Inflation Above Expectations in April, Employers Struggle to Rehire; Chinese Credit Growth Slows to Pre-Crisis Trend

UNITED STATES: Labor market data released subsequent to the April jobs report indicate that employers are struggling to rehire laid-off workers despite payroll employment being 8.2 million below the pre-crisis level in April. Nonfarm job openings jumped to a record-high 8.1 million in March (data are released at a lag) from 7.5 million in February, and the National Federation of Independent Business’s Small Business Jobs Hard to Fill survey showed employers are having the hardest time filling positions since the survey began; the JOLTS data begin in the year 2000, while the NFIB survey dates to the early 1970s. Initial claims for unemployment insurance marked another recovery-to-date low of 473,000 in the week ending May 8, down from an upwardly-revised 507,000 the previous week. May 8 was the first week with initial claims below 500,000 since March 21, 2020. Lingering health concerns, more generous unemployment benefits, childcare and remote school issues, and a wave of early retirements are slowing workers’ return to the labor market. These temporary obstacles will fade in coming months, and job growth will be rapid in the rest of 2021.

Inflation was higher than expected in April. The CPI index rose 0.8% from March, up from 0.6% a month earlier and higher than the consensus forecast for 0.2%. Producer prices rose sharply in April too. The producer price index for final demand rose 0.6% and overshot the 0.3% consensus forecast after a 1.0% increase in March. The fastest-rising components of the CPI and PPI indices were products and services that are seeing demand recover rapidly, but have pandemic-related bottlenecks constraining the recovery of supply. In the CPI basket, used car and truck prices rose 10.0% on the month; airline fares rose 10.2%; and car and truck rental rates surged 16%. In the producer price basket, mobile home prices jumped 5.8% on the month and 20.7% on the year, and lumber prices rose 5.7% on the month and 89.7% on the year. Vaccines, fiscal stimulus, and expansionary monetary policy are fueling a robust recovery of consumer demand. Many consumers turned stimulus checks into down payments for used cars and trucks, or RVs; newly-vaccinated people are planning vacations; and demand for single-family homes is surging as people spend more time at home. Supplies of these goods and services cannot keep up with demand, fueling higher inflation.

Retail sales were unchanged in April from March, but March’s level was revised higher by 1% to show an 11% monthly increase, the second largest on record. Industrial production rose 0.7% in April from March, despite a drag from supply chain disruptions and auto plants idled by the semiconductor shortage. Manufacturing production rose 0.4% despite motor vehicle production down 4.5%. Mining production rose 0.7% and utilities production rose 2.6%. Housing starts are forecast to rise to 1.77 million in April from 1.74 million in March in the May 18 release, and existing home sales to rise to 6.025 million from 6.010 million in the May 21 release.

CHINA: Credit growth slowed in April, due to base comparisons with the spring of 2020, when China’s central bank juiced credit growth to jump start the recovery. Growth of aggregate financing to the real economy, including all credit and equity provided to non-financial sectors, slowed to 11.7% in April from 12.3% in March; in April 2020 it accelerated to 12.0% from 11.5% in March 2020. Growth of the broad money supply M2 slowed to 8.1% from a year earlier in April 2021 from 9.4% in March; April’s rate of growth is around that registered in 2019. With global demand for made-in-China consumer goods robust, and Chinese consumers and businesses catching up on spending deferred in 2020, China’s policymakers are reining in monetary stimulus.
GLOBAL ECONOMIC HIGHLIGHTS

EUROZONE: There were no surprises in the European Central Bank’s Account (minutes) of its April 21-22 Governing Council meeting, published May 14. The account reinforced other recent ECB efforts to push back against the appreciation of the euro: They write that Governing Council members “underlined that a further appreciation of the exchange rate could have adverse implications for the inflation outlook.” Governing Council members also discussed pent-up savings as a potential driver of faster than expected growth in 2021 and called the current spike in inflation “temporary.” The Account’s tone was optimistic toward the outlook for recovery in the second half of 2021. If that recovery stays on track, the ECB is likely to reduce asset purchases made by its Pandemic Emergency Purchase Programme at the June 10 Governing Council decision.

MEXICO: As expected, the Bank of Mexico held its policy rate unchanged at 4.0% at its May 13 monetary policy decision. The Bank upwardly revised their projections for inflation due to higher inflation in non-core prices, and still see risks to inflation tilted to the upside. This focus on inflation reinforces PNC’s view that the rate cut cycle in Mexico is over (the Bank last cut the interbank target rate 0.25 percentage point to 4.00% in February) and that the Bank’s next move is likely a hike, which could come in the fourth quarter of 2021 if the global economic recovery proceeds well.

UNITED KINGDOM: Activity data for March confirm a broad-based economic recovery has resumed in the UK. Monthly GDP rose 2.1% in March from February after an upwardly-revised 0.7% increase in February (reported as 0.4% in the prior release). Manufacturing output rose 2.1% in March, construction 5.8%, and services activity 1.9%. Nominal goods exports to the EU rose 8.6% and imports from the EU 4.5% in March, while exports to non-EU countries rose 9.9% and imports 8.4%.

CANADA: Bank of Canada (BOC) Governor Tiff Macklem in a May 13 speech stated that the bank is closely monitoring the Canadian dollar’s gains, to ensure “further appreciation doesn’t create economic headwinds.” The Canadian dollar has appreciated 3.1% since the Bank of Canada began tapering its quantitative easing (QE) program on April 21. After losing about 3 million jobs in April and May last year, Canadian employment is now about 500,000 jobs (3%) below the pre-pandemic level. The BOC will likely make a further reduction in its quantitative easing program in the second half of this year and increase its benchmark policy rate from the current near-zero level in 2022. The Bank of Canada is concerned about high household debt and elevated housing prices, pressuring them to normalize monetary policy faster than the Fed.

BRAZIL: The minutes of the Central Bank of Brazil’s Monetary Policy Committee meeting on May 5, published on May 11, indicated a more dovish tone than the press release published at the meeting’s conclusion. The BCB noted that the “Committee deemed appropriate another adjustment of the same magnitude at the next meeting,” but gave no clear indication of subsequent interest rate increases after June. Consumer prices as measured by the IPCA index increased 6.8% in April from a year earlier, slightly higher than expectations for an increase of 6.7%. Core inflation by the central bank’s trimmed mean index was 3.2% in April. The IBC-BR Economic Activity index fell 1.6% in March from February, milder than consensus expectations for a contraction of 3.4%, and the first decline since April of last year.

JAPAN: Rising commodity prices and supply chain disruptions are even raising prices in Japan. Producer prices rose 0.7% in April from March after a 1.0% increase in March (revised up from 0.8% in the prior release). The producer price index increased 3.6% in year-over-year terms in April, up from 1.2% in March (revised up from 1.0% in the prior release).

INDIA: CPI inflation slowed to 4.3% in April from a year earlier, following 5.5% inflation in March. Core inflation excluding food and energy eased to 5.2% in April from 5.8% in March, reported in the same terms. Both headline and core inflation remain within the RBI’s inflation target range of 2% to 6%. Exports increased 196% while imports increased 167% in April from a year earlier. Base effects contributed to majority of the strong gains in exports and imports.

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