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GLOBAL ECONOMIC HIGHLIGHTS

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ADP SURVEY SHOWS US HIRING SOLID IN FEBRUARY, MAKING A FED HIKE 'LIKELY APPROPRIATE' MARCH 15

UNITED STATES: Private payroll employment surged 298,000 in the February ADP Employment Report. If Friday's release of the Bureau of Labor Statistics' Employment Situation report for February is anywhere near as good as the ADP report, the light is green for the Federal Open Market Committee to raise the federal funds target range one quarter of a percentage point at its March 14-15 meeting. Fed Chair Janet Yellen argued in a speech last Friday to the Executives' Club of Chicago that a federal funds rate hike "would likely be appropriate" in March if progress toward the Fed's inflation and employment goals continues in line with the Fed's forecasts, saying also that "The economy has essentially met the employment portion of our mandate and inflation is moving closer to our 2 percent objective." Following Chair Yellen's speech, PNC Economics revised our federal funds rate forecast to include three 0.25 percentage point rate hikes in 2017, and four rate hikes in 2018.

CANADA: PNC Economics forecasts a 6,400 increase in Canadian household employment at Friday's release of the February jobs report, with the unemployment rate unchanged from January at 6.8 percent. While the headline number of jobs added in February will likely look modest, it will come on the heels of a 94,000 surge in employment in December and January, an unsustainably rapid 3.2 percent annualized rate of job growth. If the quantity of jobs added lags in February, the quality seems due to improve. Recent business sentiment and trade data suggest manufacturing employment and full-time jobs should grow solidly: Exports rose 0.5 percent by value and 1.0 percent by volume in January, with exports of motor vehicles and parts up 7.7 percent on the month, and the Markit manufacturing PMI for Canada rose to a 27-month high in February.

EUROZONE: Tomorrow's meeting of the ECB Governing Council is all but assured to leave the ECB's monetary stance unchanged, and seems unlikely to provide meaningful changes to the ECB's guidance on the outlook for policy in 2018. The ECB has already committed to slow its asset purchases from their current €80 billion euro monthly rate to €60 billion per month between April and December, and to keep its benchmark deposit rate at -0.40 percent "well beyond the horizon" of the conclusion of its asset purchases. Recent inflation data will be a focus of discussion at tomorrow's Governing Council meeting, but President Draghi has already clearly made his argument against a rapid taper: While headline HICP rose to 2.0 percent in February, exceeding the ECB's target of "below but close to 2 percent," core inflation was unchanged at 0.9 percent. Eurozone unit labor cost inflation – the labor component of private sector inflation pressures – held under 2 percent in their latest release for the third quarter of 2016. Without a tighter labor market, domestic price pressures seem unlikely to rise. In addition, early 2017's stronger manufacturing activity will boost productivity growth, allowing real GDP growth to accelerate without spurring higher inflation.

JAPAN: Real GDP growth in the fourth quarter of 2016 was revised up to 1.2 percent at a seasonally adjusted and annualized rate in the second estimate from 1.0 percent in the first estimate; a large upward revision to private non-residential investment accounted for the change. Real GDP grew 1.0 percent in 2016 from 2015, unchanged from the prior estimate.

UNITED KINGDOM: Northern Irish political parties which support closer ties with the Republic of Ireland and the European Union gained 16 seats in the Northern Ireland Assembly elections of March 2, with the pro-Westminster, pro-Brexit DUP and UUP parties losing 16 seats. The electoral outcome highlights the difficulties that the UK will face in holding together the its four countries – England, Wales, Scotland, Northern Ireland - if the government follows through on its pledge to begin its withdrawal from the European Union later this month. The Northern Irish economy has at least equally strong economic ties with the Republic of Ireland, with which it shares an open land border, as with the rest of the United Kingdom.

AUSTRALIA: As expected, the Reserve Bank of Australia held the target cash rate unchanged at 1.5 percent at its Monetary Policy Decision March 7. Governor Lowe's written statement reflected increased confidence in Australia's economy than the February and December statements, reinforcing PNC Economics' forecast for the target cash rate to hold steady in 2017. The RBA dropped a phrase expecting economic growth of about 3 percent per year over the next couple of years from its March statement, but still qualitatively expects improving global growth to lift commodity prices, exports and national income. Underlying inflation is still below the RBA's 2 to 3 percent target range, but rising commodity prices are pushing inflation pressures higher around the world. This gives the RBA hope that inflation will rise to the RBA's target in 2017. Retail sales data also out this week showed seasonally adjusted spending rose 0.4 percent in January on a monthly basis or 3.1 percent on a year-ago basis. This was a good reading and in line with expectations, but risks to consumer spending are still to the downside due to weak wage growth and high household debt burdens.

CHINA: Foreign reserves rose by $6.9 billion US dollars to $3.005 trillion in February, their first monthly increase since June 2016. A spokesman of the State Administration of Foreign Exchange attributed the monthly increase to higher valuations of foreign reserve assets, partially offset by the US dollar's appreciation against other major reserve currencies. Chinese financial regulators also tightened controls on capital outflows in early 2016. Dollar-denominated exports fell 4.8 percent on the year in February, worse than January's 3.1 percent increase, while dollar-denominated imports surged 38.1 percent, up from 15.4 percent in January. Faster import growth reinforces our view that Chinese capital spending and domestic demand will heat up in 2017.

BRAZIL: No turning point yet in Brazilian activity or sentiment data. In quarterly seasonally-adjusted annualized terms, real GDP fell 3.4 percent in the fourth quarter of 2016, the eighth consecutive quarterly decline. Nevertheless, real GDP's annual decline of 2.5 percent was the smallest since the first quarter of 2015. For the full year of 2016, real GDP fell 3.5 percent. The Brazilian economy has shrunk a cumulative 9.0 percent from its prerecession peak in the first quarter of 2014. Brazil's economic contraction likely continues in the first quarter of 2017: The Markit manufacturing and services PMIs rose in February, but to still-contractionary levels of 46.9 and 46.4, respectively, from January's respective levels of 44.0 and 45.1.

MEXICO: Consumer confidence surged to 11.1 in February from -16.1 in January, a huge shift in an indicator which usually moves by only 1 to 2 points month to month, and which had plunged to -16.1 January from 0.2 in December. There is likely some residual seasonal volatility behind these numbers since January 2016 was that year's strongest month for Mexican consumer confidence and February 2016 the weakest month, but it is nevertheless encouraging that Mexican consumers have become less pessimistic in the second month after the 2017 energy price hike ("gasolinazo") came into effect.

INDIA: Secondary economic indicators point to a weaker pace of growth than India's GDP reports. The Nikkei services PMI rose to a still weak 50.3 in February from 48.7 in January.