December 13, 2021

GLOBAL ECONOMIC HIGHLIGHTS

Gus Faucher
Chief Economist

Stuart Hoffman
Senior Economic Advisor

William Adams
Senior Economist

Abbey Omodunbi
Senior Economist

Kurt Rankin
Economist

China Loosens Bank Reserve Requirements to Bolster Confidence Amid Housing Downturn

CHINA: The People's Bank of China cut the reserve requirement ratio (RRR) for most Chinese commercial banks 0.5 percentage point on December 6, increasing the sector's lending capacity by ¥1.2 trillion yuan. China's central bank has been gradually reducing RRRs since 2011 to allow banks to grow loans as they diversify funding sources away from deposits. The latest RRR cut is timed to bolster confidence in the economy as the real estate downturn deepens. On December 9, several global credit rating agencies declared the Evergrande Group (a huge Chinese real estate development company) in default after months of difficulties in meeting bond payments. The real estate downturn is likely to weigh on growth through at least mid-2022.

Credit growth is starting to pick up again. Aggregate financing to the real economy grew 10.1% from a year earlier in November, up a hair from 10.0% in September and October. Growth of this broad measure of credit peaked at 13.7% in October 2020; the latest figure is still below the pre-crisis trough of 10.3% reached in November and December 2018. The M2 broad money supply increased 8.5% from a year earlier in November; it has increased between 8.3% and 8.7% in the same terms since May. CPI inflation rose to 2.3% in year-ago terms in November from 1.5% in October, while PPI inflation slowed to 12.9% from 13.5%. The high weight of pork in the CPI (Chinese pork prices surged in 2020 and came back down in 2021) is holding CPI inflation low, but broader Chinese inflation is running hot like in the rest of the world.

The release of November's monthly activity indicators on the evening of December 14 in U.S. time zones will likely show another weak increase of industrial value added of below 4% in year-over-year terms after a 3.5% increase in October, and another sequential slowdown in growth of fixed asset investment.

UNITED STATES: Inflation rose to a new multidecade high in November, but the month likely marked the peak for this cycle. The CPI rose 0.8% from October, near the 0.7% consensus, after a 0.9% monthly increase in October. Core CPI excluding food and energy rose 0.5% and matched the consensus after a 0.6% increase in October. From a year earlier, total CPI accelerated to 6.8% from 6.2% in October and was the fastest since 1982. Core CPI accelerated to 4.9% from 4.6% in the same terms and was the highest since 1991. Energy prices jumped 3.5% on the month with gas prices up 6.1%; energy prices surged 33.3% on the year. Food prices rose 0.7% on the month and 6.1% on the year.

Some of the fourth quarter's high inflation is due to supply chain problems and the lag between recovering consumer demand and recovering business production; these sources of inflation will fade in 2022. But other sources of high pressure look more likely to persist. Shelter prices rose 0.5% on the month in November and 3.8% on the year; their pickup reflects pass-through of the surge in home prices that began in 2020, which only started to show up in the CPI recently. Rapid increases in labor costs are contributing to inflation, too. Unit labor costs—measuring businesses' labor compensation costs, adjusted for increases in productivity—rose the fastest in the third quarter of 2021 since 1982. This puts broad-based upward pressure on inflation, and is showing up in the CPI sub-index for services excluding energy services: It rose 0.4% on the month in November for a second consecutive month, and rose 3.4% on the year, the highest since 2007.

Total CPI inflation will likely slow in December, since wholesale oil prices peaked in October at $85 dollars per barrel and are down to $73 dollars per barrel in the first half of December, good news for gas prices. The strain on global supply chains will ease after the end of the holiday season rush to get goods from foreign factories to retail shelves and distribution centers. But the rapidly tightening job market will keep upward pressure on wages in 2022, likely keeping inflation above the Fed's 2% target through the end of next year. Job openings rose to 11.033 million in October from 10.601 million in October and were only 0.6% below July's record high. Initial claims for unemployment insurance hit a half-century low of 184,000 in the latest report for the week ended December 4.

The goods and services trade deficit dropped sharply in October, by a seasonally-adjusted $14.3 billion to $67.1 billion from September's record $81 billion deficit; both exports and imports are at record highs. Exports surged 8.1% to a record-high $223.6 billion, with goods exports up 11.1% and services exports up 1.6%; September's level of exports was revised down 0.4% to $206.8 billion from $207.6 billion. October's higher exports largely reflect higher energy shipments after Hurricane Ida and a recovery of autos and auto parts exports with the chip shortage less of a drag on the industry. Imports are also growing, but slower than earlier in the recovery.

EUROZONE: At their December 16 decision, the European Central Bank's Governing Council is likely to announce a slower pace of purchases made by their Pandemic Emergency Purchase Programme ("PEPP") in the first quarter of 2022, down from the roughly €60 billion euro monthly pace of the fourth quarter of 2021, and signal that PEPP purchases are on course to end in March. The ECB will likely also shorten the tenor of negative interest rate loans made to Eurozone commercial banks, but continue to provide funding at rates as low as the -0.5% negative deposit rate through a lending facility.

UNITED KINGDOM: Monthly GDP growth slowed to 0.1% in October from 0.6% in September, with industrial production down 0.6% on the month, construction down 1.8%, and services activity growth slowing to 0.4% from 0.7%. The Bank of England will end its quantitative easing program as scheduled at its December 16 Monetary Policy Committee decision, and is likely to raise the Bank Rate from its current 0.10% to 0.25%. If the Monetary Policy Committee does not hike in December, they are very likely to do so at their following decision on February 3.

JAPAN: PPI inflation jumped to 9.0% in November from 8.3% in October, which was revised up from 8.0% in the prior report. Even in Japan, where consumer prices have chronically undershot the central bank's target since the early 1990s, producer prices are soaring on the global surge in energy prices.

CANADA: As expected, the Bank of Canada (BOC) kept its policy rate unchanged at 0.25% when policymakers met on December 8. Policymakers dropped the "temporary" reference on inflation and noted that the effects of global supply constraints "will likely take some time to work their way through, given existing supply backlogs." Capacity utilization in the third quarter of 2021 fell to 81.4% from 82.0% in the prior quarter. Capacity utilization remains above the pre-crisis rate of 79.8%.

AUSTRALIA: As expected, the Reserve Bank of Australia (RBA) kept its cash target rate unchanged at 0.1% when central bankers met on December 6. Governor Philip Lowe noted that "the omicron variant is a new source of uncertainty but is not expected to derail the recovery." The RBA expects a strong recovery in the labor market and a pick-up in wage growth as the labor market tightens.

MEXICO: Industrial production rose 0.6% in October from September, but September's decline was revised to 1.4%, worse than the 1.1% drop in the prior report. Industrial production was up 0.7% from a year earlier in October, with manufacturing output unchanged on the year.

BRAZIL: As widely expected, the Central Bank of Brazil (BCB) raised the Selic policy rate from 7.75% to 9.25% when central bankers met on December 8. This was the seventh consecutive hike and brings the Selic rate to the highest level since September 2017. The BCB noted that doubt "regarding the fiscal framework increases the risk of de-anchoring inflation expectations and implies a higher probability of inflation paths above the baseline projection." Additionally, the BCB signaled a hike of the same magnitude, 1.5%, when central bankers meet next on February 2.

Consumer prices as measured by the IPCA index increased 1.0% in November from October, slightly below the consensus forecast for 1.1%, and following a 1.1% reading in October; prices were up 10.7% in November from twelve months earlier, unchanged from October. November's monthly inflation was the highest reading for the month since 2015, and the yearly inflation rate was the highest for the month since November 2003. The slowing in monthly inflation in November is good news for the BCB but yearly inflation is still well above the BCB's preferred target range of 2.35%-to-5.25%. Retail sales for October fell 0.1%, worse than consensus expectations for a 0.6% increase. Retail sales plunged 7.1% in October from twelve months earlier, the biggest drop since May 2020, and worse than expectations for a 6.1% decline.

INDIA: As expected, the Reserve Bank of India (RBI) held the policy repo rate steady at 4.0% and maintained an accommodative stance when central bankers met on December 7; the RBI increased the amount of liquidity it is draining from financial markets with its reverse repo facility. The RBI noted continued headwinds from "elevated international energy and commodity prices, potential volatility in financial markets and prolonged global supply bottlenecks." The RBI maintained its FY 2022 (April 2021 to March 2022) GDP growth forecast at 9.5% and retained its FY 2022 inflation forecast at 5.3%.

Industrial production rose 3.2% in October from a year ago, below consensus expectations for 3.7% and following an upwardly revised 3.3% increase in September. Industrial output growth has been supported by improving domestic demand and resilient exports.

Visit http://www.pnc.com/economicreports to view the full listing of economic reports published by PNC's economists.