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GLOBAL ECONOMIC HIGHLIGHTS

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Stimulus Lifts U.S. Personal Income Sharply in January, and Expenditures Rise, Too; ECB Likely to Increase Pace of QE

UNITED STATES: Personal income jumped 10.0% in January from December, largely reflecting the 52.0% surge of personal current transfer receipts, the category of income that includes stimulus payments. Encouragingly, compensation of employees also rose in January, by 0.7%, faster than November and December's 0.5% monthly increases. Along with personal income, the Bureau of Economic Analysis reported monthly inflation as measured by the personal consumption expenditures price index, the Fed's preferred measure of inflation—it rose 0.3% on the month and 1.5% on the year. With personal current taxes down 0.4% on the month, real disposable personal income rose 11.0%. Personal consumption expenditures rose 2.4% on the month; real personal consumption expenditures grew 2.0%, with real spending on goods up 5.1% (durable goods spending up 8.3%, nondurable goods spending up 3.3%) and spending on services up a much smaller 0.5%. Both January's surge in personal income and its smaller but still solid increase in personal consumption expenditures broadly matched expectations. Higher personal income was expected after the passage of the most recent stimulus program in December, and higher spending was apparent in January's already-released retail sales report.

PNC forecasts for the Bureau of Labor Statistics' February jobs report, to be released March 5, to show a 200,000 net increase in nonfarm payroll employment from January, with the unemployment rate increasingly slightly to 6.4 percent from 6.3 percent as more jobseekers re-enter the labor force and are officially counted as unemployed.

EUROZONE: The ECB is likely to increase asset purchases (quantitative easing) through its Pandemic Emergency Purchase Program in the next two months to prevent a further rise in interest rates. After the euro 10-year swap rate rose roughly 0.4 percentage point between early January and late February, several ECB Governing Council members spoke publicly in the last week of February about the need to maintain extremely low real interest rates (rates adjusted by inflation expectations). ECB President Christine Lagarde, Chief Economist Philip Lane, and Executive Board member Isabel Schnabel said in separate speeches that the ECB is "closely monitoring the evolution of longer-term nominal bond yields," and that more stimulus may be necessary to counteract their increase.

The ECB speakers noted that they believe monetary policy should stay extremely expansionary even as the economic outlook improves. And the outlook is now improving after a turn-of-the-year contraction in GDP. The euro area Economic Sentiment Indicator rose to a new recovery-to-date high of 93.4 in February from 91.5 in January, while the German Ifo business confidence index rose to 92.4 from 90.1.

UNITED KINGDOM: Payroll employment rose by 83,000 or 0.3% in January from December, a second consecutive monthly increase after a 3.1% cumulative decline between January and November 2020; payroll employment in January was still 2.5% below the pre-crisis peak. British unemployment statistics do not count furloughed employees as unemployed, so the data are not directly comparable to U.S. payrolls. Chancellor of the Exchequer Rishi Sunak will announce the government's next budget on March 3, and is expected to tighten the UK's fiscal stance as the economy reopens and private sector activity revives.

JAPAN: Like elsewhere across the developed world, the manufacturing industry is recovering in Japan, while high-contact industries are held back by the Coronavirus's worsening in the winter months. Industrial production rose 4.2% in January from December, while retail sales fell 0.5 percent.

INDIA: Real GDP rose a modest 0.4% in the fourth quarter of 2020 (third quarter of the fiscal year 2021) in year-ago terms, slightly weaker than consensus expectations for a 0.6% increase, following an upwardly-revised 7.3% contraction in the third quarter. The fourth quarter of 2020 saw the first year-over-year increase in real GDP after two straight quarters of contraction. With the release, the Central Statistics Office downwardly revised the real GDP growth estimate for the fiscal year of 2021 to an 8.0% contraction, worse than the 7.8% contraction they initially projected. High frequency indicators including PMI surveys, monthly export data, and tax collections show that India's recovery continues to gain traction in early 2021, supported by a ramp-up in vaccinations and expansionary fiscal policy.

BRAZIL: Brazil's unemployment rate fell to 13.9% in the three months through December from 14.1% in the three months through November, but was still above the February pre-pandemic level of 11.6%. Consumer prices as measured by Brazil's IPCA-15 price index increased 0.5% in February from January; inflation was 4.6% in the twelve months to mid-February following a 4.3% rise the prior month. Core inflation as measured by the Central Bank of Brazil's trimmed mean index was 2.7% in the twelve months to January. The Getulio Vargas Foundation's (FGV) consumer confidence index rose to 78.0 in February from 75.8, the first increase in five months; consumer confidence is still well below the pre-pandemic level of 87.8. The Central Bank of Brazil (BCB) intervened in the spot currency market on February 26 by selling just over $1.5 billion as the real slid against the dollar. The real was one of the worst performing currencies in 2020, depreciating 20.9%, and has dropped another 7.0% in the first two months of 2021.

MEXICO: Mexico's recovery lost momentum at the turn of the year. The monthly GDP index rose a scant 0.1% in December from November, and was down 3.7% from a year earlier. The employment-to-population ratio fell to 52.0% in January from 52.8% in December and was the lowest since September; the unemployment rate rose to 4.7% in January from 3.8% in December. Mexico's fiscal stimulus program is the smallest of any major economy, and its monetary policy is also providing less support than those of other emerging markets, keeping Mexico's economic recovery painfully slow.