GLOBAL ECONOMIC HIGHLIGHTS

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Mixed Signals for U.S. Recovery in November's Earliest Data; Europe Contracted in November on Renewed Lockdowns

UNITED STATES: Early indicators for the state of the economy in November are mixed, suggesting that the recovery may have lost steam as the pandemic worsened and fiscal stimulus waned. Initial claims for unemployment insurance rose to 778,000 after seasonal adjustment in the week ended November 21 from 748,000 a week earlier; in not-seasonally-adjusted terms, they rose to 828,000 from 749,000. Claims for the Pandemic Unemployment Assistance program were little changed on the week, at 312,000 after 320,000, not seasonally adjusted. Total persons claiming benefits in all UI programs also rose on the week in the latest report for the week ended November 7, to 20.45 million from 20.32 million; these data are not seasonally adjusted either. Insured unemployment fell again in the week ended November 14, but some of the decline is due to recipients maxing out their benefits under state unemployment and rolling over to extended benefit programs. Consumer sentiment also weakened in November. The University of Michigan Consumer Sentiment Index fell to 76.9 in November from 81.8 in October and the Conference Board's Consumer Confidence Index® pulled back to 96.1 from 101.4; both measures of confidence are far below pre-crisis levels and near where they were between 2013 and 2015, when the unemployment rate was in the mid-to-high single digits.

More encouragingly, the Markit services PMI for the U.S. jumped to 57.7 in the November flash estimate from 56.9 in October and was the strongest in five and a half years, while the Markit manufacturing PMI rose to 56.7 from 53.4 and was the strongest in six years. The Federal Reserve Bank of New York's Weekly Economic Index also continued to improve in its latest release, to a 2.7 percent year-over-year decline in the preliminary estimate for the week of November 21 from a 2.8 percent decline in the prior week's preliminary estimate.

Durable goods orders beat expectations in October with upward revisions to September's growth; reports on wholesale and retail inventories similarly showed solid incremental increases. Businesses could be preparing for stronger growth in 2021, for potential supply chain disruptions as the pandemic worsens, or maybe both. Personal consumption spending also rose in October, up 0.5 percent on the month, with spending on services up 0.7 percent, on durable goods up 0.6 percent, and on nondurable goods up 0.3 percent. Personal income fell 0.7 percent on the month in October before inflation, with a 6.2 percent drop in transfer payments from the government more than offsetting 0.7 percent growth of labor market income and large increases in income for the self-employed and owners of unincorporated businesses. Personal income still rose 5.5 percent from a year earlier, though. PCE inflation was flat on the month and slowed to 1.2 percent in year-ago terms from 1.4 percent in September; core PCE inflation slowed to 1.4 percent from 1.6 percent.

EUROZONE: The renewed lockdowns imposed across much of the EU have caused a pullback in service sector activity in November. The Markit services PMI for the euro area fell to 41.3 in November from 46.9 in October, 48.0 in September, and 50.5 in August. The manufacturing PMI pulled back to 53.6 from 54.8, but stayed in expansionary territory. Real GDP will likely contract in the Eurozone in the fourth quarter of 2020. The ECB will almost certainly increase the budget for its Pandemic Emergency Purchase Programme at its December 10 Governing Council decision, and will likely announce a schedule of operations to provide additional loans to the Eurozone's commercial banks at negative interest rates (called Pandemic Emergency Longer-Term Refinancing Operations or PELTROs and Targeted Longer-Term Refinancing Operations a.k.a. TLTROs).

UNITED KINGDOM: Like in the Eurozone, the U.K.'s re-imposed lockdown is causing a contraction of the service sector in the fourth quarter. The Markit services PMI for the U.K. fell to 45.8 in the November flash estimate from 51.4 in October, while the manufacturing PMI rose to 56.3 from 55.8. The U.K. and EU still have not reached an agreement on post-Brexit trade relations; negotiations are ongoing.

CANADA: The consensus forecast for Canada's November jobs report, to be released Friday December 4, is for household employment growth to rise 20,000, slower than October's 84,000, and for the unemployment rate to hold unchanged at 8.9 percent. Canada reports payroll employment separately from household employment and at a considerable lag.

CHINA: China's economy continues to reap dividends from bringing the pandemic under control faster than other major economies. The CFLP manufacturing PMI rose to 52.1 in November from 51.4 in October, and the CFLP non-manufacturing PMI edged up to 56.4 from 56.2.

JAPAN: Activity indicators rose in October and outperformed Japan's PMI surveys, which pointed to contraction in October and November. Industrial production rose 3.8 percent in October from September and fell 3.2 percent from a year earlier, much better than September's year-over-year contraction of 9.0 percent. Retail sales rose 0.4 percent on the month in October and 6.4 percent from a year earlier. October 2019 was the first month of 2019's value-added tax hike, the beginning of the recession that started with the tax hike and deepened dramatically as the pandemic hit. Strong year-over-year growth of economic indicators during October 2020 partly reflects a comparison against a weak base in 2019. Inflation is holding near zero: The Bank of Japan's three measures of core CPI inflation ranged from 0.0 to 0.3 percent in October, up a hair from a -0.1 to 0.2 percent range in September but still far from the BoJ's 2 percent inflation target.

MEXICO: The unemployment rate fell to 4.7 percent in October from 5.1 percent in September as employment jumped by 1.9 million on the month; this would be like monthly job growth of over 5 million in the United States, since Mexico's labor force is a third of the U.S.'s. Employment is still down sharply from before the pandemic; the level of employment in October of 53.0 million was down from 55.1 million a year earlier, or 3.8 percent; by comparison, U.S. employment was down 5.5 percent from a year earlier in October. However, the level of output in Mexico is lagging employment during this recovery. In the Bank of Mexico's latest quarterly *Inflation Report* published November 25, the Bank did not expect real GDP to recover to its pre-crisis level by the end of 2022. Mexico's oil industry is in secular decline, a large headwind to productivity and GDP, and the tourist industry will struggle as long as the pandemic constrains international arrivals.

BRAZIL: A record-high 395,000 formal sector jobs were added in October following an increase of 313,600 in September according to the government's survey of employers. The service sector had the strongest gain in October, contributing forty percent of the month's net increase. The recovery looks less impressive by the household survey as the unemployment rate rose for a ninth straight month to a record-high 14.6 percent in the three months through September according to a survey of households. The details of the September employment report showed a modest improvement in the labor market. The number of employed people rose to 82.5 million, up from the record-low 81.7 million in August. The employment ratio (people in work as a share of the working-age population) in the three months to September rose to 47.1 percent from the record-low 46.8 percent in August but held well below February's 54.5 percent. The labor force participation rate increased slightly to 55.1 percent in September from the record-low 54.7 percent reached in August.

Inflation as measured by Brazil's consumer price index the IPCA-15 accelerated to 4.2 percent in the twelve months through mid-November from 3.5 percent the prior month; core inflation by the Central Bank of Brazil's trimmed mean index was 2.5 percent in October.

INDIA: Real GDP plummeted 7.5 percent in the third quarter from a year earlier, slightly better than economists' expectations for an 8.2 percent plunge and following the record 23.9 percent contraction in the second quarter. The third quarter real GDP report marks the first time India's economy has contracted in year-over-year terms for two consecutive quarters. On the demand side, private consumption plunged 11.3 percent, investment fell 7.3 percent, while exports and imports declined 1.5 percent and 17.2 percent respectively. On the supply side, all industries contracted in the third quarter except agriculture, manufacturing and utilities. The worst sectoral decline was in trade, hotels, transport and communication, down 15.6 percent.

India’s uneven recovery is underway but economic activity is still 8.3 percent below the pre-pandemic level. With a recovery clearly under way, and inflation having overshot the 6.0 percent upper bound of the Reserve Bank of India’s target range for seven straight months, the Bank will likely hold its policy stance unchanged when central bankers meet on Wednesday.