CHINA DELAYS TRADE DATA RELEASE, ECHOING PREVIOUS ECONOMIC WEAK PATCHES; A GOOD US JOBS REPORT

CHINA: China’s General Administration of Customs announced February 7 that they will delay the release of foreign trade data for January until March, and release it in a combined January-February report. This will put the release of customs data on the same schedule as other macroeconomic data—China’s National Bureau of Statistics releases combined January-February values for most monthly economic indicators each March because the Lunar New Year holiday causes large swings in those two months. However, Chinese statistical agencies have a history of cancelling the release of economic data when the economy weakens; the delay of January’s trade data are consistent with PNC’s forecast of a sharp deterioration of economic activity in the first quarter of 2020. The Caixin services PMI was 51.8 in January, down from 52.5 in December; the release has little to say about the near-term outlook since data were mostly collected before the Coronavirus outbreak caused widespread quarantines and business shutdowns.

UNITED STATES: Another good jobs report: Nonfarm payroll employment grew a better-than-expected 225,000 in January, besting the consensus forecast of 155,000 and PNC’s of 165,000. The private sector added 206,000 jobs over the month (less than ADP’s 291,000 estimate), while government employment rose 19,000 supported by hiring for Census 2020. Goods-producing industries added 32,000 jobs, with a big gain in construction but manufacturing job losses of 12,000. Private service-providing industries added 174,000 jobs in January. Job growth in November and December was revised higher by a net 7,000, and the three-month moving average of job growth was a strong 211,000.

The unemployment rate was revised slightly to 3.6 percent, up from a 50-year low of 3.5 percent in November and December. The unemployment rate data were adjusted for new population estimates; after accounting for those, employment in the household survey (different from the survey of employers) rose by 418,000 from December, while the labor force rose 574,000. The labor force participation rate rose to the highest since June 2013, 63.4 percent. Good labor force growth is a positive for near-term economic growth, and the possibility of further increases in labor force participation is the largest upside risk for US economic growth in 2020-21. The labor force participation rate is still below its pre-Great Recession level of around 67 percent. Average hourly earnings rose 0.2 percent in January, and were up 3.1 percent from one year earlier. With the average workweek of 34.3 hours down from 34.5 a year earlier, average weekly earnings lagged hourly pay and grew 2.5 percent on the year. January’s year-over-year drop in average hours worked was most pronounced in goods-producing industries: Mining, construction, and manufacturing.

The January employment situation summary also included revisions to payroll employment for all of 2019. The impact was minor: The level of jobs was revised lower in early 2019, mostly offset by an upward revision to job growth later in the year. Average monthly job growth in 2019 was revised down a hair to 175,000 from 176,000. Job growth continues to run faster than needed to keep up with underlying growth in the labor force. After these revisions, employment rose 1.3 percent on the year in January in the household survey and 1.4 percent in the payroll survey, while aggregate hours worked grew a slower 0.9 percent, same as December; after June and July of 2019, December 2019 and January 2020 had the slowest year-over-year growth in aggregate hours worked since 2010.
The labor market is in excellent shape in early 2020. Strong job growth continues to tighten the labor market. January’s increase in the unemployment rate came from more people looking for work, a vote of confidence in the job market. Strong job gains and good wage growth will push household spending higher this year. With consumer purchases accounting for more than two-thirds of the US economy, the current expansion, already the longest in US history at more than 10 years, will continue throughout 2020. The problems at Boeing will be a drag on growth in the first half of this year, and the coronavirus outbreak is a downside risk, but solid fundamentals will continue to power expansion.

Last week’s monthly indicator releases were mostly positive. The ISM manufacturing PMI rose to 50.9 in January from 47.8 in December and was in expansionary territory for the first time since July; the Markit manufacturing PMI dipped to 51.9 from 52.4 but still pointed to moderate growth. The Markit services PMI rose to 53.2 from 52.8 and was the strongest since March 2019. Construction spending dipped 0.2 percent in December from November, but November’s level was revised up 0.4 percent.

The trade deficit rebounded to $48.9 billion in December from $43.7 billion in November, the smallest since September 2017. Exports rose 0.8 percent in December to $209.6 billion, while imports rose a larger 2.7 percent to $258.8 billion. For all of 2019, the US trade deficit was $616.8 billion, 1.7 percent smaller than in 2018. Exports fell 0.1 percent in 2019, while imports fell 0.4 percent. Trade was a modest positive for US economic growth in 2019, as imports fell more than exports. But for all of the conflict about trade around the world, its impact on the US economy was minor. As long as the US continues to be a net borrower, primarily because of enormous federal government budget deficits, it will run large trade deficits. PNC expects the trade deficit to narrow slightly in 2020, primarily because of increased exports as the global economy picks up. But the outbreak of the coronavirus has clouded the outlook. The pandemic could weigh on production in China and limit exports to the US. But the coronavirus also could disrupt trade flows and restrict demand for US exports to China or other foreign markets.

**UNITED KINGDOM:** The UK economy is returning to growth in the first quarter of 2020 after a soft patch in late 2019. The Markit manufacturing PMI rose to 50.0 in the January final release from a 49.8 flash estimate and 47.5 in December and was the best since April, while the construction PMI rose to 48.4 (still contractionary) and was the strongest since May. The services PMI rose to 53.9 from 52.9 and was the strongest since September 2018.

**EUROZONE:** The Markit manufacturing PMI rose to 47.9 in January from 46.3 in December and was the strongest since April. The services PMI was 52.5 after December’s 52.8; December and January were the strongest two months for the services PMI since August.

**JAPAN:** The Jibun bank services PMI rose to 51.0 in January from 49.4 in December and was the strongest since September. Average monthly cash earnings were unchanged on the year in December; cash earnings have been basically stagnant since the end of 2018, held back by weakness in Japan’s manufacturing sector.

**CANADA:** Strong labor and activity indicators released last week will keep the Bank of Canada on hold near-term. Canada’s economy added 34,500 jobs in January, up from 27,300 in the prior month, and beating economists’ expectations for 17,500 new jobs; Ontario and Quebec led unemployment gains with 15,900 and 19,100 new jobs added respectively, while Alberta lost 18,900 jobs. The unemployment rate dropped to 5.5 percent in January from 5.6 percent in December and was close to the lowest since comparable data began in 1976. Hourly wages rose 4.4 percent in January from a year earlier, faster than December’s 3.8 percent increase. The labor force participation rate dropped slightly to 65.4 percent in January from 65.5 percent in December; the labor force participation rate has not increased month-over-month since August 2019. Canada ran a trade deficit of C$370 million ($278 million) in December, down from a deficit of C$1.2 billion ($901.8 million) in November, and beating economists’ forecast for a C$610 million ($458.4 million) deficit. The Markit manufacturing PMI for Canada edged up to 50.6 in January from 50.4 in December.

**BRAZIL:** The Central Bank of Brazil’s Monetary Policy Committee (Copom) voted unanimously to lower the benchmark Selic policy rate at its February 4-5 meeting from 4.50 percent to a new record low of 4.25 percent, as expected. The accompanying monetary policy statement signaled an end to the cuts stating: “considering the lagged effects of the easing cycle that started in July 2019, the Committee sees the...
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interruption of the monetary easing process as appropriate.” Inflation by the benchmark IPCA index fell to 4.2 percent in the twelve months through January from 4.3 percent in December. Trimmed mean core inflation slowed to 3.1 percent in the twelve months through January from 3.2 percent in December. The Markit manufacturing PMI rose to 51.0 from 50.2 and the services PMI to 52.7 from 51.0; the services PMI was the strongest since March.

MEXICO: PNC forecasts for the Bank of Mexico to cut its benchmark interbank target rate 0.25 percentage point to 7.00 percent at its February 13 interest rate decision. The Markit manufacturing PMI rose to 49.0 in January from 47.1 in December but still pointed to contraction of Mexico’s manufacturing sector. Consumer confidence rose 0.7 points to 44.2 in January, but its resilience was not enough to offset the drag of Mexico’s weak manufacturing, construction, and energy sectors.

INDIA: The Reserve Bank of India’s Monetary Policy Committee unanimously voted on February 6 to hold the policy repo rate steady at 5.15 percent as expected by consensus, and in line with PNC’s forecast. PNC expects the RBI to hold the repo rate steady until food inflation cools, then reduce it by 25 basis points to 4.90 percent by year-end 2020. For additional details, please refer to PNC’s India Update for the first quarter of 2020, published at https://www.pnc.com/en/about-pnc/media/economic-reports.html. The Markit manufacturing PMI rose to 55.3 in January, the highest in nearly eight years, from 52.7 in December. The Markit India composite PMI rose to 56.3 in January from 53.7 in December; the composite PMI has been above 50, indicating growth across manufacturing and services sectors, for the last three months and for ten months in 2019. The Markit India services PMI rose to 55.5 in January from 53.3 in December.