

Global Economic Highlights



June 18, 2025

ECB Cut As Expected; U.S. Inflation Eases Amid Softer Labor Market and Weaker Housing

UNITED STATES: The U.S. economy added 139,000 jobs in May, according to a survey of employers from the Bureau of Labor Statistics, close to the consensus expectation. However, there were large downward revisions to job growth in March (to 120,000 from 185,000) and April (to 147,000 from 177,000), of a combined 95,000. Over the three months through May job growth has averaged 135,000. This is down from above 200,000 in January. The private sector added 140,000 jobs in May; government employment fell by 1,000, including federal job losses of 22,000. The unemployment rate held steady at 4.2%, where it has been since March. Average hourly earnings rose 0.4% in May from April, the largest monthly average wage increase since January. From a year earlier average hourly earnings are up 3.9%.

Initial claims for unemployment insurance fell by 5,000 to 245,000 in the week ending June 14, the second highest level since early-October 2024. Continuing unemployment insurance claims fell by 6,000 to 1.945 million in the week ending June 7, the fourth straight week above 1.9 million. The higher level of initial claims and the large rise in continuing claims in the past four weeks, both well above their year ago levels, are clear signs that the labor market started softening in late spring which we expect to persist for the rest of this year.

The topline Consumer Price Index (CPI) inflation came in under PNC's expectations at +0.1% for May 2025. Core CPI inflation, which mirrors the metric that the Federal Reserve targets in its monetary policy impact goals (the Core Personal Consumption Expenditures Deflator), also gained 0.1% for the month, which was also weaker than PNC's forecast for the month. An easing of Housing inflation – the CPI's largest driver – helped both the topline and core metrics to post sub-2% average annualized growth rates – doing so simultaneously for only the second time since June 2024. The Producer Price Index (PPI) rose on a seasonally adjusted basis in May 2025, gaining 0.1% for the month after falling in both March and April. This result translates to a 2.6% year-over-year gain in this topline measure of producers' costs—up from 2.5% in April. Both the Goods and Services sides of the U.S. industrial base contributed to May's course reversal, while Energy prices were flat for the month and are down by 4.1% versus one year ago. Consumer prices surprised to the downside in May 2025 as some impact of tariffs in April and assumptions of businesses frontrunning their own expected price increases was factored in. In its reversal from outright declines, the May 2025 PPI report matched PNC's expectations and opens the door to those expected price hikes that will eventually find their way through to retail shelves and services.

The seasonally adjusted nominal U.S. goods and services trade deficit, before adjustment for inflation, narrowed sharply to \$61.6 billion in April from a record-high \$138.3 billion in March. The one-month 56% reduction was a record swing in the trade deficit as firms and consumers reacted to big tariff changes from the Trump administration, including the "Liberation Day" tariff increases on April 2. Specifically, the Trump Administration imposed so-called "reciprocal tariffs" in early April, raising the effective tariff rate to the highest level in 100 years, but then quickly suspended some of those tariffs. But with tariffs much higher than they were at the beginning of 2025 total imports fell sharply, down 16% on the month.

The ISM Services Purchasing Managers' Index (PMI) fell to 49.9 in May 2025, reversing a tentative gain in April and falling into contractionary territory for the first time since June 2024 (49.6). New Orders and Backlog of Orders categories ran dry in the May report, each falling to multi-year lows and demonstrating forward-looking weakness in demand for service

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providers' offerings. Meanwhile, demand, according to these components of the ISM Services PMI report, looks to have taken its first significant turn downward since tariff-related chaos took hold of the U.S. economy. Prices faced by the U.S. economy's service sector leapt to a 10-month high reading, forcing a conundrum upon businesses who now have a growing certainty of demand limitations to pair with uncertainty regarding the policy environment.

Still-high interest rates and economic uncertainty continue to weigh on the U.S. manufacturing sector. Industrial production slipped 0.2% month-on-month in May. This was down from an upwardly revised gain of 0.1% in April and below our forecast of a 0.1% increase. Both manufacturing and mining output expanded 0.1%, while utilities output contracted 2.9% after jumping 4.9% in April. A 3.6% drop in electric utilities output more than offset a 2.7% increase in natural gas utilities output. Total industrial production is up 0.6% from a year ago, down from 1.4% in April. Capacity utilization fell to 77.4% in May from 77.7% in April, a rate that is 2.2 percentage points below its long-run average from 1972-2024.

Total privately-owned U.S. housing starts tumbled 10% in May to 1.256 million units at a seasonally adjusted annualized rate from 1.361 million in April. This is far below the consensus expectation for the month. Housing starts increased 3% in April following a 10% drop in March. The three-month moving average of total housing starts, which smooths out the monthly volatility, rose to a 12-month high in early 2025 but has dropped over the past couple of months and was down 5.5% in May. In the recovery following the pandemic starts rose to a peak of 1.82 million units in May 2022, but have declined since then as mortgage rates moved sharply higher. On a year-over-year basis starts were down 5% in May 2025.

EUROZONE: Seasonally and working days adjusted retail sales grew 2.3% year-over-year in April, up from 1.9% over the first three months in 2025. Sales increased marginally by 0.1% in April. Details show sales of food including beverages and tobacco jumped 0.5% on the month, while nonfood products excluding fuel fell 0.3%. Industrial production excluding construction fell 2.4% in April in the eurozone after expanding for three months in 2025. Mining, manufacturing and electricity, gas, steam and air conditioning supply output all narrowed sharply on the month, pointing to potential weaker demand in the euro area approaching mid-2025.

Headline inflation in the eurozone fell below the European Central Bank's 2% inflation objective in May. The Harmonized Indices of Consumer Prices (HICP) for the euro area remained flat month-on-month in May and grew 1.9% year-over-year. There was an easing in services inflation in May, down 0.1% on the month and down to 3.2% year-over-year from 4% in April. Food including alcohol and tobacco prices bumped up strongly on the month by 0.5% in May. On a year-ago basis, food prices increased 3.2% in May, up from 3% in April and marking the highest annual food inflation since March 2024. Energy prices declined 1.2% month-on-month and fell to 3.6% year-over-year in May. The year-over-year core HICP inflation, headline inflation excluding energy, food, alcohol and tobacco components, dropped to 2.3% in May from 2.7% in April. Core inflation moved closer to the ECB's inflation objective together with headline inflation, as both energy and services prices fell in May, and May marked the eurozone's lowest annual core inflation in over three years.

Eurozone's economy finished the first quarter better than expected, with real GDP up 0.6% quarter-over-quarter and 1.5% year-over-year in Q1 2025. Final consumption expenditures contributed a solid 1.1 percentage points to the year-over-year real GDP growth. Gross capital formation, which had been a drag on year-over-year GDP growth for six consecutive quarters ending Q4 2024, contributed 0.7% to annual GDP growth. The European Central Bank cut three major interest rates by 25 bps each on June 5, lowering the deposit facility rate, the main refinancing rate, and the marginal lending facility rate to 2%, 2.15%, and 2.4%, respectively.

CANADA: Under elevated uncertainty, the Bank of Canada kept its interest rate unchanged at 2.75% on June 4 after cutting it on March 12, 2025, citing a softer but not sharply weaker Canadian economy. The unemployment rate in Canada rose to 7% in May 2025 from 6.9% in April according to Statistique Canada. This marks the highest unemployment rate since October 2021 and was close to Canada's 30-year average unemployment rate of 7.2%. The net change in employment came in stronger than the consensus expectation for a net job loss, but remained weak, adding just 8,800 jobs in May according to a Labor Force Survey. In fact, the three-month moving average in the net employment change was -5,500 in May, a net contraction. Canada's Composite PMI rose to 45.5 in May from a five-year low of 41.7 in April. This PMI tracks economic activity in both the manufacturing and service sectors, including production, new orders, and inventories. A reading above 50 indicates expansion and a reading below 50 shows contraction in Canada's private sector output. Both the Manufacturing and the Services PMI slipped to a three-year low in April but improved in May. Though falling below the sub-50 reading, the pace of overall contraction in Canada's manufacturing and services output slowed, showing an improvement following the tariff swings. According to S&P Global, the services sector continued to experience unusually high uncertainty that weighs on demand, and tariffs have increased operating costs for the sector in May. The Services PMI increased to 45.6 in May from 41.5 in April.

UNITED KINGDOM: The Composite PMI jumped to expansionary territory in May from a temporary contractionary reading in April, up to 50.3 from 48.5 according to S&P Global. The Services PMI also jumped 1.9 points to 50.9 after falling below 50 for the first time in April 2025 since November 2023. The survey on service providers shows improved sentiment after a sudden drop in US tariffs as the court blocked most tariffs from the Trump Administration. This PMI survey also shows continued job cuts from service providers in the UK due to fast wage growth, although the pace has slowed down in May 2025. UK's seasonally adjusted real GDP contracted 0.3% in April according to the Office for National Statistics. Drags came from production and services industries, while the construction industry added 0.9% gross value on the month. UK's year-over-year CPI inflation slowed to 3.4% in May from 3.5% in April. Inflation was easing in the first quarter of 2025 but has bumped up in recent months due to a surge in water supply, gas and electricity prices. The Office of Gas and Electricity Markets (Ofgem) sets an energy price cap every three months based on typical household energy use, covering England, Scotland, and Wales. The next period's energy price cap, from July 1 to September 30, is set lower, pointing to an easing energy inflation in the coming month. While gas and electricity prices are expected to fall in the coming months, the risk for oil prices is to the upside following an escalation in the Middle East crisis over the weekend.

INDIA: The year-over-year CPI inflation in India fell for a seven straight month in May, down to 2.8% from 3% in April 2025. Inflation has fallen below the Reserve Bank of India's 4% inflation objective for four months and has been within the band of +/-2 percent around 4% for seven months in May, allowing for a further interest rate cut from the Reserve Bank of India (RBI) in June to support India's economic growth. The RBI cut the Cash Reserve Ratio from 4% to 3% on June 6, and the central bank also lowered the policy repo rate by 50 bps from 6% to 5.5% on the same day. The rate cuts were larger than the consensus expectation, and the Monetary Policy Committee changed the stance to neutral from accommodative, as "after having reduced the policy repo rate by 100 bps in quick succession since February 2025, under the current circumstances, monetary policy is left with very limited space to support growth" according to the RBI.

CHINA: The year-over-year headline CPI inflation fell 0.1% in May 2025 led by retreats in food prices, specifically fresh vegetables. Prices of transportation also came down from last year, falling 3.4% year-over-year in May, led by a 13% drop in auto fuels from last year. Core CPI inflation, the headline excluding food and energy components, increased 0.6% in May, up from 0.5% in April and March. Other than food and energy, prices of consumer goods have also come down from last year, and housing rental costs fell from a year ago slightly by 0.1% in May.

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