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GLOBAL ECONOMIC HIGHLIGHTS

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Inflation Surprises to the Upside in the U.S.; E.U. and G7 Russian Oil Ban Looms

UNITED STATES: The Consumer Price Index (CPI) eased modestly in April, posting an 8.3% increase from one year ago, following an 8.5% increase in March. This was slightly stronger than the consensus expectation for an 8.1% increase, but was also the first slowing in inflation since August. Excluding energy, the CPI posted a 6.6% increase in April, following a 6.8% gain in March. Gasoline prices were up 43.6% year-over-year, despite dropping by 6.1% from March to April. The core CPI (excluding food and energy) was up 6.2% in April, slightly stronger than consensus expectations for a 6.0% rise, and following a 6.5% increase in March. The CPI was up 0.3% in April from March, slightly stronger than consensus expectations for a 0.2% increase. Core CPI reaccelerated in April, gaining 0.6% for the month, and nearing some of the strongest numbers seen in the second half of 2021 as structural inflation concerns were just taking flight. The strongest CPI component index gains for April were all in consumer necessity categories. Housing was up by 0.6% (vs. 0.7% in March), food and beverages increased by 0.8% (vs. 1.0% in March) and medical care increased 0.4% (vs. 0.5% in March).

To fight inflationary pressures, PNC has the Federal Reserve raising interest rates by 50 basis points in both the June and July meetings. Fed Chair Jerome Powell quashed the potential for any near-term 75 basis point hikes in comments after the May FOMC meeting. But all other public comments have so far reinforced that the Fed will aggressively remove monetary policy accommodation as it raises short-term interest rates and sells assets from its balance sheet (quantitative tightening). Inflation will remain elevated throughout the next year, but not for lack of effort on the Fed's part.

The National Federation of Independent Small Business Optimism Index stood at 93.2 in April, the lowest level since April 2020, and unchanged from March.

The US labor market added 428,000 jobs in April, another strong month of employment gains, according to a survey of employers from the Bureau of Labor Statistics. The private sector added 406,000 jobs in April, while government employment rose by 22,000.

The unemployment rate held steady at 3.6% in April from March. The unemployment rate was 3.5% in early 2020 before the pandemic, at a 50-year low. It then soared to 14.7% in April 2020 with the pandemic, and since then has fallen steadily.

Higher interest rates throughout the economy will eventually lead to slower job growth and a cooling off in the labor market. The FOMC has a difficult task ahead. Their hope is to raise interest rates by enough to slow economic growth and reduce inflationary pressures, but not by so much as to cause a recession—an outright contraction in the U.S. economy.

PNC expects a further slowing in job growth this year, with average monthly gains of around 300,000 through the rest of 2022. Employment is set to recover to its pre-pandemic level in the third quarter. The unemployment rate will fall further in the next few months to below the pre-pandemic rate of 3.5%, to a new five-decades-long low.

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EUROZONE: The European Central Bank President, Christine Lagarde, said in a speech on May 11th that the bank's first policy interest rate increase in more than a decade may come weeks after quantitative easing ends early in the third quarter. The ECB has maintained a negative interest rate policy for over a decade; the deposit facility interest rate currently stands at -0.5%. With record inflation, Russia's invasion of Ukraine, increased global supply-chain challenges, and a slowly growing global economy, the ECB is faced with a difficult task of fighting inflation without causing a recession.

The European Commission, the executive arm of the European Union on May 4th, proposed a ban on Russian crude oil imports over the next six months and on refined fuels by early January. The proposal has faced strong resistance from Hungary, Bulgaria, Slovakia, and the Czech Republic, which argued that they need more time to phase out their dependence on Russian oil. Separately, leaders of the Group of 7 nations (Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States) agreed to phase out Russian oil imports in a "timely and orderly fashion, and in ways that provide time for the world to secure alternative supplies".

The Eurozone unemployment rate in March fell to a record-low 6.8%, down from the upwardly-revised 6.9% in April. The labor market remains excessively tight but strong wage growth should provide some cushion to households facing record inflation.

Retail sales edged down 0.4% in March following an upwardly-revised 0.4% increase in February. On a year-over-year basis, retail sales in March were up 0.8%.

CHINA: April consumer price index (CPI) inflation came in stronger than expected as prices rose 2.1% from a year ago, above the consensus expectations for a 1.8% increase. April's increase was the fastest pace since November. The CPI index rose 0.4% on the month after a flat reading in March. Core inflation (excluding food and energy prices) rose 0.9% on the month following a 1.1% increase in March.

The producer price index (PPI) rose 8.0% in April following an 8.3% increase in March. This was the slowest pace since March 2021.

With the mild CPI inflation, the People's Bank of China (PBoC) will continue to focus on growth and maintain an easing policy to support the economy.

JAPAN: Economic conditions in the services sector slightly improved in April as the Jibun Bank Japan flash services PMI rose to a four-month high of 50.7, from 50.5. Readings above 50 indicate growth while readings below 50 suggest contraction. The Japanese yen has faced pressures against the dollar in recent months due to the divergence between U.S. and Japanese monetary policies. The FOMC has signaled an aggressive tightening in monetary policy for the next two years, while the Bank of Japan has signaled the continuation of its ultra-dovish monetary policy.

BRAZIL: As expected, the central bank of Brazil (BCB) raised its policy rate by 1 percentage point from 11.75% to 12.75% when policymakers met on May 4th. Inflation has been in double digits for eight straight months, and it has accelerated in every month this year. Inflation as measured by the IPCA index surprised to the upside in April as prices rose 1.1% on the month, slightly stronger than consensus expectations for a 1.0% increase. On a year-over-year basis, the IPCA index increased 12.1% in April, following a gain of 11.3% in March.

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