Global Economic Highlights

June 3, 2025

Tariff Changes and Uncertainty Remains; US Homebuilding Weakened; ECB To Cut This Week

UNITED STATES: Federal Open Market Committee (FOMC) participants reported "uncertainty about their economic outlooks as unusually elevated" at their meeting on May 6 and 7, according to the meeting minutes. The uncertainty came largely from tariffs announced by the Trump administration, which were "significantly larger and broader than [participants] had anticipated." In addition, they noted "significant uncertainties also [surrounding] changes in fiscal, regulatory, and immigration policies and their economic effects." Monetary policy is on hold in the near term until the economic picture becomes clearer. With tariffs likely to both add to inflation and weigh on economic growth this year, the FOMC will wait until the impacts become clearer. PNC expects no change to the FOMC's key short-term policy rate, the federal funds rate, until the end of 2025. PNC's baseline forecast is for a 25-basis point cut in the fed funds rate at the FOMC's mid-December meeting, taking the rate to a range of 4.00% to 4.25% at the end of 2025. PNC then expects two additional fed funds rate cuts in early 2026, with the rate at 3.50% to 3.75% by the second quarter of next year, and then staying there indefinitely.

The May 12 U.S.-China trade deal lifted consumer spirits. Consumer confidence surged 12.3 points to 98.0 in May from a downwardly revised 85.7 in April. The sharp improvement was primarily driven by a 17.4-point jump in the expectations component to 72.8, but remained below the threshold of 80, which normally signals a looming recession. The present situation component – which is based on consumers' assessment of current business and labor market conditions – increased a much more modest 4.8 points to 135.9. The overall index is down just 2.1 points over the last three months, a sharp improvement from the drop of 19.6 points over the three months through April. Whenever the index has dropped 20 or more points in a three-month period, a recession has ensued. About 69% of consumers expect a recession in the next 12 months, down from 72% in April.

Nominal personal income rose 0.8% in April. Labor market income growth was solid, but much of the increase came from a one-time change in Social Security benefits. Nominal consumer spending growth was modest at 0.2% as tariffs cause swings in behavior. On a year-ago basis after-tax personal income rose 5.2% in April, with consumer spending up 5.4%. With disposable income up more than spending in April, the personal saving rate jumped to 4.9%, from 4.3% in March. This was the highest personal saving rate since May 2024. The personal consumption expenditures price index (PCE) rose a modest 0.1% in April, after no change in prices in March. The core PCE price index, excluding volatile food and energy prices, also rose 0.1% in April, unchanged from March. There was a large 0.5% increase in durable goods prices in April, likely influenced by tariffs. On a year-ago basis overall PCE inflation was 2.1% in April, down from 2.3% in March and 2.5% to 2.6% from November through February. The report on personal income and consumer spending for April tells us little about the state of the U.S. economy in the spring of 2025. Income growth was strong, but much of that was due to a change in Social Security benefits that will not persist. After the announcement of large tariff increases in early April, additional big swings in tariff rates since then, a ruling earlier last week from the International Court of Trade invalidating most of the tariff increases, and then a stay on enforcing that ruling from an appeals court, the outlook remains extremely jumbled.

Initial claims for unemployment insurance jumped by 14,000 to 240,000 in the week ending May 24, the second highest level since early-October 2024. Continuing unemployment insurance claims rose by 26,000 to 1.919 million in the week ending May 17. The four-week moving average of continuing claims rose by 3,000 to 1.890 million, the highest level since

Gus Faucher	**Stuart Hoffman**	**Jay Hawkins**	**Kurt Rankin**	**Ershang Liang**
Chief Economist	*Senior Economic Advisor*	*Senior Economist*	*Senior Economist*	*Economist*

late-November 2021 suggesting it is taking unemployed workers somewhat longer to find a new job. There is a growing but still small impact from the Department of Government Efficiency's layoffs of Federal government employees. Initial jobless claims filed by fired civilian Federal employees were 610 in the week ending May 10, up by 15 from the previous week. There were 6,378 continuing claims filed by fired civilian Federal employees in the week ending May 10, a decrease of 96 from the previous week. This is below the 24,000 decline of Federal government employees in February, March and April combined (8,000 per month on average) according to the BLS. We expect similar size declines in May and June.

Total privately-owned U.S. housing starts increased 1.6% in April to 1.361 million units at a seasonally adjusted annualized rate from 1.339 million in March (revised higher from 1.324 million); starts dropped 10% in March. On a year-ago basis single-family housing starts fell 12%, while multifamily starts increased more than 30%. There was a sharp decline in single-family construction permits in April as well, falling 5% and down in all four regions to 0.922 million units. Multifamily construction permits fell in April but were still up from last year.

U.S. total construction spending dropped for a third straight month in April, falling 0.4% on the month to $2.152 trillion at a seasonally adjusted annualized rate from $2.162 trillion in March. On a year-over-year basis total construction spending fell 0.5% in April, the first year-over-year decline since mid-2019. Both residential and nonresidential construction spending fell on the month, down 0.9% and 0.1%, respectively. The outlook for total construction spending is negative in 2025 with elevated borrowing costs and likely federal government budget cuts. Homebuilder confidence took a dip in May with a withdraw in housing demand for single-family homes as well as falling future sales expectations. The 30-year fixed mortgage rate near 7% could further drag on homebuilding in the coming months, especially with a slowing labor market.

Total existing home sales fell for a second straight month in April, down 0.5% to 4.0 million units at a seasonally adjusted annualized rate, according to the National Association of Realtors (NAR). Existing home sales remain near historic lows in April 2025 and are considerably below the pre-pandemic peak of 5.6 million. On a year-ago basis, total existing home sales fell 2% in April. Regardless of home type, existing home sales are near record lows in April 2025, weighed down by a 30-year fixed mortgage rate near 7%.

The Conference Board's Leading Economic Index (LEI) declined 1.0% in April to 99.4 (2016=100) following a 0.8% drop in February (previously -0.7%). The decline was broad-based with seven of the 10 components decreasing on the month. The LEI is down 2.0% in the six-month period ending April 2025, unchanged from the drop over the previous six months. The fifth successive 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 baseline forecast has the FOMC lowering the fed funds rate once starting later this year after the impacts of tariffs on inflation and growth become more apparent.

EUROZONE: Inflation in the eurozone was generally on track to the European Central Bank's 2% inflation objective entering the second quarter of 2025. The Harmonized Indices of Consumer Prices (HICP) for the euro area was up 0.6% month-on-month in April and 2.2% year-over-year. In April, electricity prices without seasonal adjustments fell 2.7%, bringing down the year-over-year inflation of electricity to 0.5% in April from 1.6% in March. Though gas prices remained much elevated at 4.8% from last year, the year-over-year growth in prices has slowed significantly in recent months after picking up in 2024. Core inflation, headline inflation excluding volatile seasonal food and energy components, remained steady at 2.7% in April. The indicator of negotiated wage rates for the euro area, according to the ECB, fell to the slowest pace since Q4 2021, to 2.4% in Q1 2025 from 4.1% in Q4 2024. This should support services inflation easing in the coming months and prompt the ECB to cut interest rates this week.

According to Eurostat, seasonally adjusted Q1 2025 real GDP growth was downwardly revised in the second estimate, to 0.3% from 0.4% in the preliminary GDP report. Despite the downward revision, year-over-year real GDP growth in the second estimate remained unchanged at 1.2%, maintaining the same pace in Q4 2024.

CANADA: Real GDP expanded 0.1% in March after contracting 0.2% in February according to Statistics Canada. This came in stronger than the consensus expectation and concluded the first quarter's year-over-year real GDP growth at 2.2%, picking up from growth in Q4 2024. However, details of this GDP report point to weakness in domestic economic activity in Q1 2025, as the main driver of the topline economic growth came from exports, which contributed 0.6 percentage points to the quarterly economic growth and increased a strong 6.7% on a year-over-year basis in response to speculative moves ahead of the Trump Administration's tariff policies. Final domestic demand, however, contracted 0.1% and subtracted 0.8 percentage point from the overall GDP expansion in Q1 2025. This is also the first contraction in Canadian final domestic demand since the end of 2023 according to Statistique Canada. Final consumption expenditure slowed to 0.8% at an annualized rate in Q1 2025 from 4.1% in Q4 2024, and gross fixed capital formation dropped 3%. Year-over-year Consumer Price Index inflation fell to 1.7% in April from 2.3%, below the Bank of Canada's 2% inflation objective.

UNITED KINGDOM: UK's economy showed resilience in early 2025, with real GDP growth coming in stronger than the consensus, up 0.7% for the quarter and 1.3% on a year ago basis. According to the UK office for National Statistics, there was strong growth in gross fixed capital formation, up 2.9% and rebounding strongly from a 0.6% quarterly decline in Q4 2024. Private business gross fixed capital formation was up 5.9% in Q1 after seasonal adjustments, more than offsetting a 2.7% contraction in government investment. Exports of goods and services also came in stronger and expanded 3.5% in Q1 2025 after contracting for three consecutive quarters in 2024. Growth in exports of goods, excluding services, in Q1 was the strongest since the end of 2022. Despite the resilient economic growth in the first quarter, risks to growth outlook remain tilted to the downside, reflecting elevated trade tensions and significant uncertainty surrounding U.S. international trade policies. According to the Organisation for Economic Co-operation and Development (OECD)'s June 2025 Economic Outlook released on June 3, global GDP growth is projected to slow to 2.9% in both 2025 and 2026, a downward revision from the March forecasts. This includes a downward revision to the UK's growth forecast, with projections indicating a deceleration to 1.3% in 2025 and further to 1% in 2026.

UK inflation bumped to the highest since early last year with year-over-year CPI up to 3.5% in April from 2.6% in March. The Consumer Price Index jumped 1.2% month-on-month, surpassing the consensus expectation. The price hikes on the month were with food, water supply, and electricity, gas and other fuels, with year-over-year inflation up 3.4%, 26%, and 6.7%, respectively. This puts the real interest rate, the difference between the Bank of England's policy rate and inflation rate, at 0.75% compared to around 2% in the US, showing a much less restrictive monetary policy in the UK than what the fed funds rate and the BOE's policy rate suggests. Prices of transportation and communications services also jumped over 3.5% on the month.

MEXICO: The Bank of Mexico cut the overnight target rate by 50 basis-points from 9% to 8.5% on May 15 amid a slowing economy in 2025. The meeting minutes of Banxico's Governing Board on the monetary policy decision on May 15 was released two weeks later. The minutes show most members pointed to continued weakness in secondary activities and stagnated tertiary activities in Q1 2025. Some members expect economic activity to further weaken over the forecast horizon, with most members indicating more downside risks associated with the Trump Administration's trade policy uncertainty, according to the Bank of Mexico. The bi-weekly CPI for the first two weeks of May 2025 came in slightly stronger than the consensus expectation, rising 0.1% on the month and 4.2% over the past year in mid-May, according to Instituto Nacional de Estadistica y Geografia (INEGI). While the pace of headline inflation rose above the Banxico's inflation target range between 2% and 4% for the first time since mid-December 2024, core inflation was 3.97% for the first half of May.

Mexico's manufacturing activity contracted at a slower pace in May from April, with the Manufacturing Purchasing Managers' Index (PMI) up to 46.7 in May from a three-year low of 44.8 in April according to S&P Global.

CHINA: As China's housing sector is undergoing a deleveraging process, property investment and residential property sales in the first four months of 2025 fell from last year. Cumulative year-to-date (YTD) completed investment in real estate was down 10.3% in April according to the National Bureau of Statistics (NBS). Total sale of commercialized buildings also fell 1.9% YTD from last year in April. NBS's manufacturing PMI rose to 49.5 after dipping to one-year low in April. The PMI tracks economic activities in manufacturing and non-manufacturing industries, including production, new orders, backlog of orders, employment, inventories, etc. A reading of above 50 indicates expansion and a reading below 50 shows contraction in the corresponding industry. The New Orders component for the manufacturing PMI was up to 49.8 in May, showing a slower contraction in demand for factory output on the month. The New Orders in the services industry also increased in May, up to 46.6 from 45.9. Retail sales came in below the consensus, rising 5.1% on a year-ago basis in April.