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GLOBAL ECONOMIC HIGHLIGHTS

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Global Recovery Continues to Broaden; ECB Meeting May Provide Guidance on Transition out of Emergency QE

UNITED STATES: The U.S. economy took another step back to normal in August, but progress is set to slow as the expiration of increased unemployment benefits at the end of July passes through to lower consumer spending. Employers added a net 1.371 million jobs in August from July, and the unemployment rate fell to 8.4 percent from 10.2 percent. After August's gain, nonfarm payroll employment is up 10.6 million from its trough in April, but that is still just under half of the 22.0 million jobs lost in February and March. Employment in the household survey, from which the unemployment rate is calculated, rose an even stronger 3.756 million in August. But August's nonfarm payroll jobs gain was down from 1.7 million in July, 4.8 million in June, and 2.7 million in May; the pace of the recovery is slowing as more and more of the potential job gains from the economy's reopening are realized. Job growth is set to slow further through the end of 2020 and into 2021; job market will need years to recover to its pre-downturn state.

More immediately, other August data confirm a recovery that continues to broaden. The ISM manufacturing purchasing managers index (PMI) rose to 56.0 in August from 54.2 in July and was the highest since November 2018. The Markit manufacturing PMI for the U.S. rose to 53.1 in August (revised down from 53.6 in the flash estimate) from 50.9 in July and was the highest since January 2019. The ISM services PMI dipped to 56.9 in August from 58.1 in July, which was the highest since February 2019, while the Markit services PMI rose to 55.0 from 50.0 and was the highest since March 2019. Initial claims for unemployment insurance were 881,000 in the week of August 29; a technical change in how the data are adjusted to remove the influence of recurring seasonal variations, like lower education employment in the summer months, make this release hard to comparable to the prior week's 1.011 million claims; the latest release is probably a more accurate measure of the true state of the labor market. Continued claims for UI benefits in all programs, including Pandemic Unemployment Assistance and Pandemic Emergency Unemployment Compensation, rose to 29.2 million the week of August 15 from 27.0 million a week earlier; the data are not seasonally adjusted. The Federal Reserve Bank of New York's Weekly Economic Index fell 4.4 percent year-over-year in the week of August 29, better than the prior week's 5.3 percent decline.

EUROZONE: Inflation measured by the benchmark HICP index turned negative in August: total HICP fell 0.2 percent from a year earlier, and core HICP excluding food, energy, alcohol and tobacco slowed to 0.4 percent from 1.2 percent. Germany cut the value-added tax in August, lowering final prices for consumers and translating into a decline in the HICP. The Markit manufacturing PMI was unrevised at 51.7 in August and little changed from July's 51.8. The Eurozone unemployment rate rose to 7.9 percent in July from 7.7 percent in June and 7.2 percent at its cyclical low in February and March.

The European Central Bank's September 10 Governing Council decision will be closely watched for how the central bank's policymakers discuss the euro's recovery in August to just under $1.20 per euro, the strongest since May 2018. ECB Governing Council member and Chief Economist Philip Lane said in a September 1 online panel discussion that the euro exchange rate "does matter"; the currency's level of $1.18 on September 7 is only 4 percent stronger than its $1.13 average since 2015. The ECB is not expected to change its monetary policy stance, but President Lagarde could provide more tangible guidance regarding how the ECB will transition from its current emergency QE program to a slower and more standard QE program as inflation rises. The strategy behind this transition was the subject of a speech given by Lane at the Jackson Hole virtual monetary policy conference in late August. The ECB already had an open-ended quantitative easing program underway when the crisis hit in February, and its current guidance explicitly says this open-ended program will continue beyond the end of the Coronavirus crisis to support an increase of inflation back to the ECB's below-but-near-2-percent target.

CHINA: China's recovery continued in August. The CFLP manufacturing PMI was little changed at 51.0 in August after 51.1 in July, while the nonmanufacturing PMI rose to 55.2 from 54.2 and was the highest since January 2018.The Caixin manufacturing PMI rose to 53.1 in August from 52.8 in July and was the highest since January 2011. Exports grew 9.5 percent from a year earlier in August, the fastest since March 2019; global foreign and wholesale trade in manufacturing goods is strengthening in the third quarter as business replenish inventories run down during the first and second quarters' shutdowns.

UNITED KINGDOM: The IHS Markit/CIPS manufacturing PMI rose to 55.2 in August (marginally revised from the 55.3 flash estimate) from 53.3 in July and was the highest since February 2018. The Markit/CIPS services PMI rose to 58.8 from 56.5 and was the highest since April 2015. The Markit/CIPS construction PMI pulled back to 54.6 from 58.1, which was the highest since October 2015. Pound sterling depreciated against the dollar on September 7 on news that Prime Minister Boris Johnson is threatening to renege on some of the terms of the Brexit agreement that the UK and EU signed in January; the brinksmanship is ahead of a new round of UK-EU negotiations this week over the post-Brexit trade agreement.

CANADA: Canada's labor market continues its recovery from the pandemic but the pace of the recovery has slowed; like in the U.S., Canada's labor market will need a couple of years to get back to its pre-pandemic state. Net jobs rose 245,800 in August, the fourth-straight month of job gains, and slightly below expectations for a rise of 250,000, while the unemployment rate fell to 10.2 percent (still much higher than February's pre-pandemic level of 5.6 percent) from 10.9 percent, the third consecutive monthly decline in the unemployment rate. The details were equally solid: goods-producing industries added 27,600 jobs while the services sector added 218,100 jobs, with large gains in accommodation and food services, educational services and trade. 205,800 full-time jobs were added and 40,000 part-time jobs; average hourly wages increased 6.0 percent from a year earlier, up from 5.7 percent the prior month; the employment-to-population ratio rose to 58.0 from 57.3 in July, but was still down from 61.8 in January; the labor force participation rate (share of those 16 or older either working or looking for work) rose slightly to 64.6 percent from 64.3 percent in July.

Building permits fell 3.0 percent in July from the prior month, following a downwardly revised 5.7 percent increase in June; building permits fell 9.6 percent in July on a year-over-year basis following a 2.8 percent decline in June; building permits are leading indicators and they provide early information on construction activity. The Markit Canada Manufacturing PMI jumped to 55.1 in August, the second consecutive reading over 50, from 52.9 in July, and was the highest since August 2018. Despite an improvement in economic data, economic activity and inflation are still very weak compared to pre-pandemic levels. PNC Economics expects the Bank of Canada to hold its monetary stance unchanged when central bankers meet September 9.

JAPAN: Japan's economic data remain mixed, with little of the signs of recovery visible in other advanced economies. The au Jibun manufacturing PMI rose to 47.2 in August (revised up from 46.6) from 45.2 in July and was the highest since February, but still indicated a contraction of the manufacturing sector. The second quarter's record decline was revised to be slightly worse in the final release, at 28.1 percent annualized from 27.8 percent in the second estimate. Labor cash earnings fell 1.3 percent from a year earlier in July, better than the June's 1.7 percent decline, while household spending fell 7.6 percent on the year, worse than June's 1.2 percent decline and also than the consensus forecast for a 3.7 percent drop.

BRAZIL: Real GDP plunged 9.7 percent in the second quarter on a quarter-over-quarter basis, the sharpest contraction on record, worse than economists' expectations of a 9.2 percent decline and following a downwardly revised 2.5 percent decline in the first quarter. The details were equally weak; household consumption expenditures contracted 12.5 percent as stay-at-home restrictions were implemented in most states in the second quarter, government consumption expenditures fell 8.9 percent, investment plunged 15.4 percent, exports grew 1.8 percent, thanks to a weakened Brazilian real, and imports contracted 13.3

percent. On the supply side, real GDP declined in most sectors from the first quarter with the largest declines in manufacturing, down 17.5 percent, and services, down 9.7 percent. On a year-over-year basis, real GDP plummeted 11.4 percent in the second quarter following a 0.3 percent drop in the prior quarter.

The Markit Brazil manufacturing PMI jumped to a record-high 64.7 in August, the fourth consecutive monthly increase and the third consecutive reading over 50, from 58.2 in July; the Markit Brazil services PMI rose to 49.5 in August, the fourth consecutive monthly increase, from 42.5 in July. Industrial production rose 8.0 percent in July on a month-over-month basis, the third consecutive monthly increase, better than consensus expectations of a 5.9 percent increase and following an 8.9 percent rise in June; all sectors except one experienced growth in July with the auto (43.9 percent), apparel (29.7 percent) and textiles (26.2 percent) sectors seeing the strongest expansions; industrial production declined 3.0 percent in July on a year-over-year basis following a 9.0 percent decrease in June.

The recovery appears to be underway in Brazil and the plunge in real GDP in the second quarter would have been worse had it not been for the fiscal stimulus implemented by the government in March; the fiscal stimulus has been extended to the end of the year although the next four payments will be half of the original value. Rising coronavirus cases continue to be a downside risk and failure to control the virus will halt the recovery; Brazil has the third highest number of cases in the world after the U.S. and India. Extensive fiscal stimulus implemented by the government leaves little room for further interest rate cuts as inflation will rise in the coming months due to increased government spending in response to the pandemic. The central bank's August 28th weekly survey of professional forecasters showed the median estimate for 2020's annual real GDP was for a 5.3 percent contraction, up from a 5.5 percent contraction in the prior week's survey; the median estimate for 2020's real GDP growth has increased for nine consecutive weeks.

INDIA: Real GDP plummeted 23.9 percent in the second quarter from a year ago, the sharpest contraction on record, worse than economists' expectations for an 18.0 percent plunge and following 3.1 percent growth in the first quarter. On the demand side, private consumption plunged 26.7 percent as shelter-in-place restrictions were implemented, investment fell 47.1 percent while exports and imports declined 19.8 percent and 40.4 percent respectively. On the supply side, all industries contracted in the first quarter except agriculture; the largest declines were in construction (50.3 percent), trade, hotels, transport and communication (47.0 percent), manufacturing (39.3 percent) and mining (23.3 percent); the agriculture industry grew 3.4 percent. The Reserve Bank of India (RBI) and the government responded aggressively with monetary and fiscal stimulus in the wake of the pandemic although additional stimulus is needed. India currently has second highest coronavirus cases in the world, trailing only the U.S., and was already in a fragile state before the pandemic.

The Markit India Manufacturing PMI jumped to 52.0 in August, the first over 50 reading since March, from 46.0 in July; the Markit India Services PMI rose to 41.8 in August, the fourth consecutive monthly increase, from 34.2 in July; India's recovery is lagging that of most advanced economies.