Global Economic Highlights

March 21, 2025

Fed, BOJ, BOE Stayed on Hold While Uncertainty to Growth and Inflation Outlooks Remain

UNITED STATES: As expected, the Federal Open Market Committee kept the fed funds rate unchanged on March 19, in a range between 4.25% and 4.50%. The FOMC cut the fed funds rate sharply to near zero at the start of the pandemic, and then rapidly increased the fed funds rate in 2022 and 2023 to above 5%. The FOMC cut the fed funds rate by a cumulative 100 basis points from September to December last year, to its current range. But the FOMC has now held the fed funds rate steady at its last two meetings. The change in monetary policy came in the Fed's balance sheet. The FOMC announced that starting in April, the central bank will reduce its holdings of long-term Treasurys by $5 billion a month, down from $25 billion a month. The Fed will continue to let up to $35 billion a month in maturing mortgage-backed securities to roll off the balance sheet. This will further shift the Fed's balance sheet toward holding mostly Treasurys. The Fed's balance sheet was below $4 billion before the pandemic, peaked at close to $9 billion in early 2022, and is now around $6.5 billion.

The topline Consumer Price Index (CPI) inflation came at +0.2% for February 2025, in line with PNC's expectations. 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 0.2% for the month, which was slightly below PNC's forecast for February 2025. These outcomes should help to relieve some of the worry that had amassed by breaking the inflationary uptrend that had been in place through January, but uncertainty regarding consumer prices remains intact for the months to come. The Producer Price Index (PPI) was virtually flat in February 2025 versus January, falling by 0.01% for the month on a seasonally adjusted basis. This result translates to a 3.2% year-over-year gain and the first slowdown in that measure after topline PPI growth had accelerated for five months straight through the open of the new year. Goods PPI growth decelerated significantly in February 2025 to +0.3%, while the prices facing services-oriented businesses fell outright for the month at -0.2%. The softening in business cost growth seen in the February 2025 PPI report supports PNC's expectation of two (2) interest rate cuts by the Federal Reserve through the remainder of 2025.

The Conference Board's Leading Economic Index (LEI) slipped 0.3% in February to 101.1 (2016=100) following a 0.2% decline in January (previously -0.3%). This was spot on with PNC's forecast. The LEI has declined for two straight months, suggesting weaker near-term growth. Five of the 10 components decreased, with the biggest drops in Average Consumer Expectations (-0.19%), the ISM Index of New Orders (-0.15%) and Average Weekly Initial Unemployment Insurance Claims (-0.05%). Building Permits and the Leading Credit Index fell 0.03% and 0.01% respectively and contributed to the monthly decline. Conversely, Average Manufacturing Weekly Hours, Stock Prices, the Interest Rate Spread and Manufacturers' New Orders for Consumer Goods and Materials rose and limited the overall decrease. The second consecutive monthly decline in the Conference Board's Leading Economic Index is consistent with PNC's outlook for slower economic growth in 2025. As a result, PNC's March baseline forecast has two 25 basis point cuts in the fed funds rate this year, in May and July, lowering the fed funds rate to a range of 3.75%-4.00%. However, depending on the inflation data over the next few months, those rate cuts could be pushed out to later in 2025.

Consumers became much less confident this month amid inflation fears and equity market declines. Consumer sentiment plunged to 57.9 in March according to the preliminary estimate from the University of Michigan. This is the third consecutive decline. Moreover, this was below the consensus forecast of 63.2 and the lowest since November 2022. The decline was broad-based with the expectations component sliding 9.8 points and the present conditions components

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falling a more modest 2.2 points. Inflation expectations rose again in March. 12-month-ahead inflation expectations climbed to 4.9% from 4.3% last month, while five-year ahead inflation expectations increased to 3.9% from 3.5% in February. The results suggest consumers are increasingly worried tariffs will result in significantly higher prices.

Initial claims for unemployment insurance rose by 2,000 to 223,000 in the week ending March 15, still toward the lower end of a 214K to 242K range in the past five months. The four-week moving average of initial claims, which irons out some of the weekly volatility, edged up by 1,000 to 227,000 for the week ending March 15. This is up from 212,000 one year ago. There was little impact from the Department of Government Efficiency's layoffs of Federal government employees yet. Initial jobless claims filed by fired civilian Federal employees were 1,066 in the week ending March 8, down 514 from the previous week. There were 8,648 continuing claims filed by fired civilian Federal employees in the week ending March 1, an increase of 433 from the previous week. Federal employment fell by 10,000 in February according to the BLS, but we expect much larger declines in March and April. Continuing unemployment insurance claims jumped by 33,000 to 1.892 million in the week ending March 8, reversing most of the 38,000 declines (revised) in the previous week. The four-week moving average of continuing claims rose by 6,000 to 1.876 million. Both levels are well above the same period last year, suggesting it is taking unemployed workers somewhat longer to find a new job. The insured unemployment rate held steady at 1.2% in the week ending March 8 and equal to the rate one year ago.

Total existing home sales increased 4% in February to 4.26 million units at a seasonally-adjusted annualized rate, after falling 5% to 4.09 million units in January, according to the National Association of Realtors (NAR). The consensus expectation was for a small decline in sales in February. After smoothing out some of the monthly volatility, the three-month moving average of total existing home sales increased about 1% in February. Existing home sales remain near historic lows in early 2025, and are considerably below the pre-pandemic peak of 5.6 million. On a year-ago basis, total existing home sales fell 1.2% in February, compared to a 2.3% decline in January. Regardless of home type, existing home sales are near record lows in early 2025, weighed down by the elevated 30-year fixed mortgage rate. PNC expects more fed funds rate easing toward mid-2025, and lower mortgage rates over the course of the year, supporting a gradual recovery in housing affordability and the housing demand, but risks still remain with metals and proposed lumber tariffs.

JAPAN: Inflation has picked up since 2022 under record-high wage growth and a sharp depreciation in the Japanese yen. In February 2025, the Consumer Price Index (CPI) rose 3.7% year-over-year, down from 4% in January but far above the central bank's 2% inflation objective. Core inflation (measured with CPI less fresh food) fell to 3% after rising to a 19-month high at 3.2% in January 2025. This is still a fast pace inconsistent with the Bank of Japan's inflation target. Prices of energy fell sharply on the month (down 7%), contributing to the slower total inflation less fresh food. Excluding the energy component, core inflation was 2.6% on a year-ago basis, and picked up from 2.5% in January.

The Bank of Japan (BOJ) kept its uncollateralized overnight call rate unchanged at around 0.5% on March 19. The BOJ hiked three times in the currency monetary tightening cycle for a cumulative 60 basis points, from negative 0.1% in March 2024 to 0.5% in January 2025. Wage growth in early 2025 came in cooler than the consensus expected but remained strong and should provide support for an interest rate hike later. Until early 2025, Japan's economic growth continued to outpace its long-run potential. Real GDP expanded 2.2% at a seasonally adjusted annual rate in the trailing quarter. Services exports grew over 17% for the quarter, and total imports fell more than 8%. The net of total exports and imports added three percentage points to Q4 real GDP growth. The BOJ expects continued above-trend economic growth and rising inflation over the near term coming from higher medium- and long-term inflation expectations and strong labor wage pressure. However, the BOJ also pointed to high uncertainties around the evolvement of Japan's activity and prices, including recent trade policies developed between the US and other jurisdictions.

UNITED KINGDOM: The Bank of England kept its Bank Rate steady at 4.5% on March 20. As discussed by the Monetary Policy Committee (MPC), geopolitical and foreign trade policy uncertainties increased since its February meeting, and the MPC judged the risks to the near-term economic outlook were to the downside. The projection on real GDP growth was revised higher to 0.25% in Q1 from 0.1% in February's MPC meeting, as Q4 2024 GDP came in stronger than the -1% expected. Because of the data quality issue (low response rates and sample size) within the Labor Force Survey which is the official labor market data source that the BOE uses for policy guidance, the BOE also utilized other sources to help determine the health of the labor market. Recent data suggests that the labor market softened further in early 2025 in the UK. Other than information from business surveys like the PMI, the seasonally adjusted unemployment claimant count jumped 44,200 to 1.78 million in February 2025, rising 203,000 from same time last year according to UK's Office for National Statistics and hinting at a slowing labor market in early 2025.

Industrial production contracted more than the consensus expected in January, down 0.9% on the month according to the Office for National Statistics of the UK. This production output is the lowest on the month since May 2020, dragged down by output from manufacturing (-1.1%) and mining and quarrying (-3.3%). Output of water supply, sewerage, waste management and remediation activities increased 2.6% on the month.

CANADA: Due to possible wide range of trade measures with the US, business sentiment fell recently according to a PMI survey from S&P Global. As inflation remained around the central bank's target, in response to trade uncertainty with the US, the Bank of Canada (BOC) cut 25 bps on its policy interest rate from 3% to 2.75% on March 12 as expected. Economic growth in Canada remained solid ending 2024, with an inflation rate within the BOC's target range between 1% and 3%. Such solid economic expansion, however, could slow in the first quarter according to the BOC, as international trade policy uncertainty weighs on business investment and household consumption decisions.

Canada's CPI inflation picked up strongly in February to 2.6% and came in higher than the consensus expectation of 2.2%. There were noticeably higher prices in recreation which jumped 4.2% year-over-year in February. This inflation report covers a period of Canadian federal government's Goods and Services Tax (GST) (between December 14, 2024 and February 15, 2025) that provides a tax break on food and holiday essentials, meaning inflation would have been higher without the tax break. This will likely put the BOC's next move on hold, as the disruptive impact to inflation from retaliatory tariffs is yet to come.

EUROZONE: The CPI came in slightly cooler than the consensus expected and grew 0.4% on the month in February and 2.3% over the past year. Core inflation was up 2.6% on a year-ago basis in February. This is down from 2.7% in January, and it's the first core inflation easing since September of last year on a year-over-year basis. Industrial production in January came in stronger than the consensus expected. Factory output increased 0.8% on the month. Over the past year, industrial production remained flat in January, reversing the year-over-year contraction made since May 2023. There were improvements in Germany's factory activity, jumping 2% month-on-month in January and contracting less year-over-year at 1.6%. Italy's factory output also jumped 3.2% on the month, narrowing yearly losses and was only down 0.6% from last year.

MEXICO: Real GDP contracted 0.6% in Q4 2024 after expanding for the rest of the year. Industrial production continued to contract in early 2025, down 0.4% in January after seasonal adjustment. Construction output gained 0.1% on the month, while mining output contracted 1.8%, followed by utilities (down 0.8%) and manufacturing (down 0.3%). From a year ago Mexico's industrial production fell 2.9% in January, a larger year-over-year decline from December.

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