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# GLOBAL ECONOMIC HIGHLIGHTS

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## China's Recovery Accelerates in Q3, But Industrial Recoveries Lose Steam Elsewhere around the World

**CHINA:** Real GDP rose 4.9 percent in the third quarter of 2020 from a year earlier, up from 3.2 percent in the second quarter and following a 6.8 percent year-over-year contraction in the first quarter of 2020. Retail sales of consumer goods rose 3.3 percent on the year, up from 0.5 percent in August; auto dealers' revenues rose 11.2 percent on the year in September, paralleling the rebound in auto sales in the United States. Chinese investment in fixed assets rose a scant 0.8 percent on the year in the first three quarters of 2020; investment in equipment fell 10.1 percent during the period, while investment in real estate development rose 5.6 percent. Industrial production grew 6.9 percent from a year earlier in September, up from 5.6 percent in August and tying December 2019 for the fastest since March 2019.

Somewhat counterintuitively, China's trade surplus is widening in 2020 even as its recovery outpaces the rest of the world. The trade surplus in goods was \$326.1 billion dollars in the first nine months of 2020, up 9.2 percent from a year earlier. Usually, faster economic growth leads to a lower trade surplus (or larger trade deficit) since an increase in national income funds more purchases of imports. China's exception to this rule may in part reflect global consumer retail supply chains adding to inventories, made in China, in case of supply chain disruptions in the fall and winter. But the surplus also reflects China's industrial-focused stimulus efforts, which have promoted production more than consumption.

**UNITED STATES:** The consumer price index rose 0.2 percent in September from August, with the core index excluding food and energy also up 0.2 percent. From a year earlier, total CPI inflation was 1.4 percent after 1.3 percent in August and 0.1 percent in May; core inflation was unchanged in year-over-year terms at 1.7 percent in September. Retail sales jumped 1.9 percent in September from August, with increases broad-based across most segments. But industrial production fell, down 0.6 percent on the month, as utilities output dropped 5.6 percent; manufacturing output also fell 0.3 percent, while mining output rose 1.7 percent. The University of Michigan's Consumer Sentiment Index rose modestly in the October preliminary release to 81.2 from 80.4 in September, with an increase in the expectations component offsetting weaker current conditions.

Initial claims for unemployment insurance were 886,000 in the week ended October 10, before seasonal adjustment, up 9.5 percent on the week. After seasonal adjustment, claims were 898,000. Continued claims fell 11 percent in the week ended October 3 to 9.632 million before seasonal adjustment, and fell 10 percent after seasonal adjustment to 10.018 million. While lower continued claims are consistent with further reductions in the unemployment rate into year-end, the persistently high level of initial claims, which have been stuck around 800,000 since late August, shows that layoffs continue to be very high and many employers are cutting jobs; this jibes with the BLS' monthly survey of households, which shows temporary unemployment is falling but permanent unemployment is rising. The Federal Reserve Bank of New York's Weekly Economic Index marked another recovery-to-date high the week of October 10, with a 3.9 percent year-over-year decline in the first revision after a 4.2 percent decline in the prior week's first revision.

**EUROZONE:** New car registrations rose 3.1 percent from a year earlier in the E.U. in September, the first annual increase since last December. But car registrations in the first three quarters of the year combined were still down 29 percent from the same period in 2019—and registrations in that period were 17 percent

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below 2018's level. Industrial production rose 0.7 percent in August, slowing from a 0.5 percent increase in July and paralleling a slowdown of industry's recovery in the United States and many other economies.

**UNITED KINGDOM:** Pound sterling weakened to below \$1.30 after the E.U. and U.K. failed to reach an agreement on a trade deal by Prime Minister Johnson's self-imposed October 15 deadline. But Britain continues to negotiate with the E.U., a sign that recent tensions may be just brinksmanship. Press reports suggest the negotiation now focuses on the final details of the trade deal. Separately, the August jobs report shows businesses continue to make permanent layoffs, which had been delayed by the government's stimulus package. Layoffs in the June to August quarter rose to the highest since mid-2009. The Office of National Statistics' experimental monthly payroll estimate was up 0.1 percent in September from August but down 2.4 percent from February; the Universal Credit claimant count rose to 2.731 million in September from 2.704 million in August and 1.240 million in March.

**JAPAN:** Industrial production rose 1.0 percent in August from July, slowing from July's 8.7 percent gain; industrial production was still down 13.8 percent from a year earlier in August. Services activity rose a weak 0.8 percent in August after a 0.1 percent increase in July; services activity was down 6.0 percent from its February level.

**CANADA:** Manufacturing sales fell 2.0 percent by value and 2.2 percent by volume in August from July due to a fall in automobile and parts sales. Durable goods sales fell 3.1 percent on the month while non-durable goods sales fell 0.7 percent; manufacturing sales fell 8.8 percent in the twelve months to August.

Existing home sales increased a muted 0.9 percent in September from the prior month, the smallest gain since the recovery began in May, following a 6.2 percent increase in August; newly listed properties fell 10.2 percent from August to September. The non-seasonally adjusted Aggregate Composite MLS<sup>®</sup> Home Price Index rose 1.3 percent in September from August and 10.3 percent from a year earlier. Low inventory, pent-up demand, ultra-low mortgage rates and government support has supported rapid Canadian home price increases in recent months, but sales are expected to slow in the near term as Canada grapples with a second wave of the pandemic.

**MEXICO:** Industrial production rose 3.3 percent in August from July, slower than July's 7.1 percent gain or June's 18.1 percent; industrial production was down a seasonally-adjusted 8.4 percent from a year earlier in August. Mining output rose 0.8 percent in August, construction 11.2 percent, manufacturing 0.8 percent, and utilities output 5.7 percent. Mexico's industrial recovery was losing steam already in August; the industrial sector around the globe is lagging spending by developed-economy consumers in the recovery.

**BRAZIL:** The IBC-BR Economic Activity index rose 1.1 percent in August from July, following an upwardly revised 3.7 percent increase in July; the IBC-BR fell 3.9 percent in the twelve months to August, following an upwardly revised 4.3 percent decline in July. A fourth straight monthly increase in economic activity still left the IBC-BR 4.2 percent below its pre-pandemic level.

**INDIA:** Industrial production fell 8.0 percent in the twelve months to August, following a downwardly revised 10.8 percent drop in July; industrial production has fallen in year-over-year terms in every month since March though the severity of the decline has lessened in recent months. Exports rebounded in the twelve months to September, rising 6.0 percent, after falling for the six prior months; imports plunged 19.6 percent in the twelve months to September after falling 26.0 percent in August. India's trade deficit narrowed to \$2.7 billion in September from \$6.8 billion in August. With exports sharply higher and industrial production improving, India's economic recovery looks to be gaining traction, though activity remains well below pre-pandemic levels. India's recovery will likely be uneven and protracted due to high coronavirus cases in the country, a resurgence of the virus in many other countries, and a lopsided global recovery.

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