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GLOBAL ECONOMIC HIGHLIGHTS

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Inflation Overshot Expectations in October, but Will Slow in 2022 as China's Housing Slowdown Lowers Commodity Prices

UNITED STATES: The consumer price index for urban consumers (CPI-U or just CPI) ran hotter than expected in October as energy prices jumped. The CPI rose 0.9% in October from September after adjusting for seasonality, higher than the 0.6% consensus forecast. Energy surged 4.8% and accounted for over a third of the CPI's net increase. But other categories of prices rose rapidly, too: Food prices rose 0.9%; other goods prices rose 1.0%; and non-energy service prices rose 0.4%. CPI excluding food and energy or core CPI rose 0.6% after a 0.2% increase in September. From a year earlier, the CPI index rose 6.2% in October, the highest since 1990, when oil prices surged during the first Gulf War. The core CPI rose 4.6% in those terms, the largest increase since 1991.

The producer price index for final demand (PPI) rose 0.6% in October from September, matching the consensus forecast. Goods prices rose 1.2% on the month, accounting for over 60% of the aggregate index's monthly increase. A 6.7% jump in gasoline prices in turn accounted for a third of the month's increase in goods prices. From a year earlier, the final demand index rose 8.6%. An older aggregation of producer prices called the producer price index for all commodities jumped 22.2% on the year in October, the highest increase since the oil crises of the 1970s.

Inflation will likely stay high in November and December as tight inventories limit retailers' discounts during the holiday shopping season. After the turn of the year, the logistics industry should get a breather after the rush to stock holiday shelves ends, which will reduce shipping costs and goods shortages. Energy prices should fall by the spring as warmer weather reduces demand for heating fuels, and may fall earlier if high prices cause higher production. Spillover from China's housing downturn, described below, will likely weigh on prices of steel and other industrial commodities in the next six months, also slowing inflation in the U.S.

It is getting harder for the Fed to balance their dual mandate for stable prices and maximum employment. Most labor market indicators show the job market to be short of a full recovery, but inflation is far above target. The Fed would like to wait until more workers re-enter the job market and find jobs before starting to raise interest rates, but each upside surprise in inflation makes it harder to be patient. PNC forecasts for the Fed to make the initial Federal Funds rate increase of this cycle in December 2022, but risks to the forecast are skewed toward an earlier start.

Job openings fell to 10.438 million in September from 10.629 in August, and are down from a peak of 11.098 million in July. But even after the last few months' decline, job openings are 49% higher than in February 2020. A record 4.43 million workers quit their jobs in September, up from 4.27 million in August, according to the Bureau of Labor Statistics; the share of private nonfarm employees who quit during the month rose to a record high 3.4% from 3.3% in August. The University of Michigan's Consumer Sentiment Indicator fell to the lowest since 2011 in the November preliminary estimate, with shortages of consumer goods and high inflation weighing on sentiment.

PNC forecasts for the October retail sales report, to be released November 16, to show spending up 1.0%, modestly outpacing the month's increase in consumer prices. The October industrial production report, also to be released November 16, will likely show a strong 1.0% increase (unlike retail sales, industrial production is adjusted for inflation so this is a “real” number), with vehicle production supporting higher manufacturing.

CHINA: Monthly indicators were mixed in October, with retail sales and fixed asset investment weakening and manufacturing near stagnant, partially offset by a jump in mining output as China ramped up energy production to ease power shortages. Retail sales growth accelerated to 4.9% in year-over-year terms from 4.4% in September, but this reflects higher prices, not volumes—CPI inflation accelerated to 1.5% from 0.7%, so growth in the volume of goods sold through retail channels actually slowed. Investment in fixed assets in the year through October slowed to 6.1% from 7.3% in the year through October, and fixed investment in real estate slowed to 7.2% from 8.8% in the same terms. Floor space started in the first 11 months of 2021 was down 7.7% from the same period of 2020. Value added from manufacturing grew a weak 2.5% from a year earlier in October, little changed from September’s 2.4% increase.

Partially offsetting these headwinds, output from the mining industry jumped to 6.0% in year-ago terms from 3.2% in September. Accelerating production of coal, oil, and natural gas will help alleviate China’s energy shortages in coming months. Chinese coking coal futures plunged to the lowest since July on these data showing accelerating coal production and a double-digit contraction in steel production. Spillover from China’s housing slowdown will cool prices of steel, coal, and other industrial commodities in the next six months, calming the price pressures that have pushed inflation to multidecade highs around the world.

EUROZONE: The consumer recovery continues but energy shortages and supply chain issues are weighing on the industrial sector. Retail sales fell 0.3% in September, but September’s level was still above August’s in the prior report since August was revised to show a 1.0% increase (up from 0.3% in the prior report). The ZEW survey of investors’ expectations for euro area economic growth rose to 25.9 in November from 21.0 in October, but growth expectations are nevertheless the second lowest since April 2020. Industrial production fell 0.2% in September after a 1.7% decline in August; supply chain turmoil and expectations of energy shortages over the winter months, which will force some energy-intensive manufacturers to curtail activity, is weighing on manufacturing activity and sentiment.

UNITED KINGDOM: Monthly real GDP rose 0.6% in September, but August’s increase was revised down to 0.2% from 0.4% in the prior release and July was revised to a 0.2% decline from 0.1% previously. After September’s increase, real GDP is 0.6% below its February 2020 level. Services output rose 0.7% in September, while industrial production fell 0.4% on a 4.1% drop in the distribution of gas. Construction output rose 1.3%. In the first estimate for the third quarter as a whole, real GDP increased 1.3% (seasonally adjusted but not annualized), following a 5.5% increase in the second quarter and a 1.4% contraction in the first quarter when the government reinstated limits on activity during the winter wave of the pandemic.

MEXICO: As expected, the Bank of Mexico raised their policy overnight interbank rate 0.25 percentage point to 5.0% at their November 11 monetary policy decision. The Governing Board’s decision was a four to one vote, with one member dissenting in favor of holding the rate unchanged. The Bank is raising Mexican rates to maintain a premium above dollar rates as the Fed withdraws stimulus from the U.S. economy. The Bank raised its forecasts for total and core inflation through the end of 2022, reflecting the same inflationary pressures affecting the U.S., Canada, Europe, and the rest of the global economy.

Supply chain turmoil caused a drop in industrial production in September; it fell 1.4% after no change in August. Mining output rose 0.1% after three consecutive monthly declines; construction output fell 1.4%; manufacturing output fell 1.3%; and utilities output fell 1.1%. From a year earlier, industrial production rose 1.7%, while manufacturing production fell 0.5%, its first year-ago decline since February.

International tourism’s recovery remains even further behind that of the industrial sector. Real GDP from tourism rose 9.2% in the second quarter from the first, not annualized, but was still 21% below its level in the fourth quarter of 2019. 4.38 million international tourists visited Mexico in September, up 28% from the September 2020 level, but still down 38% from September 2019.

AUSTRALIA: Employment fell 46,300 in October, worse than consensus expectations for a gain of 50,000 jobs, as lockdowns and social distancing restrictions weighed on labor market activity. October marks the third straight month of job losses in Australia. The unemployment rate rose to 5.2% from 4.6% in the prior month. The labor force participation rate increased slightly to 64.7% from 64.5% in September but is still below the pre-crisis rate of 65.9%. The survey reference period for the employment report was September 26 to October 9. Lockdown measures which were reimplemented in August to contain Australia's delta outbreak were relaxed in late October, so the labor market should rebound in the near term.

BRAZIL: Retail sales fell 1.3% in September, following a downwardly-revised 4.3% decline in August, as accelerating inflation weighed on consumer purchases. Retail sales fell 5.5% in September on a year-over-year basis. According to the Central Bank of Brazil's weekly survey of professional forecasters, the median estimate for real GDP growth in 2021 was 4.9% in the November 5th survey, unchanged from the prior week, but down from 5% four weeks earlier. The median estimate for real GDP growth in 2022 was 1.0%, down from 1.2% in the prior week and 1.5% four weeks earlier.

INDIA: CPI inflation rose to 4.5% in October, higher than consensus expectations for 4.4%. The fuels and lighting category was the strongest driver of inflation in October, with prices rising 14.4% from a year earlier. Core inflation (excluding food, fuel, and light) registered at 6.2% in October, following a 5.9% reading in September. CPI inflation has remained within the RBI's 2% to 6% target since July but will likely accelerate in the coming months as higher energy prices and supply chain bottlenecks add upward pressures on inflation. Industrial production rose 3.1% in September, following a 12.0% increase in August.