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GLOBAL ECONOMIC HIGHLIGHTS

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Jobless Claims Jumped After Thanksgiving; ECB Extends Stimulus into 2022; Brexit Decision Deadline Draws Near

UNITED STATES: Initial claims for unemployment insurance made a huge jump in the week after the Thanksgiving holiday. Claims rose 32 percent before seasonal adjustment to 948,000 in the week ending December 5, up from 719,000 in the week of the holiday. Claims for Pandemic Unemployment Assistance also rose sharply, to 428,000 from 288,000. On a seasonally-adjusted basis the increase in initial claims was smaller but still very pronounced, up to 853,000 from 716,000. Continued claims rose in the week ended November 28 to 5.78 million from 5.25 million before seasonal adjustment, or to 5.76 million from 5.53 million after seasonal adjustment. Unemployment claims can be volatile, especially around the holidays, but the increase in initial and continued claims suggests that the pandemic and restrictions on economic activity in response to it are slowing the recovery. In the same vein, the National Federation of Independent Business's Small Business Optimism Index dipped to 101.4 in November from 104.0 in September and October. Less discouragingly, the University of Michigan's Consumer Sentiment Index rose to 81.4 in the December preliminary estimate from 76.9 in November and was near its highest since April; both the current conditions and expectations components of the Sentiment Index improved. The Federal Reserve Bank of New York's Weekly Economic Index fell 2.4 percent from a year earlier in the first estimate for the week ended December 5, a hair weaker than the prior week's first estimate of a 2.3 percent decline. The economic recovery is likely losing some momentum in the winter months as the pandemic continues to worsen and people again become more cautious about venturing out, but the magnitude of the slowdown is difficult to judge so far. Risks to economic growth will be to the downside until vaccine distribution allows more normal life to resume.

The CPI index rose 0.2 percent in November from October and the core index excluding food and energy rose the same amount, matching PNC's forecast. From a year earlier, total CPI rose 1.2 percent in November and core CPI 1.6 percent, both unchanged from October. The Fed targets inflation of two percent as measured by a different price index, the PCE price index, which measures prices of all goods and services bought by U.S. consumers. The CPI tends to run a little faster than the PCE index, so the November CPI report underlines the need for the Fed to continue to support the economy with very expansionary monetary policy. Financial markets price in PCE inflation of just 1.8 percent over the next five years, below the Fed's target; markets have not priced in inflation averaging at or above the Fed's target on that horizon since October 2018.

The Federal Reserve's Open Market Committee will likely reiterate their resolve to support the recovery at their next decision December 16. The Fed will likely reiterate the commitment to buy Treasury securities and agency mortgage-backed securities "at least at the current pace" over coming months, and may explicitly commit to asset purchases until the unemployment rate falls to a threshold, inflation rises to a threshold, or a combination of the two. PNC forecasts for the Fed to refrain from raising the Federal Funds target rate in 2021, 2022, or 2023 so that the U.S. labor market can strengthen enough to raise inflation pressures and keep PCE inflation modestly above 2 percent for a multi-year period.

EUROZONE: Matching expectations, the European Central Bank increased the budget for its Pandemic Emergency Purchase Programme (emergency QE) by €500 billion euros at the December 10 decision, and extend the program's operational schedule nine months through March 2022 at least; the ECB will reinvest maturing securities bought by the PEPP until at least 2024, meaning the Bank's balance sheet will continue to grow at least until then. Also as expected, the ECB announced additional operations to lend to the Eurozone's commercial banks at negative interest rates in 2021, called Pandemic Emergency Longer-Term Refinancing Operations or PELTROs and Targeted Longer-Term Refinancing Operations a.k.a. TLTROs.

The ECB's forward guidance was vague, a sign of the divisions among Governing Council members over how firmly to commit to maintaining stimulus policies during the recovery. The ECB "expects" to hold off on rate hikes until they project inflation rising to their target (below but near two percent) over their forecast horizon. Similarly, they "expect" their open-ended QE program, which was running before the pandemic began, to continue buying €20 billion euros per month of government- and private-issued bonds until shortly before they start raising interest rates. But by linking their policy to their forecasts, which have overestimated how quickly inflation would rise to target for years, they risk undercutting financial market confidence in whether the ECB will do what it takes to achieve its inflation target. Financial markets price in inflation averaging just 0.9 percent over the next five years and seriously undershooting the ECB's target. If markets are correct, euro interest rates will likely stay negative throughout that period.

UNITED KINGDOM: U.K. and EU negotiators continue to search for an agreement on post-Brexit trade relations. If no decision is reached by the Bank of England's next meeting on December 17, the Bank will probably hold the Bank rate steady at 0.1 percent, extend its quantitative easing program, and state that they would increase monetary stimulus further, potentially with a cut in the Bank rate to negative territory, if the U.K. and EU do not reach a trade deal.

CANADA: As expected, the Bank of Canada maintained its target for the overnight rate at the effective lower bound of 0.25 percent at their December 9 decision. The BOC maintained its forward guidance and reiterated that its quantitative easing (QE) program will continue at an unchanged pace of at least C$4billion in asset purchases per week. Central bankers stated that they will keep the overnight rate at the current level until "economic slack is absorbed so that the 2 percent inflation target is sustainably achieved."

Capacity utilization rose to 76.5 percent in the third quarter from the upwardly revised 70.7 percent in the second quarter; capacity utilization still remains near its lowest level in over ten years. Weak industrial capacity utilization across the global economy will weigh on manufacturers' pricing power and keep inflationary pressures low across advanced economies in 2021.

CHINA: Growth of the broad money supply M2 edged up slightly to 10.7 percent from a year earlier in November from 10.5 percent in October; China's money supply has grown at the fastest pace since 2016 in each month since April. In the same terms, aggregate financing to all nonfinancial sectors grew 13.6 percent in November and 13.7 percent in October; these were the two fastest months for financing growth in at least five years. China's expansionary credit policy and successful control of the pandemic will show up in further incremental acceleration of industrial production, retail sales, and investment in fixed assets in the release of the November monthly activity indicators report, the evening of December 14 in U.S. time zones.

BRAZIL: As expected, the Central Bank of Brazil's Monetary Policy Committee ("Copom") unanimously voted to hold the Selic policy rate unchanged at a record-low 2.0 percent for the third straight meeting when central bankers met on December 9. For the first time since the Bank lowered the rate to 2.0 percent, the accompanying press release gave relatively hawkish forward guidance: "In case the forward guidance ceases to apply, monetary policy will follow the inflation target framework, based on the analysis of prospective inflation and its balance of risks." The BCB's newly hawkish tone is a reaction to inflation rising faster than expected in recent months; inflation as measured by the benchmark IPCA index has increased faster than consensus expectations in each of the last three monthly releases. Consumer prices as measured by the benchmark IPCA index increased 4.3 percent in November from a year earlier, slightly higher than consensus expectation of 4.2 percent; the IPCA index rose 0.9 percent in November from October, the fastest November inflation in five years.

Retail sales advanced 0.9 percent in October on a month-over-month basis following a downwardly-revised 0.5 percent increase in September; October's reading means that retail sales are now 8.0 percent above the pre-pandemic level.

INDIA: Industrial production jumped 3.6 percent in October from a year earlier following an upwardly revised 0.5 percent increase in September, and beat the consensus forecast for a 1.1 percent increase; October's increase was the second straight positive reading. Industrial production still remains 4.2 percent below the pre-pandemic level in India.