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GLOBAL ECONOMIC HIGHLIGHTS

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January Jobs Report Shows the Expected Drag on High-Contact Industries; Italian Political Crisis Averted

UNITED STATES: The January jobs report saw the expected drag from the pandemic on high-contact industries. The U.S. economy added a weak 49,000 nonfarm payroll jobs, very close to PNC's forecast of 50,000, but employment in November and December was revised down a larger 159,000. January saw job losses in retail (-38,000), accommodation and food services (-38,000), and amusements/gambling/recreation (-27,000); there were also 31,000 job losses in couriers, messengers, warehousing and storage as holiday-season jobs ended. Job gains in other sectors more than offset, with public and private education employment jumping 119,000, temp jobs up 81,000, and professional and technical service jobs up 40,000.

The unemployment rate fell to 6.3% in January from 6.7% in December due to higher employment in the household survey and a drop in labor force participation. Alternative measures of the labor market show much less progress towards a full recovery than the unemployment rate; payroll employment is still nearly 10 million below its pre-recession peak.

While job growth was weak in January, surveys of employers are consistent with a pickup later this year as vaccines are distributed: The Markit manufacturing PMI rose to 59.2 in the January final release from 57.1 in December, the ISM manufacturing PMI was a strong 58.7 after 60.7. The Markit services PMI rose to 58.3 from 54.8, and the ISM services PMI to 58.7 from 57.7. January's PMI and consumer confidence surveys generally showed expectations are much stronger than current conditions; businesses and consumers are looking forward to better times ahead.

EUROZONE: On February 2, Italy's President asked former ECB President Mario Draghi to form a government to replace Prime Minister Giuseppe Conte, who resigned on January 26. Financial markets responded favorably to the announcement, with Italian stocks rising sharply and the premium on Italian government bond yields narrowing relative to benchmark German yields. The news will likely take Italy's political uncertainties out of the headlines for the next few weeks.

The Eurozone unemployment rate was unchanged in December from November at 8.3%; U.S. unemployment temporarily surged above Eurozone unemployment last spring since Eurozone statistics do not count temporary laid-off workers, but data now show unemployment to be higher in the Eurozone. HICP inflation was 0.9% in the January flash estimate, up from a 0.3% decline in December, largely due to the end of a temporary reduction in the German value-added tax rate.

CHINA: The Caixin services PMI for China fell to 52.0 in February from 56.3 in January, paralleling the decline of the CFLP nonmanufacturing PMI to 52.4 from 55.7. Chinese monthly economic data are usually volatile in the first quarter of the year due to the effect of the Spring Festival holiday. Data are probably even noisier than usual in early 2021 due to the year-over-year comparison with the crisis of early 2020.

UNITED KINGDOM: *The Guardian* reports that exports to the EU may have plunged 68% from a year earlier in January, largely due to post-Brexit trade barriers; the [report](#) cites an industry association's survey of trucking companies, not official statistics, which will not be released until March. The long-term effects of Brexit are difficult to disentangle from short-term effects of implementation problems and the pandemic.



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CANADA: Household employment fell 212,800 in January, much worse than the consensus forecast for a 40,000 decline, and the unemployment rate jumped to 9.4% from an upwardly revised 8.8% in December. Most of January's jobs lost were held by part-time and service-sector workers in the two provinces with the toughest restriction measures, Quebec and Ontario. Goods-producing industries gained 23,400 jobs while services-producing industries lost 236,200 jobs. Full-time workers gained 12,600 jobs while part-time workers lost 225,400 jobs. The public sector lost 10,700 jobs, the private sector lost 211,100 jobs while 9,000 self-employed jobs were gained. Canada's economy has regained 70% of the nearly 3 million jobs it lost in March and April.

The Markit manufacturing PMI pulled back to 54.4 in January from 57.9 in December and pointed to the slowest manufacturing sector growth since July. Canada recovery should regain traction once stringent restrictions in Ontario and Quebec, scheduled to be relaxed in mid-February, are removed.

MEXICO: Mexico's manufacturing recovery is lagging the rest of the economy, which registered two consecutive quarters of growth in the third and fourth quarters of 2020. The Markit manufacturing PMI for Mexico was a weak 43.0 in January, little changed from December's 42.4.

BRAZIL: The Markit manufacturing PMI fell to 56.5 in January from 61.5 in December, pointing to the slowest growth since June, while the Markit services PMI dropped to contractionary territory in January, at 47.0 after 51.1 in December. Industrial production rose 0.9% in December from the prior month, the weakest monthly growth since the industrial recovery began in May; industrial production was 8.2% up in December from a year earlier following a downwardly-revised 2.6% increase in November. Industrial output is currently 3.4% above the pre-pandemic level. Brazil's uneven recovery is trudging along although concerns about its fiscal health remain—public debt is around 90% of real GDP and the budget deficit is just under 10% of real GDP. Real GDP should return to its pre-pandemic level in the second half of 2021 driven by pent-up domestic consumer demand and an improving global backdrop; real GDP as of the third quarter of 2020 was 4.1% below the pre-pandemic level.

INDIA: As expected, The Reserve Bank of India's Monetary Policy Committee (RBI's MPC) unanimously voted to keep the benchmark repurchase rate unchanged at 4.0% at their February 5 decision. The accompanying commentary reiterated the RBI's dovish stance: "the MPC has decided to continue with the accommodative stance as long as necessary – at least through the current financial year and into the next year." The RBI also announced a restoration of the cash reserve ratio (CRR) to the pre-pandemic level of 4%, effective from May 22, 2021. The RBI has cut its benchmark policy rate by 1.15 percentage points since March to support an economic recovery and will likely keep interest rates at current levels until at least 2022. The RBI projects real GDP growth of 10.5% in the fiscal year running April 2021 to March 2022. The Markit manufacturing PMI rose to 57.7 in January from 56.4 in December; the manufacturing PMI has been above 50 since August. The Markit services PMI rose to 52.8 from 52.3, with the forward-looking expectations sub-index the strongest in 11 months.

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