July 20, 2020

GLOBAL ECONOMIC HIGHLIGHTS

Gus Faucher Chief Economist | **Stuart Hoffman** Senior Economic Advisor | **William Adams** Senior Economist | **Kurt Rankin** Economist | **Abbey Omodunbi** Economist

THE PNC FINANCIAL SERVICES GROUP | The Tower at PNC Plaza | 300 Fifth Avenue | Pittsburgh, PA 15222-2401

U.S. Indicators Rebounded in June, but July Looking Slower as the Pandemic Worsens and Expiration of Stimulus Nears

UNITED STATES: The U.S.'s key monthly activity reports posted robust increases in June, corroborating the month's record rise in nonfarm payroll employment and sharp drop in the unemployment rate. Retail sales (including food service) jumped 7.5 percent from May, and were less than 1 percent short of their level in February, before the Viral Recession hit. However, there have been big shifts in consumer spending in the wake of the pandemic. From a year earlier, grocery sales were up 12 percent, non-store sales (primarily online) were up 23 percent, specialty store sales up 21 percent (perhaps as households had more leisure time), and building materials sales up 17 percent. But restaurant sales fell 26 percent, clothing store sales fell 23 percent, and gasoline sales fell 19 percent, due to both reduced driving and lower gas prices. Department store sales dropped 11 percent from a year earlier. June's sales excluding autos were up 7.3 percent from May, and sales excluding autos and gasoline were up 7.5 percent. Control sales—sales excluding autos, gasoline, food service, and building materials, and which go into the calculation of nominal consumer spending in GDP—rose 5.7 percent in June. Retail sales growth in May was revised higher to 18.2 percent, from 17.7 percent.

Housing starts jumped 17.3 percent in June, with single-family starts and multifamily (condo and apartment) starts growing at similar rates. June's level of starts was still 24 percent lower than the February level, however. Housing permits rose 2.1 percent in June after a 14.1 percent increase in May, and were about 14 percent lower than their February level. Single-family permits rose 11.8 percent in June from May, while more volatile multifamily permits fell 13.4 percent. Rising permits point to further near-term gains in housing starts. The Mortgage Bankers Association Purchase Index fell 6.1 percent the week of July 10, but this dip could have been influenced by the timing of the Independence Day holiday; the index reached the highest since 2009 a week earlier. Similarly, industrial production rose a robust 5.4 percent in June, its largest one-month increase since 1959, but was still 10.9 percent below its February level; manufacturing production rose 7.2 percent in June, while mining output fell 2.9 percent.

In contrast, early indicators for July suggest the recovery is slowing this month as the coronavirus pandemic worsens in many states and the unemployment insurance benefits temporarily increased by the CARES Act approach their legislated end at the end of July. The University of Michigan Consumer Sentiment Survey fell to 73.2 in July from 78.1; after March and April, July's reading was the weakest since 2013. The number of American adults who reported being employed in the Census Bureau's weekly pulse survey fell to 132.2 million in the week of July 4 from a June peak of 134.9 million the week of June 16; the data are not adjusted for seasonal variation, and may reflect the timing of the Independence Day holiday. Job losers filed a seasonally-adjusted 1.30 million initial claims for unemployment insurance the week of July 11, barely different from the 1.31 million level reported a week earlier. High-frequency trackers of economic activity and employment estimated by Opportunity Insights and the Federal Reserve Bank of St. Louis likewise softened in the first half of July, and mobility tracking reports released by Google and Apple report little increase in the number of Americans traveling to workplaces in the first half of July from a month earlier. These very high frequency data have very short track records and should be interpreted with caution, but they do suggest that the recovery is proceeding slower in July than in June.

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CHINA: Chinese real GDP beat expectations in the second quarter, rising 3.2 percent from a year earlier after plunging 6.8 percent in the first quarter. The consensus forecast had been for an increase of 2.4 percent. In seasonally-adjusted (but not annualized) quarter-over-quarter terms, real GDP rebounded 11.5 percent in the second quarter after plunging 10.0 percent in the first.

The level of GDP in the second quarter was roughly unchanged from the fourth quarter of 2019. However, the composition of GDP changed dramatically between those two quarters; the pandemic is creating winners and losers between sectors. Monthly indicators show that manufacturing is leading China's recovery. Value added of industry in June was 1.6 percent higher than in December 2019, while monthly investment in fixed assets was 2.5 percent lower and retail sales were 6.3 percent lower. Manufacturing growth is being led by output of motor vehicles, smartphones, and industrial equipment, production of which grew by double digits on the year in June. Fixed investment is growing fastest in the pharmaceutical and public health sectors, with rapid growth in education and utilities as well; real estate investment accelerated in June.

Within retail sales, spending at food services and drinking places was down 15.2 percent on the year in June. Chinese consumers seem reluctant to return to restaurants amid a tenuous recovery and continued fears about crowds. Spending on auto fuels and other petroleum products fell 13.0 percent on the year, but since fuel prices fell 19.1 percent per the CPI report, volumes of fuel purchased rose—Chinese households who can afford their own vehicles are avoiding public transit. Spending on other categories of goods rose 0.3 percent. That lagged the month's 2.5 percent increase in the CPI index—a fall in volume terms—but was still considerably better than the headline drop.

China does not report high-frequency data on the level of employment, but the second quarter's activity indicators imply employment is down considerably from before the crisis. Even so, China's recovery is proceeding faster than expected, and its trajectory is encouraging. Inflation is negligible besides meat prices (CPI excluding food and fuel rose just 0.9 percent on the year in June), allowing China to maintain an expansionary monetary policy. With the pandemic better controlled in China than in many other countries, China's economy enters the second half of 2020 on a solid trajectory.

CANADA: As expected, the Bank of Canada (BOC) maintained its target for the overnight rate at the Bank's effective lower bound of 0.25 percent when central bankers met on July 15. In the accompanying statement, the BOC stated that it will hold the policy rate at its current level until the Bank's 2 percent inflation objective is reached. CPI inflation was -0.4% in the most recent release for May 2020. The BOC expects a sharp rebound in economic activity in the opening phase of the recovery, followed by a more prolonged recuperation phase. Existing home sales increased 63.0 percent in June on a month-over-month basis, thanks to record-low mortgage rates and a shortage in supply, following a 56.9 percent gain the prior month; this is the second consecutive monthly increase after existing home sales plunged a record 56.8 percent in April. After June's increase, existing home sales were 5.3 percent below their level in February.

EUROZONE: As expected, the European Central Bank held its monetary policy stance unchanged at its July 16 decision. Its asset purchases, refinancing operations, and negative interest rates will maintain extremely high levels of liquidity in Eurozone capital markets, support strong financial conditions, and prevent yields of weaker Eurozone member states from diverging too far from those of the stronger states. Importantly, President Lagarde stated that the ECB expects to spend all of the €1.35 trillion euros allotted to the Pandemic Emergency Purchase Program (PEPP) "unless there were significant upside surprises"; the PEPP greatly expanded the ECB's QE program, with a mandate to make purchases flexibly as dictated by market conditions. The program's purchases slowed in recent months as financial conditions improved. The PEPP is scheduled to continue until "at least the end of 2021 and, in any case, until the Governing Council judges that the coronavirus crisis phase is over."

The leaders of European Union member states failed to reach an agreement over the details of a €750 billion euro recovery aid package in a summit the weekend of July 17-19. The impasse was due to opposition to high spending from the "frugal four" nations—Austria, Denmark, the Netherlands, and Sweden—and conflicts over countries' respect for the rule of law, a sticking point between Hungary and other EU members. The recovery plan still looks likely to eventually be ratified.

JAPAN: The Bank of Japan held its monetary stance unchanged as expected at its July 16 Policy Board decision, with very aggressive quantitative easing programs complementing the short-term negative policy rate and target for the ten-year government bond yield of "around zero percent." The BoJ's updated forecasts of activity and prices anticipate real GDP falling between 5.7 percent and 4.5 percent in the 2020 fiscal year, increasing 3.0 to 4.0 percent in the 2021 fiscal year, and increasing 1.3 to 1.6 percent in the 2022 fiscal year. The BoJ's forecasts anticipate core CPI inflation holding below 1.0 percent over their 2020-2022 forecast horizon, meaning that they expect inflation to fall well short of the BoJ's 2.0 percent target.

INDIA: Total CPI rose 6.1 percent in June on a year-over-year basis (non-seasonally adjusted), higher than the consensus forecast for 5.3 percent increase, following a 6.3 percent increase in May; food and beverage prices increased 7.3 percent year-over-year in June, housing prices increased 3.6 percent and energy prices ("fuels and lighting") increased 2.7 percent. Core inflation (CPI excluding food, fuel and light) was unchanged from the prior month at 4.9 percent in June. June's total inflation still exceeded the 6 percent upper threshold of the Reserve Bank of India's inflation target, but given the collapse in domestic demand from the national lockdown and halt in economic activity, the RBI will likely reduce its policy repo rate from 4.0 percent to 3.75 percent when they meet next on August 6. Exports fell 12.4 percent in June from a year earlier, the fourth consecutive drop, following a 36.5 percent fall in May. Imports fell 47.6 percent in June, the fourth consecutive drop, following a 51.1 percent fall in May. India became the third country after the U.S. and Brazil to report 1 million coronavirus cases on Friday July 17th.

BRAZIL: The IBC-BR Economic Activity Index, a proxy of real GDP, increased a weak 1.3 percent in May on a month-over-month basis, missing the consensus forecast for a 4.5 percent increase and following an upwardly revised record-low 9.5 percent plunge in April; the IBC-BR fell 14.2 percent in the twelve months to May, only slightly better than the upwardly revised record-low 14.6 percent decrease the prior month. The central bank's July 10th weekly survey of professional forecasters showed the median estimate for 2020's annual real GDP was for a 6.1 percent contraction, up from a 6.5 percent contraction in the prior week's survey.

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