

June 7, 2017

GLOBAL ECONOMIC HIGHLIGHTS

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NEW PEAK IN US JOB OPENINGS; ECB, BANK OF CANADA, UK ELECTION RESULTS OUT TOMORROW

UNITED STATES: Job openings rose 259,000 to a record high in April according to the Bureau of Labor Statistics Job Opening and Labor Turnover Survey (JOLTS), but hires and separations dropped on the month, by 253,000 and 225,000, respectively. Record-high job openings combined with slower hiring reinforce the message of the May payroll and household jobs surveys: Hiring is slowing as the supply of workers whose skills match those sought by employers shrinks. If so, hiring could remain slower in the second half of 2017. PNC Economics forecasts for the Federal Reserve to raise the Federal Funds target range 0.25 percentage point at the next Open Market Committee meeting June 13 and 14 (next Wednesday). The dollar appreciated 0.5 percent against the Canadian dollar today June 7 on a 1.2 percent weekly increase in US petroleum inventories. Rising US oil production and oil supply increase downside risks to the Canadian dollar and currencies of other commodity exporting economies.

EUROZONE: At the European Central Bank meeting June 8 (tomorrow), the Governing Council's monetary policy statement will likely provide guidance about prospects for a further taper of their quantitative easing program in 2018. We expect the ECB to slow asset purchases from their current €60 billion euros per month rate by €10 billion or less per month beginning January 2018, and for net asset purchases to cease in the third quarter of 2018. The deposit rate will likely remain at its current level of negative 0.40 percent until 2019.

CANADA: Above-trend manufacturing growth continued in May. The IHS Markit Canada manufacturing PMI dipped slightly to 55.1 in May from 55.9 in April, which had been the strongest in six years. Details were strong. Of note, manufacturing purchasing managers reported the longest lead-times for deliveries from vendors since March 2014. Long supplier delivery lead-times suggest that even after strong additions to inventories by Canadian manufacturers and wholesalers in the first quarter, demand for manufactured goods is robust in the second quarter of 2017. The Bank of Canada will issue its biannual mid-year 2017 Financial Review tomorrow, updating its assessment of risks to the Canadian economy from high housing prices and household indebtedness. The Bank of Canada could make a joint announcement with the Canadian government of new macro-prudential measures to limit household mortgage debt and housing prices at the same time. PNC Economics forecasts for Canadian employers to add 11,300 household jobs and for the unemployment rate to be unchanged at 6.5 percent in Statistics Canada's May Labor Force Survey, which will be released next Friday, June 9. After strong growth in manufacturing in the first half of 2017, the composition of Canadian job growth may also improve somewhat in May, although weakening sentiment toward the Canadian housing market could be a drag on construction employment and offset the gains we expect in manufacturing. We continue to expect the Bank of Canada to hold the overnight rate target unchanged at 0.50 percent until their January 2018 monetary policy decision, when we expect them to raise the rate by 0.25 percentage points.

JAPAN: Japanese average monthly cash earnings edged up 0.5 percent in year-over-year terms in April after falling 0.1 percent in the same terms in March, according to the Ministry of Health, Labor and Welfare's provisional Monthly Labor Survey. Average hours worked fell 0.5 percent on the year, so implied average compensation per hour was up about 1.0 percent. While wage growth is tepid, other details of the Monthly

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Labor Survey point to the tightest Japanese labor market in a generation. Employment of regular employees rose 2.5 percent on the year, with full-time employment up 2.9 percent and part-time up 1.8 percent, all outpacing growth in aggregate employment. Japanese employers are increasing the share of more attractive full-time regular positions on their payrolls and shrinking less attractive temporary and part-time positions as they compete for the country's shrinking pool of available workers. Alternative measures of the Japanese labor market show even less earnings growth than the Monthly Labor Survey. The Japan Statistical Bureau's Monthly Survey of Family Income and Expenditure showed average workers' households incomes actually fell on the year in April, by 0.9 percent in nominal terms or 1.4 percent in real terms. Weak real income growth means weak wage-price pressures fueling trend inflation. The Bank of Japan will not be convinced that inflation is on track to reach their 2.0 percent target until market forces push wage growth higher on a sustained basis. The Bank of Japan may well slow its asset purchases if a scarcity of government bonds means that interest rates can be held at target levels with fewer purchases, but will not alter its more important quantitative and qualitative easing targets in 2017: A negative 0.1 percent short-term policy rate, a 0.0 percent 10-year bond yield target, and a 6 trillion yen annual target for ETF purchases. A gradual withdrawal of stimulus might begin in 2018, but will start later and proceed slower than the ECB's quantitative easing taper. The BoJ will stay well behind the Fed in normalizing monetary policy.

UNITED KINGDOM: The special parliamentary election June 8 will determine whether Prime Minister Theresa May increases the Tory party's majority in parliament, as seemed likely when she called for the election in May, or whether the criticism of her government's handling of public security following the UK's recent terrorist attacks instead erodes the Tory majority.

CHINA: The government is taking steps to reduce yuan exchange rate volatility during the 2017 leadership transition. The government-managed Foreign Exchange Trade System announced on May 26 that it would begin including a "counter cyclical factor" in setting the daily fix around which the exchange rate is permitted to fluctuate, reducing the influence of market forces on the yuan. The Caixin general manufacturing PMI dipped to 49.6 in May from 50.3 in April as the government withdrew fiscal stimulus; the services PMI edged up to 51.5 from 51.2, and was the second-lowest after April since September 2016. Official foreign exchange reserves rose \$24 billion to \$3.05 trillion in May as US long-term interest rates dipped – as US long-term interest rates fall, there is less "pull" drawing Chinese liquid assets out of the country, and the dollar also depreciates against the currencies of other reserve asset-issuing economies; both factors added to China's monthly increase in reserves. From a slightly longer-term perspective, China's foreign reserves have been bolstered throughout the first half of 2016 by tighter capital controls imposed by the government in January. PNC Economics forecasts for US long-term interest rates to gradually rise in the second half of 2017 and in 2018, which will likely cause a renewed drawdown on Chinese foreign exchange reserves.

MEXICO: The establishment PRI candidate won a narrow victory in the election for Governor of the State of Mexico (a Mexican Federal Entity, equivalent to a US state) in Monday's election, defeating the candidate of the leftist MORENA party. The peso appreciated subsequent to the election, as the foreign exchange market interpreted the outcome as decreasing the likelihood that MORENA's Presidential candidate will win in 2018's July 1 Presidential election.

INDIA: The Reserve Bank of India held its policy repo rate unchanged as expected at its June 7 decision. The RBI is waiting to see if the slowdown in Indian inflation in the second quarter of calendar year 2017 is sustained before easing policy further. The RBI also released consumer confidence and household inflation expectations surveys, showing consumer inflation expectations edging lower and confidence stabilizing at a subdued level.

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