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# GLOBAL ECONOMIC HIGHLIGHTS

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## LESS DOVISH FED MINUTES POINT TO A JUNE RATE HIKE; "SEVERAL" FOMC MEMBERS SEE TIGHT POLICY IN '19-'20

**UNITED STATES:** The minutes from Jerome Powell's first meeting as Chairman of the Federal Open Market Committee on March 20 and 21 are less dovish than those from meetings chaired by former Chair Yellen. The March minutes report that "a number" of FOMC members are expecting a "slightly steeper" pace of interest rate hikes in the next few quarters "than they had previously expected." This is a reaction to more fiscal stimulus, a stronger growth outlook, and "a bit" of an upward revision in their expectations for inflation. In addition, "several" FOMC members think it will be appropriate to raise the federal funds rate "above its longer-run normal value for a time," and "some" want to prepare financial markets for a "neutral or restraining," that is, tight, monetary policy. In light of the March FOMC minutes' more hawkish tone, PNC expects the FOMC to next raise the federal funds target 0.25 percentage points in June, and to make one further 0.25 percentage point rate hike in 2018 in December. The Trump administration is exploring a wider range of trade policy options: In addition to tariffs on imports and re-negotiating NAFTA, President Trump has instructed his administration to negotiate US re-entry into the Trans Pacific Partnership. Joining the TPP would require the US to lower many of the tariffs it is raising in 2018. This eclectic policy strategy could be interpreted as an attempt to avoid trade-offs inherent in any substantial change to trade policy; this makes a sustained and substantial change in trade policy unlikely during this administration. The CPI index fell 0.1 percent in March and rose 2.4 percent from a year earlier, while CPI excluding food and energy (core CPI) rose 0.2 percent from February and 2.1 percent from March 2017. March's increase in headline CPI was the largest since March 2017, and the increase in core CPI the largest since February 2017. Energy prices rose 7.0 percent on the year in March, fueling much of the uptick in headline and (indirectly in) core inflation. The Bureau of Labor Statistics' job openings and labor turnover survey or JOLTS report showed job openings dipped to 6.05 million in February from 6.23 million in January; hires and separations both slowed on the month after a very strong January.

**EUROZONE:** The account or minutes of the ECB's March 7 and 8 Governing Council meeting voiced "caution" on the "more negative" impact on inflation of the euro's recent appreciation, which the Governing Council attributed to "relative monetary policy shocks… and less to improvements in the macroeconomic outlook for the euro area." PNC forecasts for the ECB to announce a six-month taper of its asset purchase program in September, and to cease QE in March 2019. PNC also forecasts for the ECB to raise their benchmark deposit rate 0.1 percentage points to -0.3 percent in September 2019. The ECB could withdraw monetary stimulus slower if the euro appreciates further against the dollar in the rest of 2018. Portugal's Prime Minister said in a speech April 11 that his country advocates a dovish replacement for ECB President Mario Draghi when Draghi's term ends in October 2019; the current front runner for the ECB Presidency, German Bundesbank President Jens Weidmann, supports a faster withdrawal of monetary stimulus than President Draghi or most other ECB Governing Council members do.

**CHINA:** PPI inflation slowed to 3.1 percent in year-over-year terms in March from 3.7 percent in February, and CPI inflation to 2.1 percent from 2.9 percent. CPI excluding food and energy was 2.0 percent in March, while services prices in the CPI basket rose 2.8 percent (medical services prices were up 6.8 percent on the year in March). Governor of the People's Bank of China Yi Gang said at a conference on April 12 that the first quarter's economic data were a little better than expected; PNC Economics expects real GDP growth to moderate from 6.9 percent in 2017 to 6.8 percent in year-over-year terms in the first quarter of 2018.

**CANADA:** Weak housing data support our forecast that the Bank of Canada will refrain from raising interest rates at its next monetary policy decision April 19. The Teranet-National Bank House Price Index™ was flat in March, its weakest month on history outside of a recession; prices rose in Vancouver and were flat in Toronto. The Toronto index was down 7.3 percent from its peak in July 2017. The Canada Real Estate Association reported home sales rose a seasonally-adjusted 1.3 percent in March; nevertheless, the first quarter was still the weakest since the first quarter of 2014. March's home sales fell 22.7 percent from a year earlier. The year-over-year increase in the CREA's price index was the slowest since December 2013. The rest of the economy is doing much better than the housing sector: The Bank of Canada's Business Outlook Survey pointed to a slight moderation in the investment outlook, but a steady sales outlook, and strengthening hiring intentions in the spring relative to three months earlier. Capacity pressures moderated slightly in the spring survey, but remain relatively high; labor shortages are not as widespread as prior to the great recession, but their intensity is comparable in regions and industries experiencing them. Inflation expectations firmed in the spring from the winter.

**UNITED KINGDOM:** More signs of a weak economy. Profitability of British businesses edged lower in the fourth quarter of 2017, with declines in service sector profitability more than offsetting improving manufacturing profitability. Manufacturing output grew the slowest in the three months through February 2018 since July 2017, and construction output plunged on the impact of adverse weather conditions.

**JAPAN:** Bank of Japan Governor Haruhiko Kuroda stated that the Bank of Japan will exit quantitative and qualitative easing at some point during the next five years during the press conference following his reappointment as Governor on April 10. This is not a particularly hawkish change in tone – five years is a very long time in monetary policy – but it is nevertheless a shift from Governor Kuroda, who previously would have said that it was too early to begin discussing an exit from the BoJ's stimulus program. We expect for the Bank of Japan to hold its target yields for short-term and long-term interest rates unchanged during 2018 at -0.1 percent and "around zero percent" respectively and for the BoJ to continue buying exchange traded funds and real estate investment trusts at unchanged paces. An increase in the long-term interest rate target is possible in 2019, but unlikely; the Japanese government will raise the value added tax 2 percentage points to 10 percent in October 2019, and the last time they raised this tax in 2014 it caused a recession. The BoJ will not want to tighten monetary policy ahead of a major tightening of fiscal policy.

**MEXICO:** Industrial production rose 0.4 percent in February from January and was up 0.7 percent from a year earlier. Manufacturing grew 0.6 percent from January, construction 0.5 percent, and utilities 0.8 percent, while mining fell 1.9 percent. From a year earlier, manufacturing output rose 0.9 percent, construction 4.0 percent, and utilities 3.1 percent, while mining fell 5.7 percent. The Bank of Mexico held its target interbank rate unchanged at 7.50 percent at its monetary policy decision April 12; we forecast for the Bank to begin reducing its policy rate in the second half of 2018 assuming that political tail risks are not realized in Mexico's July election.

**BRAZIL:** The Brazilian real has depreciated to more than 3.4 per US dollar, the weakest since December 2016, amid ongoing political turmoil. Former president Luiz Inacio Lula da Silva was jailed April 7 to begin a 12-year corruption sentence, removing the most popular candidate for the October presidential election from the running. But Reuters reports that his exit from the race is increasing support for left-leaning candidate Marina Silva; the real's depreciation reflects concerns that deficit cuts are less likely under a left-leaning Presidency (the current President Michel Temer, who is championing the unpopular deficit cuts, is from Brazil's center-right).



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