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US, Canada, and Eurozone Inflation Bumped Up in June 2025; China Growth Slowed

UNITED STATES: The Conference Board’s Leading Economic Index (LEI) slipped 0.3% in June to 98.8 (2016=100) following an upwardly revised unchanged reading in May (previously -0.1%). That was spot on with PNC’s forecast of a 0.3% drop and marks the sixth decline in the last seven months. The sixth decline in the past seven months in the Conference Board’s LEI is consistent with PNC’s outlook for slower economic growth in the second half of 2025. PNC’s baseline forecast has the FOMC lowering the fed funds rate by 25 basis points in December followed by two additional 25 basis point rate cuts early next year.

U.S. job growth surprised to the upside in June, with an increase in employment of 147,000, based on a survey of employers by the Bureau of Labor Statistics. Expectations were for job growth of 110,000. There were modest upward revisions to job growth in April (to 158,000 from 147,000) and May (to 144,000 from 139,000) of a combined 16,000. Over the past three months job growth has averaged a solid 149,000. Although this is down from average monthly job gains of over 200,000 in 2023 and around 170,000 in 2024, the labor market remains in solid shape. However, the private sector only accounted for about one-half of job growth in June, at 74,000, with government job gains of 73,000. Federal government employment fell by 7,000 over the month and has fallen by 69,000 since January. The unemployment rate fell slightly to 4.1% in June from 4.2% in March through May. PNC expects job growth to weaken further in the near term. Demand for labor is softening as tariffs and the uncertainty they are creating have led businesses to turn more cautious. PNC’s forecast is for the unemployment rate to climb gradually to around 4.5% by early 2026. Over the longer-term restricted immigration flows will weigh on labor force growth, limit labor supply, and constrain job growth.

The minutes from the mid-June Federal Open Market Committee meeting indicate no rush to cut the federal funds rate. With participants generally expecting a near-term acceleration in inflation from tariffs, but uncertainty about the magnitude and timing, and with the labor market still solid, the majority view was that the FOMC did not need to cut the funds rate at the committee’s next meeting, on July 29 and 30. At the same time, however, most participants viewed the current fed funds rate (in a range of 4.25% to 4.50%) as contractionary, weighing on economic activity, and indicated that they would like to cut the fed funds rate sometime in 2025. But that will depend on the evolution of inflation and the labor market in the months ahead.

Initial claims for unemployment insurance fell by 7,000 to 221,000 in the July employment survey week ending July 12. The four-week moving average of initial claims ending July 12, which smooths out some of the weekly volatility, dropped by 6,000 to 229,500, back down into a 213,000 to 240,000 range that had prevailed for the previous eight months, after rising above the top of that range in the first half of June. Continuing unemployment insurance claims rose by 2,000 to 1.956 million in the holiday week ending July 5 from a downward revised level of 1.954 (was 1.965), the fourth straight week above 1.95 million. The four-week moving average of continuing claims ending July 5 rose by 5,000 to 1.958 million from a slightly revised down 1.953 million in the previous week. These levels are close to 100,000 above the same week a year ago and the highest levels since late-November 2021 clearly showing that it is taking unemployed workers somewhat longer to find a new job.

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Topline Consumer Price Index (CPI) inflation came in at PNC's expectations for +0.3% gain in June 2025. Core CPI inflation gained 0.2% for the month, which was slightly weaker than PNC's forecast for the month and overall market expectations. The +0.2% Core CPI gain in June 2025, which excludes volatile food and energy inputs, translates to a 2.9% year-over-year growth rate. This is the strongest year-over-year result for the Core CPI metric since February. Housing inflation – the CPI's largest driver – accelerated from May's 8-month low, while both New and Used Vehicle prices each continued their downward trends. Gasoline price increases in June 2025 pushed up overall Energy inflation, which now stands at -0.6% year-over-year after being down by 3.5% as recently as April. Services Less Shelter inflation bounced to a +0.4% monthly gain in June 2025, which is the strongest increase in this CPI category since January (+0.5%).

Industrial production rose 0.3% in June from May, after no change in the previous two months. Manufacturing production was up 0.1% over the month, with utilities production up 2.8% with hotter weather. Mining production fell 0.3% in June but was up almost 6% on an annualized basis in the second quarter compared to the first. On a year-ago basis total industrial production was up 0.7% in June, with manufacturing production up 0.8%, mining production up 1.6%, but utilities production down 0.9%. Industrial production was up modestly in June, but most of that came from weather-related utilities demand. There is little indication yet that industrial output in the U.S. is increasing because of tariffs. Firms do have a limited ability to increase U.S. production, but tariffs on imported parts may be a drag. And investments to build U.S. manufacturing capacity will take years to bring online, and with no certainty about what tariffs will be a few months or a few years from now, firms may be reluctant to make big investment decisions for now. There are few signs of inflationary pressures from restricted U.S. capacity. But tariffs are likely to result in higher prices for imported goods over the next few months, and U.S. manufacturers will look to raise their own prices and increase profits as their foreign competitors charge more. Higher prices, leading to lower demand, could be a drag on manufacturing output in the near term even if they do support higher U.S. profits.

Retail sales increased 0.6% from May to June, according to the Census Bureau. This followed a 0.9% decline in May. Retail sales have been volatile in 2025 due to tariffs. Sales excluding autos were up 0.5% in May, and sales excluding autos and gasoline were up 0.6%. Control retail sales—sales excluding autos, gasoline, food service, and building materials, and which go into nominal consumer goods spending in GDP—rose 0.5% in June. On a year-ago basis overall retail sales were up 3.9% in June, compared to 3.3% growth in May. Control retail sales rose 4% year-over-year in June, a solid increase, although control retail sales growth has been slowing on a year-ago basis in 2025.

Total privately-owned U.S. housing starts came in better than the consensus expectation and jumped 5% in June, to 1.321 million units at a seasonally adjusted annualized rate, from 1.263 million in May. The improvement in June offset some of May's 11% decline. Consumer sentiment improved to 61.8 from 60.7 in the preliminary July reading according to the University of Michigan – the second consecutive increase. That was just below PNC's projection for an increase to 63.0 and the highest reading since February 2025 (64.7). Sentiment is down by nearly 14% since the beginning of the year amid elevated policy uncertainty.

CANADA: The Bank of Canada will meet on July 30 for its monetary policy decisions after keeping the overnight lending rate unchanged at 2.75% on June 4. The consensus expects the BOC to keep the interest rate unchanged before another rate cut, the eighth policy rate deduction in the current monetary policy easing cycle. Inflation picked up slightly in June, with year-over-year headline CPI inflation rising to 1.9% from 1.7% between April and May according to Statistique Canada. Weighted median inflation also accelerated to 3.1% from 3% in May, staying elevated above its historical average in 2025. Despite a slight pick-up and sticky core inflation, headline inflation has been at the BOC's 2% objective (in the total consumer price index) for three consecutive months and within a tolerated control range of one to



three percent for eighteen months. The balance of risk between inflation and growth will likely favor another interest rate cut soon if more evidence of slack in the Canadian economy develops.

Canada's seasonally adjusted total trade deficit surged to a record high of 7.6 billion Canadian dollars in April. Though narrowed from April, May's trade deficit continued to be one of the highest over the past twenty years. The Trump administration's international trade policy took a toll on the Canadian economy as expected. Canada was the number one country for US steel and aluminum imports in 2024 according to US Department of Commerce. As of July 2025, tariffs on steel and aluminum imports were 50%, up from the 25% effective in March. The Canadian manufacturing PMI took a dip in April from expansionary levels in January and increased only slightly to 45.6 in June 2025. Year-over-year real GDP growth of all industries also slowed to 1.3% in April from 1.8% in March, 1.6% in February, and 2.4% in January. However, monetary policy easing seems to have helped the housing market in early 2025. There was a 32% jump in housing starts to 283,518 at a seasonally adjusted annual rate in April according to Canada Mortgage and Housing Corporation. The six-month moving average of starts, which smooths out monthly volatility, rose 3.6% in June. There was also a rebound in net employment gains over the past three months, with the net change in labor force employment increasing 83,100 in June. The rebound raised the three-month moving average job gains to 33,100 after contracting for the past two months.

EUROZONE: The European Central Bank will meet on July 24 for its monetary policy decisions following last month's interest rate cuts. PNC, along with the consensus, expects the Governing Council to keep major policy interest rates, the main refinancing operations rate, the deposit facility rate and the rate on the marginal lending facility, unchanged to ensure that inflationary pressures will be persistently under control before the ECB lowers again later this year. June's final topline CPI print came in unchanged at 2% year-over-year from Eurostat's flash release, both up from 1.9% in May. This is, though, at the ECB's 2% inflation objective, and has been close to this target (+/-0.2% year-over-year) for four consecutive months through June 2025. Over the past year, goods inflation bumped up slightly to 0.9% in June from 0.8% in May. However, the sticky services inflation ticked up slightly from 3.2% in May to 3.3% in June. CPI inflation around the ECB's target allowed it to trim interest rates in June, but a rising headline and sticky services inflation should keep the ECB cautious in mid-2025 with a potential rebound in goods inflation under renewed tariff threats and an escalation in trade frictions with the US.

On the growth side, the eurozone's recent Composite Purchasing Managers' Index (PMI) points to continued weak expansion in the area's private sector. The Composite PMI increased from 50.2 in May to 50.6 in June according to S&P Global, marking a six consecutive month in expansionary territory. The Services PMI jumped from 49.7 to 50.5 in June and the Manufacturing PMI rose to the highest reading, at 49.5, since August 2022 albeit in the contractionary field. The manufacturing sectors of France and Italy, however, continue to face challenges, both registering a faster manufacturing activity contraction in June 2025. But Germany's Manufacturing PMI rose back to 49 for the first time since August 2022, improving significantly in 2025 from the past two years and supported by a rise in New Orders according to S&P Global.

CHINA: Real GDP in the second quarter came in better than the consensus expectation, up 1.1% quarter-on-quarter and 5.2% year-over-year according to China's National Bureau of Statistics. Overall, the pace of economic growth slowed slightly before entering the second half of 2025 and remained below its long-term pace between 2005 and 2025. The secondary industry, namely construction, manufacturing, mining and utilities sectors, grew slower at 4.8%, concluding growth in the first half of 2025 at 5.3%. There were pickups in the growth of the tertiary industry (services), however, up to 5.7% in Q2 from 5.3% in Q1. China's net exports of goods and services contributed strongly to Q1 real GDP growth, almost 40%, and this share fell to 23% in Q2 along with a modest pick-up in the share of gross capital formation. Year-to-date



fixed assets investment (excluding rural households) increased 2.8% in June on a year-ago basis, the slowest year-over-year growth since October 2020. China's retail sales grew 4.8% year-over-year in June, slowing from 6.4% in May.

UNITED KINGDOM: The Composite PMI in the UK jumped to a modest nine-month high of 52 in June from 50.3 in May, marking accelerated growth in the overall private sector economy in mid-2025. According to S&P Global, there was a strong pickup in private services activity with faster growth in new orders, which captures demand for the services activity backed by stronger business and consumer spending. Year-over-year CPI inflation surprised to the upside in June and rose from 3.4% to 3.6%, and the seasonally unadjusted CPI rose 0.3% on the month, a faster pace from May. Sticky services inflation remained unchanged at 4.7% YoY in June from May.

JAPAN: The Manufacturing PMI jumped to expansionary territory in June, to 50.1 from 49.4 in May, marking the highest reading since June 2024. Year-over-year CPI inflation slowed to 3.3% in June from 3.5% in May led by a retreat in fuel and utilities. Prices of fuel and utilities fell 1% on the month. Year-over-year CPI inflation of fuel and utilities also came down from 7.7% in May to 3.4% in June. Core Tokyo CPI inflation, headline inflation excluding food and energy, remained unchanged from May, at 1.6% on a year-over-year basis.

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