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GLOBAL ECONOMIC HIGHLIGHTS

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U.S. Growth Momentum Up a Bit in Early October Indicators; European Services PMIs Weaken as Second Wave Worsens

UNITED STATES: The Markit services PMI for the U.S. rose to a 20-month high of 56.0 in the October flash release after 54.6 in September, while the manufacturing PMI edged up to a 21-month high of 53.3 from 53.2. The Census Bureau's fortnightly Pulse Survey showed the share of American adults who were working rose to a recovery-to-date high of 58.6 percent in the September 30 to October 12 survey from 58.0 percent in the prior period; definitional differences mean the data are not comparable to the employment-to-population ratio in the BLS household survey (the survey for the unemployment rate), but they are directionally consistent. The Federal Reserve Bank of New York's Weekly Economic Index also improved to a recovery-to-date high of a 3.8 percent year-over-year contraction in the week ending October 17 from a 4.0 percent decline the prior week. And after being stuck around 800,000 per month since late August, initial claims for unemployment insurance fell to 757,000 the week ending October 16 before seasonal adjustment; some of the improvement is due to California releasing updated data, which had been delayed by wildfires and had masked some of the labor market's improvement in September. Continued claims fell even more in the week ending October 10, down 11 percent on the week to 7.992 million, although some of this decline is due to recipients exhausting their benefits. This shows up in the steady rise of applications and recipients for Pandemic Emergency Unemployment Compensation (PEUC) and state extended benefits, programs for unemployed persons who have already received 26 weeks of benefits. But the most comprehensive measure of unemployment insurance recipients, which includes PEUC and extended benefits, still improved in the latest data for the week ending October 3, down 1.0 million on the week and 2.9 million on the month to 23.2 million. Unemployment is still extremely high—the share of working-age adults who were employed in September was well below where it was in the worst months of the 2008-'09 Great Recession—but the trajectory of growth in the early indicators for October looks better than in the comparable data for September.

September housing data show the sector continues to lead the U.S. recovery. Existing home sales rose 9.4 percent in September to a 6.54 million seasonally-adjusted and annualized rate, the highest since 2006. Housing starts rose 1.9 percent to 1.415 million in the same terms, while new residential construction permits rose 5.2 percent to 1.533 million, the highest since early 2007. The NAHB homebuilder confidence index rose to a record high in September; the index's data go back to 1985.

The first or advance estimate of real GDP for the third quarter of 2020, to be released October 29, will likely show a 30 percent annualized increase following a 31.4 percent annualized decline in the second quarter.

UNITED KINGDOM: The Markit services PMI for the U.K. pulled back to 52.3 in the October flash estimate from 56.1 in September as the British government reintroduced restrictions on congregate businesses to tamp down the resurgence of coronavirus; new cases per million in the U.K. have exceeded those in the U.S. since the beginning of October. The manufacturing PMI at 56.4 after 59.0 was also lower on the month in October, but was still better than the services PMI; renewed restrictions affect manufacturers less than service-sector businesses.

EUROZONE: The Markit services PMI for the Eurozone pulled back further to 46.2 in the October flash estimate from 48.0 in September and showed a second consecutive month of contraction for services activity. Like in the U.K., the contraction of the Eurozone services sector reflects the headwinds from renewed restrictions in many E.U. member states on congregate businesses as well as Europeans' apprehension about venturing out as the pandemic worsens. New cases per capita in the E.U. have exceeded those in the United States since mid-October. The manufacturing PMI rose to 54.4 from 53.7 and reached a 26-month high.

JAPAN: The Jibun bank services PMI edged down to 46.6 in the October flash release from 46.9 in September, while the manufacturing PMI edged up to 48.0 from 47.7. The consumer price index was unchanged from a year earlier in September with core inflation excluding food and energy also flat after a 0.1 percent year-over-year decline in August. PNC expects the Bank of Japan to hold its monetary stance unchanged at its October decision, which will be announced the night of October 28 in U.S. time zones: The short-term negative policy rate will remain -0.1 percent, the target for the ten-year government bond yield "around zero percent," and quantitative easing programs will continue at unchanged paces.

CANADA: CPI inflation picked up to 0.5 percent in year-over-year terms in September, matching consensus, after 0.1 percent in July and August; the Bank of Canada's three measures of core inflation, CPI-common, CPI-median, and CPI-trim were 1.5 percent, 1.9 percent, and 1.8 percent, respectively, in September, all below the Bank's 2.0 percent inflation target. The Teranet-National Bank House Price Index™ rose 6.7 percent in September from a year earlier, the biggest jump in over two years, up from 5.7 percent in August; house price gains have accelerated during the recovery from the pandemic thanks to record-low interest rates, tight supply and pent up demand. Retail sales slowed in August, increasing a muted 0.4 percent from July, after rising an upwardly revised 1.0 percent in July; retail sales surged initially after the recession and increased 21.2 percent and 22.5 percent on a month-over-month basis in May and June, but the pace of growth has slowed as the economic recovery has weakened and consumer restrictions have been re-implemented due to a resurgence of the virus. PNC expects the Bank of Canada to maintain its target for the overnight rate at 0.25 percent when central bankers meet on Wednesday October 28.

MEXICO: The September jobs report showed that labor force participation has largely rebounded from the April downturn; 8.4 million of the 12 million workers who exited the labor force in April had rejoined it as of September. Mexico's statistical system captures labor market fluctuations more in labor force participation than in the unemployment rate, which substantially understates the dislocation in Mexico's labor market; the unemployment rate was 5.1 percent in September, versus 2.9 percent in March.

BRAZIL: Inflation as measured by Brazil's consumer price index the IPCA-15 accelerated to 3.5 percent in the twelve months through mid-October from 2.7 percent the prior month; core inflation by the Central Bank of Brazil's trimmed mean index was 2.4 percent in September. Both the IPCA-15 and core inflation remain below the central bank's 4.0 percent inflation target, but will likely rise toward the target in 2021.

Notwithstanding signs of recovery in some sectors, such as manufacturing and retail, Brazil's outlook is cloudy after the viral recession, and economic activity remains well below the pre-pandemic level. Rising coronavirus cases remain an imminent risk, and Brazil's poor fiscal health could potentially hurt its credit rating and weigh on the already weak real. With inflation still undershooting the central bank's target, PNC Economics expects the central bank of Brazil to hold the Selic policy rate unchanged at a record-low 2.0 percent at the next Monetary Policy Committee meeting on Tuesday October 27.