

May 31, 2017

GLOBAL ECONOMIC HIGHLIGHTS

Gus Faucher
Chief Economist

Stuart Hoffman
Senior Economic Advisor

William Adams
Senior Economist

Kurt Rankin
Economist

Mekael Teshome
Economist

THE PNC FINANCIAL SERVICES GROUP | The Tower at PNC Plaza | 300 Fifth Avenue | Pittsburgh, PA 15222-2401

US INFLATION SLOWS, BUT FED STILL EXPECTED TO HIKE IN JUNE; SOLID GROWTH IN CANADA IN EARLY 2017

UNITED STATES: The Fed's preferred measure of inflation, the personal consumption expenditures price index, rose 0.2 percent in April from March, as did the core PCE index (which excludes food and energy). From a year earlier, PCE inflation was 1.7 percent, down from 1.9 percent in March, and core PCE also slowed, to 1.5 percent from 1.6 percent. Fed Governor Lael Brainard, one of the more dovish open market committee members, said in a speech Tuesday that while a rate hike could be warranted "soon" (i.e. at the Fed's June meeting), the recent slowdown in inflation might warrant reassessing the pace at which the Fed raises rates in the second half of 2017 and in 2018 if it is sustained. Fundamentals have yet to provide upward support for oil prices. The IEA's May Oil Market Report modestly revised down the forecast for global demand in the first half of 2017 by 115,000 barrels per day after slower than expected consumption growth in the US, Germany, Turkey, and India, although the forecast for full-year demand was unchanged. The IEA also revised up its forecast for US crude production in 2017 by 100,000 barrels per day, and raised its forecast for oil production by all non-OPEC economies by 110,000 barrels per day.

CANADA: Payroll employment rose 8,100 in March from February and 265,000 or 1.7 percent from a year earlier, a smaller monthly increase than March's 19,400 increase in household employment. Average weekly earnings rose 0.9 percent on the year in March, lagging inflation. Real GDP grew 0.5 percent in March from February, with goods producing output up 0.9 percent and services up 0.3 percent. Real GDP grew 3.7 percent annualized in the first quarter of 2017 from the fourth quarter of 2016. Mild winter weather, strong investment in residential and non-residential fixed investment, and rebuilding of manufacturing and wholesale inventories fueled the first quarter's strong growth. PNC Economics expects Canada's May household jobs report to show 11,300 jobs added from April when it is released next Friday, June 9.

EUROZONE: The unemployment rate dropped to 9.3 percent in April from 9.4 percent in March (downwardly revised from 9.5 percent in the prior release) and reached the lowest since March 2009. A recovering job market is not fueling higher inflation, though: Consumer price inflation as measured by the HICP was 1.4 percent in year-ago terms in May, down from 1.9 percent in April, and core inflation (excluding energy, food, alcohol and tobacco) slowed to 0.9 percent from 1.2 percent. Much of the dip in inflation was from slower increases in energy prices, which increased 4.6 percent on the year in May, slower than April's 7.6 percent, and from a slowdown in services inflation, which was deceptively high in April because of residual seasonal variation around the Easter holiday.

JAPAN: Inflation is still well under the Bank of Japan's 2.0 percent target. CPI rose 0.1 percent in April from March and 0.4 percent from April 2016. Core CPI measures also point to tepid price pressures: CPI less food rose 0.0 percent on the month and 0.3 percent on the year, and CPI less food and energy 0.1 percent on the month and was unchanged on the year. The May provisional report on CPI for the Tokyo metropolitan region showed headline and core prices up 0.2 percent and 0.1 percent, respectively, on the month, and up 0.2 percent and 0.0 percent, respectively, on the year. The Bank of Japan's other measures of core inflation (trimmed mean inflation, weighted median inflation, and mode inflation) all point to trend inflation between 0.00 and 0.25 percent in year-ago terms in their latest release May 30.

GLOBAL ECONOMIC HIGHLIGHTS

UNITED KINGDOM: The pound weakened to \$1.28 US dollars per British pound sterling this week on news which suggested the British economy is weaker than it had previously seemed, and that the outlook for British politics is messier than it had previously seemed. First quarter real GDP growth was revised down to 0.2 percent (not annualized; 0.8 percent in annualized quarter over quarter terms) in the second estimate for the first quarter of 2017 from 0.3 percent in the first estimate. Weak consumer spending was a drag, held back by high inflation which eroded purchasing power. From a year earlier real GDP grew a moderate 2.0 percent in the first quarter. A poll suggested this week that the conservative Tory party could lose their outright majority in parliament in the June 8 special election, casting uncertainty over the government's strategy for breaking with the European Union.

CHINA: Sentiment surveys point to continued moderate growth in the second quarter. The government-compiled CFLP manufacturing PMI was unchanged at 51.2 in May, and the CFLP nonmanufacturing PMI rose to 54.5 from 54.0 and essentially matched its average since the fourth quarter of 2016.

MEXICO: The unemployment rate edged up to 3.6 percent in April from 3.5 percent in February and March, which had been a cyclical low. The labor force participation rate fell to 59.3 percent from the 59.8 percent of both March 2017 and April 2016. April's uptick in unemployment and drop in labor force participation might just be artifacts of seasonal adjustment problems around the Easter holiday. But it is unsurprising to see the labor market soften given the headwinds of uncertain trade relations with the US, higher Mexican interest rates, and rising retail prices of gasoline and liquid petroleum gas. If Mexican economic growth continues at the 2.6 percent year-ago pace of the first quarter of 2017, the unemployment rate will likely stabilize or fall in the rest of 2017; however, downside risks to Mexican growth still exceed upside risks. The Bank of Mexico will notice April's softer jobs data but will not change its hawkish monetary stance unless the job market weakens substantially more. The Bank of Mexico's top priority is supporting the peso, not growth. They plan to keep raising interest rates more aggressively than the Fed in the remainder of 2017 and in 2018 to support the value of the peso, hold down import prices, and reduce inflation.

BRAZIL: The unemployment rate was 13.6 percent in the February to April quarter (not adjusted for seasonal variation), up from 12.6 percent in the November to January quarter and 11.2 percent in the February to April quarter of 2016. The net employment rate (the share of persons aged 14 and older in employment) was 53.2 percent in the most recent quarter, down from 53.7 percent in the prior quarter, 54.6 percent in the year-ago period, and 57.3 percent in the fourth quarter of 2013. Despite the increase in the unemployment rate, Brazil had likely edged into recovery in early 2017 – the unemployment rate tends to improve more slowly than output indicators like real GDP. However, Brazil's return to political crisis after the release in May of a recording which seemed to implicate President Temer in the country's sweeping corruption scandal creates new downside risks to growth.

INDIA: The economic drag from demonetization is showing up in India's GDP accounts after a lag. Real GDP growth measured by the expenditure accounts slowed to 6.1 percent in year-over-year terms in the first quarter of calendar year 2017 from 7.0 percent in the fourth quarter of 2016. By the production accounts, gross value added (an alternative measure of GDP) grew an even slower 5.6 percent in year-over-year terms, down from 6.7 percent in the prior quarter. Gross fixed capital formation fell 2.1 percent from a year earlier in the first quarter of 2017. Falling investment demonstrates the production bottlenecks and weak demand caused by India's withdrawal of higher-value banknotes, and more broadly, the limits of President Modi's strategy of accelerating investment approvals to boost economic growth.

Disclaimer: The material presented is of a general nature and does not constitute the provision of investment or economic advice to any person, or a recommendation to buy or sell any security or adopt any investment strategy. Opinions and forecasts expressed herein are subject to change without notice. Relevant information was obtained from sources deemed reliable. Such information is not guaranteed as to its accuracy. You should seek the advice of an investment professional to tailor a financial plan to your particular needs. © 2017 The PNC Financial Services Group, Inc. All rights reserved.

Visit <http://www.pnc.com/economicreports> to view the full listing of economic reports published by PNC's economists.