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GLOBAL ECONOMIC HIGHLIGHTS

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September's Big Drop in U.S. Auto Assemblies Weighed on Third Quarter GDP

UNITED STATES: The services sector looks to be growing rapidly and driving solid job growth in October, but supply chain bottlenecks continue to hold back manufacturing. The Markit services PMI for the United States rose to a robust 58.2 in the October flash estimate from 54.9 in September, with faster increases in new work, and hiring accelerating to the fastest since June, a month in which the U.S. added 962,000 nonfarm payroll jobs. But the manufacturing PMI dipped to 59.2 from 60.7 and would have fallen further if not for a new record high in supplier delivery delays. Growth of output and new orders slowed in October from September.

Industrial production fell 1.3% in September from August, with August revised to show a 0.1% decline from a 0.4% increase in the prior report (the current release also revised up activity in June and July). The auto industry was the drag again, with the annualized assembly rate for autos and light trucks plunging to a seasonally-adjusted 7.51 million units from 8.55 million in August; with the exception of the shutdown in the spring of 2020, September was the worst month for auto assemblies since 2010. Output of other durable goods rose on the month. Mining production fell 2.3% and utilities fell 3.6%.

Initial claims for unemployment insurance (UI) fell 6,000 the week ending October 16 to a seasonally-adjusted 290,000, a new recovery-to-date low; claims in the prior week were revised up 3,000. 2.481 million people received regular state benefits in the week ending October 9, down 122,000 on the week. Recipients of benefits in all unemployment programs fell 370,000 in the week ended October 2 to 3.279 million (not seasonally adjusted). Several weeks have passed since the expiration of enhanced UI benefits, so the decline in continued and especially initial claims in October is a sign that the labor market continues to heal. Between the Markit services PMI (the service sector accounts for 85% of U.S. employment) and unemployment claims, job growth in October is likely running considerably faster than in August and September, when payrolls averaged monthly increases of just 280,000.

The advance estimate of real GDP in the third quarter of 2021, to be released October 28, will likely show growth slowing to 2.8% in seasonally-adjusted annualized terms from 6.7% in the second quarter; supply chain disruptions slowed economic activity in the quarter, as demonstrated by the September industrial production report. The October 29 release of personal income and expenditures for September will likely show income down 0.3% on the month on the expiry of enhanced UI benefits, with consumption expenditures up 0.7%.

CHINA: The sectoral breakdown of the GDP report for the third quarter of 2021, released several days after the preliminary estimate, confirms the drag on output from the real estate downturn, rolling lockdowns, and power shortages. Behind the slowdown of headline real GDP growth to 4.9% in the third quarter from 7.9% in the second, activity in the construction industry outright contracted 1.8% on the year after growing 1.8% in the second quarter, and the real estate industry contracted 1.6% after growing 7.1% in the same terms. Growth of hotel and catering services dropped sharply to 5.7% from 17.1%, also in the same terms, though some of this apparent slowdown reflects the comparison to the sector's rapid recovery in the second half of 2020. Growth in the manufacturing industry slowed sharply to 4.6% from 9.2%. The tech sector, comprising an eighth of China's economy, continues to be the fastest growing part, with sectoral real value added up 19.3% from a year earlier in the first three quarters of 2021.

EUROZONE: The European Central Bank already committed in September to a "moderately lower" pace of asset purchases under the Pandemic Emergency Purchase Program in the fourth quarter of 2021 than in the second or third quarters of the year, so the central bank's October 28 Governing Council decision should be a snoozer. ECB President Lagarde is likely to reiterate that the Bank will keep its monetary policy looser for longer than the Fed or Bank of England. The Markit services PMI for the Eurozone fell to 54.7 in the October flash release from 56.4 in September, and the manufacturing PMI fell to 53.2 from 55.6 and was the lowest since June 2020. Auto supply chain issues weighed on the manufacturing PMI. Consumer confidence edged down to -4.8 in the October advance release from -4.0 in September; consumer confidence has been little changed since May, but still much better than in 2020 and higher than the 2019 average of -7.0.

UNITED KINGDOM: The Confederation of British Industry's Optimism Index fell sharply to 2 in October from 27 in October and a recovery-to-date high of 38 in April; its April 2020 low was -87. Bank of England Chief Economist Hugh Pill said in an interview published October 21 that the Bank's November 4 decision was "live," meaning that the Bank could raise its policy Bank Rate at the decision. Financial markets price in roughly three-in-five odds of a hike at the November 4 decision, and imply markets expect the Bank Rate to rise to 1.0% by September 2021. The Markit/CIPS services PMI for the UK rose to 58.0 in the October flash release from 55.4 in September, but the manufacturing PMI fell to 50.6 from 52.7 and was the lowest since February.

MEXICO: CPI inflation accelerated to 6.0% in year-ago terms in September from 5.6% in August; core inflation rose to 4.9% from 4.8%, and non-core inflation jumped to 9.4% from 8.1%. The Bank of Mexico will likely hike its policy interbank rate a quarter percentage point to 5.00% at its next scheduled decision November 11, a week after the Fed is expected to announce the beginning of the taper of its QE programs at its November decision.

JAPAN: The Bank of Japan is expected to hold its monetary stance unchanged at its October decision, which will be announced late the night of October 27 in U.S. time zones. The Jibun Bank services PMI rose to 50.7 in the October preliminary estimate from 47.8 in the September release and was above the 50 demarcation, indicating expansion, for the first time since January 2020. The Jibun bank manufacturing PMI rose to 53.0 from 51.5, with the employment sub-index indicating the fastest hiring since April 2019. Japan lifted its state-of-emergency at the beginning of October, allowing the recovery to accelerate.

CANADA: Retail sales rose 2.1% in August, slightly above consensus expectations for 2.0%, following an upwardly-revised 0.1% fall in July. Retail sales likely fell 1.9% in September, according to a preliminary estimate by Statistics Canada. Retail sales have been volatile this year mainly due to the multiple shutdowns, but should improve through year-end and into early 2022. Housing starts slowed, falling to 251,200 annualized units in September from an upwardly revised 262,800 units in August. The Teranet-National House Price Index™ jumped 17.3% in September from twelve months earlier. Low borrowing costs, remote work and strong consumer balance sheets have supported housing demand, while acute supply challenges have been exacerbated by strong demand for housing during the pandemic. Despite high inflation readings recently, PNC Economics expects the Bank of Canada to stick to the previous forward guidance when policy makers meet on October 27. The BOC will likely taper QE weekly purchases further to C$1 billion from C$2 billion, and leave the policy interest rate unchanged.

BRAZIL: Brazilian assets plunged on reports that the government will breach its spending cap rule to fund the new welfare program, Auxilio Brasil. The Bovespa stock index plunged around 4% while the real fell around 1% from Oct 19th to Oct 22nd. Auxilio Brasil would include monthly payments of at least 400 reais ($70) to beneficiaries and replace Bolsa Familia, which provided monthly payments of 190 reais ($33). The spending cap rule limits growth in government spending to the previous year's inflation rate. Brazil's fiscal health has deteriorated over time, primarily driven by a problematic pension system which was reformed in 2019, and net public debt is 82.7% of GDP, near the February 2021 peak of 89.4%. With fiscal concerns worsening and a double-digit inflation rate, PNC Economics expects Brazil's central bank to increase the benchmark Selic rate by a full percentage point from 6.25% to 7.25% at the next scheduled monetary policy decision on October 27.