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# GLOBAL ECONOMIC HIGHLIGHTS

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## CHINA'S GDP SLOWEST SINCE 1990, BUT DECEMBER DATA EDGE HIGHER; GLOBAL DELAY FOR MULTINATIONAL CAPEX

**CHINA:** China's economy is muddling through: Slowing, but not realizing the worst fears of downside risks to the global outlook. Matching PNC's forecast and market expectations, real GDP growth slowed to 6.4 percent in year-ago terms in the fourth quarter of 2018 from 6.5 percent in the third. For the full year of 2018, real GDP grew 6.6 percent, the slowest since 1990 by official data. China's GDP statistics were much less accurate in the 1990s and early 2000s than today, so the slowdown in the late 1990s and early 2000s' might have been more severe than 2018's. Nominal GDP reached ¥90.0 trillion yuan in 2018, equivalent to $13.3 trillion US dollars at market exchange rates or roughly two-thirds of US nominal GDP. Some monthly activity indicators improved in December from November, a welcome surprise. Nominal retail sales grew 8.2 percent from a year earlier in December, up from 8.1 percent in November and reflecting an even larger real acceleration, since CPI inflation slowed to 1.9 percent in December from 2.2 percent in November in the same terms. Value added of industrial production likewise picked up to 5.7 percent growth from a year earlier in December from 5.4 percent in November, moving in the opposite direction of the government-produced CFLP manufacturing PMI, which was the weakest since February 2016 in December. Investment in fixed assets grew 5.9 percent in 2018 from 2017, unchanged from November's year-to-date sum, weak investment growth by Chinese standards. Restraint (or borrowing constraints imposed by the central government) by state-owned industrial firms and local government-controlled investment vehicles, whose investment grew just 1.9 percent from a year earlier, was a noteworthy drag on investment. Confirming the slowdown in heavy industry, industrial capacity utilization fell to 76.0 percent in the fourth quarter of 2018 from 76.5 percent in the third quarter and was the lowest since the first quarter of 2017, with notable drops in nonferrous metal smelting and automobile manufacture. Real estate investment grew 9.5 percent for the year, actually accelerating a bit from 2017's 7.0 percent growth. Labor market data look stable. The survey-based unemployment rate for urban areas rose 0.1 percentage point to 4.9 percent in December from 4.8 percent in November, likely seasonal variation since that unemployment rate rose by the same amount in December 2017, when it was slightly higher at 5.0 percent (China's unemployment time series have too many gaps for reliable seasonal adjustment). The separately calculated unemployment rate in 31 major Chinese cities was unchanged in December from November at 4.7 percent. The job postings to applicants ratio in urban job markets reached 1.27 in the fourth quarter, the highest since comparable data began in 2001, consistent with the unemployment rate's message of a solid job market. China's workforce is aging rapidly, a knock-on effect of the one-child policy, broader access to education for women, and higher social status of women after the Cultural Revolution. As China's workforce ages, its labor force can remain tight, even with economic growth slower. China's government has throttled back on credit growth to contain financial sector risks. The broad M2 money supply has grown slower than nominal GDP for eight consecutive quarters through year-end 2018, even at the cost of a cooler economy, and despite the external shock of trade conflict with the US – this is the longest such stretch of slow money growth since 2008. China will likely stay a drag on global growth in 2019, with real GDP shifting down another gear to 6.2 percent from 2018's 6.6 percent, but we expect modestly expansionary fiscal policy and the possibility of some economic detente with the United States to offset tight Chinese credit and keep economic growth from deteriorating further. PNC forecasts for the yuan to appreciate vis-a-vis the dollar in 2019 to 6.70 per dollar by mid-year and 6.65 by year-end, as larger US fiscal deficits, slowing US growth, and the end of the Fed's rate hike cycle tarnish the dollar's 2018 glow.

**JAPAN:** Machinery tool orders plunged 18.3 percent from a year earlier in December, even worse than November's already-quite-bad 17.0 percent fall. The indicator is seen as a bellwether of global manufacturing demand. Its decline probably reflects delays in multinationals' capex plans due to trade policy uncertainty, the same headwind which slowed global manufacturing PMIs through December.

**UNITED STATES:** The government shutdown is a drag on economic growth. According to President Trump's top economist, each week that the government is partially closed results in a loss of annualized GDP growth of 0.13 percentage point. Through the second half of January, that means GDP growth in the first quarter of 2019 will likely come in at below 2.5 percent at an annualized rate, as compared to PNC's forecast made before the shutdown of almost 3 percent. Consumer sentiment was the weakest in January since November 2016 due to the shutdown, and consumers' forward expectations the weakest since 2014. Existing home sales fell a sharp 6.4 percent in December from November and 10.3 percent from December 2017, to the lowest since 2015. The inventory of listed homes fell 5.1 percent on the month to 3.7 percent months' supply. Both demand constraints like higher interest rates and supply constraints like higher construction material costs and construction worker shortages are limiting housing activity, and the supply-side constraints are preventing prices from falling. The average sales price of existing homes dipped a bit in December from November, though it rose 2.9 percent from a year earlier. But industrial production grew a solid 0.3 percent in December from November, with manufacturing up a strong 1.1 percent on the month and 3.2 percent on the year, and mining up 1.5 percent on the month and 13.4 percent on the year. Utilities production was a drag due to mild winter weather, but will bounce back in January.

**UNITED KINGDOM:** Members of Parliament voted against Prime Minister Theresa May's Brexit plan January 15, but a narrow majority supported her continued leadership in a vote of confidence in her government later that week. She presented a "Plan B" deal on January 21, which was very, very similar to Plan A. The EU continues to insist that any Brexit deal keeps Northern Ireland in the EU Customs Union and maintains an open border between it and the Republic of Ireland, as required by the Good Friday Agreement that ended Northern Ireland's civil war in 1998 by guaranteeing the rights of Northern Ireland's residents to claim British, Irish or dual citizenship.

**EUROZONE:** The January 24 ECB decision will emphasize that monetary policy will remain highly accommodative in 2019, and could provide detail on if, when, and how the ECB might issue new four-year fixed rate loans to Eurozone commercial banks under its Targeted Longer Term Refinancing Operation a.k.a. TLTRO loan facility. The Account of the ECB's December Governing Council meeting showed that at least one Governing Council member mentioned the TLTRO program as a policy option.

**CANADA:** Wholesale sales fell 1.0 percent by value and 1.2 percent by volume in November, with drops in machinery, equipment, building materials and supplies contributing the most to the monthly decline. Manufacturing sales also fell, down 1.4 percent by value and 0.9 percent by volume. CPI inflation rose to 2.0 percent in December, the Bank of Canada's target, from 1.7 percent in November. The Bank of Canada's three measures of core inflation were all unchanged on the month at 1.8-1.9 percent.

**MEXICO:** A Mexican gasoline pipeline exploded January 18 in Hidalgo after fuel thieves broke the pipeline and took fuel to sell on the black market. A crowd gathered after the pipeline was broken to collect free fuel, resulting in heavy loss of life when the pipeline exploded several hours after it was breached. The disaster seems unlikely to deter President Lopez Obrador from persisting in his crackdown on fuel theft, so the economic disruptions caused by his anti-fuel theft campaign will likely persist into February.

**BRAZIL:** Growth was modest in November, the first month after the presidential election. Real service sector output was unchanged from October and rose a modest 0.9 percent from a year earlier. Retail trade rose 2.9 percent on the month in real terms and 2.7 percent in nominal terms, and rose 4.4 percent in real terms and 8.4 percent in nominal terms from a year earlier.



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