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# GLOBAL ECONOMIC HIGHLIGHTS

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## BOE Will Raise Bank Rate by 50 Basis Points This Week; U.S. Unemployment Rate Expected to Hold at 3.6% in July Report

**UNITED STATES:** Real gross domestic product fell 0.9% at an annual rate in the second quarter of 2022, according to the advance estimate from the Bureau of Economic Analysis; this followed a 1.6% decline in the first quarter. The big drags came from inventories and housing investment while trade was a major positive. Consumer spending rose 1.0% adjusted for inflation, adding 0.7 percentage point to growth. Economic growth slowed in the first half of 2022, but the U.S. economy is not in recession. Demand, especially from consumers, remains solid, thanks to the very good labor market and about \$2 trillion in extra saving relative to before the pandemic, and despite the drags from inflation and higher interest rates.

As expected, the Federal Open Market Committee raised the federal funds rate by 75 basis points, to a range of 2.25% to 2.50% at the July FOMC meeting. The FOMC indicated that the pace of rate hikes going forward will depend on both the path of inflation and the outlook for the labor market. PNC expects the FOMC to raise the fed funds rate by 50 basis points at its next meeting on September 21. However, risks are to the upside, toward an increase of more than 50 basis points, depending on inflation data over the next couple of months. PNC expects the federal funds rate to be in a range of between 3.25% and 3.50% at the end of this year and then peak in a range between 3.50% and 3.75% in the first half of 2023.

After-tax income fell 0.3% in June from May, after adjusting for inflation, according to the Personal Income and Outlays report from the Bureau of Economic Analysis. Nominal personal income rose 0.6% for the month and has been increasing at around this pace since February. Nominal wages and salaries rose 0.5% in June with more jobs and higher wages. The personal consumption expenditures price index jumped 1.0% in June from May, the largest one-month increase since 2005. Energy prices soared 7.5% over the month. The core PCE price index, excluding volatile food and energy prices, rose a strong 0.6% in June, after increases of 0.3% in each of the three previous months. On a year-ago basis headline PCE inflation was 6.8% in June, up from 6.3% in May. This was the highest PCE inflation since 1981. Job gains and wage growth will support increases in nominal income, and real incomes will increase with lower inflation. But slower job growth will weigh on income gains in 2023.

The Employment Cost Index (ECI), the Fed-preferred measure of labor costs, rose by 1.3% in the second quarter, slightly down from the 1.4% increase in the first quarter. The ECI measures labor costs while accounting for industry groups and occupations unlike the average hourly earnings indicator which is released with the monthly jobs report. The labor market remains in solid shape but there are signs that the labor market is cooling. Jobless claims have risen in recent weeks and layoffs are likely to increase, particularly in interest-rate sensitive sectors, as the Federal Reserve continues its hiking cycle.

The Conference Board Consumer Confidence index fell to 95.7 in July, the lowest level since February 2021, from 98.4 in June. The final July reading of the University of Michigan's consumer sentiment index showed little change in consumer sentiment from the record-low reading in June. The Conference Board survey focuses on employment and the labor market conditions while the University of Michigan survey focuses on the financial health of consumers.

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The Bureau of Labor Statistics' August report, to be released Friday August 5, is forecast to show the unemployment rate unchanged at 3.6%, with nonfarm payroll employment up 225,000 on the month, and the average hourly earnings up 0.4% on the month and 5.2% on the year.

**CHINA:** Manufacturing activity surprisingly contracted in July as the CFLP manufacturing PMI fell to 49.0 from 50.2 in June. The consensus expectation was for an increase to 50.3. The Caixin manufacturing PMI showed a weaker expansion in July as the index dropped to 50.4 from 51.7 in June. PMI readings above 50 indicate growth while readings below 50 imply contraction. China's economy remains fragile due to its zero-COVID policy, the real estate crisis, and a slower growing global economy.

**EUROZONE:** The unemployment rate held steady at 6.6% in June, according to the European Statistical Office. The eurozone economy grew stronger than expected in the second quarter as countries lifted COVID-related restrictions. Real gross domestic product grew 0.7% (seasonally-adjusted annualized rate) in the second quarter from the first quarter. This followed a downwardly-revised 0.5% expansion in the first quarter. Germany's GDP was flat while Spain and Italy's GDP expanded by over 1.0%.

Annual CPI inflation increased to a fresh record of 8.9% in July, above consensus expectations for 8.6%, and up from 8.6% in June, according to the European Statistical Office. Annual core inflation (excluding energy, food, alcohol, and tobacco) rose to 4.0% in July from 3.7% in June. Inflation in the eurozone is mainly driven by higher energy prices fueled by the Ukraine invasion. In response to the elevated inflation, the European Central Bank (ECB) raised its key policy rates by a larger-than-expected 50 basis points at its July 21 meeting. Looking ahead, economic activity is likely to contract in the second half of 2022 due to elevated inflation, an energy crisis, and increased geopolitical risks. Russia's state-owned gas company, Gazprom, reduced gas supplies to Europe to 20% of full capacity, according to the [Wall Street Journal](#), putting upward pressures on inflation. Given the accelerating inflation in recent months, PNC Economics anticipates a 50-basis point hike by the ECB on September 8.

**UNITED KINGDOM:** PNC Economics expects the Bank of England to raise the Bank Rate by 50 basis points to 1.75% when central bankers meet on August 4.

The S&P Global/CIPS manufacturing PMI edged down 52.1 in July, the slowest pace of expansion in over two years, from 52.2 in June. Inflationary pressures, supply-chain bottlenecks, Brexit-related labor shortages and the Ukraine invasion continue to weigh on the U.K.'s manufacturing sector. With the Bank of England set to raise interest rates further this year to fight inflation, demand for manufacturing goods should slow which will be disinflationary. The Bank of England forecasts inflation to hit 11.0% in October, when a domestic energy price cap will be lifted. Inflation will likely accelerate in the near term before decelerating in the fourth quarter of 2022.

**JAPAN:** The Jibun Bank manufacturing PMI fell slightly to 52.1 in July, the weakest pace of expansion since September 2021, from 52.2 in June. The manufacturing PMI has remained above the 50 level that indicates expansion since February 2021. Japan's consumer confidence fell to 30.2 in July, the lowest level since January 2021, from 32.1 in June.

**CANADA:** The Bloomberg consensus forecast for Canada's July jobs report, to be released Friday August 5, is for a 15,000 increase in household employment following June's 43,200 decline (a good normal month for Canada sees 15,000 to 20,000 jobs added) and for the unemployment rate to edge up 5.0% from 4.9% in June.

Real GDP was unchanged in May from April, beating market expectations for a decline of 0.2%. Output of goods-producing industries fell 1.0% while that of services-providing industries grew 0.4%. 13 out of 19 sectors expanded in May from April.

**BRAZIL:** 277,944 formal sector jobs were created in June, the biggest monthly increase in jobs since February of this year, according to the government's survey of employers. Job growth was broad based with the services sector accounting for 45% of the job gains in June. The household survey showed that Brazil's



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unemployment rate fell to 9.3% in the three months through June from 9.8% in the three months through May.

The Central Bank of Brazil's survey of professional forecasters showed the median estimate for 2022 real GDP growth increased to 2.0% in the July 29th survey from 1.9% a week prior.

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