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GLOBAL ECONOMIC HIGHLIGHTS

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GREAT US JOBS REPORT FOR AUGUST; TRADE DEFICIT WITH CHINA WIDENS TO RECORD HIGH DESPITE TARIFFS

UNITED STATES: The US posted another great jobs report for August. Nonfarm payroll employment rose 201,000 from July, very close to PNC's forecast of 200,000 and better than the 190,000 consensus, but job growth in June and July was revised down by a net 50,000. The unemployment rate held steady at 3.9 percent, and average hourly earnings growth picked up to 2.9 percent in year-ago terms, the fastest since May 2009, from 2.7 percent in July. The IHS Markit US Services PMI receded to a still-solid 54.8 in August from 56.0 in July, a second consecutive monthly retrenchment. The public comment period on the 25 percent incremental tariff proposed for $200 billion of Chinese imports ended on September 6, but President Trump refrained from imposing the tariffs on September 7 – though he did comment that they could be imposed "very soon" depending on Chinese actions, and that tariffs on another $267 billion of goods imports – essentially the remainder of US imports from China – were also "ready to go on short notice." The NAFTA renegotiation remains stalled as Canada resists US demands to remove protectionist supports for Canadian dairy farmers and to relinquish the NAFTA remediation panels that Canada can use to challenge US policies that would limit penetration of Canadian goods into US markets.

CHINA: The Caixin China General Services PMI receded to 51.5 in August from 52.8 in July, paralleling the decline in the General Manufacturing PMI to its lowest in 14 months. Official foreign reserve assets fell $8.2 billion dollars in August, more than reversing the prior two months' gains and reaching the lowest level since October 2017. Trade was a tailwind to growth in August: China's trade surplus with the United States widened to a record high as growth of US sales to China slowed much more than growth of Chinese sales to the United States. Chinese exports to the US grew 13.2 percent on the year, slightly outpacing the 9.1 percent growth of all exports, while growth of Chinese imports from the United States slowed to 2.3 percent, much slower than the 20.4 percent growth of all Chinese imports. Chinese purchases from the United States slowed after China's government imposed retaliatory tariffs against US soybean exports; Chinese exports to the United States are holding up better. Strong US end demand conditions are so far sustaining demand for Chinese products, even at higher prices.

EUROZONE: The IHS Markit Services PMI was 54.4 in August, unchanged from the flash estimate and up from 54.2 in July. The second estimate of euro area GDP growth from Eurostat held unchanged the economy's quarter over quarter growth rate at 0.4 percent (not annualized), but revised down year-over-year growth to 2.1 percent from the 2.2 percent reported in the first estimate. With growth stabilizing in the second half of 2018, economic data support an initial hike of the European Central Bank's deposit rate in June 2019, on the early end of the range indicated by the ECB's forward guidance (for a rate hike in "summer" or later). We expect the ECB to emphasize at their next policy decision on September 13 that they will make their initial rate hike in the summer, and not before, and to re-emphasize that subsequent rate hikes will be gradual.

UNITED KINGDOM: We expect the Bank of England to hold its bank rate unchanged at 0.75 percent at its monetary policy decision on September 13. UK and EU negotiators have made little tangible progress toward a Brexit agreement and currently seem to be working to reach a deal by November.

CANADA: Canada's August jobs report disappointed. Employment fell 51,600 from July after a net gain of 85,900 in the two prior months. The unemployment rate rose to 6.0 percent from 5.8 percent in July and matched June's level. The labor force also fell in August from July, and the labor force participation rate edged down to 65.3 percent from 65.4 percent. The year-over-year growth rate of employment slowed to 0.9 percent from 1.3 percent in July and was the slowest since September 2016. Full-time employment rose 40,400 on the month, adding to recent strong gains; it is up 2.2 percent on the year, while part-time employment fell 92,000 on the month and 4.3 percent on the year. The number of unemployed jobseekers fell 1.5 percent from a year earlier. The shift to more full-time employment lifted hours worked, up 1.6 percent on the year, outpacing employment. The composition of employment weakened, though: employment in the public sector fell 38,000 and in private firms 30,700, while self-employment rose 17,200 on the month. From a year earlier, public employment grew 2.7 percent, private employment 0.4 percent, and self-employment 0.9 percent. Employment fell on the month in construction, manufacturing, finance, insurance, real estate, rental and leasing industries, reflecting headwinds from NAFTA uncertainty and from the housing downturn. Average hourly wages rose 0.2 percent on the month and 2.9 percent from a year earlier, matching the US year-over-year pace. August's disappointing jobs report will reinforce the Bank of Canada's inclination to keep interest rates hikes gradual. The Bank held its benchmark policy rate unchanged at 1.5 percent at its September 5 monetary policy decision, matching PNC's forecast and market expectations. BoC Deputy Governor Carolyn Wilkins justified the decision in a speech September 6, saying the tight job market and business capacity bottlenecks are potential arguments for faster hikes, while households' high levels of indebtedness relative to income are compelling counter-arguments. PNC forecasts for the Bank of Canada to wait until January 2019 to next raise the overnight rate target 0.25 percentage point to 1.75 percent.

JAPAN: Growth of average monthly cash earnings slowed to 1.5 percent in year-over-year terms – pretty good by Japanese standards – after a spike in June to 3.3 percent as employers front-loaded payouts of mid-year bonuses. June's average cash earnings growth had been the best since 1997. Japan's economic momentum is solid but will slow after the value-added tax hike scheduled for October 2019; this will keep the Bank of Japan from raising interest rate targets before the tax hike is in the rear view.

MEXICO: CPI inflation rose to 4.9 percent in August in year-over-year terms from 4.8 percent in July. Core inflation was unchanged at 3.6 percent, above the Bank of Mexico's 3.0 percent medium-term target, while non-core inflation accelerated on higher consumer energy costs, up 19.0 percent on the year in August after 17.6 percent in July. The peso's stabilization since the July presidential election should start to slow inflation in the next few months.

BRAZIL: The Brazilian real appreciated to 4.06 per US dollar after far-right Presidential candidate Jair Bolsonaro was stabbed at a campaign rally; Bolsonaro survived the attack and is recovering in a hospital. Financial markets are speculating that the attack will energize Bolsonaro's supporters ahead of the October 25 election. His economic proposals (often overshadowed in the press by his very controversial social views) would likely lead Brazil to reduce foreign borrowing and support a recovery in the value of the Brazilian real. The Markit Services PMI fell to 46.8 in August from 50.4 in July and was the weakest since February 2017, reflecting uncertainty ahead of the election.

INDIA: The Nikkei Services PMI dropped to 51.5 from 54.2 in July, which had been a 21-month high, and the manufacturing PMI dipped to 51.7 from 52.3. Both PMIs reported inflation pressures, partially due to pass-through from exchange rate depreciation. We expect the Reserve Bank of India to raise the policy repo rate 0.25 percentage point to 6.75 percent at their October 4 monetary policy decision.