

US Labor Market Softened in 2024 But Remained Solid; BOE Cut Upon Weaker Growth

UNITED STATES: The US economy added 143,000 jobs in January, according to a survey from employers from the Bureau of Labor Statistics, below the recent pace but still solid. This release also included the annual revisions to the employment data, based on more complete data from unemployment insurance records. After the revisions, job growth for all of 2024 averaged 166,000 per month, compared to 186,000 before the revisions. Either way, the job market remains firm entering 2025. Initial claims for unemployment insurance claims rose by 11,000 to 219,000 in the week ending February 1, 2025, nearly erasing the previous weeks' decline of 15,000. Nevertheless, first-time claims remain historically low, pointing to a solid labor market. Continuing unemployment insurance claims increased by 36,000 to 1.890 million in the week ending January 25, 2025. Despite the modest increases, the labor market is still in good shape although it is taking unemployed workers somewhat longer to find a new job.

The seasonally adjusted nominal U.S. goods and services trade deficit increased 25% in December to \$98.4 billion from \$78.9 billion (revised upward from \$78.2 billion) in November. December's total trade deficit was larger than the consensus expectation of \$96.8 billion. The monthly trade deficit in December was the highest since April 2022. The three-month moving average of the trade deficit also reached the highest level in more than two years. On a year-ago basis, the total trade deficit was up 52% in December.

The ISM Services Purchasing Managers' Index (PMI) fell to 52.8 in January 2025, from 54.0 in the month prior. All components of the ISM Services report point to health in the U.S. economy's services sector, though the data currently lack any suggestion that a renewed vigor for this sweeping economic base is on the cards for the first half of the new year.

Productivity (output per worker) in the nonfarm business sector increased 1.2% at an annualized rate in Q4 2024, according to the preliminary estimate from the Bureau of Labor Statistics. Although this was a slowdown from 3.0% growth in the third quarter, it was still a solid increase. On a Q4-to-Q4 basis nonfarm productivity growth was 1.6%, close to the pre-pandemic trend. But while productivity growth is solid, unit labor cost growth is running ahead of the pre-pandemic pace. Strong growth in unit labor costs is one reason for the Federal Open Market Committee to remain cautious in cutting the federal funds rate, the committee's key short-term policy interest rate. The FOMC cut the fed funds rate by a cumulative 100 basis points between September and December, but then held it unchanged at their meeting last week, in a range between 4.25% and 4.50%. PNC expects the FOMC to cut the fed funds rate twice in mid-2025 by 25 basis points each time, which would take it to a range between 3.75% and 4.00% by late summer, and then leave the rate there through the rest of this year.

EUROZONE: Eurozone's preliminary headline Consumer Price Index (CPI) in January was slightly higher than the consensus estimates, contracting 0.3% on the month and rising 2.5% year-over-year. Core inflation remained highly sticky in the eurozone, with core CPI growing 2.7% from a year ago, unchanged since September 2024. Retail sales edged down following strong growth in Q3 2024, declining 0.2% in December, remaining flat in November, and falling 0.3% in October. Over the past year, retail sales still grew 1.9% in December 2024, up from 1.6% in November. Eurozone's Manufacturing PMI rose to 46.6 in January 2025 from 45.1 in December. This marked the highest reading over the past eight months, albeit still in contractionary territory.

Gus Faucher
Chief Economist

Stuart Hoffman
Senior Economic Advisor

Jay Hawkins
Senior Economist

Kurt Rankin
Senior Economist

Ershang Liang
Economist

The volume of factory orders in Germany jumped 6.9% in December 2024 after contracting for two months according to the Federal Statistics Office. On a year-ago basis, total manufacturing orders were still down about 6% in December 2024. Germany's Manufacturing PMI came in better than the consensus and rose to 45 from 42.5 according to S&P Global. There was an improvement in Germany's business services activity as well, with the Services PMI rising from 51.2 to 52.5 in January.

France's Manufacturing PMI fell to the lowest level in three years ending 2024, but has quickly bounced back at the start of the New Year. Real GDP contracted 0.1% in France in Q4 2024 according to INSEE National Statistics Office. Economic weakness persisted in France's investment sector. The gross fixed capital formation made by non-financial businesses and households contracted in Q4 2024, dragging on overall economic growth over the past year. The lagged impacts of tight monetary policy continued to weigh on the manufacturing and housing sectors, in particular.

UNITED KINGDOM: The Bank of England (BOE) cut its Bank Rate by 0.25 bps from 4.75% to 4.5% on February 5. Real GDP growth was flat in Q3, while Q4 GDP is expected to have contracted by 0.1% according to the BOE. In its monetary policy summary, there was a significant downward revision to very-near term economic growth. UK's four-quarter growth in real GDP for Q1 2025, previously projected at 1.4% in November, has been revised down to 0.4% in the February forecast. The 1% subtraction largely reflected weak economic data came recently, including slower services activity, a softening labor market, and contractionary manufacturing activity. Despite improvements made in the housing sector in Q1 2024, a drag from gross fixed capital formation in private sector dwellings will likely have continued in early 2025 under a softer labor market and elevated interest rates. UK's Construction PMI fell to a contractionary level at 48.1 in January 2025 from an expansionary level of 53.3, registering the lowest Construction PMI over the past year.

MEXICO: The Bank of Mexico cut its official overnight interbank interest rate by 50 bps from 10% to 9.5% on February 6. This is the sixth interest rate cut made by the Bank of Mexico since it started in early 2024, and means that the policy rate has been cut by a total of 1.75 percentage points since March 2024. The 50-bps cut was also larger than decisions made in the previous meetings. Recent disinflation has Mexico's CPI inflation coming in close to the consensus expectation and grew 0.3% in January, a slower pace from December and November. On a year-ago basis, headline inflation eased to 3.6% in December, the slowest pace in three years. Real GDP contracted 0.6% in Q4, below the consensus forecast. The Manufacturing PMI also showed factory activity contracted at a faster pace in January 2025. Despite the recent contraction in economic growth, the risks estimated at the Government Board hold upside potential for inflation as tariff measures by the US, climate factors, cost pressures and sticky core inflation will likely together outweigh downside factors under a weakening Mexican peso.

INDIA: The Reserve Bank of India (RBI) cut its policy repo rate by 25 bps from 6.5% to 6.25% on February 6, marking the first interest rate cut since mid-2020. India's CPI inflation came in slightly cooler than the consensus and grew 5.2% in December, slowing from 5.5% in November according to the Central Statistics Office. Recent disinflation in the topline CPI was driven by the food and beverage components. Prices of food and beverages grew 7.7% in December, slowing from 8.2% in November on a year-over-year basis. Prices of other goods and services remained within the RBI's inflation target range. According to S&P Global, India's Composite PMI fell to the lowest level in over a year in January 2025, to 57.7, driven by a fallback in Services PMI. Manufacturing activity in India expanded faster; the manufacturing PMI increased to 57.7 in January from 56.4. Business services activity continued to expand but at a slower pace. The services PMI was down to 56.5 from 59.3. India's nominal exports were down from last year by 1% in December, narrowing from -5% in November. Exports were down from the peak in in early 2022 but remained elevated from pre-pandemic levels.

JAPAN: Private sector business activity expanded at a faster pace in January 2025. Japan's Services PMI jumped to 53 from 50.9, after rising in December and November last year according to S&P Global. Wage growth picked up in Japan

and should provide reasons for more interest rate hikes by the Bank of Japan in the first half of 2025. The monthly average cash earnings jumped at the end of 2024 from the previous year, growing 4.8% in December 2024. This is the fastest wage growth since 1995.

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