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GLOBAL ECONOMIC HIGHLIGHTS

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SOLID US MANUFACTURING DATA BUT HOMEBUILDING SOFTER AT MID-YEAR; US & CHINA RESUME TRADE TALKS

UNITED STATES: Manufacturing is growing solidly but homebuilding is facing headwinds from higher commodity prices and labor shortages. Industrial production grew 0.1 percent in July after an upwardly-revised 1.0 percent increase in June, previously reported as 0.6 percent growth. From a year earlier, industrial production grew a strong 4.2 percent in July, with manufacturing up 2.8 percent, mining 12.9 percent, and utilities 2.3 percent. Housing starts rose 0.9 percent in July, but this followed a huge 12.9 percent drop in June; from a year earlier, housing starts dipped 1.4 percent in July. Permits for new private home construction rose 1.5 percent in July from June and were still 4.8 percent below their recent peak in May. Higher interest rates, more expensive steel and other construction materials, and shortages of construction workers slowed homebuilding in the summer months. The Federal Reserve Bank of Kansas City's annual Jackson Hole policy conference, from Thursday to Saturday, August 23 to 25, will provide Chairman Jay Powell an opportunity to update the guidance on the outlook for interest rates. After strong GDP and job growth in the first half of the year, the pickup of year-over-year CPI inflation in July to its fastest since 2012, and of core CPI inflation to its fastest since 2008, PNC forecasts for the Fed to raise the federal funds target to a range of 2.00 to 2.25 percent at its September 25-26 decision.

CHINA: The Chinese Ministry of Commerce announced that Vice Minister Wang Shouwen will visit Washington in late August to resume talks with the United States over trade friction and tariffs, meeting with US Treasury Undersecretary for International Affairs David Malpass. While a breakthrough in the trade dispute is possible, the likelihood seems low: President Trump overrode deals struck by his administration after earlier rounds of negotiation with the Chinese government, which Vice Minister Wang will probably see as a reason to be cautious and hold back on concessions in the August meeting. We do not see a clear path to a near-term resolution of the US-China trade dispute.

EUROZONE: Growth is solid in 2018 albeit below 2017's above-trend rate. Eurostat upwardly revised real GDP growth for the second quarter of 2018 to 0.4 percent in quarterly (not annualized) terms in their second estimate from 0.3 percent in the first estimate, and raised year-over-year growth to 2.2 percent from 2.1 percent in the first estimate.

CANADA: The housing correction continues to weigh on growth. Home sales rose 1.9 percent in July from June according to the Canadian Real Estate Association, but were still down 1.3 percent from a year earlier. New home listings fell 1.3 percent on the month and 5.7 percent on the year. The MLS home price index rose 2.1 percent on the year, but fell 0.4 percent on the month; the national average sale price rose 1.0 percent on the year and fell 3.1 percent on the month. CPI inflation accelerated to 3.0 percent in year over year terms in July from 2.5 percent in June on faster increases in energy prices, especially gasoline; the Bank of Canada's three measures of core inflation, CPI-common, CPI-median, and CPI-trim, were 1.9 percent, 2.0 percent, and 2.1 percent, respectively, in July, clustered closely around the Bank's 2.0 percent target and mostly unchanged since February.

UNITED KINGDOM: The UK government has begun encouraging businesses and citizens to begin making contingency plans for a no-deal (a.k.a. "hard") Brexit. The just-in-time supply chains linking the UK to the rest of the EU mean that many industries, including food, pharma, and manufacturing, lack warehousing capacity to maintain sufficient inventories and prevent supply disruptions in the event of a no-deal Brexit and

tariff checks between the UK and EU. The British government is advising businesses and households to prepare for the need to ration food, medicine, and other essentials, since the breakthrough in Brexit negotiations that they have promised continues to be out of reach. Precisely because of the stark costs of a no-deal Brexit to the UK, the contingency still seems very unlikely to us. Like Greece in its stand-off with the EU in 2015, the UK seems to be attempting to wring concessions from the EU by holding itself hostage. Like Greece, the UK is finding this strategy ineffective at convincing the EU to change policy stances.

JAPAN: Industrial production fell 1.8 percent in June from May and 0.9 percent from a year earlier. Exports rose 3.9 percent from a year earlier in June, down from 6.7 percent in May, with Japanese businesses citing concerns about trade frictions as a headwind to trade; imports rose 14.6 percent from a year earlier in June, up from 2.4 percent in May, on higher energy prices. The Bank of Japan is preparing financial markets to be ready for wider fluctuations in long-term interest rates. A former BoJ policymaker was quoted by Reuters in an August 16 article as saying that the BoJ could tolerate fluctuations in yields of as much as 0.4 percentage points above or below its “around zero percent” target for the 10-year government bond yield. The comments follow on those made by BoJ Governor Haruhiko Kuroda in a press conference following the July 31 Policy Board decision, in which Kuroda said that the BoJ could tolerate fluctuations of up to 0.2 percentage points around the “around zero percent” target. In practice, BoJ policy and self-reinforcing market expectations have held the Japanese 10-year government bond yield to around 0.1 percent since the BoJ’s July 31 decision.

MEXICO: Strong jobs numbers: Employment rose a strong 3.0 percent from a year earlier in the second quarter of 2018 according to the quarterly survey on occupations and employment. Employment in services rose 3.4 percent, employment in industry rose 3.8 percent, and employment in agriculture was unchanged. PNC expects the Bank of Mexico to hold policy interest rates unchanged through year-end on Mexico’s cool wage growth (manufacturing wages in June rose just 0.7 percent more than inflation from a year earlier) and inflation, but the second quarter’s strong jobs growth increase the odds that the Bank of Mexico raises interest rates instead.

BRAZIL: The central bank’s monthly proxy for real GDP growth, the IBC-Br index, rose 3.3 percent in June after plunging in May during the trucker’s strike; the June reading was up 1.5 percent in seasonally adjusted and annualized terms from three months earlier, and up 1.8 percent from a year earlier. Brazil’s president sent troops to the border with Venezuela on August 19 after clashes between Brazilians and Venezuelan migrants who fled Venezuela’s collapsing economy for Brazil.

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