

BoE Raises Bank Rate As Expected; PBoC Keeps Policy Rate Unchanged

UNITED KINGDOM: As forecasted by PNC Economics, the Bank of England's Monetary Policy Committee (MPC) voted by a majority of 7-2 to increase the Bank Rate by 25 basis points to 4.50%, the highest rate since 2008, at its meeting on May 11. The accompanying press release noted that U.K. GDP is expected to be flat in the first half of the year and "the path of demand is likely to be materially stronger than expected in the February Report." With inflation in double digits, the BoE will likely continue its hiking cycle at its next meeting on June 22. PNC Economics expects the BoE to raise the Bank Rate by 25 basis points again at its next meeting on June 22 and keep it at that level until early 2024. PNC Economics expects the BoE to start cutting the Bank Rate in the first half of 2024 when inflation will be much closer to the BoE's 2% target.

The U.K. economy shrank in March following a flat February 2023. GDP contracted 0.3% in March 2023 from February but rose 0.3% from a year ago. The production and construction industries grew in March, but this was offset by the decline in the services industry.

CHINA: China's central bank, the People's Bank of China (PBoC), kept the one-year medium-term lending facility rate unchanged at 2.75%, as expected. PNC Economics expects the PBOC to ease monetary policy in the second half of this year to support domestic demand.

Headline inflation, as measured by the consumer price index (CPI), slowed in April to 0.1% on a year-over-year basis, the slowest pace in over two years. Annual core inflation, which excludes food and energy prices was unchanged at 0.7% in April. The producer price index fell 3.6% in April from a year ago, following a 2.5% decline in March.

UNITED STATES: Inflation, as measured by the consumer price index (CPI), was relatively unchanged, and above many expectations, in April 2023 for both the topline and core measures. Year-over-year inflation for all consumer items was 5.0% in April, matching March's result. Core prices grew at a 0.4% pace for the month, which translates to a 5.0% annualized pace. Optimistic forecasts had hoped for an April core result of 0.3%, which would have driven the annualized pace to under 4.0%.

Labor markets are still undeniably tight, and consumer spending may well be encouraged given that perception of strength especially as warmer weather defines the next few months. While wage growth is healthy and job creation is robust, consumers seem destined to continue to spend, especially on the services side of the economy. Travel and even local leisure spending will keep demand-side inflationary pressures from abating quickly, leaving little room for the Fed to consider rate cuts this year. Dwindling savings among households and rising high-interest consumer debt are still concerns as to how households will pay for their spending habits in the coming months in the face of still-strong inflation trends. These influences combined make a recession in the second half of this year the most likely outcome as the U.S. consumer breaches its spending limits.

The producer price index (PPI) for April 2023 rose versus the month prior, up 0.2% versus March. This translates to a 2.4% year-over-year gain, which is down from the peak pace of 11.6% mark posted in March 2022. April 2023's PPI gains undo some of the outright declines seen in March thanks in part to a bounce in energy costs seen by producers during the month. That effect, however, will be short-lived as oil prices retreated quickly after OPEC's late-March announcement of production cuts. Both goods and services final prices seen by producers rose in April 2023. Consumer demand continues

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to favor the services side of the U.S. economy, so services PPI inflation will likely have more staying power through the coming months.

PNC is not forecasting any further interest rate hikes out of the Fed in 2023, but tough talk will remain in play from policymakers. Those efforts alongside banks' tightening lending standards could be enough to finally bring an end to inflation into sight. Unfortunately, consumer and business activity will also slow in response and PNC's forecast of a recession beginning in late 2023 still seems likely.

Initial claims for unemployment insurance (UI) increased by 22,000 to 264,000 for the week ending May 6. The four-week moving average of claims, which smooths out some of the weekly volatility, was up by 6,000 to 245,000.

CANADA: Housing starts jumped 22.4% in April to a seasonally adjusted annual rate of 261,600 last month from 213,800 (revised from 213,900) in March. Building permits, a leading indicator of construction activity, rose 11.3% in March following a 5.5% (revised from +8.6%) increase in February. Housing starts are up 5.2% on a year-to-date basis while the value of permits is up 15.0%. Existing-home sales rose 11.3% in April from March after increasing 1.4% in March. Canada's housing market has shown positive signs this spring as prospective buyers stepped off the sidelines after the Bank of Canada paused interest-rate hikes at its March 8 and April 12 meetings. However, supply of new homes remains at a 20-year low, according to the Canadian Real Estate Association (CREA). Strong immigration trends will provide support to house prices in the short to medium term.

INDIA: Industrial production rose 1.1% in March from a year ago after increasing 5.8% (revised from +5.6%) in April. Output increased in the mining and manufacturing sectors, but output fell in the electricity sector. Industrial output was up 3.2% in the prior quarter.

CPI inflation cooled for the third straight month in April as elevated interest rates weighed on consumer demand. Consumer prices rose 4.7% in April from a year ago, the slowest pace in almost two years, following a 5.7% increase in March.

India's trade deficit fell to a 20-month low in April as exports fell 12.7% from a year ago and imports fell 14.1%.

JAPAN: The final estimate of the Jibun Bank Japan purchasing managers index (PMI) showed continued resilience in the private sector as the composite PMI was unchanged at 52.9 in April. The services PMI jumped to 55.4 in April from 55.0 in March.

BRAZIL: Consumer prices as measured by the IPCA index increased 0.6% in April from the prior month, matching consensus expectations, and following a 0.7% increase in March. Prices were up 4.2% in April from twelve months earlier, the lowest reading since October 2020. Core inflation, which excludes volatile food and energy prices, rose 0.7% on the month and 7.3% from a year earlier. IPCA inflation has registered between the central bank's 1.75% to 4.75% tolerance band for two straight months.

Industrial production increased 1.1% in March from the prior month, better than consensus expectations for a 0.9% increase. Brazil's economy is cooling, and higher interest rates and weaker external demand will weigh on economic activity this year.

MEXICO: CPI inflation cooled for the third straight month in April as supply-side disruptions continue to improve and elevated interest rates weigh on consumer demand. Consumer prices rose 6.3% in April from a year ago, slightly

overshooting the consensus expectation for 6.2%, and following a 6.9% increase in March. Core inflation, which excludes volatile food and energy prices, rose 7.7% in April from twelve months earlier, following an 8.1% increase in March.

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