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GLOBAL ECONOMIC HIGHLIGHTS

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FOMC Tapers QE Programs As Expected; Faster U.S. Job Growth in October, While Canada's Jobs Report Disappoints

UNITED STATES: As expected, the Federal Open Market Committee announced that the central bank will soon begin to reduce its purchases of long-term assets at the November 3 policy decision. The initial schedule is somewhat more aggressive than expected: The FOMC will implement two rounds of reductions in central bank asset purchase by the end of December. Prior to the November decision, those monthly purchases were $80 billion of long-term Treasurys and $40 billion of mortgage-backed securities. They will decline to $70 billion and $35 billion, respectively, "later this month," and to $60 billion and $30 billion, respectively, "beginning in December." According to their statement, "similar reductions in the pace of net asset purchases will likely be appropriate each month, but [the FOMC] is prepared to adjust the pace of purchases if warranted by changes in the economic outlook." At this pace, the asset purchases would wrap up in mid-2022. PNC forecasts for the Fed to start raising the Federal Funds rate in late 2022.

Hiring picked up solidly in the October jobs report, but labor force participation continues to disappoint. The economy added 531,000 nonfarm payroll jobs, better than the 450,000 consensus forecast; payroll job growth in August and September was revised up by a net 235,000. Details of the payroll survey were positive. Job growth was strong in manufacturing, construction, leisure and hospitality, professional and business services, health services, and transportation and warehousing. Public employment fell 73,000 mostly due to a 65,000 decline in state and local education jobs, partially offset by a 59,000 upward revision to September's losses. The unemployment rate fell to 4.6% from 4.8%. Employment in the survey of households (different from the survey of employers) rose by 359,000, and the labor force increased 104,000. But after its 183,000 fall in September, October's modest increase left the labor force below its August level. The labor force participation rate—the share of adults either working or looking for work—was unchanged on the month at 61.6%. It is well below the rate of above 63% in early 2020.

The ISM services PMI jumped 4.8 percentage points to a new all-time high of 66.7% in October, the fourth all-time high this year. Three of the four components used to calculate the index rose in October, with business activity/production and new orders both reaching all-time highs. Supplier deliveries rose to 75.7%, indicating another worsening of delivery delays. The employment component fell to 51.6% from 53.0%. Construction spending fell 0.5% in September, with private residential spending down 0.4%, private nonresidential spending down 0.6%, and public spending down 0.7%. Construction costs paid by all businesses, in the separately-released producer price index, jumped 2.1% on the month in September and rose 7.4% on the year. Construction costs of new single-family houses rose 0.9% on the month and 13.4% on the year, while multifamily construction costs rose 0.4% on the quarter in the third quarter and 0.1% on the year (they are not reported in monthly terms). The trade deficit in goods and services rose to a new record high in September: Exports fell $6.4 billion to $207.6 billion, while imports rose $1.9 billion to $240.9 billion. More than three quarters of the monthly drop in exports was due to lower shipments of precious metals and petroleum products. U.S. importers have been scrambling to restock retail shelves ahead of the holiday shopping season, and the turmoil in global supply chains has added to demand as businesses tried to build precautionary inventories; this is raising imports.

The November 9 release of the October producer price report will likely show a 0.7% increase from September, with higher prices of gasoline, airfares, new and used cars, and lodging; the CPI report to be released November 10 will likely show total CPI up 0.7% on a more than 5% increase in gasoline prices; core CPI likely rose 0.5% on higher prices of used cars, airfares, and lodging.

CANADA: A disappointing 31,200 jobs were added in October, undershooting consensus expectations for 41,600. Employment increased 0.2% from September. That would be equivalent to job growth of 247,000 in the U.S. The unemployment rate fell to 6.7% in October from 6.9% in September; it was below 6% before the pandemic. October was the fifth straight month of job gains but the weakest month of job growth since the recovery began in May 2020. The labor force shrank by 25,000 and the labor force participation rate declined to 65.3% in October from 65.5% in September, which matched the pre-pandemic rate. Canada's labor force participation rate has rebounded faster than the U.S.'s. With October's report, Canadian employment is now about 30,000 higher than the pre-crisis level.

Growth in the manufacturing industry improved as the Markit manufacturing PMI rose to 57.7 in October from 57.0 in September; the Markit manufacturing PMI has been above 50 since July 2020. Building permits rose 4.3% in September from August following an upwardly revised 2.0% fall in August; building permits are 20.4% above the pre-crisis level.

EUROZONE: Employment in the Eurozone is almost back to its pre-pandemic level. The unemployment rate fell to 7.4% in September from 7.5% in August and matched its level in February 2020, while the number of unemployed fell 255,000 on the month. Eurostat does not publish a monthly employment level to accompany its monthly jobs report, since much of the data for the monthly calculation is statistically imputed, but the report implies that Eurozone-wide employment was down just 14,000 from February 2020 in September, rounding error relative to the currency area's 163 million employed. But since Eurostat's statistical definitions consider workers on furlough to be employed; the data somewhat overstate how much the Eurozone's labor market has recovered.

UNITED KINGDOM: The Bank of England's Monetary Policy Committee voted seven to two to maintain the Bank Rate unchanged at 0.1% at their November 4 decision, matching PNC's forecast. In the press conference, Governor Andrew Bailey said the decision was essentially a coin toss between an immediate hike and waiting to raise rates in the near future. The Bank will almost certainly raise the Bank Rate to 0.5% at the next decision December 16, when they will finish tapering their asset purchase program.

In their November *Monetary Policy Report*, the Bank downgraded its forecast for real GDP growth in 2021 due to supply chain disruptions, but upgraded the outlook for 2022; they raised CPI inflation forecasts, to 4.3% in 2021 from 4.0% previously; the 2022 forecast rose to 3.4% from 2.5%; and the 2023 forecast to 2.2% from 2.0%. These changes largely reflect surging natural gas and electricity prices, which the BoE assumes will largely persist over its forecast horizon. By contrast, commodity futures imply energy prices will decline in 2022 and 2023, which would pass through to lower inflation than the Bank projects. With the UK enduring a large energy price shock and the Bank of England likely to raise rates by year end, the pound sterling OIS yield curve has begun to invert: Yields currently peak at the four-year maturity and are lower for longer maturities. A downward-sloping yield curve is a financial signal that recession risks have risen.

CHINA: Exports jumped 27.1% in year-over-year terms in October, down from 28.1% in September but better than the 22.8% consensus forecast; imports grew 20.6%, undershooting the 26.2% consensus forecast, and following growth of 17.6% in September. China's trade surplus in goods reached a new record high of $662.1 billion dollars in October. The surplus is the flip side of the record-high U.S. trade deficit; Chinese manufacturers are riding a wave of buoyant demand for consumer goods ahead of the holiday shopping season in the U.S. and Europe.

MEXICO: The Bank of Mexico will almost certainly raise their policy interbank rate 0.25 percentage point to 5.0% at their November 11 monetary policy decision; the Bank is raising Mexican rates to maintain a premium above dollar rates as the Fed withdraws stimulus from the U.S. economy.

AUSTRALIA: The Reserve Bank of Australia downgraded its 2021 GDP forecast from 4% to 3% in its Statement on Monetary Policy released on November 4. Additionally, policy makers expect stronger growth in 2022, and upgraded their GDP forecast from 4.25% to 5.5%. While strict lockdown measures resulted in a decline in economic activity in the third quarter, the RBA expects better domestic demand in the fourth quarter of 2021 and 2022 as the economy reopens and vaccination rates increase.

The service sector rebounded in October as the Markit services PMI rose to 51.8 from 45.5 in September. The Markit services PMI was above 50 from January to June, then fell below 50 in July, August and September following the announcement of new lockdown measures.

BRAZIL: Industrial output fell a worse-than-expected 0.4% in September from August, following a 0.7% decline in August. Industrial output has fallen in every month this year except January and May. The Markit services PMI rose slightly in October to 54.9 from 54.6 in September; the services PMI has been above 50 since June of this year.

INDIA: The services sector expanded for the third straight month as the Markit services PMI rose to 58.4 in October from 55.2 in September. The manufacturing sector also showed stronger growth in October with the Markit manufacturing PMI rising to 55.9 from 53.7. The manufacturing PMI has been above 50 in every month this year except June.

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