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GLOBAL ECONOMIC HIGHLIGHTS

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U.S. Saw Blockbuster Jobs Growth and Strong PMIs in July; Chinese Growth Slowing as Export Demand Softens

UNITED STATES: The economy added a blockbuster 943,000 nonfarm payroll jobs in July, and employment in May and June was revised up by a net 119,000. The unemployment rate dropped 0.5 percentage point to 5.4%, the lowest since February 2020's 3.5%. Employment in the household survey (different from the survey of payrolls) jumped 1.043 million on the month, unemployment fell 782,000, and the labor force rose 261,000. Average hourly earnings rose 0.3% from June, and the average workweek held unchanged at 34.8 hours.

Almost all the jobs report's details were great. Employment in private goods-producing industries rose 44,000 and employment in private services-providing industries rose 659,000. Within private services, there were strong job gains in food services and drinking places, up 253,000; accommodation, up 74,000; transportation and warehousing, up 50,000; amusements, gambling and recreation, up 40,000; and healthcare, up 37,000. Jobs in public education rose 231,000, private education rose 40,000, and social assistance jobs rose 10,000; higher employment in caregiving sectors will make it possible for mothers and other caregivers to return to the labor force. A worrying spot of weakness is employment in nursing and residential care facilities: It fell 13,400 in July and is down 378,000 or 11.2% from February 2020.

Another softer detail was the labor force, up much less than employment on the month. The labor force participation rate rose 0.1 percentage point to 61.7%. The labor force participation rate was above 63% before the pandemic. There are about 3 million fewer people in the U.S. labor force now than there were before the pandemic; labor force growth will need to pick up if the U.S. is to return to its pre-pandemic level of employment. In a bit of bad-news-that-may-be-good-news, employment at essential retailers fell by 40,000 on the month; these businesses—auto dealers, building material & garden supply stores, food & beverage stores, general merchandise stores excluding department stores—hired rapidly during the stay-at-home months of 2020 and are now scaling back as U.S. consumers return to pre-crisis spending patterns.

Wage growth is even stronger than the headline. Since jobs grew faster in lower-paying industries like leisure and hospitality, the weighted average of earnings growth undershot growth within industries. Average hourly earnings in private leisure and hospitality rose 0.9% on the month and 9.6% on the year as employers raise wages to attract workers. With solid earnings growth, a huge jump in employment, and an unchanged average workweek, aggregate pay of private workers grew 0.9% from June.

Other early indicators for July also show the economy growing solidly. The ISM manufacturing PMI pulled back to 59.5 from 60.6 in June, but some of its drop was good news—the suppliers deliveries component dipped to 72.5 after 75.1 in June and 78.8 in May, which was the highest since the 1970s oil crisis. The prices paid survey component fell to 85.7 from 92.1 and was the lowest since March. The ISM services PMI rose to 64.1 from 60.1 and was the highest since the survey began in 1997. There were strong increases in the services PMI's components for business activity/production, employment, and new export orders.

PNC forecasts for the July release of the consumer price index on August 11 to show both total and core CPI up by 0.6% from June on a 2.5% increase in gasoline prices; higher prices of apparel, used cars, airfares, lodging, and rent all added to the increase in core CPI.

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CHINA: The CFLP manufacturing PMI fell to 50.4 in July from 50.9 in June and was the weakest since February 2020, and the Caixin manufacturing PMI fell to 50.3 from 51.3 and was the weakest since March 2020. China's manufacturing industry is slowing as consumers in the U.S. and other Western countries demand less Chinese-made consumer goods and more domestically-produced services. China's services sector is more resilient to this slowdown so far: The CFLP non-manufacturing PMI dipped to 53.3 from 53.5 and was the lowest since Feb 2021, but the Caixin services PMI actually rose on the month, to 54.9 from 50.3. China's services activity has been volatile in recent months due to rolling lockdowns in response to the delta variant; the Chinese public health measures like contact tracing and lockdowns that kept the pandemic controlled in 2020 are less effective against the more contagious delta variant.

EUROZONE: Retail sales rose 1.5% in June from May after a 4.1% increase in May, which was revised down from 4.6% in the prior report. Eurozone retail sales were up 5.0% from a year earlier in June, and are up 4.8% from their February 2020 level.

CANADA: The Canadian economy added 94,000 jobs on net in July, a 0.5% increase, below consensus expectations for 150,000, according to Statistics Canada's Labor Force Survey (LFS). The LFS is a household survey carried out around the third week of every month. The same percentage increase in U.S. payroll employment would add around 758,000 jobs. The unemployment rate fell to 7.5% in July from 7.8% in June; it was below 6% before the pandemic. 99% of the jobs created in July were in the service sector as coronavirus caseloads declined and pandemic restrictions were relaxed. Canada lost 3 million jobs at the beginning of the pandemic, and has subsequently regained 2.7 million (90%).

The Bank of Canada's Governor Tiff Macklem stated in May that there will be a complete recovery when employment is "about 200,000 above the pre-pandemic level." The labor force participation rate remained unchanged in July at 65.2%, slightly below the pre-pandemic rate of 65.5%. Despite the miss, PNC Economics expects Canada's labor market recovery to progress rapidly over the rest of the year. The Central Bank of Canada will likely reduce its quantitative easing program again before the end of 2021 and begin to raise the benchmark policy rate in 2022.

MEXICO: The National Institute of Statistics and Geography's preliminary estimate of real GDP for the second quarter of 2021 showed a 1.5% seasonally-adjusted increase (not annualized), faster than the first quarter's 0.8% growth. In the second quarter, agricultural activity grew 0.6%, industrial activity 0.4%, and services activity 2.1%. Real GDP in the second quarter of 2021 was down 2.4% from its level in the fourth quarter of 2019, and down 3.6% from its level in the third quarter of 2018.

Global supply chain dislocations continue to weigh on Mexican industrial activity, especially export-oriented manufacturing. Hours worked in export-oriented businesses rose 0.1% in May from April after a 1.0% decline in April; May's hours worked in nonmanufacturing businesses rose 1.7%, while manufacturing hours worked fell 0.1% after a 1.3% decline in April.

UNITED KINGDOM: The Bank of England (BoE) held its monetary policy stance unchanged at its August 5 Monetary Policy Committee decision: The Bank Rate continues at 0.1%, and the target for purchases of government bonds under the current QE program continues to be £875 billion. The BoE's QE program is on schedule to end around the end of 2021. Bank of England Governor Andrew Bailey said that the Bank could begin to reduce the size of its balance sheet when the Bank Rate is raised to 0.50%; financial markets price in the Bank Rate rising to that level in 2023. The Markit/CIPS construction PMI for the UK pulled back to 58.7 in July from 66.3 in June and was the lowest since February; supply chain and labor shortages are constraining the sector's ability to grow.

BRAZIL: As expected, the Central Bank of Brazil's Monetary Policy Committee raised the policy Selic rate by a full percentage point from 4.25% to 5.25% when central bankers met on August 4. Their August policy statement reads that "the committee foresees another adjustment of the same magnitude" at the next meeting in September. Central bankers framed the hike as a response to Brazil's deteriorating inflation outlook, stating that "a quicker monetary adjustment is the most appropriate way to anchor inflation expectations." The central bank raised its year-end inflation forecast to 6.5% from the 5.8% they had forecast at the June meeting. Industrial production remained unchanged in June from May as the industrial sector faces new restrictions and rising production costs; industrial output has decreased in three of the last

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five months. The Markit manufacturing PMI for Brazil rose slightly to 56.7 in July from 56.4 in June. The services PMI rose to 54.4 in July, the highest level since January 2013, from 53.9 in the prior month.

INDIA: As expected, the Reserve Bank of India (RBI) maintained its accommodative stance and held its benchmark repurchase rate unchanged at 4.0% when central bankers met August 6. In the accompanying press release, central bankers voiced optimism about the economic outlook. The RBI maintained its 9.5% real GDP growth forecast for fiscal year 2022 (April 2021 to March 2022). Central bankers stated that “agricultural production and rural demand are expected to remain resilient” and “buoyant exports will provide further impetus to aggregate demand.” The RBI also raised its inflation forecast to 5.7% for fiscal year 2022 from the 5.1% they had forecast at the June meeting. CPI inflation will remain high and exceed the 6% upper threshold of the Reserve Bank of India’s target range in the near term as pandemic-driven supply disruptions and pent-up demand put upward pressure on consumer and producer prices.

JAPAN: The first estimate of GDP for the second quarter of 2021, to be released the night of Sunday August 15 in U.S. time zones, is expected to show a modest 0.6% annualized increase. This would leave economic output lower than in the fourth quarter of 2020 since Japanese real GDP fell 3.9% annualized in the first quarter of 2021.

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