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# GLOBAL ECONOMIC HIGHLIGHTS

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## U.S.'s Jobs Recovery Slowed in September; ECB Is Considering an Inflation Overshooting Strategy

**UNITED STATES:** The labor market is recovering from the Viral Recession, but its pace of improvement weakened in September. The economy added 661,000 jobs in the month, below the consensus forecast for an 850,000 gain. Job growth in August was revised up about 100,000 to 1.489 million, while job growth in June was revised slightly lower to 1.761 million; job growth in September was still solid, but job gains have clearly slowed since the first months of the recovery. After September's gain, the U.S. economy has regained just over half the 22 million jobs lost between February and April.

The unemployment rate fell to 7.9 percent from 8.4 percent in August and 14.7 percent at its peak in April. But the decline was for the wrong reason; nearly 700,000 workers dropped out of the labor force in September, with nearly 90 percent of those leaving the labor force women. This partly reflects caregiving responsibilities that disproportionately fall to women as the pandemic keeps schools remote and reduces services for the elderly and disabled. It also reflects the lopsided composition of September's job growth: The private sector added a net 877,000 jobs in the month, while government employment fell 221,000, reflecting job losses in state- and local-government education employment; public and private education employment fell a collective 349,000 in September. The month also saw slower hiring at big box stores and temp agencies. The labor force participation rate for women fell back to 55.6 percent in September from 56.1 percent in August; prior to this downturn, the last time women's labor force participation was this low was 1987. Male labor force participation was slightly down in September too, at 67.6 percent after 67.7 percent in August.

Second quarter real GDP was revised modestly in the final third estimate to a 31.4 percent seasonally-adjusted annualized decline from a 31.7 percent decline in the second estimate; the second quarter is still by far the worst quarter on record for U.S. real GDP in data going back to the 1940s.

The ISM manufacturing index dipped to 55.4 in September from 56.0 in August, while the University of Michigan Consumer Sentiment Indicator was revised up to 80.4 in the September final release from 78.9 in the preliminary estimate. It was up from 74.1 in August but still far from February's 101.0. Initial claims for unemployment insurance fell to 787,000 (before seasonal adjustment) in the week ending September 26, down 5 percent on the week. Claims have been stuck around 800,000 per week in the past couple of months as layoffs remain highly elevated. They were a higher 837,000 after seasonal adjustment. The Federal Reserve Bank of New York's Weekly Economic Index fell 4.6 percent from a year earlier in the week of September 26; like initial claims and the ISM PMI, the WEI points to a slower pace of economic improvement in September.

**EUROZONE:** In a September 30th speech about the ECB's ongoing review of its monetary policy strategy, President Christine Lagarde signaled the ECB is considering following the Federal Reserve in adopting an average inflation targeting policy. President Lagarde said, "The usefulness" of inflation overshooting approaches "could be examined." By ECB standards, this is a fairly explicit sign that Lagarde leans toward an average inflation targeting. Lagarde also implied the ECB's inflation objective of below but near two percent has outlived its usefulness. She said that objective was appropriate for when the ECB adopted it in 2003, since "the ECB was seeking to establish credibility and too-high inflation was its main worry." But she argued the objective is less appropriate in current circumstances—HICP inflation has averaged just 1.2 percent since 2008, and has been below zero (that is, deflation) in August and September.

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While Lagarde seems receptive to a more dovish monetary policy strategy, average inflation targeting in the euro area would face a substantial credibility challenge. Since taking the ECB's helm, President Lagarde has tried to build consensus behind the Bank's monetary policy by triangulating between the ECB's doves, who are concerned about too-weak inflation, and its hawks, who are skeptical of negative interest rates and quantitative easing. If the ECB wants to adopt average inflation targeting to convince the private sector that inflation will average at its target over time, Lagarde will have to convince her hawks to line up behind a very dovish policy strategy—a tall order.

**CANADA:** The Canadian economy is recovering thanks to the easing of shelter-in-place restrictions, pandemic-related fiscal support, and record-low interest rates. Real GDP grew 3.0 percent in July from June, the third consecutive monthly gain, but slower as expected than June's 6.5 percent increase. The details of the July GDP report were solid. Output of goods-producing industries rose 3.2 percent while that of services-producing industries grew 3.0 percent. Growth was broad-based, with output of all twenty-two sectors up in July from June. The economy shrank 5.0 percent in the twelve months to July following a 7.7 percent contraction in June and a record 16.9 percent contraction in April. Building permits rose 1.7 percent in August from July following an upwardly revised 1.6 percent decline in July; residential building permits increased 7.1 percent in August, while non-residential building permits declined 8.6 percent.

**CHINA:** China's recovery continues to gain traction. The CFLP manufacturing PMI rose to 51.5 in September from 51.0 in August and the Caixin manufacturing PMI was little changed at a solid 53.0 after 53.1. The CFLP nonmanufacturing PMI rose to 55.9 from 55.2 and was the highest since 2013. China's industry-led recovery supported the increase of manufacturing PMIs in other emerging markets to record highs in September.

**BRAZIL:** 249,400 formal jobs were added in August according to the government's survey of employers; August was the second consecutive monthly increase following four straight months of job losses between March and June. The manufacturing, construction, and retail sectors had the strongest gains in August, with the manufacturing sector contributing over a third of the month's net gain. The unemployment rate rose to 13.8 percent in the three months to July according to a survey of households, and was the highest since the comparable data began; it was 13.3 percent in the three months to June. The unemployment rate has increased in every month this year. The household survey's details paint a bleak picture. The employment ratio (persons in work as a share of the working-age population) in the three months to July fell to a record-low 47.1 percent from 47.9 percent in three months through June and 54.8 percent in the three months through January. A record high 79.0 million adults were out of the labor force in July, up from 77.8 million in June and 65.7 million in January. The labor force participation rate correspondingly was a record-low 54.7 percent in July after 55.3 percent in the prior month and 61.7 percent in January.

Brazil's manufacturing PMI jumped to a record-high 64.9 in September from 64.7 in August—it reached a record-low 36.0 in April. A PMI reading above 50 indicates an expansion while a reading under 50 indicates a contraction. Industrial production rose 3.2 percent in August from July, following an 8.0 percent rise in July. Industrial production was still down 2.7 percent from a year earlier in August, marking an improvement from July's 3.0 percent decline in the same terms.

Notwithstanding signs of recovery, Brazil's outlook is cloudy after such a severe downturn. A further resurgence in coronavirus cases remain the top risk, and Brazil's fiscal health (the fiscal deficit is likely to exceed 10 percent of GDP this year and public debt is almost 90 percent of GDP, high for an emerging market) could potentially hurt its credit rating and weigh on the already weak real.

**INDIA:** India's manufacturing PMI increased to a record-high 56.8 in September from 52.0 in August. India's economy is on an upward trajectory following the easing of shelter-in-place restrictions. Aggressive fiscal and monetary policy measures are underpinning a recovery, but a return to pre-pandemic levels of output and employment will take years.

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