April 22, 2019

GLOBAL ECONOMIC HIGHLIGHTS

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CHINA'S REAL ESTATE INVESTMENT STABILIZES GDP GROWTH, BUT UNEMPLOYMENT RATE HIGHEST SINCE 2016

CHINA: Better than expected GDP in the first quarter of 2019, but mixed details: Real estate investment supported top-line growth, while other sectors were sluggish, and the unemployment rate for large- to mid-sized cities was the highest since 2016. Chinese real GDP grew 6.4 percent from a year earlier in the first quarter, unchanged from the prior quarter and a hair better than the 6.3 percent consensus. Nominal GDP growth slowed to 7.8 percent from 9.1 percent as lower oil prices slowed inflation. Industrial production accelerated sharply in March, to 8.5 percent from a year earlier from 5.3 percent in January and February. Retail sales also picked up a bit, to 8.7 percent in March after 8.2 percent in the first two months of the year, with durable goods sales posting the smallest year over year decline, 1.6 percent, since February 2018. Seasonal distortions caused by the timing of the Lunar New Year holiday made February data look extra soft, and added to March's recovery, but the trend is up. Real estate investment accelerated to 11.8 percent in the first quarter of 2019; the statistic, reported monthly in year-to-date terms, was the strongest since November 2014 and reflected a pickup of aggregate financing to nonfinancial borrowers, which grew 10.7 percent on the year in March, the fastest since August 2018, after bottoming out at 9.8 percent in December. Stronger real estate investment supported stronger industrial production of nonmetallic mineral products, i.e. cement, which grew the fastest since 2011 in March. Consumers are not contributing to the property market revival, though; floor space sold fell in year-over-year terms in the first quarter, the first decline since 2015. Nonresidential investment growth was sluggish, too. While overall fixed investment grew 6.3 percent in year over year terms in the first quarter, the fastest since the second quarter of 2018, much of that was the aforementioned acceleration of real estate investment. By contrast, nominal fixed investment in equipment fell 0.8 percent in the first quarter from a year earlier, the weakest since at least 2004. Capex fell notably in the ferrous metal smelting, rolling and processing industry, down 17.1 percent on the year; auto manufacture, down 1.0 percent; and shipbuilding and railcar manufacturing, down 8.7 percent.

China's labor market weakened in the first quarter. The survey-based unemployment rate for China's 31 largest cities rose to 5.1 percent in March, up 0.2 percentage point from a year earlier, and reached the highest since August 2016. Notwithstanding the real estate-powered stabilization of top-line GDP, the outlook is still cloudy for the rest of China's economy. The global slump in auto and capital equipment manufacturing continued at least through April, judging from the flash PMIs for the US, Eurozone, and Japan (described below). And March's uptick in Chinese unemployment is a sign that real estate stimulus is not carrying the rest of the economy along with it. Headwinds from trade policy uncertainty, the global auto industry correction, and give-back after strong global manufacturing growth in 2017 and 2018 will likely persist through midyear 2019 at least. And, even though growth was a little better than expected in the first quarter, China's full-year GDP growth is likely to be just 6.2 percent in 2019, down from 6.6 percent in 2018.

UNITED STATES: Mixed data for the spring months. Industrial production fell again in March, by 0.1 percent, although positive revisions to industrial production in February and January left the level of industrial production 0.2 percent higher in February than previously reported. Manufacturing production was unchanged in March and grew 1.3 percent from a year earlier, the slowest growth in those terms since March 2017. Exports rose $2.3 billion or 1.1 percent in February and imports 0.2 percent. Most of the month's net export growth was attributable to a $2.2 billion increase in civilian aircraft exports. Retail sales jumped 1.6 percent in March on a 3.5 percent increase in gas station sales and a 3.1 percent increase in motor vehicle and parts dealer sales; retail sales excluding gas stations and motor vehicle and parts dealers rose a slower-but-still-solid 0.9 percent. After weakness between December and February, March's bounce back had retail sales up 3.6 percent from a year earlier and sales excluding gas station and motor vehicle and parts dealers up by the same amount: decent growth, though still lagging nominal GDP. The IHS Markit manufacturing PMI was unchanged at 52.4 in the April flash release, matching March for the lowest since June 2017, and the services PMI fell to 52.9 from 55.3 and was the lowest since March 2017. Private residential building permits fell 1.7 percent in March, a third consecutive monthly decline, and were down 7.8 percent from a year earlier. Housing starts dipped 0.3 percent on the month and were down 14.2 percent on the year. No hit to the job market, though: The four-week moving average of initial claims for unemployment insurance fell to 201,250 the week of April 12, the lowest since 1969.

CANADA: The Bank of Canada's quarterly Business Outlook Survey Indicator fell to -0.64 in the first quarter of 2019, the lowest since the third quarter of 2016. Order books, capex plans, and hiring intentions all weakened on the quarter, and labor shortages and inflation expectations eased. Credit conditions were little changed in the first quarter according to the Senior Loan Officers' Survey, and have on balance changed little since the first quarter of 2018, when mortgage loan underwriters tightened standards to incorporate stricter regulations issued by the Office of the Superintendent of Financial Institutions Canada. Home sales rose 0.9 percent in March after a 9.1 percent plunge in February, and were near the weakest in six years. Manufacturing sales fell 0.2 percent in February by value and 0.5 percent by volume, with motor vehicle assembly sales down 4.4 percent by value; motor vehicle sales fell 8.0 percent on the year. The drop is not due to the GM Oshawa Car Assembly plant closure announced in late 2018; GM has announced it will continue to produce at the plant through at least mid-year.

EUROZONE: The IHS Markit manufacturing PMI for the Eurozone was still lousy in the April flash estimate at 47.8 after 47.5 in March, and the services PMI weakened to 52.5 from 53.3. Europe is not seeing spillover from China's stabilizing growth because it is China's real estate sector that is improving, while its auto and capital equipment manufacturing sectors are still weak; the latter is much more important to European exporters.

JAPAN: The Nikkei manufacturing PMI for Japan also stayed lousy in the April flash estimate, at 49.5 after 49.2 in March, with domestic sub-indexes of the PMI (employment, new orders) improving marginally on the month while export orders deteriorated further.

UNITED KINGDOM: A journalist was shot and killed in a riot in Northern Ireland April 19, the 21-year anniversary of the Good Friday peace deal that ended Northern Ireland's civil war. Northern Ireland's police said the shooter was likely a member of a dissident republican (that is, in favor of unification of NI and Ireland) group. Her death will stiffen the resolve of British Members of Parliament to avoid a Hard Brexit, since it could undermine peace in Northern Ireland. Members of Parliament will return from their Easter holidays the week of April 22 and resume Brexit discussions, which look headed toward a second referendum offering voters a choice between membership in the EU Customs Union or continued full membership in the European Union (that is, a reversal of the Brexit decision). Average weekly earnings grew 3.5 percent from a year earlier in the quarter through February, tying the fourth quarter of 2018 for the fastest since 2008. Even if the UK enters recession in the second and third quarters of 2019 as seems likely, the Bank of England is still likely to raise interest rates faster than currently priced in by financial markets, which anticipate only one 0.25 percentage point rate hike over the next two years.

BRAZIL: The Brazilian central bank's monthly proxy for GDP, the IBC-Br index, fell 0.7 percent in February from January, but still accelerated from a year earlier, to 2.5 percent from 0.8 percent in January. The solid expansions signaled by the Markit manufacturing and services PMIs in March point to further acceleration of the Brazilian economy in months ahead.