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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

AFTER JULY'S SOLID CANADIAN JOBS REPORT, THE BANK OF CANADA IS LIKELY TO HIKE RATES IN OCTOBER

CANADA: Another solid Canadian jobs report: Employment grew 10,900 in July from June and the unemployment rate fell 0.2 percentage points to 6.3 percent, its lowest since October 2008. From a year earlier, employment grew 2.1 percent in July, with full-time employment up 2.4 percent and part-time employment up 1.9 percent. Other measures of the quality of jobs added in July held less positive implications for wage and income growth: Employment of employees fell 2,400 in July from June, while employment of self-employed Canadians grew 13,200. Goods-producing employment likewise was little changed on the month, with 13,700 jobs added in manufacturing offsetting a 9,100 job decline in construction. Services employment grew 9,000 on the month, with educational services down 32,000 (possibly seasonal noise?) and retail and wholesale trade employment up 21,900. Employment in finance, insurance, rental and leasing services, which includes real estate-related employment, fell 2,200 in July from June. Despite so-so details, the July jobs report's solid headline increase makes another rate hike from the Bank of Canada likely in the fall. Canadian real GDP and employment grew solidly in the first seven months of 2017, and the broad-based strength of most of Canada's economy is, at least so far, offsetting weakness in housing and construction. In the base case, the Bank of Canada's next move will be a 0.25 percentage point policy rate hike in October, raising the overnight rate target to 1.0 percent from its current 0.75 percent. If the Federal Reserve changes course and signals faster plans to raise US interest rates, or the US government moves to enact fiscal stimulus, a Bank of Canada policy rate hike would become possible in September. On the other hand, the Bank of Canada could wait until later in 2017 or even delay a next rate hike to 2018 if the housing correction deepens in coming months. Recent declines in employment in construction and real-estate services suggest the sector should be watched closely.

UNITED STATES: The US job market continues to tighten. Nonfarm payroll employment rose 209,000 in July from June, with 2,000 in upward revisions to job growth in May and June, a bit stronger than PNC Economics' expectations. The unemployment rate returned to its cyclical low of 4.3 percent from 4.4 percent in June, matching our expectations. The U6 alternative measure of unemployment, which includes underemployed and discouraged workers as well as unemployed people who are actively seeking a job, was unchanged at 8.6 percent. Average hourly earnings rose 0.3 percent on the month, close to our expectation for a 0.4 percent monthly increase, and rose 2.5 percent in year-ago terms, matching our expectation and unchanged from June. The IHS Markit services PMI rose to 54.7 in July, the strongest in six months, from 54.2 in June.

UNITED KINGDOM: As expected, the Bank of England's Monetary Policy Committee held the bank rate unchanged at 0.25 percent at their August 3 monetary policy decision. The *Agents' Summary of Business Conditions* survey for July shows recruitment difficulties intensifying, but not as intense as in the second half of 2015. Employment intentions rose in services from May, with business service employment intentions higher and consumer service employment intentions lower. Turnover weakened on the quarter in consumer service industries and held steady in business services. Investment intentions point to modest growth in capital spending. The Markit/CIPS services PMI rose to 53.8 in July from 53.4 in June, and the Markit/REC report on jobs reported permanent and temporary placements growing at the fastest in 27 months in July. Job growth is reportedly slowest in London, where Brexit is a drag on hiring and sentiment.

JAPAN: Above-trend economic growth continues in Japan. The Nikkei services PMI dipped to a still-solid 52.0 in July from 53.3 in June.

EUROZONE: Above trend economic growth continues in the Eurozone as well: The IHS Markit services PMI at 55.4 in July was unchanged from June.

AUSTRALIA: Central bankers marked down their forecast for economic growth and marked up their forecast for inflation in the Reserve Bank of Australia's latest quarterly Statement on Monetary Policy. The modified forecasts are still consistent with PNC Economics' expectation that the RBA will hold the target cash rate at 1.50 percent in 2017 and will start the next rate hike cycle in the second half of 2018. The RBA lowered the midpoint of its forecast range for real GDP growth in 2017 to 2.25 percent from a midpoint of 2.50 percent in their May forecasts. The midpoint of the forecast for growth in 2018 was lowered to 3.0 percent from 3.25 percent. The RBA bumped up the midpoint of its forecast for CPI inflation in the second quarter of 2018 to 2.25 percent, from 2.0 percent in its previous forecast. The Aussie dollar unexpectedly appreciated nearly 7 percent between the May and July Statements. The RBA reckons the dollar's strength could take some steam out of growth by weakening exports and raising imports. They raised their inflation forecast because of a larger-than-expected increase in the minimum wage that took effect in July. Even so, these forecast changes are not large enough to warrant an altered course for monetary policy.

CHINA: China's economy is growing on trend at the open of the second half of 2017. Imports grew 11.0 percent on the month in July, down from 17.2 percent in June, and exports grew 7.2 percent on the year, down from 11.3 percent in June. CPI inflation was little changed at 1.4 percent in year-ago terms in July after 1.5 percent in June and May, and PPI inflation was unchanged in July from June at 5.5 percent in year-over-year terms. The Caixin general services PMI rose to 51.9 in July, its strongest in four months, from 51.1 in June. Foreign reserves rose $23.9 billion to $3.08 trillion in July, reaching their highest since October 2016, as the value of reserve assets denominated in non-dollar currencies increased in US dollar terms.

BRAZIL: CPI inflation slowed to 2.7 percent in year-ago terms in July from 3.0 percent in June. Inflation in service prices also slowed, to 5.4 percent from 5.7 percent in June. The IHS Markit services PMI rose to a still contractionary 48.8 in July from 47.4 in June. Brazil is on track for a modest expansion in 2017.

MEXICO: Real capital spending grew 2.9 percent in May from April and rose 1.1 percent from a year earlier. Spending on machinery and equipment grew 2.5 percent on the month and 5.9 percent on the year, while construction spending grew 1.9 percent on the month and fell 2.4 percent on the year. Non-residential construction spending fell 5.7 percent on the year. Weak nonresidential construction is a knock-on effect of low oil prices, which constrain public infrastructure investment and energy industry capital spending.

INDIA: The Nikkei services PMI plunged to 45.9 in July from 53.1 in June, reaching its lowest since September 2013 (when the taper tantrum roiled Indian financial markets). July's plunge in business activity is a consequence of the July 1 roll-out of India's new Goods and Services Tax (GST), a sales tax which will replace and standardize a cobweb of other region- and product-specific sales taxes. While a simpler tax system could be positive for growth over time, for now Indian consumers and businesses are treating the GST as a tax increase: Consumers stocked up on purchases ahead of its roll-out and businesses raised prices subsequent to it, passing on the tax increase to customers (The PMI survey reported a surge in prices charged in July). A drop in business activity after a tax increase usually lasts for one to three quarters, so if the GST does in fact raise effective tax rates, its headwind to growth will likely persist beyond July.

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