

October 11, 2022

GLOBAL ECONOMIC HIGHLIGHTS

Gus Faucher
Chief Economist

Stuart Hoffman
Senior Economic Advisor

Kurt Rankin
Senior Economist

Abbey Omodunbi
Senior Economist

U.S. Manufacturing Growth Decelerates to Two-Year Low; U.K. Labor Market Stays Tight

UNITED STATES: Employment increased by 263,000 in September, according to a survey of employers from the Bureau of Labor Statistics. Job growth has slowed in 2022 as higher interest rates and high inflation weigh on the U.S. economy, but remains above its long-run potential. Job growth was 315,000 in August (unrevised) and 537,000 in July, revised up from 526,000. The three-month moving average of job growth through September was 372,000, down from around 600,000 at the beginning of 2022. The unemployment rate dropped in September to 3.5%, from 3.7% in August; it was 3.5% in June and July. Average hourly earnings were up 5.0% in September on a year-over-year basis, down from 5.2% in August and a peak of 5.6% in March. The labor force participation rate—the share of adults either working or looking for work—fell to 62.3% in September.

Job growth has slowed substantially over the course of 2022 as economic growth has softened, but remains well above its pre-pandemic pace. Wage growth has also slowed, but with the labor market still very tight it remains too hot from the Federal Reserve's perspective. PNC expects job growth to continue to slow in the near term as the impact of higher interest rates continues to filter its way through the economy. In particular construction employment continues to increase, but should decline in 2023 with the steep contraction in homebuilding. Employment gains should stall by the middle of next year, before picking back up again in 2024. PNC expects the unemployment rate to gradually increase in the months ahead and end 2023 at around 4.3%.

Other indicators for September also show a slowdown in economic activity. The ISM manufacturing PMI pulled back to 50.9, a two-year low, from 52.8 in August. The new orders component fell to 47.1 from 51.3 and was the lowest since May 2022, after the pandemic hit the U.S. The inventory levels component rose to 55.5 after 53.1 in August and 57.3 in July, which was the all-time high. The ISM services PMI fell slightly to 56.7 from 56.9. The employment component rose to 53.0, the highest reading since 54.0 in March. Cost pressures eased for service providers according to the report, as the prices component declined to 68.7 from 71.5 in August and is now down from a high of 83.9 in December 2021.

PNC forecasts for the September release of the consumer price index (CPI) on October 13 to show total CPI and core CPI up from August by 0.2% and 0.4% respectively. Core CPI likely rose 6.4% in September from a year ago.

UNITED KINGDOM: The number of employees on payrolls increased by 69,000 in September, up from 31,000 in August and above consensus expectations of 35,000. With September's increase, the number of employees on payrolls is now 730,000 above the pre-pandemic level. The unemployment rate fell slightly to 3.5% in the three months to September from 3.6% in the preceding three-month period. Yearly wage growth rose to 5.4% in the three months to August from 5.2% in the preceding three-month period.

With inflationary flames likely to be stoked by the "mini budget" and persistent wage pressures, PNC Economics expects the Bank of England (BOE) to raise its policy rate by a full percentage point when central bankers meet on November 3.

GLOBAL ECONOMIC HIGHLIGHTS

CANADA: A lukewarm 21,100 jobs were added in September, a notch better than the consensus expectation for an increase of 20,000 and following three months of job losses. Employment increased 0.1% in September from the prior month. The same percentage in U.S. nonfarm payroll employment would be 165,000 jobs. Canada's unemployment rate fell to 5.2% in September from 5.4% in August; it was at a record-low 4.9% in June and July. 24,800 jobs were lost in the goods-producing sector in September and 45,900 jobs were added in the services-producing sector. Employment in the services-producing sector is now 3% above the pre-crisis level. The educational services sector led the way with 46,000 jobs added while employment in the accommodation and food services sector rose by 12,200. Twenty thousand people left the labor force in September, dropping the labor force participation rate to 64.7%; the labor force participation rate was 65.6% before the pandemic. Average hourly wages rose 5.2% in September on a year-over-year basis, down from 5.6% in August.

The Bank of Canada (BOC) has tightened monetary policy aggressively this year, raising its policy rate by three percentage points since March 2022 to cool the economy. Despite the rapid increase in interest rates, the labor market has remained resilient. Job vacancies have eased in recent months but remain very high. The labor force participation rate has trended downward since February of this year. Also, inflation has broadened, and the BOC's preferred measures of core inflation (excluding gasoline and food prices) currently range between 4.8% and 5.7% - well above the bank's target of 2%.

PNC Economics expects the BOC to increase its policy rate from the current rate of 3.25% to a peak of 4% by year-end and maintain it at that rate through 2023.

MEXICO: Consumer prices increased less than expected in September as the consumer price index (CPI) rose 0.6% from August. This was slightly less than the consensus expectation for 0.7%. On a year-over-year basis, CPI inflation in September was unchanged at 8.7%. Core inflation (excluding food and energy prices) rose 0.7% in September following a 0.8% increase in August. On a year-over-year basis, core CPI inflation accelerated to 8.3% in September from 8.1% in August. Core CPI inflation has accelerated in every month of this year.

With continued external supply-side frictions, the Bank of Mexico downgraded its inflation outlook at its last meeting on September 29. The Bank of Mexico now expects yearly core inflation to be at 8.2% in the fourth quarter of 2022, up from its 7.6% in November.

CHINA: China's services sector contracted for the first time since May as the Caixin services PMI pulled back to 49.3 in September from 55.0 in August. The Caixin composite PMI fell to 48.5 in September from 53.0 in August. PMI readings above 50 indicate growth while readings below 50 imply contraction.

JAPAN: Inflation eased in September as the Tokyo consumer price index (CPI) decelerated to 2.8% on a year-over-year basis from 2.9% in August. The deceleration was driven by a slower increase in food and energy prices. Core inflation (excluding fresh food) accelerated to 2.8% in September from 2.6% in August. Headline inflation has now overshoot the Bank of Japan's 2% target for six straight months.

Disclaimer: The material presented is of a general nature and does not constitute the provision of investment or economic advice to any person, or a recommendation to buy or sell any security or adopt any investment strategy. Opinions and forecasts expressed herein are subject to change without notice. Relevant information was obtained from sources deemed reliable. Such information is not guaranteed as to its accuracy. You should seek the advice of an investment professional to tailor a financial plan to your particular needs. © 2022 The PNC Financial Services Group, Inc. All rights reserved.

Visit <http://www.pnc.com/economicreports> to view the full listing of economic reports published by PNC's economists.