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GLOBAL ECONOMIC HIGHLIGHTS

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Fed Minutes Reaffirm Commitment to Slow Withdrawal of Stimulus; Canadian Jobs Recovery Accelerated in March

UNITED STATES: The minutes of the Federal Reserve's March 16 to 17 Open Market Committee meeting reaffirmed their commitment to wait until hard data show "substantial progress" toward maximum inflation and inflation averaging 2% before reducing asset purchases a.k.a. quantitative easing. In addition, the committee is not just looking at economy-wide measures of the job market, but also at conditions for subgroups that have historically had higher rates of unemployment, such as African Americans (whose unemployment rate was 9.6% in March) or Americans with less than a high-school diploma (8.2% unemployment rate in March).

Service sector activity is bouncing back rapidly as the economy reopens. The ISM services PMI surged to an all-time high of 63.7% in March from 55.3% in February; the index began in 1997. The Markit services PMI rose to 60.4 in the March final release from 60.0 in the flash estimate and 59.8 in February, and was the strongest since 2014.

Inflation is accelerating as reopening pushes commodity prices higher. The producer price index for final demand jumped 1.0% in March after a 0.5% increase in February; this was higher than the consensus forecast of a 0.5% increase. Core PPI final demand excluding food and energy rose 0.7% percent after a 0.2% increase in March. From a year earlier, PPI final demand rose 4.2%, up from 2.8% in March, while core PPI rose 3.1% after 2.2% in the same terms. Producer prices declined outright between January and April as much of the global economy shut down and prices of oil, metals, and other commodities plunged, then rose rapidly since. Many factors are behind rising producer prices. The largest is the economy reopening, raising the price of oil and other commodities. In addition, supply chain bottlenecks have reduced the supply of many goods—the ISM manufacturing survey has reported the worst delays in supplier deliveries since the oil crisis of the early 1970s. And sudden shifts in consumer demand—toilet paper, exercise equipment, etc.—have exacerbated shortages. Business surveys also report wage pressure from labor shortages; workers are less available because of health concerns, more generous unemployment benefits, and caregiving responsibilities.

Another potential cause of higher inflation is the huge amount of fiscal and monetary stimulus supporting the recovery. This explanation of inflation seems less convincing given the huge amount of slack in the economy—payroll jobs down 8.4 million from the pre-crisis level, industrial production 5% below its pre-crisis peak. In addition, as March inflation reports from China, the Eurozone, Japan and Brazil demonstrate, inflation is up globally—it is the global economic recovery fueling inflation, not U.S. economic policy. Producer price inflation will accelerate in the second quarter of 2021 because of base effects; prices fell in the spring of 2020, so PPI would look higher in the spring of 2021 even if prices hold unchanged from March to April. Inflation will slow in the rest of 2021 as base effects fade, supply chains normalize, and shortages abate. Inflation is set to rise again in 2022 and 2023 as the recovery proceeds and businesses regain their pricing power.

Businesses will absorb some of the higher producer prices to protect market share, but PPI inflation will still push consumer prices up in the near-term. PNC forecasts for the March CPI report, to be released April 13, to show a 0.5% monthly increase on a 10% jump in retail gasoline prices. The Federal Reserve will look through these price pressures and wait for more information before planning a withdrawal of stimulus. PNC forecasts for the Fed to begin tapering their quantitative easing program in early 2022.

CANADA: Employment surged 303,100 in March (a 1.6% increase, equivalent in percentage terms to 2.3 million U.S. jobs), better than the consensus forecast for a 100,000 gain, and the unemployment rate fell to 7.5% from 8.2% in February. 86% of March's jobs added were in the service sector as restrictions were relaxed and the vaccination pace quickened. 60% of jobs added were in Ontario. With March's gain, Canada's economy has recovered about 90% of the 3 million jobs lost in March and April of 2020. Job growth will likely cool in April 2021 as Canada grapples with a third wave of the pandemic; the third stay-at-home order since the pandemic started was implemented in Canada's largest province Ontario on April 8 in reaction to faster-spreading variants. Roughly 19% of Canadians had received at least one dose of a coronavirus vaccine as of April 11, lagging a few weeks behind the U.S. where 36% had at least one dose.

CHINA: Trends in Chinese inflation look similar to U.S. inflation albeit from different starting levels. The consumer price index rose 0.4% from a year earlier in March after small year-over-year declines in January and February. Retail auto fuel prices jumped 11.5% from a year earlier, and food, alcohol and tobacco prices were nearly unchanged, up 0.1%. Core CPI excluding food and energy was 0.3% in year-over-year terms in March after no change in February. The producer price index rose 4.4% from a year earlier, with wholesale petroleum prices up 24% and ferrous metals (e.g. iron and steel) up 35%.

UNITED KINGDOM: The U.K.'s recovery is accelerating. The Markit/CIPS services PMI was 56.3 in the March final release, revised down slightly from 56.6 in the flash release but still up sharply from February's 49.6. The construction PMI rose to the highest since September 2014 in March, 61.7 after February's 53.3, and the expectations sub-index was the highest since June 2015, before the Brexit referendum.

EUROZONE: The unemployment rate was 8.3% in February, unchanged from January's upwardly-revised 8.3% (was 8.1% in the prior release). The unemployment rate was higher in January and February than the recovery-to-date low of 8.2% reached in December, reflecting the drag on the service sector from lockdowns across much of the EU in the late winter months. Despite slower vaccination progress than in the U.S., the Eurozone seems to be resuming its recovery in the spring. The Markit services PMI rose to 49.6 in the March final release from 48.8 in the flash estimate and 45.7 in February. The construction PMI rose to 50.1 in March from 45.0 in February and was in positive territory—values over fifty indicate growth—for the first time since February 2020.

Inflation is rising temporarily, reflecting the same pass-through of higher commodity prices that is lifting inflation in the United States. The producer price index rose 0.5% in February from January after a 1.7% increase in January. PPI inflation picked up to 1.5% in year-ago terms from 0.0% in January.

JAPAN: Inflation trends in Japan are similar to the rest of the world although the trend is lower. Purchasing price inflation returned to positive territory in March, with the PPI index rising 1.0% on the year after a 0.6% decline in February. Consumer confidence rose to the highest since February 2020 in March.

BRAZIL: Consumer prices as measured by the benchmark IPCA index increased 6.1% in March from a year earlier, the highest since late 2016, and breached the central bank's inflation target range of 3.8% plus or minus 1.5%. Core inflation by the central bank's trimmed mean index was 2.9% in March. The Markit services PMI fell to 44.1 in March, the lowest reading since July, from 47.1 in February as the country grappled with a new wave of the pandemic and renewed containment measures.

MEXICO: Industrial production rose 0.4% in February after a 0.2% increase in January: construction output rose 2.5% in February and mining 2.3%, while utilities output dropped 3.8% and manufacturing 2.1%. The Texas power outages weighed on manufacturing output in February. This headwind ended in March, but the global semiconductor shortage is still slowing auto manufacturing. The Markit manufacturing PMI for Mexico rose in March, but at 45.6 after February's 44.2, still pointed to another monthly contraction.

INDIA: As expected, The Reserve Bank of India's monetary policy committee unanimously voted to keep the benchmark repurchase rate unchanged at 4.0% when central bankers met on April 7. The RBI also announced the Government Securities Acquisition Program (GSAP) would buy ₹1 trillion in sovereign bonds this quarter. The RBI continues to forecast growth of 10.5% in FY 2022 (April 2021 to March 2022).