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GLOBAL ECONOMIC HIGHLIGHTS

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U.S. May Jobs Report Shows Slowing Wage Growth; BoC Raises Policy Rate by 50 Basis Points

UNITED STATES: Employment, as measured by a survey of firms by the Bureau of Labor Statistics, rose by a solid 390,000 in May from April. This is close to the recent pace; job growth over the past three months has averaged 408,000. The unemployment rate was 3.6% for a third straight month in May. Average hourly earnings rose a solid 0.3% over the month. Average hourly earnings were up 5.2% in May from a year earlier, although this is a slowing from 5.6% in March and 5.5% in April. The tight labor market is forcing employers to raise wages, but the pace of wage gains has slowed in the spring.

Job Openings fell to 11.4 million in April from the record-high 11.9 million in March.

Construction spending rose a small 0.2% in April from March, following an upwardly-revised 0.3% increase in March, according to the Census Bureau. April's increase was lower than the consensus and PNC's expectation for an increase of 0.5%. Consumption spending growth in April was the slowest since July 2021.

The ISM manufacturing index grew from 55.4 in April to 56.1 in May, better than consensus expectations for a decline to 54.5. Readings above 50 indicate growth while readings below 50 suggest contraction. The employment component of the index fell to the lowest level since August 2020. The new orders, production and inventories components increased while the supplier deliveries component fell.

The ISM nonmanufacturing index fell to 55.9 in May from 57.1 in April, worse than consensus expectations for a decline to 56.5. The business activities and supplier deliveries components declined while the new orders and employment components rose.

House price appreciation in March, as measured by the S&P CoreLogic Case-Shiller 20-City Composite Index accelerated to 21.2% on a year-over-year basis from 20.3% in February. The S&P CoreLogic Case-Shiller National Composite Index recorded a 20.6% gain in March from a year ago, up from 20.0% in the previous month. March's reading was the highest yearly price change on record for the national and 20-city composites. House prices, as measured by the National Composite Index, are now 59.6% higher than the 2006 peak before the Great Recession started. House prices continued their climb in March but there are signs that we are at or near an inflection point in the housing market. Housing starts decreased in March and April; the number of existing-home sales, which accounts for about 90% of total home sales, declined in March and April, and is at the lowest level since June 2020; also, homebuilder sentiment as measured by the National Association of Homebuilders (NAHB) index is at the lowest point since June 2020.

The U.S. nominal trade deficit likely narrowed in April, reversing all the widening in March. A smaller trade deficit and solid consumer spending will lift real GDP growth this quarter.

The May consumer price (CPI) index report which will be released on June 10 will likely show an increase in monthly inflation due to the surge in gasoline and diesel fuel prices. The year-over-year change in the CPI index likely edged down to 8.2% in May from 8.3% in April.

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CANADA: GDP rose 0.7% in March from February, better than consensus expectations for a 0.5% increase. This followed a downwardly-revised 0.9% decrease in February. Thirteen out of nineteen sectors were up in March despite restrictions on economic activity at the start of the quarter. Real GDP was up 3.1% in the first quarter of 2022 at a seasonally-adjusted annualized rate following a 6.6% increase in the fourth quarter of 2021. Consumption expenditure, residential investment and business investment contributed to growth, while trade subtracted from growth.

Residential building permits edged down 0.6% in April following an upwardly-revised 6.3% decline in March. On a year-over-year basis, the value of permits climbed 5.5% in April.

As expected, the Bank of Canada (BoC) raised its policy rate by 50 basis points from 1.0% to 1.5% when central bankers met on June 1. The BoC also announced the continuation of its quantitative tightening (QT) program. In the accompanying press release, policymakers noted that they are prepared to “act more forcefully if needed” to achieve the 2% inflation target. Canada’s economy is facing record-high inflation due to turbo-charged consumer demand, supply-chain disruptions, and an excessively tight labor market. PNC Economics expects the Bank of Canada to raise its policy rate again on July 13 by 50 basis points to 2.0%. PNC Economics then expects the BoC to raise its policy rate by 25 basis points at each of its meetings later this year (September 7, October 26, and December 7).

EUROZONE: Economic data for April and May were disappointing in the euro area. Harmonized Index of Consumer Prices (HICP) inflation surprised to the upside in May driven by surging food and energy prices. Prices rose a record-high 8.1% in May from a year ago following a 7.5% increase in April. On a month-over-month basis, prices increased 0.8% in May following a 0.6% increase in April. Yearly core inflation (excluding energy, food, alcohol, and tobacco) rose to a record-high 3.8% in May from 3.5% in April. As reported by [Bloomberg](#) on May 30, Philip Lane, the chief economist of the European Central Bank (ECB), stated in an interview that “increases of 25 basis points in the July and September meetings are a benchmark pace.” This implies that the ECB will raise its policy rate by 25 basis points at each of its meetings on July 21 and September 8.

Retail sales were down a surprising 1.3% in April on a month-over-month basis, following a 0.3% increase in March. Consensus expectations were for a small 0.1% increase in retail sales in April.

JAPAN: Manufacturing activity in Japan expanded at a slower pace as the Jibun Bank manufacturing PMI fell slightly to 53.3 in May from 53.5 in April, while the services PMI rose to 51.7 from 50.7. The expansion in May marked the slowest pace of expansion in three months. Activity in the service sector expanded at a quicker pace in May as the Jibun Bank services PMI rose to 52.6 from 51.7 in April. PMI readings above 50 indicate growth while readings below 50 imply contraction.

BRAZIL: Brazil’s economy expanded slower than expected in the first quarter of 2022 as GDP rose 1.0% from the previous quarter, lower than consensus expectations for a 1.2% increase. This followed an upwardly-revised 0.7% increase in the fourth quarter. Real GDP was up 4.0% in the first quarter of 2022 at a seasonally-adjusted annualized rate followed by a 2.7% increase in the fourth quarter. With higher interest rates, double-digit inflation, fiscal challenges, supply-chain disruptions, and increased political uncertainty, economic growth will likely be weak in Brazil through the rest of 2022.

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