Global Economic Highlights

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Trade War Impacts Accumulate Globally, Raising Fears of Bigger Economic Slowdown

UNITED STATES: President Trump announced a 25% tariff on March 26 on imports of all autos except their United States-Mexico-Canada Agreement (USMCA)-compliant US-contents and USMCA-compliant (US and non-US) parts. In 2024, nominal autos imports reached about $475 billion, and this 25% tariffs implemented will immediately raises the cost of owning foreign cars and potentially domestic cars as well that utilize foreign produced parts, depending on the tariff amount that producers transmit to consumers.

President Trump also announced sweeping increases in tariffs on imports on April 2. The tariffs include a minimum 10% tariff on all imports, starting on April 5. They also include reciprocal tariffs, intended to equal one-half of a country's equivalent tariff rate on US imports, including non-trade barriers and currency manipulation; these tariffs are to start on April 9. Among the reciprocal tariffs the president announced were 34% on China, on top of 20% tariffs already announced; 24% on Japan; and 20% on the European Union. There are no new tariffs on imports from Canada and Mexico, although previously implemented tariffs of 25% on Canada and Mexico will remain in place, with exceptions for goods compliant with the United States-Mexico-Canada agreement. In addition, tariffs on specific goods already previously implemented, such as steel and aluminum, will not be subject to the additional tariffs, although the current tariffs will remain in effect.

Initial claims for unemployment insurance declined by 6,000 to 219,000 in the week ending March 29, remaining near the lower end of a 214K to 242K range in the past six months. The four-week moving average of initial claims, which irons out some of the weekly volatility, edged down by 1,000 to 223,000 for the week ending March 29. This is up from 216,000 one year ago. Continuing unemployment insurance claims surged by 56,000 to 1.903 million in the week ending March 22, the highest since late-2022. This suggests it is taking unemployed workers somewhat longer to find a new job.

There is a growing impact from the Department of Government Efficiency's layoffs of Federal government employees. Initial jobless claims filed by fired civilian Federal employees were 564 in the week ending March 22, down 257 from the previous week. There were 8,245 continuing claims filed by fired civilian Federal employees in the week ending March 15, a decrease of 890 from the previous week. This is close to the 10,000 decline of Federal government employment in February according to the BLS and we expect larger declines in March and April.

PNC expects the US labor market to soften in 2025 with smaller job gains relative to last year's average monthly gain of 166,000 (2.0 million new jobs in 2024) and an unemployment rate that moves slightly higher from 4.1% in February. Two downside risks to job growth are: 1) the imposition of additional tariffs and possible retaliations, and 2) the potential for immigration restrictions and deportations from President Trump's Executive Orders to decrease the supply of available workers.

The ISM Manufacturing Purchasing Managers' Index (PMI) fell to 49.0 for March 2025. The downbeat narratives surrounding tariff rhetoric and actions are on display with the March 2025 report, with manufacturers' cost pressures accelerating, Production declining, and New Orders drying up. Both manufacturers' own inventories and their customers' inventories saw gains in March 2025's report, further supporting the scenario where recent hints of a manufacturing turnaround may well have simply been the result of businesses stocking up to get ahead of tariff impacts. Whether U.S.

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manufacturers' response to the new production dynamics can stabilize industrial trends remains to be seen, but these earliest of returns are not encouraging.

Consumer sentiment slipped to 57.0 in March according to the final report from the University of Michigan. Sentiment is at the lowest level since November 2022 amid policy uncertainty and equity market declines. This is down from the preliminary reading of 57.9 and marks the third consecutive decline in sentiment. The downward revision was primarily due to the expectations component which plunged 11.4 points to 52.6. The present conditions component fell a much more modest 1.9 points to 63.8.

The U.S. trade deficit in goods retreated 5% to $147.9 billion in February from a record high of $155.6 billion (upwardly revised from $153.3 billion) in January after seasonal adjustment, according to U.S. Census Bureau. The goods trade deficit surged in the past three months as importers tried to beat tariff increases from the Trump administration. This was the second largest advance goods trade deficit on record, easily surpassing a $125 billion deficit in early 2022 as the US economy recovered from the pandemic. The three-month moving average of the goods trade deficit rose to $141.9 billion through February 2025, remaining a record from last month.

U.S. total construction spending came in better than the consensus and rose 0.7% in February to $2.196 trillion at a seasonally adjusted annualized rate from $2.180 trillion (downwardly revised from $2.193 trillion) in January. Total construction spending grew 3% in February from last year, the second slowest spending growth on a year-over-year basis since mid-2019. Both residential and nonresidential construction spending increased on the month, up 1.3% and 0.3%, respectively. The S&P CoreLogic Case-Shiller U.S. National Home Price Index rose 0.6% in January after seasonal adjustment, slightly larger than the 0.5% increase in December. On a year-over-year basis the index was up 4.1% in January, after 4.0% growth in December. Single-family home prices after seasonal adjustment have risen for 24 straight months and have been setting record highs since December 2023, despite low housing affordability and elevated 30-year fixed mortgage rates.

EUROZONE: The Harmonized Index of Consumer Prices (HICP) grew in line with the consensus in March, up 0.6% on the month and 2.2% over the past year. The core seasonally unadjusted HICP, which excludes more volatile components of total inflation, food, energy, tobacco, and alcohol, increased 1% in March. From a year ago, the core HICP rose 2.4% in March, the second straight slowing in year-over-year core inflation, down from 2.7% in January and 2.6% in February. Inflation excluding volatile components remained above the ECB's 2% inflation objective but approached it steadily in early 2025. As of February 2025, actual rentals for housing still grew strongly on a year-over-year basis, up 2.9% in March and February. Rental inflation came down with a lag and will likely continue to ease in the coming months. Inflation in restaurants and hotels remained above 4% year-over-year in March but has slowed in early 2025 and down significantly from late 2022 and early 2023. By county, the consumer prices in France grew much slower than Germany, Spain, and Italy, up 0.2% on the month and 0.8% from last year. This will continue to help bring down the aggregate inflation in the eurozone along with further easing in the rest of the euro area. However, inflation risks are tilted to the upside with escalating global trade measures.

The Eurozone PMI improved to a 26-month high in March to 48.6 from 47.6 in February according to S&P Global. This is the fourth consecutive month of increases and indicates a slower contraction in the euro area's factory activity. Details show the fall of factory demand continues to improve, with the New Orders component rising in March, albeit in contractionary territory. Goods inflation, which was consistently below 2% for the past 14 months, will likely be challenged and could pick up if producer cost pressures continue to escalate over the next few months, especially under a trade war.

JAPAN: Manufacturing activity contracted at a faster pace in the first quarter according to S&P Global. This PMI report shows potential consistent goods inflationary pressure as the pace of rising input costs in the manufacturing industry was at a 19-month high in March. According to the Statistics Bureau of Japan, the Tokyo Consumer Price Index (CPI) grew a strong 2.9% in March, higher than the consensus expected, down from a one-year high in January, and up from 2.8% in February. On a year-over-year basis, prices of medical care services, private transportation, communications, furniture and household equipment, clothing and footwear noticeably increased faster in March. The labor market in Japan remains tight in early 2025, with the jobless rate down 0.1% to 2.4% in February. This unemployment rate is up from the historic low at 2.2% before COVID but remained well below its long-run average. Japan's nominal wage growth came in higher-than-expected and was up 3.1% on a year-over-year basis in February. Seasonally unadjusted real cash earnings growth, total cash earnings growth less inflation, remained below zero but has improved from January when real cash earnings were down 2.8% year-over-year.

CANADA: The real economy grew at a solid pace in early 2025 in Canada. Real GDP expanded 0.4% in January, up from 0.3% in December and -0.3% in November according to Statistics Canada. On a year-over-year basis, real GDP grew 2.2% in January, the strongest pace since early 2023. The Canadian labor market shed 32,600 jobs in March. Three-month moving-average job gains, which smooths out monthly variations, fell sharply in February and March, down from the two-year high of 70,267 in January to 14,833 in March. The unemployment rate increased slightly from 6.6% in February to 6.7% in March. Wage growth continues to slow in early 2025, with the average hourly wage rate of permanent workers rising 3.5% in March, down from 4% in February. With a possible escalation in the trade war with the US, Canadian business sentiments fell for Q1 2025, with the employment expectation from firms free falling according to Bank of Canada's Business Outlook Survey. The input and output price inflation expectation also rose to their highest levels since 2022. The overall business outlook deteriorated in Q1 after improving for the past three quarters in Canada.

UNITED KINGDOM: UK's Manufacturing PMI dipped to the lowest level since October 2023 according to S&P Global, showing an accelerated slowdown in factory activity and demand for manufacturing output in early 2025. The report hints at a further softening in the labor market as UK manufactures cutback employment levels amid rising cost pressures. Seasonally adjusted real retail sales in the UK came in better than the consensus, up 1% on the month and 2.2% over the past year according to UK Office for National Statistics. Sales made in non-food stores were up strongly along with a pickup for non-store retailing, both up 3% in February and indicating strong consumer buying for the month. Meanwhile, the seasonally unadjusted CPI inflation picked up on the month, growing 0.4% in February, but the yearly pace of the CPI slowed somewhat to 2.8% after strong 3% growth in the previous month. Housing related prices, after hiking rapidly in 2022, came down in late 2023 but have picked up somewhat since October 2024. Education and health costs still grew strongly in early 2025, increasing 7.5% and 5.1%, respectively, in February.

MEXICO: Total capital investment in Mexico continued to decrease in early 2025, down 1.5% in January. Over the past year, gross fixed investment fell at a sharper pace in January from the trailing quarter, contracting 6.7% year-over-year and up from 4% in December according to Instituto Nacional de Estadistica y Geografia (INEGI). Mexico's PMI also dipped in March to a three-year low at 46.5, indicating the steepest slowdown in the manufacturing industry and a deterioration in factory output in early 2025. According to S&P Global, the New Orders component fell at the sharpest pace since early 2022, indicating a pullback in factory demand amid global trade uncertainties. The Central Bank of Mexico cut the policy rate by 50 pbs to 9.0% from 9.5% on March 27. Mexico's CPI YoY fell to 3.7% in mid-March from 3.8% earlier last month, still within the Banxico's inflation target range between 2% and 4%.

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