Global Economic Highlights

March 11, 2025

ECB Cut Last Week, Fed to Hold Upon Sticky Inflation, BOC To Cut This Week

UNITED STATES: The first jobs report of the Trump administration shows little change compared to the labor market of recent months. The number of jobs, as measured in a survey of employers from the Bureau of Labor Statistics, increased by 151,000 in February from January. Private sector employment increased by 140,000 in February, with government job growth of 11,000, including a net decline of 10,000 in federal government employment. The unemployment rate rose slightly to 4.1% in February from 4.0% in January. After falling to 3.4% for a couple of months in 2023, the unemployment rate has risen slightly and has been between 4.0% and 4.2% since May 2024. The unemployment rate has been stable around the 4.2% rate that the Federal Open Market Committee thinks is consistent with their inflation objective of 2%. In a survey of households, different from the survey of employers, employment fell by 588,000 in February from January. Employment tends to be more volatile in the household survey compared to the employer survey. This was the largest decline in household employment since December 2023. This is the kind of jobs report the Federal Open Market Committee wants to see. Inflation is still running higher than the Fed would like, at around 2.5%, but that is much lower than it was a couple of years ago. Progress on inflation could be uneven in the near term given tariffs, but it should gradually subside, and PNC expects two 25 basis point cuts in the federal funds rate in the middle of 2025, which would take the rate to a range of 3.75 to 4.00% by the fall, down from close to 5.5% in mid-2024. Lower interest rates should support an uptick in job growth toward the end of 2025, supporting rehiring of laid-off federal workers. But risks to the labor market outlook are high. Federal government job losses could be larger than expected and laid-off workers could pull back on their spending, leading to slower job growth in other industries. Uncertainty about the outlook for tariffs could lead businesses to slow their hiring. And restrictions on immigration could limit the supply of labor available, weighing on employment gains over the next few years.

Initial claims for unemployment insurance fell by 21,000 to 221,000 in the week ending March 1, 2025, reversing the previous week's rise. There was no discernible impact from the Department of Government Efficiency's layoffs of Federal government employees with initial jobless claims (not seasonally adjusted) in D.C., Virginia, and Maryland little changed from the previous week. The four-week moving average of initial claims, which irons out some of the weekly volatility, remained at 224,000 for the week ending March 1, 2025. This is up only slightly from 209,000 one year ago. First-time claims remain historically low, pointing to a solid labor market. Continuing unemployment insurance claims jumped by 42,000 to 1.897 million in the week ending February 22, 2025. The four-week moving average of continuing claims edged up by 3,000 to 1.866 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 seasonally adjusted nominal U.S. goods and services trade deficit came in higher than the consensus and jumped 34% in January to $131.4 billion from $98.1 billion (revised downward from $98.4) in December. The monthly trade deficit in January was the highest on record. The three-month average trade deficit also reached the highest level in two decades. On a year-ago basis the total trade deficit almost doubled (up 97%) in January. The larger deficit in January came from a 10% jump in imports, much larger than the 1.2% increase in total exports for the month.

The ISM Services Purchasing Managers Index (PMI) rose to 53.5 in February 2025, from 52.8 in the month prior. The only sub-index among the report's details to fall was Business Activity, and that was by a mere 0.1 index points. Strength in Employment and Backlog of Orders suggest that service providers are acting on healthy current demand and have

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sustainable growth ahead of them. The ISM Services PMI diffusion index indicates the net percentage of service providers who are experiencing expanding or contracting activity across various categories, with a reading above 50 revealing net expansion across services sectors.

U.S. total construction spending came in slightly weaker than the consensus and fell 0.2% in January from December, at $2.193 trillion at a seasonally adjusted annualized rate. On a year-over-year basis total construction spending grew 3.3% in January, a slower pace than in December and the slowest year-over-year growth since mid-2019. Private residential construction spending was down 0.4% on the month in January, dragging on overall spending. Private nonresidential construction spending was flat on the month. But both private residential and private nonresidential spending were up modestly on a year-ago basis.

EUROZONE: Real Gross Domestic Product (GDP) grew 0.2% in Q4 and 1.2% from last year in the final estimate according to Eurostat, stronger than the consensus expected. The growth in Q4 was slower than Q3, but still up from 2023 when economic growth almost stagnated for the year. Household consumption grew 0.4%, contributing the most to gains in real GDP for the quarter. This report highlighted the eurozone's resilience in the household sector, especially under weaker nominal income growth in Q3. With consumption growth picking up in Q3 and nominal income growing at a pace slower from Q2, the household saving rate dropped to 15.2%.

The European Central Bank (ECB) lowered three key interest rates by 25 basis-points as expected on March 6. The deposit facility, the main refinancing operations, and the marginal lending facility rates were lowered to 2.5%, 2.65%, and 2.9%, respectively. The ECB's decision was made to balance the risks of inflation and economic growth, as inflation continued to slow in early 2025 while economic growth recovers slowly in the eurozone. The preliminary Consumer Price Index (CPI) report for February, which came in earlier in the week, showed core inflation fell to 2.6% year-over-year from 2.7% in the previous month. Overall, this is the first easing in core inflation since August 2024 in February. Services inflation, which accounts for almost 46% of all household consumption expenditures and is closely tied to labor wage growth, grew 0.7% on the month after contracting 0.1% in January including seasonal variations. Albeit a temporary pick up on the month, services inflation year-over-year decreased to 3.7% in February, down from 3.9% in January and 4% in December.

The Manufacturing PMI remained in contractionary territory, but continued to improve in early 2025, registering the best reading in two years ending February. It increased one point to 47.6 on the month with new orders or demand for manufacturing falling at the slowest pace since mid-2022 according to S&P Global. Ireland and Netherlands' factory activity expanded at a faster pace, while Germany's manufacturing activity contracted at a slower pace with its PMI at a 25-month high.

CANADA: There are early signs of tariff impacts on Canada's factory activity. According to S&P global, the Manufacturing PMI dipped 3.8 points to 47.8, the lowest level since July 2024. Factory demand pulled back sharply in February upon concerns over tariffs being applied on all goods to the US. Export orders fell at a sharpest pace since September 2024 along with a drop in manufactures' confidence, down to pessimistic territory, according to this report.

Total employment increased only 1,100 in February to 21 million after adding 76,000 in January according to the Labor Force Survey. The goods-producing sector cut 19,500 jobs on the month under weak manufacturing confidence and the shadow of the Canada-United States trade war. Manufacturing industries shed 4,800 jobs, construction industries cut 7,800 jobs, and the agriculture sector lost 1,200 jobs. The services-producing sector added 20,600 with a jump in wholesale and retail trade. Transportation and warehousing (down 23,000) and professional, scientific, and technical services (down 33,000) witnessed the largest declines for the month. Canada's unemployment rate decreased slightly, however, to 6.6% in early 2025 from 6.7% in December and 6.9% in November. This is still above the 6% rate in 2019, and it has been picking up since 2022 with a sharp increase in the working-age population. The Bank of Canada will likely get little support for a policy hold from this jobs report, and PNC expects another 25-bps interest rate cut from the Bank of Canada this week.

CHINA: The CPI contracted 0.7% year-over-year in February due to the base effect from the Chinese Lunar Calendar New Year a year earlier. On a monthly basis, prices of almost all categories fell back in February, including food, alcohol and tobacco, clothing, household services, communications, transport, etc. Housing costs and prices of health services remained flat on the month.

The National Bureau of Statistics' PMI (after seasonal adjustment) bounced back to above the expansionary threshold in February at 50.2, led by large enterprises (up to 52.5) instead of mid- (down to 49.2) or small-sized (down to 46.3) enterprises. There was a rebound in both production (up to 52.5) and new orders (up to 51.1) on the month after the Chinese Lunar Calendar New Year. New export orders contracted at a slower pace in February, with the component rising to 48.6 from 46.4 in January.

UK: UK's PMI fell to 46.9 in February, a deeper reach in contractionary territory on the month. This is the lowest Manufacturing PMI in over a year, signaling a further cut in manufacturing production in early 2025. According to this report, consumer goods witnessed the worst overall declines in production, new business, and foreign demand while the weakness was broad-based in intermediate and investment goods as well. Employment in the manufacturing sector also fell at a sharpest pace since mid-2020. The steep cut was observed in the services sector as well according to the Services PMI.

JAPAN: Wage growth slowed in early 2025 after expanding strongly at the end of 2024. Average monthly earnings grew 2.8% year-over-year, down from 4.4% in December and 3.9% in November. Japan's real GDP came in weaker than the consensus expected, growing 2.2% in Q4 at a seasonally adjusted annualized pace. Despite being weaker than expected, real GDP growth picked up from Q3 at 1.4%. The bump from trade more than offset a drag from private inventories in Q4 with a pullback in imports and an increase in exports.

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