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GLOBAL ECONOMIC HIGHLIGHTS

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US ACTIVITY INDICATORS COOL, CONSUMER CONFIDENCE RISES; TRADE WAR HITTING TECH SUPPLY CHAINS

UNITED STATES: Key activity indicators were soft in April, but consumer confidence reached a new cyclical high in May. Industrial production fell 0.5 percent in April and the level of industrial production in March was revised down 0.5 percent: manufacturing output fell 0.5 percent on the month and 0.2 percent from a year earlier, mining output rose 1.6 percent on the month and 10.4 on the year, and utilities output fell 3.5 percent on the month and 4.7 percent on the year on warmer spring weather. Capacity utilization in manufacturing dipped to 77.9 percent from 78.1 percent in March and was the lowest since February 2018. The NFIB Small Business Optimism Index rose to 103.5 in April from 101.8 in March, but was still below all of the survey's readings from between October 2017 and December 2018. Retail sales fell 0.2 percent in April, with retail sales excluding autos and gas stations also down 0.2 percent; growth of both categories in March was revised marginally higher but enough to offset April's declines. The US is removing trade restrictions on the NAFTA/USMCA members while broadening the trade war with China to restrict technology supply chains using non-tariff barriers. The United States, Canada, and Mexico on May 17 jointly announced an agreement to end tariffs on US steel and aluminum imports and retaliatory tariffs against US exports. Domestic steel futures fell 2.4 percent on the announcement; they had already fallen 21 percent between the imposition of tariffs in March 2018 and their removal, as US industrial production cooled and the dollar appreciated. While tariffs are still in place on metal imports from other countries, the removal of Canadian and Mexican tariffs will cause US prices to track with the lower globally benchmarked prices of those countries, which do not impose US-style tariffs. The University of Michigan's Consumer Sentiment Index rose to 102.4 in May from 98.4 in April and was the highest since September 2000. The Department of Commerce added Chinese telecom equipment manufacturer Huawei to its Entity List, which requires a separate approval for each purchase Huawei makes from US technology suppliers. In response, Google announced it would stop allowing Huawei to use proprietary versions of its Android operating system in mobile phones. China could retaliate by limiting US hardware manufacturers' access to essential Chinese supply chain inputs like rare earth minerals or imposing non-tariff barriers on US technology sales in China.

CHINA: Monthly activity indicators weakened in April. Year over year growth of investment in fixed assets in the year through April slowed to 6.1 percent from 6.3 percent in the year through March. Growth of industrial production slowed to 5.4 percent from a year earlier in April from 8.5 percent in March. Growth of retail sales slowed to 7.2 percent from 8.7 percent. The survey-based unemployment rate was 5.0 percent in April, up 0.2 percentage points from a year earlier, the same year over year increase as in March. Monetary and credit policies are slightly looser than in late 2018. Money supply growth slowed slightly to 8.5 percent in April from 8.6 percent in March, both in year over year terms; money supply growth has strengthened slightly in the spring months relative to 2018. Growth in aggregate financing to nonfinancial borrowers eased to 10.5 percent in April from 10.7 percent in March but remained above the historic low of the fourth quarter of 2018.

JAPAN: Real GDP grew a better than expected 2.1 percent annualized in the first quarter of 2019, fueled by a jump in residential investment, public investment, and a sharp drop in imports. But private domestic demand grew just 0.4 percent annualized in the quarter, and final sales of domestic product just 1.5 percent, a sign that the underlying trend in Japanese growth is weak. A recession is likely in Japan in the next 12 months, fueled by tightening fiscal policy as the government raises the value added tax from 8 to 10

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percent in October. The industrial sector is the weakest part of Japan's economy: Industrial production fell 0.6 percent in March from April and 4.3 percent from a year earlier, consistent with recent weakness of PMI surveys for Japan and other export-dependent developed economies.

CANADA: Housing could be stabilizing: Home sales rose a seasonally-adjusted 3.6 percent in April from March and a non-seasonally-adjusted 4.2 percent from a year earlier; the MLS® Home Price Index fell 0.3 percent from a year earlier while the national average sale price rose 0.3 percent. CPI inflation was 2.0 percent from a year earlier in April, up from 1.9 percent in March, and the index rose a seasonally-adjusted 0.3 percent from March 2019. The Bank of Canada's three measures of core inflation were 1.8 to 2.0 percent in April, basically unchanged from March's 1.8-2.1 percent range and very close to the Bank's 2.0 percent target. Manufacturing sales rose a modest 2.0 percent by value and 1.0 percent by volume from a year earlier in March. The manufacturing inventory to sales ratio dipped to 1.50 in March from 1.52 in February but was still above its historical average, a sign of headwinds to GDP in the manufacturing sector in the second and third quarters as businesses run down excess inventories.

EUROZONE: Real GDP growth was unrevised in the preliminary or second estimate for the first quarter of 2019 at 0.4 percent from the fourth of 2018, not annualized. From a year earlier, real GDP growth held steady at 1.2 percent, the same pace as in the fourth quarter of 2018. Employment rose 0.3 percent on the quarter and 1.3 percent on the year in the first quarter of 2019, also unchanged from the prior quarter.

UNITED KINGDOM: The ruling Tory party looks set for a terrible showing in the UK's elections for members of European Parliament on May 23; the main opposition party Labour has likewise been lagging in the polls, with a plurality of voters expected to support the newly formed Brexit party, which advocates a Hard Brexit. The EU Parliamentary election does not directly affect the Brexit process but could accelerate the impending Tory party leadership change. Prime Minister May has said she will agree to a timetable to step down after a last vote on her Brexit plan next month. The job market remains very tight: The employment to population ratio was 76.1 percent in the first quarter of 2019, matching the prior two quarterly reports for the highest on record; the employment to population ratio for British men was near the strongest since 1991, while that of women reached a record high. Income growth moderated to around 3.25 percent in the latest quarter from 3.50 percent in the fourth quarter of 2018, but is still solidly outpacing inflation.

MEXICO: The Bank of Mexico held its interbank target rate unchanged at 8.25 percent as expected at its May 16 monetary policy decision. The Bank sees upside risks to inflation from the US-China trade war and other geopolitical risks, which could cause the peso to weaken and import prices to rise. Domestically, the Bank also sees upside risk to inflation from recent minimum wage hikes, and a risk that slack in the economy fails to push trend inflation lower. These tail risks are likely to blow over and the Bank of Mexico to cut interest rates in the second half of 2019, but the central bank's messaging suggests a cut is unlikely before the fall.

BRAZIL: The Central Bank of Brazil's weekly survey of professional forecasters showed the median estimate for real GDP growth in 2019 fell to 1.45 percent in the May 10th survey from 1.49 percent a week prior. The forecast for 2020's real GDP growth was unchanged at 2.5 percent. The unemployment rate was 12.7 percent in the first quarter of 2019, up from 11.6 percent in the fourth quarter of 2018 but down from 13.1 percent in the first quarter of 2018; this not-seasonally-adjusted statistic usually rises in the first quarter.

INDIA: The final vote count is still being tallied, but exit polls suggest the incumbent BJP party will retain control of a right-leaning government after the Indian general election. Polls closed May 19 and the final result will be formally announced May 23. Indian monetary policy will likely tighten in the second half of 2019 after loosening ahead of the election in response to political pressure.

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