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GLOBAL ECONOMIC HIGHLIGHTS

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U.S. Inflation Rises but Still Below Fed Target; FOMC Meeting to Flesh out Average Inflation Targeting Plans

UNITED STATES: The consumer price index for all items increased 0.4 percent in August; this followed a 0.6 percent increase in July. The core CPI, excluding volatile food and energy prices, also rose 0.4 percent in August after 0.6 percent in July. Energy prices rose 0.9 percent over the month in August, including increases of 2.0 percent for gasoline and 3.9 percent for fuel oil, and food prices rose 0.1 percent. Prices of goods other than food and energy rose 1.0 percent in August, including a 5.4 percent increase for used cars and trucks and a 0.6 percent increase for apparel. New car prices were flat in August. Prices of recreation services rose 0.7 percent and airline fares 1.2 percent, suggesting that demand is gradually improving in these industries that were hit especially hard in the early stages of the pandemic. On a year-ago basis, overall inflation was 1.3 percent in August, up from 1.0 percent in July and a trough of 0.1 percent in May. Core inflation was 1.7 percent year-over-year in August, up from 1.6 percent in July and 1.2 percent in May and July.

Unemployment insurance claims suggest job growth may have slowed in late August and early September. Initial claims for unemployment insurance were unchanged on the week at a seasonally-adjusted 884,000 the week of September 4; continued claims rose 93,000 to 13.292 million in the week ending August 29; and claims under all UI programs, including those launched to deal with the Viral Recession, rose to 29.605 million the week of August 22 from 29.225 million the previous week (this final statistic is not adjusted for seasonal variation). The timing of the Labor Day holiday may have influenced the lack of improvement in initial claims in the latest week. More encouragingly, the Federal Reserve Bank of New York's weekly economic index continued to improve in the week of September 5, falling 4.3 percent from a year earlier in the first revision after a 4.8 percent decline in the prior week; the latest release is the least bad since March.

It is essentially a foregone conclusion that the Federal Reserve will hold the federal funds target unchanged at a range of zero to one quarter percent at the September 16 Open Market Committee decision, and continue quantitative easing through the Fed's programs of flexible purchases of Treasurys and agency bonds and implementation of lending facilities that extend credit to private sector borrowers. The Fed also will release the quarterly update of their "dot plot" projections of real GDP, inflation, and the unemployment rate, which will be noteworthy after the unemployment rate surprised to the downside at 8.4 percent in August. Finally, the post-decision press conference will be closely watched to see how the Fed plans to implement its new average inflation targeting regime: The Fed is likely to explicitly announce that they now aim for inflation of "modestly above" the two percent target over the next few years. The Fed also might implement an even more expansionary monetary policy in the next few years than they did in the aftermath of the Great Recession, but they seem unlikely to commit to this course until later in the recovery.

EUROZONE: Matching PNC's forecast, the European Central Bank held its monetary policy stance unchanged at its September 10 Governing Council decision, and provided little new clarity in the way of forward guidance. President Lagarde avoided a question about ECB Chief Economist Philip Lane's presentation at the Jackson Hole virtual monetary policy conference in August, which had advocated for the ECB to link the duration of the ECB's pandemic emergency funding programs to the inflation outlook. Lagarde's non-answer is a sign that the more hawkish Governing Council members are unwilling to commit to Lane's strategy, and advocate less assertive time-based forward guidance. For now, the ECB has committed to keeping their €1,350 billion emergency QE program active at least until June 2021, and also until the immediate crisis phase of this downturn is over. The ECB as of September 4 had made €512 billion of the €1,350 in asset purchases authorized for the program. President Lagarde also made minimal pushback at the post-decision press conference against the euro's appreciation to near $1.20 per euro, saying that the exchange rate influences the outlook for inflation but is not a policy target. Her language implies the ECB will not act to weaken the currency even if it appreciates to more than $1.20 per euro. Industrial production rose 4.2 percent in July from June, and fell 8.1 percent from a year earlier, smaller than June's 12.3 percent year-ago decline.

CHINA: Growth of the money supply M2 slowed to 10.4 percent in August in year-over-year terms from 10.7 percent in July, and growth of yuan-denominated loans slowed to 13.0 percent from 13.3 percent in the same terms in July. China's August monthly economic indicators, to be released the night of September 14 in U.S. time zones, are expected to show modest incremental improvement in growth of industrial production (accelerating to 5.1 percent in year-over-year terms from 4.8 percent in July) and investment in fixed assets (a 0.4 percent year-to-date year-over-year decline vs 1.6 percent in July), with the unemployment rate expected to edge down to 5.6 percent from 5.7 percent.

UNITED KINGDOM: The Bank of England is expected to hold unchanged its policy Bank Rate at 0.1 percent at the September 17 Monetary Policy Committee decision, and to also maintain unchanged the ceiling for its QE program at £745 billion pounds sterling. The BoE is expected to signal willingness to raise this ceiling in coming months to maintain very accommodative monetary policy as the government begins to withdraw fiscal stimulus. The European Union on September 10 pushed back against the U.K.'s threat to violate the terms of the withdrawal agreement; brinksmanship is escalating ahead of Prime Minister Johnson's October deadline to complete a trade deal that would take effect on January 1. The European Commission demanded that the British government drop its plan to unilaterally change the withdrawal agreement by the end of the month or the EU would cease negotiations for a trade deal. U.S. Speaker of the House Nancy Pelosi has also warned that Congress would not allow a new U.S.-U.K. trade agreement if the U.K. follows through with its threats, which could force a hard border in Northern Ireland. The pound sterling has given up all of its appreciation between late July and early September on the renewal of Brexit uncertainties.

CANADA: Matching PNC's and consensus expectations, the Bank of Canada (BoC) held unchanged its target for the policy overnight rate at 0.25 percent, which the BoC considers their effective lower bound. The BoC also announced the continuation of its quantitative easing program, with large-scale asset purchases of at least $5 billion per week of Government of Canada bonds. In the accompanying statement, central bankers stated that the "strong reopening phase will be followed by a protracted and uneven recuperation phase, which will be heavily reliant on policy support." Housing starts increased 6.9 percent in August to a seasonally-adjusted annualized rate of 262,400, the highest level in more than a decade, thanks to an uptick in demand driven by an improving labor market and low mortgage rates, and potentially the same changes in homebuyer preferences affecting the U.S. housing market.

JAPAN: The Bank of Japan is expected to hold unchanged its negative policy interest rate at -0.1 percent at its September rate decision, which will be announced late the night of September 16 in U.S. timezones. The BoJ also is expected to hold unchanged its target for the ten-year government bond yield at around zero percent, and maintain other aspects of its quantitative and qualitative easing programs unchanged.

BRAZIL: Consumer prices as measured by the benchmark IPCA index increased 2.4 percent in August from a year earlier, the third consecutive monthly acceleration of inflation to the fastest pace in five months, in line with consensus and up from a 2.3 percent increase in July. August's inflation still undershot the lower bound of the central bank's 2.5 to 5.5 percent inflation target range, as inflation had in the four prior months. Retail sales growth accelerated to 5.5 percent in year-ago terms in July, above consensus expectations for 2.4 percent growth and the fastest pace since March 2018, following a 0.5 percent increase in June.

PNC expects the Central Bank of Brazil to hold its benchmark Selic rate unchanged at its current record-low level of 2.0 percent at the September 16 monetary policy decision. Brazil's aggressive fiscal stimulus leaves little room for cutting interest rates to even more unprecedentedly low levels; inflation will continue to rise in the coming months due to pass through from the weaker Brazilian currency and stabilization of global commodity prices.

INDIA: Industrial production fell 10.4 percent in July from a year earlier after a 15.8 percent decline in June; July marked the fifth consecutive year-over-year decline of industrial production and also the third consecutively monthly improvement. India's recovery will be uneven and patchy as the country continues to deal with accelerating coronavirus cases. India has the second-highest number of cases globally and the third highest number of deaths.

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