November 16, 2020

GLOBAL ECONOMIC HIGHLIGHTS

Gus Faucher Chief Economist | **Stuart Hoffman** Senior Economic Advisor | **William Adams** Senior Economist | **Kurt Rankin** Economist | **Abbey Omodunbi** Economist

THE PNC FINANCIAL SERVICES GROUP | The Tower at PNC Plaza | 300 Fifth Avenue | Pittsburgh, PA 15222-2401

Chinese Growth Broadens Further as Consumers Open Wallets; Crosswinds for the U.S. Recovery in November

CHINA: China's recovery broadened further in October as stronger business activity and lifted restrictions on travel and congregate businesses spurred consumers to catch up on spending deferred earlier in the year. Retail sales of consumer goods grew 4.3 percent on the year in October, up from 3.3 percent in September and a third consecutive month of year-over-year growth. Growth of consumer spending was broad-based across categories, with only spending on petroleum products down on the year, reflecting the price effect of cheaper gas and diesel. Sales of automobiles rose 12.0 percent on the year, of smart phones and other telecom equipment 8.1 percent, and of clothing 12.2 percent. Growth is accelerating further in November, with many businesses reporting record sales driven by "Singles Day" on November 11.

Other sectors of China's economy continue to recover as well. Investment in fixed assets increased 1.8 percent from a year earlier in the year through October, up from 0.8 percent in the year through September; investment plunged during the first quarter's shutdown but made up ground since, and accelerated further in October as credit growth accelerated. Growth of aggregate financing to the real economy accelerated to 13.5 percent in year-over-year terms and was the fastest since 2014 in the month. Growth of the broad money supply M2 slowed slightly, to 10.5 percent from 10.9 percent in September. Value added of industrial production grew 6.9 percent on the year in October, tying September for the strongest since last December. Export growth accelerated to 11.4 percent in dollar-denominated year-over-year terms from 9.9 percent in September, while import growth slowed to 4.7 percent from 13.2 percent.

UNITED STATES: Mid-November marks a particularly conflicted moment for the economic recovery. On the one hand, news that effective vaccines soon could be available is very positive for growth expectations. Going forward, businesses that need people to be near each other to be profitable will lay off fewer workers, and could even start rehiring in anticipation of better times ahead. At the same time, the pandemic is forcing parts of the U.S. to re-enter partial lockdown, closing restaurants, bars, and other congregate businesses. Many schools that resumed in-person instruction this fall are returning to remote learning, pulling caregivers from the workforce; this burden falls disproportionately on women. The uncontrolled pandemic is a large downside risk to growth this winter.

And yet, the latest weekly economic indicators signal this downside risk was not slowing the recovery in early November. The Federal Reserve Bank of New York's Weekly Economic Index fell 2.7 percent from a year earlier in the week ended November 7, marking further incremental improvement from the index's late-April trough. In the same week, initial claims for unemployment insurance fell 6 percent before seasonal adjustment or 3 percent after seasonal adjustment to 723k not seasonally adjusted or 709,000 in seasonally-adjusted terms. Initial claims for Pandemic Unemployment Assistance fell 64,000 on the week to 298,000 not seasonally adjusted. In the week ended October 31, insured unemployment fell to 6.8 million in seasonally-adjusted terms or 6.5 million not seasonally adjusted; the drop in insured unemployment in part reflects UI beneficiaries exhausting their benefits under standard programs and rolling into state extended benefits and the Federal Pandemic Emergency Unemployment Compensation program. But the trend overall is fewer Americans using these programs; total claimants for all UI programs fell 374,000 in the week ended October 24 to 21.16 million; they fell a larger 1.1 million in the prior week.

The CPI index was unchanged in October from September, as was the core index excluding food and energy. From a year earlier, total CPI inflation slowed to 1.2 percent from 1.4 percent a month earlier; core CPI slowed to 1.6 percent from 1.7 percent. The pandemic has caused huge shifts in relative prices of consumer goods and services: From a year earlier, energy prices were down 9.2 percent, reflecting the 18 percent drop in gas prices and 28 percent drop in fuel oil prices; used car and truck prices jumped 11.5 percent; apparel prices fell 5.5 percent and transportation service prices 5.1 percent, while medical care service prices rose 3.7 percent and food prices rose 3.9 percent. Looking through this churn in relative prices, overall inflation is muted. The October CPI report is another sign that excessively low inflation gives the Fed room to continue to run an extremely supportive monetary policy. The Fed's average inflation targeting policy has the central bank aiming for inflation modestly above 2 percent by a different inflation index, the price index of all goods and services bought by consumers (a.k.a. the personal consumption expenditures / PCE price index). The PCE price index is released at a lag to the CPI and run about a quarter percentage point slower than CPI.

Looking forward, the October retail sales report, to be released November 17, will likely show a 0.6 percent monthly increase, and the industrial production report released the same day a 1.3 percent rise. October housing starts' release on November 18 will likely be up 1.5 million on the month.

UNITED KINGDOM: Real GDP began to recover in the preliminary estimate for the third quarter of 2020, rising 15.5 percent after plunging 19.8 percent in the second quarter. Even after this partial rebound, real GDP was still 9.7 percent below its pre-crisis level in the third quarter. The unemployment rate rose to 4.8 percent in the third quarter, up 0.7 percentage point from the second; British labor market statistics do not count furloughed workers as unemployed, so the unemployment rate dramatically understates labor market weakness. The UK's Office of National Statistics has begun releasing an experimental weekly unemployment rate, which rose to 5.1 percent in the week ended September 27; their experimental monthly payroll employment index was down 2.7 percent from its March level in the October flash estimate, while redundancies rose to the highest on record in the July-to-September quarter.

EUROZONE: The ZEW survey of investors' business expectations fell to 32.8 in November from 52.3 in October and was the weakest since April; the Sentix survey of European investors likewise worsened for a second consecutive month in November. ECB President Christine Lagarde told virtual attendees of the ECB's annual Sintra monetary policy conference that asset purchases through the central bank's Pandemic Emergency Purchase Programme (PEPP) and its Pandemic Emergency Long Term Refinancing Operation program (PELTRO) will probably be the tools the bank uses to increase stimulus at the next Governing Council decision on December 10.

INDIA: The consumer price index rose 7.6 percent in October from twelve months earlier, above the consensus estimate of 7.3 percent and overshooting the 6.0 percent upper threshold of the Reserve Bank of India's target range for a seventh consecutive month. October's high inflation was driven by a surge in food prices, up 10.2 percent in October from a year ago. Core inflation – excluding food, fuel and light – increased 5.5 percent in October following a 5.4 percent rise in September.

Industrial production increased a modest 0.2 percent in September from twelve months earlier following six consecutive months of declines.

MEXICO: The Bank of Mexico held its overnight rate target unchanged at 4.25 percent at its November 12 monetary policy decision, a pause in the rate cut cycle which began in August 2019. The Bank cited the importance of supporting the value of the peso and ensuring inflation converges to the Bank's 3.0 percent medium-term target in justifying their decision. With the European Central Bank signaling additional stimulus coming in December and the Federal Reserve also likely to announce a more formal link between its asset purchases and specific milestones toward recovery in coming months, the Bank of Mexico's next move is still more likely a cut than a hike.

BRAZIL: The IBC-BR Economy Activity index rose 1.3 percent in September from August, following an upwardly revised 1.4 percent increase in August; the IBC-BR fell 0.8 percent in the twelve months to September, following an upwardly revised 3.9 percent decline in August. A fifth straight monthly increase in economic activity still leaves the IBC-BR 2.5 percent below its pre-pandemic level. Retail sales jumped a post-pandemic high 7.3 percent in September in year-over-year terms, following an upwardly-revised 6.2 percent increase in August. Broad retail sales—which encompass sales of automobiles and construction goods—increased 7.4 percent in September in the same terms following a downwardly-revised 3.8 percent increase in August.