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GLOBAL ECONOMIC HIGHLIGHTS

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PBOC Lowers Key Policy Interest Rate; Eurozone GDP Grew in First Quarter Despite Ukraine Crisis

UNITED STATES: Retail sales surprised to the upside in April as consumers remained resilient. Nominal retail sales increased 0.9% in April from March, much better than the consensus expectation for a 0.4% increase. While the pace of growth was solid, retail sales growth decelerated for the third straight month in April, and it was the smallest increase since December. Sales excluding autos and parts were up 0.6%, sales excluding gasoline were up 1.3%, and sales excluding autos and gas were up a very solid 1.0%. Consumer spending growth will decelerate through the rest of the year and into 2023 as high inflation continues to take a toll, job and wage gains slow, and interest rates continue to increase.

Industrial production rose in April from March, the fourth consecutive monthly increase. Production rose 0.9% in March (unrevised). Manufacturing output increased 0.8% over the month. Mining output rose 1.6%, on top of a 1.9% jump in March, as energy production is increasing in response to higher prices. Utilities output rose 2.4%. The industrial side of the US has fully recovered from the pandemic and supply chain issues appear to be fading. Parts shortages are still a problem for the auto industry, but big increases in production in March and April suggest that they are dissipating. Energy production is rising as exploration and development are up in response to higher prices. The energy industry is much more disciplined now than in previous energy cycles, however, which means that output is increasing more gradually, and prices will fall more slowly, but they will come down as production increases.

Housing data showed slowing activity in the housing sector. The National Association of Home Builders (NAHB) index dropped to 69 in May from 77 in April. Housing starts and permits fell in April. Existing-home sales dropped in April to the lowest level since June 2020. Rising mortgage rates, supply-chain issues and labor constraints continue to weigh on housing activity.

UNITED KINGDOM: Inflation surged again in April as energy prices soared. Yearly CPI inflation rose to a forty-year high of 9.0% in April, from 7.0% in March, according to the Office for National Statistics. Prices of goods increased at a record-high 12.4% pace while prices of services were up 4.7%. Energy prices were up an astounding 52.1% in April year-over-year, following a 27.6% increase in March. The jump in energy prices came after the Office of Gas and Electricity Markets (Ofgem) increased its price cap on April 1. Ofgem also announced on May 16 that it would look at "whether the energy price cap should be updated quarterly rather than every six months." A more frequent review of the price cap would make retail energy prices more reflective of market wholesale prices. On a month-over-month basis, CPI inflation rose to 2.5% in April from 1.1% in March. Core inflation (excluding energy, food, alcohol, and tobacco) rose to 6.2% in April from 5.7% in March.

The input producer price index (PPI) remained unchanged in April from March, rising 18.6% from a year ago. Input PPI inflation eased on a monthly basis as prices rose 1.1% in April following a downwardly-revised 4.6% gain in March.

CPI inflation should slow over the rest of the year as the Bank of England (BoE) continues its hiking cycle. Additionally, a shift in consumer spending to services away from goods should put downward pressures on inflation. However, further escalation of the Russia-Ukraine crisis and further tightening in the labor market

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pose upside risks to the inflation outlook. The U.K.'s unemployment rate fell to 3.7% in the three months to March (January, February and March), the lowest rate in nearly fifty years, from 3.8% in the prior three months (December, January and February). Job vacancies rose to a record-high 1.3 million in the three months through February, a 105,000 increase from the three months through January, according to the Office of National Statistics.

CHINA: The People's Bank of China (PBoC) announced a reduction of its five-year loan prime rate to 4.45% from 4.6% on May 19 to support the Chinese real estate sector. The five-year loan prime rate is a reference rate for mortgages. The one-year loan prime rate was unchanged at 3.7%. Stringent lockdowns, the weak property sector, the Russia-Ukraine crisis, and a more slowly growing global economy have resulted in weaker economic growth in China this year. Given the soft global economic backdrop, the PBoC will likely continue to cut its key policy interest rates this year to support growth.

Retail sales dropped 11.1% in April from a year ago as stringent lockdowns weighed on economic activity. April's drop marks the largest decline in retail sales since March 2020.

Industrial output fell 2.9% in April from a year earlier because of coronavirus-related lockdowns, the first decline since March 2020, following a 5.0% increase in March.

EUROZONE: The eurozone economy slightly grew in the first quarter of this year despite rising omicron cases and the Russia-Ukraine crisis, according to the second estimate from the European Statistical Office. Real gross domestic product (GDP) grew 1.1% (seasonally-adjusted annualized rate) in the first quarter, following a 1.2% expansion in the fourth quarter of 2021.

JAPAN: Japan's economy contracted less than expected in the first quarter of this year as real GDP fell 1.0% from the prior quarter at a seasonally-adjusted annualized rate. This was better than the consensus expectation for a 1.8% decline. Private consumption, private housing investment, public investment and trade were drags on growth in the first quarter; exports increased 4.7% while imports grew 14.1%; private consumption fell 0.1%; and private housing investment declined 4.3%.

The weak GDP print follows a surge in omicron cases and the implementation of stringent restrictions in the first quarter of this year. With restrictions on mobility lifted in March, GDP will likely rebound in the second quarter. High energy prices, the Russia-Ukraine crisis and supply-chain disruptions will weigh on consumption, industrial production, and trade, however. Japan's economic output remains below the pre-crisis level and the Bank of Japan (BoJ) will likely continue its ultra-dovish monetary policies to support the economy.

Yearly CPI inflation rose to 2.5% in April, above the BOJ's 2.0% target and the highest rate since 2014. Consumer prices excluding fresh food increased 2.1% in April from a year earlier, the fastest pace since 2008.

Producer Price Inflation (PPI) rose to 10.0% in April from a year ago from an upwardly-revised 9.7% in March. On a month-over-month basis, PPI inflation rose to 1.2% in April from 0.9% in March.

MEXICO: Inflation rose to a twenty-one-year high in April as global supply shocks continue to put upward pressures on prices. Annual CPI inflation rose to 7.7% in April from 7.5% in March. Core CPI (excluding energy and agricultural products) rose to 7.2% in April from 6.8% in March. On a month-over-month basis the consumer price index rose 0.5% in April, the slowest pace since December 2021, following a 1.0% increase in March.

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