MARS CAPITAL PARTNERS

Weekly Macro Review

w/c 4 January 2021

Key Themes

It was a turbulent week with further social and political unrest in the US, some weak data points, and continued peaks in Covid-19 infections and deaths.

In the US, the Democrats won the two Senate runoff races in Georgia. The Democrats will now lead a 50-50 split Senate for the next two years, with Democrat Vice-President Harris to cast the deciding vote. This opens the way for the Democrat agenda. By the end of last week, it was rumoured that another round of relief spending would be considered in the vein of $US3-4tr – made up of another round of one-off payments and infrastructure spending. This would be in addition to the $900bn in relief aid already passed.

The US non-farm payrolls last week highlighted the adverse impact of this current, more severe wave of Covid-19 cases. New peaks in cases and deaths continue to be recorded in the US. In many cases, local restrictions resulted in a severe decline in services (leisure and hospitality) payroll jobs in Dec. This was partially offset by increases across some services jobs such as trade, transport, and retail, as well as increases in goods-producing jobs. The household employment survey was little changed in Dec. The increase in employment was small – but was at least made up of higher growth in full-time jobs (offset though by a severe decline in part-time employed persons).

The main themes from the ISM's were ongoing and increasing business disruptions from the current wave of infections. Supplier lead times continue to lengthen, led by transport and human resource constraints. There was a notable increase in the proportion of firms reporting higher input prices this month – especially across some commodities. Underlying demand conditions were surprisingly resilient given the disruptions.

The global PMI reports for Dec were generally stronger across manufacturing while services remained weaker. Across several larger economies – Germany, UK, and Japan, new peaks in infections have led to a further tightening of restrictions. This will likely impact the results for the next month.

Contents

US Data

Non-Farm Payrolls and Employment (Dec)

<u>NON-FARM PAYROLLS - Dec</u>

There was a notable *decline* in non-farm payrolls this month mostly the result of the impact of the increase in infections on services.

Non-Farm Payrolls – month change: Dec -140k jobs versus Nov +336k jobs (revised higher by +91k)

The result this month has put a dent in the progress of the jobs rebound. Since May 12.3m jobs have been regained after the 22.16m loss in Mar and Apr.

The decline in non-farm payrolls this month was made up of -95k private-sector jobs and -45k public-sector jobs. The decline in private sector jobs was focused on services.

> Employment declines in leisure and hospitality, private education, and government were partially offset by gains in professional and business services, retail trade, construction, and transportation and warehousing. In December, nonfarm employment was below its February level by 9.8 million, or 6.5 percent.

Goods-producing industries added +93k jobs in total – continued gains in new payroll jobs were made across most sectors.

Service-providing payrolls declined by -188k jobs. Trade, transport, and retail posted strong gains in payrolls. But this was offset by a severe decline of -498k jobs in leisure and hospitality, most of which was recorded across the food services and drinking places sector.

<u>HOUSEHOLD EMPLOYMENT SURVEY - DEC</u>

There was little change in overall employment level, participation, or total unemployment in Dec compared to Nov.

The size of the labour force increased by +31k – due to the population component, while there was no change in participation. At the same time, employment increased by +21k persons. This resulted in a +10k increase in the total number of unemployed persons.

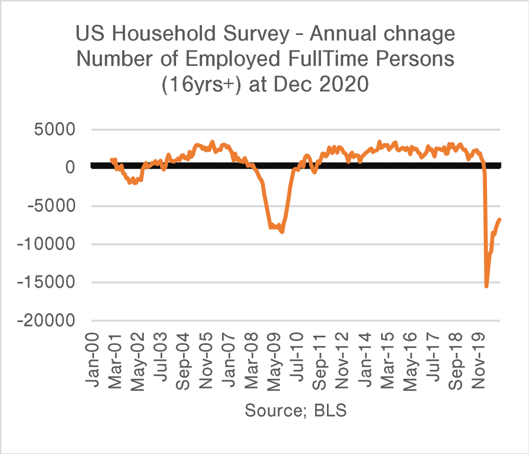
<u>EMPLOYMENT</u>

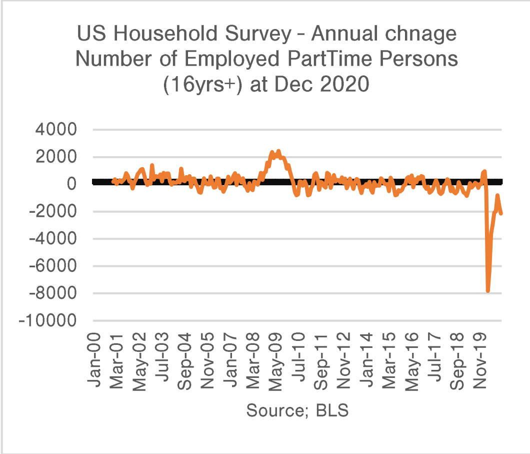
The total number of employed persons was little changed this month. But there were larger underlying shifts in the number of full-time (FT) and part-time (PT) employed persons – consistent with the non-farm payroll report.

Employment – month change: Dec +21k persons versus Nov +140k persons

There has been a definite stall in employment growth over the last two months. If there is one positive, it is that there was at least been a further increase in FT employment of +397k persons in Dec (slower than the +646k persons in Nov though). The number of PT employed persons declined by -456k (also smaller than the decline of -766k PT employed persons in Nov).

FT employment remains a significant -6.8m people below the level from a year ago and PT employment remains -2.15m people below the same month a year ago.





The employment to population ratio was unchanged for the third month at 57.4% (16yrs+).

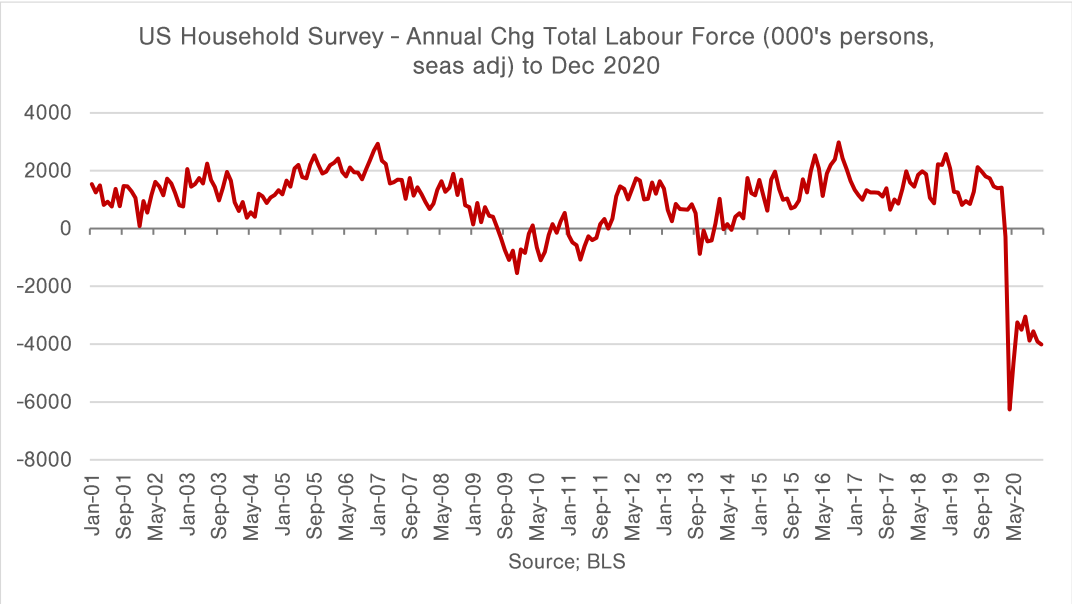
LABOUR FORCE

The size of the labour force was also little changed this month. There was no change in participation.

Labour force – month change: Dec +31k persons versus Nov -182k persons

The change this month was due to the estimate of what population growth added to the labour force. Participation remained unchanged at 61.5%.

The labour force size remains -4m people below the same month a year ago.



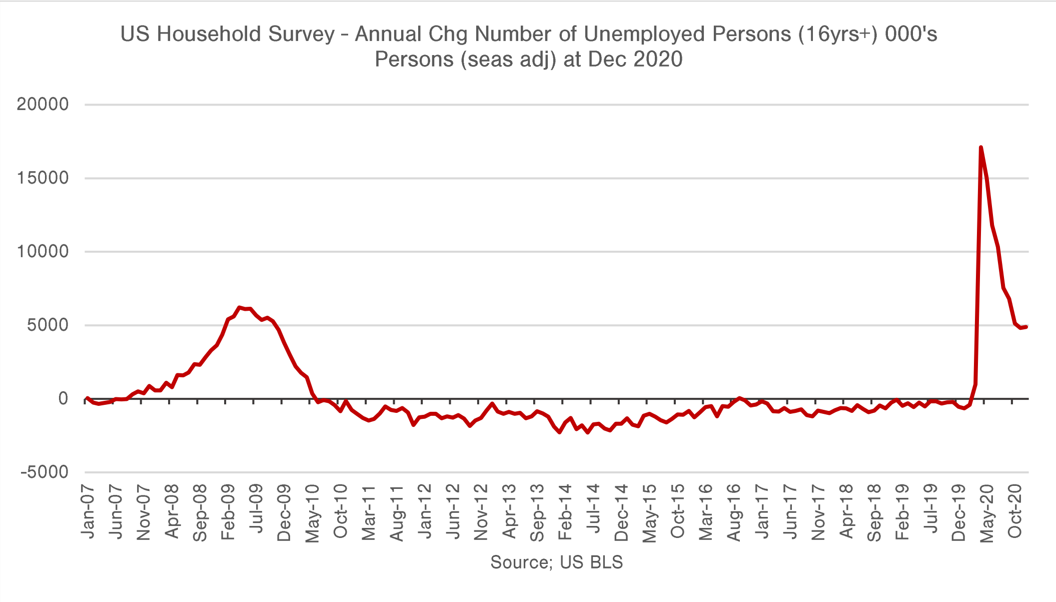
TOTAL UNEMPLOYMENT

Given that employment growth was less than the growth in the size of the labour force, total unemployment increased in Dec – albeit marginally.

Total Unemployed Persons – month change: Dec +8k versus Nov -321k persons

Approx. 10.7m people remain unemployed which is +4.9m ahead of the same month a year ago.

Again, there is some good news here. The increase in unemployed persons was led by an increase of job losers on temporary layoff which was more than offset by a larger decline in those unemployed on permanent layoff.



The unemployment rate remains at 6.7%.

Summary of the Main Employment and Labour Market Changes

000's people (16yrs+)	Annual chg - DEC 2020	Monthly Chg - DEC
The estimated change in the Labour Force due to pop growth (1)	688	31
How many jobs available for them? (employment growth) (2)	- 8,905	21
Difference (if negative, then employment growing faster than what pop adds to the labour force) (3)	9,593	10
Change labour force participation - (if positive, people entering/returning to the labour force) (4)	- 4,700	0
The remainder is the chg in total unemployed persons (declining if negative) (4) plus (3)	4,893	10
Two views of annual growth in the labour force;		
Total employed persons plus total unemployed persons	- 4,012	31
Est of what population adds to the labor force plus change in participation	- 4,012	31
BLS reported change in the size of the labour force	- 4,012	31

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

Initial Jobless Claims (wk ending 2 Jan), Continuing Unemployment Claims (wk ending 26 Dec), and PUA Claims

In the latest week ending 2 Jan 2021, initial jobless claims were still over one million new claims despite the large reduction in PUA initial claims: 1,083,532 new claims.

For the latest week of data available wk ending 19 Dec, the total ongoing claims were 19,176,857. This was approx. 400k fewer continuing claims than in the week prior.

While claims have been drifting back down after the release of the temporary Census workers, claims remain elevated.

REGULAR STATE PROGRAMS

Initial Claims – wk ending 2 Jan 2021 (NSA): +922,072 new claims by people. This is +77k higher than in the week prior.

Continuing Claims – wk ending 26 Dec 2020 (NSA): 5,382,459 ongoing claims. This is +145k higher continuing claims than in the week prior.

FEDERAL PROGRAMS – PANDEMIC UNEMPLOYMENT INSURANCE (PUA)

There was a substantial reduction in the number of new PUA claims in that latest week – likely the result of the drawn-out negotiations for the program extension.

PUA Initial Claims – wk ending 2 Jan 2021 (NSA): 161,460 new claims by people. In the wk ending 26 Dec, initial PUA claims were 310,462 claims.

Continuing PUA Claims – wk ending 19 Dec 2020 (NSA): 8,383,387 ongoing claims. This was approx. -70k fewer claims than in the week prior.

Pandemic Emergency Unemployment Compensation – wk ending 19 Dec 2020 (NSA): 4,516,900 ongoing claims. This was -293k fewer claims than in the week prior.

https://oui.doleta.gov/press/2021/010721.pdf

ISM Manufacturing PMI (Dec)

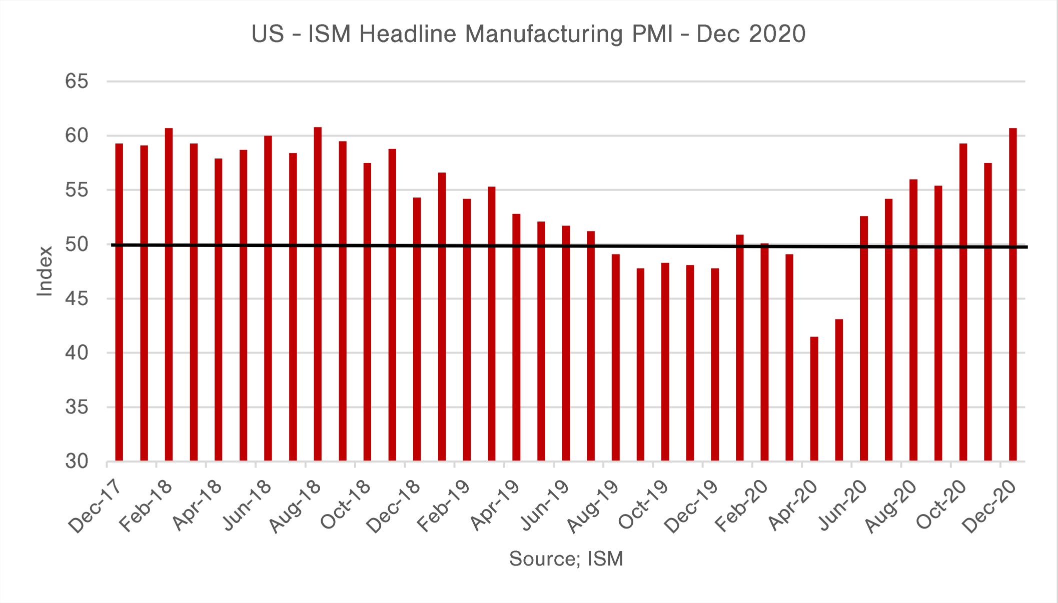
The month-on-month growth in manufacturing activity accelerated in Dec. All the main -subindexes contributed to the growth – indicating that demand conditions continued to improve. While demand improved, firms also reported supply chain disruptions due to the current outbreak. Larger contributors to growth in the index for the month were the acceleration in the supplier deliveries subindex and prices.

> The Supplier Deliveries Index continued to reflect suppliers' difficulties in maintaining delivery rates, due to factory labor-safety issues and transportation challenges.
>
> "Continued to survive COVID-19 shutdowns, customer restrictions and personnel issues (work from home and COVID-19 outbreaks) and managed to maintain slight growth over 2019." (Chemical Products)
>
> "COVID-19 is affecting us more strongly now than back in March. Vendors/service suppliers unable to maintain levels of service due to employee

shortages. Logistic issues also hurting us due to coronavirus-related problems."
(Food, Beverage & Tobacco Products)

Headline ISM Manufacturing PMI: Dec 60.7 versus Nov 57.5

Of the eighteen industries covered in the report, sixteen reported growth in Dec. All six of the largest manufacturing industries recorded growth in the month. The two industries reporting contraction in December are: Printing & Related Support Activities; and Nonmetallic Mineral Products.



New orders increased at a slightly faster pace with the index increasing from 65.1 in Nov to 67.9 in Dec (equal to the Oct level). More firms reported higher orders and fewer firms reported no change in the level of orders from the prior month. New export orders increased at a similar pace. Order backlogs continued to increase in the month.

The production index increased in the month from 60.8 in Nov to 64.8 in Dec – a relatively large % pt increase. But the underlying shift in firms results between Nov and Dec does not support that level of improvement – fewer firms reported higher production (and was the lowest level in the last four months at 32.3%), there was a small increase in the number of firms reporting no change in production and a slightly lower number of firms reporting lower production.

Production	% Higher	% Same	% Lower	Net	Index
Dec 2020	32.3	54.6	13.1	+19.2	64.8
Nov 2020	33.7	52.0	14.3	+19.4	60.8
Oct 2020	37.4	51.0	11.7	+25.7	63.0
Sep 2020	34.3	50.9	14.8	+19.5	61.0

The employment index increased this month from 48.4 in Nov to 51.5 in Dec. *Only* eight industries reported growth in employment this month and five industries reported declines including two of the larger industries:

> The five industries reporting a decrease in employment in December are: Printing & Related Support Activities; Petroleum & Coal Products; Food, Beverage & Tobacco Products; Plastics & Rubber Products; and Electrical Equipment, Appliances & Components.

The underlying shift was fewer firms reporting lower employment and more firms reporting the same level of employment compared to the prior month. The proportion of firms reporting higher employment was unchanged.

The supplier deliveries index increased notably this month from 61.7 in Nov to 67.6 in Dec. The increase in the lead time for deliveries is driven by supply chain disruptions, although production growth does remain elevated. This is likely overstating the degree of growth across the manufacturing sector.

> "Suppliers continue to struggle to deliver, with deliveries slowing at a faster rate compared to November. Transportation challenges and challenges in supplier-labor markets are still constraining production growth — and to a greater extent compared to the previous month. The Supplier Deliveries Index reflects the difficulties suppliers continue to experience due to COVID-19 impacts. Supplier labor and transportation constraints are not expected to diminish in the near-to-moderate term due to COVID-19,"

There was a substantial increase in the proportion of firms reporting slower deliveries (from 27.5% in Nov to 39.5% in Dec). Fewer firms reported no change in delivery times. There was no change in the number of firms reporting faster deliveries.

The prices index also recorded a notable increase this month from 65.4 in Nov to 77.6 in Dec. There was a substantial increase in the proportion of firms reporting higher prices now at 57.8% in Dec versus 36.7% of firms in Nov. Fewer firms reported the same levels of prices. The proportion of firms reporting lower prices fell to just 2.6% of firms. All industries recorded increases in prices this month.

> "Aluminum, copper, steel, petroleum-based products including plastics, transportation costs, electronic components, corrugate, temporary labor, wood and lumber products all continued to record price increases,"

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

ISM Services PMI (Dec)

The headline services business activity index indicated that services activity increased at a faster pace in Dec compared to Nov. The acceleration in growth was recorded across most sub-indexes but the largest gains were in supplier deliveries and inventories – these are likely overstating the pace of growth. Lengthening lead times are usually a sign of growing demand – that is not entirely true in this case.

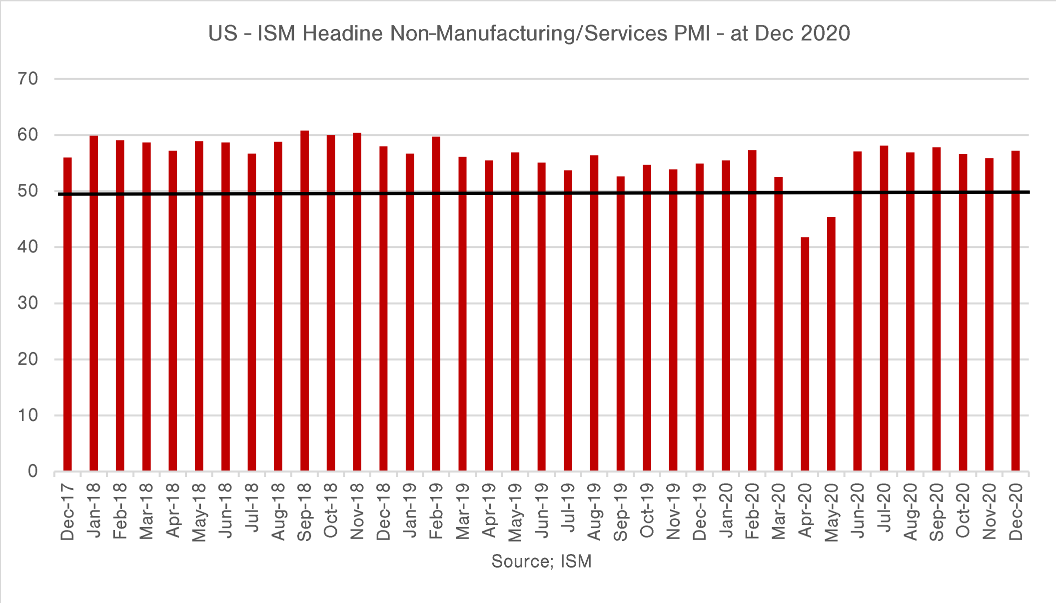
> Respondents' comments are mixed about business conditions and the economy. Various local- and state-level COVID-19 shutdowns continue to negatively impact companies and industries. Applicable human resources,

production capacity and logistics have been more constrained than during the previous month. Most respondents are cautiously optimistic about business conditions with the recent approval and impending distribution of vaccines,"

Anecdotes from across different industries reflect ongoing business disruption from the latest outbreak. The theme was similar: face-to-face sectors such as food service, accommodation, and education are wearing the brunt of weaker demand due to rising infections. Transport and warehousing volumes were growing (increased utilization of online purchasing). Wholesale trade noted continued product shortages and increased lead times.

<u>ISM Headline Services PMI:</u> Dec 57.2 versus Nov 55.9

Fourteen industries recorded growth this month and four industries recorded a decline in activity this month: Arts, Entertainment & Recreation; Accommodation & Food Services; Other Services; and Real Estate, Rental & Leasing.



Business activity or output across services increased at a slightly faster pace, with the index reading 59.4. The underlying results reflect the mixed industry performance – more firms recorded higher growth and more firms recorded lower growth than in the month prior. Fewer firms recorded no change in output (approx. 50% of firms in the survey).

The new orders index also increased further this month. But while there was a slight increase in the number of firms reporting higher new orders (from 29.6% in Nov to 30.3% in Dec), there was a much larger increase in the proportion of firms that recorded lower orders in Dec (19.7% of firms, up from 15.1% in Nov). The proportion of firms reporting no change declined from 55% in Nov to 49% in Dec.

Employment shifted back into slight contraction. The majority of firms reported no change in employment, 66.8% of firms in Dec, down from 69.6% in Nov. More firms reported lower levels of employment in Dec than in Nov. The proportion of firms reporting higher employment continued to fall from 16% in Nov to 14% in Dec. This is the lowest level of the past four months.

The supplier deliveries index increased notably from 57 in Nov to 62.8 in Dec. There was a large jump in the number of firms reporting slower deliveries from 16.9% of firms in Nov to 27.6% in Dec. The majority of firms, 70.4%, still recorded no change to deliveries from the prior month.

The inventories index also increased substantially this month from 49.3 in Nov to 58.2 in Dec. Only 46% of firms in the survey report on inventory. The survey notes firms were building inventory where possible. The industries highlighted below also recorded contractions in new orders and/or output for the month:

> The 11 industries reporting an increase in inventories in December — listed in order — are: Arts, Entertainment & Recreation; **Agriculture, Forestry, Fishing & Hunting; Accommodation & Food Services;** Retail Trade**; Real Estate, Rental & Leasing;** Utilities; Health Care & Social Assistance; Wholesale Trade; Public Administration; Professional, Scientific & Technical Services; and **Educational Services**.

The inventory sentiment index noted that six industries (Arts, Entertainment & Recreation; Mining; Other Services; Utilities; Educational Services; and Health Care & Social Assistance) reported that inventories were too high. The increase in inventories this month, amid longer lead times and some product shortages, indicates that higher inventory may also be linked to weaker demand.

Prices continued to increase, but at a slightly slower pace. The index remains elevated at 64.8.

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

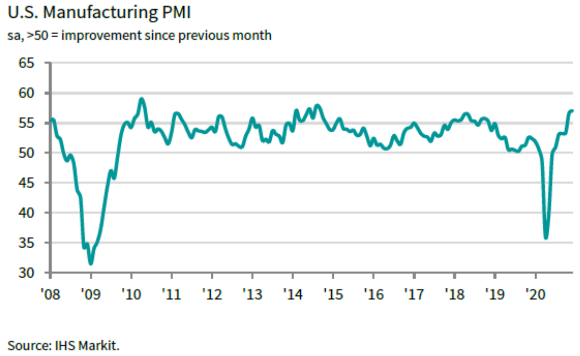
Markit Manufacturing & Services PMI (Dec)

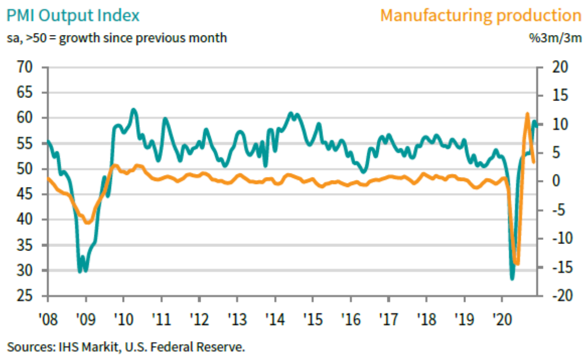
Manufacturing activity increased at a slightly faster pace in Dec than in Nov. The pace of growth is likely to be somewhat overstated due to "severe supply chain disruption". But underlying demand remained positive with output and new orders continuing to grow, albeit at a slightly slower pace than in Nov. Firms noted longer lead times and shortages for raw materials.

> Supply chain disruptions escalated amid supplier shortages and transportation delays stemming from a lack of available drivers, and COVID-19 travel restrictions. Lead times lengthened to the greatest extent since data collection began in May 2007.

Input prices increased notably in the month and firms increased selling prices as a result. The current outbreak of the virus started to weigh on output expectations for the next 12months.

Headline Manufacturing PMI: Dec 57.1 versus Nov 56.7

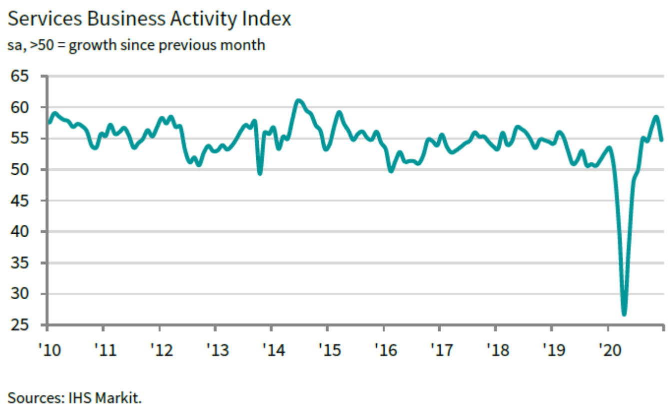




The growth in services activity slowed markedly this month. New business growth slowed as new infections led to greater restrictions. New export work declined for the first time since May.

> Cost burdens continued to soar, as the rate of input price inflation picked up again to reach a series record high.
>
> The degree of business confidence slipped in December, as the post-election boost to optimism waned and a resurgence in virus cases hampered demand and business operations. The level of optimism was down notably from that seen in November and the lowest for three months.

Business Services Activity Index: Dec 54.8 versus Nov 58.4



https://www.markiteconomics.com/Public/Home/PressRelease/09b26f3d6bbd42308734b4a196abaa5e

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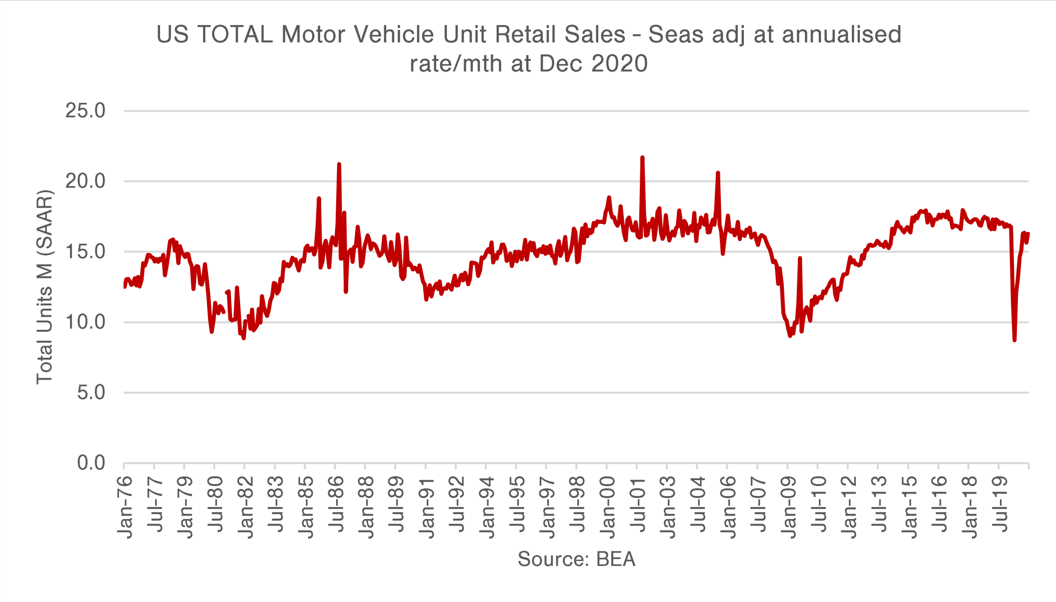
Vehicle Sales (Dec)

Vehicle sales in Dec posted a 4% gain in the SAAR for the month. A further decline in Auto sales was more than offset by a larger gain in Light Truck/SUV sales for the month. This will be a boost to retail sales results for Dec.

Total Motor Vehicle Unit Retail Sales – month change (SAAR): Dec 16.7m (+4.1%) versus Nov 16.1m units

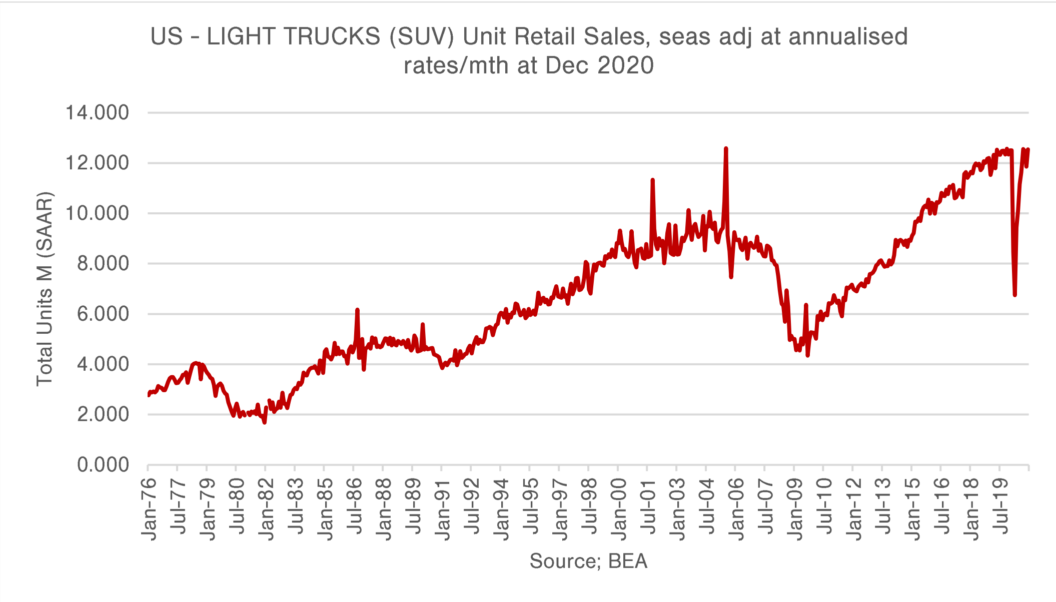
Despite the improvement in the month, the SAAR remains 3% below the same month a year ago. The rebound has so far returned to the pre-Covid trend.



The increase in the month was the result of a larger increase in Light Truck/SUV sales.

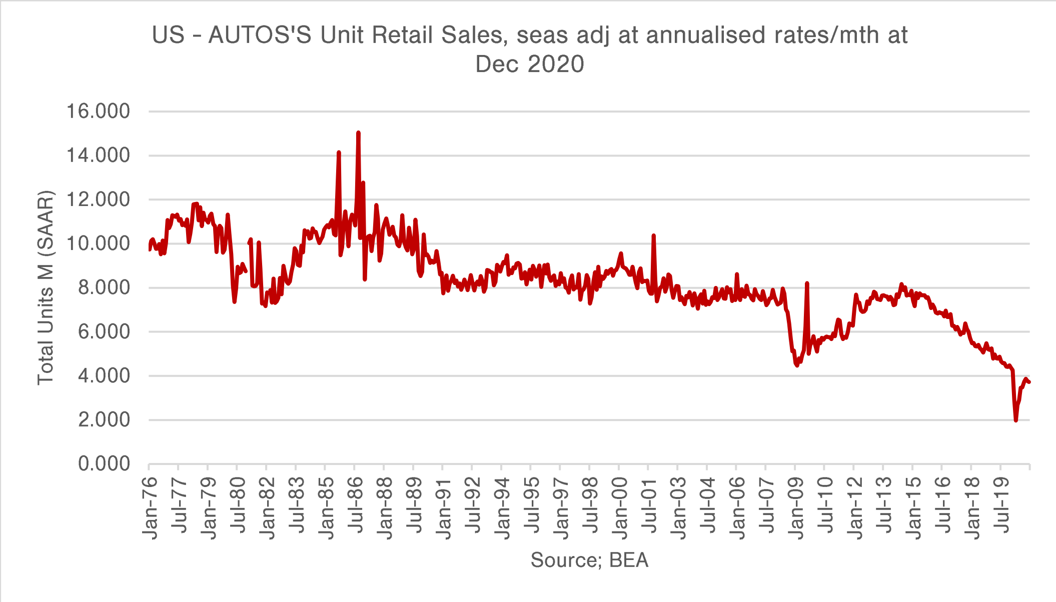
Light Truck/SUV Unit Retail Sales – month change (SAAR): Dec 12.55m (+5.8%) versus Nov 11.86m units

Total Light Truck sales are now +1.7% ahead of the same month a year ago.



<u>Auto Unit Retail Sales – month change (SAAR):</u> Dec 3.72m (-1.4%) versus Nov 3.77m units

The annual pace of Auto sales in Dec was -16.8% below the same month a year ago. Although Auto sales have rebounded from the all-time low in Apr 2020, the rebound in sales has only returned to the pre-Covid trend of slowing sales.



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

Personal Income and Consumption Expenditure (Nov)

This data was released just before the holiday break.

Income declined at an accelerated pace in Nov compared to Oct – led by a decline in income from capital and government transfer receipts. Income from labour (wages and salaries) increased, but at a slower pace. While wages and salaries in Nov were +2% ahead of the same month a year ago, this is still well down on the pace of growth during the year before the pandemic which averaged +4.7% growth.

Personal consumption expenditure also declined in Nov across both goods and services.

Even though expenditure fell, the fall in income still led to a decline in personal savings (the surplus between income and expenditure). The savings rate remains elevated compared to recent history.

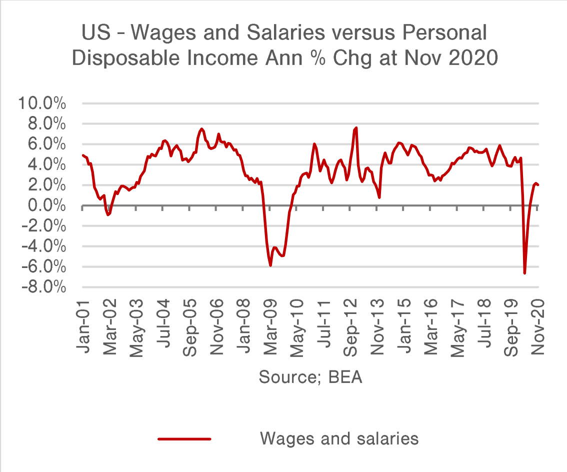
<u>PERSONAL INCOME</u>

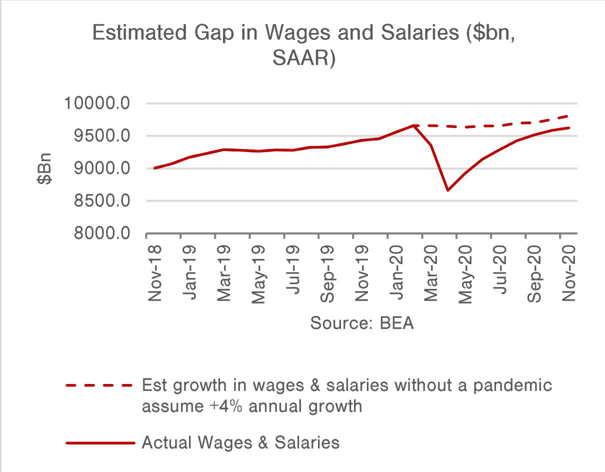
Total personal income declined at an accelerated rate in Nov. Declines in income from capital and transfer receipts offset the growth in wages and salaries.

<u>Total Personal Income – month change</u>: Nov -1.1% (-$221bn) versus Oct -0.6%

The main components are income from labour, income from capital, and transfer receipts.

Importantly, employee compensation continued to grow, but at a slower pace. Wages and salaries growth slowed to +0.4% (+$39bn) in Nov from +0.7% growth in Oct. While wages and salaries in Nov were +2% ahead of the same month a year ago, this is still well down on the pace of growth during the year before the pandemic which averaged +4.7% growth. And while growth in wages and salaries has rebounded, it continues to track below the prior growth trajectory.

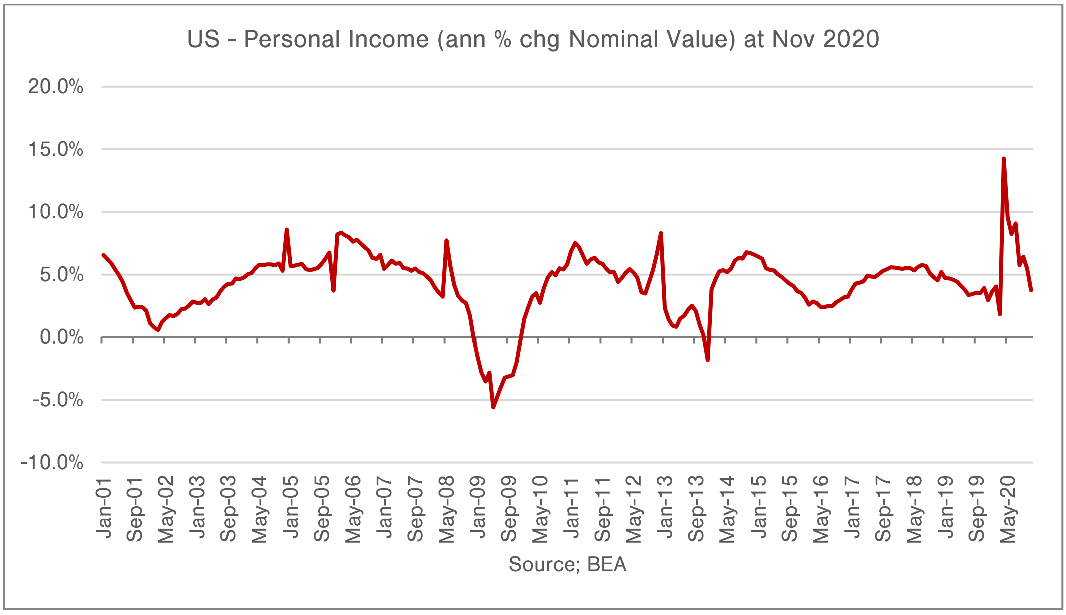




Proprietors income declined by -8.5% in Nov or by -$163bn compared to Oct. Rental income increased by +0.5%, or +$4bn.

Income from personal transfer receipts declined by -3.3% or -$126.8bn compared to Oct. The decline in Oct was -6%. The decline in unemployment insurance income slowed to -9% or -$27bn and Other transfer receipts declined by -13% or -$100bn compared to Oct.

On an annual basis, personal income growth has slowed to +3.8% compared to the same month a year ago (from +5.5% annual growth in Oct). This pace of growth is just below the average growth of 3.9% in 2019. With a further round of stimulus payments going out, income growth will accelerate again in Dec and Jan.



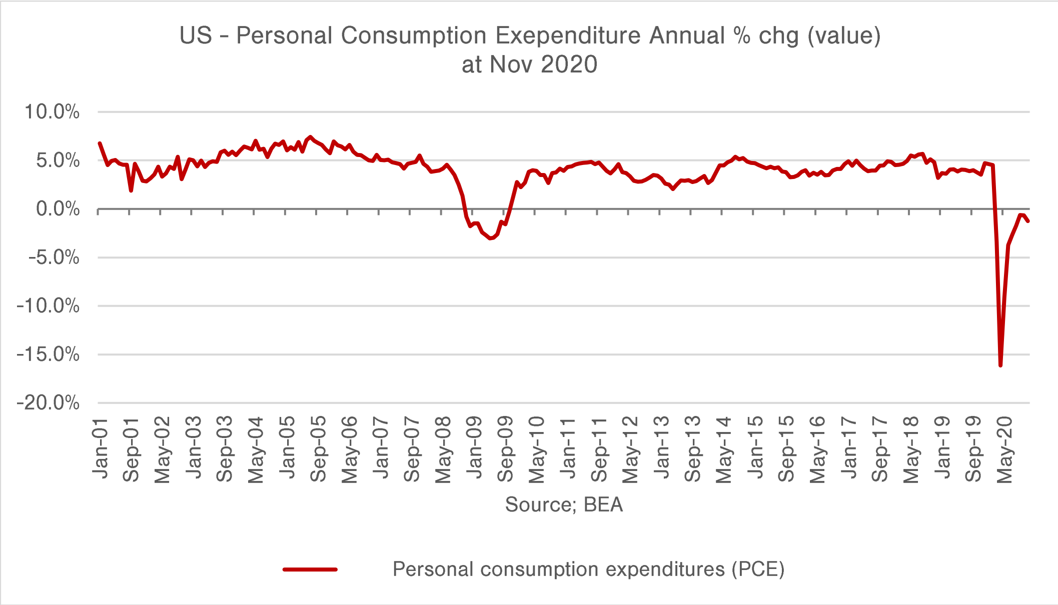
PERSONAL CONSUMPTION EXPENDITURE

As income declined in the month, so did personal consumption expenditures. Expenditure on both goods and services declined in Nov.

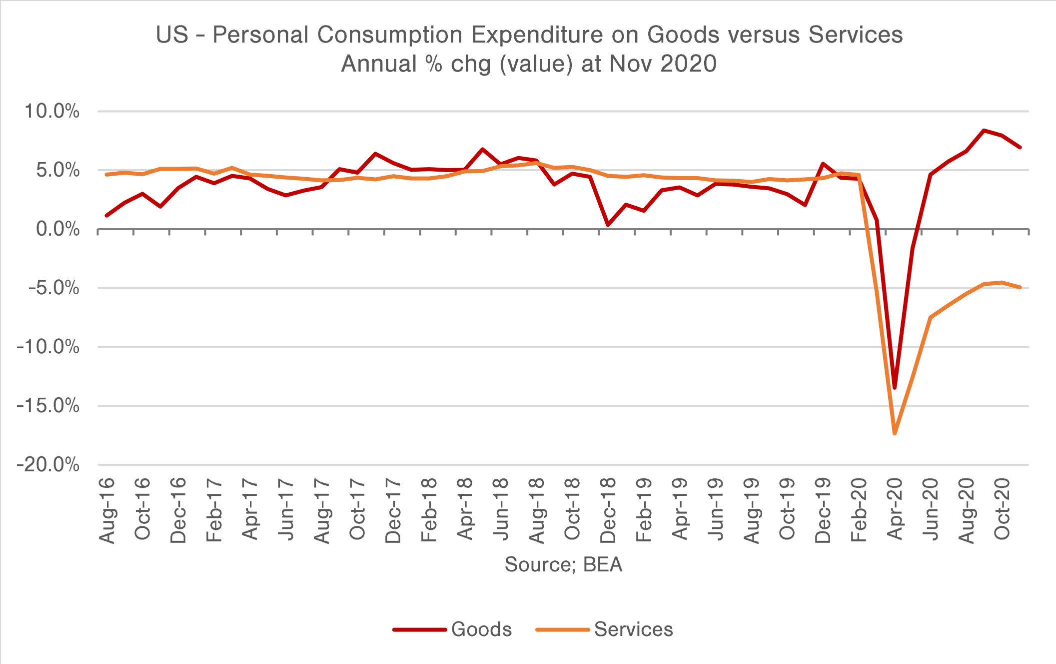
Personal Consumption Expenditure – month change: Nov -0.4% (-$63bn) versus Oct +0.3% (+$47bn)

Most of the decline in the month was in expenditure for goods -1% (-$48bn) compared to Oct. Services expenditure also declined by -0.2% in Nov after increasing by +0.5% in Oct.

On an annual basis, expenditure is still -1.3% below the same month a year ago while expenditure growth averaged 3.9% through 2019 –



Expenditure on services has been the hardest hit by the Covid-19 restrictions. Expenditure growth on goods has not been high enough to offset that decline.

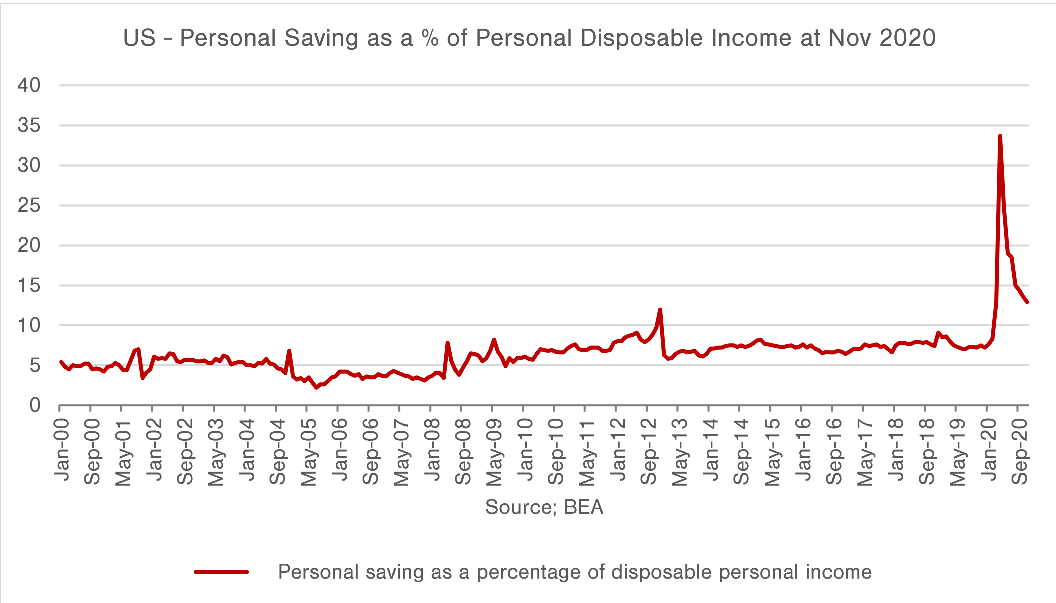


PERSONAL SAVING

Even though expenditure fell, the fall in income still led to a decline in personal savings (the surplus between income and expenditure).

Personal Saving – month change: Nov -$151bn versus Oct -$174bn

Saving (surplus) as a % of personal disposable income fell again to 12.9% - but remains extremely elevated compared to recent history.



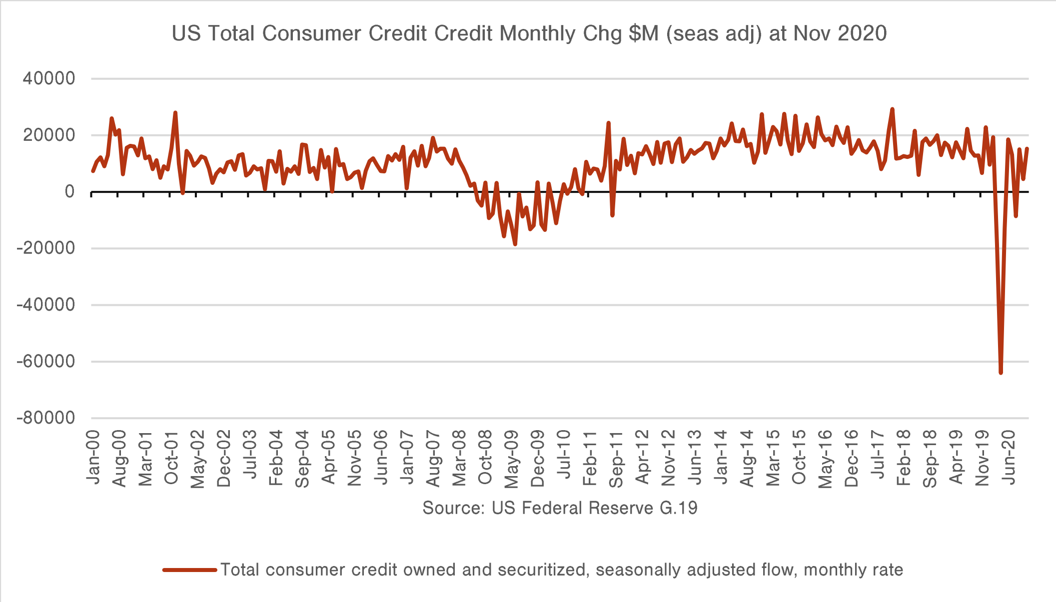
https://www.bea.gov/data/income-saving/personal-income

Consumer Credit (Nov)

Total outstanding consumer credit increased at a faster pace this month. Revolving credit card credit continued to decline while non-revolving credit increased at a faster pace.

Total Consumer Credit Outstanding – month change: Nov +$15.3bn versus Oct +$4.5bn

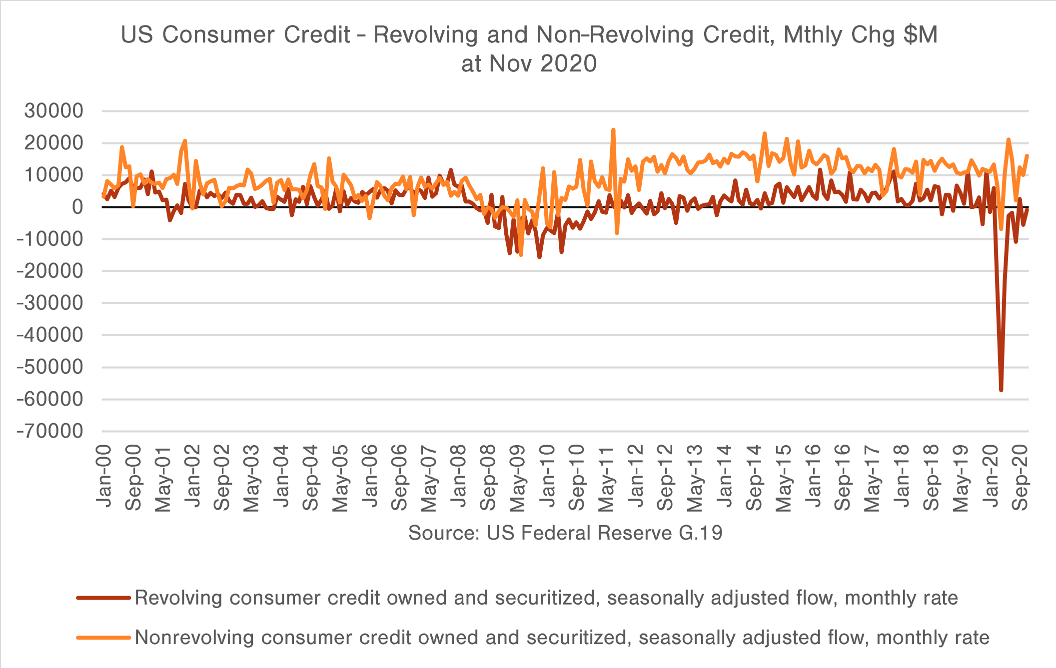
On an annual basis, total consumer credit increased by +0.5% in Nov – only slightly faster than +0.3% recorded in Oct.



The growth in consumer credit this month was all led by the growth in non-revolving credit.

Non-revolving credit increased by +$16.1bn in Nov, up from +$10bn in Oct. The value of outstanding non-revolving credit increased by +4% in Nov compared to the same month a year ago.

Revolving credit (credit card) declined by -$0.8bn in Nov which was still slower than the -$5.5bn decline recorded in Oct. Revolving credit outstanding declined by -9.6% compared to the same month a year ago.



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

Mortgage Applications wk ending 1 Jan 2021

Over the last two-week period, mortgage applications decline. According to the MBA, results include adjustments to account for the holiday period.

Market Composite Index – Loan application volume – two weeks change (SA): -4.2%

The decline was led by a decline across mortgage refinance applications and purchase applications.

Refinance Index – versus two weeks ago: -6%. Refinance applications were +100% higher than for the same week a year ago.

Purchase applications – versus two weeks ago: -0.8%. The level of purchase applications has slowed to just +3% ahead of the same week a year ago.

It is a difficult time of year to draw too many conclusions from. At this stage, extremely low rates continue to encourage refinance activity – despite the drop versus two weeks ago, refis are still well above the same week a year ago. This probably also points to helping ease some financial stress for households. Purchase applications had already been slowing in the weeks leading up to the end of the year and now are only up by +3% versus a year ago.

> "Mortgage rates started 2021 close to record lows, most notably with the 30-year fixed rate at 2.86 percent, and the 15-year fixed rate at a survey low of 2.40 percent. The record-low rates for fixed-rate mortgages is good news for borrowers looking to refinance or buy a home, as around 98 percent of all applications are for fixed-rate loans,"

"Despite these low rates, overall application activity fell sharply during the holiday period - **which is typical every year**. Refinance applications were 6 percent lower than two weeks ago, and purchase activity less than 1 percent from its pre-holiday level."

https://www.mba.org/2021-press-releases/january/mortgage-applications-decreased-over-a-two-week-period-in-latest-mba-weekly-survey

Factory Orders (Nov)

Two key sectors continue to influence the headline numbers. The weak performance within non-defense aircraft - orders remain low, shipments are declining, unfilled orders continue to decline, and inventory growth remains elevated.

Petroleum is also a major influence on the numbers given the substantial decline in value, as well as demand.

Excluding these two sectors, orders and shipments among other industries continue to rebound and growth versus a year ago continues to accelerate. Unfilled orders growth is accelerating on an annual basis suggesting that growing demand is placing pressure on capacity. Many of the current Dec reports though highlight the issue of lengthening supplier lead times which may impact unfilled order growth next month. Finally, inventory is continuing to increase but remains below a year ago.

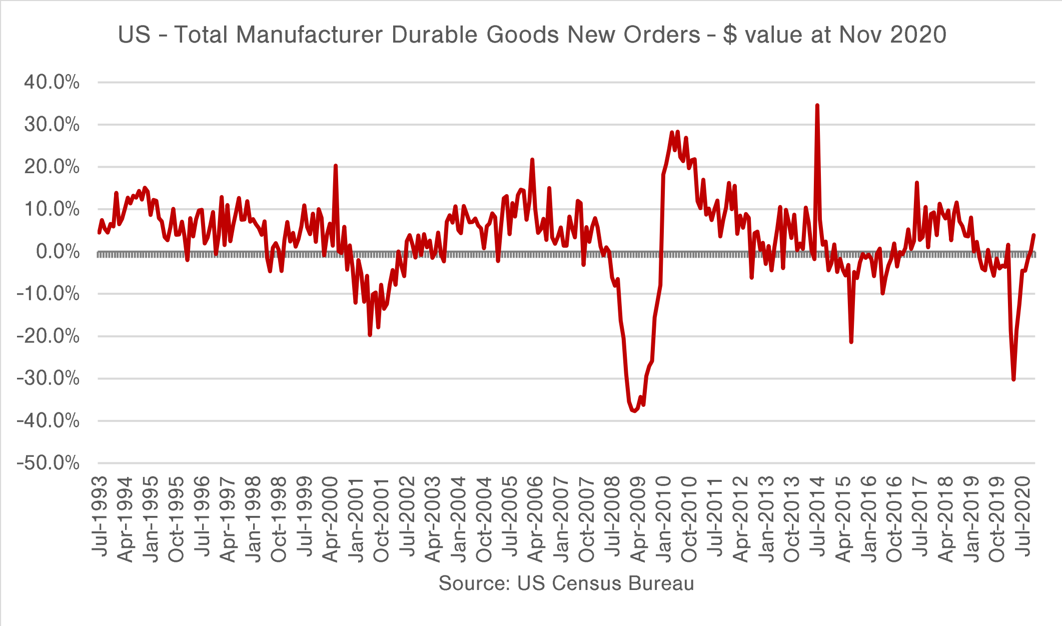
Durable Goods Orders – month change: Nov +1% (+$2.3bn) versus Oct +1.8% (+$4.3bn)

Accounting for most of the growth in durable goods orders for the month was transport equipment (+$1.6bn). Within that industry, motor vehicles were +$0.5bn for the month (+1.8%). Nondefense aircraft orders fell by -2.8% and orders remain at extremely low levels.

Machinery orders added +$0.4bn in growth for the month (+1.2%) – and growth was recorded across most machinery segments.

Computer and electronic orders slowed notably from +4.3% in Oct to -0.2% in Nov.

On an annual basis, the value of durable goods orders increased by +3.9% ahead of the same month a year ago.



The impact of the decline in non-defense aircraft orders has been large. Excluding non-defense aircraft, the growth in durable goods orders was even higher at +6.6% ahead of the same month a year ago.

<u>Total Manufacturing Shipments – month change</u>: Nov +0.7% (+$3.4bn) versus Oct +1.2% (+$5.7bn)

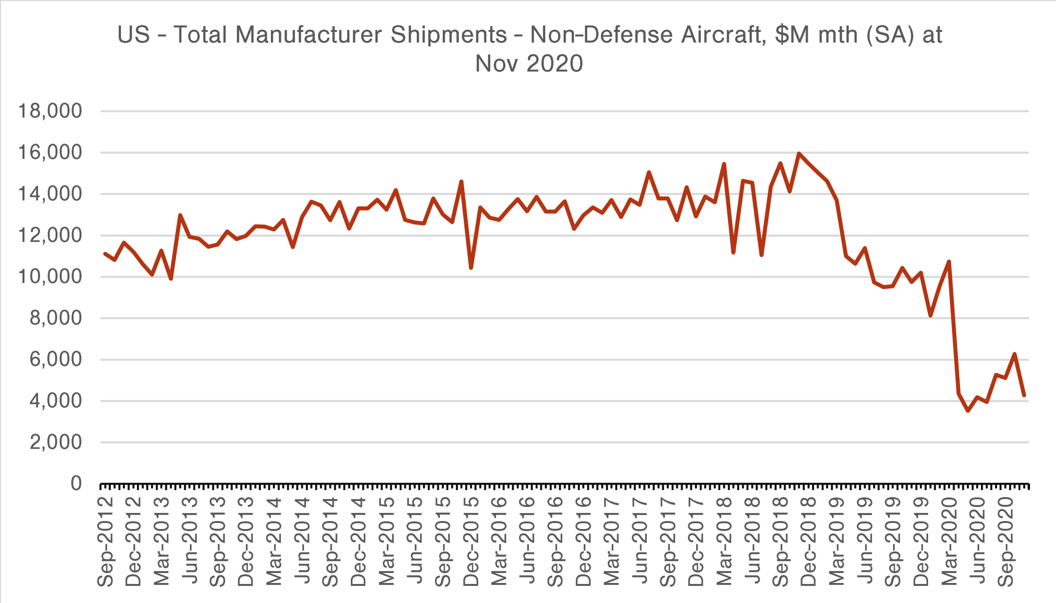
Most of the growth in shipments for Nov was led by non-durable goods which increased by +1.1% (+$2.7bn) compared to Oct. Petroleum and chemical industries recorded the largest monthly increase in shipments.

Durable goods shipments increased at a slower pace of +0.3% (+$0.8bn) in Nov compared to the +1.5% growth in Oct. Growth in shipments of autos, light trucks, heavy-duty trucks, and vehicle bodies was offset by a larger decline in shipments of non-defense aircraft of -31% or -$2bn compared to Oct.

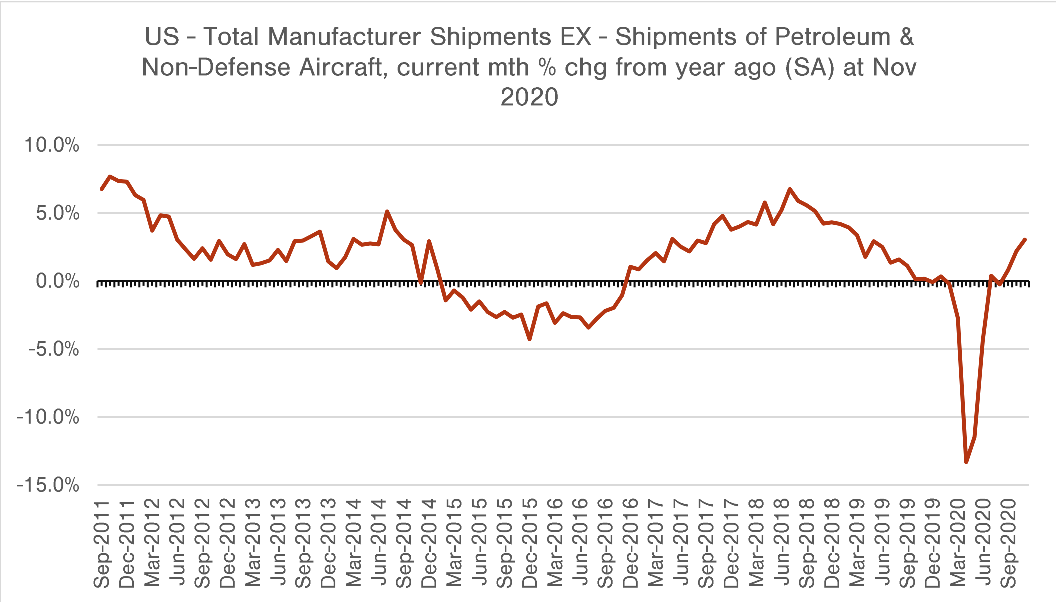
The value of total manufacturer shipments in Nov was still -1.3% below the same month a year ago. The annual view of the growth in shipments is skewed by the significant fall in the value of petroleum and the decline in non-defense aircraft production over the last two years.

The value of petroleum shipments increased by 4.7% in the month but was still -27.8% below the level from a year ago.

Non-defense aircraft shipments were already in a steep decline before the onset of the pandemic in 2020. Shipments in Nov 2020 were -56.6% below the same month a year ago. In Nov 2019, shipments of commercial aircraft were -38.9% below the year before that.



Excluding these two large influences, the value of shipments in Nov was +3% ahead of the same month a year ago.

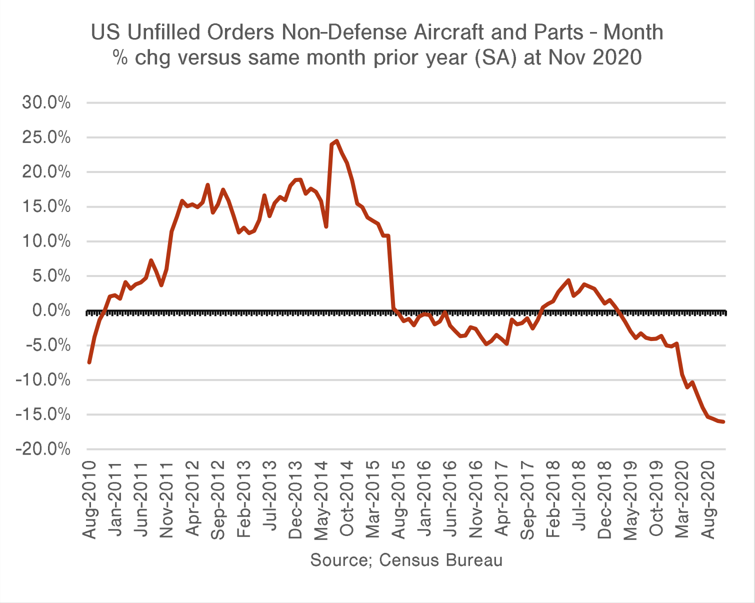


<u>Total Unfilled Orders (durable goods) – month change</u>: Nov -0.1% (-$0.6bn) versus Oct -0.2% (-$2.1bn)

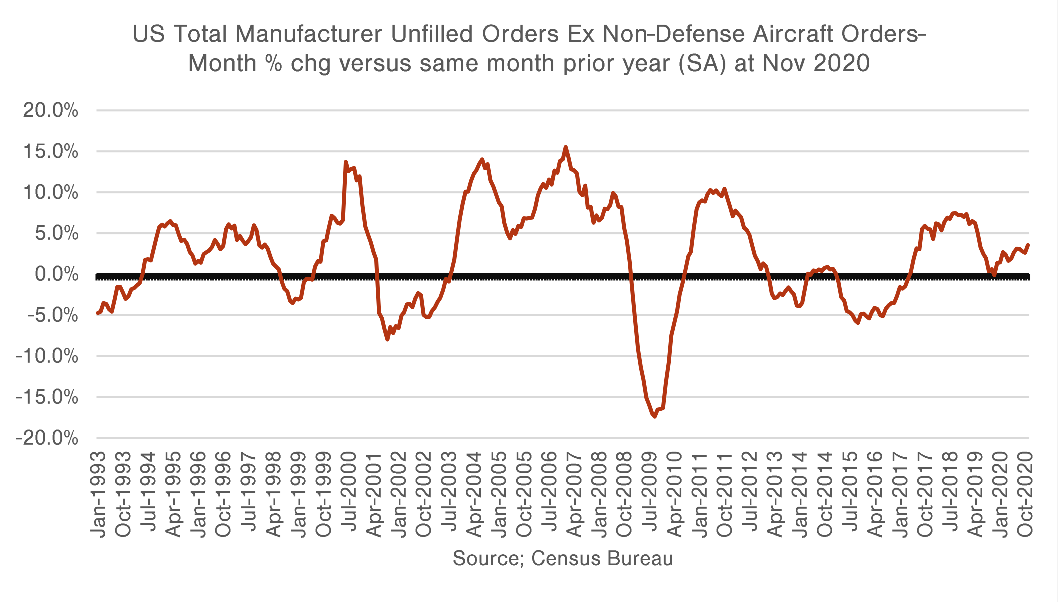
The value of unfilled orders increased in the month across most of the durable goods industries. An increase in unfilled orders suggests that production/output was unable to keep up with new orders – that demand is placing pressure on capacity. In the current context, the increase in unfilled orders could also partly reflect some strain from longer input delivery times. The Dec reports all indicate some level of supply chain disruption.

The exception was the transport equipment industry. Unfilled orders declined by -0.5% (-$3.4bn) in Nov. Most of this was the decline in airline orders of -$2bn compared to Oct. The slow pace of order growth means there is enough capacity to reduce outstanding orders. There was a similar decline in unfilled orders for defense aircraft and ships & boats.

The impact of the decline in the production of commercial aircraft shows up most in the unfilled orders series. Non-defense aircraft unfilled orders are 44% of the total of unfilled orders. Unfilled orders for nondefense aircraft continue to decline at a faster annual pace – now -16% below the same month a year ago.



Excluding non-defense aircraft, total unfilled orders continued to increase versus a year ago, now +3.6% in Nov. The trend does suggest that orders/demand is growing faster than output.



<u>Inventory – month change</u>: Nov +0.7% (+$5.1bn) versus Oct +0.3% (+$1.7bn)

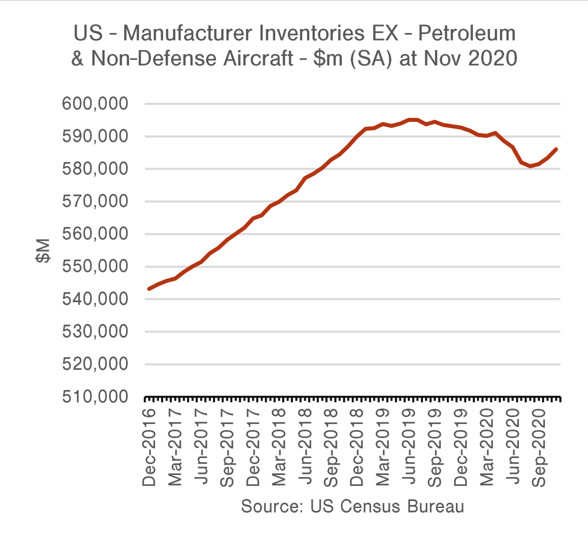
There was a larger increase in the value of inventory this month. While one or two industries contributed to the bulk of the increase (non-defense aircraft and petroleum), increases were recorded across most industries. This is mostly in line with firms trying to replenish lower stockpiles.

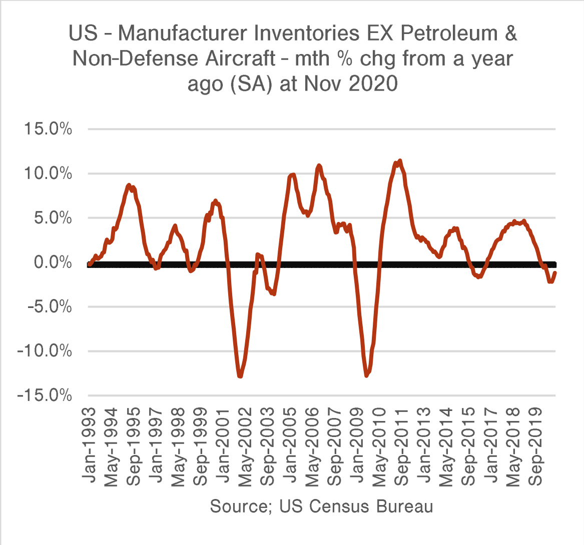
Despite falling orders and shipments of nondefense aircraft, inventory continues to increase. In Nov, the value of inventory increased by +1.9% or +$1.5bn. The annual pace of inventory growth for aircraft has slowed to +14% but the value is still at an all-time high (albeit not price adjusted).

The other large contributor to the increase in the value of inventory this month was petroleum. As the value of shipments increased in the month so did the value of inventory +3.5% (+$0.9bn) versus -1.3% in Oct.

Excluding the larger value of aircraft and petroleum, the value of inventory still increased by +0.5% in Nov versus +0.3% in Oct.

On an annual basis, the value of inventory remains elevated but is still -0.7% below the same month a year ago. Again, excluding petroleum and aircraft, the value of inventory is -1.2% below the same month a year ago. The year-on-year decline is becoming smaller as firms start to increase inventory again.





https://www.census.gov/manufacturing/m3/index.html?

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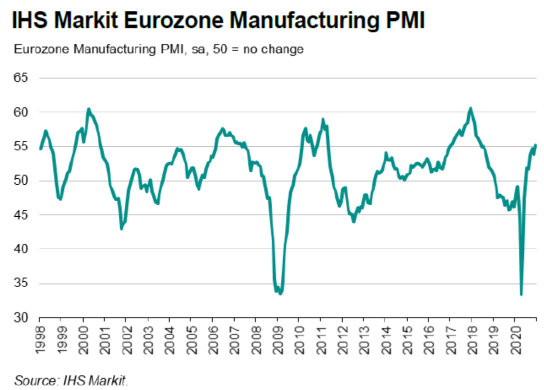
Europe

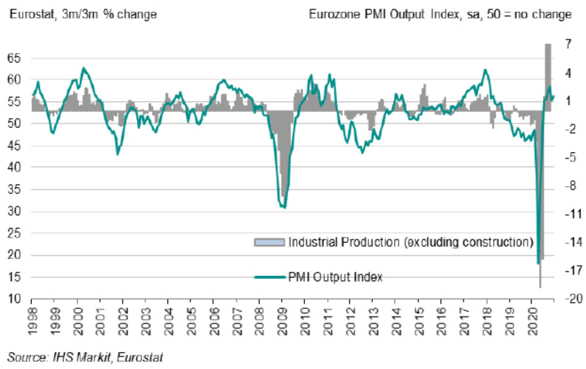
Eurozone Markit Manufacturing PMI (Dec)

Manufacturing activity across the Eurozone grew at a slightly faster pace in Dec compared to Nov. Growth was led by continued strength in German manufacturing. Netherlands and Ireland also recorded growth in manufacturing activity. Growth in investment goods and intermediate goods remained strong while growth in consumer goods conditions was marginal. Overall, production and new orders growth were slightly faster in Dec. Output growth remains below the recent peak. New export sales increased at a faster pace especially led by Germany and the Netherlands. Despite the improved conditions, the Markit report notes that employment continued to decline – led by "notable" job losses in Germany. Throughout the Eurozone, widespread delays in supplier deliveries were reported. Firms also reported faster growth in input prices.

> "…confidence about the coming 12 months improved to the highest level in nearly three years as optimism rose on hopes that operating conditions would be closer to normal by the end of 2021."

Headline Manufacturing PMI: Dec 55.2 versus Nov 53.8





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Eurozone Markit Services PMI (Dec)

The Eurozone services sector continued to contract in Dec for the fourth month in a row. The pace of decline eased in Dec. Output/activity declined across most of the major EU members except Ireland. New orders declined for the fifth month, including new export work. This was the result of ongoing social distancing restrictions. Employment continued to decline but at a marginal pace.

Headline Services Business Activity Index: Dec 46.4 versus Nov 41.7

> "More encouragingly, businesses grew more optimistic about their situation in one year's time, reflecting the light at the end of the tunnel offered by vaccine

developments. A recovery will hopefully be seen from the second quarter onwards."

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Japan

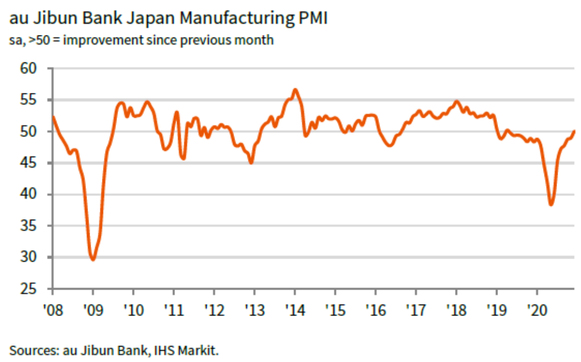
Markit Manufacturing PMI (Dec)

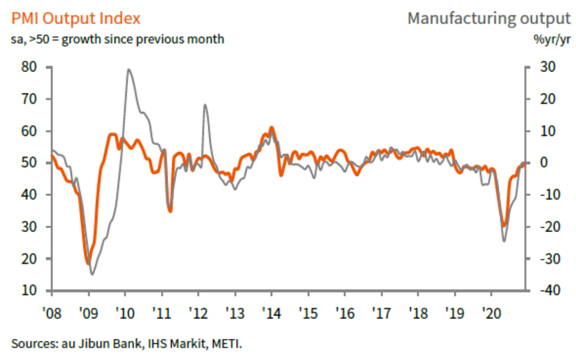
The manufacturing sector was overall stable in Dec with the headline PMI reading reaching 50. Output continued to increase at a steady pace, but firms mostly reported weaker new order growth.

> According to anecdotal evidence, confidence remained downbeat due to the lingering impacts of the pandemic, although there was evidence that conditions were improving, notably in the automotive sector.

Order backlogs continued to decline. Firms also noted higher input prices. Employment was little changed compared to the prior month.

Headline Manufacturing PMI: Dec 50 versus Nov 49





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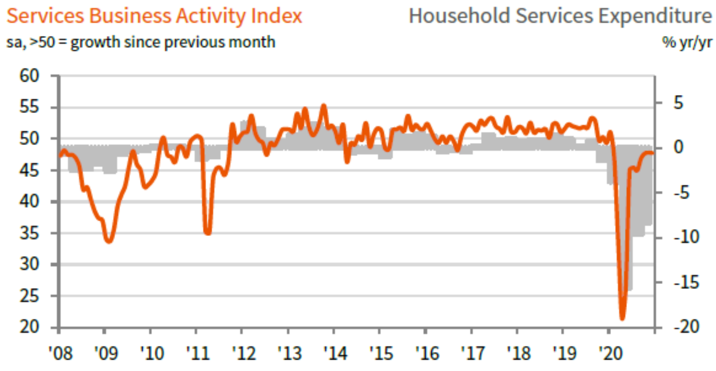
Markit Services PMI (Dec)

It is worthwhile noting that data for this report were collected between 4-18 Dec. Since then, there has been an increase in infections in Japan, including Tokyo. This may start to weigh further on services activity in Jan. In Dec services activity remained in contraction and little changed from the pace of decline in Nov. New work declined and orders were cancelled amid this latest wave of infections. Employment levels were little changed from the prior month. Firms reported higher costs but were unable to pass on those higher costs and continued to discount selling prices.

> December data indicated that business expectations were positive for the fourth month in a row, and solid overall. Firms cited hopes that the end of the pandemic would stimulate the sector and facilitate a wider recovery in client demand.

Business Activity Index: Dec 47.7 versus Nov 47.8



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

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United Kingdom

A full lockdown/shutdown of the UK (England) economy was announced on 5 Jan 2021 to reduce the spread of the more contagious strain of Covid-19.

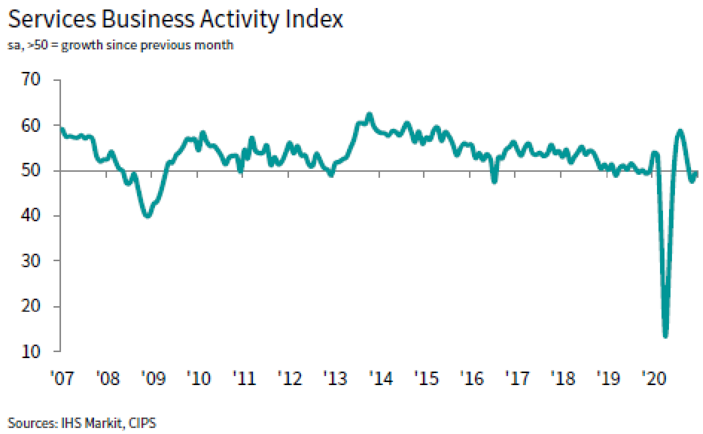
Markit Services PMI (Dec)

Services activity declined for the second month in Dec, although the pace of decline eased. Increased restrictions from the start of Jan will likely see activity deteriorate further across some service sectors.

> Companies reporting a decline in business activity in December almost exclusively cited shrinking client demand and restrictions on trade due to the COVID-19 pandemic. Where growth was reported, this was mostly confined to residential property, business-to-business services (especially e-commerce), and providers of digital consumer services.

New orders declined modestly for the third month including new export work. Employment remained more stable in Dec due to the extension of government furlough schemes. Firms margins came under pressure from rising input costs (freight etc) and declining selling prices.

Headline Services Business Activity Index: Dec 49.4 versus Nov 47.6



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Australia

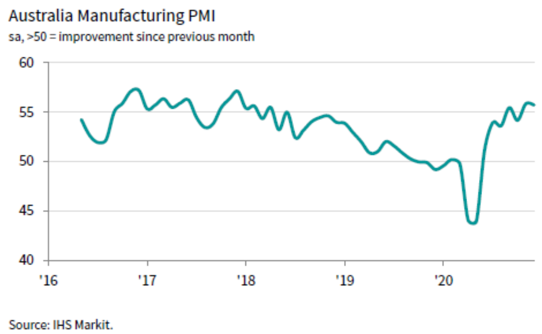
Markit Manufacturing PMI (Dec)

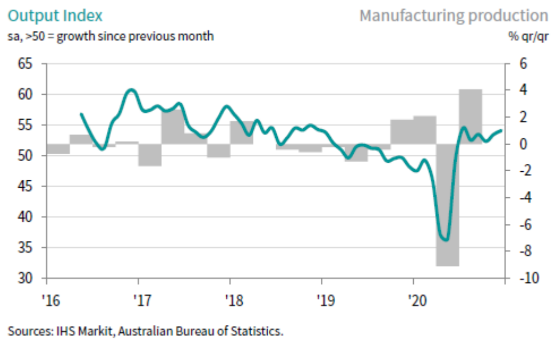
The moderate pace of growth in manufacturing activity remained unchanged in the latest month. While new orders and production both increased at a faster pace in the month, firms also noted the lengthening of lead times, supply chain disruptions, and higher prices.

Domestic demand led to the increase in orders as new export orders declined at a notable pace in Dec. Firms continued to expand employment in the month. Firms remained optimistic about future output growth, but the “degree of optimism cooled compared to November”.

Headline Manufacturing PMI: Dec 55.7 versus Nov 55.8

The output index continues to indicate a more consistent level of growth – with output levels likely remaining below a year ago.





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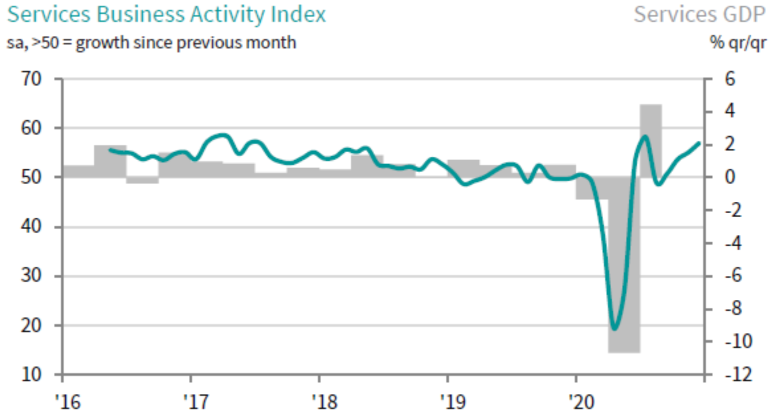
Markit Services PMI (Dec)

Services activity expanded at a faster pace in Dec than in Nov. This is the highest reading of activity for five months. Output and new orders increased at a faster pace in Dec and firms increased employment for the second month running. In this report, firms become more optimistic about output growth in the future. In the lead-up to the Christmas holiday, local outbreaks of Covid-19 resulted in some larger-scale shutdowns across NSW and the re-imposition of border controls. Another larger-scale shutdown, albeit short (3-days), was also announced for Brisbane (3rd largest capital city) amid concerns of the faster-spreading “UK variant” reaching Australia.

Headline Services Business Activity Index: Dec 57 versus Nov 55.1



Sources: IHS Markit, Australian Bureau of Statistics.

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