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GLOBAL ECONOMIC HIGHLIGHTS

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US & CANADIAN INDUSTRIAL PRODUCTION RISES SOLIDLY; GDP GROWTH ABOVE TREND IN EUROZONE & JAPAN

UNITED STATES: US industry strengthened in April, while housing softened after strong growth in the first quarter. Industrial production rose 1.0 percent in April from March, the biggest one-month gain since February 2014, and beating the consensus expectation for a 0.3 percent increase. Gains were broad-based: Manufacturing production rose 1.0 percent, mining production 1.2 percent, and utilities production 0.7 percent. The March increase was revised slightly lower to 0.4 percent from 0.5 percent. The capacity utilization rate rose to 76.7 percent, from 76.1 percent in March (unrevised), and the manufacturing rate rose to 75.6 percent from 75.2 percent. April marked a third consecutive month of rising industrial production, although it is still down 1.4 percent from its all-time high in November 2014. A number of factors have fueled industry's improvement over the past year. Mining production fell 18 percent from late 2014 to mid-2016 as energy prices plunged, but steadily rose since then as energy prices stabilized. Manufacturing is expanding with greater demand from the energy industry, a pause in the strengthening of the U.S. dollar, and steady growth in consumer spending. PNC is forecasting industrial production growth of 1.6 percent this year and 2.5 percent next year, after a decline of 1.2 percent in 2016. Housing starts and permits both fell in April, by 2.6 percent and 2.5 percent, respectively. On a year-over-year basis, starts were up a scant 0.7 percent in April, while permits were up a better 5.7 percent. The slowdown in housing starts likely reflects give-back after above-trend growth during the mild winter months rather than fundamental weakness. PNC expects housing starts to grow more than 7 percent in 2017 from 2016, with another increase in 2018. Improving residential construction will be driver of economic and job growth this year and next. The major downside risk to the outlook for homebuilding is faster-than-expected increases in mortgage rates, but after recent months' retreat of long-term interest rates from their early-2017 highs, mortgage rates are not currently holding back home buyers.

CANADA: Echoing the strong US industrial production report, Canadian manufacturing sales rose 1.0 percent in value terms in March from February to a record high. Manufacturing volumes sold also rose, although by less, 0.2 percent on the month. Manufacturing inventories rose 1.2 percent on the month, also to a record high. With both inventories and sales higher, the inventories to sales ratio was stable at 1.35 months, close to its 2012 to 2017 average and up from very low levels in early 2017.

EUROZONE: Above-trend growth continues. Real GDP grew 1.7 percent in year-ago terms in the first quarter of 2017 according to Eurostat's first estimate, unchanged from the full year of 2016. While encouraging, the Eurozone's above-trend growth will not accelerate the ECB's withdrawal of monetary stimulus: The ECB forecast 1.8 percent real GDP growth in 2017 and 1.7 percent growth in 2018 in its March 2017 projections, and in the same month committed to continuing to purchase assets (a.k.a. QE) at a €60 billion euro per month rate through year-end 2017.

JAPAN: Growth is above trend in Japan as well as in the Eurozone. The first estimate of real GDP growth for the first quarter of 2017 will be released overnight tonight in US timezones and is expected at around 1.7 percent in annualized quarter over quarter terms.

UNITED KINGDOM: As expected, the Bank of England held the bank rate unchanged at 0.25 percent at last Thursday's Monetary Policy Committee (MPC) decision. The MPC's Policy Statement said that the BoE could raise the bank rate faster than anticipated by private financial market interest rates if "the adjustment to the



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United Kingdom's new relationship with the European Union is smooth." This statement implies that if Brexit is not "smooth," the BoE could instead delay the normalization of British interest rates, or could even restart its quantitative easing program.

AUSTRALIA: Consumer spending is sputtering along amid clear downside risks. Credit card balances grew a tepid 0.8 percent in March from a year earlier, slower than the 1 to 2 percent pace seen between early-2016 and February 2017. Vehicle sales rose 0.1 percent in April from a year earlier, only the second increase in year-over-year auto units sold since October 2016. In addition, consumer confidence, according to the ANZ Roy Morgan and the Westpac indices, has been trending lower since late-2016, though both indices remain higher than their 2015 averages. Looking ahead, gradual improvement in the job market will keep consumer spending on an upward trajectory, but high household debt burdens, rising housing costs, underemployment, and weak income growth will keep consumer spending subdued. Downside risks to consumer spending make the Reserve Bank of Australia unlikely to raise its policy rate from its current 1.5 percent in 2017.

CHINA: Monthly activity indicators softened in April as the government slowed fiscal spending growth. Value added of industry grew 6.5 percent in year-over-year terms after 7.6 percent growth in March, growth of investment in fixed assets slowed to 8.1 percent from 9.5 percent, and growth of private investment in fixed assets slowed to 4.9 percent from 7.8 percent. Retail sales growth slowed to 10.7 percent from 10.9 percent, with durable goods sales growing 8.5 percent after 10.7 percent. Commercial property sales grew 7.7 percent in April, less than March's 14.7 percent growth. Broad credit financing to the real economy grew 12.3 percent on the year, a growth rate which is within a few tenths of a percentage point of that which Chinese regulators have maintained since mid-2015. Since credit growth is stable, the slower activity in April suggests that fiscal stimulus spending has softened after the government saw the first quarter's 6.9 percent real GDP growth exceeded their 6.5 percent target for growth in the full year.

MEXICO: Employment grew 2.1 percent from a year earlier in the first quarter of 2017, between the 1.0 percent year-ago growth of the fourth quarter of 2016 and the 2.6 percent year-ago growth of the third quarter of 2016. In the first quarter of 2017, employment grew 1.9 percent in the service sector, 3.1 percent in industry, and 1.6 percent in agriculture; a rising share of employment in the industrial sector is positive for Mexico's long-run growth prospects, since productivity is higher in industry than in agriculture or services, and since productivity growth is faster in industry than in agriculture or services.

BRAZIL: Recovery! The central bank's monthly proxy for real GDP growth, the IBC-Br index, receded 0.4 percent in March after a strong 1.4 percent monthly increase in February and 0.4 percent monthly growth in January. Even after March's monthly decline, the IBC-Br index grew a strong 4.6 percent in the first quarter of 2017 in annualized quarter-over-quarter terms, and was stable in year-over-year terms. Brazilian activity indicators have finally begun to catch up with the stock market and sentiment surveys, which have signaled recovery since 2016.

INDIA: Inflation is benign. Headline and core CPI inflation slowed to 3.0 percent and 4.3 percent, respectively, in year-ago terms in April from 3.9 percent and 5.0 percent respective increases in March. April saw the slowest core CPI inflation (which omits prices of food and energy components of the CPI basket) since the current data series began in January 2012. The Indian statistical agency upwardly revised growth rates of its industrial production index in a revision announced this month; industrial production grew 5.0 percent in the April 2016 to March 2017 Indian fiscal year in the new series versus 0.7 percent in the old series. India's Central Statistics Office updated the weights of subsectors in the revised survey to make them more representative of Indian manufacturing; while this methodological change should in theory help the index better reflect the state of Indian industry, the old index's contraction in December 2016 (after India's November 2016 demonetization) was more consistent with the privately-compiled Nikkei manufacturing PMI, which also fell into contractionary territory in the month – by contrast, the revised industrial production index rose 0.9 percent on the year in December.

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