U.S. PMI Surveys Hit Second Consecutive Record Highs in May; PMIs in the Eurozone and UK Are Nearly as High

**UNITED STATES:** The Markit manufacturing and services PMIs both marked new record highs in the May flash estimates, surpassing the record highs they set in April. The manufacturing sector survey began in 2007 and the services sector survey in 2009. The manufacturing PMI rose to 61.5 from 60.5 and the services PMI to 70.1 from 64.7. The survey components for domestic and export orders, business expectations, supplier delivery times (an indirect measure of capacity utilization), and price increases fueled the record levels.

Housing activity ticked down in April though its level remained very strong. Housing starts fell 9.5% from March to 1.569 million annualized units, but were up 21% from the 2019 average. Starts in March were revised down slightly to 1.733 million annualized from 1.739 million. Residential permits edged up 0.3% to 1.760 million in annualized terms, although March’s permits were revised down to 1.755 million from 1.766 million; after the revisions, April’s level of housing permits was the second highest since 2006. Housing completions fell 4.4% on the month to 1.449 million annualized and were the second-highest since 2007. Sales of existing homes fell 2.7% in April from March, a third straight monthly decline; existing home sales were up 33.9% from a year earlier. The months of supply of existing homes listed for sale rose to 2.4 months at the current sales pace in April, slightly up from 2.1 months in March; the existing home market averaged 3.9 months’ supply between 2017 and 2019. Homebuilders still see a strong outlook for housing: The NAHB Housing Market Index held unchanged on the month in May at a buoyant 83; the index is closer to the multi-decade high of 90 it reached last November than its 2018-2019 average of 67.

Initial claims for unemployment insurance under regular state programs fell 34,000 to 444,000 in the week ending May 15, marking a new recovery-to-date low for the series. Claims for Pandemic Unemployment Assistance also fell on the week, by 9,000 to 95,000 (not seasonally adjusted). This was the lowest since the PUA program launched in 2020.

PNC forecasts for the April new home sales report, to be released May 25, to show a 4.5% monthly decrease, paralleling the pullback of other housing data during the month. April personal income and expenditures, to be released May 28, will likely show income down 15% with stimulus checks mostly paid out in March, and personal consumption expenditures up 0.8% with growth of spending on services outpacing goods spending.

**EUROZONE:** The Markit manufacturing PMI was little changed at 62.8 in the May flash estimate after 62.9 in April, while the services PMI jumped to 55.1 from 50.5 and was the strongest since June 2018. The new orders index of the composite PMI (average of manufacturing and services) was the strongest since June 2006. Consumer confidence rose to -5.1 in May from -8.1 in April and was the strongest since October 2018. In a now very dated release, real GDP contracted 0.6% in quarter-over-quarter terms (not annualized) in the first quarter of 2021 after a 0.7% decline in the fourth quarter of 2020. Real GDP fell 1.8% from a year earlier in the first quarter. The Eurozone was hit by a double-dip contraction during the renewed lockdowns imposed in the winter months, but has now clearly resumed its recovery.

**UNITED KINGDOM:** The Markit/CIPS services PMI rose to the highest since October 2013 in the May flash estimate and the manufacturing PMI was the highest since the survey began in 1992. The composite PMI (the simple average of manufacturing and services PMIs) was the highest since the services survey began in 1998.
CHINA: Monthly economic indicators slowed in year-ago terms in April from March, largely reflecting the shifting base comparison against the beginning of China’s recovery in 2020. Value added of industry rose 20.3% on the year in April, down from 24.5% in March; investment in fixed assets grew 19.9% in the year through April after 25.6% growth in the year through March; retail sales growth slowed to 29.6% in year-ago terms from 33.9% in March. The surveyed unemployment rate made its usual seasonal decline in April from March as migrant workers who left jobs before the Lunar New Year find new ones in the second quarter—China’s unemployment rate is reported in non-seasonally adjusted terms. It fell from 5.3% in March to 5.1% in April, and matched its level in October and November 2019.

MEXICO: Retail sales rose 3.6% in March from February after a 2.5% increase in March, and were up 1.8% from a year earlier; Mexican retail sales in March were 0.2% above their February 2020 level in March, although they were still down 1.6% from their peak reached in May 2019.

CANADA: CPI inflation edged up to 3.4% in year-ago terms in April, the highest in a decade, from 2.2% in March, and slightly exceeded the 3.2% consensus expectation. Big jumps in prices of gasoline and other energy goods were the biggest drivers of inflation in April, with those price categories surging 62.5% and 32.7% from their depressed levels in April 2020. CPI inflation will likely remain high in the rest of 2021 due to comparisons with 2020, when prices outright declined, and due to the imbalance between a slower recovery of the economy’s supply and a rapid release of demand pent up during Canada’s lockdowns. The Bank of Canada’s three measures of core inflation, CPI-common, CPI-median and CPI-trim were respectively 1.7%, 2.3% and 2.3%, in April, all in year-ago terms. The Teranet-National Bank House Price Index™ accelerated to 11.9% in April from twelve months earlier, the fastest since 2017, from 10.8% in March; the Index rose 2.4% in April from a month earlier. Retail sales rose 3.6% in March from the prior month, following an upwardly-revised 5.8% increase in February. But retail sales probably dropped 5.1% in April as the government tightened restrictions during Canada’s third coronavirus wave, according to Statistics Canada.

Housing starts plummeted 19.8% in April from March following a 23.2% jump in March; the trend through this volatility is robust homebuilding and a red-hot housing market. Bank of Canada Governor Tiff Mecklem stated in a May 20 press conference, at the release of the Bank of Canada’s Financial System Review, that recent gains in house prices are unsustainable, and that household debt, the housing market, and “the rapid evolution of cryptoasset markets” are vulnerabilities.

JAPAN: Bucking trends in other major economies, the Jibun Bank au manufacturing PMI fell to 53.1 in the May flash estimate from 54.3 in April, and the services PMI fell to 45.7 from 49.5. Japan tightened containment measures in May as coronavirus cases rose; Japanese coronavirus deaths reached the highest yet in mid-May, although on a per-capita basis they are still 90% below the U.S.’s January peak.

INDIA: India’s wholesale price index (similar to a producer price index) rose 10.5% from a year earlier in April, up from 7.4% in March and the fastest since April 2010. Energy (the “fuel and power” category) drove much of the headline index; fuel and power prices rose 21.0% from a year earlier in April, up from 10.3% in March.

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