GLOBAL MANUFACTURING SLOWING, BUT OTHER SECTORS RESILIENT; GOOD US JOB GROWTH IN MARCH

UNITED STATES: A good March jobs report calms recession fears: Nonfarm payroll employment rose a solid 196,000, much better than February’s gain of just 33,000 (revised up from 20,000 in the prior report). January’s job growth also was revised up by a small 1,000. Payroll job growth averaged 180,000 per month in the first quarter, or 1.4 percent annualized, a reassuring sign that the weak real GDP growth in the quarter (PNC forecasts just 0.6 percent annualized) is a temporary bump in the road, not a sign of impending recession. The unemployment rate held steady at 3.8 percent in March, near the multi-decade low of 3.7 percent reached last September and November. The labor force participation rate edged down to 63.0 percent from 63.2 percent in the prior two months; employment as measured by the household survey was weaker than in the payroll survey in the first quarter, falling an average of 66,000 per month. The payroll survey has historically provided a clearer read on short-term fluctuations. The U-6 “alternative” unemployment rate, which defines unemployment more broadly than the standard rate and also includes some types of underemployment, held unchanged at 7.3 percent, the lowest since 2001. Average hourly earnings rose a modest 0.1 percent from February and 3.2 percent from a year earlier, slower than February’s 3.4 percent annual increase; in the first quarter, average hourly earnings averaged 3.3 percent in year-over-year terms, matching the fourth quarter of 2018 for the fastest since the first quarter of 2009. Wage growth is faster for lower-earning workers: hourly earnings of production and nonsupervisory workers grew 3.4 percent on the year in both of the last two quarters. Employment growth improved across most industries, but manufacturing was an exception—employment fell 6,000 on the month and grew just 12,000 on the quarter. The first quarter was the weakest for manufacturing job growth since the fourth quarter of 2016. The African American unemployment rate dipped to 6.7 percent from 7.0 percent, but held above its cyclical trough of 6.0 percent reached in September and November of last year. Because African Americans are often last hired and first fired at business cycle turning points, the black unemployment rate is a more sensitive metric of labor market conditions than the overall unemployment rate. Business sentiment surveys weakened in March, mirroring drops in surveys for the Eurozone, Japan, and UK. The IHS manufacturing PMI dipped to a 21-month low of 52.4 from 53.0 in February, and, while the ISM manufacturing PMI recovered to 55.3 from 54.2, it was still the third-weakest since December 2016. The ISM nonmanufacturing PMI dipped to 56.1 from 59.7 and was the least strong since August 2017. Forward-looking expectations in the IHS Markit services PMI survey were the lowest since December 2017.

EUROZONE: A sharp manufacturing slowdown. The IHS Markit manufacturing PMI was the worst in nearly six years in March at 47.5, near the 47.6 flash release and down from 49.3 in February. The European Commission’s Business Climate Indicator fell to the weakest since November 2016. The IHS Markit services PMI was better, rising to 53.3 from 52.7. HICP inflation slowed to 1.4 percent in March from 1.5 percent in February, with core inflation slowing to 0.8-1.0 percent (depending on the price basket used) from 1.0-1.3 percent; the slowdown is seasonal and due to the timing of the Easter holiday, which will raise HICP inflation in April as travel-related prices rise. The unemployment rate was unchanged in February from January at 7.8 percent and down from 8.5 percent a year earlier.

JAPAN: The consumer and services sides of Japan’s economy are holding up despite the manufacturing slowdown. The Nikkei services PMI was little changed at 52.0 in March after 52.3 in February; at least for now, manufacturing’s contraction is not infecting Japan’s service sector. Average cash earnings fell 0.8
percent from a year earlier in February, but the trend in other income indicators is positive: The monthly survey of household incomes and expenditures shows wage and salary income of workers’ households up an average 5.6 percent on the year in February, and total income up 4.4 percent.

**UNITED KINGDOM:** The British government and parliament are working to further delay the Brexit deadline as they muddle forward. The Prime Minister formally requested a second extension of the Brexit deadline on April 5, which would push out the deadline for the UK to reach a policy decision to June 30 from the current April 12 deadline. The heads of state of the other EU members will respond to her request on April 10, and will almost certainly agree to it – with strings attached. Business survey data were weak in March and point to a potential recession underway. The IHS Markit/CIPS services PMI fell into contractionary territory for the first time in since July 2016. The construction PMI was 49.7, near February’s 49.5 and marking a second consecutive month of contraction. The manufacturing PMI rose on the month due to stockpiling; production will fall in coming months as businesses run down inventories built up recently.

**CHINA:** Matching the forecast in the March 11 edition of Global Economic Highlights, Chinese sentiment surveys had a seasonal bounce in March: The Caixin manufacturing PMI recovered to 50.8 from 49.9 in February and the Caixin services PMI to 54.4 from 51.1, reaching the strongest in 14 months. Residual seasonal variation exaggerated February’s drop in Chinese business sentiment, since the Lunar New Year holiday fell early in the month in 2019 and concentrated the days that factories were closed in February instead of spreading them between February and March as in 2018. This also caused March’s survey to be stronger than the underlying trend. In light of the weakness of advanced economy PMI’s in March, Chinese PMI’s will probably edge lower in April to between their February and March readings. Foreign reserves rose $8.6 billion dollars to $3.1 trillion in March, their highest since August, as lower interest rates in developed economies fueled capital inflows to China and other emerging markets.

**CANADA:** Employment fell 7,200 in March and the unemployment rate held steady at 5.8 percent, near the multi-decade low of 5.6 percent reached in November and December. From a year earlier, employment grew 1.8 percent, down from 2.0 percent in February and much weaker than the 2.4 percent year-ago increase in payroll employment in the most recent January release of the Survey of Employment, Payrolls and Hours. Beneath the small drop in top-line employment were big shifts between demographic groups: Employment of men 25-54 rose 12,300, full-time employment of women 25-54 fell a large 47,600, and employment of Canadians 55+ rose 29,000, evenly divided between men and women. Employment rose 4,500 in manufacturing, and fell 2,400 in construction; net employment in services fell 8,800, with large declines in health care and social assistance, business, building and other support services, and accommodation and food services mostly offset by gains in other sectors. Average hourly earnings grew 2.4 percent from a year earlier, up from 2.3 percent in February. The IHS Markit manufacturing PMI dropped to a two-and-a-half year low of 50.5 in March from 52.6 in February. The divergence of employment in the payroll survey from the household survey creates room for the household survey to outperform expectations in coming months. March’s weak job growth is not enough to rule out a rate hike at the Bank of Canada’s October decision, especially in light of the acceleration in average hourly earnings during the last two months.

**MEXICO:** Weak survey data extend to Mexico as well. The IHS Markit manufacturing PMI fell to 49.8 in March from February’s 13-month high of 52.6. The Mexican statistical agency’s manufacturing orders index fell to 51.8 from 52.2, and consumer confidence fell to the lowest since January 2017; the statistical agency’s coincident economic index was the weakest in January (data released April 2) since October 2010.

**BRAZIL:** Industrial production is falling as expected in the aftermath of the January mine disaster in the state of Minas Gerais. The IHS Markit manufacturing PMI dipped to 52.8 in March from 53.4 in February; the services PMI rose to 52.7 from 52.2 and tied for the strongest since 2013. Industrial production rose 0.7 percent in February from January and 2.0 percent from a year earlier, with robust growth in capital and durable consumer goods offset by weakness in intermediate goods including mining output.

**INDIA:** The Reserve Bank of India cut its policy repo rate 0.25 percentage points to 6.00 percent at its April 4 monetary policy decision, the second rate cut since former governor Urjit Patel resigned last December under government pressure to cut interest rates ahead of the April-May general election. In light of softening Indian economic data, the global slowdown, and lower long-term interest rates in advanced economies, the
Reserve Bank’s rate cut seems justifiable and not (purely) a sign of government pressure. The RBI’s manufacturing outlook survey was the softest in the April release since the third quarter of 2017; the Nikkei manufacturing PMI dipped to 52.6 in March from 54.3 in February and touched a six-month low, and the services PMI dipped to 52.0 from 52.5. But a little pull-back does not mean that India’s economy is weak. Current conditions were strong in the RBI surveys, with manufacturing capacity utilization and consumer confidence both rising, and nominal GDP growing more than 10 percent in year-over-year terms in the fourth quarter of 2018. For now, the global backdrop provides India with room to stimulate its economy. But if oil prices rise further, global financial conditions deteriorate, or rate hike expectations in advanced economies return, India is farthest out on the limb among the major emerging market economies in prioritizing growth above protecting its currency from depreciation.