MARS CAPITAL PARTNERS

Weekly Macro Review

w/c 7 December 2020

Key Themes

The roll-out of Covid-19 vaccines is helping to improve sentiment. While prospects for the future are improving, there remains a more immediate/impending issue of the economic impact from the current outbreak as well as the general pace of recovery.

In the US, consumer sentiment recorded a surprising improvement – driven by sentiment around the longer-term outlook. Current prospects for the economy and household finances were unchanged. There were still expectations that in the immediate term unemployment would increase and incomes would decline, given the severity of the current outbreak.

In the week after Thanksgiving, US initial claims increased sharply. This is the first week where a notable increase has been recorded, especially during this latest outbreak of infections. It is not clear whether this is a shift in trend. From the Oct JOLTS and Nov non-farm payrolls data, we know that there were also large layoffs of temporary Census workers.

The JOLTS data for Oct showed a continued improvement in the net employment change for the month, but the annual net employment change was still a -5.65m decline in employment. While this was an improvement from the -6.2m decline in employment in Sep, these results are significantly below the average growth of +2.1m in employment recorded through 2019. Hires are now ahead of a year ago and layoffs and discharges are 5% below a year ago. Quits remain an insightful gauge. The level of quits is still 10% below a year ago – indicating either a lower willingness or ability of workers to change jobs. Job openings are also still 9% below a year ago, so the availability of jobs likely remains an issue.

The US CPI report was interesting this month. The pandemic has resulted in sharp shifts in spending patterns. Broadly, less air travel, less eating out, reduced discretionary spending, leaving densely populated areas (if possible), and more local/at home-based consumption. There are some small indications that severe price declines across categories such as apparel and airline fares are starting to reverse. This may be a small indication of returning demand, or at least, less deep discounting required.

The ECB announced additional support at the latest meeting. Rates remained unchanged, but pandemic-related QE was increased. The TLTRO III was also expanded for banks, and most of the other easing measures and emergency programs were extended indefinitely. It will be interesting to see the extent to which the US FOMC will respond this week to the current US situation.

Contents

US Data

Initial Jobless Claims (wk ending 5 Dec), Continuing Unemployment Claims (wk ending 27 Nov), and PUA Claims

In a disappointing turn of events, total initial claims shifted sharply higher in the week after Thanksgiving. Across state and federal programs, initial claims were +1.375m for the week ending 5 Dec. In the prior week, initial claims had fallen to just over 1m.

The information regarding ongoing claims across all programs is available for the wk ending 21 Nov – the week before Thanksgiving. The number of ongoing claims, across all programs, in the week ending 21 Nov fell below 20m for the first time. Given the more recent uptick in initial claims, this trend may reverse in the coming weeks.

As a side note, the Nov non-farm payrolls and Oct JOLTS reports noted the decline in federal temporary Census employees. The increase in the initial claims could be part of that flow-on effect.

REGULAR STATE PROGRAMS

Initial Claims (state) wk ending 5 Dec 2020 (NSA): 947,504 new claims by people

This is an increase of over +220k claims after the Thanksgiving holiday.

Continuing Claims (state) wk ending 28 Nov 2020 (NSA): 5,780,893 ongoing claims by people

The number of continuing claims going into the Thanksgiving holiday week was +500k higher than in the prior week.

FEDERAL PROGRAMS – PANDEMIC UNEMPLOYMENT ASSISTANCE (PUA) AND EMERGENCY UNEMPLOYMENT COMPENSATION (PEUC)

Initial PUA Claims wk ending 5 Dec 2020 (NSA): 427,609 new claims

This is also an increase of over +100k compared to the Thanksgiving holiday week.

Continuing PUA Claims wk ending 21 Nov 2020 (NSA): 8,555,763 ongoing claims

This is the week before Thanksgiving – and claims had been trending lower. The ongoing PUA claims were over 300k lower than in the week prior (14 Nov).

Continuing PEUC Claims wk ending 21 Nov 2020 (NSA): 4,532,876 ongoing claims

These PEUC claims were little changed compared to wk ending 14 Nov. This is also the week before Thanksgiving when claims were trending lower.

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

University of Michigan Consumer Sentiment Prelim (Dec)

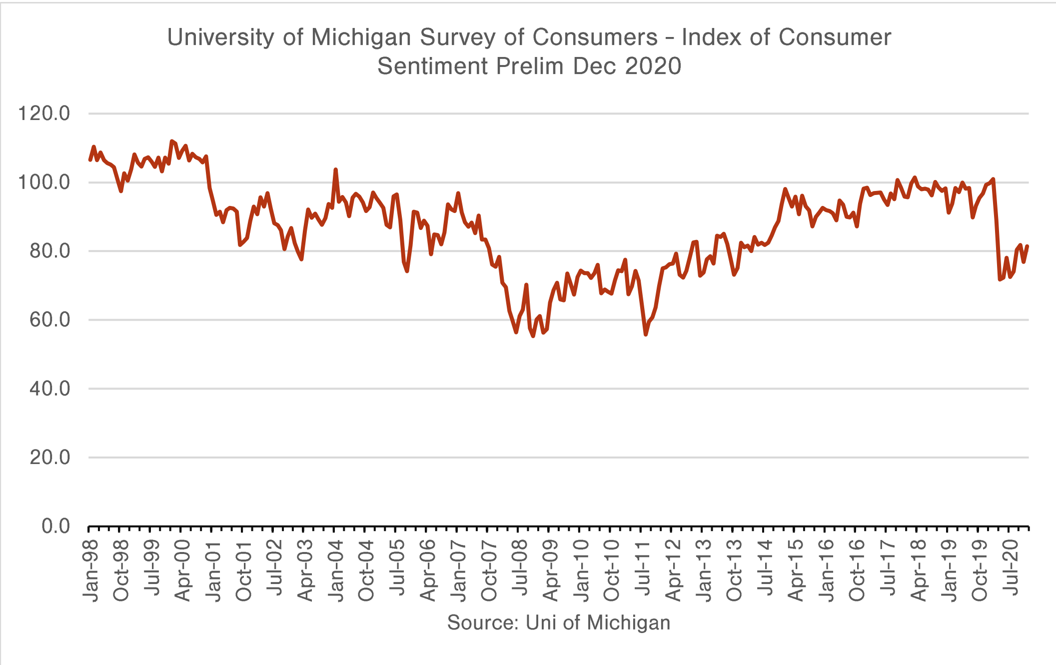
Consumer sentiment improved in early Dec:

> Most of the early December gain was due to a more favorable long-term outlook for the economy, while year-ahead prospects for the economy as well as personal finances remained unchanged.

<u>Headline Consumer Sentiment – month:</u> Dec prelim 81.4 versus Nov 76.9

The rebound in Dec is just slightly below the Oct level of sentiment. Much of the rebound this month was led by a "partisan shift in economic prospects".

> Democrats became much more optimistic, and Republicans much more pessimistic, the opposite of the partisan shift that occurred when Trump was elected.

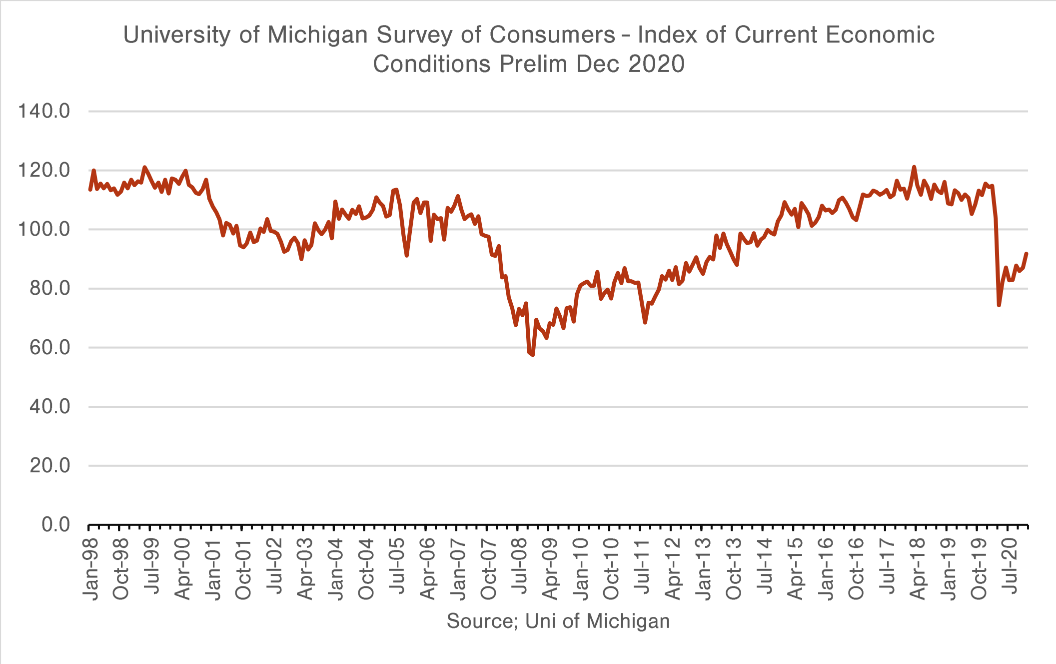


<u>Index of Current Economic Conditions – month</u>: Dec 91.8 versus Nov 87

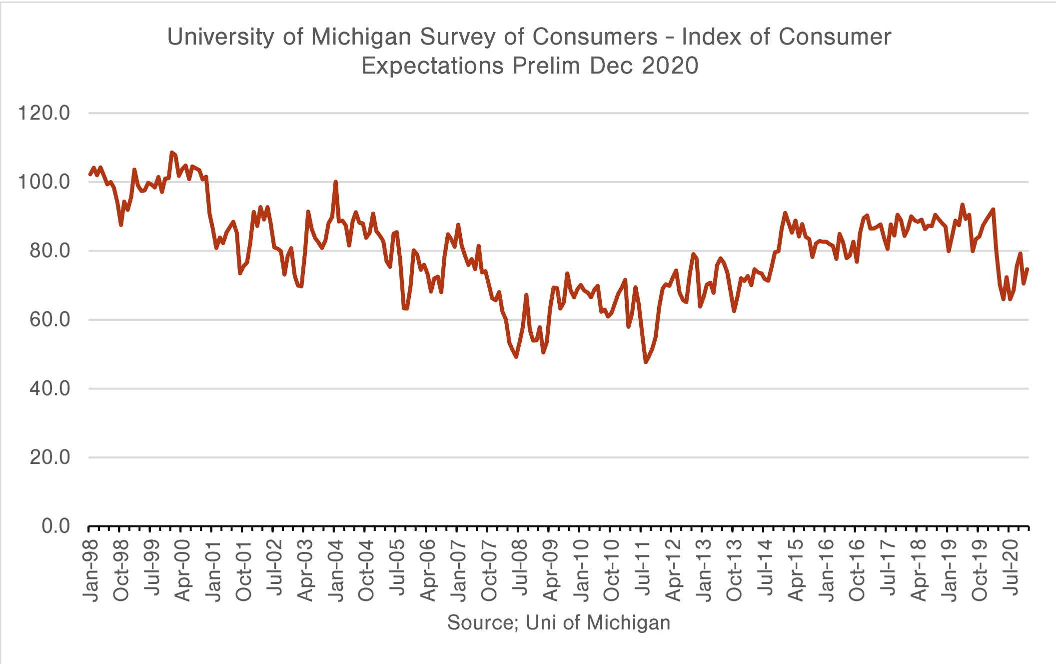
The improvement in current conditions does not necessarily gel with the commentary around the immediate-term expectations of weaker conditions. Partisan responses to the election result appeared more dominant.

> It was nonetheless surprising that the recent resurgence in covid infections and deaths was overwhelmed by partisanship.
>
> In the immediate future, job losses and income declines due to shutdowns are expected to increase, and the long priority queues before most consumers can be vaccinated will make the wait amid rising deaths all the more difficult to endure.

A renewed round of federal relief will prevent much greater financial harm to households, small firms, and local governments. Even if immediately adopted, the payments will not reach recipients for at least a month, allowing renewed hardships to dominate the holiday season.



<u>Index of Consumer Expectations – month</u>: Dec 74.7 versus Nov 70.5



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

CPI (Nov)

There was no change in the annual pace of growth in consumer prices in Nov compared to Oct. Higher food prices were somewhat offset by declines in energy prices. Core consumer prices also increased at the same annual pace in Nov as in Oct.

The pandemic has resulted in large shifts in spending patterns. Broadly, less air travel, less eating out, reduced discretionary spending, and more local/at home-based consumption. The pandemic also affected supply chains especially for motor vehicles and food.

There are some small indications that severe price declines across categories such as apparel and airline fares are starting to reverse. This is likely a small indication of returning demand, or at least, less need to continue deep discounting.

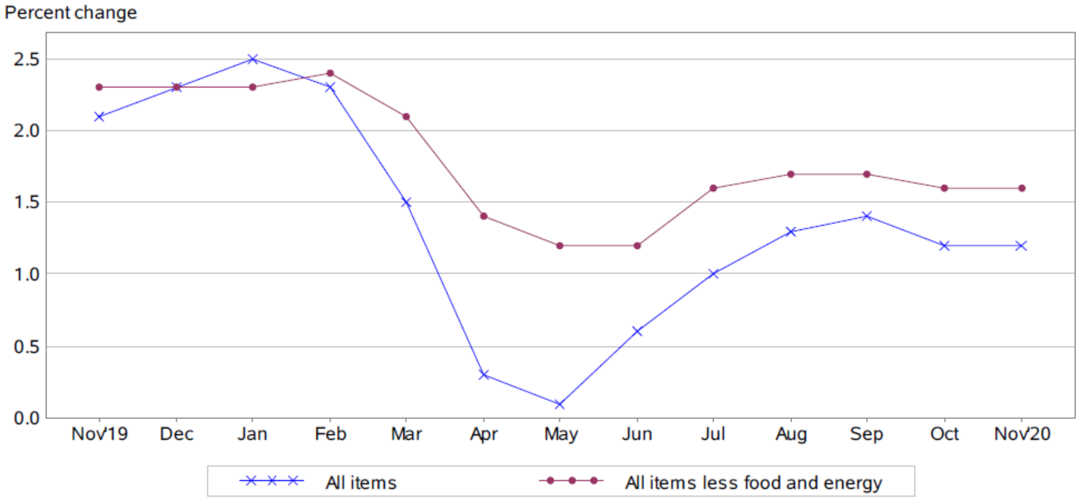
Food price growth remains high but is starting to ease led by food-at-home prices. Prices for food at home consumption were hit by a sharp shift in demand as well as supply chain disruptions.

As demand shifted over to used cars and trucks, price growth accelerated. In Nov, used cars and truck prices increased by 10.9% versus a year ago.

<u>**US CPI All Items – annual change**</u>: Nov +1.2% versus Oct +1.2%

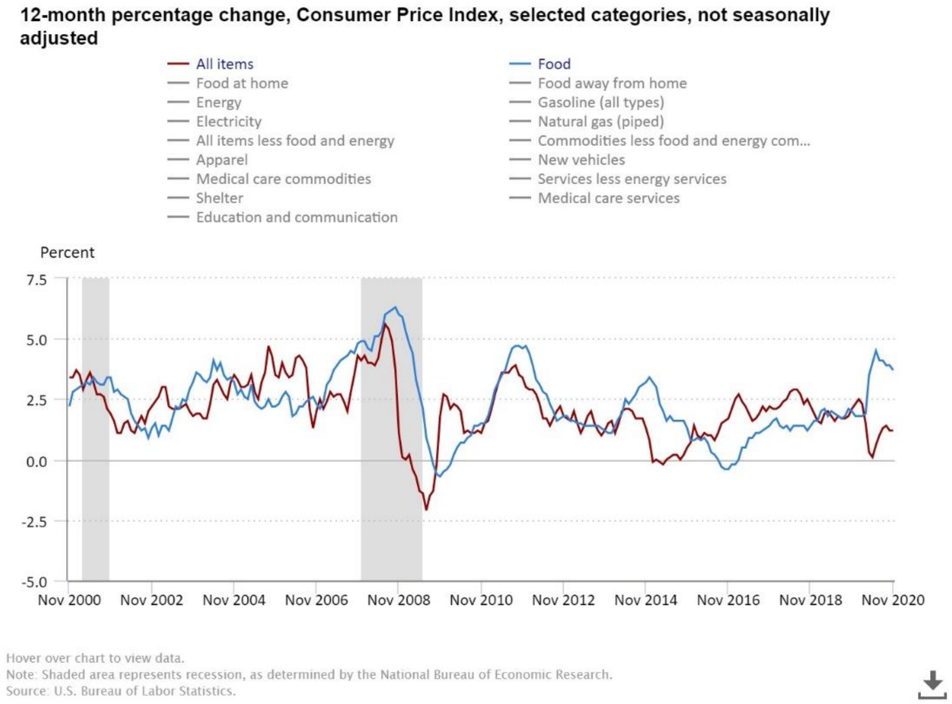
Prices compared to last month increased by +0.2% after no change in Oct.

Chart 2. 12-month percent change in CPI for All Urban Consumers (CPI-U), not seasonally adjusted, Nov. 2019 - Nov. 2020



There was little change in the contribution across the main expenditure categories in Nov compared to Oct.

The growth in food prices eased on an annual basis from +3.9% in Oct to +3.7% in Nov. This is still an elevated pace of growth.



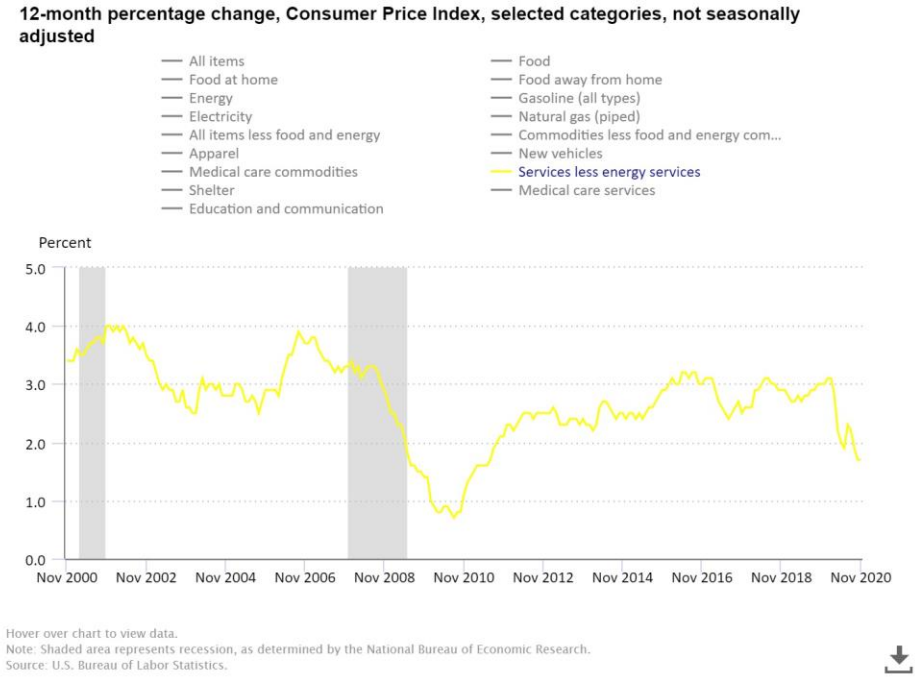
Prices for food at home has been the main driver of accelerated food price growth – peak growth in this cycle was +5.6% growth in food at home prices in Jun. Price growth for food away from home also started to accelerate since May.

Lower energy prices have helped to offset some of those higher food prices. Energy prices in Nov were -9.4% below the same month a year ago and this was a slightly faster pace of decline compared to -9.2% in Oct.

The annual growth in core CPI, excluding food and energy prices was also unchanged in Nov.

Core CPI Ex Food and Energy – annual change: Nov +1.6% versus Oct +1.6%

This is still the slowest annual pace of growth in prices since 2011:



There are two main groups in core CPI – commodities less food and energy commodities and services less energy services.

The annual growth in prices for commodities less food and energy commodities accelerated slightly from +1.2% in Oct to +1.4% in Nov. Within that group, a slowdown in used car and truck price growth for the month (still elevated at +10.9% though) was offset by higher prices for apparel (on a monthly basis – at least indicating some improvement for the sector), and higher prices for alcohol and tobacco products.

The annual growth in prices for services less energy services remained constant at +1.7% in Nov (was +1.7% as of Oct also). Transport services, notably airfares prices continued to rebound in the month. Airfares increased by +3.5% in Nov after increasing by +6.3% in Oct (month on month basis). While airline fares remain -17% below a year ago the recent monthly growth indicates at least some shift to higher demand/reduced discounts.

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

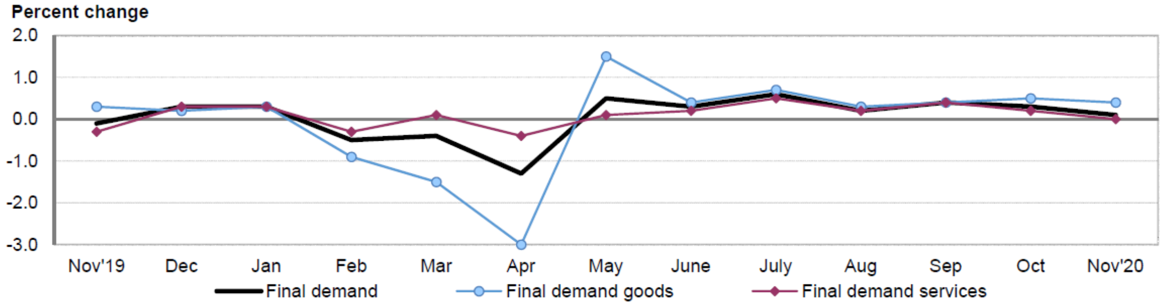
PPI (Nov)

Growth in producer prices slowed in Nov for the month but continued to increase on an annual basis. Services prices slowed in the month, led lower by falls in trade margins and transport and warehousing. On an annual basis though, final demand goods prices continue to decline, albeit at a slower pace, due to lower energy prices.

US PPI Final Demand – month change: Nov +0.1% versus Oct +0.3%

The slower growth in overall final demand prices was mostly a function of slower growth in final demand services prices this month.

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



Final demand goods prices increased by +0.4% in Nov after increasing by +0.5% in Oct. There was a notably slowdown in monthly food prices but an acceleration in energy prices.

> In November, a major factor in the increase in prices for final demand goods was the index for diesel fuel, which advanced 8.4 percent. Prices for meats, processed young chickens, residential electric power, residential natural gas, and tobacco products also moved higher. In contrast, the gasoline index fell 1.9 percent. Prices for fresh fruits and melons and for pharmaceutical preparations also decreased.

Final demand services prices slowed to 0% after increasing by +0.2% in the prior month. Prices for trade and transportation and warehousing declined in the month.

> In November, prices for outpatient care (partial) increased 0.4 percent. The indexes for apparel, jewelry, footwear, and accessories retailing; machinery and equipment parts and supplies wholesaling; **truck transportation of freight**; and chemicals and allied products wholesaling also moved higher.

> In contrast, margins for machinery and vehicle wholesaling fell 7.6 percent. The **indexes for transportation of passengers (partial)**; fuels and lubricants retailing; hardware, building materials, and supplies retailing; and securities brokerage, dealing, and investment advice also decreased.

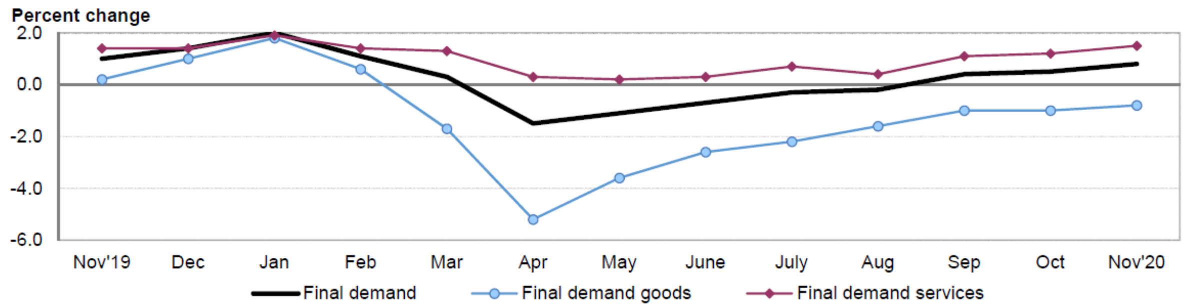
On an annual basis, growth in producer prices increased further in Nov.

<u>US PPI Final Demand – annual change</u>: Nov +0.8% versus Oct +0.5%

The annual growth in core PPI (less food and energy) is slightly higher at +0.9% in Nov.

Final demand goods prices continue to decline on an annual basis, due mainly to lower energy prices.

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



https://www.bls.gov/news.release/pdf/ppi.pdf

JOLTS (Oct)

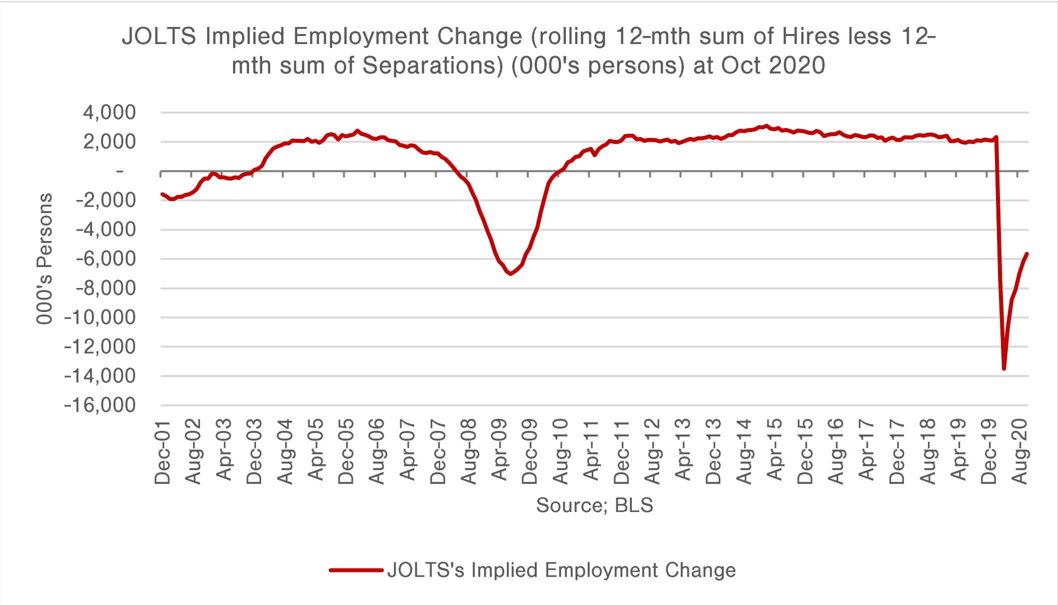
The net employment change was positive this month with hires exceeding separations. This was the sixth month where hires exceed separations. But on an annual basis, the net change in employment remains firmly negative.

The performance of quits remains the most insightful measures. The level of quits is still 10% below a year ago – indicating either a lower willingness or ability of workers to change jobs. Job openings are also still 9% below a year ago, so the availability of jobs likely remains an issue. The level of job openings had already been on a declining trend since the start of 2019 though.

<u>Net change in employment – annual change</u>: Oct -5.65m versus Sep -6.2m

> Net employment change results from the relationship between hires and separations. When the number of hires exceeds the number of separations, employment rises, even if the hires level is steady or declining. Conversely, when the number of hires is less than the number of separations, employment declines, even if the hires level is steady or rising.

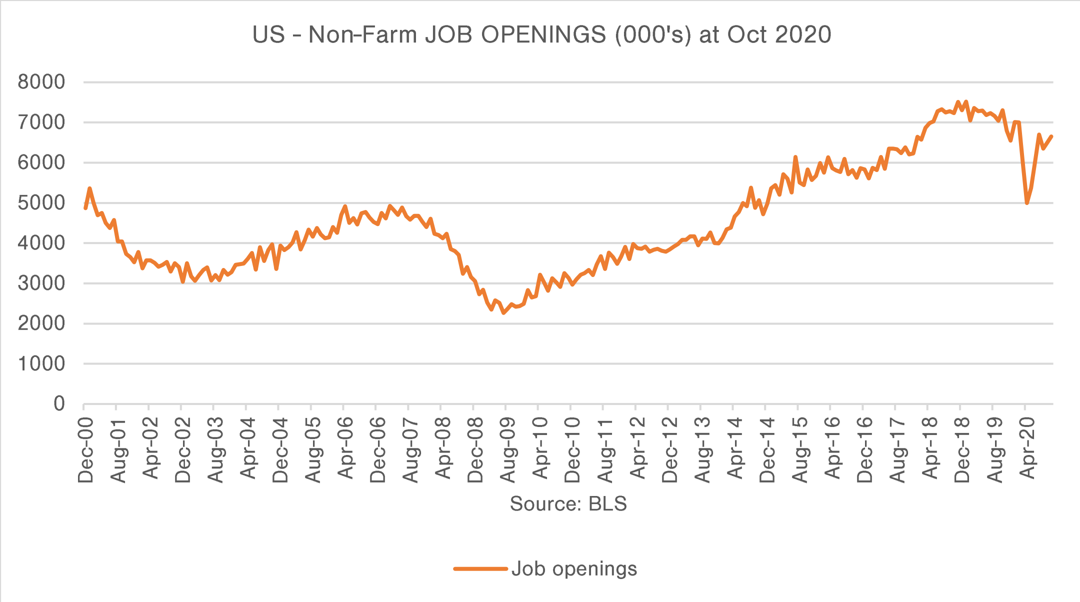
On an annual basis, the net employment change (rolling 12mth hires less rolling 12mth separations) remained negative. The net employment change was a -5.65m decline in employment in the 12mths to Oct. This was a slight improvement from the -6.2m decline in employment in Sep. These results are still significantly below the average growth of +2.1m in employment recorded through 2019.



This month, the net change in employment was positive (+750k). The net change in employment has been slowing over the last two months but has been positive for the last six months.

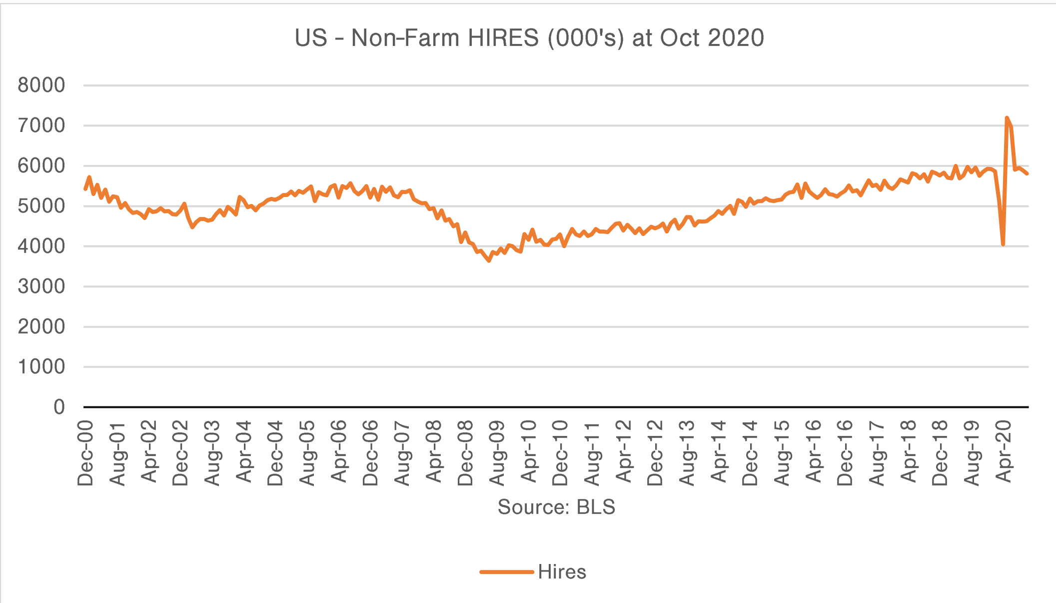
<u>Job Openings – month</u>: Oct 6.6m versus Sep 6.4m

The number of job openings increased again this month but remains 9% below the same month a year ago.



<u>Job Hires – month</u>: Oct 5.8m versus Sep 5.9m

There was a slight decline in hires for Oct compared to Sep and the level of hires is now +1% ahead of the same month a year ago.



<u>Total Separations</u>

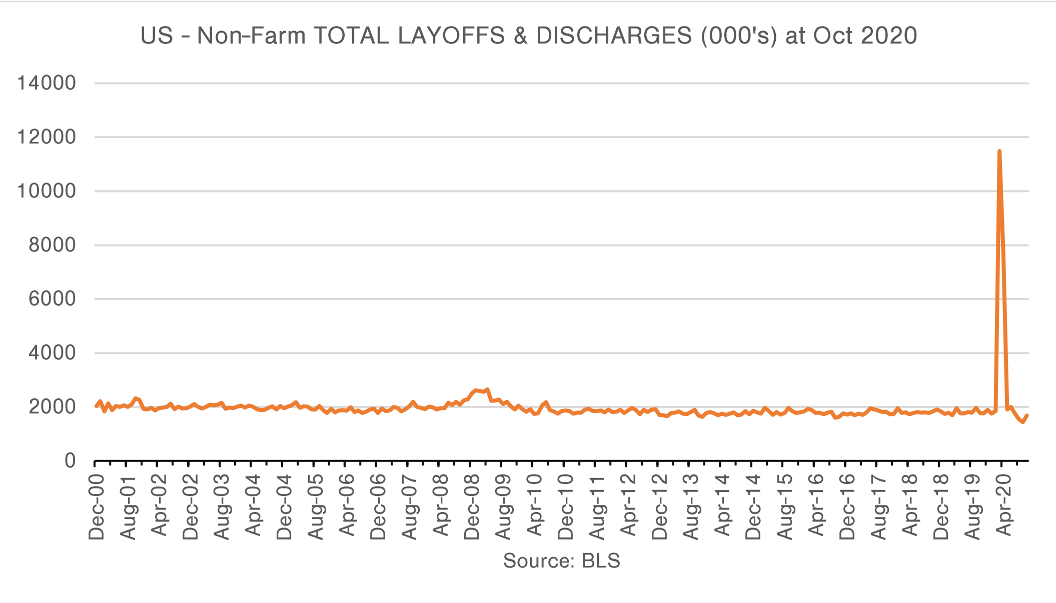
There was a more negative trend in separations this month. Lay-offs and discharges increased – led mostly by the federal government census workers. Quits were little changed.

Lay-Offs and Discharges – month: Oct 1.7m versus Sep 1.4m

Most of the +243k increase in layoffs and discharges for the month was the result of the release of temporary census workers:

> The number of layoffs and discharges increased in federal government (+91,000), largely due to the release of temporary 2020 Census workers. Layoffs and discharges increased in the Northeast region.

Despite the dire labour market conditions of this year, the level of lay-offs and discharges recorded in this survey are at pre-pandemic levels. The lay-off and discharge rate in Oct was 1.2% - the average for 2019 was 1.2%. The level of lay-offs and discharges in Oct was -5.5% *below* the level from the same month a year ago.

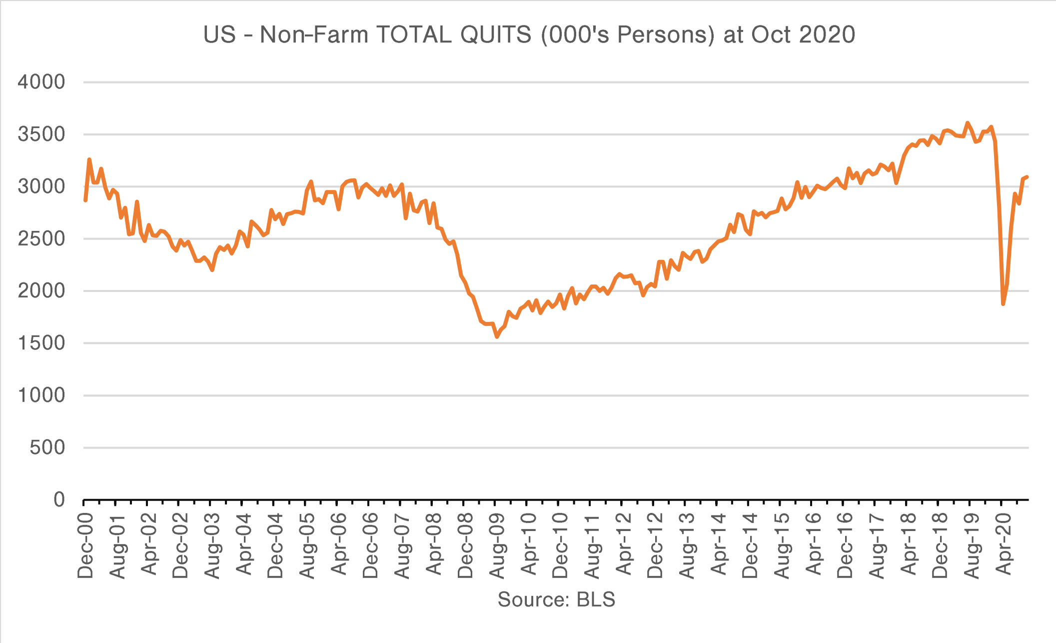


Quits – month: Oct 3.1m versus Sep 3.1m

Quits reflect voluntary job changes.

> Quits are generally voluntary separations initiated by the employee. Therefore, the quits rate can serve as a measure of workers' willingness or ability to leave jobs.

The trend of quits since the onset of the pandemic is somewhat more insightful. The level of quits remains substantially lower versus a year ago at -10%. This is roughly in line with the lower level of job openings too.



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

Consumer Credit (Oct)

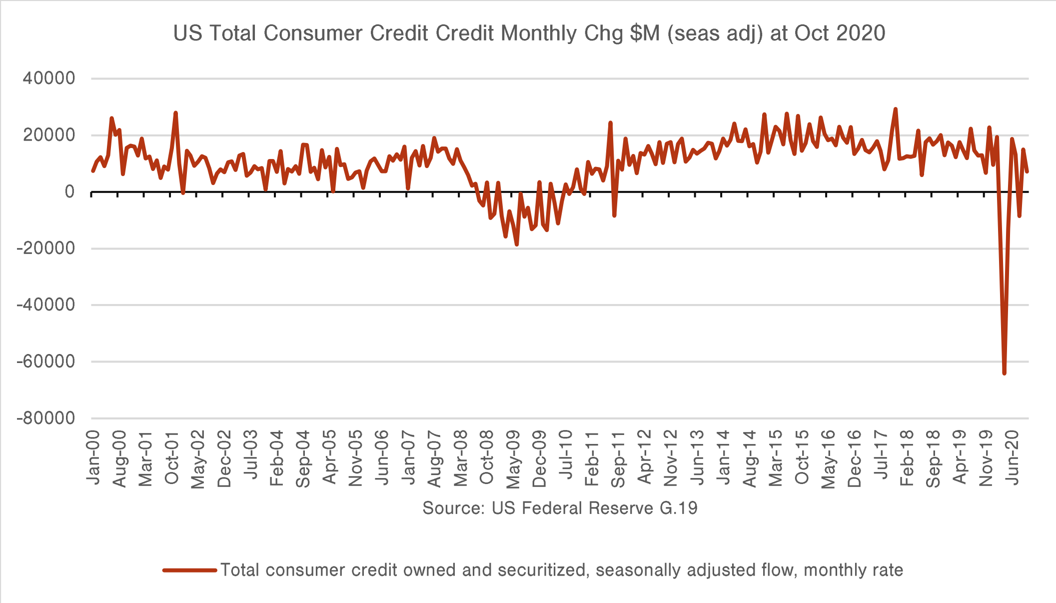
Growth of total US consumer credit slowed this month but remained positive. A decline in revolving consumer credit was offset by continued/consistent growth in non-revolving credit.

The annual pace of consumer credit growth has slowed notably versus a year ago – this has been led by a decline in the value of outstanding revolving credit card credit. The growth in the value of outstanding non-revolving credit has been only slightly slower.

Total Outstanding Consumer Credit – month change ($ val): Oct +$7.7bn versus Sep +$15bn

The slower growth in the month was led by a decline in revolving credit.

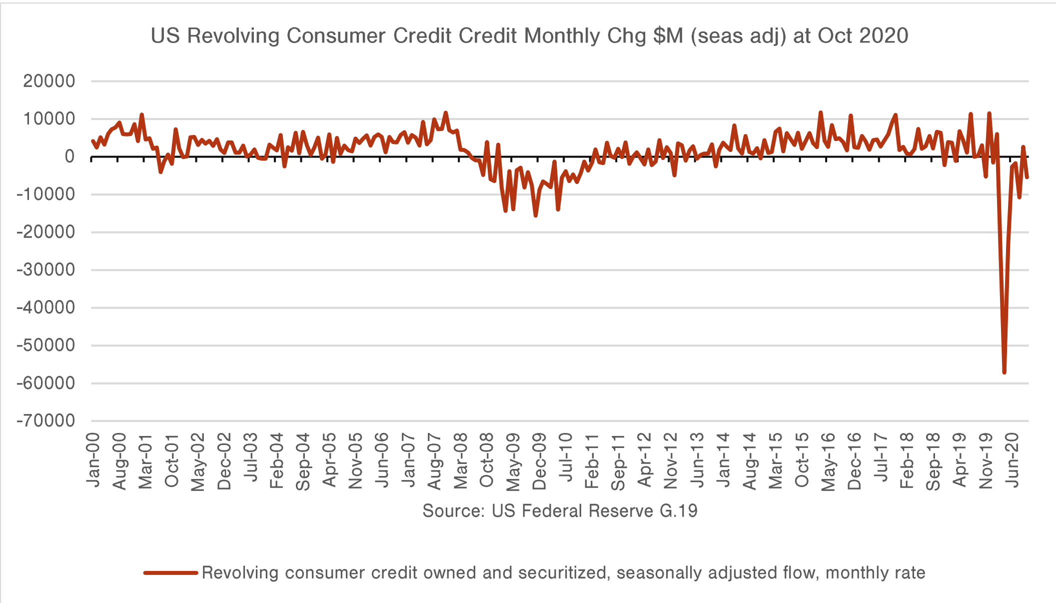
On an annual basis, consumer credit growth has slowed to +0.3% in Oct. In Oct 2019, total outstanding consumer credit has increased by +4.7%.



<u>Total Revolving Credit – month change ($ val):</u> Oct -$5.4bn versus Sep +$2.6bn

Growth in revolving/credit card credit declined again this month. This has been a theme of the pandemic as consumers have opted to pay down debt.

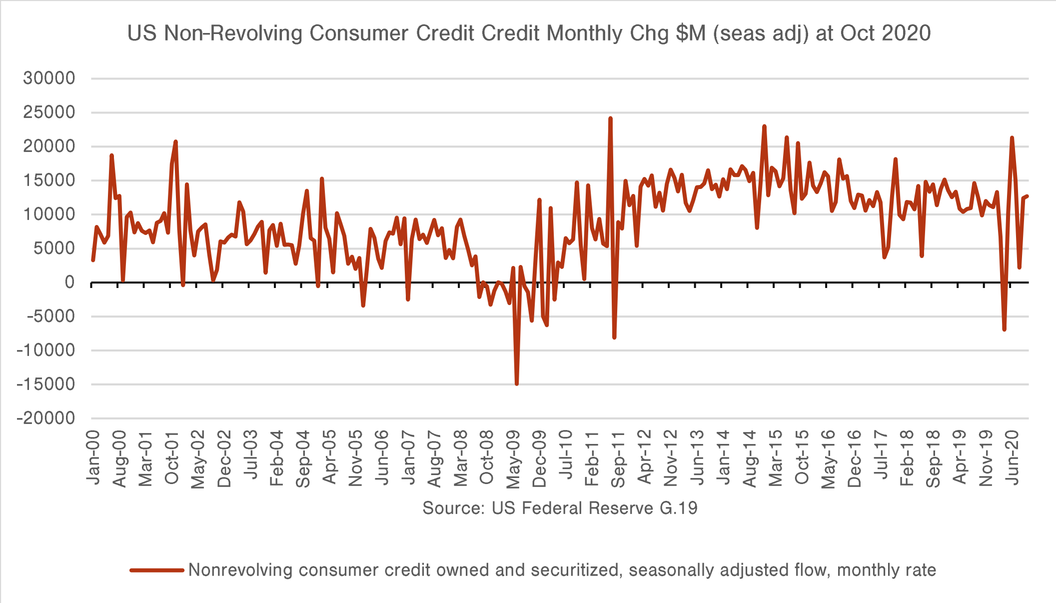
On an annual basis, the value of outstanding consumer credit had declined by -10% as at Oct 2020. As of Oct 2019, outstanding revolving credit had increased by +3.6%.



<u>Total Non-Revolving Credit – month change ($ val):</u> Oct +$12.7bn versus Sep +$12.4bn

Aside from two months of decline/slower growth, the growth in non-revolving credit has remained fairly consistent throughout this pandemic year.

In Oct, the value outstanding non-revolving credit increased by +4%. A year ago in Oct 2019, outstanding non-revolving credit increased by +5.1% versus the year before that.



https://www.federalreserve.gov/releases/G19/current/

Mortgage Applications wk ending 4 Dec 2020

There was a larger decline in mortgage applications this week. While there was an increase in refinance applications, there was a larger decline in purchase applications.

Mortgage rates fell to a new low in survey history. This is

Overall Market Composite Index wk ending 4 Dec 2020: -1.2% versus the week prior.

The week prior was the Thanksgiving holiday week.

Refinance Index wk ending 4 Dec 2020: +2% versus the week prior (had declined in the prior week). Refis increased as a percent of total applications to 72% of mortgage applications. Refi's are +89% ahead of a year ago.

> "Refinance activity increased last week in response to **mortgage rates for 30-year, 15-year, and FHA loans hitting their lowest levels in MBA's survey**. The increase in refinance applications was driven by FHA and VA refinances, while conventional activity fell slightly. The ongoing refinance wave has continued through the fall, with activity last week up 89 percent from a year ago,"

Purchase Index wk ending 4 Dec 2020: -5% versus a week ago. In Thanksgiving week, this index increased. The purchase index is +29% ahead of the same month a year ago.

> "The purchase market is also poised to finish 2020 on a strong note. Applications fell slightly last week but were around 3 percent higher than the two weeks leading up to Thanksgiving. Reversing the recent trend, there was also **a shift in the composition of purchase applications, with an increase in government loans pushing the average loan balance lower**."

https://www.mba.org/2020-press-releases/december/mortgage-applications-decrease-in-latest-mba-weekly-survey-x274321

Return to top

Europe

Germany Industrial Production (Oct)

German industrial production continued to rebound and monthly growth accelerated in Oct. Output increased across all four main sectors of manufacturing, mining, utilities, and construction. For the moment, German PMI's for manufacturing indicate that output growth is likely to be maintained into the next month (Nov, the start of further restrictions).

<u>Total Industrial Production – month change</u>: Oct +3.2% versus Sep +2.3%

This is now the sixth month in a row where production has increased month on month.

The rebound is now such that total production is 'only' -3.2% below a year ago, after being down as much as -24% on an annual basis at the worst of the crisis.

There has also been a continued improvement in production versus the recent peak back in Nov 2017 – production is now -9.4% below that peak, still worse than at the start of the year (Jan 2020 -5%).

<u>Manufacturing Production – month change</u>: Oct +3.1% versus Sep +2.3%

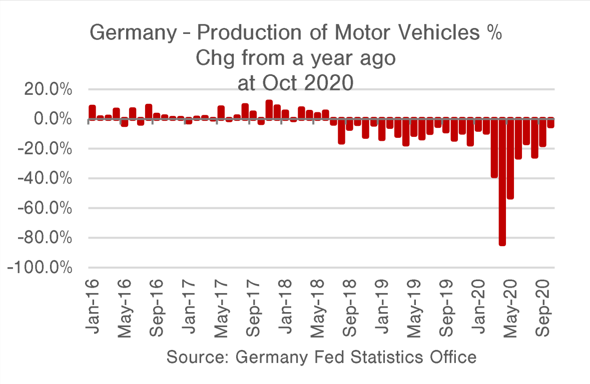
Manufacturing production has continued to improve now growing for the sixth month in a row as of Cot.

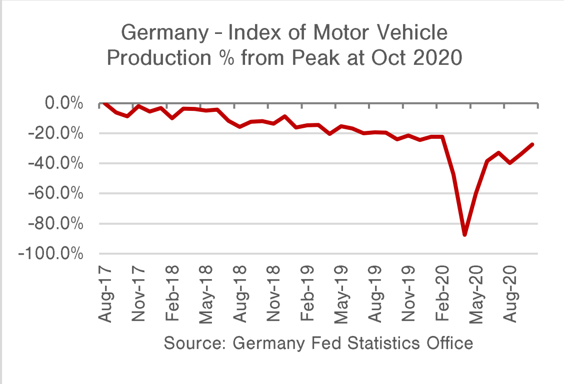
This month, output growth accelerated across intermediate goods (+4%), capital goods (+5.2%), and durable goods (+3.2%).

Output declined across non-durable goods and consumer goods for the month but the annual decline across these industries is less severe.

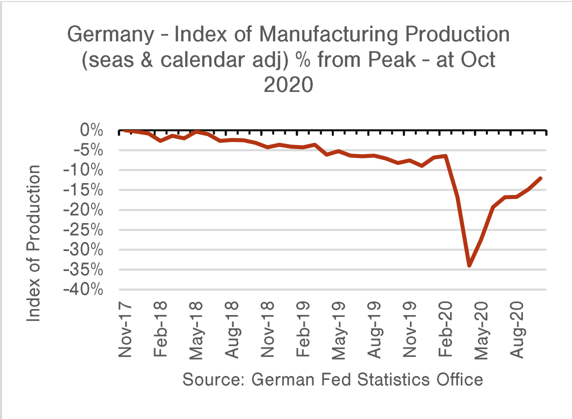
Capital Goods has been one of the weaker sectors of German manufacturing over the last few years (consumer goods and non-durable goods to a lesser degree). At the start of 2020, capital goods output was -9% below Nov 2017 near term peak. Even after the recent rebound, production remains 16% below that Nov 2017 peak.

It is a similar story with motor vehicle production. At the start of 2020, motor vehicle production was -22% below the Sep 2017 near-term peak. At its worst point during the crisis, motor vehicle production was down 87% compared to that peak (and -84% below the same month a year ago at Apr 2020). As of Oct, production has rebounded but is still 27% below the Nov 2017 peak – only slightly worse than at the start of the year.





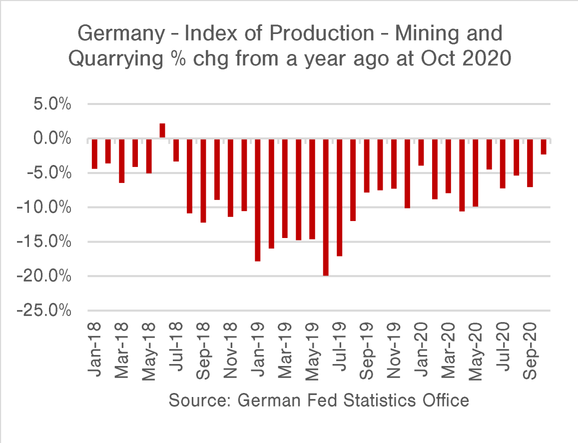
On an annual basis, overall manufacturing output is -4.3% below the same month a year ago (improving from an -8.4% decline in Sep). While improved, this is in line with the pace of annual decline during 2019. Manufacturing output peaked back in Nov 2017 and is -12.1% below that near-term peak.

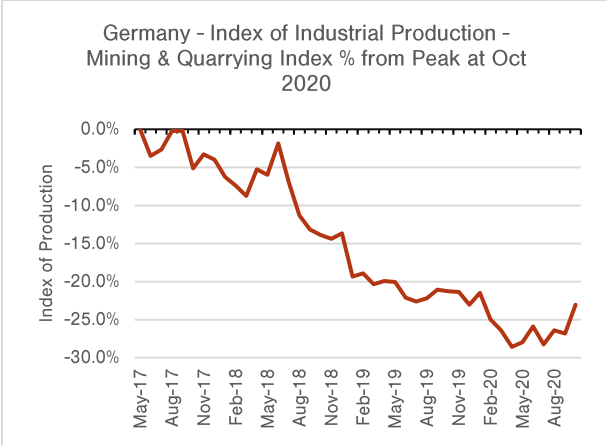


<u>Mining and Quarrying Production – month change</u>: Oct +5.2% versus Sep -0.6%

This was a notably high pace of growth this month and the longer-term trend of falling output appears to have stabilized over the last six months.

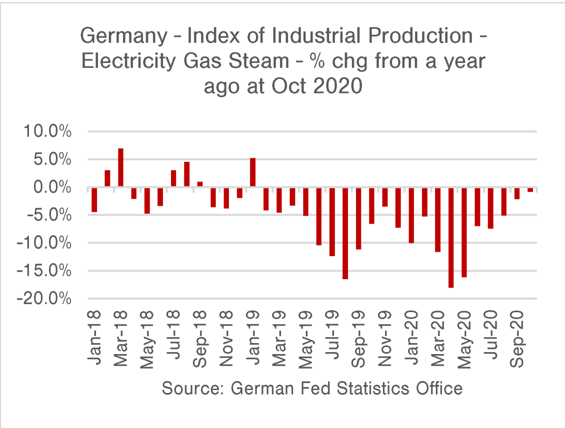
On an annual basis, mining and quarrying output is now 'only' -2.3% below the same month a year ago. Similar to other industries, output peaked back in May 2017. Mining and quarrying production is -23% below the 2017 near-term peak.

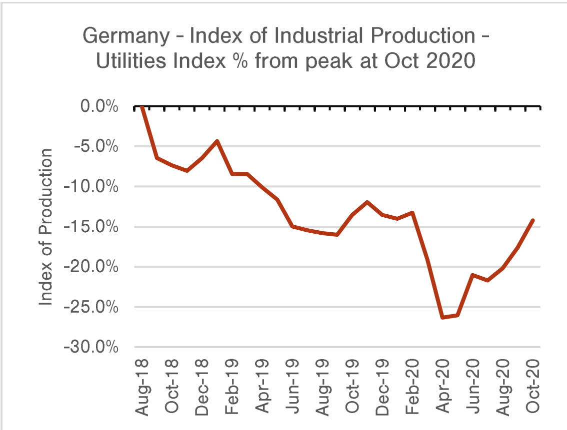




<u>Utilities (electricity, gas, steam, and air-con) Output – month change</u>: Oct +4.1% versus Sep +3.2%

The annual decline in output was only -0.8% below the same month a year ago in Oct. The output of utilities reached a near-term peak back in Aug 2018 and is still -14.8% below that peak as of Oct.

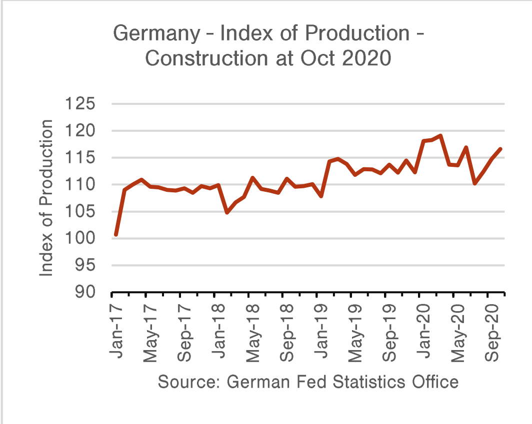




<u>Construction Production – month change</u>: Oct +1.6% versus Sep +2.1%

Construction activity has been one of the stronger industries over the last few years. There has been no 'near-term peak' as identified in other industries. There appeared to be a less severe impact from the Covid-19 shutdowns between Mar and Jul 2020.

On an annual basis, production is +3.4% ahead of the same month a year ago.



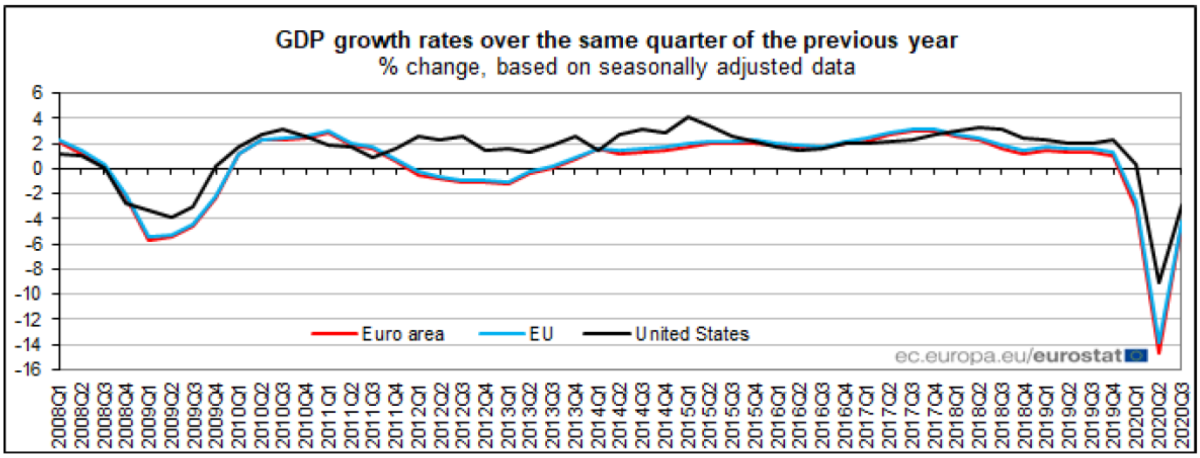
https://www.destatis.de/EN/Press/2020/12/PE20_483_421.html

Euro Area Q3 GDP

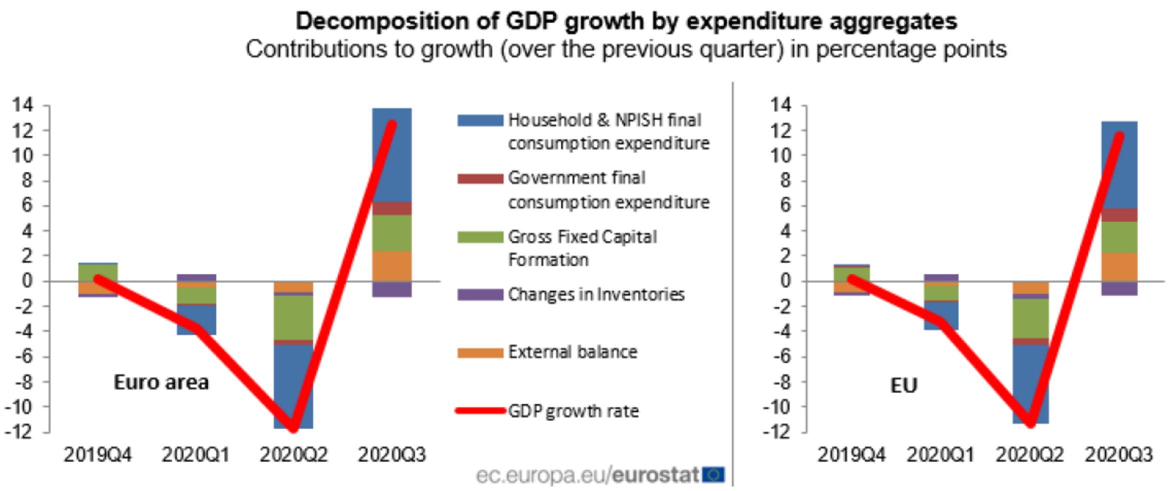
GDP growth rebounded across the Euro area and EU member nations in Q3. Despite the growth. Euro area real GDP remains -4.3% and EU real GDP remains -4.2% below the same quarter a year ago.

Euro Area GDP – quarter change: Q3 +11.5% versus Q2 -11.7%

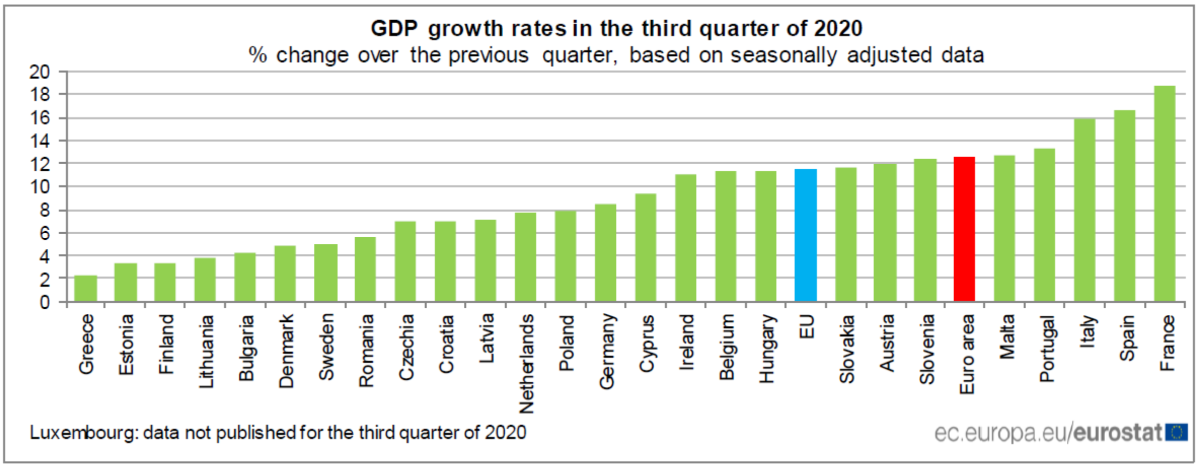
Whilst growth accelerated in Q3, this is only a partial rebound from the lows in total output recorded in Q2. Euro Area real GDP remains -4.3% below the same quarter a year ago



Most areas of expenditure contributed to real GDP growth in Q3. The declines recorded in Q2 across expenditure groups were reversed in Q3. The only exception was the change in inventories, which detracted from growth in Q3.



The rebound in growth this quarter was led by several of the larger economies – France, Italy, and Spain especially. These countries also recorded some of the most severe declines in Q2. Most Euro area and EU member nations recorded a GDP rebound below the Euro area or EU 'average' in Q3.



https://ec.europa.eu/eurostat/documents/portlet_file_entry/2995521/2-08122020-AP-EN.pdf/1795cf84-4c30-9bae-33b0-b8a1755925c4

ECB Rates Decision – 10 Dec 2020

Given the resurgence of infections and re-imposition of restrictions throughout Europe, the ECB made several changes to policy settings at this meeting.

Policy Settings

Key rates will remain unchanged

> the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00 per cent, 0.25 per cent, and -0.50 per cent respectively.

Increase in the level of PEPP

The ECB increase the emergency purchase program by 500bn Euro and extended the time horizon out until "at least" the end of Mar 2022. The reinvestment of principal payments from the PEPP was also extended out to at least the end of 2023.

> In any case, the Governing Council will conduct net purchases until it judges that the coronavirus crisis phase is over.

Extend the favorable terms of the TLTRO III operations

The availability of more favorable terms will be extended out to Jun 2022. Three additional operations will be conducted between Jun and Dec 2021. There was also an increase in the measurement of borrowing entitlement from 50% to 55% of the stock of eligible loans.

> In order to provide an incentive for banks to sustain the current level of bank lending, the recalibrated TLTRO III borrowing conditions will be made available only to banks that achieve a new lending performance target.

Duration of collateral easing measures extended

The availability of these measures will be reassessed in Jun 2022.

> The extension of these measures will continue to ensure that banks can make full use of the Eurosystem's liquidity operations, most notably the recalibrated TLTROs.

The net Asset Purchase Program (APP) will continue (main QE)

The pace of purchases will remain unchanged at 20bn Euro/month and reinvestments, in full, will continue.

> The Governing Council continues to expect monthly net asset purchases under the APP to run for as long as necessary to reinforce the accommodative impact of its policy rates, and **to end shortly before it starts raising the key ECB interest rates**.

Regular fixed-rate lending operations to continue for as long as necessary

Outlook

Several points here of note. Obviously, uncertainty remains high given the dynamics of the pandemic and the timing of vaccine availability.

The Governing Council also noted the strength of the Euro and the possible impact on short-medium term inflation.

> We will also continue to monitor developments in the exchange rate with regard to their possible implications for the medium-term inflation outlook.

https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.mp201210~8c2778b843.en.html

Return to top

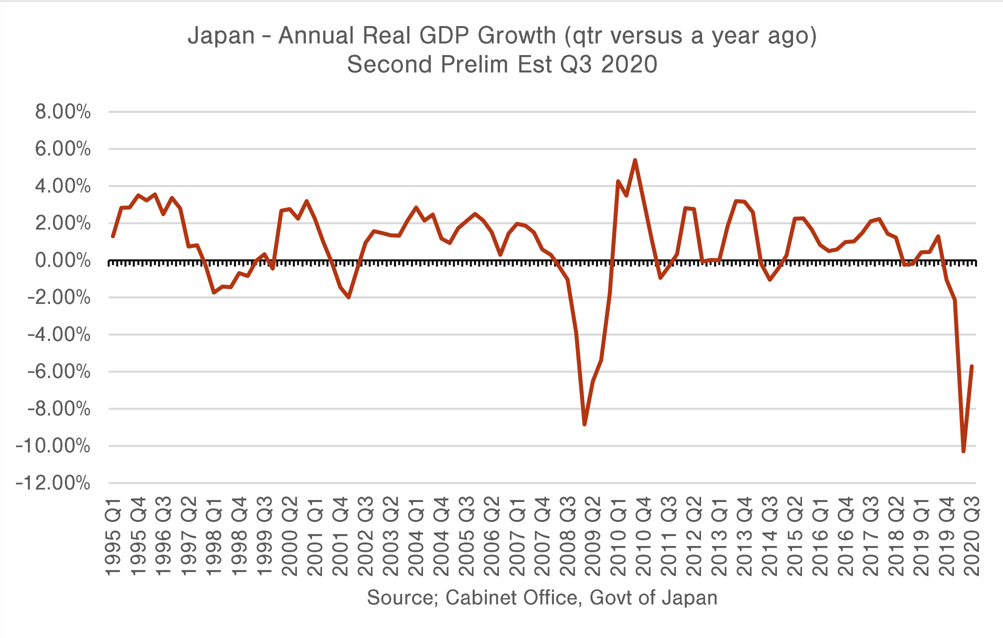
Japan

Q3 GDP – Second Prelim Est

Japanese real GDP growth in Q3 was revised slightly higher in the second prelim estimate. This was mostly the result of personal and household consumption expenditure revised slightly higher.

Real GDP Growth – qtr change: Q3 +5.3% (revised from +5%) versus Q2 -8.3%

On an annual basis, real GDP growth was little changed, declining by -5.7% compared to the same quarter a year ago.



GDP Expenditure Components – Revisions.

Private consumption +5.1% revised higher from +4.7% - this was the result of household consumption growth revised higher from +4.7% to +5.2%. In Q2, real household consumption growth declined by -8.6%. Private consumption overall is still -7% below a year ago.

Private residential investment declined at a slower pace – Q3 expenditure was revised from -7.9% to -5.8%. In Q2, private residential investment increased by +0.5%.

Private non-residential investment was also revised to a slower pace of decline from -3.4% to -2.4%.

The contribution from the change in inventories was slightly lower.

Government consumption expenditure increased by a slightly faster pace of +2.8% versus +2.2%. Public investment increased by +0.5% and was unchanged in the second prelim estimate.

There was little change in the external sector. Real exports increased by 7% and growth was unchanged in this release. Real imports declined by a smaller degree of -8.8% versus -9.8% in the first prelim release.

https://www.esri.cao.go.jp/en/sna/sokuhou/sokuhou_top.html

Return to top

Australia

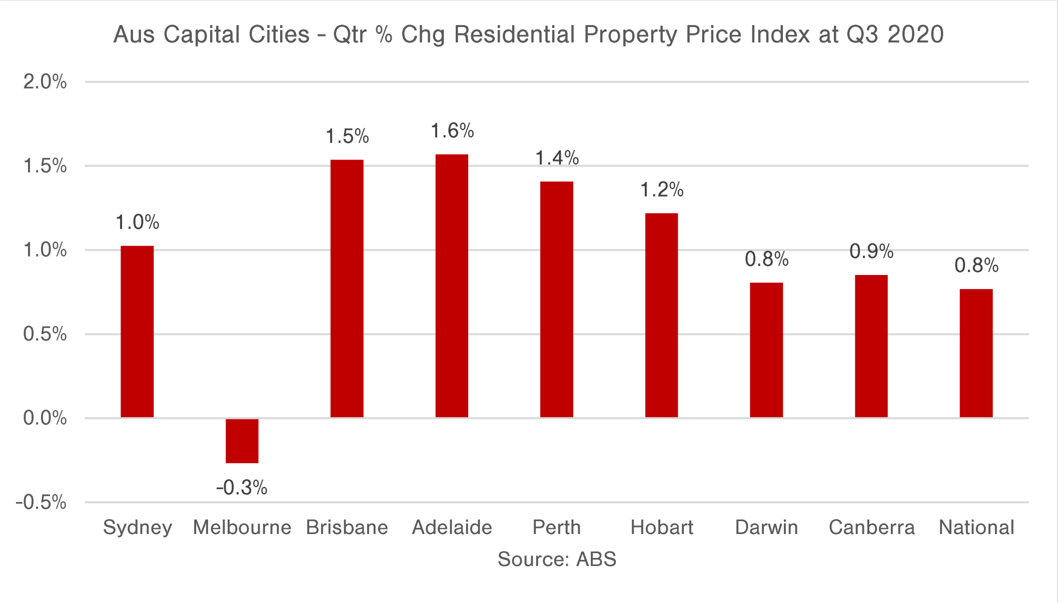
House Price Index Q3

National residential house prices shifted back to growth in Q3 after declining in Q2. Both house (detached) and apartment (attached) prices increased in the quarter. Across the eight capital cities, Melbourne was the only city where prices declined in the quarter – Melbourne was in a strict shutdown during Q3.

National Residential House Price Index – quarter change: Q3 +0.8% versus Q2 -1.8%

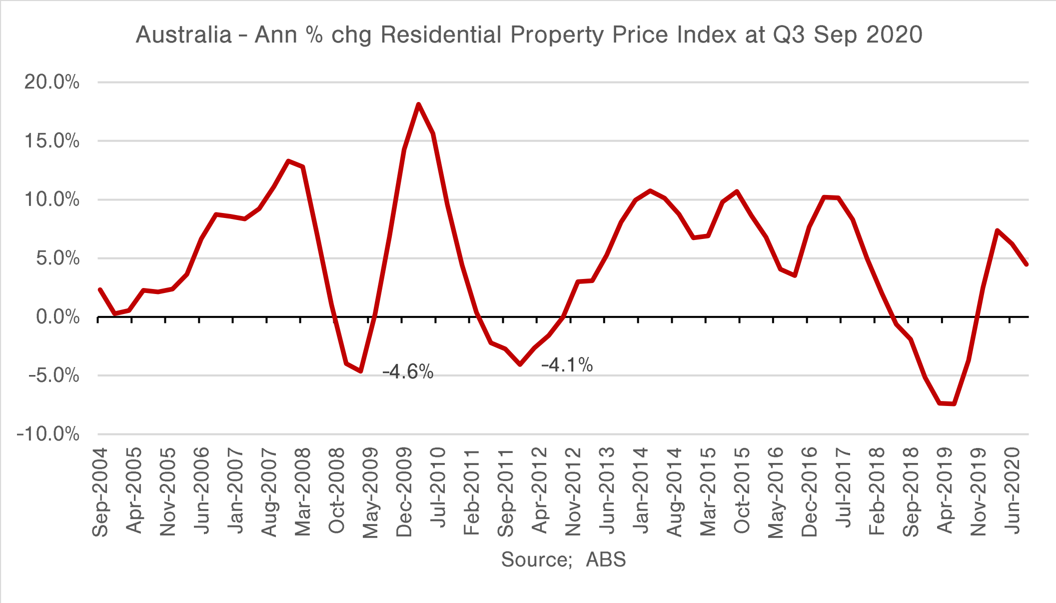
Prices increased across established dwellings +1% in Q3, after declining by -2.1% in Q2. The prices of attached dwellings (apartments) also increased in Q3 by +0.3% after declining by - 1.2% in Q2.

During the quarter, most capital cities recorded growth after declining in Q2. The only capital city to record further house price declines was Melbourne.

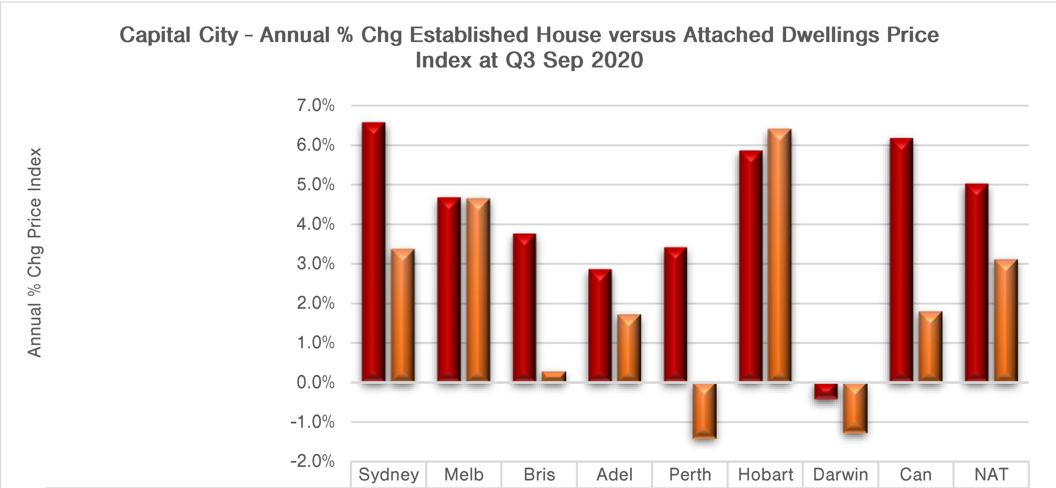


National Residential House Price Index – annual change: Q3 +4.5% versus Q2 +6.2%

The annual growth in residential house prices slowed but remained positive.



Established house price growth has remained stronger than apartments, especially across Sydney and Brisbane.



	Sydney	Melb	Bris	Adel	Perth	Hobart	Darwin	Can	NAT
% Chg Est House Price Index	6.6%	4.7%	3.8%	2.9%	3.4%	5.9%	-0.4%	6.2%	5.0%
% Chg Attach Dwelling Price Index	3.4%	4.7%	0.3%	1.7%	-1.4%	6.4%	-1.3%	1.8%	3.1%

Source; ABS

https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/residential-property-price-indexes-eight-capital-cities/sep-2020

NAB Business Confidence and Conditions (Nov)

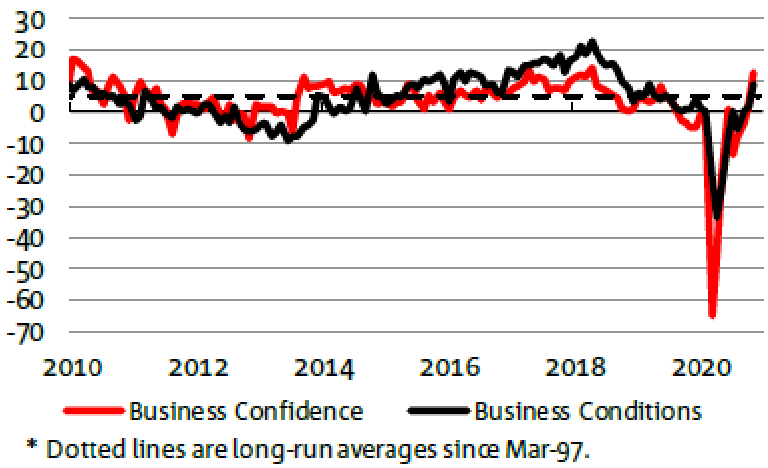
The key point was that as the economy begins to reopen, firms recorded stronger gains in business confidence as well as stronger business conditions.

Headline Business Confidence – month: Nov 12 versus Oct 3

Headline Business Conditions – month: Nov 9 versus Oct 2

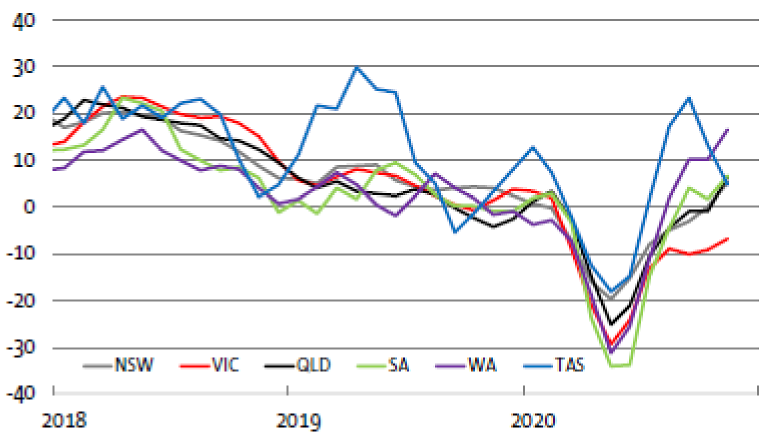
These are some of the strongest levels of the indexes in several years and are above the long-term average.

CHART 1: CONDITIONS AND CONFIDENCE IMPROVE



Conditions were positive across most states, except Victoria.

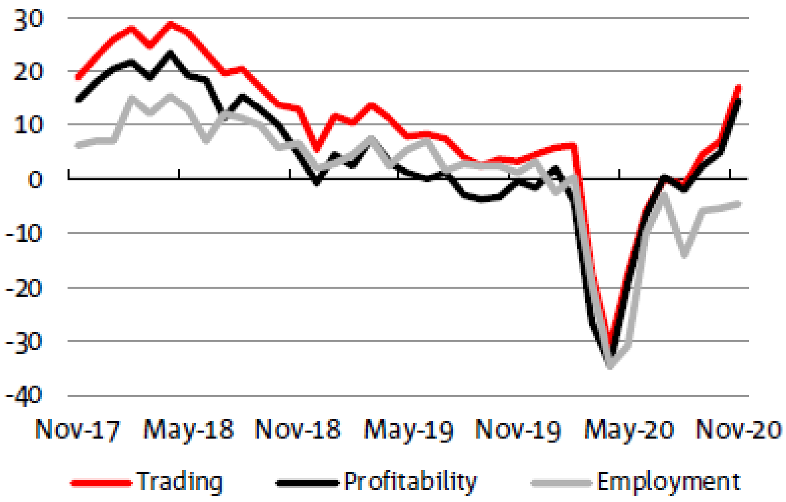
CHART 2: BUSINESS CONDITIONS BY STATE (NET BAL., TREND)



Business Conditions Components

There were further gains across the components of business conditions except for employment. Trading and profitability conditions improved notably. But the employment index remained unchanged in negative territory in Nov.

CHART 7: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.



Forward Orders improved from a -3 reading in Oct to 6 in Nov.

Stocks declined at an accelerated pace with the index falling from -1 in Oct to -7 in Nov. This was likely the result of a rebound in demand and the increase in forward-orders the result of this lift in demand. Capacity utilization also increased as a result.

The level of export growth continued to decline. The index was unchanged at -4 in Nov.

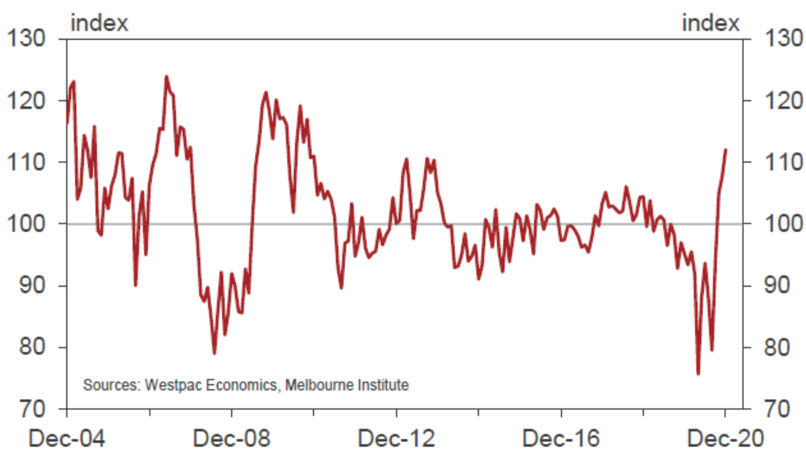
https://business.nab.com.au/wp-content/uploads/2020/12/NAB-Monthly-Business-Survey-November-2020.pdf

Westpac Consumer Confidence (Dec)

There has been a further recovery in consumer confidence in Dec. The index level is now at a ten-year high.

Headline Consumer Sentiment: Dec 112 (+4.1%) versus Nov 107.7

Consumer Sentiment Index



> Component indexes show the latest gain in sentiment centred on a further improvement in expectations for the economy.

Gains were recorded across most of the sentiment sub-indexes. Family finances versus a year ago lifted notably, as did perceptions of economic conditions in the next 12-months.

There was a slight decline in perceptions of family finances in the next 12-months

There was also a decline in sentiment around 'time to buy a dwelling'.

> The 'time to buy a dwelling' index moved off last month's seven year high, declining 5.9% to 124.2. That still leaves the index 4.4% above its long run average but suggests the turnaround in Australia's housing markets – which are all now seeing price gains – may be starting to shift views on affordability and prospects for bargain buys.

As we have noted in previous data, owner-occupiers rather than investors have led the current growth in lending. Westpac notes that owner-occupiers are more sensitive to shifts in house price expectations – and there was a further increase in house price expectations this month.

> Despite this clear optimism around house prices, consumers continue to show a strongly risk–averse attitude to their financial decisions.

Most consumers continue to favour "safe" options for the 'wisest place for savings". Only 10% favoured real estate.

https://www.westpac.com.au/content/dam/public/wbc/documents/pdf/aw/economics-research/er20201209BullConsumerSentiment.pdf

Return to top

China

Trade Balance, Exports, and Imports (Nov)

All values in USD.

<u>**China Trade Balance – month total (USD):**</u> Nov 75.4bn surplus versus Oct 58.4bn surplus

The trade surplus a year ago was 37.2bn.

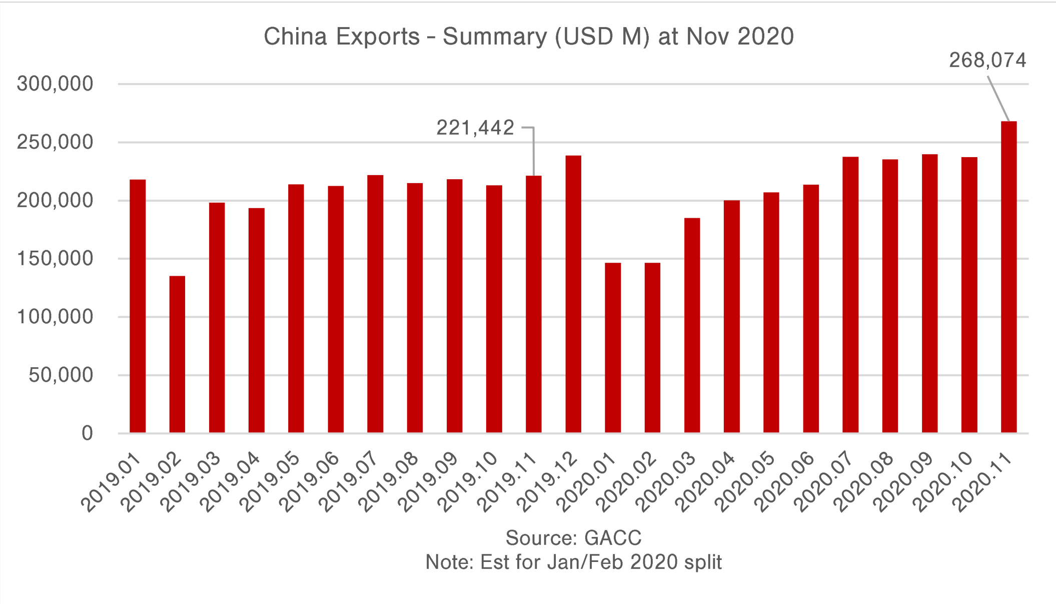
The driver of the larger trade surplus this month was the faster growth of exports than imports. The monthly growth in the value of exports and imports accelerated in Nov compared to the declines recorded in Oct.

<u>**Exports – month total (USD)**</u>: Nov 26.8bn versus Oct 23.7bn

Exports in Nov increased by +13% after declining by -1.1% in Oct.

Exports in Nov were +21% ahead of the same month a year ago.

The YTD performance has also reached a positive rate of growth versus the same period a year ago – highlighting in value terms that Chinese exports have recovered to be at least +2.5% ahead of a year ago after the severe declines recorded in Jan and Feb this year.



Exports by region highlight that some of the strongest export growth (month on month) was recorded in some of the larger export destinations for China.

The US has been the single largest export market for China in the YTD (40.5bn). Exports to the US this month increased by +18.6%.

Exports to Hong Kong China (second-largest export market in the YTD) increased by +19.3% in Nov.

Japan is the third-largest export market in the YTD and exports increased by +10.7% in the month of Nov.

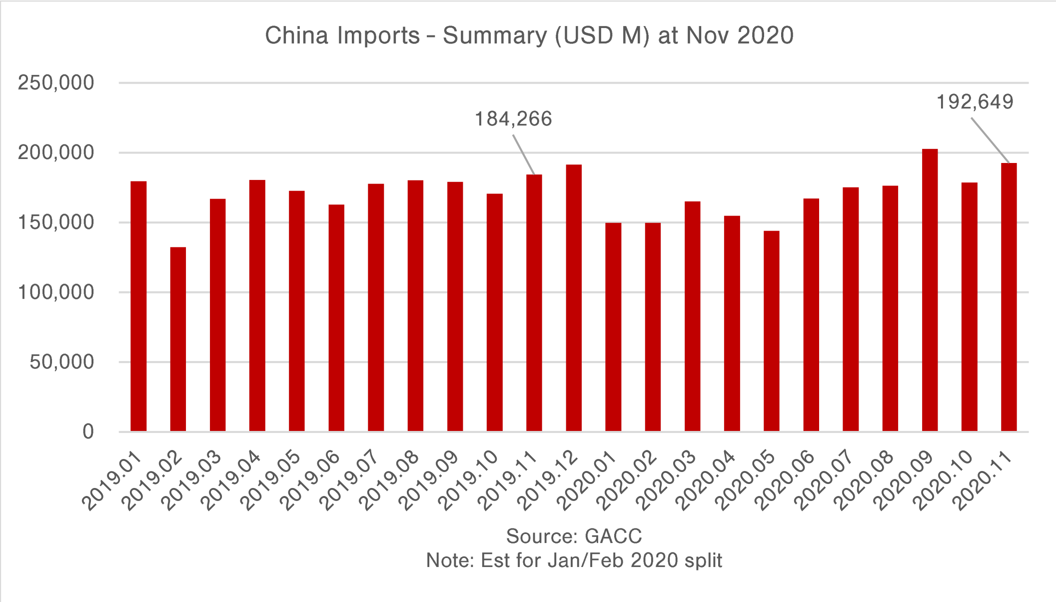
Of the major regions, exports to the EU increased by +12% (just below the headline growth of +13%). Exports to Latin America increased by +8%. Exports to the ASEAN group increased by +13%.

<u>Imports – month total (USD):</u> Nov 19.2bn versus Oct 17.8bn

Imports in Nov increased by +7.8% after declining by -11.8% in Oct.

On a year-ago basis, the value of imports is +4.5% ahead of Nov 2019.

The recovery in imports has not been as strong as exports and this is most visible in the YTD performance. In the YTD, the value of imports into China was still -1.6% below the same period a year ago.



In the YTD, Japan is the single largest import market. In Nov, imports increased by +10% - above the month pace of +7.8%. YTD, imports from Japan are +1.5% ahead of a year ago.

Imports from Korea were up by +8.5% in Nov (and remain below the same period YTD versus a year ago).

The US is the third-largest import market and imports were up by +17% in Nov. Imports from the US were also up by +6% in the YTD versus the same period a year ago.

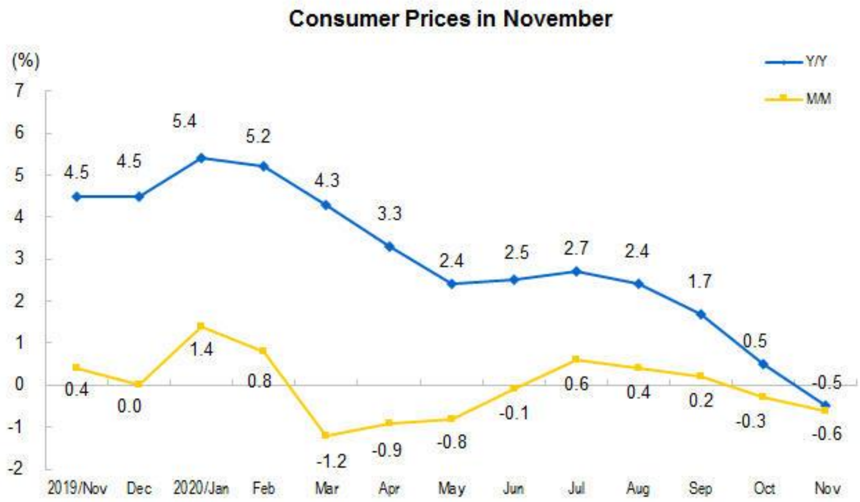
http://english.customs.gov.cn/statics/report/preliminary.html

CPI (Nov)

Year on year and monthly consumer price growth shifted into decline in Nov. This was led mostly by lower food prices in the month and on an annual basis.

Headline CPI – annual change: Nov -0.5% versus Oct +0.5%

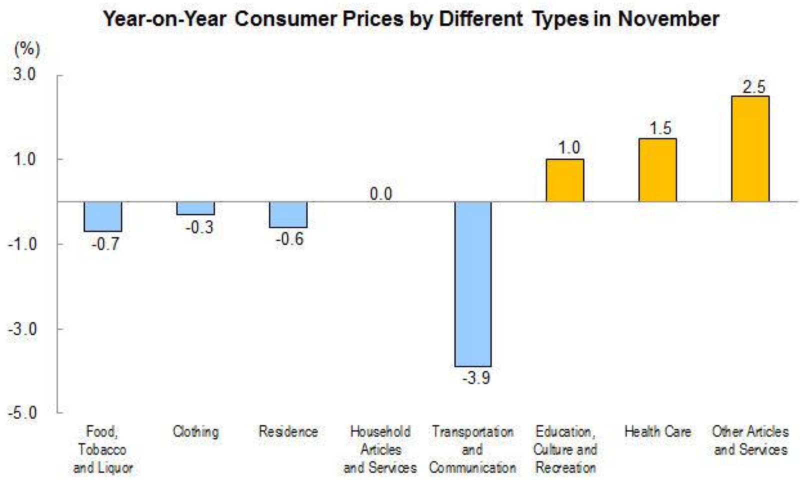
Consumer prices have been slowing and declining since Jul 2020



On an annual basis, the slow down and now decline in CPI growth was led by Food, Tobacco, and Liquor prices. Food price growth has been notably high (livestock and meat prices mostly). In the YTD, food prices were +11.5% ahead of a year ago. But this eased this month to decline by -2.4% compared to Oct and was -2% below a year ago.

> Among the foodstuff, the prices of fresh vegetables dropped by 5.7 percent, affecting CPI down by 0.15 percentage point; that of livestock meat dropped by 4.7 percent, affecting nearly 0.33 percentage point decrease in the CPI, of which the price of pork was down by 6.5 percent, affecting nearly 0.29 percentage point decrease in the CPI; that of aquatic products decreased by 1.9 percent, affecting CPI down by 0.03 percentage point totally; that of eggs went down by 1.4 percent, affecting CPI down by 0.01 percentage point.

Declines in prices across clothing, residence, and transportation & communications were offset by increases in prices for education/culture/recreation, health care, and other articles & services.



http://www.stats.gov.cn/english/PressRelease/202012/t20201210_1808443.html

PPI (Nov)

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

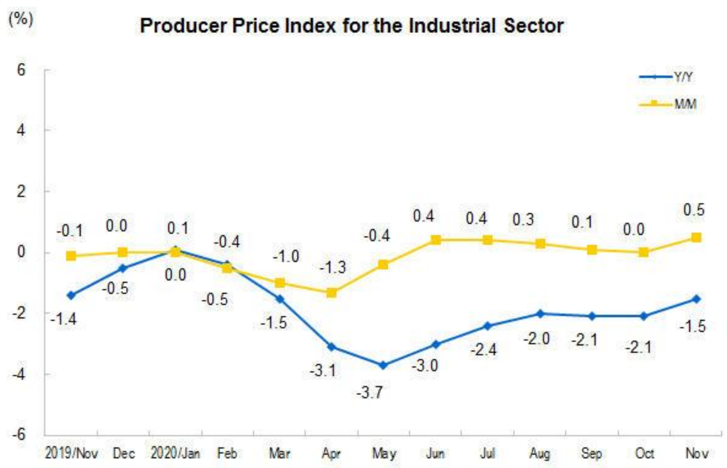
> The industrial producer price index reflects the trend and level of prices change when the products are sold for the first time.

The second is the purchase price index:

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

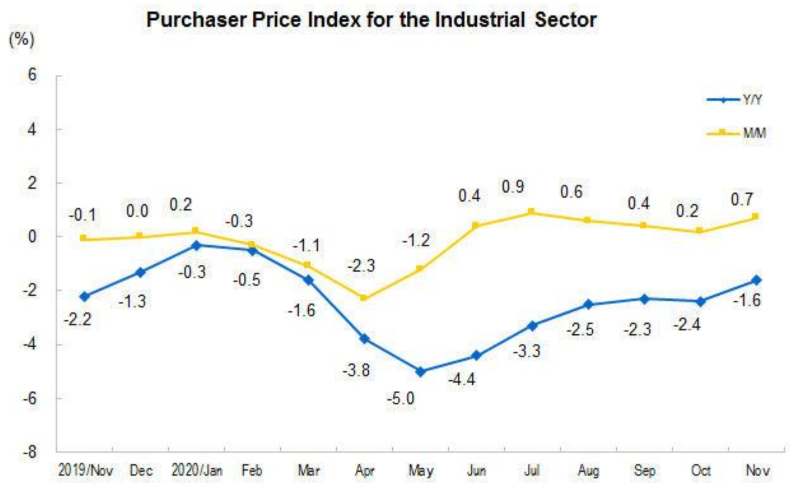
Industrial Sector PPI – annual change: Nov -1.5% versus Oct -2.1%

Input prices increased on a monthly basis from +0% in Oct to +0.5% in Nov – the fastest monthly growth of the last twelve months. Most notable was the increase in raw materials prices which increased by +1.5% in the month.



<u>Industrial Sector Purchaser Price Index – annual change</u>: Nov -1.6% versus Oct -2.4%

Purchaser prices were higher in the month led by fuel and power +1.2%. Over the year, fuel and power prices are still -8.4% below the same month a year ago. Chemical raw materials prices increased by +1.7% in the month (-4.6% over the year). Building materials prices also increased by +1.1% in the month and are now down by -0.8% over the year.



http://www.stats.gov.cn/english/PressRelease/202012/t20201210_1808445.html

Return to top