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# GLOBAL ECONOMIC HIGHLIGHTS

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## U.S. Jobs Report Disappoints in August on Delta Wave; ECB's September Decision to Tee Up Slower QE Purchases in 2022

**UNITED STATES:** Job growth was softer than expected in August: The U.S. economy added just 235,000 jobs in the month, according to a survey of employers from the Bureau of Labor Statistics, far below the consensus expectation of 750,000. This was the weakest month for job growth since January 2021, and well below the recent pace. After 134,000 in combined upward revisions to job growth in June and July, those months saw very strong growth of 962,000 and 1.053 million jobs respectively; job growth averaged a robust 750,000 over the last three months. In August, leisure and hospitality was a big drag on the monthly job gain, with employment in the sector flat after a 350,000 average monthly increase in the prior six months. Essential retailers (food and beverage stores, big box retailers, and building material and garden supply stores) saw 39,000 in combined job losses after a surge in employment in 2020.

The unemployment rate dropped 0.2 percentage point to 5.2% in August and was the lowest since the pandemic reached the U.S., though still well above the fifty-year low of 3.5% in early 2020. Employment in the survey of households (different from the survey of employers) rose 509,000 in August, while the labor force increased a disappointing 190,000. Americans who exited the labor force during the crisis have been slow to re-enter, even though many states started phasing out increased unemployment benefits in June. Average hourly earnings rose a solid 0.6% on the month in August as employers competed to attract workers.

The ISM manufacturing and services PMI surveys likewise pointed to a slower pace of expansion in August. The services index pulled back to 61.7 from 64.1, while the manufacturing index rose to 59.9 from 59.5 but was still the second-lowest since January. The prices sub-indices of both surveys fell, indicating inflationary pressures were less intense than in July; this contributed to the indices' lower levels in August.

**EUROZONE:** The European Central Bank's September 9 Governing Council decision will likely mark an inflection point for the Bank's response to the crisis. The ECB will most likely hold steady its targets for asset purchases a.k.a. quantitative easing; medical experts are concerned that another wave of Covid cases could strike in the European winter, which could again slow the Eurozone's recovery. In the third quarter, it targeted roughly €80 billion euros in monthly purchases under its Pandemic Emergency Purchase Programme (PEPP) and €20 billion in monthly purchases under its pre-crisis Asset Purchase Programme (APP).

The ECB seems pretty unlikely to slow a.k.a. taper the pace of these purchases in September, but they probably will lay out conditions for a taper. This will likely include three preconditions: First, financial conditions must remain accommodative, meaning relatively high stock prices and low yields on bonds issued by private companies and Eurozone governments with shakier finances. Second, the public health situation has to improve further to allow a broader recovery of tourism, hospitality, and other high-contact services. Third, the labor market will have to tighten and industrial capacity utilization rise, which will raise the expected trajectory of inflation in the ECB's economic models. Whether the ECB waits until the second quarter of 2022 as seems more likely, or surprises with an earlier launch, total asset purchases are likely to slow to a €25-to-€40 billion monthly rate by the end of 2022 from the current €100 billion rate.

The Eurozone's economic data flow continue to point to a rapid albeit uneven recovery. The unemployment rate fell to 7.6% in July from 7.8% in June, which was revised up from 7.7% in the prior release. Economic surveys point to a slower recovery in August, although those surveys are still considerably stronger than in 2019. The Markit manufacturing PMI for the Eurozone dipped to 61.4 in the August final release (down a hair from the 61.5 flash estimate) from 62.8 in July, and the services PMI dipped to 59.0 (59.7 in the flash estimate) from 59.8. The European Commission's Economic Sentiment Indicator fell to 117.5 in August from 119.0 in July; their manufacturing confidence indicator dipped to 13.7 from 14.5; the services confidence index fell to 16.8 from 18.9; and the consumer confidence index fell to -5.3 from -4.4.

**CANADA:** The pace of growth in the manufacturing sector picked up in August as the Markit manufacturing PMI rose to a four-month high of 57.2. Canada's manufacturing sector has done well despite multiple regional lockdowns since the pandemic began; the Markit manufacturing PMI has been above 50 since July of last year. Building permits fell 3.9% in July from June following an upwardly revised 7.2% increase in June. Housing activity remains very elevated; building permits are around 25% above the pre-pandemic level.

PNC expects the Bank of Canada to acknowledge last week's disappointing release of the second quarter's GDP report, but keep all monetary tools unchanged when central bankers meet on September 8. After slowing weekly asset purchases from C$5 billion to C$2 billion so far this year, the Bank of Canada will continue its tapering in October and start raising the overnight rate in July 2022.

**CHINA:** Business activity slowed sharply in August as the Chinese government reimposed restrictions to contain the Delta outbreak and foreign demand weakened. The Caixin manufacturing PMI fell to 49.2 from 50.3 in July, while the CFLP manufacturing PMI fell to 50.1 from 50.4. The downturn was much more pronounced in the services sector. The Caixin services PMI plunged to 46.7 from 54.9 and the CFLP nonmanufacturing PMI plunged to 45.2 from 52.5. Dollar-denominated exports rose 25.6% in August from a year earlier, up from 19.3% in July, while import growth picked up to 33.1% from 28.1%. These year-over-year increases to a large extent reflects higher commodity prices, especially in China's imports which are heavily weighted toward basic materials.

**BRAZIL:** The Markit manufacturing PMI fell to a four-month low of 53.6 in August from 56.7 in July. Industrial output fell 1.3% in July following a downwardly revised 0.2% dip in June. After surpassing the pre-crisis level in late 2020, industrial production has slowed this year and is now 2.1% below the pre-crisis level as producers grapple with increased raw material costs and supply chain dislocations. Brazil's unemployment rate fell to 14.1% in the three months through June from 14.6% in the three months through May.

**INDIA:** Growth in the manufacturing industry lost some steam as the Markit manufacturing PMI fell to 52.3 in August from 55.3 the prior month. Rising input costs and slowing demand held the manufacturing industry back in August. The services sector resumed growth as the Markit service PMI rose to 56.7 from 45.4 in July. The August reading was the highest since the pandemic began and the first reading above 50 in four months.

**JAPAN:** Labor cash earnings rose 1.0% from a year earlier in July, with real cash earnings up 0.7%. Household spending rose 0.7% on the year in July after a 4.3% decline in June. In light of reimposed restrictions on activity in August, earnings, spending, and other domestic economic activity likely fell again in the month.

**UNITED KINGDOM:** The Markit/CIPS manufacturing PMI for the UK edged down to 60.3 in the August final release (originally reported as 60.1 in the flash estimate) from 60.4 in July, and the services PMI was revised down to a six-month low of 55.0 from 55.5 in the flash estimate and was down from 59.6 in July. The construction PMI fell to 55.2 from 58.7.