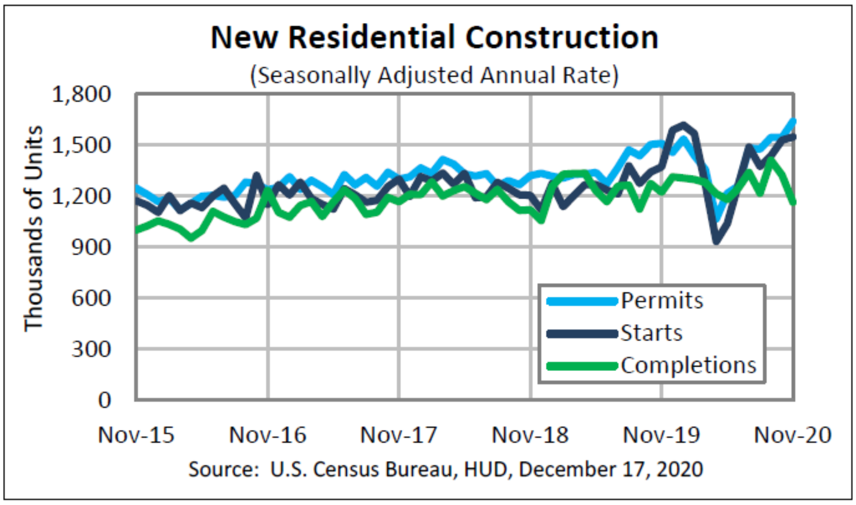
National New Housing Permits – SAAR/mth: Nov 1.639m versus Oct 1.544m

This was an increase of +6.2% compared to Oct. The 90% confidence interval was +/- 1.5% pts – which indicates that the number of new permits likely increased in Nov.

The number of new permits increased across all regions this month, led by stronger gains in the Northeast (+12.9%) and the West (+8.3%). The number of new permits increased in the Midwest by +3.8% and in the South by +4.7%. The South has the largest number of permits issued.

The result across all regions was also statistically valid in that the 90% confidence intervals did not include zero. The number of permits issued across the regions likely increased in Nov.

On an annual basis, the National level of new permits issued in Nov (on a SAAR basis) was +8.5% ahead of the same month a year ago. The 90% confidence interval was +/- 1.8% pts.



https://www.census.gov/construction/nrc/pdf/newresconst.pdf

FOMC Rates Decision – 15-16 Dec 2020

There was no change made to policy settings this month.

The FOMC continued to note that the path of the recovery would be determined by the path of the virus. Despite the recovery so far, economic activity and employment remain well below the start of the year. Weaker demand and lower oil prices have kept the PCE inflation rate low. The virus will continue to weigh on economic activity in the near-term.

Policy Settings

Extremely accommodative stance of monetary policy to help ease financial conditions to support the economy and households (via the flow of credit).

FFR maintained at 0-0.25bps

Purchase of US Treasury securities at a pace of $80bn/mth. Purchase of MBS at a pace of $40bn/mth (current pace is above this).

Plus continue to offer daily and term repo (and reverse repo) operations, FX swap transactions, and reinvestment of principal payments from maturing holdings in SOMA.

Objectives

Achieve full employment and average inflation of 2% over the longer-run.

The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved.

The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals.

https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm

Return to top

Europe

Eurozone Industrial Production (Oct)

Industrial production growth accelerated in Oct after a small lull in growth in Aug and Sep. Growth accelerated across most industries except non-durable consumer goods.

> Among Member States, for which data are available, the highest increases were registered in **Belgium** (+6.9%), **Germany** (+3.4%) and **Slovenia** (+3.1%). The largest decreases were observed in **Denmark** (-5.8%), **Greece** (-3.0%) and **Lithuania** (-1.7%).

The overall rebound in production continues and output remains -3.3% below the same month a year ago – an improvement from -5.5% in Sep.

The final industrial production report is a lagging indicator but helps to provide some 'hard data' to compare with the PMI's. The PMI's measure the proportion of firms recording higher, lower, or no change in output/activity. The industrial production report is the aggregate view of the output of those firms. The Oct manufacturing PMI for the Eurozone was in expansion at 54.8 – but led by stronger growth in Germany (PMI was 58).

Total Industrial Production (EU) – month change: Oct +1.9% versus Sep +0.3%

Production growth was faster across intermediate goods (+2.1%), energy (+1.2%), capital goods (+2.6%), durable goods (+1.3%), and durable consumer goods (+0.3%). The output of non-durable consumer goods declined slightly by -0.4% across the EU region.

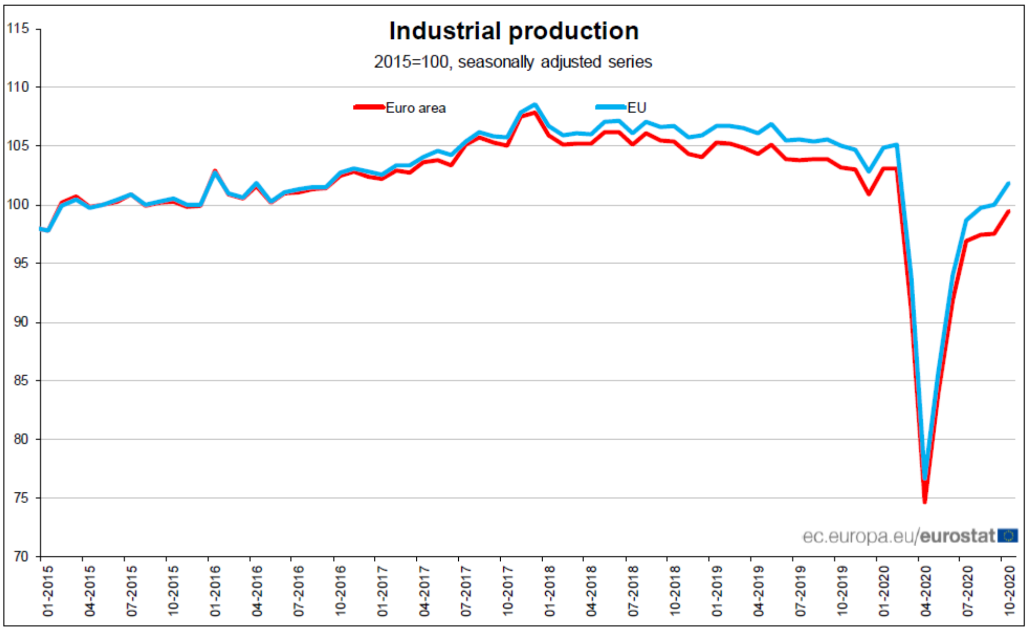
Despite the continued growth this month, output remains below the levels from a year ago – but the rebound continues.

Total Industrial Production (EU) – annual change: Oct -3.1% versus Sep -5.5%

Annual performance by industry is mixed.

The output of consumer durable goods is now +2.3% ahead of a year ago while intermediate goods output is now only -0.5% below a year ago.

But the output of capital goods remains -7.1% below a year ago. Non-durable consumer goods output is -2.4% below the same month a year ago.



https://ec.europa.eu/eurostat/documents/portlet_file_entry/2995521/4-14122020-AP-EN.pdf/ea6057f5-5404-6d04-8cc0-93e66779c40c

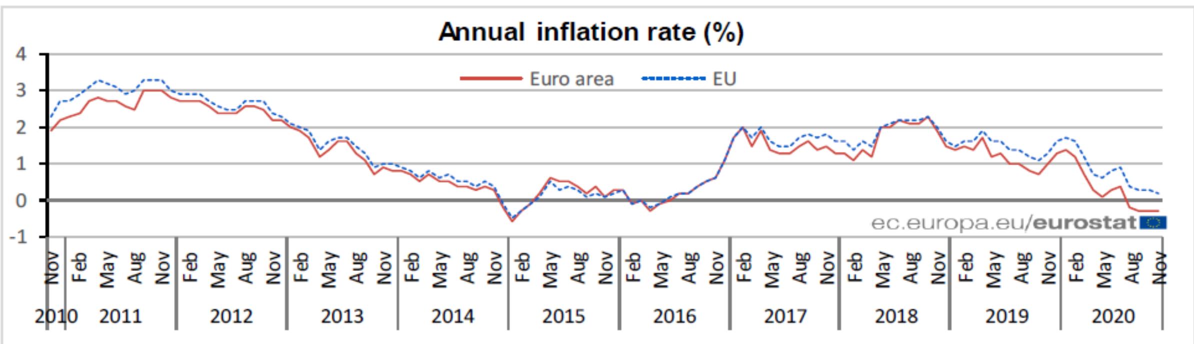
Euro Area CPI (Nov)

The annual rate of headline CPI change was unchanged this month. Consumer prices across the Euro Area continued to decline at an annual rate of -0.3% in Nov, the same as in Oct. Across the Euro Area, lower energy prices continued to offset higher growth in food prices.

Services prices are increasing at a slower pace than a year ago. In Nov, the monthly change in services prices contracted at a sharper rate of -0.8% compared to Oct. Services, especially consumer-facing services, have been most impacted by social distancing restrictions and this is reflected in weaker price growth.

Euro Area CPI – annual change: Nov -0.3% versus Oct -0.3%

This is now the fourth month in a row where annual CPI change was negative.



Food alcohol and tobacco price growth remains higher at +1.9%. The annual growth in Nov a year ago was also +1.9%. The growth in unprocessed food prices remains extremely elevated at +4.2%. A year ago, unprocessed food prices were growing at an annual pace of +1.8%.

The decline in energy prices contributed the most to the decline in the headline CPI for Nov. Energy prices declined by -8.3% compared to the same month a year ago. In Nov 2019, energy prices declined by -3.2%.

On an annual basis, services prices increased by +0.6%. A year ago, services prices were increasing at an annual pace of +1.9%. In Nov, there was a notable decline in services prices of -0.8% across the Euro Area – this is likely linked to the re-introduction of social distancing restrictions.

https://ec.europa.eu/eurostat/documents/portlet_file_entry/2995521/2-17122020-AP-EN.pdf/7ba6ca2b-9c05-e756-4722-5e944d43bd82

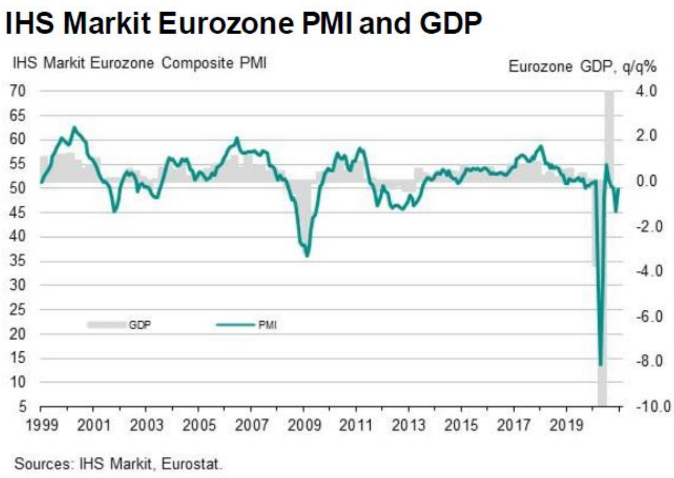
Eurozone Composite PMI Prelim (Dec)

The decline in private sector output eased this month. This was led by a less severe contraction in services output while manufacturing output increased at a slightly faster pace.

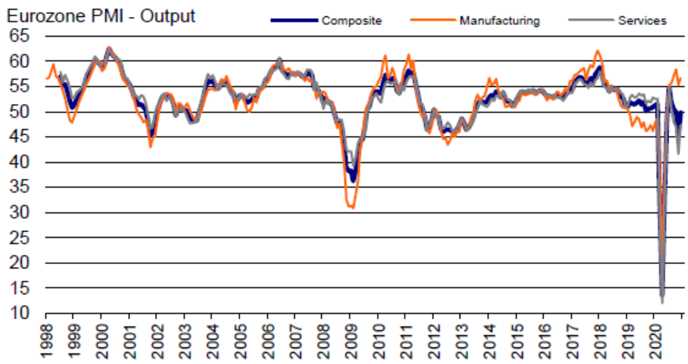
Sentiment across the Eurozone improved in Dec on news of the vaccine. Some countries in the Eurozone are still battling high rates of infection and are preparing for further restrictions over the Christmas holiday period.

> Business expectations about output in the coming 12 months rose to the highest since April 2018. Sentiment about future prospects hit a 27-month high in the service sector and a 34-month high in manufacturing.
>
> “However, while vaccines mean there’s light at the end of the tunnel, the near-term still looks very challenging for many consumer-facing companies. Although manufacturing is reporting strong growth, fueled by rising exports and a booming performance from Germany in particular, the service sector remains in decline amid ongoing social distancing restrictions. Many of these containment measures look likely to remain in place for some time to come, constraining the economy as we head into the new year.”

Eurozone Composite Output Index: Dec 49.8 versus Nov 45.3



Output



Manufacturing Output Index: Dec 56.6 versus Nov 55.3

Manufacturing output and new orders increased at a slightly faster pace this month. Output growth was the result of a larger rebound in France and the periphery (both remained in slight contraction) while output in Germany increased at a slightly faster pace. Backlogs of work also increased at a faster pace this month. Employment in the sector remained in contraction but at the slowest pace of the last eighteen months. Both input costs and output prices increased at a faster pace this month. The overall headline PMI increased from 53.8 in Nov to 55.5 in Dec.

Services Business Activity Index: Dec 47.3 versus Nov 41.7

New work continued to decline but at a much slower pace this month. The decline in order backlogs also eased. Employment continued to contract but at a slower pace. Firm's margins remained under pressure as input costs increased and output charges declined.

https://www.markiteconomics.com/Public/Home/PressRelease/82452b6353b94418b052f433b40df293

Return to top

Japan

Industrial Production - Final (Oct)

There was little change in output growth in the final industrial production release for Oct (compared to the prelim). Most industries recorded growth in output and shipments. Finished goods inventory continued to decline across most industries.

Production continues to rebound and is now -3% below a year ago. The annual view masks longer-term issues though. Output and shipments peaked in this part of the cycle at the end of 2017. Both output and shipments remain approx. 10% below that level as of Oct.

Industrial Production – month change: Oct +4% (revised higher from +3.8%) versus Sep +3.9%

Production growth was revised slightly higher in the final release – which includes chemical and food production.

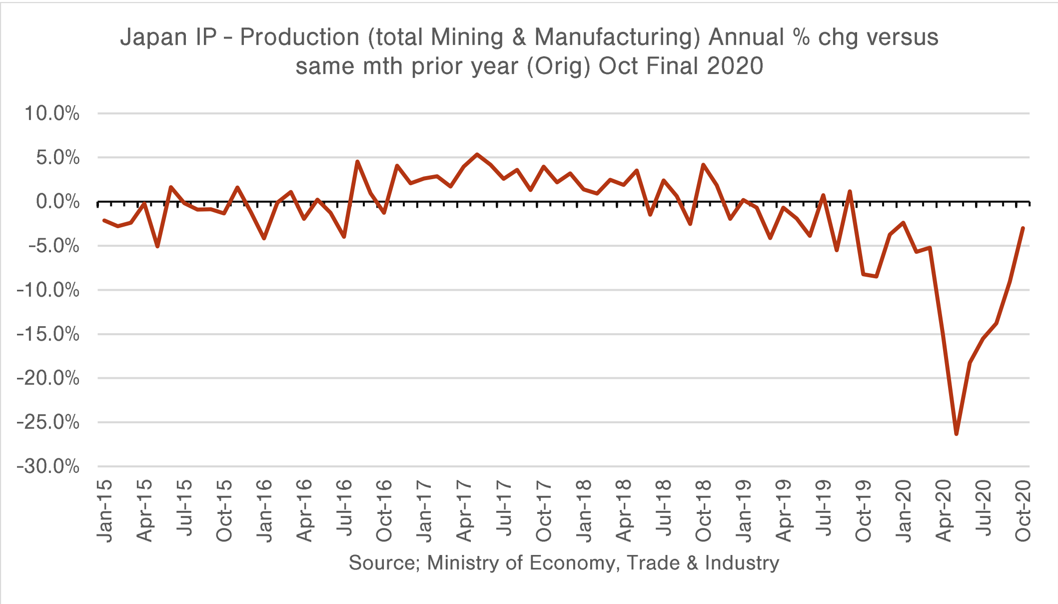
Month on month production growth remained consistent (compared to the prior month) across irons & steel (+5.4%), fabricated metals (+3%), petroleum and coal (+7.4%), and food and tobacco (+0.1%).

Output growth slowed but remained elevated across production machinery +3.4%) and transport equipment (+4.8%). Transport equipment includes motor vehicle production which increased by +6.8% in Oct after increasing by +11.4% in Sep.

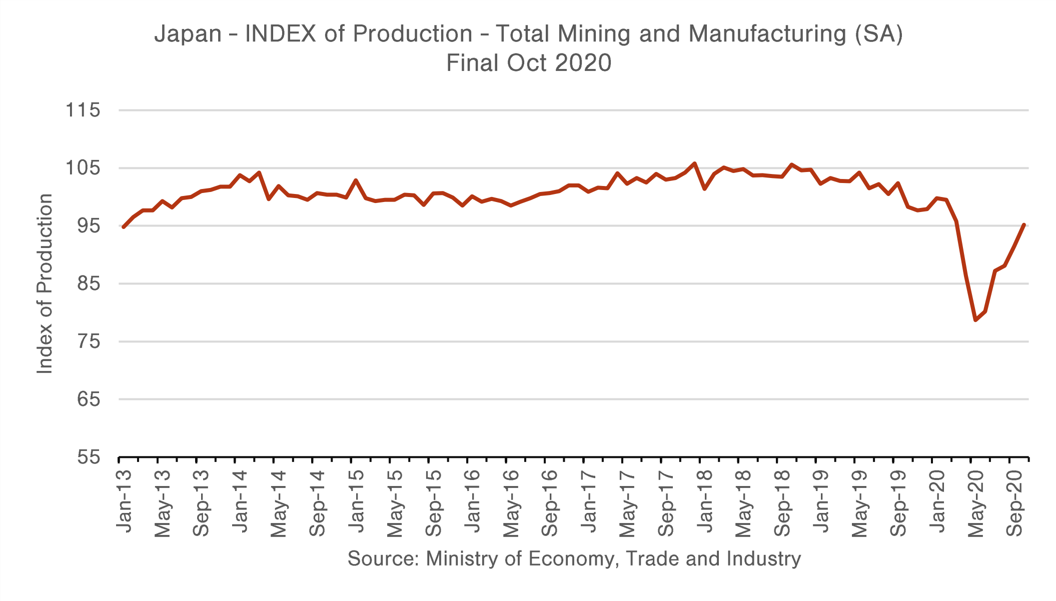
Output growth accelerated across general purpose and business machinery (+18%) and electrical machinery (+8%).

Output declined across electronic parts and devices (-4.9%) and chemicals (-0.1%).

On an annual basis, output continues to rebound after the severe falls from earlier in the year. Production remains -3% below the same month a year ago. This is improved from the -9% decline recorded in Sep.



For context, output in Japan was already slowing before the pandemic. The seasonally adjusted index of output peaked in this part of the cycle at 105.8 in Dec 2017.



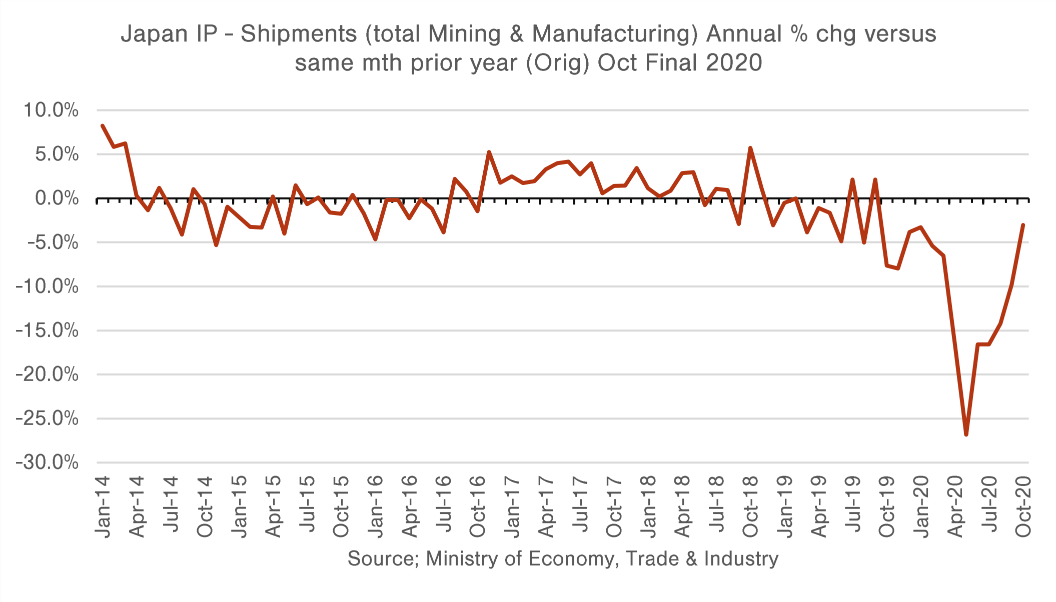
While output is -3% below a year ago as of Oct, it is also still -10% below the Dec 2017 peak. Production started to drift notably lower since late 2018.

This longer-term trend in falling output is less apparent in motor vehicle production – but is still 9% below the production peak reached in May 2019.

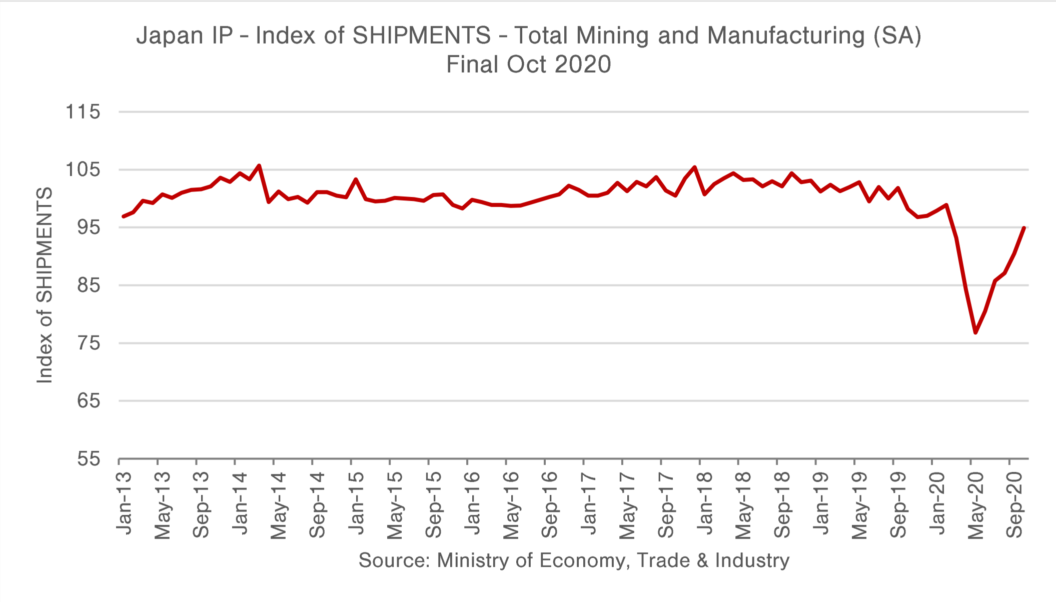
Shipments – month change: Oct +4.9% (revised higher from +4.6% in the prelim) versus Sep +3.9%

Shipments increased across most industries this month. The only exceptions were electronic parts and devices (-10%) and food and tobacco (-3.2%). Most food categories recorded higher shipments (except two small weight areas), so the decline is likely driven by lower tobacco shipments.

On an annual basis, shipments in Oct were -3% below a year ago. This improved from -9.8% below a year ago in Sep.



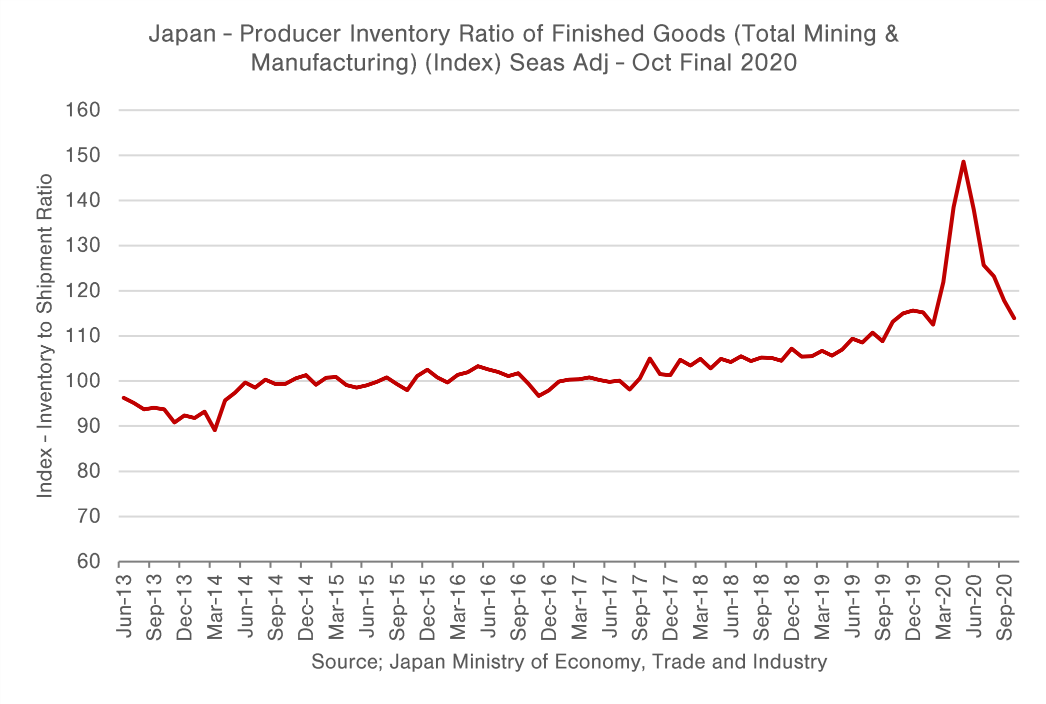
Similarly, the seasonally adjusted shipments index "peaked" in this part of the cycle back in Dec 2017. Shipments were still -9.9% below that level in Oct 2020.



<u>Producers Inventory of Finished Goods – month change</u>: Oct -1.8% (revised lower from -1.6% in the prelim) versus -0.5% in Sep.

Producer inventory of finished goods is lower mostly as a result of a decline in iron, steel, and non-ferrous metals – which has a significantly higher weight in the inventory index. But most other industries also recorded a decline in inventory of finished goods this month. The only industry to record higher inventory was food & tobacco (likely led by tobacco products).

The producers inventory ratio of finished goods also declined notably this month by -3.3%. The level has been falling after reaching a peak in May 2020 and is now mostly back in line with the pre-Covid level in Feb 2020.



The inventory ratio has been steadily rising since the peak in production and shipments at the end of 2017.

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

Japan Merchandise Trade (Nov)

Japanese exports and imports declined in Nov.

The decline in imports was due mostly to the fall in mineral fuel imports. But weakness in other industries suggests some ongoing weakness in domestic demand. The decline in imports was less severe this month due to the increase in one sector - electrical machinery (only telephony/telephone sets). This was sourced from China – and is the main reason imports from China increased by +6.7% in Nov.

Exports were lower across most commodity groups. There appeared to be no particular category. Exports were notably stronger to China and that was consistent across most industries. Exports to the US declined after a stronger month in Oct. Exports to the EU were also lower (especially to the larger industrial customers) – most notable was the large decline in motor vehicle exports to the EU (-17.5%).

All values in ¥.

Trade Balance (NSA) – month: Nov 366bn surplus.

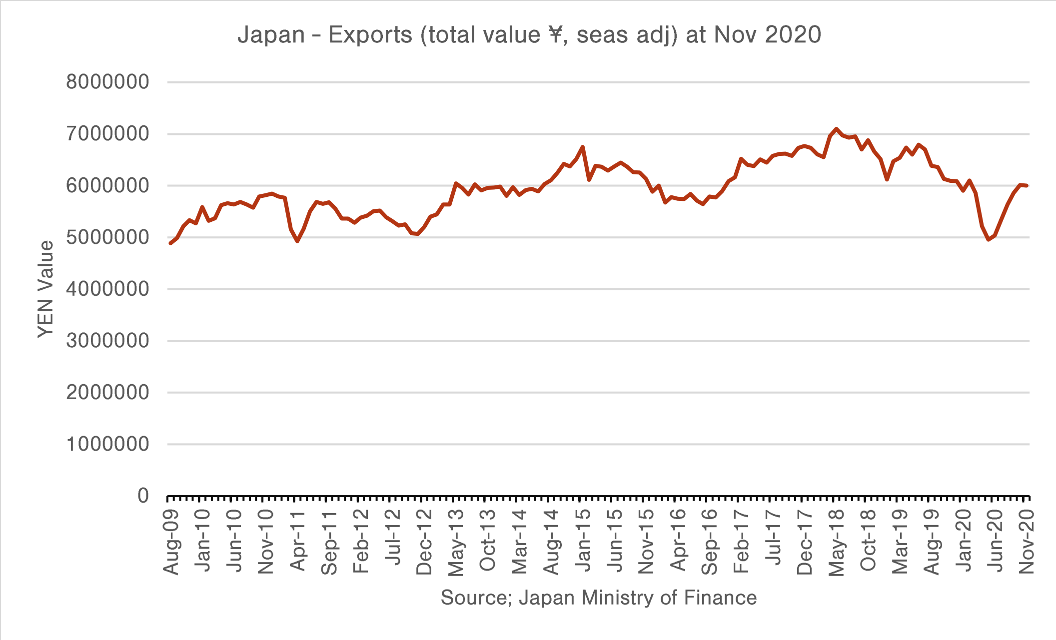
In Nov, the surplus was the result of a decline in exports (-4.2%) and a faster/larger decline in imports (-11.1%) compared to a year ago.

A year ago in Nov 2019, the trade balance was a -88bn trade deficit.

Last month, in Oct 2020, the trade balance was a much larger surplus of 872bn. This was the result of a marginal decline in exports (-0.2%) and a larger decline in imports (-13.3%) compared to a year ago.

MERCHANDISE EXPORTS

On a seasonally adjusted basis, exports declined slightly in Nov by -0.3% compared to the +2.7% increase in Oct.



On a non-seasonally adjusted basis, exports declined by -4.2% in Nov compared to the same month a year ago.

Exports by Country

Export growth for the largest export customer, China, bucked the broader trend and increased by +3.8%. Exports to the broader Asia region declined by -4.3%. Exports to China were positive across most industries – "others" made the largest contribution to growth.

The second-largest export customer was the US and exports declined by -2.5% in Nov compared to a year ago.

Exports to Western Europe were down by -1.2%, but down substantially more across the larger industrial customers: Germany -7.1%, France -14.1%, and Italy -8.7%. Exports to the UK were also down by -7.7%. The remaining European countries helped to offset some of the export declines.

Exports by Commodity

The main export industries contributing to the -4.2% decline this month were:

Others (scientific, optical, and photographic supplies) -1.4%pts

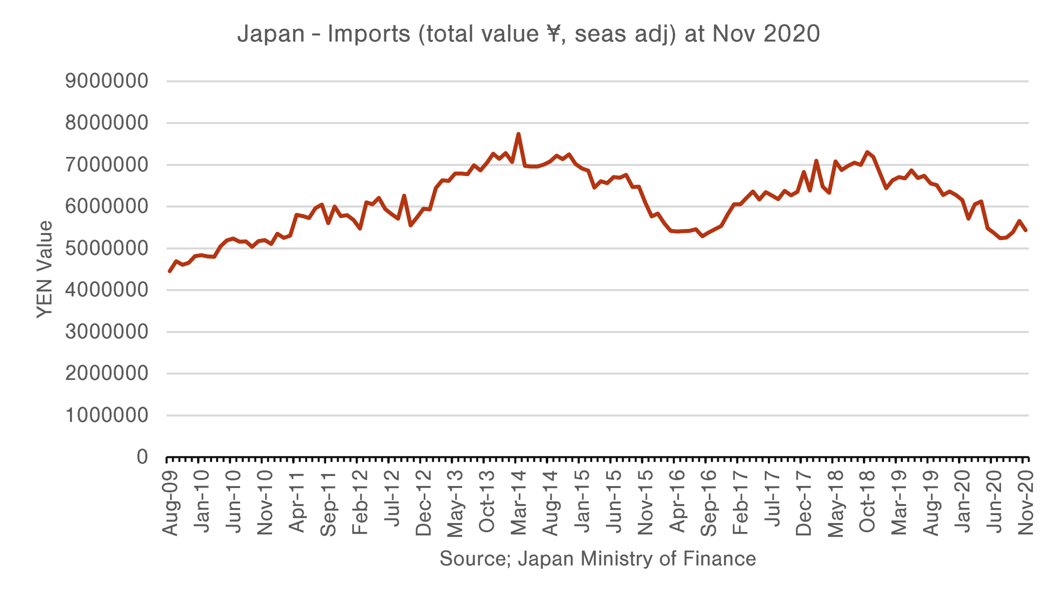
Manufactured goods -1.2% pts of which iron and steel contributed -0.7%pts. The decline in the quantity of iron and steel was -10% compared to a year ago.

Transport equipment -1.1% pts

An increase in exports across chemicals and electrical machinery helped to offset some of these declines.

MERCHANDISE IMPORTS

On a seasonally adjusted basis, merchandise imports declined by -4% in Nov compared to the +5% increase in Oct.



On a non-seasonally adjusted basis, imports declined by -11.1%.

Imports by Country

The single largest import market for Japan is also China. Imports from China also bucked the broader trend and increased by +6.7% in Nov (compared to a year ago). This was mostly all due to the import of telephony/electrical machinery – the only industry that recorded a substantial increase in imports for the month.

Imports from Asia were broadly flat, declining by -0.5% in Nov.

Imports from the US were down by -13.9%.

Imports from Germany were down by -20% compared to a year ago. In Oct, the decline was -13.5%, so there has been some deterioration in Nov). Imports from Europe were down by -16.4%.

Imports from the Middle East continue to decline at a substantial pace. In Nov, exports were -46% below the same month a year ago. In Oct, that decline was -37%.

Imports by Commodity

Most of the decline this month, as measured by % pt contribution, was mineral fuels. The decline in mineral fuels imports was 73% of the decline in Nov. Of the -11.1% decline in imports, mineral fuels were -8.2% pts of that decline.

The import of food-stuffs contributed -1.2% pts of the decline.

The import of chemicals and transport equipment both contributed approx. -1%pt each to the decline.

Declines in imports across machinery, manufactured goods, raw materials, and others were offset by an increase in electrical machinery (telephony and telephone sets).

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

Composite PMI Prelim (Dec)

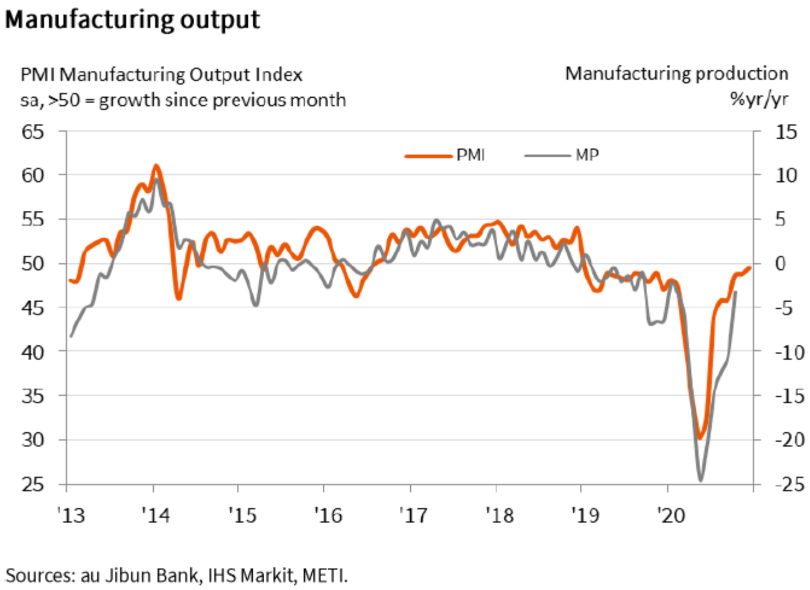
Overall private sector activity continued to contract at a mild pace in Dec. This was led mostly by a faster contraction in services activity. The manufacturing PMI remained only slightly below 50. But production output via the industrial production report indicates that output has been increasing consistently month on month since Jun 2020.

It is surprising that, despite news of a vaccine, optimism in the outlook was not stronger this month.

Manufacturing Output Index: Dec prelim 49.5 versus Nov 48.8

While the headline output index reflects a continued slight contraction, the industrial production data notes that output has been increasing month on month since Jun 2020. The measures the proportion of firms recording higher, lower, or no change in output, rather than aggregate output.

The outlook for output growth remained positive but eased compared to the prior month.

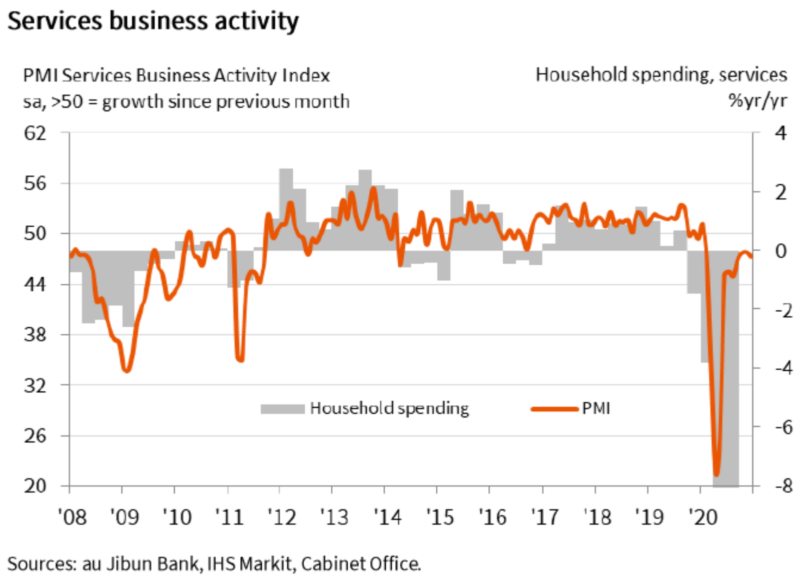


New orders continued to record a slight decline. New export orders though recorded a faster pace of decline. Backlogs of work also declined at a slower pace overall. Stocks of finished goods declined at a faster pace and the number of purchases also declined at a faster pace.

Employment recorded the first month on month increase (albeit, marginal) since Feb 2020.

Business Services Activity Index: Dec prelim 47.2 versus Nov 47.8

Overall services output declined at a slightly faster pace this month compared to the decline in the month prior.



New orders and new export orders declined at an accelerated pace this month and both measures have declined month on month for the past eleven months. Employment declined marginally for the second month. Business expectations remained positive but recorded the weakest result of the last four months.

https://www.markiteconomics.com/Public/Home/PressRelease/cfad0074ba0e40808452b34b6a685a2e

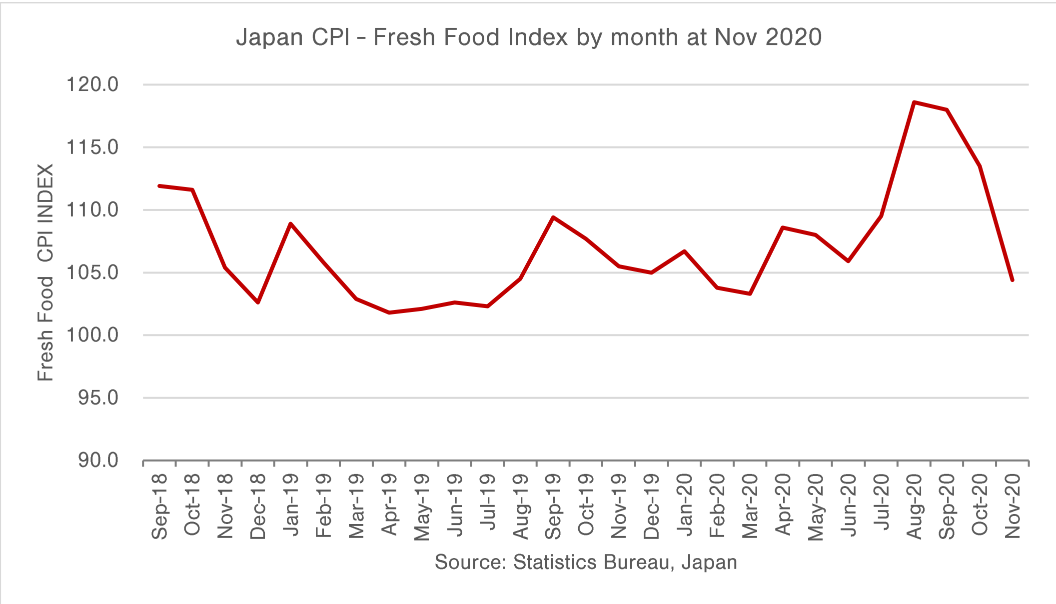
Japan National CPI (Nov)

The annual headline CPI and the BoJ preferred measure of core CPI (ex-fresh food) both declined at an accelerated pace this month. Fresh food and energy prices continued to decline. But within core measures of CPI (ex-fresh food and energy), prices for recreation and culture, medical, and transport also contributed to the decline in consumer prices. This has been a common theme among countries where international travel and tourism has been impacted by restrictions.

All Items CPI – annual change: Nov -0.9% versus Oct -0.4%

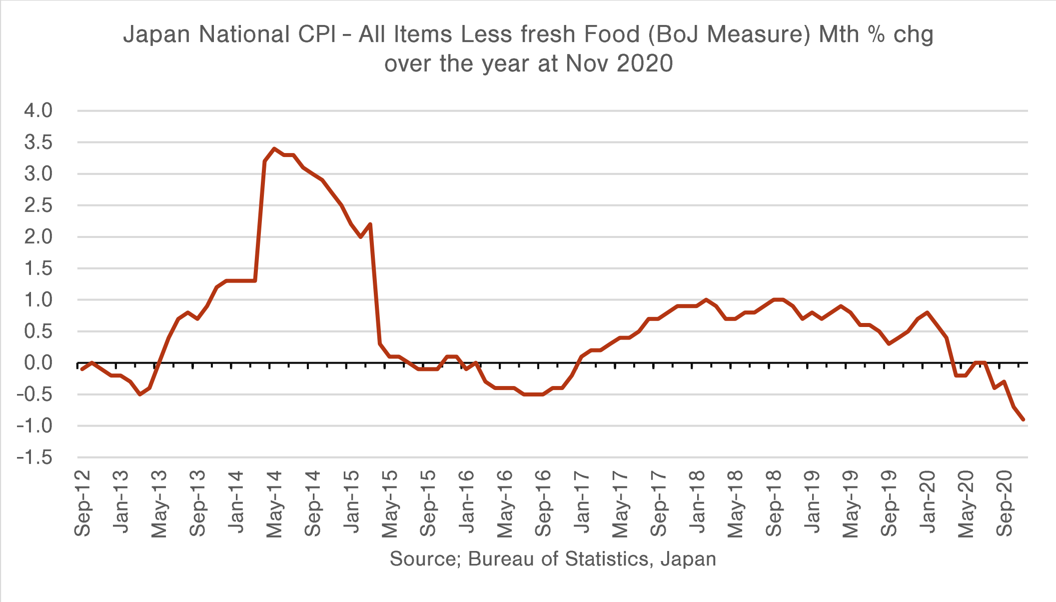
There was an acceleration in the pace of decline in consumer prices this month. This was led by a sharp decline in fresh food prices for the month and a continued fall in energy prices (including fuel, light, and water charges and transportation prices.

Fresh food prices declined by -8.1% in the month. This meant that prices for fresh food were -1.1% below a year ago (as opposed to +5.4% ahead of a year ago in Oct). This is not a base effect, but rather prices coming down after rising notably between Jun and Sep.



The BoJ preferred measure of inflation is All-Items ex Fresh Food. Despite the exclusion of the volatile fresh food prices this month, this ‘core’ measure of CPI also declined at an accelerated pace this month.

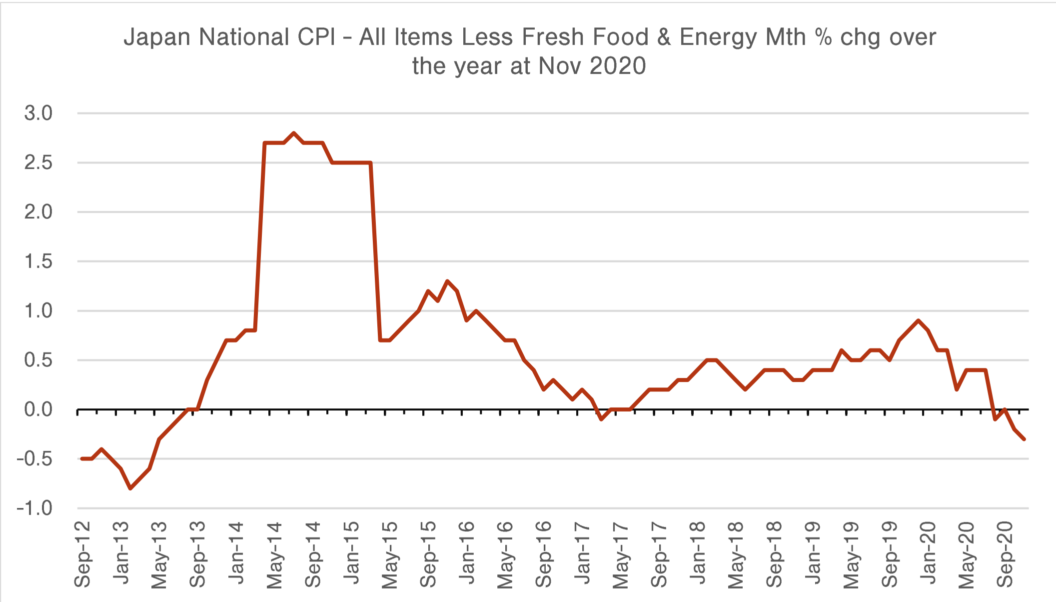
<u>All-Items CPI Ex-Fresh Food – annual change</u>: Nov -0.9% versus Oct -0.7%



Energy prices continued to have a downward impact on prices in Nov. Fuel, light, and water charges (especially electricity and gas prices) declined at an accelerated pace in Nov (-1.1%) – with the annual decline now at -5.4%. Energy prices overall declined in Nov by -1.3% with the annual decline accelerating to -7.8%. This is also not a base affect – the index of energy prices has been on a downward trend since mid-2016.

Excluding energy and fresh food prices, the annual CPI still declined at a faster pace, but by a smaller percentage change.

<u>All Items Ex-Fresh Food & Energy – annual change</u>: Nov -0.3% versus Oct -0.2%



Medical prices continued to decline year on year. Transport and communication prices (public and private transport) also declined. Culture and recreation prices were a notable decline in both Dec 2019 and Jul 2020.

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

BoJ Rates Decision and Monetary Policy Statement – 17 Dec 2020

Similar to the ECB, the BoJ extended some of the extraordinary programs in place to support firms through this pandemic.

The BoJ also made a note that it will assess further options for 'effective monetary easing' likely to be announced at the Mar 2021 meeting (within the current QQE with YCC framework). The Committee judges that current economic activity and inflation will remain under 'downward pressure' for a 'prolonged period' due to the pandemic.

At this meeting, the BoJ announced several changes:

Extend the duration of additional purchases of CP and corporate bonds by 6 months until the end of Sep 2021. The upper limit of these purchases will remain at 20tr Yen in total.

Extend the duration of the Special Funds-Supplying Operations to Facilitate Financing by 6 months until the end of Sep 2021.

> In addition, in order to further actively encourage private financial institutions to make loans on their own in response to COVID-19 mainly to small and medium-sized firms, the Bank will remove the upper limit of funds it provides to each eligible counterparty (i.e., 100 billion yen) against loans that private financial institutions make on their own, which are part of eligible loans under this operation

Current Policy Settings

Yield Curve Control

ST Rates; -0.1% rate on balances in current accounts held by financial institutions at the BoJ

LT Rates; Purchase JGB's, **without an upper limit**, such that the 10yr yield will remain at zero.

Purchase of ETF's and JREITS

Continue purchases such that amounts outstanding increase with the upper limit of 12 trillion and 180 billion YEN respectively

Objectives

Maintain QQE with Yield Curve Control to achieve a 2% price inflation target and for as long as necessary to maintain inflation at that level.

> It will continue expanding the monetary base until the year-on-year rate of increase in the observed consumer price index (CPI, all items less fresh food) exceeds 2 percent and stays above the target in a stable manner.

Continue to support financing through fund-supplying operations as well as Yen, USD, and other foreign currency-supplying operations.

For the time being, the Bank will closely monitor the impact of COVID-19 and will not hesitate to take additional easing measures if necessary, and also it expects short- and long-term policy interest rates to remain at their present or lower levels

https://www.boj.or.jp/en/announcements/release_2020/k201218a.pdf

Return to top

United Kingdom

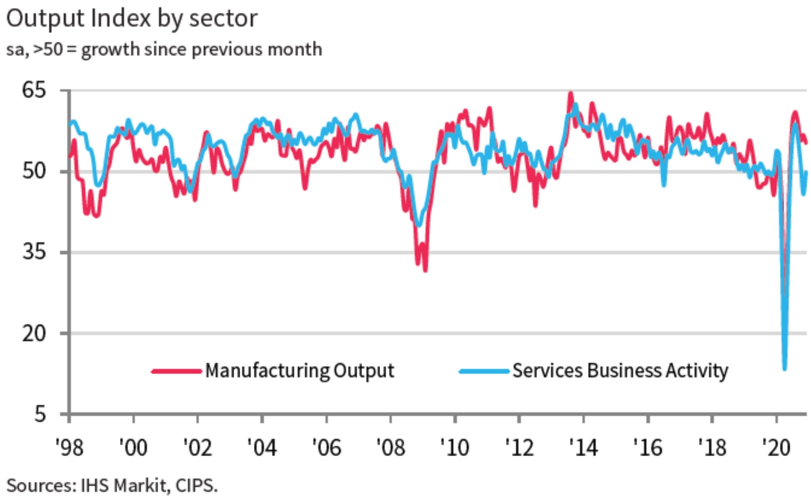
Composite PMI Prelim (Dec)

The composite output index was unchanged in Dec after declining in Nov. The output of the services sector declined at a slower pace and this was offset by continued positive growth in manufacturing output for the month. The headline manufacturing PMI remained elevated due to supply chain disruptions as well as firms placing orders ahead of the final Brexit transition deadline.

> Shortages of critical inputs, alongside pressure on capacity following forward-purchasing by clients ahead of Brexit, contributed to the sharpest rise in backlogs of work across the manufacturing sector since May 2010.

Further restrictions have been put in place, especially in larger centers such as London, leading in the holiday period which will likely impact activity next month.

__Composite Output Index__: Dec 50.7 versus Nov 49



__Manufacturing Output Index__: Dec 55.3 versus Nov 56.7

Despite slower growth in output this month, the headline PMI increased to 57.3 from 55.6 in Nov. – this was the fastest growth since Nov 2017. The increase was partly the result of supply chain disruptions emerging due to the latest Covid restrictions. But the PMI was also higher due to a surge in growth of new orders and higher input buying ahead of the latest Brexit deadline at the end of Dec. Firms continued to reduce employment but at a slower pace.

__Services Business Activity Index__: Dec 49.9 versus Nov 47.6

The decline in services output slowed in the latest month to no change from the month prior. While some restrictions were eased, social distancing measures continued to impact particular consumer-facing sectors. Some of these easing measures have been reversed in recent days. New work continued to decline for the third month. Employment also continued to decline in Dec but at a slower pace.

> A number of survey respondents commented that hopes of a rebound in business activity in the next 12 months, alongside the use of furlough schemes, had encouraged them to retain staff where possible.

https://www.markiteconomics.com/Public/Home/PressRelease/4bcc14f3db3845a7a5ab9aca65cedd4d

BoE Rates Decision – 16 Dec 2020

At this meeting, there was no change to the current monetary policy settings.

The Bank rate to be maintained at +0.1%.

Maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at £20 billion

£100 billion of UK government bond purchases, financed by the issuance of central bank reserves

Commence the previously announced program of £150 billion of UK government bond purchases, financed by the issuance of central bank reserves, maintaining the target for the stock of these government bond purchases at £875 billion and so the total target stock of asset purchases at £895 billion

Recent Developments

The MPC central growth projections in Nov were based on the virus continuing to weigh on economic activity (more restrictions have recently been announced for the holidays) and a deal completed regarding the free trade agreement between the UK and the EU. The trade agreement is not yet in place.

GDP was in line with expectations for Oct at +0.4% and -8% below a year ago. New restrictions will impact Q1 2021 though.

Significant labour market slack remains but government schemes will help to limit unemployment growth, but unemployment is still expected to increase over the next few quarters.

Inflation is still subdued. It is expected to increase as the VAT cut comes to an end and as the economy cycles over the fall in energy prices early next year.

The other development since the last meeting was the announcement of vaccines and roll out during H1 2021.

> This is likely to reduce the downside risks to the economic outlook from Covid previously identified by the Committee.

The outlook in the short-to-medium term remains uncertain though:

> It depends on the evolution of the pandemic and measures taken to protect public health, as well as the nature of, and transition to, the new trading arrangements between the European Union and the United Kingdom.

Forward Guidance

> If the outlook for inflation weakens, the Committee stands ready to take whatever additional action is necessary to achieve its remit. The Committee does not intend to tighten monetary policy at least until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably.

https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2020/december-2020

Return to top

Australia

Australia Composite PMI Prelim (Dec)

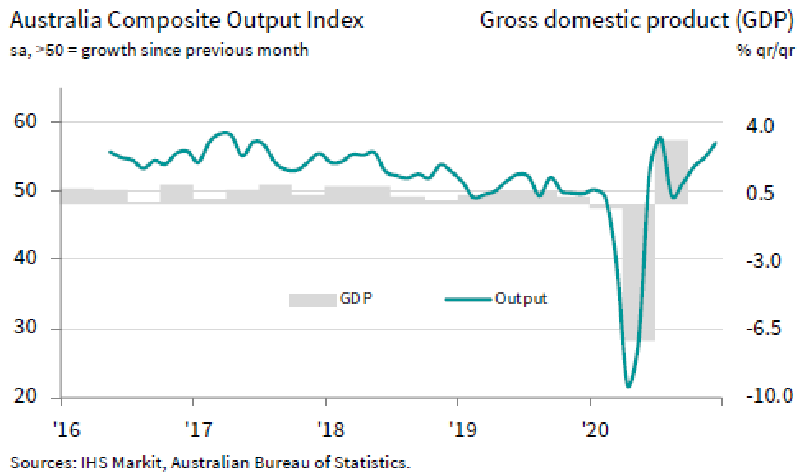
The headline output index indicated that private sector activity likely expanded at a faster rate in Dec.

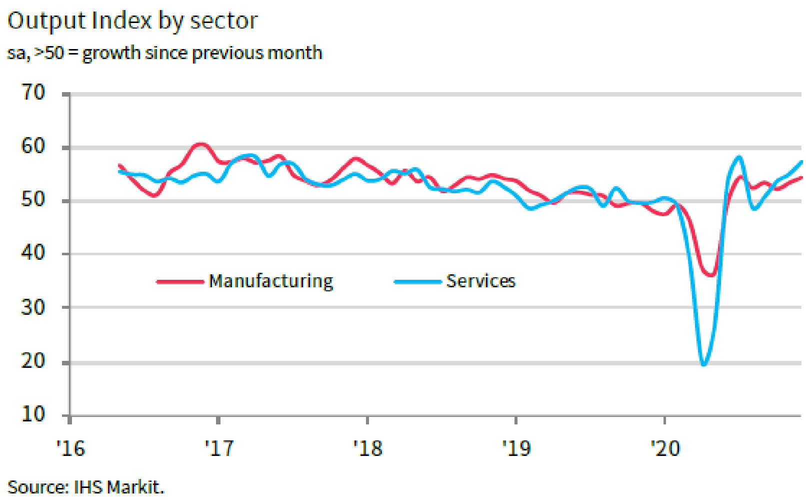
> Amid reports of strengthening demand conditions and a reduction in COVID-19 restrictions, private sector output rose at the fastest pace since July. Goods producers and service providers signalled stronger increases in business activity.

New export orders remained an area of weakness with orders declining, albeit more moderately this month. Business confidence improved across the private sector boosted by news of the vaccine, success in reducing infections, and the lifting of restrictions:

> Business confidence improved at the end of 2020, with the overall degree of optimism reaching its highest since August 2018. News of vaccine development was the key factor underpinning positive projections for the year-ahead outlook for business activity.

<u>Composite Output Index</u>: Dec 57 versus Nov 54.9





Manufacturing Output Index: Dec 54.5 versus Nov 53.4

Manufacturing output increased at a slightly faster pace this month. Firms noted an increase in production due to stock building initiatives as well as a further easing in restrictions. Growth in new orders increased at the fastest pace in two years. Employment growth remained constant this month.

Services Business Activity Index: Dec 57.4 versus Nov 55.1

Output and demand conditions were boosted by the further easing of restrictions, lower interest rates, and targeted stimulus. New work increased at a faster pace. Margins remained under some pressure with input costs increasing and only a marginal lift in output charges.

https://www.markiteconomics.com/Public/Home/PressRelease/9916a657dbe24c51abf5c8d5e277d97a

Employment and Labour Market Survey (Nov)

This month, employment growth was positive but slowed compared to the prior month. Growth was led by the re-opening in Vic. The composition of that growth was also mostly full-time employment. But employment levels and growth remain well below a year ago and below recent growth benchmarks.

At the same time, the increase in participation also slowed. The participation rate is now slightly ahead of the same time a year ago. The annual growth in the total labour force is now firmly positive.

Importantly, the employment growth was larger than the increase in the labour force for the month. This resulted in a decline in total unemployed persons in Nov. But the total level of unemployment remains elevated.

The overall supply of labour has been rebounding faster than the demand for labour.

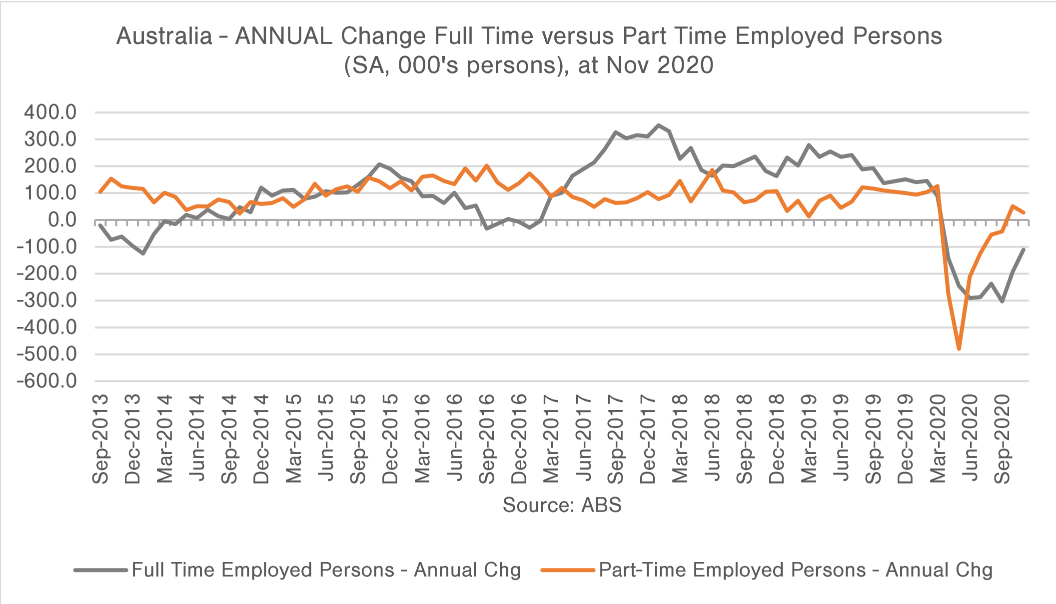
EMPLOYED PERSONS

This month the number of employed persons increased further. While the increase was smaller than the prior month, the composition was positive. The important point was that employment growth was larger than the increase in the labour force this month.

Employed persons – month change: Nov +90k persons versus Oct +180k persons

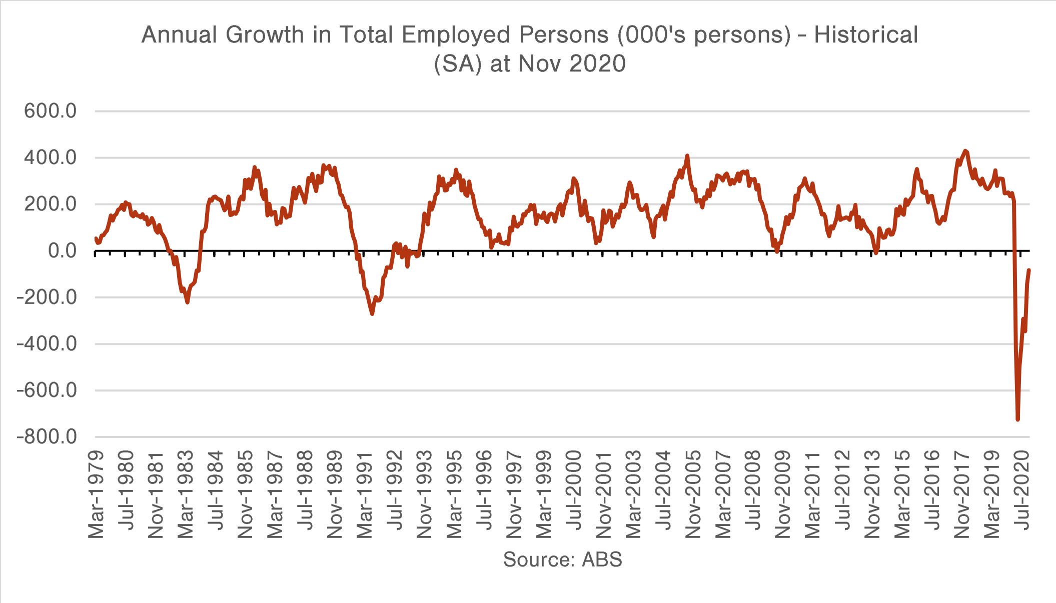
Most of the employment growth in the month was full-time (FT) employment – growth of which has been lagging so far in this recovery. FT employed persons increased by +84.7k in Nov (on par with the +98.7k from the month prior). On an annual basis, the number of FT employed persons remains -110k below the same month a year ago. Annual FT employment growth needs to return to at least +140k to be on par with the start of the year /pre-Covid.

Part-time (PT) employed persons increased by only +5.8k persons after increasing by +81.7k in the month prior. But the number of PT employed persons is now +27k ahead of a year ago. Annual growth in PT employed persons needs to get back to around +100k to be at least on par with the start of the year.

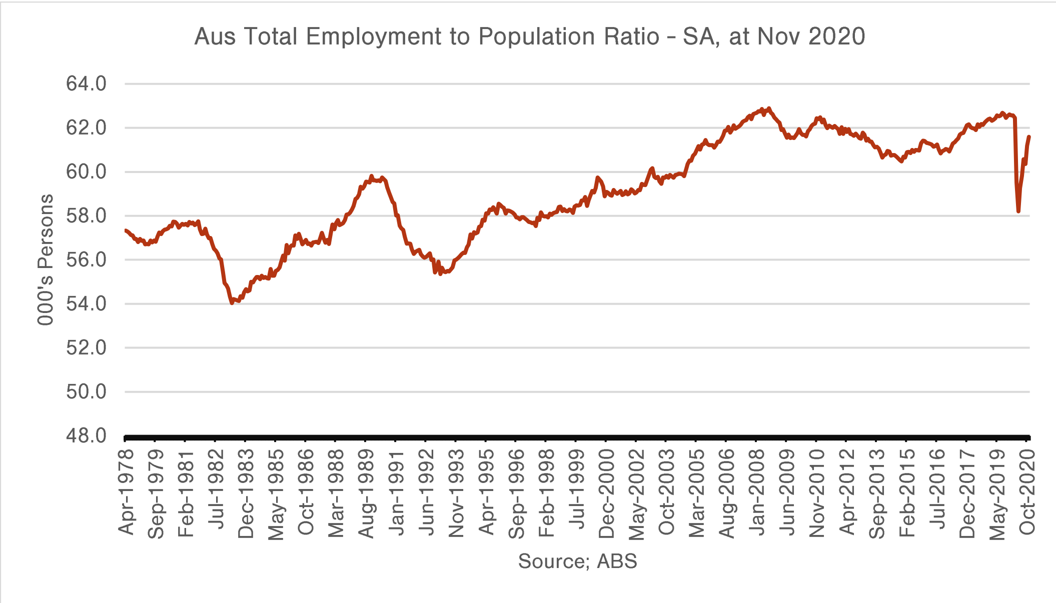


The month of November was also when Victoria mostly came out of strict lock-down measures. Most of the employment growth this month was due to Vic (+2.2% growth). Growth in NSW was +0.6%. Employment declined in QLD (-0.8%), SA (-0.1%), NT (-1%), and ACT (-2.3%).

Overall annual change in total employed persons is now -83k below the same month a year ago – an improvement from -141k in Oct. But similarly, annual growth needs to get back up to at least +230k to be on par with the start of 2020.



The employment to population ratio was 61.6% in Nov and remains below the level from the start of the year of 62.6%.



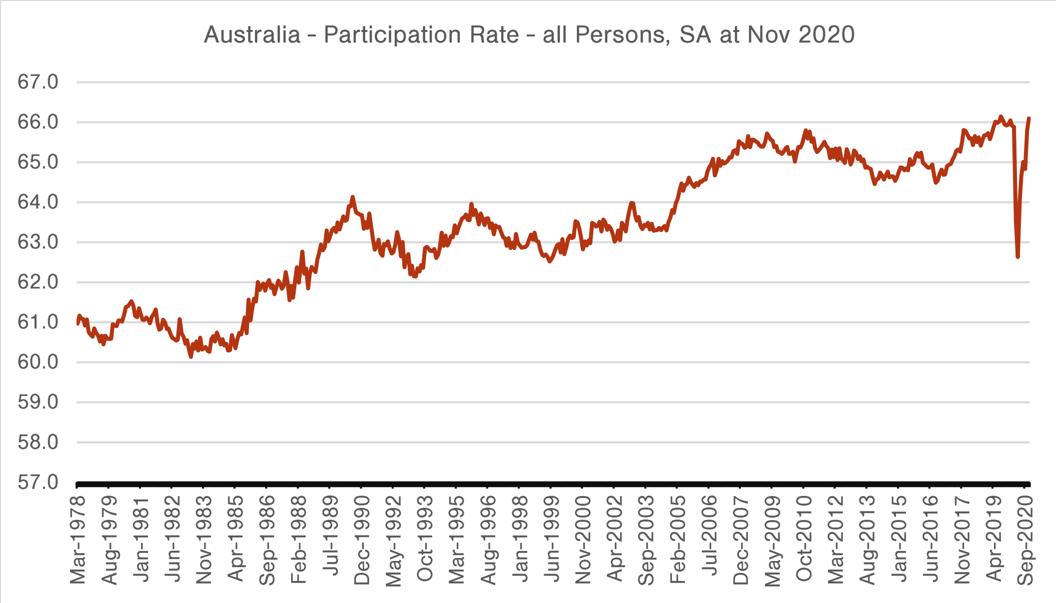
<u>LABOUR FORCE</u>

The total size of the labour force increased at a slower pace this month. This was led by a smaller increase in the number of people returning to the labour force (participation).

<u>Labour force persons – month change</u>: Nov +72k persons versus Oct +204k persons

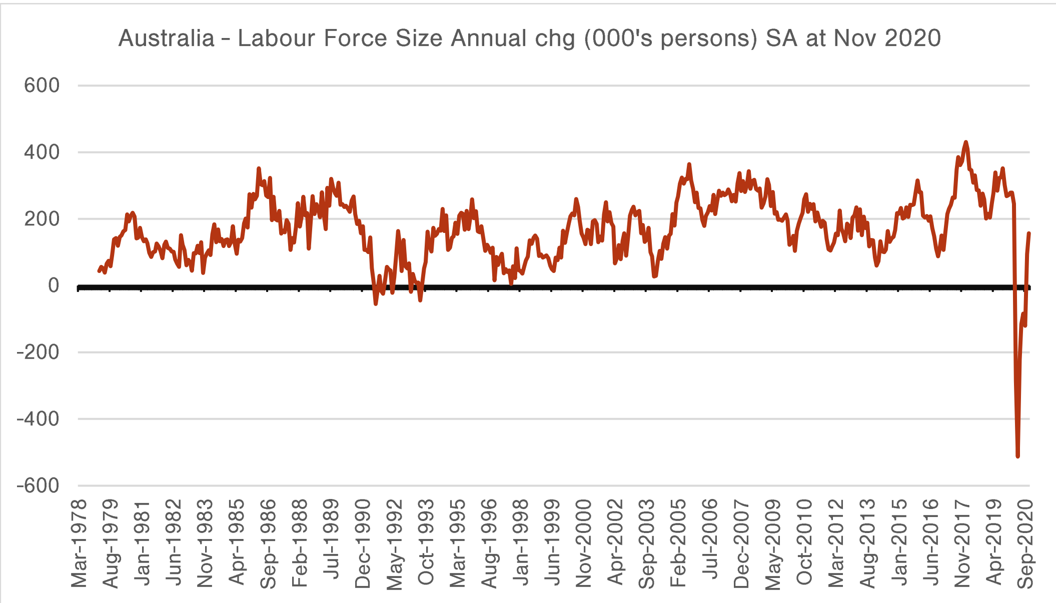
The growth in Nov was the result of a smaller increase in the participation rate. Participation increased by +0.3% pts in Nov to 66.1%. Last month, participation increased by +0.9% pts.

The participation rate in Nov of 66.1% is higher than that of the start of the year (66.05% in Jan) and is also higher than a year ago (65.92% in Nov 2019).



Participation has recovered to year-ago levels and implies that the supply of labour is less of a problem. The lower employment levels and elevated unemployment indicates that the demand for labour is yet to recover. But if the growth in labour supply slows from here, then a further acceleration in employment should help to make greater headway into reducing unemployment.

The annual growth in the size of the labour force is now firmly positive, now +157k higher than the same time a year ago. The size of the labour force is now +95K higher than at the start of the year. Annual labour force growth averaged around +284k throughout 2019 as a comparison.

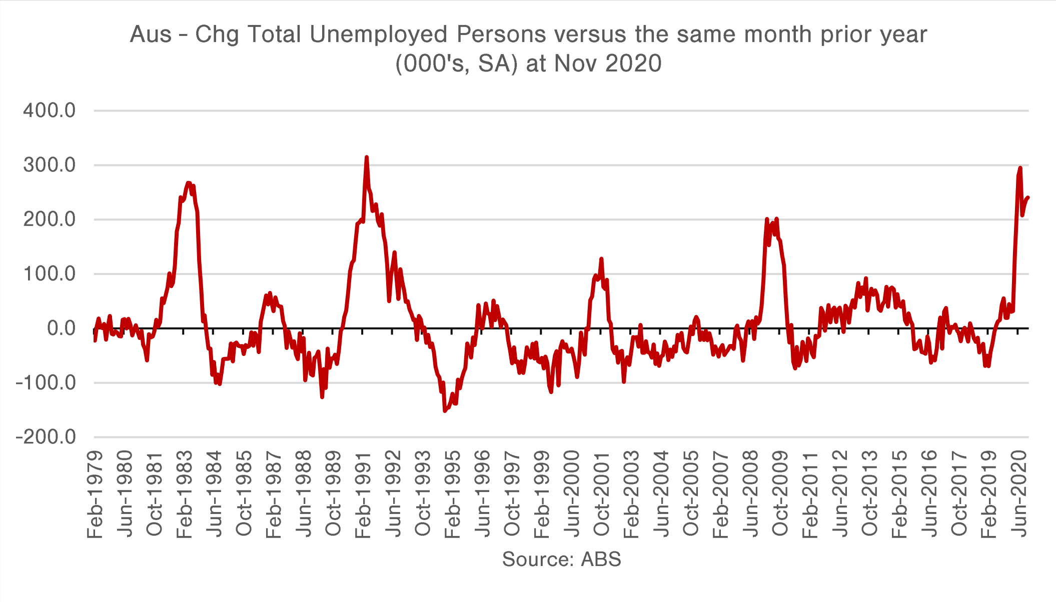


UNEMPLOYMENT

But for this month, because the labour market increased by a smaller number than employment, total unemployment declined. This helped to offset the

Total unemployed persons – month change: Nov -17.3k persons versus Oct +24k persons

On an annual basis, total unemployed persons remain elevated at 942k persons. This is a +240k increase over the same month a year ago.



Summary of Main Labour Market Indicators

	000's Persons	
	Annual Chg - Nov	**Month Chg - Nov**
The estimated change in the Labour Force due to pop growth	120.741	6.460
How many jobs available for them? (employment growth)	-83.123	90.005
Difference (if positive, employment growing faster than pop est)	-203.864	83.545
Change in labour force due to the change in participation	36.824	66.256
The reminder is the change in total unemployed persons	240.688	-17.289
Double Check - Reported chg in size of the Labour Force	157.565	72.685
Two views of the size of the Labour Force:		
Underlying population growth plus changes in participation	157.565	72.716
Total employed persons plus total unemployed persons	157.565	72.716

https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia/nov-2020#data-downloads

Return to top

China

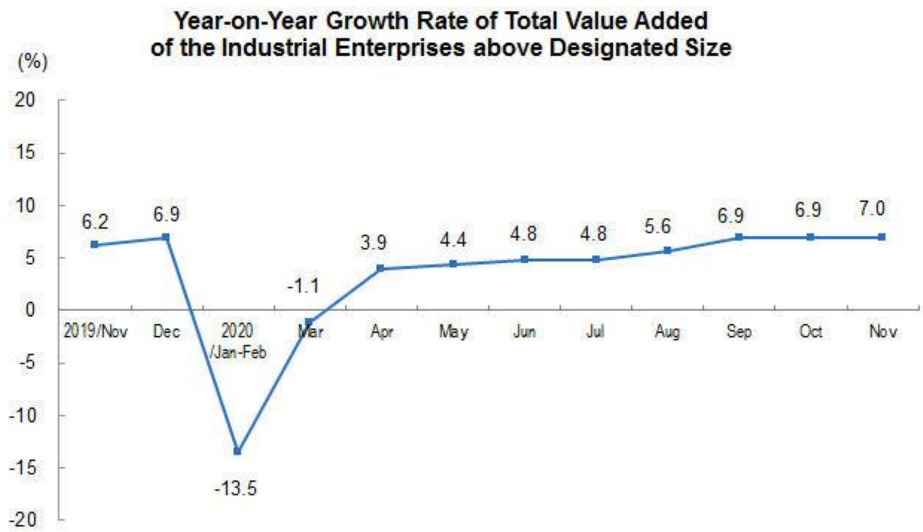
Industrial Production (Nov)

The value of industrial production continued to increase at a constant annual pace in Nov. All three main industry groups – mining, manufacturing, and the production and distribution of utilities, all contributed to the year-on-year growth.

Industrial Production – annual change: Nov +7% versus Oct +6.9%

Manufacturing growth increased by +7.7% (including high-tech manufacturing +10.8%), mining +2%, and production and distribution of utilities +5.4% versus a year ago.

The YTD year-on-year increase reached +2.3% in Nov – indicating that production values had recovered in the YTD 2020 to be ahead of the same period a year ago. Growth of mining in the YTD versus a year ago reached 0% (recovered to be flat against the same time last year), manufacturing +2.9%, and production and distribution of utilities +6.4%.



http://www.stats.gov.cn/english/PressRelease/202012/t20201216_1809569.html

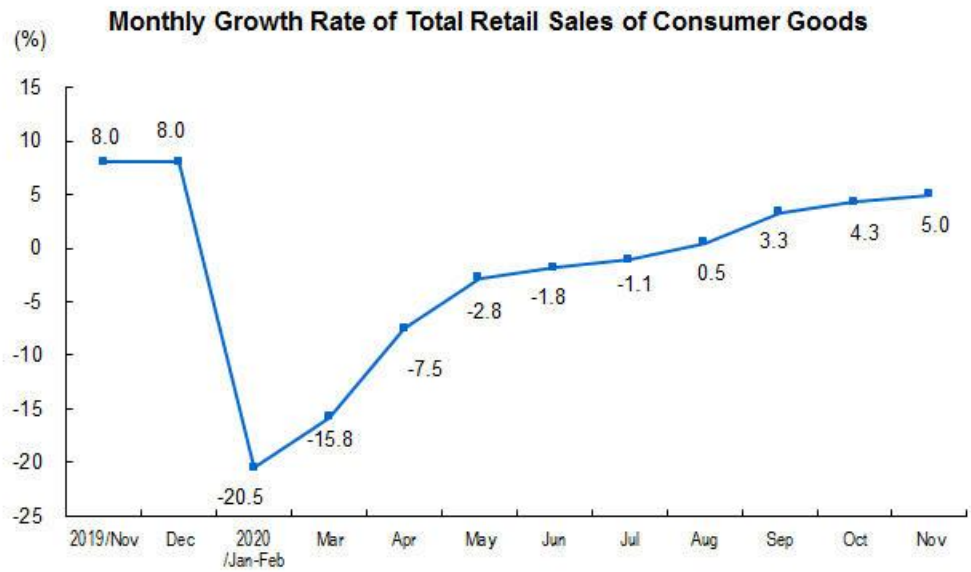
Retail Sales (Nov)

The value of retail sales increased at a faster pace than in the same month a year ago. But most notable is that the YTD value of retail sales remains -4.8% below the same YTD period a year ago. This indicates that retail sales are yet to recover from the losses at the start of the year. Retail sales versus the same month a year ago have 'only' been positive for the last four months.

While the industrial sector has been recovering, household expenditure growth remains weaker.

Retail Sales (val) – annual change: Nov +5% versus Oct +4.3%

In the YTD, total retail sales of consumer goods remain -4.8% below the same period a year ago. Categories that are yet to recover in the YTD versus a year ago include autos (-2.8%), comms appliances (-15%), garments and footwear (-8%), jewellery (-6%), household appliances (-5%), and furniture (-8%).



http://www.stats.gov.cn/english/PressRelease/202012/t20201216_1809613.html

Return to top