Global Economic Highlights

January 24, 2025

US Inflation Holds Upside Potential; More Interest Rate Cuts Expected From Other Major Central Banks

UNITED STATES: Wholesale prices measured by the Producer Price Index (PPI) advanced 0.2% in December 2024 according to the Bureau of Labor Statistics, slightly below the consensus expectation of 0.4%. Core PPI inflation, headline inflation excluding the food and energy components, remained unchanged from last month. On a year-ago basis core producer prices rose 3.5% in December, up from 3.4% in November and October. The topline Consumer Price Index (CPI) inflation came in at +0.4% for December 2024, riding higher energy prices to a third straight monthly acceleration in the growth measure. Core CPI inflation, which mirrors the metric that the Federal Reserve targets in its monetary policy impact goals (the Core Personal Consumption Expenditures Deflator), rose by 0.2% for the month – its softest result since July 2024 (+0.17%). The median one-year ahead expected inflation rate increased slightly from 2.97% in November to 3% in December, according to the Federal Reserve Bank of New York. PNC expects the year-over-year PCE inflation, the Fed's preferred inflation gauge, to be around 2.5% in Q1 2025. Further cooling in the US labor market should help bring down stickier services inflation in 2025, but risks for higher inflation are elevated under Trump's administration.

Total privately-owned U.S. housing starts jumped 15.8% in December 2024 to 1.499 million units at a seasonally adjusted annualized rate, from 1.294 million in November (revised upward from 1.289 million). This was the highest number for starts since February and followed three straight months of declines. On a year-ago basis total housing starts were still down 4% in December 2024, but that narrowed from 14% in November. Both single-family and multifamily starts jumped, reversing some losses made earlier this year. Unlike starts, total housing construction permits fell 0.7% on the month to 1.483 million units and were down 3% from last year. The monthly retreat was led by a fallback in multifamily construction permits, down 5% in December.

The seasonally adjusted Housing Market Index (HMI) improved in January 2025 from December 2024, after being flat in December, according to the index from the National Association of Home Builders (NAHB) and Wells Fargo. Homebuilder confidence was up from last year and close to its long-run average entering 2025. The HMI tracks sentiment among single-family homebuilders, and a reading of above 50 indicates expansion. After dipping to its lowest level in 2024 in August, the HMI recovered somewhat in recent months following the Federal Open Market Committee's federal funds rate cuts in September, November and December. Homebuilder expectations, however, declined in January backed by concerns over inflationary pressures and a higher-for-longer rate trajectory from the Federal Open Market Committee.

Housing demand and permits will likely continue to cool off as mortgage rates in early 2025 are at their highest levels in more than six months. Current restrictive monetary policy will likely weigh on housing demand in the near term, with lagged impacts from high interest rates. PNC expects a more gradual pace of the fed funds rate easing in the first half of 2025, and lower mortgage rates over the course of the year, supporting a gradual recovery in the housing market. The still-strong US labor market and cooling inflation should further provide positive momentum for rising real incomes, consumer spending, and housing demand in 2025.

EUROZONE: Eurozone's consumer confidence inched up to -14.2 points in January after falling to -14.5 in December 2024 according to the European Commission. The consumer confidence indicator remained below its long-run average

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for over two years. The economic sentiment indicator and the employment expectations indicator also dropped in January, remaining below their long-run average level on the month.

The seasonally adjusted flash Composite PMI came in slightly better than the consensus expectation and rose to an expansionary level of 50.2 in January 2025 from 49.6 in December 2024 according to S&P Global. The improvement in overall business activity came from manufacturing despite activity continuing to contract in early 2025. Services activity expanded for a two consecutive month in January, but less than December 2024.

Eurozone's headline inflation rose to 2.4% in December from 2.3% in November according to the Eurostat. PNC expects the European Central Bank to cut interest rates on January 30 as economic growth remained sluggish entering 2025 while core inflation will likely continue to ease in the coming months with a cooling labor market, the lagged impact from tight monetary policy, and weak consumer confidence.

UK: Business activity expanded at the slowest pace at the end of 2024 with slower expansion in services activity and faster contraction in manufacturing activity. In January 2025, there is an early sign of improvement according to the flash Composite PMI which increased to 50.9 in January from 50.4 in December, indicating a slightly faster expansion in business activity in early 2025.

Payrolled employees fell 47,000 in December after falling 32,000 in November, according to the UK Office for National Statistics (ONS). Hiring slowed in 2024 after the UK labor market firmly added jobs each month in 2023. Total real wage growth, benefiting from a slowing inflation, picked up in 2023 and early 2024, and rested at 2.4% in December. This wage growth was quite volatile over the past several months and close to the wage growth prior to the pandemic. Topline CPI inflation came in below consensus expectations, and advanced 0.3% in December and 2.5% from last year. UK inflation was on a bumpy road to the Bank of England's 2% objective in the second half of 2024, rising to 2.6% in November from 2.3% in October, and has retreated somewhat in December, prompting interest rate cuts amid a cooling labor market and falling industrial activity in the trailing quarter.

CANADA: Headline inflation fell 0.4% month-on-month and grew 2.1% over the past year in December. Core inflation fell 0.1% on the month and grew a comfortable 2.1% in December, within the Bank of Canada's inflation target range. The Canadian economy added 90,900 jobs in December, according to the Labor Force Survey, well above the consensus expectation and its long-run average. Job growth picked up from mid-2024 with the three-month moving average higher in December 2024. Goods producing industries reversed losses in November and registered 22,500 job gains in December. Services producing industries added 68,400 jobs on the month. The hourly wage rate of permanent employees rose less than 0.3% in December and 3.7% on a yearly basis, falling from 3.9% in November. Canada's headline inflation has been below or around 2% for five months since August 2023. The slower wage growth in December will continue to keep inflation steady around or below 2% this year.

SOUTH KOREA: The unemployment rate surged to the highest level in more than three years in December 2024, up to 3.7% from 2.7% in November. The Consumer Price Index (CPI) rose 1.9% year-over-year, up from 1.5% in November and 1.3% in October but remained below the Bank of Korea's (BOK) inflation objective. South Korea's industrial production fell 0.7% in November but was still up 0.1% from last year. The volume of industrial production remained roughly flat in 2024 but has picked up from 2023 levels. Current business conditions remained weak as past and expected sales volumes of the BOK's Business Service Index remained below its long-run average in January 2025 and December 2024. South Korea's consumer confidence also took a dip in December to 88.4 from 100.7 according to the BOK, well below its long-run average.

Households' consumption expenditure continued to grow in Q4 2024, albeit slowed from the third quarter. Due to disruptions across the labor market, consumption will likely grow further but at a slower pace in the next quarter. Current economic weakness will likely extend over the very near term with uncertainties over trade measures in Trump's administration and Korea's political turmoil but should improve under easing political concerns.

CHINA: Headline CPI inflation remained flat in December from last month. Over the past year, CPI inflation was up 0.1%, slowing from 0.2% in November and offset by retreats from non-core food and energy prices. Core inflation, topline inflation excluding the food and energy components, increased 0.4% in December on a year-over-year basis. Price growth has been picking up over the past four months; core CPI inflation was 0.3% in November, 0.2% in October, and 0.1% in September.

MEXICO: Mexico's CPI inflation came in close to the consensus expectation and grew 0.38% in December, a slower pace from November and October. On a year-ago basis, headline inflation eased to 4.2% in December, the slowest pace in three years. The steady pace of easing inflation should pave the way for more interest rate cuts for the Bank of Mexico in early 2025.

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