

February 21, 2023

GLOBAL ECONOMIC HIGHLIGHTS

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U.S. Economy Starts 2023 Stronger Than Expected; Eurozone Economy Remains Resilient

UNITED STATES: Retail sales jumped 3.0% in January from December, following declines in the two previous months. Details of the report were good, with sales excluding autos and gasoline up 2.6% for the month. Although some of the increase came from higher prices, more of it was from higher volumes. Consumer spending was soft at the end of 2022, but the strong job market, solid wage growth, and slowing inflation are supporting household spending. Negatives include higher interest rates, the need to increase savings, and falling household wealth due to declines in stock prices and home values, although stocks are up somewhat in early 2023.

The consumer price index (CPI) reversed course to open 2023, rising 0.5% in seasonally-adjusted terms in January from December. This was in line with consensus expectations and after 0.1% and 0.2% readings in December and November, respectively. The core CPI index – which excludes food and energy prices, was up 5.5% on a year-ago basis following a 5.7% increase in December. Core services inflation, which excludes energy services, rose 0.5% in January from December, down from 0.6% in December.

The producer price index (PPI) rose 0.7% in January from December. This was above the consensus expectation for a 0.4% increase and the biggest monthly increase since June 2022. The core PPI index, which excludes food and energy, rose 0.5% following a 0.3% increase in December.

Housing starts declined for the fifth successive month in January as weak demand weighed on construction activity. Starts fell 4.5% in January to 1.309 million annualized units from 1.371 million in December. This was worse than consensus expectations for a 1.9% decline to 1.356 million units. Starts in December were revised lower to 1.371 million from 1.382 million. Single family starts fell 4.3% on the month while multi-family starts fell 4.9%. Single-family starts were down 27.3% in January from a year earlier while multi-family starts were down 8.1%. Strong economic data (retail sales and jobs report) from January mean the Fed is likely to raise the fed funds rate higher than previously expected to get inflation under control. This will put upward pressure on mortgage rates and slow housing demand even further. PNC's baseline forecast is for a 12% decline in house prices in 2023.

Initial claims for unemployment insurance fell by 1,000 to 194,000 in the week ending February 11. Claims for the prior week were unrevised at 195,000. The four-week moving average of claims, which smooths out some of the weekly volatility, held steady at 189,000 in the week ending February 11. This is the lowest the four-week moving average has been since April 2022 and is among the lowest the four-week moving average has been since the data began in the late 1960s.

The strong economic data in January (jobs, retail, CPI, and PPI) reduce concerns that recession is imminent. PNC expects a mild recession in the second half of 2023 because of ongoing monetary tightening to slow inflation. Consumer spending growth will soften in the near term as the job market weakens and the drag from higher interest rates further weighs on the economy. PNC expects consumer spending, adjusted for inflation, to decline modestly in the second half of the year.

GLOBAL ECONOMIC HIGHLIGHTS

EUROZONE: The eurozone S&P composite PMI rose in February to the highest level since May 2022. The composite PMI increased to 52.3 in February from 50.3 in January. The manufacturing PMI fell slightly to 48.5 in February from 48.8 in January while the services PMI rose to 53 from 50.8.

Consumer confidence rose in February to a one-year high in the eurozone according to a flash estimate from the European Commission. The consumer confidence indicator rose 1.7 points to -19 from -20.7 in January. Consumer confidence fell to an all-time low of -28.7 in September 2022, but sentiment has improved in recent months due to the relatively mild winter, higher-than-average gas storage levels and China's reopening. Consumer confidence remains well below the pre-pandemic level of -6.1.

The eurozone economy surprisingly grew 0.1% in the fourth quarter of 2022 from the third quarter, according to a preliminary flash estimate by the European Statistical Office (Eurostat). On a year-ago basis, real GDP grew 1.9% in the fourth quarter of 2022. The eurozone economy avoided a recession last year despite the energy crisis and high inflation but the outlook remains gloomy. The eurozone's largest economy, Germany, contracted in the fourth quarter of 2022, according to a preliminary estimate by the German Federal Statistical Office. The economy contracted 0.2% in the fourth quarter from the third quarter, following a 0.5% expansion in the third quarter.

Government subsidies and strong wage growth from the extremely tight labor market would likely support consumers in the near term but elevated interest rates and a slower growing global economy will more than likely tip the eurozone into recession around the middle of this year. The International Monetary Fund (IMF) forecasts global growth to slow to 2.9% in 2023 from an estimated 3.4% in 2022.

JAPAN: GDP grew slower than expected in the fourth quarter of 2022 as a weaker global economy weighed on Japan's economy. Real GDP grew 0.2% in the fourth quarter from the third quarter, worse than consensus expectations for a 0.5% increase, and following a downwardly-revised 0.3% decline in the third quarter. GDP expanded 0.6% in the fourth quarter on an annualized basis following a 1% contraction in the third quarter. Consumption contributed to growth in the fourth quarter while inventories were a drag. Private consumption grew 0.5% in the fourth quarter from the third quarter while inventories subtracted 0.5 percentage point from growth.

Annual growth in Japan's merchandise exports slowed significantly in January to 3.5% from 11.5% in December as the global policy tightening weighed on demand. January marked the slowest pace of export growth since December 2020.

UNITED KINGDOM: Inflation as measured by the consumer price index (CPI) cooled to 10.1% on a year-ago basis in January from 10.5% in December. Consumer prices fell 0.6% in January from December, better than consensus expectations for a 0.4% decline, and following a 0.4% increase in December. The decline in annual inflation in January was driven by a sharp decline in services inflation. Goods inflation fell slightly to 13.3% in January from 13.4% in December while services inflation cooled to 6% from 6.8%. Food and housing inflation were roughly unchanged while transportation costs rose 3.1% in January after rising 6.5% in December. Core inflation which excludes energy, food, alcohol, and tobacco cooled to 5.8% in January from 6.8% in December. Annual headline inflation peaked at 11.1% in October, but it has edged down in recent months after the Bank of England raised its Bank Rate aggressively and supply chains improved. The Bank of England raised the Bank Rate by 50 basis points to 4.00% at its last meeting on February 2. PNC Economics expects the BoE to slow the pace of interest-rate hikes and raise the Bank Rate by 25 basis points to 4.25% at its March 23 meeting. PNC Economics then expects the BoE to keep the Bank Rate at this rate before reducing it in early 2024 as the labor market slackens and inflation moderates.

CANADA: Housing Starts declined in January to 215,365 annualized units, the lowest rate since September 2020, from a downwardly-revised 248,300 units in December. Existing-home sales fell 3% in January following a 1.3% increase in December. Housing activity has slowed significantly after the Bank of Canada (BoC) raised its overnight rate aggressively last year to tame inflation. Housing activity will likely slow further in the near term due to elevated interest rates and the government-implemented foreign home ownership ban.



GLOBAL ECONOMIC HIGHLIGHTS

CPI inflation accelerated from 2.2% in February 2020 to a peak of 8.1% in June 2022 as global supply shocks caused an imbalance in Canada's economy. The Ukraine invasion drove up the prices of commodities while impaired global supply chains drove up the prices of goods. CPI inflation has decelerated in recent months, but short-term inflation expectations remain elevated. According to the BOC's January Monetary Policy Report, most respondents to consumer and business surveys expect CPI inflation to remain well above 2% over the next two years. The BoC forecasts CPI inflation to fall to around 3% in the middle of 2023 and reach its 2% target in 2024.

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