U.S. Retail Sales and Industrial Production Expected Higher in June Reports; Chinese GDP to Rebound in Q2 Release

UNITED STATES: The ISM nonmanufacturing index rose to 57.1 in June from 45.4 in May, another sign that the economy expanded in June relative to May. Higher frequency weekly economic indicators covering the late June and early July period have been more mixed, but are likely distorted by the effect of the Independence Day holiday. Encouragingly, the Mortgage Bankers Association Purchase Index rose to the highest since 2009 in the July 3 release, another sign that housing demand is robust. But initial claims for unemployment insurance fell only slightly in the week ending July 4 to 1.314 million, from 1.413 million the prior week. The Census Bureau’s weekly Household Pulse Survey showed 1.9 million more U.S. adults experienced a loss of employment income in the week of June 30 than in the week of June 23; the number of adults who reported pandemic-related losses of employment was unchanged from a week earlier at 39.7 million. The Census Pulse data set is not adjusted for seasonal variations; since employment rises seasonally in the spring months and slower in the summer, the recent fluctuations in the Census Pulse survey could reflect similar seasonal noise. The Opportunity Insights trackers of small business revenue and employment dipped in late June; while the effect coincides with recent increases in coronavirus cases in some parts of the United States, it was also pronounced in states where the pandemic remains well controlled like Vermont, New Hampshire, and Maine; this is another indication that these soft weekly data are seasonal noise.

The producer price index for final demand fell 0.2 percent in June from May, while the core PPI index excluding food and energy fell 0.3 percent; from a year earlier, PPI final demand fell 0.8 percent and PPI excluding food and energy rose a bare 0.1 percent. Deflation is a bigger threat to the U.S. economy than inflation at present given businesses’ lack of pricing power.

PNC forecasts for the June release of industrial production on July 15 to show the industrial production index up 4.6 percent from May on a 5.0 percent increase in the manufacturing index as vehicle and aerospace production recover, and for retail sales to rise 4.5 percent in the July 16 release of the June report.

CHINA: The preliminary estimate of second quarter GDP, to be released late the night of July 15 in U.S. time zones, will likely show a 2.2 percent increase from a year earlier after a 6.8 percent year-over-year contraction in the first quarter. While retail sales are still depressed in China, held back by consumers’ continued reluctance to spend in restaurants and other high density settings, the industrial and real estate sectors are rebounding and supporting overall economic activity.

CANADA: The economic recovery is underway in Canada as well, with loosening of restrictions on movement, consecutive monthly increases in employment, and improvements in other activity and survey data. Employment rose a strong 952,900 in June from May in the household survey, exceeding the consensus forecast for a 700,000 increase, and following a 289,600 increase in May. The unemployment rate fell from May’s postwar record high of 13.7 percent to 12.3 percent.

The jobs report’s details were solid; private-sector employment rose 867,300 while public-sector employment rose 74,500; 488,100 full-time jobs and 464,800 part-time jobs were added; Ontario and Quebec had the largest gains with increases of 377,900 and 247,500 respectively; employment in goods producing industries rose 158,600 while employment in service producing industries rose 794,400, with large gains in trade,
health care and social assistance, and accommodation and food services. Average hourly earnings increased 6.8 percent year-over-year following a 10.0 percent increase the prior month; as in the United States, the disproportionate concentration of job losses in lower wage hospitality and retail jobs has raised the average hourly wage. The labor force participation rate rose to 63.8 percent in June from 61.4 percent the prior month; the share of adults in employment rose to 56.0 percent from 52.9 percent. Statistics Canada noted methodological issues with the jobs report that, as in the U.S. jobs report, made the unemployment rate seem deceptively low. The unemployment rate would have been 16.3 percent if those who wanted to work, but did not actively look for a job were included in the unemployed count. Even after June’s strong gain, the labor market is still a long way from recovery to its pre-pandemic level. Three million jobs were lost in March and April, leaving employment in June still down 1.6 million from a year earlier.

Housing starts rose 8.3 percent month-over-month in June to 211,700, better than economists’ median expectation for a 195,000 increase and following an upwardly revised 195,500 in the prior month. Consumer confidence rose for the 10th straight week in the week of July 6, and the Ivey PMI rose to 58.2 in June from 39.1 in May.

**EUROZONE**: The Sentix investor confidence index rose to -18.2 in July from -24.8 in June; retail sales rose 17.8 percent in May from April and fell 5.1 percent from a year earlier, a smaller year-over-year decline than April’s 19.6 percent drop.

**UNITED KINGDOM**: The Chancellor of the Exchequer (the UK’s equivalent of a Treasury Secretary) announced in the summer budget statement that the government would not extend emergency subsidies for furloughed workers beyond their currently scheduled end in October. The government would pay a £1,000 pound one-time subsidy to employers who retain workers through January, but would not provide further assistance for companies experiencing sharp drops in demand. The government is also providing incentives for consumers to dine in restaurants and reducing transaction fees on home purchases.

The budget plan is essentially an admission that many of the temporarily furloughed workers beyond the shutdown will become permanent job losses. After the pandemic, the key risk to the UK’s economy as well as other advanced economies is that policymakers get deficit fatigue before the public health situation allows the economy to return to a more normal footing, and that permanent job losses in the hardest-hit sectors far outpace the ability of other sectors to absorb displaced workers.

**MEXICO**: Vehicle production rose to 239,000 in June from 22,000 in May and 3,700 in April, but was still down 29.3 percent from a year earlier.

**JAPAN**: Labor cash earnings fell 2.1 percent from a year earlier in May after a 0.6 percent decline in April, while household spending plunged 16.2 percent after an 11.1 percent drop a month earlier. Machine tool orders fell 32.0 percent in year-over-year terms in June after a 52.8 percent plunge in May.

**BRAZIL**: Consumer prices by the benchmark IPCA index rose 0.3 percent in June month-over-month, in line with economists’ expectations, following a 0.4 percent fall in May; the main drivers were a 1.3 percent increase in household goods prices, a 0.8 percent increase in communications prices and a 0.4 percent increase in food and beverage prices. Core IPCA measured by the Central Bank of Brazil’s trimmed mean index rose 0.1 percent month-over-month. In year-ago terms, IPCA rose 2.1 percent in June, below the 2.5 percent lower bound of the central bank’s inflation target range.

Retail sales rose 13.9 percent in May on a month-over-month basis, beating economists’ forecast for a 5.9 percent gain, and following an upwardly revised 16.3 percent fall in April. On a year-over-year basis, retail sales fell 7.2 percent in May, following a downwardly revised 17.1 percent drop in April.

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