

## BOJ Hikes Rates in Contrast to Cuts at Other Central Banks, Unsettling Global Financial Markets

**UNITED STATES:** Employment increased by just 114,000 in July from June, according to a survey of employers on Aug 2. Job growth in June was revised lower by 27,000 (to 179,000 from 206,000) and in May by 2,000 (to 216,000 from 218,000), for a downward revision of 29,000. Over the last three months the U.S. economy has added 170,000 jobs on average, down from average monthly gains of 250,000 for all of 2023. The private sector added 97,000 jobs in July, while government employment increased by 17,000. The unemployment rate increased to 4.3% in July from 4.1% in June, and 3.7% at the beginning of the year. This is the highest unemployment rate since late 2021, as the economy was recovering from the pandemic, although it is still historically low.

The ISM Manufacturing Purchasing Managers' Index (PMI) fell dramatically in July 2024 to a topline reading of 46.8. Production, New Orders and Employment all dropped sharply for the month, leaving little doubt through either current conditions or forward-looking perspectives that the U.S. economy's manufacturing sector is in outright contraction. The ISM Services PMI climbed up in July to an expansionary reading of 51.4 after registering a contractionary reading in June. Employment and New Orders components increased in July, showing improved health in both services demand, and hiring need, despite weakness from the manufacturing sector. According to the Department of Labor, initial claims for unemployment insurance fell by 17,000 in the week ending August 3. This drop partly reflected a 5K decline in Texas as the aftermath of Hurricane Beryl starts returning to normal and a 7K decline in Michigan as autoworkers returned to work after the usual July shutdowns for retooling. Initial claims have moved higher in 2024 after starting the year at an historically low 200,000. The four-week moving average of continuing claims rose by 7,000 to 1.862 million. This is the highest level for the four-week average since December 2021.

**JAPAN:** The Bank of Japan (BoJ) raised its policy rate by 15bps to 0.25% from 0.10% on July 30. This is the first interest rate hike after the BoJ abandoned its negative interest rate policy in March 2024. The move was made to combat persistently higher inflation brought by weak Japanese yen and fast wage growth in recent months. Japanese average cash earnings hiked 4.5% in June 2024 from same time last year, according to the Ministry of Health, Labor, and Welfare. The year-over-year wage growth marked the highest jump since February 1997. Special cash earnings including summer bonuses were up 7.6% from last summer. The tumbling yen before mid-2024 also introduced inflationary pressures from higher import prices; on July 3, the yen tumbled to its weakest position (161.7) since the 1990s. Quickly after the BOJ's rate hike on July 30, accompanied by the US jobs report, yen's value recovered somewhat in early August. The unwinding of the "yen carry trade" contributed to very volatile global financial markets in the past week.

The Tokyo CPI inflation increased 0.3% on the month and 2.2% from a year ago in July, according to the Ministry of Internal Affairs and Communications. The rise in total inflation was driven by volatile energy prices. Essentially, prices of electricity were up 2.8% in July and 12.6% over the past year. Core inflation, total inflation excluding food and energy prices, rose 0.2% month-on-month and 1.1% on a year-over-year basis.

**UNITED KINGDOM:** The Bank of England (BoE) lowered its official bank rate by 25 bps from 5.25% to 5% on August 1. The headline inflation reached the BOE's inflation objective for two consecutive months in June and May. Both manufacturing and services sectors expanded faster in July according to the S&P Global UK PMI. The S&P Global UK

Composite PMI increased from 52.3 in June to 52.8 in July; the Manufacturing PMI increased to 52.1, the Services PMI was up to 52.5, and the Construction PMI rose to 55.3.

**EUROZONE:** Eurozone headline inflation increased to 2.6% in July from June according to the Eurostat's early estimate of the Harmonized Index of Consumer Prices (HICP); eurozone inflation was on a bumpy road to the European Central Bank's (ECB) 2% target in 2024. The headline inflation was down from 2.8% in January and has reaccelerated somewhat since April 2024. The cost of goods in June was growing at a year-over-year pace that is below ECB's 2% inflation target, while the services inflation in June, especially prices of health, restaurants and hotels, and education grew above the ECB's 2% objective. The European Central Bank (ECB) kept its main policy rates unchanged in its July 18 meeting after lowering them by 25 bps on June 6.

**CANADA:** The Bank of Canada (BoC) lowered its overnight target rate by another 25 bps on July 24 after cutting 25 bps from 5.00% to 4.75% on June 5. The move on July 24 put its overnight target rate at 4.5%. Canada's Consumer Price Index (CPI) inflation eased further to 2.7% in June on a year-ago basis from 2.9% in May. Shelter inflation remained elevated in June, above 6% year-over-year; shelter inflation is influenced by rent and mortgage interest costs. After taking out mortgage interest payments, inflation grew 1.9% in June, below the BoC's 2% inflation objective.

Real GDP grew 0.2% in May and 1.1% year-over-year according to Statistics Canada's recent GDP release. The economic growth in goods-producing industries picked up from earlier 2024. Values added in goods-producing industries rose 0.4% in May and April, up from 0.1% in January. On a year-over-year basis, values added in goods-producing industries climbed up 0.1% after contracting 14 consecutive months in April. Values added from construction, manufacturing, information and cultural, administrative and support services, management of companies and enterprises industries were down from last year in mid-2024.

**CHINA:** The National Bureau of Statistics (NBS) Manufacturing PMI came in flat in July from last month and fell below the expansionary threshold, indicating another month of economic contraction in the manufacturing industry. The New Orders component contracted in July as weakness in Chinese demand persisted, and has fallen for four straight months. Weaker demand extends to non-manufacturing sectors on the month, including construction and services; business activity in these sectors expanded in July but at a slower pace, registering the weakest PMI readings in 2024. The PMI readings of both sectors fell very close to the contractionary threshold, urging for more governmental support and further interest rate cut by the People's Bank of China (PBOC). The PBOC cut its key short-term policy rate, the seven day reverse repo rate, from 1.8% to 1.7% on July 22, and unexpectedly cut the Medium-term Lending Facility (MLF) rate on July 24. The aim of such moves is to boost economic growth in China after its disappointing Q2 GDP report.

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