MARS CAPITAL PARTNERS

Weekly Macro Review

w/c 22 March 2021

Key Themes

The CFNAI provided a good summation of economic activity in Feb - US economic growth fell to below average in Feb.

Production, income, and consumption recorded notable declines in Feb. Housing indicators also eased as interest rates increased and inventory remained tight.

Declines in production in Feb were recorded across several reports. The industrial production report (out last week) recorded declines in manufacturing and mining output– especially for motor vehicles. The report highlighted that "severe weather" had impacted production in Feb. An anecdote from the Kansas City Fed manufacturing report for Mar highlighted that delays from this event may still be an issue impacting supply chains. Other anecdotes and data highlight that supply chain disruptions in parts of the country may be severe.

Durable goods orders and shipments also declined in Feb. It is unlikely that the decline in orders was the result of severe weather.

Personal income, expenditure, and saving growth were skewed in Feb by the effect of stimulus and relief checks issued in Jan. Income in Feb shows a significant decline compared to Jan. But the payments made in Jan have helped to fill the gap left by the fall in wages and salaries. Total personal disposable income is +5% ahead of a year ago while wages and salaries are flat to a year ago.

Of most concern was that wages and salaries growth in Feb was flat. But more recent weekly initial claims data is now indicting some potential improvement in employment. Initial unemployment claims across both state and federal programs had fallen to below one million people this week for the first time during the pandemic.

US PCE price growth accelerated in Feb, but remains well below the 2% average level. Growth in prices reflects the unique nature of this crisis – higher prices for (mostly non-discretionary) goods, especially food and used autos, and weaker price growth across most services. Core PCE price growth remains subdued, and little changed at +1.4%. Base effects, especially for energy prices, will be significant over the next few months.

Will Mar be better? Consumer sentiment improved notably in the second half of Mar – aided by another round of (and receipt of) stimulus payments and extension to benefits. This will likely underpin another strong month in consumption expenditure. "Expected conditions" has improved the most but consumers still expect slower income growth in the future.

So far, the regional manufacturing surveys have recorded a rebound after the Feb decline in manufacturing activity. **Supply chain delays, input cost increases, and inventory depletion reached extreme levels in Mar**. Supply chain delays and input shortages were reported as limiting production output in Mar in the Markit manufacturing PMI. This coupled with higher input costs and only a limited ability to pass on those costs could cause some cash flow and profitability issues. So far, growth in employment and the average workweek have remained consistent.

The global PMI's were mixed. There was little change to low growth momentum in Japan in Mar. Growth accelerated in the UK – across both services and manufacturing in anticipation of easing restrictions. Growth across the Eurozone shifted from contraction to growth in Mar. Acceleration in manufacturing output growth helped to offset ongoing subdued services activity. Growth in Australia also accelerated – led by faster growth in services output. The outlook weakened as the main JobKeeper program came to an end in Mar.

Contents

US Data

Initial Jobless Claims (wk ending 20 Mar), Continuing Unemployment Claims (wk ending 12 Mar), and PUA Claims

The trend of slowing initial unemployment claims continued this week. Across both state and federal programs, initial claims have fallen to below 1m people for the first time during the pandemic in the latest week.

Initial Claims - State and Federal Programs

UNEMPLOYMENT INSURANCE DATA FOR REGULAR STATE PROGRAMS

WEEK ENDING	March 20	March 13	Change	March 6	Prior Year[1]
Initial Claims (SA)	684,000	781,000	-97,000	725,000	3,307,000
Initial Claims (NSA)	656,789	757,201	-100,412	722,180	2,920,162
4-Wk Moving Average (SA)	736,000	749,000	-13,000	762,250	1,004,250

INITIAL CLAIMS FILED IN FEDERAL PROGRAMS (UNADJUSTED)

WEEK ENDING	March 20	March 13	Change	March 6
Pandemic Unemployment Assistance	241,745	284,254	-42,509	478,916

Continuing Claims – State & Federal Programs

The total number of continuing claims edged up in the wk ending 6 Mar. This was led by higher pandemic emergency claims and ongoing PUA claims.

CONTINUED WEEKS CLAIMED FILED FOR UI BENEFITS IN ALL PROGRAMS (UNADJUSTED)

WEEK ENDING	March 6	February 27	Change	Prior Year[1]
Regular State	4,458,888	4,547,888	-89,000	1,973,584
Federal Employees	19,074	19,647	-573	9,644
Newly Discharged Veterans	8,638	8,272	+366	5,207
Pandemic Unemployment Assistance[3]	7,735,491	7,616,593	+118,898	NA
Pandemic Emergency UC[4]	5,551,215	4,816,523	+734,692	NA
Extended Benefits[5]	1,067,905	1,104,427	-36,522	0
State Additional Benefits[6]	1,819	1,807	+12	5,584
STC / Workshare [7]	109,765	103,776	+5,989	12,368
TOTAL[8]	18,952,795	18,218,933	+733,862	2,006,387

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

Chicago Fed National Activity Index (CFNAI) (Feb)

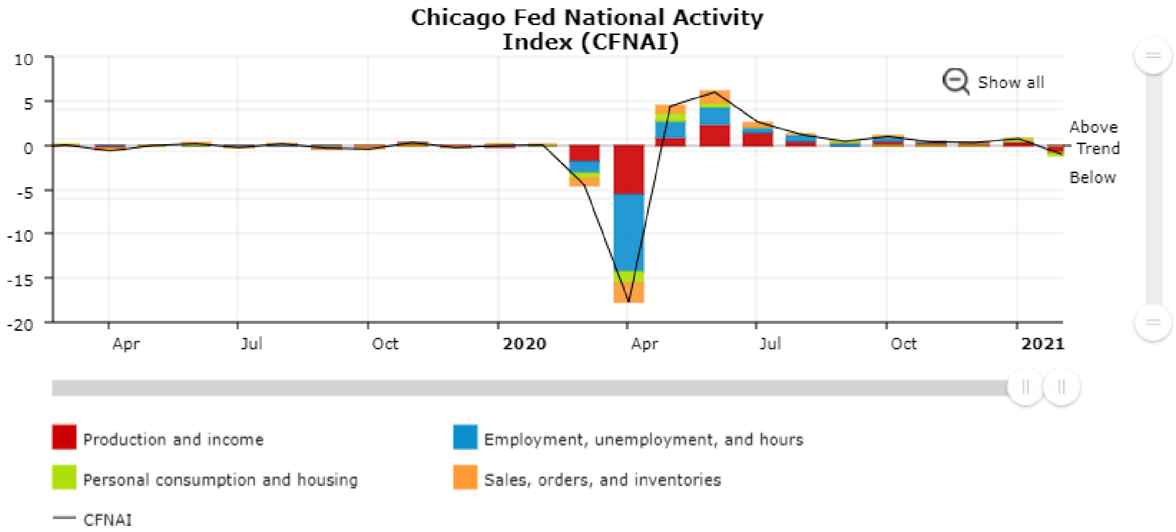
This was the first below trend reading in the CFNAI since Apr 2020. The below-trend growth in Feb (compared to Jan) was led by a larger slowdown in both 'production and income' and 'personal consumption and housing'.

The industrial production report for Feb also highlighted the contraction in production output (for mining and manufacturing). The result is also consistent with the fall in retail sales for Feb – although sales were down after a significant rise in Jan (resulting from stimulus payments and extension of transfer payments).

<u>CFNAI – month:</u> Feb -1.09 versus Jan +0.75

A recap on the index interpretation:

> A zero value for the CFNAI has been associated with the national economy expanding at its historical trend (average) rate of growth; negative values with below-average growth (in standard deviation units); and positive values with above-average growth.



The main elements of the index:

Production and Income: Feb -0.85 versus Jan +0.37

The slowdown in growth in Feb was large. As noted by the Fed in the Feb industrial production report for Feb, manufacturing and mining output experienced disruption due to 'severe weather'. Even accounting for the severe weather, manufacturing output would have declined anyway (according to the release).

Personal Consumption and Housing: Feb -0.29 versus Jan +0.27

The gain in Jan (which was well above the 'normal' pace of growth) was offset by slower growth in Feb. In Jan, there was a notable impact on retail sales growth as stimulus and relief payments (via the Trump programs) were injected into the economy.

Employment, Unemployment, and Hours: Feb +0.02 versus Jan +0.04

There was little impact on the growth of employment which remained around the trend level.

Sales, Orders, and Inventories: Feb +0.03 versus Jan +0.06

Similarly, there was little impact on sales, orders, and inventory with growth remaining around the long-term trend.

https://www.chicagofed.org/research/data/cfnai/current-data

Durable Goods Orders (Feb)

Durable goods orders and shipments declined in Feb compared to Jan. The month's decline in shipments was more notable in that it more than offset the increase in Jan. The decline in the value of durable goods orders for Feb only partially offset the increase in Jan.

The decline in both orders and shipments was widespread – orders for electrical equipment were flat to the prior month and there was an increase in non-defense aircraft orders. One of the bigger contributors to the fall in orders and shipments in the month was motor vehicles.

The industrial production report (last week) highlighted the large decline in motor vehicle output. The ISM Feb survey did not highlight any production or order issues ("transport equipment" was listed as one of the industries where output and orders increased at an industry level). While there have been supply-chain disruptions for inputs, the industrial production report from Feb noted that "severe weather" had impacted manufacturing output.

Durable Goods Orders – month change: Feb -1.1% (-$2.9bn) versus Jan +3.5% (+$8.6bn)

Demand eased across most industry segments in Feb except for electrical equipment and appliances and non-defense aircraft orders.

Transportation equipment accounted for approx. half of the fall this month. There was an -8.7% decline in the value of motor vehicle orders (-$5.5bn) which was partially offset by an increase in non-defense aircraft orders for the month (+$4.8bn).

The annual change in durable goods orders slowed from 6.4% in Jan to 3.2% in Feb.

Durable Goods Shipments – month change: Feb -3.5% (-$9.1bn) versus Jan (+$4.3bn)

The value of shipments fell more notably in Feb – and declines were recorded across all of the major durable goods industries. The majority of the decline was a fall in transport equipment shipments made up of a -$5.6bn decline in motor vehicle shipments and a -$1.5bn decline in shipments of non-defense aircraft.

The annual change in shipments slowed from +6% in Jan to +1.5% in Feb.

Unfilled Orders – month change: Feb +0.8% (+$8.4bn) versus Jan +0.2% (+$2bn)

The main large contributor to the acceleration in unfilled orders this month was the shift from a decline in non-defense aircraft backorders in Jan to an increase in Feb. Unfilled orders were still higher across most other industries. The increase in unfilled orders is a logical outcome of supply chain issues or weather-related disruptions to production schedules.

Inventory – month change: Feb +0.5% versus Jan -0.6%

The decline in orders and shipments resulted in a shift this month to a small increase in inventory. The big contributor to the growth in inventory this month was motor vehicles (accounting for just under half of the increase).

The value of total durable goods inventory increased by +1.1% in Feb versus a year ago. This was up from +0.4% in Jan.

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

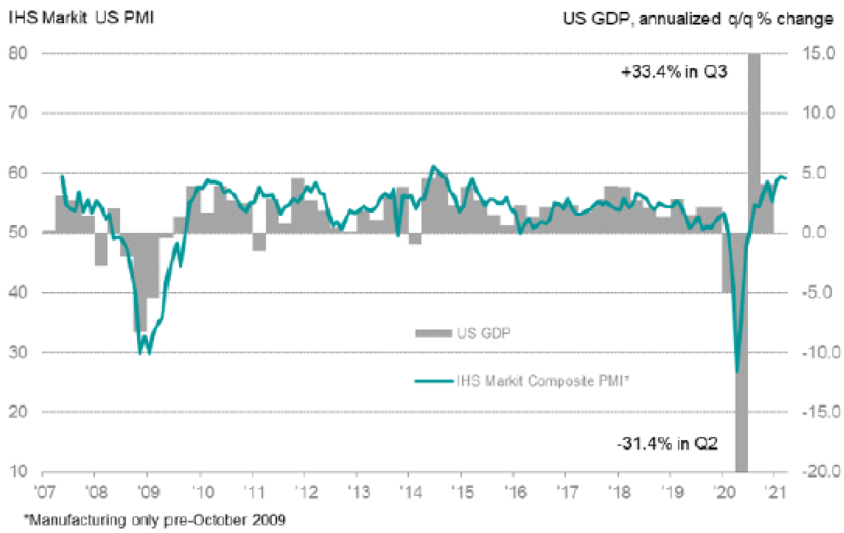
US Markit Composite PMI Prelim (Mar)

The headline composite index indicated that growth momentum was little changed compared to the prior month. More services firms reported higher output in Mar compared to Feb. Growth in the output of manufacturing firms slowed but remained positive in Mar. The report notes that supply chain disruptions placed a limit on manufacturing output.

<u>Composite PMI:</u> prelim Mar 59.1 versus Feb 59.5

Even though growth momentum was little changed, the level of activity as measured by the PMI (higher or at least stable) remains close to recent highs.

IHS Markit Composite PMI and U.S. GDP



Sources: IHS Markit, U.S. Bureau of Economic Analysis

<u>Services Business Activity Index</u>: Mar 60 versus Feb 59.8

Services output growth continued to accelerate with more firms reporting higher (or at least stable) output. New orders increased along with growth in new export orders. Firms continued to expand employment. Services firms have also noted the impact of supply chain issues and the resulting impact of higher input costs.

<u>Manufacturing PMI:</u> Mar 59 versus Feb 58.6

The manufacturing output index slipped from 57.8 in Feb to 54.5 in Mar – indicating that fewer firms were reporting expansion in production. Some of the headline increase in the manufacturing PMI can be attributed to 'severe' supply chain disruptions.

> Sustained deteriorations in vendor performance noticeably impacted manufacturing production capacity in March, as firms commonly reported slower output growth due to a lack of raw materials to fulfil new orders. The rate of production growth was the slowest since last October.

Firms continued to record growth in new orders, and order backlogs increased as a result of supply issues limiting production.

Firms continued to expand employment.

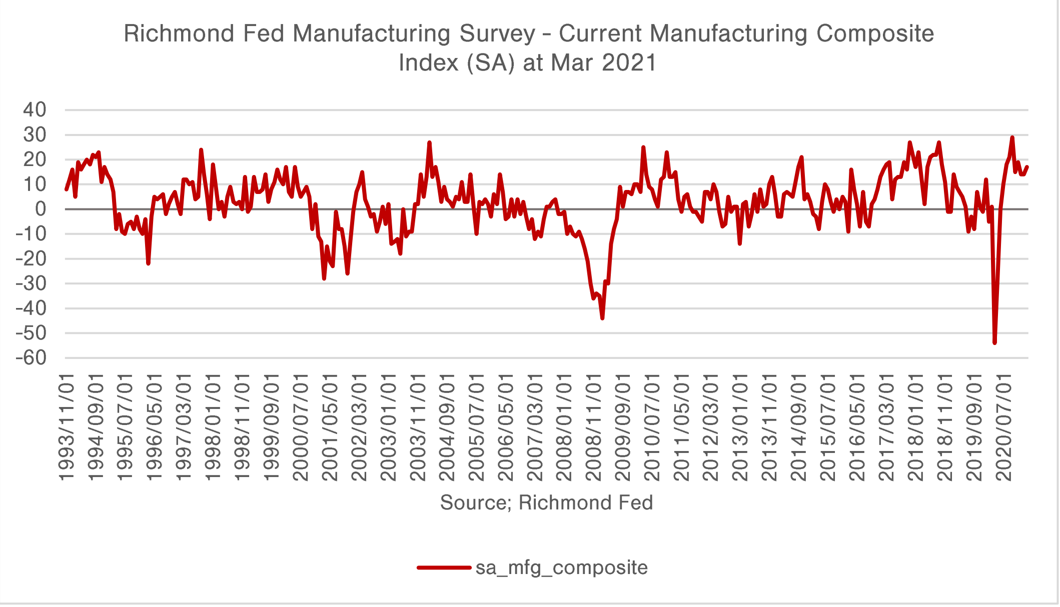
Input prices increased at a decade high pace. Firms were able to pass on part of the input cost increases.

https://www.markiteconomics.com/Public/Home/PressRelease/565cc8b204be4b789af68dbfabf9746b

Richmond Fed Manufacturing Survey (Mar)

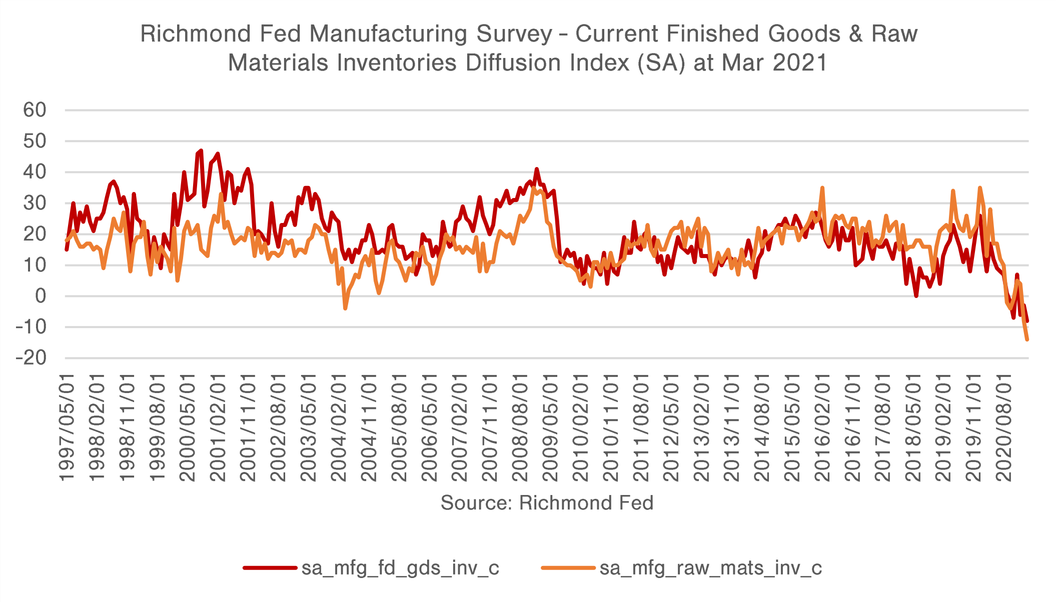
The headline index indicated that activity expanded at a slightly faster pace. This month, extremes were recorded for inventory decline, growth in vendor lead times, and growth in input prices.

Composite manufacturing Index: Mar 17 versus Feb 14



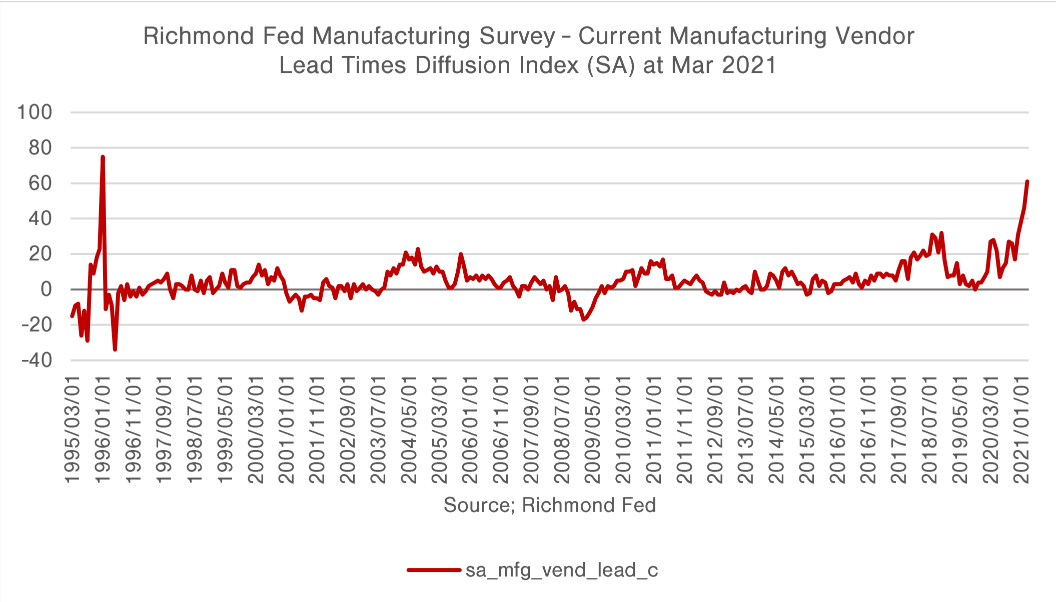
Underlying demand growth remained constant - new orders growth was unchanged in Mar with the index remaining at 10.

Shipment growth accelerated notably. This demand was likely filled out of inventory as the finished goods and raw materials inventory indexes both declined to record minimum levels this month.

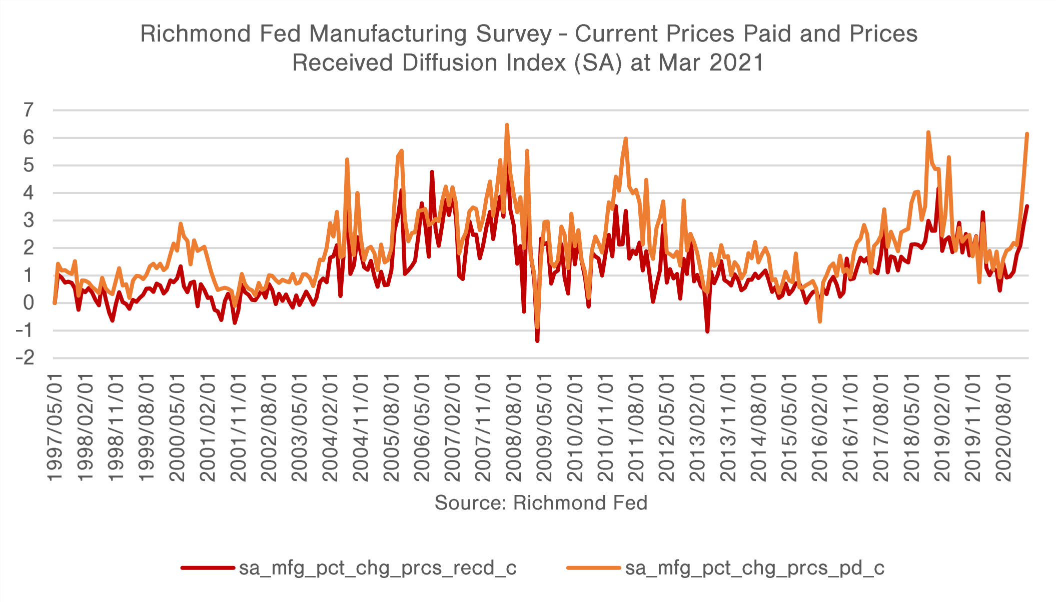


Growth in order backlogs slowed as new orders growth remained constant.

Firms' output likely continues to be impacted by lengthening vendor lead times – the index is now at the highest level since 1994.



These supply disruptions are also likely impacting prices. Input price growth accelerated in Mar and the index is close to a record level in the survey history. Some firms are passing on higher input prices.



Employment growth remained constant at an elevated level. Growth in the average workweek slowed but also remained elevated.

https://www.richmondfed.org/-/media/richmondfedorg/research/regional_economy/surveys_of_business_conditions/manufacturing/2021/pdf/mfg_03_23_21.pdf

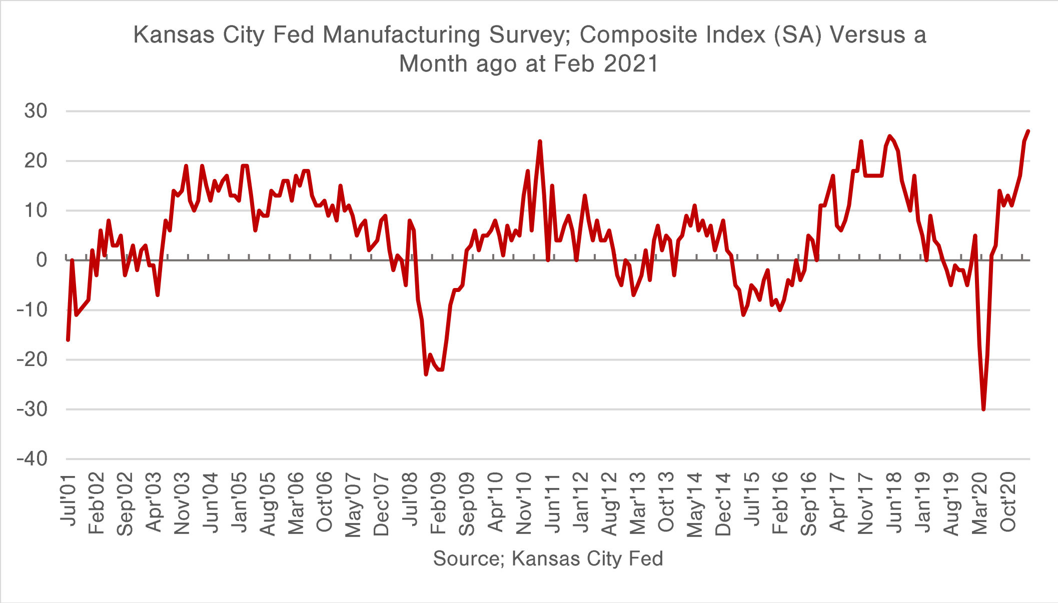
Kansas City Fed Manufacturing Survey (Mar)

Manufacturing activity increased at a faster pace this month with the composite index increasing to a new high level going back to Jul 2001. Underlying demand was stronger with growth in production and the volume of new orders accelerating (orders had eased in Feb). The average employee workweek increased in Mar to respond to the higher backlogs of work. Order backlogs increased notably after a further lengthening of lead times from suppliers and disruptions from Feb.

Anecdotes did shine some light on production disruptions in Feb. The stronger growth in demand in Mar may be a rebound from the weaker Feb result.

> "Production was hurt in February due to the extreme weather in parts of the country. Trucks were not moving, we could not get materials when they were needed, and could not get finished materials shipped to our customers. **It has improved but still remains a problem."**

__Composite Index:__ Mar 26 versus Feb 24

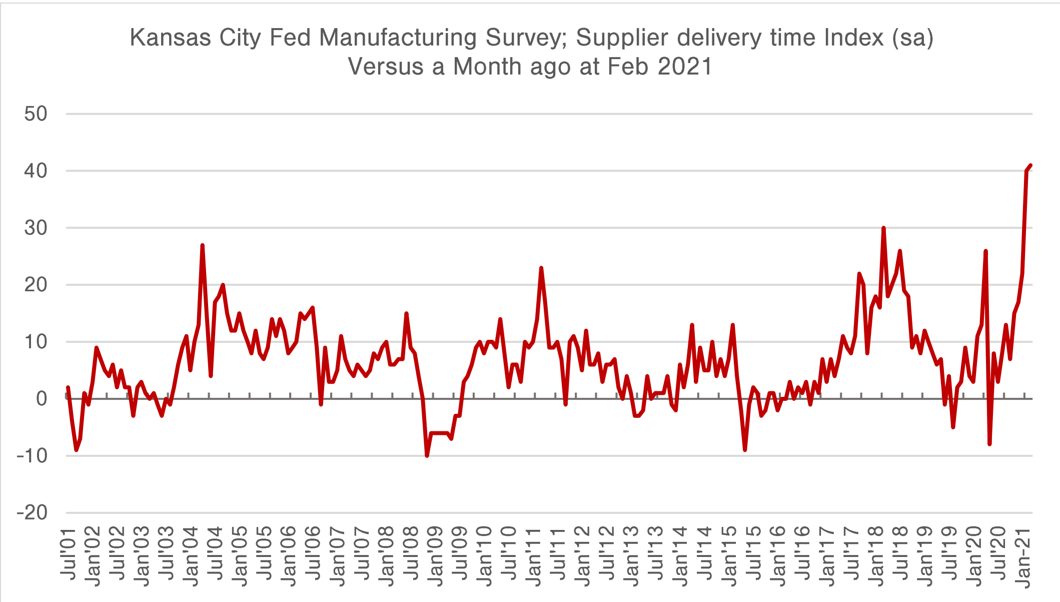


The index of the volume of new orders increased from 16 in Feb to 37 in Mar. This is close to the all-time high level of new order volume growth.

> "We continue to see record orders. We had to buy from outside U.S. for the first time in 20 years. Prices of steel are also a problem, but we have been able to pass much of that on."

Longer vendor lead times remain a key issue for production – the index indicated a further lengthening in Mar. The index is at an all-time high:

> "Global logistics and lower manufacturing capacity limitations due to COVID are preventing our business from meeting customer demand and lowering sales/profits."

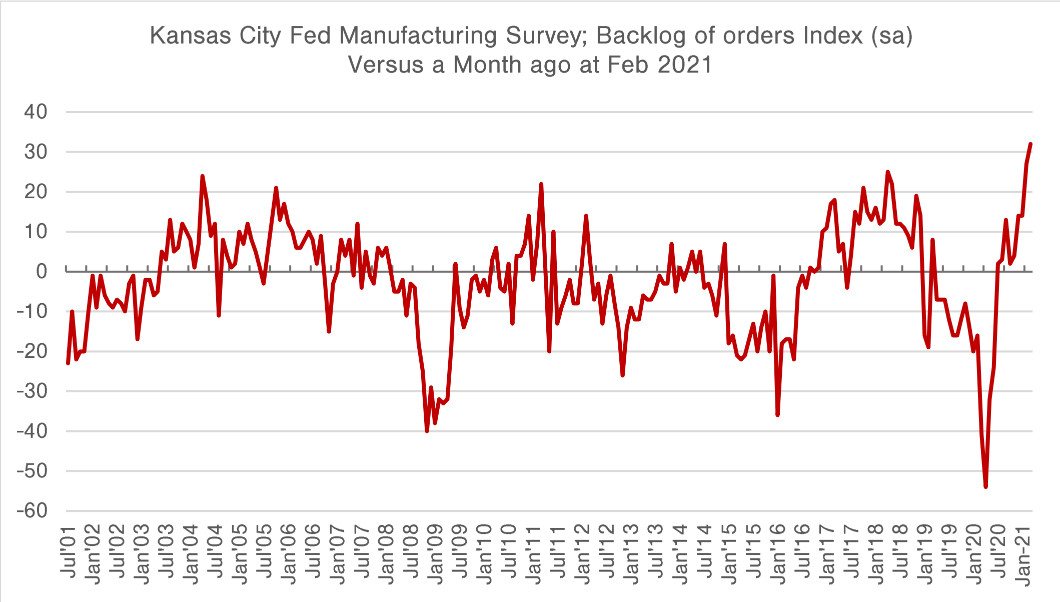


Production growth was little changed in Mar, with the index falling from 26 in Feb to 23 in Mar.

> "Global logistics and lower manufacturing capacity limitations due to COVID are preventing our business from meeting customer demand and lowering sales/profits."

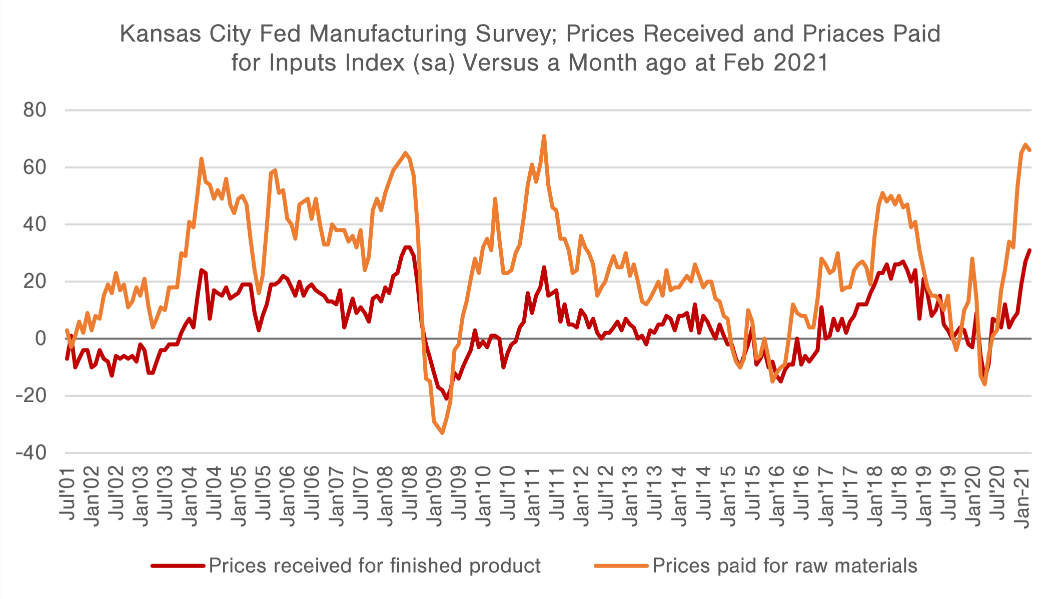
Shipments accelerated in Mar compared to Feb, despite the more consistent production growth. Firms instead, continued to run down their inventory of finished goods. Finished goods inventory decreased at a faster pace this month with the index falling from -5 in Feb to -10 in Mar.

At the same time, the index of order backlogs increased to a new all-time high.

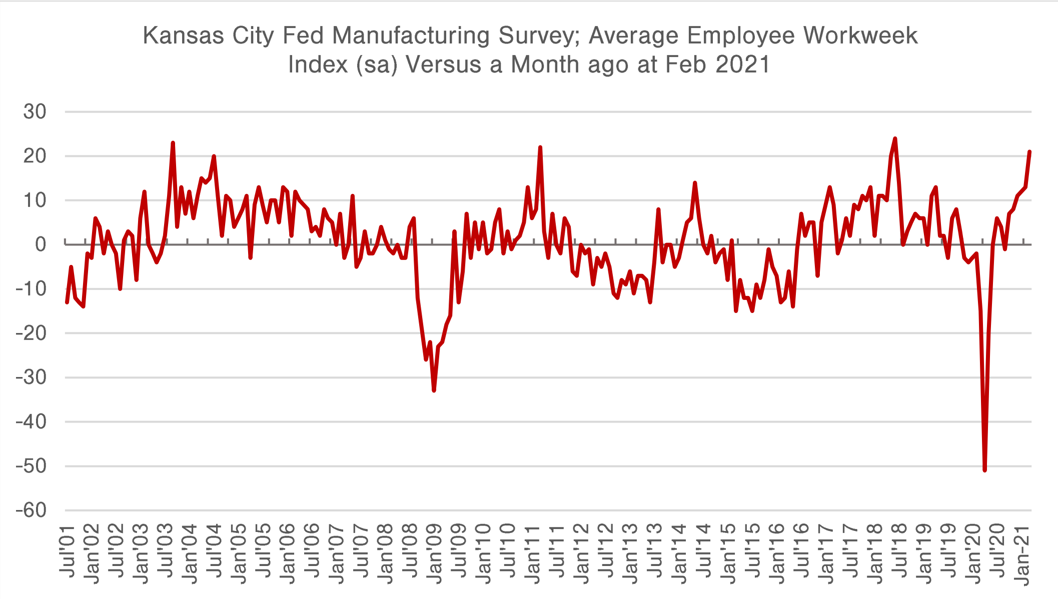


Operating margins likely remain under pressure for many firms as input price growth accelerated. Many firms have passed on these costs – but not all of them.

> "The rising costs of raw materials, namely steels, aluminum, bronze, as well as, corrugated packaging and labor is happening quicker than we can react, forcing us to eat the additional costs."



Employment continued to grow in the month and at a similar pace as in Feb. Growth in the average workweek continued to accelerate.



https://www.kansascityfed.org/documents/7867/Fed_KCFed_Manufacturing_Survey_2021_March_25.pdf

Mortgage Applications wk ending 19 Mar

There was a further decline in refinancing activity in the latest week as mortgage rates continued to move higher last week.

Purchase applications continued to increase and average loan balances also increased.

Mortgage Market Composite Index (total applications) – wk ending 19 Mar: -2.5% versus the prior week.

The decline was the result of a fall in refinance applications. The decline in refi applications was only partially offset by an increase in purchase applications.

Refinance Index – wk ending 19 Mar: -5% versus the week prior.

The level of refinancing applications is now 13% below the same week a year ago.

> "The 30-year fixed mortgage rate increased to 3.36 percent last week and has now risen 50 basis points since the beginning of the year, in turn **shutting off refinance incentives for many borrowers**. Refinance activity dropped to its slowest pace since September 2020, with declines in both conventional and government applications. Mortgage rates have moved higher in tandem with Treasury yields, as the outlook for the U.S. economy continues to improve amidst the faster vaccine rollout and states easing pandemic-related restrictions,"

Purchase Index – wk ending 19 Mar: +3% versus the week prior.

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

> "Purchase applications were strong over the week, driven both by households seeking more living space and younger households looking to enter homeownership. The purchase index increased for the fourth consecutive week and was up 26 percent from last year's pace. **The average purchase loan balance increased again**, both by quickening home-price growth and a rise in higher-balance conventional applications."

https://www.mba.org/2021-press-releases/march/mortgage-applications-decrease-in-latest-mba-weekly-survey-x278243

Existing Home Sales (Feb)

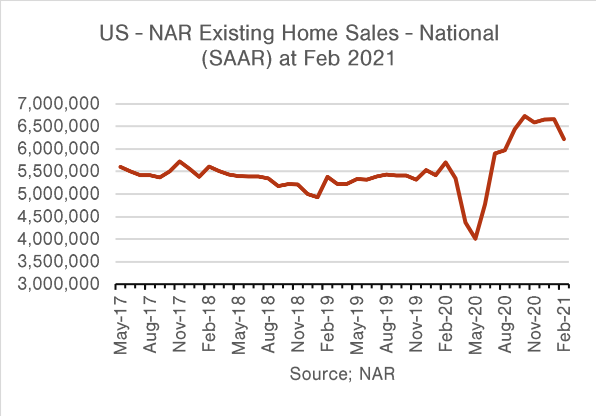
Existing home sales declined in Feb, but sales remain elevated across most of the regions. Inventory was unchanged in the month and remains 30% below the same month a year ago.

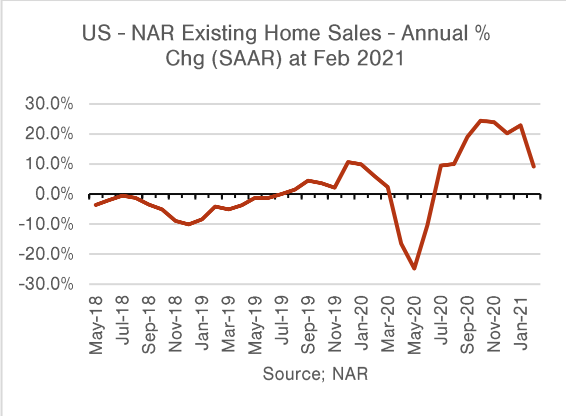
Headwinds in the near-term: low inventory, rising prices, and rising rates.

> "Despite the drop in home sales for February – which I would attribute to historically-low inventory – the market is still outperforming pre-pandemic levels," said Lawrence Yun, NAR's chief economist.
>
> He cautioned of a possible slowdown in growth in the coming months as higher prices and rising mortgage rates will cut into home affordability.

Existing Home Sales (SAAR basis) – month change: Feb -6.6% versus Jan +0.2%

The monthly pace of growth has been slowing/plateaued since Oct 2020. The decline this month was the first more significant decline. The industry commentary notes the low inventory as the key reason behind the fall in the month. The fall also corresponds with the change in long-term rates. Both are acting as headwinds.

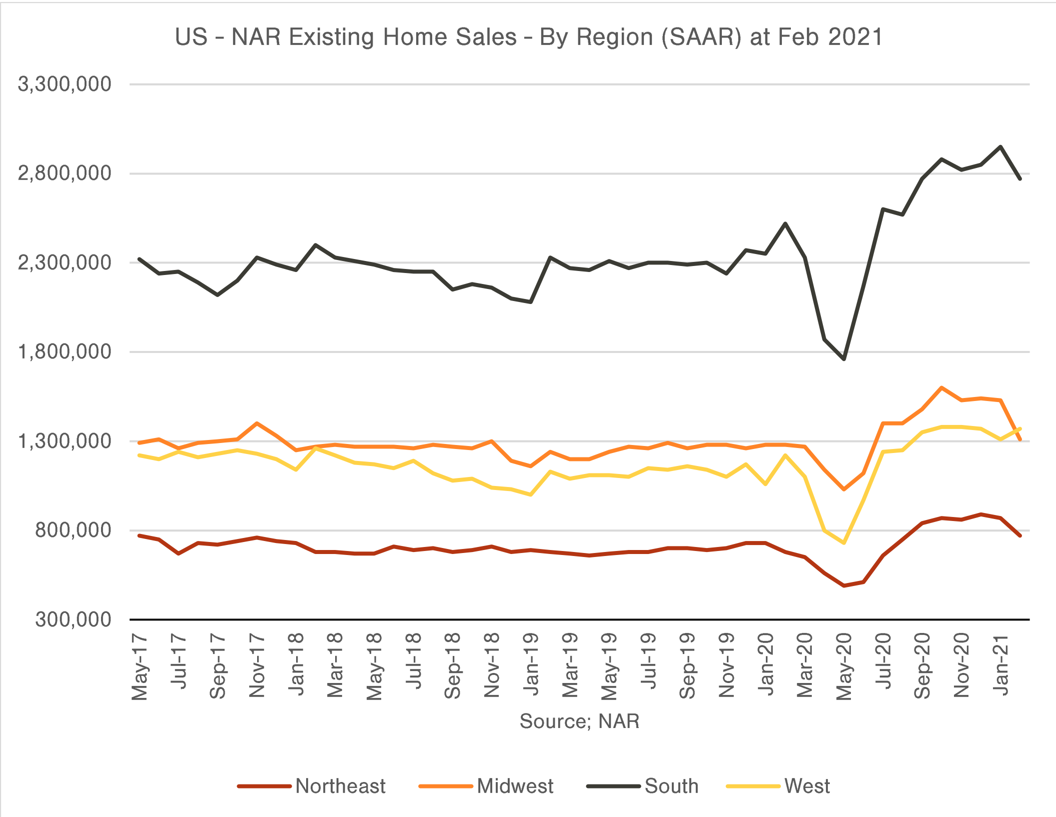




Annual sales (SAAR basis) growth slowed from +23% in Jan to +9.1% in Feb (versus the same month a year ago). This annual pace of % change is going to accelerate notably over the next few months as base effects kick in.

Regional Sales

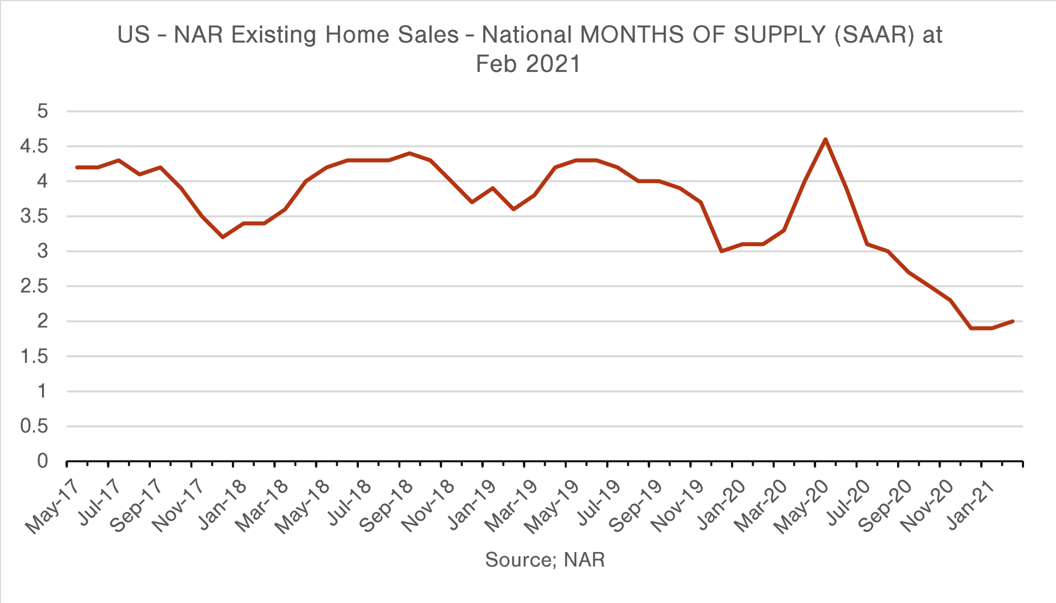
Most regions recorded a decline in sales this month except the West (+4.6% in Feb).



Sales growth in the Midwest is more subdued. Sales declined by -14% in the month and are only +2.3% ahead of the same month a year ago.

Inventory

The level of inventory was little changed this month. The Months of Supply index was 2 in Feb and inventory (SAAR basis) was just on 1m units. The inventory level is 29.5% below the same month a year ago. The more consistent fall in inventory starting from the peak in May 2020 corresponds with the start of the acceleration in existing home sales.



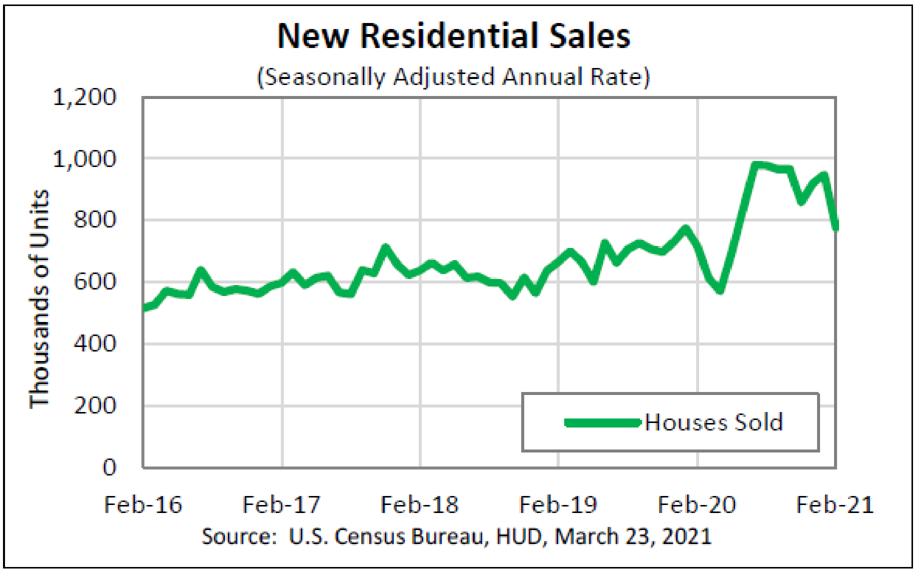
https://www.nar.realtor/research-and-statistics/housing-statistics/existing-home-sales

New Home Sales (Feb)

The SAAR of new home sales in Feb slowed notably compared to the prior month.

New Home Sales (SAAR – basis): Feb 775m units versus Jan 948m units

The decline for the month was -18.2% with a 90% confidence interval of +/- 13.9% pts – which means that it is likely that sales did decline in the month.



The latest monthly data does tend to get revised and according to the US Census Bureau, it takes four (4) months for a trend to be established.

> It takes 4 months to establish a trend for new houses sold. Preliminary new home sales figures are subject to revision due to the survey methodology and definitions used.

Feb sales are +8.1% ahead of the same month a year ago – but there is a much wider 90% confidence interval of +/- 21.7% pts. The interval contains zero and this means that sales could have increased or decreased. This is the same result for the regions.

Regional Results

New home sales declined across all regions in the month. The 90% confidence interval for each region result contains zero so, sales could have increased or decreased in the month.

https://www.census.gov/construction/nrs/pdf/newressales.pdf

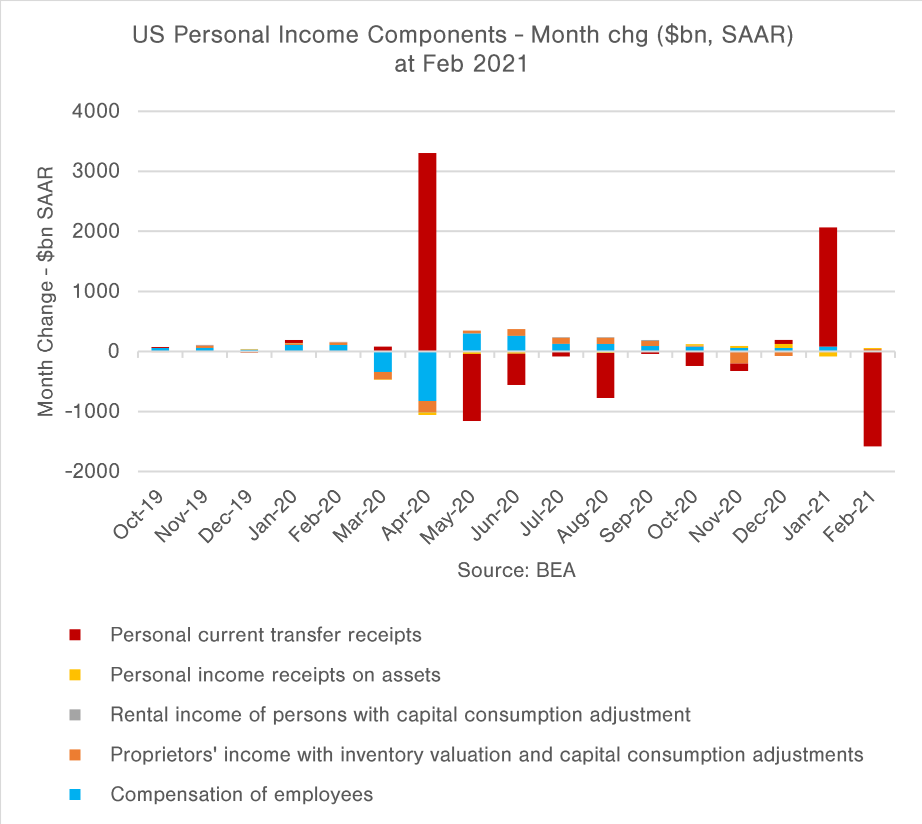
Personal Income, Consumption, and PCE Price Index (Feb)

The personal income, expenditure, and saving growth is skewed this month by the effect of stimulus and relief checks issued in Jan. Income in Feb shows a significant decline compared to Jan. But the payments in Jan have helped to fill the gap left by the fall in wages and salaries. Total personal disposable income is +5% ahead of a year ago while wages and salaries are still only flat to a year ago.

PERSONAL INCOME

The level of personal income declined by 7% in Feb compared to the +10% increase in Jan when the second round of stimulus/relief checks was sent out and unemployment insurance extended. Government transfer payments continue to make up the bulk of the income growth.

Total Personal Income – month change: Feb -7.1% (-$1.5tr) versus Jan +10.1% (+$2tr)

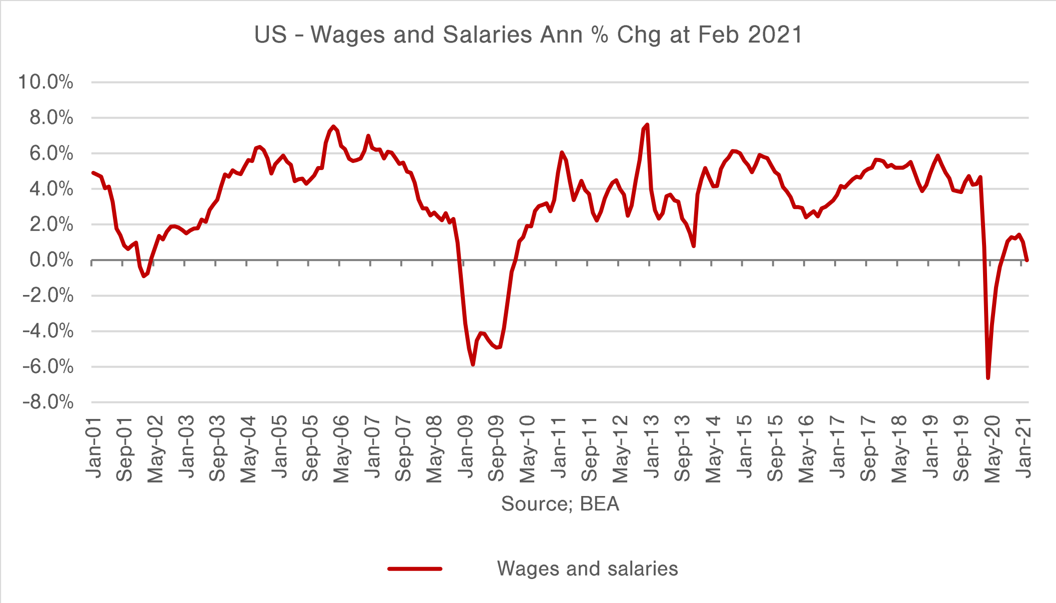


The major contributor to the decline this month was "Other" personal current transfer receipts. Total personal current transfer receipts declined by -$1.6tr in Feb compared to the level in Jan. In Jan 2021, personal transfer payments increased by +$2tr.

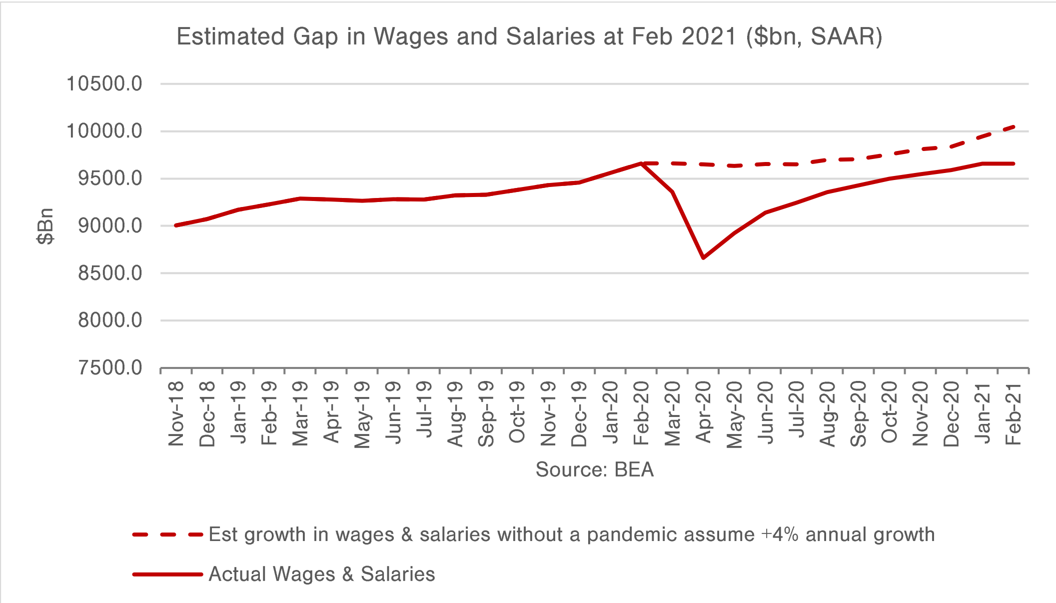
The concern in this report was the lack of growth in employee compensation (mostly wages & salaries). This is still the single largest area of personal income.

Wages and salaries declined by $0.2bn in Feb compared to the +$67.4bn in Jan. Small declines or no change were recorded across private goods and services industries as well as government.

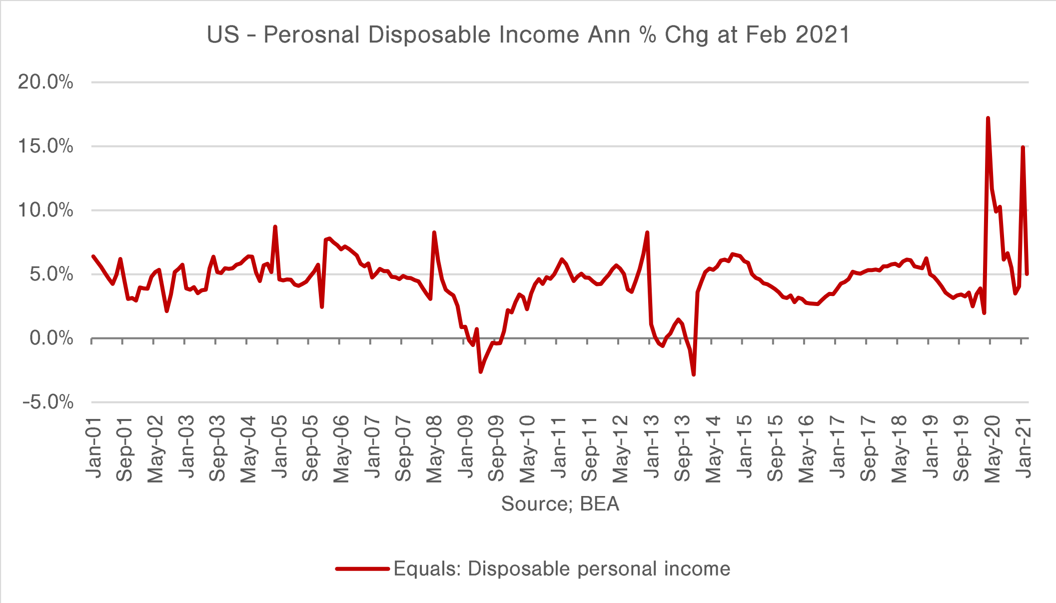
The total value of wages and salaries is on par with a year ago. This is good in the sense that the level has at least recovered to the pre-Covid level. Annual growth remains well below the pre-Covid level.



And importantly, wage and salary income growth has not recovered the lost ground from the pandemic – requiring ongoing government support to fill the gap.



Overall personal disposable income declined by 8% in Feb (-$1.5tr) compared to the +11.4% increase in Jan (+$2tr). But equally important, is that the government transfer payments are filling the gap – and personal disposable income is +5% ahead of the same month a year ago.

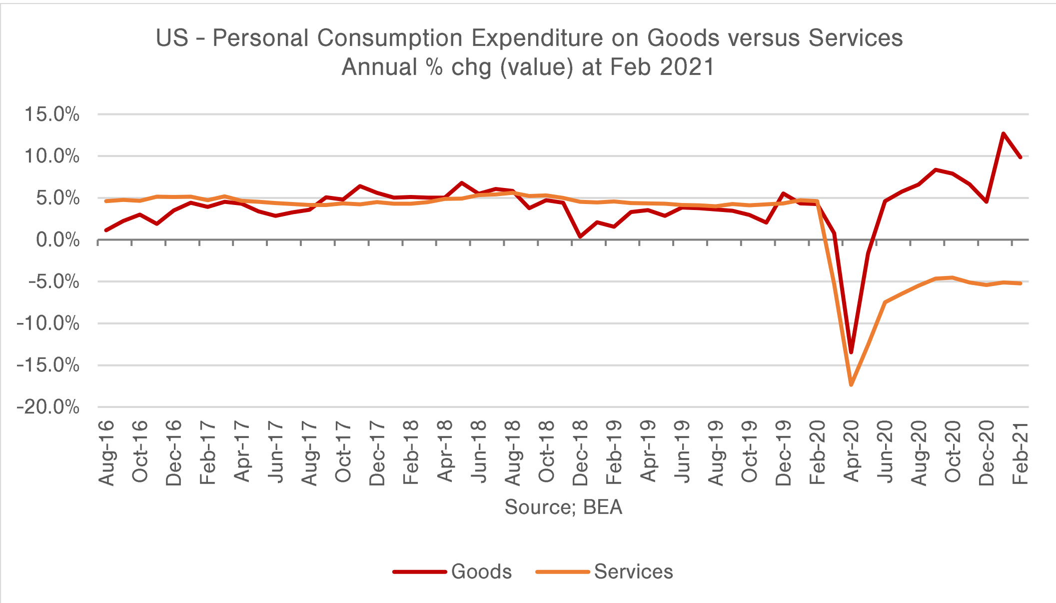


PERSONAL CONSUMPTION EXPENDITURE

Personal Consumption Expenditure – month change: Feb -1% (-$149bn) versus Jan +3.4% (+$488bn)

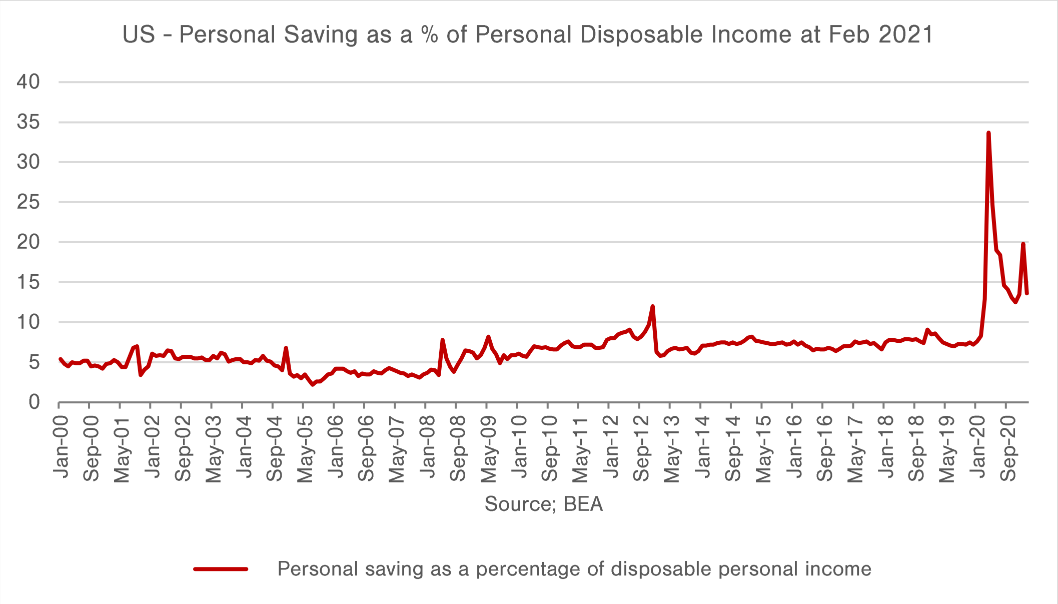
The decline in expenditure was expected as government checks boosted consumption in Jan. But at least the decline in Feb did not offset all of the increase from Jan. Expenditure on goods declined by -3% in Feb after increasing by +8% in Jan. Expenditure on services was flat in Feb after increasing by +0.9% in Jan.

Goods consumption continues to outperform on an annual basis while services expenditures remain well below a year ago:



PERSONAL SAVING

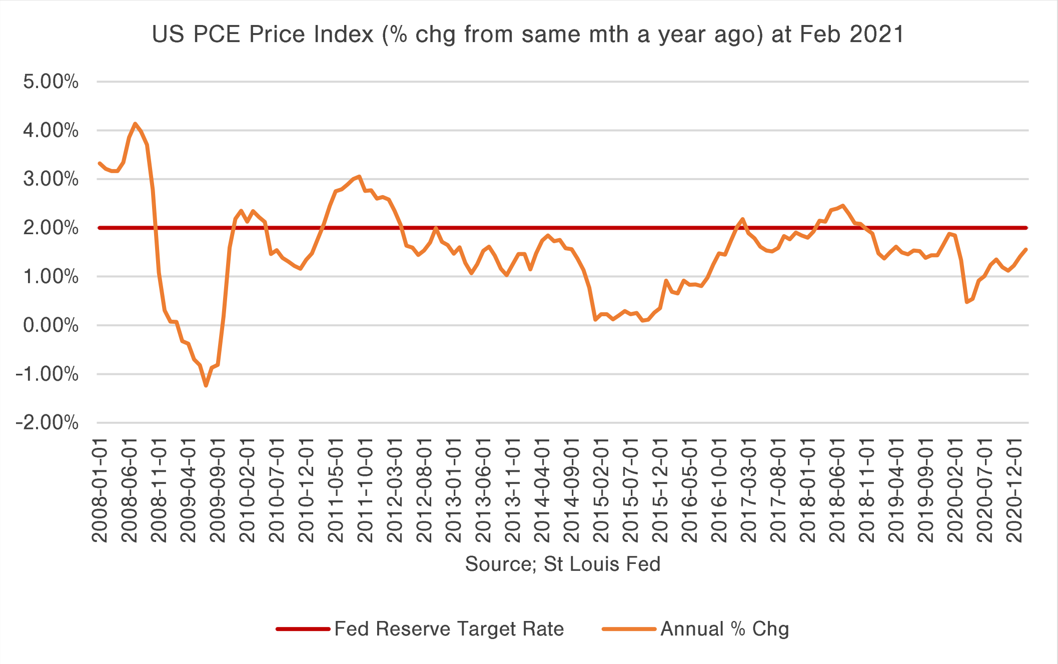
There was a decline in the level of personal saving this month – as income declined by more than expenditures compared to the month prior. The level of saving as a proportion of disposable personal income also fell but remains elevated.



PCE Price Index (Feb)

The growth of the headline PCE price index increased further this month.

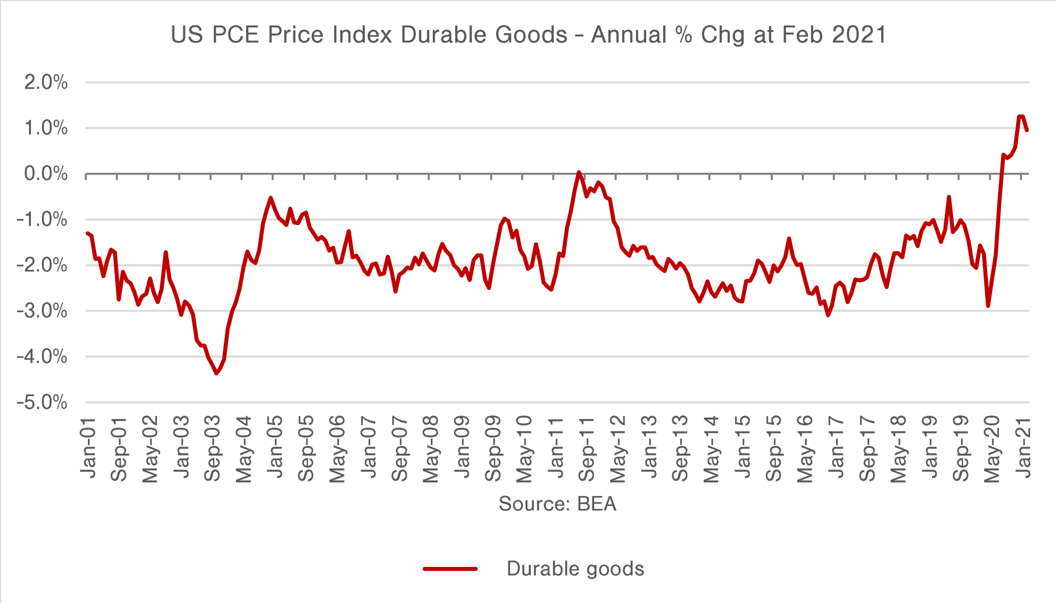
PCE Price Index – annual change: Feb 1.55% versus Jan 1.41%



The acceleration in prices since the low of May 2020 has been across several fronts.

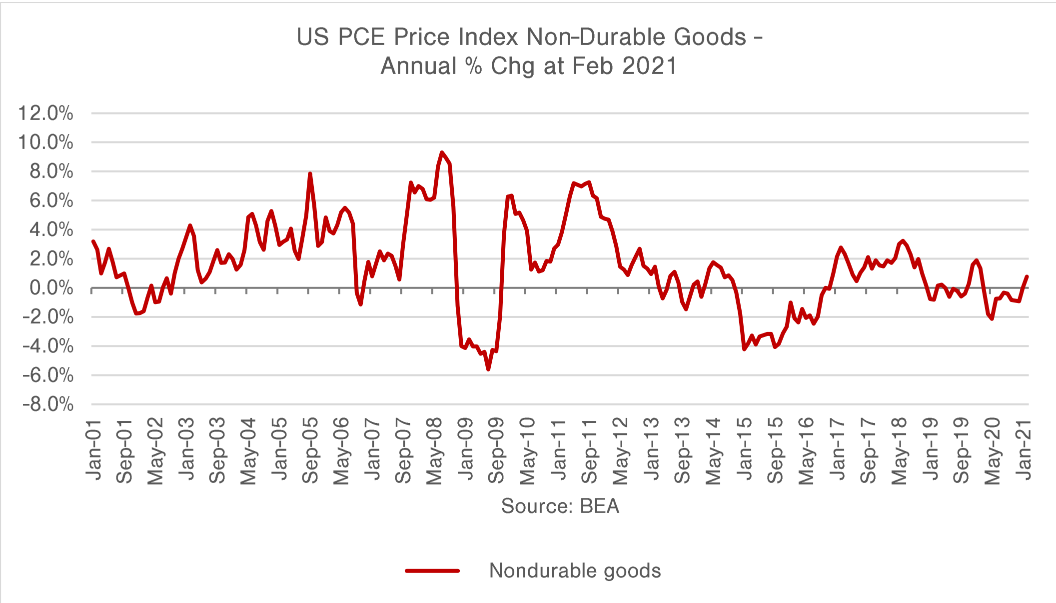
I will split durable and non-durable goods due to the extreme nature of the fall in energy prices and the general nature of the pandemic.

Durable goods prices have historically declined year on year. This is a rare period where growth in durable goods prices has been positive. In Feb, prices increased by +1% versus a year ago.



Used motor vehicle prices have been one contributor to the growth with prices increasing by +8% versus a year ago in Feb.

Non-durable goods prices have accelerated since May 2020 – prices in Feb increased by +0.8% versus a year ago. But the underlying performance of many of the categories is mixed.

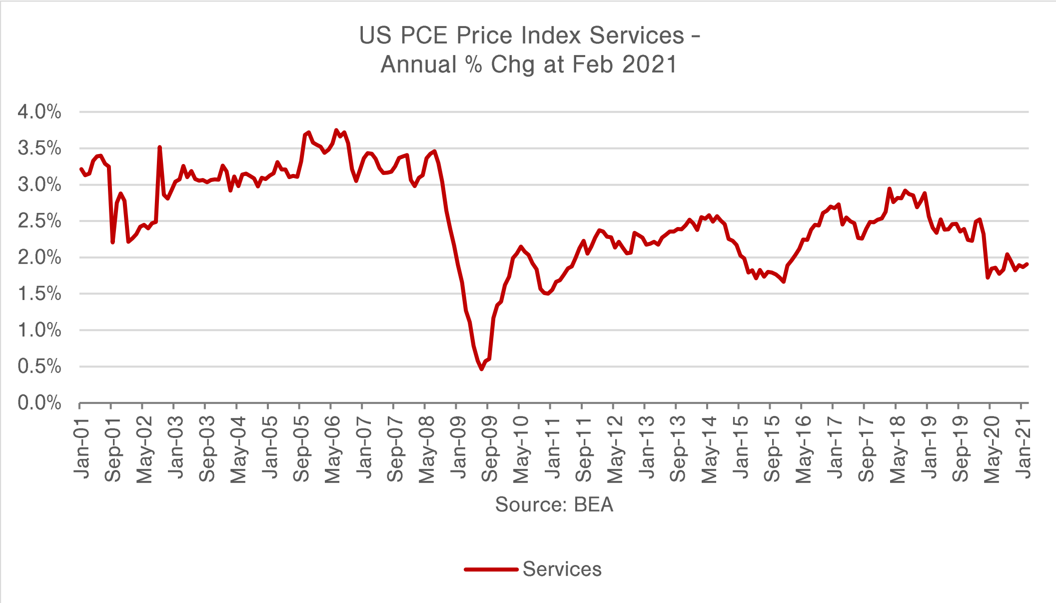


Severe declines in gasoline prices since May (-32%) have slowly reversed and prices increased by +0.4% in Feb versus a year ago. The base effects will be notable from May.

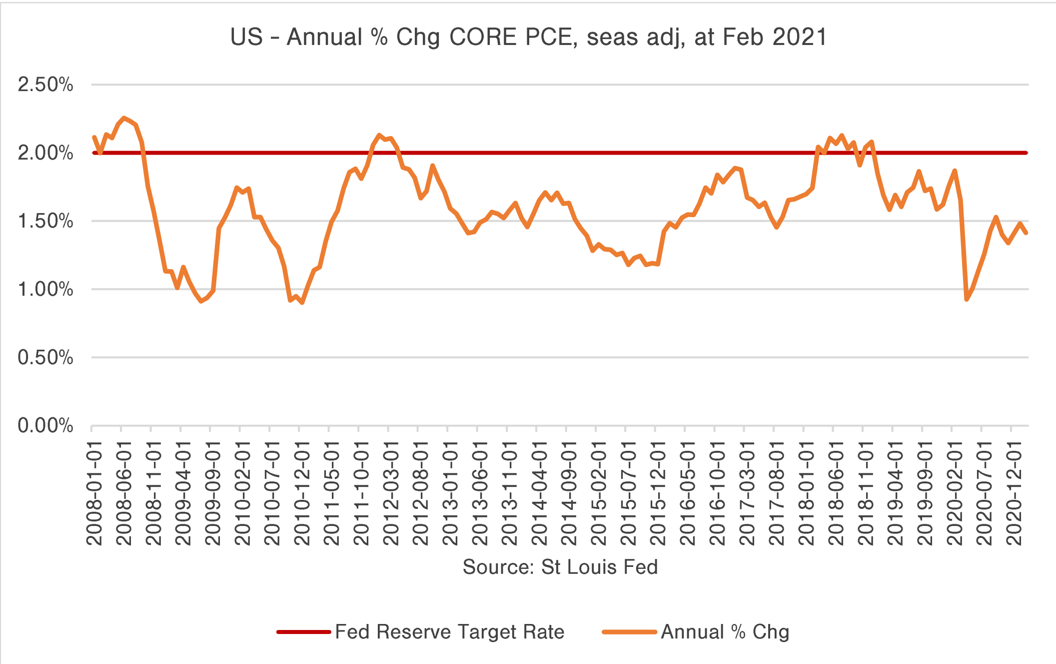
Food for off-premise consumption accelerated at the height of pandemic lockdowns and growth remains elevated at +3.3%.

Clothing and footwear categories were hit extremely hard by mall closures and social distancing (and high unemployment) and prices remain -4.6% below a year ago.

Services price growth has slowed notably since Feb 2020, but has remained fairly consistent since May 2020. In Feb, services prices increased by +1.9%.



Excluding the effects of food and energy, the annual growth in core prices has rebounded from the depths of the crisis to around +1.4%.



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

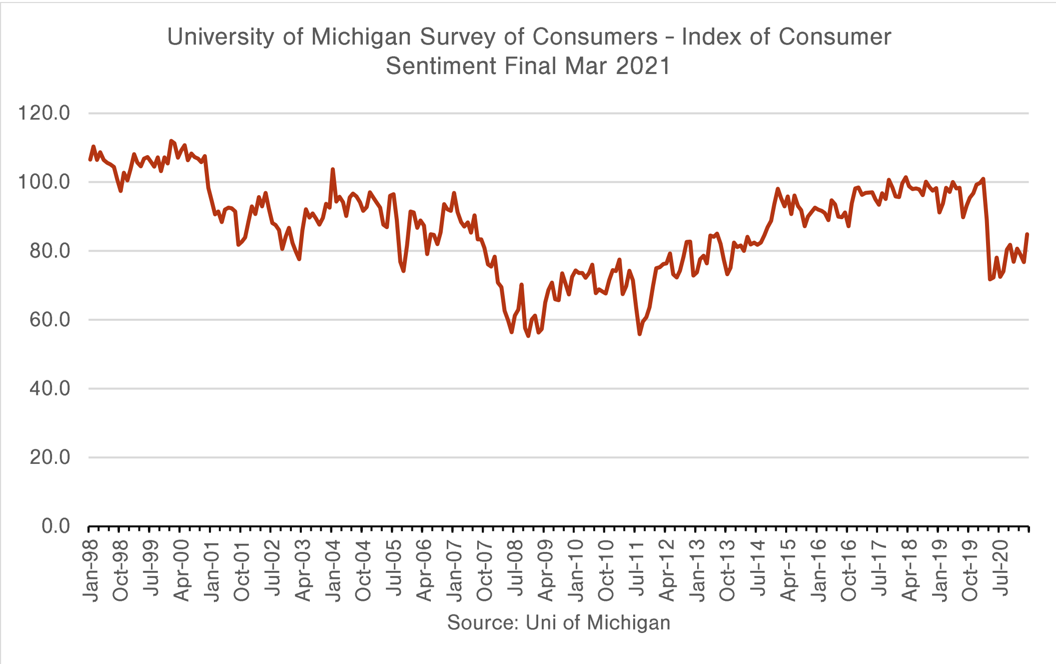
University of Michigan Consumer Sentiment Final (Mar)

Consumer sentiment strengthened further in the second half of Mar, reaching the highest level in a year. Although improved, sentiment remains well below the pre-Covid levels.

> Consumer sentiment continued to rise in late March, reaching its highest level in a year due to the third disbursement of relief checks and better than anticipated vaccination progress.
>
> The majority of consumers reported hearing of recent gains in the national economy, mainly net job gains.
>
> The data clearly point toward robust increases in consumer spending. The ultimate strength and duration of the spending surge will depend on the rate of draw-downs in savings since **consumers anticipate a slower pace of income growth**.

Index of Consumer Sentiment: Mar 84.9 versus Feb 76.8

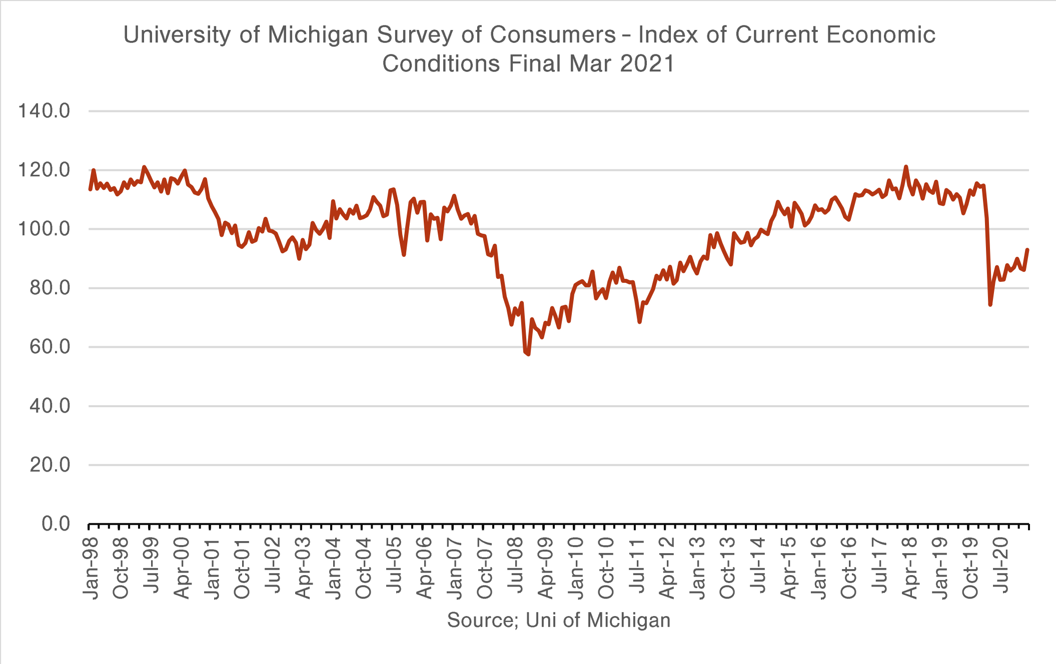
Sentiment lifted notably this month on news of further stimulus, economic recovery, and faster vaccination rollout. Sentiment remains approx. 4.7% below a year ago and has only recovered 45% of the fall from the peak in Feb 2020.



Current Economic Conditions: Mar 93 versus Feb 86.2

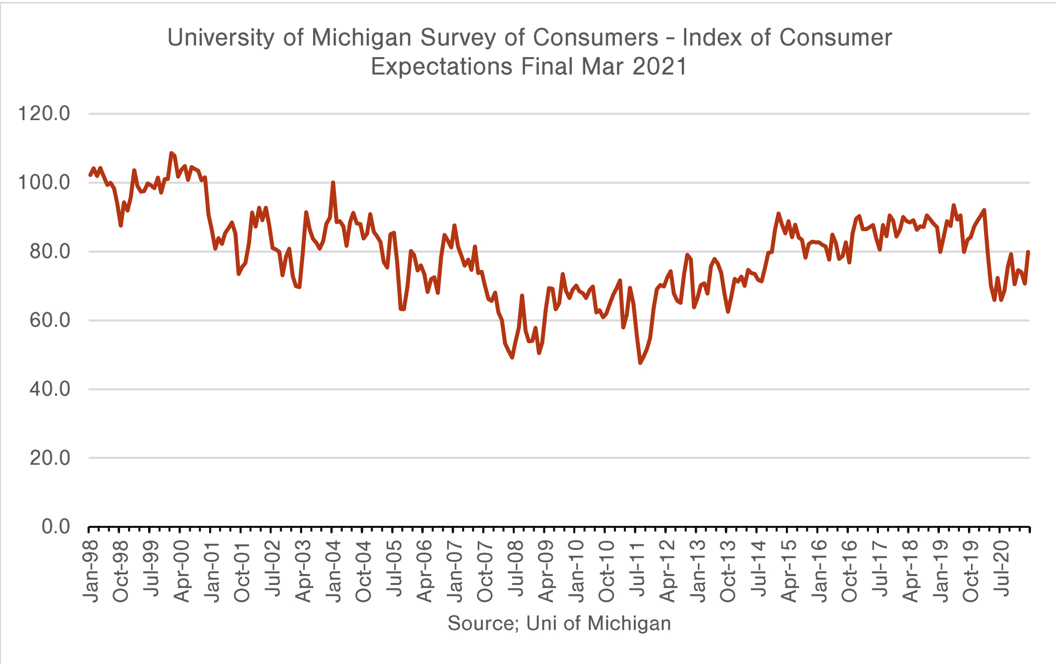
There was an improvement in perceptions around current conditions – recovery of which has continued to lag the other indexes. The index has recovered only 33% of the decline since the near-term peak in Feb 2020.

The index remains -10% below the same month a year ago.



<u>Expected Economic Conditions</u>: Mar 79.9 versus Feb 70.7

There was a notable improvement in sentiment around expected economic conditions this month. This index is now at least on par with that of a year ago. But expectations have still only recovered just over 50% of the level from the near-term peak in Feb 2020.



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

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Europe

Eurozone Markit Composite PMI Prelim (Mar)

The headline composite PMI indicated that private sector activity shifted from contraction in Feb to growth in Mar. Services output remained in contraction while manufacturing output accelerated (more firms reporting higher output – led by a notable “surge” in output growth in Germany). The report notes “divergent trends by sector”.

Composite Output PMI: prelim Mar 52.5 versus Feb 48.8

Services Business Activity: Mar 48.8 versus Feb 45.7

Services growth remained weak this month with a slightly slower pace of contraction. Orders continued to decline but also at a slower pace. Firms continued to increase employment. Firms also noted higher input costs and increased output prices (compared to the prior month) for the first time in a year.

Manufacturing PMI: Mar 62.4 versus Feb 57.9

The headline PMI is the highest in the series since Jun 97. It indicates that expansion (and stable growth) in Mar (compared to Feb) was widespread among firms.

The output/production index reached a record high also. This was led by expansion in production among firms in Germany. Output growth was also faster in France. Firms also recorded growth in new orders – leading to a “substantial rise” in order backlogs. More firms also recorded higher employment this month.

Both input and output prices increased at a faster pace this month.

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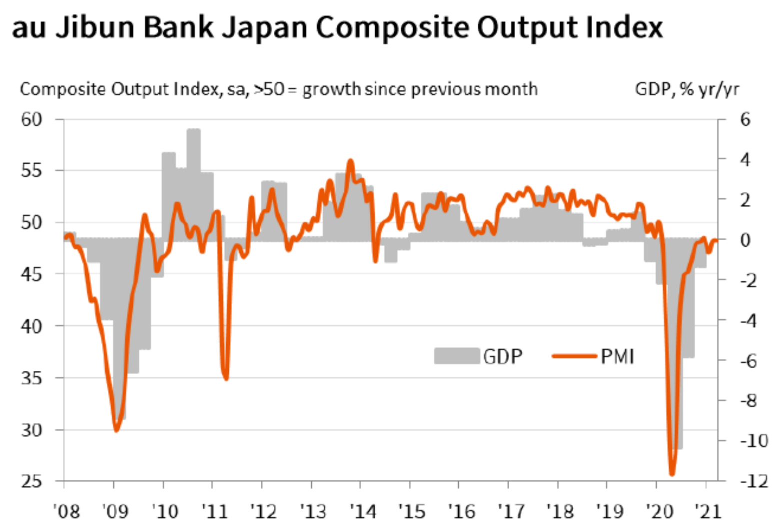
Japan

Markit Composite PMI Prelim (Mar)

The headline composite PMI remained in contraction territory this month and the growth momentum was unchanged. The decline in services output slowed slightly while manufacturing activity expanded a slightly faster pace. The decline in services continued to offset manufacturing activity at a composite level.

> Despite disruption to short-term activity caused by an ongoing third wave of coronavirus disease 2019 (COVID-19) infections, Japanese private sector companies were optimistic that business conditions would improve in the year ahead, albeit to a lesser extent than in February. Positive sentiment stemmed from the expectation that the lifting of state of emergency measures and broader restrictions as vaccinations roll out would trigger a recovery in demand in both domestic and external markets."

Composite PMI: prelim Mar 48.3 versus Feb 48.2



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

Services Business Activity: prelim Mar 46.5 versus Feb 46.3

Demand growth remained weak with services output and new orders remaining in contraction territory. New export work also declined but at a slower pace. Despite the subdued pace of activity, more firms reported higher employment levels.

Firms margins will likely be under some pressure as output prices continued to decline (albeit at a slower pace) while there was more widespread reporting of higher input prices.

Manufacturing PMI: prelim Mar 52 versus Feb 51.4

Somewhat less firms noted an increase in manufacturing output. But the flow of new orders increased compared to Feb. New export orders also increased, but a slower pace.

Backlogs shifted from decline to increase. Firms also noted weaker declines in stocks of finished goods. Quantity of purchases increased. This was also one of the few reports where there was a stronger decline in supplier delivery times compared to Feb.

Despite the seemingly stronger increase in demand, employment declined at a faster pace.

Both input prices and output prices increased this month.

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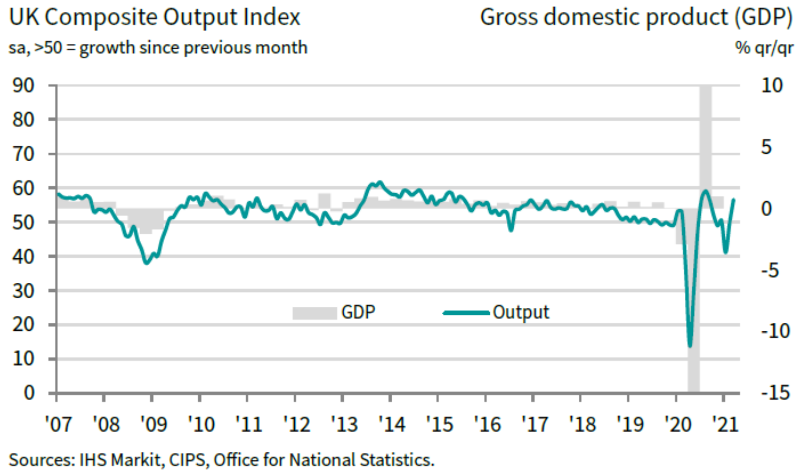
United Kingdom

UK Markit Composite PMI Prelim (Mar)

Private sector business activity picked up notably in Mar compared to Feb. More firms reported growth in services and manufacturing output in anticipation of reopening.

> This was fuelled by a rise in new orders for the first time since September 2020, which survey respondents attributed to a rebound in sales ahead of easing lockdown measures, alongside stronger consumer confidence and a surge in demand for residential property services.

Composite PMI: prelim Mar 56.6 versus Feb 49.6



Services Business Activity Index: prelim Mar 56.8 versus Feb 49.5

The increase in the activity index reflects more businesses reporting either no change or higher output than the month prior. This does not provide insight into the degree to which output has rebounded this month. Firms noted new orders also increase ahead of reopening. Firms also reported higher employment this month.

Manufacturing PMI: prelim Mar 57.9 versus Feb 55.1

The output index jumped notably – reflecting more firms reporting higher output than in Feb. Orders also increased. Supply shortages also led to an increase in order backlogs. Firms reported higher employment this month.

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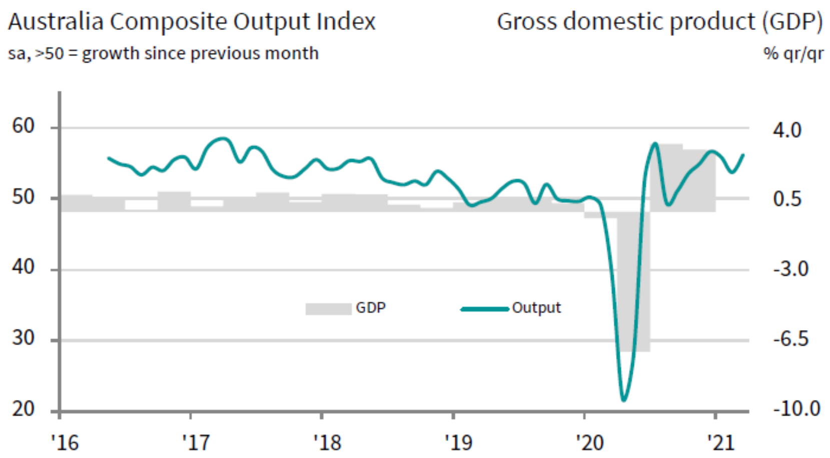
Australia

Markit Composite PMI Prelim (Mar)

Private sector growth accelerated in the prelim Mar report. This was led mostly by an acceleration in services activity while the manufacturing PMI and output index remained elevated.

Composite PMI: Mar Prelim 56.2 versus Feb 53.7



Sources: IHS Markit, Australian Bureau of Statistics.

Services Business Activity Index: Mar 56.2 versus Feb 53.4

Firms noted faster growth in new work/orders for the month. Employment growth still eased though. Operating margins remained under pressure as input costs increased at a faster pace and selling prices were little changed.

Despite the improvement in orders, business confidence was weaker as the government announced the roll-back of support programs at the end of Mar.

> Meanwhile, business confidence weakened to a seven-month low amid concerns surrounding international trade, supply-chain distortions and the end of government incentives aimed at reducing the negative impacts of COVID-19.

Manufacturing PMI: Mar 57 versus Feb 56.9

The output index was little changed in Mar indicating that growth remained constant compared to Feb. The output index remains elevated at 56.

Underlying demand continued to improve as new orders increased at a faster pace. More firms hired staff.

Lengthening lead times and higher input costs remained a key feature impacting manufacturing firms and activity. Many firms continued to pass on these higher input costs.

"Supply-chain disruption was cited by panellists as the main driver of inflation, a factor that also restricted business optimism towards growth prospects."

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