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GLOBAL ECONOMIC HIGHLIGHTS

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U.S. Labor Market Improves Again in December Despite Weak Headline; Jobs Growth in Canada Exceeds Expectations

UNITED STATES: The headline for the jobs report disappointed in December, but the details were stronger. The economy added 199,000 nonfarm payroll jobs, well below the consensus expectation of 400,000. Job growth in November was revised up to 270,000, from the initially reported 210,000. Job growth in October was revised up to 648,000, from 546,000 in the prior report and 531,000 in the initial report. The unemployment rate fell to 3.9% in December from 4.2% in November on a 651,000 increase in employment as measured by the survey of households (different from the survey of employers' payrolls). The labor force—the number of people either working or looking for work in the household survey—rose by 168,000 in December, after an increase of 516,000 in November. The labor force has increased for three straight months, perhaps an indication that people are starting to return to the job market in larger numbers. The labor force participation rate—the share of adults either working or looking for work—was steady at 61.9% in December from November, but up from its 61.6% to 61.7% range between April and October. Labor force participation is still well below the 63% rate prior to the pandemic, but its increase at the end of 2021 is very encouraging, nonetheless. Through December, the labor market has recovered almost 19 million of the 22 million jobs lost in March and April of 2020 due to the pandemic.

Once again, the headline jobs number was disappointing, but once again, the details were much better. Big upward revisions to job growth in recent months, the strong number from the household survey, very low unemployment insurance claims, and results of other job market measures (ADP, the ISM surveys) indicate that job growth was much stronger in December than the initial payroll figure of 199,000 would suggest. As the numbers are revised over the next two months, reported December job growth is likely to be raised significantly. The biggest impediment to stronger hiring in late 2021 was a shortage of workers; although the labor force is gradually increasing, it is still down by more than 2 million from before the pandemic.

The decline in the unemployment rate in December, as well as strong wage growth, indicate that the job market is rapidly approaching full employment. With inflation well above the Federal Reserve's 2% objective and the labor market very tight, the Federal Open Market Committee is likely to raise the fed funds rate sometime in the second quarter of 2022. PNC is now forecasting three increases in the fed funds rate in 2022 of 25 basis points each, in June, September, and December; this is a change from the December 2021 forecast, which only had two 25 bps rate increases.

The minutes of the Federal Reserve's December 14 to 15 Open Market Committee meeting indicated a markedly more hawkish tone than the previous meeting on November 2 and 3. Participants in mid-December said that "inflation readings had been higher and were more persistent and widespread than previously anticipated." The participants also generally "agreed that risks to inflation were weighted to the upside." The median projection in the December Summary of Economic Projections ("dot plot") also showed a combined 75 basis point increase in the fed funds rate in 2022, 25 basis points more than even the most hawkish projection in the previous SEP, published in September.

The U.S. service sector expanded for the 19th straight month in December, but the pace of expansion was slower. The ISM services PMI fell from an all-time high of 69.1 to 62.0, worse than the consensus forecast for a decline to 67.0. The ISM manufacturing PMI also fell more than expected, to 58.7 in December from 61.1 in

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November. In both surveys, the supplier delivery components fell sharply from November, indicating that delivery delays were less widespread—the worst of the supply chain dislocations are likely past.

EUROZONE: Inflation hit a new record high in December according to preliminary data from the European Statistical Office. The total harmonized index of consumer prices (HICP) rose 5.0% on the year, up from 4.9% in November, and the core HICP excluding energy, food, alcohol, and tobacco remained unchanged at 2.6%. Energy prices were up 26.0% from a year earlier in December, down from 27.5% in November. The December flash services PMI edged down to 53.1 from 53.3 in November, and the manufacturing PMI remained steady at 58.0.

CHINA: Shimao Group Holdings Ltd. (China's 14th largest real estate developer by contracted sales) suffered its biggest-ever bond rout on January 6 after a unit of the company failed to pay 645 million yuan (\$101 million) of a total 792 million yuan payment (\$124 million) due by December 25. Shimao Group lost its investment-grade status as Fitch ratings and Moody's Investors Service downgraded the company deeper into junk territory. The Peoples Bank of China (PBOC) implemented easing measures on December 6 to bolster confidence amid a weak real estate sector (25% of GDP). Notwithstanding, the weak real estate sector will likely weigh on growth through at least mid-2022. The Caixin manufacturing PMI for China rose to 50.9 in December from 49.9 in November, while the services PMI rose to 53.1 from 52.1.

UNITED KINGDOM: The December flash Markit manufacturing PMI registered at 57.9, up from 57.6 in November, while the services PMI edged up to 53.6 from 53.2. The construction PMI dipped to 54.3 from 55.5.

CANADA: Employment rose 55,000 in December, more than double consensus expectations for a gain of 25,000. With December's gain, employment is now 1.3% above the pre-pandemic level. The U.S. equivalent of December's job growth would have been 421,000 jobs. Job gains were driven by the construction and educational services industries. Full-time employment rose 123,000 (0.8%) while part-time employment declined 68,000 (1.9%). The labor force participation rate remained unchanged at 65.3%. Canada's labor force surpassed the pre-crisis level in June 2021, thanks to a year of record immigration. After falling over 45% to 185,000 in 2020 when borders were largely closed, 401,000 foreigners were granted permanent residency in Canada in 2021. The unemployment rate edged down to 5.9% in December from 6.0% in November; it was 5.7% before the pandemic. December marks the seventh straight month of solid job gains in Canada. The data in the report were collected from December 5 to 11, so they reflect little impact from the omicron variant. Building permits jumped 6.8% in November from an upwardly-revised 2.5% in October. With November's gains, building permits are 33% above the pre-crisis level.

AUSTRALIA: The IHS Markit manufacturing PMI pulled back to 57.7 in the December flash estimate from 59.2 in November, and the services PMI remained unchanged at 55.1. With Omicron cases surging in early 2022, PNC Economics expects the Reserve Bank of Australia to taper bond purchases when central bankers meet on January 31st.

MEXICO: Minutes of the Bank of Mexico's December 16 meeting were hawkish, with policymakers showing concern about inflation and rising inflation expectations. PNC Economics expects the Bank of Mexico to increase the policy rate by 0.5% again at the February 10 meeting; this will be the first meeting under the leadership of newly-appointed Governor Victoria Rodriguez Ceja. CPI inflation eased in December as prices rose 7.3%, following a 7.4% increase in November. The CPI index rose 0.4% in December from November, following a 1.1% increase in November.

BRAZIL: Industrial production disappointed market expectations in November, decreasing 0.2% following a 0.6% decline in October. The consensus expectation was for a 0.1% gain. November marked the sixth consecutive drop in industrial output. Industrial production is about 10% below the pre-crisis level and will likely remain weak in the near term due to further supply-side disruptions caused by the spread of the omicron variant. The IHS Markit manufacturing PMI remained unchanged at 49.8 in December, and the services PMI registered at 53.6, also unchanged from the prior month. The Central Bank of Brazil's weekly



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survey of professional forecasters showed the median estimate for real GDP growth in 2022 was 0.4% in the December 31st survey, unchanged from the prior week.

INDIA: India's economy is estimated to grow 9.2% on a year-over-year basis in the current fiscal year (April 2021 to March 2022) after contracting 7.3% in fiscal year 2021, according to the Central Statistics Office. The IHS Markit manufacturing PMI pulled back to 55.5 in December from 57.6 in November, and the services PMI fell to 55.1 from 58.1.

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