

October 15, 2018

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

US CPI INFLATION SLOWS AND SMALL BUSINESS OPTIMISM IS ROBUST; EU AND UK HEADS OF STATE MEET; CHINA GDP

UNITED STATES: CPI inflation slowed to 0.1 percent in September from 0.2 percent in August and July on a 0.5 percent monthly decline in energy prices and no change in food prices; CPI excluding food and energy rose 0.1 percent on the month in September, matching August and down from 0.2 percent in each month between May and July. In year over year terms, CPI inflation slowed to 2.3 percent from 2.7 percent in August, while core CPI excluding food and energy was unchanged at 2.2 percent. Bloomberg reported on October 8 that the White House is pressuring the Treasury Department to designate China a currency manipulator; however, former Under Secretary of the Treasury for International Affairs Tim Adams stated in a CNBC interview October 12 that he "suspected" that the Treasury would not declare China a currency manipulator. The Treasury will likely release its Semiannual Report to Congress on Foreign Exchange Policies of Major Trading Partners of the United States, which includes their designation of Chinese exchange rate practices, during the week of October 15 – they released the fall edition in 2017 on October 17. The National Federation of Independent Businesses' Small Business Optimism index remained historically upbeat in September at 107.9, the third strongest reading in the survey's history, although down slightly from August's record high of 108.8; PNC's Small Business Survey for the fall of 2018 also showed very upbeat small business sentiment although slightly less so than in the spring of 2018.

EUROZONE: The EU heads of state a.k.a. European Council will meet on October 17th to discuss the Brexit negotiations and on the 18th to discuss other issues, potentially including the budget proposal Italy will submit to the EU on October 15. While the EU will likely wait a week to formally respond to Italy's budget, the press conference following the Council meeting could reveal market-moving reactions to it from other European countries' leaders. The European Council will also discuss external relations and may announce sanctions against Saudi Arabia in response to allegations that Saudi agents killed a Saudi journalist who was a US permanent resident and critic of the Saudi government in a Saudi consulate in Turkey.

UNITED KINGDOM: The UK government could call for a snap election after the European Council meeting October 17 and 18. The Democratic Unionist Party, the Northern Irish political party that plays junior partner to the Conservative-led government, reiterated its threat to quit the government on October 10 if the UK accepts the EU's proposal for a Brexit deal that would keep Northern Ireland inside the EU single market (maintaining an open border between it and the Republic of Ireland) and the rest of the UK outside of it; the proposal would force the UK to implement customs checks between Northern Ireland and the rest of the UK to make good on the Conservatives' pledge to take back control of immigration policy. In addition, Conservative members of Prime Minister May's cabinet are threatening to resign over rumors that she could accept the EU's proposal for the UK staying in the EU customs union indefinitely, maintaining an open border between Northern Ireland and the Republic of Ireland, and also between Northern Ireland and the rest of the UK.

CANADA: Housing is still a headwind. Housing starts fell 5.9 percent in September from August and were down 12.4 percent from a year earlier, worse than August's 10.8 percent year over year decline; September marked the third consecutive monthly decline in housing starts according to the Canada Mortgage and Housing Corporation. The Teranet-National Bank House Price Index™ rose 2.1 percent from a year earlier in September, up from 1.4 percent in August which had been the slowest since the Great Recession.

GLOBAL ECONOMIC HIGHLIGHTS

JAPAN: Service sector growth momentum is solid. The index of tertiary industry activity rose 0.5 percent on the month and 1.3 percent on the year in August, with personal services up 1.1 percent on the year and business services 1.6 percent.

CHINA: Despite US tariffs, China's trade surplus in goods with the US reached a record \$34.1 billion US dollars in September as Chinese exports grew solidly and imports fell, according to China Customs Bureau statistics. Goods exports to the United States rose 14.4 percent from a year earlier in September while imports from the United States fell 1.2 percent; China's overall exports grew 14.4 percent in September, the same pace as sales to the United States, while imports grew 15.0 percent. PNC forecasts for the release of China's third quarter GDP report on Wednesday October 18 at 10pm NY/DC/Pittsburgh time to show real GDP slowed from 6.7 percent in the second quarter of 2018 to 6.6 percent in the third, with a positive contribution to growth from net exports offsetting slower growth of investment and consumption.

BRAZIL: Inflation by the benchmark IPCA index was 4.5 percent in September in year over year terms, up from 4.2 percent in August and matching July, but core inflation by the Central Bank of Brazil's trimmed mean index was just 2.8 percent in September, and has been below 3 percent in all of the first nine months of 2018. With Brazil's fiscal deficit likely to shrink in 2019 as fiscal policy tightens, the Brazilian real will likely continue to strengthen and on-shore interest rates fall.

MEXICO: Industrial production fell 0.5 percent in August from July, with manufacturing up 0.2 percent, construction down 2.9 percent, utilities down 1.3 percent, and mining up 1.0 percent. With the NAFTA renegotiation over, Mexican industrial production will accelerate in the fourth quarter of 2018. CPI inflation accelerated to 5.0 percent in September from 4.9 percent in August on faster increases of food and energy prices; core services inflation was unchanged at 3.4 percent. This CPI component, which is a decent gauge of inflation's trend, has been between 3.3 and 3.5 percent in eight of the first nine months of 2018.

INDIA: Core inflation exceeds headline inflation, pressuring the Reserve Bank of India to keep raising interest rates. CPI inflation was 3.8 percent in year over year terms in September, close to August's 3.7 percent and to the Reserve Bank of India's inflation target of 4 percent plus or minus two percentage points. CPI inflation excluding food and energy was 5.5 percent in September, unchanged from August and down from its year-to-date high of 6.1 percent reached in June. After holding the benchmark repo rate unchanged at 6.5 percent at their October 5 decision, we expect the Reserve Bank of India to raise it 0.25 percentage point to 6.75 percent at their next scheduled meeting December 5.

Disclaimer: The material presented is of a general nature and does not constitute the provision of investment or economic advice to any person, or a recommendation to buy or sell any security or adopt any investment strategy. Opinions and forecasts expressed herein are subject to change without notice. Relevant information was obtained from sources deemed reliable. Such information is not guaranteed as to its accuracy. You should seek the advice of an investment professional to tailor a financial plan to your particular needs. © 2018 The PNC Financial Services Group, Inc. All rights reserved.

Visit <http://www.pnc.com/economicreports> to view the full listing of economic reports published by PNC's economists.