U.S. Housing Weakens Further; Inflation Hits Double Digits in the U.K.

UNITED STATES: The minutes from the Federal Open Market Committee (FOMC) meeting on July 26 and 27 show that tighter monetary policy is already weighing on the economy in mid-2022, particularly the housing market. Participants noted that inflation risks remained toward the upside, while risks to the growth outlook were to the downside. Tighter monetary policy will contribute to a substantial slowing in demand in the near term, with real GDP growth slowing to below 1% in 2023 and the unemployment rate moving above 4%. This will help push inflation back down to the FOMC’s 2% objective over the next couple of years.

July retail sales were unchanged, a bit below market consensus. Vehicle sales declined 1.4%, despite higher new car sales volumes and prices. The weakness was in used vehicle sales which reflected lower sales volumes and prices, the latter of which was seen in the July CPI. June and May retail sales were revised up slightly.

Industrial production rose by a solid 0.6% in July, above the consensus forecast for a 0.3% increase. Total and manufacturing capacity utilization rose to 80.3% and 79.8% in July, respectively, close to their most recent April 2022 high points.

Existing-home sales fell for a sixth straight month in July. Homebuilder sentiment, as measured by the National Association of Home Builders (NAHB) housing market index, turned negative in August. The index has not been in negative territory since April 2020, when the pandemic came to the U.S. The NAHB index declined for the eight-straight month in August, falling to 49 from 55 in July. The NAHB index is a diffusion index; a reading above 50 suggests a positive outlook while a reading below 50 indicates a negative outlook. Housing starts declined sharply in July as higher mortgage rates weighed on construction activity. Housing demand will soften further over the next couple of years as the FOMC continues its hiking cycle and mortgage rates increase. However, house price declines nationally are unlikely as the housing sector remains undersupplied. PNC forecasts low double-digit house price growth in 2022.

Initial claims for unemployment insurance fell by 2,000 to 250,000 in the week ending August 13 from a downwardly-revised 252,000 in the week ending August 6. The four-week moving average of initial claims, which smooths out some of the volatility, edged down by 3,000 to 247,000 in the week ending August 13 from a downwardly-revised 250,000 in the previous week. The labor market remains in good shape as the summer quarter progresses as evidenced by the strong 528,000 rise in July payroll jobs.

PNC forecasts for the July new home sales report, to be released August 23, to show an 8.5% monthly decrease, paralleling the pullback of other housing data during the month. July personal income and expenditures, to be released August 26, will likely show income up 0.7%, and personal consumption expenditures up 0.4% with growth of spending on services outpacing goods spending.

CHINA: The People’s Bank of China (PBOC) unexpectedly cut two key interest rates on August 15 as China’s economy grapples with rising COVID cases, the longest heatwave since 1961 and a worsening real estate crisis. The PBOC cut both its one-year medium-term lending facility rate and seven-day open market operation reverse repo interest rates by 10 basis points. Economic data for July were weaker than expected.
Retail sales rose 2.7% in July from a year ago, lower than consensus expectations for a 4.9% increase. Industrial production increased 3.8% in July, weaker than the consensus forecast for a 4.3% increase. Domestic demand remains weak amid the zero-COVID policy while demand for Chinese exports will likely fall over the next couple of years due to a slowing global economy.

**CANADA:** Inflation cooled in July as the consumer price index (CPI) rose 7.6% from a year ago, matching consensus expectations. This followed an 8.1% increase in June. CPI inflation rose 0.1% on the month, the seventh straight gain. Despite the cooling in consumer price growth in July, CPI inflation is still well above the BOC’s 1%-to-3% target range. The Bank of Canada’s three measures of core inflation, CPI-common, CPI-median, and CPI-trim were 5.5%, 5.0% and 5.4%, in July, all on a year-over-year basis. Two out of the three measures of core inflation increased from the prior month. While July’s headline CPI print will be a bit of a relief to the BOC, accelerating core inflation suggests broadening inflation pressures in the economy. After raising its policy rate by a full percentage point on July 13, PNC Economics expects the BOC to slow its hiking pace at its next meeting on September 7 and raise its policy rate by 75 basis points to 3.25%.

**UNITED KINGDOM:** Inflation hit double digits in July as the consumer price index (CPI) rose 10.1% from a year earlier following a 9.4% increase in June, according to the Office for National Statistics. Prices of goods increased at a record-high 13.5% while prices of services were up 5.7%, both on a year-over-year basis. Food prices increased 12.8% in July following a 9.8% increase in June. Core inflation (excluding energy, food, alcohol, and tobacco) accelerated to 6.2% in July on a year-over-year basis from 5.8% in June. The Bank of England expects headline inflation to peak at 13% in October when the Office of Gas and Electricity Markets (Ofgem) increases its price cap. PNC Economics expects the Bank of England to raise its Bank Rate by 50 basis points to 2.25% when policy makers meet on September 15.

**JAPAN:** Annual CPI inflation accelerated further beyond the Bank of Japan’s 2% target in July. Consumer prices rose by 2.6% in July, following a 2.4% increase in June. CPI inflation has now overshot the BOJ’s target for four straight months. Annual core inflation (excluding fresh food) accelerated to 2.4% in July from 2.2% in June.

**BRAZIL:** Economic activity as measured by the central bank’s IBC-BR index rose 0.7% in June from May, better than consensus expectations for a 0.4% increase, and following a 0.3% decline in May.

**INDIA:** Wholesale prices rose by 13.9% in July from a year ago, slightly overshooting the 13.7% consensus forecast, and following a 15.2% increase in June.