**GLOBAL ECONOMIC HIGHLIGHTS**

**UK TO EXTEND BREXIT NEGOTIATION, OPENING THE DOOR TO BREVERMIND; US INDICATORS COOL IN JANUARY**

**UNITED KINGDOM:** As expected, Parliament voted against the Prime Minister’s Withdrawal Agreement on March 12, voted against leaving the EU without a deal on March 13, and on March 14 voted in favor of requesting an extension to the negotiation from the EU. The EU heads of state will decide whether to grant the extension at their March 21 European Council meeting. They will almost certainly grant the extension and use it to demand political concessions from the UK, such as a general election or second referendum if Parliament continues to reject the Withdrawal Agreement. The extension to the negotiation is likely an intermediate step to a wholesale reversal of the Brexit decision.

**UNITED STATES:** Activity indicators were mostly cool in January, signaling continued headwinds from residential real estate and auto sales, and a possible slowdown in manufacturing. Retail sales excluding autos were resilient, rising 0.2 percent from December. But the drop in December was revised down to a really big 1.6 percent monthly decline, from 1.2 percent reported previously. From a year earlier, retail sales grew 2.3 percent in January, with sales excluding motor vehicles and parts up 2.8 percent and sales excluding motor vehicles, parts, and gasoline stations up 3.7 percent. Construction spending rose a large 1.3 percent in January from December, but after declines in 2018 was just 0.3 percent higher than the level one year earlier; most of January’s growth was in public construction, up 4.9 percent from December, with highway construction up 11.8 percent. Residential construction fell 0.3 percent from December and 5.7 percent from January 2018, while private nonresidential construction rose 0.8 percent on the month and 2.4 percent on the year. New home sales fell a worse than expected 6.9 percent in January from December. Industrial production rose a modest 0.1 percent in February from January, with manufacturing down 0.4 percent on the month, a second monthly decline, and mining and utilities output higher. From a year earlier, manufacturing output rose a modest 1.0 percent, mining output 12.5 percent, and utilities output 9.0 percent. February’s soft manufacturing data are consistent with pullbacks in the ISM and IHS Markit PMIs in the last few months. Furthermore, inflation is below the Fed’s target and core inflation slowed in February: The consumer price index rose 0.2 percent from January, and year over year CPI held steady at 1.5 percent. Core CPI (excluding food and energy prices) slowed to 0.1 percent on the month from 0.2 percent in the five prior months, and was 2.1 percent on the year, down from 2.2 percent in January. The University of Michigan’s Consumer Sentiment Index recovered to 97.8 in March from 93.8 in February, reversing its January-February decline, which was at least partially due to the government shutdown; consumer sentiment is still below its 2018 average of 98.4. The Federal Open Market Committee will likely announce at its March 19-20 meeting a tapering in the pace it shrinks the Federal Reserve balance sheet starting in April, such that the balance sheet reaches $3.5 trillion in late 2019 and holds there in 2020. PNC still forecasts a rate hike in the late summer as inflation moves back up to the FOMC’s 2 percent target (as measured by the PCE price index, which averages about a quarter percentage point lower than CPI inflation). Financial markets price in no chance of a rate hike by year-end, and a 30 percent chance of a cut. By contrast, 80 percent of 65 forecasters surveyed by Bloomberg expect at least one rate hike, and only 3 percent forecast one or more cuts.

**CHINA:** Bloomberg reported on March 14 that the US-China trade deal would not be signed until April, while the South China Morning Post reported March 16 that the meeting may not occur until June. February data were noisy due to the timing of the Lunar New Year holiday, which fell on February 5 in 2019 and February
16 in 2018; manufacturing slows in the days before the holiday and only gradually ramps back up in the weeks following it, so its timing earlier in the month caused a bigger drag on 2019’s February data than 2018’s. Even so, the month’s numbers were quite weak. The survey-based unemployment rate for the 31 largest cities rose 0.2 percentage points from a year earlier to 5.0 percent, while the unemployment rate for all urban areas rose 0.3 percentage points to 5.3 percent; the urban unemployment rate was the highest since February 2017. Credit growth slowed slightly from January. Aggregate financing to the real economy, which includes bank loans, credit from non-bank financial institutions, and equity financing, rose 10.0 percent from a year earlier, down from 10.4 percent in January. Money supply growth also slowed from January, to 8.0 percent from 8.4 percent in the same terms. Value added of industry grew a weak 5.3 percent from a year earlier in the combined January-February period, down from 5.7 percent in December, held down by a 15.1 percent year over year decline in auto production; the December 2017 expiration of tax rebates for car buyers and late 2018’s drop in consumer sentiment are dragging on auto demand. Industrial growth will accelerate in March as factories get back to work after the holiday. Investment in fixed assets rose 6.1 percent on the year in January-February, faster than 2018’s full-year growth of 5.9 percent. With inflation slowing – the CPI rose 1.5 percent on the year in February, down from 1.7 percent in January – real loan growth was the strongest since August 2016. Even so, it is worth taking China’s monetary policy stance at face value: Premier Li Keqiang stated to the National People’s Congress earlier in March that China will target credit and money supply growth in 2019 roughly in line with nominal GDP, which will increase about 8 percent; China is unlikely to engineer a large acceleration of credit growth in 2019.

EUROZONE: There was less than meets the eye in January’s recovery of Eurozone industrial production, up 1.4 percent on the month after a 0.9 percent decline in December and a 1.5 percent decline in November. Energy production drove January’s uptick; while capital goods and durable consumer goods production were still below November levels. The Eurozone’s weak IP mirrors manufacturing weakness in the US and China at the turn of the year.

CANADA: Bank of Canada Senior Deputy Governor Carolyn Wilkins reinforced expectations for a pause in Canadian interest rate hikes in a March 14 speech on financial stability, in which she omitted mention of the need for a rate hike. The Bank of Canada’s most recent March 6 monetary policy statement downgraded the assessment of both the Canadian and global economic outlooks. For Canada, the Bank noted weaker than expected consumer spending and housing data at the turn of the year, and said “the economy will be weaker in the first half of 2019 than the Bank projected in January.” For the global economy, the Bank said “trade tensions and uncertainty are weighing heavily on confidence and economic activity.” They judge that it will take some time to gauge the persistence” of weak growth; accordingly, PNC is pushing back our forecast for the next Canadian interest rate hike to October 2019 from April 2019 previously. Housing data remain weak. The Teranet – National Bank National Composite House Price Index™ fell 0.4 percent in February, a fifth consecutive monthly decline. The index rose a weak 1.9 percent from a year earlier, continuing a stretch of slow house price growth that began in late 2017 ahead of the government’s imposition of tighter underwriting standards on mortgages in January 2018. Home sales plunged 9.1 percent in February 2019 from January and 4.4 percent from a year earlier according to the Canada Real Estate Association, with both tighter mortgage underwriting standards and historic low temperatures in the January to February period holding back sales.

JAPAN: The Bank of Japan, like the Bank of Canada, noted the recent weakening of “exports and production... affected by the slowdown in overseas economies” in its March 15 monetary policy statement – the Bank left its monetary stance unchanged as expected. They expect that “Japan’s economy is likely to continue its moderate expansion, despite being affected by the slowdown in overseas economies for the time being.” The BoJ’s guidance calls for its monetary stance to hold steady for “an extended period of time,” but also leaves the option to “make policy adjustments as appropriate.” The BoJ is likely to further increase monetary stimulus in the second half of 2019 to bolster the economy ahead of the October 2019 increase in the value added tax from 8 to 10 percent.

INDIA: CPI inflation picked up to 2.6 percent in the February provisional release from 2.0 percent in January, while industrial production rose a cool 1.7 percent on the year in January, with manufacturing up
1.3 percent, electricity up 0.8 percent, and mining 3.9 percent. Growth will accelerate in the lead-up to the April-May general election.

**MEXICO:** Industrial production rose 0.6 percent in January from December but was still down 1.1 percent from a year earlier, mostly due to mining production, down 10.5 percent on the year. Manufacturing rose a modest 0.2 percent on the month and 1.3 percent on the year; construction 2.9 percent on the month and 0.6 percent on the year. Auto component manufacturing rose 5.8 percent on the year, better than the rest of the manufacturing industry.

**BRAZIL:** Service sector revenue fell 0.3 percent in inflation-adjusted terms in January from December and rose a modest 2.1 percent from a year earlier. After the IHS services PMI showed new business for the service sector improving at the fastest rate since 2013 in February, the sector seems likely to recover and grow solidly in the next few months.