May 14, 2018

GLOBAL ECONOMIC HIGHLIGHTS

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MORE SOLID US LABOR DATA; CANADIAN JOBS DISAPPOINT; BANK OF ENGLAND ON HOLD AS EXPECTED

UNITED STATES: The Bureau of Labor Statistics Job Openings and Labor Turnover Survey or JOLTS report for March, released at a one-month lag to the payroll and household employment reports, confirmed a strong labor market in the spring months. The share of workers voluntarily leaving jobs rose to 2.3 percent of all payroll employment from 2.2 percent in February and January, matching December 2017 for the highest since September 2005. The hires rate was unchanged from February at 3.7 percent of all payroll employees and down from 3.8 percent in January which tied for the highest since October 2007. The CPI index rose a moderate 0.2 percent in April from March, below PNC's 0.3 percent forecast and despite a 1.4 percent increase in energy prices. CPI excluding food and energy or core CPI rose a modest 0.1 percent on the month. From a year earlier, CPI rose 2.4 percent in April and core CPI 2.1 percent, both unchanged from March after rounding.

CANADA: A disappointing April jobs report reinforces our expectation that Canadian interest rates will rise slower than US rates in the rest of 2018 and 2019. Canadian employment fell 1,100 in April from March, below the consensus forecast of a 20,000 gain and also below PNC's forecast for a 17,500 increase. Matching consensus and PNC's forecast, the unemployment rate held steady at 5.8 percent. Not all details were bad: Full-time employment rose by 28,800 and part-time fell 30,000, and Canadians working as employees grew 14,500, mostly offsetting a 15,600 drop in self-employed Canadians. With more workers in full-time jobs, total hours worked rose 1.9 percent on the year, faster than the 1.5 percent increase of total jobs. But negatives still outweighed positives. Construction employment fell 18,900 on the month and gave back March's weather-related gains, wholesale and retail trade employment fell 22,100, transportation and warehousing employment 2,600, and finance, insurance, real estate and leasing employment 1,400. By major demographic groups, full-time employment fell 16,800 among prime working-age (25+) men and rose 27,900 among prime working-age women; full-time employment of workers aged 15 to 24 rose 17,700, with part-time employment down 40,200. Statistics Canada reports that, adjusted to US concepts of unemployment, Canada's unemployment rate would have been 4.9 percent in April, close to the unemployment rates in the US states bordering on the Great Lakes. After April's disappointing job growth, Canadian labor market data are more in line with output data showing a cooler economy after the turn of 2018. Canada's housing downturn and NAFTA uncertainty are slowing hiring and capital spending. PNC Economics forecasts for the Bank of Canada to raise its overnight rate target only once more in 2018 at its July meeting, to 1.50 percent from 1.25 percent currently, and for a subsequent rate hike to 1.75 percent in January 2019. Canada's unemployment rate and inflation rate are around where the Bank of Canada expects them in a steady state economy. But non-monetary factors like tighter Canadian mortgage underwriting rules, NAFTA uncertainty, and higher US interest rates restrain Canadian growth enough that the Bank of Canada does not need to tighten policy as much as the Federal Reserve in the next 12 months.

UNITED KINGDOM: Matching PNC's and consensus forecast, the Bank of England held its policy bank rate steady at 0.50 percent at its May 10 decision. The BoE's May *Inflation Report* downgraded its forecast for real GDP growth in 2018 to 1.4 percent from 1.8 percent in the February *Inflation Report*, reflecting weak first quarter growth, and left forecasts for 2019 and 2020 mostly unchanged at around 1.75 percent; the BoE also reduced its forecasts for CPI inflation between 2018 and 2020 slightly, reflecting a faster-than-expected fade of the pound's depreciation from the CPI basket. Prime Minister Theresa May has divided her cabinet into two working groups to create competing proposals for the UK's post-Brexit trade relationship with the EU, one based on her "customs partnership" proposal, and one based on a "maximum facilitation" proposal – the EU likely sees both ideas as unworkable. EU President Donald Tusk has stated that the UK must propose a Brexit relationship by June that will guarantee an open border between Ireland and Northern Ireland or risk leaving with no trade deal; the impasse could cause the collapse of the British government, which is an alliance of hard Brexit Tory politicians, moderate Brexit Tories, and Northern Irish Democratic Unionist Party politicians who oppose the tradeoffs demanded by the EU if the UK chooses a hard Brexit.

EUROZONE: Political dysfunction continues in Italy. the country's two main anti-establishment political groups, the left-populist Five-Star Movement and the right-populist Northern League, are moving to form a coalition government that could draw Italy into a new conflict with the European Union over deficits, state support for troubled companies, and the balance between national sovereignty and EU oversight.

JAPAN: Bank of Japan governor Haruhiko Kuroda was upbeat on the Japanese economic outlook in a speech delivered to a Japanese audience May 10. Governor Kuroda believes Japan's economy is fully utilizing its productive capacity, and pointed to measures of labor market conditions at their best since the early 1990s. However, the BoJ expects growth to weaken when the government raises the value added tax from 8 percent to 10 percent in October 2019. This headwind will keep the Bank of Japan far behind other advanced economy central banks in withdrawing monetary stimulus. The BoJ could further reduce government bond purchases in late 2018 or 2019, but will likely wait until after the economy adjusts to the higher value added tax before raising its targets for short-term or long-term interest rates or reducing purchases of exchange traded funds or real estate investment trusts.

CHINA: Higher US interest rates are again pulling capital out of China. Foreign reserves fell $18 billion dollars to $3.124 trillion in April, and are down a cumulative $36.6 billion since January; they are still above their level in January 2017 of $2.998 trillion, which was the lowest since March 2011. A tighter monetary stance is keeping credit growth slow by Chinese standards. The broad M2 money supply grew 8.9 percent from a year earlier in April, close to March's 8.8 percent increase. Aggregate financing to nonfinancial sectors grew 10.5 percent on the year and total loans 12.7 percent. Adjusting for inflation, money supply grew roughly 5.7 percent on the year in April and aggregate financing 7.3 percent – on pace with real GDP.

INDIA: Growth is solid, but the Reserve Bank of India will have to tighten monetary policy in the rest of 2018. The index of industrial production rose 6.2 percent from a year earlier in the first quarter of 2018, the fastest in seven quarters, with manufacturing output up 7.2 percent, electricity output 6.1 percent, and mining output 1.0 percent. The IP index's growth eased in March to 4.4 percent from 7.1 percent in February and 7.4 percent in January, but month to month numbers can be volatile. India's economy is benefitting from spillovers from stronger global growth in 2018, but underlying inflation is also picking up: Headline CPI is being held down in the near-term by slow food price increases, but CPI excluding food and energy grew 5.2 percent in year-over-year terms in March, the fastest since February 2016. With global oil prices back up, domestic trend inflation rising, and US 10-year government bond yields around 3 percent, financial markets price in 70 percent odds of a 0.25 percentage point rate hike at the Reserve Bank of India's June 6 monetary policy decision to 6.25 percent, and another 0.25 percentage point rate hike to 6.50 percent by year-end 2018.

MEXICO: Industrial production was unchanged on the month and the year in March, with mining down 1.5 percent on the month, utilities production 4.3 percent, and construction down 0.7 percent, offset by a 2.1 percent monthly increase in manufacturing; from a year earlier, manufacturing production rose 3.4 percent, the fastest since August 2017. Fixed capital spending grew 0.5 percent from a month earlier in February and 4.9 percent from a year earlier, with spending on imported machinery and equipment up 12.3 percent. CPI inflation slowed to 4.6 percent in April from 5.0 percent in March, with core services inflation slowing from 3.5 percent to 3.1 percent, near the Bank of Mexico's 3 percent medium-term target.