March 29, 2017

GLOBAL ECONOMIC HIGHLIGHTS

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UK TRIGGERS ARTICLE 50 AS EXPECTED; PNC ECONOMICS RAISES FORECAST FOR US REAL GDP GROWTH IN 2018

UNITED KINGDOM: As expected, the UK formally launched negotiations to leave the EU a.k.a. "Brexit" today by triggering Article 50 of the Treaty of the European Union, the article governing leaving the EU. Triggering Article 50 launches a negotiation between the UK and EU about their political and economic relations after the UK leaves the union. The UK will continue to be an EU member during these negotiations, and EU laws will continue to apply until the Brexit negotiation ends, most likely in March 2019, although the Treaty of the EU gives the UK and EU an option to extend negotiations by mutual agreement. The British government telegraphed its intentions clearly prior to the event, so financial markets had little immediate reaction. Brexit's economic implications may ultimately prove minimal, but seem more likely to be negative than positive. Brexit could reduce British exports, especially of services, since the UK will lose the "passporting rights" which British businesses use to sell services to EU end markets as a member of the common market; the UK could also lose business and jobs from global companies whose EU operations are located in the UK, and that might now move some operations to other EU states. Brexit also creates political challenges for the UK: Most immediately, it increases the possibility that Scotland demands independence and breaks up the UK, a risk heightened after the Scottish parliament voted to hold another referendum on independence during the Brexit referendum (the last Scottish independence referendum was in September 2014). However, Brexit should have limited impact on the US economic outlook or US monetary policy: US exports to the UK are only 5 percent of total US exports, and less than 1 percent of US GDP. For additional detail, please refer to the PNC Economics International Economic Report on Brexit published today.

UNITED STATES: PNC's March National Economic Outlook raises our forecast for US real GDP growth in 2018 to 2.9 percent from 2.7 percent in our February forecast, with stronger contributions from residential and nonresidential fixed investment and household consumption, partially offset by stronger imports as domestic demand strengthens. Our forecast incorporates expectations that the federal government will run a more expansionary fiscal policy in 2017 and 2018. US long-term interest rates dipped after the Congress declined to pass the American Health Care Act last Friday; the law would have cut public spending on health insurance subsidies and Medicaid, freeing up funds that could have funded corporate and income tax cuts or infrastructure spending. If the government borrows the money to fund tax cuts and public spending rather than cutting existing spending plans to fund them, it would be consistent with our forecast for a larger fiscal deficit – a less polite name for expansionary fiscal policy.

JAPAN: Retail sales growth slowed to 0.1 percent in year-ago terms in February from 1.0 percent in January; retail sales rose 0.2 percent in seasonally-adjusted monthly terms in February. Domestic demand growth in Japan is modest. The Bank of Japan is not under pressure to tighten monetary policy.

CANADA: Canada's job market continues to improve. New claims for employment insurance fell 1.7 percent from a year earlier in January, and were down 9.4 percent from a year earlier in the most recent three months' data. While employment insurance data are released at a long lag to the household jobs report, they still serve as a useful cross-check of the sometimes volatile monthly change in employment.

MEXICO: Monthly real GDP rose 0.3 percent in January from December, and 2.5 percent from a year earlier. This solid output growth was largely due to a surge in the volatile primary (agricultural) activity index, up

4.0 percent on the month and 11.0 percent on the year in January. Secondary or industrial activity grew a more modest 0.1 percent on the month, and fell 0.3 percent on the year, while tertiary or services activity grew 0.1 percent on the month and 3.6 percent on the year. The January monthly GDP report is better than our pessimistic forecast, which saw a significant risk of a recession in early 2017 if businesses curtail capital spending and run down inventories, or if consumers hold back on spending amid economic uncertainty. Instead, Mexican output rose in January; the data even look okay if the month's spike in agricultural activity is set aside. Mexico's latest data show growth following trends set prior to the US election: Low oil prices are reinforcing the drag on Mexican output from the oil industry, but the service and agricultural sectors are growing solidly. Downside risks from the NAFTA renegotiation and trade uncertainty have not gone away, but US-Mexico trade relations are status quo for now, and financial markets seem to be betting that inertia will be as powerful a force in US trade policy as it is in US healthcare policy. The Mexican peso is 18.7 per dollar in trading today, its strongest so far in 2017. While the Bank of Mexico is still likely to raise its policy rate tomorrow to keep pace with the Fed, the peso's appreciation makes a Mexican rate hike less urgent: Financial markets currently price in a one in three chance that Banxico will hold interest rates unchanged tomorrow.

AUSTRALIA: The Westpac-Melbourne Institute Leading Index's growth rate decelerated in February, but it still points to strong rates of economic growth in the next three to nine months. The six-month annualized growth rate of the index cooled to 1.0 percent in February from a recent peak of 1.4 percent in December. By comparison, the index's growth rate averaged only 0.4 percent between September and November and real GDP rose 2.4 percent in annualized quarterly terms from the third quarter to the fourth quarter. A large part of the February deceleration was driven by a decline in dwelling approvals. This was the fifth consecutive decline in the sub-index and points to a cooler construction sector in coming months. Also, declines in aggregate monthly hours worked and U.S. industrial production weighed a little bit on the index in February. Despite the leading index's overall decent momentum, there are risks it could further cool. Much of the support in recent months has come from rising commodities prices and a wider yield spread. However, there is not much scope for further large gains in commodity prices or for long-term interest rates to rise much faster than short-term ones. If the index continues to decelerate, then economic growth could undershoot the Reserve Bank of Australia's expectation of approximately 3 percent real GDP growth in 2017.

CHINA: Industrial activity strengthened in January. Profits of Chinese industrial enterprises rose 30.1 percent in January and February from a year earlier, and industrial net profits (subtracting the losses of loss-making enterprises from the total) surged 54.5 percent.

BRAZIL: Consumer price inflation slowed to 4.7 percent in year-ago terms in mid-March, the slowest since September 2010, from 4.8 percent in February, according to the IPCA-15 price index. Inflation in food prices slowed to 4.7 percent in year-ago terms in mid-March from 5.0 percent in February, and inflation in transport prices (strongly influenced by the price of gasoline) slowed to 2.5 percent from 2.8 percent. Inflation in domestically-priced services in the consumer basket was little changed, by contrast: Health and personal care inflation was almost unchanged 10.5 percent in mid-March after 10.4 percent in February, and inflation in personal expenses was 6.6 percent after 6.7 percent. The persistence of inflation in domestically-determined prices poses downside risk to the Brazilian outlook. If domestically-determined inflation stays sticky, it will become a roadblock to further interest rate cuts from the Central Bank of Brazil. However, with the unemployment rate high, services price inflation will probably follow headline inflation lower in coming months, and the central bank should be able to continue to ease monetary policy and open up room for private investment and consumption growth.