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GLOBAL ECONOMIC HIGHLIGHTS

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Record-High Inflation in the Eurozone; U.S. Unemployment Rate Expected to Fall to 3.5% in the June Jobs Report

EUROZONE: Inflation hit a new record in June according to preliminary data from the European Statistical Office. The total harmonized index of consumer prices (HICP) rose 8.6% on the year, up from 8.1% in May, and the core HICP excluding energy, food, alcohol, and tobacco slowed slightly to 3.7% in June from 3.8% in May. Inflation in June was driven by a surge in energy and food prices; energy and food prices were up 41.9% and 8.9% respectively from June 2021. Inflation was unchanged on a month-over-month basis with prices rising 0.8% in June.

Producer prices rose 0.7% in May, the weakest monthly increase in over a year, following a 1.2% increase in April. Producer price inflation (PPI) slowed to 36.3% in May from 37.2% in April on a year-over-year basis, however.

The Ukraine invasion has dealt a blow to the global economy and resulted in a surge in global energy prices. Russia is the world's largest exporter of oil to global markets, according to the International Energy Agency, and many eurozone economies are very dependent on Russia's energy exports. With the fresh inflation data and a deteriorating inflation outlook, the European Central Bank (ECB) is all but set to raise its policy rate for the first time in more than a decade on July 21. PNC Economics expects the ECB to raise its deposit rate by 25 basis points on July 21 and 50 basis points on September 8.

UNITED STATES: Weekly economic data continue to be mixed in mid-year and point to a slowdown. The personal consumption expenditures (PCE) price index increased 0.6% in May from April, with the core PCE price index (excluding food and energy) up 0.3%. The PCE price index is the Federal Reserve's preferred inflation measure. On a year-ago basis the overall PCE price index was up 6.3%, the same pace as in April, but down from 6.6% in March. The core PCE price index rose 4.7% in May from one year earlier, down from 4.9% inflation in April.

Inflation has likely peaked on a year-over-year basis but remains elevated. It will slow in the near term primarily due to favorable comparisons with the second half of 2021, and then further in 2023 with weaker economic growth from higher interest rates. A stabilization in gas prices should also help slow inflation.

Initial claims for unemployment insurance fell by 2,000 to 231,000 in the week ending June 25 from an upwardly-revised 233,000 in the week ending June 18. The four-week moving average of initial claims, which smooths out some of the volatility, moved up 7,000 to 232,000 in the week ending June 25. It hit a low of 172,000 in early April. The insured unemployment rate dipped to a very low 0.9% in the week ending June 18 from an upwardly-revised 1.0% in the prior week.

The labor market remains in solid shape in mid-year but the rise in initial claims since early April is a cool breeze blowing at the hot labor market this summer. If the recent uptick in the 4-week moving average of initial claims to 232,000 moves up to over 250,000, that would be a clear sign that layoffs are happening at a growing number of companies.

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The advance nominal-goods trade deficit in May narrowed to the lowest level this year after peaking in March. The goods trade deficit shrank 2.2% to \$104.3 billion in May from \$106.7 billion in April, according to data from the U.S. Department of Commerce. Nominal goods exports rose 1.2% on the month while nominal goods imports fell 0.1%. Trade subtracted 3.2 percentage points from growth in the first quarter of this year but with the sizeable decline in the nominal goods deficit in April and May, trade will contribute to economic growth in the second quarter.

House price appreciation in April, as measured by the S&P CoreLogic Case-Shiller National Composite Index decelerated to 20.4% from 20.6% in March. The S&P CoreLogic Case-Shiller 20-City Index recorded a 21.2% gain in April, unchanged from March. Prices were up in April from the prior month in all 20 cities. Mortgage rates have risen sharply this year and will likely continue their upward trajectory into 2023. As the Fed focuses on slowing the economy and reducing inflation, declining affordability will weigh on housing demand, reducing house price growth through 2022.

Measures of consumer confidence collapsed in June. Consumer sentiment as measured by the University of Michigan's Survey of Consumers registered at a record-low 50.0 for June, a small downward revision from the 50.2 initially reported. Consumer confidence as measured by the Conference Board, declined 4.5 points to 98.7, a sixteen-month low.

The Bureau of Labor Statistics' June report, to be released Friday July 8, is forecast to show the unemployment rate falling to 3.5% from June's 3.6%, with nonfarm payroll employment up 250,000 on the month, and the average hourly earnings up 0.4% on the month and 5.2% on the year.

CHINA: Manufacturing activity improved in June as the Caixin manufacturing PMI rose to 51.7, the strongest reading in over a year, from 48.1 in May. The CFLP manufacturing PMI also showed a recovery in the manufacturing sector as it rose to 50.2 in June from 49.6 in May. This was the first above 50 reading since February. The recovery in the manufacturing sector is likely temporary. The relaxation of lockdowns in June improved manufacturing output but a slowing global economy will likely weigh on export demand through the rest of the year.

CANADA: Real GDP grew 0.3% in April from March, matching consensus expectations, and following a solid 0.7% growth in March. Real GDP was up 5.0% in April from a year earlier. Preliminary data from Statistics Canada show an approximate 0.2% contraction in real GDP in May. After declining in January, Canada's real GDP has increased in every month although growth in April was the weakest this year.

Activity in the manufacturing sector improved at a slower pace in June as the S&P Global Canada manufacturing PMI fell to 54.6 in June, the lowest level since January 2021, from 56.8 in May. Readings above 50 indicate growth while readings below 50 suggest contraction. Global supply chain issues and price pressures continue to weigh on Canada's manufacturing industry.

The Bank of Canada's Business Outlook Survey for the second quarter of 2022 showed that consumer inflation expectations over the next couple of years rose to the highest level since the survey began in 2014. Also, many businesses surveyed anticipate "significant wage and price pressures" and about half of the businesses with supply-chain challenges expect them to persist until the end of 2023 or beyond.

UNITED KINGDOM: Activity in the manufacturing sector expanded at a slower pace in June as the flash S&P Global manufacturing PMI fell to 52.8 in June, the lowest level since June 2020, from 54.6 in May. The flash S&P Global services PMI rose slightly to 54.3 in June from 53.4 in May. Readings above 50 indicate growth while readings below 50 suggest contraction. Economic activity has slowed in the U.K. as sticky high inflation and rising interest rates continue to take a toll on consumers and businesses. The outlook for the rest of 2022 is gloomy. The Bank of England (BoE) forecasts inflation to hit 11% in October from 9.1% in May and the BoE governor, Andrew Bailey, stated on June 29 that it is "very clear that the economy is starting to slow."

In the press conference after the release of the Financial Stability Report on July 5, the BOE's deputy governor, Jon Cunliffe, stated that households can withstand interest rates of up to 5%.



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INDIA: The S&P Global manufacturing PMI fell to 53.9 in June, the lowest level since September 2021, from 54.6 in May while the services PMI increased slightly to 59.2 from 58.9.

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