MARS CAPITAL PARTNERS

Weekly Macro Review

w/c 30 November 2020

Key Themes

Data out of the US this week reflected some slowdown of the recent growth momentum. There has been a more localized approach to managing the spread of Covid-19 infections rather than any Nationally mandated approach. Infections, and now deaths continue to rise across the US amid early production and roll-out of the vaccine.

Non-Farm payroll growth slowed notably in Nov. The composition of payroll growth reflected a shift away from 're-opening' type service jobs like hospitality, food service, and retail. The increase in services jobs was instead led higher by couriers and messengers, warehousing and storage, and truck transportation. Manufacturing and construction payroll jobs accounted for most of the goods-producing payroll growth.

A weaker result for the labour market this month. The headline focus was on the fall in unemployment and the unemployment rate. Unfortunately, that occurred within the context of a decline in employment for the month (part-time workers) and a larger number of people leaving the labour force this month.

The US ISM reports for Nov recorded slower growth. Manufacturing activity growth slowed slightly, with most indexes remaining stable. Employment shifted back into contraction – but more firms recorded no change to employment levels. Petroleum and coal industry output remained a drag on the ISM manufacturing report. Services growth slowed for the second month, but growth was still moderate overall. Most firms recorded no change across output, orders, and employment.

Across the industry reports, US firms noted some supply chain disruptions, due to Covid infections in some cases, for inputs, higher prices, and longer lead-times as a result.

US vehicle sales declined across both segments in Nov.

The Oct income and personal consumption report from last week recorded a decline in personal income as some government assistance programs started to wind-down. This offset positive, yet slower growth in employee compensation and income from capital. Excluding taxes, disposable income declined in Oct after increasing in Sep. As incomes fell in the month, consumption expenditure also slowed notably. This resulted in a fall in the saving rate (savings as a % of disposable income) – which remains extremely elevated.

The one consistent theme out of the major global PMI reports for Nov was the optimism toward the 12-month outlook given the announcement of the Covid-19 vaccine.

Across Europe and the UK, services sectors were again impacted by the reintroduction of restrictions.

The pace of manufacturing growth in Europe was constant – led by Germany. Excluding Germany, growth in Europe slowed to zero growth. The services sector was again hit hard by the reintroduction of social distancing restrictions and the services PMI contracted sharply.

Similarly in the UK, manufacturing activity was buoyed by stock build preparation for the end of the Brexit transition period at the end of Dec. Services shifted back into a sharp contraction.

In Japan, the headline manufacturing PMI reflected a continued, but a slight, contraction in manufacturing activity. Yet the industrial production data continues to report stronger growth in output and shipments. This discrepancy might reflect a fairly uneven rebound among firms. Services firms recorded a further contraction in business output in Nov.

Q3 GDP for Australia recorded a rebound in National output. Despite the high quarterly growth, the rebound has a way to go before output growth is back to the pre-shutdown trajectory. Real GDP remains -3.8% below the same quarter a year ago.

This quarter's GDP rebound was led mostly by household consumption expenditure and a positive contribution from the change in inventories. Household expenditure has been well supported by enhanced government support, tax-free superannuation withdrawals, and rent/mortgage payment holidays. Government consumption expenditure also made a positive contribution to growth this quarter. Offsetting this growth was a substantial contraction in net exports.

The pre-existing trend of declining private gross fixed capital formation (investment spending) worsened further in the latest quarter. The decline in business investment offset some growth in dwelling construction and investment.

The RBA made no changes to the current interest rate and policy settings.

Contents

US Data

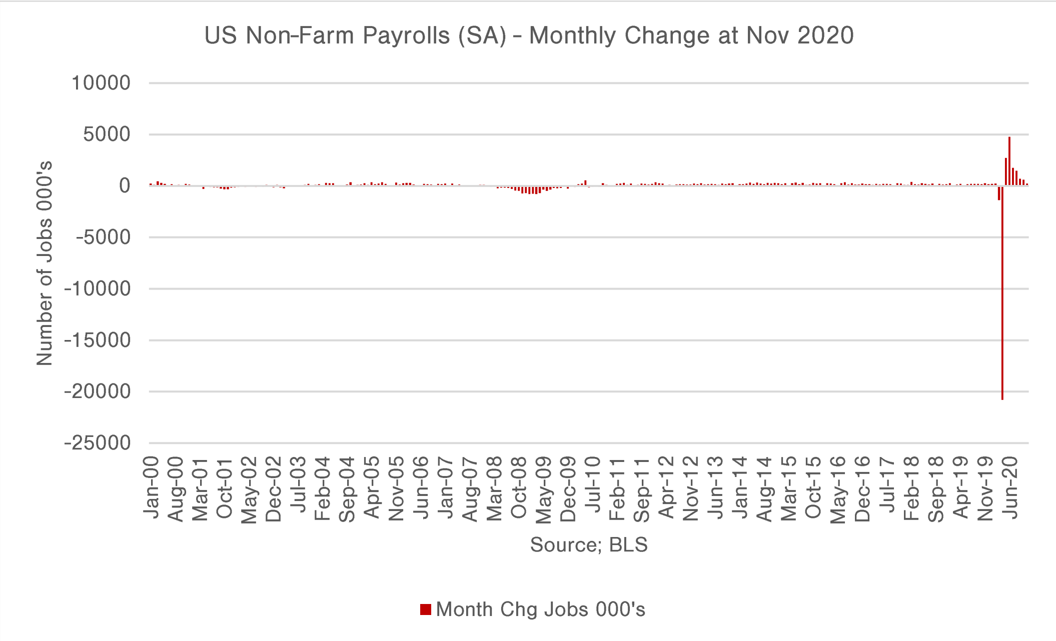
Non-Farm Payrolls and Employment Report (Nov)

US NON-FARM PAYROLLS (NOV)

Non-farm payroll jobs continued to increase in Nov but there was a notable slowdown in the pace of that growth. Service jobs accounted for most of the growth in payrolls this month. But the growth by industry reflected a shift away from 'reopening jobs' such as in-store retail and food service/hospitality jobs towards online home-delivery jobs (couriers, drivers, and warehousing). Manufacturing and construction jobs accounted for most of the goods-producing jobs.

Non-Farm Payrolls – month change: Nov +245k jobs versus Oct +610k jobs (revised lower from +638k jobs)

As of Nov, non-farm payroll growth has recovered 12m of the 22m jobs lost in Mar and Apr this year.



The private sector added +344k jobs this month and that growth was partly offset by a decline of -99k Federal government jobs.

> Government employment declined for the third consecutive month, decreasing by 99,000 in November. A decline of 86,000 in federal government employment reflected the loss of 93,000 temporary workers who had been hired for the 2020 Census. Employment in local government education continued to trend down (-21,000).

The increase in private-sector payroll jobs was mostly services jobs (+289k). The bulk of the new payroll jobs were in trade, transport, and utilities (+121k jobs), which included a decline in retail jobs of -34.7k. Leisure and hospitality jobs increased by 'only' +31k jobs this month –

and this included a -17k decline in food-service & drinking place jobs. The bulks of the gains in services jobs this month were couriers and messengers (+81k jobs), warehousing and storage (+36.8k jobs), and truck transportation (+12k jobs).

Goods-producing jobs increased by +55k in Nov – led higher by construction and motor vehicle manufacturing jobs.

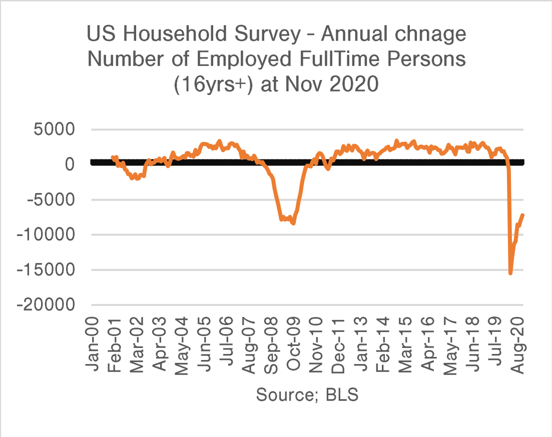
HOUSEHOLD EMPLOYMENT SURVEY

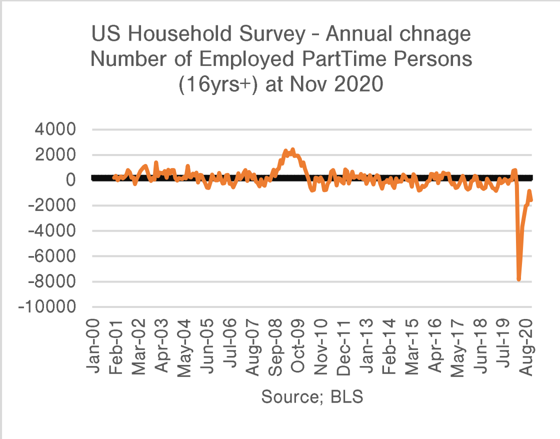
A weaker result for the labour market this month with both weaker demand for and a falling supply of labour. The headline focus was on the fall in unemployment and the unemployment rate. Unfortunately, that occurred within the context of a decline in employment for the month (part-time workers) and a larger number of people leaving the labour force this month.

Employment – month change: Nov -74k employed persons versus Oct +2.23m employed persons

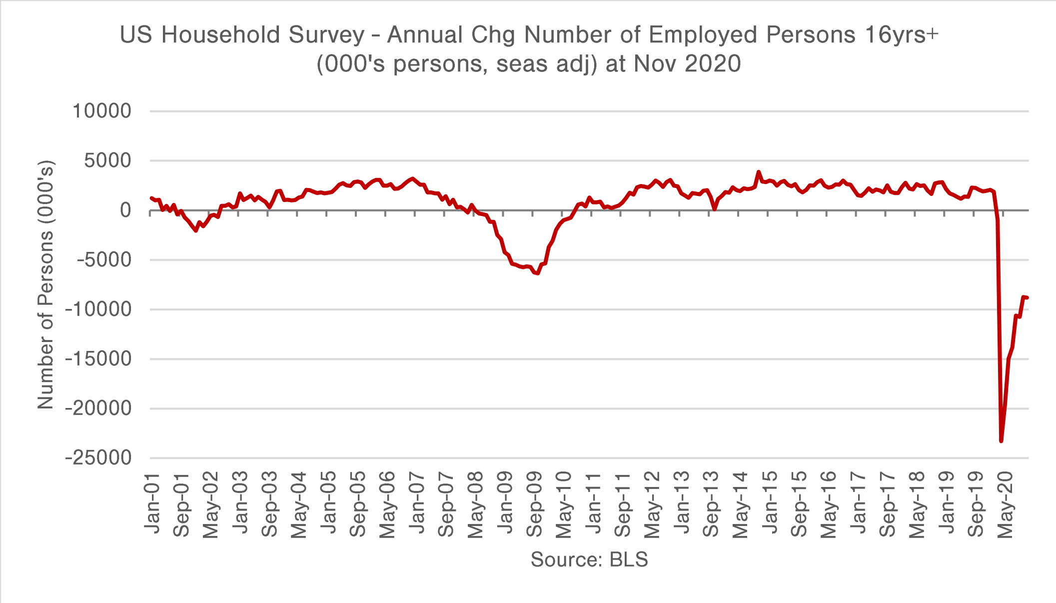
The substantial slowdown in employment growth was the result of a decline in part-time (PT) employed persons. PT employed persons declined by -779k (after increasing by +1m in Oct). Total PT employed persons remain -1.5m below the same month a year ago.

Full-time (FT) employed persons increased this month by +752k persons after increasing by +1.2m in the prior month. The number of FT employed persons remains well below a year ago at -7.2m.





On an annual basis, employment remains 8.8m below the same month a year ago.



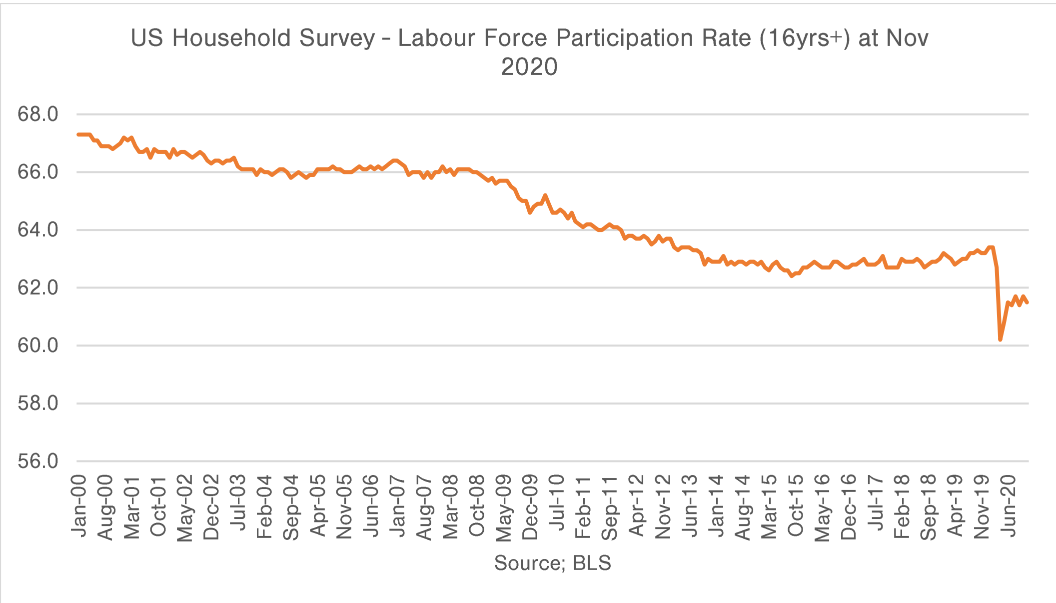
The employment-population ratio (16yrs+) fell from 57.4% in Oct to 57.3% in Nov.

Labour Force

This month, the size of the labour force declined. This was the result of the fall in the participation rate/people leaving the labour force.

Labour Force (persons) – month change: Nov -400k persons versus Oct +724k persons

This month the participation rate declined from 61.7% (Oct) to 61.5%. The equated to approx. -522k persons leaving the labour force. Participation remains well below the Feb level of 63.5% and recovery has so far stalled at around this level.



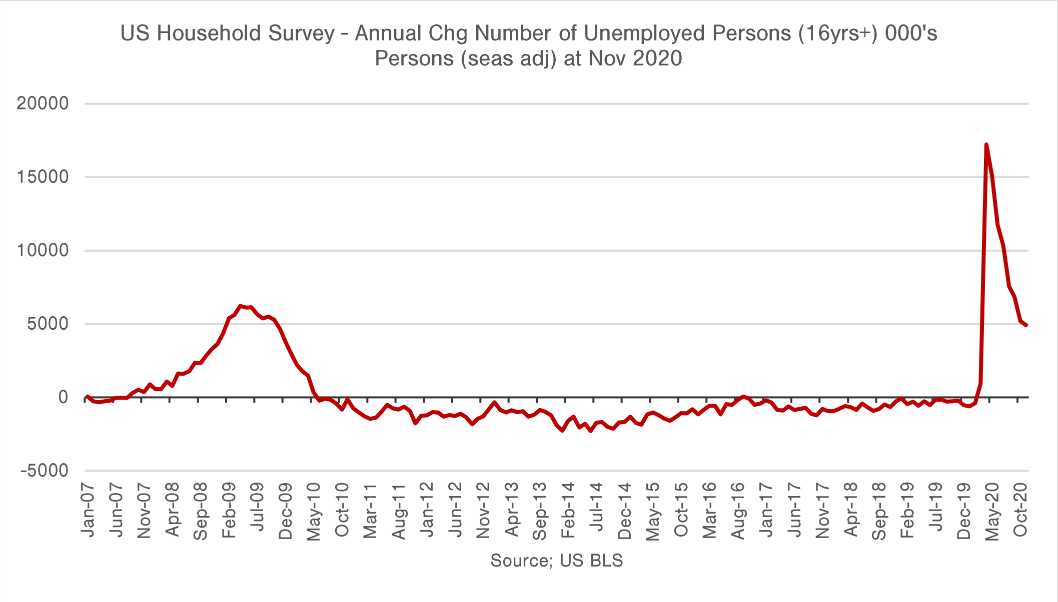
The total size of the labour force is -3.9m people below the same month a year ago.

Neither the fall in employment nor the fall in the labour force is positive. But because so many people left the labour force this month, there was a decline in total unemployed persons.

Total Unemployed Persons – month change: Nov -326k persons versus Oct -1.5m persons

The composition of the number of unemployed persons was also less positive this month. While there was a continued decline in the number of job losers on temporary layoff (-441k persons), this was offset somewhat by a +214k increase in permanent job losers (which remains well below the GFC levels).

The total number of unemployed persons remain +4.9m people above the same month a year ago.



The unemployment rate fell from 6.9% in Oct to 6.7% in Nov.

Summary of Main Labour Market Indicators

000's people (16yrs+)	Annual chg - NOV 2020	Monthly Chg - NOV
The estimated change in the Labour Force due to pop growth (1)	556	121
How many jobs available for them? (employment growth) (2)	- 8,804	-74
Difference (if negative, then employment growing faster than what pop adds to the labour force) (3)	9,360	195
Change labour force participation - (if positive, people entering/returning to the labour force) (4)	- 4,436	-522
The remainder is the chg in total unemployed persons (declining if negative) (4) plus (3)	4,924	-326
Two views of annual growth in the labour force;		
Total employed persons plus total unemployed persons	- 3,880	-400
Est of what population adds to the labor force plus change in participation	- 3,880	-400
BLS reported change in the size of the labour force	- 3,880	-400

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

Initial Jobless Claims (wk ending 28 Nov), Continuing Unemployment Claims (wk ending 20 Nov), and Pandemic Unemployment Assistance (PUA)

Total initial claims across state and federal programs improved slightly this week but still totaled just on 1m new claims made by people.

The total number of people claiming ongoing benefits across both state and federal programs int eh week ending 14 Nov was 20.1m people. This was also less than in the 20.5m continuing claims from the week prior.

STATE-BASED PROGRAMS

Initial Jobless Claims wk ending 28 Nov 2020 (NSA): 713,824 claims by people.

This week's claims were -122k lower than in the prior week.

Continuing Claims wk ending 21 Nov 2020 (NSA): 5,240,575 claims, which was approx. -700k lower than in the week prior (14 Nov).

FEDERAL PROGRAMS – PUA

Initial PUA Claims wk ending 28 Nov 2020 (NSA): 288,701 claims

This week's claims were -30k lower than in the week prior.

Continuing PUA Claims wk ending 14 Nov 2020 (NSA): 8,869,502 claims

The continuing PUA claims were approx. 400k lower than in the prior week.

Pandemic Emergency Unemployment Claims wk ending 14 Nov (NSA): 4.569,016 claims

This was approx. +60k higher than in the week prior.

https://oui.doleta.gov/press/2020/120320.pdf

ISM Manufacturing PMI (Nov)

The headline ISM Manufacturing PMI indicated that the pace of growth in activity slowed only slightly in Nov. New orders growth and production growth remained high for the month, but growth slowed slightly. Export orders continued to increase at a faster pace. The only negative in the report was the contraction in employment levels.

Commentary supplied by the ISM indicates that the increase in infections is impacting the supply of labour in some industries.

> "The resurgence in COVID-19 cases is adding strain on our Tier-1 and Tier-2 suppliers. Multiple suppliers mentioned that finding new people is an issue with the COVID-19 situation. And there is a learning curve for new [supplier] hires, impacting production efficiency at their place." (Transportation Equipment)

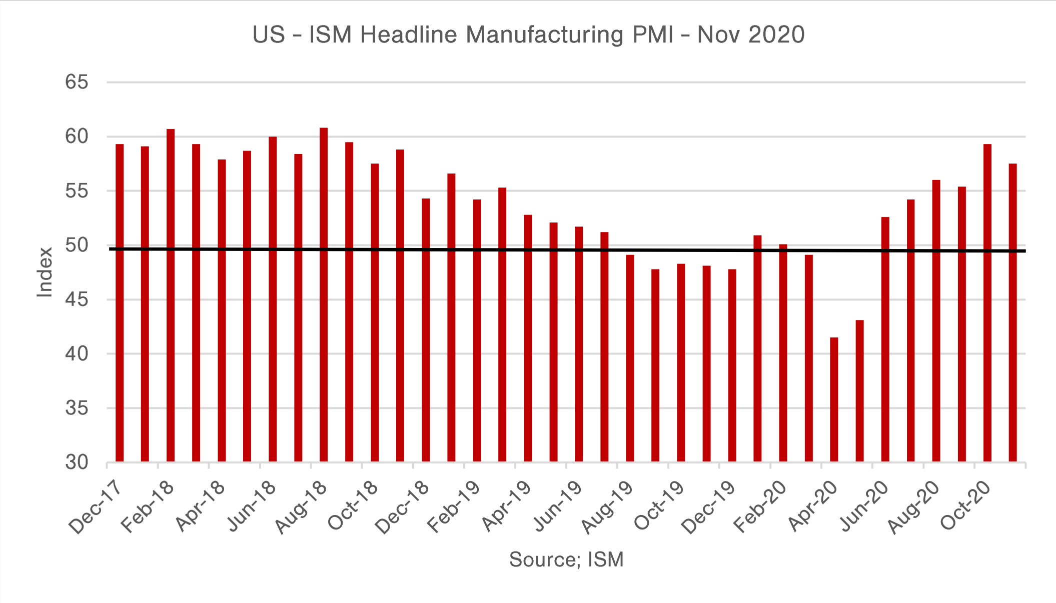
> "We are getting a lot more COVID-19 hits in our factories. We are also sending employees home for 14 days to quarantine if they were in close proximity to individuals that tested positive. We have had to shut down production lines due

> to lack of staffing. Cost of goods sold [COGS] is much higher than normal due to labor and production inefficiencies." (Food, Beverage & Tobacco Products)

Headline Manufacturing PMI: Nov 57.5 versus Oct 59.3

Of the eighteen industries covered in the report, sixteen recorded growth in Nov. The two industries that recorded a contraction in Nov were: Printing & Related Support Activities; and Petroleum & Coal Products.

> "Jet fuel being down in consumption really hurts the refining market." (Petroleum & Coal Products)



The new orders index slowed slightly from 67.9 in Oct to 65.1 in Nov. This is still an elevated level. The underlying shifts in firms reporting were less positive this month. Fewer firms reported higher orders this month (35% down from 40%). There was a corresponding increase in the proportion of firms reporting lower new orders (14% up from 10%) – although this is still a low level.

The new export orders index indicated that growth increased slightly in Nov. The index increased from 55.7 in Oct to 57.8 in Nov – the highest level of the last four months. More firms reported higher orders this month. Only two industries recorded a contraction in new export orders: Primary Metals and Transport Equipment.

The production index indicated that growth remained high, but slowed in Nov. Similarly, fewer firms reported higher production and there was a slight increase in the number of firms reporting lower production. One industry recorded lower production this month – Petroleum & Coal Products.

Order backlogs continued to increase this month and at a slightly faster pace.

> "Backlogs expanded at faster rates in November, indicating that new-order intakes more than fully offset production outputs. Four (Fabricated Metal Products; Transportation Equipment; Chemical Products; and Computer & Electronic Products) of the six big industry sectors' backlogs expanded.

Inventories increased slightly for the second month in a row. This indicates that supply chains are starting to keep up with production.

The employment index, unfortunately, shifted back into contraction this month. The index fell from 53.2 in Oct to 48.4 in Nov. Fewer firms reported higher employment levels this month falling from 23% of firms to 15% of firms in Nov. More firms reported the same level of employment compared to last month and there was only a slight increase in the proportion of firms reporting lower levels of employment. Seven industries reported a decline in employment this month: Printing & Related Support Activities; Petroleum & Coal Products; Paper Products; Plastics & Rubber Products; Food, Beverage & Tobacco Products; Computer & Electronic Products; and Transportation Equipment.

The prices index remained at a similar level this month indicating consistent growth in input prices.

> "Aluminum, copper, steel, transportation costs, corrugate, basic chemicals, and plastics all continued to record price increases,"

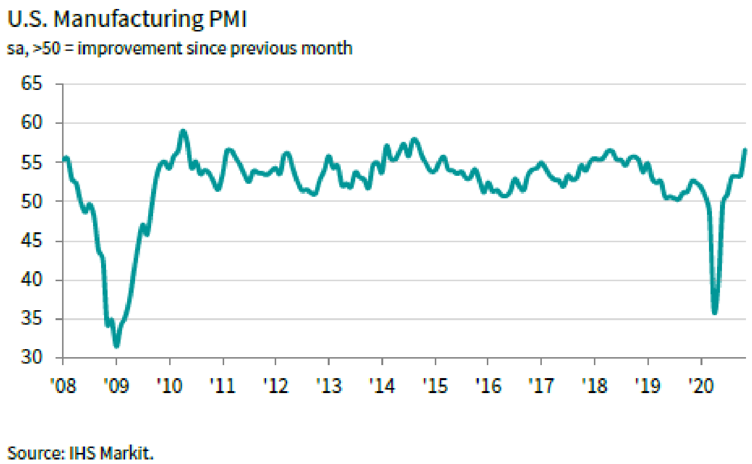
The proportion of firms reporting higher prices increased to 36.7% of firms from 35.4% in Oct – the highest level in four months. Fewer firms reported no change in prices (57% of firms – the lowest level in four months). Only 6% of firms reported lower prices.

https://www.ismworld.org/supply-management-news-and-reports/reports/ism-report-on-business/pmi/november/

Markit Manufacturing PMI (Nov)

The Markit PMI recorded a faster pace of growth in manufacturing activity in Nov. This was the seventh month on month improvement in conditions. While demand conditions improved, part of the headline increase in the PMI was likely led by the increase in supplier delivery times – which was likely a function of continued disruptions due to Covid infections

<u>**Headline Manufacturing PMI**</u>: Nov 56.7 versus Oct 53.4



The increase was led by faster growth in output and new orders. New export orders also increased but at a marginal pace. Order backlogs also increased at a faster pace this month. This was partly due to the worsening in supplier delivery times.

Nonetheless, supply delays led to the strongest rise in backlogs of work for over six years. In fact, vendor performance deteriorated to the greatest extent since May.

Input costs increased at a faster pace due to some raw material shortages. Employment growth was marginal this month – firms cited uncertainty over demand and cost reductions.

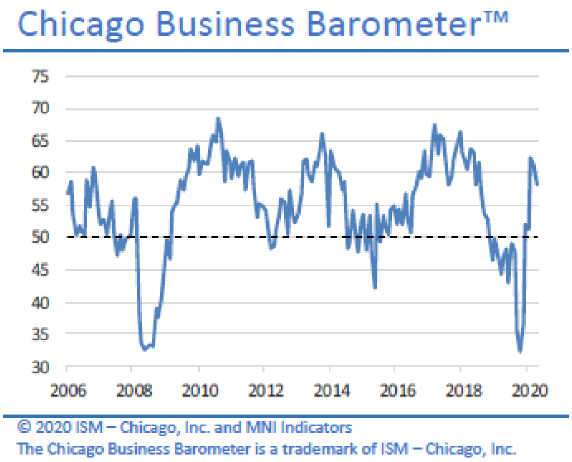
Firms' optimism around output growth improved. This was led by hopes of a vaccine.

https://www.markiteconomics.com/Public/Home/PressRelease/d6ef8b7f966a4ee48705755a49561216

Chicago PMI (Nov)

The headline Chicago PMI indicated that business activity continued to grow in Nov but at a slower pace.

Headline Business Barometer Index: Nov 58.2 versus Oct 61.1



This month new orders declined for the first time since May. Despite the decline in orders, backlogs of work continued to increase slightly. Firms also continued to record longer supplier delivery delays.

Output growth slowed:

Some companies reported an uptick in demand, although order levels remain below pre-crisis levels. Others noted stagnant demand and adjusted production due to Covid-19.

Employment continued to contract and has been declining since Jul 2019.

Input prices increased notably this month. The index increased by 9.8pts – 'the highest level in over two years'.

https://s3.amazonaws.com/images.chaptermanager.com/chapters/b742ccc3-ff70-8eca-4cf5-ab93a6c8ab97/files/mni-chicago-press-release-2020-11.pdf

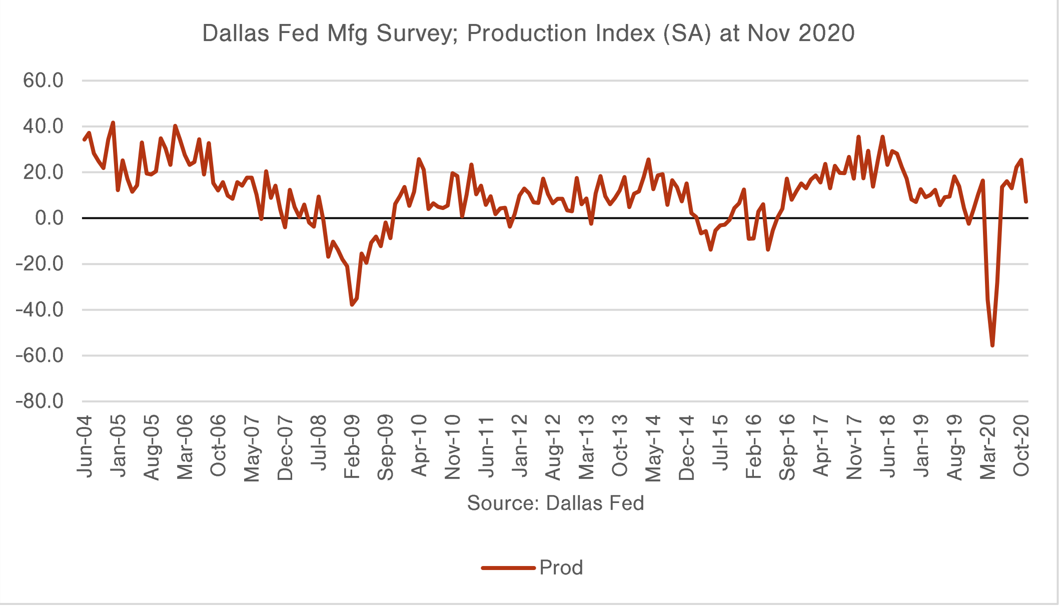
Dallas Fed Manufacturing Survey (Nov)

There was a notable slowdown in the pace of production growth this month, but growth remained positive. Most indicators pointed to some increase in pressure on firms from supply chain disruptions and longer lead-times. While capacity utilization growth and new order growth slowed notably, order backlogs increased at a much faster pace. Firms reduced inventories to meet demand – and shipment growth slowed also. These disruptions may have impacted the weaker headline production growth. Employment and hours worked continued to increase.

But there is some hint at weaker demand in the short-term. The change in the new orders index, a measure of short-term demand, indicated demand growth slowed markedly.

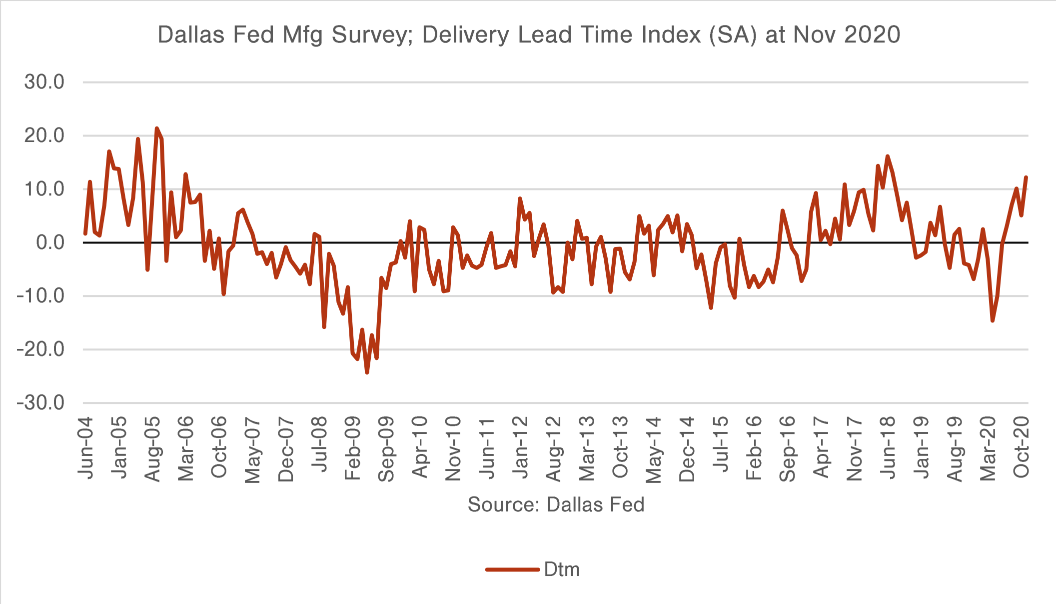
Headline Manufacturing Production Index: Nov 7.2 versus Oct 25.5

The underlying shift among firms was not positive. Fewer firms reported net production increases from 39% in Oct to 31% in Nov. Slightly fewer firms also reported no net change in output – from 47% in Oct to 45% in Nov. There was a large corresponding increase in the number of firms reporting a net decline in output from 14% of firms in Oct to 24% in Nov.



The growth in new orders also slowed notably this month. The index slowed from 19.9 in Oct to 7.2 in Nov. There was a similar underlying shift in fewer firms reporting higher and no change in orders. There was a large increase in the proportion of firms reporting net lower orders this month from 17% of firms in Oct to 27% of firms in Nov.

The level of unfilled orders increased at a much faster pace. What is becoming apparent though is that this may be less of a function of available capacity and more of a function of continued supply chain disruptions. The unfilled orders index increased from 4.8 in Oct to 8.4 in Nov indicating a much faster pace of growth. The increase in capacity utilization slowed notably from 23 in Oct to 6.9 in Nov. At the same time delivery lead times increased at a much faster pace, increasing from 5.1 in Oct to 12.2 in Nov. This is the highest level in this part of the cycle:



The underlying proportion of firms reporting higher lead times increased this month – but is only 17% of firms. Fewer firms reported declining lead-times now down to 5.3% of firms. Most firms – 77.2% of firms in Nov reported no change to lead-times.

This growth in lead times and backlogs corresponds with a sharp decline in inventories. Firms likely had to dip into finished goods inventories to fulfill orders. The contraction in the finished goods inventories index accelerated from -1.9 in Oct to -14.7 in Nov.

As supply chain disruptions likely continued this month, input prices increased at a much faster pace. The input prices index increased from 29.4 in Oct to 35 in Nov – the highest level at this part of the cycle. More firms reported net higher prices this month, increasing from 31% in Oct to 36% of firms in Nov. Only 1% of firms reported a net decline in prices.

The employment index increased at a faster pace from 8.7 in Oct to 11.7 in Nov. The average workweek also increased at a faster pace this month, increasing from 3.7 in Oct to 9.7 in Nov.

https://www.dallasfed.org/research/surveys/tmos/2020/2011.aspx#tab-report

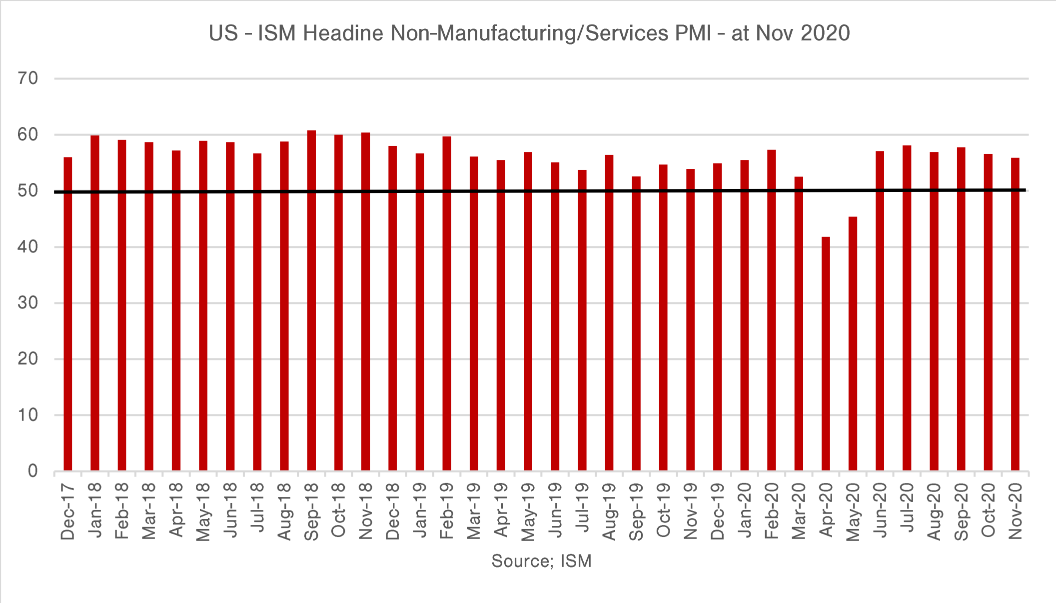
ISM Services PMI (Nov)

The headline services PMI index indicated that services growth slowed slightly for the second month running in Nov. The change in the indexes suggests that most firms recorded little change in the level of activity across output, orders, employment, and backlogs.

Anecdotal comments reflect ongoing issues for firms in procuring PPE for staff and how rising infections are causing supply chain and business operation disruptions.

Headline Services PMI: Nov 55.9 versus Oct 56.6

Most industries (fourteen) recorded growth in the month but four continued to contract: Arts, Entertainment & Recreation; Other Services; Real Estate, Rental & Leasing; and Educational Services.



Services business activity (output) growth slowed this month. The index remained elevated at 58 in Nov (down from 61.2 in Oct). The Nov result is the slowest in the last four months. There was a much larger decline in the proportion of firms reporting higher output this month – 27.5% of firms reported higher output in Nov compared to 39.4% of firms in Oct. There was a notable increase in the proportion of firms reporting no change to output in Nov – now up to 57% of firms (from 45.5% in Oct). There was no change to the proportion of firms reporting lower output (15.4%).

The new orders index indicated that orders growth slowed slightly from 58.8 in Oct to 57.2 in Nov. The underlying shift in firms' performance suggests that most firms recorded stable/no change to order flows this month. New export orders growth also slowed from 53.7 to 50.4 – suggesting little change or growth from the prior month. Fewer firms recorded higher export growth (only 15% - the lowest proportion of the last four months), the majority of firms recorded no change to export orders (70.8% of firms), and there was an increase in the proportion of firms recording lower export orders (14.2% of firms).

Order backlogs slowed again this month from 54.4 in Oct to 50.7 in Nov. The slower growth/no growth in order backlogs suggests that inflows of orders were lower than output. The underlying shift in firms' performance indicates that more firms were recording lower/declining backlogs (17.5% of firms – the highest proportion of the last four months). Fewer firms recorded higher backlogs (19%) and fewer firms recorded no change to backlogs (63.3% - also the lowest proportion of the last four months).

The employment index increased from 50.1 to 51.5, indicating that the pace of employment growth increased slightly this month. The underlying shift in the performance of firms indicated that fewer firms recorded higher or lower employment levels but 69.6% of firms recorded no change to employment levels.

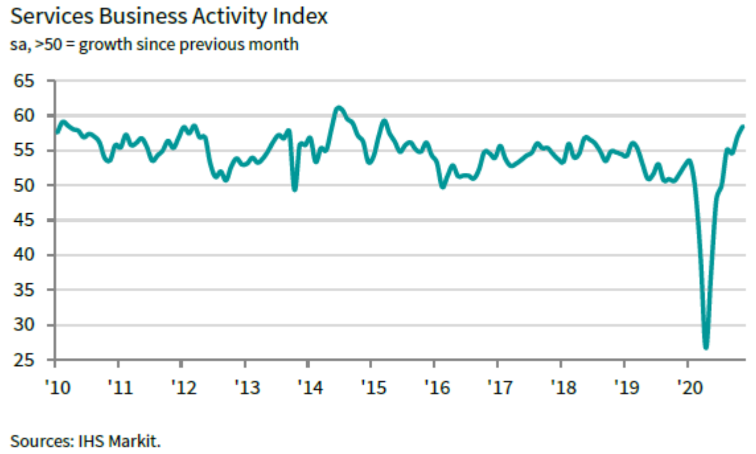
https://www.ismworld.org/supply-management-news-and-reports/reports/ism-report-on-business/services/november/

Markit Services PMI (Nov)

The pace of growth in services activity accelerated further in Nov according to the Markit survey.

> Growth of business activity was often linked to greater new order inflows and the release of pent-up demand, as clients became less hesitant to make purchases.

Headline Services Business Activity Index: Nov 58.4 versus Oct 56.9



The acceleration in growth this month was the result of faster growth in new orders. This focused on domestic orders as growth in new export orders was marginal this month.

Back-orders increased at a “modest pace”.

Firms noted that employment growth also accelerated this month. Firms even noted that staff previously let go had been rehired.

Input costs also increased this month – anecdotes suggested that a limited supply of PPE resulted in higher costs for firms.

> Business expectations strengthened in November, as service providers were boosted by a faster expansion in new business and hopes of a vaccine. The degree of confidence was the highest since January 2014 and well above the long-run series average.

https://www.markiteconomics.com/Public/Home/PressRelease/1b9b3825aad54688ac94cfc7cf0c9a66

Vehicle Sales (Nov)

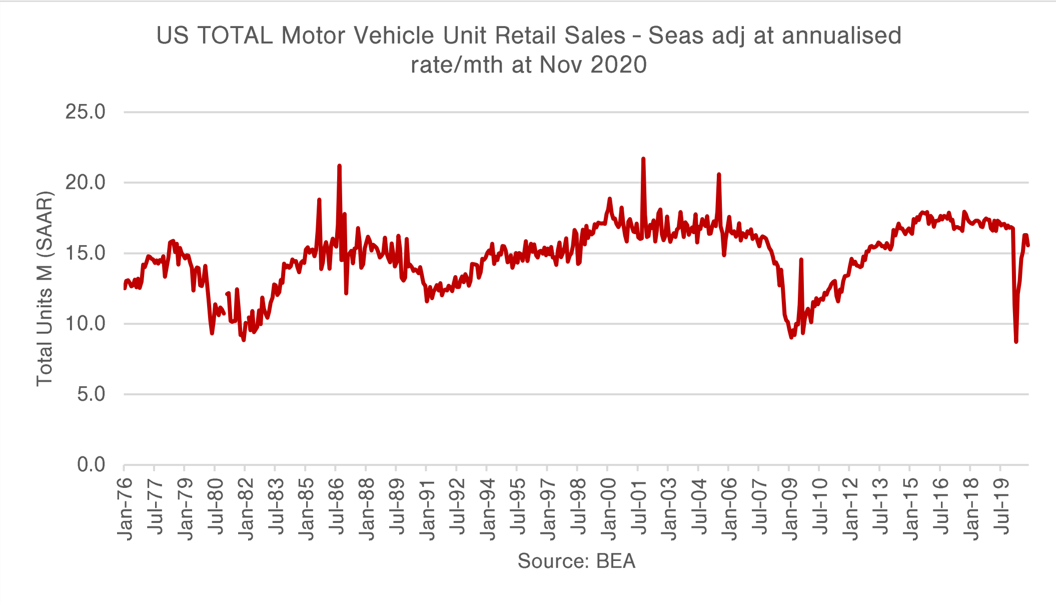
Vehicle sales in Nov slowed across both key segments of Autos and Light Trucks/SUV’s. The decline across both segments indicates some weaker demand conditions for sales. This is especially true for Light Truck sales which recorded a second month-on-month decline in sales. Some of the manufacturing data for Nov is hinting at some possible supply chain disruptions – but nothing of the scale of Apr/May this year.

<u>Total Vehicle Sales – SAAR basis by month:</u> Nov 15.6m units (-4.5%) versus Oct 16.3m units (-0.1%)

The SAAR basis of sales in Sep and Oct was the highest so far in this recovery at 16.3m units (annual).

From a trend basis, this is still well below the peaks from late 2016. The rebound has yet to establish a new higher pace of growth – despite "pent up demand". Instead, the rebound so far looks to have reverted to an overall slower pace of sales. Supply chain issues could still be playing a part.

The SAAR in Nov was -8.4% below the pace of sales in the same month a year ago.

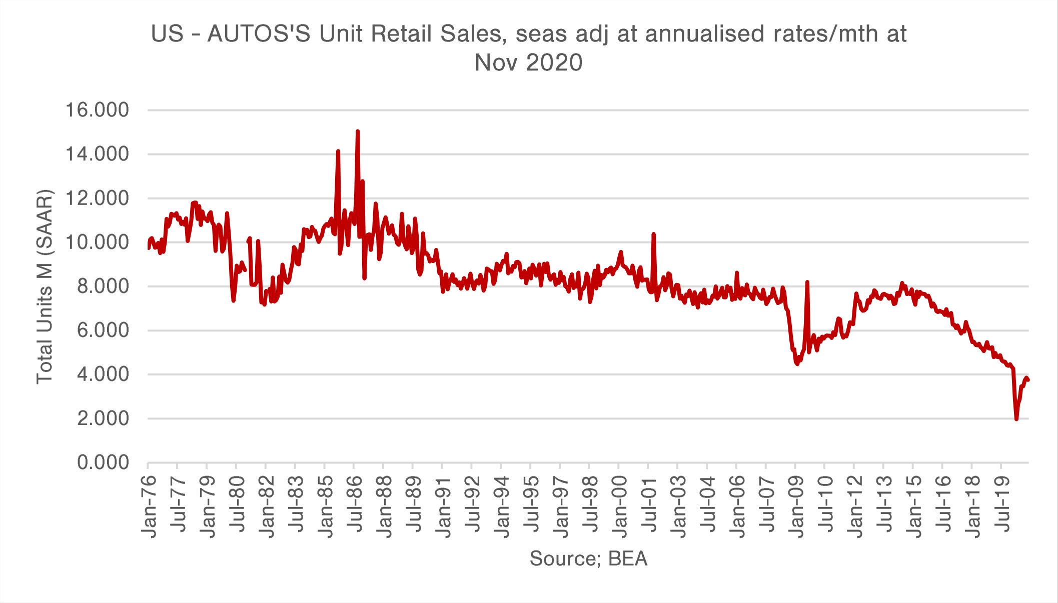


Both Auto and Light Truck sales declined this month.

<u>Auto Sales – SAAR basis by month:</u> Nov 3.76m (-2.6%) versus Oct 3.86m (+3.4%)

New auto sales have slowed markedly during this pandemic – much of this was led by supply chain disruptions. But even now as production levels have returned to close to year-ago levels, demand appears to be waning again.

Auto sales (SAAR basis) in Nov was still -14.5% below the same month a year ago. The pandemic has accelerated the existing long-term decline in this segment.

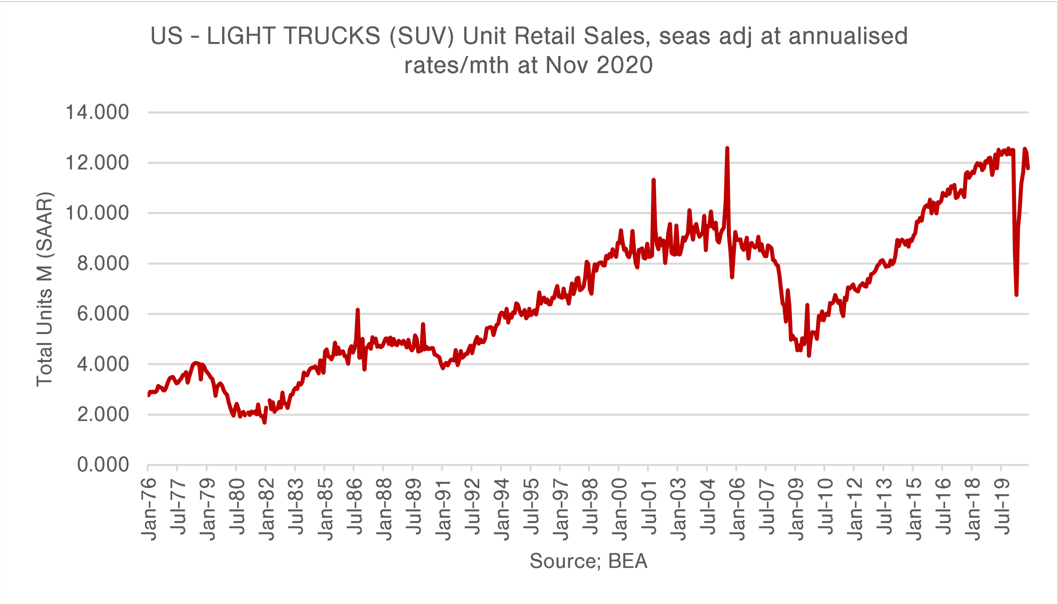


While Auto sales have been on a longer-term decline, consumer preference has shifted to Light-Trucks/SUV's. But the sales recovery appears to have stalled over the last two months.

<u>Light Trucks/SUV's – SAAR basis by month:</u> Nov 11.78m units (-5%) versus Oct 12.4m units (-1.1%)

The decline in sales gathered some pace this month, recording the second month on month decline.

Throughout 2019, the monthly average of annual growth was +2.9%. The annual pace of Light Truck sales has now slowed back to -6.2% below the same month a year ago.



https://www.bea.gov/data/consumer-spending/main

Mortgage Applications wk ending 27 Nov

There was a further decline in total mortgage applications this month – adjusted for the shorter Thanksgiving Holiday week. This was the result of a decline in refinance applications and a further increase in purchase applications. The average purchase loan amount hit a new all-time high in the latest week. The sustained level of re-finance activity is providing further support via lower monthly repayments.

Market Composite Index (mortgage loan application volume) wk ending 27 Nov: -0.6% versus the week prior.

Refinance Index wk ending 27 Nov: -5% versus the week prior. The volume of refi's was still +108% higher than the same week a year ago.

Purchase Index wk ending 27 Nov: +9%. The level of the purchase index was +28% ahead of the same week a year ago.

"After adjusting for the Thanksgiving holiday, mortgage applications were mixed, with a jump in purchase applications and a decline in refinances. Purchase activity continued to show impressive year-over-year gains, with both the conventional and government segments of the market posting another week of growth,"

"Purchase loan amounts continue to be significantly higher than their average over the past decade **and hit $375,000 last week, the largest since the inception of MBA's survey in 1990.** Housing demand remains strong, and despite extremely tight inventory and rising prices, home sales are running at their strongest pace in over a decade."

"The sustained period of low mortgage rates continues to spark borrower demand, and the mortgage industry is poised for its strongest year in originations since 2003. The ongoing refinance wave has been beneficial to homeowners looking to lower their monthly payments during these challenging economic times brought forth by the pandemic."

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

US Personal Income and Consumption Monthly (Oct)

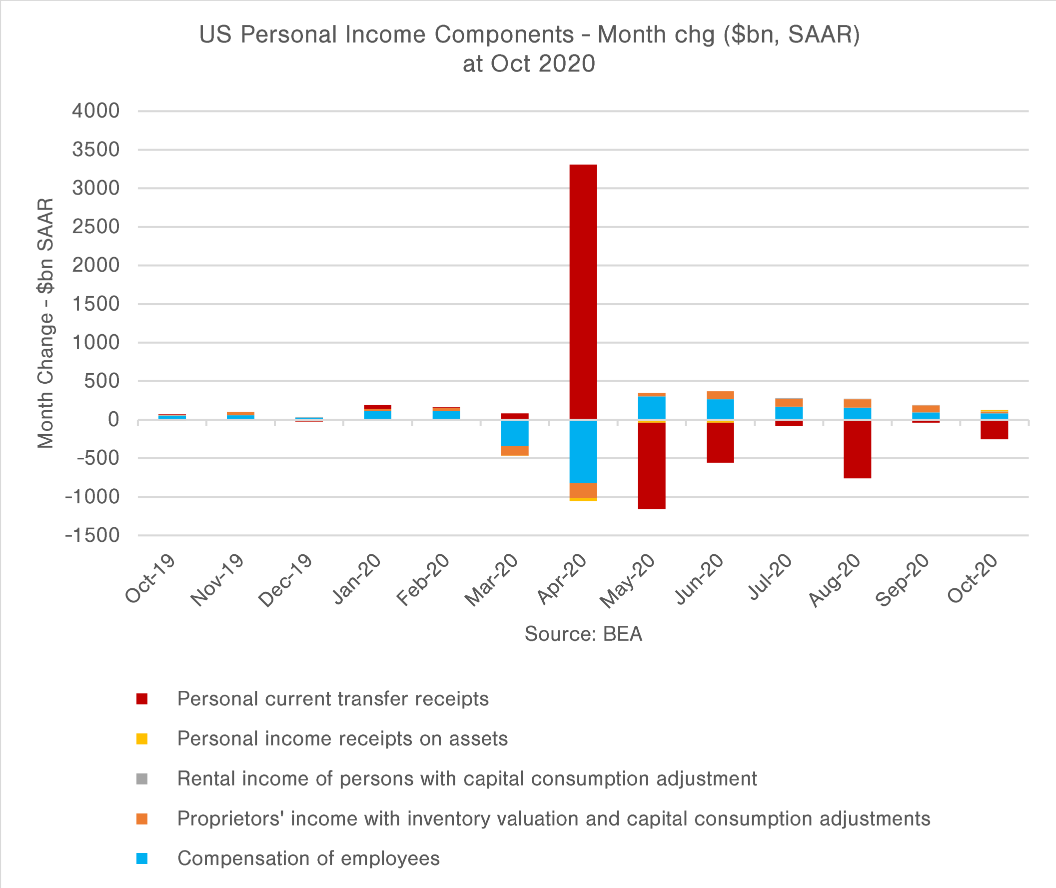
In Oct, personal income declined as some government assistance programs started to wind-down. This offset positive, yet slower growth in employee compensation and income from capital. Excluding taxes, disposable income declined in Oct after increasing in Sep. As incomes fell in the month, consumption expenditure also slowed notably. This resulted in a slight fall in the saving rate (savings as a % of disposable income) – which remains extremely elevated.

Values quoted on a SAAR basis

PERSONAL INCOME

US total personal income declined in Oct compared to Sep.

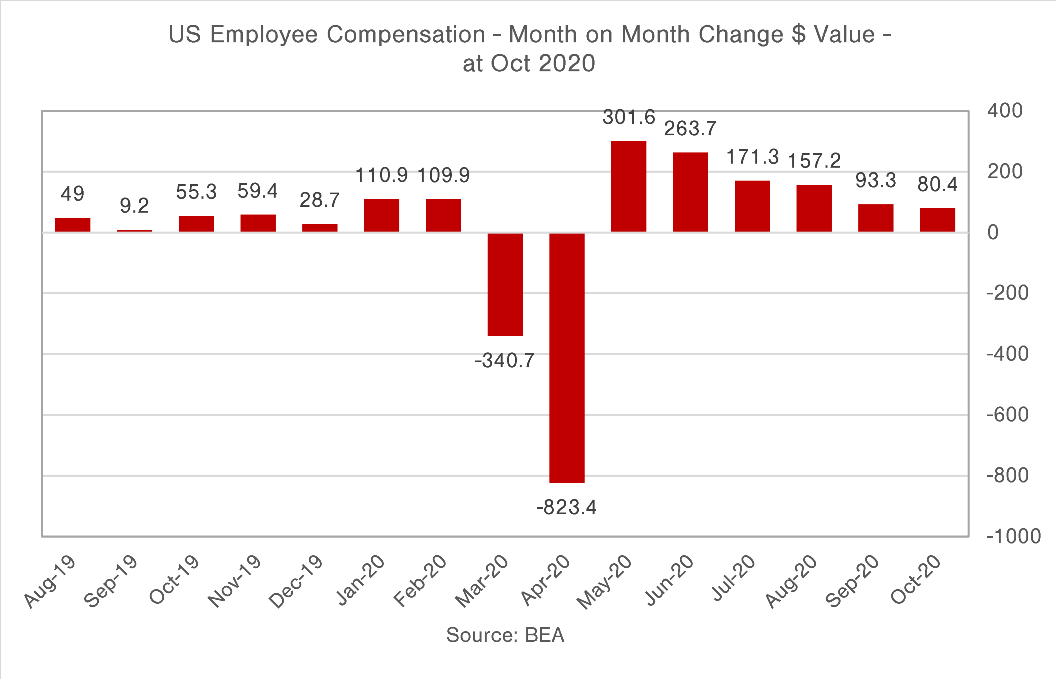
Of the three main income components: the slower growth in employee compensation and income from capital did not offset the much larger decline in personal transfer receipts (unemployment insurance and 'other' benefits) for the month.



<u>Personal Income – month change</u>: Oct -0.7% (-$130bn) versus Sep +0.7% (+$147bn)

There are three main components of personal income.

Employee compensation growth slowed from +0.8% (+$93bn) in Sep to +0.7% (+$80bn) in Oct. Growth of wages and salaries across both goods and service-producing industries slowed and declined for the government sector. The monthly growth in compensation has been slowing but remains mostly around the pre-shutdown levels:



Growth in income from capital slowed from +$96bn in Sep to $48bn in Oct.

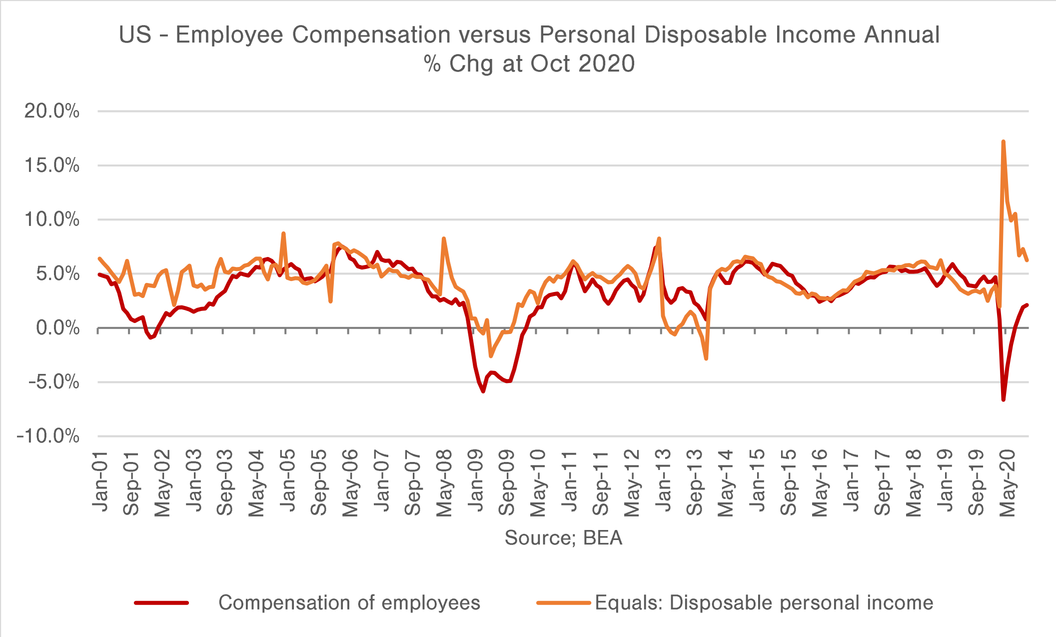
The main impact on total income was the larger decline in transfer receipts. Government social benefits declined by -6.2% (-$252bn) in Oct versus -0.8% (-$33bn) in Sep. Most of that decline was a further fall in unemployment insurance of -$50bn and a fall in 'other' of -$200bn compared to the prior month.

The decline in unemployment insurance and 'other' is so far offsetting the gains in wages/salaries – this is despite the gains in employment. This is partly the result of several programs winding down:

> Within government social benefits, "other" social benefits decreased which primarily reflected a decrease in Lost Wages Supplemental Payments, a Federal Emergency Management Agency program that provides wage assistance to individuals impacted by the pandemic.
> https://www.bea.gov/news/2020/personal-income-and-outlays-october-2020

After taxes, disposable personal income declined in Oct by -0.8% (-$134bn) after increasing by +0.7% in Sep (+$130bn).

On an annual basis, employee compensation growth is now positive but still lags behind pre-Covid levels. The additional unemployment insurance and pandemic programs have more than offset that loss of wages income. In Oct, the annual growth of personal disposable income slowed to +6.2% and remains elevated:



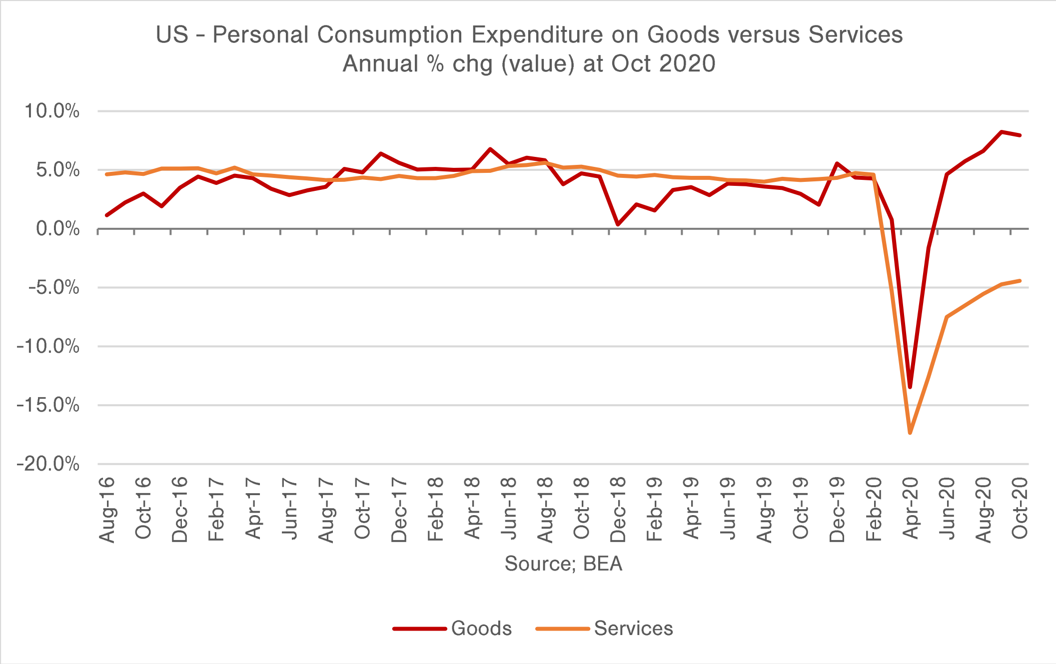
PERSONAL CONSUMPTION

Growth in personal outlays slowed markedly in Oct.

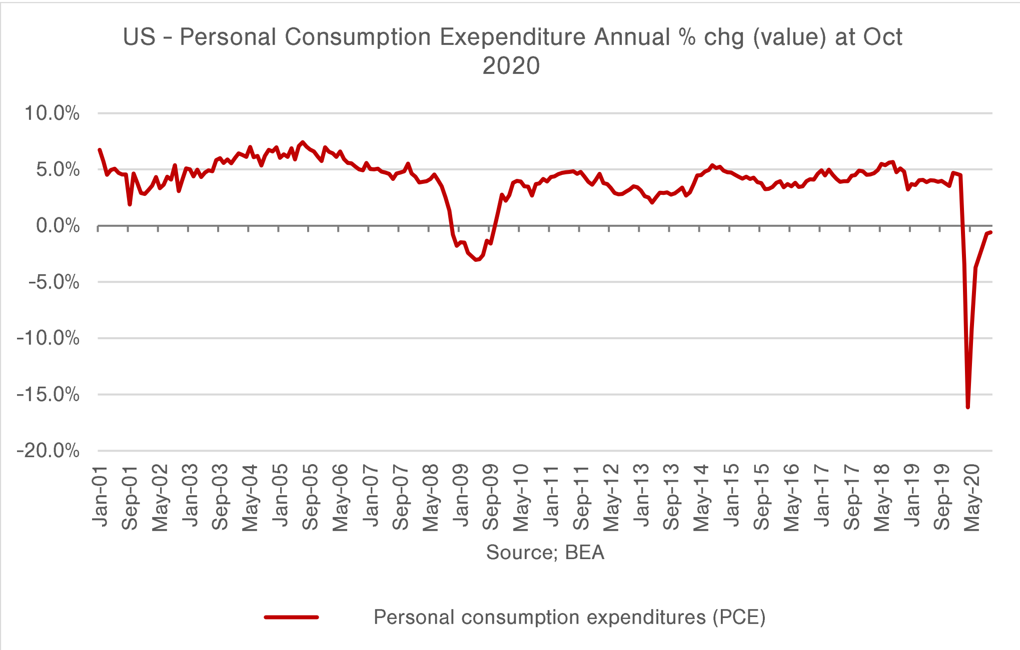
Personal Consumption Expenditures – month change: Oct +0.5% (+$70bn) versus Sep +1.2% (+$175bn)

Growth slowed across goods consumption for the month to zero growth. The increase in durable goods outlays was offset by a decline in the value of non-durable goods compared to Sep. The annual growth in goods consumption remains historically elevated at +8%.

Growth in services consumption also slowed for the month from +1.2% in Sep to +0.7% in Oct but importantly remained positive. Expenditure on services has suffered during the pandemic as a result of distancing and travel restrictions. Expenditure on services remains -4.4% below the same month a year ago – whereas growth had usually been consistent at around 5%.



But note that the total consumption expenditure is now only -0.6% below a year ago. The average annual growth throughout 2019 was +3.9%.

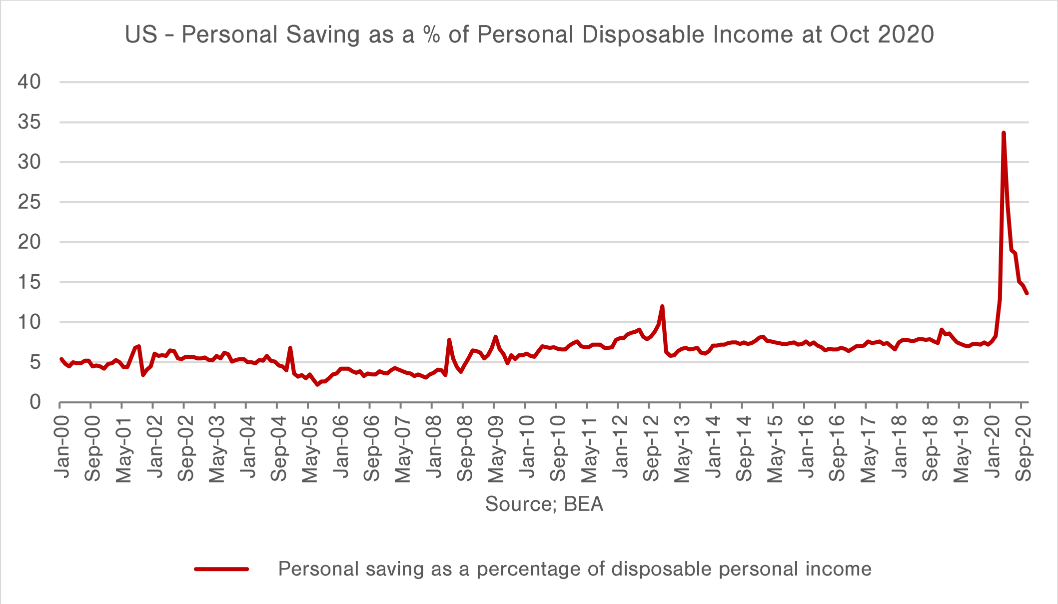


<u>PERSONAL SAVING</u>

This month, as disposable personal income declined and expenditure growth slowed, the saving rate fell.

Personal saving equals disposable income less outlays. The level of saving has been historically high during this pandemic. This was mostly the result of higher government income support and stimulus payments. There is also clearly lower overall expenditure as noted by weaker services expenditures.

This month, total saving as a % of disposable personal income fell from 14.4 in Sep to 13.6 in Oct. This is still an extremely high level of personal saving:



https://www.bea.gov/data/income-saving/personal-income

Return to top

Europe

Eurozone Markit Manufacturing PMI (Nov)

Despite a higher level of social distancing restrictions in place, the pace of manufacturing growth was little changed in Nov, slowing only slightly.

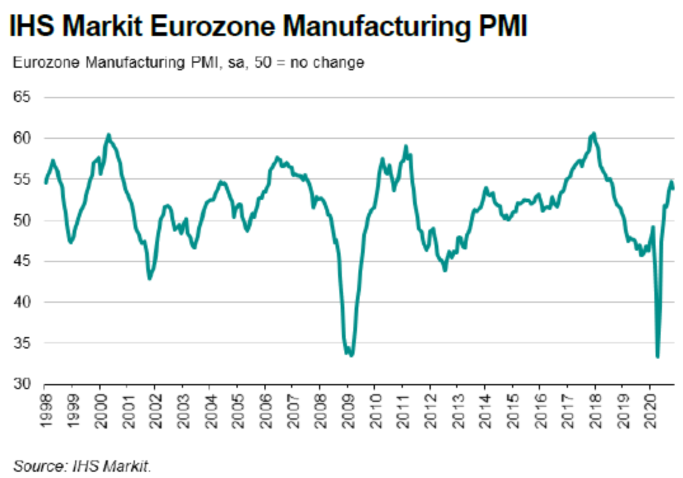
Germany continued to outperform all other countries in the region.

> "Germany was once again the main engine behind the region's expansion, enjoying a rate of output and order book growth that has been rarely exceeded over the survey's 25-year history. Excluding Germany, output growth came close to stalling, and new order inflows fell for the first time since June. The resulting divergence between Germany and the rest of the region in terms of production growth is now the widest on record."

Growth in the Netherlands and Ireland accelerated. Growth slowed and remained marginal in Italy. Activity contracted in Spain, France, and Greece.

Capital and intermediate goods sectors recorded higher growth while consumer goods producers recorded a decline in activity for the first time in six months.

Headline Manufacturing PMI: Nov 53.8 versus Oct 54.8



Both output and new orders recorded growth this month but slowed compared to the prior month. Orders growth slowed across domestic and foreign markets.

While order backlogs increased at a "solid pace", firms continued to reduce employment. Employment has contracted for nineteen months in a row. Employment decline was notable in Greece, Germany, and Austria.

The survey noted a sharp increase in input costs this month. Firms passed on some of these costs via a more modest increase in selling prices.

Firms became more optimistic in the outlook for the year ahead.

https://www.markiteconomics.com/Public/Home/PressRelease/fb7f953d3ec5410692fefa22dc24b597

Markit Services PMI (Nov)

Services business activity declined at a faster and notable pace in Nov as social distancing restrictions were implemented across several countries. This is the third month-on-month decline for services activity in the wake of another wave of infections. The main countries affected were Spain, France, and Italy.

Eurozone Headline Business Services Index: Nov 41.7 versus Oct 46.9

New orders declined for the fourth month which included both domestic and export orders. New export orders declined at a notable pace this month.

Employment continued to contract across the broader Eurozone. The only country to record growth in services-based employment was Germany.

Business sentiment improved across the top five countries in the survey.

> "Encouragingly, growth expectations have lifted higher, as vaccine developments fuel optimism that life can start to return to normal in 2021. It's anticipated that business and consumer spending will start to rise as the outlook brightens, though a high degree of caution is expected to persist for some time to come."

https://www.markiteconomics.com/Public/Home/PressRelease/27e303763fd94dae9b0be6a7e6f58157

Return to top

Japan

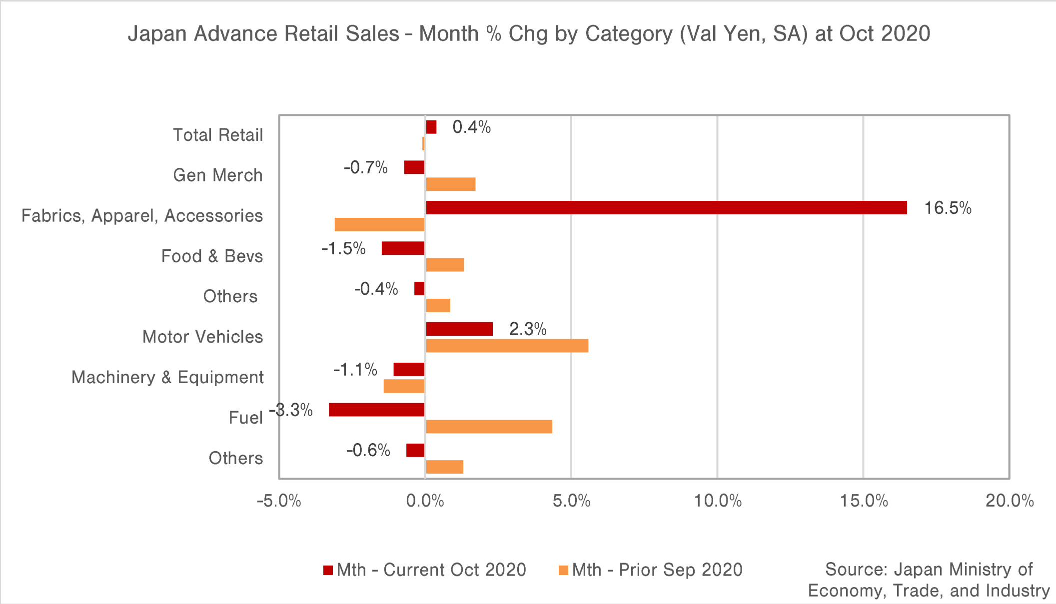
Retail Trade (Oct)

Retail sales in Japan rebounded in Oct after declining/flatlining in Sep.

Retail Sales (Val) – month change: Oct +0.4% versus Sep -0.1%

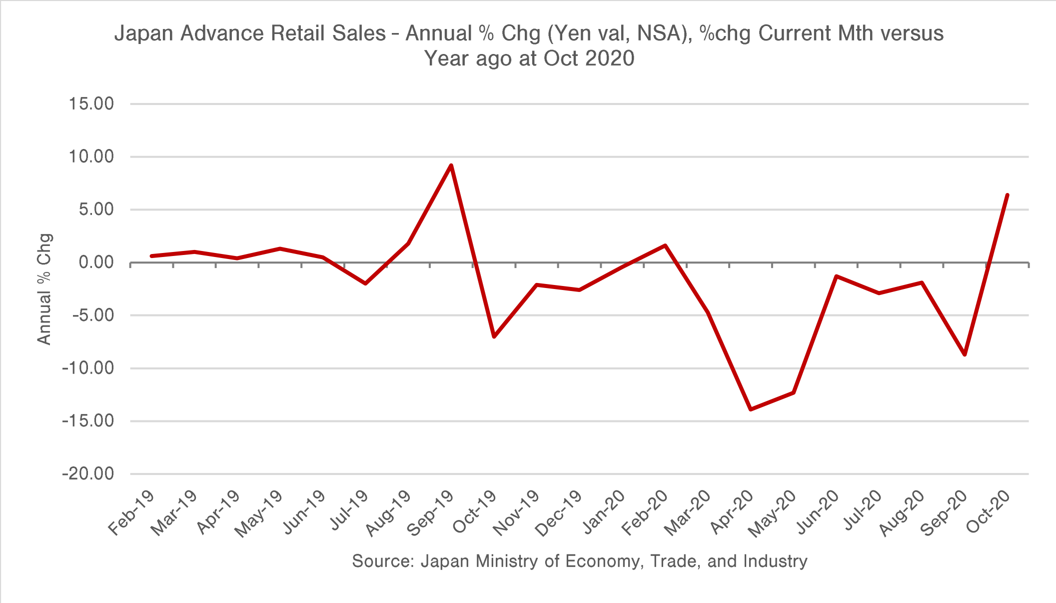
Growth was positive for the month across two categories in value terms – Fabrics, Apparel, and Accessories +16.5% and Motor Vehicles +2.3%.

This offset declines across Food & Bev, Fuel, Machinery & Equipment, and General Merchandise.



On an annual basis, the value of retail sales jumped versus a year ago. This is partly a base effect from the sales tax increase in Oct of last year. Retail sales were brought forward into Aug and Sep before the increase in Oct.

Retail Sales (val) – annual change: Oct +6.4% versus Sep -6.7%



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

Japan Industrial Production Prelim (Oct)

The level of production and shipments continued to rebound across most industries in Oct. The Oct production forecast is for growth to slow slightly in Nov and to decline in Dec.

Inventory of finished goods remains below a year ago across most industries. This is likely a function of cost reduction as well as a hangover from supply chain disruptions.

PRODUCTION

Industrial production continued to increase this month, growing at a consistent, and high, pace. Production declined in only one industry this month – electronic parts and devices (-5.2%) after much stronger growth in Sep.

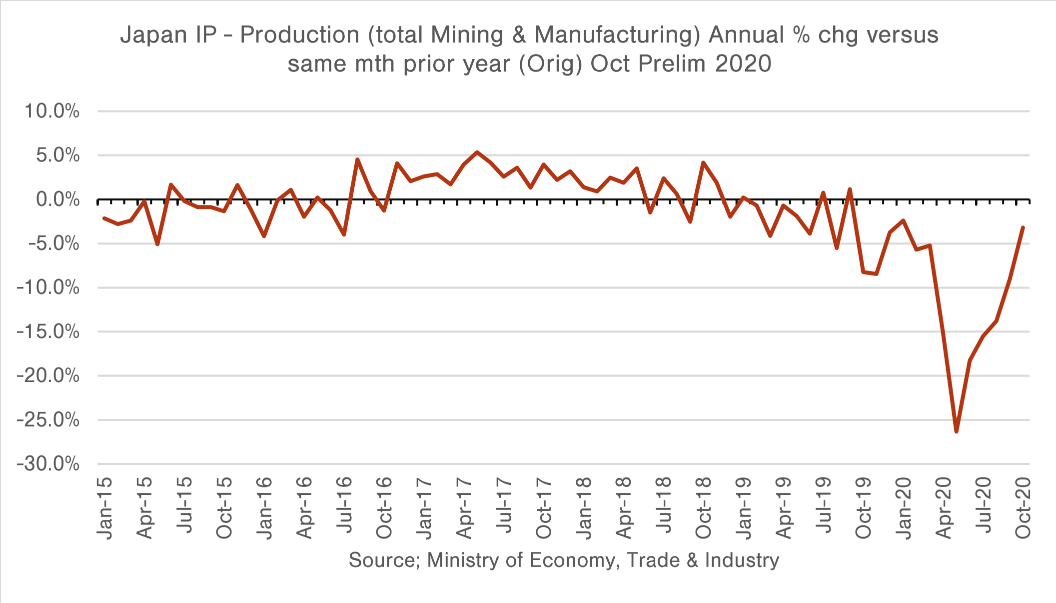
Production – month change (SA): Oct +3.8% versus Sep +3.9%

Production growth was stronger across general purpose and business machinery (+17.9%) and electrical machinery (+8.4%).

Growth remained consistent across iron & steel (+5.3%) and fabricated metals (+3%).

Growth “slowed” but remained high across production machinery (+3.4%) and transport equipment (+4.8%). Within transport equipment, production of motor vehicles increased by +6.8% in Oct after increasing by 11.4% in Sep.

Overall production continued to recover some of the lost ground from the global shutdowns. Production remains -3.2% below the same month a year ago, improving from -9% in Sep.



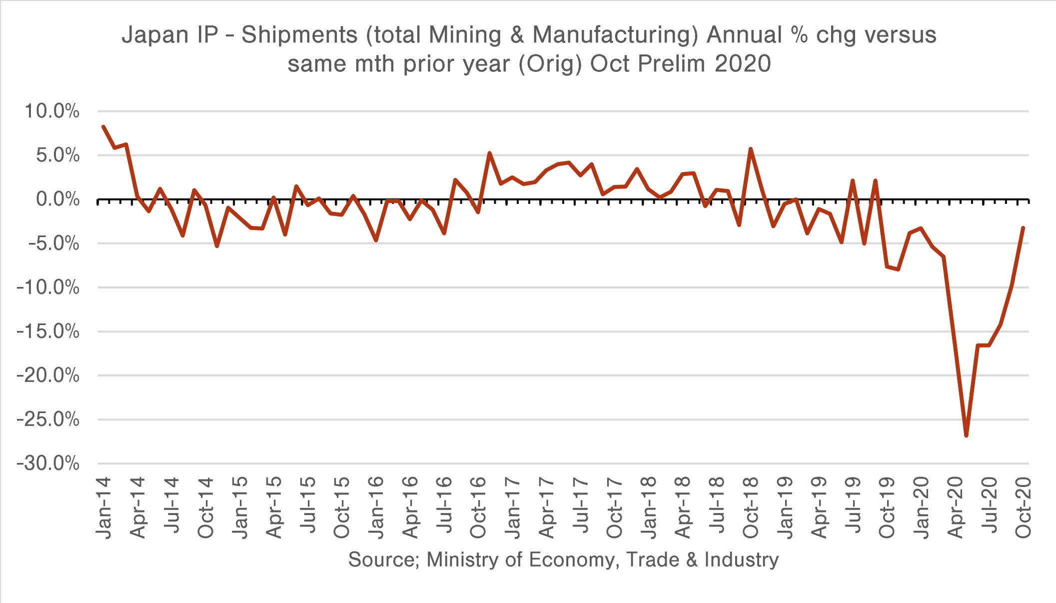
This recovery has been led by transport equipment which is now +0.3% ahead of a year ago (and motor vehicle production is now +4.2% ahead of the same month a year ago), electronic parts and devices (+2.4% ahead of a year ago), and electrical machinery -0.1% below a year ago).

<u>Shipments – month change</u>: Oct +4.6% versus Sep +3.9%

Shipment growth was similarly robust across most industries. The only industry to record a decline in shipments for the month was electronic parts and devices (-10% in Oct after +7.5% in Sep).

Of note was the continued growth in motor vehicle shipments +10% in Oct versus +12% in Sep.

Overall shipments continue to recover some of the lost ground from earlier in the year. Shipments in Oct were -3.2% below the same month a year ago (in Sep shipments were down by -10%).

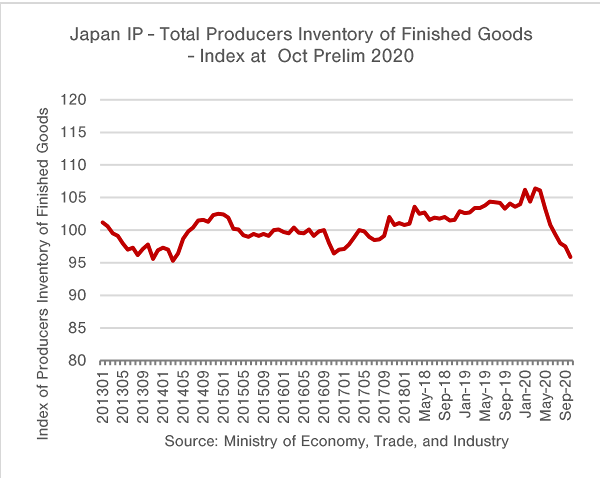


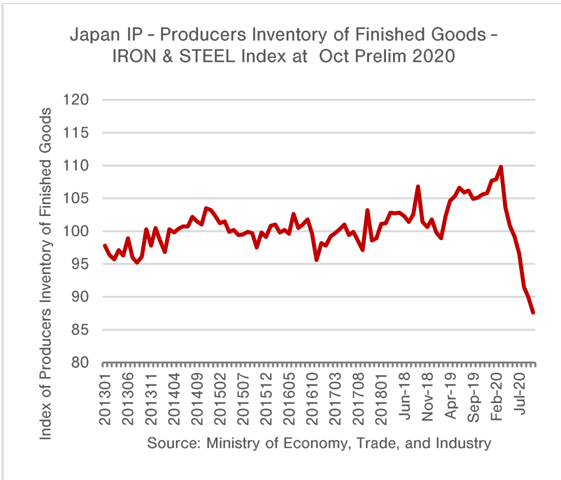
Several industries contributed to the rebound in shipments. While transport equipment shipments are still down -3% on a year ago, motor vehicle shipments are up +4.4%, and electrical machinery is +3.2% ahead of a year ago.

Producers Inventory of Finished Goods – month change: Oct -1.6% versus Sep -0.5%

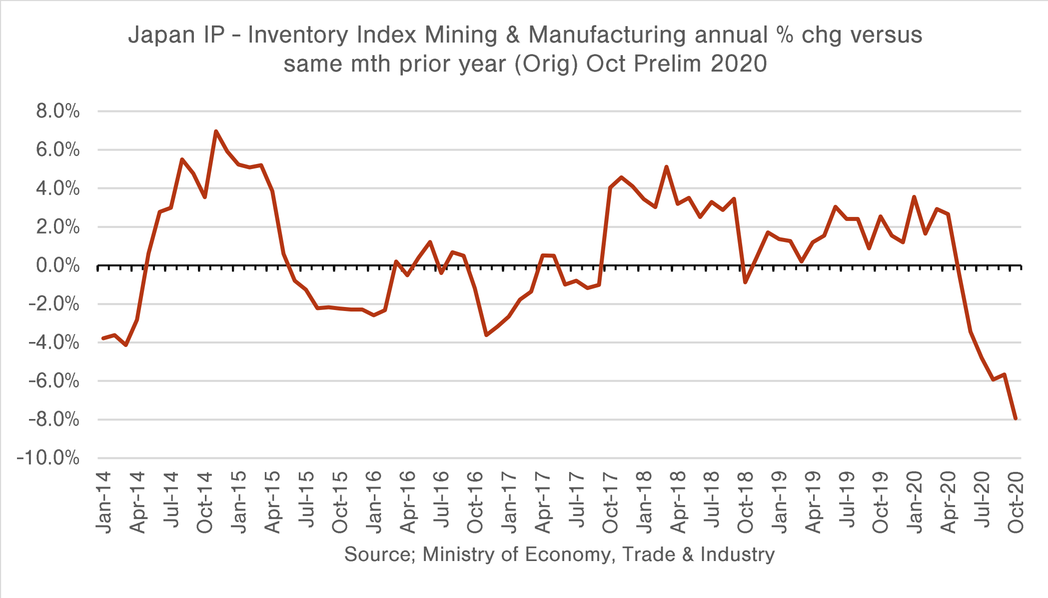
Inventory continued to decline this month – and that decline was recorded across all industries in this prelim release.

The weightings in the inventory index are different from the shipments and production indexes. Iron and steel have the largest weight in the inventory index, and this is shaping the overall trend of the decline:



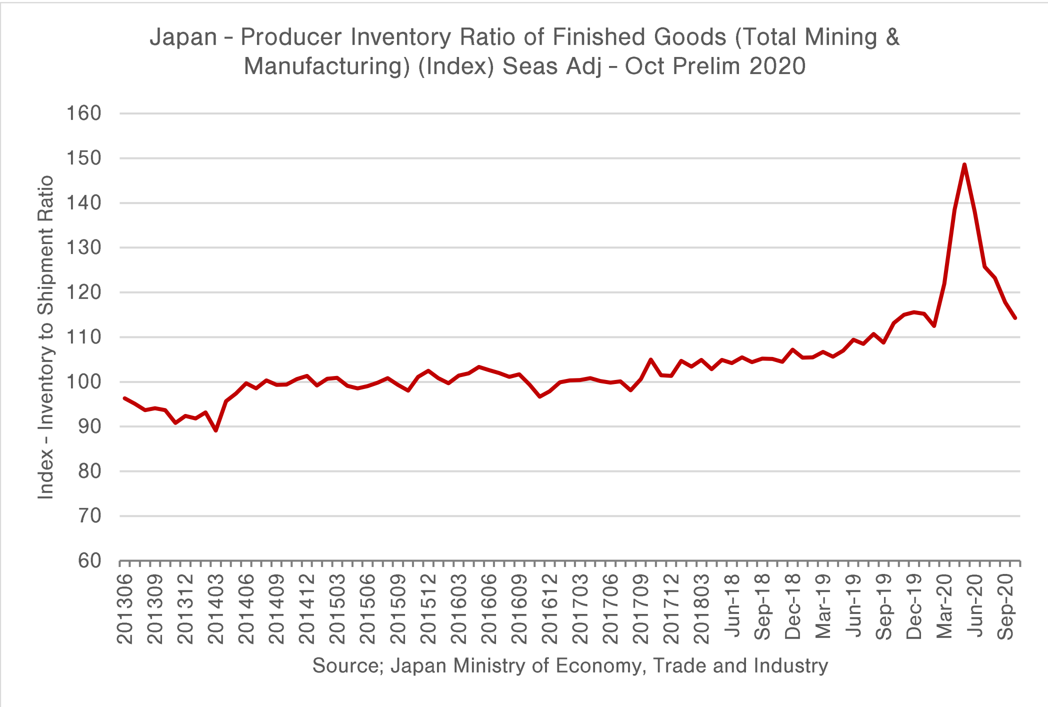


Overall inventory levels are -8% below the same month a year ago.



This has been led lower mostly by iron and steel (-16.7%), but also fabricated metals (-1.7%), production machinery (-8%), electronic parts and devices (-16%), electrical machinery (-9.2%), and transport equipment (-7.1%) – including motor vehicle inventory which is -6.6% below a year ago.

The inventory ratio is now closer to the pre-shutdown levels.



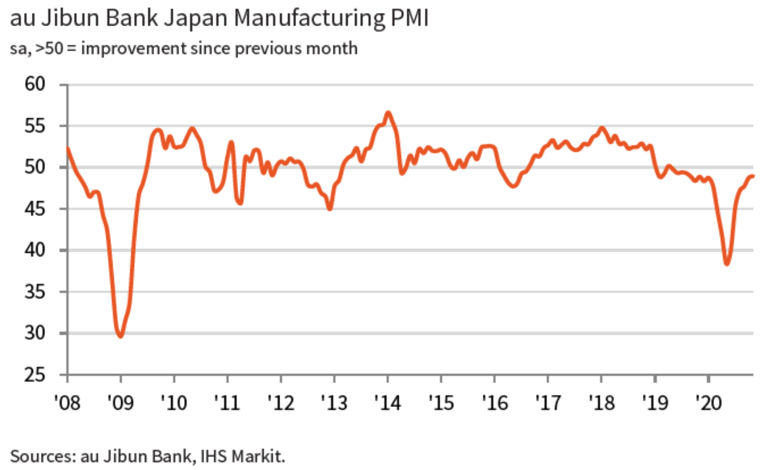
https://www.meti.go.jp/english/statistics/tyo/iip/index.html

Japanese Markit Manufacturing PMI (Nov)

The Markit manufacturing PMI index indicated a further contraction in activity in Nov but at a slower pace than in Oct.

There was a further slight contraction in output and new orders, although both recorded marginal declines. This is in contrast to the industrial production data which has recorded growth in output for several months now. The difference between the two is what each report is measuring (number of firms versus volume). For the volume of Japanese manufacturing output and shipments, the Markit report paints a more negative picture of activity.

Headline Manufacturing PMI: Nov 49 versus Oct 48.7



The output and new order decline were marginal this month. Firms still cited weaker demand conditions.

> Lower sales were often attributed to difficult trading conditions as a result of a surge in COVID-19 infections, which had dampened business and client confidence in both domestic and overseas markets.

Backlogs of work continued to fall indicating further spare capacity issues. Firms continued to reduce employment, albeit at a slower pace than in Oct.

This month firms noted a further, albeit more modest, increase in input costs. At the same time, firms reduced selling prices.

Firms noted further difficulties in sourcing raw materials. As a result, inventories of inputs and finished goods continued to decline. This is consistent with the inventory data in the industrial production report (which is a month behind).

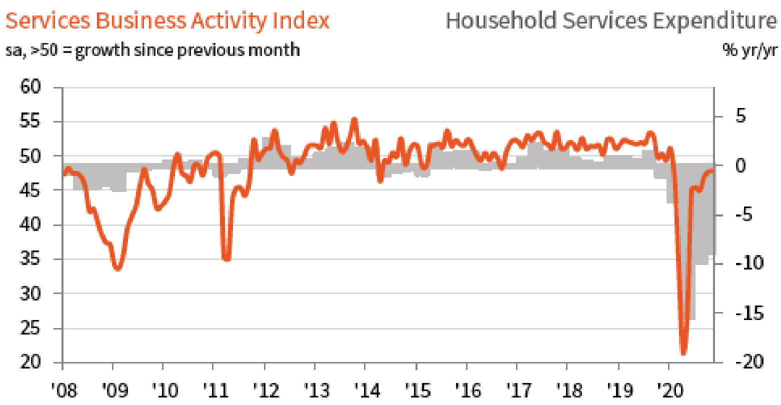
https://www.markiteconomics.com/Public/Home/PressRelease/de0afef69bc44f0bb06db576ea42e07a

Japanese Markit Services PMI (Nov)

The headline services business activity index (services output) indicated that activity continued to decline at a similar pace in Nov.

> Panellists highlighted that a third wave of COVID-19 infections had depressed demand and led to more challenging business conditions in the service sector.

Headline Services Business Activity Index: Nov 47.8 versus Oct 47.7



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

While the decline in output was little changed in Nov, the decline in new orders/work accelerated. New orders declined at the fastest pace since Aug and it was the tenth month-on-month decline.

Employment growth continued to decline. In the absence of new order growth, firms completed backlogs of orders instead.

Despite the somewhat bleaker conditions, Japanese service firms were optimistic about a recovery in activity over the coming year.

> Respondents cited hopes of a boost to demand through the offering of new services and the rescheduled Olympic Games once the pandemic ends as key factors underpinning confidence.

https://www.markiteconomics.com/Public/Home/PressRelease/aad2da7c7fe84dd6a88a1cea8d1019c6

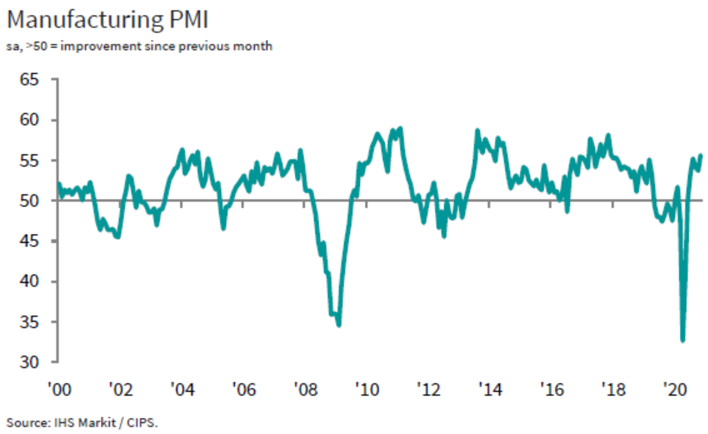
Return to top

United Kingdom

Markit Manufacturing PMI (Nov)

The manufacturing PMI indicated that activity expanded at a faster rate in Nov compared to Oct. Much of the increase in activity was related to preparation for the end of the Brexit transition period.

Headline Manufacturing PMI: Nov 55.6 versus Oct 53.7



Production continued to increase at a slightly faster pace in Nov compared to Oct. Production of investment and intermediate goods continued to increase while the production of consumer goods declined for the second month.

New orders increased in Nov but at a slower pace. New export work was stronger as EU clients placed orders in preparation for the end of the transition period.

> The upcoming end to the Brexit transition period also affected the trends in purchasing, stocks and supplier lead times. Input buying volumes increased to the greatest extent since March 2019, mainly to achieve the steepest growth in stocks of purchases for over a year.

Despite the pulse of activity in Nov, employment continued to decline in the sector. Firms cited cost reduction initiatives to manage the ongoing Covid impacts.

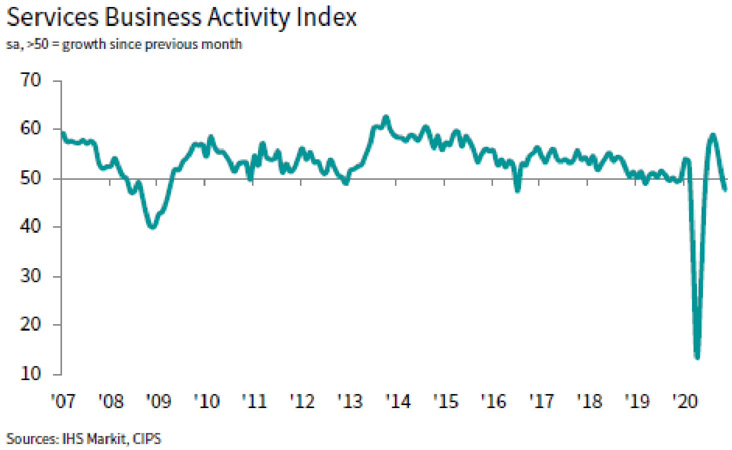
https://www.markiteconomics.com/Public/Home/PressRelease/4f36838def714452ad7f8b7906bbced7

Markit Services PMI (Nov)

Services activity shifted back into contraction this month as social distancing restrictions were reinstated.

> Despite a second national lockdown in England and ongoing curbs on customer-facing enterprises elsewhere across the UK, the speed of the downturn was much softer than the slump recorded during the second quarter of 2020.

Headline Services Business Activity Index: Nov 47.6 versus Oct 51.4



New business declined for the second month mostly due to the reimposition of restrictions. Export work declined notably this month amid travel restrictions especially.

Employment declined at an accelerated pace this month – the fastest pace in three months.

> There were again widespread reports of redundancies, reflecting shrinking customer demand, pressure to cut costs and concerns about the speed of recovery.

Firms noted higher input costs this month. Margins were impacted as firms continued to reduce selling prices.

Like most other reports, business optimism improved this month especially on the news of a vaccine.

> The degree of confidence towards the year ahead outlook was the highest since February. Around 60% of the survey panel expect a rise in business activity during the next 12 months, while only 15% forecast a reduction.

https://www.markiteconomics.com/Public/Home/PressRelease/f7bda5659a774817a5c4a71db988e1ff

Return to top

Australia

Real GDP Q3

The value of Aus GDP in real terms, rebounded by +3.3% in Q3. While this is a high level of growth for the quarter, the rebound still has a long way to go before output growth is back on the pre-shutdown trajectory. Real GDP remains -3.8% below the same quarter a year ago.

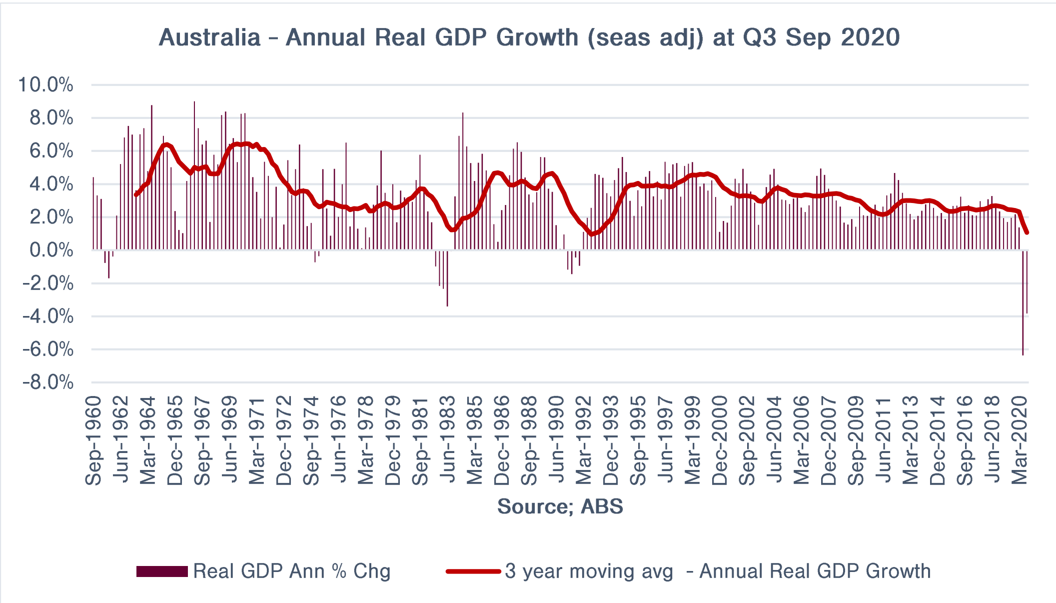
This quarter's rebound was led mostly by household consumption expenditure and a positive contribution from the change in inventories. Expenditure has been well supported by enhanced government support, tax-free superannuation withdrawals, and rent/mortgage payment holidays. Government consumption expenditure also made a positive contribution to growth this quarter. Offsetting this growth was a substantial contraction in net exports.

The pre-existing trend of declining private gross fixed capital formation (investment spending) worsened further in this latest quarter.

The recovery is a process that will unfold over the next several quarters, especially as internal borders reopen and restrictions across most states begin to be eased.

Real GDP – quarter change; Q3 +3.3% versus Q2 -7%

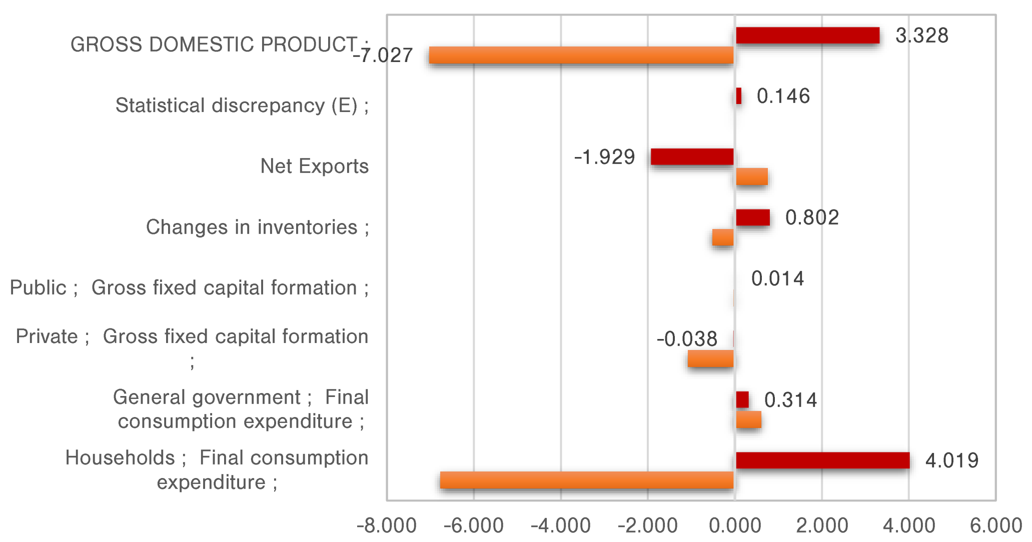
While the headline rebound growth was high for the quarter, the level of output in Q3 remains -3.8% below the same quarter a year ago.



Expenditure View of GDP

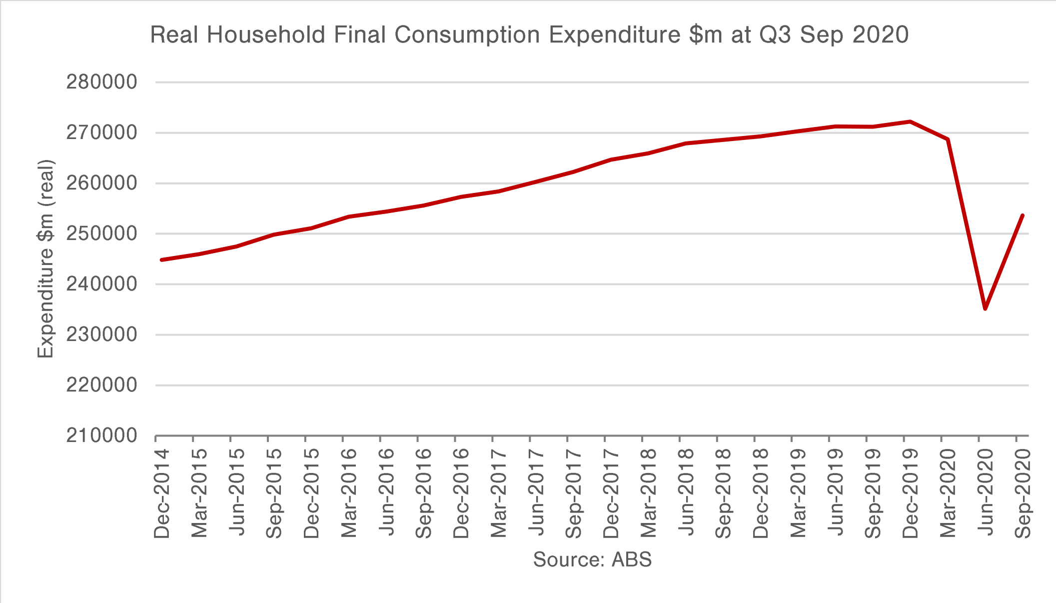
The quarter rebound was led mostly by a partial rebound in household consumption expenditure.

% Pt Contribution to Real GDP Growth Latest Qtr v Prior Qtr (seas adj) at Q3 Sep 2020



	Households ; Final consumption expenditure ;	General government ; Final consumption expenditure ;	Private ; Gross fixed capital formation ;	Public ; Gross fixed capital formation ;	Changes in inventories ;	Net Exports	Statistical discrepancy (E) ;	GROSS DOMESTIC PRODUCT ;
Latest Qtr Q3 SEP 2020	4.019	0.314	-0.038	0.014	0.802	-1.929	0.146	3.328
Prior Q2 JUN 2020	-6.774	0.601	-1.079	-0.028	-0.511	0.752	0.011	-7.027

Household consumption made the single largest contribution to headline growth in the quarter. Consumption increased by 7.8% in Q3 after declining by -12.5% in Q2. On an annual basis, household consumption remains -6.5% below the same month a year ago.

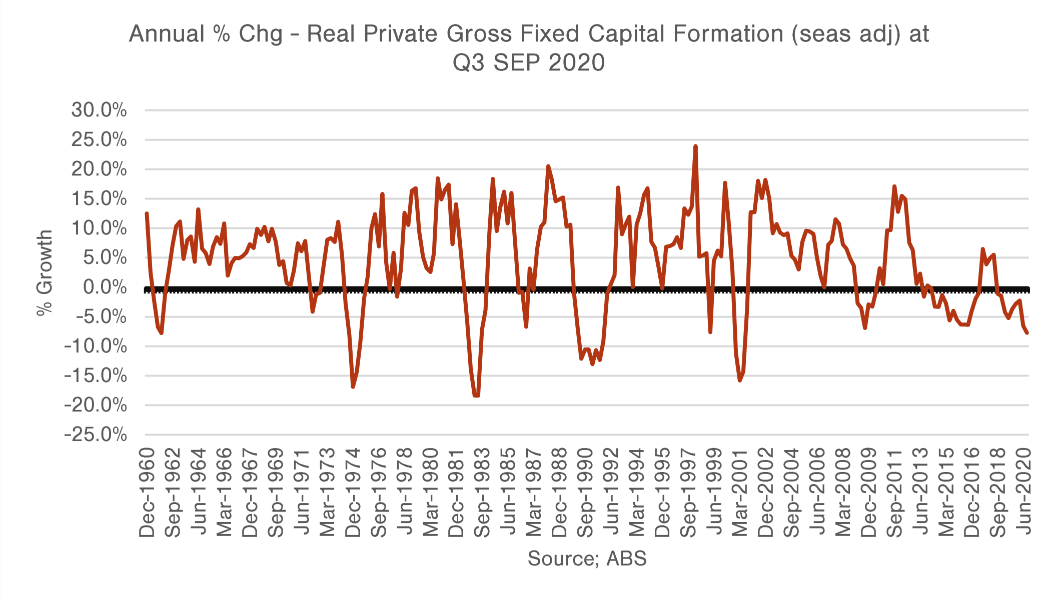


Expenditure growth will likely continue to improve as restrictions on activity are eased. This may be offset somewhat by the expiration of government support at the end of Q1 in 2021 and the slowing of superannuation withdrawals. The reduction of unemployment and employment growth will remain important.

General government consumption expenditure also made one of the larger contributions to headline GDP growth, adding +0.3%pts to growth for the quarter.

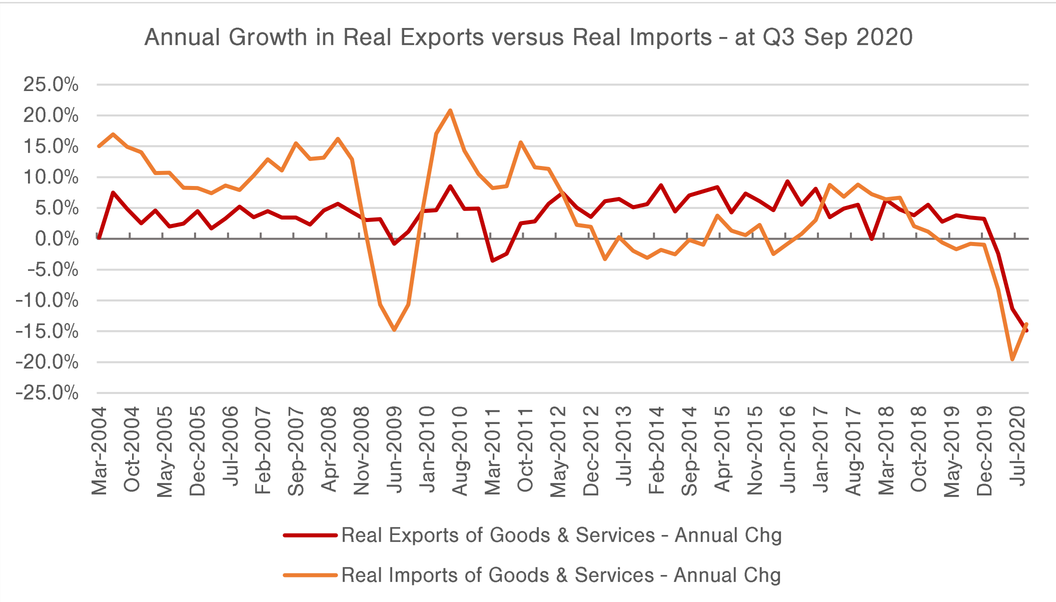
Private gross fixed capital formation declined by a further -0.2% in Q3 after declining by -6.6% in Q2. Dwellings and ownership transfer costs made a positive contribution to growth, but this was offset by a decline in private business investment of -3% in Q3 after declining by -5% in Q2 (the fourth quarterly decline in a row). Business investment expenditure is now -9.7% below the same quarter a year ago.

The annual decline in overall private investment spending accelerated to -7.7% in Q3. The global pandemic has exacerbated the existing weaker conditions in private investment spending in Australia.



The change in inventories made the second-largest contribution to headline GDP growth in the quarter adding +0.8%pts to growth. The decline in inventories in Q3 was significantly smaller than in Q2.

The decline in net exports partially offset the growth in the domestic sector. In the quarter, net exports detracted -1.9% pts from headline GDP growth. This was a function of a further decline in exports of -3.1% in Q3 and an increase in imports of +6.5%. The annual change in the value of real exports and imports highlights the weakness in the external sector. The annual decline in exports accelerated to -15% and imports rebounded somewhat to -14% below a year ago.



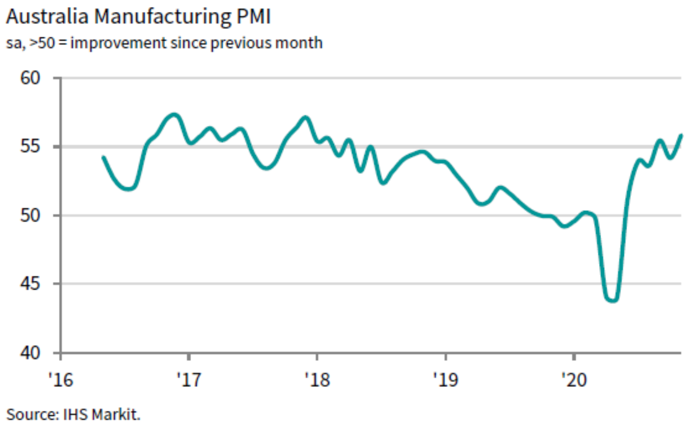
Imports will likely continue to rebound as consumption growth returns. The issue with exports may persist as our main export market continues to place barriers on Aus exports.

https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-national-income-expenditure-and-product/sep-2020

Markit Manufacturing PMI (Nov)

Manufacturing activity continued to grow at a faster pace this month. Momentum around output and orders remained strong this month.

Headline Manufacturing PMI: Nov 55.8 versus Oct 54.2



Both output and new orders increased at a faster pace this month. Orders increased for the fifth month. Demand was fuelled by domestic activity while new export work continued to decline. Firms noted, “pent up demand” as behind the current pulse of growth.

Employment returned to growth this month, after declining in Oct.

Firms also noted higher input costs – especially for raw materials commodities.

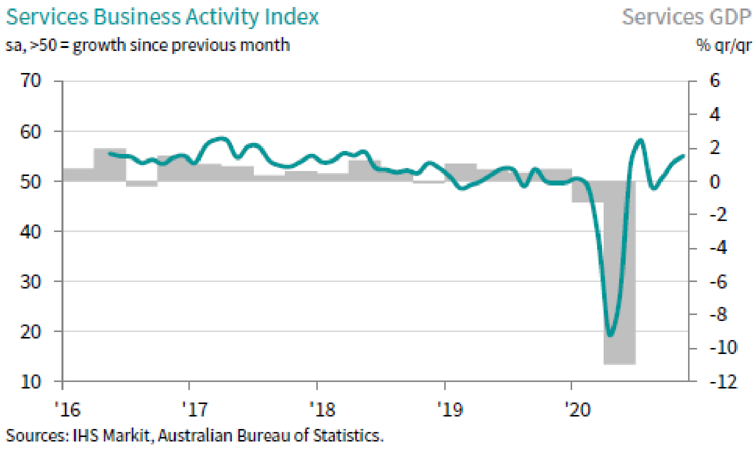
Confidence continued to increase regarding output growth in the year ahead.

https://www.markiteconomics.com/Public/Home/PressRelease/929b87e5a5a44982ab0bfa488a15f03e

Markit Services PMI (Nov)

The headline services business activity index increased this month indicating a faster pace of growth in services output. The further easing of restrictions helped to boost activity this month.

Services Business Activity Index: Nov 55.1 versus Oct 53.7



New orders increased at a faster pace this month. Growth remained modest though – as new export work remained a drag on activity. Employment increased in the month and firms reduced backlogs of work.

Firms noted higher input costs this month:

> Greater business expenses were linked to higher wage costs due to reduced government subsidies and rising workforce numbers. Higher shipping costs and greater fuel prices also contributed to increased input prices. Greater outlays saw firms raise their selling prices for the first time in three months, with the rate of increase the fastest since February.

Despite the improved level of conditions, optimism around the outlook was positive but was lower in Nov than in Oct.

https://www.markiteconomics.com/Public/Home/PressRelease/01faecb0be684cd19735c35ab595adb2

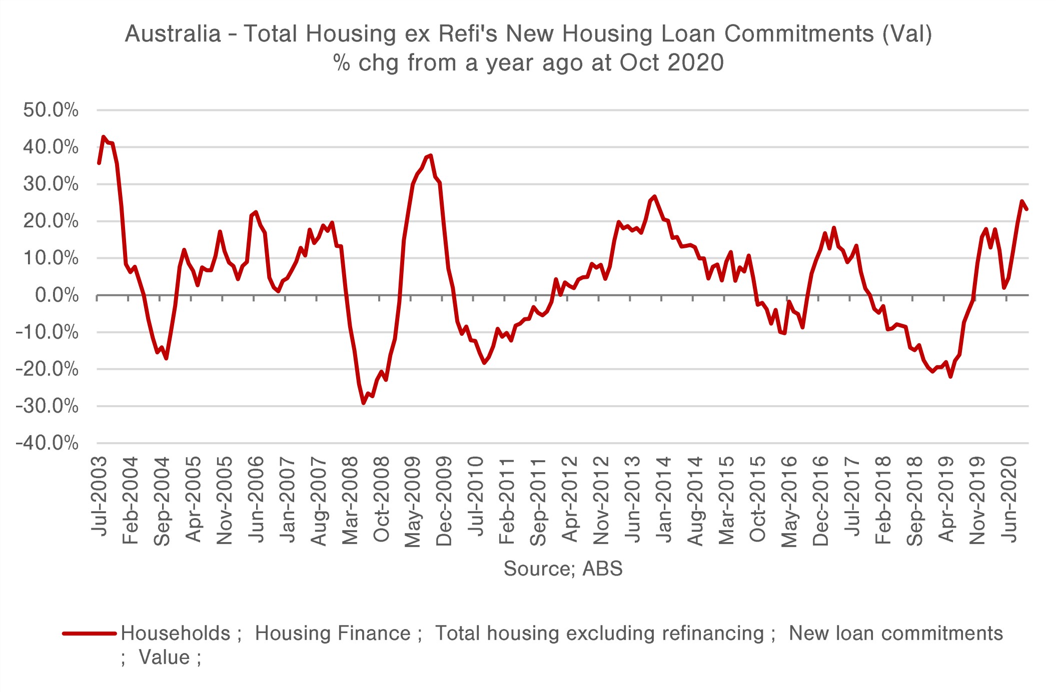
Housing Finance (Oct)

Housing finance continued to grow this month albeit at a much slower pace than in the two prior months. Growth this month was led mostly by owner-occupier First Home Buyers (FHB's). The continued weakness in lending for investors is likely helping to reduce the competition for properties for FHB's.

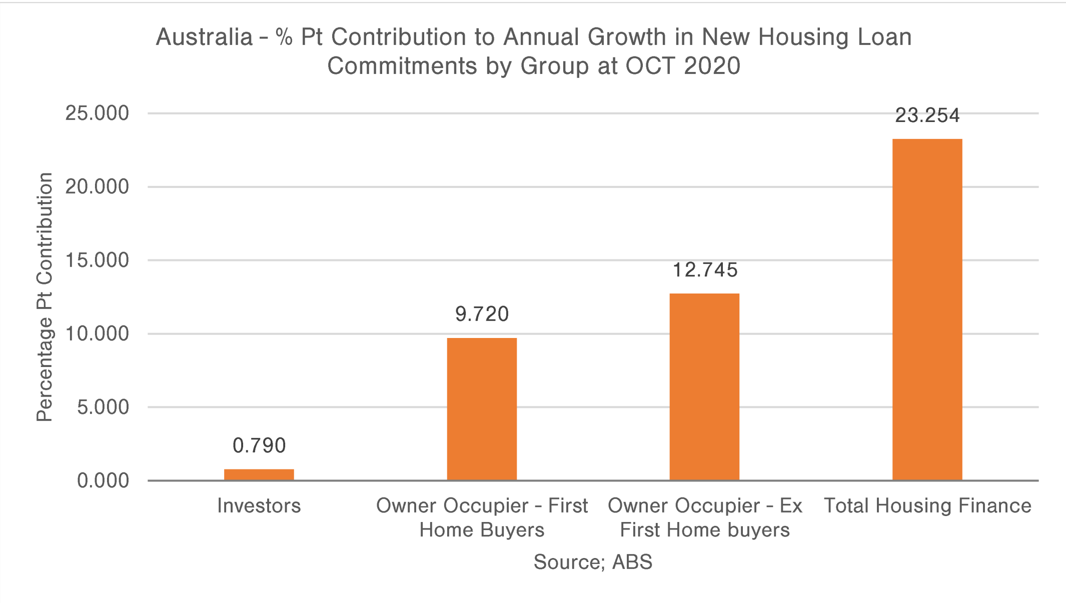
Total Housing Finance (val, ex refis) – month change: Oct +0.7% (+$147m) versus Sep +5.9%

The growth this month was led by owner-occupier FHB's and to a smaller degree investors. This helped to offset the decline in owner-occupier's ex FHB's for the month.

On an annual basis, the value of new housing finance commitments ex refis is now growing by +23.3% (current month versus the same month a year ago).



On an annual basis, the growth in owner-occupier lending continues to drive the growth in overall lending finance. Growth in investor lending finance has been subdued.

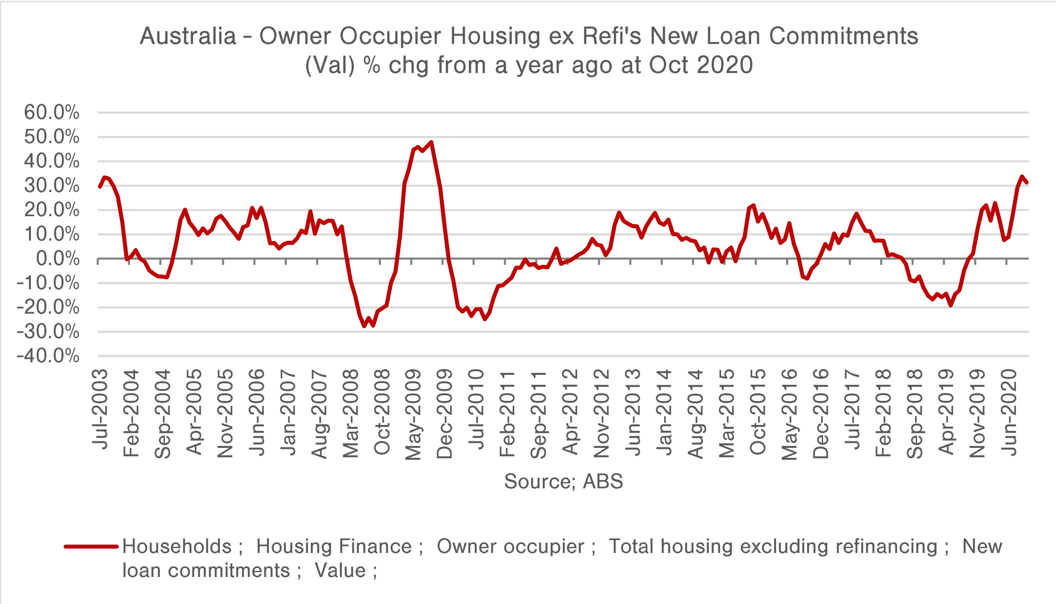


<u>**Owner Occupier Housing Finance (val, ex refis) – month change**</u>: Oct +0.8% (+$129m) versus Sep +6%

The growth this month was all owner-occupier FHB's +3.1% (+$166.6m) in Oct versus +5.6% in Sep.

Excluding FHB's, the value of new owner-occupier housing finance commitments declined by -0.3% in Oct (-$37m) versus +6.2% in Sep.

On an annual basis, the value of new owner-occupier housing finance commitments increased by 31% in Oct (versus the same month a year ago). The is an extremely elevated level of growth.

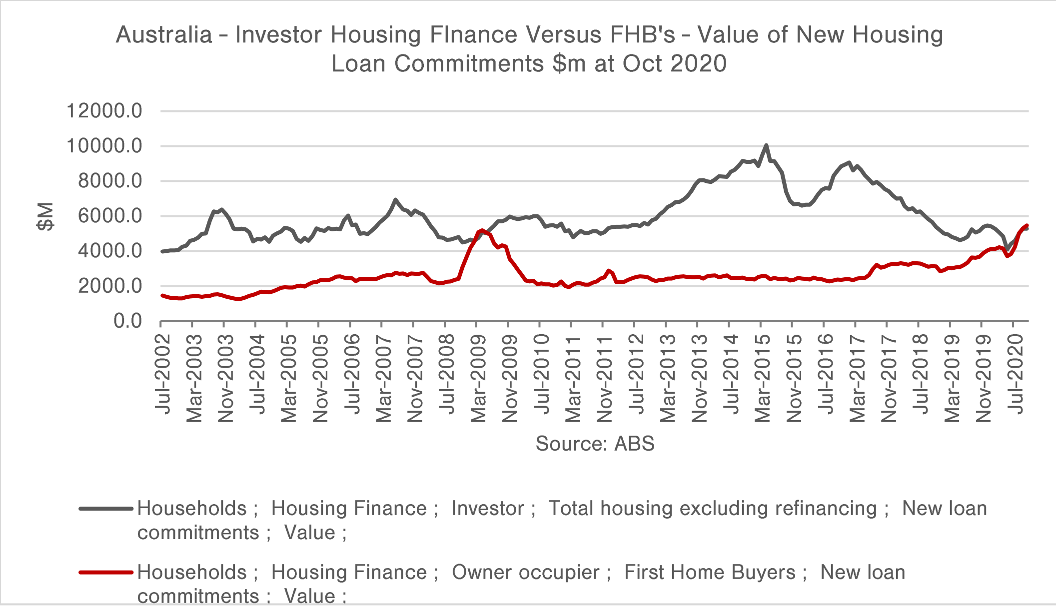


The value of FHB housing finance commitments has increased by approx. 49% versus the same month a year ago. Growth in owner-occupier non-FHB's finance commitments increased by +24% versus a year ago.

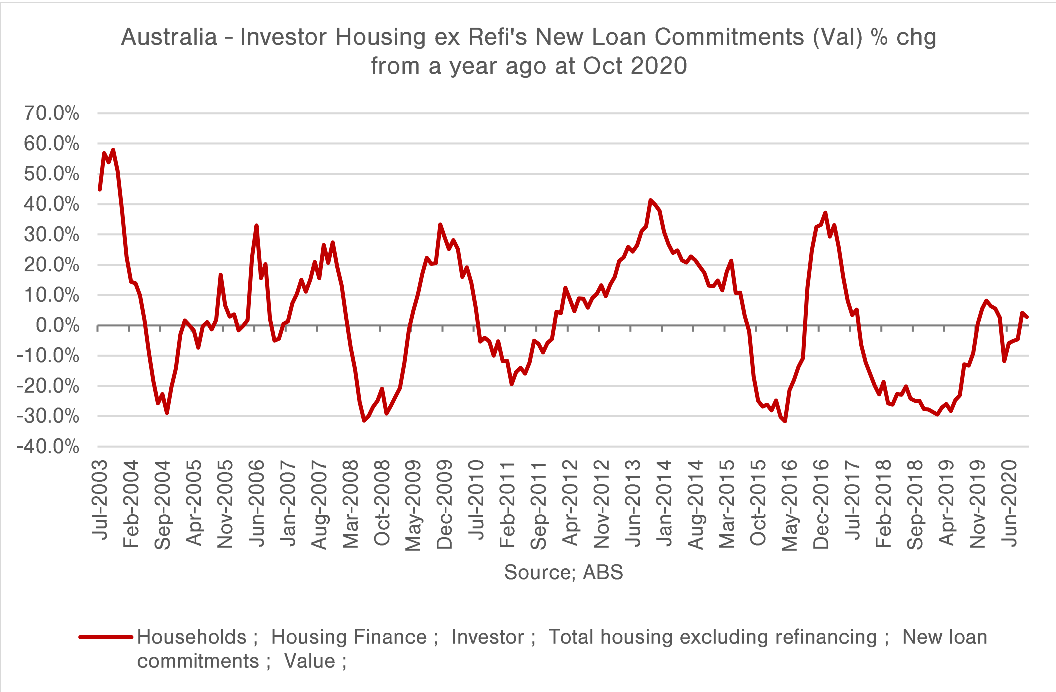
Investor Housing Finance (val ex refis) – month change: Oct +0.3% (+$17m) versus Sep +5.2%

Investor lending growth slowed notably this month and lending activity remains subdued compared to recent history. To illustrate, the value of new housing finance commitments for FHB's has exceeded that of investors only six months in the data history (back to 2002).

The first time was for three months in 2009 during the GFC when the Labour government provided FHB grants. The second time is in the last three months. While there have been FHB grants provided, the value of FHB lending has been increasing more gradually, starting from mid-2017 and more notably from the middle of last year. This corresponds to a more general weakness in investor lending.



On an annual basis, investor lending increased by +2.8% versus the same month a year ago (slowing from +4% in Sep). The rebound on an annual basis has been much slower for investors than for owner-occupiers.



https://www.abs.gov.au/statistics/economy/finance/lending-indicators/oct-2020#data-download

Retail Sales (Oct)

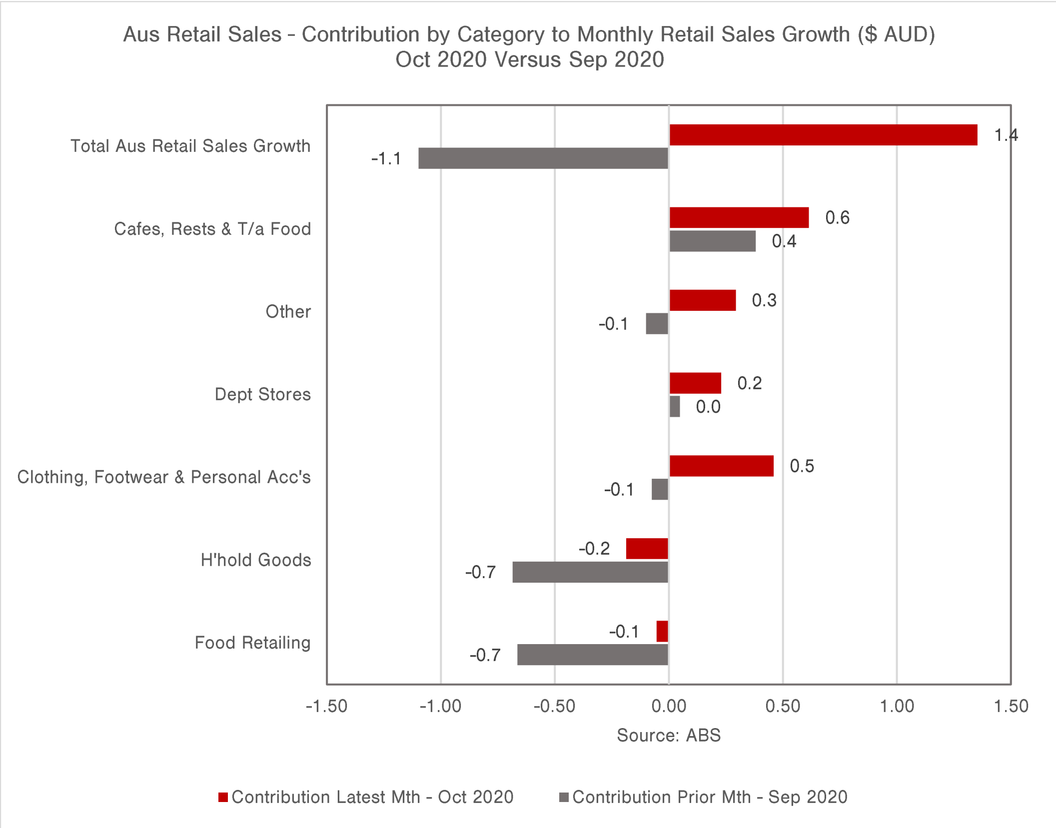
The retail sales result in Oct improved after a decline in the month prior. The drivers of this result were both state and category led. On a state basis, Victoria was the single largest contributor to overall growth this month – as restrictions started to be eased. Four categories contributed to growth this month and growth accelerated across cafes and restaurants, clothing, dept stores, and 'other'.

__Retail Sales ($ val) – month change__: Oct +1.4% versus Sep -1.1%

Turnover by category reflects the shifts in behaviour from the lifting of restrictions. Continued lower at-home consumption and acceleration in more physical out of home shopping and consumption.

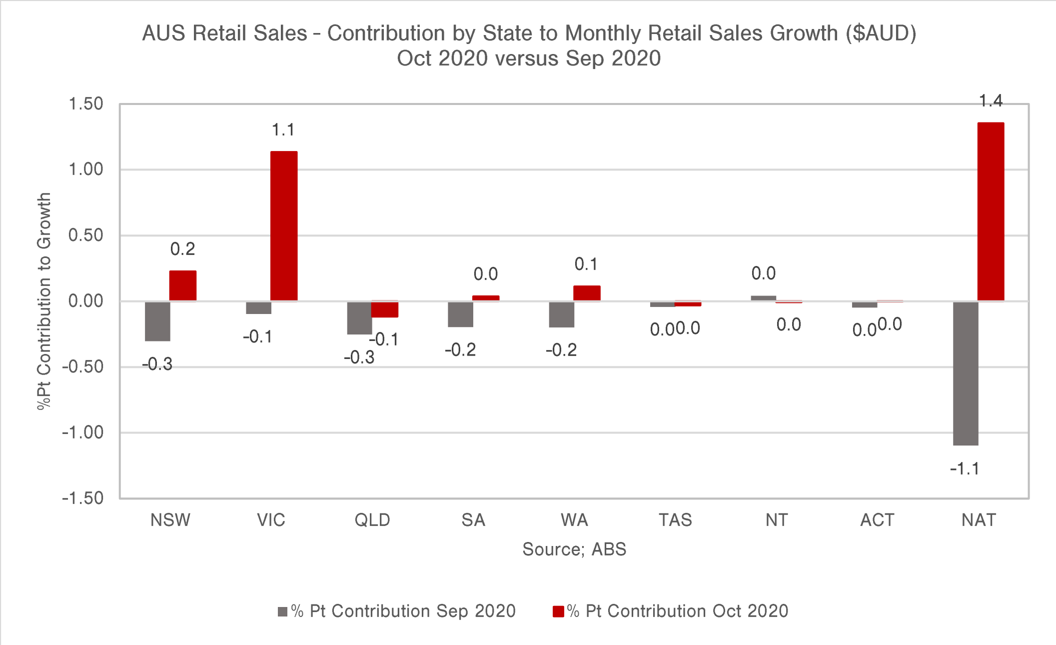
Food & Bev (grocery) declined again this month but remains +12% ahead of the same month a year ago.

Household goods also declined this month for the second month but is also still +15% ahead of the same month a year ago.



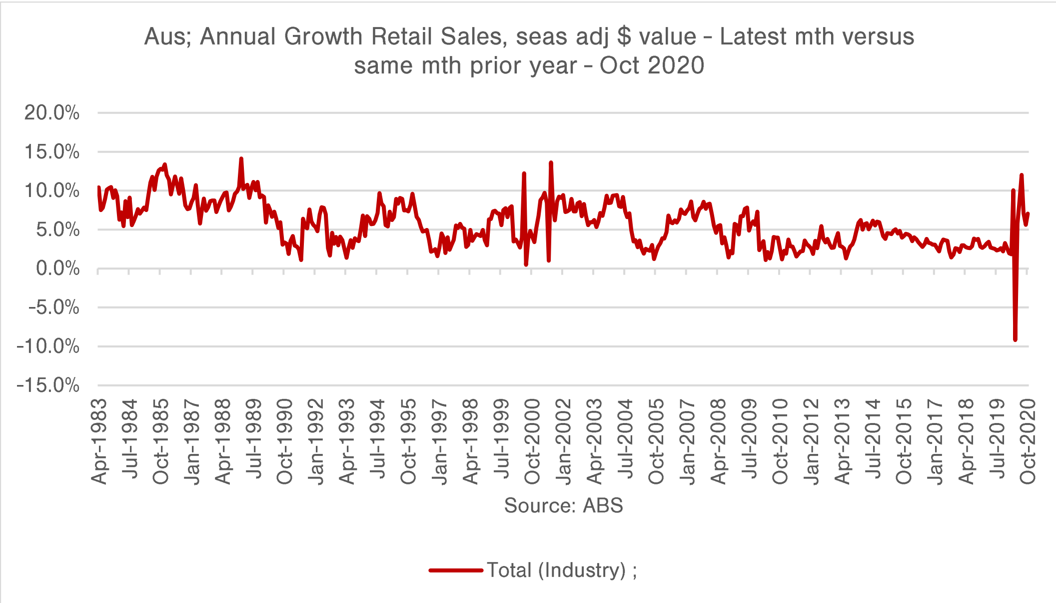
There was a continued rebound in out of home food consumption, visits to department stores and clothing stores, and 'other' retailing. Sales across cafes and restaurants, clothing stores, and department stores remain below the same month a year ago.

The state-based view is arguably the more insightful view of the driver of retail growth this month. The value of retail sales growth in Victoria made the single largest contribution to headline growth this month – as restrictions began to be eased.



The weaker monthly growth across many states in Oct is likely to reverse in the next few months as domestic borders are re-opened and local restrictions are eased further.

<u>Retail Sales ($ val) – annual change:</u> Oct +7.1% versus Sep +5.6%



The peak in retail sales was reached in Jul 2020 ($30.7bn in sales) and sales in Oct are only -3% below the peak. Retail sales will start to reflect the shift in expenditure during the holiday season to local/domestic tourism.

https://www.abs.gov.au/statistics/industry/retail-and-wholesale-trade/retail-trade-australia/oct-2020

RBA Rates Decision – 1 Dec 2020

The RBA kept rates on hold and policy settings unchanged at this meeting (after implementing significant changes to settings in the prior month).

Current Conditions

The RBA noted mixed conditions globally. Some growth momentum had been lost in Europe, UK, and the US as infection rates had risen sharply again. But the positive news was that a vaccine will likely help to support the recovery from 2021.

Conditions in Australia had been better than expected, but the recovery will remain uneven.

Goals

The RBA remains firmly focused on reducing total unemployment as a "National priority".

Forward Guidance

The Board notes that both monetary and fiscal support will be needed "for some time" to support both employment and inflation objectives.

> For its part, the Board will not increase the cash rate until actual inflation is sustainably within the 2 to 3 per cent target range.

For this to happen, wage growth will need to accelerate. Wage growth will only accelerate once labour market spare capacity has been greatly reduced (both unemployment and underemployment).

> Given the outlook, the Board is **not expecting to increase the cash rate for at least 3 years**.

> The Board will keep the size of the bond purchase program under review, particularly in light of the evolving outlook for jobs and inflation. The Board is prepared to do more if necessary.

https://www.rba.gov.au/media-releases/2020/mr-20-32.html

Return to top