MARS CAPITAL PARTNERS

Weekly Macro Review

w/c 18 October 2021

Key Themes

Global growth momentum

The Aug and Sep industrial production data has been weaker. Production in Germany, the Eurozone, and Japan declined in Aug. Autos contributed to that decline. US industrial production for Sep also declined – with auto production and Hurricane Ida disruptions noted. Annual growth in Chinese industrial production slowed more notably in Sep.

Chinese GDP for Q3 came in slower than expected at 4.9% (expected 5.2%). The slowdown is clearer on a QoQ basis with Q3 growth slowing to 0.2% versus Q2 +1.2%. This is the third slowest quarterly rate of growth since the start of 2016.

The global flash PMI's for Oct were mixed. Japanese output shifted from contraction to expansion across the private sector. Similarly for Aus, as Covid restrictions were eased. In Europe, the flash PMI suggested growth slowed going into Q4. Output in US increased at a faster pace – led by services, while manufacturing output slowed. Supply chain issues continued to worsen in the US, impacting firms ability to meet demand. US manufacturing demand remained robust in Oct.

Across most of the flash PMI reports, input price increases were again reported by most firms.

Central bank speak

At a virtual conference during the week, Chair Powell noted the more persistent bottlenecks impacting US output. As well, that inflation is likely to last longer than expected.

The minutes of the latest RBA meeting reaffirmed dovish guidance - rates to stay lower for longer – no hikes before 2024. Inflation targets are not going to be met until the labour market is tight enough to generate material wages growth. Markets (and across many DM's recently) have repriced the curve despite the RBA maintaining dovish guidance. At the end of the week, the RBA announced that it was buying up to $1bn of the Apr 2024 3yr bond to defend its 0.1% target 3yr rate.

BoE Late last week, the new BoE chief economist expected inflation to be higher into H1 next year. It was suggested that next week could be "live" for a rate hike discussion – but it would be "finely balanced".

US Housing

US housing data was mixed for Sep. As rates have moved higher, mortgage applications have slowed. There was a more notable increase in existing home sales this month, but national sales remain 2% below the same month a year ago. Inventory levels remain tight at -13% below a year ago. Permits and housing starts were lower than expected for Sep. But the NAHB housing market conditions for Oct improved.

Inflation

Two key inflation reports this week. Euro area CPI increased at a faster rate in Sep at +3.4% led by the further acceleration in energy prices. Excluding energy prices, CPI growth was lower at +1.9%, but still accelerated in Sep.

Japanese annual CPI growth remains well outside of the BoJ target range at +0.2%. There was an acceleration in annual CPI growth in Sep – partly due to a lower base, but also faster growth in the latest month. That faster growth in the latest month was the result of faster growth in fresh food and energy prices. CPI excluding fresh food and energy increased by +0% in the month and remained -0.5% below the same month a year ago.

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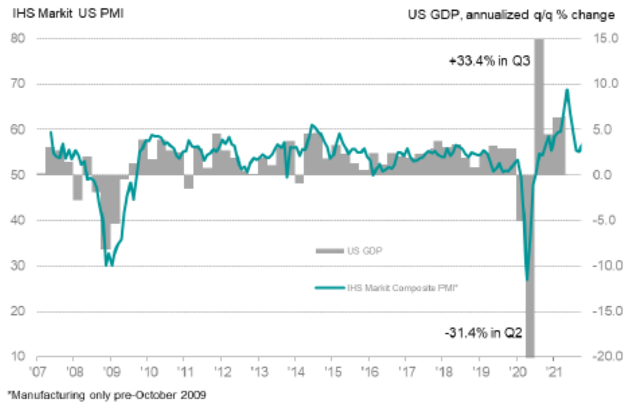
US Data

Markit Prelim Manufacturing & Services PMI (Oct)

Summary: Mixed results in the latest flash US PMI. The lift in the composite output index was the result of broader output growth in the services sector – which expanded faster than expected. The improvement in services more than offset slower than expected growth in manufacturing. Supply chain disruptions and pricing pressures were reasserted this month – across both services and manufacturing. Manufacturing firms recorded a new series high in the lengthening of supplier delivery times. Manufacturing input and output prices also increased at a record pace for the series.

Data collected October 11-21

IHS Markit Composite PMI and U.S. GDP



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

Manufacturing PMI – month; Oct 59.2 (expecting 60.3) versus Sep 60.7

Output growth slowed further (the output index fell from 55.7 in Sep to 52.3 in Oct). Growth in new orders also slowed but remained elevated. Manufacturing firms reported a new record high in lengthening supplier delivery times. Input costs were also recorded across a record number of firms.

> The rate of inflation surpassed August's record to reach a fresh series high. Factory gate charges also rose at the fastest pace in the series history as firms continued to pass greater cost burdens through to clients.

Services Business Activity Index – month: Oct 58.2 (expected 55.1) versus Sep 54.9

There was a stronger improvement in both output and new business this month. This was the fastest increase in new orders since the start of July. Firms cited easing Covid-19 worries as a key factor behind the improvement. Firms recorded increased backlogs (a new series high), as they responded to rising demand. A further positive development was the expansion in employment at the fastest rate since Jun. Hopefully this flows through to the Oct non-farm payrolls. Input costs continued to increase – this was the second fastest on record. Firms responded by increasing output costs.

https://www.markiteconomics.com/Public/Home/PressRelease/291a6f7539534735b69350b6e4e0f921

Philadelphia Fed Manufacturing Survey (Oct)

Summary: Less indication that supply chain problems are impacting output growth in this survey. Demand conditions remained strong in Oct. Input price growth is persisting on a broad basis. Most firms are passing these prices onto customers.

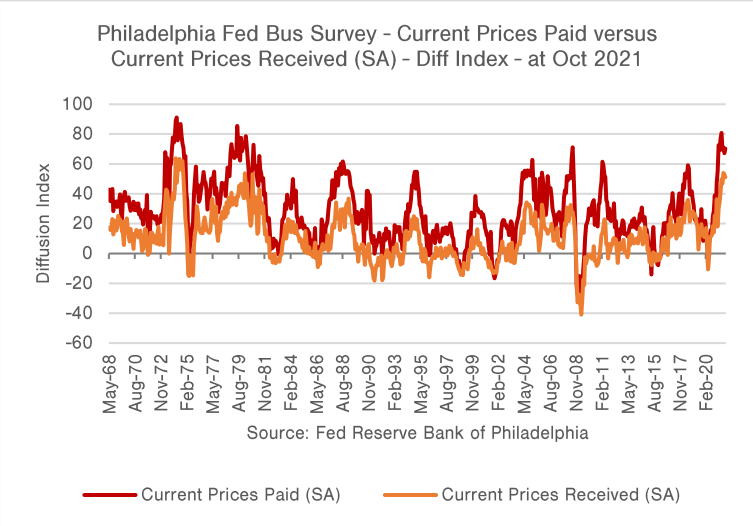
Headline General Business Activity Index – month: Oct 23.8 versus Sep 30.7

Despite the slightly lower headline activity index, the underlying indicators were strong.

New order/demand increased notably as more firms recorded higher new orders versus Aug. Shipments continued to increase at a similar pace as the prior month.

Longer delivery lead times were reported by firms and unfilled orders increased at a slightly faster pace.

Higher input prices were again reported by a growing number of firms. In Oct 73% of firms reported higher prices in Oct compared to Sep. Many firms continued to pass on higher input prices by increasing selling prices – and 58% of firms increased selling prices in Oct compared to 54% of firms in Sep.



Employment conditions remained robust. Employment increased at a slightly faster pace. The average employee workweek was little changed. Both indicators remain at an elevated level.

https://www.philadelphiafed.org/-/media/frbp/assets/surveys-and-data/mbos/2021/bos1021.pdf?la=en&hash=2823F4F6A0B035093B01C81AE5C84F70

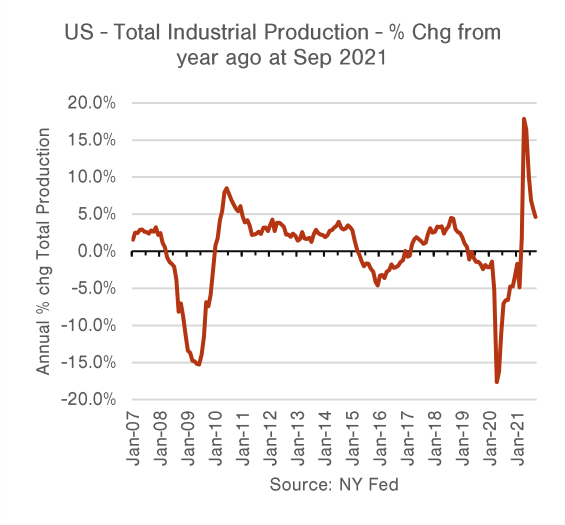
Industrial Production (Sep)

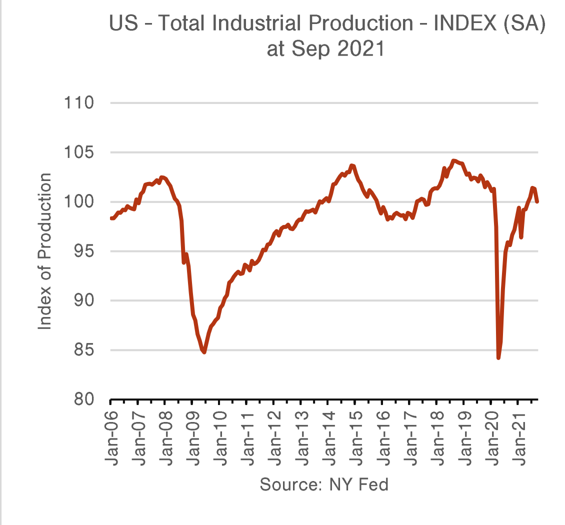
Summary: Overall production was lower across manufacturing (both durable and non-durable manufacturing), mining, and gas & electric utilities. While Hurricane Ida has been cited as contributing to the fall in manufacturing and mining production, shortages of inputs such as semiconductors have also contributed to that fall.

US Industrial Production – month: Sep -1.3% versus Aug -0.1%

> The lingering effects of Hurricane Ida more than accounted for the drop in mining in September; they also contributed 0.3 percentage point to the drop in manufacturing. Overall, about 0.6 percentage point of the drop in total industrial production resulted from the impact of the hurricane.

On an annual basis, production was 4.6% ahead of the same month a year ago but slipped to -1.3% below the pre-pandemic level in Feb 2020. The annual growth chart is noisy but together with the index of production chart (left), provides a better insight as to the underlying trend – rebounding with disruptions.





<u>Manufacturing Production – month</u>: Sep -0.7% versus Aug -0.4%

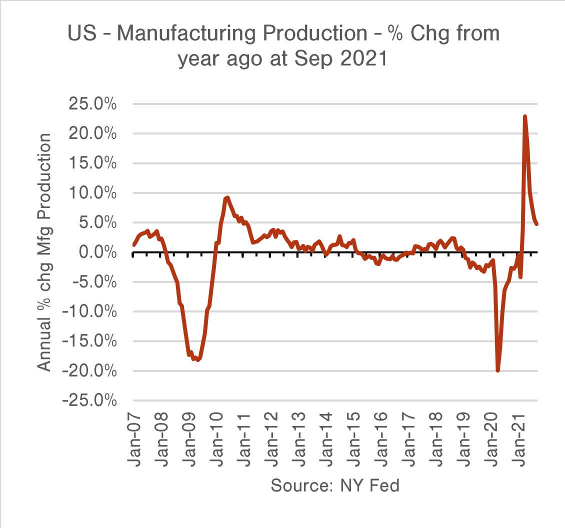
Manufacturing production declined across both durable goods and non-durable goods.

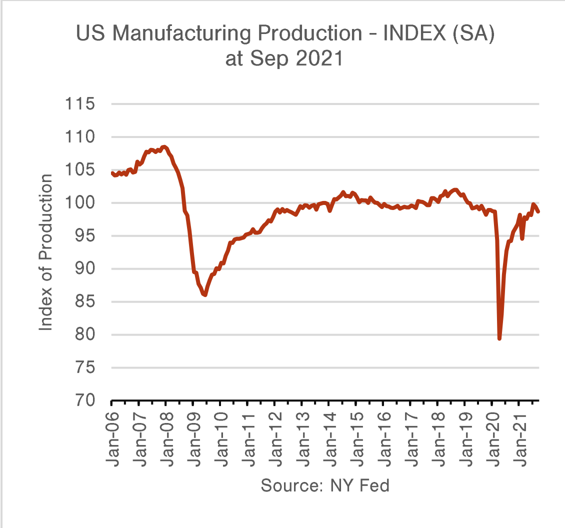
> The production of motor vehicles and parts fell 7.2 percent, as shortages of semiconductors continued to hobble operations, while factory output elsewhere declined 0.3 percent.

Durable goods production declined at a slower pace in Sep of -0.5% after declining by -0.8% in Aug. Four out of eleven durable goods industries recorded declines with the largest decline in motor vehicle production: motor vehicles (-7.2%), non-metallic minerals (-0.9%, wood products (-0.6%), and computer and electronic products (-0.1%).

Non-durable goods production declined by 1% this month after increasing by +0.1% in Aug. There were five of nine industries that recorded a decline this month. Petroleum and coal products and chemicals recorded the largest declines. Food, Other, and Plastics production also declined.

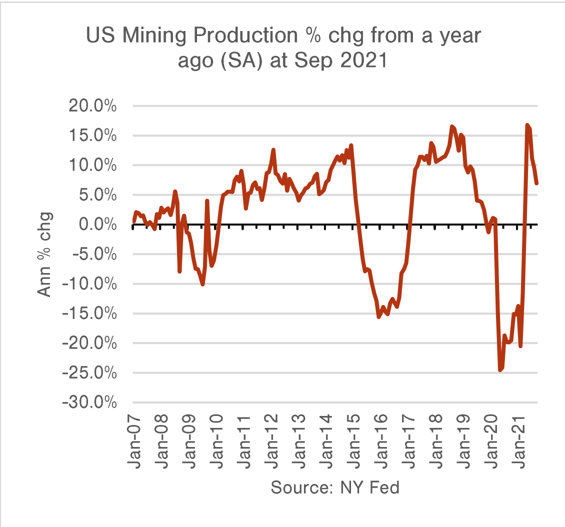
On an annual basis, total manufacturing output was +4.8% ahead of the same month a year ago and +1.1% ahead of the pre-pandemic level of Feb 2020.

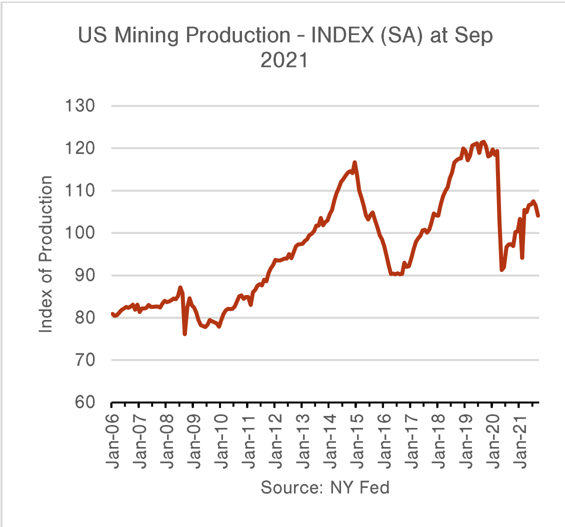




Mining Production – month: Sep -2.3% versus Aug -0.9%

Mining production continued to decline this month. The annual change appears robust, growing at +7%. But the level of output in Sep was still 12% below the Feb 2020 pre-pandemic level.

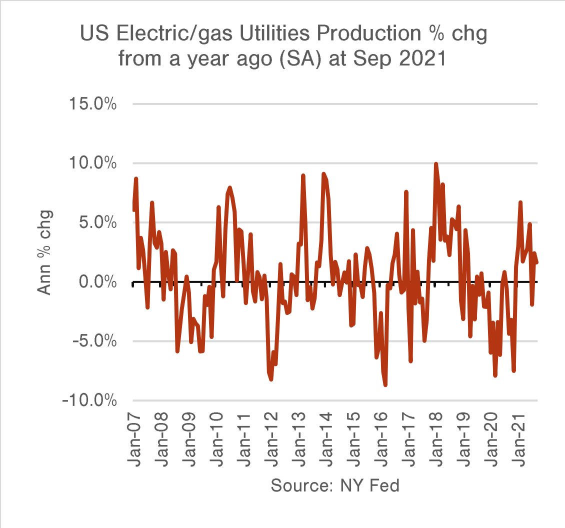


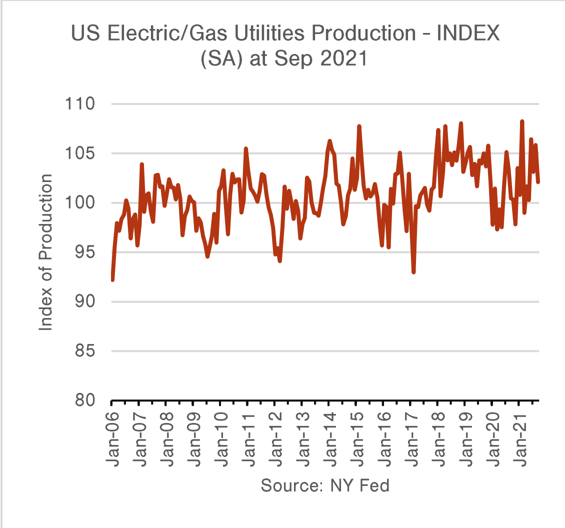


Gas and Electric Utilities – month: Sep -3.6% versus Aug +2.6%

The output of utilities dropped 3.6 percent, as demand for cooling subsided after a warmer-than-usual August.

Output of utilities is +1.6% ahead of the same month a year ago and +0.6% above the Feb 2020 pre-pandemic level.





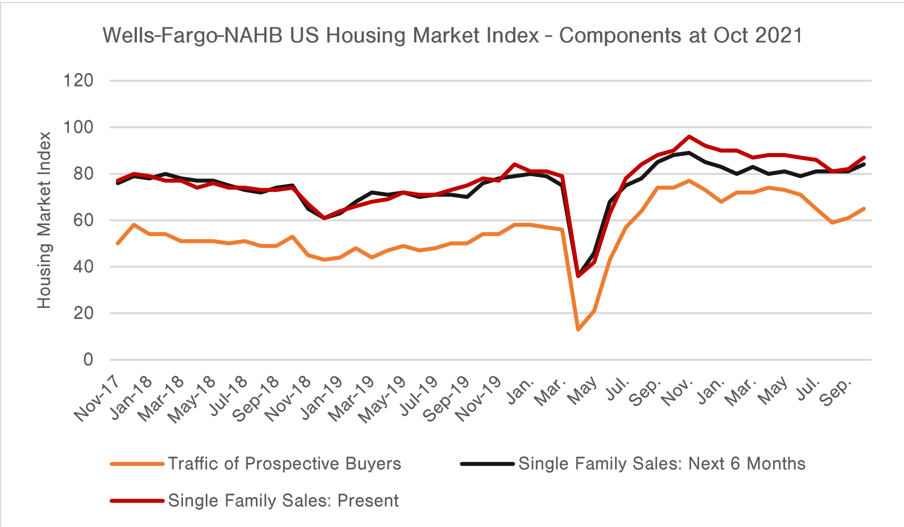
https://www.federalreserve.gov/releases/G17/Current/default.htm

NAHB Housing Market Conditions Index (Oct)

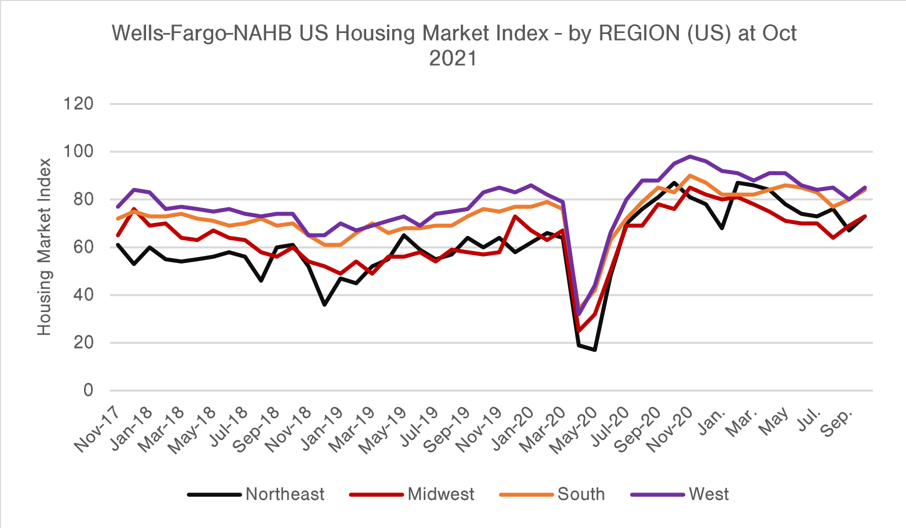
Summary: There was a further improvement in the housing market index – which samples NAHB members on single family housing market conditions for the sale of new homes.

The index is now approaching the high recorded in Nov 2020. The index was higher across all regions, across present single home sales, expectations for sales in the next six months and the traffic of prospective buyers.

NAHB Housing Market Conditions – Index: Oct 80 versus Sep 76



Conditions also improved further across all of the regions; Northeast +9%, Midwest +6%, South +5%, and West +6%.



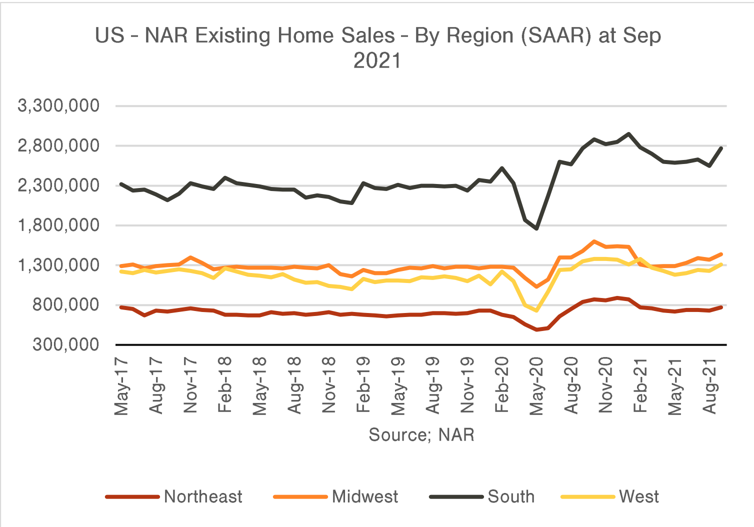
https://www.nahb.org/news-and-economics/housing-economics/indices/housing-market-index

Existing Home Sales (Sep)

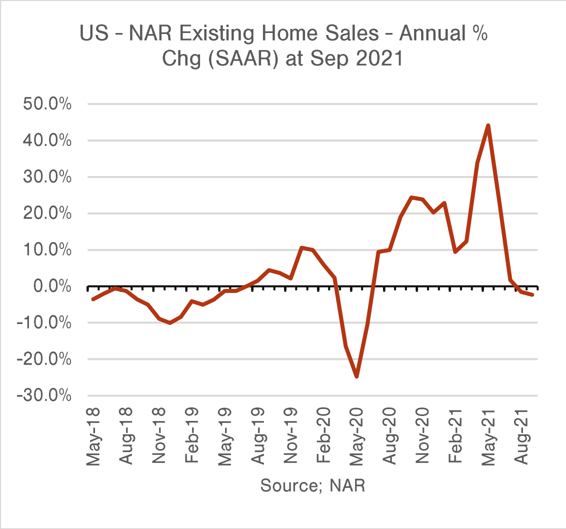
Summary: There was a more notable increase in existing home sales this month. Despite the improvement, national sales remain 2% below the same month a year ago. Inventory levels remain tight at -13% below the same month a year ago.

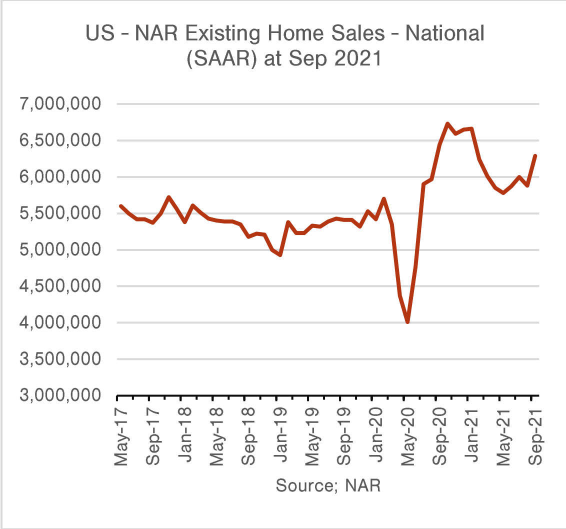
US Existing Home Sales – SAAR: Sep 6.29m (exp 6.06m) versus Aug 5.88m

The pace of existing home sales increased further this month. All regions contributed to the increase. The South accounted for over half of the increase in sales this month.

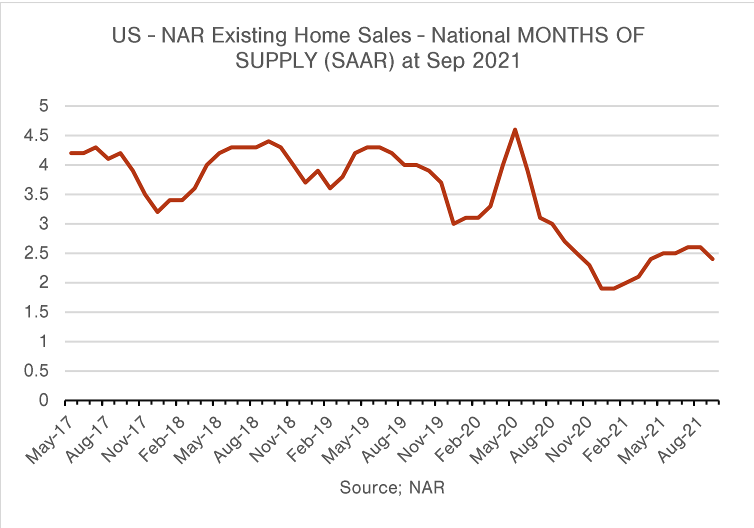


Despite the improvement in the month, sales of existing homes remain -2.3% below the same month a year ago:





Inventory levels remain below pre-pandemic trends. Inventory was lower by 0.8% in Sep and is -13% below the same month a year ago.



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

Building Permits & Housing Starts (Sep)

Summary: Permits and housing starts came in lower than expected for Sep. Permits declined versus the prior month and are still below the recent 2020 peak.

Note that data are sample based. All ranges given for percentage changes are 90 percent confidence intervals and account only for sampling variability

New Building Permits – SAAR: Sep 1.589m (exp 1.68m) versus Aug 1.721m

The decline in the month was -7.7% with a 90% confidence interval of +/- 0.9% pts – this means that the decline is statistically significant.

The declines recorded across the Northeast (-20%), the South (-6%), and the West (-10.9%) were statistically significant.

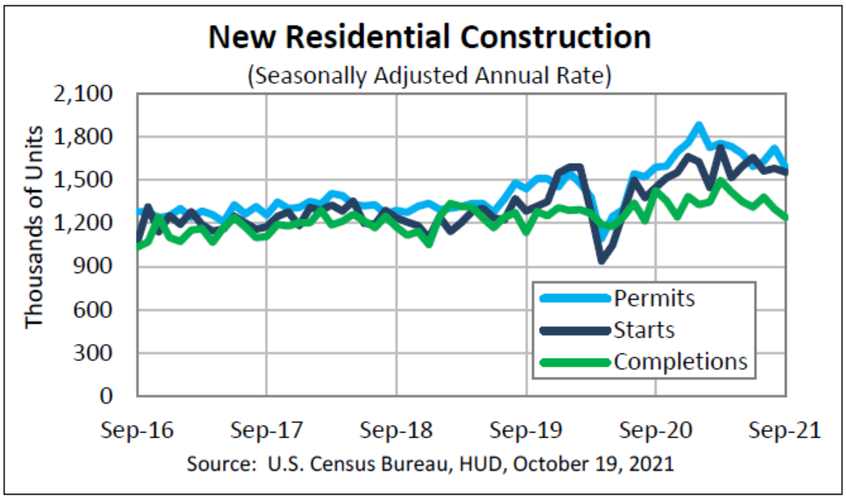
In the Midwest, new permits increased by +0.5% with a 90% confidence interval of +/- 6.1% pts. This suggests that new permits in the region could have increased or decreased.

On an annual basis, new building permits were unchanged in Sep 2021 compared to Sep 2020. But the 90% confidence interval was +/- 1.1%, so permits could have increased or decreased.

New Housing Starts – SAAR: Sep 1.55m (exp 1.62m) versus Aug 1.58m

New housing starts declined by -1.6% with a wide 90% confidence interval of +/- 11.4%. This means new starts could have increased or decreased in the latest month.

New starts declined in the Northeast by 27% in Sep versus Aug – this was the only statistically significant result for the month.



https://www.census.gov/construction/nrc/pdf/newresconst.pdf

Mortgage Applications wk ending 15 Oct

The headline mortgage composite index declined by 6.3% in the latest week ending 15 Oct. This was the result of falls in both the refi index (-7%) and the purchase index (-5%).

> "Refinance applications declined for the fourth week as rates increased, bringing the refinance index to its lowest level since July 2021. The 30-year fixed rate has increased 20 basis points over the past month and reached 3.23 percent last week - the highest since April 2021. The 15-year fixed rate increased to 2.54 percent, which is the highest since July," said Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting. "Purchase activity declined and was 12 percent lower than a year ago, within the annual comparison range that it has been over the past six weeks. Insufficient housing supply and elevated home-price growth continue to limit options for would-be buyers."

https://www.mba.org/2021-press-releases/october/mortgage-applications-decrease-in-latest-mba-weekly-survey-x286843

Initial Jobless Claims (wk ending 16 Oct), Continuing Unemployment Claims (wk ending 9 Oct)

US initial jobless claims for the regular state program was lower again in the latest week slowing to +290k claims (exp 303k claims). The prior week was revised from 293k to 296k claims.

Continuing claims for the latest week ending 2 Oct also continued to fall: -370k. The total number of continuing claim benefits was 3,279,026 people at 2 Oct.

Most of the decline in continuing claims was due to the end of Federal emergency pandemic programs. But it is encouraging that there was a larger decline in regular state continuing claims this week of -141k people.

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

WEEK ENDING	**October 2**	**September 25**	**Change**	**Prior Year**[1]
Regular State	2,255,908	2,397,358	-141,450	8,859,350
Federal Employees	7,682	8,479	-797	11,856
Newly Discharged Veterans	5,453	5,573	-120	13,739
Pandemic Unemployment Assistance[3]	517,949	549,103	-31,154	10,585,004
Pandemic Emergency UC[4]	331,567	440,435	-108,868	3,612,262
Extended Benefits[5]	134,379	222,613	-88,234	475,540
State Additional Benefits[6]	2,909	2,036	+873	2,728
STC / Workshare [7]	23,189	23,431	-242	195,366
TOTAL[8]	3,279,036	3,649,028	-369,992	23,755,845

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

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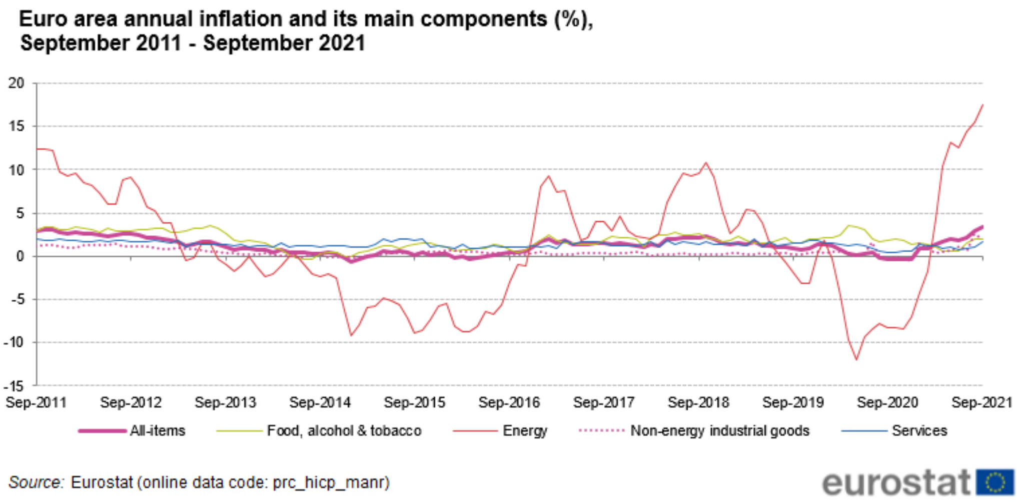
Europe

Eurozone CPI Final (Sep)

Summary: Consumer prices increased at a faster rate in Sep led by the further acceleration in energy prices. Excluding energy prices, the CPI growth was lower, but still accelerated in Sep.

Headline Euro area CPI – annual growth: Sep 3.4% (exp 3.4%) versus Aug +3%

Leading headline growth higher was the acceleration in annual energy price growth (+17.6% in Sep).



Price growth across the remaining headline categories was more moderate, but annual growth in prices still accelerated in Sep:

Euro area CPI EX Energy – annual growth: Sep +1.9% versus Aug +1.7%

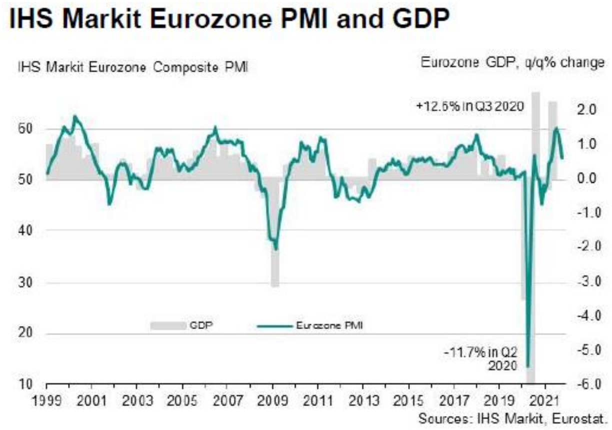
Food prices increased at a continued annual pace of 2% in Sep. Unprocessed food price growth eased from 3% at Aug to +2.6% in Sep.

The annual growth in services prices accelerated from +1.1% in Aug to 1.7% in Sep. Services account for just over 40% of the weight in the CPI.

https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Inflation_in_the_euro_area#Euro_area_annual_inflation_rate_and_its_main_components

Eurozone Prelim Manufacturing & Services PMI (Oct)

Summary: A different dynamic to the other flash Oct PMI's with the overall composite output index slowing this month. This was the result of weaker output growth across both manufacturing and services. Manufacturing output was impacted further by input shortages. Services output growth eased as firms cited "resurgent virus cases".



Eurozone Manufacturing PMI – month: Oct 58.5 (exp 57) versus Sep 58.6

Output growth continued to slow due to persistent and worsening supply issues. Growth in new orders also eased this month. Slower growth was recorded across both the core and periphery countries. The Auto sector was again hit particularly hard with output falling "sharply".

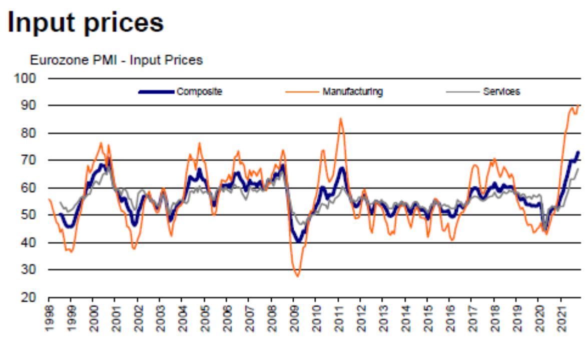
> Weakened factory output growth – led by a renewed decline in France and near-stalling of production in Germany – was commonly attributed to supply constraints.

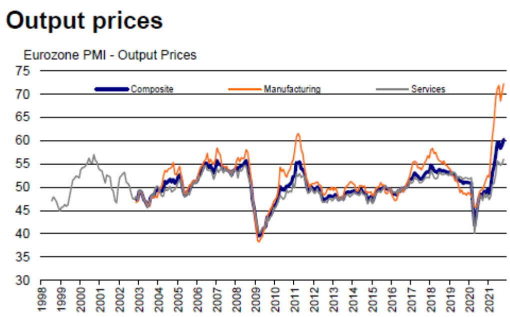
Backlogs continue to increase. Firms recorded a further record increase in input costs.

Eurozone Services Business Activity Index – month: Oct 54.7 (exp 55.4) versus Sep 56.4

Output growth slowed in the services sector, but new orders increased at a faster pace. Employment expanded at a faster pace. Input costs also increased at a faster pace – the highest since Sep 2000.

Eurozone PMI Input and Output Price Diffusion Indexes





Source: IHS Markit.

https://www.markiteconomics.com/Public/Home/PressRelease/318d8368fea74e588e80760a5eb9c21f

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Japan

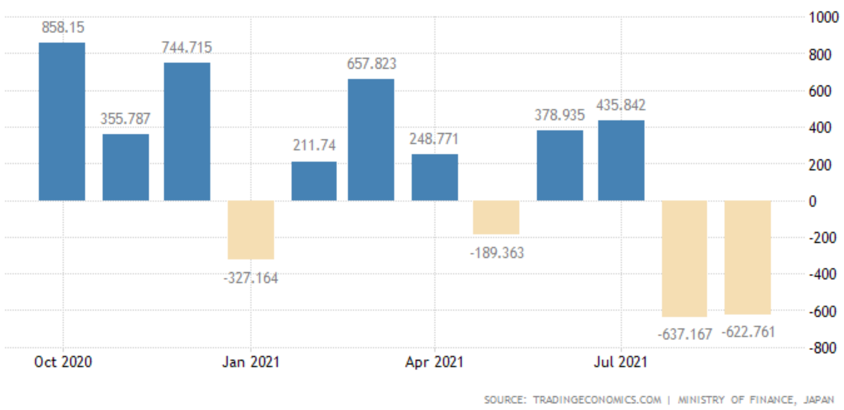
Japanese Merchandise Trade, Exports, and Imports (Sep)

<u>Summary:</u> The headline merchandise trade balance remained in deficit this month as the value of imports exceeded the value of exports. A year ago, the trade balance was in surplus. In that year, exports have increased by 13%, but imports have increased faster at 38.6%. The largest contributor to the increase in imports was mineral fuels (petroleum, LNG, coal).

All data quoted in Yen.

Merchandise Trade Balance – Month; Sep 2021 -622.7bn deficit versus Sep 2020 667.3bn surplus

Japanese Merchandise Trade Balance – at Sep 2021

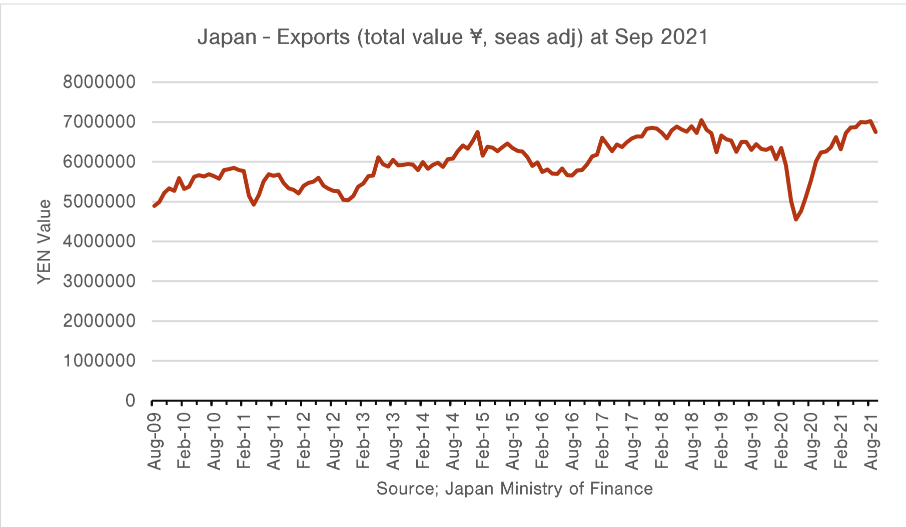


Source: Trading Economics

<u>Exports – annual change: Sep 2021 +13%</u>

Annual export growth has been slowing over the last four months.

On a monthly SA basis, exports were -4% below the prior month.



The two largest geographic markets for Japan are China and the US. Exports to China increased by +10% (below the 13% average). The value of exports to the ASEAN group increased by +31.7%

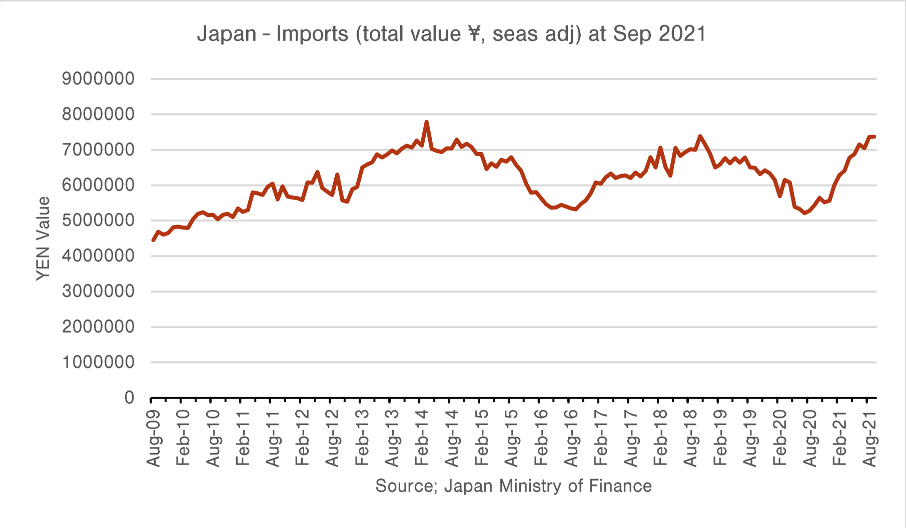
Exports to the US declined by -3.3% on an annual basis.

On a commodity basis, the largest contributors to growth were manufactured goods, machinery, and electrical machinery.

The export of transport equipment declined by 24% on a value basis. This includes a 35% decline in the volume of motor vehicle exports.

Imports – annual chg: Sep 2021 +38.6%

On a monthly basis, the value of imports increased by 0.2% on a SA basis.



On a geographic basis, the single larges import market for Japan is still China. Imports from China increased at an annual pace of 23.8%. Other key markets include Australia (imports +99%), US +36%, UAE +131%, and Germany +24%.

On a commodity basis, growth in mineral fuel imports accounted for the largest share of growth (accounting for 13.2%pts of the 38.6% annual growth in total imports. This includes petroleum, LNG, and coal.

But there were other large contributors to the value of import growth: raw materials accounted for 5%pts of import growth, chemicals +6%pts, electrical machinery +5.5%pts.

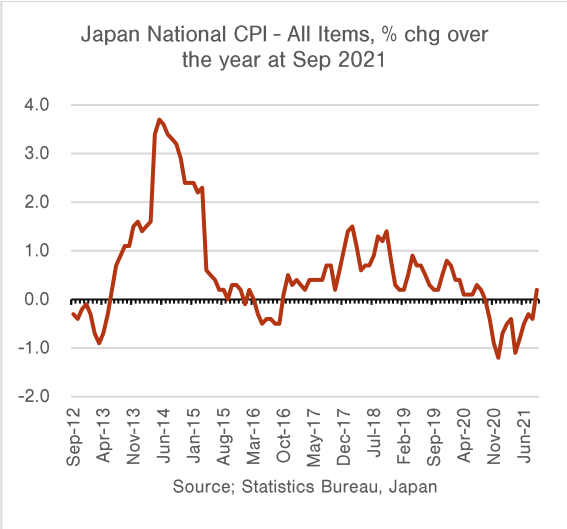
https://www.customs.go.jp/toukei/latest/index_e.htm

Japan National CPI (Sep)

Summary: Japanese annual headline CPI growth remains well outside of the BoJ target range at +0.2%. There was an acceleration in annual CPI growth in Sep – partly due to a lower base, but also faster growth in the latest month. That faster growth in the latest month was the result of faster growth in fresh food and energy prices. The remaining CPI excluding fresh food and energy increased by +0% in the month and remained -0.5% below the same month a year ago.

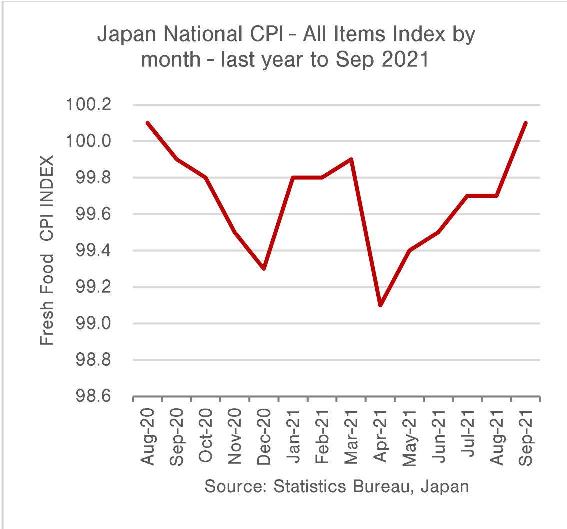
Headline All Items CPI – annual change: Sep +0.2% versus Aug -0.4%

The small acceleration in headline CPI was the result of both a lower base and an increase in the index in the latest month.



Japan National CPI - All Items, % chg over the year at Sep 2021

Source; Statistics Bureau, Japan



Japan National CPI - All Items Index by month - last year to Sep 2021

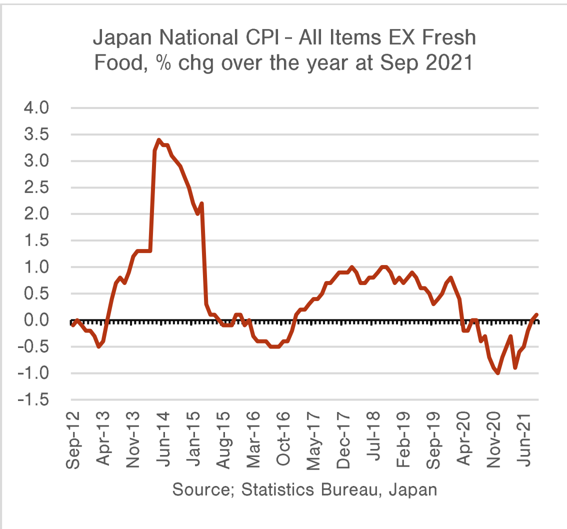
Source: Statistics Bureau, Japan

The latest monthly CPI increased by +0.4% after 0% growth in Aug. The increase of 0.4% is unusually high. Acceleration in energy prices (+0.9%) and fresh food (+1.5% for the month) account for most of this increase. Excluding fresh food and energy prices, the CPI recorded 0% change for the month.

The preferred BoJ measure of the underlying trend in CPI is CPI ex Fresh Food. In Sep, Fresh Food prices increased by 8.2% for the month (+1.7% in Aug) to be +2.2% ahead of the same month a year ago.

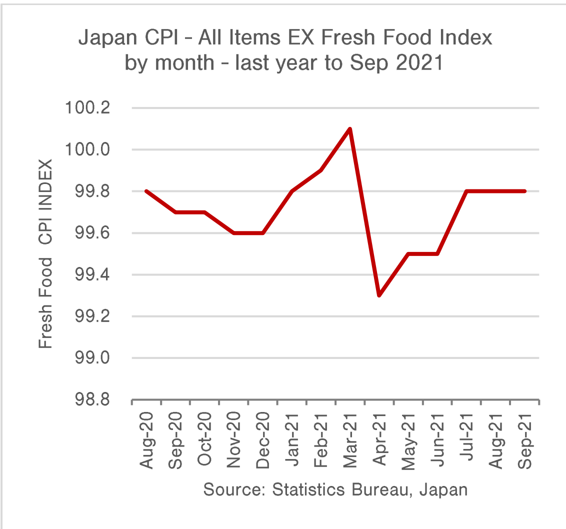
CPI Less Fresh Food – annual change: Sep +0.1% versus Aug 0%

The small acceleration in the month was due mostly to a lower base effect.



Japan National CPI - All Items EX Fresh Food, % chg over the year at Sep 2021

Source; Statistics Bureau, Japan



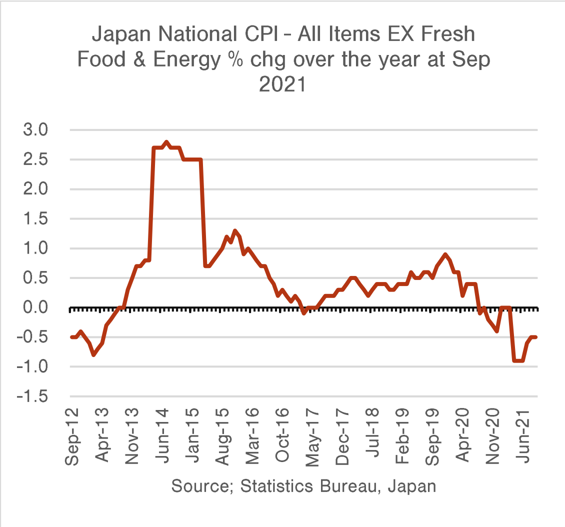
Japan CPI - All Items EX Fresh Food Index by month - last year to Sep 2021

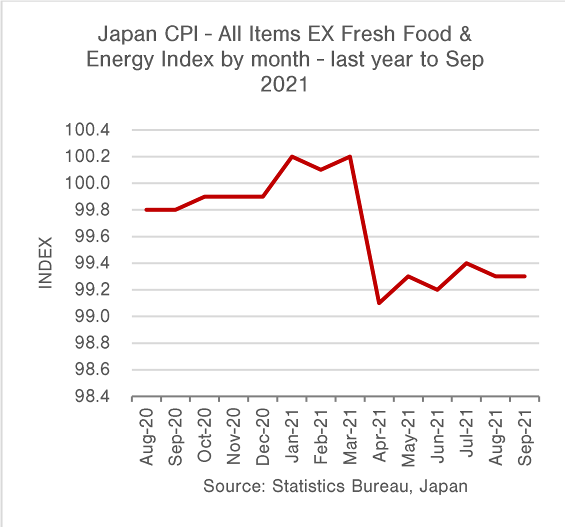
Source: Statistics Bureau, Japan

Energy prices have started rising again through 2021. The acceleration in the annual rate of energy price growth (now at +7.4% in Sep versus 5.5% at Aug) is due both to a lower base and growth in the latest month.

Excluding both fresh food and energy prices, CPI continued to decline at a similar pace in Sep

CPI Less Fresh Food and Energy – annual change: Sep -0.5% versus Aug -0.5%





https://www.stat.go.jp/english/data/cpi/1581-z.html

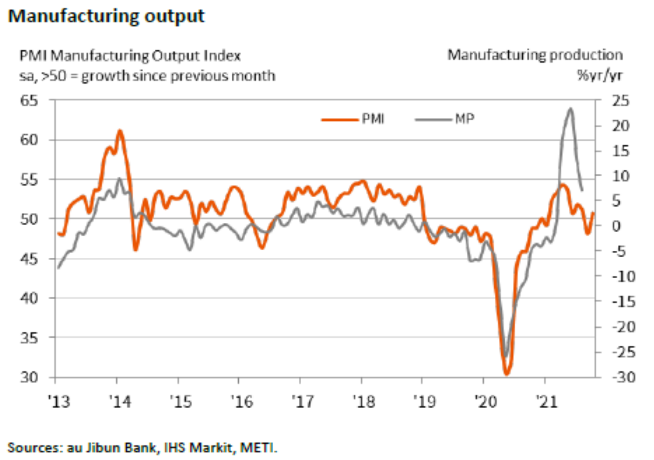
Prelim Manufacturing & Services PMI (Oct)

Summary: Headline output indexes shifted from decline to growth this month – across both manufacturing and services. Demand was stronger for manufacturing firms while new work continued to decline across services sectors. Growth in input and output prices increased at a faster pace across both manufacturing and services industries.

> Panel members commonly associated the slight recovery to a reduction in COVID-19 cases and looser pandemic restrictions.
>
> That said, firms continued to highlight sustained supply chain pressures and material shortages. As a result, input prices rose at the fastest rate in over 13 years. This contributed to the sharpest rise in output charges since July 2018.

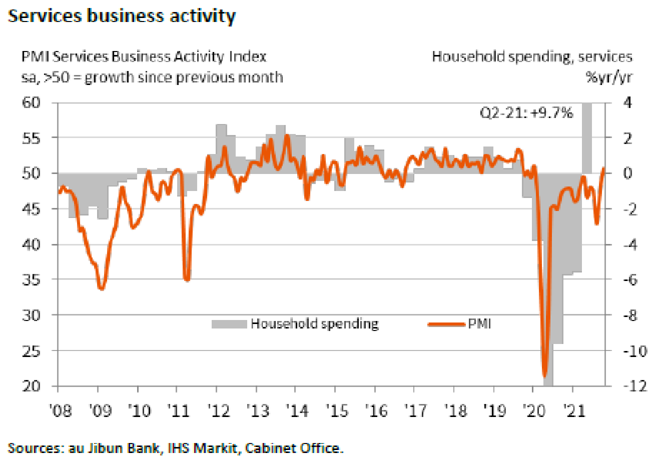
Prelim Manufacturing PMI – Index: Oct 53 versus Sep 51.1

Demand was stronger this month with output and new orders shifting from contraction to growth. Firms had renewed optimism in the outlook for the next 12months with the index increasing in Oct to match the series high from Jun. Lead-times continued to increase at a faster pace, while stocks of purchases, quantity of purchases, stocks of finished goods all shifted into growth from decline.



Prelim Services Business Activity Index: Oct 50.7 versus Sep 47.8

This was the first expansion in headline services output since Jan 2020. Despite the improvement in output, new business continued to decline, and new export work declined at a faster pace.



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Australia

RBA Minutes – Board Meeting 5 October 2021

Summary: Delta 'interrupts" the recovery, but does not detail it. Guidance reaffirmed - rates to stay lower for longer – no hikes before 2024. Core condition for hikes - inflation targets are not going to be met until the labour market is tight enough to generate material wages growth. Markets have brought forward rate increases despite the CB maintaining dovish guidance.

[At the end of this week, the RBA announced that it was buying up to $1bn of the Apr 2024 bond to defend its 0.1% target 3yr rate].

Detail

The minutes were focused on the effects of the Delta outbreak across the country (mainly affecting the two largest states NSW, and Vic) and vaccination rates.

The vaccination push has been successful with both states now reaching 70% double dose of the eligible population (at 21 Oct). This has enabled the states and the rest of the country to commence a broader path forward for easing of restrictions.

> Information from the Bank's liaison program indicated that many firms were preparing for the lifting of restrictions, and timely indicators of household spending and hiring intentions suggested the recovery in activity and employment would be well under way by the end of the year.

The impact on consumption and unemployment has been severe form the restrictions. Forward indicators of employment seem more resilient than in 2020,

At the same time, the national housing market conditions "remained very strong".

Underlying inflation remains more moderate. Wage growth returning to pre-pandemic "norms" – in other words, remains subdued;

> Members concluded their discussion of domestic economic developments by observing that underlying inflation pressures in Australia were more moderate than in other advanced economies. This reflected a range of factors, including the relatively slow rate of wages growth in Australia.

Q3 GDP is expected to contract but this is expected to be temporary with growth rebounding in Q4 2021.

Despite the optimism in the rebound, the policy stance remains firmly dovish. Lower rates for longer;

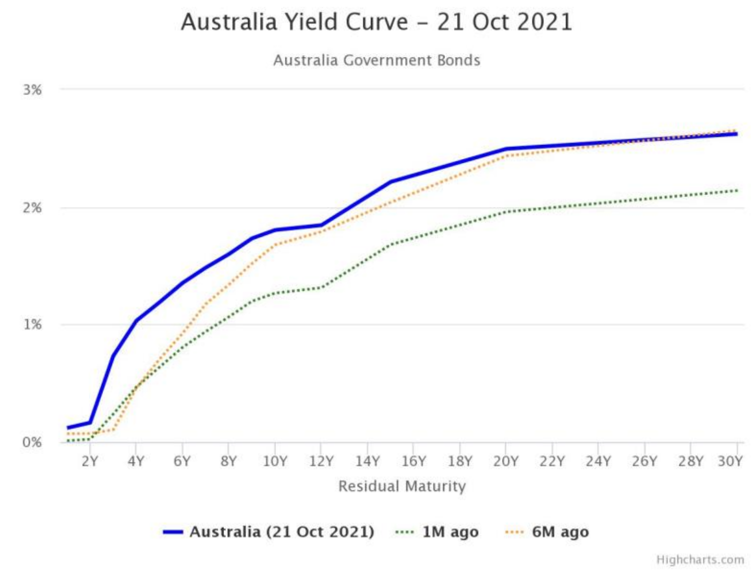
> It will not increase the cash rate until actual inflation is sustainably within the 2 to 3 per cent target range. The central scenario for the economy is that this condition will not be met before 2024. Meeting this condition will require the labour market to be tight enough to generate materially higher wages growth than at the time of the meeting.

Reaffirmed settings:

- maintain the cash rate target at 10 basis points and the interest rate on Exchange Settlement balances of zero per cent
- maintain the target of 10 basis points for the April 2024 Australian Government bond
- continue to purchase government securities at the rate of $4 billion a week until at least mid February 2022.

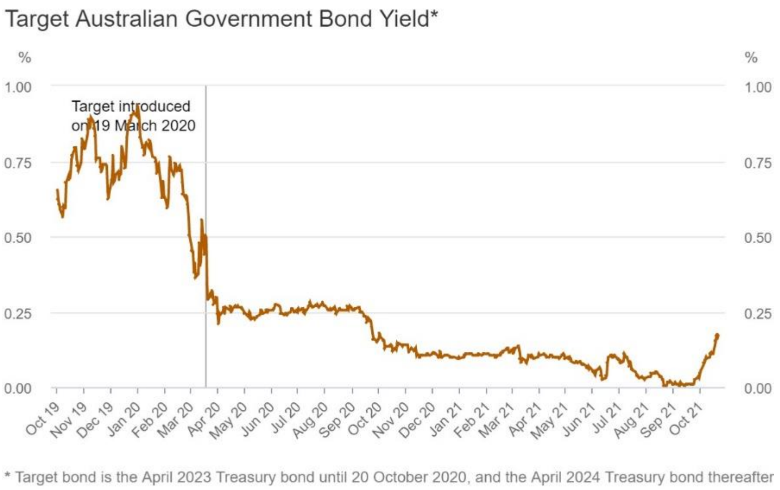
https://www.rba.gov.au/monetary-policy/rba-board-minutes/2021/2021-10-05.html

In the last month, short term Aussie rates have increased along with other countries. This is in stark contrast to the more dovish forward guidance from the RBA.



Source: http://www.worldgovernmentbonds.com/country/australia/

On Friday 22 Oct, the RBA announced it was buying up to $1bn of 3yr 2024 AGB to defend the 0.1% target rate (up to 0.175% as of 21 Oct 2021).



* Target bond is the April 2023 Treasury bond until 20 October 2020, and the April 2024 Treasury bond thereafter

Sources: RBA, Yieldbroker

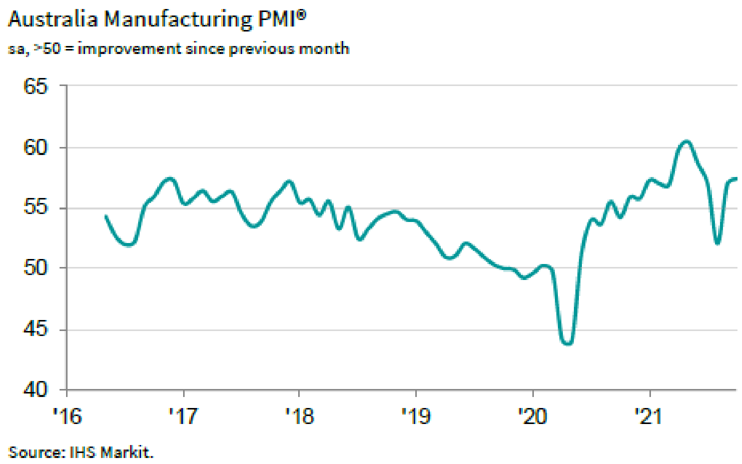
https://www.rba.gov.au/statistics/ags-target/

Prelim Manufacturing & Services PMI (Oct)

Summary: the headline output index shifted from contraction in Sep to growth in Oct. This was led by a large improvement in services (NSW easing of restrictions) but also a further acceleration in manufacturing output. The transition from lockdown remained bumpy for supply chains with lead-times lengthening at a faster pace. Both manufacturing and services industries continued to record faster growth in prices for inputs

Prelim Manufacturing PMI – Index: Oct 57.3 versus Sep 56.8

Output and new order growth accelerated in Oct. Current restrictions still weighed on vendor lead-times and supply chains. Order backlogs increased at a faster rate. Input and output prices increased at a faster pace.



Prelim Services Business Activity Index: Oct 52 versus Sep 45.5

The easing of restrictions in NSW accounted for much of the improvement in growth impulse. This will continue in Nov with VIC restrictions easing in late Oct. New business expanded for the first time since Jun.

https://www.markiteconomics.com/Public/Home/PressRelease/3cfc1fbc2d7948fdb1b40ffab51ee2f1

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China

Chinese GDP Q3

Headline Real GDP Growth – annual chg: Q3 +4.9% versus Q2 +7.9%

This headline growth came in lower than the expected +5.2% growth.

The slowdown in the Chinese GDP growth is clearer on a QoQ basis.

Real GDP Growth – quarter % chg: Q3 +0.2% versus Q2 +1.2%

This is the third slowest quarterly rate of growth since the start of 2016. The slowest was Q1 2020 at -9.5% quarterly decline in GDP (onset of the pandemic), and the equal second slowest was Q1 in 2021 of +0.2% growth.

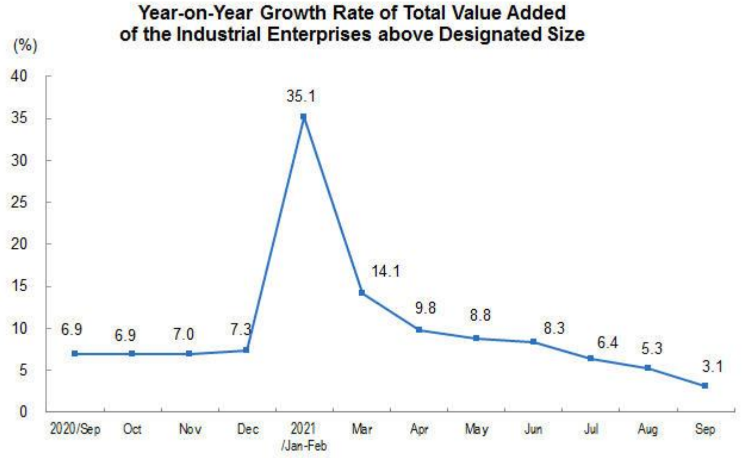
http://www.stats.gov.cn/english/PressRelease/202110/t20211018_1822968.html

Chinese Industrial Production (Sep)

Headline Industrial Production – annual: Sep +3.1% versus Aug +5.3%

The YTD growth for Jan-Sep 2021 was +11.8% ahead of the same period a year ago (so including a low base from the onset of the pandemic shutdowns in Jan and Feb 2020).

In terms of key industrial sectors: manufacturing was +2.4% ahead of the same month a year ago, with the manufacture of high-tech industry +14% year over year. Mining and quarrying +3.2% ahead of the same month a year ago. The output of utilities (supply of electricity, heat, gas and water) increased by 9.7 percent.



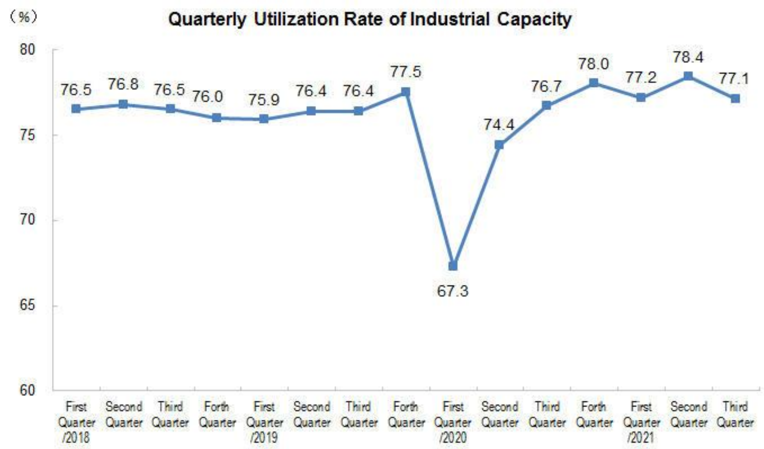
By industry, in September, the added value of 30 of the 41 major industries maintained year-on-year growth.

Industries growing faster than the annual pace of production: special equipment manufacturing +8.8%, railway, shipbuilding, aerospace and other transportation equipment manufacturing +7.9%, electrical machinery and equipment manufacturing +6.8%, computer, communication and other electronic equipment manufacturing +9.5%, and power and heat production and supply +8.9%.

Industries where output declined year over year: non-metallic mineral products industry -1.1%, ferrous metal smelting and processing -9.7%, textiles -5.8%, and automobile manufacturing -13.4% (including cars and SUV's). "New energy auto" production increased notably but on lower volumes.

Industries where growth was lower than the headline annual pace: agricultural and sideline food processing +2.5%, manufacturing of chemical raw materials and chemicals 0%, non-ferrous metal smelting and processing +1.2%, and general equipment manufacturing industry increased by +3.0%.

Industrial utilization in Q3 was the lowest of the first three quarters of the 2021 at 77.1% - but higher than the same quarter a year ago. The utilization of mining and utilities production capacity was higher in Q3 than a year ago. Manufacturing utilization was unchanged at 77.3%



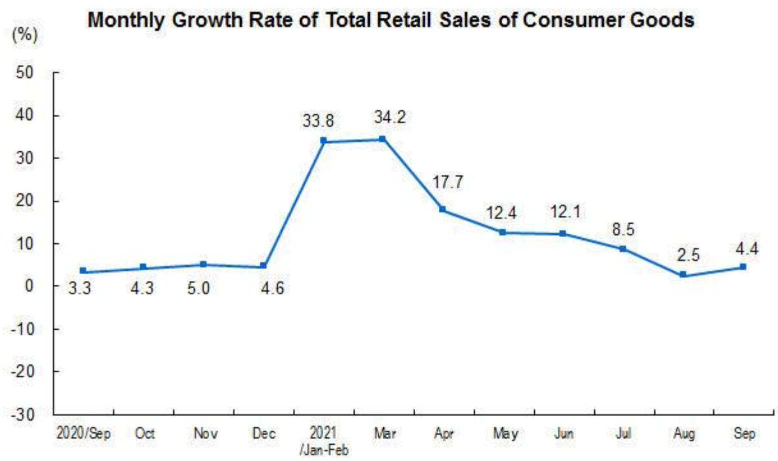
Utilization in Q2 2021 was the highest of the last few years.

http://www.stats.gov.cn/english/PressRelease/202110/t20211019_1823029.html

Chinese Retail Sales (Sep)

Headline Retail Sales – annual chg: Sep +4.4% versus Aug +2.5%

On a Jan-Sep YTD basis, retail sales were +16.4% ahead of the same period a year ago (which included a much lower base due to the onset of the pandemic in Jan-Feb 2020).



The two main industries that recorded a decline in retail sales on a year over year basis was autos (-11.8% below a year ago, but +15% on a YTD basis versus a year ago). This is the single largest industry designation.

The other industry was clothing, garments, footwear which was -4.8% below the same month a year ago and +20% ahead on a YTD basis versus a year ago.

http://www.stats.gov.cn/english/PressRelease/202110/t20211019_1823034.html

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