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GLOBAL ECONOMIC HIGHLIGHTS

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U.S. Shed 140,000 Jobs in December as Pandemic Weakened the Recovery; U.K. Re-Enters Lockdown

UNITED STATES: The U.S. economy lost 140,000 jobs in December, and the unemployment rate held steady on the month at 6.7 percent. The leisure and hospitality industry shed 498,000 jobs as the pandemic led to lower employment at restaurants, bars, amusement parks, casinos, and other congregate businesses. Education employment also fell on the month, with drops of 63,000 in private education and 20,000 in state-government education (mostly state colleges and universities). These losses were partially offset by job gains in other sectors, notably in retail, with jobs up 121,000 including a 59,000 increase in big box store jobs; a 96,000 increase in administrative and support service employment, including 68,000 more temp agency jobs; a 51,000 increase in construction jobs, and a 38,000 increase in manufacturing jobs. Employment at couriers and messengers rose 37,000 and was up 26 percent on the year. Average hourly earnings rose 0.8 percent on the month and 5.1 percent on the year; the statistic says little about wage growth since job losses in lower-paying sectors and occupations are overwhelming the effect of pay raises and cuts. ADP’s estimate of private sector payrolls, released before the BLS jobs report, showed employers cut a net 123,000 payroll jobs in December, reinforcing the negative signal of the December BLS jobs report.

The ISM purchasing manager surveys for December painted a more upbeat picture of the economy. The ISM manufacturing PMI rose to 60.7 from 57.5 in November, and the ISM services index rose to 57.2 from 55.9. Businesses that are able to adapt to the pandemic saw continued recovery in December.

Federal Reserve Vice Chair Richard Clarida stated in a January 8 speech that his “economic outlook is consistent” with the Fed “keeping the current pace of purchases throughout the rest of this year.” The Fed’s December monetary policy statement stated that the Fed does not expect to taper asset purchases a.k.a. quantitative easing until the economy makes “substantial progress” toward maximum employment and inflation averaging two percent over a multi-year time horizon. Neither the FOMC statement, Chair Powell, nor Vice Chair Clarida have clarified what “substantial progress” means specifically.

UNITED KINGDOM: The U.K. re-entered lockdown January 5 to control the spread of a new coronavirus strain that caused new cases to double in the last three weeks. The lockdown ensures a double dip recession in the UK in late 2020 and early 2021, but a less severe one than in the spring of 2020 since this lockdown is less restrictive. And even after this latest setback, the British economy is still likely to recover in the second half of 2021 as vaccines allow it to reopen. The lockdown makes the Bank of England more likely to cut the bank rate into negative territory; financial markets price in roughly fifty-fifty odds of the bank rate going negative by year-end.

Some British businesses have been surprised by new tariffs on products shipped from the UK to EU that derived more than 40 percent of their value from foreign (ex-UK, ex-EU) inputs. These tariffs on partially foreign-sourced goods due to the “rules of origin” in the Brexit trade deal are an exception to the tariff-free, quota-free trade heralded by the headlines announcing the deal December 24. While the situation is far from the worst-case scenario imagined before Brexit—backlogs of trucks for miles at the border—it nevertheless does illustrate the increase in costs, delays, and paperwork for British businesses exporting to the EU. Even so, the drag from Brexit will be hard to parse from British economic statistics over the next year since the effects of the lockdown and (hopefully) vaccine-fueled recovery will be much larger.

CHINA: The Caixin manufacturing PMI for China pulled back to 53.0 in December from 54.9 in November, while the services PMI dipped to 56.3 from 57.8. The Caixin PMIs were generally consistent with the CFLP PMIs, which also dipped on the month though not by as much. The advance estimate of real GDP in the fourth quarter of 2020, to be released the evening of January 17 in U.S. time zones, will likely show a year-over-year increase of 6.2 percent, up from 4.9 percent in the third quarter.

EUROZONE: Deflation continued in December for a fifth consecutive month, with the HICP index falling 0.3 percent from a year earlier and the core index excluding energy, food, alcohol and tobacco reporting a tepid 0.2 percent year-over-year increase for a fourth consecutive month.

JAPAN: Japan's economy may have contracted again in the fourth quarter of 2020. Labor cash earnings fell 2.2 percent from a year earlier in November, worse than the 0.8 percent year-over-year decline in October, while household spending growth slowed to a 1.1 percent increase in the same terms after a 1.9 percent increase in October. Japan's Prime Minister declared a state of emergency on January 7 that will last for one month and apply to Tokyo and neighboring areas, limiting operating hours of restaurants and other congregate businesses.

CANADA: Employment fell 62,600 in December, much worse than the consensus forecast for a 37,500 decline, and the unemployment rate rose slightly to 8.6 percent from 8.5 percent in November. Ontario, Quebec and British Columbia renewed restrictions on activity in December, fueling the month's drop in employment. Canada is now down 636,000 jobs compared to February 2020, a little over 20 percent of the February-to-April plunge. Most of the jobs still lost were held by self-employed, part-time and service-sector workers. Self-employment fell 62,000 in December and private sector employment fell 15,200, while public sector employment rose 14,600. Employment in goods-producing industries rose 11,300 while private services industries lost 74,000 jobs.

Canada's manufacturing PMI surged to a record-high 57.9 in December from 55.8 in November; December was the sixth straight monthly PMI reading above 50. A PMI reading above 50 indicates an expansion while a reading under 50 indicates a contraction. After December's jobs setback, Canada's recovery is likely to be slow in the first half of 2021 before gaining momentum in the second half of the year as vaccines allow the recovery to broaden.

BRAZIL: The Markit manufacturing PMI for Brazil pulled back to 61.5 in December from 64.0 in the prior month, while the services PMI edged up to 51.1 from 50.9. Industrial production rose 2.8 percent in November from a year earlier. Brazil's economic recovery is likely to weaken in the first half of 2021 due to a fresh wave of coronavirus infections and the expiration of Bolsa Familia, the government-sponsored coronavirus emergency aid program; economic growth should pick up in the second half of 2021 as vaccines are distributed.

The Central Bank of Brazil's weekly survey of professional forecasters showed the median estimate for 2020 real GDP remained unchanged at a 4.4 percent contraction in the December 31st survey; the median estimate for 2021 real GDP growth fell slightly to 3.4 percent from 3.5 percent a week prior; the median forecast for the 2021 twelve-month IPCA inflation rate remained unchanged at 3.3 percent, below the Central Bank's 3.8 percent target for 2021.

INDIA: The Central Statistics Office of India's first advance estimate of real GDP in the fiscal year ending March 2021 released January 7 projected a plummet of 7.7 percent, worse than the Reserve Bank of India's projection for a 7.5 percent contraction, and the sharpest full year contraction since 1952. More timely data confirm that a recovery has begun: The Markit manufacturing PMI for India rose slightly to 56.4 in December from 56.3 in November, and the services PMI fell to 52.3 from 53.7.