Fed Chair Powell to Lay Out Preconditions for Taper of QE Program; China Slows Credit Growth

UNITED STATES: A shortage of vehicles for sale weighed on retail sales in July, but higher motor vehicle output in the industrial production report points shortages improving in coming months. Retail sales fell 1.1% from June, a larger decline than the 0.2% drop consensus expected. Sales excluding autos fell 0.4%, and sales excluding autos and gasoline fell 0.7%. Control sales—sales excluding autos, gasoline, food service, and building materials, and which go into nominal consumer spending in GDP—fell 1.1% in July. June’s increase was revised up slightly to 0.7% from 0.6% in the prior report. Sales of motor vehicles and parts fell almost 4% over the month. Sales fell 0.6% for home furnishings and 1.2% for building materials. Sales were down 3.1% over the month for nonstore retailers as shoppers felt more comfortable going out in person and there was less of a boost from stimulus. But sales rose 1.7% for restaurants as vaccinations boosted in-person dining. Gasoline sales were up 2.4% over the month thanks to higher prices and more travel. Even with the July decline, overall retail sales for the month were 17% above their pre-pandemic level, indicative of very strong consumer spending.

Industrial production rose a robust 0.9% in July on an 11.2% surge in auto production—automakers cancelled or reduced their traditional July shutdowns in response to very strong vehicle sales and earlier production problems. With July’s increase, industrial production of motor vehicles and parts was 3.6% below its February 2020 level. Industrial production of all manufacturers was up 1.4% in July, mining rose 1.2%, and utilities output fell 2.1% as the summer heatwave moderated in much of the country.

The minutes of the July 27 and 28 Federal Open Market Committee (FOMC) meeting showed that a majority of FOMC members thought it “could” be appropriate to start tapering the Fed’s quantitative easing program before year-end (i.e. slow the Fed’s purchases of government-backed bonds). The Fed looks set to start tapering in the next six months, with the exact timing hinging job growth in the next few months; payroll employment was still 5.7 million below the pre-crisis level in July. Fed Chair Jay Powell will likely mark out more specific goalposts for measuring when the economy has made “substantial progress” toward recovery in his August 27 speech at the Fed’s annual Jackson Hole monetary policy conference, which will be virtual this year because of the pandemic.

CHINA: China continues to rein in monetary and credit growth to prevent a wild housing boom like the one that followed its 2009-2011 stimulus program. Aggregate financing to the real economy grew 10.7% from a year earlier in July, down from 11.0% in June and May and the slowest since February 2020; this means aggregate leverage fell across the economy since nominal GDP grew over 13% in the second quarter of 2021. Growth of the broad money supply M2 slowed to 8.3% in year-ago terms from 8.6% in June and matched the May pace.

EUROZONE: Eurozone employment rose 0.5% in the second quarter from the first (not annualized) and 1.8% from the second quarter of 2020, lagging the second quarter’s 2.0% quarterly increase in real GDP. Employment in the Eurozone is down 1.6% from pre-crisis peak in fourth quarter of 2019, while real GDP is down 3.0% from the pre-crisis peak of the third quarter of 2019.
GLOBAL ECONOMIC HIGHLIGHTS

CANADA: CPI inflation jumped to 3.7% in July from a year earlier, the highest reading in almost two decades, from 3.1% in June. July marked the fourth straight month that inflation exceeded the central bank’s 1%-to-3% target range. Shelter costs were the main drivers of July’s high inflation reading, rising 4.8% on the year as Canada’s housing prices continue to surge. The CPI rose a seasonally-adjusted 0.6% in July from June, the highest reading this year. The Bank of Canada’s three measures of core inflation, CPI-common, CPI-median and CPI-trim, were 1.7%, 2.6% and 3.1% in July, respectively, all in year-ago terms. Consumer price increases should slow towards the end of 2021 as supply disruptions ease and pandemic-driven surges in demand moderate.

Housing activity cooled in July as existing home sales fell 3.5% from the prior month, worse than consensus expectations for a 2.0% decrease. Housing starts also pulled back, to 272,200 annualized units in July from an upwardly revised 281,200 units in June. Housing activity remains very elevated; housing starts in July were 25% and 31% above the 2020 and 2019 averages, respectively. House prices jumped at a record pace in July as the Teranet-National House Price Index™ increased 17.8% from twelve months earlier. Low borrowing costs, remote work and strong consumer balance sheets have supported housing demand and caused acute supply challenges during the pandemic. The central bank stated in May that growing household debt and the overheating of the housing market are big economic vulnerabilities, and the government has proposed a “non-resident, non-Canadian real estate tax” in the federal budget earlier this year to reduce demand from foreign buyers. Retail sales rose 4.2% in June after falling in the prior two months. Preliminary estimates from Statistics Canada show a 1.7% pullback in July. Retail sales have been volatile this year mainly due to the multiple shutdowns, but activity should improve through year-end, with growth of consumer spending on services outpacing overall consumer spending.

UNITED KINGDOM: The British economy continues to recover rapidly, and with less intense inflationary pressures than in the U.S. The consumer price index was unchanged in July from June, and its year-over-year increase slowed to 2.0% from 2.5% in June; core CPI slowed to 1.8% in July from 2.3% in June. The unemployment rate fell to 4.7% in in the three months through June from 4.8% in the three months through May; it was 4.0% when the pandemic struck and peaked at 5.2% in December 2020. The monthly claimant count rate was unchanged on the month at 5.7% in July with June revised down to 5.7% from 5.8%; payroll employment rose by 182,000 or 0.6% in July and was only 0.7% below the February 2020 level.

BRAZIL: Brazil’s economy minister, Paulo Guedes, stated last week that political conflict is “overshadowing positive news on economic growth.” After passing the pension reform in 2019 and the central bank autonomy reform early this year, the government has not made much progress on other reforms. The tax reform and the privatization of state-owned enterprises were on the government’s agenda prior to the crisis but progress stalled as the government focused on the pandemic. The tax reform bill in its current form, which includes a positive news on economic growth.” After passing the pension reform in 2019 and the central bank autonomy reform early this year, the government has not made much progress on other reforms. The tax reform and the privatization of state-owned enterprises were on the government’s agenda prior to the crisis but progress stalled as the government focused on the pandemic. The tax reform bill in its current form, which includes a decrease in the corporate income tax rate and a levy on dividends, has failed to pass the lower house of Congress multiple times in recent weeks. Lack of progress on reforms and fiscal challenges are headwinds to Brazil’s medium to long term outlook.

JAPAN: The consumer price index fell 0.3% from a year earlier in July, and June was revised from a 0.2% year-ago increase to a 0.5% year-ago decline. In July 2020, Japanese consumer prices rose 0.3%. July 2021 marked Japan’s 10th consecutive month of deflation. The core CPI excluding food and energy fell 0.6% from a year earlier in July after a 0.9% drop in June; it rose 0.6% in the same terms in July 2020. Core CPI has been zero or negative for 12 consecutive months. The Jibun Bank manufacturing PMI for Japan dipped to 52.4 in the August preliminary release from 53.0 in July, and the services PMI weakened further to 43.5 from 47.4; Japanese coronavirus cases have reached the highest since the pandemic began in August, weighing on service sector activity.

INDIA: Wholesale prices rose 11.2% in July, slightly lower than consensus expectations for a 11.3% increase. High wholesale inflation is primarily due to base comparisons and rising fuel and power prices.

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