U.S. Payroll Job Growth Likely to Slow in July Release; Historic Drops in GDP around the World in the 2nd Quarter

The next edition of Global Economic Highlights will be published on August 17.

**UNITED STATES:** Real GDP plummeted 32.9 percent at an annualized seasonally-adjusted rate in the advance, or first estimate, for the second quarter of 2020. This was by far the biggest drop in the history of the series, going back to 1947. The release was in line with most economists’ forecasts of a 30 to 35 percent drop. The release is backward-looking; most measures of economic activity—employment, retail sales, housing starts, auto sales, etc.—have improved since April. In June, personal income fell 1.1 percent, but was still up 7 percent from March; transfer payments fell 8.9 percent over the month as fewer workers were on unemployment and the disbursement of one-time government stimulus payments faded. Consumer spending rose 5.6 percent in June, following an 8.7 percent increase in May. Personal consumption expenditures on goods actually exceeded their February levels in June; real durable goods spending was up 9.5 percent from February and spending on non-durable goods up 2.4 percent. Spending on services, by contrast, was still down 11.6 percent from February; it is easier to spend on goods while social distancing than on services.

Weekly and advance monthly economic indicators continue to signal the recovery lost momentum in July. The Conference Board Consumer Confidence Index fell to 92.6 in July from 98.3 in June on a decline in the expectations index to the worst since March, and the University of Michigan Consumer Sentiment Index pulled back to 72.5 from 78.1 and was near its May level. Bloomberg’s weekly Consumer Comfort Index averaged higher in July than in June, though. 1.434 million Americans filed initial claims for unemployment insurance the week of July 25, up 12,000 from the prior week, offset by a 141,000 drop to 830,000 in the number of Americans filing for Pandemic Unemployment Assistance claims in the week (data for the two programs are reported separately). Initial claims filed for both programs were down a net 141,000 over the month in last week of July, a slower improvement than June’s 291,000 monthly decline. The Federal Reserve Bank of New York’s Weekly Economic Index (a proxy for real GDP) fell 6.6 percent from a year earlier the week of July 25, its smallest decline in those terms since mid-March. The number of American adults currently working rose 1.86 million to 130.0 million in the US Census Bureau’s weekly Household Pulse Survey, but was still down 4.75 million from a month earlier; since the data have a short history and are not seasonally adjusted, and since other weekly indicators point to continued recovery in July at a slower pace than the month before, the Pulse Survey likely overstates the weakness of the labor market. PNC forecasts that the Bureau of Labor Statistics’ July Employment Situation Summary, to be released August 7, will show a 1.8 million increase in nonfarm payroll employment, slower than June’s record 4.8 million increase, and for the unemployment rate to pull back to 10.6 percent from 11.1 percent.

**EUROZONE:** Real GDP fell 12.1 percent from a quarter earlier in the second quarter, and was down 15.0 percent from a year earlier; in the first quarter, real GDP fell 3.6 percent quarter-over-quarter and 3.1 percent year-over-year. Tourism-heavy economies had the largest quarter-over-quarter declines in the second quarter, led by Spain, where real GDP fell 18.5 percent, Portugal, down 14.1 percent, and France, down 13.8 percent. The Eurozone does not annualize its quarterly real GDP report; in the same terms, U.S. real GDP fell 9.5 percent in the second quarter.

The unemployment rate rose to 7.8 percent in June from 7.4 percent in May and 7.2 percent at its cyclical low in February and March. Eurozone labor market regulations make layoffs more expensive than in the United...
States, slowing the pace at which the Eurozone job market adjusts to changes in demand. The Eurozone’s unemployment rate is likely to rise further in the second half of 2020 as companies gradually implement permanent layoffs. HICP inflation edged up to 0.4 percent in the July flash estimate from 0.3 percent in June; energy prices fell less than in June, while food prices rose more slowly. Core HICP excluding energy, food, alcohol and tobacco picked up to 1.2 percent in July from 0.8 percent in June.

**CHINA:** China’s economy continues to recover. The CFLP manufacturing PMI for China edged higher to 51.1 in July from 50.9 in June, as did the nonmanufacturing PMI, to 54.5 from 54.4. The Caixin manufacturing PMI rose to 52.8 in July from 51.2 in June and was the highest since 2011. PMI indices are momentum indicators, not direct measures of an economy’s growth rate. The 9-year high in the Caixin manufacturing index means that business conditions are improving for a very wide swathe of the manufacturing sector, not that the industry is growing as fast as in 2011.

**CANADA:** Further evidence that a global economic recovery began in May. Inflation-adjusted economic output (real GDP) rose 4.5 percent in May month-over-month, beating economists’ expectations for a 3.5 percent rise, following a downwardly revised 11.7 percent decline the prior month. Output of goods-producing industries rose 8.0 percent from the prior month while that of services-producing industries rose 3.4 percent. The details were solid, with output in eighteen out of twenty-two sectors expanding month-over-month with accommodation (24.2 percent), retail (16.6 percent) and construction (17.6 percent) sectors having the strongest gains. Real GDP declined 13.8 percent on a year-over-year basis in May, beating economists’ expectations for a 14.6 percent decline, following a downwardly revised 17.3 percent decline the prior month. Building permits rose 6.2 percent month-over-month in June, following an upwardly revised 21.6 percent rise the prior month.

**JAPAN:** Japan’s unemployment rate undershot expectations in June, falling to 2.8 percent from 2.9 percent in May; it is up from 2.4 percent in June. Employment in Japan in absolute terms is down only modestly in June from February, by 1.6 percent. As in the Eurozone, strong labor protections have prevented Japanese businesses from laying off as many workers as their American counterparts during the Viral Recession.

**MEXICO:** Real GDP fell 17.3 percent (53 percent annualized) in the second quarter of 2020, and 18.9 percent from a year earlier. By major sector, output fell 2.5 percent in agriculture, 23.6 percent in industry, and 14.5 percent in services, all in quarterly unannualized terms. The terrible impact of the coronavirus pandemic on Mexico’s economy followed a long disappointing period for it; the second quarter of 2020 was the fifth consecutive quarter of year-over-year contraction.

**BRAZIL:** 10,984 formal jobs were lost in June, the smallest decline since the coronavirus pandemic started, and better than consensus expectations for 220,000 jobs lost, following a loss of 331,901 jobs in May. Details were mixed. There were job gains in the oil and mining, construction and agriculture sectors and job losses in the manufacturing, utilities, retail, services and public administration sectors. 1.2 million formal jobs have been lost in the first half of 2020, a 3.1 percent decline. The central bank’s July 24th weekly survey of professional forecasters showed the median estimate for 2020’s annual real GDP was for a 5.8 percent contraction, up from a 6.0 percent contraction in the prior week’s survey.

Employment, consumer spending and PMI data have improved in recent months although economic output is still far below its pre-pandemic level. After shelter-in-place restrictions caused a collapse in demand, inflation has been lukewarm (inflation in June was 2.13 percent, below the 2.5 percent lower bound of the central bank’s 2.5 to 5.5 percent target range). PNC Economics expects the Central Bank of Brazil’s Monetary Policy Committee members to reduce the Selic policy interest rate from 2.25 percent to a new all-time low of 2.0 percent when they announce their next rate decision on August 4th.

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