



Global Economic Highlights

PNC Economics

Headlines

- **The FOMC cut the fed funds rate as expected. So far, there is limited impact on goods prices from higher tariffs. US consumer spending growth is set to slow in the near term.**
- **The eurozone economy continued to expand in the second half of 2025, although growth was slow.**
- **The German labor market softened in 2025, with large job cuts in the manufacturing sector. Weakness associated with tariffs should not last.**
- **The drag in French gross capital formation will likely remain over the near term under fiscal policy uncertainty.**
- **Central banks of Australia and India kept their policy interest rates unchanged on September 30 and October 1, respectively.**
- **The Bank of Mexico cut the overnight target rate on September 25 as inflation eased as expected.**

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United States

As widely expected, the Federal Open Market Committee cut the federal funds rate by 25 basis points on September 17; the rate is now in a range between 4.00% and 4.25%. This was also the first rate cut since December 2024. **Governor Stephen Miran, who just joined the Board two weeks ago, dissented, calling for a 50-basis point cut in the fed funds rate.** Governor Lisa Cook, whom President Trump recently tried to fire from the Fed's Board of Governors but was reinstated by an appeals court, voted in favor of the 25-basis point rate cut. This release also includes the Summary of Economic Projections, or "dot plot," which provides FOMC participants' forecasts for the economy over the next few years. The dot plot showed two more rate cuts this year, and another one in 2026. The statement and dot plot are consistent with PNC's forecast for 25 basis point cuts in the fed funds rate at the remaining FOMC meetings this year, in late October and mid-December, as well as another rate cut in late January 2026. This would take the fed funds rate to a range of 3.25% to 3.50% by February 2026, where PNC expects it to remain throughout 2026.

The personal consumption expenditures price index increased 0.3% in August from July; the PCE price index has increased 0.2% to 0.3% in each of the past five months. Durable goods prices actually fell 0.1% in August, with nondurable goods prices up 0.2%, **showing limited impact on goods prices from higher tariffs.** The core PCE price index, excluding volatile food and energy prices, rose 0.2% in August, consistent with readings in recent months. On a year-ago basis overall PCE inflation was 2.7% in August, up from 2.5% in July. Core inflation was 2.9% in August, the same pace as in July but up from 2.6% in April. **Both of these measures are above the Federal Reserve's 2% objective and are moving higher.**

Initial claims for unemployment insurance fell by 14,000 to 218,000 in the week ending September 20, according to the Labor Department. Continuing claims fell slightly to 1.926 million in the week ending September 13, from 1.928 million the previous week. **The picture painted by unemployment insurance data is that the labor market is solid, although not as good as it was in 2022 and 2023.** Layoffs remain low, but

hiring has slowed and it is more difficult to find a job now than it was during the first few years of recovery from the pandemic.

There was a large upward revision to inflation-adjusted (real) GDP growth in the second quarter, to 3.8% at an annualized rate in the third estimate, from 3.3% in the second estimate, according to the Bureau of Economic Analysis. The upward revision to overall GDP **came from a large upward revision to real consumer spending growth. Consumer spending growth is running ahead of income growth** and the saving rate is falling according to the personal income and outlays report. Income growth was solid in the second half of 2025 but is slowing as the labor market softens.

PNC's forecast is for slower growth in the second half of the year of around 1% annualized, but no recession. **Spending growth cannot continue to indefinitely outpace income growth. Consumer spending growth is set to slow in the near term but should not experience an outright decline.** Higher prices from tariffs will also be a drag on household purchases. Offsetting this somewhat are the strong stock market and big gains in house prices in recent years, which have boosted household wealth, particularly for upper-income earners. Interest rates remain elevated but expected Fed rate cuts should provide a modest boost to consumer spending in 2026.

Risks to the consumer spending outlook are to the downside. Layoffs remain low in the second half of 2025, but the soft labor market could deteriorate with job losses and a rising unemployment rate, leading households to cut back on their purchases. The federal government shutdown starting in October will also be a downside risk to the labor market, consumer spending, and US economic growth.

US existing home sales remained roughly stable in August from July, down only 0.2%. On a year-ago basis sales were up 1.8%. Existing home sales have hovered around 4 million over the past two years, considerably below the pre-pandemic level of around 5 million. The S&P CoreLogic Case-Shiller US National Home Price Index fell for a fifth straight month in July, down 0.06% after seasonal



adjustment. Home prices were rising in each month between December 2022 and February 2025 but started to decline as high interest rates weighed on housing demand and more inventory came online this year. On a year-over-year basis the index was up 1.7% in July, a sixth straight month of slowing annual price gains. Prices in July were down 1.2% from their peak in February. Even with the small declines over the last few months, prices are up more than 50% compared to before the pandemic. PNC expects the housing market to remain weak in 2025 but fed funds rate cuts in 2025 and 2026 will contribute to gradual improvements in housing affordability and demand.

Figure 1: Existing Home Sales (Millions) and Mortgage Rate (%)



Source: Freddie Mac, National Association of Realtors

Eurozone

The eurozone economy continued to expand in the first half of 2025, although growth was slow.

Eurozone's seasonally and calendar adjusted real GDP expanded 0.1% in the second quarter according to Eurostat. Trade has largely distorted the headline GDP numbers in the first half of 2025. Goods exports were impacted by the unwinding of a surge at the start of this year under tariff impacts, subtracting 0.3 percentage point from quarter-over-quarter GDP growth in Q2. Outside trade pieces of Eurostat's GDP report, the area's domestic demand still expanded a solid 0.4% in Q2 after rising 0.5% in Q1. On a year-over-year basis real GDP expanded 1.5%, only slightly below Q1 when growth was at a two-year high.

Germany, the biggest economy in the euro area, experienced a sharp pullback in Q2 as both trade

and fixed capital formation dragged (Figure 2). Its seasonally and calendar adjusted real GDP contracted 0.3% after expanding in the previous three quarters according to Eurostat. The net trade alone subtracted 0.7 percentage point from growth. Outside shifting trade pieces, gross fixed capital formation in both machinery and equipment and construction dragged on quarter-over-quarter GDP. Growth of household consumption also slowed significantly from 0.6% in Q1 to 0.1% in Q2 under a softer labor market, in line with the fact that the German labor market registered job losses in three of previous four months ending August. Annual services inflation edged up in September but is still below that in 2024, in line with notably slower nominal wage growth in 2025.

German labor market conditions remain weak in 2025.

The country is currently undergoing an ambitious structural shift toward clean energy and away from nuclear and fossil fuel-based energy. The industrial sector alone shed over 200,000 jobs between 2019 and 2020 according to the labor force survey.

Manufacturing employment losses accelerated under tariff impacts and a slowing Chinese economy.

German industry shed over 85,000 jobs so far in July, up from 68,000 made in the same period in 2024. As of September, trade uncertainties abated somewhat as the EU and the US reached an agreement that settles tariffs on all EU exports going into the US at 15%, excluding itself from a new round of industry-based tariffs from President Trump (pharmaceuticals, e.g.).

However, tariffs faced by American buyers of German cars are still higher than beginning of this year. **Weakness associated with tariffs should not last, though, as tariffs remain a one-time shock after the dealmaking.** In fact, the rate of factory contraction has already slowed in the third quarter according to a Manufacturing PMI report in September. Job losses and slower wage growth than last year should further weigh on services inflation in the remainder of 2025, despite a temporary pickup in inflation from September and August. Together, lower European Central Bank interest rates should continue to benefit real consumer spending as borrowing costs came down. Drags in machinery and

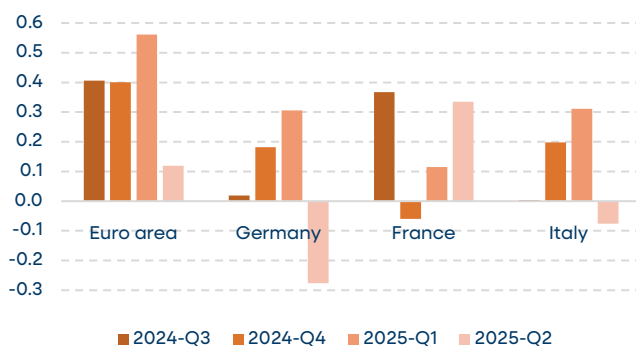


equipment and construction investments should not persist with lower interest rates as uncertainty around trade recedes somewhat.

The second largest economy of the area, France, expanded 0.3% in Q2. Details point to near-term economic weakness, however. Gross fixed capital formation subtracted from Q2 real GDP growth as political instability weighed on business investment decisions. This likely extended into Q3 and into the final quarter of the year as political uncertainty remains a concern for investors. In the near term, the new French Prime Minister, Sebastien Lecornu, is working to pull together a government and propose a 2026 budget.

Some of eurozone's smaller economies grew faster than Germany and France. For example, individual final consumption was up a strong 1.6% in Poland in Q2, while household final consumption in Spain, the fourth largest economy in the euro area, was up by a solid 0.8% according to Eurostat. Overall, eurozone economic activity continued to expand slowly. Data collected between September 11 and 19 for the Composite Purchasing Managers' Index points to slightly accelerated expansion, reaching a 16-month high, according to S&P Global. Near-term weakness is expected to improve in the coming year as trade impacts alleviate, and uncertainty settles.

Figure 2: Eurozone Real GDP by Region (%QoQ)



Source: Eurostat

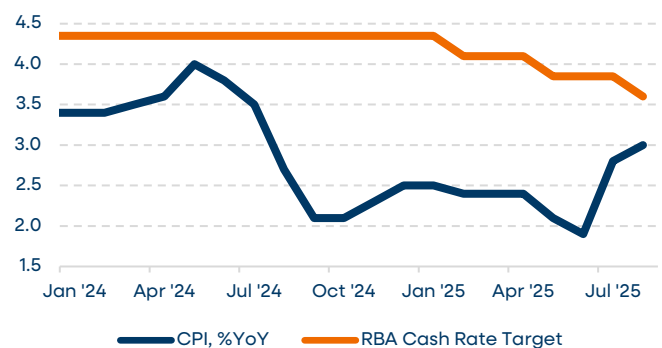
Australia

The Reserve Bank of Australia (RBA) kept its policy cash target rate unchanged at 3.6% on September 30. Inflation appears to be rising as expected by the RBA, as measures for lower cost of living expire by the end

of this year, but near-term inflation should keep the central bank cautious going forward. Year-over-year Consumer Price Index (CPI) inflation rose for a third straight month to 3% in August, up from 2.8% in July and 1.9% in June, according to the Australian Bureau of Statistics. **This came in above the consensus expectation. It is also at the upper bound of RBA's inflation target range of two to three percent and the highest year-over-year CPI inflation since July 2024.**

Trimmed mean inflation, which excludes extremely volatile items, fell to 2.6% in August from 2.7% in July. So far, core CPI inflation has been under three percent for each month in 2025, and the RBA lowered the interest rate on overnight loans in the money market three times within the current monetary policy easing cycle. Employment growth has slowed in recent months, with the three-month moving average of job gains falling to 8,000 in August, down from more than 40,000 in the same period from last year. The unemployment rate trended up since early 2022, at 4.2% in August 2025, but remained below its pre-pandemic peak.

Figure 3: CPI Inflation and RBA Cash Rate Target



Source: Australian Bureau of Statistics, Reserve Bank of Australia

India

The Reserve Bank of India's Monetary Policy Committee kept its policy repo rate steady at 5.5% on October 1 as expected. Annual headline CPI inflation in August came in roughly in line with consensus expectation and rose to 2.1% after falling to 1.6% in July according to India's Central Statistics Office. This is within the Reserve Bank of India's consumer inflation target range and remained near the lower end of the tolerance band. Coupled with slowing



inflation, economic growth has accelerated in recent months. The HSBC India Composite PMI rose to a three-year high of 63.2 in August before falling to 61.9 in September according to S&P Global, a reading that shows a solid economic expansion though it has slowed somewhat in September. India's factory activity is down from the start of 2025, as industrial output is typically stronger in the beginning of each year due to the monsoon season. On a year-over-year basis, industrial production still grew 4% in August, down from 5.2% in January but still a decent pace. The seasonally adjusted HSBC Manufacturing PMI ranged from 58.4 to 59.3 between June and September, indicating a relatively stable pace of expansion in manufacturing. It also remains firmly in expansionary territory entering the last quarter of 2025.

Mexico

The central bank of Mexico lowered the Overnight Rate by 25 bps from 7.75% to 7.5% on September 25, consistent with its inflationary outlook. The biweekly headline 12-month CPI inflation rate rose but remained within the Banxico's inflation objective of around 3% (+/- 1%), at 3.75% in the first two weeks of mid-September. This is consistent with the Banxico's 3.6% forecast for the third and the fourth quarter.

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