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GLOBAL ECONOMIC HIGHLIGHTS

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Better Than Expected U.S. Job Growth in February, But Still a Long Way from Recovered; ECB Set to Tamp Down Yields

UNITED STATES: Nonfarm payroll employment rose 379,000 in February, with a 38,000 net upward revision to job growth in December and January; the net payroll change (growth plus revisions) was more than double the consensus forecast of 200,000, but not great considering the huge number of people still not re-employed after job losses in early 2020. As of February, nonfarm payroll employment was still 9.5 million jobs below the pre-crisis level. At the 125,000 average rate of the last four months, payroll employment would need nearly 7 years to recover to that level. By industry, February saw a 355,000 jump in leisure and hospitality jobs as the high-contact service sector made progress in reopening. This included job gains of 286,000 in food services and drinking places, 36,000 in accommodation, and 33,000 in amusements, gambling and recreation. Leisure and hospitality employment will surge in the rest of 2021 as the pandemic recedes, stimulus reaches consumers, childcare normalizes, and limitations on activities lift.

Outside of leisure and hospitality, February saw notable job gains of 53,000 in temp services, 41,000 in retail trade, 26,000 in social assistance, 21,000 in manufacturing and 20,000 in healthcare. The private industry with the most job losses in February was construction, with a 61,000 drop that was likely due to bad weather. Public employment fell 86,000 in February, mostly due to cuts in state and local education jobs. State and local government spending cuts were headwinds to the recovery in February, but this will almost certainly change after the next stimulus bill provides fiscal aid to state and local governments.

The unemployment rate dipped slightly to 6.2% in February from 6.3% in January; it was at a half-century low of 3.5% in February 2020. The U-6 unemployment rate, which includes persons marginally attached to the labor force (they want a job but have not actively sought one in the last four weeks), plus people working part-time who want to be full-time, was unchanged on the month at 11.1%.

The ISM manufacturing PMI rose to 60.8 in February from 58.7 in January, and the Markit manufacturing PMI rose to 58.6 from 58.5. PMI values above 50 indicate expansion and those below 50 indicate contraction. The ISM services PMI fell to 55.3 from 58.7, while the Markit services PMI rose to 59.8 from 58.9. In both the ISM manufacturing and services indices, the prices paid index was the highest since the 2008 oil price spike—suppliers are passing on higher prices of energy and other commodities.

EUROZONE: The European Central Bank will likely ease policy slightly by announcing faster purchases to be made under their Pandemic Emergency Purchase Programme (PEPP, or emergency quantitative easing) at their March 11 Governing Council decision. The ECB's emergency QE program is discretionary, meaning the Bank does not conduct purchases at a fixed monthly rate. Instead, purchases are calibrated to achieve "favorable financial conditions," meaning high stock prices and low interest rates. So far, the ECB has not precisely defined "favorable financial conditions," but several ECB policymakers have made clear in the last few weeks that the recent run-up in euro long-term interest rates makes financial conditions less favorable. The ECB will most likely announce faster purchases on March 11, with a directional goal of lowering, or at least holding stable, benchmark long-term rates. A less likely, more aggressive step would be for the ECB to set a formal target for long-term interest rates and make purchases to ensure rates are held to the target, a policy called "yield curve control."

High-frequency indicators remain consistent with a second quarterly contraction in real GDP in the first quarter of 2021. The Eurozone unemployment rate was 8.1% in January, unchanged from the downwardly-revised December level but better than in the prior release when it was reported as 8.3%. Eurozone labor market data do not count furloughed workers as unemployed and so are not comparable to U.S. data. Retail sales plunged 5.9% in January from December. After a V-shaped recovery in the summer and fall of 2020, the Eurozone's winter lockdowns have sent retail sales down 9% from their October 2020 peak.

Eurozone HICP consumer prices rose 0.9% from a year earlier in February, unchanged from January, and core HICP inflation excluding food, energy, alcohol and tobacco slowed to 1.1% from 1.4%. Both total and core inflation rose from near zero in late 2020 to around one percent in early 2021 as Germany ended a temporary reduction in the VAT tax (a kind of sales tax). Total inflation will rise in coming months due to higher energy prices and the year-over-year comparison with the crisis of early 2020, but the ECB will look through this temporary uptick; trend inflation will weaken again in late 2021 and 2022 after the supply chain dislocations caused by the pandemic and sudden swings in consumer behavior are resolved. The Markit services PMI for the Eurozone was revised up to 45.7 in the February final release from 44.7 in the flash estimate, and was up a hair from 45.4 in January—the PMI still pointed to a net contraction of the service sector during the month. The Markit manufacturing PMI was revised up a hair to a robust 57.9 in the February final estimate, up from 54.8 in January to the highest in nearly three years.

CHINA: The Caixin manufacturing PMI dipped to 50.9 in February from 51.5 in January, and the CFLP manufacturing PMI to 50.6 from 51.3. The Caixin services PMI dipped to 51.5 from 52.0, while the CFLP non-manufacturing PMI fell to 51.4 from 52.4. Chinese PMI surveys are less reliable at the start of the year due to the effect of the Lunar New Year holiday, which shifts from year to year in the Gregorian calendar and distorts year-over-year comparisons. The story from China's foreign trade data is quite a bit more upbeat than the PMIs. Exports jumped 60.6% in year-over-year terms in January and February combined, and imports rose 22.2%. The year-over-year comparison against an economy in crisis in early 2020 obscures the underlying trend, so a comparison to two years earlier is helpful: Chinese exports in January and February 2021 were up 33% in dollar-denominated terms from the same period in 2019.

CANADA: Canada's recovery lost momentum in December with economic output increasing at the slowest pace since the recovery began in May. Real GDP edged up 0.1% in December after a 0.8% expansion in November. Real GDP expanded at a 9.6% annualized rate in the fourth quarter following an upwardly-revised 40.6% annualized rebound in the third quarter. The fourth quarter GDP report's details were solid. Consumption rose a modest 1.7%, investments jumped 9.6% while exports and imports rose 5.0% and 10.8% respectively. After shrinking 5.4% in 2020, economic activity will recover rapidly in 2021 due to substantial fiscal stimulus, an astonishingly strong residential housing sector, a revival of global demand for commodities, and a stronger outlook for the U.S. economy.

PNC Economics expects the Bank of Canada to keep its monetary stance unchanged and hold benchmark interest rates at the current near-zero level when central bankers meet on March 10; the BOC will hold off on raising interest rates until economic slack is fully absorbed, which will be a couple of years down the line. After losing about 270,000 jobs in December and January, PNC Economics forecasts for Canada's February jobs report, to be released March 12, to show an 80,000 net increase in employment, with the unemployment rate edging down to 9.3% from 9.4% in January.

UNITED KINGDOM: The Markit/CIPS services PMI was revised down slightly to 49.5 in the final release for February from 49.7 in the flash estimate, but was still much improved from January's 39.5. The construction PMI also rose, to 53.3 from 49.2. The manufacturing PMI was revised up to 55.1 in the February final release from 54.9 in the flash estimate and 54.1 in January. The headline manufacturing PMI paints a deceptively upbeat picture of British manufacturing, since the PMI is designed to take supplier delivery delays as a sign of high capacity utilization and strong demand. However, February's supplier delivery delays were caused by Brexit and the pandemic and hold negative implications for the growth outlook.

The UK's 2021-22 budget anticipates a budget deficit of 10% of GDP this fiscal year, down from 17% last year but still very elevated. The UK budget includes plans to raise corporate taxes in 2022 and 2023 and tighten fiscal policy as the recovery matures, but the government may delay or cancel these tax hikes in a future budget.

In Northern Ireland, a unionist paramilitary group has withdrawn support for the Good Friday agreement, the agreement that ended Northern Ireland's sectarian conflicts, in protest against the imposition of barriers on trade with the British mainland after Brexit. Either Northern Ireland, Scotland, or both could conceivably separate from the UK in coming years due to fallout from Brexit. About a tenth of the UK's population lives in the two territories.

INDIA: The global recovery is gaining traction in India too. The Markit manufacturing PMI for India dipped slightly to 57.5 in February from 57.7 in January, after rising for two straight months, but the Markit services PMI rose for a second straight month, and rose by more, to 55.3 from 52.8.

BRAZIL: Brazil's recovery slowed in the fourth quarter of 2020 with real GDP rising 3.2% (seasonally adjusted but not annualized) from the previous quarter following a 7.7% expansion in the third quarter. The details were solid; household consumption rose 3.4% thanks to record-low interest rates and pandemic-related fiscal stimulus of nearly 8% of GDP, government consumption expenditures rose 1.1%, investment jumped 20.0%, imports rose 22.0% while exports fell 1.4%. Overall, Brazil's economy shrank 4.1% in 2020, the largest yearly drop since comparable data began in 1996.

The Markit manufacturing PMI for Brazil rose for the first time in four months in February, to 58.4 from 56.5 in January. But the service sector remained in contractionary territory as the services PMI was little changed at 47.1 in February after 47.0 in January.

A second wave of the virus, government debt challenges and the expiration of fiscal stimulus in December of last year will keep economic conditions soft in the near term. Economic activity should pick up in the second half of 2021 as more fiscal stimulus is passed and vaccines are distributed. Risks to the economic outlook are still to the downside due to the spread of more transmissible variants of the virus, the crumbling real which could weigh on investor confidence, and a stalling reform agenda which could negatively affect medium to long-term growth prospects.

MEXICO: Mexico is another emerging market where the recovery is gaining traction in early 2021. The Markit manufacturing PMI for Mexico rose to 44.2 in February from 43.0 in January and was the strongest since last March. Similarly, the business confidence surveys compiled by Mexico's statistical agency INEGI, including separate indices for manufacturing, wholesale and retail trade, and construction, all hit recovery-to-date highs in February.

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