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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

SOLID APRIL JOBS REPORT FLASHES A GREEN LIGHT FOR THE NEXT US RATE HIKE IN JUNE

UNITED STATES: Hiring bounced back in April after a slow March. US employers added a strong 211,000 payroll jobs on the month according to the Bureau of Labor Statistics' report, although the BLS modestly revised down job growth in February and March by 6,000. The unemployment rate edged down to 4.4 percent from 4.5 percent and was its lowest since May 2007. Average hourly earnings rose a solid 0.3 percent on the month in April, but wage growth in March was revised down to 0.1 percent from 0.2 percent; on a year-ago basis, average hourly earnings growth moderated to 2.5 percent in April from 2.6 percent in March and 2.9 percent in December 2016. Other labor market indicators are similarly upbeat: Job openings rose 1.1 percent on the month in March, and the four-week average of new claims for unemployment insurance was a low 243,000 in the period ending April 29, which covered almost all of April. These solid labor market data will reinforce the Federal Reserve's view that the first quarter's weak real GDP growth was "transitory" and not a sign of fundamental weakness. PNC Economics forecasts that the Fed will next raise the federal funds target range 0.25 percentage points to a range of 1.00 to 1.25 percent at the June 13 and 14 Federal Open Market Committee meeting. US oil markets remain oversupplied. While crude inventories fell 5.2 million barrels on the week in the week of May 5, total petroleum inventories (both crude and refined) fell a smaller 3.6 million barrels. The level of US petroleum inventories is holding basically steady, up 0.2 percent on the month and down 0.2 percent on the year, and within 2.8 percent of a record high. US crude production rose 0.2 percent on the week to 9.31 million barrels per day, only 3.1 percent below its all-time high. The International Energy Agency's forecasters pushed out their forecasts for when global demand would absorb excess petroleum inventories in their forecasts released in April.

EUROZONE: ECB President Mario Draghi reiterated the ECB's commitment to a very gradual withdrawal of monetary stimulus in his address to the Dutch Parliament today, stating, "Maintaining the current very substantial degree of monetary accommodation is still needed for underlying inflation pressures to build up and support headline inflation in the medium term." The ECB will continue with its asset purchase program (a.k.a. quantitative easing) at a €60 billion euro per month pace through December of 2017, and will only gradually reduce purchases in 2018, likely by €10 billion euros per month or less beginning in January 2018.

UNITED KINGDOM: The Bank of England will almost certainly leave its monetary stance unchanged at tomorrow's Monetary Policy Committee meeting. If Prime Minister May takes a more conciliatory tone toward Brexit negotiations after the June 8 general election, that could create space for a trade deal preserving market access for British service sector companies to continue to sell into the EU, and could allow the Bank of England to raise interest rates in late 2017 or early 2018. But if PM May instead maintains a hard line in negotiations and keeps the UK on a path toward a hard Brexit, the headwinds to the services sector make a rate hike unlikely in the next 12 months.

JAPAN: Japanese income growth is stronger than the weak headline. Average monthly cash earnings fell 0.4 percent on the year in March on a 1.9 percent decline in average hours worked. But this implies average cash pay per hour actually rose on the year, by about 1.5 percent. The separately-compiled survey on household income and expenditure showed incomes of workers' households fell 1.1 percent on the year in March. A dip in hours worked would have held down reported earnings in that survey as well. Looking through the static, the trend in Japanese wages is up. A tight job market is encouraging Japanese employers to offer workers permanent, as opposed to lower-paid temporary, positions, and to raise hourly pay. While Japanese inflation is tepid in 2017, it is likely to pick up in 2018, and with it, expectations for a withdrawal of monetary stimulus. The Bank of Japan, like the European Central Bank, looks likely to begin a taper of its quantitative and qualitative easing program in 2018, and could allow long-term interest rates to move above the BoJ's current yield control target of "around zero percent." Unlike the ECB, the BoJ's taper is unlikely to conclude before 2019, or even later if the Japanese government raises the value added tax again (the last value added tax hike in 2014 caused a recession). Nevertheless, Japan's improving economic backdrop creates some upside risk for Japanese long-term bond yields in 2018.

CANADA: Employment rose a weak 3,200 in April from March, below PNC's 12,700 forecast and the 10,000 consensus. Despite a modest monthly increase in employment, the unemployment rate fell from 6.7 percent to 6.5 percent on a 45,500 monthly decline in the labor force. Details were weak. Full-time employment dropped 31,200 on the month while part-time employment rose 34,300. Employed workers declined by 15,300 while self-employed workers increased 18,500. By industry, the largest monthly declines were in business, building and other support services, down 18,700, accommodation and food services, down 12,300, and wholesale and retail trade, down 8,800. Viewed through a wider lens, April's weak job growth is a breather that followed nearly a year of very robust job growth, leaving the trend in Canadian employment little changed—headline employment rose a solid 1.5 percent over the last 12 months. By contrast, underemployment is a serious problem: Part-time employment among men ages 25 and over surged 11.0 percent on the year in April as resource-sector employment fell 1.5 percent; resource-sector employment is down 15 percent from its peak in April 2014. The shift of employment into part-time work will hold down Canadian household incomes and by extension consumer spending, the engine of the Canadian economy. Weak details in the jobs report reaffirm our expectation that the Bank of Canada is likely to wait to raise the overnight rate target until its January 2018 monetary policy announcement. Given the Bank's concerns about housing prices and household leverage, further policy changes aimed at cooling the housing market would come as little surprise in the remainder of 2017.

AUSTRALIA: Central bankers left their forecasts unchanged in the Reserve Bank of Australia's latest quarterly *Statement on Monetary Policy*, issued May 5. Moreover, the RBA's forecast is consistent with PNC Economics' outlook that the RBA will hold the target cash rate at 1.50 percent through 2017 and will start the rate hike cycle in 2018. Among the highlights in the *Statement*, the RBA expects the Australian economy to grow 2-3 percent in 2017, supported by exports of natural resources. It also expects underlying inflation to climb back to its 2-3 percent target range in early 2018 as wage growth improves slightly. This is in line with PNC Economics forecast: 2.4 percent real GDP growth in 2017 and inflation to reach target by 2018. Both we and the RBA forecast for the Aussie dollar to hold at $0.74 US $ per Aussie $, and for the West Texas Intermediate crude oil price to average $51 or $52 per barrel. Despite its increasing confidence in Australia's economic outlook, the RBA remains worried about the significant levels of household debt and underemployment that could weigh on wages, consumption and inflation.

CHINA: CPI inflation picked up to 1.2 percent in year-ago terms in April from 0.9 percent in March on smaller year-ago declines in fresh vegetable prices. Core CPI (excluding food and energy) was little changed at 2.1 percent in April after 2.0 percent in March. PPI inflation slowed to 6.4 percent from 7.6 percent on April's correction in prices of iron ore and other heavy industrial commodities. Foreign reserves rose $20.4 billion on the month in April, a third consecutive monthly gain. Higher reserves reflect China's tighter controls on capital outflows after the turn of the year, valuation gains on reserve assets denominated in non-US dollar currencies, and the pause in US long-term interest rates' move higher, which consequently exerts less "pull" drawing Chinese money overseas.

MEXICO: CPI inflation accelerated to 5.8 percent in year-over-year terms in April from 5.4 percent in March and was the fastest since May 2009. Inflation has spread from energy prices to the rest of the consumer basket: Core goods prices (food and other nondurable consumer goods) rose 4.7 percent on the month after 4.5 percent in March, and core services prices, which are domestically determined, grew 3.6 percent after 3.3 percent. Increases in energy prices slowed slightly on the month, to 15.9 percent from 17.1 percent, but remained extremely high. Higher inflation is constraining consumer spending. Mexican real consumer spending inched 0.1 percent higher in February from January, but spending on domestically-produced goods and services fell 0.2 percent, with spending on imported goods up 4.9 percent on the month – the odd monthly spike likely reflects residual seasonal variation in the data or residual effects of surging peso-denominated prices of imports, rather than growth in volumes. The Bank of Mexico is likely to use monetary policy to slow the spread of early 2017's simultaneous spike in prices of energy and imported goods to the rest of Mexico's consumer basket. This means that Mexican monetary policy can be expected to stay more hawkish than US monetary policy in the rest of 2017, even if the peso's recent recovery holds. Rising Mexican interest rates and high inflation will erode consumer spending power and constrain Mexico's growth in 2017 regardless of the outcome of the NAFTA renegotiation. Downside risks to Mexican growth have slipped from the headlines, but not from the economic data.

BRAZIL: Year-over-year inflation as measured by the IPCA index slowed to 4.1 percent at the end of April from 4.4 percent in mid-April and 4.6 percent in March. April marked the first month in which inflation dipped under the 4.5 percent midpoint of the Central Bank of Brazil's target range since October 2010. Food inflation slowed in April from March, as did inflation in appliance prices; both are tradable goods, and so their slower inflation reflects the stronger Brazilian currency. Encouragingly, inflation in health and personal care expenses also slowed, to 8.9 percent from 10.3 percent; these prices are domestically determined and point to a slowdown in trend inflation. The light is green for further interest rate cuts from the Central Bank of Brazil this year.

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