

October 4, 2021

GLOBAL ECONOMIC HIGHLIGHTS

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Unemployment Rate Likely to Tick Lower in the September Jobs Report; Shortages Are a New Blow to UK's Economy

UNITED STATES: Personal income rose 0.2% in August from July. Labor market income increased 0.4% over the month due to more jobs and higher wages. With taxes up 0.6%, disposable (after-tax) income rose 0.1%. The personal consumption expenditures price index rose 0.4% in August from July, the same pace as July but down from May and June's 0.5% increases and 0.6% increases in March and April. The core PCE price index, excluding food and energy prices, rose 0.3% in August, the same as in July and down from 0.5% in June and 0.4% in April and May. Monthly inflation, though higher than it was before and during the recession, has slowed in July and August. Real disposable personal income fell 0.3% on the month.

Consumer spending increased 0.8% in August from July. Spending on goods rose 1.2%, with a 2.1% increase in nondurable goods spending more than offsetting a 0.4% decline in durable goods spending. Lower durable goods spending was due to lower auto sales, as supply-chain problems restricted auto production and inventories. Spending on services rose a solid 0.6% in August, even as the Delta variant became more of a drag on consumer activity over the month. Real goods spending is well above its pre-pandemic level, with real services spending still somewhat below.

The ISM manufacturing index rose to 61.1% in September from 59.9% in August, but the bulk of the increase came from supplier deliveries, which rose to 73.4% in September from 69.5% in August. This indicates the turmoil in manufacturers supply chains got even worse in the month. More upbeat, inventories rose in September, with that subindex increasing to 55.6% from 54.2% in August. Prices paid rose slightly over the month and remained extremely high at 81.2%, but this subindex was down from earlier in the recovery. The anecdotal comments from respondents noted strong demand, but also supply-chain problems, including transportation issues, and input and labor shortages.

Construction spending was flat in August from July. Private residential spending rose 0.4% on the month, but new single-family construction spending was down 0.7% and multifamily spending down 0.8%; spending on improvements rose and drove the overall increase. Private nonresidential construction spending fell 1.0% from July, with declines broad-based across most categories. Public construction spending rose 0.5% on the month. From a year earlier, total construction spending rose 8.9%, with private residential spending up 24.3%, private nonresidential spending down 2.3%, and public construction spending down 4.0%. Real construction spending fell in August. The Census Bureau does not report real construction spending on a monthly basis, but the price deflator for new single-family home construction rose 1.5% on the month and 13.6% on the year; construction costs indexes in the August producer price report also rose, indicating the volume of goods and services purchased in August was less than in July.

The Bureau of Labor Statistics Employment Situation Summary for September, to be released October 8, will likely show employment up 400,000 from August, with the unemployment rate down to 5.1% from 5.2% and average hourly earnings up 0.3% on the month.

UNITED KINGDOM: The British economy is suffering widespread shortages of gasoline and fresh foods due to a trucker shortage. After leaving the EU to end open immigration from poorer Eastern and Southern European countries, Britain is now trying to bring in EU guest workers to end the crisis; in the meantime the

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government is calling up the army to help deliver gasoline to stations. The pound sterling exchange rate made a year-to-date low the week of September 27 on this tangible evidence of the costs of Brexit (shortages of foreign workers). Shortages will push inflation higher in the near-term, and also pose downside risks to growth. Bank of England Governor Andrew Bailey said September 29 that the Bank must be vigilant to the risk that the inflation shock leads to a persistently higher rate of price increases.

CHINA: The manufacturing PMIs for September were mixed. The government-produced CFLP PMI fell to 49.6 from 50.1, while the privately-compiled Caixin PMI rose to 50.0 from 49.2. China's economy is facing headwinds from three sources: The Delta variant made the country reinstate regional lockdowns in August; a major property developer missed interest payments on its bonds in September and caused a slowdown in the property sector; and the government is limiting electricity consumption to meet emissions reduction goals and limit the inflationary pass-through of higher energy commodity prices.

EUROZONE: CPI rose to 3.4% in the September preliminary estimate from 3.0% in August, with core CPI excluding alcohol, food, and energy picking up to 1.9% from 1.6%. The European Commission's Economic Confidence Indicator rose to 117.8 from 117.6 (upwardly revised from 117.5 in the prior release); economic confidence is down a hair from July but still above the prior cycle's peak in December 2017. On the other hand the Markit manufacturing PMI for the Eurozone fell to 58.6 in September from 61.4 in August and was the lowest since February.

MEXICO: As expected, the Bank of Mexico (Banxico) raised its benchmark interbank policy rate 0.25 percentage point to 4.75% at the September 30 rate decision. The Bank raised its forecasts for both real GDP growth and inflation; they now see real GDP of 5.3% in the fourth quarter of 2021 from a year earlier versus 5.0% in the August forecasts; they forecast growth gradually slowing over the course of 2022 before settling around 3% in 2023. Their CPI forecasts see inflation peaking at 6.2% in the fourth quarter of 2021, up from 5.7% in the August round of forecasts; CPI inflation is forecast to stay above 5% through the first quarter of 2022 then slow to be near the Bank's 3% target in early 2023. Banxico sees risks to its inflation forecast to the upside, meaning inflation is more likely to overshoot their forecast than undershoot it.

CANADA: Economic output shrunk less than expected in July as inflation-adjusted GDP fell 0.1% from June, slightly better than expectations for a 0.2% decline. Output of the goods-producing sector shrunk 1.4% while that of the services-providing sector grew 0.4%. The decline in goods output comes as supply-chain restrictions and high input costs continue to weigh on businesses. Preliminary estimates from Statistics Canada showed a 0.7% rise in real GDP in August; that would put real GDP about 1% below the pre-crisis level. Statistics Canada is scheduled to release its Labor Force Survey for September on Friday October 8. Canada's economy likely added around 80,000 jobs from August; vaccination rates are up and the fourth wave has not led to large-scale lockdowns. PNC expects the BOC to complete the taper of its QE program at its meeting on October 27, reducing bond purchases from C\$2 billion to C\$1 billion, and then raise the benchmark policy rate 0.25 percentage point at both the July 2022 and October 2022 meetings.

JAPAN: The government lifted its state of emergency on October 1, likely fueling a strong recovery of service-sector activity in the fourth quarter of 2021. The unemployment rate was unchanged on the month in August at 2.8%; it is down from its October 2020 peak of 3.1% but still well above its pre-crisis trough of 2.2% reached in December 2019.

BRAZIL: The Central Bank of Brazil slightly raised its forecast for real GDP growth in 2021 to 4.7% in its quarterly *Inflation Report* for September, up from 4.6% in the June *Report*. The BCB sees a robust recovery underway in the second half of 2021 due to "the continued slowdown of the pandemic" and "higher confidence levels." They expect real GDP growth of 2.1% in 2022. The inflation forecast was also raised to 8.5% for 2021 and 3.7% for 2022 from 5.8% for 2021 and 3.5% for 2022 in the June *Report*. Policy makers noted that "higher input costs and supply restrictions have not subsided and should remain a pressure in the short run." Household debt as a percentage of disposable income reached a record-high 59.9% in June; household debt as a percentage of disposable income has increased in every month since May of last year. Higher debt servicing costs could weigh on consumer spending in the near term as the BCB has increased the Selic rate by 4.25% this year. 372,265 formal jobs were added in August, the eighth straight month of job gains, according to the government's survey of employers. The household survey also showed an



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improvement in the labor market situation; the unemployment rate fell to 13.7% in the three months to July from 14.1% in the three months to June. Growth in the manufacturing sector accelerated as the Markit manufacturing PMI rose to 54.4 in September from 53.6 in August.

INDIA: Growth in the manufacturing sector improved as the Markit manufacturing PMI rose to 53.7 in September from 52.3 in August. With economic activity improving and inflation moderating, PNC Economics expects the Reserve Bank of India to hold the policy repurchase rate unchanged at 4.0% when policy makers meet on October 8.

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