November 25, 2019

GLOBAL ECONOMIC HIGHLIGHTS

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MORE GOOD NEWS FROM US HOMEBUILDING IN OCTOBER; MANUFACTURING PMI EDGES UP IN US, BUT WEAK ABROAD

UNITED STATES: Homebuilding has turned positive for US growth after weighing on it for nearly two years. Housing starts rose 3.8 percent in October from September to 1.314 million at a seasonally-adjusted annualized rate; September's level was revised up 0.8 percent. October saw a 2.0 percent increase in single-family starts and an 8.6 percent increase in multifamily starts. Residential construction permits likewise rose, by 5.0 percent, and September's level was revised up 0.3 percent. Single-family permits rose 3.2 percent and multifamily permits 8.2 percent. Permits rose to the highest level since May 2007 in October. The past nine months' big drop in mortgage rates was key to residential construction's recovery. While mortgage rates have moved up a bit in recent weeks, they are still well below their highs earlier this year. An excellent labor market and solid income growth also are boosting consumer housing demand. Residential investment was positive for GDP growth for the first time in seven quarters in the third quarter of 2019, and will remain positive for growth into early 2020. This will offset some of the drag from trade uncertainty, weak foreign growth, and a strong US dollar. Existing home sales rose 1.9 percent in October, partially offset by a 0.4 percent downward revision to September.

The minutes from the Federal Open Market Committee's October 30 meeting showed its members do not expect to cut rates again near term; the FOMC cut the fed funds target 0.25 percentage point to a range of 1.50 to 1.75 percent in October, the third cut in as many meetings. "Most participants judged that the stance of policy, after a 25 basis point reduction at this meeting, would be well calibrated to support the outlook of moderate growth, a strong labor market, and inflation near the Committee's symmetric 2 percent objective and likely would remain so as long as incoming information about the economy did not result in a material reassessment of the economic outlook." This view is consistent with more recent congressional testimony from Fed Chair Jay Powell. Two FOMC members (George and Rosengren) dissented against the rate cut, voting to keep the fed funds rate unchanged. And the minutes say that "a couple of participants" in favor of a rate cut viewed it as a "close call." But "many" members thought a rate cut was "appropriate in light of persistent weakness in global growth and elevated uncertainty regarding trade developments." The minutes also say that "Many participants also cited the level of inflation or inflation expectations as justifying" the October cut, noting that inflation remains below the committee's 2 percent objective and inflation expectations are near historic lows.

Risks to growth and inflation remain weighted to the downside, but monetary policy is now modestly stimulative, an offset to these downside risks. PNC forecasts for the fed funds target to remain at its current level through year-end 2020. The Federal Reserve continues to follow through on its October 11 commitment to grow its balance sheet $60 billion per month through at least the second quarter of 2020; the balance sheet was $4.03 trillion November 20, up $60 billion from $3.97 trillion on October 23; its trough was $3.76 trillion August 28. The first headline business sentiment surveys improved sequentially in November: The Markit manufacturing PMI rose to 52.2, the best since April, in the November flash estimate from 51.3 in October, while the services PMI rose to 51.6 from 50.6, which was the weakest since February 2016.

CHINA: Chinese commercial banks' benchmark lending rate, the lending prime rate, edged down 0.05 percentage point to 4.15 percent in November, reflecting pass-through of the central bank's equal sized cuts to its seven-day and one-year policy rates during the month.

UNITED KINGDOM: Sentiment surveys suggest the British economy is shrinking in the fourth quarter after growth in the third (according to the first estimate of real GDP) and contraction in the second. The Markit/CIPS manufacturing PMI dipped to 48.3 in November from 49.6 in October. The services PMI fell to 48.6 from 50.0 and was the weakest since July 2016. The Confederation of British Industry’s monthly orders index edged up to -26 in November, the fourth worst since 2010, from -37 in October, the worst since 2010.

JAPAN: The services sector returned to growth in November, but the manufacturing and export sectors still show contraction. Exports fell 9.2 percent on the year in October and imports 14.8 percent; these are the largest year-over-year declines of both exports and imports since October 2016. The Jibun Bank manufacturing PMI edged up a hair to 48.6 in the November flash estimate from 48.4 in October and still indicated moderate contraction of manufacturing, while the services PMI rebounded to 50.4, indicating modest growth, from October’s contractionary 49.7.

EUROZONE: EU car sales indicate some green shoots for the German auto industry in the fall months. EU new car registrations rose 8.7 percent on the year in October after 14.5 percent growth in September. Construction output rose 0.7 percent in September from August but dipped 0.7 percent on the year, with September revised down modestly. The Markit manufacturing PMI for the Eurozone rose to a still bad 46.6 in the November flash estimate from 45.9 in October, while the services PMI dipped to 51.5 from 52.2.

CANADA: New claims for employment insurance rose 11.4 percent from a year earlier in September, the largest year-over-year increase since May 2016, when a huge wildfire displaced tens of thousands of Canadians. The three-month moving average of claims rose the most since January 2016 in September. Their increase suggests that Canada’s unemployment rate also is likely to rise by year-end. CPI inflation was unchanged at 1.9 percent in October in year-over-year terms, and the Bank of Canada’s three preferred measures of core inflation remained closely clustered around the 2.0 percent inflation target in a range of 1.9 to 2.2 percent. Food prices rose 0.2 percent on the month and transportation costs (including gasoline) rose 0.4 percent, reversing September’s 0.4 percent drop. Financial markets fully price in a 0.25 percentage point cut in the Bank of Canada’s benchmark overnight rate target by October 2020; PNC forecasts for the BoC to cut its policy rate to 1.50 percent in January 2020 from 1.75 percent currently, after which Canadian interest rates will likely hold steady through year-end 2020.

BRAZIL: The Brazilian National Confederation of Industry’s (CNI) Industrial Confidence Index rose to 62.5 in November from 59.3 in October; outside of the November 2018 to February 2019 period, November 2019’s level was the highest since October 2010. 70,852 formal sector jobs were created in October according to the Labor Ministry, lower than the 74,500 expected by economists and down from 157,213 in September. October was the seventh consecutive month of formal job creation in Brazil. Brazil’s consumer price index the IPCA-15 rose 2.7 percent in the 12 months to mid-November, tied with the prior month for the lowest since September 2017. The Central Bank of Brazil’s weekly survey of professional forecasters showed the median estimate for real GDP growth in 2019 was 0.9 percent in the November 14th survey, unchanged from the prior week. The median estimate for 2020’s real GDP growth rose to 2.2 percent from 2.1 percent in the prior week. Brazil’s pension reform, enacted into law on November 12 by Congress, is expected to reduce the pension deficit from 10 percent of GDP this year to 6 percent of GDP in 2029 according to Moody’s. Brazil’s National Treasury projects the pension reform will reduce Brazil’s structural fiscal deficit an average of 0.4 percentage point per year between 2020 and 2024.

MEXICO: CPI inflation picked up to 3.1 percent in year-over-year terms in mid-November from 3.0 percent in October. Mid-November’s CPI report showed energy prices fell less from a year earlier than in October, and meat prices rose faster. Core service price inflation was steady on the month at 3.6 percent in the same terms; this is only slightly higher than the Bank of Mexico’s 3.0 percent inflation target.

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