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GLOBAL ECONOMIC HIGHLIGHTS

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SECOND TO HIKE: BANK OF CANADA FOLLOWS FED, RAISES POLICY RATE 0.25 PERCENTAGE POINTS TO 0.75 PERCENT

CANADA: The Bank of Canada raised its overnight rate target 0.25 percentage points to 0.75 percent at its decision July 12, the first change in Canada's policy rate since they reduced the rate to 0.50 percent in July 2015, and the first increase in the policy rate in seven years. July's rate hike was not a surprise. Bank of Canada policymakers had vocally prepared financial markets for a hike in several public statements made in June. In the announcement of the hike, the Bank was upbeat on a "broadening of growth" and said that "much of" the adjustment to lower oil prices is behind Canada. The BoC also said that inflation's current undershoot of the Bank's two percent target is caused by temporary factors and the trend in inflation is actually around 1.8 percent, but that the BoC will be monitoring incoming data, especially wage data, closely to time subsequent rate increases. July's hike follows a great month for headline job growth in June although residual pain from the energy downturn was still evident. Household employment rose 45,000 from May, capping an excellent first half of 2017 for headline job growth, and the unemployment rate dipped to 6.5 percent, tying April for the lowest since October 2008. Employment quality made less progress than quantity: Most of June's new jobs were in part-time employment, up 37,100 from May, with full-time jobs up only 8,100. More precarious self-employment rose 21,400, while jobs held by employees rose 23,900. Employment in goods-producing sectors rose 16,000 in June, but mostly in agriculture, up 12,000; higher-wage manufacturing employment rose just 2,900 and resource sector employment fell 2,300. The gender breakdown of the labor force survey shows that many Canadian women, likely some of whom have partners who lost jobs or income in the energy downturn, have entered the workforce recently to supplement family incomes. Canadian men saw a modest increase in full-time jobs on the month, but part-time employment was still up sharply on the year: Full-time employment of men 25 years and older rose a modest 8,700 on the month in June, with part-time employment down 6,900. From a year earlier, part-time employment of men 25 and older is up 6.4 percent, far outpacing the 1.5 percent increase in full-time employment and reflecting residual underemployment caused by the energy downturn. At the same time, part-time employment of women 25 and older is up 3.2 percent over the last year, and up a very large 54,500 in June from May. Employment of women aged 55 and older was up 26,600 on the month, with employment of men in the same age bracket up only 4,400. The labor force participation rate of Canadian women ages 55 and older rose to 32.7 percent in June 2017 from 32.3 percent in June 2016 and 31.1 percent in December 2014. This mix of employment growth paints a picture of Canadian households struggling to maintain their standards of living as they adjust to losses of high-wage resource sector jobs. By implication, recent strong job growth provides less upside for consumption, domestic demand, Canadian interest rates, or the Loonie than the rosy headline numbers suggest. As a result, the Bank of Canada is likely to raise interest rates as gradually as the Federal Reserve or even slower in the rest of 2017 and 2018. Low energy prices are a restraint on energy sector investment, the boost to demand by recently added jobs is partially offset by wages lost in the energy downturn, Canada's housing market seems to be weakening, and high consumer debt means policy rate hikes will restrain demand more than US hikes of a similar magnitude. Since financial markets price in about 0.5 percentage points of increase in the federal funds target over the next 2 years versus about 0.7 percentage points increase in the Canadian overnight rate target, PNC Economics' expectations for monetary policy in both economies implies a modest appreciation of the US dollar vis-à-vis the Loonie over the next 2 years.

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UNITED STATES: Federal Reserve Chair Janet Yellen reiterated her expectation that the Federal Reserve would begin shrinking its balance sheet before year-end in testimony to Congress today. Payroll jobs rose 222,000 in June from May with a large 47,000 in net upward revisions to April and May's job growth; the unemployment rate edged up to 4.4 percent from 4.3 percent. Average hourly earnings rose 2.5 percent on the year in June, unchanged from May.

EUROZONE: The unemployment rate was unchanged from a month earlier at 9.3 percent in May, and HICP inflation slowed to 1.3 percent in June from 1.4 percent in May on slower increases in energy prices. However, inflation in services rose to 1.6 percent from 1.3 percent in May. Inflation in non-energy industrial goods was 0.4 percent, little changed from May's 0.3 percent increase. Industrial production rose 1.3 percent on the month in May, with strong growth in capital goods production, up 2.3 percent, and durable consumer goods production, up 1.8 percent. From a year earlier, industrial production grew 4.0 percent, with capital goods production up 6.1 percent and durable consumer goods production up 6.8 percent. Strong industrial growth implies solid productivity growth in the Eurozone, a disinflationary force.

UNITED KINGDOM: The March to May quarter's jobs data was mostly strong: The unemployment rate was 4.5 percent, down from 4.7 percent a quarter earlier and tying for the lowest since 1975. The employment rate (percentage of persons over age 16 in employment) reached 74.9 percent, the highest since comparable statistics began in 1971. The employment rate for men is close to where it stood during the 1997-2007 expansion, while the employment rate for women rose to a record high of 70.4 percent in the latest quarter from 65.6 percent five years earlier and is at an all-time record – in the UK as in Canada, female labor force participation is rising as real wages stagnate and more women enter the workforce to supplement household incomes. Average hours worked fell 0.9 percent on the quarter but were unchanged on the year. In the base case we expect the Bank of England to hold the bank rate unchanged in the second half of 2017 as Brexit-related headwinds weaken domestic demand, but a rate hike in reaction to a glass-half-full read of labor market data is not out of the question.

AUSTRALIA: The Australian economy ended the second quarter with good momentum, according to the Australian Industry Group's monthly services, manufacturing and construction surveys. The Performance of Manufacturing Index rose to 55.0 points in June from 54.8 in May. An index level greater than 50 indicates rising activity and less than 50 indicates declining activity. Five of seven sub-indexes rose in June and are showing expansion. Sales and production had the most impressive increases, rising 6.5 and 5.1 points each. Since mid-2015, the manufacturing index has indicated expansion in all but two months. A similar Performance of Services index rose to 54.8 in June from 51.5 in May. All five sub-indexes rose above 50 points with new orders rising the most (6.1 points). This is a good sign that activity could strengthen even more in the coming months. Finally, the Performance of Construction index declined 0.7 points in June but at 56.0 points, it still indicates strong building momentum. Construction of apartments, commercial buildings, and engineering (which is often mining-related) faltered in June, but house building surged 13.4 points to 59.0. The manufacturing, services and construction indices all averaged higher in the second quarter of 2017 than in the first quarter or in all of 2016. Real GDP growth probably rebounded in the second quarter from its sluggish 1.1 percent annualized increase in the first quarter. For all of 2017, PNC forecasts 2.4 percent real GDP growth in Australia.

MEXICO: Industrial production rose 0.1 percent on the month in May after falling 0.2 percent in April. Mining output rose 0.2 percent on the month, utilities output rose 0.5 percent, construction 2.1 percent, and manufacturing fell 0.3 percent. From a year earlier, industrial production edged up a scant 0.1 percent, with mining down 8.3 percent, utilities down 1.9 percent, construction up 0.2 percent, and manufacturing up 3.4 percent. While Mexico is breathing a sigh of relief that the US is no longer focused on erecting barriers to its exports, the country's macroeconomic fundamentals deteriorated in the first half of 2017: Higher interest rates and consumer energy prices and low oil industry revenues are significant drags on domestic demand.

CHINA: Growth of the broad M2 money supply slowed to 9.4 percent in year-ago terms in June from 9.6 percent in May and was the slowest since comparable data began in 1997. Aggregate financing to the nonfinancial economy grew 12.8 percent on the year in June, with debt financing up 12.5 percent and equity financing up 21.7 percent, down from May's 23.6 percent. Chinese financial regulators have slowed the growth of credit and throttled back on state-directed investment in the second quarter after first quarter real

GDP growth showed a 6.9 percent year-ago increase, handily outpacing the government's target of 6.5 percent – the second quarter's data to be released overnight Sunday will show a slowdown from the first, but not a collapse. Foreign reserves were little changed in June, up $3 billion US dollars or 0.1 percent to $3.057 trillion. China's foreign reserves have grown $58.6 billion since January as its government tightened controls on capital outflows, booked capital gains on reserve assets denominated in appreciating currencies, and as lower US interest rates lessened capital outflow pressures.

BRAZIL: Real retail sales dipped 0.1 percent in May from April after rising 0.9 percent in April. From a year earlier, real retail sales rose 2.4 percent in May, up from 1.7 percent in April. The Brazilian real jumped to 3.21 per dollar today on news of the conviction of former President Lula on corruption and money laundering charges, and was its strongest since the release in May of a recording of current President Michel Temer apparently authorizing bribes in connection with Brazil's wide ranging "car wash" scandal. Brazil's recovery is continuing despite an overhang of political uncertainty.

INDIA: CPI inflation slowed to 1.5 percent in year-ago terms in June from 2.2 percent in May on a 2.1 percent year-ago decline in food prices and a slowdown in energy inflation. Core CPI inflation (excluding food, fuel and light) also slowed in June, to 3.8 percent from 4.1 percent. Industrial production grew a weak 1.7 percent in year-ago terms in May, with manufacturing growth slowing to 1.2 percent from 2.3 percent, mining contracting 0.9 percent on the year, and electricity output growth accelerating to 8.7 percent from 5.4 percent in April. With inflation cool and industrial production weak, the Reserve Bank of India could cut interest rates again in the second half of 2017, especially if the rationalization of several different taxes into a unified Goods and Services Tax which went into effect July 1 creates a new drag on the economy.