Global Economic Highlights

February 3, 2025

Fed Held While BOJ Hiked; ECB and BOC Cut to Balance Inflation and Growth Risks

UNITED STATES: As expected, the Federal Open Market Committee left the fed funds rate unchanged in its policy statement on Wednesday, in a range between 4.25% and 4.50%. The FOMC has cut the fed funds rate by a cumulative 100 basis points since it started easing in September to mid-December. In his press conference, Fed Chair Powell suggested that the FOMC is not ready to cut the fed funds rate again until there are either softer readings on inflation or indications of deterioration in the labor market. PNC's baseline forecast is for two additional fed funds rate cuts in 2025 of 25 basis points each, but the timing of those cuts is uncertain. This would take the fed funds rate to a range of 3.75% to 4.00% by the end of 2025.

Initial claims for unemployment insurance claims fell by 16,000 to 207,000 in the week ending January 25, 2025, nearly offsetting the previous two weeks' rise, some of which included a large jump in California because of the devastating fires in the LA area. Although claims are up from just above 200,000 in early 2024, they remain historically low, indicating low layoffs. Continuing unemployment insurance claims dropped by 41,000 to 1.858 million in the week ending January 18, 2025. With hiring slowing but the job market still in good shape, it is taking unemployed workers longer to find a new job.

Real GDP increased 2.3% at an annualized rate in the fourth quarter of 2024, according to the advance report from the Bureau of Economic Analysis. This was a slowdown from 3.1% growth in the third quarter but was still solid. Consumer spending growth was very strong in the fourth quarter, up 4.2% annualized after adjusting for inflation, adding 2.8 percentage points to annualized growth. Business fixed investment fell 2.2% in Q4, subtracting 0.3 percentage point from growth. Residential fixed investment grew a strong 5.3% concluding the year and adding 0.21 percentage point on growth. Trade was essentially neutral for growth in the fourth quarter, with exports and imports both down slightly. Inventories were a significant drag in the fourth quarter, subtracting 0.9 percentage point from growth. PNC expects a bit slower GDP growth in 2025. Consumer spending growth will slow to a pace more consistent with income growth, and government will provide less support than over the past two years. Business investment will rebound as monetary easing supports borrowing. Housing should benefit from lower mortgage rates. PNC expects real GDP growth of around 2% this year, close to the economy's long-term potential.

US nominal consumer spending rose 0.7% in December according to the BEA. This is somewhat above the consensus expectation of 0.5%. Inflation measured by the Personal Consumption Expenditure (PCE) price index, a preferred inflation measure by the Federal Reserve Bank, rose 0.3% in December and 2.6% over the past year. Core CPE inflation, headline inflation excluding food and energy, was up by 2.8% from last year, slightly down from November.

JAPAN: The Bank of Japan (BOJ) raised its uncollateralized overnight call rate by 25 bps from 0.25% to 0.50% on January 24. This is the third interest rate hike under the ongoing tightening cycle since the BOJ abandoned its negative interest rate policy in March 2024. According to the Outlook for Economic Activity and Prices released by the BOJ, the median projected inflation is expected to fall this year as continued unwinding of high inflationary pressures overseas will likely bring down import prices. The inflationary outlook in 2025 was revised up, though, with CPI inflation (total less fresh food and energy) up to a range between 2% and 2.3% from 1.8% and 2%, largely reflecting a weaker yen and higher rice prices expected in fiscal 2025 according to the BOJ. The rate of change in nominal wages per employee is expected to

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increase under a tight labor market and improving corporate profits, pushing inflation close to the BOJ's 2% objective over a longer term.

Japan's Consumer Price Index (CPI) came in hotter than the consensus expectation, rising 0.6% monthly and 3.6% from a year-ago in December. Food and fuel and utilities prices increased 1% and 4.2% respectively on the month, picking up from November and rising 6.4% and 11.4% over the past year. Excluding the seasonal and volatile fresh food and energy prices, core inflation was flat on the month and up 2.4% year-over-year.

The seasonally adjusted nominal international trade deficit narrowed to ¥33.0 billion in December 2024, the lowest level in three years according to the Ministry of Finance Japan. Both exports and imports rose on the month, with exports up 6.3% to ¥9436.2 billion and imports up 2.2% to ¥9469.2 billion. Japan's Flash Composite Purchasing Managers' Index (PMI) rose on a third consecutive month in January to 51.1 from 50.5 in December 2024 according to S&P Global. Private sector activity firmly expanded over the past three months, and the pace also increased in January. There is a noticeable pickup in services business expansion while factory activity contracted at a faster pace. Services business activity improved on the month with stronger growth in output, new orders, employment as well as stronger inflation.

EUROZONE: The European Central Bank (ECB) lowered the three key interest rates by 25 bps as expected on January 30. Eurozone's economic growth stagnated in Q4 after a slowly recovery from 2023, with real GDP remaining flat on the quarter according to Eurostat. On a year-over-year basis, real GDP grew 0.9%, the same pace from Q3. Major economies continued to experience weakness over economic growth. The eurozone's largest economy, Germany, contracted 0.2% in Q4 after expanding slightly in Q3.

Economic growth remained sluggish in France, contracting 0.1% ending 2024. Household consumption slowed in the trailing quarter under weak consumer confidence and a softening French labor market. Consumer confidence fell below its long-term average in the trailing quarter and registered 2024's lowest value at 89 in December according to the INSEE National Statistics Office of France. The growth of hourly wages of all nonfarm employees slowed to 3.2% in Q3 from 3.5% in Q2, a sixth consecutive slowing in year-over-year growth in Q3. On a quarterly basis, the hourly wage index grew 0.33% in Q3. Fixed capital formation made by government and households continued to contract from last quarter under French political turmoil and weak consumer confidence.

SWEDEN: Economic activity remained weak in Sweden, but there are early signs for economic recovery in late 2024. The seasonally and working day adjusted real consumer spending continued to trend up in November, growing 1.1% on the month according to Statistics Sweden. This is the strongest month-on-month pace since May 2023. Retail sales excluding fuel also jumped 2.9% in December, marking the strongest monthly pace since 2020.

The Riksbank cut the repo rate by 25 bps from 2.5% to 2.25% on January 29. Economic activity recovered slowly while inflation was generally under control at the end of 2024. Sweden's core year-over-year CPIF (the consumer price index with a fixed interest rate) inflation, total inflation excluding the energy component, was 2% in December. The CPIF is the Riksbank's target variable for measuring annual inflation and monetary objective at 2%. It excludes the effect of varying mortgage rates according to the Riksbank.

BRAZIL: The Central Bank of Brazil raised the Selic rate by 100 bps from 12.25% to 13.25% on January 29, the fourth interest rate hike in the current monetary tightening cycle. This means that the policy rate has been raised by a total of 2.75 percentage points since August 2024. Brazil's headline inflation reignited in the second half of 2024, remained stubbornly elevated in early 2025, and has been consistently above the central bank's targeted inflation range between 1.5% and 4.5% for the past three months ending December 2024. The Consumer Price Index climbed 0.52% monthly and

4.83% from a year ago in December. Inflationary risks are still tilted to the upside amid a strong domestic economic expansion, tight labor market, a depreciated Brazilian real, and possible tariff measures with the US. This should allow for more interest rate hikes in the first half of 2025. However, rising interest burdens could worsen Brazil's fiscal challenge in 2025 if the central bank hikes more to balance the risks of inflation and domestic economic growth. A reduction in government spending this year, coupled with mounting public debt, could also dampen Brazil's overall economic growth.

CHINA: Industrial profits grew 11% in December on a year-ago basis, reversing the year-over-year contractions in the previous three months. Industrial profits fell 3.3% for the whole year, with total manufacturing falling 3.9% in 2024. Profits of the auto manufacturing industry dropped 8% in 2024, and those of computers, communications and electronic manufacturing rose a weak 3.4%. The National Bureau of Statistics PMI fell to contractionary territory in January 2025 after expanding for the three months ending 2024. There was a sharp drop in manufacturing production output and new orders, showing weak factory activity and demand under impacts of the Chinese Lunar Calendar New Year. The expansion in business services activity also slowed in January. The composite PMI dipped to 50.1 in January 2025 from 52.2 in December 2024.

CANADA: The Bank of Canada lowered its target for the overnight rate by 25 bps from 3.25% to 3% on January 29. This is the sixth interest rate reduction in the current monetary cutting cycle, following inflation of close to 2.0% in December and weaker-than-expected Q3 economic growth.

Real GDP fell below the consensus expectation and contracted 0.2% in November according to Statistics Canada. On a year-ago basis, real GDP grew 1.8% in November.

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