Weekly Macro Review

w/c 29 March 2021

Key Themes

Mar is shaping up to be a solid end to Q1 for the US. Growth in nonfarm payrolls was stronger than expected. Growth in payrolls was recorded across both private and public sectors as the rollout of vaccinations begins to support the reopening of the most affected sectors.

The household employment survey also confirmed an improvement in employment growth and the ongoing decline in the number of unemployed persons. The data remains sobering though – total unemployment, the employment-to-population ratio, and participation rates highlight that spare labour market capacity remains a problem. The more robust pace of employment and payroll growth in Mar needs to be maintained.

Growth in manufacturing activity in Mar, via the ISM report, was more widespread this month. This was part rebound from severe weather in Feb (see the Dallas fed manufacturing survey) and part rebound in demand (vaccinations and stimulus supporting reopening). Firms were positive in the outlook for conditions ahead in Q2 and Q3 but were cautious about the impact of supply chain disruptions and widespread input price increases.

The first view of US consumer spending in Mar was strong as round three of direct payments makes its way through the economy. The pace of motor vehicle sales accelerated in Mar and was almost on par with the post-GFC high reached in 2017.

Mortgage applications continued to stall this week. The rise in mortgage rates slowed this week after several weeks of increases.

News from Europe was downbeat regarding the vaccine rollout. Manufacturing activity had rebounded somewhat in Mar, led partly by stronger growth in Germany. France is to implement further shutdowns as the virus continues to spread.

In Japan, the manufacturing PMI indicated some possible improvement in activity in Mar compared to Feb. Hard data from the Feb industrial production report highlighted that production and shipment growth has stalled (roughly since Oct 2020) while the overall inventory of finished goods continues to decline. Shortages of inputs (e.g. semiconductors) are likely impacting production levels. This is most evident in the production, shipment, and inventory levels of passenger cars in Japan – production and shipments fell in Feb, along with the inventory of finished goods.

Contents

US Data

Initial Jobless Claims (wk ending 26 Mar), Continuing Unemployment Claims (wk ending 19 Mar), and PUA Claims

Initial claims for state-based programs increased this week after several weeks of falls. The total number of initial claims in the latest week ending 27 Mar remains below 1m at +951k.

INITIAL CLAIMS – STATE & FEDERAL PROGRAMS

UNEMPLOYMENT INSURANCE DATA FOR REGULAR STATE PROGRAMS

WEEK ENDING	March 27	March 20	Change	March 13	Prior Year[1]
Initial Claims (SA)	719,000	658,000	+61,000	765,000	5,985,000
Initial Claims (NSA)	714,433	651,151	+63,282	757,202	5,981,787
4-Wk Moving Average (SA)	719,000	729,500	-10,500	751,750	2,344,000

INITIAL CLAIMS FILED IN FEDERAL PROGRAMS (UNADJUSTED)

WEEK ENDING	March 27	March 20	Change	March 13
Pandemic Unemployment Assistance	237,025	241,137	-4,112	284,254

CONTINUING CLAIMS

In the latest week ending 13 Mar continuing claims fell by a further 1.5m people across all programs.

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

WEEK ENDING	March 13	March 6	Change	Prior Year[1]
Regular State	4,200,171	4,458,941	-258,770	2,068,674
Federal Employees	18,467	19,074	-607	9,800
Newly Discharged Veterans	7,975	8,638	-663	5,591
Pandemic Unemployment Assistance[3]	7,349,663	7,844,867	-495,204	NA
Pandemic Emergency UC[4]	5,515,355	6,220,492	-705,137	NA
Extended Benefits[5]	1,017,742	1,067,905	-50,163	0
State Additional Benefits[6]	1,702	1,819	-117	5,901
STC / Workshare [7]	102,500	109,765	-7,265	12,886
TOTAL[8]	18,213,575	19,731,501	-1,517,926	2,102,852

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

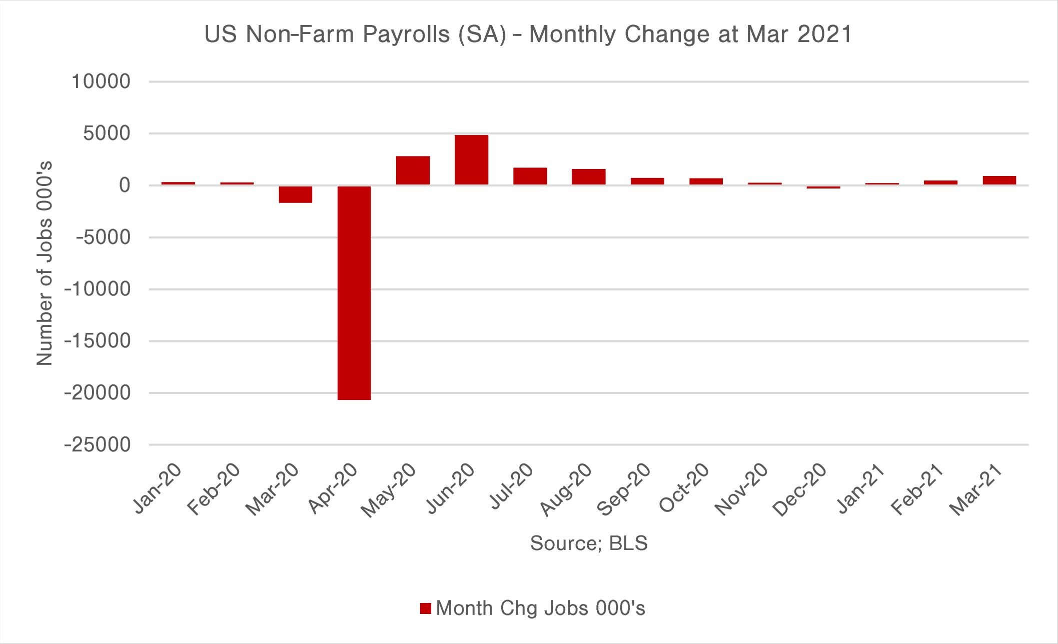
Non-Farm Payrolls (Mar)

Total nonfarm payroll growth was much stronger this month. Both private and public sector payrolls expanded in Mar.

There were also positive revisions for Jan and Feb payrolls.

Total Non-farm payrolls – month change: Mar +916k versus Feb +468k (revised from +379k)

This is now the third month of accelerating growth in payroll numbers. Despite the recent improvement, there are still -8.4m fewer payrolls jobs in the thirteen (13) months since Mar 2020.



This month, both **private (+780k jobs) and public (+136k) sectors** contributed to the growth in non-farm payrolls.

Private sector jobs were higher across both goods-producing (+183k) and services (+597k) jobs.

The larger increases in **service sector jobs** were in leisure and hospitality (+280k), education and health services (+101k), and professional and business services (+66k).

In the **goods-producing sector**, growth in construction jobs was the main highlight. Construction jobs increased by +110k jobs – mostly specialty trade contractors across both residential and non-residential construction.

There was a stronger contribution to payroll growth from the **government sector this month (+136k jobs).** This was led mostly by a turnaround in state (+49.6k jobs) and local education payrolls (+76k jobs).

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

US Employment - Household Survey (Mar)

The employment and labour force picture improved this month. There was a more notable improvement in employment growth and importantly, employment increased faster than the (accelerated) growth in the labour force. This resulted in a further decline in total unemployed people.

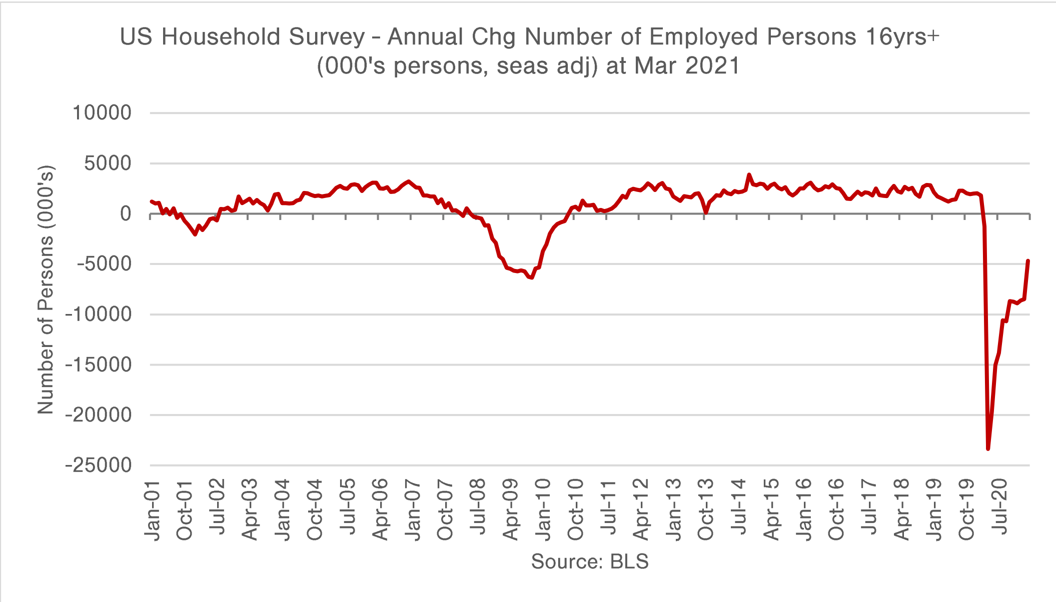
In the labour force this month, participation increased and there was also a positive contribution from underlying population growth.

Despite the ongoing improvement, more consistent progress is required before the labour market recovers prior levels of employment, participation, and unemployment.

<u>Total employment – month change</u>: Mar +609k persons versus Feb +208k persons

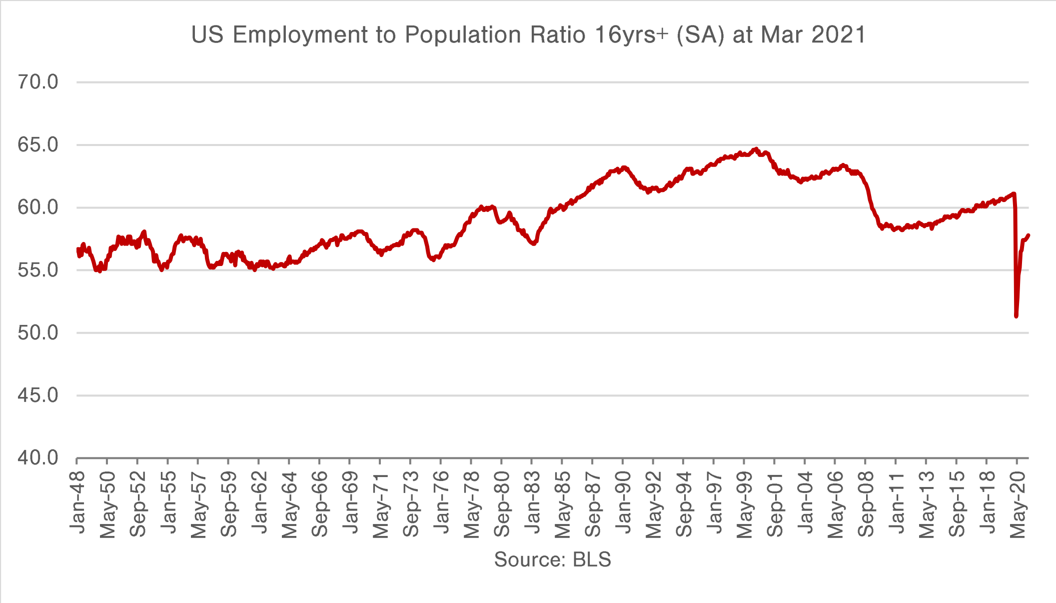
This month there was stronger growth in full-time (FT) employed persons while part-time (PT) employment declined slightly.

Employment is yet to recover the year-ago level and there are still -4.7m fewer employed people than in the same month a year ago. Reaching the year-ago levels is not the objective – annual employment growth (in the 12months before the pandemic) averaged +1.8m employed persons.

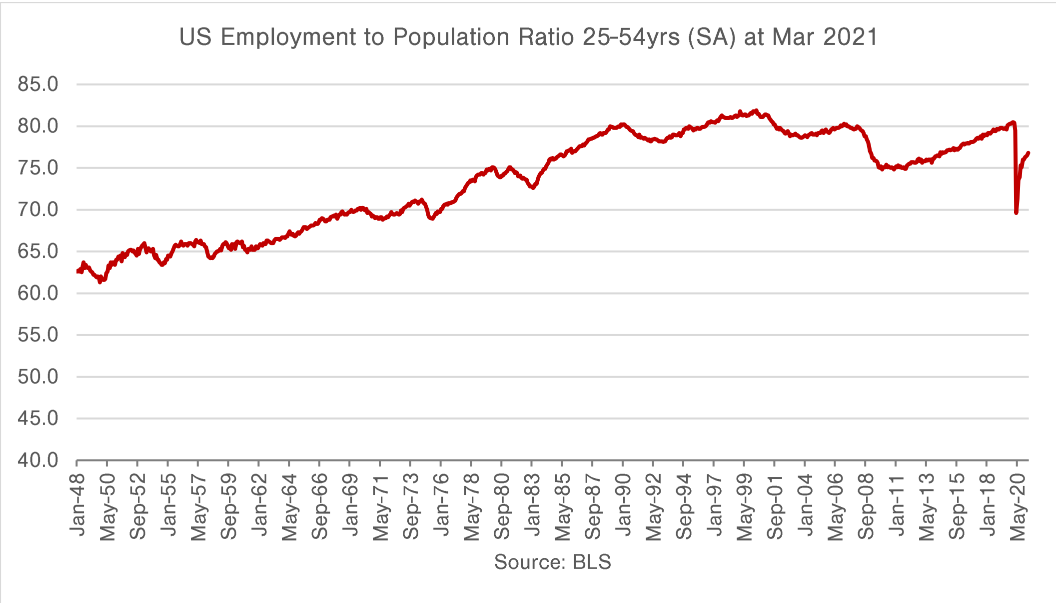


<u>Employment-to-Population Ratio</u>

The proportion of people currently employed as a ratio of the population highlights the gap that still exists. The employment to population ratio for the 16yr+ group is at 57.8%. *Aside from the recent pandemic, the employment ratio was last at this level in 1983.*



The view within the narrower definition of the workforce 25-54yrs is a little better. The employment to population ratio is now up to 76.8%. This is equivalent to 2013 levels. The near-term peak in the employment to population ratio was reached in Jan 2020 at 80.5% of the 24-54yrs group.



Consider also that these population ratios are slightly overstated due to lower working-age population growth in these surveys.

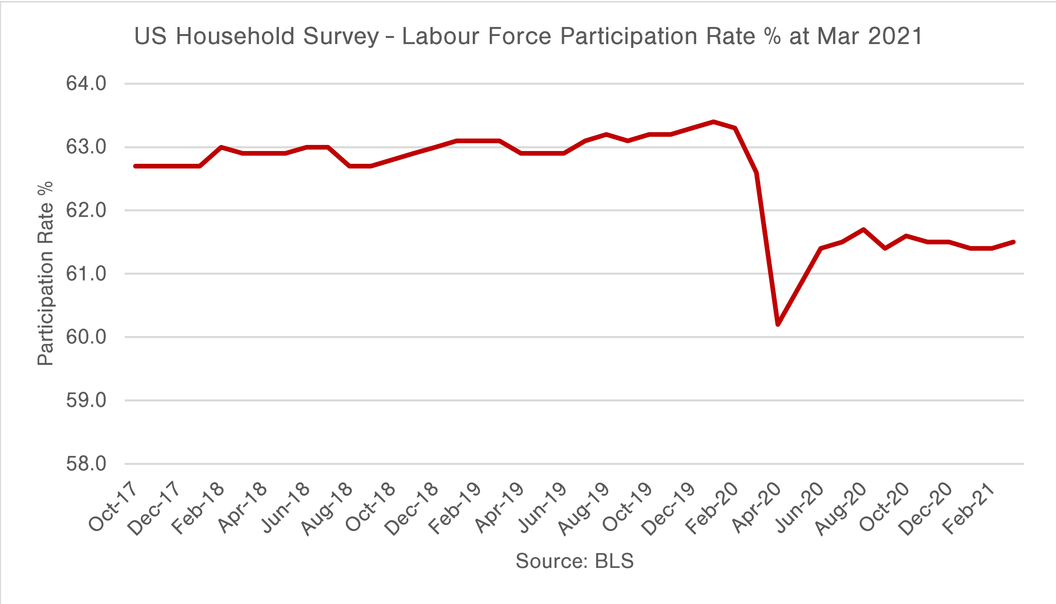
Labour Force

There was faster growth in the labour force this month – with both a positive contribution from underlying population growth and an increase in participation. This is the first time both have increased together since Oct 2020.

<u>Total Labour Force – month change:</u> Mar +347k persons versus Feb +50k persons.

Most of the increase in the labour force this month was due to the increase in participation. The participation rate increased from 61.4% in Feb to 61.5% in Mar - adding approx. 260k persons.

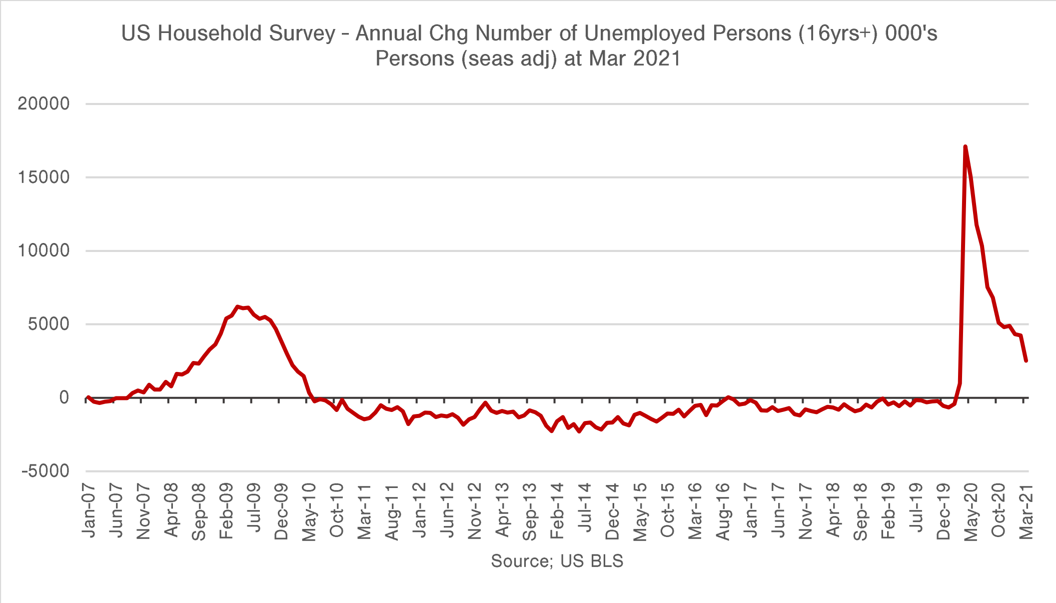
At this stage, the participation rate (measuring the proportion of people in the labour force as a proportion of the population) remains well below the pre-pandemic peak of 63.4% in Jan 2020.



After the initial rebound in May and Jun 2020, the recovery of participation has slowed. It will be important to watch how the participation rate (and the employment ratio) evolves over the next few months. At this stage, it signals that there is still excess labour capacity. There may be some permanent scarring on the labour force (e.g., older workers that may not find new employment etc). As demand picks up and sectors reopen, the growth in jobs should encourage workers back into the workforce.

<u>Total Unemployed persons – month change</u>: Mar -262k persons versus Feb -158k persons

This is the third month in a row where total unemployed persons declined. But there are still +2.5m more unemployed persons in Mar compared to a year ago. The annual change through 2019 averaged around a -311k decline in unemployed persons – highlighting that further progress is required.



The unemployment rate fell to 6.05% in Mar from 6.2% in Feb. The larger fall in the unemployment rate was the result of the decline in total unemployed persons as well as a larger increase in the denominator (labour force).

<u>Summary of Main Labour Market Changes</u>

000's people (16yrs+)	**Annual chg - MAR 2021**	**Monthly Chg - MAR**
The estimated change in the Labour Force due to pop growth (1)	709	86
How many jobs available for them? (employment growth) (2)	- 4,688	609
Difference (if negative, then employment growing faster than what pop adds to the labour force) (3)	5,397	-523
Change labour force participation - (if positive, people entering/returning to the labour force) (4)	- 2,872	261
The remainder is the chg in total unemployed persons (declining if negative) (4) plus (3)	2,525	-262
Two views of annual growth in the labour force;		
Total employed persons plus total unemployed persons	- 2,163	347
Est of what population adds to the labor force plus change in participation	- 2,163	347
BLS reported change in the size of the labour force	- 2,163	347

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

Mortgage Applications wk ending 26 Mar

Mortgage applications continued to decline in the latest week. Both refinance and purchase applications declined in the latest week.

Market Composite Index – week change: -2.2% versus the week prior

> "After seven consecutive weeks of increasing mortgage rates, the 30-year fixed rate declined 3 basis points to 3.33 percent, which is still almost half a percentage point higher than the start of this year. Mortgage applications for refinances and home purchases both declined, but purchase activity was still convincingly higher than the pandemic-induced drop seen a year ago, as well as up 6 percent from the same week in March 2019,"

The refinance index declined by 3% versus a week ago and is now 32% below the same week a year ago.

The purchase index declined by 2% in the latest week but remains 39% above the level from the same week a year ago.

https://www.mba.org/2021-press-releases/march/mortgage-applications-decrease-in-latest-mba-weekly-survey-x278456

Case/Shiller House Price Index (Jan)

The annual growth in National house prices accelerated further in Jan.

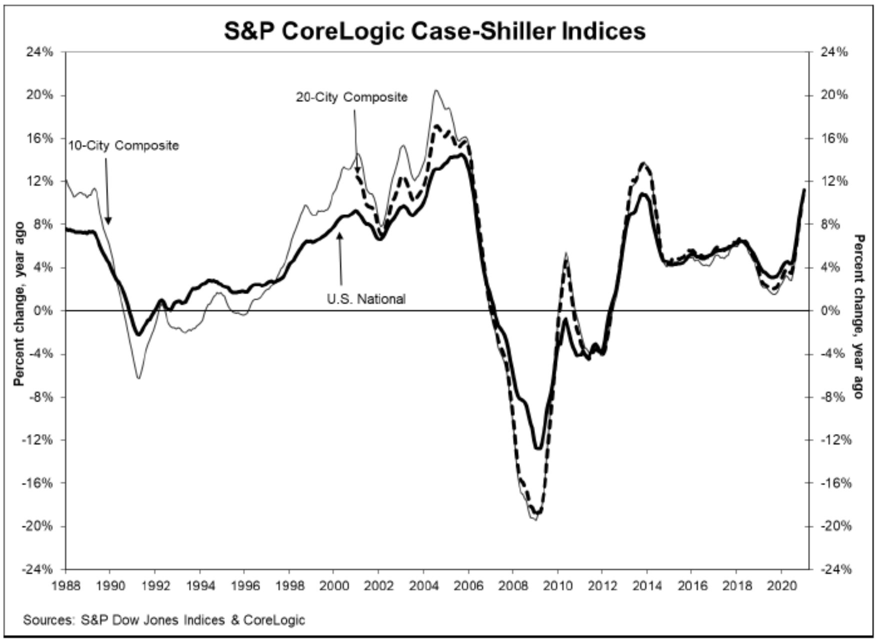
> "January's data remain consistent with the view that COVID has encouraged **potential buyers to move from urban apartments to suburban homes**. This demand may represent buyers who accelerated purchases that would have happened anyway over the next several years. Alternatively, there may have been a secular change in preferences, leading to a shift in the demand curve for housing. Future data will be required to analyze this question."

US National House Price Index – annual change: Jan +11.2%

The 10 and 20-city composite indexes also posted faster growth in prices:

10-City Composite Index – annual change: Jan +10.9%

20-City Composite Index – annual change: Jan +11.1%



Some of the cities where price growth is outperforming the national average on an annual basis:

Phoenix – annual growth: Jan +15.8%

San Diego – annual growth: Jan +14.2%

Seattle – annual growth: Jan +14.3%

Boston – annual growth: Jan +12.7%

Annual price growth in cities such as Chicago (+8.9%), Atlanta (+9.6%), Dallas (+9.2%), Las Vegas (+8.5%), and San Francisco (+9.5%) have underperformed the National average – but growth is still elevated.

https://www.spglobal.com/spdji/en/documents/indexnews/announcements/20210330-1347565/1347565_cshomeprice-release-0330.pdf

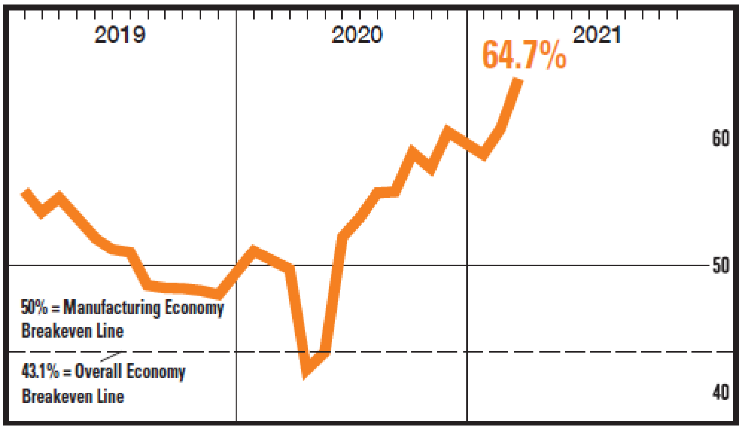
ISM Manufacturing PMI (Mar)

The headline ISM index indicated that growth expanded in Mar compared to Feb. Respondent comments indicate that some firms experienced supply chain disruptions from the Feb storms through the Midwest especially – and Mar has been a month of rebound for them. Other key themes include "chronic logistic issues" impacting production, ability to find qualified staff, rising raw material prices, and a positive outlook for Q3 and Q4 as more sectors reopen.

> "Late-winter storms in unexpected [areas] of the U.S. had our organization exercising business-continuity plans on a much more aggressive scale than anticipated. While the storms slowed our supply chain down, we did what we could to meet orders, even though few were short. We feel that in the coming month, we will be able to make up the misses as well as continue strong deliveries in the next month. As consumer confidence grows and the academia

market reopens globally, we do expect orders to increase." (Computer & Electronic Products)

__Headline ISM Manufacturing PMI__: Mar 64.7 versus Feb 60.8



All of the six biggest manufacturing industries expanded, in the following order: Computer & Electronic Products; Fabricated Metal Products; Food, Beverage & Tobacco Products; Transportation Equipment; Chemical Products; and Petroleum & Coal Products.

Measures of demand improved this month with both orders and production indexes increasing versus Feb.

The orders index increased from 64.8 in Feb to 68 in Mar. More firms reported growth in orders – while fewer firms reported no change or a decline in orders. Only one industry reported a decline in orders this month – Wood Products.

"Business is even stronger for us this year through the third quarter, and we expect a very healthy growth of our manufacturing sales." (Electrical Equipment, Appliances & Components)

The production index also increased from 63.2 in Feb to 68.1 in Mar. The increase was the result of an increase in firms reporting higher orders this month and fewer firms reporting no change or a decline in orders. No industry reported a decline in production in Mar compared to Feb.

"Business conditions are positive for our industry and company. The constraints are mainly related to parts availability (imports, supply chain congestion). Manpower is also a constraint; hiring new members is a challenge." (Transportation Equipment)

"Widespread supply chain issues. Suppliers are struggling to manage demand and capacity in the face of chronic logistics and labor issues. No end in sight." (Machinery)

The supplier delivery index increased from 72 in Feb to 76.6 in Mar. More firms reported longer/increased lead times in Mar (55% of firms) while fewer firms reported no change or faster in lead-times. Only 1.6% of firms reported faster deliveries.

> "Winter Storm Uri has made daily life in supply chain quite a challenge. Everything from plastic substrates to adhesives have been significantly impacted by the production interruptions." (Food, Beverage & Tobacco Products)

Order backlogs also continued to increase. Even though production increased, slower deliveries (as well as other supply chain disruptions) are likely limiting output growth – and backlogs increased further in Mar as a result. The index increased from 64 in Feb to 67.5 in Mar. The increase was the result of more firms reporting higher backlogs, while fewer firms reported no change or a decline in backlogs.

The index of input prices was little changed this month at 85.6 versus 86 in Feb – **the experience of input price increases is widespread among manufacturing firms**. In Mar, 71.6% of firms reported higher input prices (in Feb it was 73% of firms). About 28% of firms reported no change in prices and only 0.5% of firms reported a decline in input prices. All eighteen industries reported higher prices in Mar compared to Feb.

> "Business bottomed out in February; we are expecting steady improvement through the end of the year. Inflation and material availability, along with logistics, are major concerns." (Furniture & Related Products)

By comparison, the employment increase was somewhat more moderate than the production, orders, or input price indexes. The employment index did increase from 54.4 in Feb to 59.6 in Mar. More firms reported higher employment (+23.9% in Mar compared to 19.2% in Feb). Approx. 70% of firms reported no change in employment. Fewer firms reported a decline in employment (7.2% in Mar compared to 12% in Feb).

> "A lack of qualified machine and fabrication shop talent makes it difficult to keep up with production demands when there is no backup (second string). Qualified new hires are an ongoing challenge. We have **had to provide better compensation to keep qualified talent**. Raw-material prices are up 50 percent to 60 percent over the last six months, which results in increased prices to our customers and **a disincentive to build inventory**." (Fabricated Metal Products)

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

Dallas Fed Manufacturing Survey (Mar)

There was a widespread acceleration in manufacturing activity/growth in Mar. The rebound comes on the back of what many respondents referred to as 'the great freeze' in Feb. This storm affected many different industries in the state/region.

> Our March increase was mainly due to catch-up from February's lost week due to temperatures.

> In addition, the ice storm in Texas has significantly impacted prices of our raw materials, especially anything related to plastics.

February was a horrible month, with slow activity plus a 4.5-day shutdown due to snow and lack of power and water. March will be much better, but that's not saying much. We are starting to get busy with some products that should provide a decent level of activity for the next few months. Thank God for PPP and the Employee Retention Tax Credit; otherwise, we would be hurting in a big way.

The Feb survey did not yet reflect the substantial economic impact of this weather event. The Mar report does reflect the rebound that ensued after the weather shutdown.

The Feb report was based on data collected between 9-17 Feb. The 'polar vortex' conditions were experienced in the US between 11-16 Feb – with the effects on business felt thereafter.

This was one of the most impactful winter events in recent history that brought **multiday road closures, power outages, loss of heat, broken pipes, and other societal impacts for the region.** While the damage is still being assessed, this will likely go down as the first billion dollar disaster of 2021 globally, and potentially the most costly weather disaster for the state of Texas in history, surpassing even Hurricane Harvey from 2017. https://www.weather.gov/hgx/2021ValentineStorm

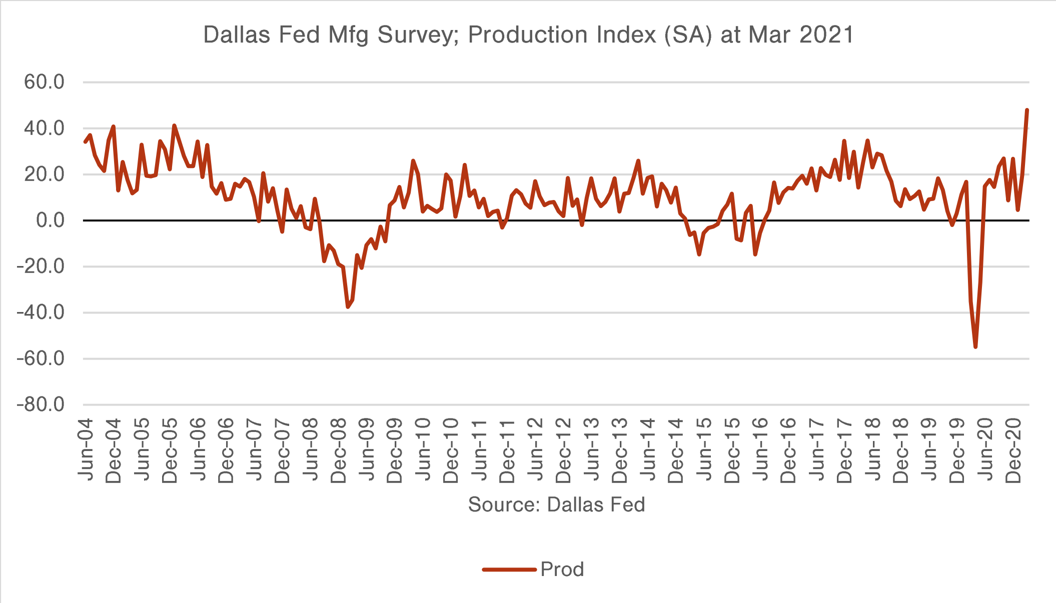
Firms remain concerned about input shortages and higher prices. But the level of optimism for the outlook remains little changed.

Production Index: Mar 48 versus Feb 19.9

The production index increased to a new series high of 48 in Mar. This mostly reflects the rebound effect of the severe weather that halted production in Feb. The underlying performance indicated that 61% of firms reported higher production than in the month prior – this is the largest proportion of firms in the series history.

The proportion of firms reporting no change in production levels fell to a series low of 26%. Approx. 13% of firms reported a decline in production.

We are still playing catch-up from the February mandated weather-related shutdown of our four manufacturing plants. Business demand remains strong, but there's a raw material supply shortage that hopefully will correct itself by the end of the second quarter or first of the third quarter.

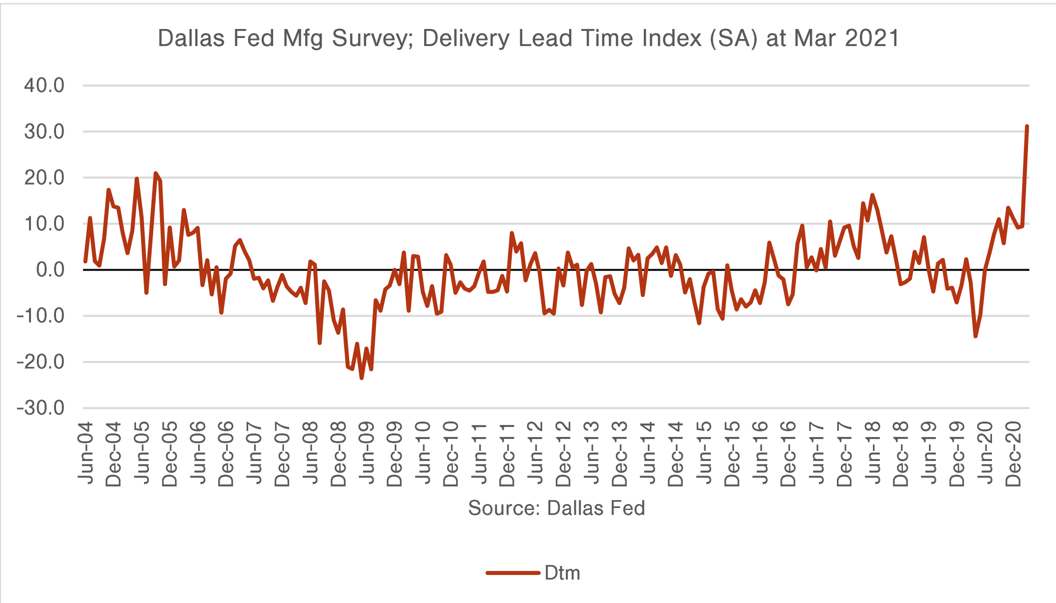


Demand rebounded in Mar with the new orders index increasing from 13 in Feb to 30.5 in Mar. This is just below the series high of 36. The order growth rate also jumped substantially in Mar compared to Feb. The unfilled orders index doubled from 12.4 in Feb to 24.5 in Mar.

> We have a good backlog, but it is not going to be predictable for six months to a year out. Bank willingness to renew or add to our loan program has been problematic even though we have never been in default. The bank now wants to limit capital expenditures, including maintenance. The bank has never put these restrictions in place before, and it will require us to seek a new financial partner.

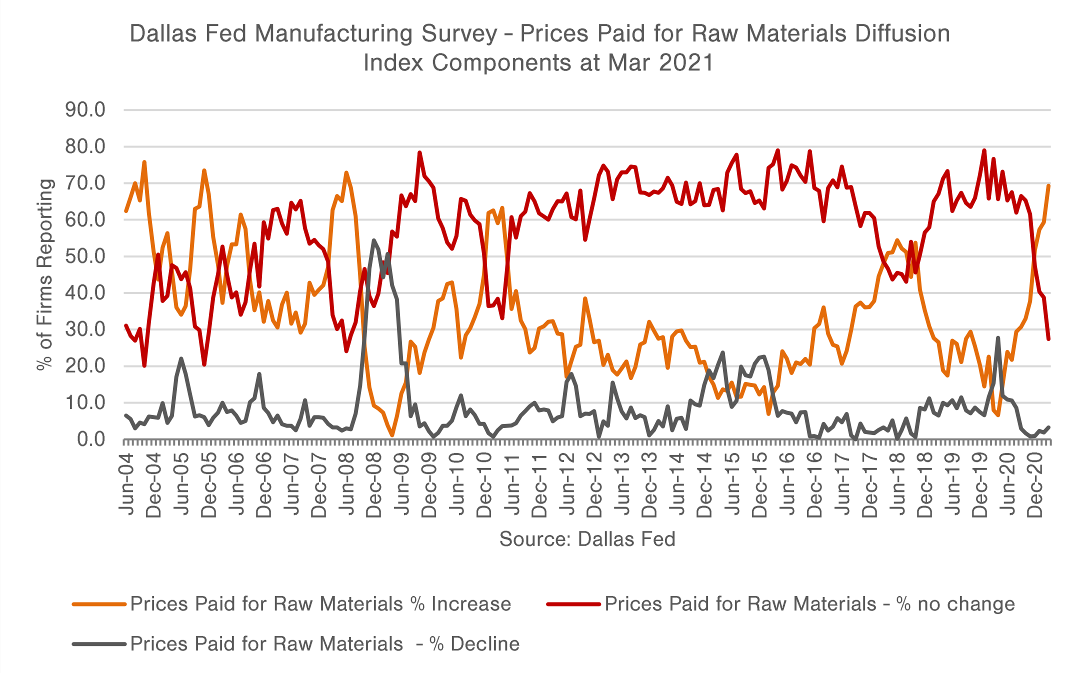
The shipments index also more than doubled in Mar compared to Feb.

Delivery lead times increased substantially. The index increased from 9.5 in Feb to 31.2 in Mar – a new series high.



The proportion of firms that experienced longer lead times jumped from 18.9% in Feb to 38.7% of firms in Mar – this was a new series high, indicating the experience of longer delivery lead-times were widespread among firms.

Firms continued to experience growth in input prices – and that was also widespread among firms. The index increased from 57.4 in Feb to 66 in Mar. **The proportion of firms reporting higher prices in Mar compared to Feb jumped from 59% in Feb to 69.3% in Mar**.



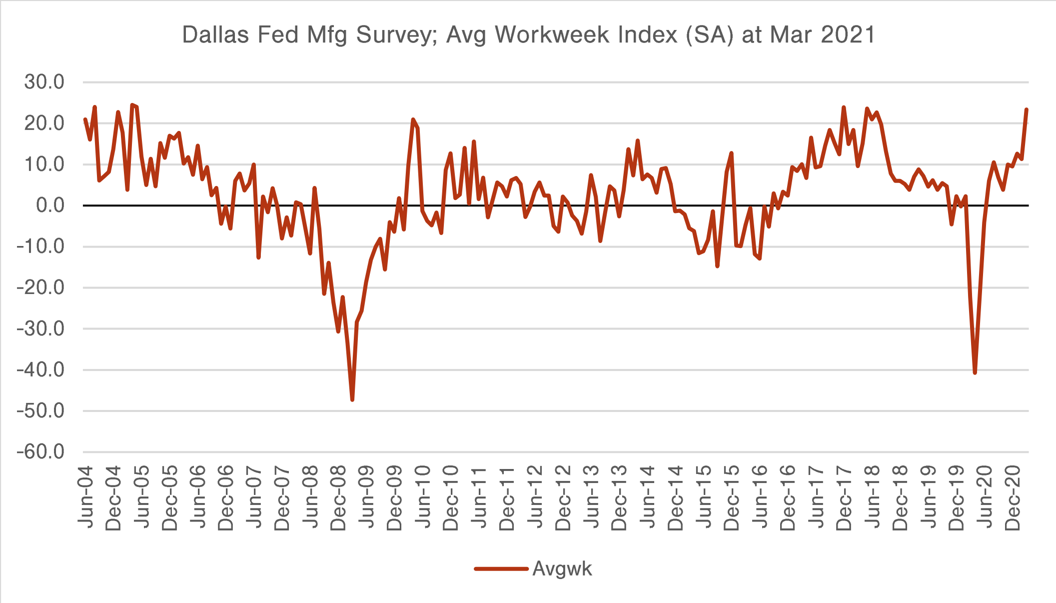
The prices received index also increased but by a smaller degree. This indicates that not all firms passed on the higher input prices in Mar.

> We are seeing increased costs for raw materials and components. We have not yet evaluated the scope and size of the increases to determine if our prices must be adjusted. We will continue to accumulate data in the weeks to come.

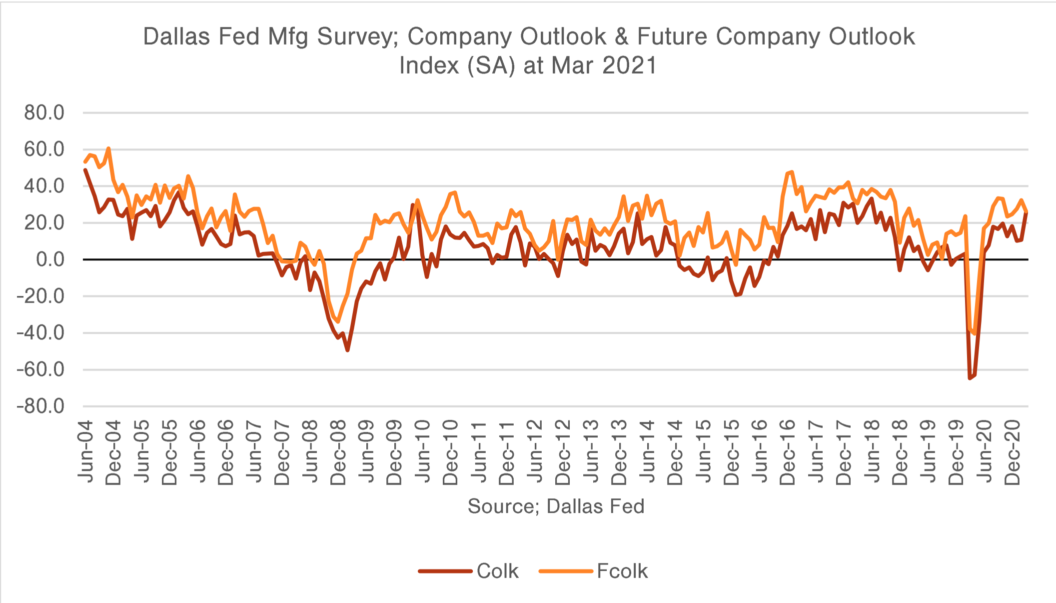
Firms still increased employment levels and the average workweek in Mar. The employment index increased from 12.7 in Feb to 18.8 in Mar.

> Order volume is steadily increasing, week by week. As such, we've begun rehiring to fill vacancies caused by the layoffs we experienced in 2020, in addition to filling positions to assist with production shortfalls.

The increase in the average workweek was more notable – in line with the rebound in activity after the storm shut-downs. The index increased from 11.3 in Feb to 23.4 in Mar. The Mar result is close to the series high of 24.5.



Interestingly, the company outlook improved notably in Mar, but the index of the future company outlook fell (but remained close to the recent high.



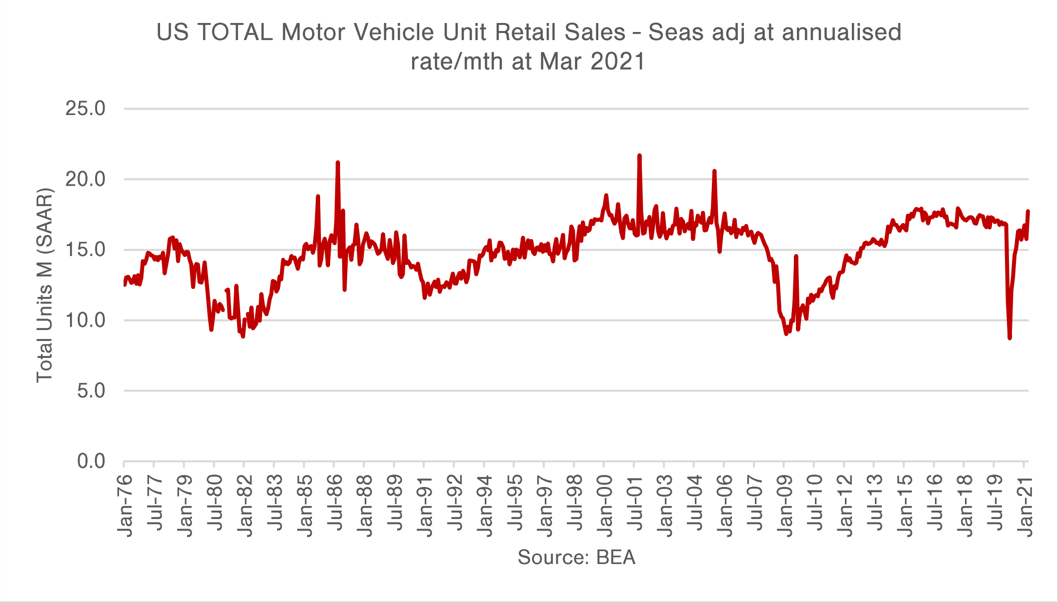
https://www.dallasfed.org/research/surveys/tmos/2021/2103/2103summ.aspx

Total Vehicle Sales (Mar)

There was a strong rebound in vehicle sales in Mar – likely aided by further growth in employment as well as round three of stimulus/relief payments. The SAAR of sale for total motor vehicles in Mar almost reached a new post-GFC high. This was led by continued growth in light trucks (the SAAR of sale in Mar reached a new all-time high), while auto sales also increased but remain closer to all-time lows.

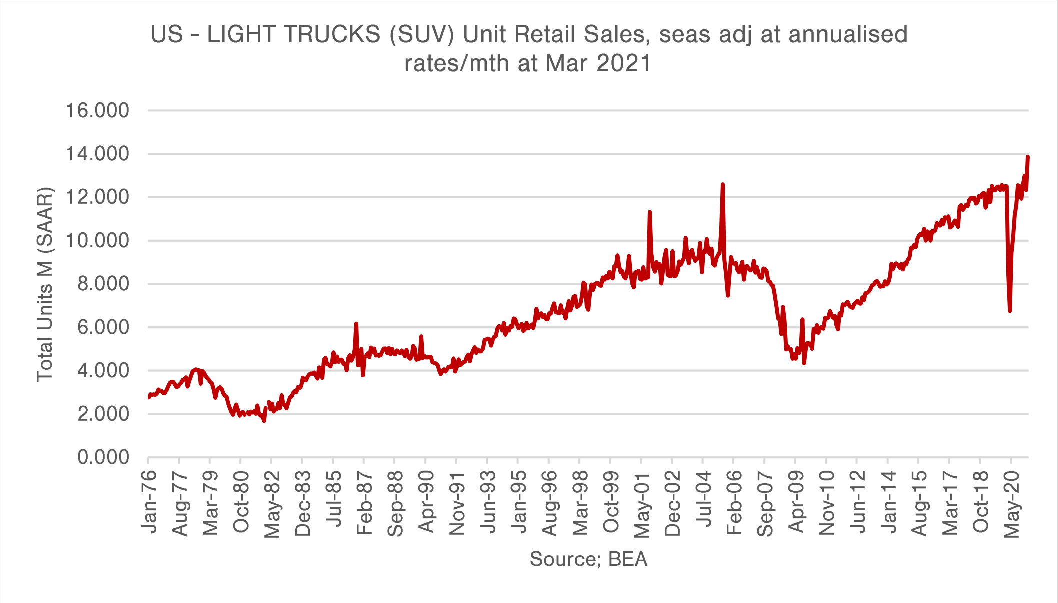
Total Vehicle Sales – month (SAAR): Mar 17.7m units versus Feb 15.8n units

The post-GFC high was recorded in Sep 2017 with the SAAR reaching 17.95m units.



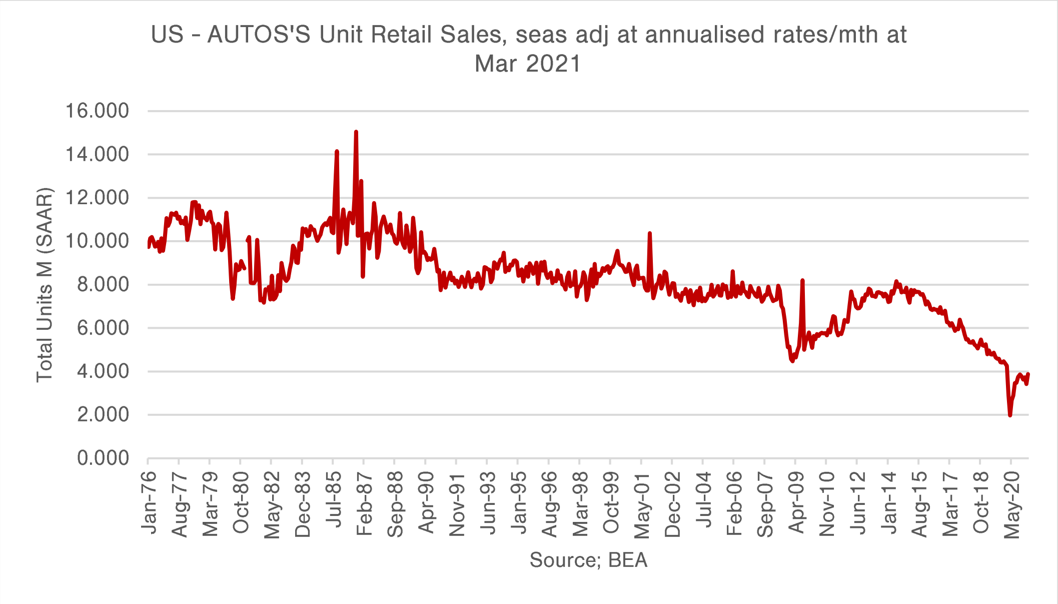
Light Truck (SUV) Sales – month (SAAR): Mar 13.8m units versus Feb 12.3m units

The SAAR in Mar 2021 reached a new all-time high.



<u>Auto Sales – month (SAAR):</u> Mar 3.9m units versus Feb 3.4m units

While there was a notable increase in the pace of sales of autos in Mar compared to Feb, sales remain much closer to the minimum (reached in Apr last year of 2.0m units). Auto sales remain in a long-term decline.



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

US President Biden speech

https://www.bloomberg.com/news/articles/2021-03-31/biden-kicks-off-next-big-push-with-2-25-trillion-economy-plan?srnd=economics-vp

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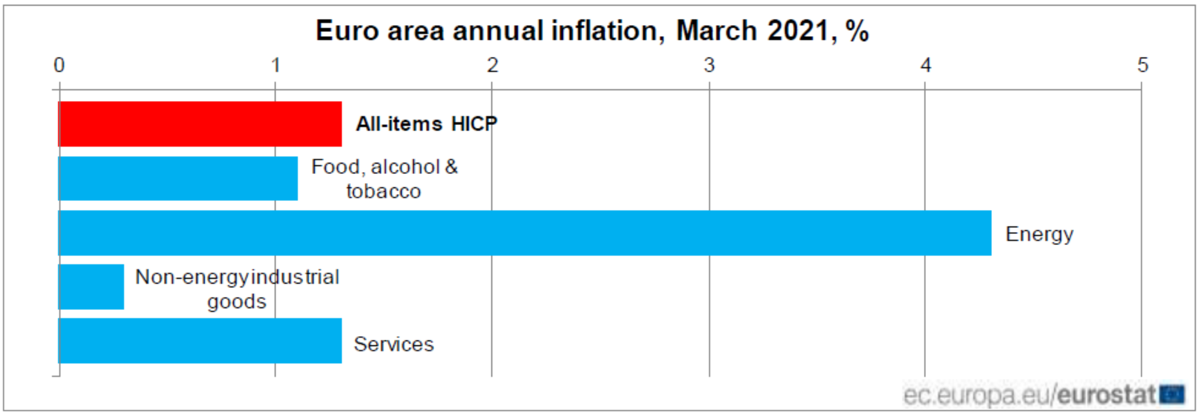
Europe

Eurozone CPI Prelim (Mar)

The headline Euro area CPI growth jumped in Mar – partly the result of the base effect of energy prices falling in the year prior at the onset of the pandemic. The annual growth in the core CPI excluding food and energy slowed in Mar.

Headline All-Items CPI – annual change: Mar +1.3% versus Feb +0.9%

The monthly change in CPI was up to +0.9%.



Key Components

Food, alcohol, and tobacco annual price growth slowed from +1.3% in Feb to +1.1% in Mar. Processed food price growth slowed to 1% (from +1.3% in Feb) while unprocessed food price growth remained lower at +1.5%. On Oct 20, annual growth in unprocessed food prices was up to +4.3%.

The annual growth in energy prices shifted from a -1.7% decline in Feb to +4.3% in Mar. In the month, energy prices also increased by +2.6%.

Core CPI ex food, alcohol, tobacco, and energy – annual change: Mar +0.9% versus Feb +1.1%

The annual growth in services prices was slightly higher at +1.3% in Mar compared to +1.2% in Feb. The monthly change was +0.2%.

https://ec.europa.eu/eurostat/documents/2995521/11563003/2-31032021-AP-EN.pdf/a80e9aca-b0a4-0ba1-96a5-4d99963ce752?t=1617178335323

Markit Manufacturing PMI Final (Mar)

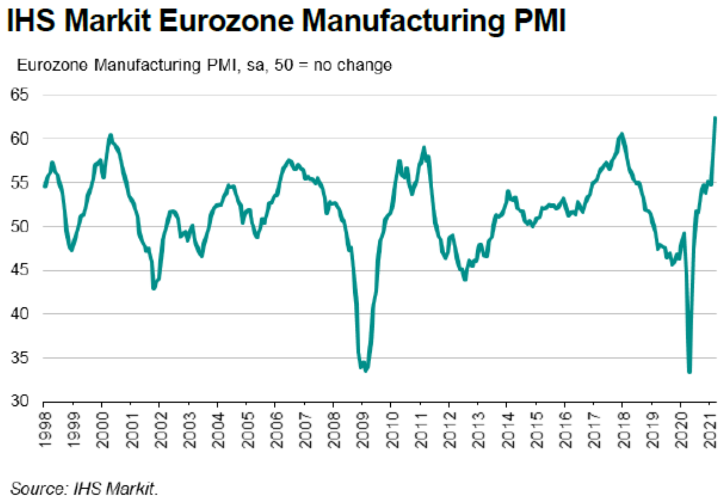
The final manufacturing PMI was revised slightly higher from the prelim reading of 62.4 to 62.5 in Mar. The Feb PMI was 57.9.

Germany and Netherlands led the expansion – both with "their highest ever PMI levels in Mar". This suggests that an expansion in activity was widespread among firms in Mar compared to Feb.

> "Although centered on Germany, which saw a particularly strong record expansion during the month, the improving trend is broad-based across the region as factories benefit from rising domestic demand and resurgent export growth.

There has been an improvement in business confidence (although this may now be pared back considering further restrictions through Europe have been announced).

Firms continue to also record significant supply chain disruptions and input price rises.



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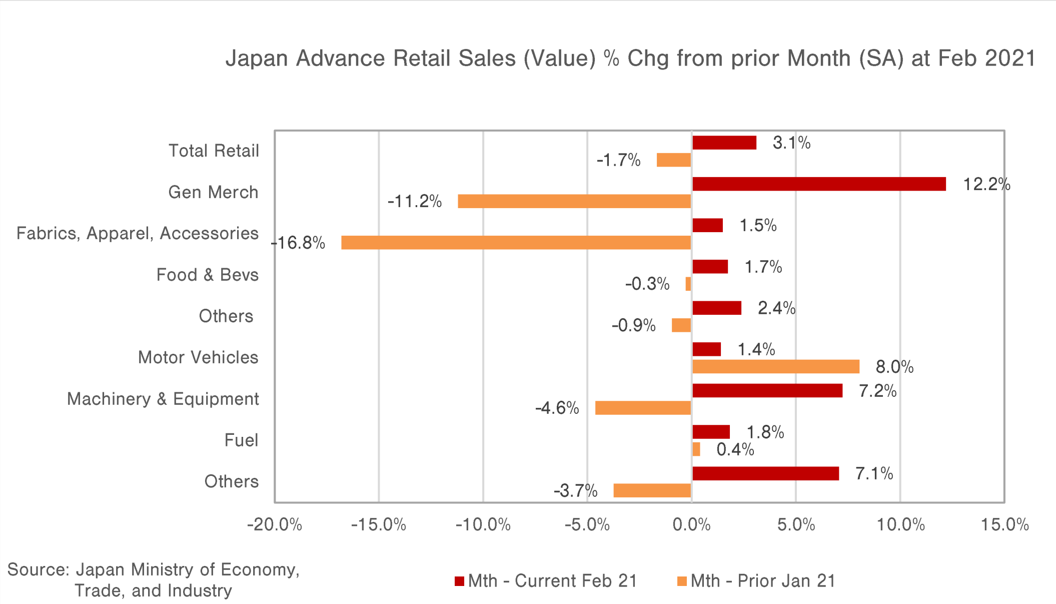
Japan

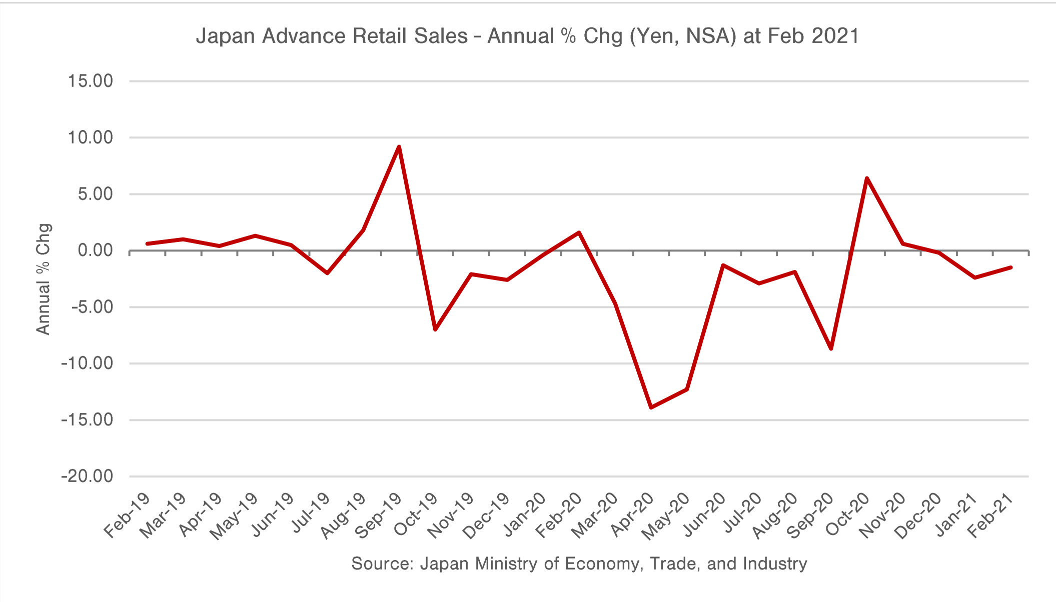
Advance Retail Trade (Feb)

There was a rebound in retail sales in Japan this month. Stronger growth was recorded across all categories with the strongest growth recorded across general merch, machinery & equipment, and others.

Advance Retail Sales – month change: Feb +3.1% versus Jan -1.7%



On an annual basis, sales remain -1.6% below the same month a year ago.



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

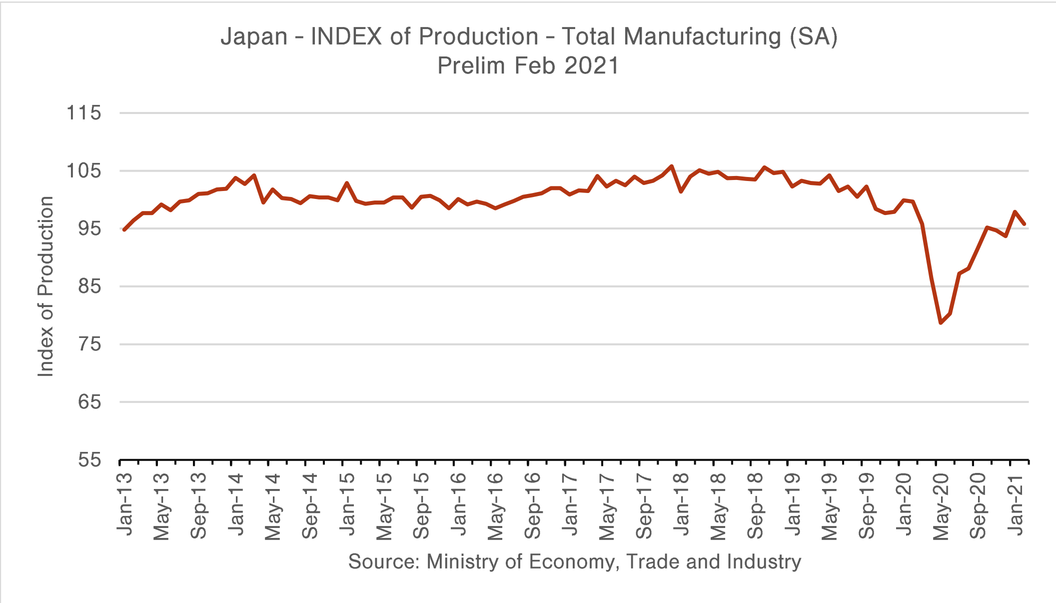
Industrial Production Prelim (Feb)

The industrial production data provide some small insight into global manufacturing supply issues.

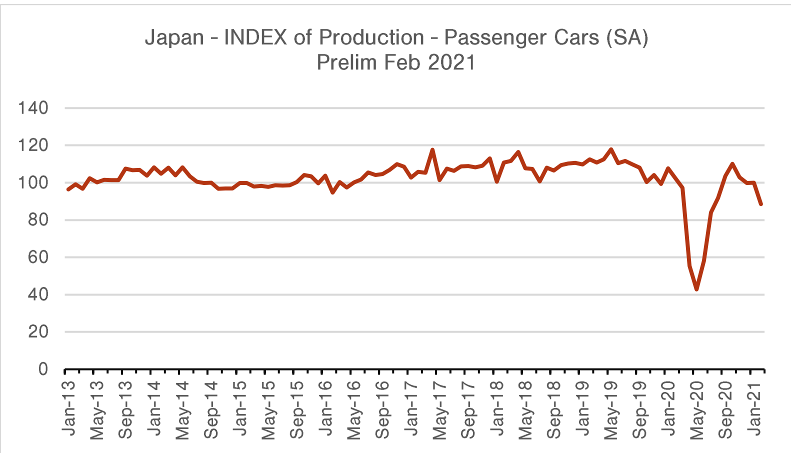
Production and shipment growth has stalled (roughly since Oct 2020) while the overall inventory of finished goods continues to decline. Shortages of inputs (e.g. semiconductors) may be impacting production levels. This is most evident in the production, shipment, and inventory levels of passenger cars in Japan – production and shipments are falling, but so is inventory. The production of equipment to make semi-conductors is one of the few areas where output is back on par with the series high from 2018.

Total Production – month change: Feb -2.1% versus Jan +4.3%

Production declined in Feb, only partially offsetting the increase in Jan.



Declines in production were experienced across many industries in Feb. The most notable was an -11.4% decline in passenger car production in Feb – this more than offset the +0.2% increase in Jan. Passenger car production peaked in this rebound cycle in Oct 2020.

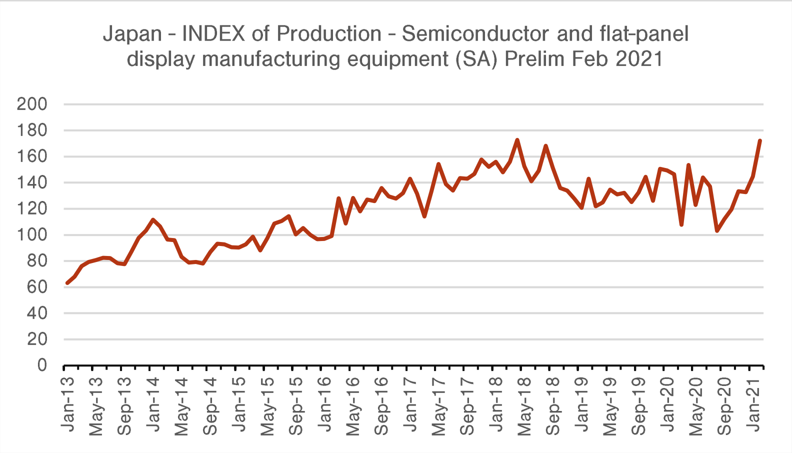


It has been noted that a severe shortage of semiconductors (among other inputs) has slowed the production of cars, phones, and computers. The semicon shortage/bottleneck is partly the result of a shift in demand resulting from the pandemic.

> Looking at it another way, an estimated 91% of the contract chipmaking business is housed within Asia, the lion's share of which is divided between just two regions: Taiwan and South Korea, home to TSMC and Samsung, respectively.

Read more here: https://www.bloomberg.com/graphics/2021-semiconductors-chips-shortage/

Growth in the manufacturing of production machinery remained strong this month. Output increased by +3.7% in Feb after increasing by +8% last month. One of the main segments in this industry is semiconductor and flat panel display manufacturing equipment – production increased by +19% in Feb after increasing by 9% in Jan. Production of this equipment in Feb 2021 is now almost back on par with the recent peak in Apr 2018.

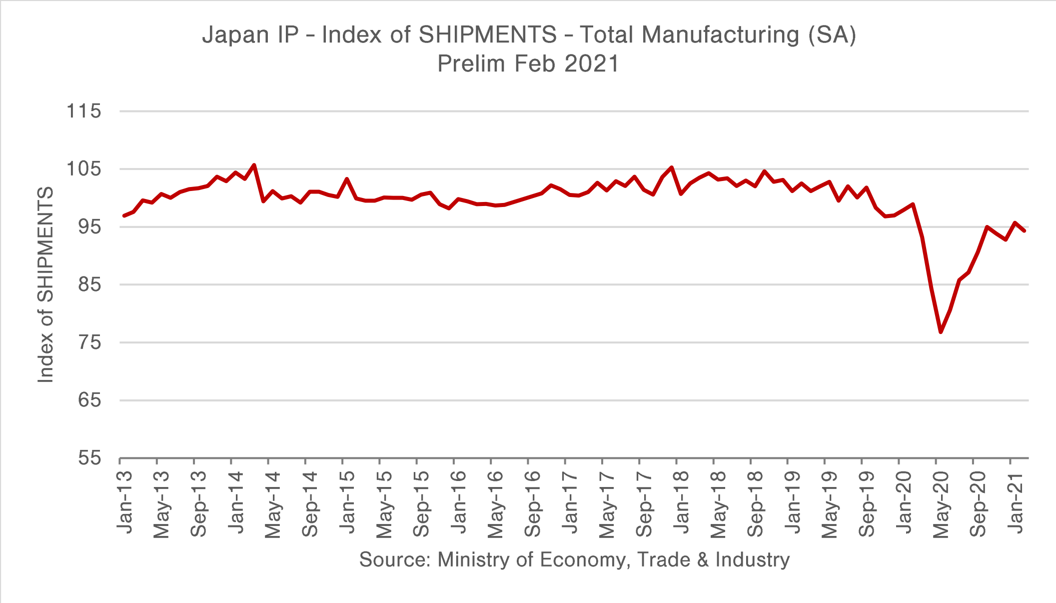


Production of electronic parts and devices also increased slightly this month by +0.2% versus the +10.3% increase in Jan. Production levels have now exceeded the recent peak in Jul 2018.

Overall industrial production is now -2.6% below the same month a year ago.

Shipments – month change: Feb -1.5% versus Jan +3.2%

The decline in shipments this month did not offset the increase from the month prior. But the trend since Oct 2020 indicates some moderation in the rebound.

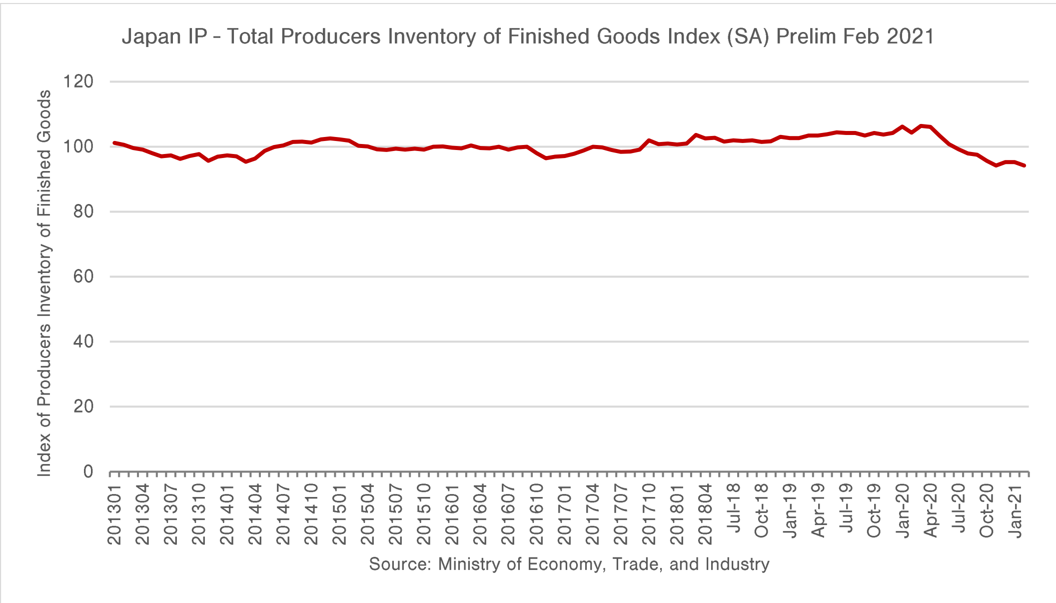


Notable declines in shipments this month: fabricated metals (-3.4%), electrical machinery (-3.4%), and transport equipment (-5.2%) – within which passenger car shipments declined by -9.1% in Feb after a +4% increase in Jan.

As expected, production machinery shipments increased by +3.3% - with shipments of semi-con and flat panel manufacturing equipment increasing by +18.8% in Feb. Iron, steel, and non-ferrous metals shipments also increased by +0.9% in Feb.

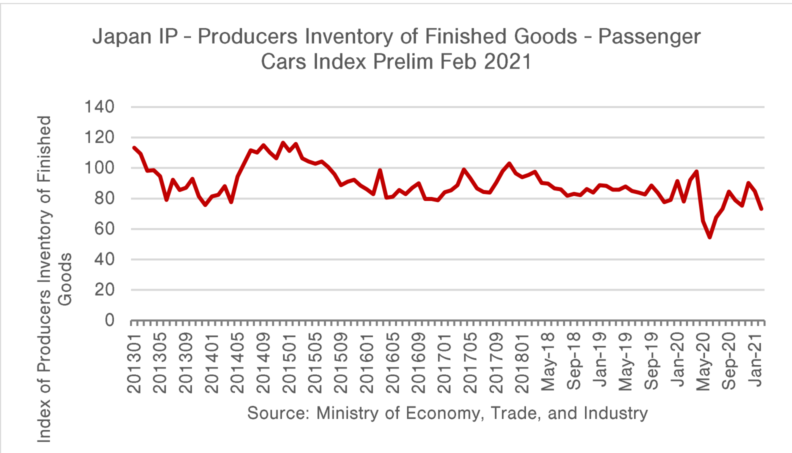
<u>Index of Producers Inventory of Finished Goods – month change</u>: Feb -1% versus Jan 0%.

The inventory of finished goods continued to decline this month. The inventory level is now 12.6% below the same month a year ago (NSA).

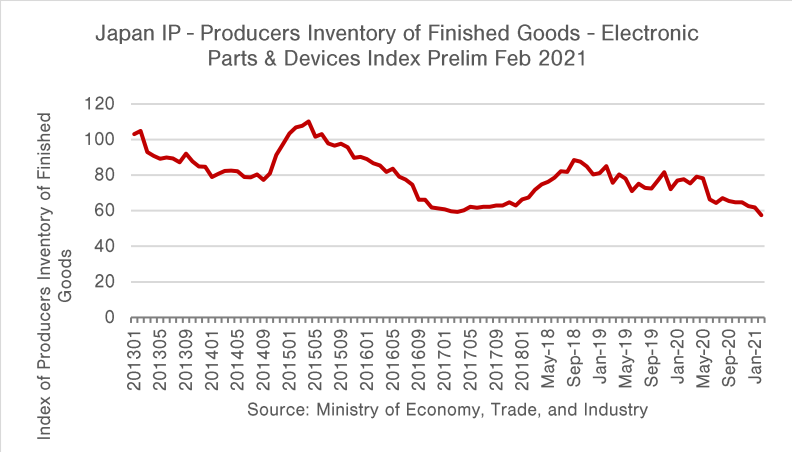


The largest weight item in the inventory index is iron, steel, and non-ferrous metals (which have a lower weighting in production and shipment indexes). Inventory of finished goods of iron, steel, and non-ferrous metals increased by +0.6% in Feb after a +4.2% increase in Jan. This comes after a period of declines in inventory between Mar 20 and Oct 20. The Oct 20 date for the shift to increasing iron and steel inventory is interesting as it is the same timing for when shipment growth overall started to stall.

Offsetting this increase in inventory was a decline in transport equipment finished goods inventory of -8.8%. Within that, passenger cars finished goods inventory declined by -13.5% in Feb after a -6% decline in Jan. The fall in the inventory of cars suggests that orders may be filled out of existing inventory rather than new production.



The index of finished goods inventory of electronic parts and devices fell to a new series low (since 2011). Inventory of finished goods of electronic parts and devices declined by -7.1% in Feb after decreasing by -1% in Jan. Both production and shipments increased by +0.2% In Feb (with bigger increases of +10% and +12% respectively in Jan) - suggesting that demand was partly filled out of existing inventory.



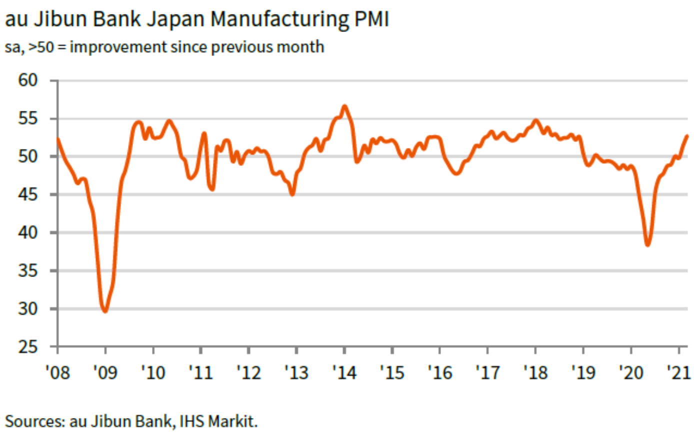
https://www.meti.go.jp/english/statistics/tyo/iip/index.html

Markit Manufacturing PMI Final (Mar)

The headline manufacturing PMI was revised higher in the final report for Mar. The manufacturing PMI was revised from 52 in the prelim report to 52.7 in the final version.

Output growth increased faster in Mar compared to Feb (see the Feb industrial production report). Orders also increased in Mar at a faster pace indicating some possible improvement in underlying demand.

> Supply chain disruption continued to build during March with average lead times lengthening to the most marked extent since May 2020. Delays in receiving shipments led Japanese manufacturers to increase purchasing activity for the first time since December 2018. At the same time firms continued to draw down existing stocks of pre- and post-production inventories to fulfil orders.



https://www.markiteconomics.com/Public/Home/PressRelease/9da32e047e1347c3bbe15f23ff1caa5d

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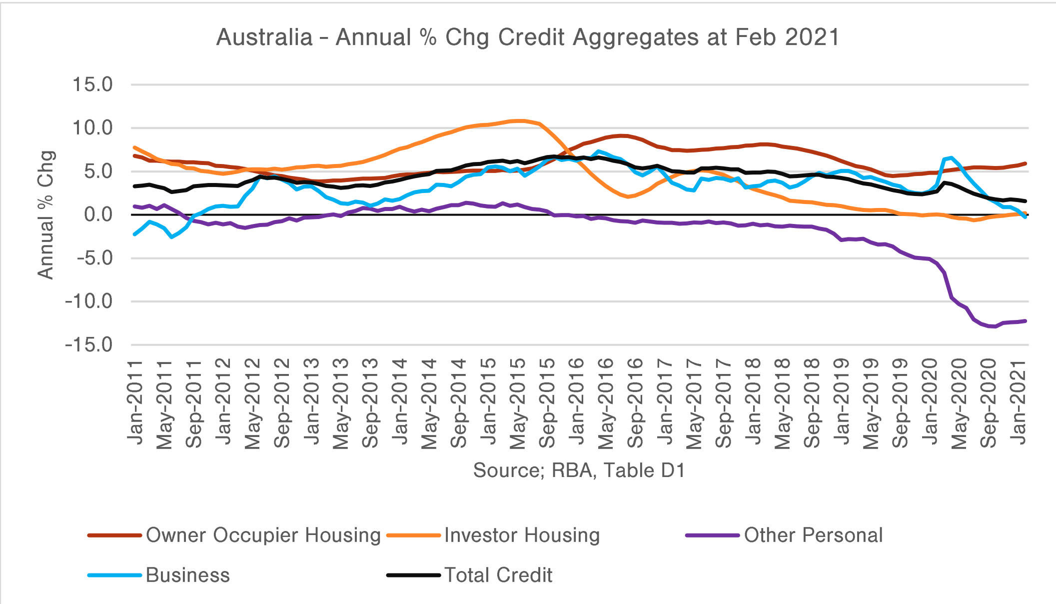
Australia

Private Sector Credit (Feb)

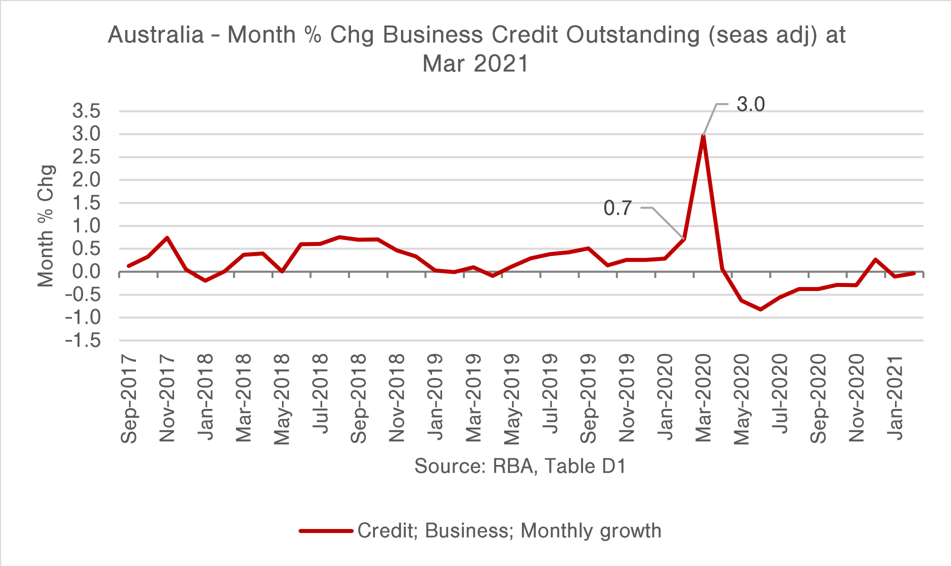
Annual growth in the total value of outstanding private sector credit continued to slow in Feb. The annual change in total business credit shifted to a slight decline this month and other personal remained well below a year ago. These declines were offset by continued acceleration in the growth of outstanding owner-occupier credit. Annual growth in investor housing credit remains low but positive.

<u>Private Sector Credit Outstanding – annual change</u>: Feb 1.57% versus Jan 1.72%

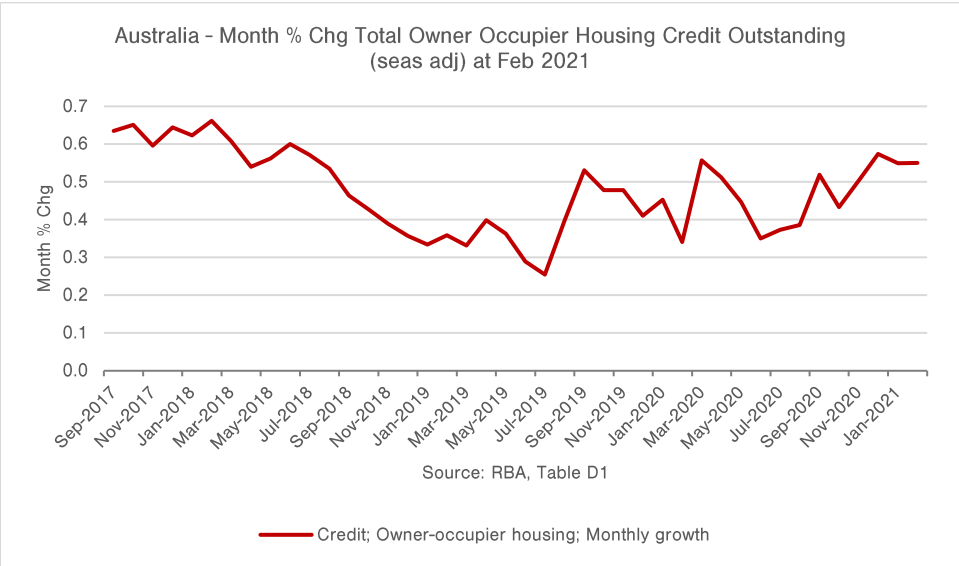


The value of outstanding business credit declined by -0.2% versus a year ago.

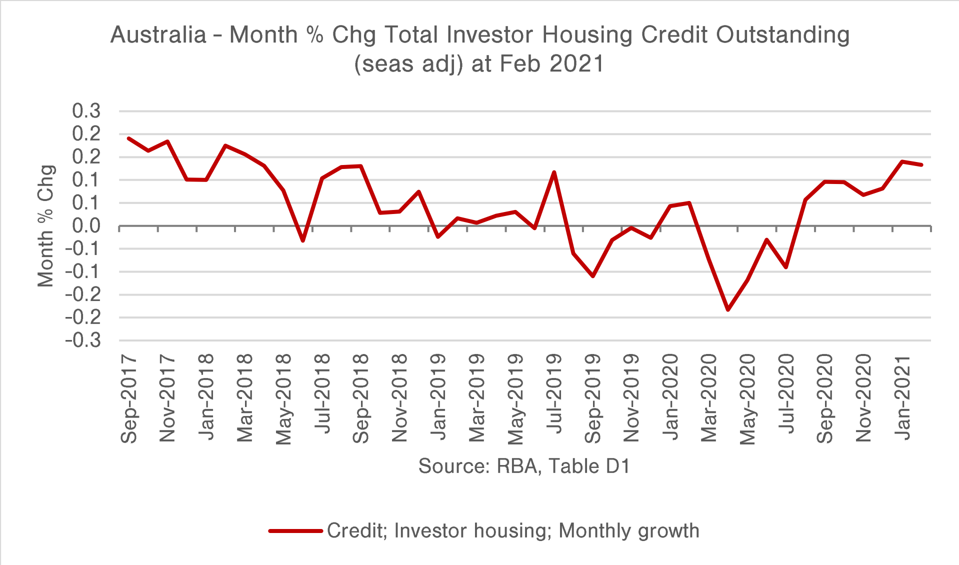
Note that this annual % decline will appear to be worse next month – as the base effect kicks in further. In Feb and Mar 2020, firms accessed lines of credit to support cashflow during the lockdowns:-



Owner-occupier housing credit outstanding increased by +5.9% in Feb versus a year ago. This was up from +5.7% in Jan. The monthly pace of growth has now stabilized to around +0.55% over the last three months (no further monthly acceleration since Dec).



The value of outstanding investor credit increased by +0.18% in Feb versus a year ago. Annual growth has been positive (just) for the last two months. There has been an ongoing (moderate) acceleration in investor credit over the last year. Investor lending has been lagging notably for the last eighteen months or so.



https://www.rba.gov.au/statistics/frequency/fin-agg/2021/fin-agg-0221.html

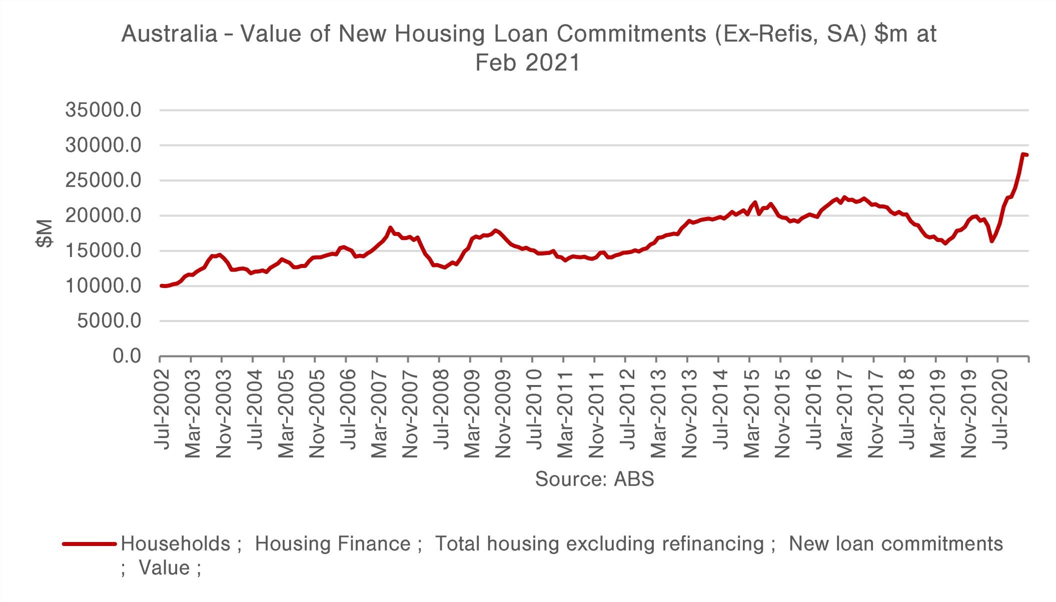
Housing Finance (Feb)

The total value of housing finance stalled at the all-time high level in Feb. The value of the total of new housing finance commitments fell by -0.4% in Feb compared to Jan. The biggest decline was for owner-occupier first home buyers (FHB's) which offset the increase in investor lending finance for the month.

Refinance data is excluded.

New Commitment Total Housing Finance – month change: Feb -0.4% (-$111m) versus Jan +10.5%

The value of new housing finance commitments reached a new series high in Jan. The value of commitments has stalled at this high level.



Investors

In the latest month, investor lending increased by +4.5% (+$297m) after increasing by +9.4% in Jan. Most of this value growth was recorded in Vic (+13% on the prior month – data is NSA at the state level).

First Home Buyers

FHB lending declined by -4% (-$288m) after increasing by +10% in Jan. The largest declines were recorded in Vic (-7%) and NSW (-2%).

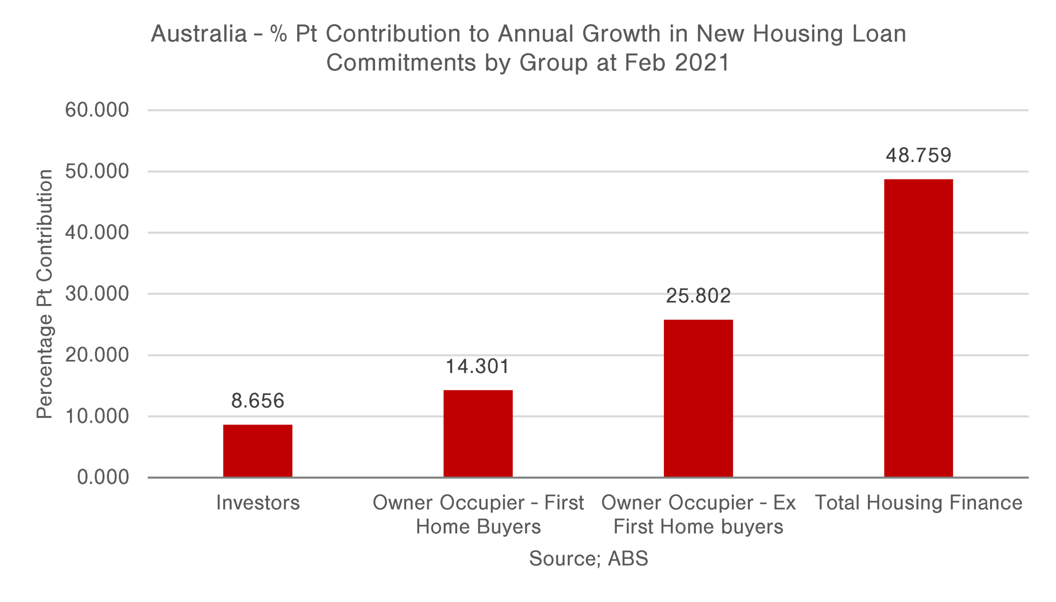
Owner Occupiers

Lending to owner-occupier's ex FHB's decreased by -0.8% (-$120m) after increasing by +11.3% in Jan. Declines were recorded in NSW (-5%), Qld (-3%), and the ACT (-22%).

New Commitment Total Housing Finance – annual change: Feb +49% versus Jan +44%

This enormous pace of growth in housing finance has so far, not been aided by favorable base effects.

All of the main segments have contributed to the growth in housing finance over the last year. The one group that has lagged has been investors. FHB's have made a larger contribution to growth than investors. But owner-occupiers excluding FHB's have accounted for just over half of the growth in housing finance in the last year.



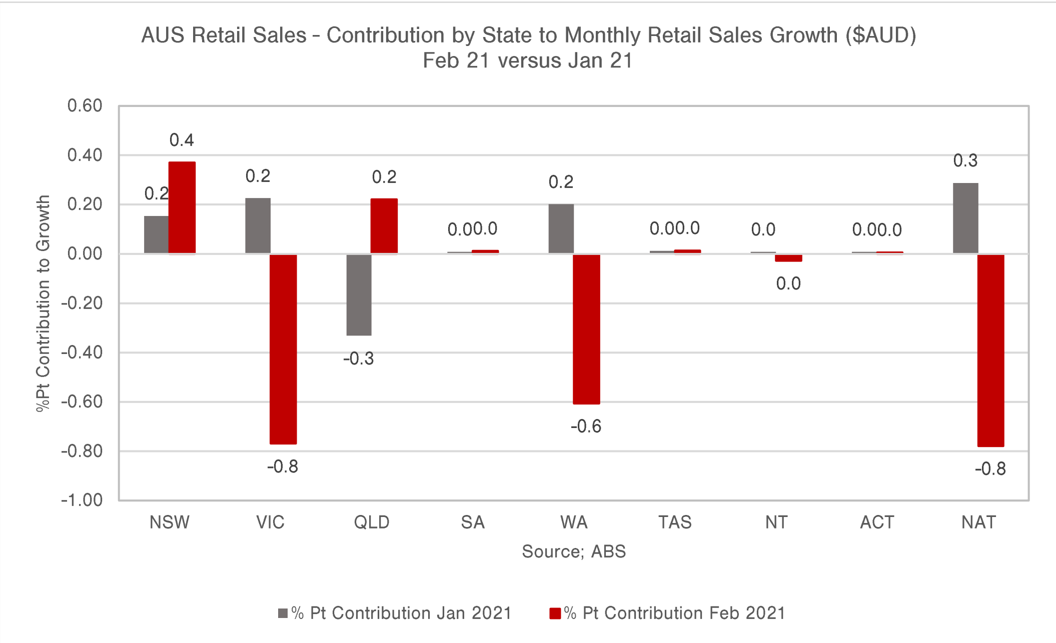
https://www.abs.gov.au/statistics/economy/finance/lending-indicators/feb-2021

Australia Retail Sales (Feb)

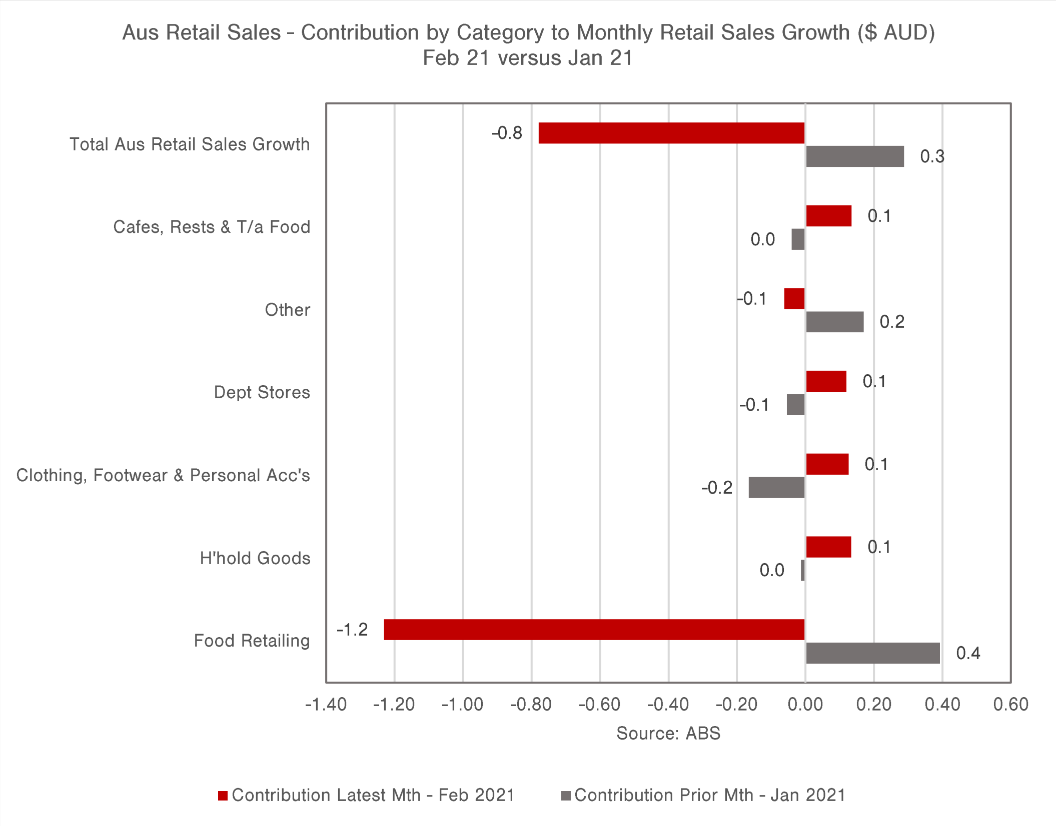
The value of retail sales declined in Feb – mostly the result of a decline in Vic due to the five (5) day shutdown in mid-Feb.

Retail Sales ($) – month change: Feb -0.8% versus Jan +0.3%

On a state basis, most of the decline can be attributed to the fall in sales in Vic (-3%). There was also a similar short shutdown in WA which resulted in a 5% decline in retail sales.

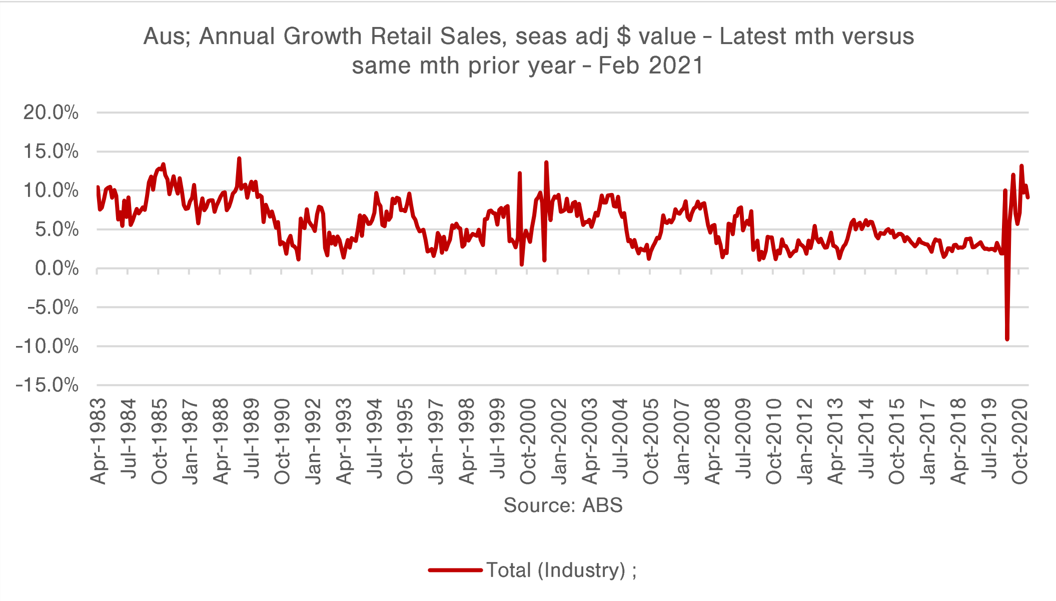


On a category basis, sales were notably weaker in food retailing in Feb (grocery). Food retailing declined by -3% in Feb – but sales remain +7% ahead of a year ago.



<u>Retail Sales ($) – annual change</u>: Feb +9.1% versus Jan +10.6%

Retail sales growth remains extremely elevated.



Growth has been the result of a substantial shift in consumption patterns – from on-the-go to at-home focused consumption. At-home focused categories such as food retailing and household goods have made the largest contribution to annual growth.

	Food Retailing	H'hold Goods	Clothing, Footwear & Personal Acc's	Dept Stores	Other	Cafes, Rests & T/a Food	Total Aus Retail Sales Growth
% Pt Contribution to Ann Retail Growth	2.82	3.27	1.03	0.32	2.02	-0.32	9.14

There has been some rebound in sales among some on-the-go industries – sales within cafes, restaurants, and takeaway are now only -2.2% below a year ago.

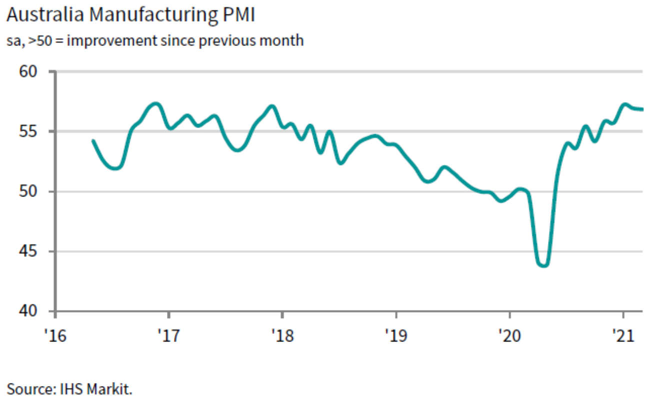
https://www.abs.gov.au/statistics/industry/retail-and-wholesale-trade/retail-trade-australia/feb-2021

Markit Manufacturing PMI Final (Mar)

The final manufacturing PMI for Australia was revised slightly lower to 56.8 in Mar from last week's prelim reading of 57.

Growth in orders and production remain lower than in Jan. Firms continue to note significant supply chain disruptions – and order backlogs increased as a result.

> "Both global trade should improve in coming months as lockdowns become increasingly less severe in many overseas markets, which should help not only boost exports but also alleviate the supply constraints. This will in turn help reduce some of the inflationary pressures we are seeing at the moment."



https://www.markiteconomics.com/Public/Home/PressRelease/ef554e8beb43463e87b112cea9ae78e6

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