Global Economic Highlights

March 13, 2023

U.S. Authorities Step Into SVB Crisis; All Eyes on U.S. CPI Release

UNITED STATES: In a joint press statement released on Sunday, March 12, 2023, the Federal Reserve, Treasury and the Federal Deposit Insurance Corporate (FDIC) guaranteed all Silicon Valley Bank's (SVB) deposits, both insured and uninsured. This statement followed the closure of SVB due to the bank's failure to raise capital and a bank run by depositors. The Federal Reserve also created a new facility, the Bank Term Funding Program, which will provide liquidity to U.S. depository institutions while using high quality collateral such as Treasurys from the institutions at par value, rather than market value.

Job growth was stronger than expected once again, with the U.S. economy adding 311,000 jobs in February according to a survey of employers, compared to the consensus expectation of 205,000. There were small downward revisions to job growth in January (to 504,000 from 517,000), and December (to 239,000 from 260,000), but the overall picture is one of job growth that remains well above the economy's long-term potential and is much too hot for the Federal Reserve. Over the last three months the economy has added more than 350,000 jobs per month on average. The very strong February jobs report, combined with only small downward revisions to job growth in December and January, mean that the Federal Open Market Committee is likely to raise the fed funds rate by 50 basis points when it meets in two weeks. The central bank is very concerned that the tight labor market is contributing to high inflation. With job growth still running well above the economy's long-term potential, despite Fed tightening over the past year, the FOMC is poised to act aggressively again. Average hourly earnings rose a modest 0.2% over the month, good news from the inflation front. The average workweek fell to 34.5 hours in February from 34.6 hours in January. With more jobs, higher wages, but a shorter workweek, aggregate payrolls rose a small 0.1% in February. PNC expects a recession starting in the second half of 2023 as the cumulative impact of Fed rate interest hikes filter their way through the economy. But the recession should be mild. Businesses will be reluctant to lay workers off given their current hiring difficulties. In addition, consumer, business, and bank balance sheets are strong, and the housing market is well-balanced.

ADP's estimate of private sector payrolls, released before the BLS jobs report, showed employers added a net 242,000 payroll jobs in February.

Job openings fell to 10.438 million in January from 11.234 million in December and are down from a peak of 12.027 million in March 2022. But even after January's decline, job openings are 55% higher than in February 2020. 3.88 million workers quit their jobs in January, down from 4.09 million in December, according to the Bureau of Labor Statistics. The quits rate slid to 2.5% in January, the lowest rate since February 2021, from 2.6% in December.

Initial claims for unemployment insurance (UI) increased by 21,000 to 211,000 for the week ending March 4. This is up from an unrevised 190,000 in the previous week. This is the first significant move up for initial UI claims this year. Layoff announcements across industries typically take time to go into effect after initial news breaks. As such, the move up in UI claims to start the month of March fits the narrative that has been running since the start of 2023. This rise is not, therefore, necessarily indicative of further deterioration in labor markets beyond the headlines that have already been written. One influence on initial UI claims in the coming weeks, however, could be saturation of businesses that have been quickly absorbing laid-off workers. With talk of deteriorating economic conditions and the Federal Reserve set on raising rates further through at least mid-2023, businesses may turn more cautious in their hiring practices. Any new layoffs in the weeks to come would more directly translate into higher UI claims.

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The goods and services trade deficit increased slightly in January to a seasonally-adjusted $68.3 billion from December's $67.2 billion deficit; both exports and imports grew in January. Exports rose 3.4% to $257.5 billion from $249 billion while imports grew 3.0%.

PNC forecasts for the February Consumer Price Index report, to be released March 14, to show consumer prices up 0.5% from January; core CPI excluding food and energy likely rose 0.4% in February. On a year-over-year basis, headline CPI likely decelerated to 6.3% in February from 6.4% in January.

EUROZONE: GDP growth was revised downwards for the fourth quarter of 2022 according to new data by Eurostat. GDP was unchanged in the fourth quarter of last year from the third quarter, worse than the preliminary estimate which showed a 0.1% increase. Household expenditure and investment were drags on growth while government spending and trade were positives. Germany and Italy's economies contracted while Spain and France's economies expanded. Looking ahead, PNC forecasts a contraction in GDP in the first half of this year as the ECB continues to raise interest rates aggressively to tame inflation.

German retail sales fell 0.3% in January, worse than consensus expectations for a 2.3% increase, and following an upwardly-revised decline in December.

At their March 16 decision, the European Central Bank's Governing Council will likely raise its interest rates by 50 basis points as core inflation remains sticky. Core inflation (excluding energy, food, alcohol, and tobacco) came in at 5.6% last month, the highest rate on record. PNC expects the ECB to raise its three policy rates by 50 basis points in March and a further 50 basis points in May. The two hikes will take the deposit facility rate to 3.5%. PNC then expects the ECB to keep its policy rates stable until early 2024 when inflation moves towards the ECB's 2% objective.

CANADA: As widely expected, the Bank of Canada held its overnight rate at 4.5% when central bankers met on March 8. The BOC had previously signaled at its January meeting that it will hold interest rates if "economic developments evolve broadly in line with the Monetary Policy Report outlook." After peaking at 8.1% in June of last year, headline CPI inflation has moderated after the BOC raised its policy rate aggressively in 2022. CPI inflation came in at 5.9% in January, the lowest rate since February 2022. In the accompanying press release, the Bank stated that it expects CPI inflation to moderate to around 3% in the middle of this year.

A strong 21,800 jobs were added in February, overshooting consensus expectations for 10,000. Employment increased 0.1% from January. That would be equivalent to job growth of 169,000 in the U.S. The unemployment rate was unchanged at 5.0% in February, just above the historic low of 4.9%. February was the sixth straight month of job gains but the weakest month of job growth since September 2022. The labor force grew by 42,200 and the labor force participation rate was unchanged at 65.7%, just below the pre-pandemic rate of 65.9%. Canada's labor force participation rate has rebounded faster than the U.S.'s. With February's report, Canadian employment is now 4.3% above the pre-crisis level.

UNITED KINGDOM: The U.K. economy grew 0.3% in January from December, compared to the consensus expectation of 0.1%, according to data from the U.K. Office for National Statistics. The services sector grew 0.5% after contracting 0.8% in December. Transportation and storage and education were the biggest growth drivers in the services sector in January. Production output fell 0.3% in January from December, following a 0.3% increase in January. Output in the services sector has improved in recent years and is currently about 0.2% below the pre-pandemic level.

The U.K economy is expected to contract in 2023 as high inflation and rising interest rates constrain consumer spending. The IMF, the Bank of England and the Office for Budget Responsibility all forecast the U.K. economy to contract in 2023.

Industrial production fell 0.3% in January from December following a 0.3% increase in December. On a year-ago basis, industrial output fell 4.3% in January. Industrial output fell 4.1% in 2022 and will likely fall further this year as consumers shift demand from durable goods to services and rising interest rates weigh on consumer spending.

MEXICO: Consumer prices as measured by the consumer price index (CPI) rose 0.6% in February following a 0.7% increase in January. On a year-ago basis, CPI inflation eased to 7.6% in February from 7.9% in January. Inflation peaked at 8.7% in September and has moderated as the Bank of Mexico has raised its policy rate aggressively. Core inflation (excluding food and energy) also cooled in February as the core index rose 8.3% from a year ago, following an 8.5% increase in January. Inflation peaked at 8.7% in September, but price pressures are gradually easing thanks to an aggressive Bank of Mexico and lower commodity prices.