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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

U.S. Jobs Recovery Lost Momentum in November; ECB Set to Extend QE Program at the December 10 Policy Decision

UNITED STATES: Job growth slowed in November, a sign that the worsening pandemic is weighing on the recovery. Nonfarm payroll job growth slowed to 245,000 in November from 610,000 in October (revised down from 638,000), 711,000 in September (revised up from 672,000), and 1.5 million in August. November's job growth undershot the consensus forecast of 485,000. Government employment fell 99,000 in the month, largely due to the end of temporary jobs for census workers. With consumers spending more online and less at brick-and-mortar stores, retailers hired fewer workers than usual in the pre-holiday rush: They added 302,000 jobs in not-seasonally-adjusted terms in November. Since this is less than in a typical holiday season, it translated into a 35,000 seasonally-adjusted decline.

The unemployment rate fell to 6.7 percent from 6.9 percent. Both the labor force and employment as measured in the survey of households dipped on the month after big gains in October. Employment in the household survey was down 8.8 million from a year earlier, unemployment up by 5.9 million, and the labor force down 3.9 million. The labor force participation rate for women aged 25 to 34 fell to 74.3 percent in November from 75.3 percent in October and was down 1.2 percentage points from July; labor force participation for men was up 0.3 percentage point in November from July. Caregiving responsibilities are pulling mothers from the workforce.

Other economic data also point to a weaker pace of recovery in November. The ISM manufacturing index pulled back to 57.5 from 59.3 in October, and the ISM services index to 55.9 from 56.6. The signal from the Markit PMIs was better; their services PMI was revised up to 58.4 in the October final release from 57.7 in the flash estimate and somewhat incongruously pointed to the strongest growth in five-and-a-half years; the Markit manufacturing PMI was unchanged on the month. Initial claims for unemployment insurance dipped to a seasonally-adjusted 712,000 in the week ended November 28 from 787,000 a week earlier; the Thanksgiving holiday is likely making claims volatile and harder to interpret week to week. Total weeks claimed under all UI programs fell 1.37 million from a month earlier in the latest reported week, the week ended November 14. The Federal Reserve Bank of New York's Weekly Economic Index fell 2.3 percent from a year earlier in the first revision for the week ended November 28, improving on the 2.8 percent decline in the prior week's first revision.

The November CPI report, to be released on Thursday December 10, will likely show consumer prices up 0.2 percent from a month earlier in both total and core terms. In year-over-year terms, inflation continues to undershoot the Fed's two percent target (measured by a different inflation index, the PCE price index, which tends to run slower than the CPI). This gives the Fed latitude to keep monetary policy very expansionary.

EUROZONE: The European Central Bank has signaled that they will extend their emergency stimulus programs at their December 10 Governing Council decision. The ECB will likely increase the budget for its Pandemic Emergency Purchase Programme (emergency QE) by €250 to €500 billion euros, and extend the program's operational schedule to continue until at least December 2021 or June 2022. Currently the ECB's Governing Council has committed to keep the program running at least through June 2021. The ECB is also likely to 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. The Eurozone economy is probably contracting in the fourth quarter of 2020 as renewed lockdowns drag on the service sector. The Markit services PMI was revised up in the November final release to 41.7 from 41.3 in the flash estimate but still pointed to a sharp contraction of services activity. And inflation is undershooting the ECB's target, with overall HICP down 0.3 percent from a year earlier for a third consecutive month in November (that is, deflation); core HICP excluding food, energy and alcohol rose 0.2 percent for a third consecutive month, far short of the ECB's target of below but near two percent. Euro inflation swap contracts show financial markets expect inflation to average just 1.0 percent over the next five years; markets have not expected for the ECB to realize inflation averaging its target over that time horizon since 2013.

Like Japan before it, the Eurozone has drifted into a low growth, low inflation, negative interest rate regime as its population ages. Even after the ECB winds down its emergency programs in 2021 and 2022 as the Eurozone economy recovers from the pandemic, the ECB's non-emergency open-ended quantitative easing programs will probably continue. Similarly, there is no sign that the European Central Bank will raise interest rates back above zero at any point in the foreseeable future.

UNITED KINGDOM: The Markit services PMI was revised up to 47.6 in the November final release from 45.8 in the flash estimate but still pointed to a contraction after the U.K. re-imposed lockdown measures on November 5. The U.K. and EU have yet to reach a deal on trade relations to replace Brexit membership after the turn of the year; Bloomberg cited unnamed sources to report that negotiators have reached an agreement on fishing waters access, and are working on the final (and most difficult) issue in the negotiation, the "level playing field" provisions that the U.K. wants to avoid so that it can subsidize high-growth high-potential industries.

CANADA: Real GDP grew a cool 0.8 percent in September from August, the fifth consecutive monthly gain following a downwardly-revised 0.9 percent increase in August. The details of the September GDP report were lukewarm. Output of goods-producing industries rose 0.7 percent while that of services-providing industries grew 0.8 percent. Growth was broad-based with every sector expanding from August to September except utilities, construction, wholesale trade and accommodation. Real GDP fell 3.9 percent in the twelve months to September following a downwardly revised 4.5 percent decline in August.

Net employment rose 62,100 in November, exceeding expectations for a 20,000 gain, while the unemployment rate fell to 8.5 percent from 8.9 percent. Job growth has slowed in Canada with November having the lowest number of job gains since the recovery started in May. The Canadian economy lost 3 million jobs in March and April and has recovered eighty one percent of them through November. The details behind the November headlines were lukewarm. Private-sector employment rose 23,100, public sector employment rose 31,600, while self-employment rose 7,400. Employment in goods-producing industries rose 44,200 while the service sector added 17,900 jobs, with large job gains in trade, finance, insurance and real estate. Average hourly wages increased 4.8 percent in November from a year earlier, down from the 5.2 percent increase in the prior month, as employment in lower-paying parts of the services sector recovered despite a surge in coronavirus cases. The employment-to-population ratio rose slightly to 59.5 percent in November from 59.4 percent in October, 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) fell to 65.1 percent in November from 65.2 percent in October. Canada's labor market recovery has been faster than the U.S.' thanks to more aggressive fiscal stimulus and better handling of the pandemic—Canada's pandemic-related government spending was about 19 percent of total economic output while the U.S's three phases of pandemic fiscal stimulus were about 12 percent of real GDP. Building permits pulled back 14.6 percent in October from September following an upwardly-revised 18.6 percent increase in September; residential building permits declined 5.9 percent in October, while non-residential building permits declined 29.5 percent. With the inflation rate still well below the Bank of Canada's 2.0 percent target, the unemployment rate well above its 5.6 percent February level, and the BOC's policy interest rate already at the effective lower bound of 0.25 percent, PNC Economics expects the BOC to hold interest rates unchanged when central bankers meet on Wednesday.

CHINA: Exports jumped 21.1 percent from a year earlier in November while imports grew 4.5 percent. This is an encouraging sign of recovery for global supply chains and demand, although it could be evidence that customers in China's export markets are still adding to inventories in case of pandemic-related supply chain disruptions as the Northern Hemisphere's winter progresses.

BRAZIL: Real GDP rebounded 7.7 percent in the third quarter from the second, the strongest expansion on record, though short of economists' expectations for an 8.7 percent increase. The second quarter's plunge was revised up to 9.6 percent, still a record low. Details of the third quarter GDP report were mixed. Household consumption expenditures rose 7.6 percent, government consumption expenditures rose 3.5 percent, and investment jumped 11.0 percent, while exports and imports plunged 2.1 percent and 9.6 percent respectively. On the supply side, growth was broad-based; real GDP grew in all sectors except agriculture. On a year-over-year basis, real GDP declined 3.9 percent in the third quarter following an upwardly-revised record 10.9 percent decline in the second quarter.

The Markit Brazil services PMI pulled back to 50.9 in November from 52.3 in October. The manufacturing PMI dropped to 64.0 from 66.7; a PMI reading above 50 indicates an expansion while a reading under 50 indicates a contraction. Industrial production edged up 0.3 percent in October from a year earlier, down from September's 3.7 percent upwardly-revised gain and below the consensus forecast for a 1.0 percent increase.

Economic activity began to recover in the third quarter, but real GDP is still only near its early 2017 level and 4.1 percent below the fourth quarter 2019's pre-pandemic level. Economic growth will be slow and uneven in the fourth quarter of 2020 and in 2021 as fiscal stimulus and low interest rates continue to support the Brazilian economy. Downside risks to the recovery include the resurgence of the virus, Brazil's fragile fiscal health, and heightened near-term political risks as the Supreme Court is set to rule on whether the Senate and Lower House speakers may seek re-election. The Economy Minister Paulo Guedes said on Thursday that "political disagreements involving the dispute for the job of lower house speaker are hindering the progress of reforms," according to Bloomberg.

With the November IPCA-15 inflation rate above the 4.0 percent inflation target and economic activity still well below the pre-pandemic level, PNC Economics expects the Central Bank of Brazil (BCB) to hold the benchmark Selic rate at its current record low 2.0 percent when central bankers meet on Wednesday.

INDIA: As expected, the Reserve Bank of India voted unanimously to keep its benchmark repurchase rate unchanged at 4.0 percent when central bankers met on December 3. The accompanying commentary from Governor Shaktikanta Das stated that further monetary policy easing is constrained by elevated inflation—the inflation rate has overshot the 6.0 percent upper bound of the central bank's 2.0 to 6.0 percent target range in every month since April. The RBI raised its GDP forecast for fiscal year 2021 to a 7.5 percent contraction from the 9.5 percent contraction they forecast at their October meeting. In the near term, economic activity is likely to be very volatile as India continues to grapple with the effects of the resurgence of the virus. But the outlook is more positive over the mid- to long-term as good news about vaccines should boost consumer demand, investment sentiment and exports in 2021.