



Global Economic Highlights

PNC Economics

Headlines

- **Eurozone's private sector grew faster with the S&P Global Composite Purchasing Managers' Index up to a 12-month high in August.**
- **UK's sticky inflation supports no interest rate cut in the Bank of England's September meeting.**
- **Canadian real GDP contracted in Q2 with trade being a huge drag; personal consumption still grew at a solid pace supported by savings.**
- **Sweden's economy surprised to the upside in Q2 while inflation bumped up away from the Riksbank's inflation objective.**
- **Both headline and core Tokyo CPI inflation eased in August, while underlying inflation remained elevated.**
- **China's retail sales growth slowed after mid-2025, highlighting a lack of momentum in personal consumption growth.**

Gus Faucher
gus.faucher@pnc.com

Stuart Hoffman
stuart.hoffman@pnc.com

Jay Hawkins
jay.hawkins@pnc.com

Kurt Rankin
kurt.rankin@pnc.com

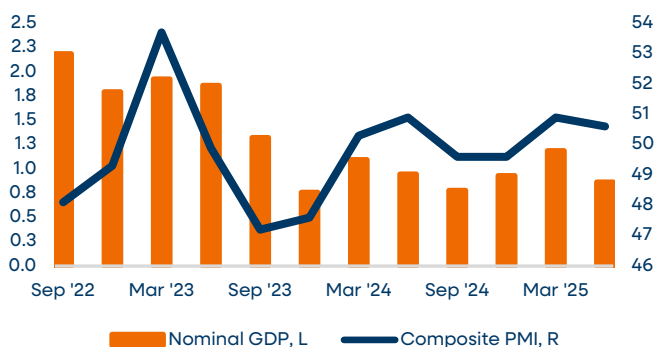
Ershang Liang
ershang.liang@pnc.com



Eurozone

According to S&P Global, the seasonally adjusted HCOB Eurozone Purchasing Managers' Index (PMI) rose to a 12-month high, at 51 in August (data collected from 12 to 26 August 2025). This is the eighth consecutive month that the index was in expansionary territory and an improvement from early 2025 when the index was close to the contractionary threshold of 50 (**Figure 1**). The PMI diffusion index indicates the net percentage of survey respondents who are experiencing expanding or contracting activity across various categories, with a reading below 50 revealing net contraction across the corresponding sector. Notably, there was a pickup in the eurozone's manufacturing activity, with the Manufacturing PMI jumping from 49.8 in July to 50.7 in August, the first time this sector's activity registered expansion in three years. The services sector also expanded in August albeit at a slower pace; the Services PMI fell to 50.5 in August from 51 in July according to S&P Global. **The pickup in eurozone's Composite PMI points to continued weak expansion in the area's private sector.**

Figure 1: HCOB Eurozone Composite PMI and Real GDP (%QoQ)

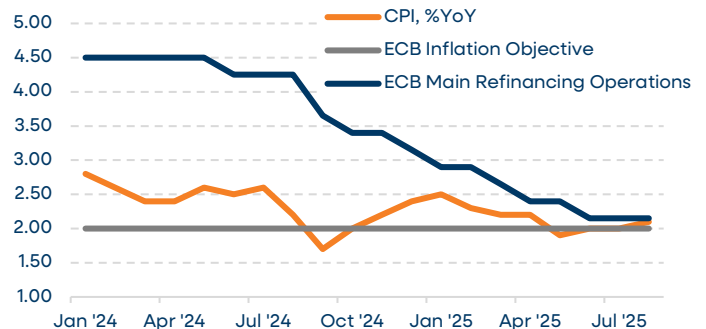


Source: Eurostat, S&P Global

CPI inflation in August came in slightly stronger than the Bloomberg consensus expectation for the eurozone. The Consumer Price Index advanced 0.2% in August after being flat in July according to Eurostat. **This translates into 2.1% year-over-year growth in the CPI, close to the European Central Bank's 2% inflation objective.** The ECB has lowered its key policy interest rates eight times, including the

main refinancing operations, deposit facility and the marginal lending facility, now at 2.15%, 2%, and 2.4%, respectively (**Figure 2**). Slightly faster economic growth in the current quarter and steady inflation close to the ECB's inflation objective points to no interest rate cut again in the ECB's September meeting.

Figure 2: CPI Inflation and ECB Policy Rate



Source: Eurostat, European Central Bank

United Kingdom

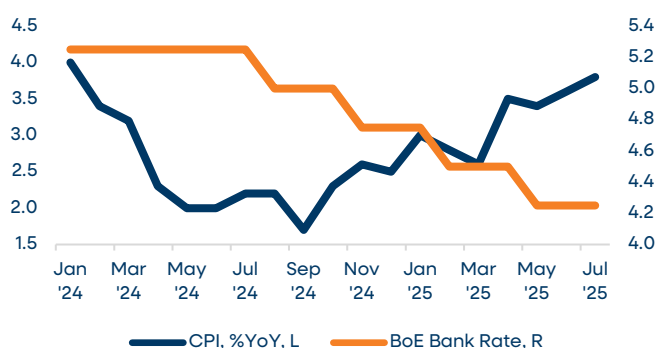
The UK's headline CPI increased 0.1% seasonally unadjusted in July 2025, after expanding 0.3% in June, according to the Office for National Statistics. This came in above the Bloomberg consensus expectation for no monthly change in July. On a year-over-year basis, headline CPI inflation bumped up to 3.8% from 3.6% in June (**Figure 3**), in line with the Bank of England's forecast that CPI inflation will peak at 4% in September. Core inflation, total inflation excluding volatile seasonal energy, food, alcohol and tobacco components, also rose to 3.8% in July, picking up from the previous two months. Despite monthly variations due to seasonal factors, both goods and services inflation appear to have picked up after mid-2025: the year-over-year goods CPI inflation rose to 2.7% in July from 2.4% in June, and the year-over-year services CPI inflation hiked to 5% from 4.7% in June and May. Total inflation has run away from the BoE's 2% annual CPI inflation objective in 2025, with July's inflation print the highest since January 2024.

The UK Composite PMI jumped to a 12-month high at 53.5 in August from 51.5 in July, according to S&P Global. This marks accelerated expansion in UK's



services sector, in particular. The manufacturing sector, however, remained in contractionary territory for an eleventh straight month in August, down to 47 from 48 in July, weighed heavily by elevated borrowing costs over the past two years along with tariff uncertainties in 2025. However, the real BoE policy rate in July, the difference between BoE's Bank Rate and the annual inflation rate, fell sharply from 1.75% in January to only 0.45% in July. This has moved closer to a long-run average at about -1%, a stimulus level for consumption and UK economic growth over the near term. This will also likely keep inflation away from the central bank's inflation objective throughout 2025. PNC expects the BoE to keep its monetary policy unchanged at 4% in its September meeting.

Figure 3: CPI Inflation and BoE Bank Rate



Source: Office for National Statistics, Bank of England

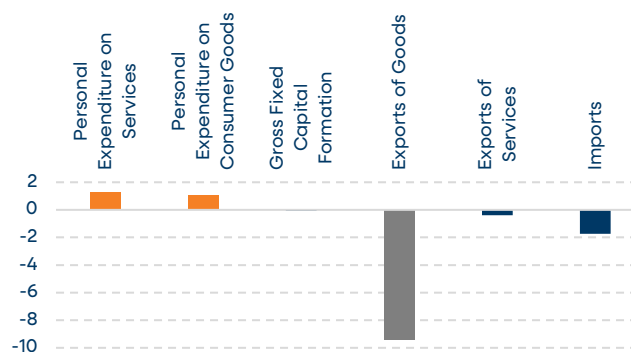
Disinflationary pressures can come from slowing wage growth and more easing in UK's labor market under the elevated Bank Rate. Average weekly wages fell in June from the beginning of 2025 on a year-over-year basis but increased to 4.7% in June from 4.6% in May and April amid a rise in the UK's minimum wage in April 2025. This likely supported UK's sticky inflation so far in 2025 along with more cautious employers that faced higher payroll costs (UK's National Insurance Contributions from employers went up to 15% on April 6 from 13.8% on a lower earnings threshold¹). Based on an early estimate of July 2025, the number of payrolled employees fell about 122,000 year-to-date. The year-

to-date job loss in July 2025 was much less than 2020 when the labor market shed over 870,000 jobs. Keeping the BoE's Bank Rate at 4% this year should allow for additional services and headline inflation easing amid more slack in the labor market.

Canada

Real GDP for the second quarter came in below the consensus expectation and contracted 1.6% on an annualized base, after expanding 2% in the first quarter, according to Statistics Canada. Goods exports to the U.S. fell sharply and remained a huge drag after adding to growth in Q1. Exports alone subtracted 9.8 percentage points from Q2 annualized real GDP growth under the ongoing tariffs impacts (**Figure 4**). Other than the trade pieces of this GDP report, household final consumption expenditure added a solid 2.4 percentage points to growth with both goods and services personal consumption expanding at a solid pace and improving from the previous quarter.

Figure 4: Highlighted Contributions to Percent Change in Canada's Q2 Real GDP (Annualized)



Source: Statistics Canada, Bloomberg

Savings supported personal consumption in Q2 instead of the Canadian labor market. The unemployment rate in Canada was close to a four-year high in August 2025, with sectors that rely heavily on trade with the US cutting jobs this year according to the Bank of Canada. Meanwhile, the national saving rate fell sharply from 5.4% in Q1 to 3.8% in Q2 (**Figure 5**). Such mechanism, solid

¹ <https://www.gov.uk/national-insurance-rates-letters>



consumption growth backed by savings, is unsustainable if wage growth slows further, and the labor market keeps shedding jobs in the coming months under tariff impacts. This should remain a key factor to watch regarding whether the BoC is to cut interest rates in the coming months. Inflation has been under the BoC's inflation-control target of 2% midpoint for a fourth consecutive month in July 2025.

Figure 5: Canadian National Savings Rate (%)



Source: Statistics Canada

Sweden

After contracting in the first quarter of 2025, the Swedish economy surprised to the upside and expanded 0.5% in the second quarter according to Statistics Sweden. The unemployment rate fell to 8% in July from 9.4% in June. The Swedbank Manufacturing PMI jumped to 55.3 in August from 54.4 in July, showing accelerated expansion of Sweden's factory activity.

The Riksbank held its policy interest rate unchanged at 2% on August 20. Sweden's year-over-year CPIF (the consumer price index with a fixed interest rate) inflation moved away from the Riskbank's inflation objective over the past two months in July. Specifically, annual CPIF inflation rose to 3.3% from July, the highest since January 2024. (The CPIF is the Riksbank's target variable for measuring annual inflation and monetary objective at 2%. It excludes the effect of varying mortgage rates according to the Riksbank.) Notably, prices of recreation and culture picked up strongly after mid-2025, with the seasonally unadjusted CPI for the category climbing at the fastest pace on record, at 3.8% month-on-

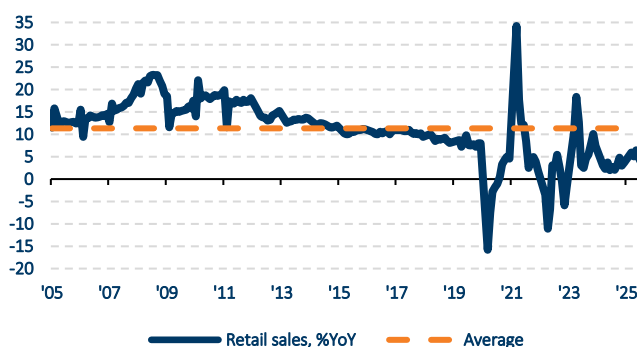
month in June and 2.7% in July. On a year-over-year basis, prices of recreation and culture rose a strong 5% in July.

Japan

The year-on-year rate of change in the Tokyo Consumer Price Index came in at 2.6% in August, down from 2.9% in July and 3.4% in January 2025, according to Japan's Ministry of Internal Affairs and Communications. Core CPI inflation, total inflation excluding only fresh food, also eased to 2.5% in August from 2.9% in July. Underlying inflation that excludes both fresh food and energy dropped but remained sticky, down to 3% year-over-year in August. Retail sales came in weaker than the consensus expectation and fell 1.6% in July. From a year ago, retail sales were up only 0.3%, the weakest year-over-year growth since February 2022. Japan's private services sector expanded at a slower pace in August, but manufacturing activity improved albeit in contractionary territory according to its PMI readings. The Composite PMI rose to 51.9 in August, with the Services PMI down to 52.7 and the Manufacturing PMI up to 49.7 in August.

China

Figure 6: China Retail Sales (%YoY)



Source: The National Bureau of Statistics

Retail sales grew 3.7% year-over-year in July according to the National Bureau of Statistics and came in much weaker than the consensus expectation. This is also the weakest retail sales growth this year (**Figure 6**), highlighting a lack of



momentum in China's personal consumption growth under supportive PBoC and fiscal measures. Meanwhile, the slump in the real estate sector continues, with the cumulative investment in real estate down 12% in July, the sharpest year-over-year fall on record except during the COVID-19 pandemic. Manufacturing activity contracted for a fifth straight month in August, with the NBS Manufacturing PMI up marginally to 49.4 in August from 49.3 in July. Services activity expanded faster in August, but the NBS Services PMI remained close to the sub-50 contractionary threshold.

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