More Signs the U.S.’s Recovery Was Slower in July; U.S.-China Tensions Rising; Eurozone Service Sector Is Healing

UNITED STATES: June housing data provide further confirmation of a solid increase in activity during the month as the economy reopened and consumers ventured out of their homes. Existing home sales jumped 20.7 percent from May to a 4.72 million annual rate, though they were still down 11.3 percent from a year earlier. New single family home sales rose 13.8 percent to a 776,000 annual rate and were the strongest since July 2007. The Mortgage Bankers Association purchase index rose 1.8 percent on the week in the week of July 17, signaling that strong housing demand persists in July.

But other preliminary data for July describe a U.S. recovery losing momentum relative to June. In the latest release of the Census Bureau’s weekly Pulse Survey for the week of July 14, the number of Americans reported working fell 4.1 million from a week earlier and 6.7 million (5.0 percent) from a month earlier. Not all labor market measures are this weak; an experimental Coincident Employment Index, a now-cast of employment produced by researchers at the Federal Reserve Bank of St Louis that is based on big data sources, showed a 0.8 percent increase in employment in July from June, equivalent to a 1.1 million increase in nonfarm payroll employment. But the trend across most data sources is generally less recovery momentum than in June. The Federal Reserve Bank of New York’s Weekly Economic Index, a proxy for real GDP, fell 7.1 percent from a year earlier in the week of July 18, worse than the prior week’s 7.0 percent decline in the same terms; this was the first time since late April that the index’s year-over-year decline worsened. Initial claims filed for unemployment insurance rose 109,000 on the week in the week ending July 18 to 1.416 million, the first sequential increase since late March. The flash releases of the Markit manufacturing and services PMIs for July improved over the month, to 51.3 from 49.8 and to 49.6 from 47.9, respectively, but the services PMI still indicates a sequential contraction in activity. This contrasts with the services PMI for the Eurozone, which indicated a broad-based increase in activity in the July flash release.

PNC forecasts that the first or advance estimate of real GDP in the second quarter of 2020, to be released on July 30, will show a 34 percent annualized decline; unusually large revisions between the advance and final estimates are likely for the second quarter’s data, since the decline in service sector activity was particularly severe in the quarter and the quarterly Services Survey (which measures activity in much of the service sector excluding retail) is only incorporated in the third, final estimate. No change is expected in the Federal Reserve’s policy stance when the Federal Open Market Committee meets on July 28 and 29; the Fed may provide some guidance on how and when the Fed will implement a policy target for a longer-term interest rate a.k.a. “yield curve control”; the Fed is likely to announce a yield curve control policy later this year.

CHINA: Diplomatic tensions between the U.S. and China heightened after the U.S. State Department ordered China to close its consulate in Houston on July 22; China is retaliating by ordering the U.S. consulate in Chengdu to be closed; Chengdu is a second-tier city in the populous province of Sichuan. So far this conflict is confined to diplomatic channels, and has yet to spill over to a meaningful re-escalation of the trade conflict. U.S. businesses now seem very unlikely to reap meaningful benefit from the Phase One trade deal. But the U.S. government is also very unlikely to pressure on China through more drastic measures like forcing the Hong Kong dollar to de-peg from the U.S. dollar, since the shock would sharply increase financial stress and cause unpredictable knock-on effects. The U.S.’s economic policymakers are trying to maintain strong financial conditions and foster the recovery.
GLOBAL ECONOMIC HIGHLIGHTS

Profits of Chinese industrial enterprises rose 11.5 percent from a year earlier in June, up from 6.0 percent in May, as manufacturers caught up on activity delayed by the pandemic earlier this year.

EUROZONE: Leaders of European Union member states reached an agreement over the details of a historic €750 billion euro recovery aid package on July 20. The program is less notable for its size, which at “only” around 6 percent of the Eurozone’s pre-crisis GDP is much less than the 3.4 trillion euro aid already announced earlier this year, than for its structure: It is the EU’s most tangible step toward a joint fiscal policy to date. The program, combining loans and grants to EU member states particularly hard-hit by the crisis, will be funded by a €750 billion European Commission bond issue, which will establish a yield curve for EU-backed debt. The debt is to be repaid by future EU revenue sources yet to be determined; so far the only EU fiscal revenue source dedicated to repay the debt is a new tax on disposable plastic waste. Ideas under discussion for future EU-wide taxes include a carbon border adjustment tax or a digital levy.

The IHS manufacturing PMI for the Eurozone rose to 51.1 in the July flash release from 47.4 in June, while the services PMI jumped to 54.8 from 48.5; both exceeded consensus forecasts. Sharply-reduced coronavirus transmission in Eurozone member states is allowing the region’s economies to re-open more fully than in the United States, helping especially the labor-intensive service sector industries like hospitality, retail, and tourism. The July release of Germany’s unemployment rate on July 30, a leading indicator of Eurozone unemployment, is forecast to show a rise to 6.5 percent from 6.4 percent in June.

CANADA: CPI inflation rose to 0.7 percent in year-ago terms in June as gas, food and shelter prices increased, following two negative readings. The Bank of Canada’s three preferred measures of core inflation continue to hold in a tight range slightly below the bank’s 2.0 percent target in June, ranging from 1.5 percent to 1.9 percent. Despite aggressive fiscal and monetary policy, the collapse in demand will keep inflation below the 2.0 percent target in the next few quarters.

The Teranet–National Bank National Composite House Price Index™ rose a slow 0.7 percent in June from the month before, the lowest June advance in 17 years, following a 1.1 percent rise the prior month; the index was led upward by Halifax (2.7 percent), Winnipeg (1.8 percent), Hamilton (1.7 percent), Ottawa-Gatineau (1.5 percent), Montreal (1.4 percent), Toronto (0.8 percent) and Victoria (0.8 percent). The index’s increase from a year earlier at 5.9 percent was little changed from 6.0 percent in the prior month.

Retail sales rose 18.7 percent in May from April, following a 25.0 percent decrease in April (upwardly revised but still the worse drop on record); retail sales excluding autos rose 10.6 percent in May following an upwardly-revised record 20.7 percent decrease in April.

JAPAN: The Jibun Bank manufacturing PMI for Japan edged up to 42.6 in the July flash release from 40.1 in June, while the services PMI was little changed at 45.2 after 45.0. Disruptions in global supply chains and international tourism are weighing on Japan’s economy. The country’s unemployment rate is expected to increase to 3.1 percent in the June jobs report, to be released the evening of July 30 in U.S. time zones, from 2.9 percent in May.

MEXICO: Mexico’s monthly index of real GDP the IGAE fell 2.6 percent in May from April after a 17.3 percent drop in April; the index was down 22.7 percent from a year earlier in May. The preliminary estimate of second quarter real GDP, to be released July 30, will likely show a quarter-over-quarter contraction of 17.0 percent and a year-over-year plunge of 19.6 percent.

BRAZIL: Brazil’s consumer price index the IPCA-15 rose 2.1 percent in the 12 months to mid-July, following a record-low 1.9 percent rise the prior month. Inflation continues to hold below the lower-bound of the central bank’s 2.5 to 5.5 percent target range and will remain below the 4.0 percent inflation target in the near term as capacity utilization remains low and business pricing power very weak.

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