

April 19, 2021

GLOBAL ECONOMIC HIGHLIGHTS

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U.S. and Chinese Activity Indicators Rebound, but New Virus Variants Are Delaying the Recovery in Other Economies

UNITED STATES: Activity indicators jumped in March, boosted by stimulus payments, vaccinations, and better weather. Retail sales surged 9.8% from February, and retail sales excluding autos and gas were up 8.2%. Control sales—retail sales excluding food service, autos, gasoline, and building materials, and which go into nominal consumer spending in GDP—rose 6.8% over the month. The February decline in retail sales was revised somewhat to a 2.7% drop, from the initially-reported 3.0% decline. The March report's details were robust: Auto and part sales jumped 15%, restaurant/bar sales 14%, and gasoline sales 11% (though this was mostly higher prices; gasoline prices rose 9% on the month in the CPI report). Industrial production also rose in March but its 1.4% increase was much slower—and since it followed February's 2.6% weather-related decline, industrial production was still below its January level in March. February's decline in industrial production was revised from the originally-reported 2.2% drop. Manufacturing production rose 2.7% in March after a 3.7% drop in February, mining rose 5.7% after a 5.6% drop, and utilities output dropped 11.4% (warmer weather) after rising 9.2% in February. Industrial production was 4.5% below its pre-crisis peak in March, and manufacturing production down 3.0%; the peak for both was December 2018. The global semiconductor shortage is a big factor behind soft manufacturing production—motor vehicle and parts production was down 9% from its January level in February and March.

The housing market is still on a tear. Housing starts rose 19% to the highest since 2006 in March, and permits for new home construction rose 2.7% to the second-highest since 2006. The National Association of Home Builders Housing Market Index edged up to 83 in April from 82 in March; each month since last September has been one of the strongest for homebuilder sentiment since the survey began in 1985.

The CPI rose 0.6% in March from February, with core CPI excluding food and energy up 0.3% on the month. Paralleling the 9% jump in gasoline prices, fuel oil and utility gas prices spiked; food prices rose 0.1% on the month after large increases in 2020, and shelter prices rose 0.3%. From a year earlier, the CPI rose 2.6% after a 1.7% increase in February, while core CPI excluding food and energy rose 1.6% after 1.3%.

The National Association of Realtor's March existing home sales report, to be released April 22, will likely show an increase to 6.45 million units at an annual rate from February's 6.22 million, reflecting better weather and continued strong housing demand as consumers take advantage of still-low mortgage rates. Inventories of listed homes have been historically low in recent months; they were likely still tight in March, but should improve in coming months as potential sellers who delayed listing during the pandemic come around.

CHINA: Chinese GDP soared in year-over-year terms in the first quarter of 2021, but the details of the report show China's expansion slowed from its late 2020 rate. Real GDP rose 18.3% from a year earlier in the first quarter after dropping 6.8% in the same terms in the first quarter of 2020; China imposed its lockdown in the first quarter of 2020, earlier than the rest of the world, making the year-ago comparison hard to interpret. A better comparison is against the first quarter of 2019—real GDP in the first quarter of 2021 was up 10.3% from two years earlier, or about 5% annualized. Real GDP growth was trending at around 6% in the same terms in 2019, so the first quarter's data imply real GDP is now a little below its pre-crisis trend.

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The quarterly GDP data tell a different and more volatile story. Real GDP growth slowed sharply to 0.6% in seasonally-adjusted quarterly terms (not annualized), down from 3.2% in the fourth quarter of 2020 and 3.1% in the third quarter. Growth in the fourth quarter was revised up sharply from 2.6% in the prior release. The first quarter of 2021's sequential GDP growth was the slowest since 2011 with the exception of the plunge in the first quarter of 2020. Retail sales pulled back sharply in monthly terms in January, falling 0.9%; after the plunge in January 2020, January 2021's drop was the largest on record, reflecting regional partial lockdowns imposed in the month. The first quarter slowdown also reflected less expansionary monetary policy; The People's Bank of China published an article on its website on April 14 in which the director of its monetary policy department stated that the Bank would "maintain growth of the money supply and aggregate financing at a rate basically matching nominal GDP" in 2021. This implies much less loose policy than in 2020, when credit growth far overshot economic growth—nominal GDP grew 3% in 2020, while the money supply grew 10% and aggregate financing to nonfinancial borrowers grew 13%.

CANADA: Canada's housing market roared to a new peak in March as 76,259 existing homes were sold, 14,000 more than in the previous record set last July, according to the Canadian Real Estate Association. Existing home sales rose 5.2% in March from February, following a 6.6% increase in February. Canada's prime minister is set to unveil the first federal budget in two years on April 19, which will likely propose additional pandemic-related government spending to support consumers and businesses as the country grapples with a third wave of the virus.

UNITED KINGDOM: February's monthly activity data provide further confirmation of the winter double-dip recession, although these data are already a bit stale considering that sentiment surveys show a strong recovery underway in the second quarter of 2021. Real GDP grew 0.4% in February after dropping 2.2% in January as the government re-imposed a strict lockdown; February's increase left real GDP still below its December level in January, and down 3% from its recovery-to-date high reached in October 2020. January's drop was revised from 2.9% in the prior release. Industrial production rose 1.0% in February after a 1.8% drop in January, construction output rose 1.6% in February after no change in January, and services output rose 0.2% after falling 2.5%. Goods exports to the EU rose 47% in February, making up about two thirds of their 42% plunge in January. Exports to non-EU economies fell 10.5% month-over-month in February.

EUROZONE: Like in the UK, renewed lockdowns caused a double-dip recession in the winter months. Retail sales rose 3.0% in February from January, but were still below December's level after January's 5.2% drop (revised from 5.9% in the prior release). Industrial production fell 1.0% in February after a 0.8% increase in January.

The ECB's April 22 Governing Council decision may signal how long the Governing Council plans to keep purchases made under their emergency QE program, the Pandemic Emergency Purchase Programme, at the "substantially increased" rate they announced at their March Governing Council decision. Purchases have averaged around €20 billion per week since the March announcement versus an average of €18 billion per week from the turn of the year through the announcement. Governor of the Bank of France and ECB Governing Council Member Francois Villeroy de Galhau told Bloomberg news in an April 14 interview that the ECB "could possibly exit PEPP by March 2022" if downside risks to the outlook are not realized. If the consensus of Governing Council members match Villeroy's views, a taper of the PEPP program could begin as early as this summer.

JAPAN: A recovery is underway but activity is still at depressed levels. Exports jumped 16.1% from a year earlier in March, while imports rose 5.7%; machine tool orders rose 65% from a year earlier in March. But after falling a cumulative 58% over the prior two years, machine tool orders were still down 31% in March 2021 from their level in March 2018.

BRAZIL: Retail sales rose 0.6% in February from January following two straight months of declines. Retail sales were down 3.8% in February from a year earlier, following a downwardly-revised 0.4% decline in the prior month. Retail sales will be supported by another round of stimulus payments which will be distributed this quarter, but rising interest rates and a new surge in coronavirus cases will likely keep growth in retail sales flat to negative in the near term.

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MEXICO: Formal sector employment rose by 89,000 to 20.026 million in March, or 0.4%; Mexico's formal employment statistics are not adjusted for seasonal variations. Formal employment is still down by 588,000 or 2.9% from its level in February 2020. Around 40% of working Mexicans are employed in the formal sector.

INDIA: CPI inflation accelerated to 5.5% in March in year-ago terms from 5.0% in February, slightly overshooting the 5.4% consensus forecast; March's higher inflation was mainly driven by higher food and energy prices. Core inflation (excluding food and energy) accelerated to 5.7% in March from a year earlier, following a 5.6% rise in February. Both headline and core inflation remain within the RBI's inflation target range of 2% to 6%. Industrial output fell 3.6% in February from a year earlier, following an upwardly-revised 0.9% decline in January; industrial output has been on a roller coaster ride over the past six months. It improved in September and October as economic activity improved, then declined in November, January and February as India grappled with a new wave of the virus. Exports increased an enormous 60.3% in March from a year earlier, when they fell 34.3%; exports in March were 5% above their March 2019 level. Imports jumped a mammoth 53.7% in March from a year earlier, when they fell 28.0% in the same terms. Base effects contributed to majority of the strong gains in exports and imports.

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