GLOBAL ECONOMIC HIGHLIGHTS

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Bank of England Adds Stimulus as Risk of a British Double-Dip Recession Rises; U.S. Unemployment Lower in October

UNITED KINGDOM: The Bank of England's Monetary Policy Committee increased the target for asset purchases (a.k.a. quantitative easing) by £150 billion pounds sterling at their November 5 monetary policy decision. This is equivalent to roughly ten months of purchases at the September-to-October pace; however, the BoE could accelerate purchases if they see a need for stronger stimulus. The BoE also held its bank rate unchanged at 0.1 percent. The Bank has a clear easing bias as they monitor the impact of the U.K.'s second national lockdown, which the government imposed on November 5: Congregate businesses must close, including non-essential retailers and dine-in restaurants. Daycares and schools may stay open. The BoE's November monetary policy statement reads, "The Committee stands ready to take whatever additional action is necessary to achieve its remit." Financial markets price in roughly 50-50 odds of the Bank of England reducing the bank rate to negative territory by the third quarter of 2021.

The U.K.'s lockdown will cause a drop in real GDP in the fourth quarter of 2020. Between the lockdown and the withdrawal from the E.U. common market at the end of 2020, a British recession—a sustained, broad-based, self-reinforcing decline in economic activity—is a three in five risk in the winter months. The U.K. and EU still have not yet reached a deal for post-Brexit trade relations; November 15 is supposedly the real deadline for a deal to be reached if it is to be ratified by British and EU parliaments before year-end. The Markit/CIPS services PMI for the U.K. dropped to 51.4 in October from 56.1 in September as the U.K.'s worsening second wave dragged on services activity; a PMI reading above 50 indicates an expansion while a reading under 50 indicates a contraction. The service sector will contract in November. The manufacturing PMI fell to 53.7 in October final release from 54.1 in September and 55.2 in August, while the construction PMI fell to 53.1 in October from 56.8 in September.

UNITED STATES: The unemployment rate dropped a full percentage point in October, to 6.9 percent from 7.9 percent in September. The details of the household survey (from which the unemployment rate is calculated) were mostly strong: The labor force participation rate rose to 61.7 percent from 61.4 percent in September and returned to its August rate, though it was still far below February's 63.4 percent. However, 383,000 of October's job gains were part-time jobs for workers who would have preferred full-time work. Accordingly, the U-6 broad measure of unemployment and underemployment fell by less than the headline unemployment rate in October, to 12.1 percent from 12.8 percent.

Employment measured in the survey of households jumped 2.243 million on the month in October and the labor force rose 724,000, more than reversing September's nearly 700,000 drop. By contrast, job growth as measured by the survey of employers slowed to 638,000 in October from 672,000 in September, marking a second consecutive monthly increase under one million; job growth is usually less volatile in the survey of employers. 638,000 more payroll jobs normally would be an excellent month, but payrolls are still 10 million below their pre-crisis level. Payrolls have recovered 54 percent of the February to April plunge, but would still need another 16 months at October's pace to recover to the pre-crisis level. The picture is a bit better in the household survey, in which employment had recovered 65 percent of its February-to-April drop through October. But in broad strokes, unemployment is high, and the road to a normal job market is long. Furthermore, October marked the first month of the recovery in which the number of permanently job losers, 3.68 million, exceeded the number on temporary layoffs, 3.21 million, among the unemployed. Temporary layoffs peaked in April at 18.06 million and have trended down since, while permanent layoffs rose through September to 3.76 million and were only slightly lower in October.

The Markit services PMI for the U.S. rose to 56.9 in October from 54.6 in September and was the highest since April 2015, while the ISM services PMI dipped to 56.6 in October from 57.8 in September and matched its average level from 2014 to 2019. So far, the U.S. services sector looks to be avoiding the slowdown that hit Europe in October, despite record numbers of new coronavirus cases in the U.S. But the worsening of the pandemic across much of the United States increases the risk that governments will be forced to re-impose restrictions on congregate businesses to prevent the health system from being overwhelmed.

CHINA: The Caixin services PMI for China rose to 56.8 in October from 54.8 in September and was the second-highest after June in the last decade; China's recovery continues to broaden as consumers gain confidence and catch up on spending deferred earlier in 2020.

CANADA: Employment rose a net 83,600 in October, above expectations for a 75,000 increase, while the unemployment rate fell only slightly to 8.9 percent from 9.0 percent as the labor force also increased. October marked Canada's fifth consecutive decline in the unemployment rate and the sixth straight month of job gains. The Canadian economy lost 2.9 million jobs in March and April and through October had recovered eighty percent of the jobs lost, a bit better than in the United States. The details behind the October jobs report headlines were lukewarm. Private sector employment rose 76,300, public sector employment decreased 25,600, and self-employment increased 32,800; employment rose 33,500 in British Columbia and 30,600 in Ontario while there were 12,900 jobs lost in Quebec. Employment in goods-producing industries rose 17,600 while the services industries added 66,000 jobs, with large gains in wholesale and retail trade and professional services. The employment-to-population ratio rose to 59.4 percent in October from 59.1 percent in September, 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 65.2 percent in October from 65.0 percent in September, and was down from 65.5 percent in February.

INDIA: India's recovery is broadening. The Markit manufacturing PMI jumped to an all-time high of 58.9 in October from 56.8 in September. The Markit services PMI rose to 54.1 in October from 49.8 in September. The Markit composite PMI (the average of the manufacturing and services PMIs) rose to an all-time high 58.0 in October from 54.6 in September.

BRAZIL: Consumer prices as measured by the benchmark IPCA index increased 3.9 percent in October from a year earlier, up from 3.1 percent in September. October's was the fifth consecutive monthly increase, and matched consensus expectations. Inflation has been within the central bank's 2.5 percent to 5.5 percent target range for two months after undershooting it between April and August. October's higher inflation was mainly driven by a continued surge in food prices and the weak real (down 33.4 percent this year), which is raising prices of imported and globally-priced goods. Record-low interest rates and aggressive fiscal stimulus are also contributing to higher inflation.

The Markit manufacturing PMI jumped to an all-time high of 66.7 in October from 64.9 in September. The Markit services PMI rose to 52.3 in October from 50.4 in September. Industrial production jumped 3.4 percent in September from a year earlier, much better than the upwardly revised 2.5 percent decline in August but worse than economists' forecast for a 2.5 percent increase.

In an 56 to 12 vote, senators approved a central bank autonomy bill on Nov 3 which would establish independence of the central bank and reduce political interference in monetary policy; the bill sets conditions for appointing and firing bank directors, who will have fixed four-year terms that do not coincide with presidential terms. The bill would also mandate the central bank to use monetary policy to stabilize employment, rather than focus on only inflation. The bill still needs to be approved by the lower chamber of Congress before becoming law.