October 7, 2019

GLOBAL ECONOMIC HIGHLIGHTS

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US UNEMPLOYMENT RATE AT 50-YEAR LOW IN SEPTEMBER; JOB GROWTH COOL BUT BETTER THAN HAIRY PMI REPORTS

UNITED STATES: The unemployment rate fell to a new 50-year low of 3.5 percent in September from 3.7 percent in August, but job growth slowed. Nonfarm payroll jobs rose 136,000 from August, soft as expected. The trend looks better than the latest month's number after job growth in July and August was revised up a net 45,000: Job growth over the last three months averaged a good 157,000. This was only slightly weaker than the 168,000 monthly average of the year through March 2019 (after preliminary benchmark revisions). Private job growth has weakened notably in recent months: Year-over-year growth of private payrolls was the slowest in September since 2011. Average hourly earnings growth slowed to 2.9 percent in the same terms from 3.2 percent in August, and average weekly earnings slowed to 2.6 percent from 2.9 percent; earnings growth is likely to accelerate given the extremely low unemployment rate. There was lots to like in the jobs report's details: The employment-to-population ratio hit a new cyclical high of 61.0 percent; the U6 alternative unemployment rate that includes the unemployed, underemployed, and those too discouraged to look for a job fell to 6.9 percent, the lowest since December 2000. Unemployment rates were at record lows for historically marginalized groups: The unemployment rates for Black and Hispanic Americans were the lowest since comparable data began in 1973; the unemployment rate for Americans with less than a high school education was the lowest since data began in 1992; and the unemployment rate for disabled Americans fell to the lowest since data began in 2008.

Even if it pointed to a cooling trend, the jobs report was reassuring after hairy PMI surveys for September. The ISM manufacturing PMI fell to 47.8 in September from 49.1 in August and was the weakest since June 2009, the end of the Great Recession. The new export orders component of the ISM PMI plunged to 41.0 from 43.3 and was the worst since March 2009. The Markit manufacturing PMI rose to 51.1 in September, but that was after reaching the lowest since 2009 in August, 50.3. The ISM non-manufacturing PMI fell to 52.6 from 56.4 and was the weakest since 2016, with the employment component of the index at the weakest since February 2014, the midst of the polar vortex. The Markit services PMI edged up to 50.9 from 50.7, which had been the lowest since 2016. Mortgage purchase applications rose 0.9 percent on the week for the week of September 27, up 9.6 percent on the year. With decent but slowing job growth, a contraction in manufacturing, the ongoing trade war, slower wage growth, and low inflation, the Federal Reserve will cut the fed funds rate by 0.25 percentage point at its October 30 meeting to a range of 1.50 to 1.75 percent.

EUROZONE: As in the US, a decent jobs report contrasts with weakening PMI surveys and cool inflation. The unemployment rate fell to 7.4 percent in August from 7.5 percent in July and marked a new expansion to date low, while HICP inflation slowed to 0.9 percent in the September flash estimate from 1.0 percent in August. Eurozone business surveys continue to weaken. The Markit manufacturing PMI fell to 45.7, the weakest since October 2012, in the September release, and the services PMI fell to an eight month low of 51.6 (revised down from the 52.0 flash estimate) from 53.5.

JAPAN: The Jibun Bank manufacturing PMI fell to 48.9 in September from 49.3 in August and was the weakest since February. Manufacturers reduced both inventories of inputs and finished products, likely in preparation for a drop in demand after October's value added tax hike. The Jibun Bank services PMI was 52.8 after 53.3; service sector businesses saw elevated activity in August and September as businesses and consumers pulled forward planned spending ahead of the tax hike. Consumer confidence has been falling steadily since November 2017 and in September reached the weakest since June 2011, when confidence was depressed by the Fukushima nuclear power plant disaster. PNC forecasts for the Bank of Japan to cuts its short term policy rate 0.1 percentage point to -0.20 percent at its October 31 monetary policy decision, and to increase the annual rate of ETF purchases to ¥9-10 trillion from ¥6 trillion currently.

UNITED KINGDOM: Recessionary data continue to flow in for the UK. The Markit/CIPS construction PMI fell to 43.3 in September from 45.0 in August and was the second lowest since April 2009 (June 2019 was the weakest). The manufacturing PMI edged up to 48.3 from 47.4 but the employment sub-index showed the largest decline since February 2013. The services PMI fell to 49.5 from 50.6, indicating contraction extending to the least cyclical sectors of the UK's economy. Prime Minister Boris Johnson proposed an alternative treatment of the Northern Ireland to Republic of Ireland border in the UK's plan to withdraw from the EU on October 2. The European Union politely rejected the proposal, which all but in name would impose a hard border in Ireland. Opposition from members of British Parliament also makes the proposal extremely unlikely to become reality. While PM Johnson is threatening to take the UK out of the EU at the end of October even if no deal can be reached, there is little reason to believe he can do that: Parliament has legislated to require the Prime Minister to extend the negotiation to prevent a No-Deal Brexit. In addition, Johnson's own government indicated in court filings made public October 4 that the Prime Minister would request an extension of the Brexit negotiation if the EU and UK have not reached an agreement by October 19 (there is every indication that they will not). A general election is likely in November or December.

CANADA: Canadian real GDP was unchanged in July after annualized growth of 4.0 percent in the prior four months. From a year earlier, real GDP grew 1.3 percent, slower than June's 1.5 percent increase. There is good and bad news in the details of the latest monthly GDP report. The good is that the real estate downturn has ended. Canada's housing market has adjusted to tighter mortgage underwriting rules, and solid growth of employment, income, and population (due to Canada's immigration policies) buoys final demand. Real estate, rental and leasing services GDP rose 0.4 percent on the month and 2.8 percent on the year. This helped raise overall service sector GDP 0.3 percent on the month and 2.5 percent on the year. And even with a monthly decline in construction activity, the trend for construction is following real estate services higher. Construction GDP fell 0.7 percent on the month and 3.7 percent on the year. Construction GDP fell a cumulative 7.9 percent between a peak in November 2014 and trough in December 2018, and even after July's pull-back is up 1.2 percent from the bottom.

The bad news is the drag from mining and manufacturing is likely to persist into early 2020. Businesses around the world have turned more cautious on capital spending due to the US-China trade war, other trade policy uncertainties, the Eurozone's stricter enforcement of auto emissions standards, and a global pullback in auto sales. These factors are slowing demand for manufactured goods around the world, including in Canada. Manufacturing GDP fell 0.1 percent on the month and 1.2 percent on the year. Manufacturing activity might be seeing a bottom, though – the IHS Markit manufacturing PMI for Canada rose to 51.0 in September from 49.1 in August and was the strongest in seven months. GDP in resource and extractive sectors fell 3.5 percent in July due to maintenance shutdowns in offshore oil facilities in Newfoundland and Labrador, and oil sands production GDP fell 1.0 percent. The government of Alberta has instituted production caps to prevent a pipeline capacity bottleneck from pushing prices down. Canadian resource sector GDP fell 4.4 percent from a year earlier.

The Bank of Canada is likely to follow other central banks in cutting interest rates as spillovers from global headwinds persist and US growth slows. PNC forecasts a 0.25 percentage point cut in the Bank of Canada's overnight rate target in January 2020, lowering it to 1.50 percent from 1.75 percent currently. The Canadian dollar is likely to average modestly weaker against the US dollar in 2020 as Alberta's pipeline bottleneck restrains Canada's energy exports.

CHINA: After multi-decade lows for industrial production in the third quarter, growth near the weakest on record for retail sales and investment in fixed assets, continued year-over-year declines of auto sales, and weakness in PMI surveys through September, PNC forecasts for real GDP growth to slow to 5.8 percent in the third quarter of 2019 from 6.2 percent in the second quarter; this would be the slowest quarterly real GDP growth since comparable data began in 1992. Annual real GDP grew weaker than this, 3.8 percent, in the aftermath of the crackdown on protests against the government in 1989.

Anti-government protests in Hong Kong remained intense the week of the October 1 National Day holiday. Hong Kong's police force has begun to use live ammunition in response to protesters, and the government has instituted a state of emergency that could be a step toward martial law. Further escalation of the conflict could increase downside risks to real GDP growth for China as a whole, but the ground would probably have to shift considerably for the protest to spread to the Mainland. US and Chinese negotiators are scheduled to meet on October 10 and 11 to revisit the trade dispute, ahead of the next increase in US tariffs on Chinese imports scheduled for October 15. Bloomberg reports that China is refusing to consider US demands for industrial policy reforms in the talks, making a deal in this round seem very unlikely.

BRAZIL: The Central Bank of Brazil's weekly survey of professional forecasters showed the median estimate for real GDP growth in 2019 was 0.9 percent in the September 27th survey, unchanged from the prior week. The Markit Brazil Manufacturing PMI rose to 53.4 in September from 52.5 in August; the manufacturing PMI has been above 50, indicating expansion of the manufacturing sector, for eight of the last nine months. The Markit Brazil Services PMI rose to 51.8 in September from 51.4 in August; the services PMI has been above 50 for six of the last nine months. Brazil's senate approved the landmark pension reform bill in the first round of voting October 4, though senators approved an amendment that reduces the reform's projected savings. Senators approved the pension bill in the first round by a tally of 56 to 19. The reform bill has to pass a second round of voting in the Senate before it can be enacted. President Jair Bolsonaro stated in a live broadcast on October 3 that the second round of voting should be concluded by mid-October.

INDIA: The Reserve Bank of India cut its policy repo rate 0.25 percentage points to 5.15 percent from 5.40 percent as expected at its October 4 meeting. The RBI has cut rates by 135 basis points this year as it struggles to calm fears and boost economic activity. RBI Governor Shaktikanta Das pledged that policymakers will "continue with the accommodative stance as long as it is necessary to revive growth while ensuring inflation remains within the target." Consumer confidence weakened to a six-year low in September of 89.4 from 95.7 in the July survey. The Reserve Bank of India's industrial business sentiment indicator fell to an eleven year low of 92.5 in the third quarter of calendar year 2019 from 108.4 in the second. The Markit composite PMI for India fell to 49.8 in September, the weakest since February 2018, from 52.6 in August.

MEXICO: The IHS Markit manufacturing PMI was little changed at 49.1 in September after 49.0 in August, which had been the weakest since the survey began in April 2011. Mexico's current economic index (an economy wide measure of economic activity analogous to GDP) dipped 0.1 percentage point in July, its 14th consecutive monthly decline, and the leading economic index edged down very slightly in August but by less than 0.1 percentage point. The leading index has declined for 11 consecutive months. Bank of Mexico Deputy Governor Jonathan Heath tweeted that the cyclical indicators put Mexico on "recession watch," in line with PNC's forecast that Banxico will cut its interbank target rate further in late 2019 and in 2020. Financial markets price in a 1.8 percentage point reduction in Mexico's 7.75 percent policy rate over the next year.

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