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GLOBAL ECONOMIC HIGHLIGHTS

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Yuan Jumps as Chinese Tourism and Consumer Spending Rebound; ECB Signals More Easing Possible at Year-end

CHINA: The yuan jumped to 6.7 per U.S. dollar on October 9, the strongest since April 2019, after China's government announced that 637 million tourists traveled over the "Golden Week" following the October 1 National Day holiday and spent about ¥466 billion yuan ($70 billion dollars).

In contrast to Western economies, where stimulus targeted at households fueled a V-shaped recovery of consumer spending, China's stimulus fueled a strong rebound of real estate and industrial activity in the early months of the recovery. China's third quarter GDP report, to be released the night of September 18 in U.S. time zones, will likely show real GDP growth accelerating to 5.3 percent in the quarter from 3.2 percent in the second quarter, led by real estate investment and industrial production. However, the Golden Week headlines and recent service sector surveys show the recovery is broadening and consumers are opening their wallets. The Caixin services PMI for China rose to 54.8 in September from 54.0 in August and was near its strongest readings in the past decade; it paralleled the improvement of the CFLP nonmanufacturing PMI which reached the strongest since 2013 in September.

EUROZONE: The Account (a.k.a. minutes) of the ECB Governing Council's September 9 and 10 meeting, published October 8, showed Governing Council members were very preoccupied with the appreciation of the euro; the phrase "exchange rate" occurs 28 times in the minutes, including as, "it was considered important to avoid … the perception among investors that the direction of exchange rate movements was a one-way bet." The minutes also show that the ECB's Chief Economist Philip Lane is trying to guide the Governing Council toward a decision "over the coming months" in reaction to the course of the pandemic, the appreciation of the euro, the Brexit negotiation, and potential decisions to increase fiscal stimulus in the Eurozone. The ECB could increase the maximum purchases to be made under its Pandemic Emergency Purchase Programme in December, by perhaps another €250-500 billion euros, if rising coronavirus cases or other downside risks cause the recovery to weaken in the fall and winter months.

The Markit services PMI for the Eurozone was revised slightly higher to 48.0 in the September final release from the 47.6 flash estimate and was down from 50.5 in August as the resurgence of coronavirus cases in Europe weighed on foot traffic in service-sector business; new daily coronavirus cases reported in the E.U. have nearly matched those in the United States since late September as new cases per capita in France and Spain rose to above the U.S. rate. Eurozone retail sales rose 4.4 percent in August from July and 3.7 percent from a year earlier; as in the United States, e-commerce sales and consumer spending on durable goods are driving a V-shaped recovery of retail spending.

UNITED STATES: The Markit services PMI was unrevised at 54.6 in the September final release, down slightly from 55.0 in August, which was the strongest since early 2019; the ISM services PMI rose to 57.8 from 56.9 and was near July's 20-month high of 58.1.

Initial claims for unemployment insurance (UI) rose 0.7 percent to 804,000 before seasonal adjustment in the week ended October 3, and dipped 1 percent after seasonal adjustment to 840,000; initial claims have been stuck around 800,000 since August, a sign that layoffs remain very high and are not slowing. However, continued UI claims continue to trend lower: Continued UI claims for state programs fell to 10.976 million in the week ended September 26 from 11.979 million a week earlier and 13.544 million in the last week of August. Continued UI claims under all programs (including Federal programs created by the CARES Act) fell to 25.505 million the week of September 19 from 26.509 million a week earlier and were the lowest since April. The Federal Reserve Bank of New York's Weekly Economic Index improved in the week of October 3, falling 4.2 percent from a year earlier, its smallest drop since the recovery began. This is welcome news since the WEI's year-over-year decline, like initial jobless claims, was basically the same between late August and late September.

UNITED KINGDOM: U.K. and E.U. negotiators seem to be in the final stages of finalizing a trade deal to take effect on January 1, right before E.U. leaders meet to decide whether a deal is possible on Prime Minister Johnson's self-imposed October 15 deadline for it. The British government has repeatedly signaled its willingness to walk away with no deal, but its statements in the last two weeks suggest a deal is likely to be announced this week. After a drop to $1.27 per pound sterling on September 22 on revived no-deal fears, pound sterling has recovered to back above $1.30; financial markets currently price in around 50-50 odds of a Bank of England cut to reduce the bank rate to a negative level over the next 12 months, down from roughly three in five odds at the September peak of no-deal anxiety.

JAPAN: The Jibun Bank services PMI for Japan was revised up in the September final release to 46.9 from the 45.6 flash estimate and 45.0 in August; while September's services PMI was the highest since January, it still pointed to a net contraction of Japanese service sector activity in the month. Consumer confidence rose to 32.7 in September from 29.3 in August but was well off of its pre-crisis 38.3 in February or its cyclical peak of 44.6 in late 2017. Labor cash earnings fell 1.3 percent from a year earlier in August, the smallest year-over-year decline since April; household spending by households of two or more persons fell 6.9 percent on the year, up slightly from July's 7.6 percent decline in the same terms. Household spending has fallen in each month since the October 2019 consumption tax hike.

CANADA: Net employment rose 378,200 in September, far above expectations for a rise of 150,000, while the unemployment rate fell to 9.0 percent from 10.2 percent. September saw the fourth consecutive monthly decline in the unemployment rate and the fifth straight month of job gains. The details behind the headlines were solid. Private sector employment rose 259,800 while public sector employment increased 143,600; Employment rose 167,600 in Ontario and 76,700 in Quebec, accounting for about 65 percent of the month's job gains. Employment in goods-producing industries rose 75,100 while the services industries added 303,100 jobs, with large gains in accommodation and education services. Average hourly wages increased 5.4 percent year-over-year, down from the 6.0 percent increase in the prior month, as employment in lower-paying parts of the services sector recovered. The employment-to-population ratio rose to 59.1 percent from 58.0 percent in August, but was still below the pre-pandemic level of 61.8 in February; the labor force participation rate (share of those 16 or older either working or looking for work) similarly rose to 65.0 percent from 64.6 percent in August, and was still down from 65.5 percent in February. Housing starts tumbled 20.0 percent in September from August, to 208,980 at a seasonally-adjusted annualized rate. The decrease was mainly driven by weakness in Ontario (down 31.8 percent) and British Columbia (down 26.2 percent) and followed the strongest month for starts since early 2017 in August.

Canada's labor market and economy are stabilizing, and its recovery is broadening with job gains in every industry except trade and agriculture in September. But the recovery will slow in coming months, and will be protracted and uneven. Furthermore, the balance of risks are skewed to the downside as a resurgence of the coronavirus in many provinces parallels developments elsewhere around the world. The government of Ottawa on September 10 re-imposed closures of indoor dining, gyms, and some other congregate businesses, which must stay closed for at least 28 days in response to rising case counts in the province.

BRAZIL: Consumer prices as measured by the benchmark IPCA index increased 3.1 percent in September from a year earlier, the fourth consecutive monthly increase, and exceeded consensus expectations for a 3.0 percent increase. September's inflation rose to within the central bank's 2.5 percent to 5.5 percent target range, marking the first time since March of this year that inflation has not undershot the central bank's target. September's higher inflation was mainly driven by a continued surge in food prices (up 11.8 percent on the year) and the weak real, which is raising prices of imported and globally-priced goods. Record-low interest rates and aggressive fiscal stimulus are also contributing to higher inflation. Retail sales jumped 3.9 percent in August from a year earlier, a bit above consensus expectations of 3.7 percent and marking the fastest gain so far this year.

INDIA: The Reserve Bank of India voted unanimously to keep its benchmark repurchase rate unchanged at 4.0 percent as expected when central bankers met on October 9; the accompanying commentary from Governor Shaktikanta Das pointed to an extended pause in interest rate movements, stating that the RBI "has decided to continue with the accommodative stance of monetary policy as long as necessary – at least during the current financial year and into the next year." The RBI responded aggressively to the pandemic but above-target inflation has left the bank with little to no leeway to cut the repo rate below the current record low; the RBI has turned to unconventional monetary policy tools (forward guidance and bond purchases) to stimulate an economy it sees contracting 9.5 percent this fiscal year.

CPI inflation accelerated to 7.3 percent in year-over-year terms in September from 6.7 percent in August; the surge was mainly driven by an increase in food prices; food and beverage prices surged 9.7 percent from a year earlier in September, up from 8.3 percent in August; core inflation (excluding food, fuel and light) stayed unchanged at 5.4 percent. CPI inflation has been above the RBI's inflation target range since April of this year; the RBI's inflation target range is 2.0 percent to 6.0 percent.

The Markit services PMI for India jumped to 49.8 in September from 41.8 in August and a record low of 5.4 in April. India's composite PMI jumped to 54.6 in September from 46.0 in August; a PMI reading above 50 indicates an expansion while a reading under 50 indicates a contraction. Industrial production plunged 8.0 percent year-over-year in August, slightly better than the downwardly revised 10.8 percent drop in July but worse than economists' forecast for a 7.8 percent fall. India's economic recovery is underway but a full recovery is contingent on curbing the virus; India currently has the second-highest number of coronavirus cases in the world.