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# GLOBAL ECONOMIC HIGHLIGHTS

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## US JOBS REPORT SHOWS FULL EMPLOYMENT IS NEAR; CANADIAN JOBS SURGE; STRONG MANUFACTURING PMI'S

**UNITED STATES:** Job growth moderated in December, a sign of a labor market at or near full employment. Payroll employment rose 148,000 from November, giveback after above-trend increases of 252,000 in November (revised up from 228,000) and 211,000 in October (revised down from 244,000). As expected, job growth is slowing as the unemployment rate falls, the labor market tightens, and the pool of available workers shrinks. Payroll employment growth averaged 171,000 per month in 2017, slowing from 187,000 per month in 2016, 226,000 per month in 2015, and 250,000 per month in 2014. The unemployment rate held steady at 4.1 percent in December 2017, the lowest since December 2000. Average hourly earnings rose 0.3 percent on the month and 2.5 percent on the year in December, up slightly from 2.4 percent in November. Business sentiment improved in the manufacturing sector in December, but moderated among service sector businesses. The IHS Markit manufacturing PMI rose to a 21-month high of 55.1 in December from 53.9 in November, and the ISM manufacturing PMI also rose, to 59.7 from 58.2. The IHS Markit services PMI receded to a seven-month low of 53.7 from 54.5 and the ISM nonmanufacturing PMI dipped from 57.4 to 55.9. Strong US manufacturing business sentiment was echoed in many foreign economies in December, a sign of a continuing broad-based global expansion.

**CANADA:** Household employment surged 79,000 in December, besting our forecast for a solid 24,000 increase and the consensus forecast for a marginal 2,000 gain. The unemployment rate dropped from 5.9 percent to 5.7 percent, the lowest since comparable data began in January 1976. The quality of Canadian jobs improved as much as their quantity in 2017. Hours worked grew 3.1 percent over the year, even faster than the 2.3 percent increase in employment. And of the 422,500 jobs added from December 2016, 50 percent were on private payrolls, 30 percent were self-employment, and 20 percent were in the public sector. December's terrific jobs report is a green light for the Bank of Canada to raise its overnight rate target 0.25 percentage points to 1.25 percent at its January 17 monetary policy decision, matching the Federal Reserve, which raised the federal funds target to a range of 1.25 to 1.50 percent in December. The Bank of Canada is balancing the broad-based strength of employment and GDP against housing sector weakness as they chart a course in 2018. After December's jobs report, broad-based strength will dominate their interpretation of the data in hand. GDP and job growth will likely moderate in 2018: Canadian real GDP was unchanged in October from September, and the IHS Markit manufacturing PMI for Canada, at 54.7 in December after 54.4 in November, signaled slower (albeit still solid) growth in the fourth quarter of 2017 than earlier in the year. Canada's households are more indebted than US households, so the same magnitude of interest rate hikes will restrain Canadian consumer spending more than US spending. Consequently, the Bank of Canada will likely raise rates slower than the Fed during this cycle. That, as well as the ongoing Canadian housing correction, are why PNC Economics forecasts for the Canadian dollar to weaken against the US dollar to \$1.32 Loonies per US dollar by year-end 2018 and \$1.42 Loonies per US dollar by year-end 2019.

**AUSTRALIA:** As in commodity-centric Canada, Australia experienced solid manufacturing and services growth into year-end 2017. The Australian Industry Group's manufacturing PMI receded to a still-strong 56.2 in December from 57.3 in November, and their Performance of Services Index rose to 52.0 from 51.7.

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**JAPAN:** Another country with manufacturing business sentiment at a multi-year high: The Nikkei manufacturing PMI rose to 54.0 in December from 53.6 in November and reached the highest since February 2014, and the Nikkei services PMI was little changed at 51.1 after 51.2 in November.

**EUROZONE:** Growth is strong and inflation tame. The Markit manufacturing PMI reached 60.1 in December, unchanged from the flash estimate at the highest since the survey began in mid-1997. The services PMI was 56.6, a hair higher than the 56.5 flash estimate, up from 56.2 in November, and the strongest in six and a half years. HICP inflation slowed to 1.4 percent in the December flash estimate from 1.5 percent in November on slower increases in euro-denominated energy prices; core HICP was steady between 0.9 percent and 1.2 percent in year-over-year terms depending on the price basket referenced.

**UNITED KINGDOM:** Manufacturing is strong in the UK as well, although domestically-fueled construction continues to be a laggard. The manufacturing PMI receded to 56.3 in December from November's 51-month high of 58.2, and the services PMI rose to 54.2 from 53.8. The Markit/CIPS construction PMI edged lower to 52.2 in December from 53.1 in November.

**CHINA:** Growth momentum is stable. The Caixin general manufacturing PMI rose to 51.5 in December from 50.8 in November. The CFLP manufacturing PMI was 51.6 in December, down from 51.8 in November and matching October's value. The CFLP nonmanufacturing PMI was 55.0 in December, up from 54.8 in November and 54.3 in October, and the Caixin general services PMI rose to 53.9 from 51.9.

**BRAZIL:** The recovery continues: The IHS Markit manufacturing PMI for Brazil receded from November's 81-month high of 53.5 to a still-solid 52.4 in December, and the IHS Markit services PMI rose to 47.4 from 46.9.

**INDIA:** Growth is improving after headwinds from a bumpy implementation of the Goods and Services Tax in mid-2017. The Nikkei manufacturing PMI for India rose to 54.7 in December from 52.6 in November and was the strongest in five years. The services PMI also rose, to 50.9 from 48.5.

**MEXICO:** Mexico's survey data are more mixed than most other major economies'. The Mexican statistical agency INEGI's survey of business sentiment improved in December, rising to 49.6 from 49.2 and reaching the strongest since December 2015. But the indicator nevertheless held below 50, pointing to a negative balance of sentiment – and other data were either flat or down. INEGI's indicator of manufacturing sector business expectations held steady at 51.9 in December, and their manufacturing orders index fell for a second consecutive month to 51.3 from 51.7. The IHS Markit Manufacturing PMI dipped to 51.7 in December from 52.4 in November and was below its 2011 to 2017 average of 52.8.

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