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GLOBAL ECONOMIC HIGHLIGHTS

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U.S. Existing Home Sales Rise to Strongest Since 2006 in July Despite Double-Digit Unemployment

UNITED STATES: Housing continued to lead the U.S. recovery in July. Sales of existing homes jumped 24.7 percent from June, after a 20.7 percent increase in June; both were record increases. The level of existing home sales in July was the highest since December 2006. The median sale price for an existing home rose 8.5 percent from one year earlier in July to $304,100. Tight supplies are pushing up home prices; inventories of existing homes for sale were just 3.1 months at the current sales pace, close to a record low. A number of factors are driving the very strong housing market. After years of slow sales following the housing market bust a decade and a half ago, demand for homes was good and increasing ahead of the coronavirus pandemic, and many of those potential buyers have come now back into the market. Record-low mortgage rates are boosting demand. And despite the 10.2 percent unemployment rate in July, which was higher than the worst month of the 2008-2009 Great Recession, the Viral Recession's job losses have been concentrated in lower paying industries, with less job losses affecting the higher-earning households that are more likely to buy homes. It also may be that the pandemic is increasing demand for single-family living. Housing starts and permits rose 23 percent and 18 percent, respectively, in July from June, but remained below their levels in early 2020; with final demand for housing strong, starts and permits will continue to increase in the rest of 2020, helping housing to continue to lead the U.S. recovery.

Early indicators for August point to another month of recovery despite the expiration of the $600 increased unemployment insurance benefit at the end of July. The Markit manufacturing PMI rose to 53.6 in the August flash estimate from 50.9 in July and was the strongest in 19 months, while the Markit services PMI rose to 54.7 from 50.3 and was the strongest in 18 months. Majorities of surveyed businesses in both the manufacturing and service sectors indicated that they increased payrolls in August; some surveyed businesses noted that health safety measures put in place earlier in the pandemic allowed them to increase employment in August. Initial claims for unemployment insurance rose to 1.106 million in the week of August 15 from 971,000 a week earlier (revised up from 963,000 in the prior release), but were still down from 1.191 million two weeks earlier. Continued claims for unemployment insurance fell to 14.844 million the week of August 8 from 15.480 million the week of August 1, and the insured unemployment rate fell to 10.2 percent from 10.6 percent. The additional $600 benefit for unemployment beneficiaries expired at the end of July; FEMA is paying a $300 benefit in place of it, but fewer UI beneficiaries are eligible for it than for the benefit it replaced. The Federal Reserve Bank of New York's weekly economic index fell 5.7 percent from a year earlier the week of August 20, the smallest year-over-year contraction since March.

The minutes from the Federal Open Market Committee's July 28 to 29 meeting, released August 19, emphasize that the course of the economy is highly dependent on how the pandemic proceeds. The minutes also suggest that the Fed is likely to provide more specific forward guidance about interest rates and its monetary policy strategy at one of the next few Open Market Committee decisions. The minutes further state that a majority of FOMC members expressed reluctance to move toward a yield curve control policy at the July meeting; yield curve control is when a central bank sets an explicit target for a medium or long-term interest rate like a 3-year Treasury yield, and calibrates asset purchases to hold the rate near that target. PNC does not expect the Fed to increase the fed funds rate from its current near-zero level until 2024.

UNITED KINGDOM: The IHS/Markit manufacturing PMI rose to a 30-month high of 55.3 in the August flash estimate from 53.3 in July, while the services PMI rose to a six-year high of 60.1 from 56.5. Despite the historic highs in the indices, survey respondents noted that "levels of demand remained well below those seen prior to the pandemic." A majority of surveyed companies reduced headcount in August. The British government's payroll subsidy stimulus program discouraged layoffs earlier in the Viral Recession, but that program will phase out in the fall, and demand does not support pre-crisis headcounts, so delayed layoffs are now occurring.

EUROZONE: The IHS manufacturing PMI was little changed at 51.7 in the August flash estimate after 51.8 in July. The IHS Markit services PMI pulled back to 50.1 from 54.7 as new cases increased in European tourist destinations and some governments began re-imposing restrictions on nightclubs and other businesses.

CANADA: CPI inflation rose a cool 0.1 percent in July from the same month a year earlier, the second consecutive positive reading, but still slowed from a rise of 0.7 percent in June; the inflation rate turned negative in April and May before getting back to positive territory in June. The largest drags in the July inflation reading were gasoline and energy prices with gasoline prices falling 14.9 percent from a year earlier. The Bank of Canada's three preferred measures of core inflation continued to hold in a tight range in July between 1.3 percent and 1.9 percent, all below the Bank's 2.0 percent symmetric target. The Teranet-National Bank National Composite House Price Index™ rose a slow 0.3 percent in July from the month before, the lowest July advance in 15 years, following a 0.7 percent rise in the prior month; the index was led upward by Quebec (1.4%), Ottawa (1.2%), Winnipeg (1.1%), Halifax (1.0%), Montreal (0.8%) and Hamilton (0.5%). The index rose 5.5 percent from a year earlier, following a 5.9 percent rise in the prior month. The deceleration in house prices confirms slowing activity in the housing market amid the coronavirus pandemic and high unemployment.

BRAZIL: 131,010 formal sector jobs were added in July, the first gain since February, and marking the strongest July job growth since 2012—the data are not seasonally-adjusted. The gain was driven by strong growth in the manufacturing sector, in which employment was up 53,068, construction, up 41,986, and retail, up 28,383. July's gain followed a net loss of 1.4 million formal sector jobs between February and June.

MEXICO: Real wholesale sales rose 11.1 percent in June from May but were still down 15.6 percent from a year earlier; real retail sales rose 7.8 percent on the month but were down 17.2 percent on the year. The continued depressed levels of wholesale and retail sales in Mexico are in sharp contrast with the United States, where retail sales exceeded their pre-crisis levels in July; without a U.S.-style aggressive fiscal stimulus program, Mexico's recovery will be much slower than that of the United States.

JAPAN: The au Jibun Bank manufacturing PMI for Japan rose to 46.6 in the August flash release from 45.2 in July, and the services PMI dipped to 45.0 from 45.4. Employment fell on the month for a majority of manufacturers and service-sector businesses. Real GDP fell 26.4 percent annualized in the second quarter of 2020; while Japan's contraction was smaller than that of other major developed economies, the second quarter was Japan's third consecutive quarter of contraction. The Viral Recession already started hurting Japan's economy in the first quarter of 2020, and its economy was already weak in late 2019.

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