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GLOBAL ECONOMIC HIGHLIGHTS

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CPI Marches Higher in March; BOC Increases Policy Rate by 50 Basis Points

UNITED STATES: The consumer price index (CPI) in March rose 1.2%, the fastest pace of monthly inflation since September 2005. On a year-over-year basis CPI inflation rose to 8.5% in March, the fastest pace since April 1980, from 7.9% in February. Gasoline prices and used cars and trucks prices were the largest contributors to annual inflation, with gasoline prices rising 48% and used cars and trucks prices jumping 35.3%. The surge in gasoline prices also accounted for most of the monthly increase in the CPI basket. On a month-over-month basis, gasoline prices rose 18.3%, car and truck rental prices jumped 11.7% and airline fares rose 10.7%. Core inflation (excluding food and energy) rose 0.3% on the month following a 0.5% increase in February. On a year-over-year basis core inflation registered at 6.4%, unchanged from February.

To fight inflationary pressures, PNC now forecasts that the Federal Reserve will raise the fed funds rate by a further 175 basis points through the rest of this year, from the current 25 to 50 basis point range. This forecast includes two 50 basis point hikes in May and July. Even if the worst effects of energy prices are past, inflationary pressures in key household categories will force the Federal Reserve to aggressively tighten monetary policy throughout the second half of 2022. PNC is forecasting the pace of annual core CPI inflation to fall below 4% by December 2022.

The minutes from the March 15 and 16 Federal Open Market Committee provided further details on the FOMC's plans to reduce the size of the Federal Reserve's balance sheet. In particular, the minutes say that balance sheet reduction could start "as soon as in May"; the FOMC's next meeting is on May 3 and 4. Statements from Fed officials since then indicate that this process will likely start in May.

The FOMC has a difficult task, to slow growth enough to bring inflation back down to 2%, but not by too much to cause a recession. That task has only gotten more difficult with the Russian invasion of Ukraine, which is adding to inflationary pressures, but at the same time is also weighing on U.S. growth through a pronounced slowing in Europe and higher energy prices for consumers. The baseline outlook is that the Fed can pull this off without causing a recession, although a few bumps along the way are likely. But the probability of recession over the next couple of years is now at about 30%, compared to about 15% before the Russian invasion of Ukraine.

The U.S. nominal trade deficit was unchanged in February following a record $89.2 billion deficit in January. Trade has been a drag on growth for six consecutive quarters and will be a drag on growth in the first quarter of this year. Increased geopolitical risks, a slower growing Chinese economy and a stronger dollar will weigh on trade in the near term.

CHINA: China's consumer and producer inflation rose faster than expected in March. Year-over-year consumer price index (CPI) inflation in March rose to 1.5%, slightly above consensus expectations for 1.4%, from 0.9% in February. Consumer prices were unchanged on a month-over-month basis. The producer price index (PPI) rose 8.3% in March on a year-over-year basis, slightly above consensus expectations for an 8.1% increase, and following an 8.8% increase in February.

Services sector activity contracted at the sharpest pace since February 2020 as renewed coronavirus outbreaks and COVID lockdowns weighed on mobility. The Caixin services PMI in March slumped to 42, the lowest level since February 2020, from 50.2 in February. A reading above 50 indicates growth while a reading below 50 suggest contraction. The Caixin PMI surveys were concluded on March 25, three days before Shanghai was locked down, and the drop in the index likely understates the contraction in China's services sector.

China's economy has faced downward pressures in recent months from renewed COVID outbreaks and lockdowns. With mild inflation and slower growth, the People's Bank of China (PBoC) will cut its policy rates further this year to stimulate the economy.

JAPAN: Producer prices in March rose faster than expected as rising commodity prices and supply-chain disruptions weighed on businesses. The producer price index (PPI) in March rose 9.5% on a year-over-year basis, near the fastest pace in over four decades. This was above the consensus expectation for a 9.2% increase, and followed a 9.7% increase in February. February's increase is producer prices was the biggest since 1980. The raw materials subcomponent led the way in March, rising 50% on a year-over-year basis, while the intermediate materials subcomponent rose 16.1%. While PPI inflation has been accelerating in the past year, consumer price inflation (CPI) has remained relatively tame. Year-over-year CPI inflation in February was a small 0.9%. and the BOJ will maintain an ultra-dovish stance for the foreseeable future to stimulate higher inflation.

EUROZONE: PNC Economics expects the European Central Bank (ECB) to keep monetary policy unchanged and stay hawkish when central bankers meet on April 14. With inflation surprising to the upside in March and persistent geopolitical risks, the ECB will remain focused on growth. Risks to the Euro area outlook are tilted to the downside. The Russia-Ukraine crisis remains a big geopolitical risk and the outcome of the French election is a country-specific risk.

Retail sales in February rose by a modest 0.3% on the month following a 0.2% increase in January. On a year-over-year basis, retail sales rose 5%, following an 8.4% increase in January.

INDIA: As expected, the Reserve Bank of India (RBI) kept its policy repurchase rate unchanged at 4% when policymakers met on April 8. The accompanying statement was hawkish, with the RBI focusing on inflation for the first time since the pandemic started. The Monetary Policy Committee (MPC) noted that it has "decided to remain accommodative while focusing on withdrawal of accommodation to ensure that inflation remains within the target going forward, supporting growth." The RBI raised its inflation forecast for the fiscal year through March 2023 to 5.7% from 4.5% and cut its real GDP growth forecast for the same period to 7.2% from 7.8%.

CPI inflation in March surprised to the upside, as prices rose 7.0% on a year-over-year basis, faster than consensus expectations for a 6.4% increase, and following a 6.1% increase in February. Fuels, food, and housing were the largest contributors to inflation in February. CPI inflation has overshot the RBI's 2% to 6% target range for three straight months and inflation risks are tilted to the upside.

CANADA: Canada's unemployment rate fell in March to an all-time low 5.3% as the labor market recovery continued. Employment rose by 72,500 in March or 0.4%; an equivalent increase in U.S. payrolls would add 557,000 jobs. After March's increase, household employment in Canada is now 2.3% above its level in February 2020.

The value of building permits in February jumped an astonishing 21% on the month to a record $12.4 billion, following an 8.2% decline in January. Canada's housing sector has been on a tear for over a decade and the government has enacted several measures in recent years in response to fears of an impending crisis. In the 2022 budget released on April 7, the government introduced a two-year ban on foreign home buyers and higher taxes for people who sell their home within a year after purchasing.

As expected, the Bank of Canada (BoC) increased its policy rate by a half percentage point to 1% when central bankers met on April 13. PNC Economics expects the BOC to increase its policy rate by another 50 basis points in June. The BoC is tightening monetary policy in response to a record-low unemployment rate, accelerating inflation, and a deteriorating inflation outlook due to the Russia-Ukraine crisis.