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GLOBAL ECONOMIC HIGHLIGHTS

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Unemployment Rate Drops as Workers Exit Labor Market Despite the End of Enhanced Unemployment Benefits

UNITED STATES: The September jobs report disappointed as the end of enhanced unemployment benefits failed to bring more workers into the labor force. Nonfarm payroll jobs rose a surprisingly weak 194,000, far below the consensus forecast of 500,000. Details were better than the headline—job growth in July and August was revised up a net 169,000. And September would have looked better if not for a 180,000 drop in public and private education employment that is probably seasonal noise—that is, due to changes in the timing of back-to-school hiring because of the pandemic. Employment was down 5.0 million from February 2020 to September 2021.

The unemployment rate dropped sharply to 4.8% from 5.2% in August. Employment by the survey of households (different from the survey of payrolls) rose a strong 526,000 in September, but the labor force fell 183,000; unemployment fell by 710,000. The labor force participation rate edged down to 61.6% from 61.7% in August; it has been between 61.4% and 61.7% since June 2020 and is down from 63.3% in February 2020. The labor force participation rate fell for women 20 and over and workers of both sexes aged 16 to 19, and rose for men 20 and over. Average hourly earnings rose 0.6% on the month and the average workweek rose 0.2 hours (0.6%) to 34.8 hours; aggregate hours worked in the private sector rose 0.8% from August, and aggregate payrolls rose 1.4%. With labor supply tight, employers are raising pay to attract and retain workers and increasing hours to meet demand.

The mixed September jobs report creates a dilemma for the Federal Open Market Committee when it meets on November 2 and 3; this is the last jobs report before that meeting. The FOMC has indicated that it is ready to announce a reduction in its purchases of long-term assets, designed to put downward pressure on long-run interest rates. But that decision is predicated on "substantial further progress" toward full employment. Average monthly job growth of just 280,000 in August and September may not meet that hurdle, although the total job numbers are not telling the entire story. The FOMC may decide to hold off on announcing a reduction in asset purchases until its mid-December meeting, when it would also have the October and November jobs reports. In addition, there may be more clarity then about the debt limit and a potential government shutdown.

The October 13 release of the September CPI report will likely show total CPI up 0.3% on a roughly 1% increase in gasoline prices; core CPI excluding food and energy likely rose 0.2% on the month after a 0.1% increase in August. The September PPI report to be released October 14 will likely show a 0.4% increase; fuel prices comprise a larger share of the PPI price basket than the CPI's.

UNITED KINGDOM: Bank of England Governor Andrew Bailey and Monetary Policy Committee Michael Saunders both gave interviews in the week of October 4 warning of the challenge of rising inflation, and cautioning that the Bank may raise interest rates soon. Financial markets price in roughly fifty-fifty odds of a 0.50 percentage point hike in the Bank rate at the November 4 or December 16 Monetary Policy Committee decisions, up from roughly one-in-four odds in the first week of October.

The UK's government is again threatening to use a new nuclear option in its trade disputes with the EU, this time over the regulation of goods trade between Northern Ireland and the UK, as well as between Northern

Ireland and the Republic of Ireland. In similar previous conflicts during the administration of Prime Minister Boris Johnson, the UK has made big threats and struck a tough posture during a dispute, then loudly declared victory to their domestic press while compromising on the boring minutia of trade rules (what the EU actually cares about). While this time is probably no different, pound sterling has still depreciated modestly on the tail risk of a different outcome.

CHINA: The Caixin services PMI rose to 53.4 in September from 46.7 in August, mirroring the increase of the CFLP non-manufacturing PMI to 53.2 from 47.5. The government lifted regional lockdowns and helped the service sector return to growth in September. The advance estimate of GDP for the third quarter of 2021, to be released the evening of October 17 in U.S. time zones, will likely show real GDP up a weak 0.5% on the quarter (seasonally adjusted but not annualized), less than half as fast as the second quarter's 1.3% increase. In year-over-year terms, real GDP growth likely slowed to 5.0% from 7.9%. The Delta wave, restrictions on online gaming and private tutoring, and the slowdown in the real estate market all weighed on growth in the third quarter.

EUROZONE: The Account (minutes) of the ECB's September 8 and 9 Governing Council meeting show that the Governing Council's hawks pushed for a faster reduction in the rate of purchases made under the Bank's main pandemic-era QE program, the Pandemic Emergency Purchase Programme a.k.a. PEPP. They saw the ECB's baseline forecast for inflation as too low, and argued that "this time might be different" and inflation could accelerate after undershooting the ECB's target in the seven years before the pandemic. The Account also shows that most Governing Council members see risks to the ECB's inflation forecast to the upside. ECB President Lagarde defended the ECB's gradual withdrawal of stimulus in an interview with German newspaper Der Spiegel on October 8, arguing against "a premature tightening of the monetary policy." But Lagarde likes to build monetary policy by consensus, so the hawks have leverage to pressure the Governing Council to taper faster. PNC forecasts for the ECB's asset purchases to slow from €60-70 billion per month in the fourth quarter of 2021 to €25-50 in the fourth quarter of 2022. The September Governing Council Account makes the lower end of that range look more likely.

MEXICO: Another month of recovery for industrial production in August and accelerating inflation in September keep the Bank of Mexico on track for at least one more quarter percentage point increase in its policy rate by year-end. Industrial production rose 0.4% in August from July after rising 1.2% in July. Manufacturing output rose 0.2% in August and construction output rose 1.9%, while mining output edged down 0.1% and utilities fell 2.5%. From a year earlier, industrial production growth slowed to 5.2% in August from 8.1% in July, with manufacturing up 6.1%, construction up 7.6%, mining up 1.7%, and utilities down 4.9%. Industrial production is down 2.4% from January 2020, and down 5.8% from May 2018.

The consumer price index rose 0.6% in September from August, with core goods prices (including staple foods) up 0.7%, core services up 0.2%, noncore food prices including meat up 1.4%, and noncore energy and government-priced tariffs up 0.9%. CPI inflation was 6.0% in year-over-year terms, up from 5.6% in August. PPI inflation was 7.1% in September in year-over-year terms, up from 6.1% in August.

CANADA: A strong 157,100 jobs were added in September, much better than consensus expectations of 60,000, and returning Canada's level of employment to pre-crisis levels. Employment increased 0.8% in September from the prior month. The same percentage increase in U.S. employment would be 1.2 million jobs. Canada's unemployment rate fell to 6.9% in September from 7.1% in August; it was below 6% before the pandemic. September was the fourth straight month of job gains and the strongest month of job growth since June. 90% of the job gains were in the services-providing sector. The public administration sector led the way with 37,200 jobs added while the information, culture and recreation sector followed with a 32,500 increase. 139,000 people entered the labor force in September, raising the labor force participation rate back to the pre-crisis level of 65.5%. With the strong job numbers, the Bank of Canada is all but set to taper its weekly purchases of Canadian government bonds to C$1 billion from C$2 billion when policy makers meet on October 27. Building permits fell 2.1% in August following a downwardly revised 4.1% drop in July; building permits were still 22% above the pre-crisis level.

JAPAN: A new Prime Minister could be raising capital income taxes in Japan. The country's economic policy will focus on increasing incomes, reining in economic inequality, and redistributing income, according to the initial economic policy speech by newly appointed Prime Minister Fumio Kishida. Kishida succeeded Yoshihide Suga as Prime Minister on October 4. It is early to say how much Kishida's policy stance will depart from his predecessors; Kishida's speech also emphasized that the government will continue to use the "three arrows" of former Prime Minister Shinzo Abe's economic policy (Abe was in office from 2006 to 2007 and 2012 to 2020)—aggressive monetary stimulus, expansionary fiscal policy, and reforms to increase potential output. Kishida also proposes raising taxes on capital income to match rates on earned income. Kishida has called a general election for October 31 to solidify a mandate for his policies; prospects for tax hikes and other economic policy changes should be clearer when the results are in.

BRAZIL: Consumer prices as measured by the IPCA index increased 1.2% in September from the prior month, slightly below the consensus forecast of 1.3%, and following a 0.9% increase in August. Prices were up 10.3% in September from twelve months earlier, the highest reading since February 2016. The high year-over-year inflation reading was primarily driven by a surge in housing (14.0%) and transportation (17.9%) costs. Core inflation rose 0.6% in the month and 5.8% from a year earlier. IPCA inflation has overshot the upper limit of the central bank's 2.25% to 5.25% tolerance band for seven straight months. Retail sales fell a disappointing 3.1% in August from the prior month, much worse than consensus expectations for a 0.7% increase, and following an upwardly revised 2.7% increase in July. Retail sales fell 4.1% in August on a year-ago basis. Industrial production was down 0.7% in August from the prior month, worse than consensus expectations for a 0.3% decline. Despite these weak economic data, Brazil's economy has improved in recent months thanks to a gradual reopening and a faster pace of vaccinations. Risks to the outlook are weighed to the downside, however, including a surge in Delta cases and a slowdown in consumer spending as the government's pandemic-related stimulus expires this month.

INDIA: As expected, the Reserve Bank of India (RBI) maintained an accommodative policy stance and kept its benchmark repurchase rate at 4.00% when policy makers met on October 8. In the accompanying press release, Governor Shaktikanta Das stated that the RBI's "stance remains accommodative as long as necessary to revive and sustain growth." Policy makers noted that the economic recovery is gaining momentum, supported by lower virus cases and a robust vaccination pace. Despite the RBI's pledge to remain accommodative, the RBI surprisingly suspended its government securities acquisition program (G-SAP) while noting that the RBI will remain flexible to conduct further operations when warranted by economic conditions. The RBI's FY2022 (April 2021 to March 2022) inflation forecast was revised down to 5.3% from 5.7% while the GDP growth forecast for FY2022 was maintained at 9.5%. Growth in the services-providing sector slowed in September as the Markit services PMI fell to 55.2 from 56.7 in August.