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GLOBAL ECONOMIC HIGHLIGHTS

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EXCELLENT US JOBS REPORT REINFORCES CASE FOR UNCHANGED RATES; UK GENERAL ELECTION THURSDAY

UNITED STATES: An excellent November jobs report reinforces the case for the Federal Reserve to hold interest rates unchanged at its December 11 rate decision. US employers added 266,000 nonfarm payroll jobs in November, robust growth even considering that the end of the GM strike brought roughly 43,000 striking auto workers back onto measured payrolls. Also, the Bureau of Labor Statistics upwardly revised job growth in September and October a cumulative 41,000. After revisions, job growth averaged a strong 205,000 over the past three months, the fastest since January. By contrast, ADP's estimate of US private payroll employment increased just 67,000 in November, with 4,000 in downward revisions to October's job growth; the BLS report is considered more authoritative. The BLS household survey shows the labor market to be historically tight by many measures. The unemployment rate receded to 3.5 percent from 3.6 percent a month earlier and tied September for the lowest since 1969. The labor force participation rate edged down to 63.2 percent from 63.3 percent in October, which was the highest since August 2013. The U-6 broad unemployment rate edged down to 6.9 percent from 7.0 percent and tied for the lowest since late 2000. Average hourly earnings rose 0.2 percent on the month and 3.1 percent on the year, down slightly from 3.2 percent in October but well above the pace of inflation. A tight job market is generating real wage growth for American workers, but wages are not growing fast enough to cause the kind of inflationary pressure that would force the Fed to raise interest rates and choke off the recovery. Key business surveys showed little consistent trend in November, and generally held at subdued levels. The ISM manufacturing index edged down to 48.1 from 48.3, but the Markit manufacturing PMI rose to 52.6 from 52.2 and was the strongest since April. The ISM nonmanufacturing PMI dipped to 53.9 from 54.7, while the Markit services PMI was unchanged from the flash release at 51.6 and up from 50.6 in October, which was the lowest since February 2016. The University of Michigan's Consumer Sentiment Index rose to 99.2 in the December preliminary estimate from 96.8 in November and was the strongest since May. After a very strong November jobs report allayed fears that the contracting manufacturing sector could spill over into weaker service sector growth, and a key consumer sentiment survey rose in the core of the holiday shopping season, the Federal Reserve is virtually assured to keep the Federal Funds rate unchanged at a range of 1.50 to 1.75 percent at the December 11 Open Market Committee meeting. PNC forecasts for the Federal Funds rate to stay at its current level through the end of 2020; financial markets price in roughly two in three odds of another 0.25 percentage point rate cut by the end of next year.

UNITED KINGDOM: Sentiment surveys released ahead of the December 12 general election reveal more evidence of a British recession. The Markit/CIPS services PMI fell back into contractionary territory in November at 49.3 after 50.0 in October and was the weakest since March, when business activity shrank ahead of the first Brexit negotiation deadline. The Markit/CIPS manufacturing PMI receded to 48.9 after 49.6, and the construction PMI rose to a still very weak 45.3 from 44.2. The governing Tory party is leading in polls ahead of the election, and seems likely to gain enough seats to win a majority (although turnout or strategic voting by supporters of opposition parties could deliver an upset). If the Tories win a majority, Prime Minister Johnson's Brexit deal would have a clearer path to enactment, but could still run into snags if MPs object to the customs barrier it proposes between Northern Ireland and the rest of the UK.

CHINA: The Caixin general services PMI rose to 53.5 in November from 51.1 in October, paralleling increases in the CFLP manufacturing PMI (to 50.2 from 49.3), the CFLP non-manufacturing PMI (to 54.4 from

52.8), and the Caixin manufacturing PMI (to 51.8 from 51.7). Exports fell 1.1 percent from a year earlier in November, slightly worse than October's 0.8 percent year-over-year decline, while imports rose 0.3 percent after falling 6.2 percent in October. Foreign reserves dipped $9.6 billion dollars to $3.096 trillion in November from $3.105 trillion in October; China's foreign reserves have been between $3.0 and $3.2 trillion since early 2016.

JAPAN: Prime Minister Shinzo Abe announced a fiscal stimulus package December 4 to offset some of the effect of the October value added tax hike. The government states the value of the stimulus program to be ¥26 trillion yen, but as is their common practice, the government is counting large amounts of pre-planned spending and spending spread over several future years to bolster the headline. The near-term boost to growth will likely be modest. Even so, fiscal stimulus measures are likely to keep the Bank of Japan from further cutting the negative short-term policy rate at its December 19 meeting from its current -0.1 percent level. Financial markets price in slightly less than 50-50 odds of a BoJ policy rate cut by October 2020.

EUROZONE: The ECB will almost definitely make no changes to its monetary policy stance at its last Governing Council meeting of 2019 on December 12. The ECB is already running a highly expansionary monetary policy with a -0.50 percent short term policy rate and €20 billion euros in monthly asset purchases a.k.a. quantitative easing, so the bar for additional monetary stimulus is high. PNC forecasts for the Eurozone's monetary stance to hold unchanged at least through the end of 2020.

CANADA: Employment plunged 71,000 in November, with full-time employment down 38,400 and part-time down 32,800; the unemployment rate spiked to 5.9 percent from 5.5 percent and was the highest since August 2018. Hours worked rose a scant 0.2 percent from a year earlier. The Markit manufacturing PMI edged up to 51.4 in November from 51.2 in October. Matching PNC's forecast and consensus expectations, the Bank of Canada held its policy rate unchanged at 1.75 percent at its December 4 decision: The bank's assessment of recent economic data (not including the terrible November jobs report, which was released December 6) was relatively upbeat, saying "there is nascent evidence that the global economy is stabilizing." The Bank also noted the better than expected investment components of the third quarter's GDP report, saying "the Bank will be assessing the extent to which this points to renewed momentum in investment." The Bank also said they continue "financial vulnerabilities related to the household sector"; high household debt is a potential argument against a Canadian interest rate cut. The likelihood of a 0.25 percentage point cut in the BoC's overnight rate target at the next decision January 22 fell to just over 10 percent after the BoC's December 4 decision from 30 percent prior to it, but the very weak November jobs report could be a sign that the Canadian economy cannot "chart its own course," as its leadership signaled in a speech made by the Deputy Governor the day after the December decision. Spillover from the slowing US economy is dragging on Canadian growth. If the December jobs report reinforces the signal from the very weak November report, the Bank of Canada will likely go against its guidance and cut its overnight rate target 0.25 percent to 1.50 percent at its January 22 decision, or at least signal that a rate cut is likely by the end of the first quarter.

BRAZIL: Real GDP rose 0.6 percent in the third quarter on a quarter-over-quarter basis, topping the consensus estimate of 0.4 percent. On the demand side, investments rose 2.0 percent, household consumption grew 0.8 percent, imports increased 2.9 percent, and exports declined 2.8 percent. On the supply side, agricultural output increased 1.3 percent, mining jumped 12.0 percent, manufacturing decreased 1.0 percent, and construction increased 1.3 percent. Real GDP rose 1.2 percent (not seasonally adjusted) in the third quarter on a year-over-year basis. In annualized terms, the economy grew 2.5 percent in the third quarter. Inflation by the benchmark IPCA index rose to 3.3 percent (a five-month high but still below the 4.25 percent inflation target) in the twelve months through November from 2.5 percent in October. Food and beverages, housing, health and personal care and education rose the most between October and November.

The Markit Brazil Manufacturing PMI rose to 52.9 in November from 52.2 in October; the manufacturing PMI has been above 50, indicating manufacturing growth, for four consecutive months. The Markit Brazil Services PMI fell to 50.9 in November from 51.2 in October; the services PMI has been above 50 for five consecutive months. Industrial production in October increased by 1.0 percent on a year-over-year basis, slightly down from a 1.1 percent increase in September. Capacity utilization in October remained unchanged from the prior

month at 78 percent. While the GDP report was a little better than expected, both the headline and details were lukewarm, suggesting the recovery is still progressing slowly amid ongoing currency weakness, double-digit unemployment and cool inflation. Recent data reinforce the case for the Central Bank of Brazil to reduce interest rates when they meet next on Wednesday December 11; PNC expects the Bank to cut the Selic target rate 0.50 percentage point to 4.50 percent from 5.00 percent currently.

INDIA: The Reserve Bank of India held its repo policy rate at 5.15 percent in a surprise move at its December 5 decision. The monetary policy committee unanimously voted to keep rates steady despite revising the real GDP forecast for 2019 downwards from 6.1 percent to 5.0 percent. The monetary policy statement remained accommodative: "The MPC will continue with the accommodative stance as long as necessary to revive growth, while ensuring that inflation remains within target." The RBI had already reduced the repo policy rate five consecutive times between February 2018 and October 2019 by a cumulative 1.35 percentage points. With third quarter real GDP growing at its slowest pace (4.5 percent from a year earlier) in six years, the RBI's December decision is best interpreted as a pause: central bankers are concerned about the recent uptick in inflation (4.6 percent in October) and slow transmission from previous rate cuts. The RBI's next move is still more likely a cut than a hike, but financial markets now price in no change in policy rates over the next two years. The Markit India Manufacturing PMI rose to 51.2 in November from 50.6 in October; the manufacturing PMI has been above 50, indicating manufacturing growth, in every month of 2019 so far. The Markit India Services PMI also rose, to 52.7 from 49.2.

MEXICO: Mexico's state-owned oil company Pemex announced a potentially game-changing discovery of a giant new oil deposit in Tabasco state on December 6 that the company hopes can begin producing oil next year. An increase in oil production would boost the peso and support faster public investment growth. Pemex described the deposit as the most important discovery since 1987. The IHS Markit manufacturing PMI for Mexico fell to 48.0 in November from 50.4 in October and was the weakest since the survey began in 2011.

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