



THE WORLD ECONOMY THIS WEEK

20TH JUNE 2022

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INDEPENDENT ECONOMICS

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What's new?

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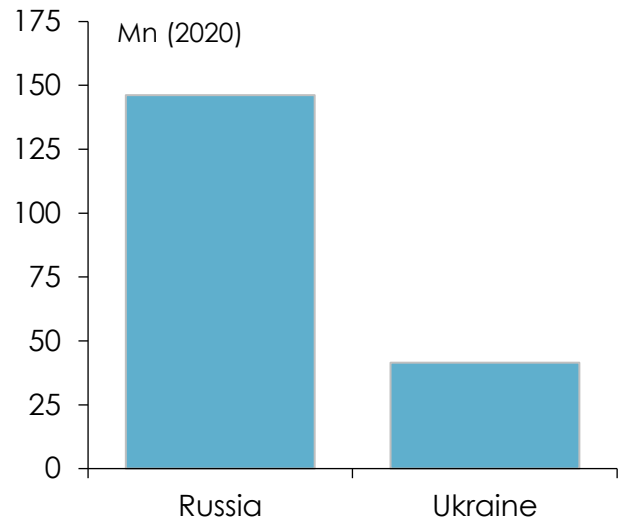
- ❑ Central banks in 'advanced' economies have stepped up their fight against more persistent-than-expected inflation over the past two weeks ([slide 40](#)) with the US Federal Reserve raising its funds rate target by 75 bp ([slide 67](#)), the ECB foreshadowing rate increases at each of its next two meetings ([slide 75](#)), the Bank of England raising its bank rate another 25 bp and the Swiss National Bank raising rates for the first time in 15 years ([slide 76](#)) and the Reserve Bank of Australia raising its cash rate by 50 bp ([slide 122](#))
- ❑ The Fed's move, the largest since November 1974, came after a higher-than-expected CPI figure for May ([slides 59-60](#))
- ❑ The more assertive stance now being adopted by the Fed, alongside the significant tightening in fiscal policy in the US ([slide 66](#)) and elsewhere ([slide 39](#)) prompted a sharp rise in the US dollar and falls in other currencies ([slide 47](#)) and large declines in stock markets ([slide 48](#)) over the past two weeks, whilst also causing bond markets to contemplate the possibility of recession ([slide 44](#))
- ❑ The OECD cut its forecasts for global growth in 2022 and 2023 by 0.6 and 0.8 pc pt, respectively, to 3.0% and 2.8%, while the World Bank revised down its 2022 and 2023 global growth forecasts by 0.3 and 0.2 pc pt, respectively, to 2.9% and 3.0% ([slide 24](#))
- ❑ Although the Fed remains confident that it can bring US inflation back down to 2% without causing a recession, a growing number of surveys and leading indicators are starting to point to a significant slowing, if not an outright contraction, in US economic activity ([slide 51](#))
- ❑ The Bank of Japan remains a 'hold-out' among major central banks, at its meeting last Friday again sticking with its 'quantitative & qualitative easing with yield curve control' strategy despite the yen falling to its lowest level since 1998 ([slide 95](#))
- ❑ The conflict in Ukraine has become a 'war of attrition', with Russia making incremental gains in Donbass at considerable military cost ([slide 6](#)), although the Russian economy is proving more resilient than previously expected in the face of western sanctions ([slide 11](#)) – in contrast to Ukraine's, where Q1 GDP was 15% lower than a year earlier and the central bank has raised interest rates by 15 pc pts, to 25% ([slide 12](#))
- ❑ The world-wide weekly count of new Covid-19 infections seems to be stabilizing at around its 2021 average level, but with a much lower fatality rate ([slide 14](#)) - but the number of new cases in China may be rising again after having fallen sharply between mid-April and early June, raising the prospect of further disruptions to global supply chains ([slide 15](#))
- ❑ China's urban unemployment rate fell 0.2 pc pts in May, and industrial production was 0.7% higher than a year earlier, suggesting some recovery from April's lockdowns ([slides 80-81](#)), but 'demand side' indicators of consumer spending and property construction remained weak ([slide 82](#))
- ❑ Elsewhere in Asia, Taiwan's central bank raised its policy interest rates by 12½ bp, and the Hong Kong Monetary Authority raised its base rate by 75bp in line with the Fed's move, as required by its currency board system ([slides 108-109](#))
- ❑ Brazil's central bank raised its policy rate by 50 bp, the smallest increment since it started raising rates in March last year, while Poland's central bank raised its policy rates by 75 bp ([slides 125-126](#) and [129](#))
- ❑ Highlights for this week include Congressional testimony from Fed Chair Powell, central bank meetings in Indonesia, the Philippines, Turkey & Norway (among others), June 'flash' PMIs, and US new & existing home sales for May ([slide 133](#))

Russia's invasion of Ukraine

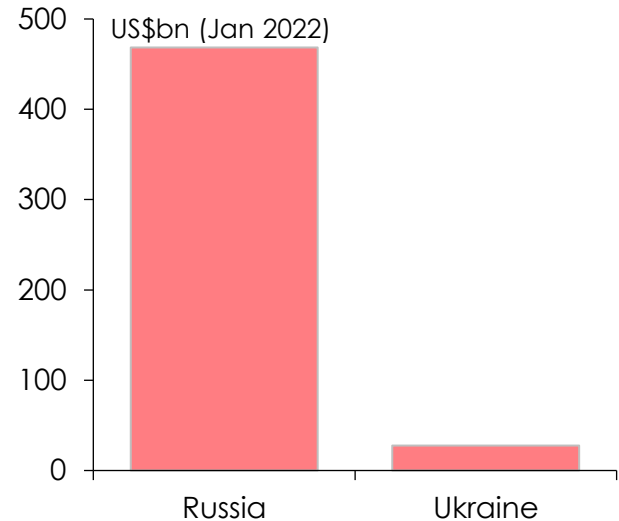
Russia outnumbered Ukraine in just about everything – except courage and ‘moral capital’ – but that hasn’t given it the ‘easy victory’ it expected

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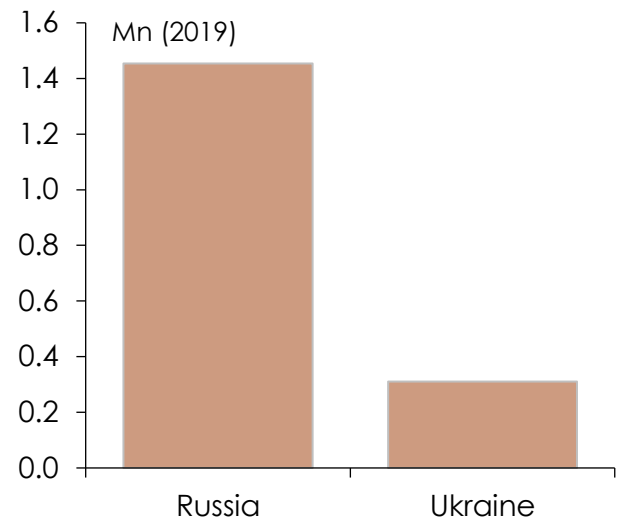
Population



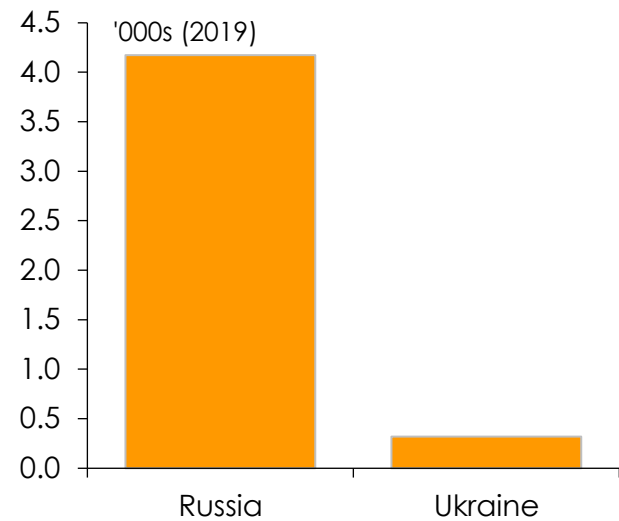
FX reserves



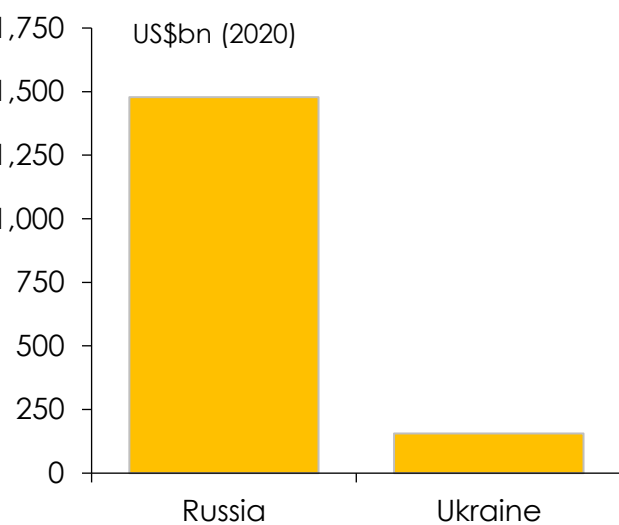
Armed forces



Military aircraft



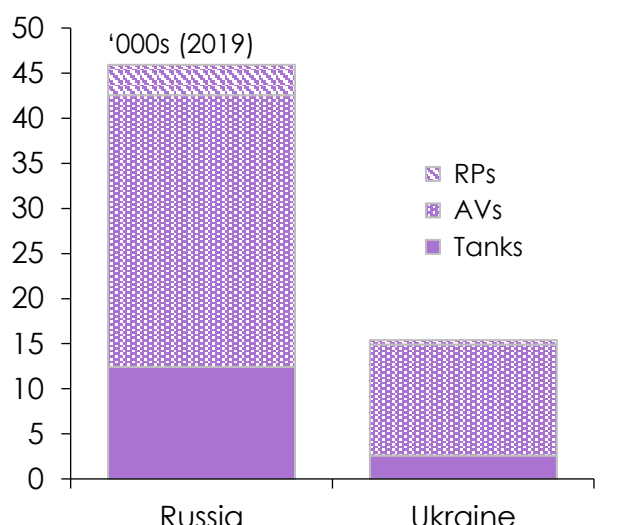
GDP



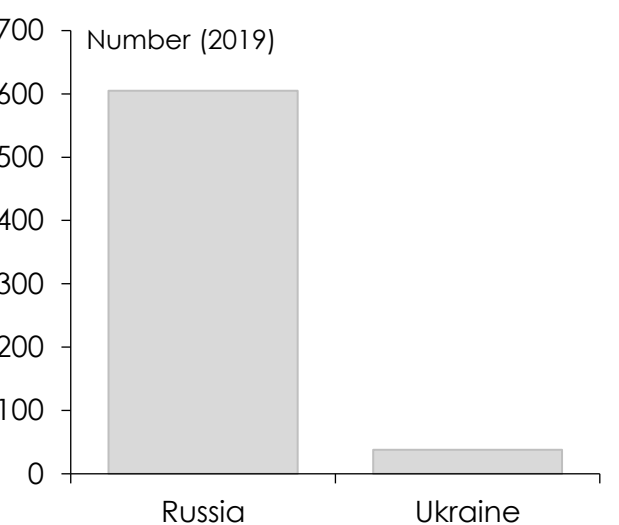
Military spending



Military hardware



Naval assets

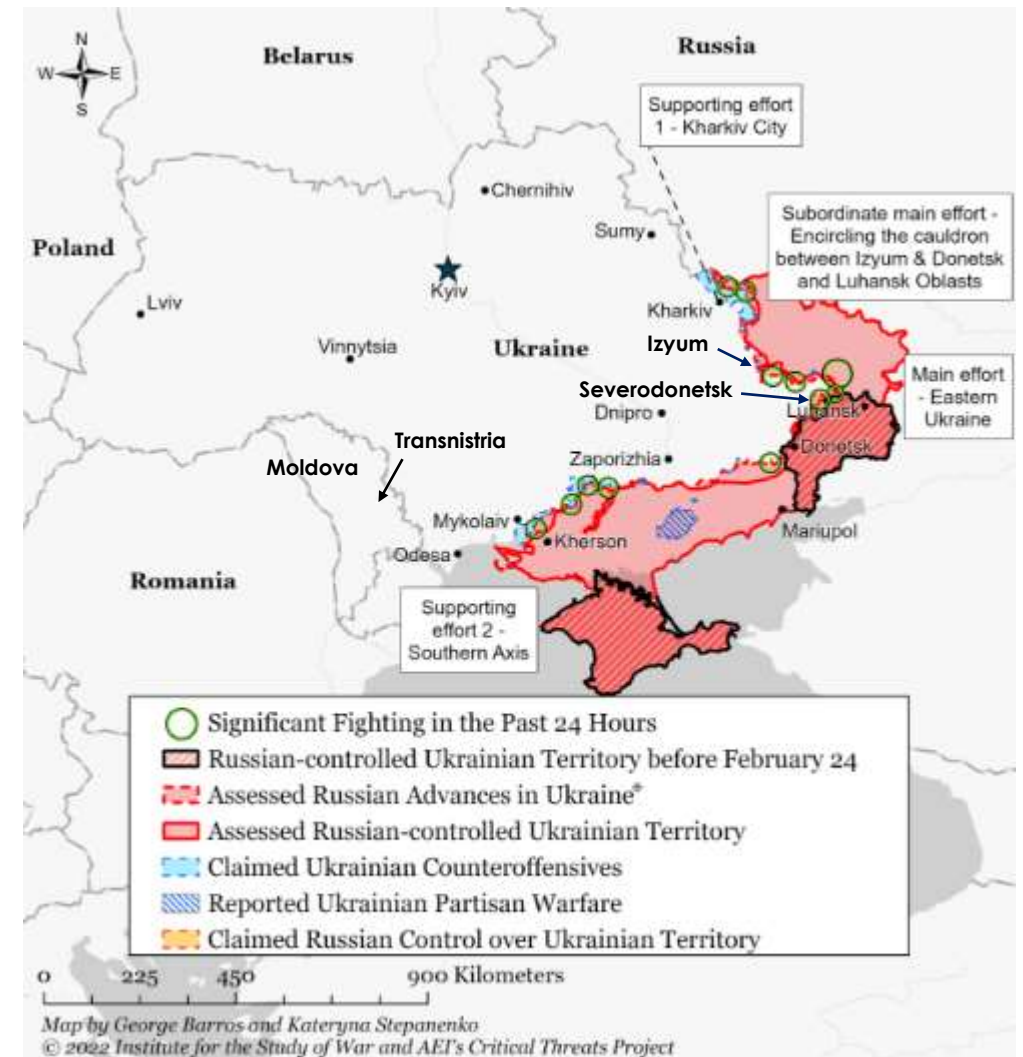


Note: GDP is in US\$ at market exchange rates; 'AVs' are armoured vehicles; 'RPs' are rocket projectors; 'military aircraft' include airplanes, helicopters, transports and tankers; 'naval assets' include aircraft & helicopter carriers, destroyers, frigates, corvettes, submarines and other vessels. Sources: IMF, [World Economic Outlook database](#); October 2021; Stockholm International Peace Research Institute, [Military Expenditure Database](#); Global Firepower, [2022 Military Strength Ranking](#). [Return to "What's New"](#).

Russian forces have been making incremental territorial gains in what has become a 'war of attrition' in eastern Ukraine

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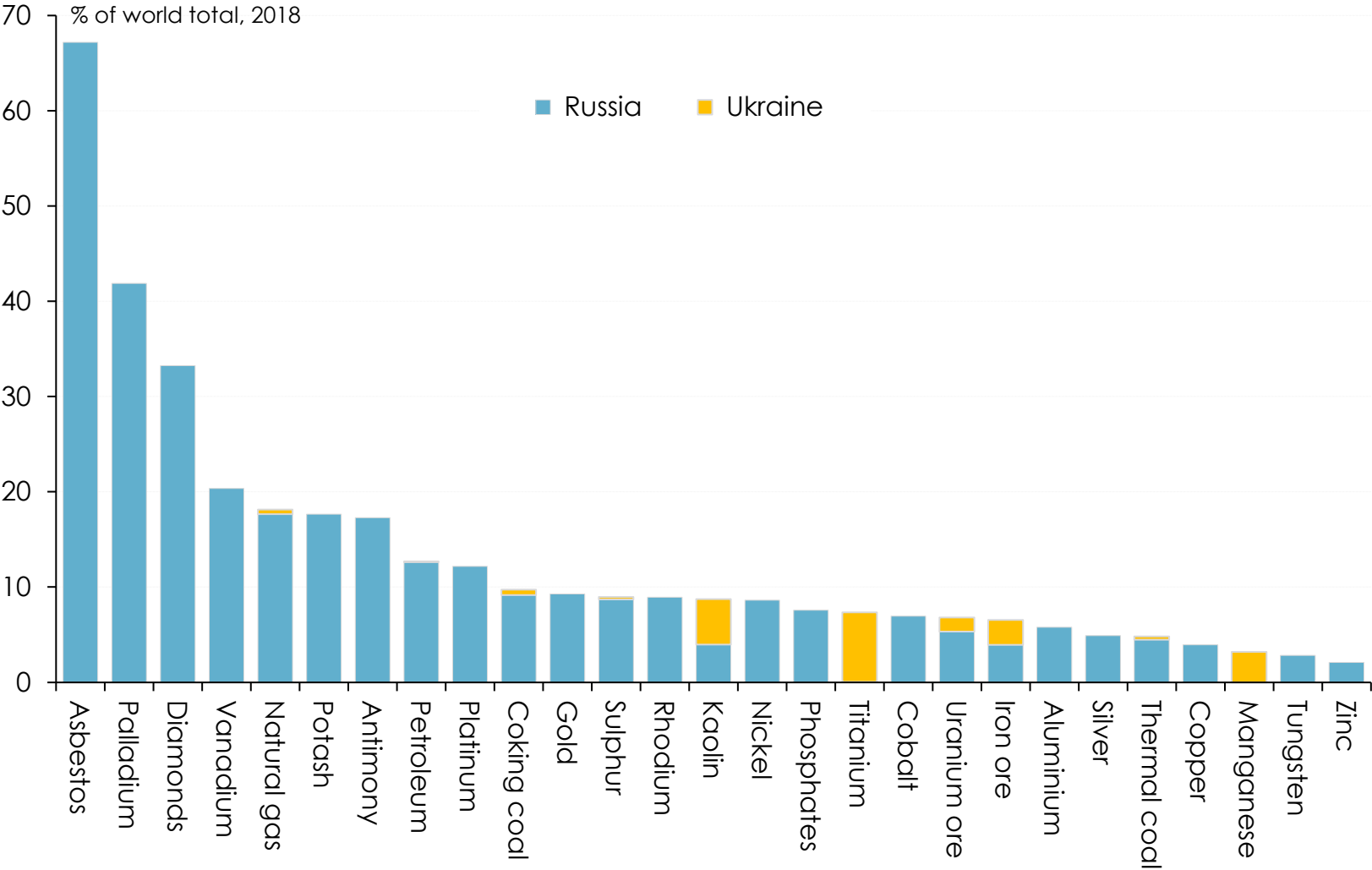
- ❑ Having failed to achieve its initial objective of capturing Ukraine's capital Kyiv, and installing a 'puppet' regime there, in late April Russia launched an intense assault on those parts of Donbas (Eastern Ukraine) which it didn't occupy in 2014
- ❑ The Russian military seem clearly now to be pursuing the same tactics they used in [Chechnya](#) in 1999-2000 (after Putin became Prime Minister and then President) and [Syria](#) in 2015-17, targeting the civilian population and destroying whatever they can
- ❑ These tactics are producing incremental territorial gains for Russian forces in Donbas, where they now seem likely to take control of the town of Severodonetsk in the next few weeks
- ❑ Russia has been [blocking shipments](#) of grains and sunflower oil from Ukraine, adding to pressure on food supplies (especially to countries in the Middle East for which Ukraine has been a major supplier) as a 'bargaining tool' to get Western sanctions lifted
- ❑ NATO allies remain determined to avoid any direct military confrontation with Russian forces (including through declaration of 'no-fly' zones) for fear of Russian recourse to nuclear weapons, but have stepped up the provision of other military assistance (including missiles and military vehicles, and training of armed forces) to Ukraine
- ❑ [Differences of opinion](#) appear to be emerging among Western nations as to whether some kind of negotiated settlement (which could include territorial concessions by Ukraine) is the best way of ending the conflict
- ❑ In April, the IMF [estimated](#) that Ukraine's economy would shrink by 35% this year – similar to the [National Bank of Ukraine's estimate](#) of a decline of about one-third – and that Russia's economy would contract by 8½% this year and by 2¼% in 2023 ([slide 25](#))
- ❑ Russia's economy appears to have contracted by 0.5% in Q1, based on preliminary estimates of the annual growth rate released last month; however the Russian ruble has more than fully reversed its plunge immediately after the institution of Western sanctions, because of on-going revenues from oil and gas exports, and the imposition of strict capital controls, allowing Russia's central bank to reverse all of its initial post-sanctions hike in interest rates ([slide 11](#)), while Ukraine's central bank raised its policy rate by 1500 bp on 3rd June ([slide 12](#))



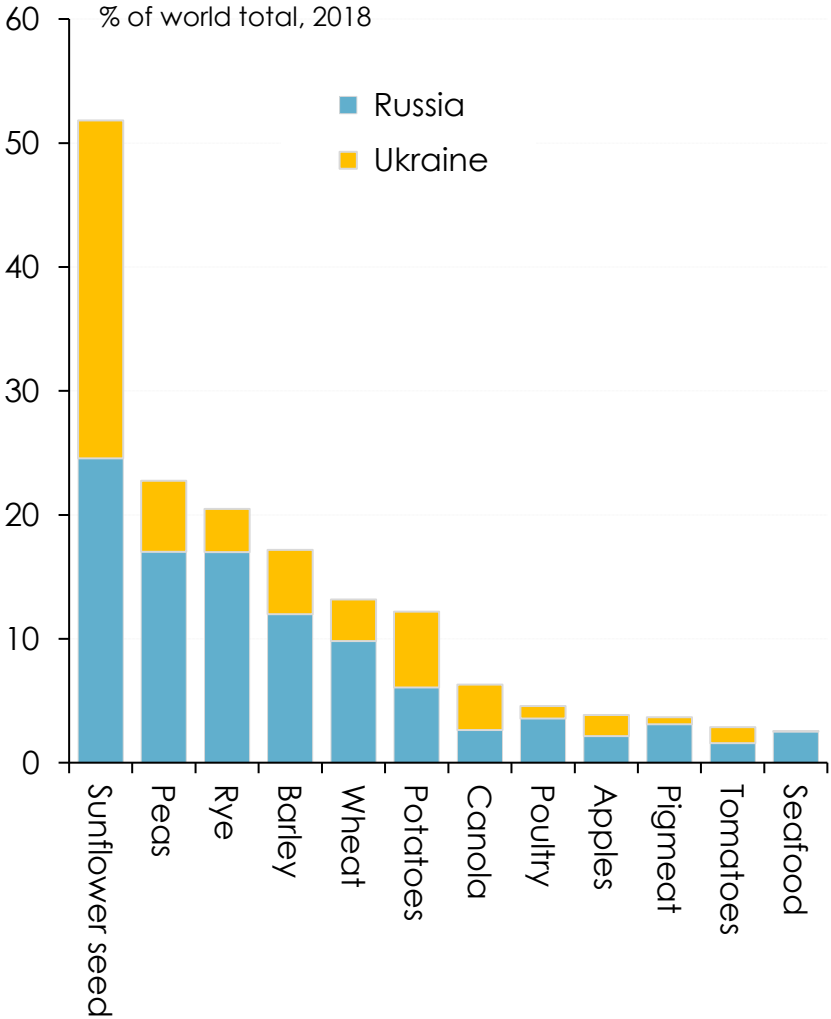
Russia and Ukraine are major producers of a range of mineral, energy and food commodities whose prices have gone up because of the conflict

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Russian and Ukrainian shares of global commodity production Minerals and energy, 2019



Food, 2018

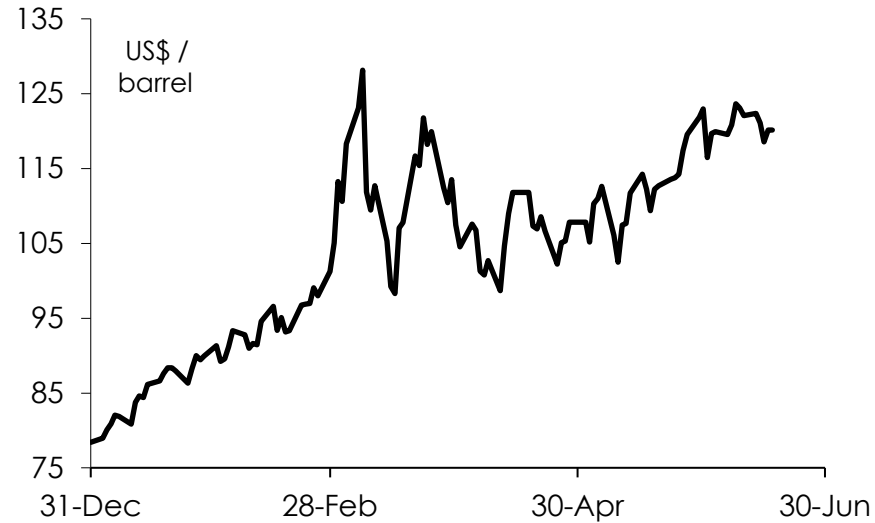


Note: Data for shares of seafood production is 2017. Sources: Austrian Federal Ministry of Agriculture, Regions and Tourism (BMLRT), [World Mining Data](#); Hannah Ritchie and Max Roser, Our World in Data, [Agricultural Production](#). [Return to "What's New"](#).

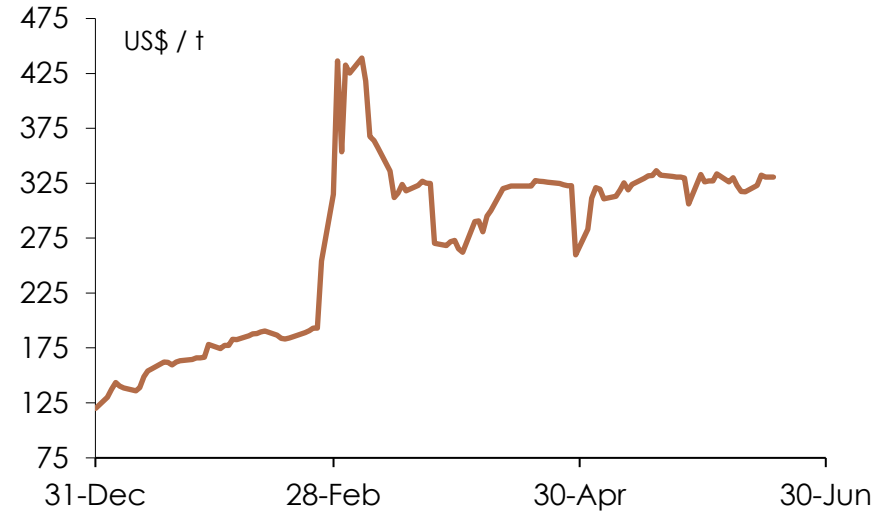
Energy, metal, and grain prices rose sharply after Russia's invasion of Ukraine – though some of those increases have since partially reversed

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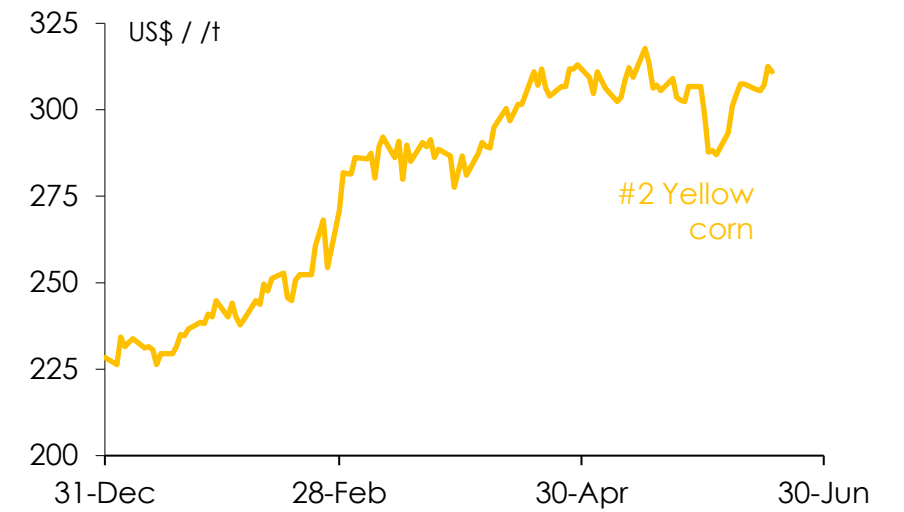
Brent crude oil



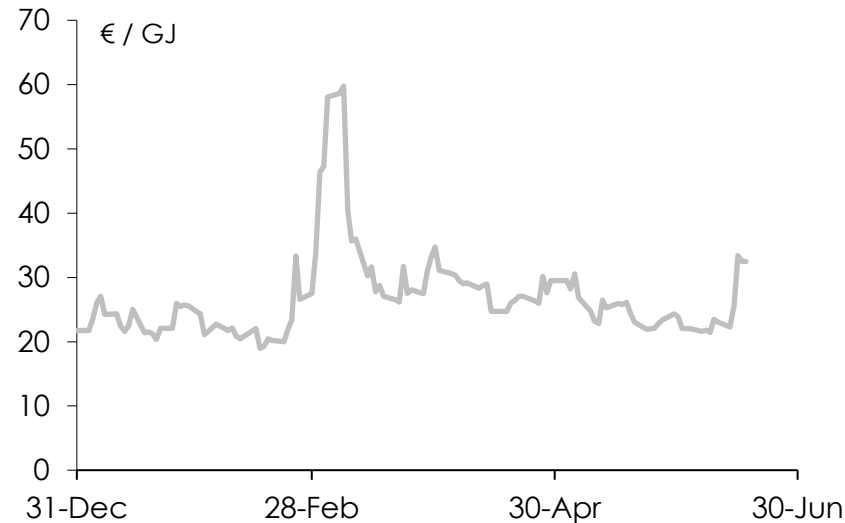
Thermal coal



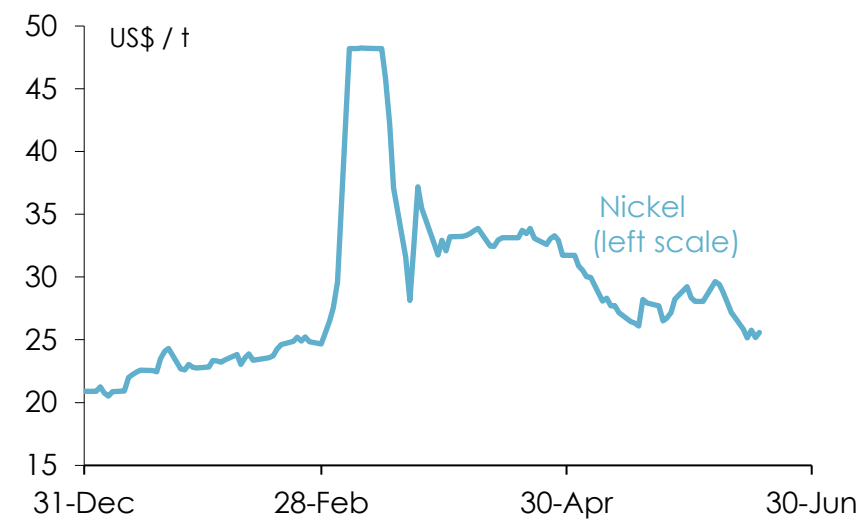
Corn



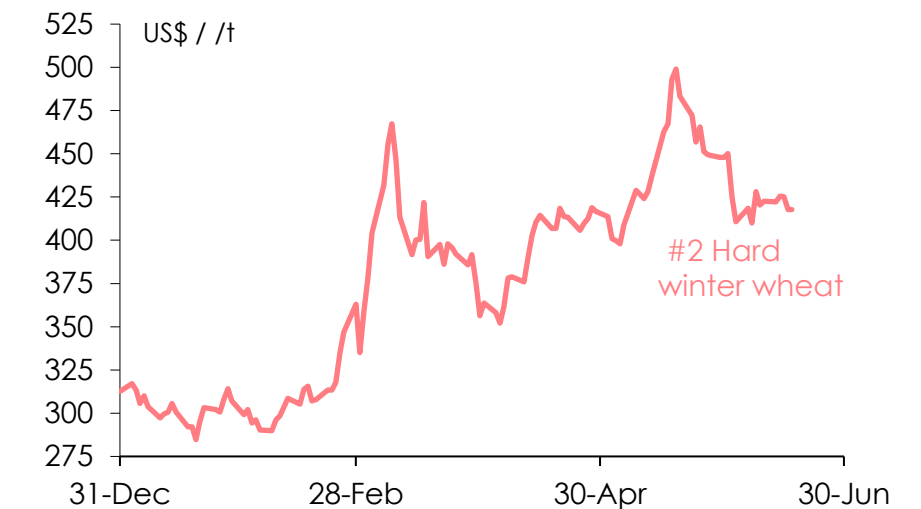
Netherlands natural gas



Nickel



Wheat

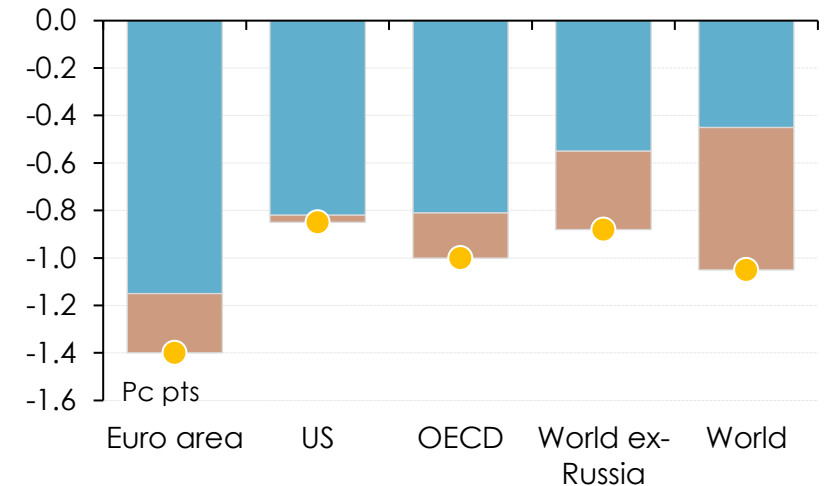


The conflict in Ukraine (and its broader ramifications) will detract from global economic growth and add to global inflationary pressure

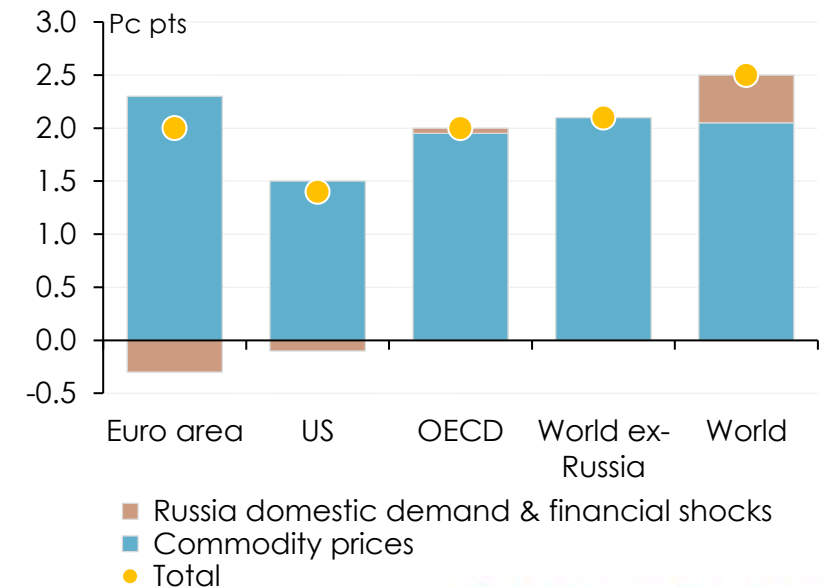
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- ❑ The **OECD** characterizes the war in Ukraine as “a new negative supply shock for the world economy”
 - although Russia & Ukraine together account for 2% of global GDP, they account for 30% of global wheat exports, 20% of global exports of corn, mineral fertilizers and natural gas, and 11% of world oil exports – and “supply chains around the world are dependent” on exports of metals (such as nickel, palladium and titanium) and inert gases (argon and neon) from Russia and Ukraine
 - in addition to the consequences of shortages of, and higher prices for, these commodities, the OECD also identifies “some possible longer-term consequences” including pressures for higher defence spending, changes to the structure of energy markets, potential fragmentation of international payments systems, and changes in the currency composition of FX reserves
- ❑ The OECD estimates that if the commodity and financial market shocks seen in the first two weeks of the conflict persist for at least one year, global growth would be reduced by over 1 pc pt from what it would have been otherwise, and global inflation raised by closed to 2½ pc pts
- ❑ The **IMF** also characterizes the war as a yet another “supply shock” which will “severely set back the global recovery [from Covid-19], slowing growth and increasing inflation even further”
 - in its *April World Economic Outlook*, the IMF cut its forecasts for global economic growth in 2022 and 2023 by ¾ and ¼ pc pt respectively, and raised its forecasts for global inflation by 2¼ and 1 pc pt respectively ([slides 24-25](#))
- ❑ The IMF also notes that the war has “increased the risk of a more permanent fragmentation of the world economy into geopolitical blocks with distinct technology standards, cross-border payment systems, and reserve currencies”
 - a “tectonic shift” which, it says, “would entail high adjustment costs and long-run efficiency losses as supply chains and production networks are reconfigured” and “a major challenge to the rules-based framework that has governed international and economic relations for the past 70 years”

Impact on GDP



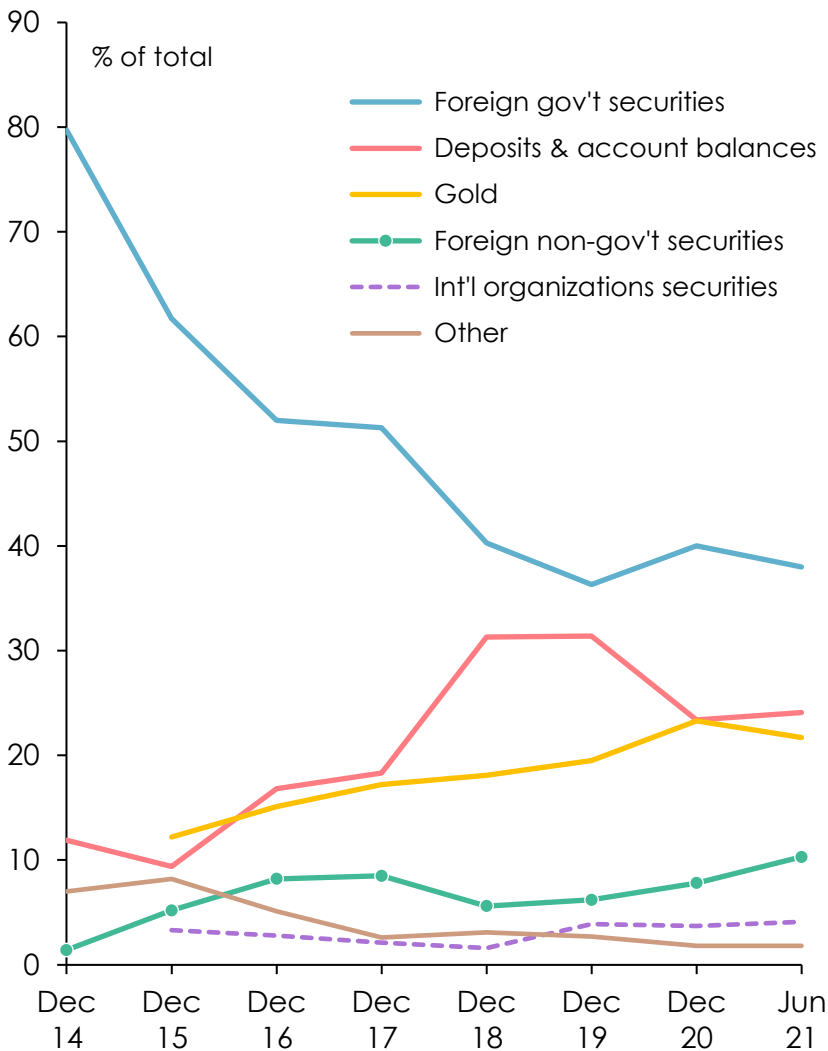
Impact on inflation



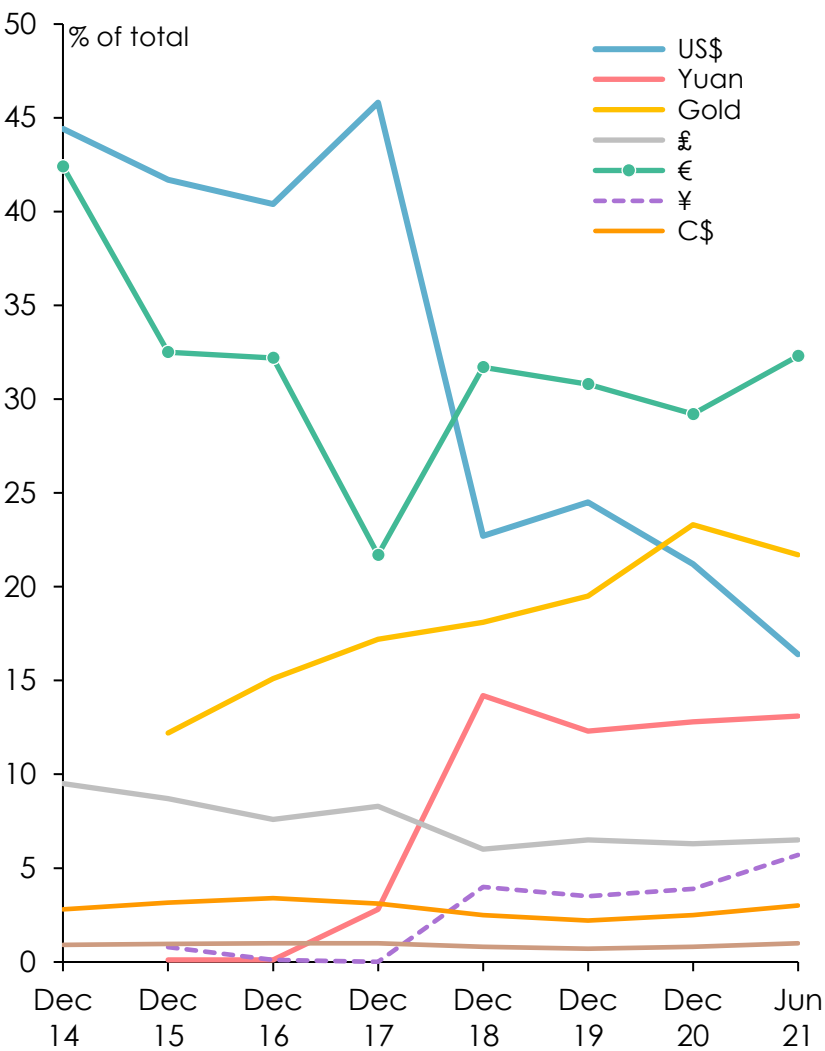
Russia's central bank had been re-arranging its portfolio over the past seven years to reduce its exposure to sanctions, but they will still 'bite'

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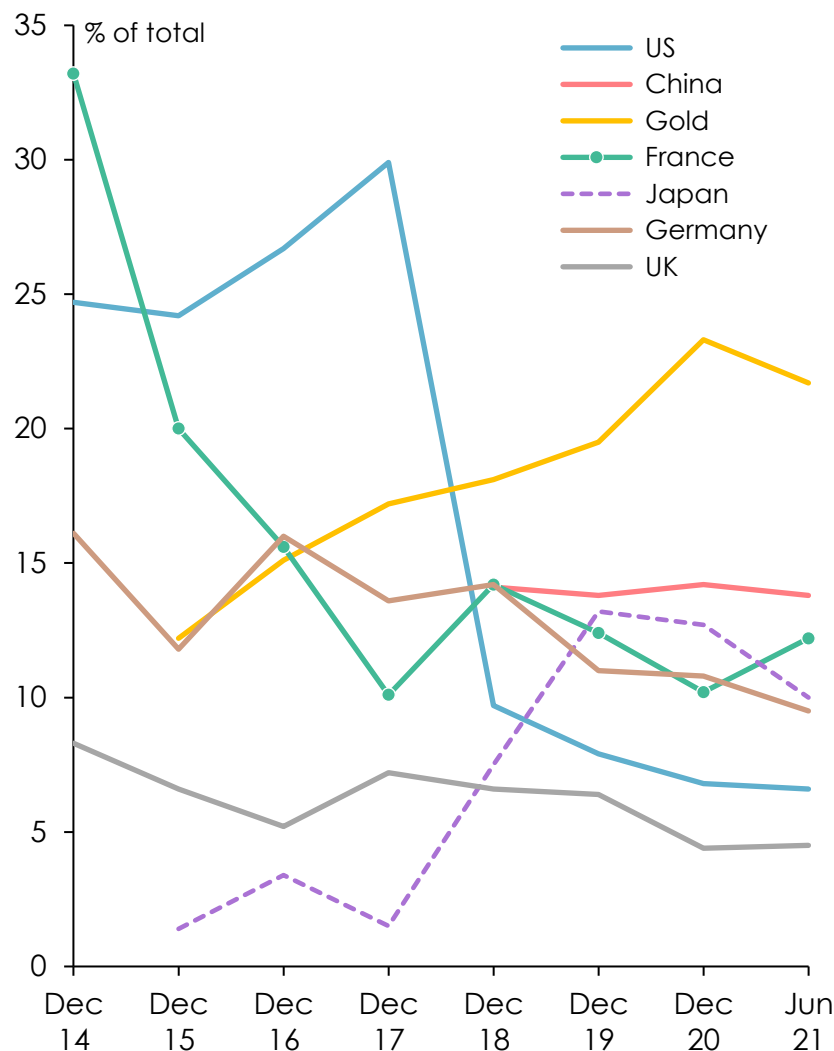
Russian FX reserves by instrument



Russian FX reserves by currency



Russian FX reserves by location

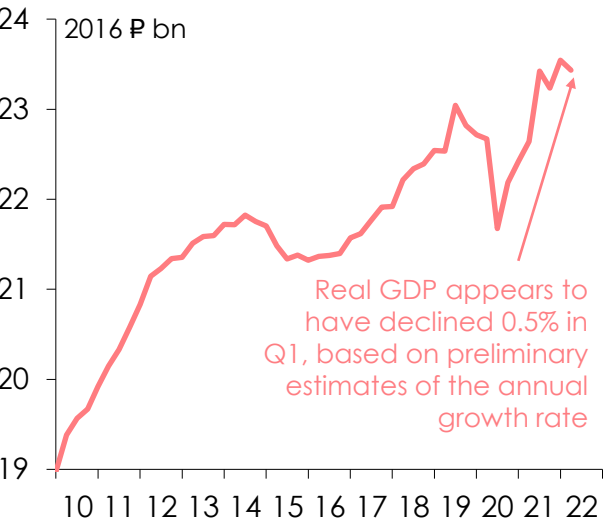


Source: Central Bank of Russia, [Foreign Exchange and Gold Asset Management Report](#), No. 1, 2022 and previous issues. [Return to "What's New"](#).

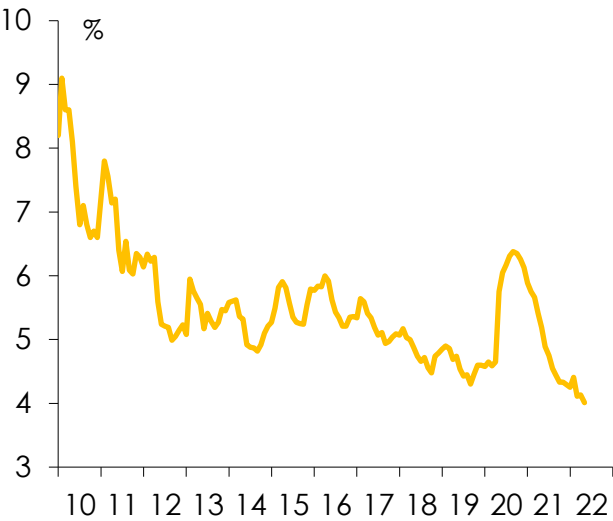
Russia's central bank cut its key rate another 150bp, to 9.5%, this month, in response to a “significant slowdown” in inflation (and the ruble's strength)

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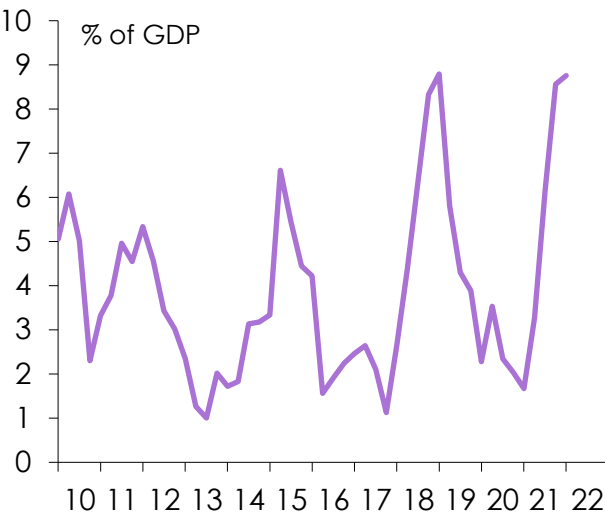
Real GDP



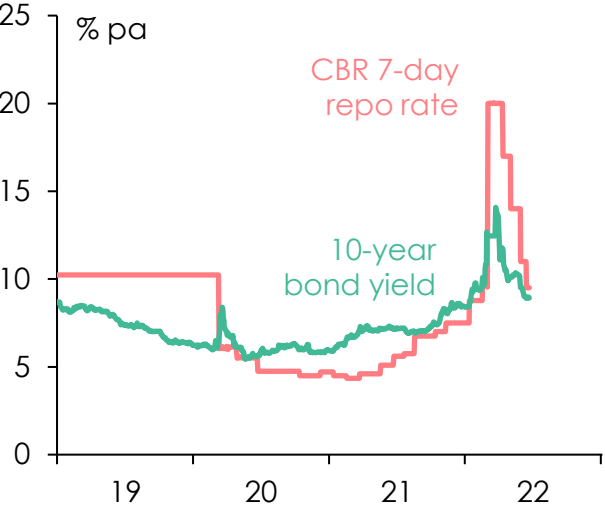
Unemployment



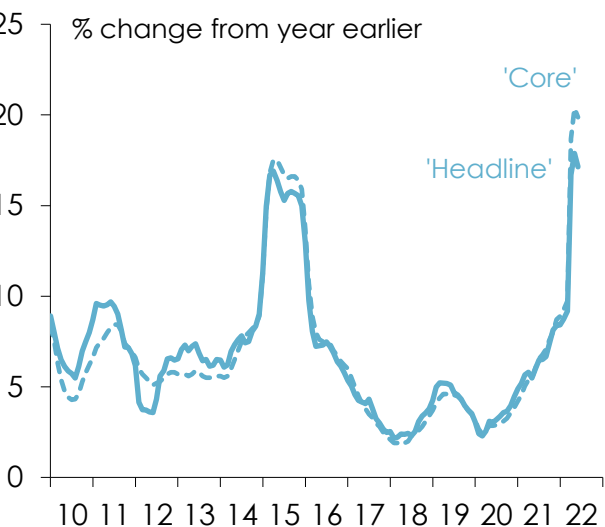
Current account balance



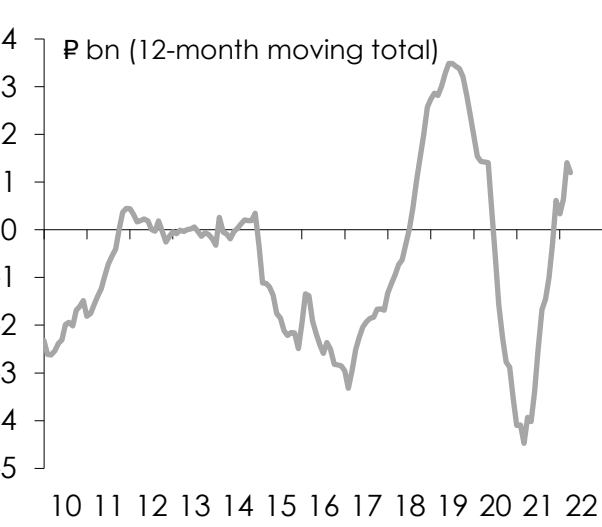
Interest rates



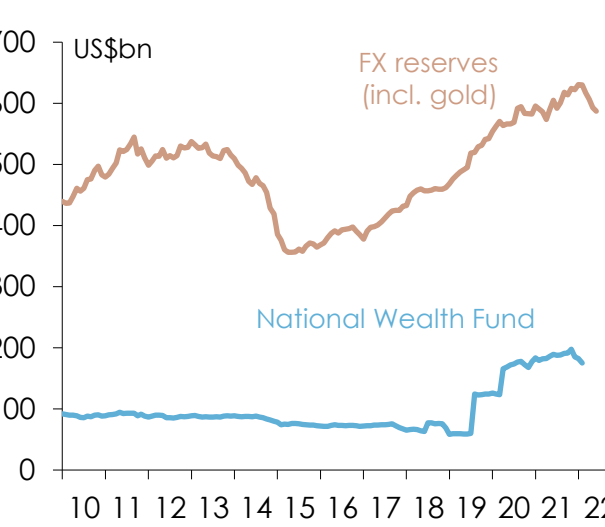
Inflation



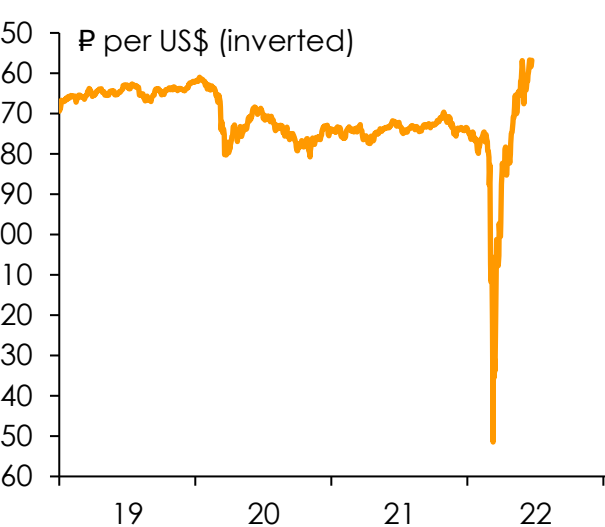
Federal budget balance



State financial assets



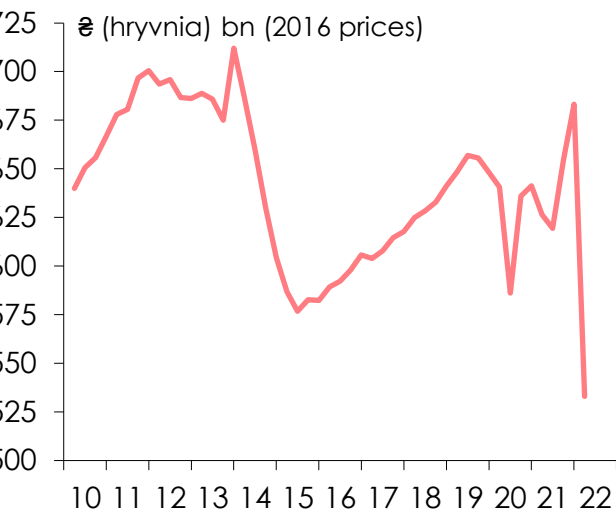
Russian ruble vs US\$



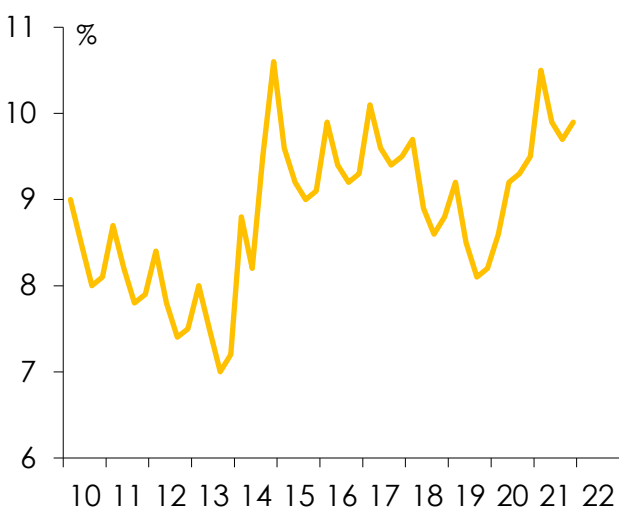
Ukraine's Q1 GDP was 15% smaller than a year earlier – despite which, Ukraine's central bank hiked its policy rate by 15 pc pts, to 25%

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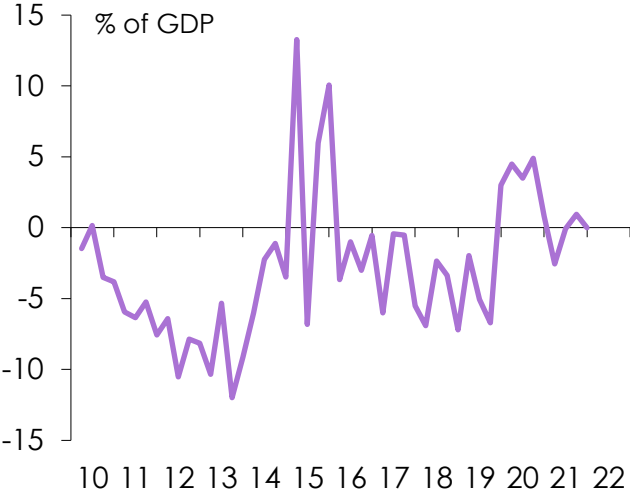
Real GDP



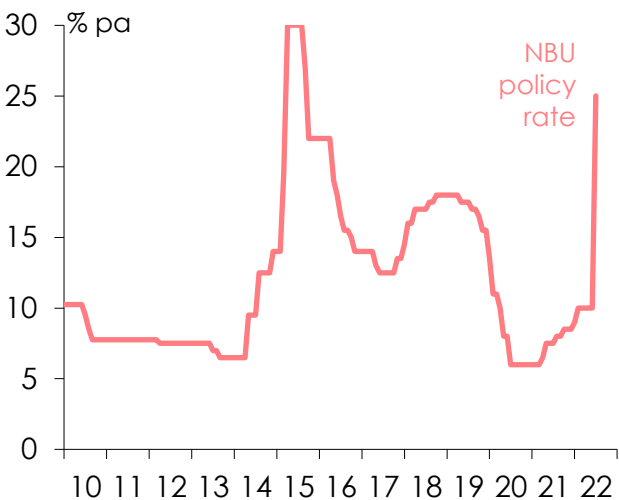
Unemployment



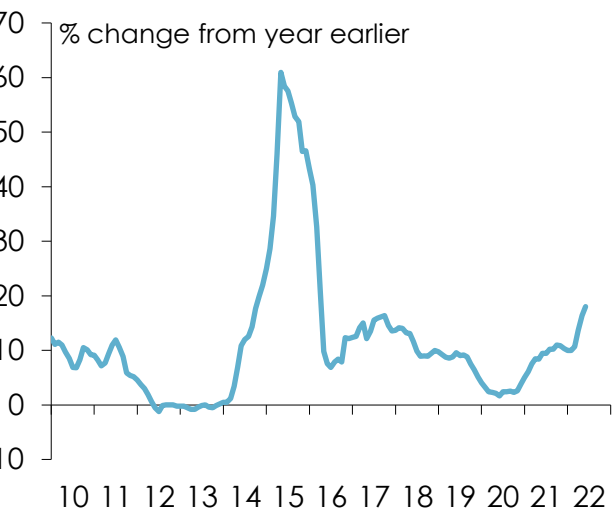
Current account balance



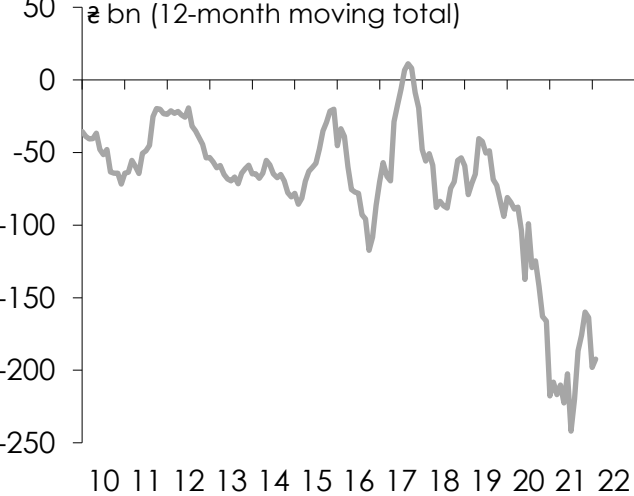
Interest rates



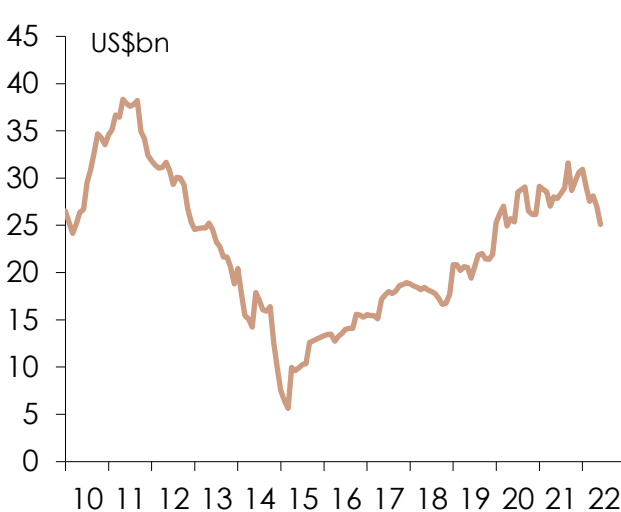
Inflation



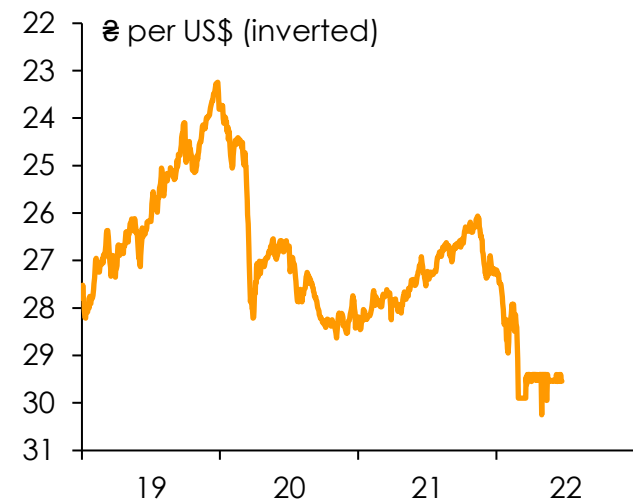
Budget deficit



FX reserves



Ukrainian hryvnia vs US\$

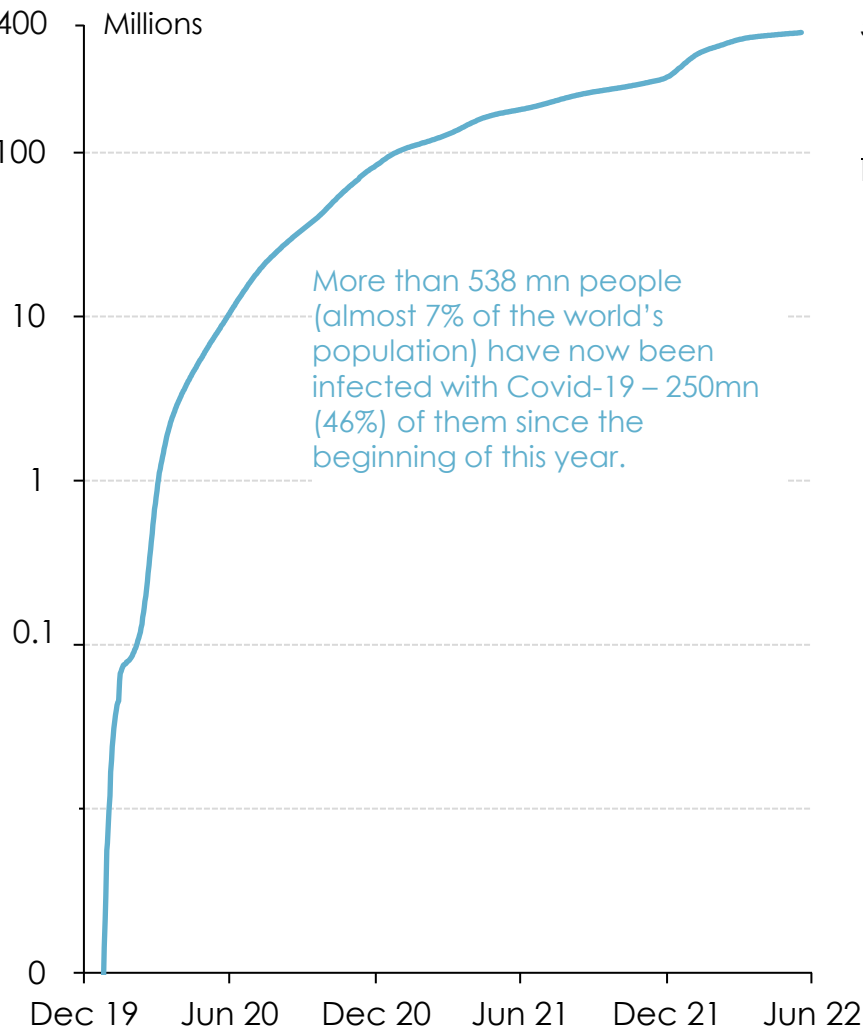


The virus

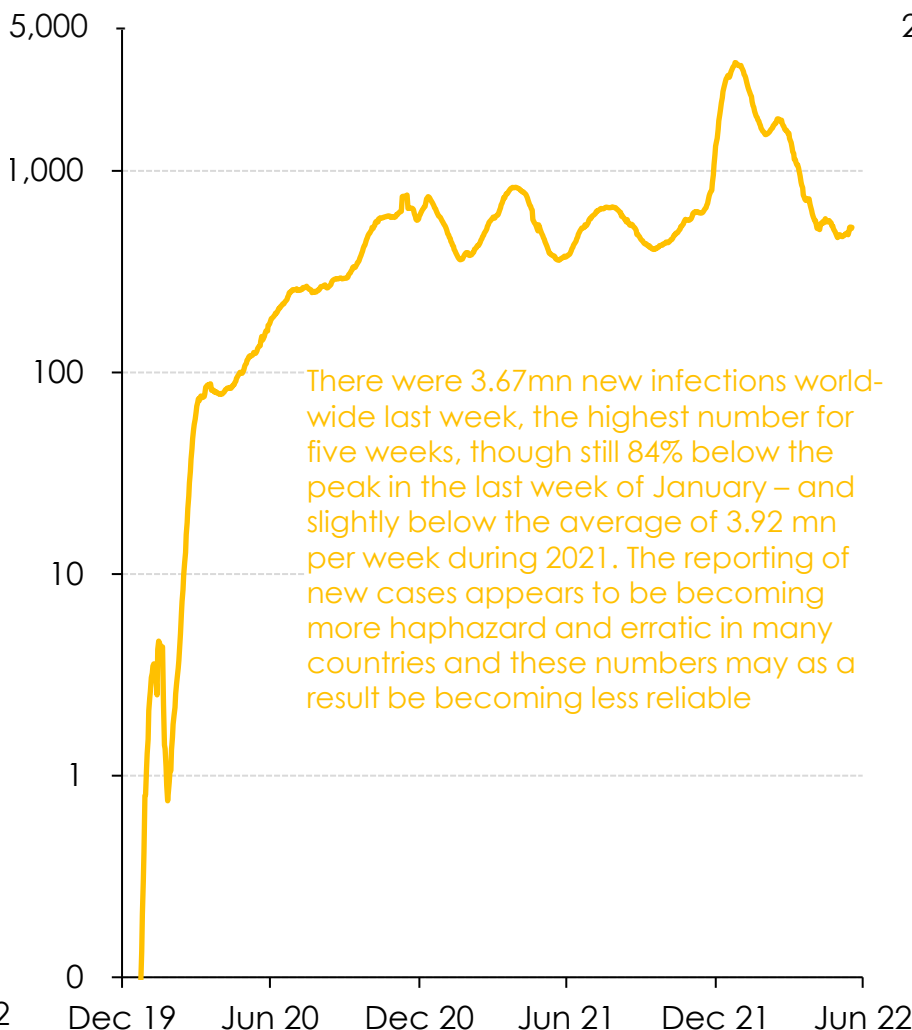
The weekly global count of new Covid-19 cases continues to run at close to its 2021 average, but the fatality rate has fallen significantly

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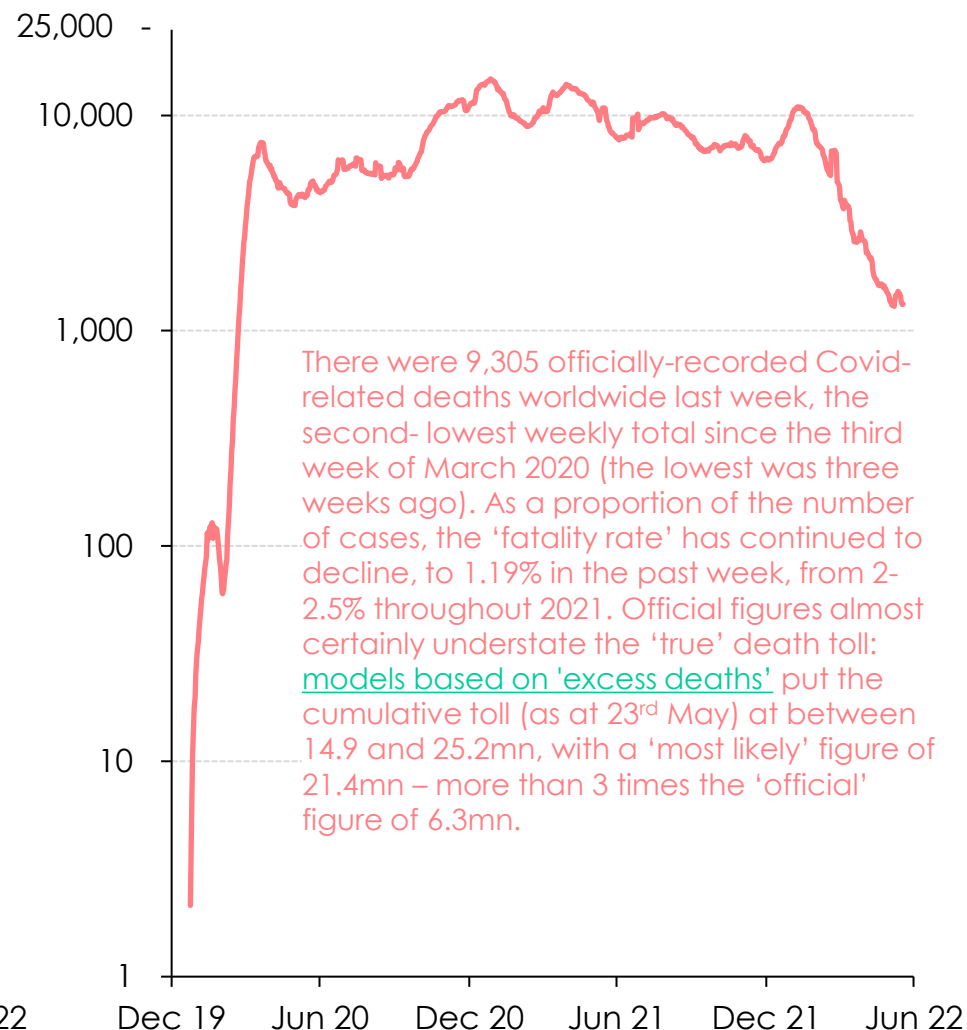
Cumulative confirmed cases – global total



New confirmed cases – global total



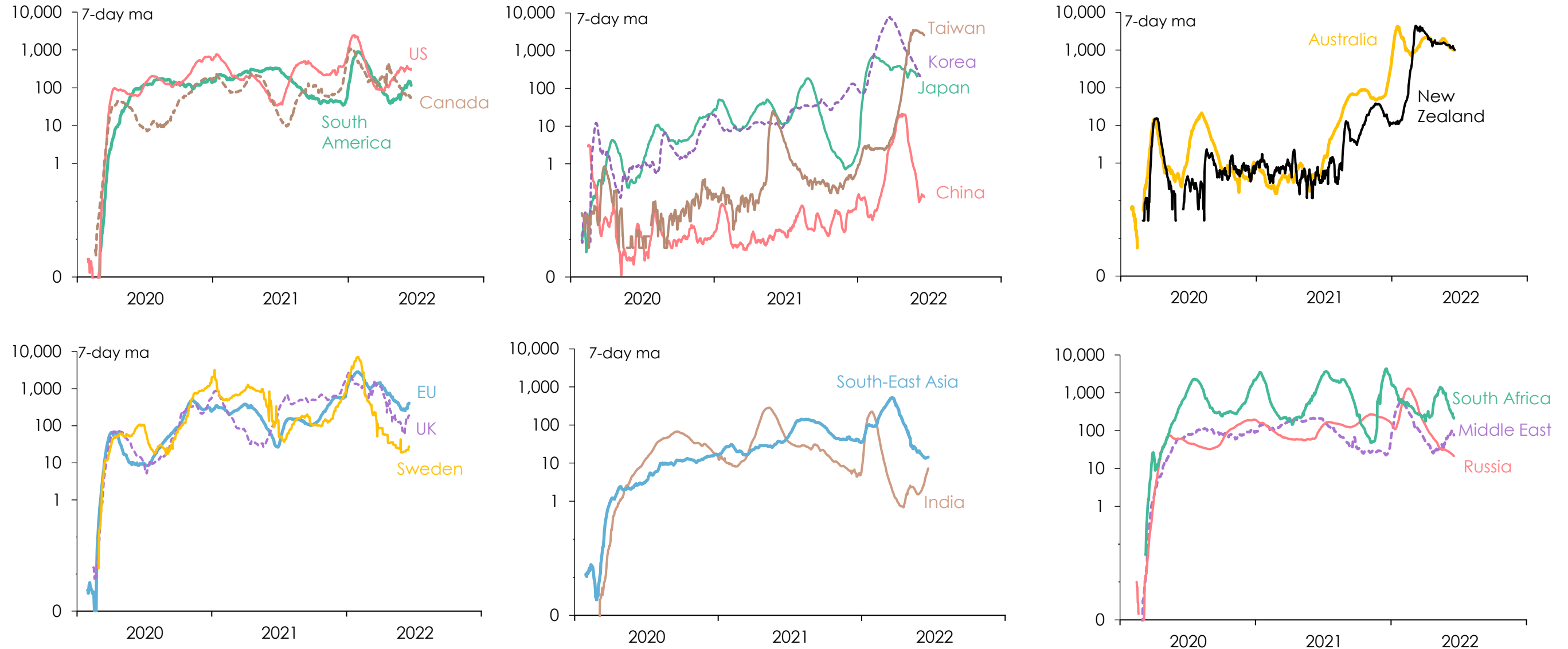
New deaths – global total



New case numbers are declining in most parts of the world except India and, now, of particular concern (given its zero-Covid policy), China

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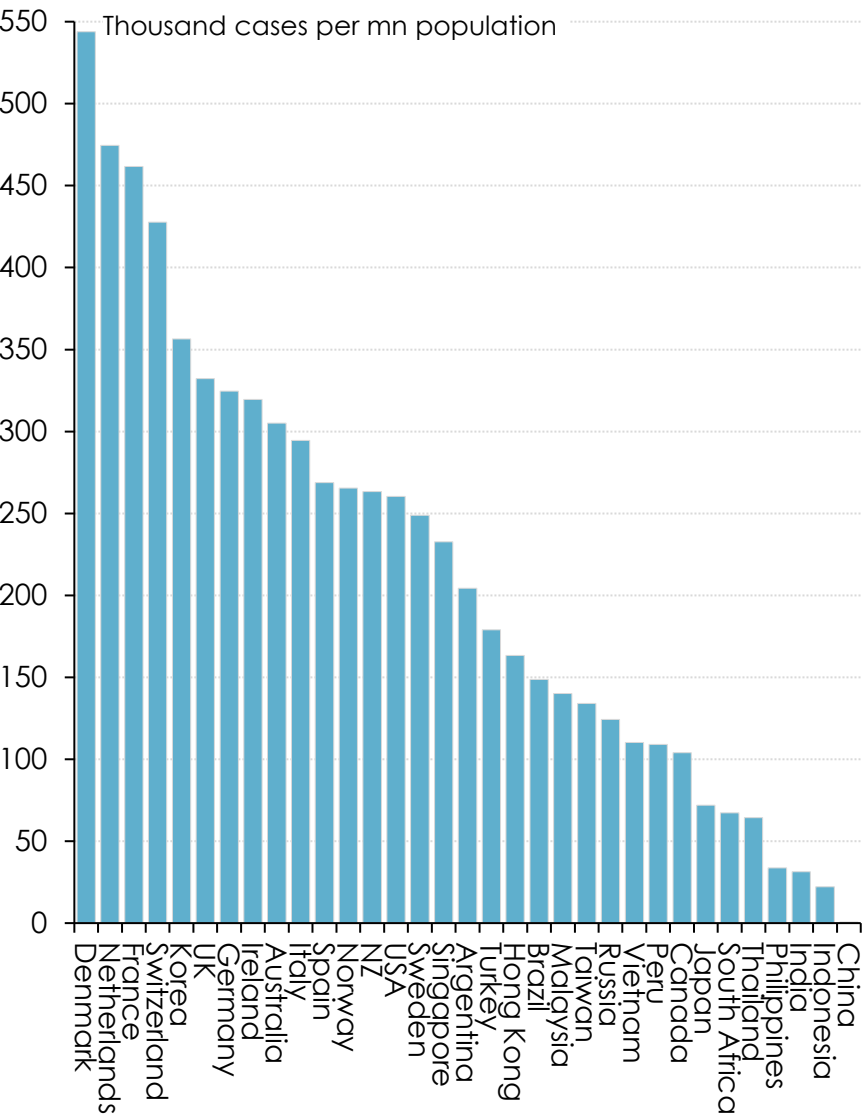
Daily new cases per million population – major countries and regions



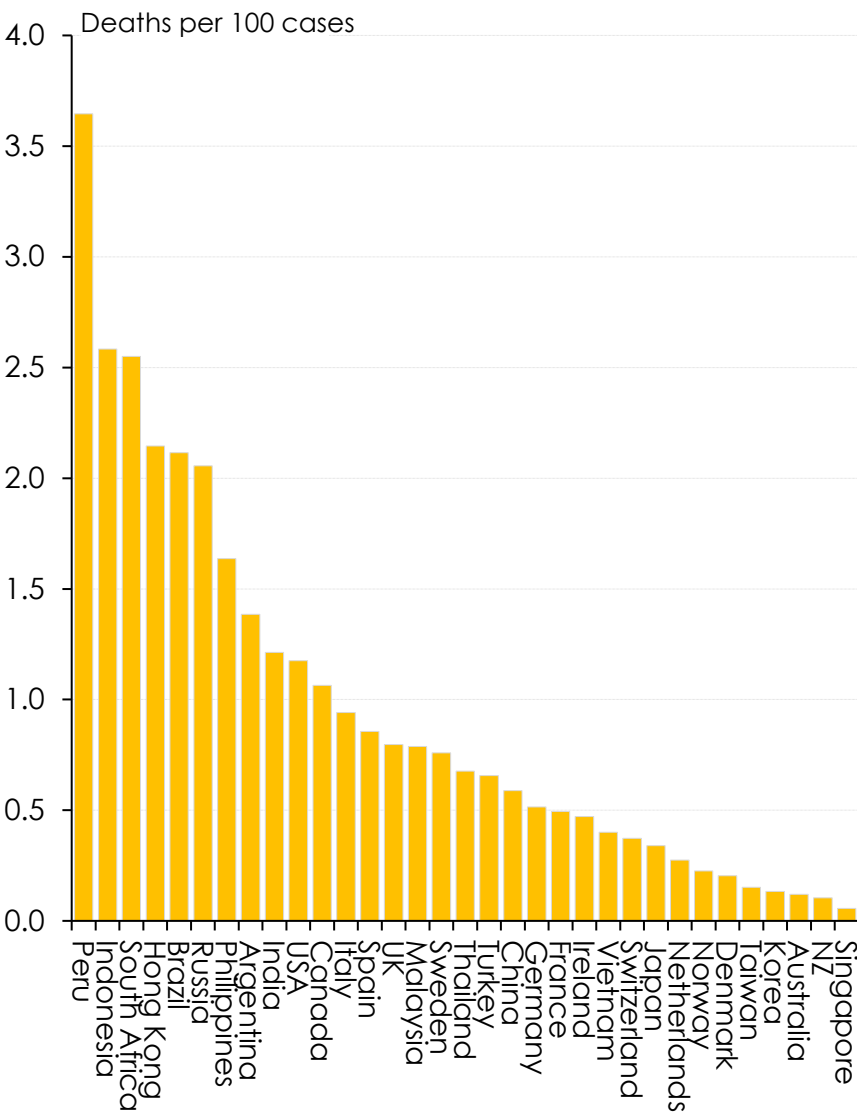
The highest cumulative infection and death rates (since the onset of the pandemic) have been in Europe, South and North America

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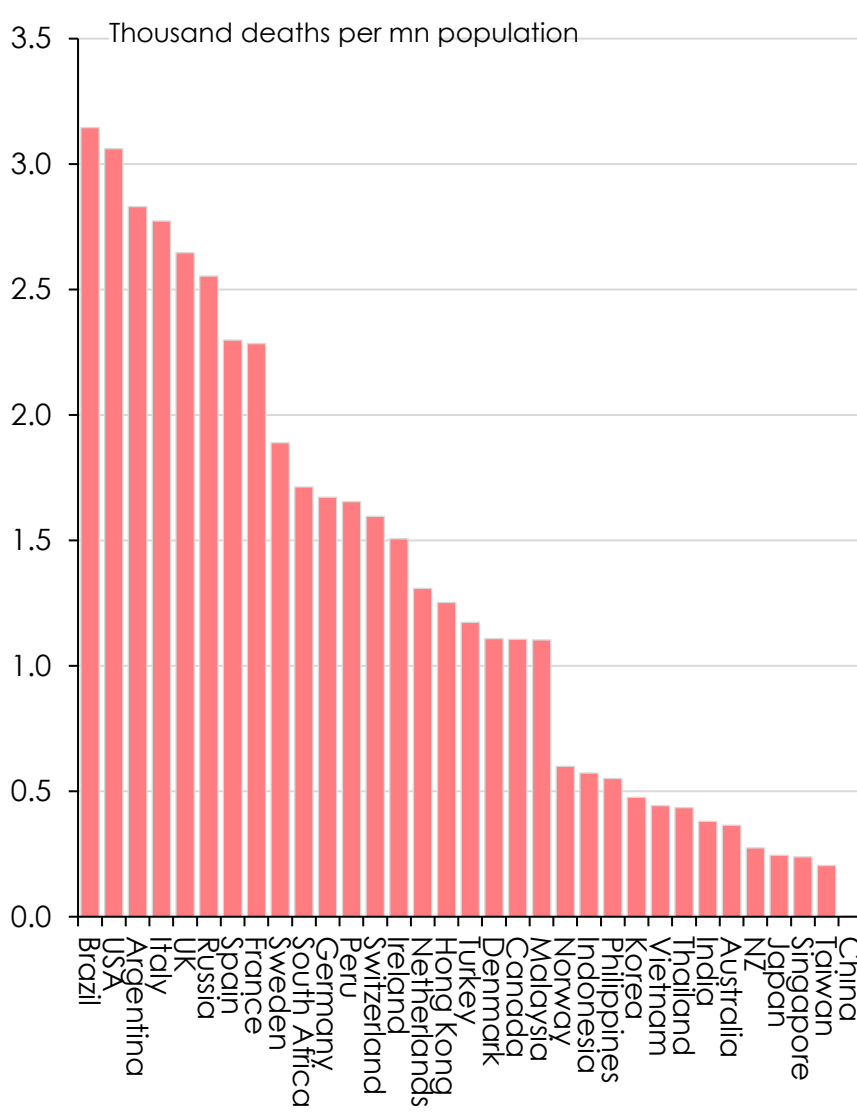
Apparent infection rate



Apparent fatality rate



Apparent death rate

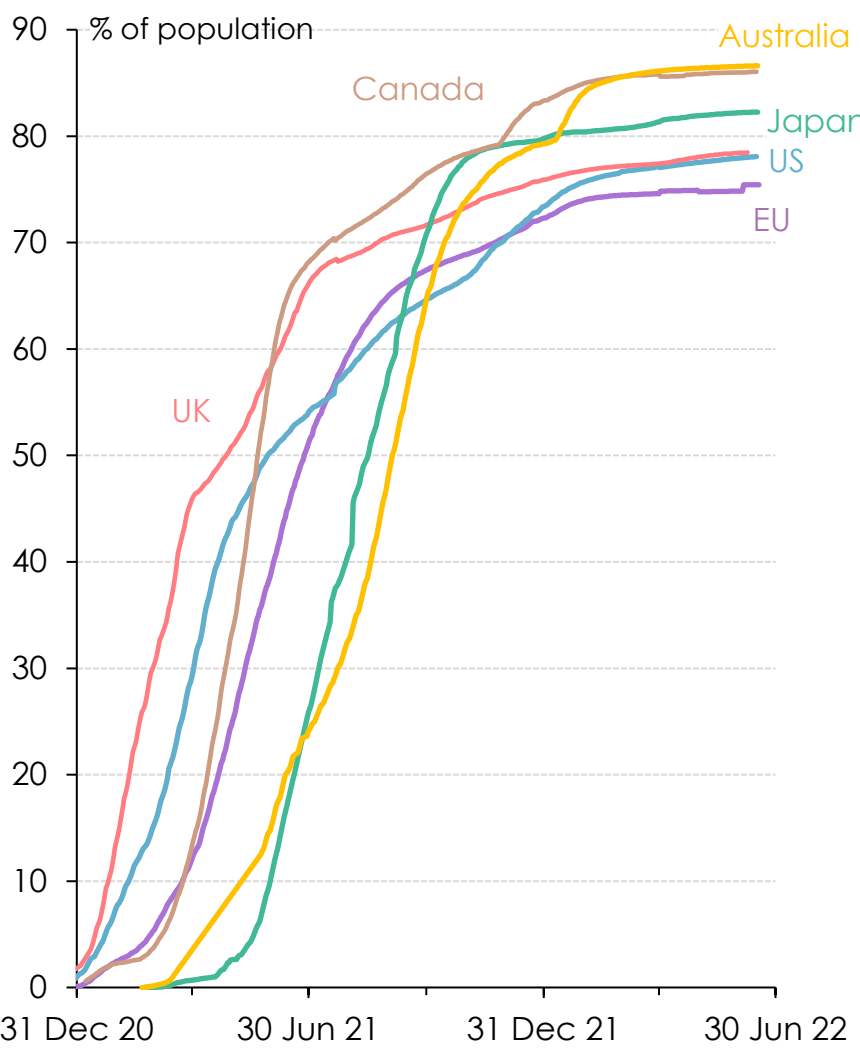


Note: Data shown in these charts are cumulative since the beginning of the pandemic, up to 17th June. Sources: University of Oxford, [Our World in Data](#); Corinna. [Return to "What's New"](#).

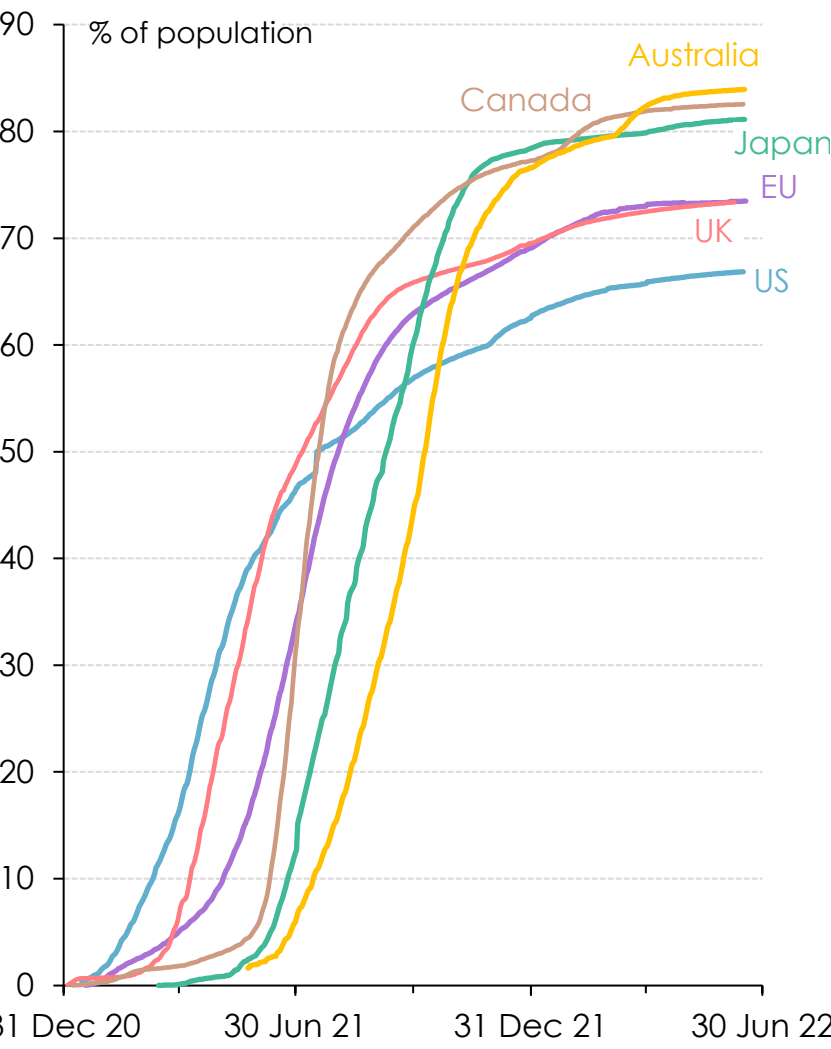
The US lags behind most other ‘advanced’ economies in fully vaccinating its population and also now with regard to ‘boosters’

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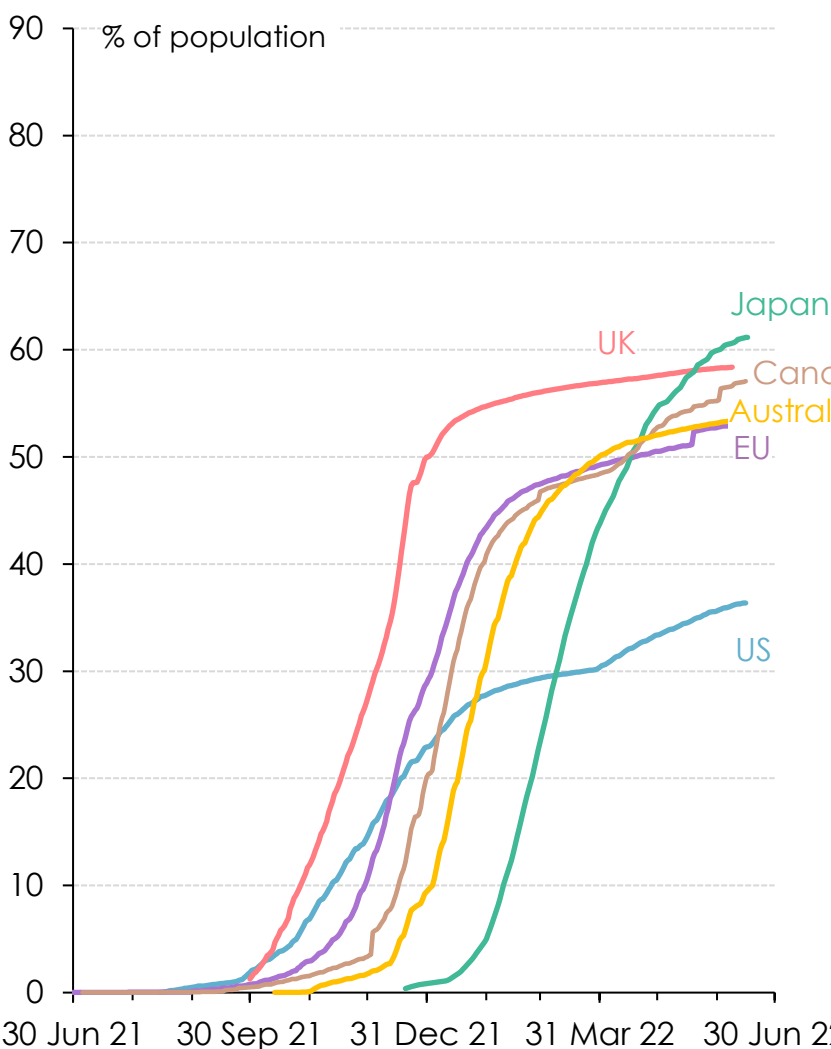
Percentage of populations who have had at least one shot



Percentage of populations who have had two shots



Percentage of populations who have had a ‘booster’ shot

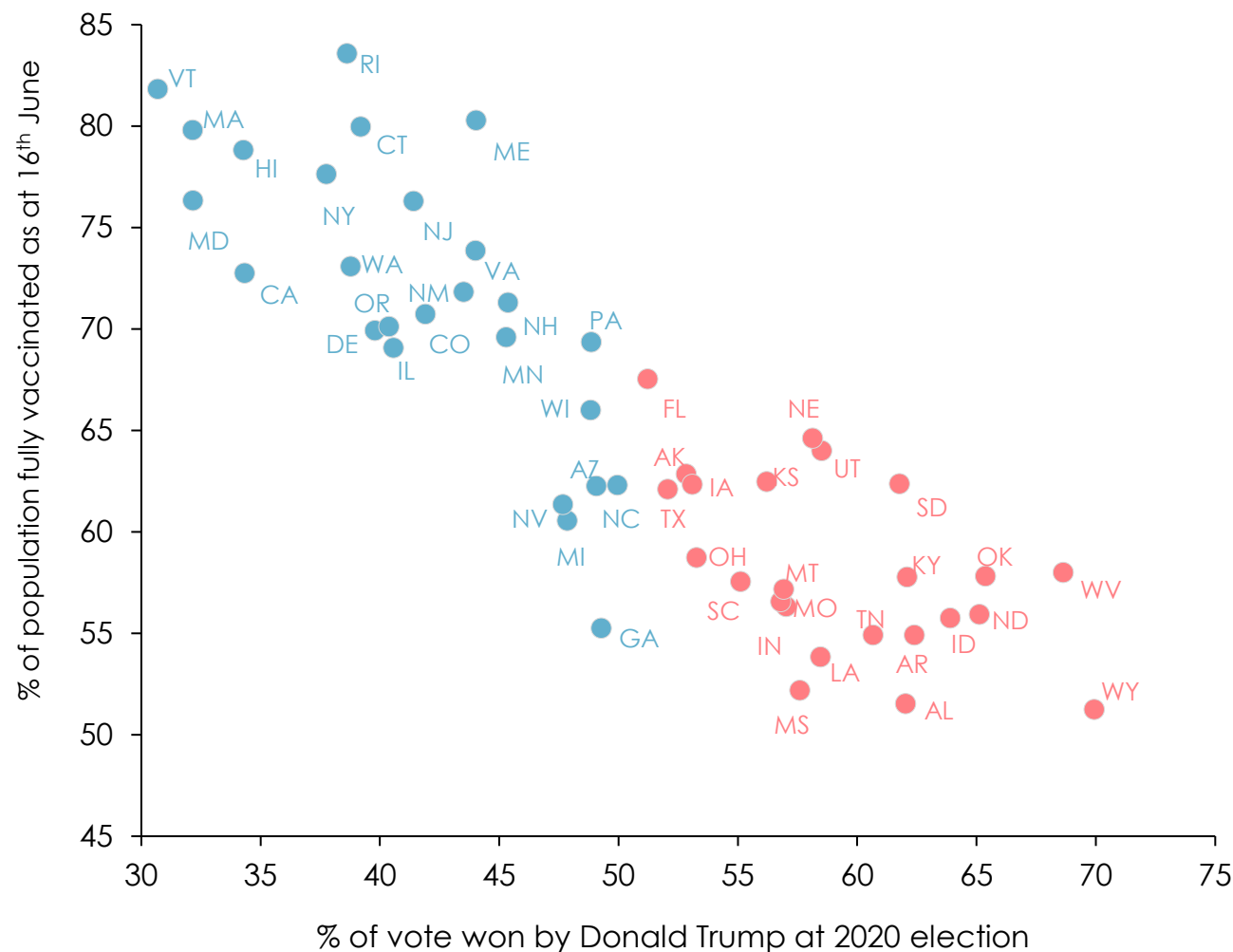


Note: Data up to 16th or 17th June, except for the UK, 8th June. Source: [Our World in Data](#); [Coronavirus \(COVID-19\) Vaccinations](#). [Return to "What's New"](#).

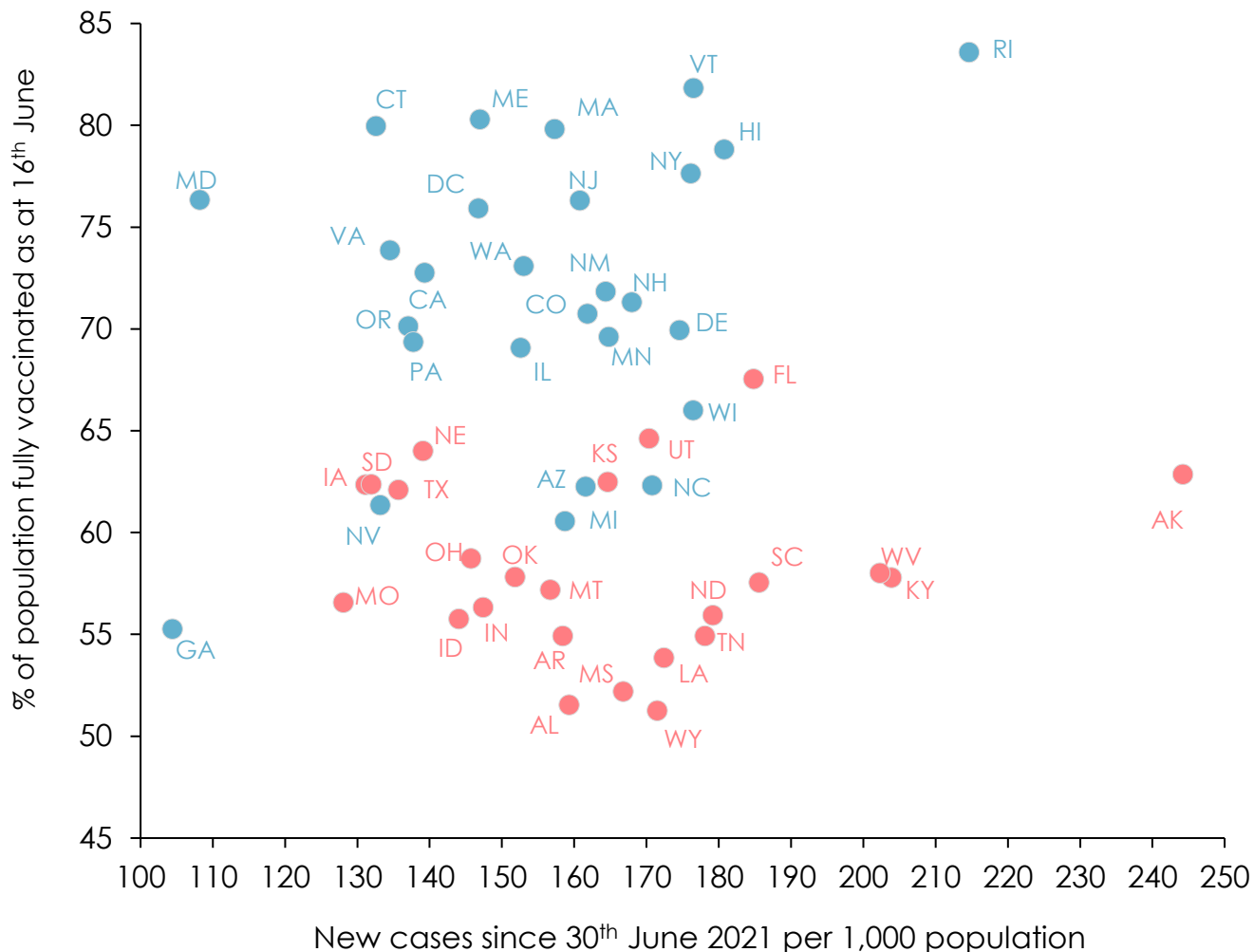
In the US there's a strong correlation between voting patterns and vaccine hesitancy, and (inversely) between vaccination rates and infection rates

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Vaccination rates vs Trump vote at 2020 elections, by state



Vaccination rates vs infection rates since 30th June 2021, by state

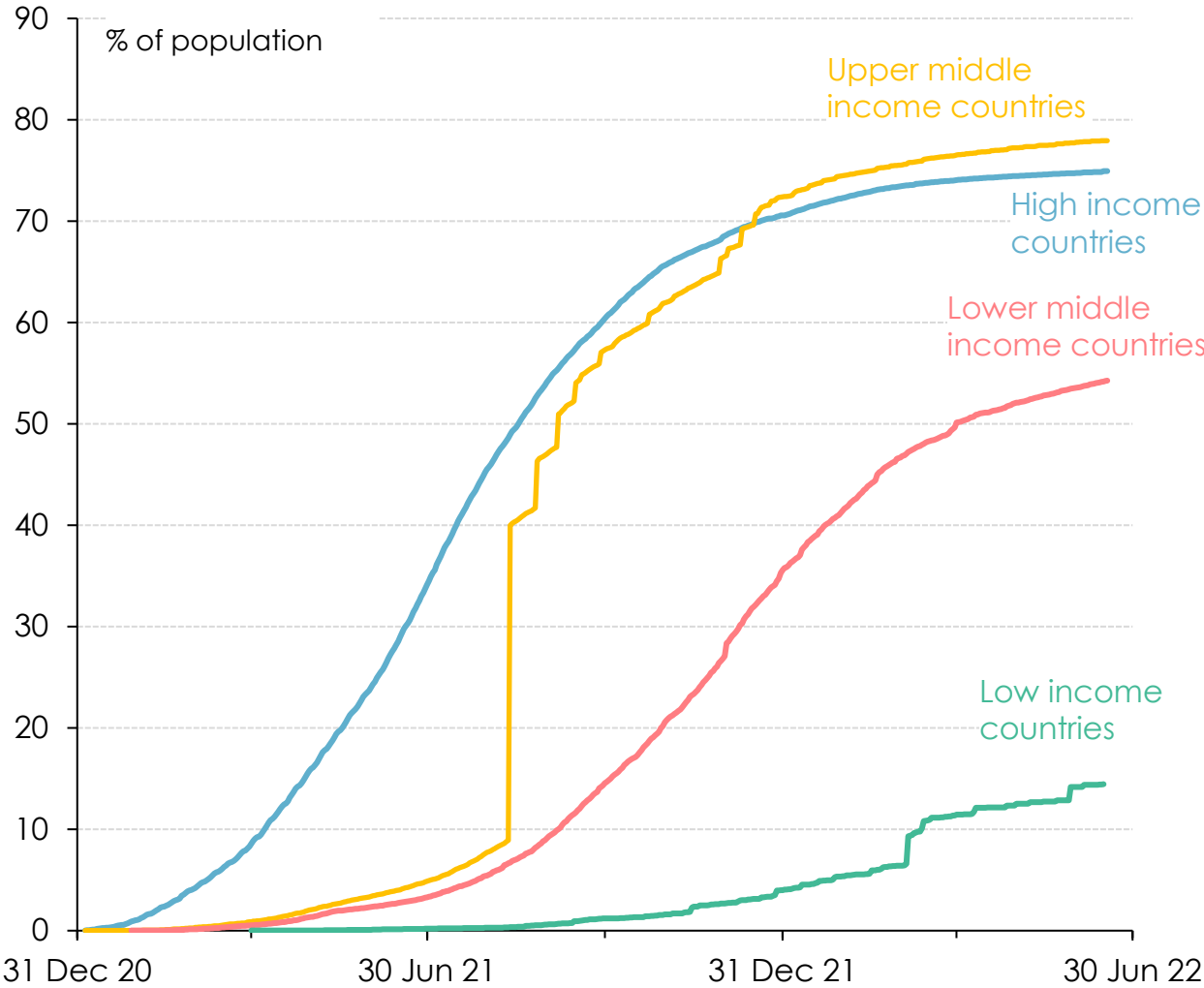


Note: Case data as at 17th June. Sources: [The Cook Political Report](#); [Our World in Data](#); [USA Facts](#); Corinna. [Return to "What's New"](#).

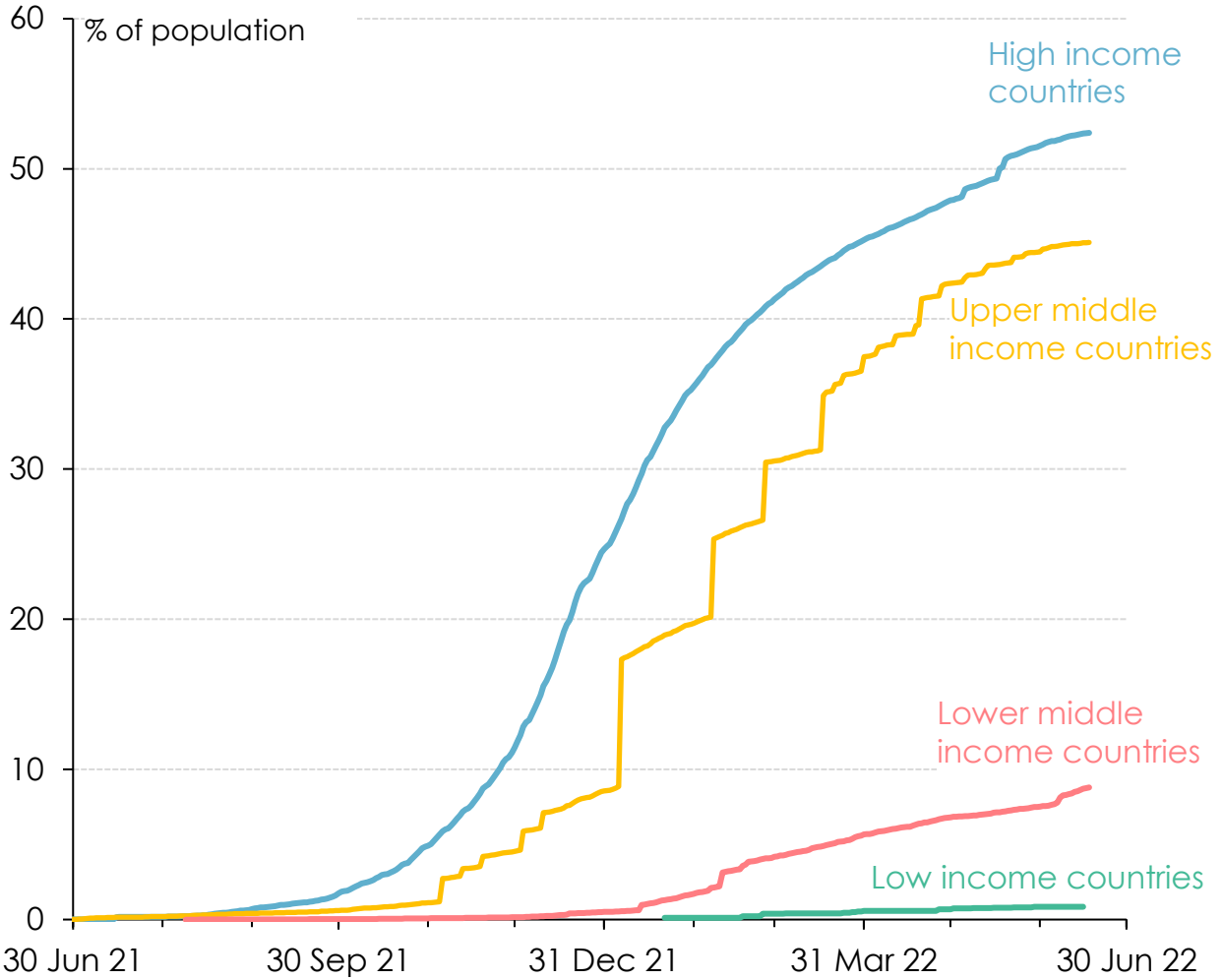
The vaccine roll-out has proceeded much more slowly among low- and lower-middle income countries

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Percentage of populations who have had two vaccinations, by income group



Percentage of populations who have had a 'booster' shot, by income group



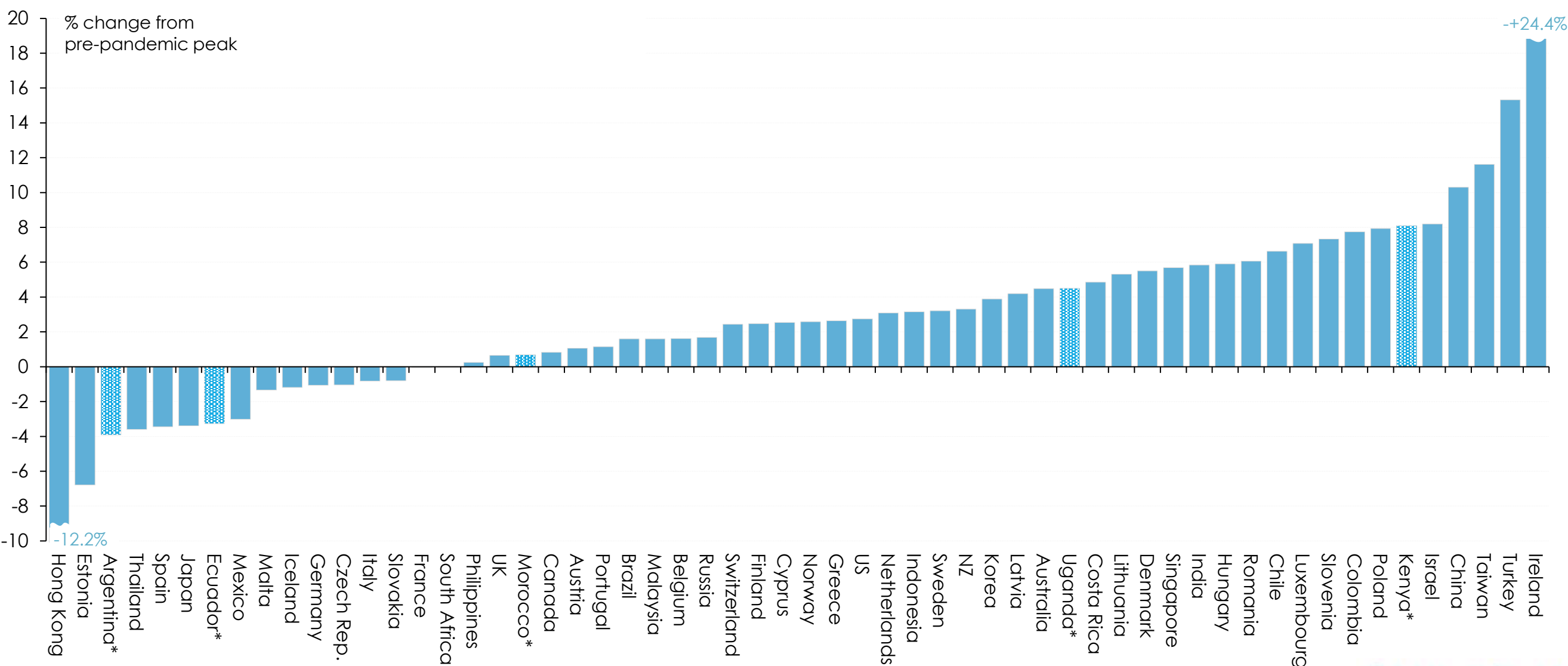
Note: Income categories are as defined by the [World Bank](#): high-income countries are (in 2021) those with a per capita gross national income (GNI) of over US\$12,535; upper-middle income countries are those with per capita GNI between US\$4,046 and \$12,535; lower middle-income countries are those between \$1,036 and \$4,035; and low-income countries are those with per capita GNI of \$1,035 or less. Note that 'upper middle-income countries' includes China, the inclusion of data from which accounts for the large jumps in numbers for this category on 12th August 2021 and 6th January 2022. Source: Our World in Data, [Coronavirus \(COVID-19\) Vaccinations](#). [Return to "What's New"](#).

The world

39 countries (of 54 for which seasonally-adjusted GDP estimates are available) have now surpassed their pre-pandemic peaks

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Q1 2022 real GDP compared with pre-recession peak



Note: * Q4 2021. Estimate for China is derived from quarterly growth rates published by China NBS; estimates for India, Indonesia and Russia are seasonally adjusted by the OECD. Sources: National statistical agencies and central banks, and OECD. [Return to "What's New"](#).

The world economy grew by about 4¼% over the year to Q1 – down from a peak of 12% in Q2 2021 which was flattered by comparison with Q2 2020

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World and OECD area real GDP growth



Note: Estimates of global GDP growth compiled by Corinna using data for 100 countries accounting for 94% of 2019 world GDP as measured by the IMF, weighted in accordance with each country's share of global GDP at purchasing power parities in 2019; excludes constituents of the former USSR before 1993, the former Czechoslovakia before 1995, and the former Yugoslavia before 1998. (e) Estimate for Q1 2022 is based on results for the economies which have reported Q1 results to date. Sources: national statistical agencies and central banks; Eurostat; [OECD](#); IMF; Corinna. [Return to "What's New"](#).

The more 'advanced' Asian economies, Australia's & NZ's and the US's, have recovered more rapidly from 2020-21 recessions than Europe's

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

Levels of real GDP indexed to Q4 2019 = 100



Note: All series shown are seasonally adjusted, except for China's which has been constructed using the estimates of quarterly changes in real GDP published by the China National Bureau of Statistics. Sources: National statistical agencies, Eurostat and Bank of Korea; Corinna.

The OECD has cut its forecasts for world economic growth to 3% in 2022 and 2.8% in 2023, representing downward revisions of 0.6 and 0.8 pc pts

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

Major global institutions' growth forecasts for 2021- 2023 compared

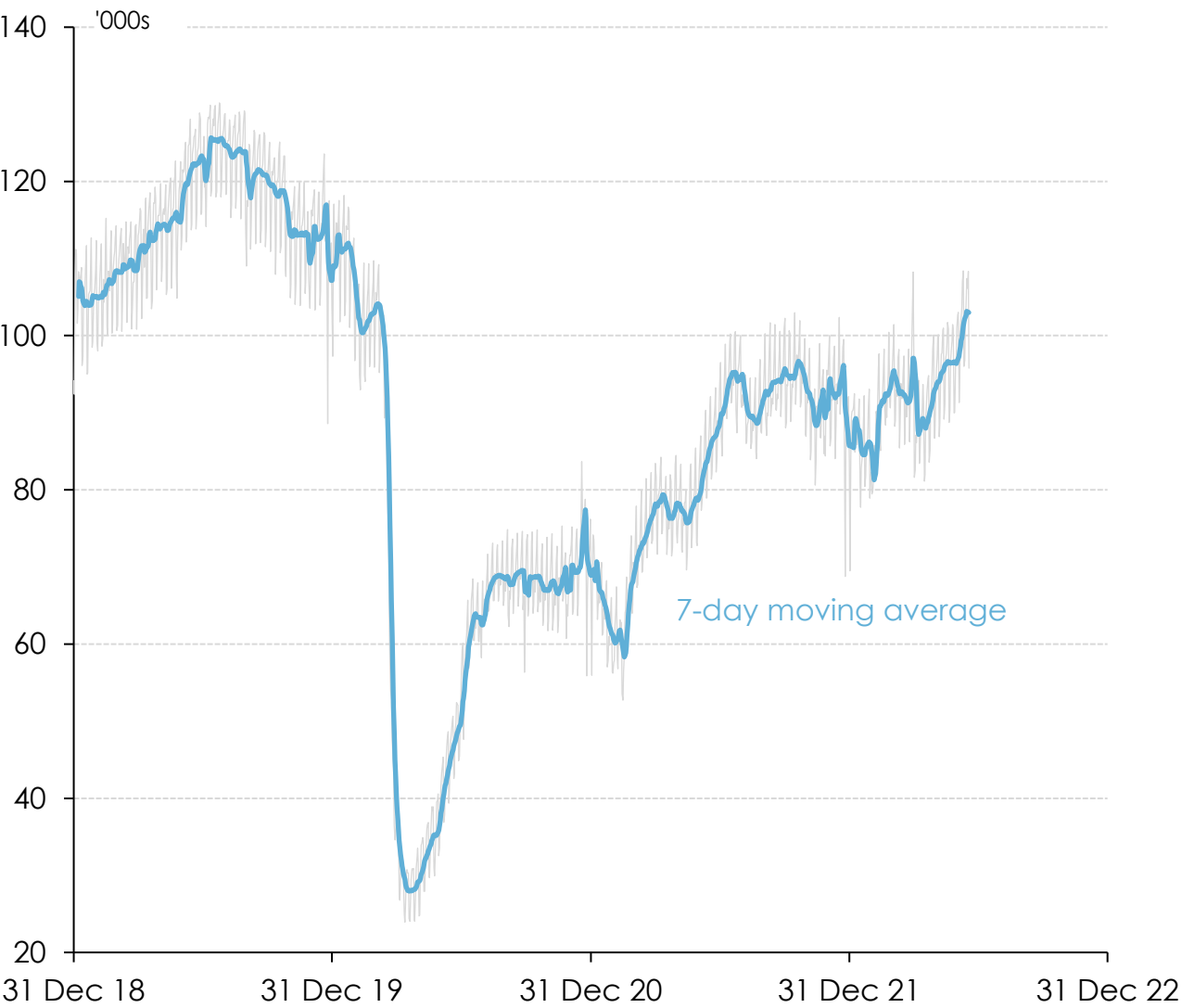
	Actual		IMF			OECD			World Bank			Australian/NZ Treasury		
	2010-19 [^]	2020	2021	2022	2023	2021	2022	2023	2022	2023	2024	2022	2023	2024
US	2.2	-3.5	5.7	3.7	2.3	5.7	2.5	1.2	2.5	2.4	2.0	3.5	2.5	2.0
China	7.7	2.3	8.1	4.4	5.1	8.1	4.4	4.9	4.3	5.2	5.1	4.8	5.3	5.0
Euro area	1.3	-6.6	5.3	2.8	2.3	5.3	2.6	1.6	2.5	1.9	1.9	3.4	2.3	1.5
India	7.0	-8.0	8.9	8.2	6.9	8.7	6.9	6.2	7.5	7.1	6.5	8.3	6.5	7.3
Japan	1.2	-4.8	1.6	2.4	2.3	1.7	1.7	1.8	1.7	1.3	0.6	2.5	1.5	0.5
UK	1.8	-9.9	7.4	3.7	1.2	6.9	4.7	2.1	na	na	na	na	na	na
Australia	2.6	-2.4	4.7	4.2	2.5	4.8	4.2	2.5	na	na	na	4.8*	2.0*	2.5*
New Zealand	2.9	-3.0	5.6	2.7	2.6	5.0	3.0	2.0	na	na	na	1.7 [†]	4.2 [†]	0.7 [†]
World	3.7	-3.3	6.1	3.6	3.6	5.8	3.0	2.8	2.9	3.0	3.0	3.8	3.8	3.5
World trade	3.7	-8.5	10.2	5.0	4.4	10.0	4.9	3.9	4.0	4.3	3.8	na	na	na
World inflation	3.5	3.2	4.7	7.4	4.8	3.8	7.6	6.3	na	na	na	na	na	na

Note: All actuals and forecasts are \$ per annum. [^] Annual average. * Forecasts for fiscal years beginning 1st July (and finishing 30th June following year) [†] Forecasts by New Zealand Treasury for fiscal years beginning 1st July. Sources: International Monetary Fund (IMF), [World Economic Outlook](#), 19th April 2022; The World Bank, [Global Economic Prospects](#), 7th June 2022; Organization for Economic Co-operation & Development (OECD), [Economic Outlook 2022 \(preliminary version\)](#), 8th June 2022; Australian Treasury, 2022-23 [Budget Paper No. 1](#), 29th March 2022; New Zealand Treasury, [Budget Economic and Fiscal Update 2022](#), 19th May 2022. [Return to "What's New"](#).

Global aviation traffic has picked up significantly over the past two months

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

Daily commercial flights worldwide



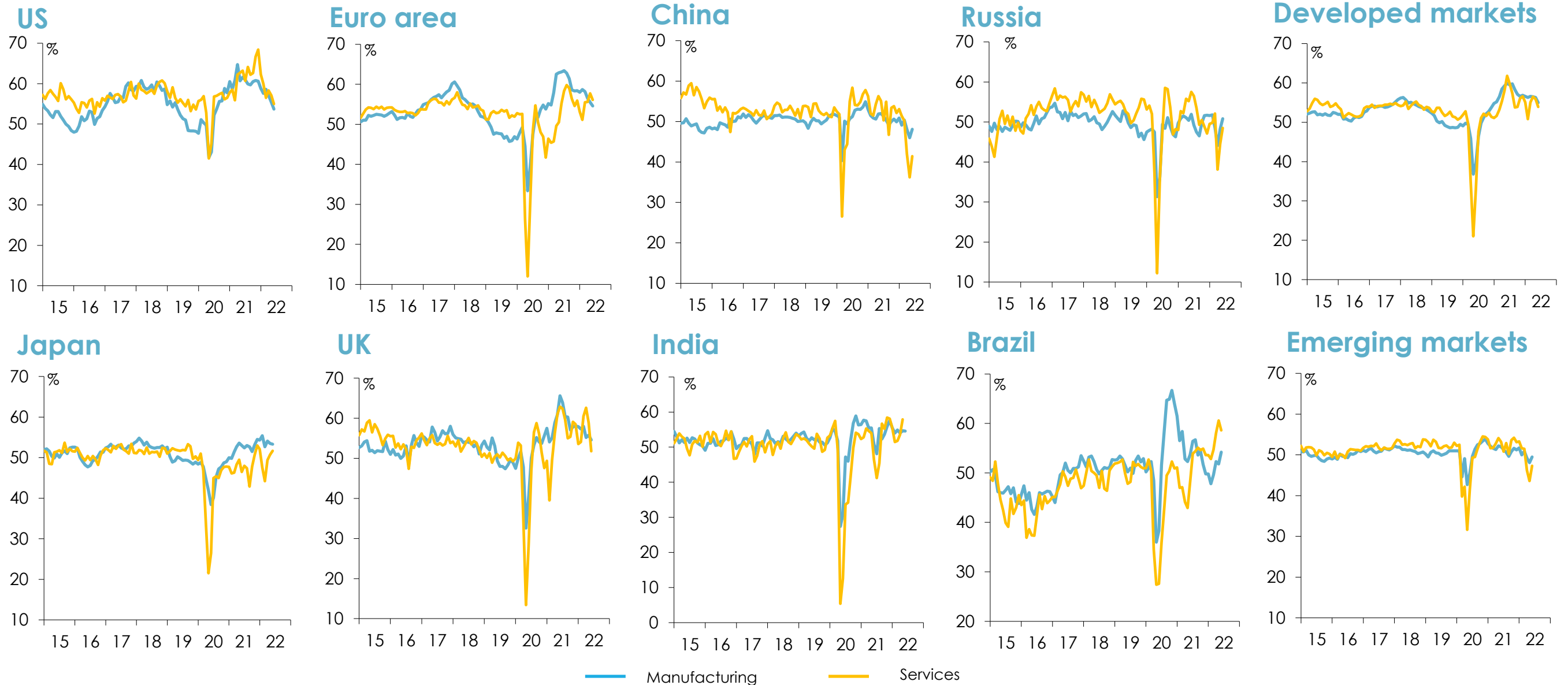
Daily US TSA 'security' checks



Note: Commercial flights include commercial passenger flights, cargo flights, charter flights, and some business jet flights. Data are up to 18th June for both commercial flights and 17th June for TSA checks. Thicker coloured lines are 7-day centred moving averages of daily data plotted in thin grey lines. Sources: [Flightradar24.com](https://flightradar24.com); [US Transport Safety Administration](https://www.transportation.gov) (at last, something useful – other than job creation - produced by aviation 'security'!!!). [Return to "What's New"](#).

PMIs for May suggest a sharp slowing (though not a contraction) in the UK, a more moderate slowing in the US, and a pick-up in emerging economies

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

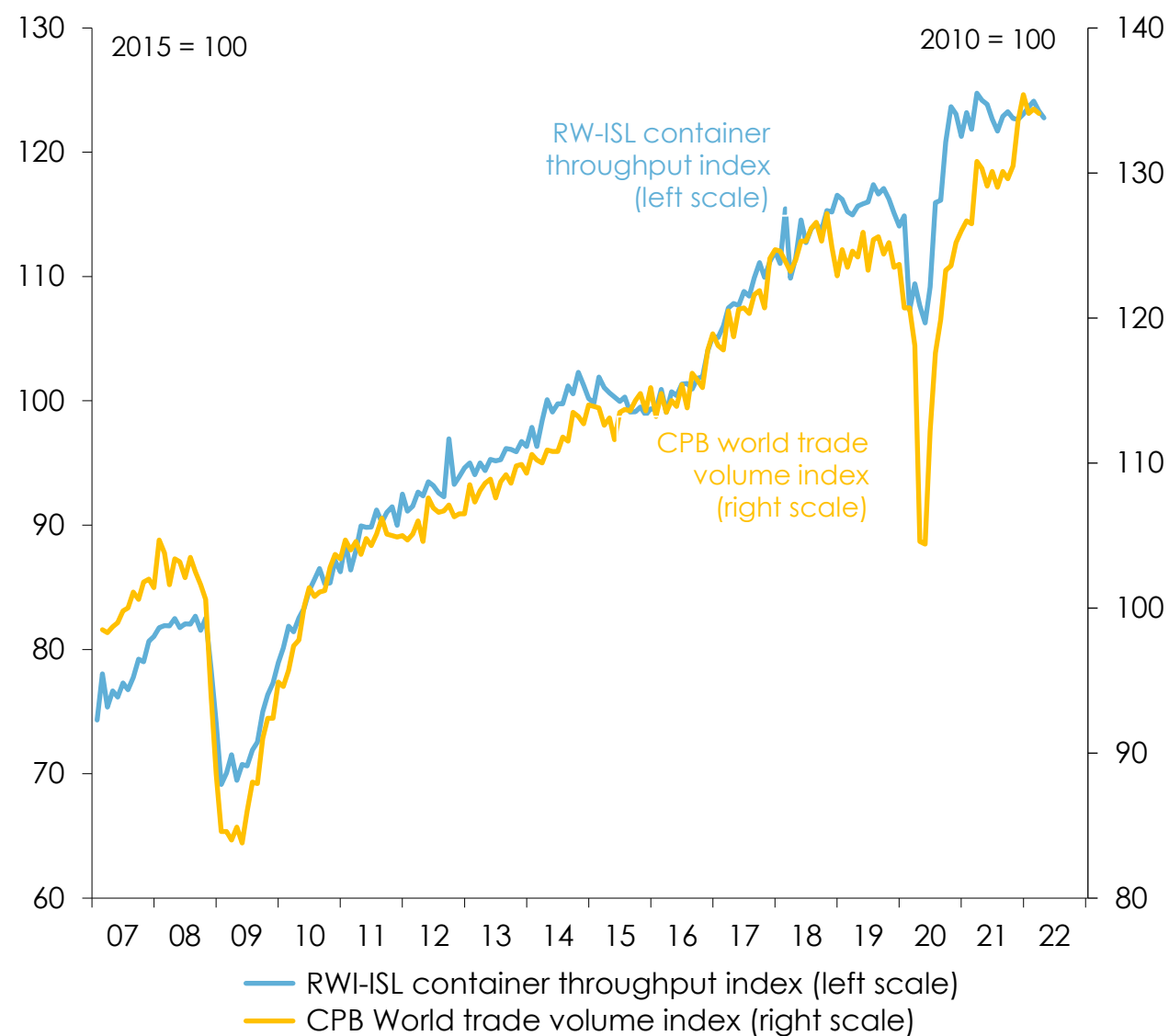


Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous month, and a reading of less than 50 indicates a decrease. Latest data for the US, Japan, euro area and UK are 'flash' May readings, all others are for April. See also PMIs for other Asia-Pacific economies on [slide 99](#). Sources: [US Institute for Supply Management](#); [IHS Markit](#); JP Morgan; [Caixin](#); Refinitiv Datastream. [Return to "What's New"](#).

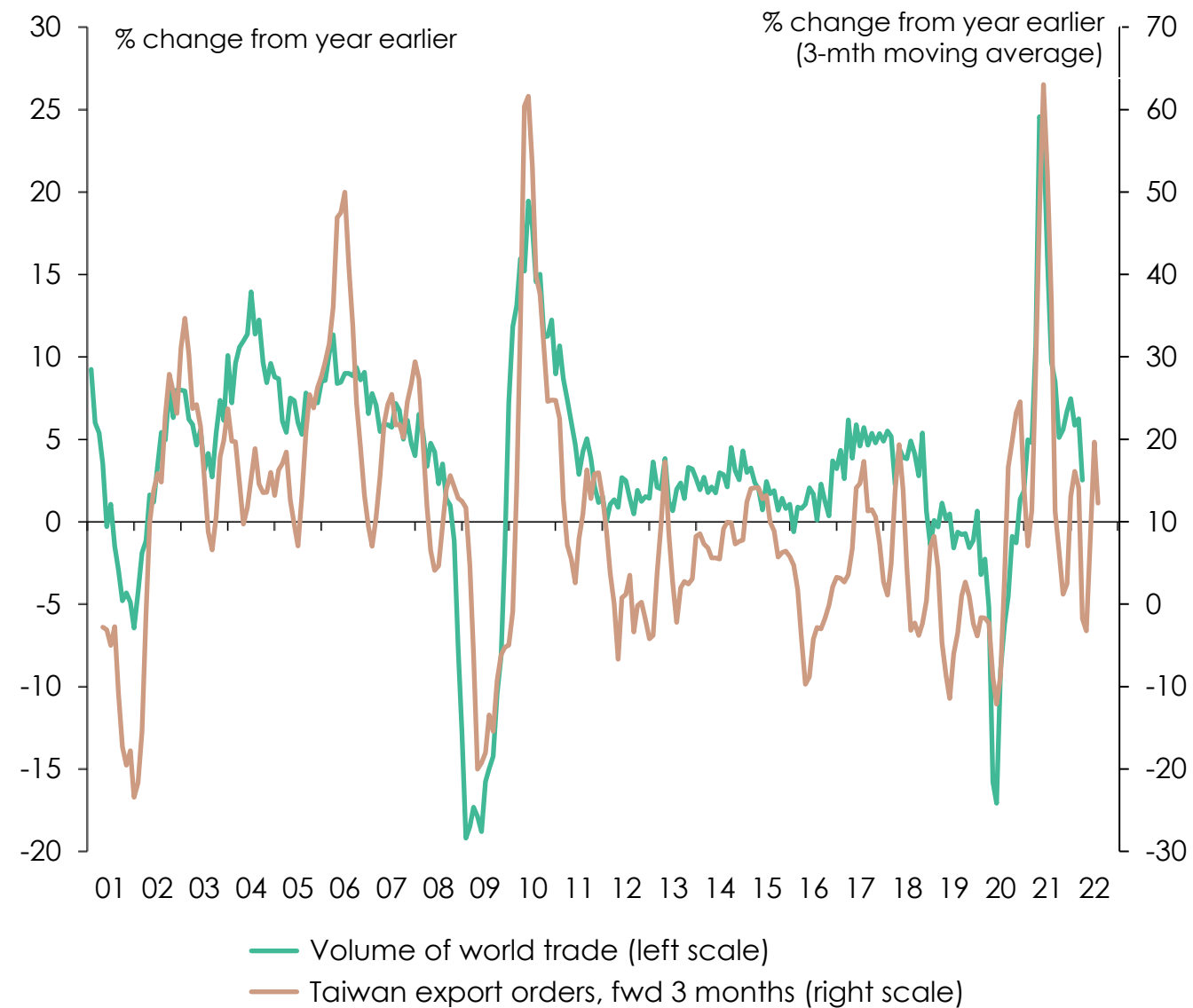
The volume of world trade fell 0.2% in March, reflecting large falls in imports into China and Russia, partly offset by a large increase in US imports

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

World trade volumes and container throughput



Taiwan export orders and world trade volumes

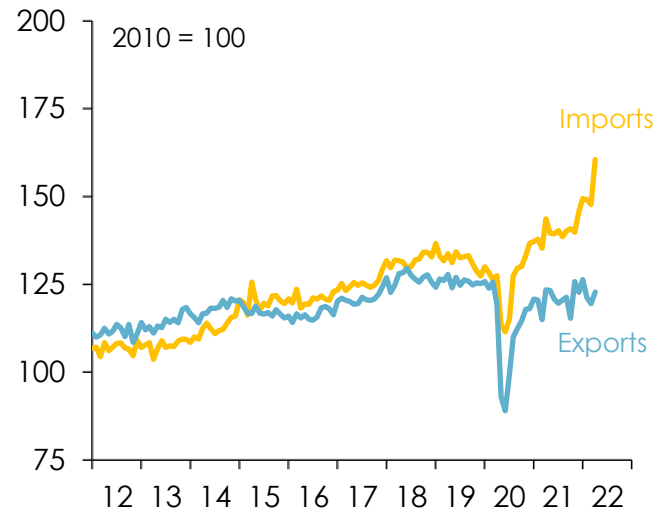


Note: The shipping container throughput index is based on reports from 91 ports around the world handling over 60% of global container shipping.
Sources: CPB Netherlands Economic Planning Bureau, [World Trade Monitor](#), March 2022 (April data to be released on 24th June); Institute of Shipping Economics & Logistics (ISL) and RWI Leibniz-Institut für Wirtschaftsforschung (RWI) [Container Throughput Index](#), April 2022; Taiwan [Ministry of Economic Affairs](#). [Return to "What's New"](#).

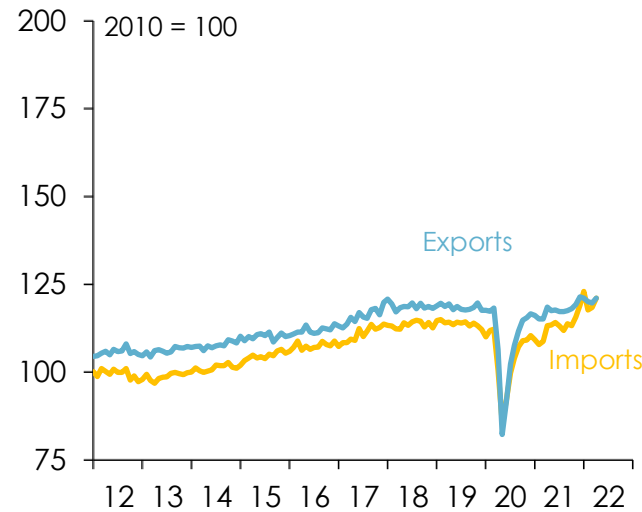
Imbalances in trade between the US and 'emerging' Asia (including China) are the major factor in the mal-distribution of containers around the world

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

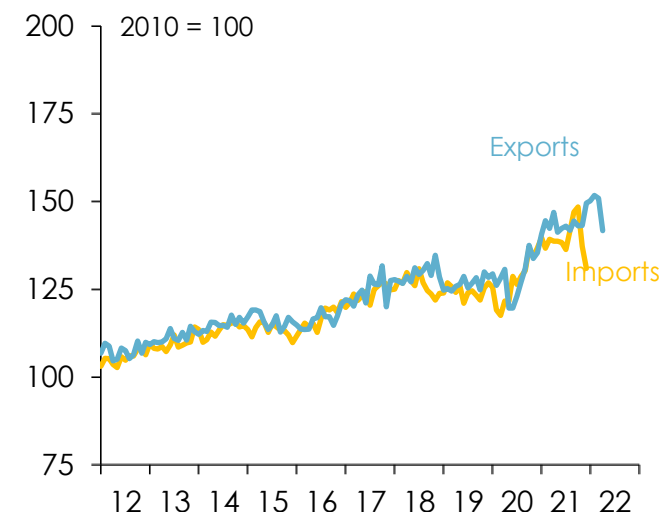
United States



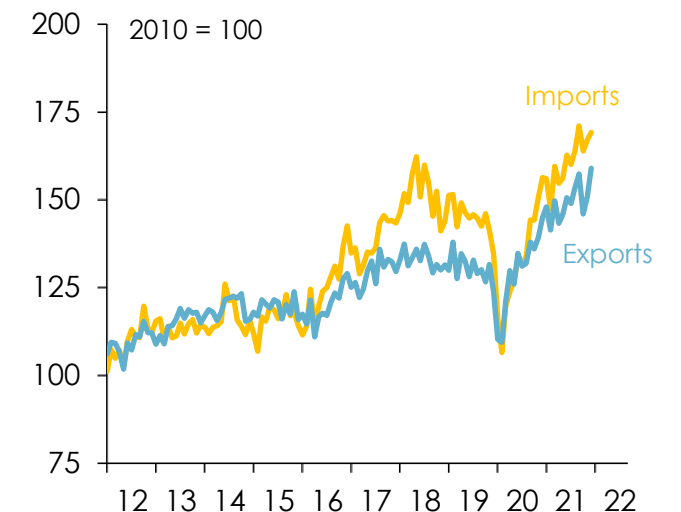
Euro area



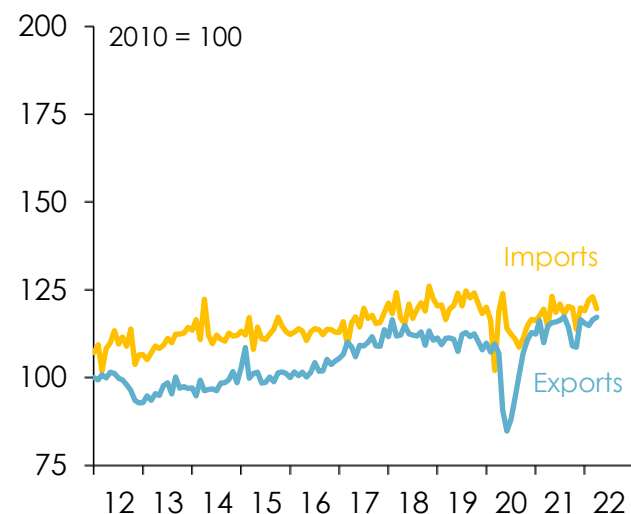
Other 'advanced' Asia



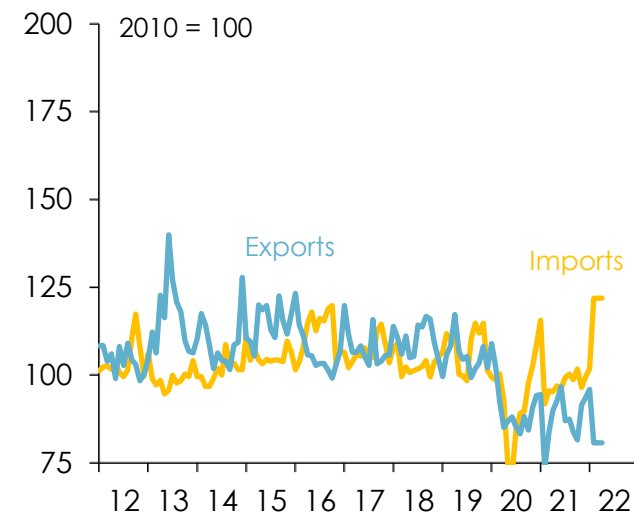
Other 'emerging' Asia



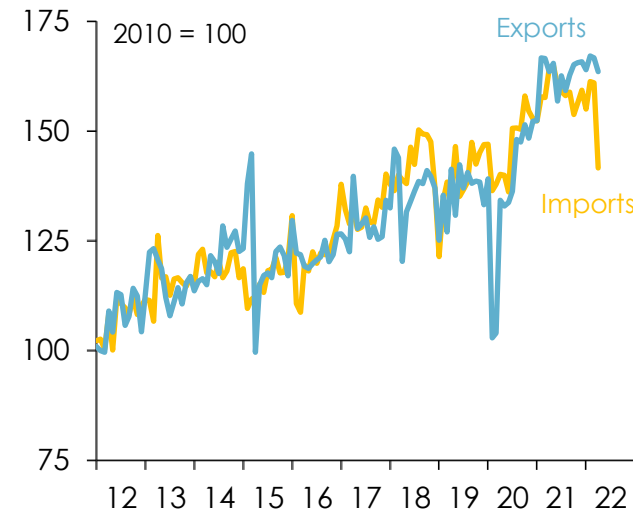
Japan



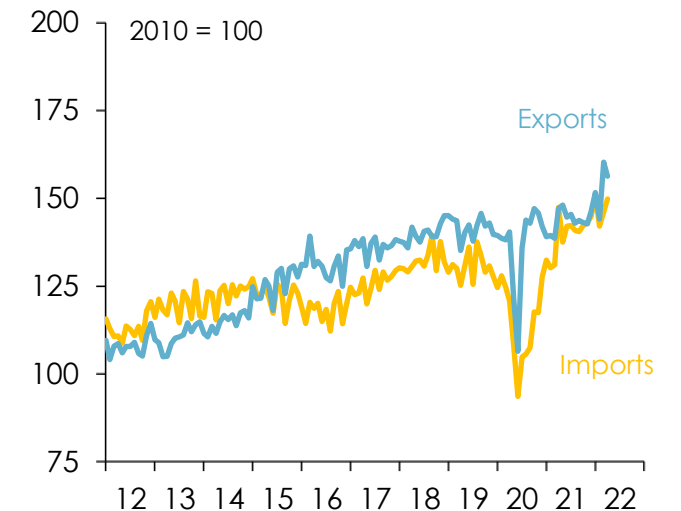
United Kingdom



China



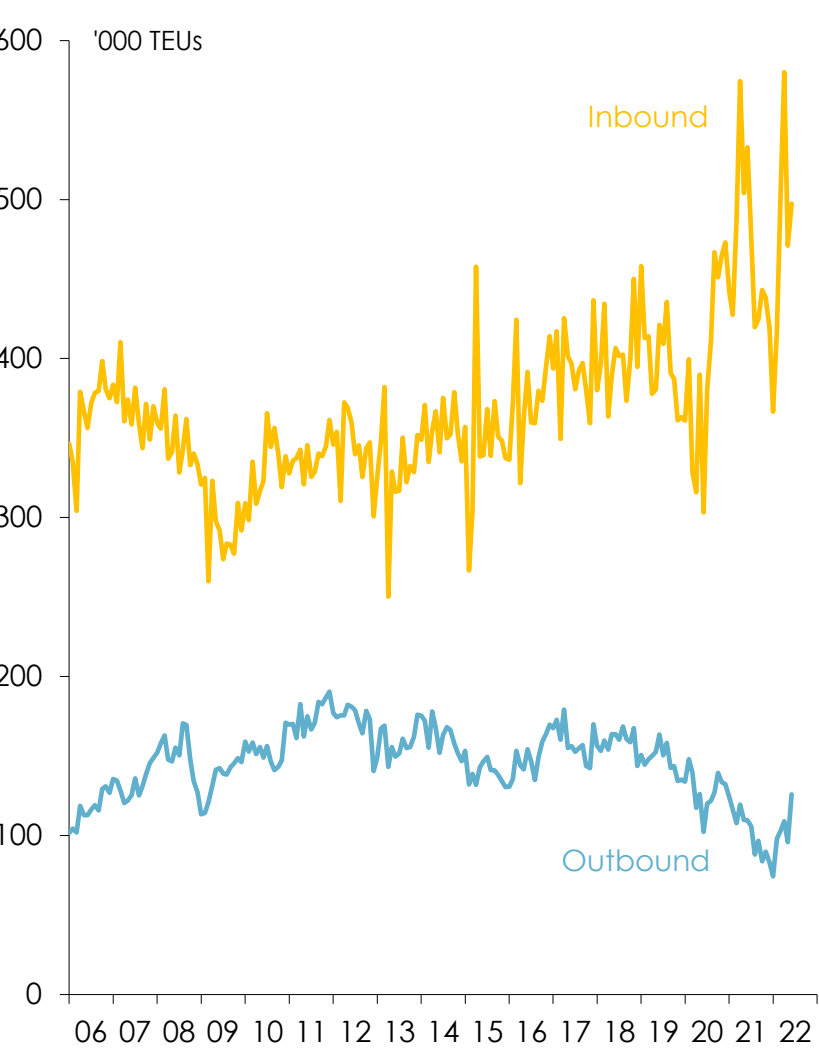
Latin America



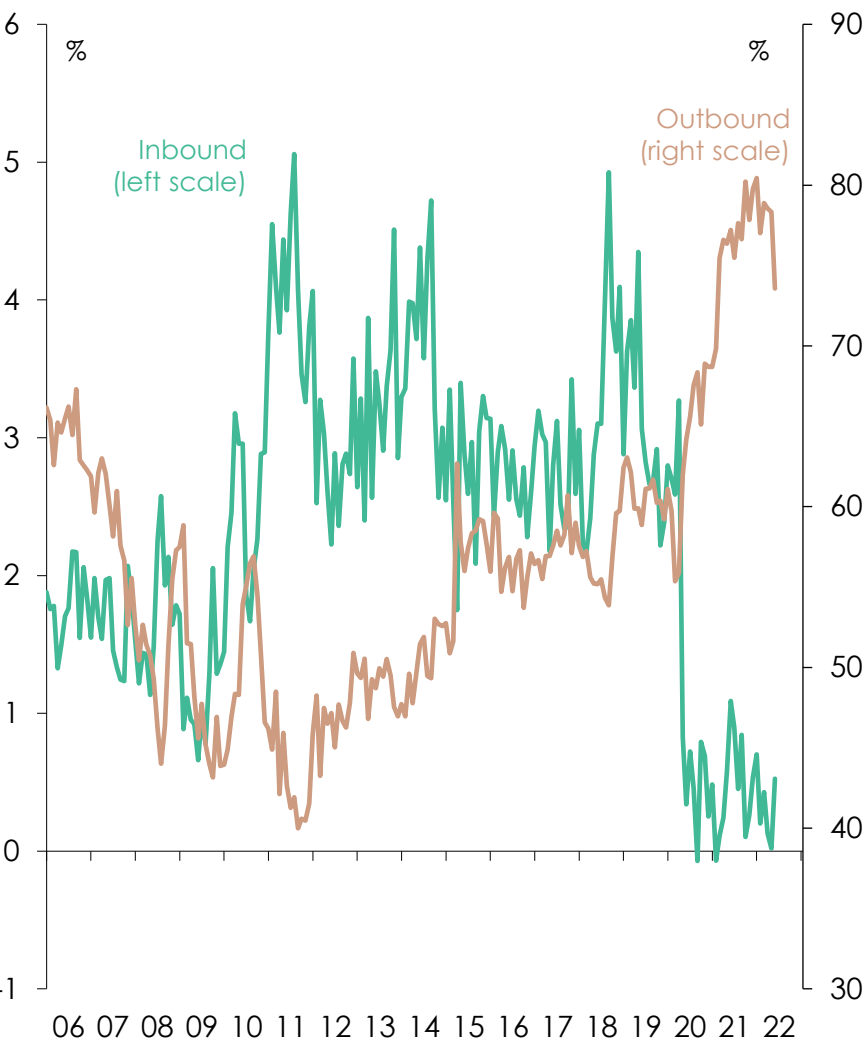
Congestion at the Port of Los Angeles (the US' largest container port) has eased significantly but trade flows remain unusually unbalanced

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

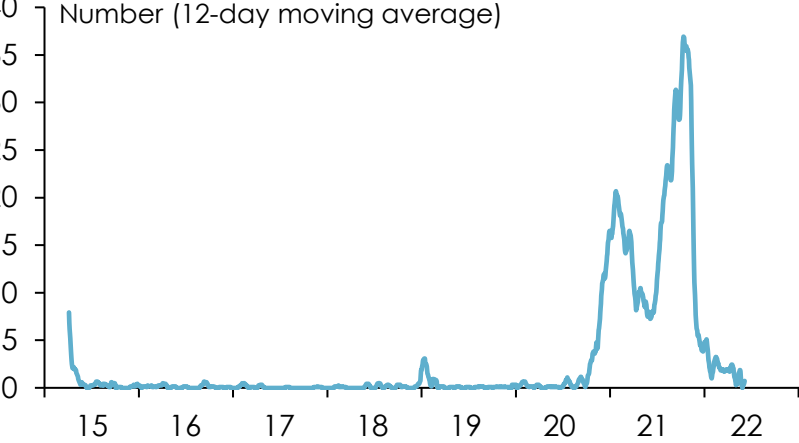
Container traffic through the Port of Los Angeles



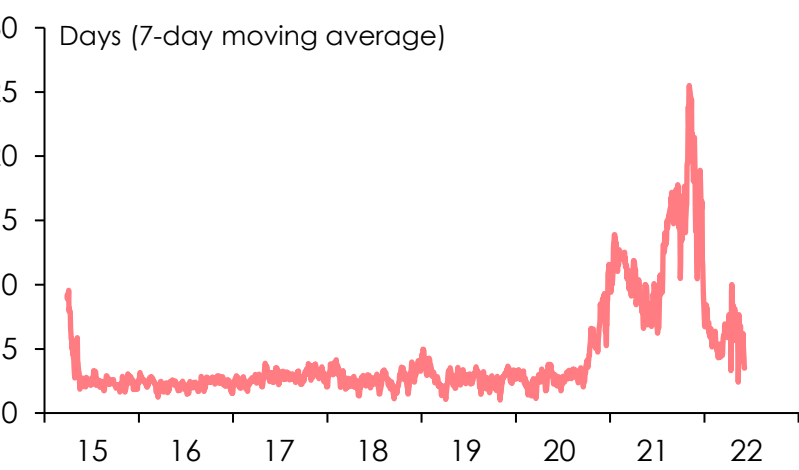
Empty containers as a pc of total passing through PoLA



Number of vessels at anchor outside PoLA



Average time at anchor and berth for ships at PoLA

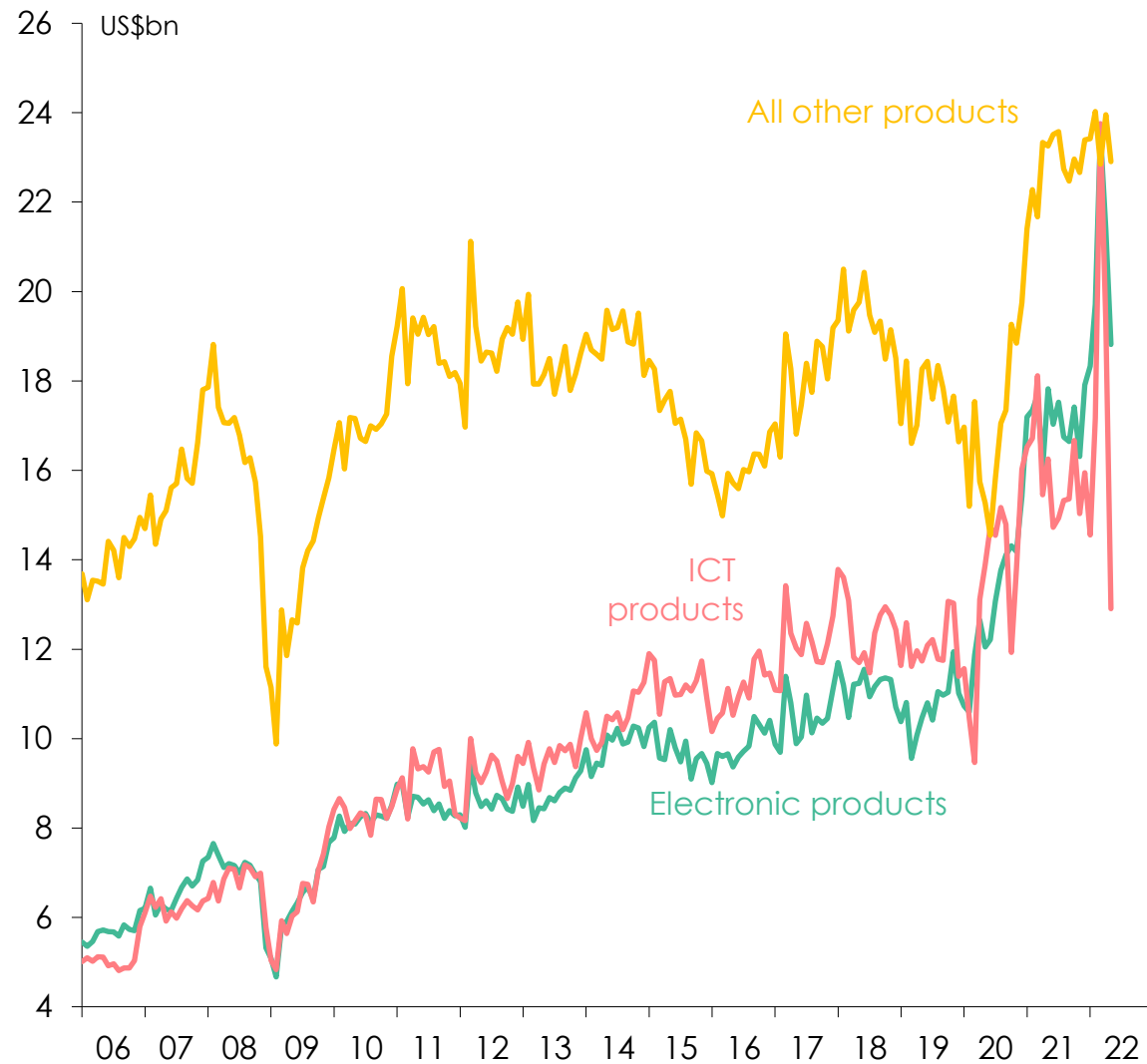


Note: TEU = 20-foot equivalent unit. Data on inbound and outbound container traffic in the first two charts have been seasonally adjusted by Corinna using Refinitiv Datastream. Data up to 17th June. Source: The Port of Los Angeles, [Container Statistics](#) and [Container vessels in port](#). [Return to "What's New"](#).

Export orders for Taiwanese ICT products fell sharply again in April, partly because of lockdowns in China, but also because of the Ukraine conflict

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

Taiwan export orders, by product



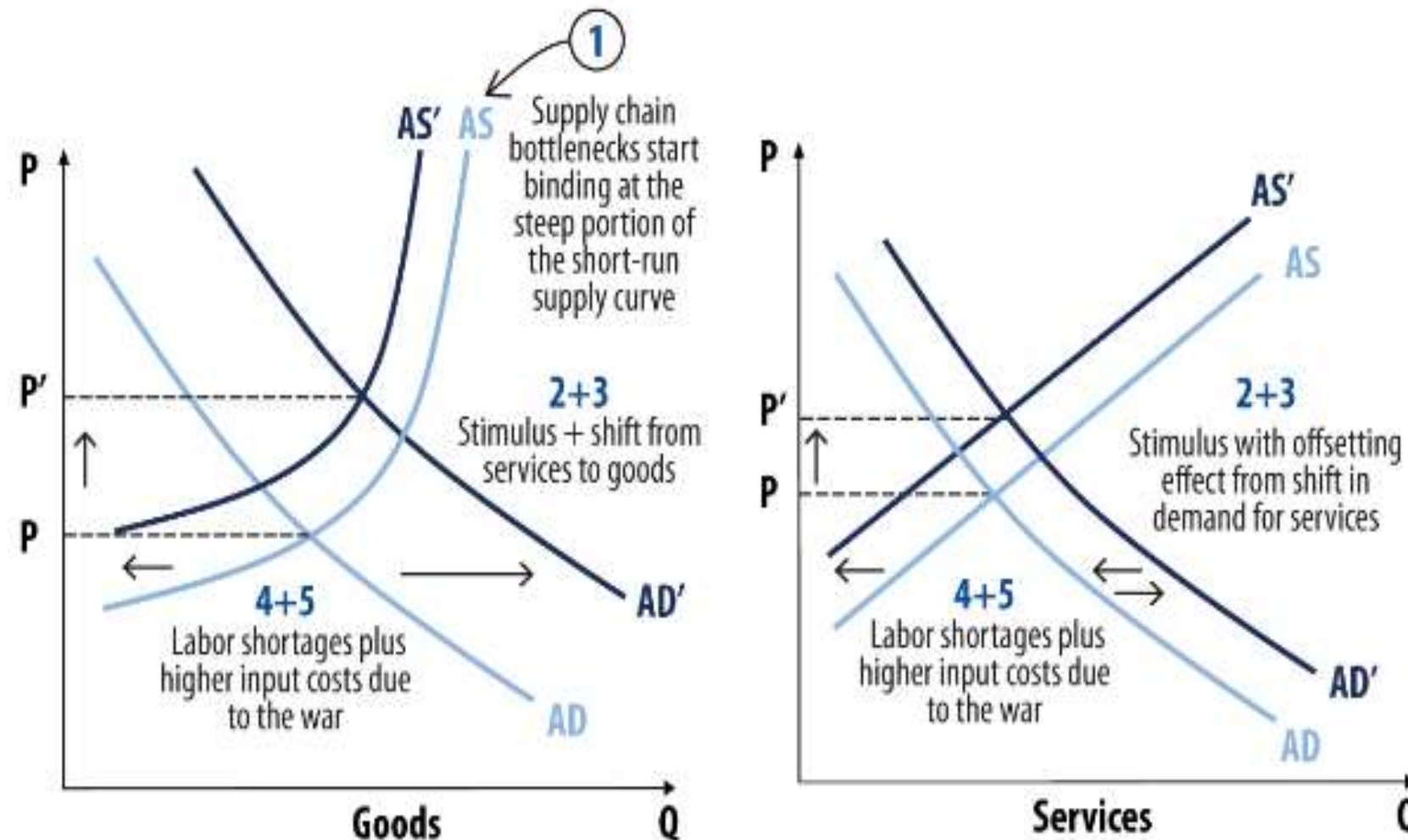
Note: Data have been seasonally adjusted by Corinna using Refinitiv Datastream. Latest data are for April. Source: Taiwan [Ministry of Economic Affairs](#). [Return to "What's New"](#).

- ❑ Taiwan accounts for 63% of the US\$85bn global semi-conductor chip market (followed by Korea 18% and China 6%)
 - one Taiwanese company, Taiwan Semiconductor Manufacturing Co (TSMC) has 54% of the world market, and United Microelectronics Co (UMC) a further 7% (Samsung accounts for Korea's 18%)
- ❑ Semiconductor fabrication plants ("fabs") use very large amounts of water to rinse chips during their manufacture – a typical fab uses 7½-15 million litres of water daily (and water in Taiwan is very cheap, at less than US40¢/t)
 - Taiwan had been experiencing its worst drought in 56 years, resulting in rationing of water supplies including to semi-conductor manufacturers, although recent heavy rainfalls appear to have broken the drought
- ❑ World-wide semi-conductor production has also been crimped by [plant shutdowns](#) in Vietnam, Malaysia and the Philippines due to covid-19 outbreaks, and by damage caused by a fire at a Japanese fab earlier this year and a storm at a Texas plant
- ❑ Shortages of semi-conductor chips have caused major headaches for the motor vehicle industry (which uses lots of them)
- ❑ Foreign orders for Taiwanese ICT products fell by 33% in April, after 19% decline in March, to be almost 29% below their pre-pandemic peak, in part because of supply-chain disruptions arising from lockdowns in China
- ❑ Semi-conductor production is also affected by the war in Ukraine, because Ukraine is a major producer of neon gas which is used in semi-conductor production

Two IMF researchers have provided a helpful stylized depiction of the sources of upward pressure on inflation over the past 12 months

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

An 'old school' aggregate supply- aggregate demand (AS-AD) curve illustration of the factors behind the rise in inflation over the past 12 months



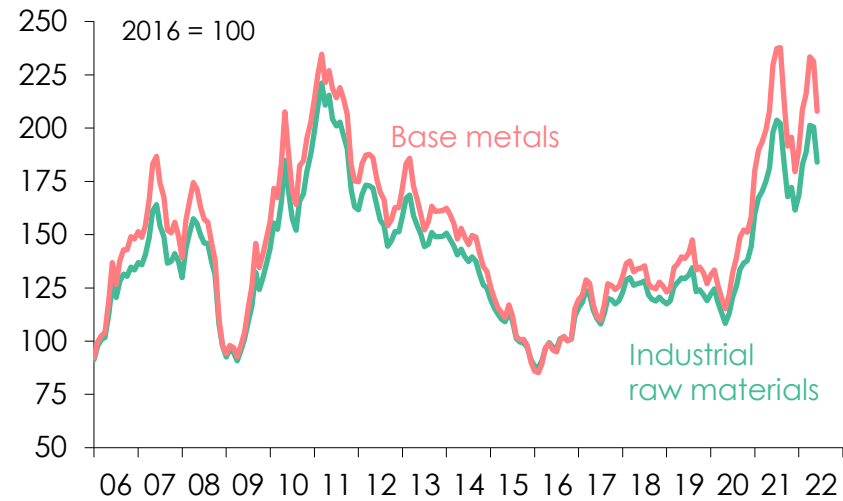
1. Supply chain bottlenecks reducing supply of durable goods – aggregate supply curve shifts to left ($AS \rightarrow AS'$)
 2. Shift in demand from services to goods (prompted by public health restrictions), with opposite effects on demand for services and goods – aggregate demand curve for goods shifts to right, for services shifts to left ($AD \rightarrow AD'$)
 3. Policy stimulus, followed by economic recovery, shifts aggregate demand curve (for both goods and services) to the right (increased demand)
 4. Labour shortages (prompted by Covid-19, immigration restrictions, etc) shift aggregate supply curves to the left ($AS \rightarrow AS'$)
 5. Supply shocks to energy and food due to the war in Ukraine shift aggregate supply curves to the left ($AS \rightarrow AS'$)
- all resulting in upward movements in prices ($P \rightarrow P'$)

Source: Ruchir Agawal and Miles Kimball, [Will inflation remain high?](#), International Monetary Fund, 7th April 2022. [Return to "What's New"](#).

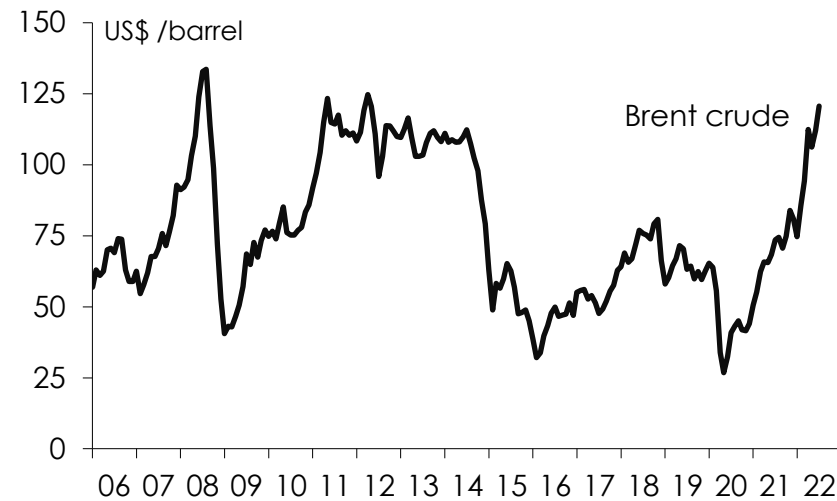
Energy commodity prices remain elevated, but other commodity prices have eased a bit, and freight & semi-conductor prices are now falling

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

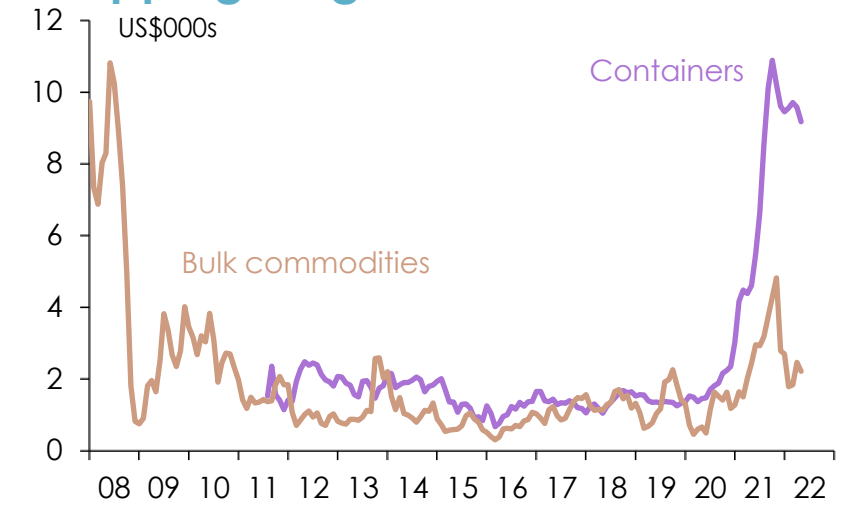
'Hard' commodity prices



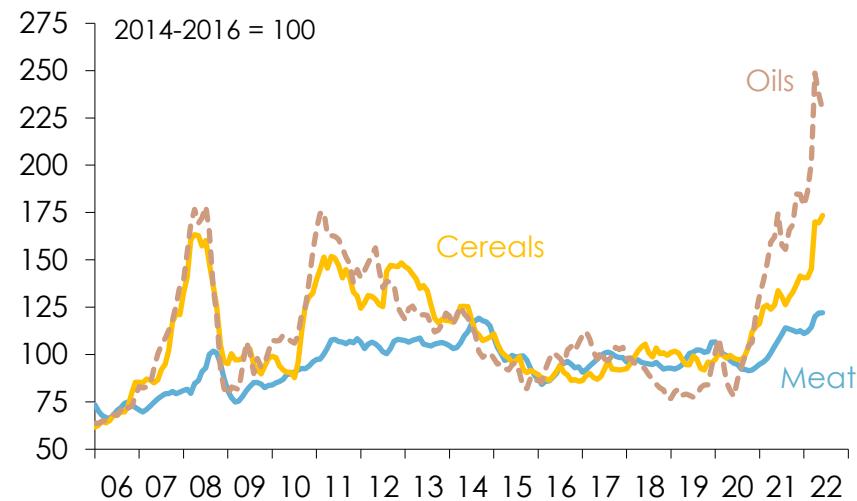
Crude oil price



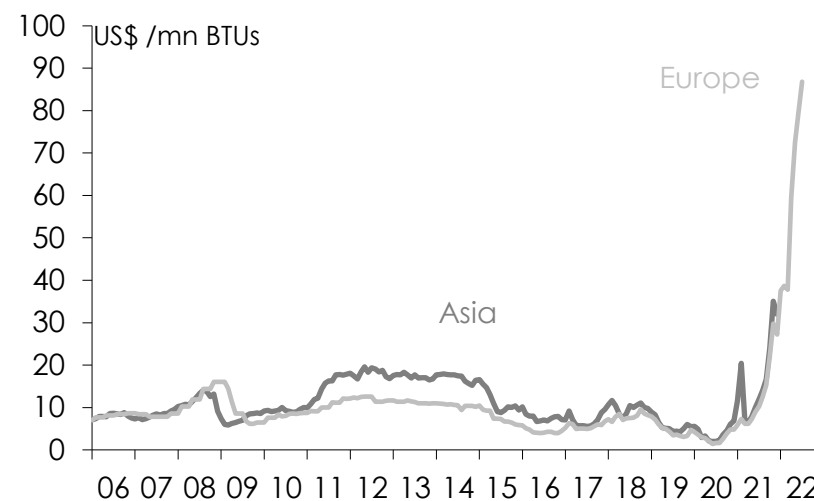
Shipping freight costs



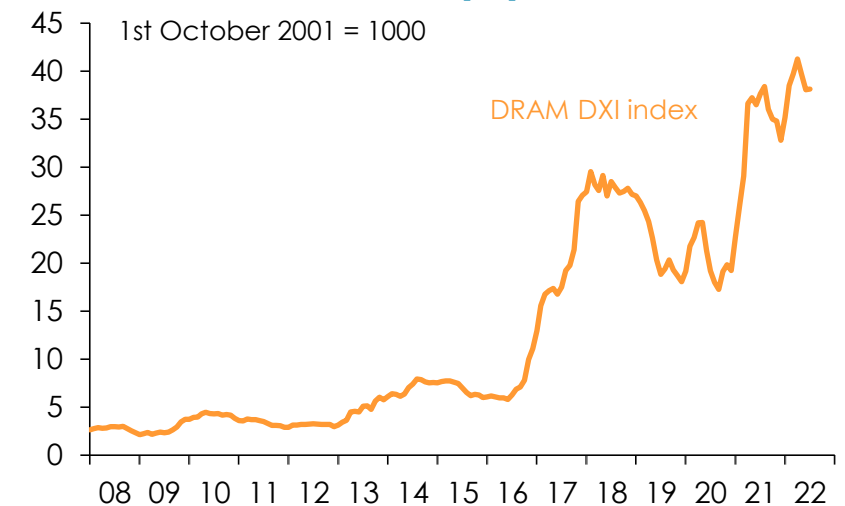
Food commodity prices



Natural gas prices



Semiconductor chip prices

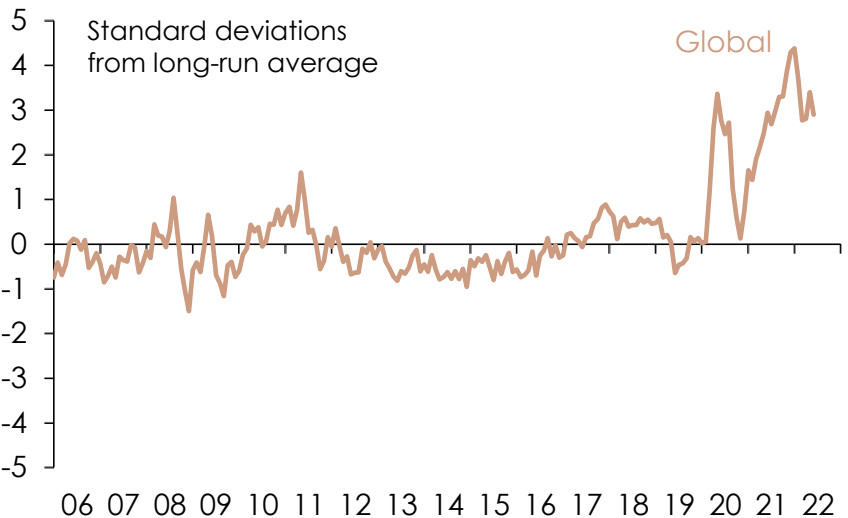
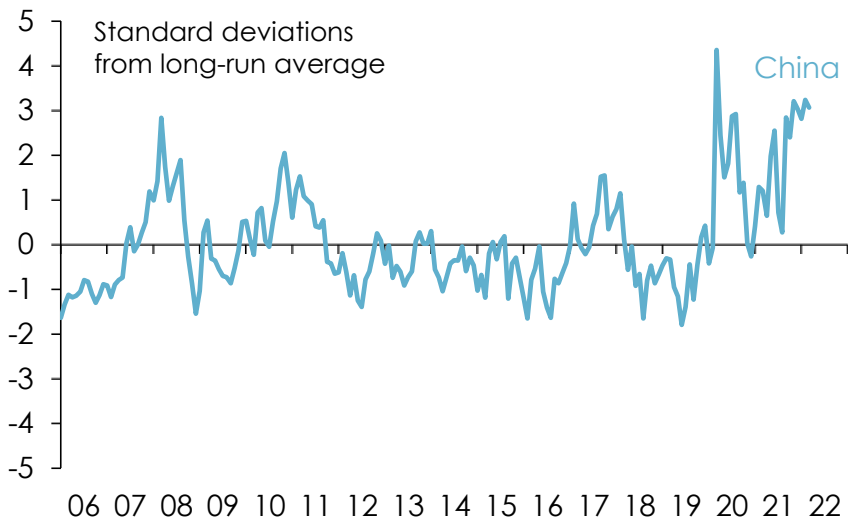
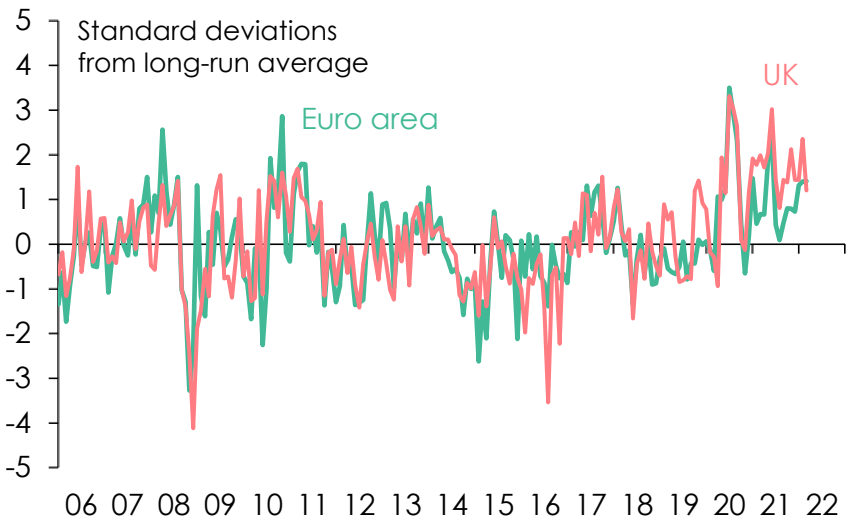
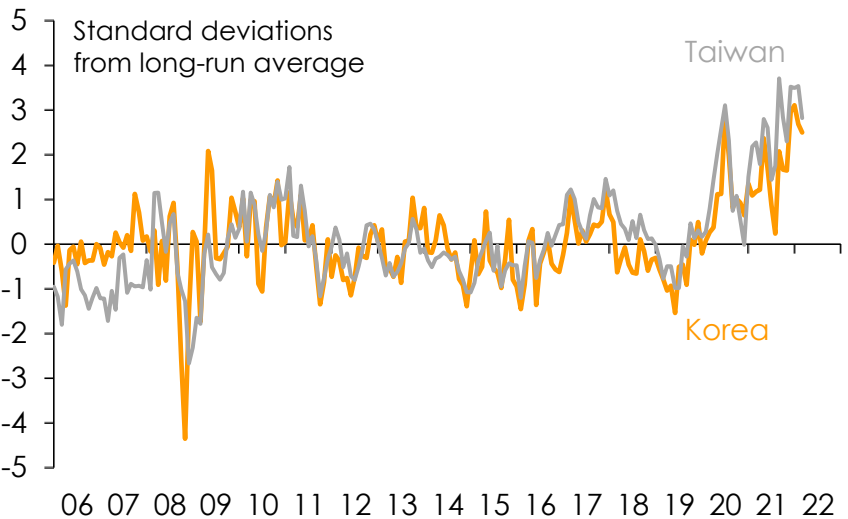
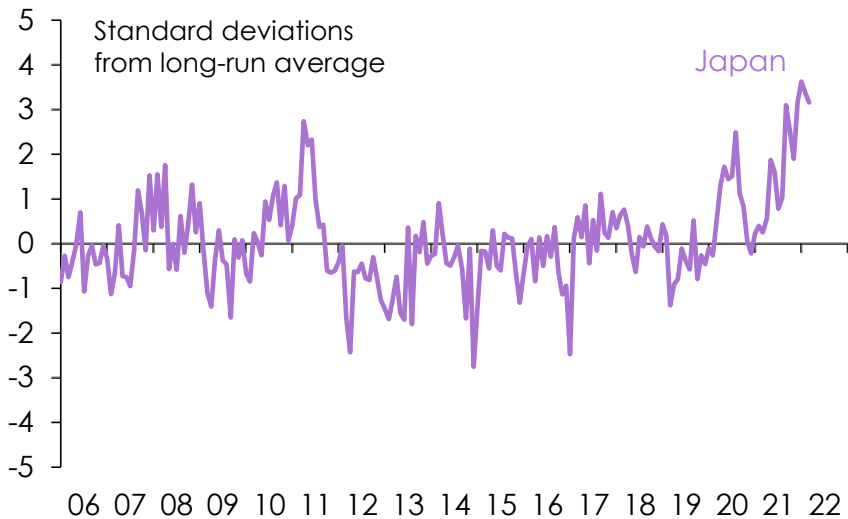
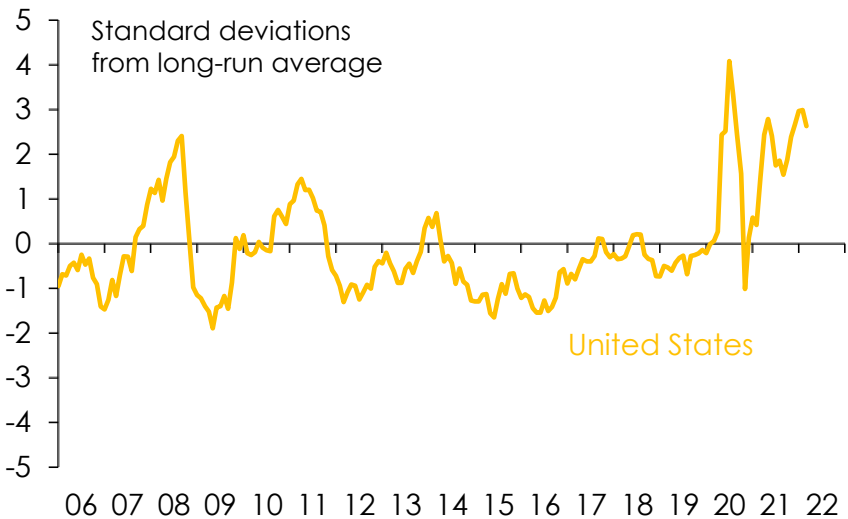


Note: The IMF commodity price indices were re-based to 2016 = 100 (previously 2005) in October 2021; but the IMF appears to have indefinitely suspended its series of commodity prices (other than indexes). Sources: [International Monetary Fund](#); [UN Food and Agriculture Organization](#); [Freightos](#); [Drewry](#); [The Baltic Exchange](#); Refinitiv Datastream.

Global supply chain pressures increased a little in May, reversing the slight increase in April, but remain well above their long run average

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

NY Fed global supply chain pressure index

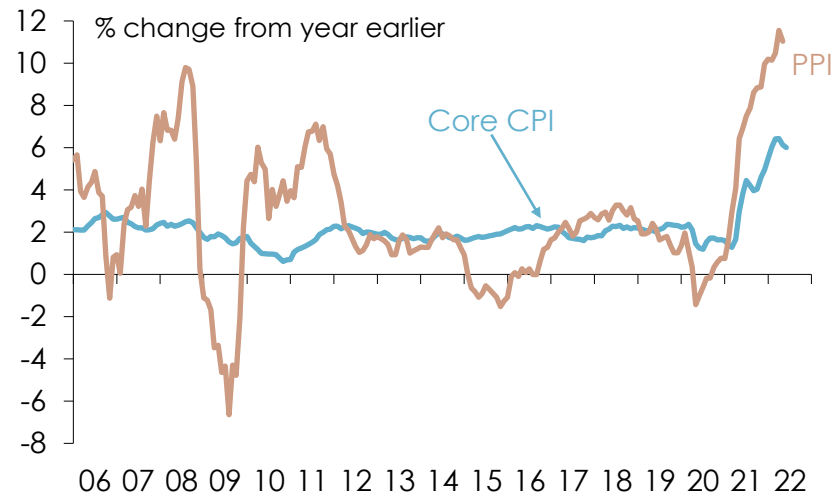


Sources: Gianluca Benigno, Julian Di Giovanni, Jan Groen & Adam Noble, [A New Barometer of Global Supply Chain Pressures](#), Federal Reserve Bank of New York, 4th January 2022 (which contains a detailed explanation of the construction of this index). Latest data for global index is for [May 2022](#); individual country indices haven't been updated since February. [Return to "What's New"](#).

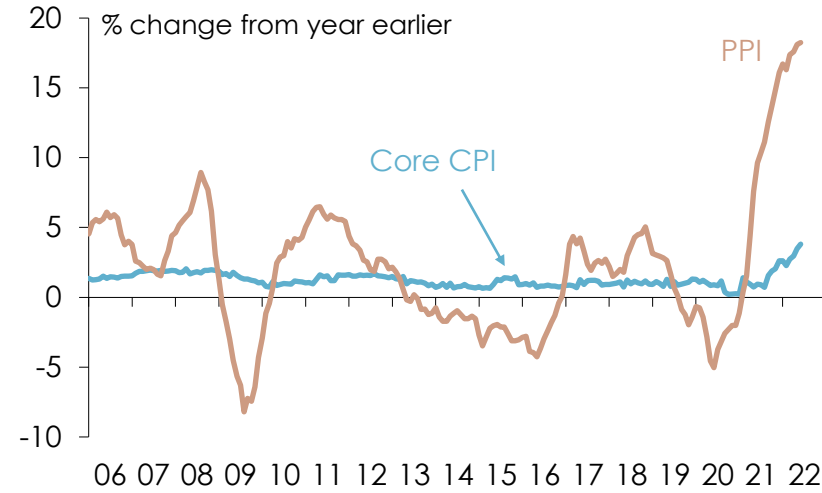
Inflation has risen sharply at the producer level in all advanced economies, and (Japan aside) 'core' CPI inflation is also above central bank targets

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

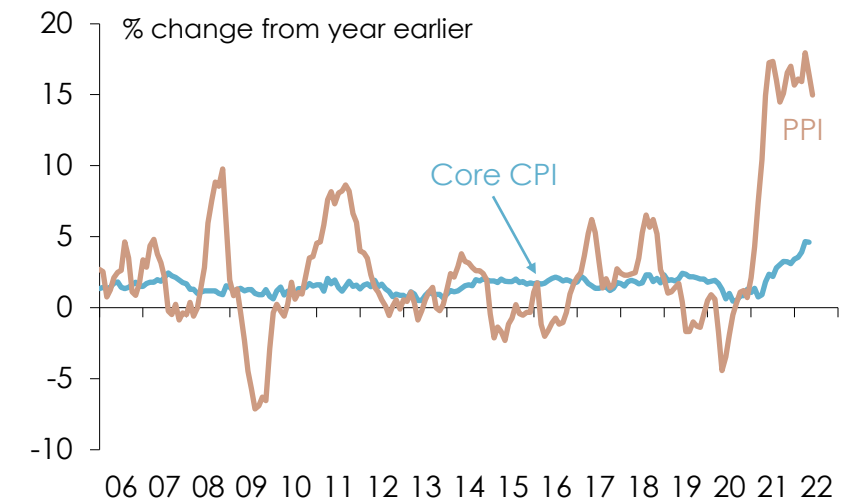
United States



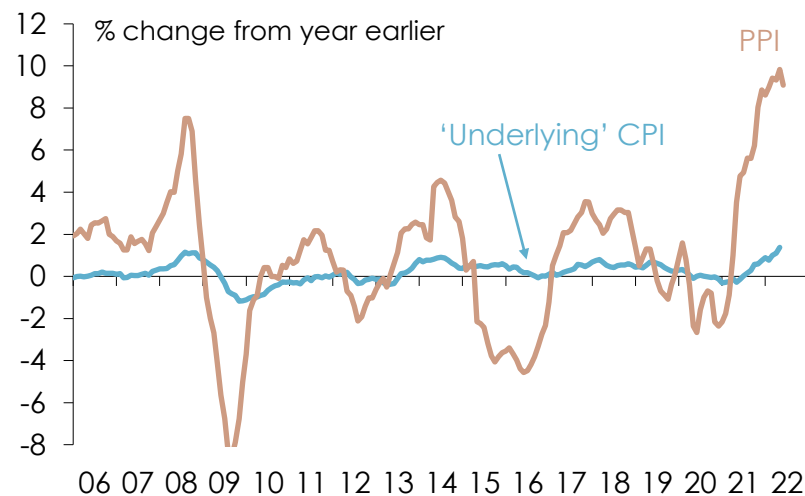
Euro area



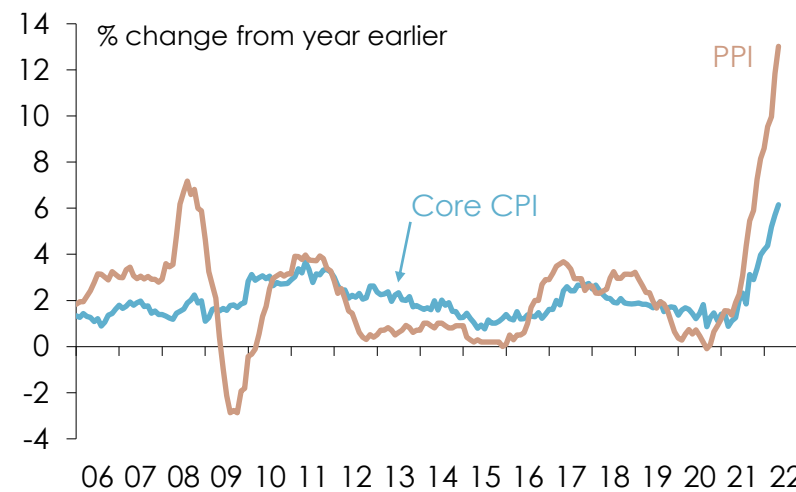
Canada



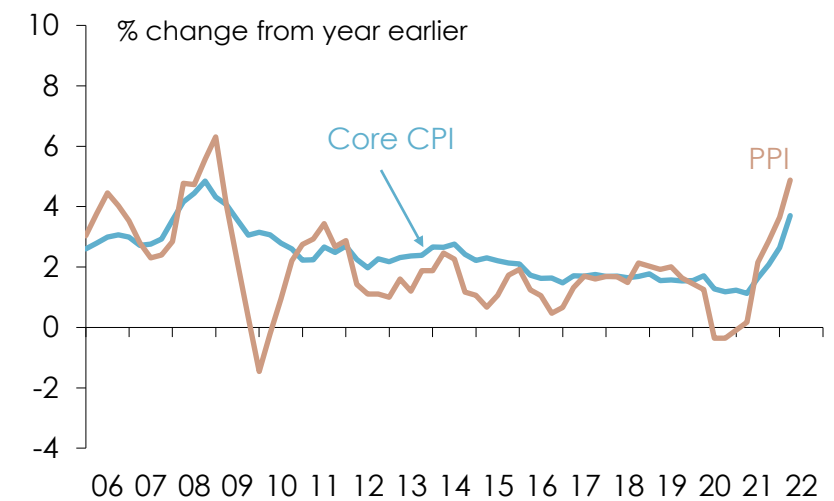
Japan



United Kingdom



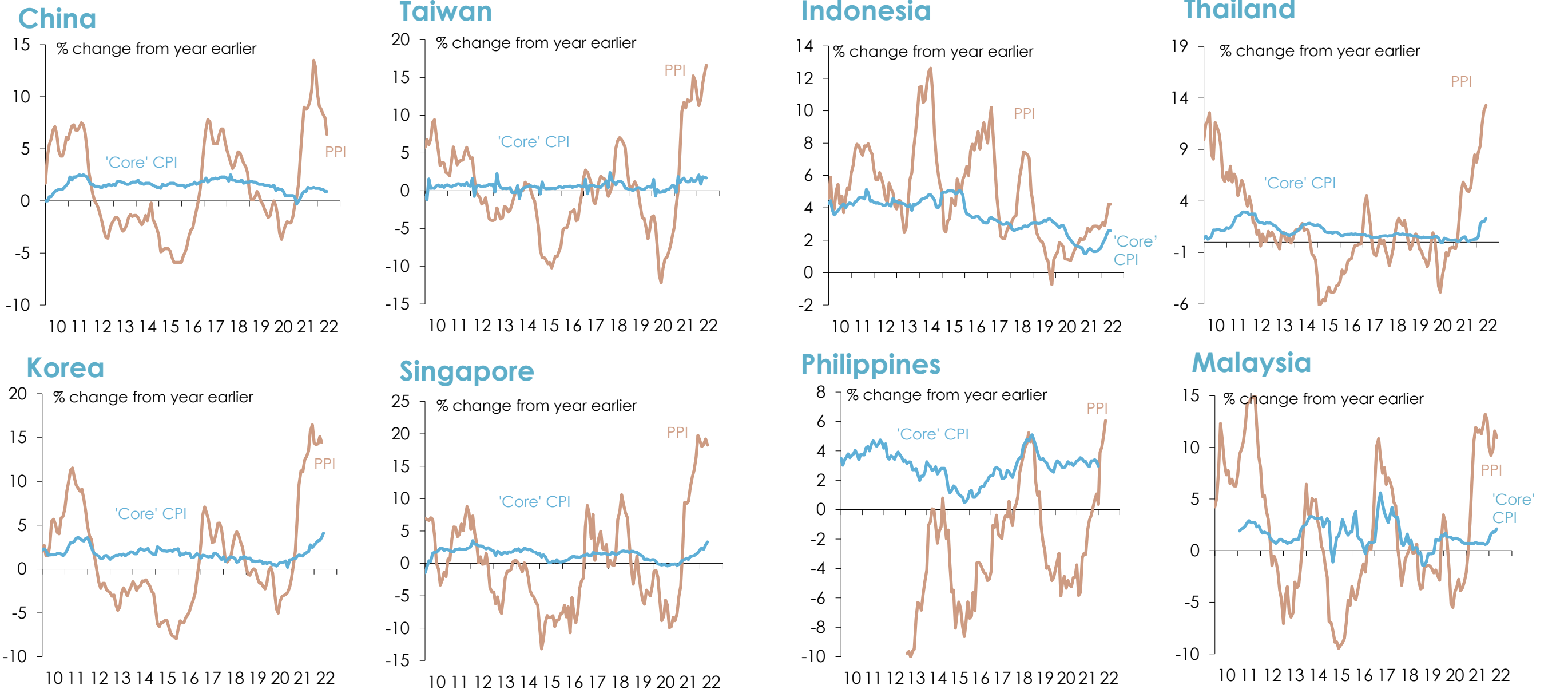
Australia



For a more detailed analysis of recent US inflation data see [slides 59-63](#). Sources: [US Bureau of Labor Statistics](#); [Statistics Bureau of Japan](#) and [Bank of Japan](#); [Eurostat](#); [UK Office for National Statistics](#); [Statistics Canada](#); [Australian Bureau of Statistics](#). [Return to "What's New"](#).

Most Asian economies have been experiencing rapid ‘upstream’ inflation for some time, and ‘core’ consumer price inflation is now starting to pick up

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

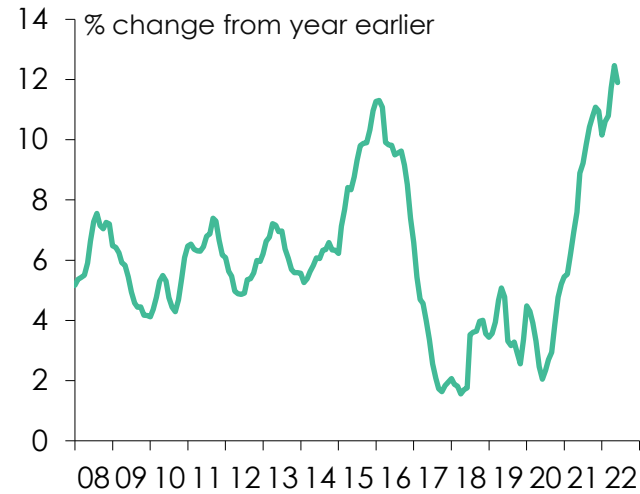


Note: 'Core' CPIs measure different things in different Asian economies – see footnotes to [slide 101](#). Sources: [China National Bureau of Statistics](#); [Statistics Korea](#); [Bank of Korea](#); [Taiwan Statistical Bureau](#); [Singstat](#); [Monetary Authority of Singapore](#); [Statistics Indonesia](#); [Philippine Statistics Authority](#); [Thailand Bureau of Trade and Economic Indices](#); [Department of Statistics Malaysia](#). [Return to "What's New"](#).

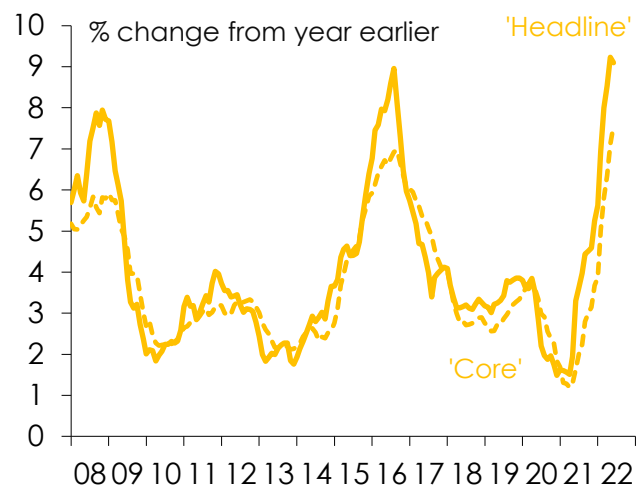
Consumer price inflation is rising sharply across Latin America (except for Venezuela, where it's now down to just 207%!)

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

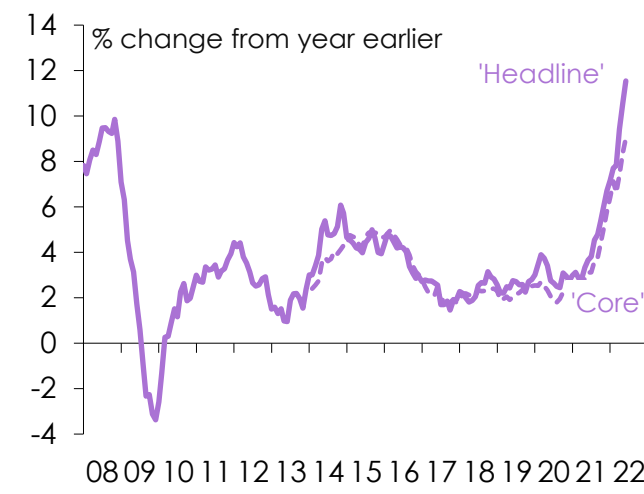
Brazil



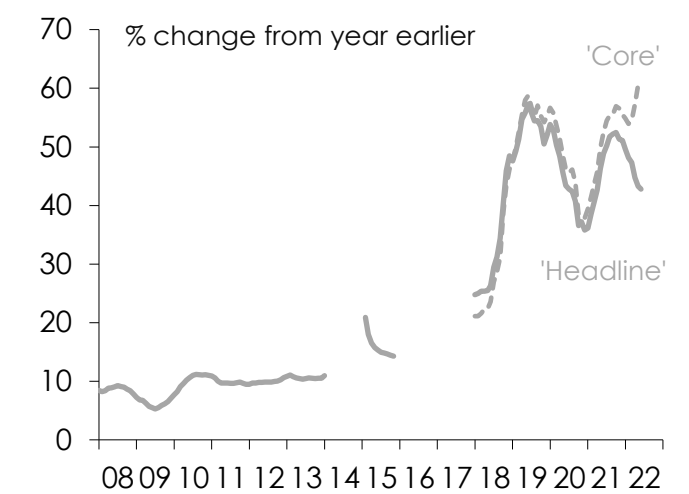
Colombia



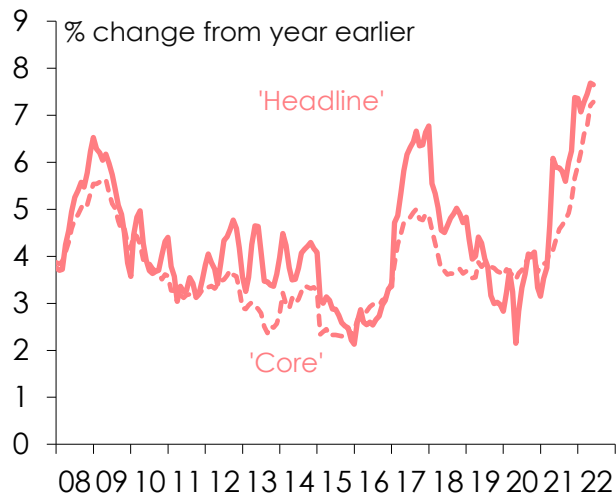
Chile



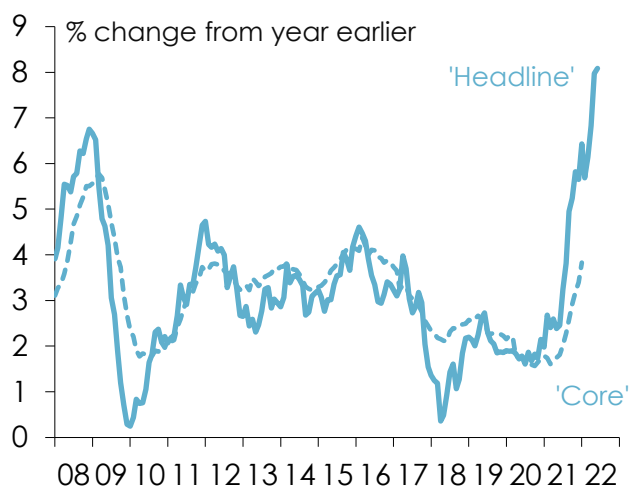
Argentina



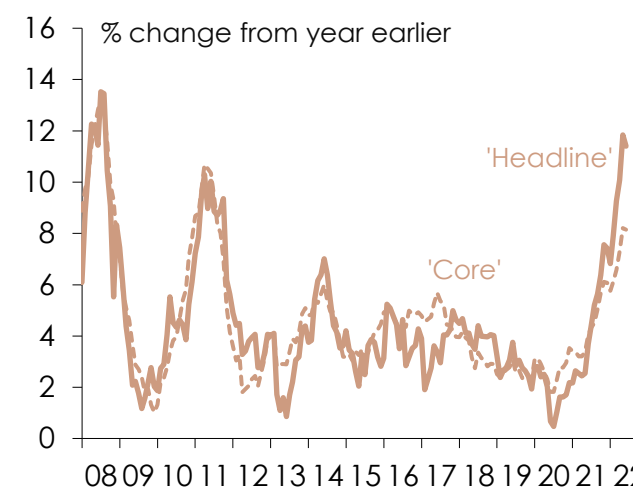
Mexico



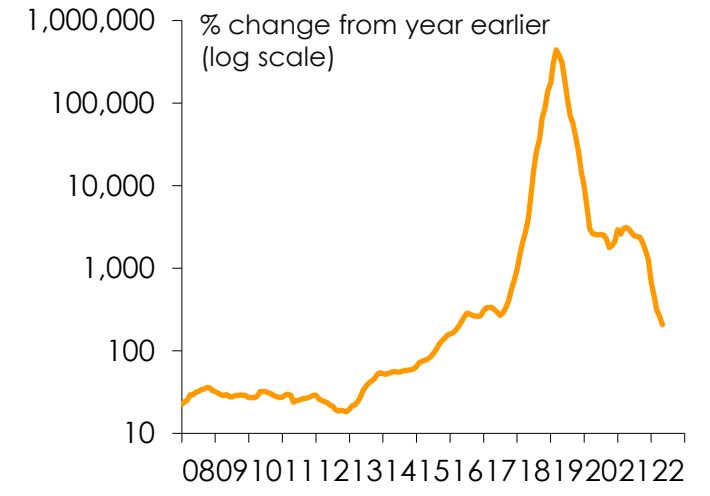
Peru



Paraguay



Venezuela

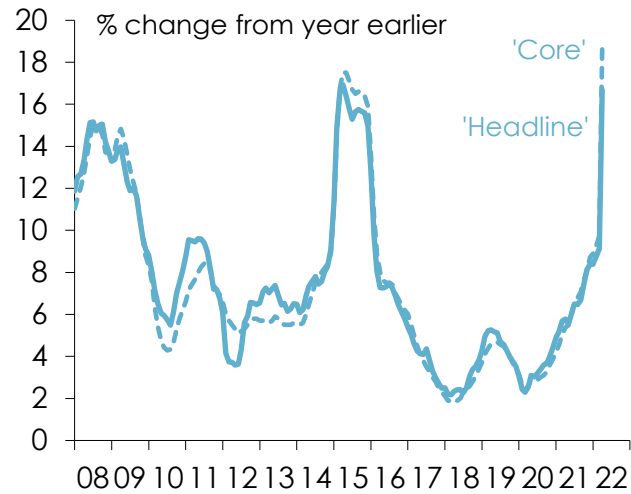


Sources: [Instituto Brasileiro de Geografia e Estatística](#); [Instituto Nacional de Estadística y Geografía](#) (Mexico); [Departamento Administrativo Nacional de Estadística](#) (Colombia); [Instituto Nacional de Estadística e Informática](#) (Peru); [Instituto Nacional de Estadísticas](#) (Chile); [Instituto Nacional de Estadística](#) (Paraguay); [Instituto Nacional de Estadística y Censos](#) (Argentina); [Instituto Nacional de Estadística](#) (Venezuela). [Return to "What's New"](#).

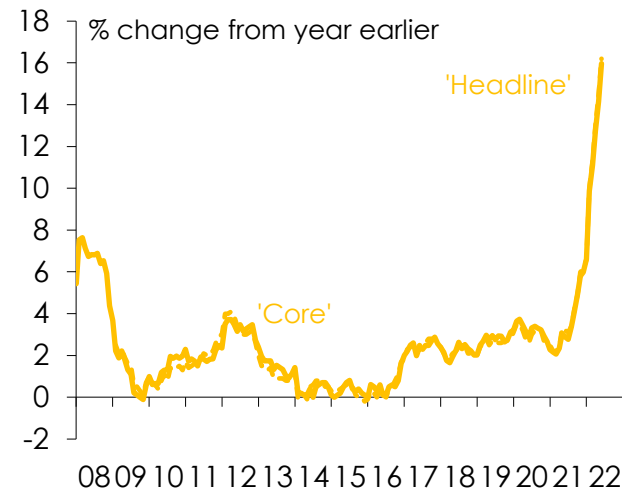
Consumer price inflation is also rising across Central and Eastern Europe, and in South Africa

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

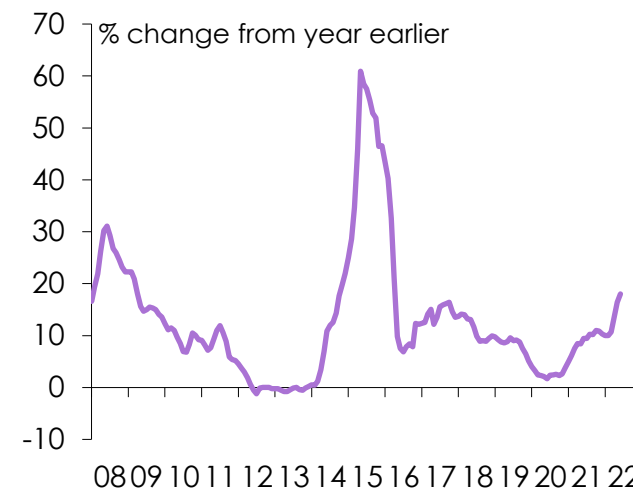
Russia



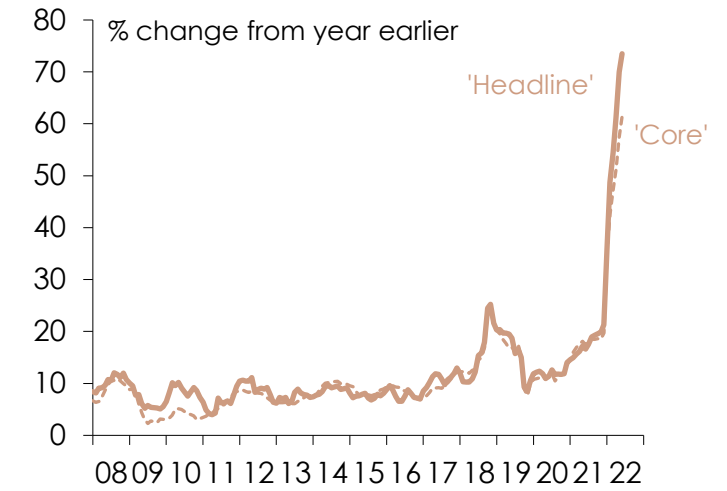
Czech Republic



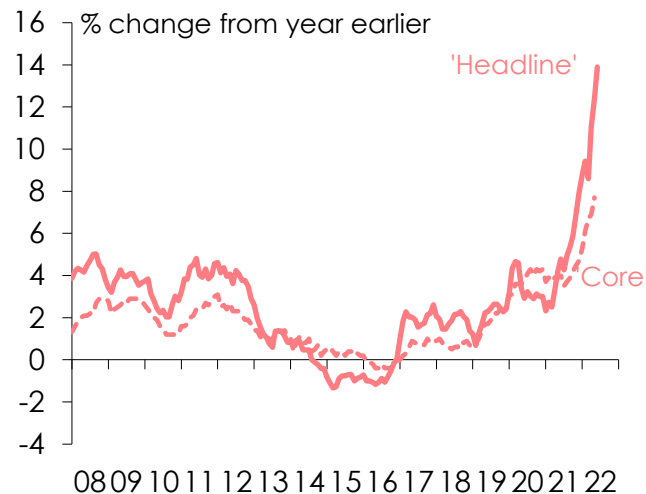
Ukraine



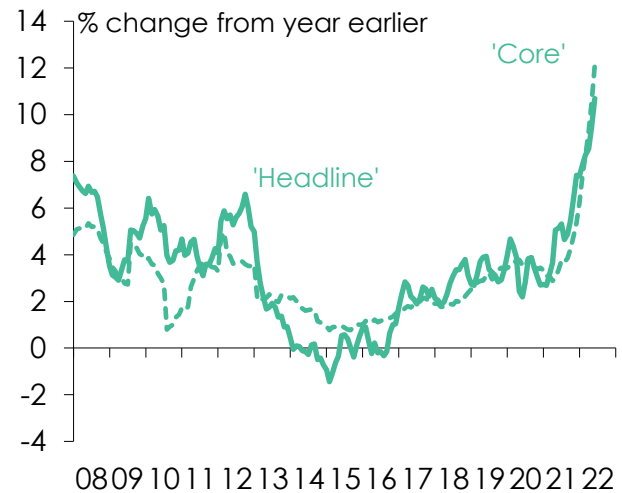
Turkey



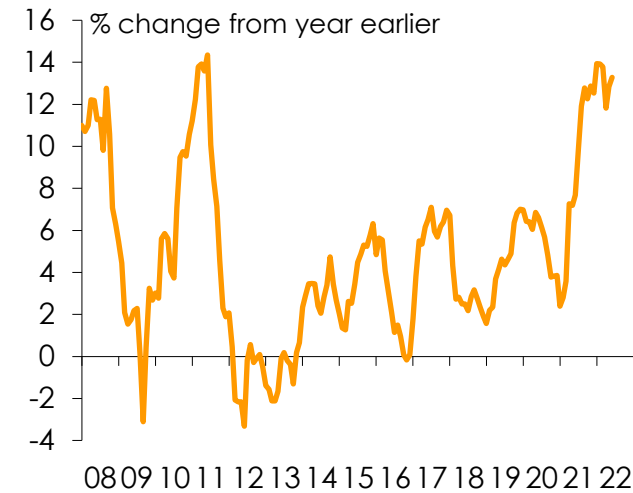
Poland



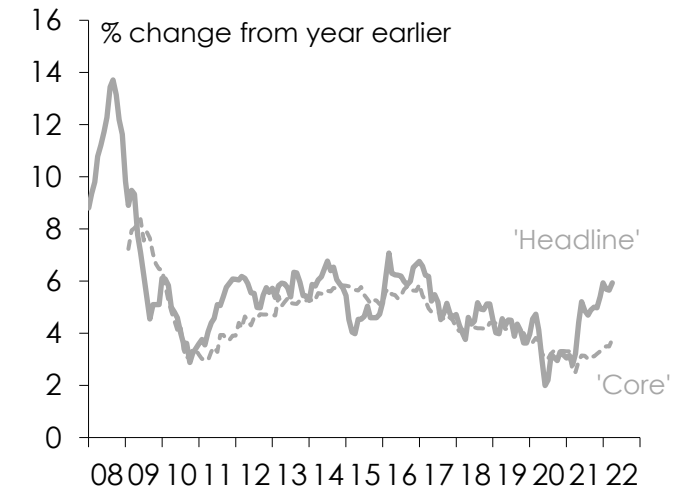
Hungary



Georgia



South Africa

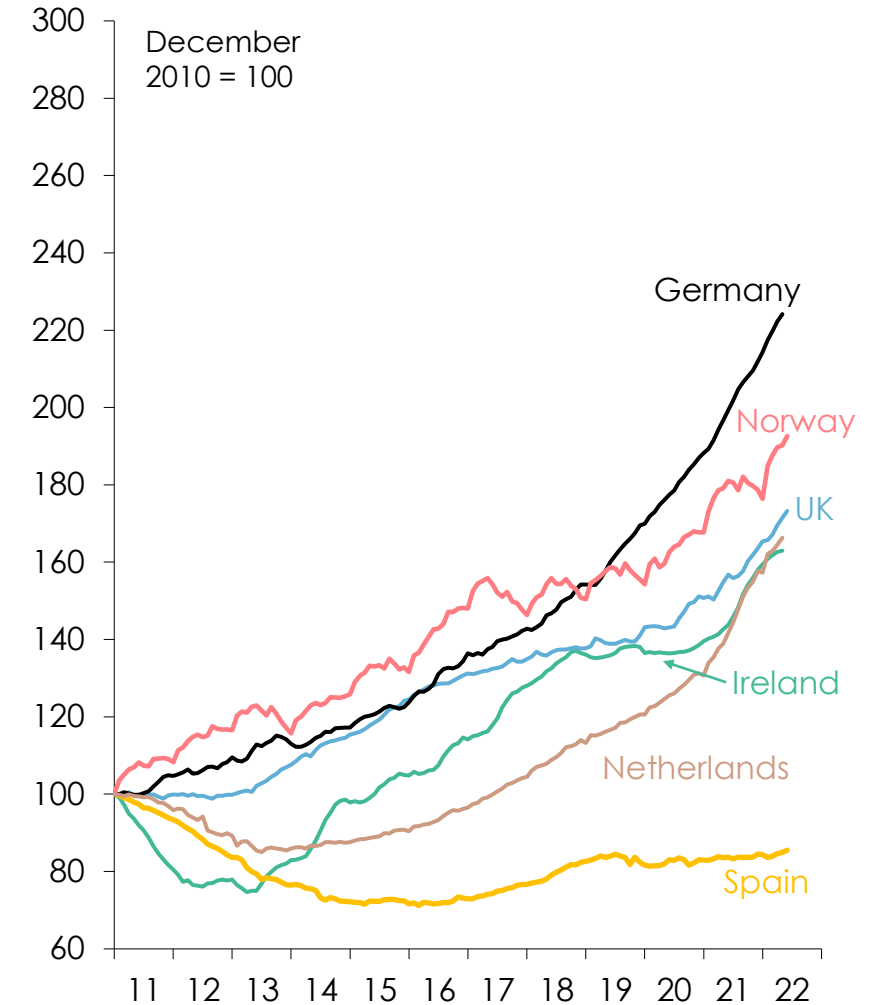
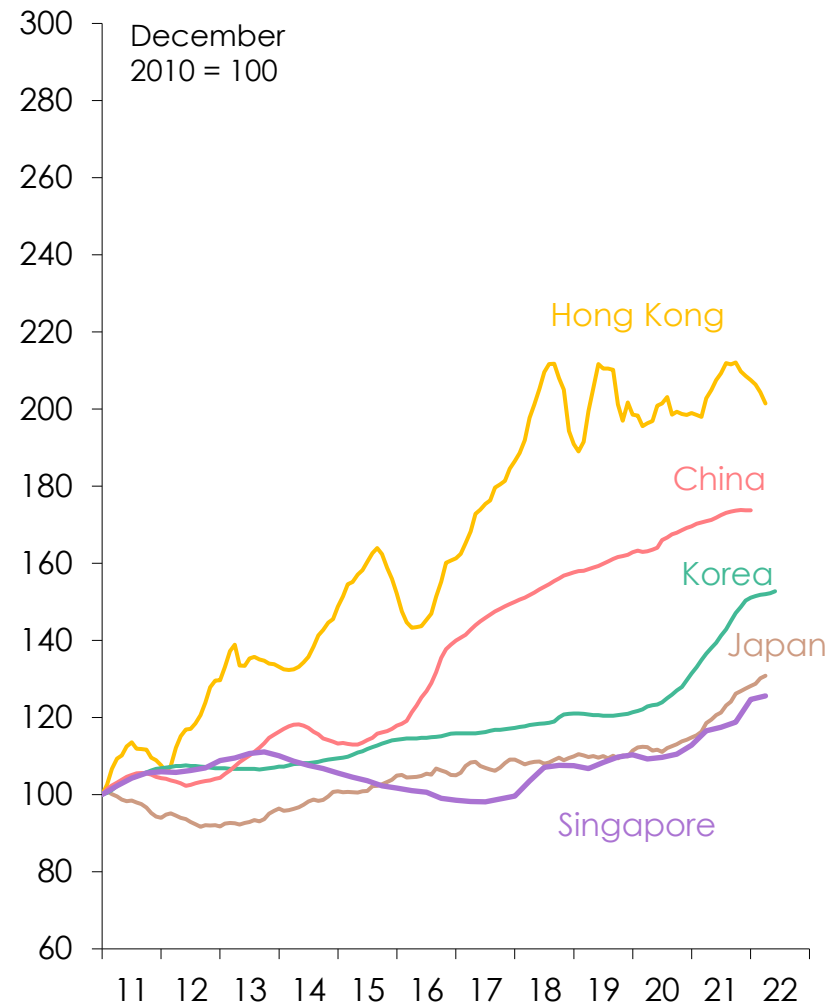
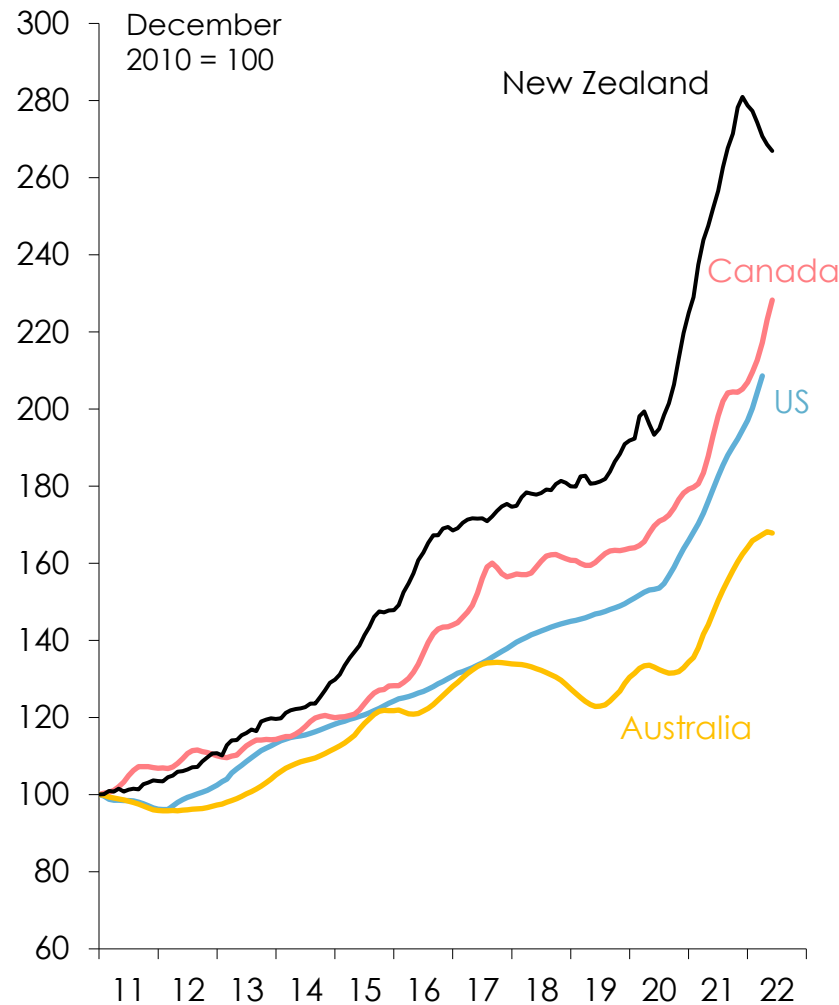


Sources: [Rosstat](#); [Główny Urząd Statystyczny](#) (Poland); [Český statistický úřad](#) (Czech Republic); [Központi Statisztikai Hivatal](#) (Hungary); [Ukrstat](#); [Sak'art'velos statistikis erovnuli samsakhuri](#) (Georgia); [Turkstat](#); [Statistics South Africa](#). [Return to "What's New"](#).

Record-low interest rates over the past 2 years have fuelled rapid growth in house prices, but New Zealand appears to have 'topped out'

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

House price indices

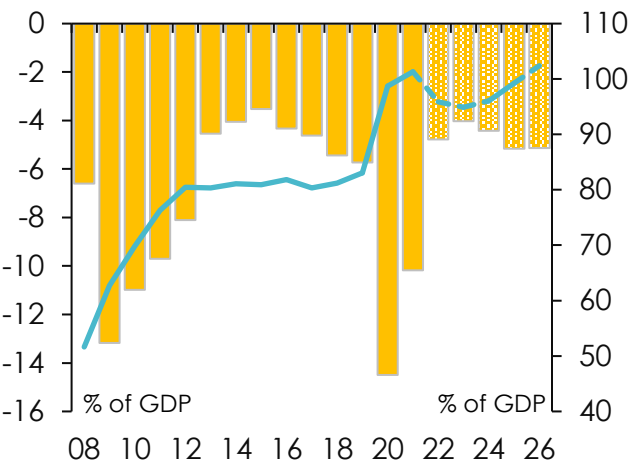


Note: House price indices shown in these charts are those published by [S&P-CoreLogic Case Shiller national](#) (United States); [Teranet-National Bank](#) (Canada); [CoreLogic](#) (Australia); [Real Estate Institute of New Zealand](#); [China Index Academy](#); [Japan Real Estate Institute](#) (Tokyo condominiums); [Kookmin Bank house price index](#) (Korea); [Centaline Centa-City Index](#) (Hong Kong); [Urban Redevelopment Authority](#) (Singapore); [Europace hauspreisindex](#) (Germany); [Halifax house price index](#) (UK); [Central Statistics Office RPPI](#) (Ireland); [Fotocasa real estate index](#) (Spain); [Statistics Netherlands](#); [Eiendom Norge](#) (Norway). These indices have been chosen for their timeliness and widespread recognition: they do not necessarily all measure the same thing in the same way. For more comprehensive residential property price data see the quarterly database maintained by the [Bank for International Settlements](#). [Return to "What's New"](#).

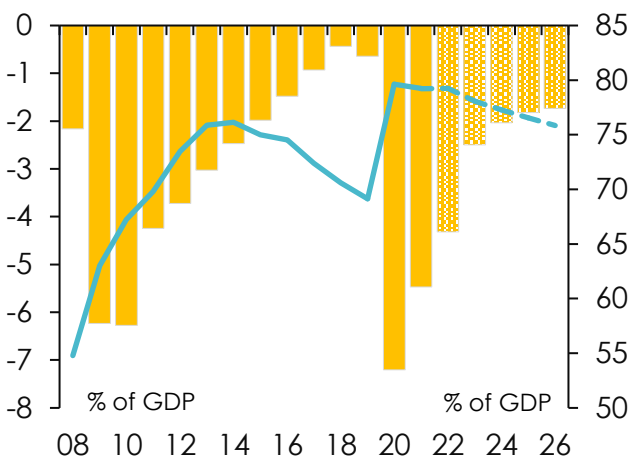
Fiscal policy is set to be tightened significantly in 2022 in most major economies except Japan, China and India

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

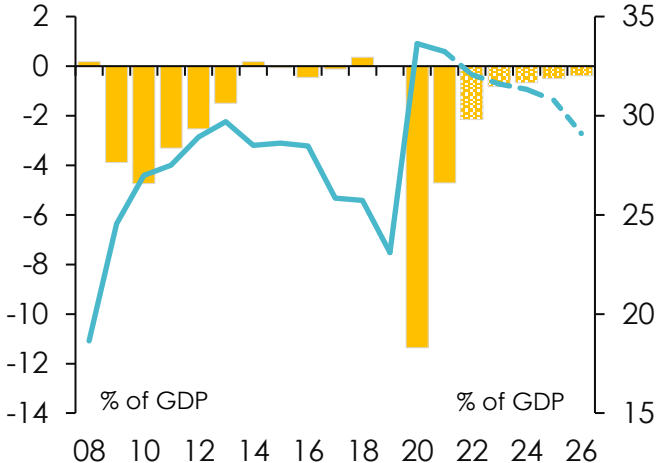
United States



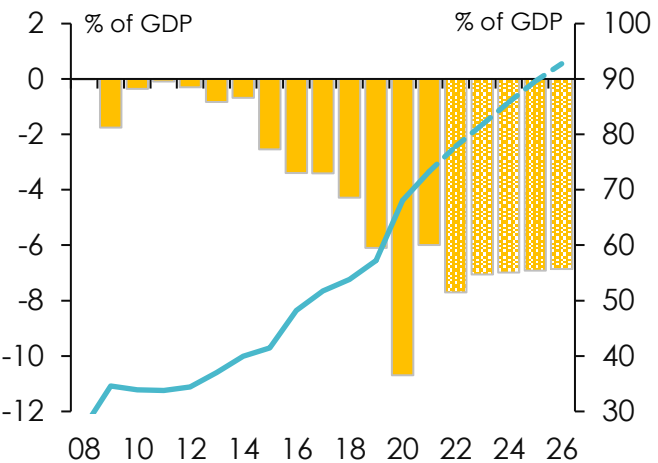
Euro area



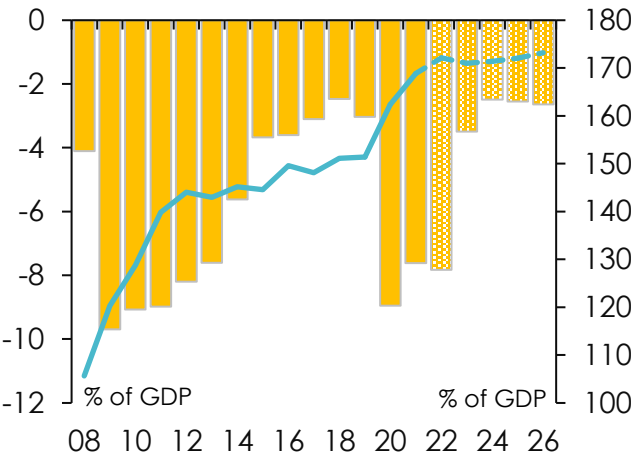
Canada



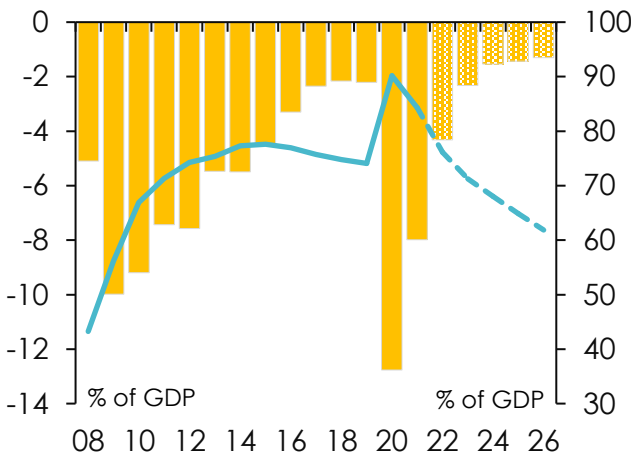
China



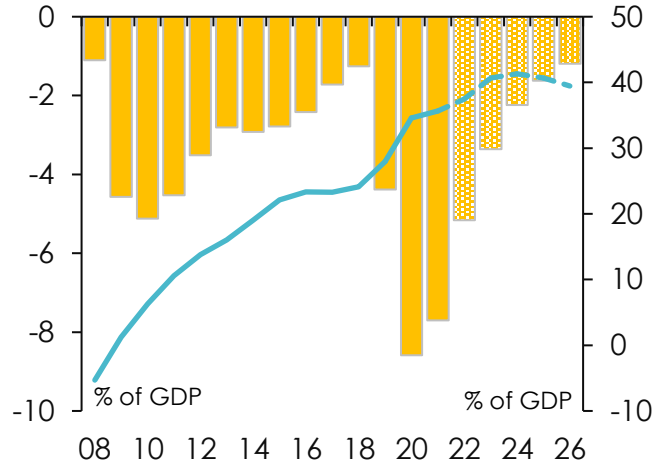
Japan



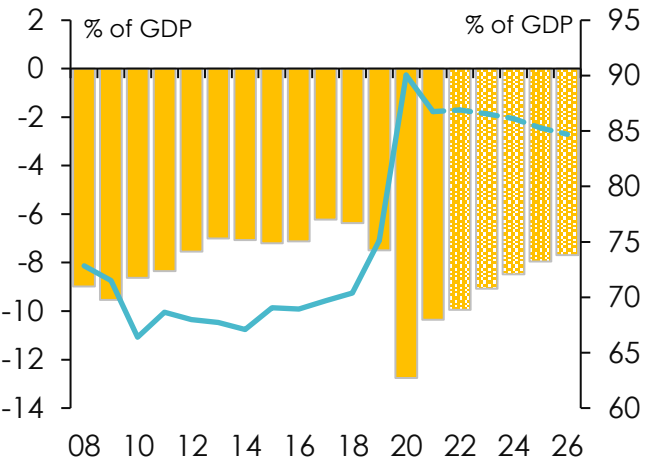
United Kingdom



Australia



India

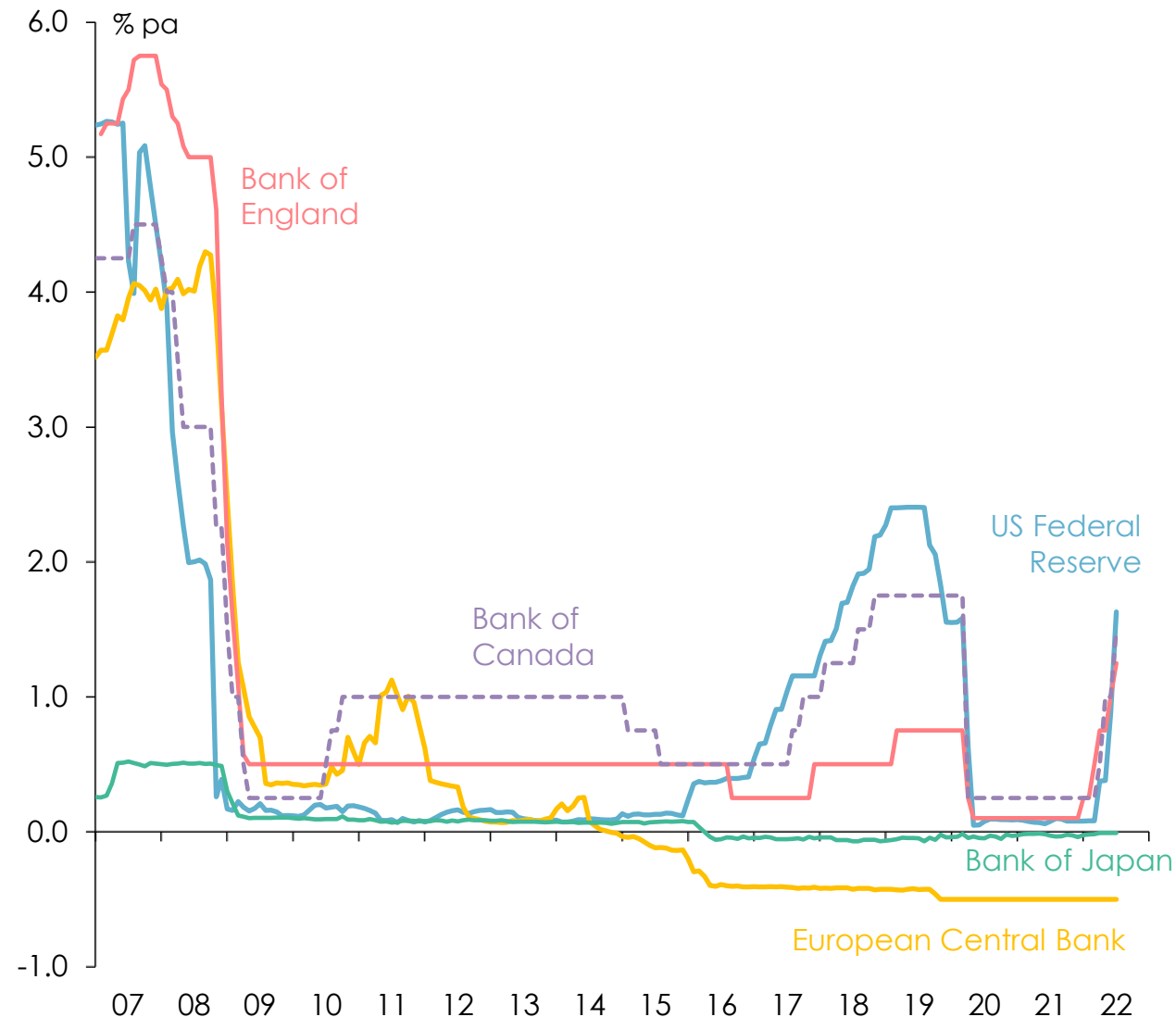


General government overall fiscal balance (left scale) General government net debt (right scale)

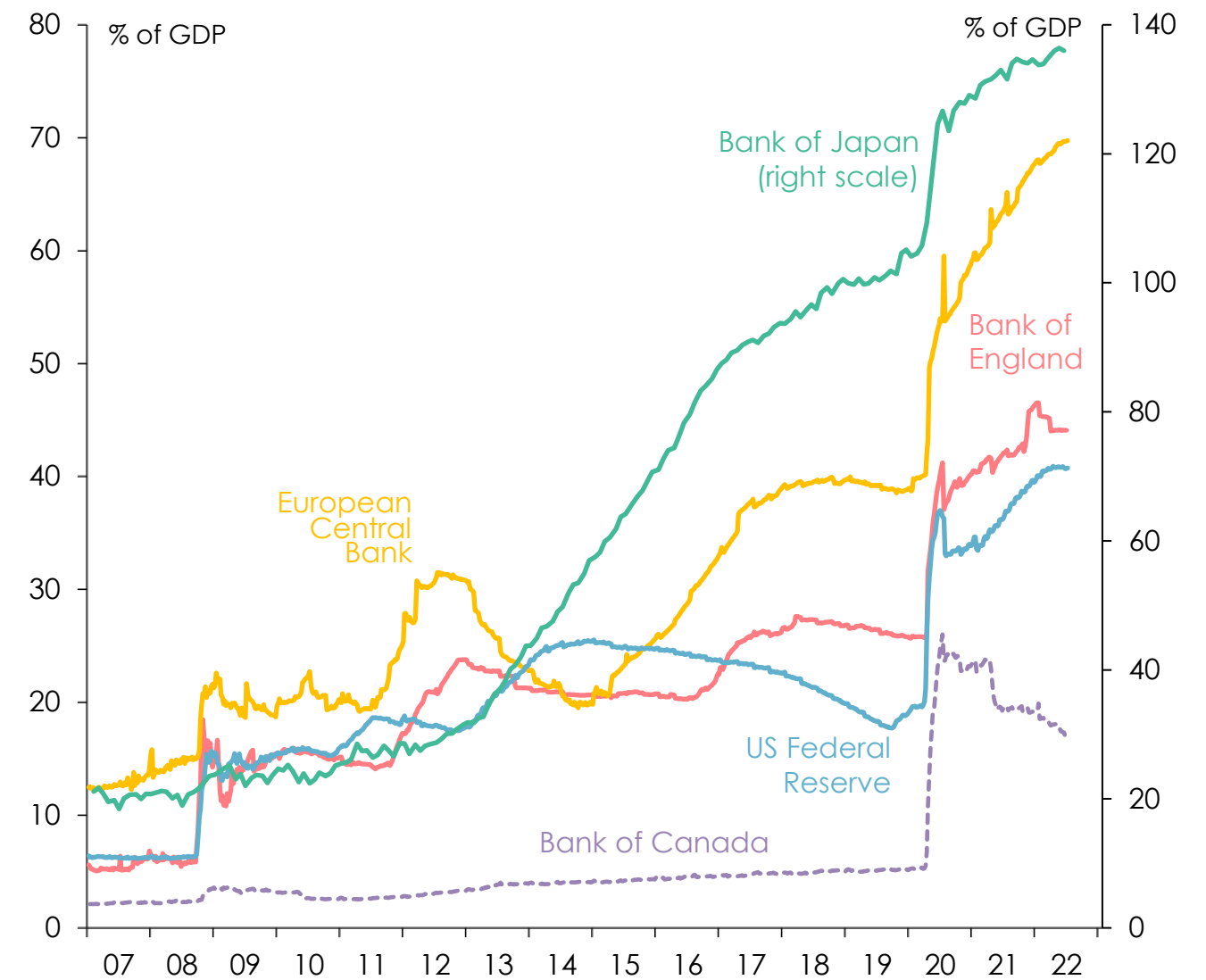
Major 'advanced' economy central banks (apart from the BoJ) have become more assertive in responding to inflation over the past few weeks

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

Major central bank policy interest rates



Major central bank balance sheets



Sources: [US Federal Reserve](#); [European Central Bank](#); [Bank of Japan](#); [Bank of England](#); [Bank of Canada](#); national statistical agencies; Corinna. [Return to "What's New"](#).

How will 'quantitative tightening' work, in practice?

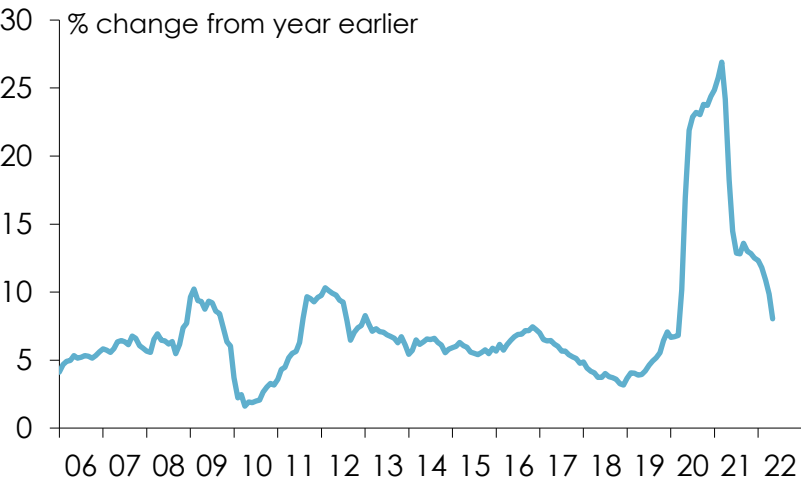
THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

- ❑ Research by central bank and academic economists (see for example [Gagnon et al 2011](#); [D'Amico & King 2011](#); [Bauer & Rudebusch 2014](#); [Di Maggio, Kermani & Palmer 2016](#); [Krishnamurthy & Vissing-Jørgensen 2016](#); [Haddad, Moreira & Muir 2020](#); [Viyanos & Vila 2021](#); [Krishnamurthy 2022](#); and [Lucca & Wright 2022](#)) suggests that 'quantitative easing' (asset purchases) by central banks works through three main 'channels'
 - broad macro channels (similarly to conventional monetary policy administered through policy interest rates) such as exchange rates and (real & financial) asset prices;
 - narrower channels associated with the specific assets which central banks are buying (such as mortgage-backed securities, longer-dated securities, or in the euro area, specific government securities) which affect the 'risk premiums' on those assets;
 - and as an additional 'signalling channel' for communicating more information about central banks' intentions
- ❑ Although central banks have almost no experience with 'quantitative tightening' (other than the Fed's limited episode between October 2017 and June 2019), it seems reasonable to think that it will also 'work' (to the extent that it does) through similar channels (albeit in the opposite direction)
- ❑ Specifically, 'QT' is likely to have a dampening effect on asset prices
 - which is already evident in the falls in stock prices – and especially prices of 'tech stocks' – since the Fed first formally announced that it would embark on 'QT'
 - and it will also likely have a dampening impact on real estate prices
- ❑ 'QT' will also likely have some impact on exchange rates, at least for the US\$ vs the euro and yen
 - because the Fed is doing 'QT', but the BoJ and the ECB aren't
 - it may also put downward pressure on emerging market currencies, compounding the effects of higher US interest rates
- ❑ To the extent that 'QT' does re-inforce the impact of 'conventional' monetary policy (higher policy interest rates), 'QT' may mean that those policy interest rates may not need to rise as much
 - though it may take some time for central banks to reach that judgement, if it's warranted

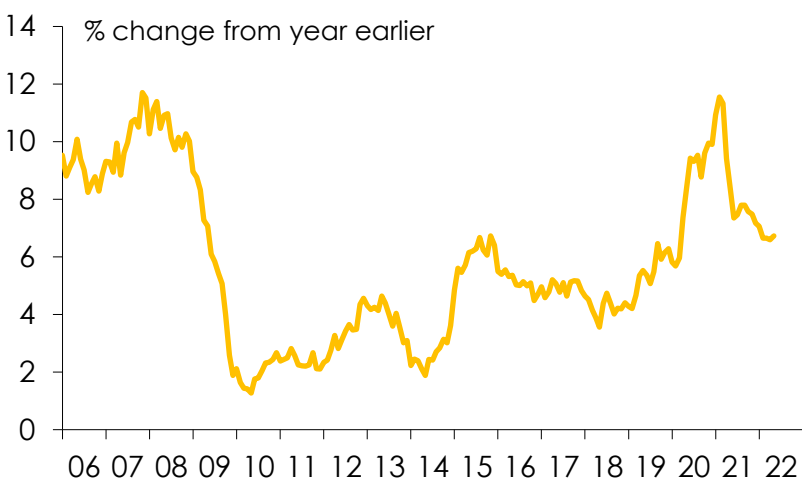
Money supply growth has slowed sharply from the peaks recorded in the first half of 2021 as large monthly increases in 2020 ‘wash out’

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

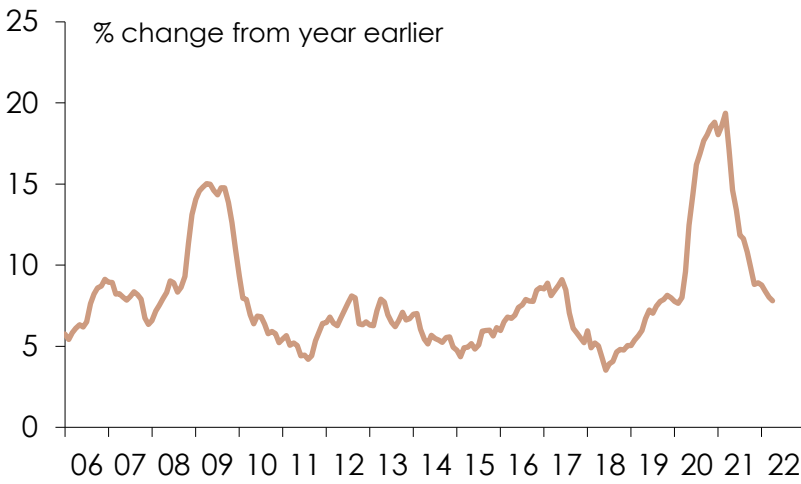
US M2



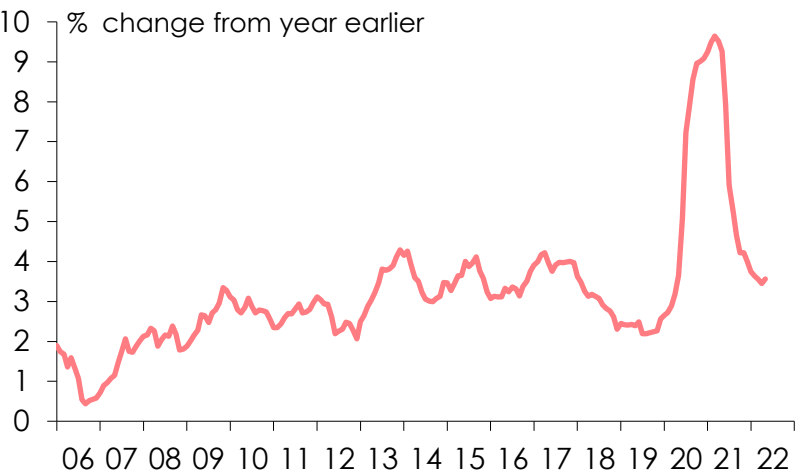
Euro area M2



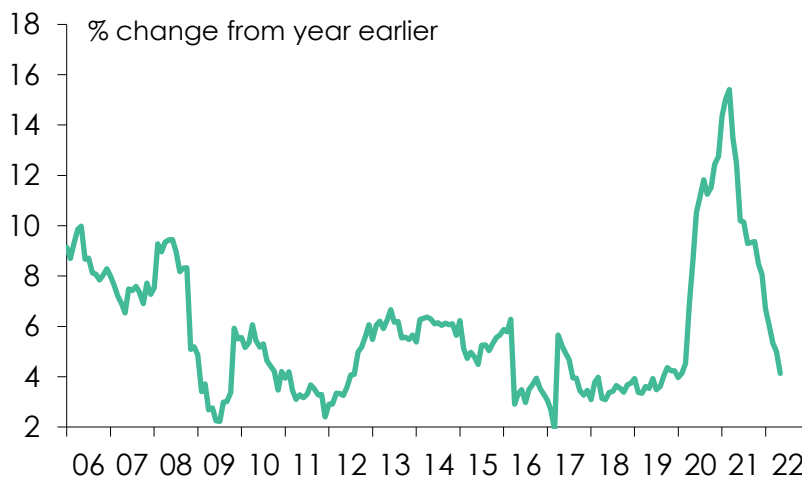
Canada M2



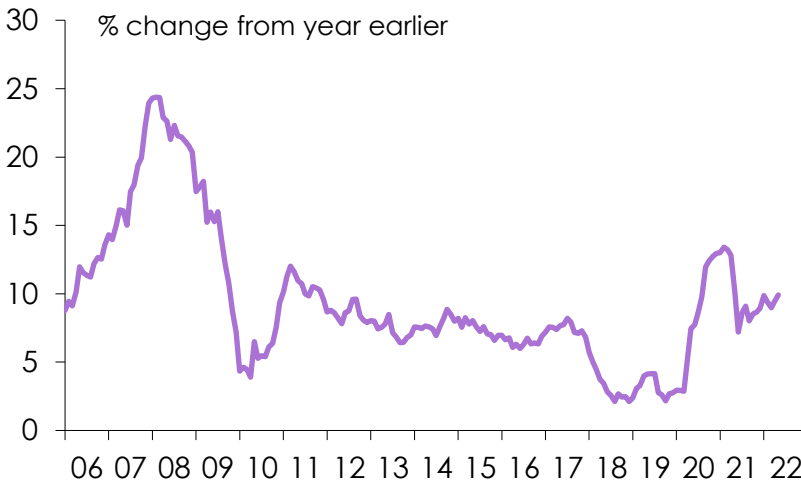
Japan M2 + CDs



UK M2



Australia M3

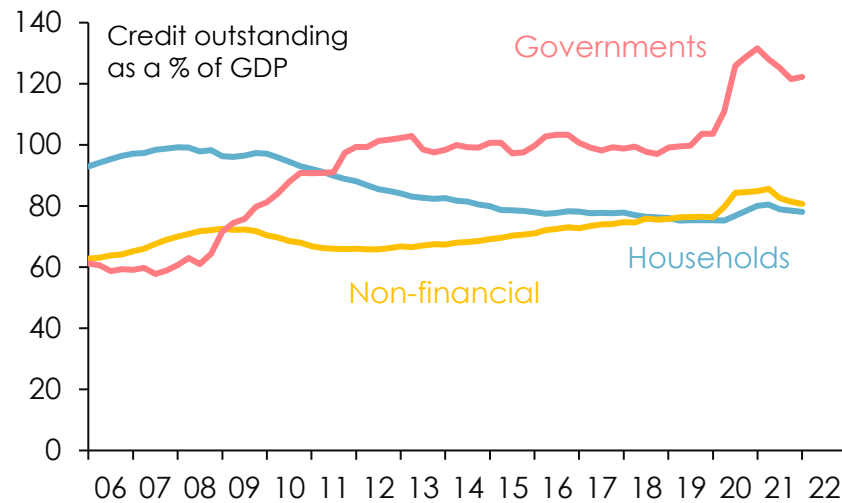


Sources: US Federal Reserve; European Central Bank; Bank of Japan; Bank of England; Bank of Canada; RBA. [Return to "What's New"](#).

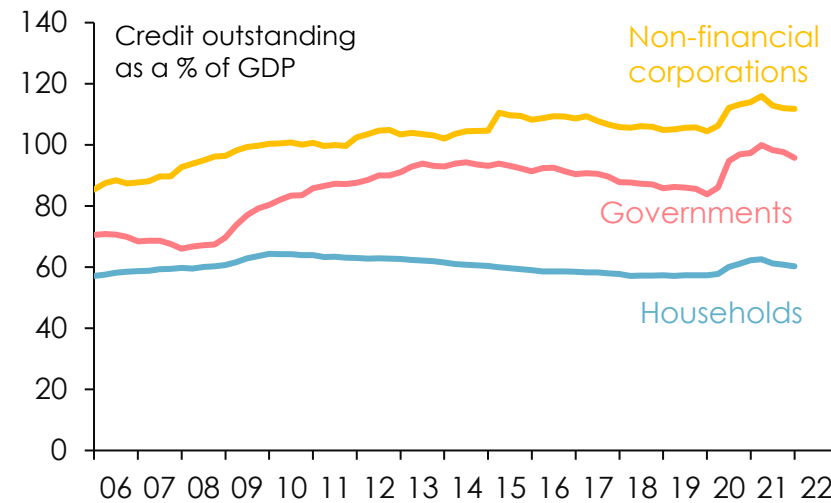
Japanese, US and UK governments, Canadian corporations and Australian households appear most exposed to increases in interest rates

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

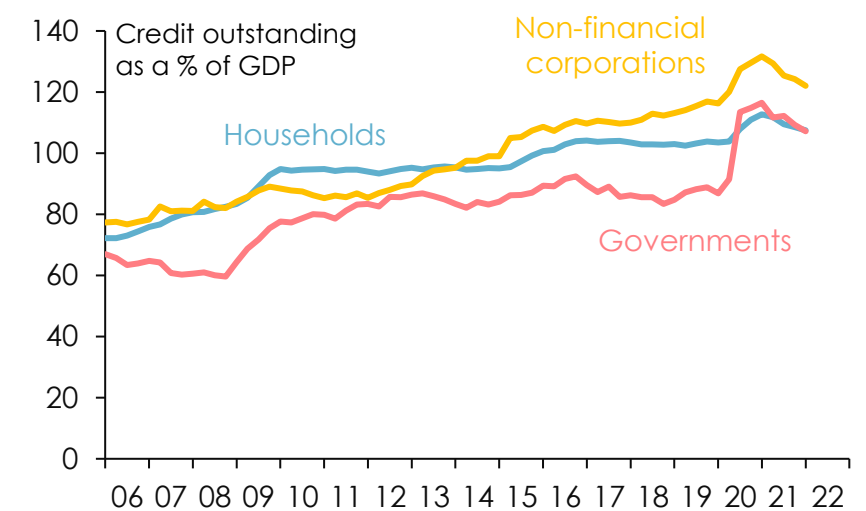
US



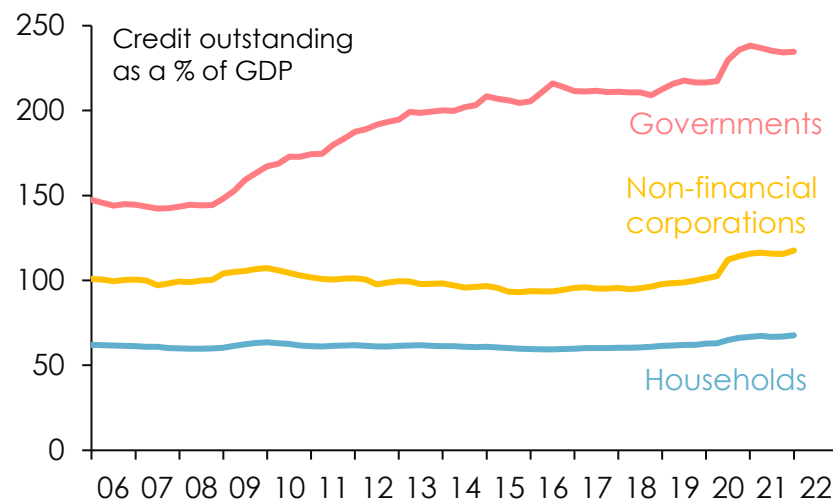
Euro area



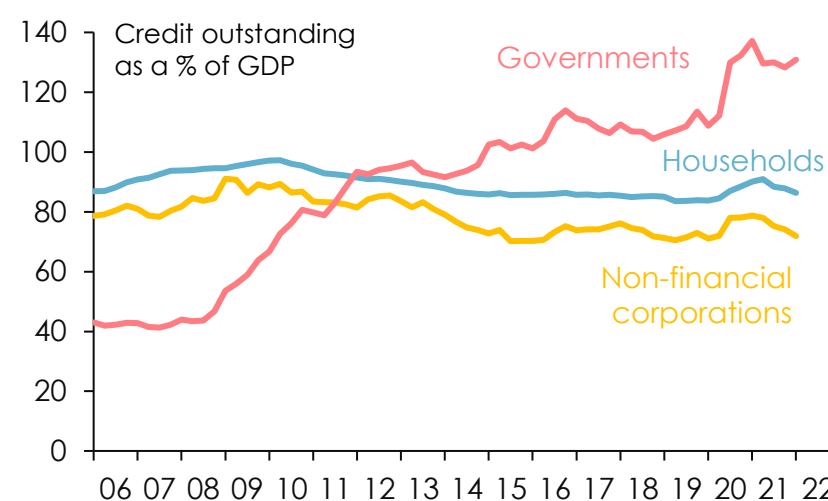
Canada



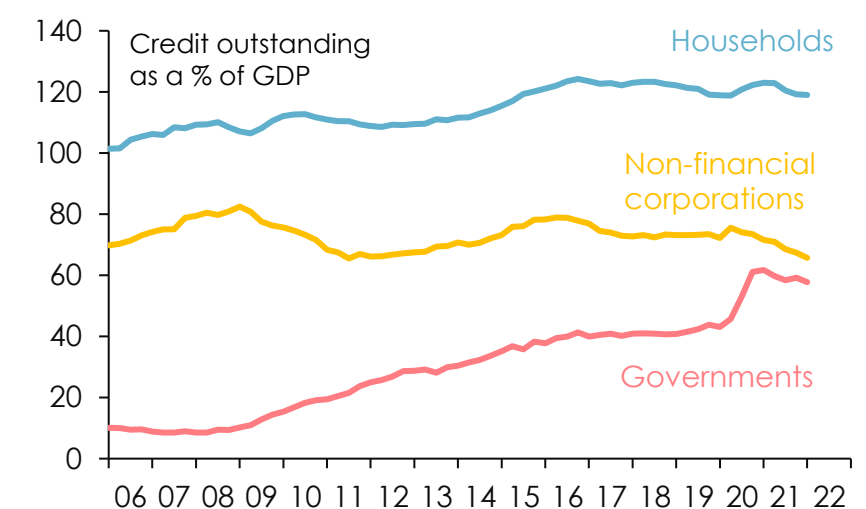
Japan



UK



Australia

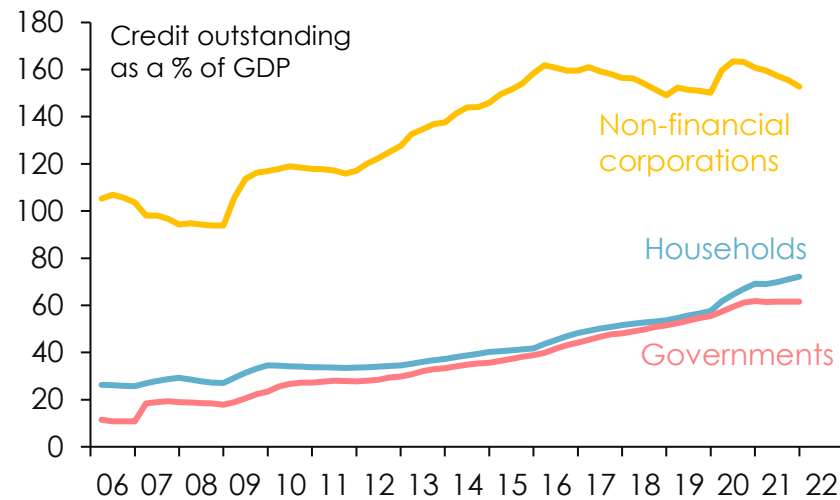


Source: Bank for International Settlements, [Credit Statistics](#); latest data are for Q4 2021, Q1 2022 data will be released in mid-September. [Return to "What's New"](#).

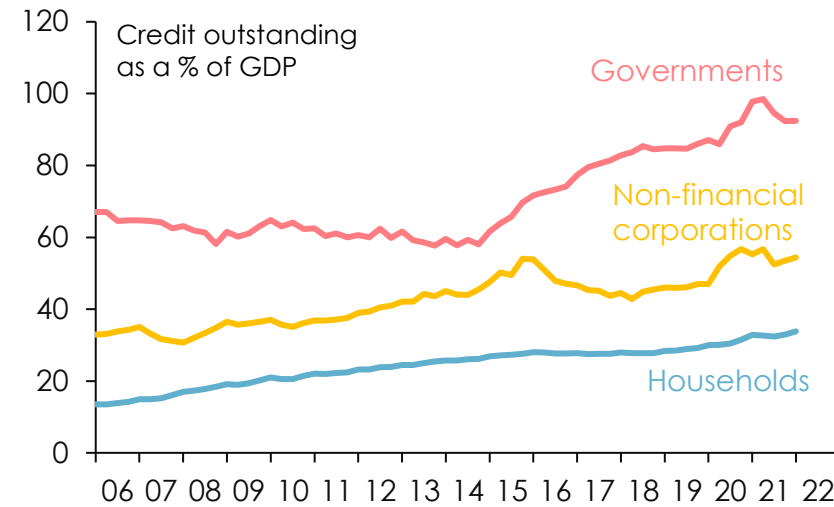
In major 'developing' economies it's usually governments that are most exposed to rising interest rates – except for China, Russia and Turkey

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

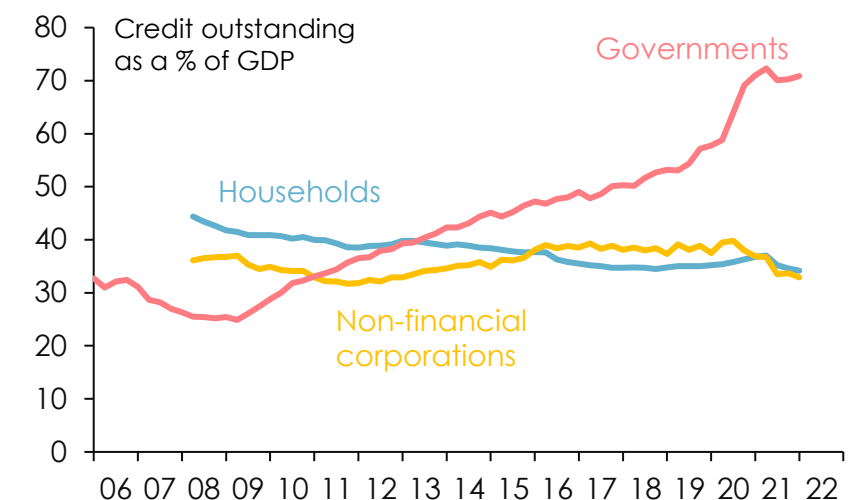
China



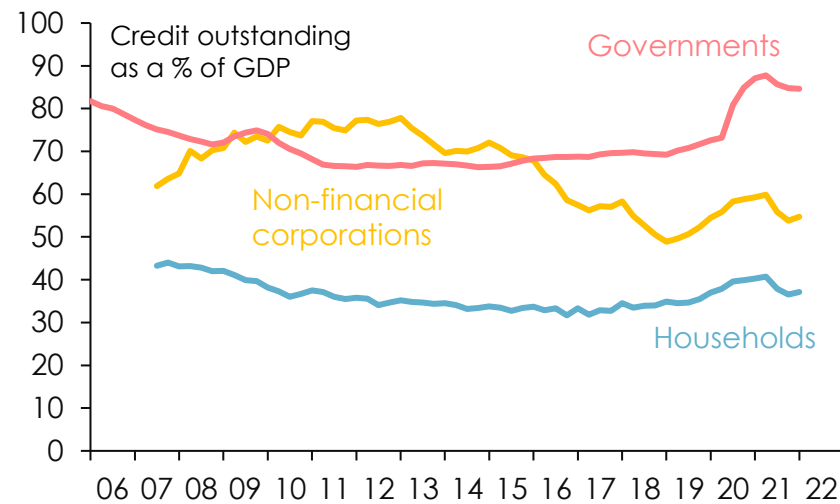
Brazil



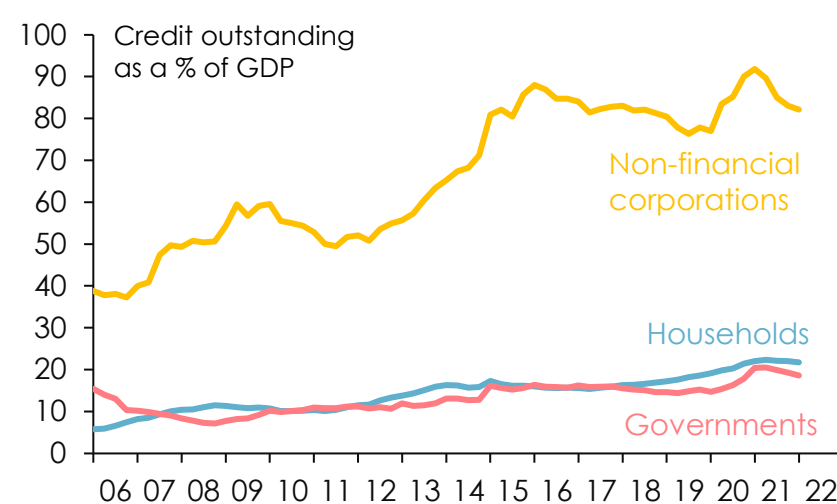
South Africa



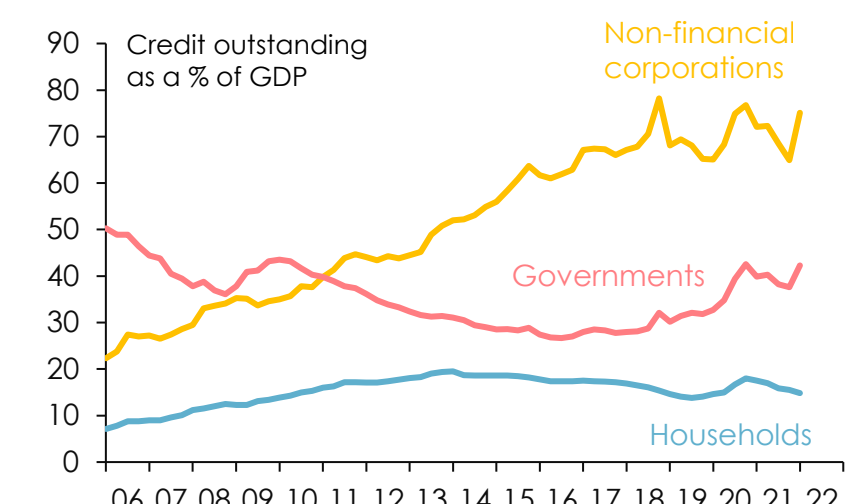
India



Russia



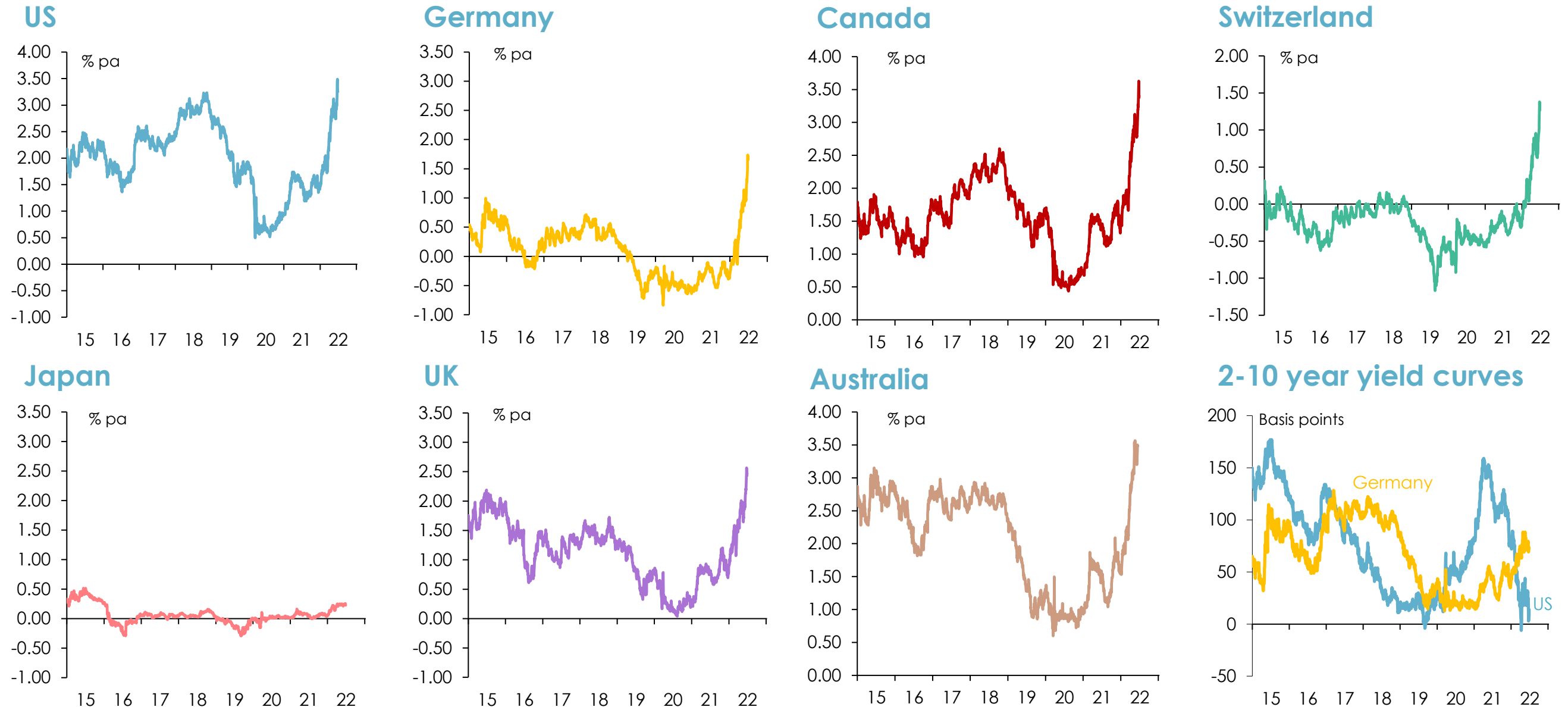
Turkey



Source: Bank for International Settlements, [Credit Statistics](#); latest data are for Q4 2021, Q1 2022 data will be released in mid-September. For data for other Asian economies see [slide 110](#). [Return to "What's New"](#).

10-year bond yields rose substantially in the run-up to last week's FOMC meeting, but eased afterwards on increasing recession fears

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022



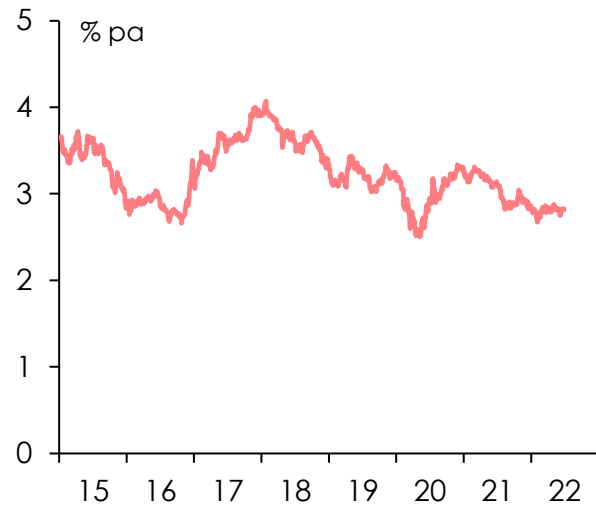
Note: Data up to 17th June. For bond yields in other large euro area member states see [slide 74](#), and for bond yields in Asian economies see [slide 109](#).

Source: Refinitiv Datastream. [Return to "What's New"](#).

Emerging market 10-year yields generally moved in line with US bonds, except for Russia & Turkey where yields fell, and China where they were flat

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

China



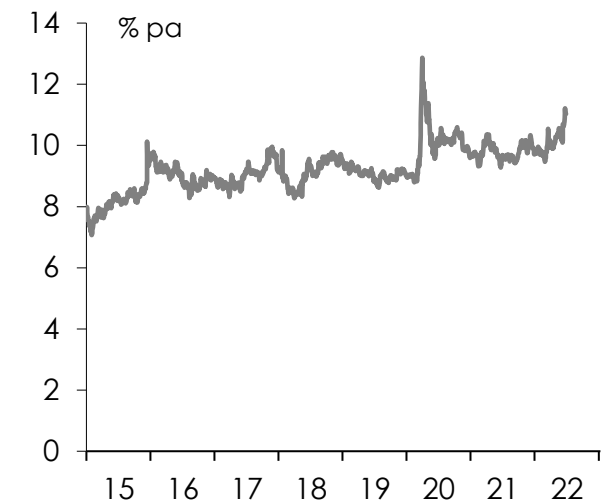
Brazil



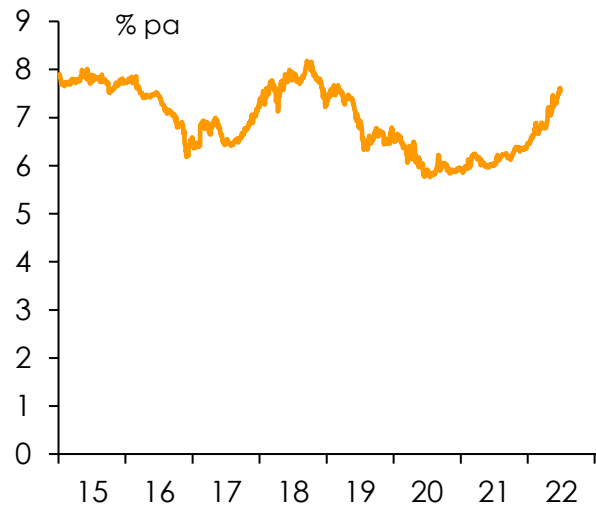
Russia



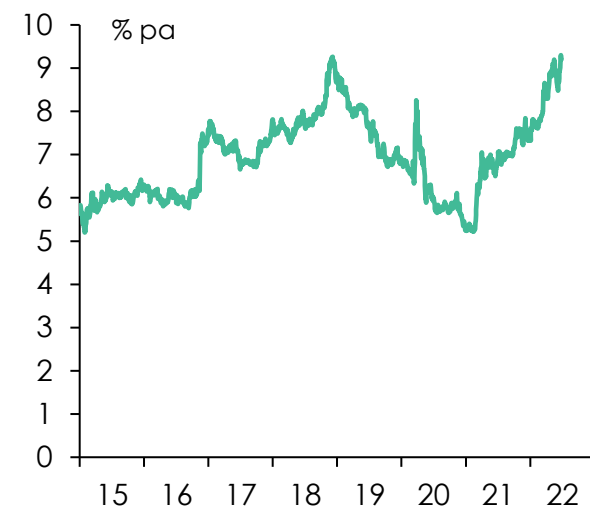
South Africa



India



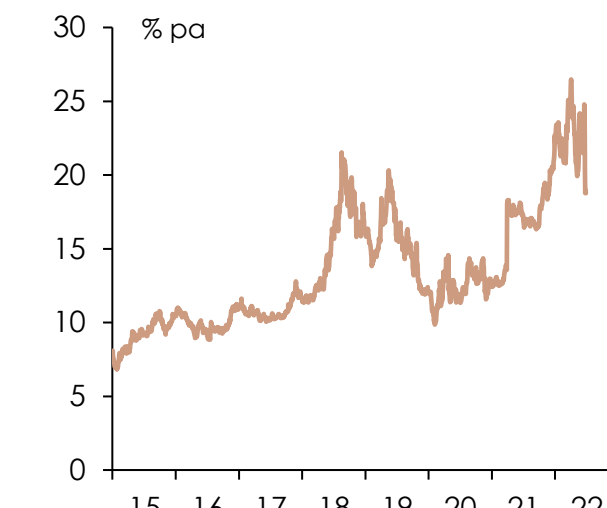
Mexico



Hungary



Turkey



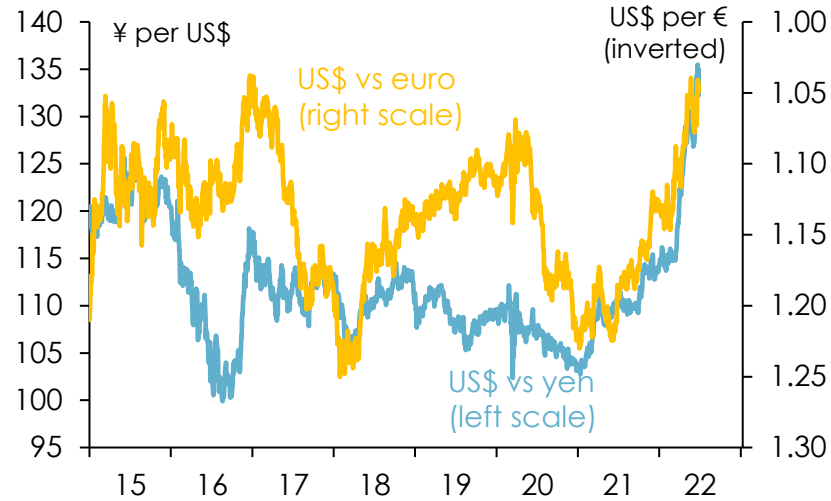
Note: Data up to 17th June. For bond yields in other Asian economies see [slide 109](#); and for policy interest rates in other emerging markets see [slide 129](#).

Source: Refinitiv Datastream. [Return to "What's New"](#).

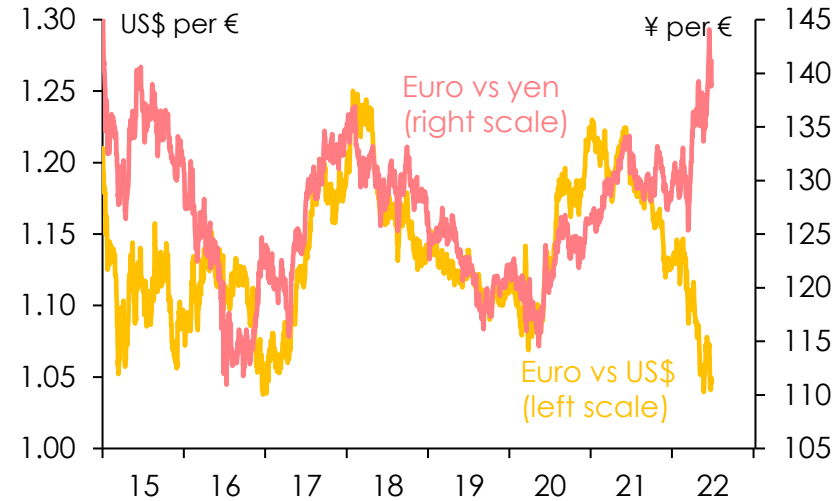
The US\$ rose 2½% in trade-weighted terms over the past two weeks to its highest level since November 2002, with the A\$, C\$ & ¥ down more than 3%

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

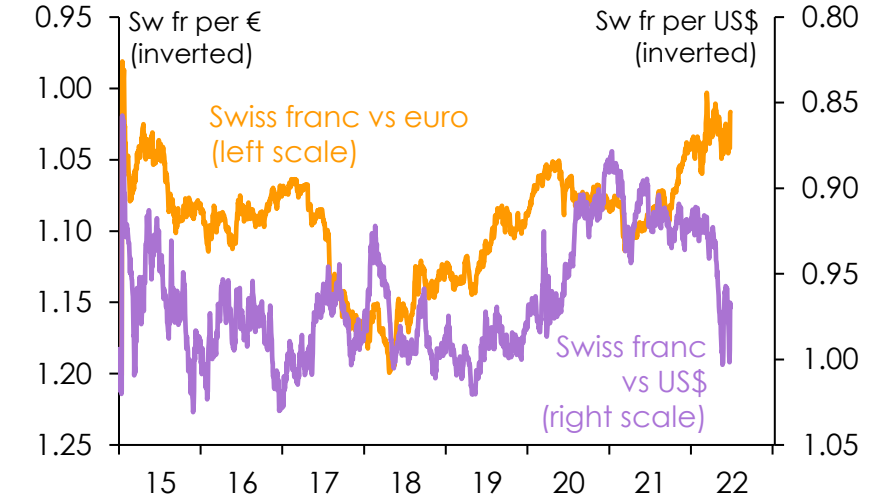
US dollar



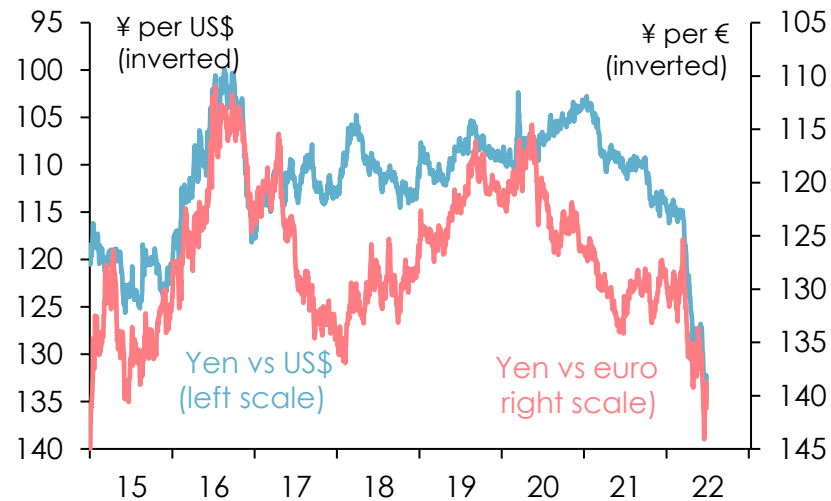
Euro



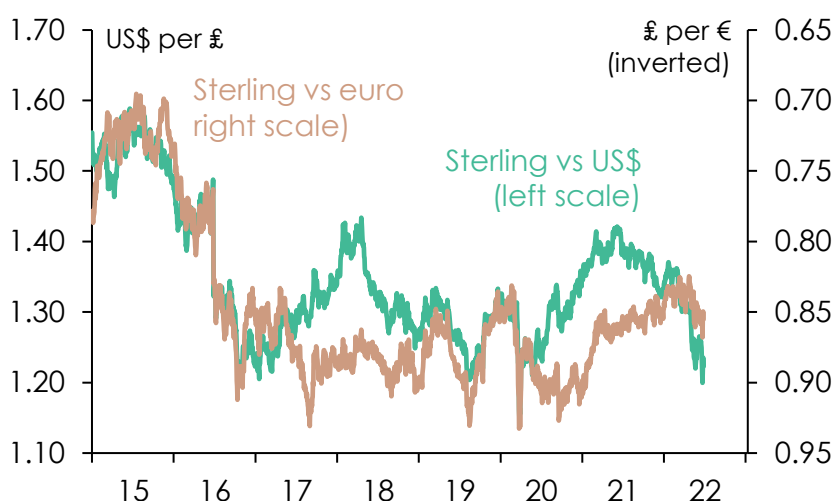
Swiss franc



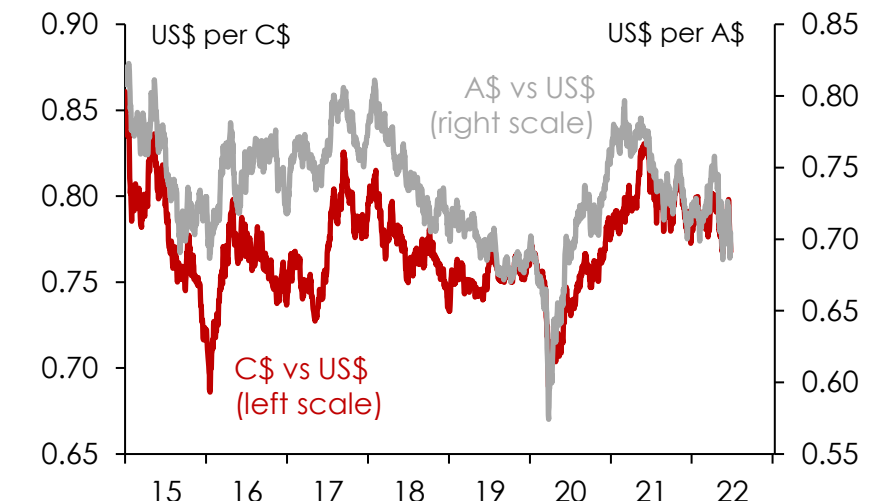
Japanese yen



Sterling



Canadian & Australian dollars

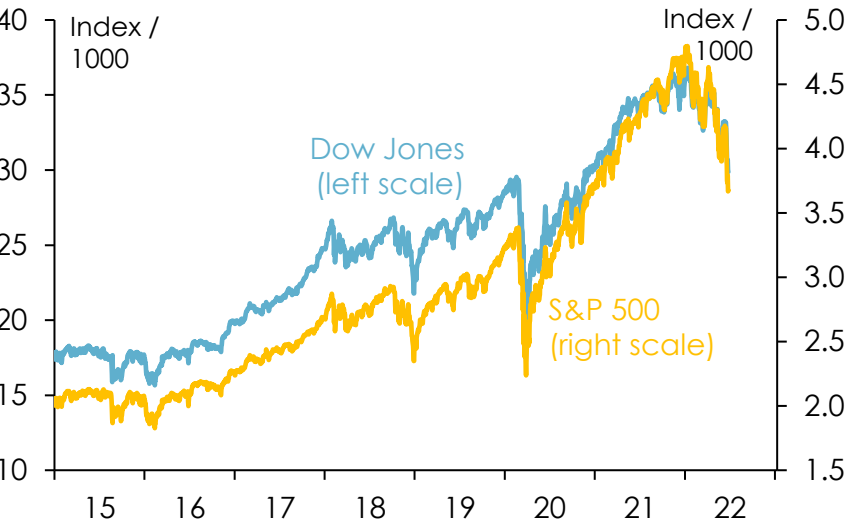


Note: Data up to 17th June. For Asian exchange rates see [slide 111](#). Source: Refinitiv Datastream. [Return to "What's New"](#).

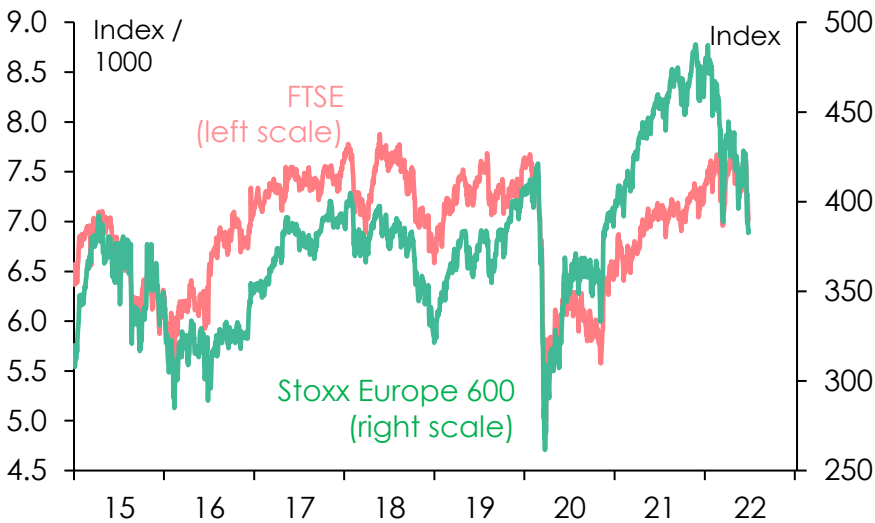
Most 'advanced' economy stock markets have fallen by around 10% over the past two weeks, except for Japan's which was down 'only' 5%

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

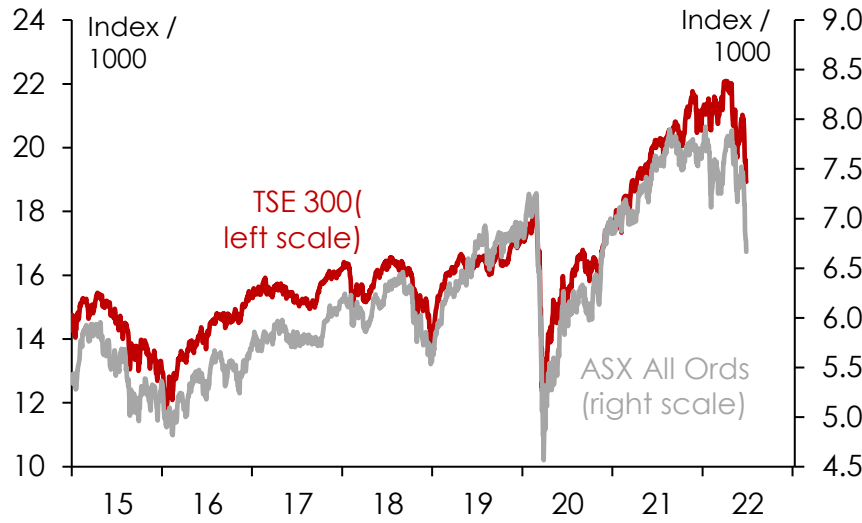
US stock market



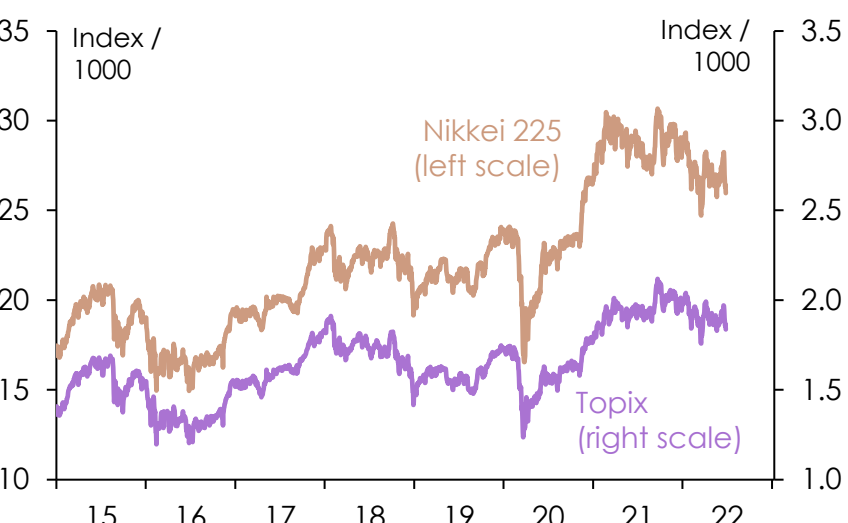
European stock markets



Canadian & Australian stock markets



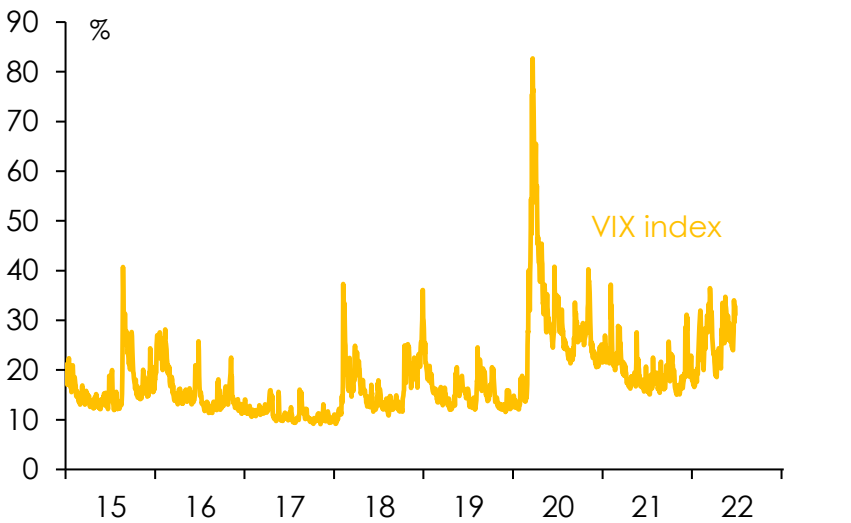
Japanese stock market



Chinese & HK stock markets



Equity market volatility



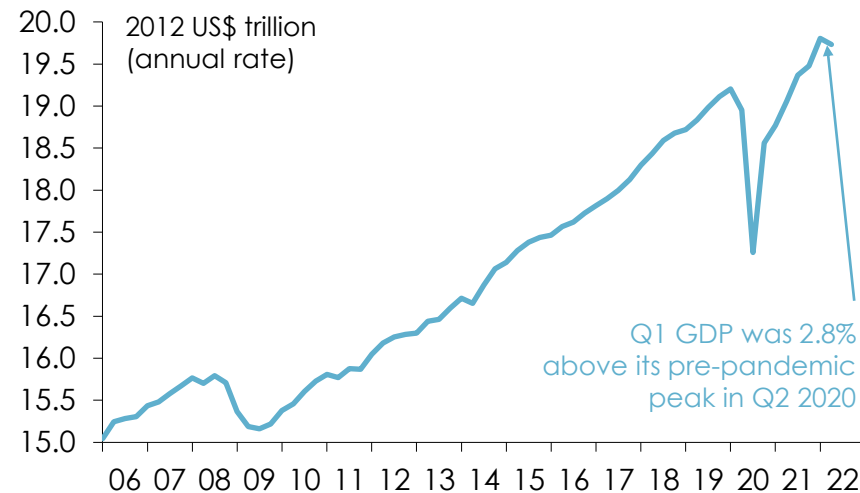
Note: Data up 17th June. Source: Refinitiv Datastream. For East Asian stock markets see [slide 112](#). [Return to "What's New"](#).

The United States

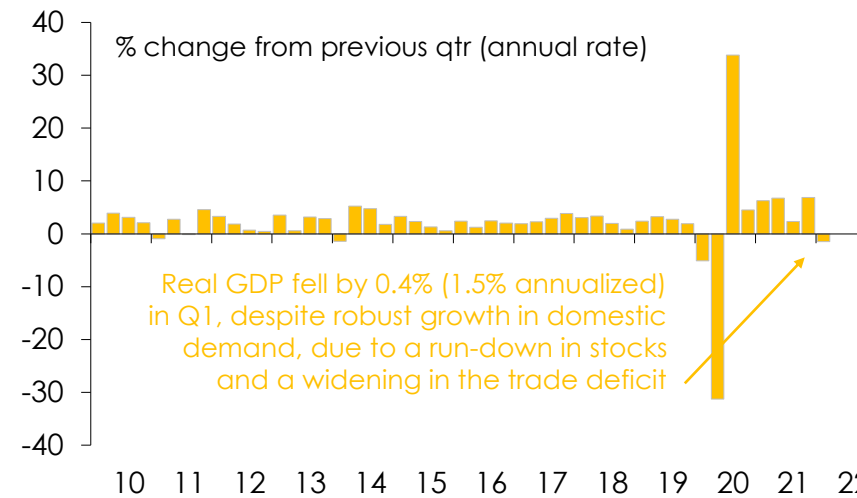
US real GDP shrank 0.4% (1.5% annualized) in Q1, despite strong domestic demand, due to a run-down in inventories and a large fall in net exports

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

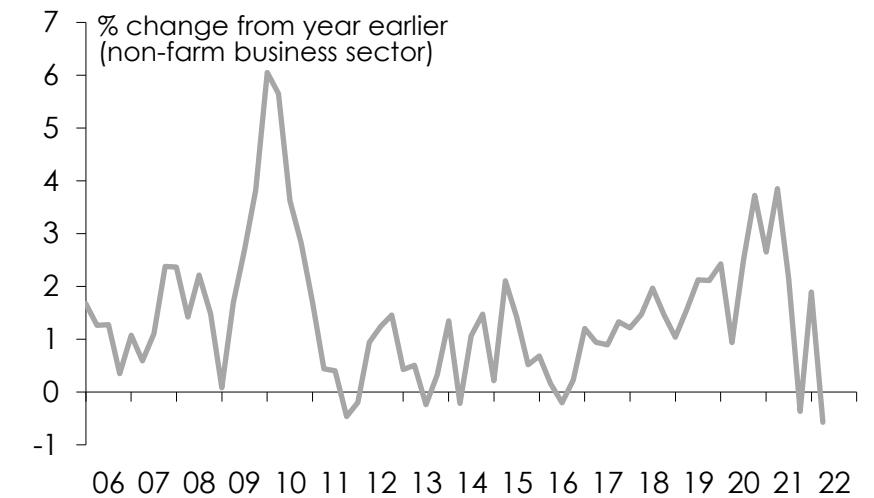
Level of real GDP



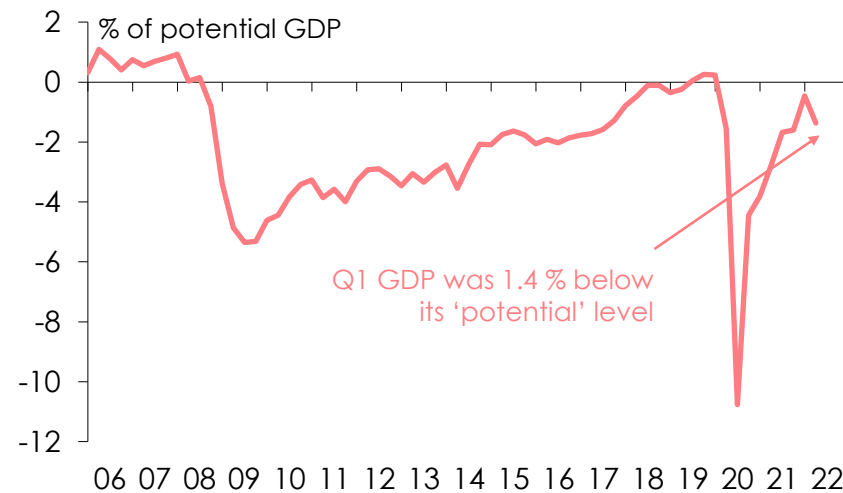
Quarterly change in real GDP



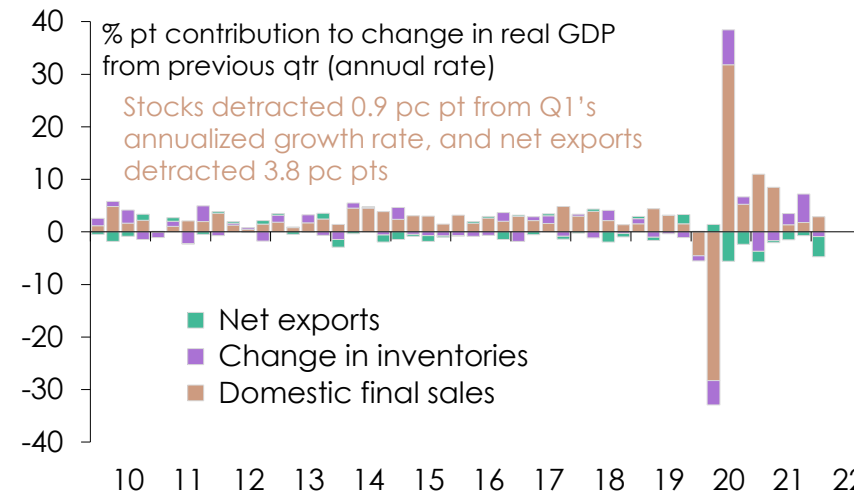
Labour productivity growth



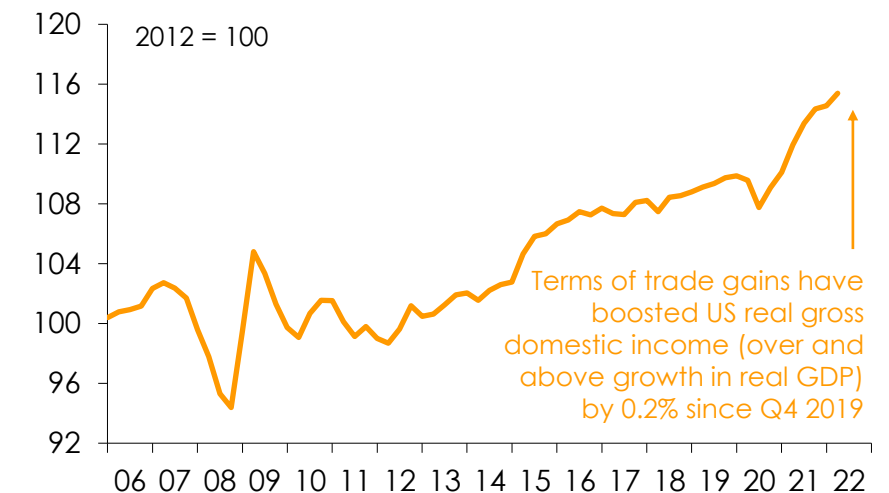
The 'output gap'



Contributions to change in real GDP



Terms of trade

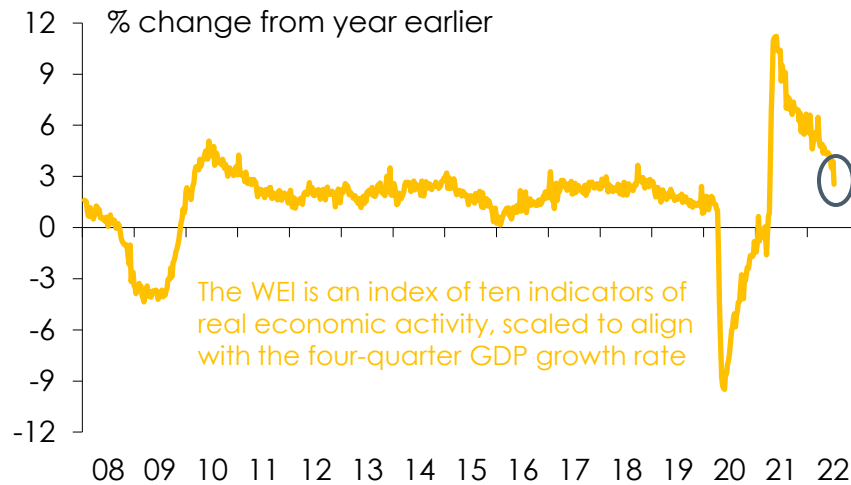


Note: the ['output gap'](#) is the difference between actual and potential GDP (the volume of goods & services that could be produced if the economy were operating at full capacity); the ['terms of trade'](#) is the ratio of the implicit price deflator of exports of goods & services to that of imports of goods & services – it gives an indication of the income gains or losses arising from changes in the prices of goods and services traded between the US and the rest of the world. Sources: US Bureau of Economic Analysis, [Gross domestic product](#); US Congressional Budget Office, [10-Year Economic Projections](#); US Bureau of Labor Statistics, [Labor Productivity and Costs](#). [Return to "What's New"](#).

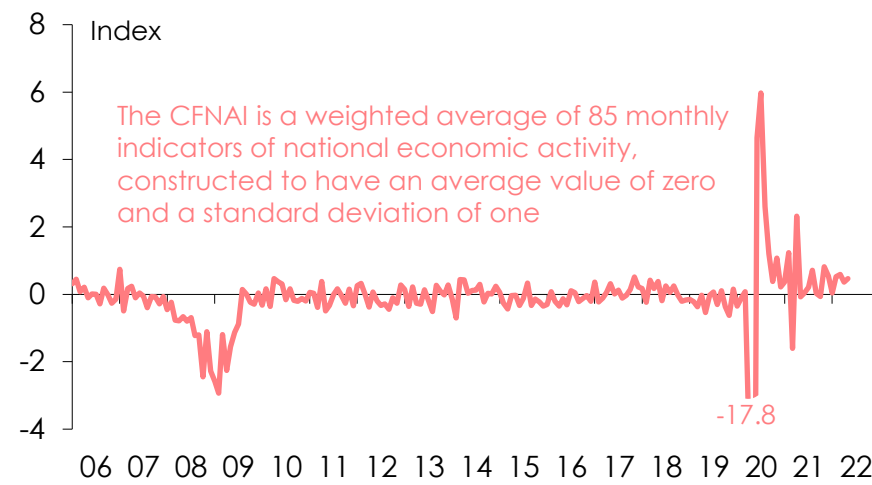
A growing number of activity surveys and leading indicators are starting to warn of a sharp slowdown or outright contraction in US economic activity

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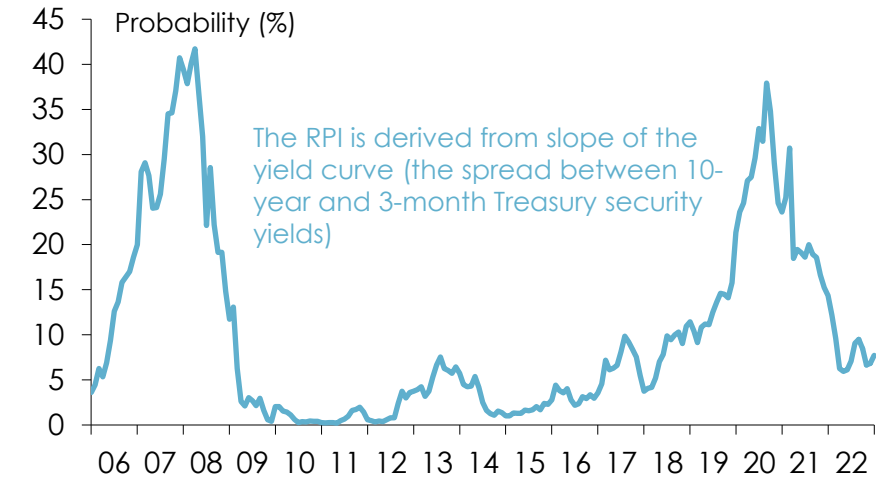
NY Fed weekly economic index



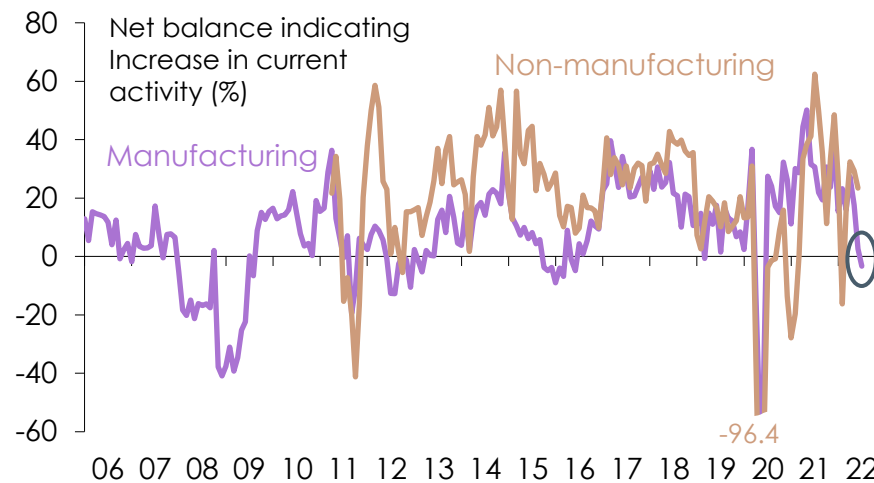
Chicago Fed national activity index



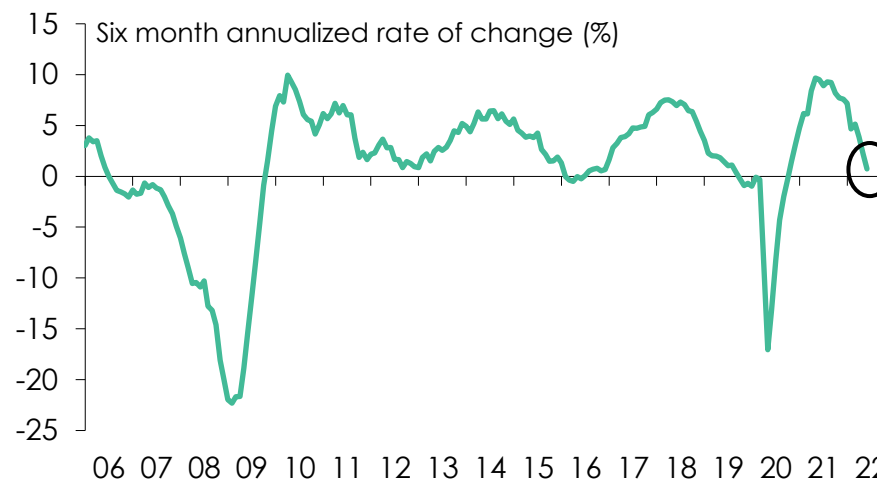
NY Fed recession probability index



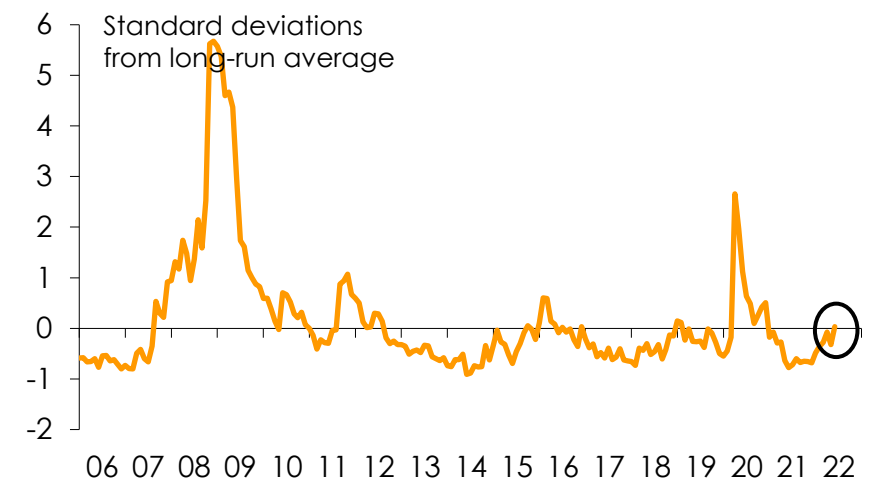
'Philly Fed' business outlook survey



Conference Board leading indicators



Kansas City Fed financial stress index

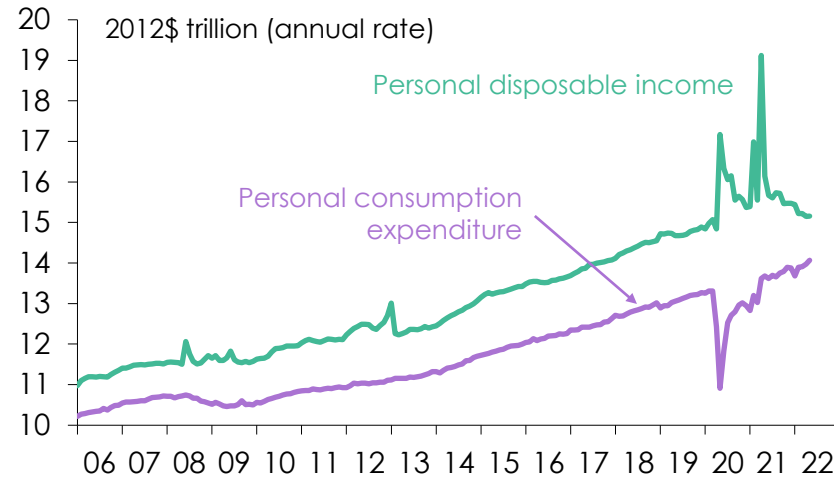


Sources: Federal Reserve Bank of New York, [Weekly Economic Index](#) and [The Yield Curve as a Leading Indicator](#); Federal Reserve Bank of Philadelphia, [Regional Economic Analysis](#), Manufacturing and Non-Manufacturing Business Outlook Surveys; Federal Reserve Bank of Chicago, [Chicago Fed National Activity Index \(CFNAI\)](#); The Conference Board, [Global Business Cycle Indicators](#); Federal Reserve Bank of Kansas City, [Kansas City Financial Stress Index](#). [Return to "What's New"](#).

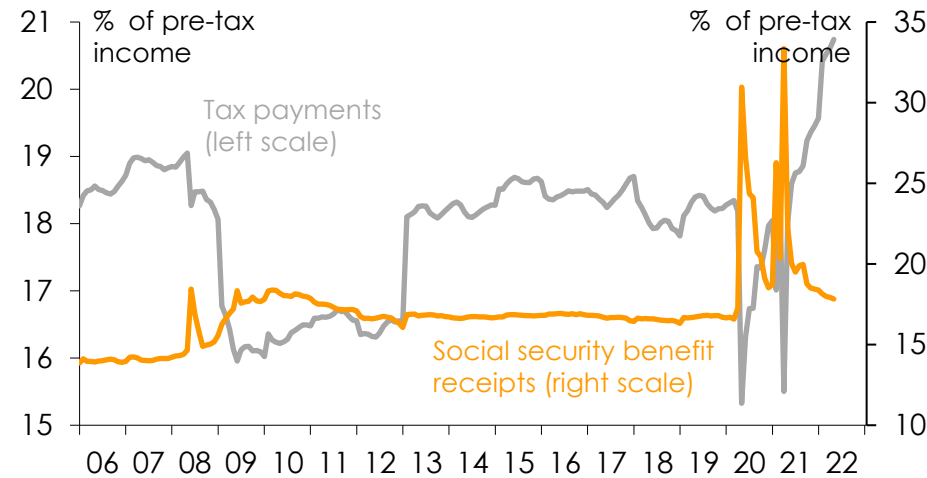
US personal disposable income has been squeezed by rising inflation & tax payments, forcing households to cut saving in order to maintain spending

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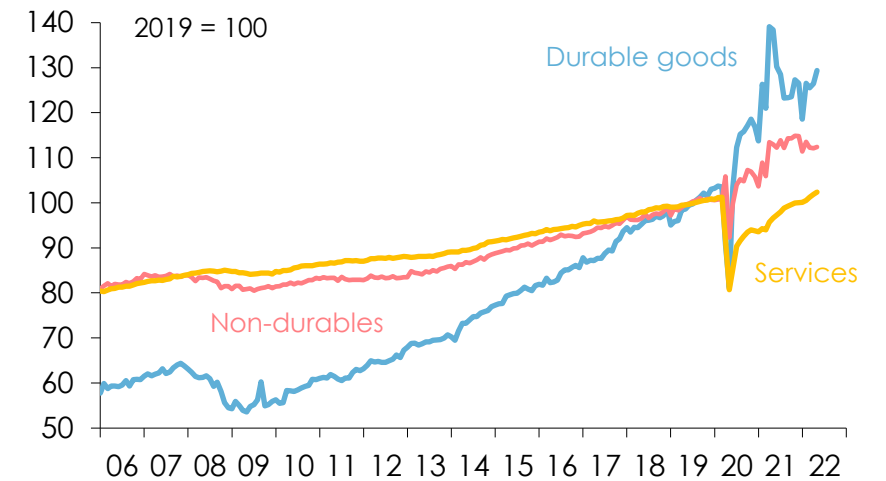
Personal income and expenditure



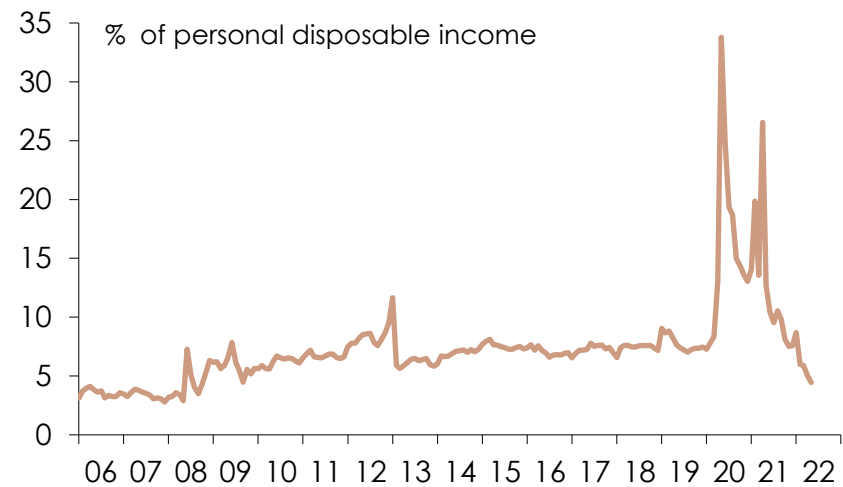
Tax and social security



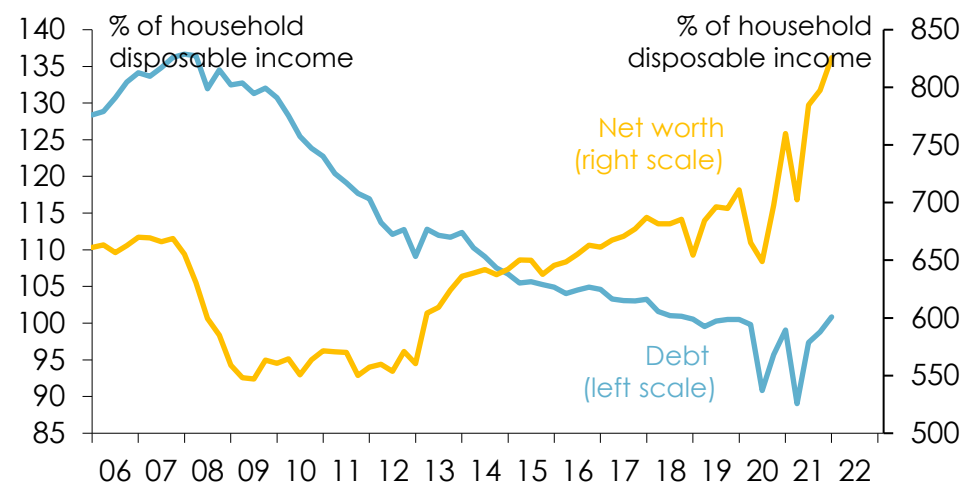
Personal consumption expenditure



Personal saving rate



Household debt and net worth



Spending on energy

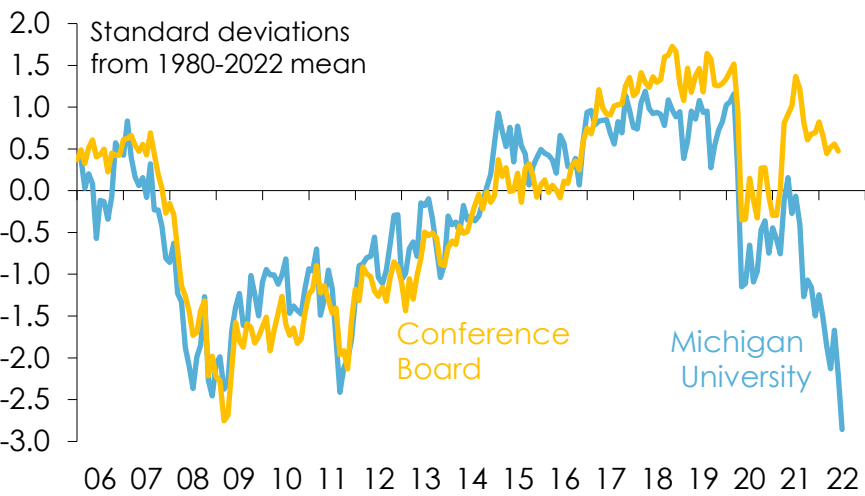


Note: data on personal income, spending and saving are monthly; data on debt and net worth are quarterly. Sources: US Bureau of Economic Analysis, [Gross Domestic Product](#), [Consumer Spending](#) and [Income and Saving](#); US Federal Reserve, [Financial Accounts of the United States - Z1](#). [Return to "What's New"](#).

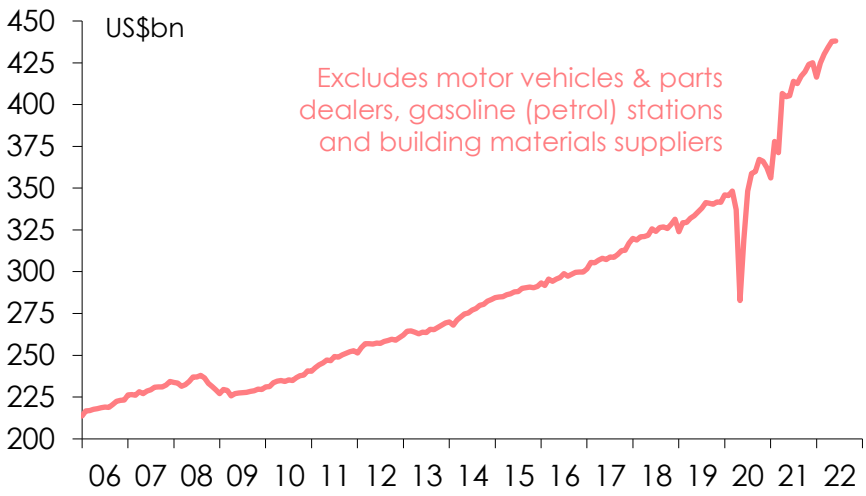
Gas stations' sales rose 4% in May due to higher prices, but vehicle dealers' sales fell 3.5% and 'core' retail sales were flat

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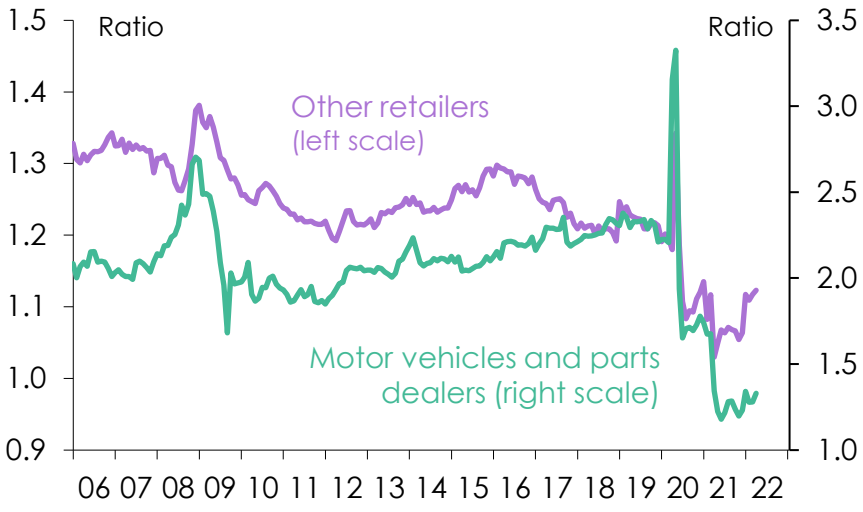
Consumer sentiment



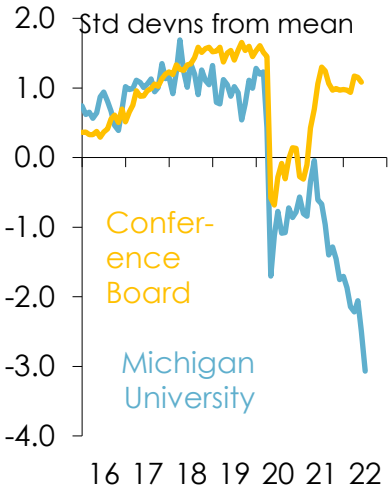
Level of 'core' retail sales



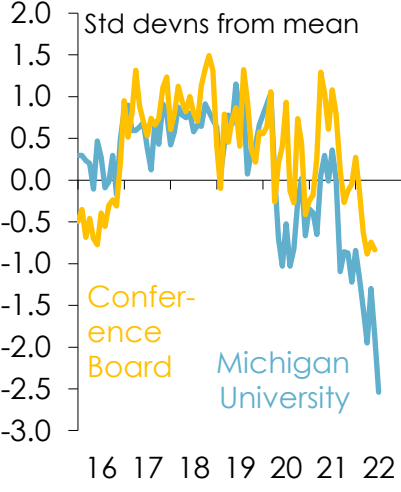
Retail inventories-sales ratios



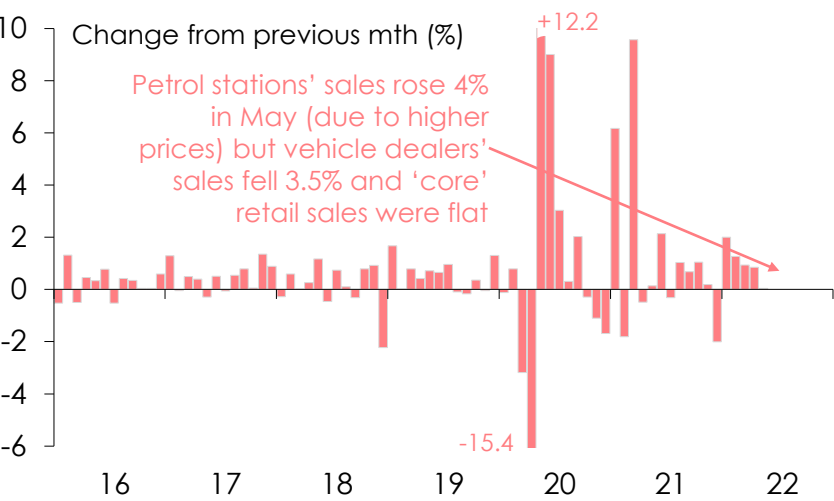
Present situation



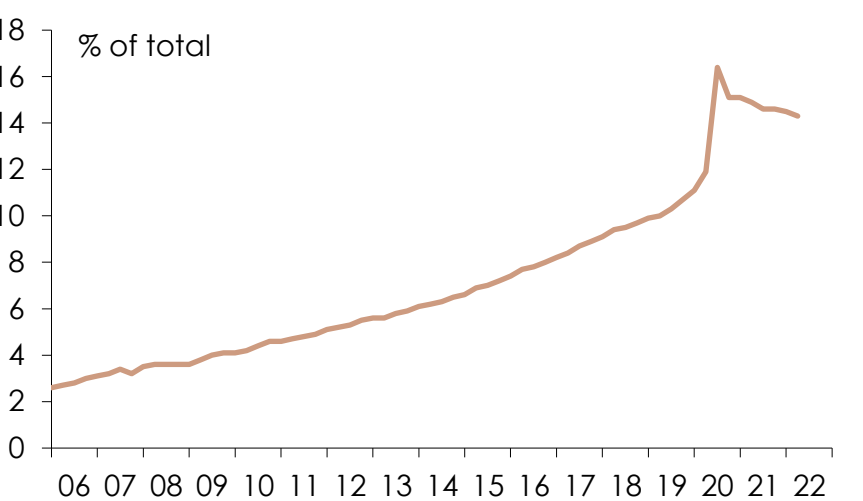
Expectations



Monthly changes in 'core' retail sales



On-line retail sales

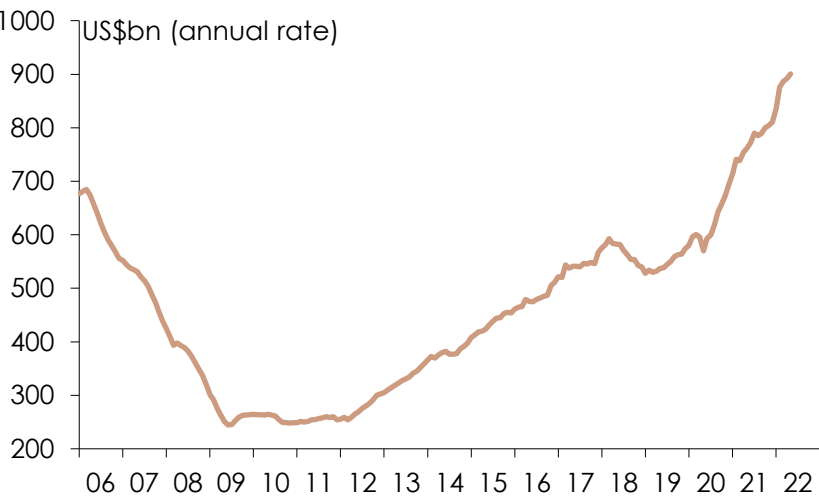


Note: 'Core' retail sales excludes motor vehicles, petrol stations and building materials stores. Sources: Michigan University Survey Research Center, [Survey of Consumers](#); The Conference Board, [US Consumer confidence](#); US Census Bureau, [Monthly Retail Trade](#) and [Advance Economic Indicators](#). [Return to "What's New"](#).

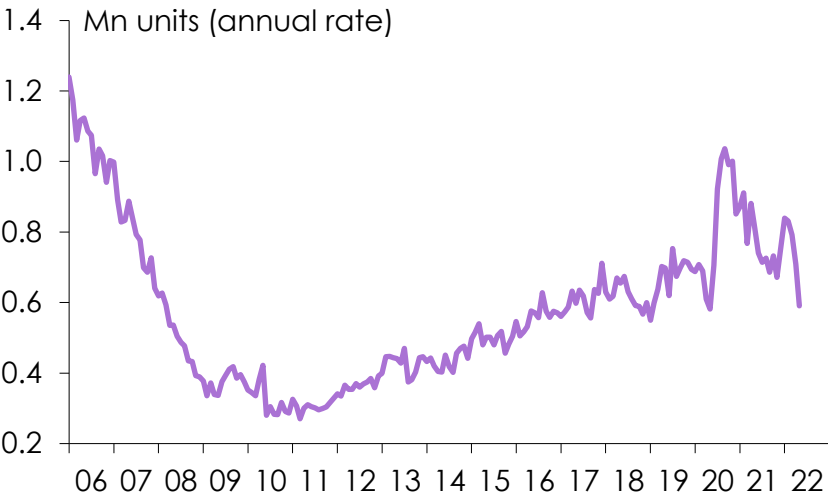
Housing starts fell 14.4% in May, to their lowest level since November 2020, a sign that sharply higher mortgage rates are starting to ‘bite’

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

Housing construction spending



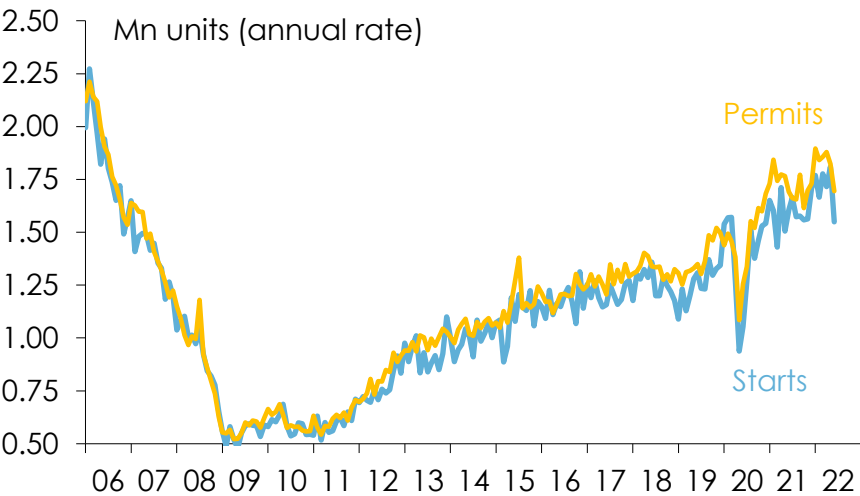
New single-family home sales



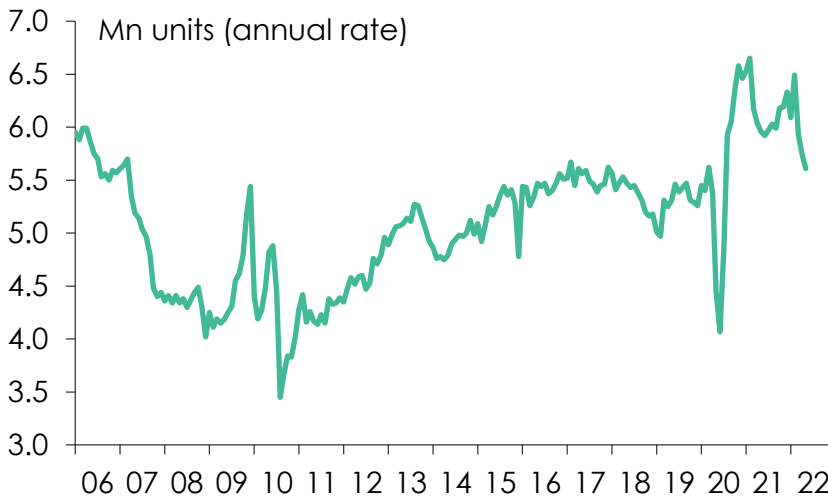
30-year fixed mortgage rates



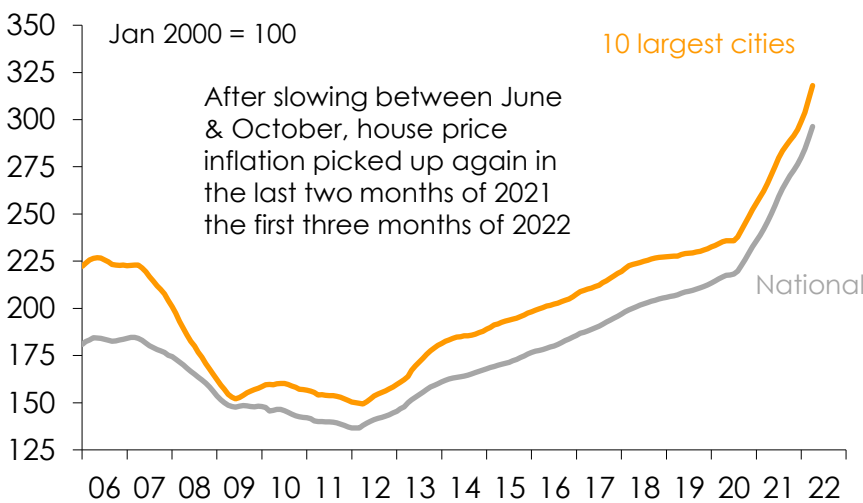
Housing starts and permits



Existing home sales



House prices

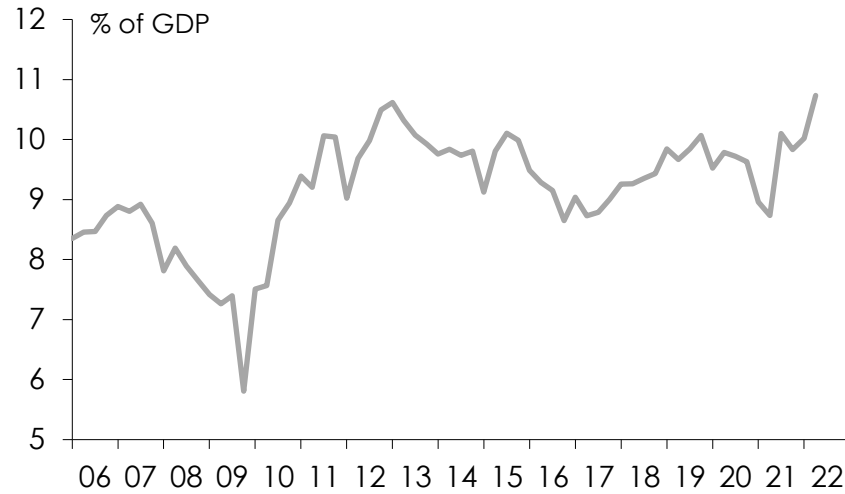


Sources: US Census Bureau, [Construction Spending](#), [New residential construction](#) and [New Residential Sales](#); US National Association of Realtors, [Existing-Home Sales](#); Mortgage Bankers' Association, [National Delinquency Survey](#); S&P Global, [S&P CoreLogic Case-Shiller Home Price Indices](#). [Return to "What's New"](#).

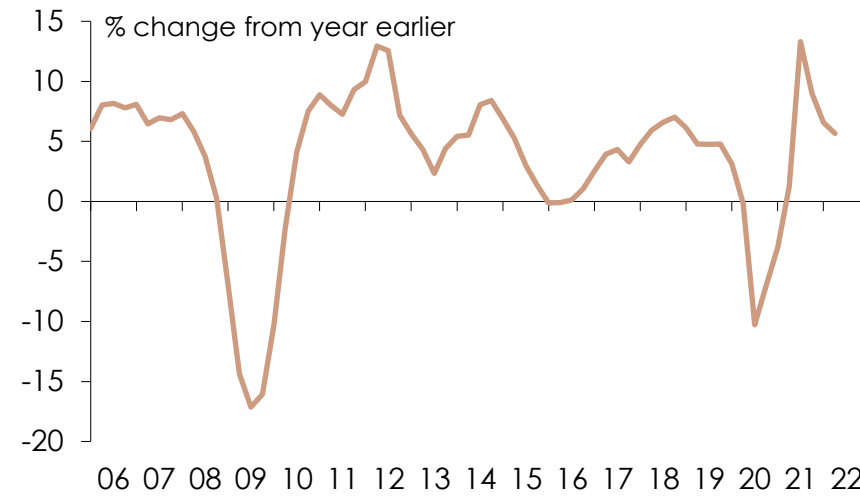
US corporate profits and balance sheets are strong, and investment is increasing – except in non-residential construction

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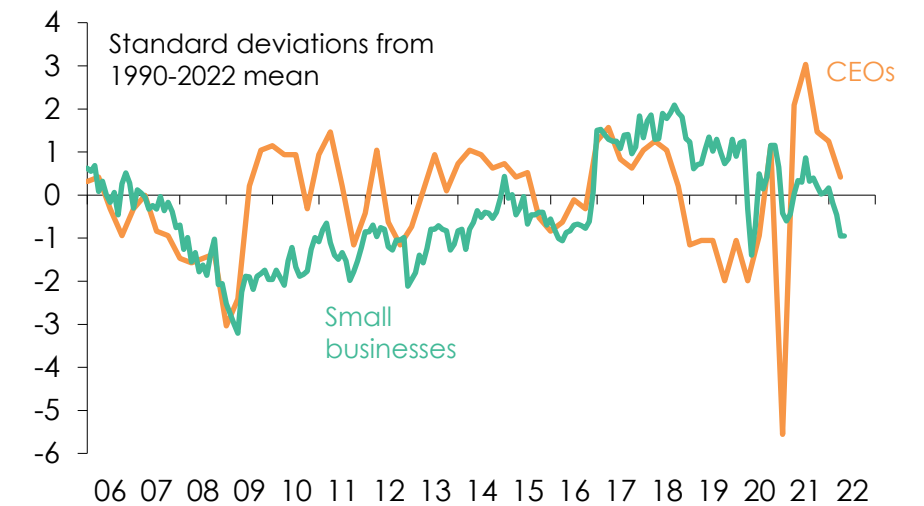
After-tax corporate profits



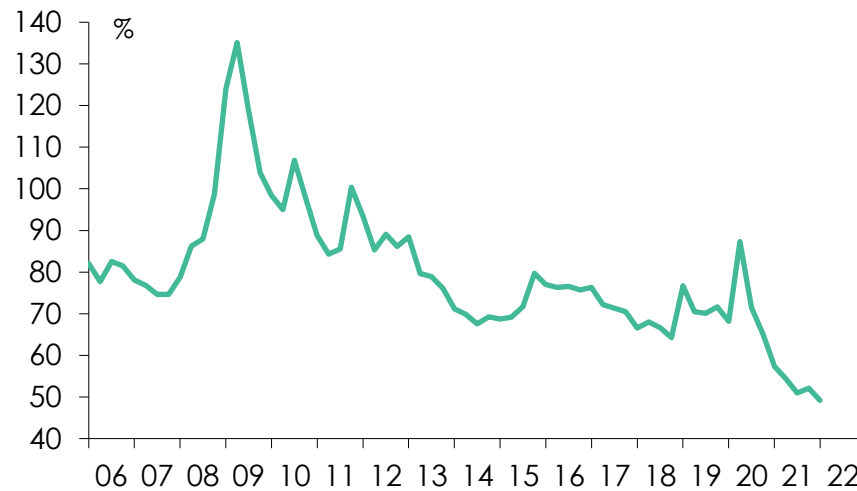
Business investment



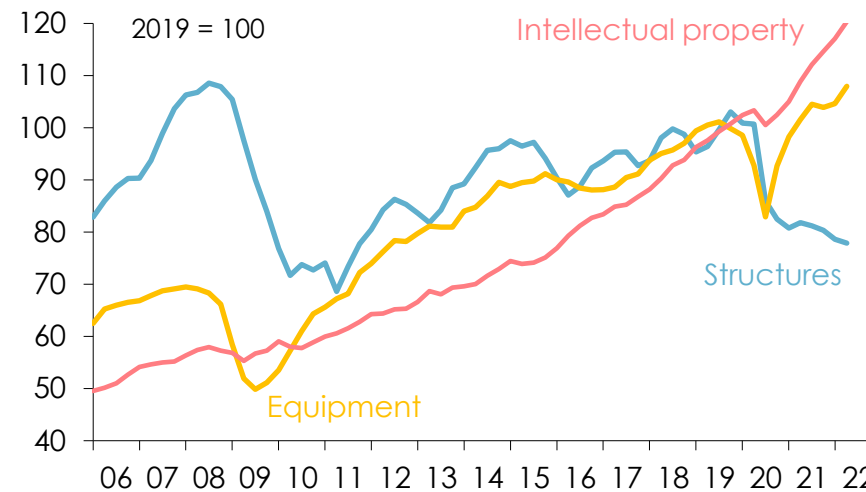
Business confidence



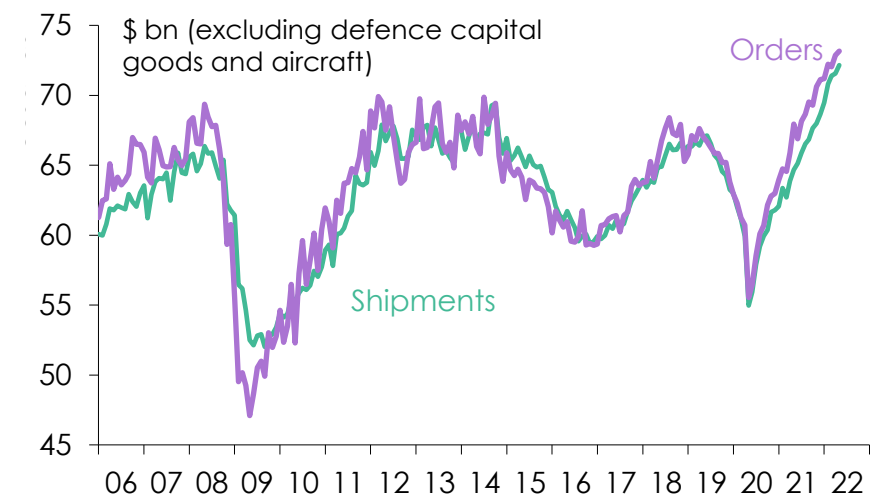
Corporate debt-equity ratio



Business investment by type



Capital goods orders & shipments

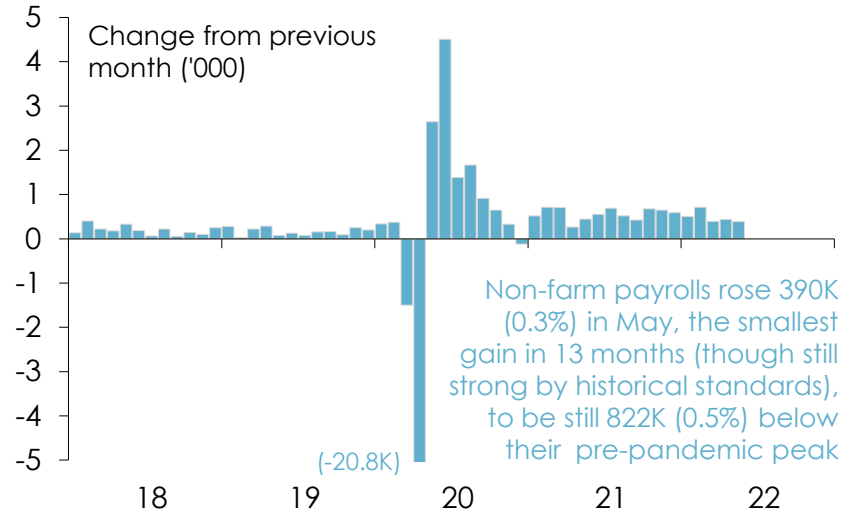


Sources: US Bureau of Economic Analysis, [Gross Domestic Product](#); US Federal Reserve, [Financial Accounts of the United States - Z1](#); The Conference Board, [US CEO Confidence](#); National Federation of Independent Business, [Small Business Economic Trends](#); US Commerce Department, [Manufacturers' Shipments, Inventories and Orders](#). [Return to "What's New"](#).

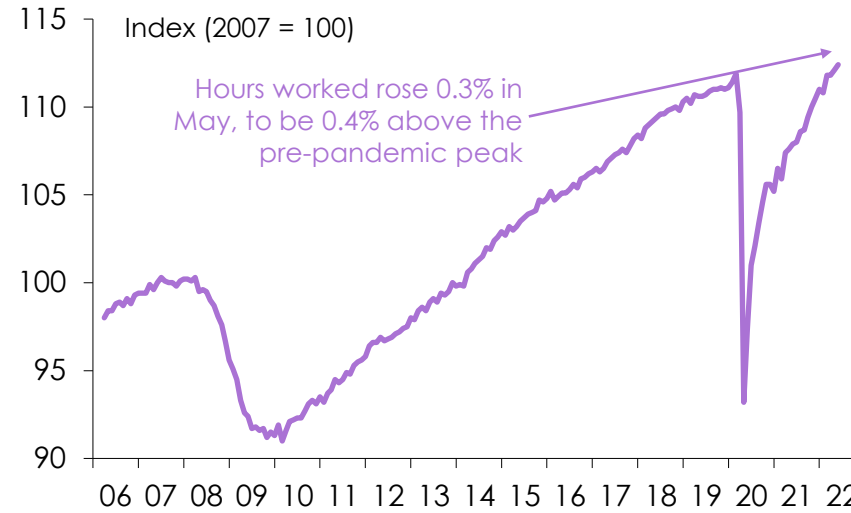
US non-farm payrolls rose 390K in May, the smallest increase in 13 months, leaving the unemployment rate at 3.6% for the third month in a row

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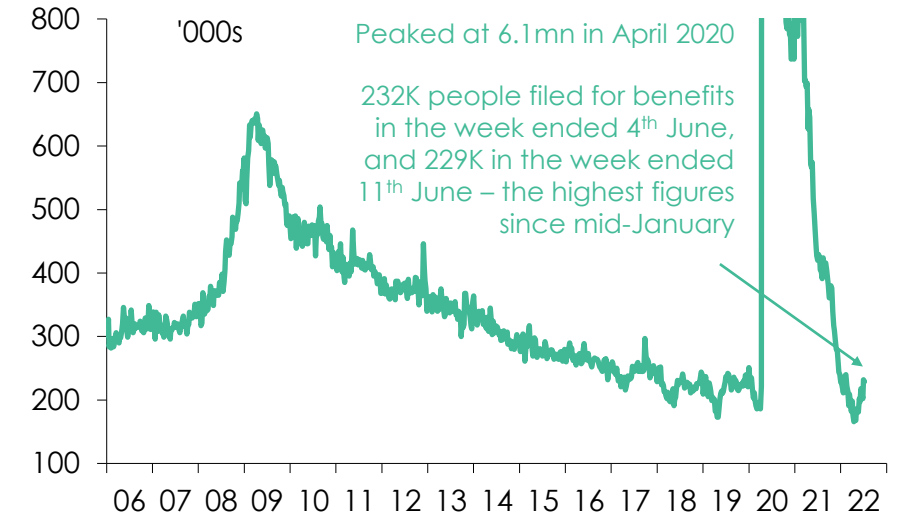
Non-farm payroll employment



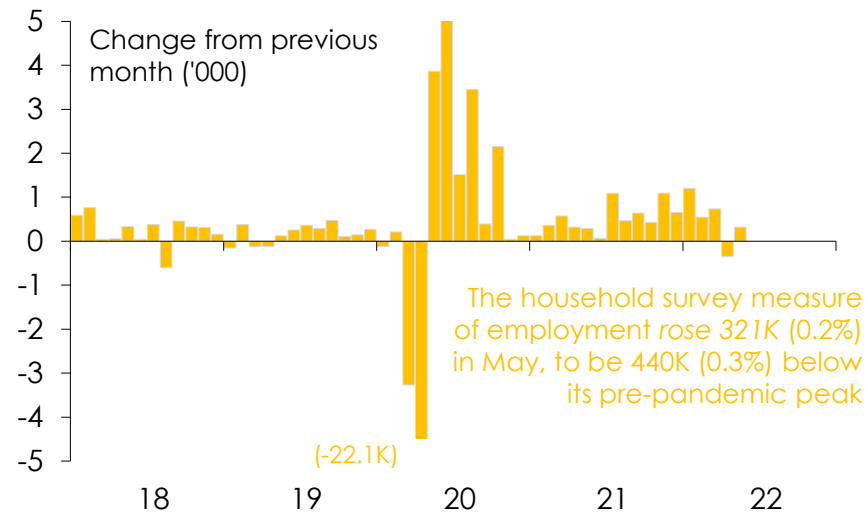
Hours worked (private sector)



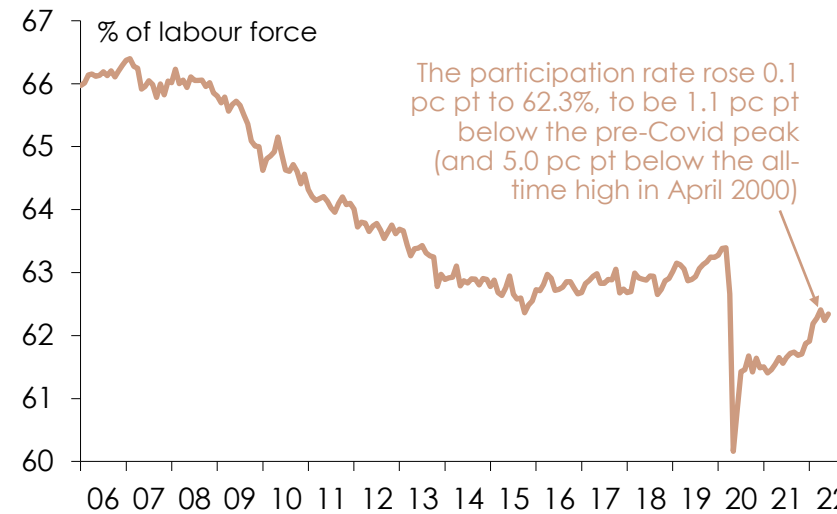
Unemployment benefit initial claims



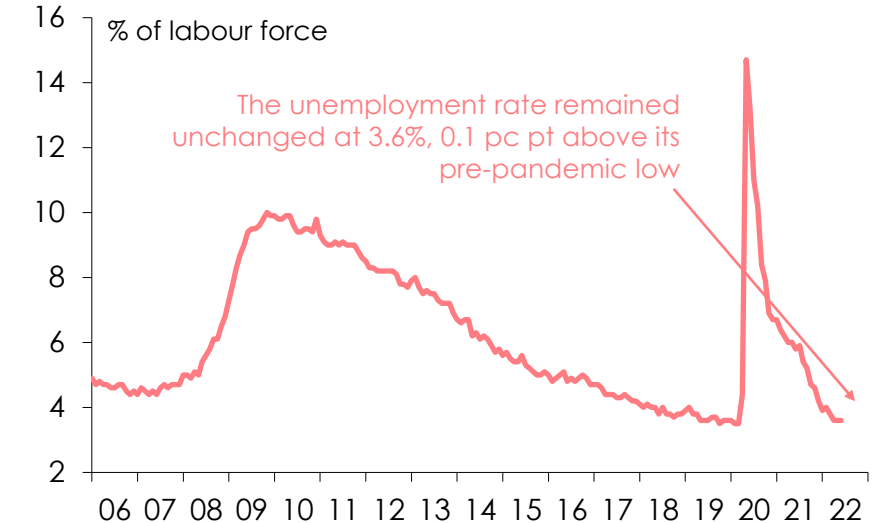
Household survey employment



Labour force participation rate



Unemployment rate

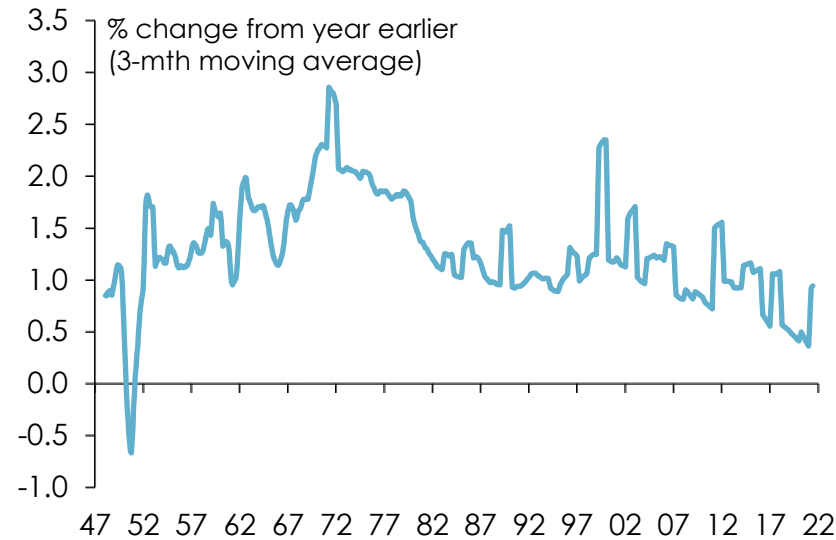


Sources: US Bureau of Labor Statistics, [Employment Situation](#); US Department of Labor, [Unemployment Insurance Weekly Claims](#). [Return to "What's New"](#).

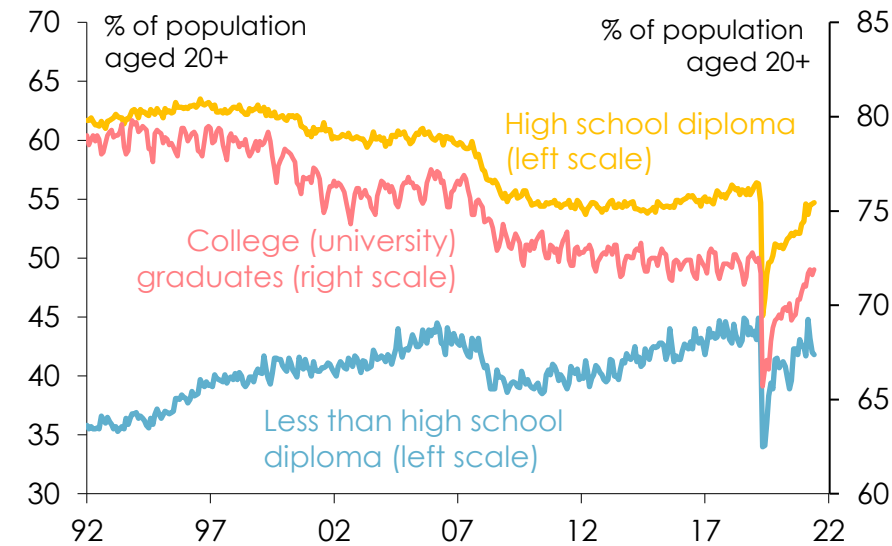
US labour market tightness owes much to a persistent shortfall in labour force participation, especially among people aged 55 and over

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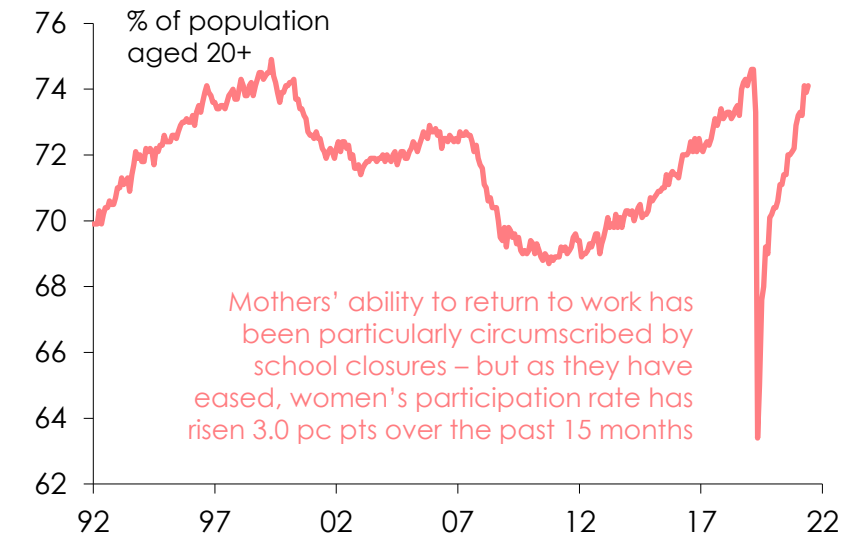
Civilian working age population



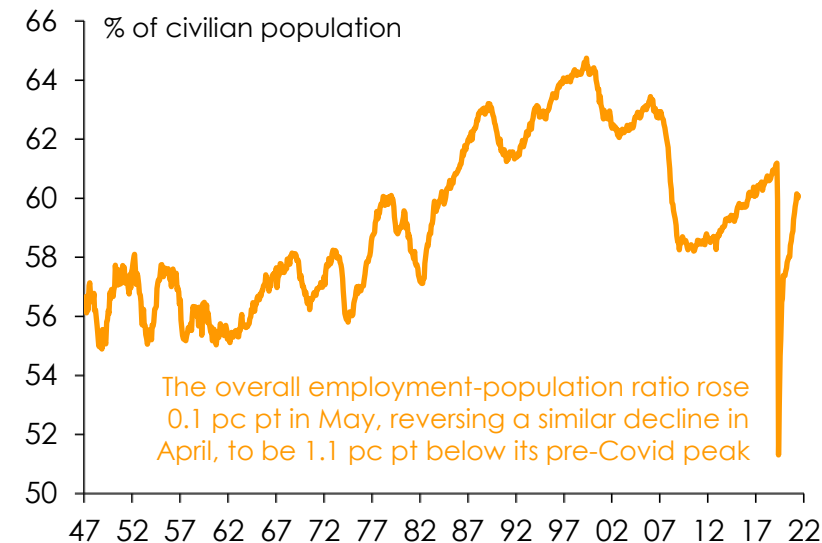
'E-pop' ratio – by education



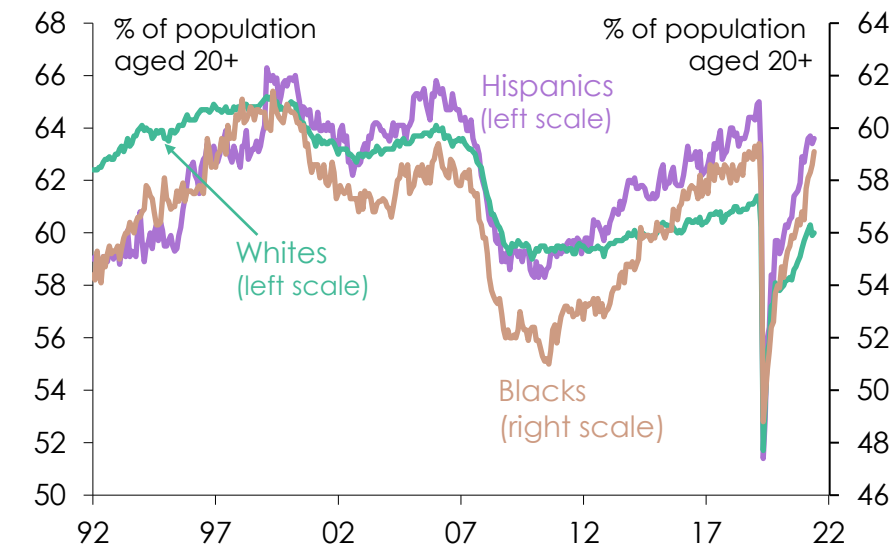
'E-pop' ratio – women 25-54



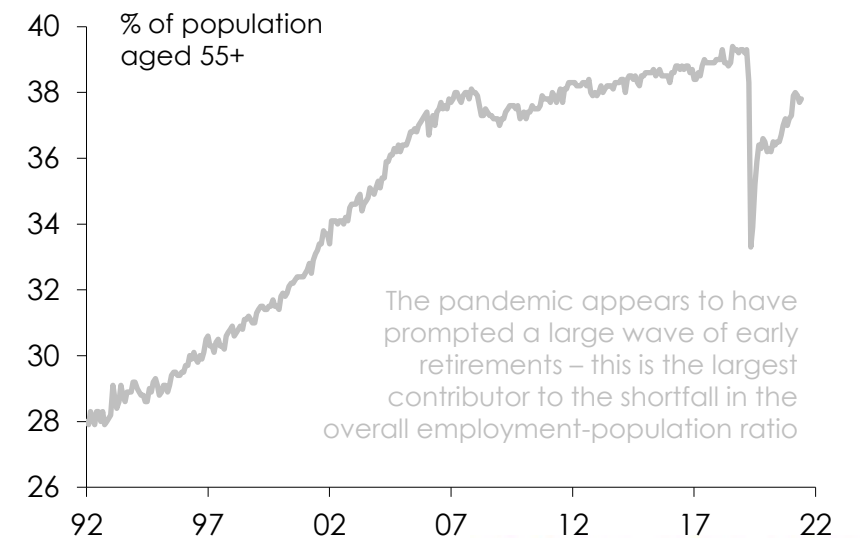
Employment-to-population ratio



'E-Pop' ratio – Blacks & Hispanics



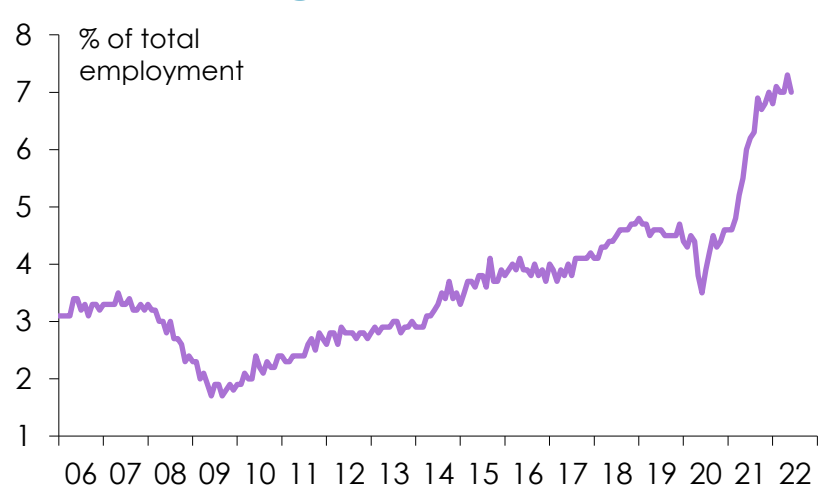
'E-pop' ratio – people 55 & over



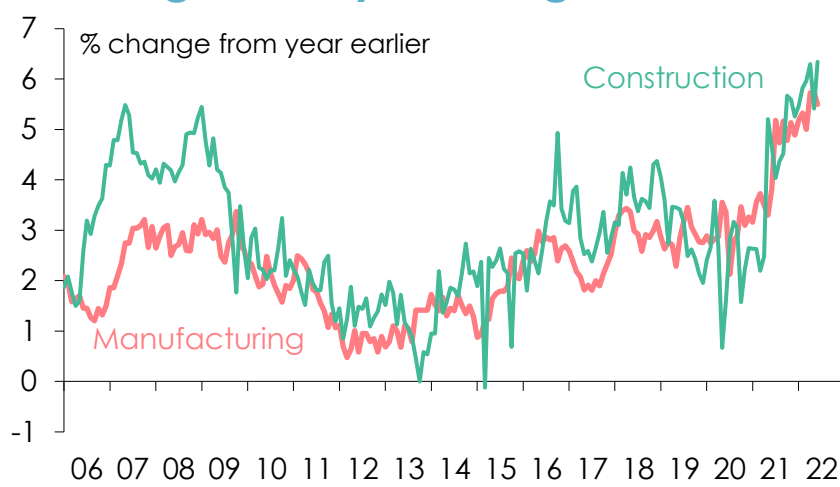
The wages component of the employment cost index (the best measure of US wages growth) rose by 5.0% over the year to Q1

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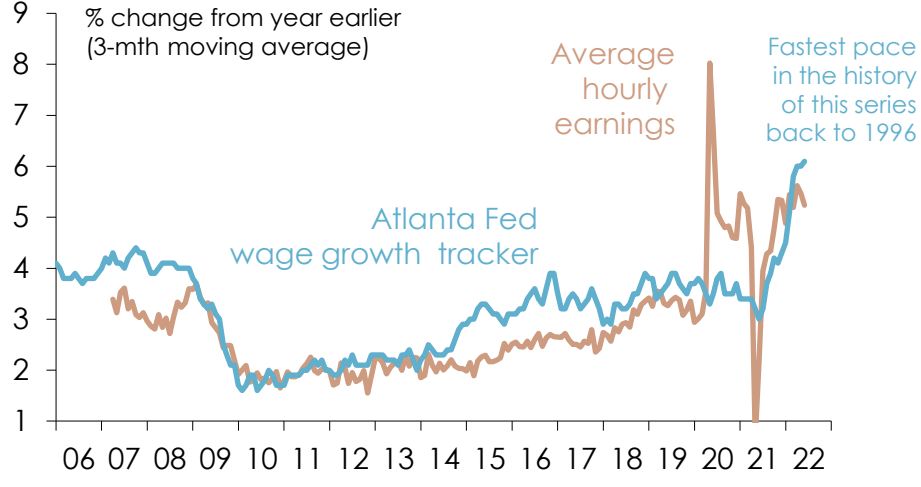
Job openings



Average hourly earnings



Overall wages growth - monthly

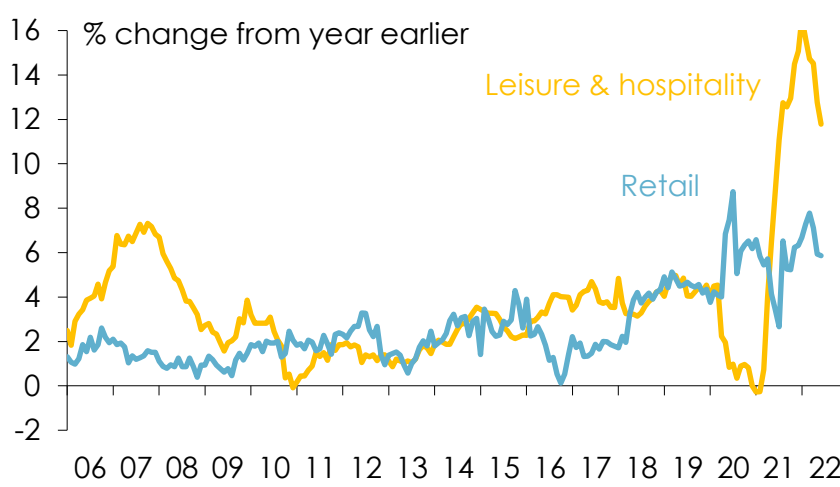


Quit rate

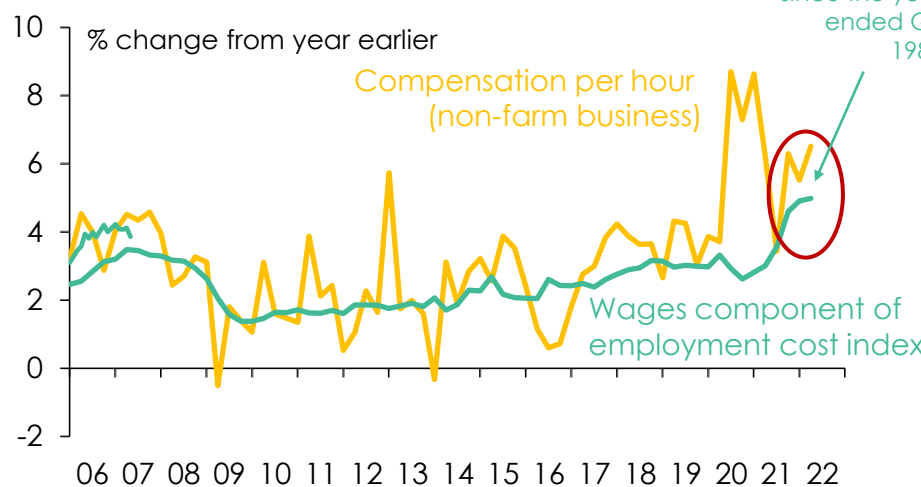


The record high 'quit rate' is the main evidence for the so-called 'Great Resignation' – although the 'record' only goes back to January 2001, and there would seem to be an element of 'catch-up' in 2021 for the unusually low rate in 2020

Average hourly earnings



Wages growth - quarterly

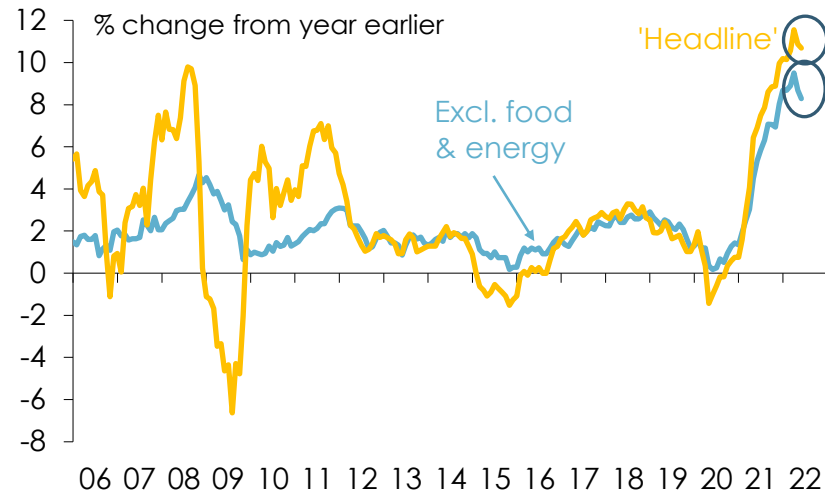


Note: Measures of average hourly earnings (especially the all-industries measures) and of average compensation per hour are affected by changes in the composition of employment (so for example they rose sharply in Q2 2020 when large numbers of low-paid workers were laid off and fell markedly when they returned to work) whereas the Atlanta Fed 'wage growth tracker' (which uses micro-data from the BLS survey to track the wage growth of individuals) and the wages component of the ECI (which is very similar to the ABS' Wage Price Index) are not. Sources: US Bureau of Labor Statistics, [Job Openings and Labor Turnover Survey](#), [Current Employment Statistics](#), [Employment Cost Trends](#) and [Labor Productivity and Costs](#); Federal Reserve Bank of Atlanta Center for Human Capital Studies, [Wage Growth Tracker](#). [Return to "What's New"](#).

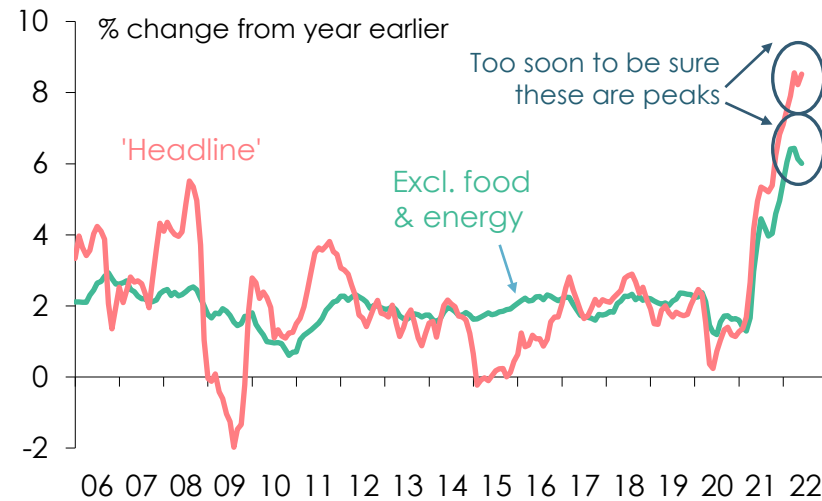
Food and especially energy prices accounted for half of a 1.0% increase in the CPI in May, leaving the annual rate at an elevated 8.5%

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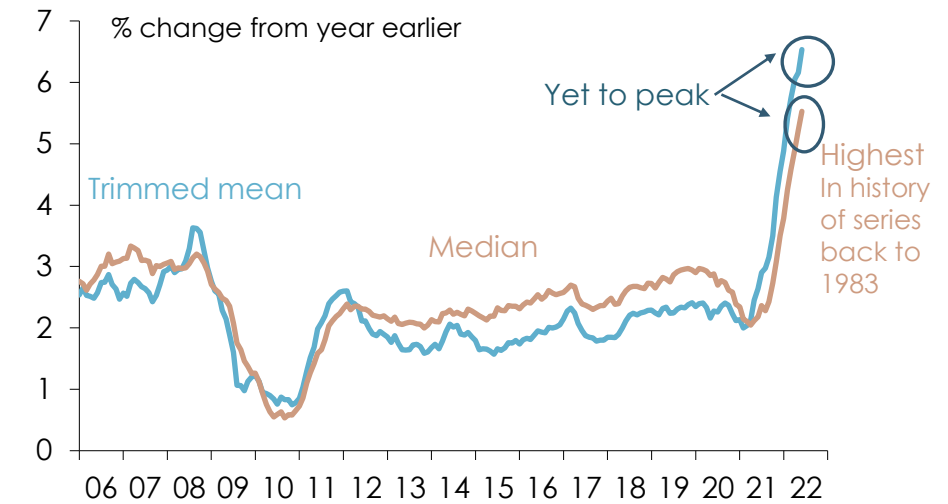
Producer price index



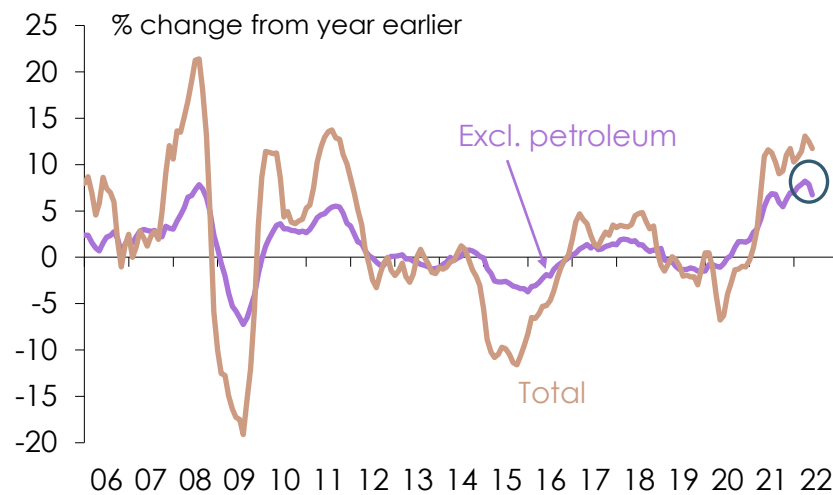
Consumer price index



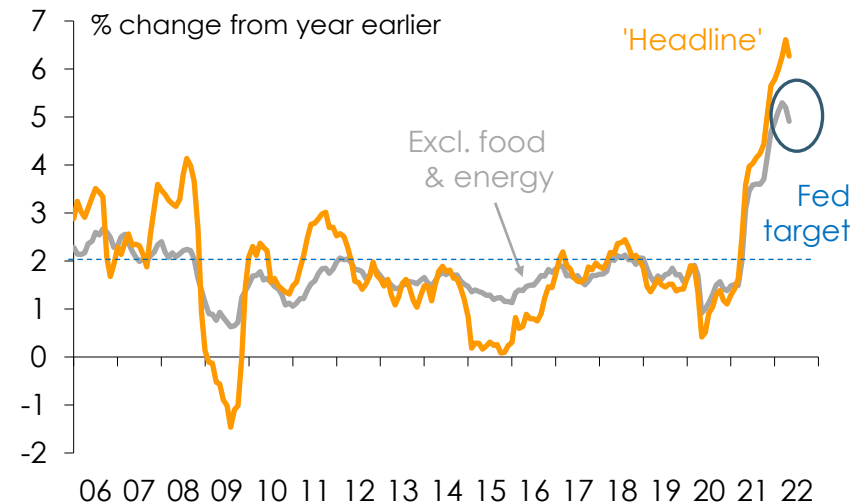
'Underlying' CPI inflation



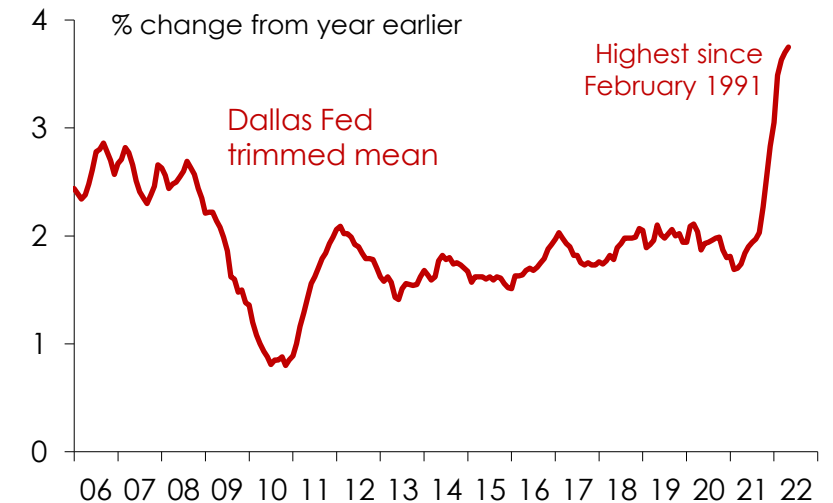
Import price index



Personal consumption deflator



'Underlying' PCE deflator inflation

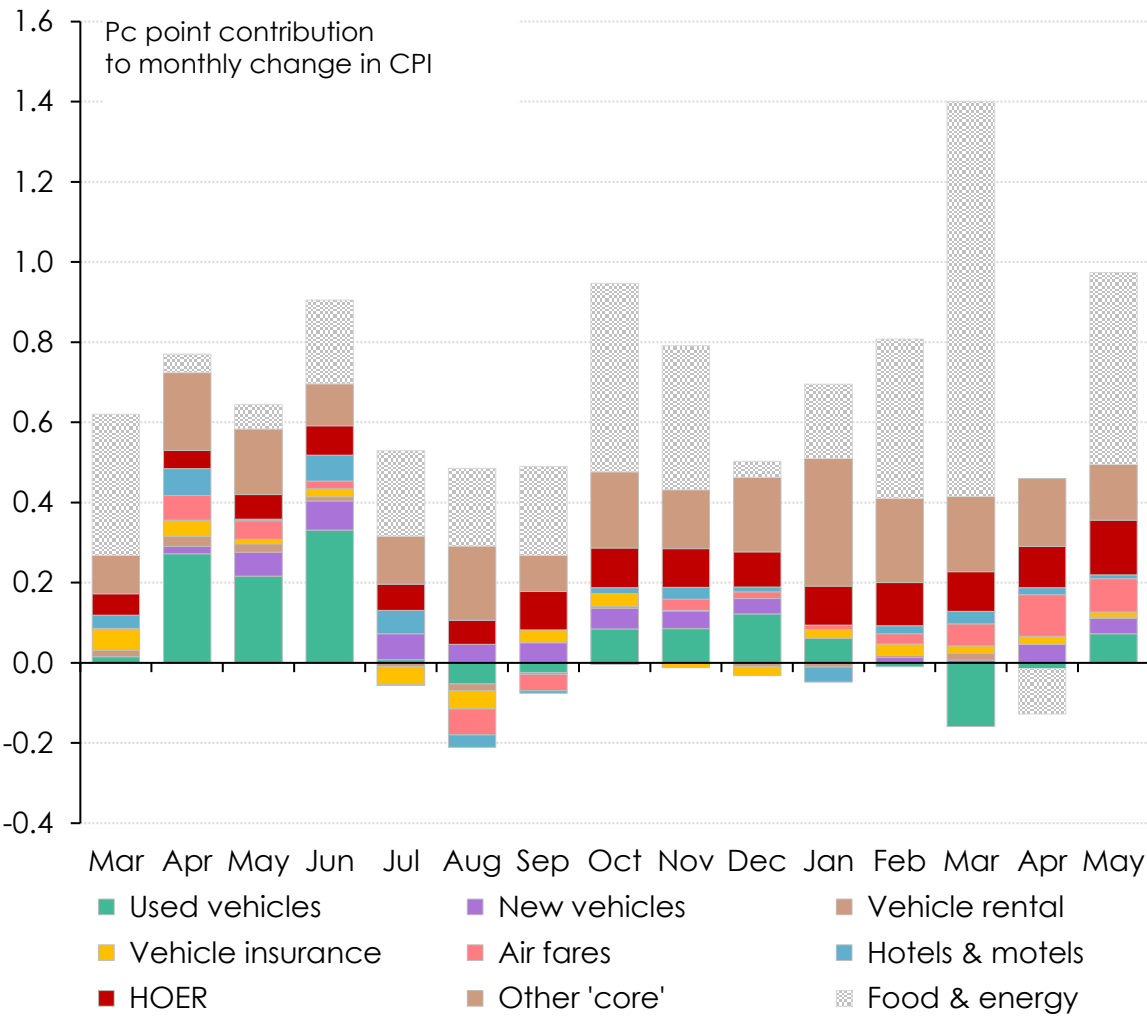


Sources: US Bureau of Labor Statistics, [Producer Price Index](#), [Import and Export Price Indexes](#) and [Consumer Price Index](#); US Bureau of Economic Analysis, [Personal Consumption Expenditures Price Index](#); Federal Reserve Bank of Cleveland, [Median CPI](#); Federal Reserve Bank of Dallas, [Trimmed Mean PCE Inflation Rate](#). [Return to "What's New"](#).

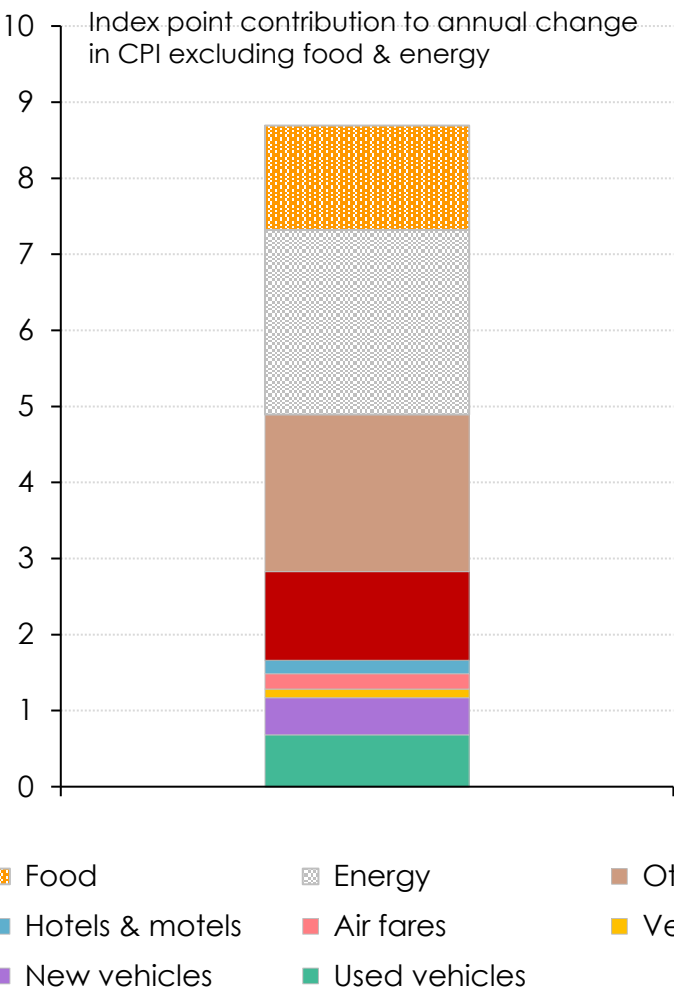
The CPI ex food & energy rose 0.6% in May, slightly above the average for the previous 6 months, so it's premature to say 'core' inflation has peaked

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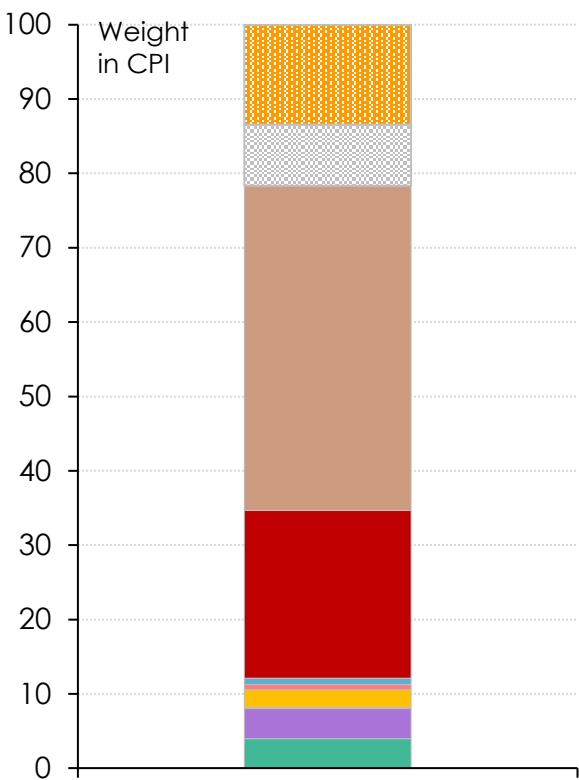
Contributions to monthly changes in the US CPI



Contributions to change in CPI over the year to March



Weights in CPI

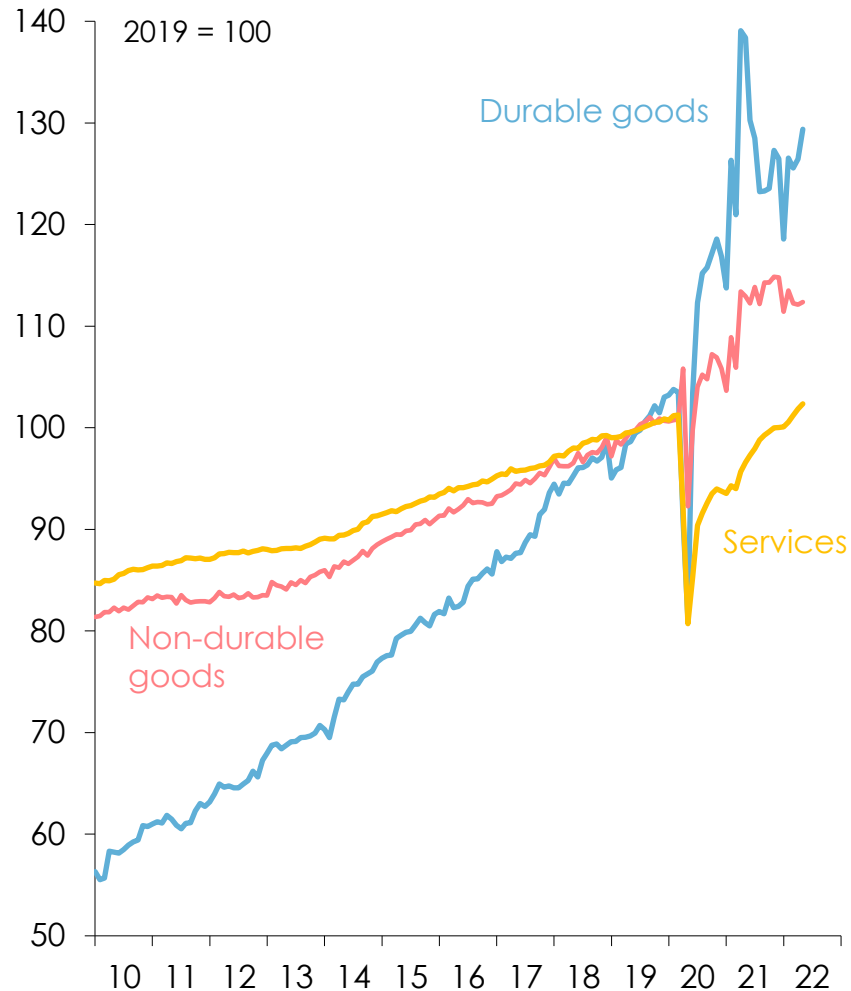


Note: 'HOER' = home-owners' equivalent rent (a measure of the 'imputed rent' notionally paid by owner-occupiers to themselves), and which accounts for (an uncommonly large, by international standards) 28½% of the CPI excluding food and energy. Source: US [Bureau of Labor Statistics](#), CPI Table 6; Corinna. [Return to "What's New"](#).

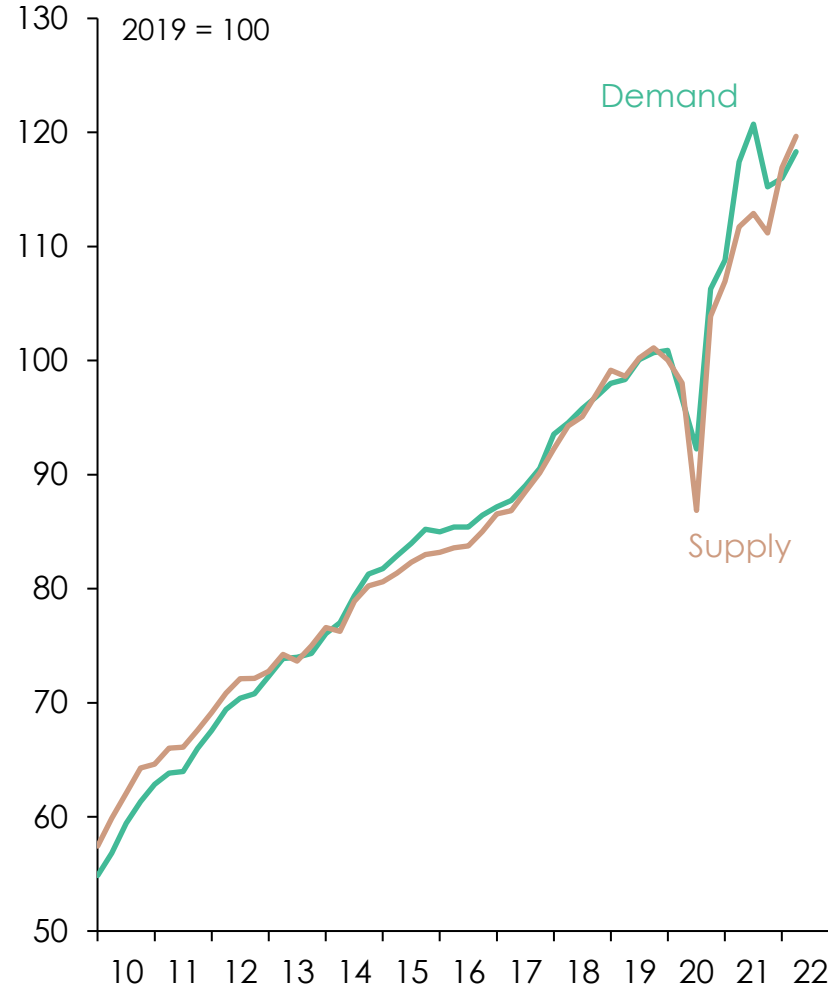
The rise in inflation has until recently been largely attributable to the imbalance between supply and demand for durable goods

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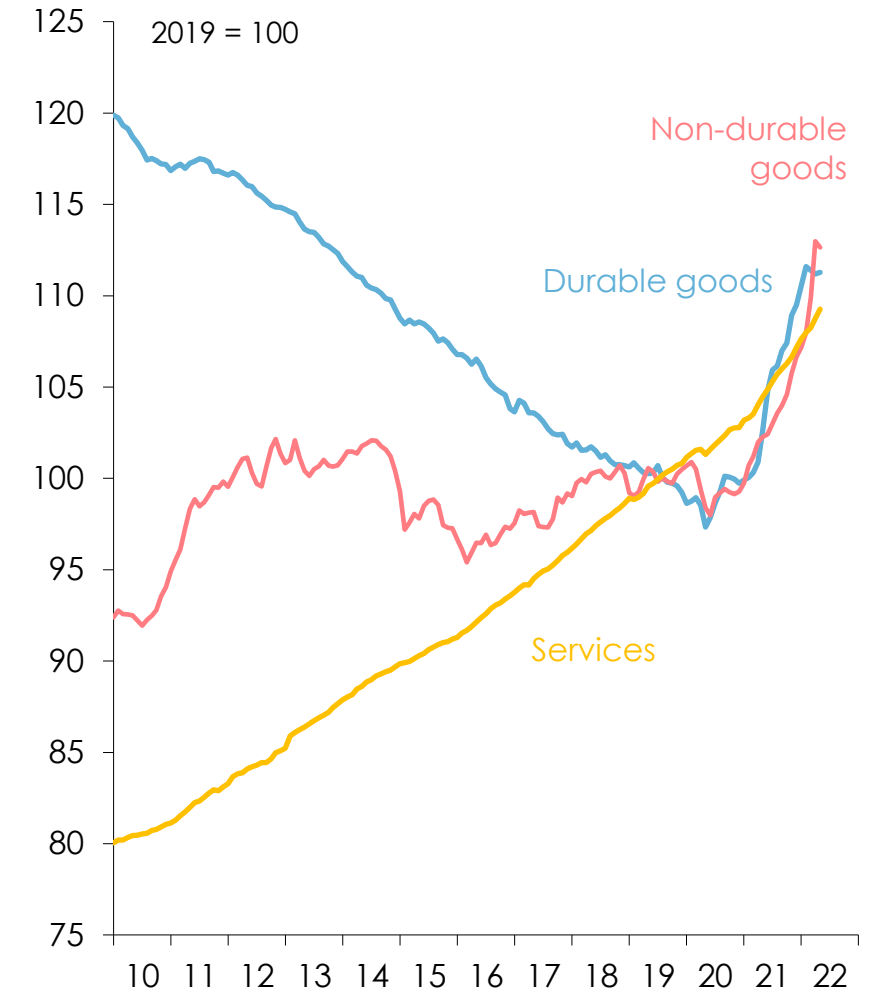
Composition of personal consumption expenditures



Aggregate demand for and supply of durable goods



Implicit price deflators of personal consumption

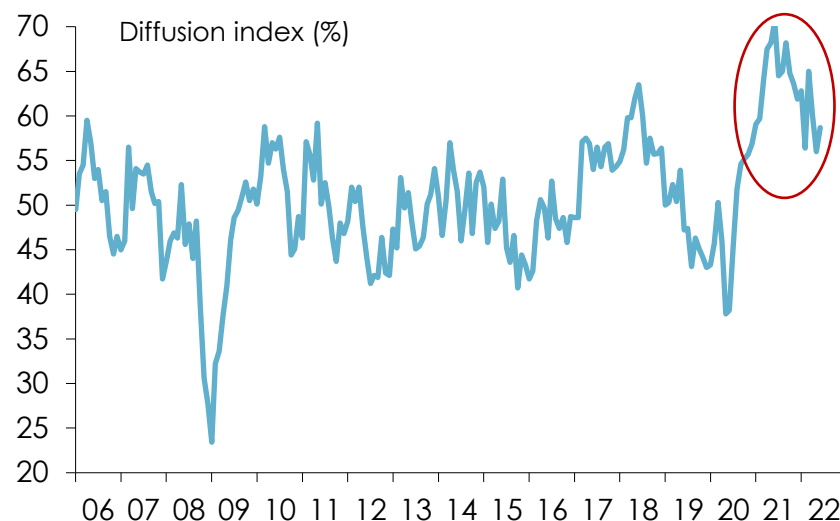


Note: 'Aggregate demand' for durable goods comprises personal consumption of durable goods plus business investment in equipment. 'Aggregate supply' of durable goods comprises gross domestic product (final sales plus change in inventories) plus net imports of durable goods. Sources: US Bureau of Economic Analysis, [National Income and Product Accounts](#), Tables 2.8.3-5, 1.1.6, 1.2.6 and 4.2.6. [Return to "What's New"](#).

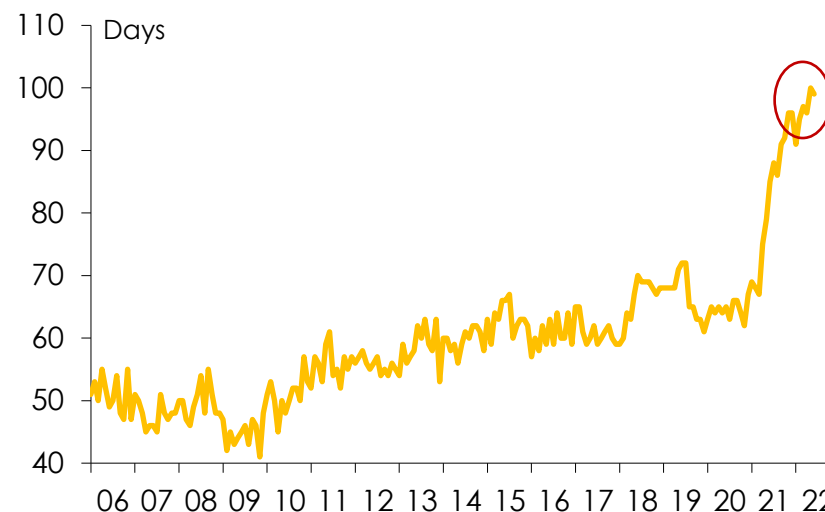
Supply-chain difficulties have intensified again this year, after seeming to have peaked during the second half of last year

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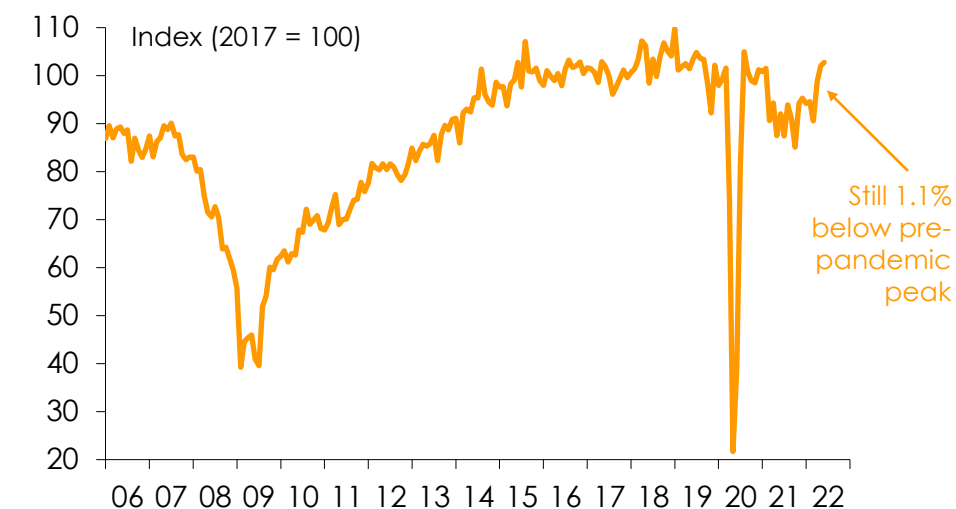
Manufacturers' order backlogs



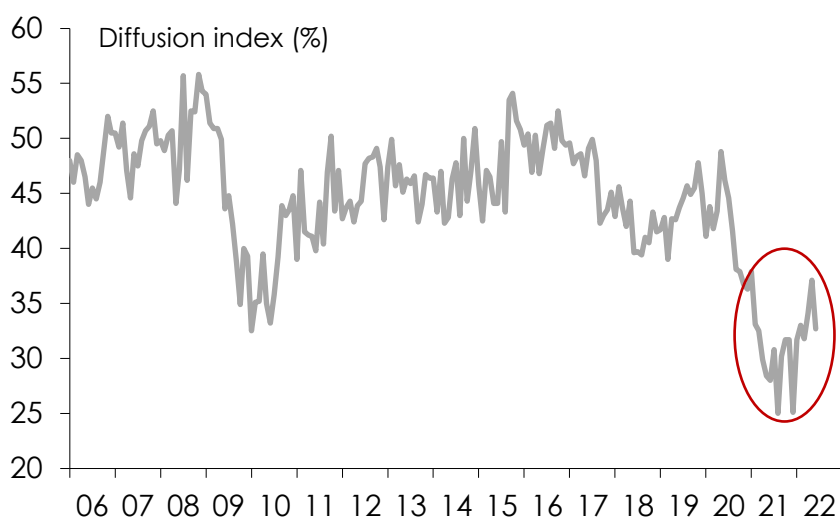
Lead-time for production materials



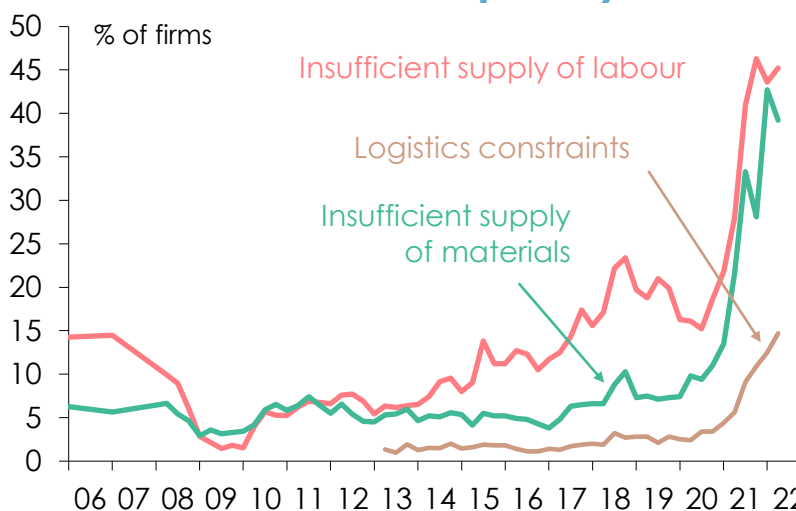
Motor vehicles & parts production



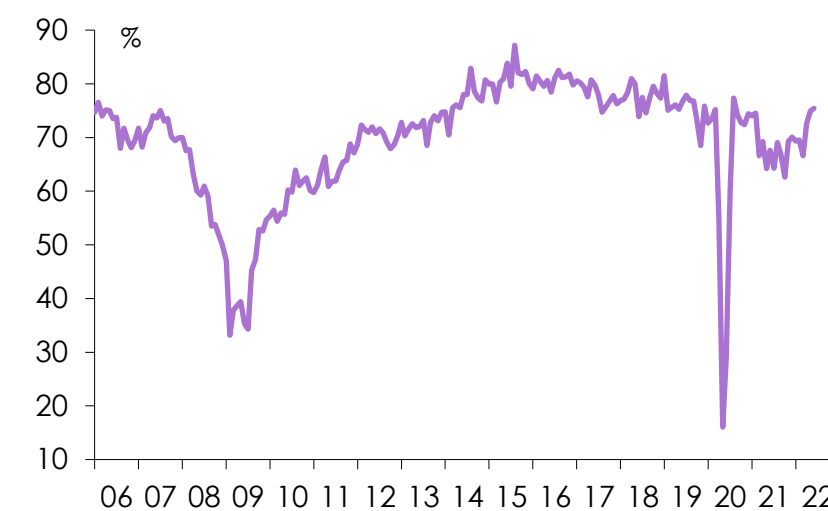
Manufacturers' customer inventories



Reasons for < full capacity



Auto industry capacity utilization

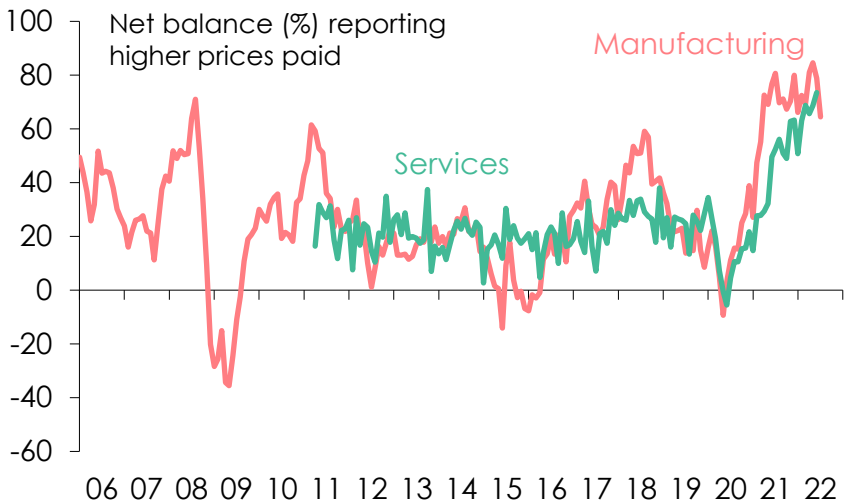


Note: The diffusion index of order backlogs is 50 plus the percentage of respondents reporting longer backlogs minus the percentage reporting shorter backlogs (and similarly for customer inventories). 'Reasons for < full capacity' means reasons for operating at less than full capacity. Sources: Institute for Supply Management, [Report on Business](#); US Census Bureau, [Quarterly Survey of Plant Capacity Utilization](#); Board of Governors of the Federal Reserve System, [Industrial Production and Capacity Utilization - G17](#). [Return to "What's New"](#).

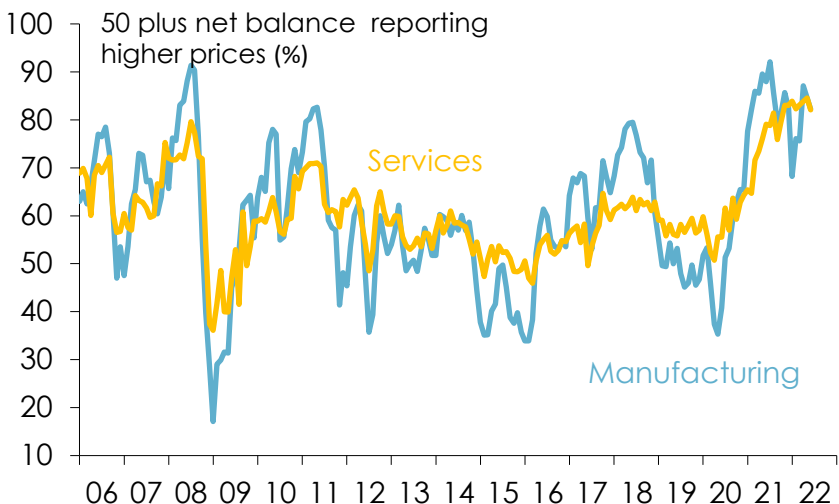
The upward shift in inflation expectations, especially longer-term ones, was a factor in last week's Fed decision to raise rates by 75bp

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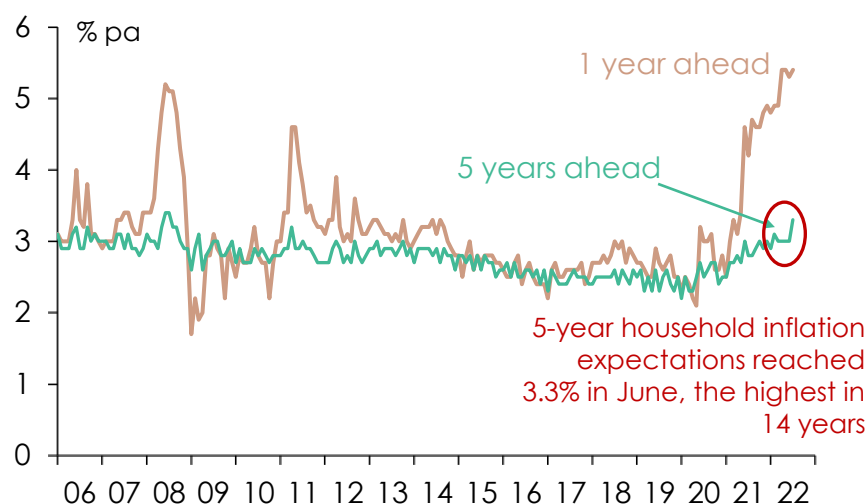
'Philly Fed' survey – prices paid



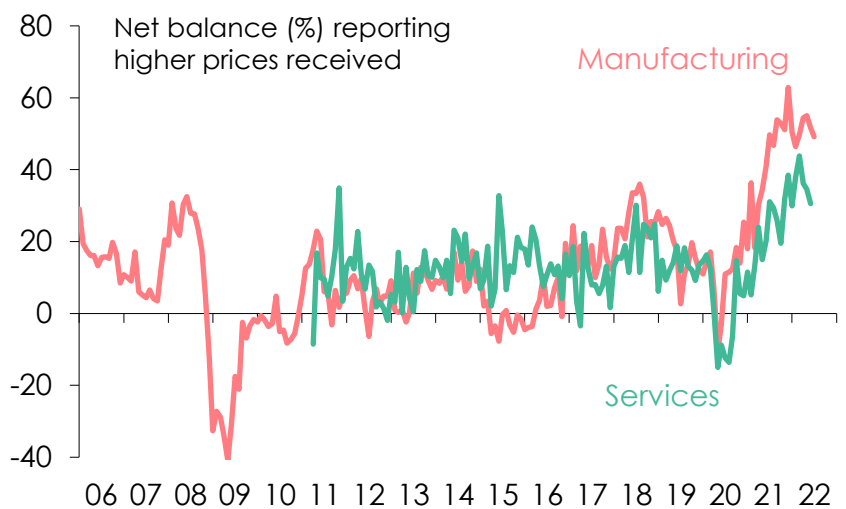
ISM survey – prices paid



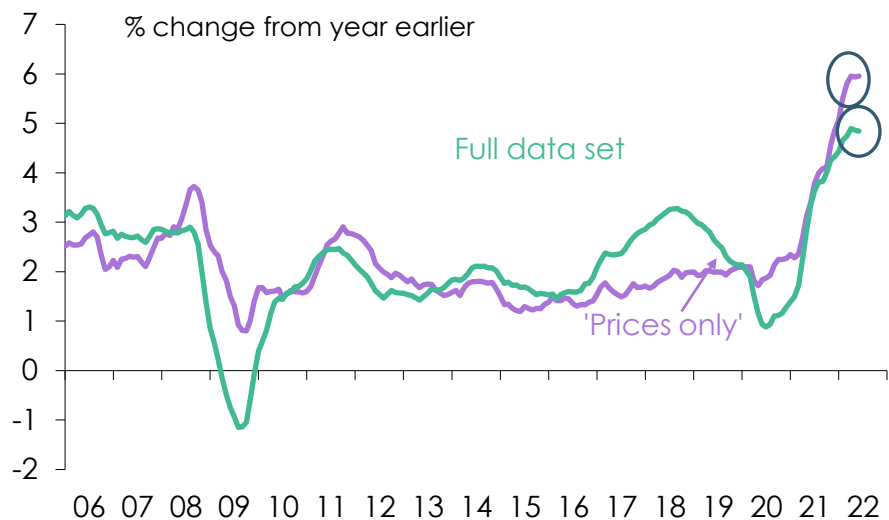
Household inflation expectations



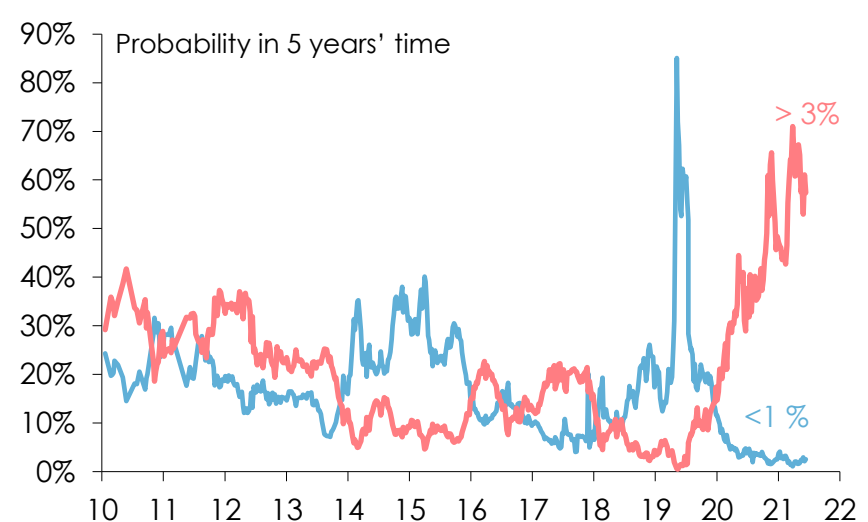
'Philly Fed' survey – prices received



NY Fed 'underlying inflation gauge'



Market-priced inflation probabilities

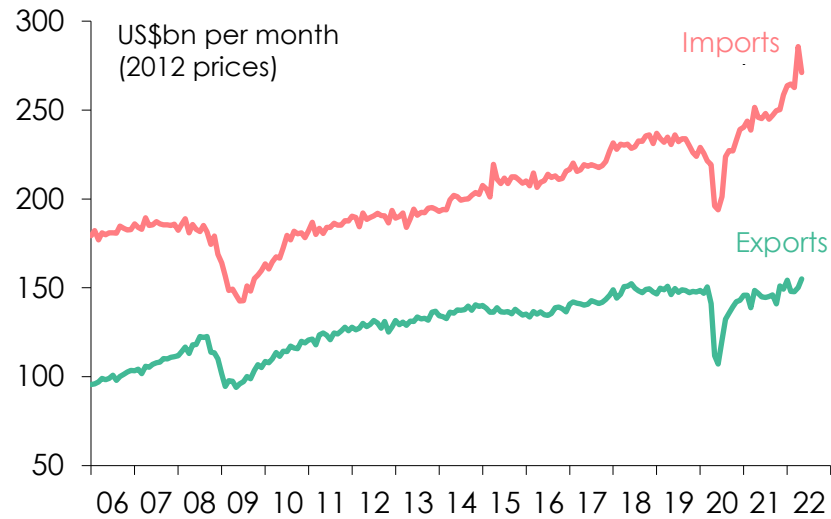


Sources: Federal Reserve Bank of Philadelphia, [Regional Economic Analysis](#), Manufacturing and Non-Manufacturing Business Outlook Surveys ; Institute for Supply Management, [ISM Report on Business](#); Federal Reserve Bank of New York, [Underlying Inflation Gauge](#); Federal Reserve Bank of Minneapolis, [Current and Historical Market-Based Probabilities](#).
[Return to "What's New"](#).

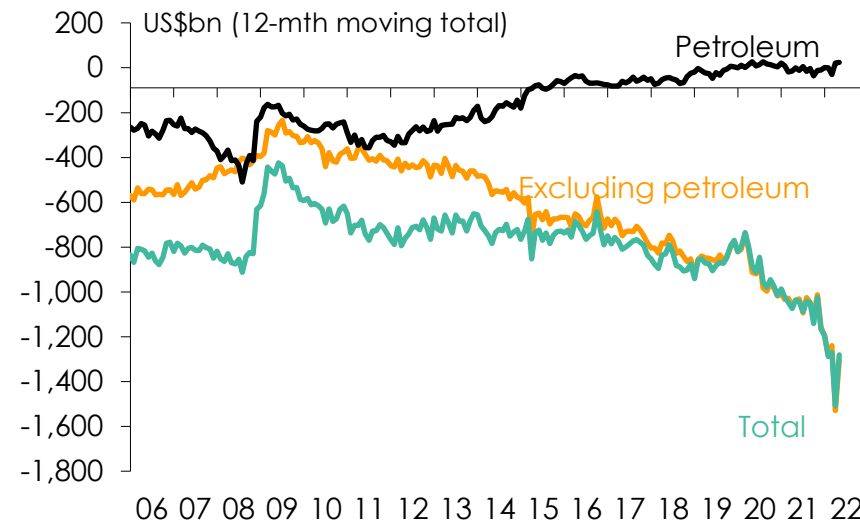
The US goods & services trade deficit narrowed by \$19bn, to \$106.7bn, in April, reflecting a 5% fall in goods import volumes and a 3% rise in exports

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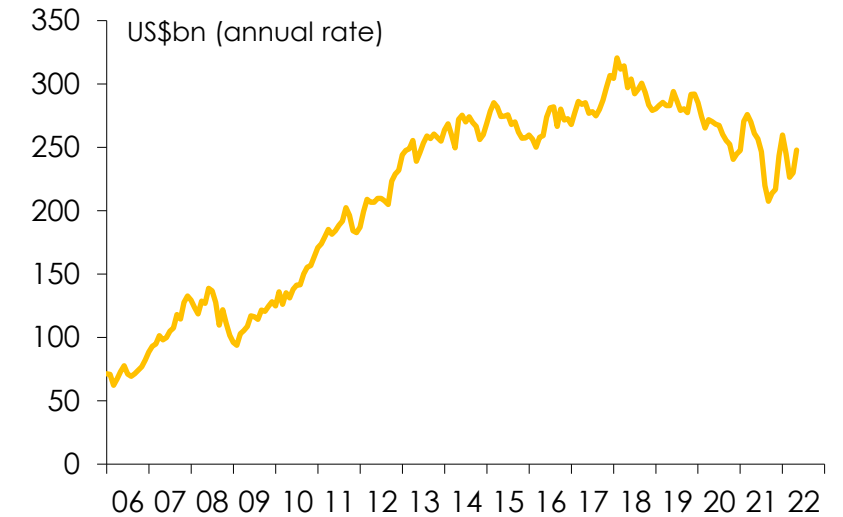
US merchandise trade volumes



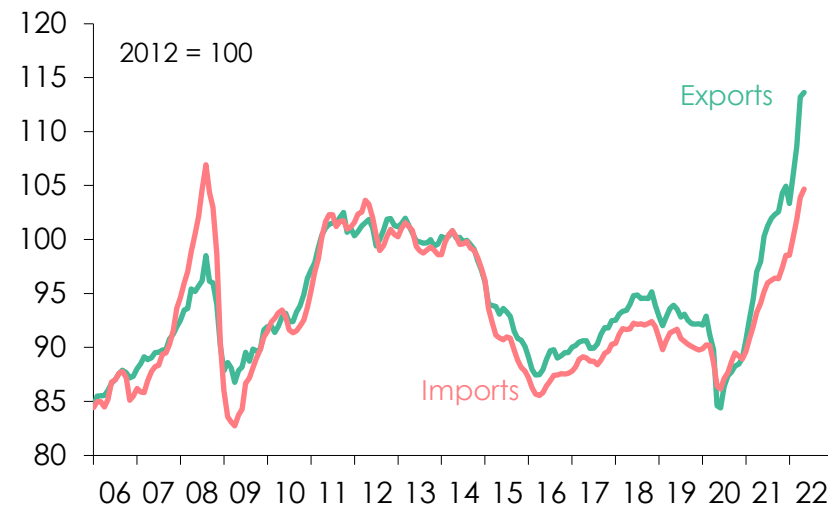
US goods trade balance



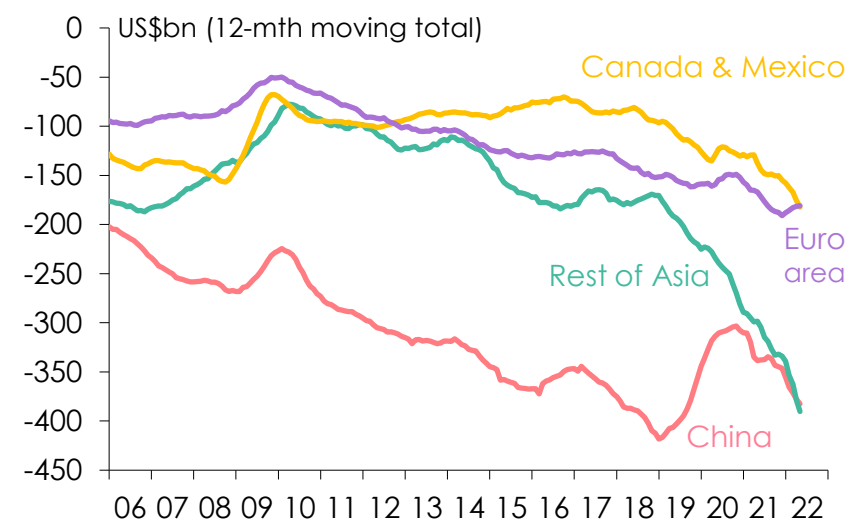
US services trade balance



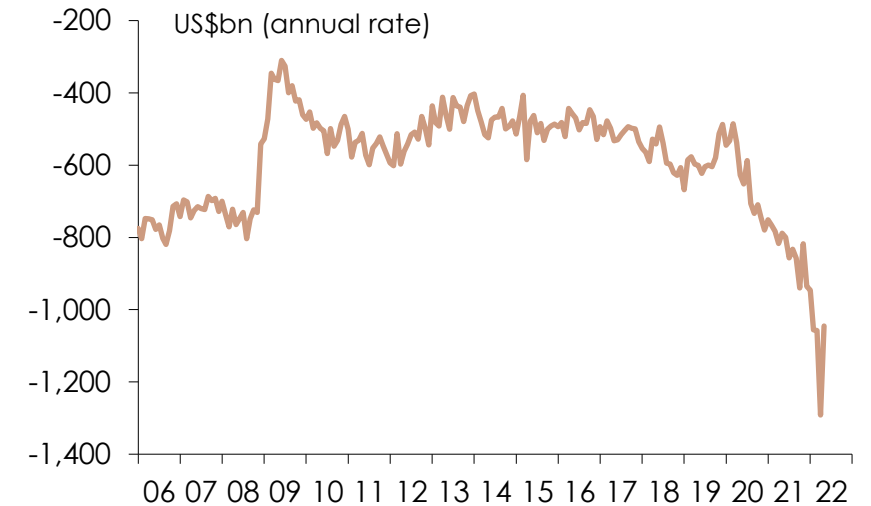
US merchandise trade prices



US bilateral goods trade balances



US goods & services trade balance

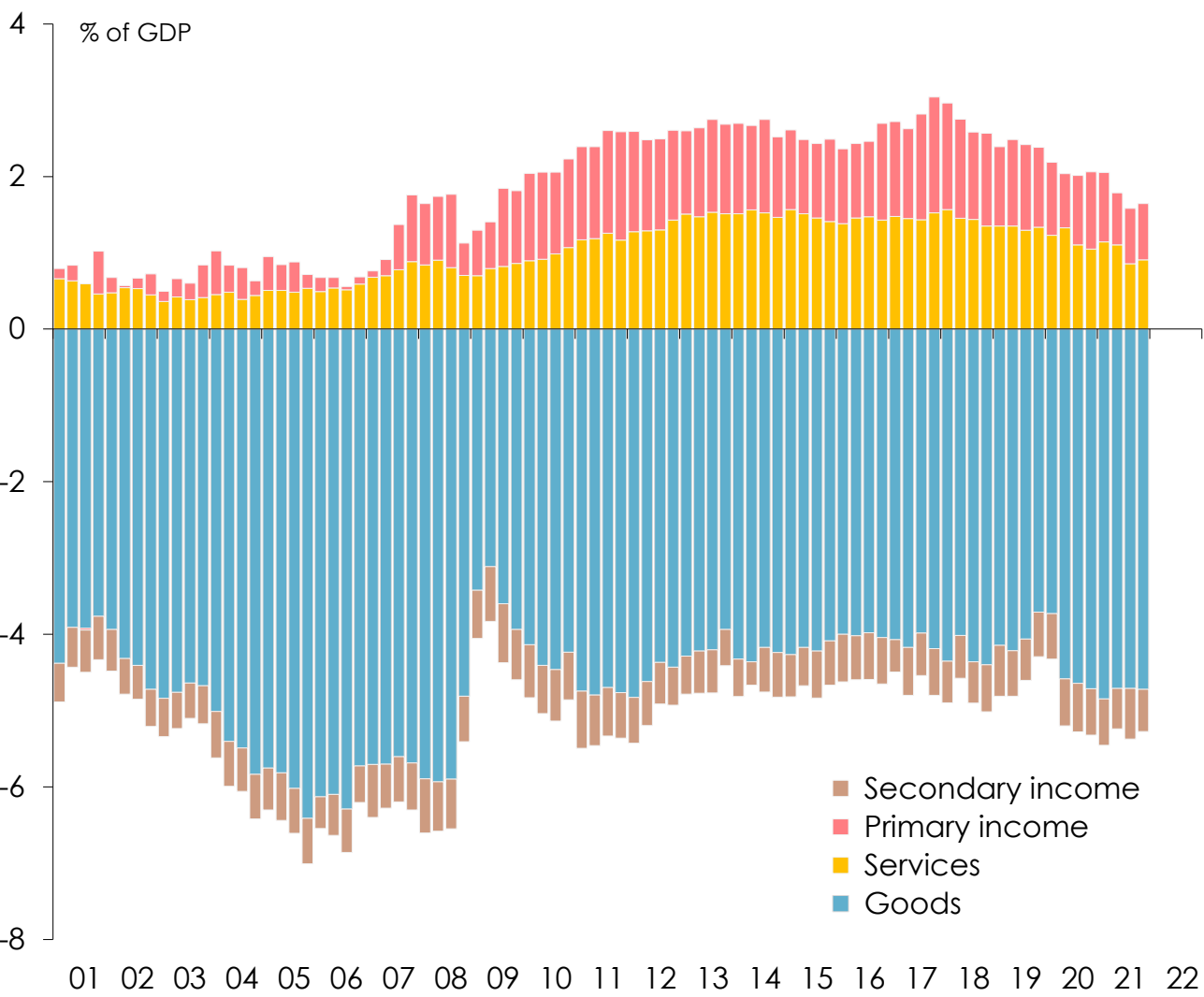


Source: US Census Bureau, [Foreign Trade](#); and US Bureau of Economic Analysis, [Advance Economic Indicators](#), and [U.S. International Trade in Goods and Services](#).
[Return to "What's New"](#).

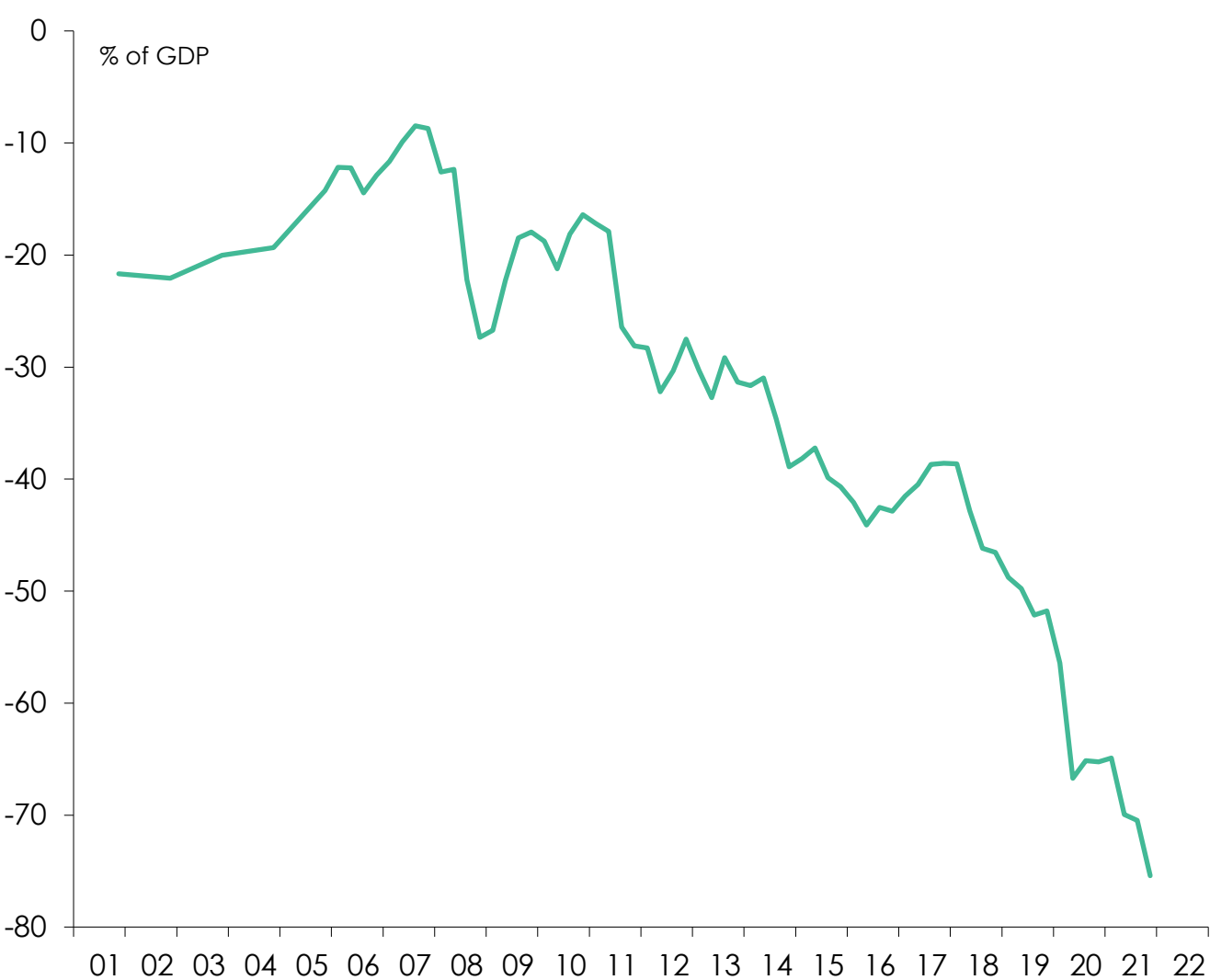
The US current account deficit narrowed slightly in Q4 2021, thanks to larger surpluses on trade in services and on investment income

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US current account balance



US net international investment position

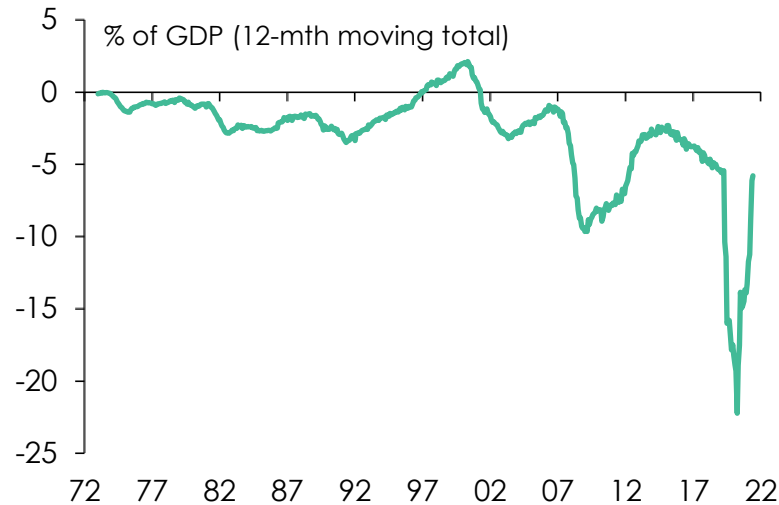


Note: 'Primary income' transactions are those involving investment income or compensation of employees. The US typically runs a surplus on investment income despite having a negative net international investment position since 1989, because US investors are able to derive much higher returns from their overseas assets than foreign investors derive from their investments in the US. 'Secondary income' transactions are current transfers between US residents and non-residents (including foreign aid, pensions, gifts, and insurance payments). Source: US [Bureau of Economic Analysis](#). [Return to "What's New"](#).

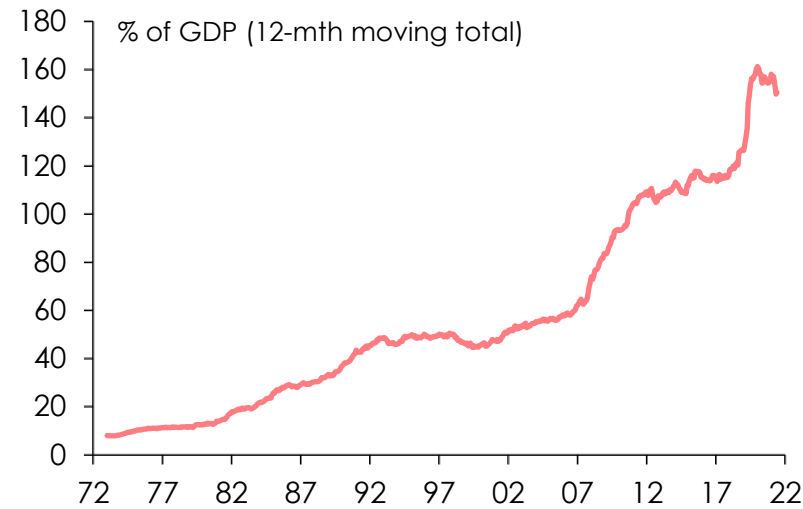
The US Federal budget deficit is continuing to decline sharply, as a result of surging tax revenues and, to a lesser extent, falling spending

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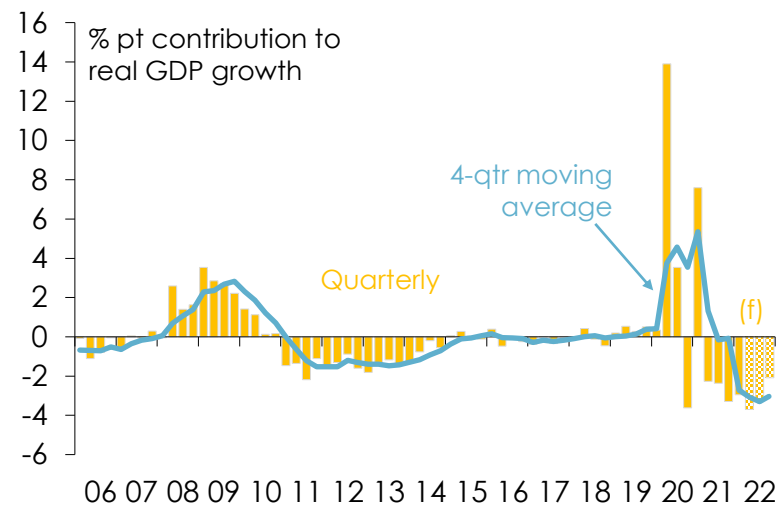
US Federal budget deficit



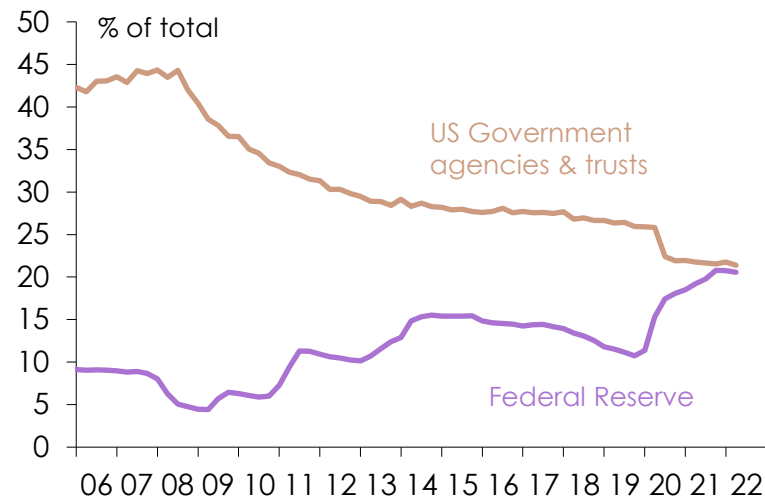
US gross Federal debt



Fiscal policy impact on GDP



Holdings of US Federal debt



- ❑ The US Federal Government recorded a budget deficit of US\$66bn in May, almost exactly half the deficit incurred in the same month last year
- ❑ For the 12 months ended May the budget deficit totalled \$1.1 trn (5.8% of GDP), the smallest 12-month total since March 2020, and down from a peak of \$4.1 trn (22.2% of GDP) in the 12 months ended June 2021 – and federal debt appears to have peaked as a percentage of GDP
- ❑ The Biden Administration's [Budget](#) for FY23 (which begins on 1st October) envisages the deficit falling from \$1.4trn or 5.8% of GDP in FY22 (cf. 15% of GDP in FY20 and 12.4% of GDP in FY21) to \$1.2trn or 4.5% of GDP in FY23, and remaining at 4.5%-4.8% of GDP through FY27 – although of course what eventually gets through Congress is likely to look very different
- ❑ The Fed holds almost 21% of the total stock of outstanding US Government debt (up from 11% in Q4 2019), while the share held by agencies and trusts (such as the Social Security Trust Fund) has fallen to just under 21.4% (from 26%) and the share held by foreign investors has fallen to 25% from a peak of 34% in 2014 and 2015

Note: The measure of US gross federal debt is at market value. Sources: US Treasury Department Bureau of the Fiscal Service, [Monthly Treasury Statement](#) and [Treasury Bulletin](#); Federal Reserve Bank of Dallas, [Market Value of US Government Debt](#); Brookings, [Hutchins Center Fiscal Impact Measure](#); Corinna. [Return to "What's New"](#).

The Federal Reserve raised its funds rate target by 75bp at last week's FOMC meeting, the largest single increase since November 1994

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

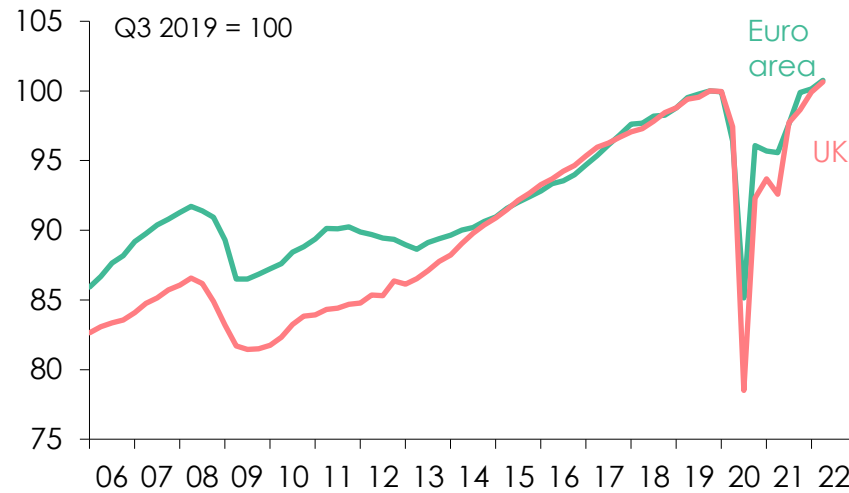
- ❑ The Federal Reserve [raised its target for the Fed funds rate](#) by 75 basis points, to 1.50-1.75%, at its Federal Open Market Committee meeting on 16th June, and foreshadowed that “ongoing increases in the target range will be appropriate”
- ❑ In his [post-meeting press conference](#) Fed Chair Jay Powell described the move as “an unusually large one”, and justified it by referring to the higher-than-expected inflation outcome for May ([slides 59-60](#)), the recent increase in inflation expectations ([slide 63](#)), and upward revisions to [FOMC members' projections](#) for inflation (the median of which for 2022 has been revised up to 5.2%, from 4.3% in March, although the median projections for inflation in 2023 and 2024 were each lowered by 0.1 pc pt to 2.6% and 2.2% respectively)
 - Powell indicated that “either a 50 or 75 basis point increase seems likely at [the] next FOMC meeting”
- ❑ FOMC members also significantly raised their projections for the ‘appropriate’ path for the Fed funds rate, to a median of 3.4% at the end of this year (from 1.9% in March) and to 3.8% at the end of 2023 (from 2.8% previously), before declining to 3.4% (from 2.8% previously) at the end of 2024
 - these projections are all above the median FOMC members’ projection of the ‘longer run’ appropriate level for the Fed funds rate of 2.5%, which can be taken as a proxy for their assessment of the ‘neutral rate’
- ❑ FOMC members appear confident that they can bring inflation down to the Fed’s target range without precipitating a recession, although they acknowledge that growth will slow significantly and unemployment will rise
 - the median forecast for GDP growth was revised down to 1.7% over both 2022 and 2023 (from 2.8% and 2.2% respectively in March),
 - while the median forecast for the unemployment rate was revised up to 3.7% for Q4 2022 (from 3.5%), to 3.9% for Q4 2023 (from 3.5%), and to 4.1% for Q4 2024 (from 3.6%)

Europe

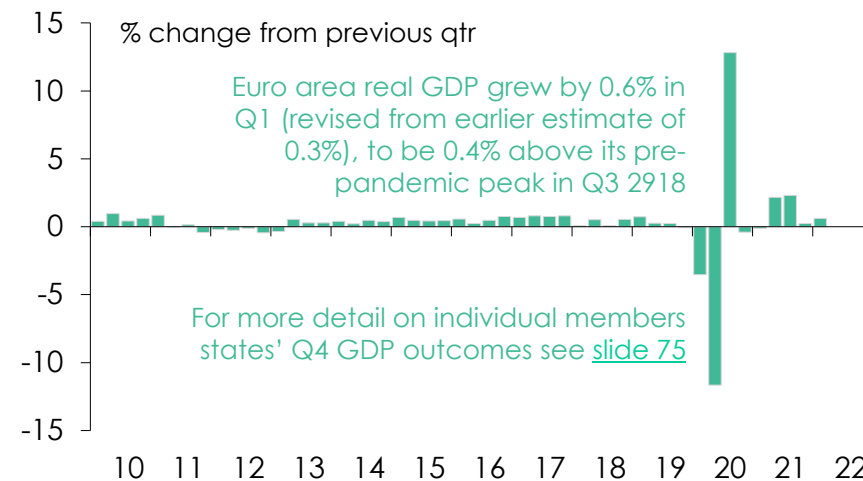
The euro area's real GDP grew 0.6% (revised from 0.3%) in Q1, but its terms of trade have deteriorated 3% over the past two quarters

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

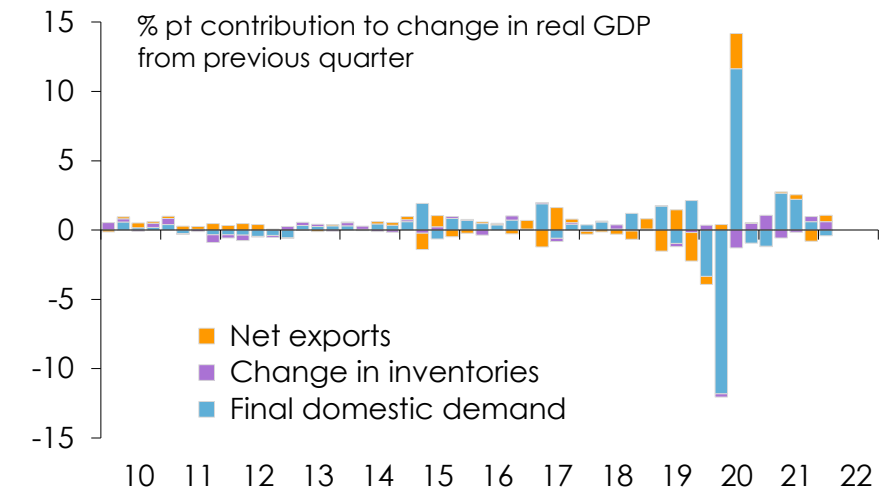
Euro area and UK real GDP



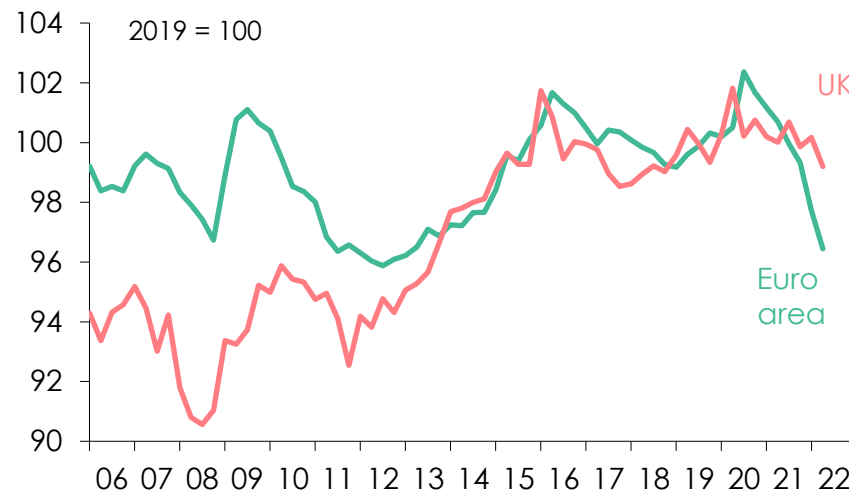
Euro area quarterly GDP growth



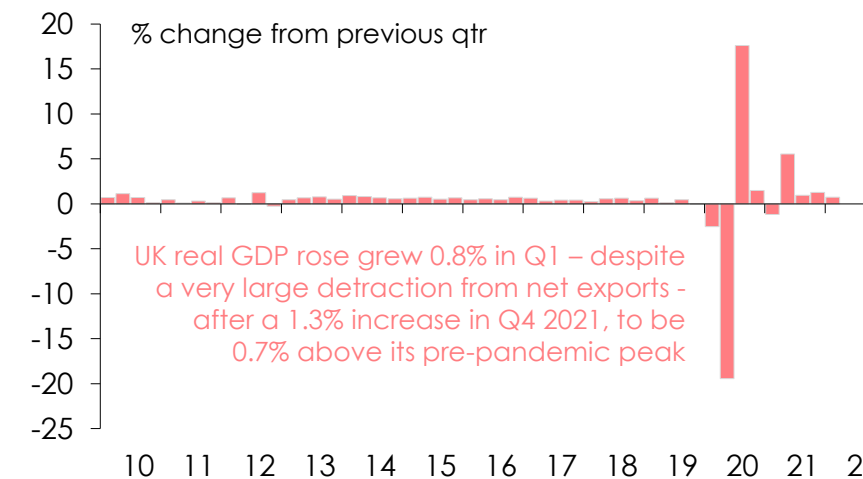
Contributions to quarterly EA GDP



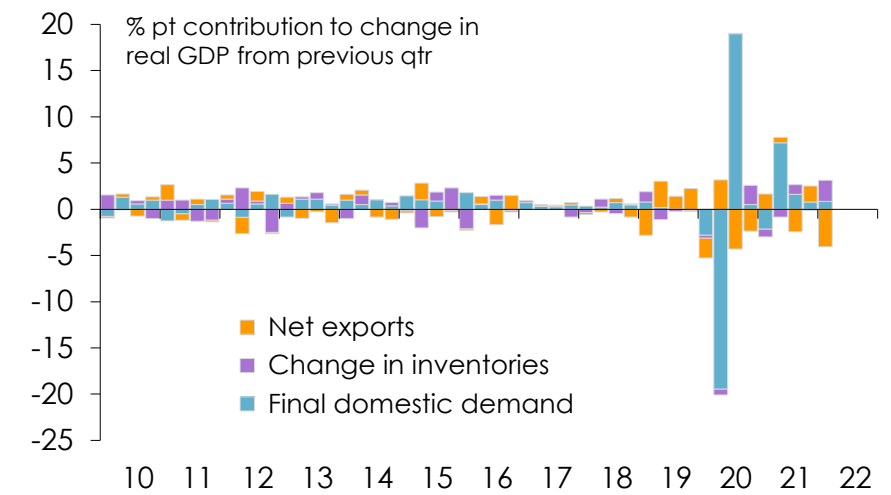
Euro area and UK terms of trade



UK quarterly GDP growth



Contributions to quarterly UK GDP

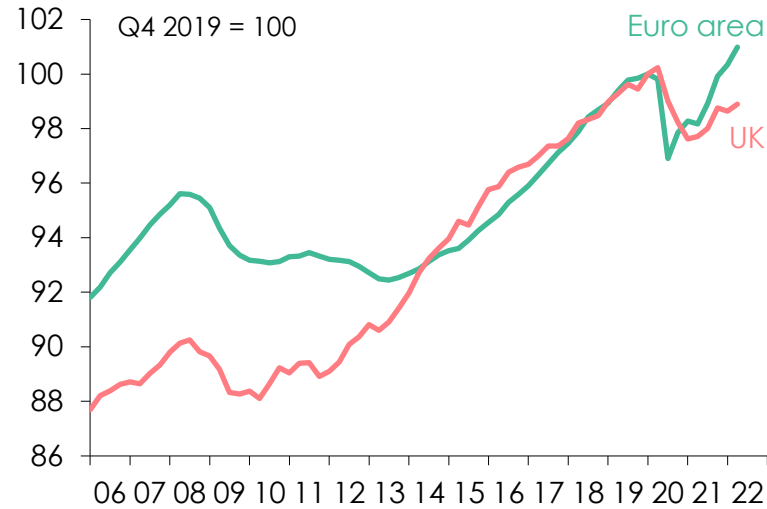


Note: the 'terms of trade' is the ratio of the implicit price deflator of exports of goods & services to that of imports of goods & services – it gives an indication of the income gains or losses arising from changes in the prices of goods and services traded with the rest of the world. Sources: Eurostat, [National accounts - Main tables](#); UK Office for National Statistics, [GDP quarterly national accounts time series](#). [Return to "What's New"](#).

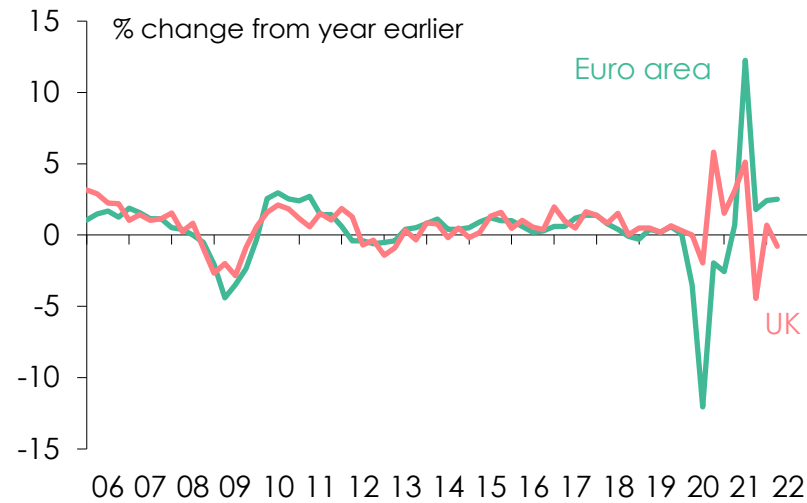
Euro area unemployment remained at its record low of 6.8% in April, well above the UK's 3.8% (up 0.1 pc pt in the three months ended April)

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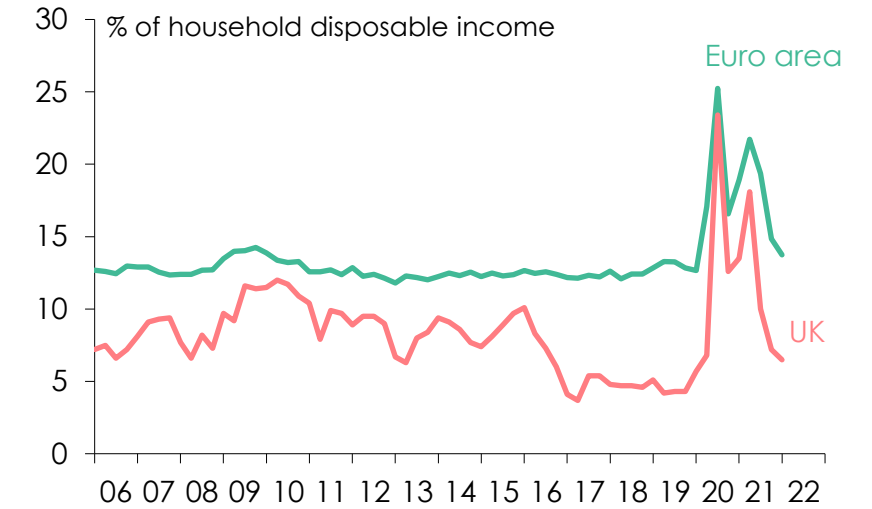
Employment



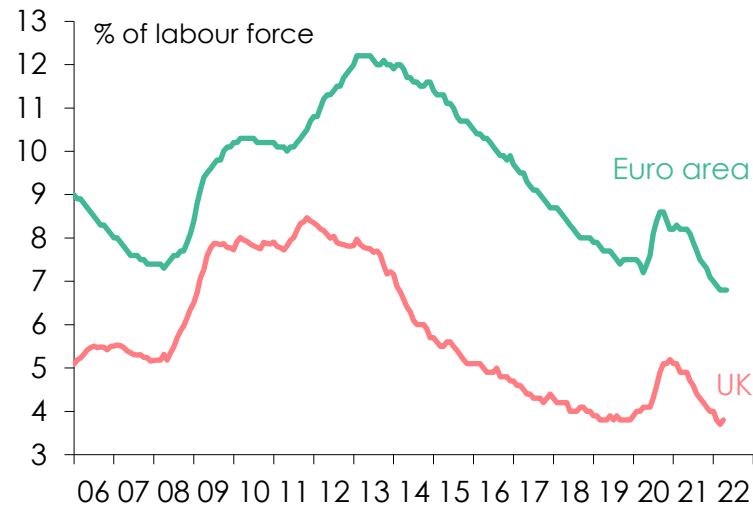
Labour productivity



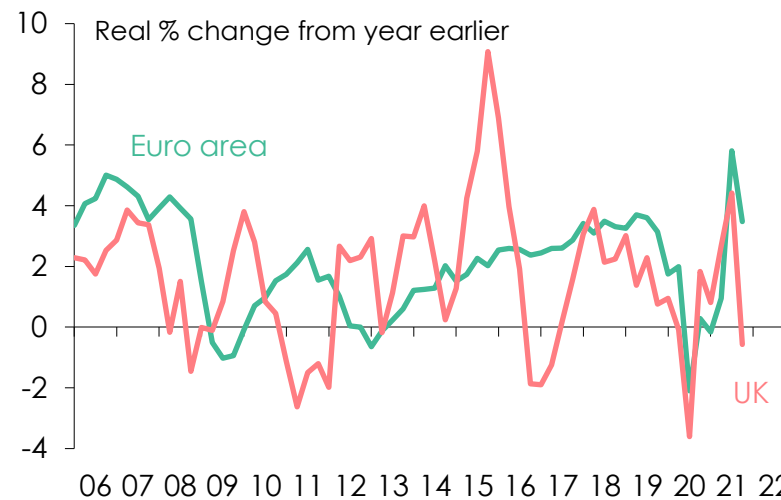
Household saving rates



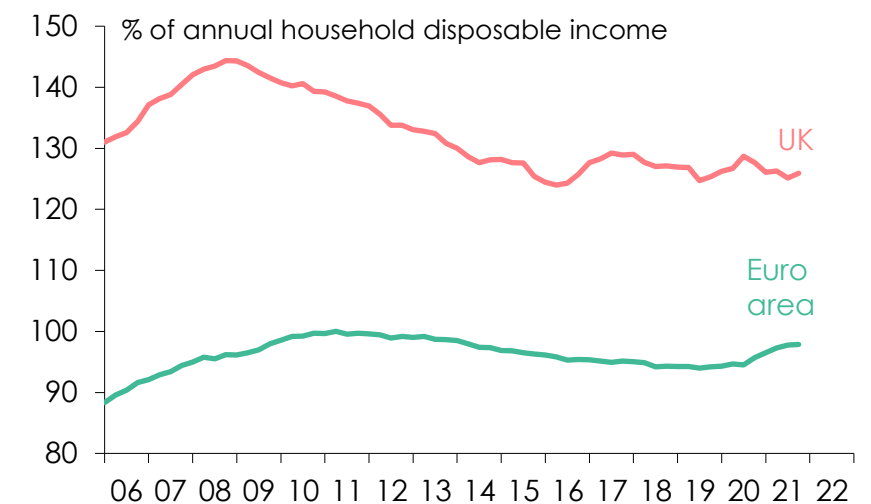
Unemployment rates



Household disposable income



Household debt

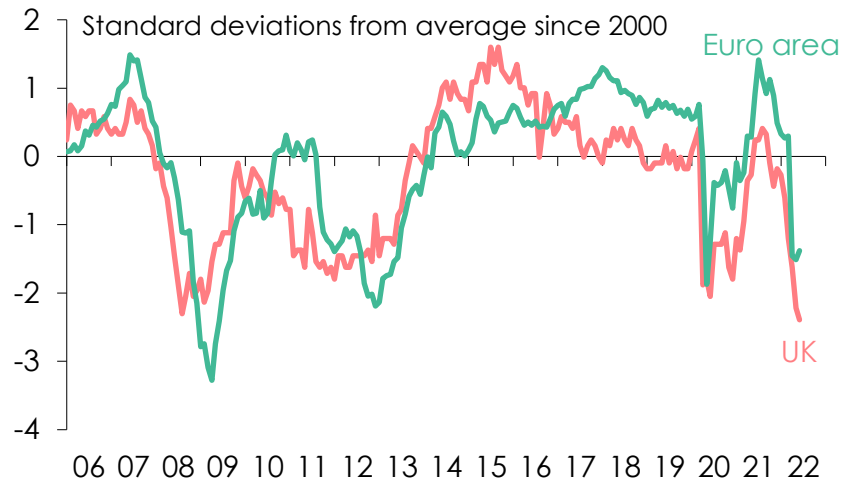


Sources: Eurostat, [Employment and unemployment \(Labour force survey\)](#), [Household saving rate](#) and [Labour productivity and unit labour costs](#); UK Office for National Statistics, [Employment in the UK](#), [Unemployment rate](#) (note, UK unemployment data are shown as a three-month moving average), [Labour productivity](#), and [UK Economic Accounts time series](#); Bank for International Settlements, [Credit to the non-financial sector](#). [Return to "What's New"](#).

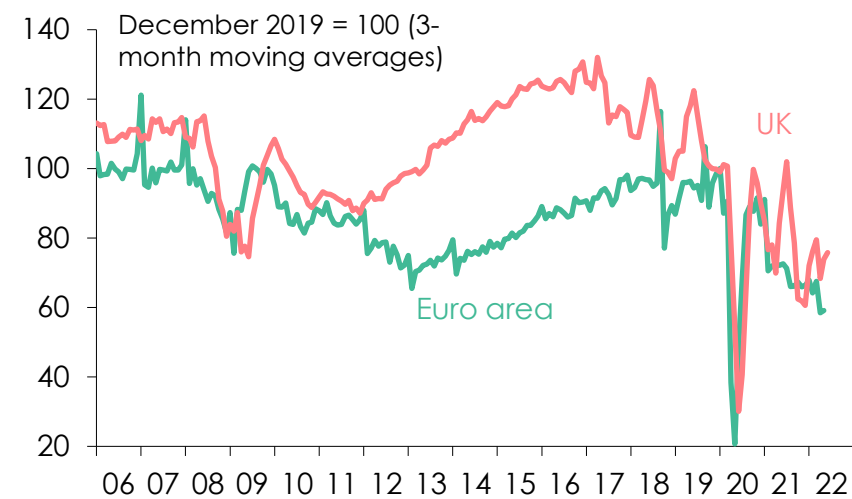
Euro area business sentiment is holding up remarkably well, in contrast to the UK, and in contrast to consumer sentiment in both

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

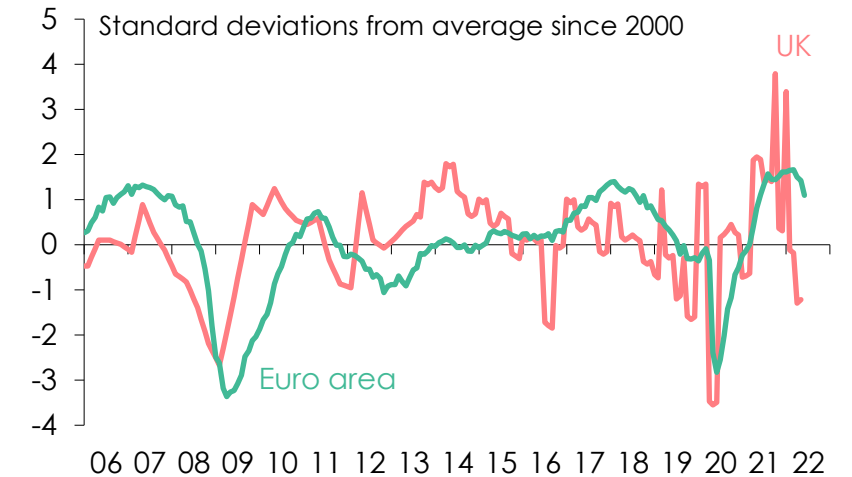
Consumer confidence



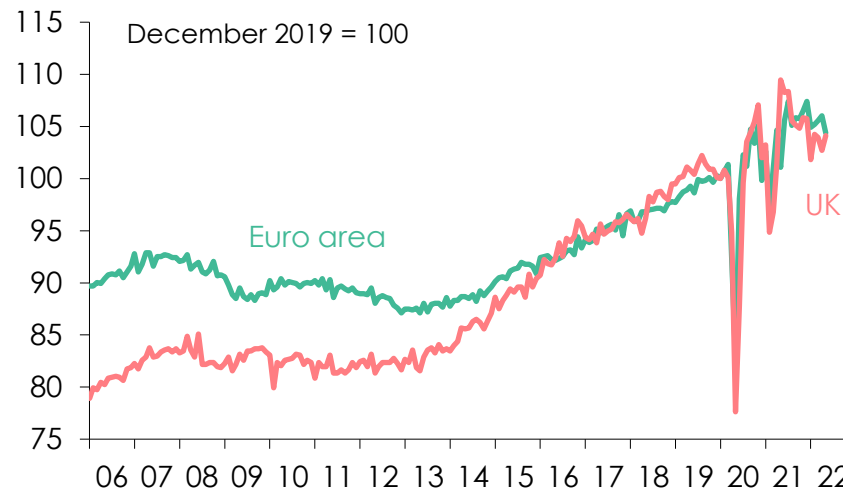
New car registrations



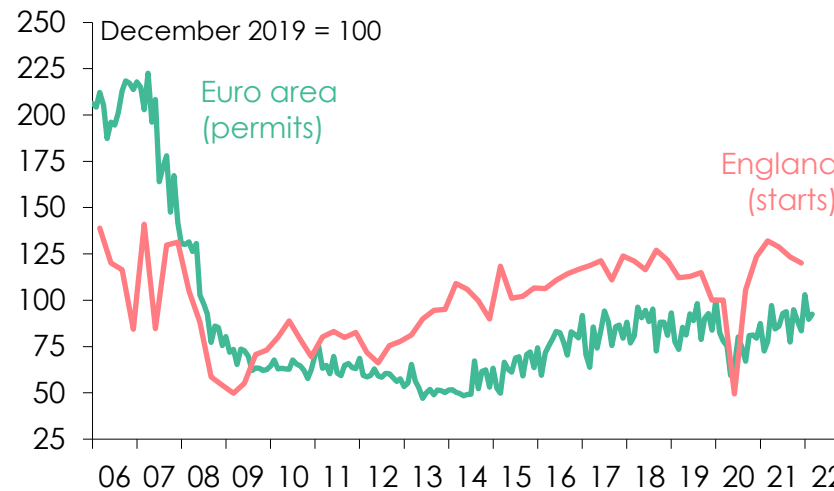
Business confidence



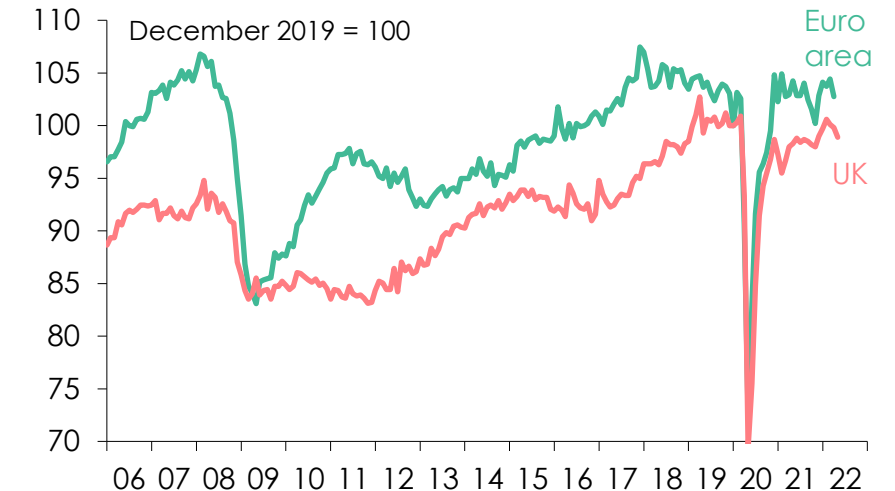
Retail sales volume



Housing activity



Manufacturing production

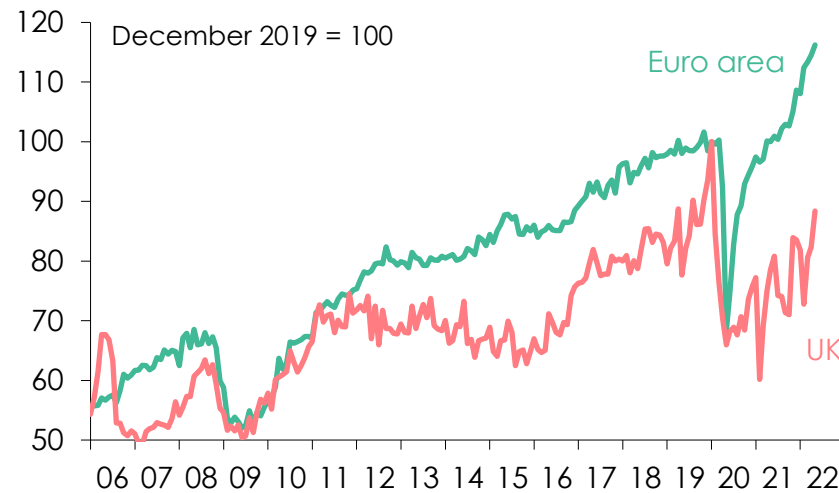


Sources: European Commission, [Business and consumer surveys](#); GfK, [Consumer confidence barometer](#); Confederation of British Industry, [Industrial Trends Survey](#); Eurostat, [Turnover and volume of sales in wholesale and retail trade](#), [New registrations of passenger cars](#), [Building permits - monthly data](#) and [Production in industry](#); UK Office for National Statistics, [Retail industry](#), [House building data, UK](#), and [Manufacturing and production industry](#); Society of Motor Manufacturers and Traders, [Car registrations](#) (seasonally adjusted by Corinna). [Return to "What's New"](#).

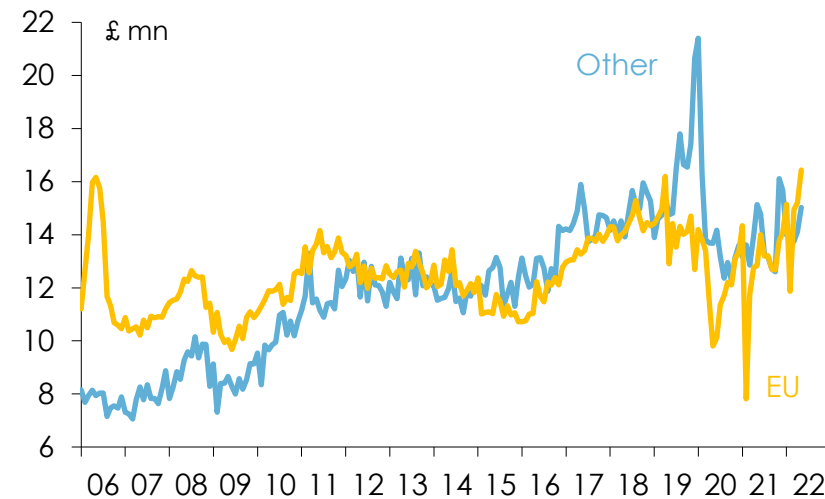
Higher prices for energy imports have caused the euro area's trade balance to slip into deficit, and also widened the UK's trade deficit

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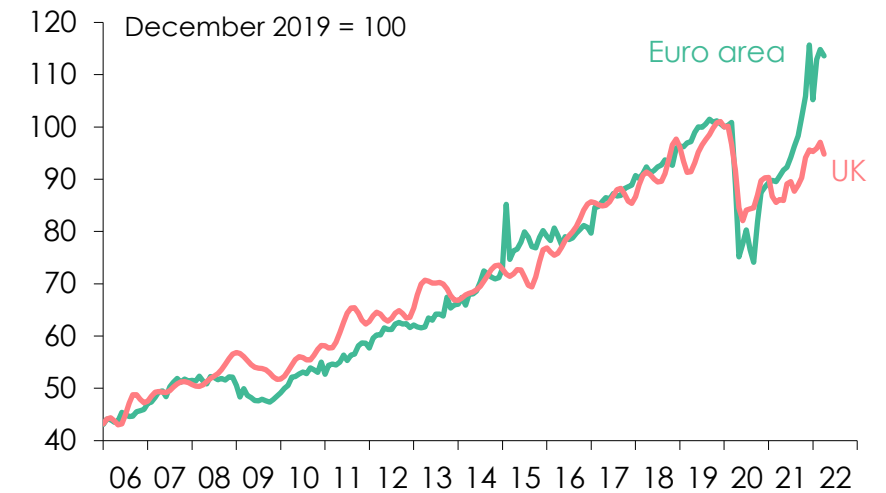
Merchandise exports



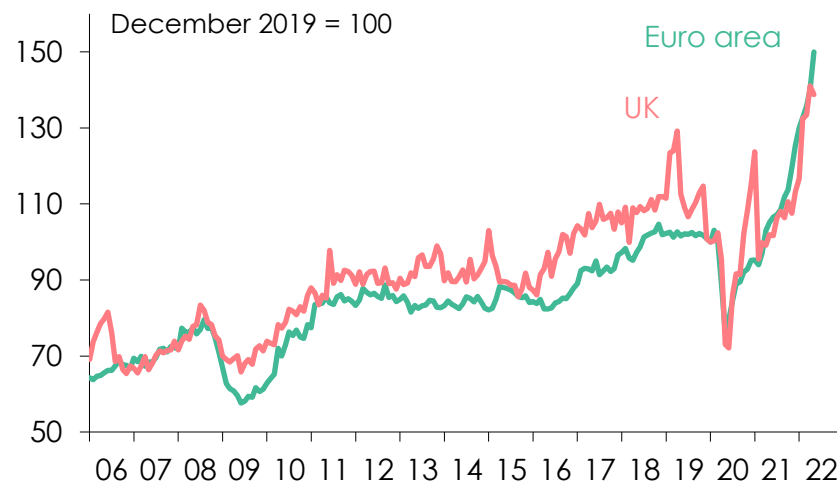
UK exports by destination



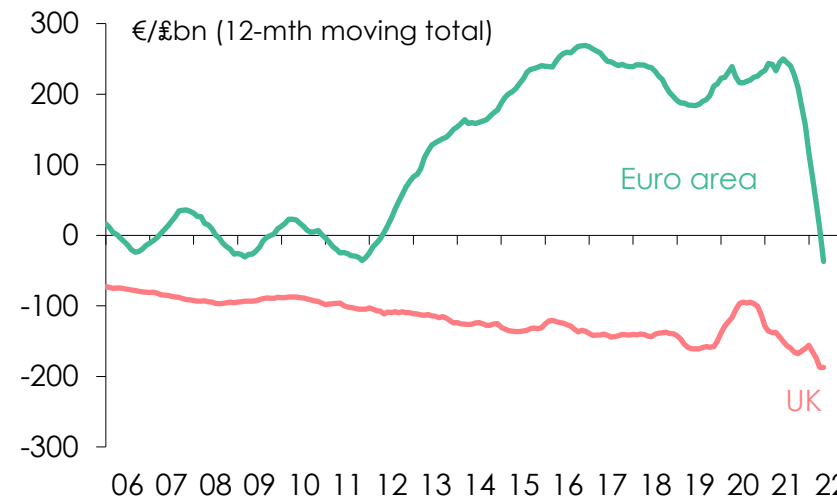
Services exports



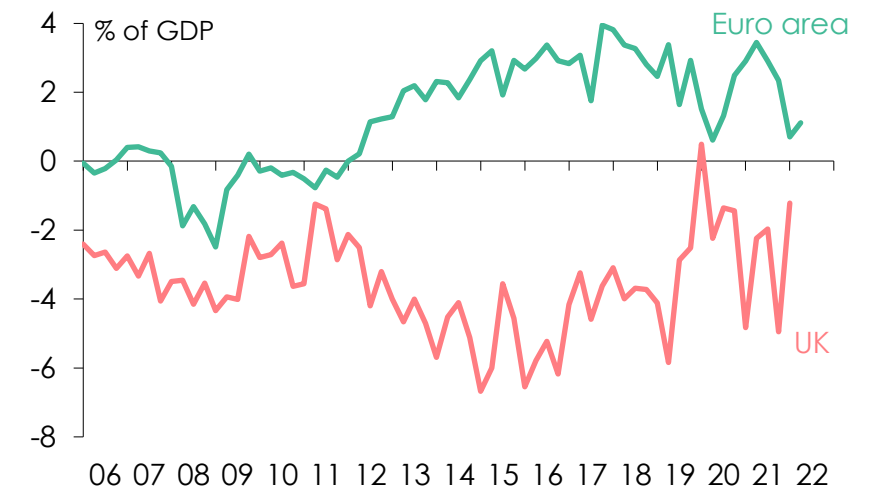
Merchandise imports



Merchandise trade balances



Current account balance

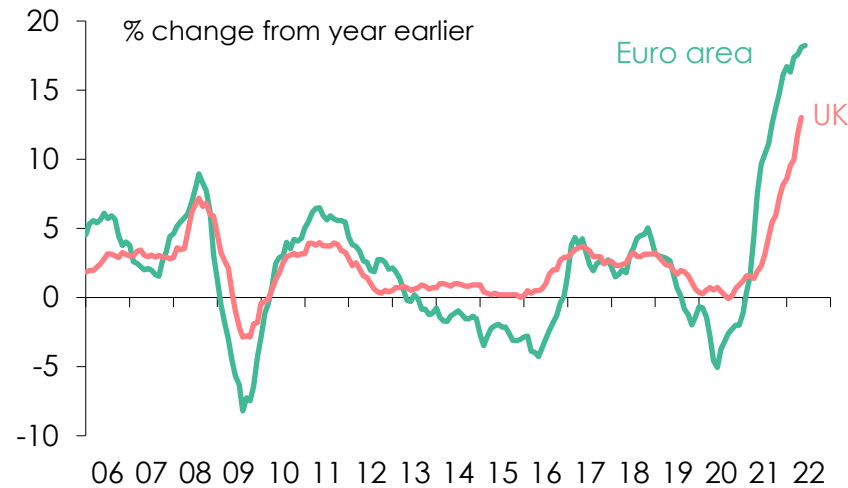


Sources: European Central Bank, Statistical Data Warehouse, [External Trade](#), [Balance of Payments and International Investment Position - Services](#), and [Balance of Payments and International Investment Position - Current Account](#); UK Office for National Statistics, [UK Trade](#) and [BoP Current Account Balance SA £m](#). [Return to "What's New"](#).

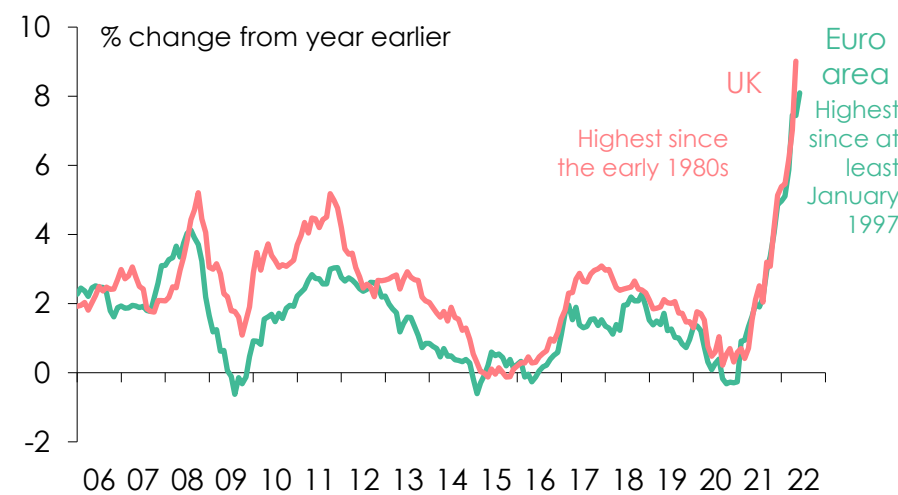
The euro area's annual headline inflation rate rose to 8.1% in May, fuelled by a 39% surge in energy prices, while 'core' inflation rose to 3.8%

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

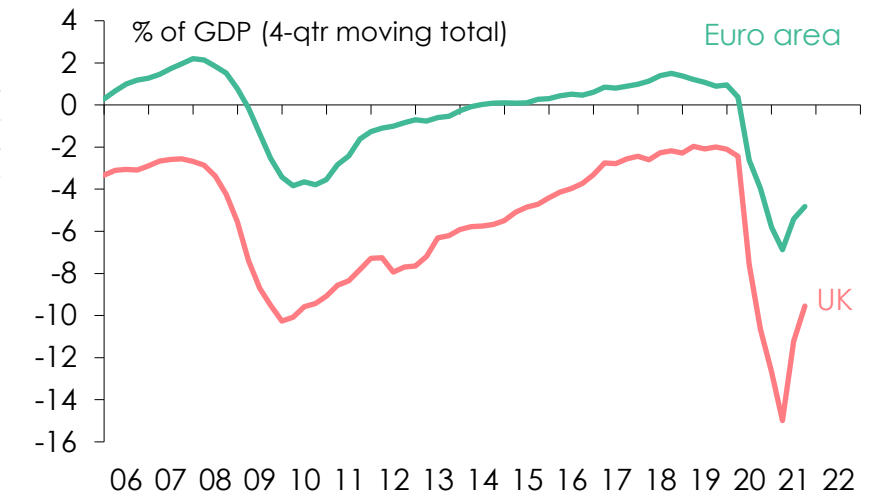
Producer prices



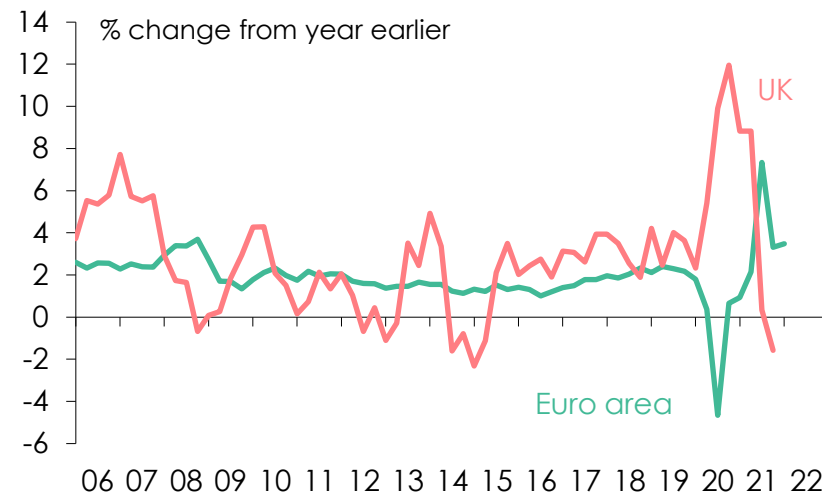
'Headline' consumer prices



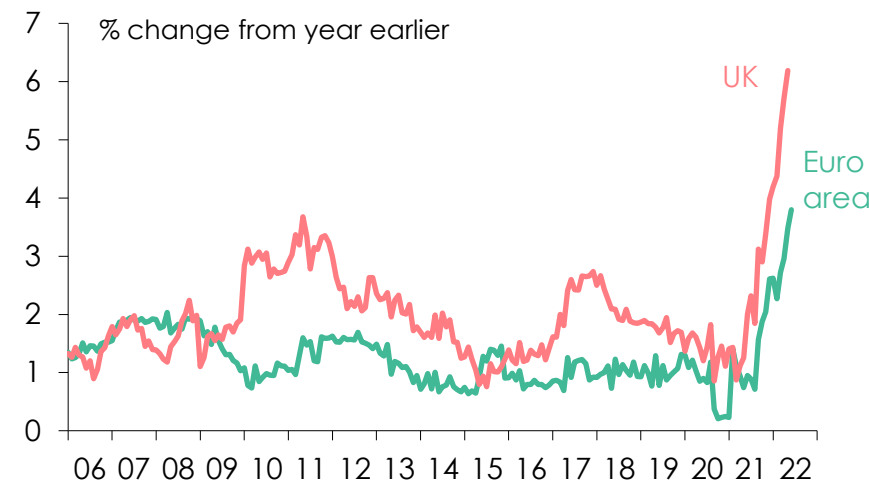
Government fiscal balance



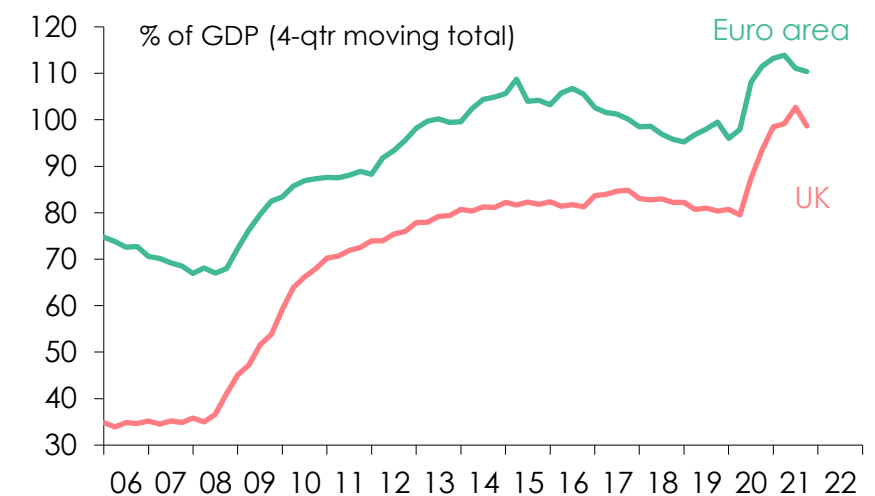
Labour costs



'Core' consumer prices



Government net debt

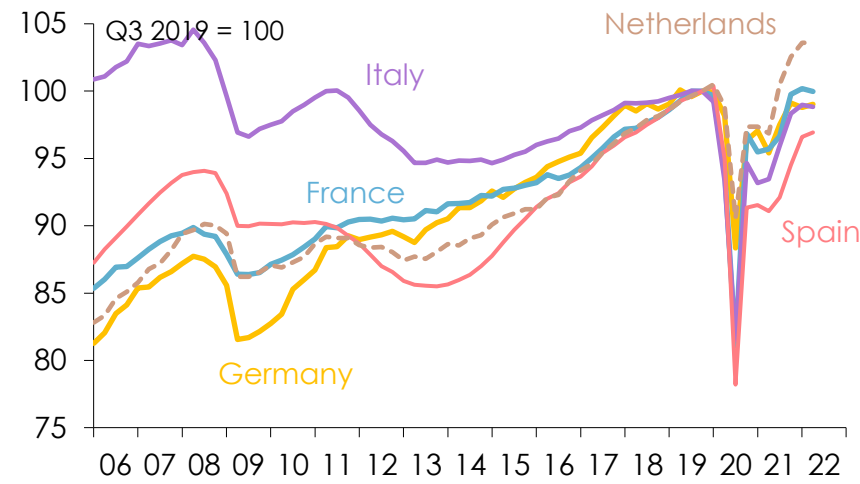


Note: Consumer price indices for the euro area and UK are 'harmonized' indices which exclude owner-occupied housing costs. Sources: Eurostat, [Producer prices in industry](#), [Compensation per employee and hours worked per employed person](#), [Consumer price index](#), and [Government finance statistics and EDP statistics](#); UK Office for National Statistics, [Inflation and price indices](#), [Unit labour cost and unit wage cost time series](#) and [Public sector finance](#). [Return to "What's New"](#).

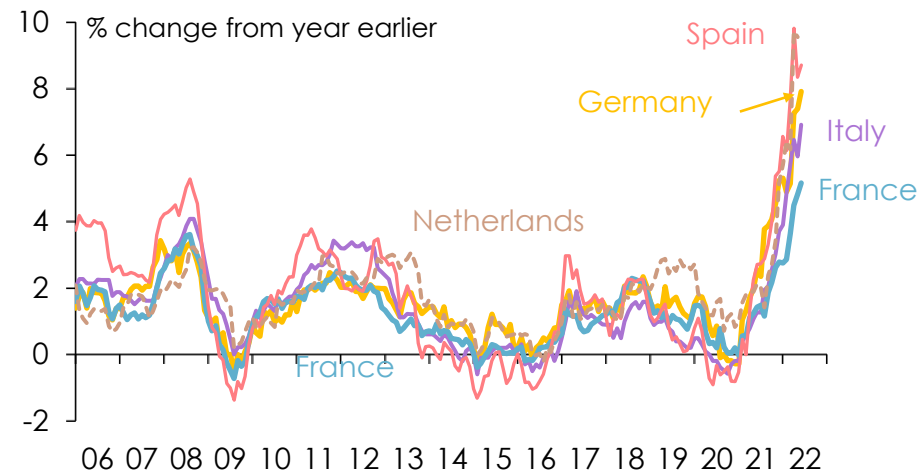
The end of ECB asset purchases has led to a significant widening in yield spreads between Spanish & especially Italian, and German bonds

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

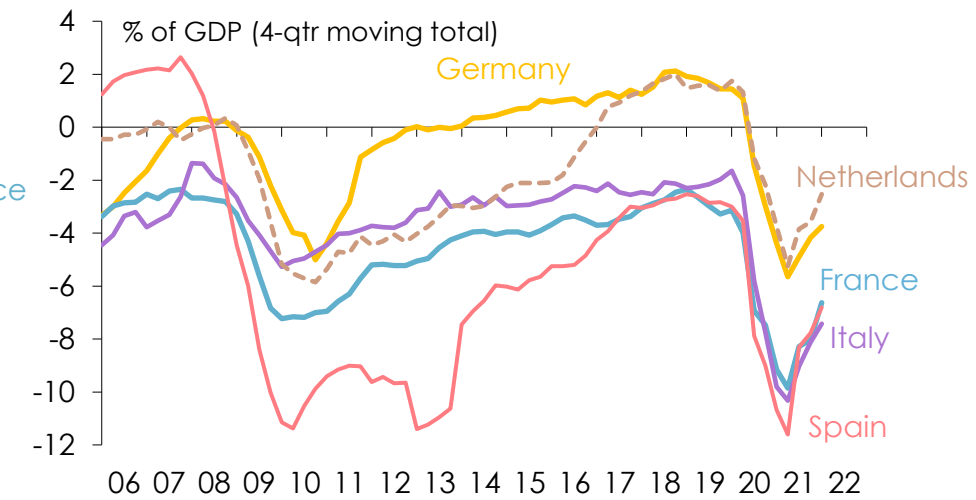
Real GDP



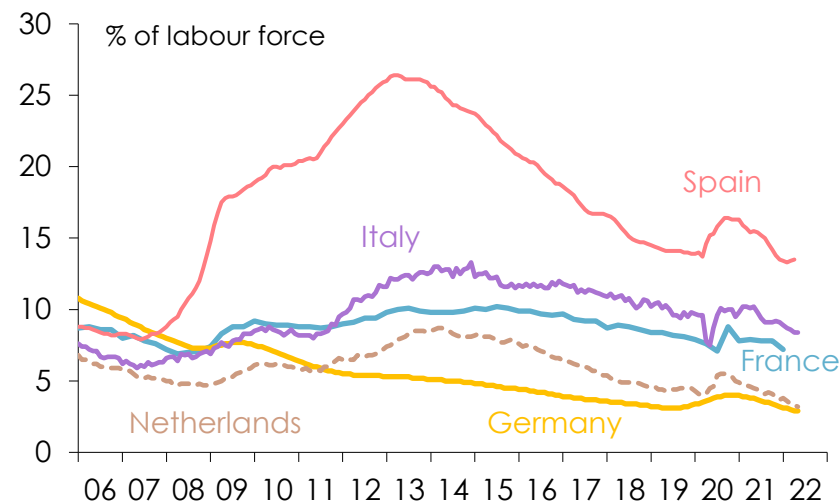
Inflation



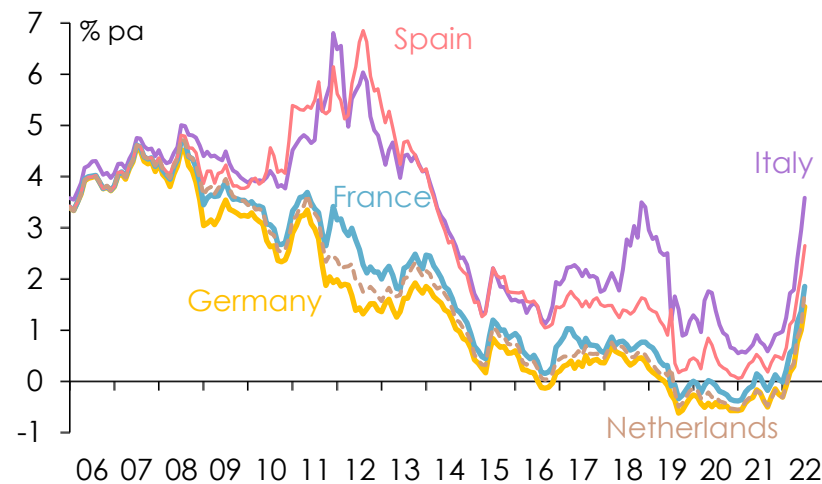
Government net lending



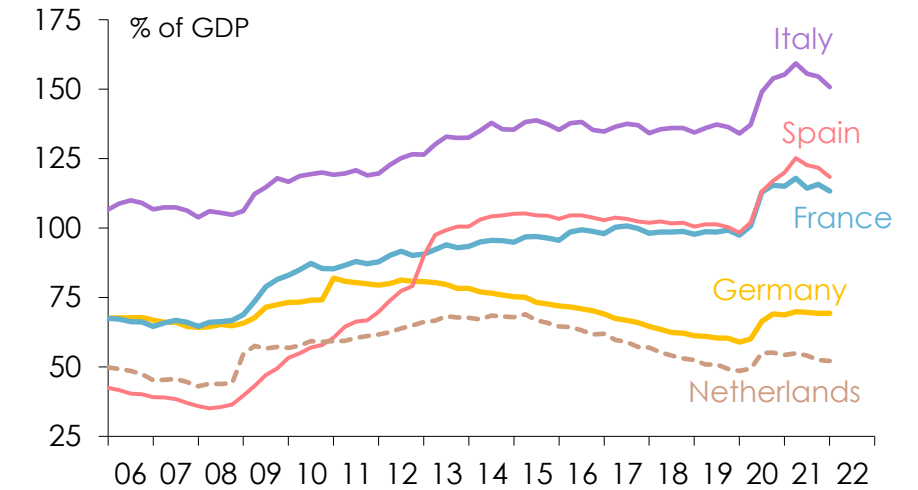
Unemployment



10-year bond yields



Government gross debt



Sources: Eurostat, [National accounts - Main tables](#), [Employment and unemployment \(Labour force survey\)](#), [HICP - all items](#), [Quarterly non-financial accounts for general government](#) and [Quarterly government debt](#); Refinitiv Datastream. [Return to "What's New"](#).

The ECB decided to end its 'QE' from 1st July, and to lift its policy interest rates by 25 bp on 21st July, and by a similar amount or more in September

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

- ❑ The [European Central Bank](#) left its policy interest rates unchanged at its Governing Council meeting on 9th June, but (as previously foreshadowed), decided to end net asset purchases under its Asset Purchase Program with effect from 1st July
 - unlike the Fed, Bank of England, Bank of Canada and other central banks, the ECB will continue to re-invest principal payments from maturing securities purchased under the Pandemic Emergency Purchase Program (PEPP) “until at least the end of 2024”, and those purchased under the APP “for an extended period of time”
- ❑ The ECB also foreshadowed its intention to raise its policy interest rates by 25 basis points at its 21st July meeting, and to raise them again by a similar amount at its 8th September (or by more, “if the medium-term inflation outlook persists or deteriorates”, in which case “a larger increment will be appropriate”)
 - after which, the ECB [anticipated](#) that “a gradual but sustained path of further increases in interest rates will be appropriate”
- ❑ At her [post-meeting press conference](#) ECB President Christine Lagarde noted that ECB staff projections for euro area ‘headline’ inflation had been revised upwards to 6.8% in 2022 (from 5.1% previously), 3.5% in 2023 (from 2.1%) and 2.1% in 2024 (from 1.9%), while forecasts for ‘core’ inflation were revised to 3.3% in 2022 (from 2.6%), 2.8% in 2023 (from 1.8%) and 2.3% in 2024 (from 1.9%)
 - ECB staff forecasts for euro area real GDP growth in 2022 and 2023 were revised down significantly to 2.8% (from 3.7%) and 2.1% (from 2.8%) respectively, although the forecast for growth in 2024 was revised up to 2.1% (from 1.6%)
- ❑ Mme Lagarde indicated that the Governing Council had ‘extensively discussed’ what the ‘neutral rate’ for the euro zone might be, but ‘consciously decided’ not to reveal the outcome of those discussions for now
- ❑ Last week, in response to a large widening in spreads between Italian and Greek (and to a lesser extent Spanish) and German bond yields ([slide 74](#)) the ECB held an [unscheduled Governing Council meeting](#) at which it agreed to “apply flexibility in reinvesting redemptions coming due in the PEPP portfolio”, and to “accelerate the completion of the design of a new anti-fragmentation instrument”

The Bank of England raised its bank rate another 25bp to 1.25% at last week's MPC meeting, and the Swiss National Bank raised its rate by 50bp

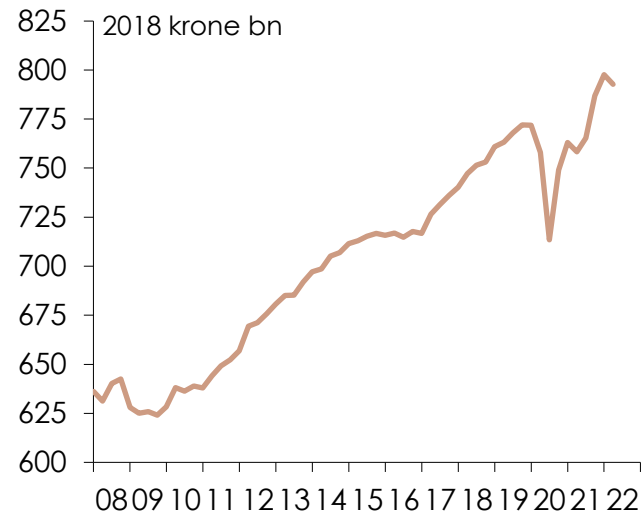
THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

- ❑ The **Bank of England** raised its Bank Rate by another 25 bp, to 1.25%, at its Monetary Policy Committee meeting on 16th June – the fifth consecutive increase, following increases of 15bp in December and 25bp at its February, March and May meetings
 - three of the nine members of the MPC dissented in favour of a 50 bp hike (as they did at the May meeting)
- ❑ The **minutes** of last Thursday's MPC meeting indicate that the latest increase in interest rates was warranted by “continuing signs of robust cost and price pressures, including the tightness of the labour market”
 - as evidence of the tightness of the labour market the MPC pointed to “persistently elevated recruitment difficulties”, with “underlying nominal private sector regular pay growth ... above 4%” and “pay settlements deals averaging just over 5%”, which it said “re-inforced the upside risk to the MPC's central projections for pay growth and domestic price pressures”
- ❑ The Bank now expects the annual CPI inflation rate to rise from 9% in April to “slightly above 11% in October, slightly higher” than anticipated in May, reflecting “higher food, core goods and services price inflation”, the recent increase in oil prices, and “around a 40% increase the utility price cap in October”
 - the MPC noted that “not all of the excess inflation can be attributed to global events”, that “core consumer goods price inflation is higher in the UK than in the euro area and in the US”, and that “consumer services price inflation, which is more influenced by domestic costs than goods price inflation, has strengthened in recent months”
- ❑ The Bank expects GDP to fall by 0.3% in Q2, a downward revision from the 0.1% decline forecast in May
 - Bank staff estimated that the Government's £15bn ‘cost of living support package’ would likely boost GDP by around 3% and raise inflation by 0.1 pc pt over the coming year
- ❑ The **Swiss National Bank** raised its policy rate by 50 basis points to -0.25% on 16th June (the first increase in SNB rates in 15 years), in order to “prevent inflation from spreading more broadly to goods and services in Switzerland”
 - the SNB said “further increases in the policy rate ... cannot be ruled out ... to stabilize inflation in the range consistent with price stability over the medium term”

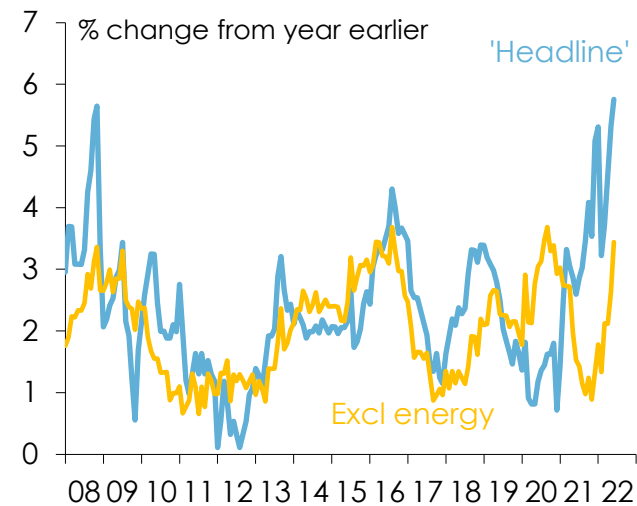
Norway's 'mainland' GDP contracted by 0.6% in Q1, reflecting falls in both domestic demand (after two very strong quarters) and net exports

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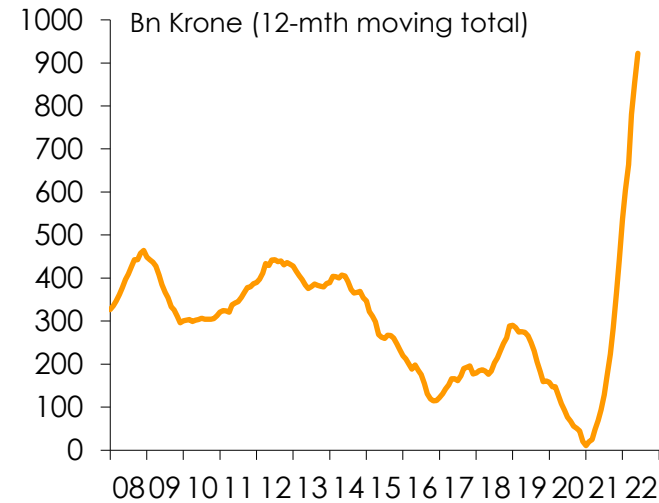
'Mainland' real GDP



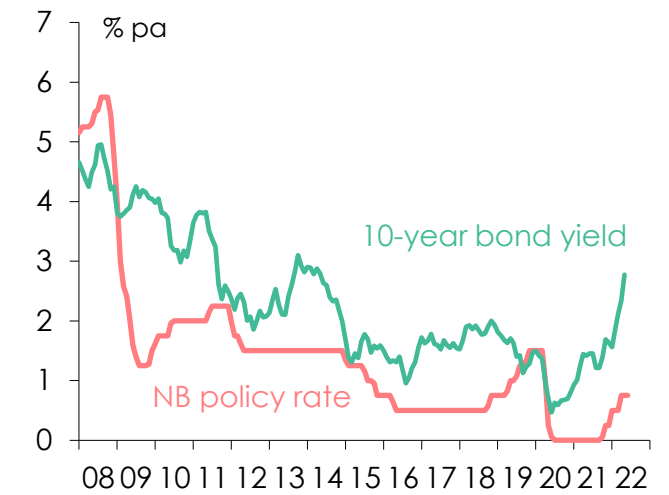
Inflation



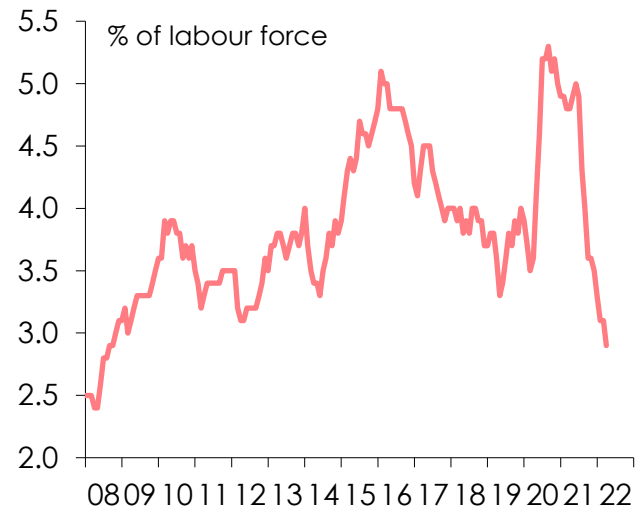
Trade balance



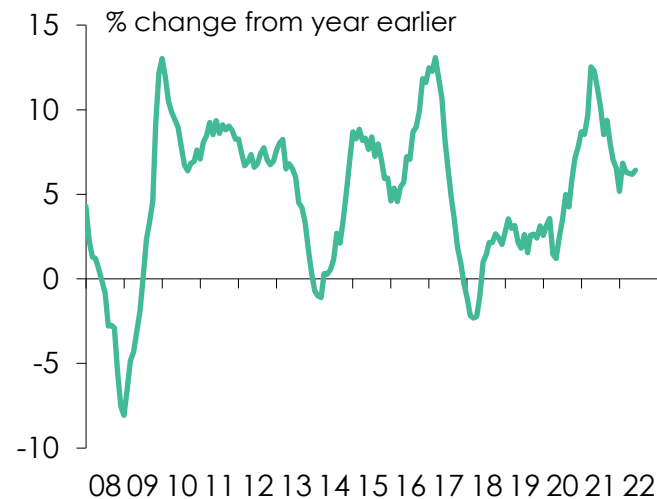
Interest rates



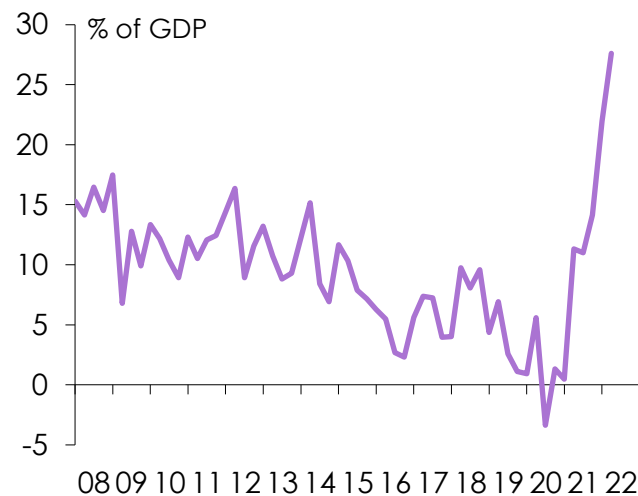
Unemployment



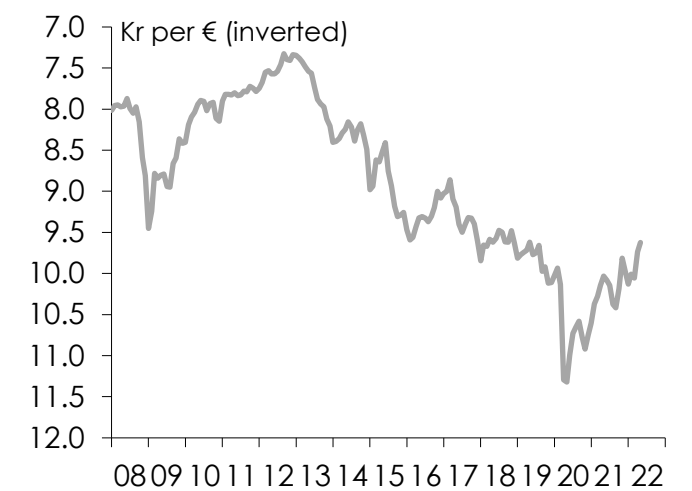
House prices



Current account balance



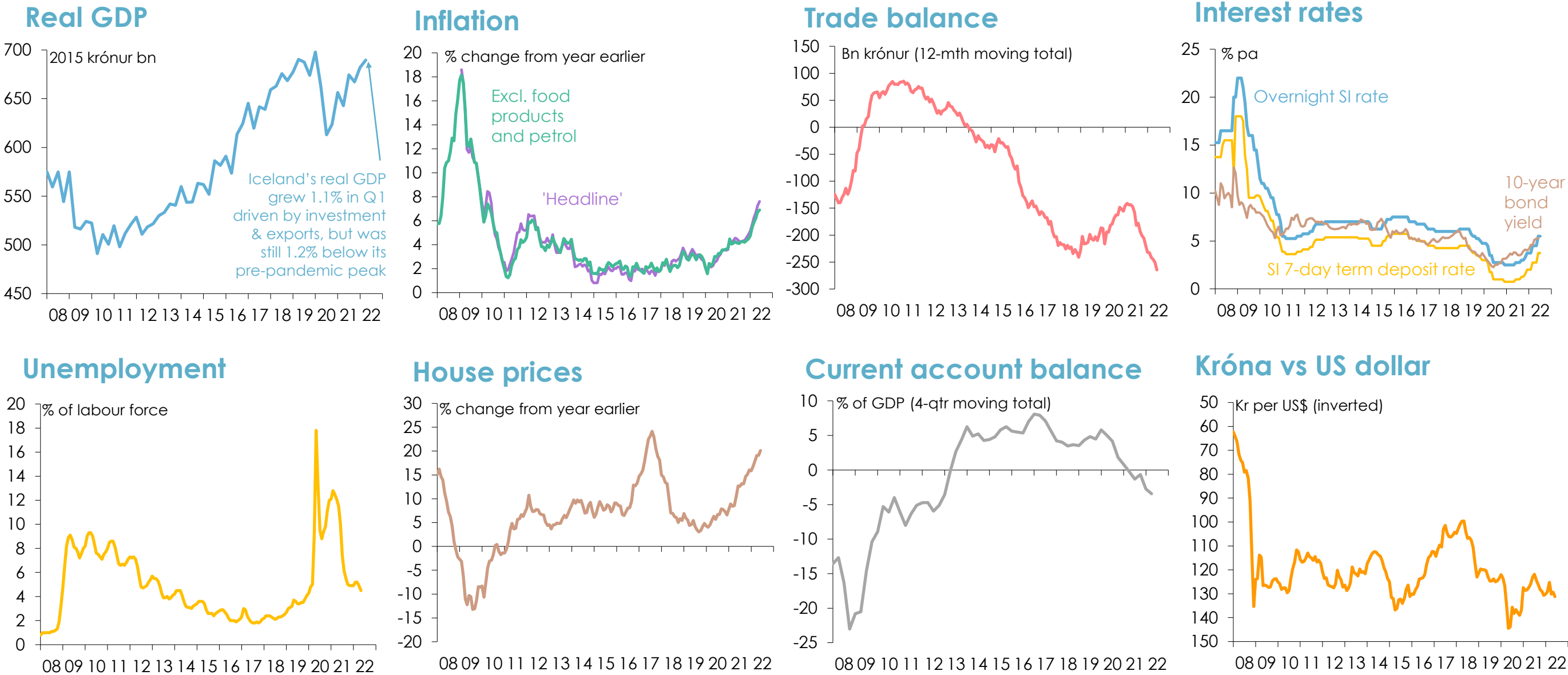
Krone vs euro



Note: 'mainland' GDP means excluding Norway's oil and gas industry which is entirely located offshore. Sources: [Statistisk sentralbyrå](#); [Norges Bank](#); Refinitiv Datastream.
[Return to "What's New"](#).

Iceland's economy grew 1.1% in Q1, but remains 1.2% below its pre-pandemic peak, while the inflation rate rose to 7.6% in May

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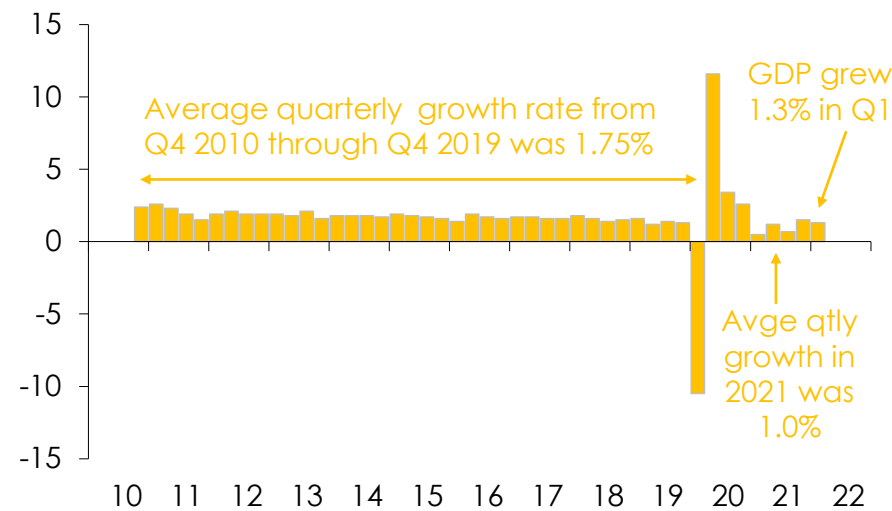


China

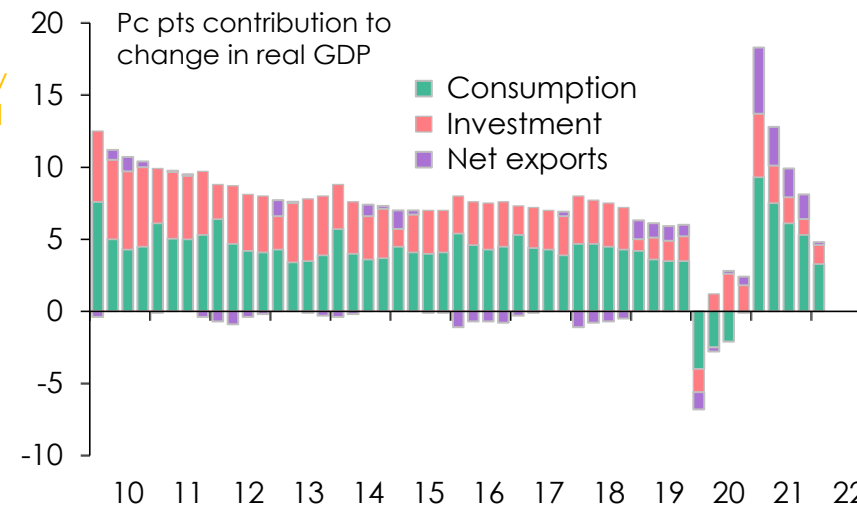
China's urban unemployment rate fell 0.2 pc pts in May to 5.9%, after rising 1.2 pc pts between October and April when it peaked at 6.1%

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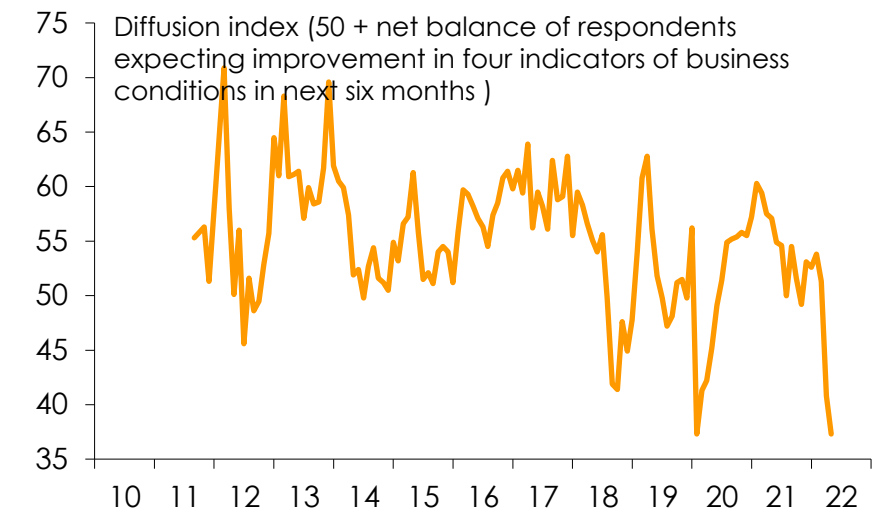
Quarterly real GDP growth



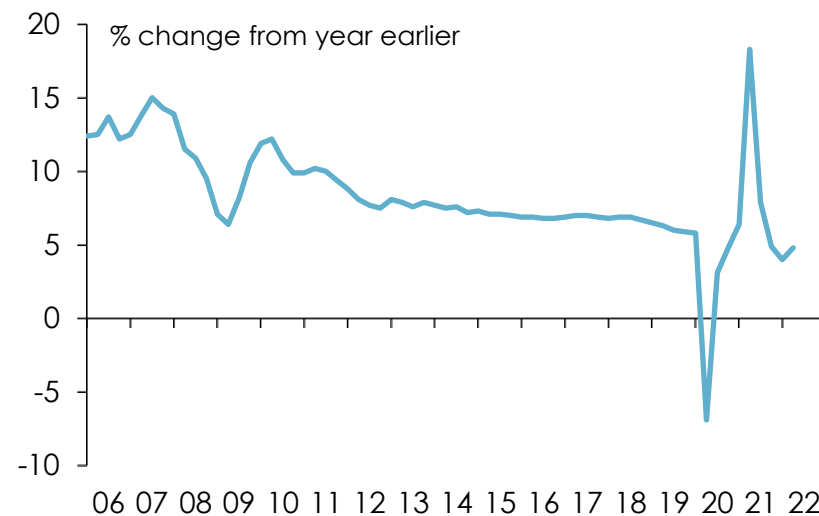
Contributions to real GDP growth



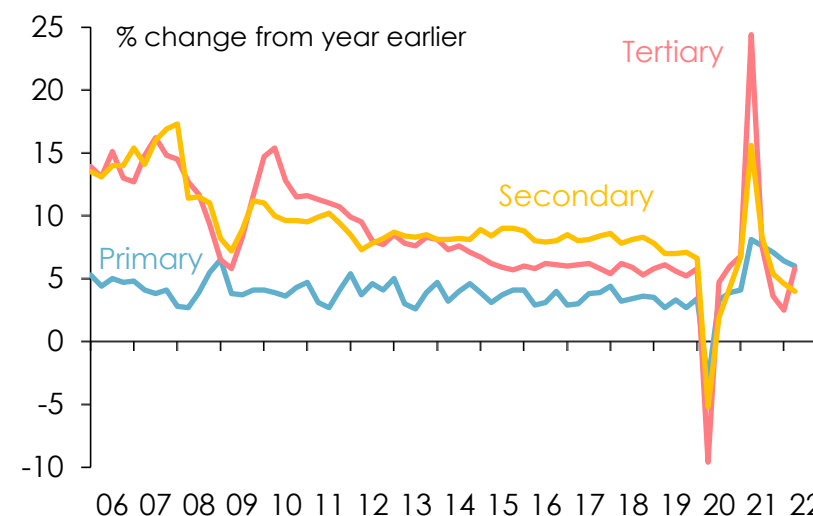
CKGSB business conditions index



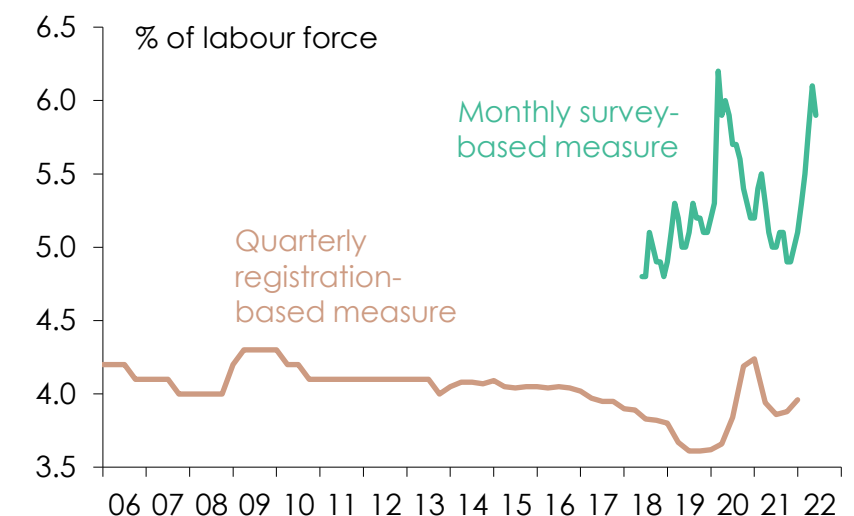
Annual real GDP growth



Annual GDP growth by industry



Urban unemployment rate

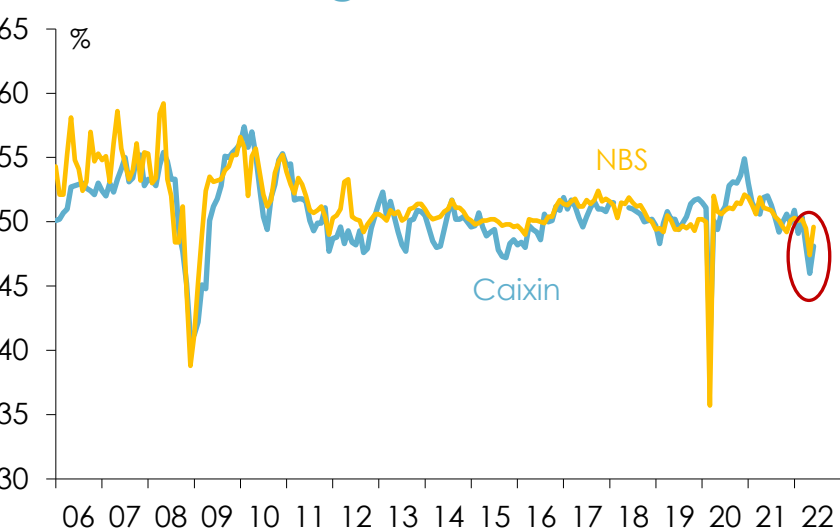


Sources: China National Bureau of Statistics, [National Data - National Accounts](#) and [The Urban Surveyed Unemployment Rate](#); Cheung Kong Graduate School of Business, [Business Conditions Index \(BCI\)](#). Before the monthly unemployment survey was introduced in 2018, the quarterly measure was based on registered job-losers, and excluded people who were not born in the city in which they worked, and people aged over 59: for further details see [here](#). [Return to "What's New"](#).

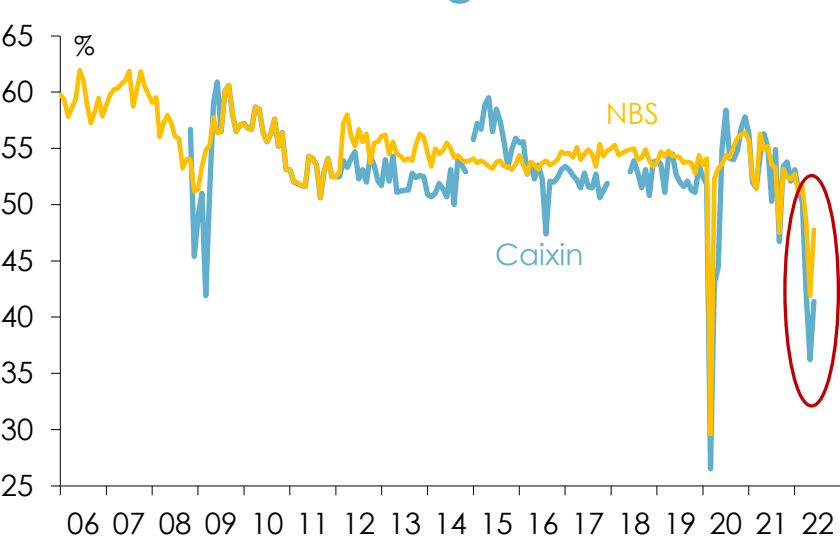
Industrial production rose slightly over the year to May, suggesting a small rebound in the 'supply side' after the contraction in April

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Manufacturing PMIs

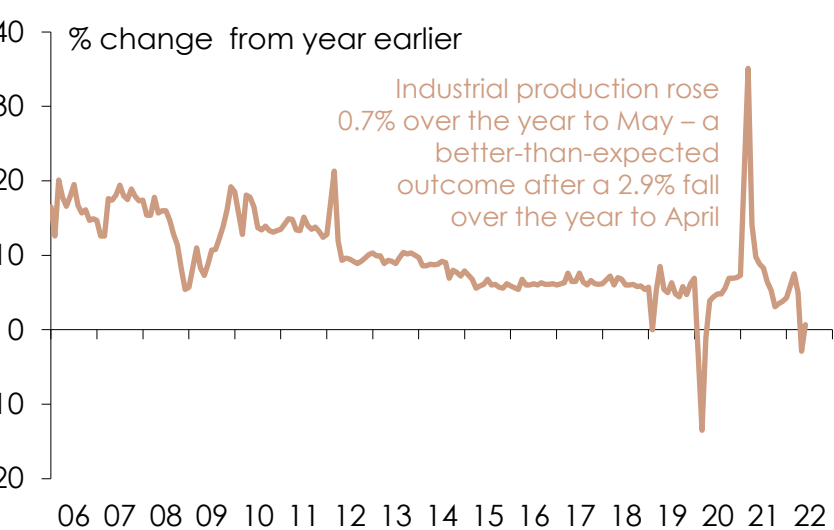


Non-manufacturing PMIs

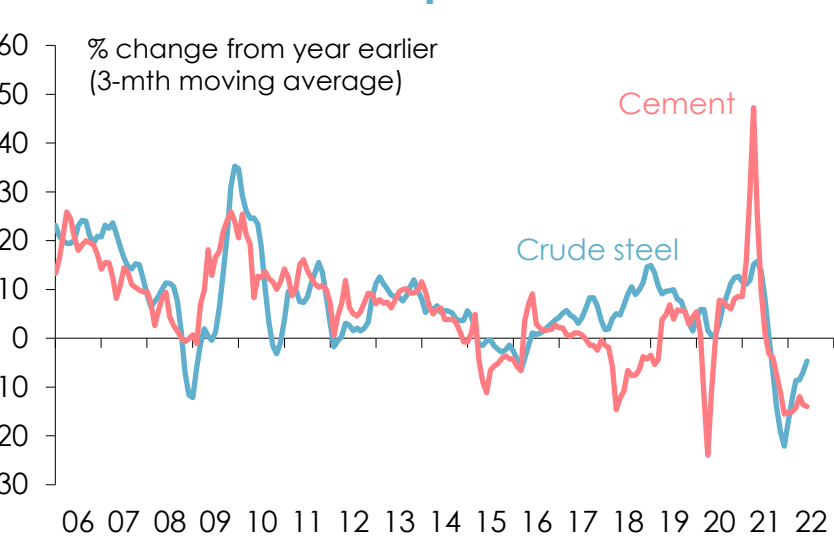


Note: The Caixin PMIs are derived from a survey of around 500, mostly small private, enterprises, while the 'official' NBS PMIs are derived from a survey of about 3,000, mostly state-owned, enterprises; for more detail see [here](#). Sources: China National Bureau of Statistics, [National Data](#); Caixin Global, [Indexes](#); China Association of Automobile Manufacturers, [Production of Automobiles](#). [Return to "What's New"](#).

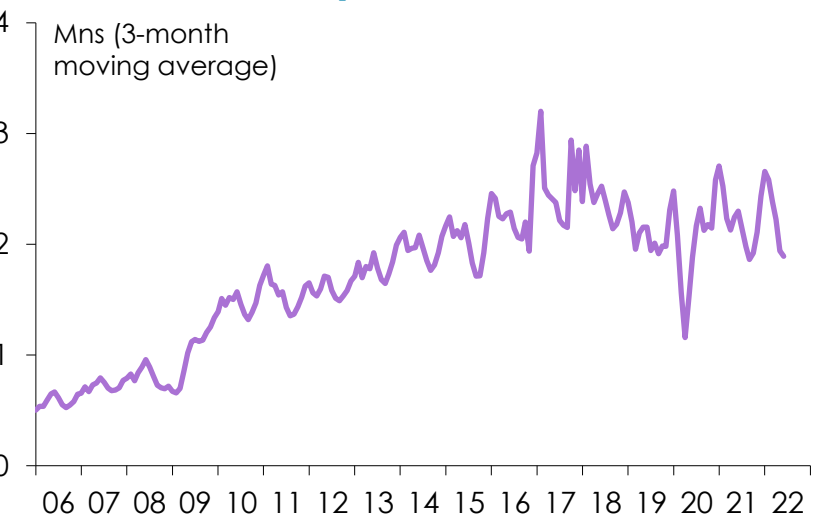
Industrial production



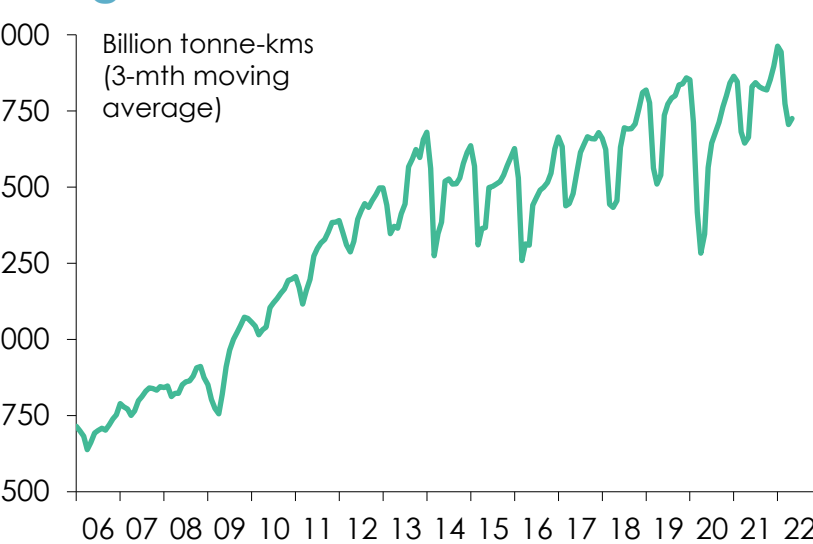
Steel and cement production



Motor vehicle production



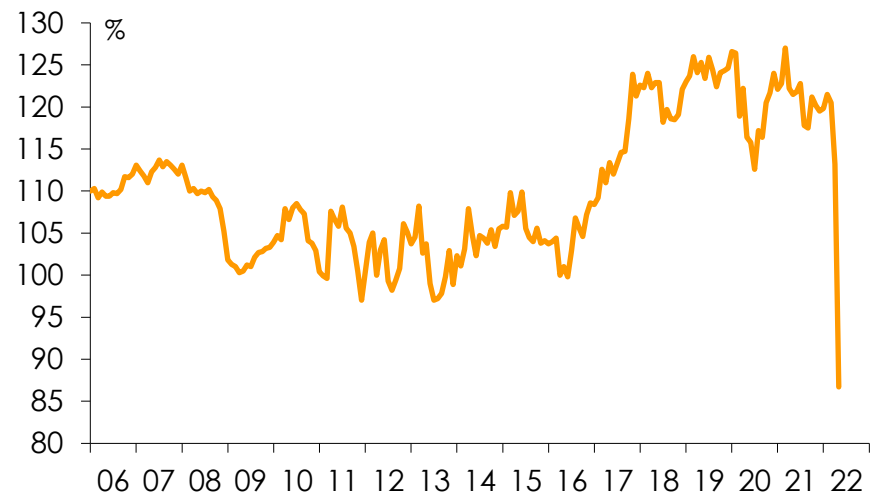
Freight traffic volumes



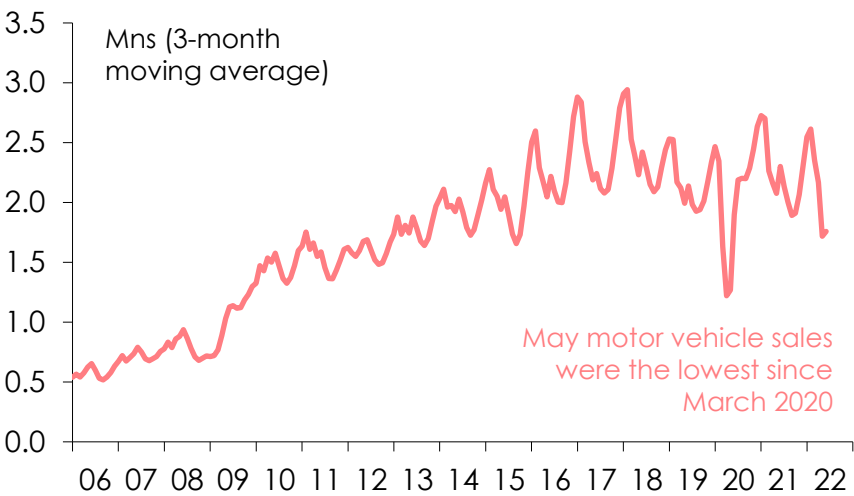
However indicators of consumer demand, and of property construction activity, remained weak in May

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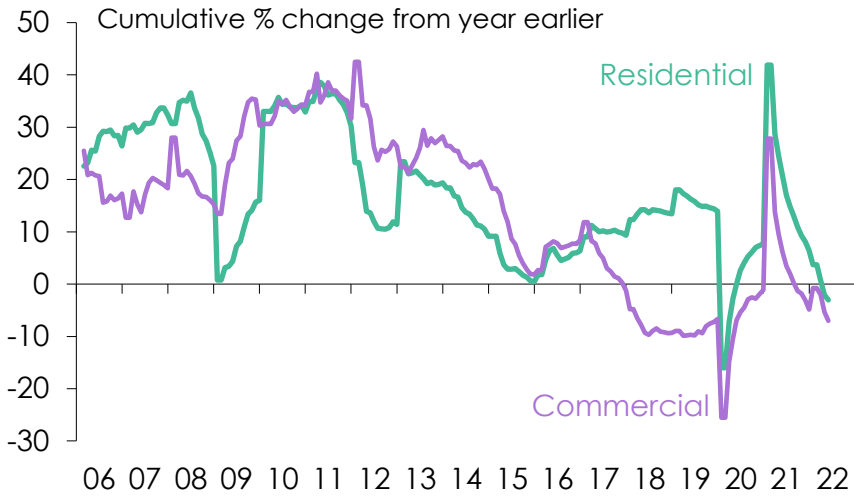
Consumer sentiment



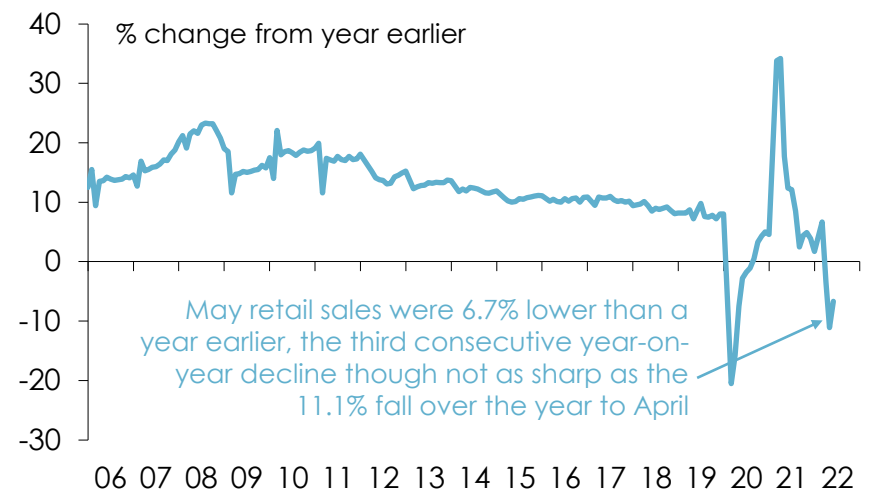
Motor vehicle sales



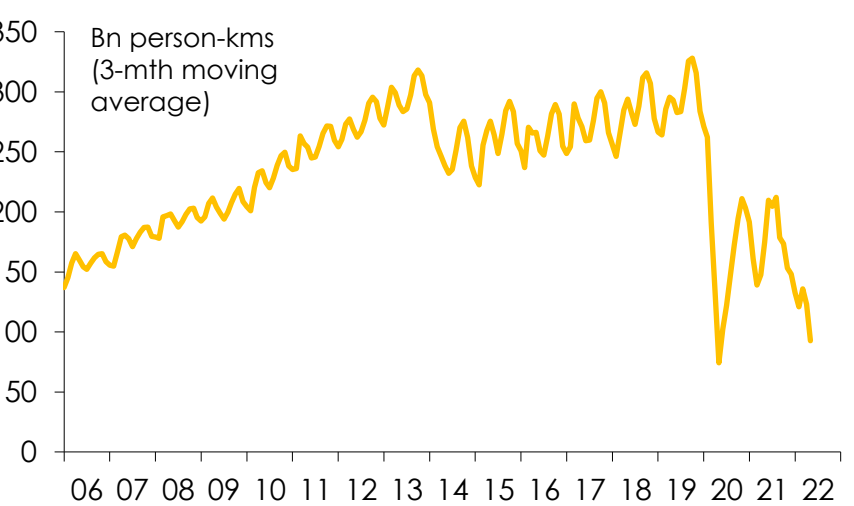
Real estate investment



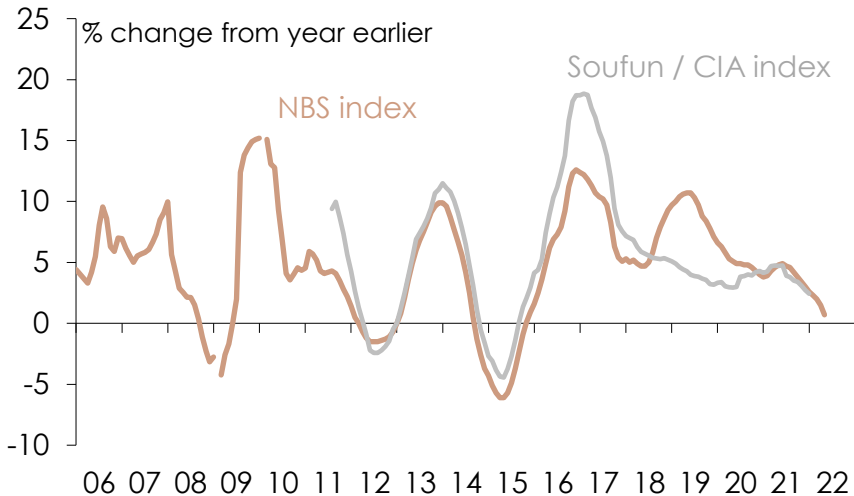
Retail sales



Passenger traffic volumes



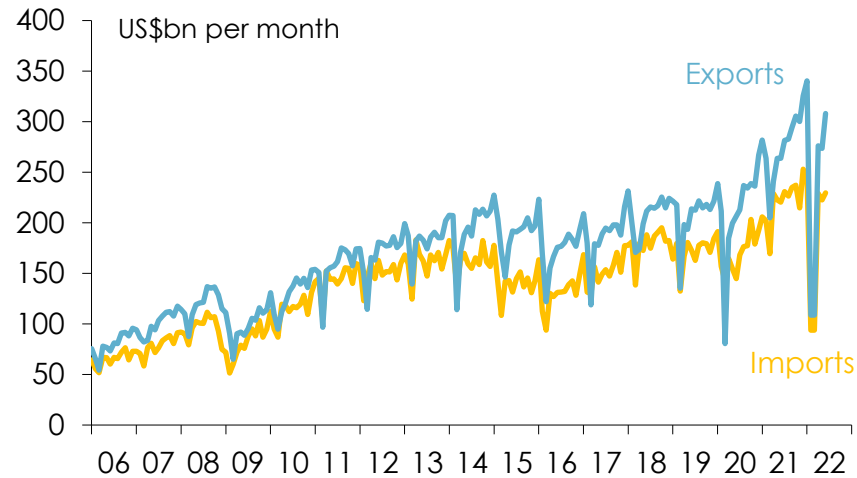
Residential real estate prices



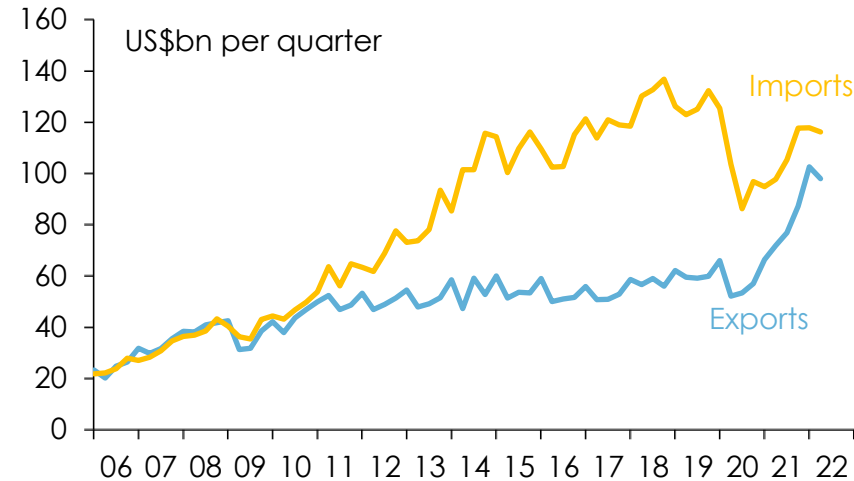
China's trade surplus widened to US\$78.7bn in May, the largest so far this year, as exports recovered more than imports as restrictions eased

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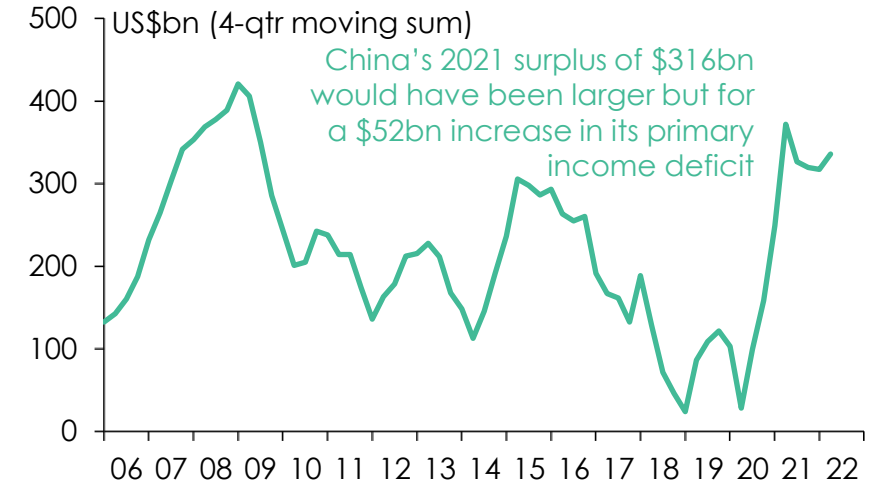
Merchandise exports and imports



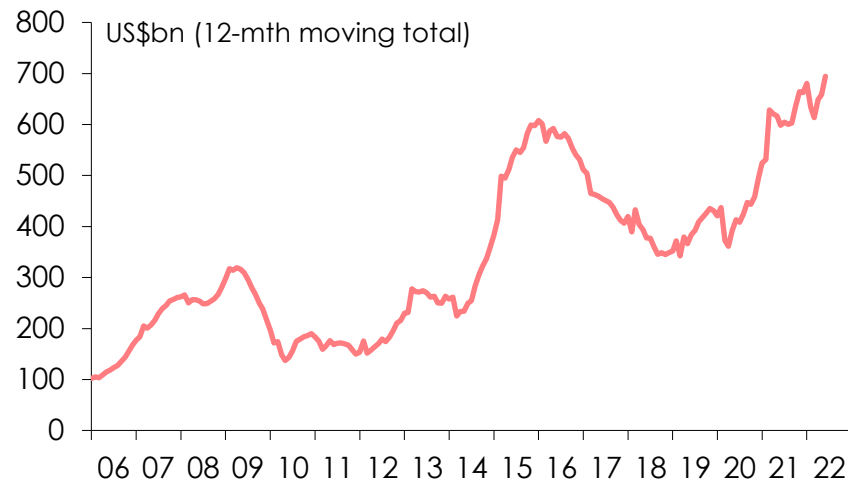
Services exports and imports



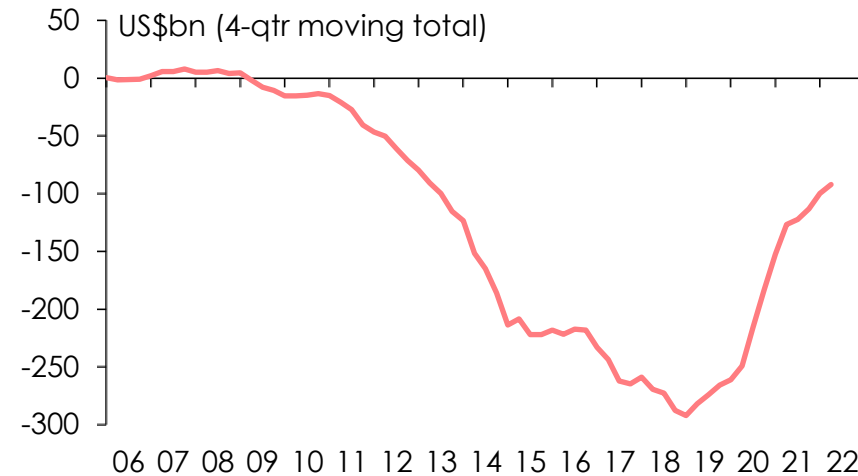
Current account balance



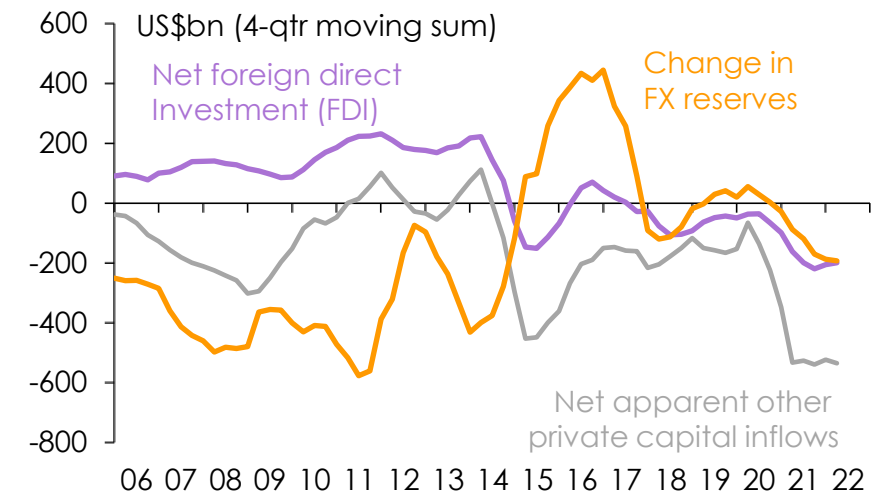
Merchandise trade balance



Services trade balance



Capital flows

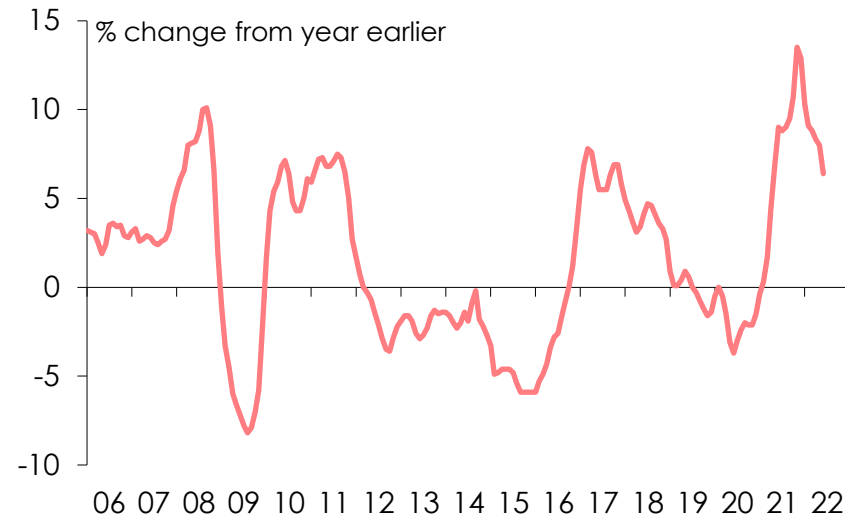


Sources: China General Administration of Customs, [Preliminary Release](#) and [Monthly Bulletin](#); State Administration of Foreign Exchange, [The time-series data of Balance of Payments of China](#). [Return to "What's New"](#).

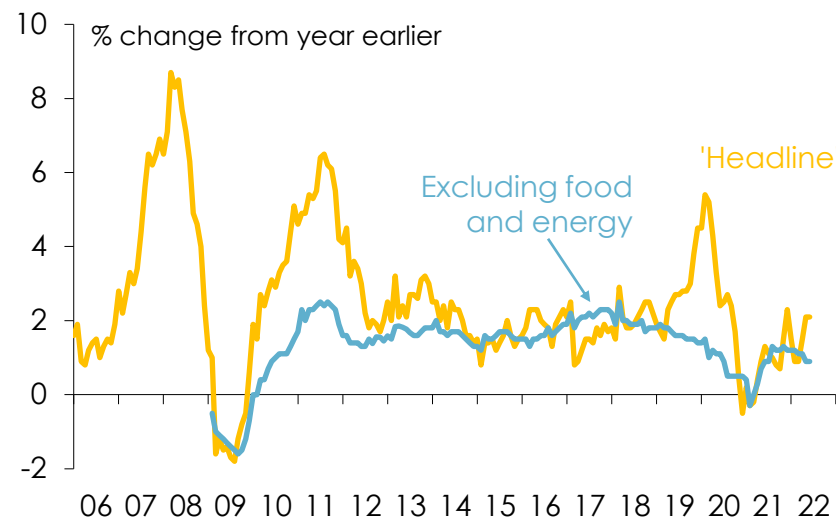
'Headline' CPI inflation ticked remained just above 2% in May as food prices stopped falling, but 'core' inflation remained just below 1%

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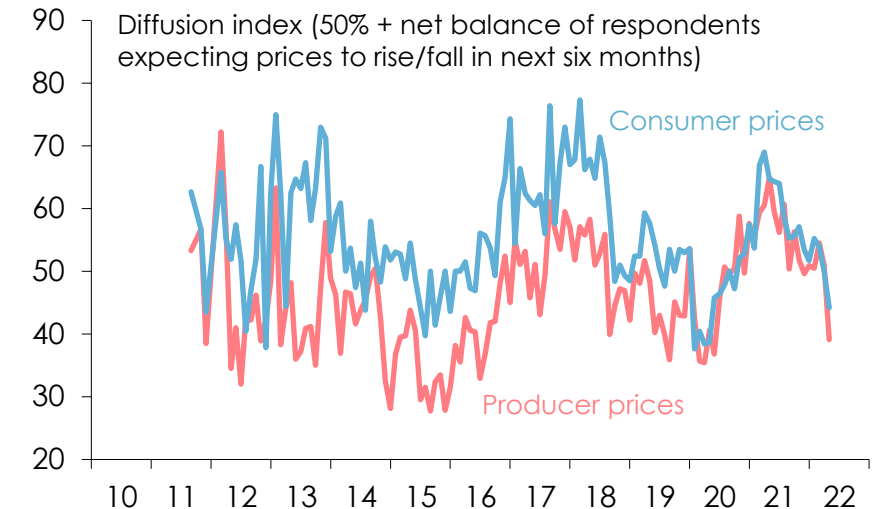
Producer prices



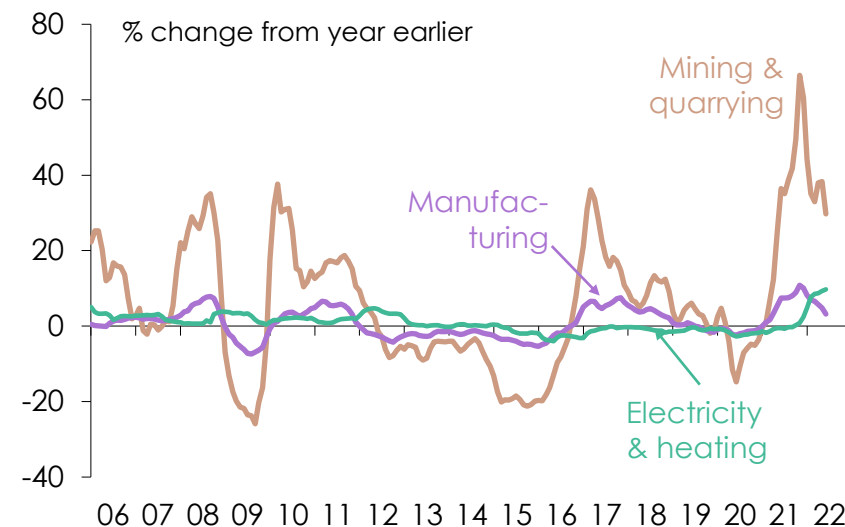
Consumer prices



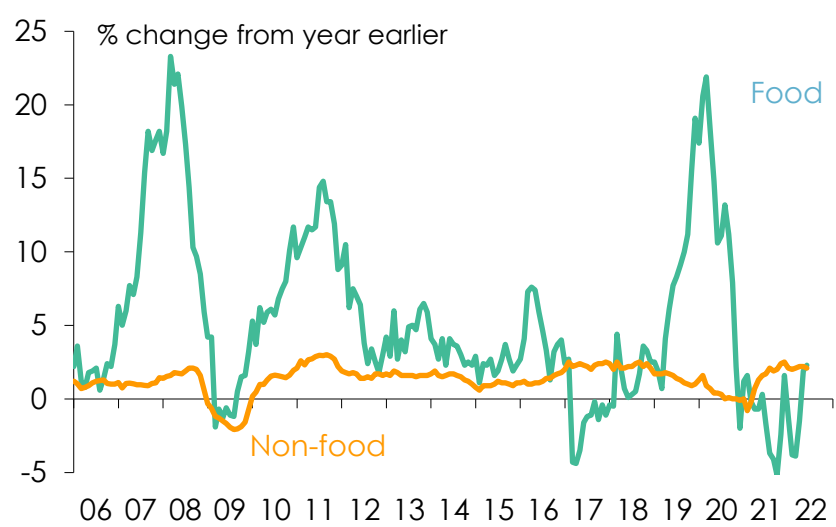
CKGSB price diffusion indexes



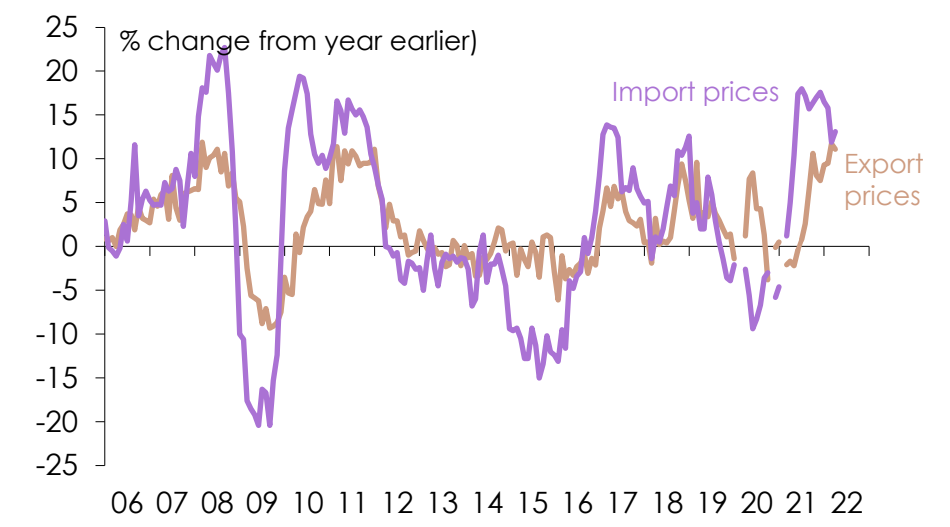
Producer prices – major categories



Consumer prices – food and other



Trade prices



Note: Food accounts for about 33% of China's CPI; for more details see [here](#). The PBoC has an informal inflation target of "about 3%". Sources: China National Bureau of Statistics, [National Data](#); Cheung Kong Graduate School of Business, [Business Conditions Index \(BCI\)](#); and China General Administration of Customs, [Trade Indices](#). [Return to "What's New"](#).

The State Council formally adopted '33 measures' to boost economic growth to at a meeting in late May

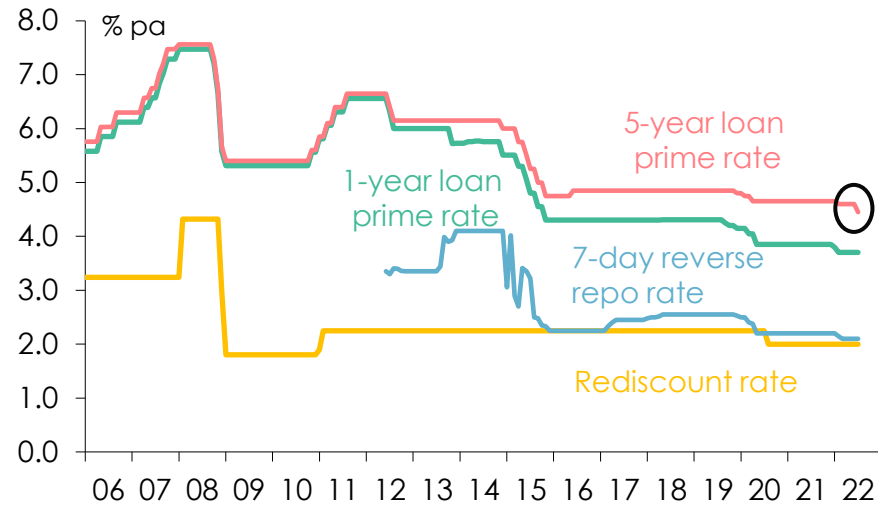
THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

- ❑ Premier Li Keqiang, addressing a [nationwide virtual conference of State Council members](#) on 25th May, described China's present economic situation as being "in some areas and to a certain degree, even greater than the severe shock of the pandemic in 2020"
 - Li said that China was "at a critical juncture in determining the economic trend of the whole year", and that officials "must seize the time window and strive to push the economy back to the normal track"
 - he stressed that "all departments have the responsibility to stabilize the overall situation of the economic market" and called for "a stronger sense of urgency to ensure that the policy measures determined by the central economic work conference and the "government work report" are basically implemented in the first half of the year"
 - and foreshadowed that 'inspection teams' will be sent to 12 provinces "to carry out special inspections on the implementation of policies and supporting facilities"
- ❑ The following week, [full details](#) were released of 33 measures contained in a 'Policy Package to Stabilize the Economy' which had been agreed at this conference
 - these measures include various forms of assistance to SMEs which had been flagged previously, but which have been expanded to cover a broader range of industries
 - it also includes measures to support the motor vehicle, aviation, and logistics industries; incentives for firms to hire new graduates; new subsidies for farmers; increased coal production and new investment in 'clean energy projects'
 - and a range of new investments in water conservation projects, transport infrastructure and urban underground pipelines
- ❑ Li's heightened sense of urgency follows the previous week's releases indicating that China was experiencing its sharpest economic slowdown (and its highest levels of urban unemployment) since the initial wave of the pandemic in the first quarter of 2002 ([slides 81-83](#)), due to the imposition of strict lockdowns in pursuit of China's ongoing 'zero tolerance' policy towards Covid-19
 - there have been [some reports](#) of tensions emerging between Li Keqiang and Xi Jinping over the direction of China's economy

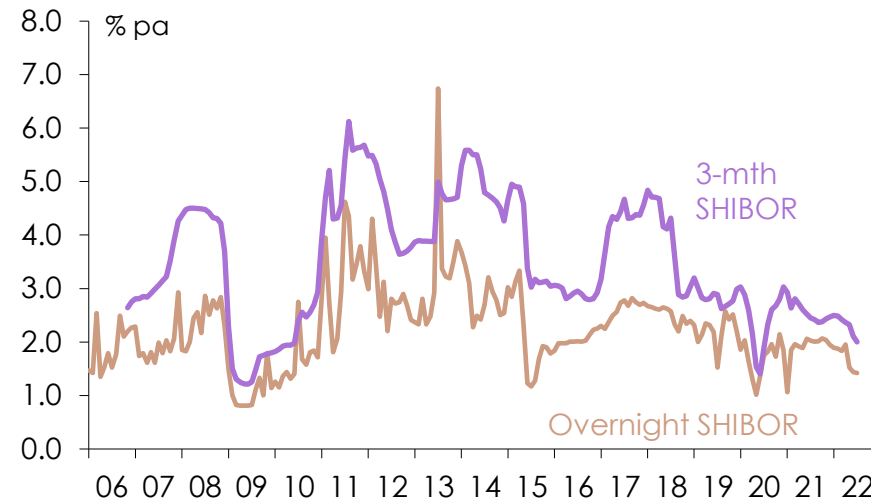
The PBoC lowered the 5-year prime loan rate by 15bp to 4.45% on 27th May but left the 1-year rate unchanged

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

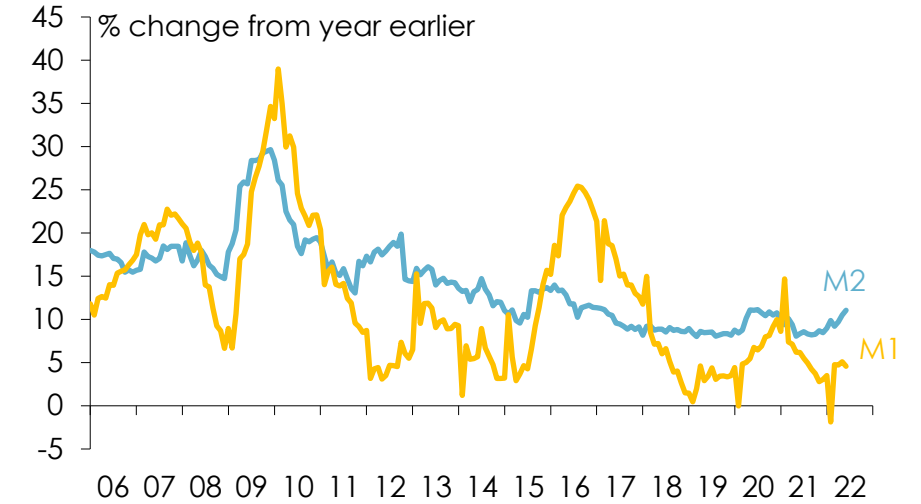
PBoC policy interest rates



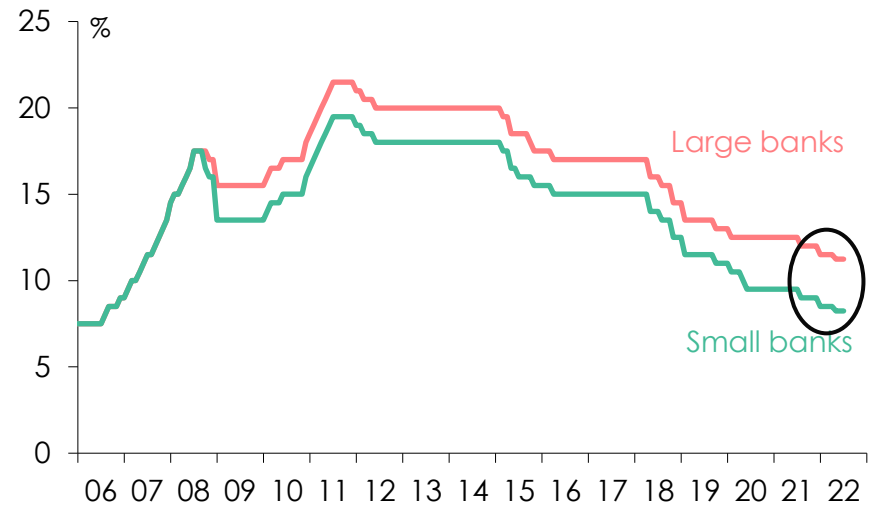
Short-term market interest rates



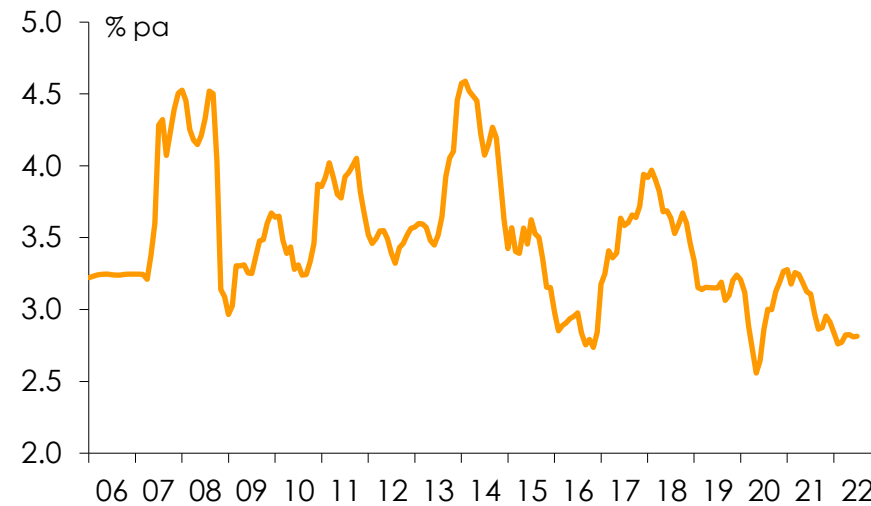
Monetary aggregates



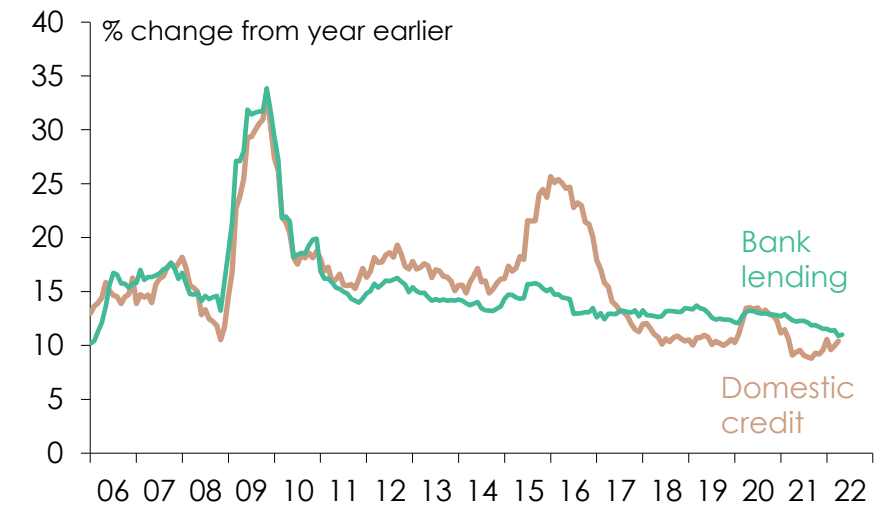
Bank reserve requirement ratios



10-year government bond yield



Credit growth

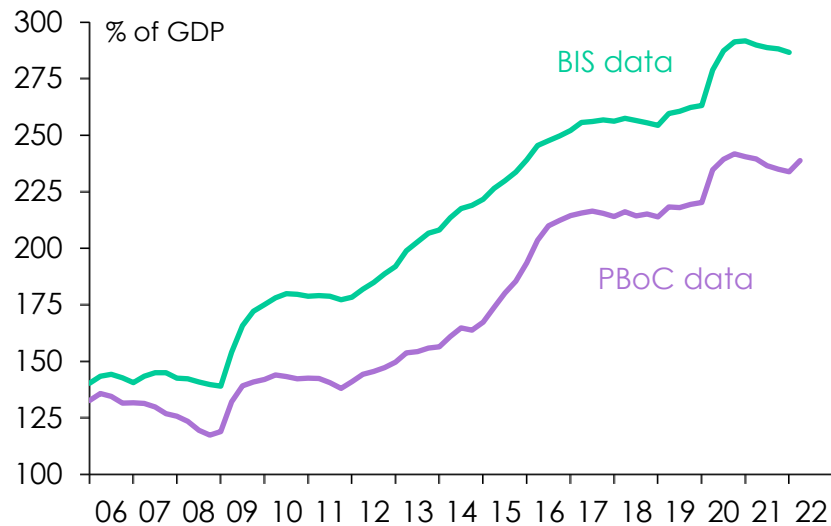


Note: 'SHIBOR' is the Shanghai Inter-Bank Offered Rate. Sources: Refintiv Datastream; People's Bank of China, [Financial Statistics Reports](#) and [Aggregate Financing Reports](#).
[Return to "What's New"](#).

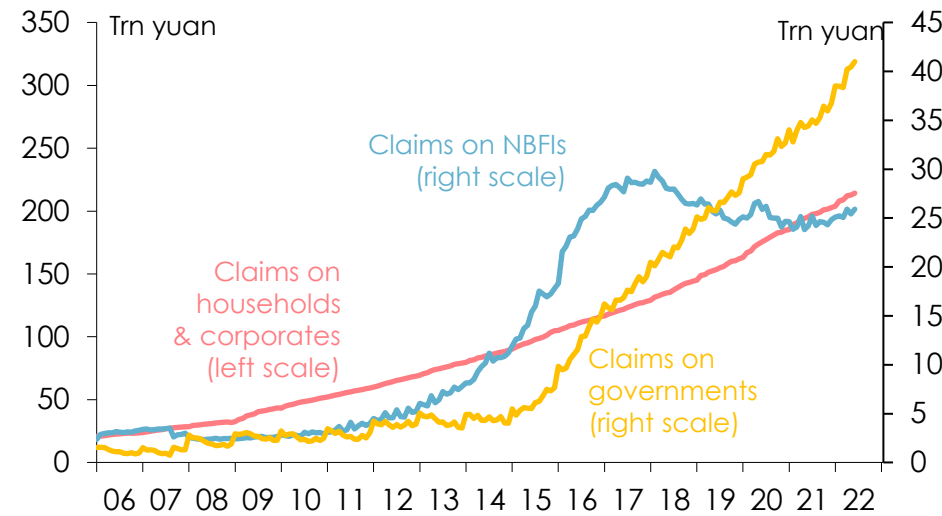
The Chinese banking system's risk profile has increased significantly over the past decade – particularly on the liabilities side of its balance sheet

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

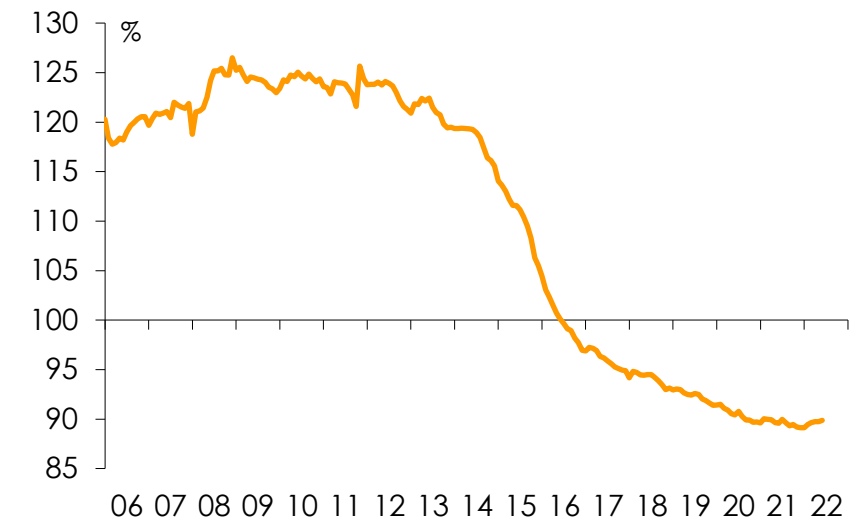
Credit outstanding as a pc of GDP



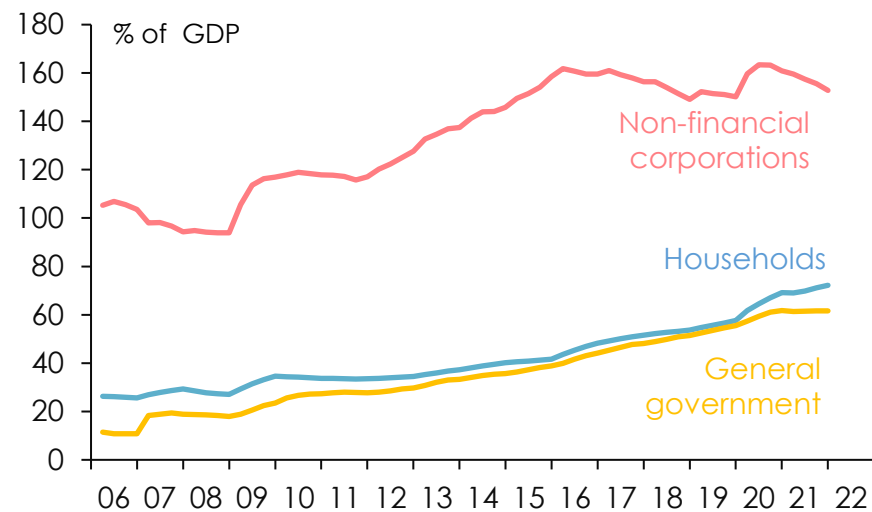
Banks' assets



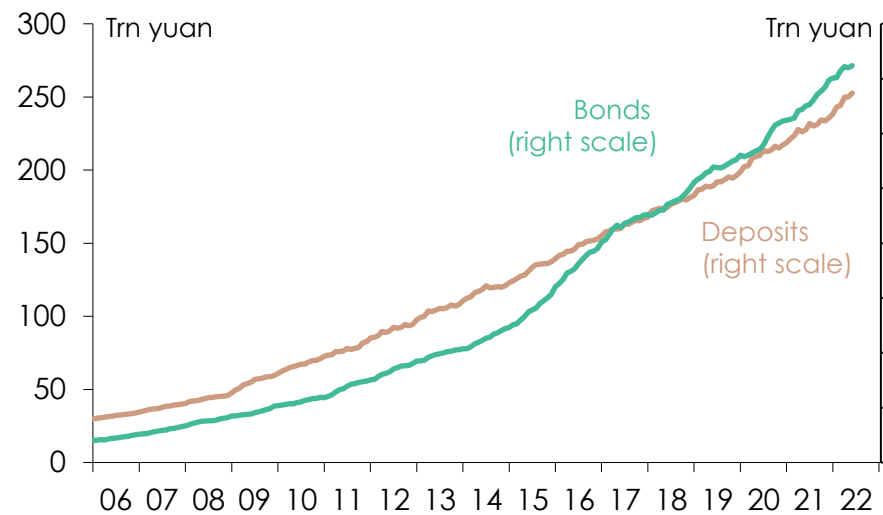
Banks' deposits-to-loans ratio



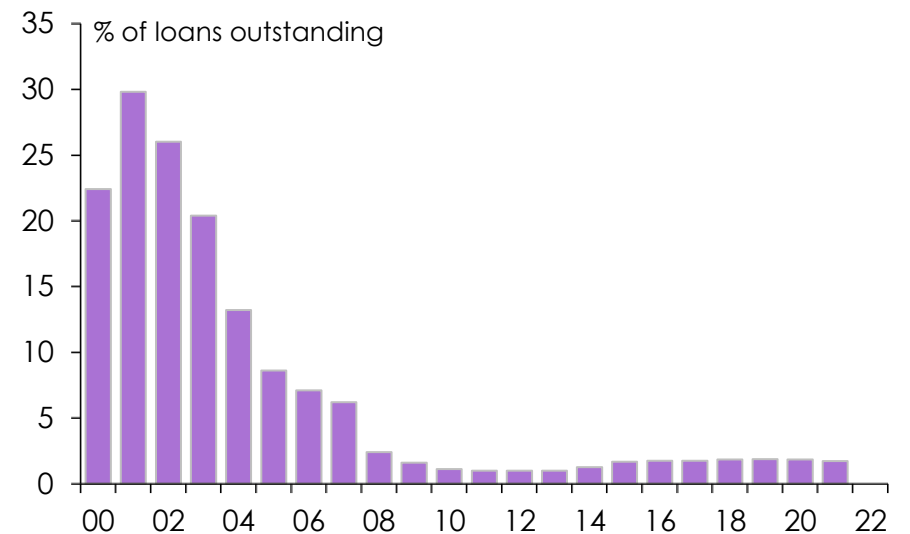
Credit outstanding by sector



Banks' liabilities



Banks NPLs – official estimates

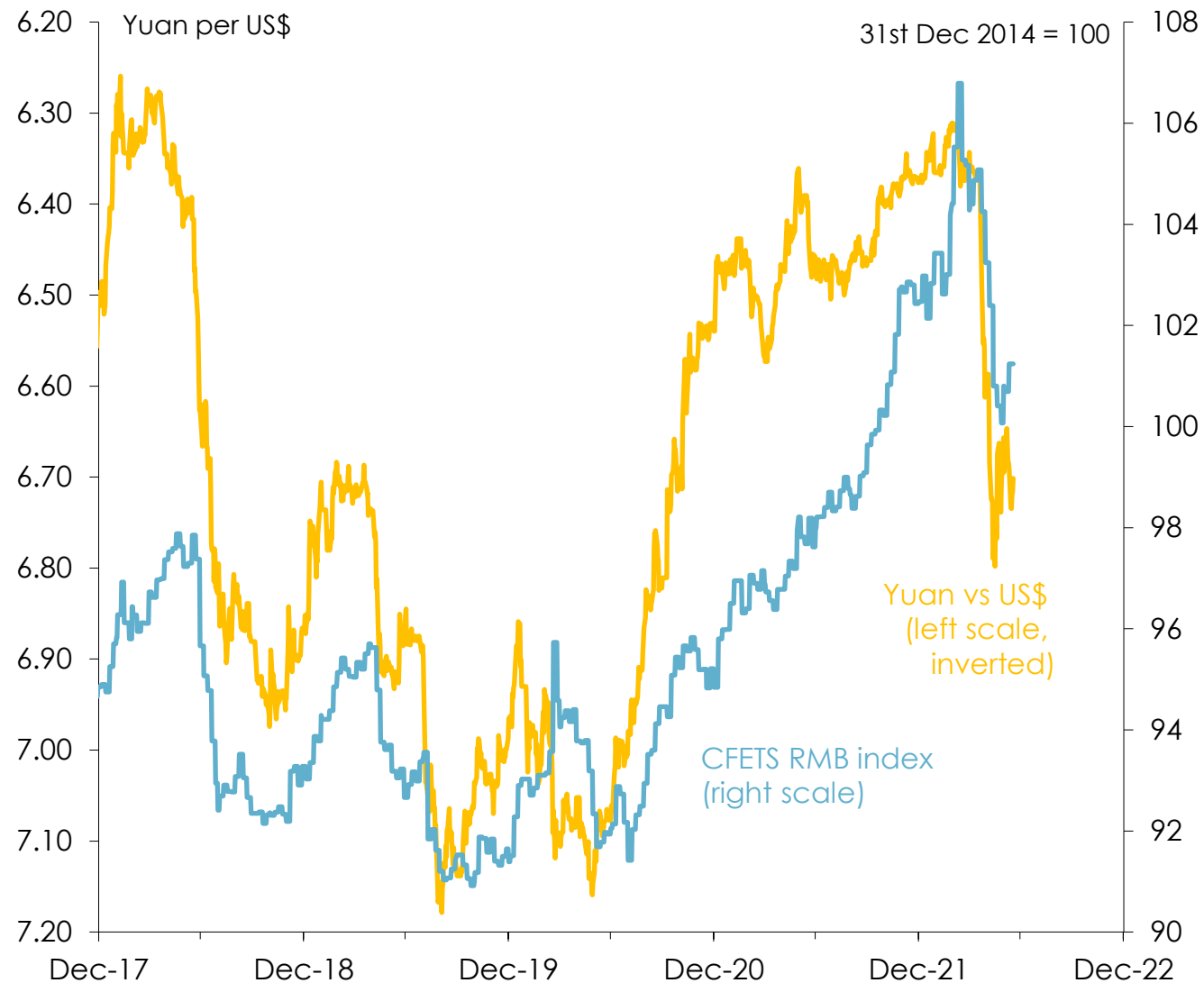


Sources: People's Bank of China, [Financial Statistics Reports](#); Bank for International Settlements, [Credit to the non-financial sector](#); China Banking and Insurance Regulatory Commission, [Supervisory Statistics of the Banking and Insurance Sectors](#). [Return to "What's New"](#).

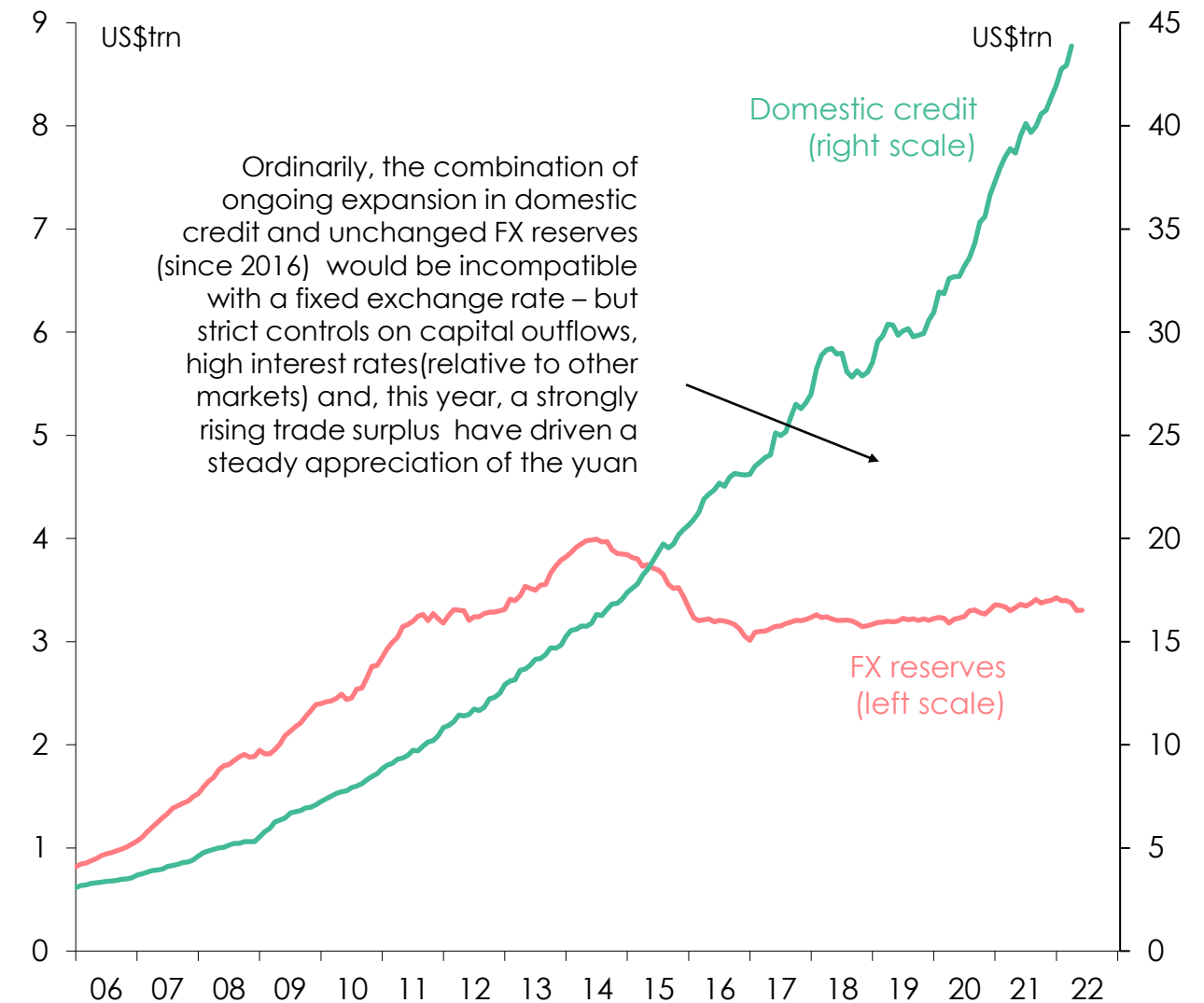
The yuan fell by 0.4% vs (a much stronger) US\$ over the past two weeks, but rose by 0.6% on the PBoC's trade-weighted index

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Chinese renminbi vs US\$ and trade-weighted index



FX reserves and domestic credit



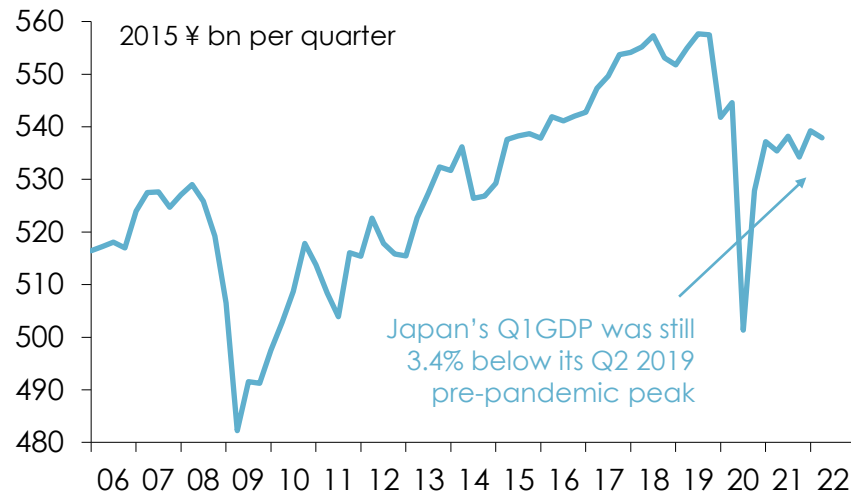
Sources: Refinitiv Datastream; China Foreign Exchange Trading System; People's Bank of China. Exchange rates up to 17th June; FX reserves and credit data up to May.
[Return to "What's New".](#)

Japan

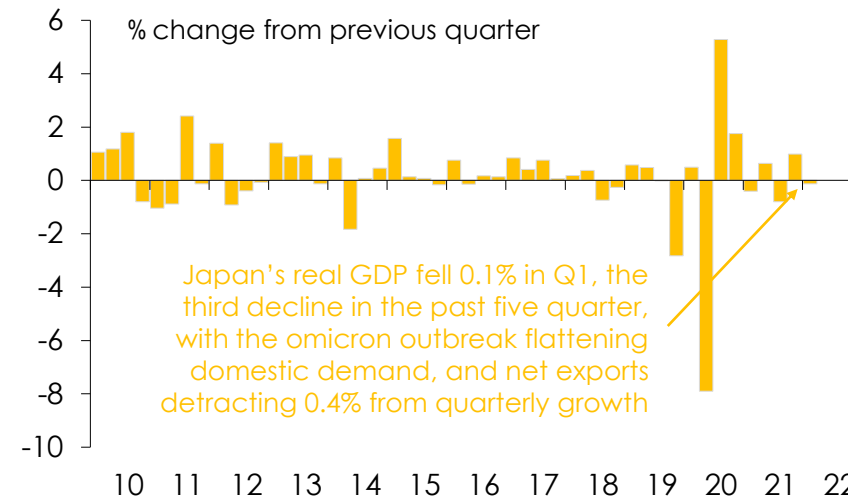
Japan's real GDP fell 0.1% in Q1, the third decline in the past five quarters, to be still 3.4% below its pre-pandemic peak

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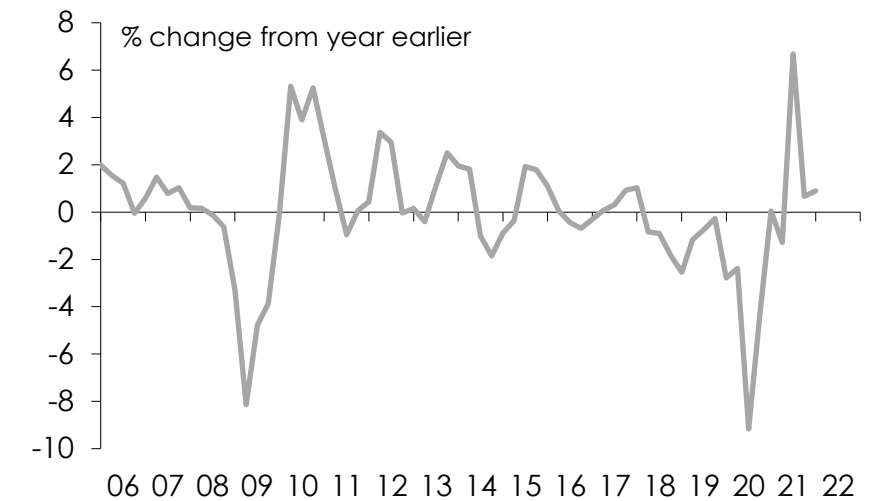
Level of real GDP



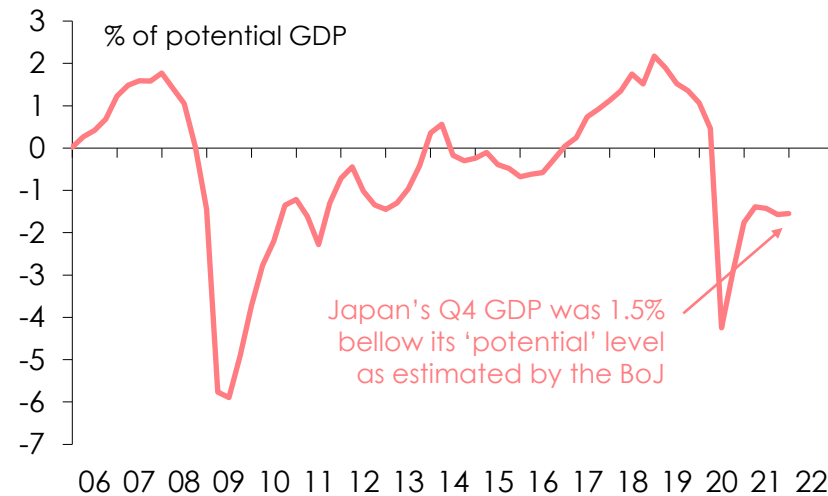
Quarterly change in real GDP



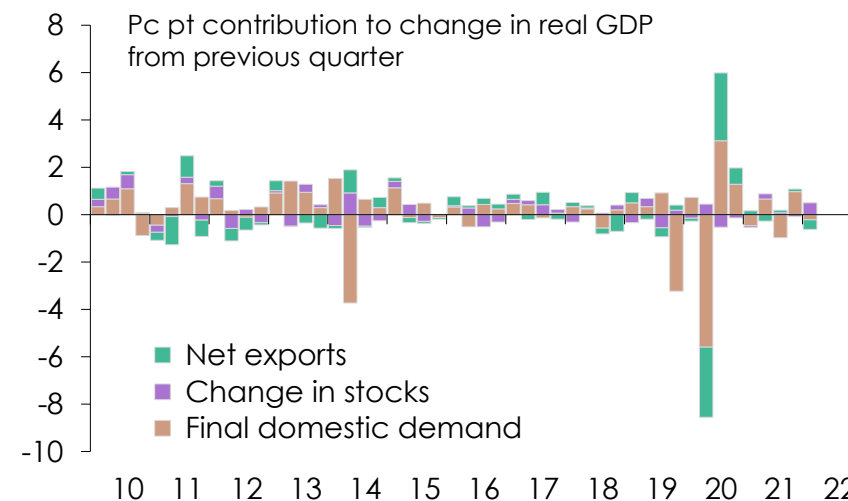
Labour productivity growth



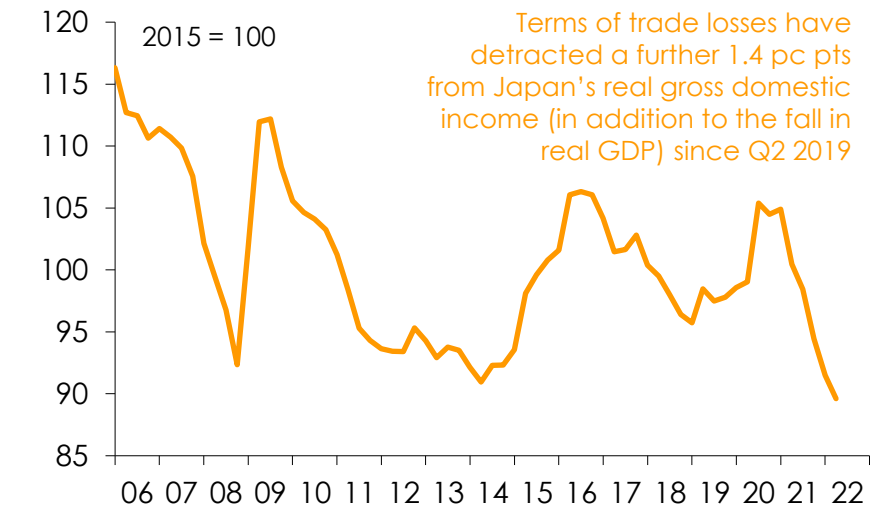
The 'output gap'



Contributions to change in real GDP



Terms of trade

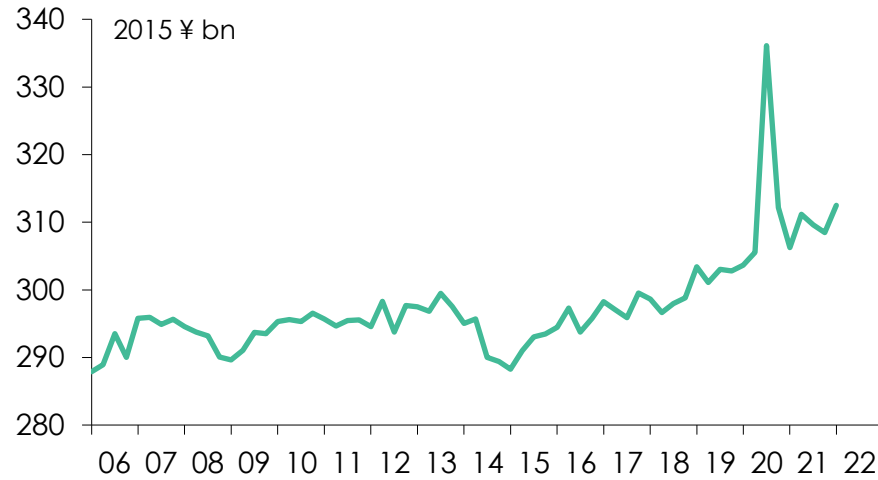


Note: the 'output gap' is the difference between actual and potential GDP (the volume of goods & services that could be produced if the economy were operating at full capacity); the 'terms of trade' is the ratio of the implicit price deflator of exports of goods & services to that of imports of goods & services – it gives an indication of the income gains or losses arising from changes in the prices of goods and services traded between the US and the rest of the world. Sources: Japan Cabinet Office, [Quarterly Estimates of GDP](#); Bank of Japan, [Output Gap and Potential Growth Rate](#); OECD, [Main Economic Indicators](#), Early Estimates of Quarterly ULC Indicators. [Return to "What's New"](#).

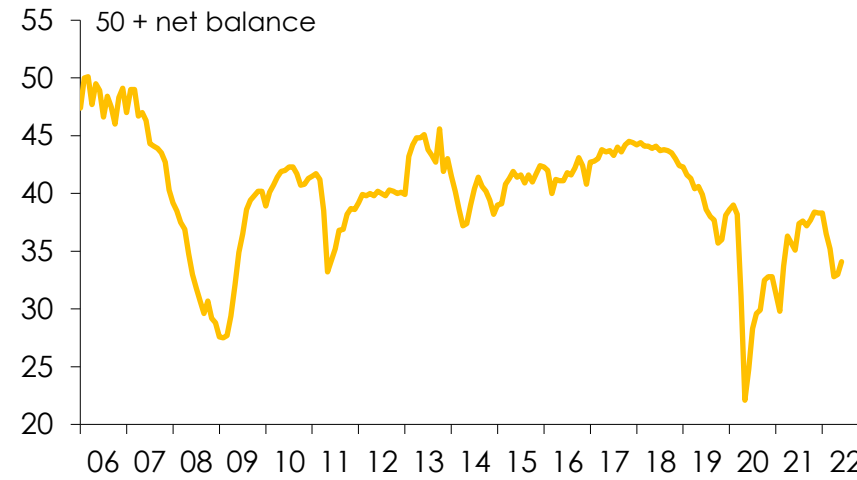
April data provides some tentative evidence of a pick-up in domestic spending as Japan's 'omicron wave' slowly recedes

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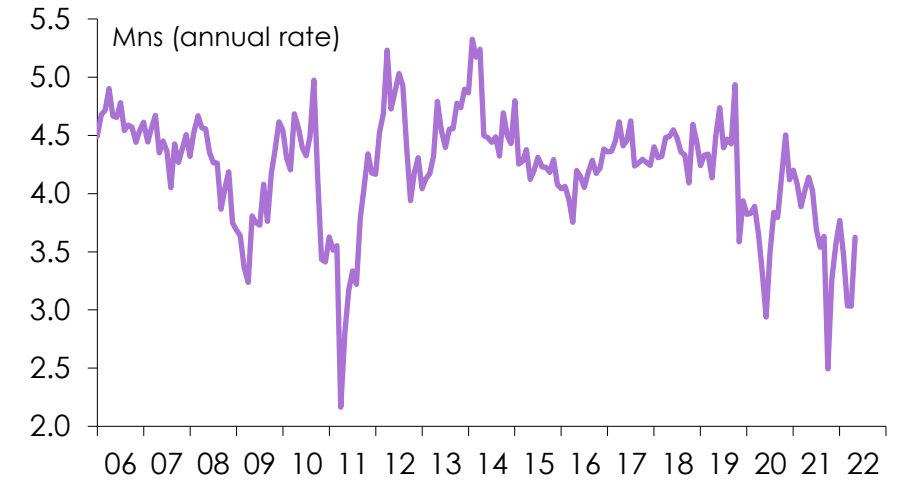
Real household disposable income



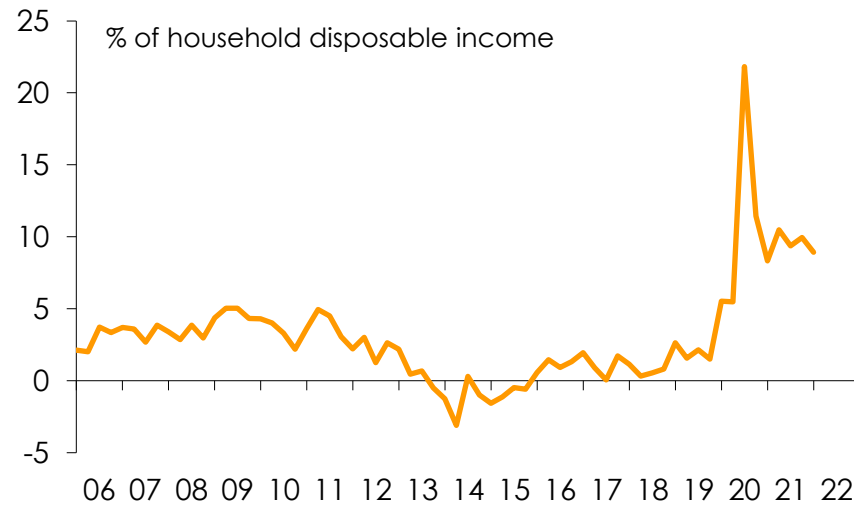
Consumer confidence



Motor vehicle sales



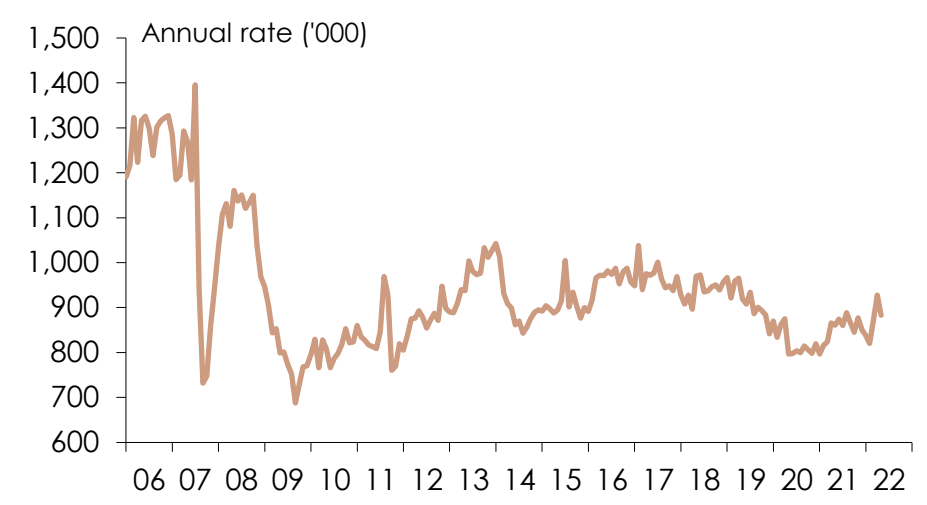
Household saving



Consumption activity index



Housing starts

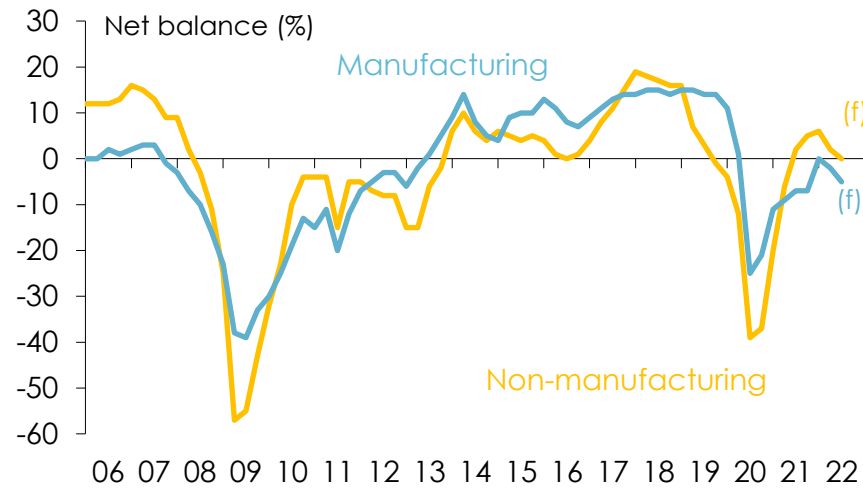


Sources: Japan Cabinet Office, [Quarterly Estimates of Household Disposable Income and Household Saving Ratio](#) and [Consumer Confidence Survey](#); Bank of Japan, [Consumption Activity Index](#); Japan Automobile Dealers Association, [Statistical Data](#); Japan e-Stat, [Building Starts](#). [Return to "What's New"](#).

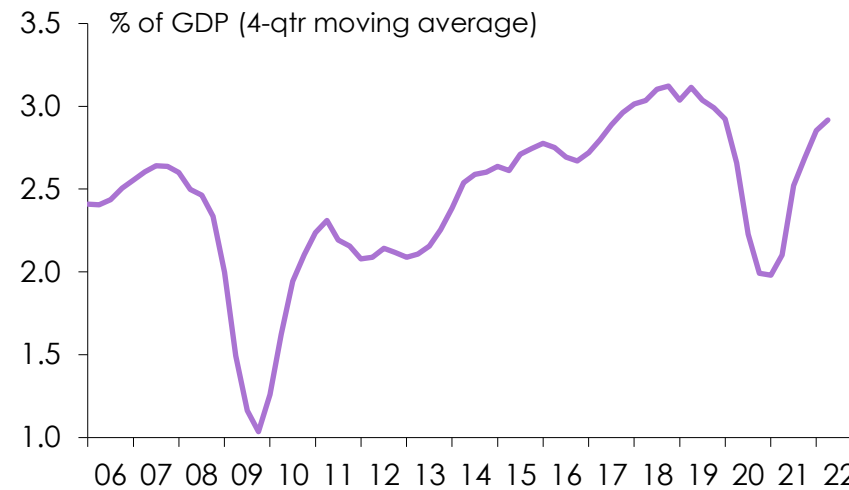
Japanese business confidence deteriorated in the first quarter of this year according to the BoJ's *tankan* survey, largely reflecting rising input costs

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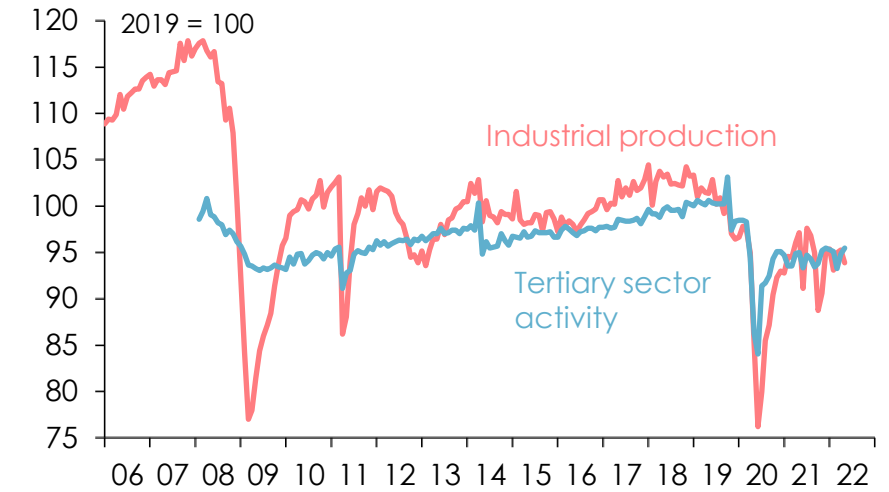
Business conditions by industry



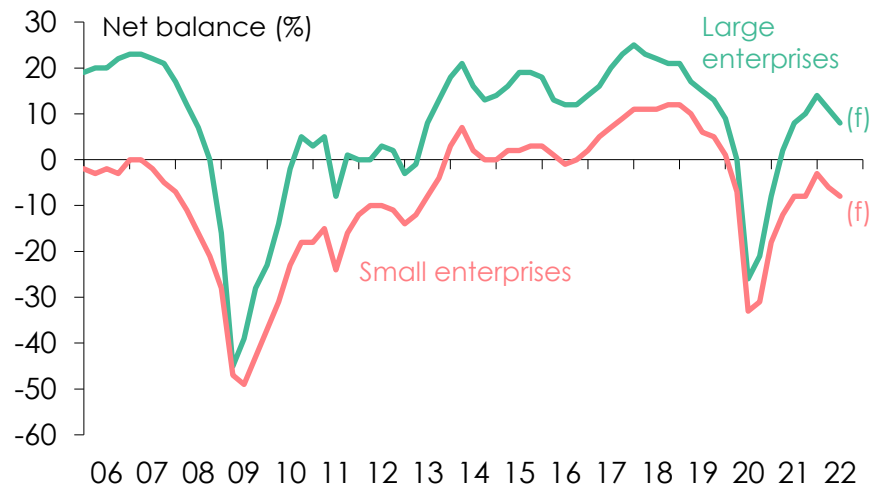
Corporate operating profits



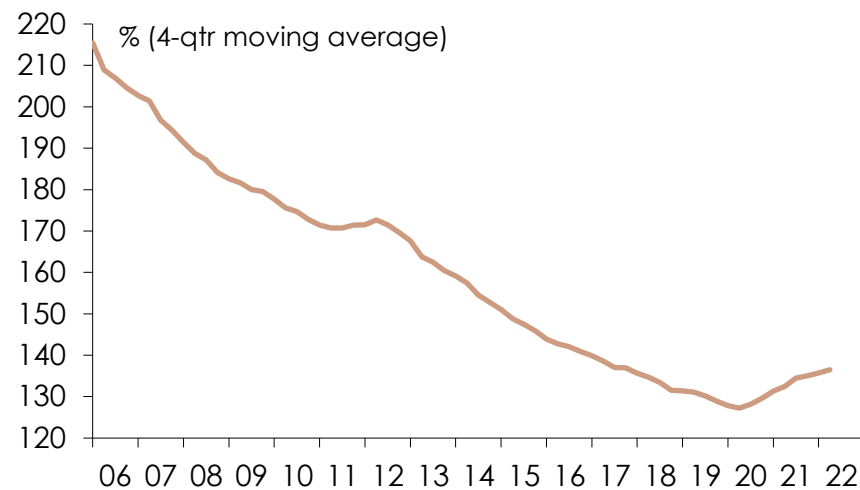
Indexes of economic activity



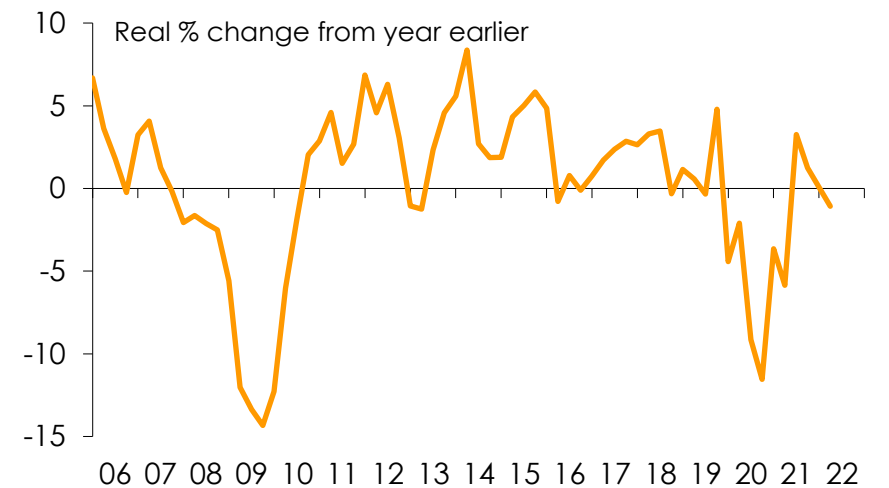
Business conditions by firm size



Corporate debt-equity ratio



Business investment

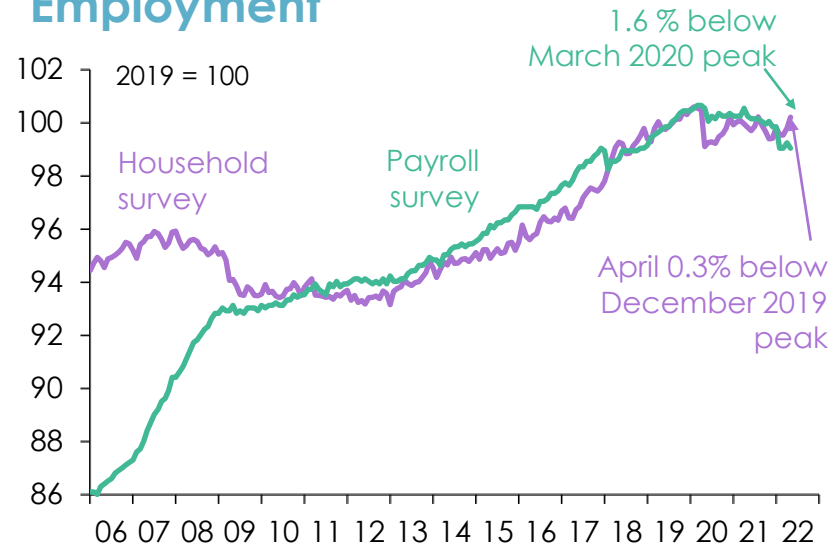


Sources: Bank of Japan, [Short-Term Economic Survey of Enterprises in Japan \('Tankan'\)](#); Policy Research Institute, Ministry of Finance, [Financial Statements Statistics of Corporations by Industry, Quarterly](#); Ministry of Economy, Trade & Industry, [Indices of Industrial Production](#) and [Indices of Tertiary Industry Activity](#); Japan Cabinet Office, [Quarterly Estimates of GDP](#). [Return to "What's New"](#).

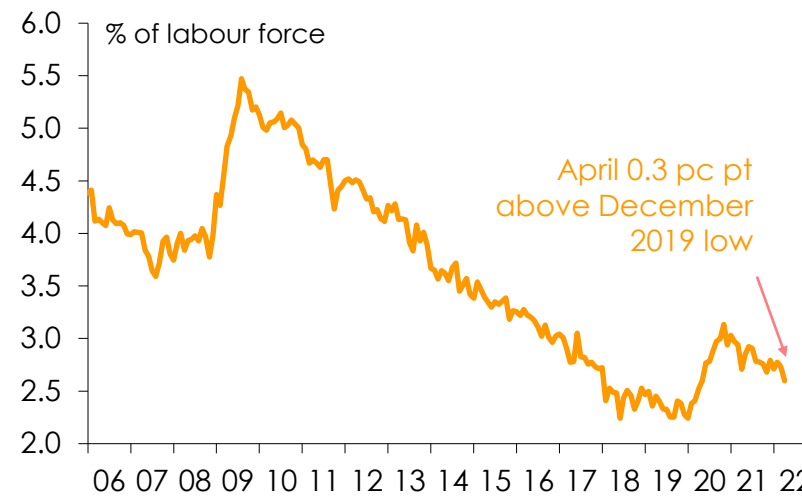
Employment rose 0.4% in April, to be 0.3% below its pre-pandemic peak, but the participation rate hit a record high

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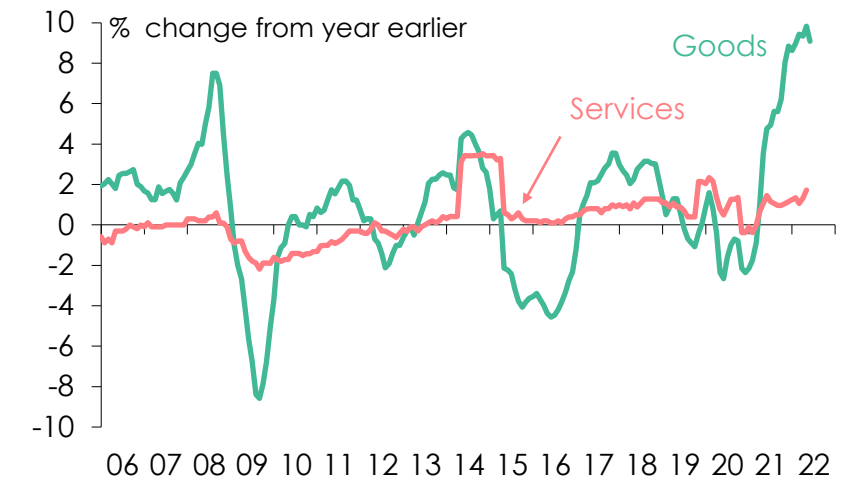
Employment



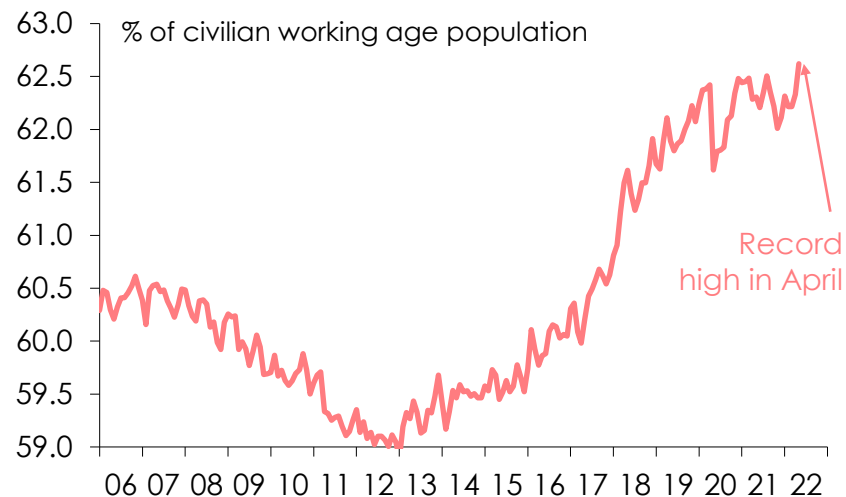
Unemployment rate



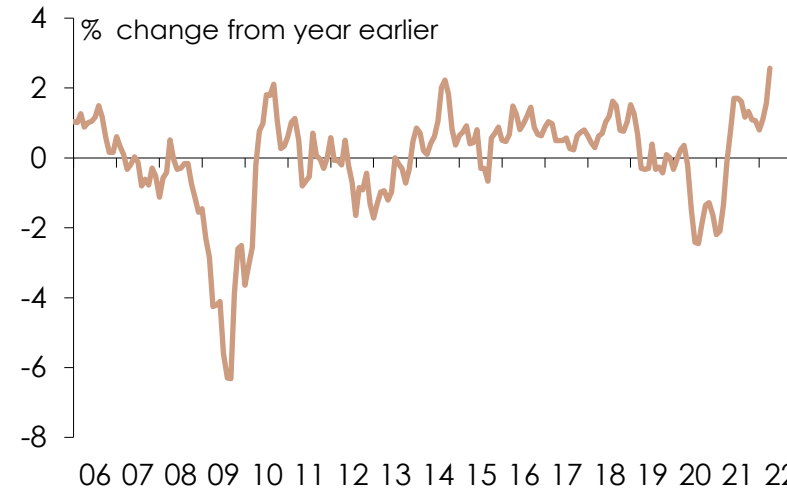
'Corporate' (producer) prices



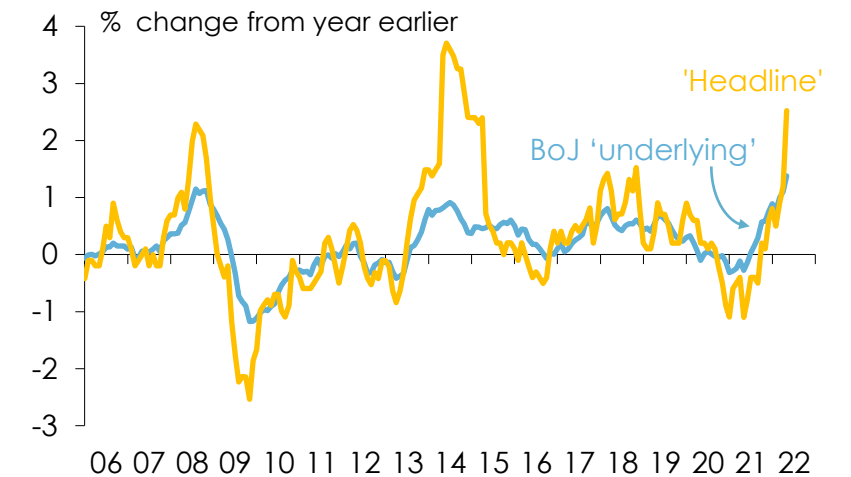
Labour force participation rate



Wages growth



Consumer prices

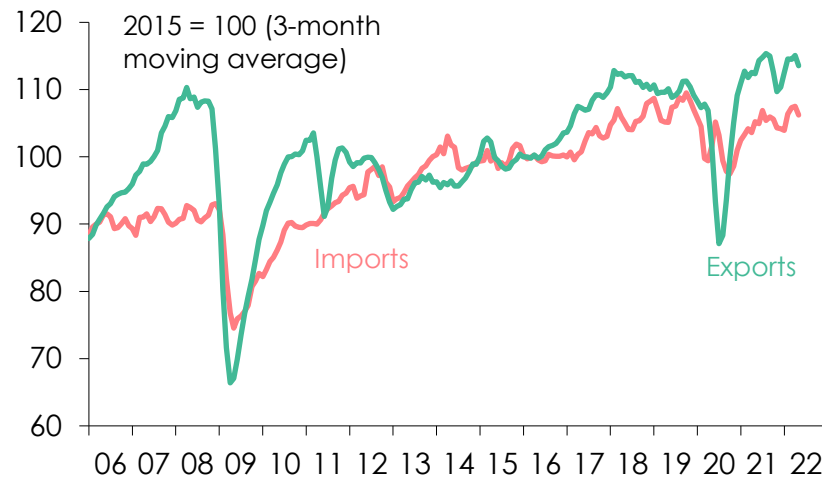


Sources: Statistics Bureau of Japan, [Labour Force Survey](#) and [Consumer Price Index](#); Ministry of Health, Labour and Welfare, [Monthly Labour Survey](#); Bank of Japan, [Prices](#) and [Measures of Underlying Inflation](#). [Return to "What's New"](#).

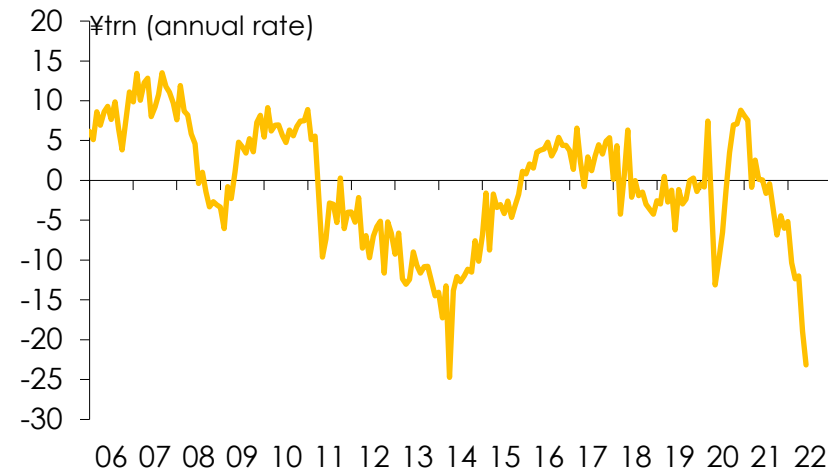
Japan is now incurring large (by its standards) external deficits as a result largely of higher prices commodity imports and loss of tourism exports

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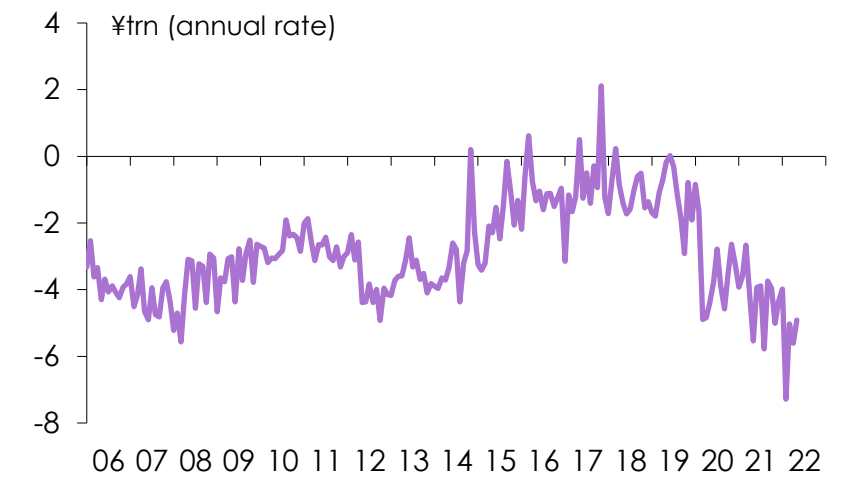
Merchandise trade volumes



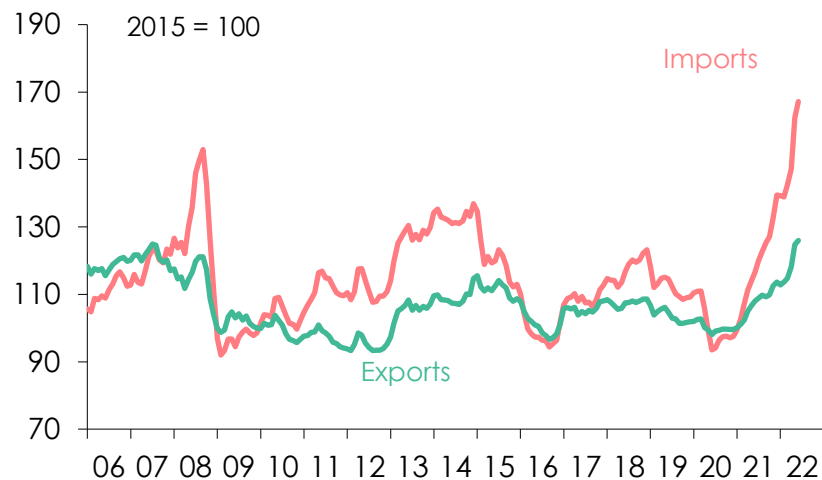
Merchandise trade balance



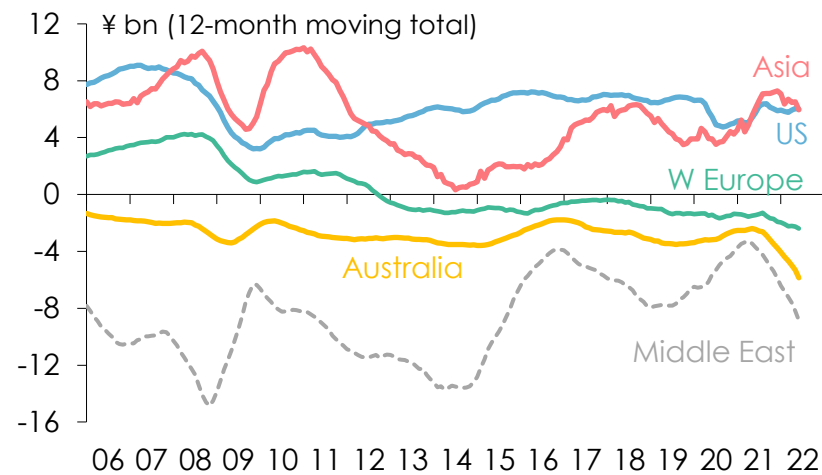
Services trade balance



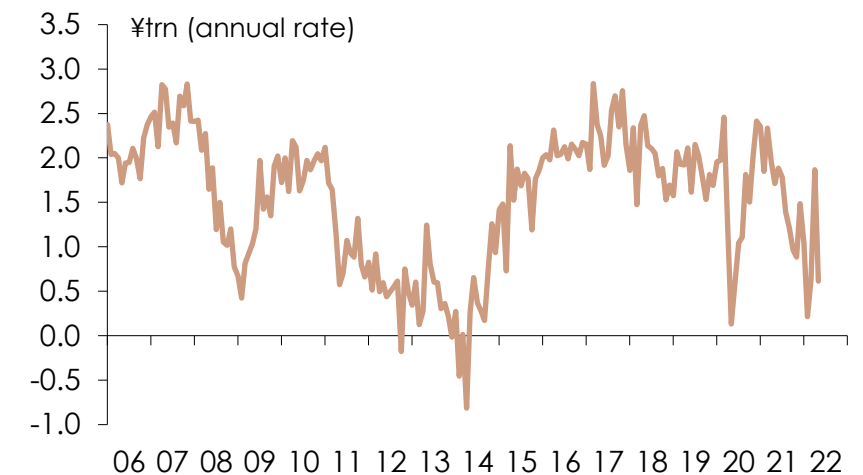
Merchandise trade prices



Bilateral goods trade balances



Current account balance



Sources: Bank of Japan, [Developments in Real Exports and Real Imports](#) and [Balance of Payments Related Statistics](#); Ministry of Finance, [Trade Statistics of Japan](#).
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The Bank of Japan again left its policy settings on hold at Friday's Policy Board meeting, with only an oblique reference to persistent yen weakness

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- ❑ The [Bank of Japan](#) left its monetary policy settings unchanged at its Policy Board meeting on Friday
 - although one of the Board's nine members again dissented in favour of “further strengthen[ing] monetary easing by lowering short- and long-term interest rates”
- ❑ In its post-meeting [Statement on Monetary Policy](#) the BoJ once again re-iterated its commitment to continue with ‘Quantitative and Qualitative Easing (QQE) with Yield Curve Control’ “as long as it is necessary” to “achieve the price stability target of 2% in a stable manner”, and to continue expanding the monetary base “until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeds 2% and stays above the target in a stable manner”
- ❑ Regarding inflation, the BoJ acknowledged that “the year-on-year rate of change in the CPI (all items less fresh food) has been at around 2%”, and “is likely to be at around 2% for the time being”
 - but it expects this measure of inflation to “decelerate thereafter because the positive contribution of the rise in energy prices to the CPI is expected to wane”
- ❑ Regarding economic activity, the BoJ noted that “Japan's economy has picked up on trend” and “is likely to recover with the impact of Covid-19 and supply-side constraints waning and with support from an increase in external demand” – but also that “there remain extremely high uncertainties for Japan's economy”,
 - and that it “in this situation it was necessary to pay due attention to developments in financial and foreign exchange markets and their impact on Japan's economic activity and prices”
- ❑ It's unclear whether this was intended as an allusion to the weakness in the yen, which this past week touched its lowest levels since May 1998 (during the Asian financial crisis)
 - the policy tightening now being implemented by the Fed and other central banks is making the BoJ's policy of capping 10-year JGB yields at zero is becoming increasingly difficult, and contributing to ongoing yen weakness

Other East Asian economies

The IMF & ADB made small downward revisions to growth forecasts for most Asian economies in 2022 (except for HK), but revised inflation forecasts up

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

IMF and Asian Development Bank forecasts for East Asian economies

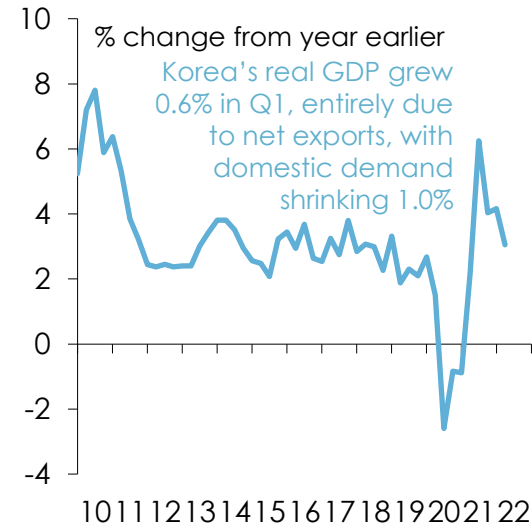
	Real GDP growth							Inflation						
	Actual		IMF			ADB		Actual		IMF			ADB	
	2010-19*	2020	2021	2022	2023	2022	2023	2010-19*	2020	2021	2022	2023	2022	2023
Korea	3.3	-0.9	4.0	2.5	2.9	3.0	2.6	1.7	0.5	2.5	4.0	2.4	3.2	2.0
Taiwan	3.6	3.1	5.9	3.2	2.9	3.8	3.0	1.0	-0.2	1.8	2.3	2.2	1.9	1.6
Hong Kong	2.8	-6.1	6.4	0.5	4.9	2.0	3.7	3.3	0.3	1.6	1.9	2.1	2.4	2.0
Singapore	4.9	-5.4	6.0	4.0	2.9	4.3	3.2	1.6	-0.2	2.3	3.5	2.0	3.0	2.3
Indonesia	5.4	-2.1	3.3	5.4	6.0	5.0	5.2	4.7	2.0	1.6	3.3	3.3	3.6	3.0
Philippines	6.4	-9.6	4.6	6.5	6.3	6.0	6.3	3.0	2.6	3.9	4.3	3.7	4.2	3.5
Thailand	3.6	-6.1	1.3	3.3	4.1	3.0	4.5	1.6	-0.8	1.2	3.5	2.8	3.3	2.2
Malaysia	5.4	-5.6	3.5	5.6	5.5	6.0	5.4	2.1	-1.1	2.5	3.0	2.4	3.0	2.5
Vietnam	6.5	2.9	3.8	6.0	7.2	6.5	6.7	6.0	3.2	1.9	3.8	3.2	3.8	4.0
Cambodia	7.0	-3.1	2.2	5.1	5.9	4.2	3.6	3.1	2.9	3.0	3.0	3.0	1.6	1.0
Laos	7.1	-0.4	3.2	3.5	4.5	3.4	3.7	3.7	5.1	3.8	6.2	5.0	5.8	5.0
Myanmar	3.1	-8.0	-17.9	1.6	3.0	-0.3	2.6	6.1	5.7	3.6	14.1	8.2	8.0	8.5

Note: * Pp per annum. Sources : International Monetary Fund (IMF), [World Economic Outlook](#), 19th April 2022; Asian Development Bank, [Asian Development Outlook](#), 6th April 2022. [Return to "What's New"](#).

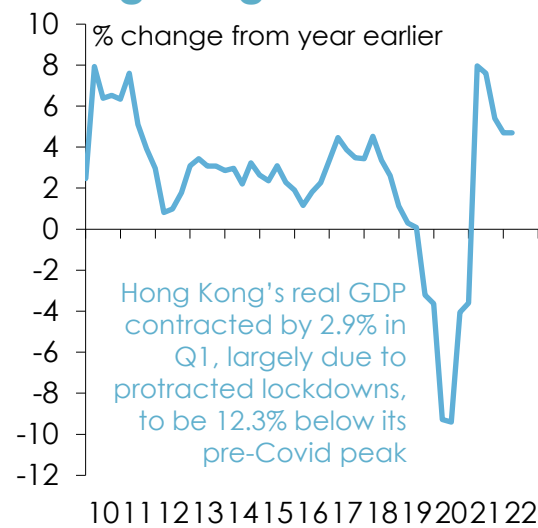
Hong Kong and Thailand are now the only East Asian economies where real GDP has yet to surpass its pre-Covid peak

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

Korea



Hong Kong



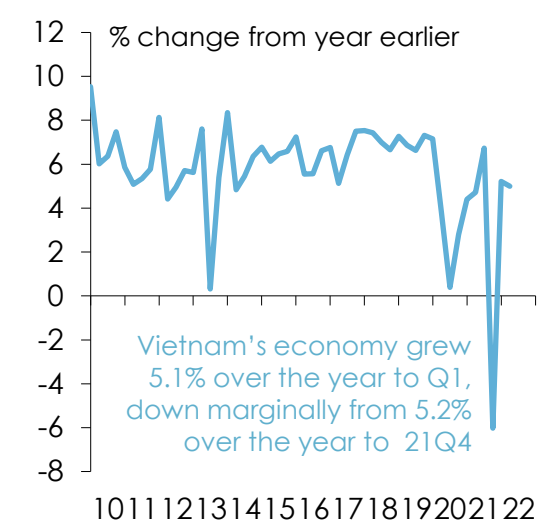
Indonesia



Thailand



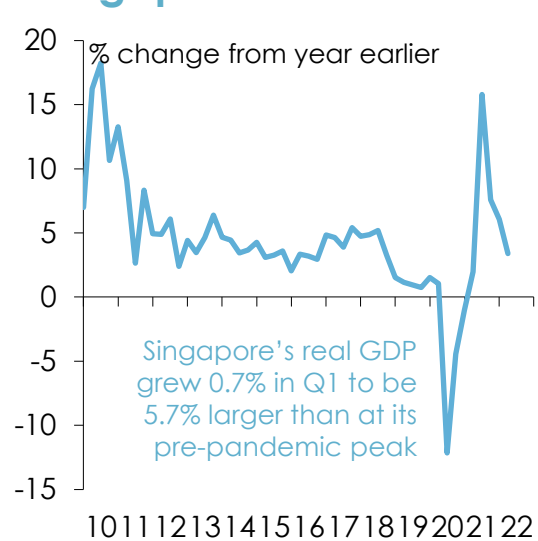
Vietnam



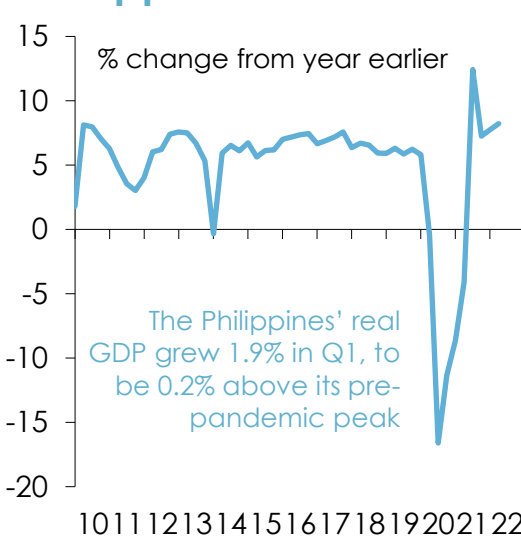
Taiwan



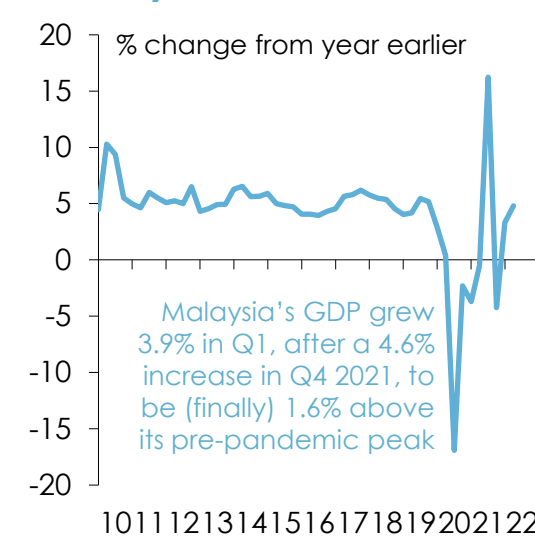
Singapore



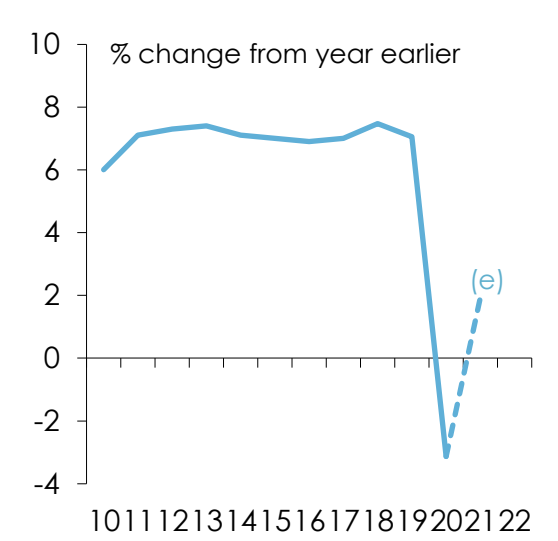
Philippines



Malaysia



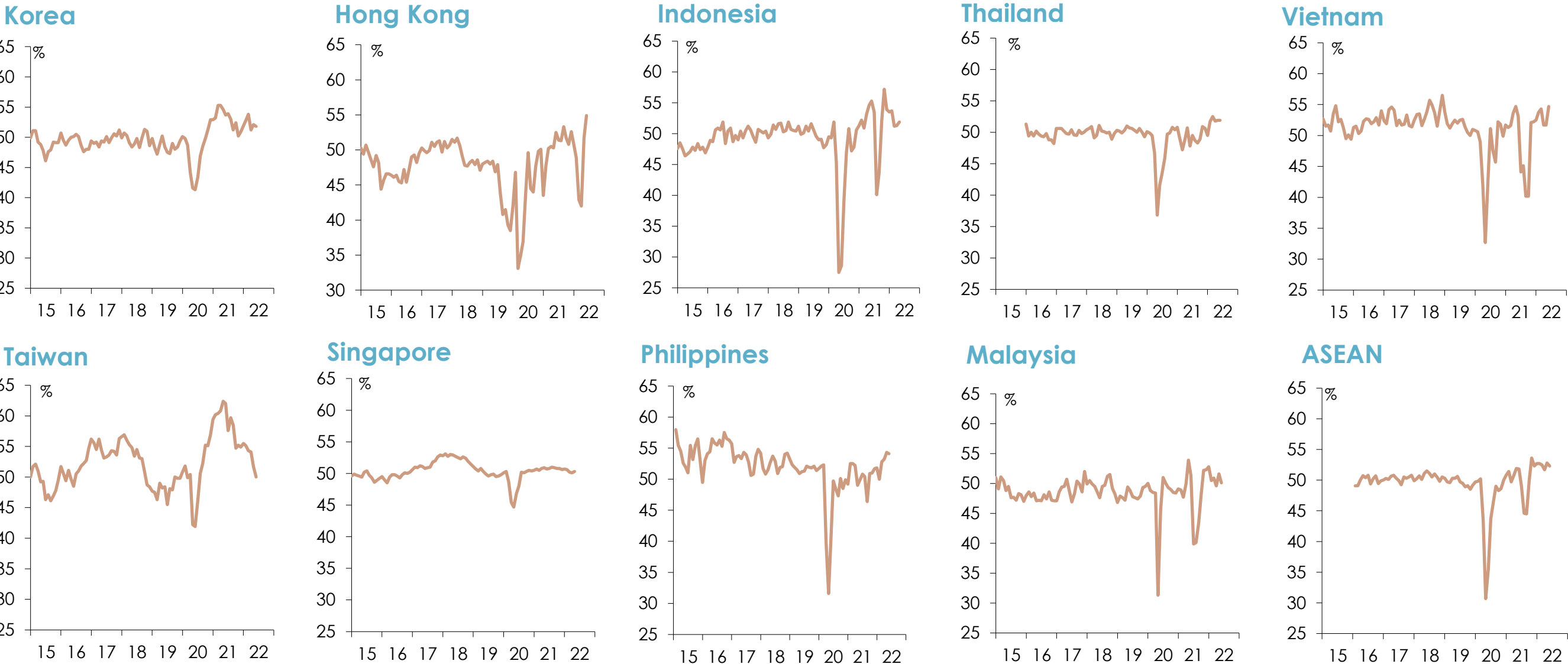
Cambodia



Sources: Bank of Korea; Taiwan Directorate-General of Budget, Accounting & Statistics; Hong Kong Census & Statistics Department; Singapore Ministry of Trade and Industry; Department of Statistics Malaysia; Office of the National Economic & Social Development Council of Thailand; Statistics Indonesia; Philippine Statistics Authority; General Statistics Office of Viet Nam; Cambodia National Institute of Statistics; OECD and IMF. [Return to "What's New"](#).

PMIs indicate a slight softening in manufacturing activity in most economies in May, except for Vietnam where it rose, and Taiwan where it fell more

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

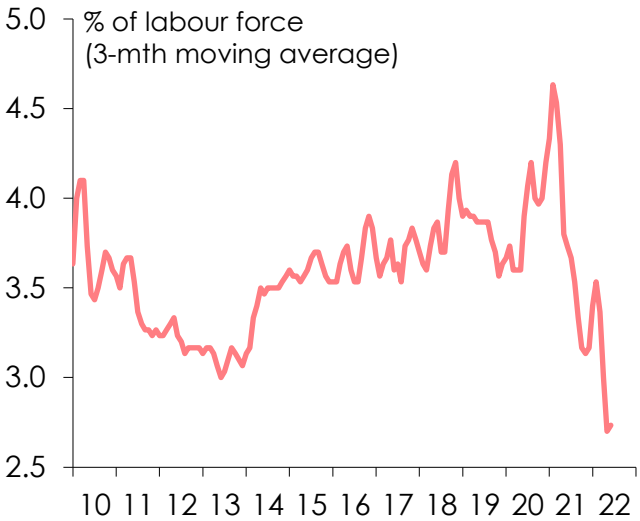


Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous month, and a reading of less than 50 indicates a decrease. Surveys are for manufacturing sector only, except for Hong Kong which is 'whole economy'. Latest data are for May. Sources: [IHS Markit](#); [Singapore Institute of Purchasing and Materials Management](#); Refinitiv Datastream. [Return to "What's New"](#).

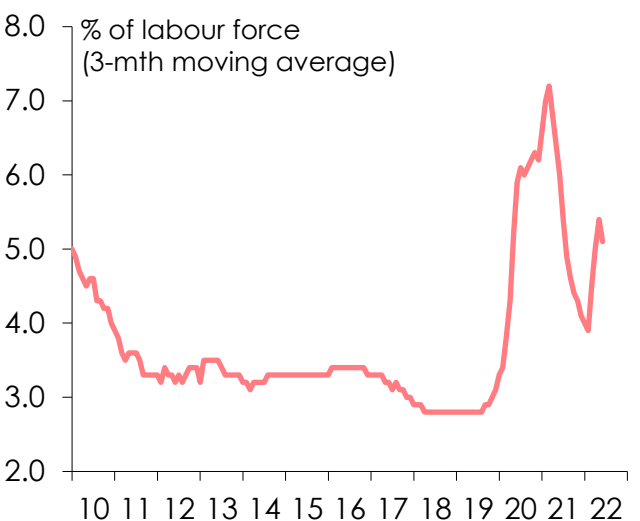
Unemployment rose sharply in most Asian economies last year but is now falling in most of them (except for Hong Kong)

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

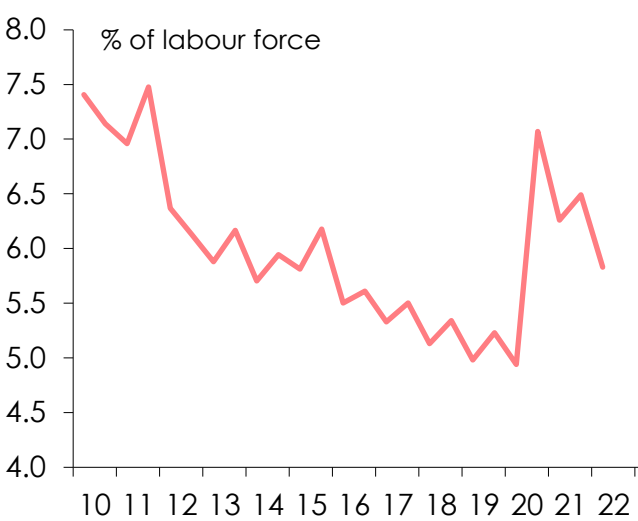
Korea



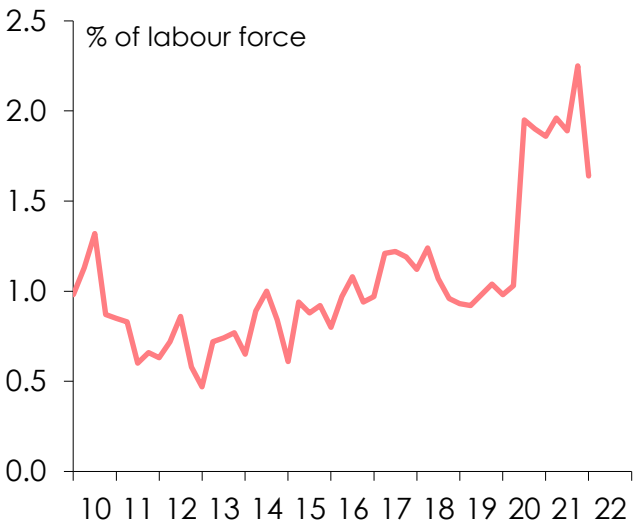
Hong Kong



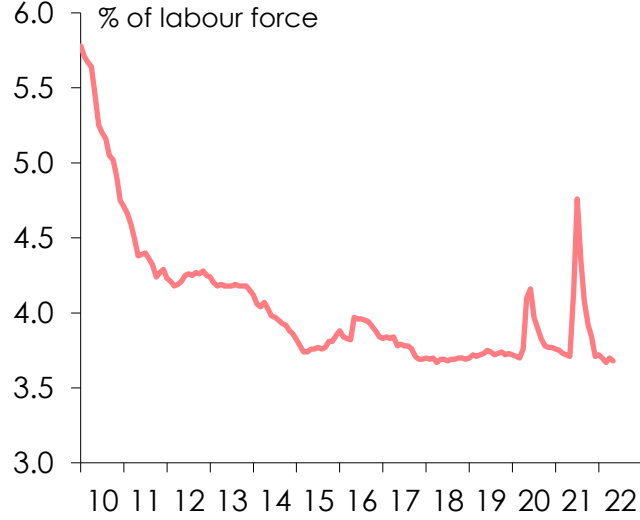
Indonesia



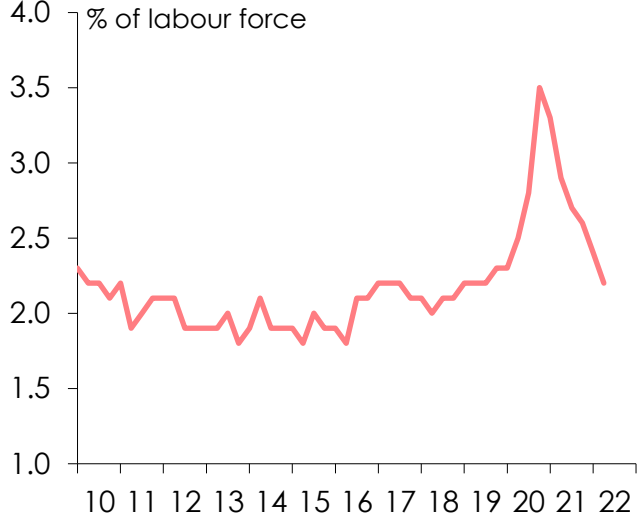
Thailand



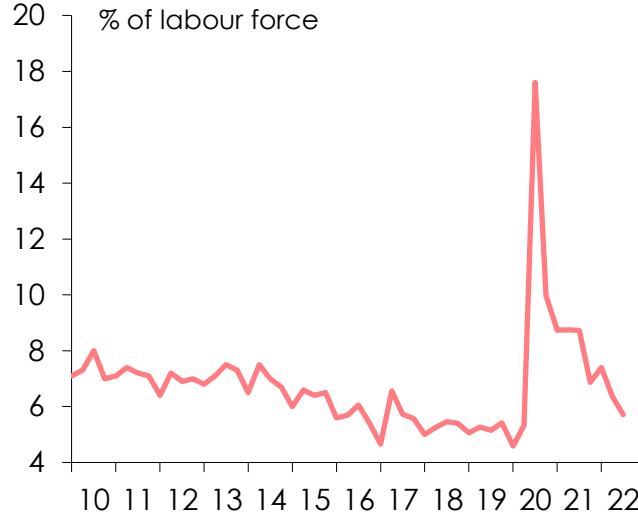
Taiwan



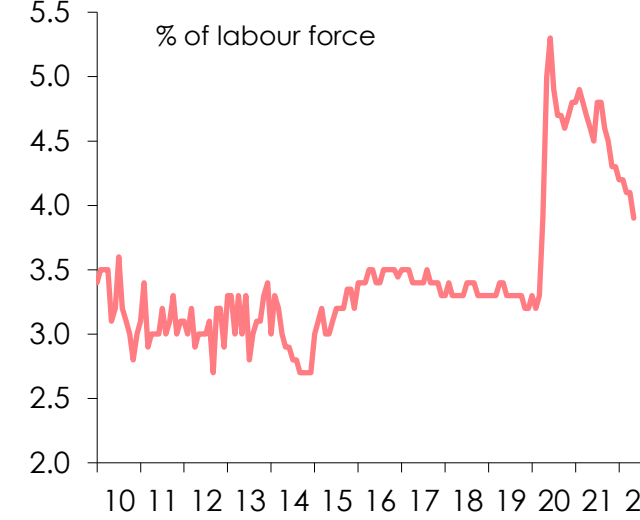
Singapore



Philippines



Malaysia

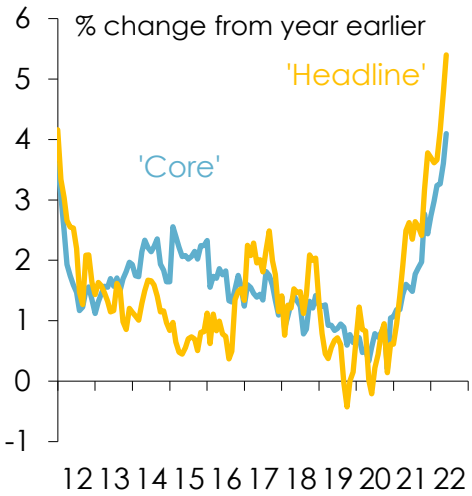


Note: Unemployment data is published monthly in Korea, Taiwan, Hong Kong, and Malaysia; quarterly in Singapore, Thailand and the Philippines; semi-annually (February and August) in Indonesia. Sources: national statistical agencies. [Return to "What's New"](#).

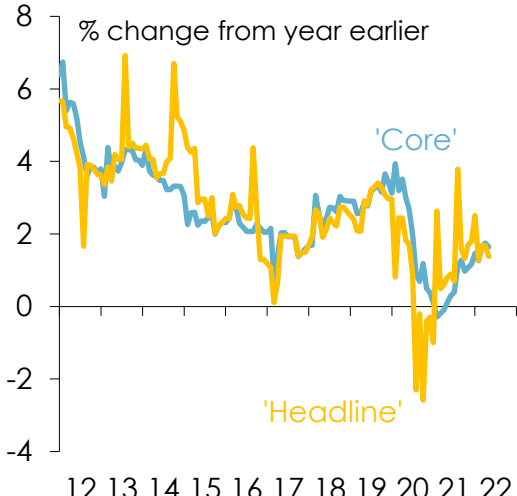
'Headline' and 'core' inflation are now rising in all East Asian economies (except for Vietnam), and especially in Korea and Singapore

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

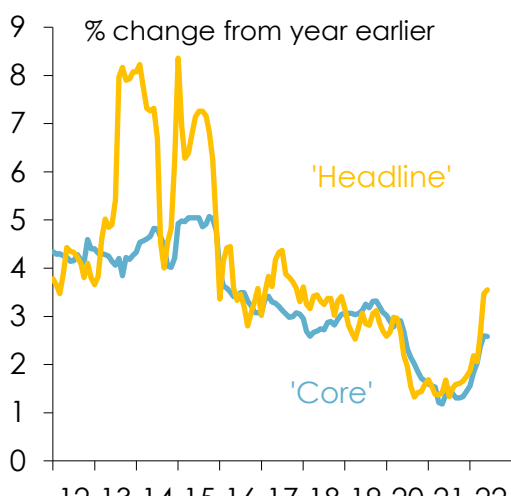
Korea



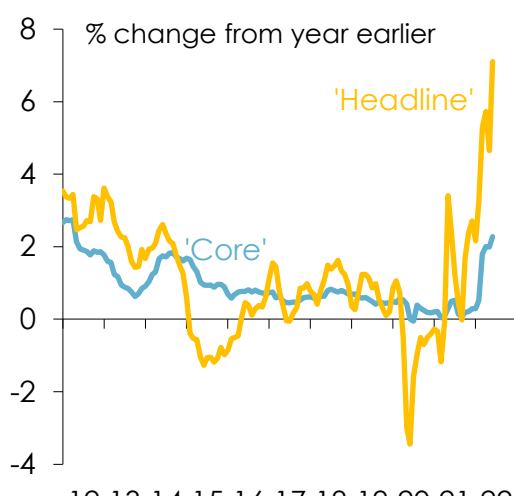
Hong Kong



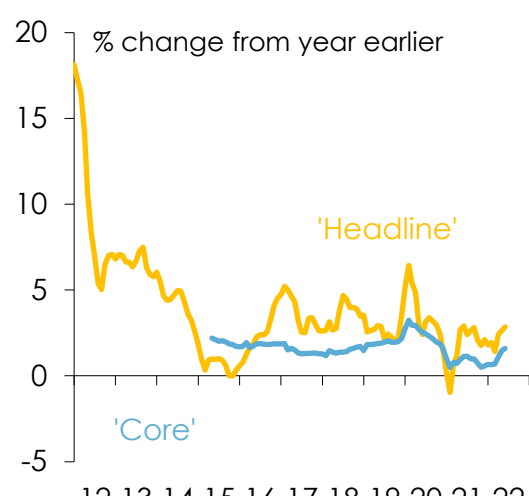
Indonesia



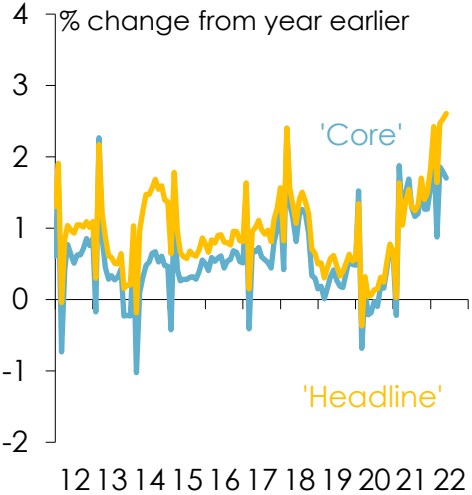
Thailand



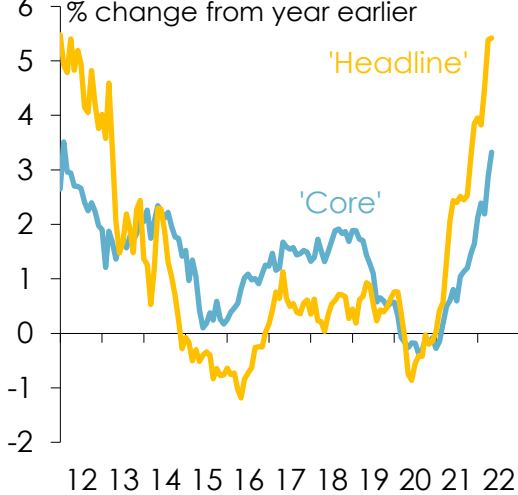
Vietnam



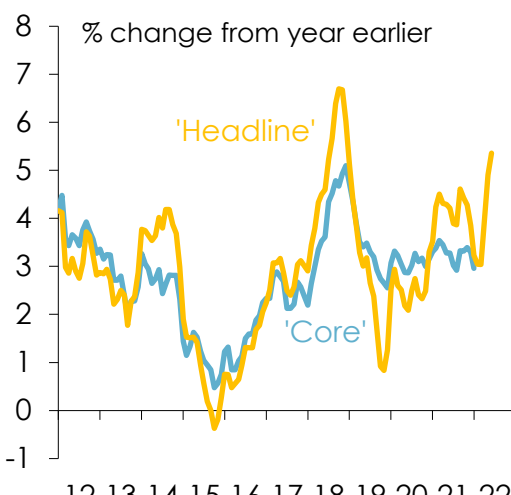
Taiwan



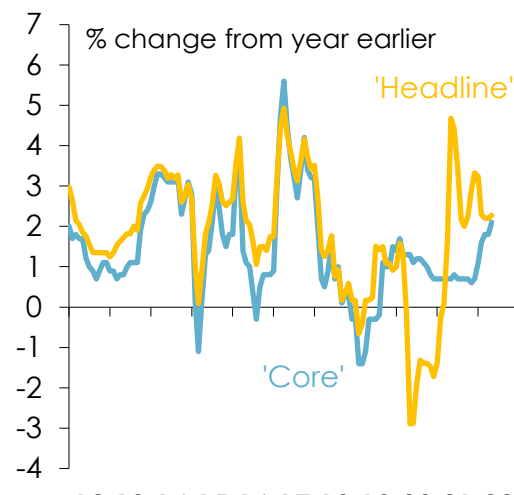
Singapore



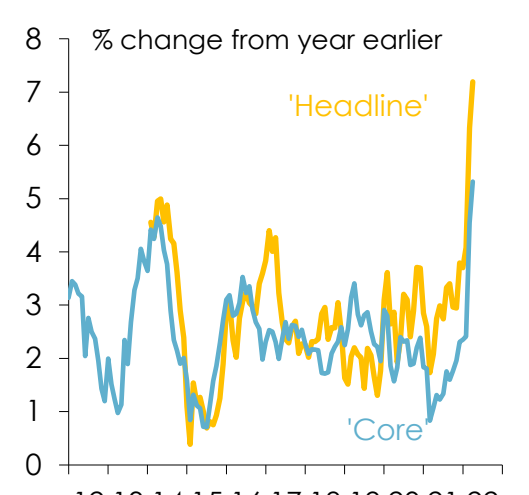
Philippines



Malaysia



Cambodia

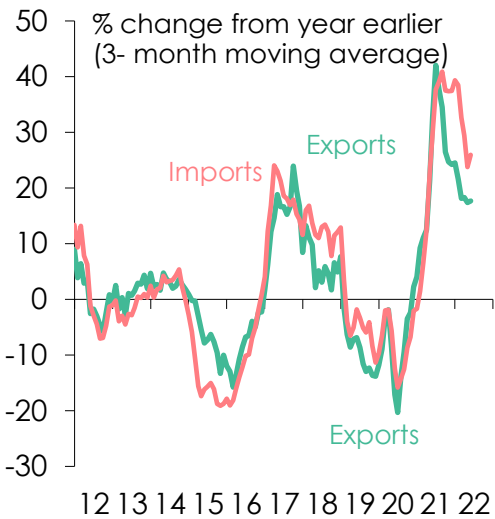


Note: 'Core' inflation in Korea excludes agricultural products & oil; in Taiwan it excludes fresh fruit, vegetables & energy; in Singapore it excludes accommodation & private transport; and in Hong Kong it excludes the effect of 'one-off government relief measures'. 'Core' inflation in Indonesia excludes 'volatile foods' & changes in 'administered prices' (such as fuel subsidies, transport fares & electricity prices); in the Philippines it excludes rice, corn, meat, fish, cultivated vegetables & fuels (and hasn't been published since December 2021); in Thailand it excludes fresh or raw food & energy; in Malaysia it excludes fresh food & 'administered' prices; in Vietnam it excludes 'volatile items'; and in Cambodia it excludes food, non-alcoholic beverages & oil products. Sources: national statistical agencies and central banks. [Return to "What's New"](#).

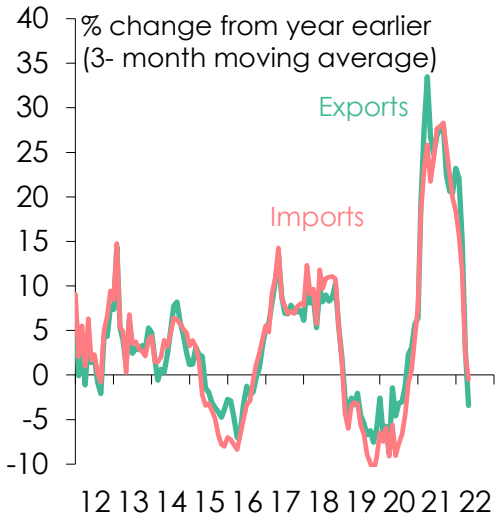
Asian exports are returning to more ‘normal’ growth rates following the ‘bump’ in 2021 inflated by comparison with 2020

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

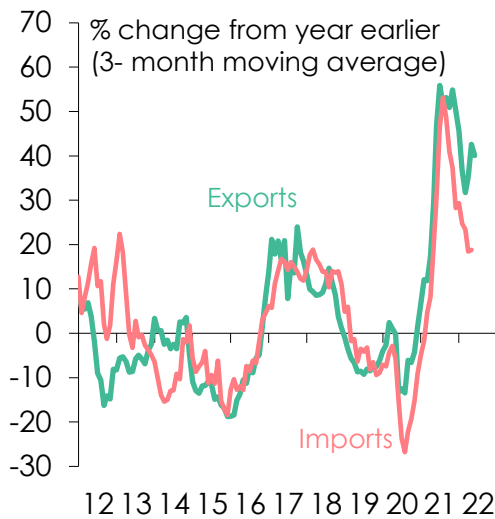
Korea



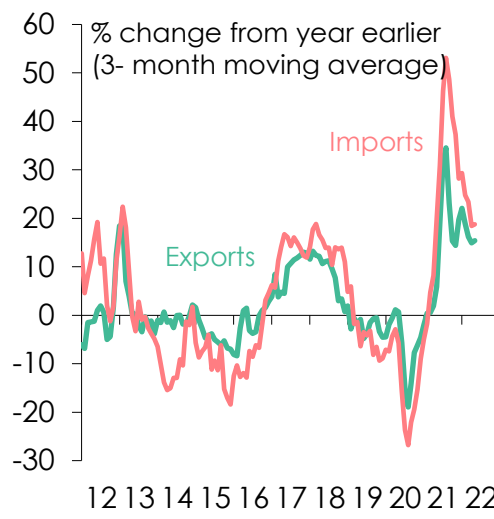
Hong Kong



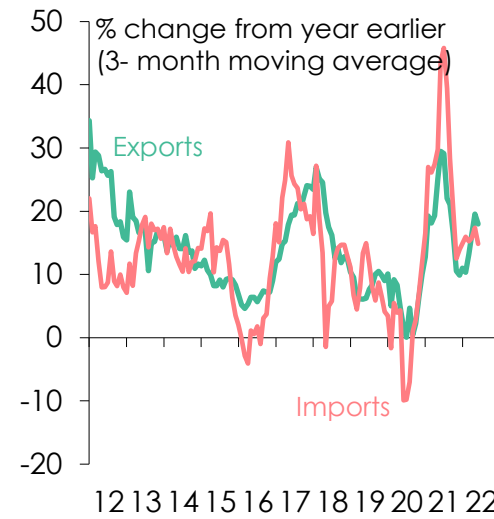
Indonesia



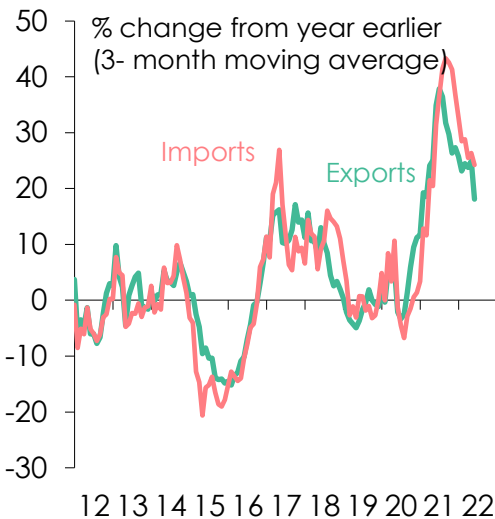
Thailand



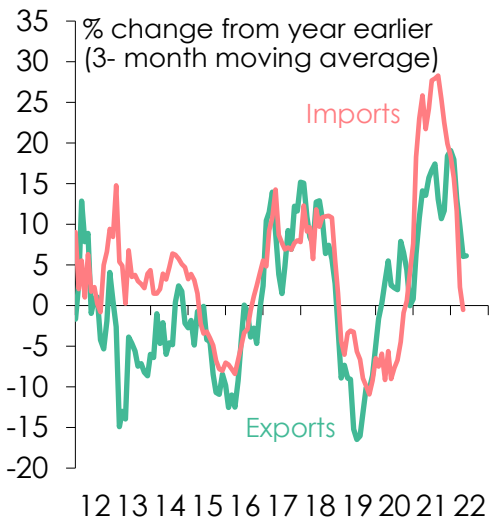
Vietnam



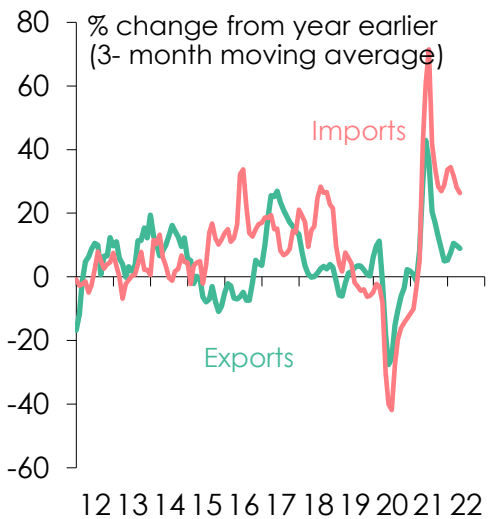
Taiwan



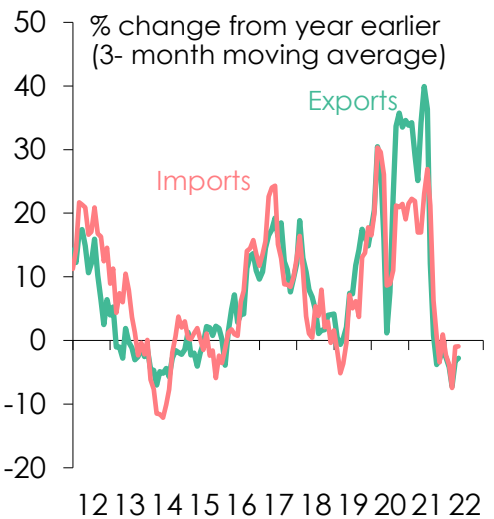
Singapore



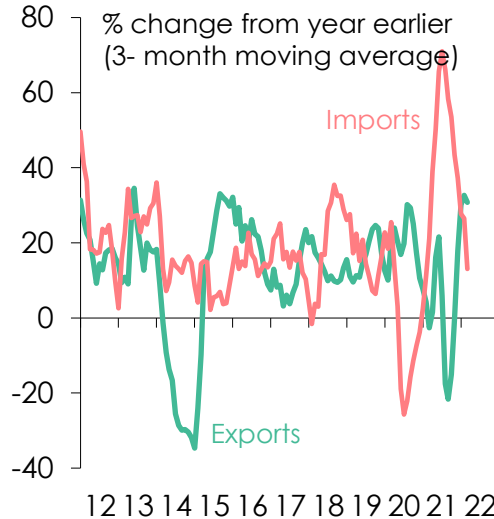
Philippines



Malaysia



Cambodia

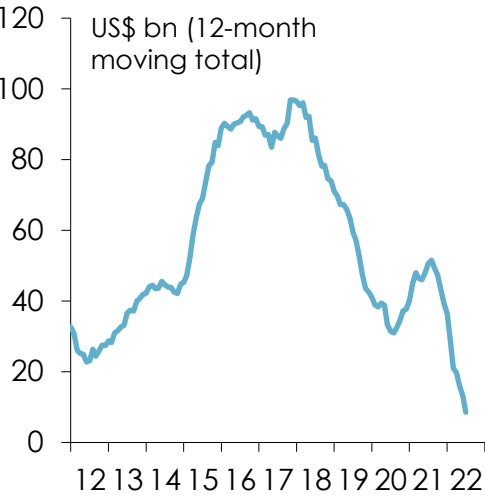


Note: Data for Hong Kong, Singapore and Malaysia are published in national currencies and converted to US dollars by Corinna using month-average exchange rates.
Sources: national statistical agencies and central banks. [Return to "What's New"](#).

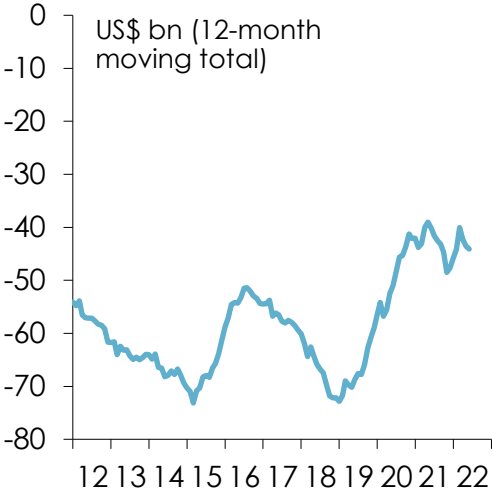
Most Asian economies – except for Indonesia, Malaysia and Singapore – are experiencing some deterioration in their trade balances

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

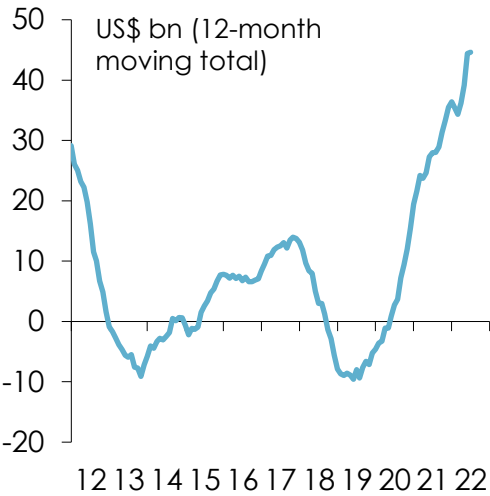
Korea



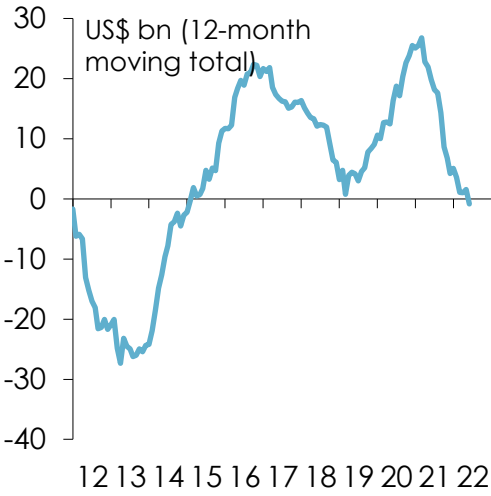
Hong Kong



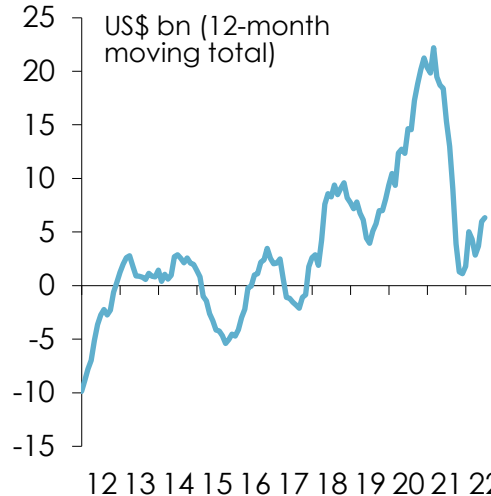
Indonesia



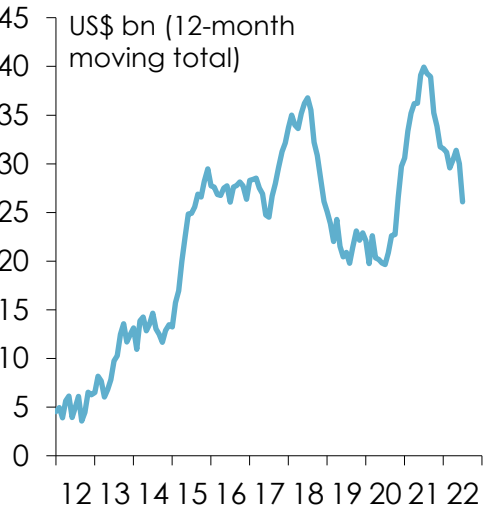
Thailand



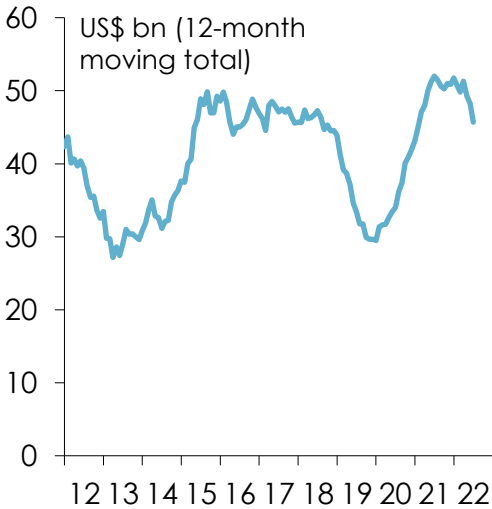
Vietnam



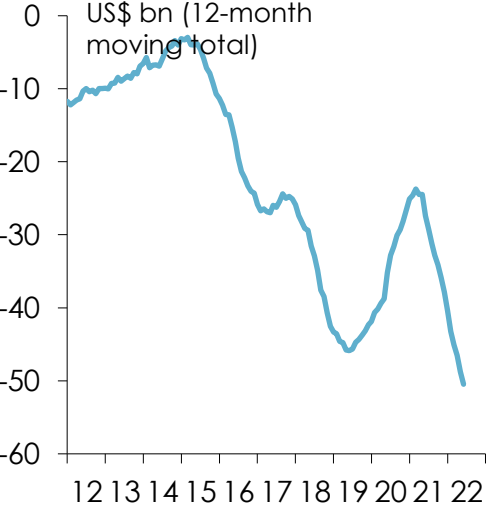
Taiwan



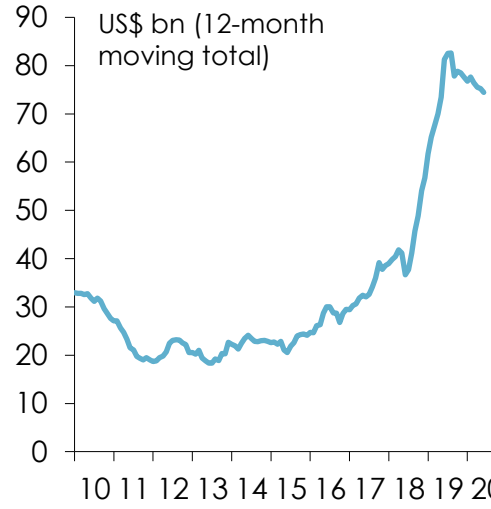
Singapore



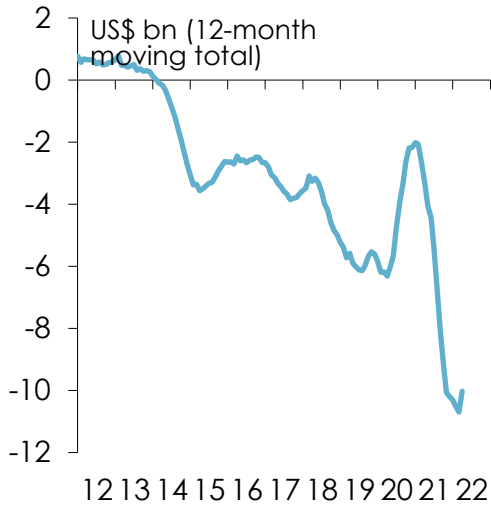
Philippines



Malaysia



Cambodia

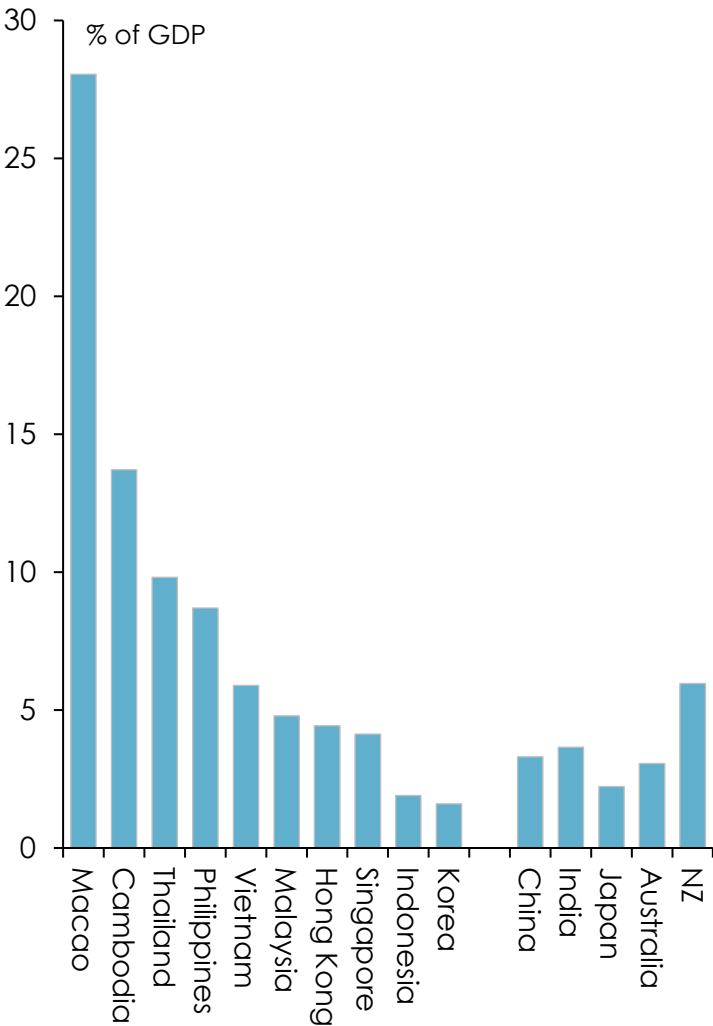


Note: Data for Hong Kong, Singapore and Malaysia are published in national currencies and converted to US dollars by Corinna using month-average exchange rates.
Sources: national statistical agencies and central banks. [Return to "What's New"](#).

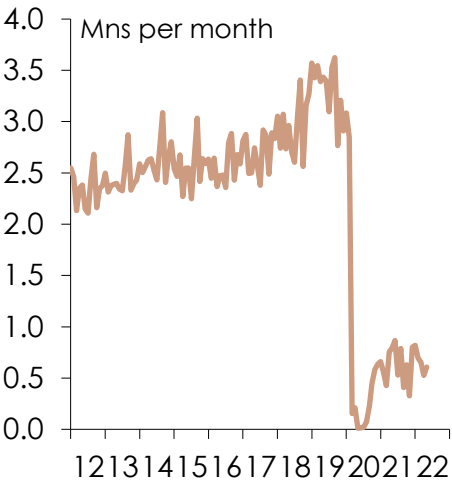
Many Asian economies, particularly Macao, Thailand, the Philippines and Hong Kong, have been hard hit by the demise of international tourism

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

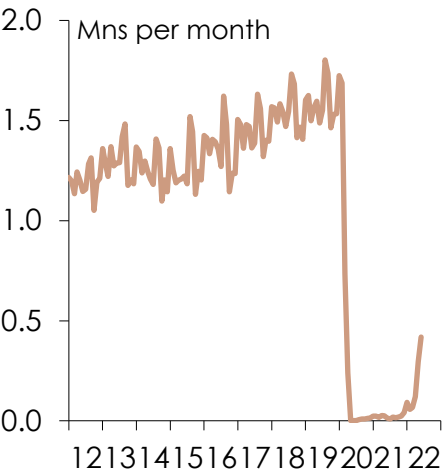
International tourism direct contribution to GDP, 2018



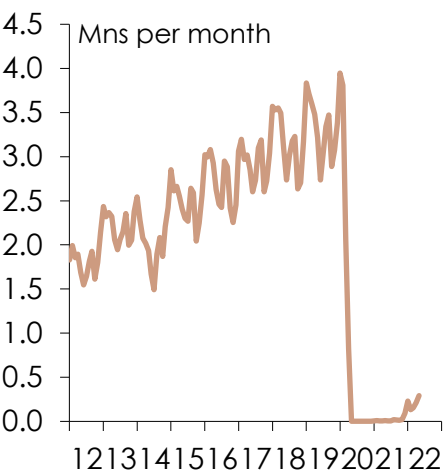
International visitor arrivals
Macao



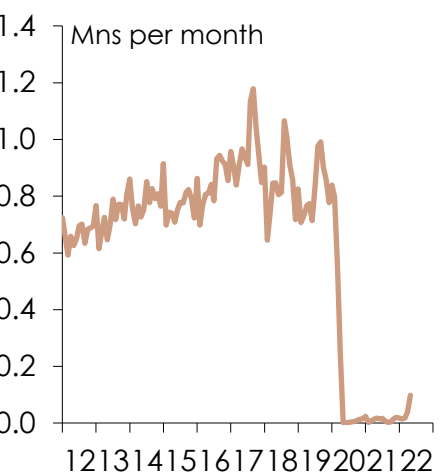
Singapore



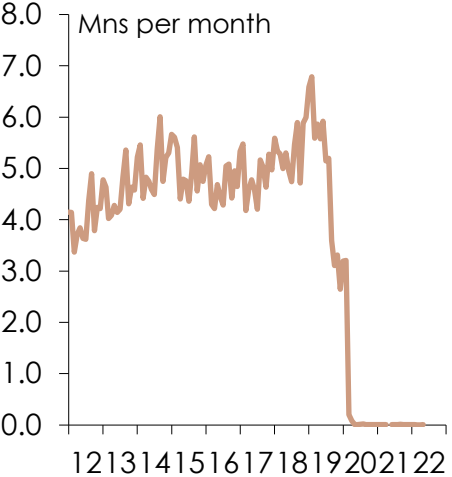
Thailand



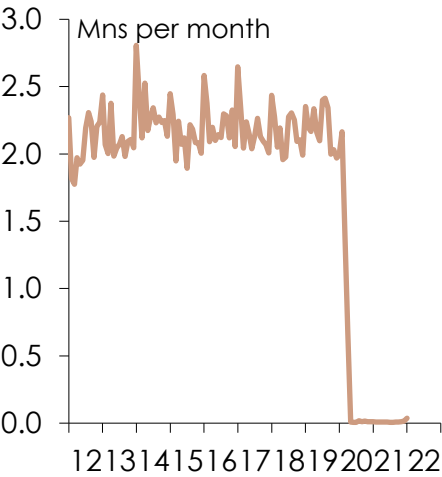
Indonesia



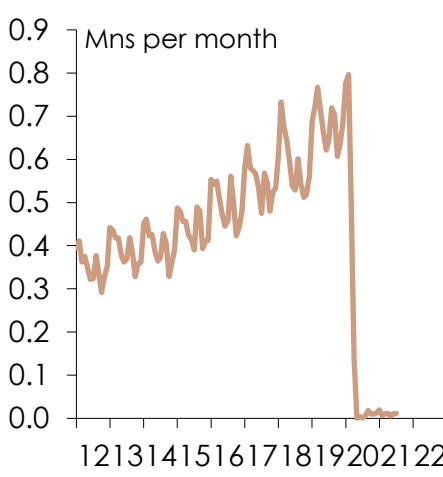
Hong Kong



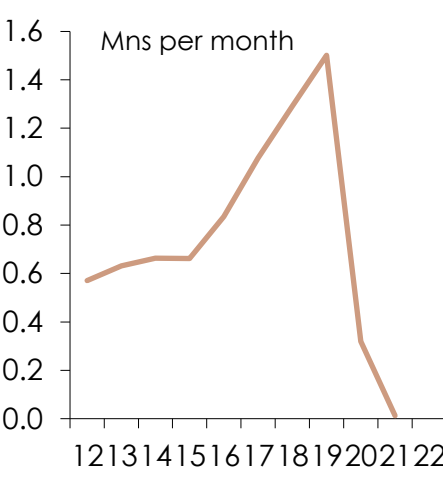
Malaysia



Philippines



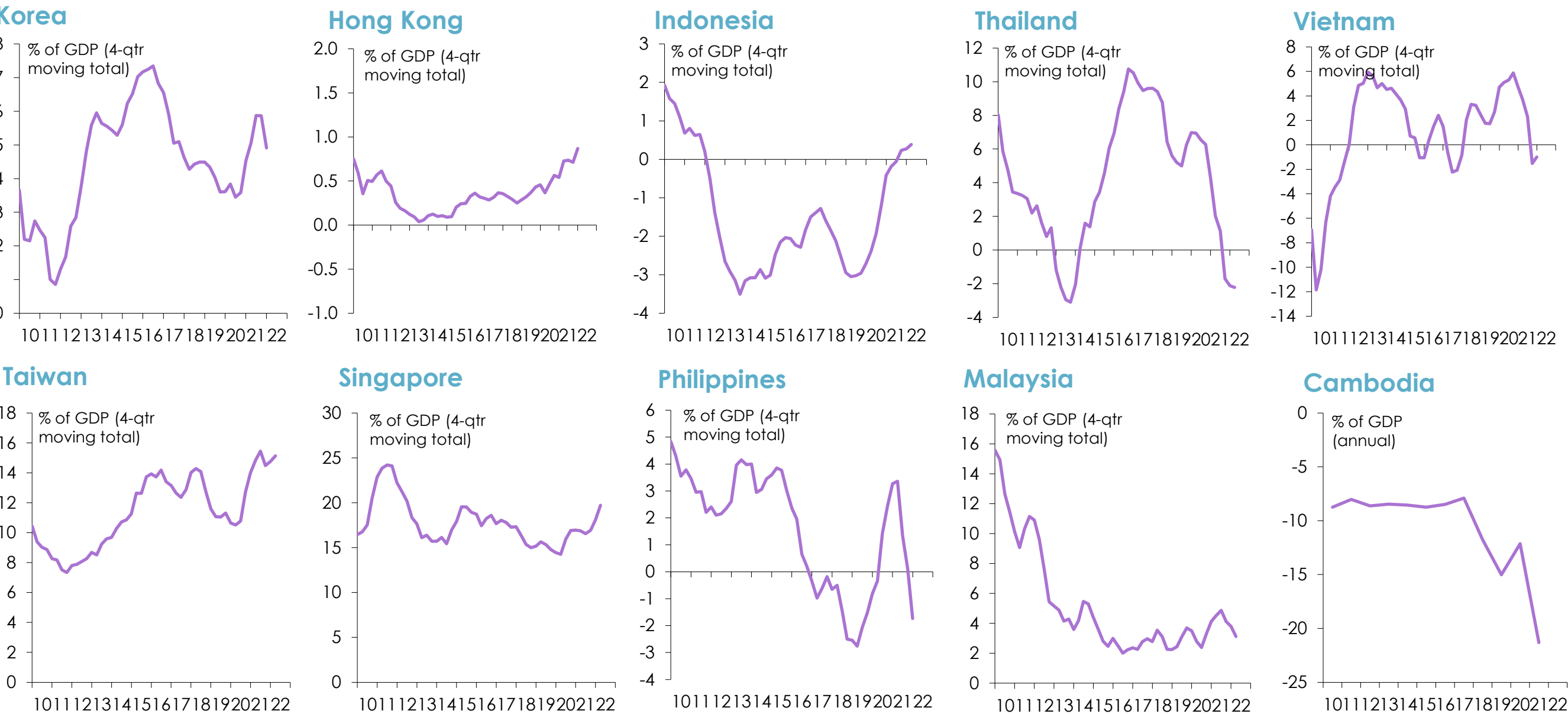
Vietnam



Note: Visitor arrivals data for Vietnam is only published annually. The Philippines stopped publishing data on visitor arrivals in December 2020.
Sources: The World Bank, [ICdata360](#); national statistical agencies. [Return to "What's New"](#).

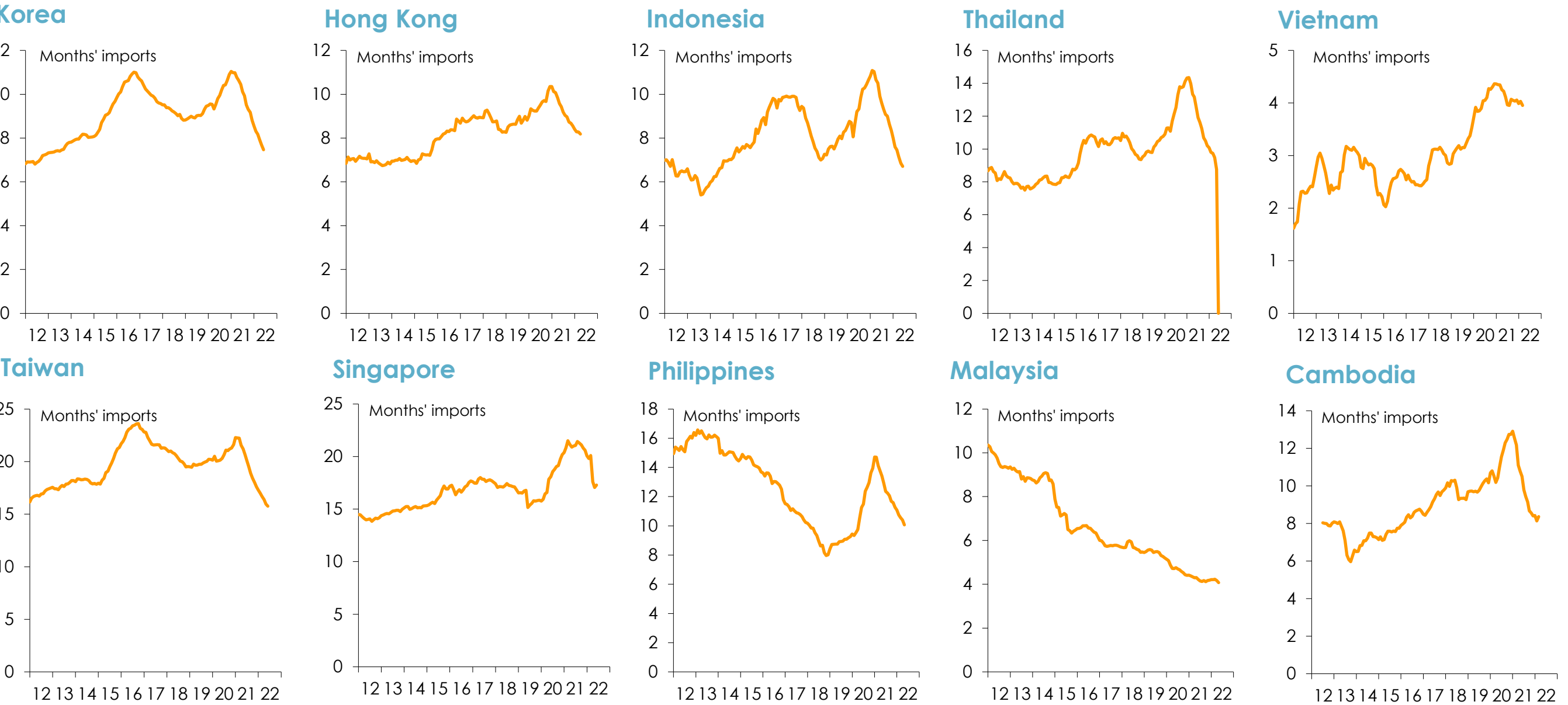
The more 'advanced' Asian economies have strong current account positions, Indonesia's is much improved but others have deteriorated

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022



Most Asian economies have sought to maintain high levels of FX reserves since the 1997-98 crisis – although Malaysia's have deteriorated recently

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

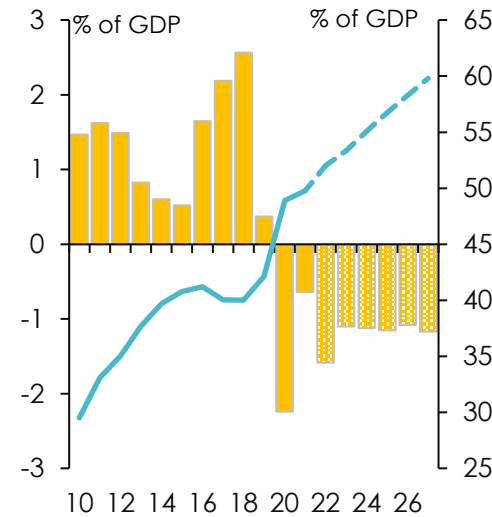


Note: Foreign exchange reserves in the above charts are shown as a multiple of average monthly imports (measured in US\$) over the preceding 12 months.
Sources: national statistical agencies and central banks; IMF; Refinitiv Datastream. [Return to "What's New"](#).

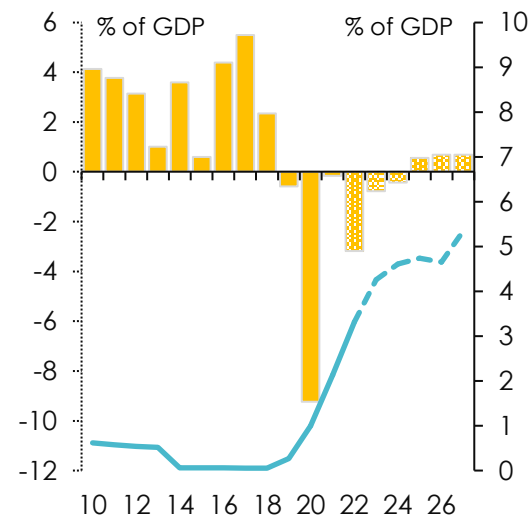
Most Asian governments, apart from Korea, Taiwan, Malaysia and Vietnam, will be tightening fiscal policy over the next few years

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

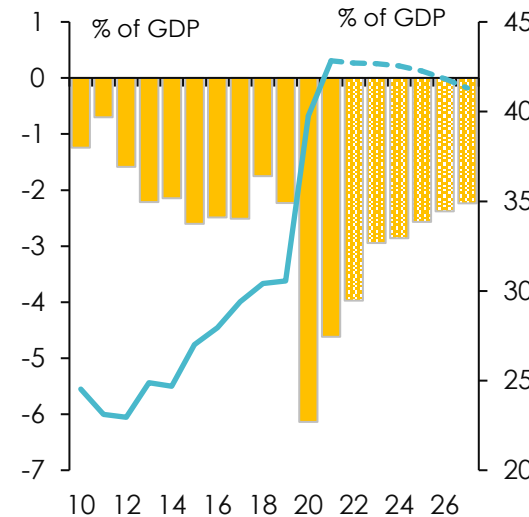
Korea



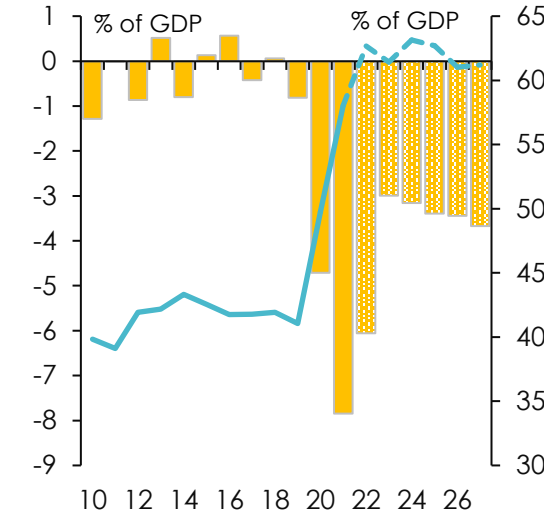
Hong Kong



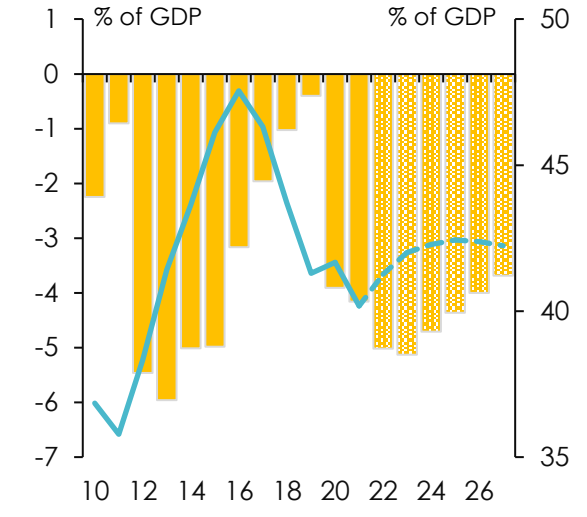
Indonesia



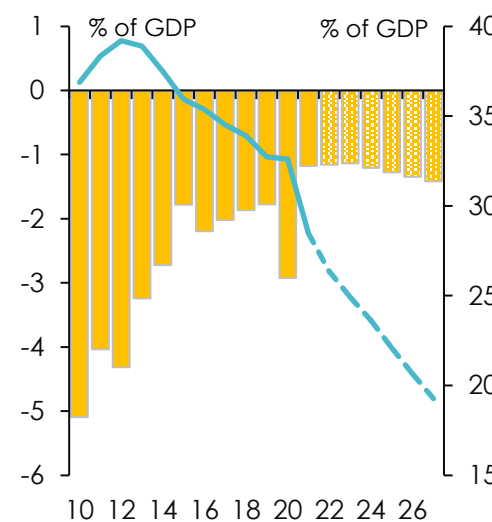
Thailand



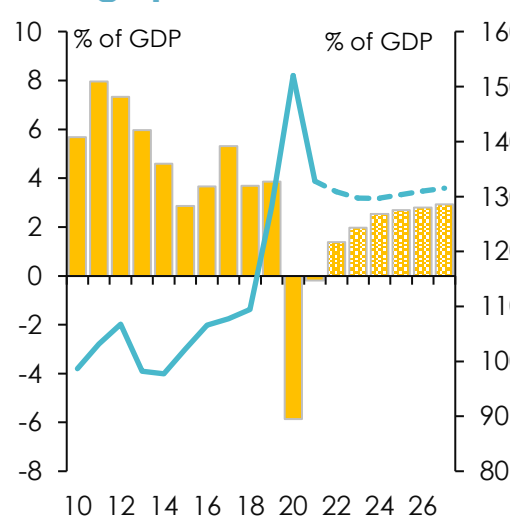
Vietnam



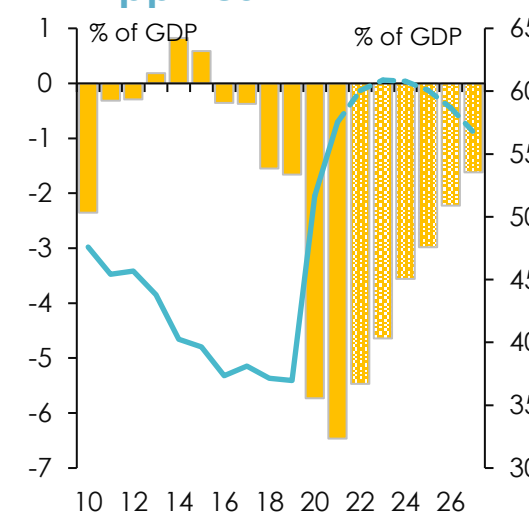
Taiwan



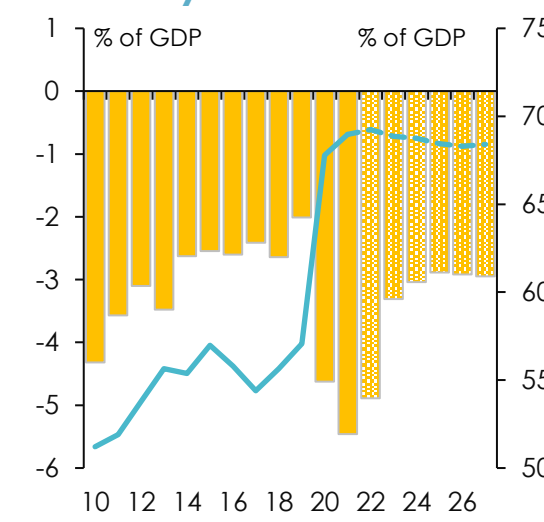
Singapore



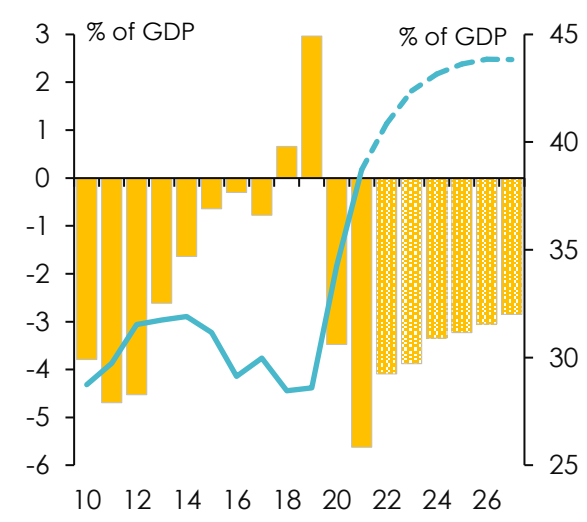
Philippines



Malaysia



Cambodia



General government overall fiscal balance (left scale)



General government gross debt (right scale)

Source: International Monetary Fund, [Fiscal Monitor](#), and [World Economic Outlook](#), April 2022. [Return to "What's New"](#)

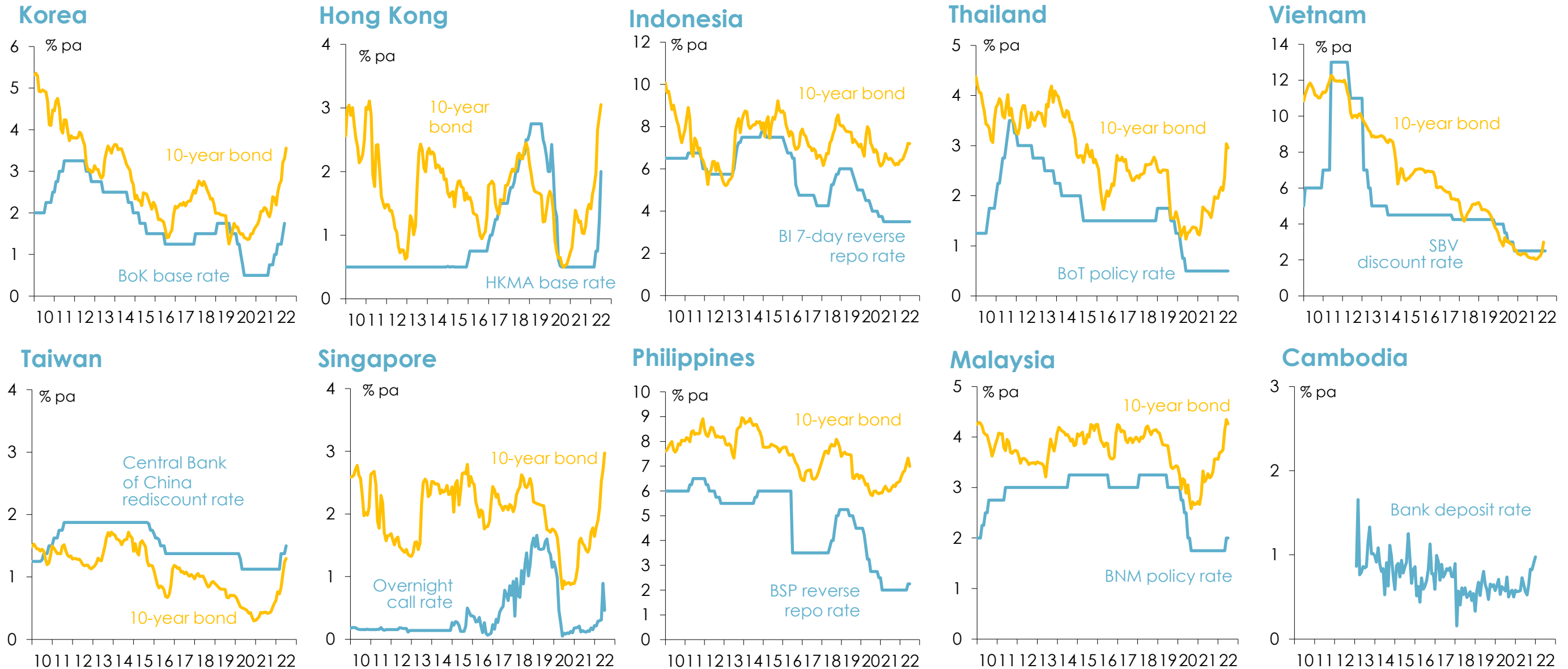
Taiwan's central bank lifted its policy rates by 12½ bp last Thursday, while the Hong Kong Monetary Authority followed the Fed in hiking by 75 bp

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

- ❑ The [Central Bank of the Republic of China \(Taiwan\)](#) raised its discount and refinancing rates by 12½ basis points, to 1.50% and 1.875%, respectively, at its Board meeting last Thursday
 - It also increased banks' reserve requirement ratios by 0.25 percentage points with effect from 1st July
- ❑ In its post-meeting [press release](#) the Board said it “judged that raising both the policy rates and the reserve requirement ratios would send a clear message that the Bank continues to adopt a monetary policy stance of tightening” which would in turn “help strengthen the policy effects and rein in domestic inflation expectations”
 - the CBC raised its forecasts for headline and core CPI inflation in 2022 to 2.83% and 2.42%, respectively (from 2.37% and 1.93% respectively at its March meeting) and lowered its forecast for Taiwan's real GDP growth to 3.75% (from 4.05%), with “continued demand for emerging technology applications and digital transformation-related products” buttressing Taiwan's export growth, and private consumption gradually picking up “once the domestic coronavirus outbreak eases”
- ❑ The [Hong Kong Monetary Authority](#) raised its base rate by 75 basis points, to 2.0%, on Thursday, following the 75bp hike in the US Fed funds rate the previous day
 - this adjustment is in accordance with the HKMA's “[pre-set formula](#)” under which the base rate is set at “either 50 basis points above the lower end of the prevailing target range for the US federal funds rate or the average of the five-day moving averages of the overnight and one-month Hong Kong Interbank Offered Rates (HIBORs), whichever is the higher”
- ❑ [Bank Indonesia](#)'s Board of Governors and [Bangko Sentral ng Pilipinas](#)' Monetary Board both meet this coming Thursday
 - BI is one of only three Asian central banks (along with Thailand's and Vietnam's) which is yet to begin raising interest rates, although it did lift banks' reserve requirements at its last meeting
 - BSP lifted its overnight repo rate for the first time (by 25 bp to 2.25%) at its last meeting in May

Taiwan's and Hong Kong's central banks lifted their policy rates last week, following the Fed's 75bp rate hike

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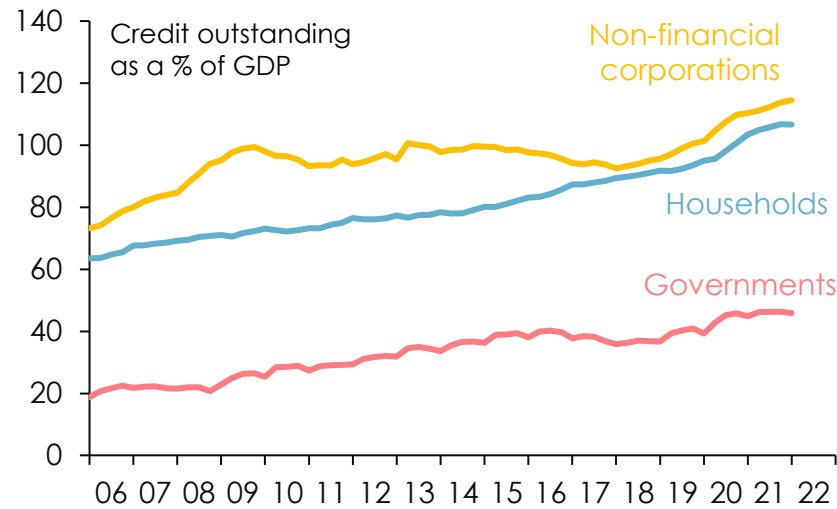


Note: Neither Hong Kong nor Singapore use a monetary policy indicator interest rate. Hong Kong has a currency board system, under which the HKMA base rate moves in line with a pre-set formula based on the US fed funds rate; the Monetary Authority of Singapore uses the (effective) exchange rate as its principal monetary policy instrument. The National Bank of Cambodia administers monetary policy primarily through changes in bank reserve requirement ratios. Data are monthly averages up to 3rd June 2022. Sources: national central banks; Refinitiv Datastream. [Return to "What's New"](#).

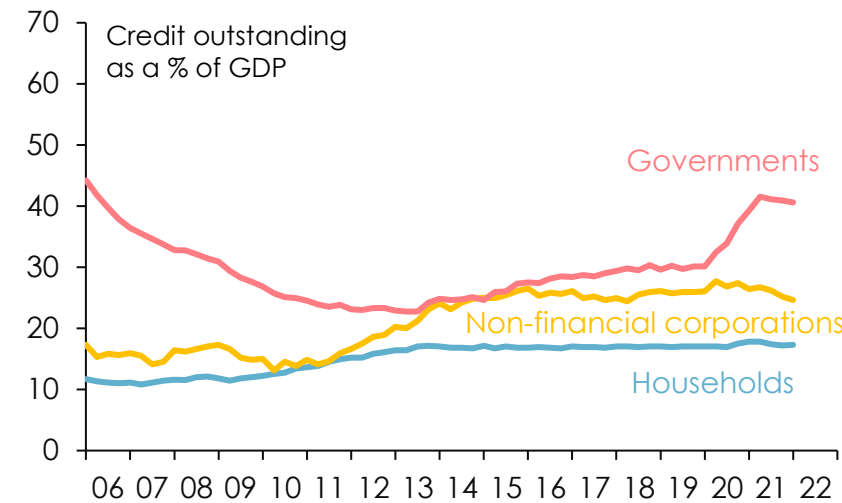
In Asia, Hong Kong, Singaporean and Korean corporates, and Korean households, have the greatest exposure to any increases in interest rates

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

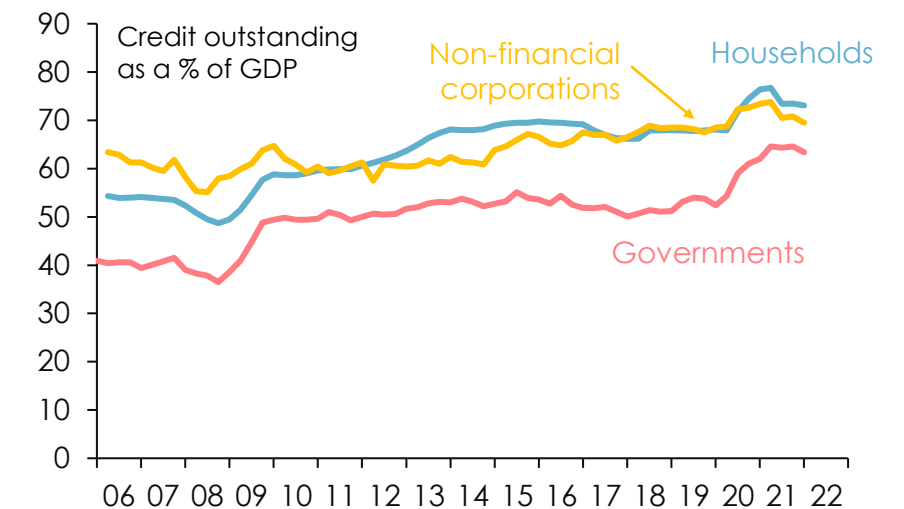
Korea



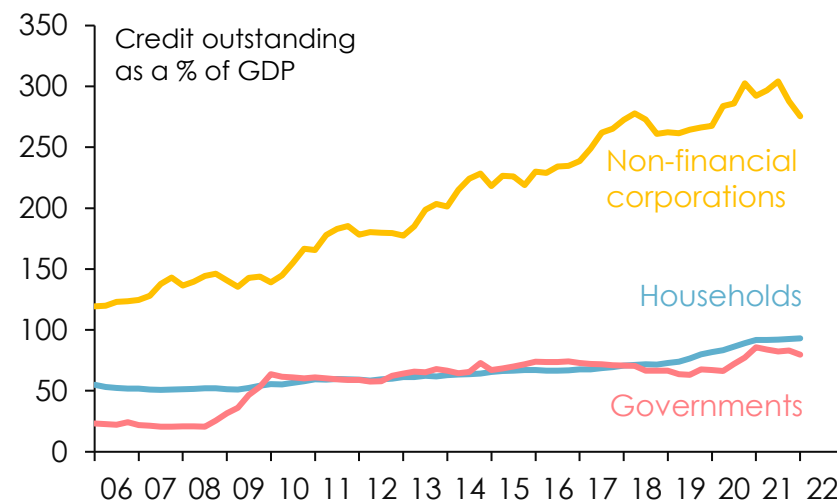
Indonesia



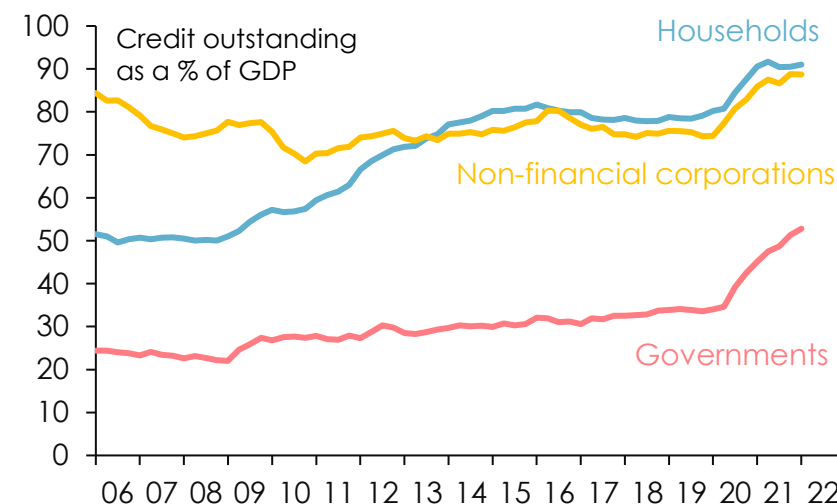
Malaysia



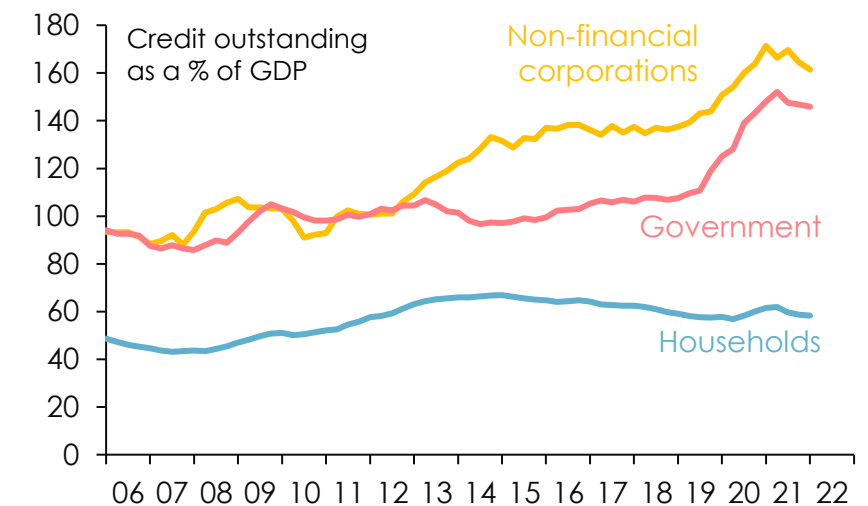
Hong Kong



Thailand



Singapore

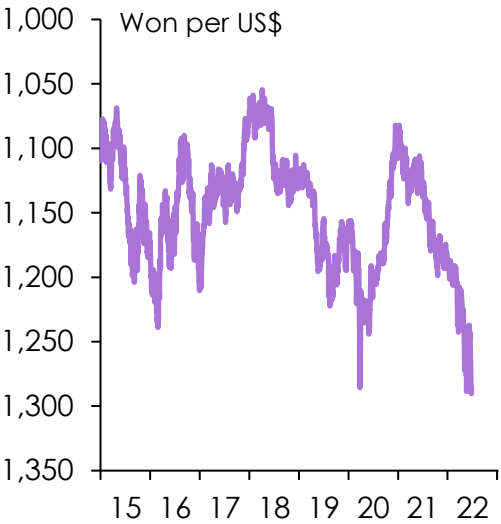


Source: Bank for International Settlements, [Credit Statistics](#); latest data are for Q4 2021, Q1 2022 data will be released in mid-September. [Return to "What's New"](#).

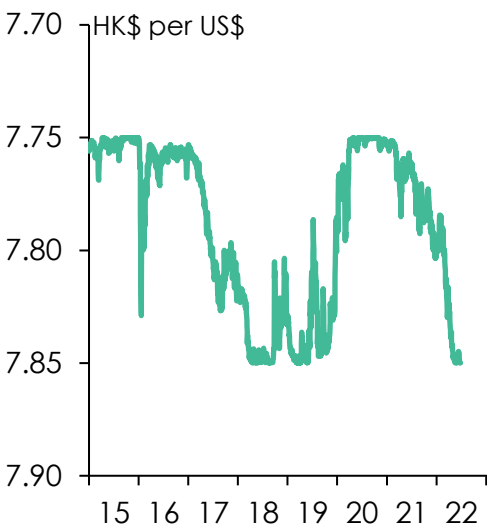
Asian currencies fell against a stronger US\$ over the past two weeks, with the won (down 3½%), the rupiah & the baht (down ~2½%) down the most

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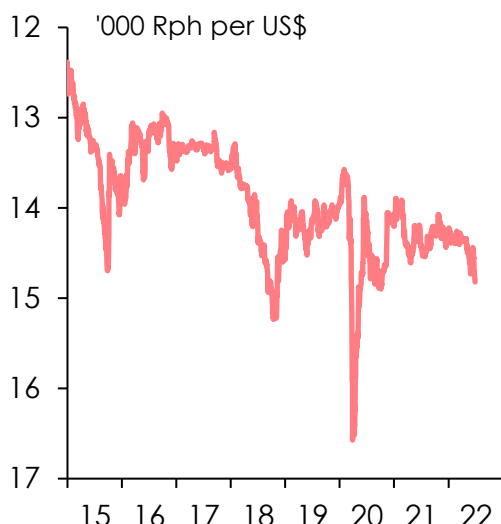
Korean won



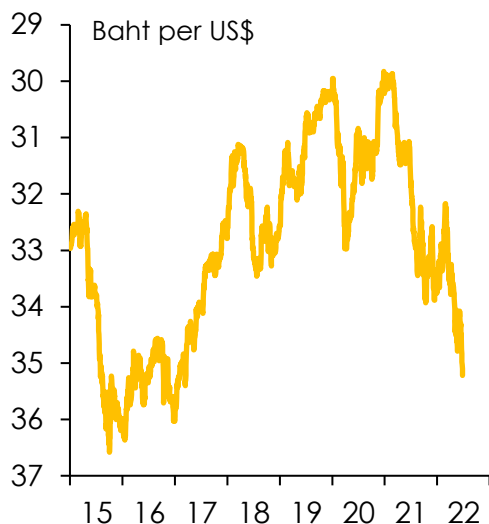
Hong Kong dollar



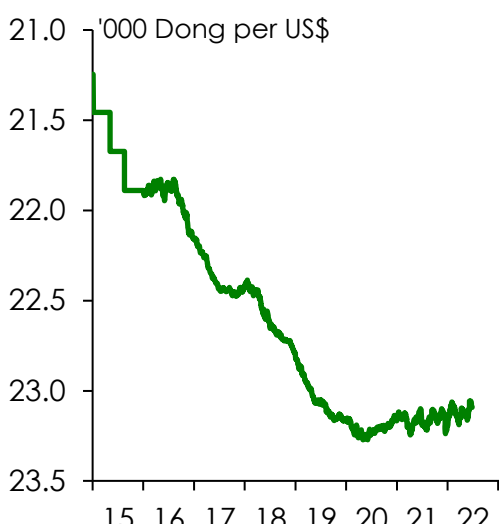
Indonesian rupiah



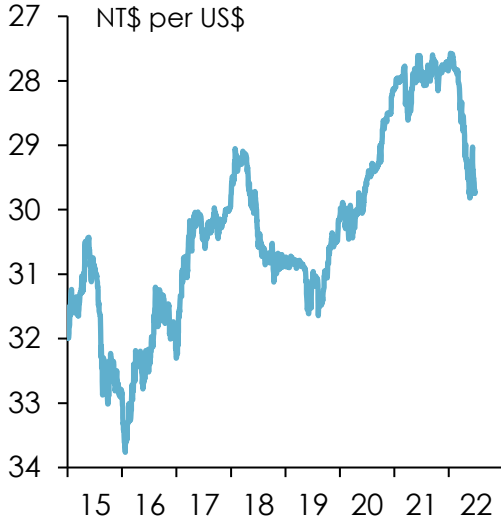
Thai baht



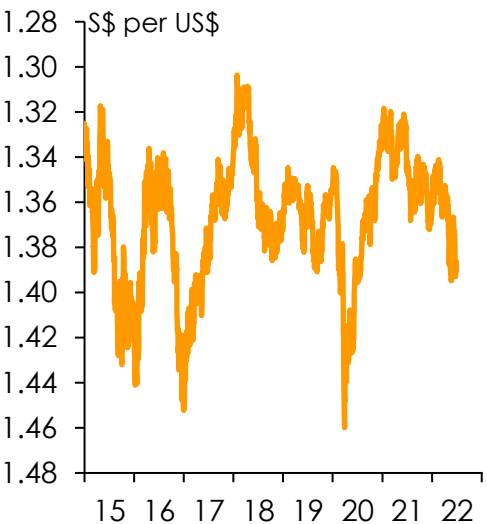
Vietnamese dong



New Taiwan dollar



Singapore dollar



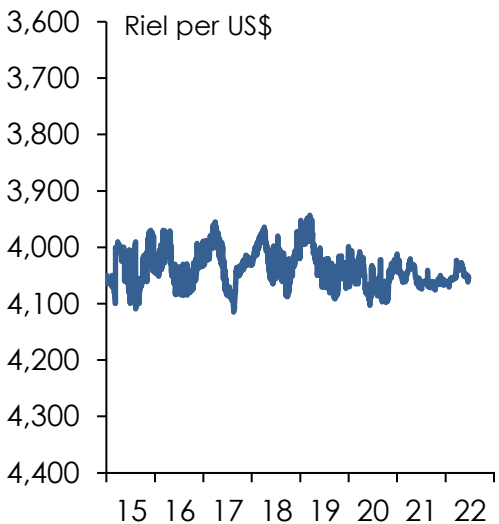
Philippine peso



Malaysian ringgit



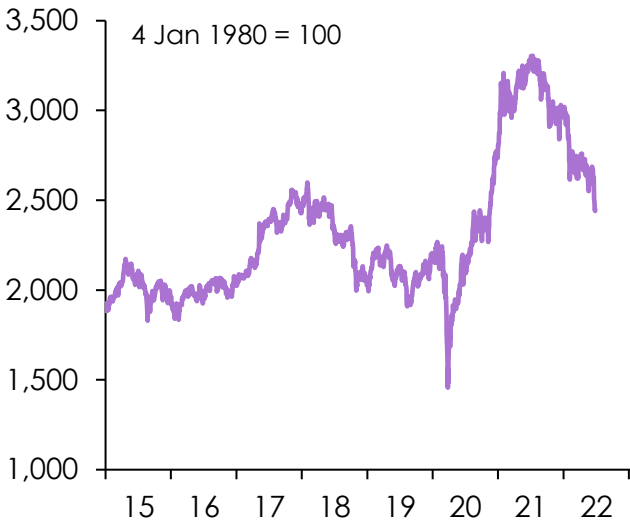
Cambodian riel



Asian stock markets fell between 3½% (Jakarta) and 8½% (Seoul) over the past two weeks – HK (already down 10½% this year) the only exception

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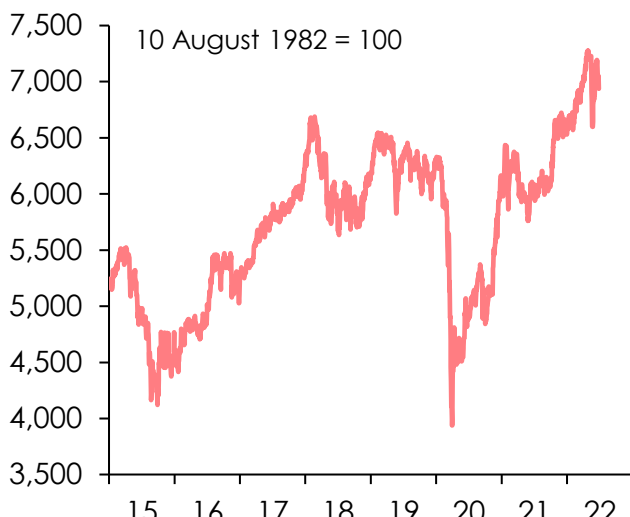
KOSPI



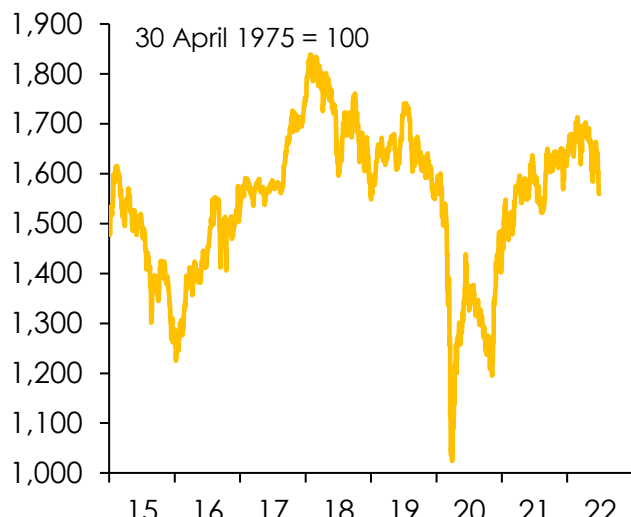
Hang Seng Index



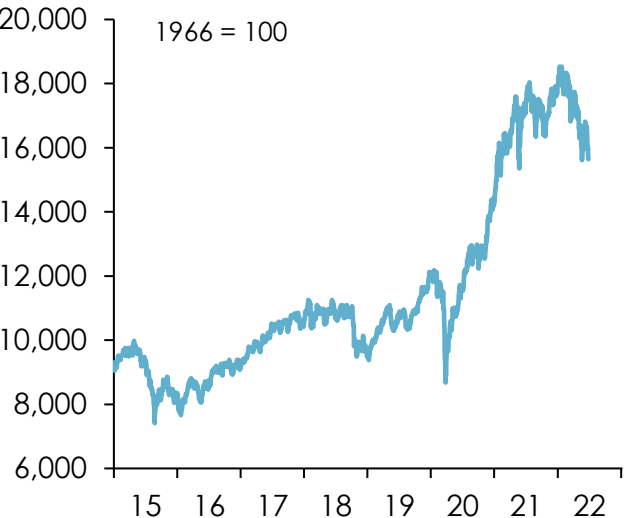
JCI



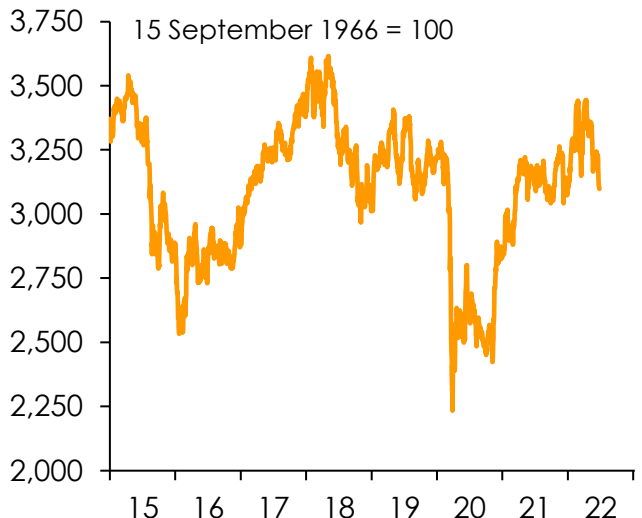
SETI



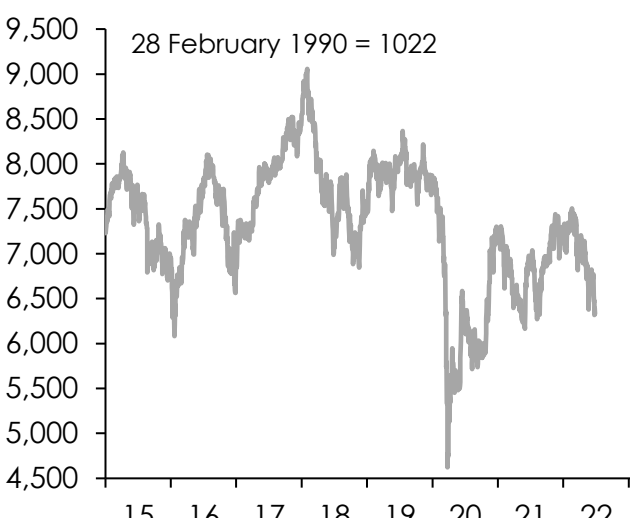
TAIEX



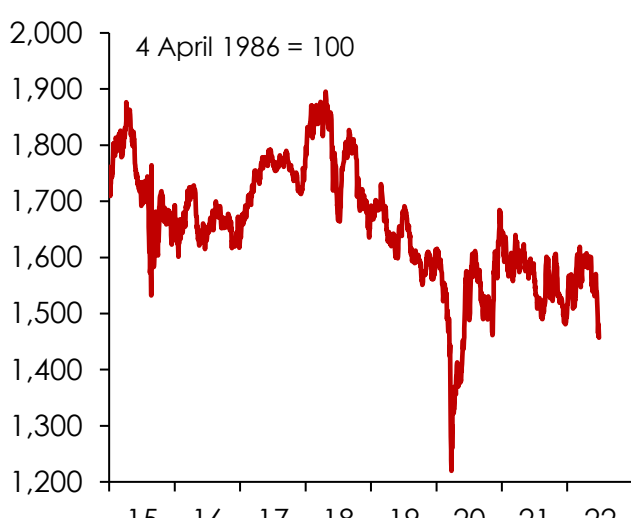
Straits Times Index



PSE i



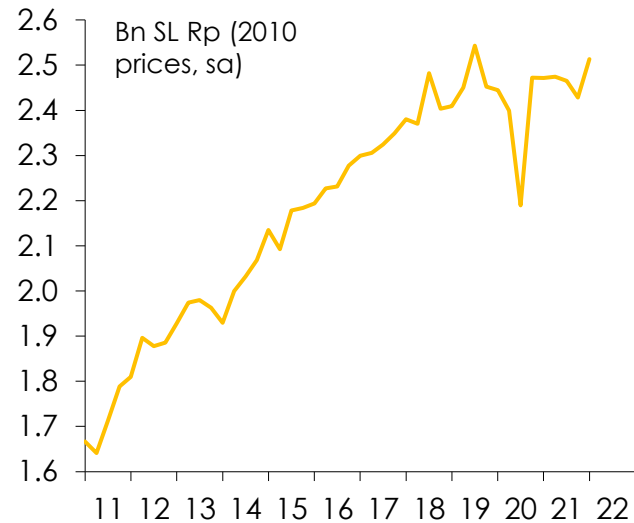
KLCI



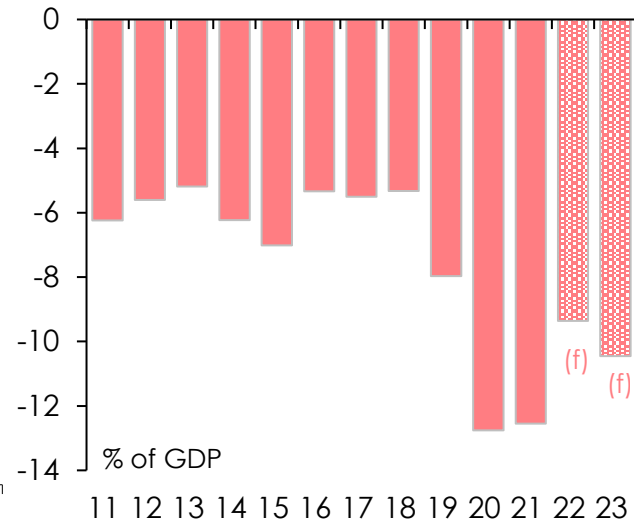
Sri Lanka's inflation rate jumped to 39% in May (with core inflation at 28%) following the sharp depreciation of its currency since early March

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

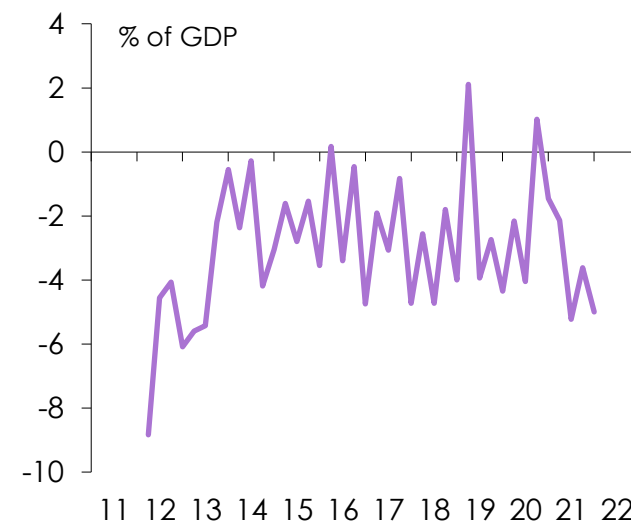
Real GDP



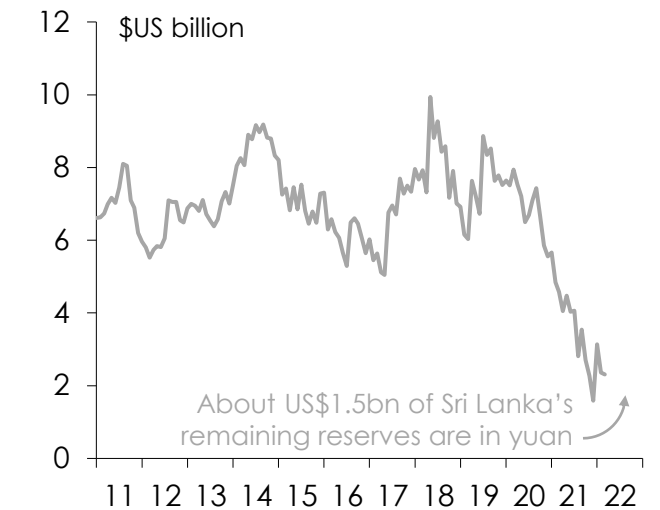
Fiscal balance



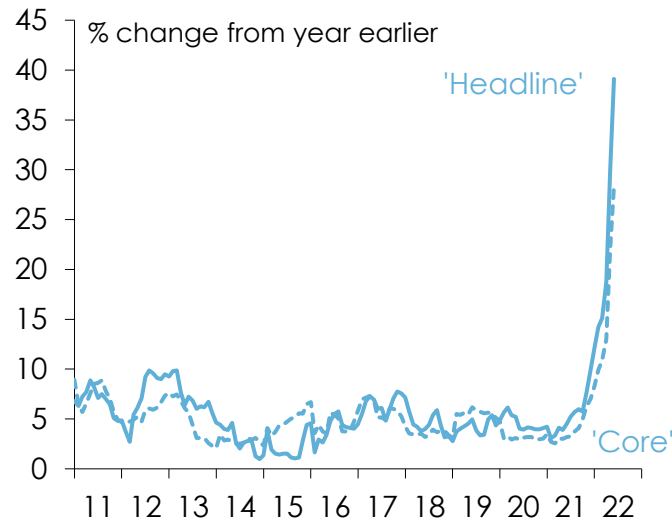
Current account balance



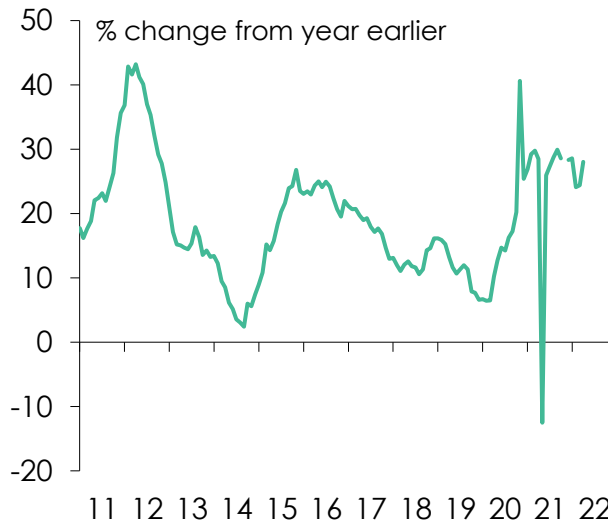
FX reserves



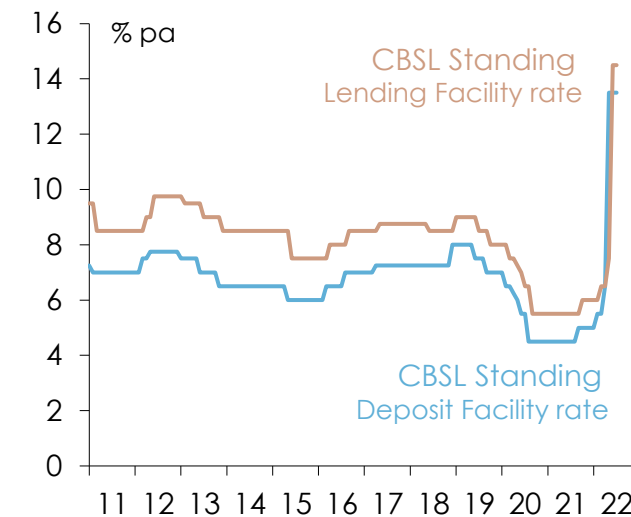
Consumer prices



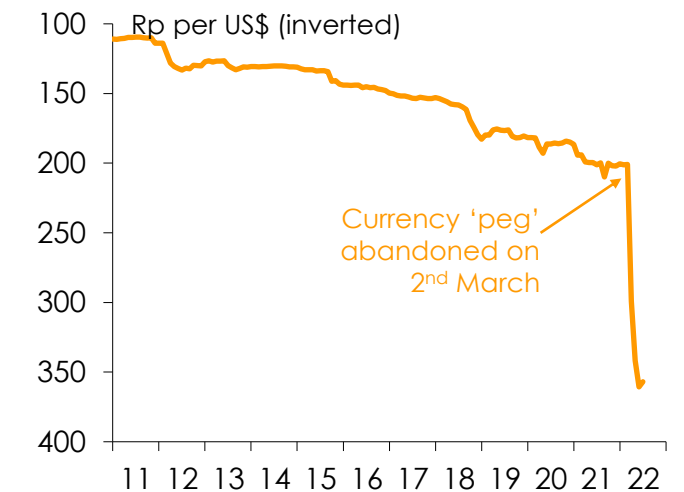
Credit growth



Interest rates



SL rupee vs US\$



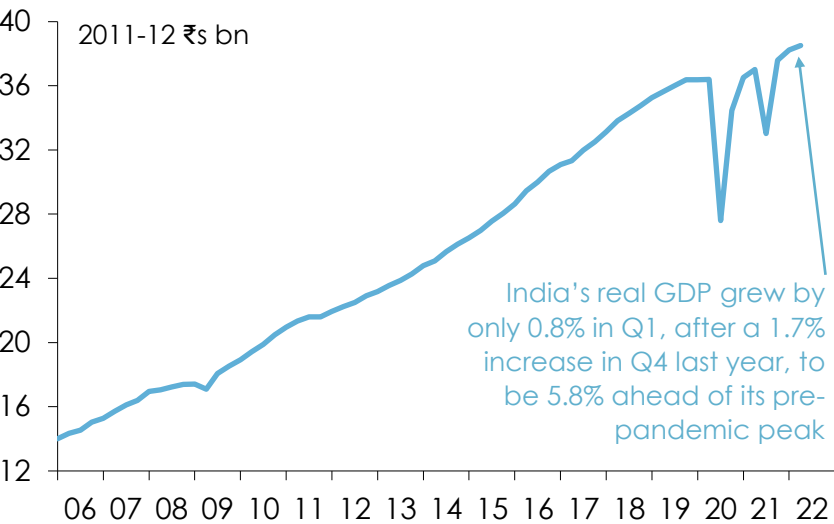
Note: GDP data seasonally adjusted using Refinitiv Datastream; CPI data are for Colombo. Sources: [Sri Lanka Department of Census and Statistics](#); [Central Bank of Sri Lanka](#); IMF, [Fiscal Monitor](#), April 2022; Refinitiv Datastream. [Return to "What's New"](#).

India

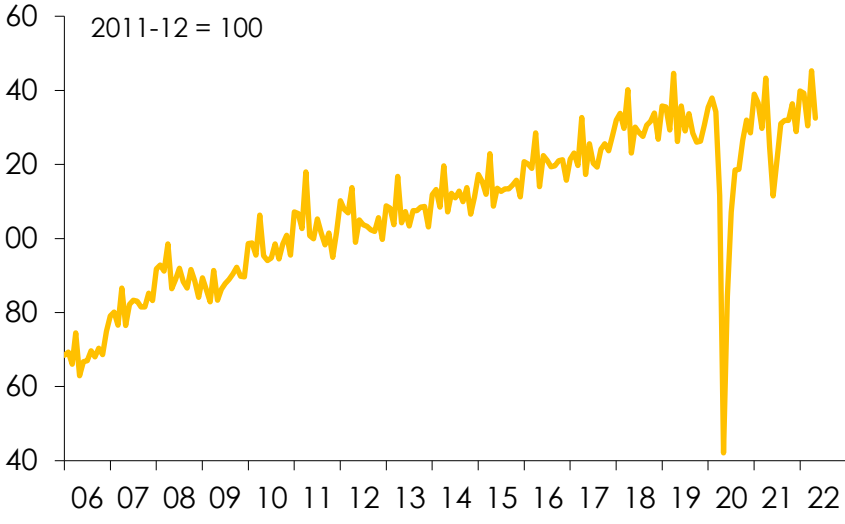
India's GDP growth rate has slowed sharply over the past two quarters, after bouncing strongly out of its second Covid recession in mid-2022

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

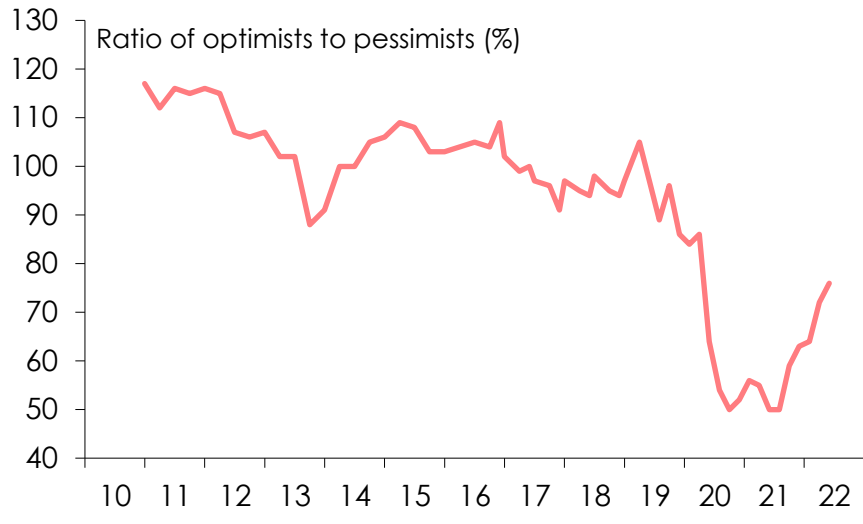
Quarterly real GDP



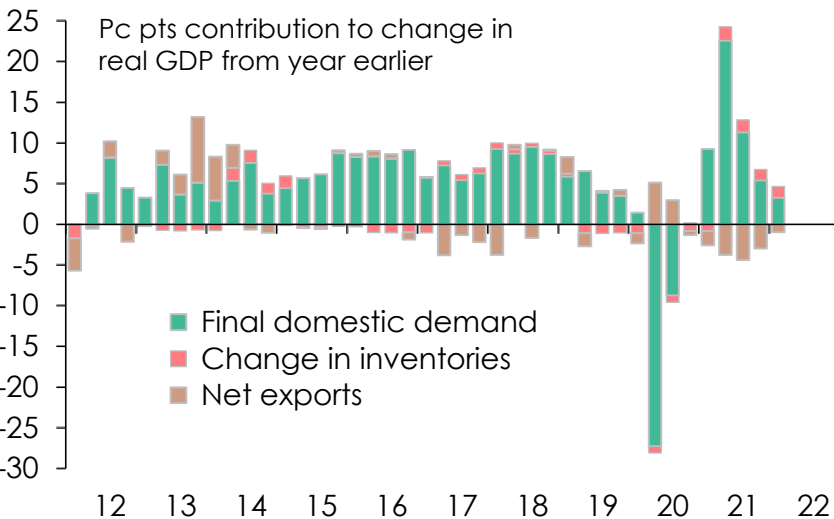
Manufacturing production



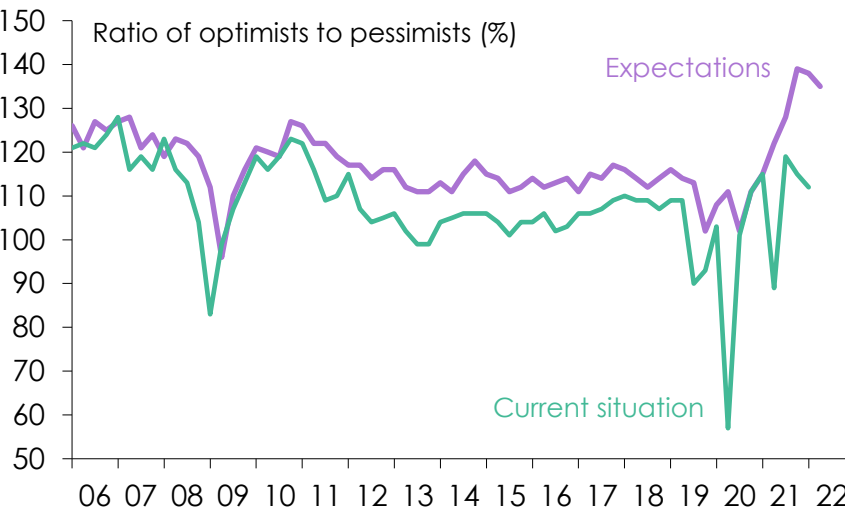
Consumer confidence



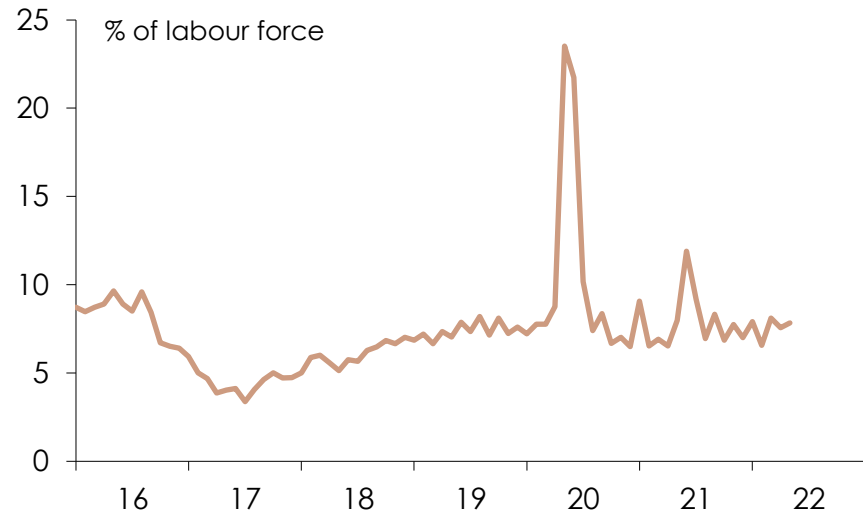
Contributions to real GDP growth



Industrial sector sentiment



Unemployment rate

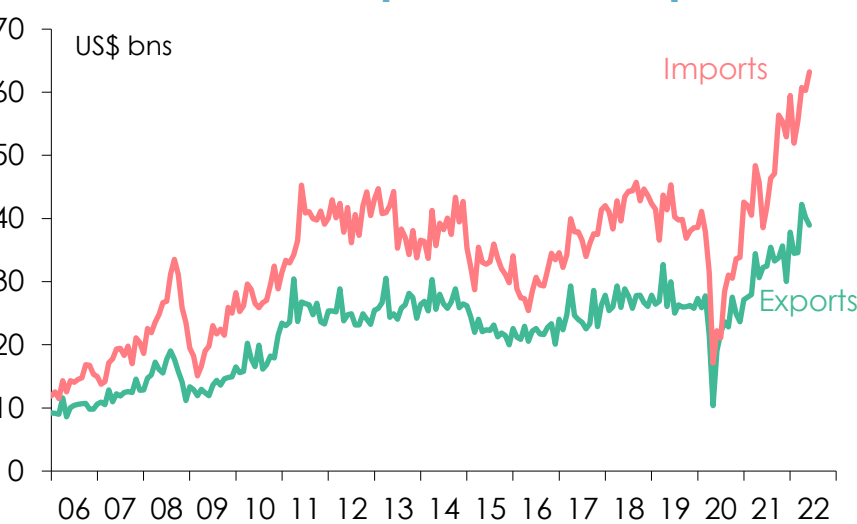


Sources: OECD, [Quarterly National Accounts dataset](#); Government of India, Ministry of Statistics and Programme Implementation, [National Accounts Data](#), and [IIP Data](#); Reserve Bank of India, [Quarterly Industrial Outlook Survey](#) and [Consumer Confidence Survey Bi-Monthly](#); Centre for Monitoring the Indian Economy, [Unemployment Rate in India](#).
[Return to "What's New"](#).

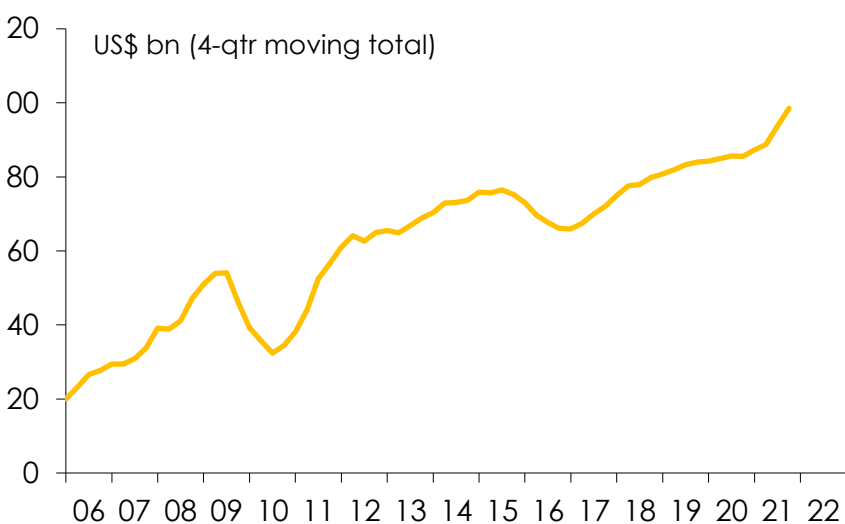
India's merchandise trade deficit has deteriorated sharply due to higher oil prices but its overall external position remains relatively stable

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

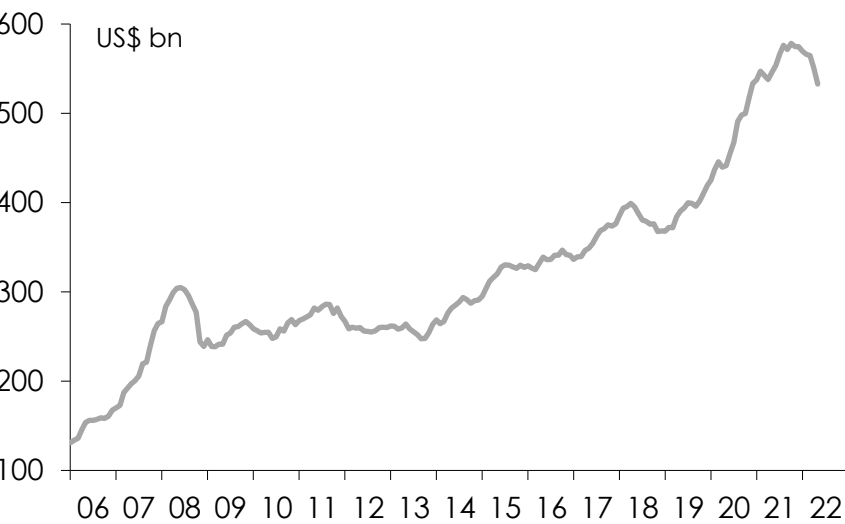
Merchandise exports and imports



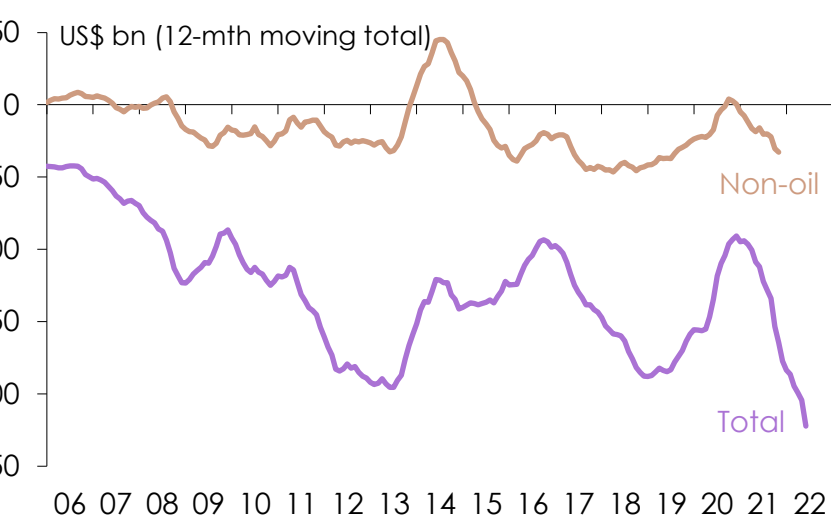
Services trade balance



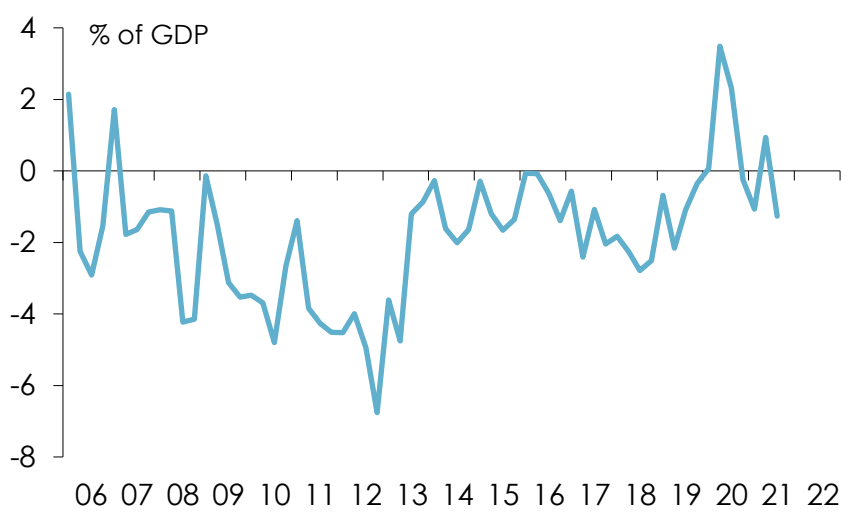
Foreign exchange reserves



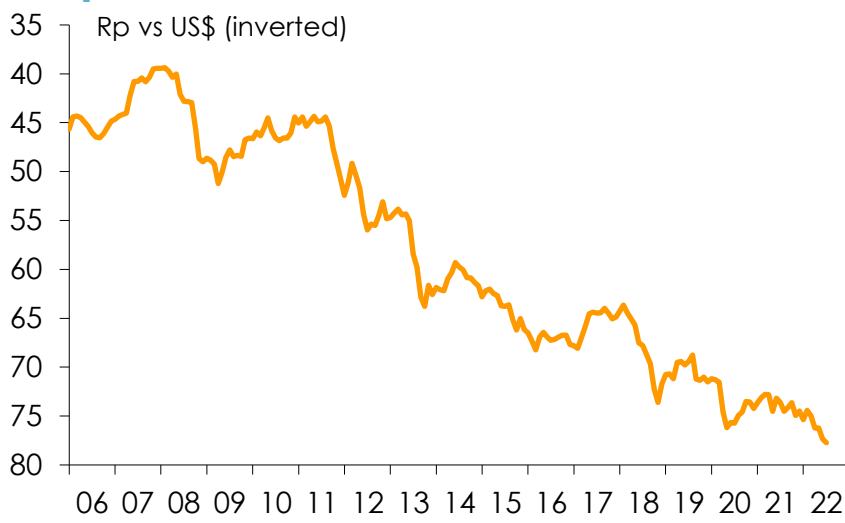
Merchandise trade balance



Current account balance



Rupee vs US dollar

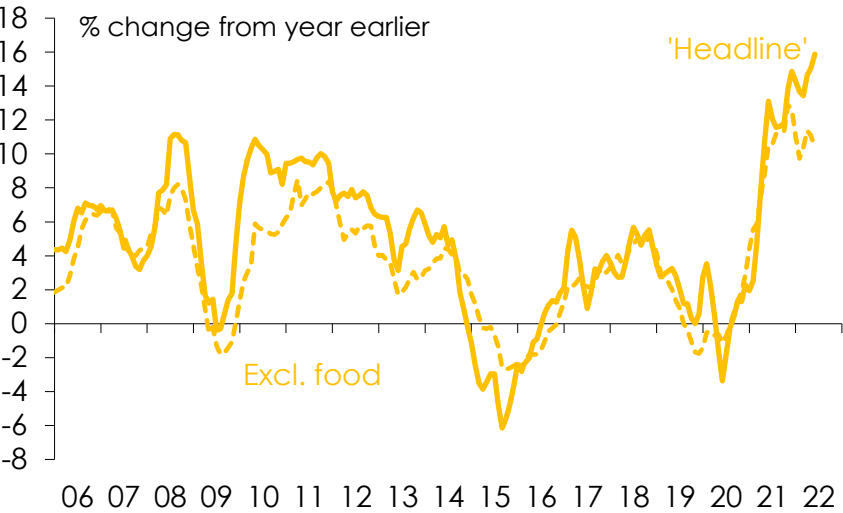


Sources: Government of India, Ministry of Commerce and Industry, [Trade Statistics](#); Reserve Bank of India, [Special Data Dissemination Standards - Balance of Payments](#) and [Weekly Statistical Supplement - Extract](#); Refinitiv Datastream. [Return to "What's New"](#).

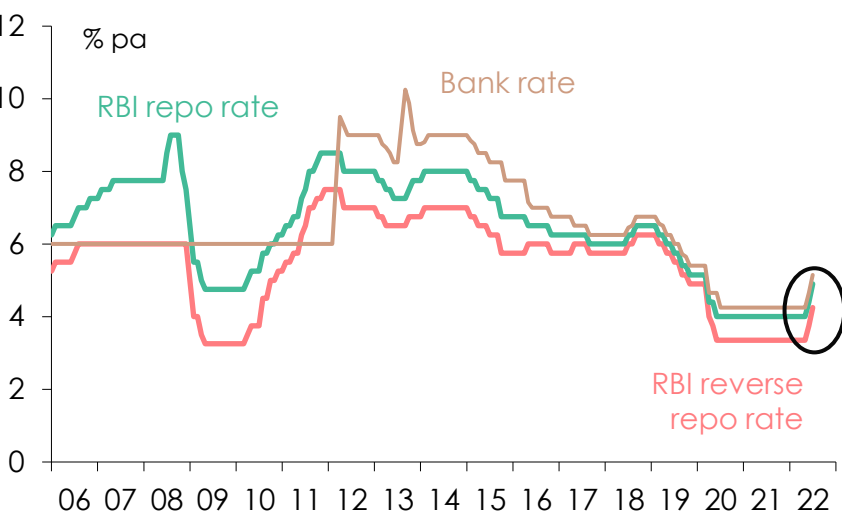
India's annual inflation rate eased slightly to 7.0% in May from 7.8% in April, but it's still well above the RBI's 2-6% target range

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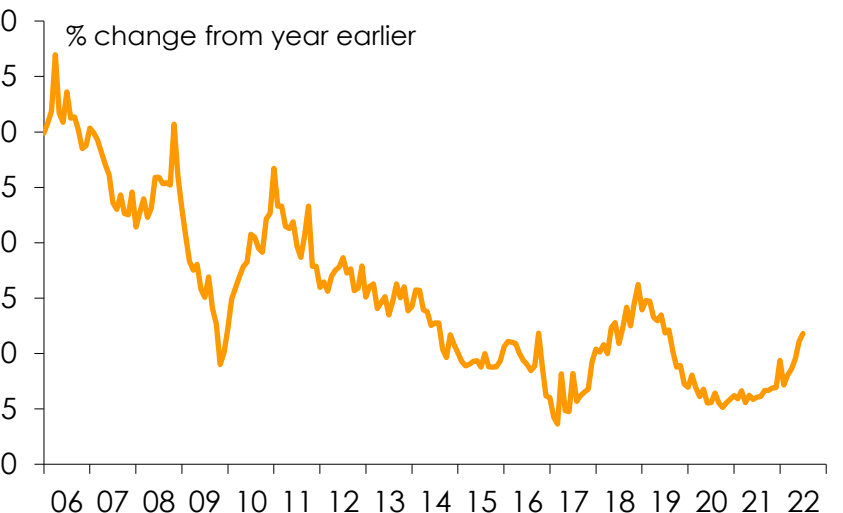
Wholesale prices



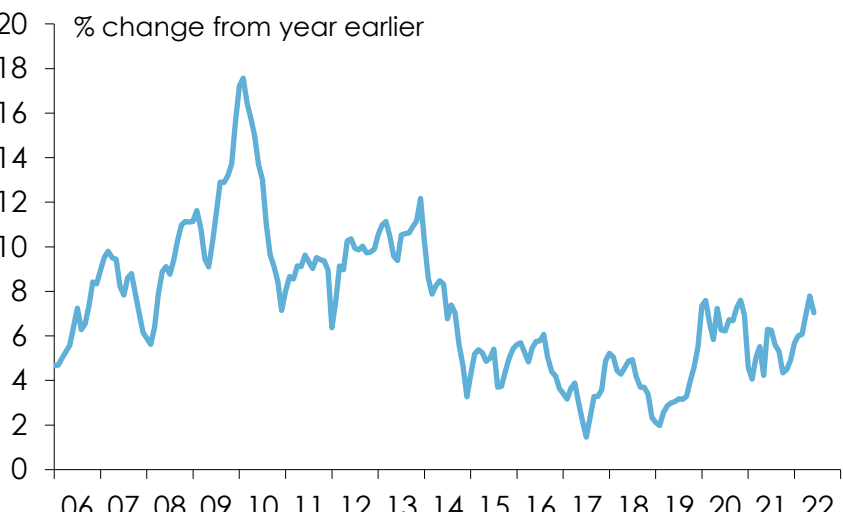
RBI policy interest rates



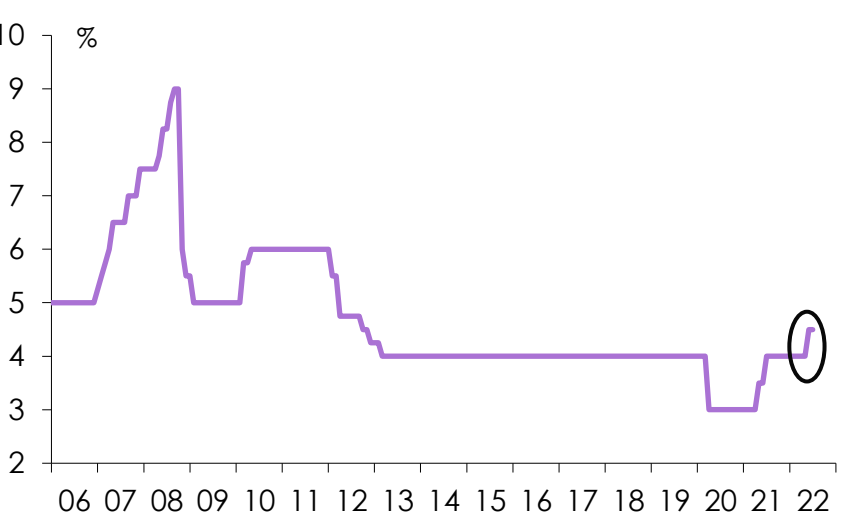
Bank lending



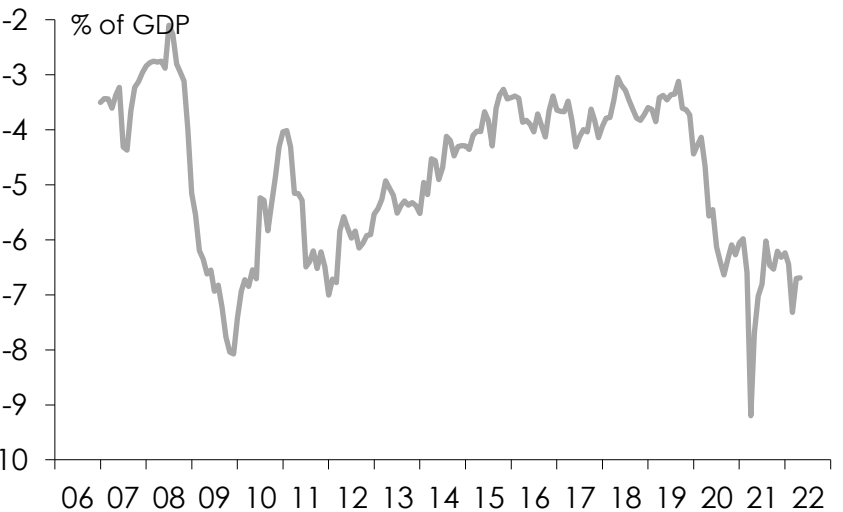
Consumer prices



RBI cash reserve ratio



Central government fiscal balance

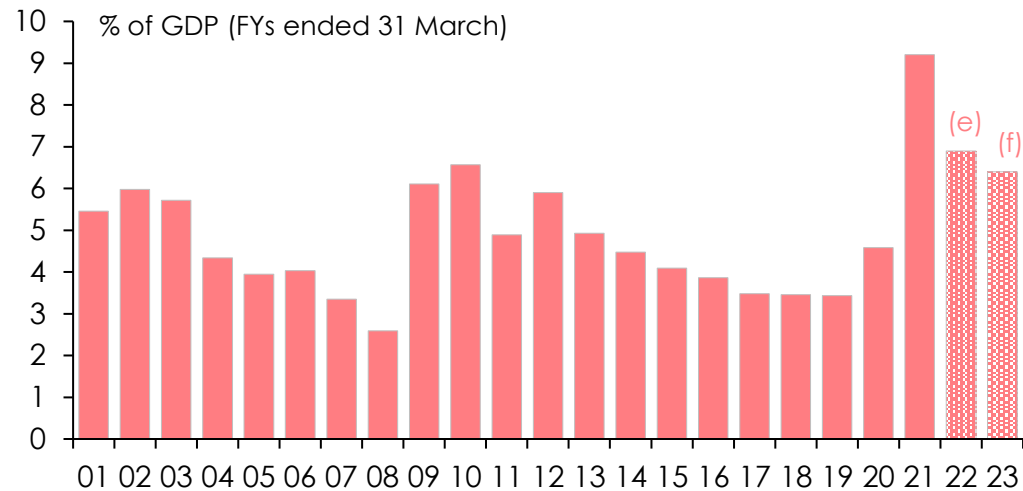


Note: The RBI's inflation target is 4% \pm 2 pc points. Sources: Government of India, Office of the Economic Adviser, Ministry of Commerce and Industry, [WPI Press Release](#); Ministry of Statistics and Programme Implementation, [CPI](#); Reserve Bank of India, [Monetary Policy](#) and [RBI Bulletin](#); Ministry of Finance, [Controller-General of Accounts](#).
[Return to "What's New"](#).

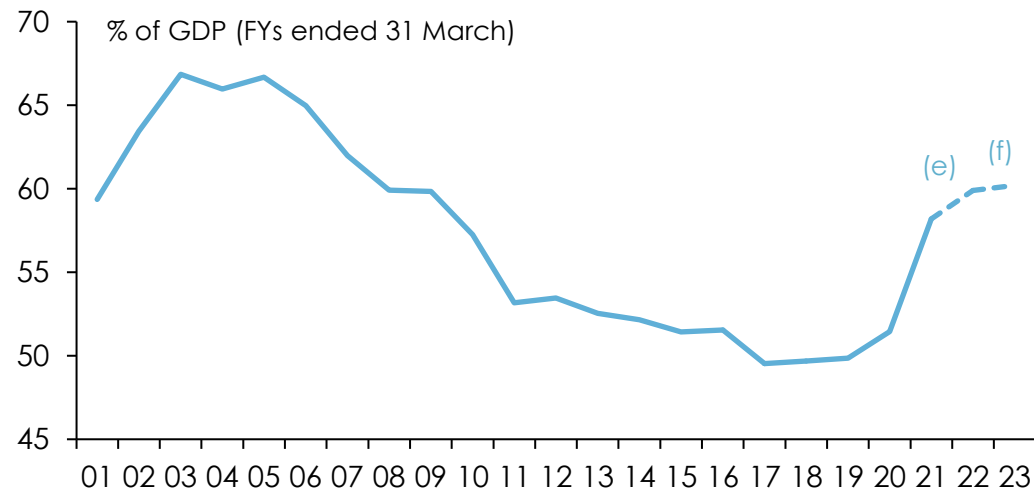
India's 2022-23 Budget maintains a deficit of over 6% of GDP in order to fund another large increase in capital spending

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Central government fiscal deficit



Central government gross debt



- ❑ Finance Minister Nirmala Sitharaman presented the Modi Government's 2022-23 Budget on Wednesday, 2nd February
- ❑ The main feature of the 2022-23 Budget is a projected 35.4% increase in capital outlays, which following an estimated 34.5% increase in FY 2021-22 will take total capital spending to ₹7.5 trn (2.9% of projected GDP) in FY 2022-23, more than double the level of capital spending in FY 2019-20
 - the [PM Gati Shakti](#) plan emphasizes roads, railways, airports, ports, ass transport, waterways, and logistics infrastructure
 - according to Ms Sitharaman's Budget Speech, "the virtuous cycle of investment requires public investment to crowd-in private investment", and "public investment must continue to take the lead and pump-prime the private investment and demand in 2022-23"
- ❑ The Budget included some protectionist measures, in particular the phasing out of customs duty exemptions for a range of capital goods, items used in major mining and infrastructure projects and "items which are or can be manufactured in India"
- ❑ The 'revenue deficit' (which excludes capital spending) is forecast to decline to 3.8% of GDP in FY 2022-23, from 4.7% of GDP in 2021-22 and 7.3% of GDP in 2021-22 – but, reflecting the increase in capital spending, the overall fiscal deficit will decline more modestly, to 6.4% of GDP in 2022-23 from 6.9% of GDP in 2021-22 and 9.2% of GDP in 2020-21
- ❑ Gross central government debt is forecast to rise to 60.2% of GDP by the end of FY 2022-23, from 59.9% of GDP at the end of the current fiscal year

Sources: Reserve Bank of India, [Handbook of Statistics on the Indian Economy](#); Government of India Ministry of Finance, [Budget at a Glance 2022-23](#); Nirmala Sitharaman, Minister of Finance, [Statement of Fiscal Policy as required under the Fiscal Responsibility and Budget Management Act 2003](#), February 2022. [Return to "What's New"](#).

Canada, Australia and New Zealand

The Reserve Bank of Australia raised its cash rate by a larger-than-expected 50 bp at its Board meeting two weeks ago

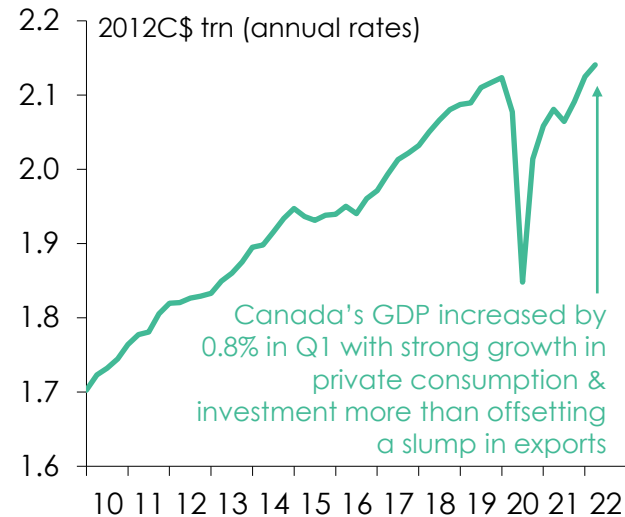
THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

- ❑ The [Reserve Bank of Australia](#) lifted its cash rate by 50 basis points (a larger-than-expected increase) at its Board meeting on 8th June ([slide 122](#))
 - RBA Governor Philip Lowe, in his [post-meeting press statement](#), characterized as “a further step in the withdrawal of the extraordinary monetary support that was put in place to help the Australian economy during the pandemic”
 - in a rare [TV interview](#) last week, Governor Lowe re-iterated that “Australians need to prepare for higher interest rates”, saying that it was “reasonable” for the cash rate to get to 2½% “at some point”, noting that this would be “a real interest rate of zero, which in historical terms is a very low number”, and that “over time we would want an inflation-adjusted interest rate to be more than zero”
- ❑ As expected, the [Bank of Canada](#) lifted its policy interest rate by 50 basis points, to 1.50%, at its Governing Council meeting on 1st June, following a similar move at its last meeting in April (which in turn followed an initial 25bp rise in March)
 - [explaining](#) its decision, the Governing Council said that “inflation continues to broaden” and that “the risk of elevated inflation becoming entrenched has risen”, with the Canadian economy “clearly operating in excess demand”
 - it said that “with inflation ... expected to move higher in the near term ... interest rates will need to rise further”
- ❑ The [Reserve Bank of New Zealand](#) raised its official cash rate by 50bp, to 2.0%, at its 25th May Monetary Policy Committee meeting – the sixth increase, for a total of 175bp, since October last year ([slide 123](#))
 - in its [Monetary Policy Statement](#) the MPC indicated that “monetary conditions need to act as a constraint on demand until there is a better match with New Zealand’s productivity capacity”, and that “raising the OCR by more and sooner was consistent with avoiding higher future costs to employment and the economy in general as a result of high inflation”
 - its latest projections imply a peak in the OCR at close to 4% in the second half of 2023, more than 50 bp higher than projected in its last MPS in February

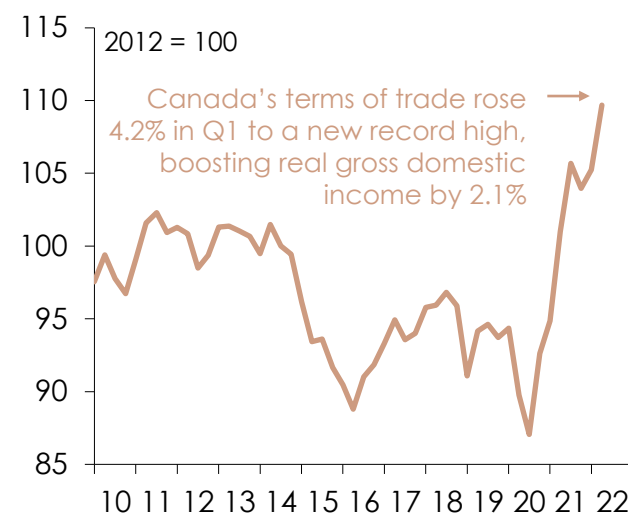
Canada's unemployment rate dropped another 0.1 pc pt in May to 5.1%, the lowest since June 1974

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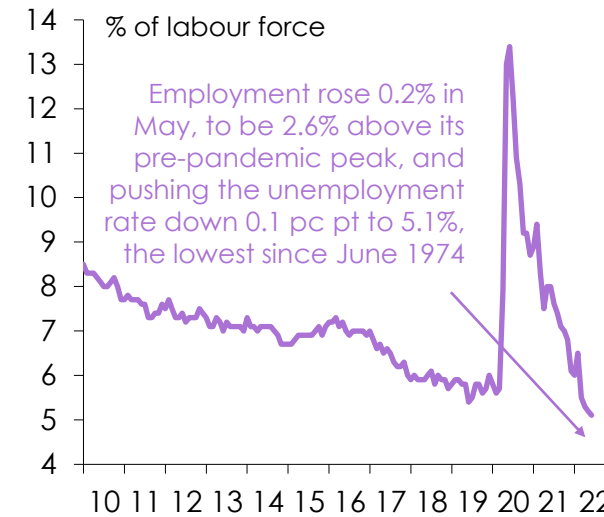
Real GDP



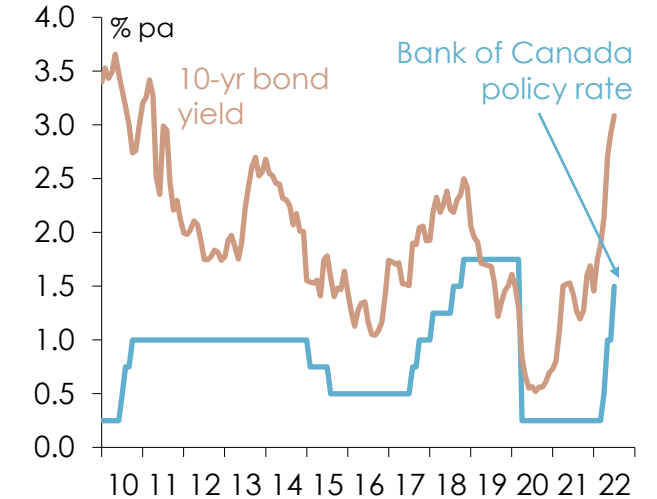
Terms of trade



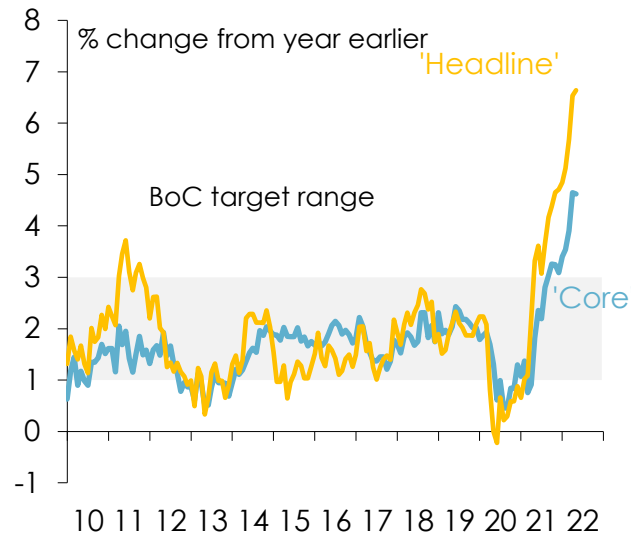
Unemployment



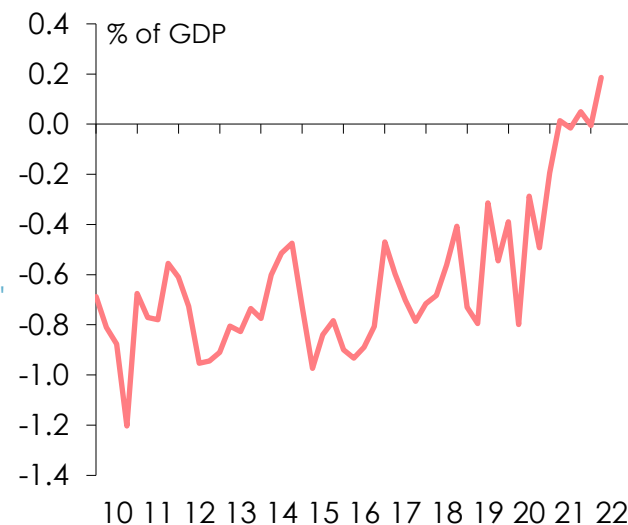
Interest rates



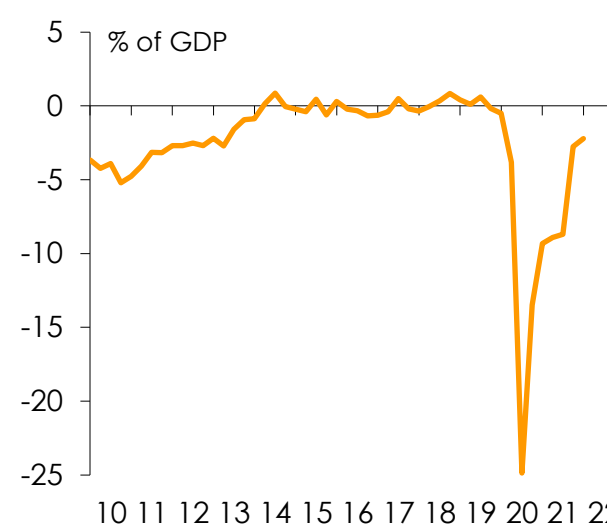
Consumer prices



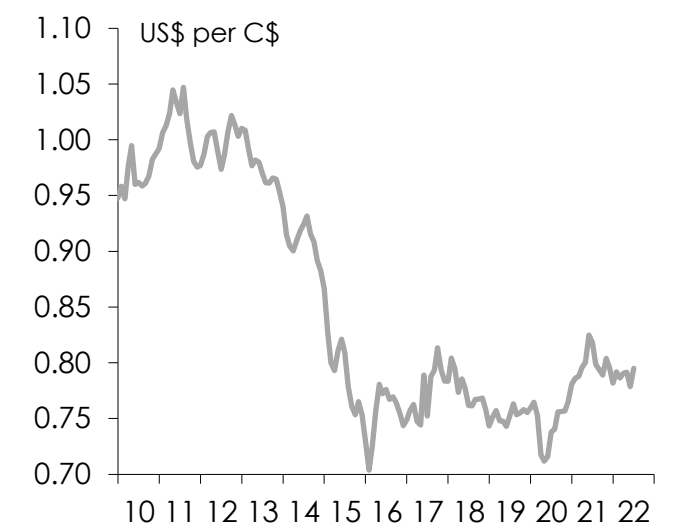
Current account balance



Government net lending



C\$ vs US\$

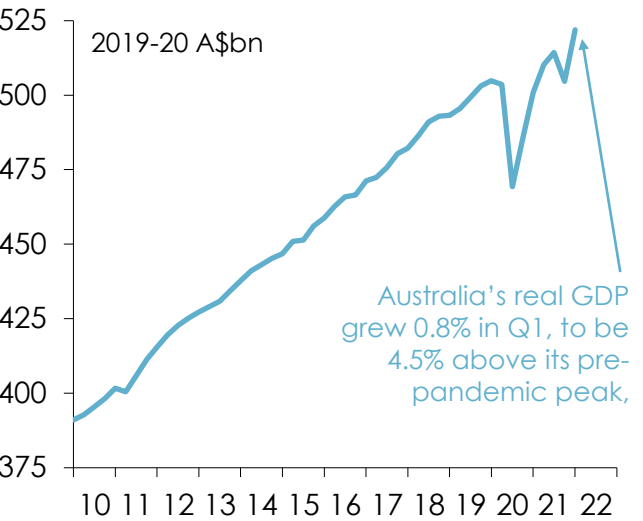


Sources: Statistics Canada, [National Gross Domestic Product \(GDP\) by Income and by Expenditure Accounts](#); [Consumer price index portal](#); [Canada's Balance of International Payments](#); [Labour Statistics](#); Bank of Canada, [Policy Interest Rate](#); Refinitiv Datastream. [Return to "What's New"](#).

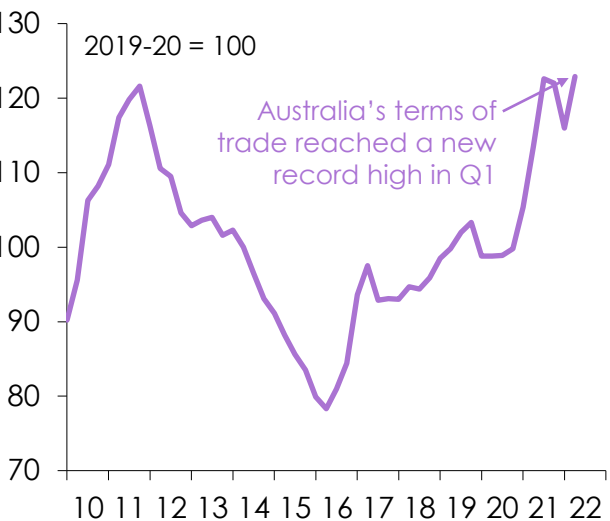
The RBA raised its cash rate by 50bp, to 0.85%, at its June board meeting, signalling much greater urgency in containing inflation pressures

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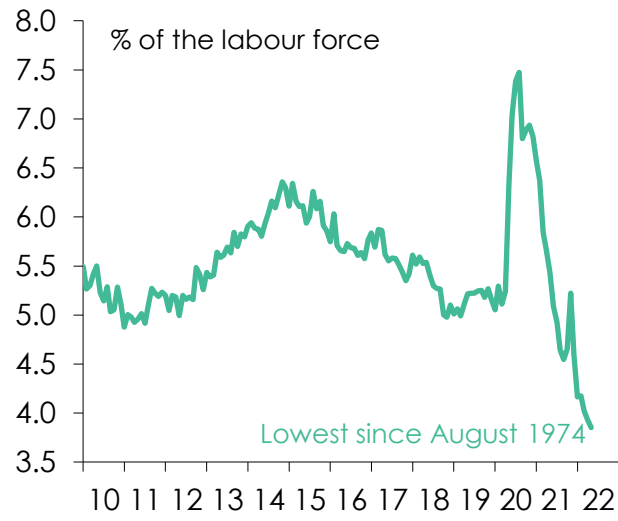
Real GDP



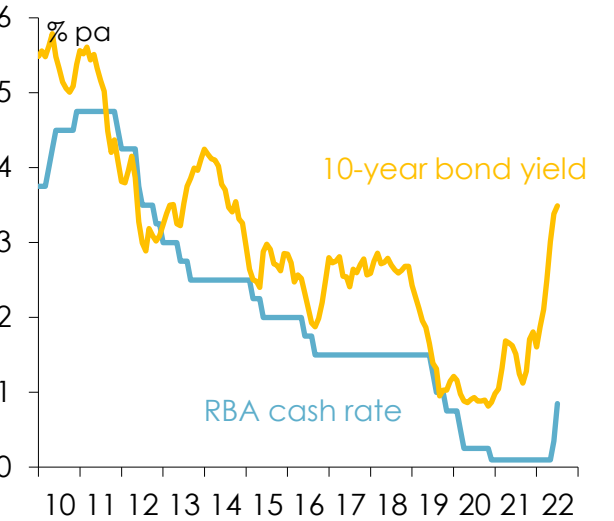
Terms of trade



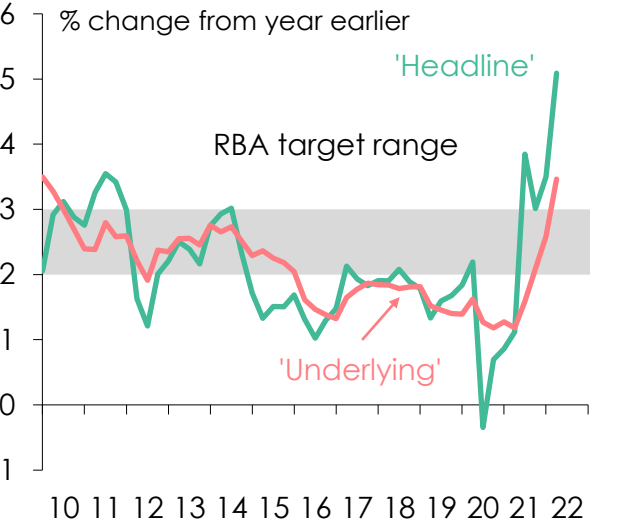
Unemployment



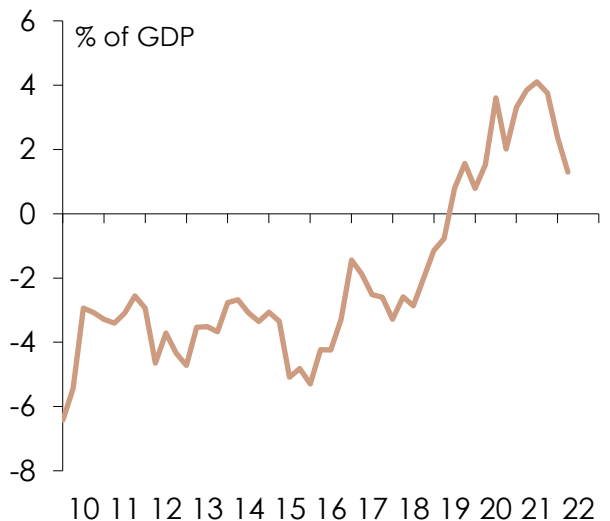
Interest rates



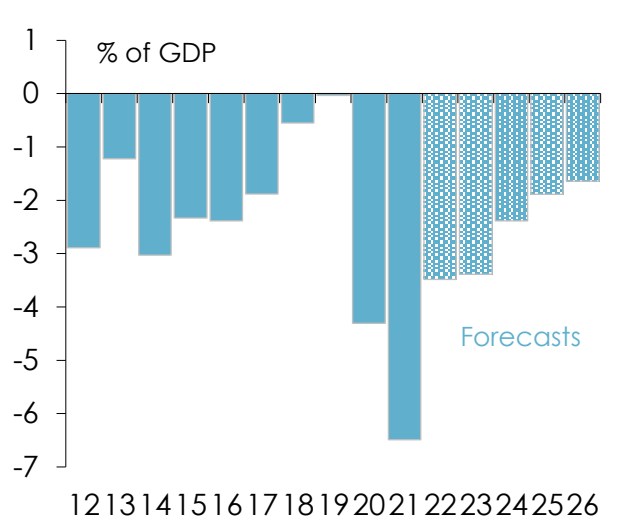
Consumer prices



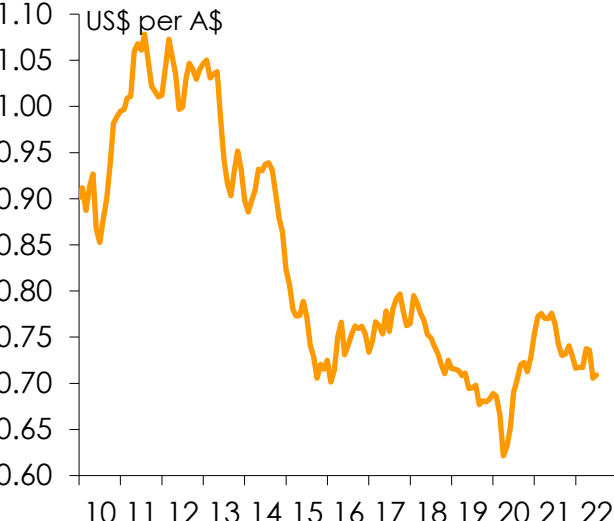
Current account balance



Government cash balance



A\$ vs US\$

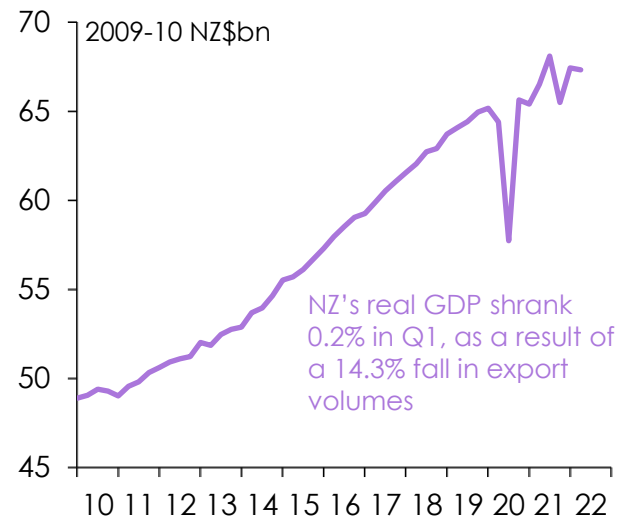


Note: The measure of 'underlying' inflation shown here is the trimmed mean. Government cash balance data are for fiscal years ended 30th June. Sources: Australian Bureau of Statistics, [Australian National Accounts: National Income, Expenditure and Product](#); [Consumer Price Index](#); [Balance of Payments and International Investment Position](#); [Labour Force](#); [Australian National Accounts: Finance and Wealth](#); Reserve Bank of Australia, [Monetary Policy Changes](#); Refinitiv Datastream. For more detailed coverage of Australia see [The Australian Economy this Week](#). [Return to "What's New"](#).

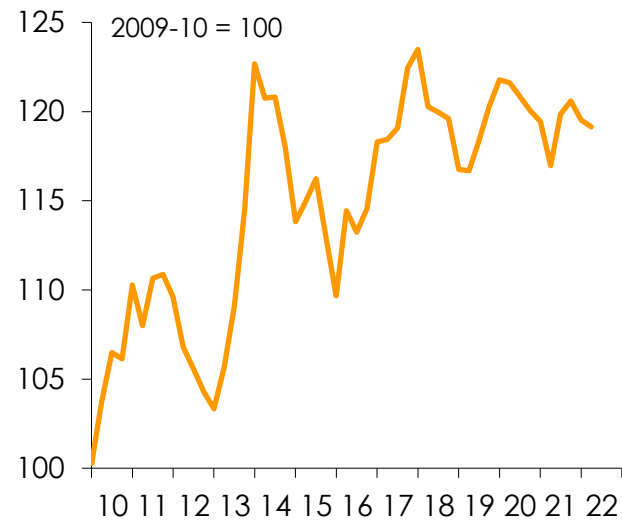
New Zealand's real GDP unexpectedly shrank 0.2% in Q1, with a 14.3% slump in export volumes outweighing 3.3% growth in domestic demand

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

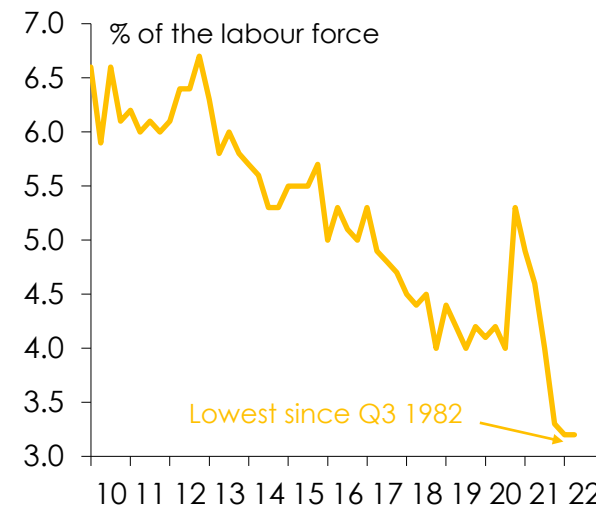
Real GDP



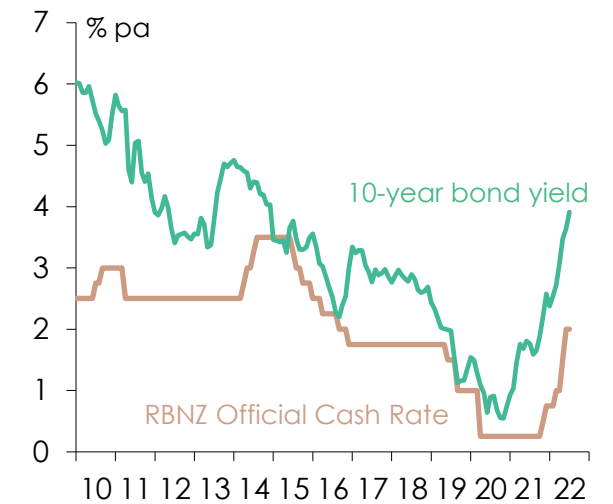
Terms of trade



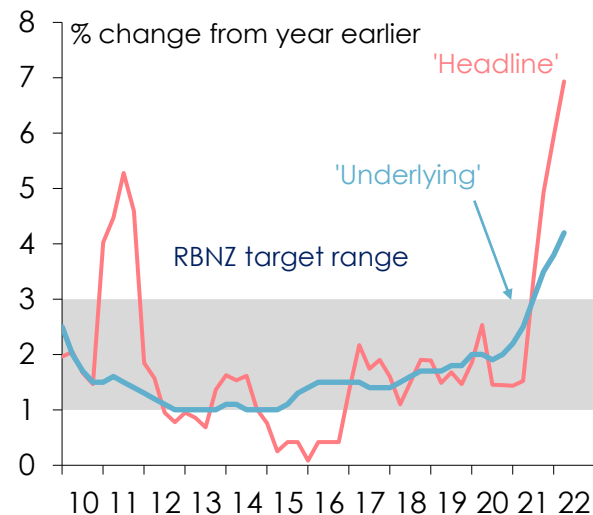
Unemployment



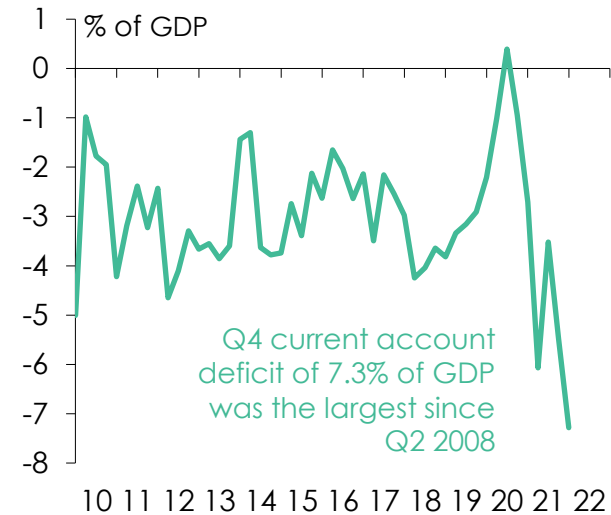
Interest rates



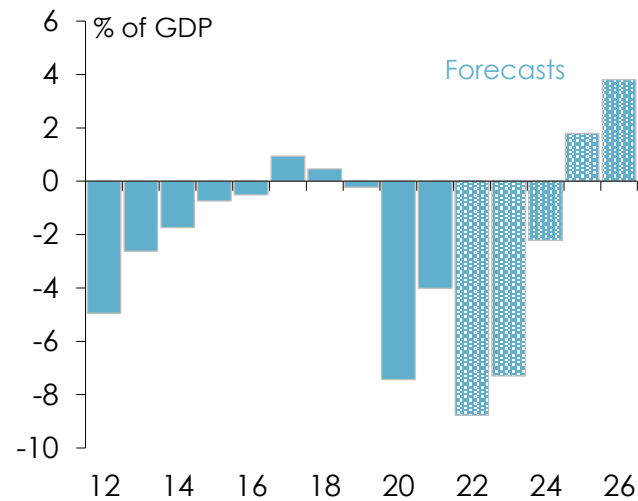
Consumer prices



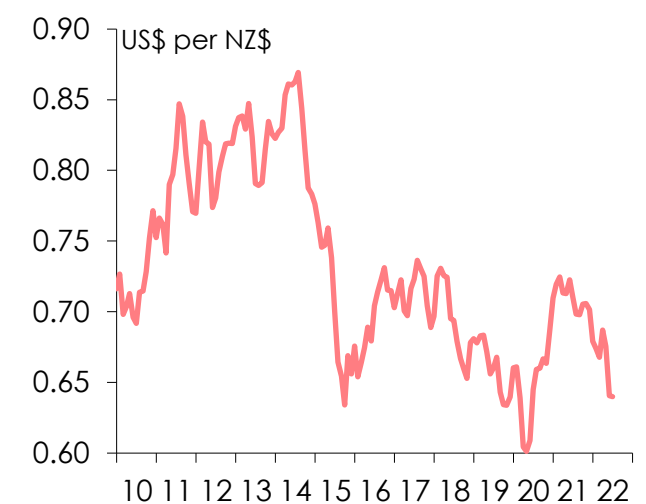
Current account balance



Government cash balance



NZ\$ vs US\$



Note: The most commonly-used measure of real GDP in New Zealand is the production-based measure. The measure of 'underlying' inflation shown here is the RBNZ's [sectoral factor model](#). Government cash balance data are for fiscal years ended 30th June. Sources: Statistics NZ, [Gross domestic product](#); [Consumers price index](#); [Balance of payments](#); and [Labour market](#); RBNZ, [Prices \(M1\)](#); NZ Treasury, [Budget Economic and Fiscal Update 2022](#); Refinitiv Datastream. [Return to "What's New"](#).

The rest of the world

Brazil's central bank raised its policy rate by another 50 bp last Wednesday, while the week before Poland's central bank raised its rates by 75bp

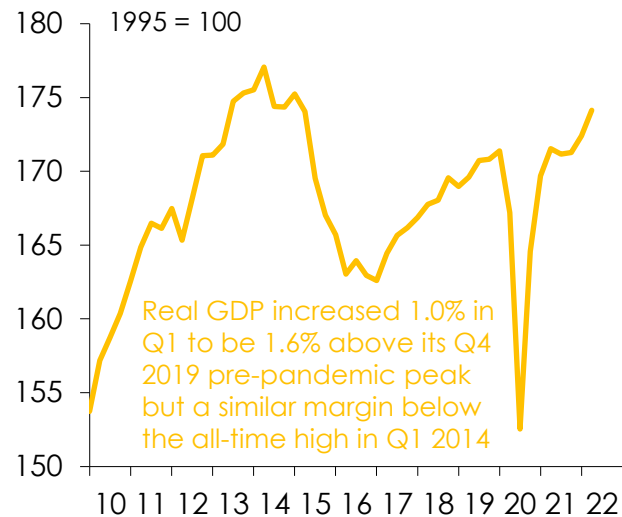
THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

- ❑ **Banco Central do Brasil** raised SELIC rate by 50 basis points, to 13.25%, at its Copom meeting last Wednesday (slide 129)
 - this was the smallest of what have now been 11 increases (totalling 1125 bp) in the SELIC rate since March last year, reflecting what Copom described as the “the growing uncertainty of the current scenario” which “requires serenity when evaluating the risks”, and which “coupled with the advanced stage of the current monetary policy cycle, and its impacts yet to be observed”, call for “additional caution in its actions”
 - nonetheless, Copom also judged that “given its inflation projections and the risk of a deanchoring of long-term expectations, it is appropriate to continue advancing in the process of monetary tightening significantly into even more restrictive territory”
 - it foreshadowed a further increase in the SELIC rate, “of the same or lower magnitude”, at its next meeting
- ❑ **Narodowy Bank Polski** (Poland's central bank) raised its reference and Lombard rates by 75bp, to 6% and 6.5%, respectively, at its Monetary Policy Council meeting on 8th June (slide 129)
 - this was the ninth consecutive increase in NBP's policy interest rates, by a total of 590 bp, since October last year
 - explaining its latest decision, the MPC said “there persists a risk of inflation [which reached 13.9% in May] running above the NBP target [of 2½% ± 1 pc pt] in the monetary policy transmission horizon”
 - while the “elevated inflation results mainly from a strong rise in global energy and agricultural commodity prices”, the MPC also observed that “employment continues to increase accompanied by a further fall in unemployment and a marked rise in wages” and that “continued robust demand which enables enterprises to pass rising costs on to final prices has also had a positive contribution to price growth”

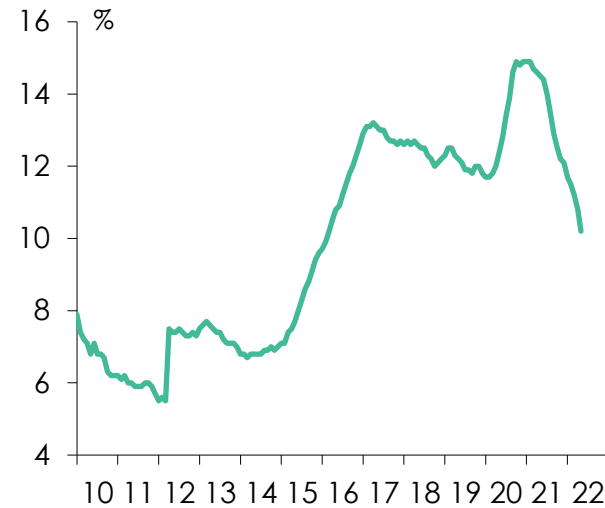
Brazil's central bank raised its policy (SELIC) rate another 50 bp, to 13.25%, last week

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

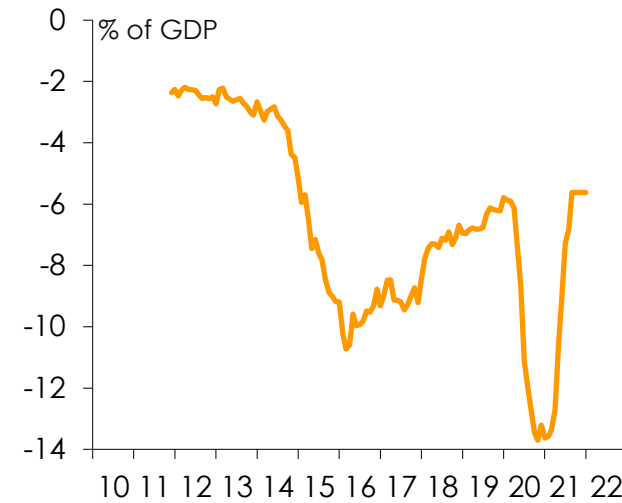
Real GDP



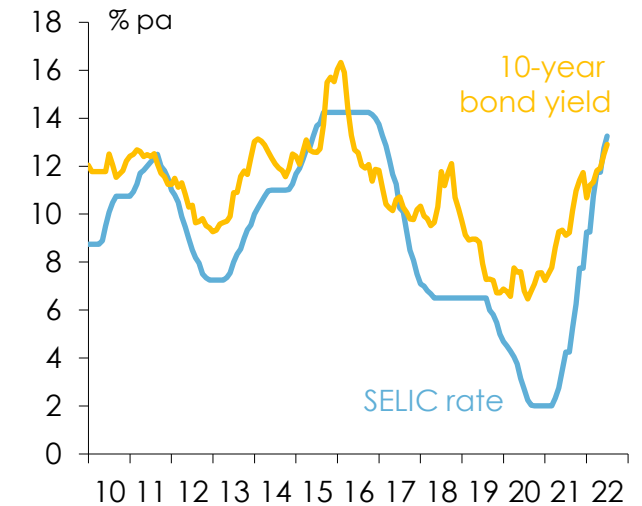
Unemployment



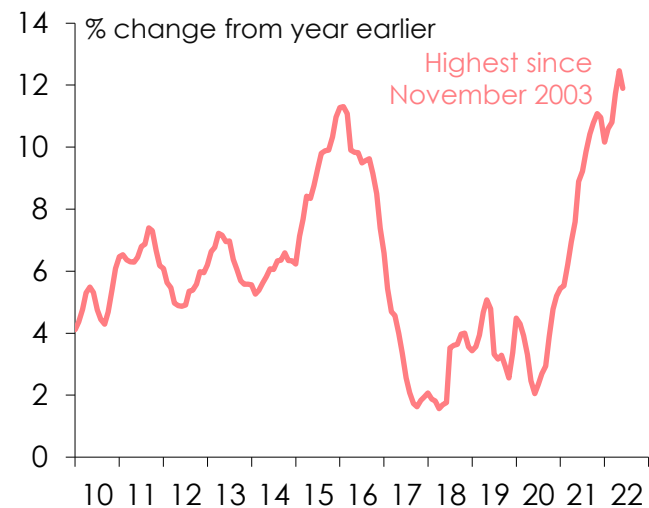
Public sector borrowing



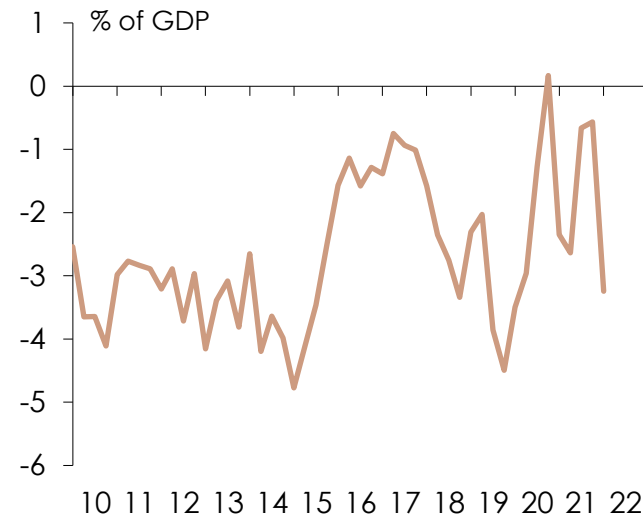
Interest rates



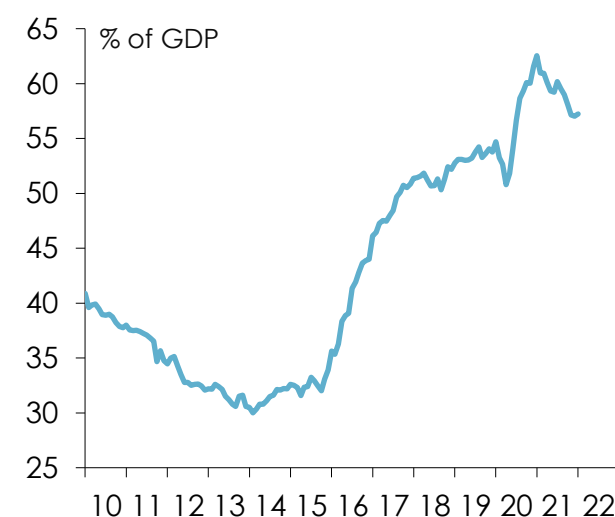
Inflation



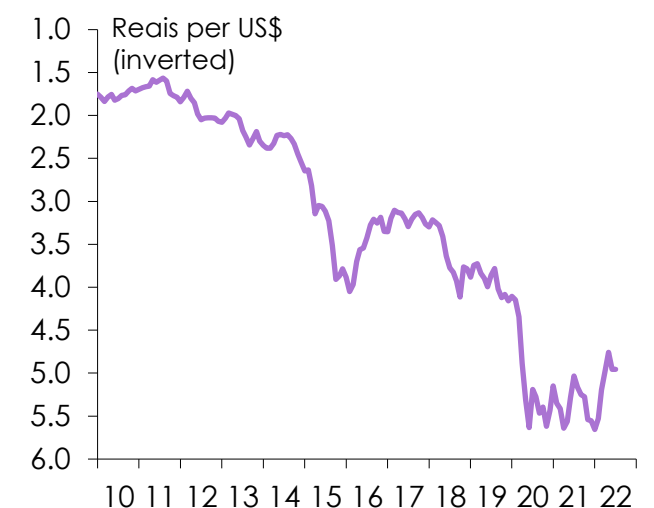
Current account balance



Public sector net debt



Brazilian real vs US\$

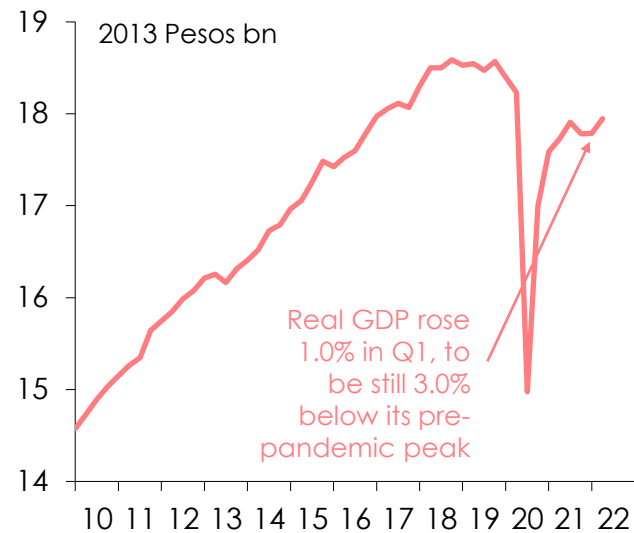


Sources: [Instituto Brasileiro de Geografia e Estatística](#) (IBGE); [Banco Central do Brasil](#); Refinitiv Datastream. [Return to "What's New"](#).

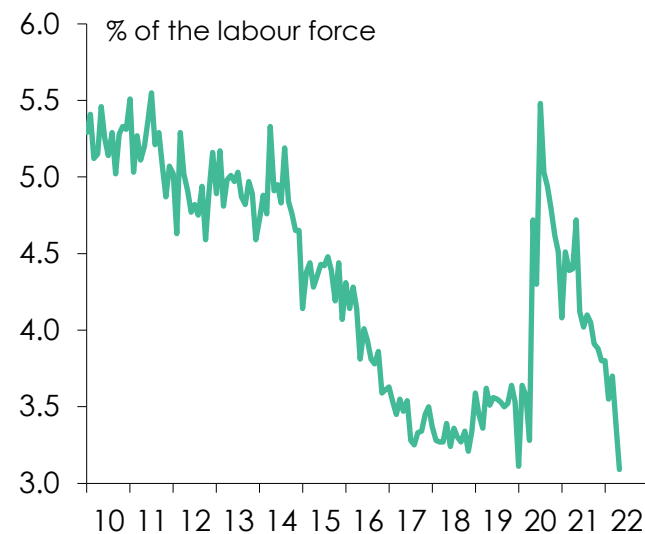
Mexico's real GDP grew 1% in Q1, but was still 3% shy of its pre-pandemic peak despite the lowest unemployment rate in over 21 years

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

Real GDP



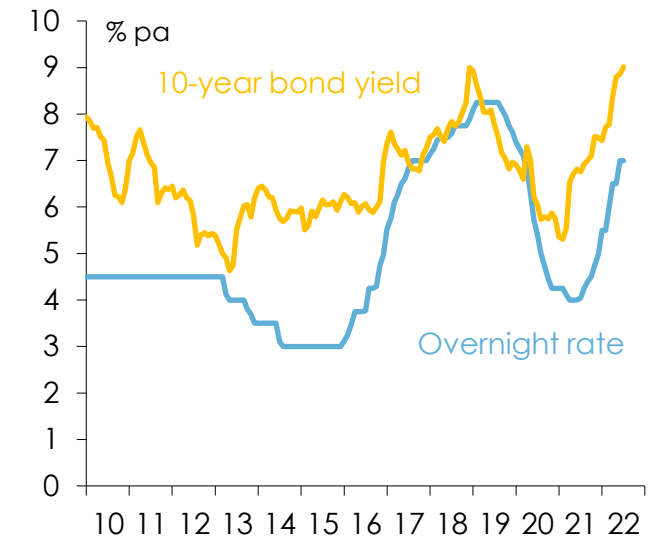
Unemployment



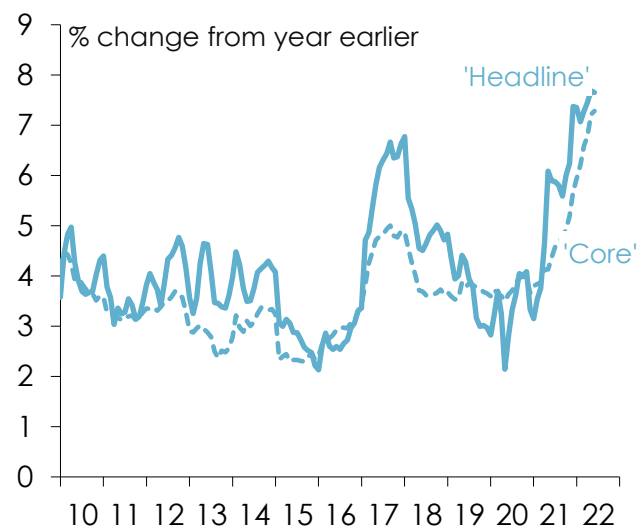
Bank lending



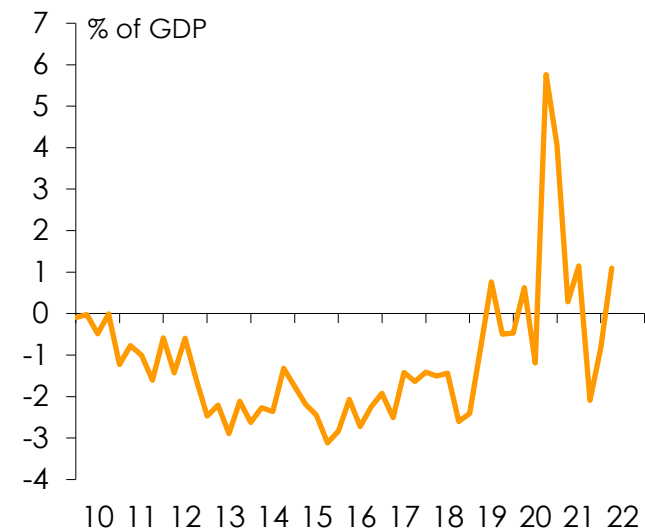
Interest rates



Inflation



Current account balance



Federal budget deficit



Mexican peso vs US\$

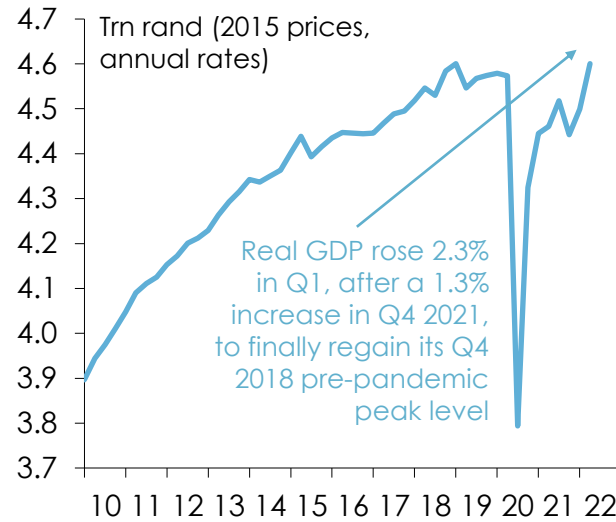


Sources [Banco de México](#); [Instituto Nacional de Estadística y Geografía \(INEGI\)](#); Refinitiv Datastream.. [Return to "What's New"](#).

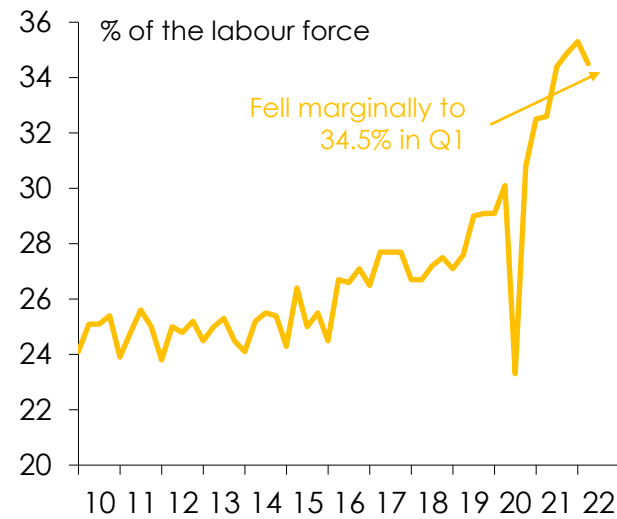
South Africa's GDP increased by 2.3% in Q1, finally regaining its previous peak level of Q3 2018

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

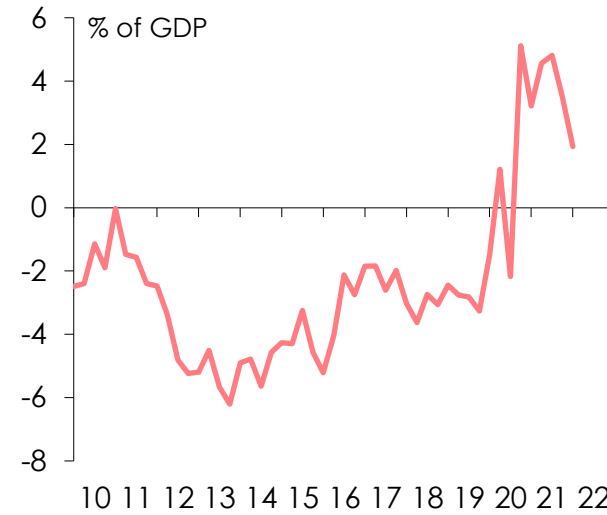
Real GDP



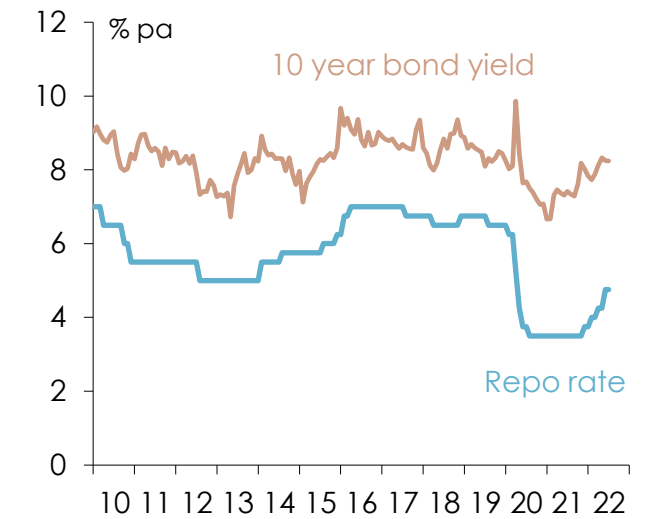
Unemployment



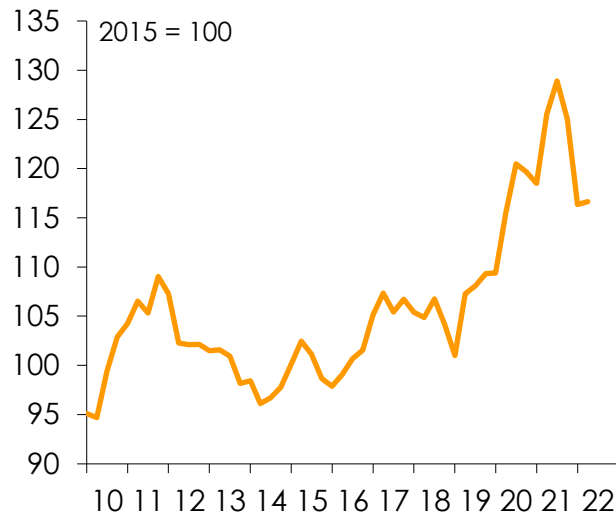
Current account balance



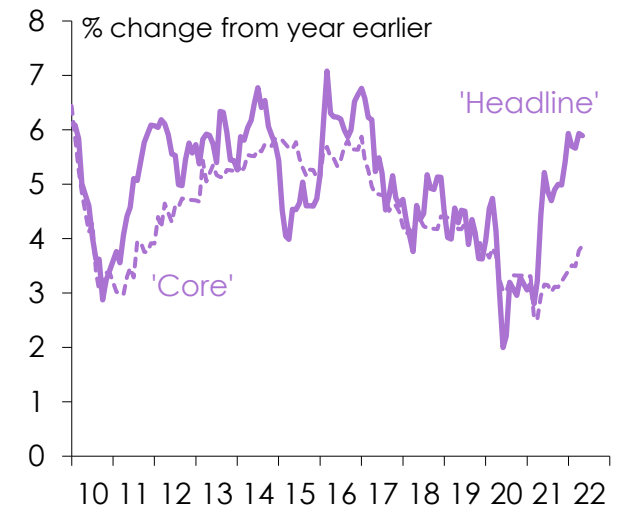
Interest rates



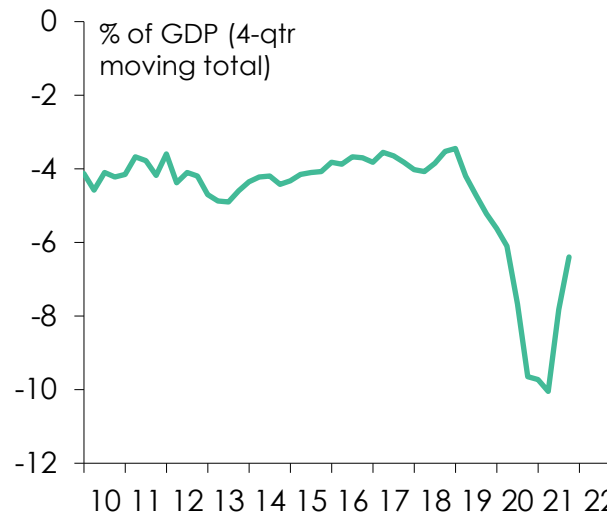
Terms of trade



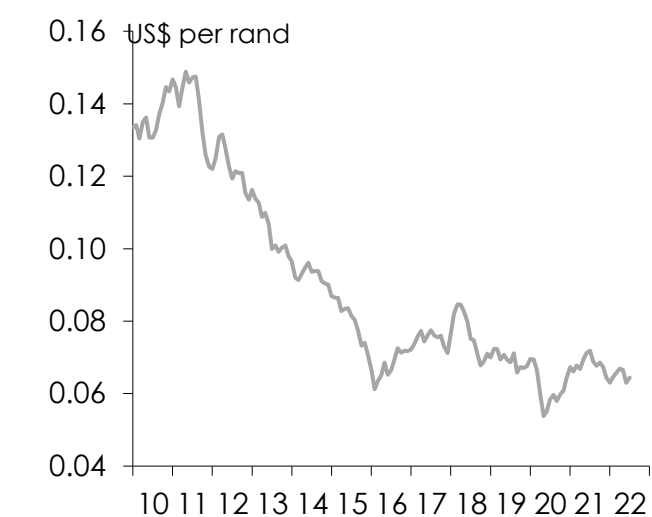
Inflation



Budget deficit



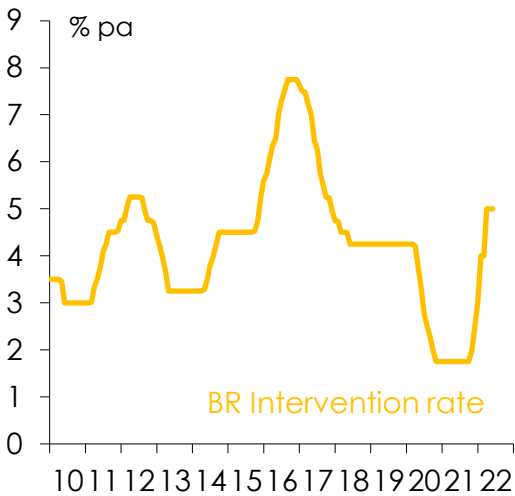
Rand vs US\$



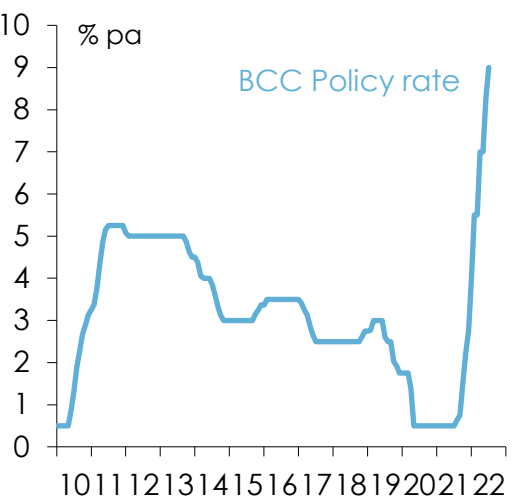
A growing number of other ‘emerging’ market central banks have begun tightening monetary policy

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

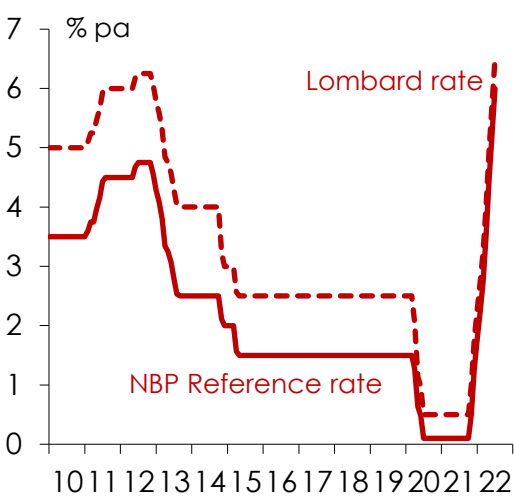
Colombia



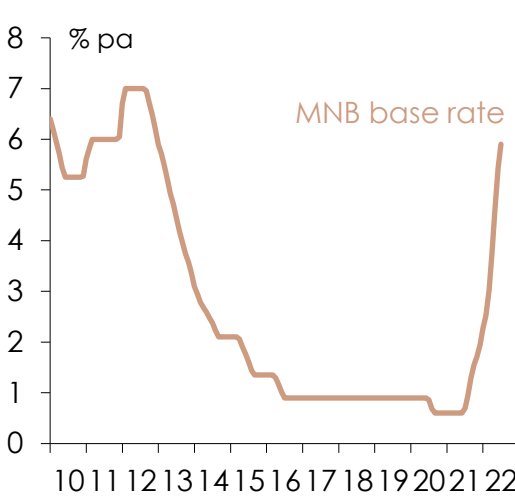
Chile



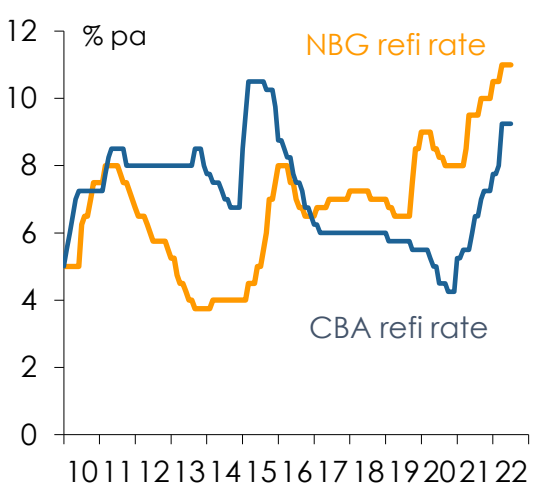
Poland



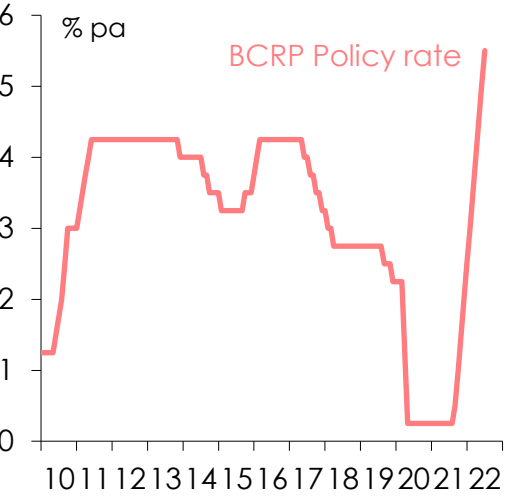
Hungary



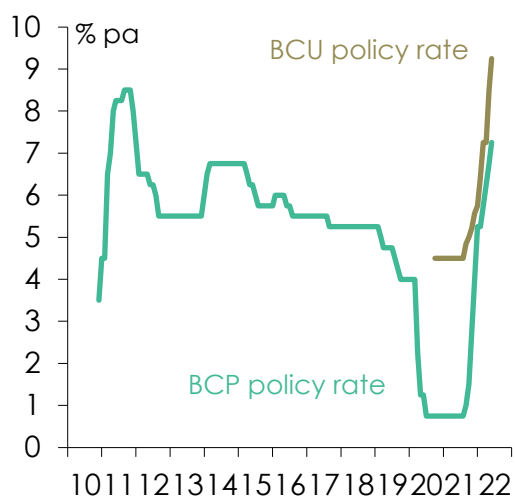
Georgia & Armenia



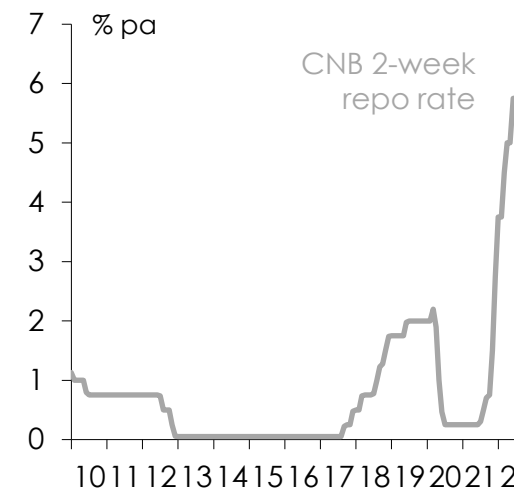
Peru



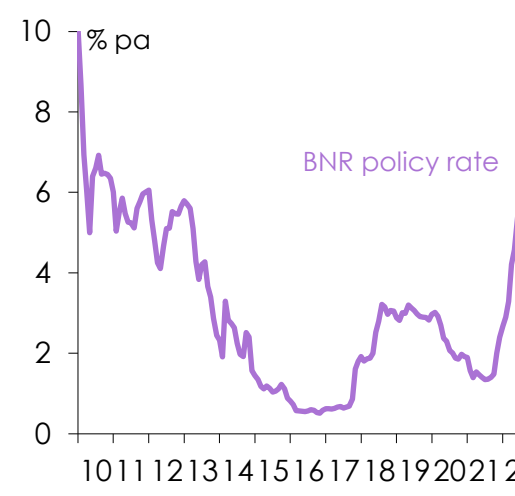
Paraguay & Uruguay



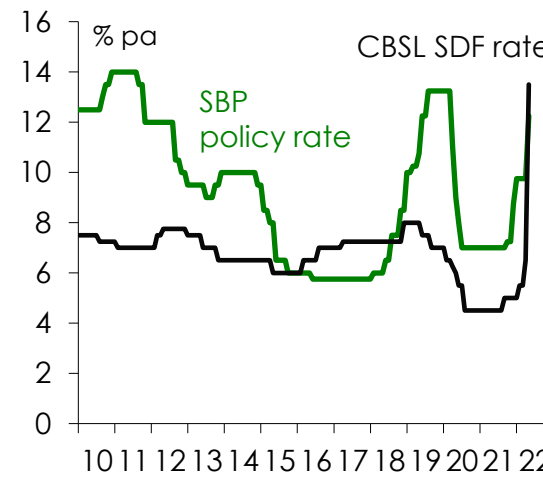
Czech Republic



Romania



Pakistan & Sri Lanka

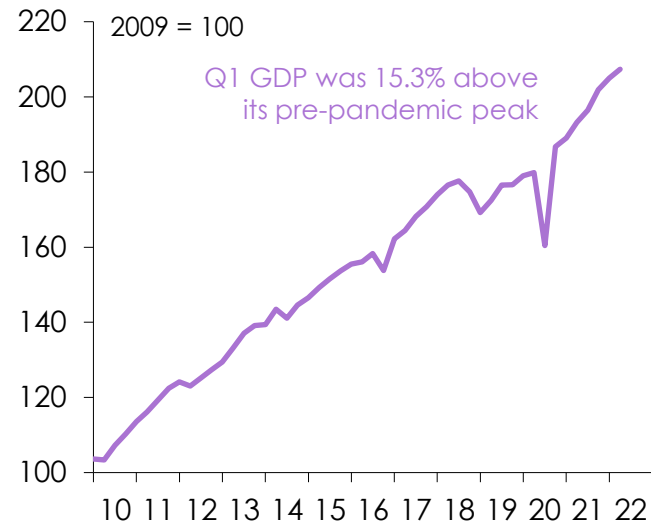


Sources: [Banco de la República Colombia](#); [Banco Central de Reserva del Perú](#); [Banco Central de Chile](#); [Banco Central del Uruguay](#); [Banco Central del Paraguay](#); [Narodowy Bank Polski](#); [Česká Národní Banka](#); [Magyar Nemzeti Bank](#); [Banca Națională a României](#); [Sakartvelos Erovnuli Bank](#); [Hayastani Kentronakan Bank](#); [State Bank of Pakistan](#); [Central Bank of Sri Lanka](#). Return to "What's New".

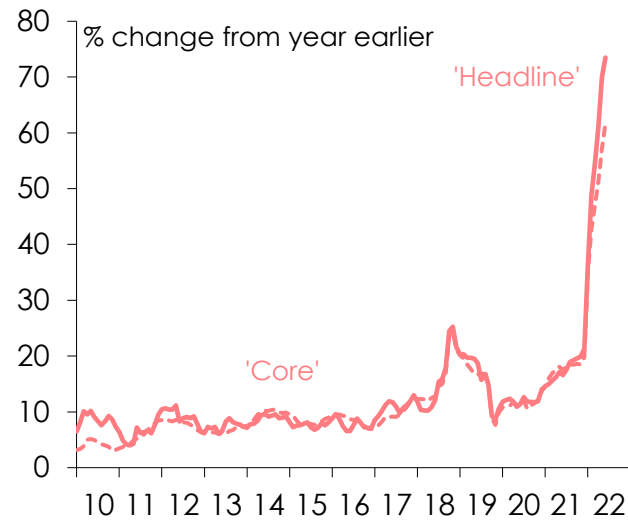
Turkey's real GDP grew by 1.2% in Q1 – while annual 'headline' and 'core' inflation rose to 73.5% and 61.6% in May

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

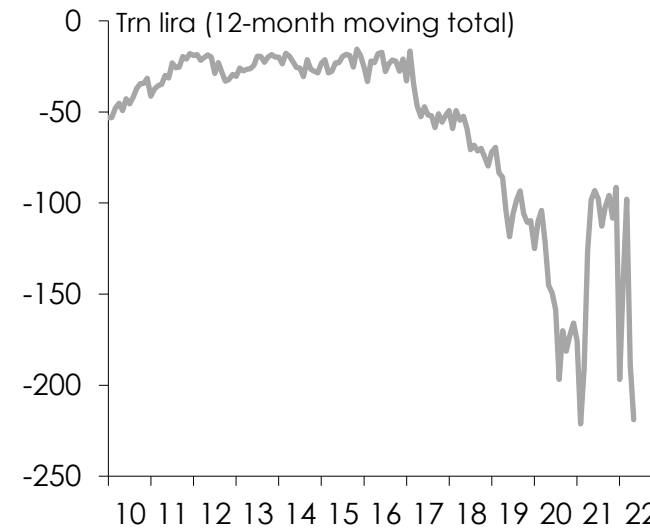
Real GDP



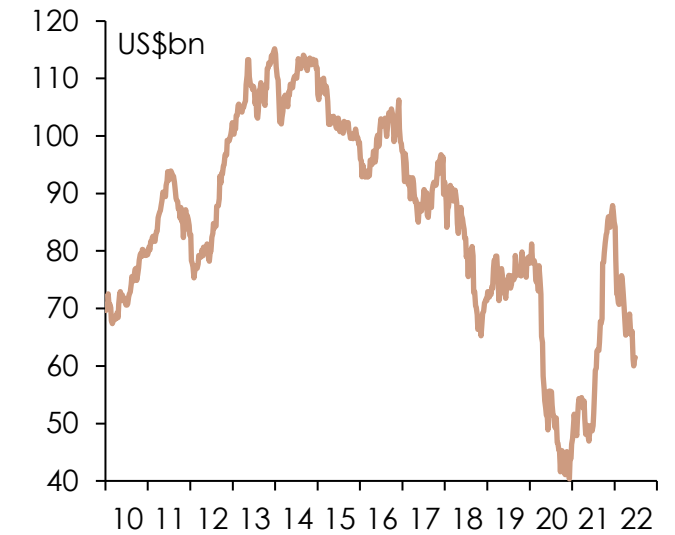
Inflation



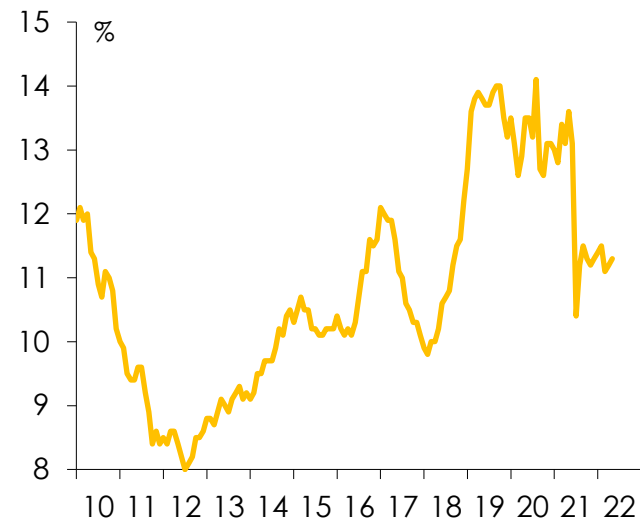
Budget balance



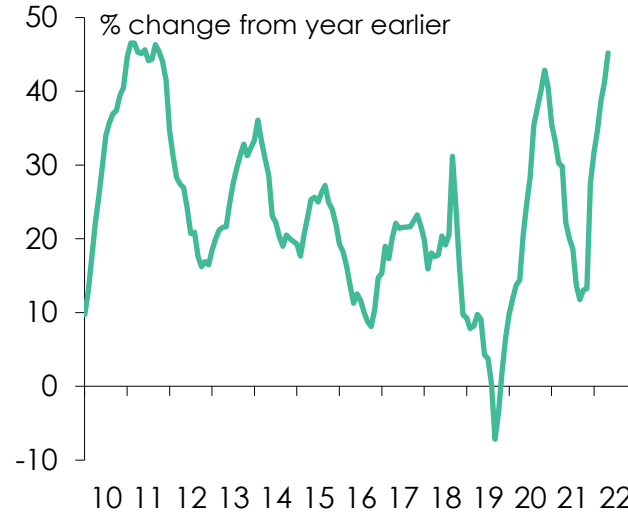
FX reserves



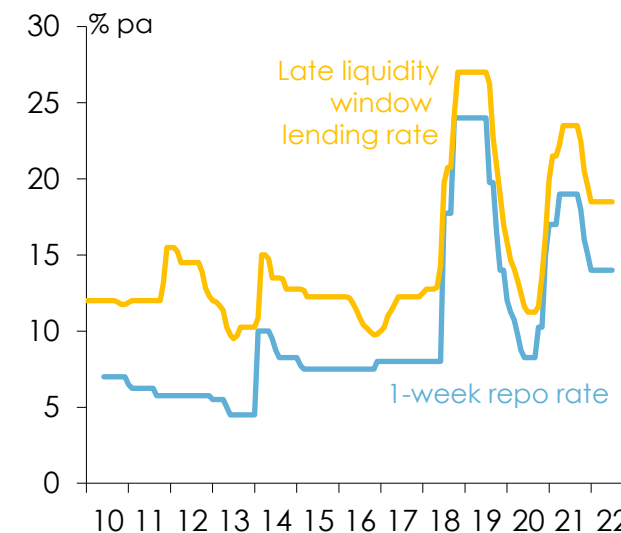
Unemployment rate



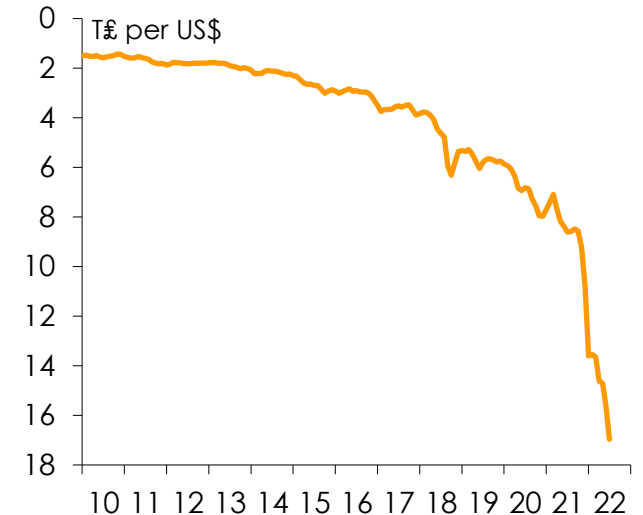
Bank lending



Interest rates



Turkish lira vs US\$



Key data and events this week

Key data and events for week ended 24th June

THE WORLD ECONOMY THIS WEEK – 20TH JUNE 2022

Monday 20 th June	Taiwan May export orders; China loan prime rate decision (if any); Thailand May CPI
Tuesday 21 st June	Australia RBA Governor Lowe speech & June Board meeting minutes; Hong Kong May CPI and Q1 balance of payments; euro area April balance of payments; US May existing home sales and May Chicago Fed national activity index; Canada April retail sales & May house prices; Paraguay BCP meeting
Wednesday 22 nd June	New Zealand May merchandise trade & Q2 consumer confidence; Japan BoJ meeting minutes; Thailand May merchandise trade; South Africa May CPI; Georgia NBG meeting; Czech Republic CNB meeting; UK May CPI & PPI; Iceland SI meeting; US Fed Chair Jay Powell Congressional testimony; Canada May CPI
Thursday 23 rd June	Korea May PPI; Japan June 'flash' PMIs; Taiwan May unemployment; Singapore May CPI; Indonesia BI meeting; Philippines BSP meeting; Turkey TCMB meeting; euro area June 'flash' PMIs; UK June 'flash' PMIs; Norway Norges Bank meeting; Iceland May unemployment; US June 'flash' PMIs and Q1 balance of payments; Mexico Banxico meeting; Argentina Q1 GDP & unemployment
Friday 24 th June	Japan May CPI; Malaysia May CPI; Singapore May industrial production; China Q1 balance of payments (final); Turkey June business confidence; UK June consumer confidence & May retail sales; US May new home sales & June Michigan consumer sentiment (final); Canada May average earnings; Chile May PPI

Important information

This document has been prepared by Saul Eslake on behalf of Corinna Economic Advisory Pty Ltd, ABN 165 668 058 69, whose registered office is located at Level 11, 114 William Street, Melbourne, Victoria 3000 Australia.

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