MARS CAPITAL PARTNERS

Weekly Macro Review

w/c 11 October 2021

Key Themes – Inflation, rates, and the Fed taper

There was much to digest last week - persistent and a broader base of inflation, the FOMC minutes, and rising yields/flattening curve. Data are still noisy in the context of supply issues.

Last week US CPI data came in slightly faster than expected. The acceleration in food prices, shelter, the continued high growth in energy prices accounted for the most acceleration. The monthly pace of CPI growth also accelerated slightly. Evidence suggests that a broader base of product groups have contributed to faster inflation.

US PPI came in less than expected but growth accelerated from the prior month. Energy and food price growth accelerated.

The FOMC minutes suggest broad agreement that inflation or the price-stability goal, had reached the standard of "substantial further progress" for a taper. There was a longer discussion on the progress of the labour market – but noting that labour supply, rather than demand, was a key issue. Emphasis added;

> They noted that adding monetary policy accommodation at this time would not address such constraints **or that the costs of continuing asset purchases might be beginning to exceed their benefits**.

The FOMC notes that this current wave of inflation will likely be 'transitory' once these supply chain bottlenecks are 'worked out'. The FOMC sees current long-term inflation expectations as "remaining broadly consistent with the Committee's longer-run inflation goal, or that the distribution across households of longer-term expected inflation had remained stable over the past two years".

The NY empire state survey was the first view of US regional manufacturing activity for Oct. Data is still noisy. Delivery times increased to another series high as demand growth slowed somewhat. Just on 80% of firms recorded higher input prices in Oct – up from 76% of firms in Sep. These are historically elevated numbers and this indicates that price and delivery pressures have not yet eased.

US retail sales surprised to the upside. This was led by a better-than-expected result on Auto sales. With monthly CPI growth at 0.4%, real retail sales growth was more around +0.3%.

US consumer sentiment fell again and remains close to the lows of the pandemic. Consumer confidence in the government's economic policies has fallen over the last six months.

Japanese industrial production fell again. In China, there were stronger pockets of industrial PPI but only moderate consumer inflation.

Contents

US Data

CPI (Sep)

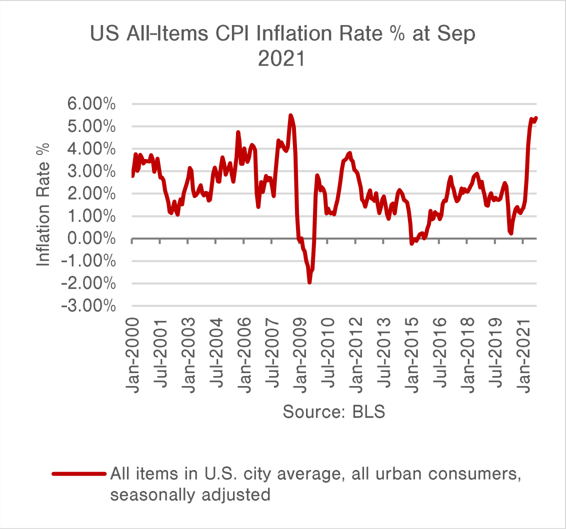
Summary: The CPI this month continued to increase at a faster pace of annual growth. The monthly pace was slightly faster.

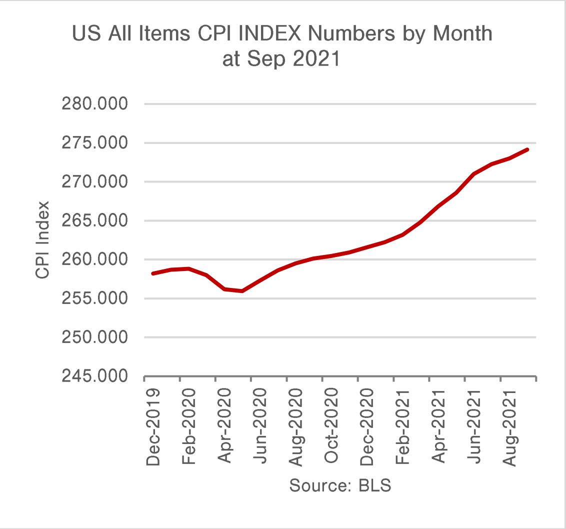
Food was the single largest contributor to the acceleration in CPI this month. Energy price growth remained unchanged at a high level. The remaining 'core' CPI categories made a small contribution to headline CPI acceleration. Slower growth in core commodities (apparel and used cars) was more than offset by faster growth in core services (mostly shelter)

Two different ways of looking at this suggest that the product base of inflation has been broadening. CPI ex food, energy, used cars/trucks, and shelter (shelter has an offsetting impact) – indicates that while the growth in prices has not been as fast in the remaining categories, the growth rate has still been accelerating. The unweighted median inflation rate also suggests a similar conclusion.

Headline CPI – Annual Change: Sep 5.4% (exp 5.3%) versus Aug 5.2%

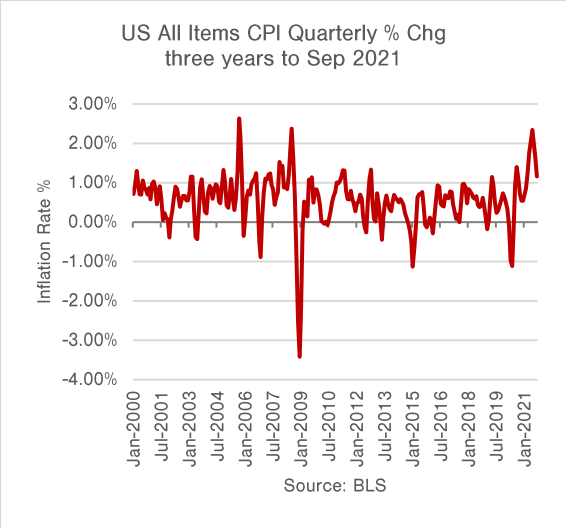
The annual acceleration this month was a combination of slower growth in the base month and faster growth in the latest Sep month.





The quarterly headline CPI growth has been slowing over the last three months and is now at 1.2% in Sep compared to 1.7% in Aug.

Monthly headline CPI growth increased slightly to +0.4% in Sep from +0.3% in Aug.



Faster growth in food prices was the single largest contributor to the acceleration in CPI this month.

Food at home prices in the month accelerated from 0.4% in Aug to 1.2% in Sep. The annual growth accelerated from 3.7% in Aug to 4.6% in Sep. Most food-at-home categories contributed to the acceleration.

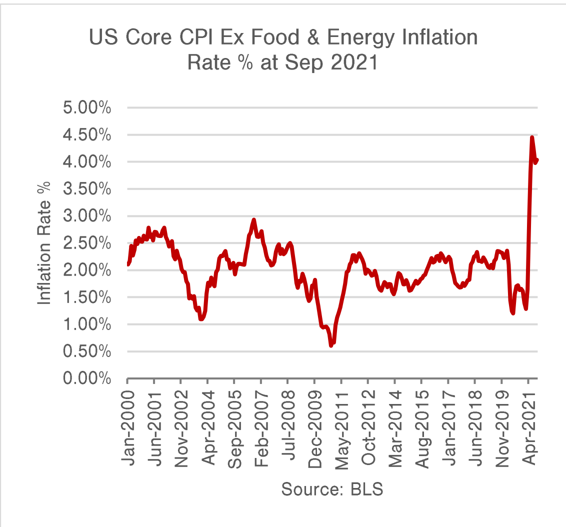
Energy price growth remained elevated but did not contribute to the acceleration. Annual growth in prices remained at +24.8%. The mth change dropped back to +1.3%.

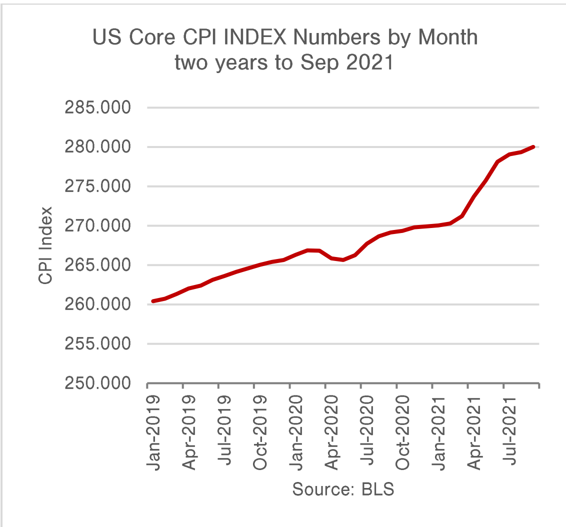
Core CPI – all items less food & energy made a smaller contribution to the acceleration in CPI growth this month.

Core CPI – Ex Food & Energy – Annual Chg: Sep +4% (exp 4%) versus Aug 4%

We look at core CPI to determine the degree to which usually more volatile items contribute to the headline growth. Core CPI growth in this case is lower than the headline growth but still growing quickly.

The index below (RH chart) highlights the degree to which the pace of growth has slowed since around mid-2021.



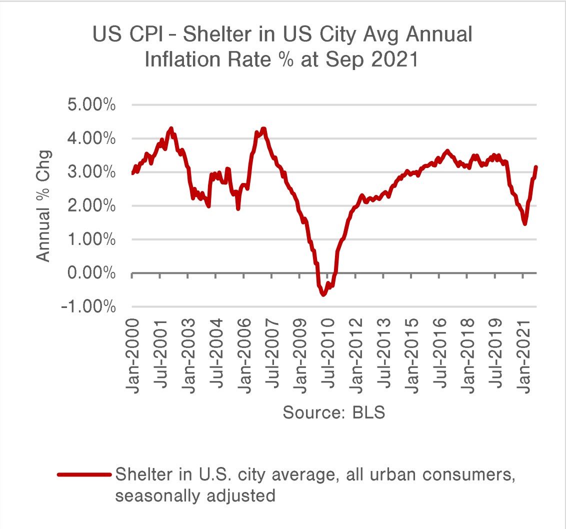


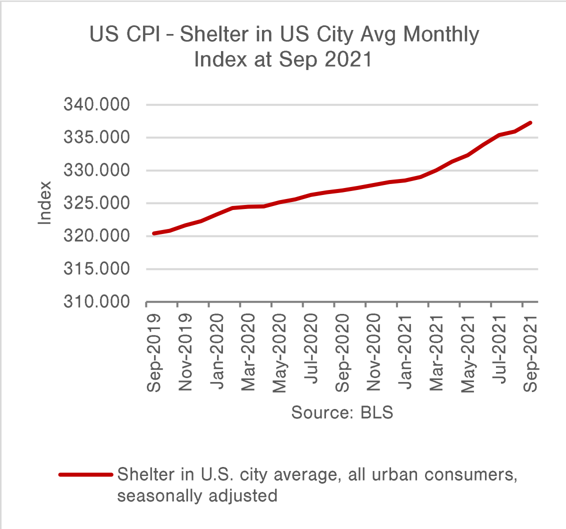
Slower growth in core commodities (apparel and **mostly used cars**) was more than offset by an acceleration in core services prices from 2.7% in Aug to +2.9% in Sep. This acceleration in core services prices was mostly due to an acceleration in shelter price growth.

CPI - Shelter

It's worth noting that price growth of the single largest weight category – shelter – remains more subdued than most other CPI groups. During the course of the pandemic slower shelter growth has likely offset some of the faster growth in other parts of the CPI.

The annual growth in shelter prices is continuing to rebound (now at 3.2%), but remains below the pre-pandemic levels of growth.





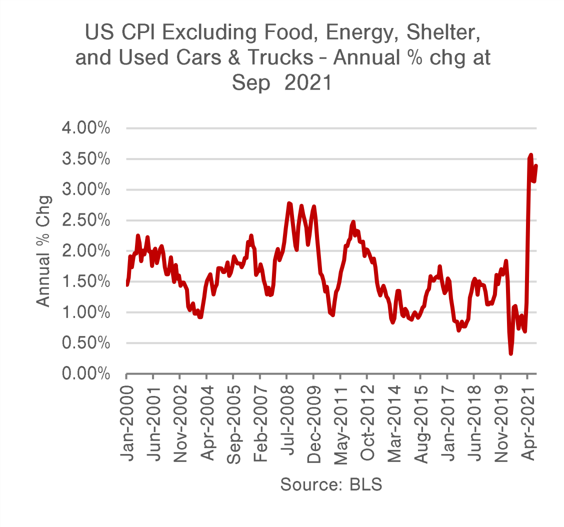
CPI Ex-Food, Energy, Shelter and Used Cars & Trucks

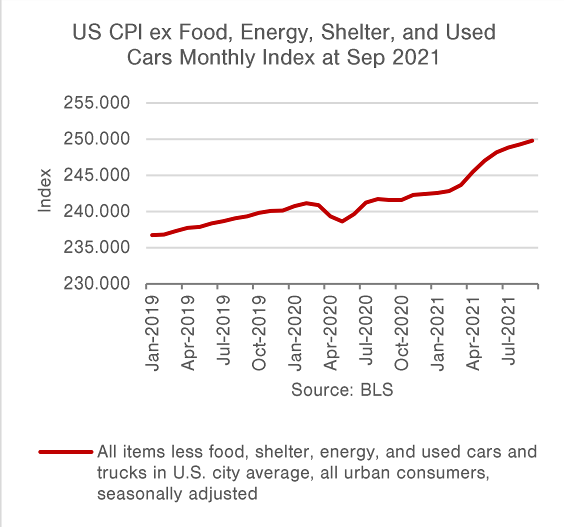
The unique feature of the pandemic has resulted in larger moves across food, energy, shelter, and used cars/trucks (especially). These categories have been contributing some noise in the data with out-sized price growth (both +/-). By removing these items, we can gauge the price growth behaviour of the remaining items – are remaining prices accelerating, or decelerating? While growth in prices of the remaining categories is more 'moderate' than the headline, growth has accelerated since the start of 2021, and it is remains elevated.

This suggests that inflation has not just been driven by larger moves in the few notable categories.

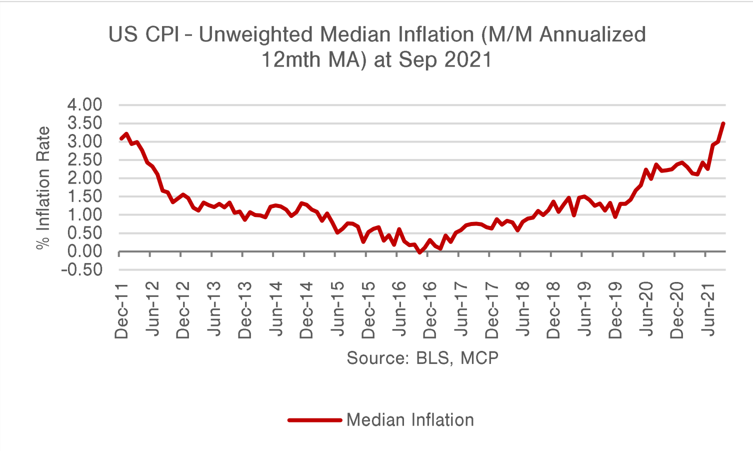
All items less food, shelter, energy, and used cars and trucks – annual change: Sep +3.4% versus Aug 3.1%

The monthly % chg has moderated over the last three months, but growth remains elevated.





Further to this, we have calculated the unweighted median inflation (covering approx. 174 CPI product categories) to also try and gauge how broad the inflation impact has been so far. The median inflation rate has been rising since the start of the pandemic, and more notably since Apr 2021. This also suggests a broader base of product groups have contributed to inflation.



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

PPI (Sep)

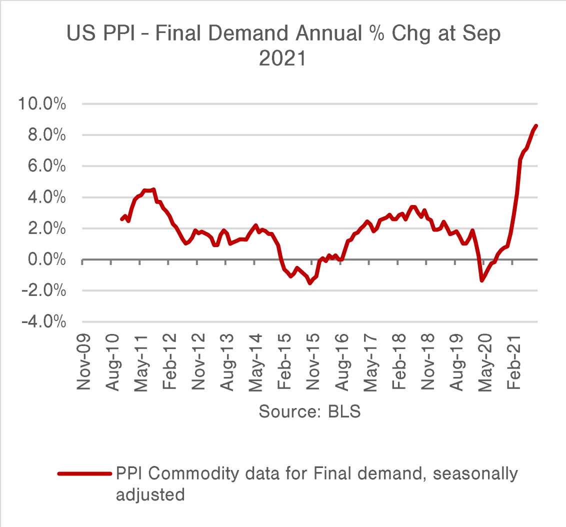
Summary: Inflationary pressures are also present in the PPI this month. While price growth did not accelerate as much as expected, growth still accelerated. This was led by faster growth in final demand goods while growth in final demand services prices remained at a near-term high.

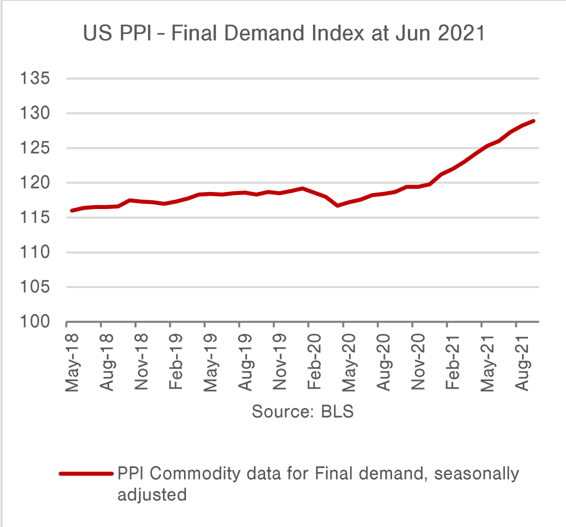
The PPI measures the average change in prices received by US domestic producers for their output. The target set of goods and services included in the PPI is the entire marketed output of U.S. producers. The set includes both goods and services purchased by other producers as inputs to their operations or as capital investment, **as well as goods and services purchased by consumers either directly from the producer or indirectly through a retailer**.

Since the PPI target is U.S. production, imports are excluded.
https://www.bls.gov/ppi/ppivcpi.pdf

Headline PPI Final Demand – Annual Change: Sep +8.6% (exp 8.7%) versus Aug 8.3%

The rate of growth accelerated despite a higher base – driven by faster growth in the numerator.





Annual growth was higher across both final demand goods and final demand services. Both have continued to accelerate.

GOODS

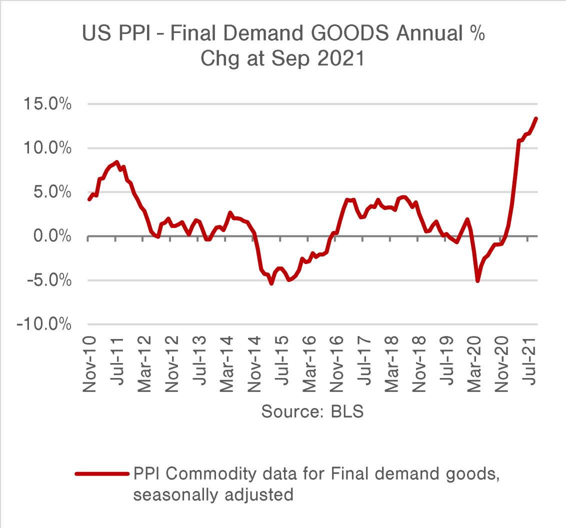
Final demand goods prices increased by 13.3% in Sep.

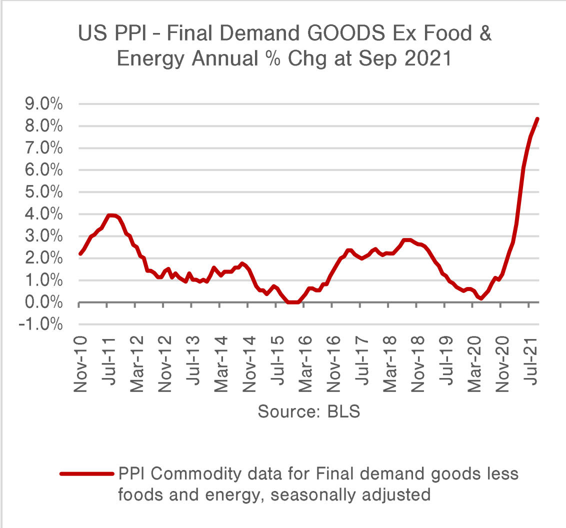
> The final demand goods index measures price change for both unprocessed and processed goods sold to final demand. Fresh fruit sold to consumers and computers sold as capital investment are examples of transactions included in the final demand goods price index.

Excluding food and energy, growth in PPI final demand goods prices increased by 8.3% in Sep – indicating that while growth is lower in the remaining categories, faster growth in prices has been experienced across remaining goods categories.

The monthly growth in final demand goods prices also accelerated from 1% in Aug to 1.3% in Sep:

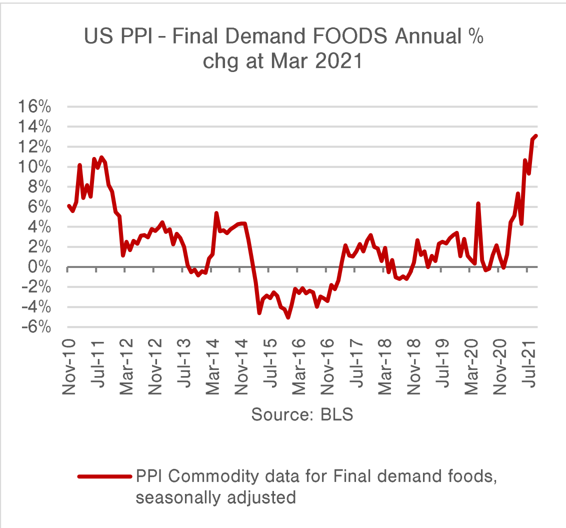
> Leading the advance in the index for final demand goods, prices for gasoline rose 3.9 percent. The indexes for beef and veal, residential electric power, fresh and dry vegetables, gas fuels, and primary basic organic chemicals also moved higher. In contrast, prices for plastic resins and materials decreased 3.9 percent. The indexes for corn and for residual fuels also fell.

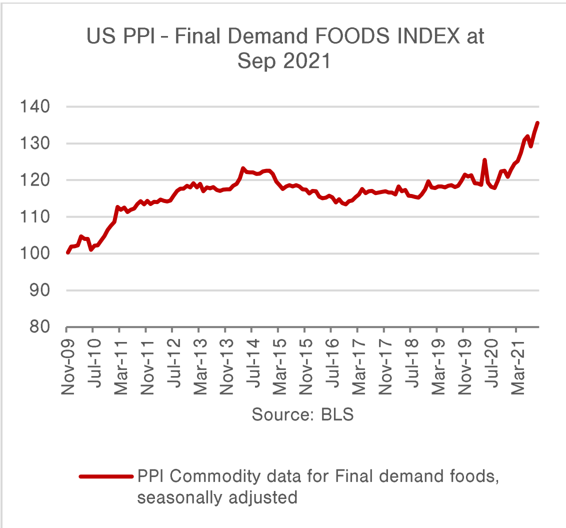




Final demand energy prices increased at annual rate of 36% in Sep (up from 32% in Aug). The monthly rate of growth also increased at a faster pace of 5.9% in Sep up from 5.3% in Aug.

Final demand food prices are now growing at 13% p/a as of Sep, up from 12.7% in Aug. The monthly rate is also accelerating +2.7% in Sep up from 1.5% in Aug (data is seas adjusted). This high pace of growth is not due to a lower base effect.



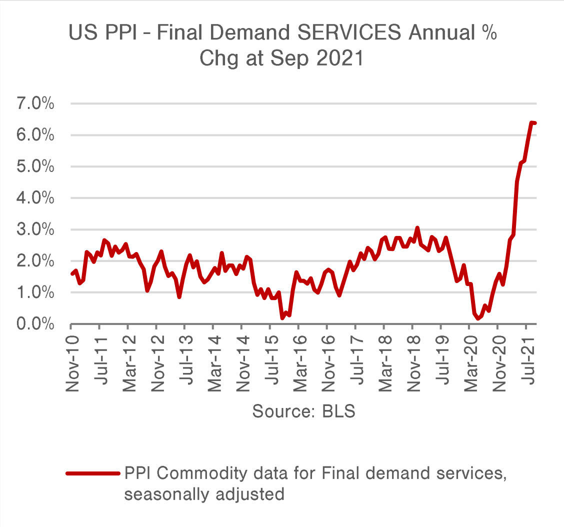


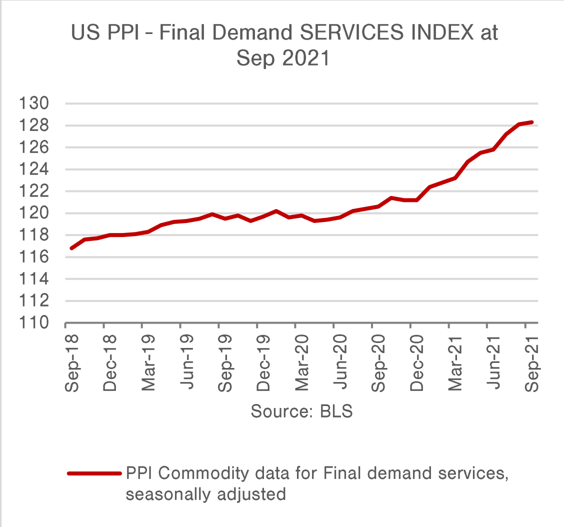
SERVICES

Final demand services prices have also been accelerating but remained at +6.4% in Sep.

The quarterly rate of increase has remained around 2%, with monthly fluctuations.

> Prices for final demand services moved up 0.2 percent in September, the ninth consecutive advance. Leading the increase in September, the index for final demand trade services rose 0.9 percent. (Trade indexes measure changes in margins received by wholesalers and retailers.) Prices for final demand services less trade, transportation, and warehousing advanced 0.2 percent. Conversely, the index for final demand transportation and warehousing services fell 4.0 percent.





<u>The final demand trade services index measures changes in margins</u> received for the retailing and wholesaling of merchandise sold to final demand, generally without transformation. (Trade indexes measure changes in margins received by wholesalers and retailers.) The final demand transportation and warehousing services index tracks price change for transportation of passengers, as well as, transportation of cargo sold to final demand, and also includes prices for warehousing and storage of goods sold to final demand. The final demand services less trade, transportation, and warehousing index measures price change for all services other than trade and transportation sold to final demand.

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

Retail Sales (Sep)

<u>Summary:</u> There was an upside surprise in the value of retail sales growth this month. This was led by a better-than-expected result on Auto sales – which increased slightly. Most categories recorded an increase in sales compared to the prior month. The single largest contributor to growth in retail sales was from general merchandise stores. Health and personal care categories and electronics stores recorded a m/m decline.

Analysing retail sales should consider the now broader inflationary environment. The monthly CPI growth for Sep was +0.4%. Adjusting for inflation, the growth in retail sales in real terms was about +0.3% in Sep. This is right on the average monthly growth recorded in retail sales in the five years to Dec 2019 (comparing to a 'normal' retail trading environment).

The retail data remains noisy – with both price impacts and stock issues still likely distorting the signal.

<u>Advance Retail Sales $ val – month chg</u>: Sep +0.7% (+$4.5bn) (exp -0.2%) versus Aug +0.9% (+$5.6bn)

The top two categories contributing to growth this month were general merchandise (+$1.4bn) and gasoline stations +1.8% or +$0.9bn. Gasoline CPI for the month of Sep was +1.2% - which suggest growth in real sales.

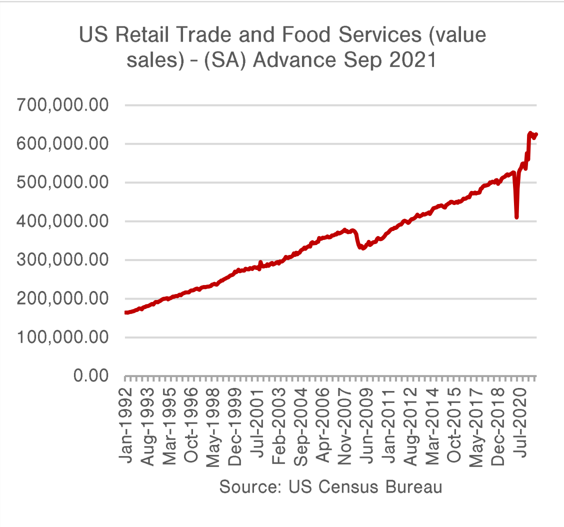
Motor vehicle sales were expected to decline this month but instead increased by +0.5% or +$0.7bn. New vehicle CPI growth just for the month of Sep was +1.3% which suggests that price growth is helping to offset the fall in unit sales. The BEA Auto sales data recorded a fall of 6% in unit sales for Sep (new cars & trucks).

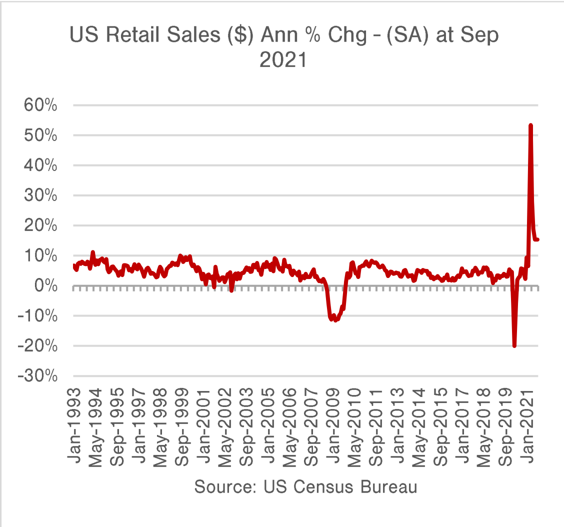
Food and beverage stores (grocery) is the other large retail category. Sales increased by +0.7% in Sep (+$0.5bn) after a larger increase of +2.2% in Aug. Food at home inflation just for the month of Sep had accelerated to +1.2% - this suggests that real sales declined this month.

Growth remained modest for sales of Food services and drinking places. Sales increased by +0.3% in Sep or +$0.2bn. The closet CPI measure is 'food away from home' which increased by +0.5% in Sep.

Advance retail sales $ value – annual chg; Sep +15.4% versus Aug +15.3%

The value of total retail sales remains just slightly below the peak reached in Apr 2021. The annual trend of growth is noisy – with impacts from stimulus and likely still availability issues.





https://www.census.gov/retail/index.html

University of Michigan Consumer Sentiment (prelim) (Oct)

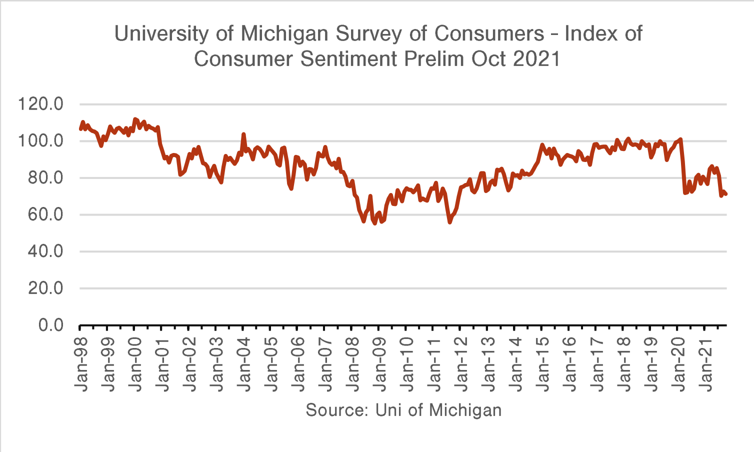
Summary: This was another downside surprise for the prelim sentiment reading this month. The headline measure of consumer sentiment remains depressed. The prelim Oct reading is below the low recorded in Apr 2020 when the economy was shut down. The lowest point for sentiment was recorded recently in Aug 2021.

The weaker sentiment indicators were accompanied by a decline in confidence around economic policies – recorded across Democrats, Independents, and Republicans:

> When asked about their confidence in economic policies, favorable evaluations fell to 19% in early October from Biden's honeymoon high of 31% in April, while unfavorable policy evaluations rose to 48% in early October from 32% in April.

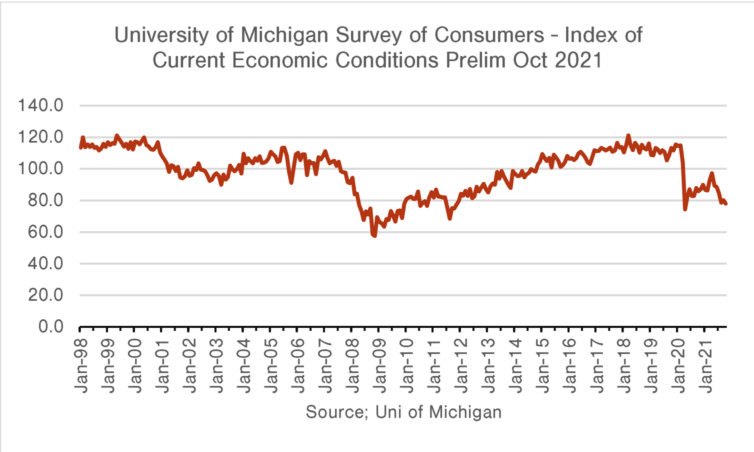
Headline Consumer Sentiment – Index: Oct prelim 71.4 (exp 73.8) versus Sep 72.8

The Oct result is the second lowest of the pandemic – still above the low point of 70.3 in Aug 2021 but below the 71.8 level recorded at the onset of the shutdown of the economy.



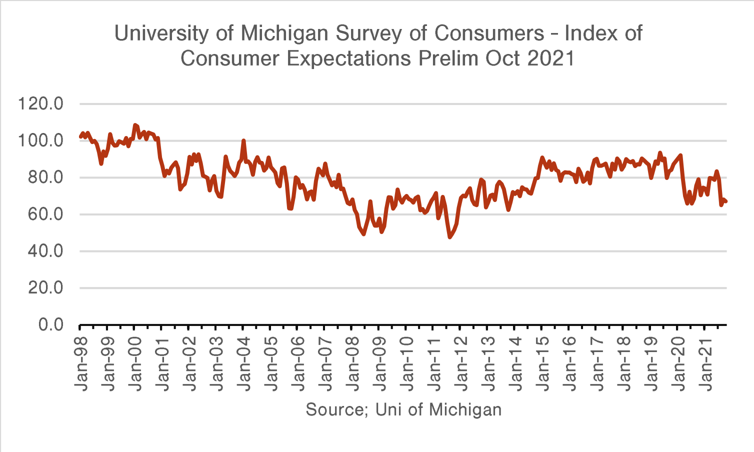
<u>Sentiment of Current Conditions – Index:</u> Oct prelim 77.9 versus Sep 80.1

This was also lower than the sharp fall recorded in Aug 2021 – but remains above the low point of the pandemic recorded in Apr 2020.



<u>Sentiment of Expected Conditions – Index:</u> Oct prelim 67.2 versus Sep 68.1

The sentiment around expected conditions reached a new low in Aug 2021 and the current level is still above that level.

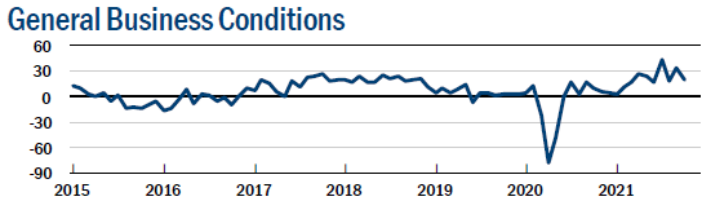


http://www.sca.isr.umich.edu/

NY Empire State Manufacturing Index (Oct)

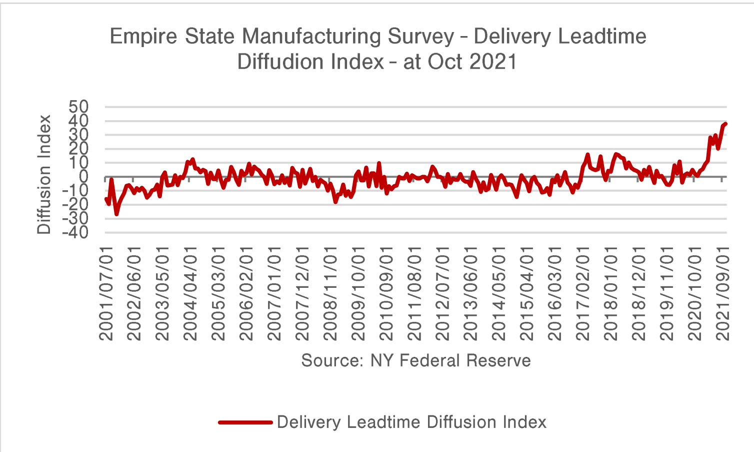
Summary: This was another noisy result with the headline business conditions index lower this month (a 'slower' pace of expansion).

Headline General Business Conditions Index: Oct 19.8 versus Sep 34.3



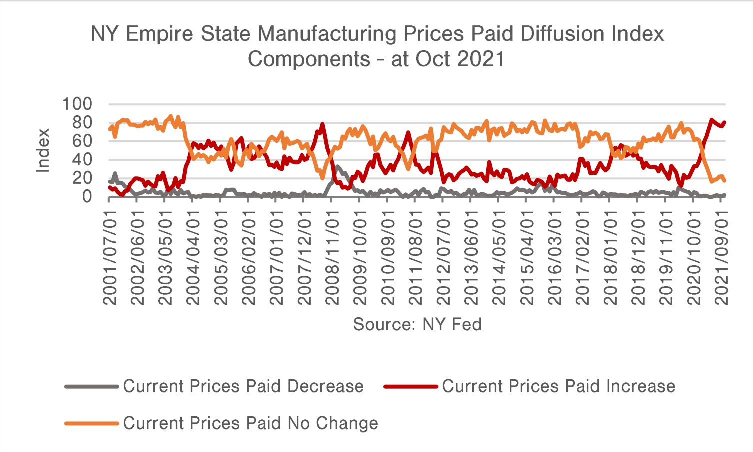
	Percent Reporting		
	Higher	Lower	Index
Sep	45.9	11.6	34.3
Oct	39.4	19.5	19.8
Change			-14.5

New orders and shipment growth slowed this month while unfilled order growth was little changed. Delivery lead times reached another new series high also with a series high 44% of firms reporting longer delivery times:



Both prices paid and prices received indexes have remained near recent highs – indicating ongoing price increases. This month, approx. 80.6% of firms recorded higher input prices compared to the prior month. In Sep, it was 76% of firms that reported higher prices compared to the prior month. This suggests that price increases have been experienced across the majority of firms in the survey *each month*. We don't know the degree to which prices are increasing though.

What is 'normal' for price increases? There is usually a majority of firms recording 'no change' in prices from the month prior. The chart below highlights the how the results have shifted since May 2020 suggesting far more widespread and consistent experience of higher input prices;



The employment index was slightly lower indicating a slower pace of growth. The average workweek index was also lower from the recent high.

https://www.newyorkfed.org/survey/empire/empiresurvey_overview#tabs-1

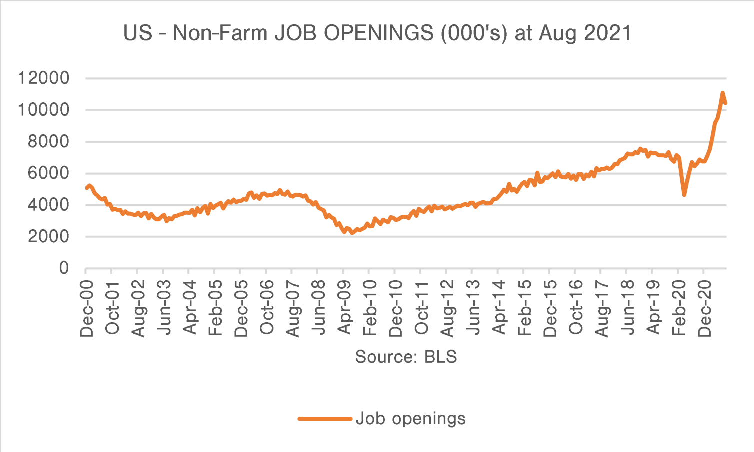
JOLTS (Aug)

Summary: Job openings (and the job opening rate) remain near all-time highs. Hires have slowed, and the rate of hires is at the 12-mth average. The level and rate of quits reached an all-time high this month – and was the reason behind the increase in total separations.

Job Openings – Mth: Aug 10.439m versus Jul 11.098m (revised higher)

The Jul level and rate (7%) of job openings were an all-time high and the Aug number and rate remain close to that level. The decline in accommodation and food services openings comes after reaching an all-time high in Jul.

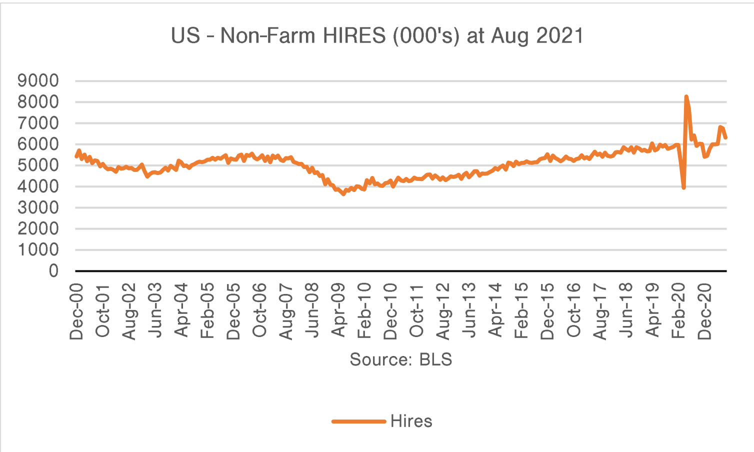
> Job openings decreased in several industries with the largest decreases in health care and social assistance (-224,000); accommodation and food services (-178,000); and state and local government education (-124,000). Job openings increased in federal government (+22,000). The number of job openings decreased in the Northeast and Midwest regions.



New Hires – Mth: Aug 6.322m versus Jul 6.761m

The rate of new hires eased back down to 4.3% which is just in line with the 12-mth average. The pace of hires has been slowing since Jun. The composition of the main falls in new hiring reflects the Sep non-farm payrolls result:

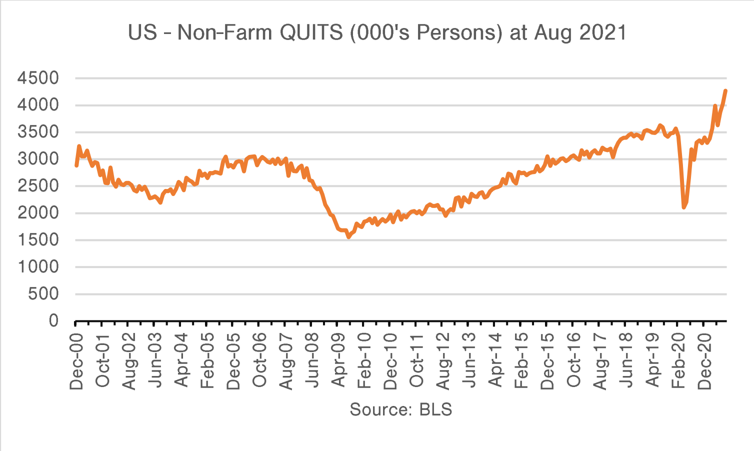
> In August, the number and rate of hires decreased to 6.3 million (-439,000) and 4.3 percent, respectively. Hires decreased in accommodation and food services (-240,000) and in state and local government education (-160,000). The number of hires decreased in the Midwest region.



Separations – Mth: Aug 6m versus Jul 5.792m

The lift in total separations this month was led by an increase in quits. The number and rate of quits reached a new series high this month. Layoffs and discharges (non-voluntary separations) declined by 6% this month.

> The number of quits increased in August to 4.3 million (+242,000). The quits rate increased to a series high of 2.9 percent. Quits increased in accommodation and food services (+157,000); wholesale trade (+26,000); and state and local government education (+25,000). Quits decreased in real estate and rental and leasing (-23,000). The number of quits increased in the South and Midwest regions.



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

Mortgage Applications wk ending 8 Oct

Mortgage applications increased slightly in the latest week, led higher by purchases.

Market Composite Index – wk chg at 8 Oct: +0.2% versus the week prior

This was the result of a fall in refi's of -1% while the purchase index increased by 2% versus the week prior.

> "Mortgage rates reached their highest level since June 2021, but application activity changed little this week. An increase in home purchase applications offset a slight decline in refinances," said Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting. "The increase in purchase applications was welcome news, but was primarily driven by a 2 percent gain in conventional purchase applications, which kept the average loan size elevated."

https://www.mba.org/2021-press-releases/october/mortgage-applications-increase-in-latest-mba-weekly-survey

Initial Jobless Claims (wk ending 8 Oct), Continuing Unemployment Claims (wk ending 1 Oct)

There was a further decline in initial claims in the latest week ending 8 Oct to 293k (exp 326k claims) versus 329k the week prior.

This is the lowest level of initial claims since w/c 14 Mar 2020.

Continuing claims were also lower for latest week ending 25 Sep 2021 to 3.6m people over a 500k decline from the prior week. Most of this decline is the ending of the federal pandemic programs.

The regular state continuing claims for wk ending 25 Sep were somewhat lower at 2.39m people (-65k from the prior week).

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

WEEK ENDING	September 25	September 18	Change	Prior Year[1]
Regular State	2,397,343	2,463,171	-65,828	10,098,580
Federal Employees	8,479	8,365	+114	12,096
Newly Discharged Veterans	5,573	5,571	+2	13,775
Pandemic Unemployment Assistance[3]	549,103	647,690	-98,587	11,085,876
Pandemic Emergency UC[4]	440,435	630,814	-190,379	3,114,133
Extended Benefits[5]	222,613	390,656	-168,043	379,212
State Additional Benefits[6]	2,036	1,941	+95	2,386
STC / Workshare [7]	23,431	24,231	-800	196,528
TOTAL[8]	3,649,013	4,172,439	-523,426	24,902,586

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

FOMC Minutes from 21-22 Sep Meeting

The minutes suggest broad agreement that inflation or the price-stability goal, had reached the standard of "substantial further progress" (or was likely to be met soon).

There was a larger discussion on progress of the labour market towards full employment. "Cumulative" progress had been made across a number of indicators (the employment-to-population ratio, the unemployment rate, claims for unemployment insurance, job openings, nominal wage growth, and increases in payrolls, as well as in summary measures of the labour situation). There seemed to be some slight differences in views on the progress to date, but nothing that might derail a taper:

> A number of participants assessed that the standard of substantial further progress toward the goal of maximum employment had not yet been attained but that, if the economy proceeded roughly as they anticipated, it may soon be reached.
>
> On the **basis of the cumulative performance** of the labor market since December 2020, a number of other participants indicated that they believed that the test of "substantial further progress" toward maximum employment had been met.

"Labour supply" rather than demand was highlighted as one of the main impediments to improvement in the labour market.

These are the important statements (emphasis added):

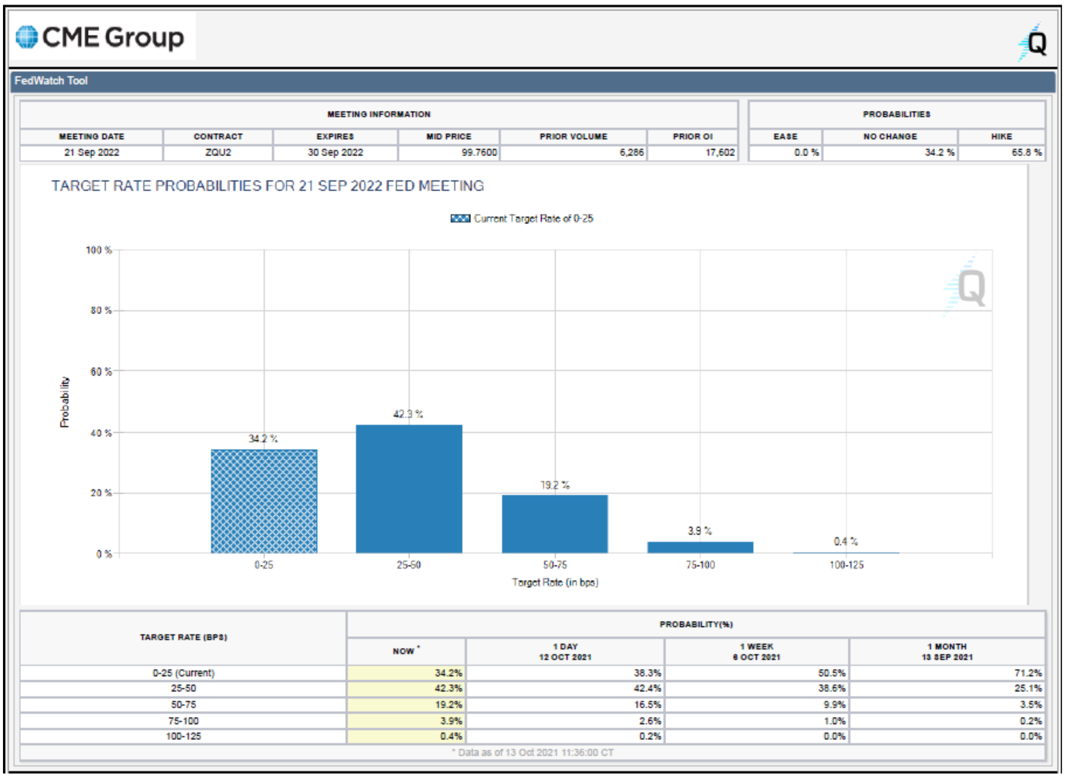
> They noted that adding monetary policy accommodation at this time would not address such constraints **or that the costs of continuing asset purchases might be beginning to exceed their benefits**.
>
> **All participants** agreed that it would be appropriate for the current meeting's postmeeting statement to relay the Committee's judgment that, if progress continued broadly as expected, a moderation in the pace of asset purchases may soon be warranted."
>
> No decision to proceed with a moderation of asset purchases was made at the meeting, but participants generally assessed that, provided that the economic recovery **remained broadly on track**, a gradual tapering process that concluded around the middle of next year would likely be appropriate. Participants noted that **if a decision to begin tapering purchases occurred at the next meeting**, the process of tapering could commence with the monthly purchase calendars **beginning in either mid-November or mid-December**.

The FOMC then talked about how a decision on taper and “substantial further progress” was different to the (more stringent) criteria for guidance on the FFR:

> “…a policy shift toward a moderation of asset purchases provided no direct signal about its interest rate policy.”

https://www.federalreserve.gov/monetarypolicy/fomcminutes20210922.htm

Despite the efforts of the FOMC to talk down rate increases, markets are now bringing forward estimates of hikes. At least one increase in the FFR is expected sometime in the last quarter of 2022.



MEETING INFORMATION						PROBABILITIES		
MEETING DATE	CONTRACT	EXPIRES	MID PRICE	PRIOR VOLUME	PRIOR OI	EASE	NO CHANGE	HIKE
21 Sep 2022	ZQU2	30 Sep 2022	99.7600	6,286	17,602	0.0 %	34.2 %	65.8 %

TARGET RATE (BPS)	PROBABILITY(%)			
	NOW *	1 DAY 12 OCT 2021	1 WEEK 6 OCT 2021	1 MONTH 13 SEP 2021
0-25 (Current)	34.2%	38.3%	50.5%	71.2%
25-50	42.3%	42.4%	38.6%	25.1%
50-75	19.2%	16.5%	9.9%	3.5%
75-100	3.9%	2.6%	1.0%	0.2%
100-125	0.4%	0.2%	0.0%	0.0%

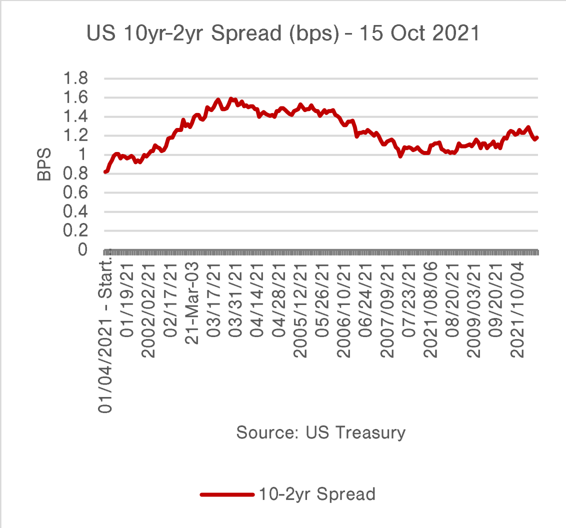
* Data as of 13 Oct 2021 11:36:00 CT

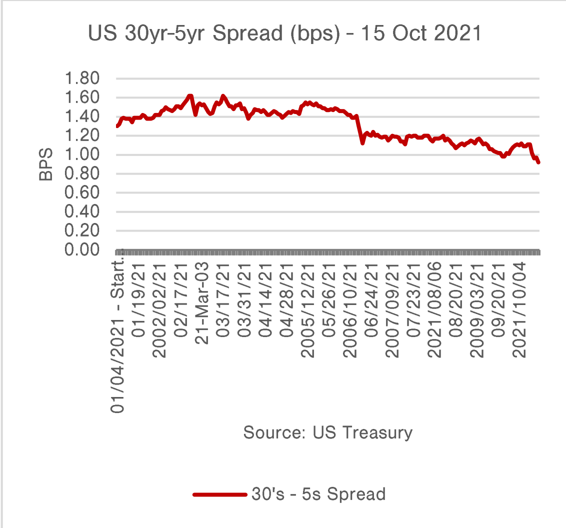
Source: https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html?utm_source=cmegroup&utm_medium=friendly&utm_campaign=fedwatch&redirect=/fedwatch

Market Reactions – 13 Oct

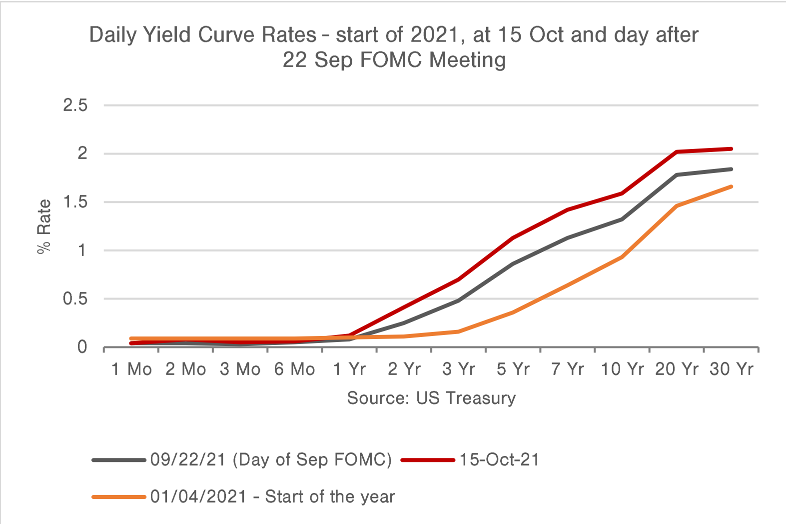
On the Friday prior to the release of the minutes, non-farm payrolls for Sep were released and the headline number was disappointing (growth at +194k). Most looked through this as a covid-delta disruption. Working age participation fell – which was consistent with this story. The yield curve steepened into the end of that week.

But since the start of this week, the yield curve had begun to flatten quickly.





By the end of the week, the 1yr Bill through to 7yr Note had reached new YTD highs in yield. The 10yr through to the 30yrs had been rising up to the Friday of the Sep non-farm payrolls, but the longer yields have started to drift off again this week.



The Sep CPI print was noisy but higher than expected.

The flattening yield curve suggests that higher inflation may require/force the Fed to move on rates faster than expected – dampening growth expectations.

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Europe

Eurozone Industrial Production (Aug)

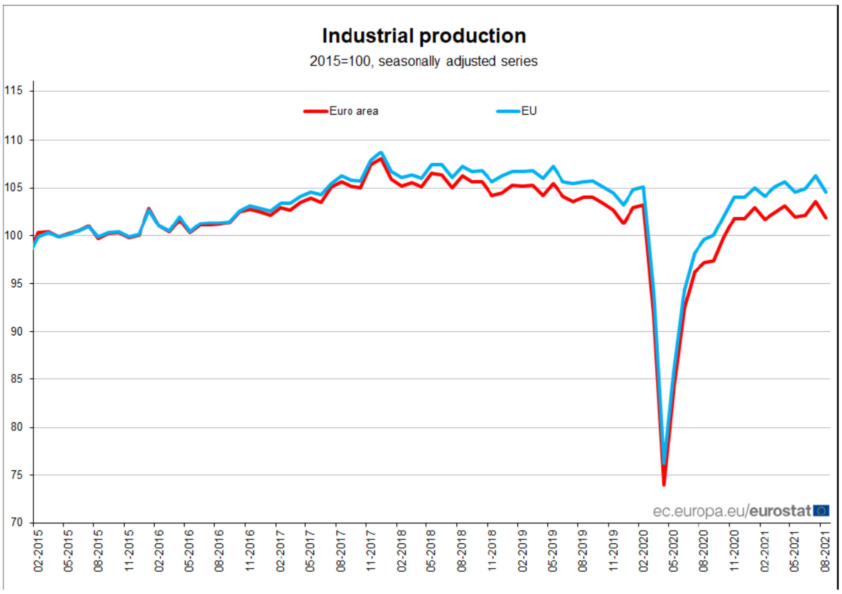
Euro area Industrial Production – mth change: Aug -1.6% versus Jul +1.4%

Production was lower across most industries. The exception was energy where production increased by +0.5% after three consecutive months of decline.

Intermediate goods production declined by -1.5% (Jul +0.6%), capital goods by -3.9% (Jul +2.6%), durable consumer goods -3.4% (Jul +0.4%), and non-durable consumer goods -0.8% (Jul +2.2%).

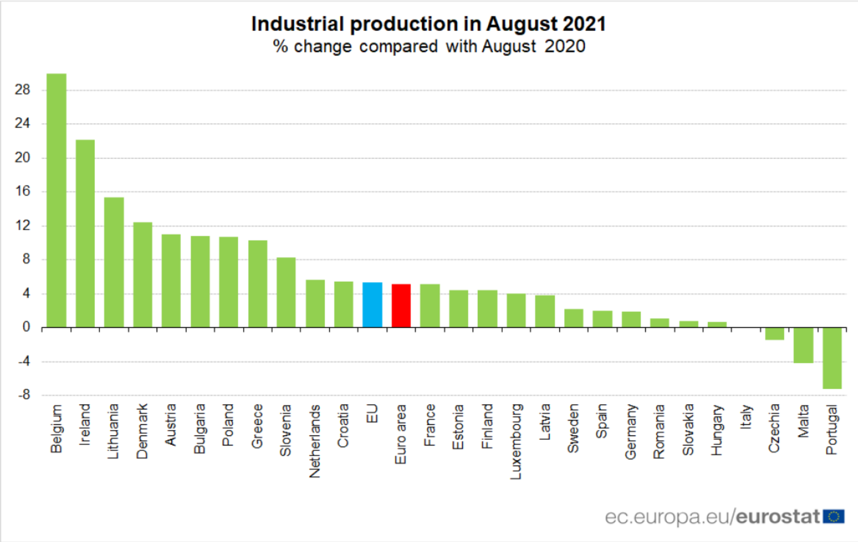
Production across the Euro area remains ahead of the same month a year ago at a total level – but has slowed.

Euro area Industrial Production – annual change: Aug +5.1% versus Jul +8%



Annual growth of energy and durable consumer goods production is now below the same month a year ago (-0.6% and -1.9% respectively). Annual production growth across intermediate goods and capital goods production has slowed. Production across non-durable consumer goods was higher at +11.6% in Aug versus the same month a year ago.

Production of some of the larger industrial economies remains below the EU/Euro area average – such as Germany.



https://ec.europa.eu/eurostat/documents/2995521/11563315/4-13102021-AP-EN.pdf/a8439c38-e058-0d04-4415-a4ee050d50f8

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Japan

Industrial Production (final) (Aug)

Summary: Industrial production declined further in the latest month with production declining across most industries. The longer-term view shows that production has mostly regained the pre-pandemic levels. Total production remains below some earlier pre-pandemic peaks.

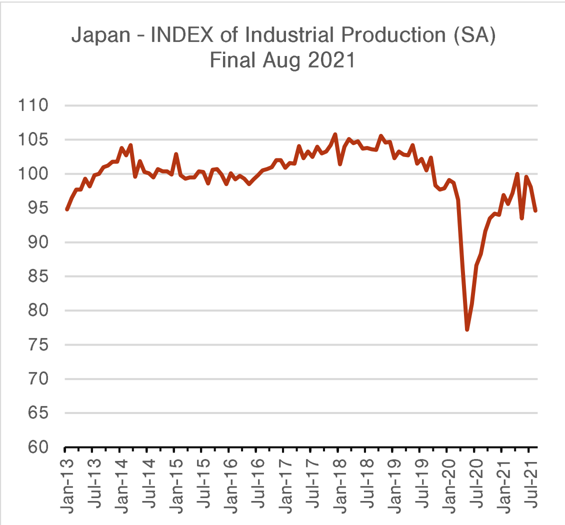
Headline Industrial Production – month chg: Aug -3.6% versus Jul -1.5%

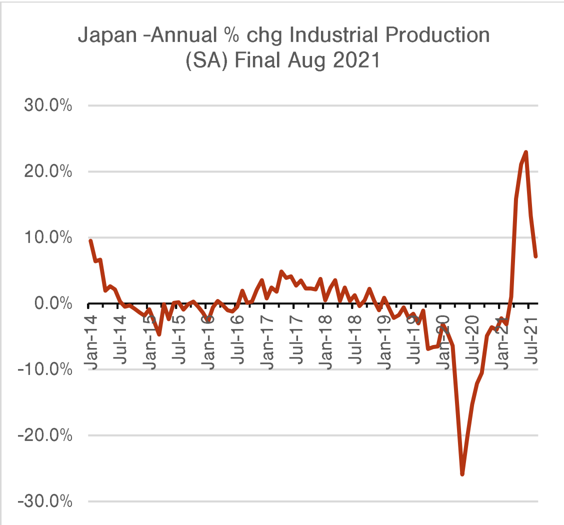
The only industry where production didn't decline this month was in petroleum and coal production.

The largest decline in production this month was recorded across electrical machinery (-10.7%) and transport equipment production (-12% which includes a decline in passenger car production of -17%).

The best performers were petroleum and coal product production (+2.9%) and general purpose and business machinery (-0.7% decline in production).

On an annual basis, total mining and manufacturing production was +7.1% ahead of the same month a year ago (slowing from +13% annual growth in Jul). The annual % change is noisy – but also note firstly the slowing pace of production growth, shifting to a decline in production leading into the pandemic;





Production had peaked prior to the pandemic. The headline index of production peaked back in Dec 2017 (not unlike German industrial production) and remains -10.6% below that level. Some of the larger industries are driving that trend such as transport equipment which is -29% below the pre-pandemic peak, electrical machinery -16% chemicals -14.5%, fabricated metals -13%, and iron, steel, non-ferrous metals -10%.

Some industries are rebounding strongly though – such as production machinery (new production peak in Jul 2021) and electronic parts (new production peak in Jul 2021).

https://www.meti.go.jp/english/statistics/tyo/iip/b2015_result-2.html

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Australia

NAB Business Conditions & Confidence (Sep)

Summary: In Aus, Q3 in 2021 will be defined by the rolling outbreak and restrictions due to the Delta variant. The most important feature is that the vaccination rate is increasing quickly. Restrictions are starting to be eased allowing firms to reopen. The large improvement in confidence was led by NSW & Vic – but in trend terms, confidence remains lacklustre. Business conditions remained weaker across all states, especially in NSW & Vic.

Business Confidence – Mth: Sep +13 versus Aug -6

CHART 21: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)

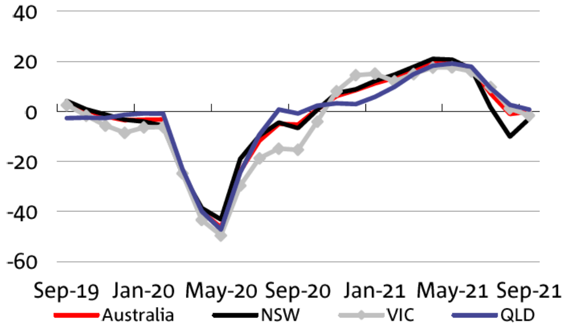
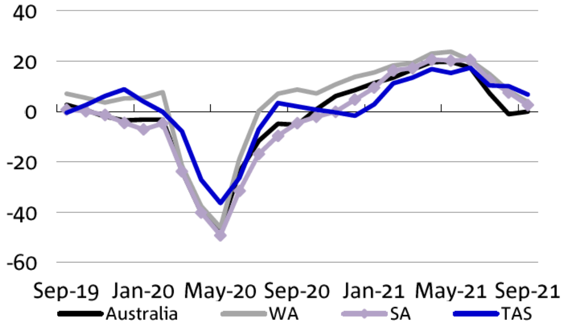


CHART 22: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)



Business Conditions – Mth: Sep 5 versus Aug 14

The business conditions components all recorded declines: trading was down from 20 in Aug to 10 in Sep, profitability down from 15 in Aug to 2 in Sep, and employment down from 9 in Aug to 1 in Sep.

Forward orders fell back into contraction, exports contracted at a faster pace, and stocks were unchanged.

CHART 19: BUSINESS CONDITIONS BY STATE (NET BAL., TREND)

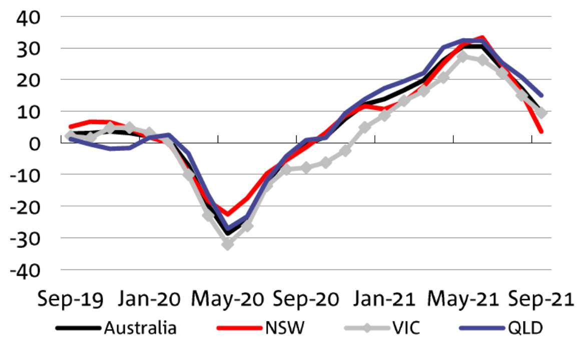
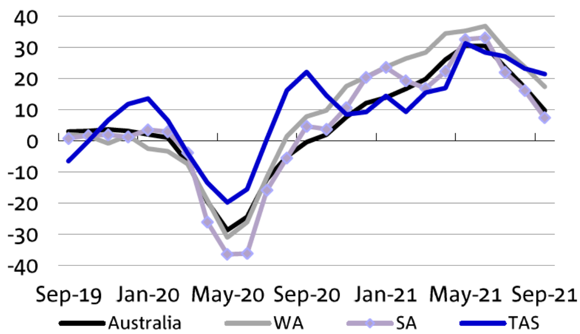


CHART 20: BUSINESS CONDITIONS BY STATE (NET BAL., TREND)



https://business.nab.com.au/monthly-business-survey-september-2021-49258/

Westpac Consumer Confidence (Oct)

Summary: Headline consumer sentiment in Australia remained in 'optimistic' territory (# optimists > # pessimists) – albeit lower than in the prior month. Even the main 'lockdown' states recorded similar sentiment readings – as states look forward to reopening on the back of rising vaccination rates.

Despite both Sydney and Melbourne remaining in lock down throughout the last month consumers are relatively upbeat.

Sentiment Components:

The pessimism around 'family finances' in the short term has been improving slightly. But time to buy a household item or time to buy a dwelling indicator are well below average readings. Time to buy a dwelling is firmly in pessimist territory. This is the result of rising house prices – and the expectations for rising house prices remains firmly above the long-term average.

The unemployment expectations index fell further and is also below the average reading. This indicates that consumers expect unemployment to increase over the next year.

Consumer Sentiment – October 2021

Item	avg*	Oct 2019	Oct 2020	Sep 2021	Oct 2021	%mth	%yr
Consumer Sentiment Index	**101.4**	**92.8**	**105.0**	**106.2**	**104.6**	**-1.5**	**-0.4**
Family finances vs a year ago	89.3	80.2	92.9	93.5	92.3	-1.3	-0.6
Family finances next 12mths	107.5	93.3	110.8	109.2	109.7	0.5	-0.9
Economic conditions next 12mths	91.0	87.1	94.0	105.0	103.2	-1.7	9.8
Economic conditions next 5yrs	91.8	88.9	113.8	114.5	108.1	-5.6	-5.0
Time to buy a major household item	126.6	114.5	113.7	109.0	109.9	0.9	-3.3
Time to buy a dwelling	118.8	116.6	122.2	96.7	83.3	-13.8	-31.8
Unemployment Expectations Index	129.9	131.8	119.4	120.5	107.1	-11.1	-10.3
House Price Expectations Index	124.8	138.0	117.3	158.0	156.3	-1.0	33.3

Source: Westpac–Melbourne Institute.
*avg over full history of the survey, all indexes except 'time to buy a dwelling', 'unemployment expectations' and 'house price expectations' are seasonally adjusted

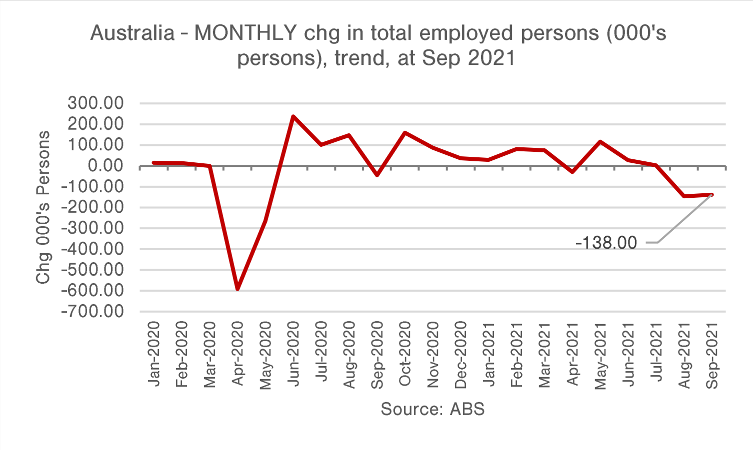
https://www.westpac.com.au/content/dam/public/wbc/documents/pdf/aw/economics-research/er20211013BullConsumerSentiment.pdf

Labour Market and Employment Survey (Sep)

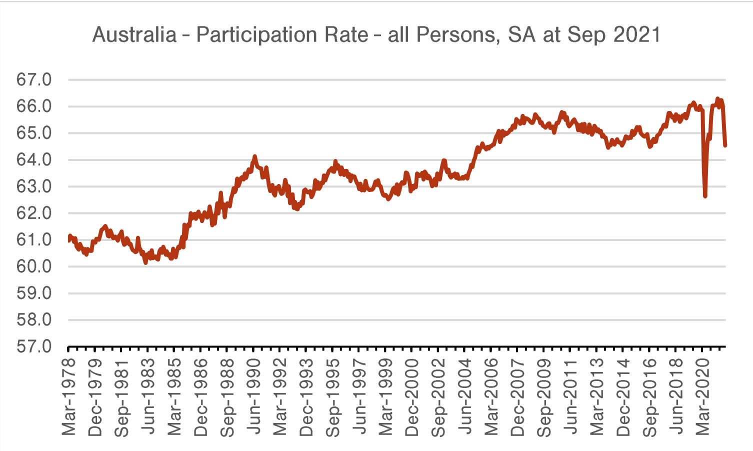
<u>**Summary:**</u> The decline in employment was larger than expected this month. This was mostly offset by a decline in labour force participation. The decline in participation accounts for the reason why the increase in the unemployment rate was so small given the size of the fall in employed persons.

<u>**Total Employed Persons – month change**</u>: Sep -138k persons versus Aug -146k persons.

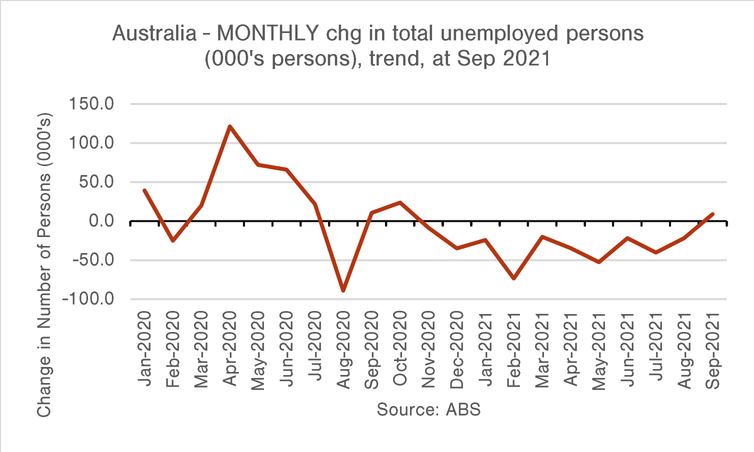
The number of FT employed persons increased by +26k Nationally and the number of PT employed persons decreased by -164k Nationally.



The annual increase in the size of the labour force is now down to almost zero at +3.6k. This is due to the substantial fall in participation over the last few months. The rebound in participation peaked at a new all-time high of 66.3% in Mar 2021 – and is now 2.66% pts lower at 64.54%. Both male and female participation has fallen.



It's been the fall in participation that has resulted in a more muted impact on the official reported total unemployed persons given the size in the decline in employment. Total unemployed persons still increased by +8k in the latest month;



Summary of the Main Labour Market Indicators:

On an annual basis, employment growth has exceeded the decline in participation. This has resulted in a decrease in total unemployed persons.

On a monthly basis, the number of employed persons declined by -137k. The size of the labour force declined due to people leaving the labour force (approx. -136k person decrease in participation). This meant that the increase in total unemployed persons was much smaller than the decline in employment would suggest. The unemployment rate ticked up from 4.5% to 4.6%.

	000's Persons	
	Annual Chg - Sep	Month Chg - Sep
The estimated change in the Labour Force due to pop growth	56.444	7.103
How many jobs available for them? (employment growth)	303.463	-137.997
Difference (if positive, employment growing faster than pop est)	247.019	-145.100
Change in labour force due to the change in participation	-52.826	-136.258
The reminder is the change in total unemployed persons	-299.845	8.842
Double Check - Reported chg in size of the Labour Force	3.618	-129.084
Two views of the size of the Labour Force:		
Underlying population growth plus changes in participation	3.618	-129.155
Total employed persons plus total unemployed persons	3.618	-129.155

https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia/sep-2021

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China

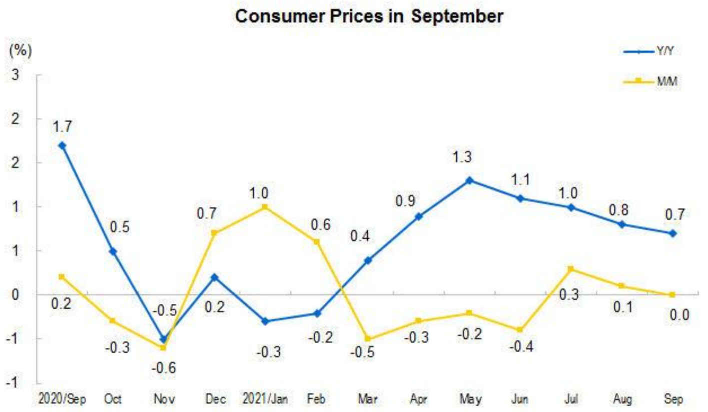
One way to view the Chinese PPI and CPI data is starting from the purchase price index (prices for goods purchased as intermediate goods) with growth at +14.3%.

Some of this appears to be "passed through" to the producer price index (what producers sell a product for the first time). The 'means of production' (industrial inputs) prices are growing at +10.7% but 'means of subsistence' (consumer focused) prices are growing at only +0.4%.

Consumer price growth is slowing and is now down to +0.7%.

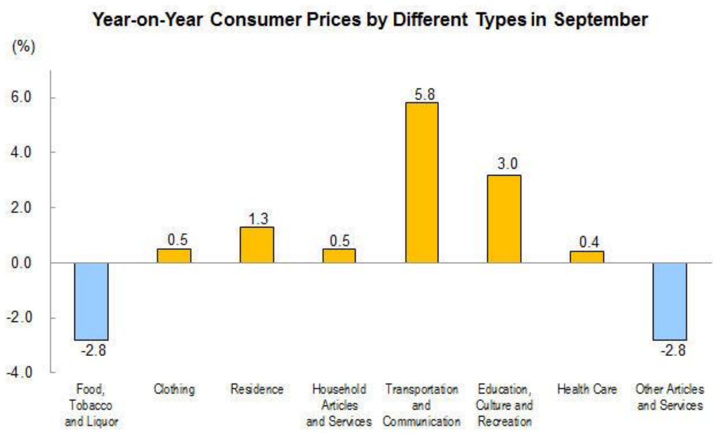
CPI (Sep)

Headline CPI growth slowed further in Sep to +0.7% from +0.8% in Aug.



The decline in annual food prices accounted for most of the slowdown in annual CPI at Sep.

In September, the prices of food, tobacco and alcohol decreased by 2.8 percent year-on-year, affecting the CPI to decline by about 0.79 percentage point.



http://www.stats.gov.cn/english/PressRelease/202110/t20211015_1822924.html

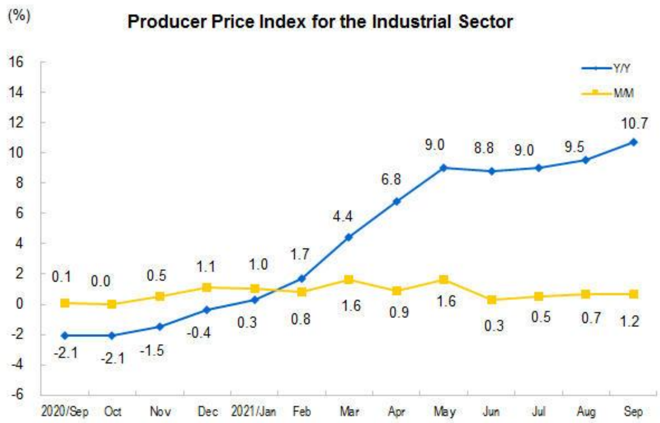
PPI (Sep)

There are two views of the Chinese release of the PPI:

Producer Price Index for manufactured goods consists of producer price index and purchaser price index.

1. The producer price index for the industrial sector continued to increase at an accelerating pace: Sep +10.7% versus Aug +9.5%. The monthly growth has also been accelerating.

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



Means of subsistence annual price growth remains muted (food, clothing, articles for daily use) at +0.4% in Sep.

But annual price growth for the means of production is substantially higher at +14.2%. Mining and quarrying prices +49% and raw materials prices are up +20.4%.

There are some notable changes in prices;

Prices for the mining and washing of coal is up +74% on a year ago (+12% in the month)

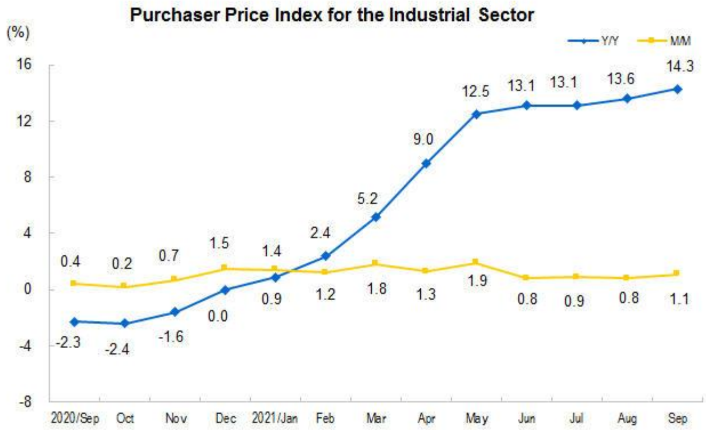
Production and supply of electric power and heat power +0.2% in the year (+0.4% in the month) – less than expected.

Distribution of gas +8.5% in the year (+2.5% in the month).

Extraction of petroleum and natural gas +43.6% in the year (-0.9% in the month).

2. The purchaser price index for the industrial sector also continued to increase at a faster pace in Sep at +14.3% compared to +13.6% in Aug.

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



The lower growth in producer prices for the production and supply of electric and heat power (above) contrasts with the much higher growth in purchaser prices.

Fuel and power purchased by industrial enterprises and inputs recorded an annual increase of +30.3% in the year and +3.9% in the month.

http://www.stats.gov.cn/english/PressRelease/202110/t20211015_1822928.html

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