



# THE WORLD ECONOMY THIS WEEK

27<sup>TH</sup> JUNE 2022

**SAUL ESLAKE**

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CORINNA ECONOMIC ADVISORY  
INDEPENDENT ECONOMICS

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# What's new?

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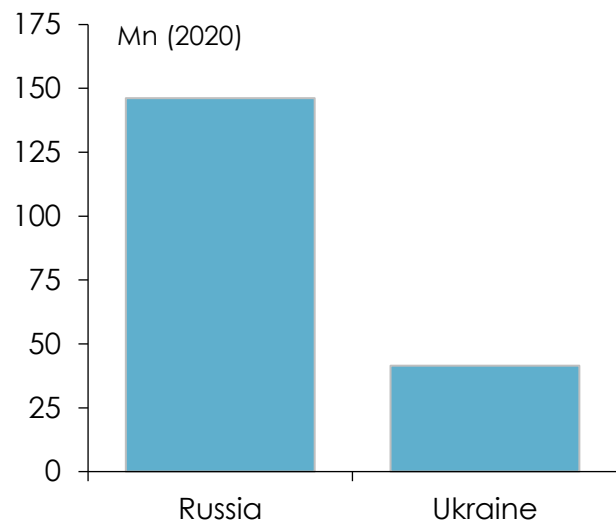
- ❑ Federal Reserve Chair Jerome Powell re-iterated the Fed's determination to "take the measures necessary to restore price stability", and, whilst insisting that the Fed didn't think a recession was "necessary" to that end, and wasn't "trying to provoke" one, nonetheless conceded that a recession was "certainly a possibility" [sic] ([slide 66](#))
- ❑ Financial markets are increasingly pricing recession risks, which last week saw bond yields and the US dollar fall, and stockmarkets rise, partly reversing the trends of preceding weeks, on expectations that central banks wouldn't tighten monetary policy quite as aggressively as previously anticipated ([slides 44-47](#))
- ❑ US household medium-term inflation expectations didn't rise as much in June as initially reported a few days before this month's FOMC meeting – according to final results from the widely-followed Michigan University survey, they only rise 0.1 pc pt to 3.1%, rather than 0.3 pc pt to 3.3%
- ❑ The US current account deficit widened by US\$67bn in Q1 to \$291.4bn (equivalent to 4.8% of GDP, the largest since Q3 2008), due primarily to a \$57bn in the deficit on trade in goods ([slide 64](#)): for the time being the US is having no difficulty financing its external deficits (mainly through loans rather than direct or portfolio investment), though eventually this may prove the 'Achilles heel' for the US\$ (as it has in the past)
- ❑ 'Flash' June PMIs point to weaker growth in the US, the euro area and the UK, with composite indices the lowest since July 2020 for the US and February 2021 for the euro area and the UK; but by contrast signalled a continuing gradual recovery in Japan, with the composite index the highest since last November ([slide 25](#))
- ❑ Consumer confidence weakened further in June in both the euro area (to its lowest since January 2013) and the UK (to the lowest level on record going back to 1974) ([slide 70](#))
- ❑ Norway's central bank raised its policy rate by 50 basis points (the largest increase in 20 years) to 1.25%, and foreshadowed a further 25 bp increase in August ([slide 76](#)) while Iceland's central bank raised its policy rate by 100 bp to 6.5% ([slide 77](#))
- ❑ Japan's annual 'headline' inflation rate remained unchanged at 2.5% in May, and the ex-fresh food measure formally targeted by the BoJ was also unchanged at 2.1% - although the BoJ will likely put more store by the 0.8% increase in prices excluding food and energy ([slide 92](#))
- ❑ The Philippines central bank raised its policy rate by 25 basis points, the second such increase in a row, to 2.5%, while Indonesia's again left its policy rate unchanged, despite acknowledging that inflation in 2022 was likely to exceed its target range ([slides 107-108](#))
- ❑ Canada's annual 'headline' inflation rate accelerated to 7.6% in May, the highest since February 1983, while 'core' inflation also rose to 5.2%, the highest since October 1990 ([slide 120](#))
- ❑ The Czech National Bank raised its policy rate by 125 bp to 7%, the ninth increase since last June; and Mexico's and Paraguay's central banks raised their policy rates by 75 bp and 50 bp, respectively ([slides 124, 126](#) and [129](#)); while Turkey's central bank again left its rates unchanged despite inflation reaching 73.5% in May ([slide 129](#))
- ❑ The highlight of this week's data calendar will be the US PCE deflator (the inflation measure which the Fed targets) for May, and June PMIs ([slide 131](#))

# Russia's invasion of Ukraine

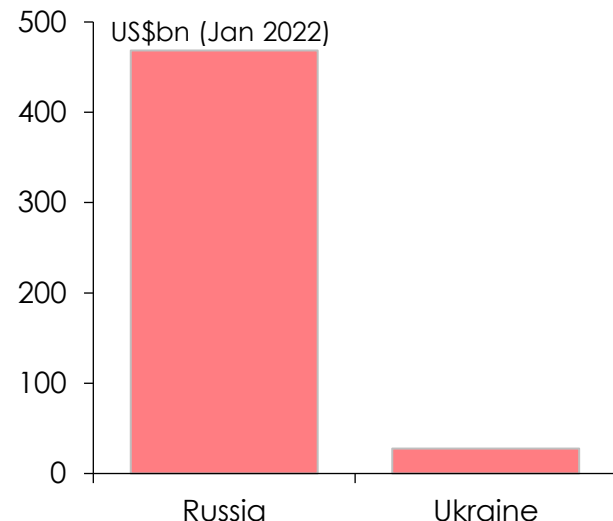
# Russia outnumbered Ukraine in just about everything – except courage and ‘moral capital’ – but that hasn’t given it the ‘easy victory’ it expected

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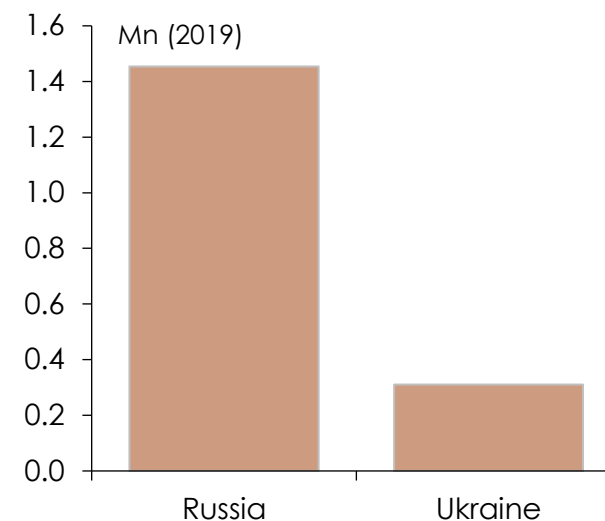
## Population



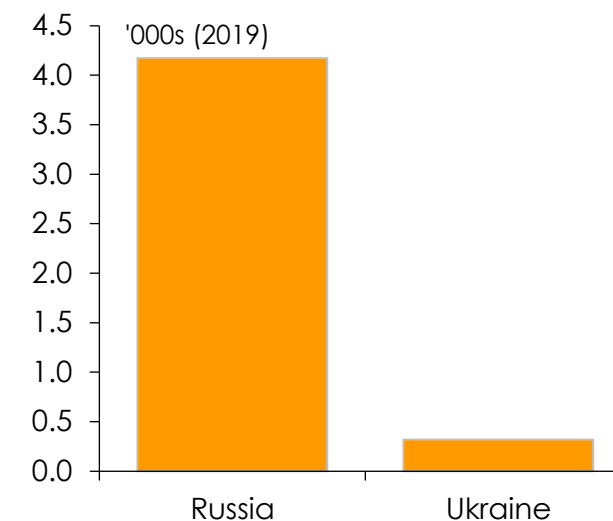
## FX reserves



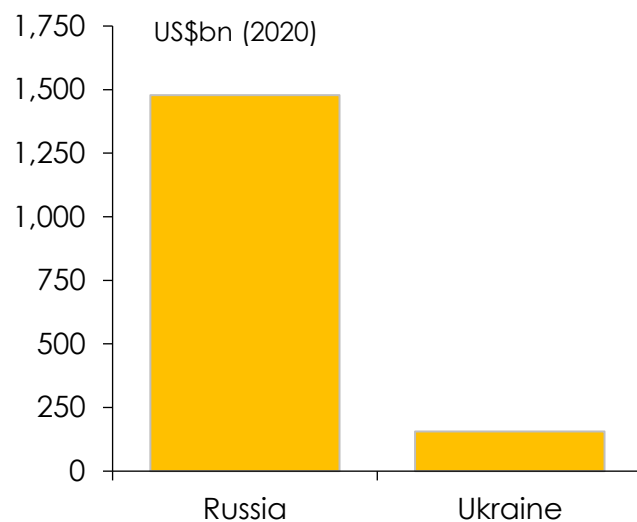
## Armed forces



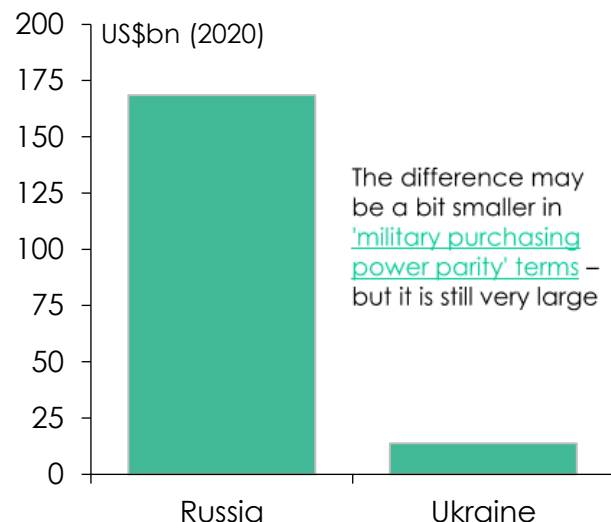
## Military aircraft



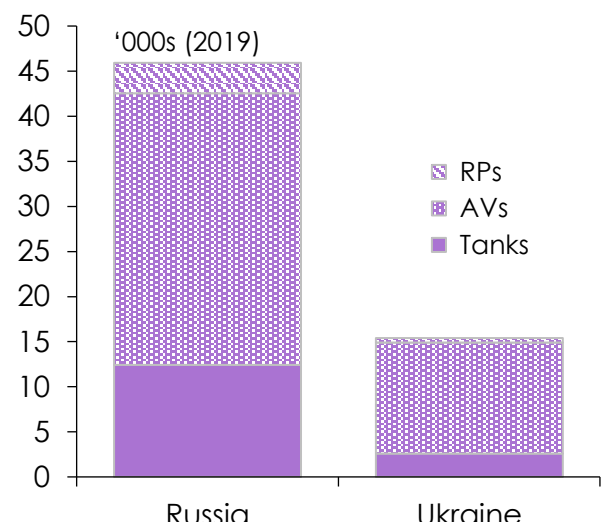
## GDP



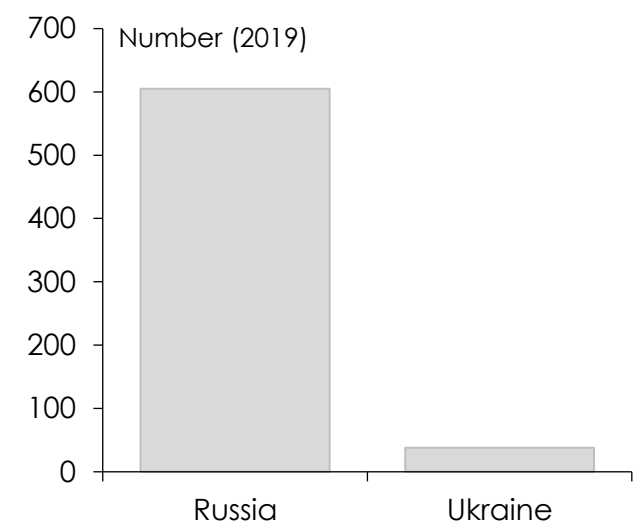
## Military spending



## Military hardware



## Naval assets

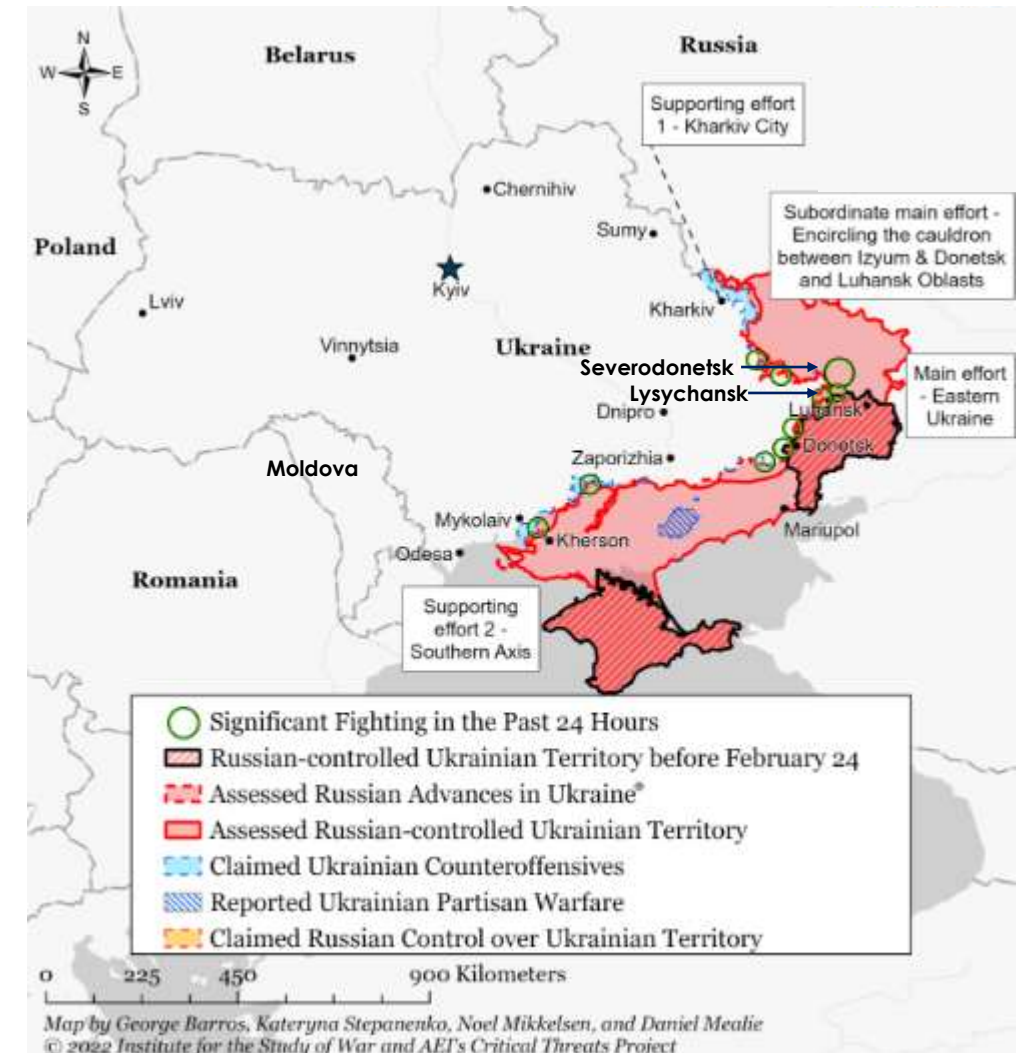


Note: GDP is in US\$ at market exchange rates; 'AVs' are armoured vehicles; 'RPs' are rocket projectors; 'military aircraft' include airplanes, helicopters, transports and tankers; 'naval assets' include aircraft & helicopter carriers, destroyers, frigates, corvettes, submarines and other vessels. Sources: 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 continued to make 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
- ❑ Russian forces are now on the verge of capturing (what's left of) the city of Severodonetsk, after which they are likely to turn their attention to Lysychansk, which would then give them control of most of the Luhansk Province, one of two in Donbas
- ❑ 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 24](#))
- ❑ 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 10](#)), while Ukraine's central bank raised its policy rate by 1500 bp on 3<sup>rd</sup> June ([slide 11](#))

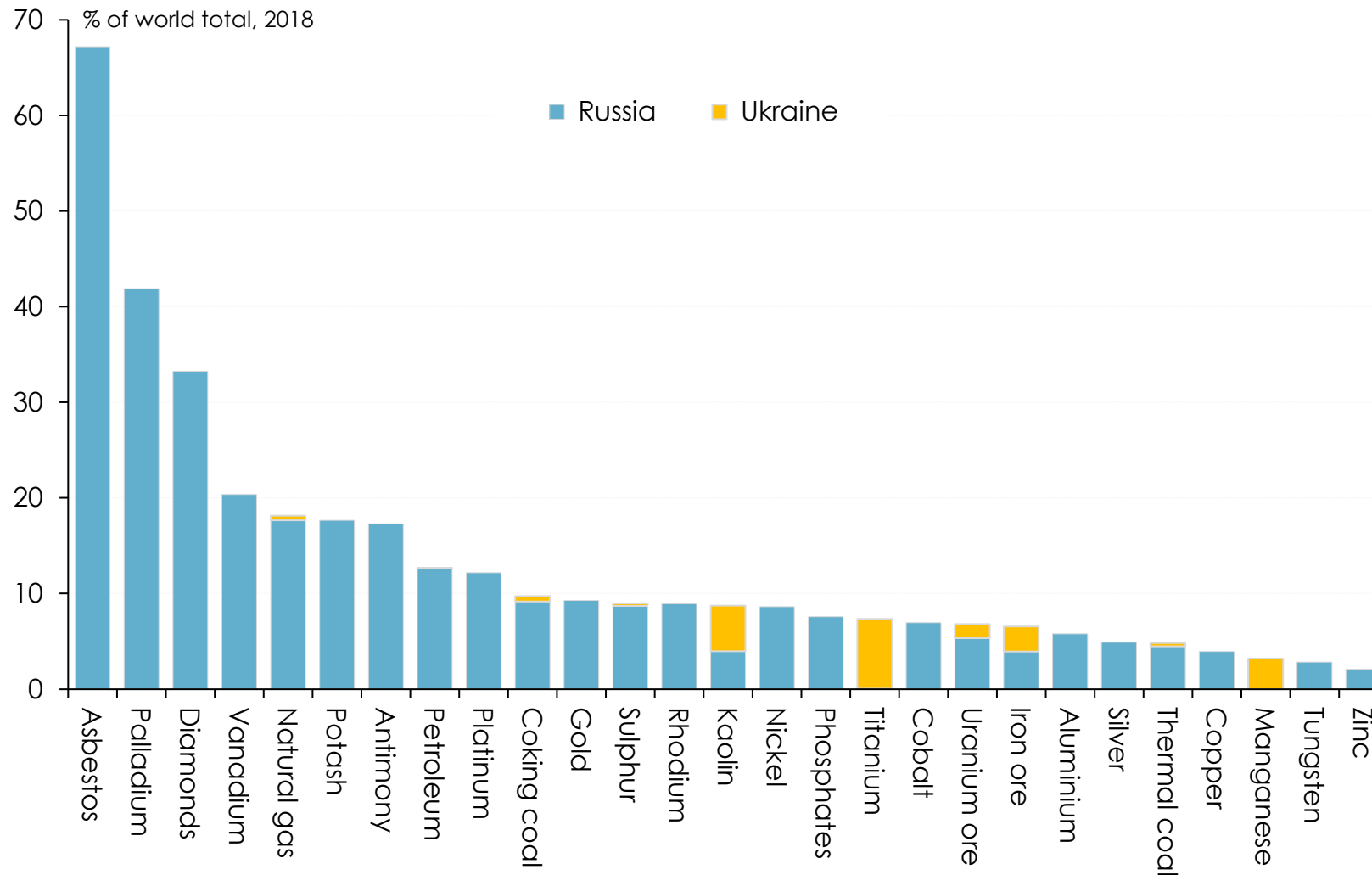




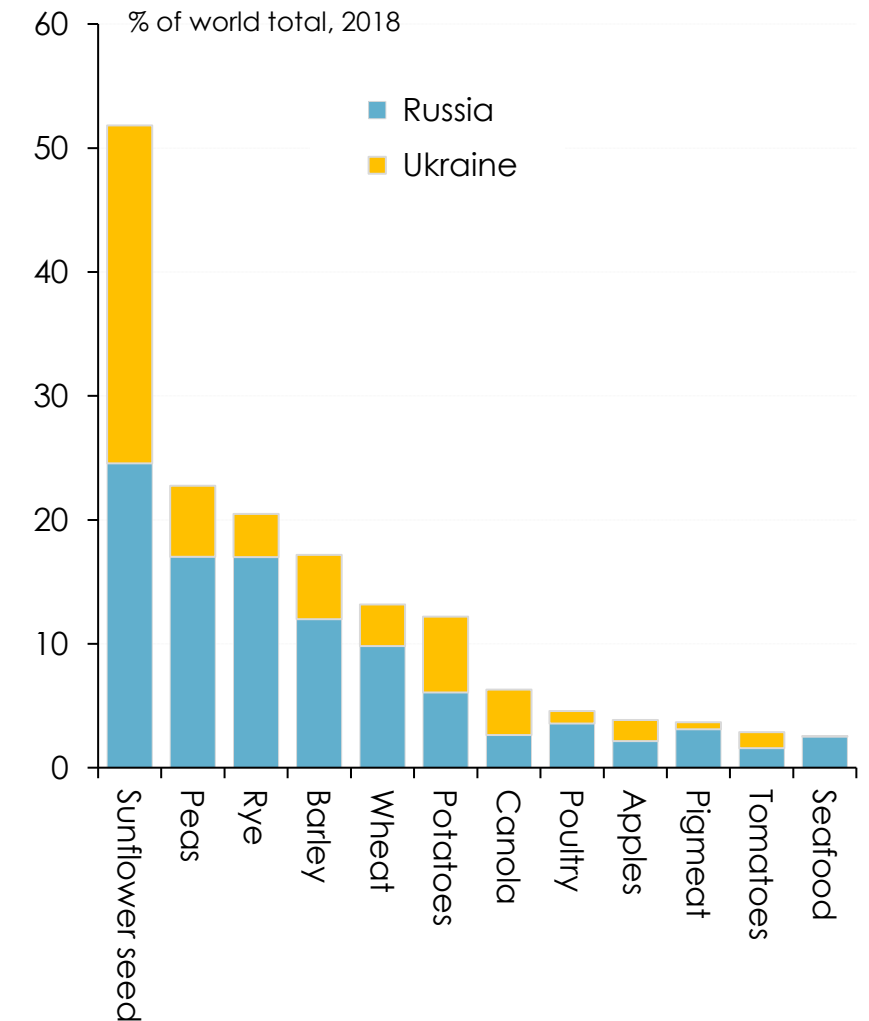
# Russia and Ukraine are major producers of a range of mineral, energy and food commodities whose prices have gone up because of the conflict

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



## Food, 2018

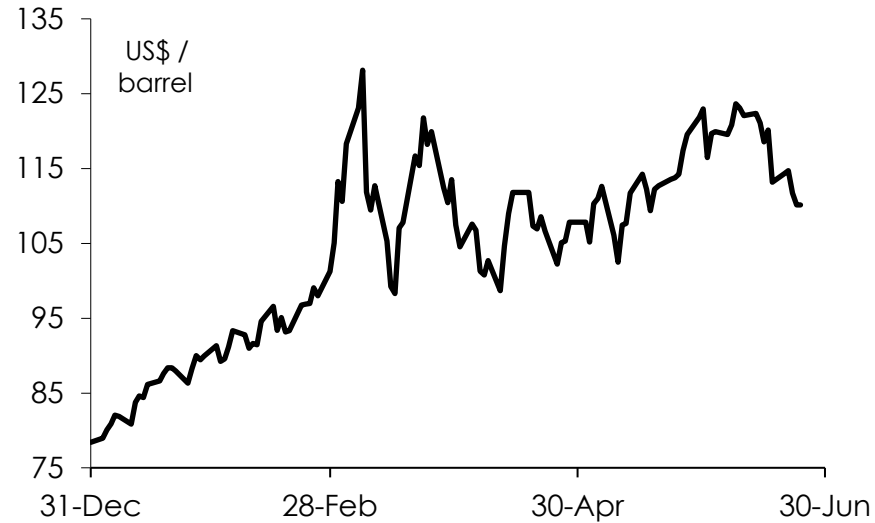


Note: Data for shares of seafood production is 2017. Sources: Austrian Federal Ministry of Agriculture, Regions and Tourism (BMLRT), [World Mining Data](#); Hannah Ritchie and Max Roser, Our World in Data, [Agricultural Production](#). [Return to "What's New"](#).

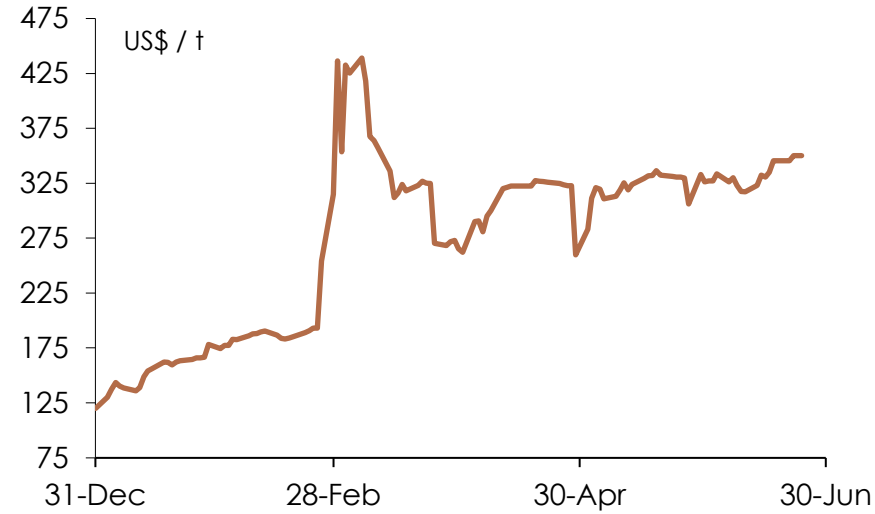
# Energy, metal, and grain prices rose sharply after Russia's invasion of Ukraine – though some of those increases have since partially reversed

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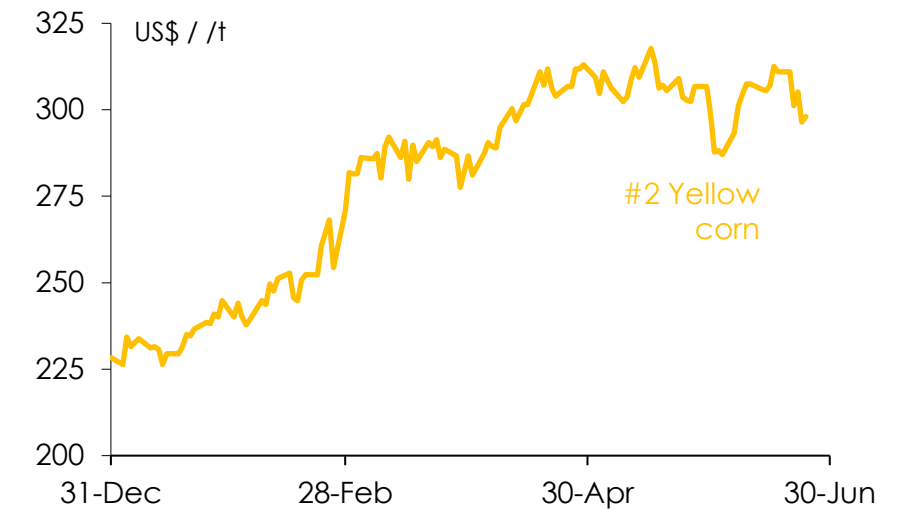
## Brent crude oil



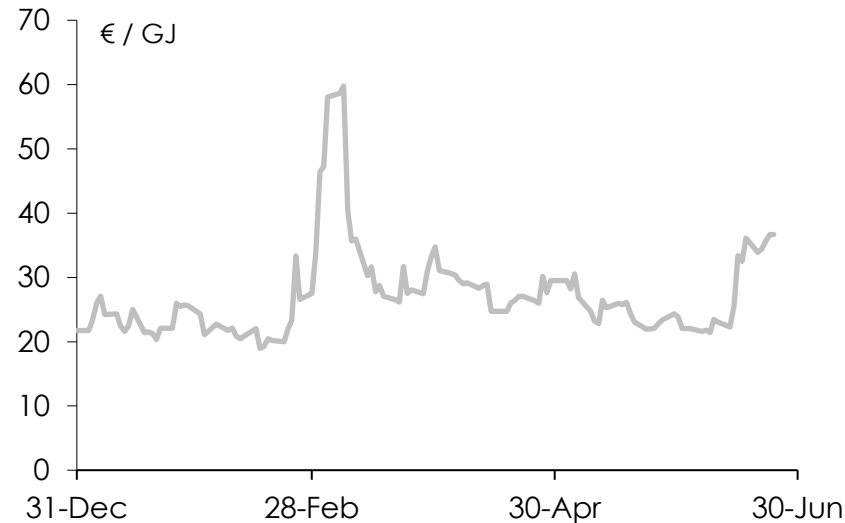
## Thermal coal



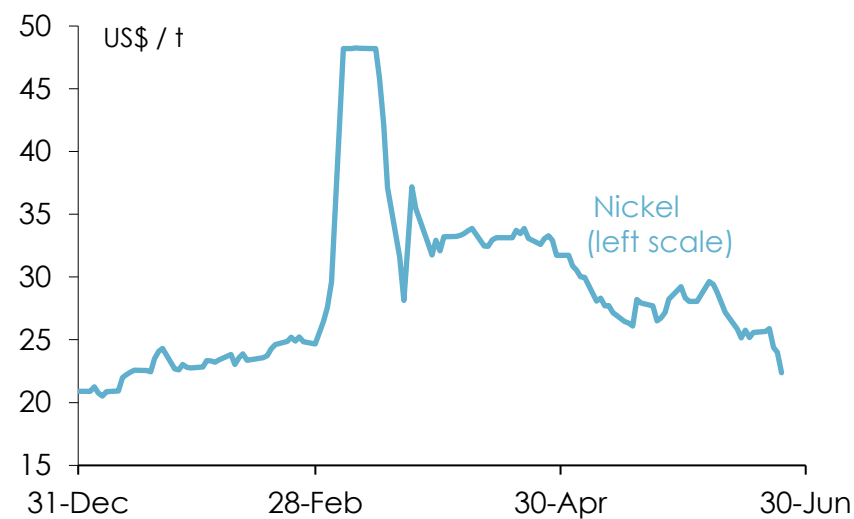
## Corn



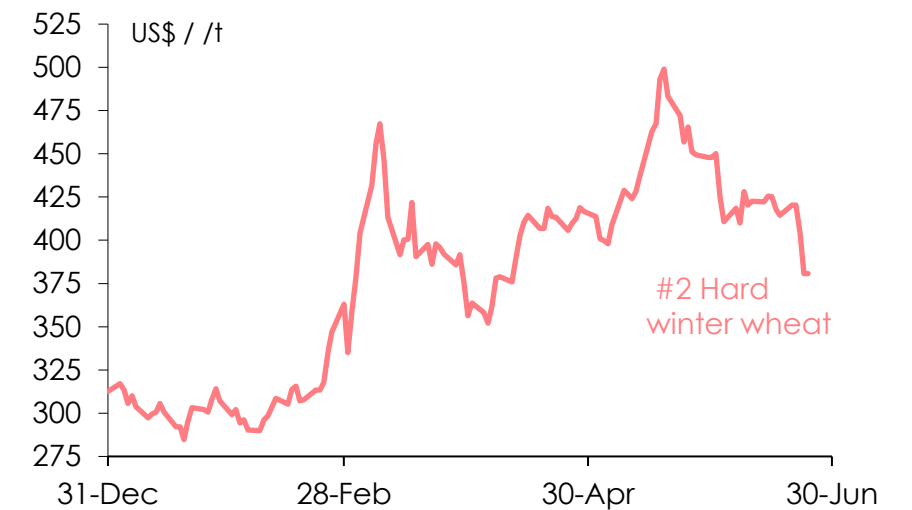
## Netherlands natural gas



## Nickel



## Wheat



Note: Data up to 24<sup>th</sup> June. Source: Refinitiv Datastream. [Return to "What's New"](#).

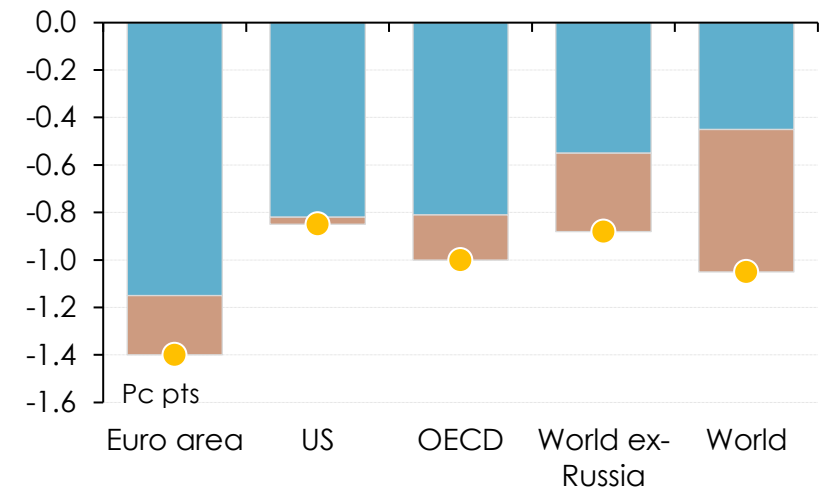


# The conflict in Ukraine (and its broader ramifications) will detract from global economic growth and add to global inflationary pressure

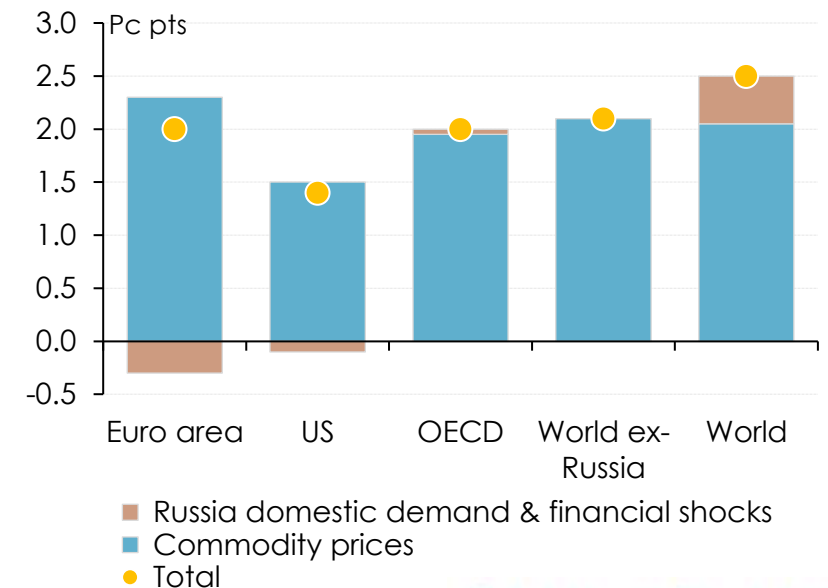
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- ❑ The **OECD** characterizes the war in Ukraine as “a new negative supply shock for the world economy”
  - although Russia & Ukraine together account for 2% of global GDP, they account for 30% of global wheat exports, 20% of global exports of corn, 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
- ❑ 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



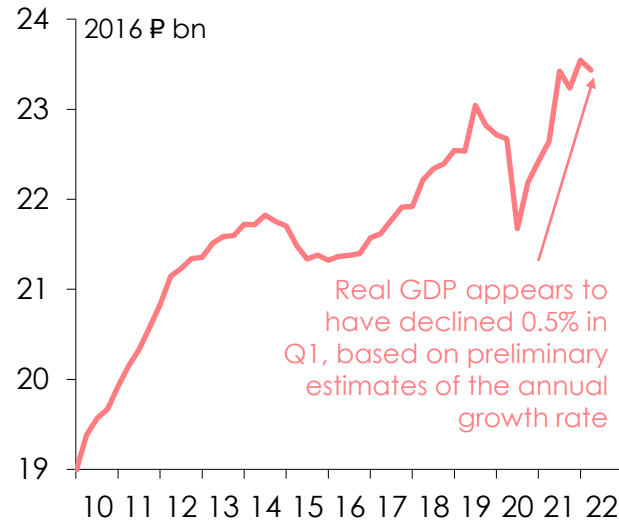
## Impact on inflation



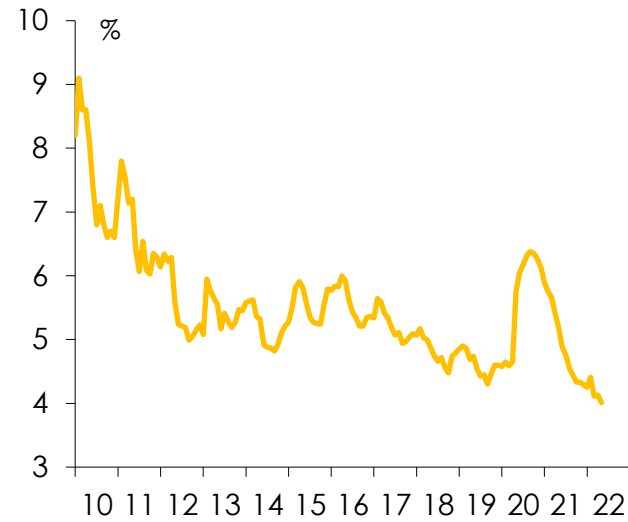
# Russia's central bank cut its key rate another 150bp, to 9.5%, this month, in response to a "significant slowdown" in inflation (and the ruble's strength)

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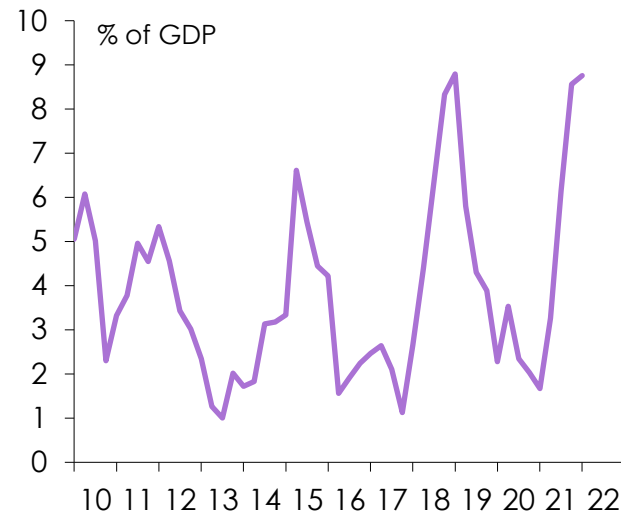
## Real GDP



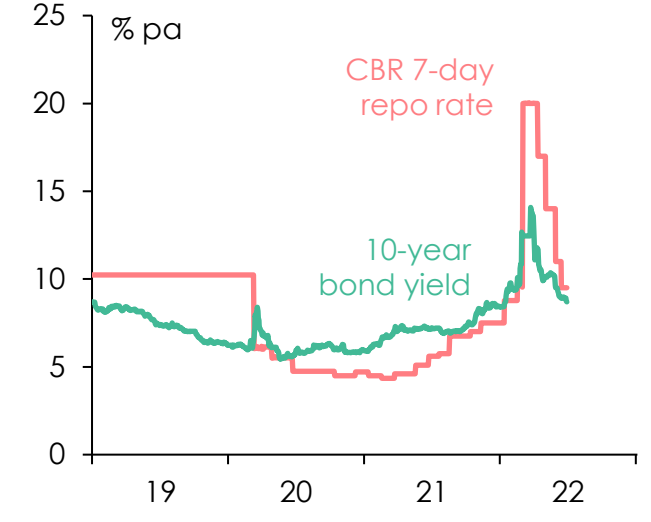
## Unemployment



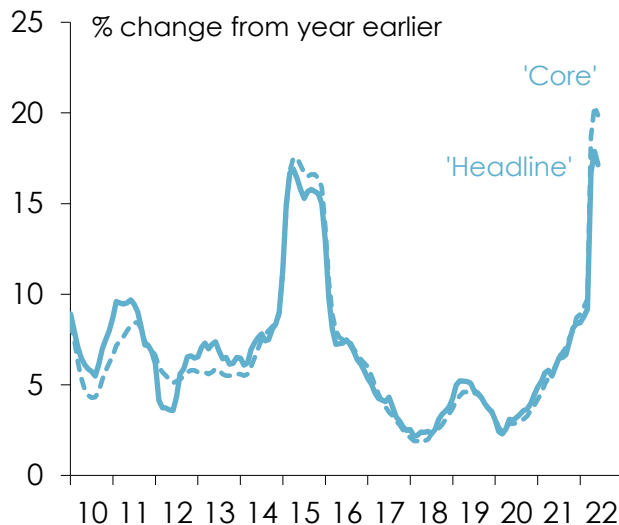
## Current account balance



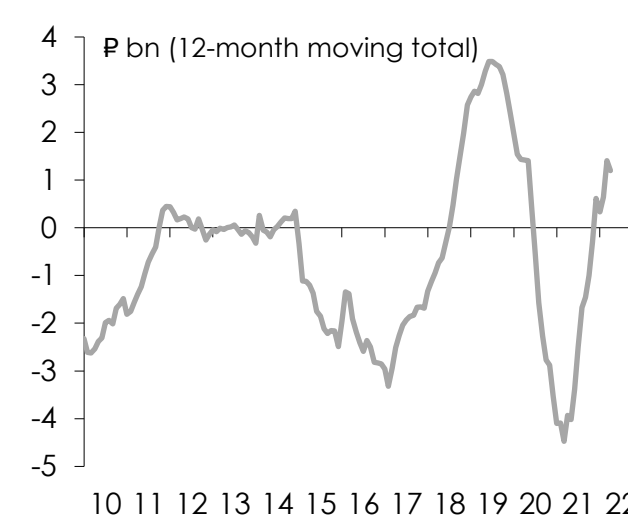
## Interest rates



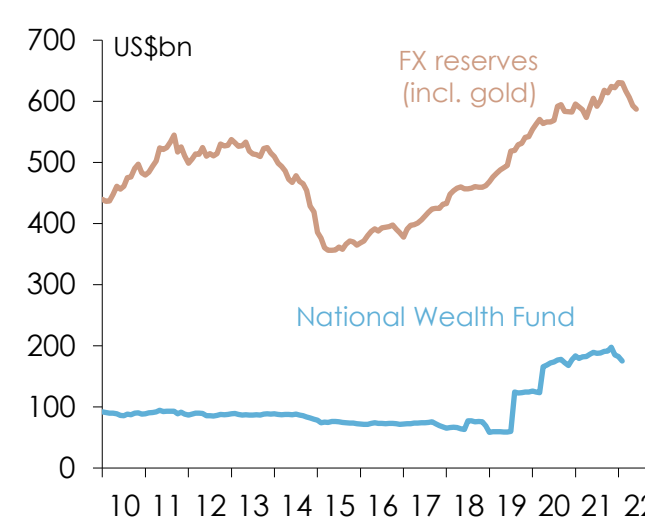
## Inflation



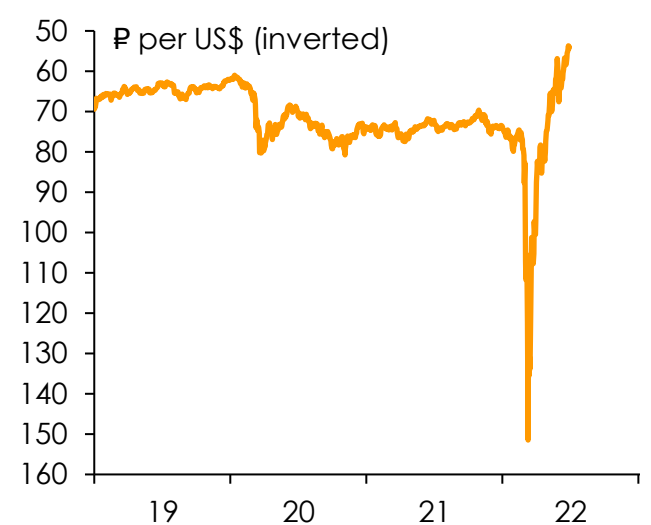
## Federal budget balance



## State financial assets



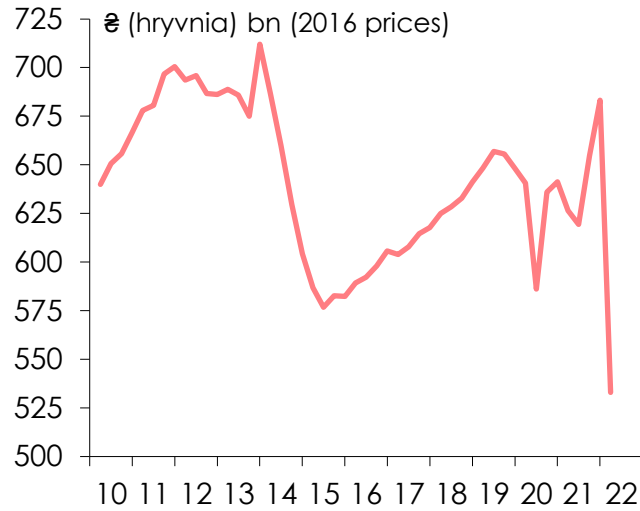
## Russian ruble vs US\$



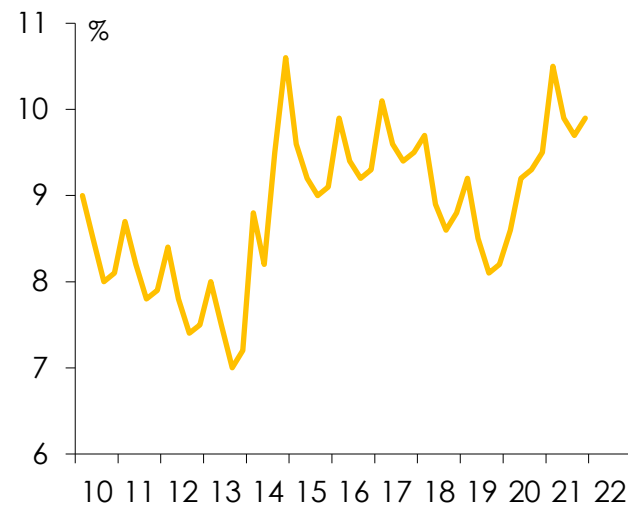
# Ukraine's Q1 GDP was 15% smaller than a year earlier – despite which, Ukraine's central bank hiked its policy rate by 15 pc pts, to 25%

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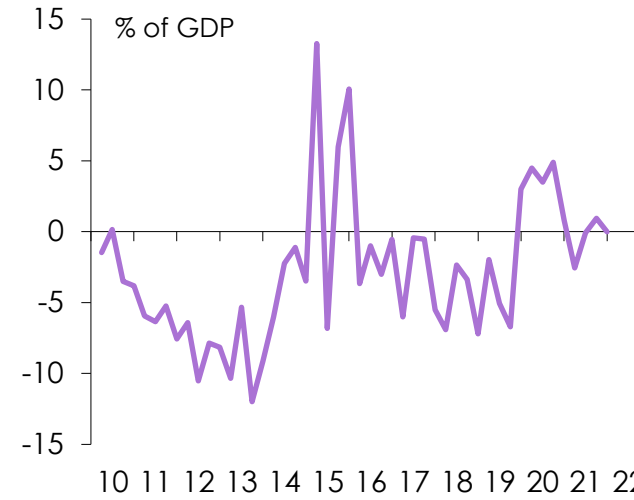
## Real GDP



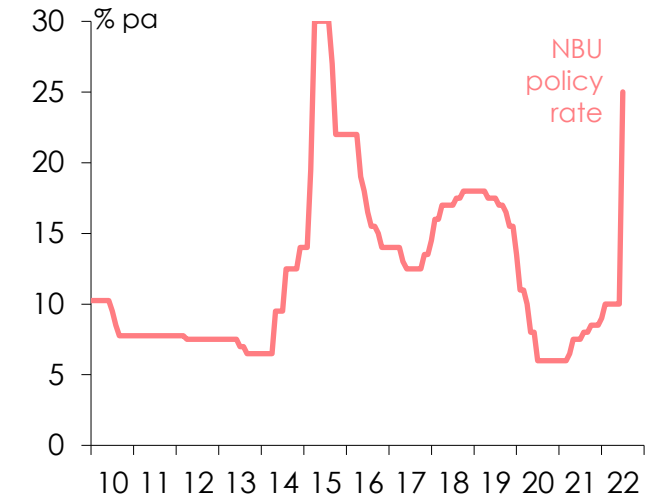
## Unemployment



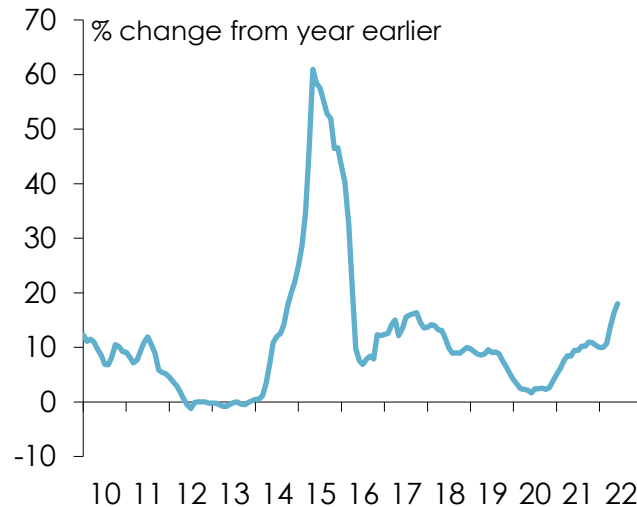
## Current account balance



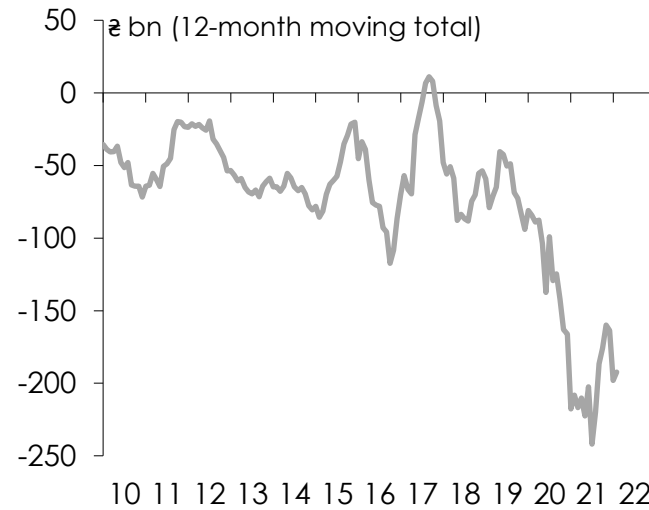
## Interest rates



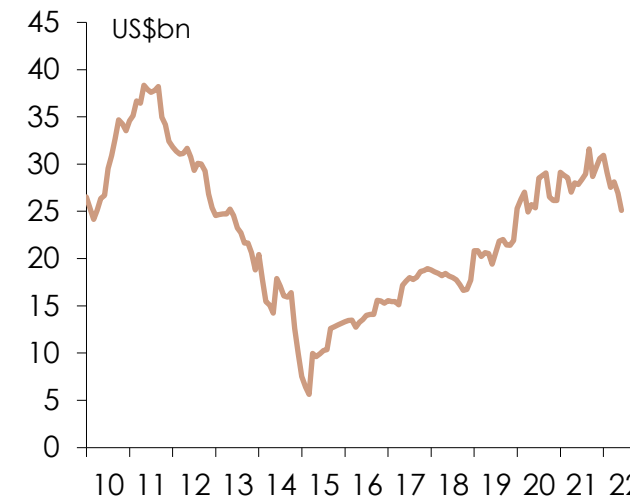
## Inflation



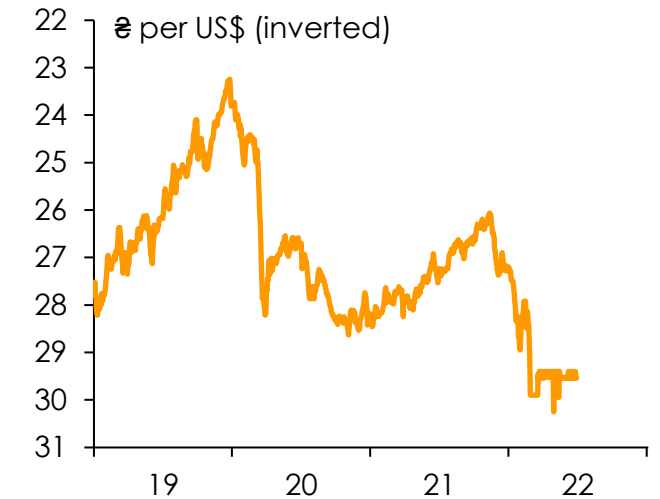
## Budget deficit



## FX reserves



## Ukrainian hryvnia vs US\$



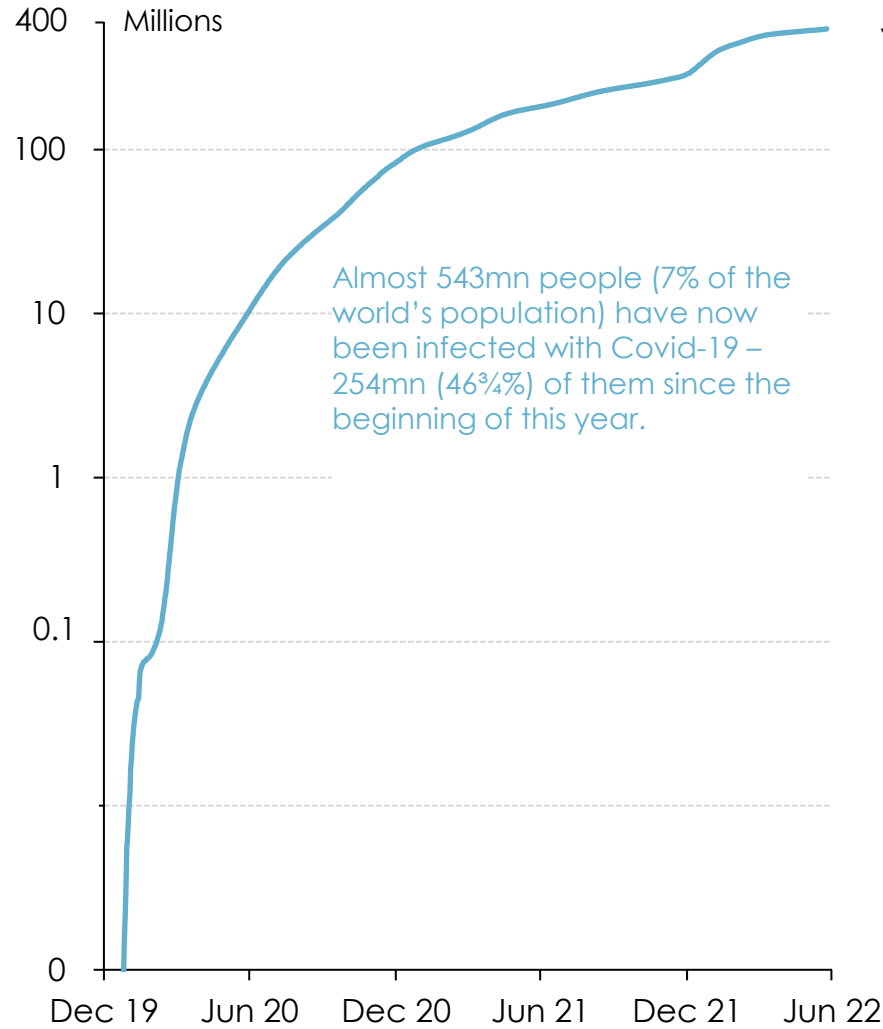
Sources: [State Statistics Service of Ukraine](#); [National Bank of Ukraine](#); Refinitiv Datastream. [Return to "What's New"](#).

**Covid-19**

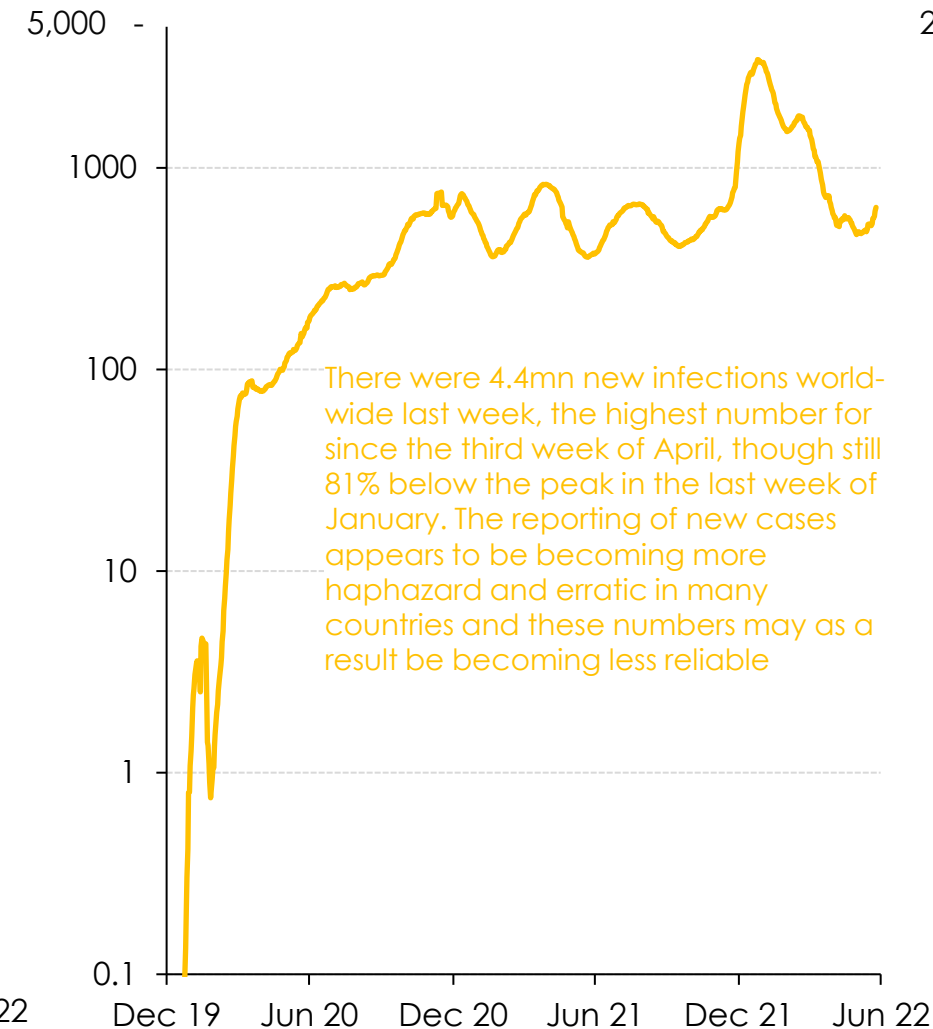
# The weekly global count of new Covid-19 cases continues to run at close to its 2021 average, but the fatality rate has fallen significantly

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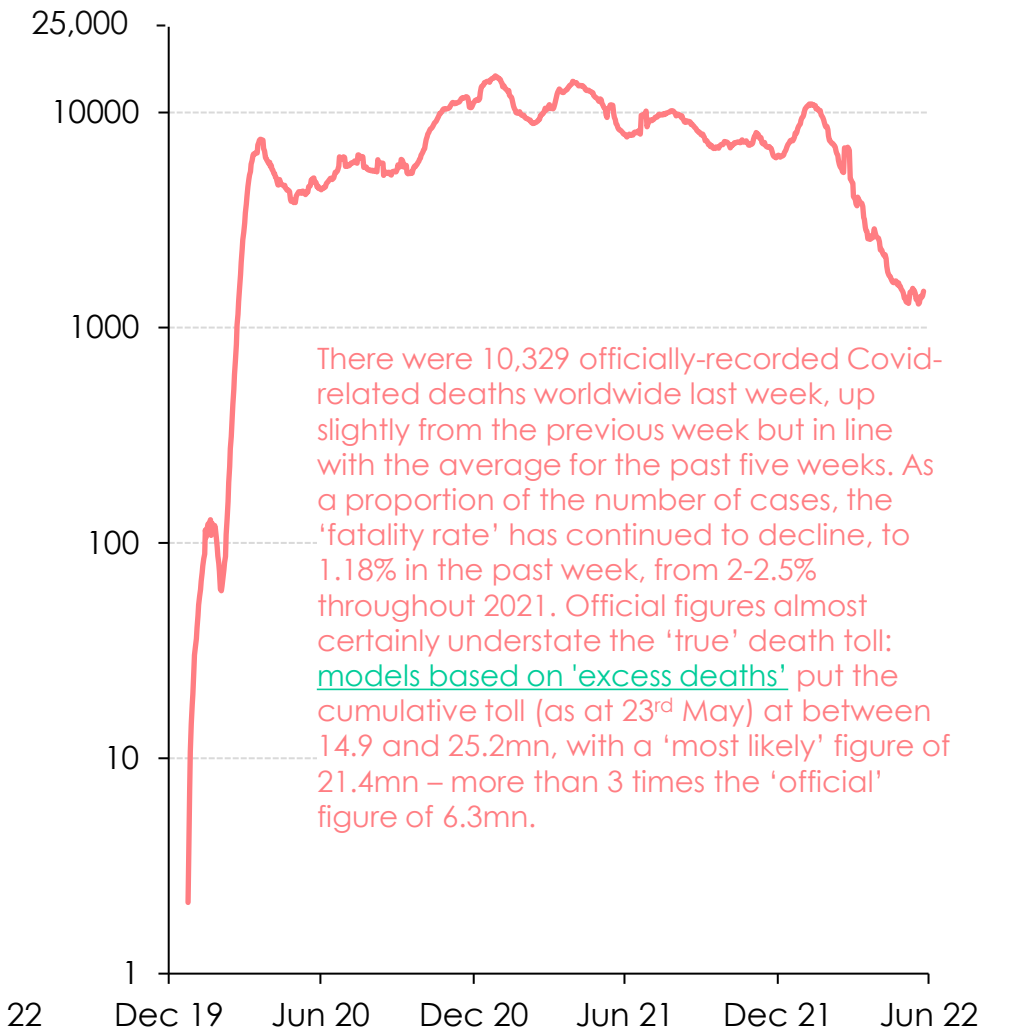
## Cumulative confirmed cases – global total



## New confirmed cases – global total



## New deaths – global total

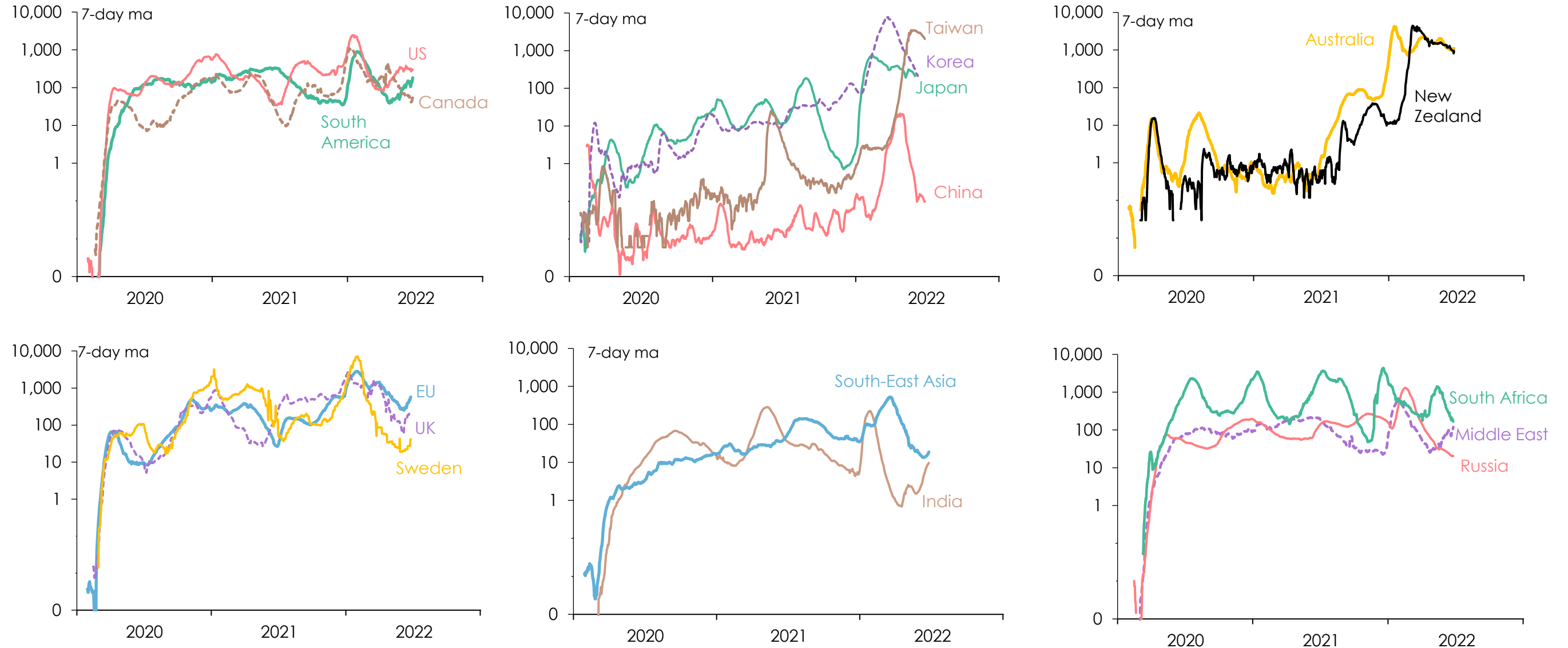


Note: All charts are on logarithmic scales. Data up to 24<sup>th</sup> June. Source: University of Oxford, [Our World in Data](#). [Return to "What's New"](#).

# The upturn in case numbers over the past two weeks has been largely in Europe & South America, with smaller increases in India & the Middle East

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## Daily new cases per million population – major countries and regions



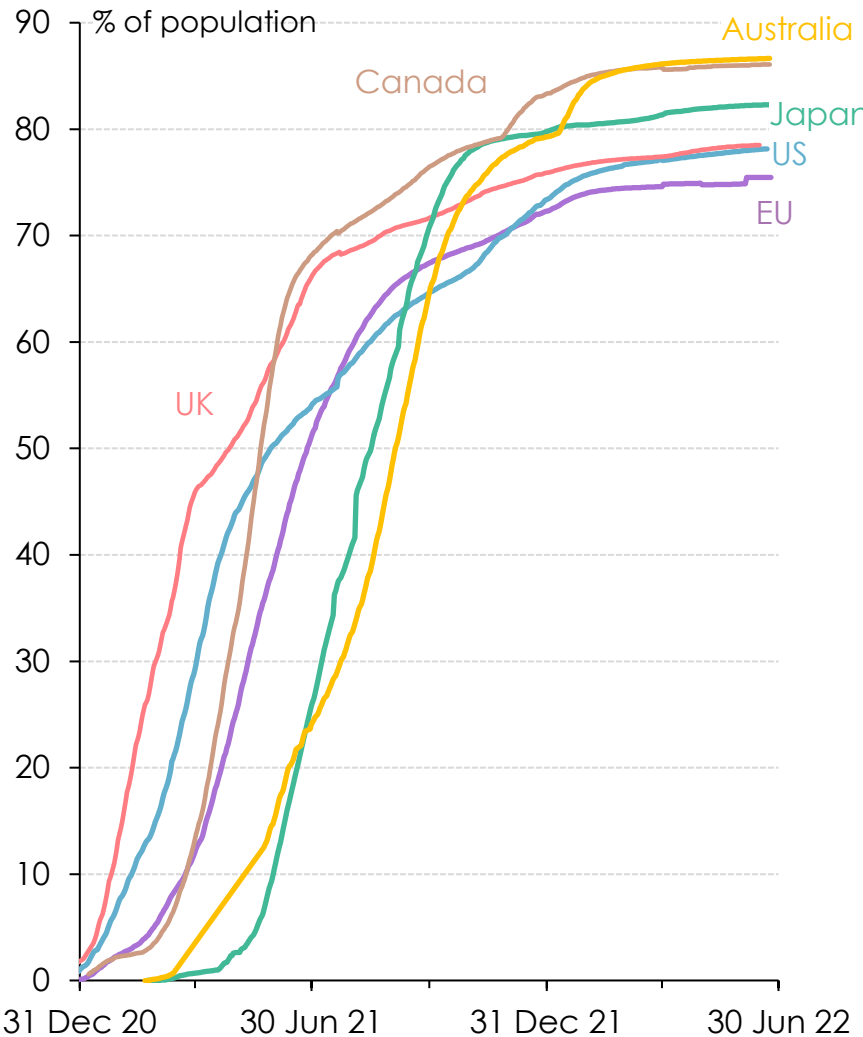




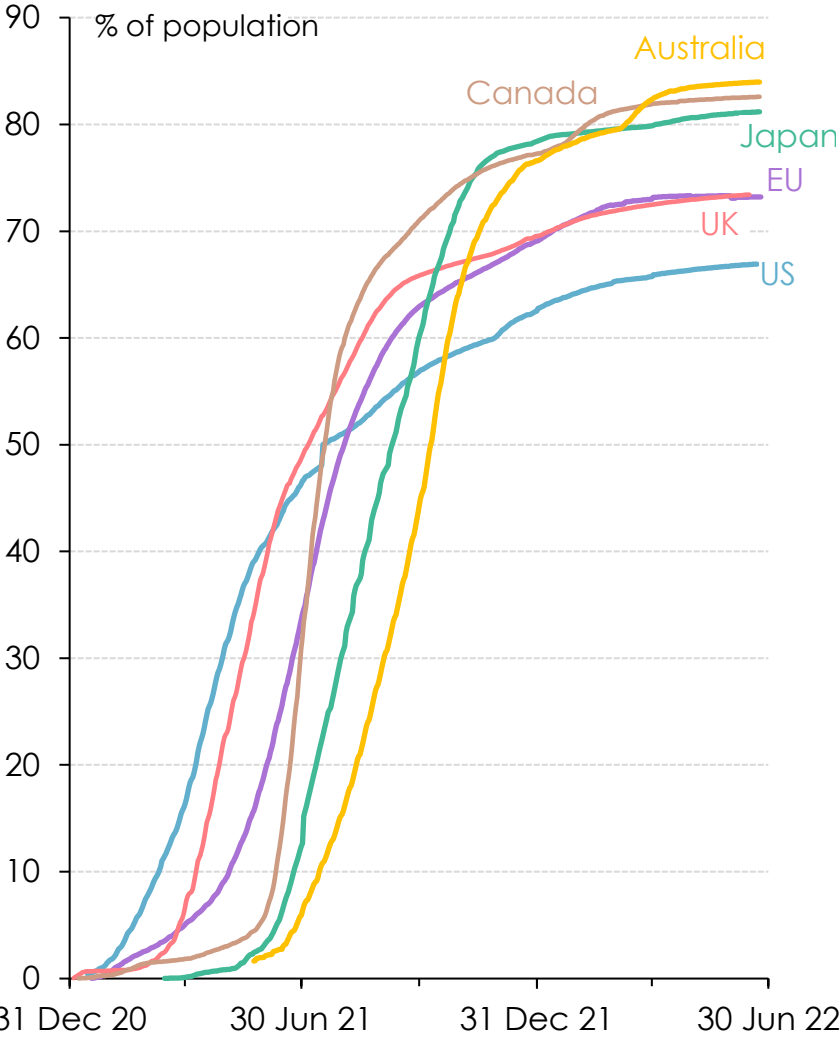
# The US lags behind most other 'advanced' economies in fully vaccinating its population and also now with regard to 'boosters'

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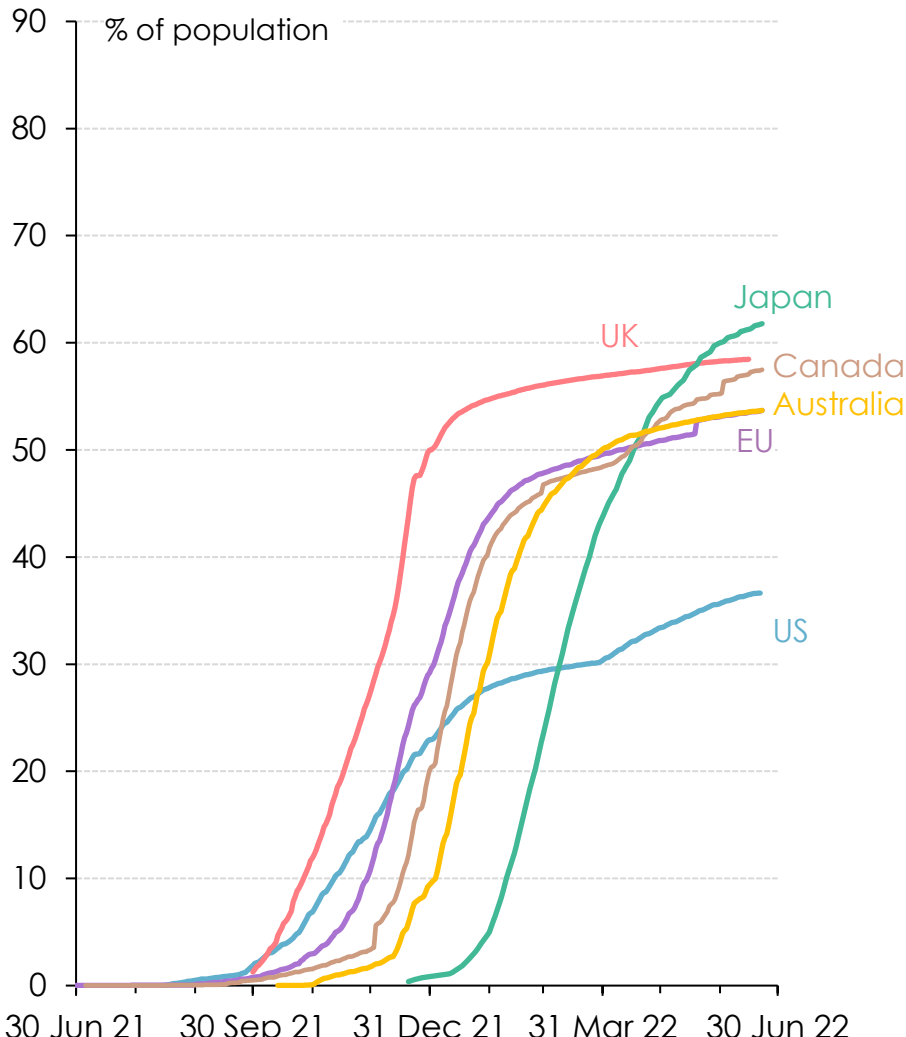
Percentage of populations who have had at least one shot



Percentage of populations who have had two shots



Percentage of populations who have had a 'booster' shot

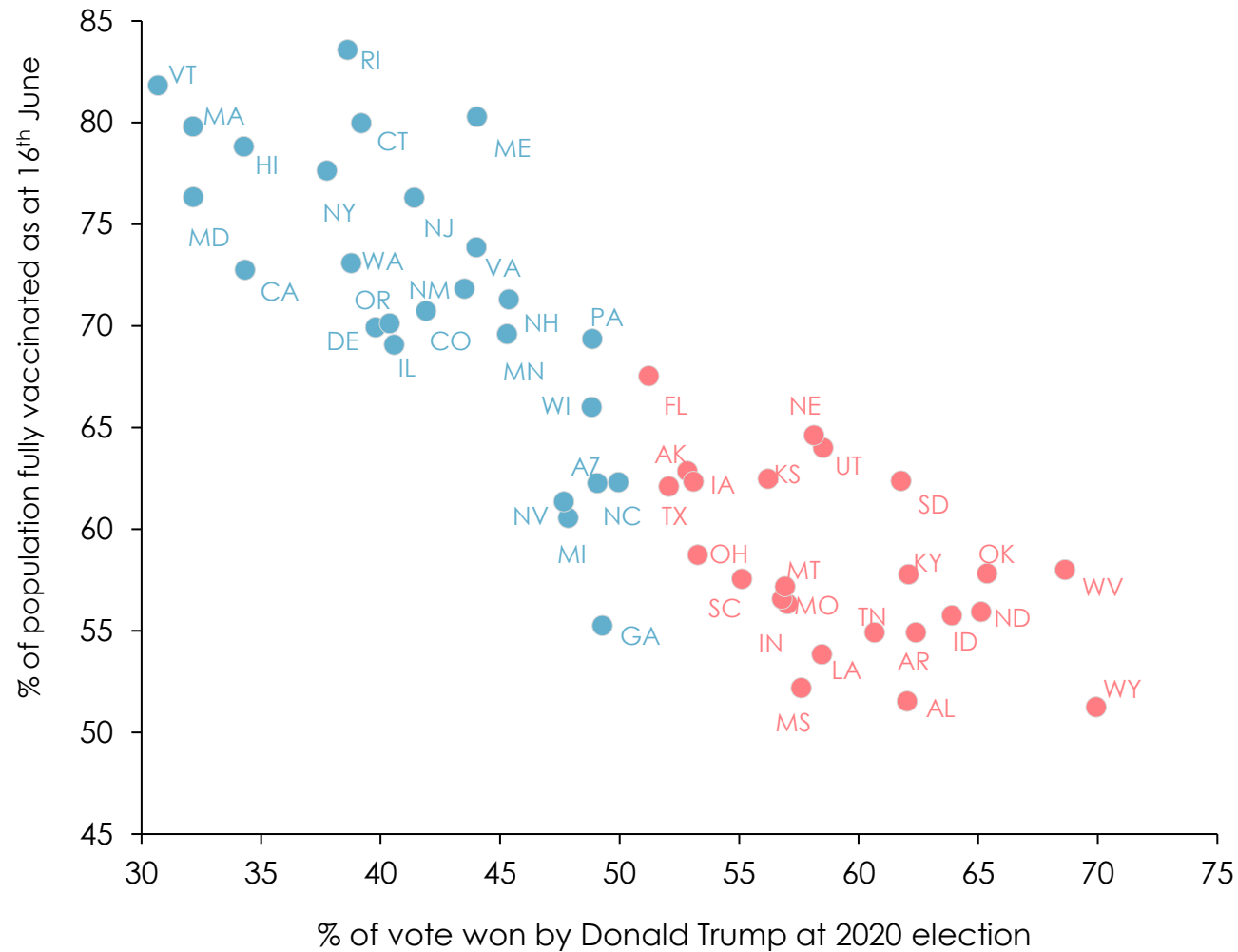


Note: Data up to 23<sup>rd</sup> or 24<sup>th</sup> June, except for the UK, 15<sup>th</sup> June. Source: [Our World in Data](#); [Coronavirus \(COVID-19\) Vaccinations](#). [Return to "What's New"](#).

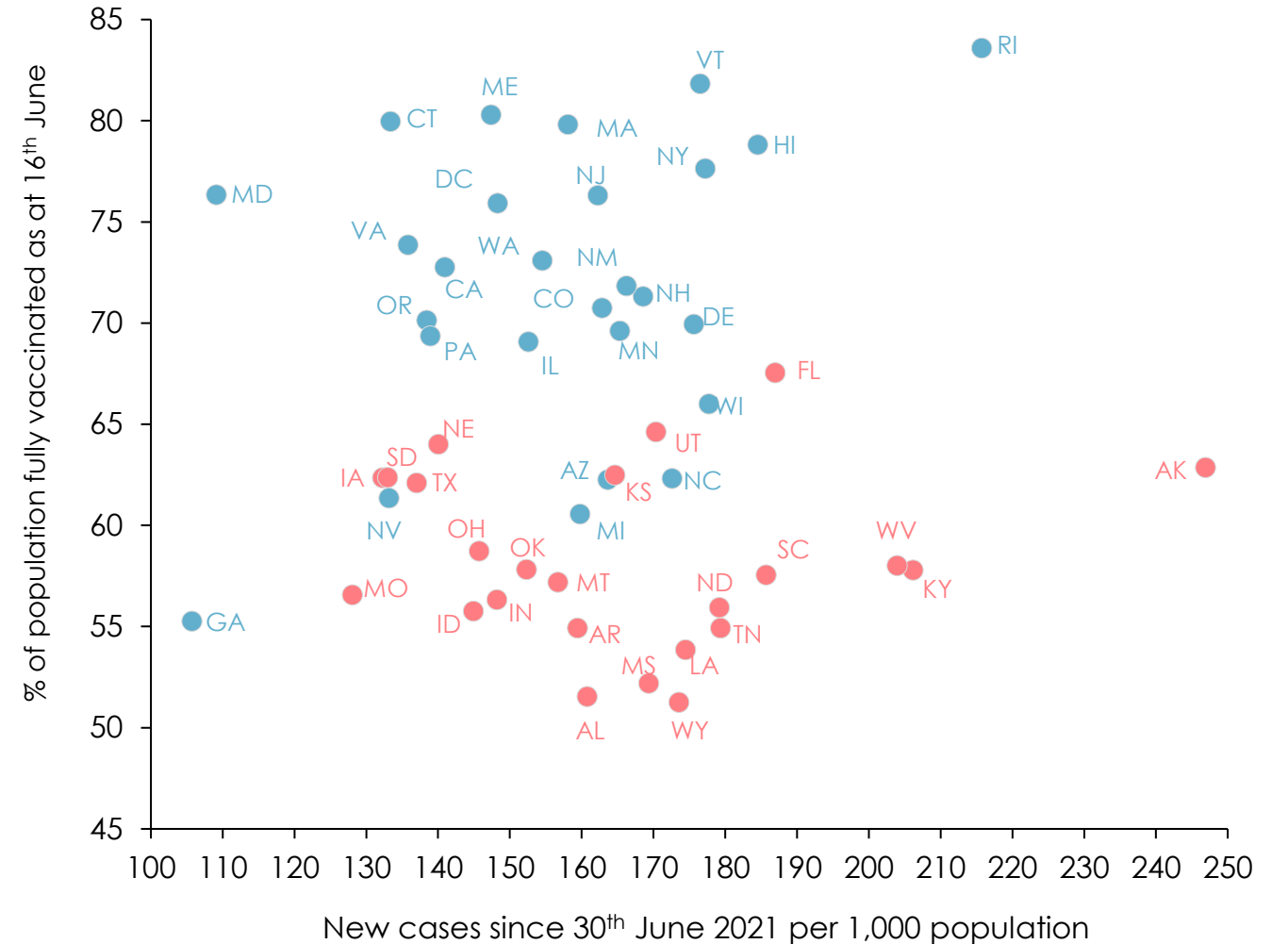
# In the US there's a strong correlation between voting patterns and vaccine hesitancy, and (inversely) between vaccination rates and infection rates

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## Vaccination rates vs Trump vote at 2020 elections, by state



## Vaccination rates vs infection rates since 30<sup>th</sup> June 2021, by state

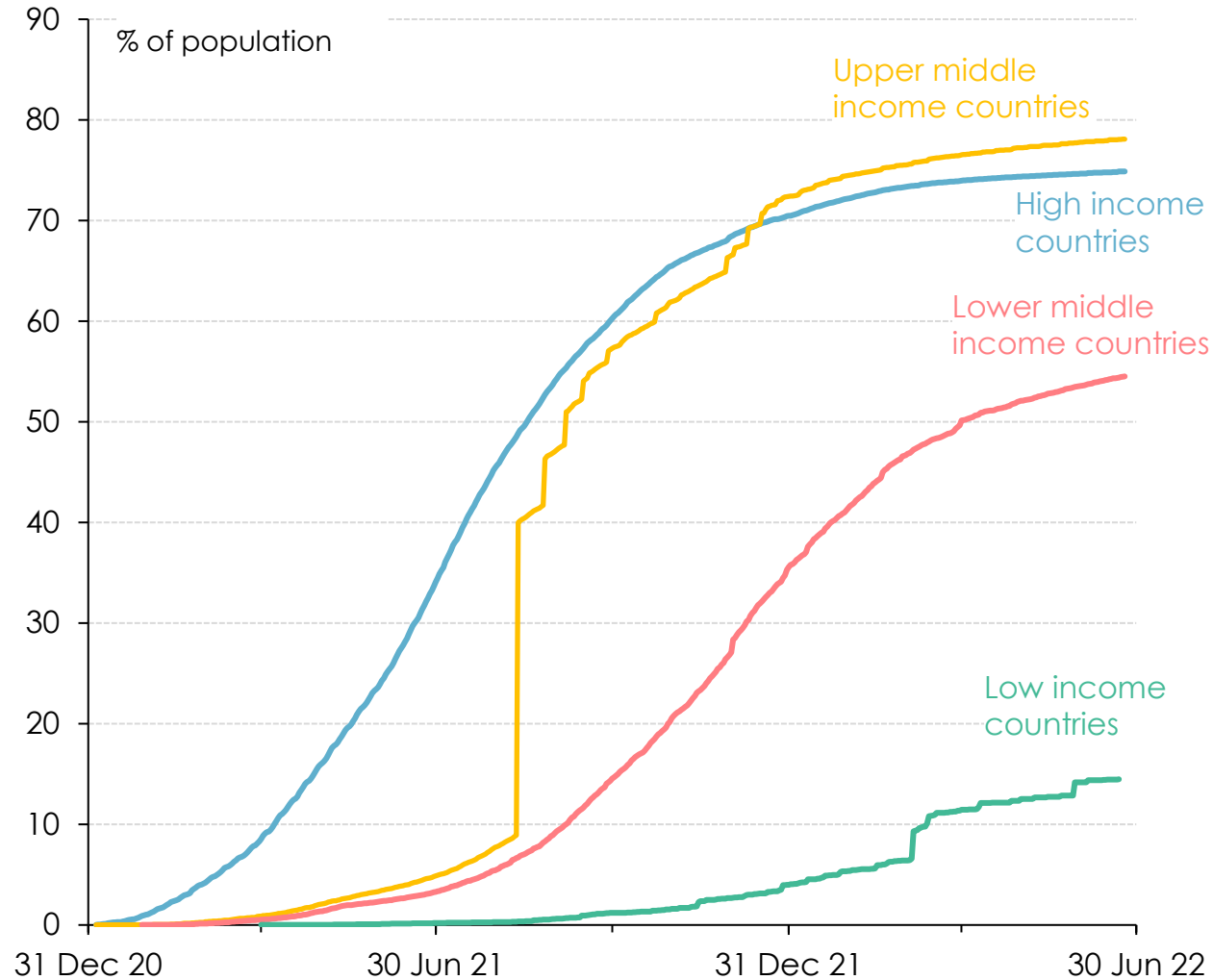


Note: Case data as at 22<sup>nd</sup> June. Vaccination data has not been updated since 16<sup>th</sup> June.  
Sources: [The Cook Political Report](#); [Our World in Data](#); [USA Facts](#); Corinna. [Return to "What's New"](#).

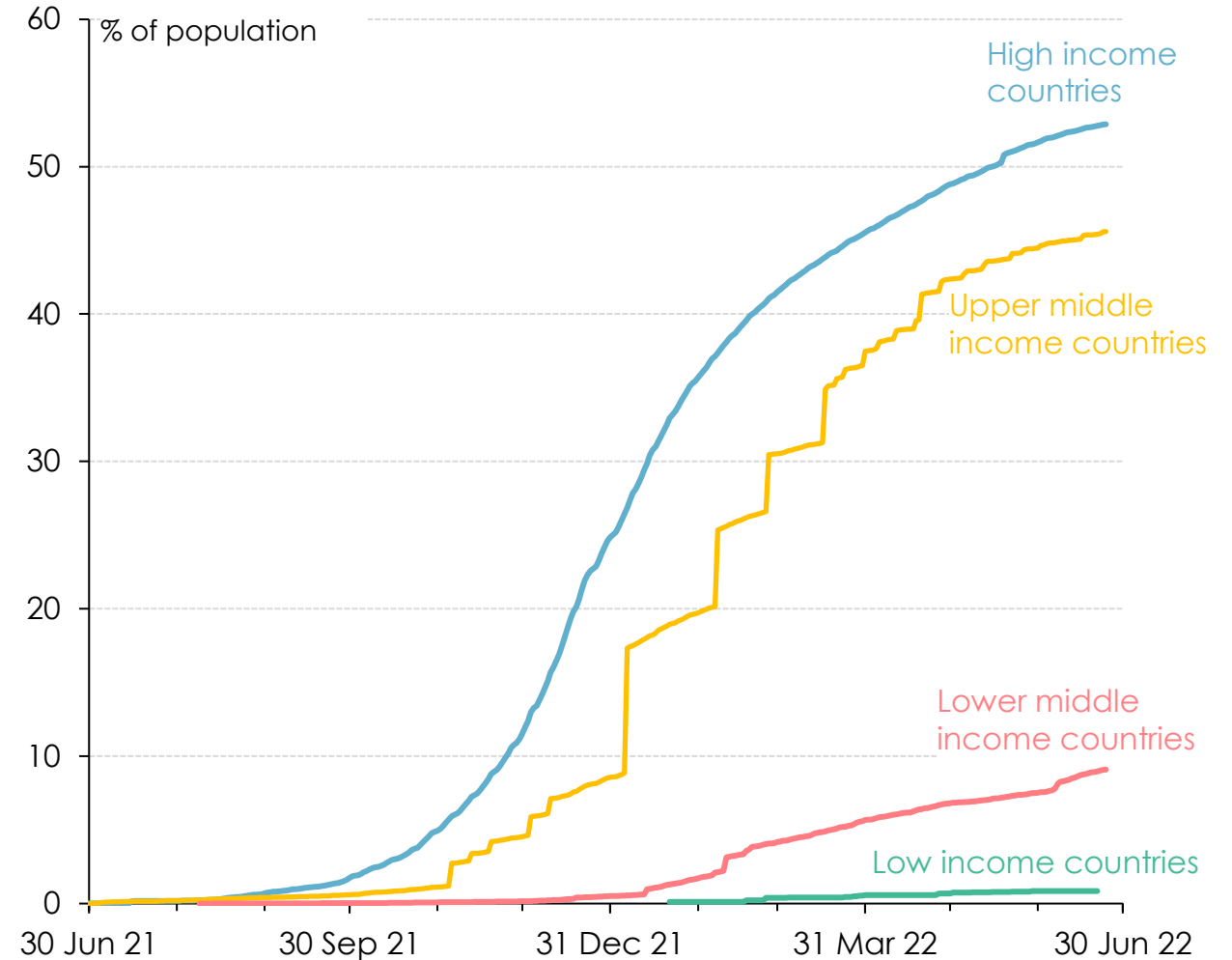
# The vaccine roll-out has proceeded much more slowly among low- and lower-middle income countries

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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



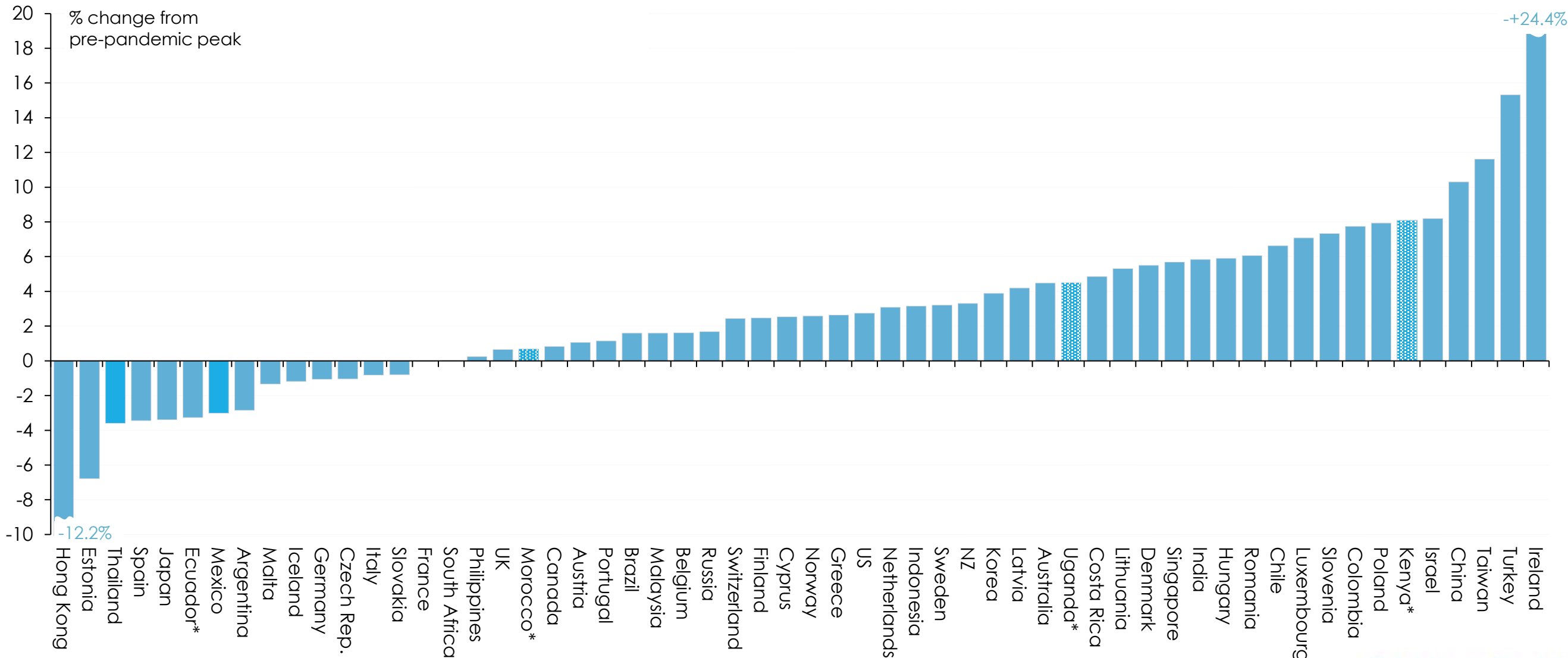
Note: Income categories are as defined by the [World Bank](#): high-income countries are (in 2021) those with a per capita gross national income (GNI) of over US\$12,535; upper-middle income countries are those with per capita GNI between US\$4,046 and \$12,535; lower middle-income countries are those 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 12<sup>th</sup> August 2021 and 6<sup>th</sup> January 2022. Source: Our World in Data, [Coronavirus \(COVID-19\) Vaccinations](#). [Return to "What's New"](#).

# The world economy

# 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



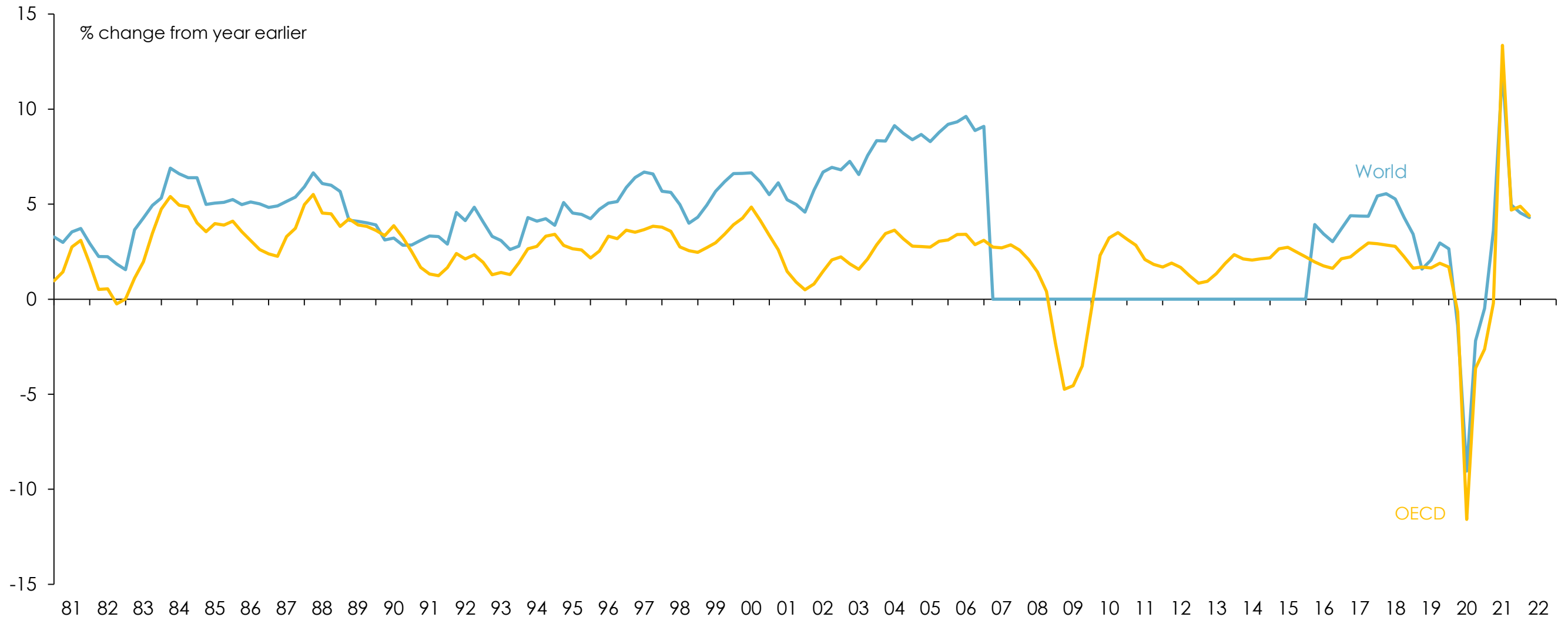
Note: \* Q4 2021. Estimate for China is derived from quarterly growth rates published by China NBS; estimates for India, Indonesia and Russia are seasonally adjusted by the OECD. Sources: National statistical agencies and central banks, and OECD. [Return to "What's New"](#).



# 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

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

## World and OECD area real GDP growth

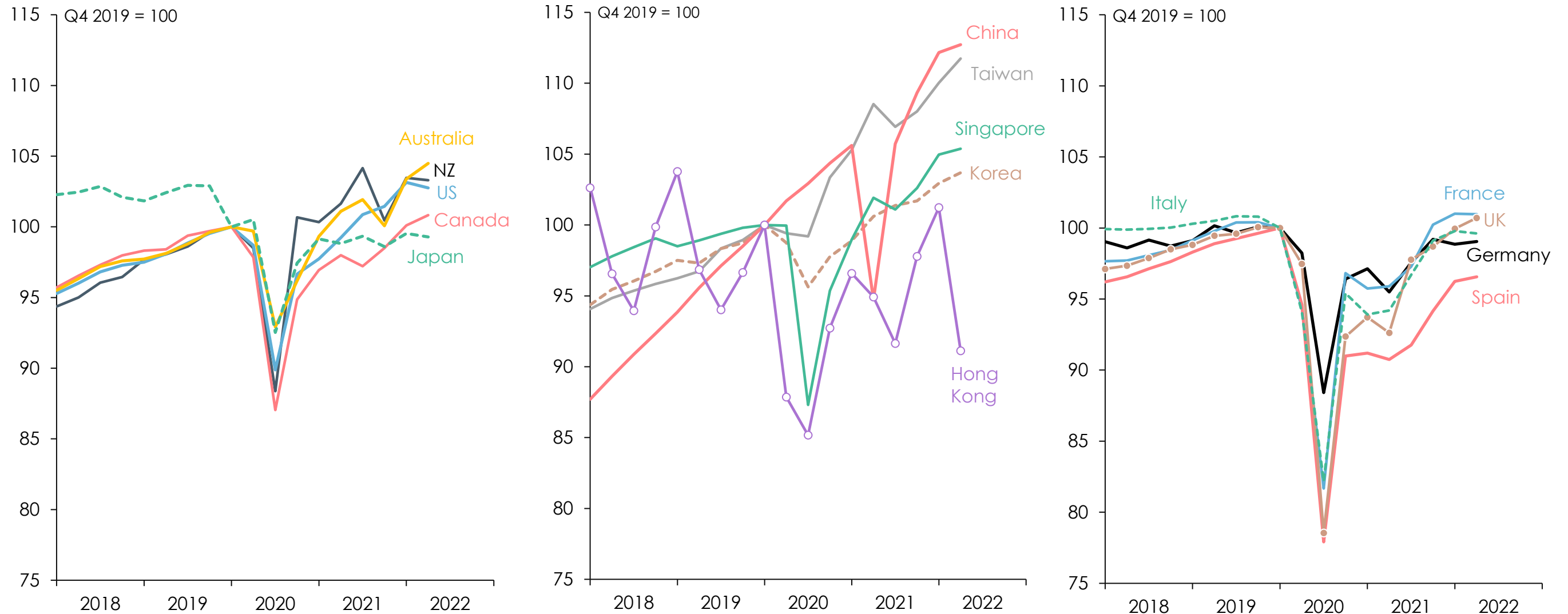


Note: Estimates of global GDP growth compiled by Corinna using data for 100 countries accounting for 94% of 2019 world GDP as measured by the IMF, weighted in accordance with each country's share of global GDP at purchasing power parities in 2019; excludes constituents of the former USSR before 1993, 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 – 27<sup>TH</sup> 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 – 27<sup>TH</sup> JUNE 2022

## Major global institutions' growth forecasts for 2021- 2023 compared

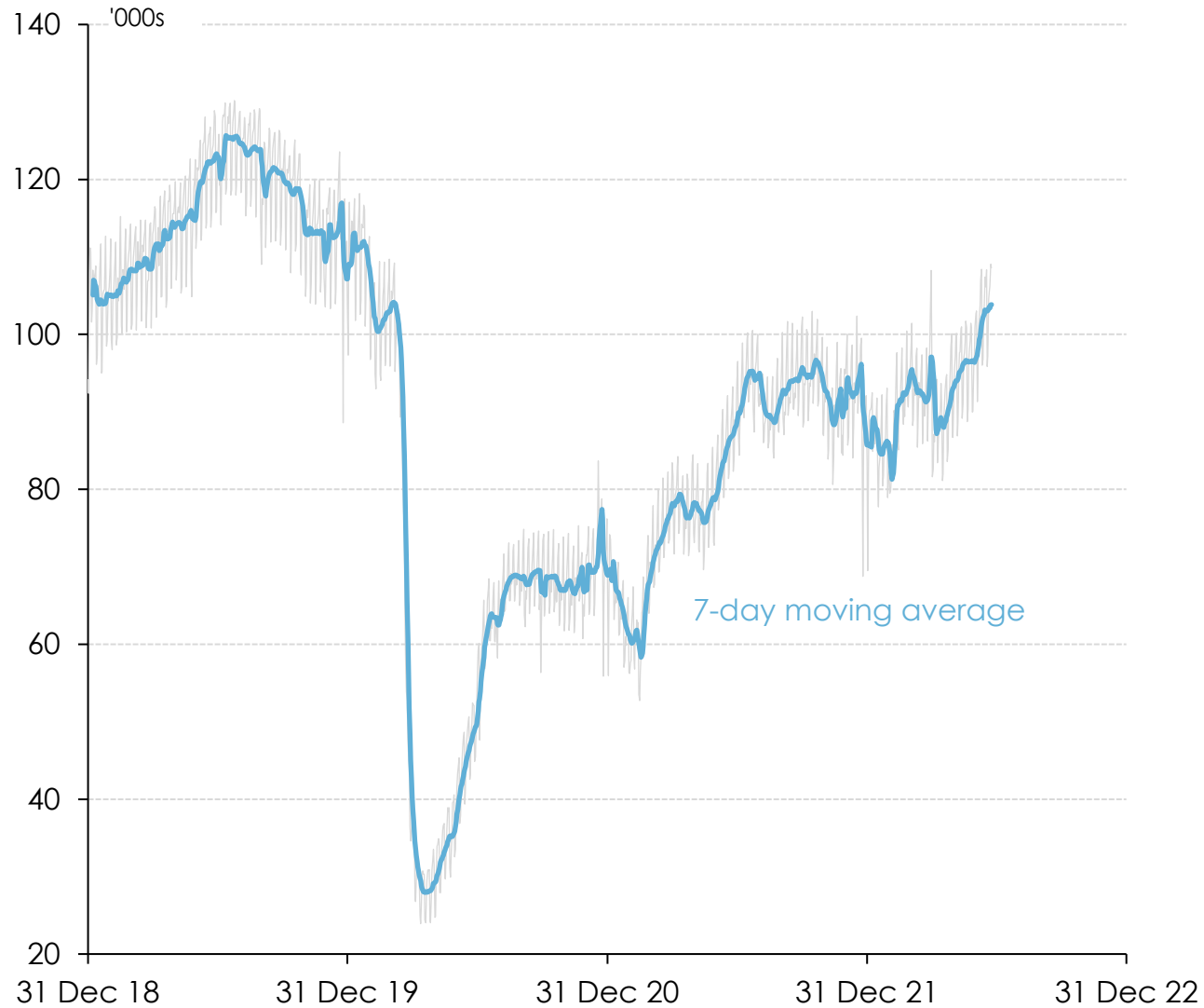
	Actual		IMF			OECD			World Bank			Australian/NZ Treasury		
	2010-19 <sup>^</sup>	2020	2021	2022	2023	2021	2022	2023	2022	2023	2024	2022	2023	2024
US	2.2	-3.5	5.7	3.7	2.3	5.7	2.5	1.2	2.5	2.4	2.0	3.5	2.5	2.0
China	7.7	2.3	8.1	4.4	5.1	8.1	4.4	4.9	4.3	5.2	5.1	4.8	5.3	5.0
Euro area	1.3	-6.6	5.3	2.8	2.3	5.3	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 <sup>†</sup>	4.2 <sup>†</sup>	0.7 <sup>†</sup>
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. <sup>^</sup> Annual average. \* Forecasts for fiscal years beginning 1<sup>st</sup> July (and finishing 30<sup>th</sup> June following year) <sup>†</sup> Forecasts by New Zealand Treasury for fiscal years beginning 1<sup>st</sup> July. Sources: International Monetary Fund (IMF), [World Economic Outlook](#), 19<sup>th</sup> April 2022; The World Bank, [Global Economic Prospects](#), 7<sup>th</sup> June 2022; Organization for Economic Co-operation & Development (OECD), [Economic Outlook 2022 \(preliminary version\)](#), 8<sup>th</sup> June 2022; Australian Treasury, 2022-23 [Budget Paper No. 1](#), 29<sup>th</sup> March 2022; New Zealand Treasury, [Budget Economic and Fiscal Update 2022](#), 19<sup>th</sup> May 2022. [Return to "What's New"](#).

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

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

## Daily commercial flights worldwide



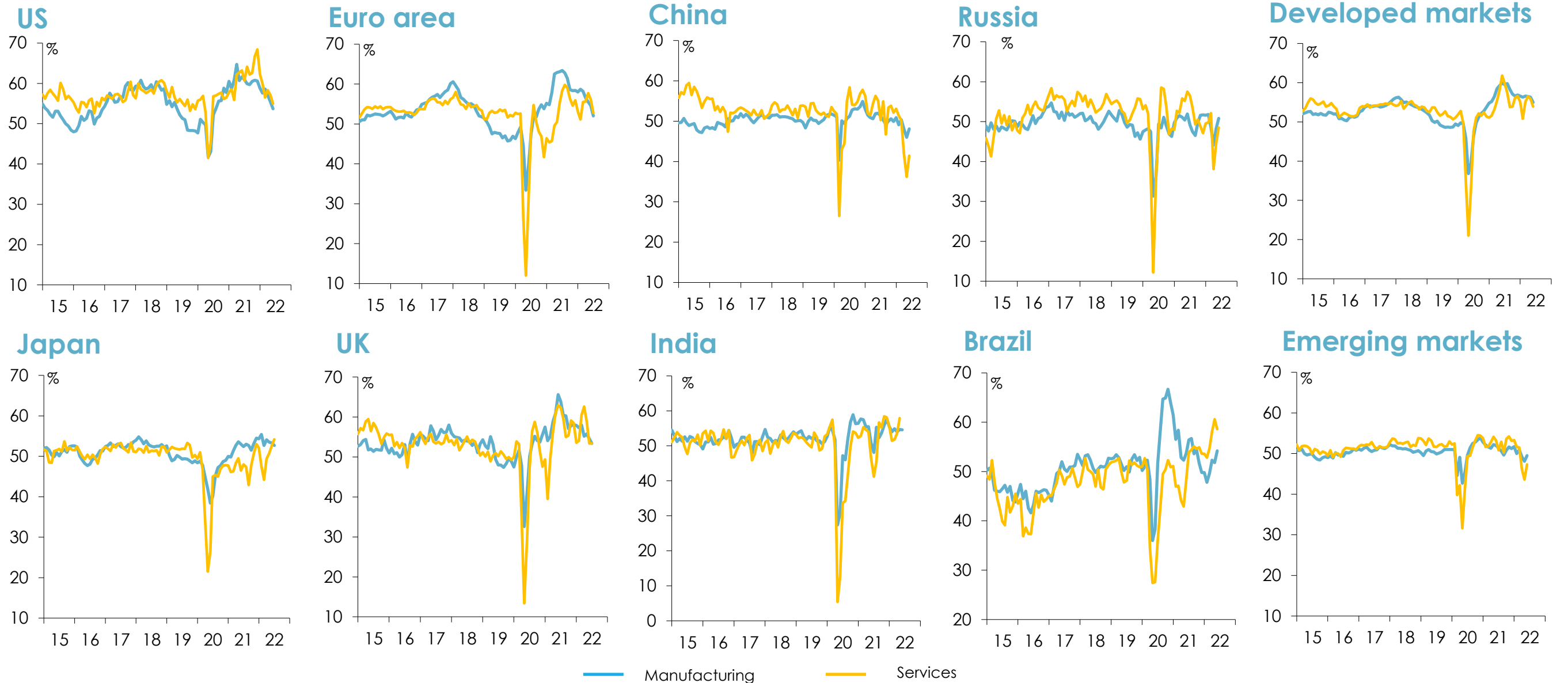
## Daily US TSA 'security' checks



Note: Commercial flights include commercial passenger flights, cargo flights, charter flights, and some business jet flights. Data are up to 24<sup>th</sup> June for both commercial flights and TSA checks. Thicker coloured lines are 7-day centred moving averages of daily data plotted in thin grey lines. Sources: [Flightradar24.com](https://www.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"](#).

# 'Flash' PMIs for June point to further softening in the euro area and the UK, but a further gradual recovery in Japan, led by services

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

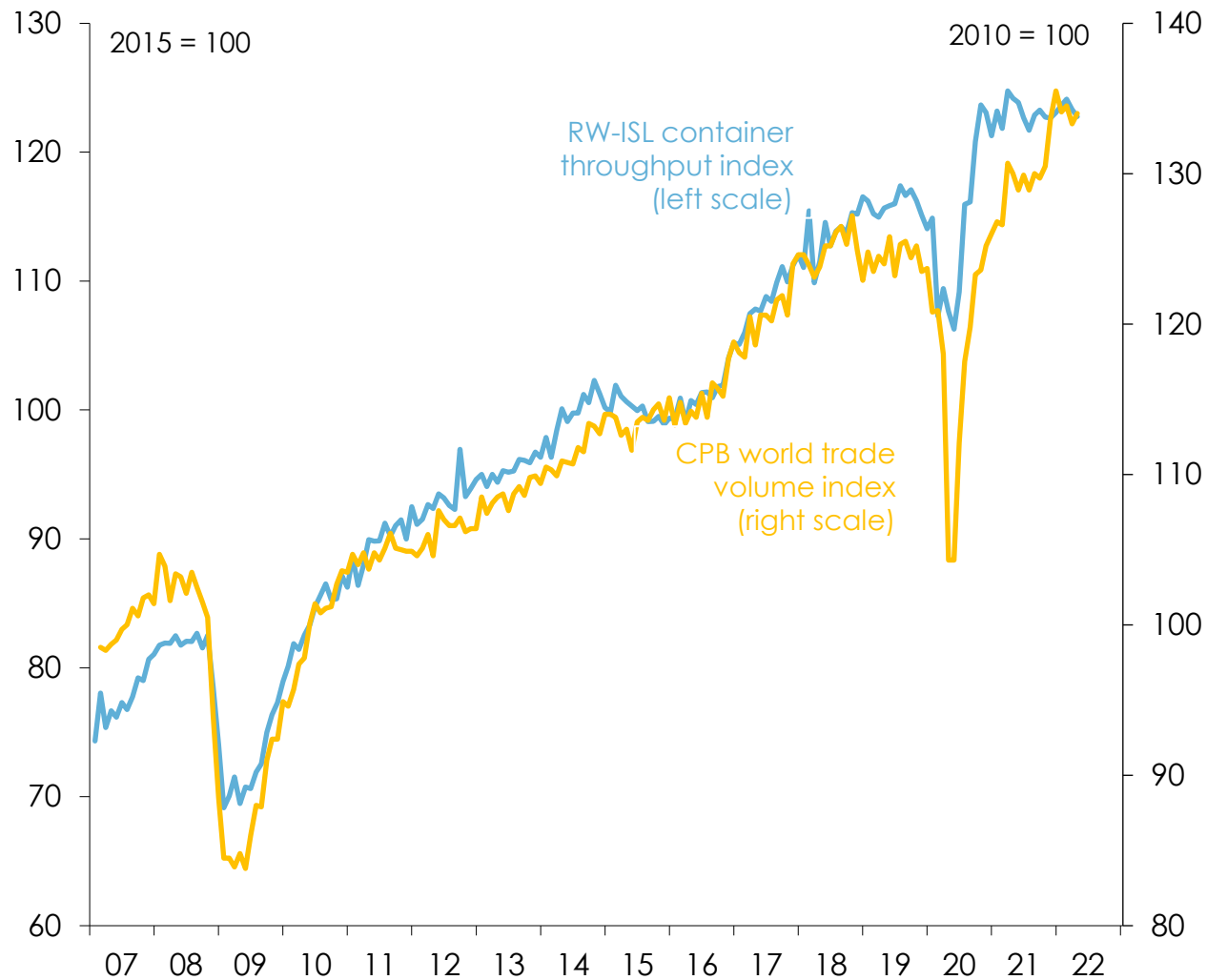


Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous month, and a reading of less than 50 indicates a decrease. Latest data for the US, Japan, euro area and UK are 'flash' June readings, all others are for May. See also PMIs for other Asia-Pacific economies on [slide 98](#). Sources: [US Institute for Supply Management](#); [IHS Markit](#); JP Morgan; [Caixin](#); Refinitiv Datastream. [Return to "What's New"](#).

# The volume of world trade rose 0.5% in April, but was still 1.1% below the most recent peak in December last year

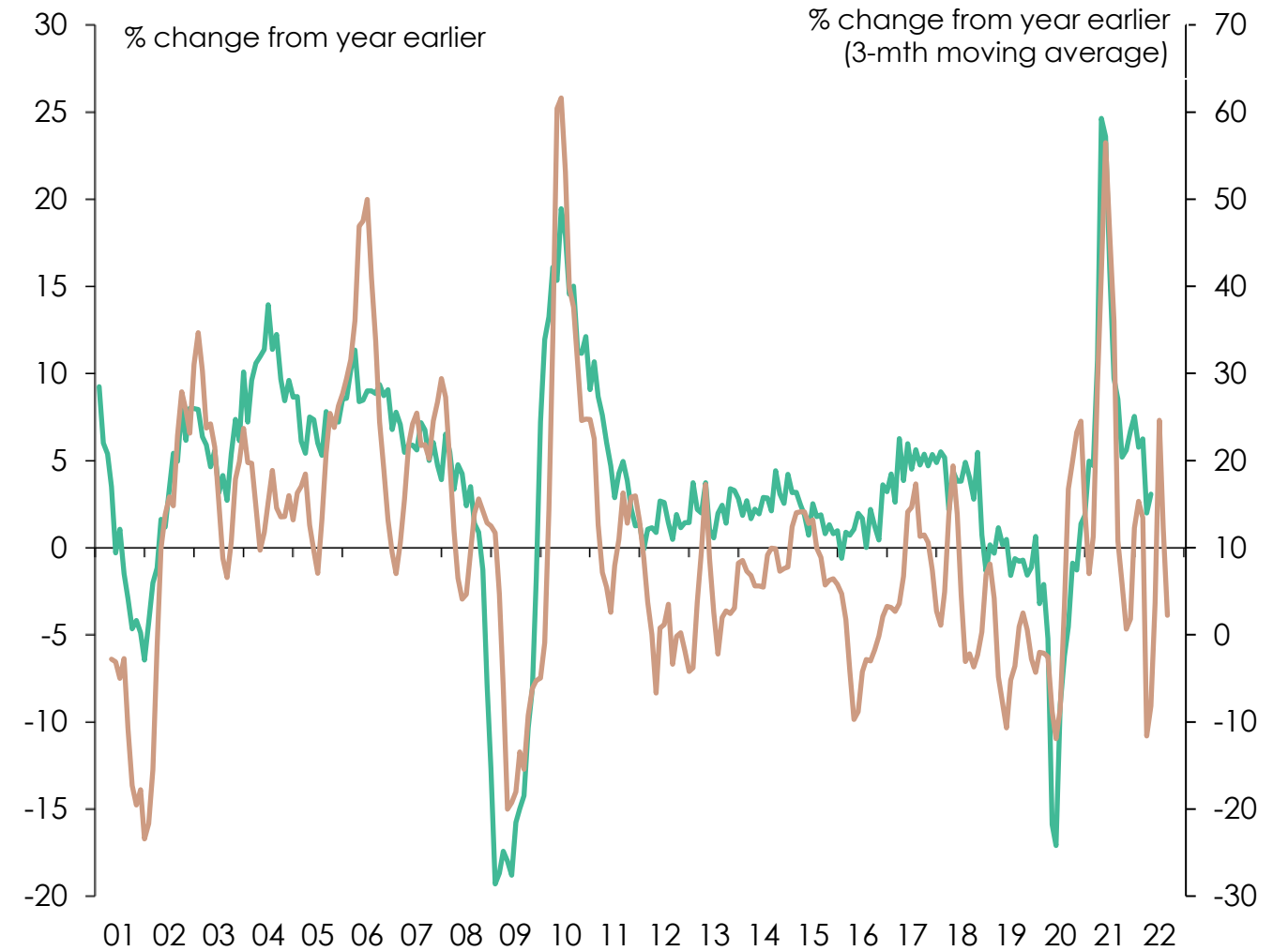
THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

## World trade volumes and container throughput



— RWI-ISL container throughput index (left scale)  
— CPB World trade volume index (right scale)

## Taiwan export orders and world trade volumes



— Volume of world trade (left scale)  
— Taiwan export orders, fwd 3 months (right scale)

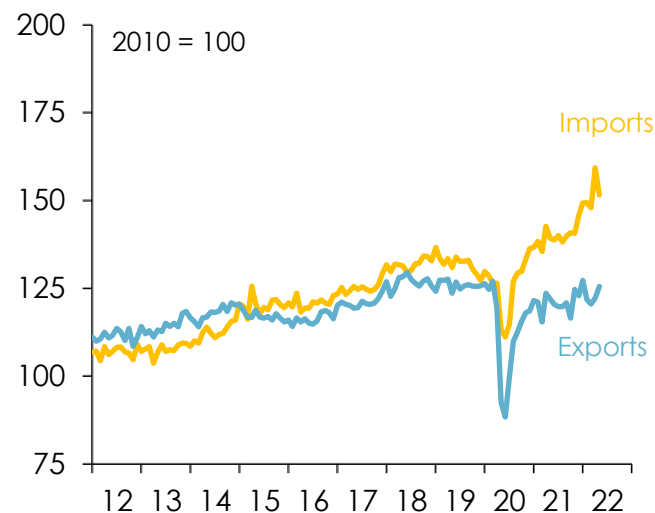
Note: The shipping container throughput index is based on reports from 91 ports around the world handling over 60% of global container shipping.  
Sources: CPB Netherlands Economic Planning Bureau, [World Trade Monitor](#), April 2022 (May data to be released on 25<sup>th</sup> July); Institute of Shipping 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"](#).



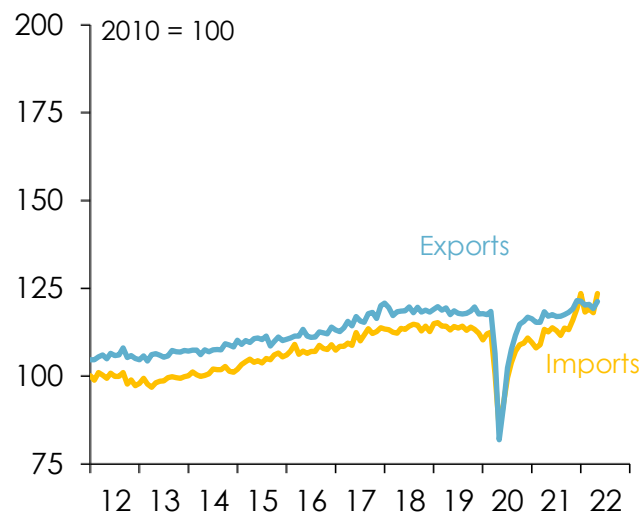
# Supply-chain disruptions in China have been a major factor in the slowing in world trade this year: the UK's poor trade performance is also notable

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

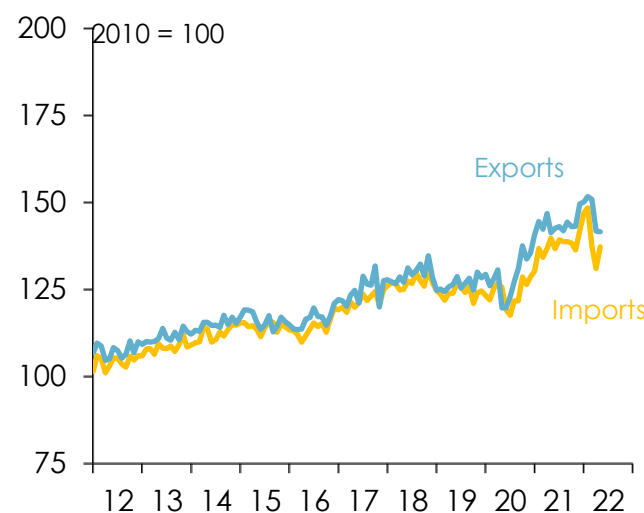
## United States



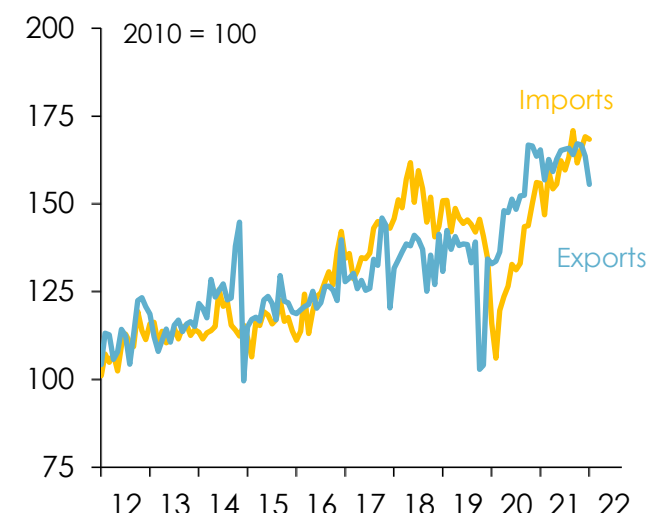
## Euro area



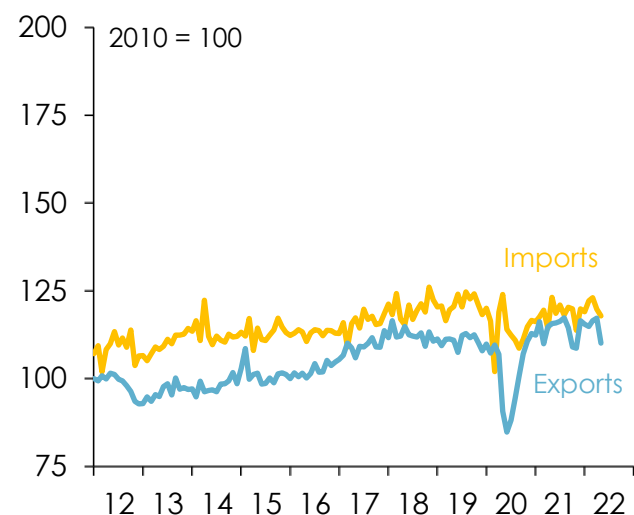
## Other 'advanced' Asia



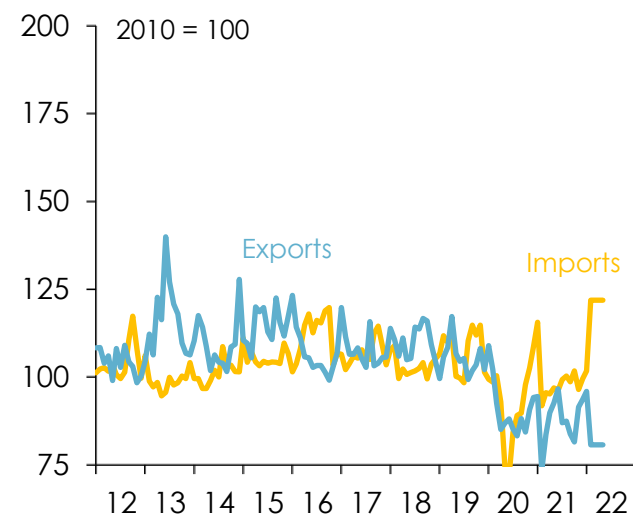
## Other 'emerging' Asia



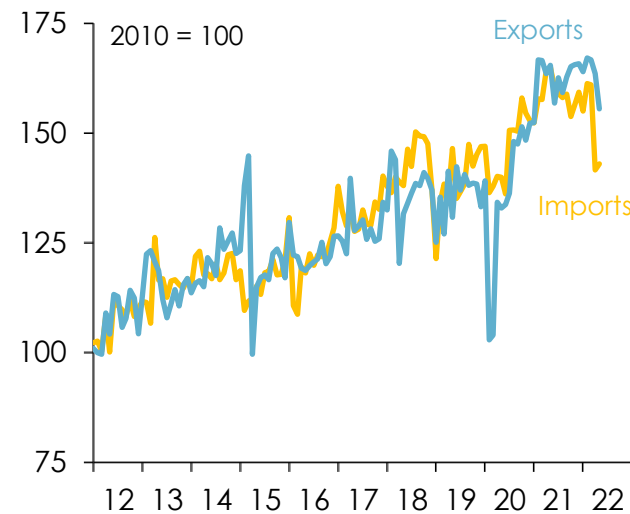
## Japan



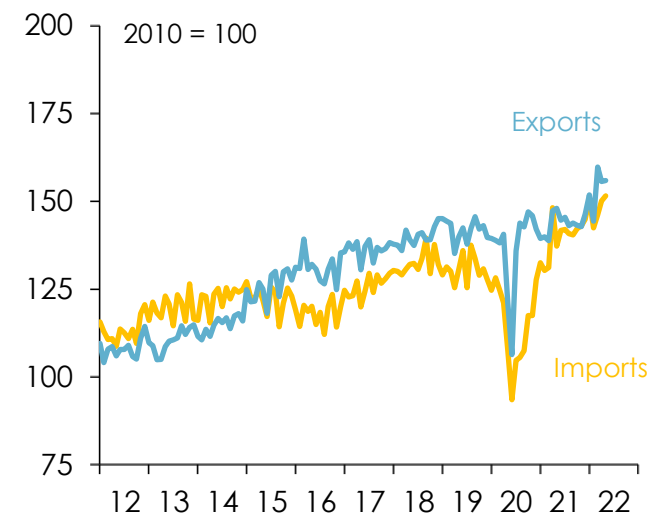
## United Kingdom



## China



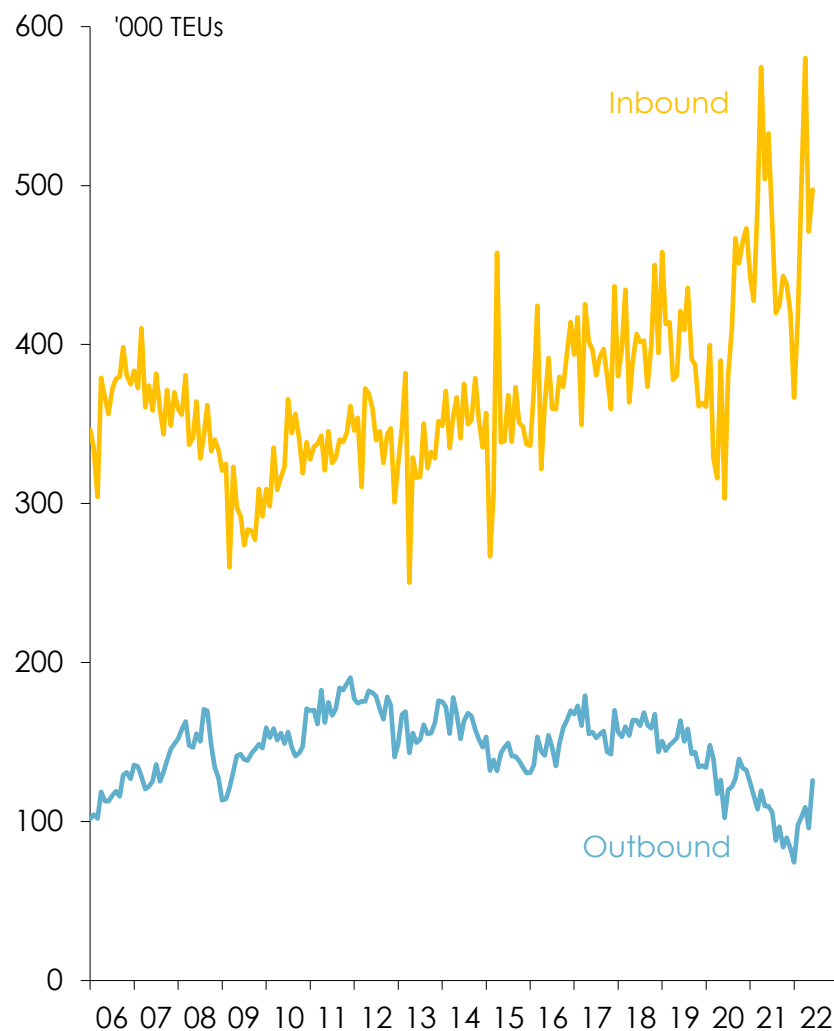
## Latin America



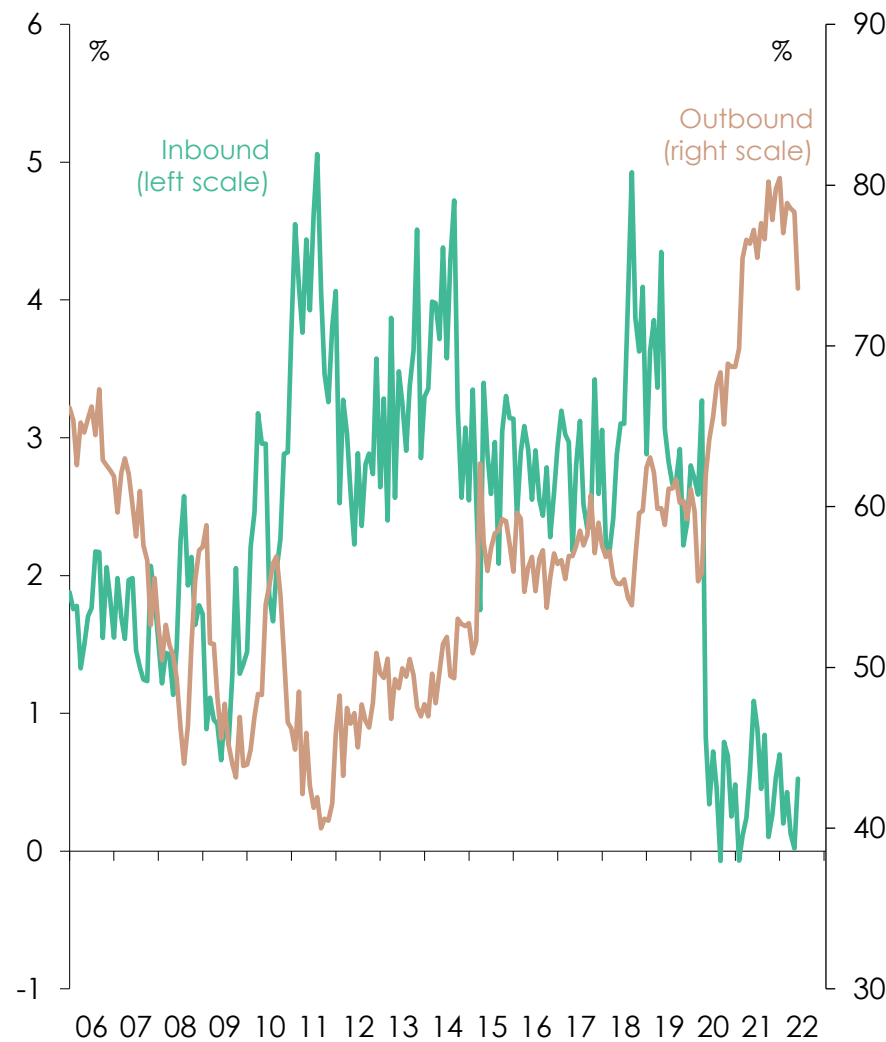
# Congestion at the Port of Los Angeles (the US' largest container port) has eased significantly but trade flows remain unusually unbalanced

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

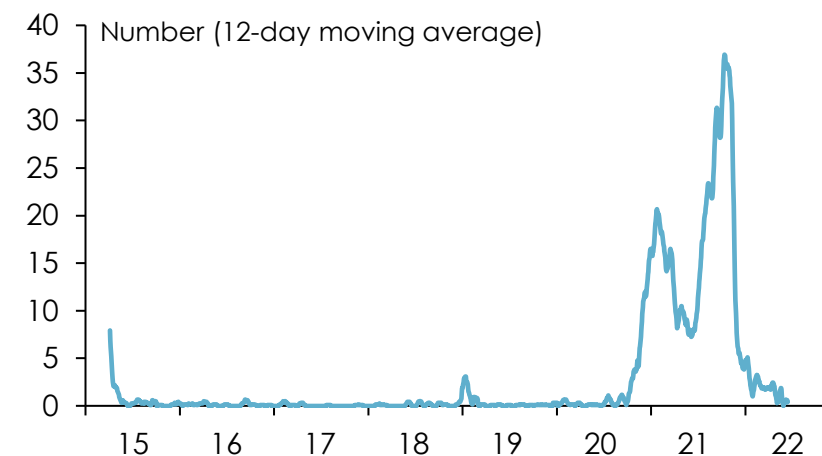
## Container traffic through the Port of Los Angeles



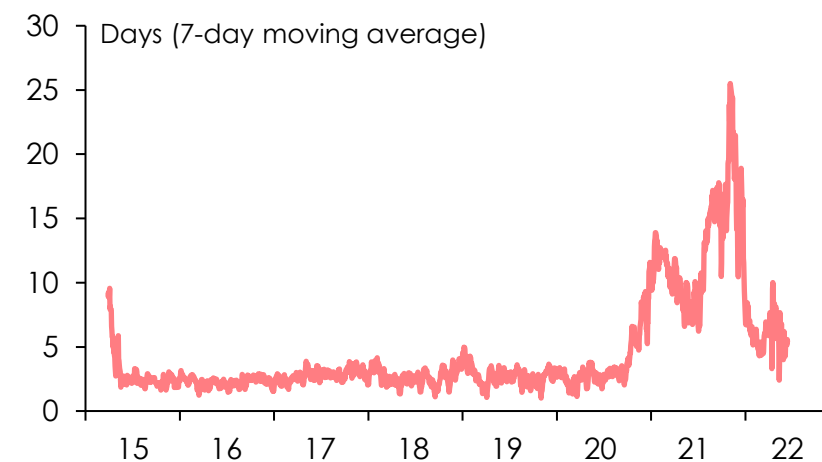
## Empty containers as a pc of total passing through PoLA



## Number of vessels at anchor outside PoLA



## Average time at anchor and berth for ships at PoLA

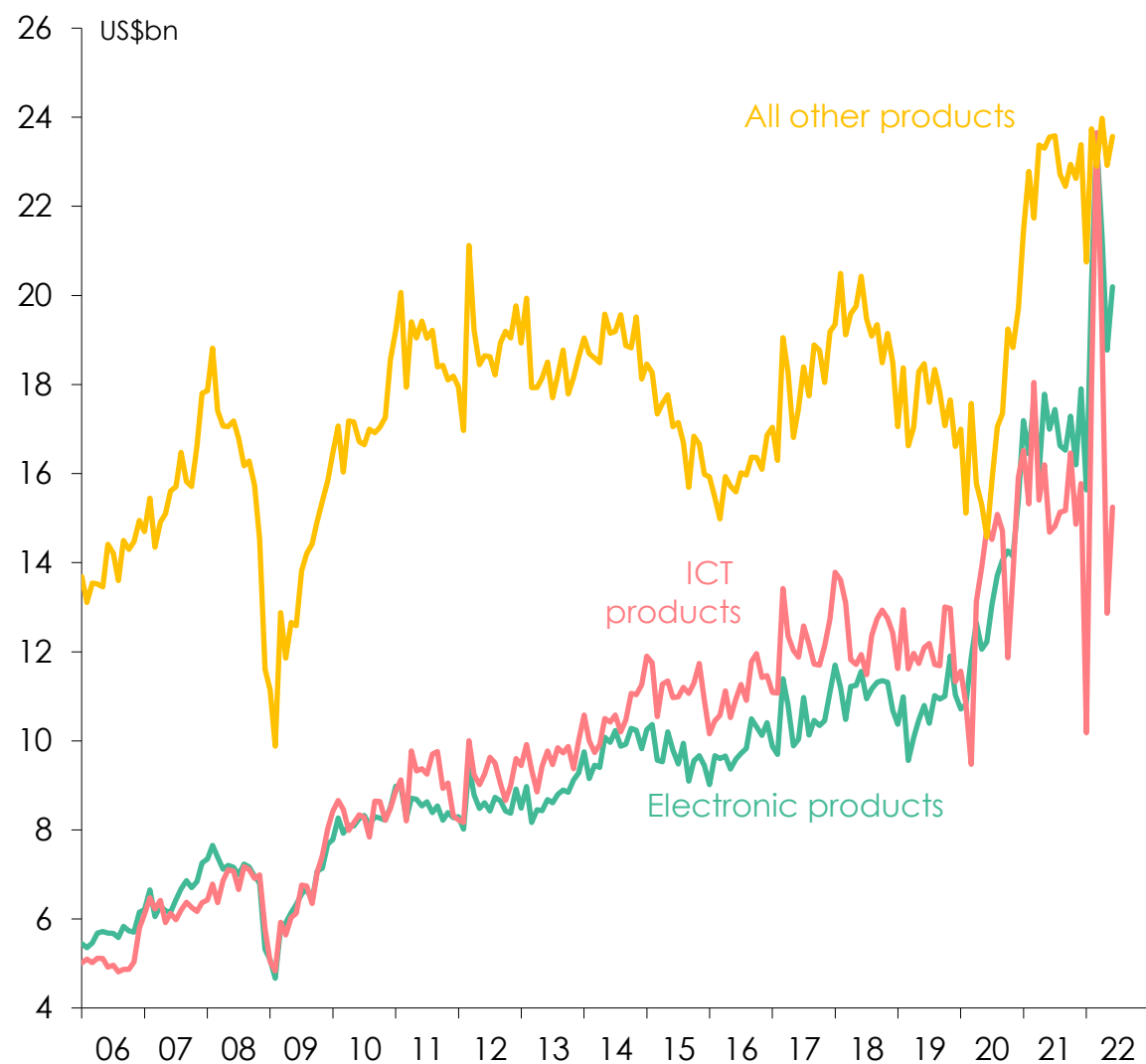


Note: TEU = 20-foot equivalent unit. Data on inbound and outbound container traffic in the first two charts have been seasonally adjusted by Corinna using Refinitiv Datastream. Data up to 24<sup>th</sup> June. Source: The Port of Los Angeles, [Container Statistics](#) and [Container vessels in port](#). [Return to "What's New"](#).

# Export orders for Taiwanese ICT products rose 19% in May, after large falls in March and April, partly because of lockdowns in China

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## Taiwan export orders, by product



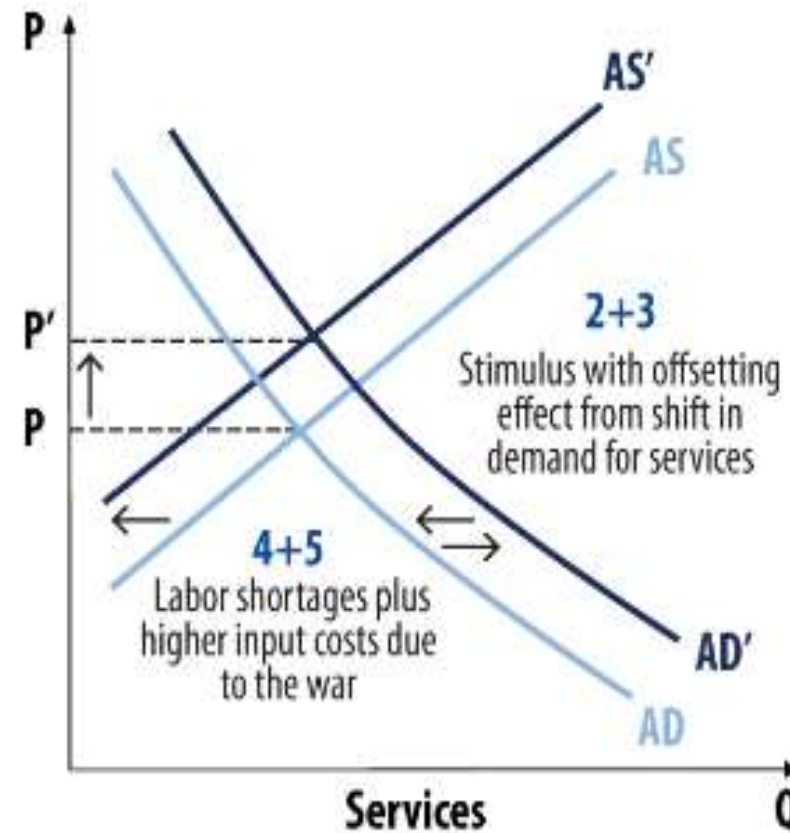
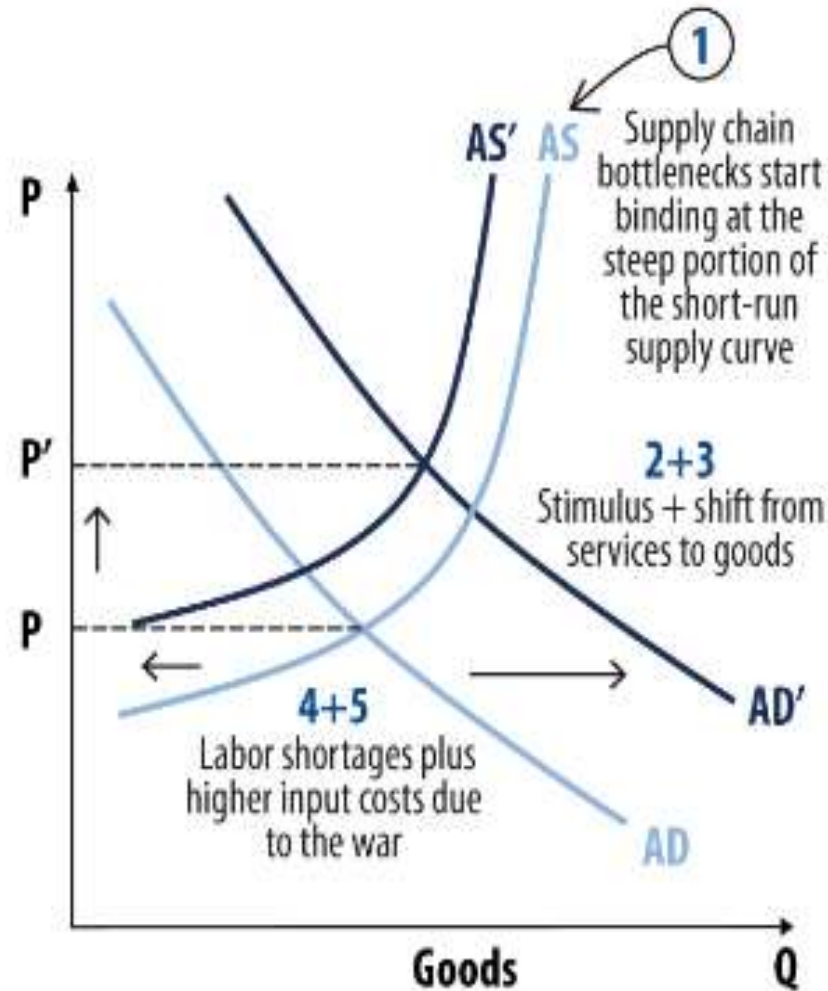
Note: Data have been seasonally adjusted by Corinna using Refinitiv Datastream. Latest data are for May. Source: Taiwan [Ministry of Economic Affairs](#). [Return to "What's New"](#).

- ❑ 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 have been especially volatile over the first five months of this year, in part because of recurring supply-chain disruptions 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 – 27<sup>TH</sup> 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 → 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 → 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 → AS')
  5. Supply shocks to energy and food due to the war in Ukraine shift aggregate supply curves to the left (AS → AS')
- all resulting in upward movements in prices (P → P')

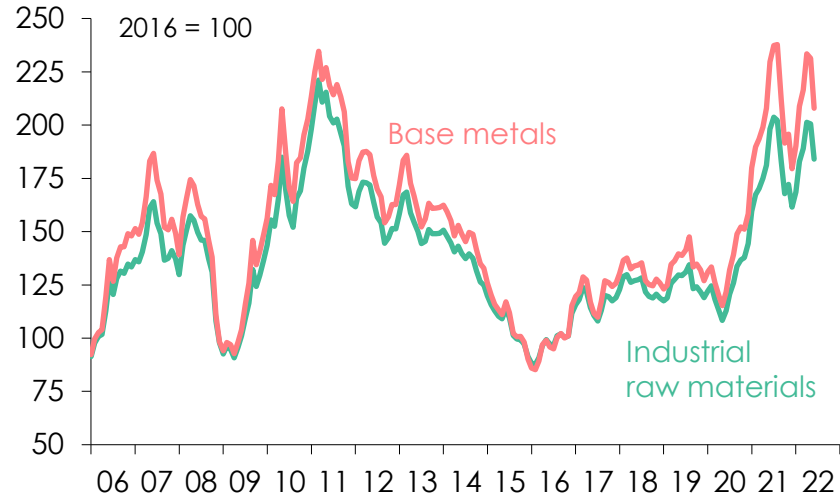
Source: Ruchir Agawal and Miles Kimball, [Will inflation remain high?](#), International Monetary Fund, 7<sup>th</sup> April 2022. [Return to "What's New"](#).



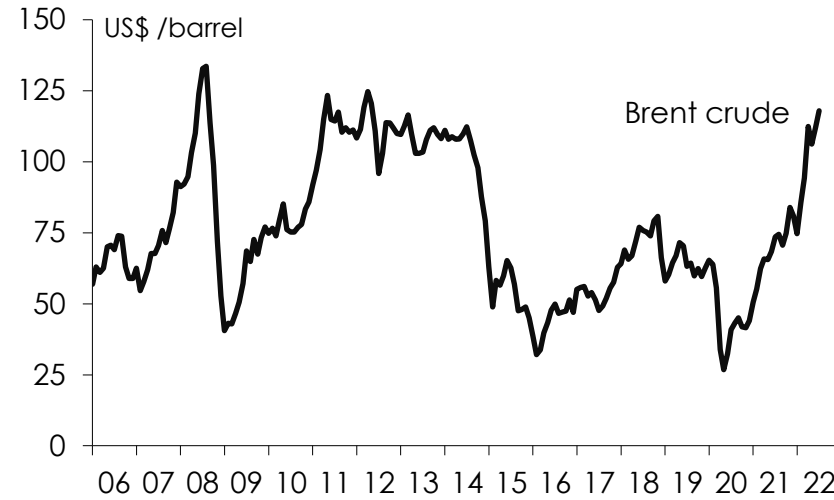
# Energy commodity prices remain elevated, but other commodity prices have eased a bit, and freight & semi-conductor prices are now falling

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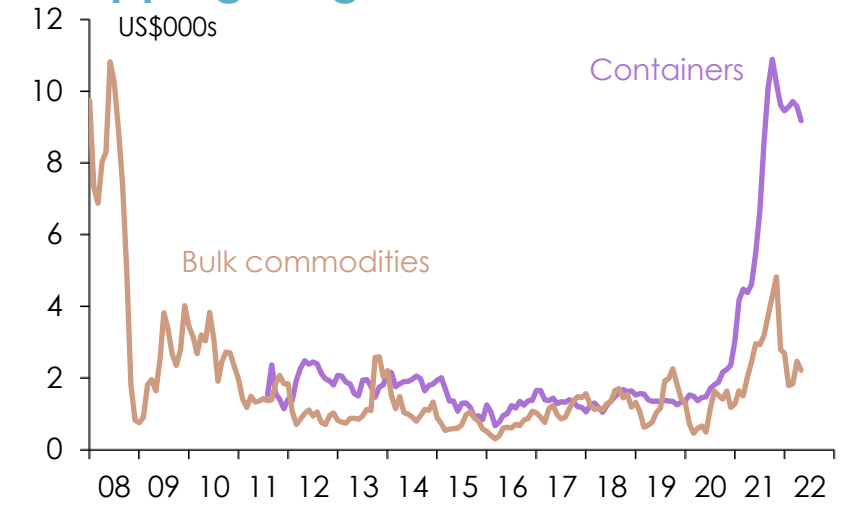
## 'Hard' commodity prices



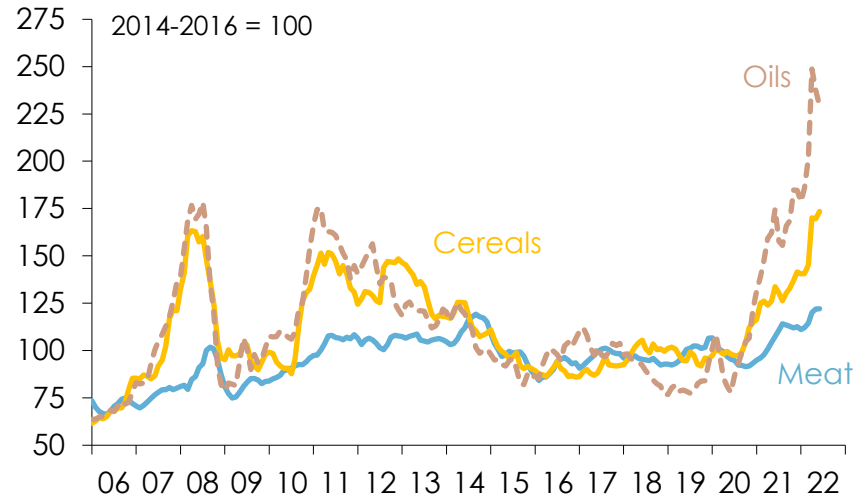
## Crude oil price



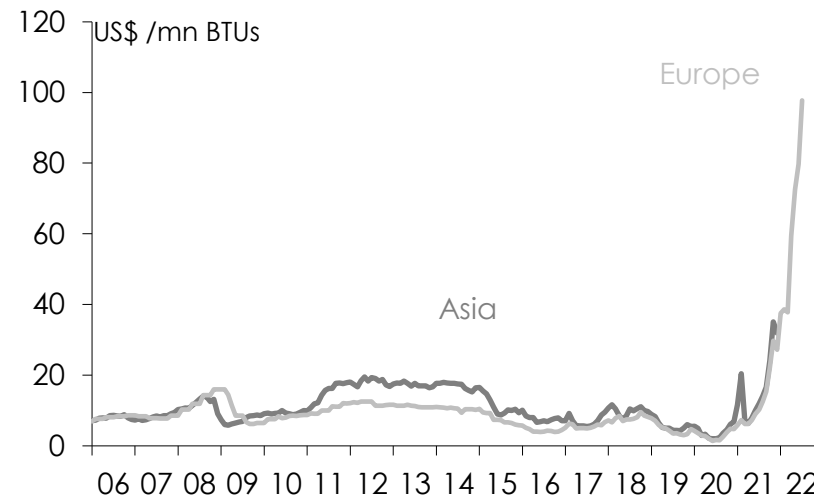
## Shipping freight costs



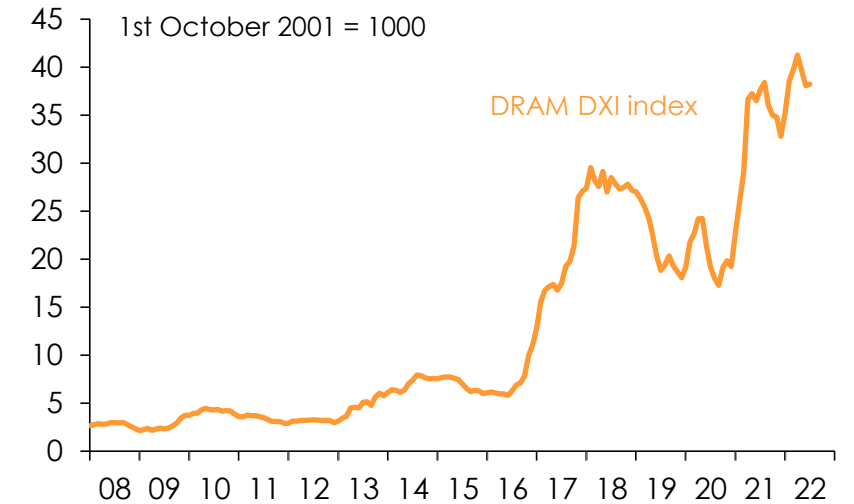
## Food commodity prices



## Natural gas prices



## Semiconductor chip prices

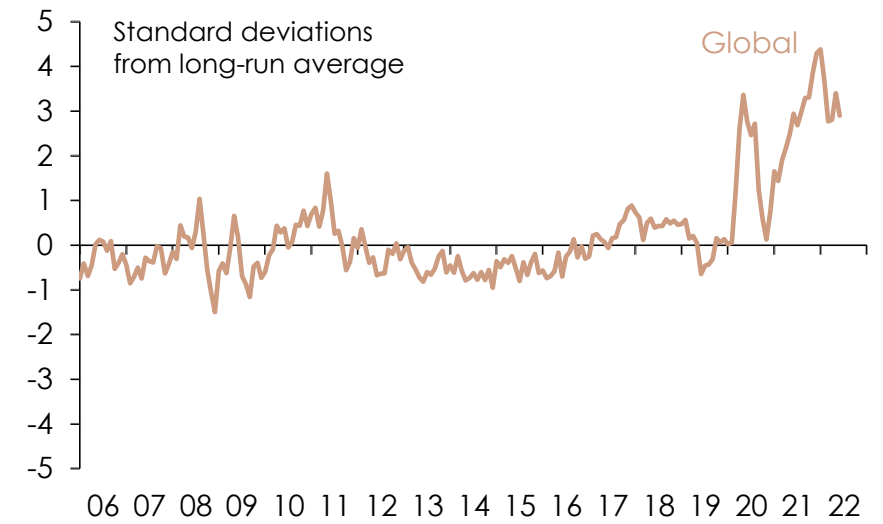
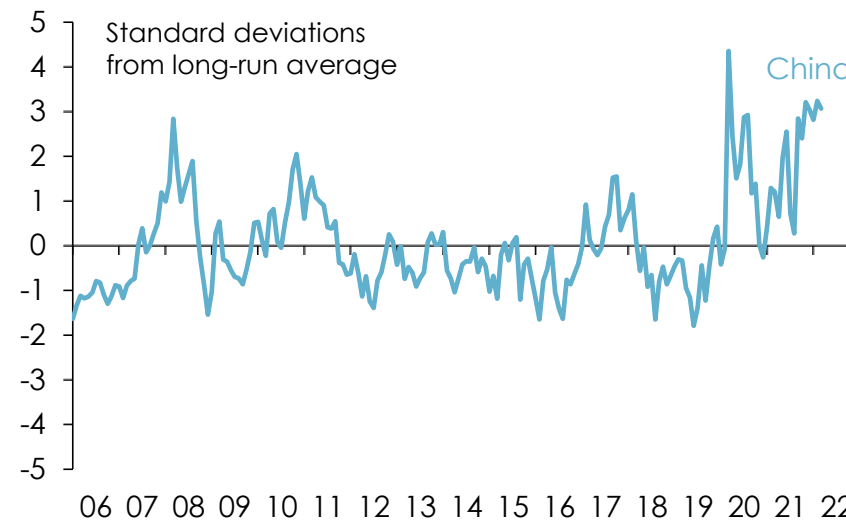
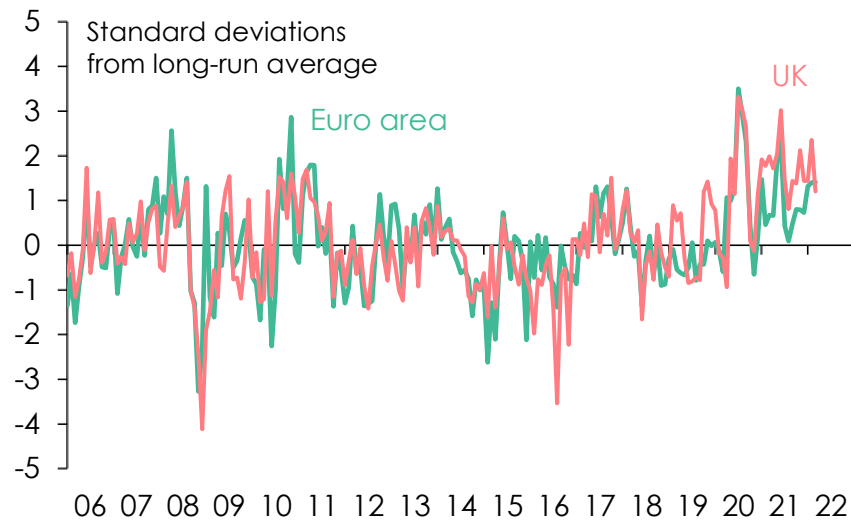
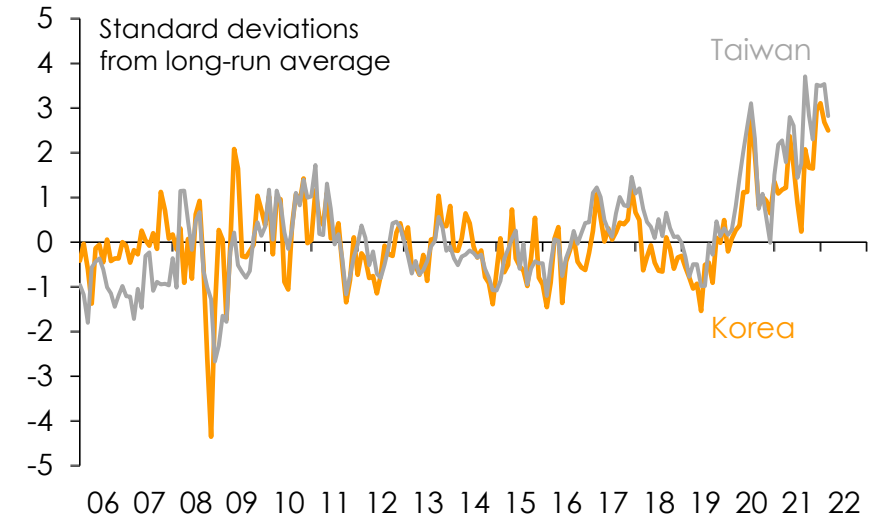
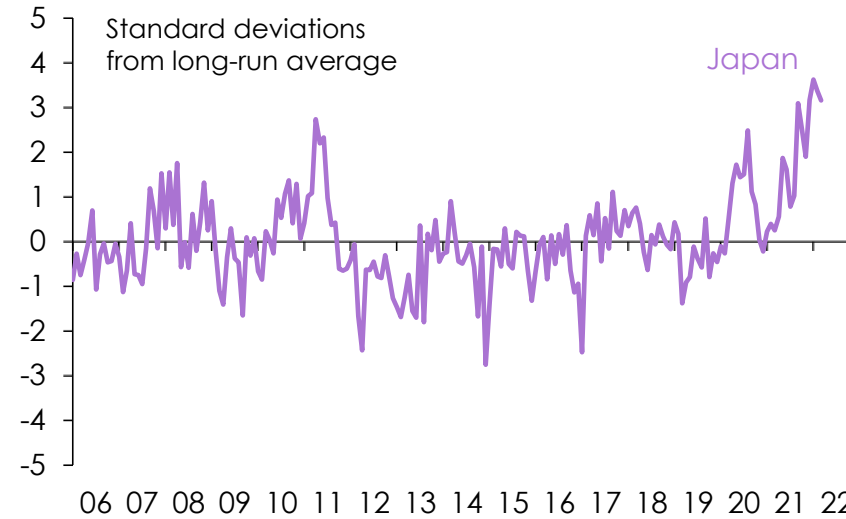
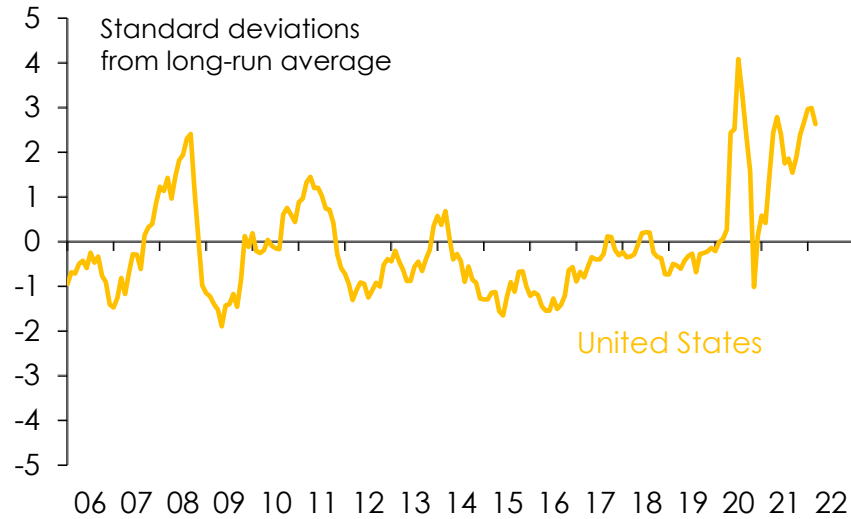


Note: The IMF commodity price indices were re-based to 2016 = 100 (previously 2005) in October 2021; but the IMF appears to have indefinitely suspended its series of commodity prices (other than indexes). Sources: [International Monetary Fund](#); [UN Food and Agriculture Organization](#); [Freightos](#); [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 – 27<sup>TH</sup> JUNE 2022

## NY Fed global supply chain pressure index

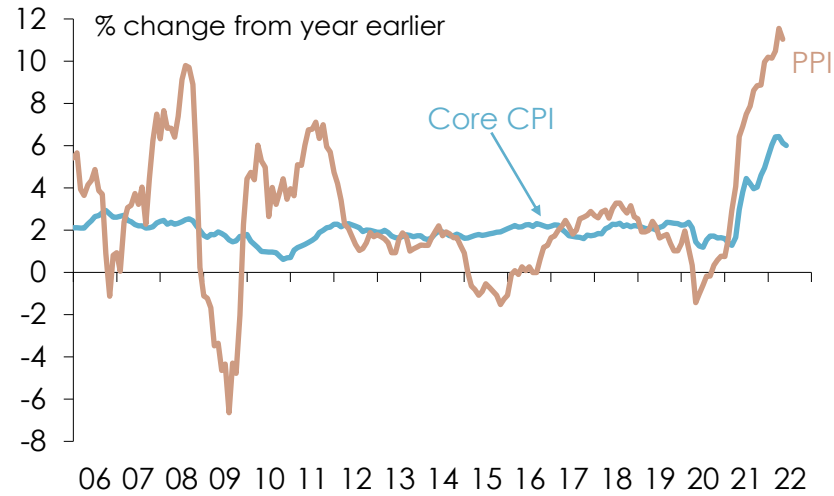


Sources: Gianluca Benigno, Julian Di Giovanni, Jan Groen & Adam Noble, [A New Barometer of Global Supply Chain Pressures](#), Federal Reserve Bank of New York, 4<sup>th</sup> January 2022 (which contains a detailed explanation of the construction of this index). Latest data for global index is for [May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

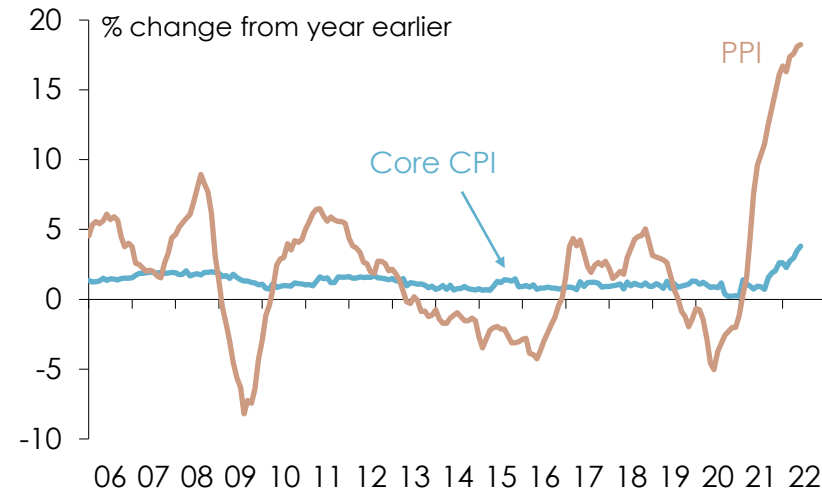
# Inflation has risen sharply at the producer level in all advanced economies, and (Japan aside) 'core' CPI inflation is also above central bank targets

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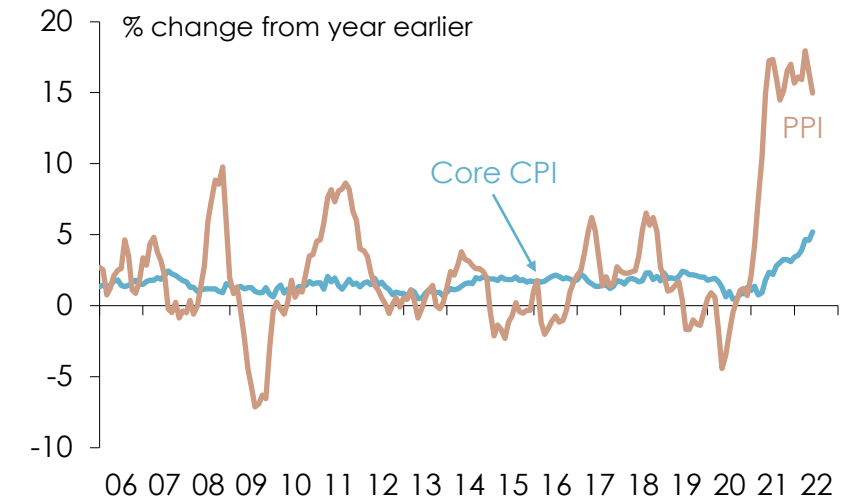
## United States



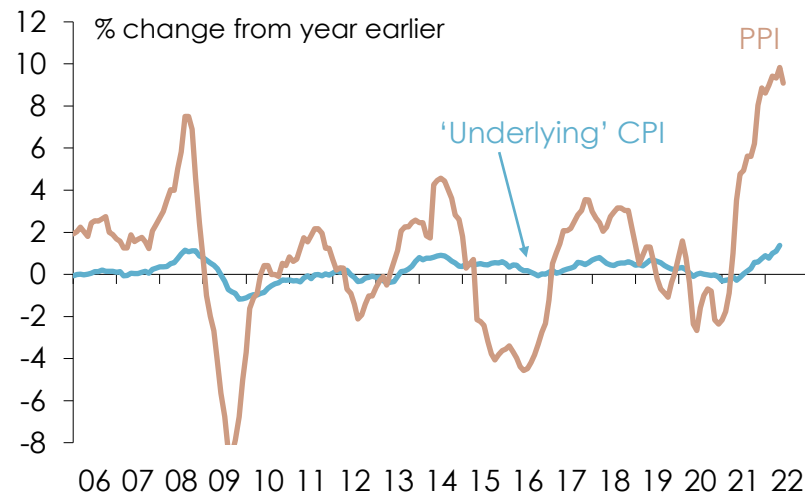
## Euro area



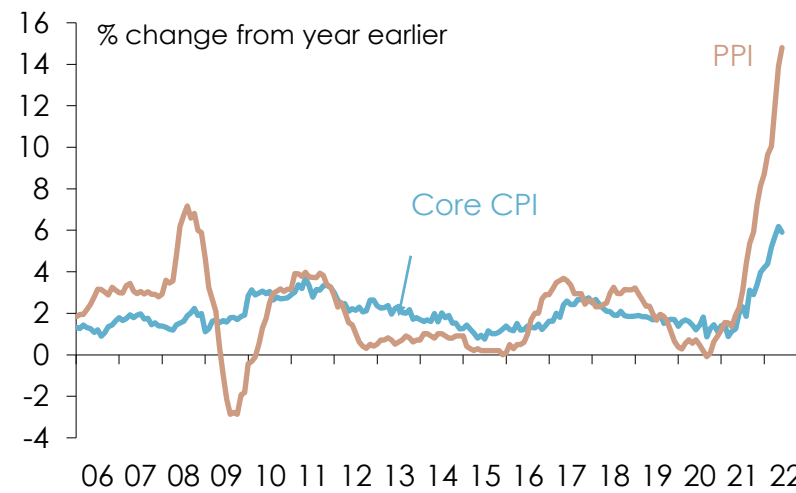
## Canada



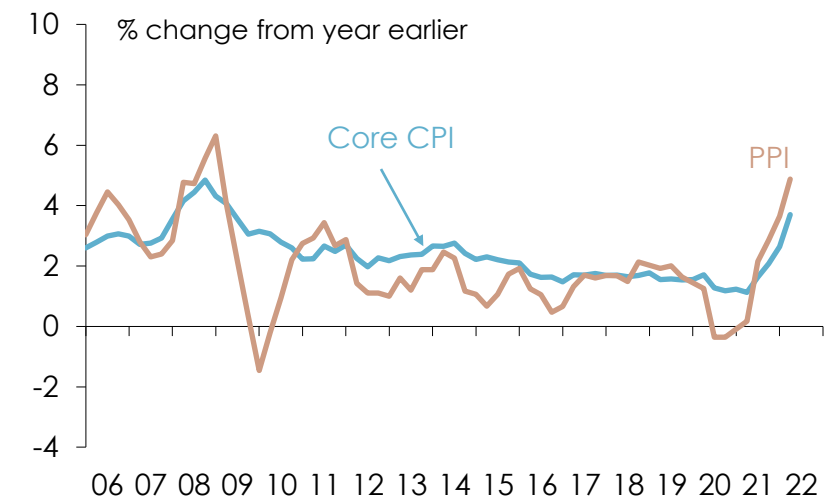
## Japan



## United Kingdom



## Australia



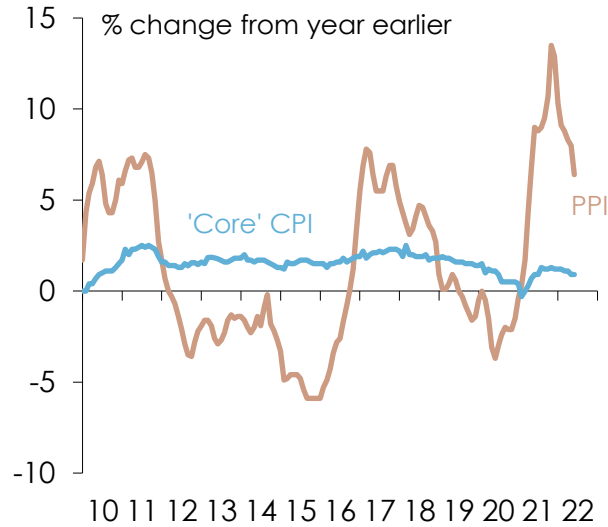
For a more detailed analysis of recent US inflation data see [slides 58-62](#). Sources: [US Bureau of Labor Statistics](#); [Statistics Bureau of Japan](#) and [Bank of Japan](#); [Eurostat](#); [UK Office for National Statistics](#); [Statistics Canada](#); [Australian Bureau of Statistics](#). [Return to "What's New"](#).



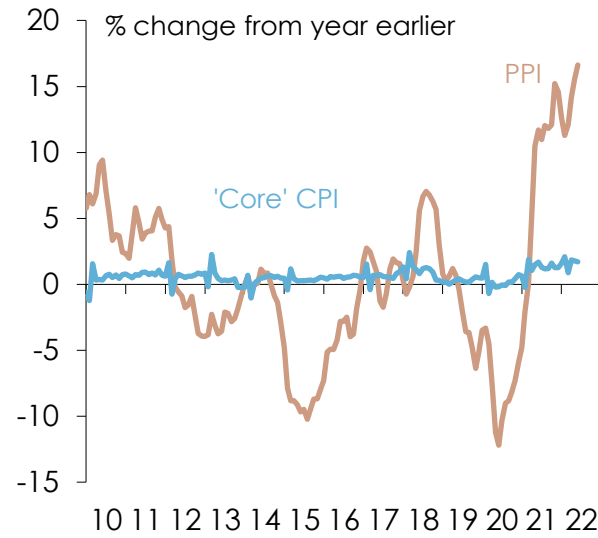
# Most Asian economies have been experiencing rapid 'upstream' inflation for some time, and 'core' consumer price inflation is now starting to pick up

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

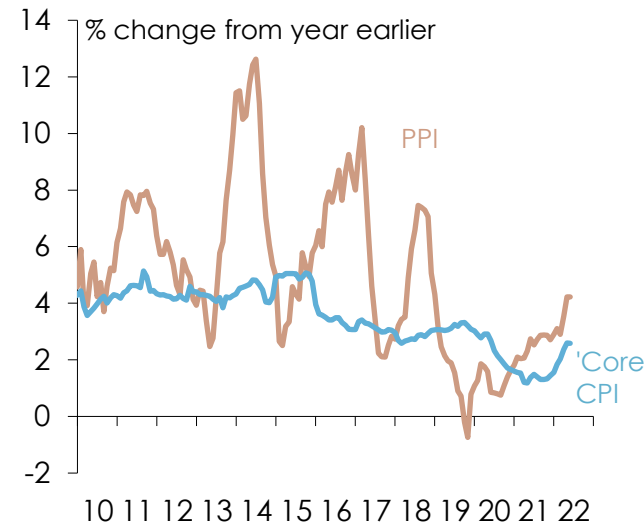
## China



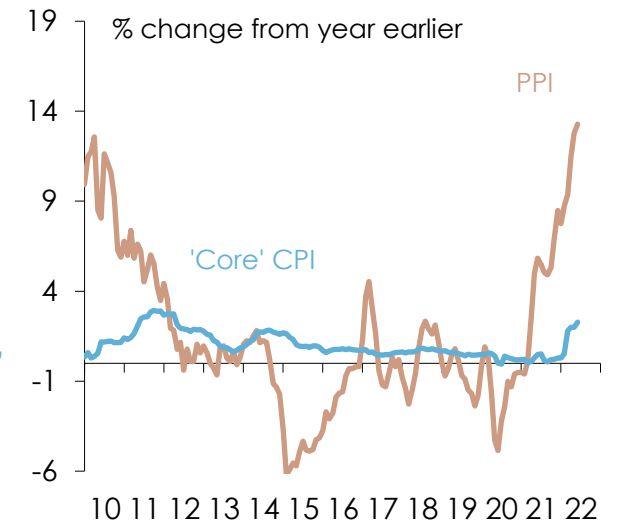
## Taiwan



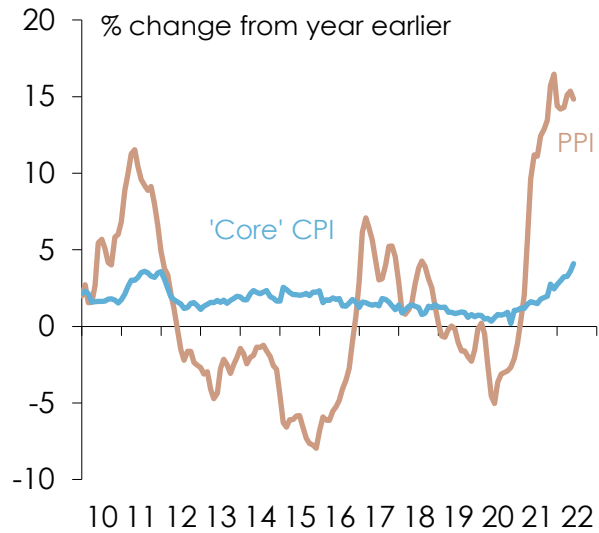
## Indonesia



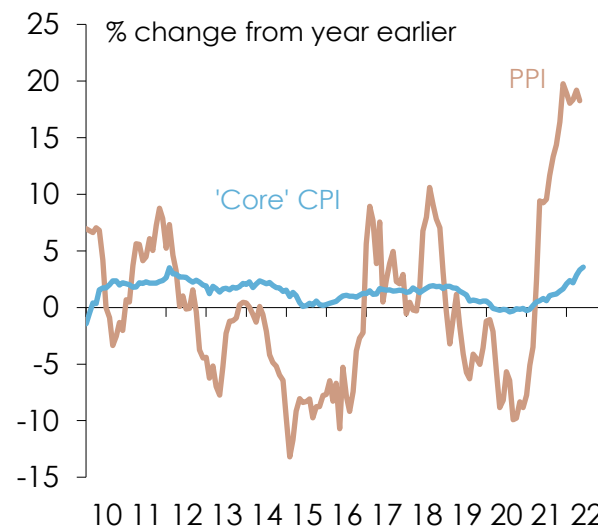
## Thailand



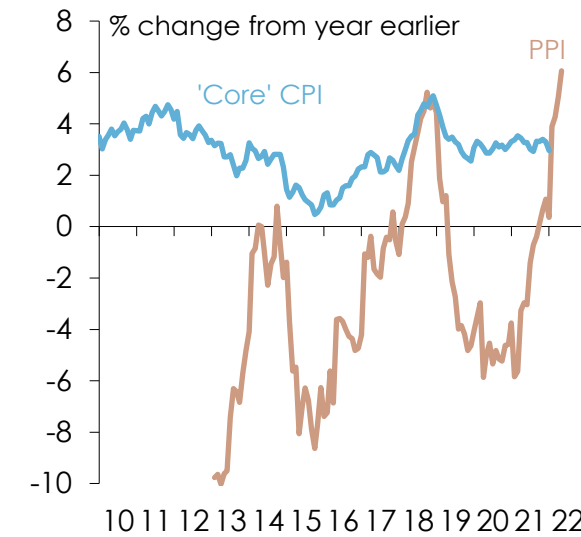
## Korea



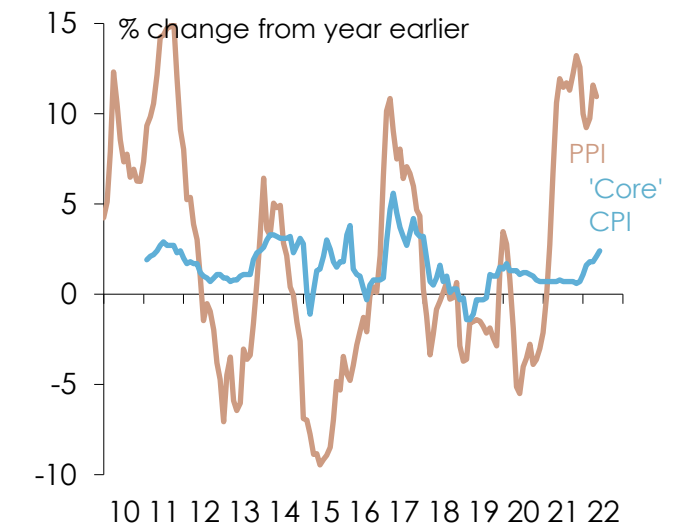
## Singapore



## Philippines



## Malaysia

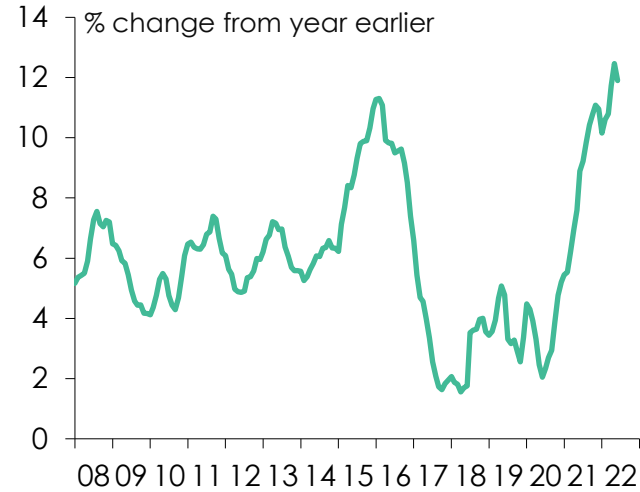


Note: 'Core' CPIs measure different things in different Asian economies – see footnotes to [slide 100](#). Sources: [China National Bureau of Statistics](#); [Statistics Korea](#); [Bank of Korea](#); [Taiwan Statistical Bureau](#); [Singstat](#); [Monetary Authority of Singapore](#); [Statistics Indonesia](#); [Philippine Statistics Authority](#); [Thailand Bureau of Trade and Economic Indices](#); [Department of Statistics Malaysia](#). [Return to "What's New"](#).

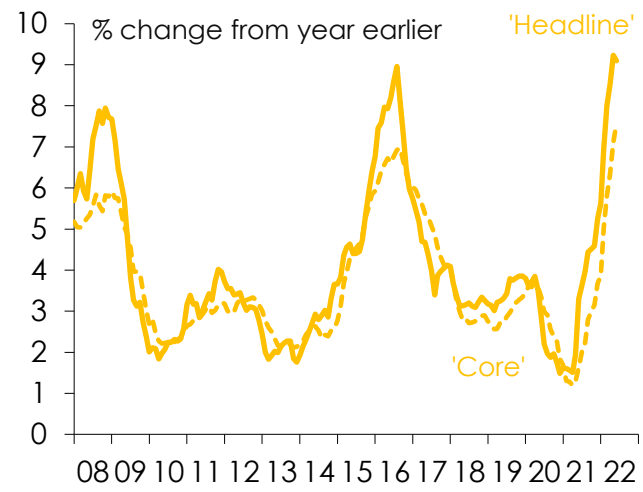
# Consumer price inflation is rising sharply across Latin America (except for Venezuela, where it's now down to just 155%!)

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

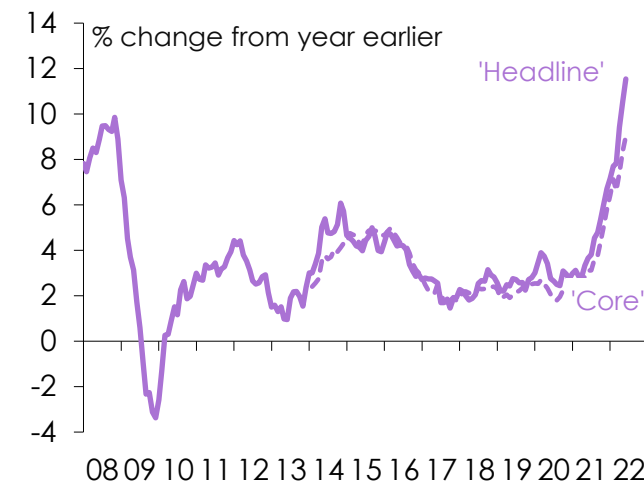
## Brazil



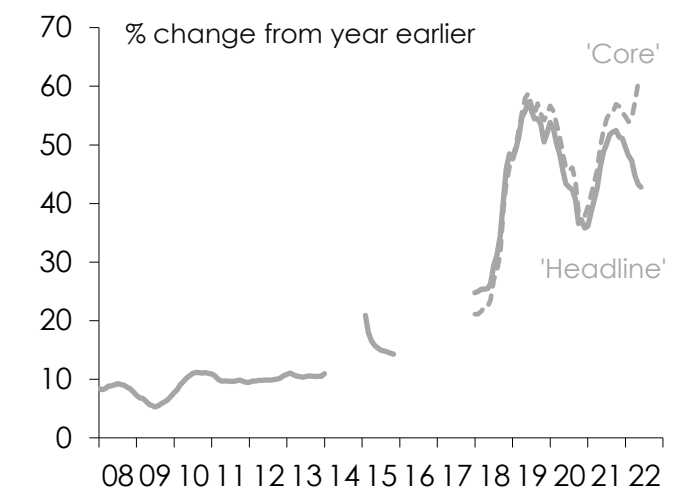
## Colombia



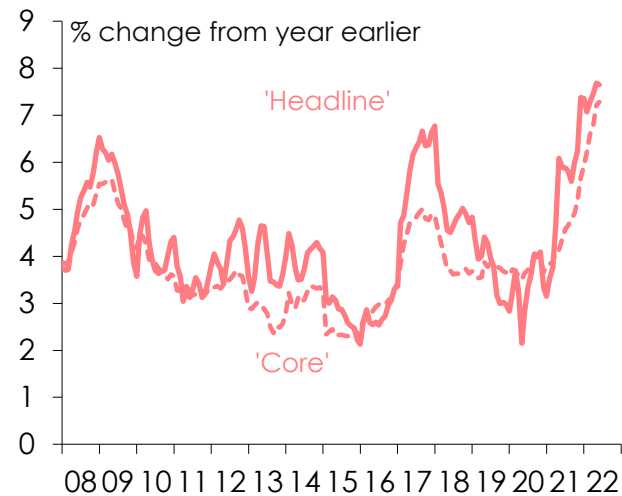
## Chile



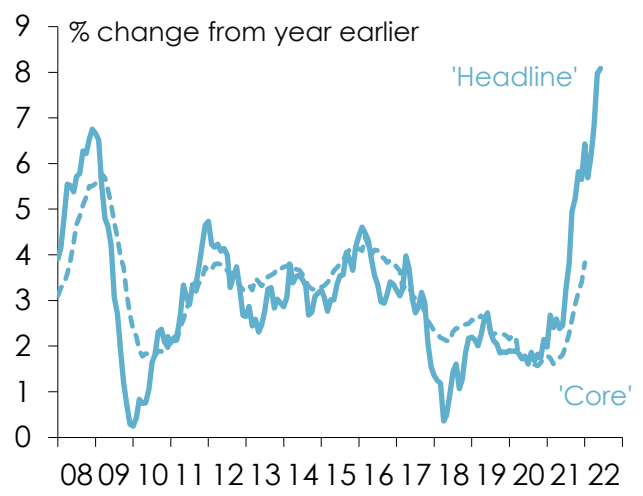
## Argentina



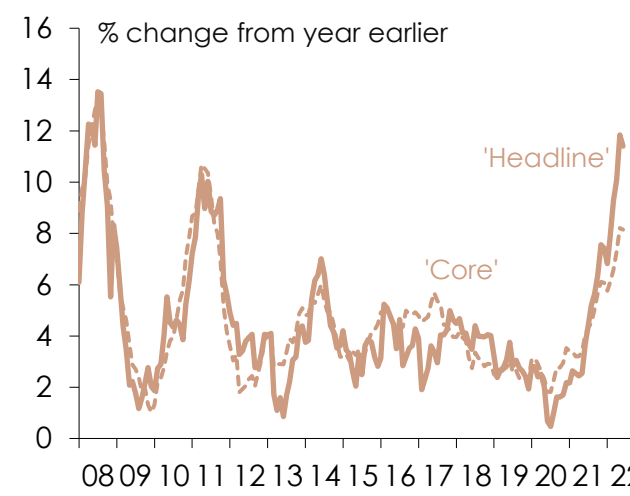
## Mexico



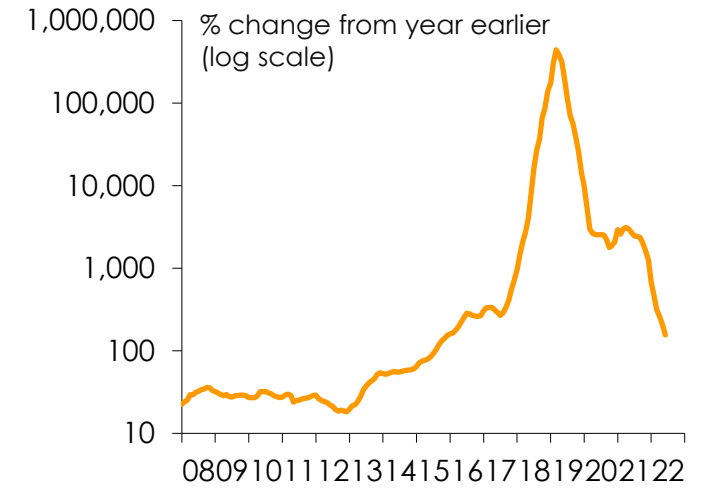
## Peru



## Paraguay



## Venezuela

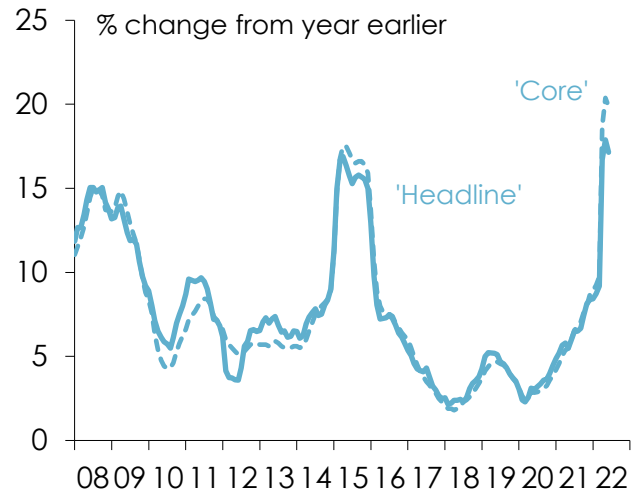


Sources: [Instituto Brasileiro de Geografia e Estatística](#); [Instituto Nacional de Estadística y Geografía](#) (Mexico); [Departamento Administrativo Nacional de Estadística](#) (Colombia); [Instituto Nacional de Estadística e Informática](#) (Peru); [Instituto Nacional de Estadísticas](#) (Chile);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

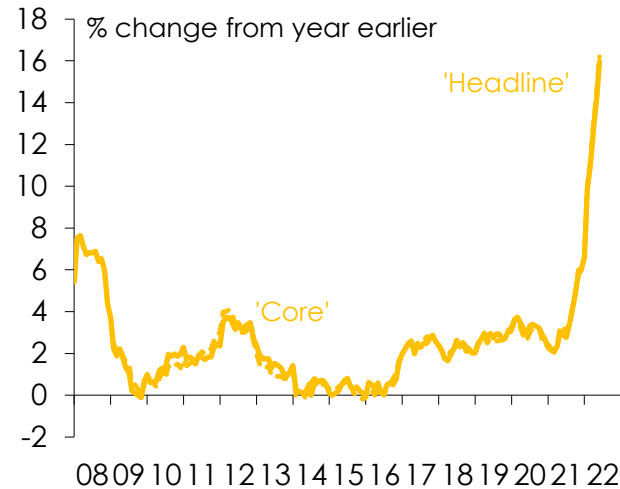
# Consumer price inflation is also rising across Central and Eastern Europe, and in South Africa

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

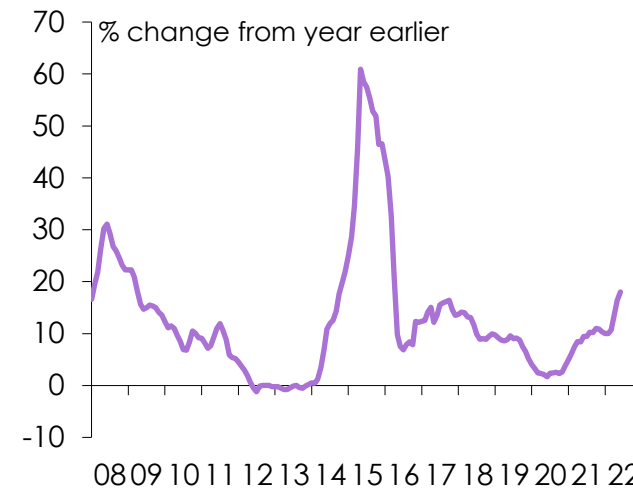
## Russia



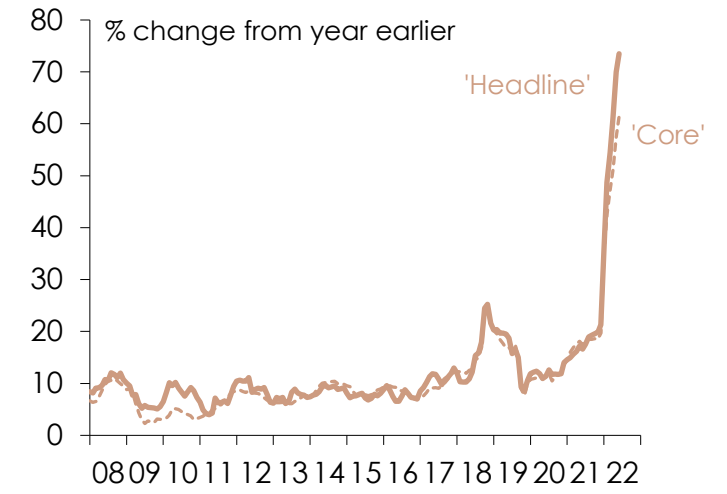
## Czech Republic



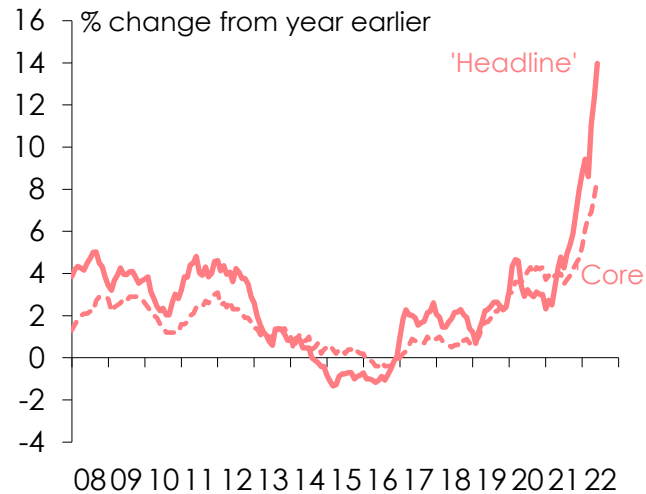
## Ukraine



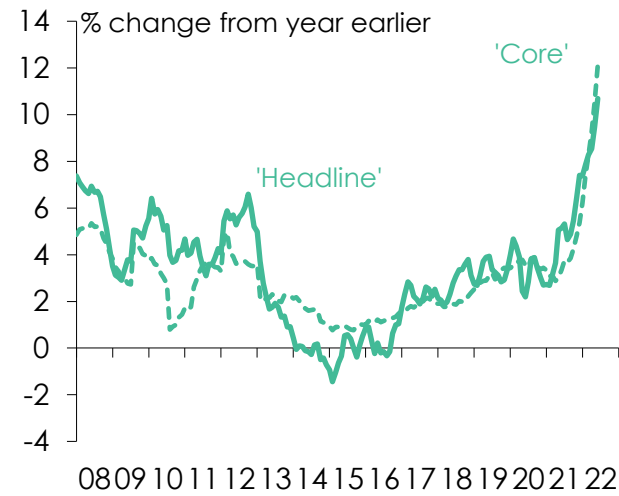
## Turkey



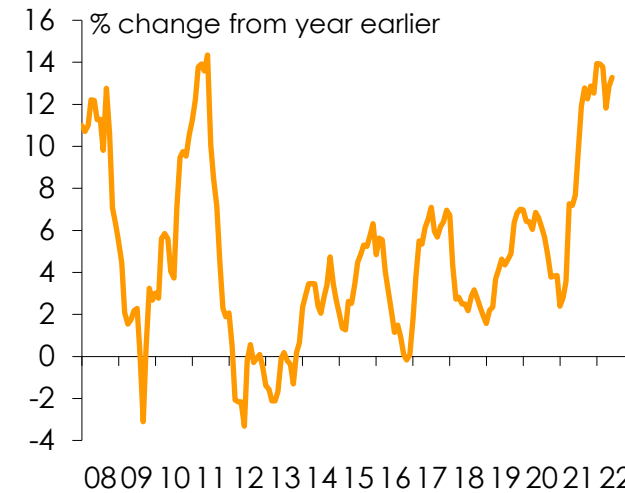
## Poland



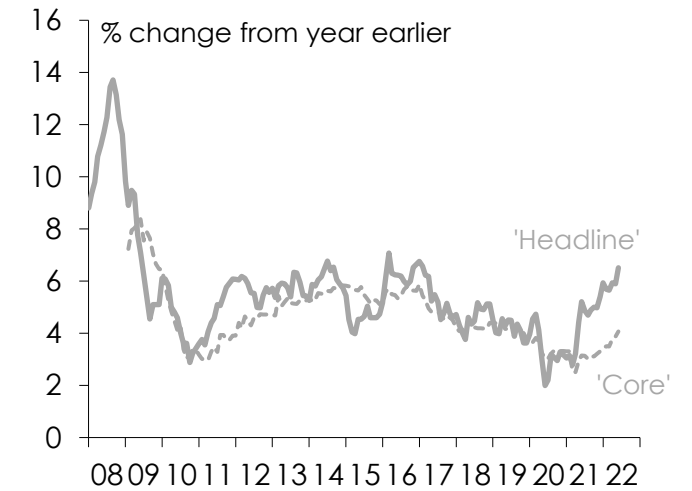
## Hungary



## Georgia



## South Africa

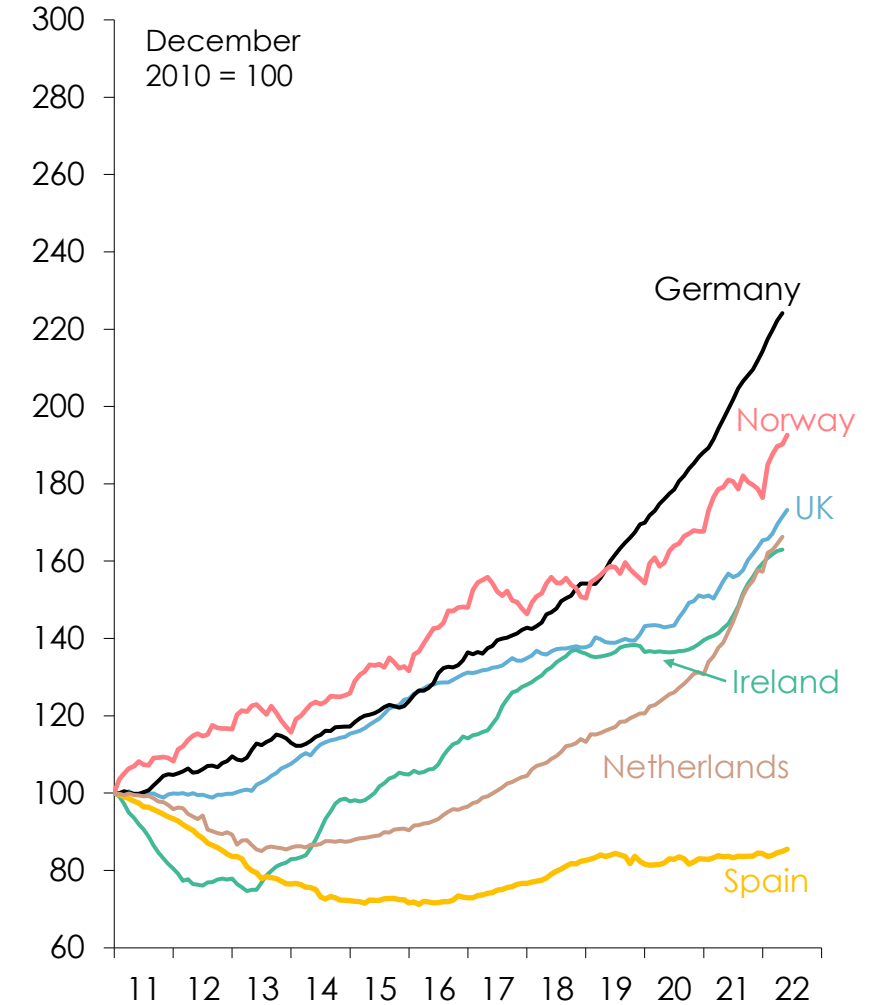
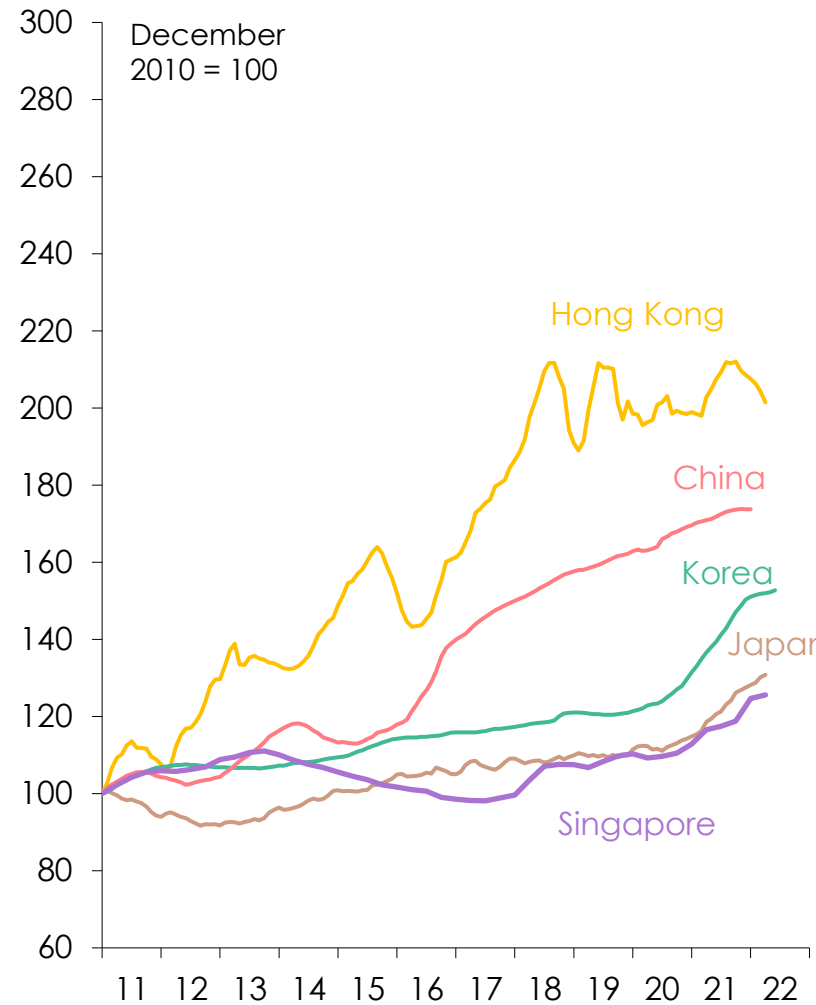
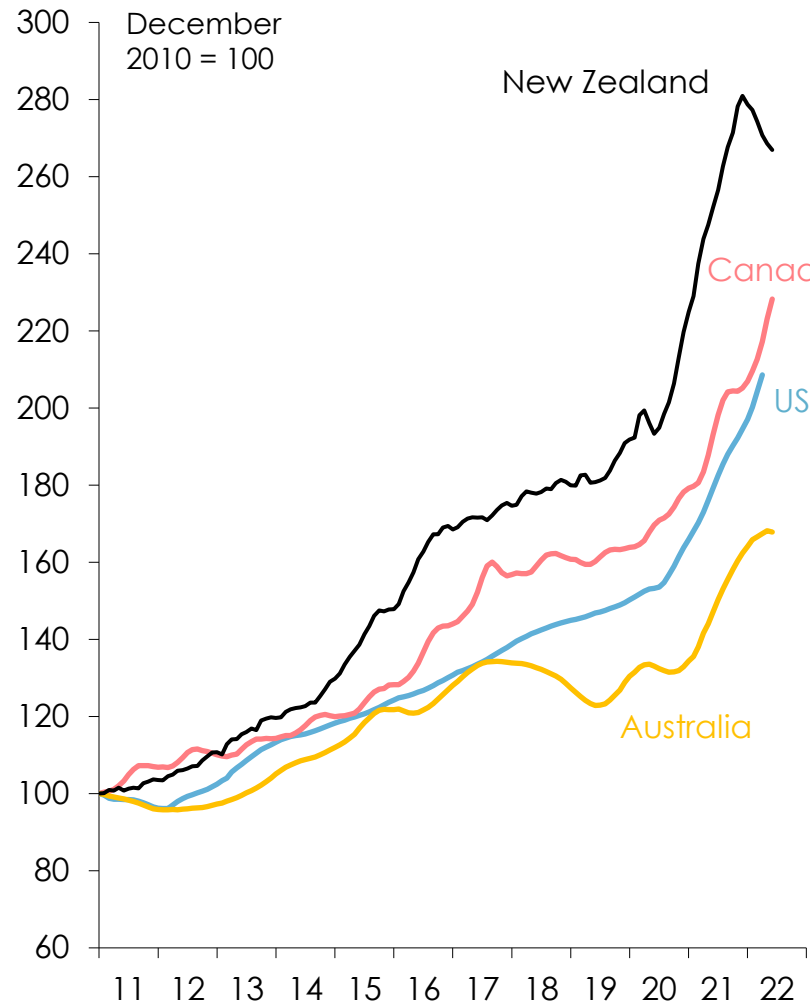


Sources: [Rosstat](#); [Główny Urząd Statystyczny](#) (Poland); [Český statistický úřad](#) (Czech Republic); [Központi Statisztikai Hivatal](#) (Hungary); [Ukrstat](#); [Sak'art'velos statistikis erovnuli samsakhuri](#) (Georgia); [Turkstat](#); [Statistics South Africa](#). Return to "What's New".

# 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 – 27<sup>TH</sup> JUNE 2022

## House price indices

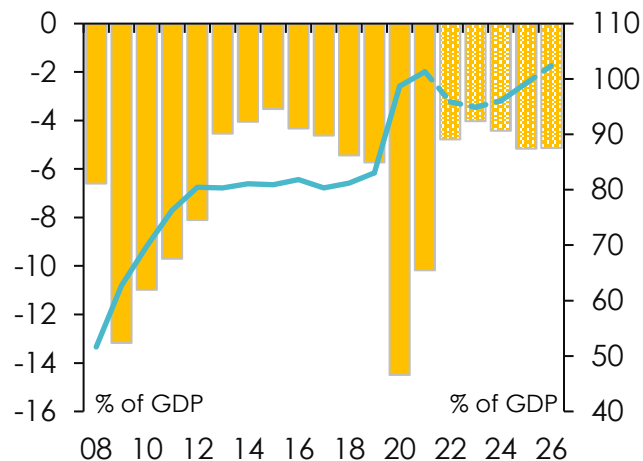


Note: House price indices shown in these charts are those published by [S&P-CoreLogic Case Shiller national](#) (United States); [Teranet-National Bank](#) (Canada); [CoreLogic](#) (Australia); [Real Estate Institute of New Zealand](#); [China Index Academy](#); [Japan Real Estate Institute](#) (Tokyo 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"](#).

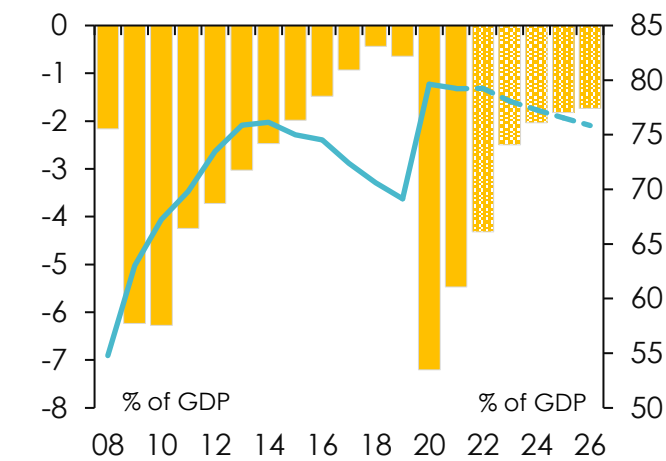
# Fiscal policy is set to be tightened significantly in 2022 in most major economies except Japan, China and India

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

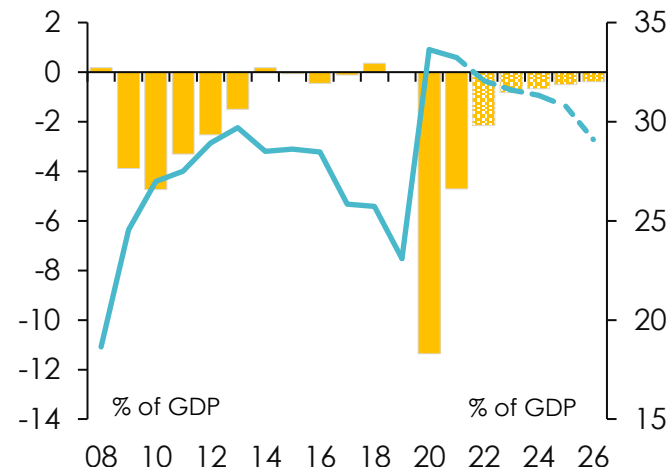
## United States



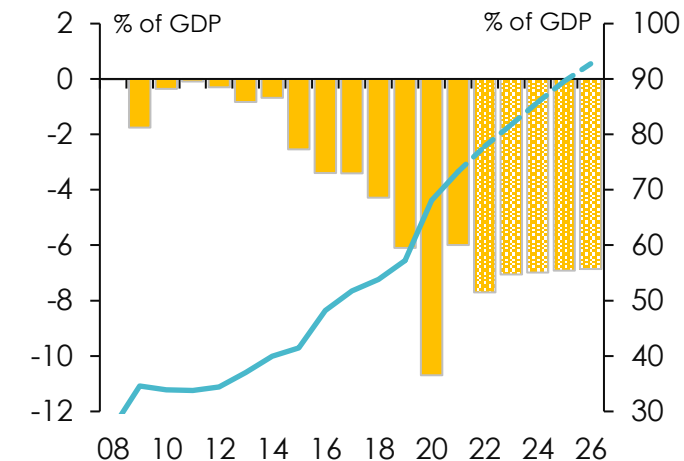
## Euro area



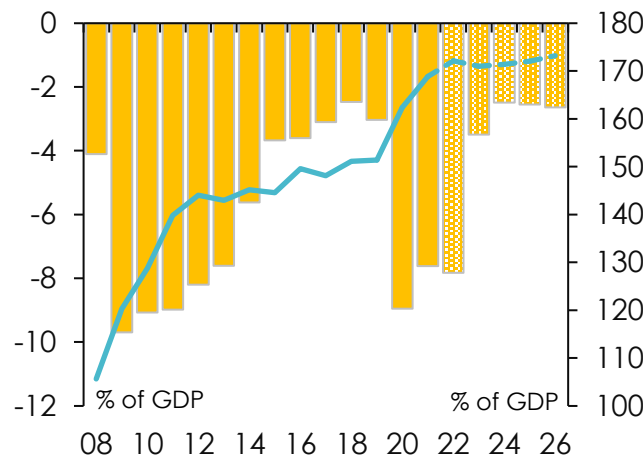
## Canada



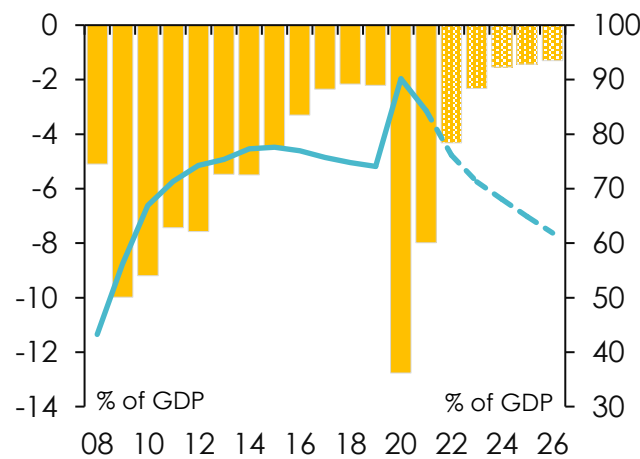
## China



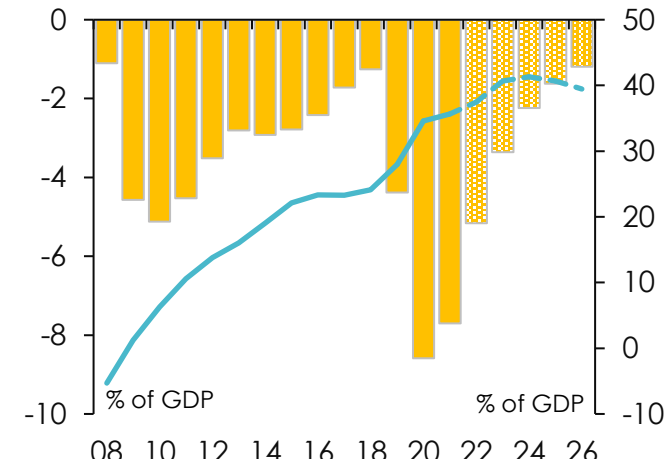
## Japan



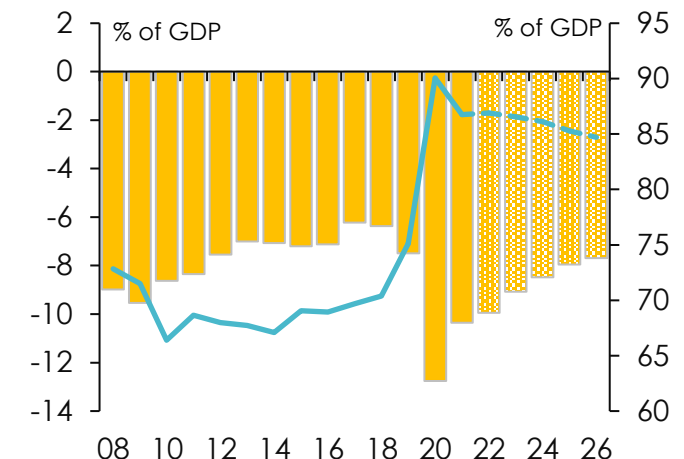
## United Kingdom



## Australia



## India



General government overall fiscal balance (left scale)

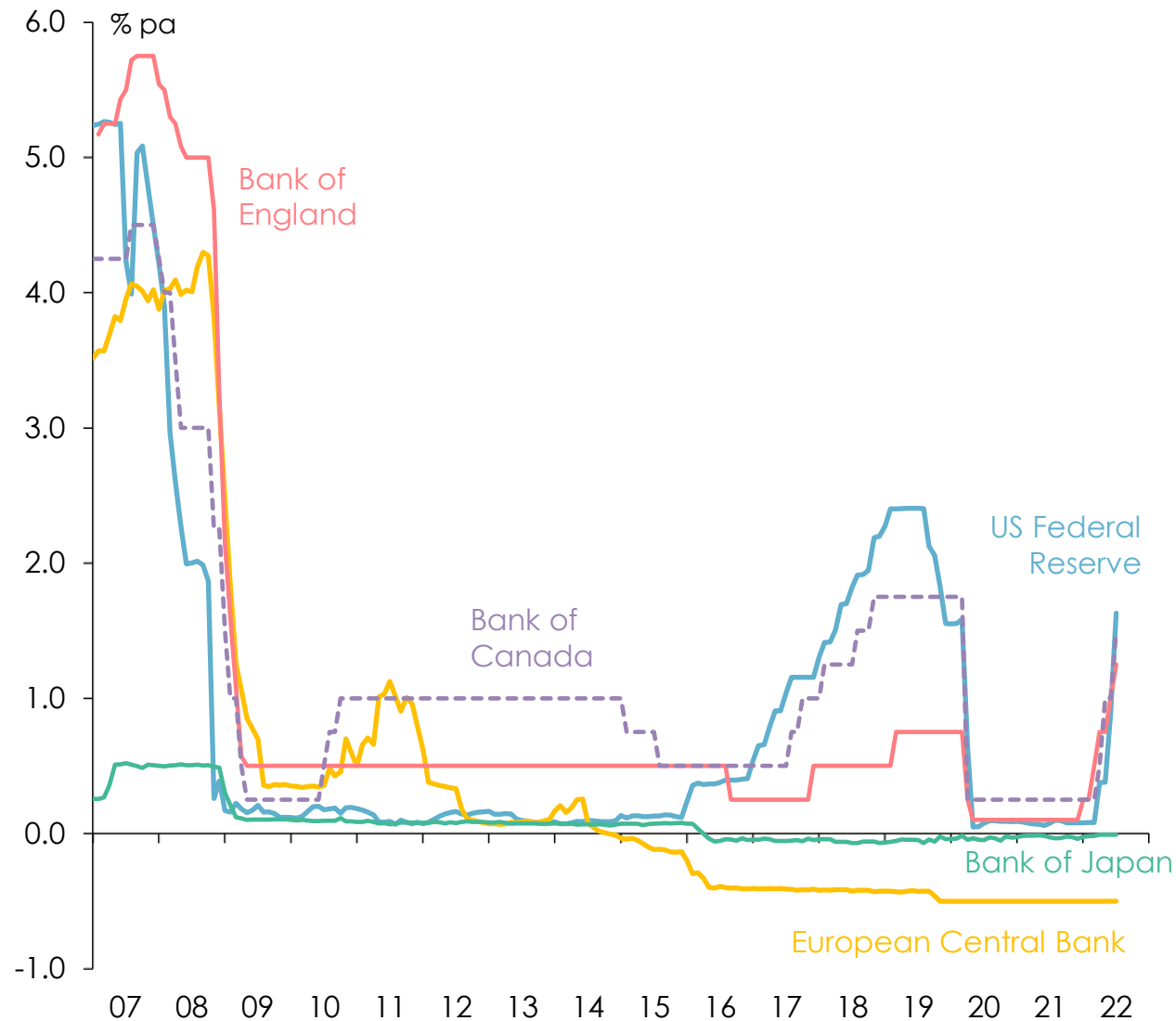


General government net debt (right scale)

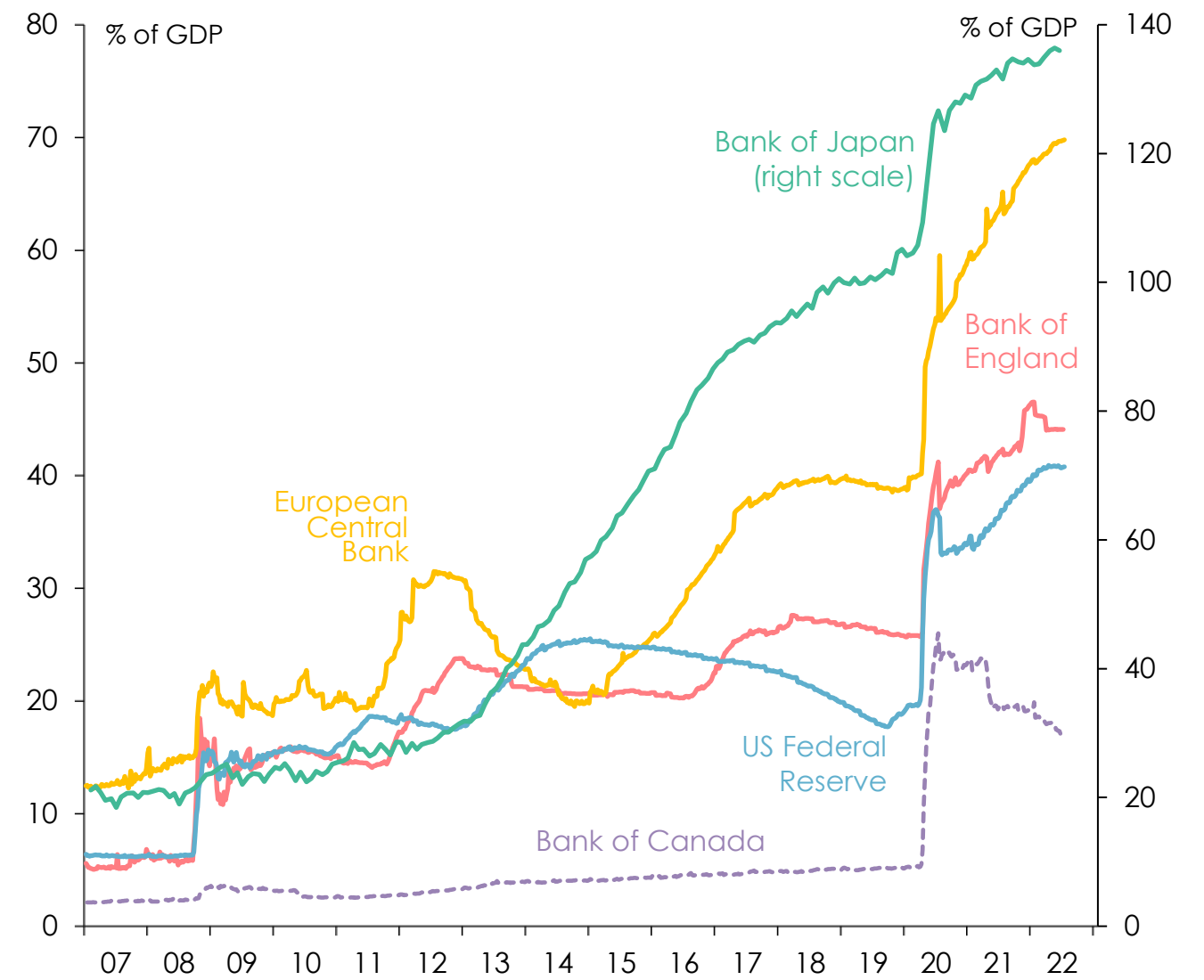
# Major 'advanced' economy central banks (apart from the BoJ) have become more assertive in responding to inflation over the past few weeks

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> 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 – 27<sup>TH</sup> JUNE 2022

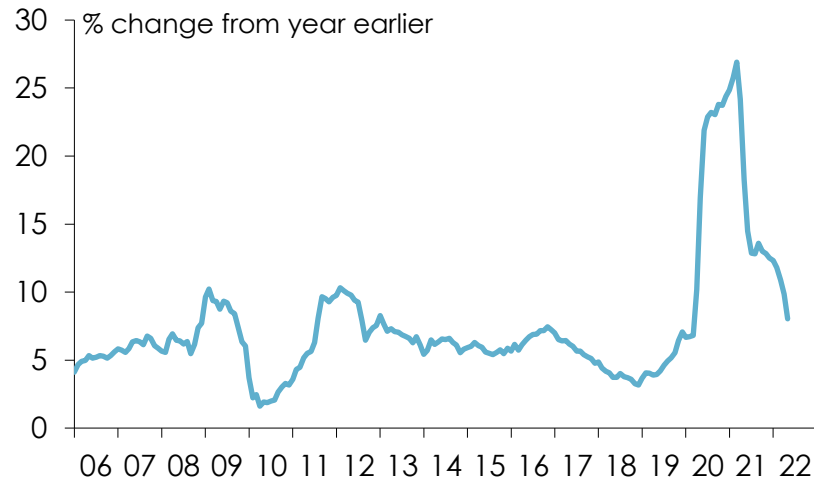
- ❑ Research by central bank and academic economists (see for example [Gagnon et al 2011](#); [D'Amico & King 2011](#); [Bauer & Rudebusch 2014](#); [Di Maggio, Kermani & Palmer 2016](#); [Krishnamurthy & Vissing-Jørgensen 2016](#); [Haddad, Moreira & Muir 2020](#); [Viyanos & Vila 2021](#); [Krishnamurthy 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



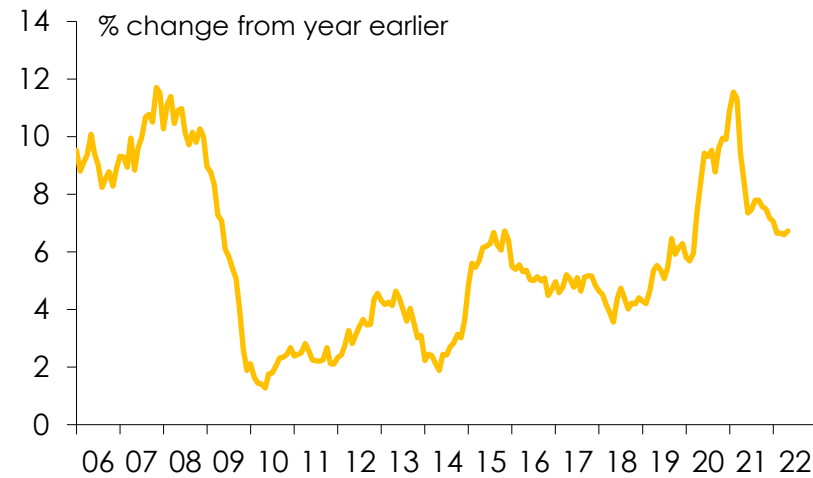
# Money supply growth has slowed sharply from the peaks recorded in the first half of 2021 as large monthly increases in 2020 'wash out'

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

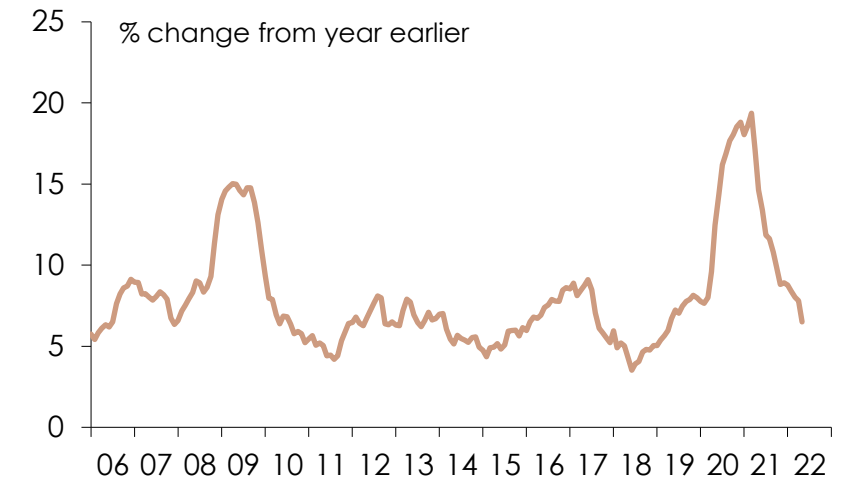
## US M2



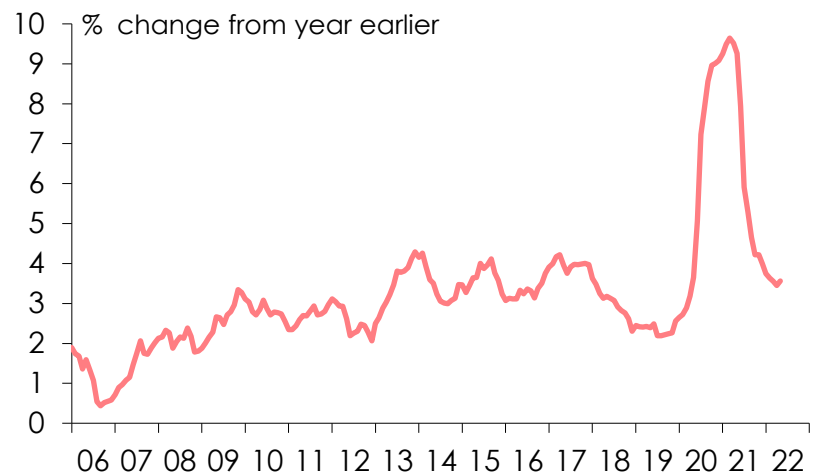
## Euro area M2



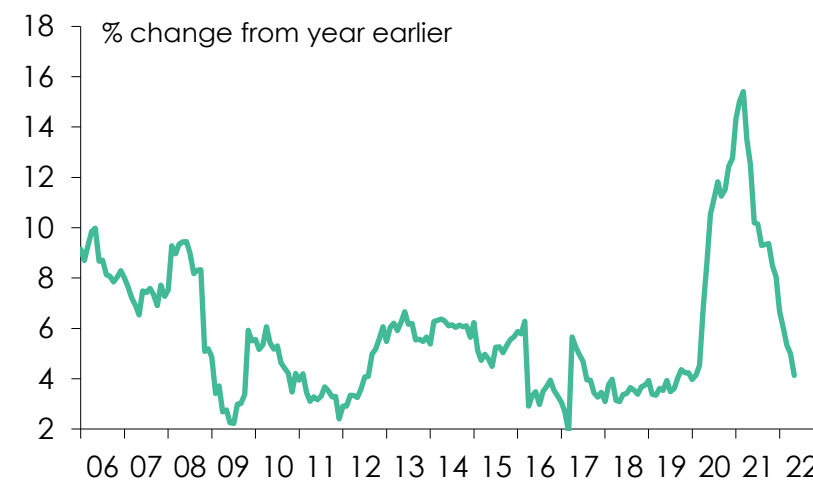
## Canada M2



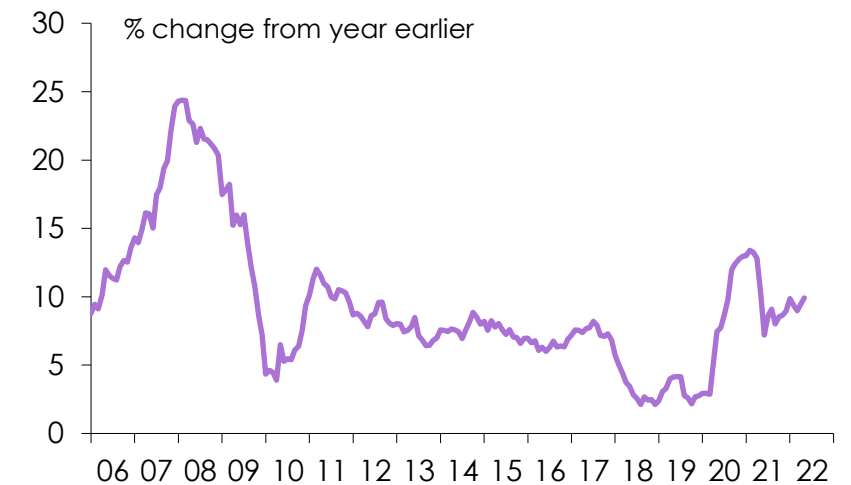
## Japan M2 + CDs



## UK M2



## Australia M3

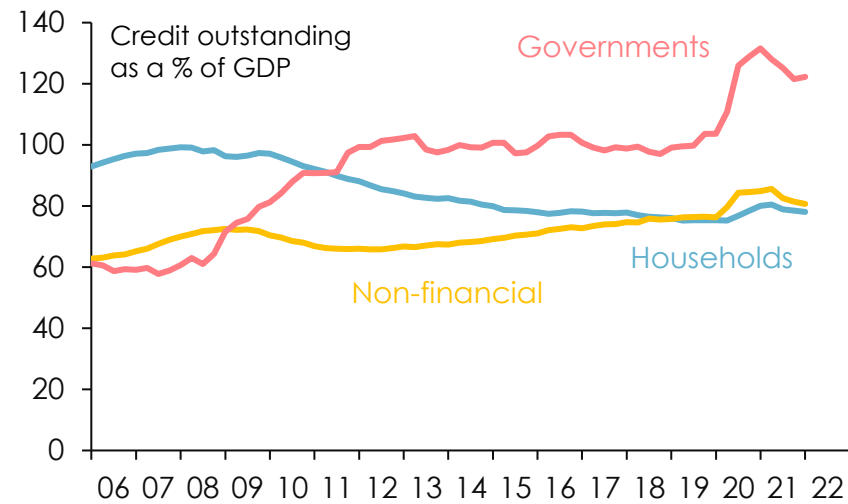


Sources: US Federal Reserve; European Central Bank; Bank of Japan; Bank of England; Bank of Canada; RBA. [Return to "What's New"](#).

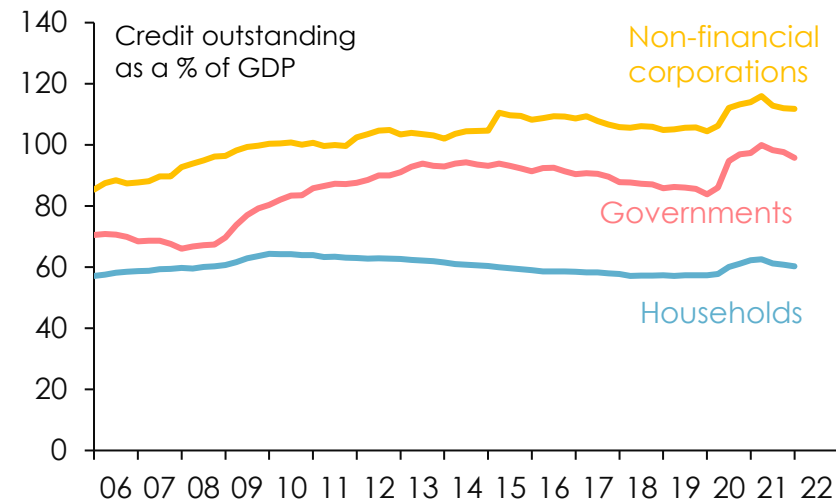
# Japanese, US and UK governments, Canadian corporations and Australian households appear most exposed to increases in interest rates

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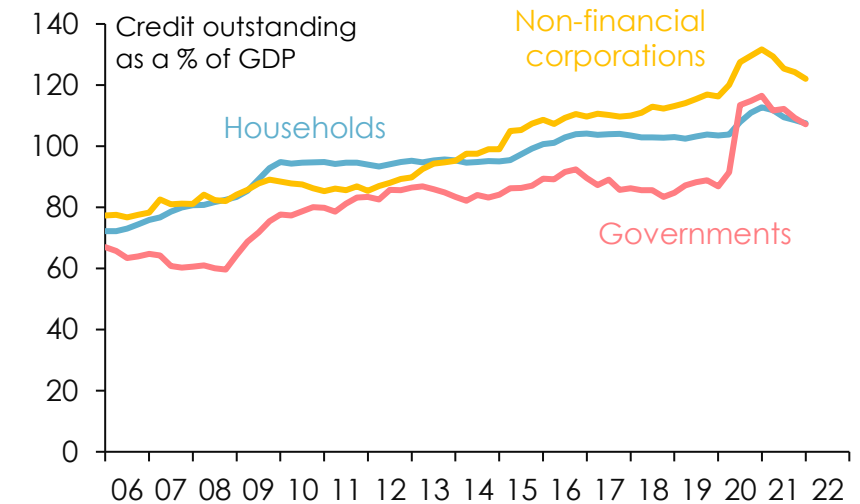
## US



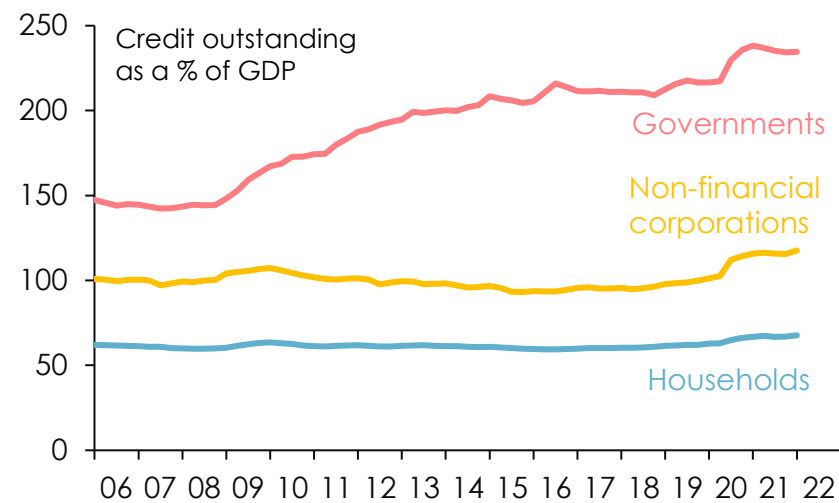
## Euro area



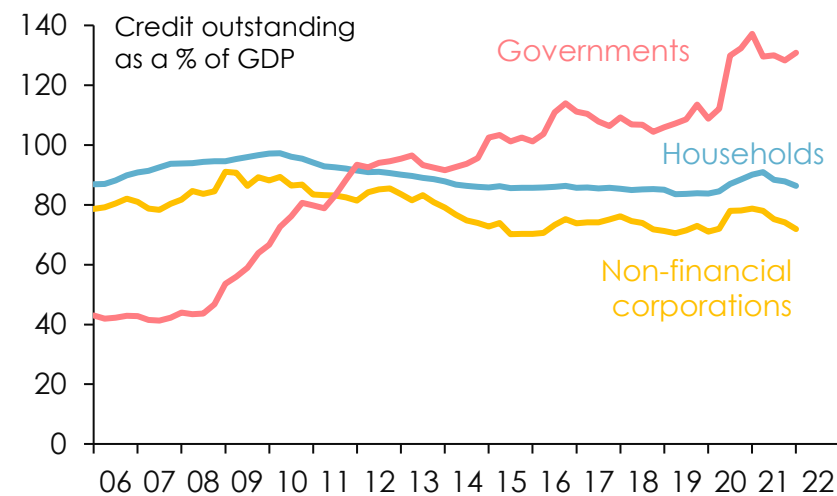
## Canada



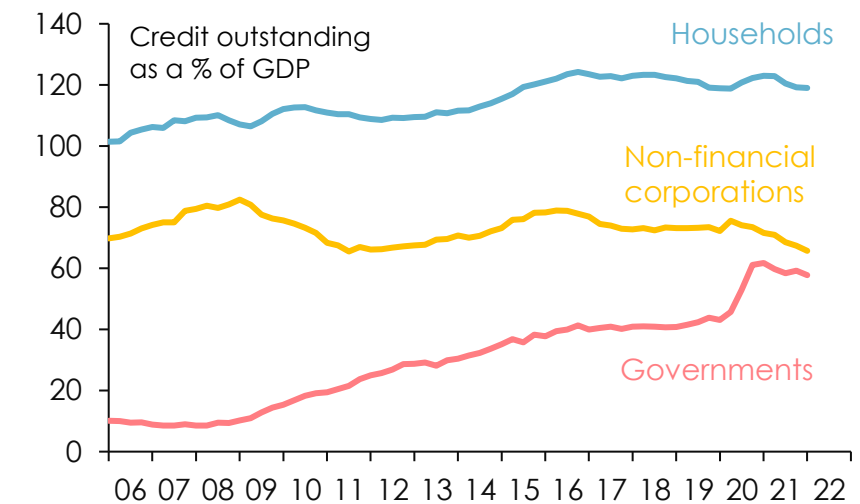
## Japan



## UK



## Australia

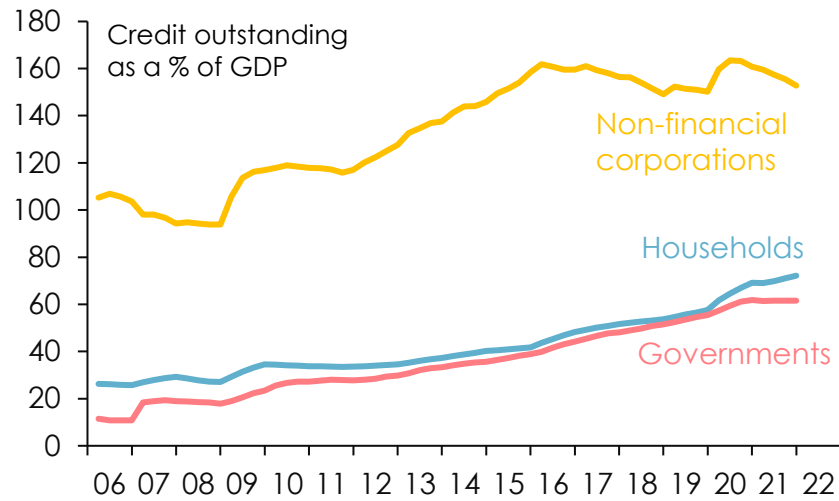


Source: Bank for International Settlements, [Credit Statistics](#); latest data are for Q4 2021, Q1 2022 data will be released in mid-September. [Return to "What's New"](#).

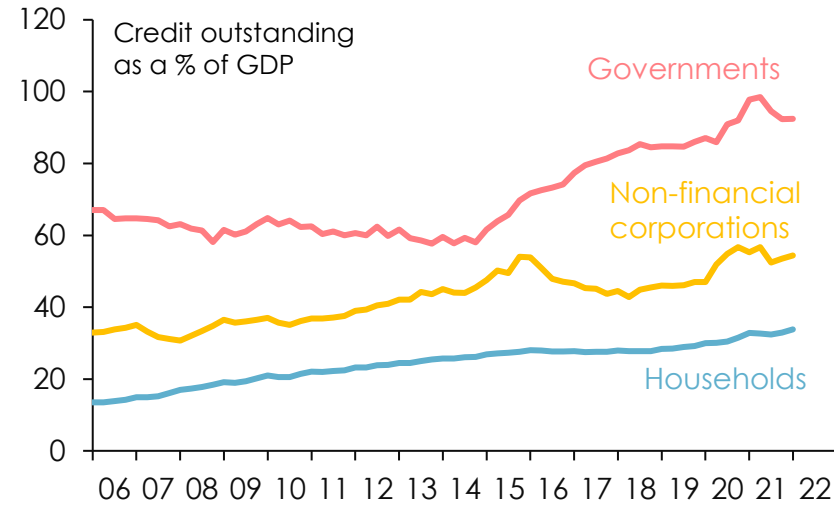
# In major 'developing' economies it's usually governments that are most exposed to rising interest rates – except for China, Russia and Turkey

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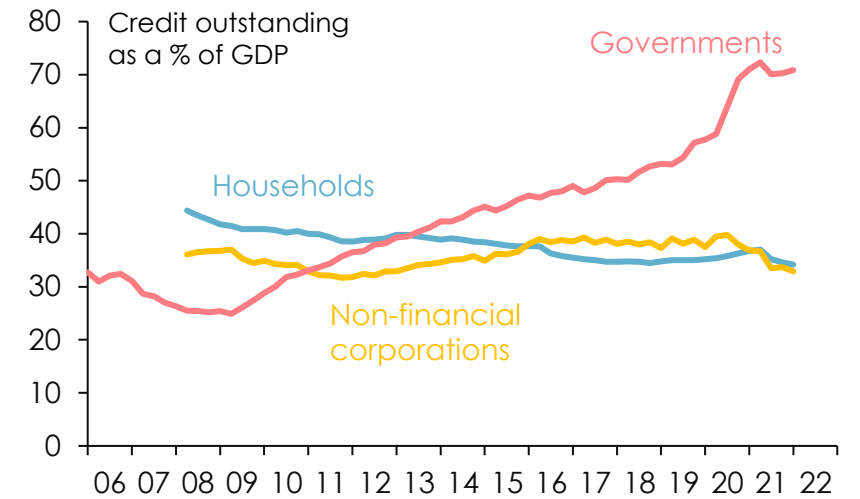
## China



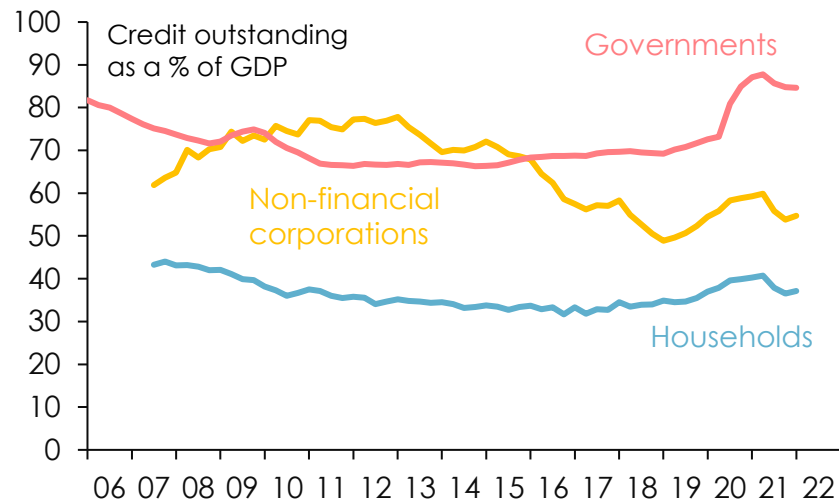
## Brazil



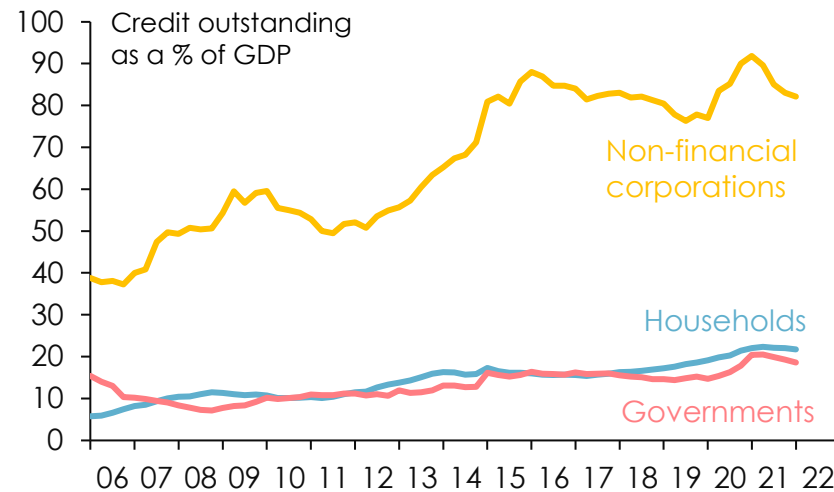
## South Africa



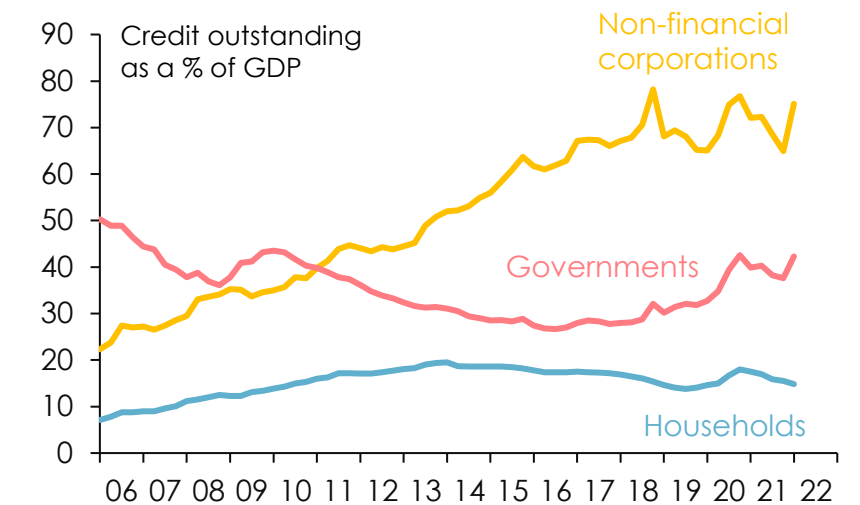
## India



## Russia



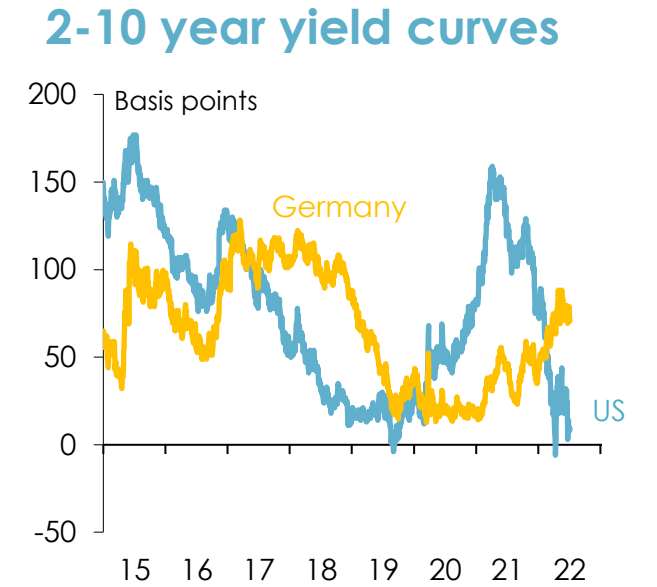
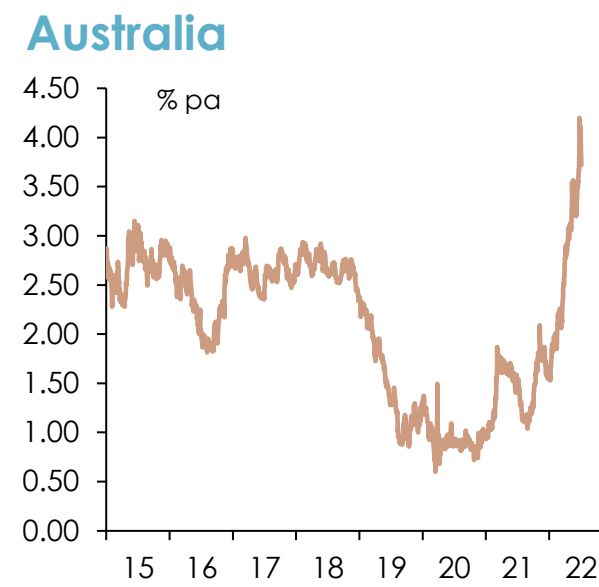
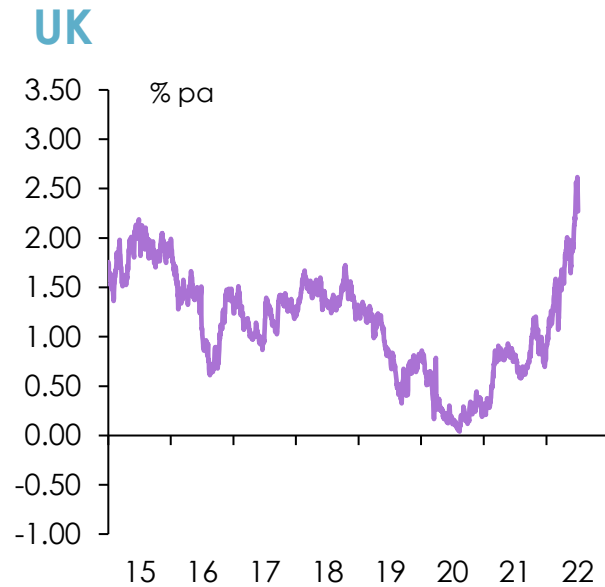
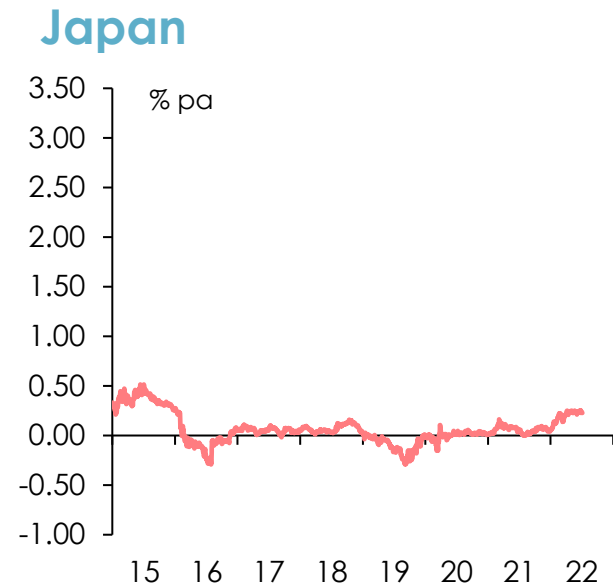
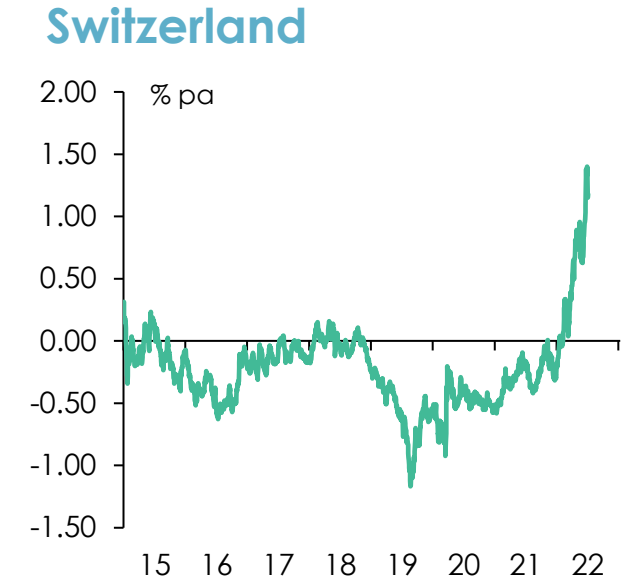
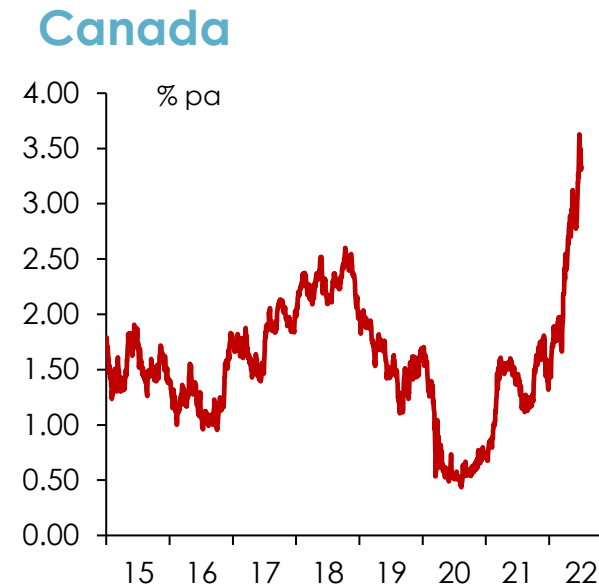
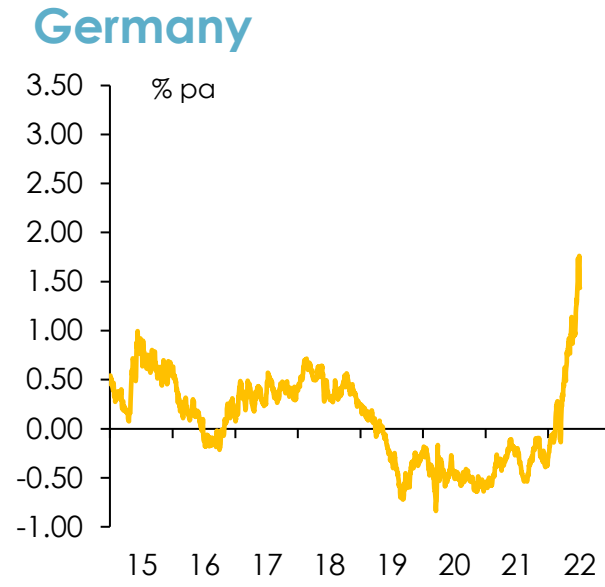
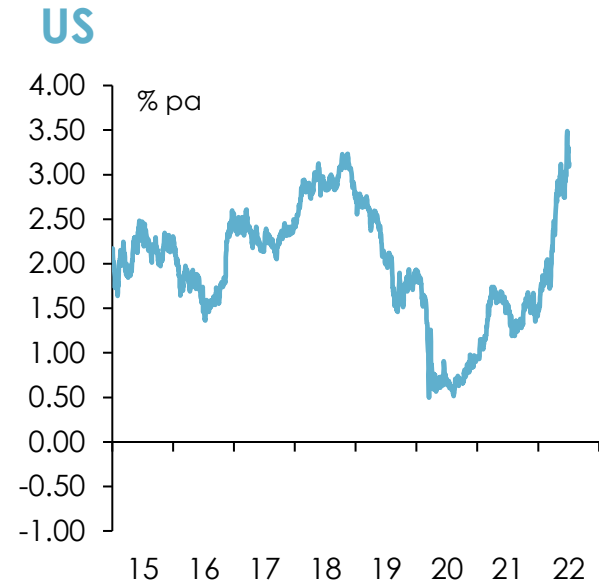
## Turkey



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 109](#). [Return to "What's New"](#).

# 10-year bond yields fell in most 'advanced' economy markets last week on growing fears that central bank tightening may precipitate recessions

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022



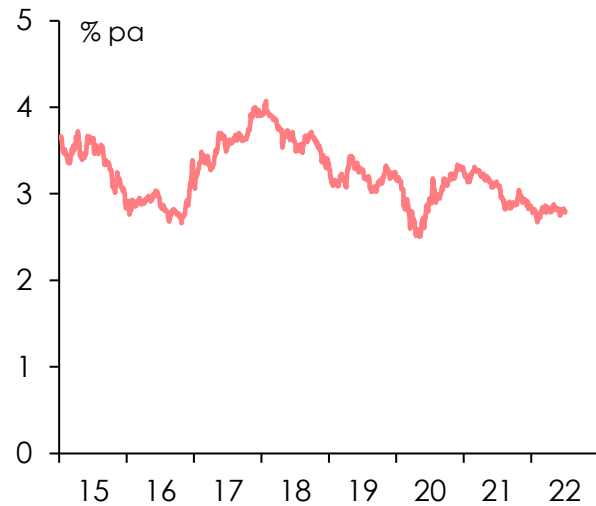
Note: Data up to 24<sup>th</sup> June. For bond yields in other large euro area member states see [slide 73](#), and for bond yields in Asian economies see [slide 108](#).

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

# Bond yields also fell in most major 'emerging' markets, mirroring the trend in 'advanced' markets

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## China



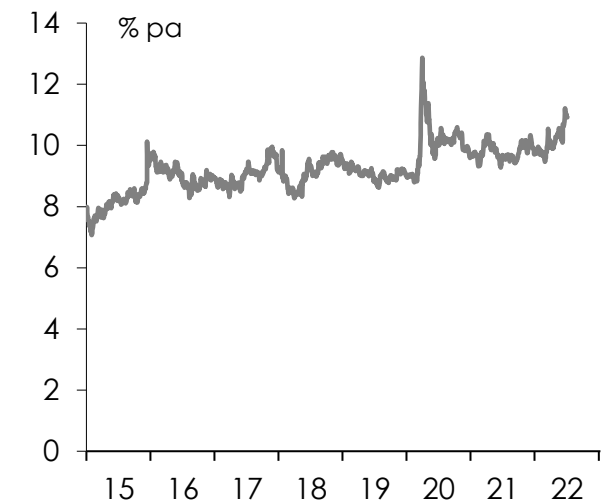
## Brazil



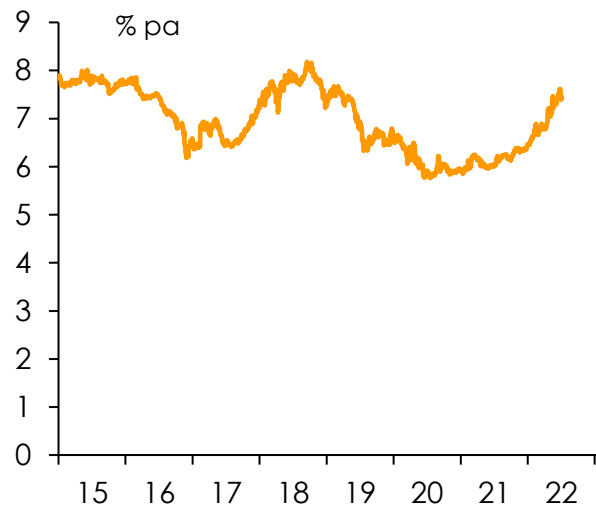
## Russia



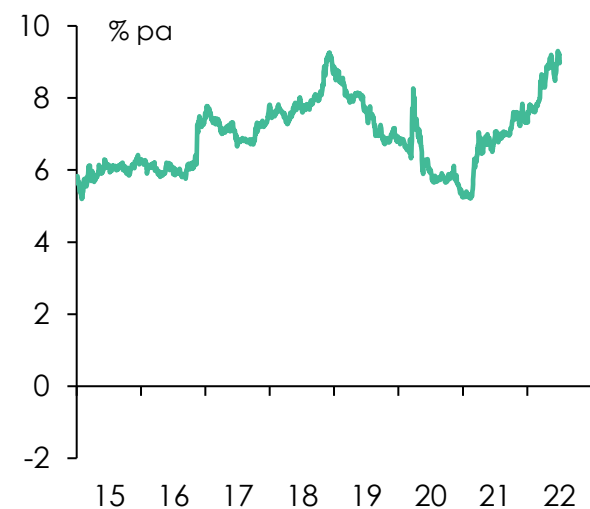
## South Africa



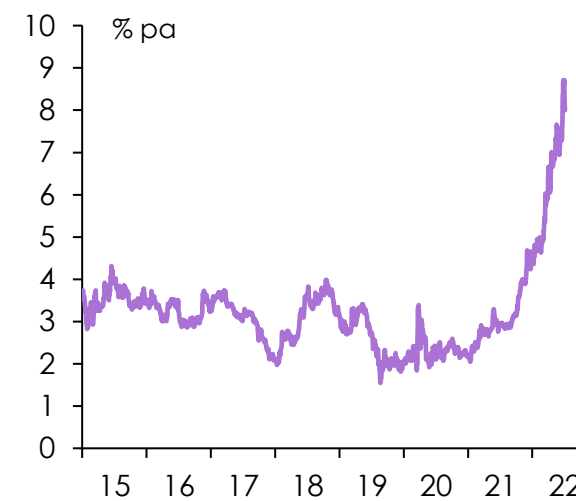
## India



## Mexico



## Hungary



## Turkey



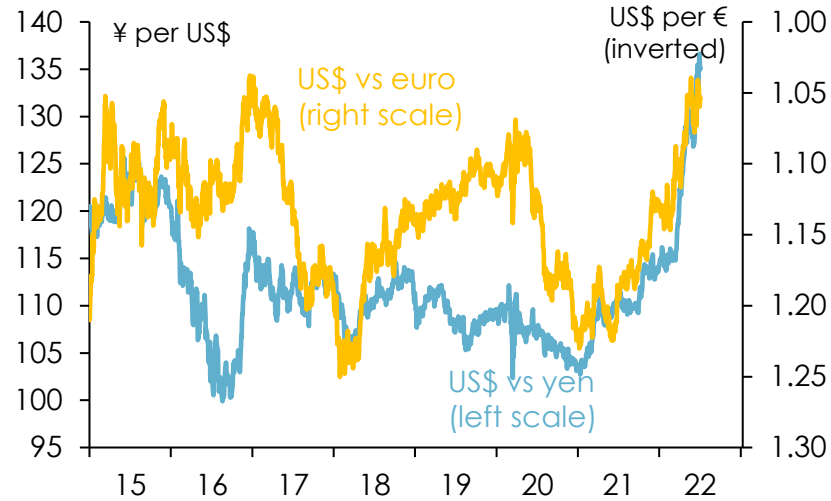
Note: Data up to 24<sup>th</sup> June. For bond yields in other Asian economies see [slide 108](#); and for policy interest rates in other emerging markets see [slide 128](#).

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

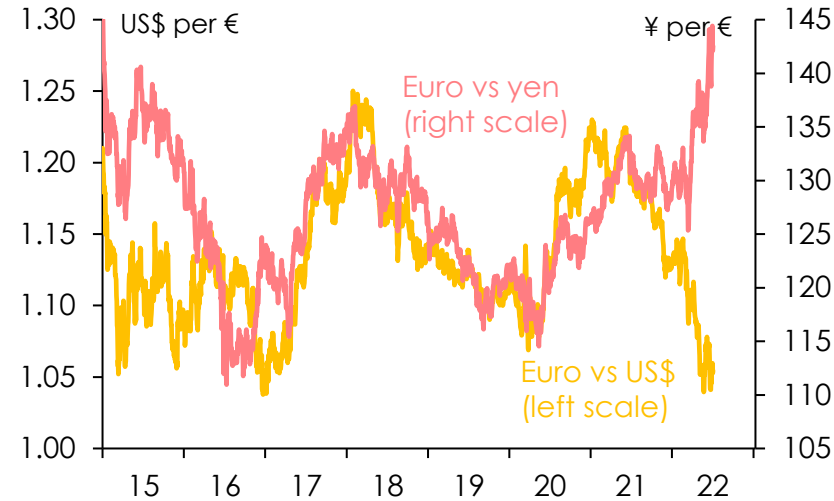
# The US\$ fell about 1/2% in trade-weighted terms last week on heightened recession fears, but the yen was also weaker

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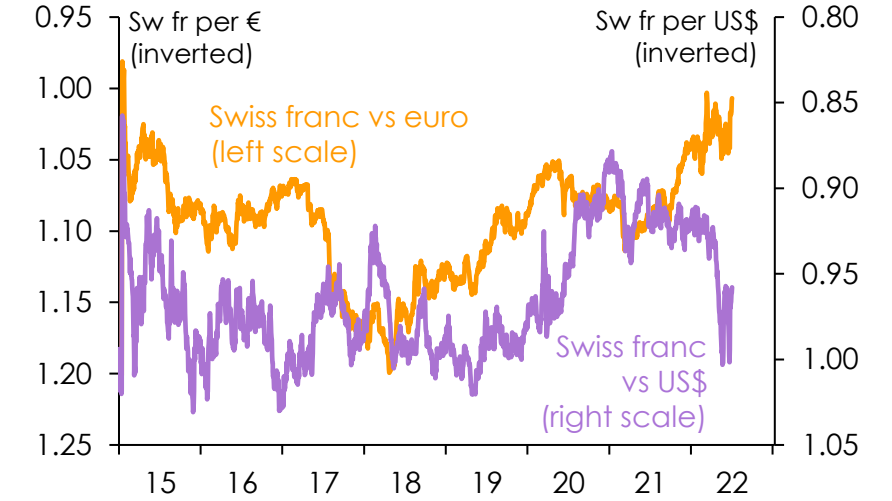
## US dollar



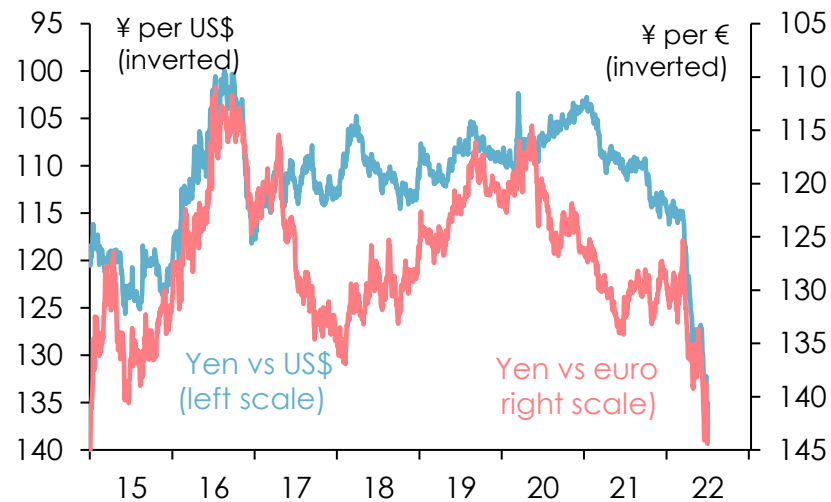
## Euro



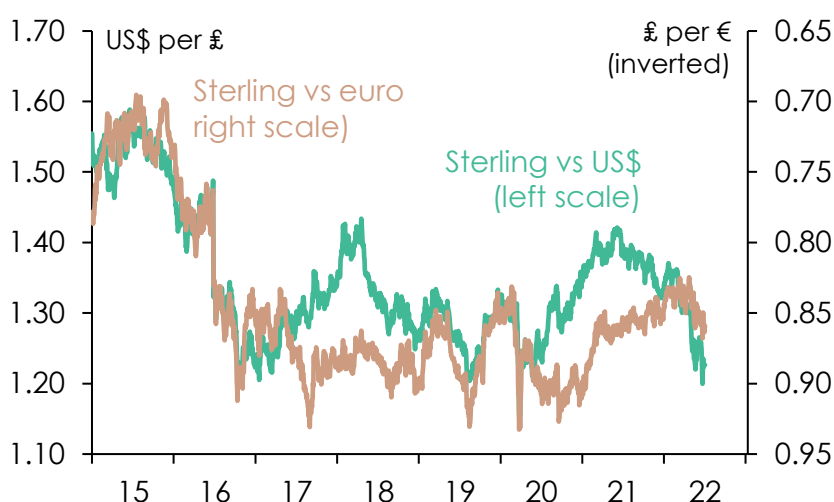
## Swiss franc



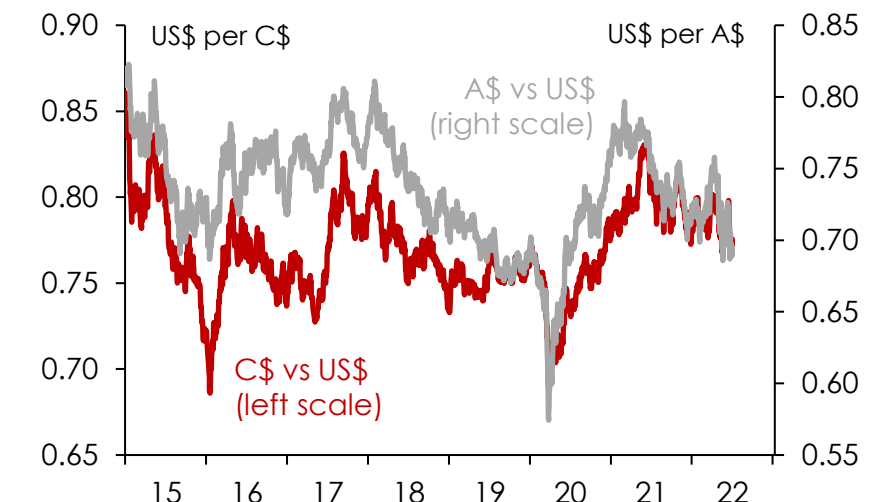
## Japanese yen



## Sterling



## Canadian & Australian dollars



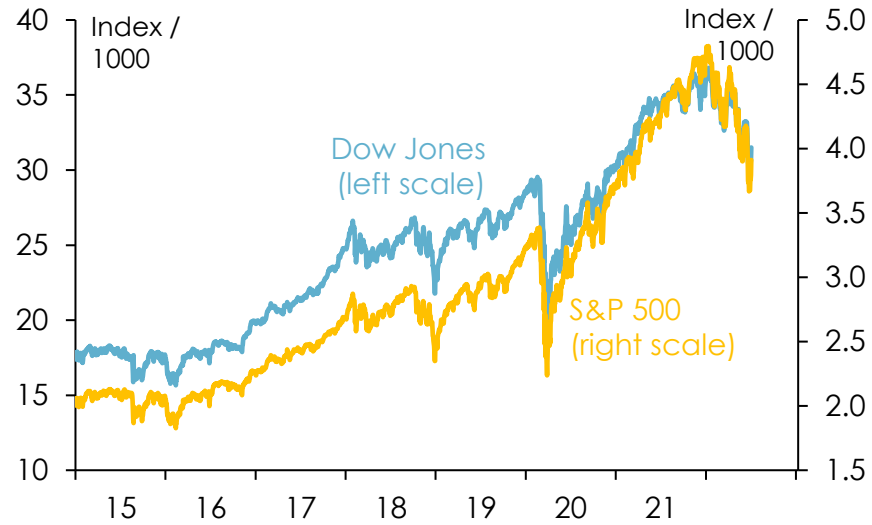
Note: Data up to 24<sup>th</sup> June. For Asian exchange rates see [slide 110](#). Source: Refinitiv Datastream. [Return to "What's New"](#).



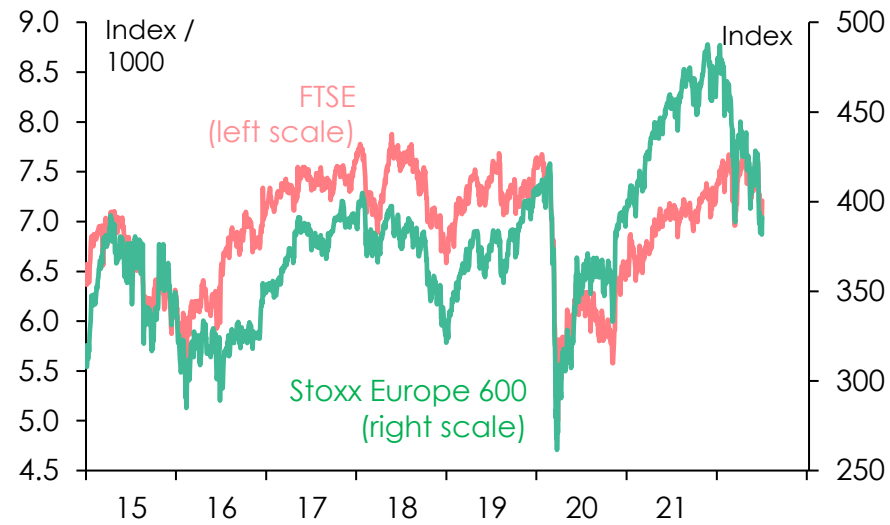
# Stockmarkets rose last week as investors figured that increased recession risks might result in central banks being less aggressive (go figure ...)

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

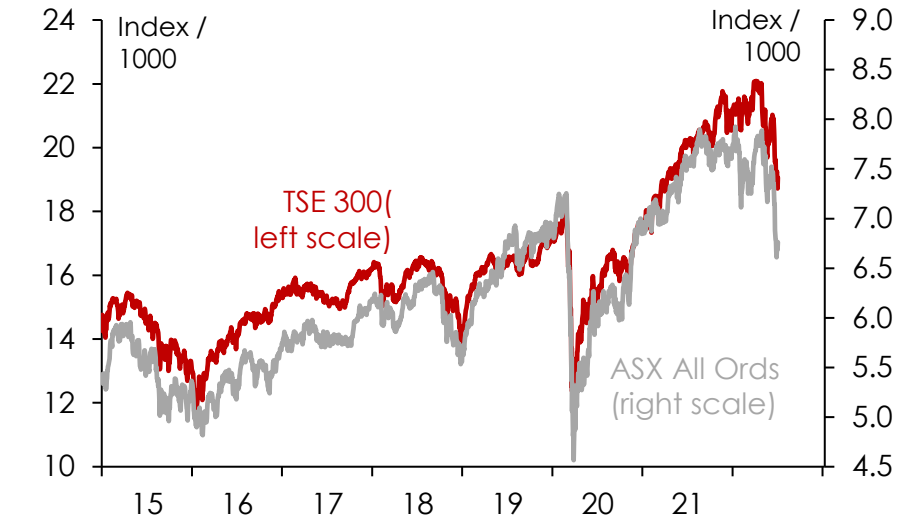
## US stock market



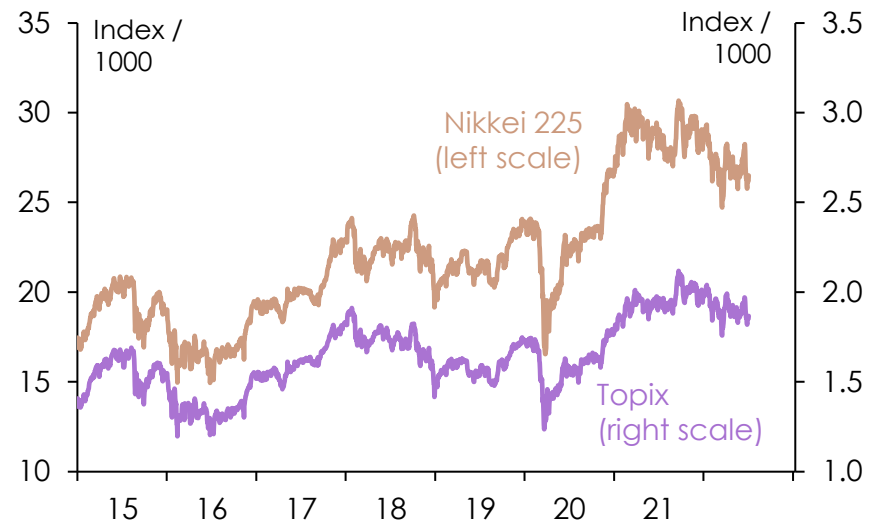
## European stock markets



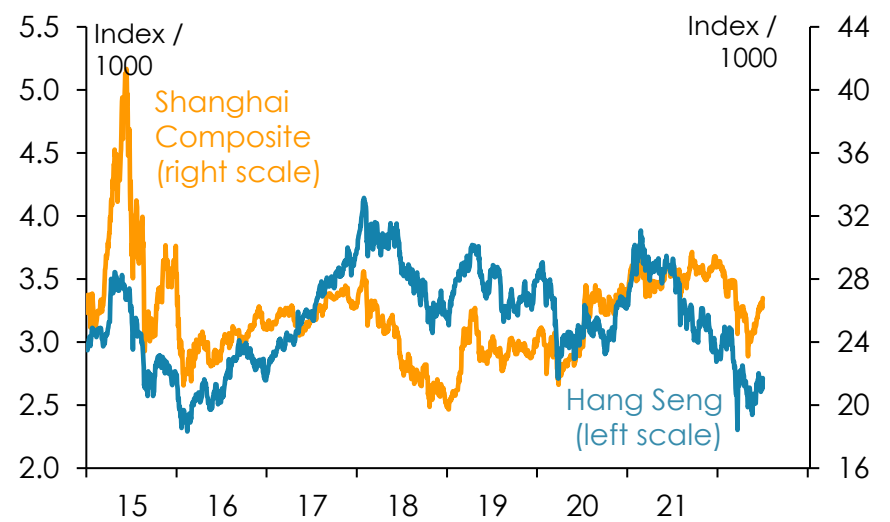
## Canadian & Australian stock markets



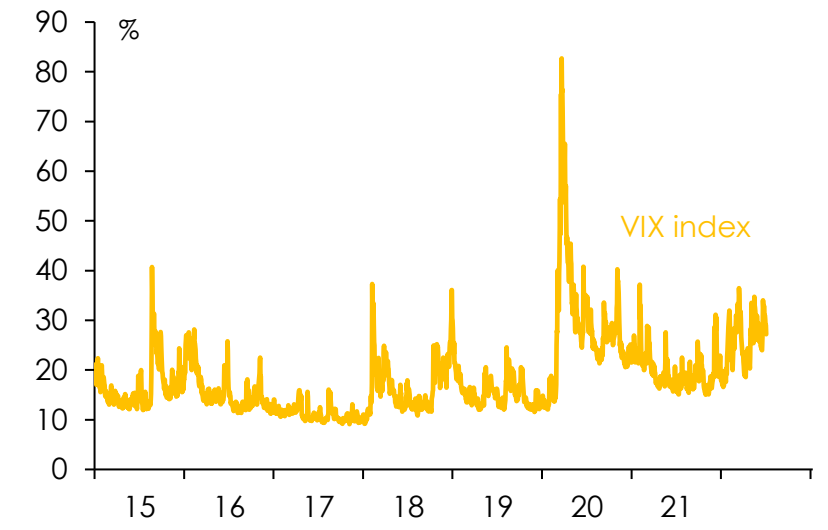
## Japanese stock market



## Chinese & HK stock markets



## Equity market volatility



Note: Data up 24<sup>th</sup> June. Source: Refinitiv Datastream. For East Asian stock markets see [slide 111](#). [Return to "What's New"](#).

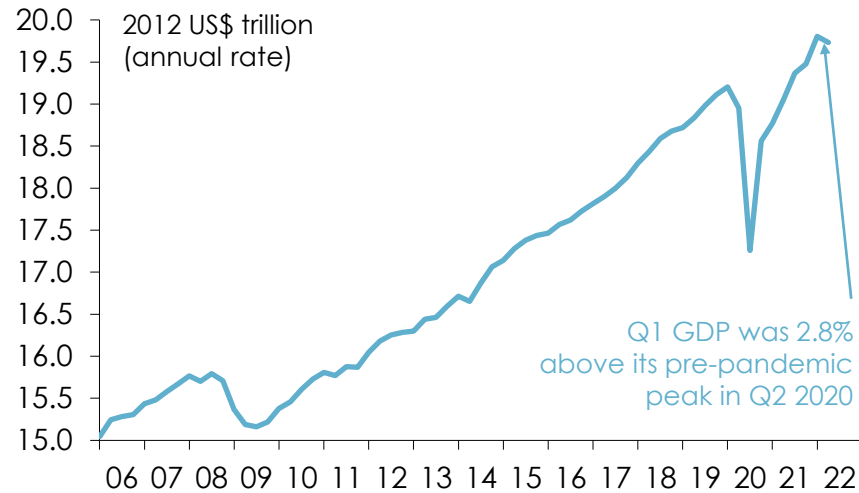


**The United States**

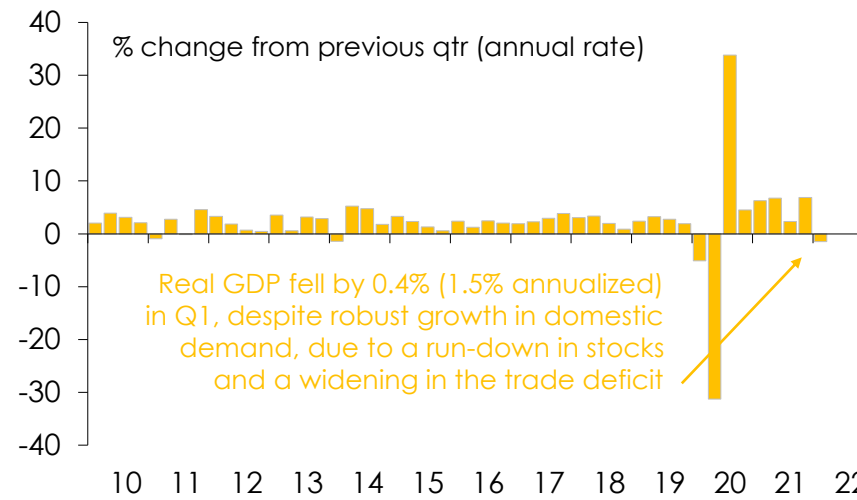
# US real GDP shrank 0.4% (1.5% annualized) in Q1, despite strong domestic demand, due to a run-down in inventories and a large fall in net exports

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

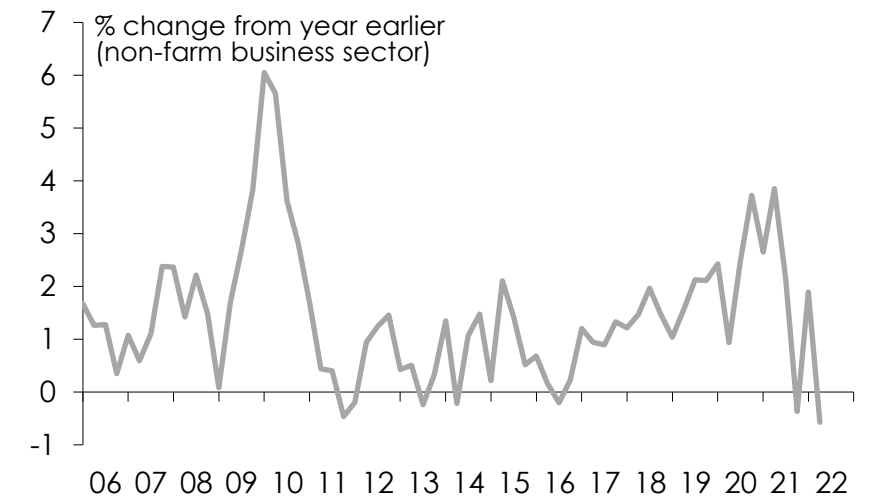
## Level of real GDP



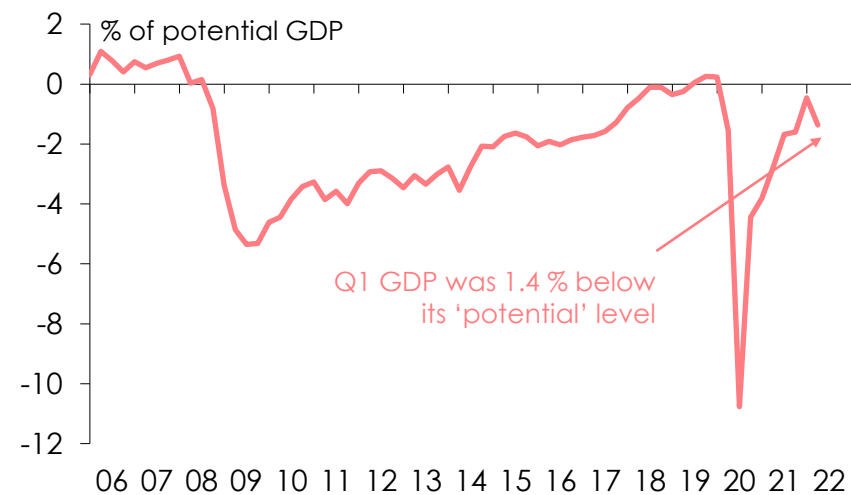
## Quarterly change in real GDP



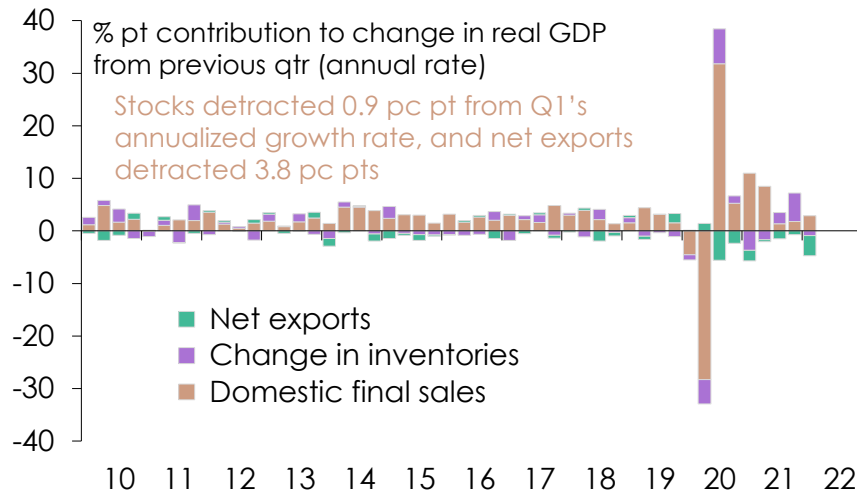
## Labour productivity growth



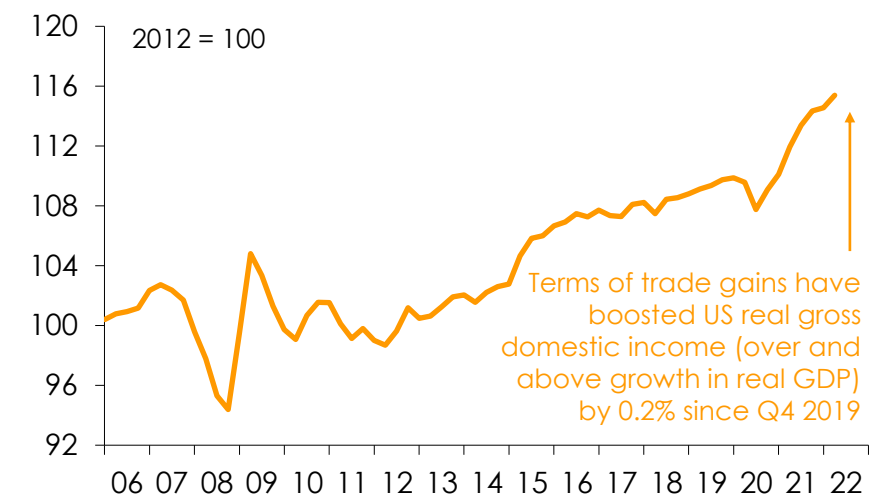
## The 'output gap'



## Contributions to change in real GDP



## Terms of trade

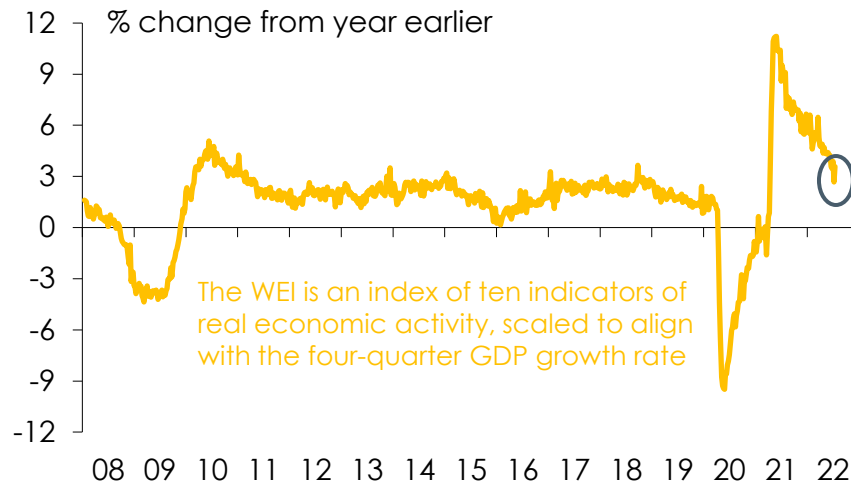


Note: the 'output gap' is the difference between actual and potential GDP (the volume of goods & services that could be produced if the economy were operating at full capacity); the 'terms of trade' is the ratio of the implicit price deflator of exports of goods & services to that of imports of goods & 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"](#).

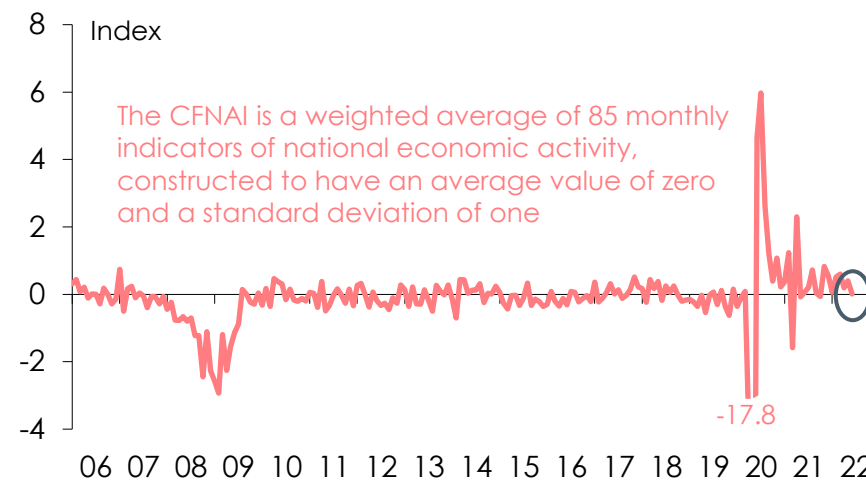
# A growing number of activity surveys and leading indicators are starting to warn of a sharp slowdown or outright contraction in US economic activity

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

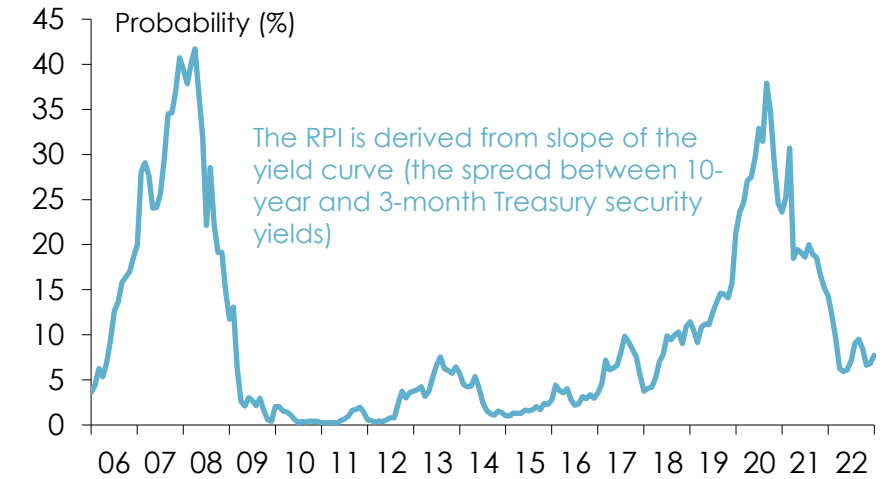
## NY Fed weekly economic index



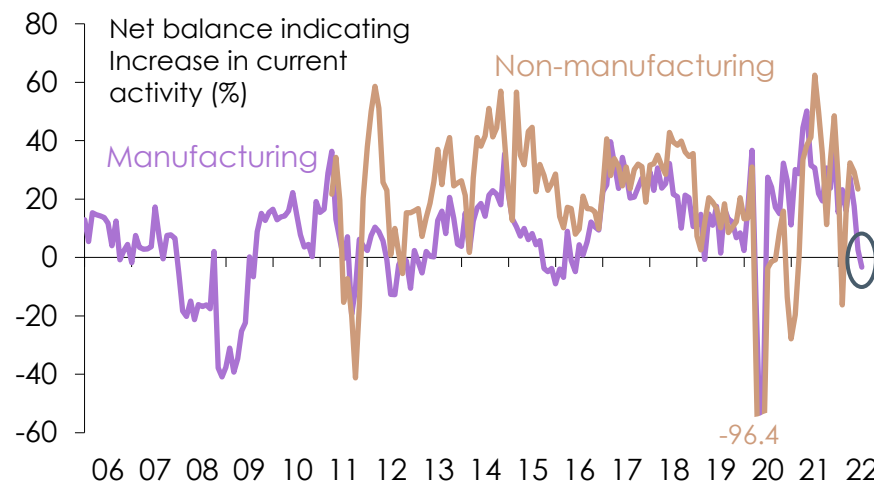
## Chicago Fed national activity index



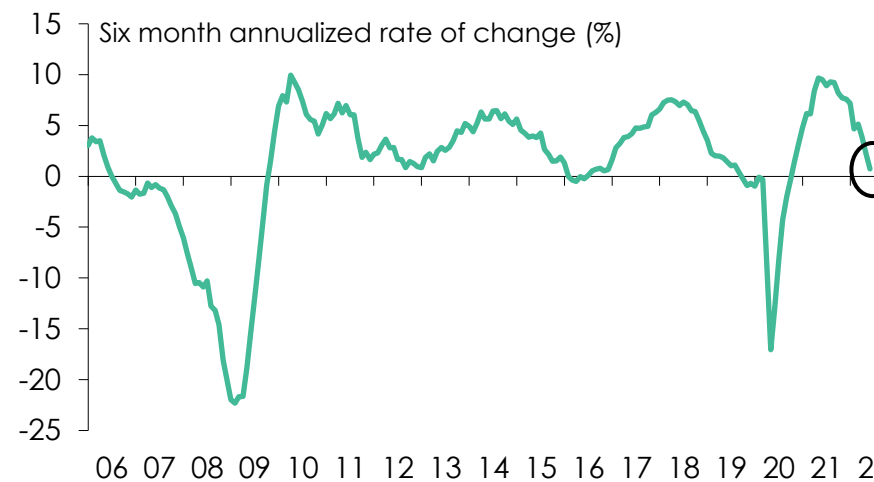
## NY Fed recession probability index



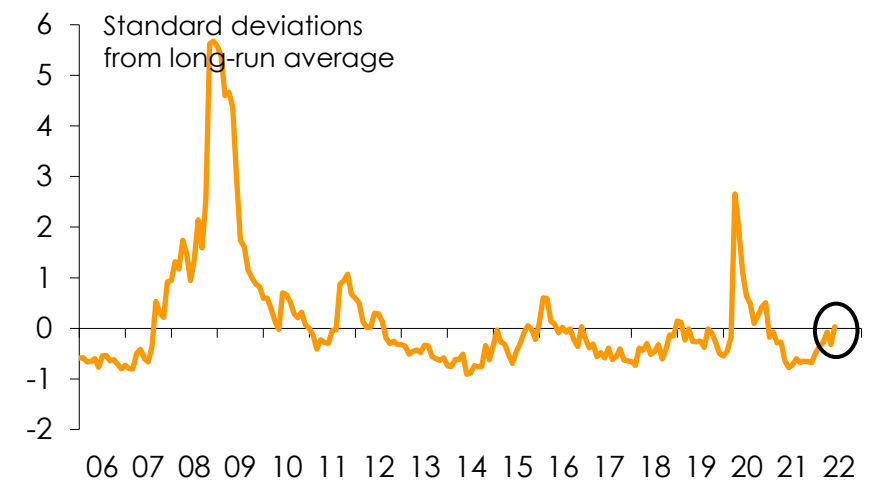
## 'Philly Fed' business outlook survey



## Conference Board leading indicators



## Kansas City Fed financial stress index

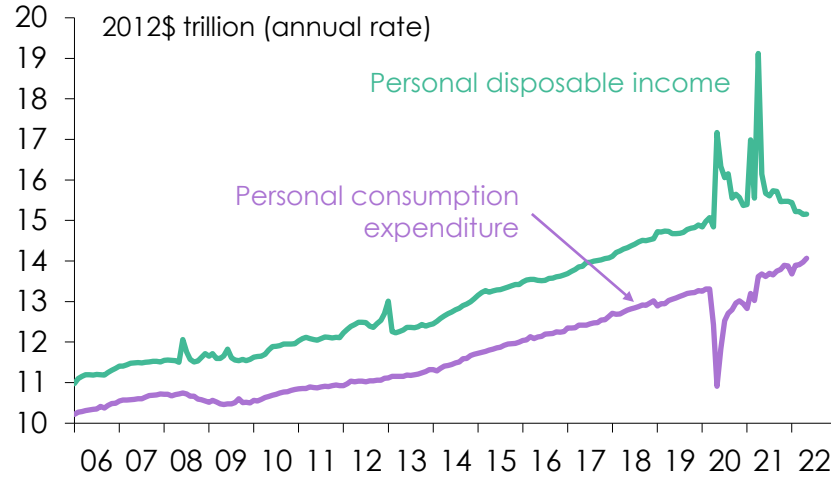


Sources: Federal Reserve Bank of New York, [Weekly Economic Index](#) and [The Yield Curve as a Leading Indicator](#); Federal Reserve Bank of Philadelphia, [Regional Economic Analysis](#), Manufacturing and Non-Manufacturing Business Outlook Surveys; Federal Reserve Bank of Chicago, [Chicago Fed National 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"](#).

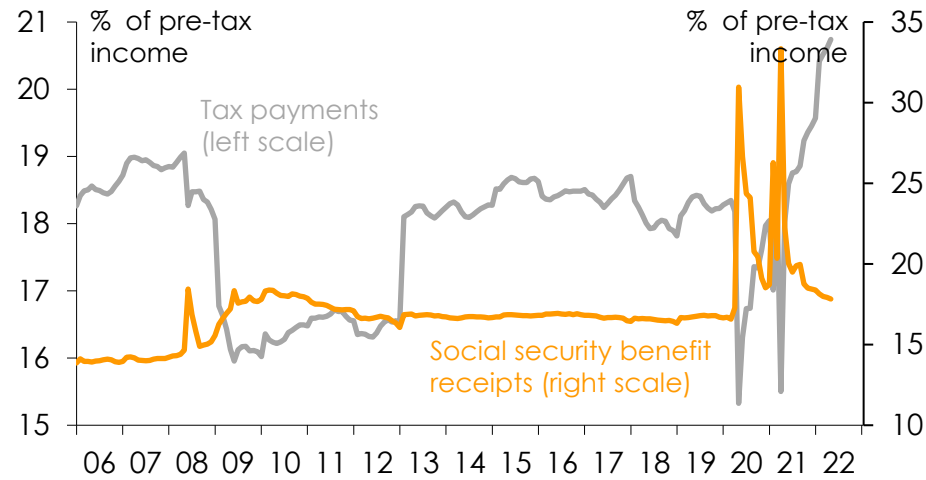
# US personal disposable income has been squeezed by rising inflation & tax payments, forcing households to cut saving in order to maintain spending

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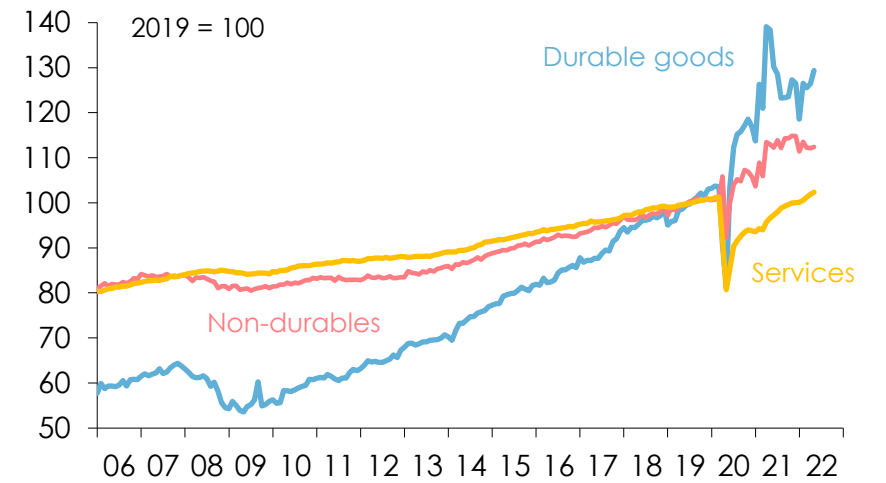
## Personal income and expenditure



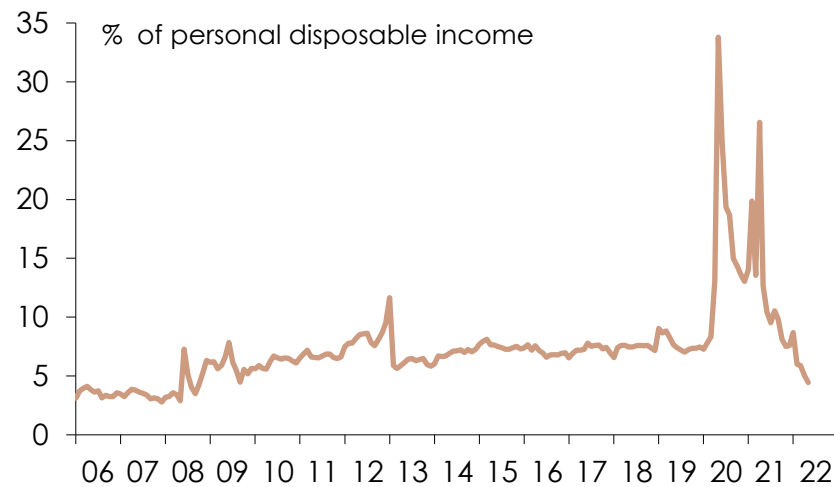
## Tax and social security



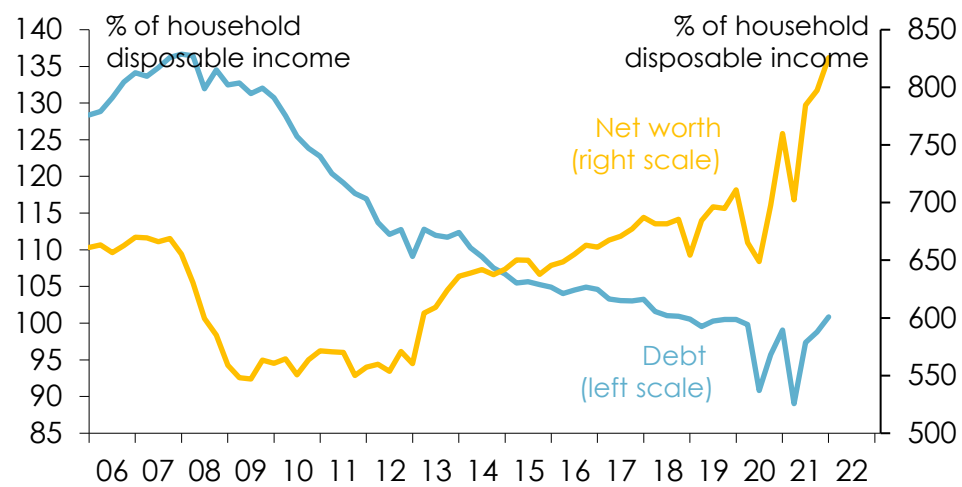
## Personal consumption expenditure



## Personal saving rate



## Household debt and net worth



## Spending on energy

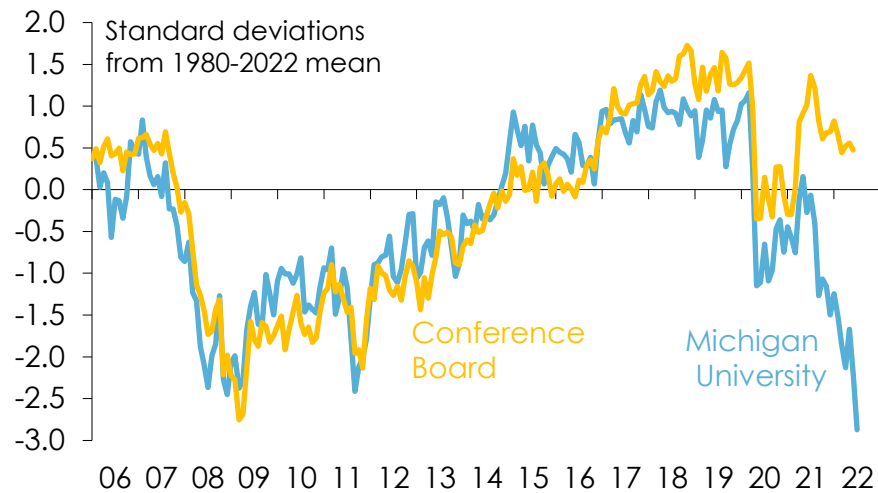


Note: data on personal income, spending and saving are monthly; data on debt and net worth are quarterly. Sources: US Bureau of Economic Analysis, [Gross Domestic Product](#), [Consumer Spending](#) and [Income and Saving](#); US Federal Reserve, [Financial Accounts of the United States - Z1](#). [Return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

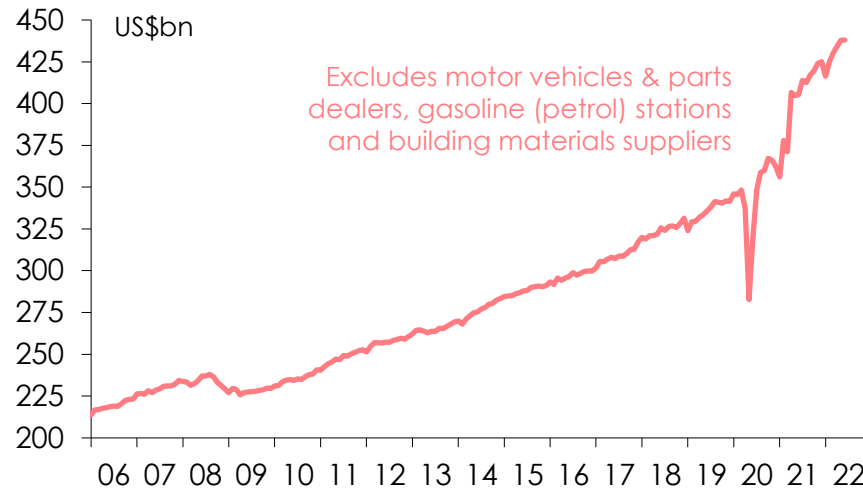
# Gas stations' sales rose 4% in May due to higher prices, but vehicle dealers' sales fell 3.5% and 'core' retail sales were flat

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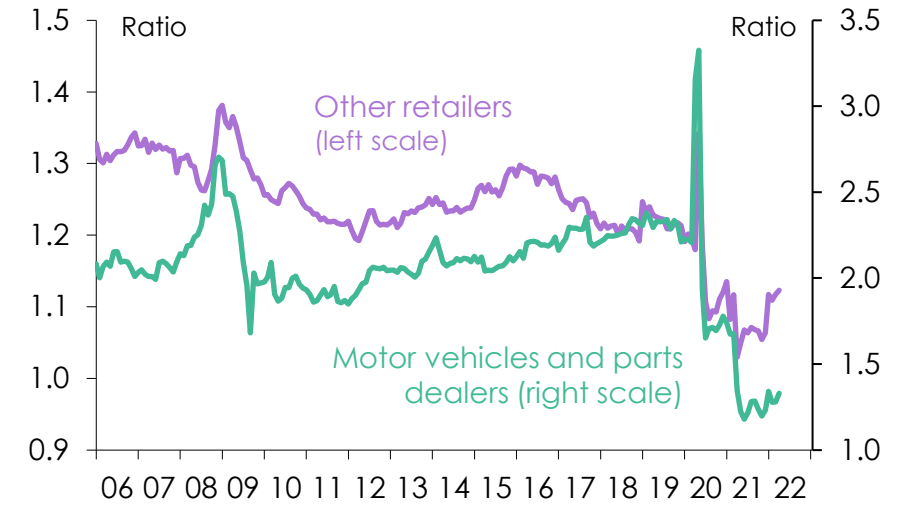
## Consumer sentiment



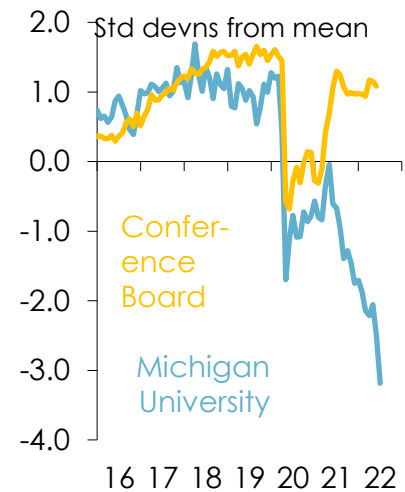
## Level of 'core' retail sales



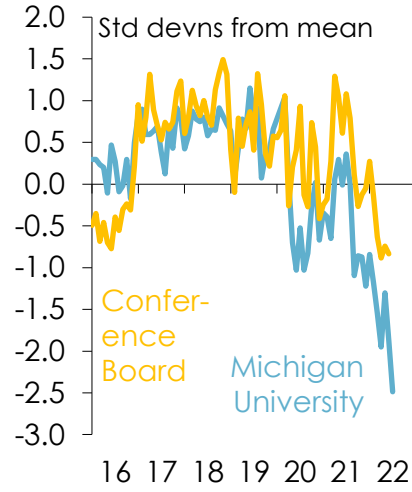
## Retail inventories-sales ratios



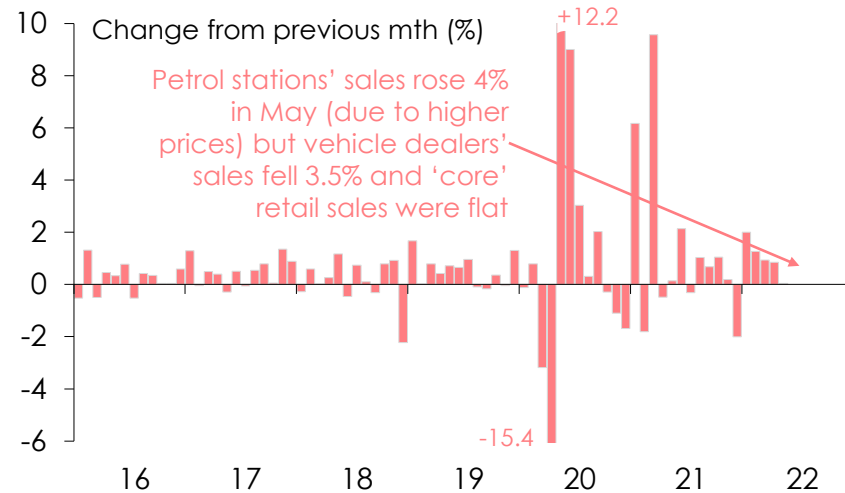
## Present situation



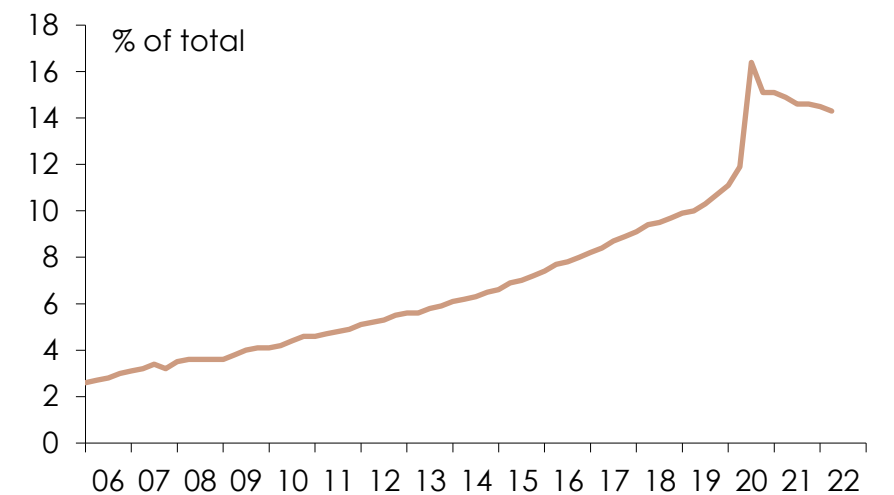
## Expectations



## Monthly changes in 'core' retail sales



## On-line retail sales

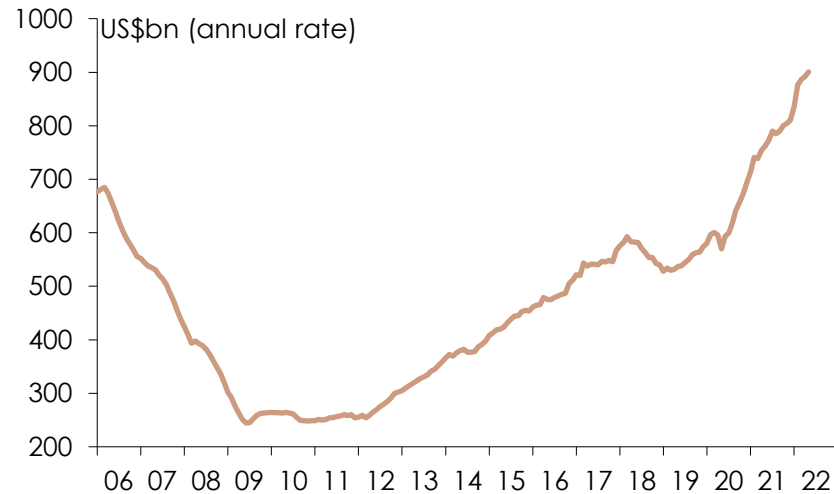


Note: 'Core' retail sales excludes motor vehicles, petrol stations and building materials stores. Sources: Michigan University Survey Research Center, [Survey of Consumers](#); The Conference Board, [US Consumer confidence](#); US Census Bureau, [Monthly Retail Trade](#) and [Advance Economic Indicators](#).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

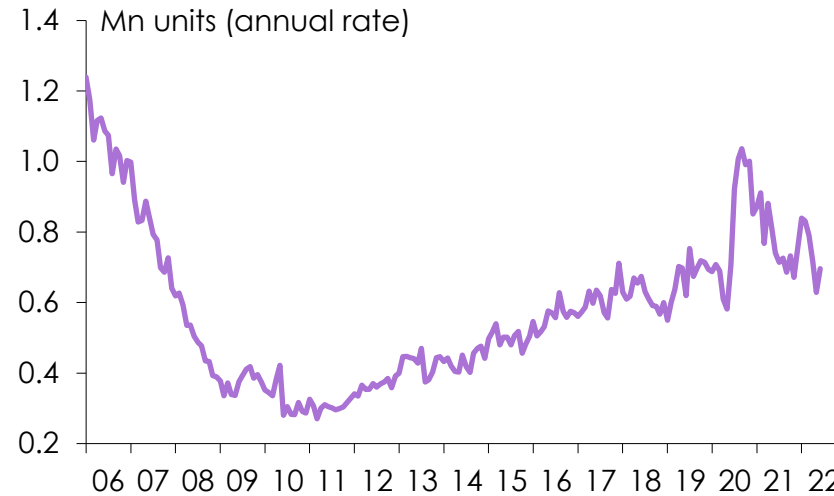
# Existing home sales fell in May for the 4<sup>th</sup> month in a row, to their lowest since February 2020; new home sales rebounded from a big fall in April

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## Housing construction spending



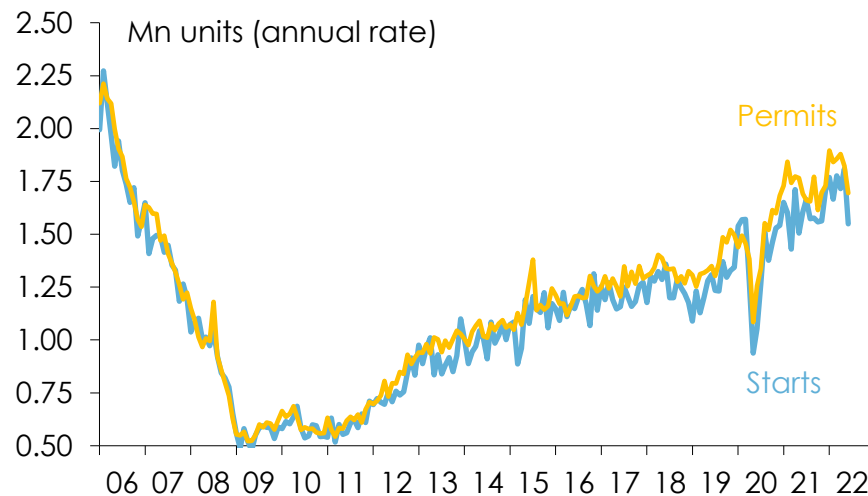
## New single-family home sales



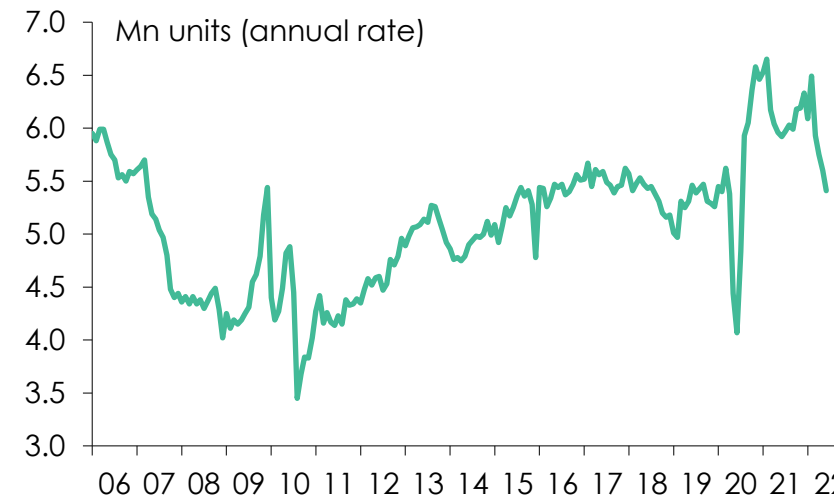
## 30-year fixed mortgage rates



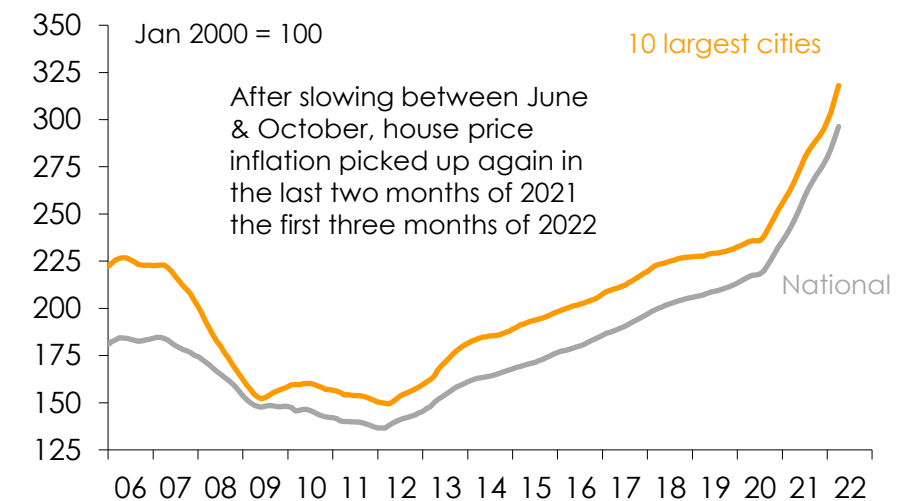
## Housing starts and permits



## Existing home sales



## House prices



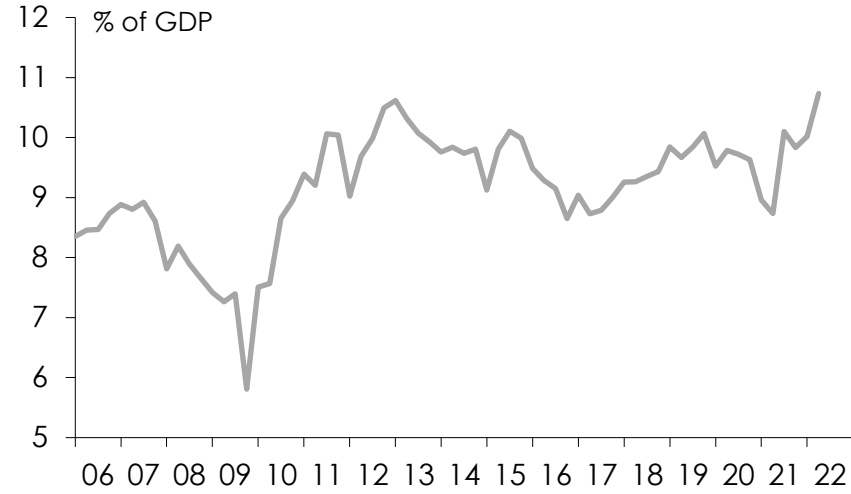
Sources: US Census Bureau, [Construction Spending](#), [New residential construction](#) and [New Residential Sales](#); US National Association of Realtors, [Existing-Home Sales](#); Mortgage Bankers' Association, [National Delinquency Survey](#); S&P Global, [S&P CoreLogic Case-Shiller Home Price Indices](#).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



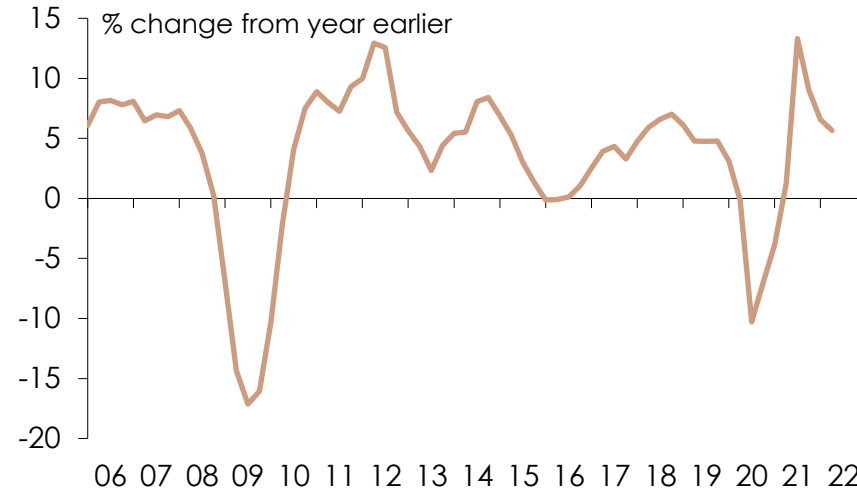
# US corporate profits and balance sheets are strong, and investment is increasing – except in non-residential construction

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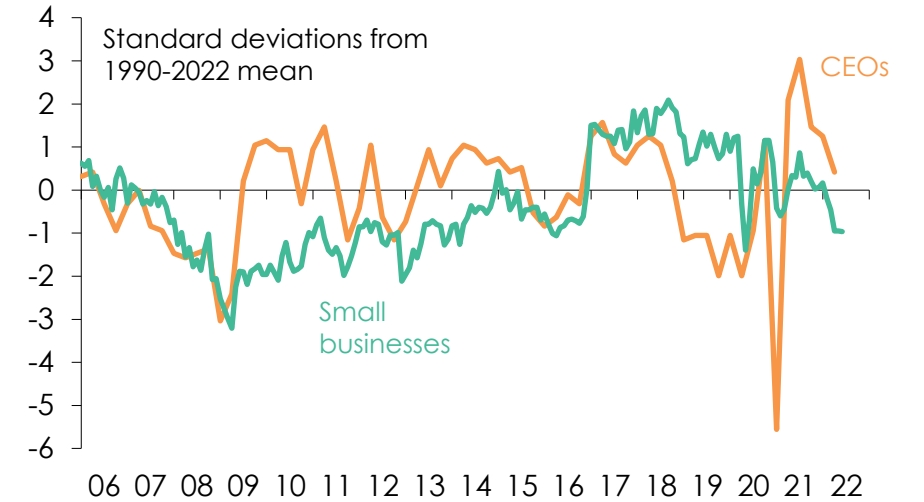
## After-tax corporate profits



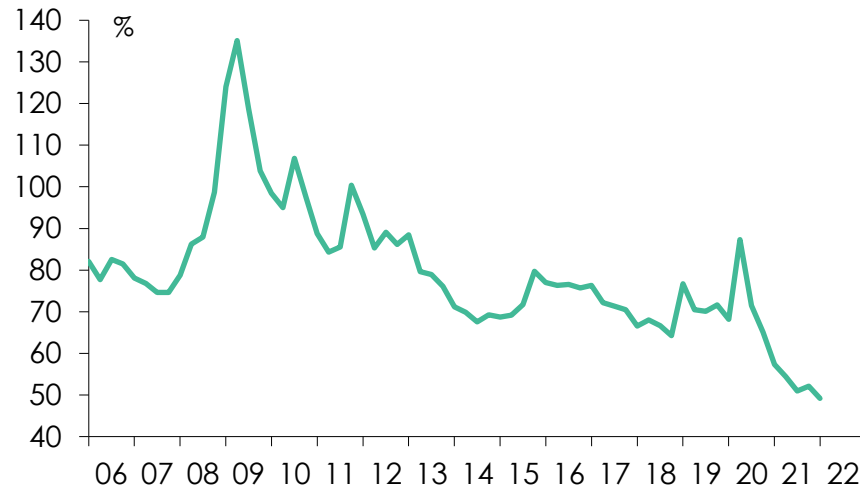
## Business investment



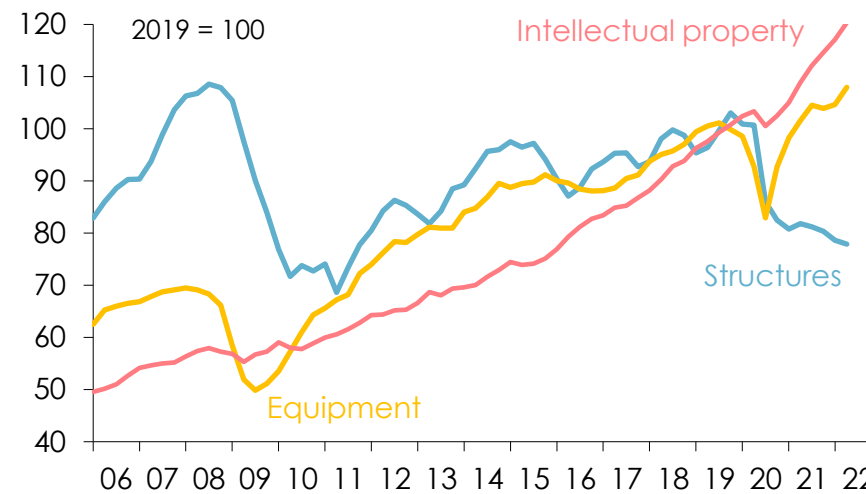
## Business confidence



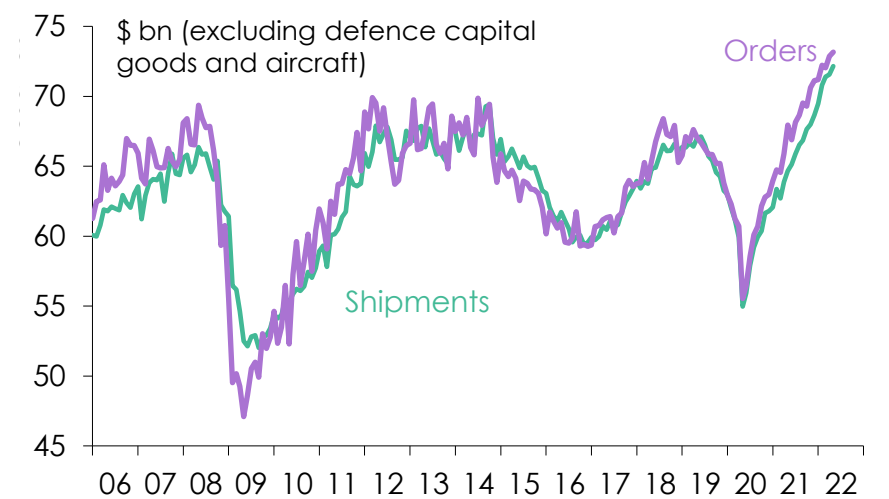
## Corporate debt-equity ratio



## Business investment by type



## Capital goods orders & shipments



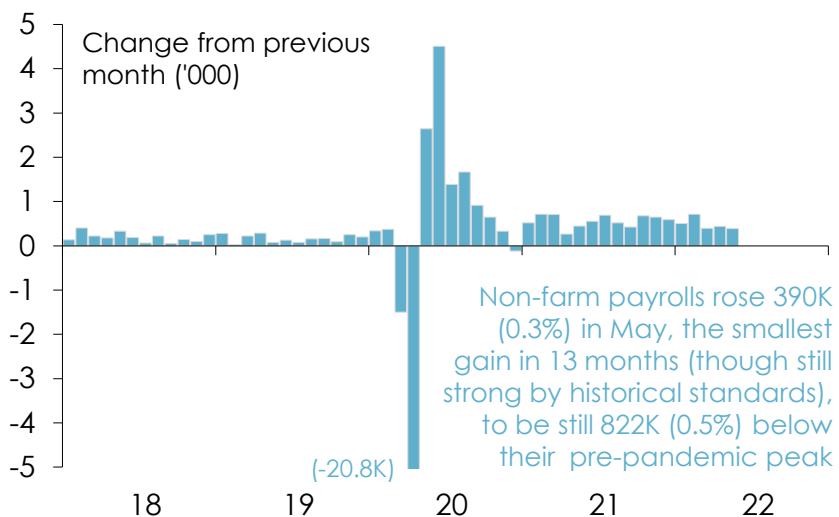
Sources: US Bureau of Economic Analysis, [Gross Domestic Product](#); US Federal Reserve, [Financial Accounts of the United States - Z1](#); The Conference Board, [US CEO Confidence](#); National Federation of Independent Business, [Small Business Economic Trends](#); US Commerce Department, [Manufacturers'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



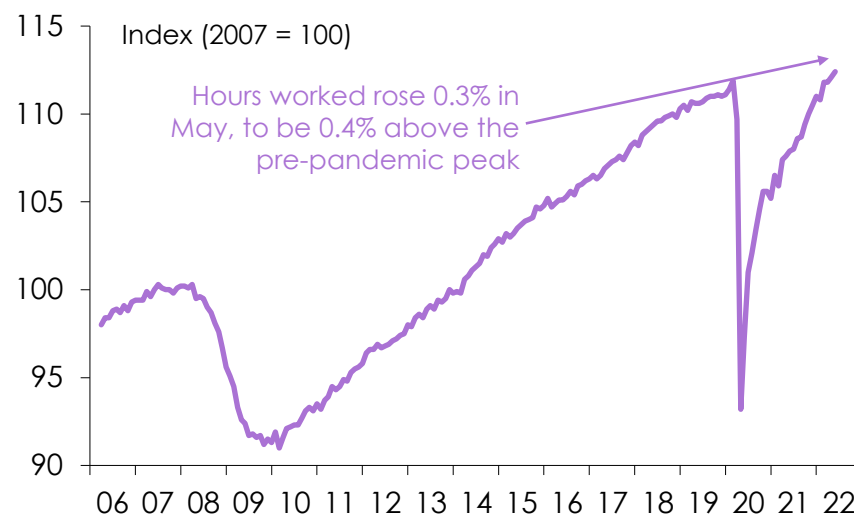
# US non-farm payrolls rose 390K in May, the smallest increase in 13 months, leaving the unemployment rate at 3.6% for the third month in a row

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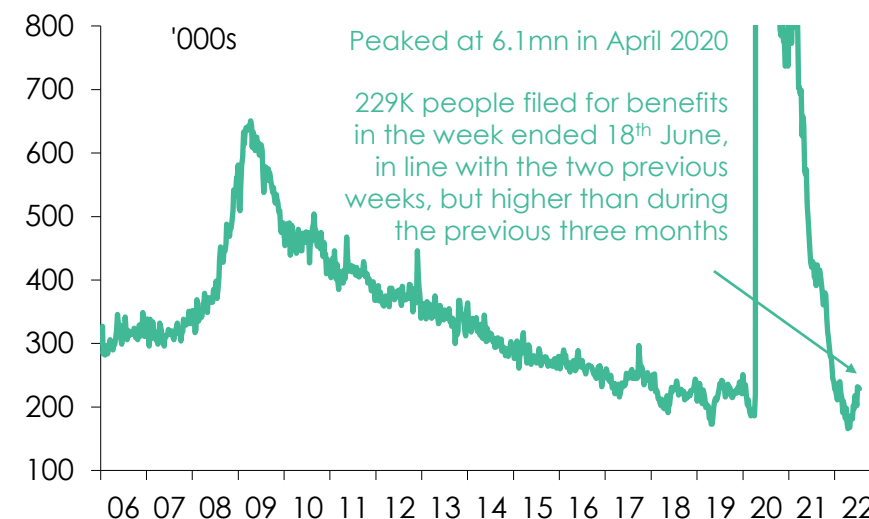
## Non-farm payroll employment



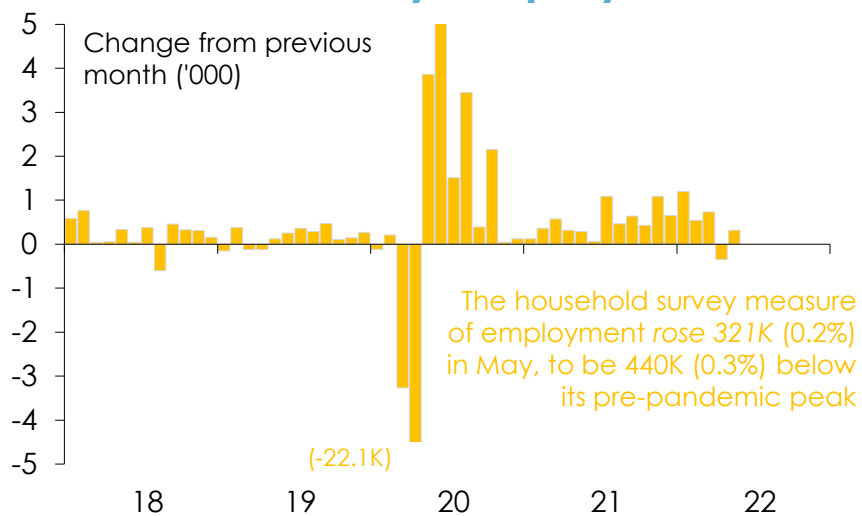
## Hours worked (private sector)



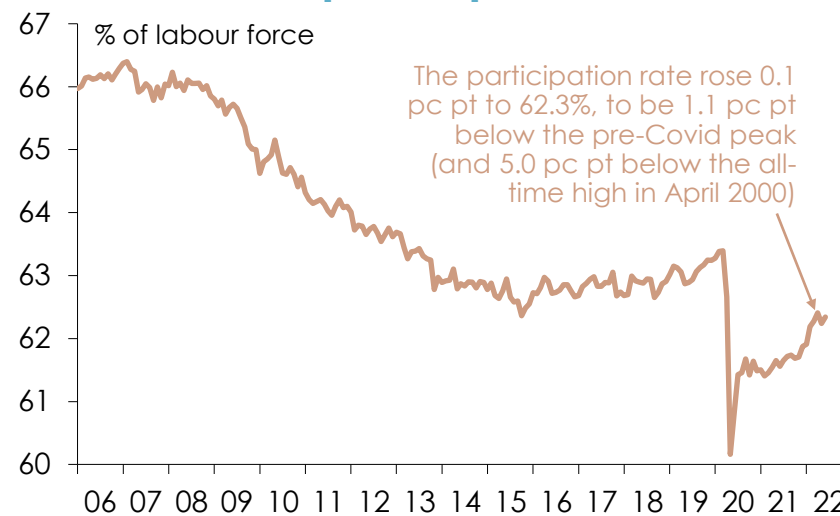
## Unemployment benefit initial claims



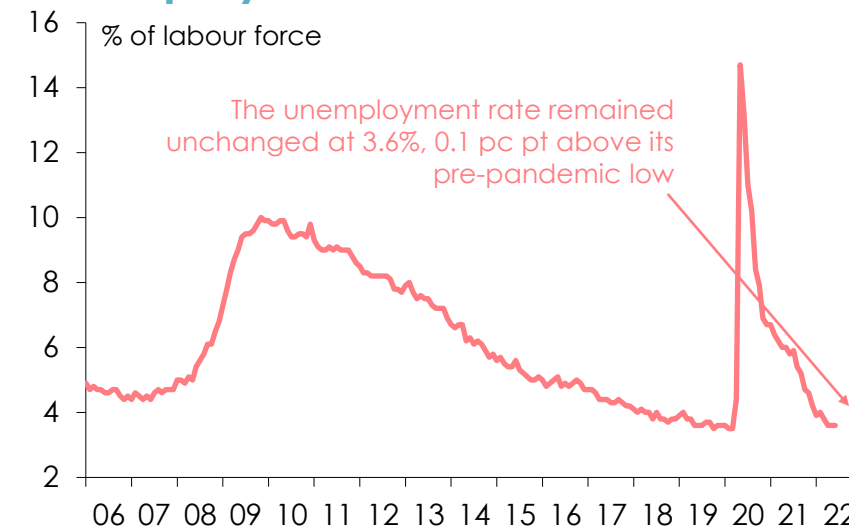
## Household survey employment



## Labour force participation rate



## Unemployment rate

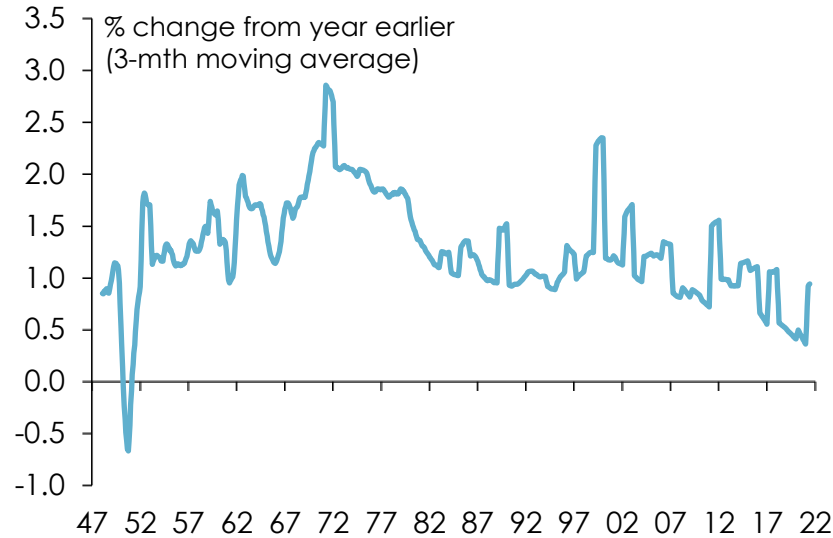


Sources: US Bureau of Labor Statistics, [Employment Situation](#); US Department of Labor, [Unemployment Insurance Weekly Claims](#). [Return to "What's New"](#).

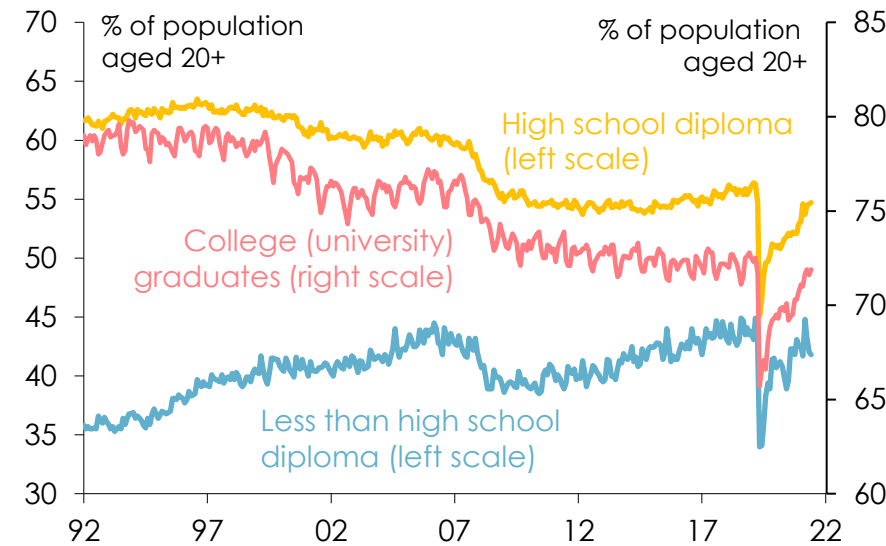
# US labour market tightness owes much to a persistent shortfall in labour force participation, especially among people aged 55 and over

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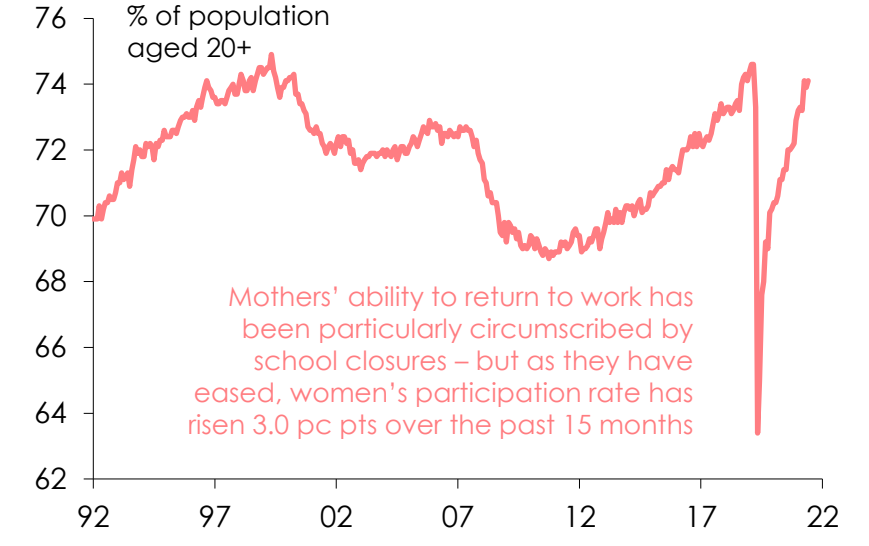
## Civilian working age population



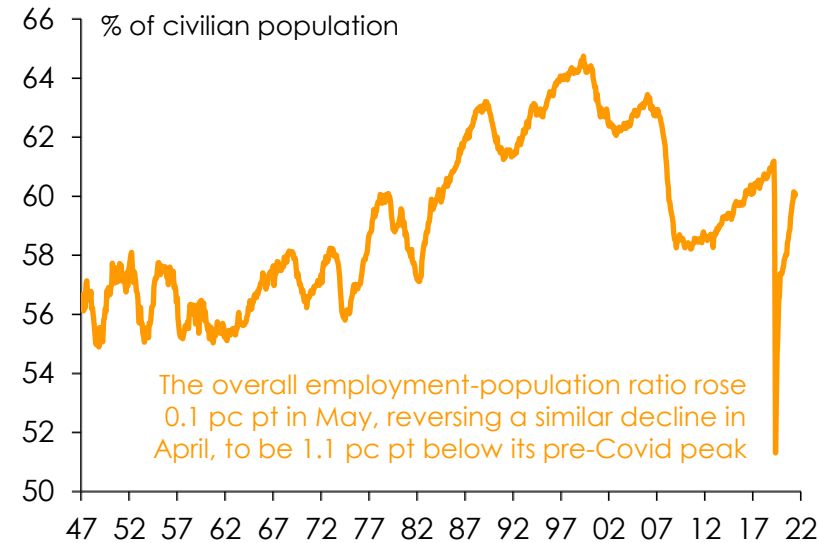
## 'E-pop' ratio – by education



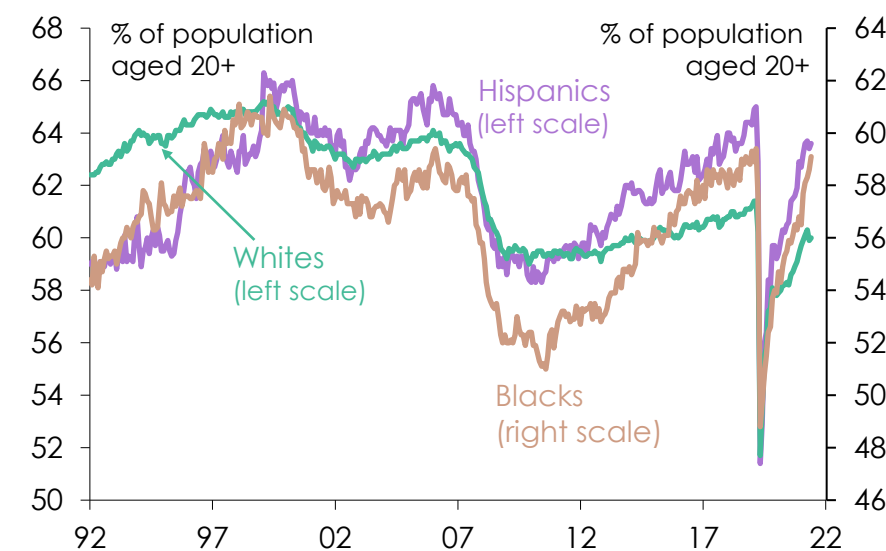
## 'E-pop' ratio – women 25-54



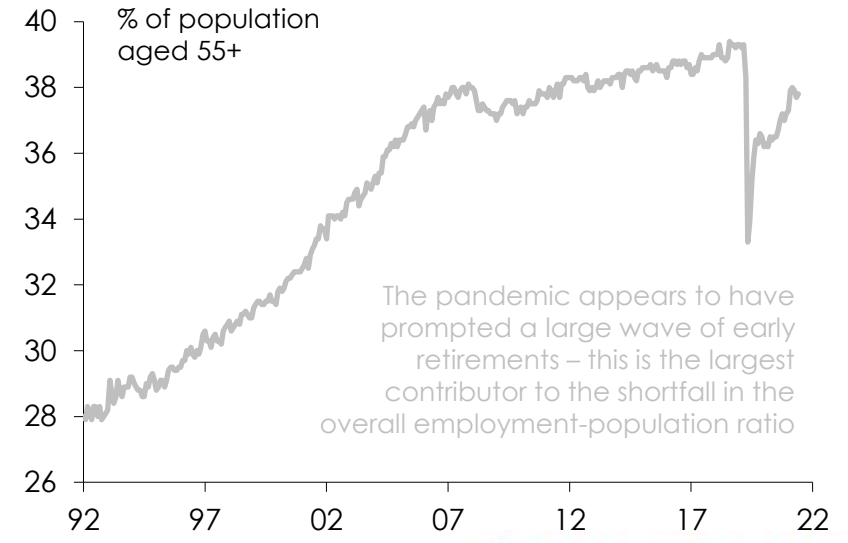
## Employment-to-population ratio



## 'E-Pop' ratio – Blacks & Hispanics



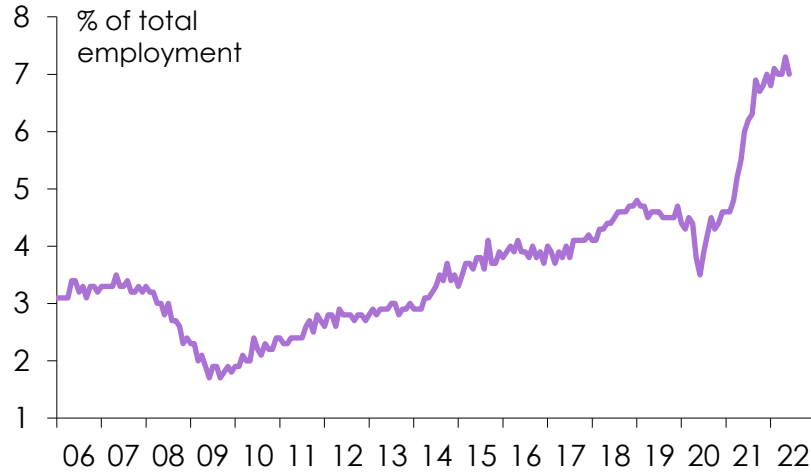
## 'E-pop' ratio – people 55 & over



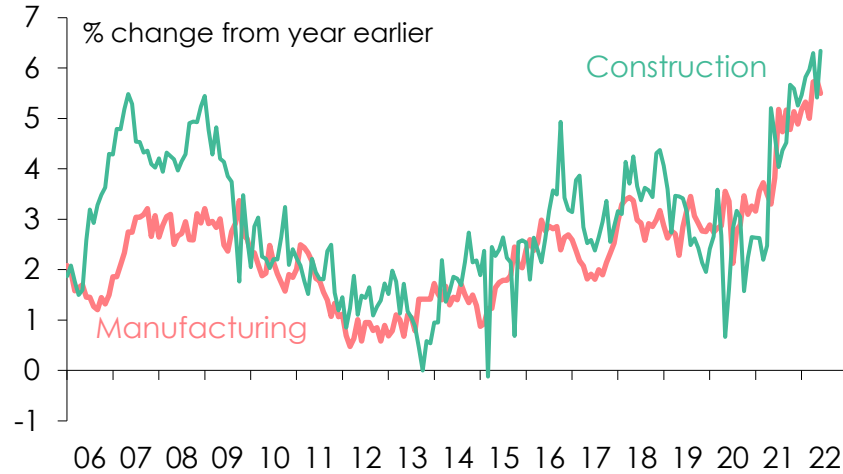
# The wages component of the employment cost index (the best measure of US wages growth) rose by 5.0% over the year to Q1

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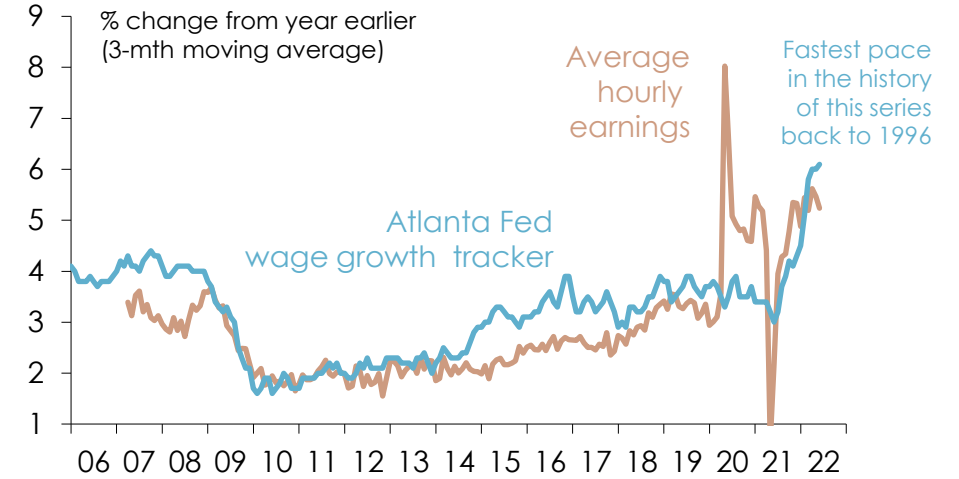
## Job openings



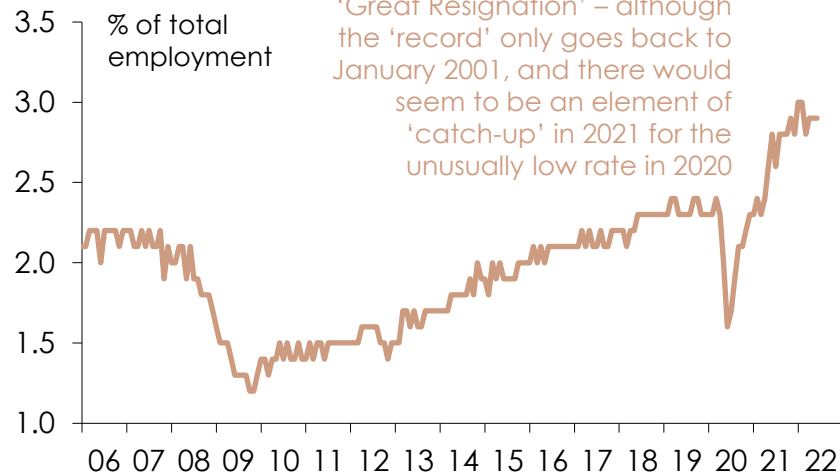
## Average hourly earnings



## Overall wages growth - monthly

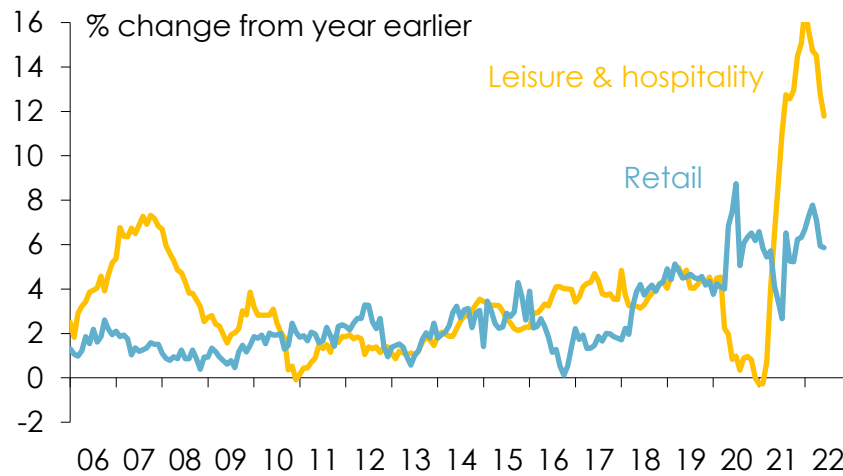


## Quit rate

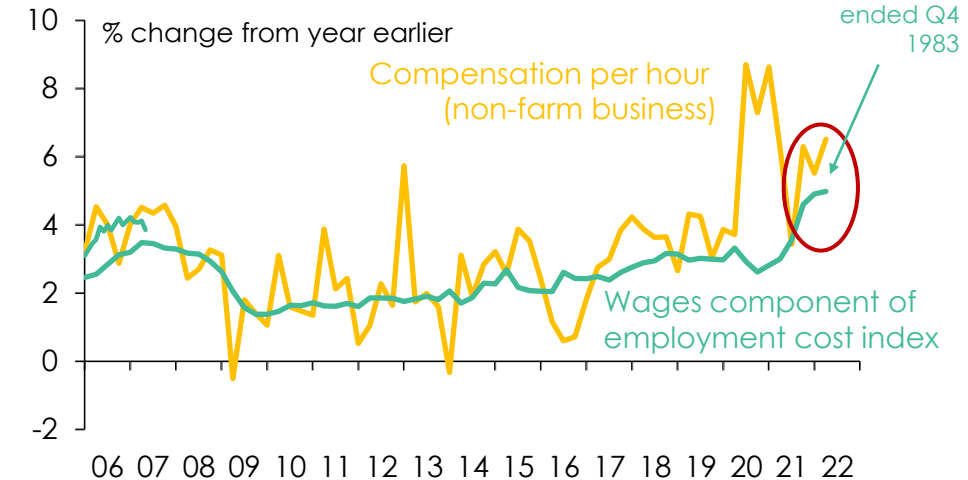


The record high 'quit rate' is the main evidence for the so-called 'Great Resignation' – although the 'record' only goes back to January 2001, and there would seem to be an element of 'catch-up' in 2021 for the unusually low rate in 2020

## Average hourly earnings



## Wages growth - quarterly

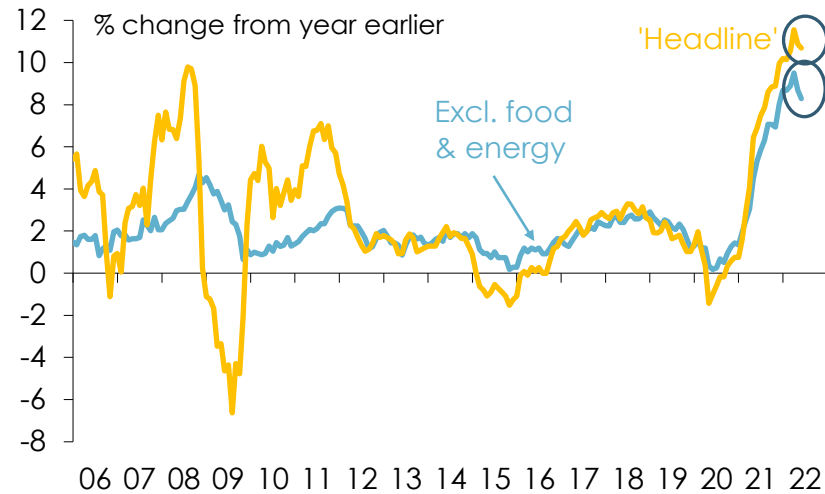


Note: Measures of average hourly earnings (especially the all-industries measures) and of average compensation per hour are affected by changes in the composition of employment (so for example they rose sharply in Q2 2020 when large numbers of low-paid workers were laid off and fell markedly when they 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"](#).

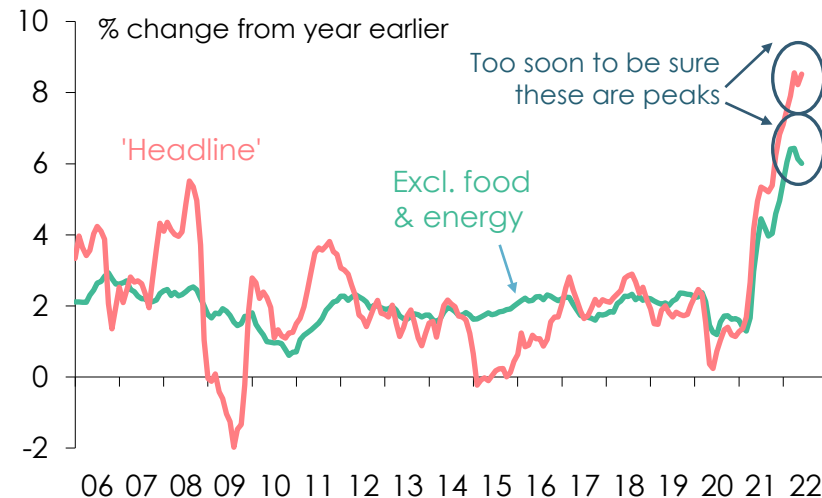
# Food and especially energy prices accounted for half of a 1.0% increase in the CPI in May, leaving the annual rate at an elevated 8.5%

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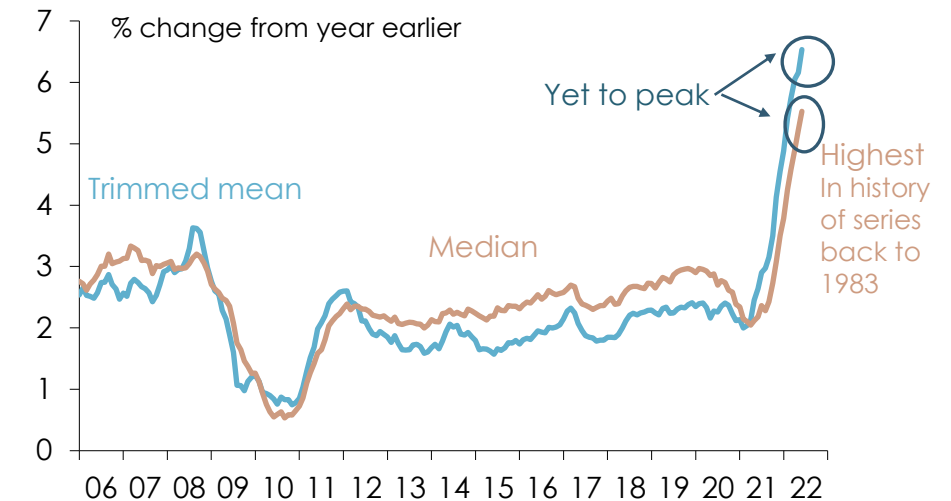
## Producer price index



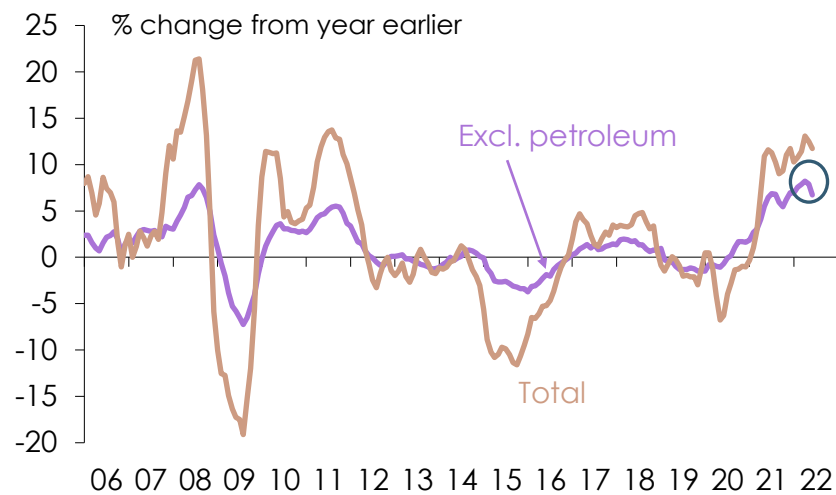
## Consumer price index



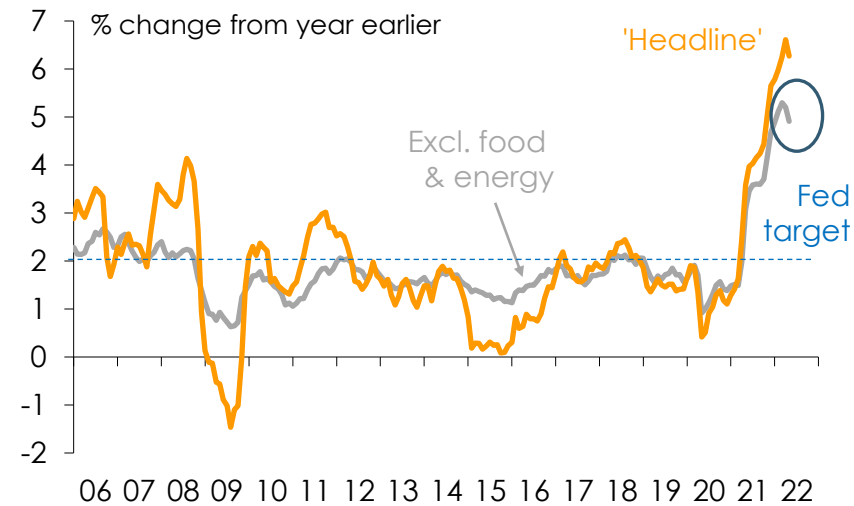
## 'Underlying' CPI inflation



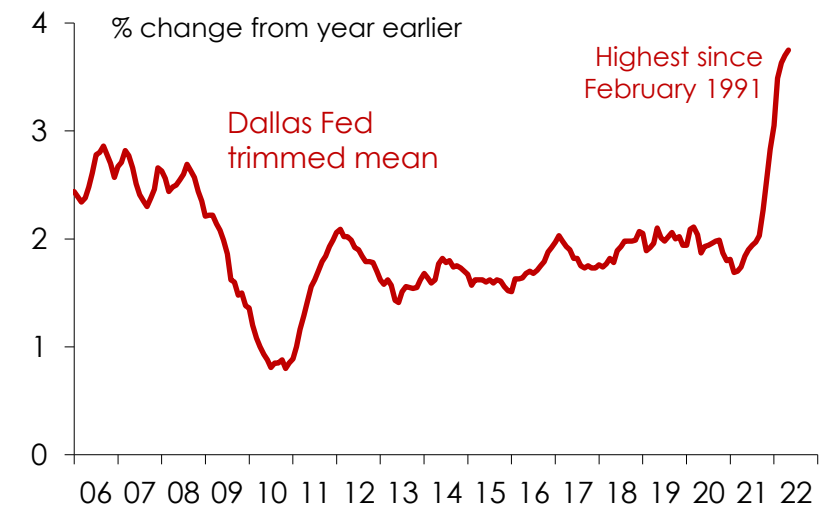
## Import price index



## Personal consumption deflator



## 'Underlying' PCE deflator inflation

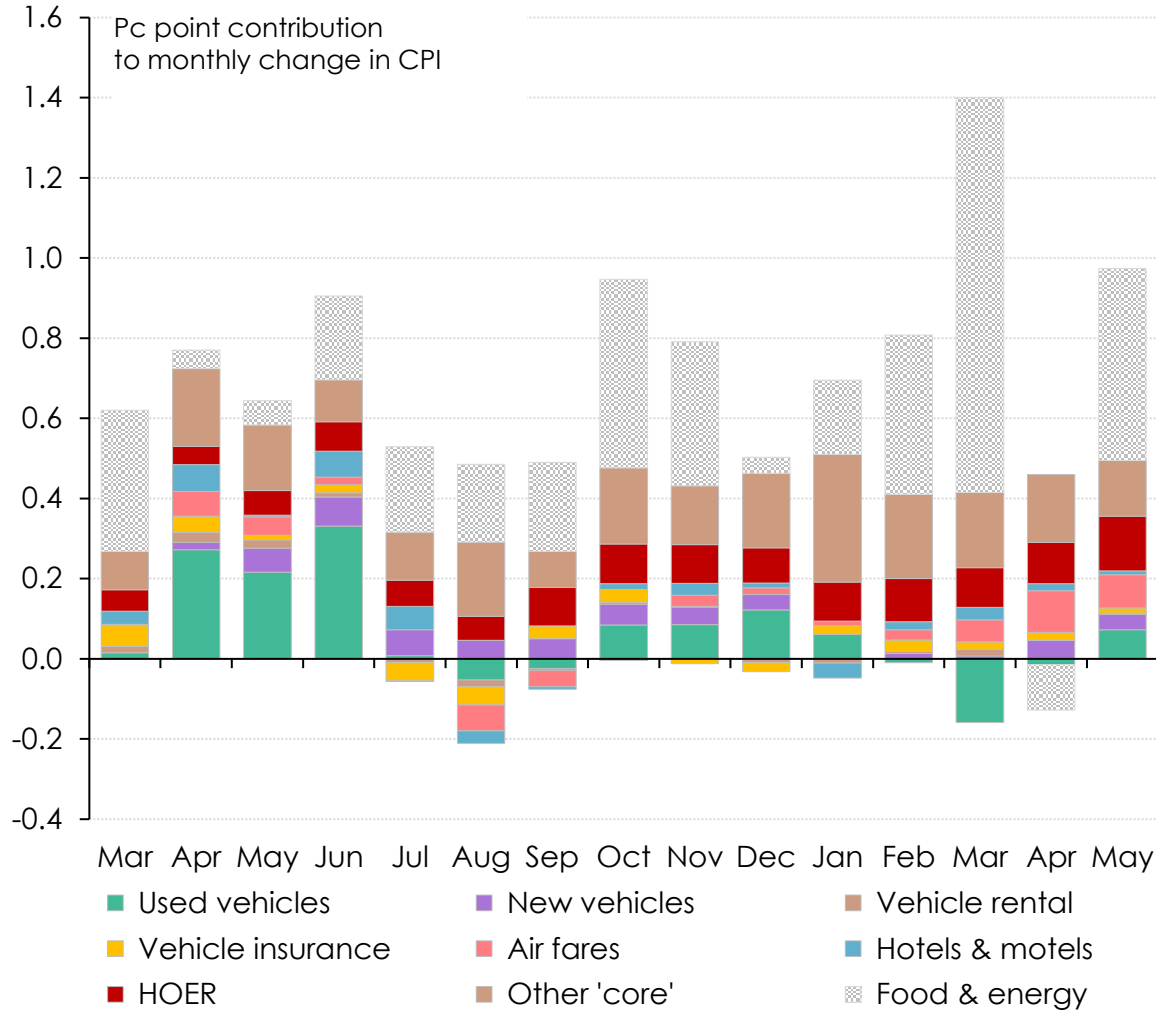


Sources: US Bureau of Labor Statistics, [Producer Price Index](#), [Import and Export Price Indexes](#) and [Consumer Price Index](#); US Bureau of Economic Analysis, [Personal Consumption Expenditures Price Index](#); Federal Reserve Bank of Cleveland, [Median CPI](#); Federal Reserve Bank of Dallas,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

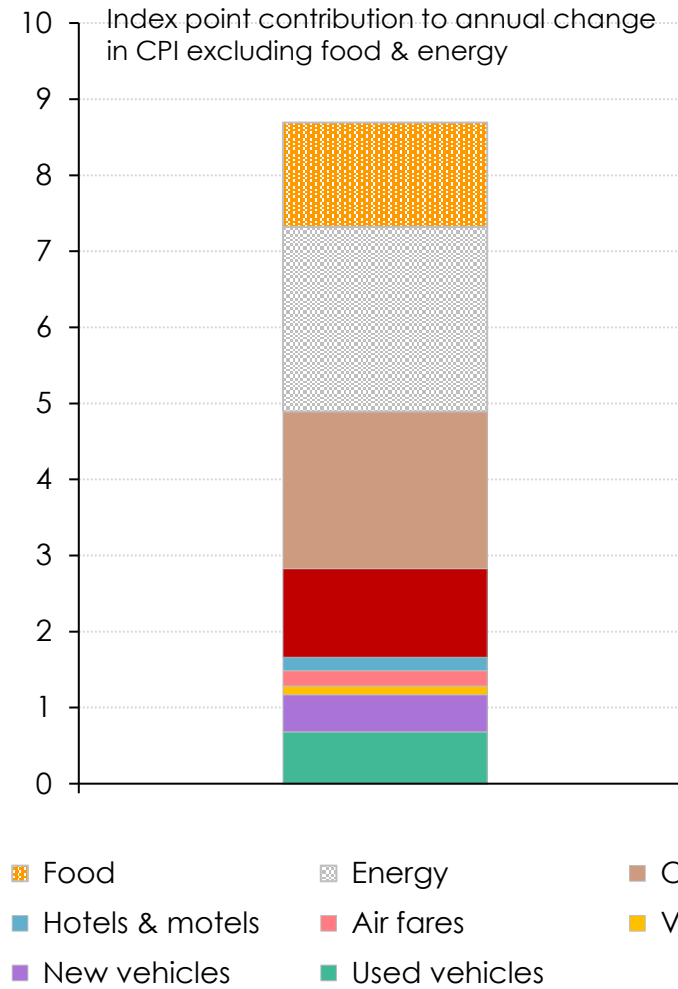
# The CPI ex food & energy rose 0.6% in May, slightly above the average for the previous 6 months, so it's premature to say 'core' inflation has peaked

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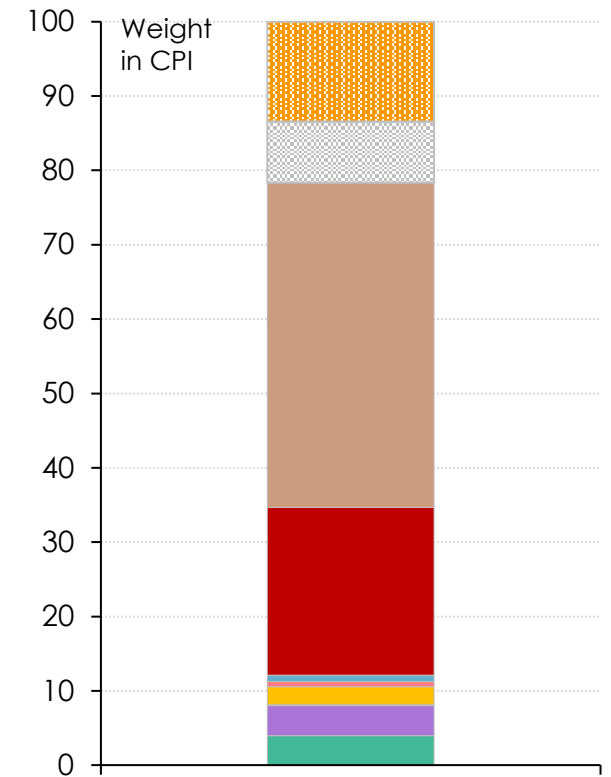
## Contributions to monthly changes in the US CPI



## Contributions to change in CPI over the year to March



## Weights in CPI



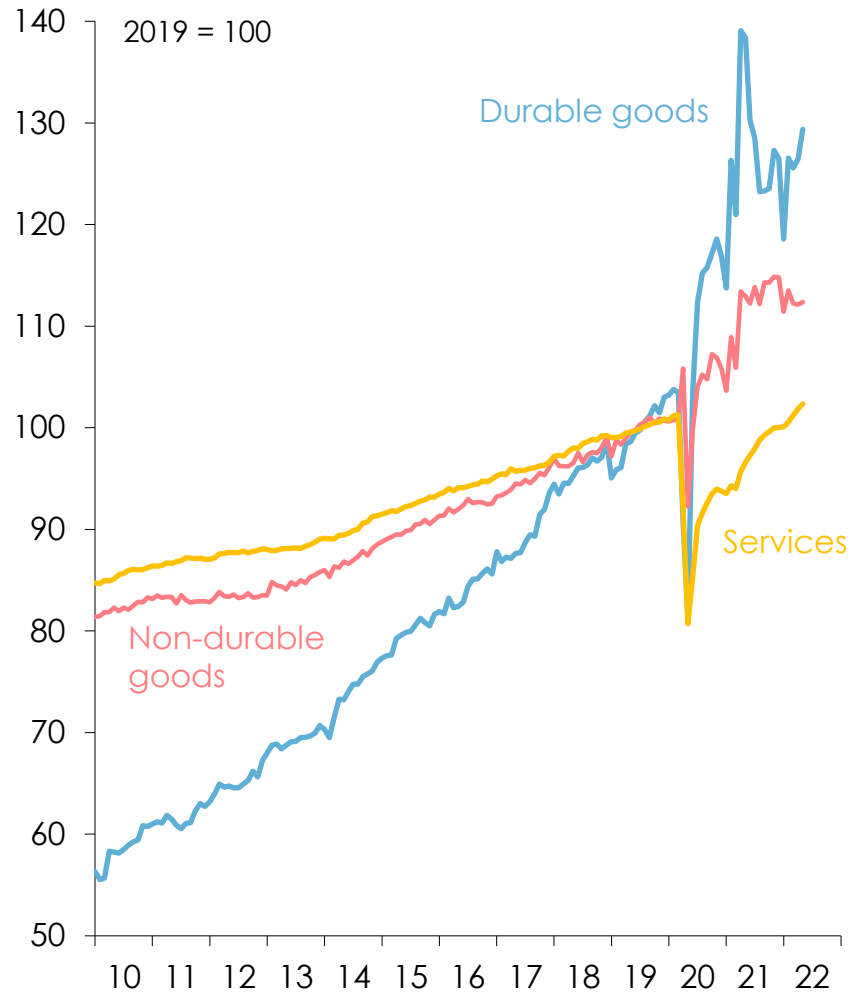
Note: 'HOER' = home-owners' equivalent rent (a measure of the 'imputed rent' notionally paid by owner-occupiers to themselves), and which accounts for (an uncommonly large, by international standards) 28½% of the CPI excluding food and energy. Source: US Bureau of Labor Statistics, CPI Table 6; Corinna.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



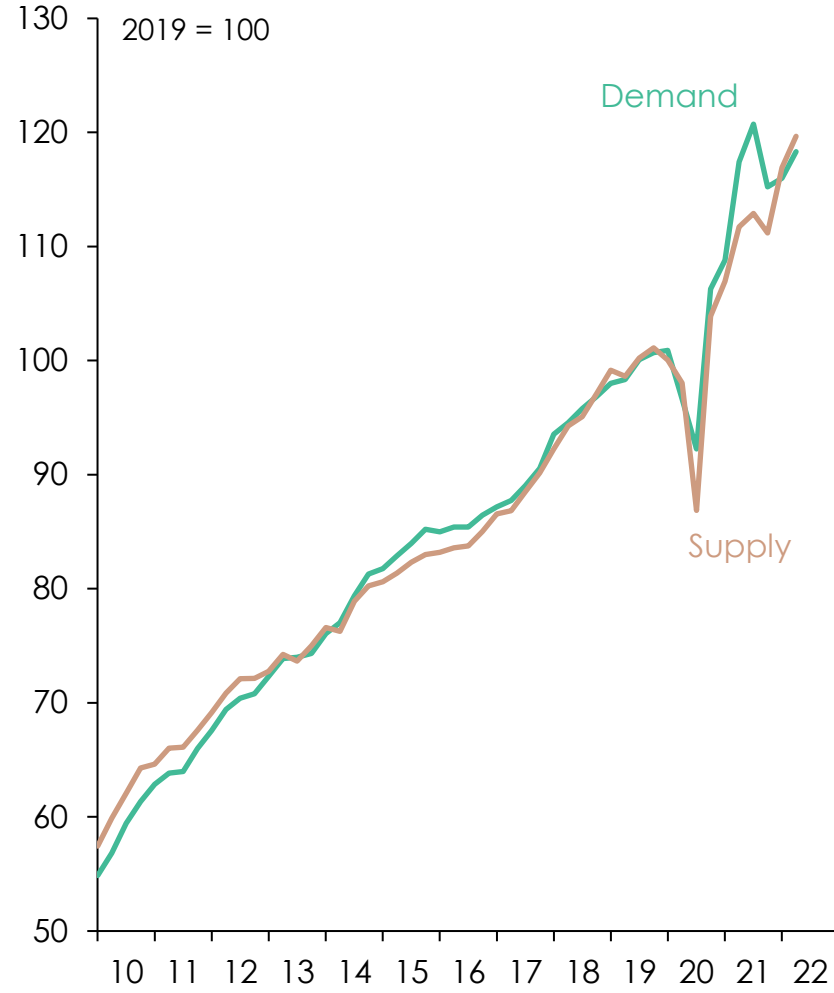
# The rise in inflation has until recently been largely attributable to the imbalance between supply and demand for durable goods

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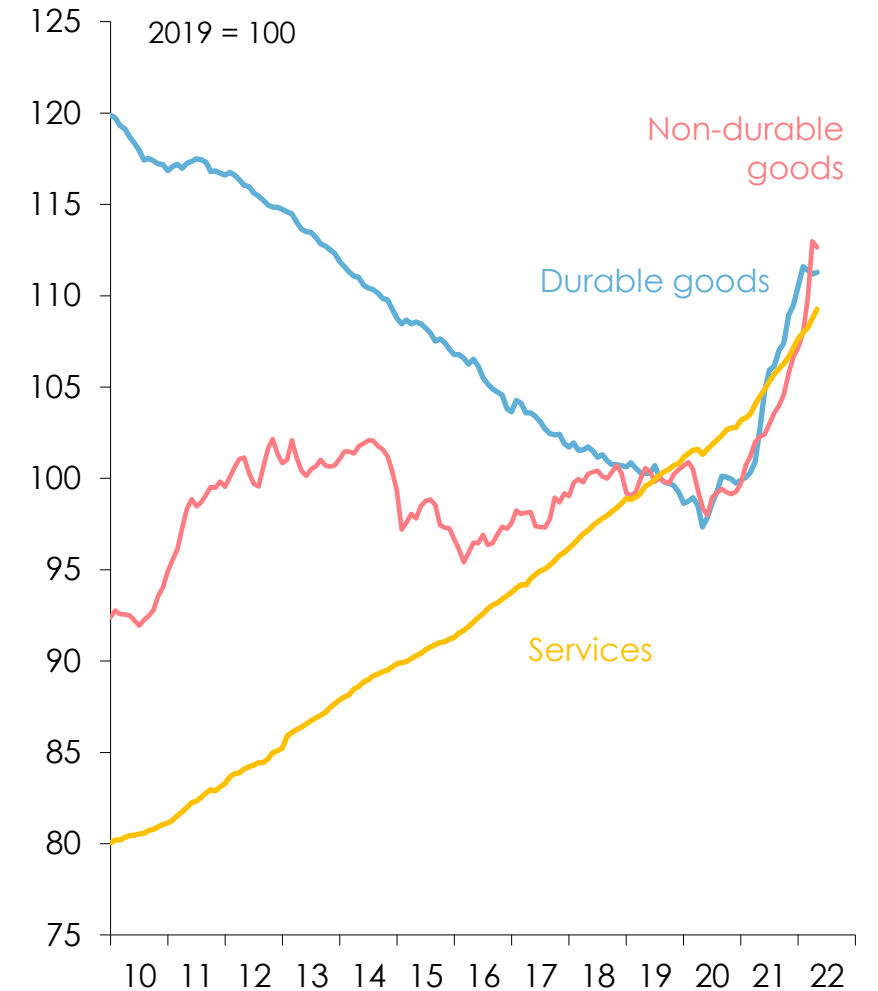
## Composition of personal consumption expenditures



## Aggregate demand for and supply of durable goods



## Implicit price deflators of personal consumption



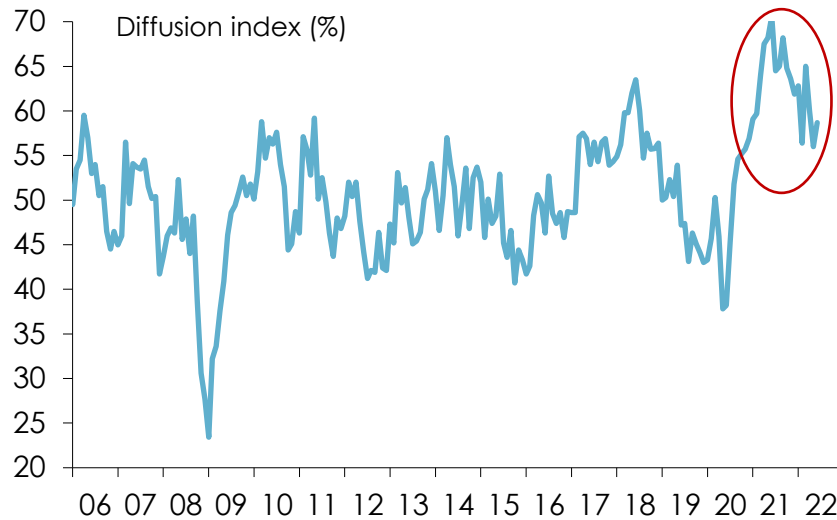
Note: 'Aggregate demand' for durable goods comprises personal consumption of durable goods plus business investment in equipment. 'Aggregate supply' of durable goods comprises gross domestic product (final sales plus change in inventories) plus net imports of durable goods. Sources: US Bureau of Economic 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"](#).



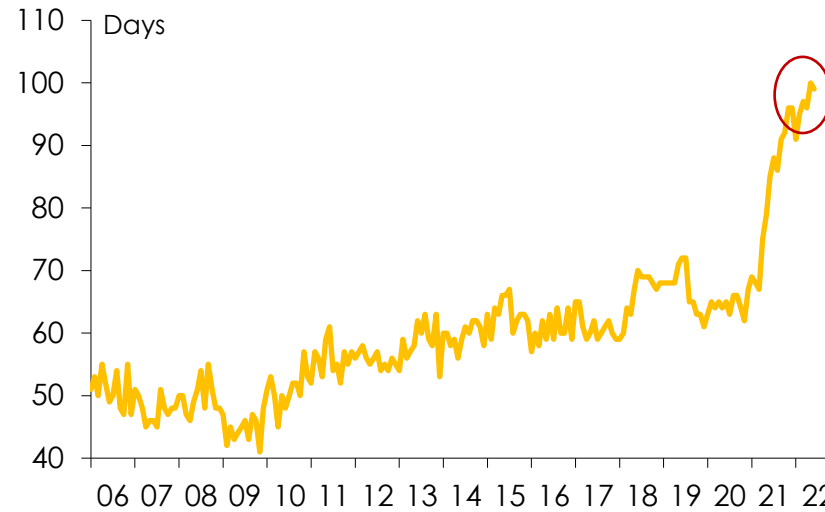
# Supply-chain difficulties have intensified again this year, after seeming to have peaked during the second half of last year

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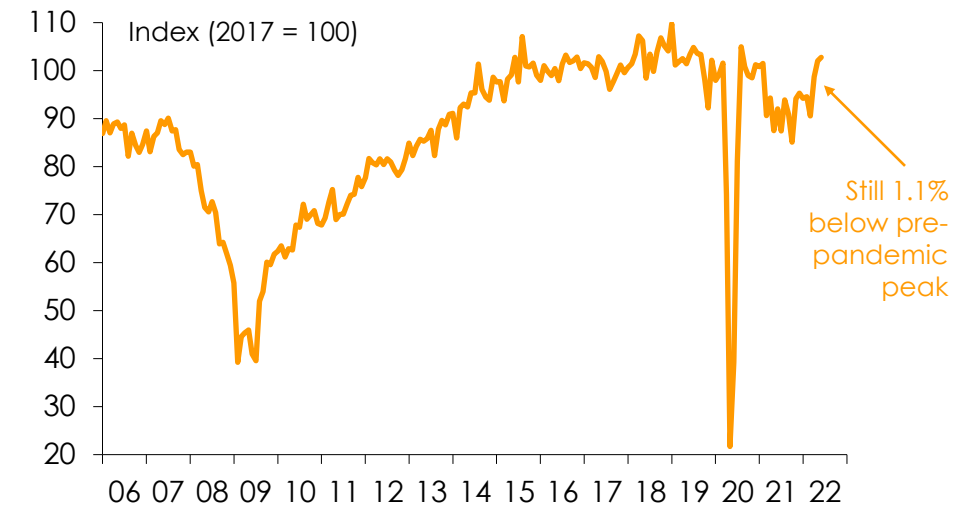
## Manufacturers' order backlogs



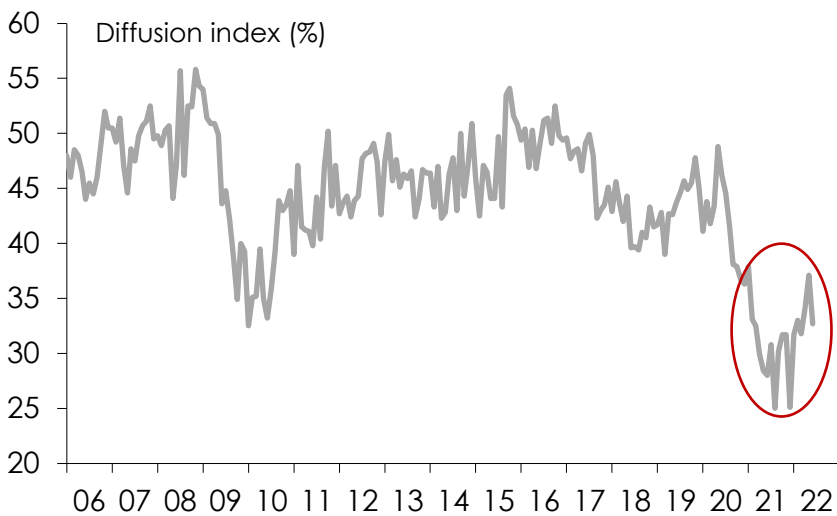
## Lead-time for production materials



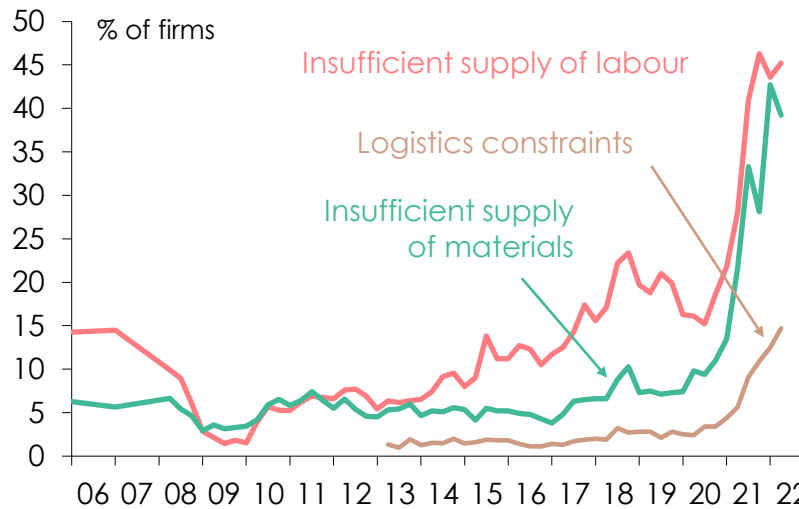
## Motor vehicles & parts production



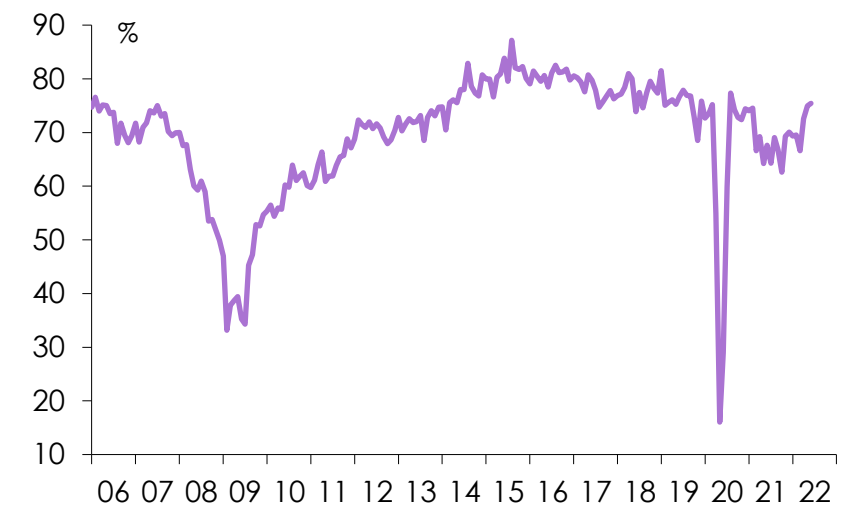
## Manufacturers' customer inventories



## Reasons for < full capacity



## Auto industry capacity utilization

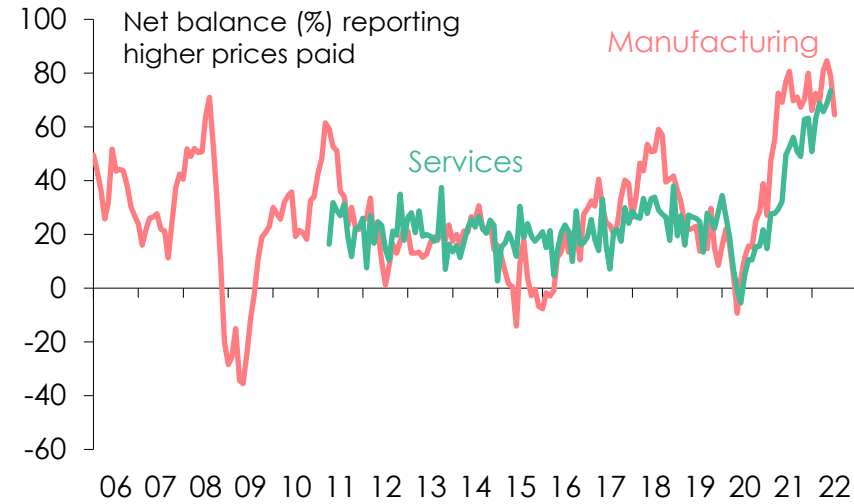


Note: The diffusion index of order backlogs is 50 plus the percentage of respondents reporting longer backlogs minus the percentage reporting shorter backlogs (and similarly for customer inventories). 'Reasons for < full capacity' means reasons for operating at less than full capacity. Sources: Institute 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"](#).

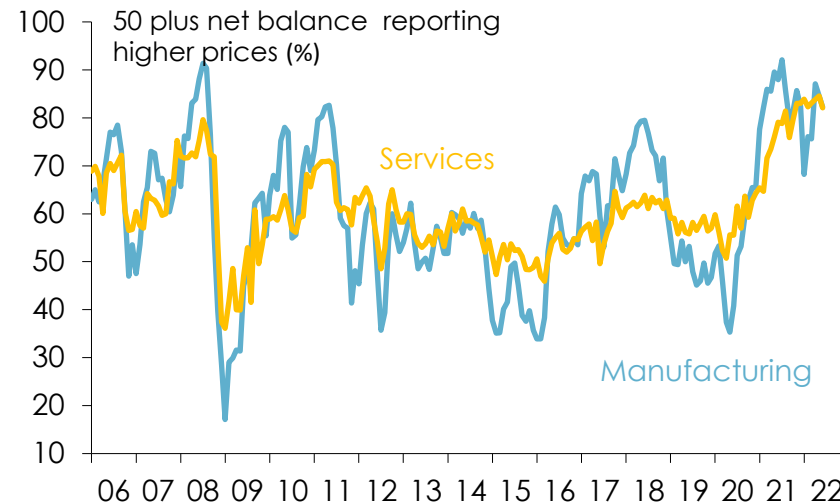
# Household medium-term inflation expectations didn't rise as much in June as suggested by the preliminary results of the Michigan U survey

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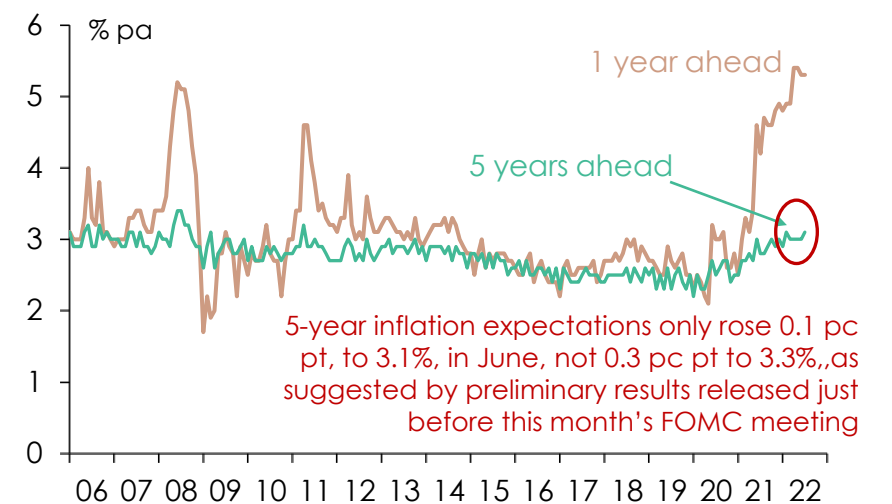
## 'Philly Fed' survey – prices paid



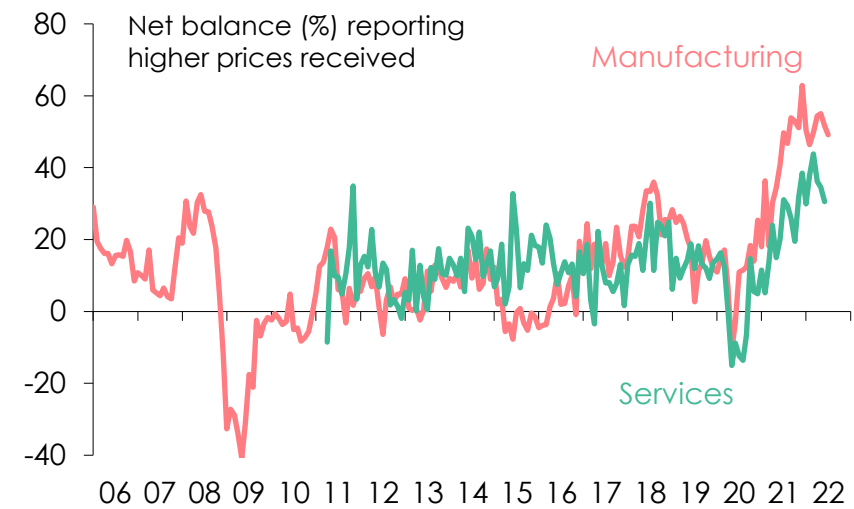
## ISM survey – prices paid



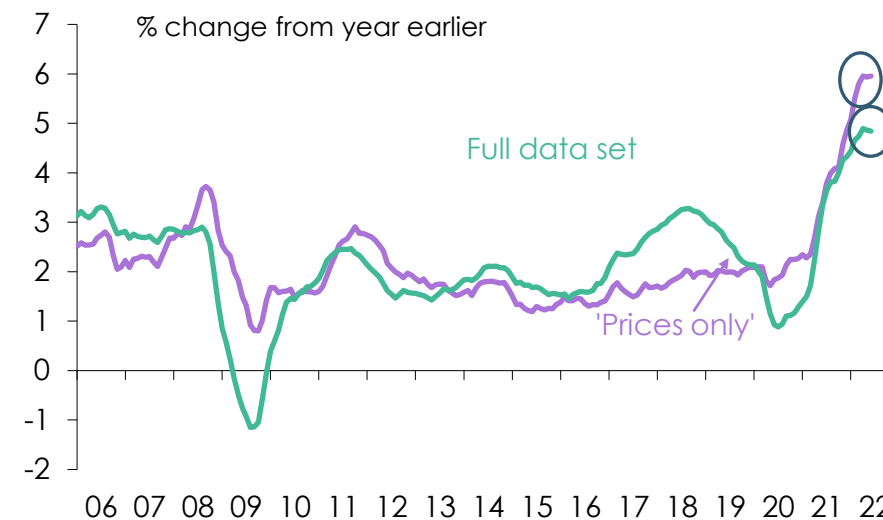
## Household inflation expectations



## 'Philly Fed' survey – prices received



## NY Fed 'underlying inflation gauge'



## Market-priced inflation probabilities

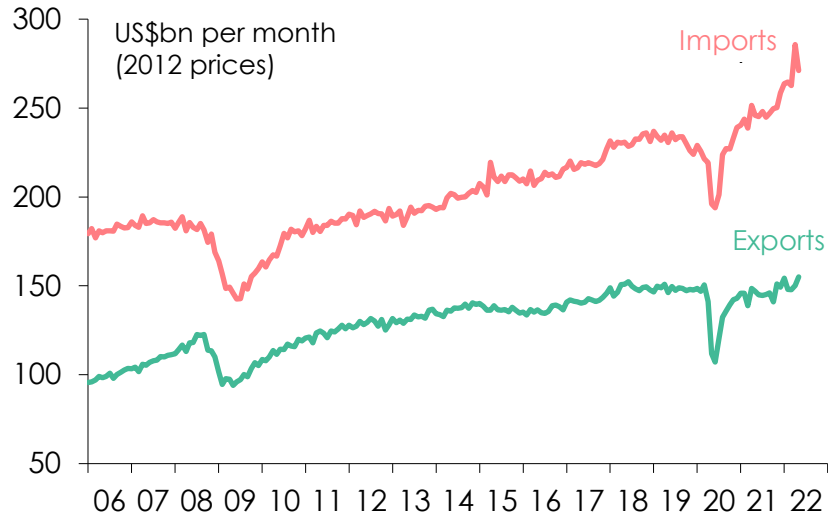


Sources: Federal Reserve Bank of Philadelphia, [Regional Economic Analysis](#), Manufacturing and Non-Manufacturing Business Outlook Surveys ; Institute for Supply Management, [ISM Report on Business](#); Federal Reserve Bank of New York, [Underlying Inflation Gauge](#); Federal Reserve Bank of Minneapolis,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

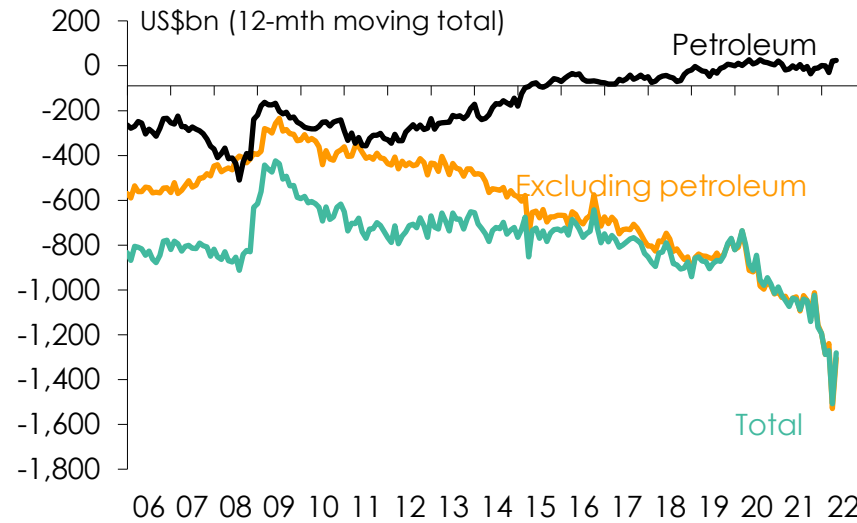
# The US goods & services trade deficit narrowed by \$19bn, to \$106.7bn, in April, reflecting a 5% fall in goods import volumes and a 3% rise in exports

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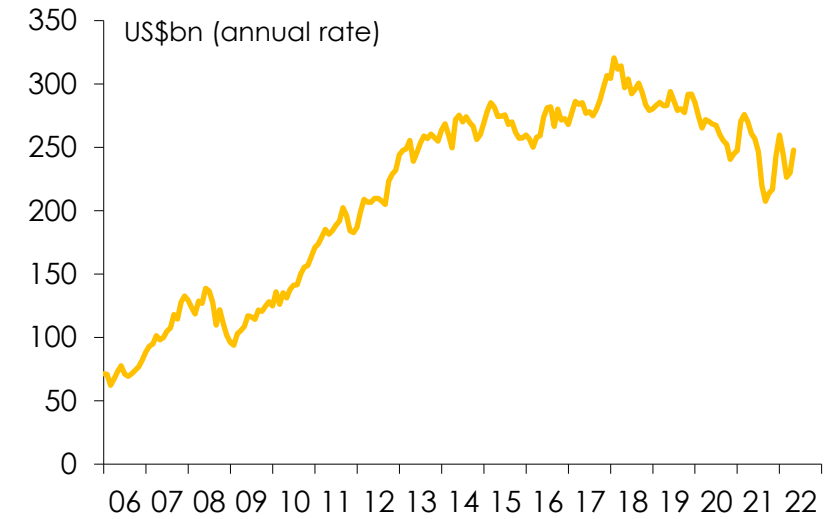
## US merchandise trade volumes



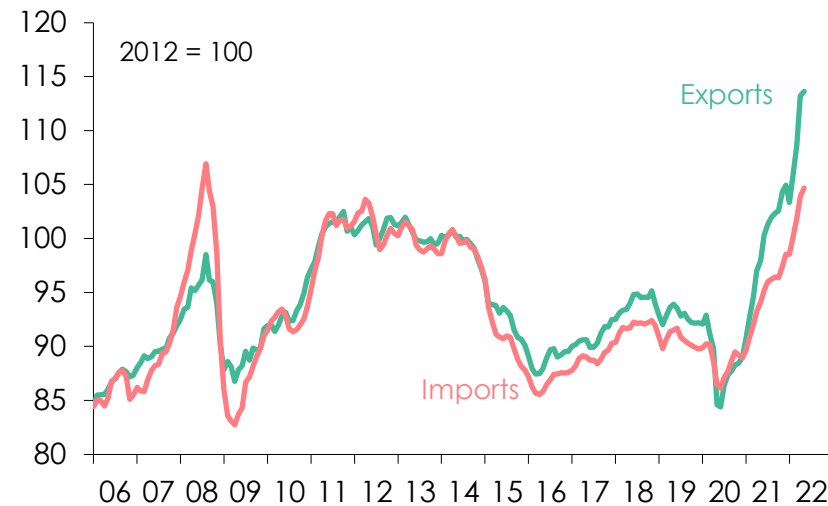
## US goods trade balance



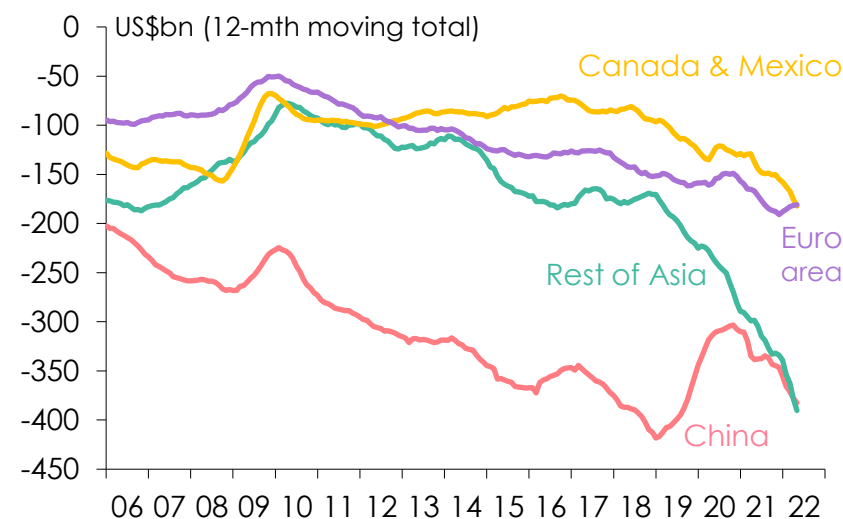
## US services trade balance



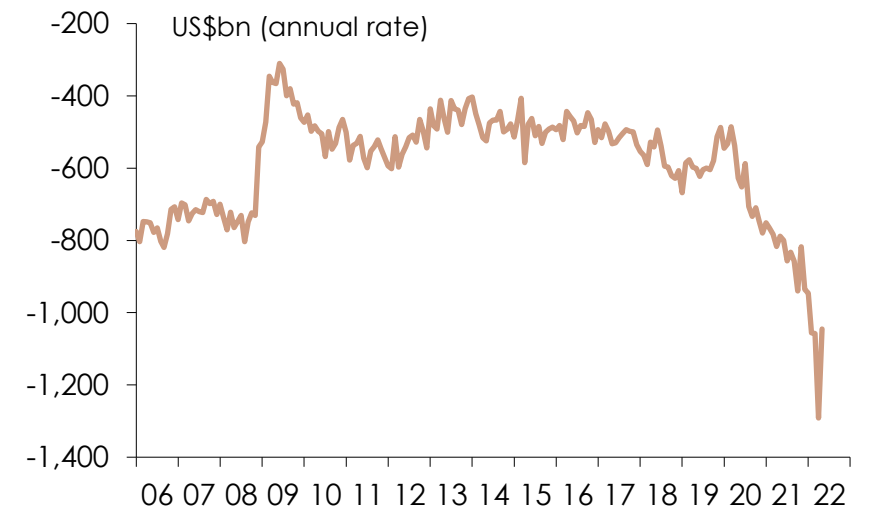
## US merchandise trade prices



## US bilateral goods trade balances



## US goods & services trade balance

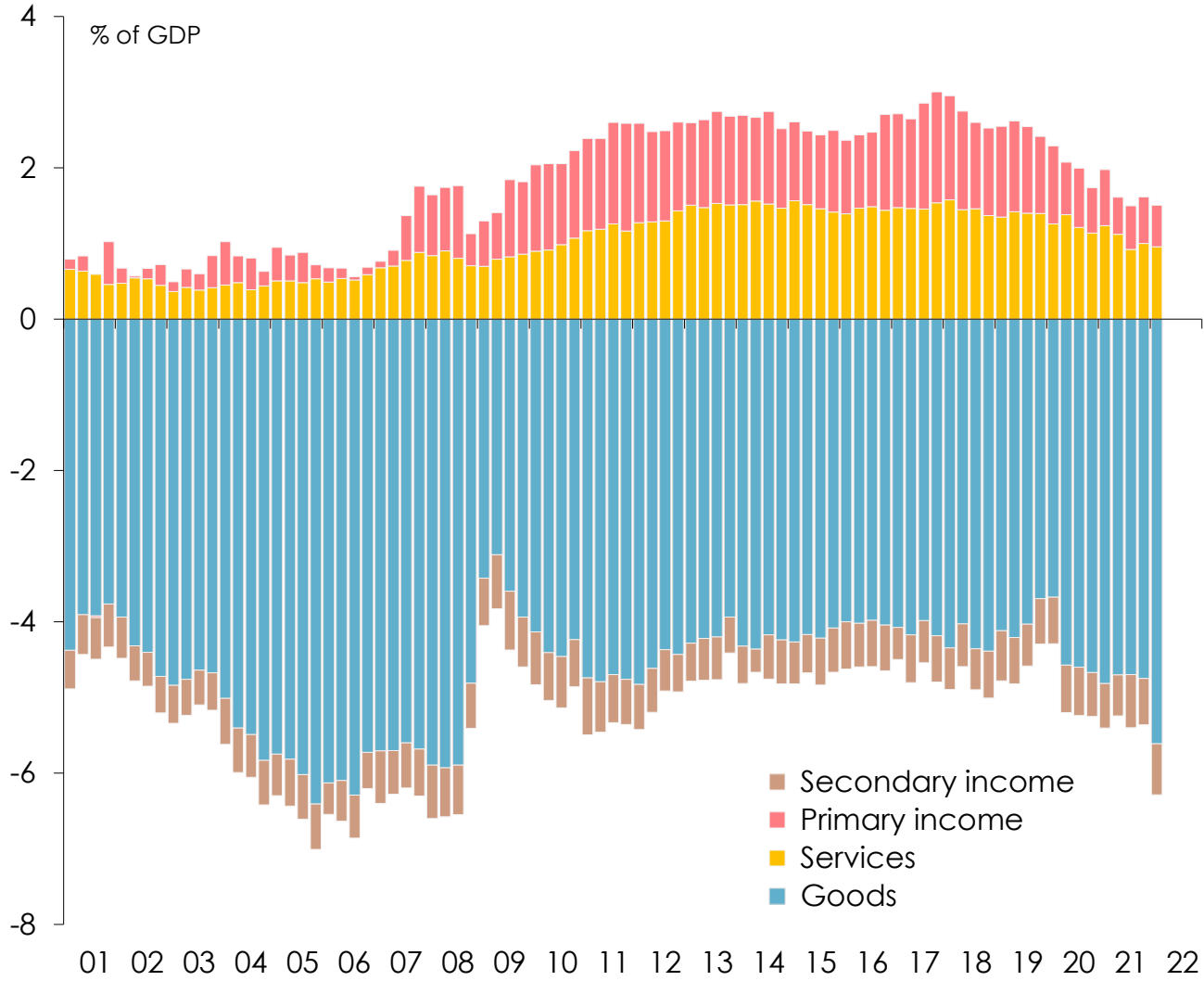


Source: US Census Bureau, [Foreign Trade](#); and US Bureau of Economic Analysis, [Advance Economic Indicators](#), and [U.S. International Trade in Goods and Services](#).  
[Return to "What's New"](#).

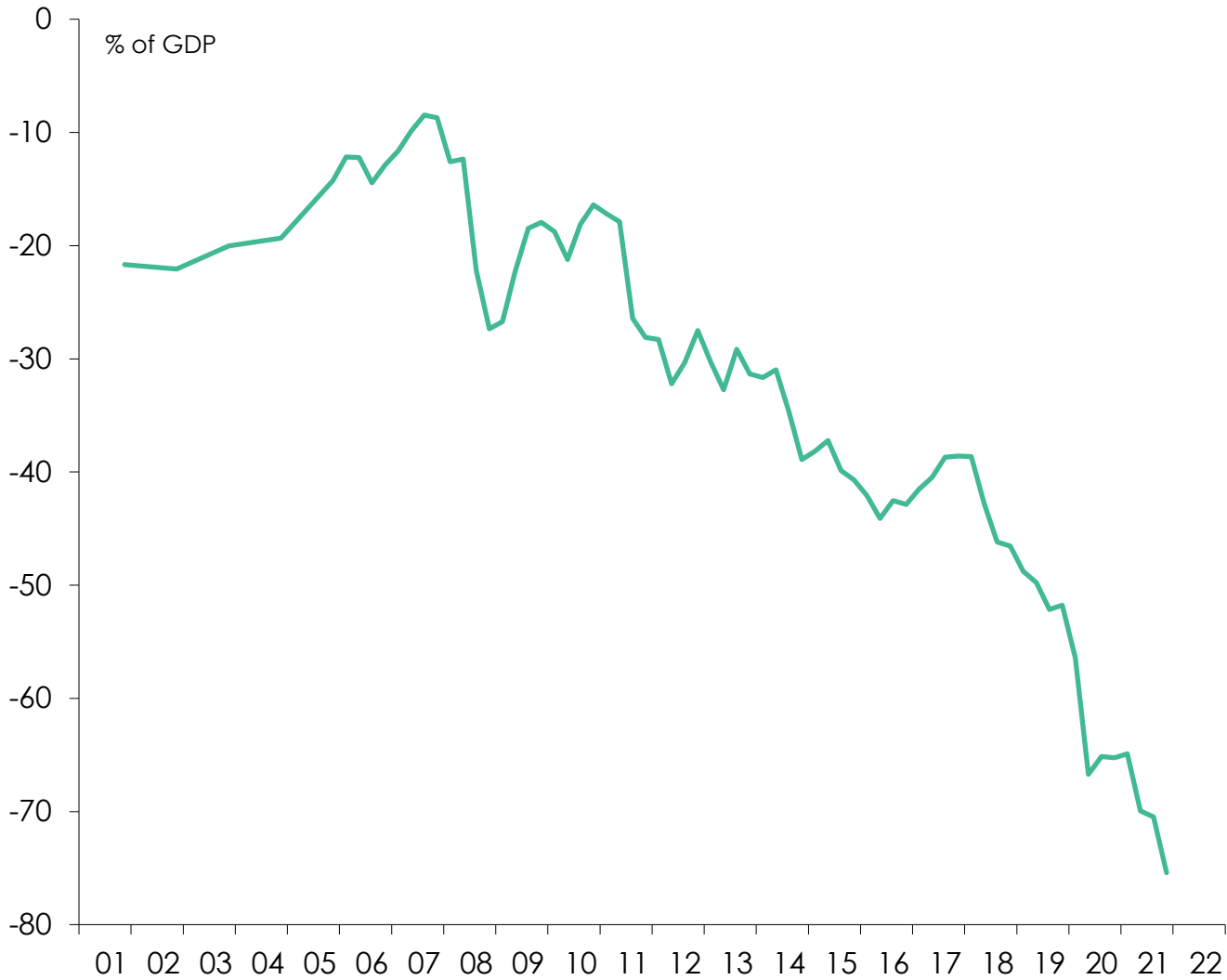
# The US current account deficit widened to US\$291bn in Q1, the largest on record in dollar terms and the highest as a pc of GDP since Q3 2008

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## US current account balance



## US net international investment position

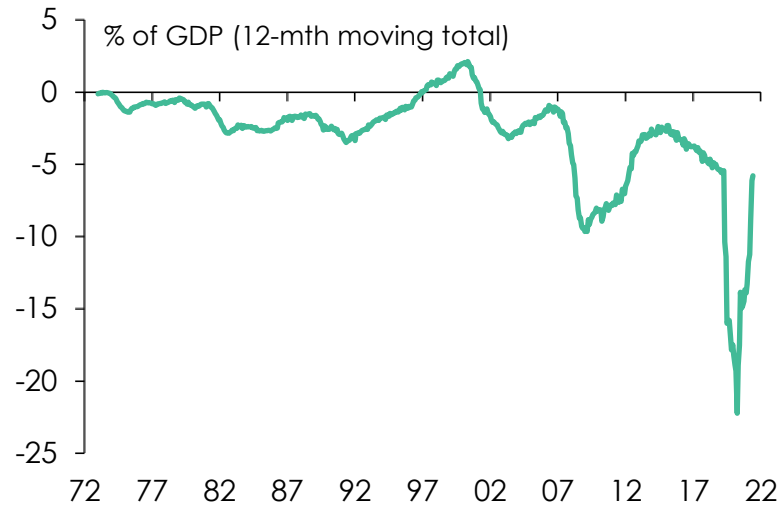


Note: 'Primary income' transactions are those involving investment income or compensation of employees. The US typically runs a surplus on investment income despite having a negative net international investment position since 1989, because US investors are able to derive much higher returns from their 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"](#).

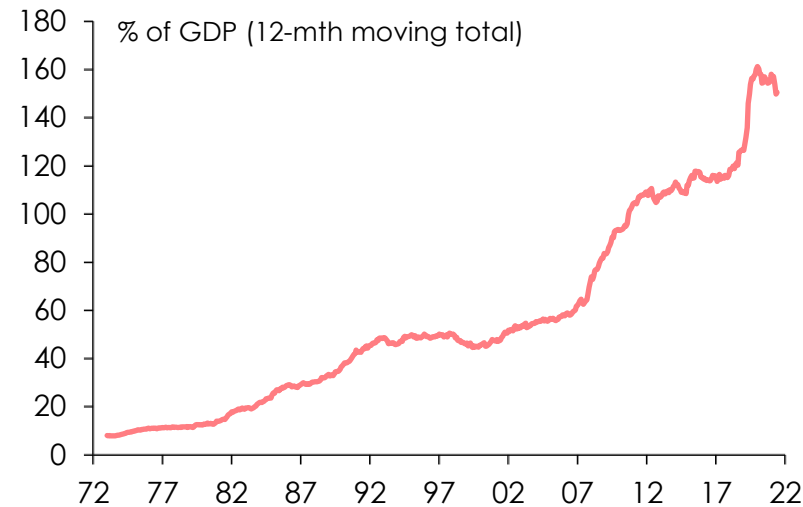
# The US Federal budget deficit is continuing to decline sharply, as a result of surging tax revenues and, to a lesser extent, falling spending

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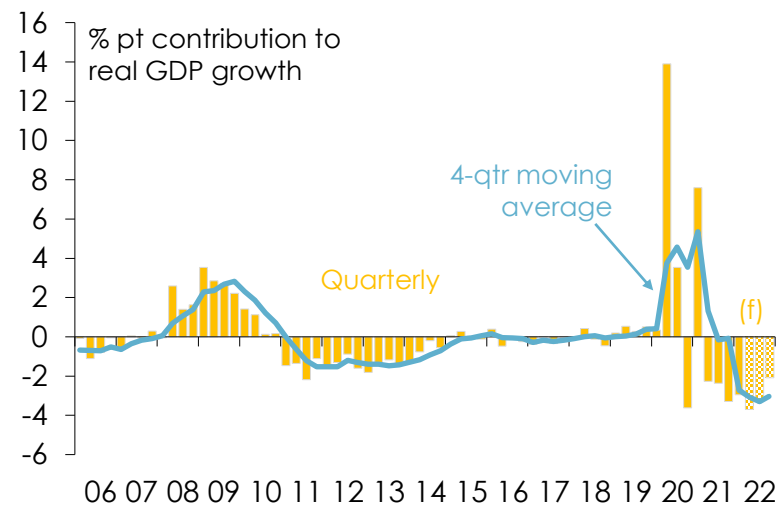
## US Federal budget deficit



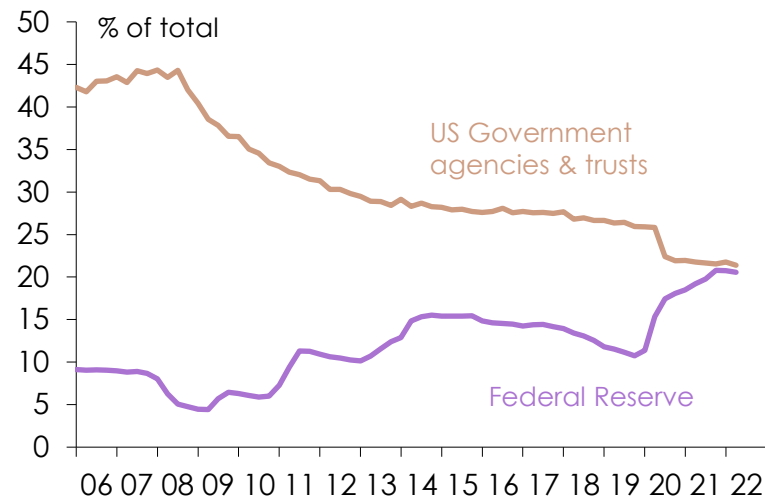
## US gross Federal debt



## 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 1<sup>st</sup> 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"](#).



# Fed Chair Jay Powell last week conceded recession was a “possibility” flowing from the Fed’s determination to bring inflation down to 2%

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- ❑ 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 16<sup>th</sup> 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 58-59](#)), the recent increase in inflation expectations ([slide 62](#)), 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’
- ❑ In his [semi-annual testimony](#) before the Senate Banking Committee, Chair Powell re-iterated the Fed’s determination “to take the measures necessary to restore price stability” and indicated that “ongoing rate increases will be appropriate”, although “the pace of those changes will ... depend on the incoming data”
  - whilst insisting that the Fed was “not trying to provoke and do[es] not think [it] will need to provoke a recession”, he [conceded](#) that it was “certainly a possibility” [sic], acknowledging that it would be “very challenging” to achieve the Fed’s 2% inflation goal whilst maintaining a strong labour market

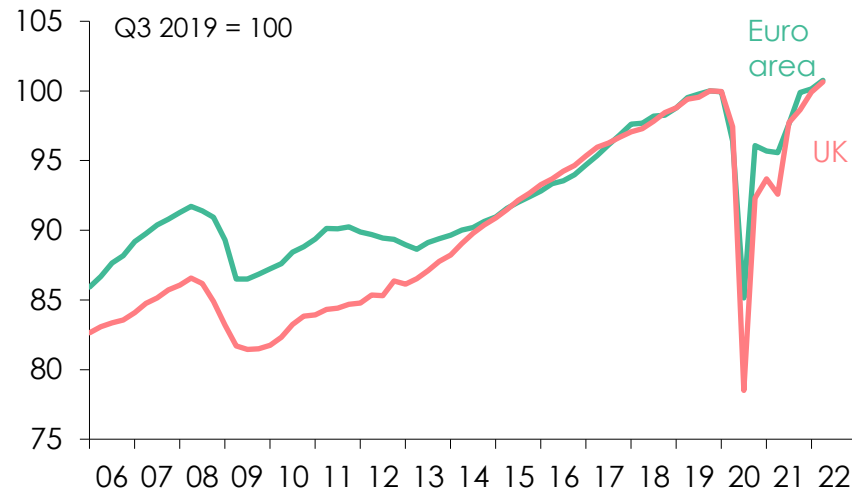


**Europe**

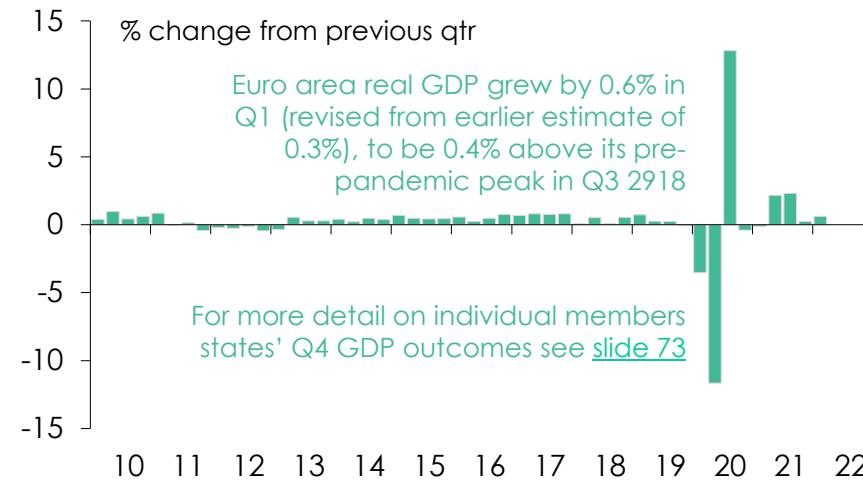
# The euro area's real GDP grew 0.6% (revised from 0.3%) in Q1, but its terms of trade have deteriorated 3% over the past two quarters

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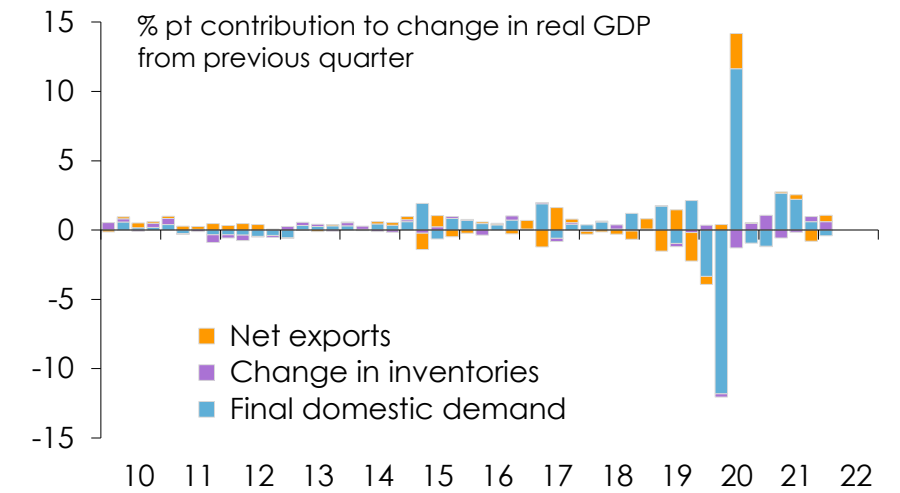
## Euro area and UK real GDP



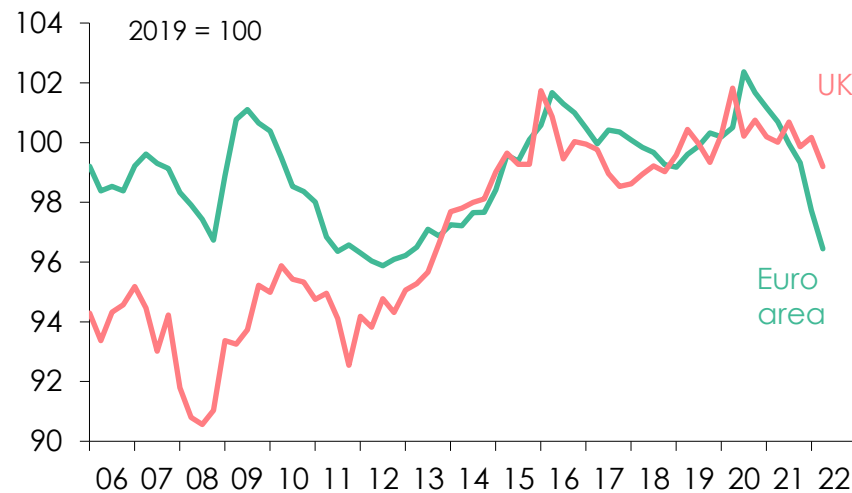
## Euro area quarterly GDP growth



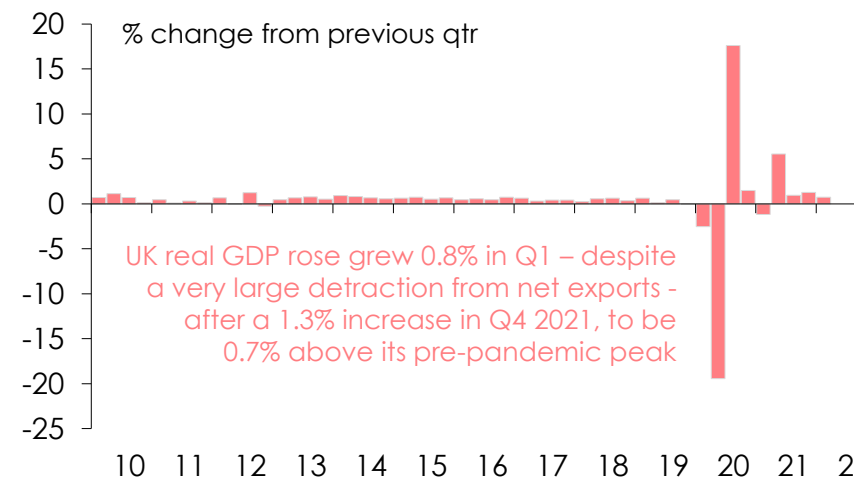
## Contributions to quarterly EA GDP



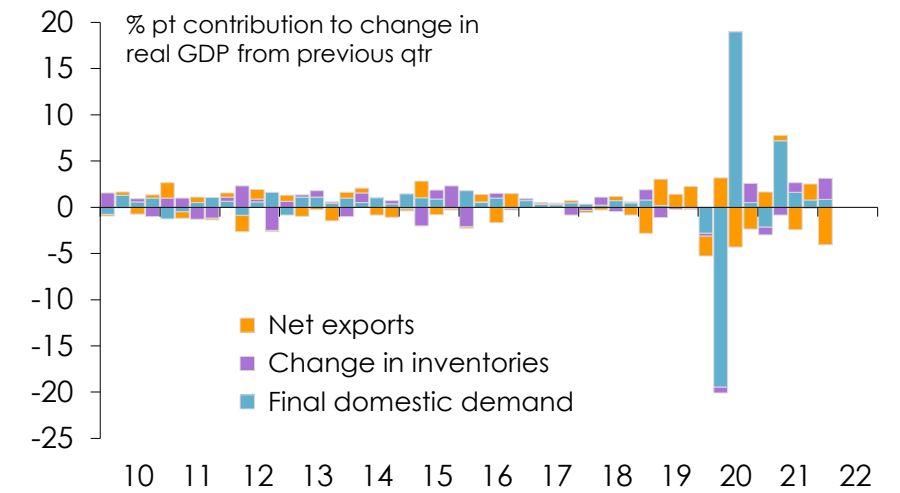
## Euro area and UK terms of trade



## UK quarterly GDP growth



## Contributions to quarterly UK GDP

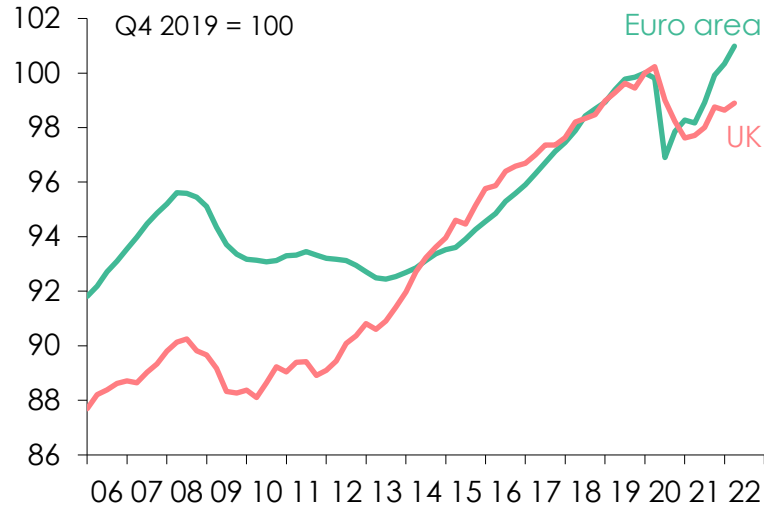


Note: the 'terms of trade' is the ratio of the implicit price deflator of exports of goods & services to that of imports of goods & services – it gives an indication of the income gains or losses arising from changes in the prices of goods and services traded with the rest of the world. Sources: Eurostat,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

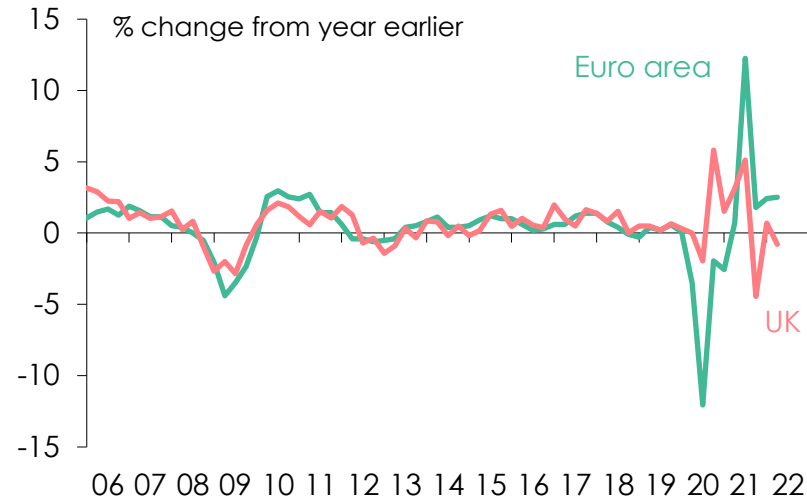
# Euro area unemployment remained at its record low of 6.8% in April, well above the UK's 3.8% (up 0.1 pc pt in the three months ended April)

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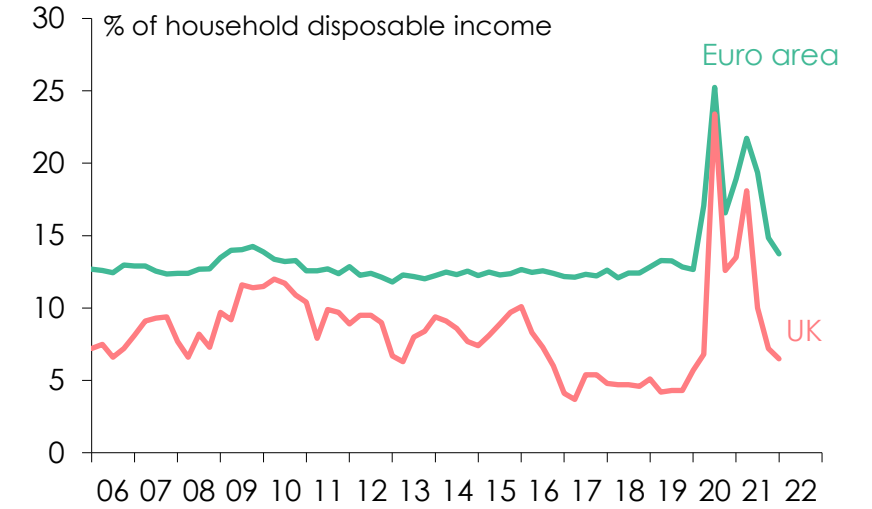
## Employment



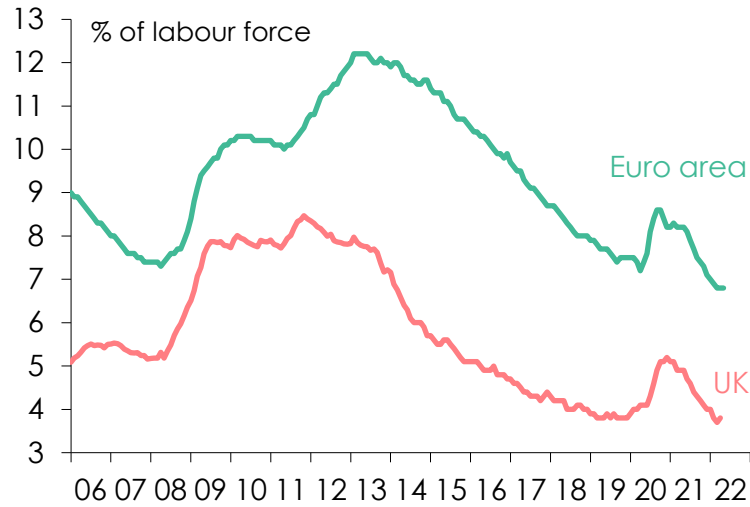
## Labour productivity



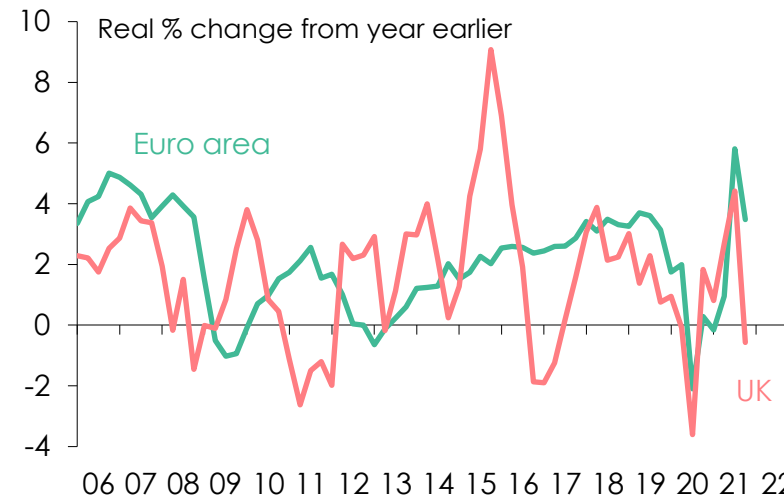
## Household saving rates



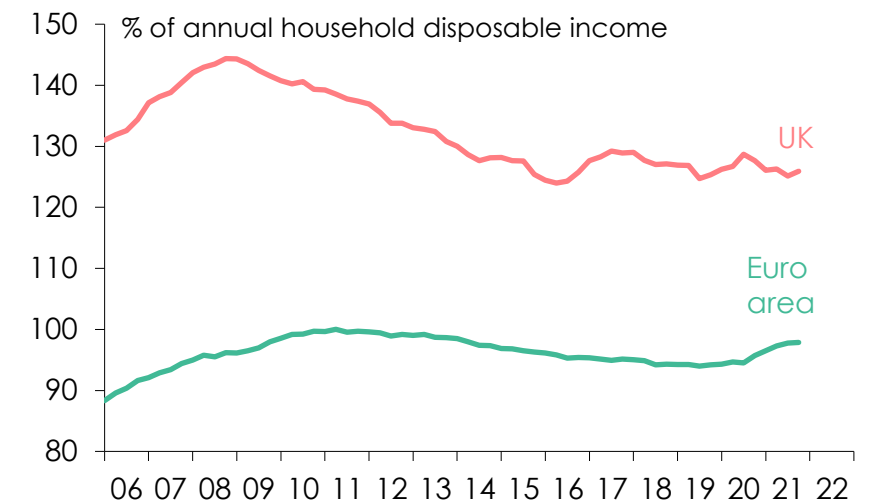
## Unemployment rates



## Household disposable income



## Household debt

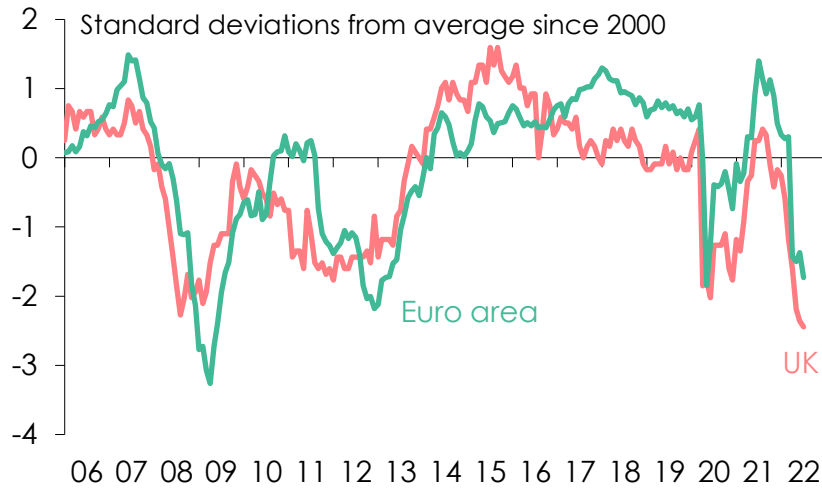


Sources: Eurostat, [Employment and unemployment \(Labour force survey\)](#), [Household saving rate](#) and [Labour productivity and unit labour costs](#); UK Office for National Statistics, [Employment in the UK](#), [Unemployment rate](#) (note, UK unemployment data are shown as a three-month moving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

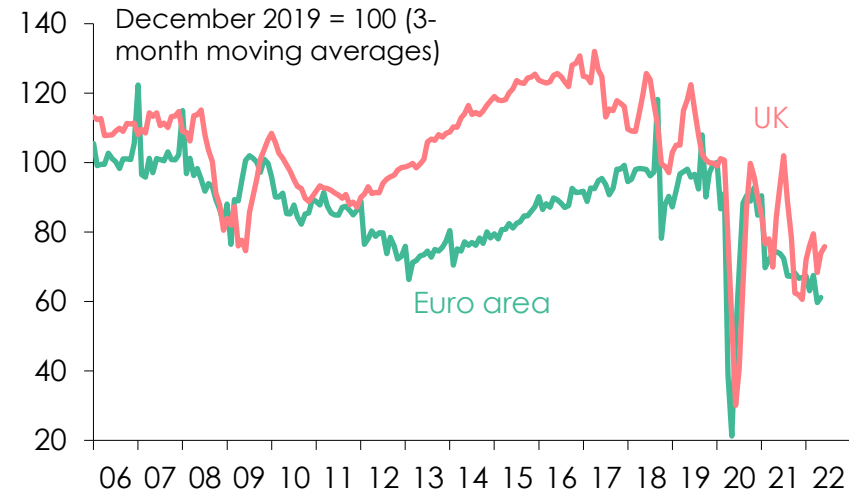
# Consumer confidence deteriorated further in the euro area and (even more so) in the UK in June

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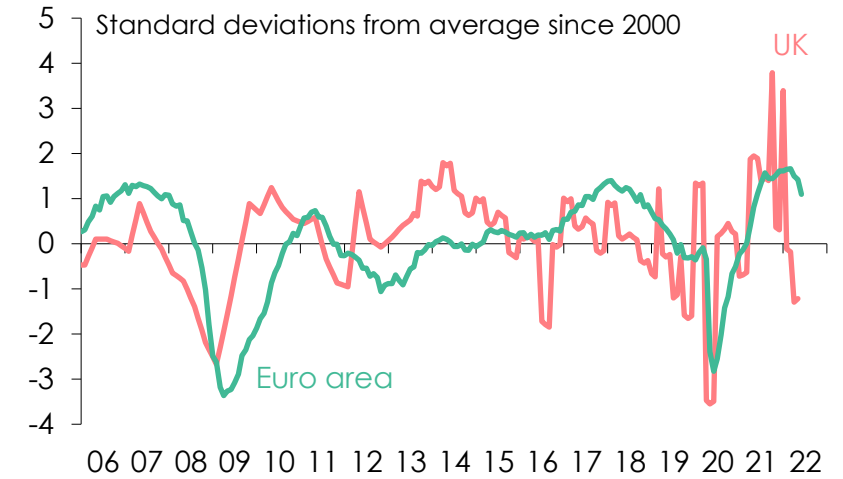
## Consumer confidence



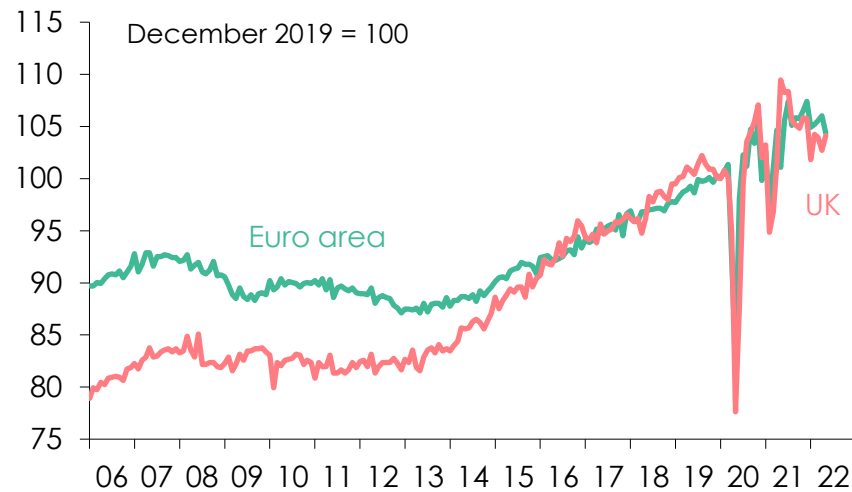
## New car registrations



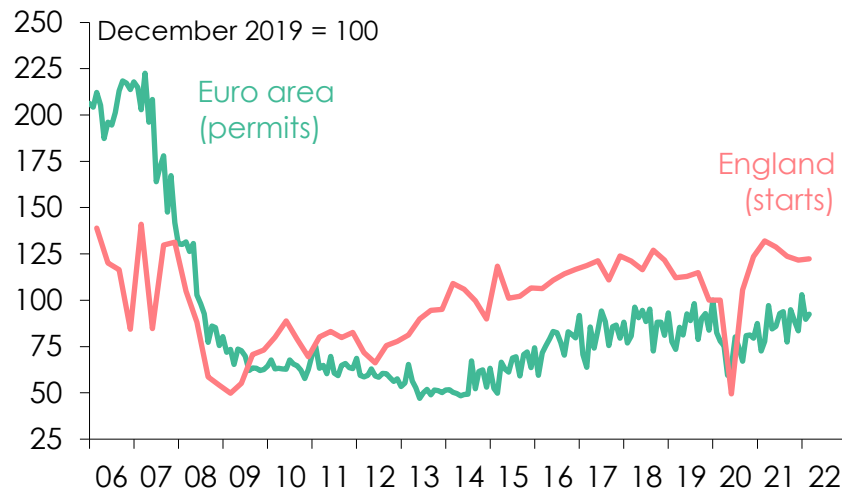
## Business confidence



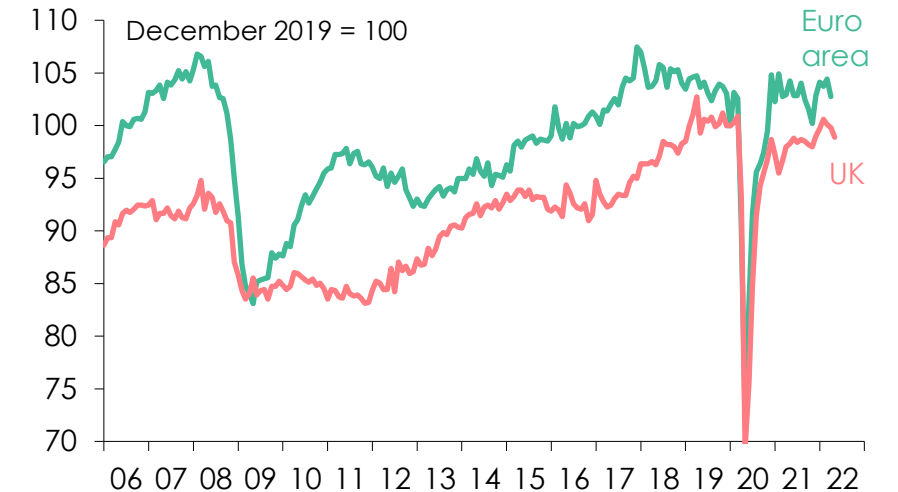
## Retail sales volume



## Housing activity



## Manufacturing production

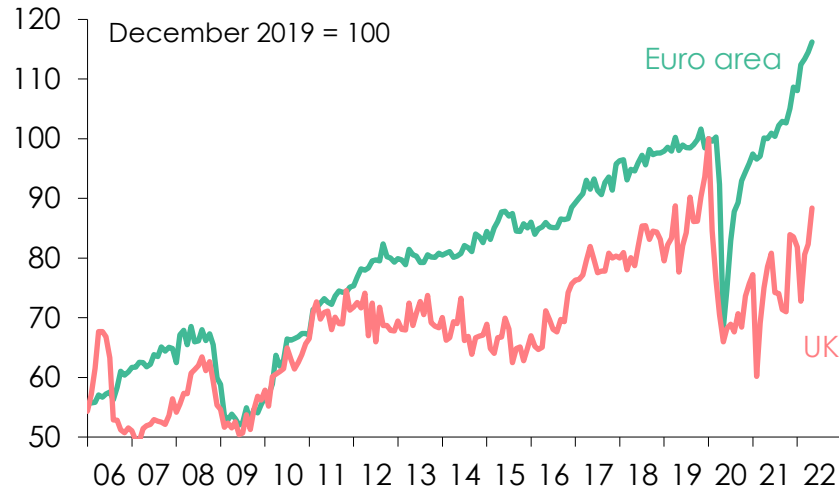


Sources: European Commission, [Business and consumer surveys](#); GfK, [Consumer confidence barometer](#); Confederation of British Industry, [Industrial Trends Survey](#); Eurostat, [Turnover and volume of sales in wholesale and retail trade](#), [New registrations of passenger cars](#), [Building permits - 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"](#).

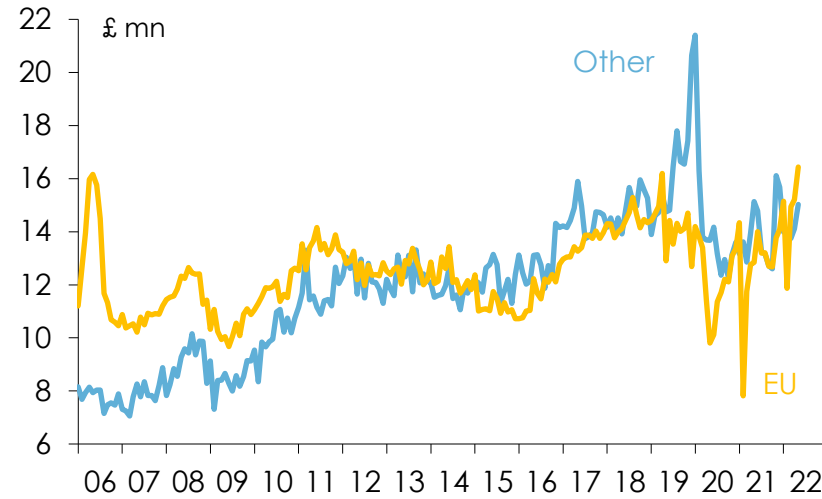
# Higher prices for energy imports have caused the euro area's trade balance to slip into deficit, and also widened the UK's trade deficit

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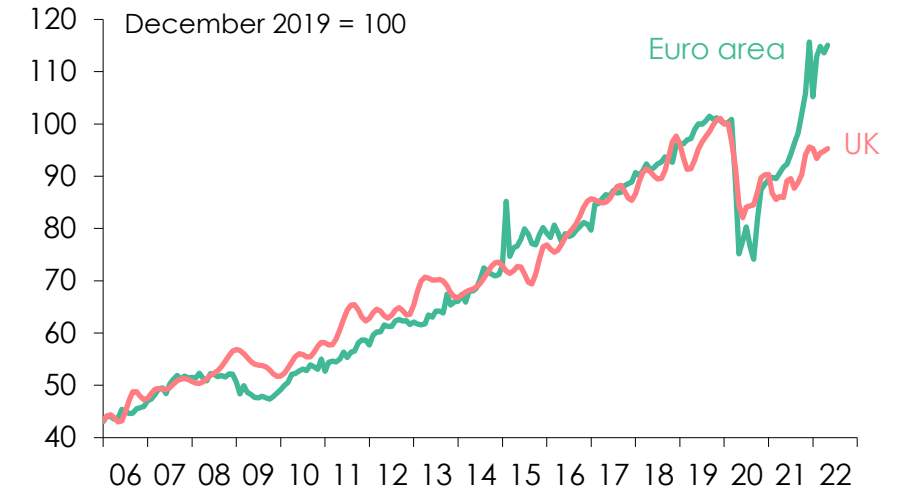
## Merchandise exports



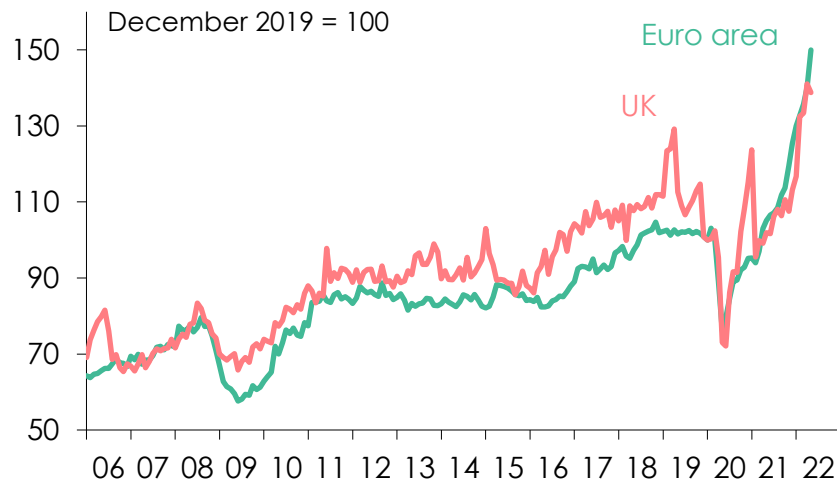
## UK exports by destination



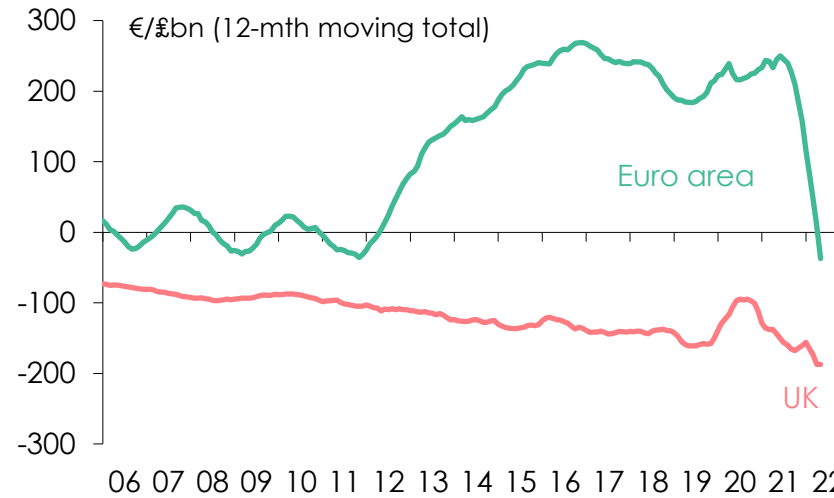
## Services exports



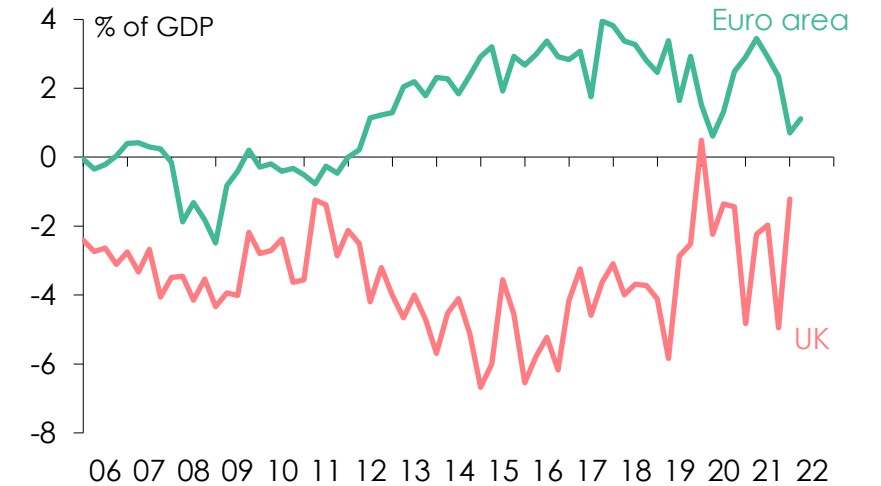
## Merchandise imports



## Merchandise trade balances



## Current account balance

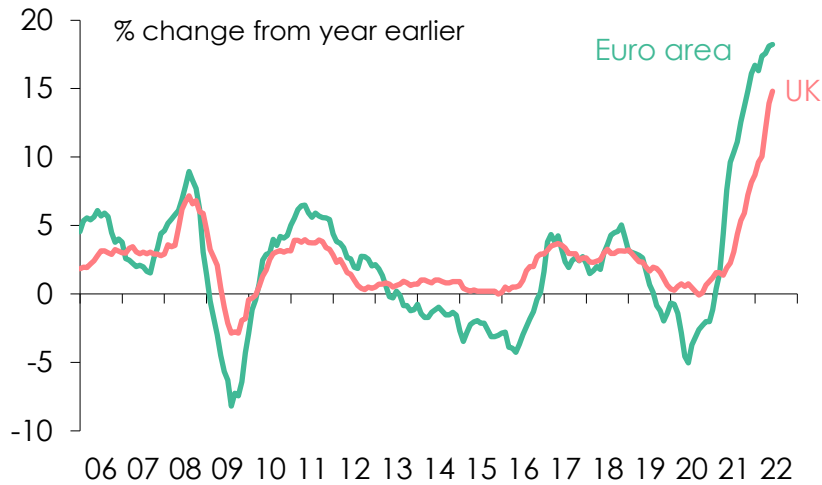


Sources: European Central Bank, Statistical Data Warehouse, [External Trade](#), [Balance of Payments and International Investment Position - Services](#), and [Balance of Payments and International Investment Position - Current Account](#); UK Office for National Statistics, [UK Trade](#) and [BoP Current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

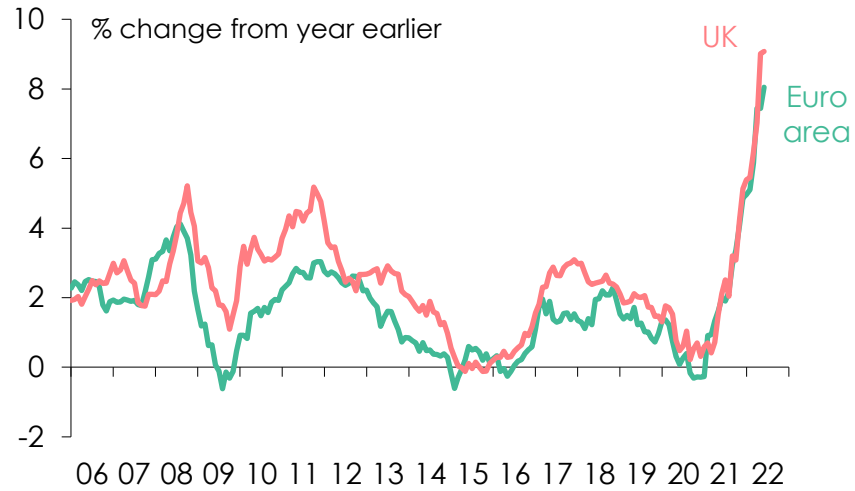
# UK 'headline' inflation rose marginally to 9.1% in May, while 'core' inflation fell to 5.9% from 6.2% in April

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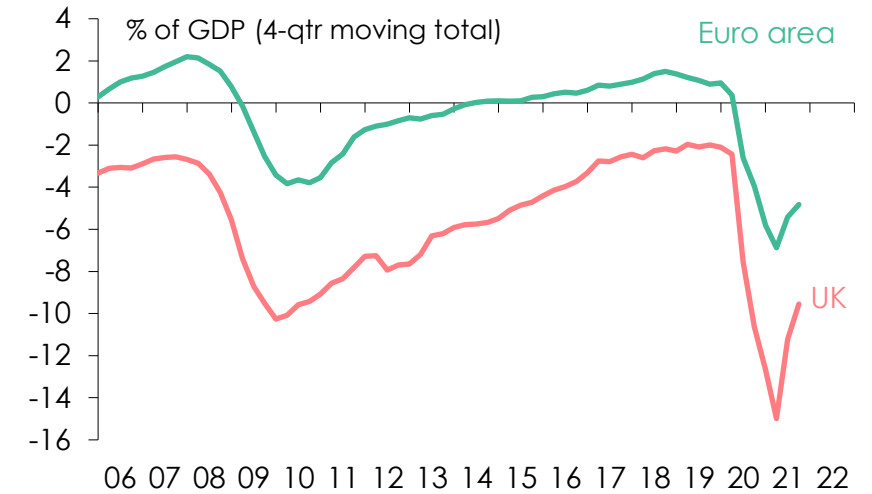
## Producer prices



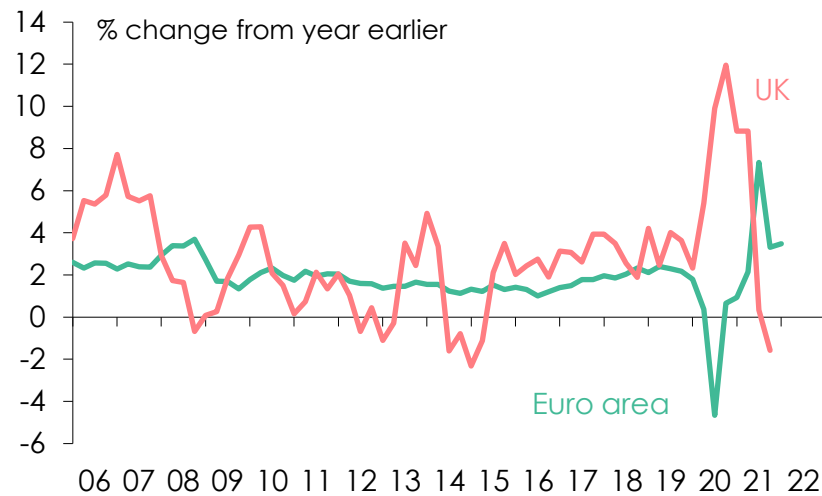
## 'Headline' consumer prices



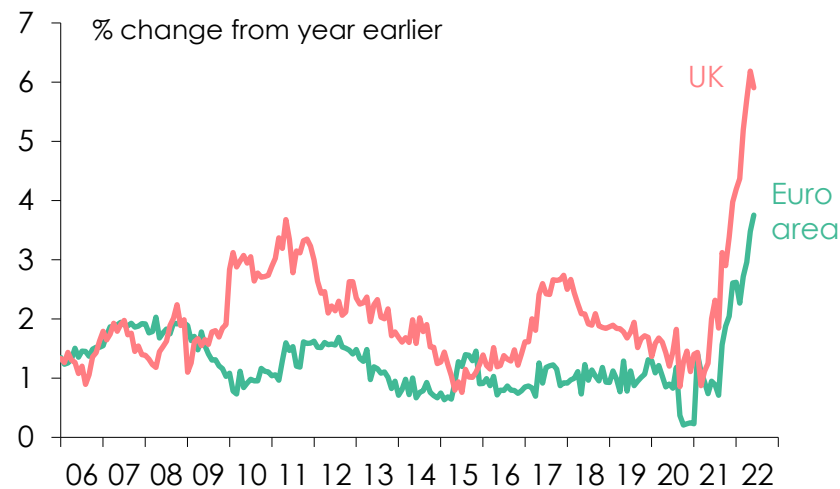
## Government fiscal balance



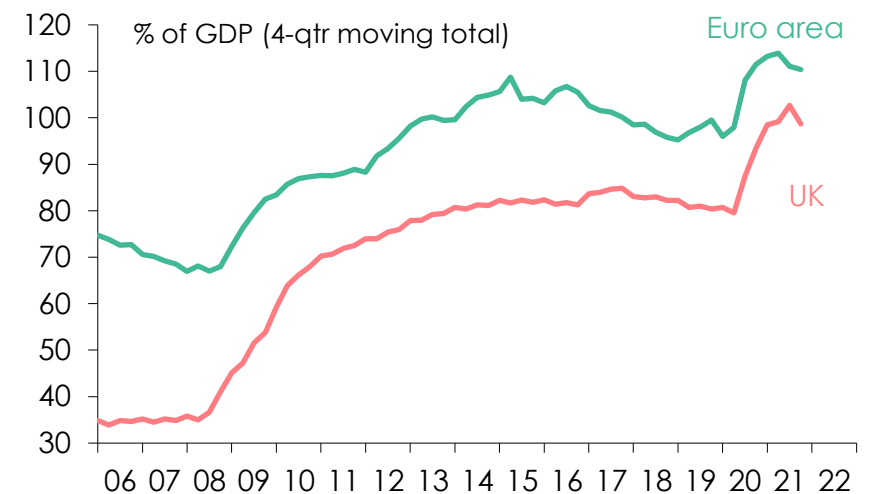
## Labour costs



## 'Core' consumer prices



## Government net debt



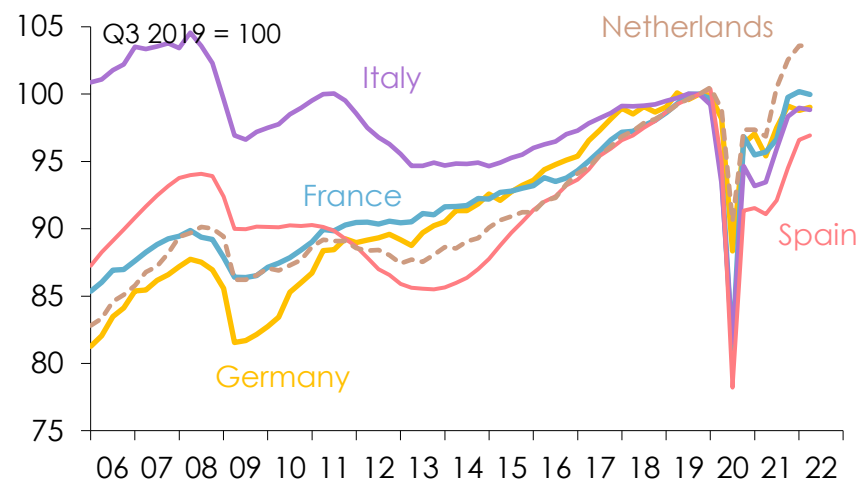
Note: Consumer price indices for the euro area and UK are 'harmonized' indices which exclude owner-occupied housing costs. Sources: Eurostat, [Producer prices in industry](#), [Compensation per employee and hours worked per employed person](#), [Consumer price index](#), and [Government finance statistics 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"](#).



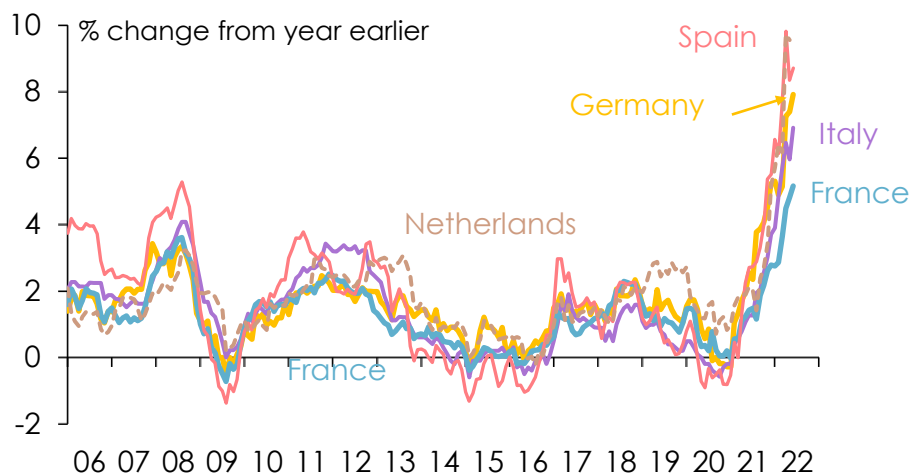
# The end of ECB asset purchases has led to a significant widening in yield spreads between Spanish & especially Italian, and German bonds

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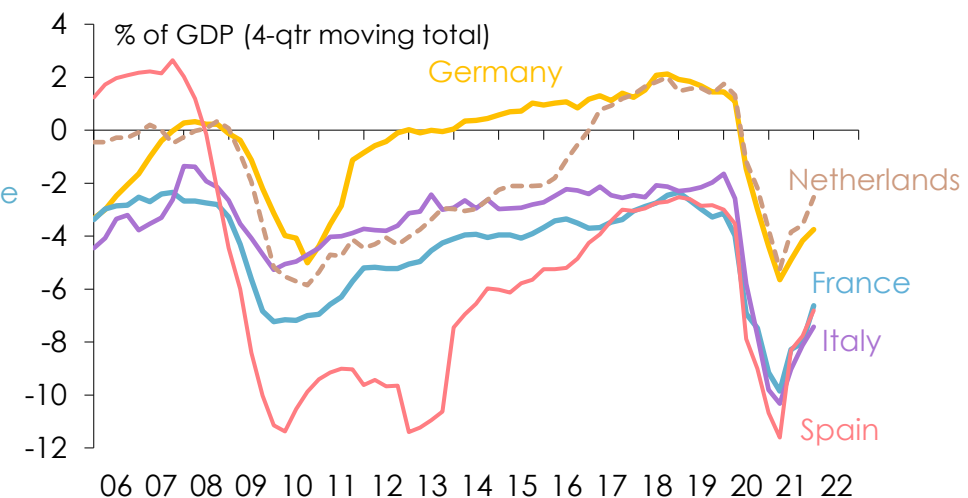
## Real GDP



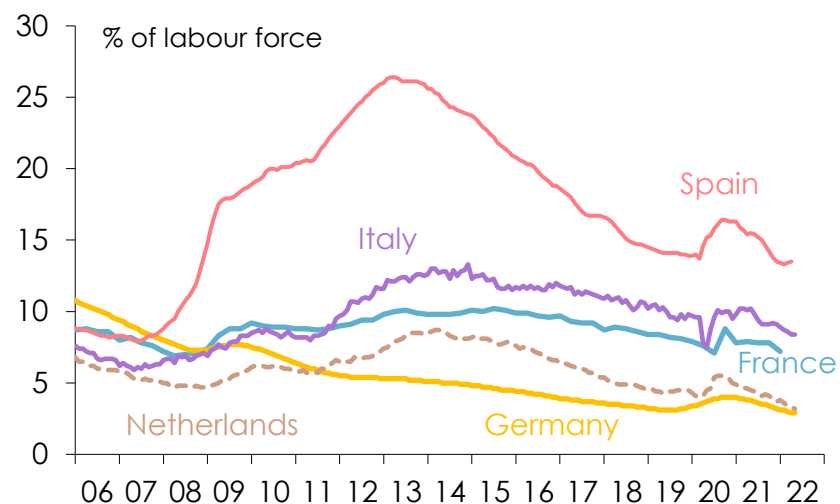
## Inflation



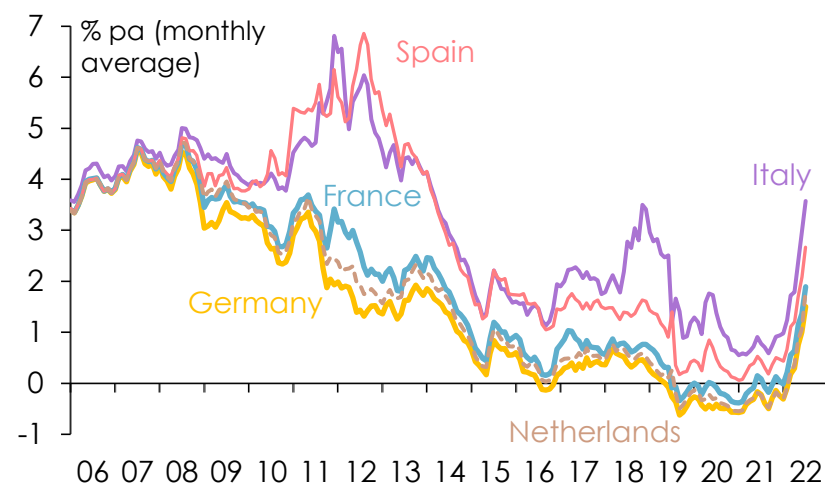
## Government net lending



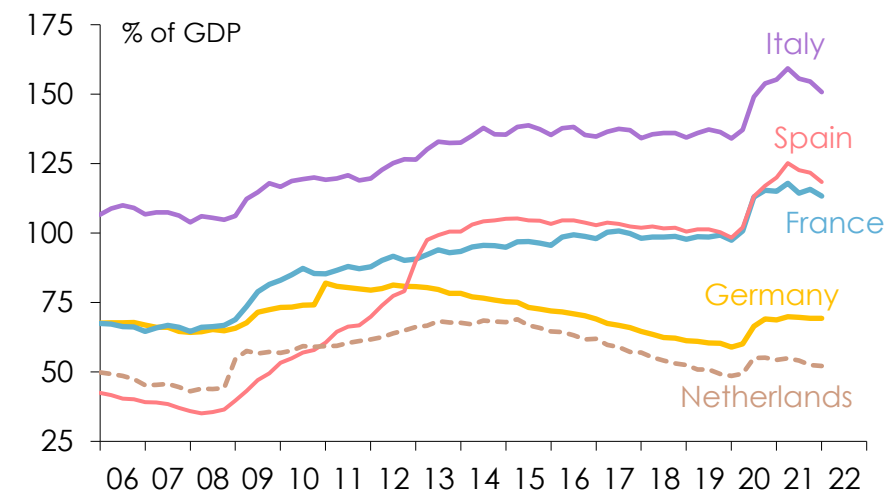
## Unemployment



## 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 1<sup>st</sup> July, and to lift its policy interest rates by 25 bp on 21<sup>st</sup> July, and by a similar amount or more in September

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

- ❑ The **European Central Bank** left its policy interest rates unchanged at its Governing Council meeting on 9<sup>th</sup> June, but (as previously foreshadowed), decided to end net asset purchases under its Asset Purchase Program with effect from 1<sup>st</sup> 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 21<sup>st</sup> July meeting, and to raise them again by a similar amount at its 8<sup>th</sup> 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
- ❑ A week after the ECB meeting, in response to a large widening in spreads between Italian and Greek (and to a lesser extent Spanish) and German bond yields (**slide 73**) 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 its 16<sup>th</sup> June MPC meeting, and Norges Bank raised its rate by 50bp on Thursday

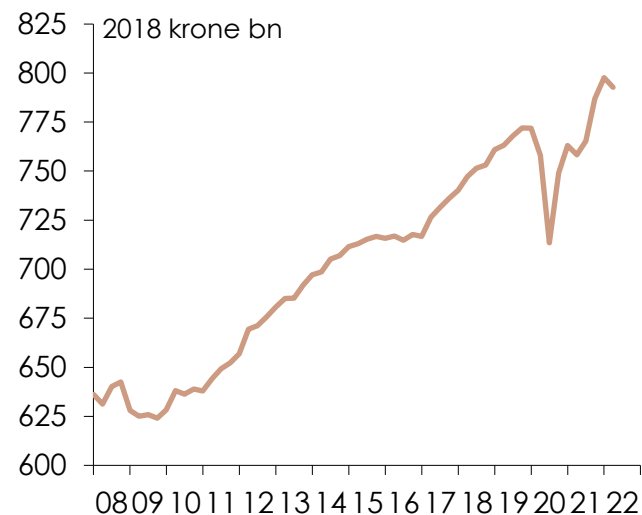
THE WORLD ECONOMY THIS WEEK – 27<sup>th</sup> JUNE 2022

- ❑ The **Bank of England** raised its Bank Rate by another 25 bp, to 1.25%, at its Monetary Policy Committee meeting on 16<sup>th</sup> 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
- ❑ **Norges Bank** raised its policy rate by 50 basis points to 1.25% on Thursday – the fourth and largest increase since August last year ([slide 76](#)) and foreshadowed another 25 bp increase in August
  - Governor Ida Wolden Bache said that “a markedly higher policy rate is needed to stabilize inflation around Norges Bank’s target

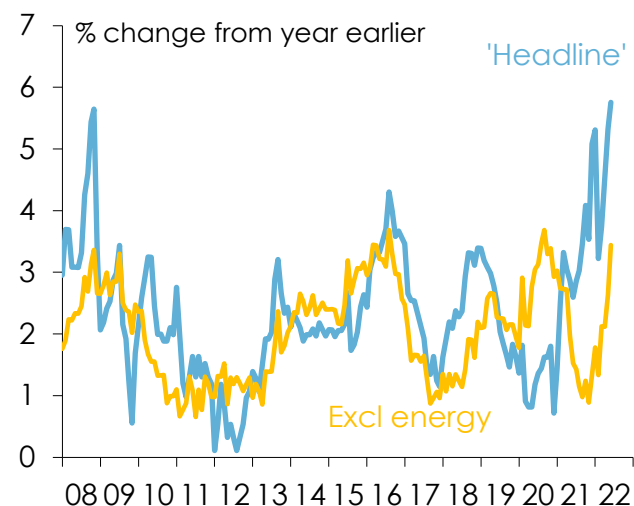
# Norges Bank raised its policy rates by 50 bp last Thursday, the fourth and largest increase since August last year

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

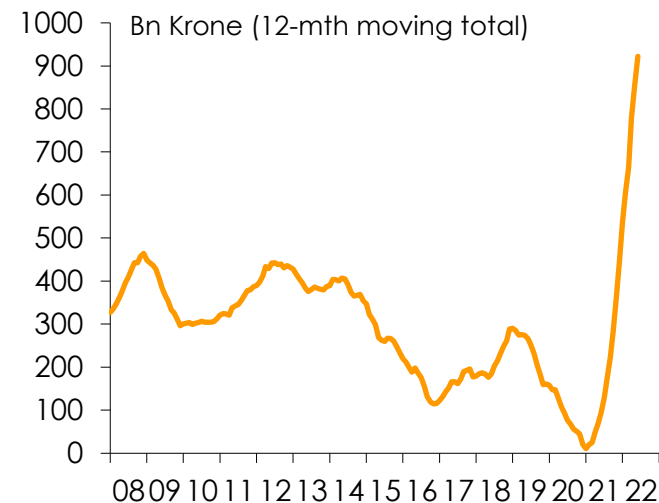
## 'Mainland' real GDP



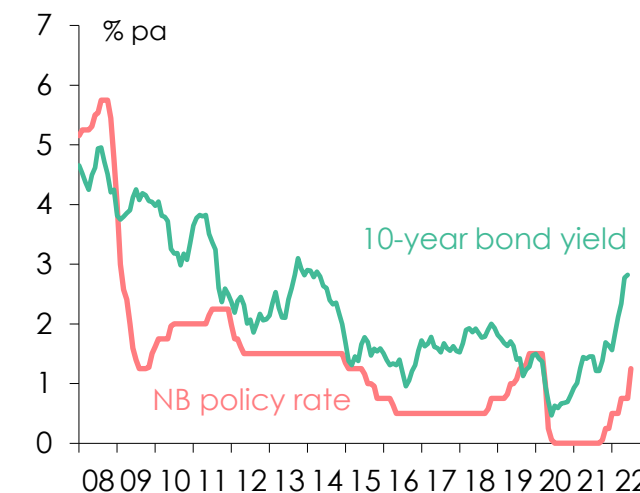
## Inflation



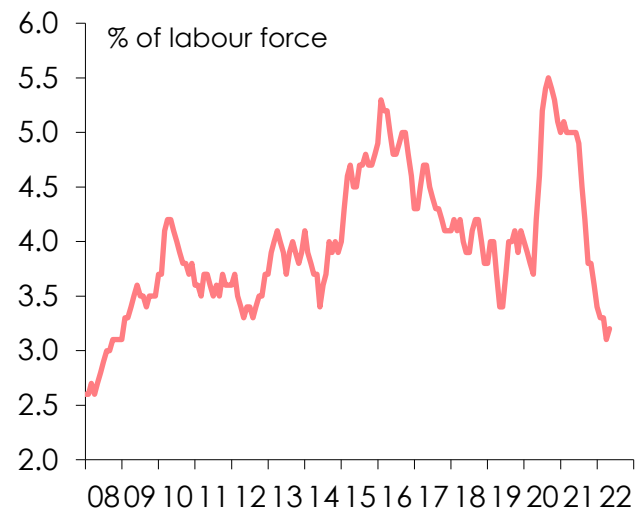
## Trade balance



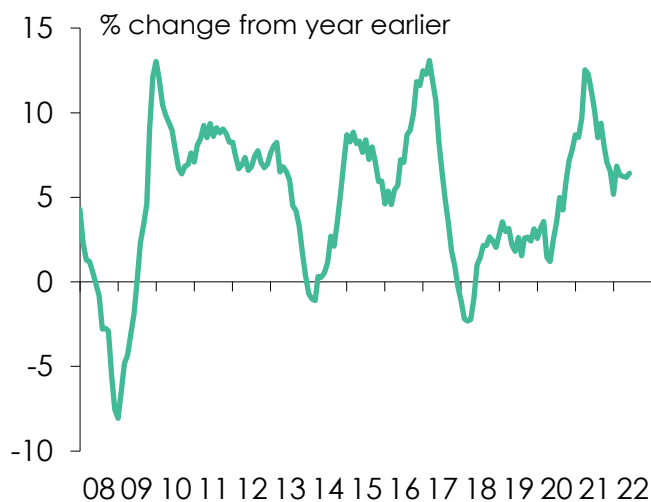
## Interest rates



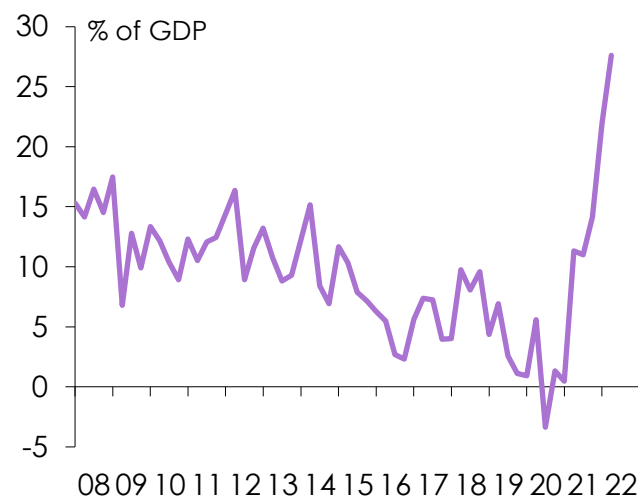
## Unemployment



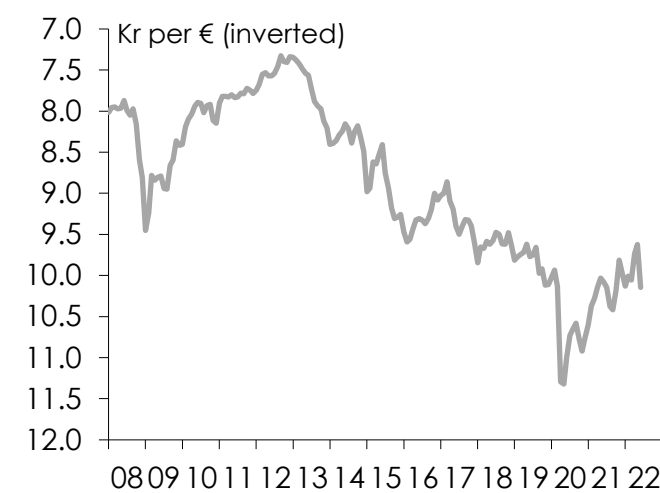
## House prices



## Current account balance



## Krone vs euro

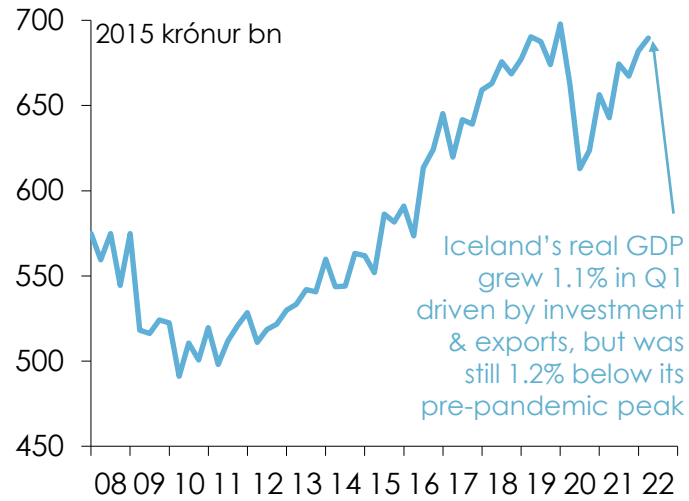


Note: 'mainland' GDP means excluding Norway's oil and gas industry which is entirely located offshore. Sources: [Statistisk sentralbyrå](#); [Norges Bank](#); Refinitiv Datastream.  
[Return to "What's New"](#).

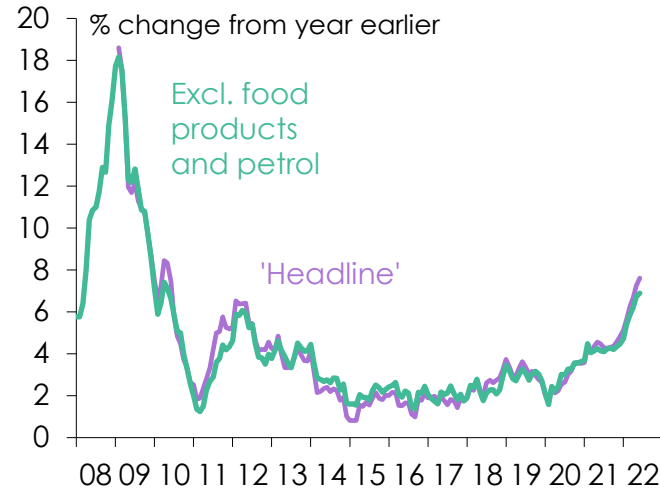
# Iceland's central bank raised its policy interest rates by another 100bp last week, and foreshadowed further tightening in coming months

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

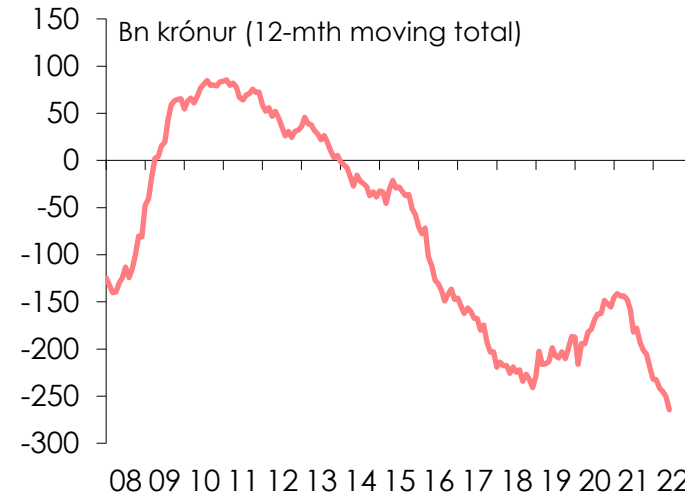
## Real GDP



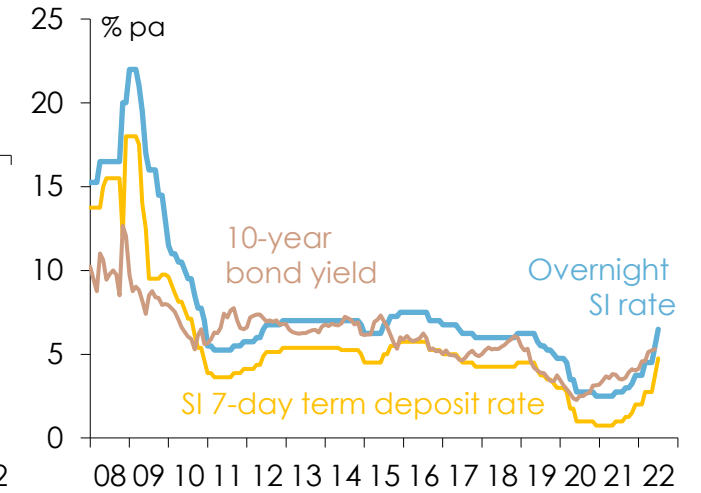
## Inflation



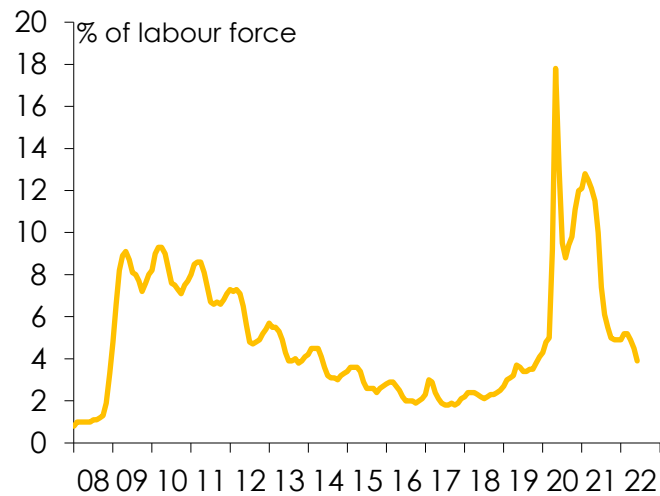
## Trade balance



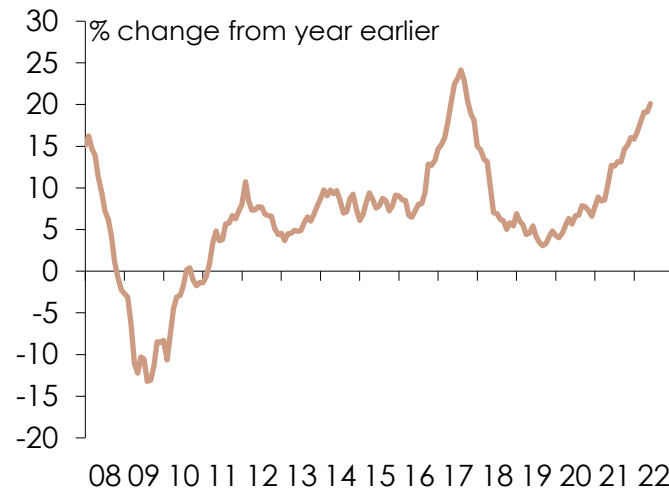
## Interest rates



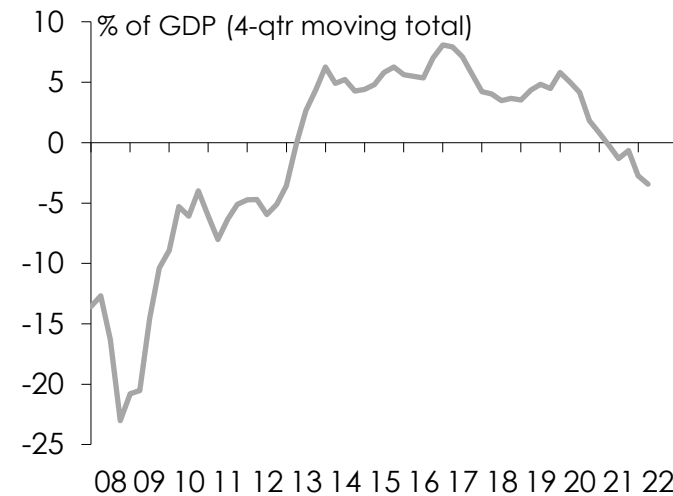
## Unemployment



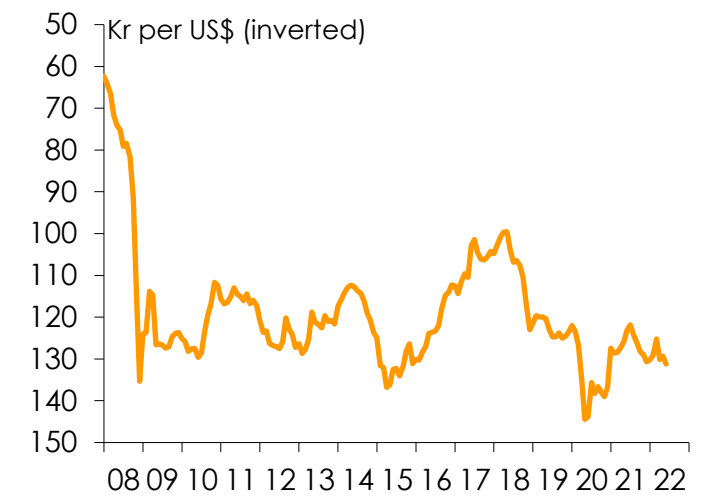
## House prices



## Current account balance



## Króna vs US dollar



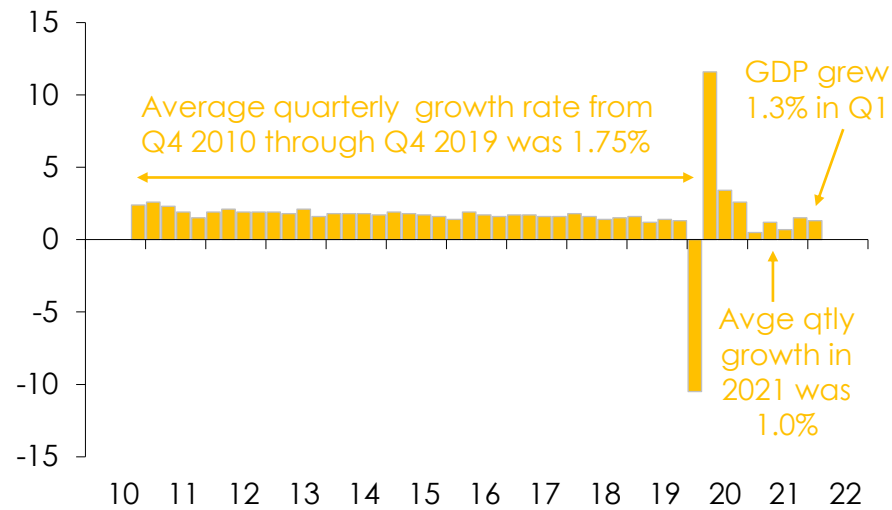
**China**



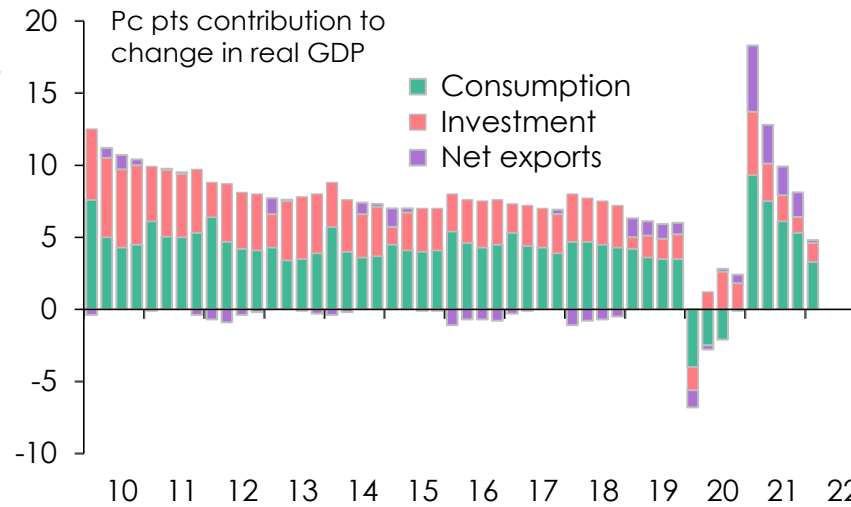
# China's urban unemployment rate fell 0.2 pc pts in May to 5.9%, after rising 1.2 pc pts between October and April when it peaked at 6.1%

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

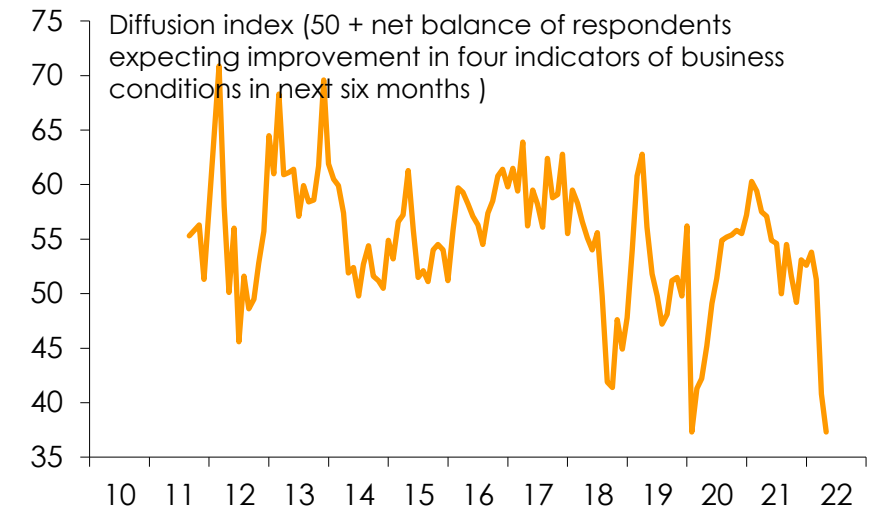
## Quarterly real GDP growth



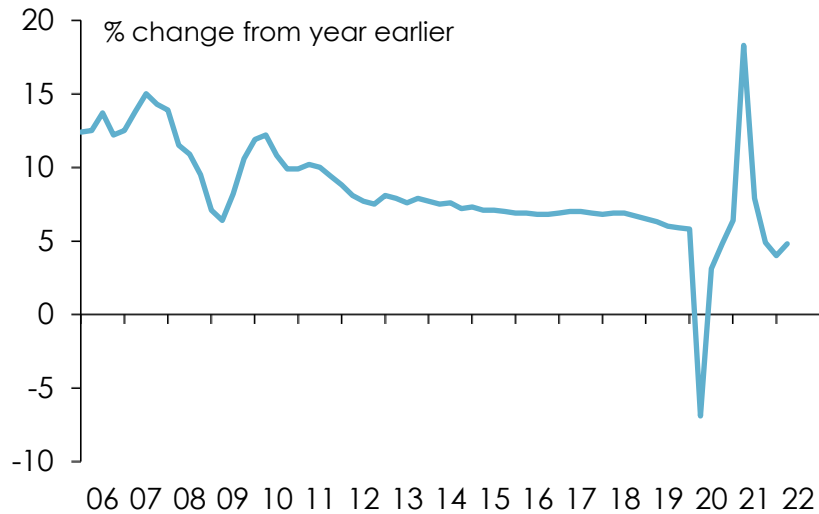
## Contributions to real GDP growth



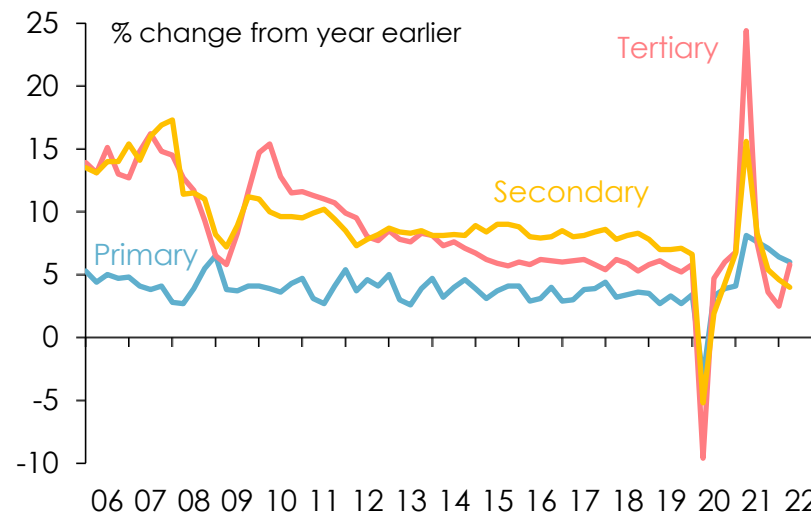
## CKGSB business conditions index



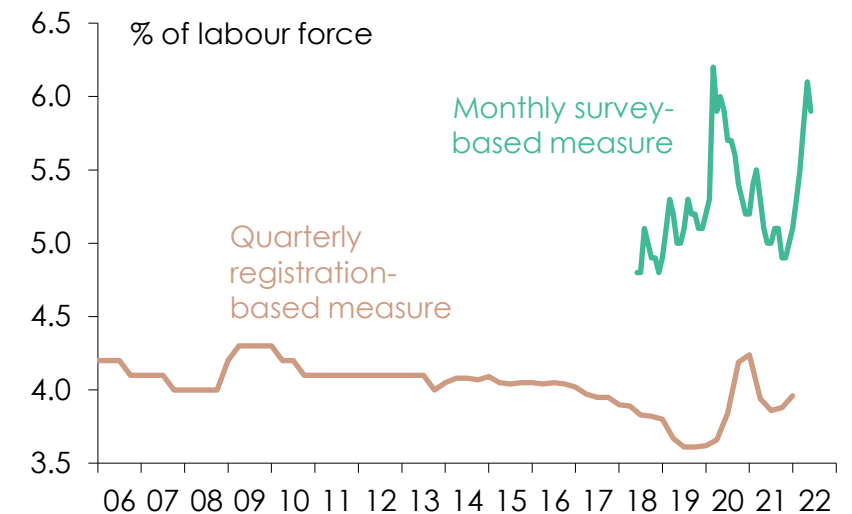
## Annual real GDP growth



## Annual GDP growth by industry



## Urban unemployment rate

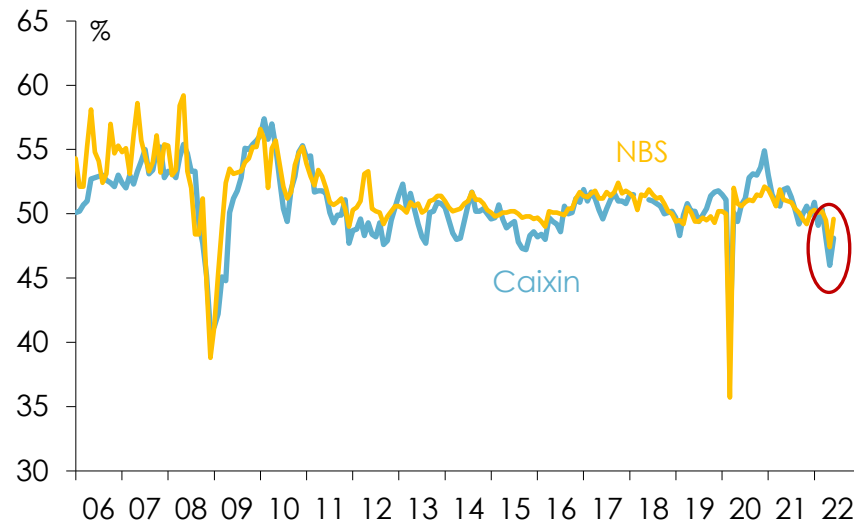


Sources: China National Bureau of Statistics, [National Data - National Accounts](#) and [The Urban Surveyed Unemployment Rate](#); Cheung Kong Graduate School of Business, [Business Conditions Index \(BCI\)](#). Before the monthly unemployment survey was introduced in 2018, the quarterly measure was 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"](#).

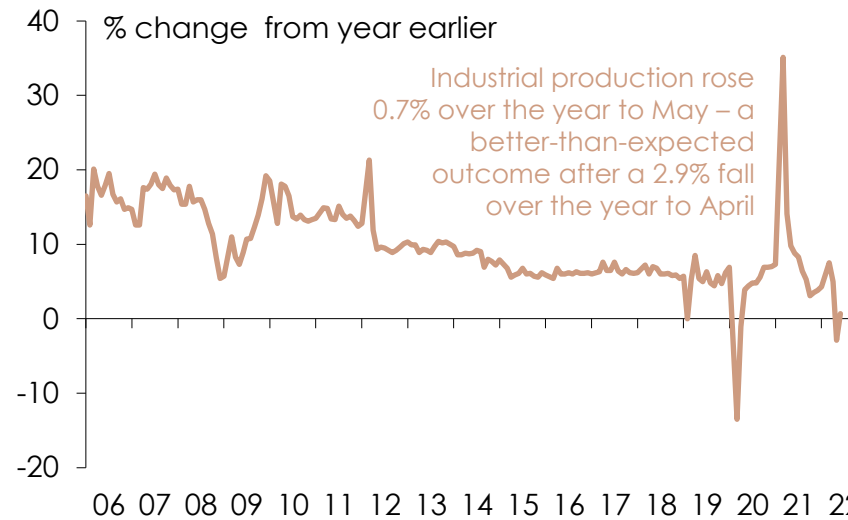
# Industrial production rose slightly over the year to May, suggesting a small rebound in the 'supply side' after the contraction in April

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

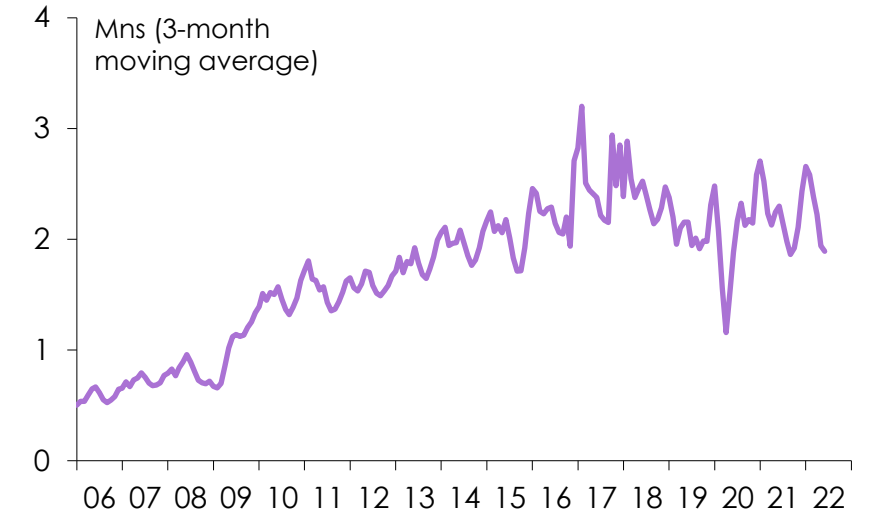
## Manufacturing PMIs



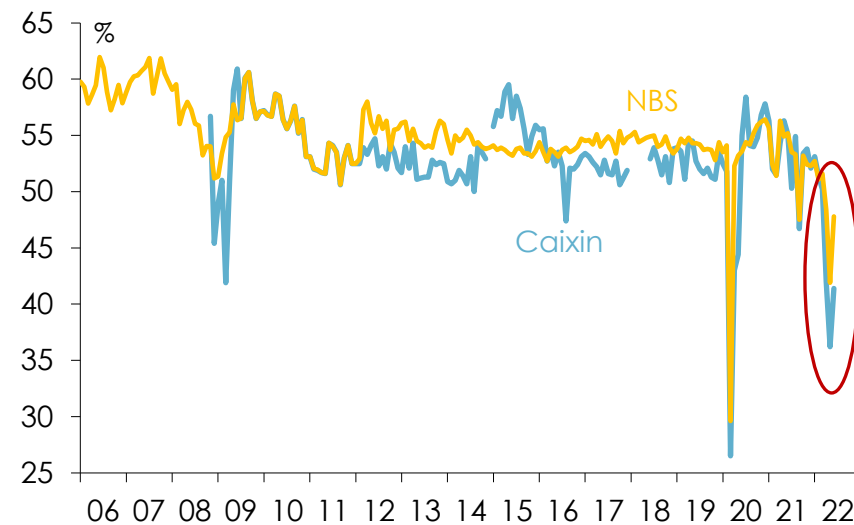
## Industrial production



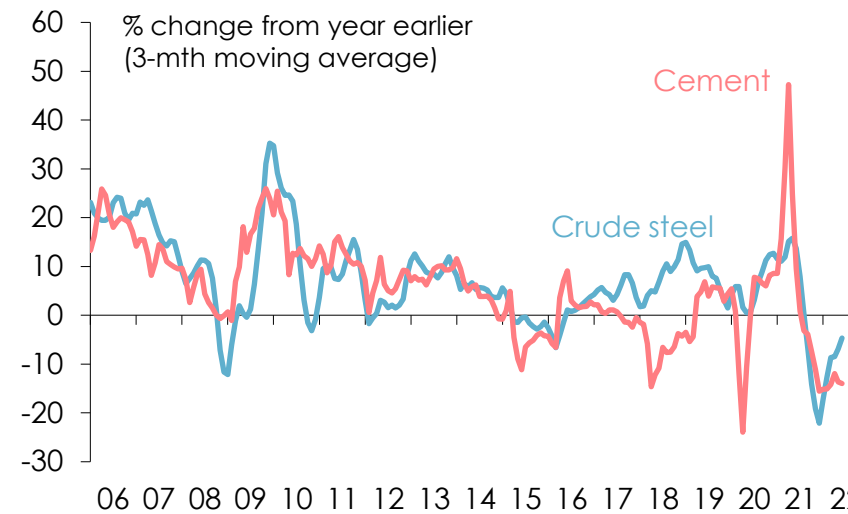
## Motor vehicle production



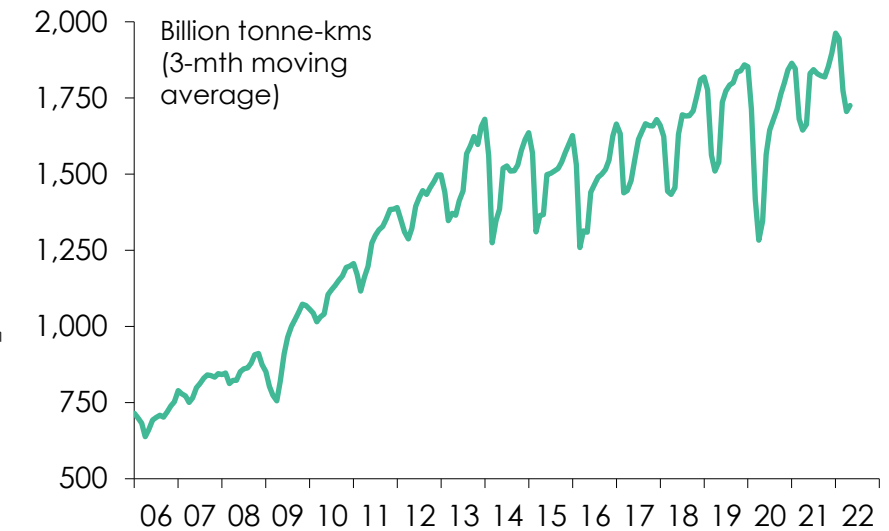
## Non-manufacturing PMIs



## Steel and cement production



## Freight traffic volumes

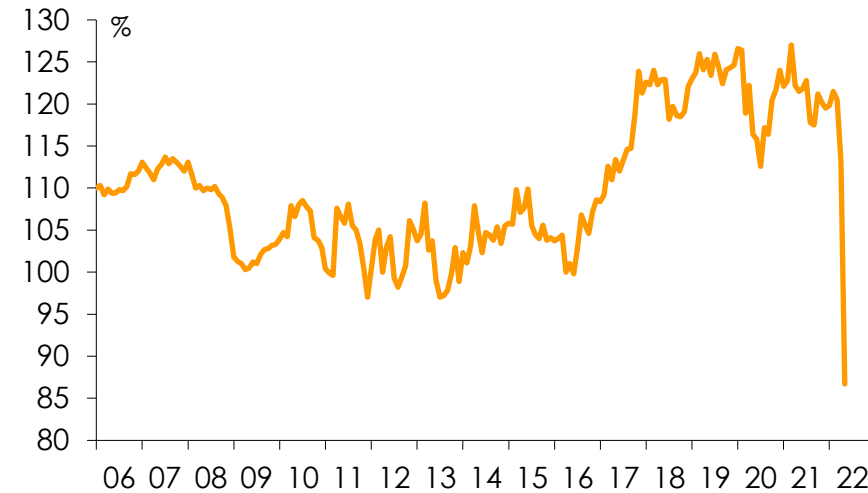


Note: The Caixin PMIs are derived from a survey of around 500, mostly small private, enterprises, while the 'official' NBS PMIs are derived from a survey of about 3,000, mostly state-owned, enterprises; for more detail see [here](#). Sources: China National Bureau of Statistics, [National Data](#); Caixin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

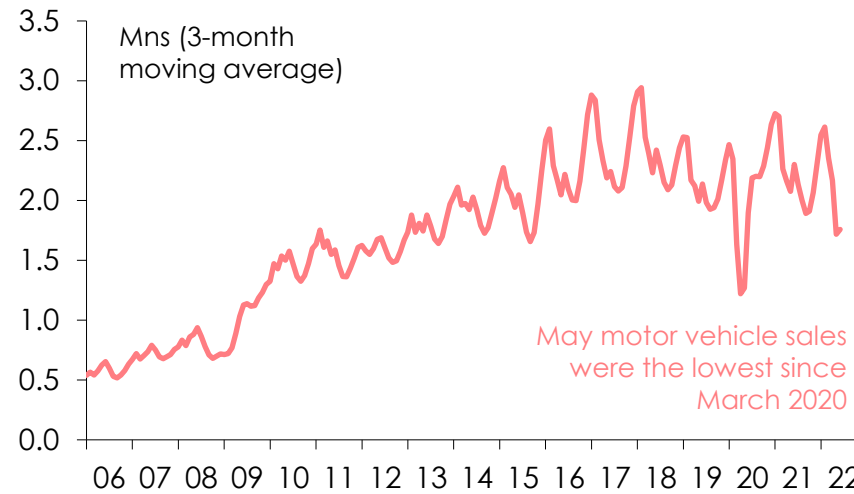
# However indicators of consumer demand, and of property construction activity, remained weak in May

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

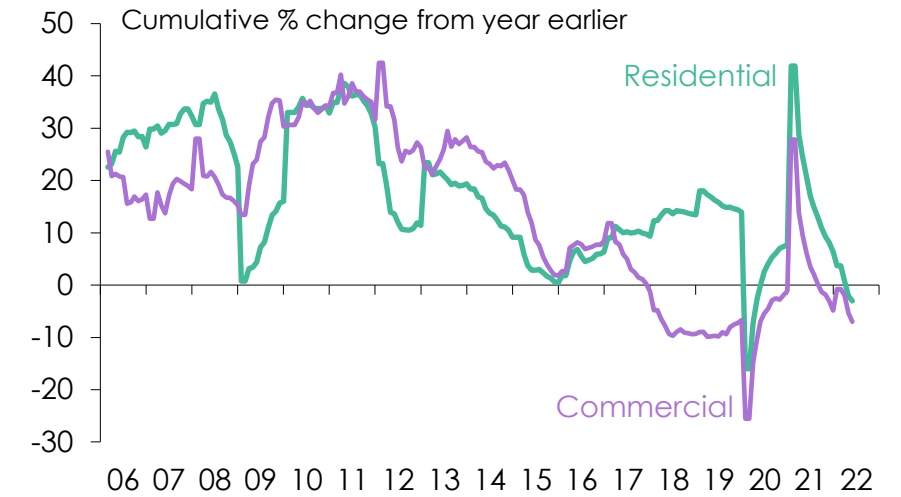
## Consumer sentiment



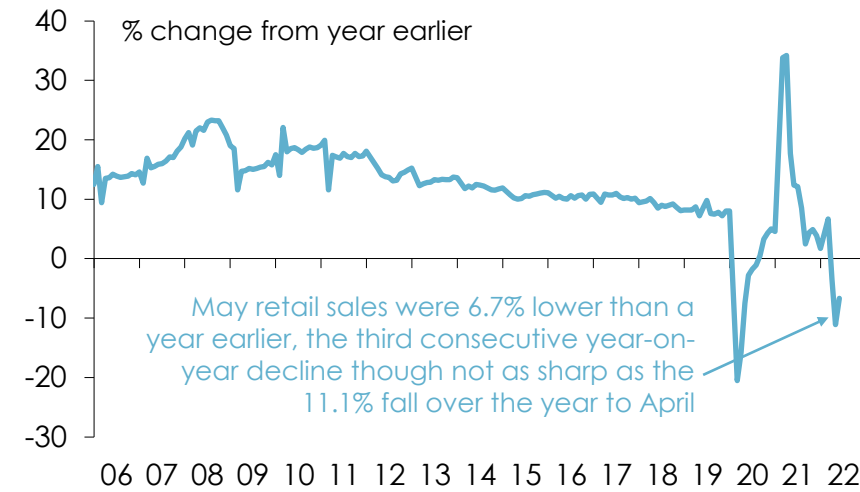
## Motor vehicle sales



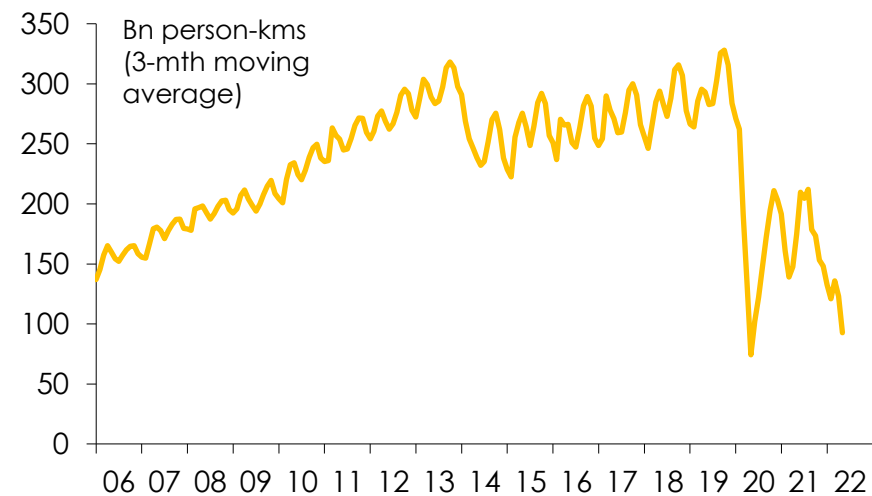
## Real estate investment



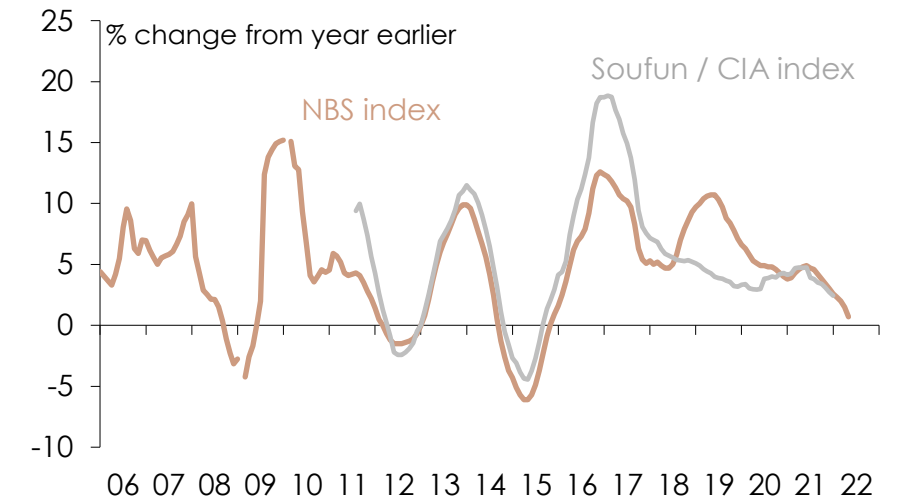
## Retail sales



## Passenger traffic volumes



## Residential real estate prices

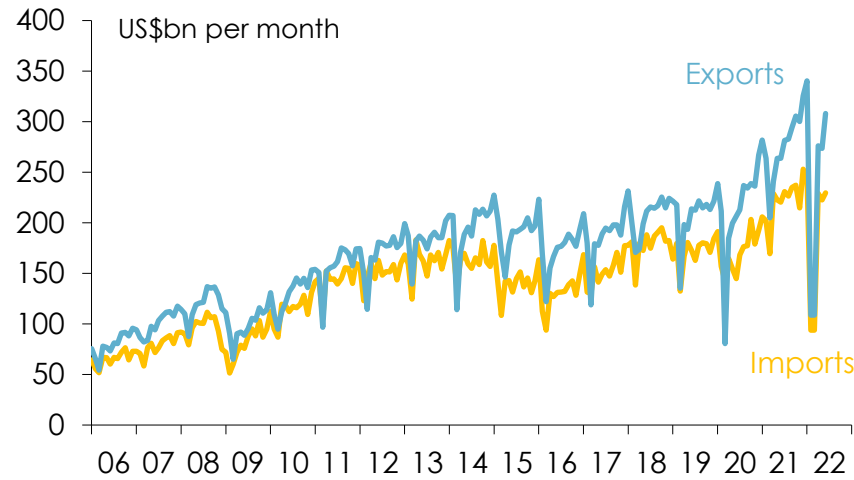


Sources: China National Bureau of Statistics, [National Data](#); China Association of Automobile Manufacturers, [Sales of Automobiles](#); China Index Academy, [CREIS China Residential](#)

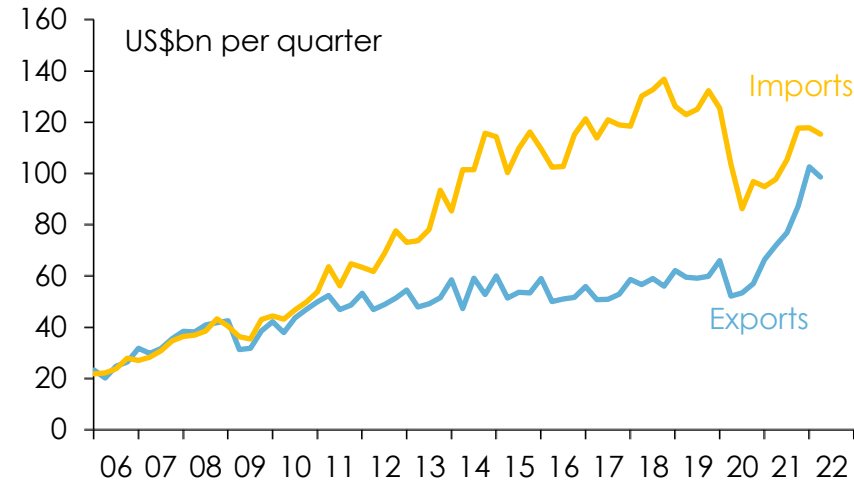
# China's trade surplus widened to US\$78.7bn in May, the largest so far this year, as exports recovered more than imports as restrictions eased

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

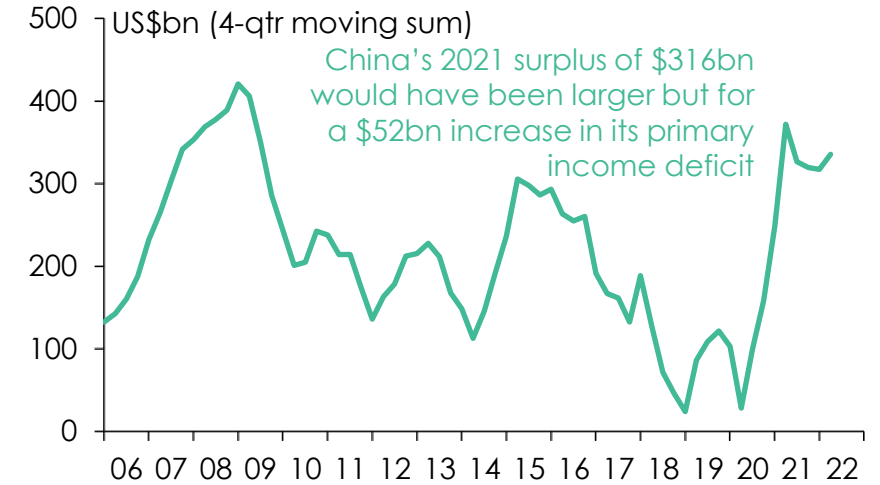
## Merchandise exports and imports



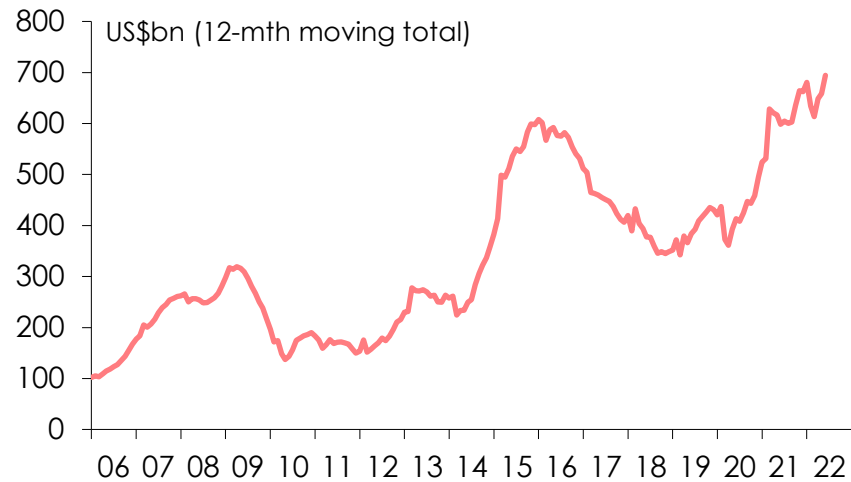
## Services exports and imports



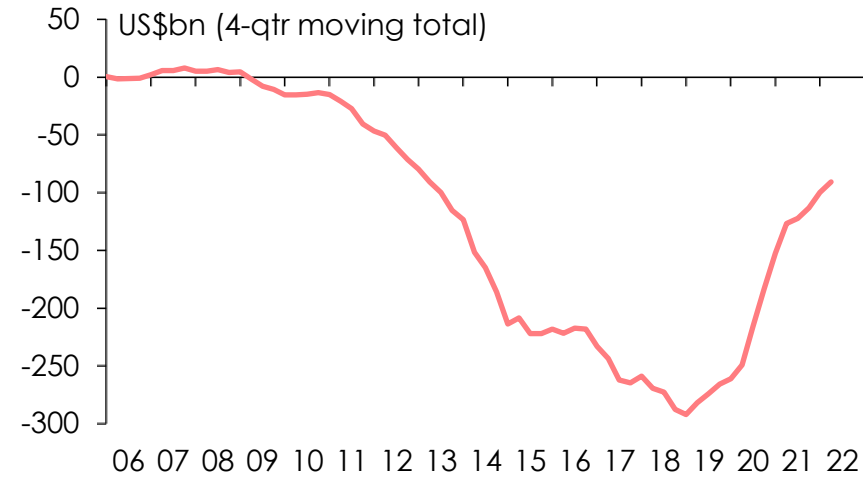
## Current account balance



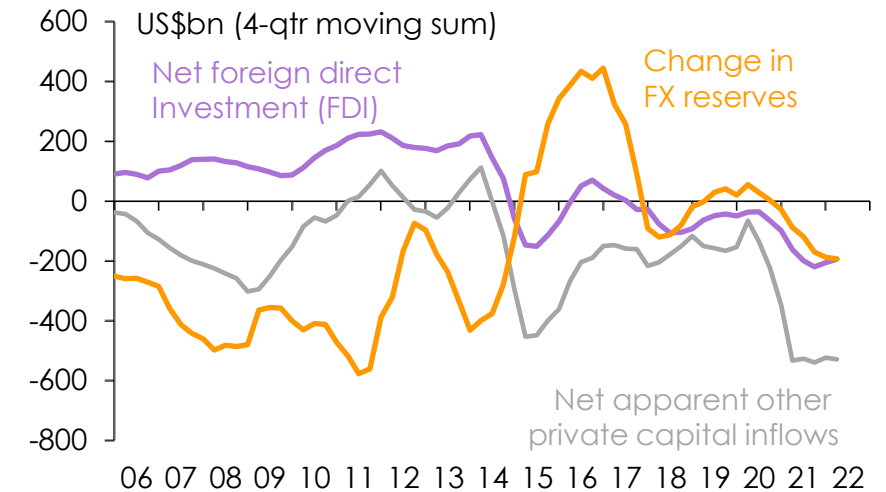
## Merchandise trade balance



## Services trade balance



## Capital flows

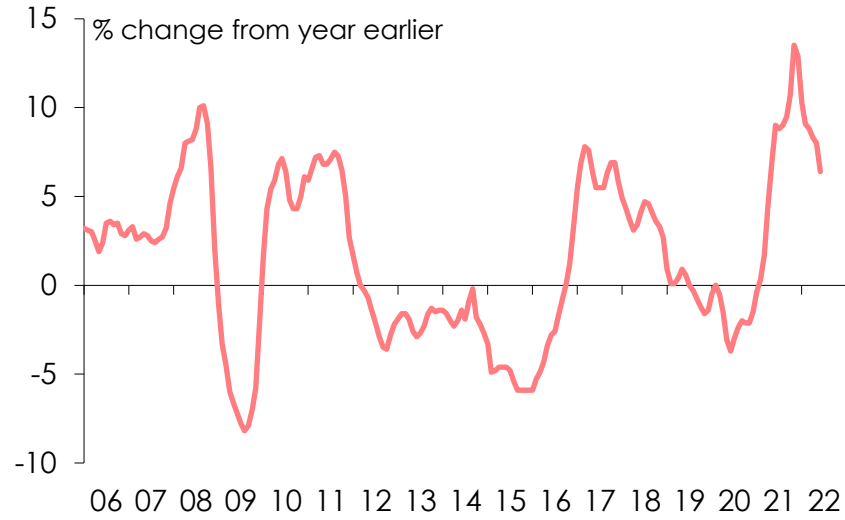


Sources: China General Administration of Customs, [Preliminary Release](#) and [Monthly Bulletin](#); State Administration of Foreign Exchange, [The time-series data of Balance of Payments of China](#). [Return to "What's New"](#).

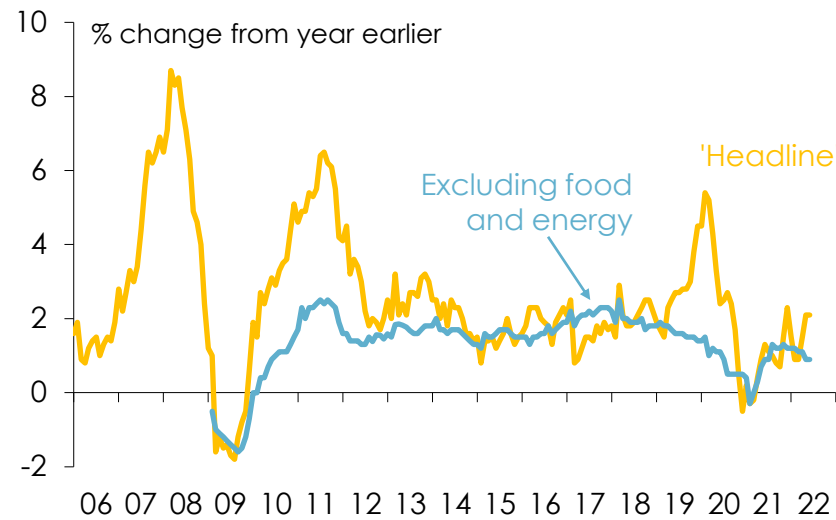
# 'Headline' CPI inflation ticked remained just above 2% in May as food prices stopped falling, but 'core' inflation remained just below 1%

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

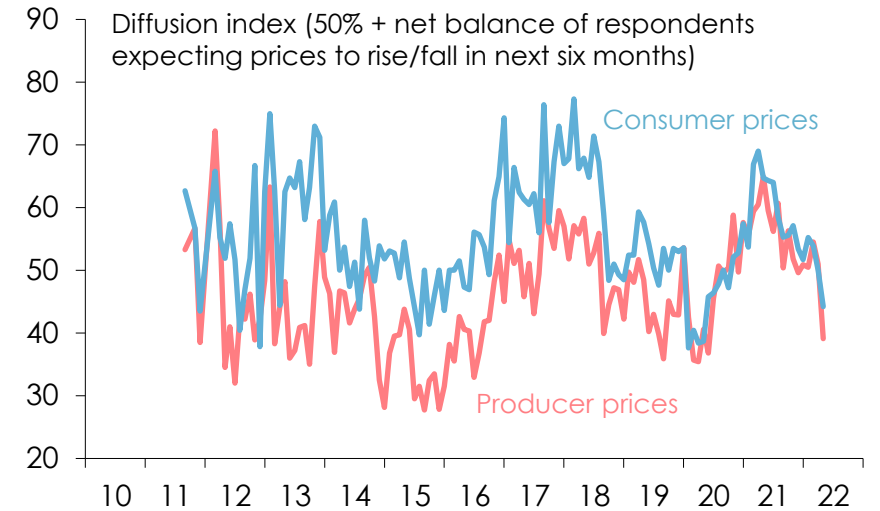
## Producer prices



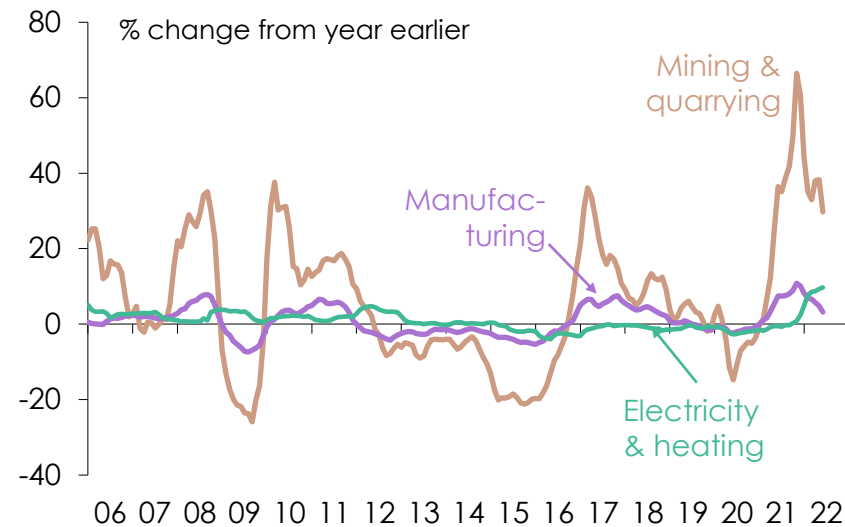
## Consumer prices



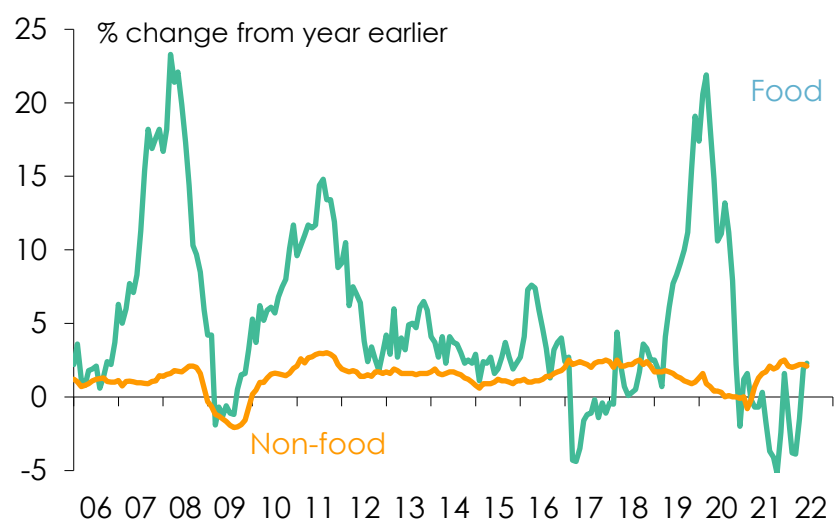
## CKGSB price diffusion indexes



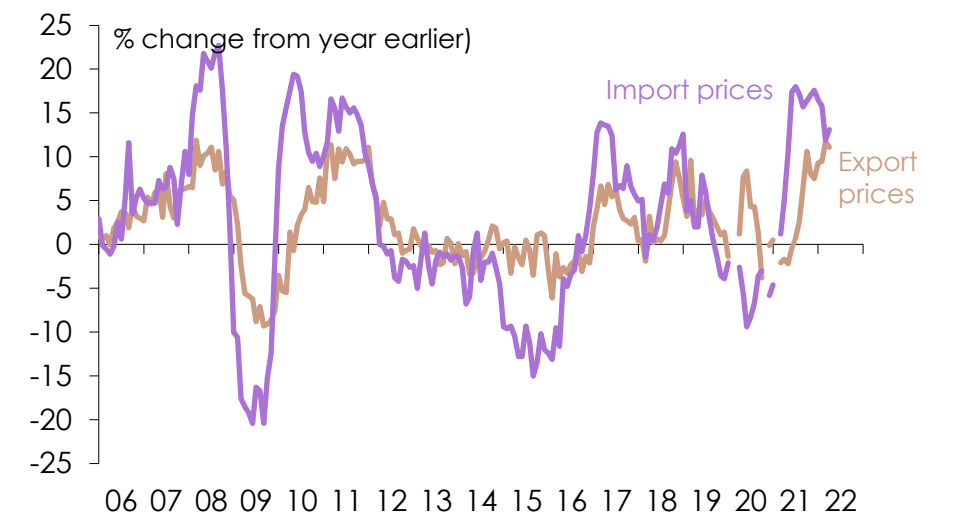
## Producer prices – major categories



## 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".



# Chinese leaders once again ‘talked up’ the economy last week – but there continues to be very little ‘hard evidence’ of stimulatory measures

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

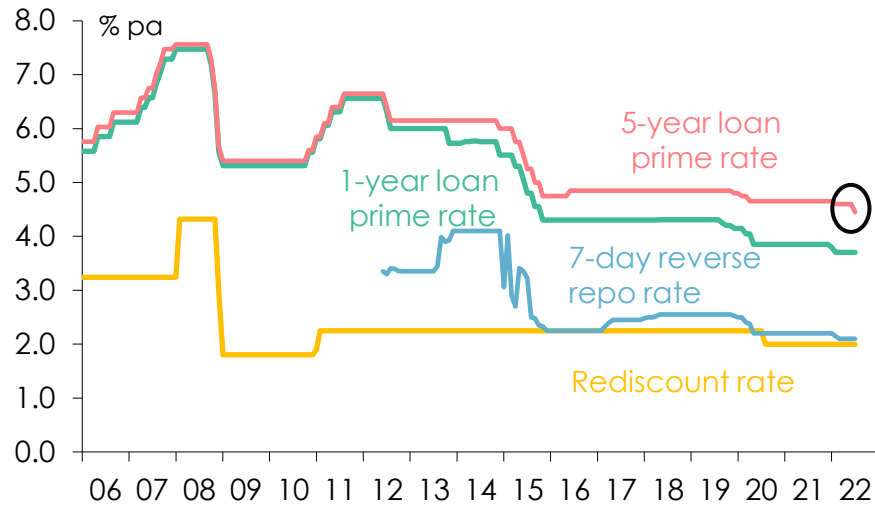
- ❑ **China’s most senior leaders again ‘talked up’ the economy last week – although none of them announced any new measures**
  - President Xi Jinping **committed** to “strengthen macro-policy adjustment and adopt more effective measures to strive to meet the social and economic development targets for 2022”
  - Premier Li Keqiang **told a State Council meeting** that “We must roll out all necessary policies to promote consumption, to spur fairly rapid expansion of consumer spending in the second half of the year and boost jobs and economic growth”
  - Finance Minister Liu Kun **said** “authorities are studying new policy tools to support the economy”
- ❑ **The PBoC again left its prime lending rates unchanged, as they have been since a token 5bp cut on 19<sup>th</sup> May**
- ❑ **Premier Li Keqiang, addressing a nationwide virtual conference of State Council members on 25<sup>th</sup> 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”
- ❑ **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’ & water conservation projects, transport infrastructure and pipelines



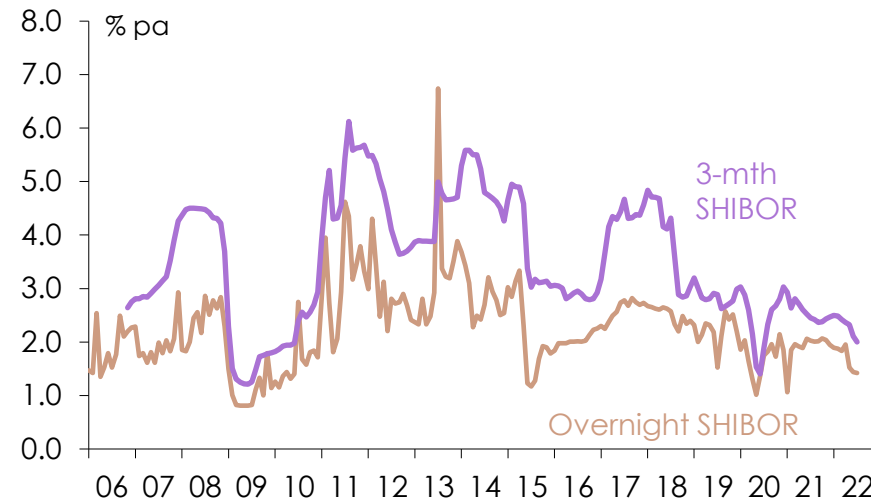
# The PBoC lowered the 5-year prime loan rate by 15bp to 4.45% on 27<sup>th</sup> May but left the 1-year rate unchanged

THE WORLD ECONOMY THIS WEEK – 27<sup>th</sup> JUNE 2022

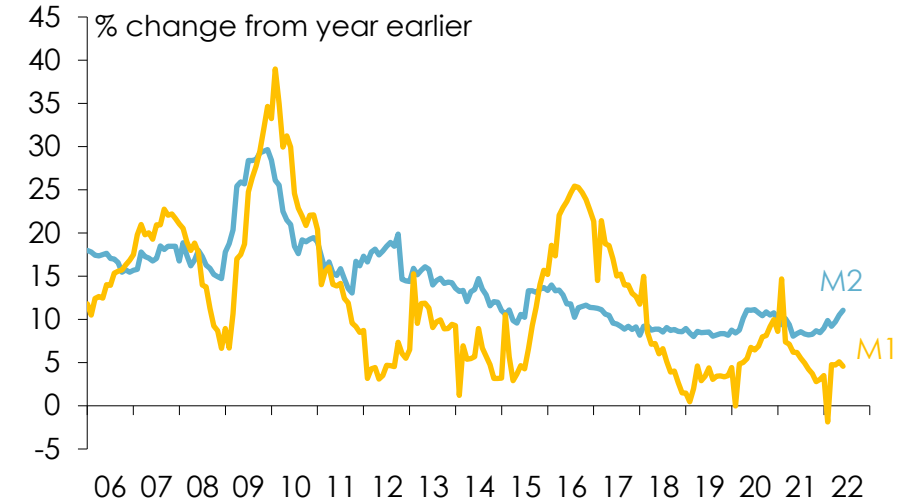
## PBoC policy interest rates



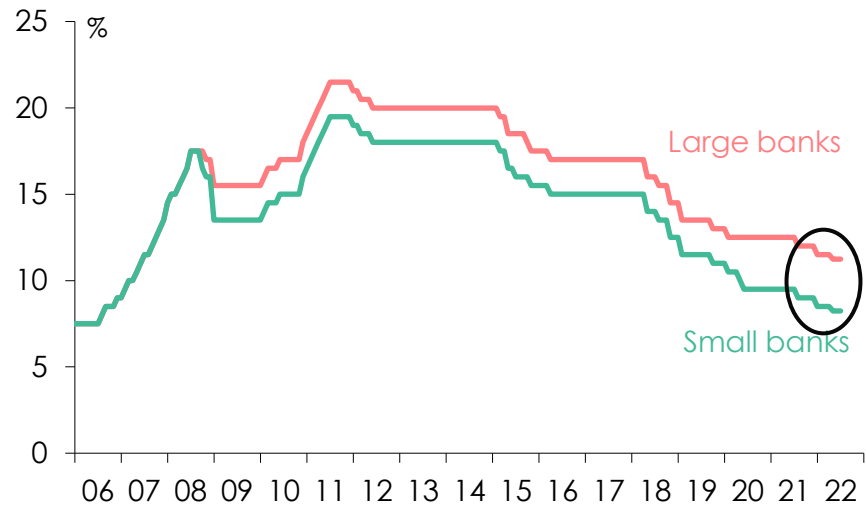
## Short-term market interest rates



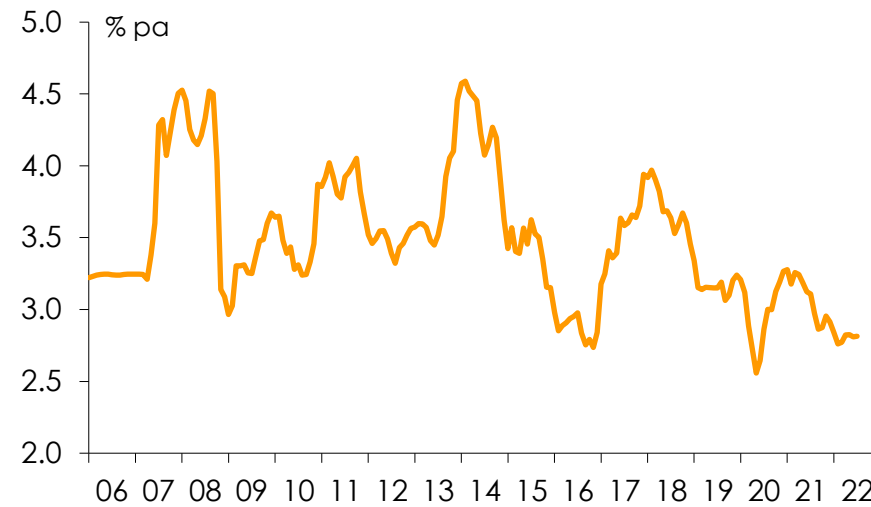
## Monetary aggregates



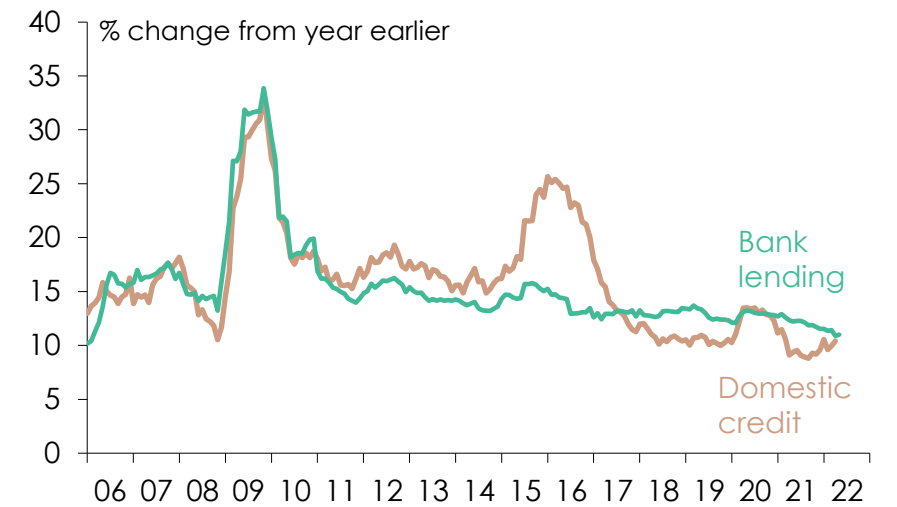
## Bank reserve requirement ratios



## 10-year government bond yield



## Credit growth

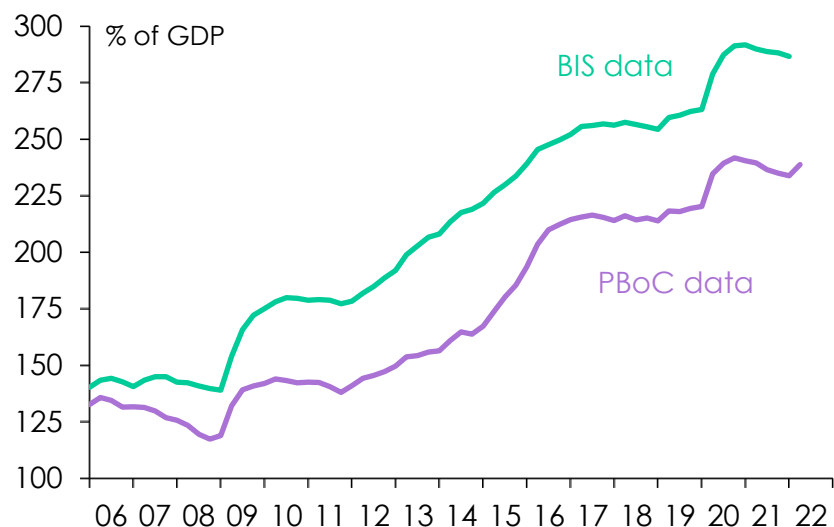


Note: 'SHIBOR' is the Shanghai Inter-Bank Offered Rate. Sources: Refintiv Datastream; People's Bank of China, [Financial Statistics Reports](#) and [Aggregate Financing Reports](#). [Return to "What's New"](#).

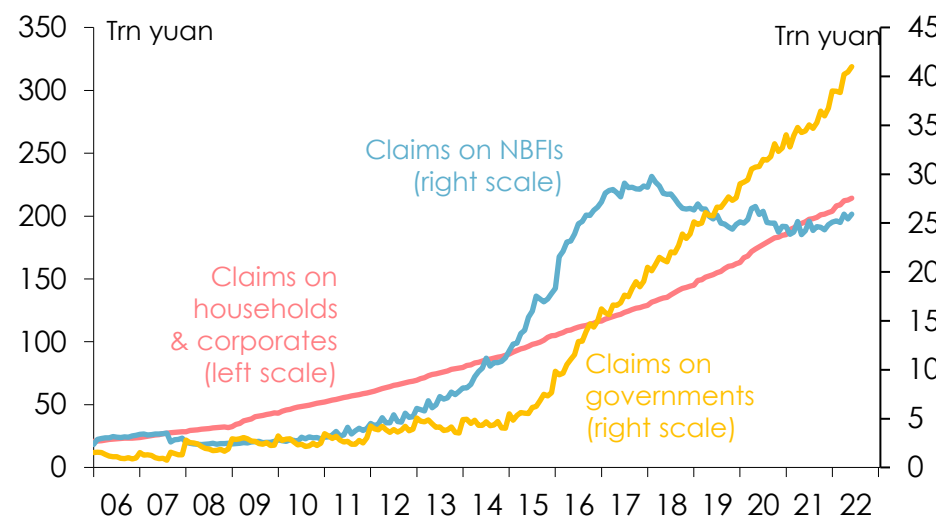
# The Chinese banking system's risk profile has increased significantly over the past decade – particularly on the liabilities side of its balance sheet

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

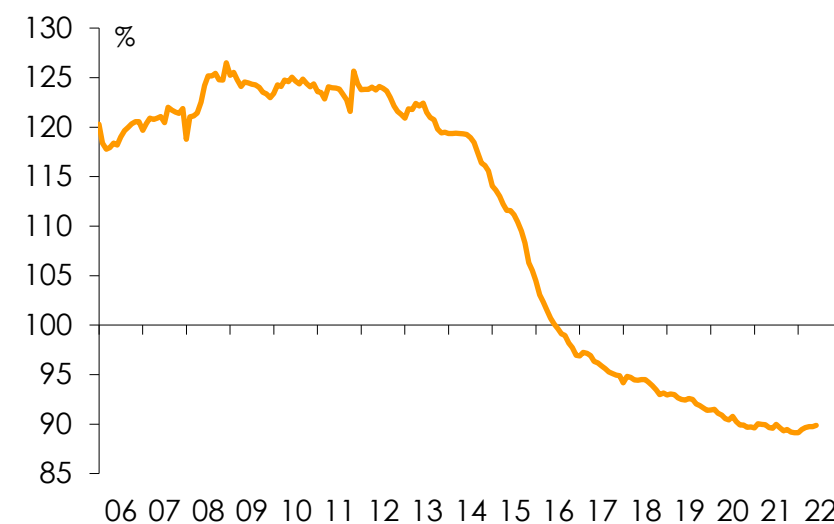
## Credit outstanding as a pc of GDP



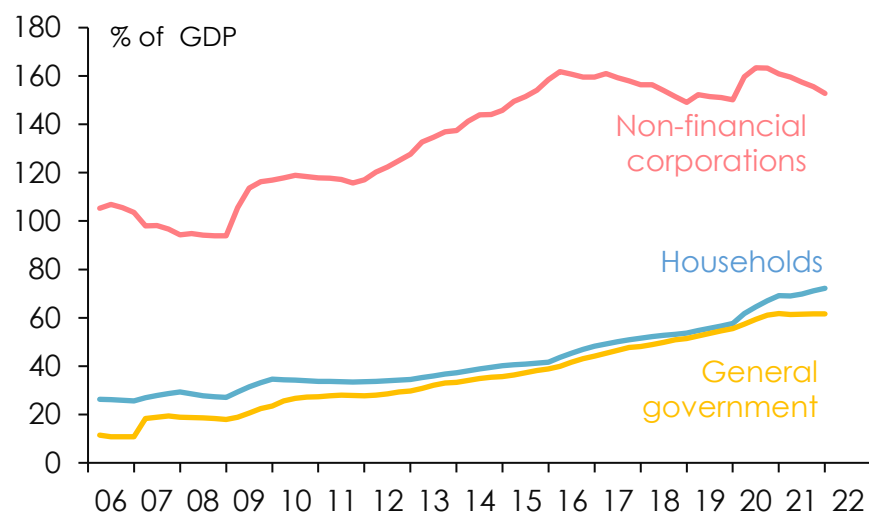
## Banks' assets



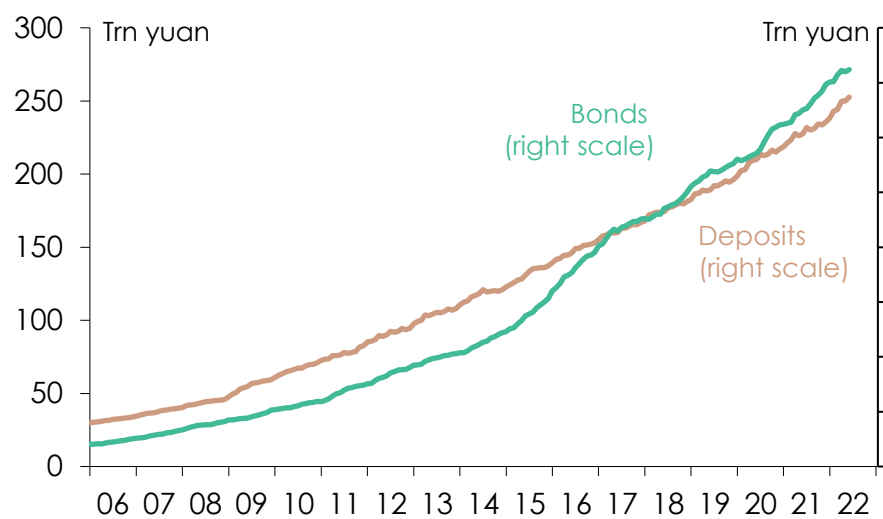
## Banks' deposits-to-loans ratio



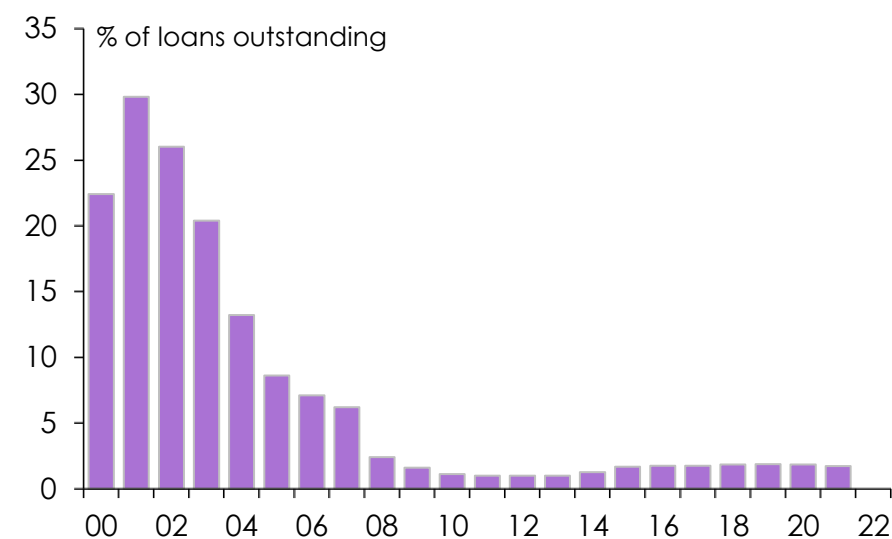
## Credit outstanding by sector



## Banks' liabilities



## Banks NPLs – official estimates

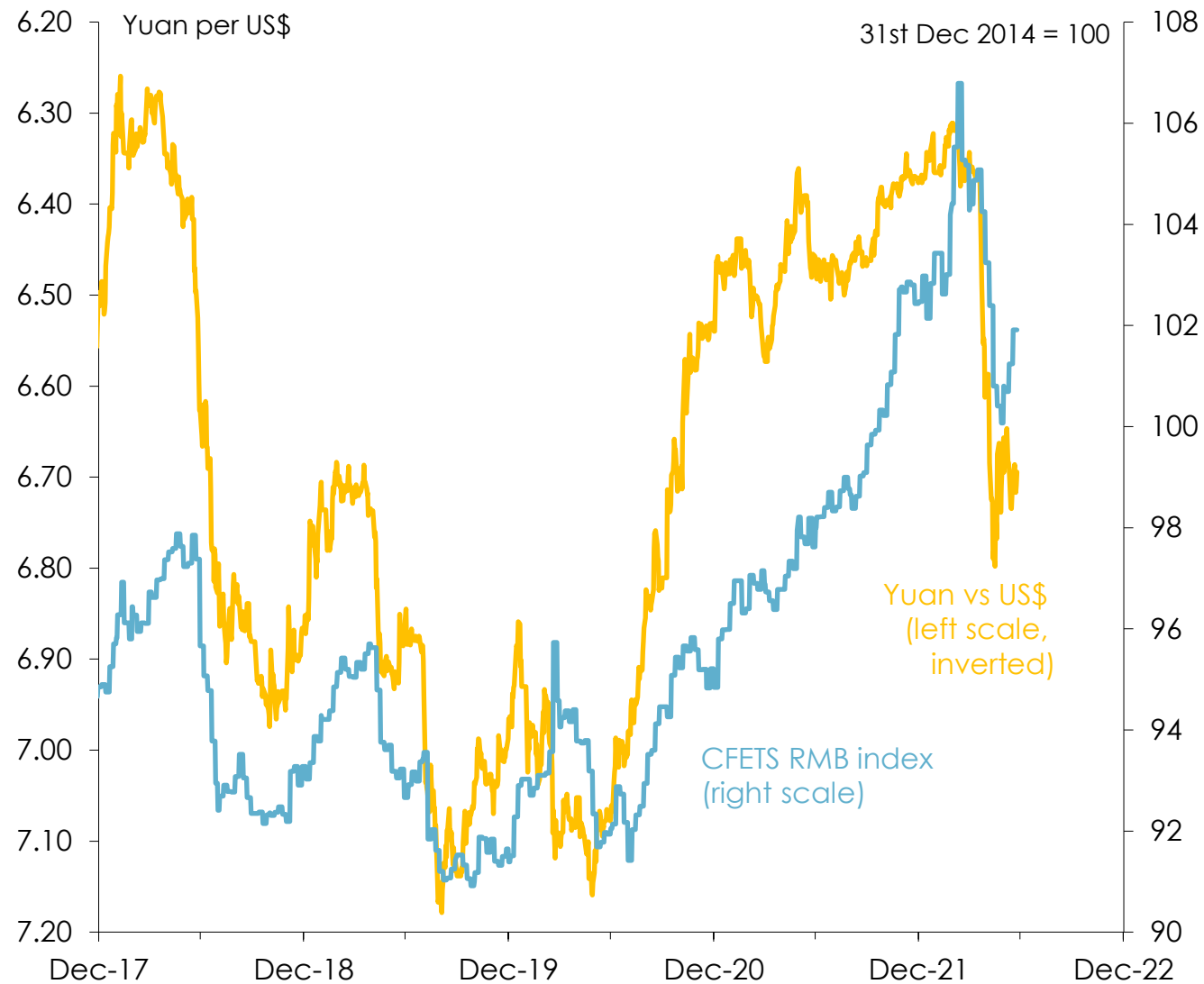


Sources: People's Bank of China, [Financial Statistics Reports](#); Bank for International Settlements, [Credit to the non-financial sector](#); China Banking and Insurance Regulatory Commission, [Supervisory Statistics of the Banking and Insurance Sectors](#). [Return to "What's New"](#).

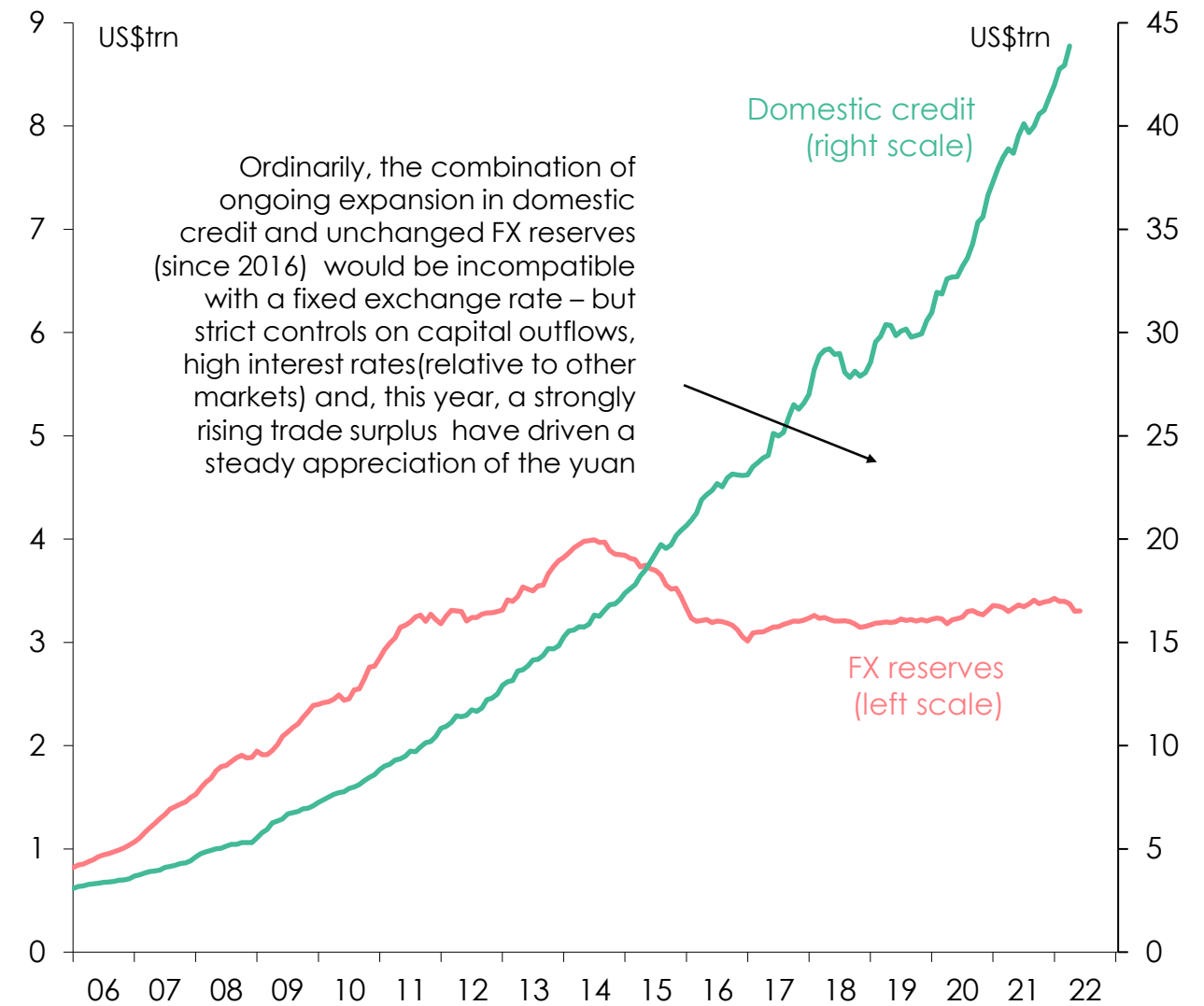
# The yuan rose 0.1% against the dollar last week (though it's still down 5% so far this year) and 0.6% on the PBoC index

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

## Chinese renminbi vs US\$ and trade-weighted index



## FX reserves and domestic credit



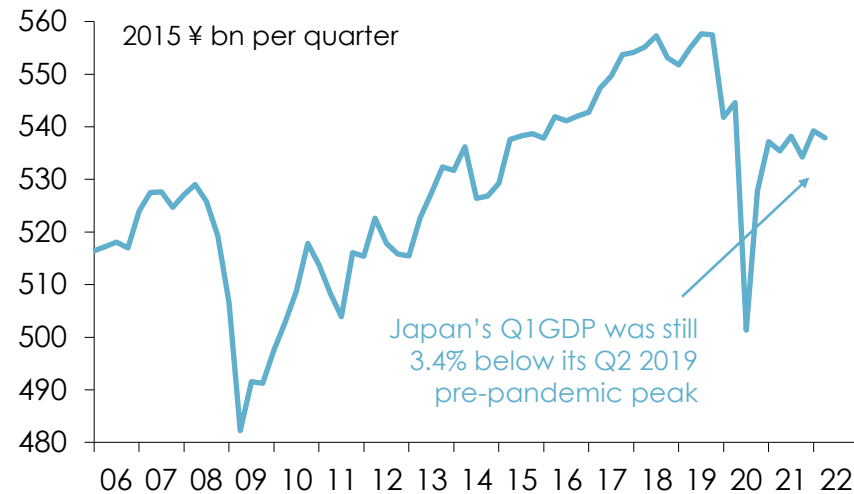
Sources: Refinitiv Datastream; China Foreign Exchange Trading System; People's Bank of China. Exchange rates up to 24<sup>th</sup> June; FX reserves and credit data up to May.  
[Return to "What's New"](#).

**Japan**

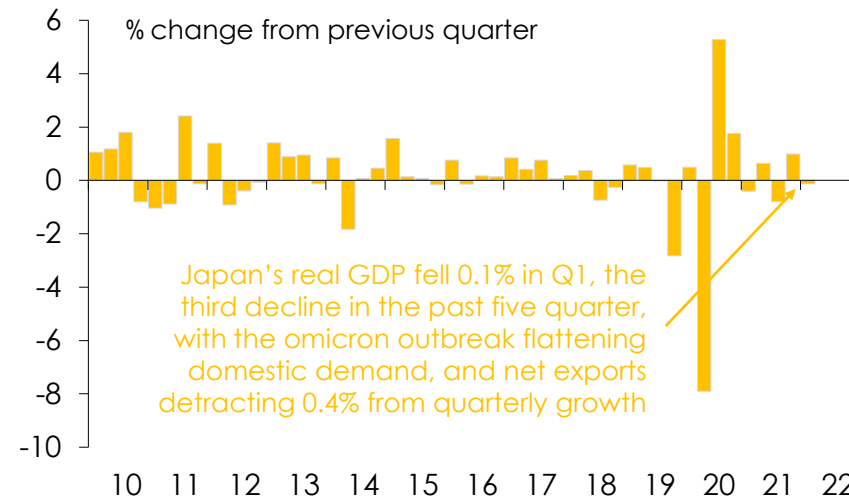
# Japan's real GDP fell 0.1% in Q1, the third decline in the past five quarters, to be still 3.4% below its pre-pandemic peak

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

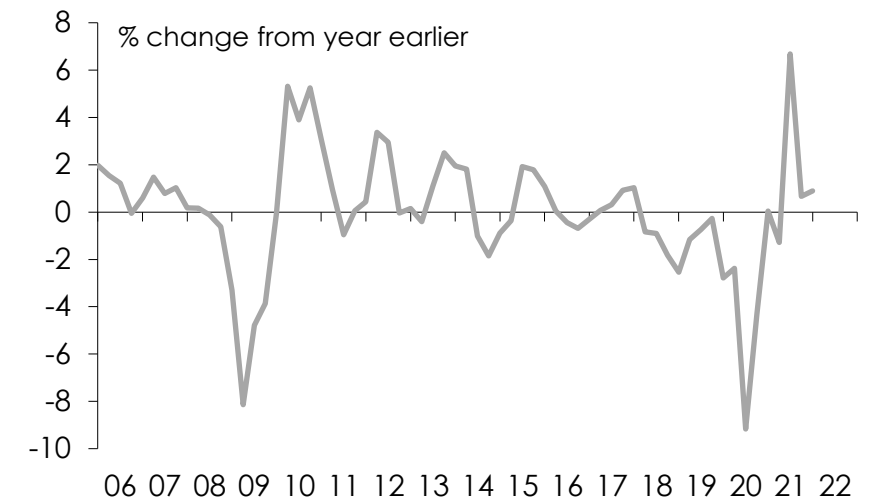
## Level of real GDP



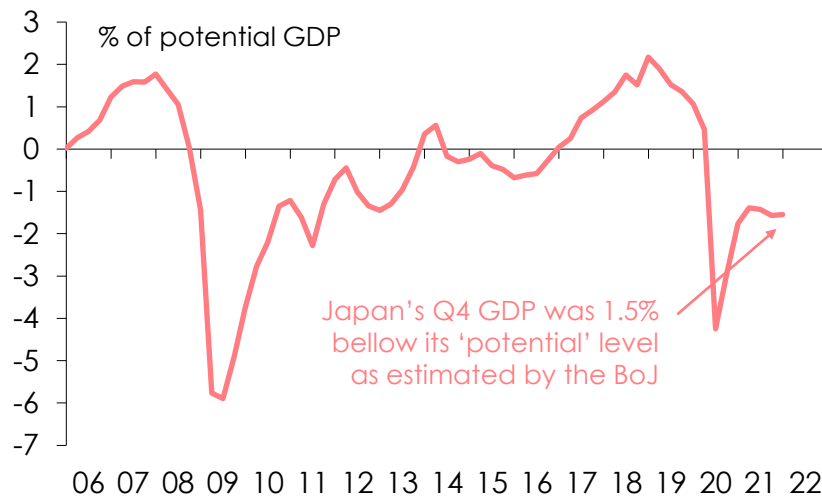
## Quarterly change in real GDP



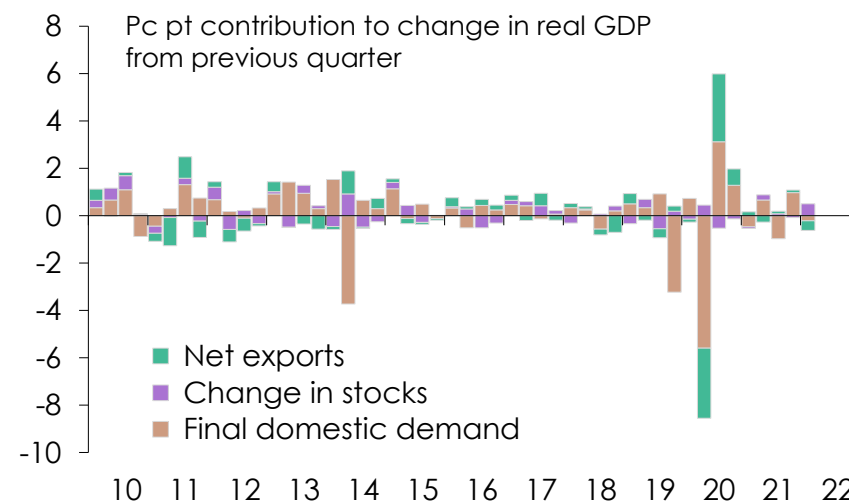
## Labour productivity growth



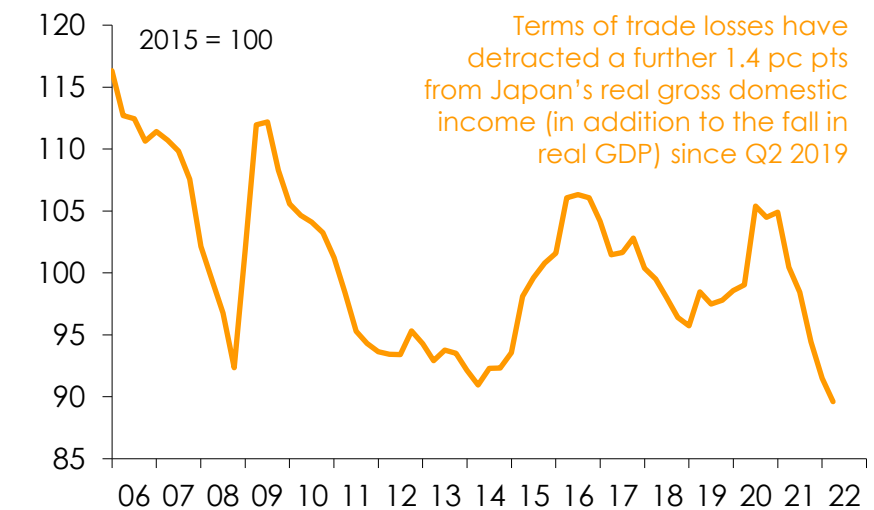
## The 'output gap'



## Contributions to change in real GDP



## Terms of trade

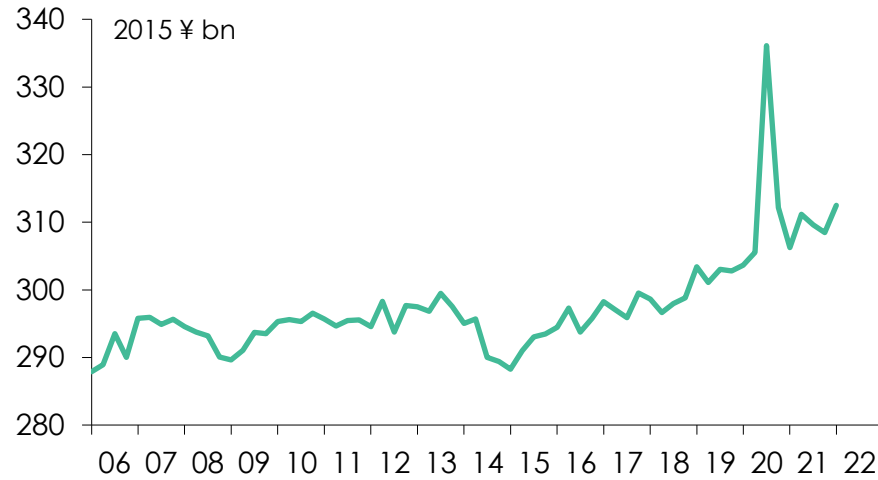


Note: the 'output gap' is the difference between actual and potential GDP (the volume of goods & services that could be produced if the economy were operating at full capacity); the 'terms of trade' is the ratio of the implicit price deflator of exports of goods & services to that of imports of goods & 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: 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"](#).

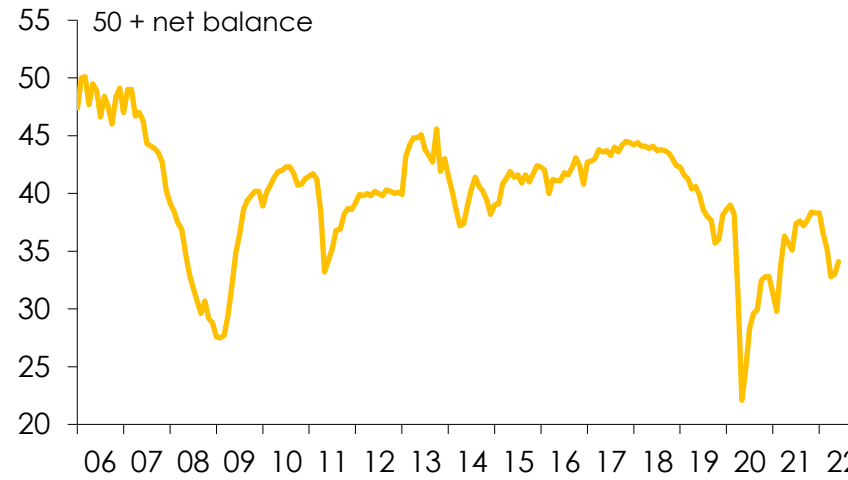
# April data provides some tentative evidence of a pick-up in domestic spending as Japan's 'omicron wave' slowly recedes

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

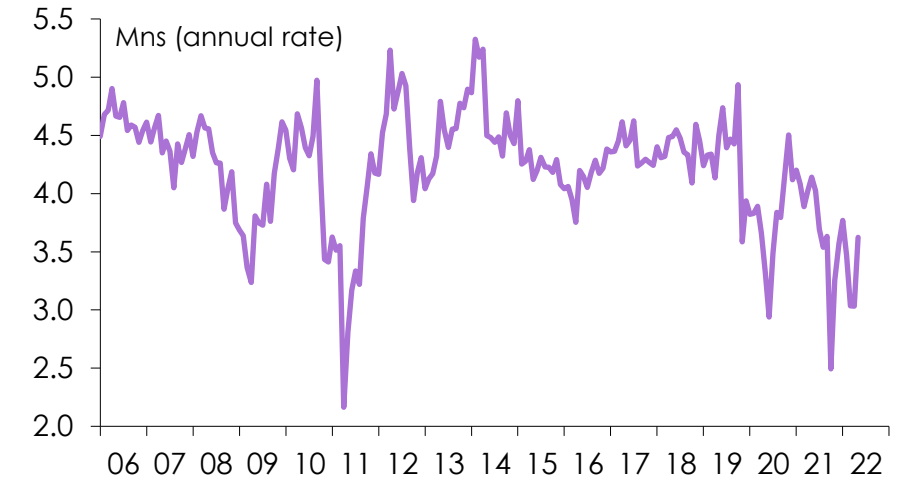
## Real household disposable income



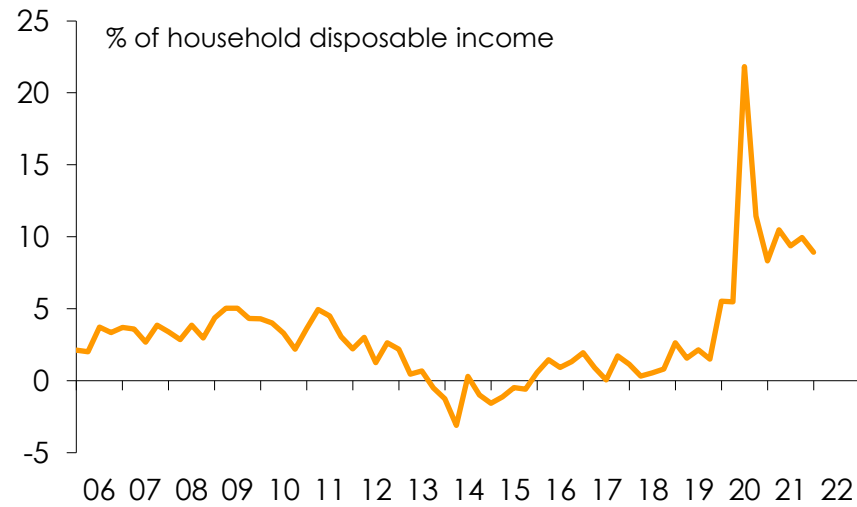
## Consumer confidence



## Motor vehicle sales



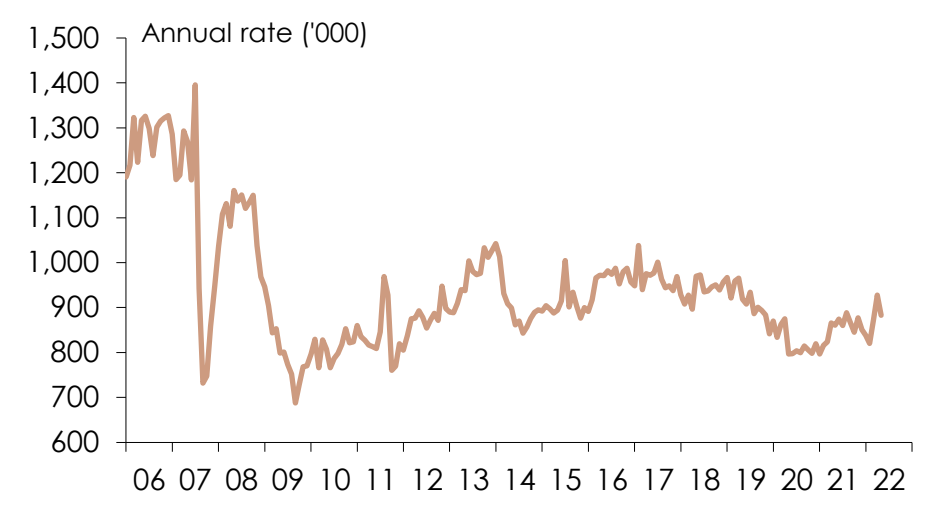
## Household saving



## Consumption activity index



## Housing starts



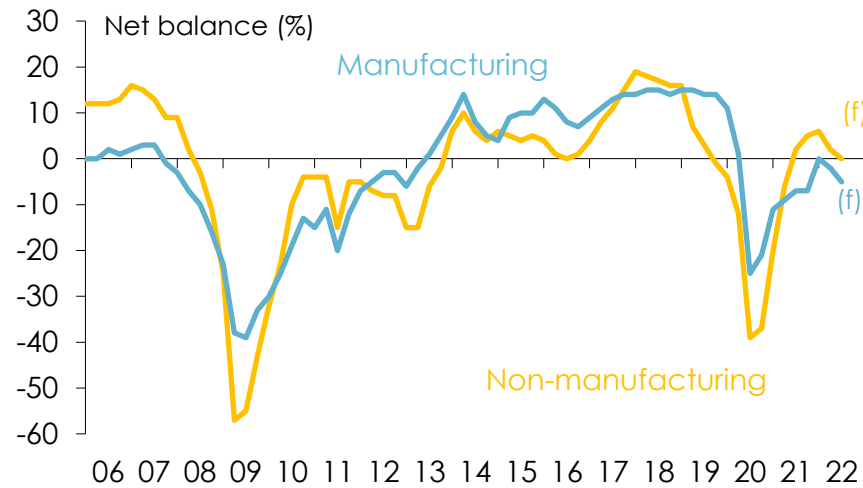
Sources: Japan Cabinet Office, [Quarterly Estimates of Household Disposable Income and Household Saving Ratio](#) and [Consumer Confidence Survey](#); Bank of Japan, [Consumption Activity Index](#); Japan Automobile Dealers Association, [Statistical Data](#); Japan e-Stat, [Building Starts](#). [Return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



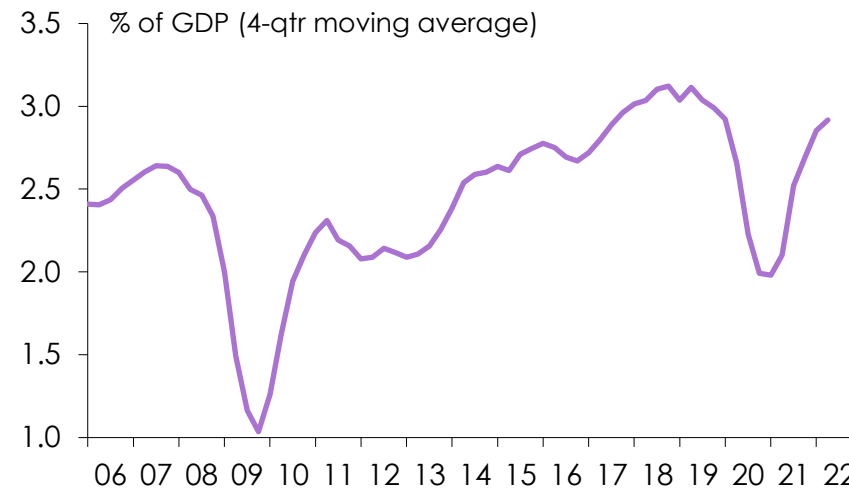
# Japanese business confidence deteriorated in the first quarter of this year according to the BoJ's *tankan* survey, largely reflecting rising input costs

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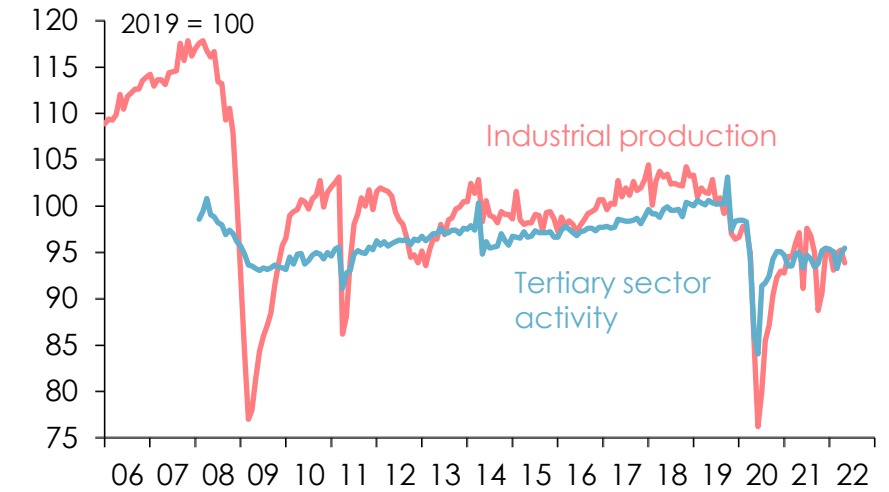
## Business conditions by industry



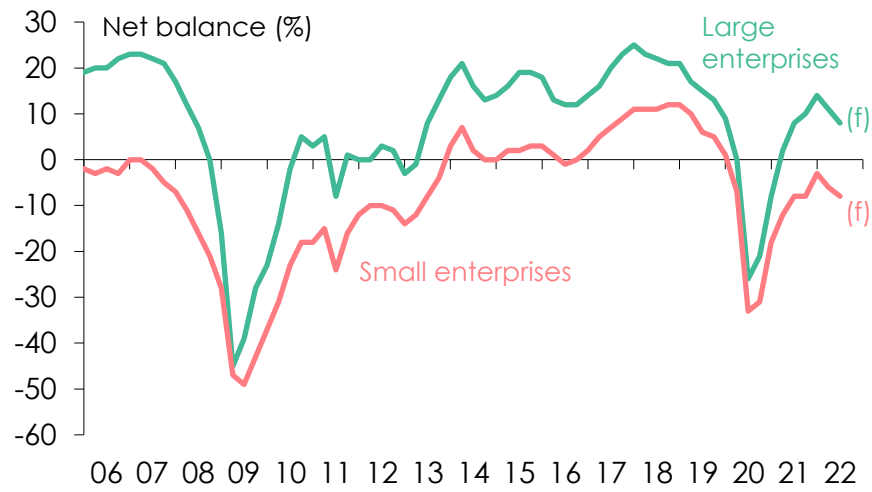
## Corporate operating profits



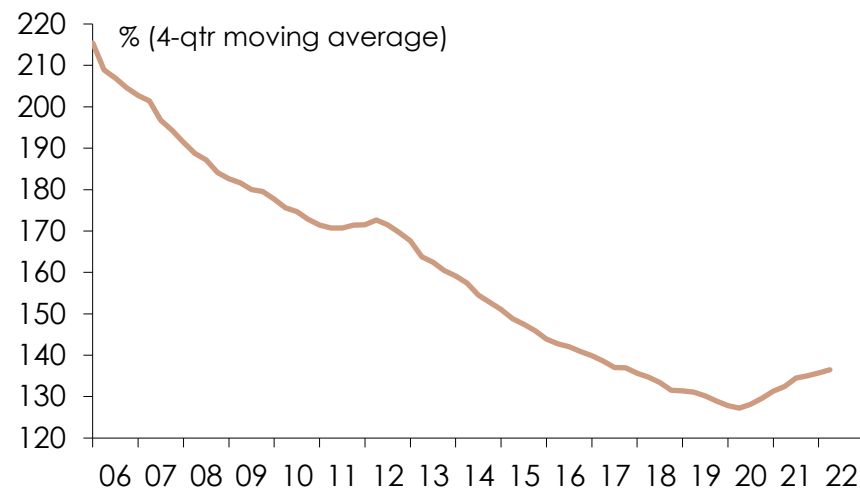
## Indexes of economic activity



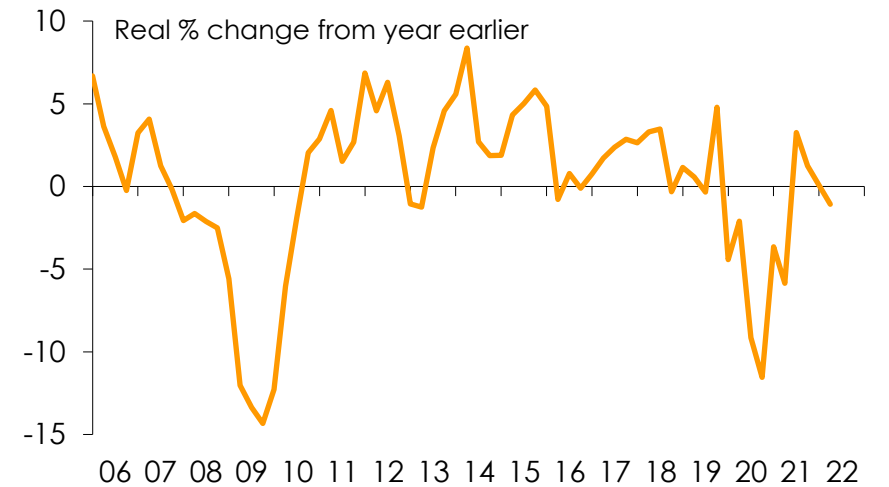
## Business conditions by firm size



## Corporate debt-equity ratio



## Business investment

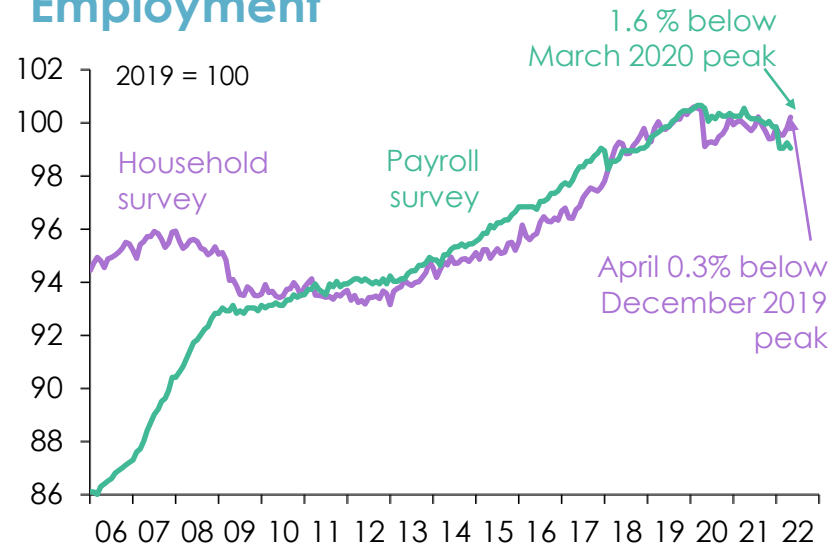


Sources: Bank of Japan, [Short-Term Economic Survey of Enterprises in Japan \('Tankan'\)](#); Policy Research Institute, Ministry of Finance, [Financial Statements Statistics of Corporations by Industry, Quarterly](#); Ministry of Economy, Trade & Industry, [Indices of Industrial Production](#) and [Indices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

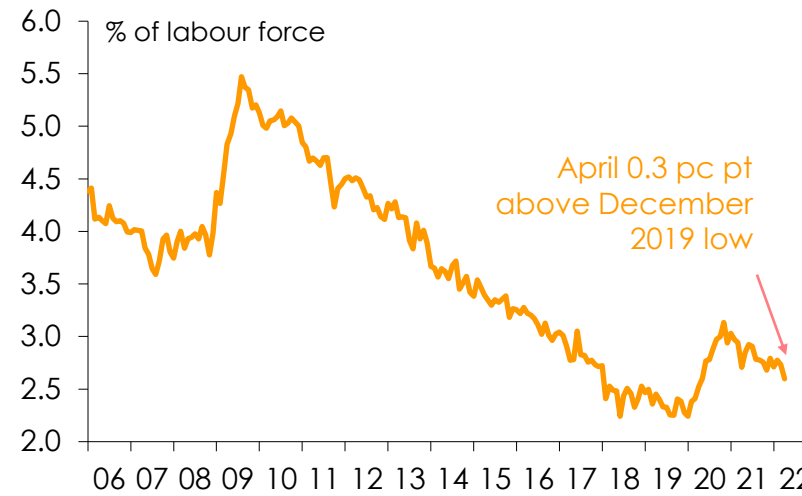
# 'Headline' consumer price inflation remained at 2.5% in May, and the ex-food (though not energy) measure was also unchanged at 2.1%

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

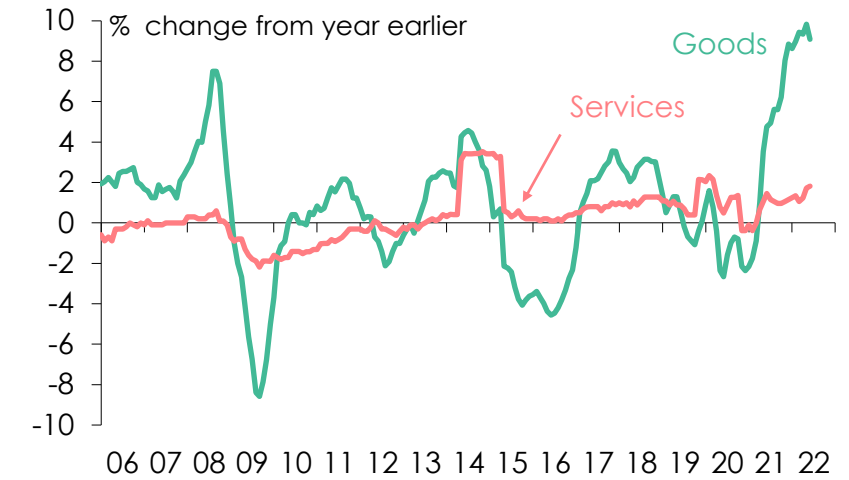
## Employment



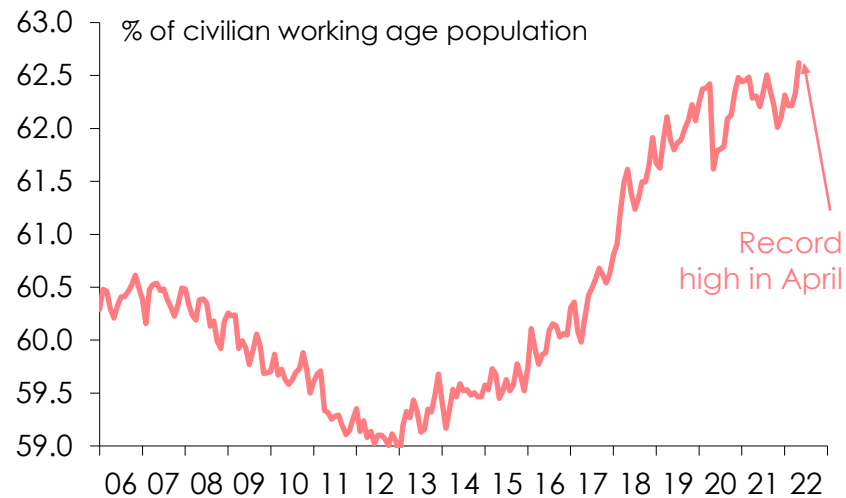
## Unemployment rate



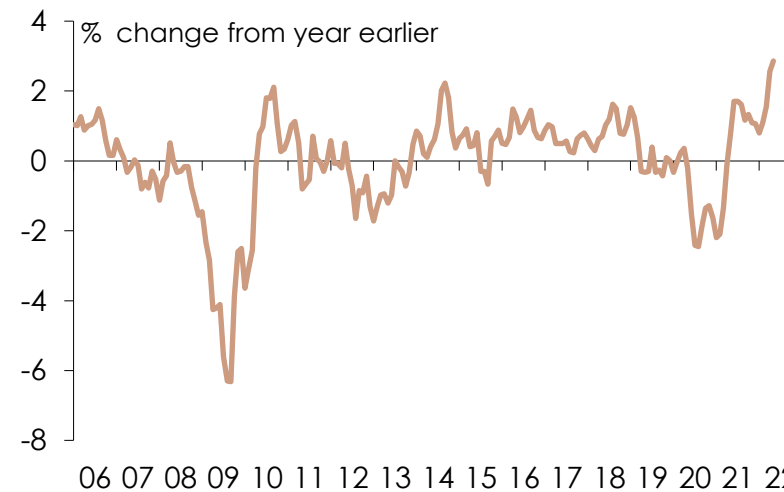
## 'Corporate' (producer) prices



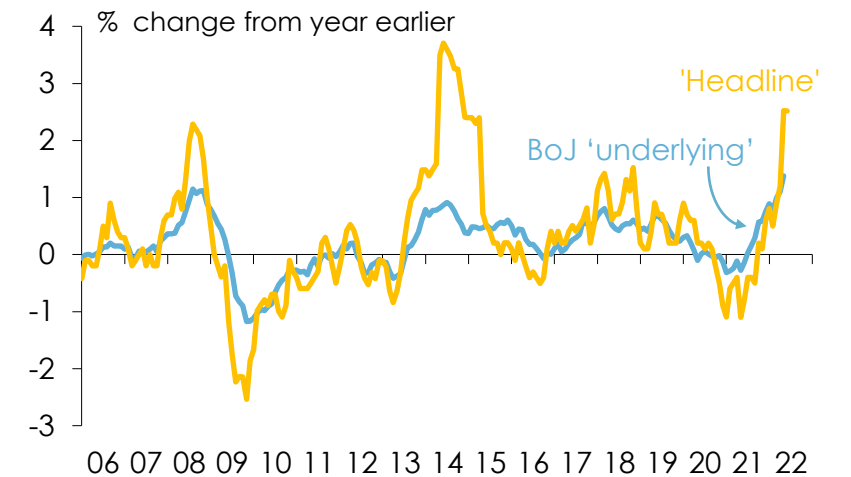
## Labour force participation rate



## Wages growth



## Consumer prices

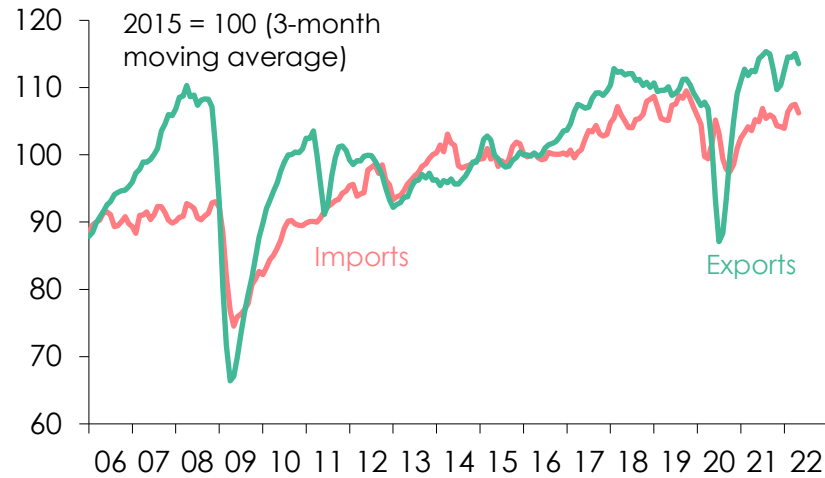


Sources: Statistics Bureau of Japan, [Labour Force Survey](#) and [Consumer Price Index](#); Ministry of Health, Labour and Welfare, [Monthly Labour Survey](#); Bank of Japan, [Prices and Measures of Underlying Inflation](#). [Return to "What's New"](#).

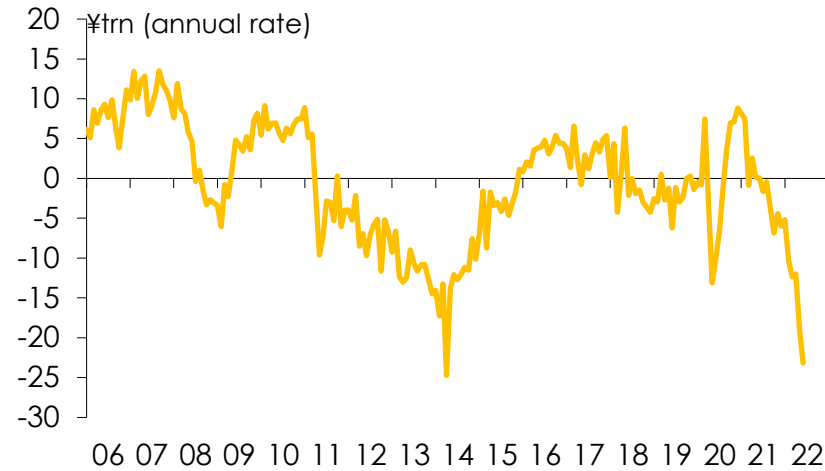
# Japan is now incurring large (by its standards) external deficits as a result largely of higher prices commodity imports and loss of tourism exports

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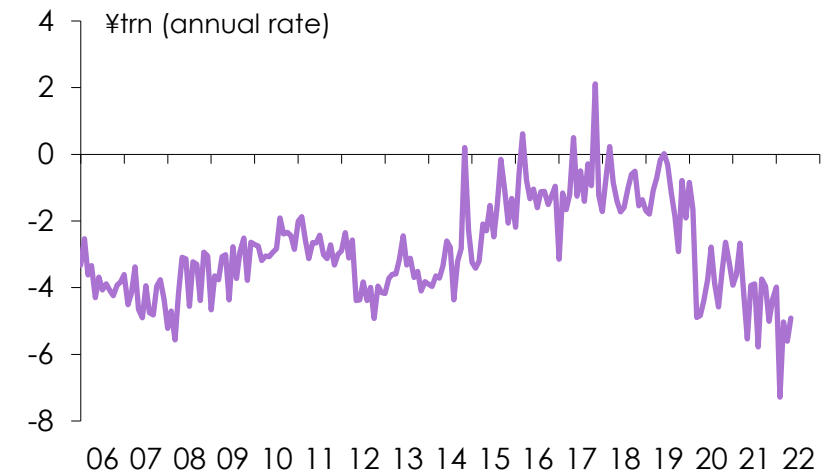
## Merchandise trade volumes



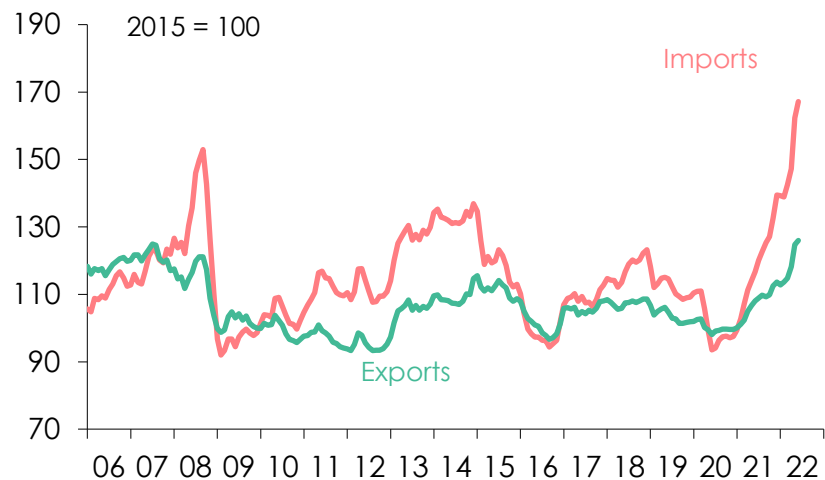
## Merchandise trade balance



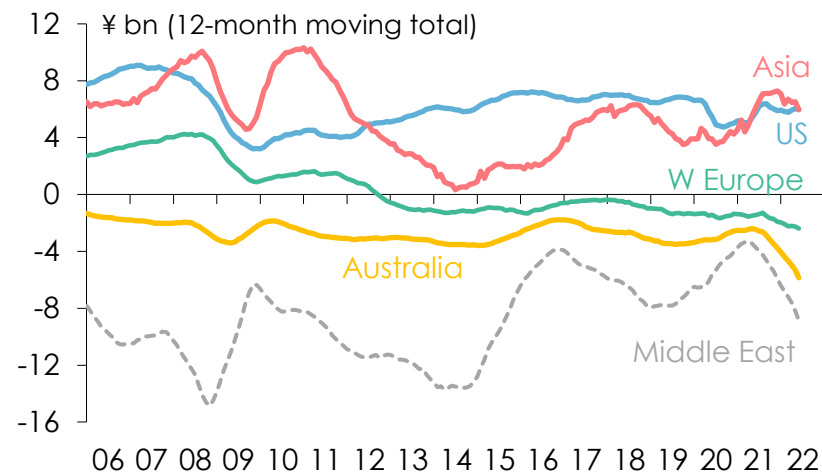
## Services trade balance



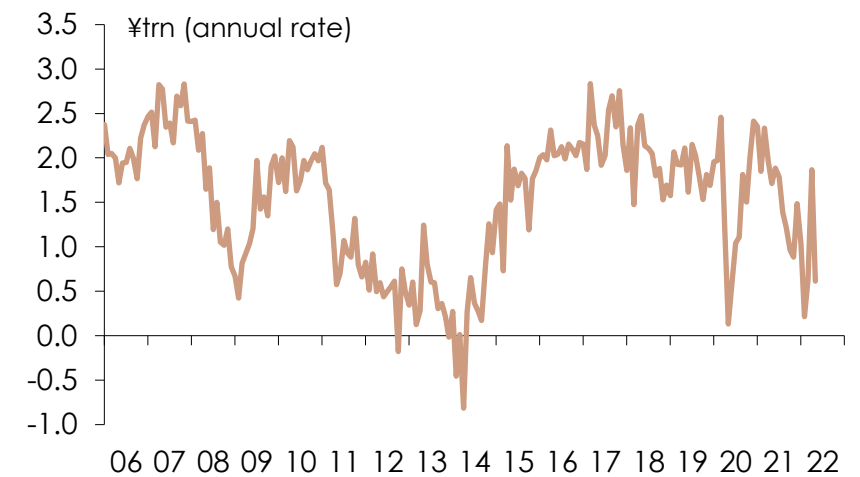
## Merchandise trade prices



## 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](#), [Return to "What's New"](#).

# 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

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## 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

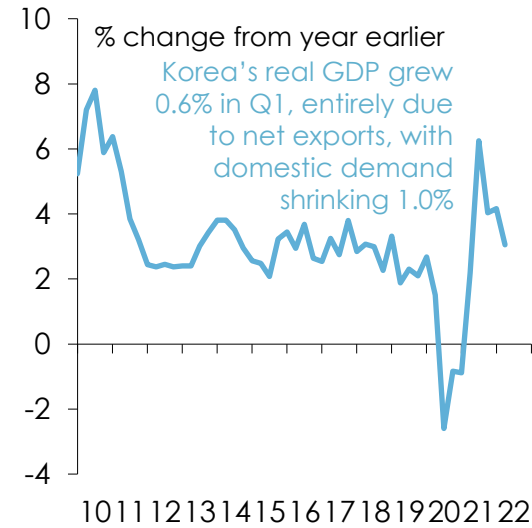
Note: \* Pp per annum. Sources : International Monetary Fund (IMF), [World Economic Outlook](#), 19<sup>th</sup> April 2022; Asian Development Bank, [Asian Development Outlook](#), 6<sup>th</sup> April 2022. [Return to "What's New"](#).



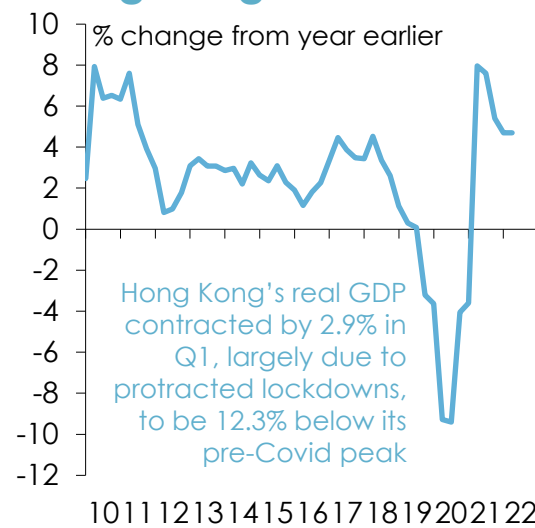
# Hong Kong and Thailand are now the only East Asian economies where real GDP has yet to surpass its pre-Covid peak

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## Korea



## Hong Kong



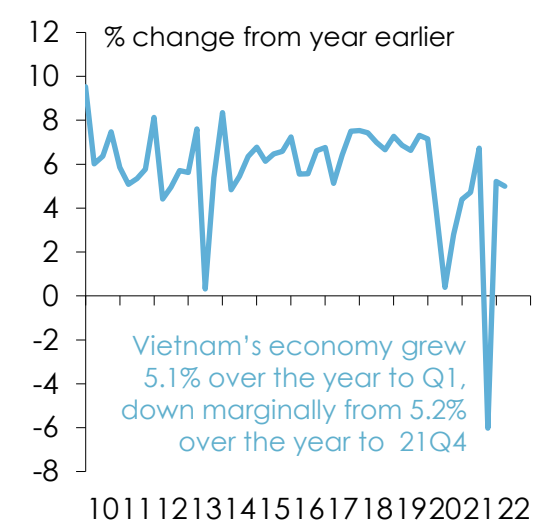
## Indonesia



## Thailand



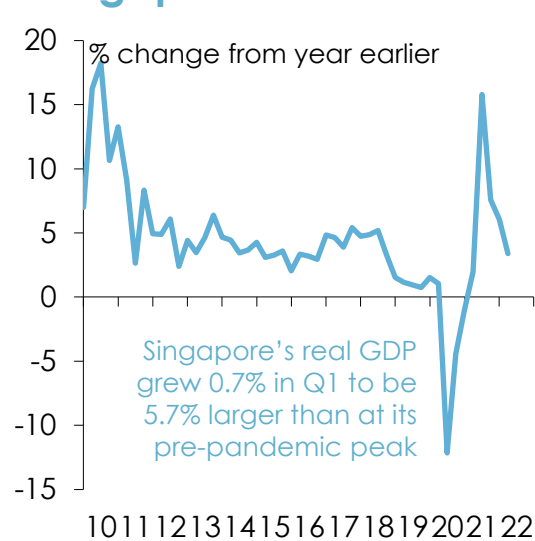
## Vietnam



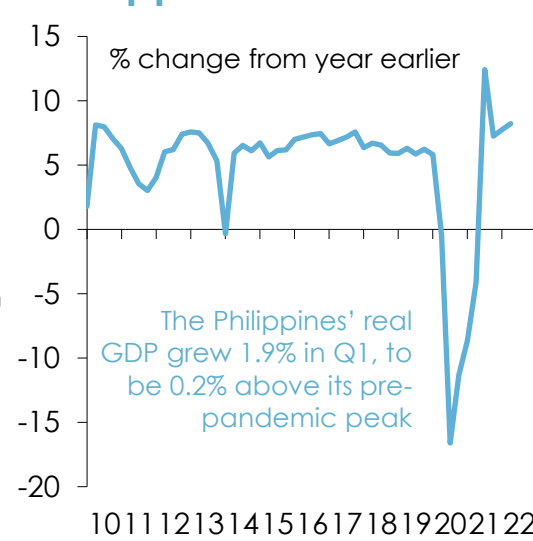
## Taiwan



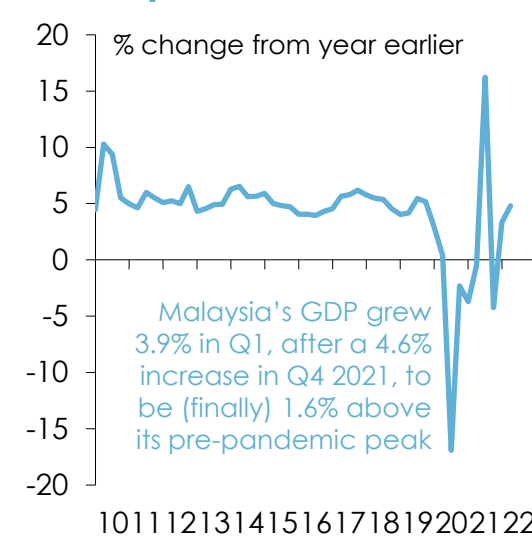
## Singapore



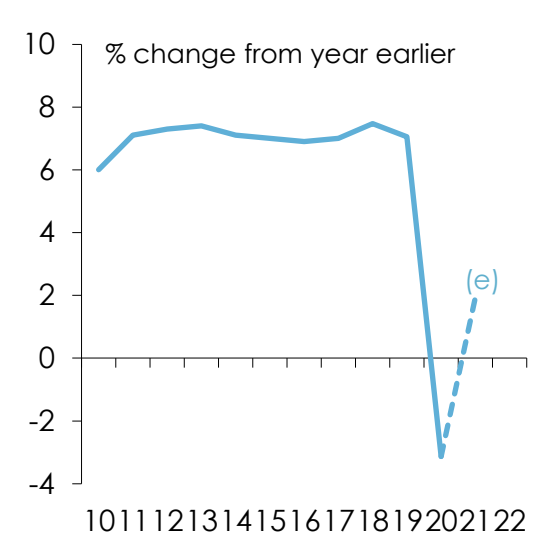
## Philippines



## Malaysia



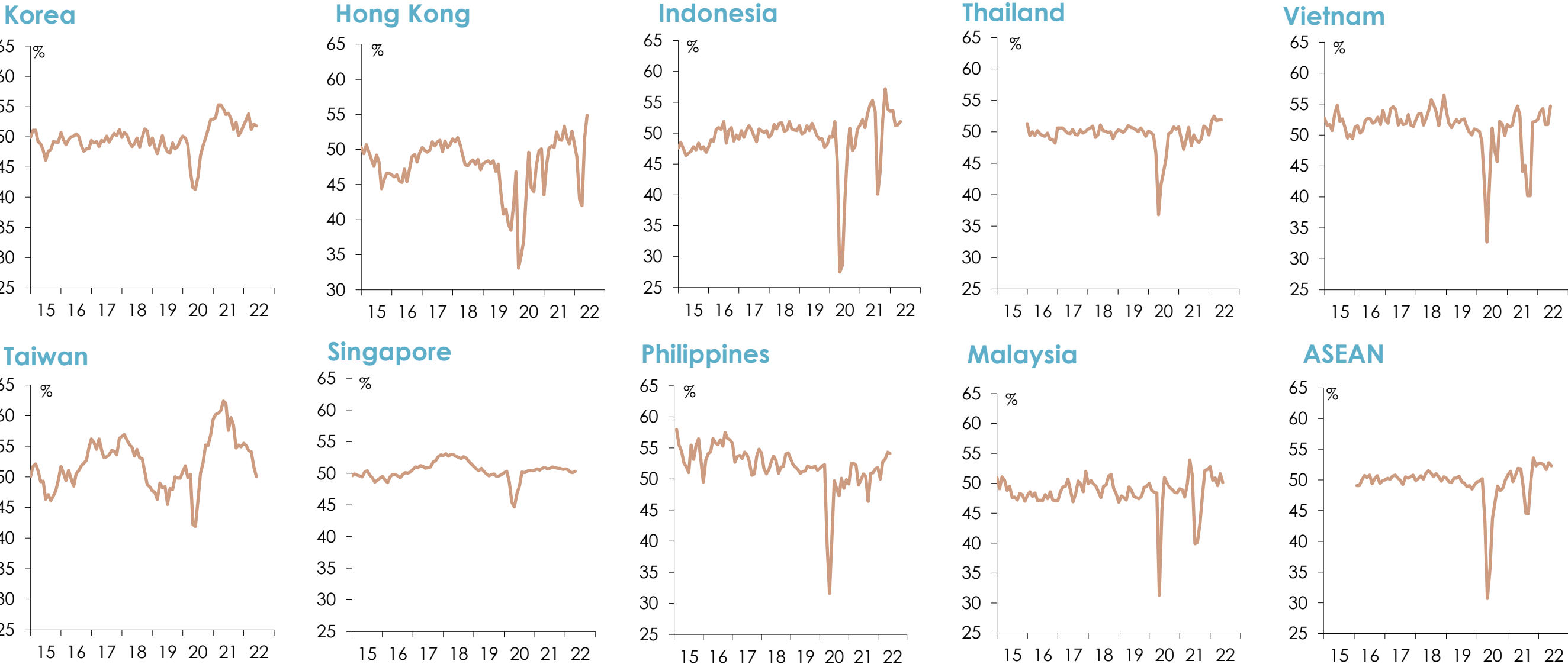
## Cambodia



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

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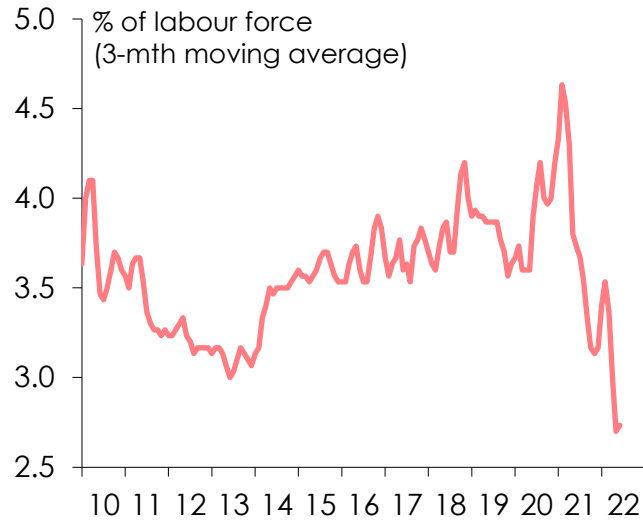


Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous 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"](#).

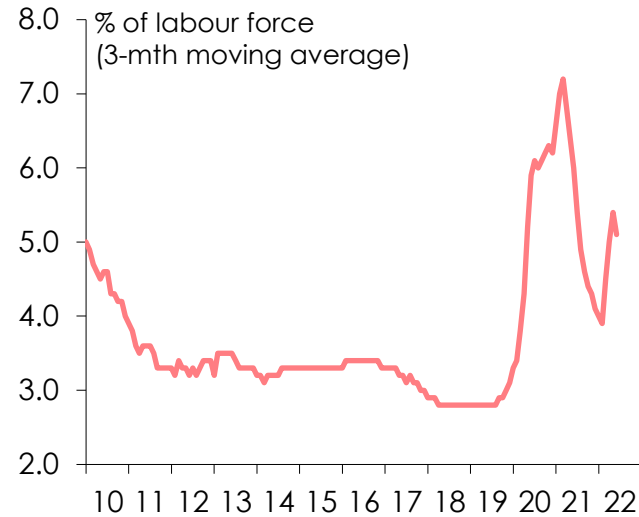
# Unemployment rose sharply in most Asian economies last year but is now falling in most of them (except for Hong Kong)

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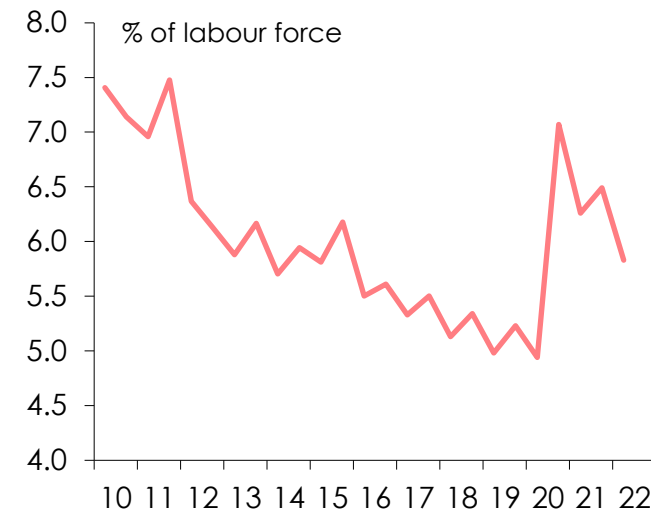
## Korea



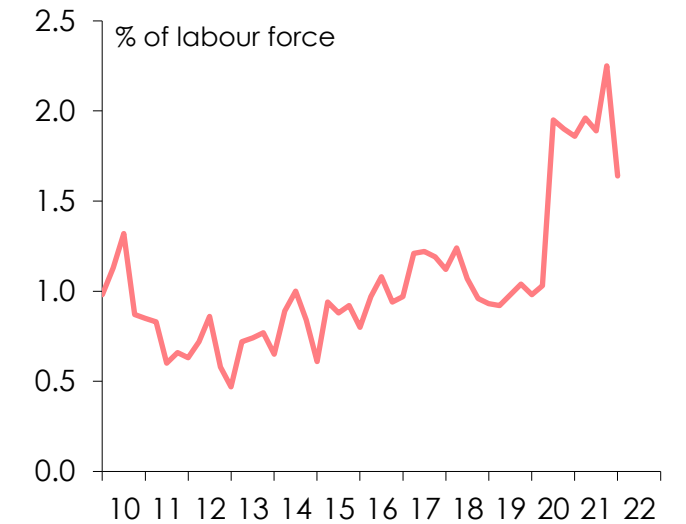
## Hong Kong



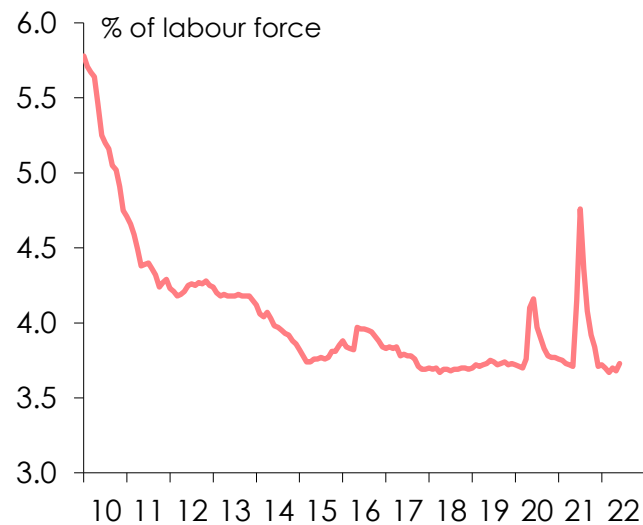
## Indonesia



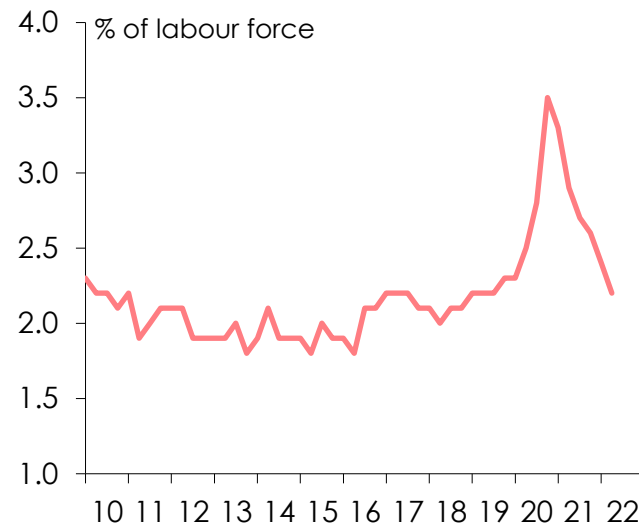
## Thailand



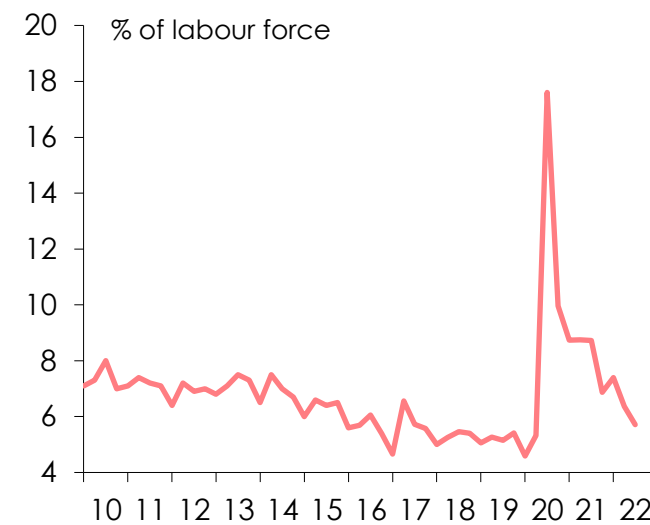
## Taiwan



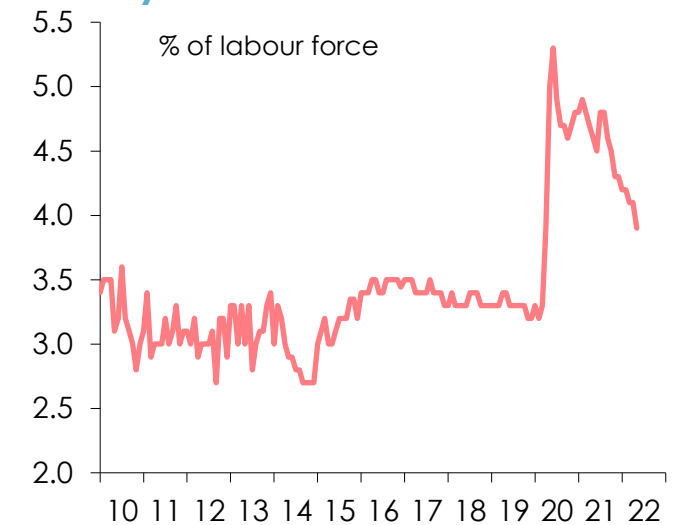
## Singapore



## Philippines



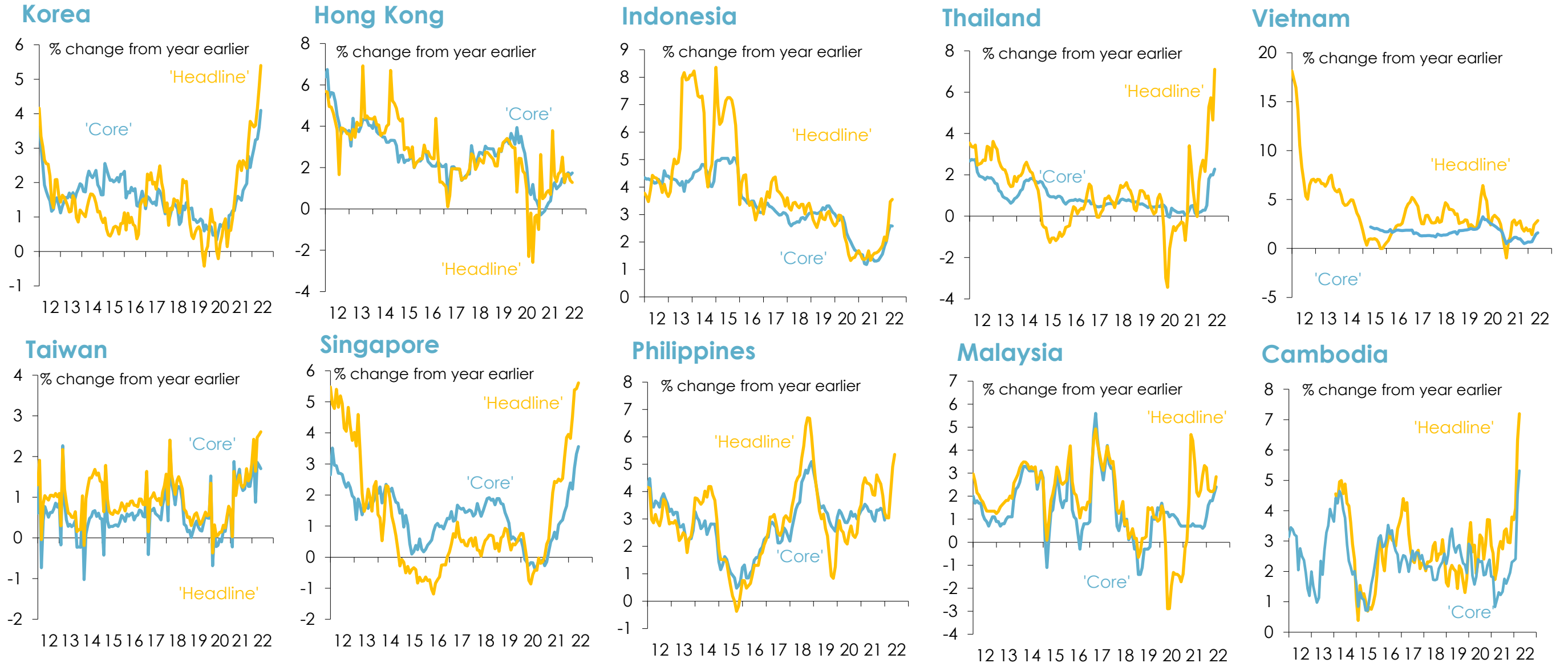
## Malaysia



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 – 27<sup>TH</sup> JUNE 2022

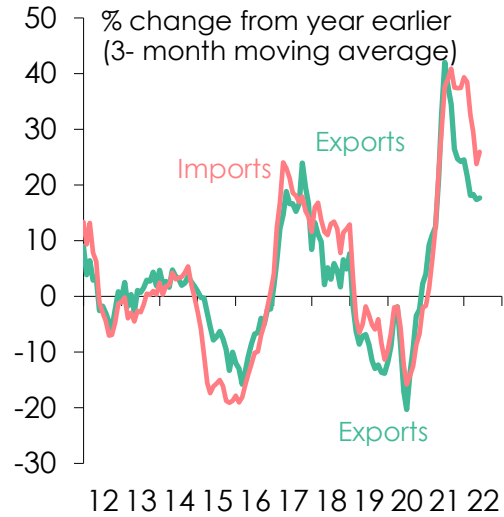


Note: 'Core' inflation in Korea excludes agricultural products & oil; in Taiwan it excludes fresh fruit, vegetables & energy; in Singapore it excludes accommodation & private transport; and in Hong Kong it excludes the effect of 'one-off government relief measures'. 'Core' inflation in Indonesia excludes '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"](#).

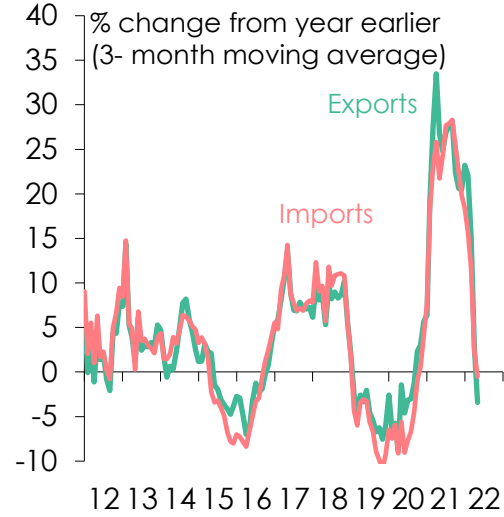
# Asian exports are returning to more 'normal' growth rates following the 'bump' in 2021 inflated by comparison with 2020

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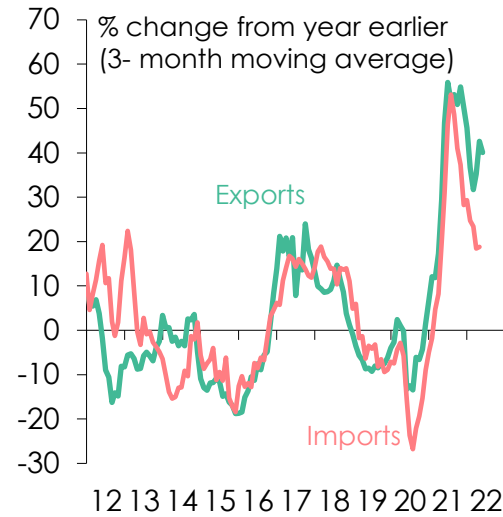
## Korea



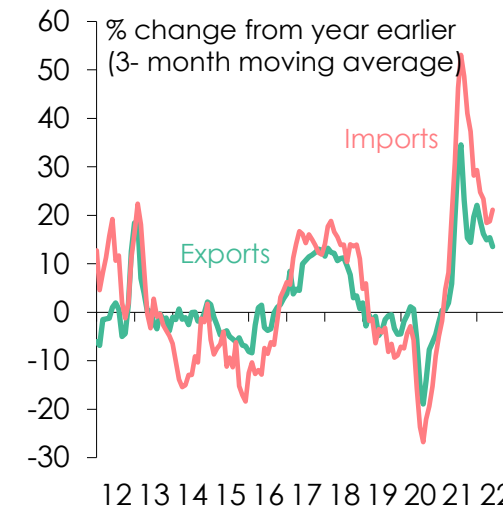
## Hong Kong



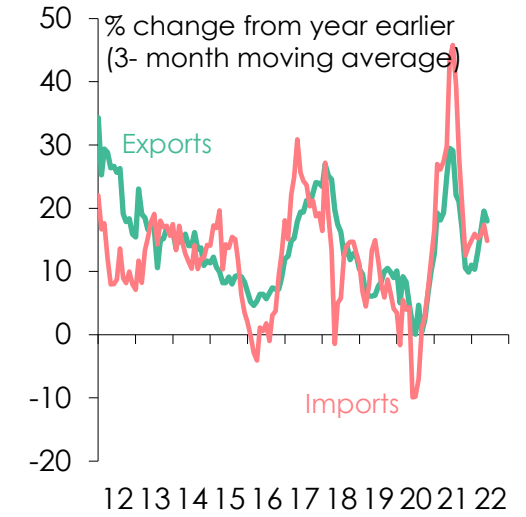
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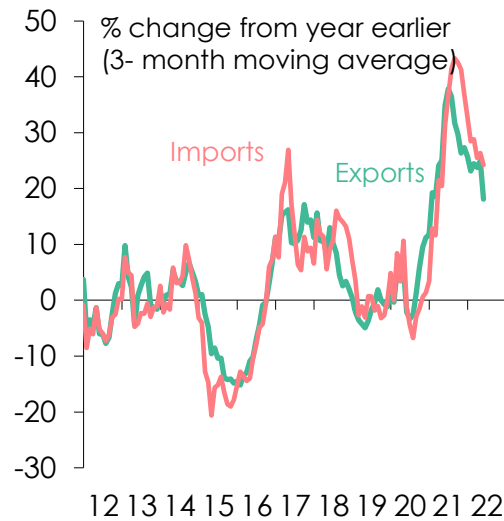
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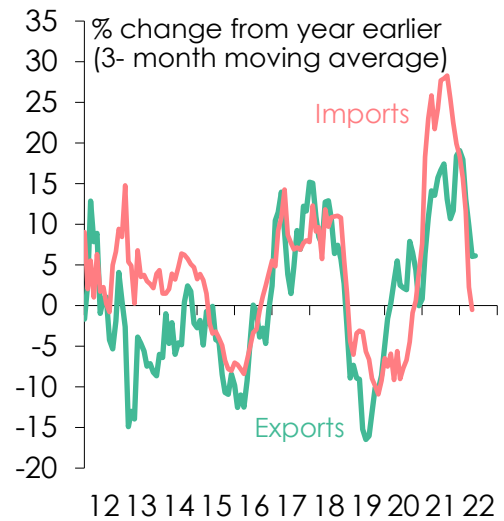
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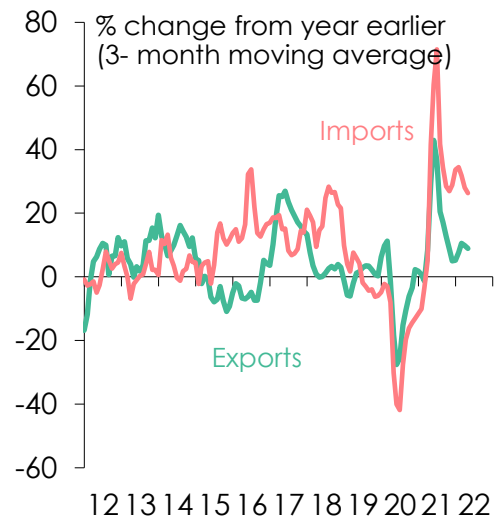
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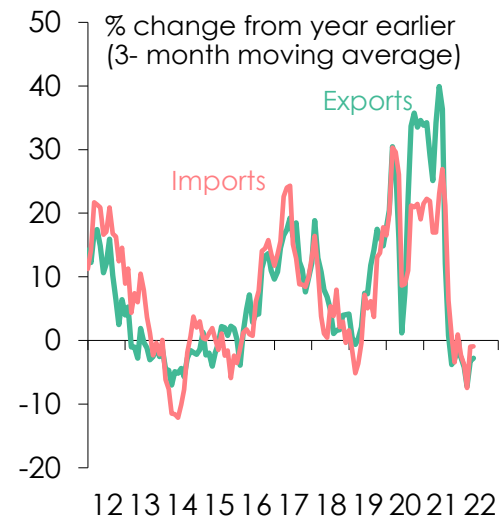
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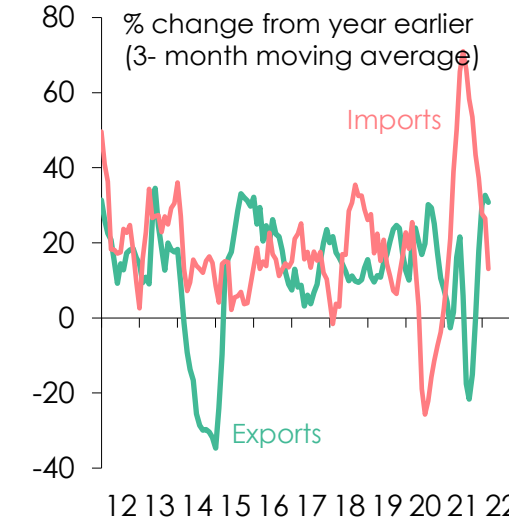
## Philippines



## Malaysia



## Cambodia



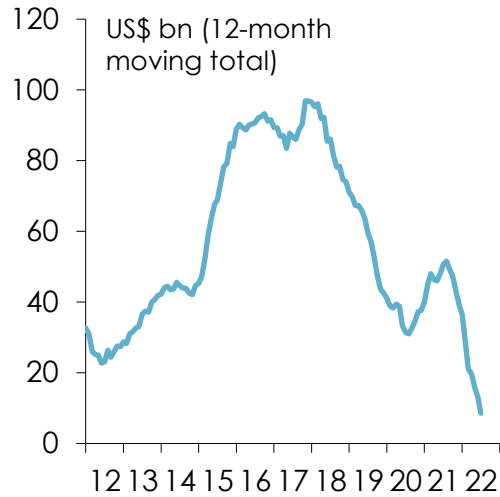
Note: Data for Hong Kong, Singapore and Malaysia are published in national currencies and converted to US dollars by Corinna using month-average exchange rates. Sources: national statistical agencies and central banks. [Return to "What's New"](#).



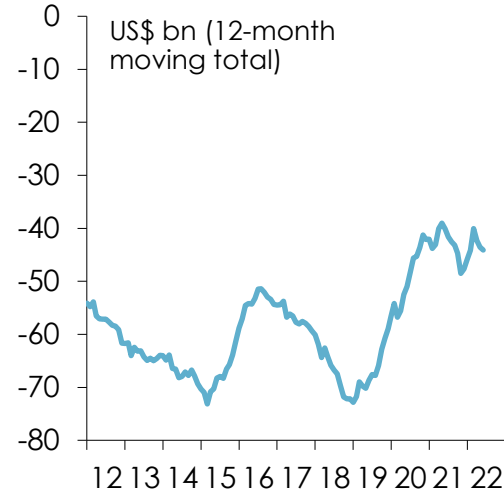
# Most Asian economies – except for Indonesia, Malaysia and Singapore – are experiencing some deterioration in their trade balances

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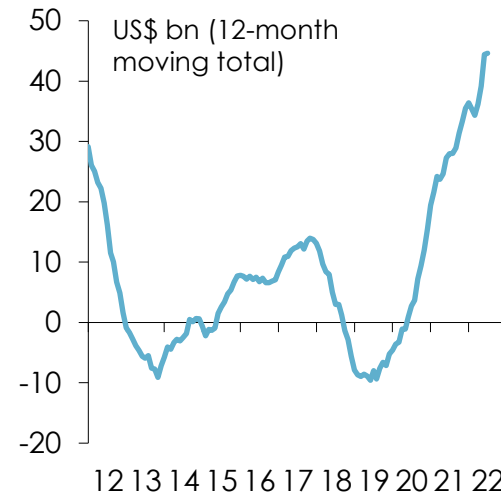
## Korea



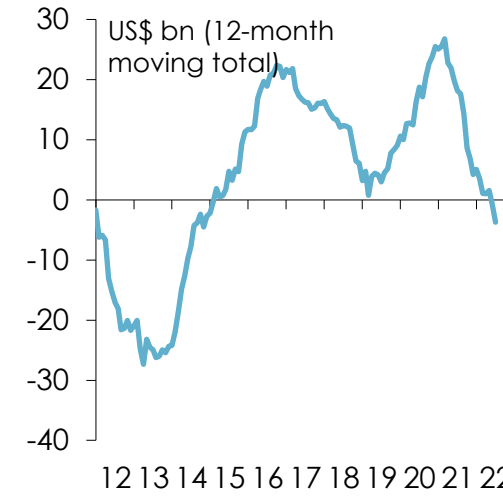
## Hong Kong



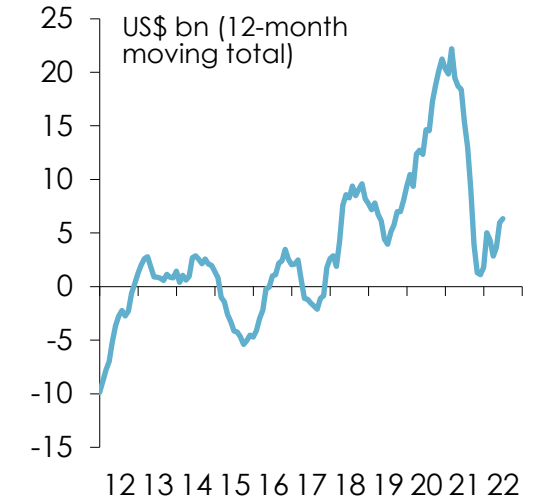
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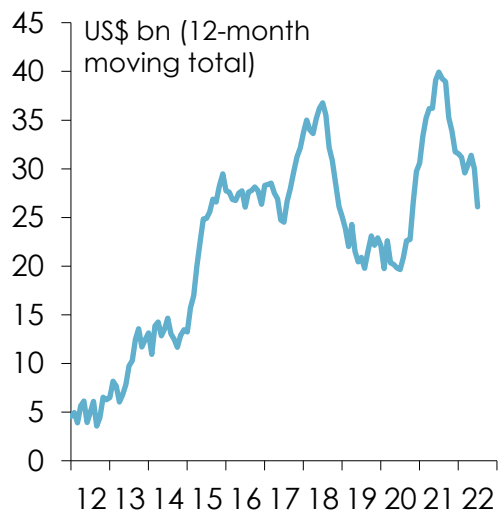
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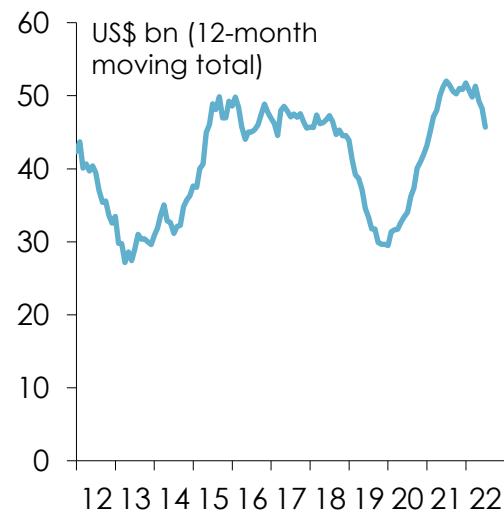
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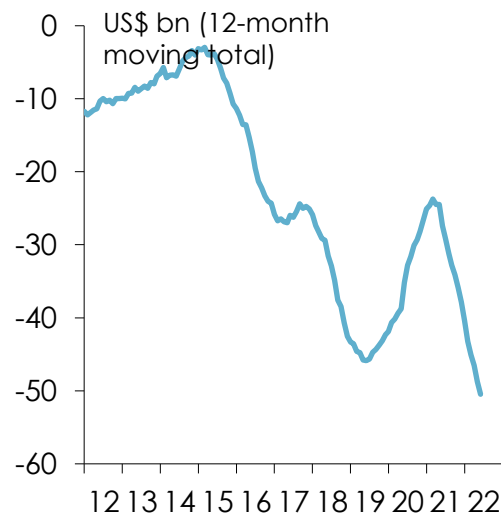
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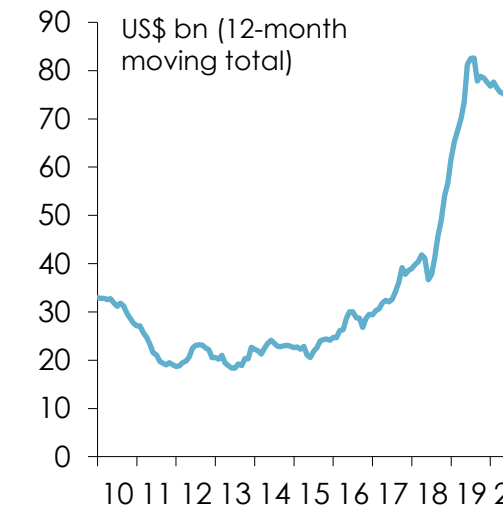
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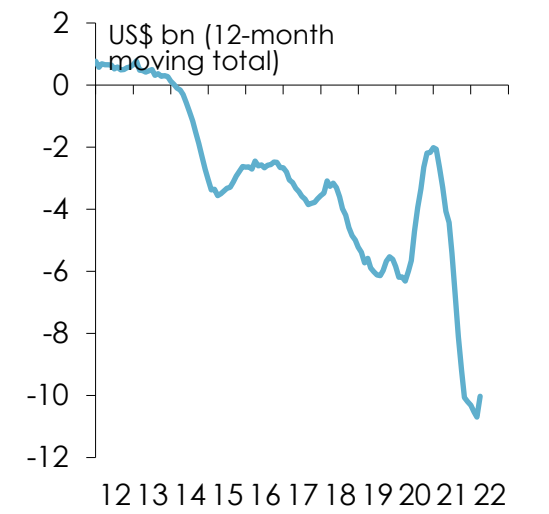
## Philippines



## 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.

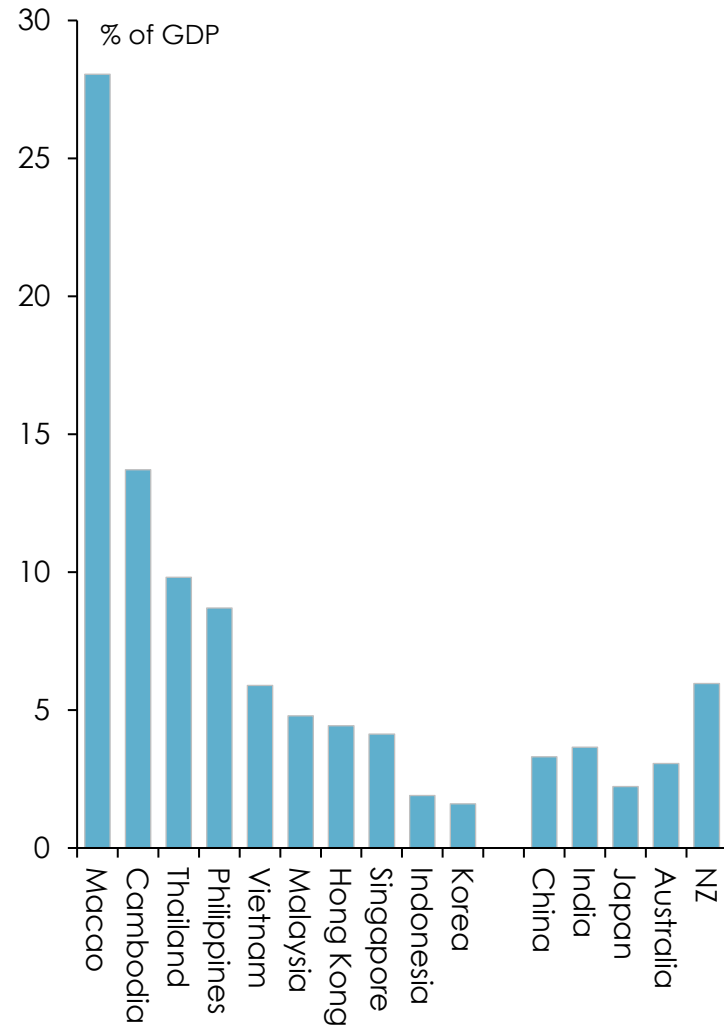
Sources: national statistical agencies and central banks. [Return to "What's New"](#).



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

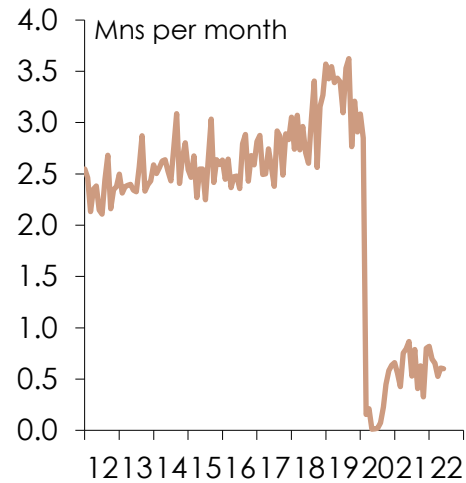
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## International tourism direct contribution to GDP, 2018

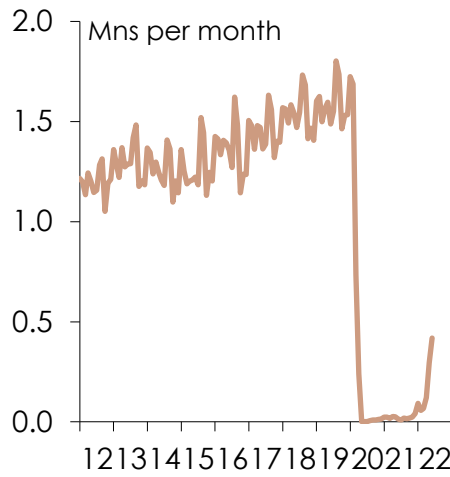


## International visitor arrivals

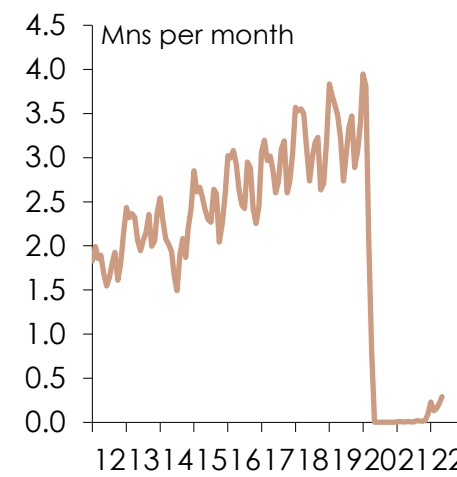
### Macao



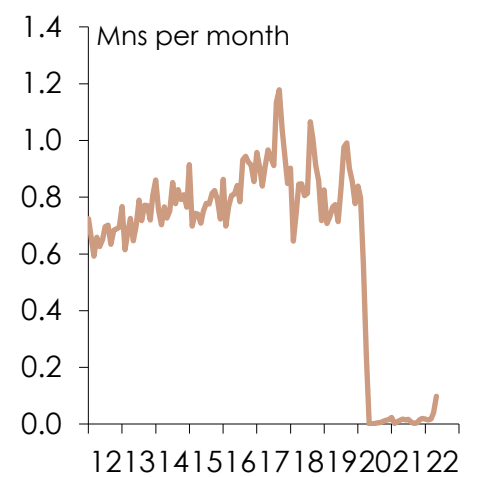
### Singapore



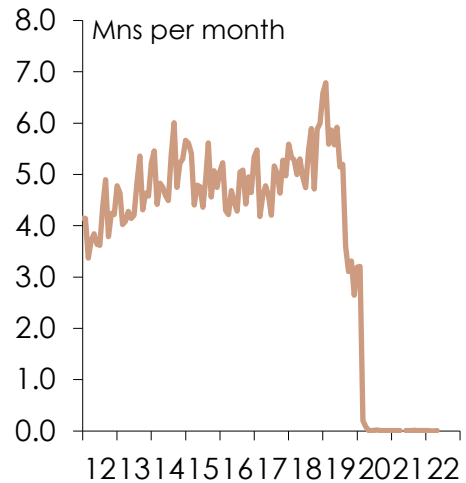
### Thailand



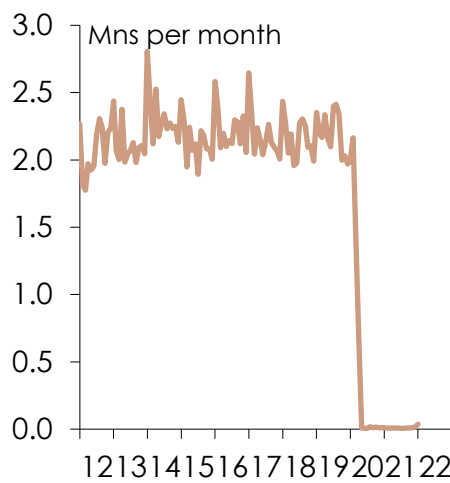
### Indonesia



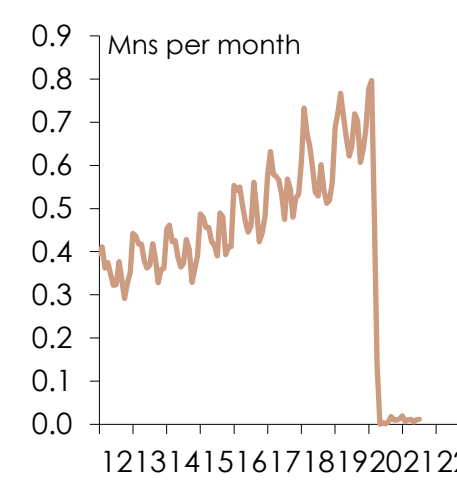
### Hong Kong



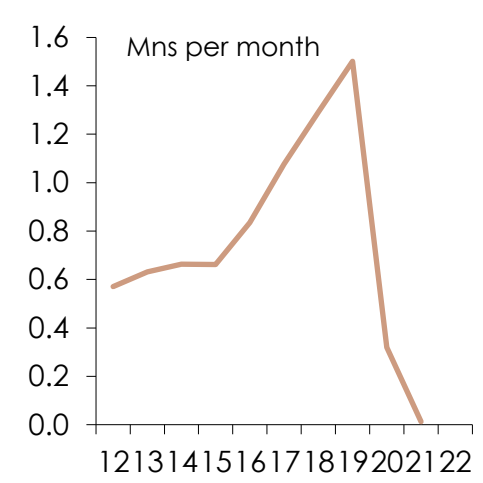
### Malaysia



### Philippines



### Vietnam

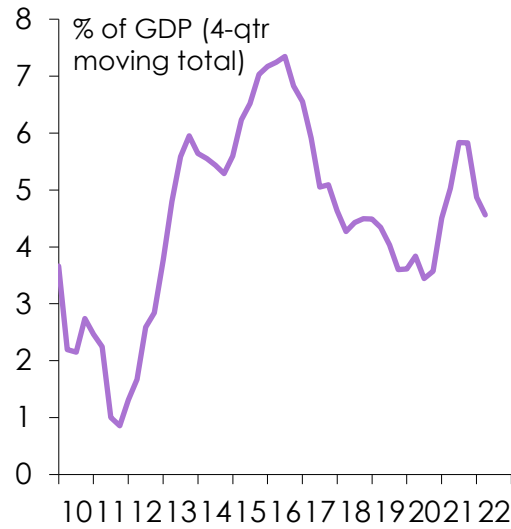


Note: Visitor arrivals data for Vietnam is only published annually. The Philippines stopped publishing data on visitor arrivals in December 2020.  
Sources: The World Bank, [ICdata360](#); national statistical agencies. [Return to "What's New"](#).

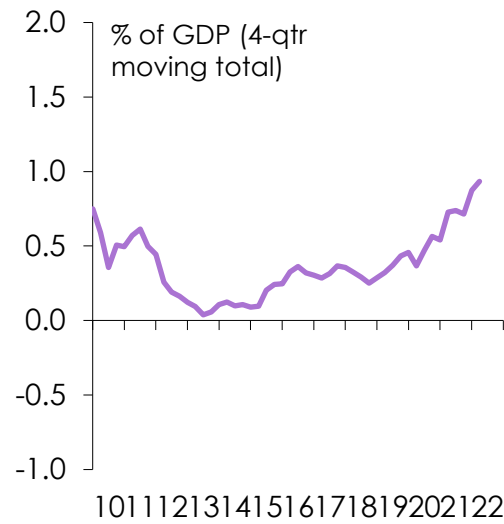
# The more 'advanced' Asian economies have strong current account positions, Indonesia's is much improved but others have deteriorated

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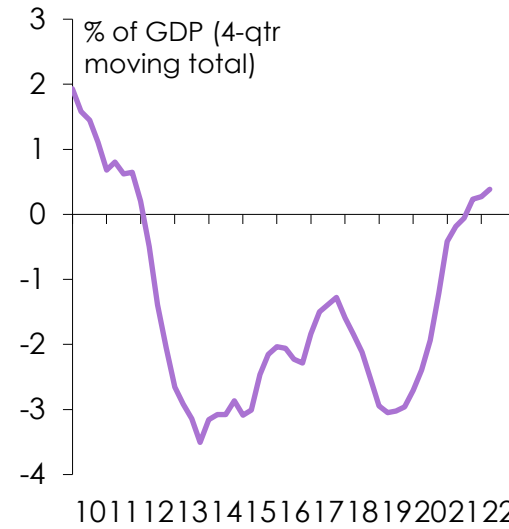
## Korea



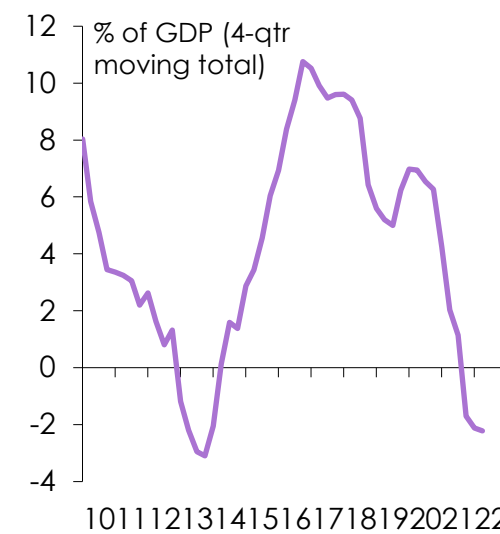
## Hong Kong



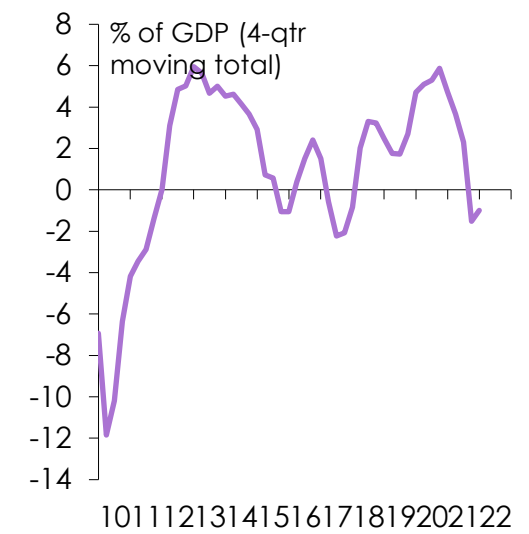
## Indonesia



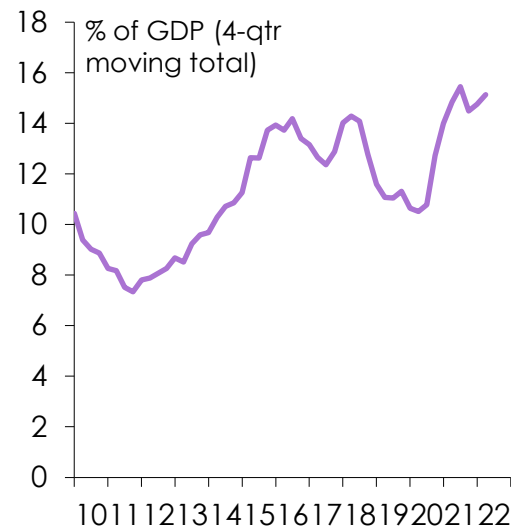
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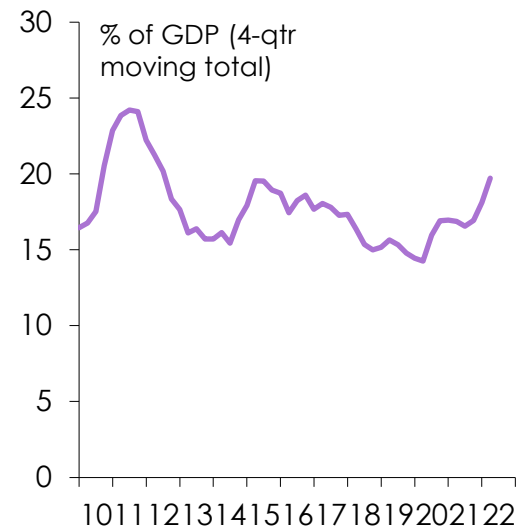
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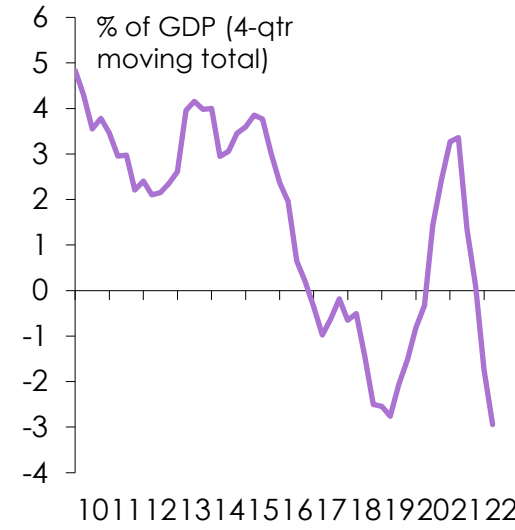
## Taiwan



## Singapore



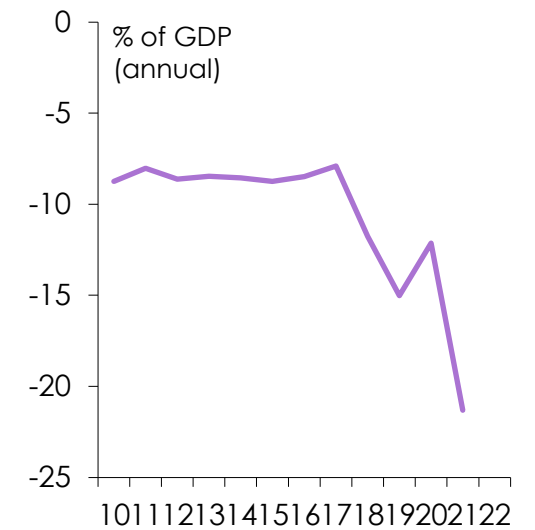
## Philippines



## Malaysia



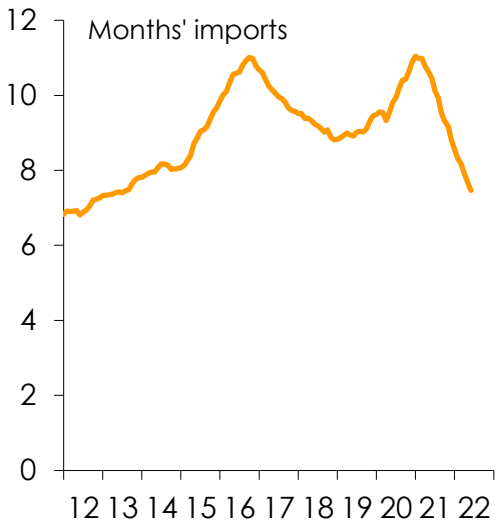
## Cambodia



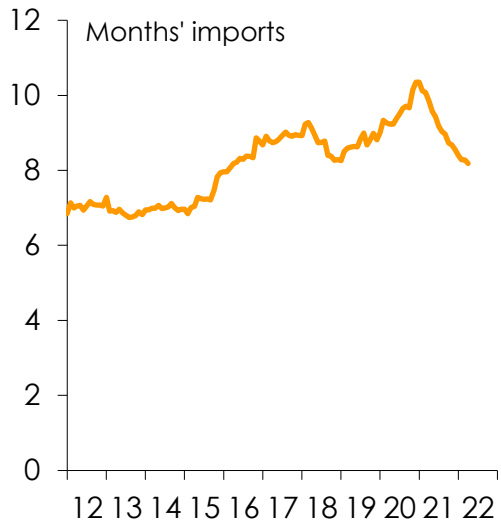
# Most Asian economies have sought to maintain high levels of FX reserves since the 1997-98 crisis – although Malaysia's have deteriorated recently

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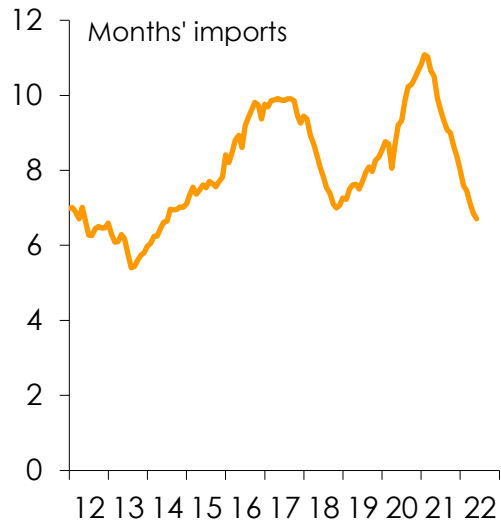
## Korea



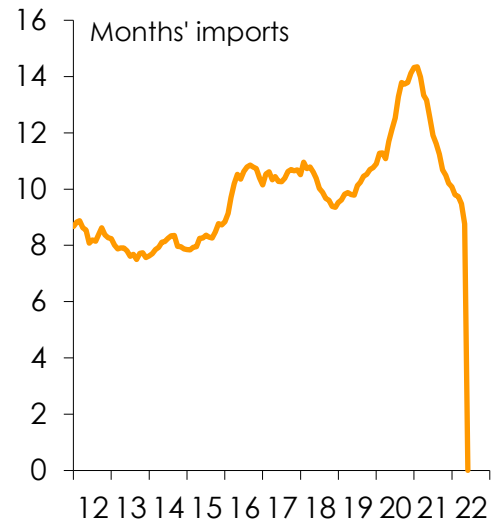
## Hong Kong



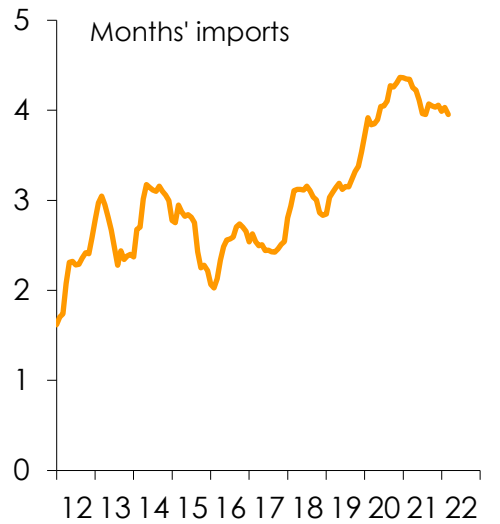
## Indonesia



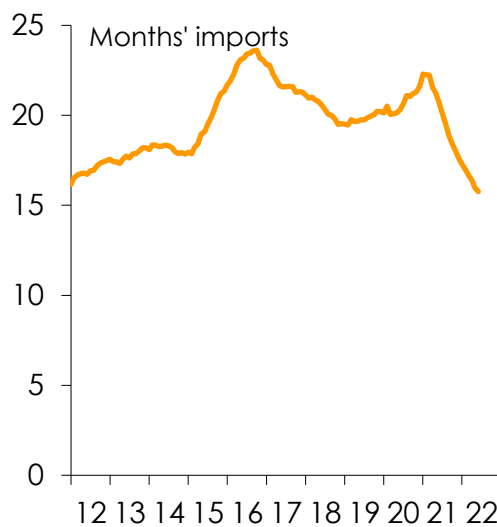
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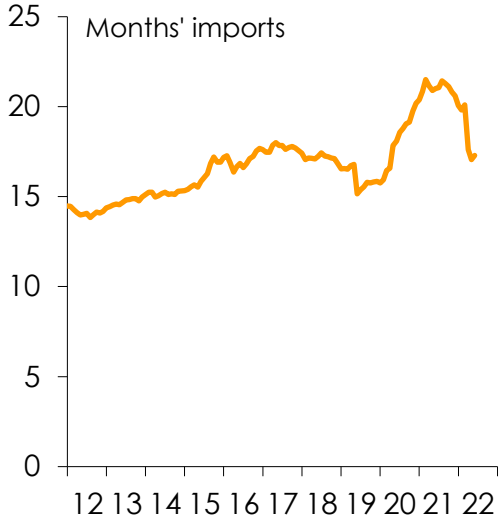
## Vietnam



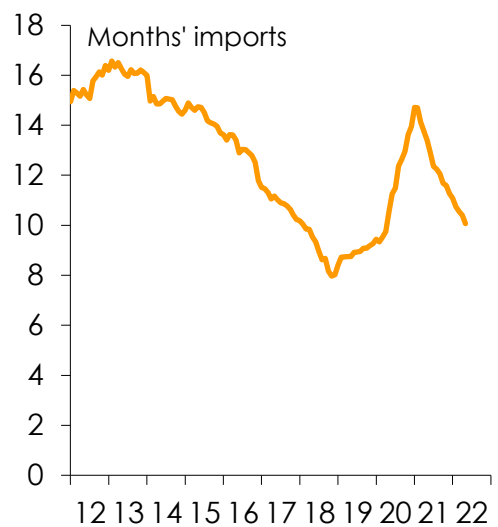
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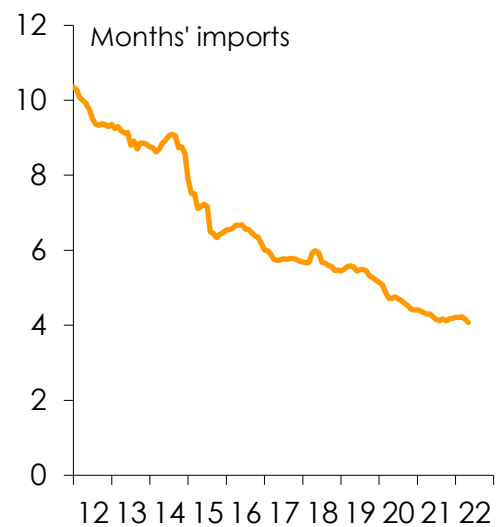
## Singapore



## Philippines



## Malaysia



## Cambodia

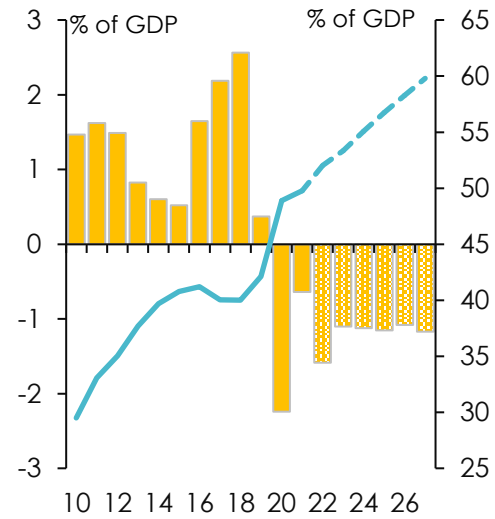


Note: Foreign exchange reserves in the above charts are shown as a multiple of average monthly imports (measured in US\$) over the preceding 12 months.  
Sources: national statistical agencies and central banks; IMF; Refinitiv Datastream. [Return to "What's New"](#).

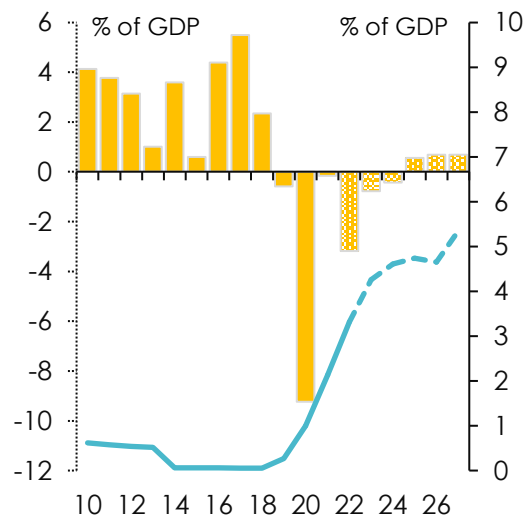
# Most Asian governments, apart from Korea, Taiwan, Malaysia and Vietnam, will be tightening fiscal policy over the next few years

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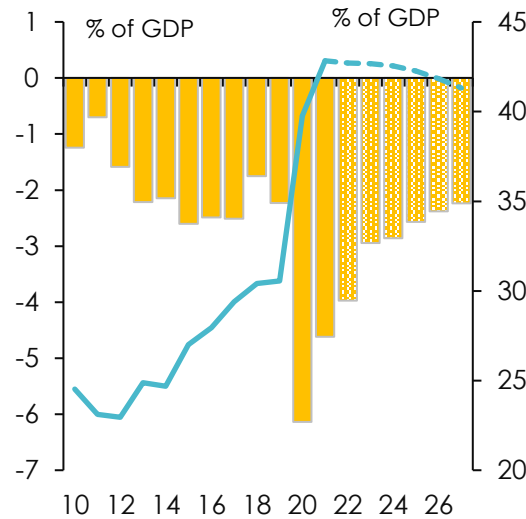
## Korea



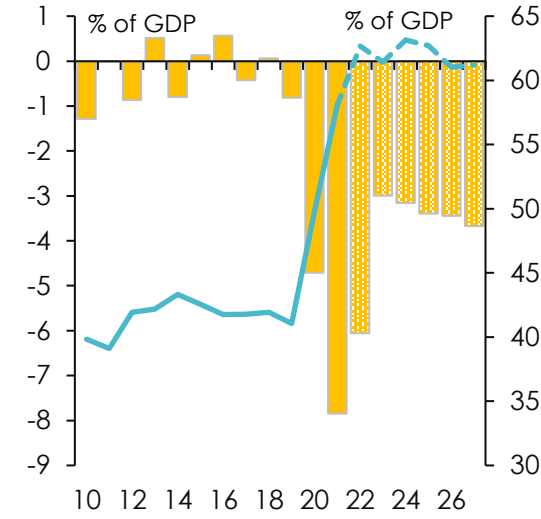
## Hong Kong



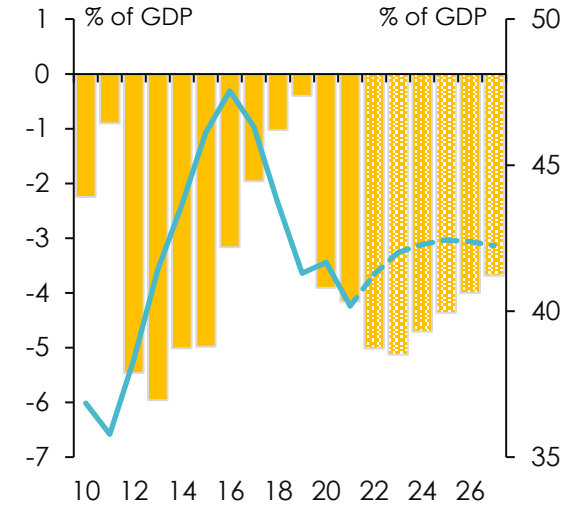
## Indonesia



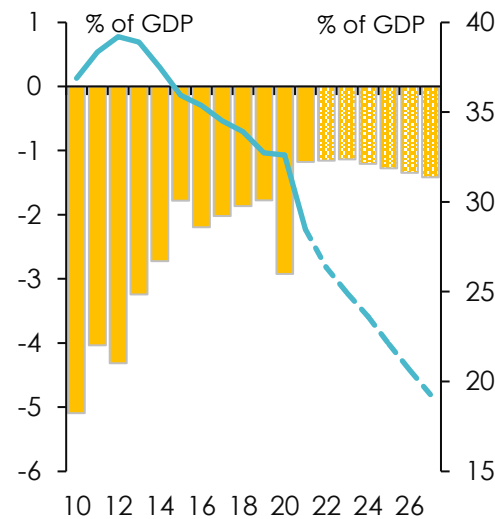
## Thailand



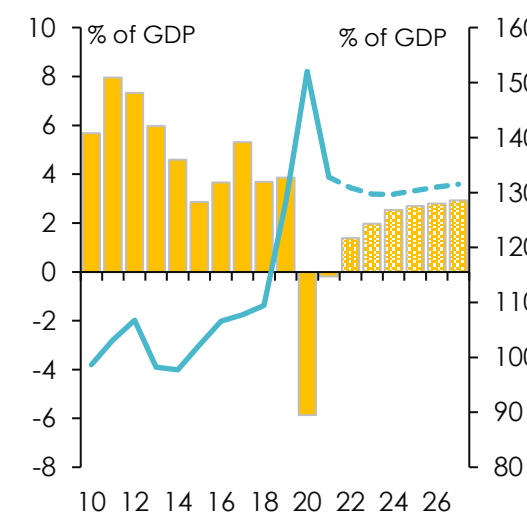
## Vietnam



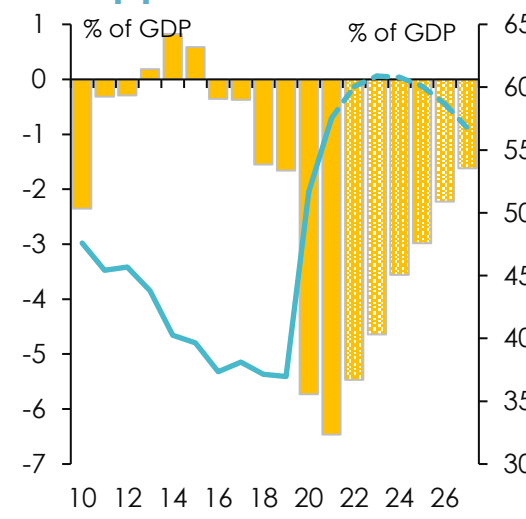
## Taiwan



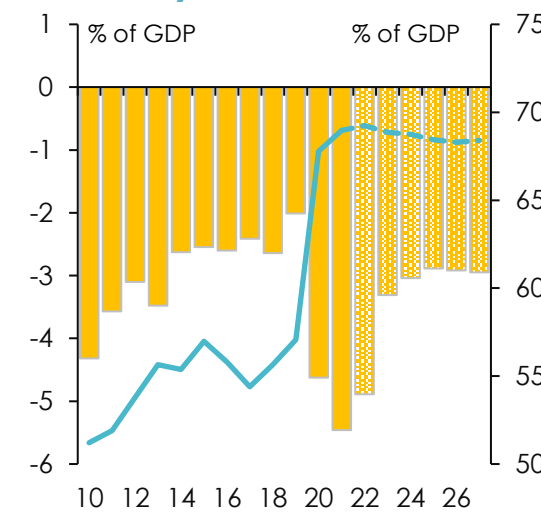
## Singapore



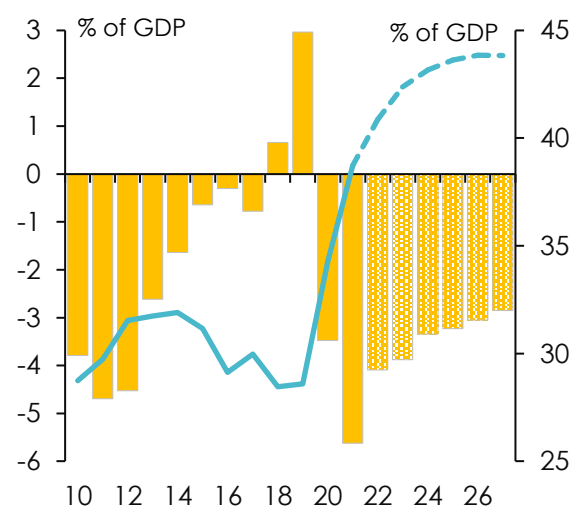
## Philippines



## 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"](#)

# The Philippines' central bank raised its policy rate another 25bp last week, whereas Indonesia's again left its rates unchanged

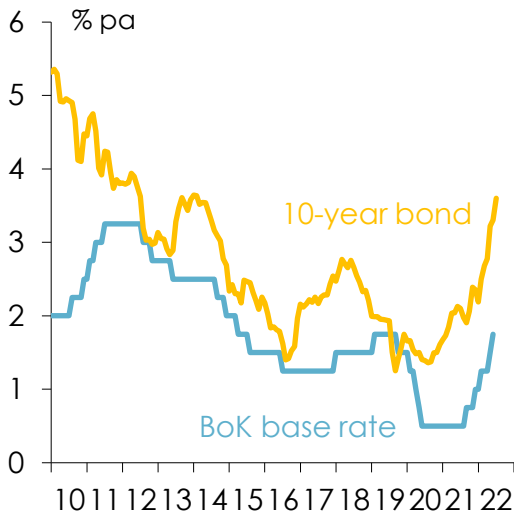
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- ❑ **Bangko Sentral ng Pilipinas** increased its overnight reverse repo rate by 25 basis points, to 2.5%, at its Monetary Board meeting last Thursday – the second such increase in two months
  - **outlining** the reasons for its decision, the Monetary Board noted that “noted that upside risks continue to dominate the inflation outlook up to 2023, with inflation expectations continuing to rise, “highlighting the risk of further second-round effects arising from sustained price pressures”
  - BSP expects inflation to average 5% in 2022, 4.2% in 2023 (cf. its target of 2-4%) before falling to 3.3% in 2024
- ❑ **By contrast, Bank Indonesia** again left its 7-day reverse repo rate unchanged at 3.5%, as it has been since February last year
  - BI **characterized** its decision as being “in line with the need to control inflation and maintain exchange rate stability, while supporting economic growth, amidst increasing external pressures related to the increasing risk of stagflation in various countries
  - despite acknowledging that CPI inflation in 2022 is projected to be slightly higher than the [3%] upper limit of the target corridor
  - it signalled that it would “adopt interest rate adjustment policy in the event of signs of rising core inflation”
- ❑ **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 on 16<sup>th</sup> June, and increased banks' reserve requirement ratios by 0.25 percentage points
  - 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 Hong Kong Monetary Authority** raised its base rate by 75 basis points, to 2.0%, on 16<sup>th</sup> June, following the 75bp hike in the US Fed funds rate the previous day

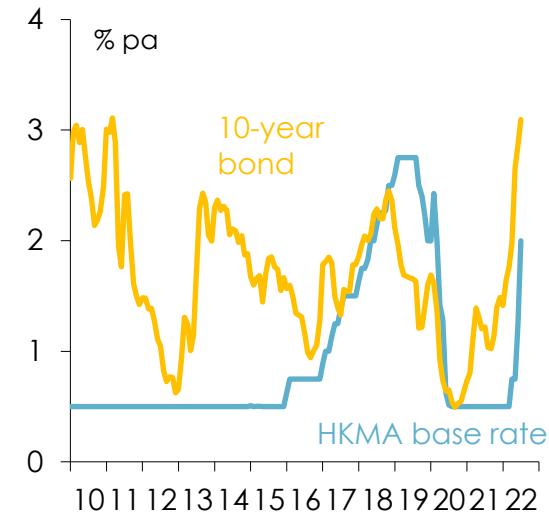
# The Philippines' central bank raised its policy rates again last week, after Taiwan's and Hong Kong's the previous week

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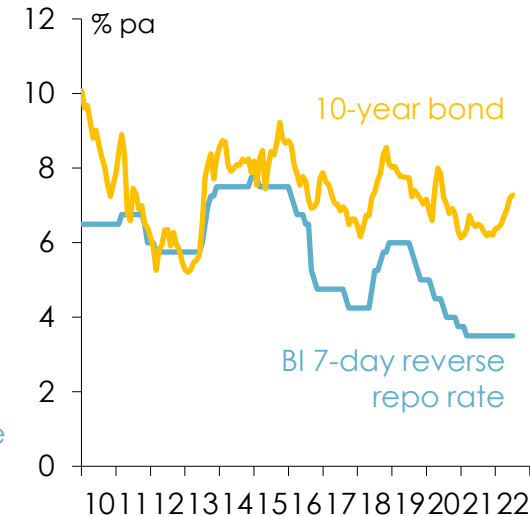
## Korea



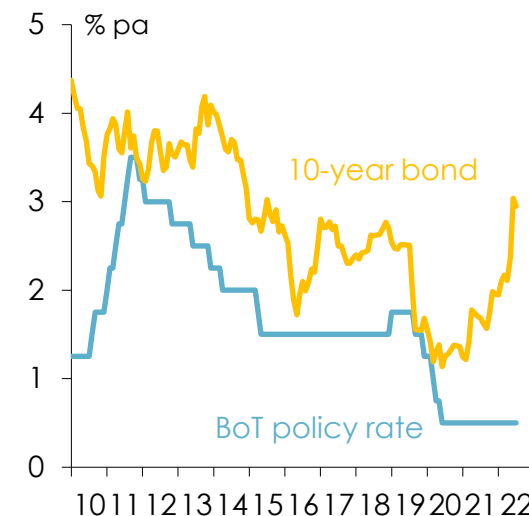
## Hong Kong



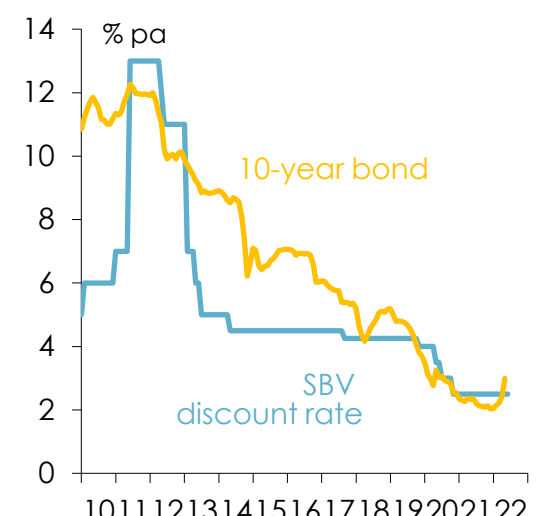
## Indonesia



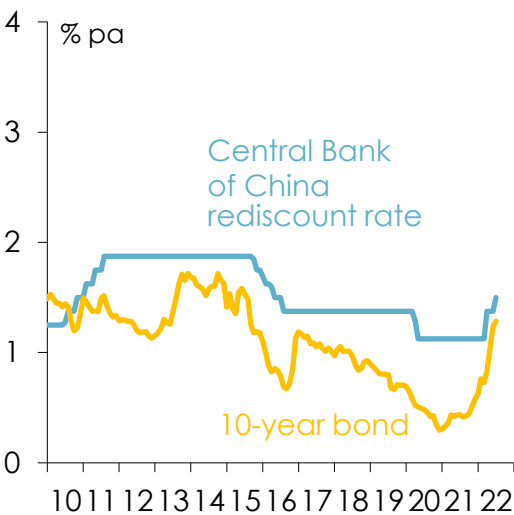
## Thailand



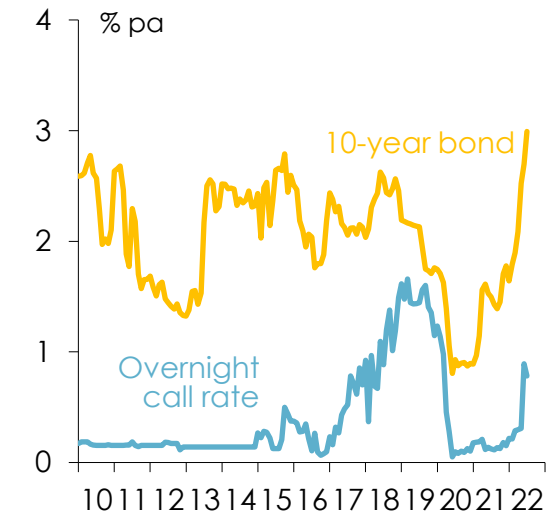
## Vietnam



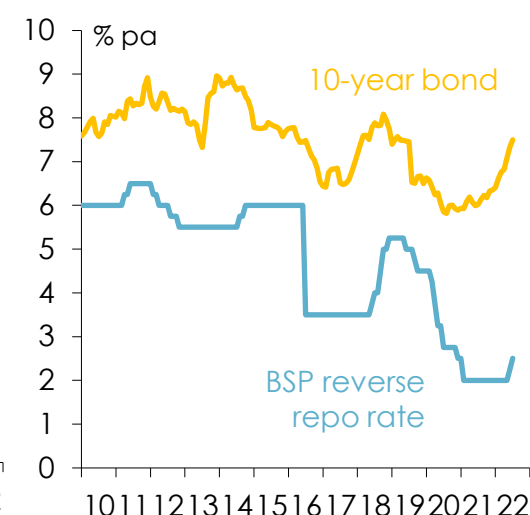
## Taiwan



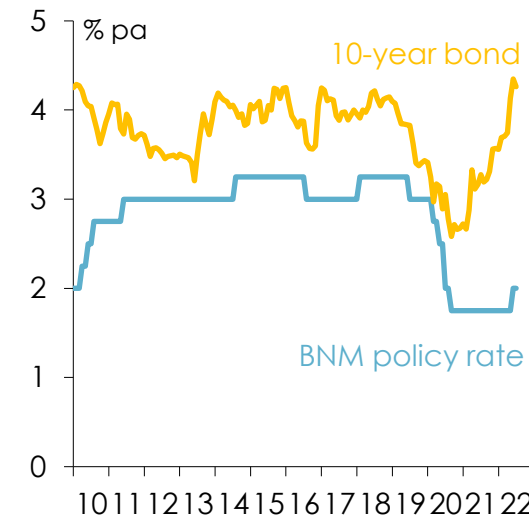
## Singapore



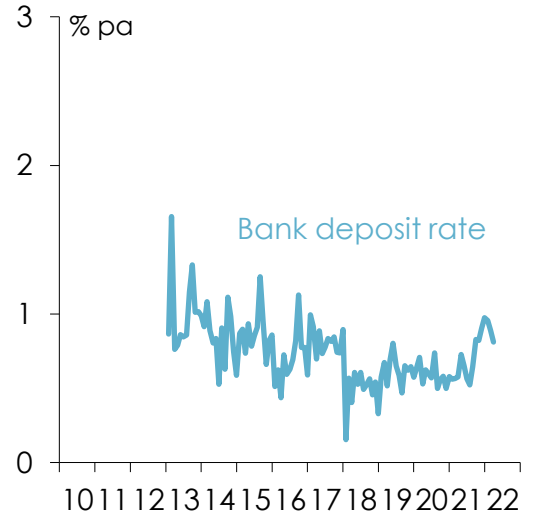
## Philippines



## Malaysia



## Cambodia



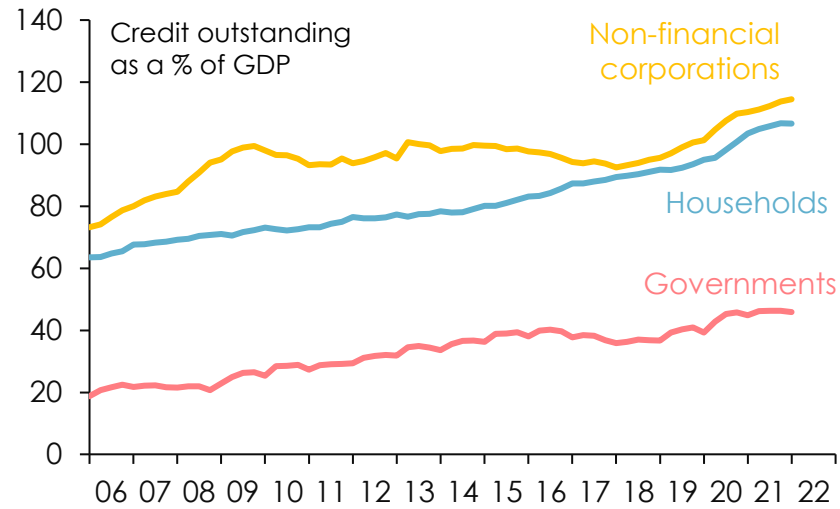
Note: Neither Hong Kong nor Singapore use a monetary policy indicator interest rate. Hong Kong has a currency board system, under which the HKMA base rate moves in line with a pre-set formula based on the US fed funds rate; the Monetary Authority of Singapore uses the (effective) exchange rate as its 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 3<sup>rd</sup> June 2022. Sources: national central banks; Refinitiv Datastream. [Return to "What's New"](#).



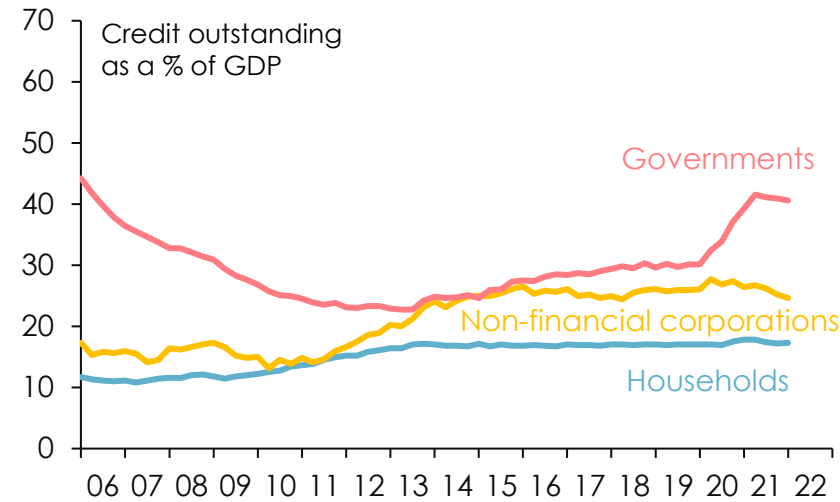
# In Asia, Hong Kong, Singaporean and Korean corporates, and Korean households, have the greatest exposure to any increases in interest rates

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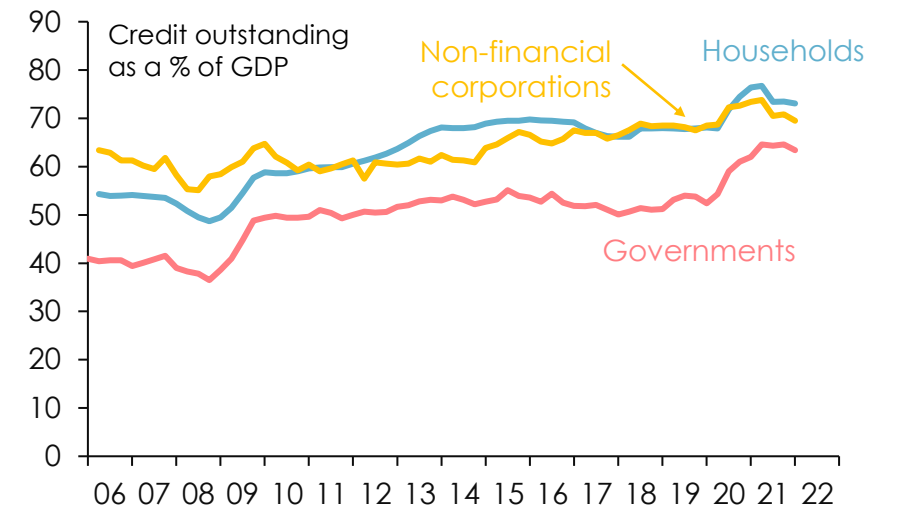
## Korea



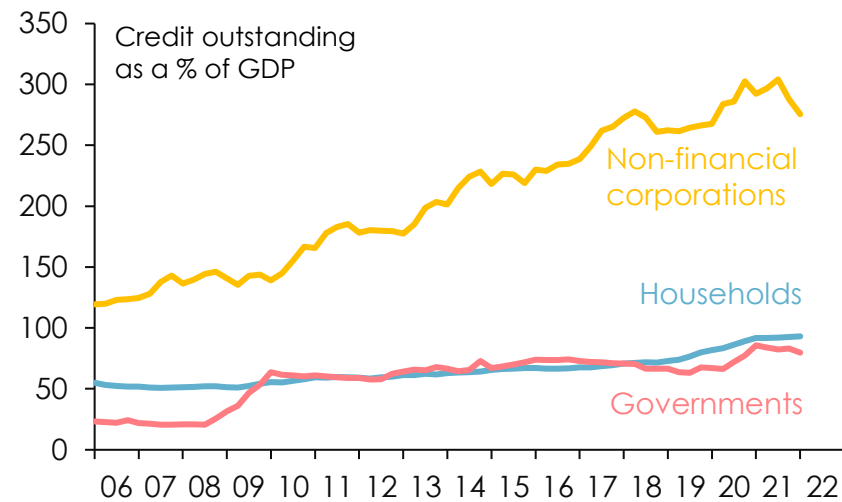
## Indonesia



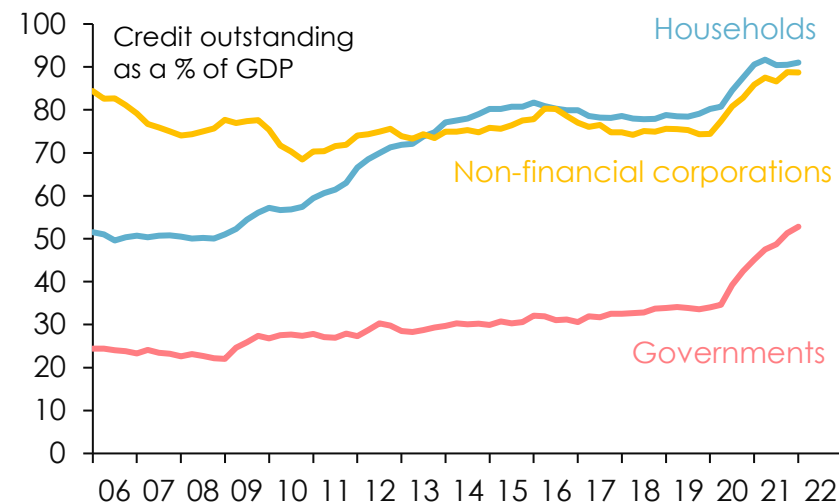
## Malaysia



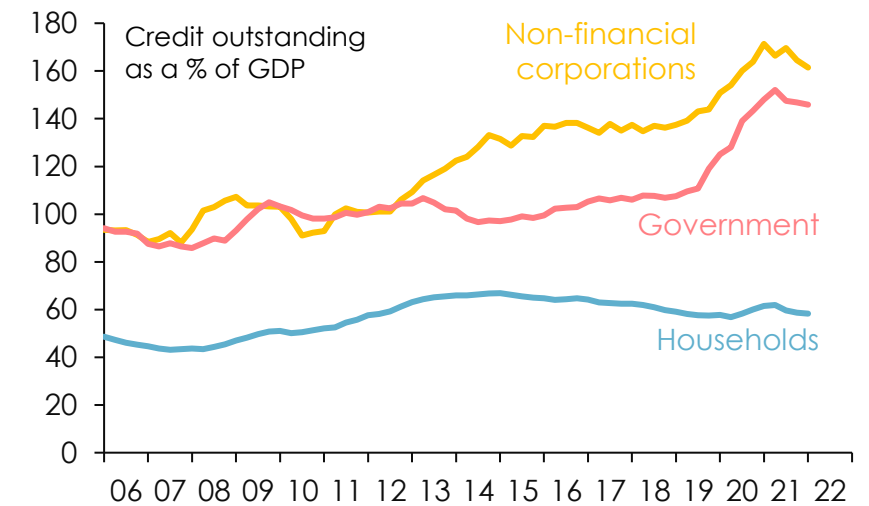
## Hong Kong



## Thailand



## Singapore

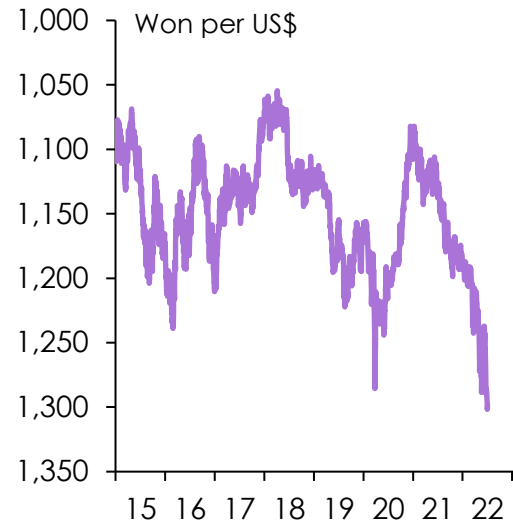


Source: Bank for International Settlements, [Credit Statistics](#); latest data are for Q4 2021, Q1 2022 data will be released in mid-September. [Return to "What's New"](#).

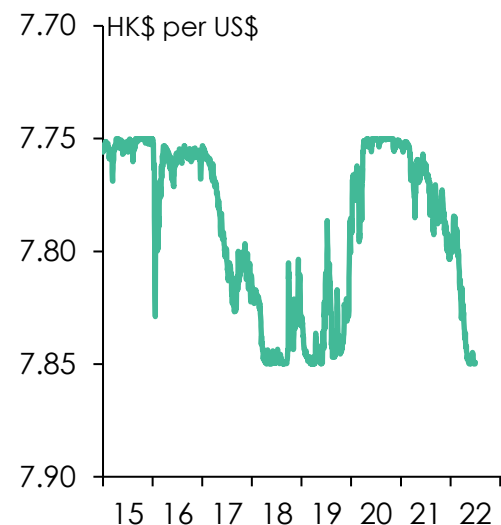
# Asian currencies were mostly weaker last week with the Philippines peso falling 2¼% to a 16-year low, and the Thai baht and Korean won down ¾%

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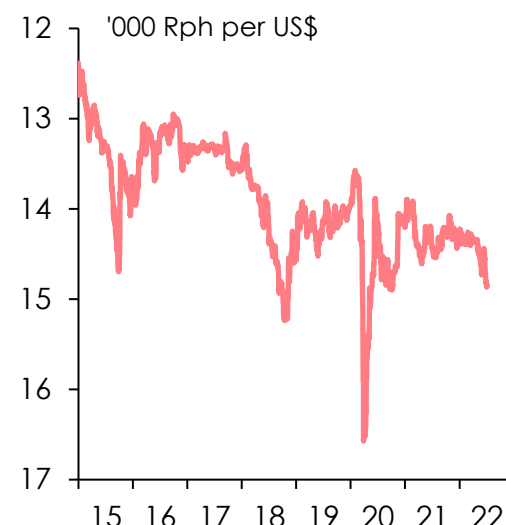
### Korean won



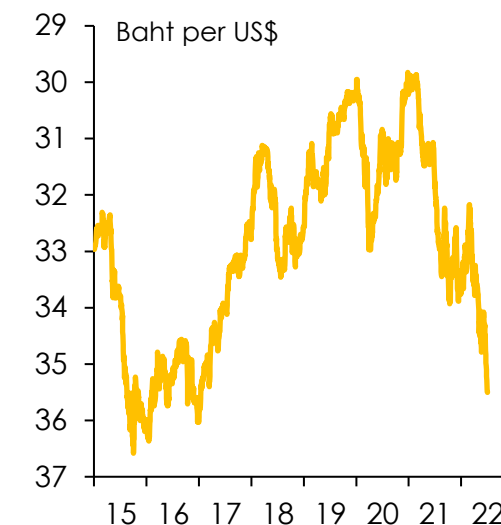
### Hong Kong dollar



### Indonesian rupiah



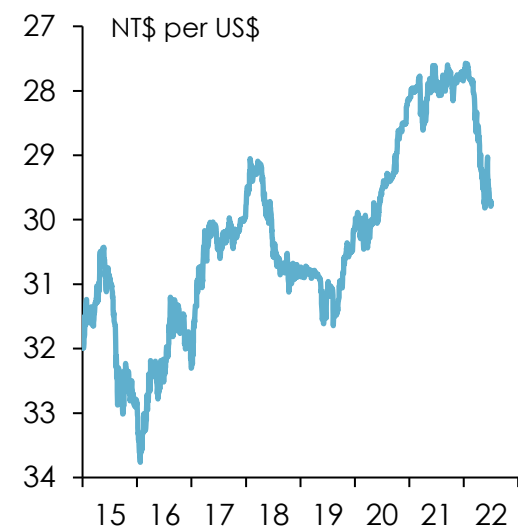
### Thai baht



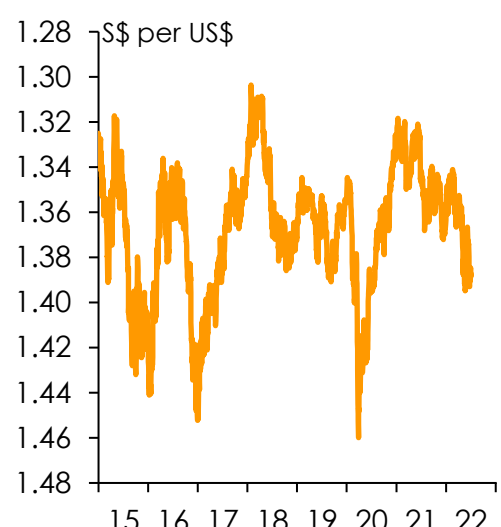
### Vietnamese dong



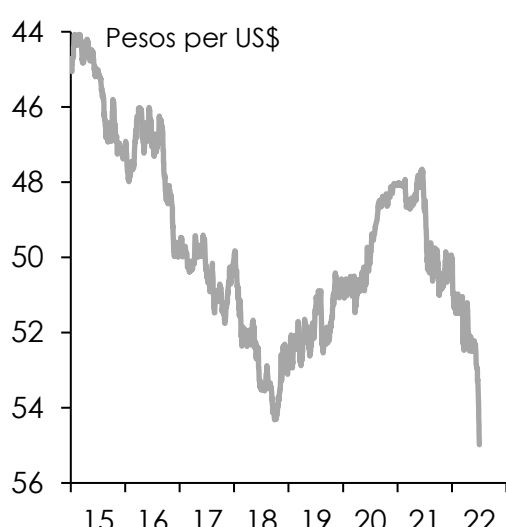
### New Taiwan dollar



### Singapore dollar



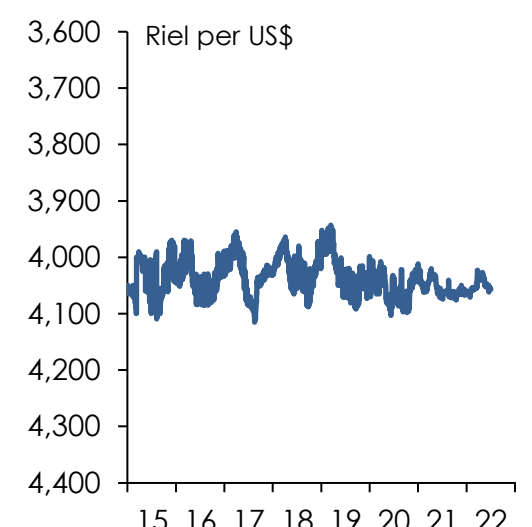
### Philippine peso



### Malaysian ringgit

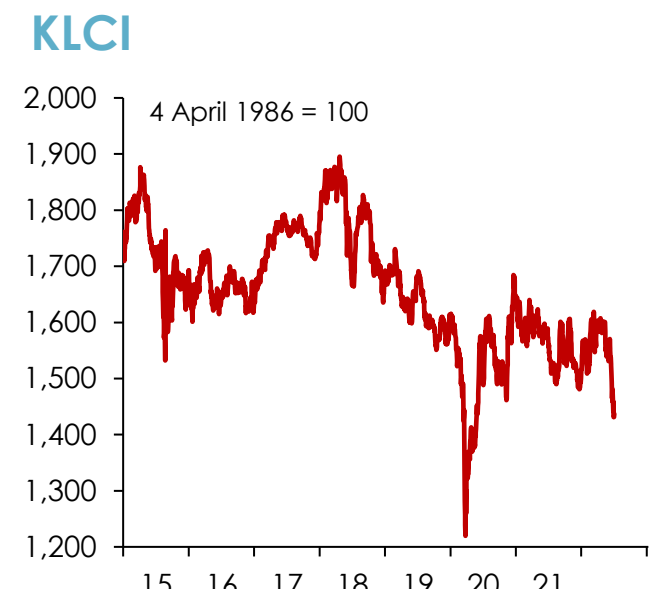
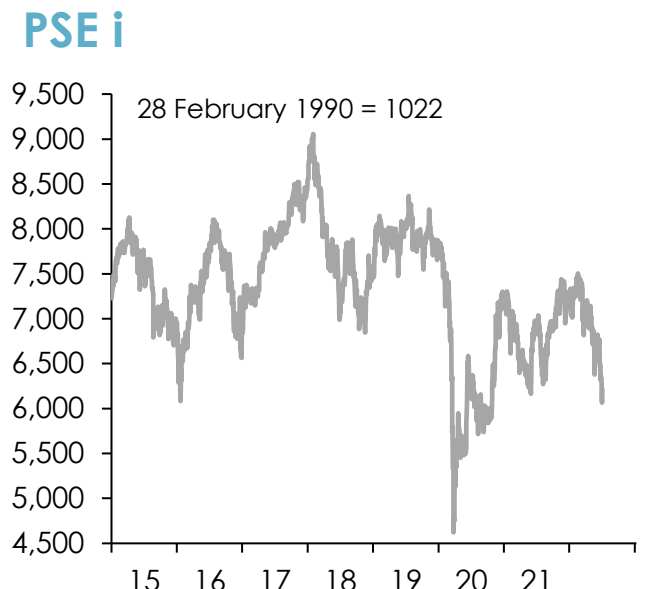
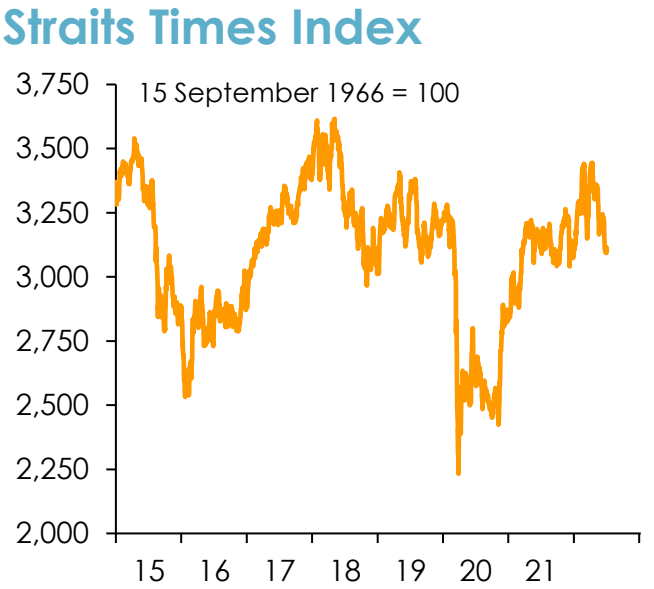
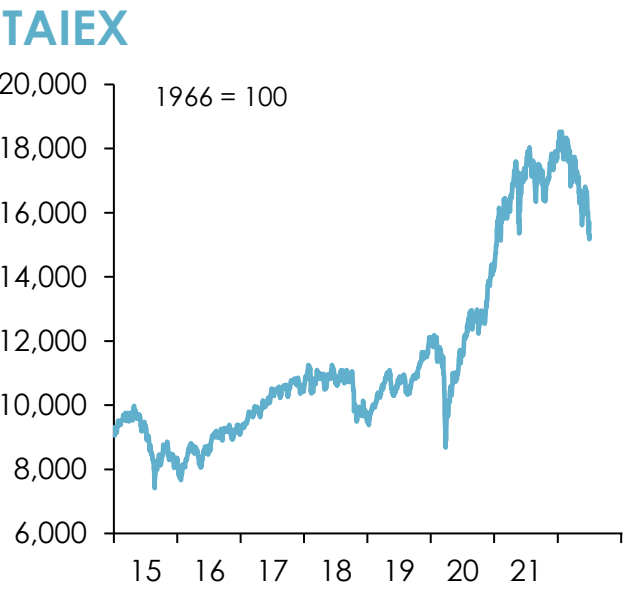
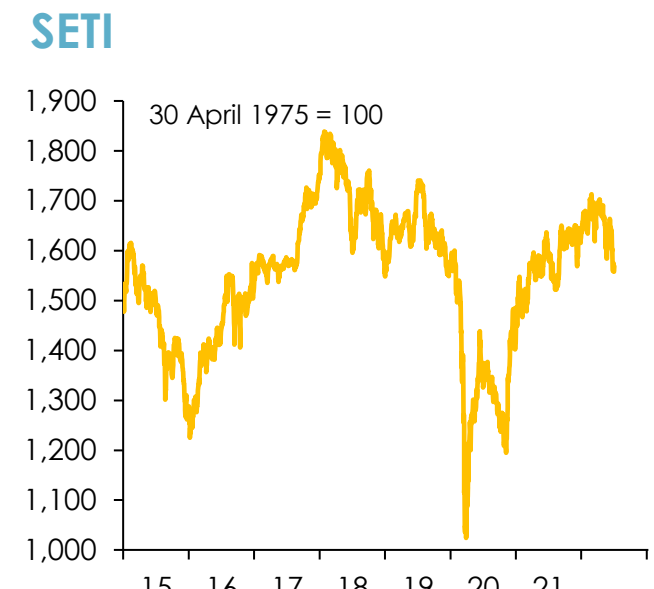
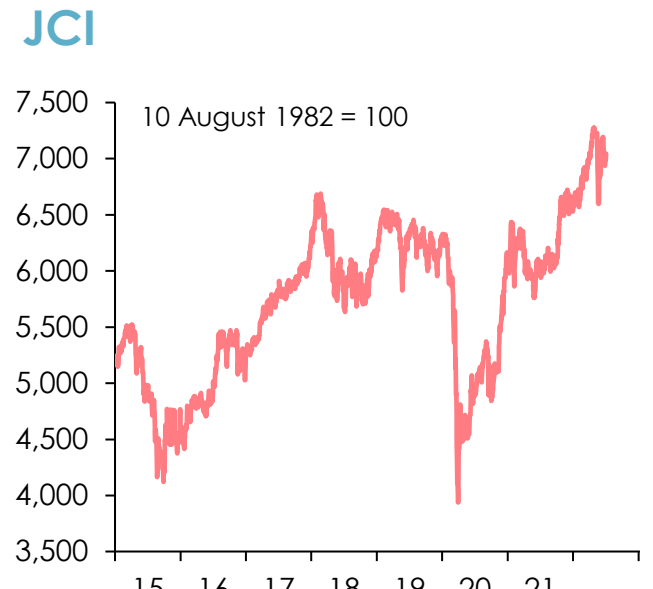
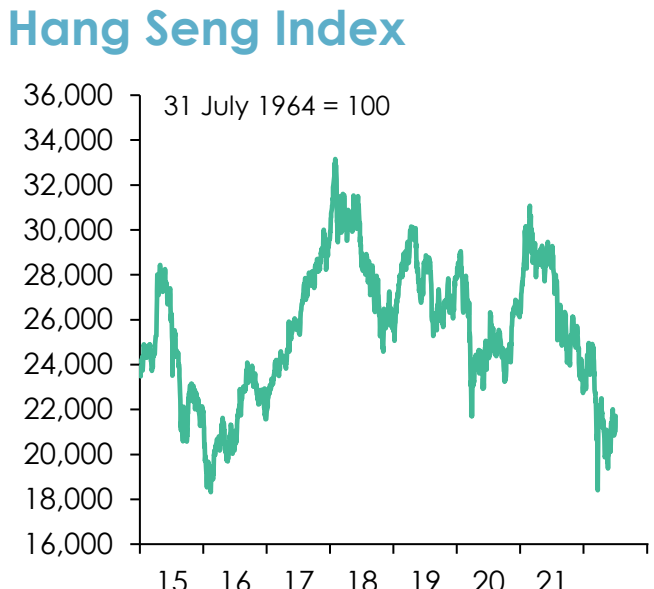
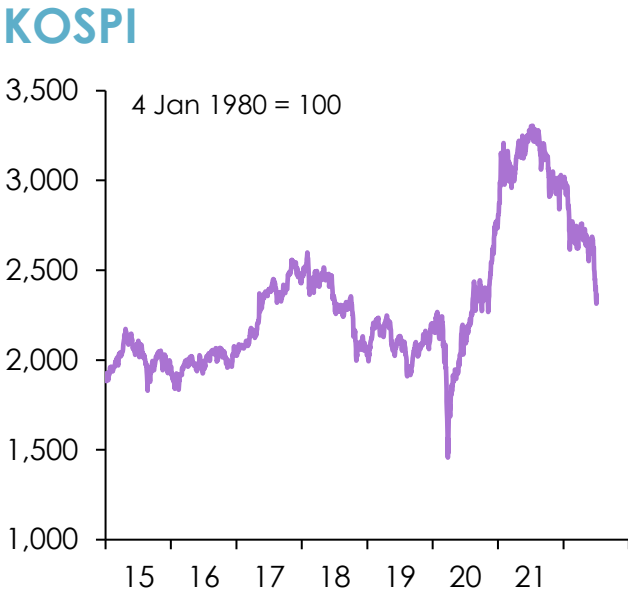


### Cambodian riel



# Asian stock markets were mixed last week with HK and Jakarta up 3% and 1½%, but Seoul down 3%, Taipei 2¼%, Manila 1¾% and KL down 1½%

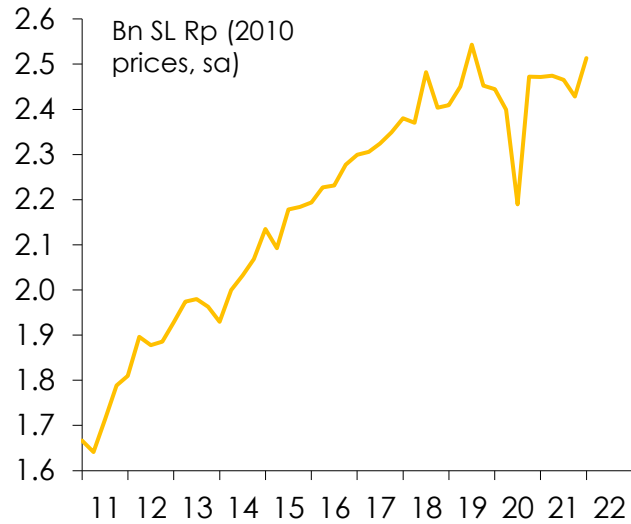
THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022



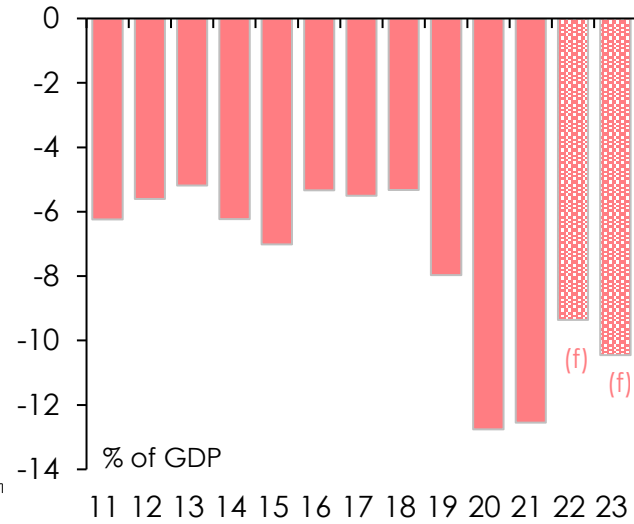
# Sri Lanka's inflation rate jumped to 39% in May (with core inflation at 28%) following the sharp depreciation of its currency since early March

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

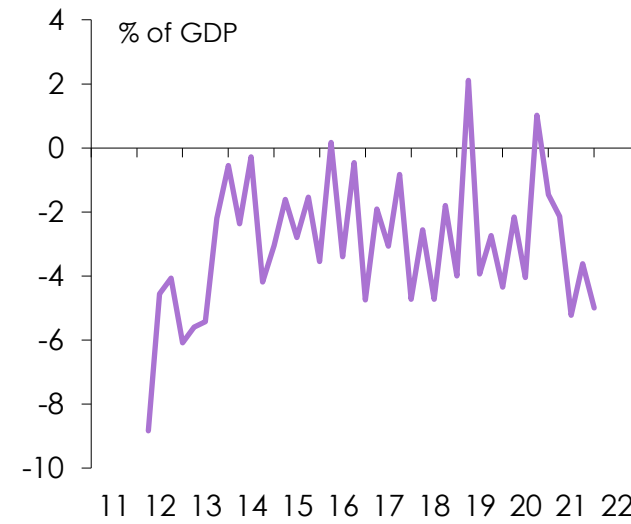
## Real GDP



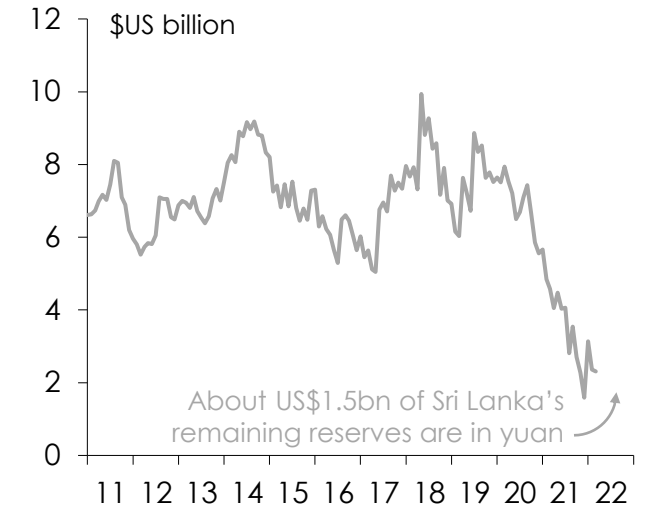
## Fiscal balance



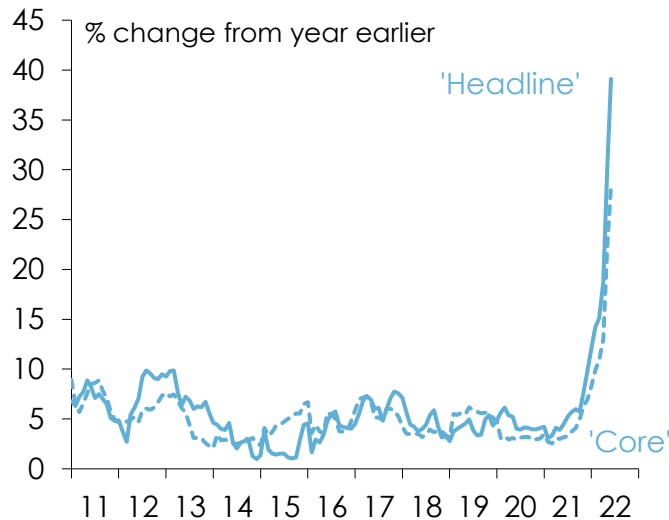
## Current account balance



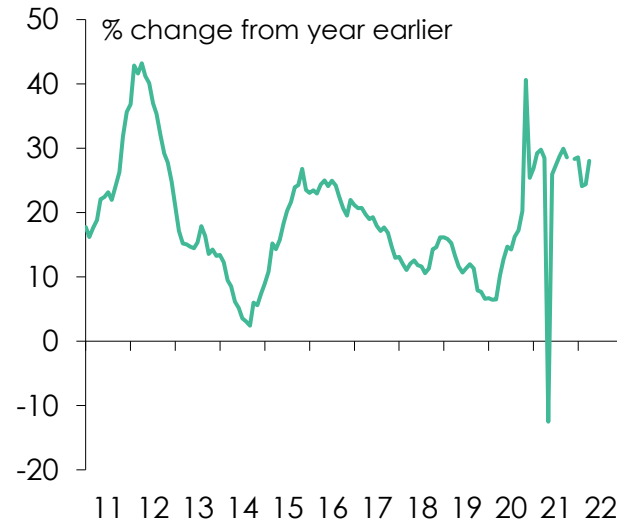
## FX reserves



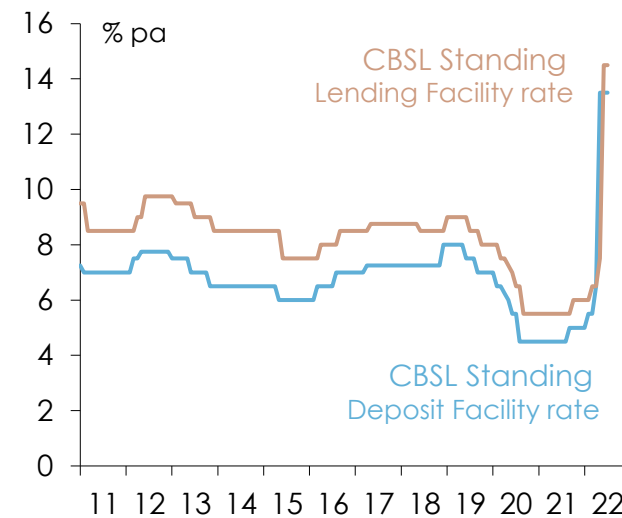
## Consumer prices



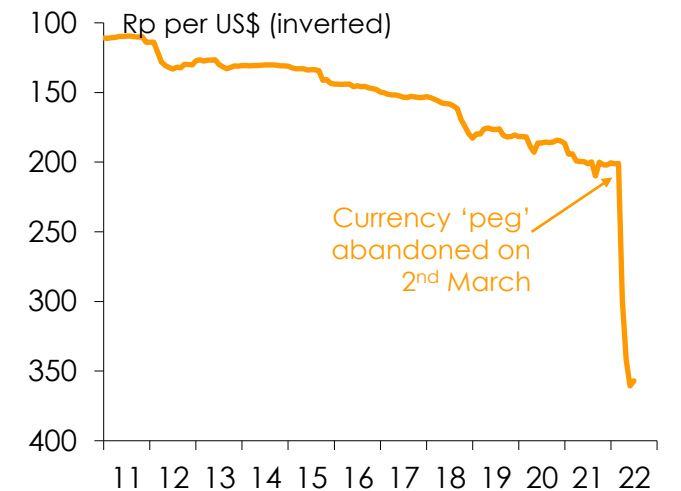
## Credit growth



## Interest rates



## SL rupee vs US\$



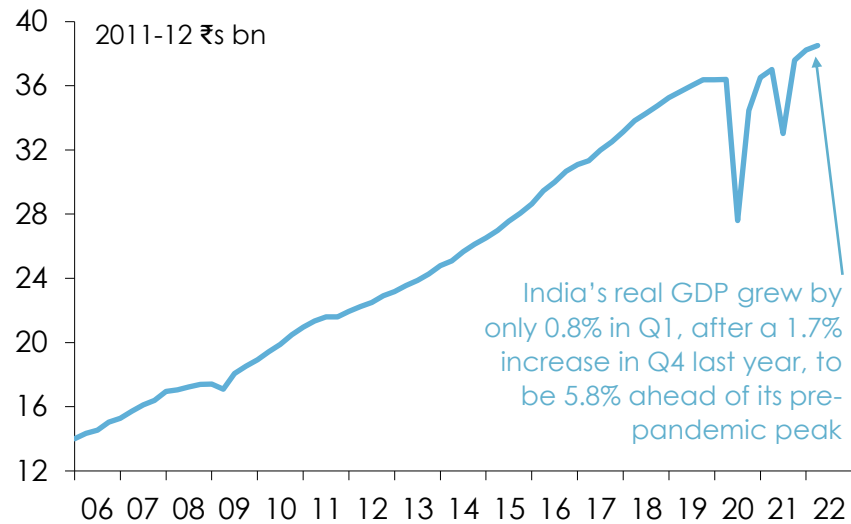
Note: GDP data seasonally adjusted using Refinitiv Datastream; CPI data are for Colombo. Sources: [Sri Lanka Department of Census and Statistics](#); [Central Bank of Sri Lanka](#); IMF, [Fiscal Monitor](#), April 2022; Refinitiv Datastream. [Return to "What's New"](#).

**India**

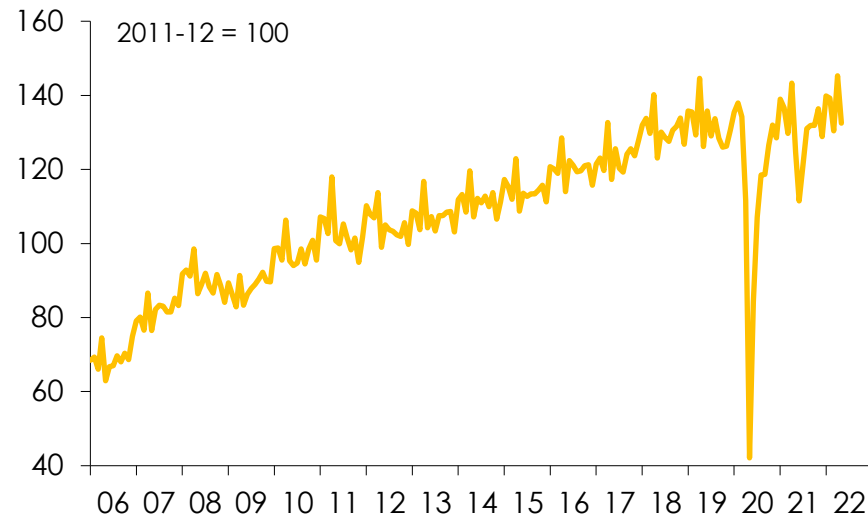
# India's GDP growth rate has slowed sharply over the past two quarters, after bouncing strongly out of its second Covid recession in mid-2022

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

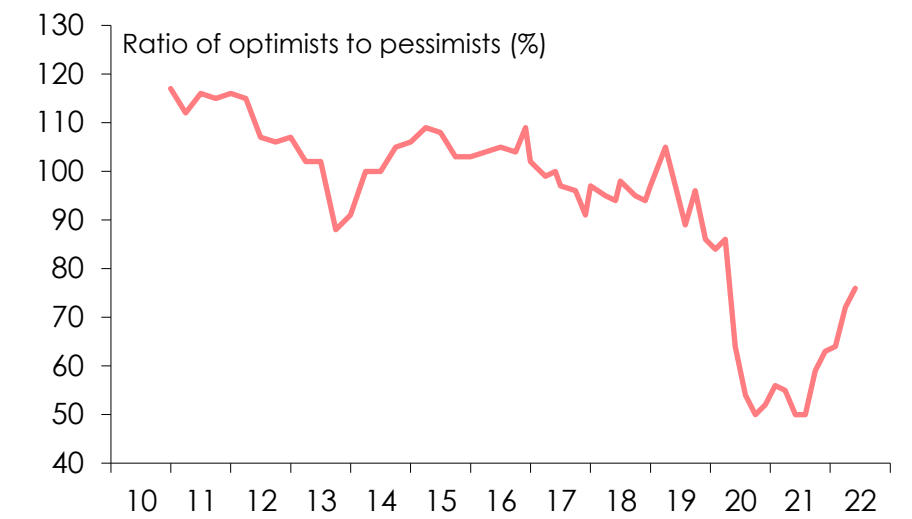
## Quarterly real GDP



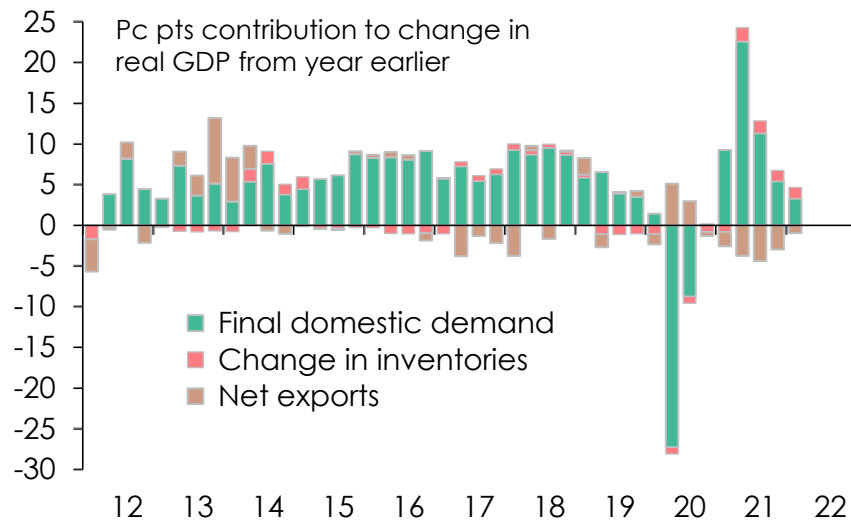
## Manufacturing production



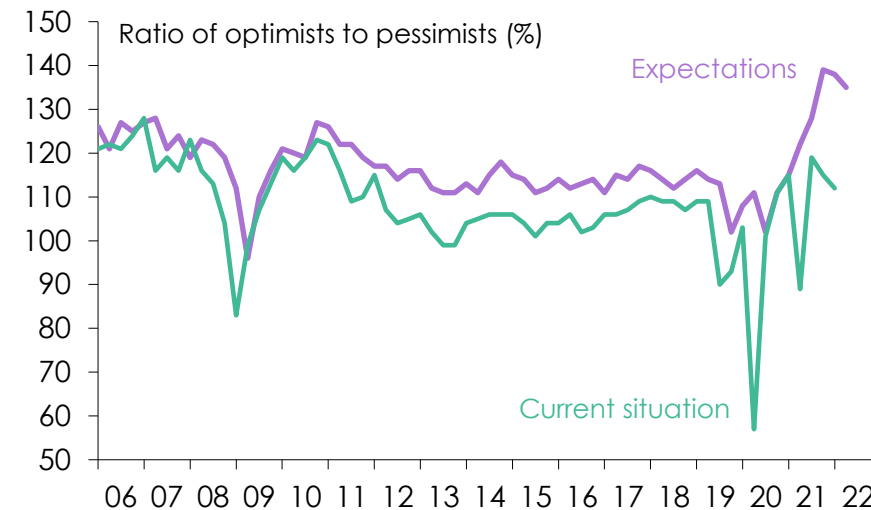
## Consumer confidence



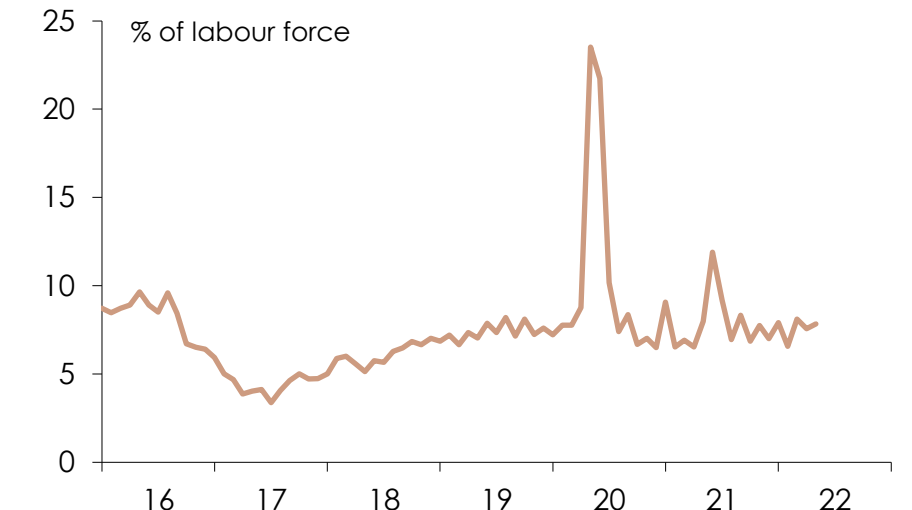
## Contributions to real GDP growth



## Industrial sector sentiment



## Unemployment rate



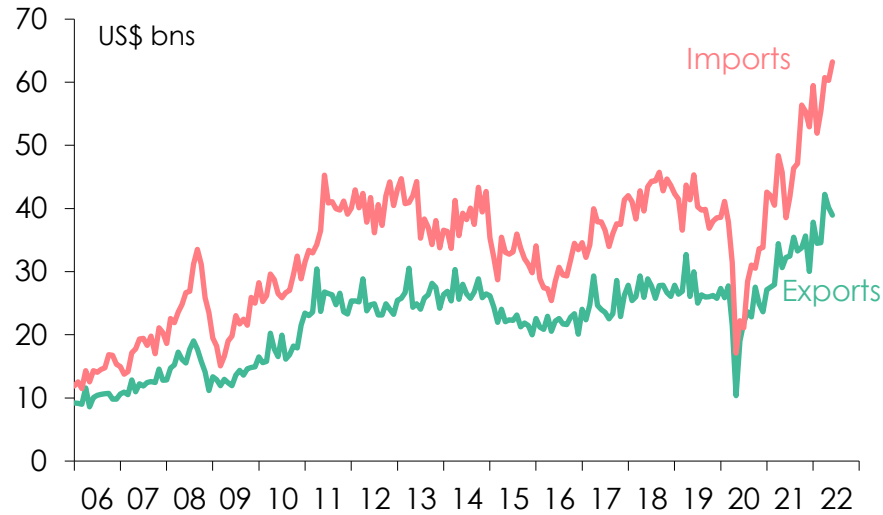
Sources: OECD, [Quarterly National Accounts dataset](#); Government of India, Ministry of Statistics and Programme Implementation, [National Accounts Data](#), and [IIP Data](#); Reserve Bank of India, [Quarterly Industrial Outlook Survey](#) and [Consumer Confidence Survey Bi-Monthly](#); Centre for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



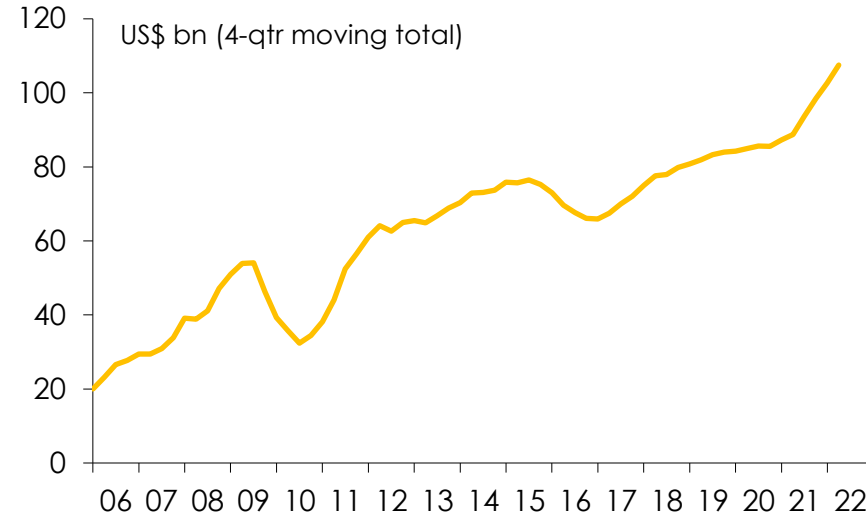
# India's merchandise trade deficit has deteriorated sharply due to higher oil prices but its overall external position remains relatively stable

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

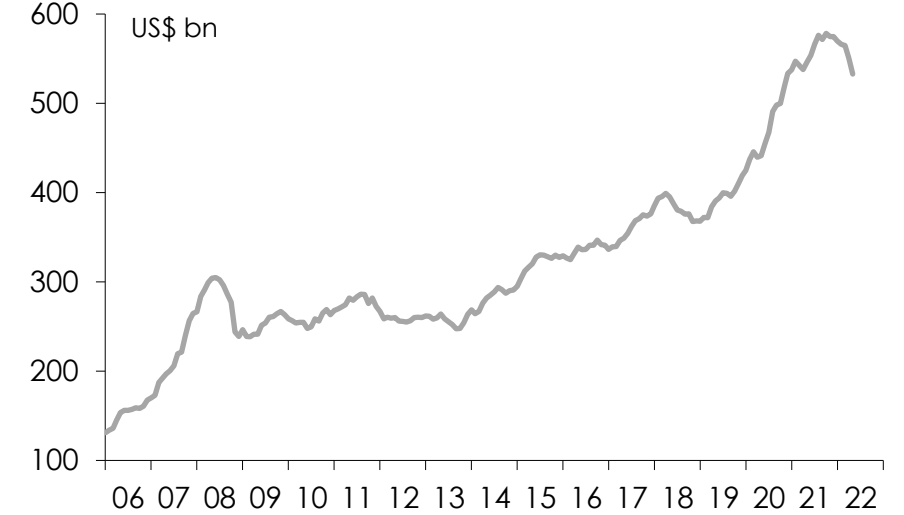
## Merchandise exports and imports



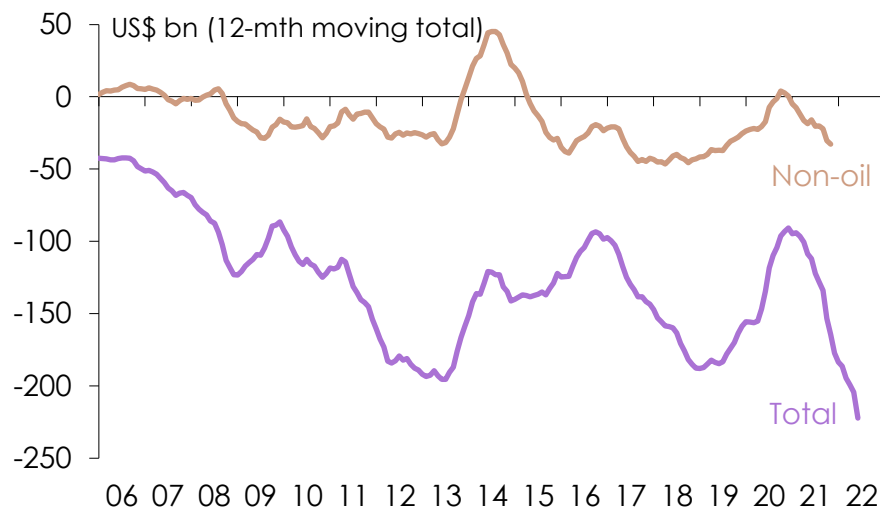
## Services trade balance



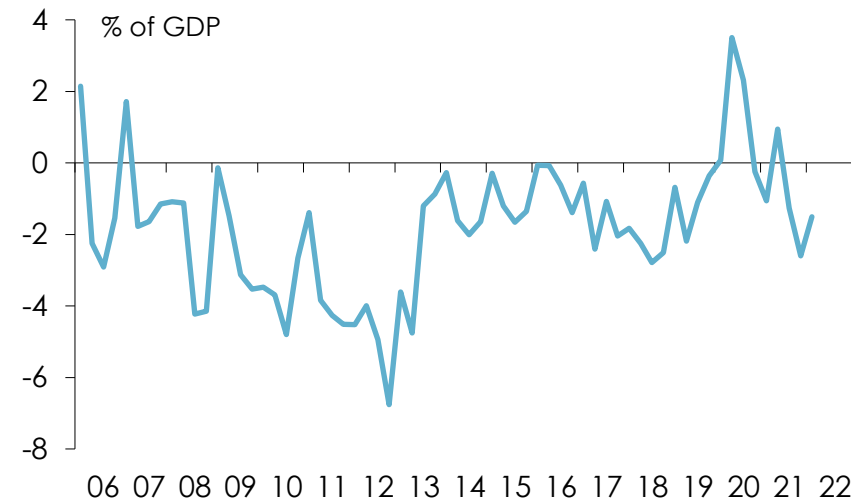
## Foreign exchange reserves



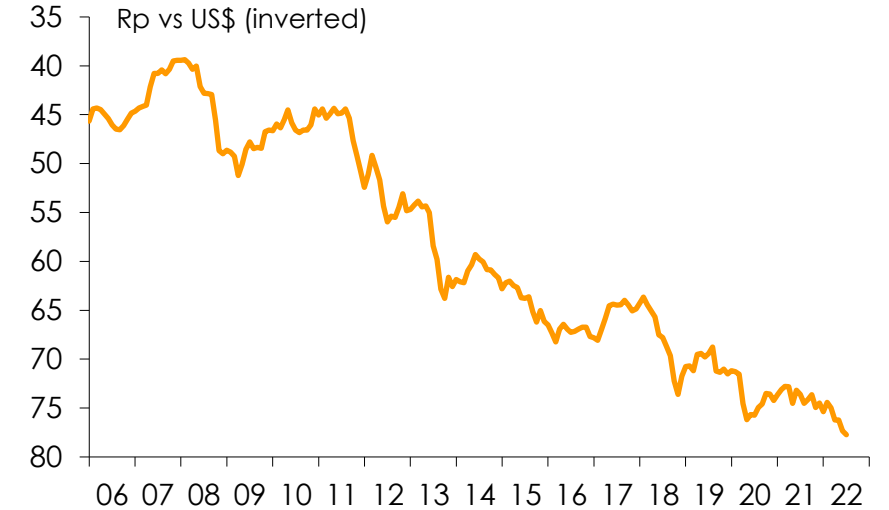
## Merchandise trade balance



## Current account balance



## Rupee vs US dollar

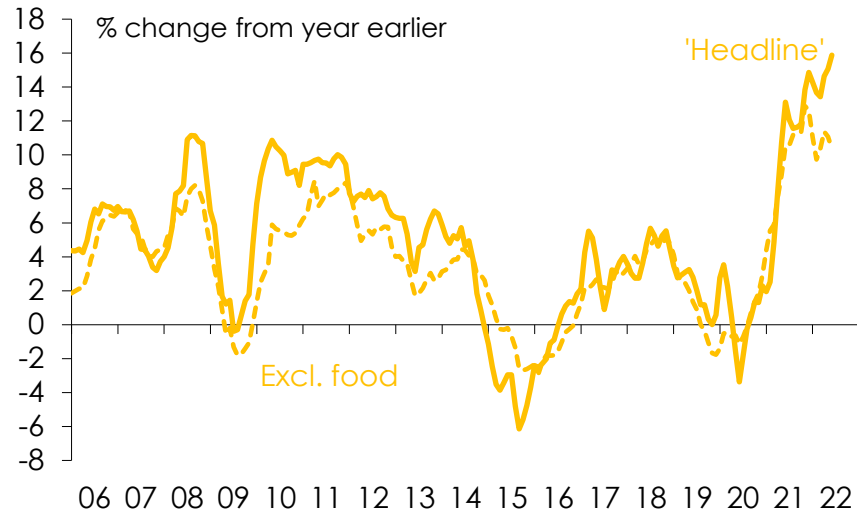


Sources: Government of India, Ministry of Commerce and Industry, [Trade Statistics](#); Reserve Bank of India, [Special Data Dissemination Standards - Balance of Payments](#) and [Weekly Statistical Supplement - Extract](#); Refinitiv Datastream. [Return to "What's New"](#).

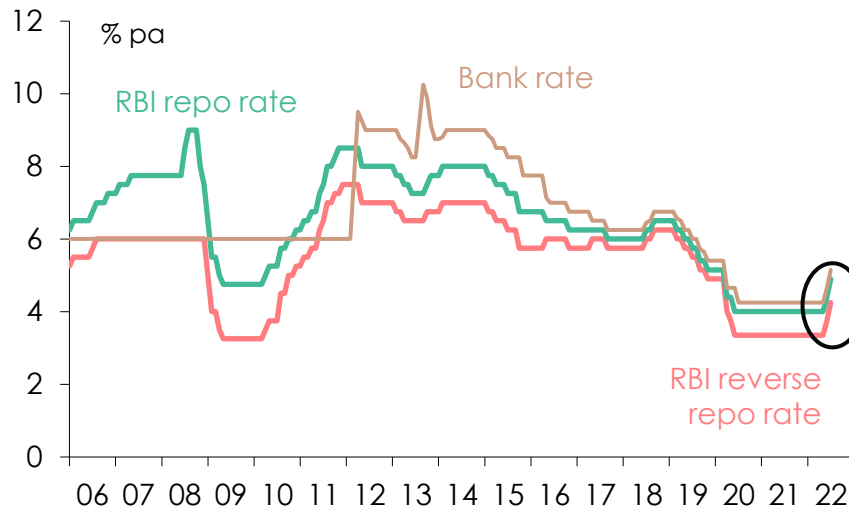
# India's annual inflation rate eased slightly to 7.0% in May from 7.8% in April, but it's still well above the RBI's 2-6% target range

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

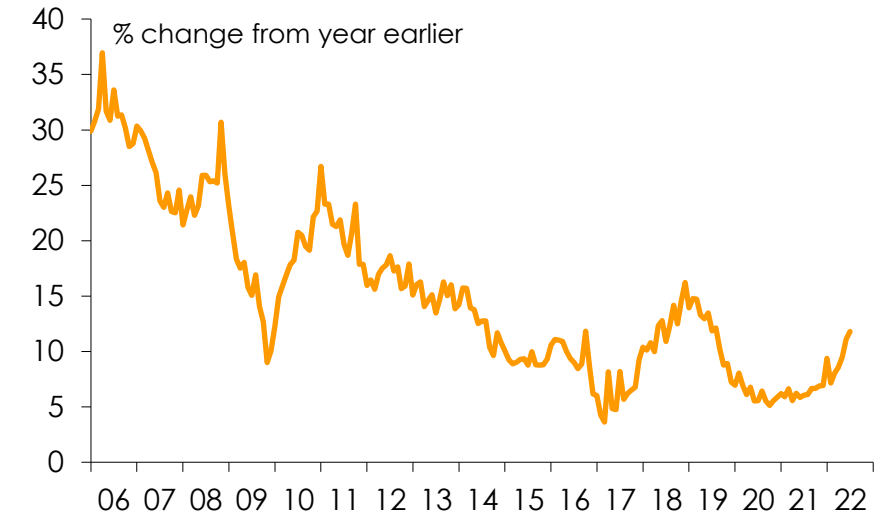
## Wholesale prices



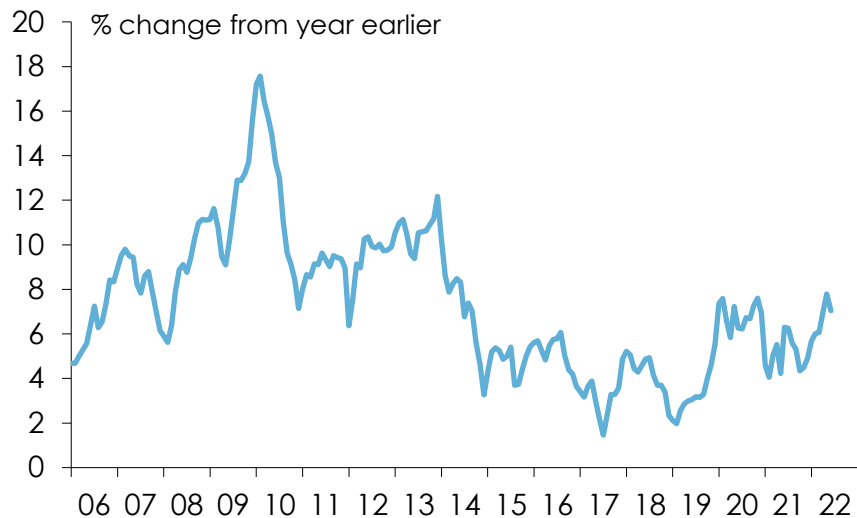
## RBI policy interest rates



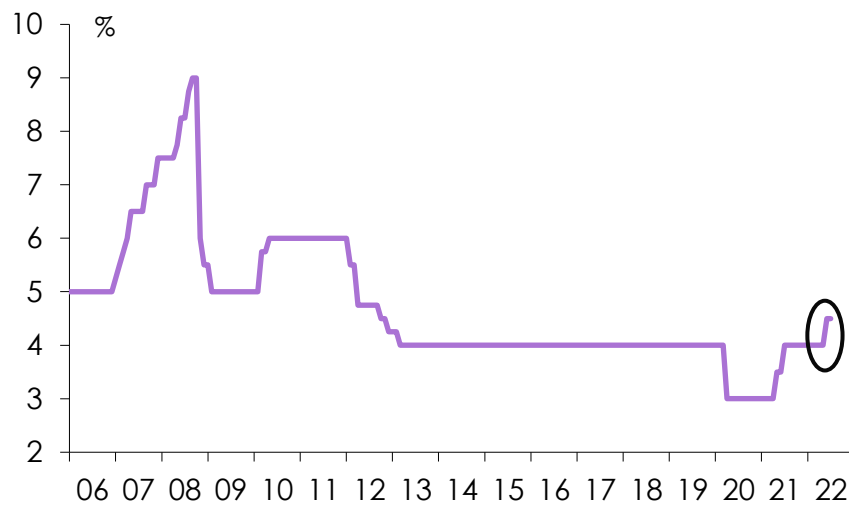
## Bank lending



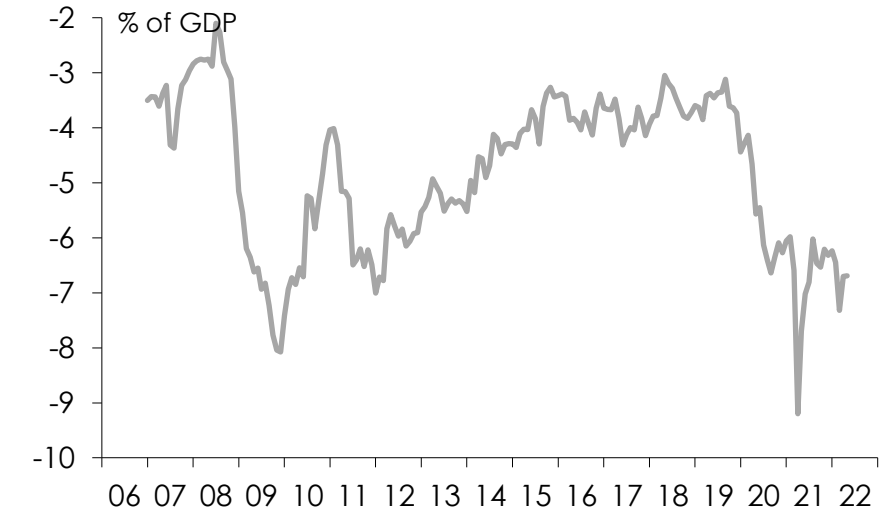
## Consumer prices



## RBI cash reserve ratio



## Central government fiscal balance

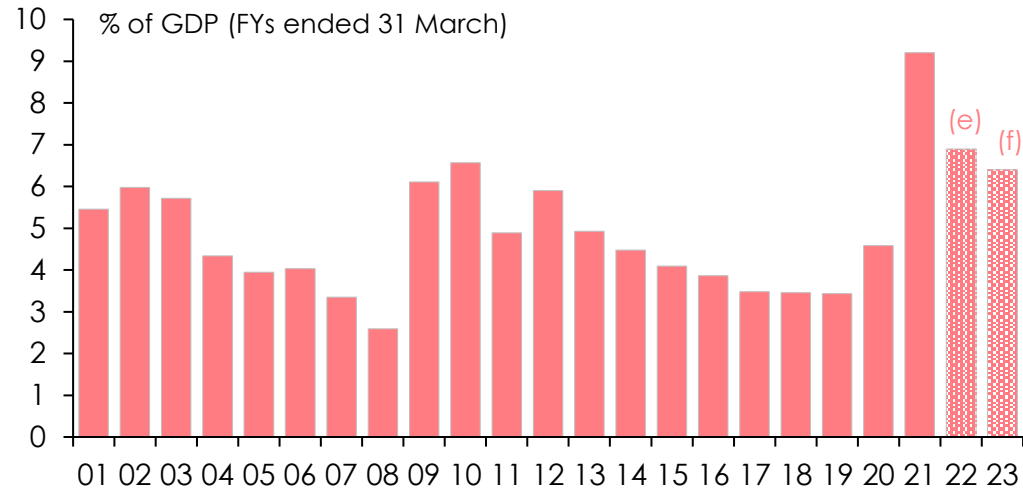


Note: The RBI's inflation target is  $4\% \pm 2$  pc points. Sources: Government of India, Office of the Economic Adviser, Ministry of Commerce and Industry, [WPI Press Release](#); Ministry of Statistics and Programme Implementation, [CPI](#); Reserve Bank of India, [Monetary Policy](#) and [RBI Bulletin](#);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

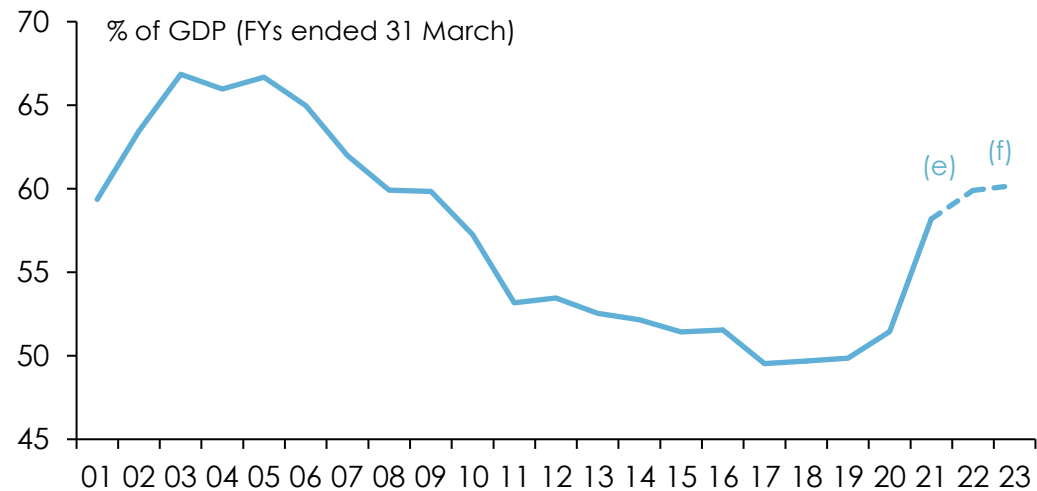
# India's 2022-23 Budget maintains a deficit of over 6% of GDP in order to fund another large increase in capital spending

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

## Central government fiscal deficit



## Central government gross debt



- ❑ Finance Minister Nirmala Sitharaman presented the Modi Government's 2022-23 Budget on Wednesday, 2<sup>nd</sup> 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

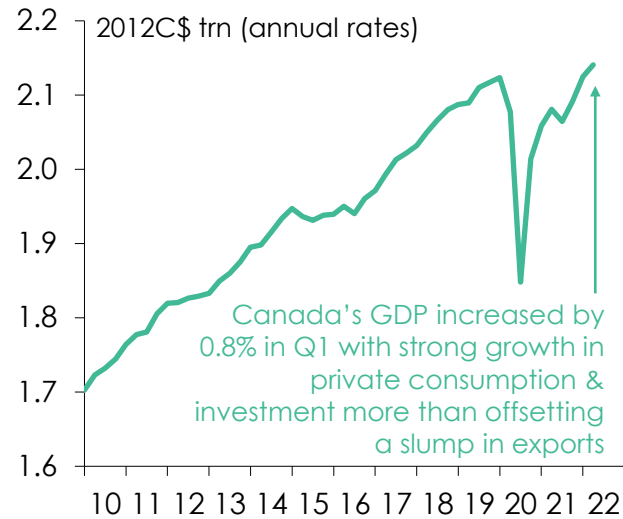
THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

- ❑ The [Bank of Canada](#) lifted its policy interest rate by 50 basis points, to 1.50%, at its Governing Council meeting on 1<sup>st</sup> June, following a similar move at its last meeting in April (which in turn followed an initial 25bp rise in March) ([slide 120](#))
  - [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 Australia](#) lifted its cash rate by 50 basis points (a larger-than-expected increase) at its Board meeting on 8<sup>th</sup> June ([slide 121](#))
  - 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](#) a week after the Board meeting, 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”
- ❑ The [Reserve Bank of New Zealand](#) raised its official cash rate by 50bp, to 2.0%, at its 25<sup>th</sup> May Monetary Policy Committee meeting – the sixth increase, for a total of 175bp, since October last year ([slide 122](#))
  - 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

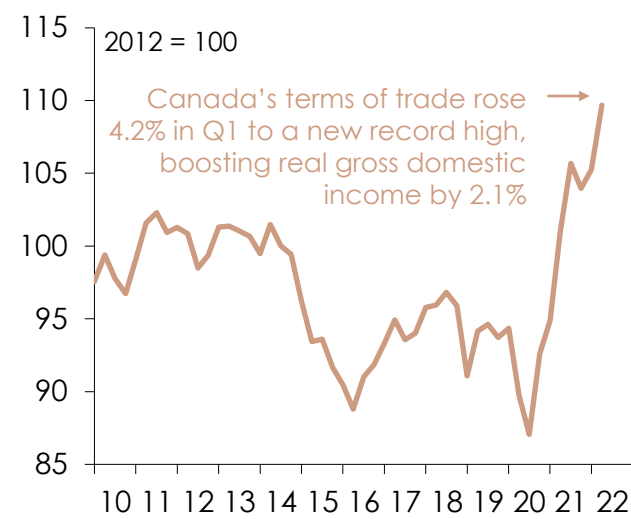
# Canada's annual 'headline' inflation rate rose to 7.6% in May, the highest since 1983, and 'core' inflation to 5.2%, the highest since 1991

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

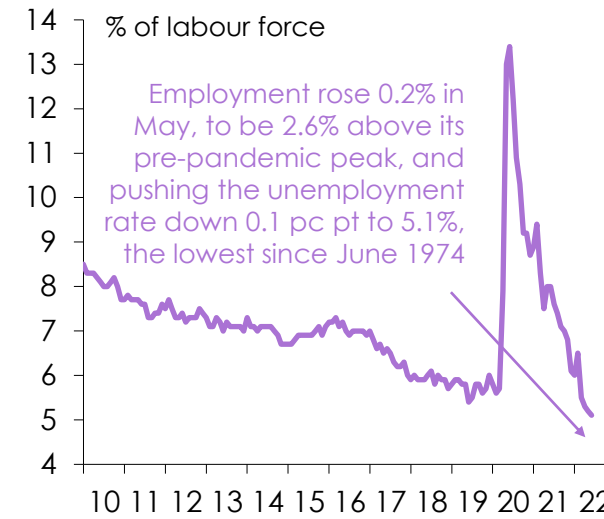
## Real GDP



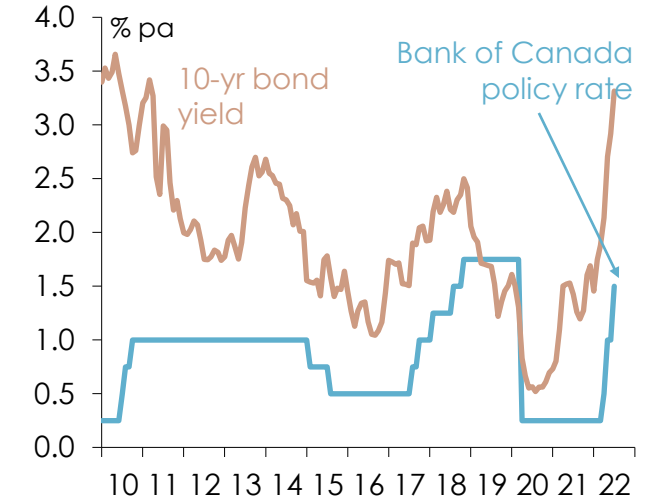
## Terms of trade



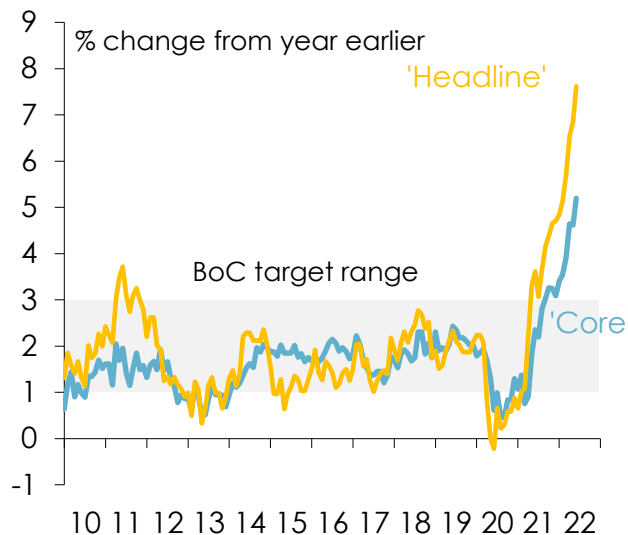
## Unemployment



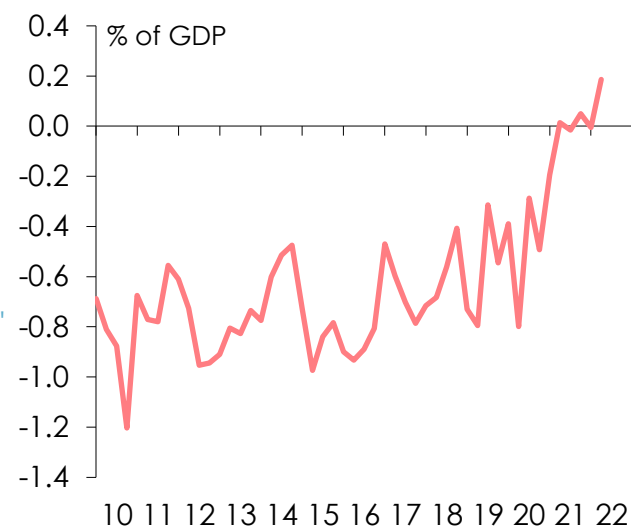
## Interest rates



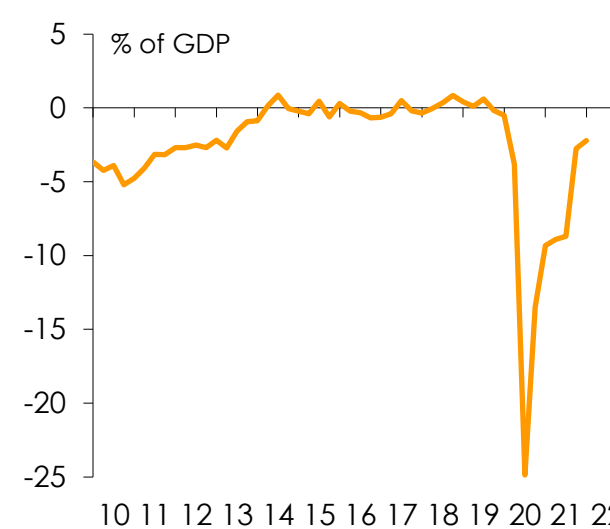
## Consumer prices



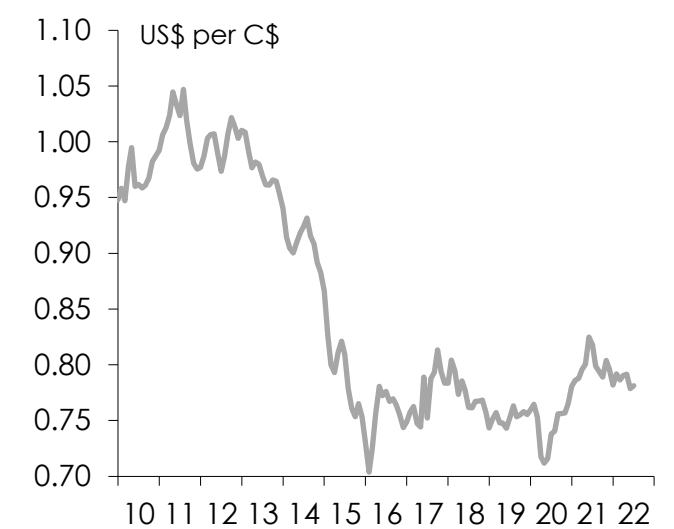
## Current account balance



## Government net lending



## C\$ vs US\$



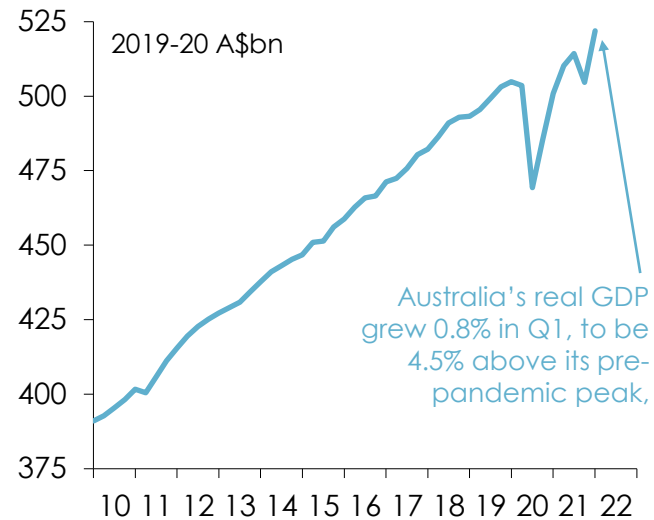
Sources: Statistics Canada, [National Gross Domestic Product \(GDP\) by Income and by Expenditure Accounts](#); [Consumer price index portal](#); [Canada's Balance of International Payments](#); [Labour Statistics](#); Bank of Canada, [Policy Interest Rate](#); Refinitiv Datastream. [Return to "What's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



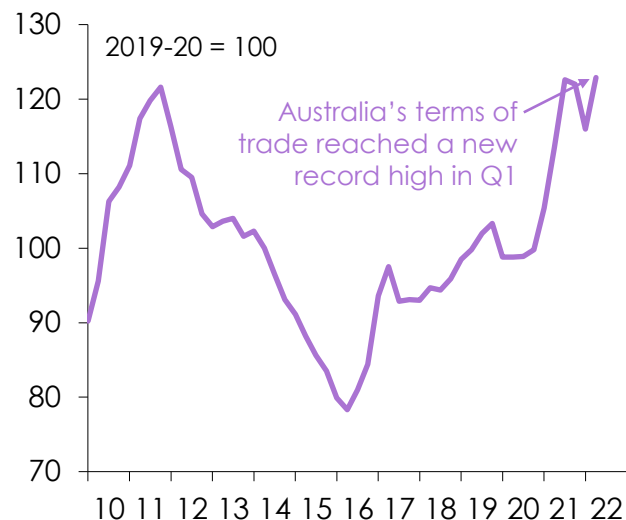
# The RBA raised its cash rate by 50bp, to 0.85%, at its June board meeting, signalling much greater urgency in containing inflation pressures

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

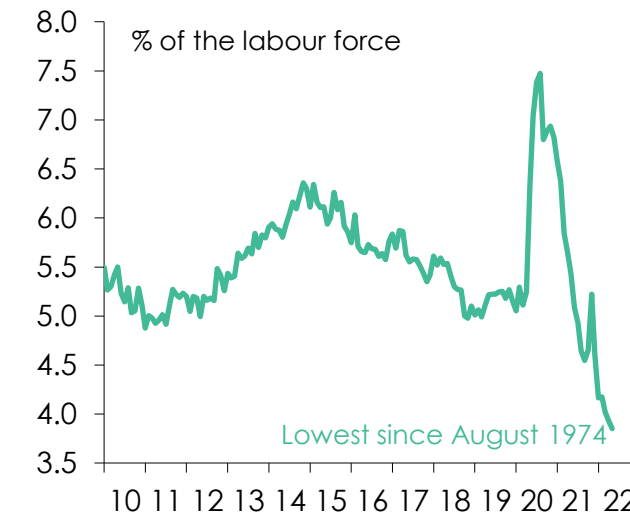
## Real GDP



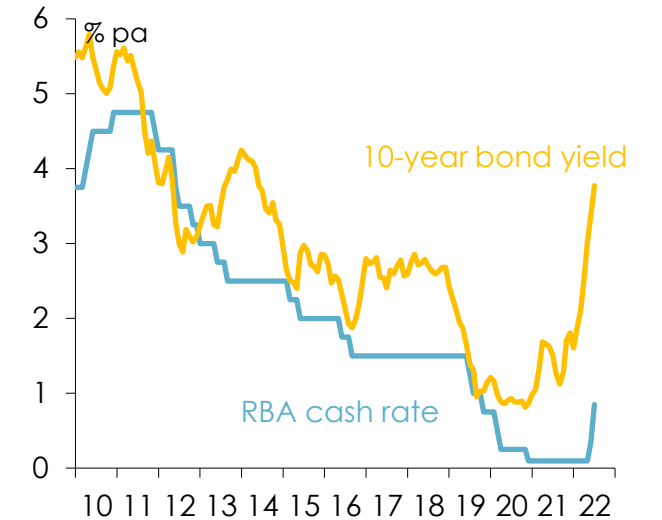
## Terms of trade



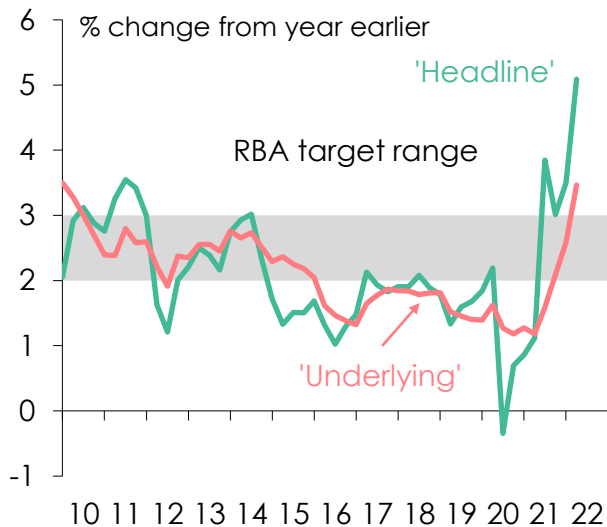
## Unemployment



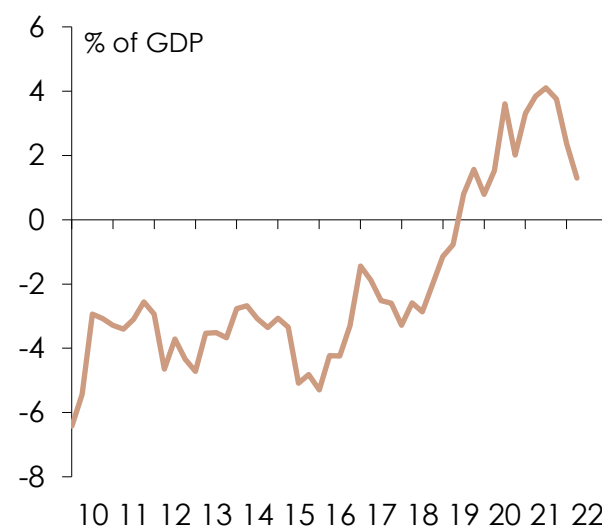
## Interest rates



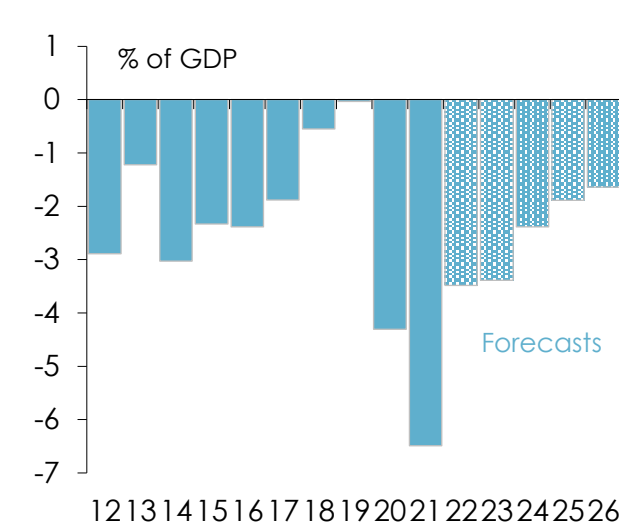
## Consumer prices



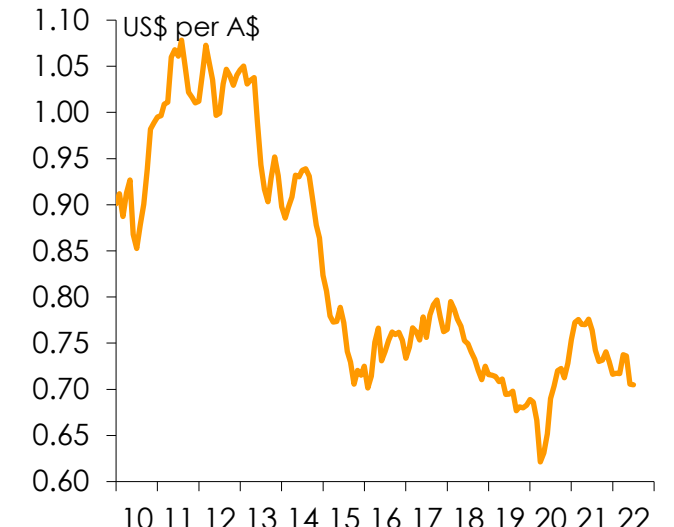
## Current account balance



## Government cash balance



## A\$ vs US\$

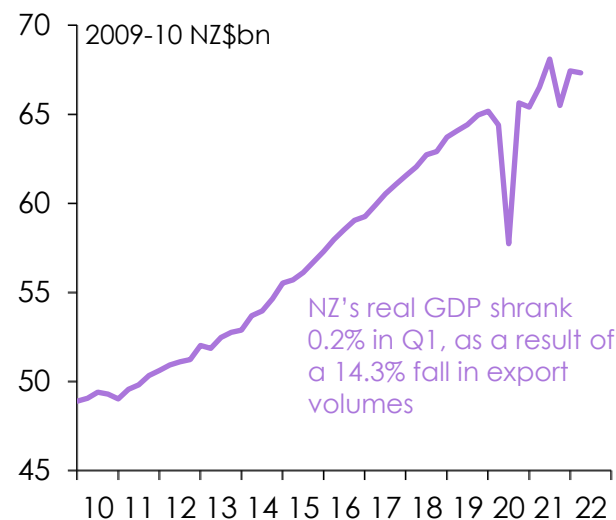


Note: The measure of 'underlying' inflation shown here is the trimmed mean. Government cash balance data are for fiscal years ended 30<sup>th</sup> June. Sources: Australian Bureau of Statistics, [Australian National Accounts: National Income, Expenditure and Product](#); [Consumer Price Index](#); [Balance 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"](#).

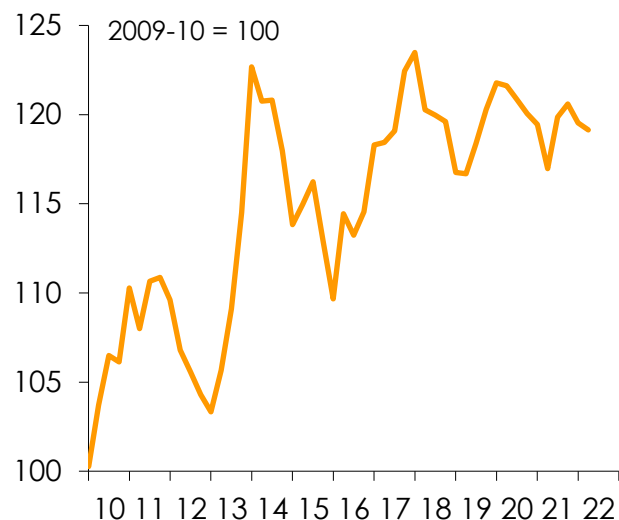
# New Zealand's real GDP unexpectedly shrank 0.2% in Q1, with a 14.3% slump in export volumes outweighing 3.3% growth in domestic demand

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

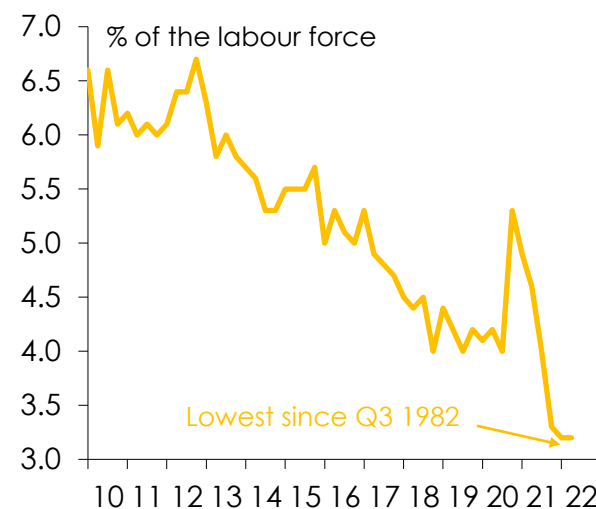
## Real GDP



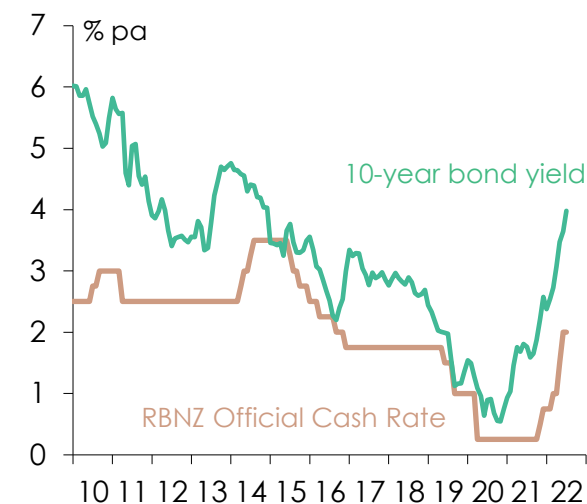
## Terms of trade



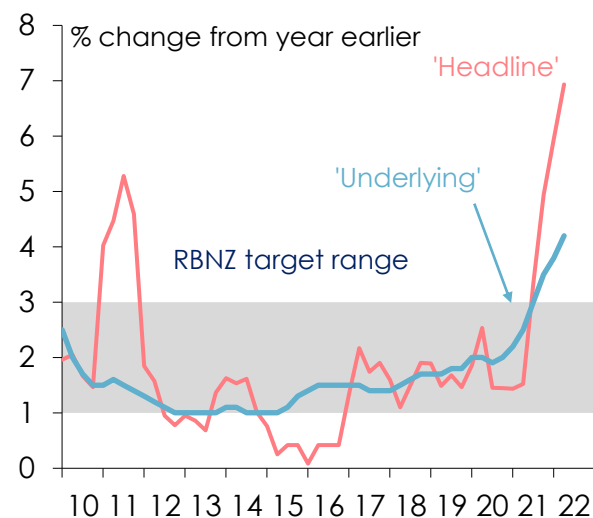
## Unemployment



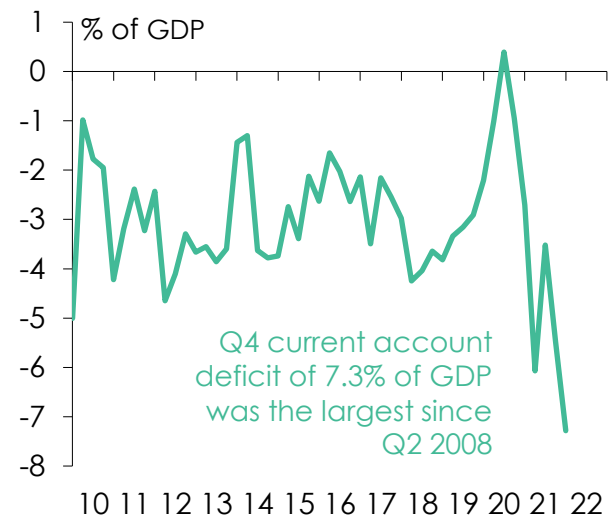
## Interest rates



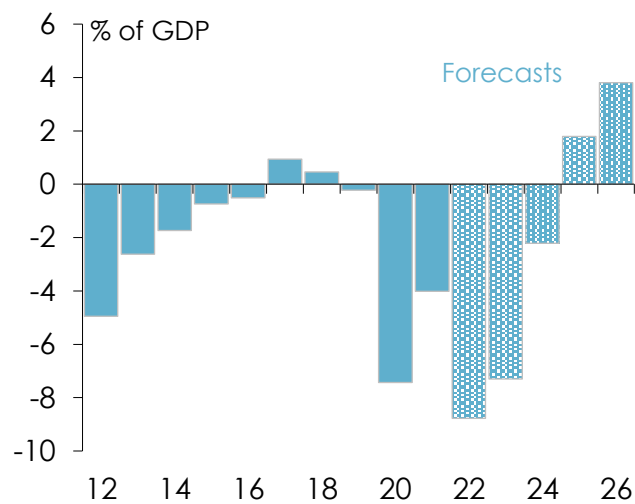
## Consumer prices



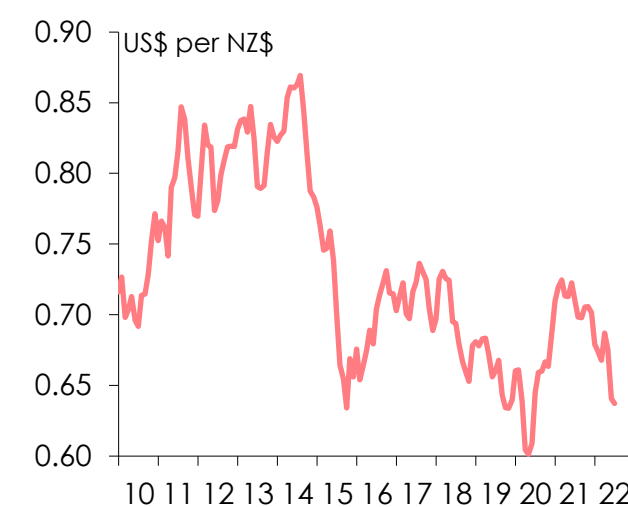
## Current account balance



## 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 30<sup>th</sup> 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**

# The Czech, Mexican and Paraguayan central banks raised their policy rates last week, while Turkey's again left rates unchanged despite 73½% inflation

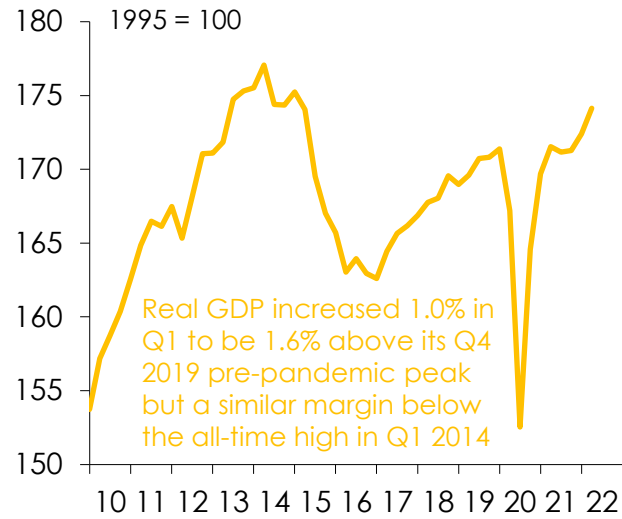
THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

- ❑ **Česká národní banka**, the Czech National Bank, raised its 2-week repo rate by 125 basis points to 7.0% at its Wednesday Board meeting, the ninth increase since June last year, for a total of 675 basis points ([slide 128](#))
  - in its [post-meeting statement](#) CNB ascribed the latest increase to “a continued marked increase in inflation pressures in the Czech economy”, with the “risks and uncertainties of [its latest] forecast as being markedly inflationary and acting towards a need for further significant tightening of monetary policy”
- ❑ **Banco de México** raised its overnight rate by 75 basis points to 7.75% on Thursday, the ninth increase (for a total of 375 basis points) since June last year ([slide 126](#))
  - in its post-meeting [Monetary Policy Statement](#) Banxico raised its forecast for the peak in the annual ‘headline’ and ‘core’ inflation rates to 8.1% and 7.4%, respectively, in Q3 (from 7.0% and 6.6% respectively), with consequentially higher rates through Q3 2023, though it still expects inflation to be back down to 3% by the first half of 2024
  - in addition to the upward revision to inflation forecasts Banxico also pointed to “the increasing challenges for monetary policy stemming from the ongoing tightening of global financial conditions, the environment of significant uncertainty, and inflationary pressures associated with the geopolitical conflict and with the resurgence of COVID-19 cases in China”, as well as “the risk of contamination of medium- and long-term inflation expectations and of the price formation process”
- ❑ **Banco Central del Paraguay** raised its policy interest rate another 50 bp, to 7.75%, at its Monetary Policy Committee meeting last Tuesday, the 10<sup>th</sup> increase (for a total of 700 bp) since August last year
- ❑ **Türkiye Cumhuriyet Merkez Bankası**, Turkey’s central bank, again left its main policy interest rate unchanged at 14.0% (where it has been since last December), at Thursday’s Monetary Policy Committee meeting ([slide 129](#))
  - although Turkey’s annual ‘headline’ inflation rate has more than doubled so far this year, to 73.5% in May, the MPC “expects [a] disinflation process to start on the back of measures taken and decisively implemented for strengthening sustainable price and financial stability along with the decline in inflation owing to the base effect and the resolution of the ongoing regional conflict”
  - the MPC re-iterated that it “will continue to take its decisions in a transparent, predictable and data-driven framework”
  - meanwhile the Turkish lira dropped below 18 to the US dollar ([slide 129](#))

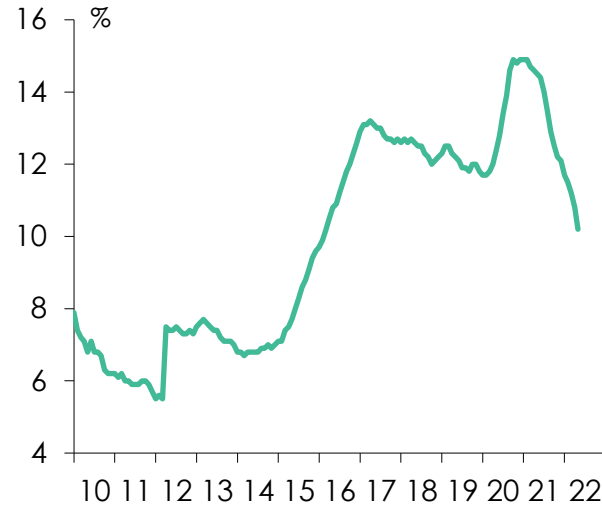
# Brazil's central bank raised its policy (SELIC) rate another 50 bp, to 13.25%, the week before last

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

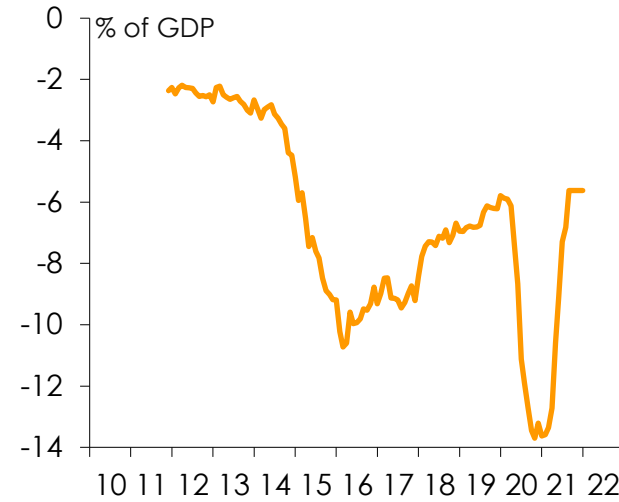
## Real GDP



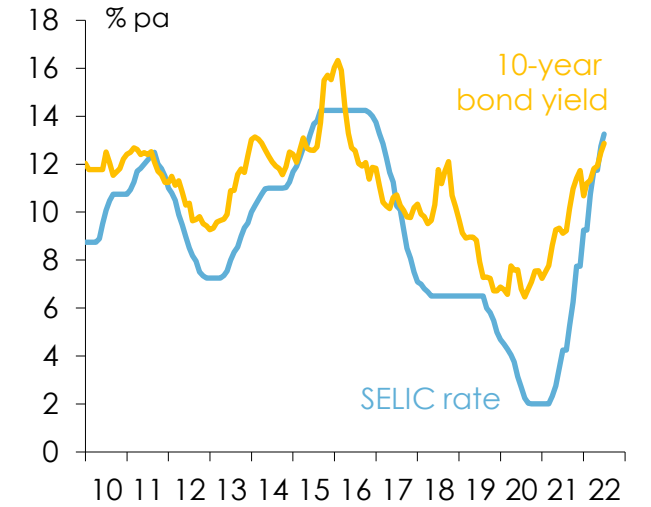
## Unemployment



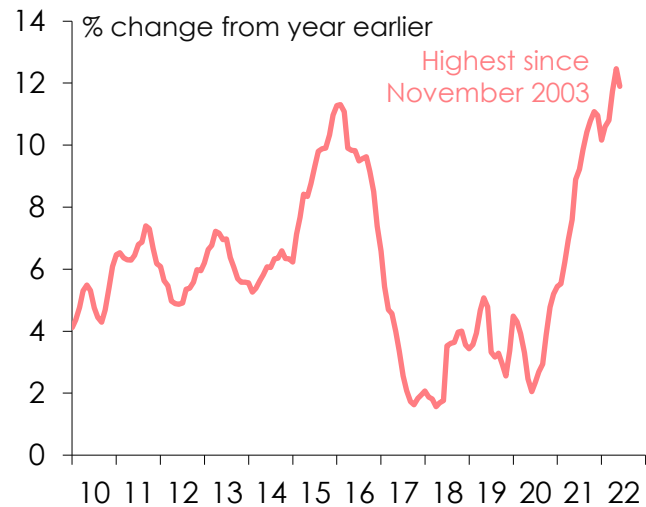
## Public sector borrowing



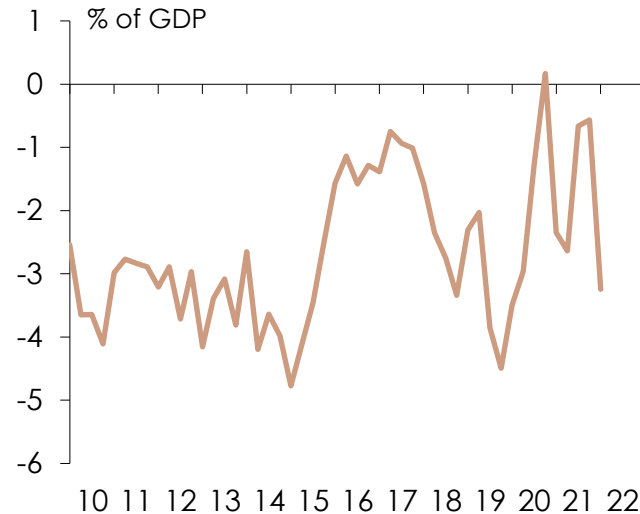
## Interest rates



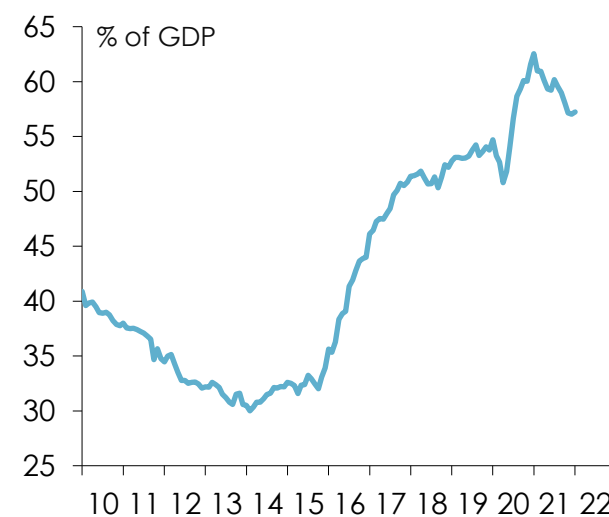
## Inflation



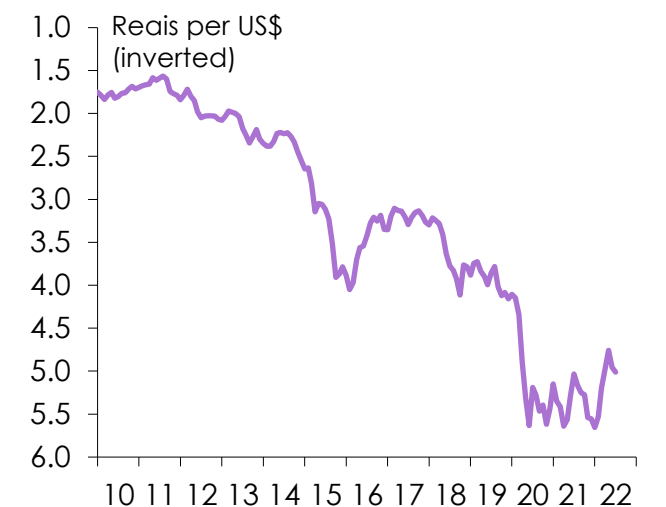
## Current account balance



## Public sector net debt



## Brazilian real vs US\$

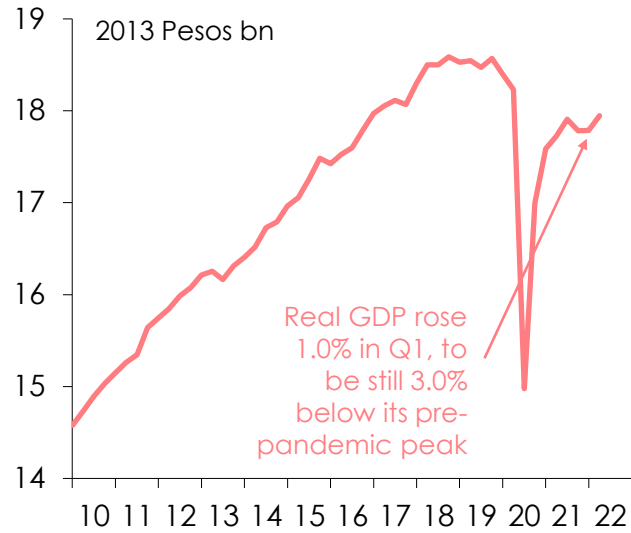


Sources: [Instituto Brasileiro de Geografia e Estatística](#) (IBGE); [Banco Central do Brasil](#); Refinitiv Datastream. [Return to "What's New"](#).

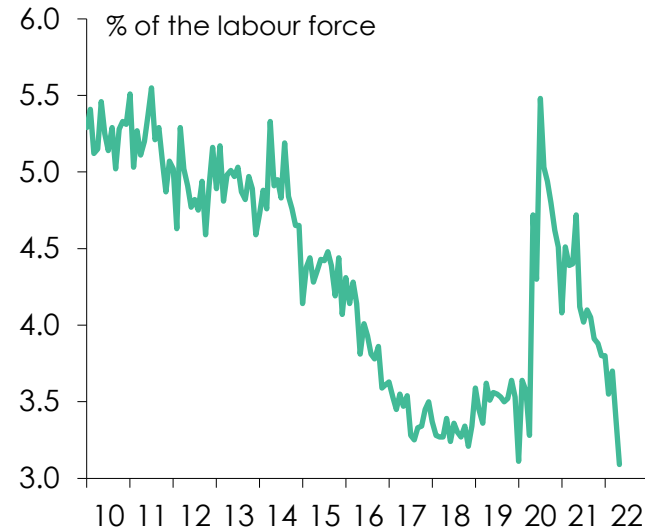
# Banco de México raised its overnight rate by another 75bp, to 7.75%, at last week's Governing Board meeting

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

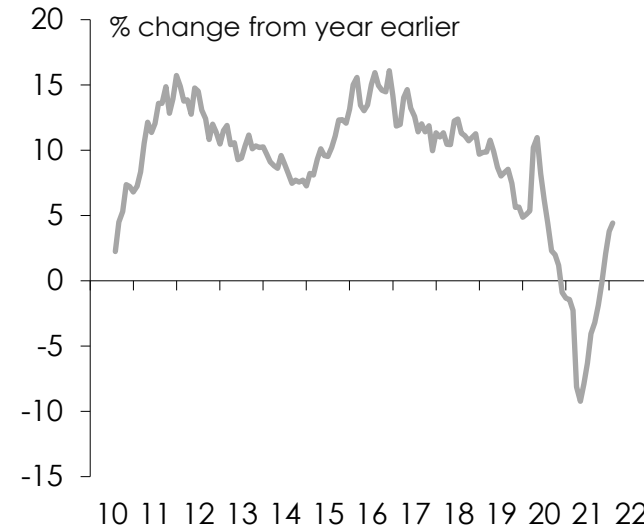
## Real GDP



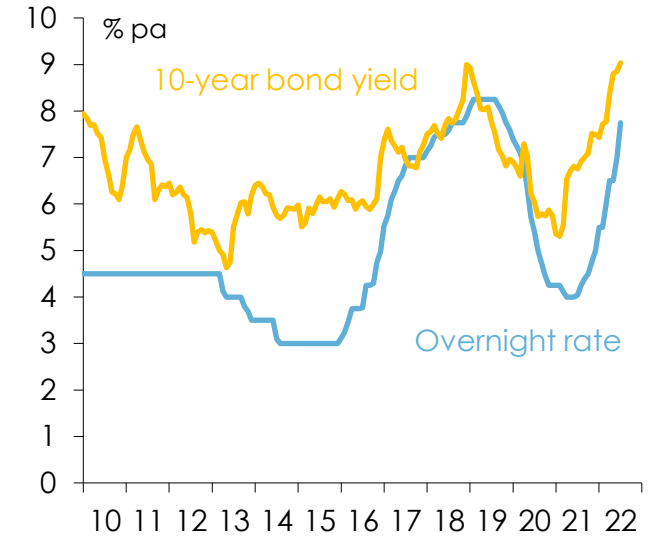
## Unemployment



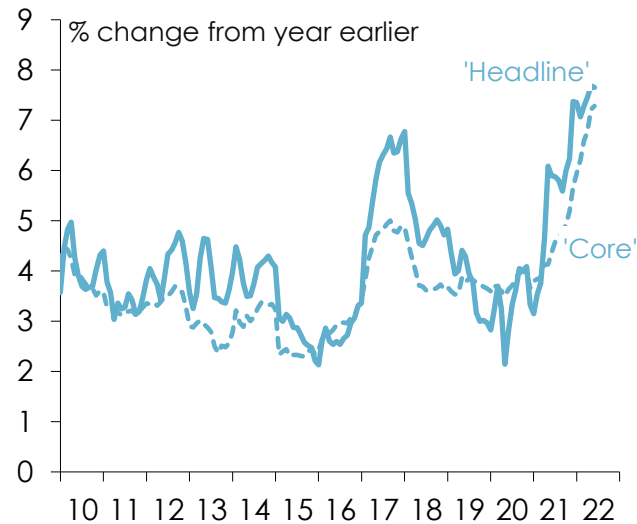
## Bank lending



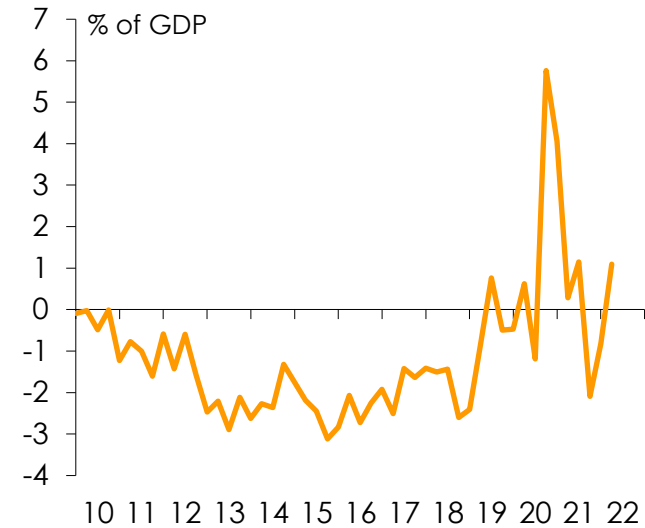
## Interest rates



## Inflation



## Current account balance



## Federal budget deficit



## Mexican peso vs US\$



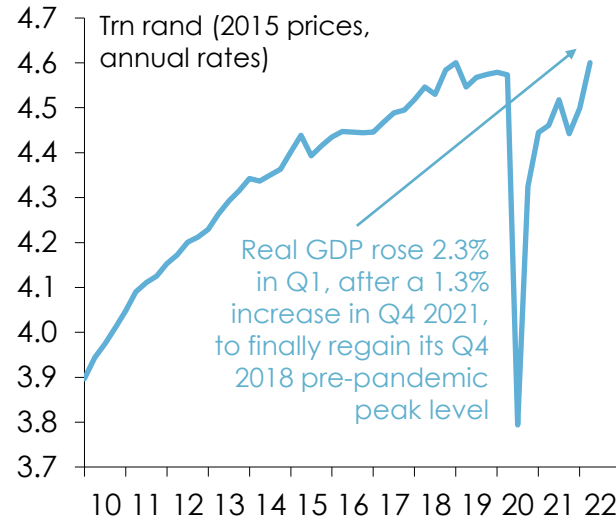
Sources [Banco de México](#); [Instituto Nacional de Estadística y Geografía \(INEGI\)](#); Refinitiv Datastream.. [Return to "What's New"](#).



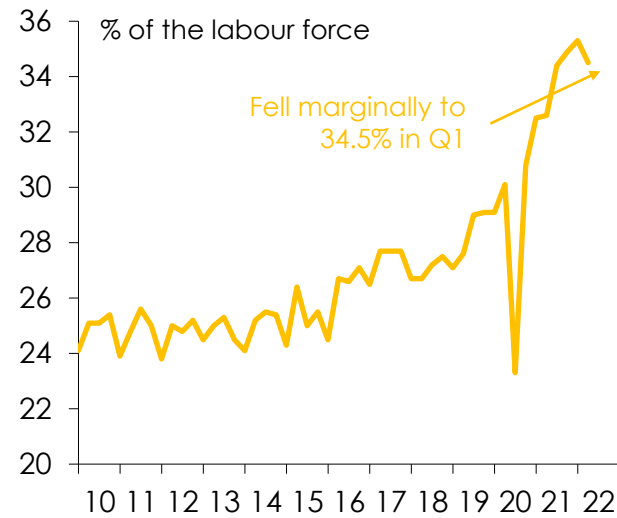
# South Africa's annual 'headline' inflation rate jumped to 6.5% in May, the highest since January 2017, though 'core' inflation was lower at 4.1%

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

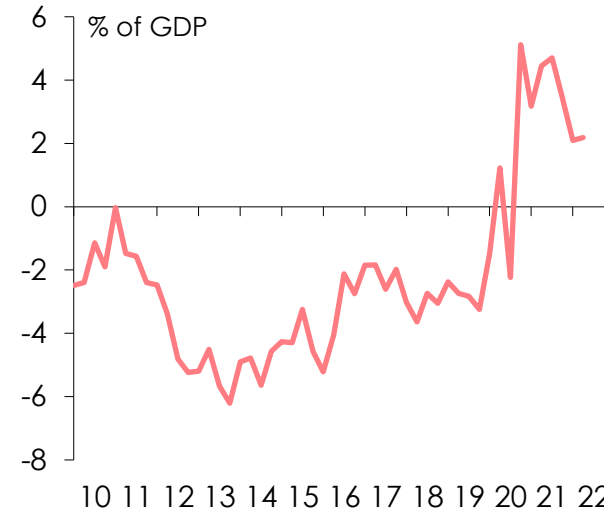
## Real GDP



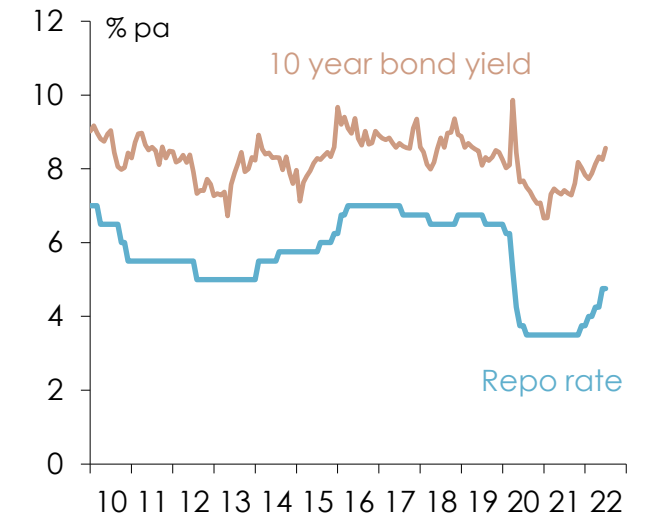
## Unemployment



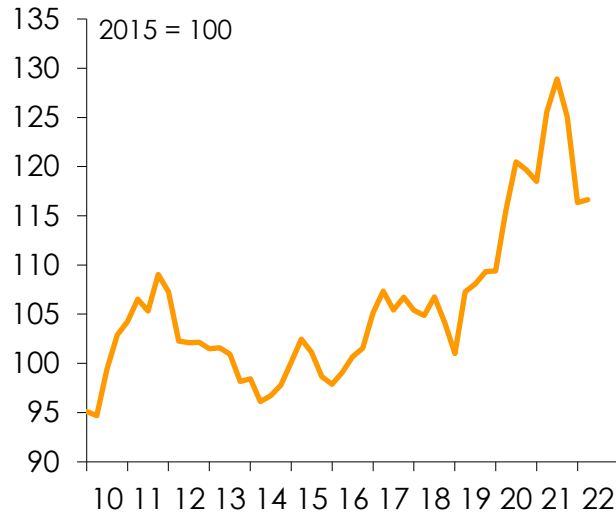
## Current account balance



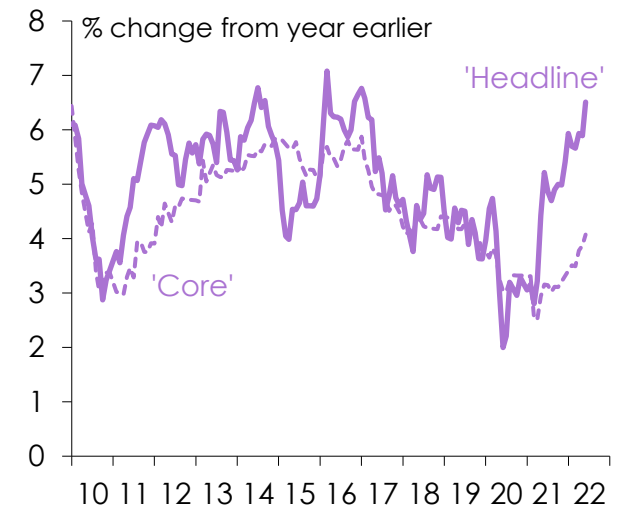
## Interest rates



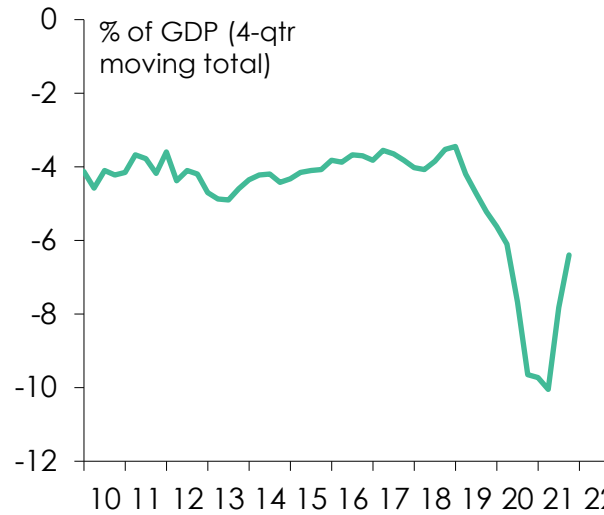
## Terms of trade



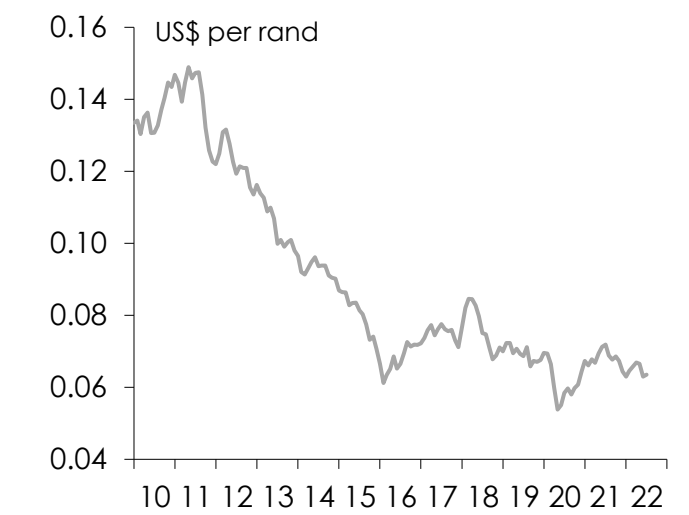
## Inflation



## Budget deficit



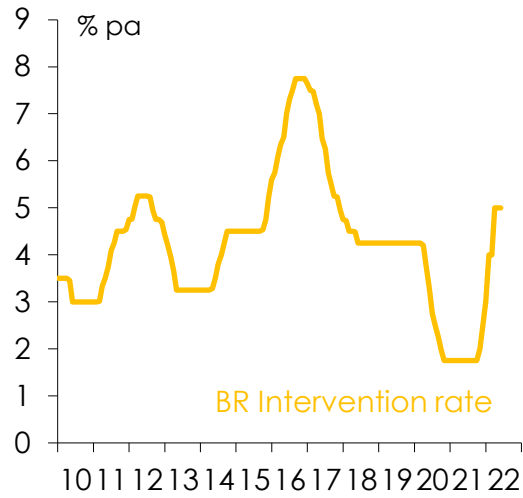
## Rand vs US\$



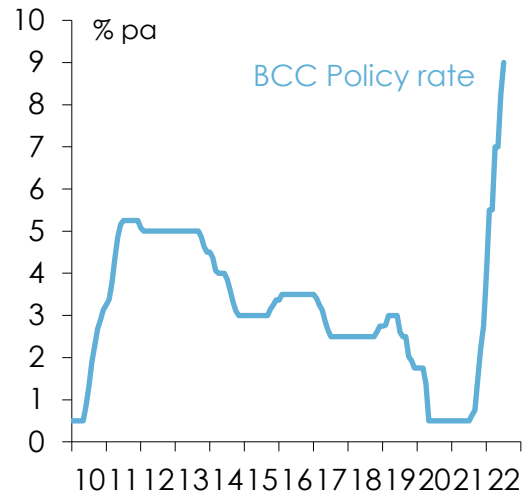
# Central banks in Latin America, Central & Eastern Europe, and South Asia have been very forceful in tightening monetary policy

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

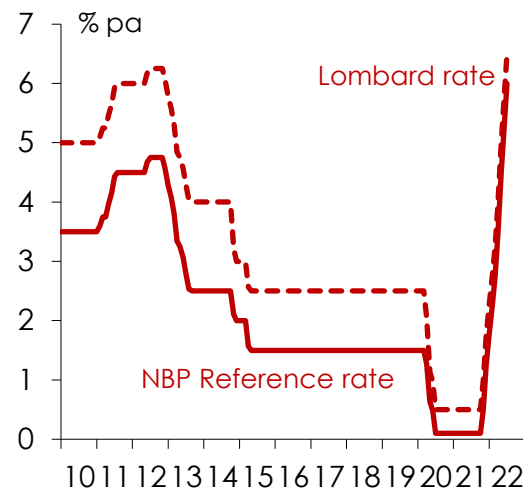
## Colombia



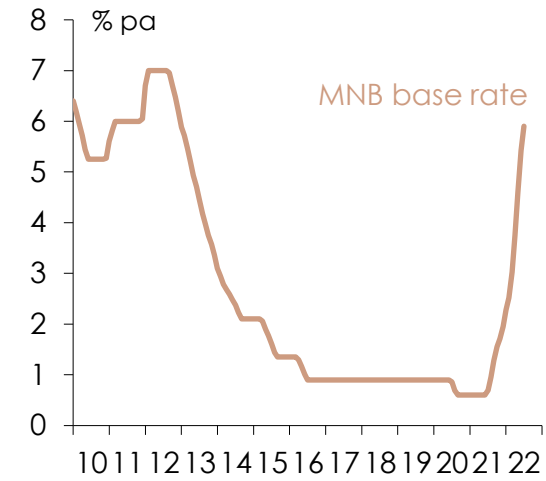
## Chile



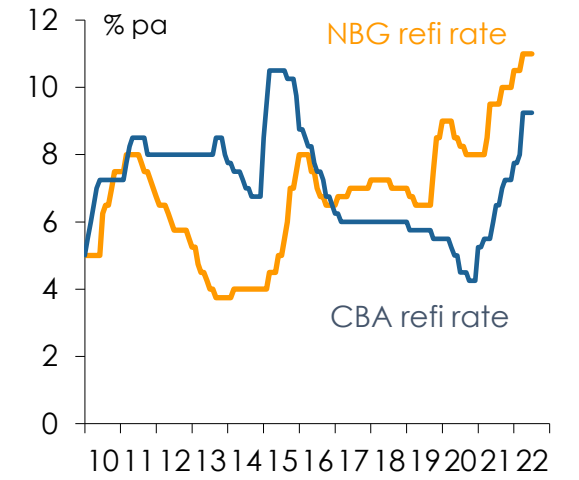
## Poland



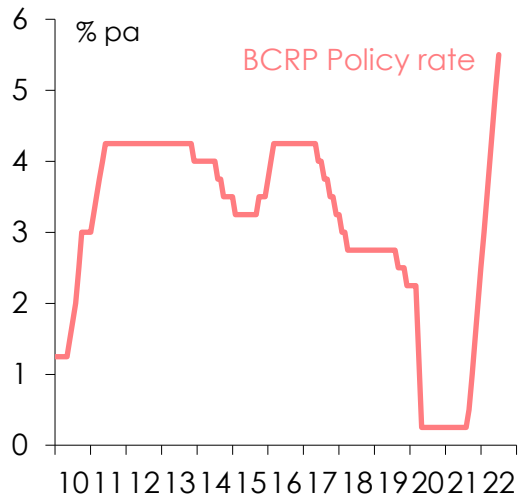
## Hungary



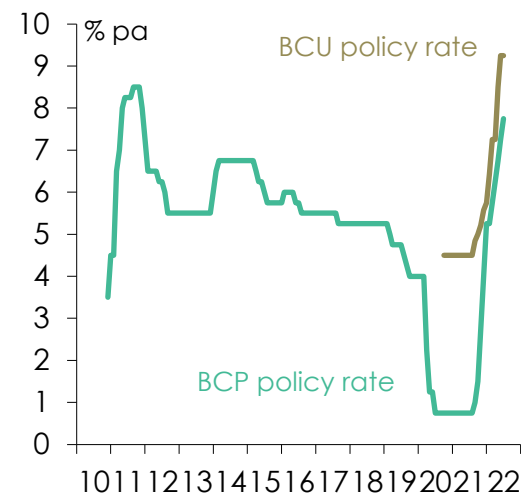
## Georgia & Armenia



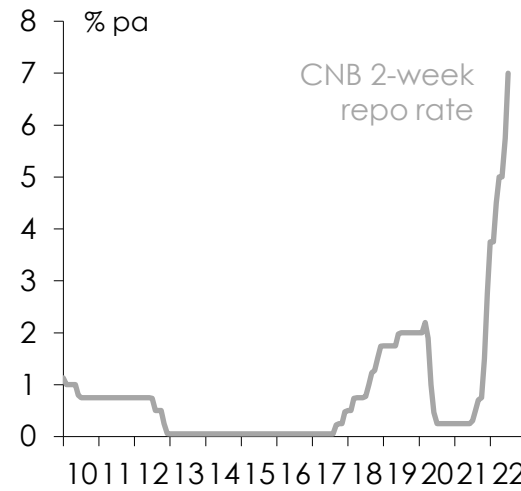
## Peru



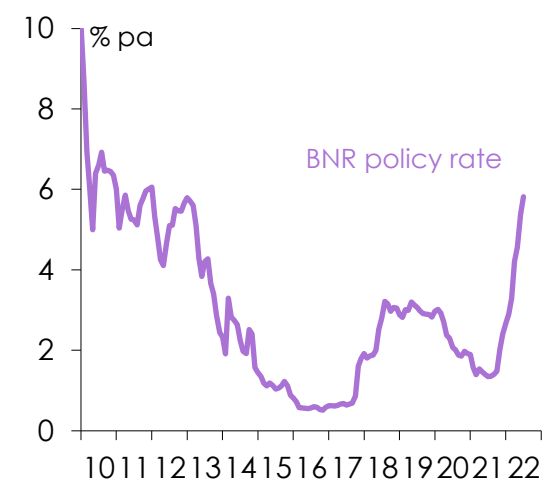
## Paraguay & Uruguay



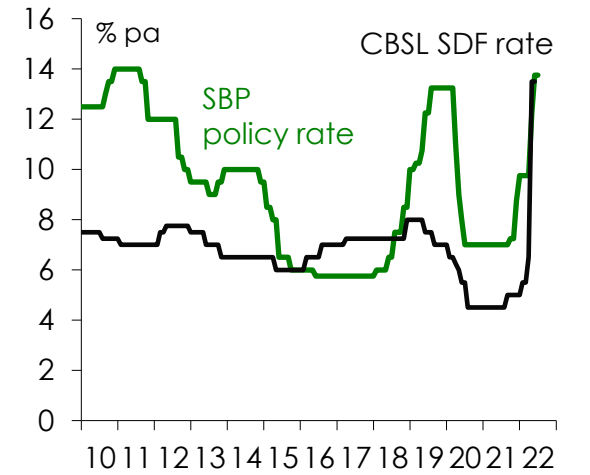
## Czech Republic



## Romania



## Pakistan & Sri Lanka

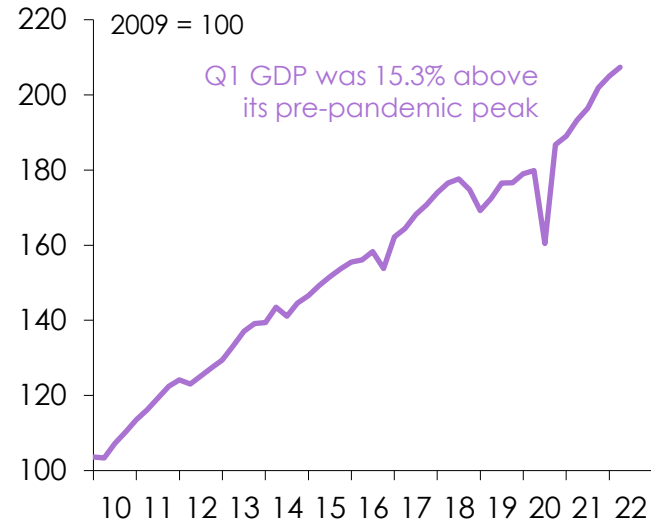


Sources: [Banco de la República Colombia](#); [Banco Central de Reserva del Perú](#); [Banco Central de Chile](#); [Banco Central del Uruguay](#); [Banco Central del Paraguay](#); [Narodowy Bank Polski](#); [Česká Národní Banka](#); [Magyar Nemzeti Bank](#); [Banca Națională a României](#); [Sakartvelos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

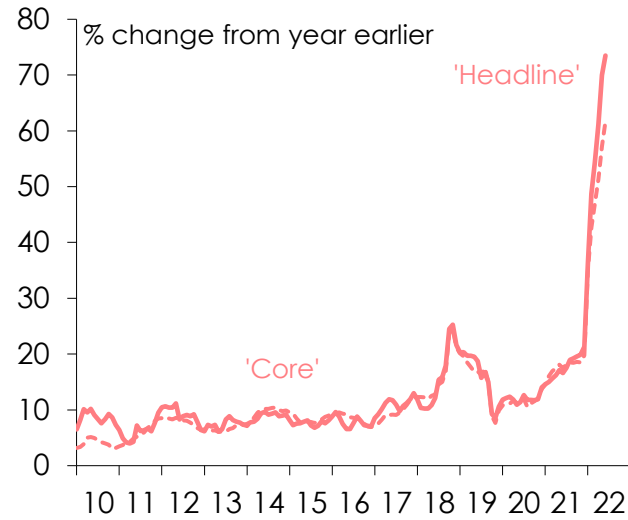
# Turkey's real GDP grew by 1.2% in Q1 – while annual 'headline' and 'core' inflation rose to 73.5% and 61.6% in May

THE WORLD ECONOMY THIS WEEK – 27<sup>TH</sup> JUNE 2022

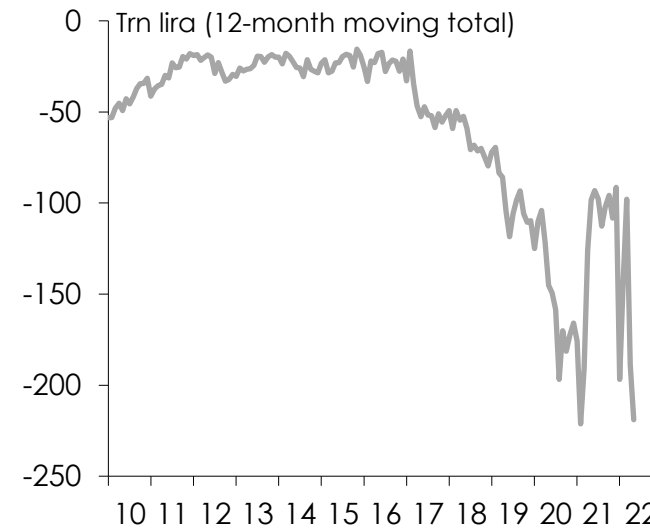
## Real GDP



## Inflation



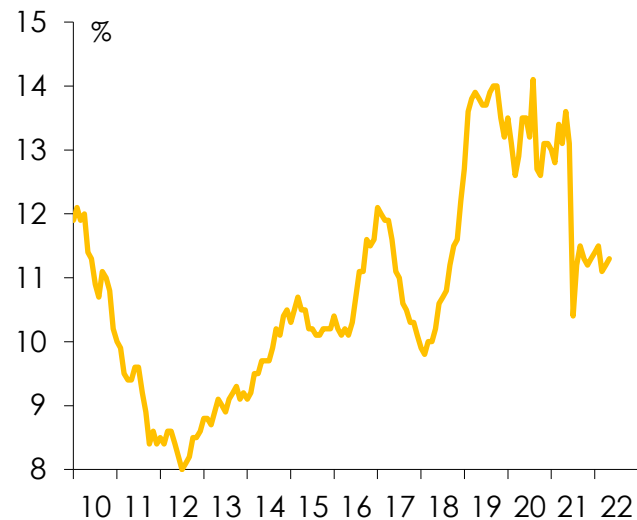
## Budget balance



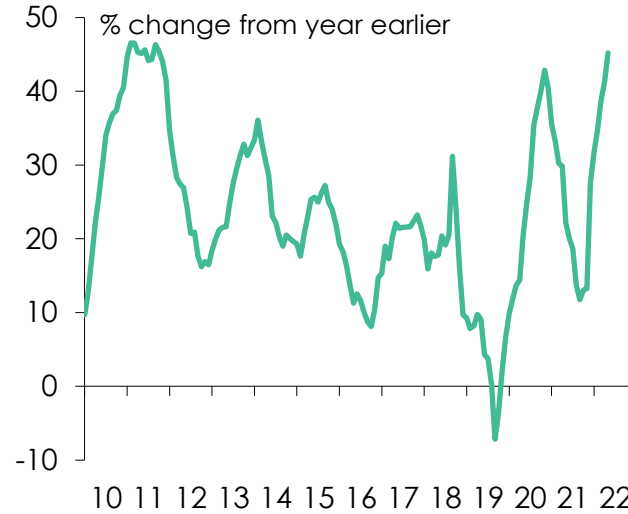
## FX reserves



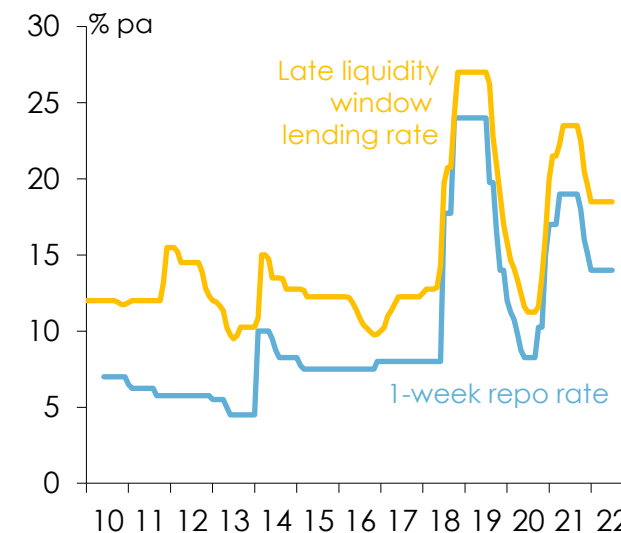
## Unemployment rate



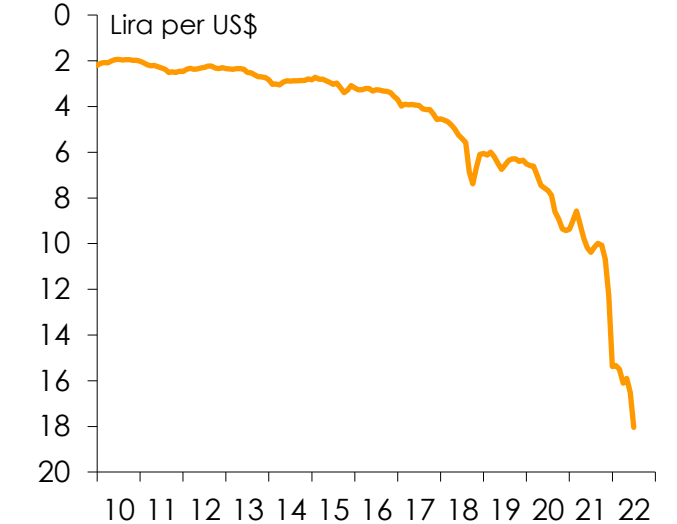
## Bank lending



## Interest rates



## Turkish lira vs US\$



# Key data and events this week

# Key data and events for week ended 1<sup>st</sup> July

THE WORLD ECONOMY THIS WEEK – 27<sup>th</sup> JUNE 2022

Monday 27<sup>th</sup> June

**Taiwan** Q2 business & consumer confidence; **Taiwan** June consumer confidence; **Hong Kong** May merchandise trade; **US** May durable goods orders; **Mexico** May merchandise trade

Tuesday 28<sup>th</sup> June

**Malaysia** May PPI; **South Africa** Q2 consumer confidence; **Hungary** MNB meeting; **US** June Conference Board consumer confidence index, May merchandise trade (p), April Case-Shiller house price indices, and May wholesale & retail inventories; **Mexico** May unemployment; **Argentina** Q1 current account balance

Wednesday 29<sup>th</sup> June

**Australia** May retail sales; **Japan** June consumer confidence and May retail sales; **Korea** June consumer confidence; **Vietnam** Q2 consumer confidence, and June CPI, industrial production, retail sales & merchandise trade; **Thailand** May industrial production; **Singapore** May PPI; **Russia** May unemployment, industrial production & retail sales; **euro area** June business confidence, May money & credit aggregates; **Iceland** June CPI & May PPI; **US** Q1 GDP (final); **Chile** May unemployment

Thursday 30<sup>th</sup> June

**New Zealand** June business confidence; **Australia** May money & credit aggregates; **Korea** June business confidence, May industrial production & retail sales; **Japan** May industrial production (p) and housing starts; **Thailand** May retail sales & current account balance; **Philippines** May PPI; **China** 'official' June PMIs; **South Africa** May merchandise trade; **euro area** May unemployment; **Sweden** Riksbank meeting; **UK** Q1 GDP (final) and current account balance; **US** May personal income & expenditure and PCE deflator; **Brazil** May unemployment; **Argentina** June consumer confidence; **Colombia** CBRC meeting and May unemployment; **Chile** May industrial production & retail sales

Friday 1<sup>st</sup> July

**Asia, Europe & other countries** June manufacturing PMIs; **New Zealand** June consumer confidence and May building permits; **Japan** Q2 *Tankan* survey, June Tokyo CPI and May unemployment; **Korea** June merchandise trade; **Indonesia** June CPI; **Thailand** June business confidence; **India** June merchandise trade; **euro zone** June 'flash' CPI; **Norway** June unemployment; **US** June manufacturing ISM & May construction spending; **Brazil** June CPI & merchandise trade, May industrial production & PPI; **Peru** June CPI

## 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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