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GLOBAL ECONOMIC HIGHLIGHTS

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PBOC Lowers Reserve Requirement Ratio for Major Banks; Inflation Accelerates to New High in the U.K.

CHINA: The People's Bank of China (PBoC) reduced the reserve requirement ratio (RRR) for major banks by 25 basis points from 11.25% to 11%, bringing the total reduction in the RRR to 50 basis points this year. This comes after the announcement of a support package for the real estate sector by the PBoC and a moderation of some COVID restrictions by the Chinese government in recent weeks. Economic activity has slowed in recent months; industrial production growth slowed on a year-over-year basis to 5% in October from 6.3% in September, retail sales fell in October after rising for four straight months, and export growth fell in October to the lowest rate since April.

UNITED KINGDOM: The U.K. finance minister, Jeremy Hunt, announced a budget on November 17 which included £30 billion in reduced spending and £25 billion in tax increases. The budget also included targeted support payment for consumers such as £900 means-tested benefits, £150 disability benefits and £300 for pensioner households. The Office for Budget Responsibility (OBR) forecasts a 7% decline in real household disposable income over the next two years, a peak-to-trough decline in GDP of 2 percentage points and inflation at 7.4%, both in 2023. GDP and PMI data suggest that the U.K. economy is in recession. GDP shrank 0.2% in the third quarter from the second quarter, leaving GDP 0.2% below the pre-pandemic level. Private consumption fell 0.5% in the third quarter from the second quarter while investment increased 2.5%. The U.K. S&P composite PMI has been in contraction territory for four straight months.

Inflation surprised to the upside in October as the consumer price index (CPI) rose 11.1% from a year ago, the highest rate in forty-one years, following a 10.1% increase in the prior month. The consensus expectation was for an increase to 10.6%. CPI inflation accelerated from January to July, decelerated in August and then accelerated again in September and October. Energy, food, and housing were the biggest drivers of inflation in October. Prices of goods rose 14.8% in October from a year ago while prices of services rose 6.3%. Core CPI, excluding energy, food, alcohol and tobacco was unchanged at 6.5% in October. Consumer price inflation likely peaked in October as the government's universal energy price cap kicked off in October. In last week's Autumn Statement, Jeremy Hunt announced that the energy price cap will continue until April 2024.

Retail sales grew 0.6% in October from September following a downwardly-revised 1.5% decline in September. Retail sales excluding auto fuel rose 0.3% in October following a 1.5% decline in September. Despite the rebound in October, the outlook for retail sales is bleak. Inflation is at a forty-one-year high, consumer confidence is near the all-time low and interest rates are set to rise higher as the Bank of England (BOE) continues its fight to tame inflation. PNC expects the BOE to raise the Bank Rate by 50 basis points at its next meeting on December 15, with two 50 basis point increases in the rate at the first two meetings in 2023, taking the Bank Rate to 4.5%.

UNITED STATES: The minutes from the November 1-2 Federal Open Market Committee indicate that participants expect to further increase the fed funds rate in the near term, but that they are concerned about overtightening monetary policy and potentially pushing the U.S. economy into recession. The minutes say that "with realized inflation well above [the FOMC's 2%] goal and the labor market still very tight, participants agreed that ongoing increases in the target range for the federal funds rate would be appropriate and would help keep longer-term inflation expectations well anchored." PNC expects an increase in the fed funds rate of

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50 basis points at the FOMC's next meeting, on December 14, with two 25 basis point increases in the rate at the first two meetings of 2023, and then a pause. This would take the fed funds rate to a range of 4.75% to 5.00% by the spring of 2023, which would be contractionary.

Producer prices increased less than expected in October as supply chains improved and consumer demand weakened. The producer price index (PPI) for final demand increased 0.2% in October from September, lower than consensus expectations for a 0.4% increase. On a year-over-year basis, the PPI for final demand advanced 8% in October, the weakest gain in over a year, following a downwardly-revised 8.4% gain in September. Core PPI (excluding food and energy) was unchanged in October and rose 6.7% on an annual basis. Annual PPI inflation peaked in March and has improved as interest rates have risen, supply chain pressures have eased, and consumer demand has weakened.

Retail sales rose more than expected in October despite elevated interest rates. Total retail sales rose 1.3% in October from September, beating expectations for 1%. A surge in new car sales and sales at gasoline stations drove the increase in October. Sales at motor vehicle and parts dealers rose 1.3% and sales at gasoline stations rose 4.1%. Retail sales excluding food services, gas, building materials and motor vehicle dealers rose 0.7% in October following an 0.6% increase in September. Retail sales should continue to get support from good consumer fundamentals in the near term but will likely slow next year as higher interest rates weigh on consumer spending.

Industrial output fell 0.1% on a seasonally-adjusted basis in October, worse than consensus expectations for a 0.1% increase. On a year-over-year basis, industrial production increased 3.3% in October. PNC Economics expects a decline in industrial output in 2023 as higher interest rates weigh on consumer spending. Additionally, the shift in spending from goods to services will put downward pressures on the demand for durable goods.

The housing sector downturn worsened in October as housing starts and permits fell. Housing starts declined 4.2% in October to 1.425 million annualized units and housing permits fell 2.4% to 1.526 annualized units. Single-family housing starts are down 30% this year. The National Association of Home Builders (NAHB) index decreased to 33 in November, the lowest level since June 2012 (excluding April 2020 at the beginning of the pandemic). Existing-home sales fell 5.9% in October from September following a 1.5% decline in September.

EUROZONE: Real GDP grew 0.2% in the third quarter from the previous quarter, according to a preliminary estimate by the European Statistical Office (Eurostat). On a year-over-year basis, GDP grew 2.1% in the third quarter. The third-quarter GDP reading is backward looking and doesn't reflect the current pulse of the economy. The eurozone S&P composite PMI has been in contraction territory for five straight months, inflation is at an all-time high, and consumer confidence is near the all-time low. The eurozone S&P manufacturing PMI rose to 47.3 in November from 46.4 in October while the services PMI was unchanged at 48.6. Readings above 50 indicate growth while readings below 50 imply contraction.

CANADA: Inflation stabilized in October as the consumer price index (CPI) rose 6.9% from a year ago, matching consensus expectations and unchanged from the prior month. CPI inflation rose to 0.7% on the month from 0.1% in September. CPI inflation has been above the Bank of Canada's 1%-to-3% target range since April 2021. The BOC's three measures of core inflation, CPI-common, CPI-median, and CPI-trim were 6.2%, 4.8% and 5.3% in October, all on a year-over-year basis. All three measures of core inflation increased from the prior month.

Retail sales fell 0.5% in September from August, matching consensus expectations. This followed a downwardly-revised 0.4% increase in August. The decline in September was driven by a decrease in sales at gasoline stations (-2.4%) and food and beverage stores (-1.3%). Advance estimates from Statistics Canada showed that retail sales rose 1.5% in October. With the preliminary data, retail sales have risen in eight out of ten months of this year.

MEXICO: CPI inflation was 8.4% in year-over-year terms in October, down from 8.7% in September. On a month-over-month basis, CPI was unchanged at 0.6%. Core CPI inflation (excluding food and energy) eased



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to 0.6% in October from 0.7% in September. On a year-over-year basis, core CPI accelerated to 8.4% from 8.3% in September.

Industrial production fell 0.2% in September following a 0.2% decline in August. On a year-over-year basis, industrial production increased 3.9% in September.

Retail sales fell 0.2% in September from a month ago following a 0.4% decline in August. On a year-over-year basis, retail sales rose 3.3% in September.

BRAZIL: Brazil's mid-month release of its consumer price index, the IPCA-15, rose 6.2% from a year earlier in mid-November, following a 6.9% rise in the prior month. Inflation has been above the upper bound of the central bank's 2%-to-5% target range since March 2021. The Central Bank of Brazil's weekly survey of professional forecasters showed the median estimate for real GDP growth in 2022 was 2.8% in the November 21 survey, unchanged from the prior week. The median estimate for GDP growth in 2023 was 0.7%, also unchanged from the prior week.

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