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GLOBAL ECONOMIC HIGHLIGHTS

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May's Jobs Report Fell Short of High Expectations; ECB Is Likely to Taper Crisis-Era Programs at June 10 Decision

UNITED STATES: The May jobs report was good but not great. The economy added 559,000 nonfarm payroll jobs, a bit below the 670,000 consensus forecast. Job growth in March and April was revised up 27,000. Private employment rose 492,000 in May, while government employment rose 67,000. Leisure and hospitality jobs rose 292,000 and accounted for three out of five private sector jobs added on the month. Employment in private education and healthcare rose 89,000, with private education up 41,000, child care services up 18,000, and healthcare up 23,000. Public state and local education jobs rose by more than 100,000—a shift back to in-person schooling fueled job gains, and fiscal stimulus paid for more state and local public education workers. Professional and business service employment rose by 35,000 in May after falling 81,000 in April. Industries especially hard-hit by the pandemic saw solid job gains in May: Motion picture and sound recording industry employment rose 14,000, and air transportation rose 9,000. But industries that boomed in the stay-at-home economy shed jobs, holding back overall job growth. Retail jobs fell 6,000 on a 26,000 decline in food and beverage store jobs; courier and messenger employment edged up 3,000 after plunging 54,000 in April. Goods-producing employment edged up just 3,000 in May, with 23,000 more manufacturing jobs, lifted by a 25,000 rebound in motor vehicle and parts employment (it fell 38,000 in April due to parts shortages). Construction employment fell 20,000 in the month.

The unemployment rate fell 0.3 percentage point to 5.8% from 6.1% in April. Employment as measured by a survey of individuals (different from the survey of employers) rose 444,000 in May, but the labor force also fell 53,000. The U-6 unemployment rate, which includes underemployment and discouraged workers, fell to 10.2% from 10.4% in April; it peaked at 22.9% in April 2020. Average hourly earnings rose a solid 0.5% in May after a 0.7% increase in April. These big gains are despite many of the new jobs coming in the lower-paying leisure and hospitality industry, suggesting that competition for workers is leading firms to raise pay. Aggregate pay rose a solid 0.9% in May from April with employment and wages higher and the average workweek unchanged.

While the jobs report was solid, it was weaker than May's business sentiment and unemployment claims releases, which pointed to an even faster recovery. The ISM services PMI survey rose to 64.0 from 62.7 and was the strongest on record, while the ISM manufacturing PMI rose to 61.2 from 60.7 and was the second-strongest after March 2021 since 2004. Initial claims for unemployment insurance filed under regular state programs as well as the Pandemic Unemployment Assistance (PUA) program fell to recovery-to-date lows in the latest report for the week ending May 29. Initial claims for state programs fell to a seasonally-adjusted 385,000 from 405,000 (revised from 406,000) and PUA claims fell to 76,000 from 94,000 (not seasonally adjusted). Continued claims for state programs rose in the latest report for the week ended May 22, to 3.771 million from 3.602 million the previous week, but continued claims under all programs fell to a new recovery-to-date low of 15.436 million in the week ended May 15 from 15.802 million the prior week.

PNC forecasts for the June 8 release of the April balance of trade in goods and services to show the trade deficit narrow to \$68.0 billion from \$74.4 billion in March. The May CPI report to be released June 10 will likely show consumer prices up 0.4% from April despite a 1% decline in gasoline prices; the economy's reopening and continued supply bottlenecks likely fueled another month of large increases in core consumer prices in May.

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EUROZONE: The Eurozone's recovery accelerated in the spring months as the vaccination drive ramped up. The unemployment rate edged down to 8.0% in April from 8.1% in March, with the level of unemployment down by 134,000 on the month. The EU's statistical agency Eurostat does not publish monthly employment levels, but the data they do release imply that household employment rose around 500,000 or 0.3% on the month. Like in the U.S., unemployment growth in the Eurozone was solid but unspectacular in the spring—the recovery of real GDP mostly came from recalling furloughed workers (who are officially considered employed) to jobs. HICP inflation picked up to 2.0% in May in year-over-year terms from 1.6% in April, almost all due to energy prices, up 13.1% from a year earlier in May after a 10.4% increase in April. HICP excluding energy, food, alcohol and tobacco rose 0.9% in year-ago terms in May after a 0.7% increase in April, well short of the European Central Bank's target of below but near 2%. Retail sales fell 3.1% in April after a 3.3% increase in March and a 4.2% increase in February, but this release is pretty dated: The Markit services PMI for the Eurozone was revised up to 55.2 in the May final release from 55.1 in the flash estimate and was up from 50.5 in April; the services PMI's forward-looking expectations survey component was the strongest in 17 years. The Eurozone construction PMI edged higher on the month to 50.3 from 50.1 in April.

At the next Governing Council meeting on June 10, the European Central Bank will likely announce that asset purchases under the Pandemic Emergency Purchase Programme (PEPP) will slow in the third quarter; the ECB accelerated purchases in March after the Eurozone's double-dip recession in the fourth quarter of 2020 and first quarter of 2021. Now, the ECB will probably see the vaccination drive's progress (47% of adults in the EU have started vaccinations, closing the gap with the U.S. where 63% have started) and the Eurozone's accelerating recovery as grounds for tapering the PEPP. The ECB did not announce an explicit goal for PEPP purchases when it increased them in late March; weekly net PEPP purchases averaged about €20 billion euros in April and May after averaging about €15 billion in the first quarter. If the ECB announces a target rate of purchases June 10, it will likely be near €15 billion weekly; less would be a hawkish surprise. The ECB is starting to wind down the policies it launched to counter the pandemic in early 2020, but will keep using the ones that were in place pre-pandemic—the ECB sees these latter policies as a response to their economy's weak trend inflation. At their June decision, the ECB will likely affirm its commitment to keep these programs running into 2022, including QE and negative interest rates. While the ECB is tapering earlier than the Federal Reserve, the Fed will likely normalize its policies faster in 2022 and 2023.

CHINA: The Caixin general services PMI for China dipped to 55.1 in May from 56.3 in April; viewed in conjunction with China's other three PMI surveys released at the end of May, the Caixin services PMI points to a broadening economic recovery. The People's Bank of China on May 31 increased financial institutions' reserve requirement ratios for foreign currency deposits from 5% to 7%, effective June 15. The policy makes it more expensive for Chinese banks to hold foreign currency, discouraging speculative capital inflows attracted by the appreciating yuan. China's currency depreciated modestly after the announcement, but after strong appreciation in May is still near the strongest since early 2018.

CANADA: Employment fell 68,000 in May, a 0.4% decrease; the same percentage decline in the U.S. would amount to about 530,000 jobs. This was much worse than the consensus forecast for a 25,000 loss. The unemployment rate ticked up to 8.2% from 8.1% in April; it was below 6% pre-pandemic. Job losses were largely among part-time workers, 80% of jobs lost; and in the goods-producing sector, which accounted for 68% of job losses. Employment in services-providing sectors is now about 3% below the pre-pandemic level. After losing nearly 3 million jobs last year, Canada's labor market has recovered about 97% of the jobs lost. Labor market conditions will likely remain soft into June as restrictions remain in place in several provinces—Ontario, Canada's most populous province, is still in lockdown and will only start a three-phase reopening plan the week of June 14. Building permits fell 0.5% in April from March following an upwardly revised 7.6% increase in March. Building permits were up 76% from a year earlier. The Markit manufacturing PMI dipped to a still strong 57.0 in May from 57.2 in April. With overall economic conditions broadly improving as vaccines are distributed, PNC Economics expects the Bank of Canada to stand pat and hold its target interest rate steady when central bankers meet on Wednesday; a further taper of quantitative easing is possible in the third quarter if the reopening plan proceeds according to schedule.

MEXICO: Vehicle production fell to 241,000 units in May from 269,000 in April and 303,500 in March; the semiconductor shortage is a big headwind to Mexico's auto industry. Mexico's auto industry data are reported in monthly non-seasonally adjusted terms. Growth of domestic auto sales was a weak 2.5% in May, to

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85,700 units from April's 83,600. Mexico's statistical agency does not report seasonally-adjusted auto sales; a rough estimate is that May's seasonally-adjusted level would be about 0.4% above April's, a much slower improvement than between November and April, when seasonally-adjusted growth averaged 4% per month (not annualized). Auto sales are still about 30% below their 2016 peak rate, and would be recovering much faster if not for the semiconductor shortage.

Consumer confidence rose to 42.7 in May from 42.4 in April and was the strongest since February 2020's 43.6; the Markit manufacturing PMI for Mexico dipped to 47.6 in May from 48.4 in April and has been in contractionary territory below 50 since February 2020. The disconnect between recovering consumer confidence and still weak business confidence might reflect the country's split over the economic policies of leftist President Andres Manuel Lopez-Obrador, who is much more popular with the general public than Mexico's business community. Mexico held elections on June 6 for the Chamber of Deputies (the lower house of congress) and many regional offices. If President Lopez-Obrador's Morena party wins a two-thirds majority in the Chamber of Deputies, he could attempt to rewrite the constitution to help state-owned businesses, a development that could weigh on the value of the peso. Election results will be announced beginning June 7.

UNITED KINGDOM: The UK's recovery continues to broaden. The Markit/CIPS services PMI rose to 62.9 in May from 61.0 in April and was the strongest in 24 years, while the Markit/CIPS construction PMI rose to 64.2 in May from 61.6 in April and was the highest in nearly seven years. The Nationwide House Price Index jumped 10.9% from a year earlier in May.

JAPAN: Spending by households with two or more members rose 13.0% on the year in April after falling 11.3% in the same terms in April 2020; relative to April 2019, which was both before the pandemic and before Japan's October 2019 value added tax hike, household spending in April 2021 was up 0.5%. More contagious coronavirus variants will likely force Japan to maintain fairly limits on the services sector and international tourism through the summer; according to Bloomberg, Japan had administered only 12 vaccine doses per 100 people in early June versus 91 per 100 administered in the United States.

BRAZIL: Industrial production fell for the third straight month in April as many states and cities re-imposed restrictions on activity due to rising coronavirus cases; industrial production fell 1.3% in April from March and rose 34.7% in April from a year earlier. Despite the decline in April, industrial output is just 1% below the pre-pandemic level. The manufacturing PMI rose to a three-month high of 53.7 in May from 52.3 in April, while the services PMI rose to a still-weak 48.3 in May from 42.9 in April. Per the PMI survey, the service sector was in expansionary territory between September and December of last year, but has contracted in every month of this year as the pandemic worsened. The Central Bank of Brazil's weekly survey of professional forecasters showed the median estimate for real GDP growth in 2021 at 4.0% in the May 28th survey, up from 3.5% the prior week.

INDIA: As expected, the Reserve Bank of India's monetary policy committee voted unanimously to keep the benchmark repurchase rate unchanged at 4.0% when central bankers met on June 4. The RBI also announced a boost to its Government Securities Acquisition Program (GSAP) in order to keep benchmark borrowing costs low as the government fights the second coronavirus wave. The RBI also announced several other measures to support credit and liquidity in the Indian financial system. The RBI revised down its estimate for real GDP growth in fiscal year 2021 to 9.5% from 10.5% in their May forecasts, due to the "increased spread of COVID-19 infections in rural areas."

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