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GLOBAL ECONOMIC HIGHLIGHTS

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U.S. Consumer Spending Continues to Boom; Chinese Growth a Little Soft in the Second Quarter

UNITED STATES: Consumer spending continues to boom: June's retail sales were up 19.8% from their level in February 2020, before the pandemic hit the U.S. Retail and food services sales rose 0.6% in June from May; this was partially offset by a 0.4% downward revision to May's level of retail sales, which are now down 1.7% from April (had been -1.4%). In year-ago terms, retail and food services sales were up 18.0% in June.

The data for food services sales are just astounding. Retail sales at food service and drinking places rose 2.3% in June from May and are up 6.4% from their pre-crisis peak in January 2020. This is mostly but not all inflation. Retail sales are reported in nominal terms, and average consumer prices of food away from home are up a cumulative 5.7% over the same period per the June CPI report. So real sales of food services and drinking places are back above the pre-crisis level despite employment in the sector still down 10.3% from before the crisis (-1.27 million jobs). Food services and drinking place businesses will add jobs rapidly in coming months, but the sector will be leaner after the pandemic. Doing more with less will make it sustainable for businesses to pay higher wages and stay profitable. Many ex-food services workers will find jobs in other sectors, where productivity and wages are higher; this is good for the U.S.'s long-term growth potential.

Retail segments that boomed in the stay-at-home economy mostly saw sales fall on the month in June. Building material, garden equipment and supply dealer sales fell 1.6% on the month, sporting goods/hobby/musical instrument/book sales fell 1.7%, and furniture and home furnishing sales fell 3.6%.

Industrial production rose 0.4% in June despite a 0.1% decline in manufacturing output—production of motor vehicles and parts fell almost 7% over the month as the global semiconductor shortage continued to weigh on the industry. Industrial production excluding autos and parts rose 0.4% on the month. Mining output rose 1.4% in June, and utilities output jumped 2.7% on hotter weather.

PNC forecasts for the June housing starts report, to be released July 20, to show starts up to 1.60 million from 1.572 million in May, and building permits up to 1.72 million from May's 1.683 million. Existing home sales, to be reported July 22, likely rose to 6.0 million in June from 5.8 million in May.

CHINA: As hinted by the People's Bank of China's cut to its Reserve Requirement Ratio (RRR) on July 9, real GDP growth came in below the consensus forecast in the initial estimate for the second quarter. Real GDP increased 1.3% from the first quarter (not annualized), versus 1.5% in the consensus of the survey conducted prior to the central bank announcing the RRR cut; the cut allows commercial banks to turn more of their customers' deposits into loans rather than holding them at the central bank as reserves. The second quarter's underwhelming growth is disappointing after real GDP increased just 0.6% on the quarter in the first quarter, when renewed restrictions on activity dragged on services output.

In year-ago terms, real GDP grew 7.9% in the second quarter versus an 8.0% consensus forecast; this marked a sharp slowdown from the first quarter's 18.3% year-ago growth (the plunge in the first quarter of 2020 fell out of the base comparison). In June, retail sales growth slowed to 12.1% in year-ago terms from 12.4% in May, reflecting slower price increases—CPI inflation slowed to 1.1% from 1.3% in the same terms—rather than slower growth of volumes. Annual growth of value added of industry slowed to 8.3% from 8.8%,

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and the year-to-date year-ago growth rate of investment in fixed assets slowed to 12.6% from 15.4%. The survey-based urban unemployment rate was unchanged on the month at 5.0%, the lowest since May 2019. Growth of exports of consumer goods and related manufacturing activity are slowing in China; as Western economies reopen, their consumers are shifting spending toward domestically-produced services, sapping demand for goods exported by China. This isn't obvious in the nominal export statistics, which show dollar-denominated exports up 32.2% in June from a year earlier, faster than May's 27.9% increase; but it is visible in China's PMI surveys, as well as in U.S. hard data where personal consumption expenditures on goods have grown slower than expenditures on services in recent months.

EUROZONE: The European Central Bank's July 22 Governing Council decision will be an important one. It will be the first decision after the dovish changes to the Bank's monetary policy framework announced July 8. The ECB is likely to hold its key policy instruments unchanged and continue to make around €20 billion euros in weekly net asset purchases under its Pandemic Emergency Purchase Programme (PEPP, the emergency QE facility). But they can be expected to strengthen their forward guidance to reassure markets that the pre-crisis Asset Purchase Programme will make more asset purchases after the end of PEPP (probably in March or June 2022) than before the pandemic struck.

MEXICO: Industrial production rose 0.1% in May from April, with mining output up 1.0%, utilities output up 1.3%, construction up 2.0%, but manufacturing down 0.7%. Industrial production was up 36.6% in year-ago terms due to the base comparison against last year's crisis; industrial production was still 2.6% below its February 2020 level in May 2021. Manufacture of transportation equipment fell 2.9% in May from April and is down 16% from February 2020; the semiconductor shortage is dragging on the Mexican parts of the USMCA auto supply chain just as in the U.S.

CANADA: As expected, the Bank of Canada (BOC) reduced its quantitative easing (QE) bond-buying program to target a pace of C\$2 billion in weekly purchases at its July 14 monetary policy decision, down from C\$3 billion a week previously. The BOC held its target for the overnight rate unchanged at the effective lower bound of 0.25%. They downwardly revised their outlook for Canada's 2021 GDP growth to 6.0% from 6.5% in their forecast released in April. 2022 GDP growth forecast was revised up to 4.5% from the 3.75% forecast in April. In the accompanying statement, central bankers noted that the third wave of the virus slowed economic growth in the second quarter, but consumer spending, housing and stronger international demand should drive the Canadian economy in the second half of the year.

Housing activity slowed in June as existing-home sales fell 8.4%; existing home sales hit an all-time high in March and have fallen for three straight months since then. As coronavirus cases decline and vaccinations rates increase, housing inventory will increase as potential sellers feel more comfortable listing and showing their homes, reducing the supply and demand imbalance. Existing-home sales remain at a very elevated level and housing will continue to support the Canadian economy into 2022.

UNITED KINGDOM: Payroll employment rose 356,000 in June to 28.858 million; UK payrolls are still down 206,000 or 0.7% from February 2020. The Office of National Statistics' single-month estimate for the unemployment rate fell to 4.8% in May from 5.0% in April, and was the lowest since September 2020; the unemployment rate was 4.0% in February 2020. The Office of National Statistics revised their statistics on the employment of foreign nationals in the UK: Employment of EU27 workers was down 10% in the first quarter of 2021 from the first quarter of 2020; employment of foreign nationals from other regions was up 4.5%; and employment of British nationals was down 2.2%. Pre-revision data had shown employment of EU foreign nationals had plunged 20% in year-ago terms in the fourth quarter of 2020.

JAPAN: As previously announced, the Bank of Japan (BoJ) provided details about its plans to support climate change mitigation at the conclusion of their July 15 and 16 Policy Board meeting. The most impactful part of the decision is likely the Bank's announcement that they will incorporate more climate risk analysis in their prudential supervision of Japanese banks and increase their internal analytical capabilities to do so—with regulators pressuring Japanese banks to quantify climate risks, those banks will in turn accelerate their business's shift away from carbon-intensive industries. This is similar to the strategy that the ECB announced on July 8.

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INDIA: CPI inflation held steady at 6.3% in year-ago terms in June, lower than consensus expectations for an acceleration to 6.6%; food and fuel were the main drivers with food prices increasing 5.6% and fuel prices increasing 12.7% from a year ago. CPI inflation will likely remain high and above the 6% upper threshold of the Reserve Bank of India's target range in the near term as pandemic-driven supply disruptions and pent-up demand put upward pressure on consumer prices. Wholesale price inflation eased to 12.1% in year-ago terms in June from a record-high 12.9% in May. Wholesale price inflation has been in double digits for three straight months, mainly due to rapidly increasing fuel and power prices. Industrial output contracted 8% in May from April (not seasonally adjusted) after a 13% drop in April as reimposed restrictions negatively affected economic activity; mining output increased 0.6% in May, while manufacturing and electricity output decreased 9.5% and 6.9% respectively.

BRAZIL: Economic activity as measured by the central bank's IBC-Br Index fell 0.4% in May from April, against consensus expectations for a 1.1% rise, following an upwardly-revised 0.9% increase in April. After plunging 9.5% in April 2020, economic activity has increased in every month except March and May of this year. Despite the reduction in economic activity in recent months, PNC Economics expects Brazil's economy to improve as vaccinations increase and the economy reopens. Consumer and business confidence have improved in recent months and a recovering global economy should support Brazil's exports. Brazil's congress will likely pass additional fiscal stimulus soon as the latest round of the auxilio emergencial payments will expire this month. A medium to long-term risk to Brazil's economy is debt sustainability; net public debt is 84% of GDP, near the all-time high of 89%, and the rising Selic rate will increase debt servicing costs. The Central Bank of Brazil's weekly survey of professional forecasters showed the median estimate for real GDP growth in 2021 was 5.3% in the July 9th survey, up from 5.2% the prior week. The median estimate for real GDP growth in 2022 was 2.1%.

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