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# GLOBAL ECONOMIC HIGHLIGHTS

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## Retail Sales and Industrial Production Beat Expectations in October; International Shipping Costs Are Coming Back Down

**UNITED STATES:** After disappointing growth in the third quarter, the economy is rebounding in the fourth, with better-than-expected retail sales and industrial production reports for October. Retail sales jumped 1.7% in the month, well above the 0.5% consensus estimate; growth in September was revised up a hair, too. Higher prices drove some but not all the increase; with CPI up 0.9% in the month, retail sales volumes were solidly higher, too. The solid increase in retail sales is reassuring given how consumer confidence has pulled back in recent months as inflation accelerated. Holiday sales will likely rise around 15% in 2021 from 2020. Most of that increase will come from higher volumes and not higher prices.

Details of the retail report were good, too. Sales of autos and parts rose 1.8% in October, the second straight month above 1%, after parts shortages weighed on auto production and sales over the summer. Sales at gas stations increased almost 4% mainly due to higher prices; gas prices rose 6.1% in the CPI report. Sales at electronics and appliance stores increased almost 4%, and building material sales rose almost 3%. Sales at nonstore retailers, primarily online sales, rose 4.0%. The only major segments where sales declined were clothing and accessories (-0.7%) and health and personal care stores (-0.6%). Restaurant sales were flat over the month; lingering concern about the pandemic and labor shortages were drags.

Industrial production increased 1.6% in October, more than double the consensus expectation for a 0.7% increase, and raising production above its pre-pandemic level. According to the Federal Reserve, about one-half of October's gain came from recovery from Hurricane Ida. There was also a big 11% jump in auto production as automakers made headway in resolving supply chain problems. Mining output rose almost 4% as the industry recovered from Ida. Utilities output was up more than 1% over the month. The September decline in industrial production was unrevised at 1.3%.

Recent housing data have been choppy but are likely to improve through year-end. Housing starts fell 0.7% in October, and Sept was revised to show a 2.7% decline, worse than the 1.6% drop in the prior report. Housing permits were a little better, rising 4.0%, but this was after a 7.8% drop in September (revised from 7.7%). By contrast, the National Association of Home Builders House Market Index rose to the highest in six months in November despite the persistence of supply chain problems and labor shortages.

**CHINA:** International ocean shipping costs are falling as the rush to stock U.S. retail shelves ahead of the holiday season slows. An index of the cost to ship a freight container from Shanghai to Los Angeles has dropped to the lowest since July in the last two weeks, although it is still double its May level. Shipping costs for bulk commodities like coal, iron ore, or grain have fallen to the lowest since April, though they are still near the top of their range between 2011 and 2019. Shipping costs will likely continue to fall as the seasonal slowdown in China-to-U.S. imports hits in the first quarter, and as energy shortages in Europe and China weigh on demand for industrial commodities over the winter months.

**EUROZONE:** The euro depreciated to its weakest since July 2020 in the week ended November 19 as covid cases reached new record highs in Germany, France, and the Netherlands; several European countries are reimposing lockdowns with varying degrees of stringency, which will weigh on service sector activity in the fourth quarter of 2021.

# GLOBAL ECONOMIC HIGHLIGHTS

**UNITED KINGDOM:** A strong jobs report covering the first month after the end of the UK's pandemic furlough program essentially seals the deal for a hike by the Bank of England at the December 16 Monetary Policy Committee decision. Monthly payroll employment rose 160,000 to 29.3 million in October, or around 0.5%; that would be equivalent in percentage terms to around three quarters of a million jobs added in the U.S. The single-month estimate of the unemployment rate fell to 4.0% for workers 16-64 in September and 3.9% for workers over 16, down from 4.5% for both groups in August. Financial markets price in a hike in the Bank of England's Bank Rate to 0.25% at the December decision from 0.10% currently, with subsequent hikes priced in that would raise the Bank Rate to 1.0% by the fall of 2022. This is a very hawkish assumption since the Bank Rate peaked in the last cycle at 0.75% (between 2018 and 2020).

**CANADA:** The CPI index rose 4.7% in October from a year earlier, the fastest increase since 2003, up from 4.4% in September. October marked the seven-straight month of inflation exceeding the Bank of Canada's 1%-to-3% target range. CPI inflation has accelerated in the past four months as supply chain constraints and high energy prices continue to negatively affect Canada's economy. Energy, transportation, and shelter prices drove the CPI's increase, as in the U.S.'s October CPI report. Energy prices were up 25.5% on the year, gasoline prices were up 41.7%, and transportation prices were up 10.1%. Prices increased 0.7% in October from September, the largest monthly increase since June 2020. The BOC continues to expect high inflation to be temporary but Governor Tiff Macklem stated in a Financial Times opinion piece on November 15 that the BOC would adjust its framework if they "end up being wrong about the persistence of inflationary pressures and how much slack remains in the economy."

Housing starts slowed in October, falling to 236,600 annualized units from a downwardly revised 249,900 units in September. The Teranet-National House Price Index™ increased 15.8% in October from twelve months earlier, a second straight month of slowing house price growth. House prices were unchanged on a month-over-month basis. House price growth has declined on a month-over-month basis in four out of the last five months. Retail sales fell 0.6% in September from August, better than expectations for a 1.7% decline, and following a 2.1% increase in August. Preliminary estimates from Statistics Canada showed that retail sales rebounded in October, increasing 1.0%.

**AUSTRALIA:** Growth of wages (hourly wages excluding bonuses) picked up in the third quarter as the wage price index rose 0.6% from the second quarter, following a 0.4% increase in the second quarter. Private sector wages rose 0.6% while public sector wages rose 0.5%. Annual wage growth accelerated to 2.2% in the third quarter from 1.7% in the second quarter. Annual wage growth is now back to the pre-crisis rate but still below the "above-3%" preferred by the Reserve Bank of Australia. The RBA forecasts annual wage growth to be around 3% at the end of 2023.

**MEXICO:** The Mexican statistical agency's flash monthly GDP (IGAE index) report showed a slowdown in October to 1.9% in year-over-year terms from 2.8% in September and 4.3% in August; the IGAE fell in month-over-month terms in August, and likely fell again in September as supply chain dislocation weighed on manufacturing. The final release of monthly GDP for September will be on November 25.

**BRAZIL:** The IBC-BR Economic Activity Index, a proxy for GDP, fell 0.3% in September from August, in line with consensus expectations, following a downwardly-revised 0.3% decline in August. The IBC-BR has fallen in three of the past five months. The IBC-BR was up 1.5% in the twelve months to September. Brazil's economy recovered to its pre-crisis level at the end of the first quarter of this year, but economic conditions have deteriorated subsequently. Sticky high inflation, a deteriorating fiscal outlook and high interest rates will weigh on economic growth in the fourth quarter. After double-digit inflation in the past two months, and facing a worsening inflation outlook, the Central Bank of Brazil will likely increase the Selic rate from 7.75% to 9.25% when policymakers meet on December 8.

**INDIA:** India's trade deficit improved to \$19.7 billion in October from \$22.6 billion in September. Exports rose 43.1% from a year earlier while imports rose 62.5%. Coffee, engineering goods and electronic goods drove exports as India's economy continues to benefit from a recovering global economy. Petroleum and crude oil products and silver drove imports. Prime Minister Narendra Modi announced a repeal of three farm laws on November 19 after a year of protests. The laws overhauled the way farm goods are sold, opening the



# GLOBAL ECONOMIC HIGHLIGHTS

agricultural market—in which a state-run wholesaler had subsidized farmers—to a system where non-government buyers would have determined the prices of farm goods.

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