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GLOBAL ECONOMIC HIGHLIGHTS

Gus Faucher Chief Economist | **Stuart Hoffman** Senior Economic Advisor | **William Adams** Senior Economist | **Kurt Rankin** Economist | **Abbey Omodunbi** Economist

THE PNC FINANCIAL SERVICES GROUP | The Tower at PNC Plaza | 300 Fifth Avenue | Pittsburgh, PA 15222-2401

QUARANTINES CONTINUE TO WEIGH ON CHINA'S ECONOMY; US DATA RESILIENT AT TURN OF THE YEAR

CHINA: China's Lunar New Year national holiday officially ended February 9, but restrictions on migrant workers' return to work continue to severely hamper the restart of business. Many cities are imposing two-week quarantines on persons arriving to their city from other regions, limiting factories' ability to ramp up production as migrant workers trickle from their hometowns. A survey of 109 factories conducted by the American Chamber of Commerce in Shanghai showed that 78 percent are experiencing labor shortages that limit the restart of normal activities, and half are already experiencing impacts on their global supply chains. Official data on the coronavirus crisis show the growth rate of new infections to be slowing within China, although a redefinition of how Chinese authorities measure infections caused a jump in cases February 12. The People's Bank of China cut the interest rate on its one year medium-term lending facility loans to commercial banks by 0.1 percentage point on February 17, mirroring the reduction in the 7-day reverse repo rate made on February 3; PNC forecasts for further interest rate cuts in the first half of 2020.

UNITED STATES: US economic data from the turn of the year generally look resilient. Retail sales rose 0.3 percent in January, although December's level was revised down 0.2 percent; from a year earlier, total retail and food service sales rose 4.6 percent, while retail sales excluding food services, motor vehicle and parts dealers, and gasoline stations rose 3.6 percent. CPI inflation was 0.1 percent in January from December, while core consumer prices excluding food and energy rose 0.2 percent; from a year earlier, core CPI rose 2.3 percent, unchanged from December, and total CPI rose 2.5 percent, the fastest since October 2018 and up from 2.3 percent in December. Faster energy price increases drove the pickup of total CPI. Manufacturing continues to be a weak spot. Industrial production fell 0.3 percent in January from December and 0.8 percent from January 2019; manufacturing fell 0.1 percent on the month and 0.8 percent on the year, utilities 4.0 percent on the month and 6.2 percent on the year (mild weather), while mining rose 1.2 percent on the month and 3.1 percent on the year. Manufacturing production has fallen in year-over-year terms for seven consecutive months.

By contrast, consumers are still very upbeat. The University of Michigan Consumer Sentiment Indicator rose to 100.9 in February from 99.8 in January and was the strongest since March 2018, reflecting tailwinds from a very strong job market and low gasoline prices. Fed Chair Jay Powell's testimony at the February 11 submission of the Fed's Semiannual Monetary Policy Report to Congress reaffirmed that the Fed is on hold in 2020 as long as economic data remain "broadly consistent" with their forecast of continued economic growth, a strong labor market, and inflation moving back up to their 2.0 percent inflation aim (measured using the price index for personal consumption expenditures, a measure of inflation that tends to run slower than CPI). The NFIB's Small Business Optimism Index rose marginally to 104.3 in January from 102.7 in December and was close to its 2019 average, which was below 2018's multi-decade peaks. Job openings dropped 5.4 percent to 6.423 million in December and were down a cumulative 15.8 percent from their November 2018 peak. This is the largest drop on record (data go back to December 2000) in job openings experienced outside of a recession, but still much less than the 43 percent drop in job openings experienced in the 2001 recession or the 54 percent drop in the Great Recession.

UNITED KINGDOM: The UK dodged recession in the fourth quarter. Real GDP grew 0.3 percent in December from November, reversing November's 0.3 percent decline. From a year earlier, real GDP growth picked up to 1.2 percent in December from 0.5 percent in November. Real GDP in the fourth quarter was unchanged from the third. For the full year of 2019, real GDP grew 1.4 percent, little changed from 2018's 1.3 percent growth; services grew 1.8 percent in 2019 and construction 2.5 percent, while production output (manufacturing and mining) fell 1.3 percent. The unemployment rate held steady in November from October at 3.8 percent, tying for the lowest since 1974.

EUROZONE: The index of industrial production fell 2.1 percent in December from November to its lowest level since May 2016. Capital goods output fell 4.0 percent on the month. Investors' expectations for economic growth in both the Eurozone and Germany dropped in the February ZEW survey. A revival of Eurozone economic growth in early 2020 will be at best delayed; spillover from China's coronavirus crisis outbreak is dragging on Eurozone industrial activity for at least the near-term.

JAPAN: Real GDP fell 1.6 percent in the fourth quarter or 6.3 percent in seasonally-adjusted annualized terms, according to the first preliminary estimate: Private consumption and gross fixed capital expenditures both fell sharply as the government raised the value-added tax (a.k.a. VAT, a kind of sales tax) to 10 percent from 8 percent. The drop echoes the sharp drop in real GDP in 2014, which was when the government raised the VAT from 5 to 8 percent.

CANADA: Housing starts jumped 8.8 percent to 213,200 annualized units in January, the highest since September, from 195,900 in December and exceeded the consensus forecast for 205,000 units. Building permits rose 7.4 percent in December from a month earlier, rebounding after a 3.5 percent fall in November and exceeding the consensus forecast for a 2.8 percent gain. Building permits have risen month-over-month twice in the last five months.

BRAZIL: Retail sales fell a slight 0.1 percent in December from November, breaking a seven-month stretch of consecutive increases; retail sales increased 2.6 percent in December from a year earlier, down from 3.1 percent in November and missing analysts' expectations for a 3.3 percent gain. Year-over-year retail sales growth was strong in credit-sensitive sectors, with auto and construction material sales up 9.3 percent and 5.1 percent respectively. Minutes from the Central Bank of Brazil's February 4-5 Monetary Policy Committee meeting revealed that central bankers see a mildly positive outlook for Brazil's economy. They were heartened by the labor market's "gradual recovery" and the "favorable global environment for emerging economies," and discussed the potential impacts of coronavirus on commodity prices and financial assets.

MEXICO: Matching PNC's forecast, the Bank of Mexico cut its benchmark interbank target rate 0.25 percentage point to 7.00 percent at its February 13 interest rate decision, citing the fall in global advanced economy interest rates, the appreciation of the peso, and downside risks to global growth from coronavirus. The Bank of Mexico did not explicitly guide market expectations regarding further rate cuts in its policy statement, but markets nevertheless price in another 89 bps reduction in the interbank target rate over the next twelve months.

INDIA: CPI inflation accelerated to 7.6 percent in January, the fastest in over four years, from 7.4 percent in December, and exceeded the consensus forecast for a 7.4 percent increase; total CPI inflation has been above the 4.0 percent center of the Reserve Bank of India (RBI's) 2-6 percent target range for four consecutive months. Inflation's rise is primarily driven by a spike in food prices; onion prices jumped 247 percent on the year in January, down from 327 percent in December. S&P Global Ratings affirmed its BBB- sovereign credit rating for India February 13, stating that "despite the precarious fiscal position, India's real GDP growth is likely to gradually recover toward longer-term trend rates over the next two to three years" due to the country's "structural growth." Industrial production fell 0.3 percent in January from a year earlier, partially reversing December's 1.8 percent gain; industrial production has fallen in year-over-year terms in four of the last five months. The RBI will inject up to ₹1 trillion ($14 billion) through one- and three-year repos starting Feb 15; the RBI also reduced its cash reserve requirement for commercial banks' lending to specific sectors in order to aid transmission of previous interest rate cuts into the economy.

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