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GLOBAL ECONOMIC HIGHLIGHTS

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NEW ERA AT THE FEDERAL RESERVE; UK BREXIT BILL DEAL; GLOBAL PMI SURVEYS REACH MULTI-YEAR HIGHS

UNITED STATES: President Trump's nominee for Fed Chair (and current governor) Jay Powell's Senate testimony on November 28 opened a new era for the central bank. Governor Powell reaffirmed continuity on interest rates with the Yellen Fed, saying "We expect interest rates to rise somewhat further and the size of our balance sheet to gradually shrink" – consistent with Chair Yellen's forward guidance. But Governor Powell also signaled he was thinking of how to cushion the next downturn when it occurs, saying "we must be prepared to respond decisively and with appropriate force to new and unexpected threats to our nation's financial stability and economic prosperity." If a future economic downturn forces the Fed to revive unconventional monetary policy, the nomination of Marvin Goodfriend to the Federal Reserve Board on November 29 could push the Fed toward negative interest rates instead of quantitative easing as a response. Professor Goodfriend is a critic of QE and advocate of negative rates as an alternative. In Governor Powell's November 28 testimony, he also said he expects the Fed's balance sheet reductions to end when the balance sheet reaches "A range of two and a half to three trillion" US dollars, with the final amount determined by the quantity of reserve assets and cash demanded by the public. Finally, Governor Powell signaled his intention to "consider appropriate ways to ease regulatory burdens while preserving core reforms." US economic data are solid. The second estimate for real GDP in the third quarter of 2017 revised growth up to 3.3 percent in quarter over quarter annualized terms from 3.0 percent in the first estimate. The third quarter's growth is the fastest since the third quarter of 2014. From a year earlier, real GDP grew 2.3 percent in the third quarter, up from 2.2 percent in the second and 2.0 percent in the first; the third quarter was the fastest year-ago increase in real GDP since the third quarter of 2015.

UNITED KINGDOM: The UK and EU have reportedly reached an agreement on the size of the UK's "Brexit bill" payment to the EU for liabilities related to standing commitments to EU institutions. The UK will make a gross payment to the EU of £89 billion pounds and a net payment of around £53 to £58 billion pounds, or about 8 percent of the UK government's total expenditures in the most recent 2016-2017 fiscal year. The Guardian reports that EU leaders will formally sign off on the amount of the Brexit bill at the December 14 and 15 European Council meeting. The European Commission made legislative proposals November 29 to move the European Medicines Agency and European Banking Authority from London to Amsterdam and Paris, respectively. Meanwhile, the government of the Republic of Ireland is demanding assurance that the EU not approve any trade agreement with the UK that would permit a hard border at the Irish-UK border in Northern Ireland. The Markit/CIPS manufacturing PMI rose to a 51-month high of 58.2 in November from 56.6 in October.

EUROZONE: The Markit manufacturing PMI for the Eurozone rose to 60.1 in November, its strongest since April 2000 and the second strongest since the survey began in 1997. The flash release of the services PMIs rose to 56.2 from 55.0 and was the strongest in six months. The unemployment rate fell to 8.8 percent in October from 8.9 percent in September and was the lowest since January 2009. The benchmark HICP inflation index rose 1.5 percent in year-ago terms in November, within 0.1 percentage points of the prior three months' releases. HICP excluding energy, food, alcohol and tobacco was unchanged from October at 0.9 percent; service price inflation also was unchanged, 1.2 percent in year-over-year terms.

CANADA: The Bank of Canada's Financial System Review for November 2017 again highlighted high household indebtedness, principally mortgage debt, and imbalances in the housing market as the key financial risks facing its economy; the BoC cited its two 0.25 percentage point rate hikes in July and September 2017 and added restrictions on mortgage underwriting practices as policies that will over time address these vulnerabilities. After 79,500 jobs added in the household jobs report for November and the unemployment rate falling to 5.9 percent from 6.3 percent, the Bank of Canada is likely to raise the overnight rate target either at its upcoming decision on December 6 or, if not then, at its subsequent decision on January 17. Canadian real GDP growth moderated to 1.7 percent in annualized quarter over quarter terms in the third quarter of 2017 from 4.3 percent in the second quarter. In September, monthly real GDP grew 0.2 percent after a 0.1 percent decline in August, and was up 3.3 percent from a year earlier.

JAPAN: The Nikkei flash manufacturing PMI rose to 53.8 in November, the strongest since March 2014, from 52.8 in October. Consumption expenditures of 2- or more person households rose 0.3 percent by value in year-ago terms in October and were flat after inflation. The seasonally-adjusted unemployment rate was unchanged at 2.8 percent in October, where it has held for seven of the eight prior months; employment grew 0.9 percent in year-ago terms, consistent with further above-trend real GDP growth. Headline and "core-core" CPI (excluding food and energy) both increased 0.2 percent in year-ago terms in October, far from the Bank of Japan's 2.0 percent target. In Tokyo, headline and core-core CPI rose 0.3 percent and 0.2 percent, respectively, in the November preliminary release in the same terms.

AUSTRALIA: The Westpac-Melbourne Institute leading index increased moderately in October, supporting PNC's positive outlook on Australia's economy for the next few months. The leading index grew an annualized 0.4 percent over the prior six months, its first increase since May. An increase in aggregate hours worked contributed most to the index's October rise, thanks to an increase in full-time employment. A wider yield spread and an increase in building permits also added to the upturn. On the downside, softer commodity prices weighed heavily on the index, as they have for the most of this year. It is still too early to declare that the index is decisively on an upward trajectory. Nevertheless, even a moderate improvement in coming months driven by a stronger job market would support PNC's forecast that Australia's economy will grow by 2.4 percent in 2017 and accelerate to 2.7 percent in 2018.

CHINA: Chinese growth data mostly look stable: The CFLP manufacturing PMI for China edged up to 51.8 in November from 51.6 in October, and the nonmanufacturing PMI similarly rose to 54.8 from 54.3. Industrial profits grew 23.3 percent in year-ago terms in the first ten months of 2017. The Caixin China general manufacturing PMI edged down to a 5-month low of 50.8 in November from 51.0 in October; the export-heavy sample of companies in the Caixin survey could be seeing headwinds from the yuan's recent appreciation against the dollar.

MEXICO: The Mexican statistical agency's indicator of manufacturing business confidence was unchanged for a third consecutive month at 49.4 in November, and the Markit manufacturing PMI for Mexico bounced back to 52.4 in November after a drop to 49.2 in October related to Mexico's recent earthquakes. Growth is holding stable at a below trend rate.

BRAZIL: Real GDP grew 0.6 percent in seasonally-adjusted annualized terms in the third quarter of 2017 from the second, down from 2.7 percent annualized in the second quarter and 5.3 percent annualized in the first. From a year earlier, real GDP grew 1.4 percent in the third quarter, the fastest since the first quarter of 2014. The third quarter's GDP report was a modest disappointment relative to the 2.3 percent annualized quarterly growth of the central bank's proxy for real GDP, the IBC-Br index, in the same period. Brazil is trending toward 0.75 to 1.0 percent real GDP growth for the full year of 2017, and will likely see growth pick up to 2.0-2.5 percent in 2018 if political risks stay contained and the Central Bank of Brazil continues to cut interest rates. Employment grew 1.8 percent from a year earlier in the August-September-October period, faster than GDP, a sign that output growth is likely to accelerate. The Markit manufacturing PMI for Brazil rose to an 81-month high of 53.5 in November from 51.2 in October.

INDIA: Weak details in India's third quarter GDP report suggest the quarter's pickup is unlikely to be sustained. Real GDP growth accelerated to 6.3 percent in the third quarter from 5.7 percent in the second.

Imports were less of a drag on growth in the third quarter, and fixed capital formation made a larger contribution to growth. However, a significant share of real GDP growth came from businesses adding to stocks of unsold inventories and purchases of valuables (1.5 of 6.3 percentage points) and the statistical discrepancy also made a significant (0.8 percentage point) contribution to growth. The production approach GDP accounts (also called gross value added) showed a smaller pickup in the third quarter, to 6.1 percent year-ago growth from 5.6 percent in the second quarter. The Reserve Bank of India will likely leave the policy rate unchanged at its next decision on Wednesday December 6, and could signal they lean toward raising interest rates in 2018.

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