

## U.S. Consumer Spending Remains Resilient; Banxico Keeps Policy Rate Steady

**UNITED STATES:** Retail sales increased 0.4% in April from March, slightly weaker than the consensus expectation for a 0.5% increase. Sales were up 0.4% excluding motor vehicles and parts, and up 0.5% excluding autos, parts, and gasoline. Control sales—sales excluding autos, parts, gasoline, restaurants, and building materials, and which go into nominal consumer spending in GDP—rose 0.6% in April. On a year-ago basis, overall retail sales growth was 1.6% in April, although growth was 2.1% excluding autos and parts, and 4.3% excluding autos, parts, and gasoline. Control sales were up 4.2% year-over-year in April, down from 6.5% growth at the end of 2022. Consumer spending growth is softening due to several drags. Inflation has been a weight on household spending and slowing inflation this year is weighing on the nominal value of retail sales. Other headwinds include softening but solid job and wage gains, higher interest rates, declining household wealth due to falling home values and stock prices, and a weakening in home-related purchases as the housing market contracts. In addition, consumers bought a lot of goods in the early stages of the pandemic recovery, leaving less need to purchase goods now. PNC expects retail sales growth to slow further in the near term as the labor market continues to soften and as interest rates remain elevated, and then decline later this year as the U.S. economy enters a mild recession. Retail sales should pick up in 2024 as the Federal Reserve starts to cut interest rates and an economic recovery begins.

New residential construction activity, as published by the U.S. Bureau of Census, followed improving homebuilder confidence higher in April 2023 – especially in the single-family market. Building permit issuance for single-family homes nationally was up by 3.1% for the month, rising to 855,000 annualized units. This is the strongest permit issuance number for the U.S.’s dramatically undersupplied single-family housing market since September 2022 (865,000). Gains were seen across all geographic regions in April but were strongest in percentage terms in the Midwest region (+4.9%).

Sales of existing homes fell 3.4% in April from March, to 4.28 million at a seasonally-adjusted annualized rate, according to the National Association of Realtors. After peaking at around 6.6 million in early 2021, rising mortgage rates, high prices, and limited inventories have weighed on home sales more recently, with sales bottoming out at around 4 million in early 2023. Sales declined in all four Census regions over the month, and sales were down 23% in April from a year earlier. The median sale price of an existing home was \$388,800 in April, down almost 2% from a year earlier. But although prices are falling nationally, they were up in the Northeast and Midwest, while they were down in the South and West. The inventory of existing homes for sale rose 7% in April and was up 1% from a year earlier. The inventory was 2.9 months at the existing sales pace, compared to 2.6 months in March and 2.2 months in April 2022. Even with the big slowing in sales over the past couple of years, the months supply of housing available is still very low on an historical basis. The housing market will remain moribund until mortgage rates start to fall later this year. Prices will continue to fall through the rest of this year and into 2024 as an expected national recession takes hold. But affordability will improve with lower rates and falling prices, and the housing market will start to improve in 2024, although tight supplies will remain a drag and limit the rebound.

Initial claims for unemployment insurance (UI) decreased by 22,000 to 242,000 for the week ending May 13. This reverses the previous week’s increase that primarily occurred in Massachusetts and was attributed to fraudulent claims. The four-week moving average of claims, which smooths out some of the weekly volatility and possible fraudulent claims activity, was down by 1,000 to 244,000. However, a new plateau in initial claims does seem to have formed at close to 245,000. This

**Gus Faucher**  
*Chief Economist*

**Stuart Hoffman**  
*Senior Economic Advisor*

**Kurt Rankin**  
*Senior Economist*

**Abbey Omodunbi**  
*Senior Economist*

**Ershang Liang**  
*Economist*

four-week moving average level of Initial claims reflects an increase from the sub-200,000 level that had been the lowest observed for UI claims since the data began in the late 1960s. Weekly claims are up from exceptionally low levels throughout 2022 which sometimes dipped below 200,000 per week.

April personal income and expenditures, to be released May 26, will likely show personal income up 0.5% on the month and personal consumption expenditures (PCE) up 0.6% with strength in vehicle sales, entertainment, travel, and dining services. The total and core PCE indices likely increased 0.3% on the month and 4.3% and 4.6% on a year-over-year basis, respectively.

**MEXICO:** As expected, Mexico's central bank, the Bank of Mexico (Banxico), kept its benchmark interbank policy rate unchanged at its meeting on May 18. Central bankers held the policy rate at 11.25% and signaled a pause "for an extended period." Inflation rose in 2021 and 2022 as the domestic economy recovered from the pandemic and supply-chain disruptions weighed on the global economy. In response to hot inflation, Banxico started removing monetary policy accommodation, lifting the policy rate from 7.75% in June 2022 to 11.25% currently. Annual inflation has slowed to an 18-month low of 6.25% but remains well above the central bank's 3% target. PNC Economics expects Banxico to hold its policy rate at the current level through the end of 2023 and start reducing it in early 2024.

Nominal retail sales were unchanged in March after declining by 0.3% in February. On a year-over-year basis, retail sales rose 2.4% in March.

**UNITED KINGDOM:** The U.K. labor market continued to show signs of cooling in April as the number of payrolled employees fell by 136,000, the first decline since February 2021. The unemployment rate rose to 3.9% in the three months to March from 3.8% in the preceding three-month period. Yearly wage growth (average weekly earnings) was unchanged at 5.8% in the three months to March. The labor force participation rate edged up to 63.6% in March from 63.5% in February. The number of vacancies fell by 55,000 in the three months to April, with vacancies falling in 14 of the 18 industry sectors. While the cooling in the labor market in recent months is encouraging, wage growth remains elevated. Yearly wage growth averaged 3.5% in 2019, peaked at 9.2% in 2021, and at 5.8% remains too strong for the Bank of England. With a tight labor market and inflation in double digits, PNC Economics expects the Bank of England to raise its benchmark policy rate by 25 basis points at its next meeting on June 22.

U.K. consumer confidence improved in May according to the Gfk consumer confidence index. The index rose to -27 in May from -30 in April. The index hit a 50-year low of -49 in September 2022 but has improved in each of the past four months.

**CANADA:** Inflation decelerated to the slowest pace in almost two years as higher interest rates and a weaker global economy continue to weigh on Canada's economy. Canada's CPI index rose 0.6% in April on a seasonally-adjusted basis, and increased 4.4% from a year earlier, up from 4.3% in March. Yearly goods inflation rose to 4.0% in April from 3.6% in March while services inflation slowed to 4.8% from 5.1%. Year-over-year measures of core inflation slowed in April, with CPI-trim falling to 4.2% from 4.4% and CPI-median also falling to 4.2%, from 4.6%.

Retail sales fell by 1.4% in March following a 0.2% decline in February. Retail sales excluding motor and recreational vehicles declined by 0.3% in March following a 0.7% decline in February.

**EUROZONE:** The eurozone economy grew at a quarterly rate of 0.1% in the first three months of the year, according to the final estimate by the European Statistical Office (Eurostat). On a year-over-year basis, seasonally-adjusted GDP increased by 1.3% in the eurozone, same pace as the fourth quarter of 2022.

Employment growth (on a year-over-year basis) picked up in the first quarter of this year to 1.7% from 1.5% in the fourth quarter of 2022.

Headline inflation accelerated slightly in April according to the final estimate from Eurostat. The harmonized index of consumer prices (HICP) rose slightly by 7.0% in April from twelve months earlier, up from 6.9% in March. The core index, which excludes volatile energy, food, alcohol, and tobacco prices, rose by 5.6% in April from a year ago, down from 5.7% in March.

GDP growth will likely remain modest in the near term as inflation eases and wage growth supports household spending. The reopening of China's economy will also provide a modest boost to the eurozone economy this year.

**JAPAN:** Japan's GDP grew faster than expected in the first quarter of this year thanks to a surge in consumer spending. GDP grew by 0.4% in the first quarter from the fourth quarter of 2022, better than the consensus expectation for growth of 0.2%. On an annualized basis, GDP grew by 1.6% in the first quarter from the prior quarter, better than the consensus estimate for 0.8% growth. Private consumption rose by 0.6% on a non-annualized basis, private residential investment grew by 0.2% while nonresidential (business) investment grew by 0.9%.

Industrial production rose by 1.1% in March from the prior month, following a 0.8% increase in February. On a year-over-year basis, industrial output fell by 0.6% following a 0.7% decline in February.

**BRAZIL:** The IBC-BR Economic Activity index, a proxy for GDP, declined by 0.2% in March from the prior month, better than the consensus estimate for a 0.3% decline; the index was up 5.5% in the twelve months to March. Despite the monthly decline in March, the index was up 3.0% in the first quarter of the year. Retail sales rose 0.8% in March from February, following a flat February. Retail sales were up 3.2% in the twelve months to March following a 1.1% increase in February. GDP likely grew in the first quarter of the year but should decline in the second half of the year as higher interest rates and a slower growing global economy weigh on Brazil's economy.

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