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## GLOBAL ECONOMIC HIGHLIGHTS

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## April Jobs Reports Disappoint in U.S. and Canada; Bank of England Slows QE Program

**UNITED STATES:** The April jobs report was a huge disappointment. The economy added just 266,000 jobs, far short of expectations of around a million; the BLS also revised down job growth in February and March by a net 78,000. The unemployment rate ticked up to 6.1% from 6.0% as the labor force increased by 430,000, employment (measured by the household survey, separate from the survey of employers) rose 328,000, and active jobseekers a.k.a. "official unemployment" rose by 102,000. Employment was down 92,000 or 1.4% on the month among women between 20 and 24 years old; down 118,000 or 0.4% among women over 45; and down 55,000 or 0.2% among men over 45.

The jobs report suggests that shortages of intermediate inputs are hampering the recovery. Employment in motor vehicle and parts manufacturing fell 27,000; semiconductor shortages have forced several major manufacturers to idle factories. Employment was flat in construction; surging lumber prices are causing problems for this industry despite buoyant housing demand. There were also substantial job cuts in sectors that boomed in the stay-at-home economy: Courier and messenger employment fell 77,000; food and beverage store employment fell 49,000; and big box store employment fell 7,000. Other job losses were more puzzling. Temp jobs fell 111,000. There was a 20,000 drop in private education jobs, although a 37,000 increase in state and local public education jobs more than offset it; private daycare employment rose 12,000. Nursing care facility employment fell 19,000 on the month and is down 203,000 or 13% from February 2020.

Leisure and hospitality was a bright spot. Employment rose 331,000 as consumers felt more comfortable eating out and stimulus fueled discretionary spending. Employers are paying up to attract workers; average hourly earnings in leisure and hospitality jumped 1.6% on the month to \$17.88 and are up 6% from February 2020. Average weekly hours for all leisure and hospitality workers rose to the highest since comparable data began in 2006. Average hourly earnings of all private sector workers rose 0.7% on the month to \$30.17.

The jobs report was puzzling since other early indicators for April were quite strong. The ISM manufacturing PMI dipped on the month to 60.7 from 64.7 in March but was still in the 98<sup>th</sup> percentile of all readings over the last 30 years; the ISM services PMI dipped to 62.7 from 63.7, but was still the second strongest in the survey's nearly 24 year history. The Markit manufacturing and services PMIs rose in April and were the strongest in each survey's history; Markit's services survey began in 2009 and their manufacturing survey in 2007. Payroll processing company ADP's estimate of private payroll employment was substantially stronger than the government's, showing a 742,000 monthly net increase. And initial claims for unemployment insurance fell to a new recovery-to-date low of 498,000 in the week ended May 1; for reference, initial claims were under 225,000 in early 2020, peaked at over 6 million in April 2020, fell for several months, then stabilized between 700,000 and 900,000 between August and February. Over the last few weeks, initial claims have trended lower; the four-week moving average of initial claims fell to 560,000 in the week ended May 1, down 61,000 from the prior week.

The April CPI report, to be released May 12, will likely show a 0.2% monthly increase, with the year-over-year increase accelerating to 3.6% from 2.6% in March as the base comparison shifts to the trough of prices in April 2020. PNC forecasts for the April retail sales report, to be released May 14, to show a 2.0% monthly increase, fueled by reopening and high savings. The April industrial production report will likely show a scant



0.1% increase, held back by a 0.2% decline in manufacturing output due to the semiconductor shortage idling auto plants.

**UNITED KINGDOM:** The Bank of England (BoE) announced they would slow the pace of asset purchases (a.k.a. quantitative easing) at their May 6 monetary policy decision. Weekly purchases of gilts (government bonds) will slow by £1 billion pounds sterling to £3.44 billion weekly beginning May 10 from the £4.44 billion weekly pace maintained since August 2020; the BoE plans to continue at the new slower pace through the week of August 2. The BoE insisted that their decision was not a taper of their quantitative easing program, since the target for government bond purchases is unchanged at £875 billion pounds; the BoE expects to end the program by the end of 2021, implying that they will slow purchases again in August. But whether it's a "taper" or just a "reduction," the Bank of England is clearly moving to normalize monetary policy and end quantitative easing by the end of 2021. This is substantially faster than the Federal Reserve, which PNC forecasts will only start tapering its QE program in early 2022.

The BoE upgraded its economic forecasts; the BoE projects that the economy contracted 1.5% in the first quarter of 2021 (not annualized) after no change in the fourth quarter of 2020, and that economic output in early 2021 was "around 9% below its 2019 Q4 level." The Bank projects strong growth in the second quarter, but that would nevertheless leave real GDP 5% below its pre-crisis level. The BoE also upgraded its forecast for the unemployment rate and has it peaking at 5.2% in the second quarter of 2021 versus 7.7% in the prior round of forecasts; the UK's definition of the unemployment rate does not include furloughed employees.

Local elections held on May 6 demonstrated how Brexit has deepened the political divides between England and the rest of the UK. The Tories (Conservatives) dominated in England, with strong showings in local councils that demonstrate that English support for the party that delivered Brexit remains strong. But parties supporting Scotland's independence from the UK beat the Tories to maintain a majority in the Scottish parliament; opinion polls showed a majority of Scots opposed Brexit prior to the 2016 election. Scotland held an independence referendum in 2014 in which one of the major arguments against independence was that the UK was an EU member, and independence would take Scotland out of the EU. The next Scottish government will argue that the May election is a mandate for another referendum on Scottish independence; the UK government in London can probably prevent this from happening in the near term, but tensions with Scotland will persist over the next few years.

**CANADA:** Employment fell 207,100 in April, a 1.1% decrease—the same percentage decline in U.S. employment would be 1.7 million jobs. This was considerably worse than the consensus forecast for a 150,000 loss. The unemployment rate jumped to 8.1% from 7.5% in March; it was below 6% before the pandemic. 94% of April's job losses were in the service sector as restrictions were reimposed in many provinces. 74% of jobs lost were in Ontario. Canada's labor market will likely remain weak in the near term as many provinces remain under lockdowns. Ontario's lockdown ends on May 20 and the labor force survey is usually conducted around the third week of every month, so there will likely be job losses reported again in May. Roughly 38% of the Canadian population has received at least one dose of a vaccine as of May 9, lagging the U.S. where around 50% have had at least one dose. Building permits rose 5.7% in March from February following an upwardly-revised 3.1% increase in February; March's increase was much better than consensus expectations for a 1.5% increase. Building permits are up 45% from a year earlier. The Markit Canada manufacturing PMI dipped to a still strong 57.2 in April from March's all-time high of 58.5.

**CHINA:** Exports jumped 32.3% from a year earlier in April, up from 30.6% in March, while imports rose to 43.1% from 38.1% in the same terms. China's goods trade surplus was \$42.85 billion in April, down slightly from \$44.96 billion in April 2020 but up sharply from the \$13.07 billion surplus of April 2019. The pandemic has suppressed demand for imports and caused foreign demand for Chinese-made consumer goods to surge, pushing up China's trade surplus. Strong exports will fuel Chinese economic and income growth through the summer months, but demand for Chinese exports could slow sharply by year-end if the pandemic comes under control in developed economies and consumers there shift spending to domestically-produced services and away from made-in-China goods.

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**BRAZIL:** As expected, the Central Bank of Brazil's Monetary Policy Committee voted unanimously to raise the Selic policy rate to 3.50% from 2.75% when central bankers met on May 5. The accompanying policy statement was hawkish, with central bankers continuing to see the current tightening cycle as a "partial normalization of the interest rate." Headline inflation has overshot the central bank's target range in recent months and economic indicators are improving moderately; PNC Economics expects the BCB to continue the tightening cycle in June with another 0.75% hike in the Selic rate to 4.25%.

Industrial output dropped 2.4% in March from February, its second straight monthly decline. Industrial production is back to the pre-pandemic level, but with renewed lockdowns in many states and cities, industrial activity will likely be weak in the near term. Retail sales fell 0.6% in March, much better than the consensus forecast for a 5.1% fall. Retail sales will be supported by the new auxilio emergencial stimulus payments which are being distributed from May to July, but the rise in interest rates and surge in coronavirus cases will likely keep growth in retail sales flat to negative in the near term.

**EUROZONE:** The Markit manufacturing PMI was revised down to 62.9 in the April final release from 63.3 in the flash estimate, while the services PMI was revised up to 50.5 from 50.3. Retail sales rose 2.7% in March from February and 12.0% from a year earlier. As in the U.S., producer prices are surging on higher energy prices and shifting base comparisons: The producer price index rose 1.1% in March from April and 4.3% from a year earlier, up from February's 1.5% year-ago increase.

**JAPAN:** The Jibun Bank services PMI was revised up to 49.5 in the April final release from 48.3 in the flash estimate and was the strongest since January 2020. Labor cash earnings rose 0.2% in March from a year earlier, a rather meager increase considering the comparison against a weak economy in early 2020. The April PMIs suggest income growth picked up in April.

**MEXICO:** CPI inflation accelerated to 6.1% in year-over-year terms in April from 4.7% in March, reflecting the same shifting base comparisons and jumping energy prices that are pushing inflation higher in the Eurozone, United States, and other major economies. The Bank of Mexico will likely hold its policy rate unchanged at 4.0% at its next monetary policy decision on May 13.

**INDIA:** The Markit manufacturing PMI was little changed at 55.5 in April after 55.4 in March. The Markit services PMI fell to 54.0 in April from 54.6 in March. The Markit manufacturing PMI has remained above 50 since August while the services PMI has remained above 50 since October.

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