GLOBAL ECONOMIC HIGHLIGHTS

US SLOWED AT THE TURN OF THE YEAR, BUT HOUSING HAS PERKED UP; GLOBAL BUSINESS SENTIMENT IS STABILIZING

UNITED STATES: The Bureau of Economic Analysis revised down real GDP growth in the fourth quarter of 2018 to 2.2 percent in their fourth estimate from 2.6 percent in their “initial estimate,” which because of the government shutdown combined data usually released in the first and second estimates. Real GDP for the full year of 2018 was unrevised in the third estimate at 2.9 percent. The Conference Board’s Consumer Confidence Index® fell to 124.1 in March from 131.4 in February, mostly reversing February’s recovery. March’s dip in confidence followed a recovery of the stock market in the first quarter and the end of the government shutdown, and so probably reflects slowing economic growth and not just one-off events. Personal income fell 0.1 percent in January, then rose 0.2 percent in February; disposable personal income fell 0.2 percent in January and rose the same amount in February. Personal consumption expenditures rose a modest 0.1 percent in January in both nominal and real terms, after a larger 0.6 percent decline in December. The PCE price index fell 0.1 percent in January from December, while core PCE rose 0.1 percent; from a year earlier, both headline and core PCE inflation slowed, to 1.4 percent from 1.8 percent and to 1.8 percent from 2.0 percent, respectively. Building permits fell 1.6 percent in February, but January’s previously reported 0.7 percent decline was revised up to a 1.4 percent increase; January’s upward revision left the February level higher than expected, even after a monthly decline. Housing starts fell 8.7 percent in February from January, and January growth was revised down to 11.7 percent from the 18.6 percent reported previously, but February’s drop is probably weather related volatility; other housing indicators are perking up. The Mortgage Bankers Association’s weekly index of mortgage applications reported the most applications by homebuyers in the first quarter of 2019 since the third quarter of 2009. New single family home sales rose 4.9 percent in February to 667,000, the third highest level of the expansion. The drop in interest rates since the fourth quarter of 2018 is passing through to stronger housing market activity. US exports rose $1.9 billion in January to $207.3 billion, while imports fell $6.8 billion to $258.5 billion; the trade balance fell $8.8 billion to $59.9 billion; both exports to and imports from China fell, with imports falling more than exports. PNC forecasts for the March jobs report, to be released April 5, to show nonfarm payroll jobs up 150,000 from February, with a positive upward revision to February’s 20,000 monthly increase; the unemployment rate is forecast to hold unchanged at 3.8 percent, and average hourly earnings to increase 3.4 percent from a year earlier, the same growth rate as in February.

EUROZONE: The German Ifo Business Climate Index bounced back to 99.6 in March from 98.7 in January, and was near its December level of 99.5. March’s Ifo recovery was encouraging after the IHS Markit manufacturing PMI for Germany fell to 44.7 in the March flash release from 47.6 and was the lowest since August 2012. ECB President Mario Draghi reinforced the ECB’s dovish forward guidance in a March 27 speech, in which he also hinted that the ECB could adopt a Japanese-style tiered policy interest rate system to reduce the cost of negative rates to Eurozone commercial banks; this would make it easier for the ECB to maintain negative rates for much longer into the future, if necessary.

JAPAN: The Nikkei manufacturing PMI for Japan was 49.2 in the final release for March, revised up from the 48.9 flash release and a bit higher than the February release, which also was 48.9. Even with the final release’s modest upward revision, the index points to ongoing contraction of Japanese manufacturing and was not much higher than February, which was the weakest since June 2016. Early 2019’s manufacturing
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weakness extends to all of the world’s major industrial economies, but global business sentiment at least seems to be stabilizing – that is, not falling further in March.

UNITED KINGDOM: The British parliament held a series of indicative votes on options for Brexit policy in the week of March 22, but no policy won a majority of support from MPs. Parliament rejected the Prime Minister’s Withdrawal Agreement for a third time, although by a somewhat smaller margin than the first two votes against it. The least unpopular choices in the week’s indicative votes were for versions of soft Brexit, including remaining in the EU Customs Union, as well as holding a second referendum. A strong parliamentary majority opposes a Hard Brexit, though many MPs appear to be unwilling to commit to specific alternatives to it so far. While a Hard Brexit cannot be entirely ruled out, it seems much less likely than earlier in the negotiation. So far, the EU has extended the withdrawal negotiation to April 12, and could extend it much longer if Parliament votes to formally request a long extension and also agrees to hold elections for British members of the EU parliament May 23-26. Prime Minister Theresa May is under heavy pressure to resign, but will probably stay on in office in a caretaker capacity at least through April 12.

CHINA: Profits of industrial enterprises fell 14.0 percent in January and February from a year earlier due to weakness in heavy industry, with auto manufacturing, petroleum refining, steel, and petrochemical manufacture accounting for most of the decline. The CFLP manufacturing PMI bounced to 50.5 in March from 49.2 in February and was the strongest since September 2018, reflecting the expected fade of seasonality on Chinese monthly data (the Lunar New Year holiday was a bigger drag on manufacturing in February 2019 than February 2018, with the effect reversing in March), and also some fundamental improvement of Chinese manufacturing, reflecting the lagged effect of stimulus measures that began in the fall of 2018. The nonmanufacturing PMI rose to 54.8 from 54.3 and also was the strongest since September. Similarly, the Caixin general manufacturing PMI rose to 50.8 from 49.9 and was the strongest since November.

CANADA: Average weekly earnings rose 2.0 percent from a year earlier in January, and average hourly earnings roughly 2.3 percent, matching the year over year increase of hourly earnings in the most recent household jobs report for February. Payroll employment rose a robust 71,200 from December and was up 2.4 percent from a year earlier. Canada’s solid job growth and moderate wage growth so far in 2019 keep the possibility of an October interest rate hike alive, even with most central banks turning more dovish this year.

MEXICO: Matching PNC’s forecast, the Bank of Mexico held its benchmark interbank target rate unchanged at 8.25 percent at its March 28 monetary policy committee decision. Like Brazil, Mexico is benefitting from the more dovish outlook for monetary policy in advance economies, with the Fed’s guidance most important to Mexico. But the US and global slowdowns are offsetting downside risks, as are rating agencies’ concerns about the creditworthiness of Mexico’s state-owned oil company Pemex. Prior to the March monetary policy decision, financial markets had priced in nearly certain odds of a Mexican rate cut over the next six months, but subsequent to it reflect only 50-50 odds of a cut. President Trump’s threats to shut down the US border with Mexico add to uncertainty about the country’s economic outlook.

BRAZIL: The unemployment rate was 12.4 percent in the three months through February, down only modestly from 12.6 percent a year earlier; Brazil’s unemployment rate is not seasonally adjusted, making quarter over quarter comparisons tentative. But the improvement in Brazil’s labor market has clearly slowed since the October 2018 election.

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