

China Sets Modest Growth Target for 2023; U.S. Job Growth Likely Slowed in February

CHINA: China's fourteenth National People's Congress set a modest GDP growth target of "around 5%" for 2023, its lowest target in over thirty years. This was down from the 5.5% target for 2022 which was missed due to China's COVID restrictions and real estate crisis. Premier Li Keqiang also listed eight policy priorities with the expansion of domestic demand at the top of the list.

China's economy continues to show some momentum after COVID restrictions were lifted in December 2022. Economic activity picked up for the second straight month as both the official and Caixin composite PMIs surged in February. The official manufacturing PMI jumped to 52.6 in February, the fastest pace of expansion in almost eleven years, from 50.1 in January. The Caixin manufacturing PMI returned into growth territory in February, rising to 51.6 from 49.2 in January. The official services PMI rose to 56.3 in February from 54.4 while the Caixin services PMI rose to 55.0 from 52.9. A reading below 50 signals a contraction in activity while a reading above 50 indicates an expansion in activity. The details of the official manufacturing report were encouraging. New orders rose in February at the fastest pace in over five years, the production index surged to 56.7 from 49.8 in January, and the employment index returned to growth territory after contracting for almost two years.

China's economy is coming alive thanks to the full reopening, the lunar new year holiday and continued policy support from the People's Bank of China (PBOC). While continued strength in China's economy could reignite U.S. inflation fears through China's strong demand for commodities, improved supply chains overseas should more than offset this.

UNITED STATES: House prices fell for the sixth straight month in December as the S&P CoreLogic Case-Shiller 20-City Composite index fell 0.5% from November. The biggest monthly declines were in San Francisco, Portland, Phoenix and Las Vegas. The not seasonally adjusted S&P CoreLogic Case-Shiller 20 City grew 4.7% in December from a year ago, following a 6.8% appreciation in November. December marked the slowest pace of appreciation since July 2020. After declining in January, mortgage rates are rising again after recent economic data releases showed a strong and resilient U.S. economy. The average 30-year fixed-rate mortgage rose above 7% at the end of February after declining through most of January. PNC's baseline forecast calls for a 9% decline in house prices in 2023.

The U.S. goods trade deficit widened to \$91.5 billion in January, the largest deficit in three months, from an upwardly-revised \$89.7 billion in December, according to the advance estimate from the Census Bureau. The consensus expectation was for a widening to \$91.0 billion. Exports grew 4.2% to \$173.8 billion while imports rose 3.4% to \$265.3 billion. Global trade flows will slow this year as central banks continue to raise policy rates to fight inflation. Trade will be a drag on U.S. economic growth this year due to softer economic conditions overseas.

The Conference Board's monthly survey of U.S. consumer confidence showed a deterioration of consumer confidence in February. The consumer confidence index decreased in February to 102.9 from 106.0 in January. The index remains well below its pre-pandemic level of 132.6.

Construction spending fell 0.1% in January from December to a seasonally adjusted annual rate of \$1.826 trillion following a downwardly-revised 0.7% decline in December, according to the Census Bureau. On a year-ago basis, the

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total value of construction was up 5.7% in January, the slowest pace of growth since February 2021. The report also included a big upward revision to nonresidential construction in November and December 2022 which will boost nonresidential construction data in the fourth-quarter real GDP final release by the Bureau of Economic Analysis (BEA) on March 30. Residential investment was a big drag on fourth-quarter GDP growth, subtracting 1.2 percentage points, according to the Bureau of Economic Analysis' (BEA) second estimate. However, growth in nonresidential fixed investment was solid, particularly intellectual property products. Construction spending growth will likely slow significantly this year as the U.S. economy shrinks. PNC Economics expects the housing downturn to continue as the Fed remains relentless in its inflation fight by tightening monetary policy. The nonresidential construction sector will continue to face major headwinds in the near term due to rising interest rates and the shift to hybrid and remote work. The Architecture Billings Index, a leading indicator for non-residential construction activity, increased to 49.3 in January from 47.5 in December 2022, the fourth consecutive sub-50 contractionary reading.

The February ISM surveys showed continued contraction in the manufacturing sector and resilience in the services sector. The ISM manufacturing index increased slightly to 47.7 in February from 47.4 in January. The index had fallen for five straight months through January and has been below the breakeven threshold of 50 for four straight months. A reading below 50 signals a contraction in activity while a reading above 50 indicates an expansion in activity. The details of the report were mixed. The new orders index increased to 47.0 in February, the strongest reading since October 2022, from 42.5 in January. The production index fell from 48 in January to 47.3 in February, the lowest level since May 2020. The ISM services index came in at 55.1 for February following January's reading of 55.2. Services demand has been a key driver of the Fed's narrative that inflation remains a cause for concern in the U.S. economy. Spending on services, alongside service providers' response to cost pressures and intractable consumer demand, will keep the ISM Services PMI report in the spotlight in the coming months.

PNC forecasts 215,000 net nonfarm payroll jobs added in the Bureau of Labor Statistics' March 10 release of the February Employment Situation Summary, down from 517,000 in January. The unemployment rate likely remained unchanged at 3.4%. Average hourly earnings were likely up 0.4% from January and 4.4% on a year-ago basis.

UNITED KINGDOM: The final release of the S&P Global/CIPS UK PMIs showed continued expansion in the services sector and weakness in the manufacturing sector. The S&P Global/CIPS UK services PMI registered at 53.5 in February, slightly above the first estimate of 53.3, and well up from the 48.7 reading in January. The manufacturing PMI registered at 49.3 in February, slightly above the flash estimate of 49.2, and up from 47.0 in January. A reading below 50 signals a contraction in activity while a reading above 50 indicates an expansion in activity.

JAPAN: Industrial output fell for the first time in three months while retail sales grew more than expected in January. Industrial production fell 4.6% in January according to the preliminary release from the Ministry of Economy, Trade and Industry. On a year-ago basis, industrial production fell 2.3% in January following a 2.4% decline in December. Industrial output in January was 7.4% below the pre-pandemic level. Retail sales grew 1.9% in January from December, better than consensus expectations for a 0.4% increase, and following a 1.1% increase in December. Retail sales in January were 6.7% below the pre-pandemic level.

Inflation eased in Tokyo as the Tokyo consumer price index (CPI) rose 3.4% in February from a year ago, down from 4.4% in January. The core Tokyo CPI, which excludes fresh food and energy, rose 3.2% in February, up from 3.0% in January.

The final estimate of the Jibun Bank Japan PMIs showed continued strength in the private sector as the composite PMI increased to 51.1 in February from 50.7 in January. The services PMI rose slightly to 54.0 in February from 53.6 in January.

INDIA: GDP growth was weaker than expected in the fourth quarter of last year as rising interest rates and a slower growing global economy weighed on India's economy. GDP grew 4.4% in the fourth quarter of last year from a year ago following a 6.3% expansion in the third quarter. The consensus expectation was for growth of 4.7%.

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