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GLOBAL ECONOMIC HIGHLIGHTS

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CHINA'S CENTRAL BANK ANNOUNCES STIMULUS, WITH ECB NEXT IN LINE; UK PARLIAMENT BLOCKING HARD BREXIT

CHINA: On September 6, the People's Bank of China (PBoC) announced a 0.5 percentage point reduction in all commercial banks' reserve requirement ratios (RRRs), effective September 16. The PBoC also will reduce regional city commercial banks' RRRs an additional 1.0 percentage points, in two 0.5 percentage point cuts, one on October 15 and the second November 15. The reserve requirement ratio is a regulatory tool that restrains commercial banks' loan issuance; a RRR cut lowers the amount of deposits that commercial banks are required to keep in reserve, allowing banks to make more loans. The latest reductions in the reserve requirement ratio will sustain faster growth of bank credit than bank deposits; domestic credit of depository institutions grew 10.1 percent on the year in July vs 8.1 percent growth of the M2 money supply. China has been gradually cutting commercial bank reserve requirement ratios since 2011. Looking forward, the PBoC is likely to broaden stimulus by cutting its policy interest rate, the seven-day reverse repo rate, by 0.70 percentage point by year-end, to 1.85 percent from 2.55 percent currently, to offset the drag of rising tariffs on exports, capital spending, and business and consumer sentiment, and to keep pace with the Federal Reserve. The first rate cut could come as early as September 17, the day after the release of August's monthly economic indicators, when the People's Bank of China rolls over maturing loans under its medium-term lending facility. The US and Chinese governments announced plans for the next round of trade negotiations to take place in early October, but neither side has announced the type of breakthrough or concession that would be necessary for a deal. The Caixin general services PMI rose to 52.1 in August from 51.6 in July, and the CFLP nonmanufacturing PMI edged up to 53.8 from 53.7, which had been the weakest since November. Exports fell 1.0 percent on the year in dollar terms in August and imports 5.6 percent; in yuan terms, exports rose 2.6 percent and imports fell 2.6 percent. The outsize weakness of imports points to further weakening of Chinese investment and consumption demand, and reinforces expectations for a further slowdown in real GDP to below 6.0 percent in year-over-year terms in the second half of 2019.

EUROZONE: PNC forecasts a substantial increase in monetary stimulus at the European Central Bank's September 12 Governing Council decision. The ECB will likely lower its negative policy deposit rate to -0.50 percent from -0.40 percent currently, and signal that that they will not raise interest rates until core inflation rises to meet a quantitative threshold, such as when HICP excluding food and energy averages 1.5 percent in year-over-year terms for three months. The Governing Council will "tier" the deposit rate, exempting some of Eurozone commercial banks' excess cash from the negative deposit rate, to boost the financial sector's net interest margins, profitability, and ability to grow loans and fund growth. The ECB will also restart its quantitative easing program, probably with €30 billion euros per month in asset purchases, the same pace as in the first three quarters of 2018. All of the types of assets eligible in prior rounds of QE will stay eligible in this round: National government bonds, regional and local government bonds, commercial bank bonds, and corporate bonds. This QE program will likely continue at least through June 2020, with a taper possible in the second half of 2020 if growth and inflation firm. The ECB deposit rate will likely stay at its post-cut level through year-end 2020 or longer.

UNITED STATES: Headline job growth slowed in August, reinforcing other signs of slowing real GDP, but labor income measures were better. Nonfarm payrolls rose just 130,000 in August from July due to soft private job growth, at 96,000 the slowest since May. Employment fell on the month in retail trade, mining, and utilities, offset by gains in professional and business services and eds and meds; government employment rose a large 34,000 as census hiring ramped up. Job growth in June and July was revised down a net 20,000; job growth averaged 156,000 per month over the last three months, down from an average of 168,000 per month in the year through March 2019 (after preliminary revisions). In the household survey (different from the survey measuring payroll jobs) employment rose 590,000 and the labor force 571,000 from a year earlier, much stronger than the payroll survey's 130,000 increase; the employment level is volatile in the household survey and generally seen as less accurate than the payroll survey. Employment in the household survey rose 189,500 per month over the last twelve months. The employment to population ratio rose to 60.9 percent in August, the highest since December 2008, from 60.7 percent in July. The unemployment rate held unchanged at 3.7 percent; outside of a couple of months earlier this year, August's is the lowest since 1969. The U-6 underemployment rate, measuring the unemployment, underemployed, and those too discouraged to actively seek employment, edged up in August, to 7.2 percent from July's 18-year low of 7.0 percent, as the number of Americans too discouraged to actively look for a job and who were working part-time jobs but wanted full-time work edged higher.

The tight job market is further confirmed by improving conditions for historically marginalized groups. The unemployment rate for African Americans fell to 5.5 percent from 6.0 percent and was the lowest since comparable data began in 1972; the unemployment rate for Hispanic Americans tied for the lowest since comparable data began in 1972; the unemployment rate for Americans with less than a high school diploma rose to 5.4 percent, but was still the sixth lowest since comparable data begin in 1992, from July's 5.1 percent, which was second lowest. The unemployment rate for disabled Americans fell to 7.2 percent from 8.0 percent a year earlier (the statistic is not seasonally adjusted so monthly comparisons are inaccurate). Wage growth picked up as job growth slowed: Average hourly earnings rose 0.4 percent on the month, and were revised up in June and July; average hourly earnings grew 3.2 percent from a year earlier in August, slightly slower than July's upwardly revised 3.3 percent. The average workweek bounced back to 34.4 hours after slowing to 34.3 hours in July; aggregate weekly hours rose a solid 0.4 percent on the month after a 0.2 percent decline in July. Slower job growth reflects a tightening labor market; in addition, business sentiment surveys suggest the trade war is making employers more cautious, although it will take several months of jobs reports to confirm this. The Markit services PMI retreated to 50.7 in August from 53.0 in July and was the weakest since February 2016, with the forward-looking expectations sub-index falling to the weakest since the survey began in October 2009. The more closely followed ISM non-manufacturing PMI rose solidly to 56.4 from 53.7, led by large gains in current activity, new orders, and inventories, while backlogs of orders weakened, as did export orders and employment, with the latter component showing the slowest hiring by non-manufacturing employers since March 2017 (confirming the weak private job growth in the Bureau of Labor Statistics' jobs report).

UNITED KINGDOM: Prime Minister Boris Johnson has lost control of the British policy process, making a Hard Brexit less likely at the October 31 deadline for a deal or extension of the negotiation. Members of the House of Commons passed a bill on September 4 to force the Prime Minister to take actions to prevent a Hard Brexit, then rejected the Prime Minister's call for a new election the same day due to the opposition's suspicions that an election could be a ploy to force a Hard Brexit. The House of Lords passed the no Hard Brexit law September 6. Prime Minister Johnson said September 5 he would "rather be dead in a ditch than delay Brexit." The Prime Minister might cause a political crisis by refusing to comply the law requiring him to extend the negotiation, but this seems very unlikely since Johnson would probably end his term as PM by doing so. Johnson has made no secret that becoming Prime Minister is his life's ambition, and he is unlikely to give up the office so easily.

CANADA: Canadian employment surged 81,100 in August, reversing the 26,400 cumulative job losses of the prior two months. However, most of August's jobs added were part-time – hours worked only rose 1.2 percent from a year earlier versus growth of 2.5 percent in employment. Jobs fell on the month and the year in utilities and resource sectors, and were up on the year in construction and manufacturing; service sector job gains were widespread with the exception of business building and support services, and accommodation and food services, which saw employment drop on the year. The Bank of Canada held its policy interest rate unchanged at 1.75 percent as expected at its September 4 monetary policy decision and pushed back against rate hike expectations in a speech given the next day by Deputy Governor Lawrence Schembri. Schembri emphasized that the Canadian economy is operating "close to potential," meaning that there is little slack left in the labor market, and that inflation is on the Bank of Canada's 2.0 percent target. But the BoC did acknowledge that the US-China trade war is worsening and that European economies are weakening. Barring a sharp deterioration of economic data or the trade war, the Bank of Canada will likely hold its overnight rate target unchanged through year-end 2019, but will probably cut it by 0.25 percentage point to 1.50 percent in January 2020 as a slowing US economy spills over to Canada.

MEXICO: More signs that Mexico is likely in recession in the second half of 2019. Auto sales fell to 108,000 units in August, down 9.2 percent from a year earlier; consumer confidence edged up to 43.4 in August from 43.1 in July but is still well below its February peak of 48.6. The Mexican statistical agency INEGI's manufacturing business confidence PMI edged up to 49.7 in August from 49.4 in July, and like consumer confidence was well below its February peak of 53.1.

BRAZIL: The Central Bank of Brazil's weekly survey of professional forecasters showed the median estimate for real GDP growth in 2019 was 0.9 percent in the August 30th survey, rising from 0.8 percent the prior week. Brazil's pension reform proposal cleared another legislative hurdle in a congressional committee vote on September 4. The proposal will still need to win full Senate approval in coming weeks. Once the proposal in its current form gets approved by the Senate, it will be signed into law by the President. If amendments are made to the proposal, it will return to the lower house of Congress (Chambers of Deputies), which may happen next year according to lawmakers. The pension system overhaul is one of several measures on President Bolsonaro's economic reform agenda. Additional measures include an overhaul of the tax system and privatization of state agencies. Industrial production in July fell for a third month in a row, declining by 2.5 percent from a year earlier, suggesting that the economic recovery may not be as solid as other data have indicated; mining was down by 8.8 percent and manufacturing by 1.7 percent.

INDIA: The IHS Markit services PMI fell to 52.4 in August from July's 53.8, which was the strongest in 12 months. Sales of passenger vehicles declined by 23.5 percent in the April – August period and fell over 30 percent in the month of August from a year earlier, according to the Society of Indian Automobile Manufacturers.

JAPAN: The Jibun services PMI was 53.3 in August, little changed from the flash estimate and up from 51.8 in July. Japanese consumers and businesses are pulling forward spending plans ahead of the October value added tax hike. Economic activity will fall sharply after the hike. The Bank of Japan will likely cut its -0.10 percent overnight policy rate by 0.10 percentage point to -0.20 percent at its October 31 Policy Board decision and accelerate ETF purchases to ¥9 or ¥10 trillion yen annually from the current ¥6 trillion pace.