Eurozone Inflation Hits Double-Digit Record in September

Eurozone: Inflation accelerated to double digits in September as the Euro area grapples with an energy crisis and supply-chain disruptions. Annual inflation, as measured by the Harmonised Index of Consumer Prices (HICP), accelerated to 10% in September from 9.1% in August. Inflation in September was driven by a surge in volatile energy and food prices. Annual HICP inflation has accelerated for five straight months. Energy prices rose 40.8% in September from a year ago while food, alcohol and tobacco prices rose 11.8%. On a month-over-month basis, the HICP index rose 1.2% in September. Annual core inflation (excluding energy, food, alcohol, and tobacco) accelerated in September to 4.8% from 4.3% in July.

The unemployment rate was unchanged at the record-low 6.6% in August from July, according to the European Union’s statistics agency, Eurostat.

United Kingdom: The Bank of England (BOE) issued a statement on Wednesday following the fallout from the announcement of the “mini-budget” stating that it would carry out temporary purchases of long-dated U.K. government bonds (gilts) from September 28 to October 14. The BOE also postponed the beginning of gilt sale operations until October 31.

The U.K. prime minister, Liz Truss, and Chancellor of the Exchequer, Kwasi Kwarteng met with Office for Budget Responsibility (OBR) officials on Friday amid the fallout from the announcement of the “mini-budget,” according to Bloomberg. The OBR is an independent public body established by the U.K. government to provide analyses of the government’s public spending.

The U.K. economy grew 0.2% in the second quarter of this year from the first quarter, up from a 0.1% decline in the first estimate, according to the Office for National Statistics (ONS). The U.K. economy contracted 30% in the first half of 2020 after the pandemic started and it has not recovered fully from the Viral Recession. GDP in the second quarter of this year was 0.2% below the pre-crisis level.

Consumer confidence, as measured by the Growth from Knowledge (Gfk) barometer, fell in September to the lowest level on record.

The U.K. economy continues to struggle with the economic aftershocks of Brexit, the pandemic, and the Ukraine invasion. Rising inflation has led to a cost-of-living crisis while Brexit-related labor shortages and reduced trade openness are medium- to long-term challenges for the economy.

United States: The annual update of national economic accounts by the Bureau of Economic Analysis showed that real gross domestic income (GDI) was revised down in the first half of this year, but real gross domestic product (GDP) was unrevised. The revisions to real GDI came primarily from new information on wages and salaries from unemployment insurance. Theoretically real GDP and real GDI should be equal, but because they are measured in different ways, there are discrepancies. The divergence between the two measures was unusually large in the first half of 2022, and now some of the discrepancy has been lessened with the downward revisions to real GDI. The revisions also showed stronger real GDP growth in 2020 and 2021.
Nominal personal income grew 0.3% in August from July, in line with consensus expectations. Nominal consumer spending increased 0.4%. Household goods spending fell 0.5% and spending on services was up a strong 0.8%. The personal consumption expenditures (PCE) price index, the Fed’s preferred gauge of inflation, rose 0.3% in August from July, after falling 0.1% in July. The core PCE price index, excluding food and energy prices, rose a strong 0.6% in August; it was flat in July. On a year-over-year basis, PCE inflation was 6.2% in August, a slowing from 6.4% in June. Core PCE inflation was 4.9% in August, up from 4.7% in July.

House price appreciation, as measured by the S&P CoreLogic Case-Shiller National Composite Index, decelerated in July to 15.8% from 18.1% in June. The S&P CoreLogic Case-Shiller 20-City Index recorded a 16.1% gain in July versus July 2021, down from 18.7% in June. The housing market slowdown continued in July as rising mortgage rates and deteriorating affordability weighed on demand. The average 30-year fixed mortgage rate has risen sharply in 2022, increasing from around 3% in January to over 7% last week.

The advance nominal-goods trade deficit in August narrowed to the lowest level since October after peaking in March 2022. The goods trade deficit fell 3.2% to $87.3 billion last month from an upwardly-revised $90.2 billion in July, according to data from the U.S. Department of Commerce. Imports of goods and services will likely decline significantly in the near term as the Fed continues its unwavering fight against stubborn inflation by aggressively raising the fed funds rate. Exports should improve as supply chains ease, but a slower growing global economy is a downside risk. Supply chains have improved this year due to weaker demand for goods and services; the price of shipping one 40-foot container from Shanghai to Los Angeles dropped last week to the lowest level since August 2020. With the narrowing in the goods trade deficit in July and August, trade will likely be a tailwind for GDP growth in the third quarter of this year.

Initial unemployment claims fell 16,000 to 193,000 in the week ending September 24, its lowest level since late-April. The 4-week moving average of initial claims, which smooths out weekly fluctuations, fell 9,000 to 207,000 again the lowest level since late-April. Continuing claims fell 29,000 to 1.347 million in the week ending September 17. The 4-week moving average fell 23,000 to 1.381 million, the lowest level since late-July. The insured unemployment rate stayed at 1% for the fifteenth straight week. Such a low level of continuing claims shows that workers who get laid off can quickly find another job in the still very tight job market. Hurricane Ian will likely distort initial unemployment claims in the weeks ahead.

PNC forecasts for the Bureau of Labor Statistics’ September report to show nonfarm payroll employment up 315,000 on the month, the unemployment rate edging down to 3.6%, and average hourly earnings up 5.2% from a year earlier.

**JAPAN:** Industrial output grew 2.7% in August from July, beating consensus expectations for a 0.2% increase, and following a 0.8% increase in July. After declining in April and May, industrial production rose in June, July and August as lockdowns eased in China and manufacturing activity improved.

Retail sales grew 1.4% in August from July following a downwardly-revised 0.7% increase in July. Industrial output and retail sales are now above their pre-pandemic levels.

**CHINA:** The CFLP manufacturing PMI rose a bit to 50.1 in September from 49.4 in August. The privately compiled Caixin manufacturing PMI fell to 48.1 in September from 49.5 in August and has been contractionary for six of the last nine months. The CFLP non-manufacturing PMI fell to 50.6 in September from 52.6 in August and was the weakest since May. PMI readings over 50 indicate growth while readings below 50 imply contraction.

**CANADA:** Economic activity improved slightly in July as real GDP grew by a small 0.1% in July from June, the second consecutively monthly gain, following a 0.1% increase in June. GDP grew 4.3% in July from a year ago. The details of the July GDP report showed a 0.5% increase in output in goods-producing industries and a 0.1% contraction in services-producing industries.
The Canadian economy benefitted from a surge in energy prices during the summer, but economic activity will likely remain subdued during the winter months as the Bank of Canada continues its aggressive hiking cycle, global demand for Canadian exports weakens, and inflation remains elevated.