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GLOBAL ECONOMIC HIGHLIGHTS

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China's Ailing Economy Positively Surprises in the First Quarter

CHINA: China's economy grew more than expected in the first quarter of 2022 with seasonally-adjusted (but not annualized) real GDP growth of 1.3% quarterly, beating expectations for a 0.7% increase. This was down from 1.6% growth in the fourth quarter. In year-over-year terms, real GDP growth accelerated to 4.8% in the first quarter from 4.0% in the fourth quarter. Growth in the primary (agriculture) sector slowed to 6.0% from 7.1%, growth in the secondary (industrial) sector slowed to 5.8% from 8.2%, and growth in the tertiary (services) sector slowed to 4.0% from 8.2%. China's surprising solid first quarter of growth comes despite a weak real estate sector, extended lockdowns in many major cities including Shenzhen and Shanghai, and a slower-growing global economy.

The People's Bank of China (PBoC) continued its monetary easing cycle as policymakers announced a reduction of the required reserve ratio for most financial institutions of 25 basis points on April 15, effective from April 25. This was smaller than consensus expectations for a 50-basis point reduction. In a more surprising move, the PBoC kept the interest rate of its one-year medium-term loans at 2.85%.

Retail sales contracted 3.5% in March from a year earlier, the sharpest decline since April 2020, as COVID restrictions weighed on consumer spending. Industrial production surprisingly rose 5% in March from a year earlier, better than consensus expectations for a 4% increase.

Despite the surprisingly strong first quarter real GDP growth, more recent and coincident economic indicators tell a different story. COVID lockdowns, a weak real estate sector and the Russia-Ukraine crisis will weigh on economic activity in the second quarter despite PBoC efforts to stimulate economic activity. Consumer spending and exports will likely take a big hit in the second quarter, leading to very weak growth.

UNITED STATES: Total retail sales were up 0.5% in March, slightly below consensus expectations for a 0.6% increase and following an upwardly-revised 0.8% increase in February. Excluding gasoline stations, retail sales fell 0.3% after rising 0.2% in February. Consumer spending remains very strong in early 2022, but there's likely to be a drag from higher prices in the near term. Real disposable personal income has declined on a month-over-month basis in every month since August 2021. Even as the consumer spending pendulum swings back to services from goods, extended lockdowns in China will contribute to supply-chain disruptions, limiting the production of durable goods.

Industrial production rose 0.9% in March and is now above its high during the previous expansion. Industrial production has now fully recovered from a period of softness in 2019, and then a plunge during the pandemic. IP fell 17% in March and April 2020 as the pandemic came to the U.S., but has steadily improved since, even with supply chain disruptions. Growth has accelerated in recent months as businesses have had more success in getting inputs and have increased output. This should help slow inflation for manufactured goods, which has been one contributor to higher overall inflation during the recovery from the pandemic.

Homebuilder confidence as measured by the NAHB Housing Market Index edged down to 77 in April. A reading above 50 indicates positive conditions while a reading below 50 indicates negative conditions. Sentiment in the construction sector remains well above the 50-point threshold. Rising mortgage rates and the runup in

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prices are worsening affordability, but pent-up demand from consumers will keep house price growth strong this year.

UNITED KINGDOM: Inflation-adjusted gross domestic product rose a modest 0.1% in February from January, following a large 0.8% gain in January. The service sector expanded 0.2% on the month as the government eased restrictions and the consumer spending rotation from goods to services continued. The production and construction sectors contracted 0.6% and 0.1%, respectively. After expanding by 0.8% in January (on a month-over-month basis), the U.K. economy likely grew at a solid clip in the first quarter of this year, but the near-term outlook is tepid. With high inflation, a challenging global economic backdrop and a deteriorating outlook, the Bank of England (BoE) will continue its hiking cycle by increasing its policy rate again by 25 basis points to 1% at its next meeting on May 5. The BoE started its hiking cycle in December 2021 and has raised the Bank Rate to 75 basis points from the historic low of 10 basis points.

In its World Economic Outlook released on April 19, the International Monetary Fund (IMF) warned that the U.K. faces the worst inflation shock of all major advanced economies over the next two years. The IMF cut its forecast for GDP growth in the U.K. this year by one percentage point to 3.7%.

CPI inflation surprised to the upside in March as consumer prices rose 1.1% from February, overshooting expectations for a 0.8% increase, and following a 0.8% reading in February. On a year-over-year basis, CPI inflation accelerated to 7.0% in March from 6.2% in February. Prices of goods rose by a record-high 9.4% in March from a year earlier while prices of services increased 4%, the highest rate since 2012. Looking ahead, the tight domestic labor market, extended lockdowns in China and the Russia-Ukraine crisis are all adding to inflation pressures. This would suggest that the BoE will likely continue its hiking cycle well into 2023 as CPI inflation will likely be unanchored from the BoE's 2% objective at the end of this year.

EUROZONE: As expected, the European Central Bank (ECB) kept its monetary policy unchanged when central bankers met on April 14. Policymakers confirmed that net asset purchases will conclude in the third quarter of this year as announced at the previous meeting in March, but they did not give any clear indication during which month asset purchases will end. The ECB remains committed to taming inflation but a ban on Russian exports could make that goal very difficult. Additionally, lockdowns in China and supply disruptions from the Russia-Ukraine would put upward pressures on inflation. With quantitative easing set to end in the third quarter, PNC Economics' base case forecast is for the ECB to start raising interest rates in the fourth quarter of this year.

MEXICO: Industrial production disappointed in February after rising for four straight months. IP fell 1.0% in February from January, undershooting consensus expectations for a 0.3% increase, and following a 1.3% increase in January. Mining output declined 6.6%, utilities production was down 0.5%, construction output declined 1.5%, and manufacturing output increased 0.6%.

INDIA: Industrial production rose by a small 1.7% in February from a year ago, following an upwardly-revised 1.5% increase in January. Exports in U.S. dollars grew 19.8% in March from a year earlier, the slowest pace since February 2021, following a 25.1% increase in February. Imports grew at a faster pace, increasing 24.2% after rising 36.1% in February.

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