



THE WORLD ECONOMY THIS WEEK

4TH JULY 2022

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CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

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What's new?

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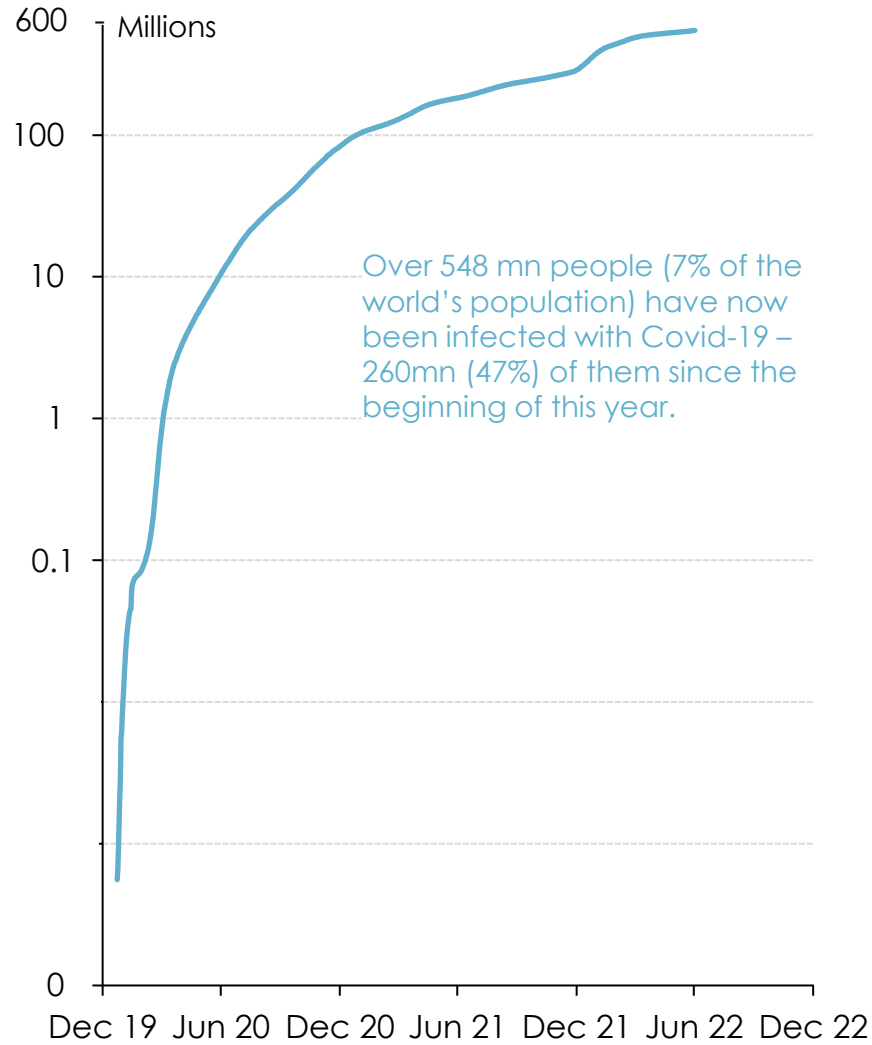
- ❑ The Bank for International Settlements (the Basel-based “central banks’ central bank”) issued a sombre outlook for the global economy in its Annual Report published last Tuesday, warning of the inevitability of “some pain” as central banks seek to meet “the over-riding near-term challenge” of “prevent[ing] the global economy from shifting from a low- to a high-inflation regime” ([slide 32](#))
- ❑ The BIS’ concerns – and in particular its message that “the long-term costs of allowing inflation to become entrenched far outweigh the short-term ones of bringing it under control” were echoed by Fed Chair Jerome Powell, who appears increasingly open about the Fed’s preparedness to risk a recession in order to bring inflation back to the Fed’s target range ([slide 59](#)) – even as, perversely, financial markets seem to be becoming convinced that the Fed won’t raise rates as much as they previously feared ([slide 37](#))
- ❑ However the ECB is taking a different view, with ECB President Christine Lagarde last week again emphasizing differences between the euro area and the US, and the importance to the ECB of “gradualism and optionality” ([slide 67](#)) – which seems a recipe for further US\$ strength ([slide 39](#))
- ❑ Covid-19 isn’t going away: the number of new cases has risen by 60% over the past four weeks ([slide 5](#)), with most of that increase occurring in Europe, although there was also a jump in the number of reported cases last week in the US ([slide 6](#)), where vaccination rates remain stubbornly low ([slides 8-9](#))
- ❑ New case numbers are however falling in China, however, allowing for an easing in restrictions which has in turn facilitated a rebound in economic activity in June, according to PMIs released last week ([slide 73](#))
- ❑ The Fed’s targeted measure of ‘core’ inflation – the implicit price deflator of personal consumption expenditures – rose by 0.3% in May, as it has did in each of the three previous months, having risen by 0.5% in each of the preceding four months, cutting the annual ‘core’ inflation rate by this measure to 4.7% in May from a peak of 5.3% in February ([slide 51](#)) although it would be premature to conclude that US inflation is now on a clear downward path
- ❑ US real personal consumption spending fell by 0.4% in May, the first monthly decline since consecutive falls in November and December last year: although nominal wage and salary income is rising at a double-digit rate, real disposable incomes are being squeezed by rapidly rising prices (especially for energy) and taxes ([slide 44](#))
- ❑ The US goods trade deficit narrowed by US\$2.4bn to \$106.7bn in May, with exports up 1.2% and imports down 0.1% - although this was still the fifth consecutive monthly deficit of more than US\$100bn ([slide 56](#))
- ❑ The euro area CPI rose 8.6% over the year to June, driven by a 41.9% increase in energy prices and an 8.9% increase in food prices, excluding which, the ‘core’ CPI rose by ‘only’ 3.7%, down from 3.8% over the year to May ([slide 65](#))
- ❑ Japanese industrial production fell 7.2% in May, to its lowest level since August 2020, partly due to China-driven supply chain disruptions ([slide 84](#)), while employment fell 0.2% in May and the unemployment rate rose 0.1 pc pt to 2.6% ([slide 85](#))
- ❑ Hungary’s and Colombia’s central banks raised their policy rates by 185bp and 150bp, respectively, in each case the largest increases thus far in their tightening cycles ([slides 116](#) and [122](#))
- ❑ This week’s data calendar is fairly light until Friday’s release of US June labour market report and China’s June inflation data on Saturday: but central banks in Australia, Malaysia, Poland and Peru are all likely to lift their policy interest rates again ([slide 125](#))

Covid-19

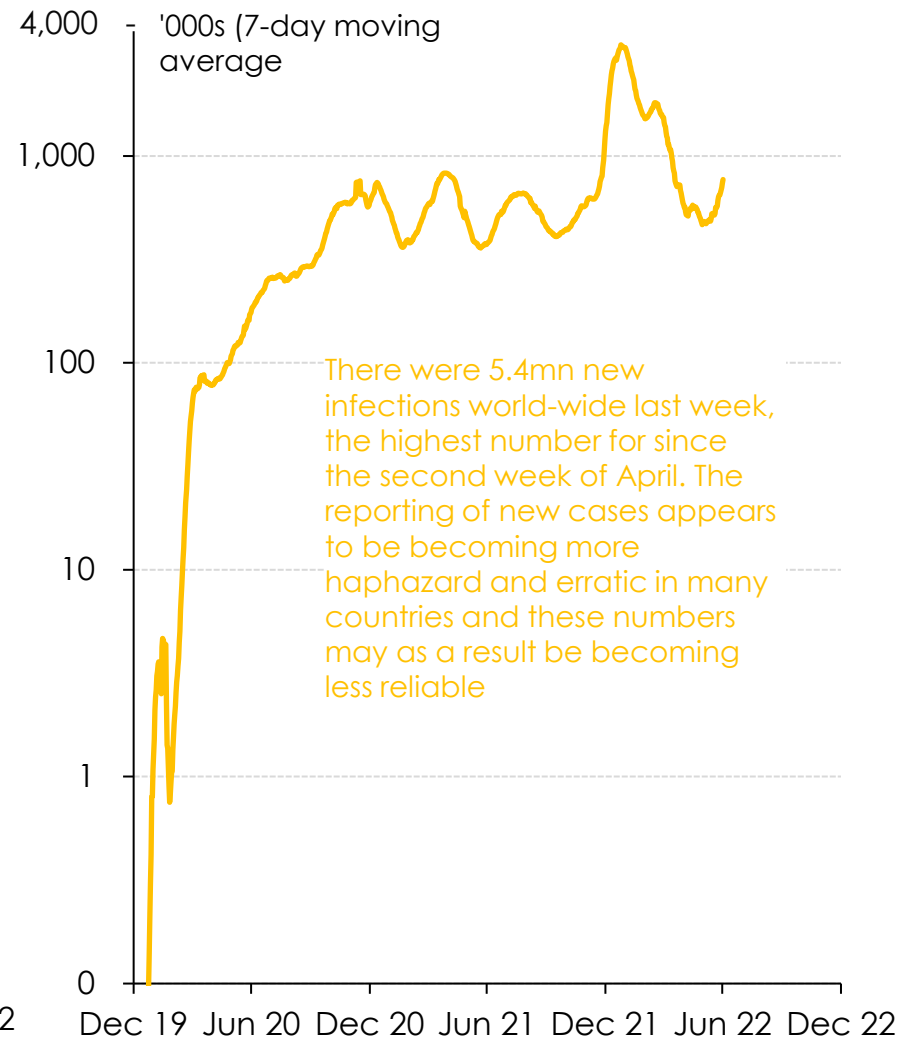
There's been a 60% increase in the global total number of new Covid-19 cases over the past four weeks – although the death toll continues to fall

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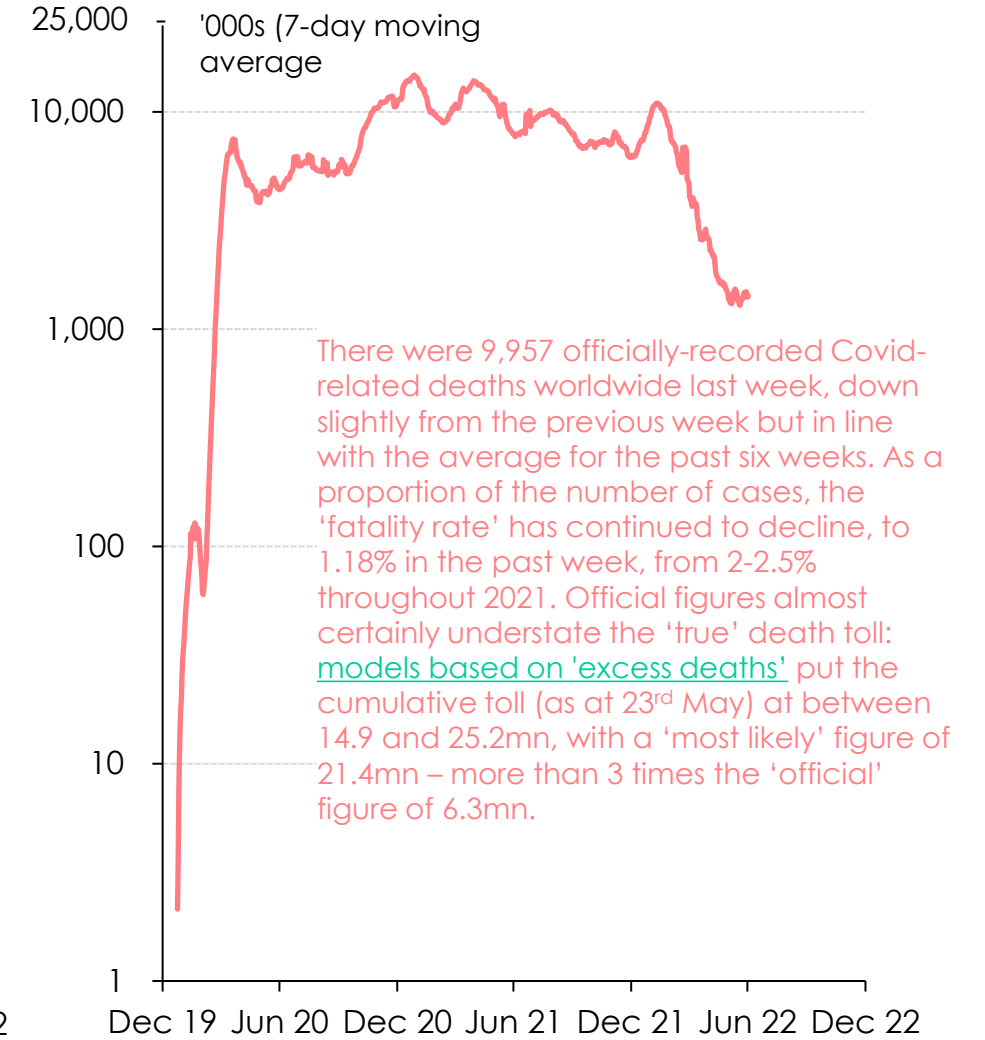
Cumulative confirmed cases – global total



New confirmed cases – global total



New deaths – global total

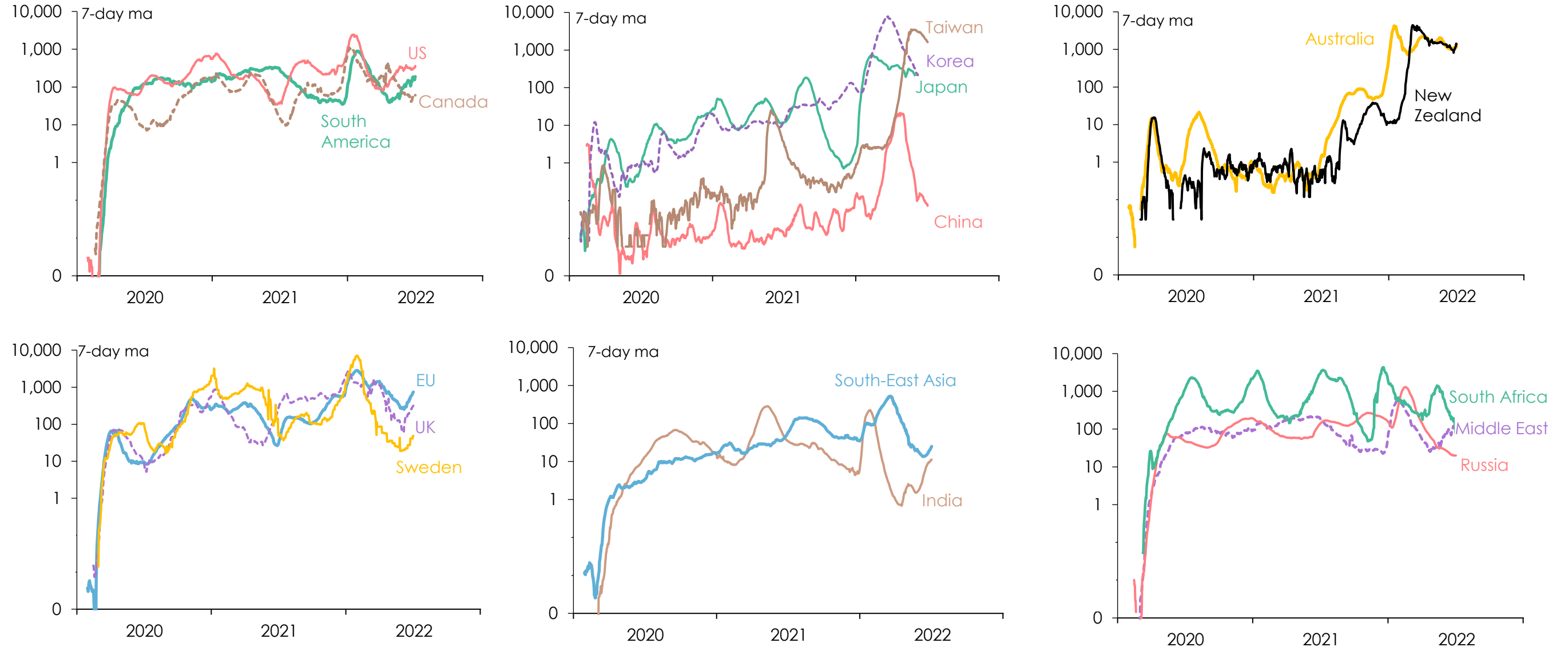


Note: All charts are on logarithmic scales. Data up to 1st July. Source: University of Oxford, [Our World in Data](#). [Return to "What's New"](#).

The upturn in case numbers over the past four weeks has been mostly in Europe, though the number of cases in the US also rose last week

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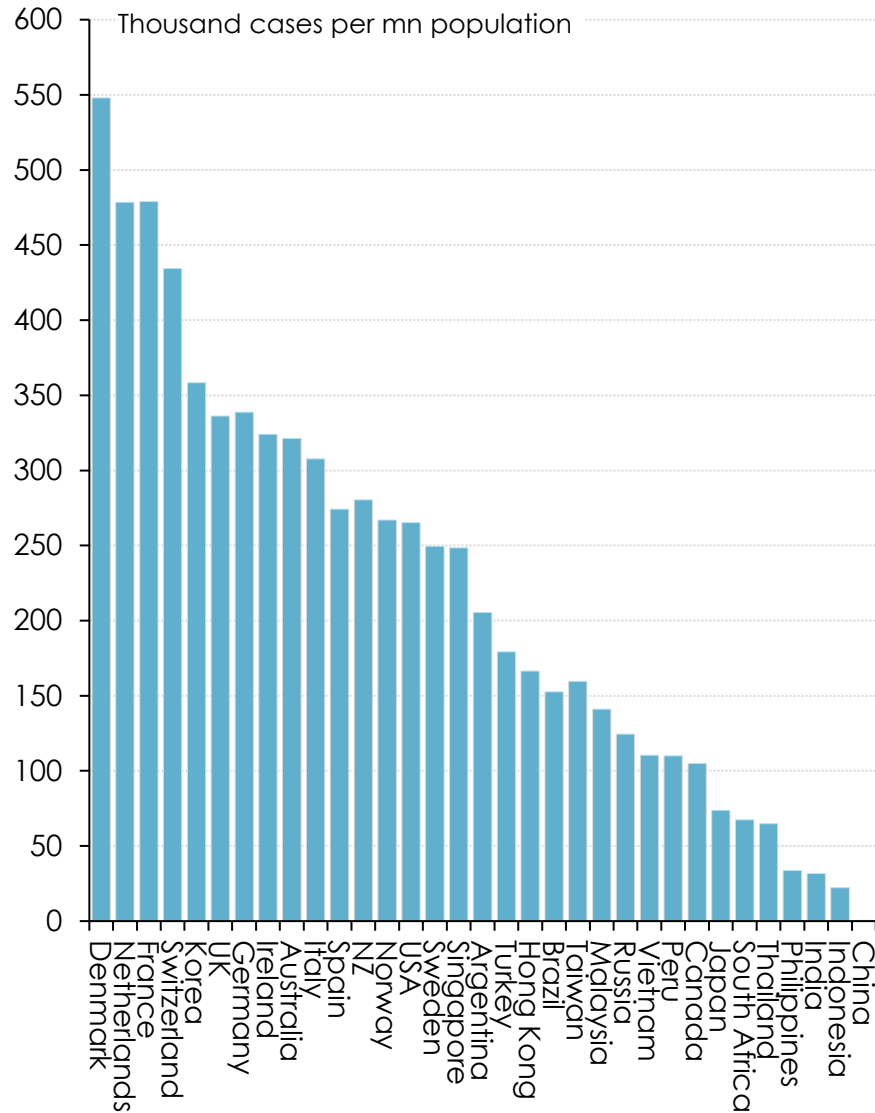
Daily new cases per million population – major countries and regions



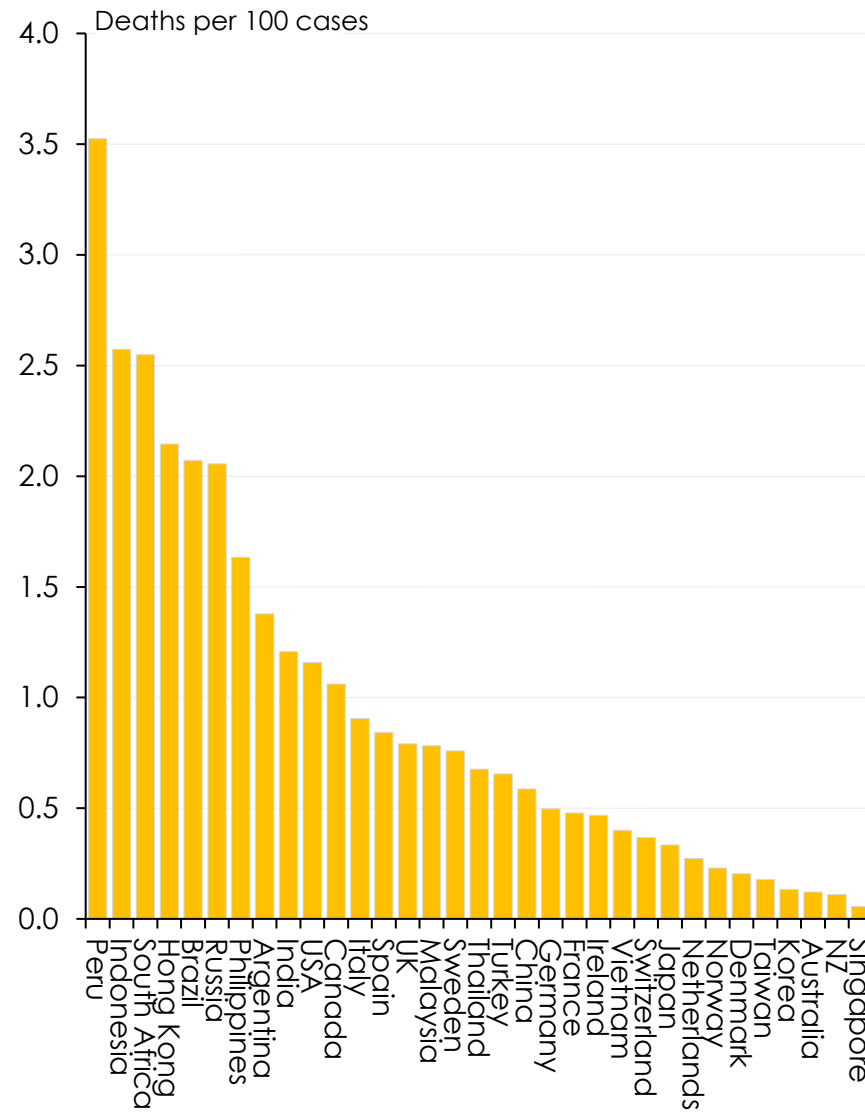
The highest cumulative infection and death rates (since the onset of the pandemic) have been in Europe, South and North America

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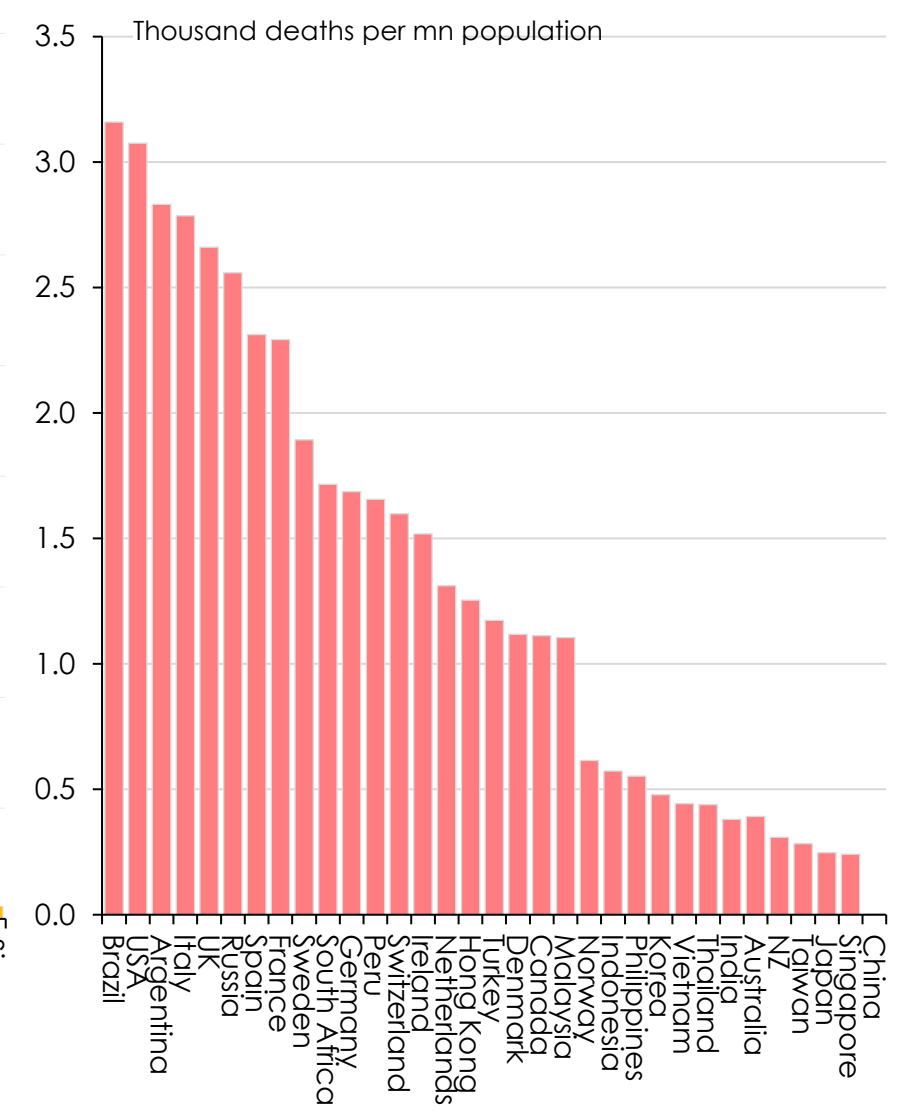
Apparent infection rate



Apparent fatality rate



Apparent death rate



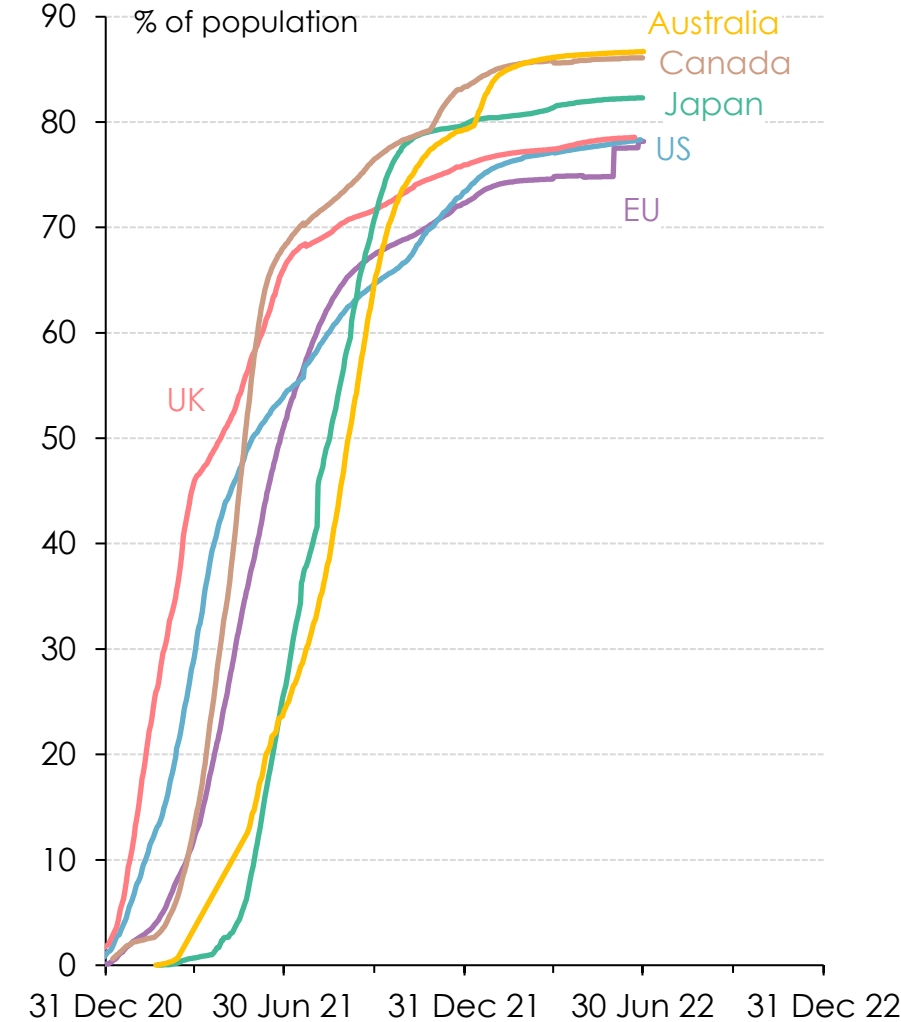
Note: Data shown in these charts are cumulative since the beginning of the pandemic, up to 1st July. Sources: University of Oxford, [Our World in Data](#); Corinna.

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

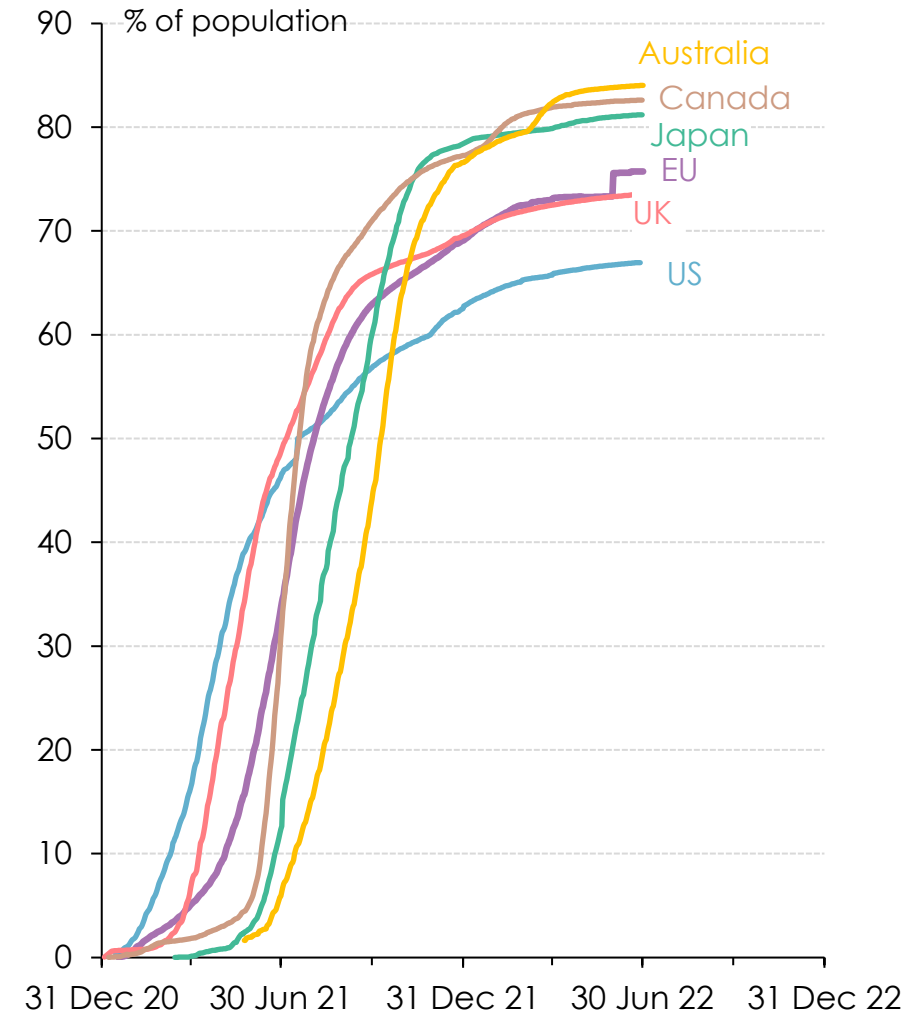
The US lags behind most other 'advanced' economies in fully vaccinating its population and also now with regard to 'boosters'

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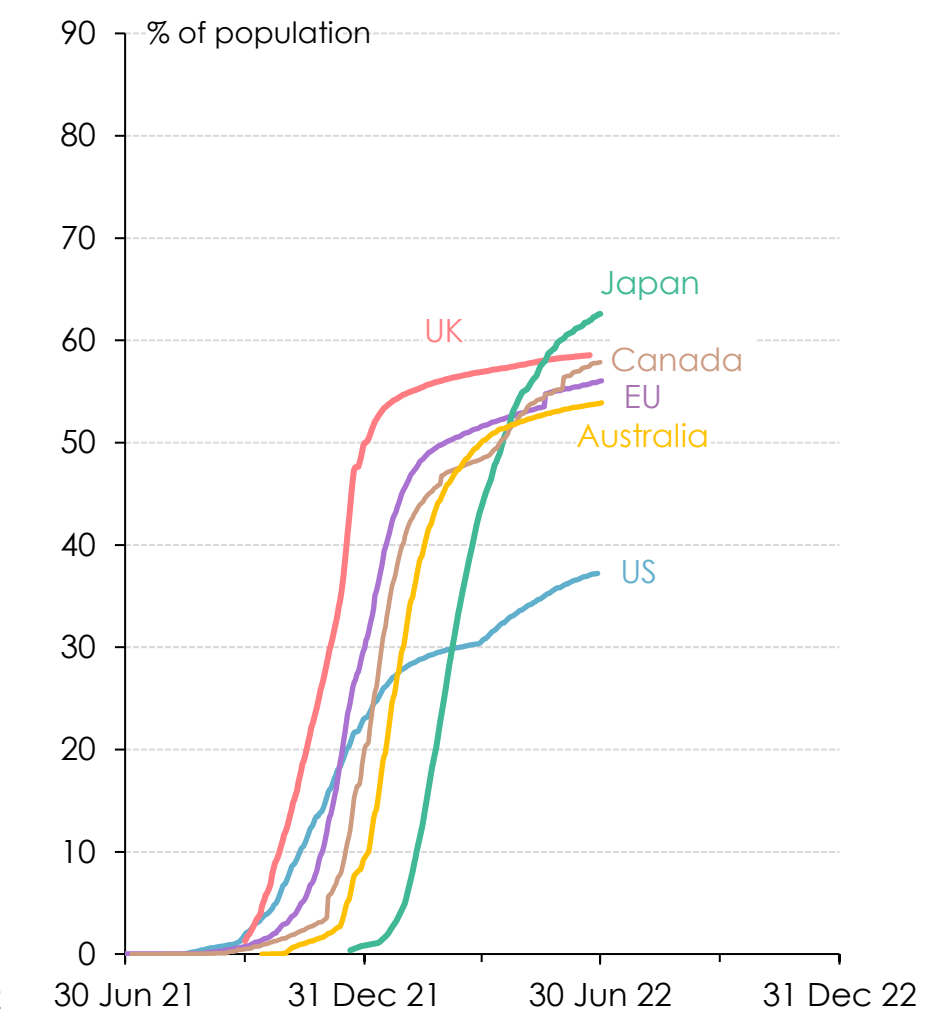
Percentage of populations who have had at least one shot



Percentage of populations who have had two shots



Percentage of populations who have had a 'booster' shot

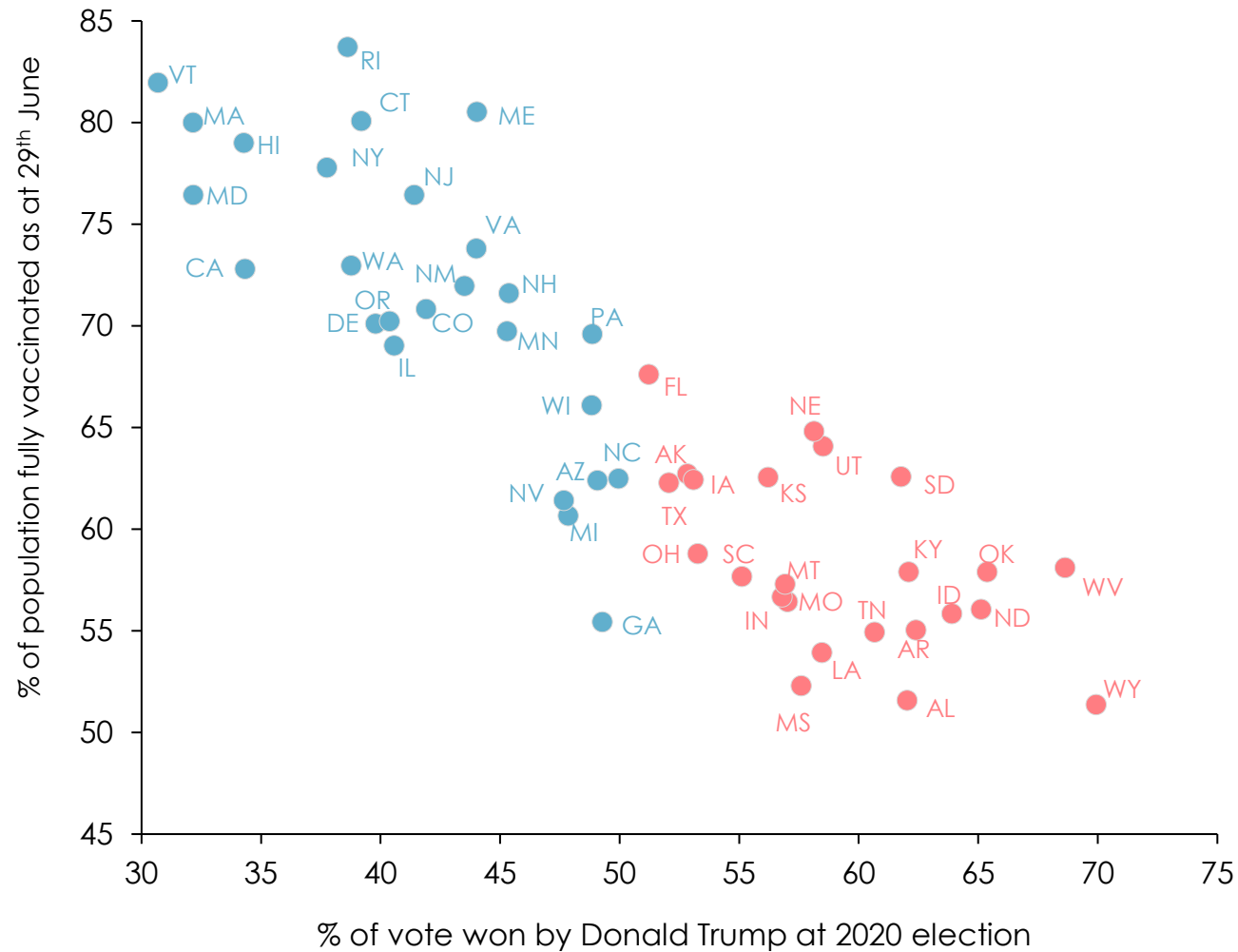


Note: Data up to 30th June or 1st July, except for the UK, 22nd June. Source: [Our World in Data](#); [Coronavirus \(COVID-19\) Vaccinations](#). [Return to "What's New"](#).

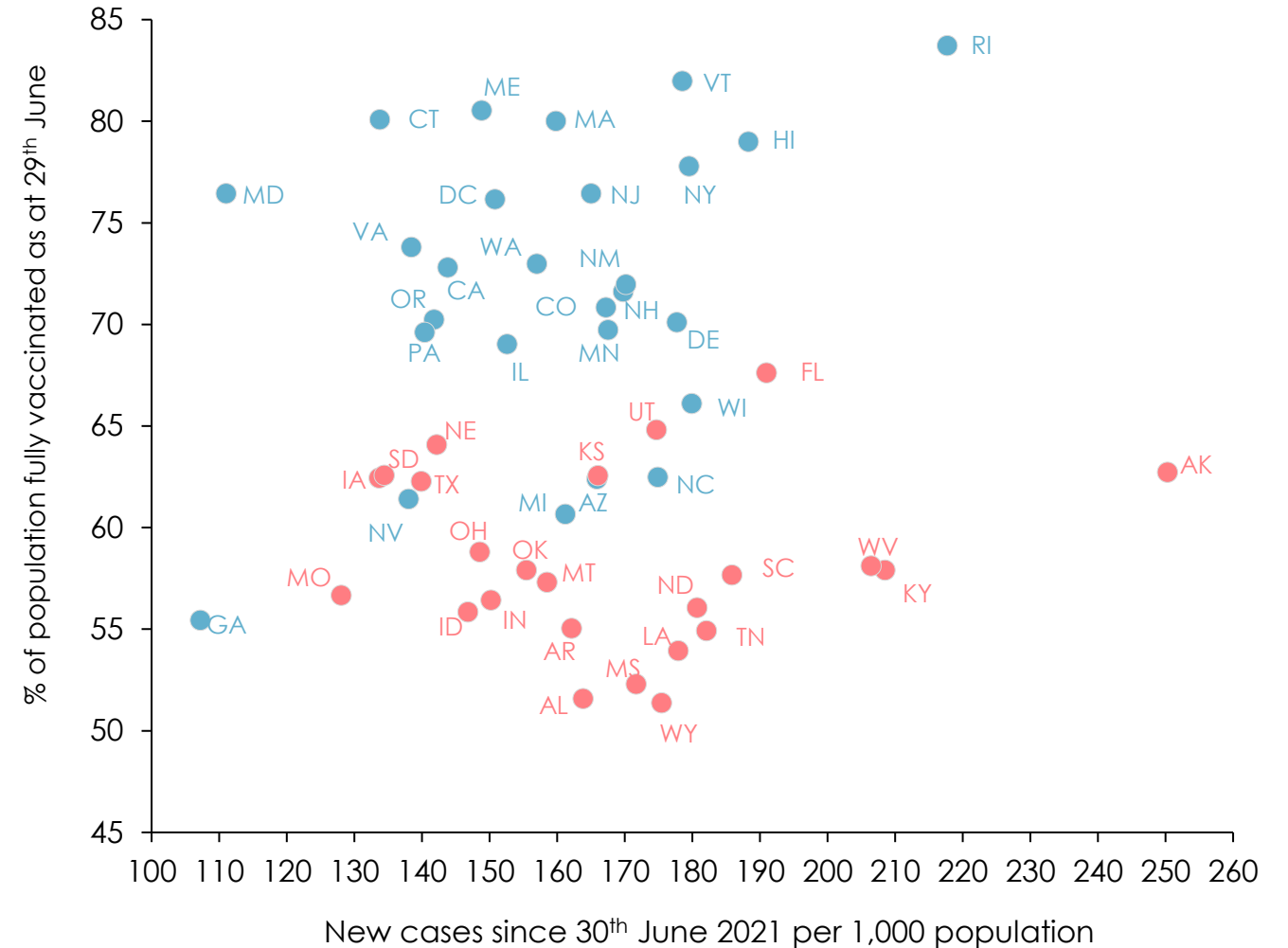
In the US there's a strong correlation between voting patterns and vaccine hesitancy, and (inversely) between vaccination rates and infection rates

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Vaccination rates vs Trump vote at 2020 elections, by state



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

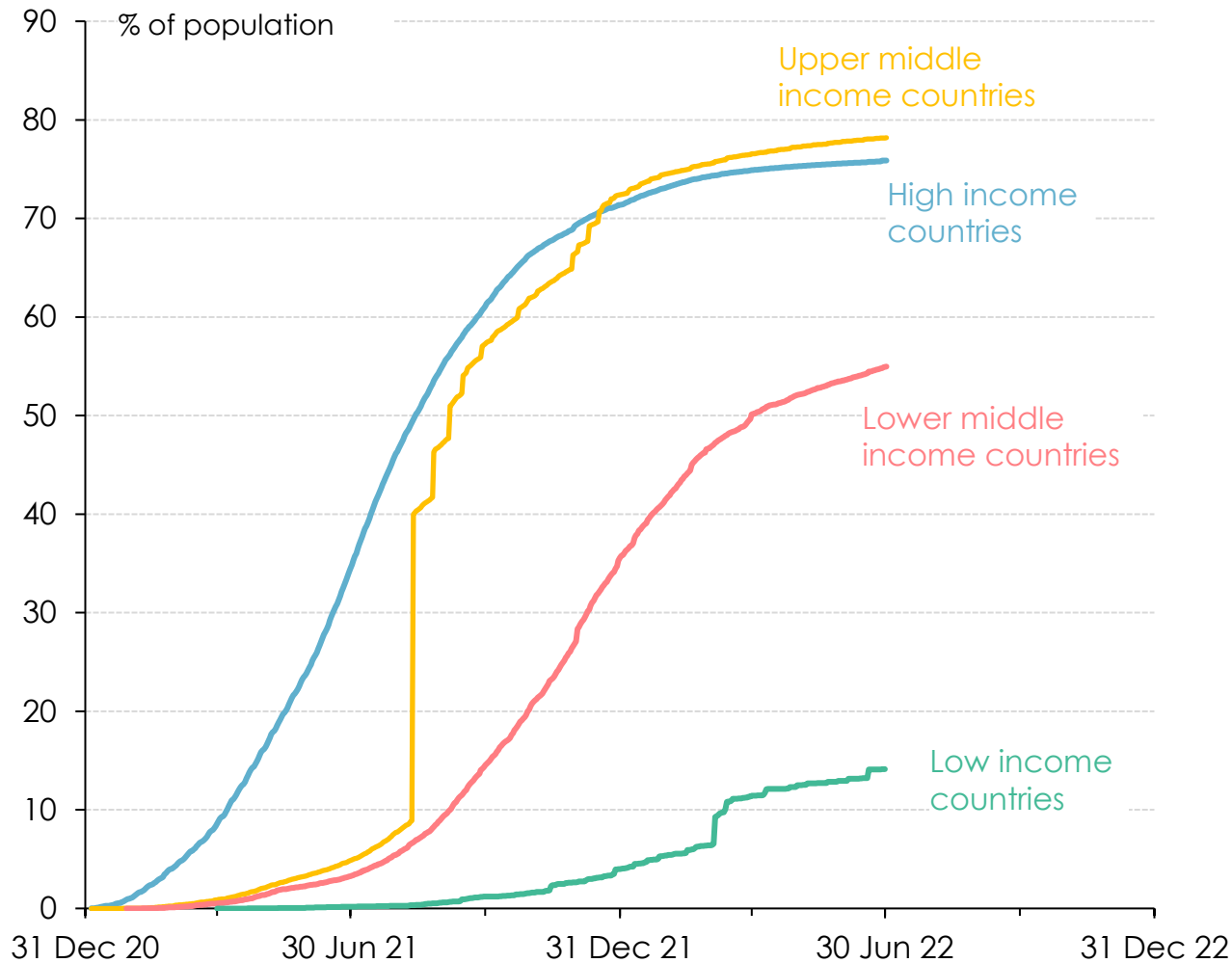


Note: Case data as at 30th June. Sources: [The Cook Political Report](#); [Our World in Data](#); [USA Facts](#); Corinna. [Return to "What's New"](#).

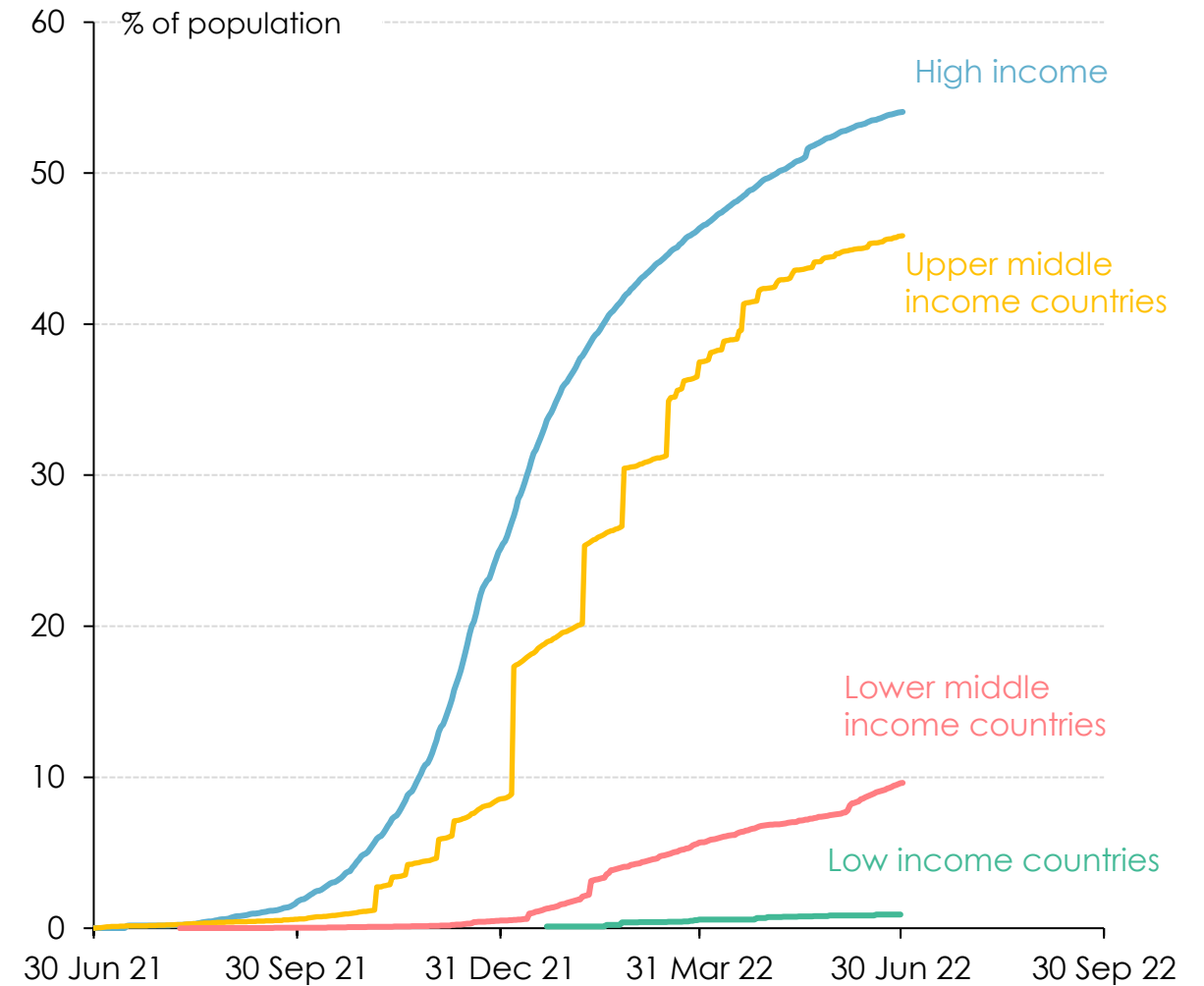
The vaccine roll-out has proceeded much more slowly among low- and lower-middle income countries

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



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



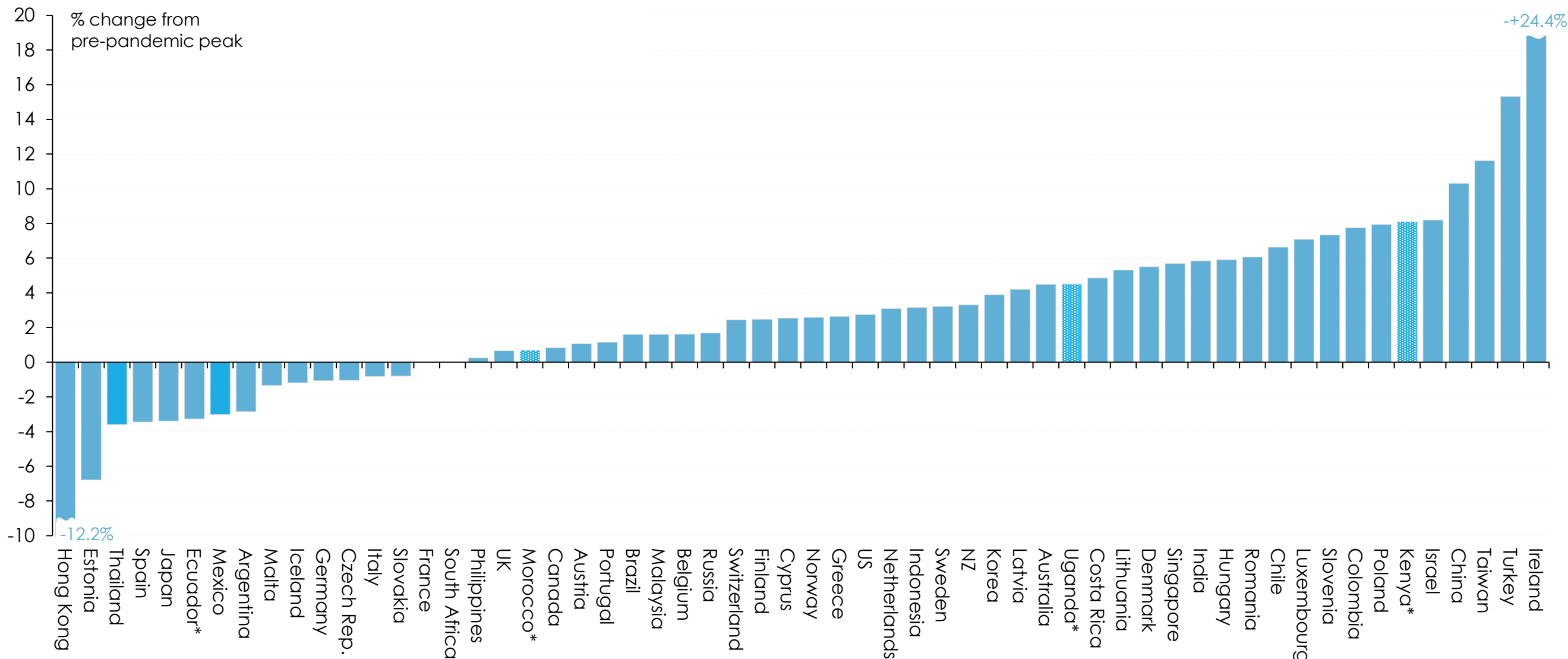
Note: Income categories are as defined by the [World Bank](#): high-income countries are (in 2021) those with a per capita gross national income (GNI) of over US\$12,535; upper-middle income countries are those with per capita GNI between US\$4,046 and \$12,535; lower middle-income countries are those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

The world 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

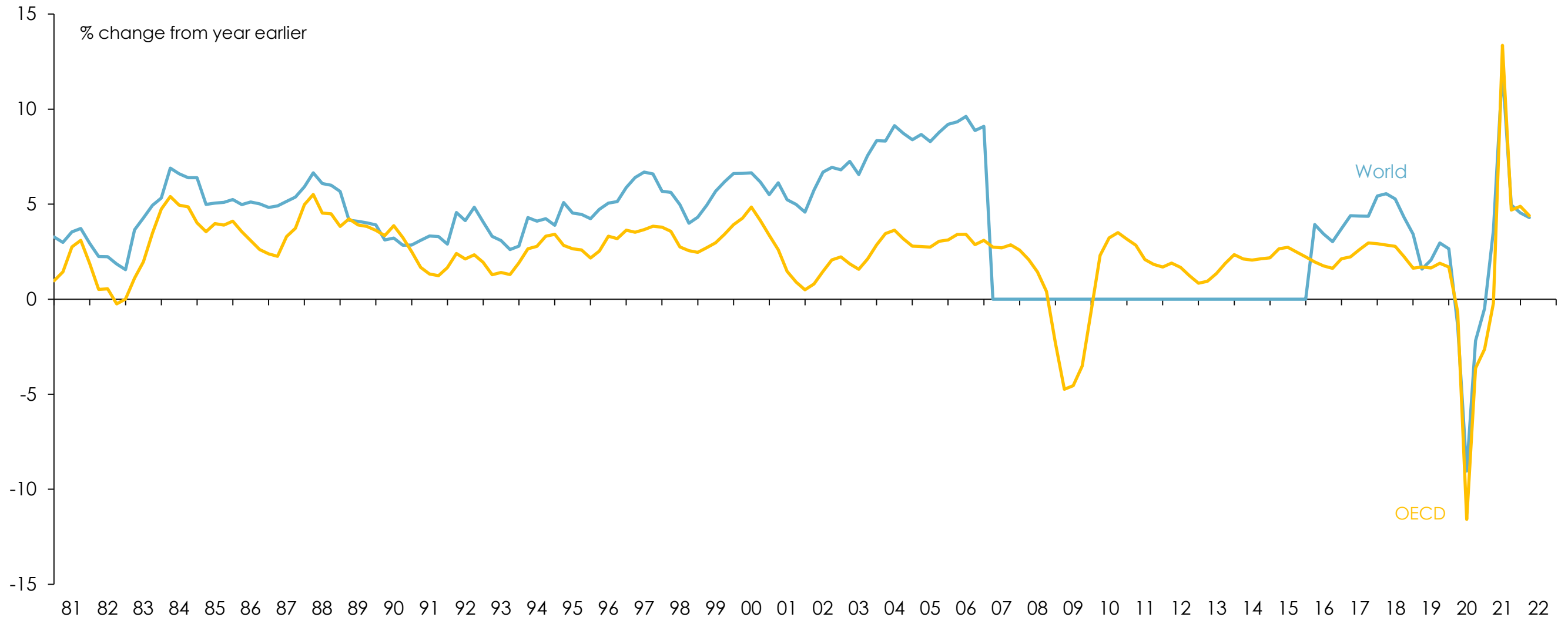


Note: * Q4 2021. Estimate for China is derived from quarterly growth rates published by China NBS; estimates for India, Indonesia and Russia are seasonally adjusted by the OECD. Sources: National statistical agencies and central banks, and OECD. [Return to "What's New"](#).

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

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World and OECD area real GDP growth

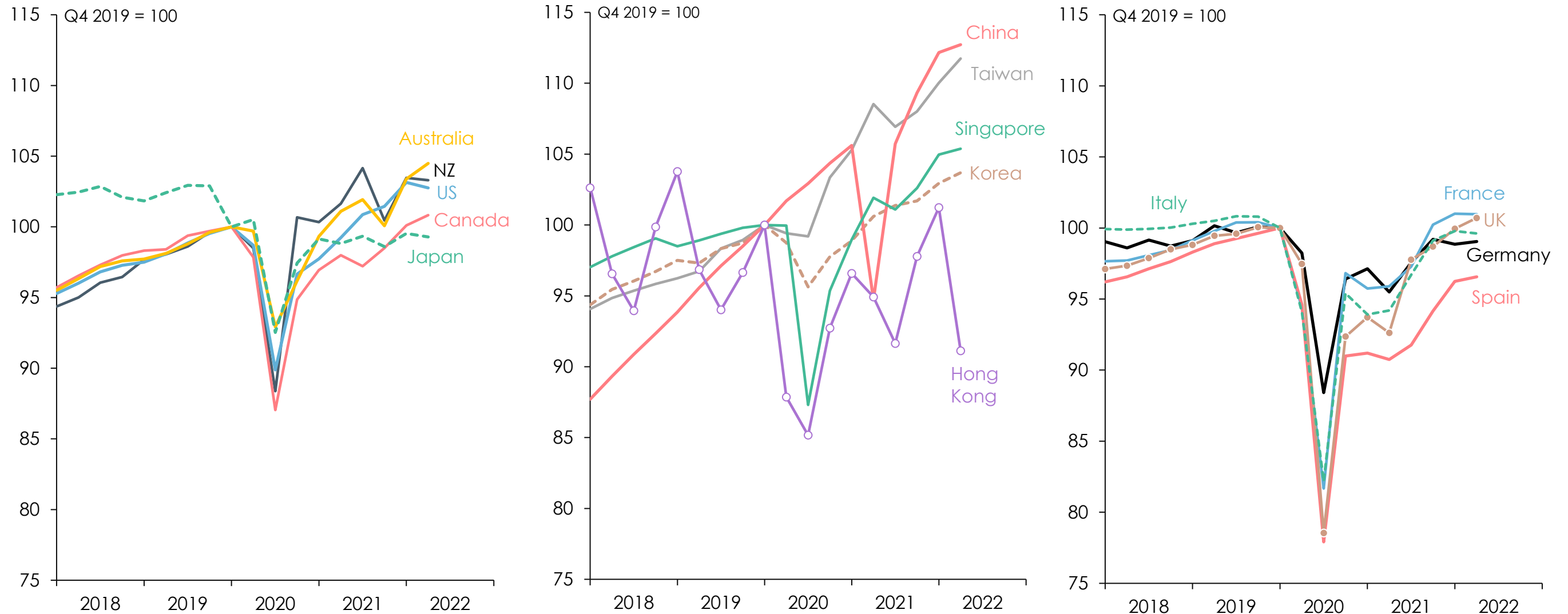


Note: Estimates of global GDP growth compiled by Corinna using data for 100 countries accounting for 94% of 2019 world GDP as measured by the IMF, weighted in accordance with each country's share of global GDP at purchasing power parities in 2019; excludes constituents of the former USSR before 1993,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

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

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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

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Major global institutions' growth forecasts for 2021- 2023 compared

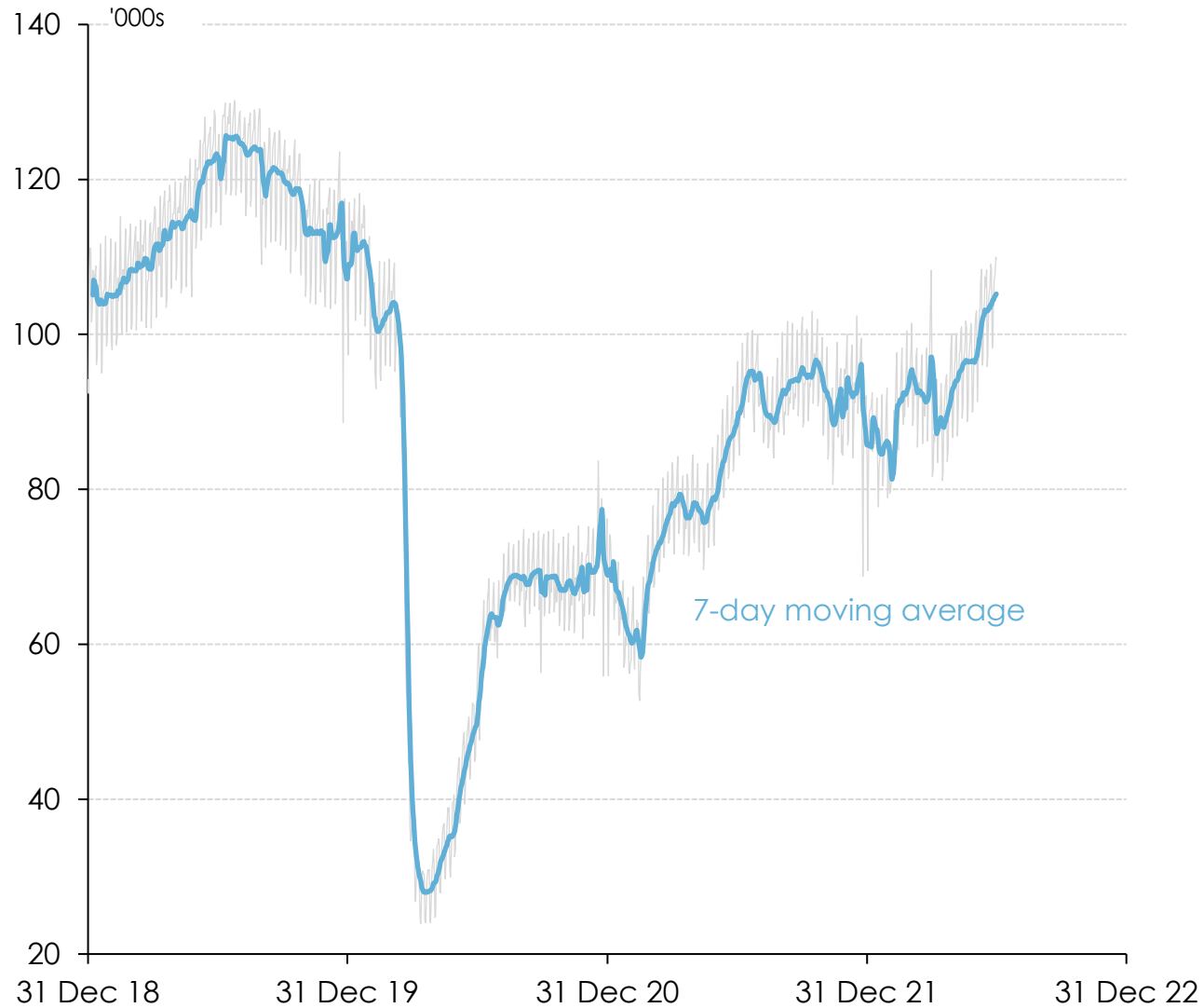
	Actual		IMF			OECD			World Bank			Australian/NZ Treasury		
	2010-19 [^]	2020	2021	2022	2023	2021	2022	2023	2022	2023	2024	2022	2023	2024
US	2.2	-3.5	5.7	3.7	2.3	5.7	2.5	1.2	2.5	2.4	2.0	3.5	2.5	2.0
China	7.7	2.3	8.1	4.4	5.1	8.1	4.4	4.9	4.3	5.2	5.1	4.8	5.3	5.0
Euro area	1.3	-6.6	5.3	2.8	2.3	5.3	2.6	1.6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

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

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

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Daily commercial flights worldwide



Daily US TSA 'security' checks

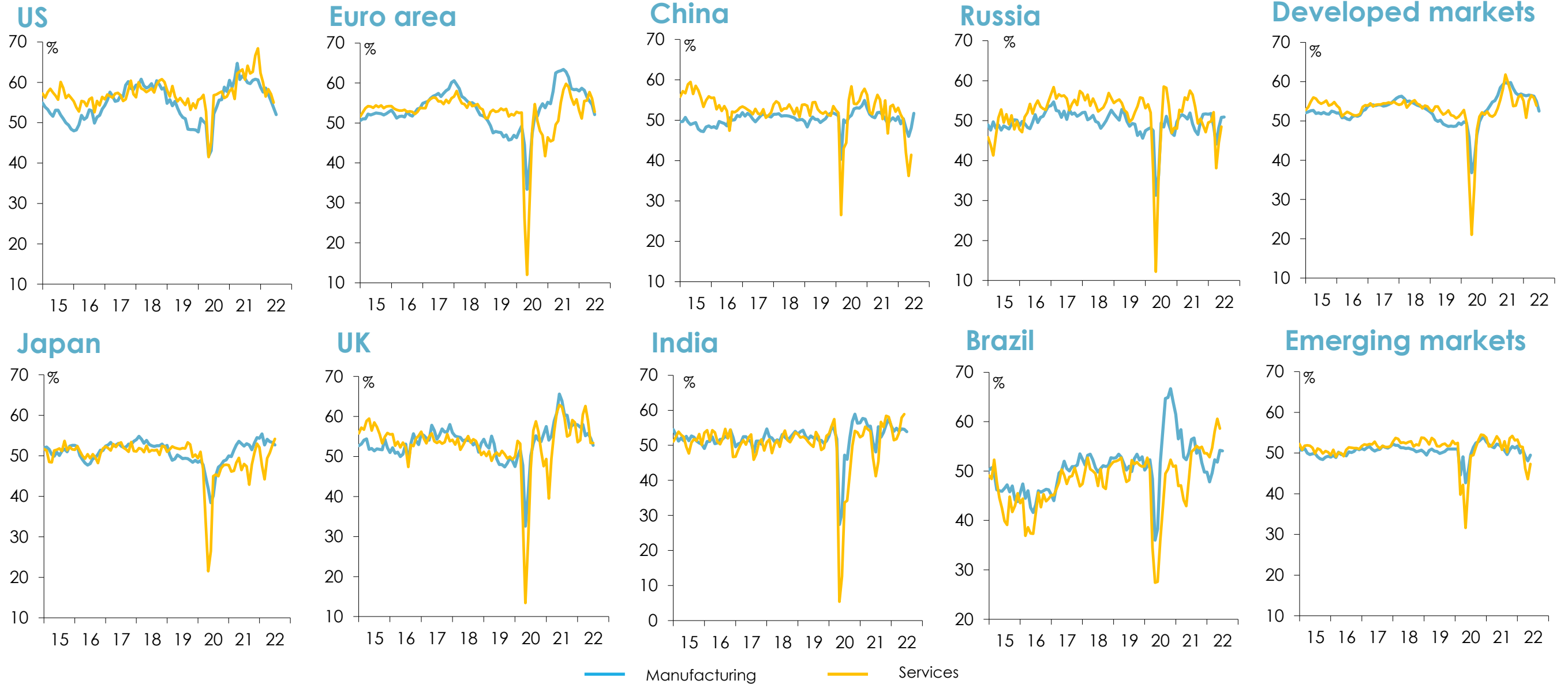


Note: Commercial flights include commercial passenger flights, cargo flights, charter flights, and some business jet flights. Data are up to 1st July for both commercial flights and TSA checks. Thicker coloured lines are 7-day centred moving averages of daily data plotted in thin grey lines. Sources: [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"](#).

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June PMIs show a slowing in manufacturing activity in the US & Europe, but a pick-up in China

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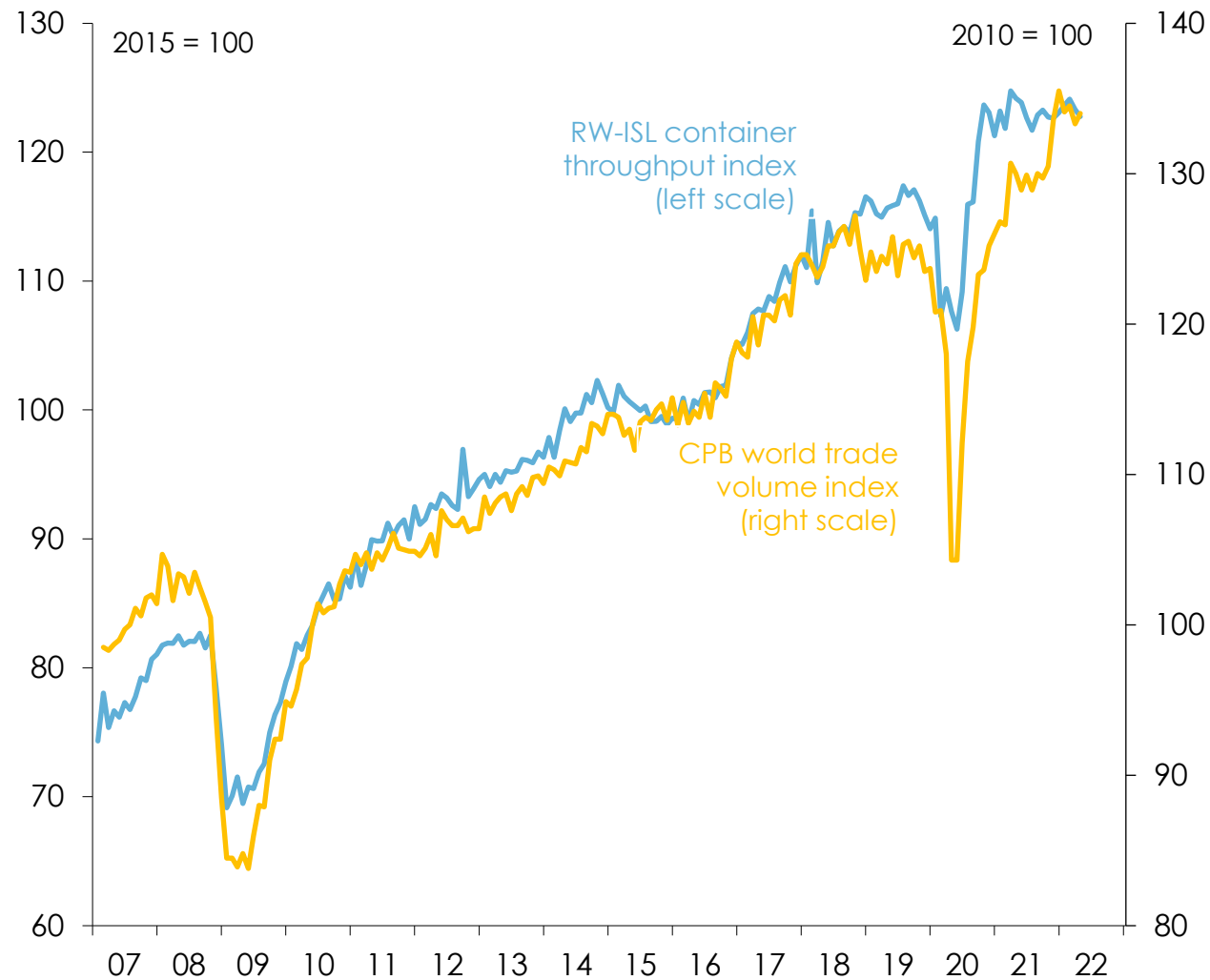


Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous month, and a reading of less than 50 indicates a decrease. Latest manufacturing and (for Japan, euro area & UK) services data are for June; other services PMIs are for May. See also PMIs for other Asia-Pacific economies on [slide 91](#). 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

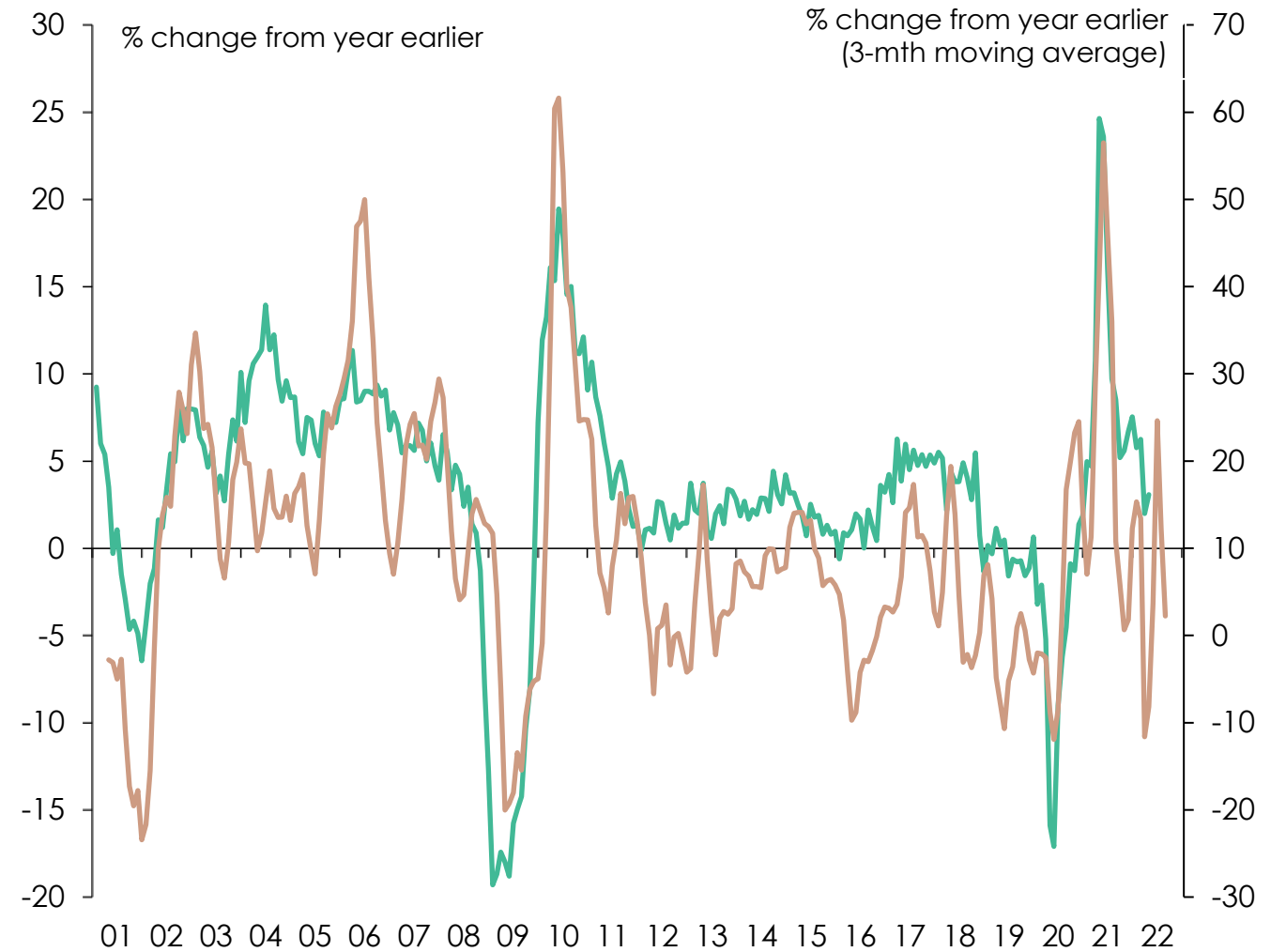
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World trade volumes and container throughput



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

Taiwan export orders and world trade volumes



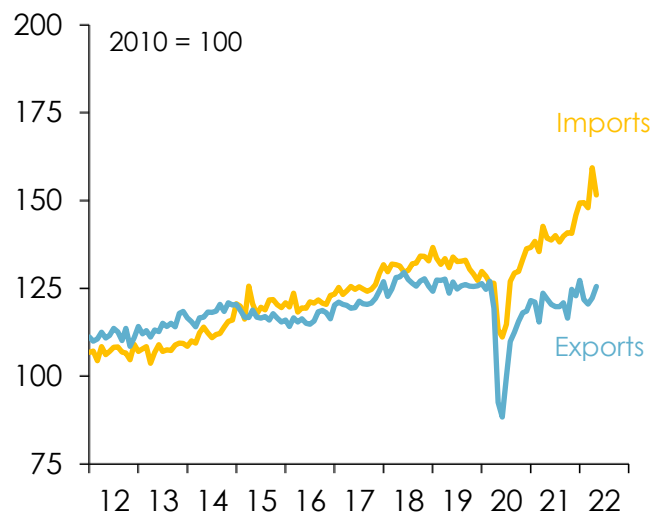
— Volume of world trade (left scale)
 — Taiwan export orders, fwd 3 months (right scale)

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 25th 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"](#).

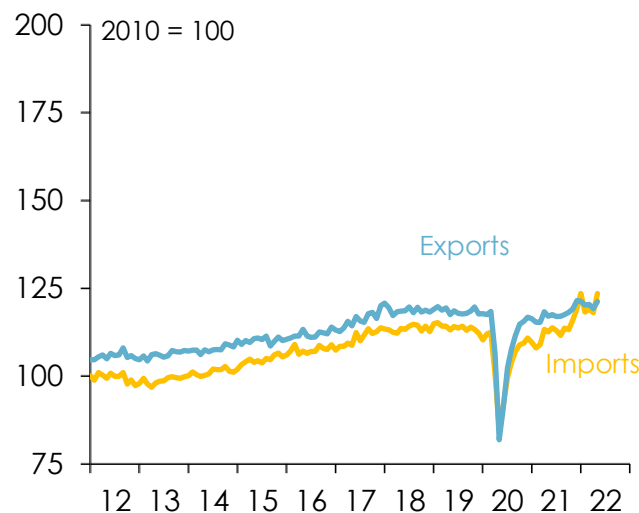
Supply-chain disruptions in China have been a major factor in the slowing in world trade this year: the UK's poor trade performance is also notable

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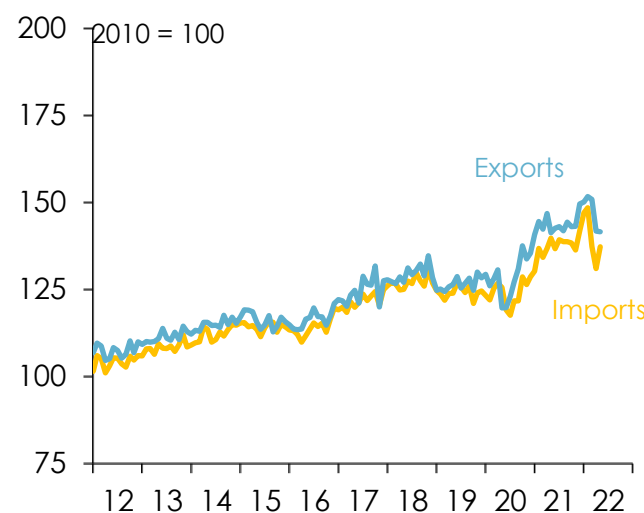
United States



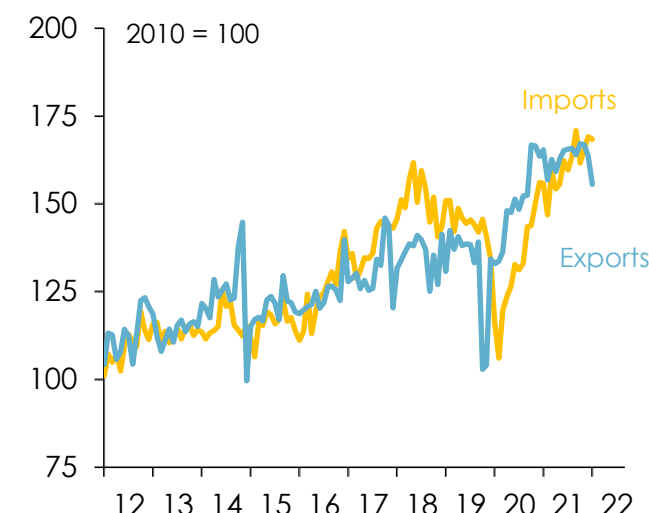
Euro area



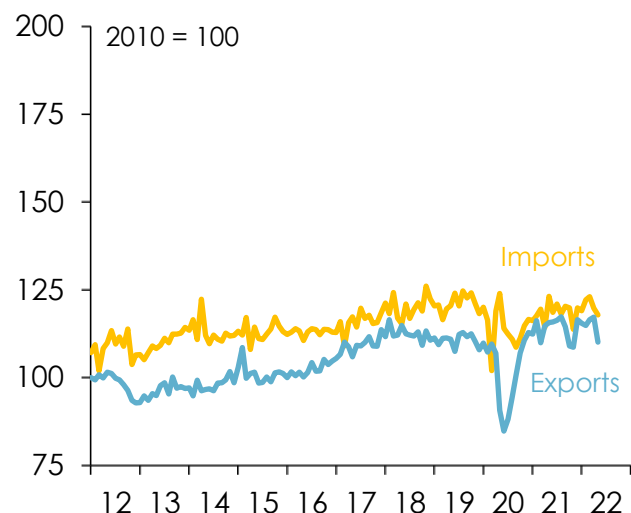
Other 'advanced' Asia



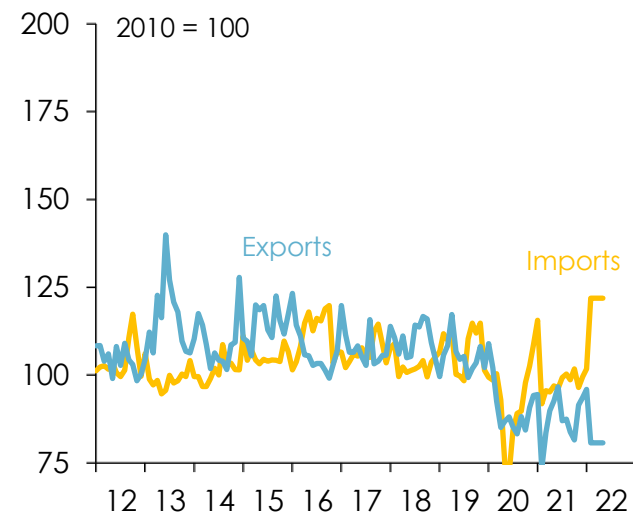
Other 'emerging' Asia



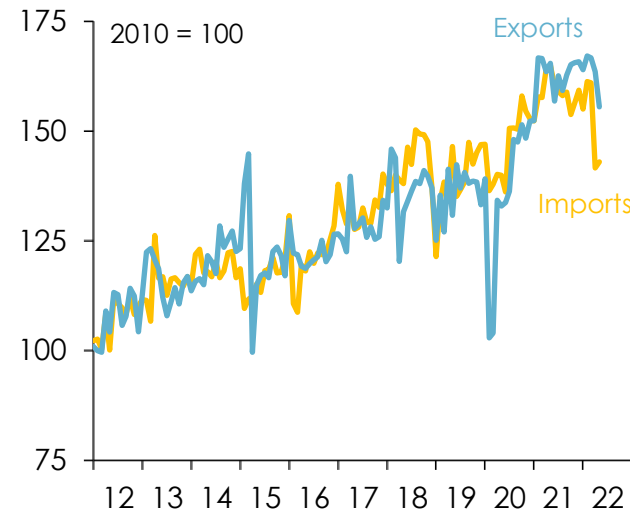
Japan



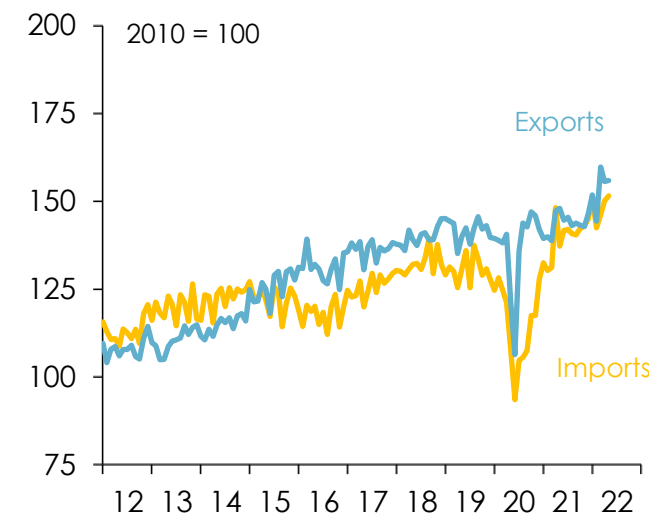
United Kingdom



China



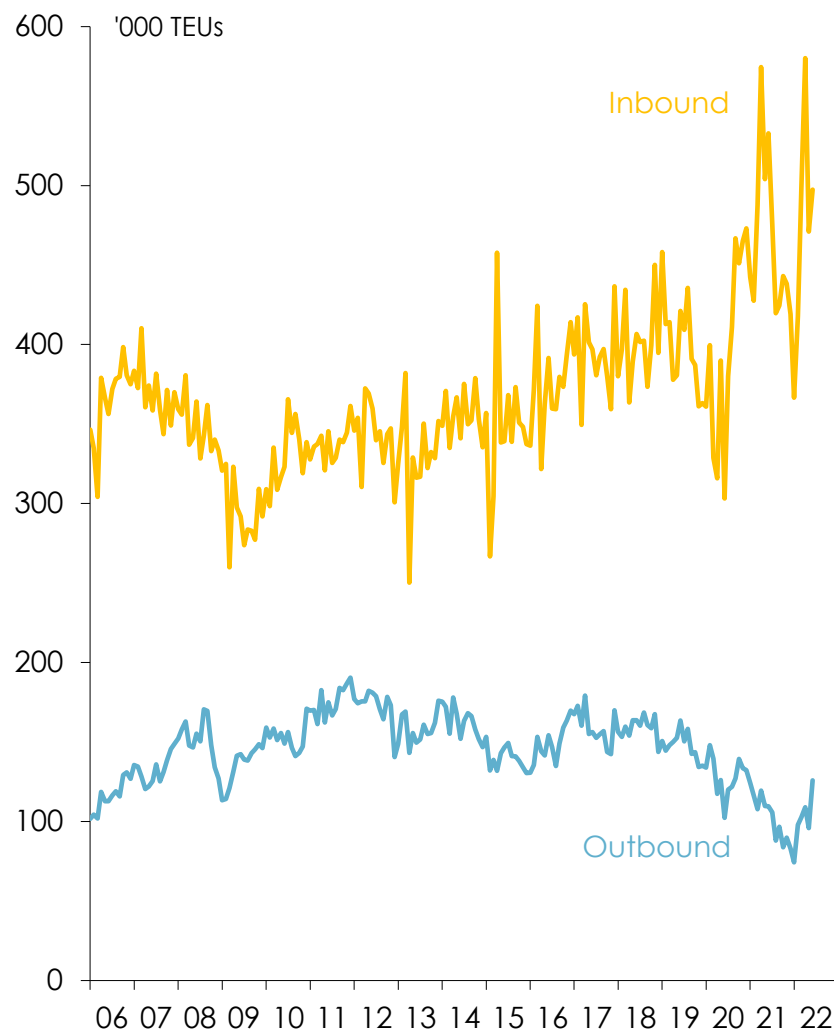
Latin America



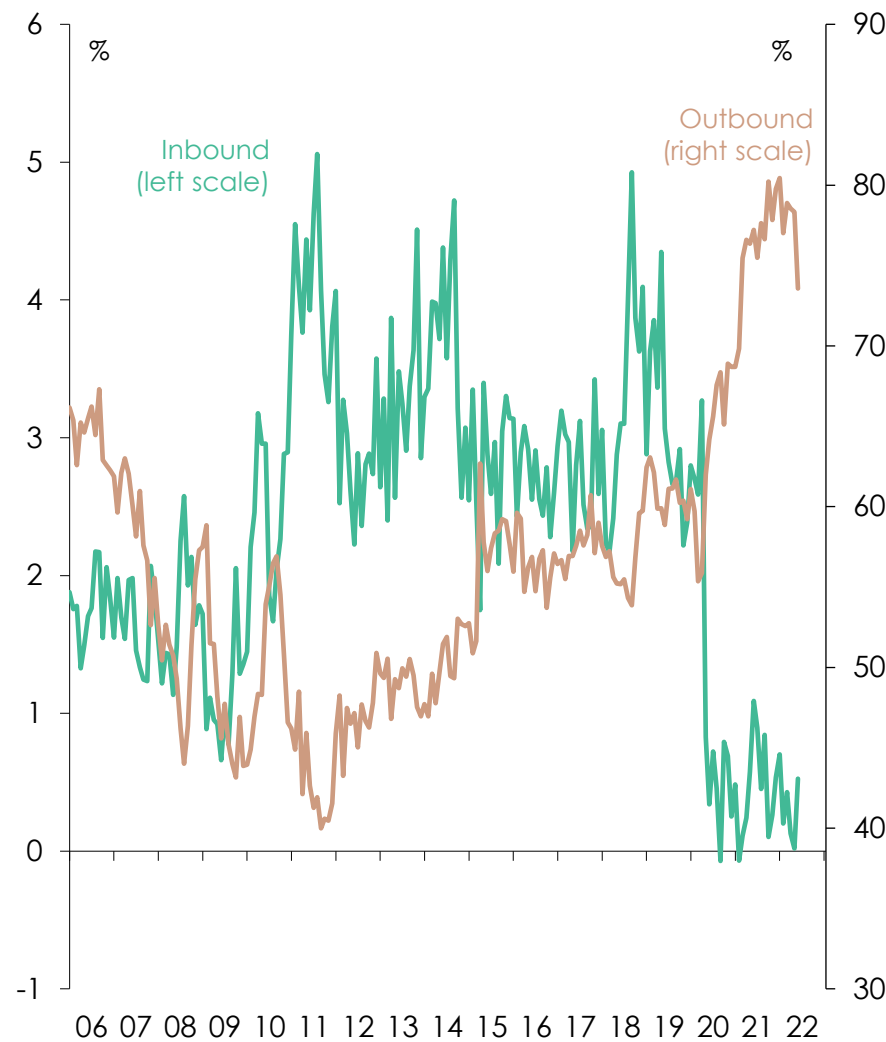
Congestion at the Port of Los Angeles (the US' largest container port) has eased significantly but trade flows remain unusually unbalanced

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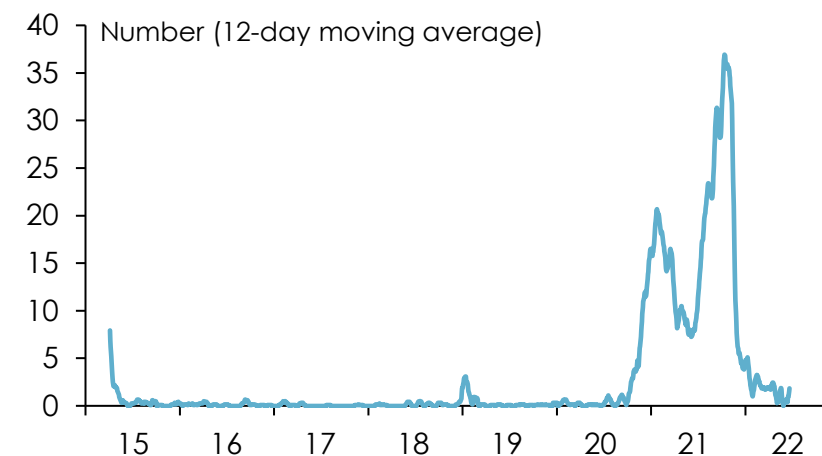
Container traffic through the Port of Los Angeles



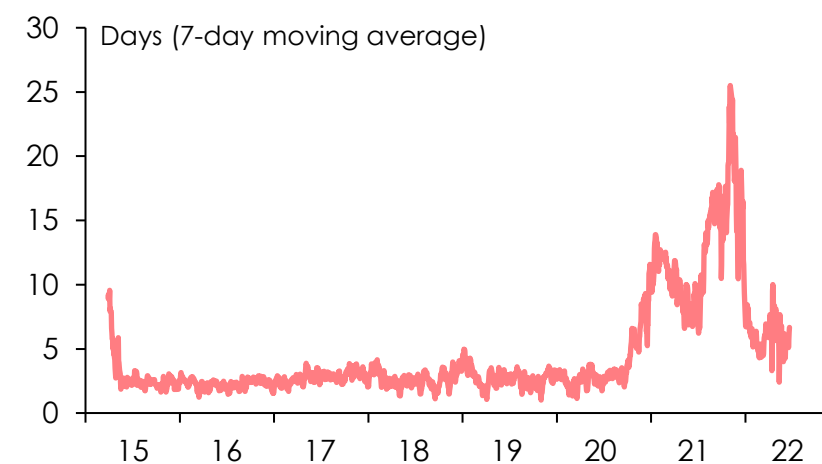
Empty containers as a pc of total passing through PoLA



Number of vessels at anchor outside PoLA



Average time at anchor and berth for ships at PoLA

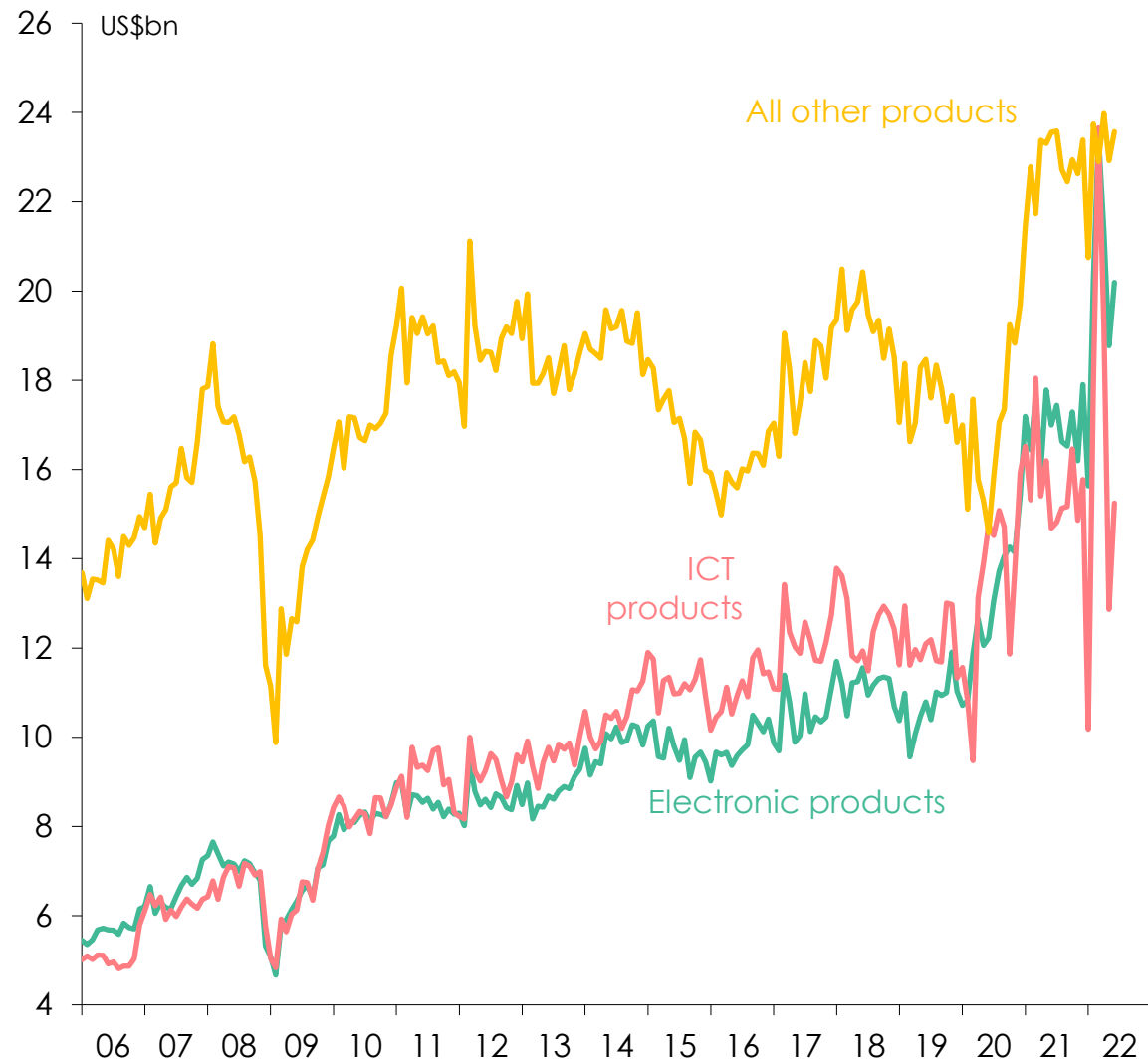


Note: TEU = 20-foot equivalent unit. Data on inbound and outbound container traffic in the first two charts have been seasonally adjusted by Corinna using Refinitiv Datastream. Data up to 1st July. Source: The Port of Los Angeles, [Container Statistics](#) and [Container vessels in port](#). [Return 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



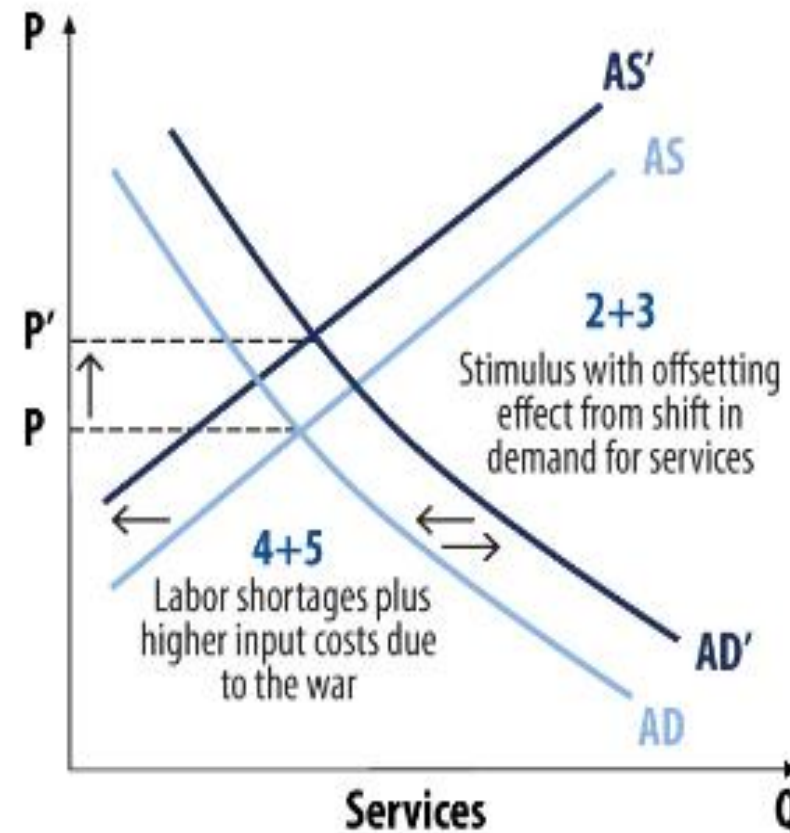
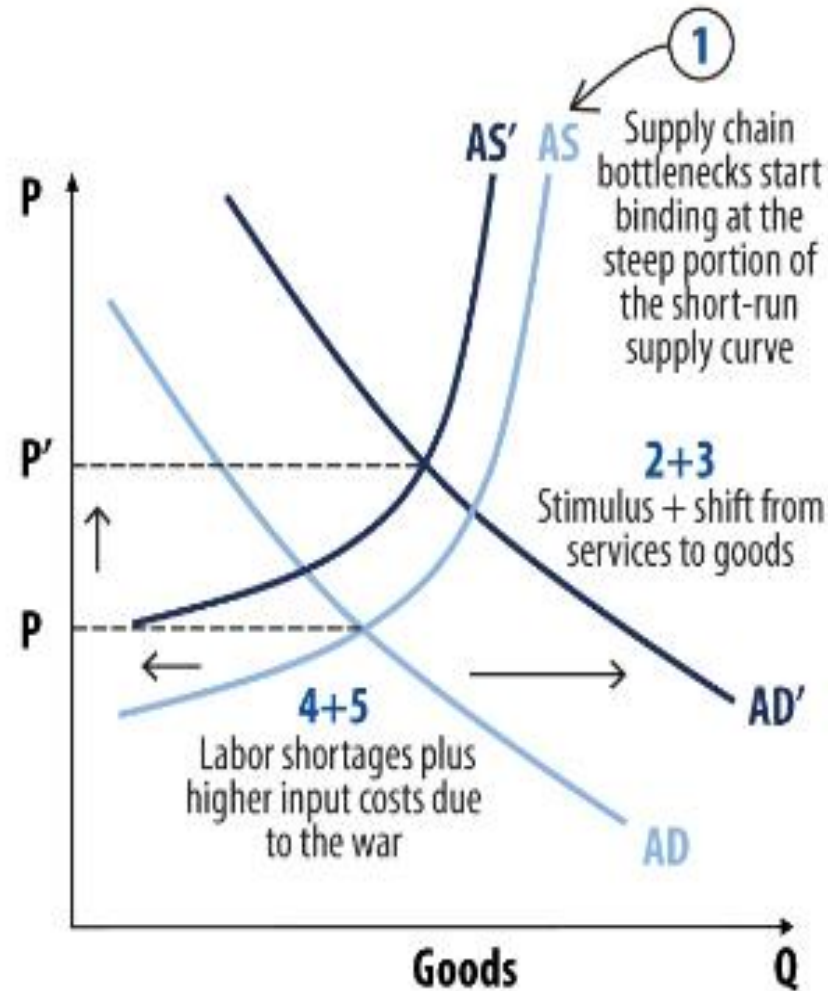
Note: Data have been seasonally adjusted by Corinna using Refinitiv Datastream. Latest data are for May. Source: Taiwan [Ministry of Economic Affairs](#). [Return to "What's New"](#).

- ❑ 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

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



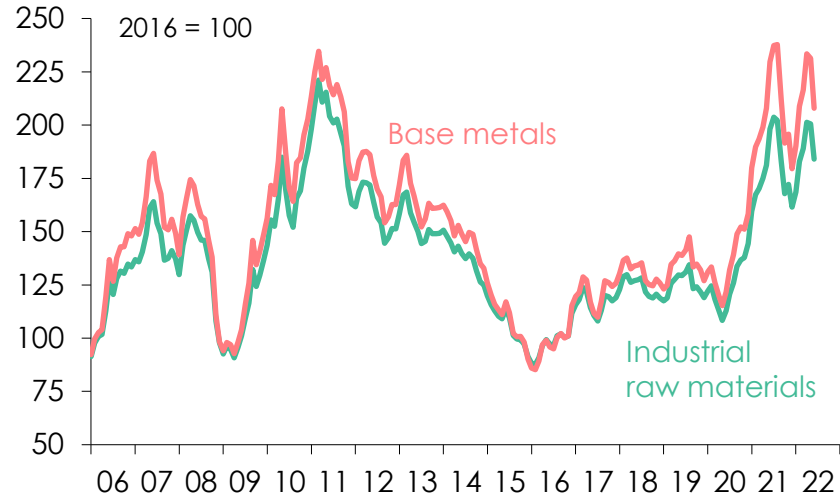
1. Supply chain bottlenecks reducing supply of durable goods – aggregate supply curve shifts to left (AS → AS')
 2. Shift in demand from services to goods (prompted by public health restrictions), with opposite effects on demand for services and goods – aggregate demand curve for goods shifts to right, 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, 7th April 2022. [Return to "What's New"](#).

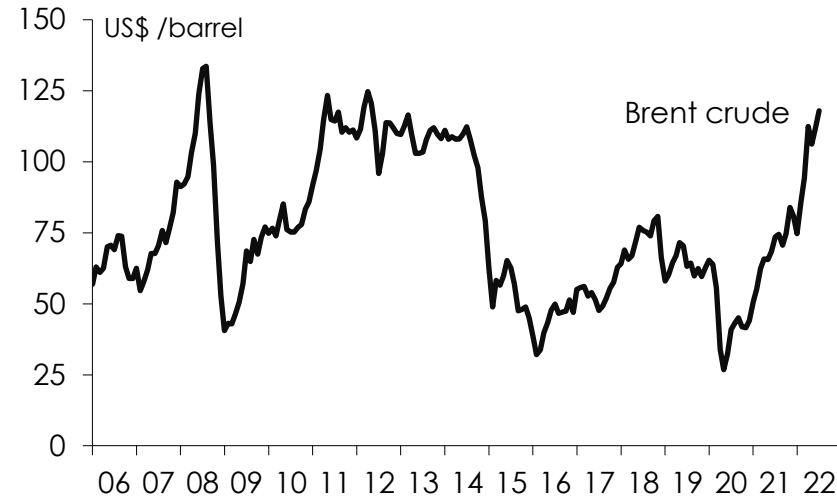
Energy commodity prices remain elevated, but other commodity prices have eased a bit, and freight & semi-conductor prices are now falling

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

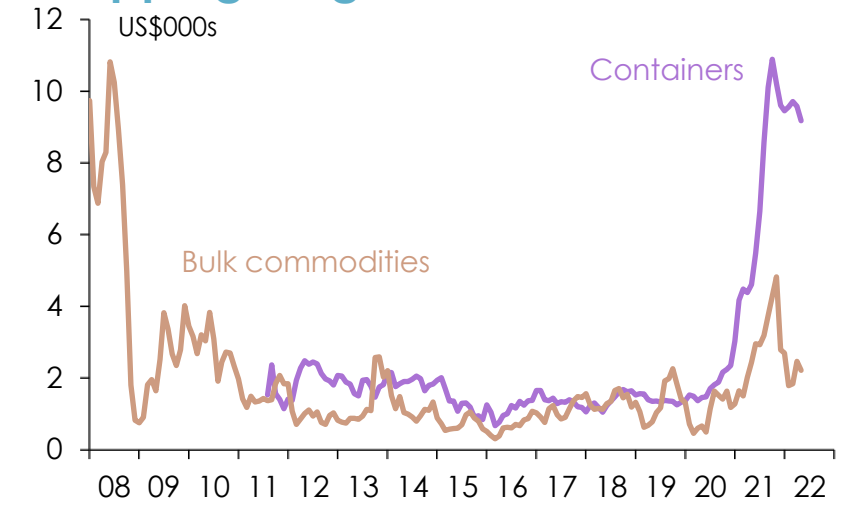
'Hard' commodity prices



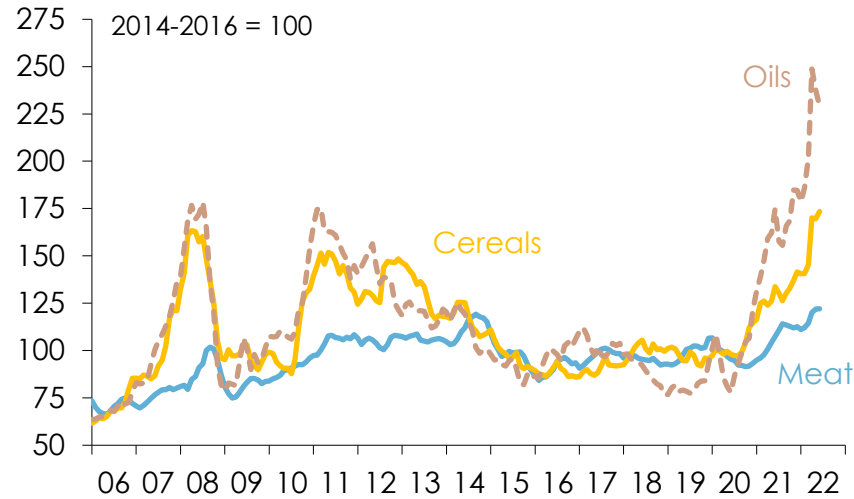
Crude oil price



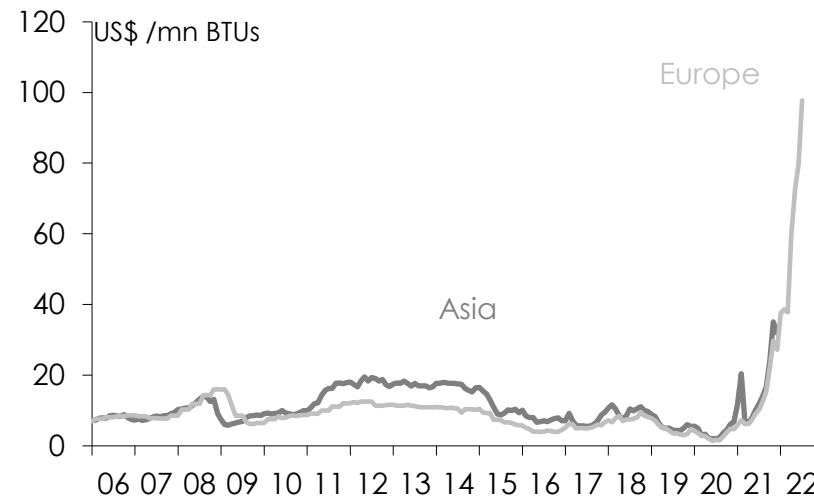
Shipping freight costs



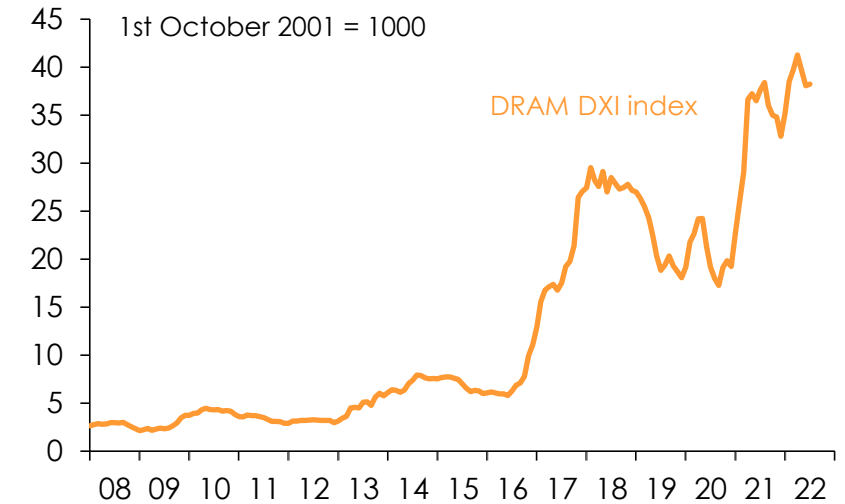
Food commodity prices



Natural gas prices



Semiconductor chip prices

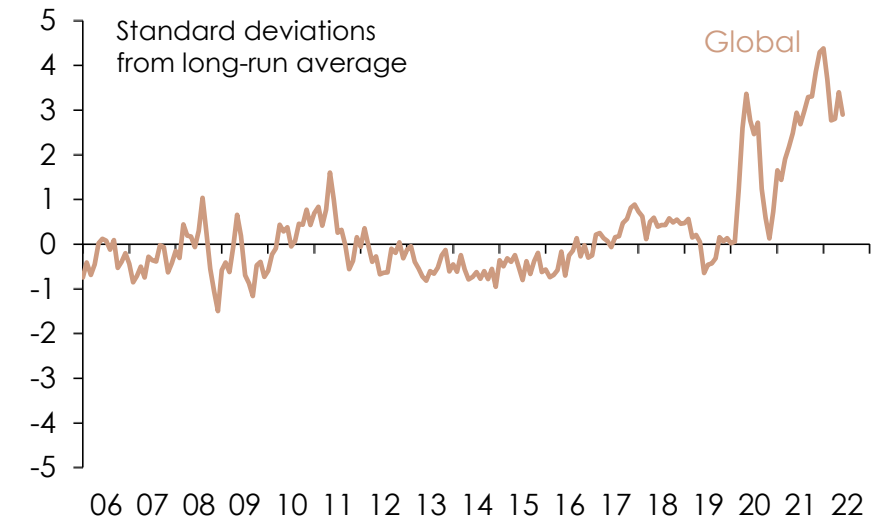
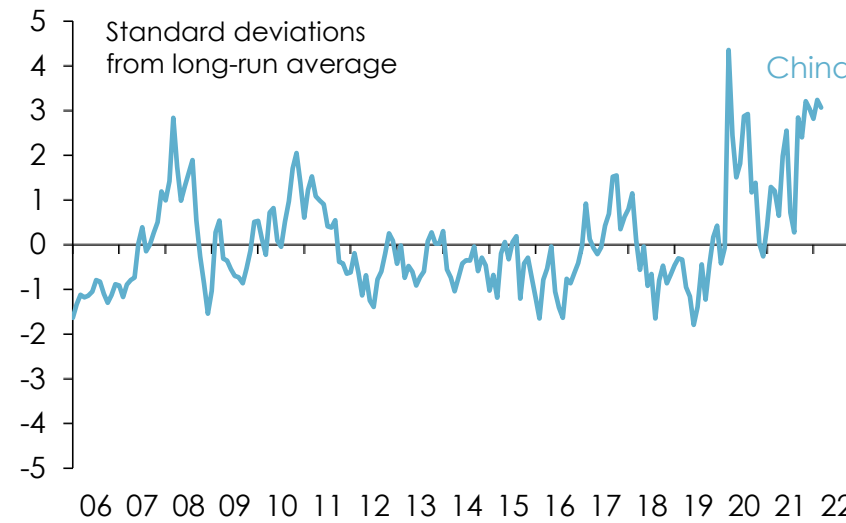
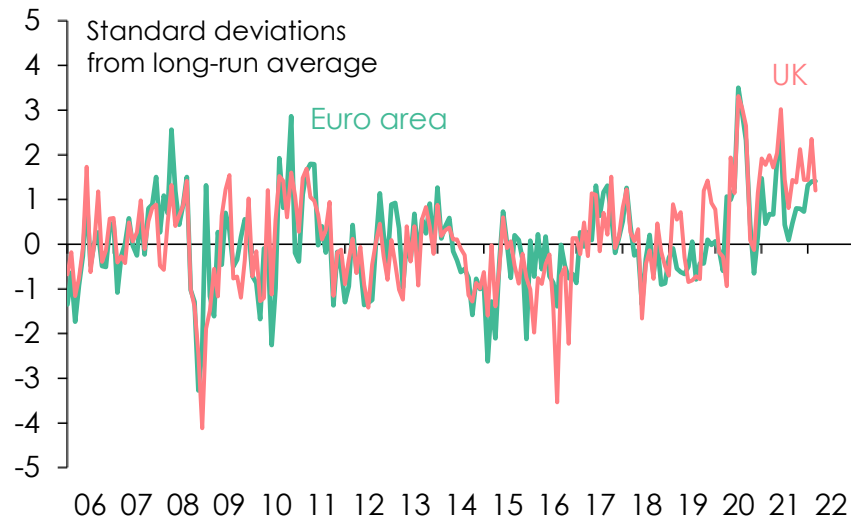
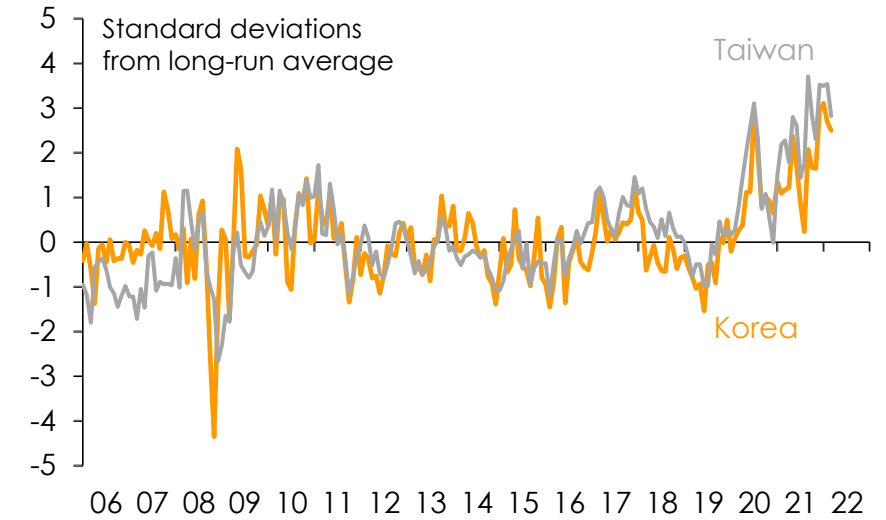
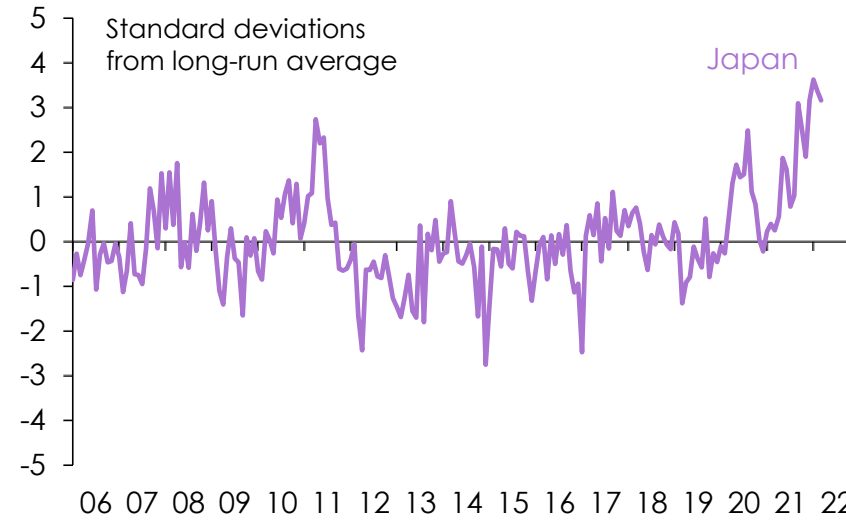
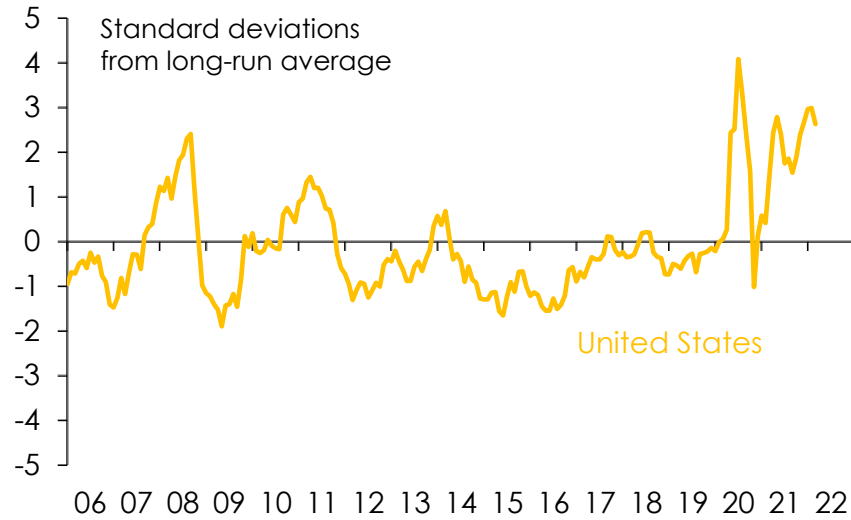


Note: The IMF commodity price indices were re-based to 2016 = 100 (previously 2005) in October 2021; but the IMF appears to have indefinitely suspended its series of commodity prices (other than indexes). Sources: [International Monetary Fund](#); [UN Food and Agriculture Organization](#); [Freightos](#);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

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

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

NY Fed global supply chain pressure index

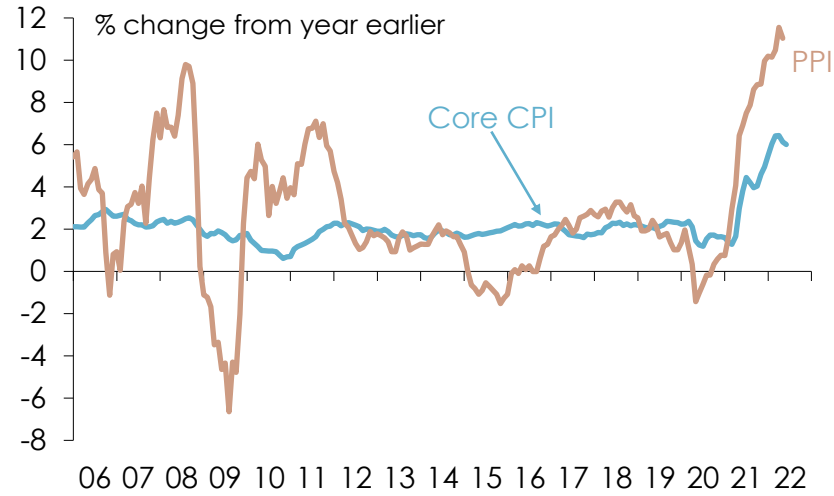


Sources: Gianluca Benigno, Julian Di Giovanni, Jan Groen & Adam Noble, [A New Barometer of Global Supply Chain Pressures](#), Federal Reserve Bank of New York, 4th January 2022 (which contains a detailed explanation of the construction of this index). Latest data for global index is for [May 2022](#);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

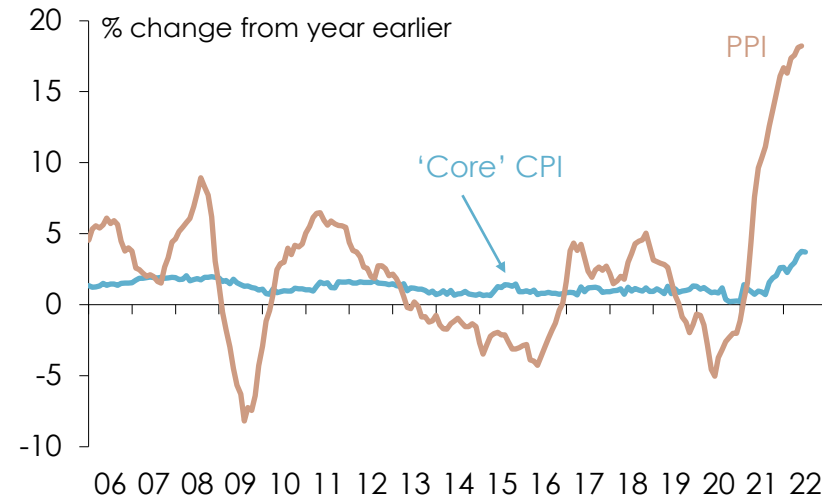
Inflation has risen sharply at the producer level in all advanced economies, and (Japan aside) 'core' CPI inflation is also above central bank targets

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

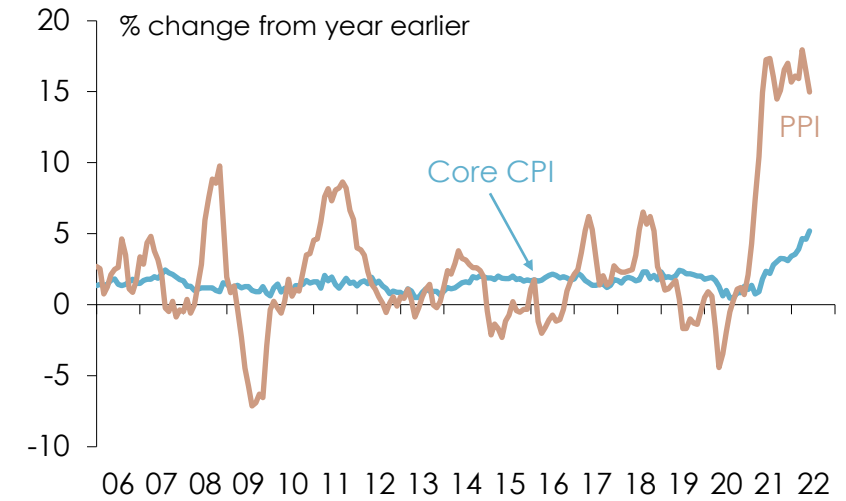
United States



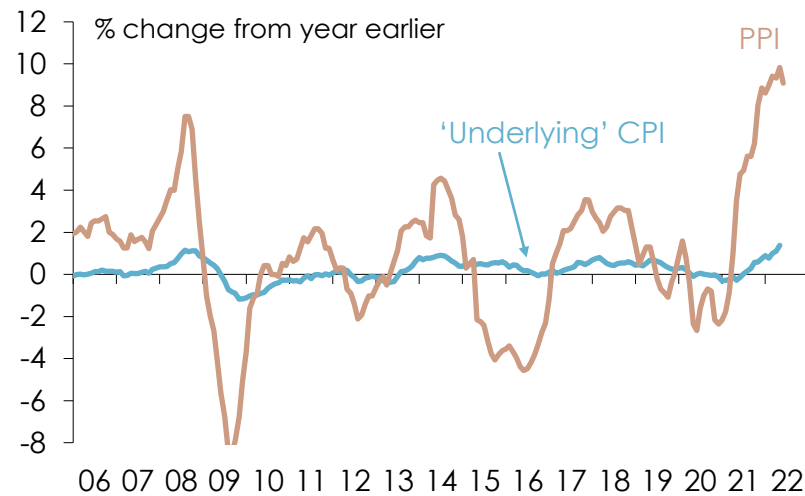
Euro area



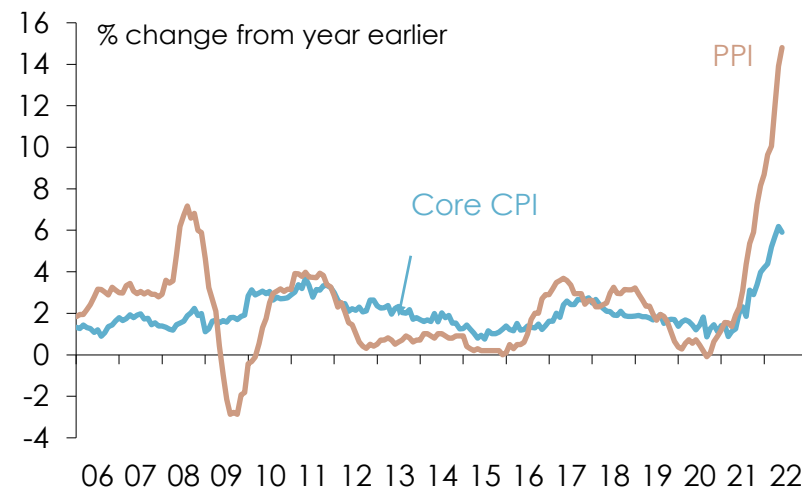
Canada



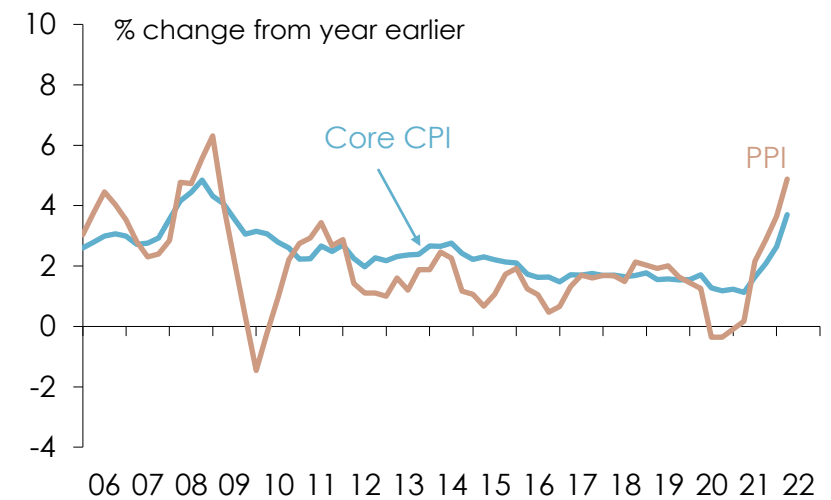
Japan



United Kingdom



Australia

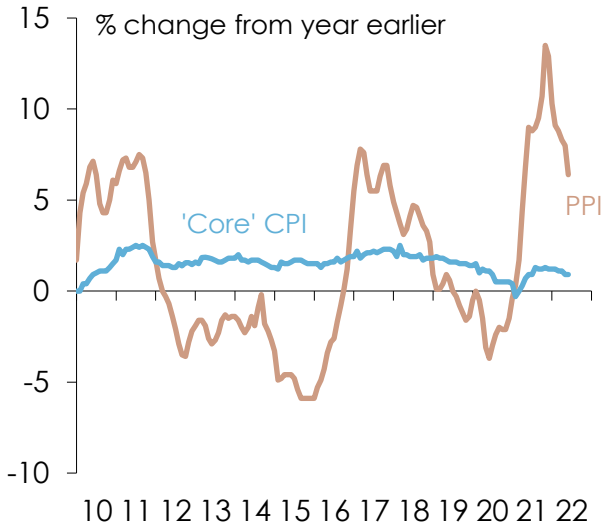


For a more detailed analysis of recent US inflation data see [slides 51-55](#). Sources: [US Bureau of Labor Statistics](#); [Statistics Bureau of Japan](#) and [Bank of Japan](#); [Eurostat](#); [UK Office for National Statistics](#); [Statistics Canada](#); [Australian Bureau of Statistics](#). [Return to "What's New"](#).

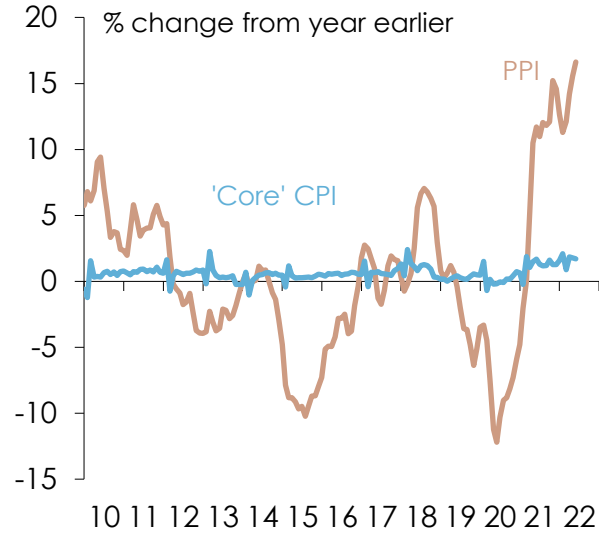
Most Asian economies have been experiencing rapid 'upstream' inflation for some time, and 'core' consumer price inflation is now starting to pick up

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

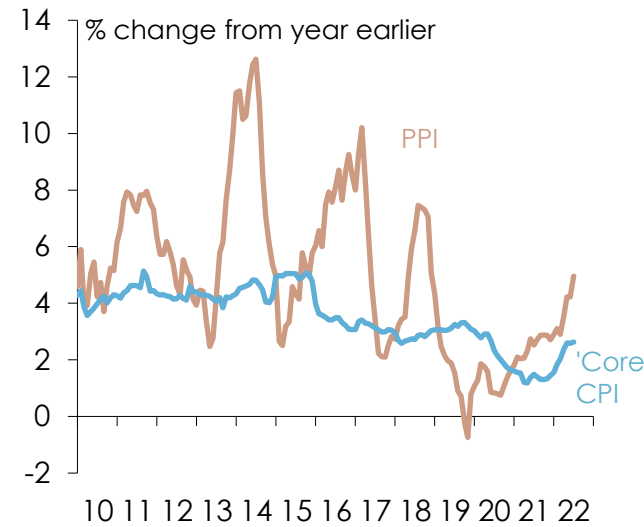
China



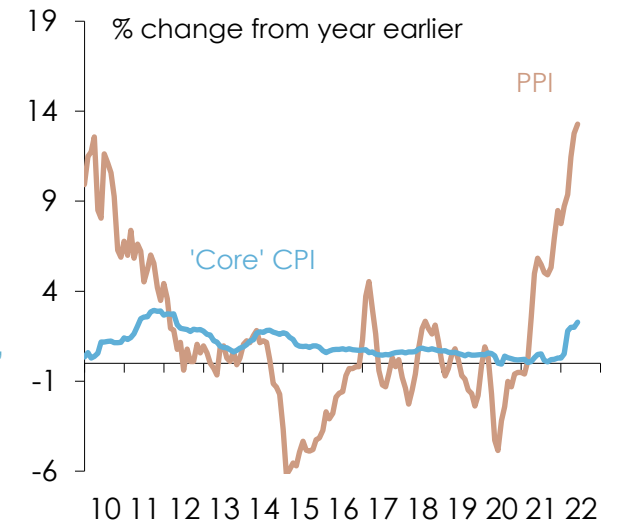
Taiwan



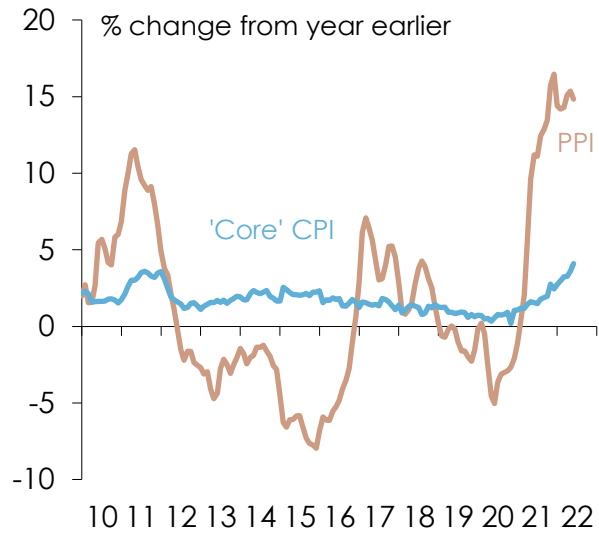
Indonesia



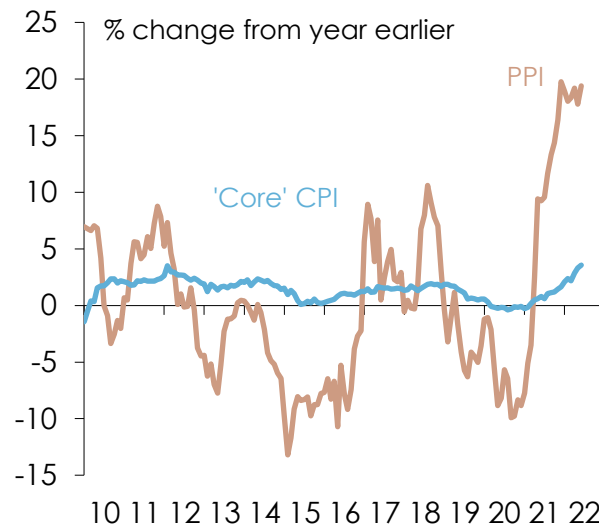
Thailand



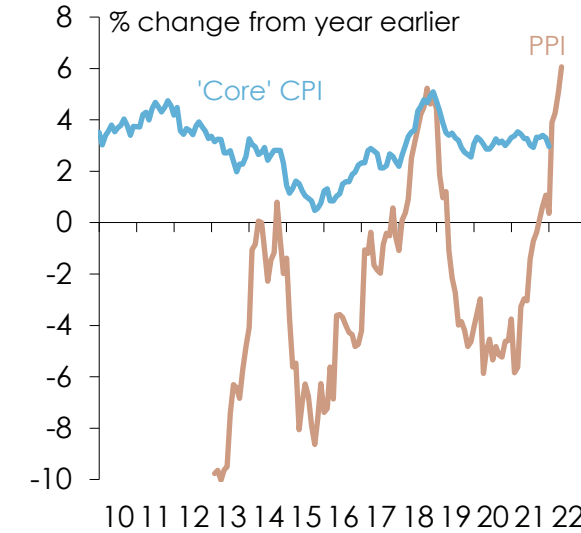
Korea



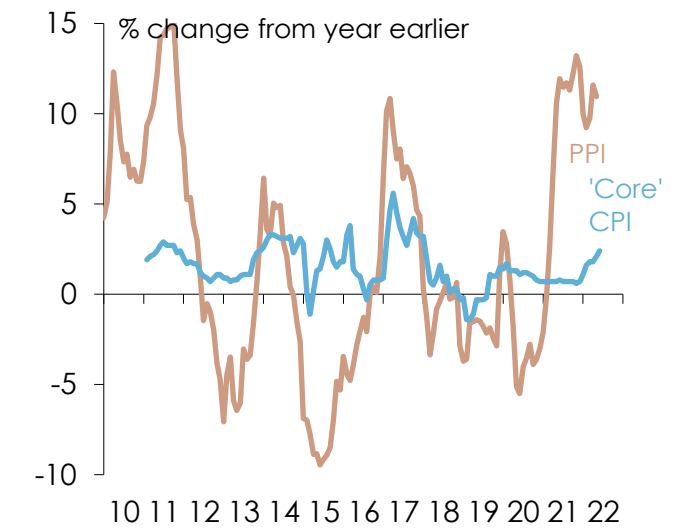
Singapore



Philippines



Malaysia

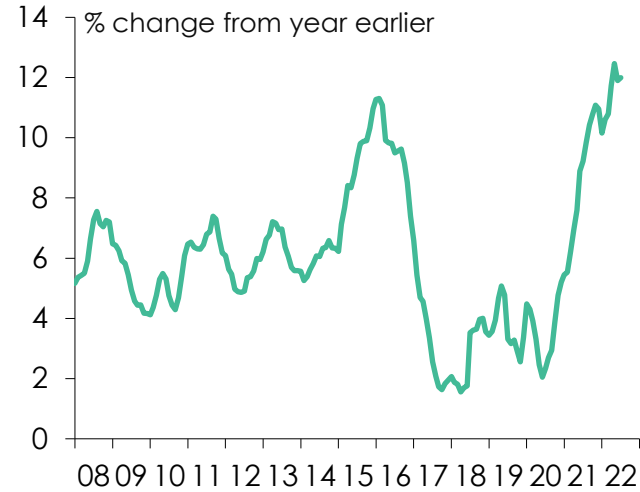


Note: 'Core' CPIs measure different things in different Asian economies – see footnotes to [slide 93](#). Sources: [China National Bureau of Statistics](#); [Statistics Korea](#); [Bank of Korea](#); [Taiwan Statistical Bureau](#); [Singstat](#); [Monetary Authority of Singapore](#); [Statistics Indonesia](#); [Philippine Statistics Authority](#); [Thailand Bureau of Trade and Economic Indices](#); [Department of Statistics Malaysia](#). [Return to "What's New"](#).

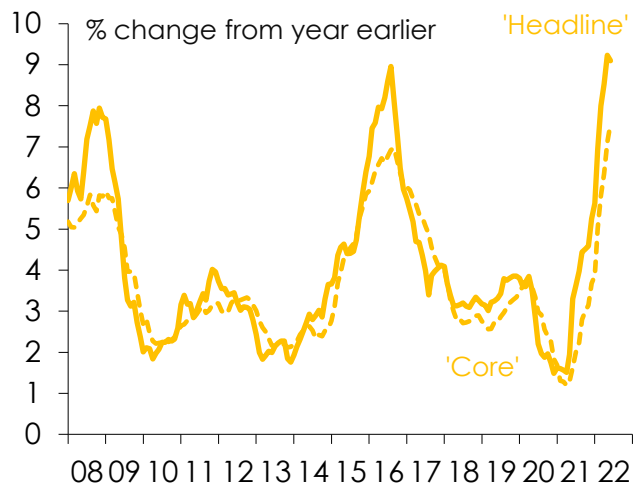
Consumer price inflation is rising sharply across Latin America (except for Venezuela, where it's now down to just 155%!)

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

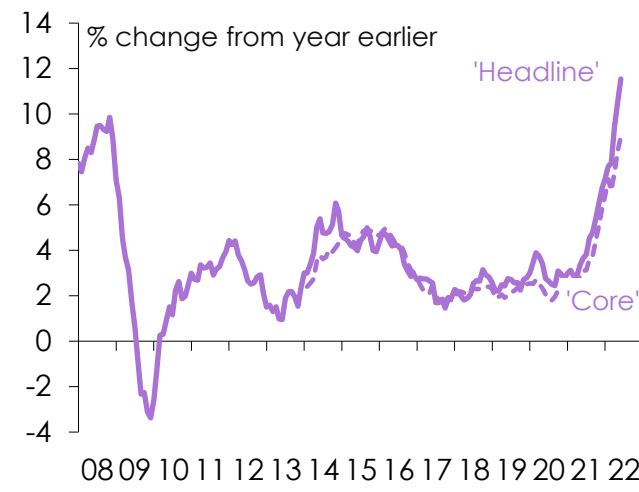
Brazil



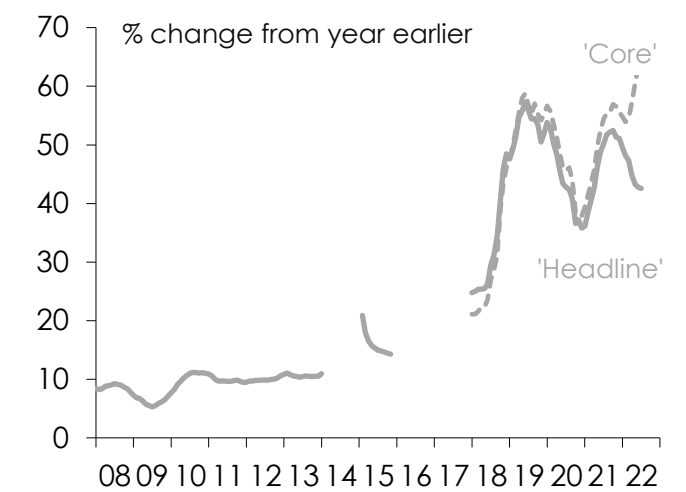
Colombia



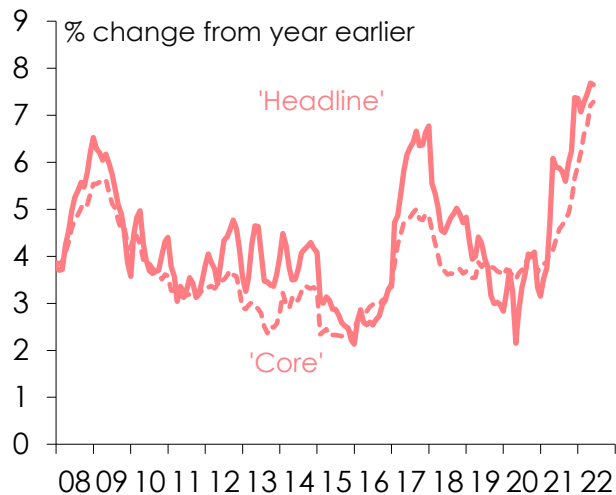
Chile



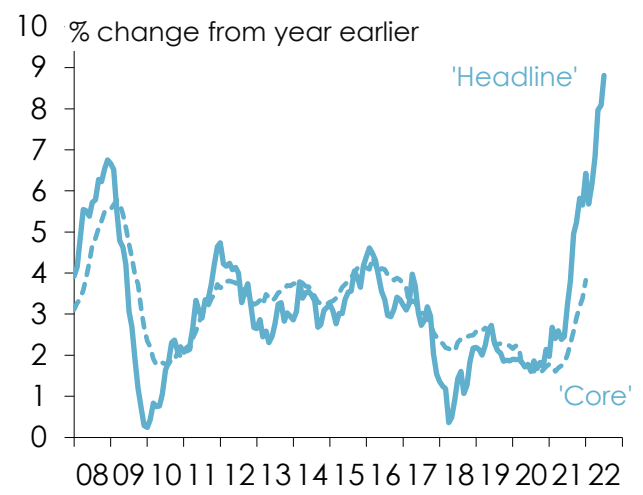
Argentina



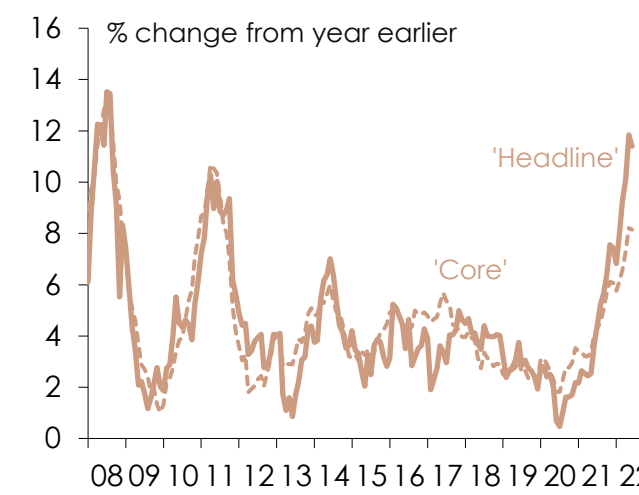
Mexico



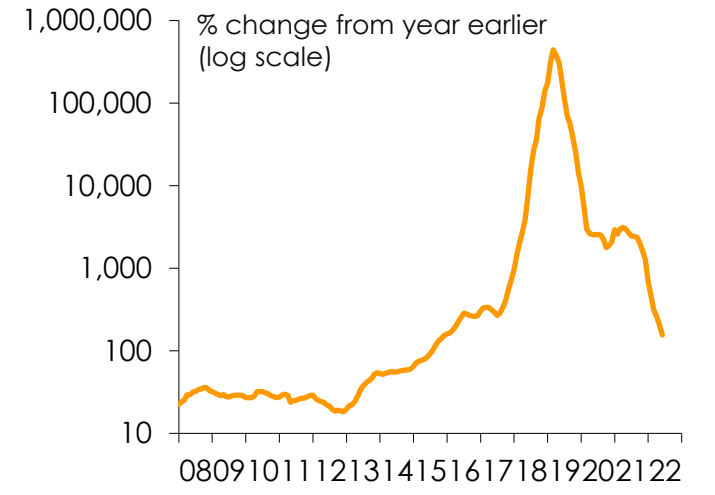
Peru



Paraguay



Venezuela

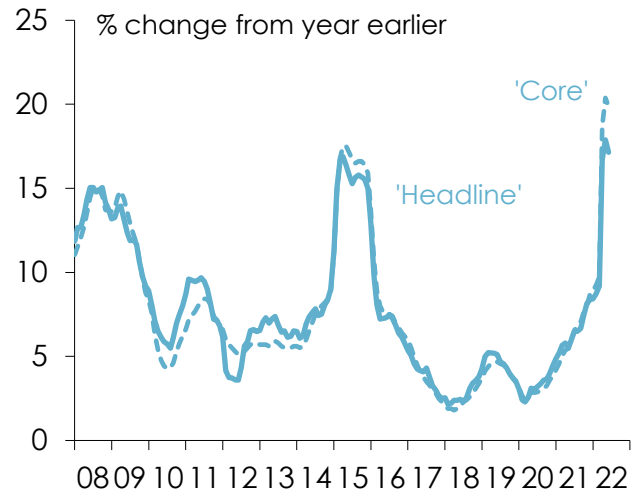


Sources: [Instituto Brasileiro de Geografia e Estatística](#); [Instituto Nacional de Estadística y Geografía](#) (Mexico); [Departamento Administrativo Nacional de Estadística](#) (Colombia); [Instituto Nacional de Estadística e Informática](#) (Peru); [Instituto Nacional de Estadísticas](#) (Chile);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

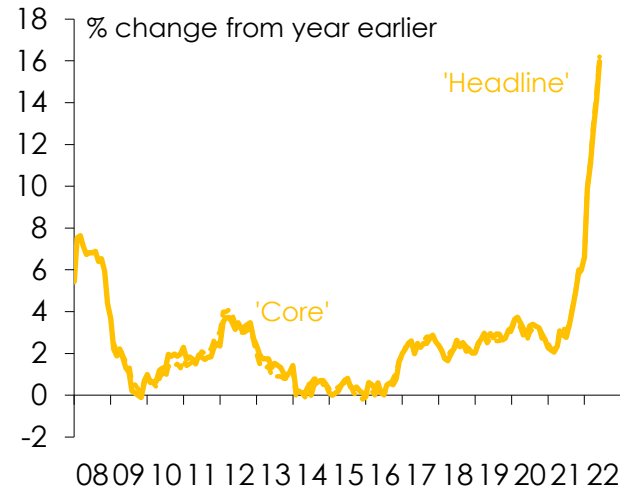
Consumer price inflation is also rising across Central and Eastern Europe, and in South Africa

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

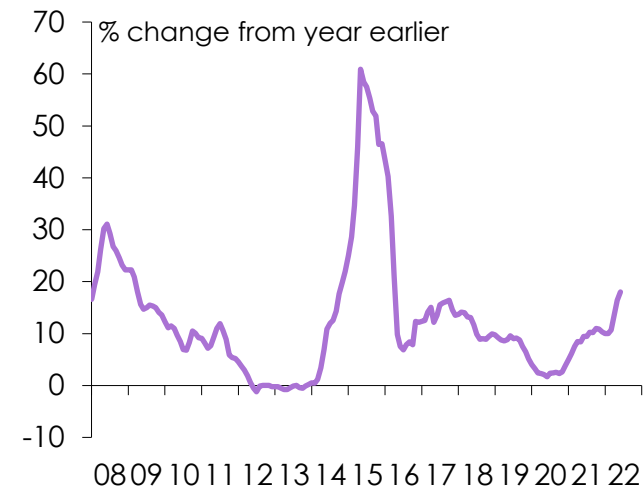
Russia



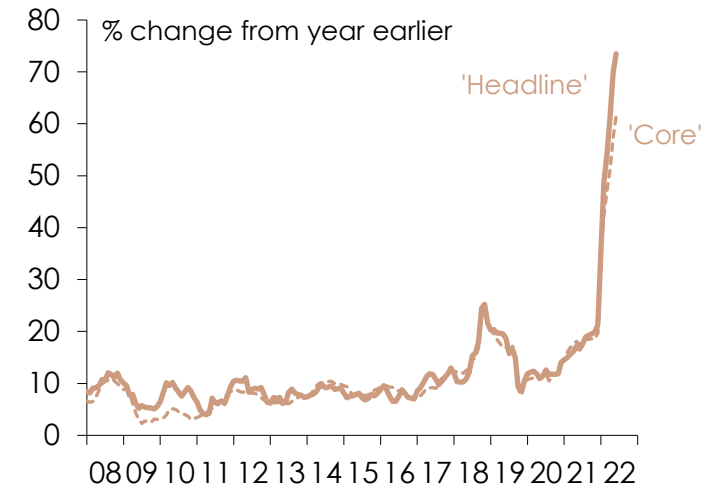
Czech Republic



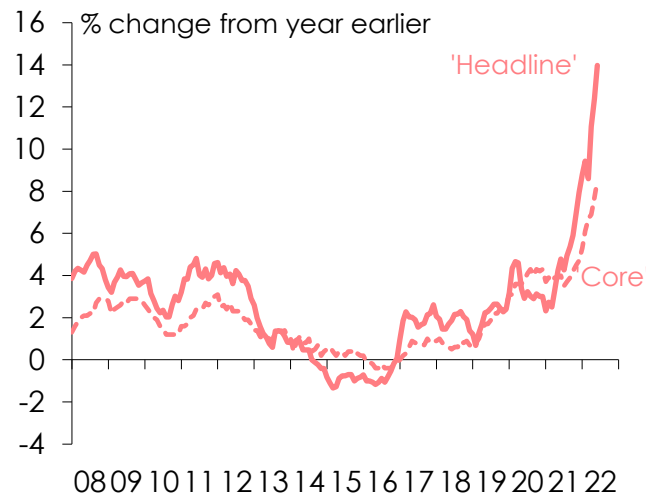
Ukraine



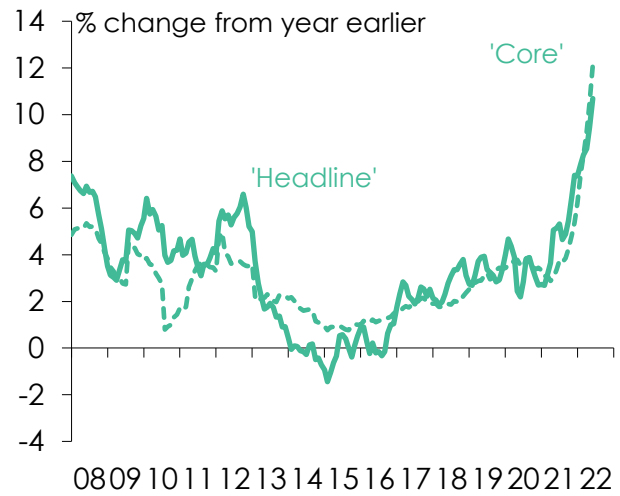
Turkey



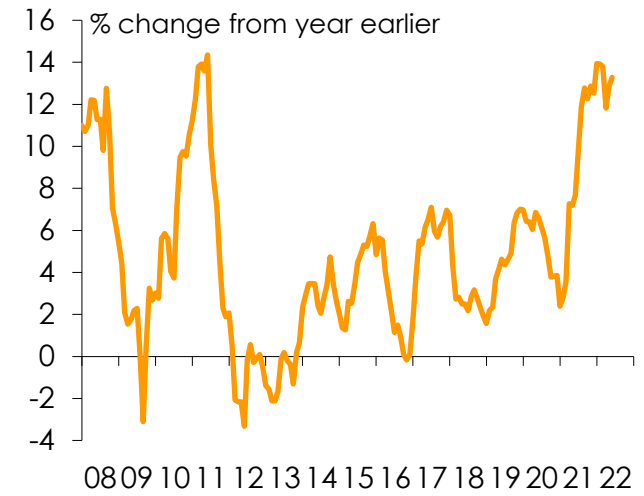
Poland



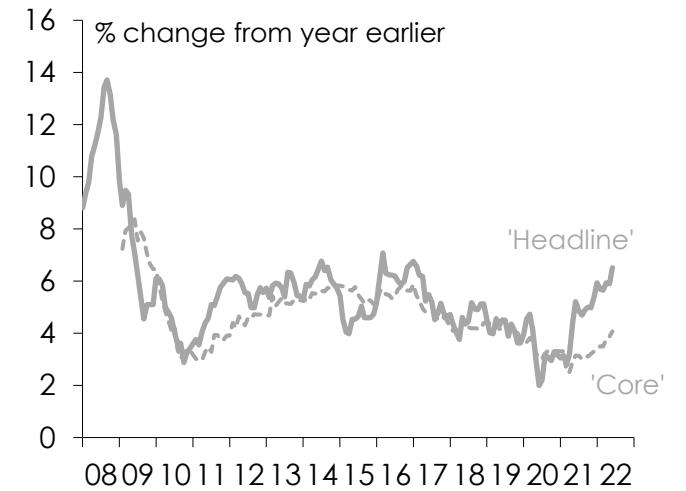
Hungary



Georgia



South Africa

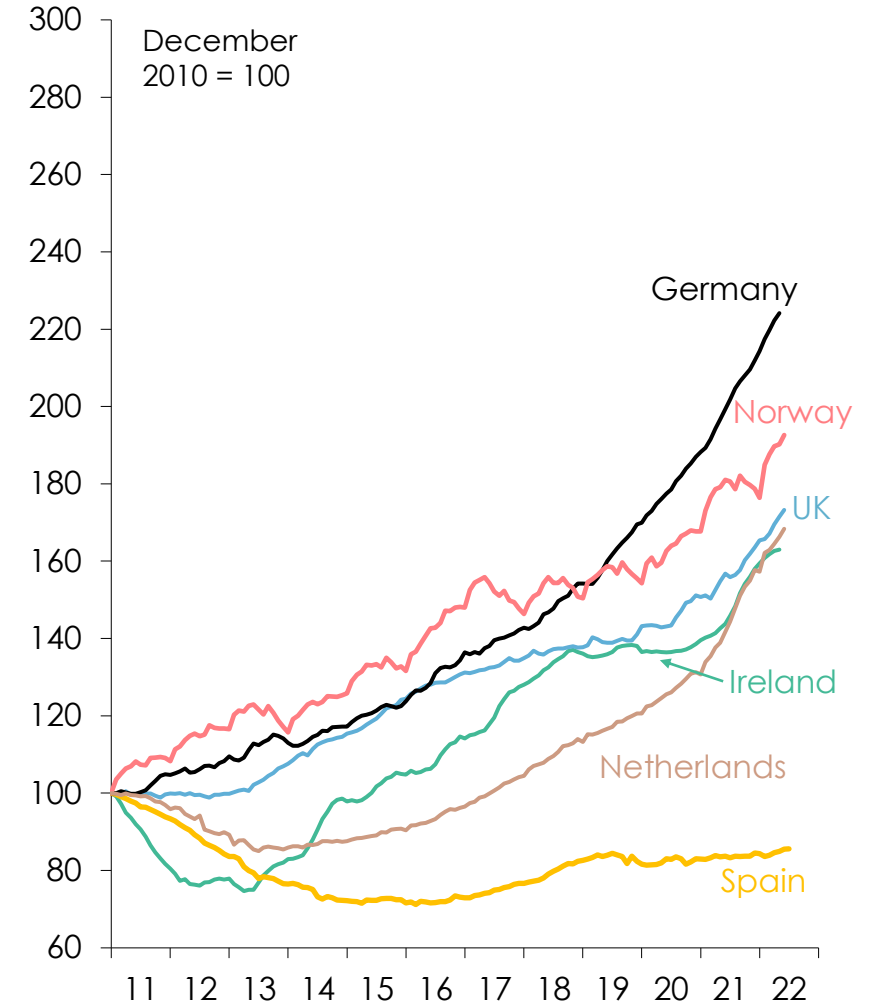
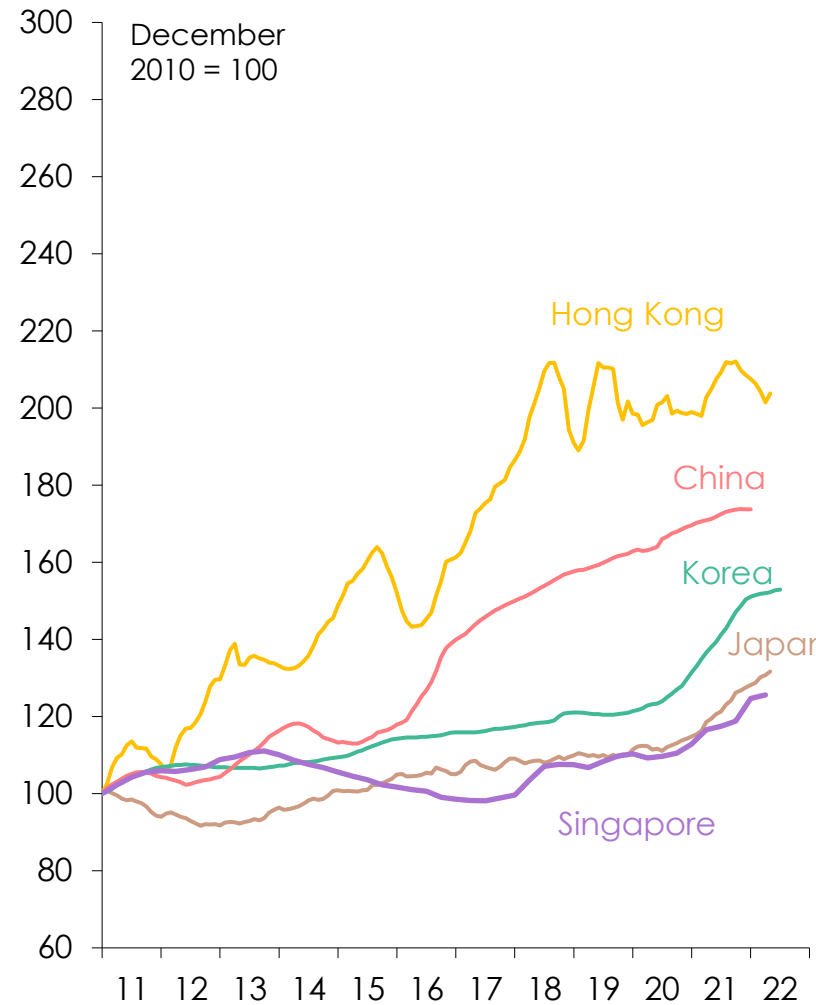
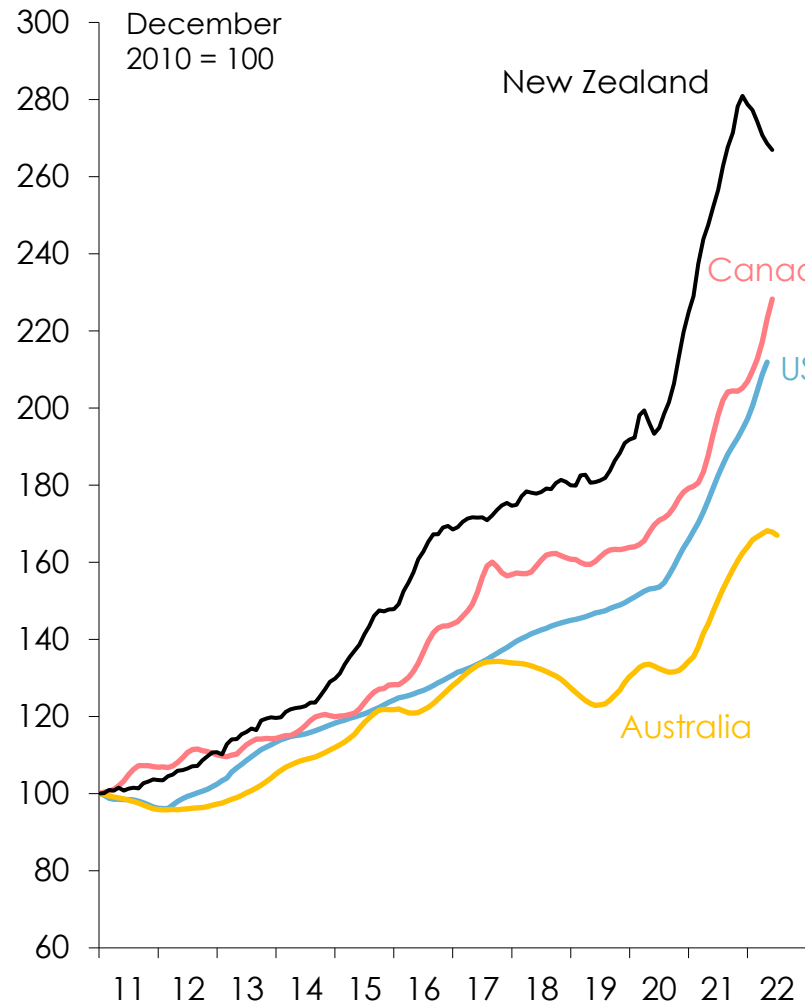


Sources: [Rosstat](#); [Główny Urząd Statystyczny](#) (Poland); [Český statistický úřad](#) (Czech Republic); [Központi Statisztikai Hivatal](#) (Hungary); [Ukrstat](#); [Sak'art'velos statistikis erovnuli samsakhuri](#) (Georgia); [Turkstat](#); [Statistics South Africa](#). Return to "What's New".

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 – 4TH JULY 2022

House price indices

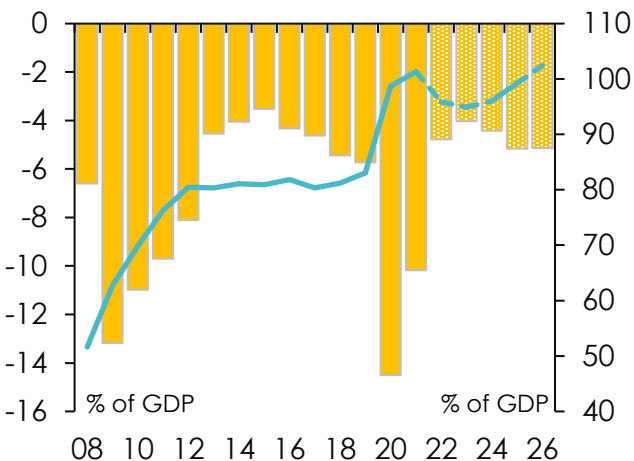


Note: House price indices shown in these charts are those published by [S&P-CoreLogic Case Shiller national](#) (United States); [Teranet-National Bank](#) (Canada); [CoreLogic](#) (Australia); [Real Estate Institute of New Zealand](#); [China Index Academy](#); [Japan Real Estate Institute](#) (Tokyo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

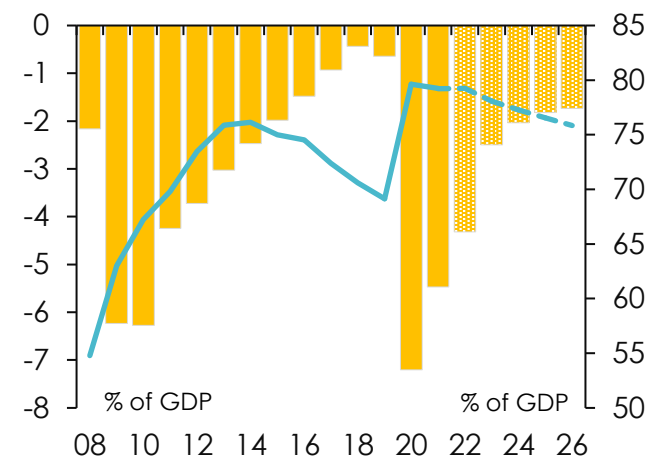
Fiscal policy is set to be tightened significantly in 2022 in most major economies except Japan, China and India

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

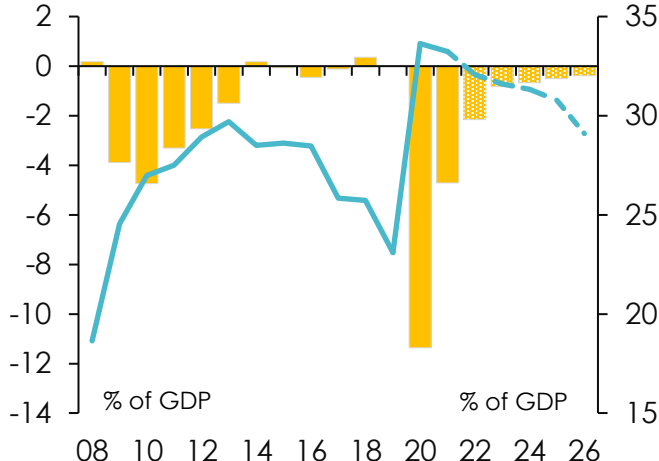
United States



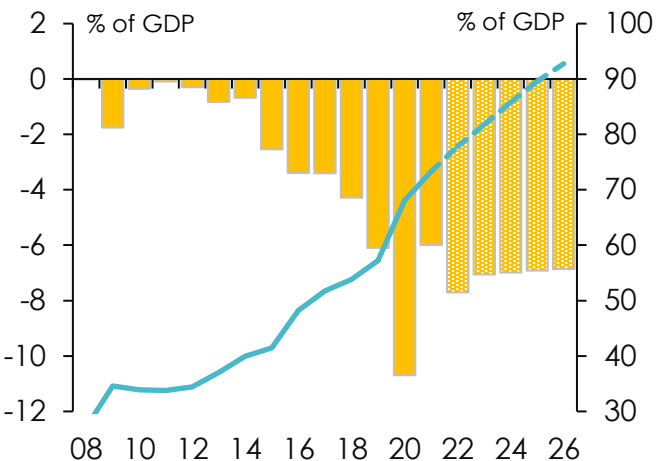
Euro area



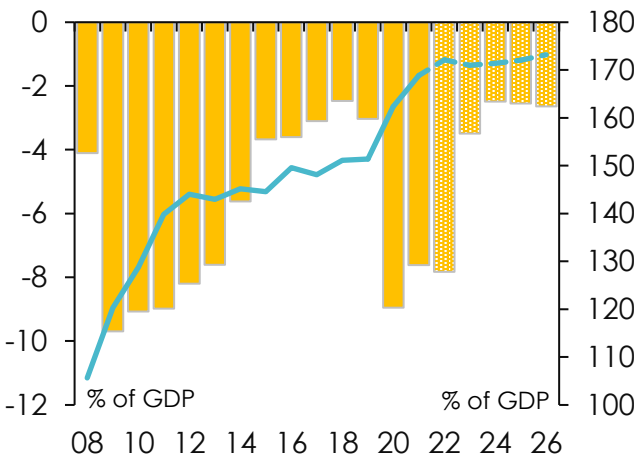
Canada



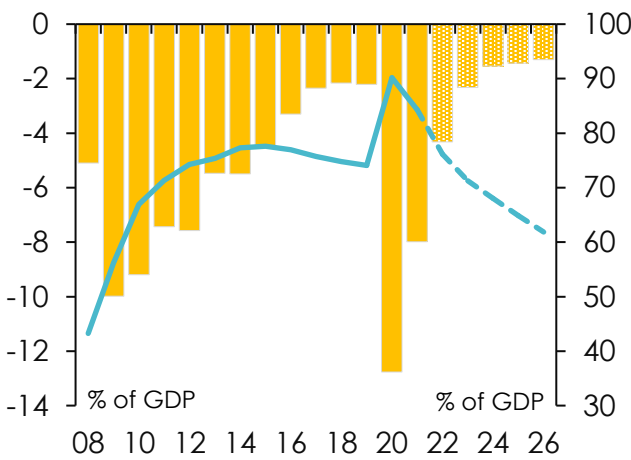
China



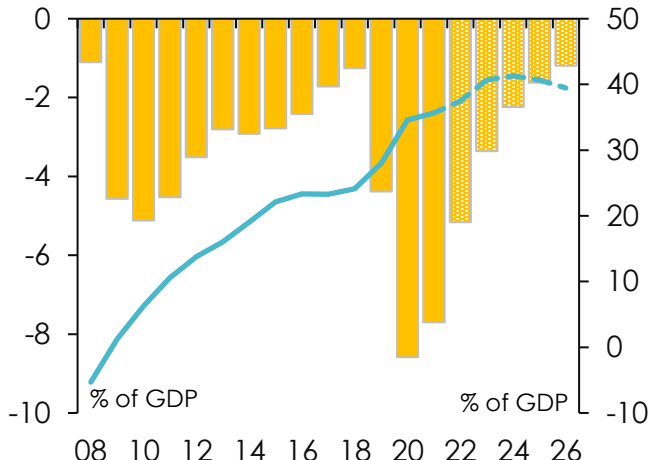
Japan



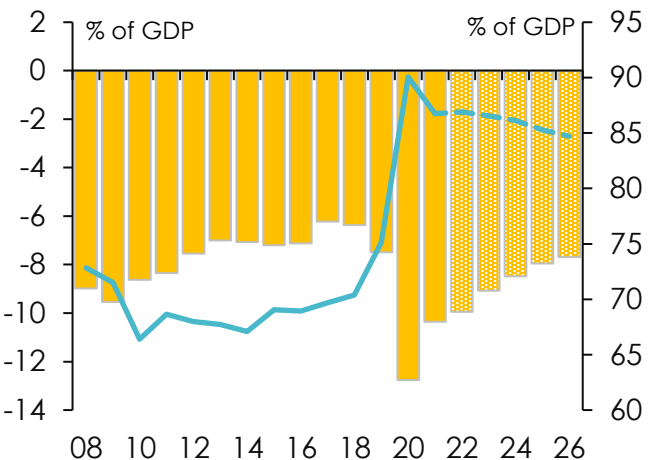
United Kingdom





Australia



India



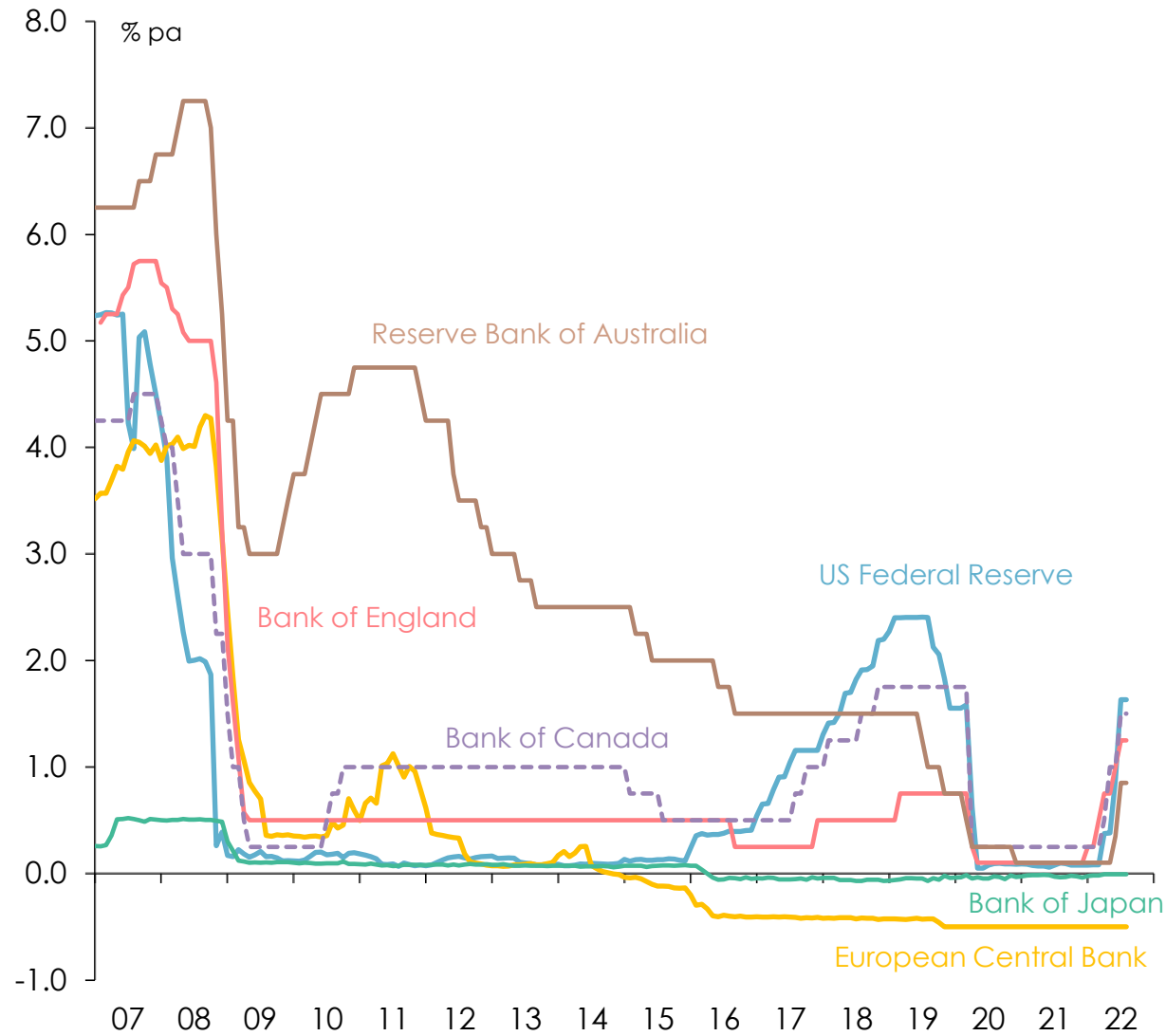
 General government overall fiscal balance (left scale)  General government net debt (right scale)

Note: China debt is gross debt, not net. Sources: International Monetary Fund, [Fiscal Monitor](#), and [World Economic Outlook](#), April 2022. [Return to "What's New"](#)

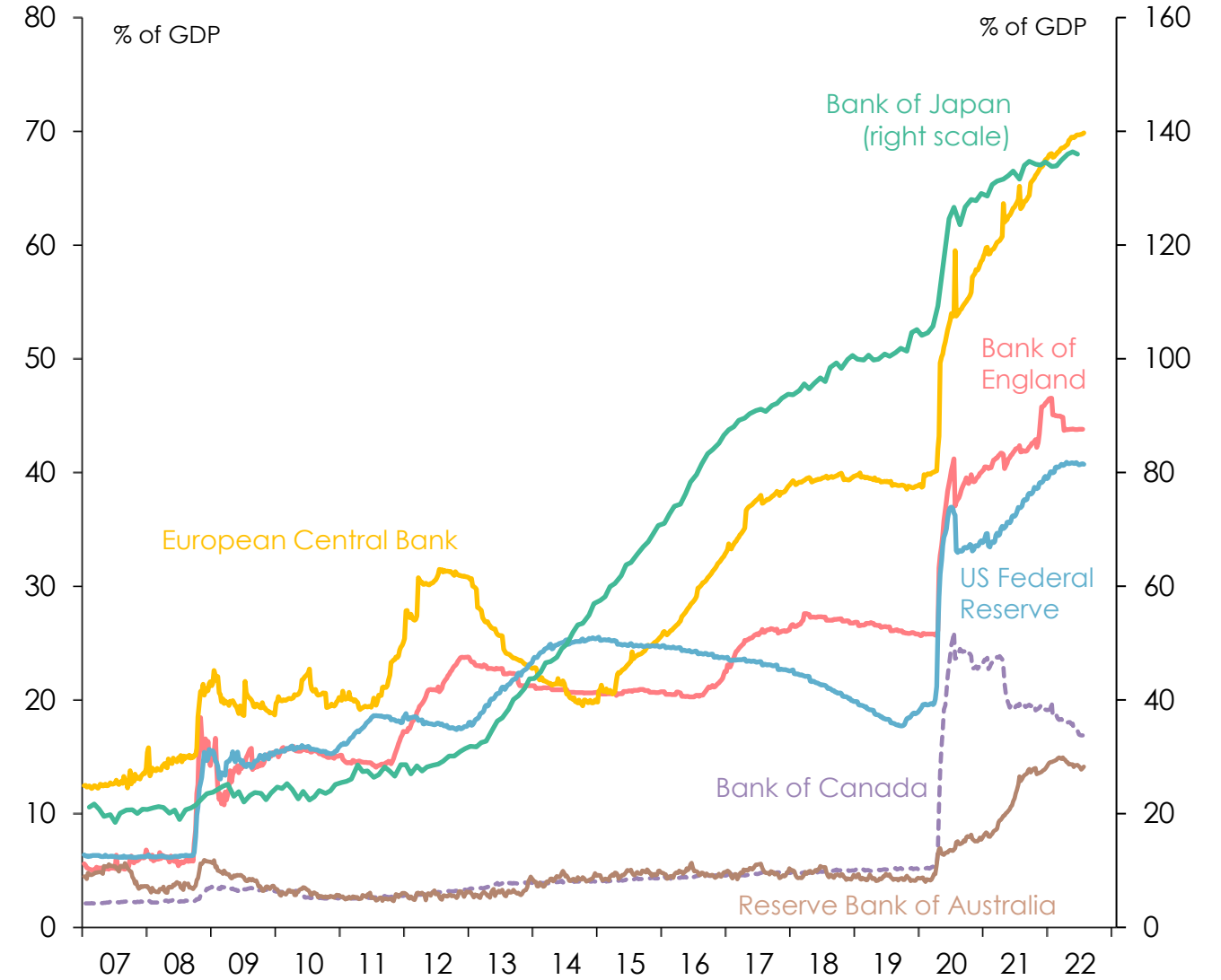
Major 'advanced' economy central banks (apart from the BoJ) have become more assertive in responding to inflation over the past few weeks

THE WORLD ECONOMY THIS WEEK – 4TH JULY 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"](#).

The Bank for International Settlements last week sounded some ominous warnings about the risks ahead for the global economy

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

- ❑ The **Bank for International Settlements** (often referred to as “the central banks’ central bank”) warned in its **Annual Economic Report** released last week of “a narrow path ahead” for the global economy which, it said, was “for the first time in the post-World War II era ... facing the threat of higher inflation, and hence the need to keep it in check, against the backdrop of elevated financial vulnerabilities”
 - while it is possible, in its view, “to envisage a smooth resolution of the economic tensions”, in which “inflationary pressures ease spontaneously due to an end to bottlenecks alongside a reversal in the war-induced increases in commodity prices”, thus “reduc[ing] the size of the required monetary policy tightening and mitigates the associated slowdown in economic activity – a soft landing”
 - it also warned of a “worst-case scenario” in which “stubborn inflation pressures ... prompt a stronger tightening”, which would “trigger a larger slowdown, including a recession, alongside financial stress – a stagflationary hard landing”
- ❑ The BIS cautions that “we may be reaching a tipping point, beyond which an inflationary psychology spreads and becomes entrenched”
 - whether that happens, the BIS says, “ultimately depends on whether wage-price spirals will develop”, a risk which “should not be underestimated” – because “by the time evidence of wages chasing prices is clearly visible, inflation may already be becoming entrenched”
- ❑ The BIS lays a great deal of emphasis on the need to “prevent the global economy from shifting from a low- to a high-inflation regime” (a theme which was also echoed by Fed Chair Jerome Powell last week)
 - it cautions that “some pain will be inevitable” in pursuit of that goal, but also notes that “the long-term costs of allowing inflation to become entrenched far outweigh the short-term costs of bringing it under control”
- ❑ The BIS observes that “for far too long, there has been a temptation to turn to fiscal and monetary policy to boost growth, regardless of the underlying causes of weakness”
 - and that “the only way of promoting robust long-term growth is to implement ambitious structural reforms”

How will 'quantitative tightening' work, in practice?

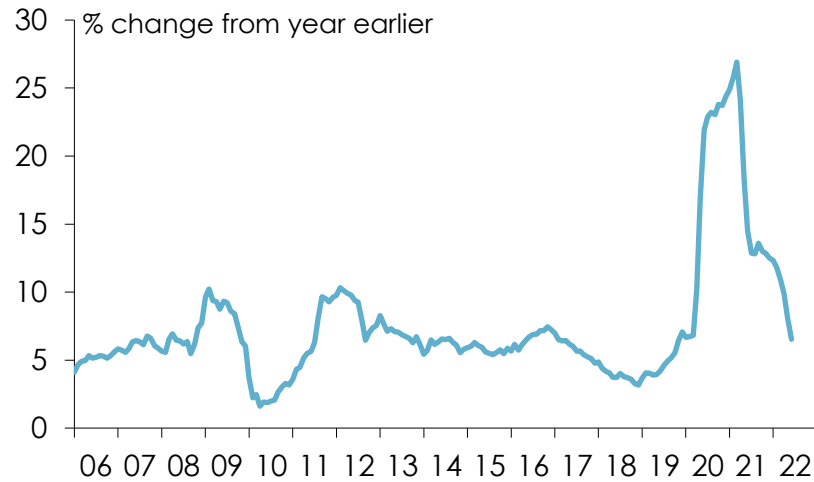
THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

- ❑ 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
- ❑ 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
- ❑ For a recent, more formal discussion of how 'QT' may work, refer to a [speech](#) given by the Bank of England's Chief Economist Huw Pill at a conference in Freiburg, Germany, on 24th June

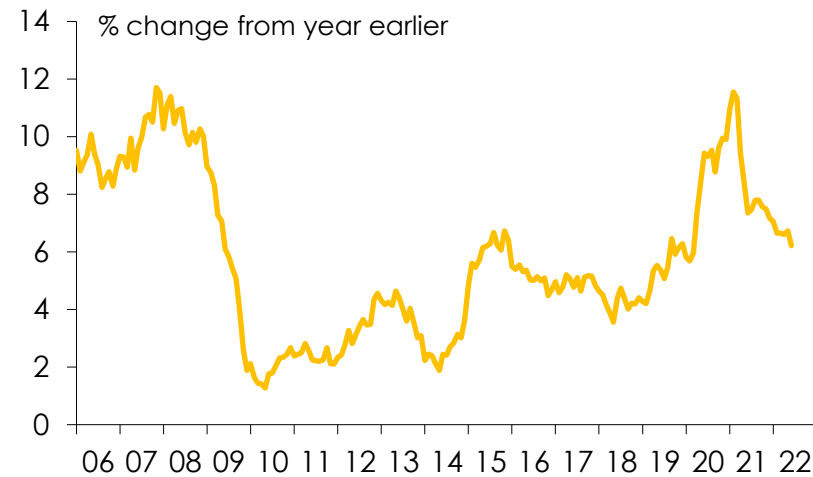
Money supply growth has slowed sharply from the peaks recorded in the first half of 2021 as large monthly increases in 2020 'wash out'

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

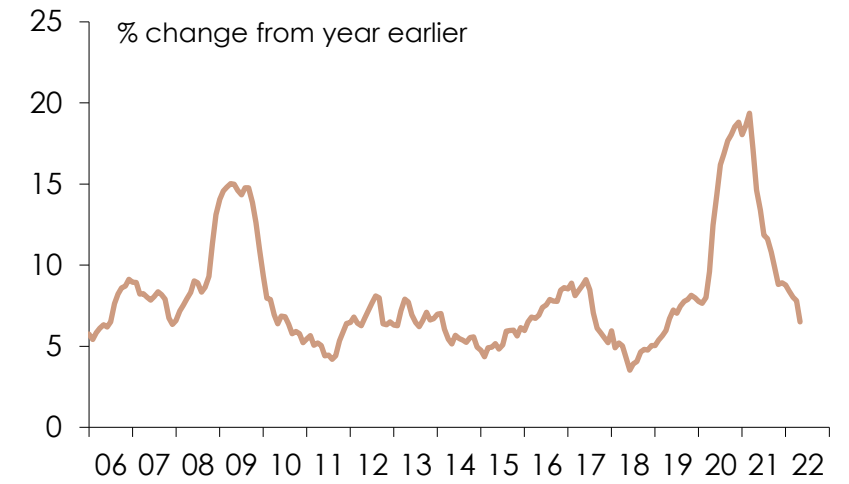
US M2



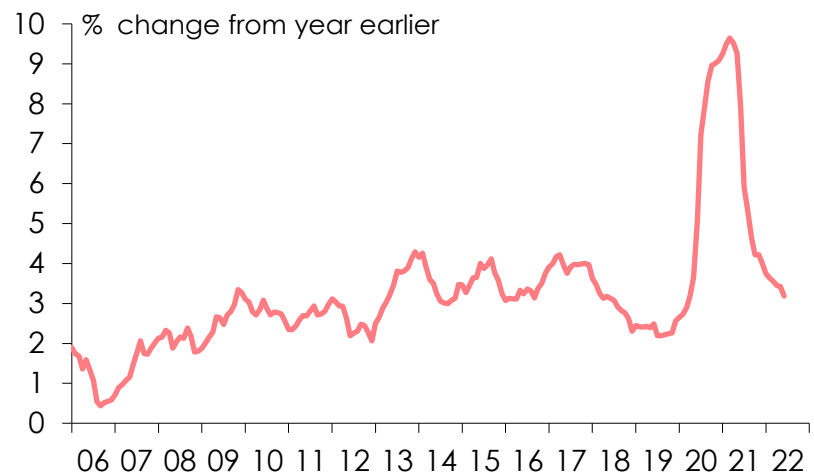
Euro area M2



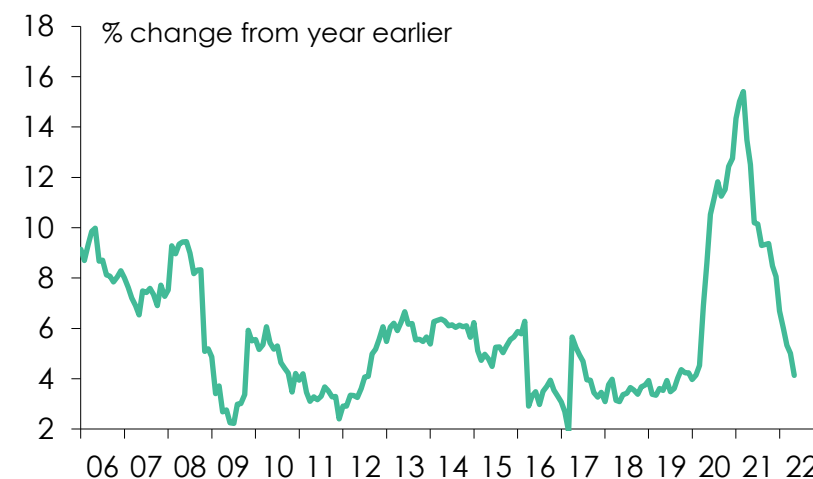
Canada M2



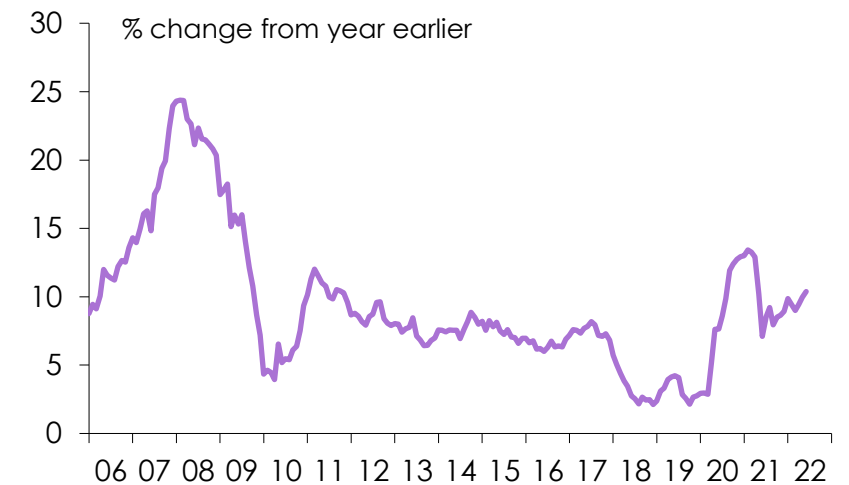
Japan M2 + CDs



UK M2



Australia M3

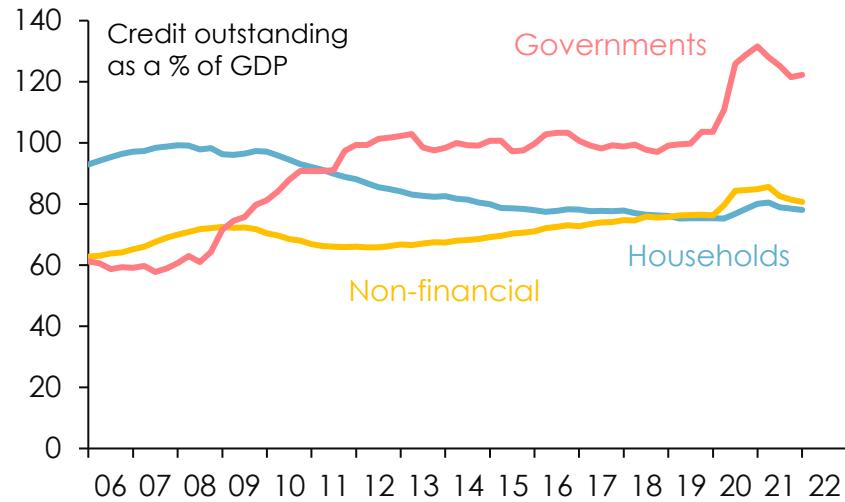


Sources: [US Federal Reserve](#); [Bank of Japan](#); [European Central Bank](#); [Bank of England](#); [Bank of Canada](#); [Reserve Bank of Australia](#).

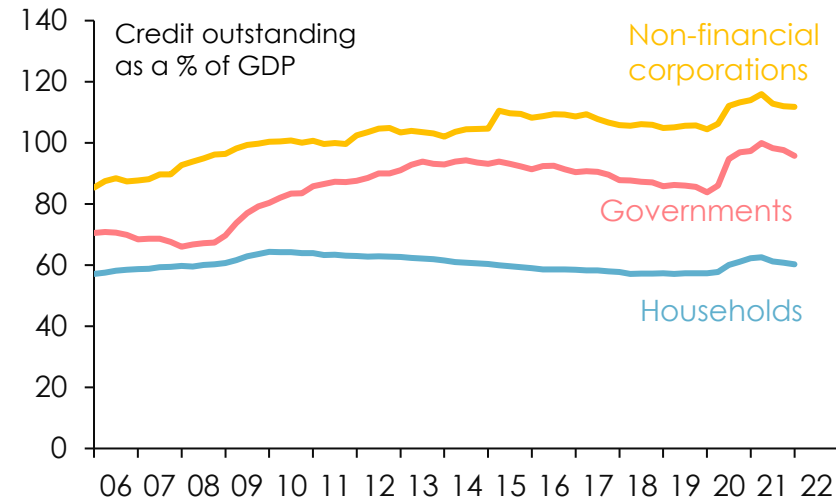
Japanese, US and UK governments, Canadian corporations and Australian households appear most exposed to increases in interest rates

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

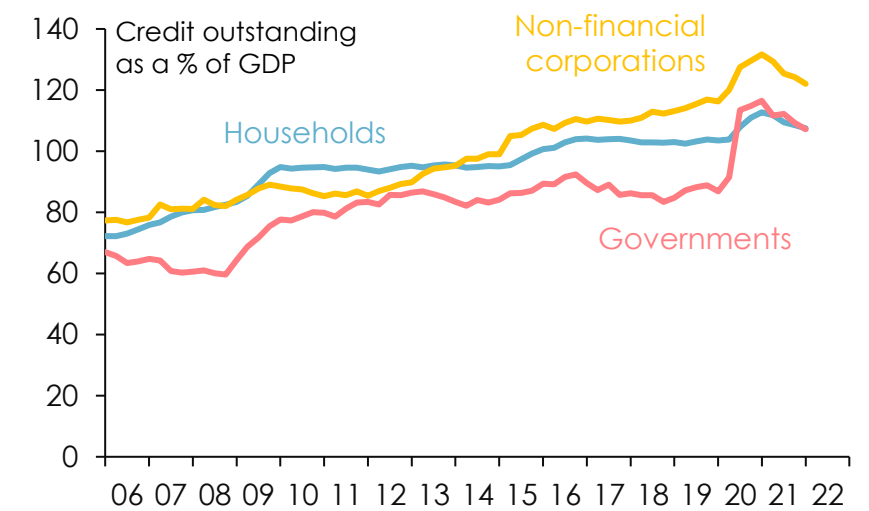
US



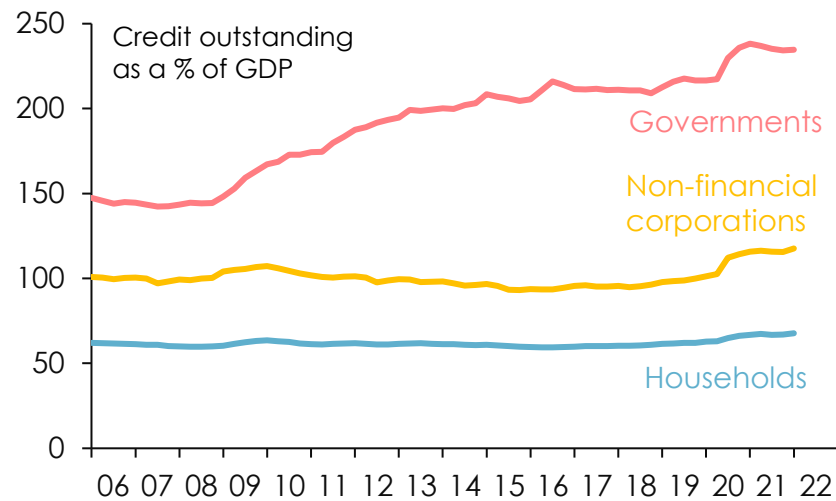
Euro area



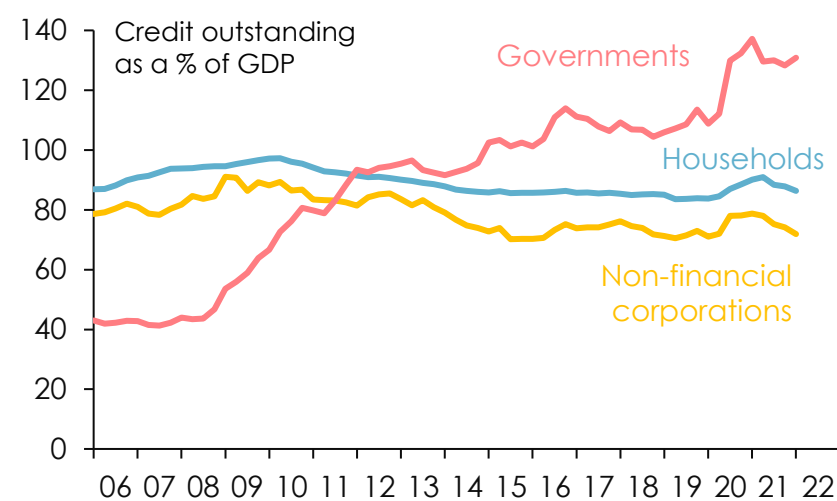
Canada



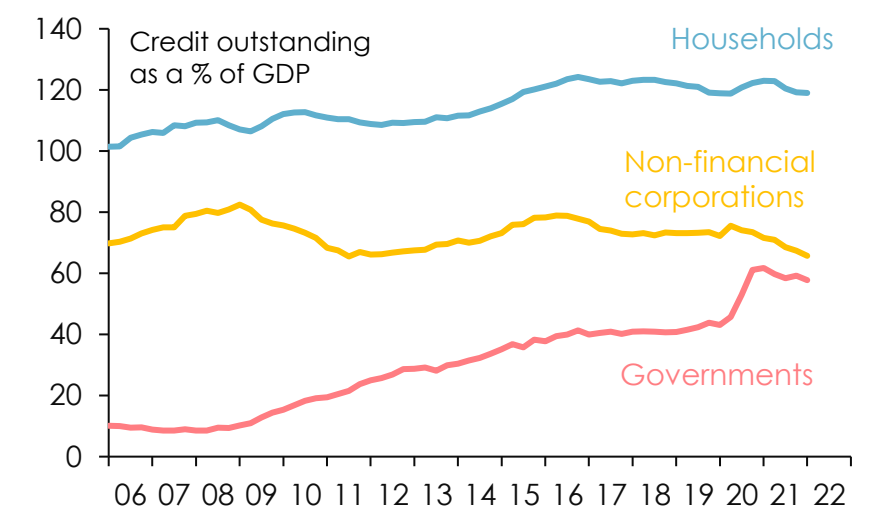
Japan



UK



Australia

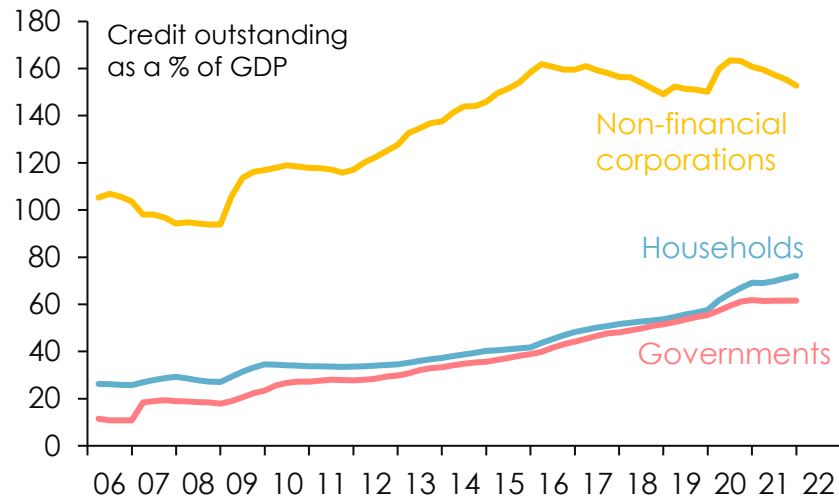


Source: Bank for International Settlements, [Credit Statistics](#); latest data are for Q4 2021, Q1 2022 data will be released in mid-September. [Return to "What's New"](#).

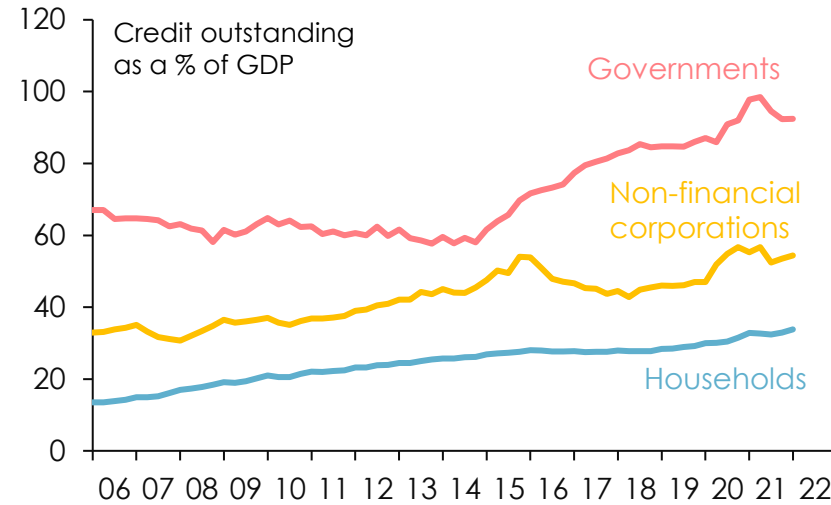
In major 'developing' economies it's usually governments that are most exposed to rising interest rates – except for China, Russia and Turkey

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

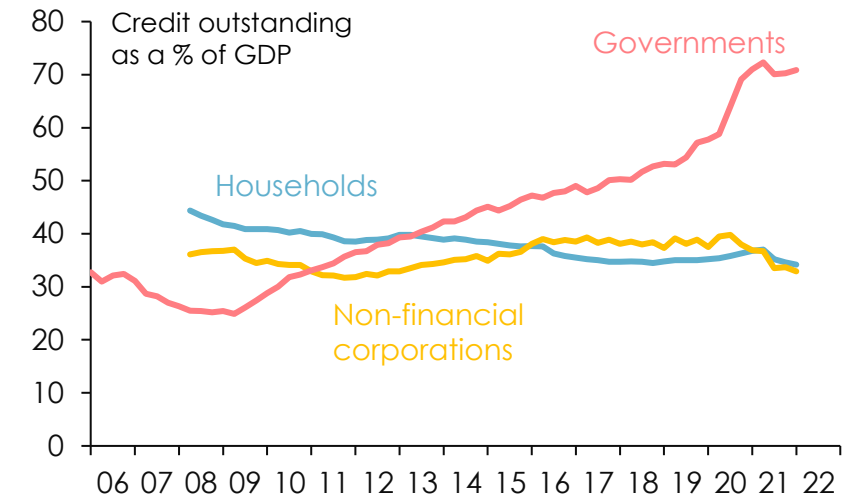
China



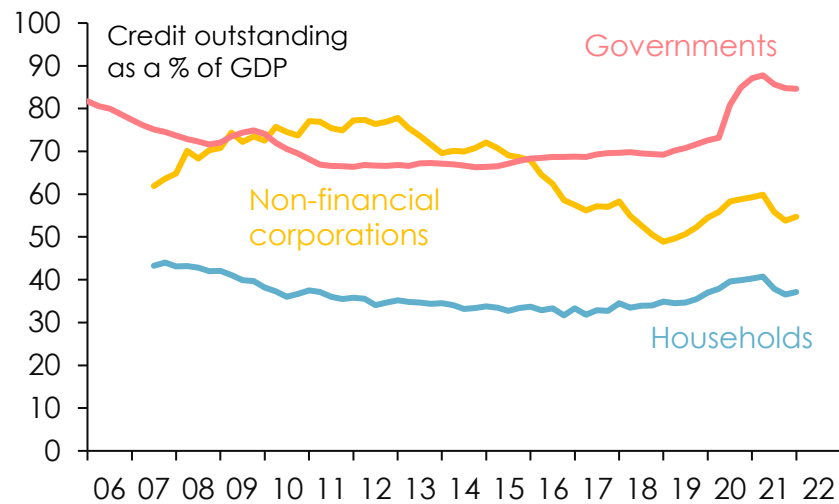
Brazil



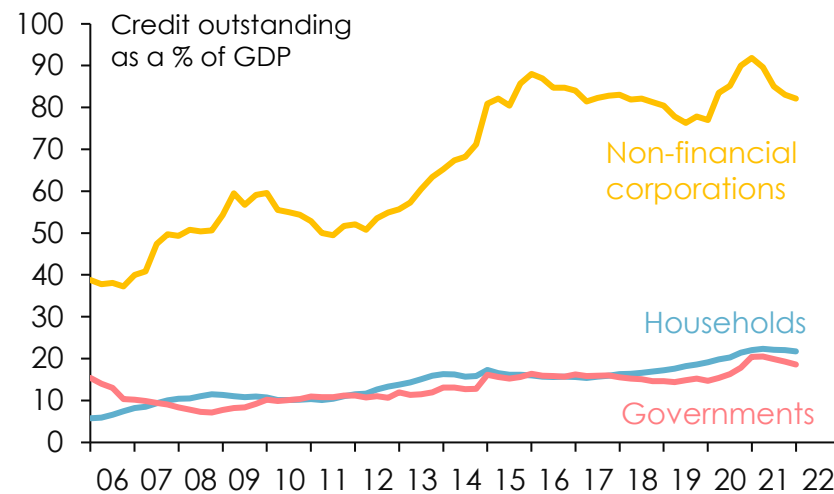
South Africa



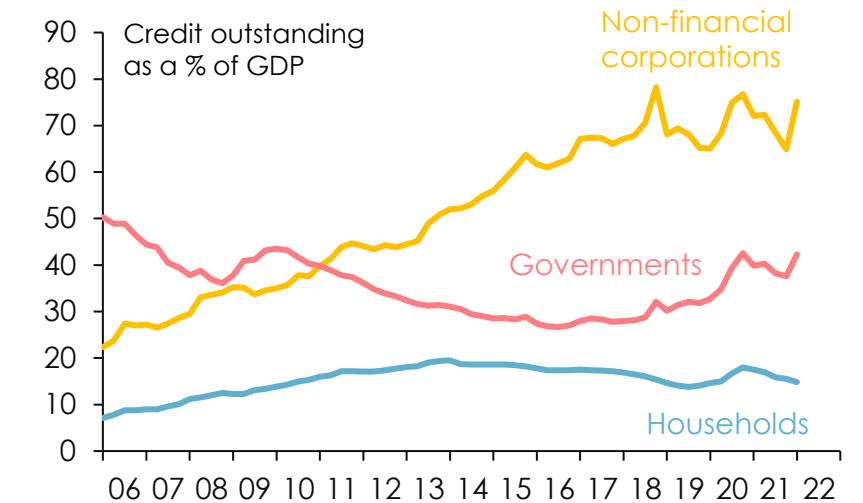
India



Russia



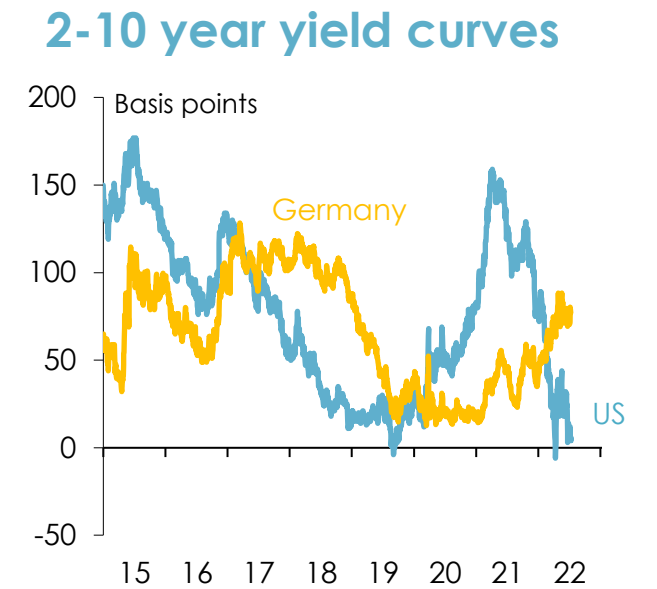
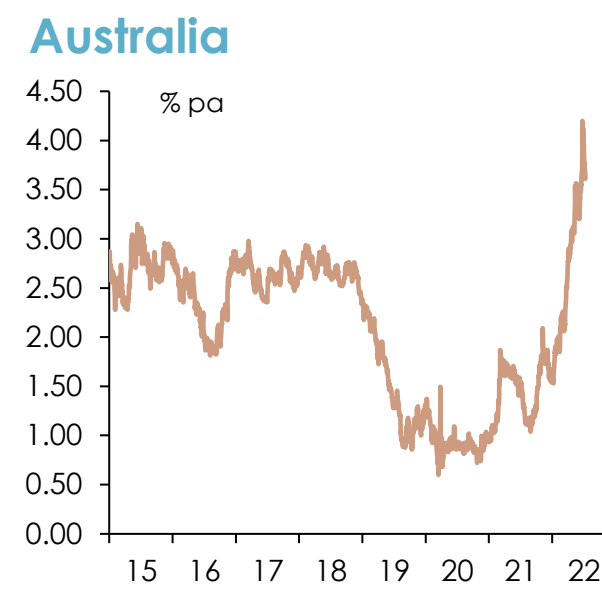
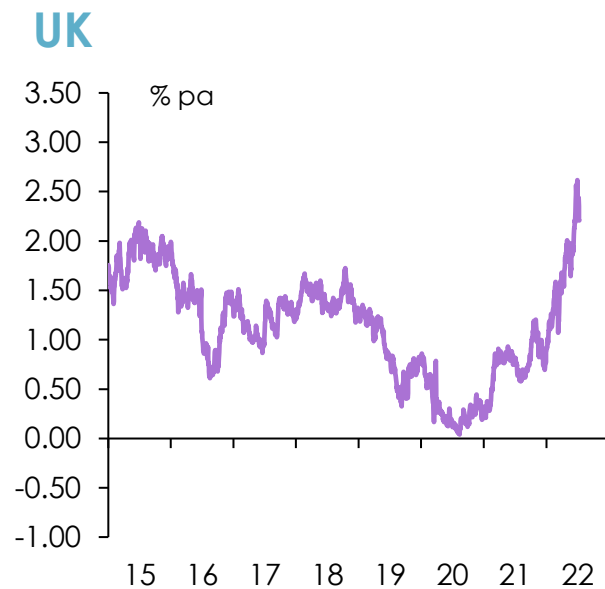
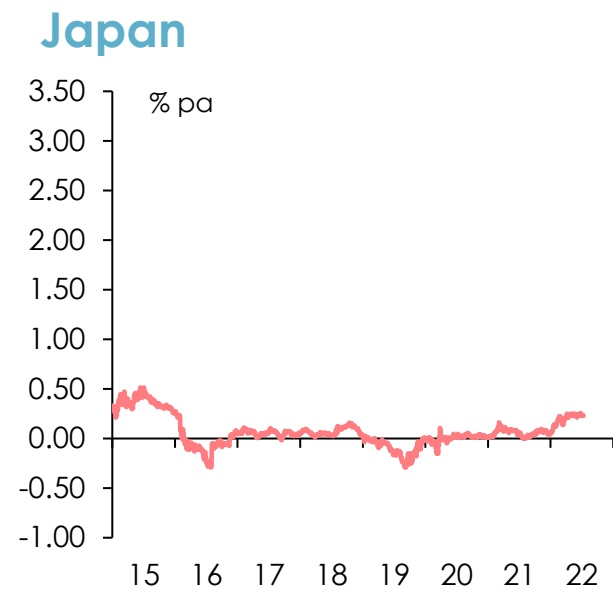
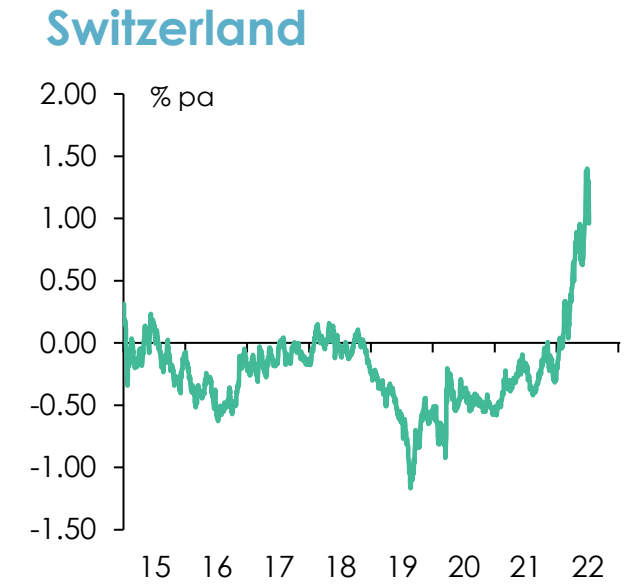
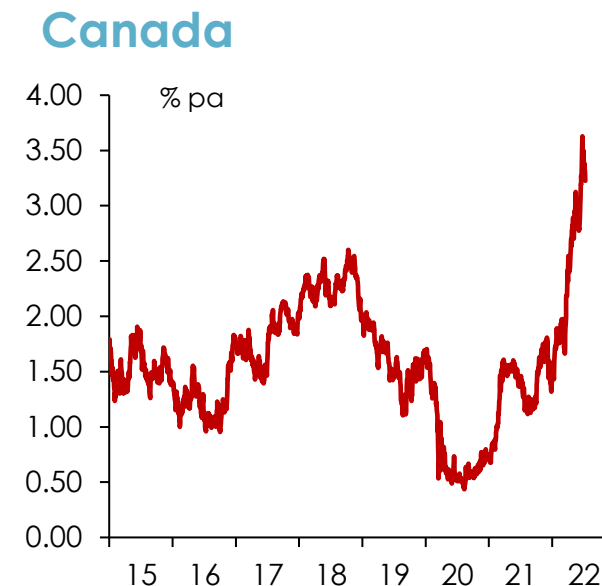
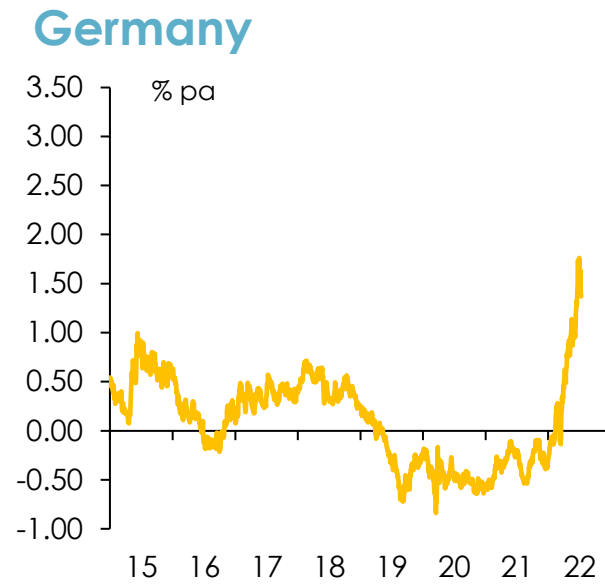
Turkey



Source: Bank for International Settlements, [Credit Statistics](#); latest data are for Q4 2021, Q1 2022 data will be released in mid-September. For data for other Asian economies see [slide 102](#). [Return to "What's New"](#).

10-year bond yields fell further in 'advanced' economies last week as markets continue to scale back forecasts of how high rates will rise

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022



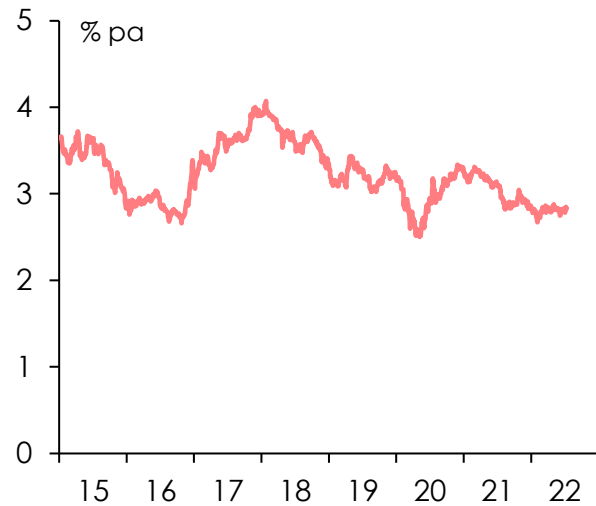
Note: Data up to 1st July. For bond yields in other large euro area member states see [slide 66](#), and for bond yields in Asian economies see [slide 101](#).

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

'Emerging' market bond yields moved in different directions, rising in Brazil, Russia, Hungary & South Africa, but falling in Mexico and Turkey

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

China



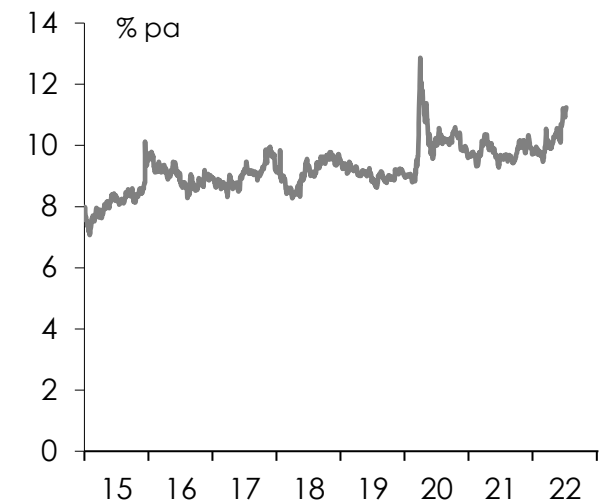
Brazil



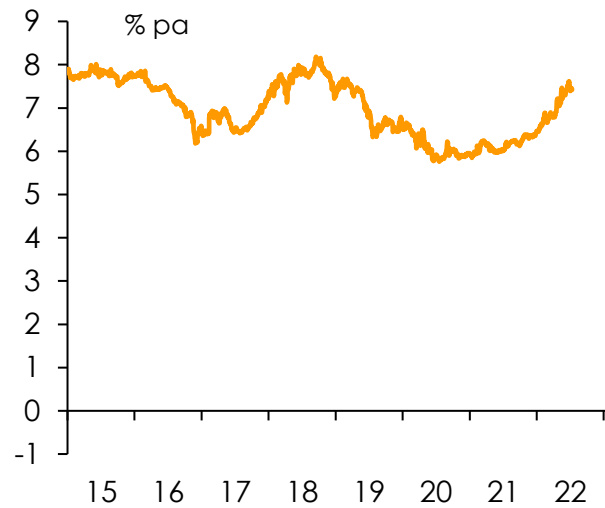
Russia



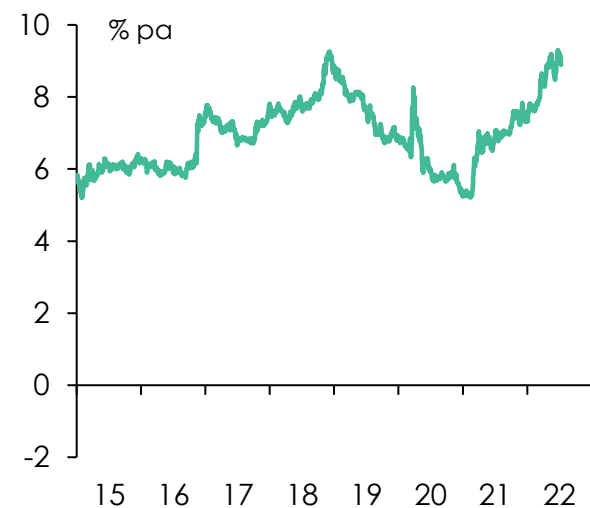
South Africa



India



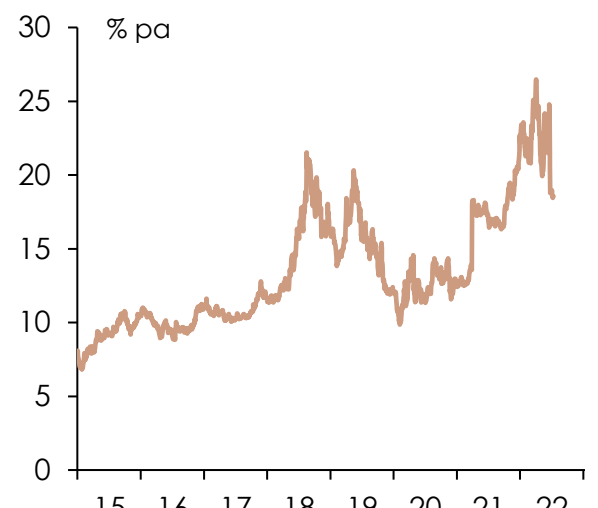
Mexico



Hungary



Turkey



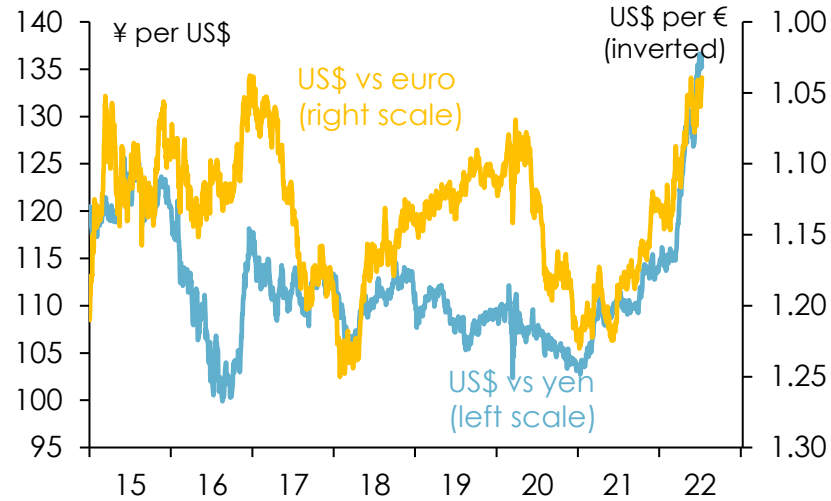
Note: Data up to 1st July. For bond yields in other Asian economies see [slide 101](#); and for policy interest rates in other emerging markets see [slide 122](#).

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

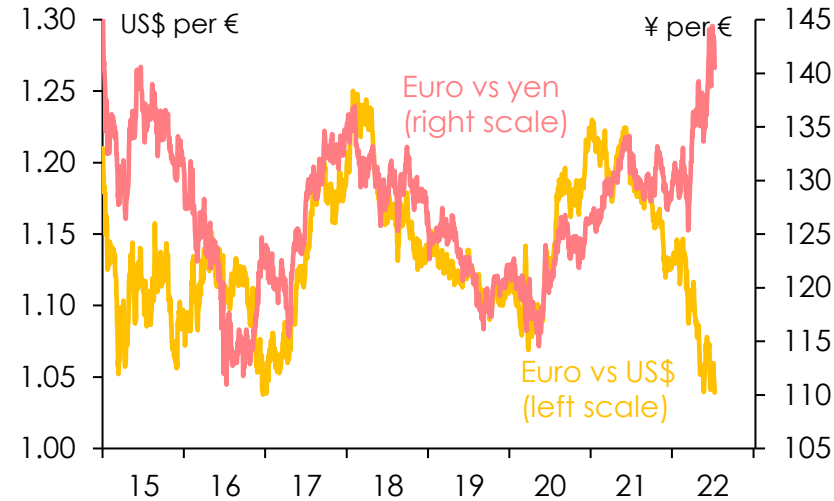
The US\$ rose last week, particularly vs the euro & sterling, after the Fed and ECB suggested different approaches to monetary policy tightening

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

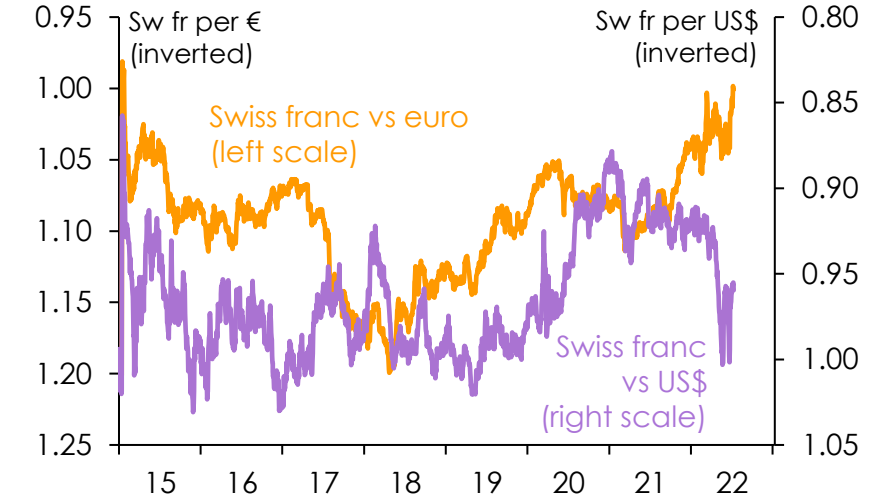
US dollar



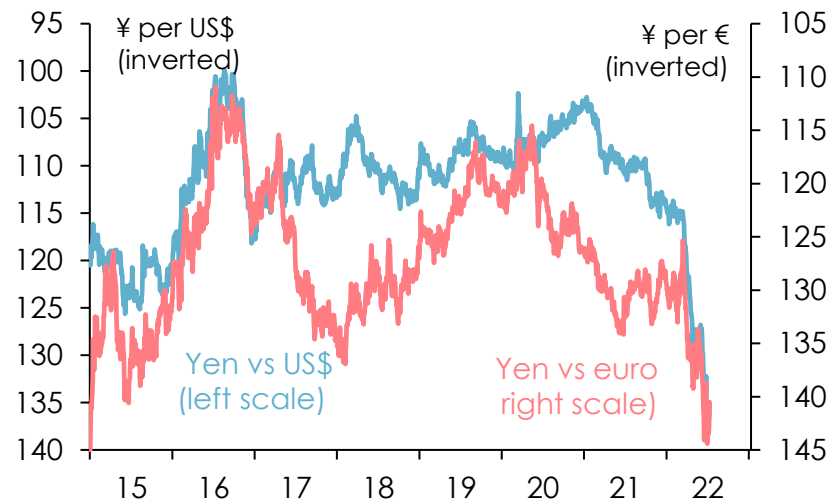
Euro



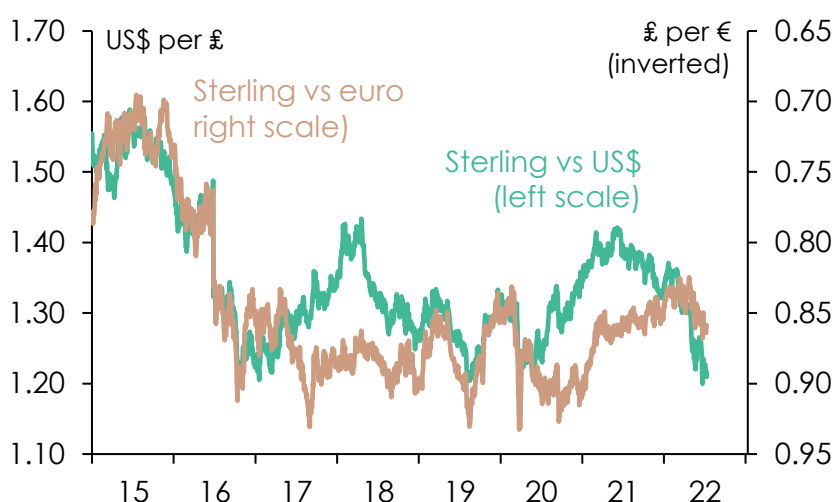
Swiss franc



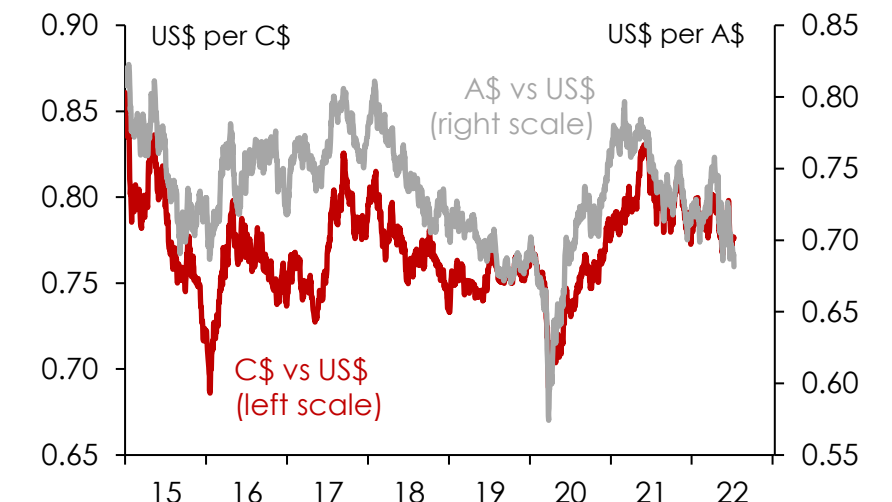
Japanese yen



Sterling



Canadian & Australian dollars

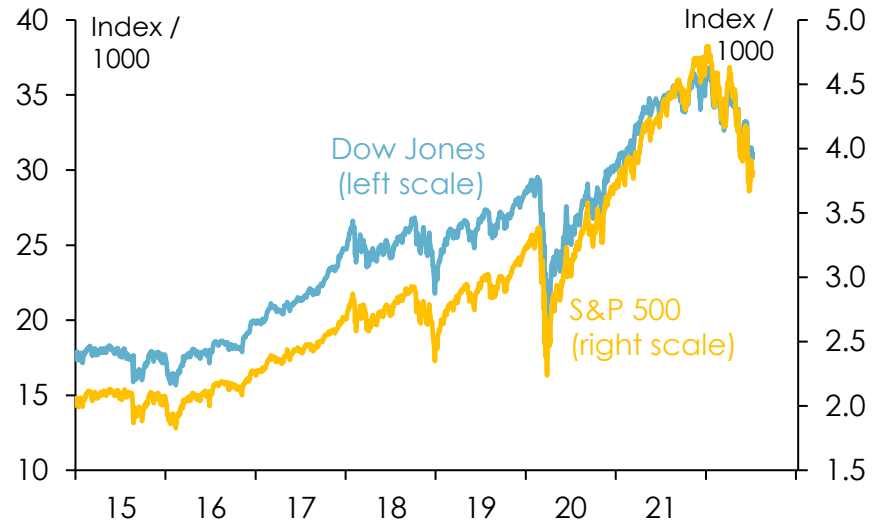


Note: Data up to 1st July. For Asian exchange rates see [slide 103](#). Source: Refinitiv Datastream. [Return to "What's New"](#).

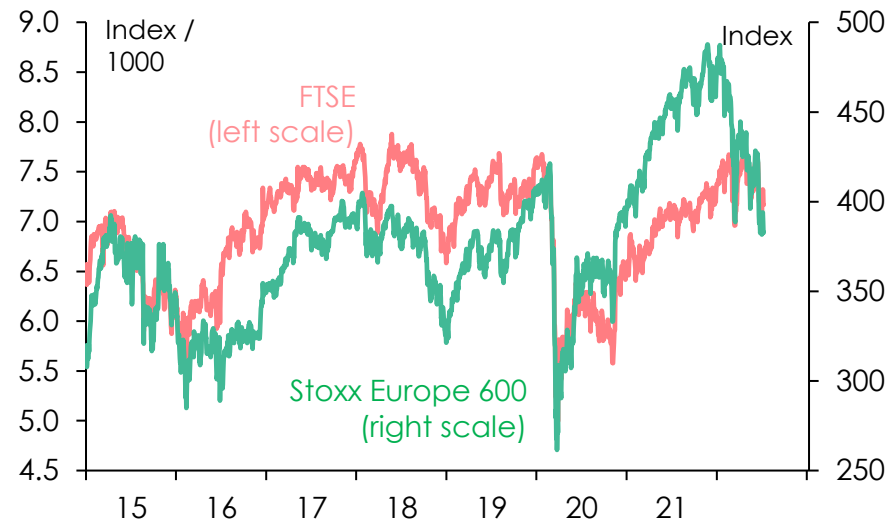
Advanced economy stock markets resumed their declines last week as investors returned to focus on downside risks to economic growth

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

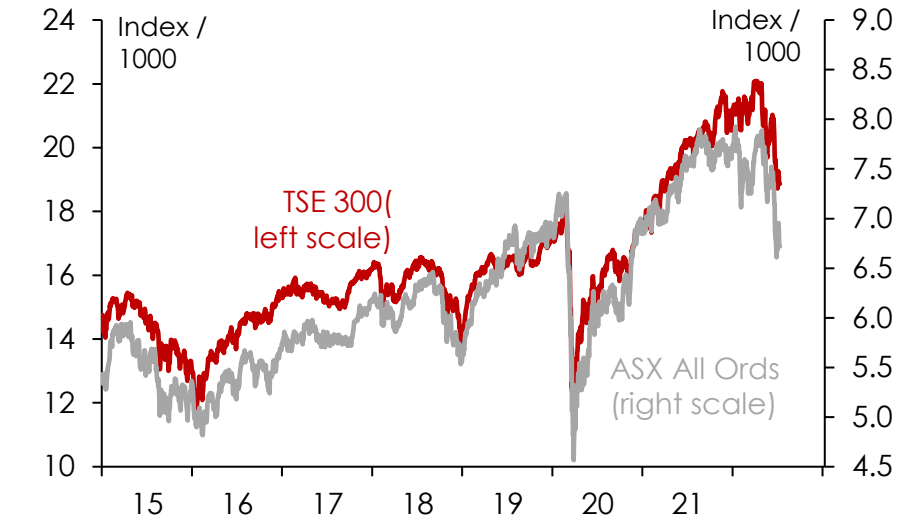
US stock market



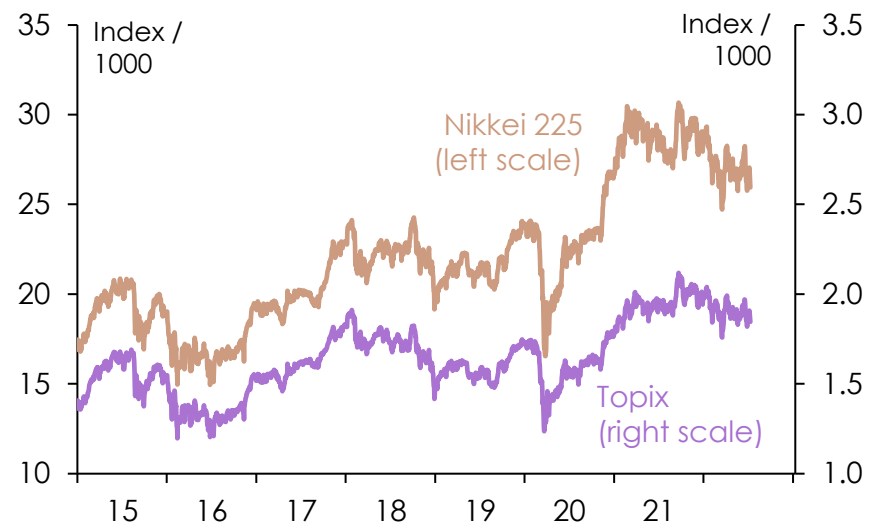
European stock markets



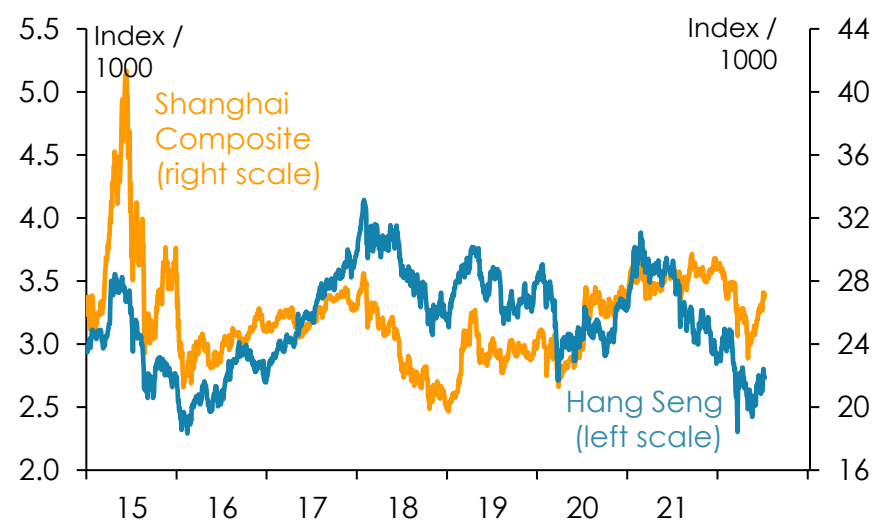
Canadian & Australian stock markets



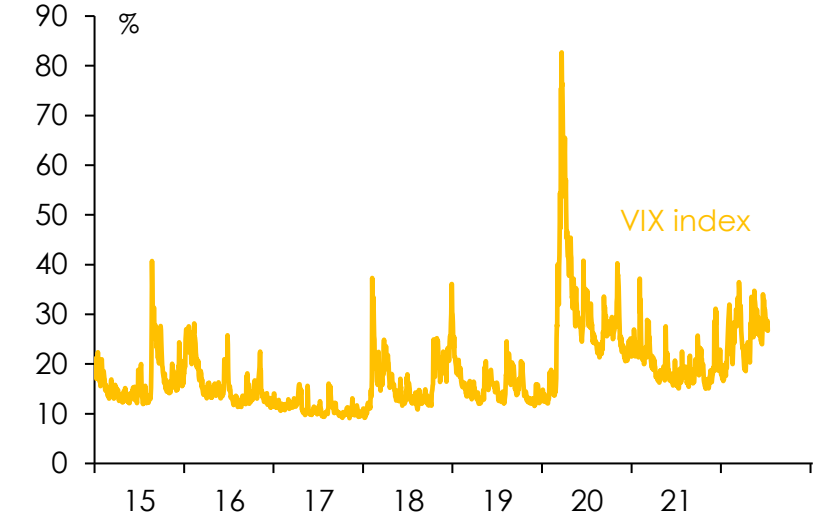
Japanese stock market



Chinese & HK stock markets



Equity market volatility



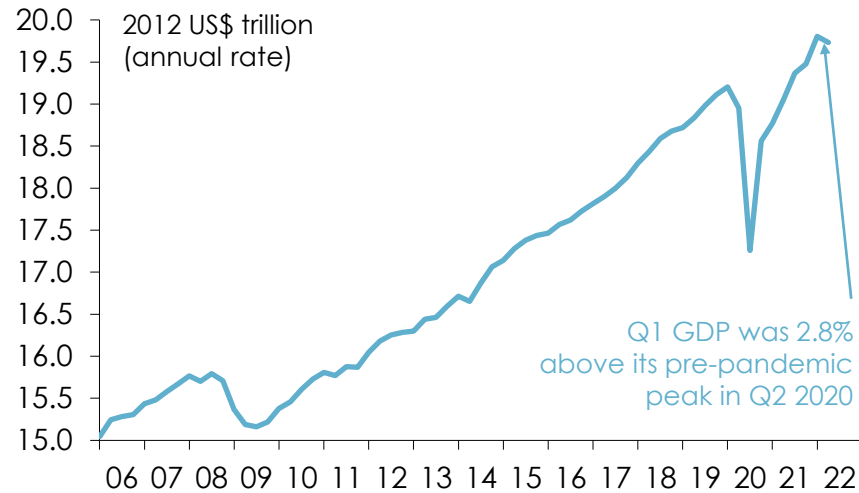
Note: Data up 1st July. Source: Refinitiv Datastream. For East Asian stock markets see [slide 104](#). [Return to "What's New"](#).

The United States

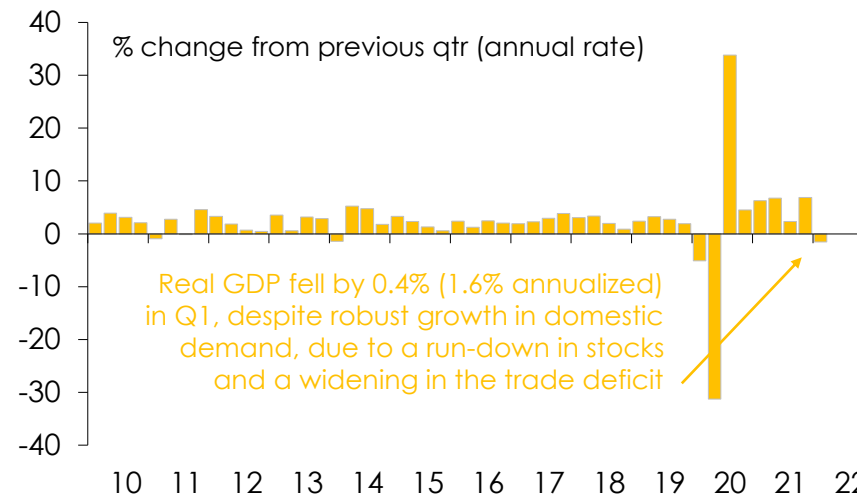
US real GDP shrank 0.4% (1.6% annualized) in Q1, despite strong domestic demand, due to a run-down in inventories and a large fall in net exports

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

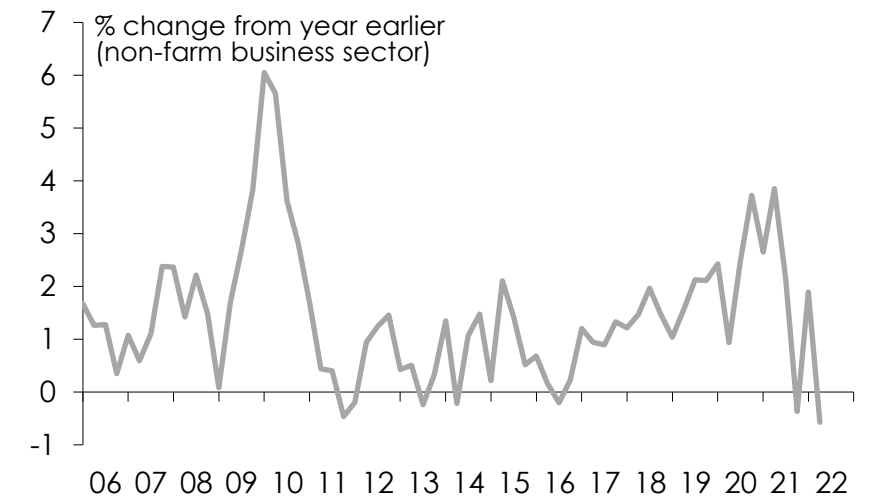
Level of real GDP



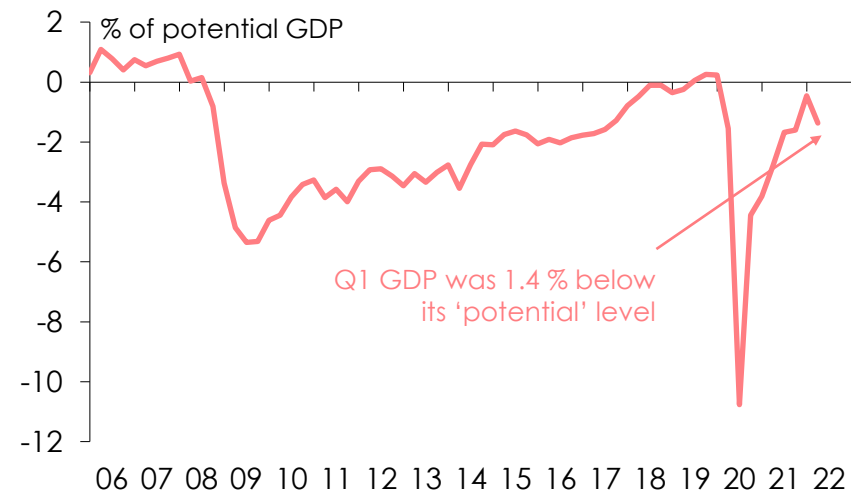
Quarterly change in real GDP



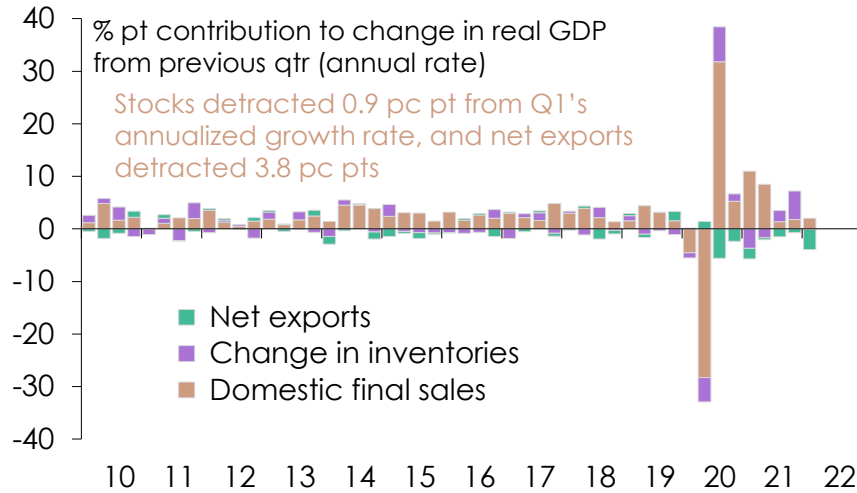
Labour productivity growth



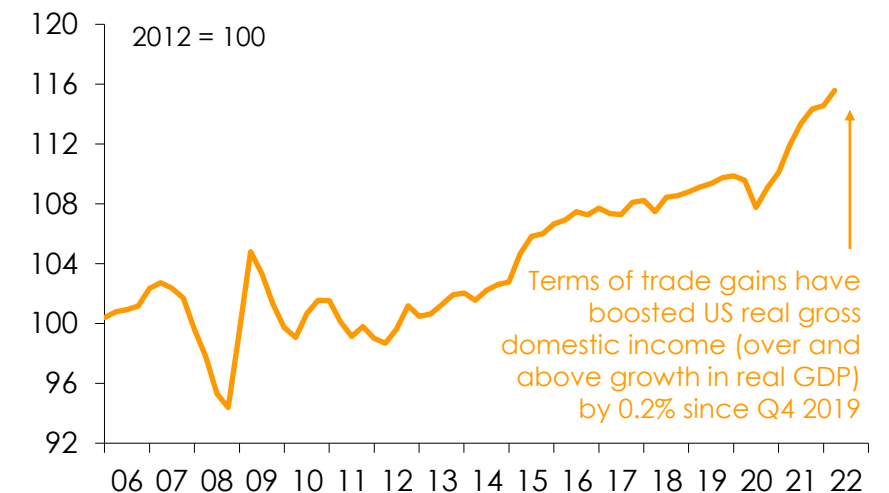
The 'output gap'



Contributions to change in real GDP



Terms of trade

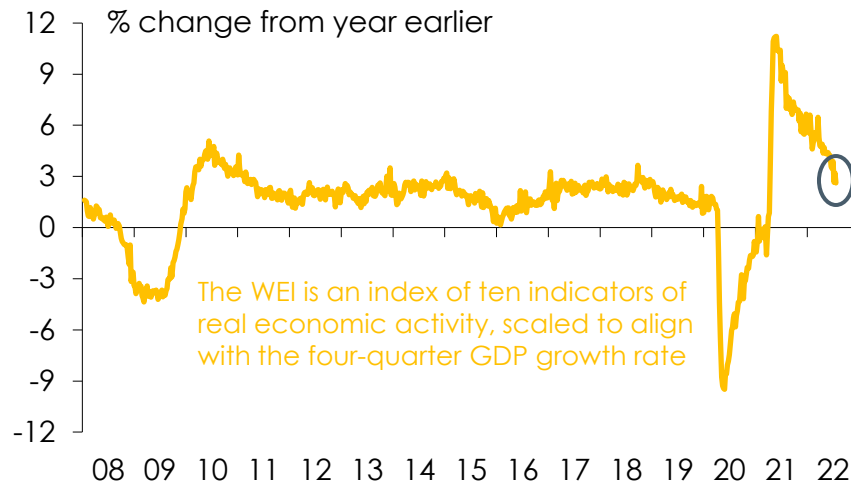


Note: the 'output gap' is the difference between actual and potential GDP (the volume of goods & services that could be produced if the economy were operating at full capacity); the 'terms of trade' is the ratio of the implicit price deflator of exports of goods & services to that of imports of goods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

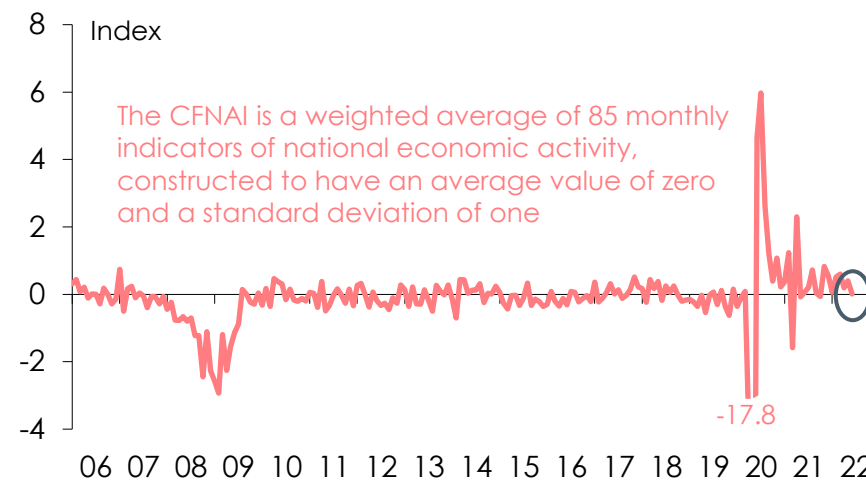
A growing number of activity surveys and leading indicators are starting to warn of a sharp slowdown or outright contraction in US economic activity

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

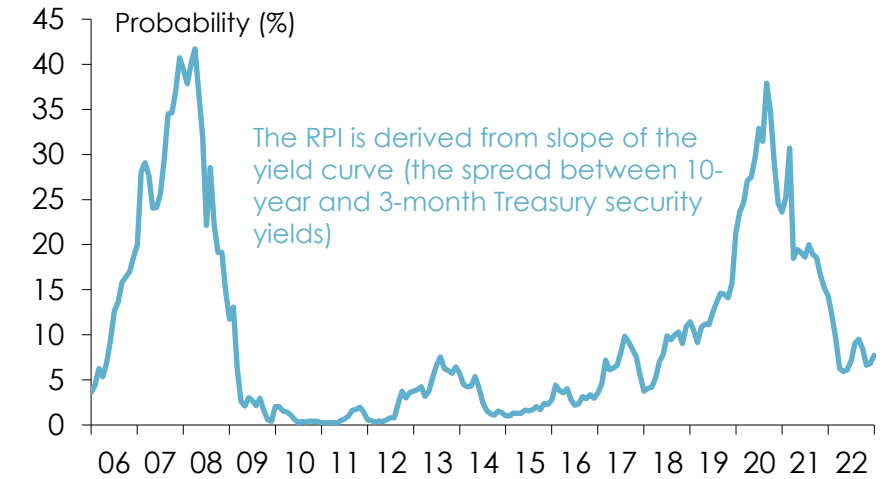
NY Fed weekly economic index



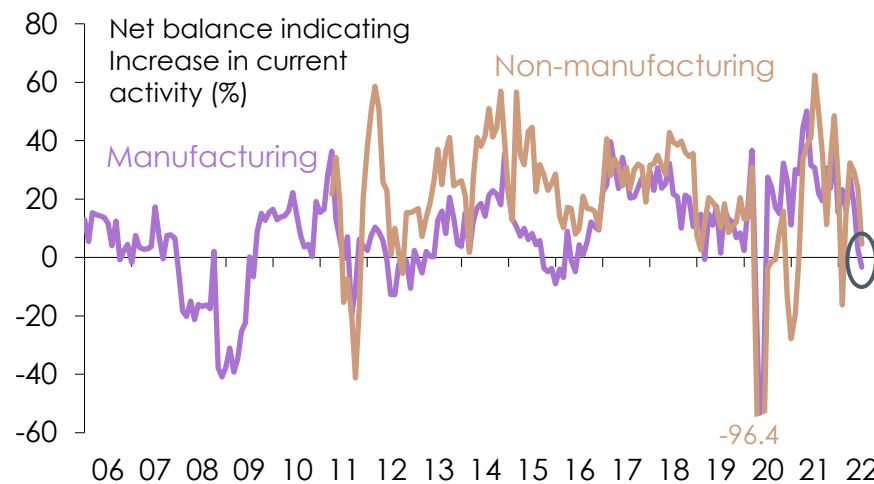
Chicago Fed national activity index



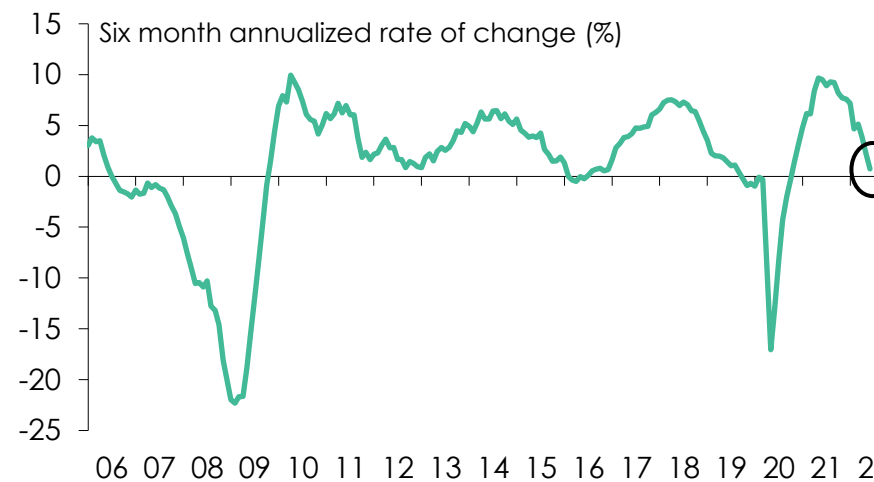
NY Fed recession probability index



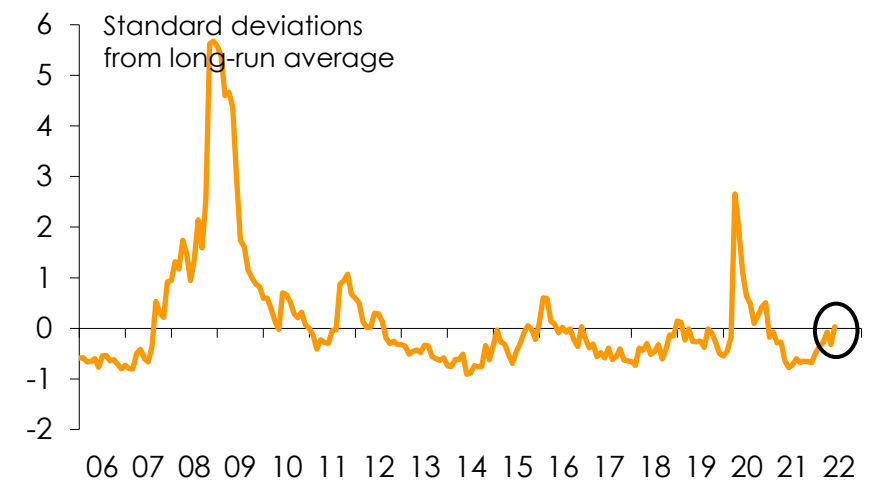
'Philly Fed' business outlook survey



Conference Board leading indicators



Kansas City Fed financial stress index

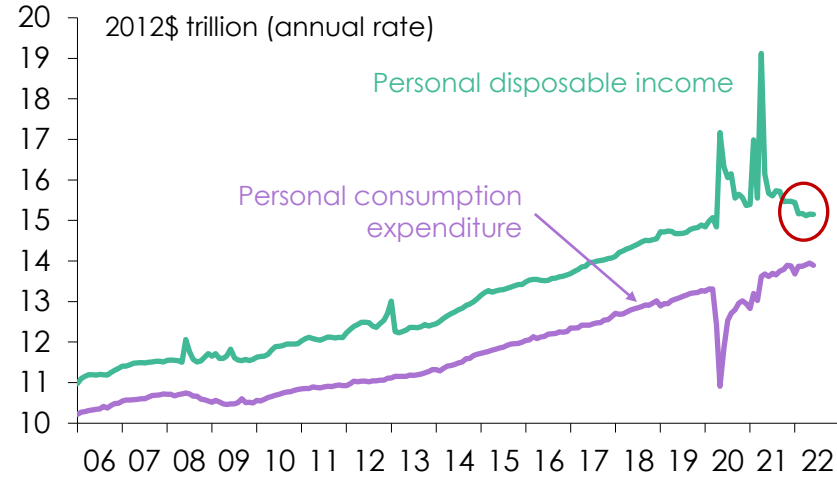


Sources: Federal Reserve Bank of New York, [Weekly Economic Index](#) and [The Yield Curve as a Leading Indicator](#); Federal Reserve Bank of Philadelphia, [Regional Economic Analysis](#), Manufacturing and Non-Manufacturing Business Outlook Surveys; Federal Reserve Bank of Chicago, [Chicago Fed National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

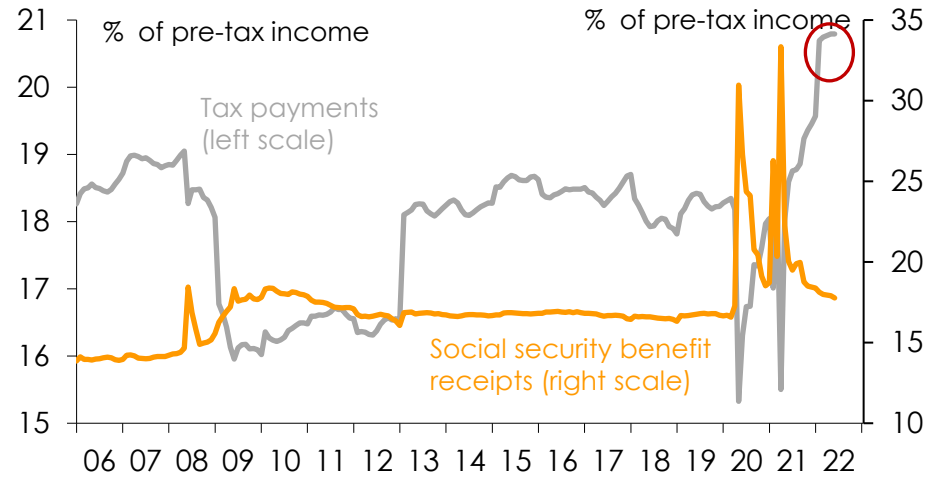
US personal disposable income has been squeezed by rising inflation & tax payments, forcing households to cut saving in order to maintain spending

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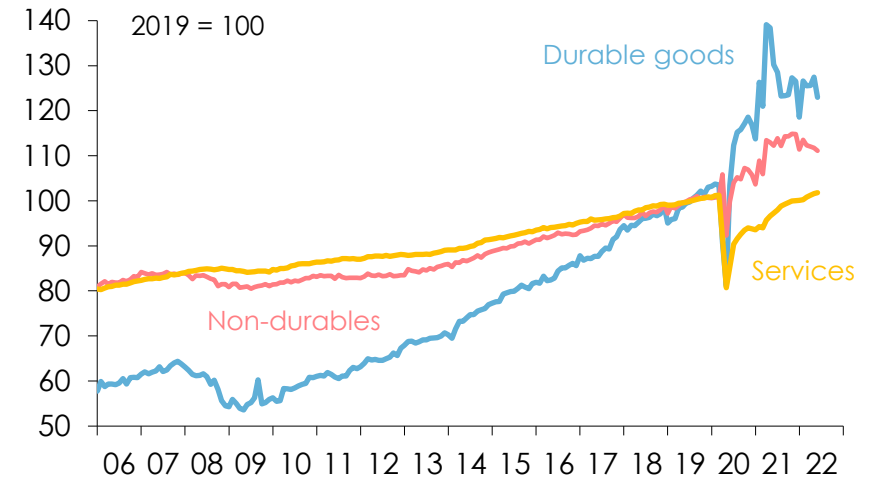
Personal income and expenditure



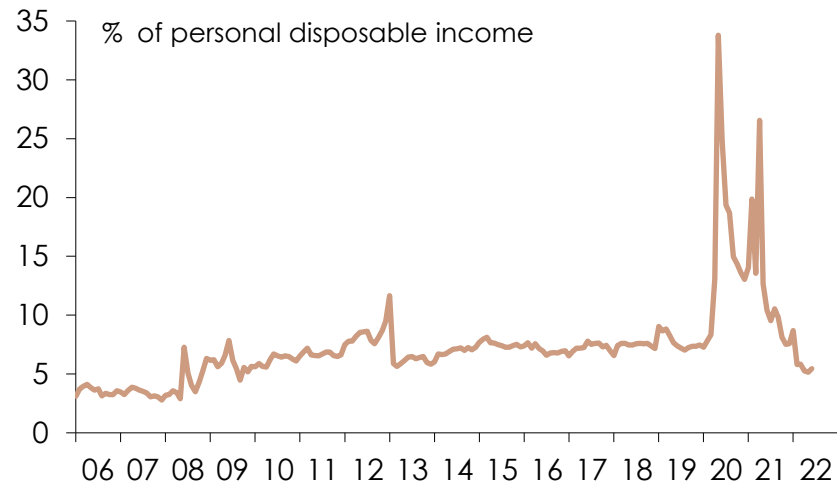
Tax and social security



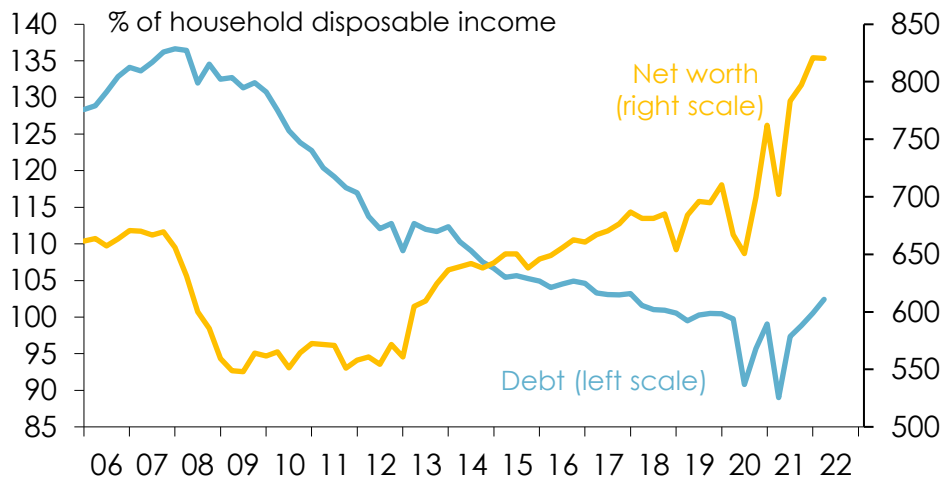
Personal consumption expenditure



Personal saving rate



Household debt and net worth



Spending on energy

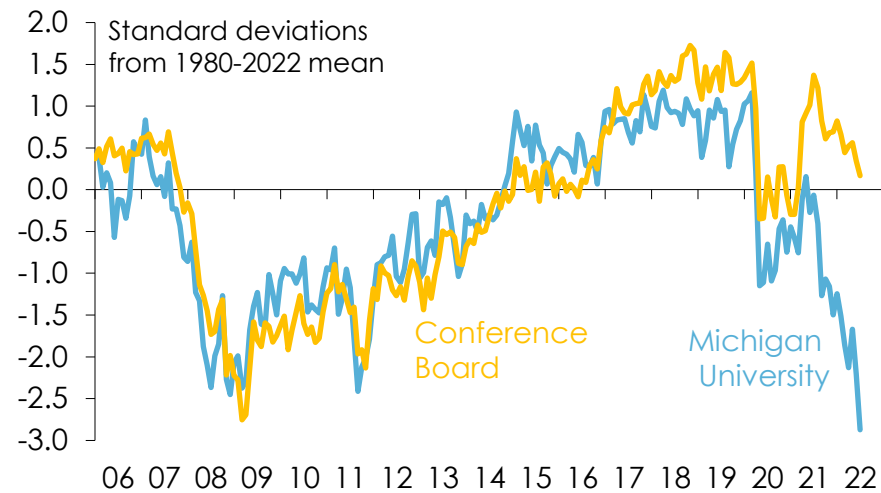


Note: data on personal income, spending and saving are monthly; data on debt and net worth are quarterly. Sources: US Bureau of Economic Analysis, [Gross Domestic Product](#), [Consumer Spending](#) and [Income and Saving](#); US Federal Reserve, [Financial Accounts of the United States - Z1](#). [Return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

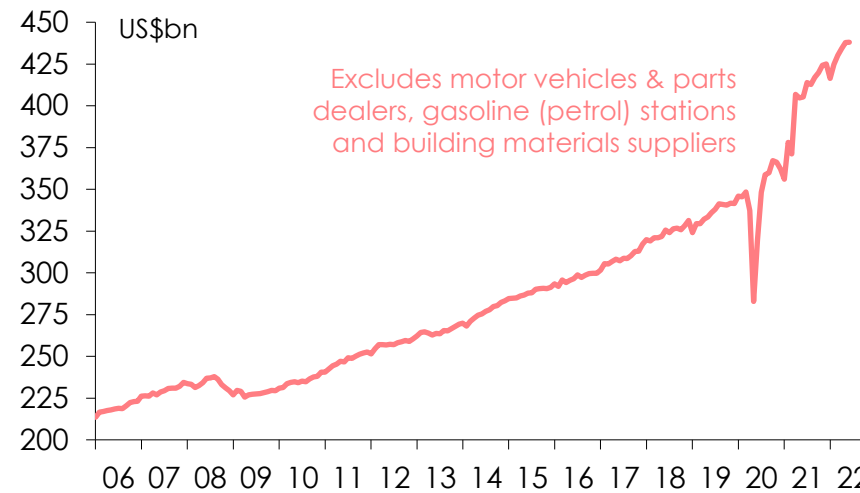
Consumer confidence has fallen sharply in recent months in response to the sharp rise in inflation and the prospect of more rate hikes

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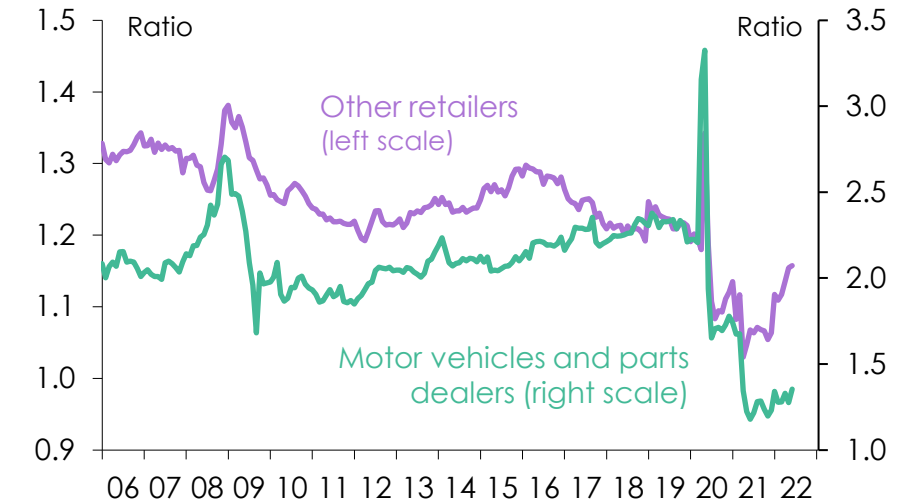
Consumer sentiment



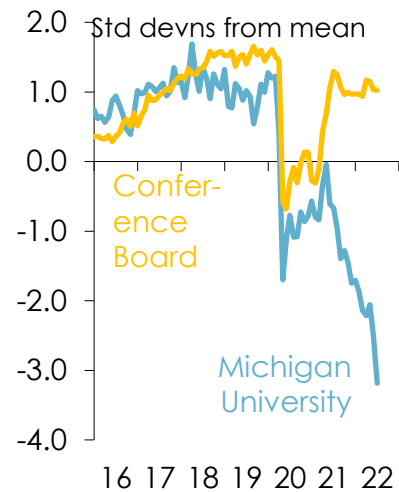
Level of 'core' retail sales



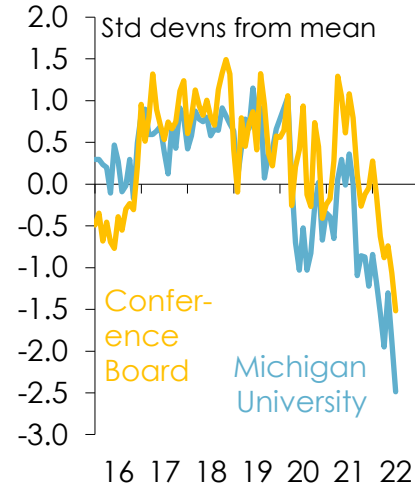
Retail inventories-sales ratios



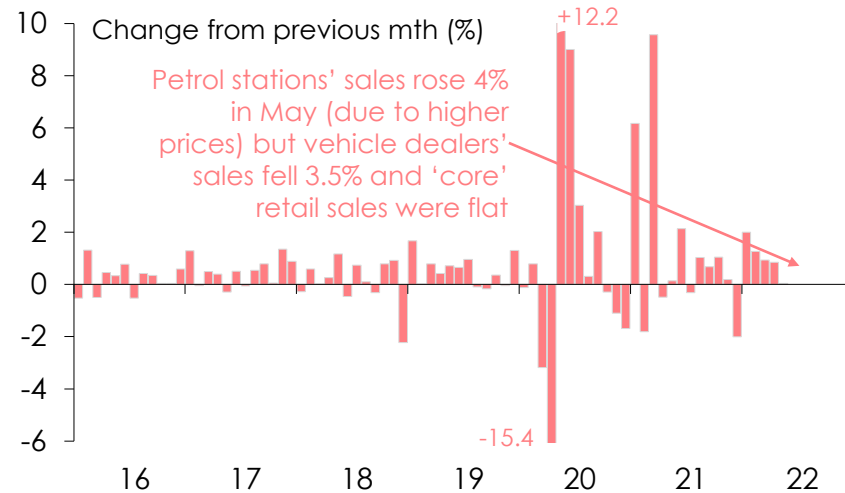
Present situation



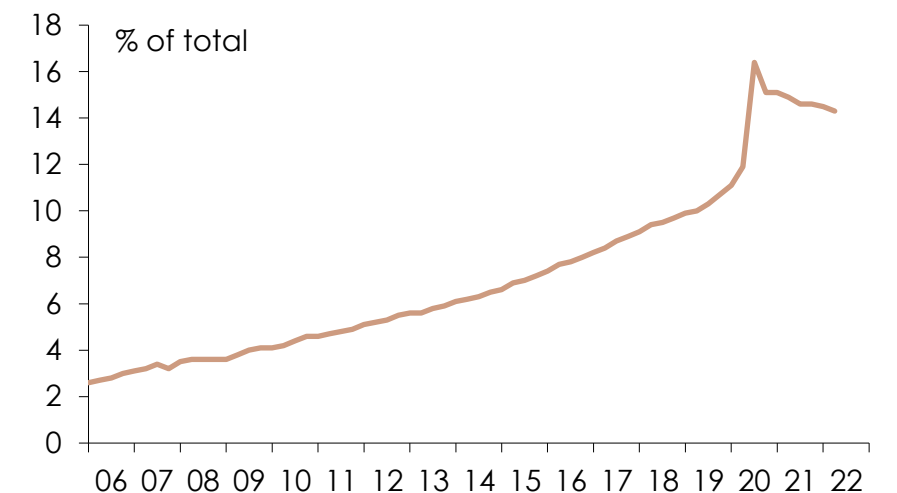
Expectations



Monthly changes in 'core' retail sales



On-line retail sales

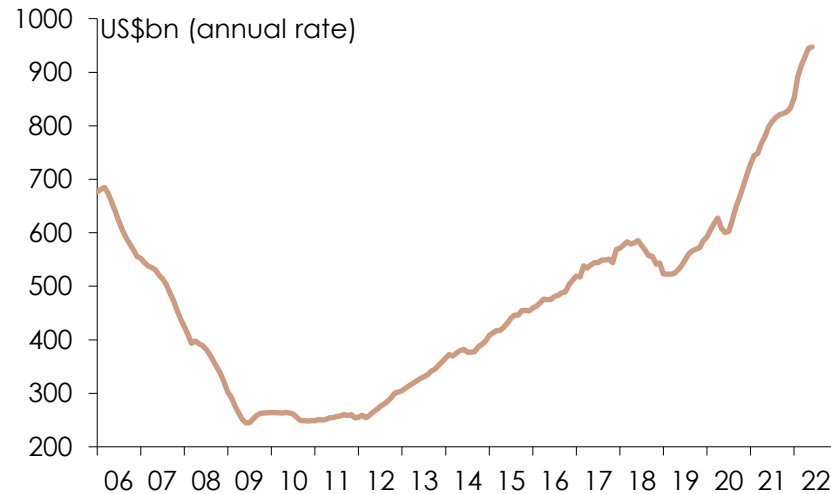


Note: The Michigan University measure of consumer sentiment gives greater weight to inflation, while the Conference Board measure gives greater weight to employment and unemployment. 'Core' retail sales excludes motor vehicles, petrol stations and building materials stores. Sources: Michigan University 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"](#).

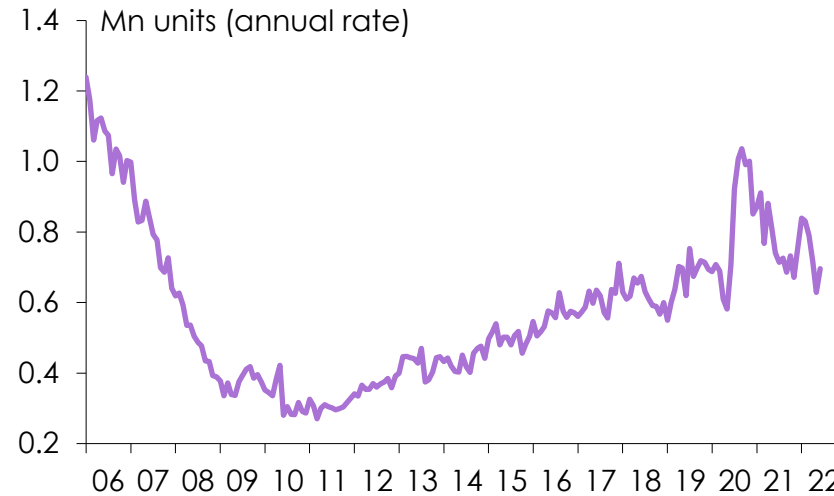
US house prices rose another 1.5% in April, slightly less than the 2% in February and 2.1% in March, to be 20.4% higher than in April 2021

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Housing construction spending



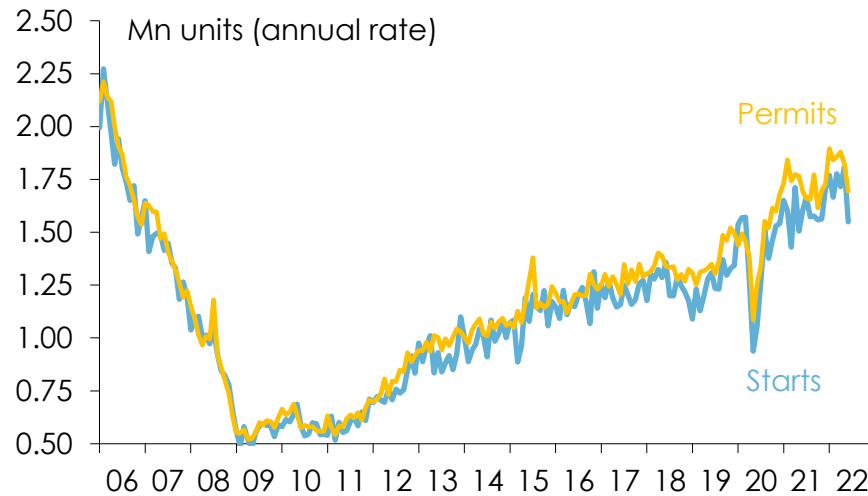
New single-family home sales



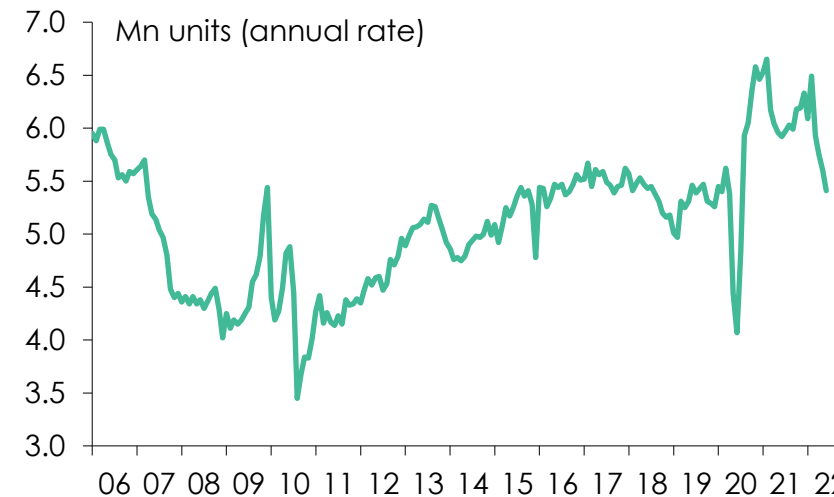
30-year fixed mortgage rates



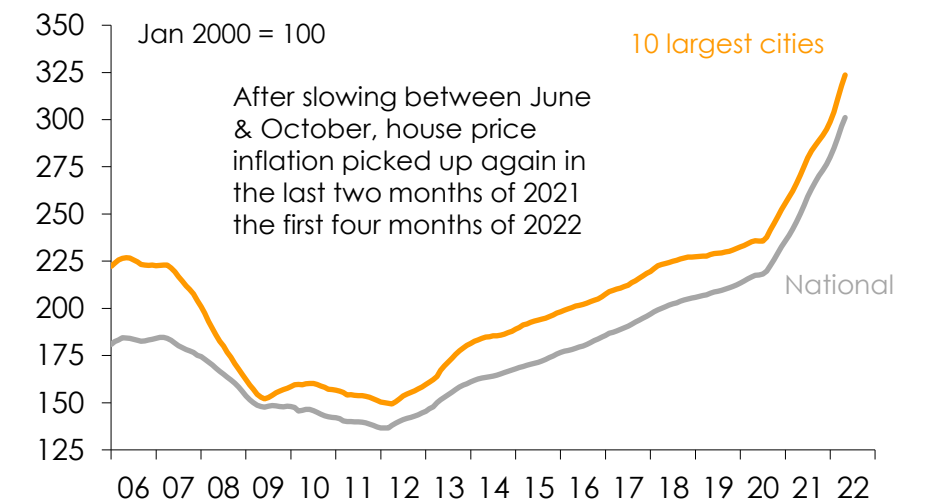
Housing starts and permits



Existing home sales



House prices

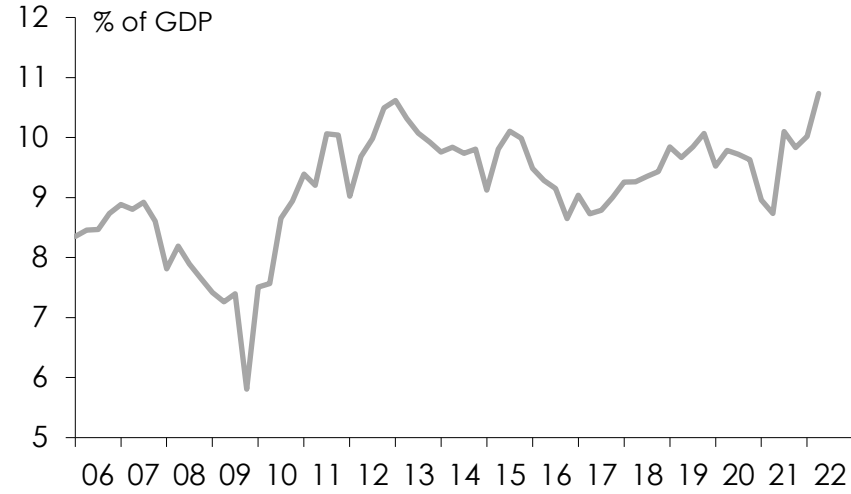


Sources: US Census Bureau, [Construction Spending](#), [New residential construction](#) and [New Residential Sales](#); US National Association of Realtors, [Existing-Home Sales](#); Mortgage Bankers' Association, [National Delinquency Survey](#); S&P Global, [S&P CoreLogic Case-Shiller Home Price Indices](#).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

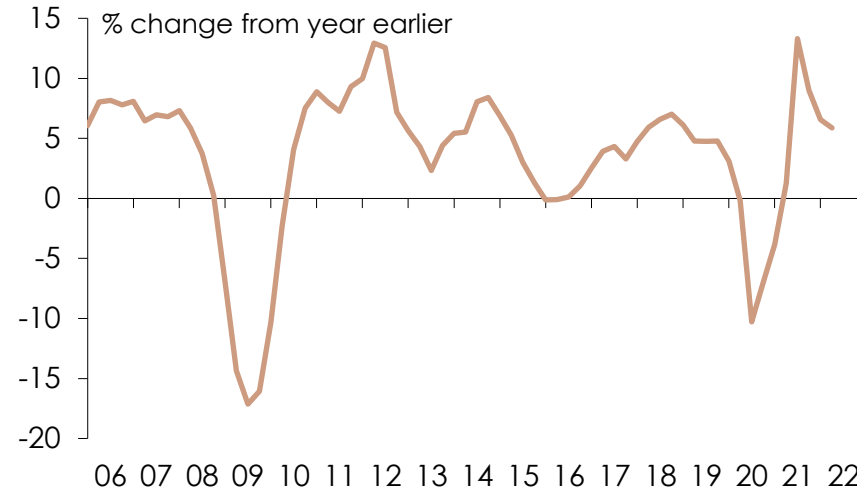
US corporate profits and balance sheets are strong, and investment is increasing – except in non-residential construction

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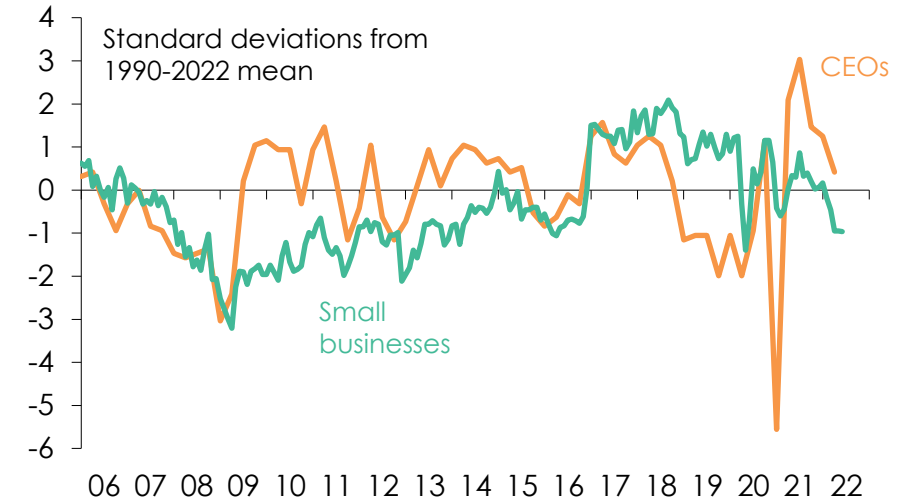
After-tax corporate profits



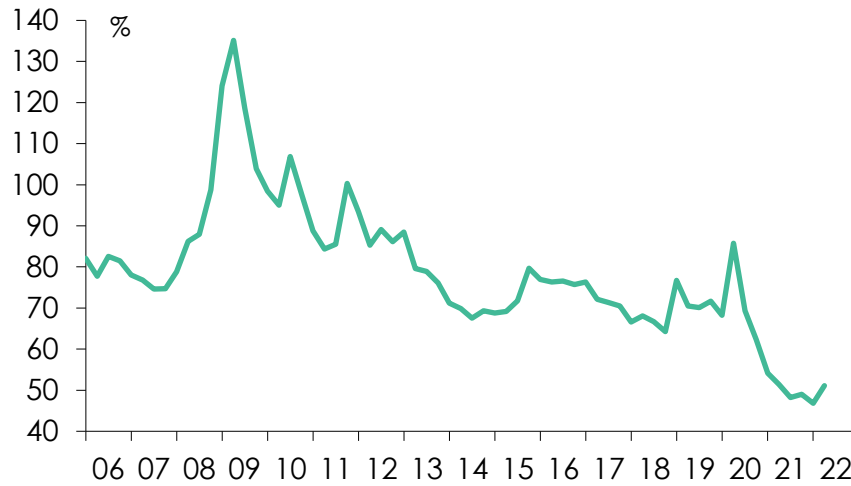
Business investment



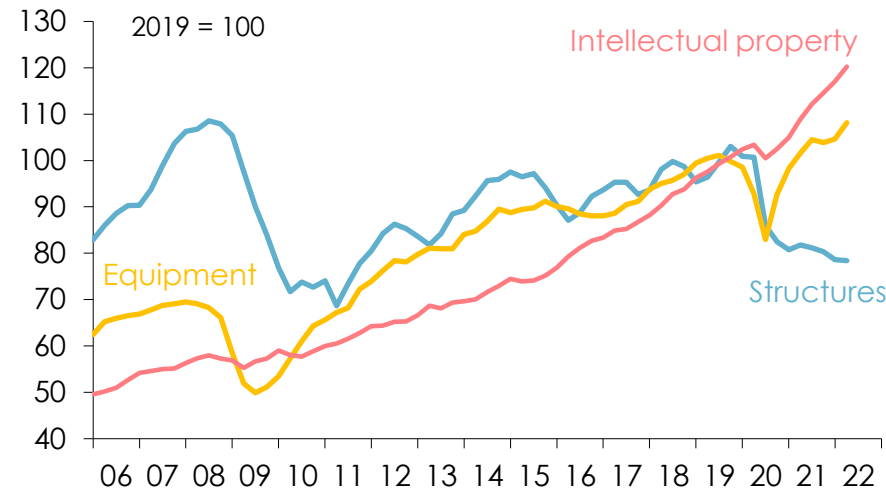
Business confidence



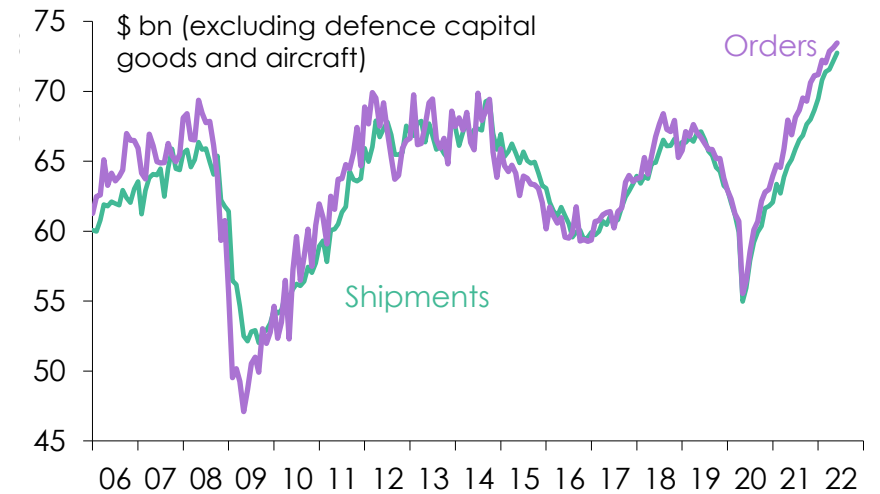
Corporate debt-equity ratio



Business investment by type



Capital goods orders & shipments

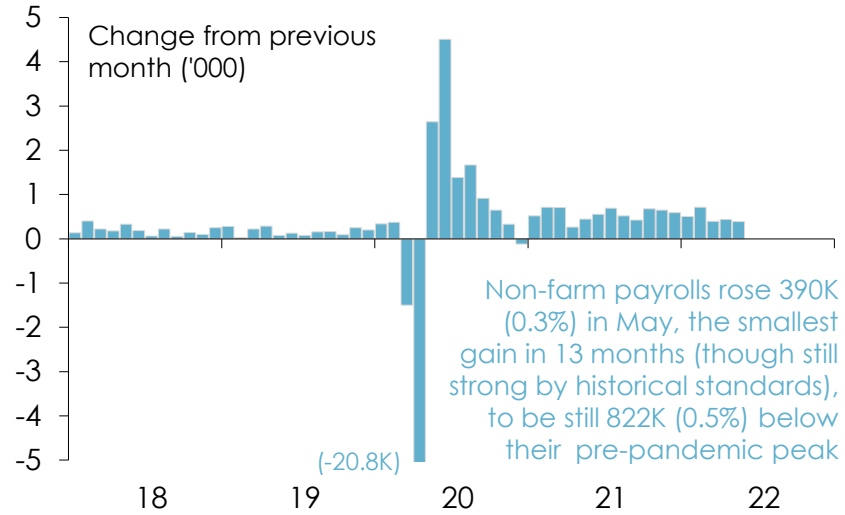


Sources: US Bureau of Economic Analysis, [Gross Domestic Product](#); US Federal Reserve, [Financial Accounts of the United States - Z1](#); The Conference Board, [US CEO Confidence](#); National Federation of Independent Business, [Small Business Economic Trends](#); US Commerce Department, [Manufacturers'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

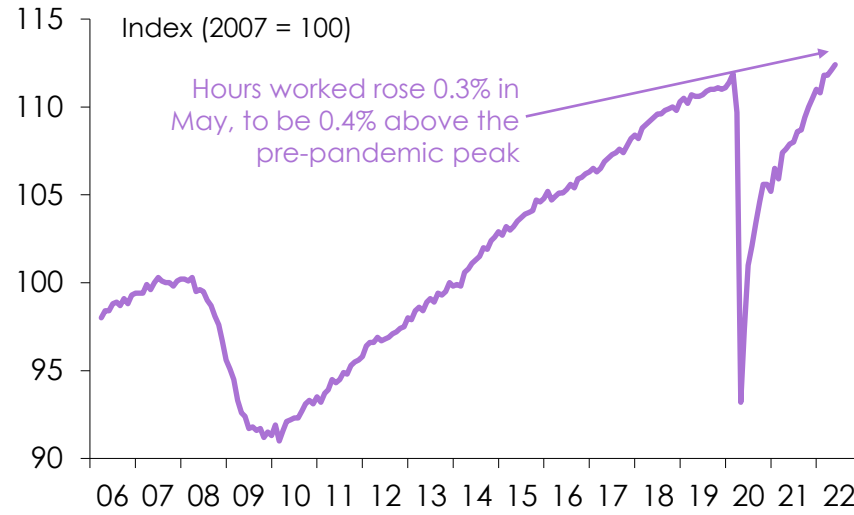
US non-farm payrolls rose 390K in May, the smallest increase in 13 months, leaving the unemployment rate at 3.6% for the third month in a row

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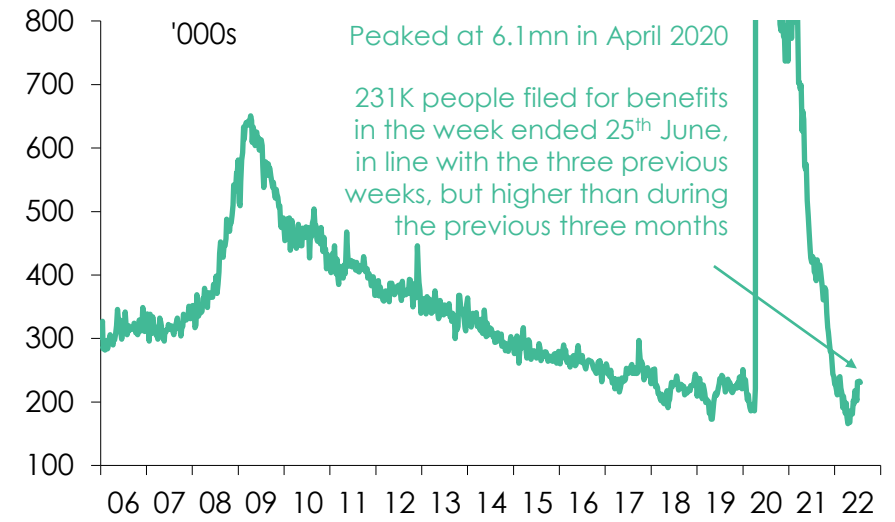
Non-farm payroll employment



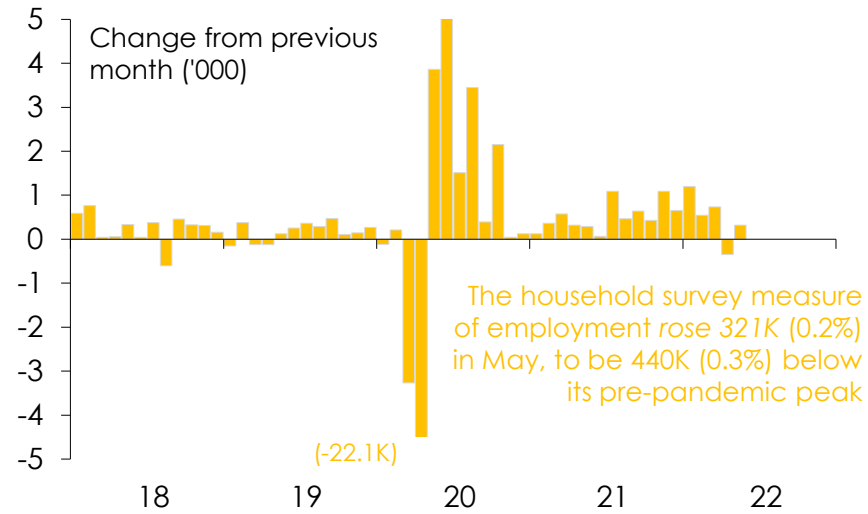
Hours worked (private sector)



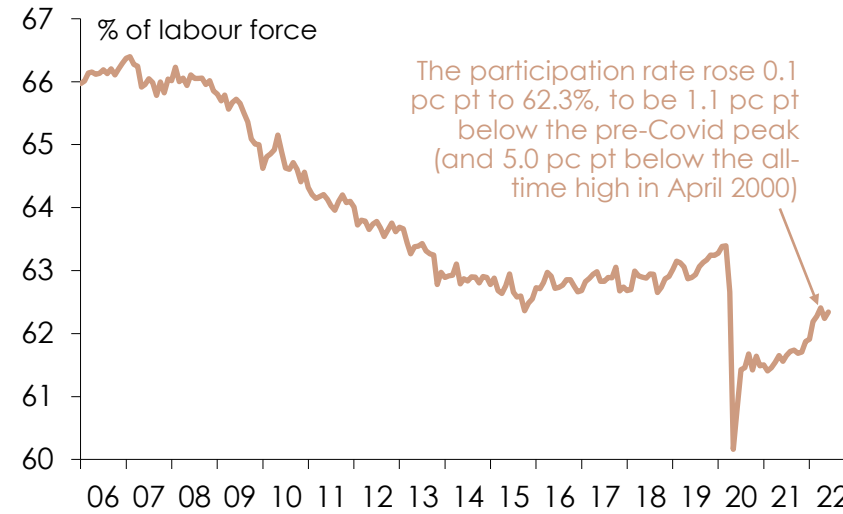
Unemployment benefit initial claims



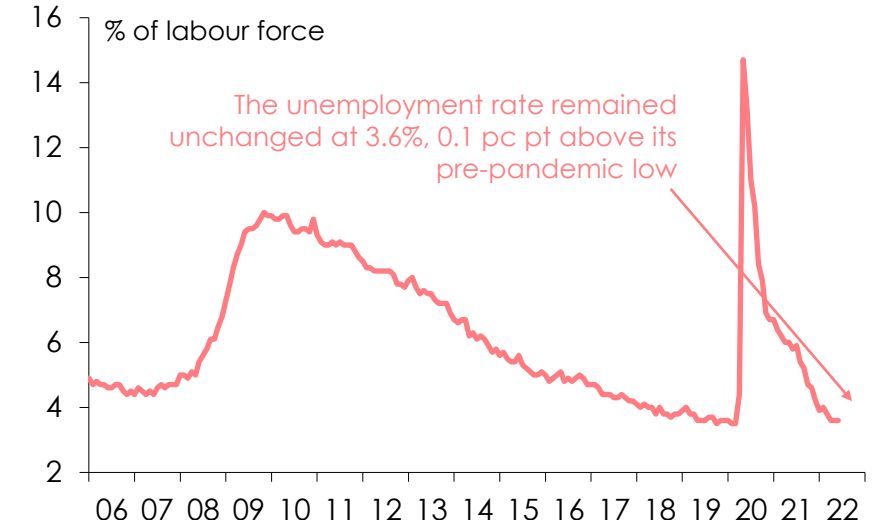
Household survey employment



Labour force participation rate



Unemployment rate

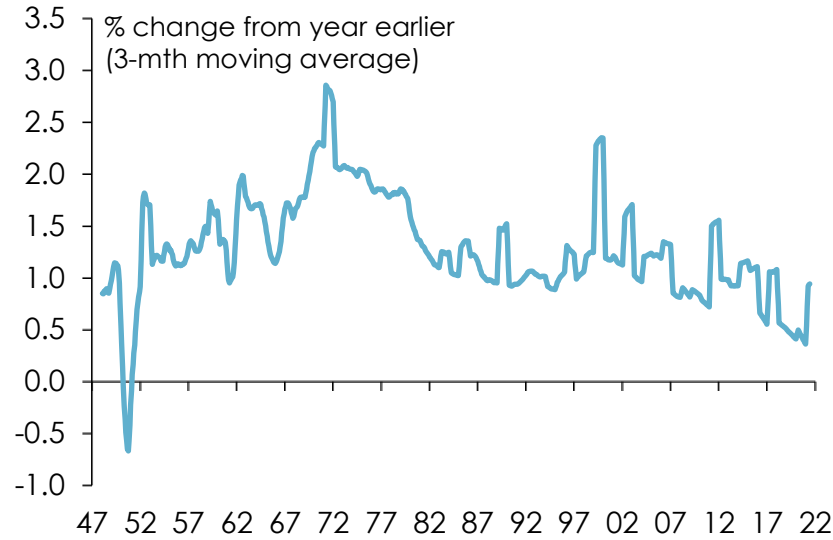


Sources: US Bureau of Labor Statistics, [Employment Situation](#); US Department of Labor, [Unemployment Insurance Weekly Claims](#). [Return to "What's New"](#).

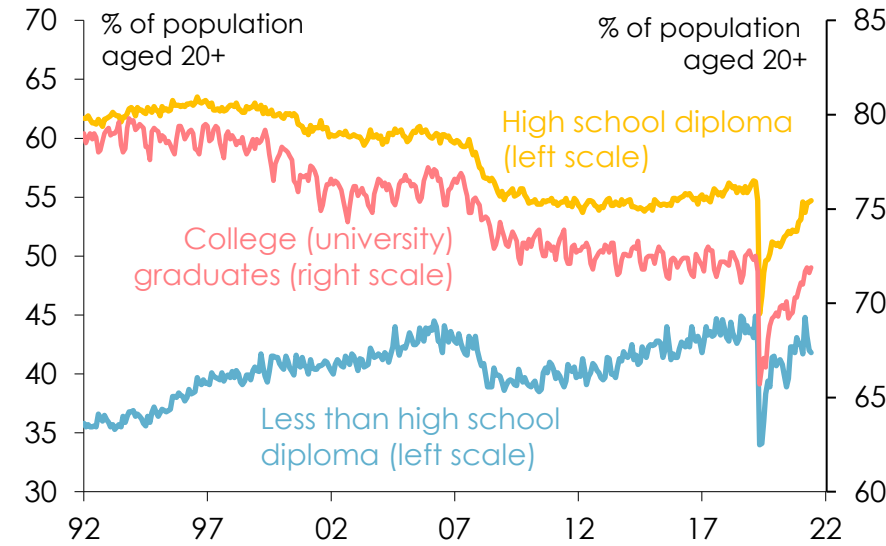
US labour market tightness owes much to a persistent shortfall in labour force participation, especially among people aged 55 and over

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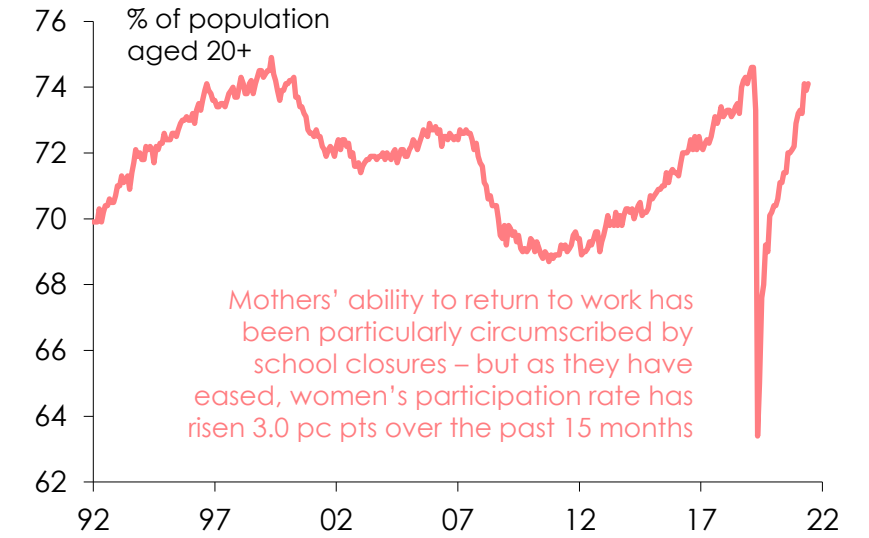
Civilian working age population



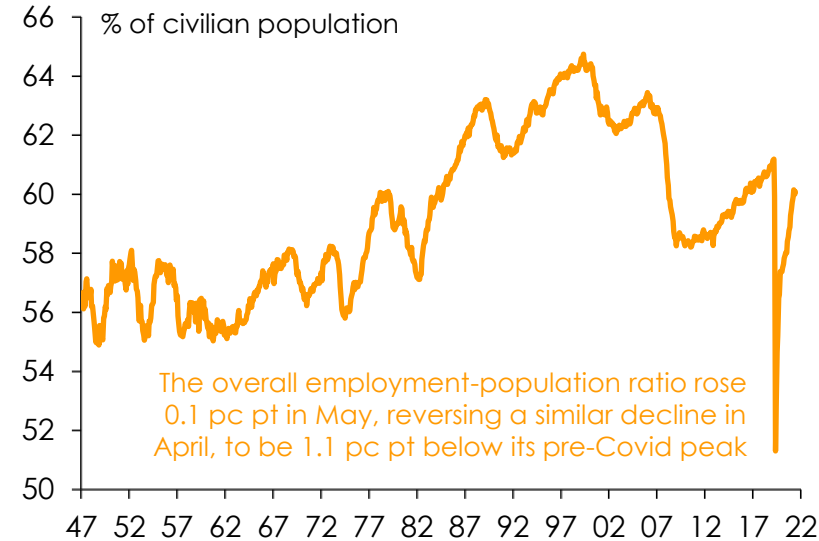
'E-pop' ratio – by education



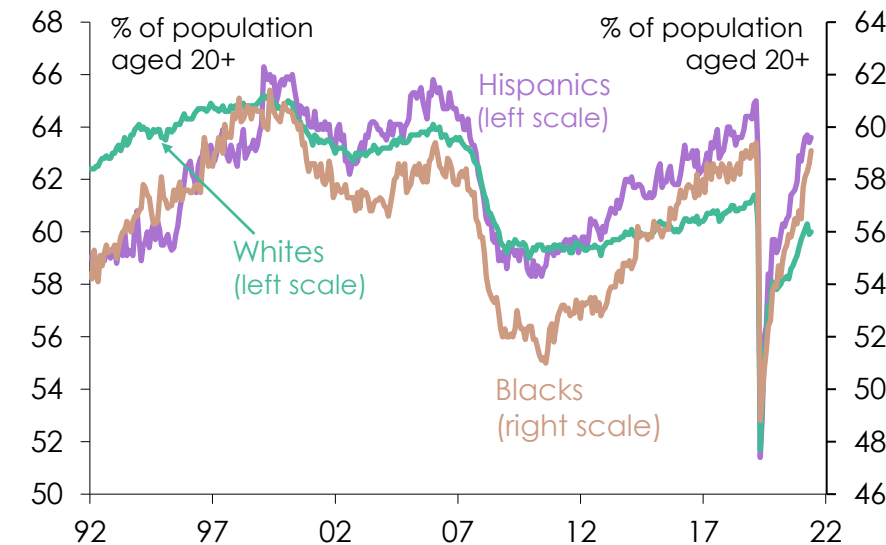
'E-pop' ratio – women 25-54



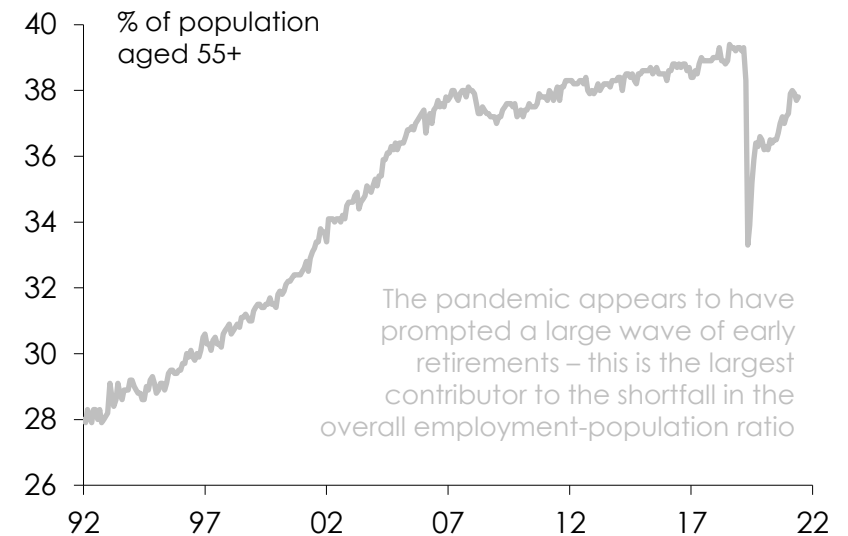
Employment-to-population ratio



'E-Pop' ratio – Blacks & Hispanics



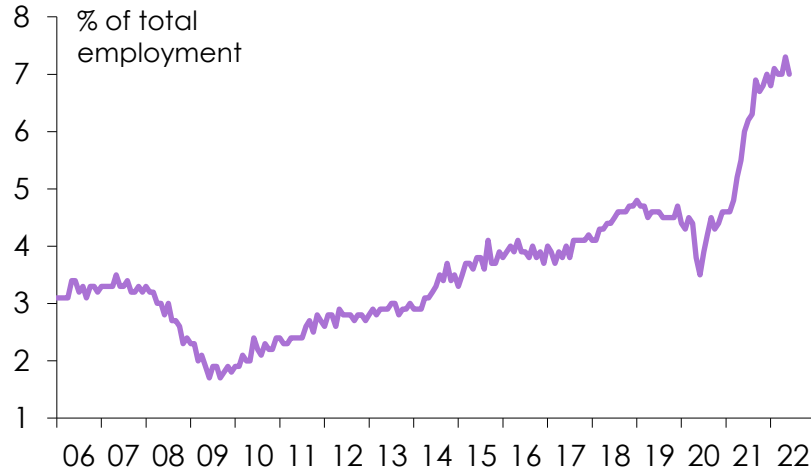
'E-pop' ratio – people 55 & over



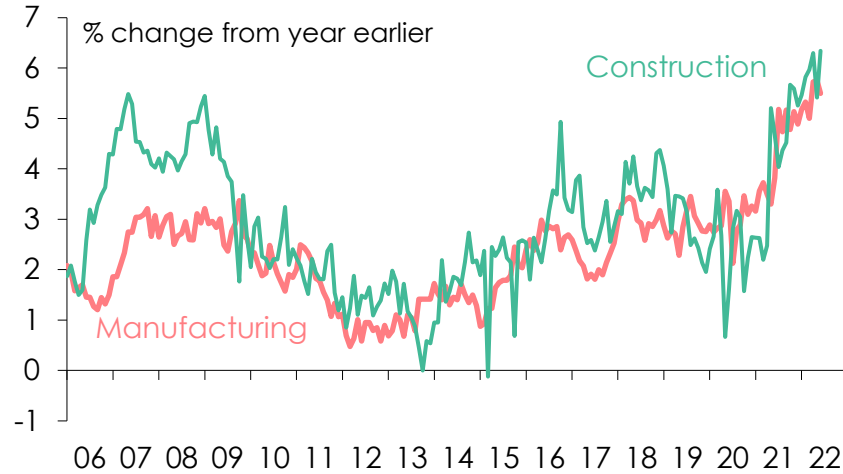
The wages component of the employment cost index (the best measure of US wages growth) rose by 5.0% over the year to Q1

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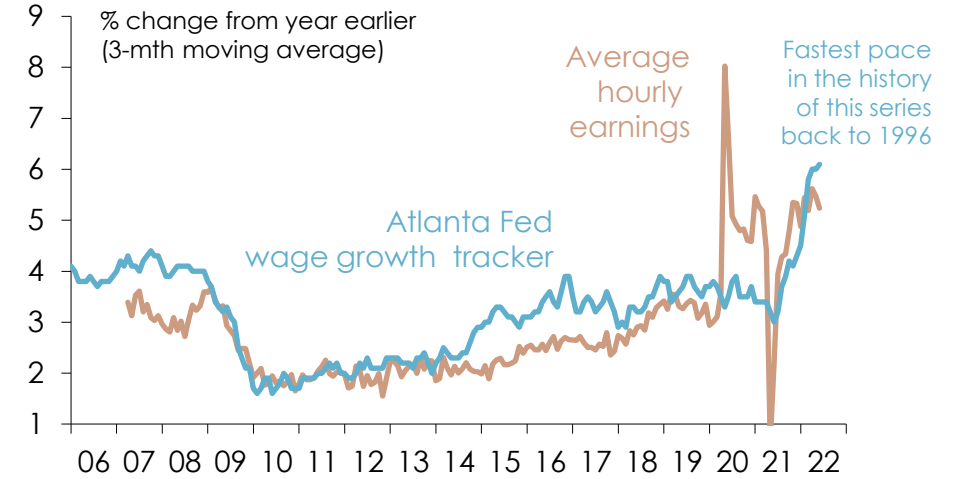
Job openings



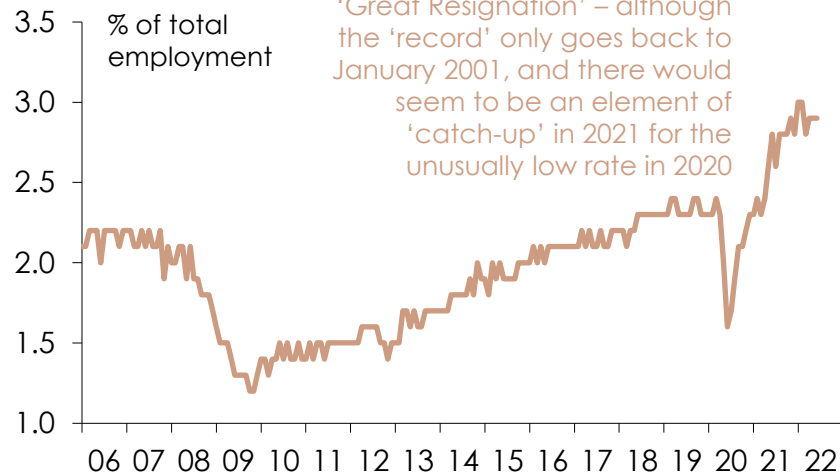
Average hourly earnings



Overall wages growth - monthly

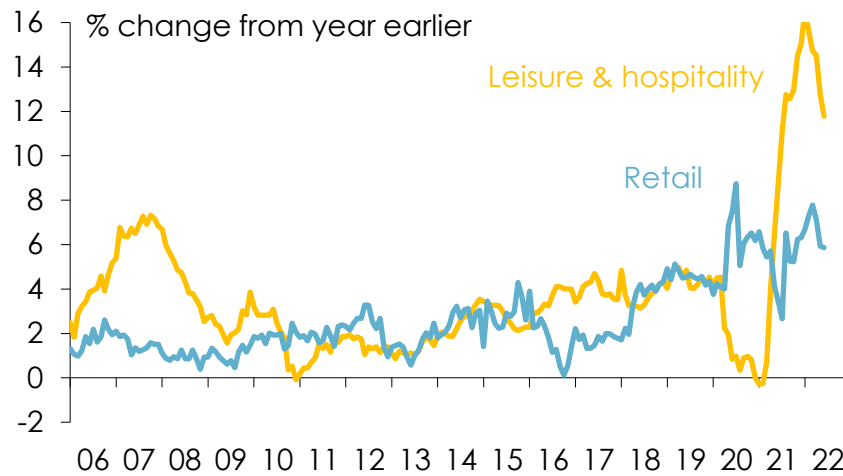


Quit rate

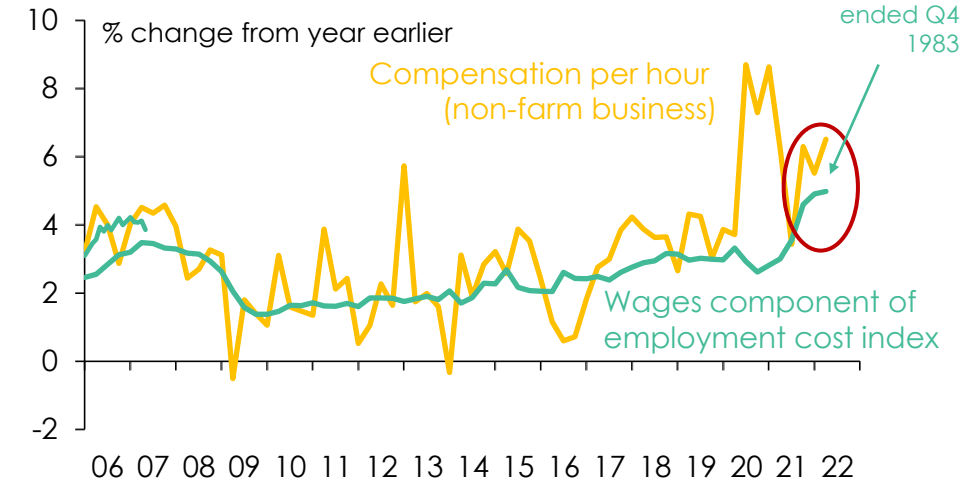


The record high 'quit rate' is the main evidence for the so-called 'Great Resignation' – although the 'record' only goes back to January 2001, and there would seem to be an element of 'catch-up' in 2021 for the unusually low rate in 2020

Average hourly earnings



Wages growth - quarterly

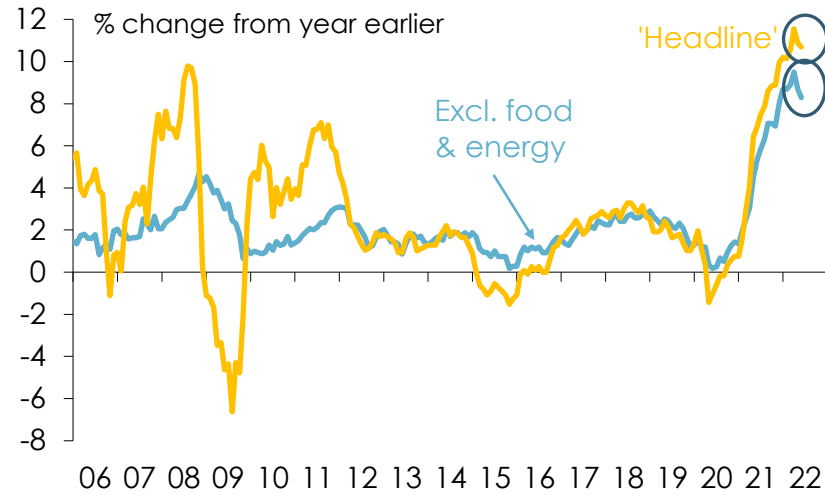


Note: Measures of average hourly earnings (especially the all-industries measures) and of average compensation per hour are affected by changes in the composition of employment (so for example they rose sharply in Q2 2020 when large numbers of low-paid workers were laid off and fell markedly when they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

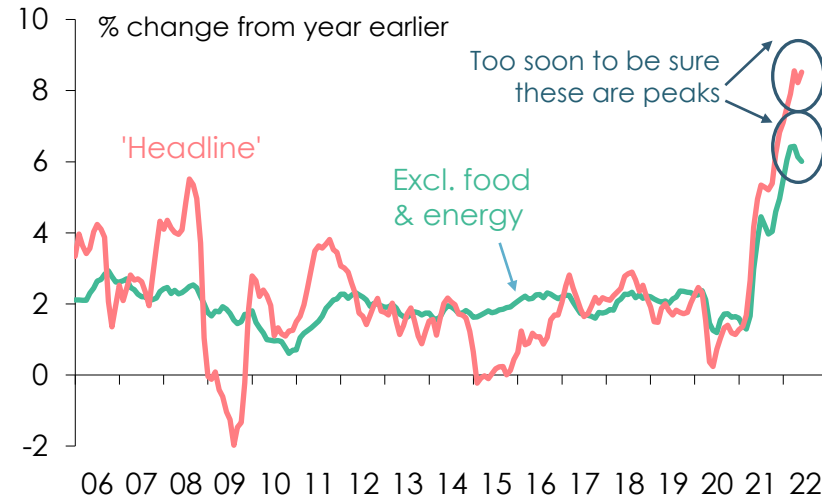
The Fed's targeted measure of 'core' inflation rose 0.3% in May, as it did in each of the 3 prior months, cutting the annual rate to 4.7% (from 5.3%)

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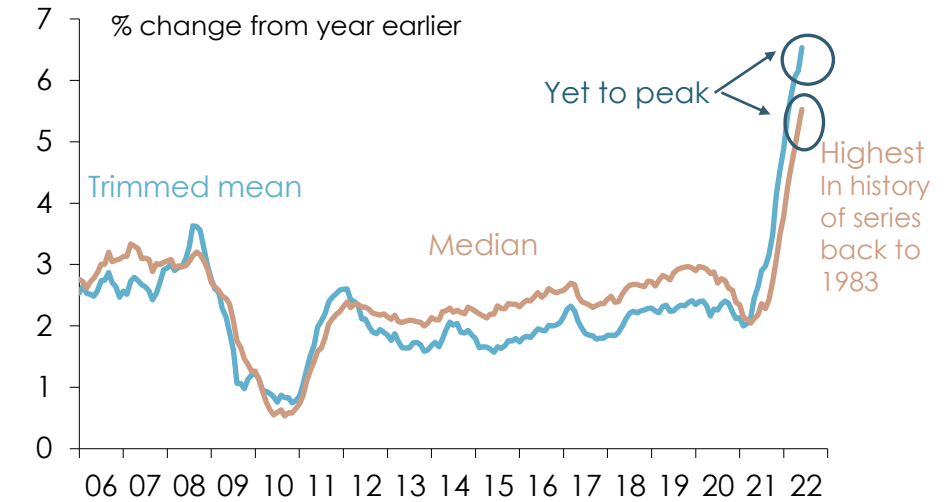
Producer price index



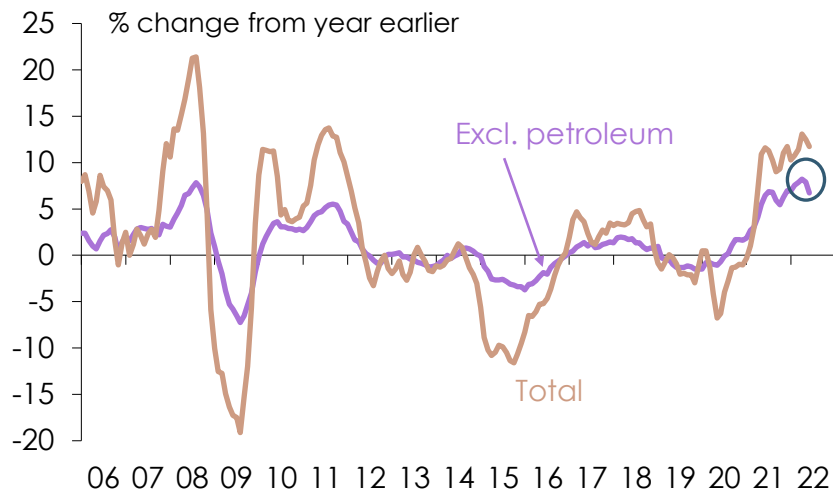
Consumer price index



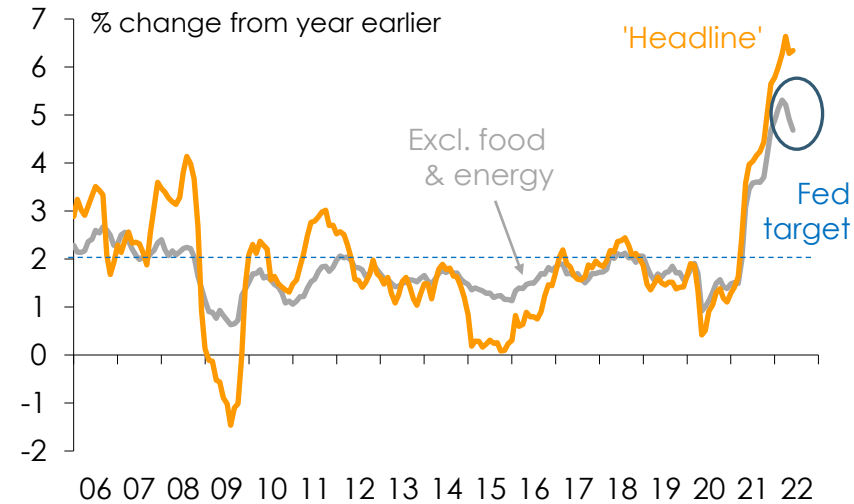
'Underlying' CPI inflation



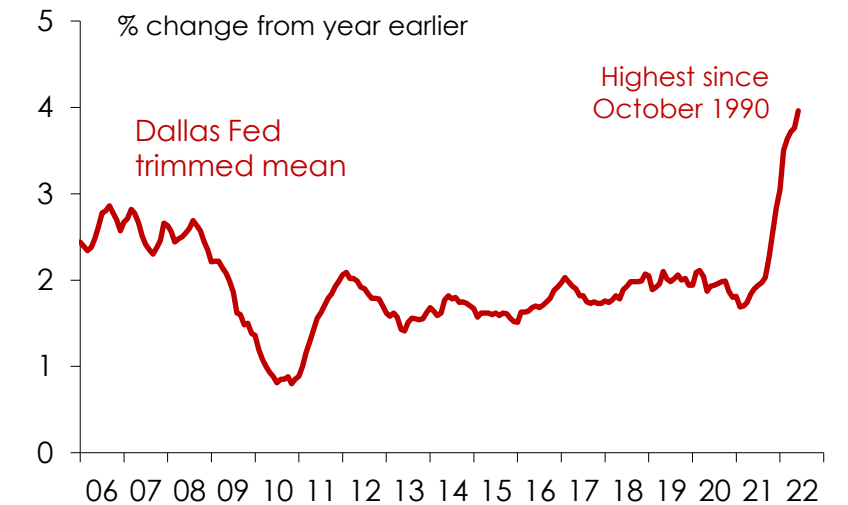
Import price index



Personal consumption deflator



'Underlying' PCE deflator inflation

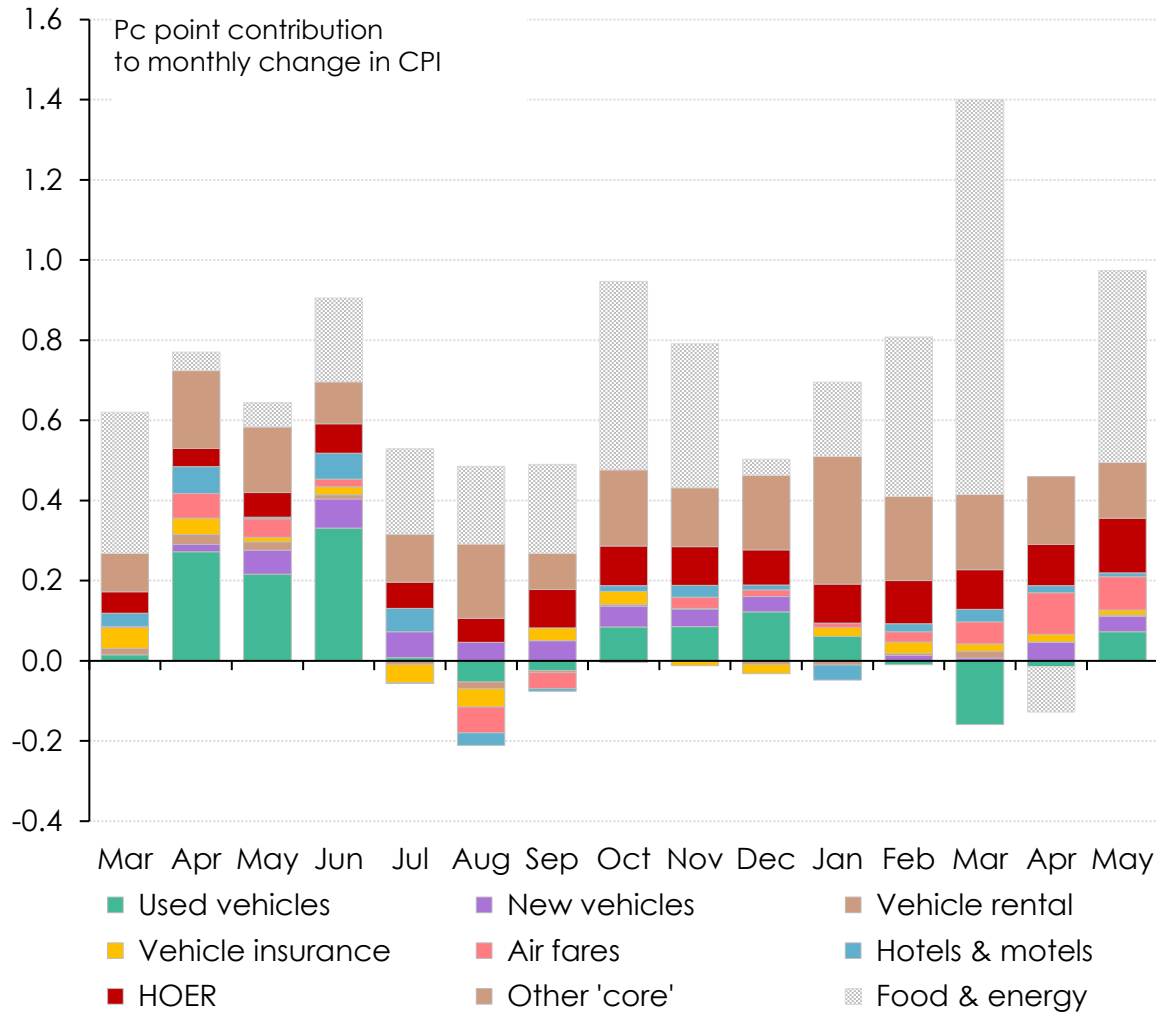


Sources: US Bureau of Labor Statistics, [Producer Price Index](#), [Import and Export Price Indexes](#) and [Consumer Price Index](#); US Bureau of Economic Analysis, [Personal Consumption Expenditures Price Index](#); Federal Reserve Bank of Cleveland, [Median CPI](#); Federal Reserve Bank of Dallas,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

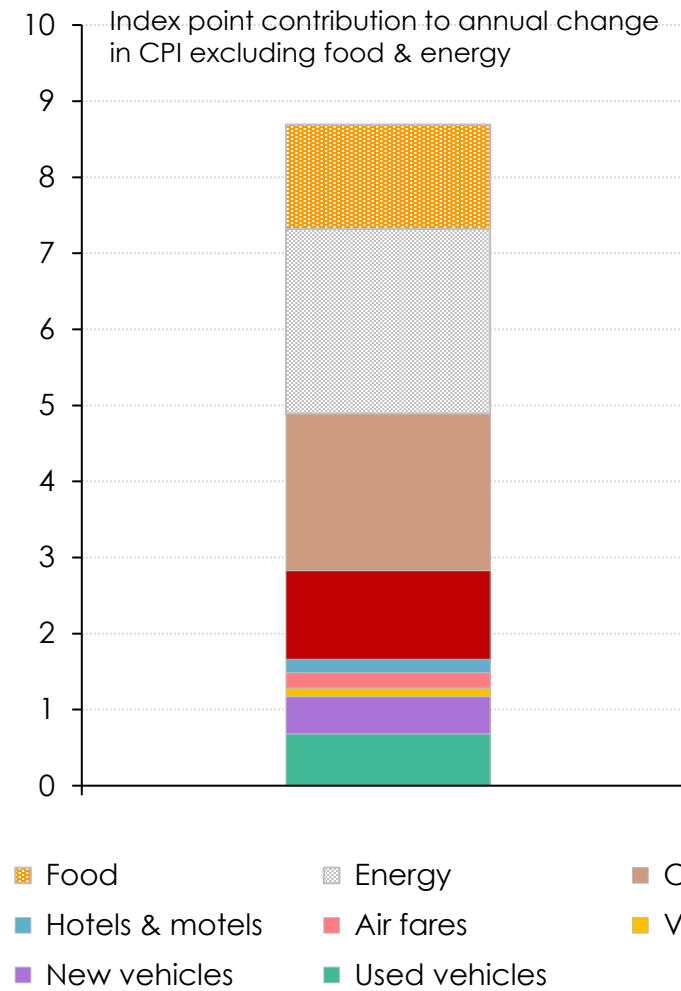
The CPI ex food & energy rose 0.6% in May, slightly above the average for the previous 6 months, so it's premature to say 'core' inflation has peaked

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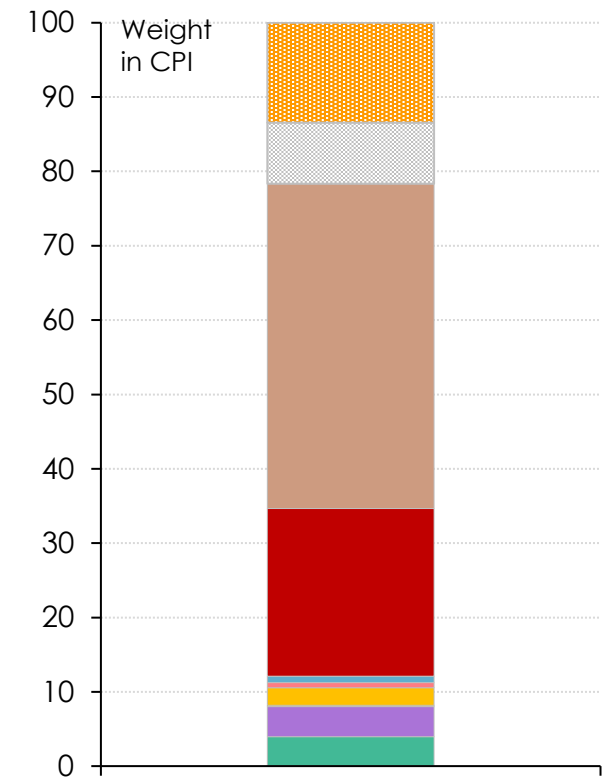
Contributions to monthly changes in the US CPI



Contributions to change in CPI over the year to March



Weights in CPI

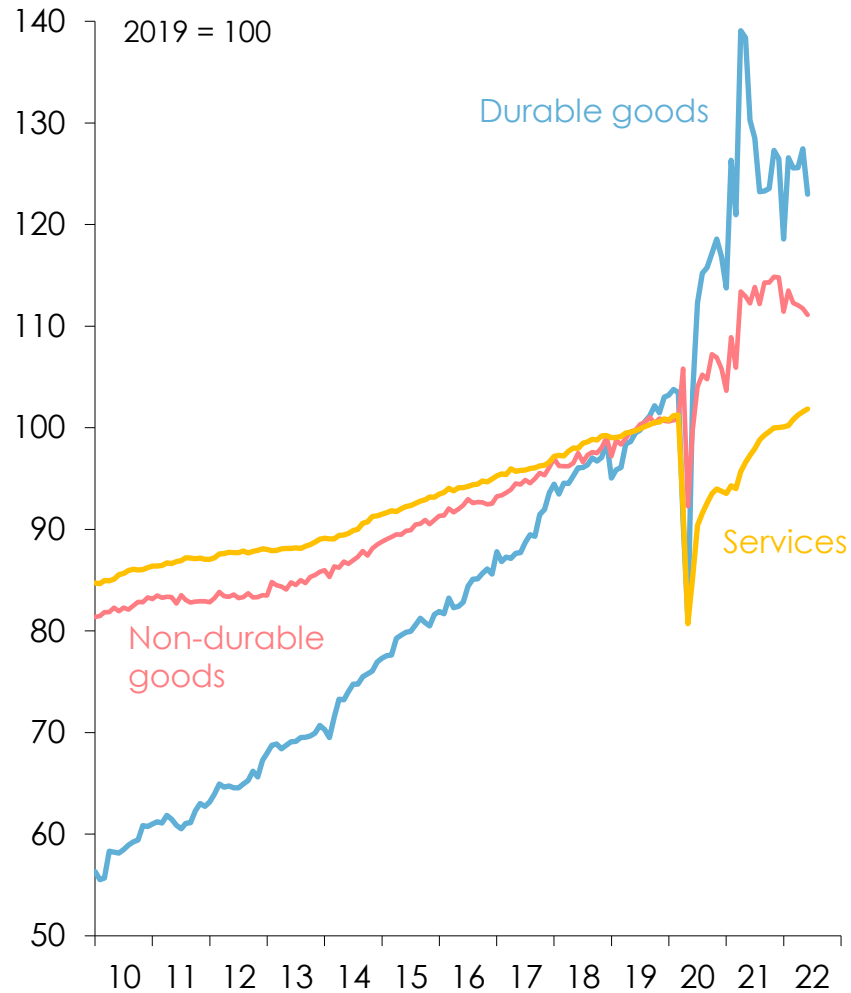


Note: 'HOER' = home-owners' equivalent rent (a measure of the 'imputed rent' notionally paid by owner-occupiers to themselves), and which accounts for (an uncommonly large, by international standards) 28½% of the CPI excluding food and energy. Source: US [Bureau of Labor Statistics](#), CPI Table 6;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

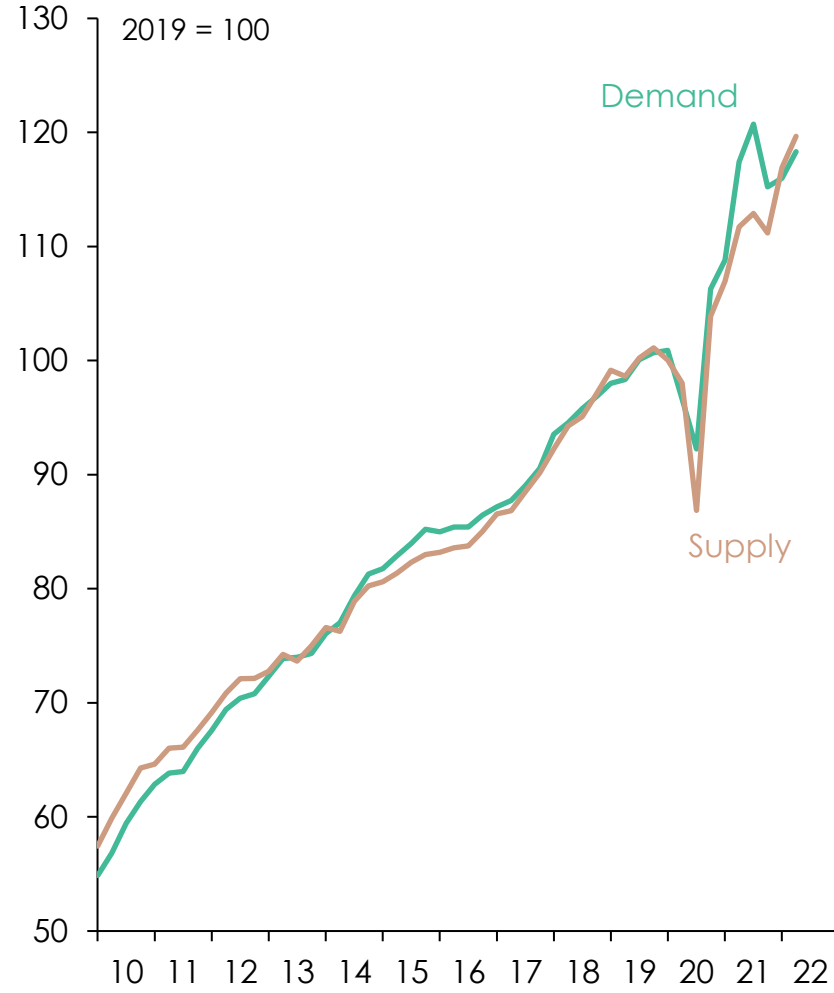
The rise in inflation has until recently been largely attributable to the imbalance between supply and demand for durable goods

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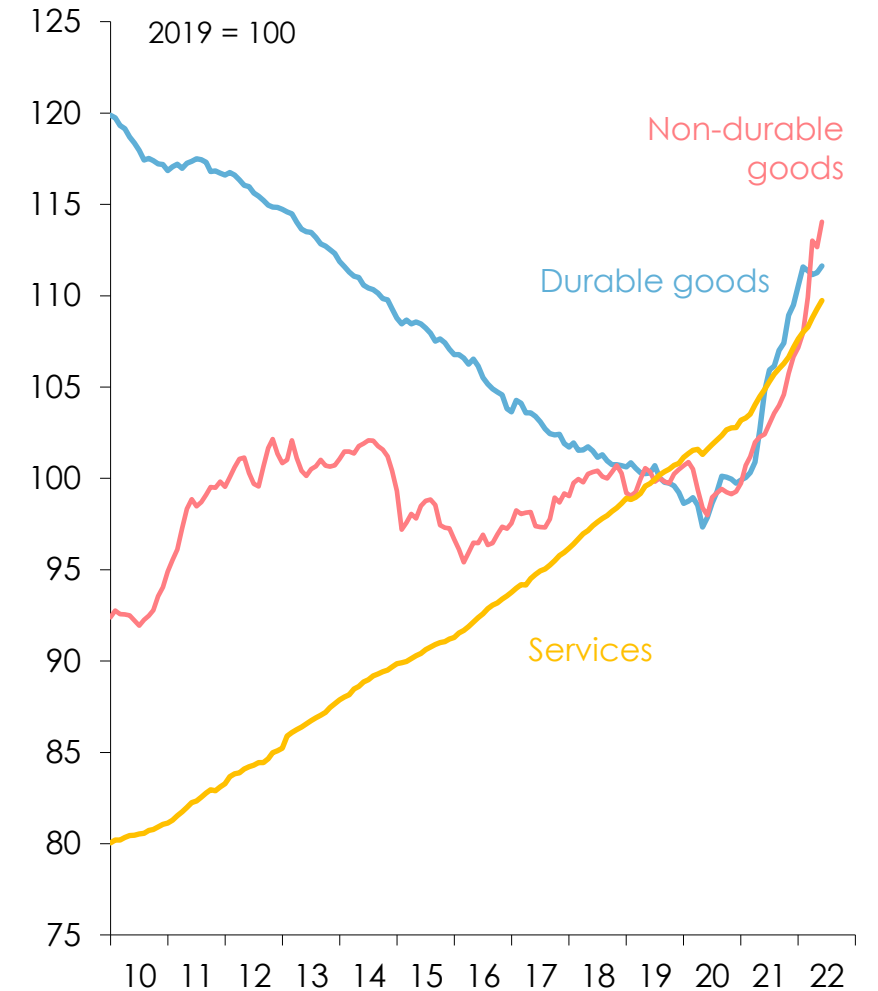
Composition of personal consumption expenditures



Aggregate demand for and supply of durable goods



Implicit price deflators of personal consumption

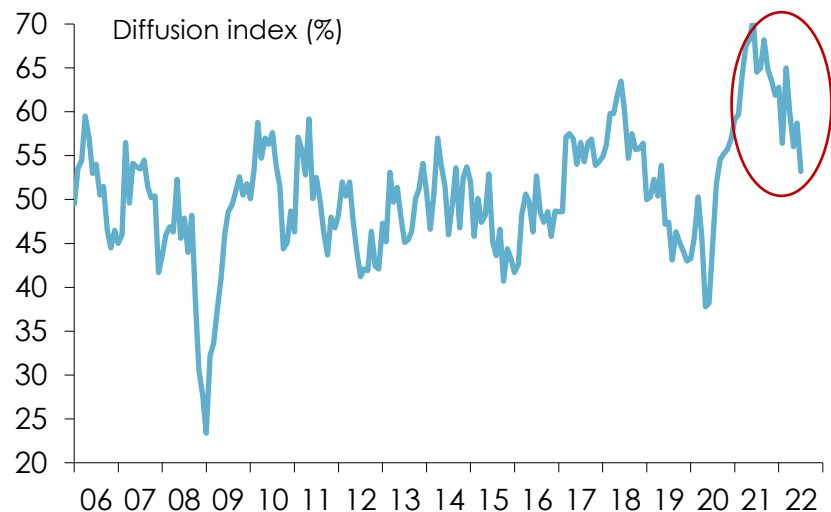


Note: 'Aggregate demand' for durable goods comprises personal consumption of durable goods plus business investment in equipment. 'Aggregate supply' of durable goods comprises gross domestic product (final sales plus change in inventories) plus net imports of durable goods. Sources: US Bureau of Economic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

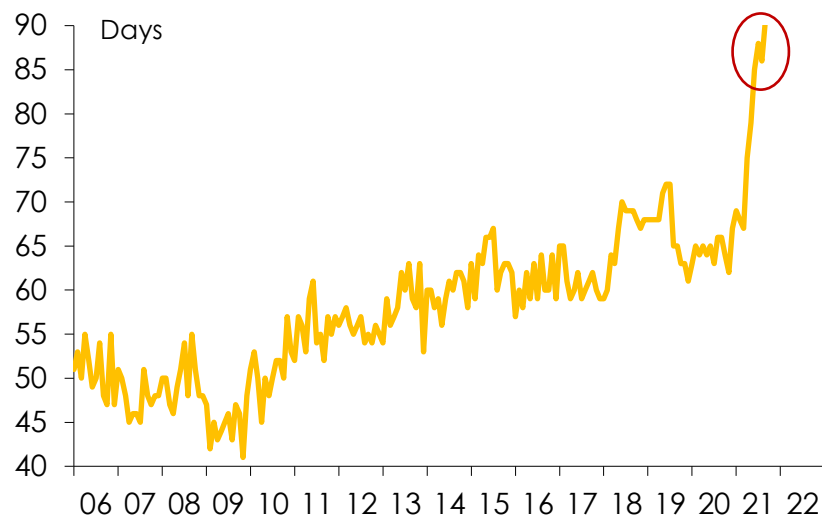
Supply-chain difficulties have intensified again this year, after seeming to have peaked during the second half of last year

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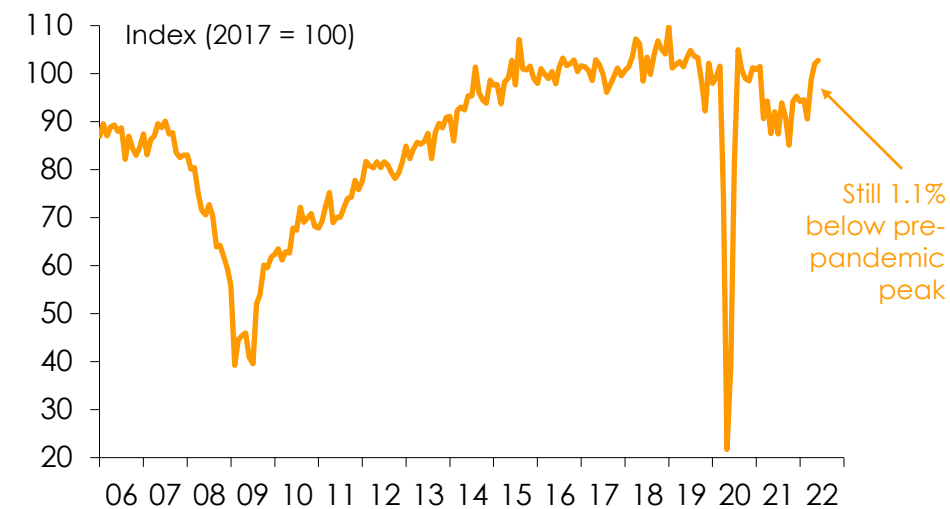
Manufacturers' order backlogs



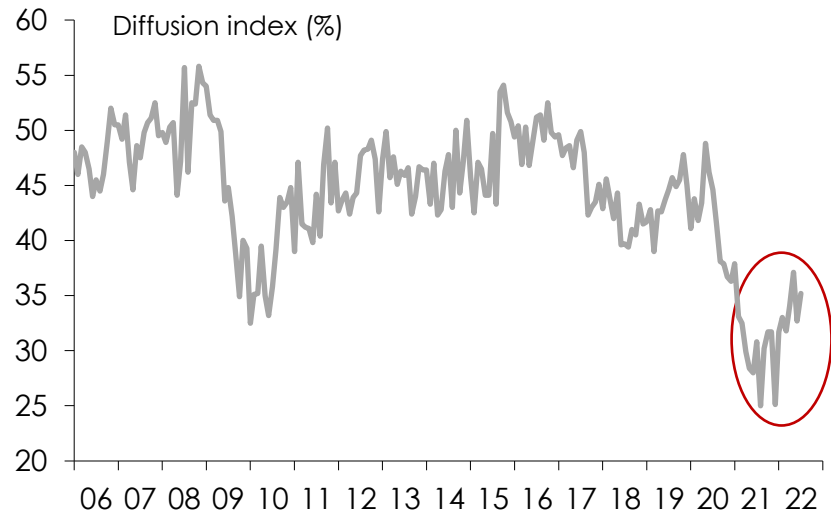
Lead-time for production materials



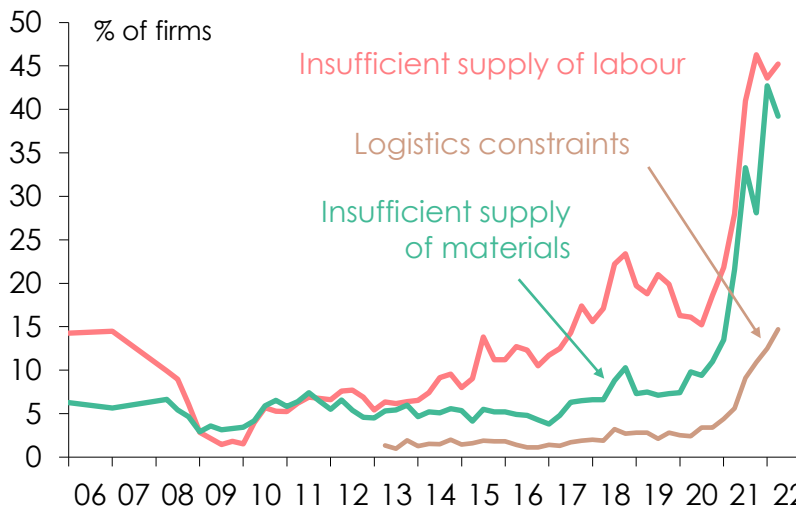
Motor vehicles & parts production



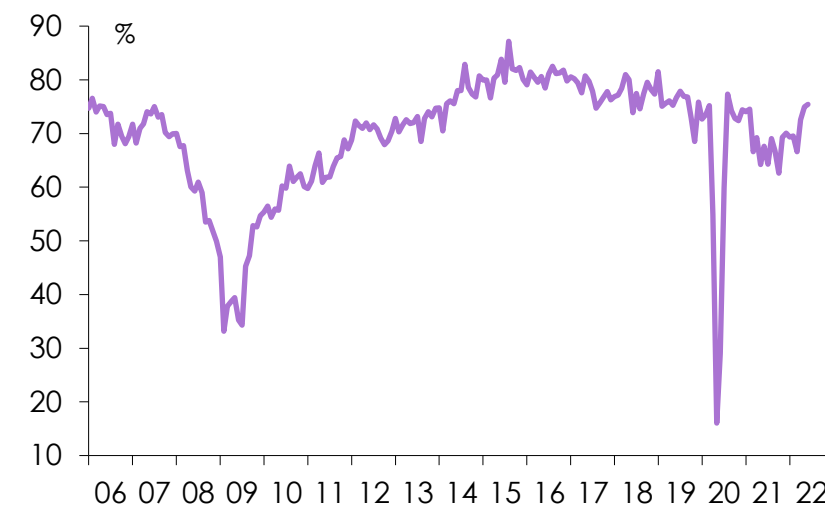
Manufacturers' customer inventories



Reasons for < full capacity



Auto industry capacity utilization

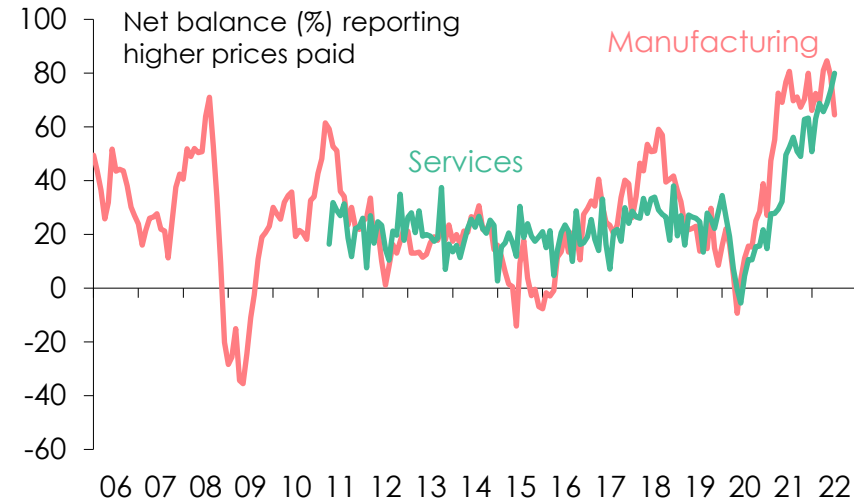


Note: The diffusion index of order backlogs is 50 plus the percentage of respondents reporting longer backlogs minus the percentage reporting shorter backlogs (and similarly for customer inventories). 'Reasons for < full capacity' means reasons for operating at less than full capacity. Sources: Institute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

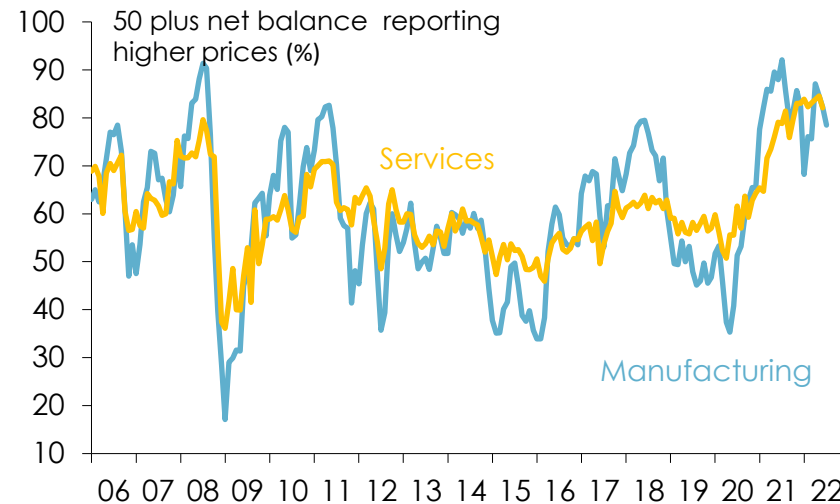
Household medium-term inflation expectations didn't rise as much in June as suggested by the preliminary results of the Michigan U survey

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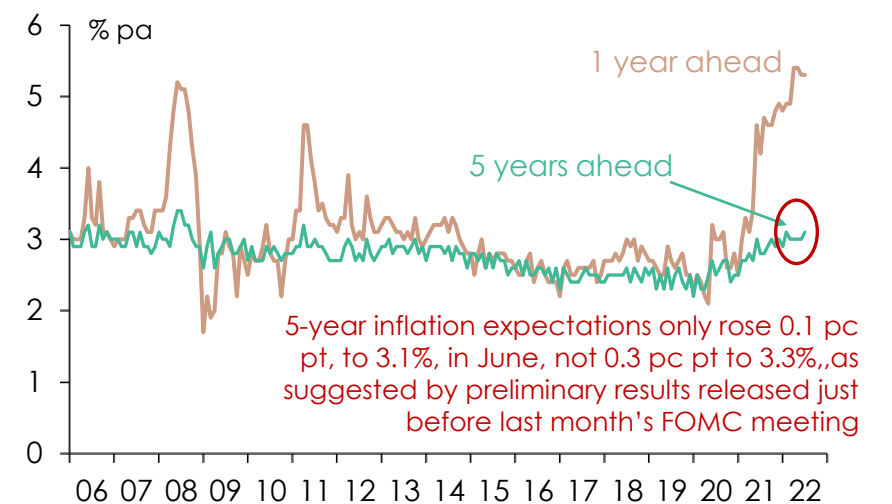
'Philly Fed' survey – prices paid



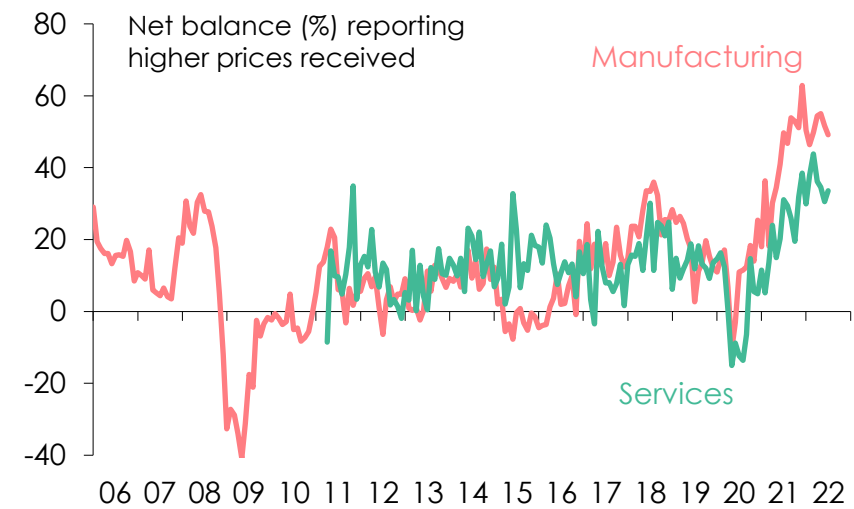
ISM survey – prices paid



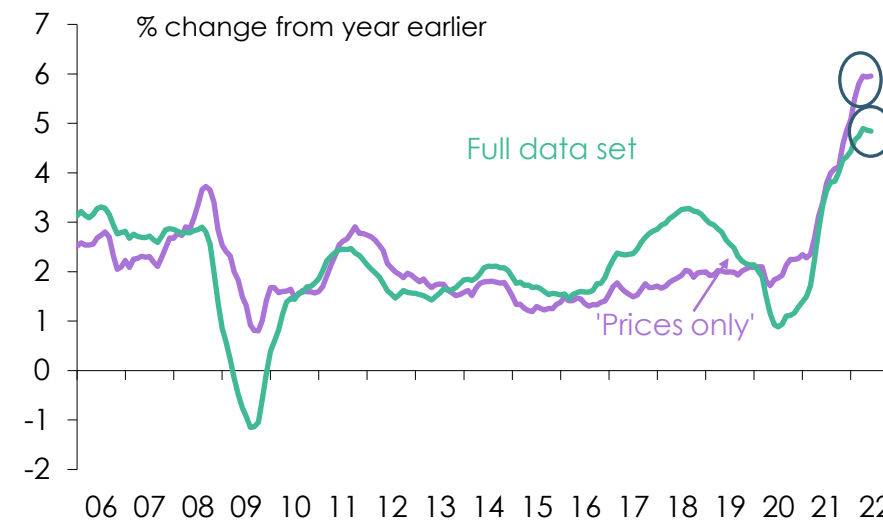
Household inflation expectations



'Philly Fed' survey – prices received



NY Fed 'underlying inflation gauge'



Market-priced inflation probabilities



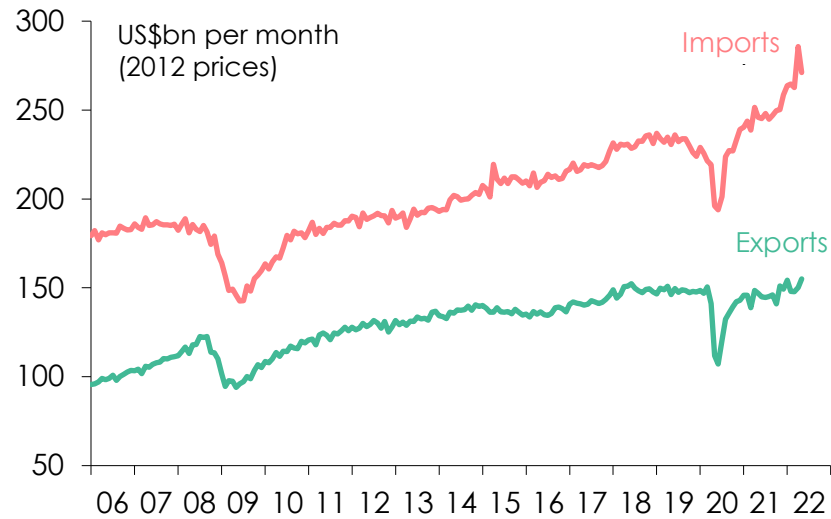
Sources: Federal Reserve Bank of Philadelphia, [Regional Economic Analysis](#), Manufacturing and Non-Manufacturing Business Outlook Surveys ; Institute for Supply Management, [ISM Report on Business](#); Federal Reserve Bank of New York, [Underlying Inflation Gauge](#); Federal Reserve Bank of Minneapolis,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

SAUL ESLAKE
 CORINNA ECONOMIC ADVISORY
 INDEPENDENT ECONOMICS

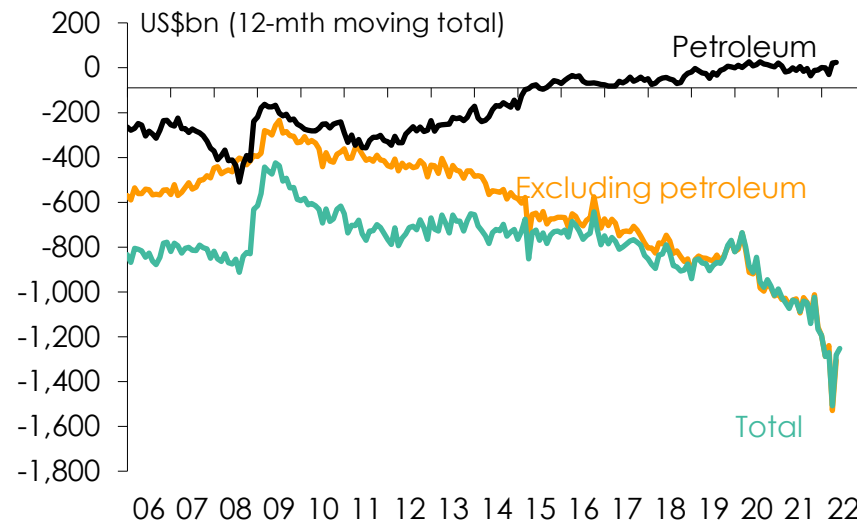
The US goods trade deficit narrowed by \$2.4bn to \$104.3bn, though it was the fifth consecutive monthly deficit of more than \$100bn

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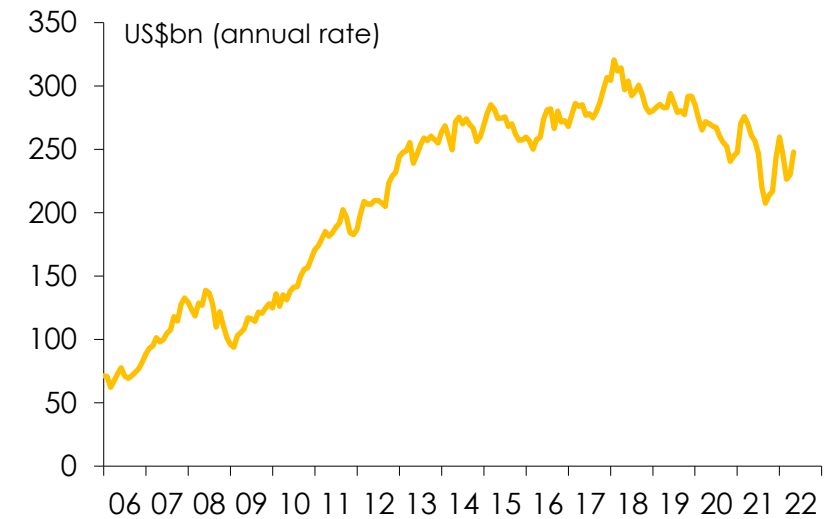
US merchandise trade volumes



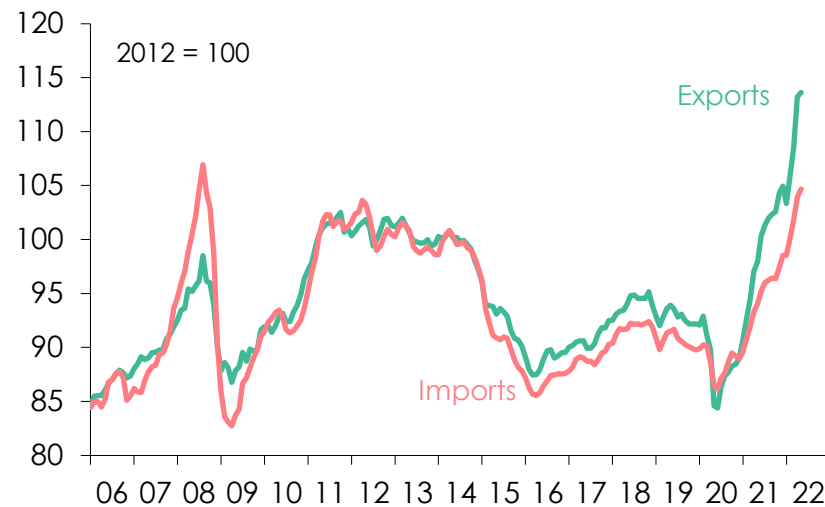
US goods trade balance



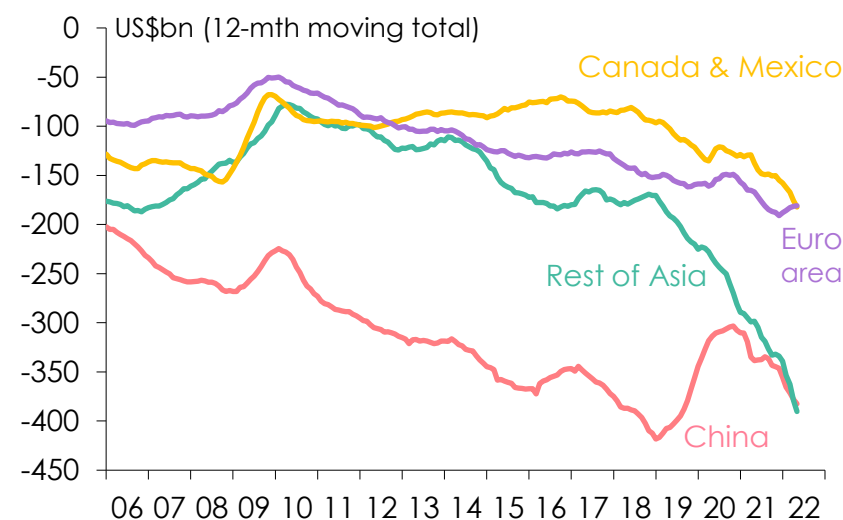
US services trade balance



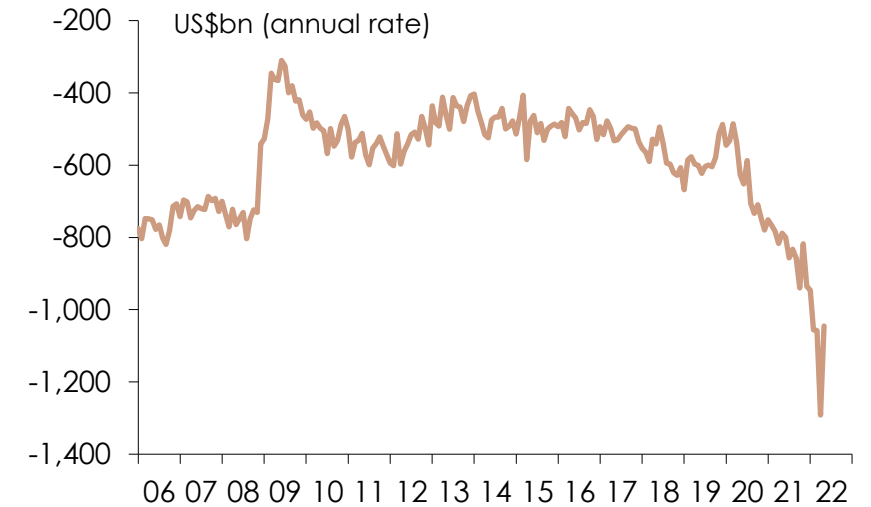
US merchandise trade prices



US bilateral goods trade balances



US goods & services trade balance

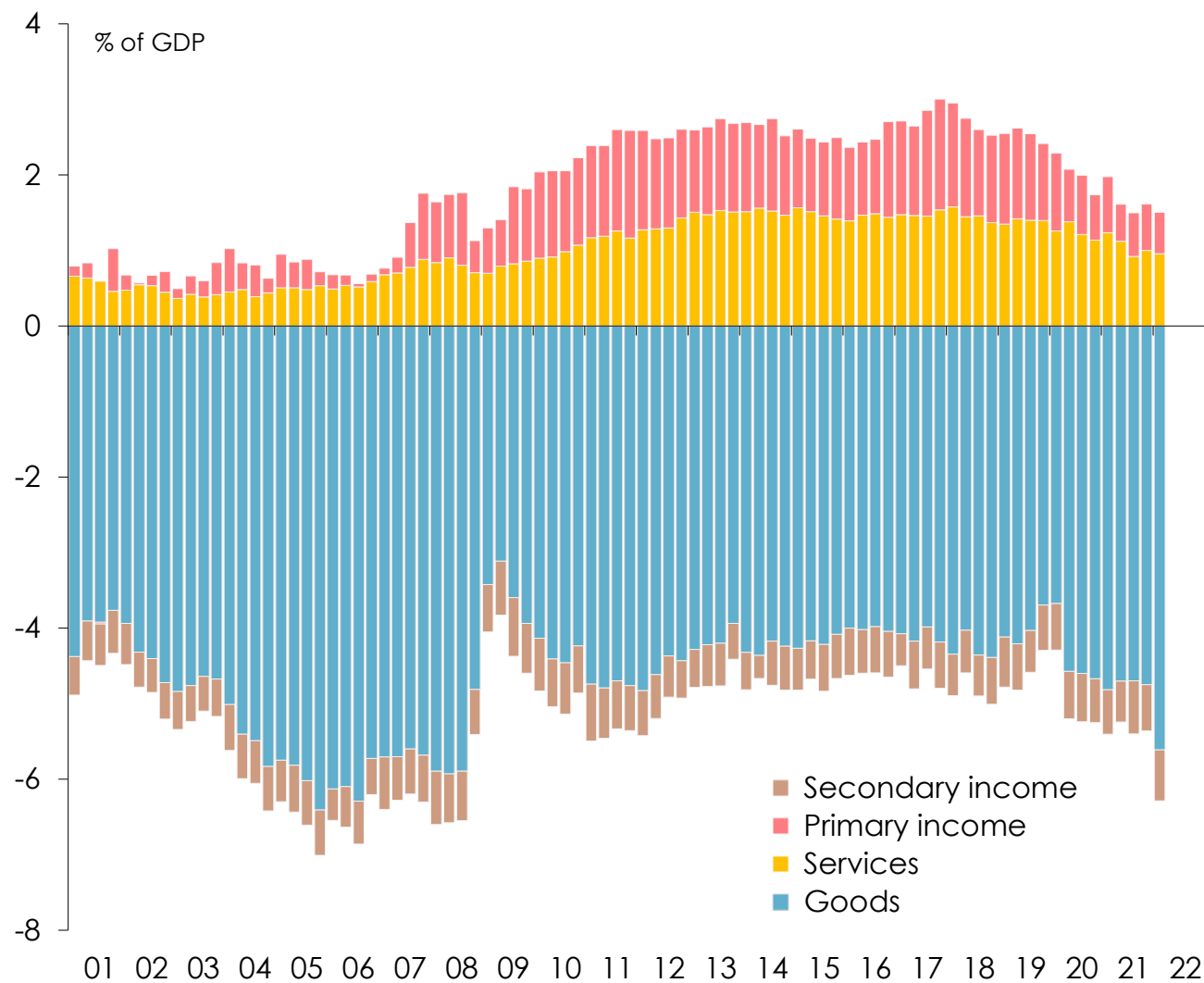


Source: US Census Bureau, [Foreign Trade](#); and US Bureau of Economic Analysis, [Advance Economic Indicators](#), and [U.S. International Trade in Goods and Services](#).
[Return to "What's New"](#).

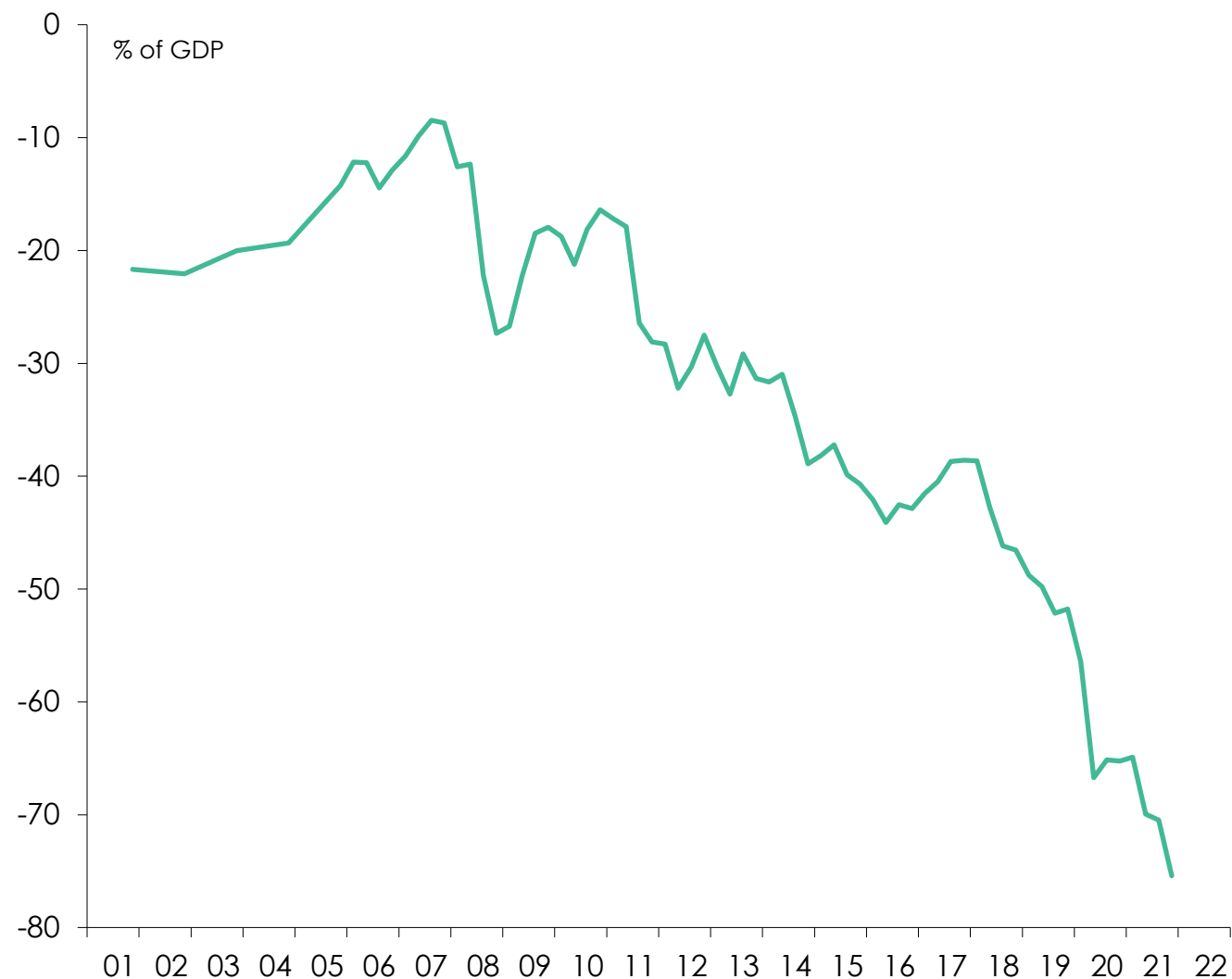
The US current account deficit widened to US\$291bn in Q1, the largest on record in dollar terms and the highest as a pc of GDP since Q3 2008

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US current account balance



US net international investment position

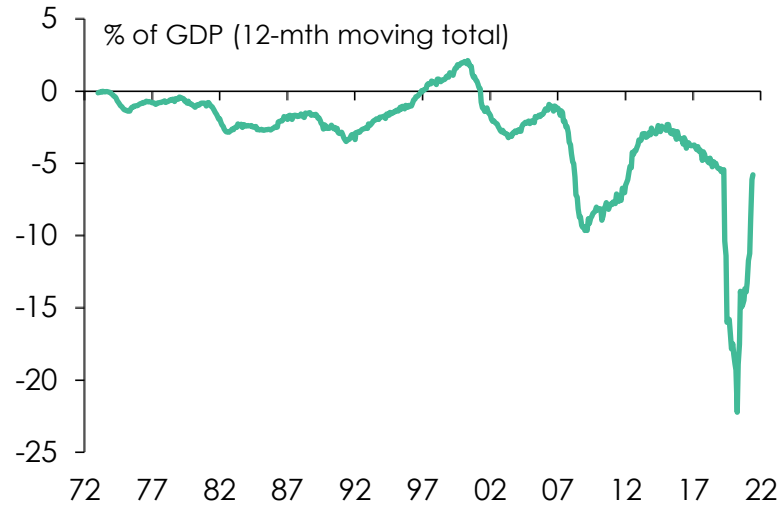


Note: 'Primary income' transactions are those involving investment income or compensation of employees. The US typically runs a surplus on investment income despite having a negative net international investment position since 1989, because US investors are able to derive much higher returns from their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

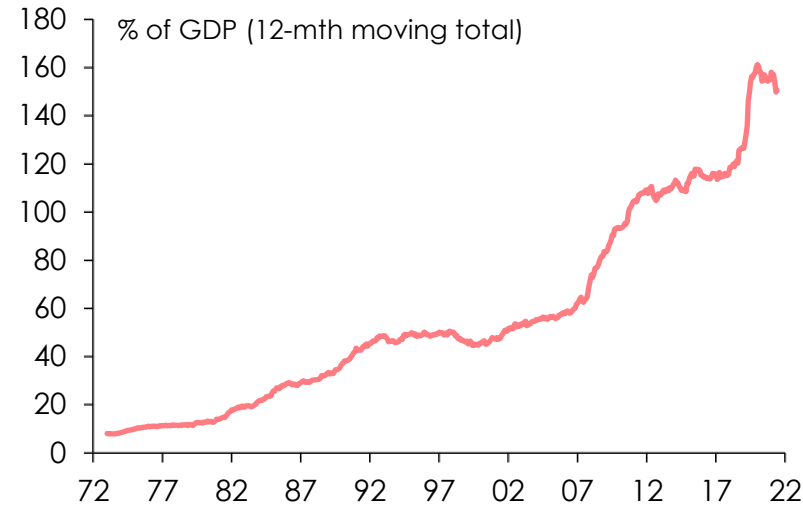
The US Federal budget deficit is continuing to decline sharply, as a result of surging tax revenues and, to a lesser extent, falling spending

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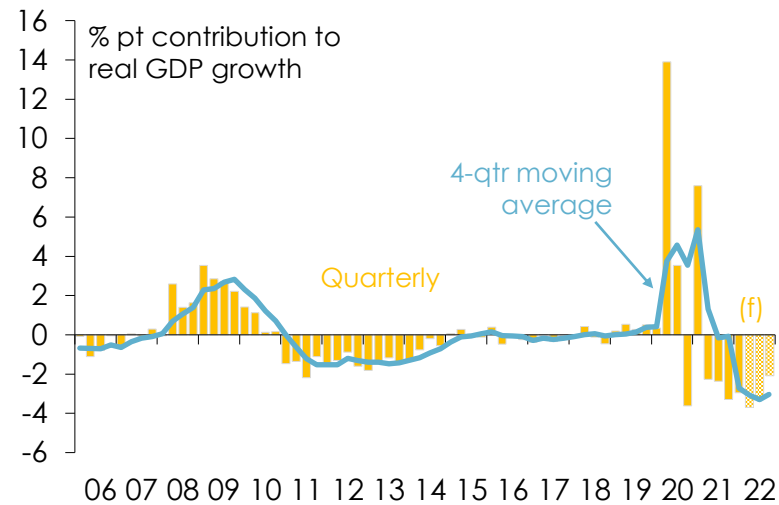
US Federal budget deficit



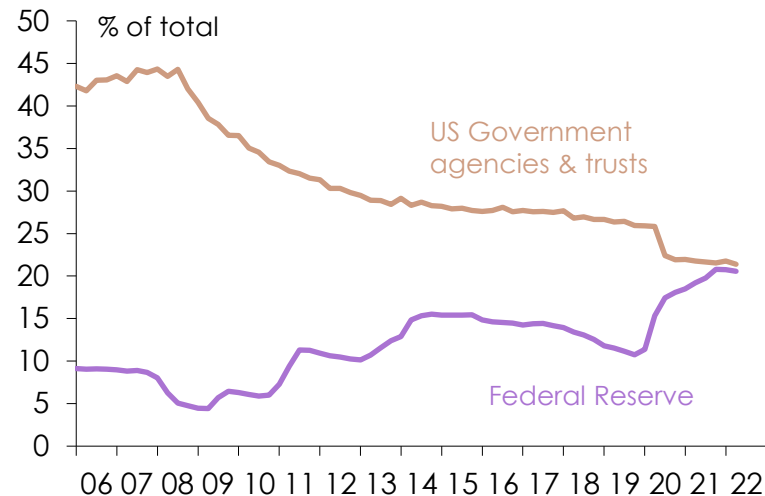
US gross Federal debt



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 1st October) envisages the deficit falling from \$1.4trn or 5.8% of GDP in FY22 (cf. 15% of GDP in FY20 and 12.4% of GDP in FY21) to \$1.2trn or 4.5% of GDP in FY23, and remaining at 4.5%-4.8% of GDP through FY27 – although of course what eventually gets through Congress is likely to look very different
- ❑ The Fed holds almost 21% of the total stock of outstanding US Government debt (up from 11% in Q4 2019), while the share held by agencies and trusts (such as the Social Security Trust Fund) has fallen to just under 21.4% (from 26%) and the share held by foreign investors has fallen to 25% from a peak of 34% in 2014 and 2015

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

The Fed now seems to be making it clear that it is willing to risk pushing the US economy into recession in order to bring inflation back down to 2%

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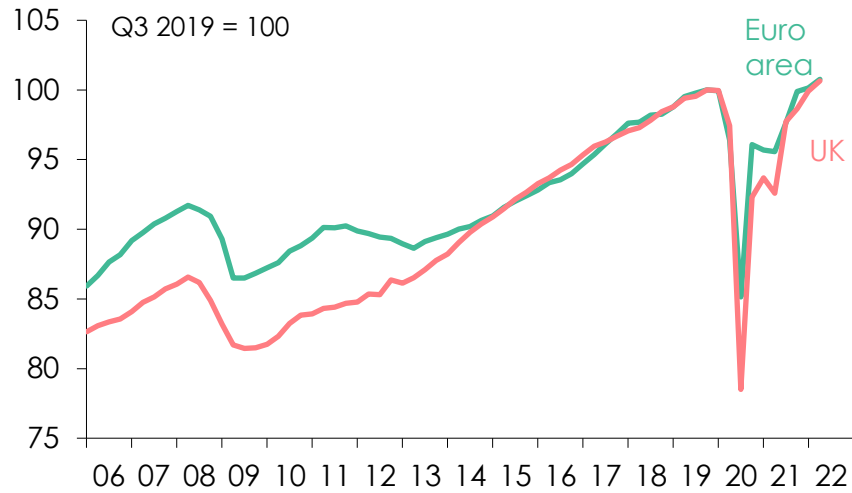
- ❑ The Federal Reserve [raised its target for the Fed funds rate](#) by 75 basis points, to 1.50-1.75%, at its Federal Open Market Committee meeting on 16th June, and foreshadowed that “ongoing increases in the target range will be appropriate”
- ❑ FOMC members also significantly raised their projections 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 on 22nd June, 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
- ❑ Chair Powell went further at last week’s annual [ECB policy conference](#) in Sintra, Portugal, [saying](#) that failing to restore price stability would be “a bigger mistake” than “going too far” in raising interest rates and pushing the economy into a recession
 - in his view, because of the “multiplicity of shocks” to inflation that have occurred, “the risk is that ... you start to transition into a higher inflation regime”, and the Fed’s job “is to literally prevent that from happening and we will prevent that from happening”
 - Powell’s view was underscored by Cleveland Fed President [Loretta Mester](#) who told the same conference that “the more costly error is assuming inflation expectations are anchored when they are not”

Europe

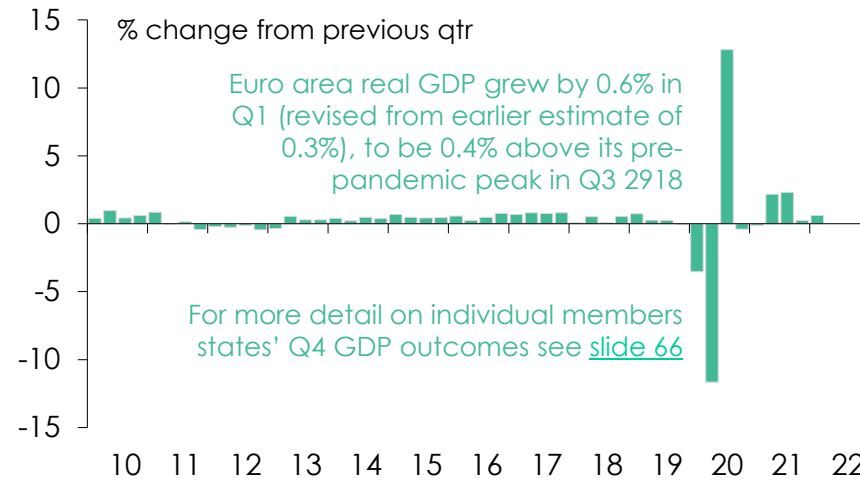
The euro area's real GDP grew 0.6% (revised from 0.3%) in Q1, but its terms of trade have deteriorated 3% over the past two quarters

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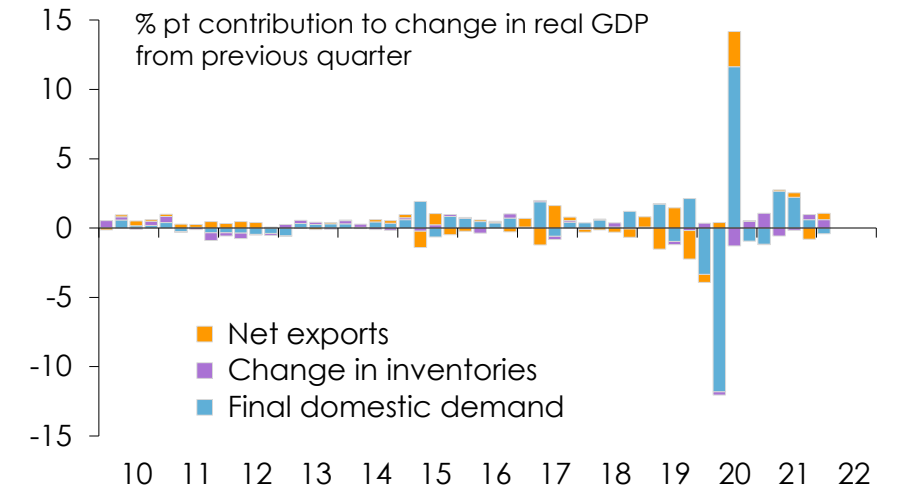
Euro area and UK real GDP



Euro area quarterly GDP growth



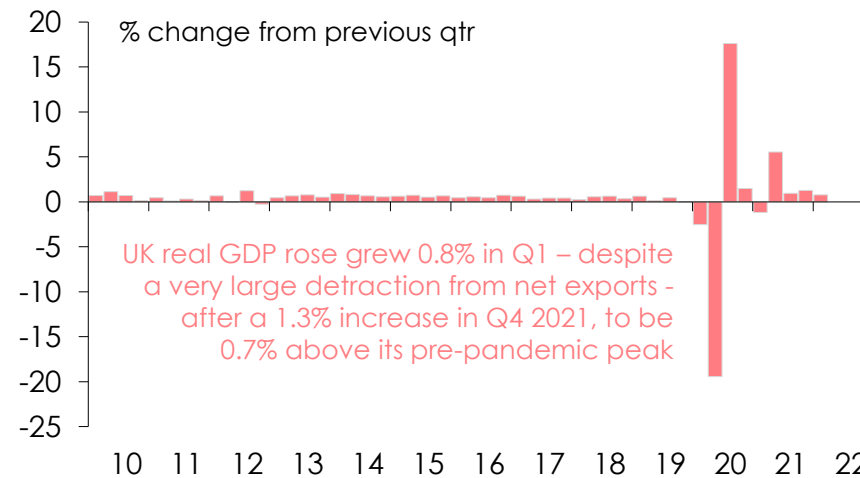
Contributions to quarterly EA GDP



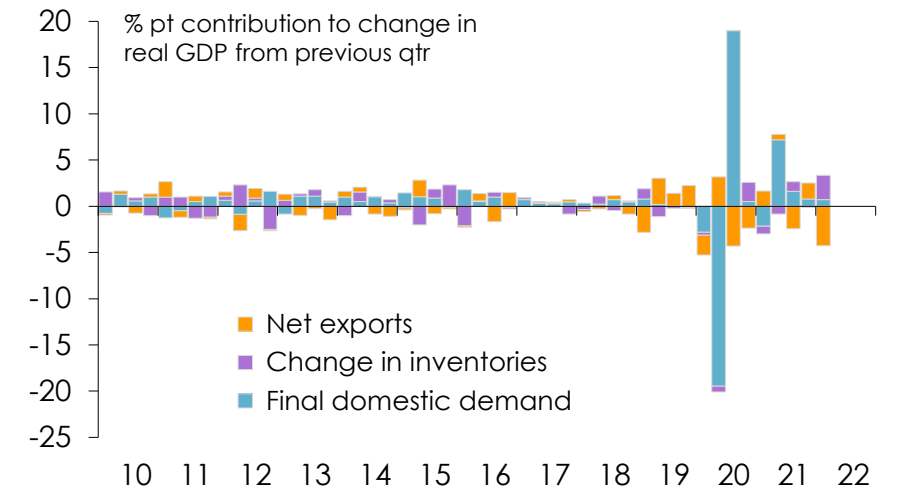
Euro area and UK terms of trade



UK quarterly GDP growth



Contributions to quarterly UK GDP

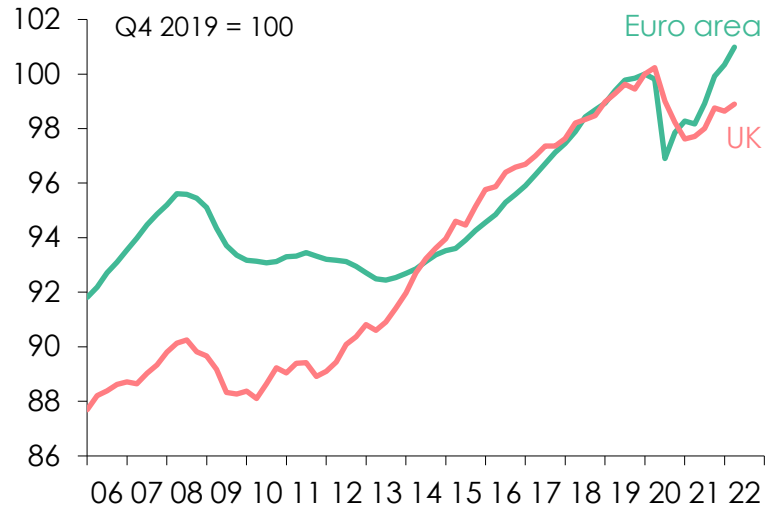


Note: the 'terms of trade' is the ratio of the implicit price deflator of exports of goods & services to that of imports of goods & services – it gives an indication of the income gains or losses arising from changes in the prices of goods and services traded with the rest of the world. Sources: Eurostat,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

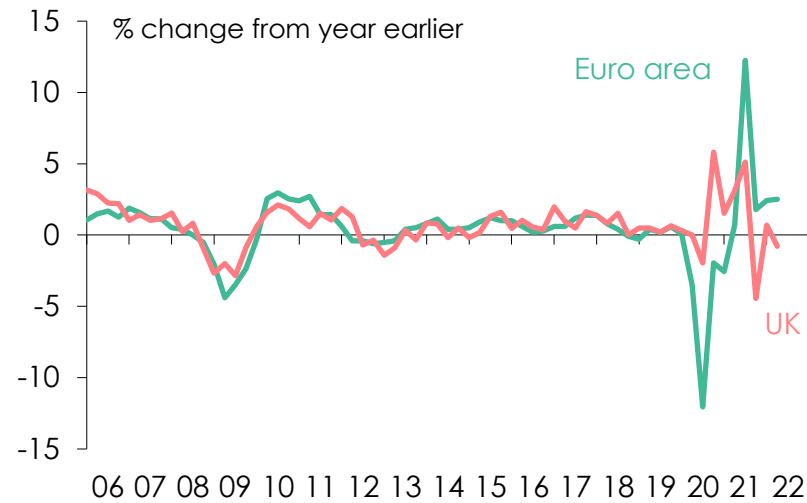
Euro area unemployment fell to a new record (since 1998) low of 6.6% in May

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

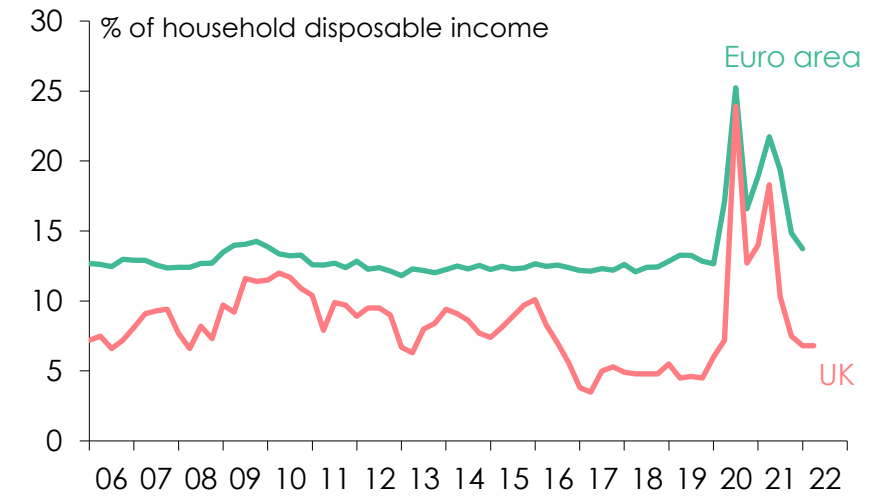
Employment



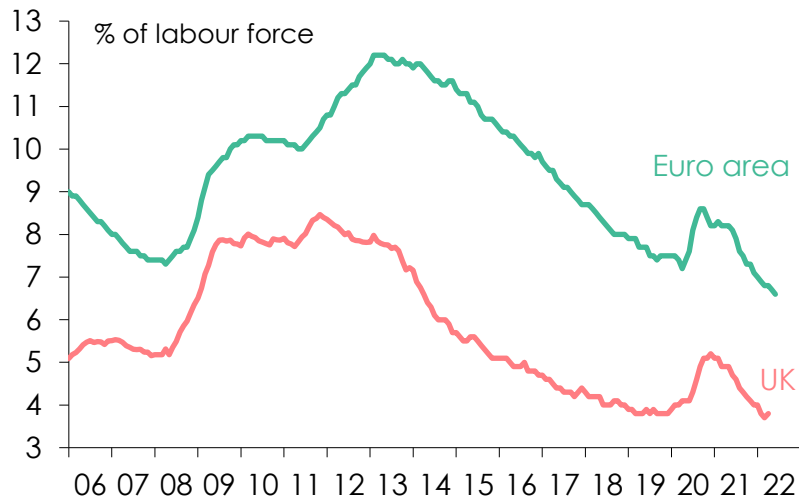
Labour productivity



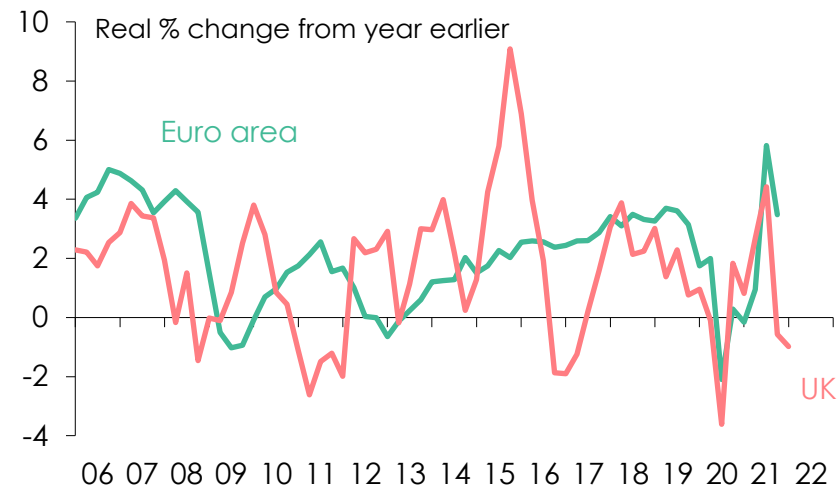
Household saving rates



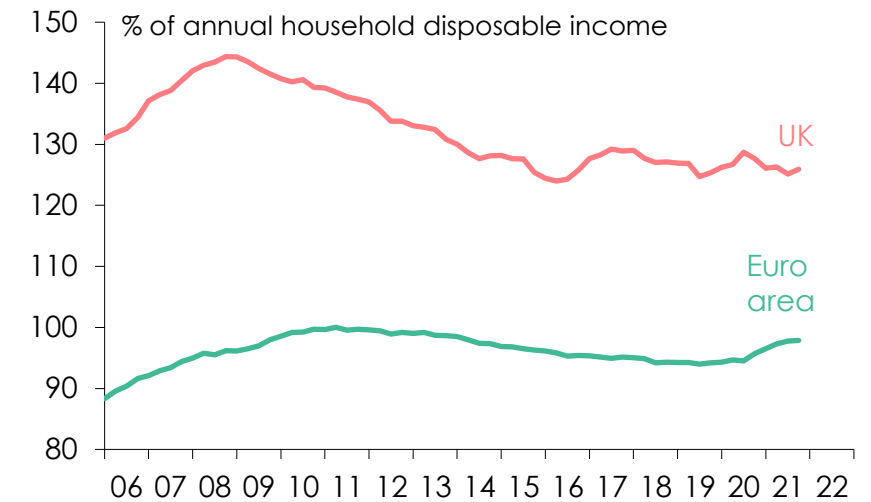
Unemployment rates



Household disposable income



Household debt

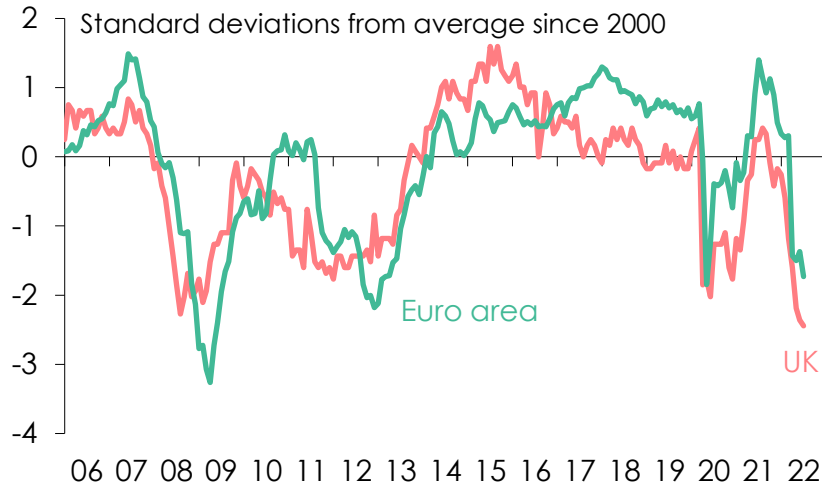


Sources: Eurostat, [Employment and unemployment \(Labour force survey\)](#), [Household saving rate](#) and [Labour productivity and unit labour costs](#); UK Office for National Statistics, [Employment in the UK](#), [Unemployment rate](#) (note, UK unemployment data are shown as a three-month moving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

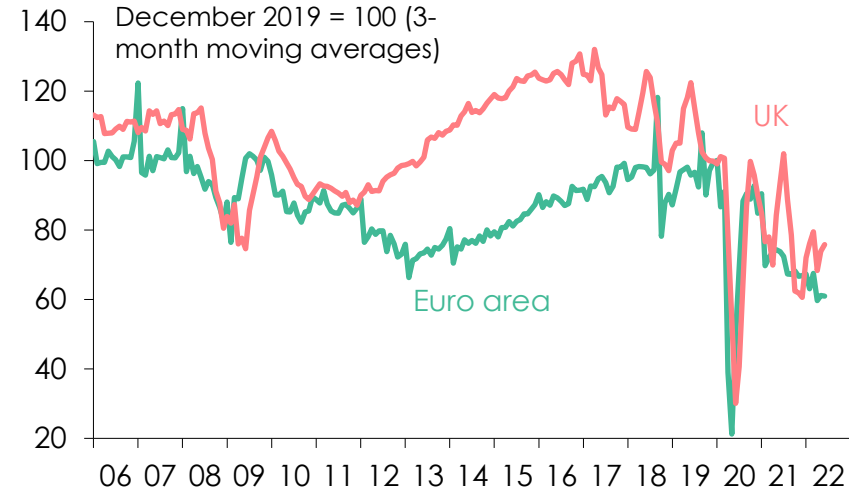
Consumer confidence deteriorated further in the euro area and (even more so) in the UK in June

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

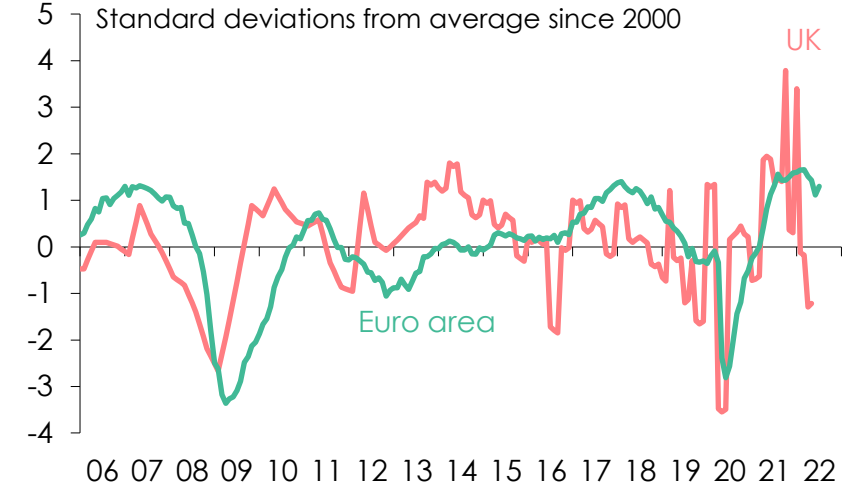
Consumer confidence



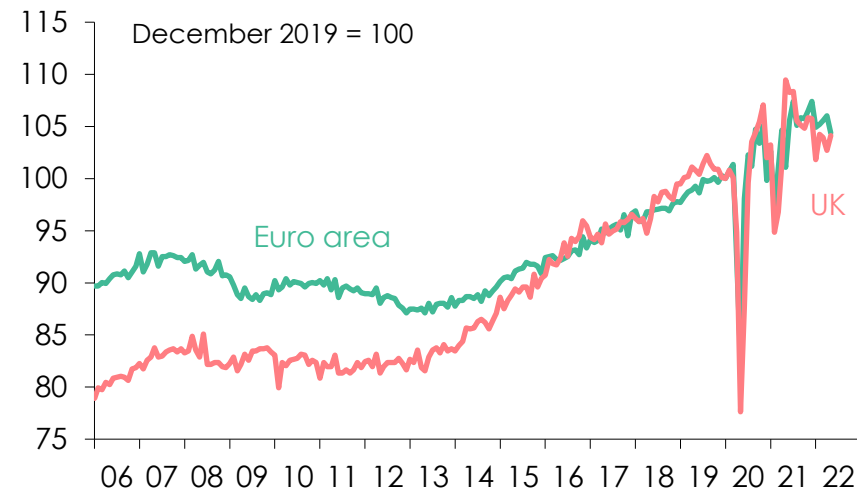
New car registrations



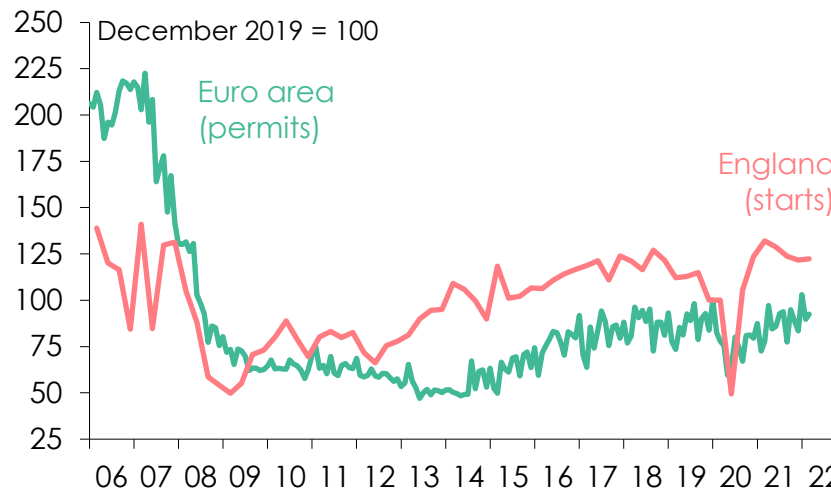
Business confidence



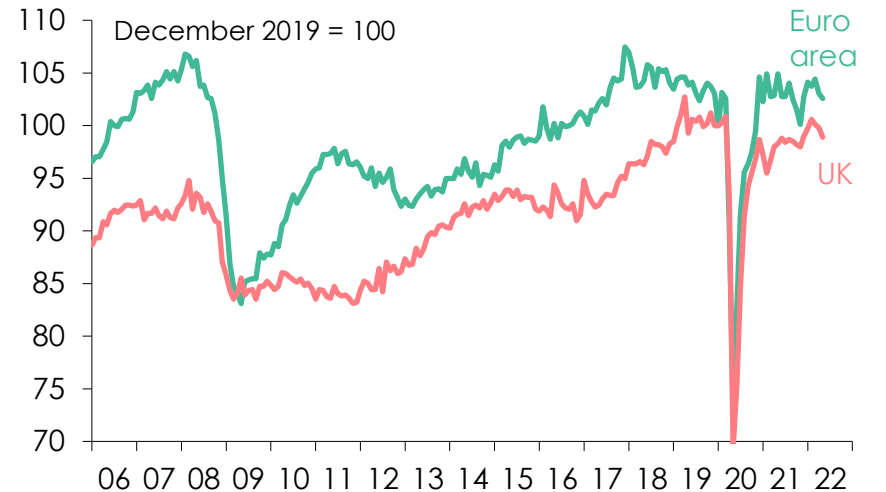
Retail sales volume



Housing activity



Manufacturing production

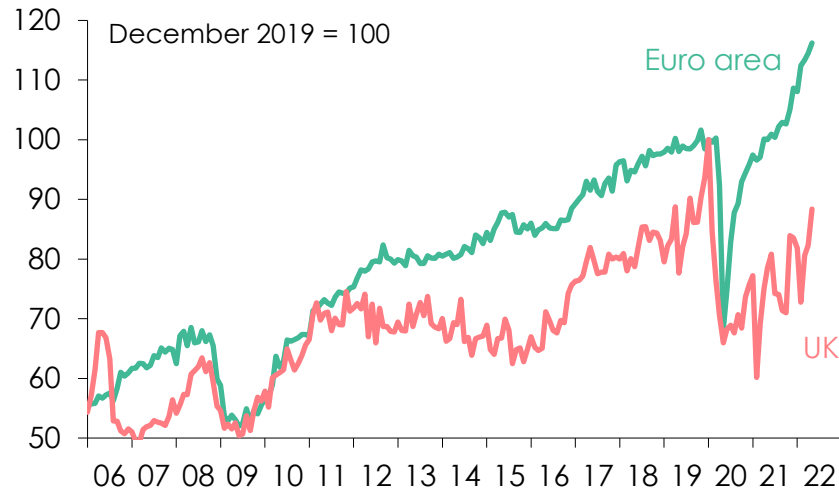


Sources: European Commission, [Business and consumer surveys](#); GfK, [Consumer confidence barometer](#); Confederation of British Industry, [Industrial Trends Survey](#); Eurostat, [Turnover and volume of sales in wholesale and retail trade](#), [New registrations of passenger cars](#), [Building permits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

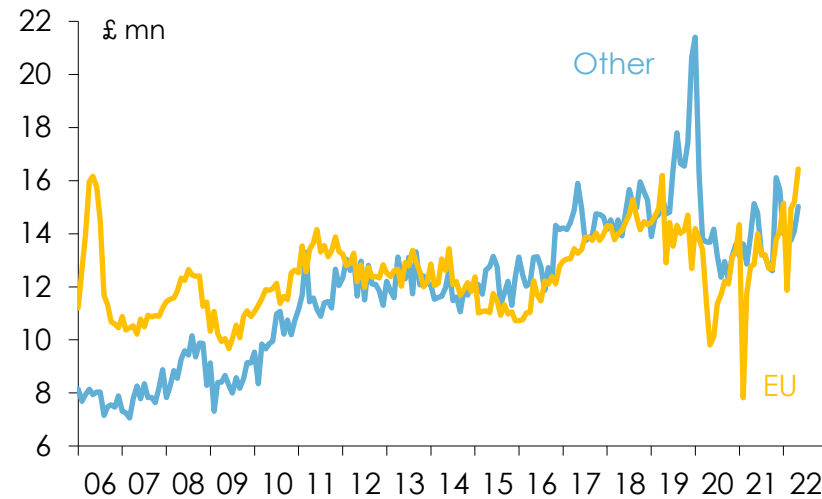
Higher prices for energy imports have caused the euro area's trade balance to slip into deficit, and also widened the UK's external deficits

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

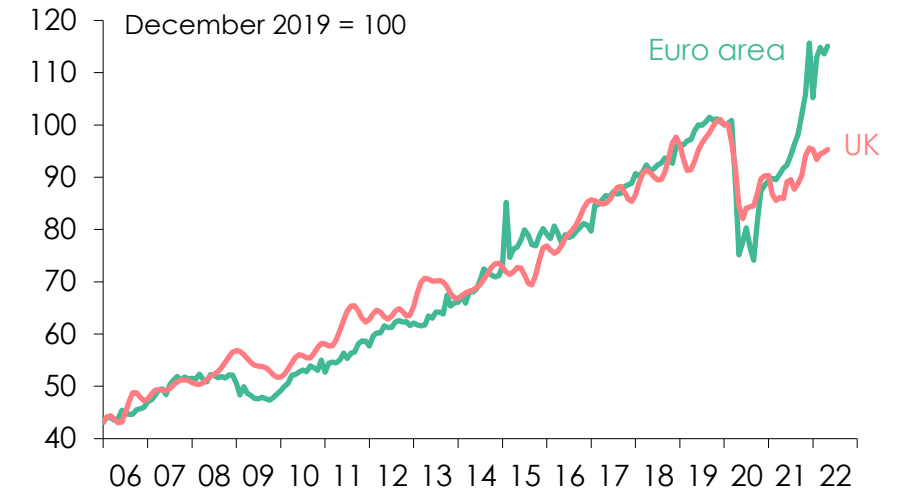
Merchandise exports



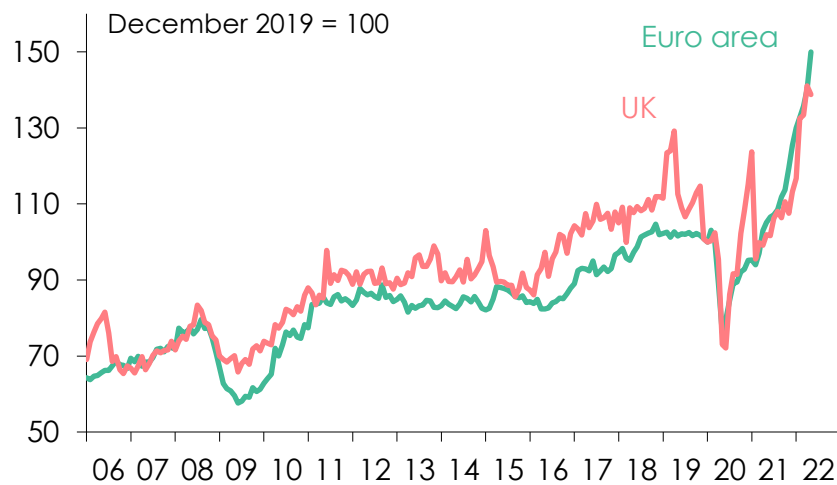
UK exports by destination



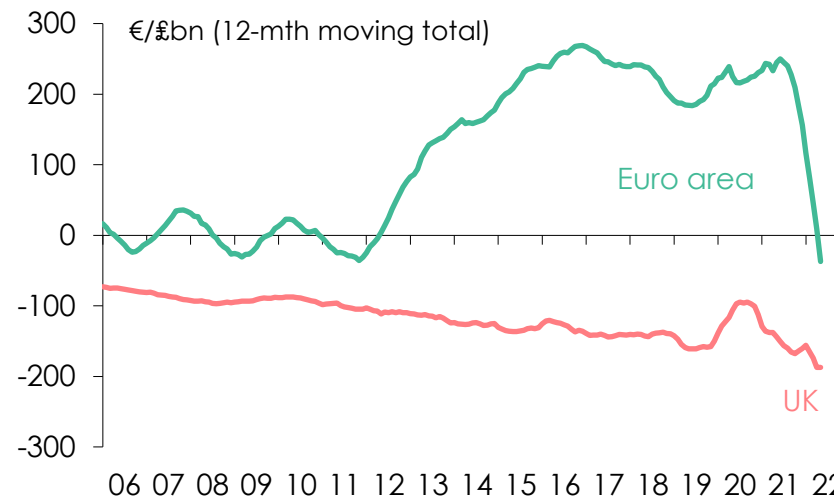
Services exports



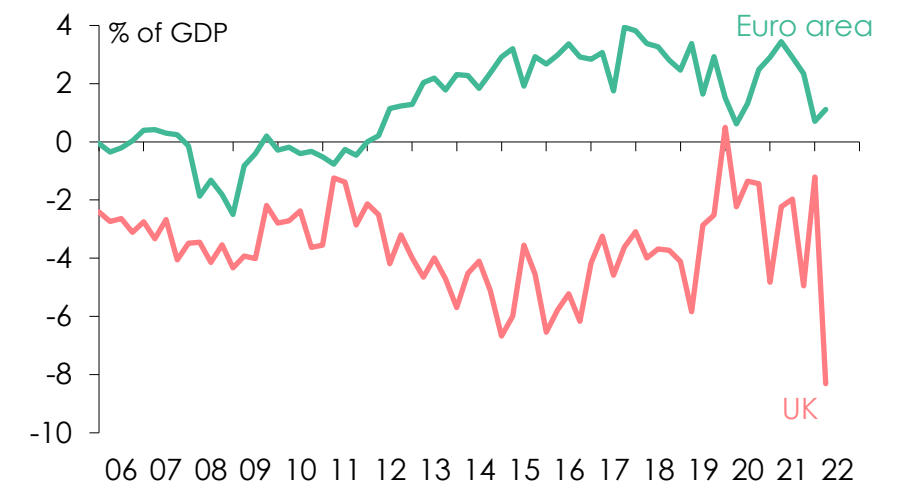
Merchandise imports



Merchandise trade balances



Current account balance

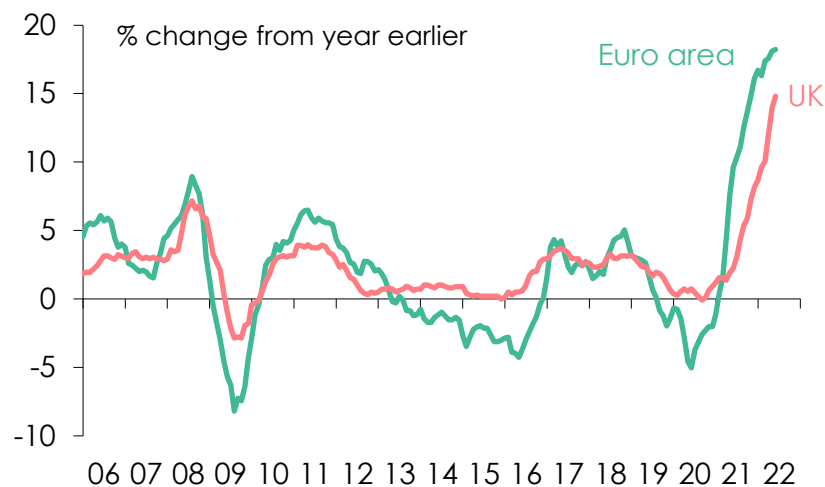


Sources: European Central Bank, Statistical Data Warehouse, [External Trade](#), [Balance of Payments and International Investment Position - Services](#), and [Balance of Payments and International Investment Position - Current Account](#); UK Office for National Statistics, [UK Trade](#) and [BoP Current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

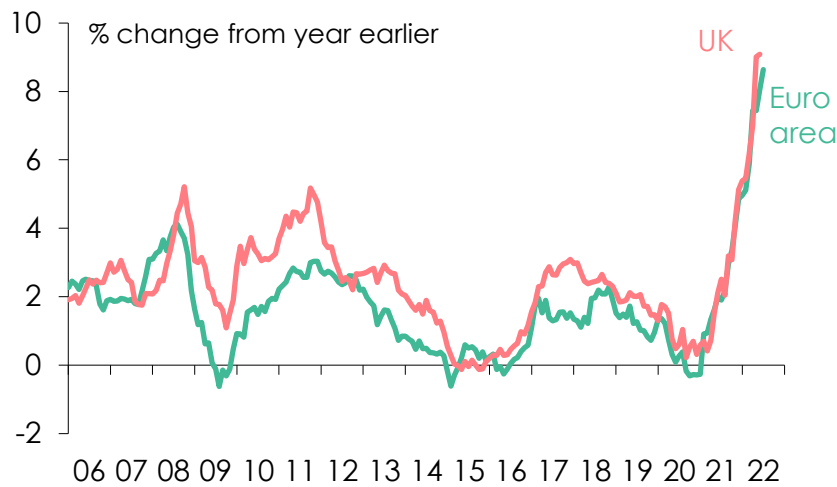
Euro area consumer prices rose 0.8% in June, and 8.6% from June 2021, but 'core' prices rose just 0.2%, cutting the annual rate from 3.8% to 3.7%

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

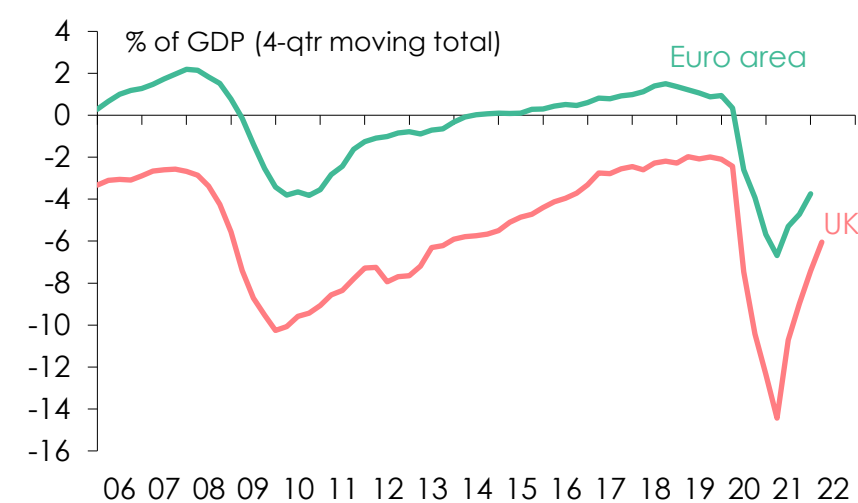
Producer prices



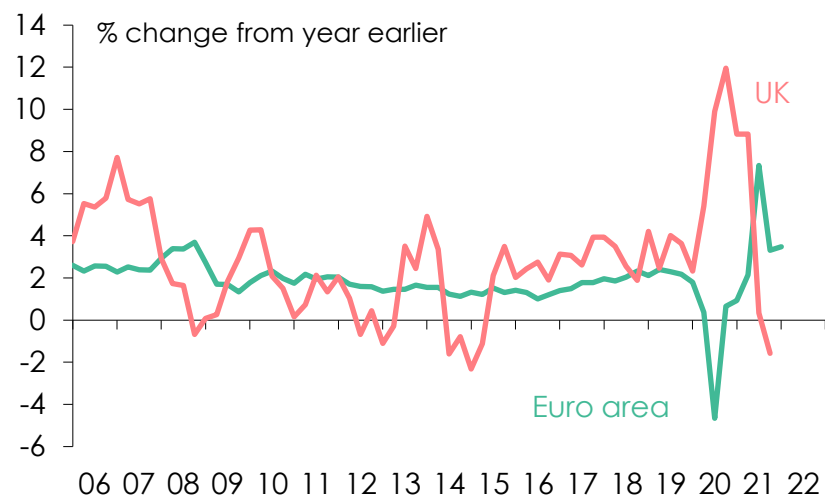
'Headline' consumer prices



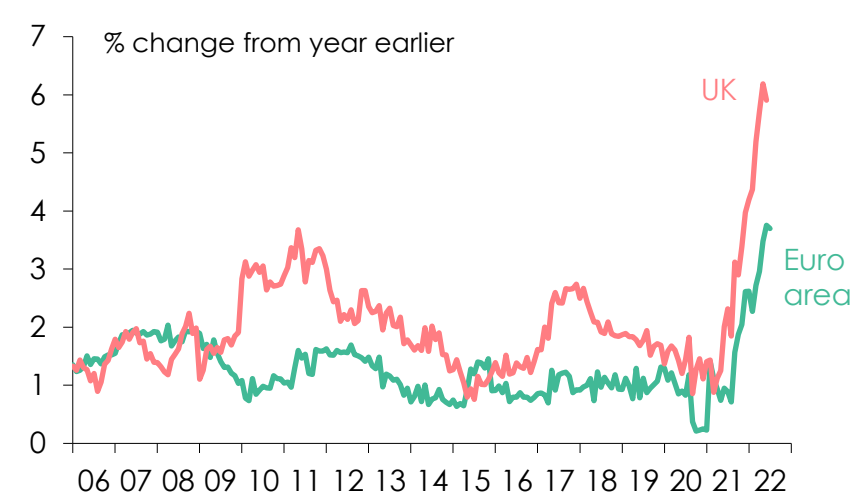
Government fiscal balance



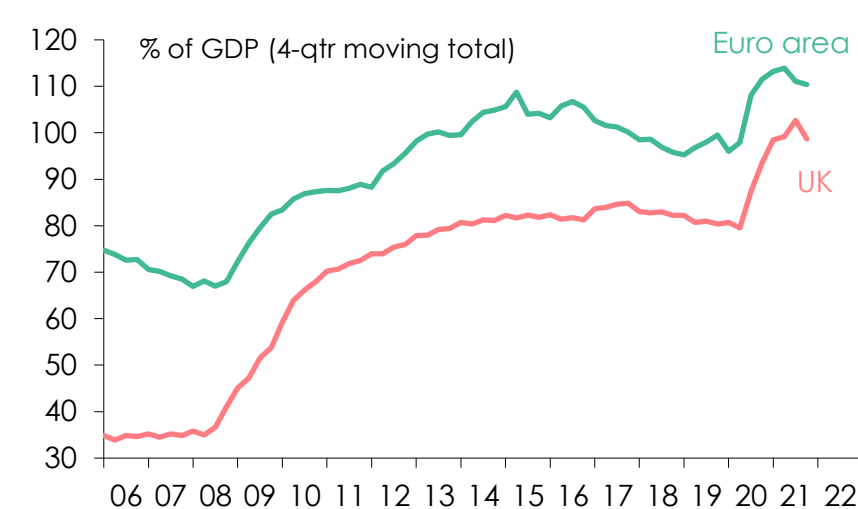
Labour costs



'Core' consumer prices



Government net debt

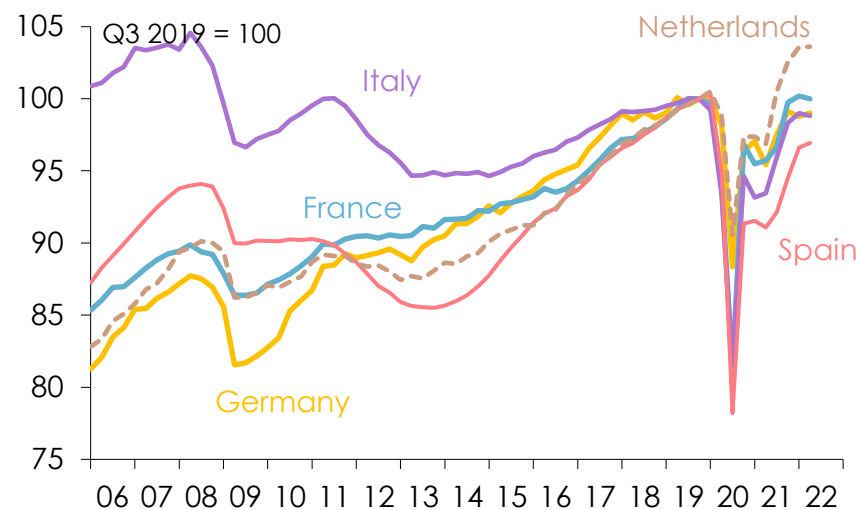


Note: Consumer price indices for the euro area and UK are 'harmonized' indices which exclude owner-occupied housing costs. Sources: Eurostat, [Producer prices in industry](#), [Compensation per employee and hours worked per employed person](#), [Consumer price index](#), and [Government finance statistics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

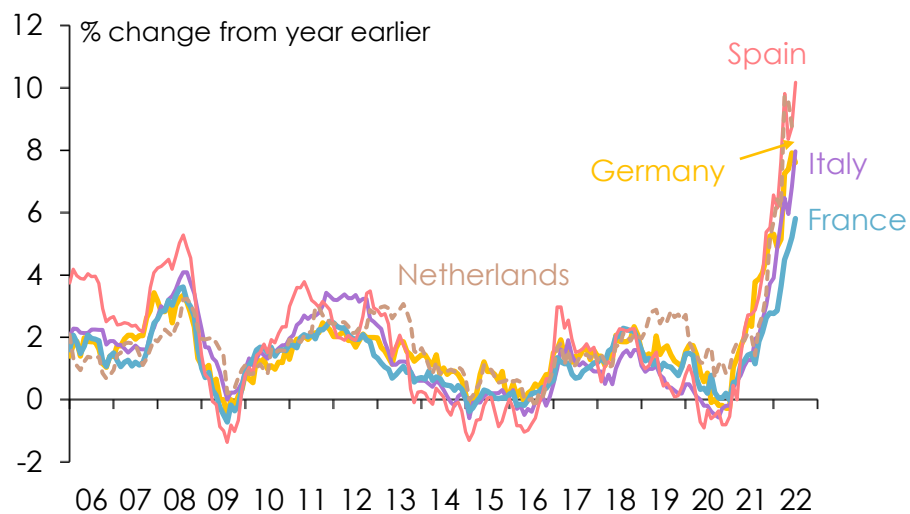
The end of ECB asset purchases has led to a significant widening in yield spreads between Spanish & especially Italian, and German bonds

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

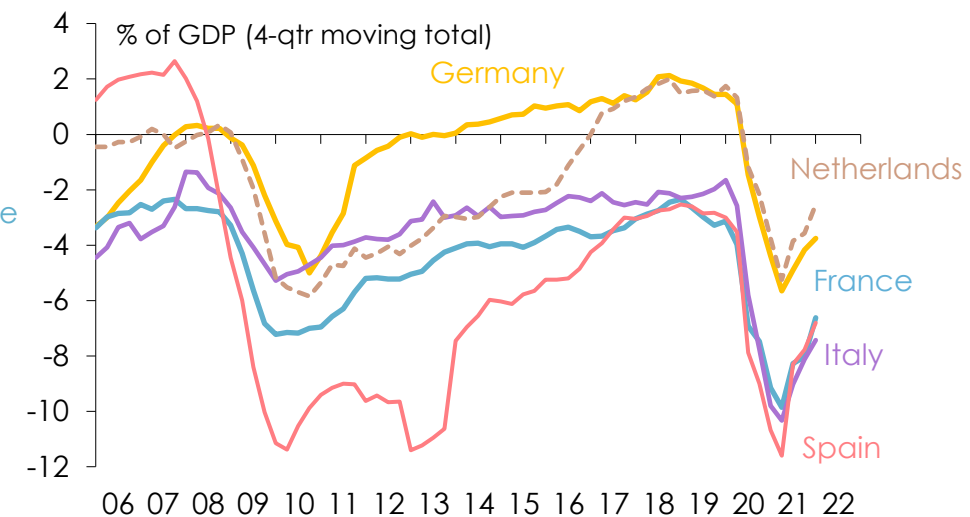
Real GDP



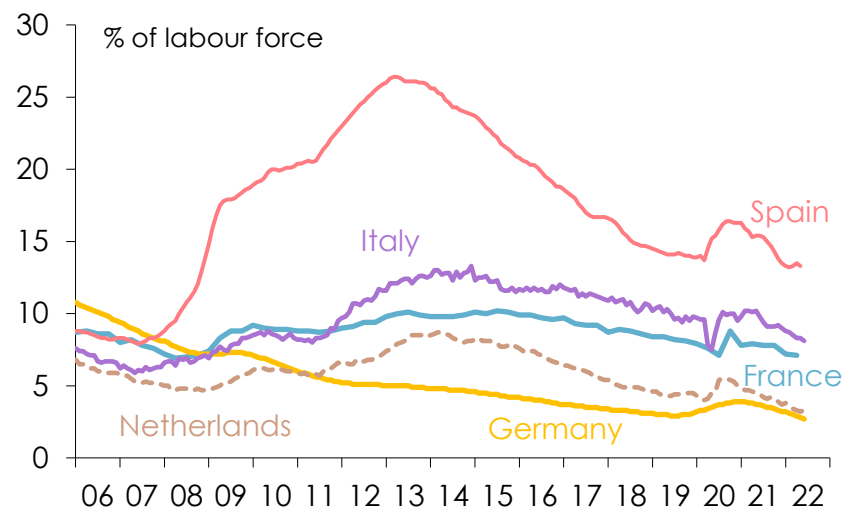
Inflation



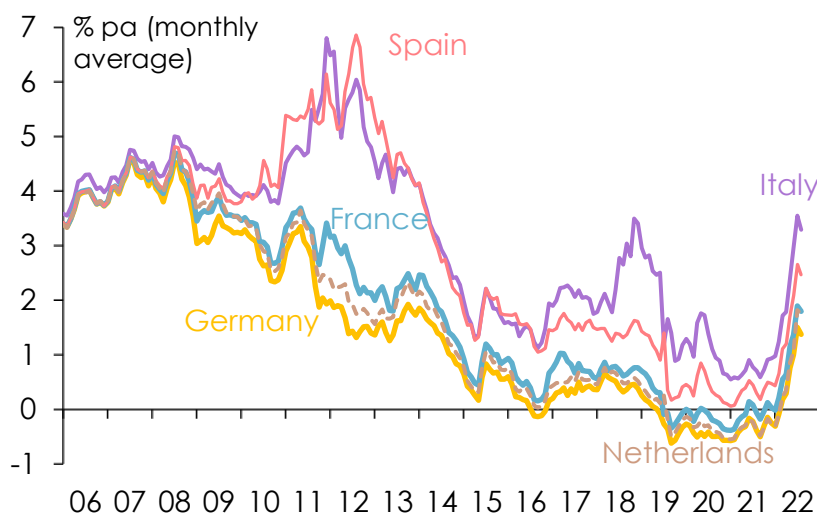
Government net lending



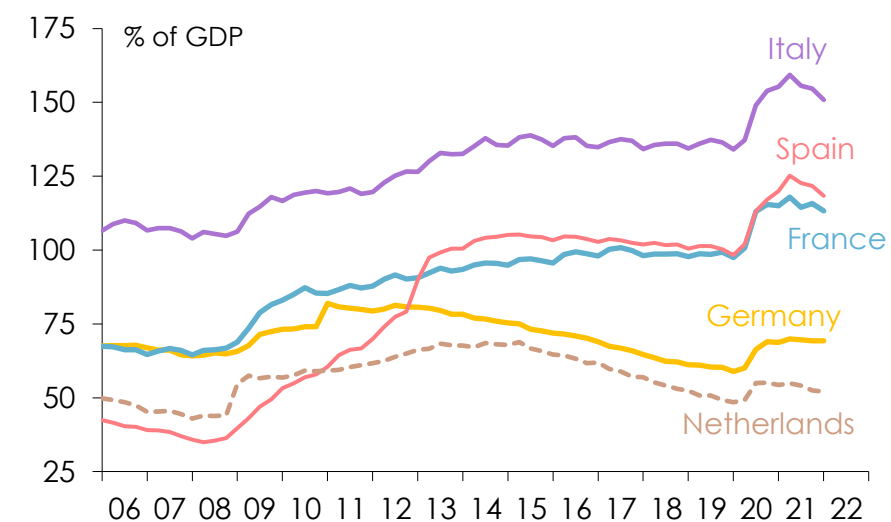
Unemployment



10-year bond yields



Government gross debt



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

The ECB continues to insist that it will act “gradually” in seeking to bring inflation down, with “optionality” if the inflation outlook deteriorates further

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

- ❑ The [European Central Bank](#) left its policy interest rates unchanged at its Governing Council meeting on 9th June, but (as previously foreshadowed), decided to end its bond purchases with effect from 1st July
 - unlike the Fed, Bank of England, Bank of Canada and other central banks, the ECB will continue to re-invest principal payments from maturing securities purchased under the Pandemic Emergency Purchase Program (PEPP) “until at least the end of 2024”, and those purchased under the APP “for an extended period of time”
- ❑ The ECB also foreshadowed its intention to raise its policy interest rates by 25 basis points at its 21st July meeting, and to raise them again by a similar amount at its 8th September (or by more, “if the medium-term inflation outlook persists or deteriorates”, in which case “a larger increment will be appropriate”)
 - after which, the ECB [anticipated](#) that “a gradual but sustained path of further increases in interest rates will be appropriate”
- ❑ At her [post-meeting press conference](#) ECB President Christine Lagarde noted that ECB staff projections for euro area ‘headline’ inflation had been revised upwards to 6.8% in 2022 (from 5.1% previously), 3.5% in 2023 (from 2.1%) and 2.1% in 2024 (from 1.9%), while forecasts for ‘core’ inflation were revised to 3.3% in 2022 (from 2.6%), 2.8% in 2023 (from 1.8%) and 2.3% in 2024 (from 1.9%)
 - ECB staff forecasts for euro area real GDP growth in 2022 and 2023 were revised down significantly to 2.8% (from 3.7%) and 2.1% (from 2.8%) respectively, although the forecast for growth in 2024 was revised up to 2.1% (from 1.6%)
- ❑ 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 66](#)) 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”
- ❑ At last week’s annual [ECB policy conference](#) in Sintra, Portugal, Mme Lagarde [again emphasized](#) that (in marked contrast to the Fed), the ECB’s actions would incorporate “gradualism and optionality”
 - which, she said, meant “moving gradually if there is uncertainty about the outlook, but with the option to act decisively on any deterioration in medium-term inflation”

The Bank of England's Governor hinted that it may not need to act as 'forcefully' to bring inflation down given that the UK economy has started to slow

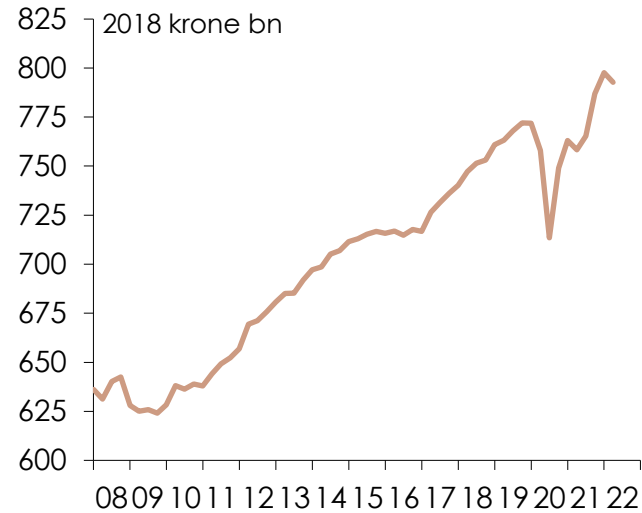
THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

- ❑ The [Bank of England](#) raised its Bank Rate by another 25 bp, to 1.25%, at its Monetary Policy Committee meeting on 16th June – the fifth consecutive increase, following increases of 15bp in December and 25bp at its February, March and May meetings
 - three of the nine members of the MPC dissented in favour of a 50 bp hike (as they did at the May meeting)
- ❑ The [minutes](#) of last Thursday's MPC meeting indicate that the latest increase in interest rates was warranted by “continuing signs of robust cost and price pressures, including the tightness of the labour market”
 - as evidence of the tightness of the labour market the MPC pointed to “persistently elevated recruitment difficulties”, with “underlying nominal private sector regular pay growth ... above 4%” and “pay settlements deals averaging just over 5%”, which it said “re-inforced the upside risk to the MPC's central projections for pay growth and domestic price pressures”
- ❑ The Bank now expects the annual CPI inflation rate to rise from 9% in April to “slightly above 11% in October, slightly higher” than anticipated in May, reflecting “higher food, core goods and services price inflation”, the recent increase in oil prices, and “around a 40% increase the utility price cap in October”
 - the MPC noted that “not all of the excess inflation can be attributed to global events”, that “core consumer goods price inflation is higher in the UK than in the euro area and in the US”, and that “consumer services price inflation, which is more influenced by domestic costs than goods price inflation, has strengthened in recent months”
- ❑ The Bank expects GDP to fall by 0.3% in Q2, a downward revision from the 0.1% decline forecast in May
 - Bank staff estimated that the Government's £15bn ‘cost of living support package’ would likely boost GDP by around 3% and raise inflation by 0.1 pc pt over the coming year
- ❑ BoE Governor Andrew Bailey, speaking at the ECB's policy conference in Portugal last week, [suggested](#) that the Bank may not have to act “forcefully”, given that it was now “very clear” that the UK economy had started to slow
 - but he also didn't rule out the option of more forceful action (including a 50bp rise in the bank rate) if needed

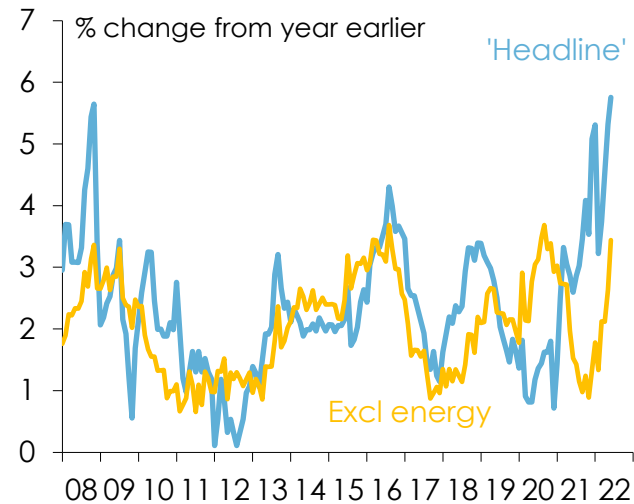
Norges Bank raised its policy rates by 50 bp last month, the fourth and largest increase since August last year

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

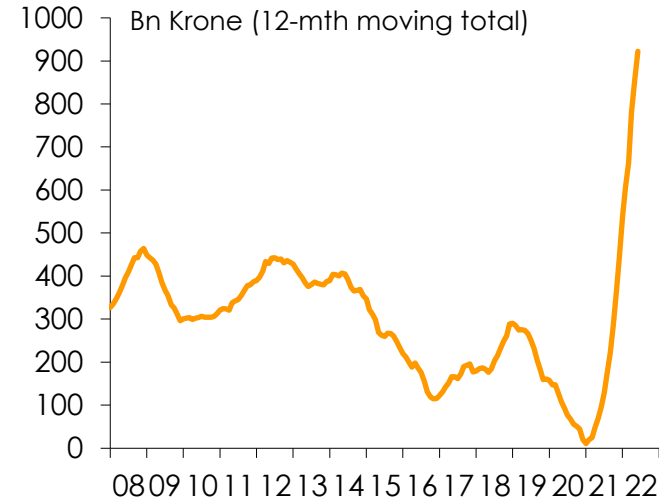
'Mainland' real GDP



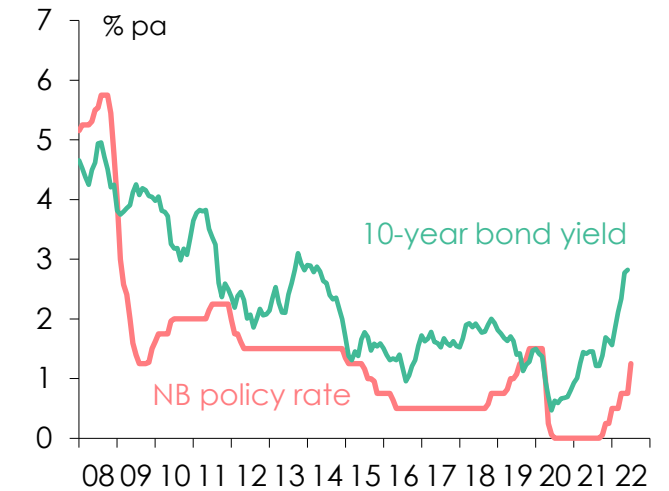
Inflation



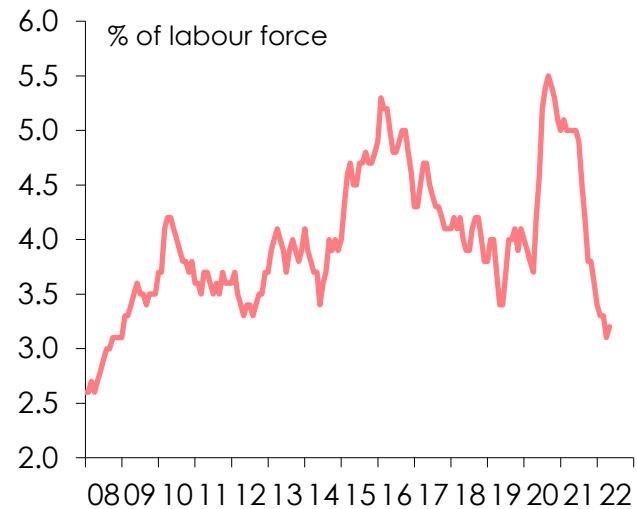
Trade balance



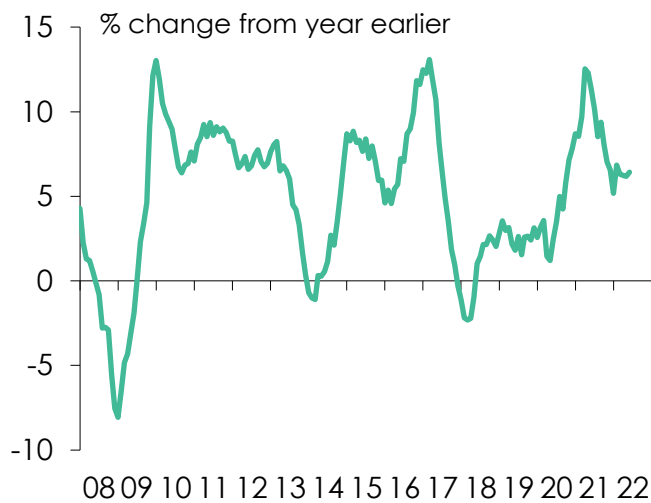
Interest rates



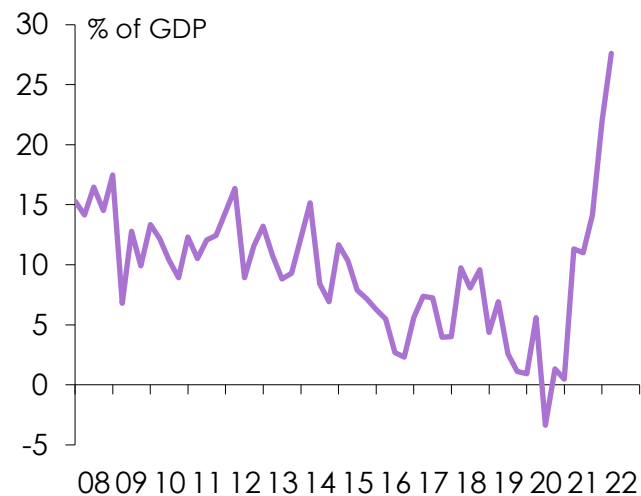
Unemployment



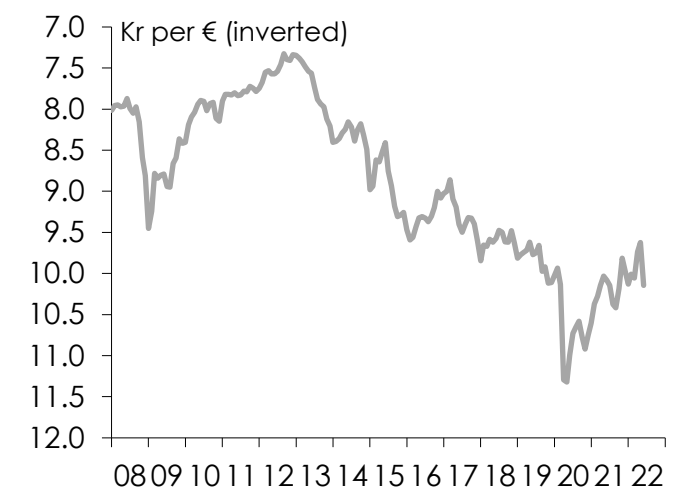
House prices



Current account balance



Krone vs euro

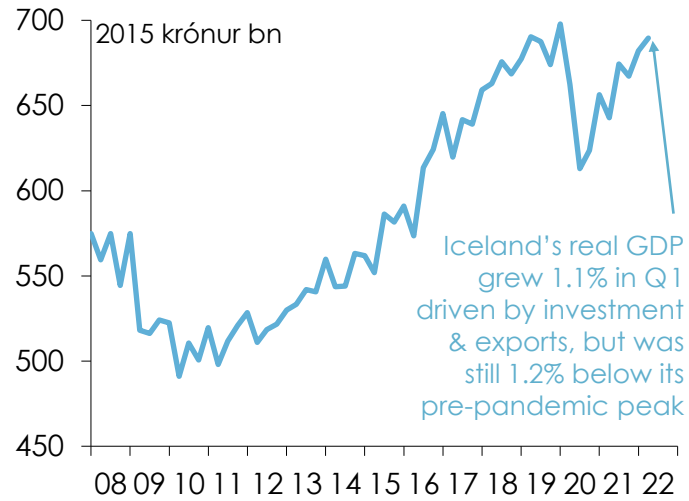


Note: 'mainland' GDP means excluding Norway's oil and gas industry which is entirely located offshore. Sources: [Statistisk sentralbyrå](#); [Norges Bank](#); Refinitiv Datastream.
[Return to "What's New"](#).

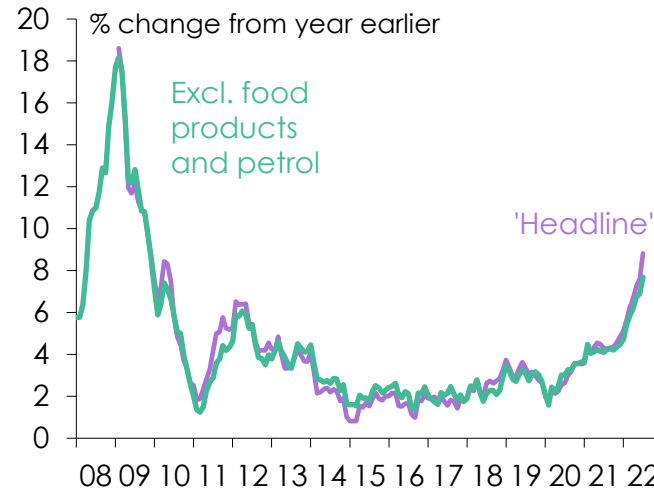
Iceland's central bank raised its policy interest rates by another 100bp last month, and foreshadowed further tightening in coming months

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

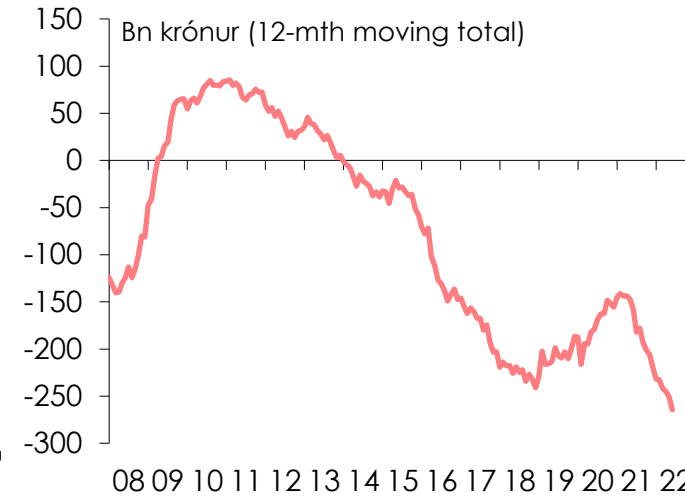
Real GDP



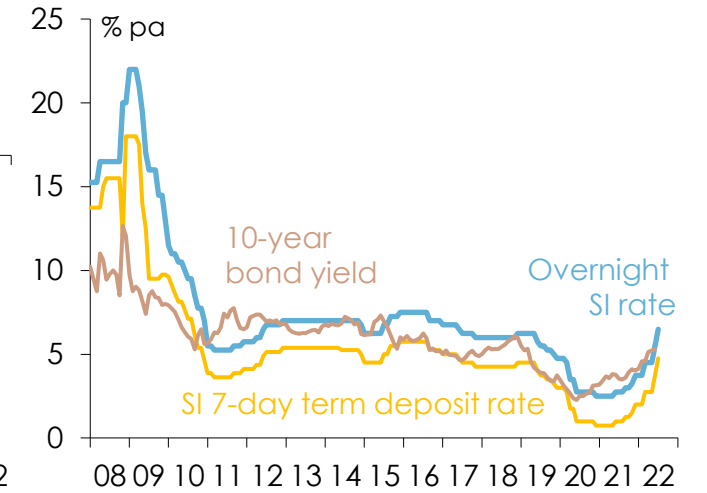
Inflation



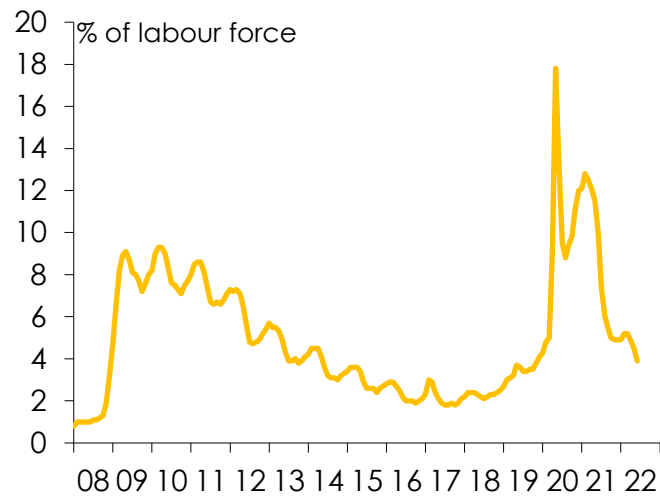
Trade balance



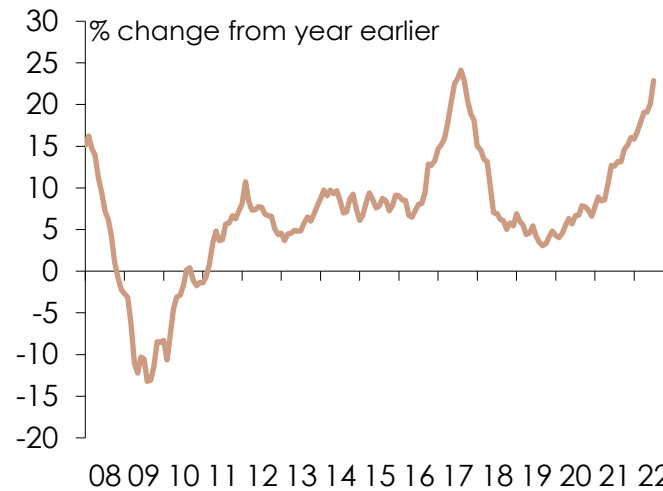
Interest rates



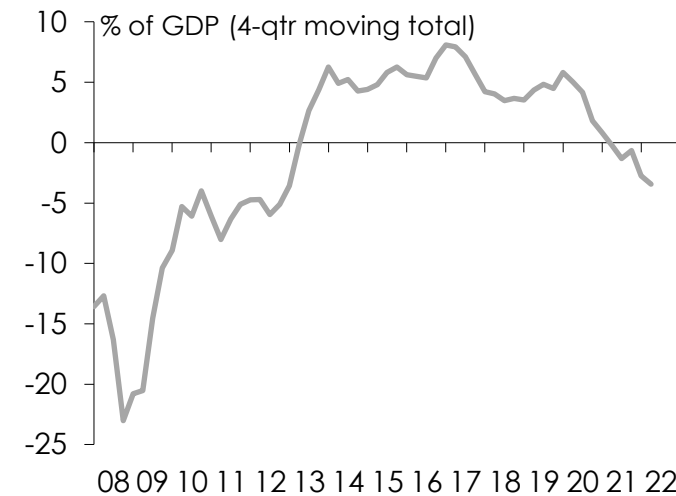
Unemployment



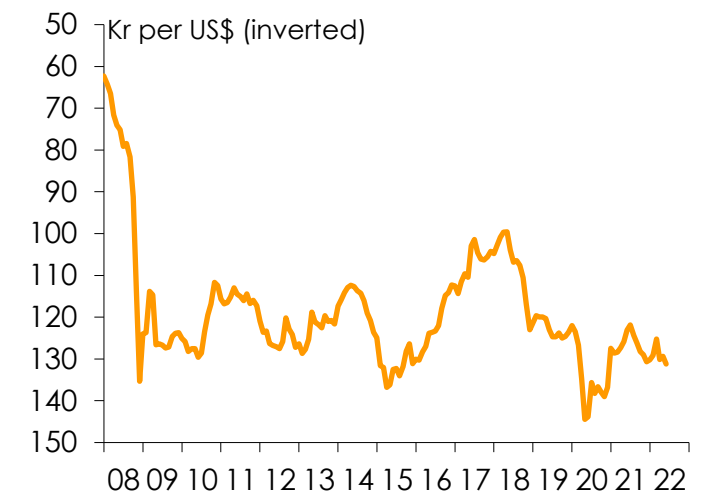
House prices



Current account balance



Króna vs US dollar

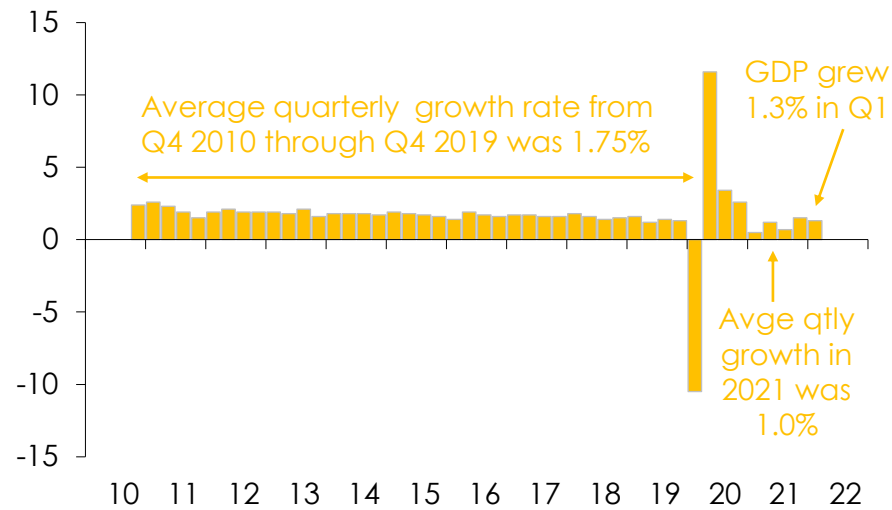


China

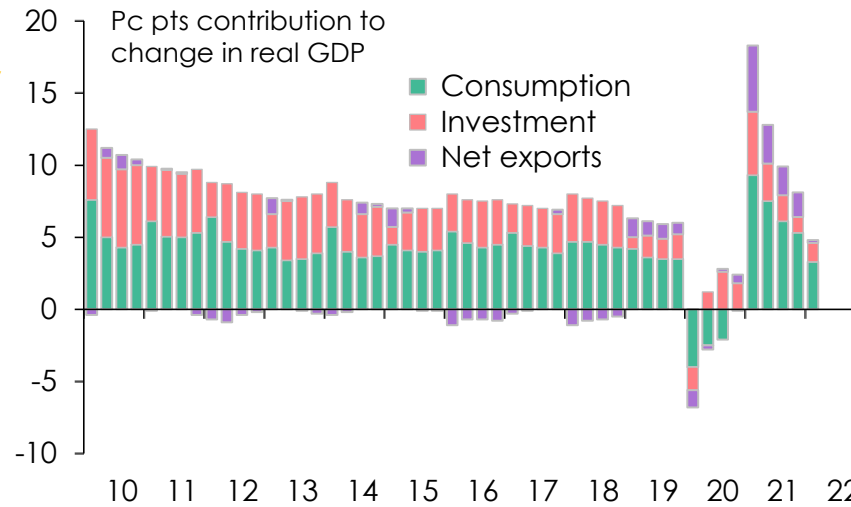
China's urban unemployment rate fell 0.2 pc pts in May to 5.9%, after rising 1.2 pc pts between October and April when it peaked at 6.1%

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

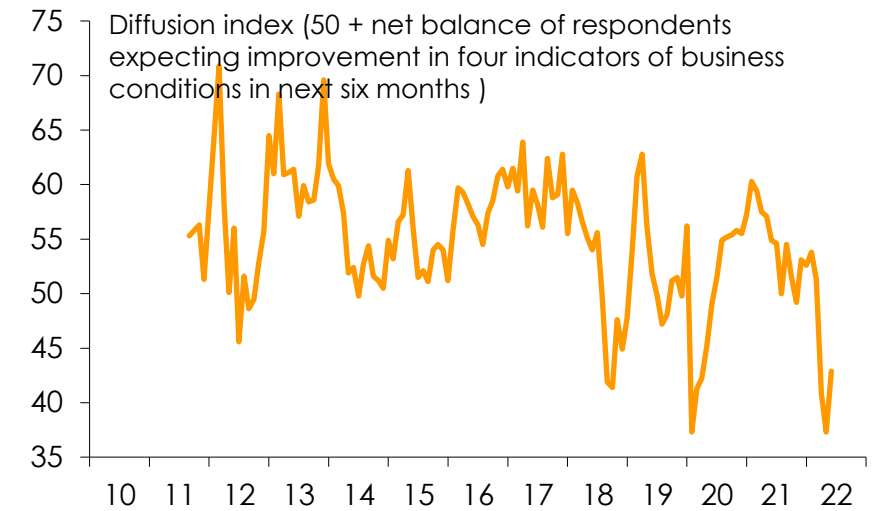
Quarterly real GDP growth



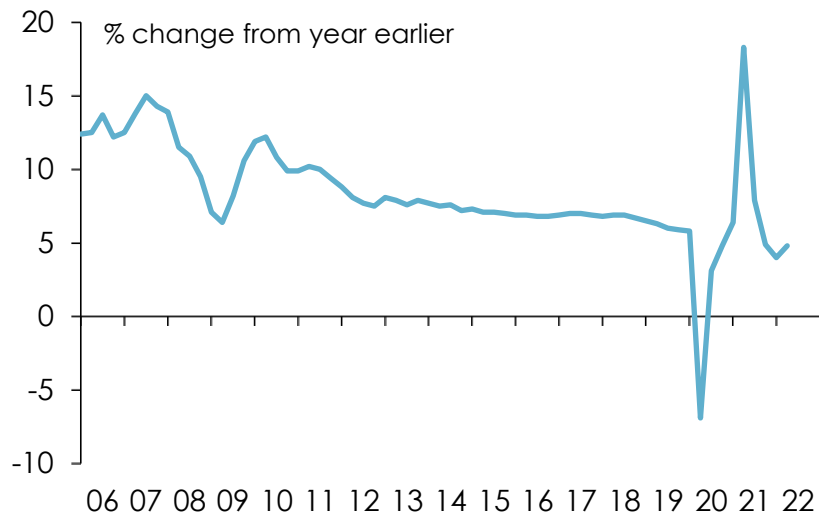
Contributions to real GDP growth



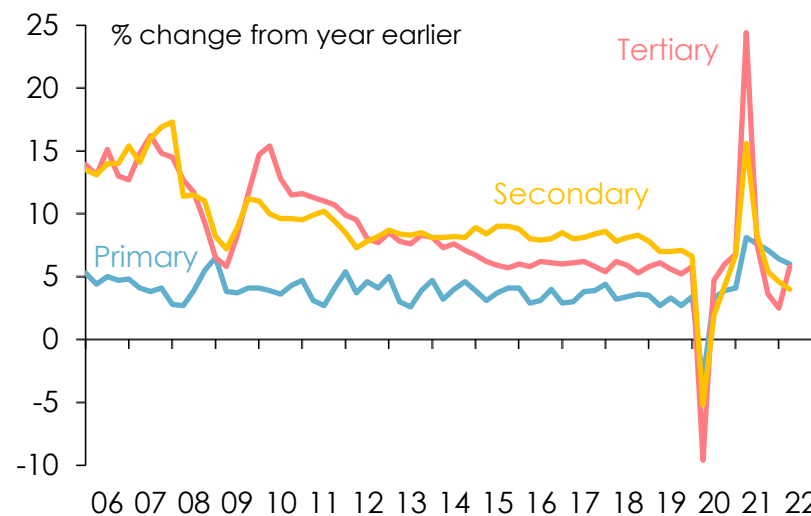
CKGSB business conditions index



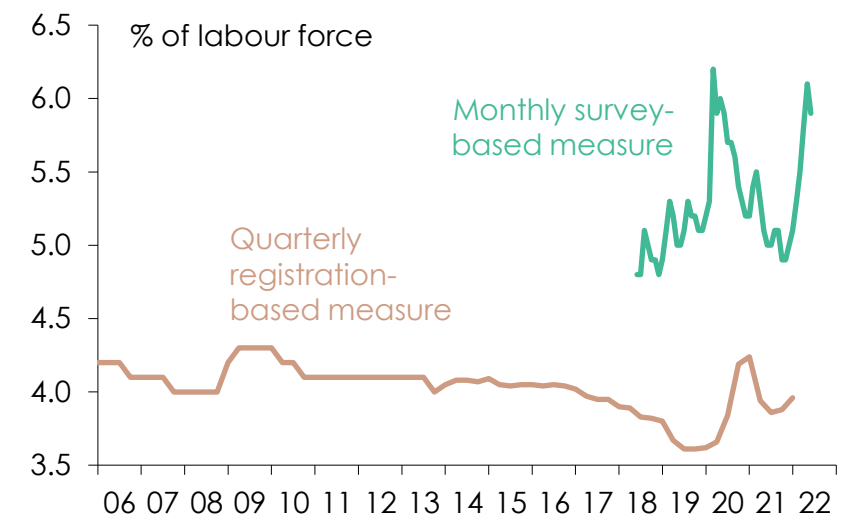
Annual real GDP growth



Annual GDP growth by industry



Urban unemployment rate

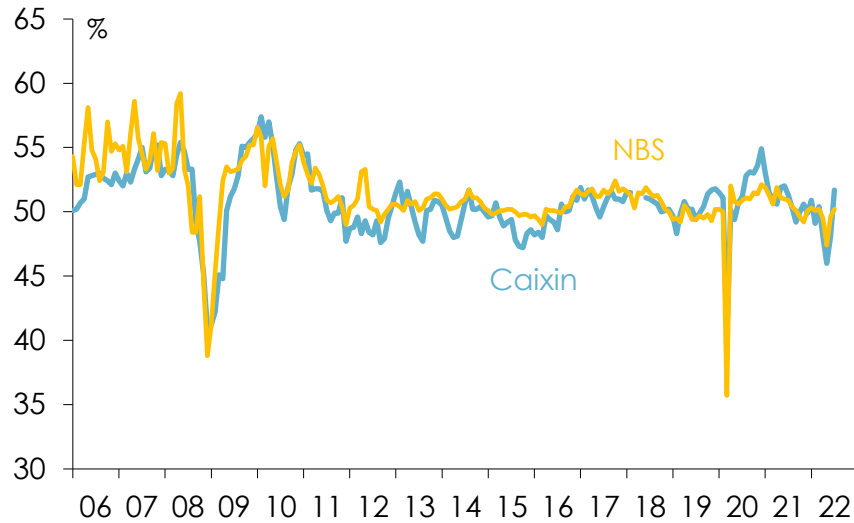


Sources: China National Bureau of Statistics, [National Data - National Accounts](#) and [The Urban Surveyed Unemployment Rate](#); Cheung Kong Graduate School of Business, [Business Conditions Index \(BCI\)](#). Before the monthly unemployment survey was introduced in 2018, the quarterly measure was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

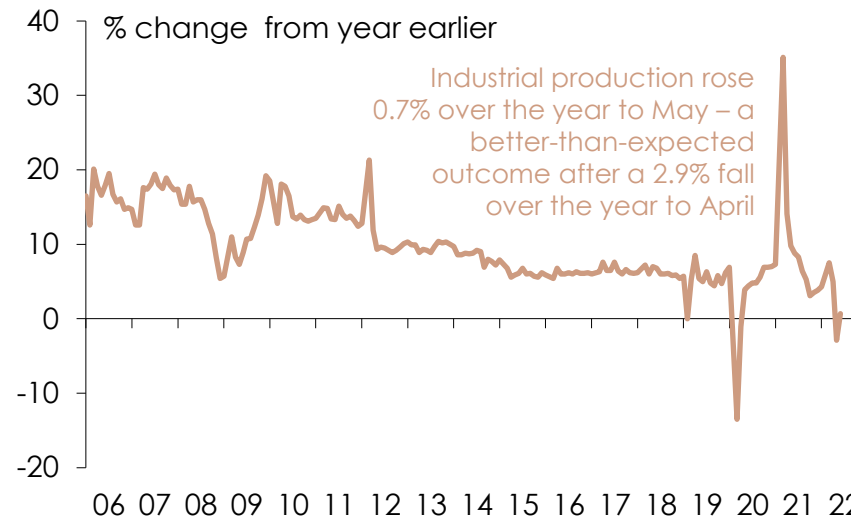
PMIs suggest that manufacturing and especially services sector activity rebounded strongly in June as lockdowns eased

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

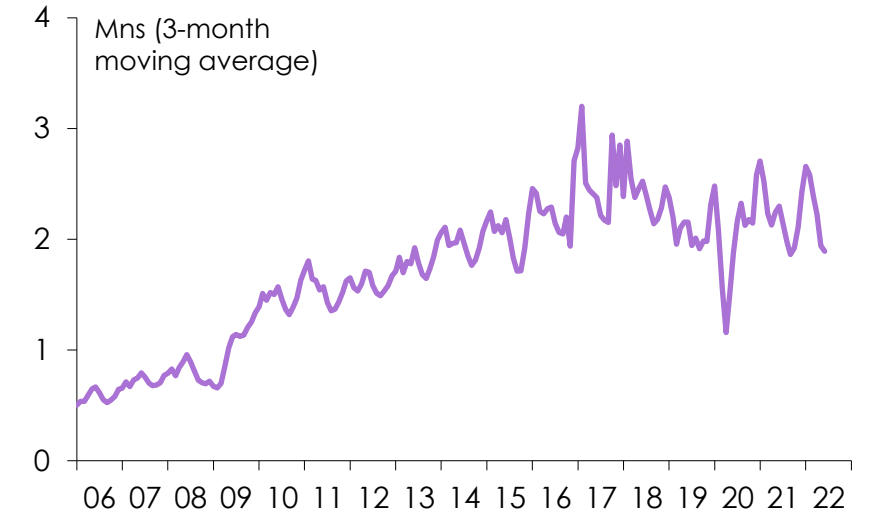
Manufacturing PMIs



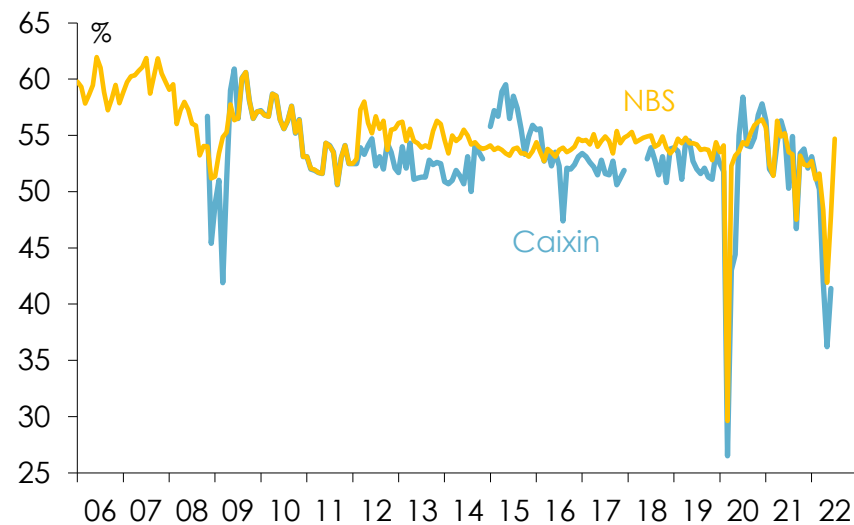
Industrial production



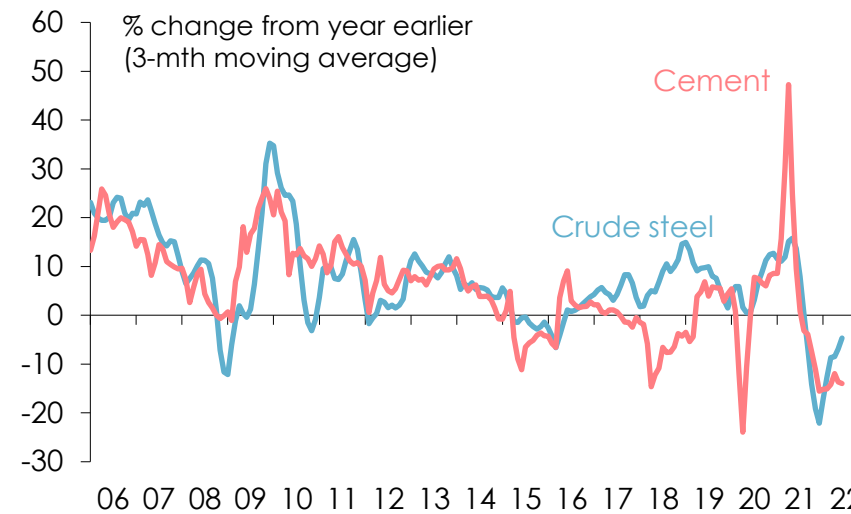
Motor vehicle production



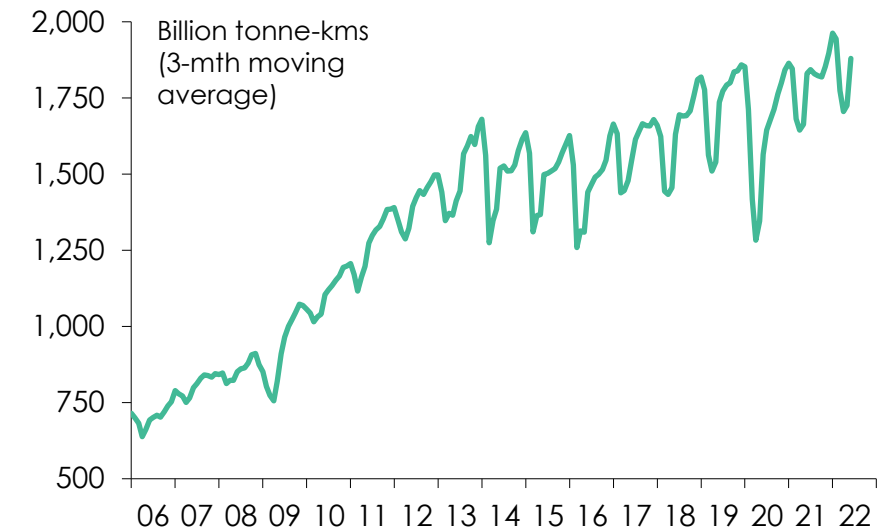
Non-manufacturing PMIs



Steel and cement production



Freight traffic volumes

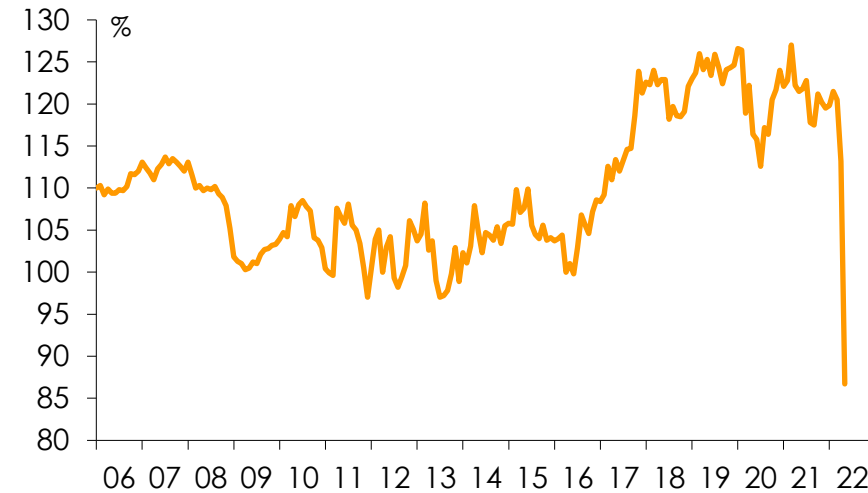


Note: The Caixin PMIs are derived from a survey of around 500, mostly small private, enterprises, while the 'official' NBS PMIs are derived from a survey of about 3,000, mostly state-owned, enterprises; for more detail see [here](#). Sources: China National Bureau of Statistics, [National Data](#); Caixin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

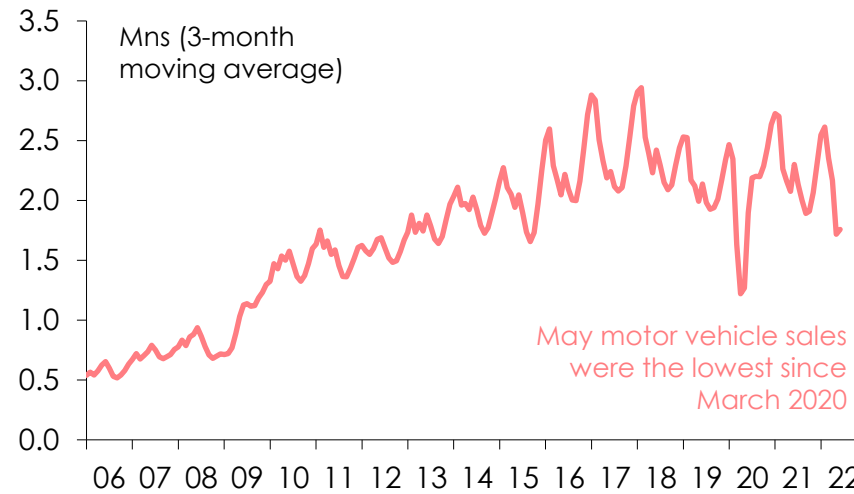
However indicators of consumer demand, and of property construction activity, remained weak in May

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

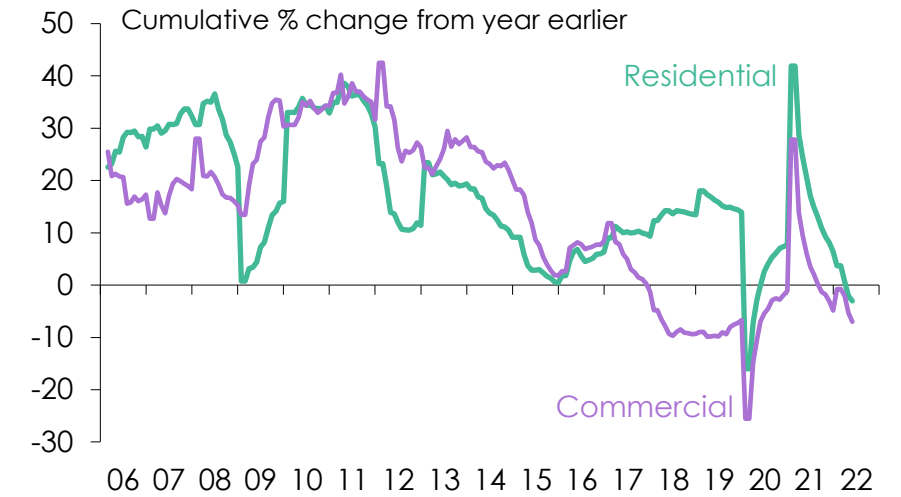
Consumer sentiment



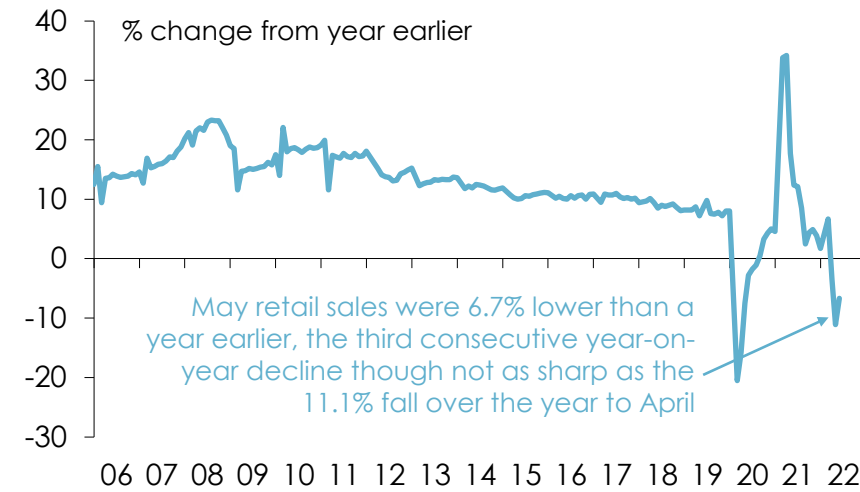
Motor vehicle sales



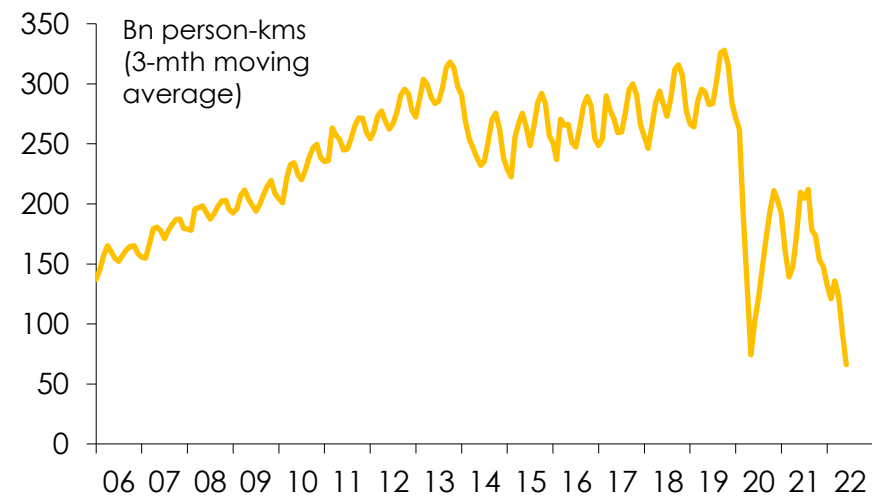
Real estate investment



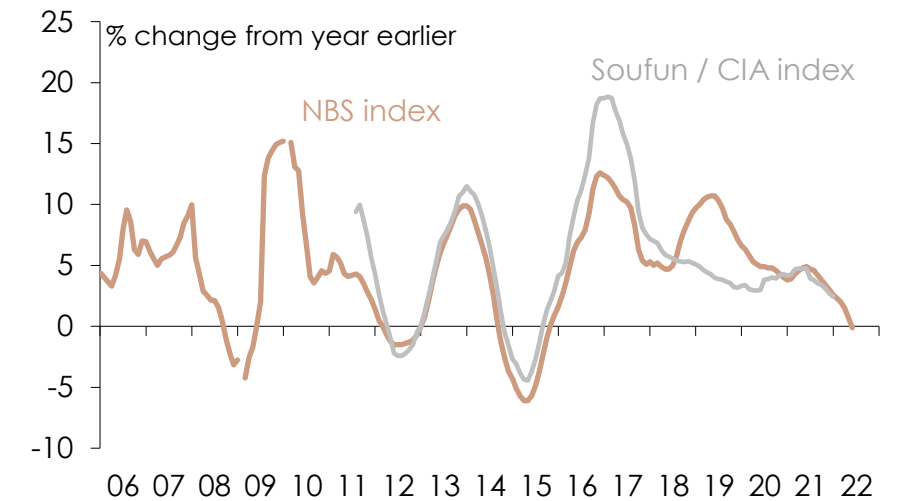
Retail sales



Passenger traffic volumes



Residential real estate prices

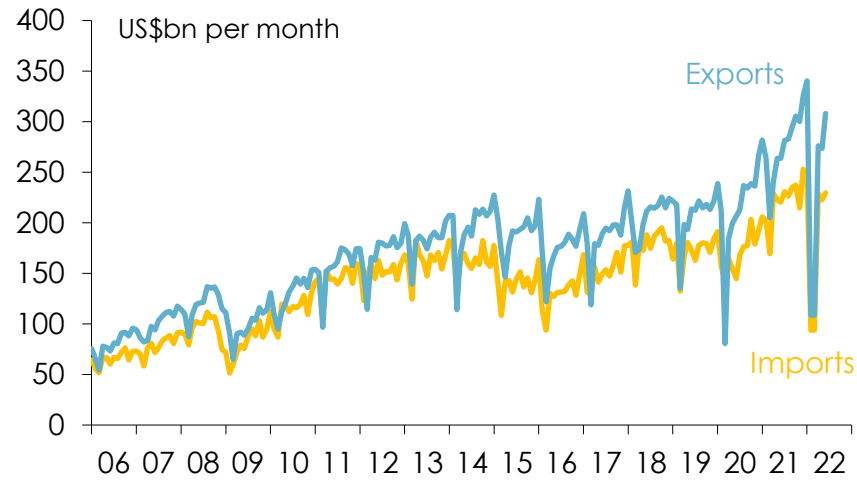


Sources: China National Bureau of Statistics, [National Data](#); China Association of Automobile Manufacturers, [Sales of Automobiles](#); China Index Academy, [CREIS China Residential HPI-100 Monthly](#) (not published since December last year). [Return to "What's New"](#).

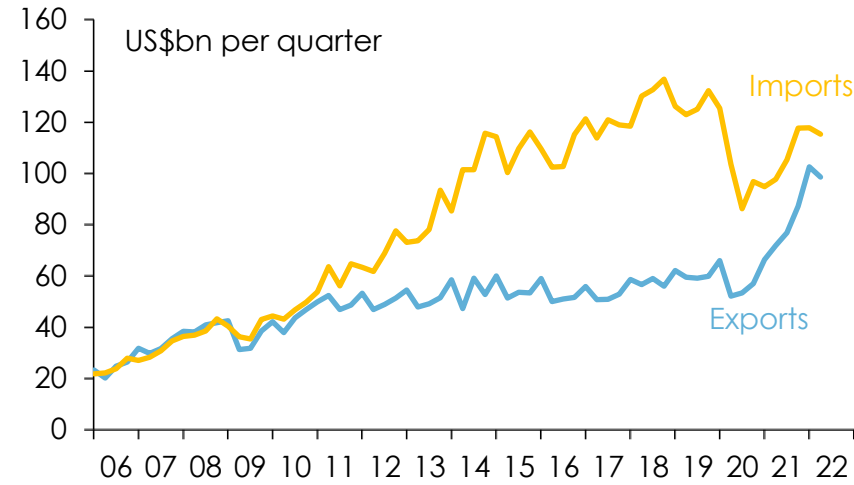
China's trade surplus widened to US\$78.7bn in May, the largest so far this year, as exports recovered more than imports as restrictions eased

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

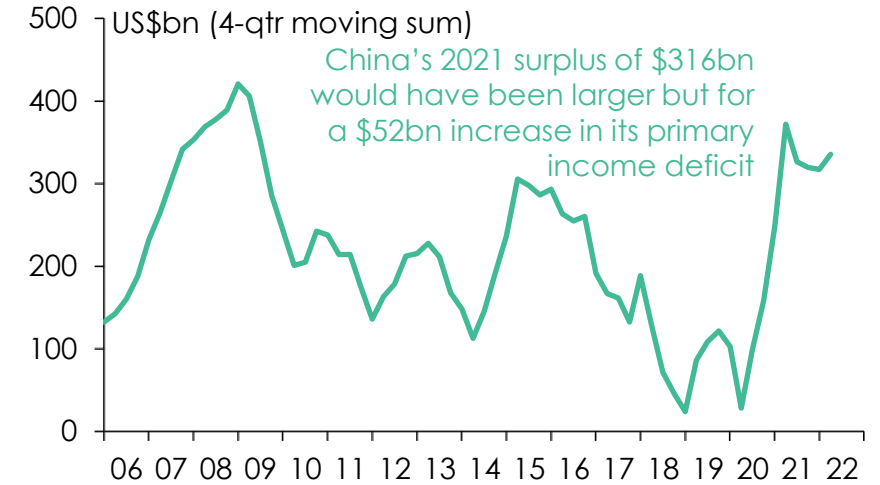
Merchandise exports and imports



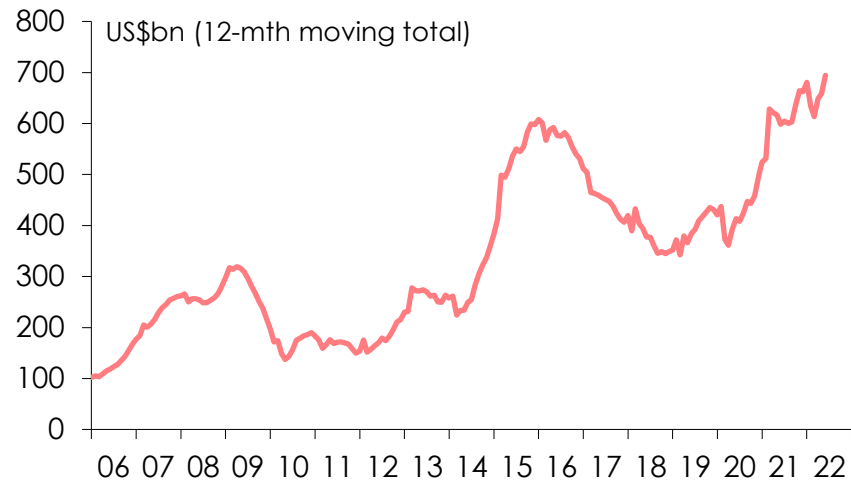
Services exports and imports



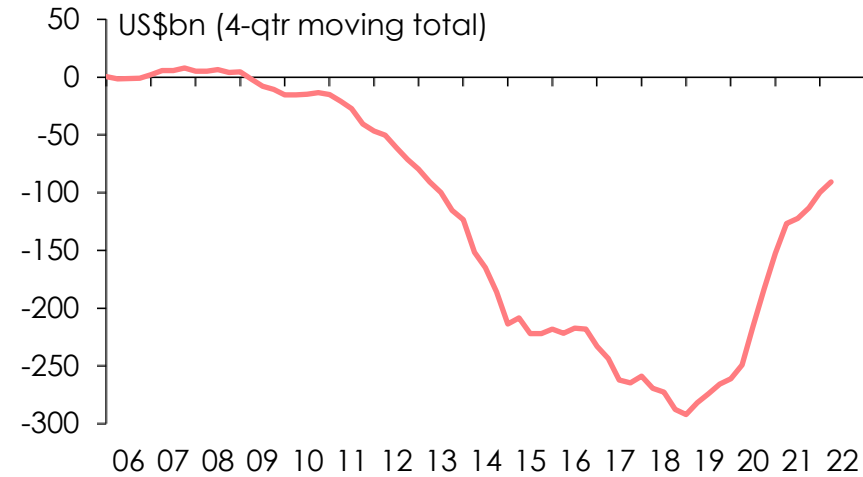
Current account balance



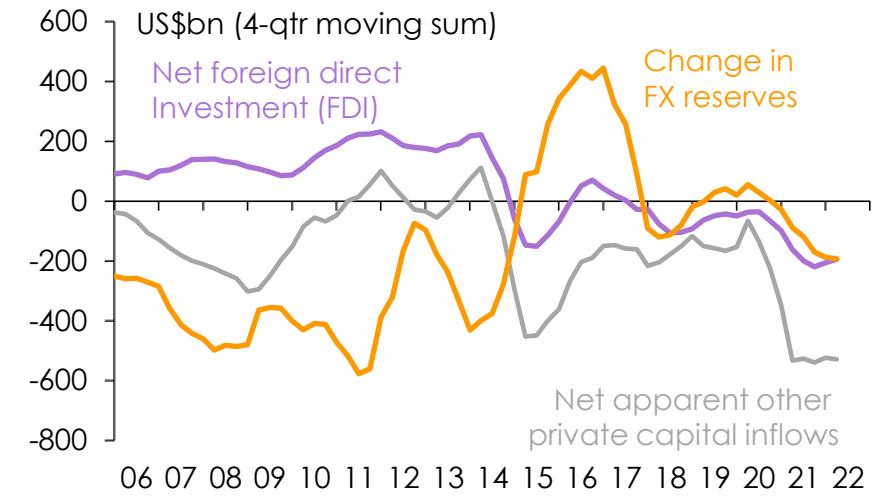
Merchandise trade balance



Services trade balance



Capital flows

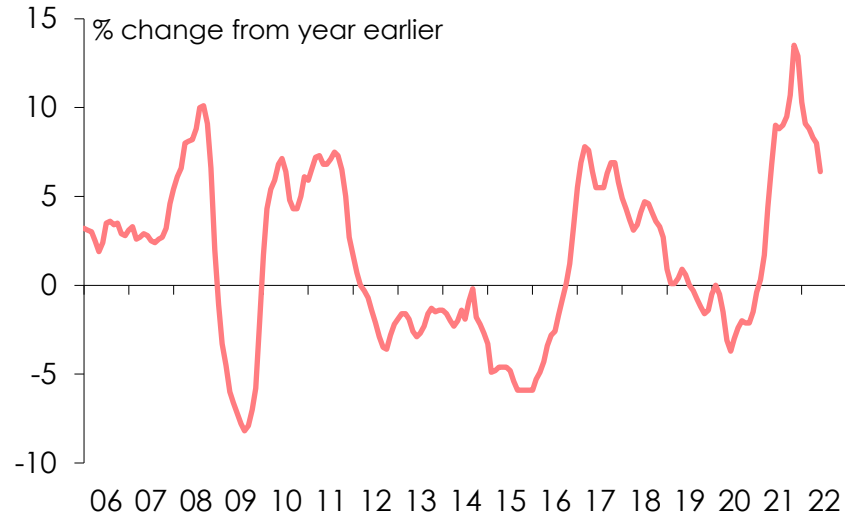


Sources: China General Administration of Customs, [Preliminary Release](#) and [Monthly Bulletin](#); State Administration of Foreign Exchange, [The time-series data of Balance of Payments of China](#). [Return to "What's New"](#).

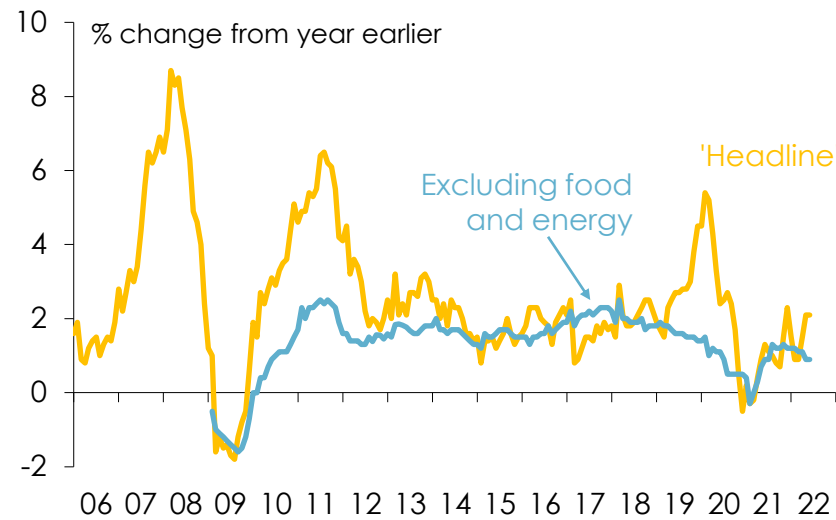
'Headline' CPI inflation ticked remained just above 2% in May as food prices stopped falling, but 'core' inflation remained just below 1%

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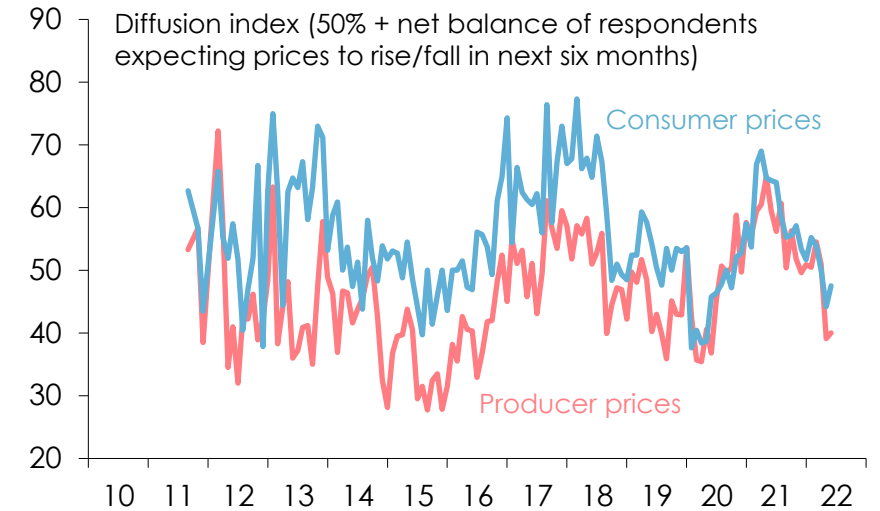
Producer prices



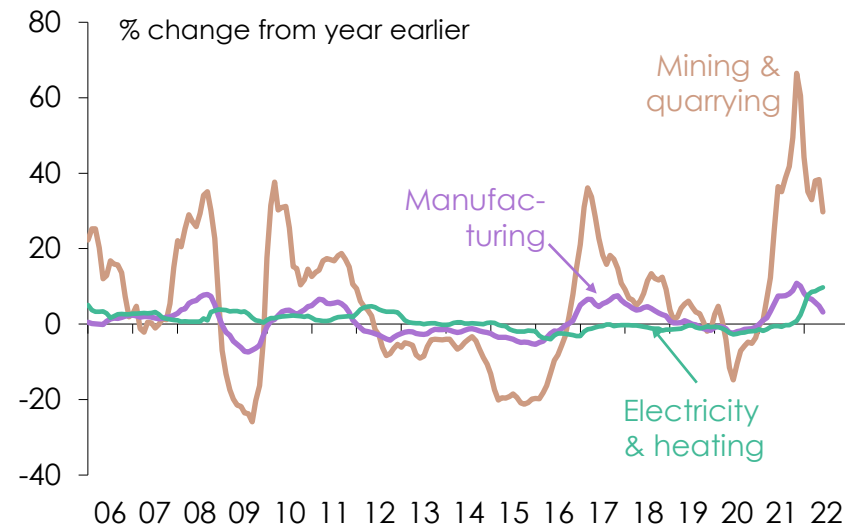
Consumer prices



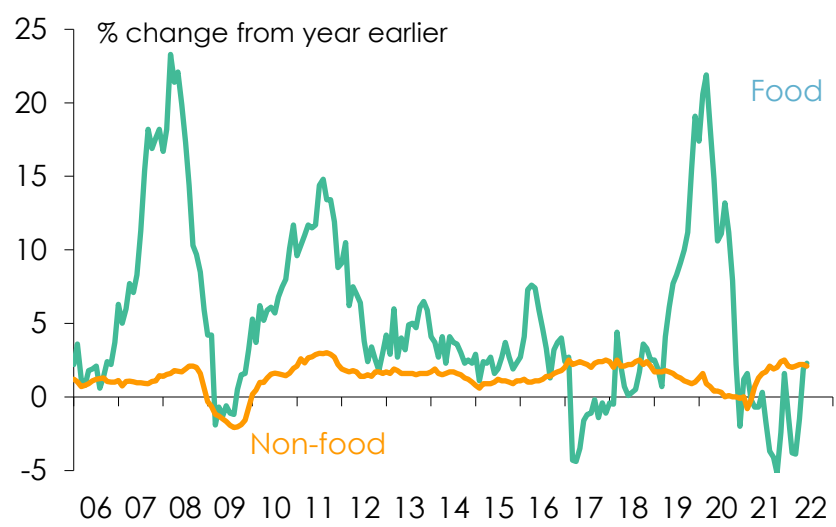
CKGSB price diffusion indexes



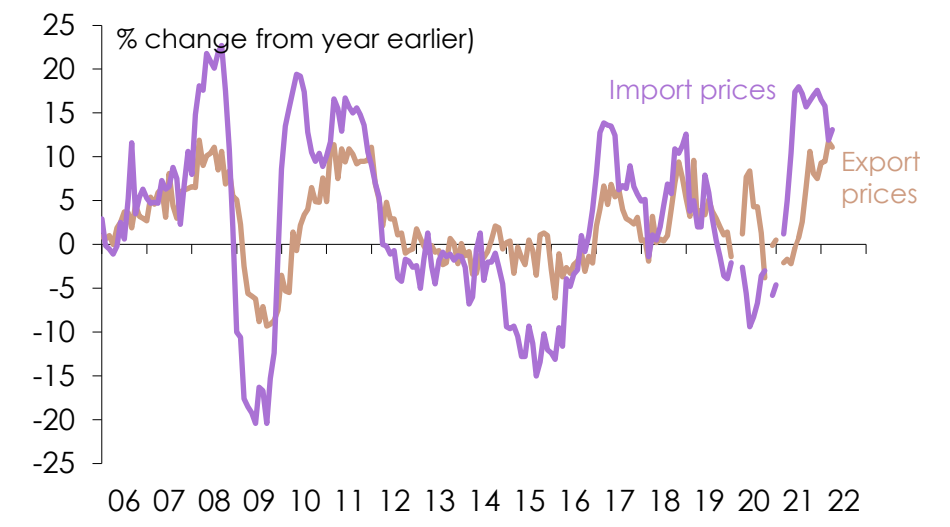
Producer prices – major categories



Consumer prices – food and other



Trade prices



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

Chinese leaders continue to ‘talk up’ the economy – but there continues to be very little ‘hard evidence’ of stimulatory measures

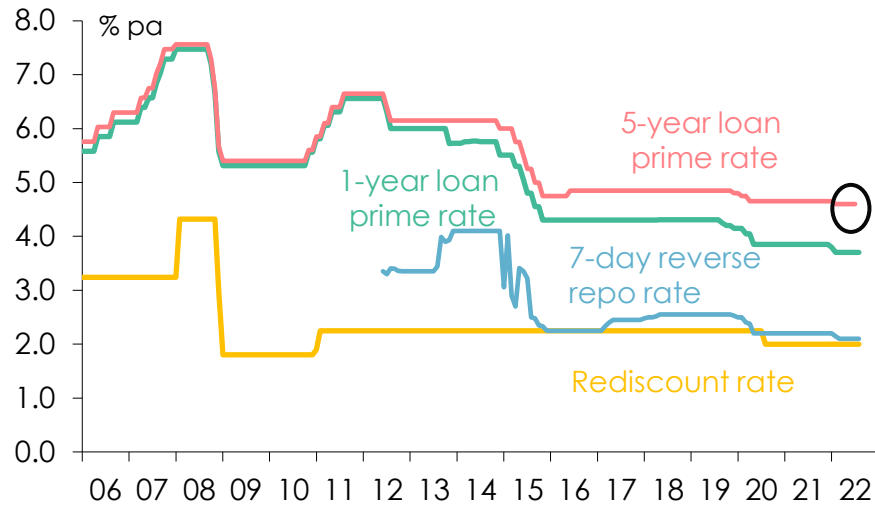
THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

- ❑ **China’s most senior leaders again ‘talked up’ the economy late last month – 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 19th May**
- ❑ **Premier Li Keqiang, addressing a nationwide virtual conference of State Council members on 25th May, described China’s present economic situation as being “in some areas and to a certain degree, even greater than the severe shock of the pandemic in 2020”**
 - Li said that China was “at a critical juncture in determining the economic trend of the whole year”, and that officials “must seize the time window and strive to push the economy back to the normal track”
 - he stressed that “all departments have the responsibility to stabilize the overall situation of the economic market” and called for “a stronger sense of urgency to ensure that the policy measures determined by the central economic work conference and the “government work report” are basically implemented in the first half of the year”
- ❑ **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

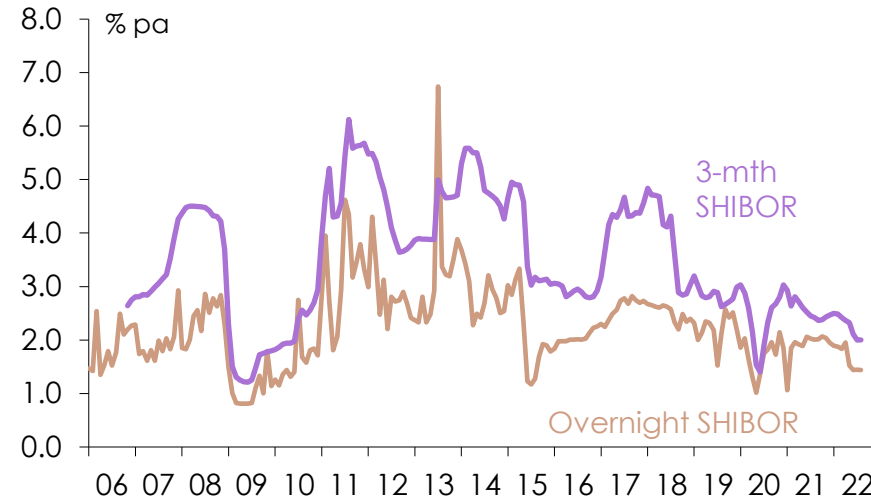
The PBoC lowered the 5-year prime loan rate by 15bp to 4.45% on 27th May but left the 1-year rate unchanged

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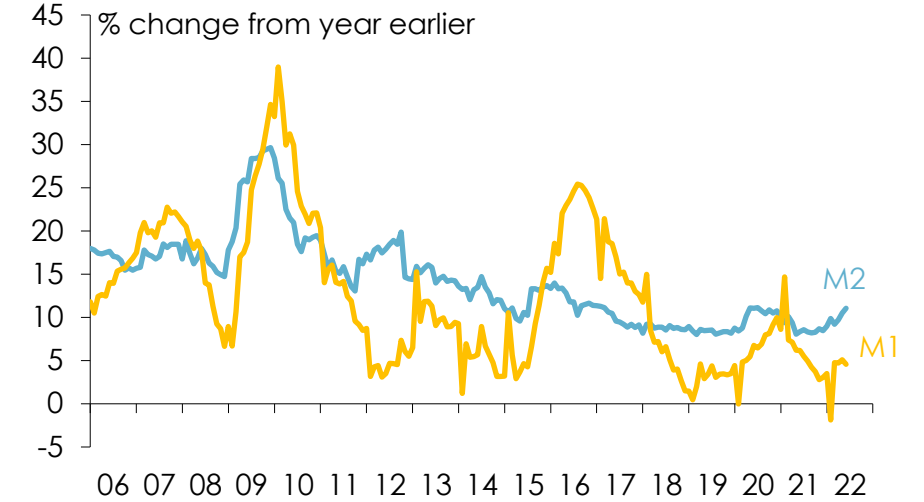
PBoC policy interest rates



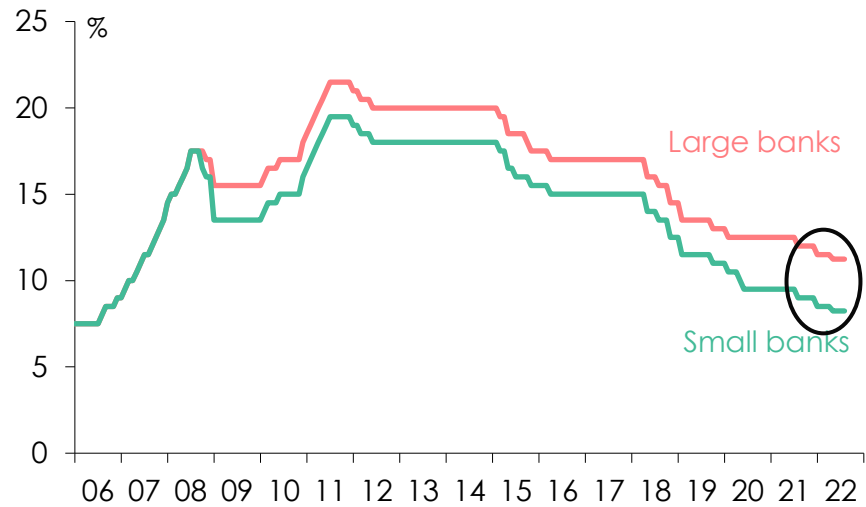
Short-term market interest rates



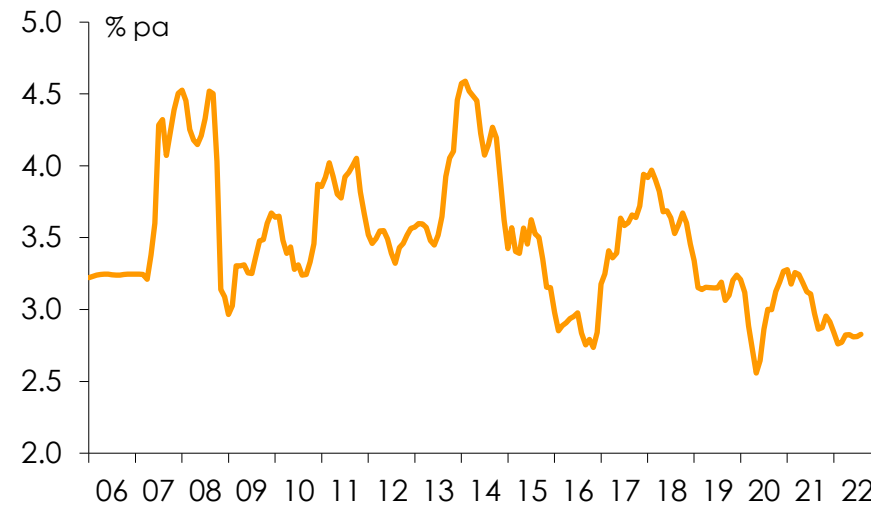
Monetary aggregates



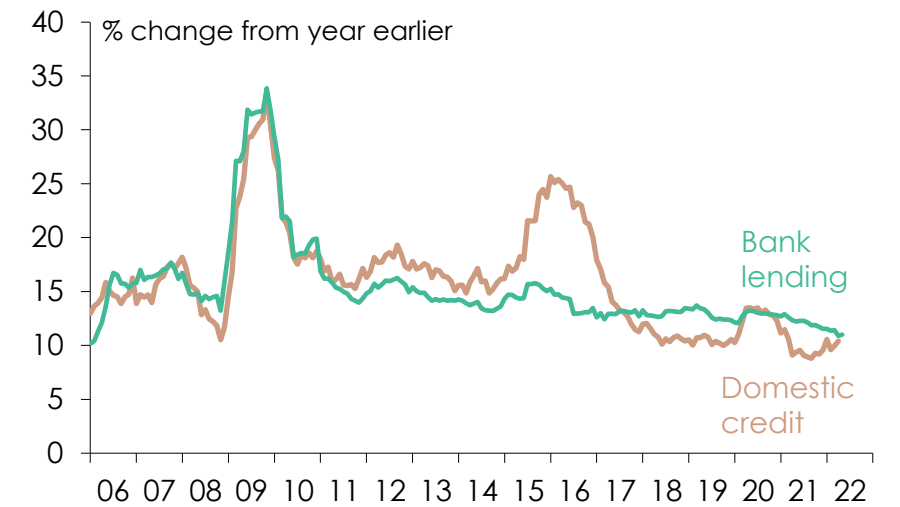
Bank reserve requirement ratios



10-year government bond yield



Credit growth

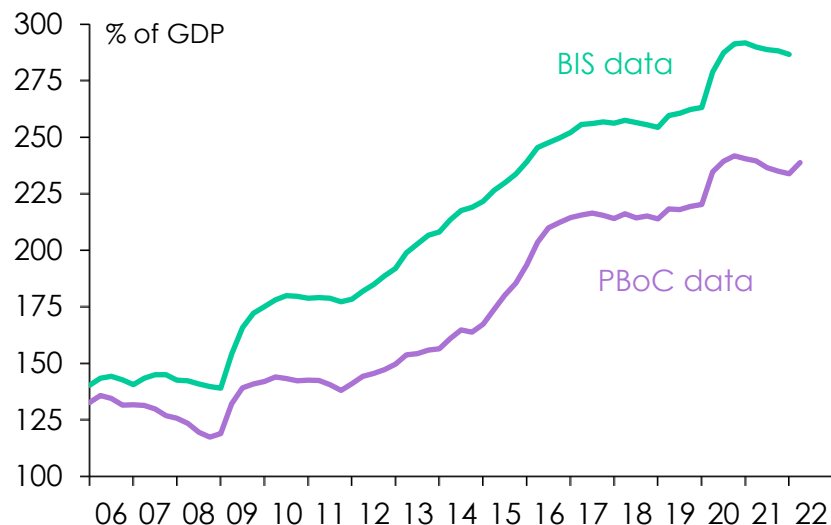


Note: 'SHIBOR' is the Shanghai Inter-Bank Offered Rate. Sources: Refintiv Datastream; People's Bank of China, [Financial Statistics Reports](#) and [Aggregate Financing Reports](#).
[Return to "What's New"](#).

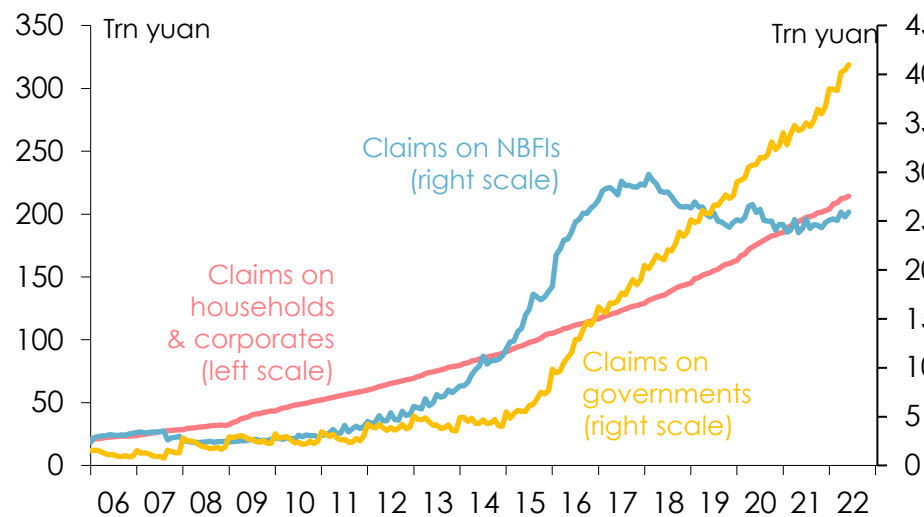
The Chinese banking system's risk profile has increased significantly over the past decade – particularly on the liabilities side of its balance sheet

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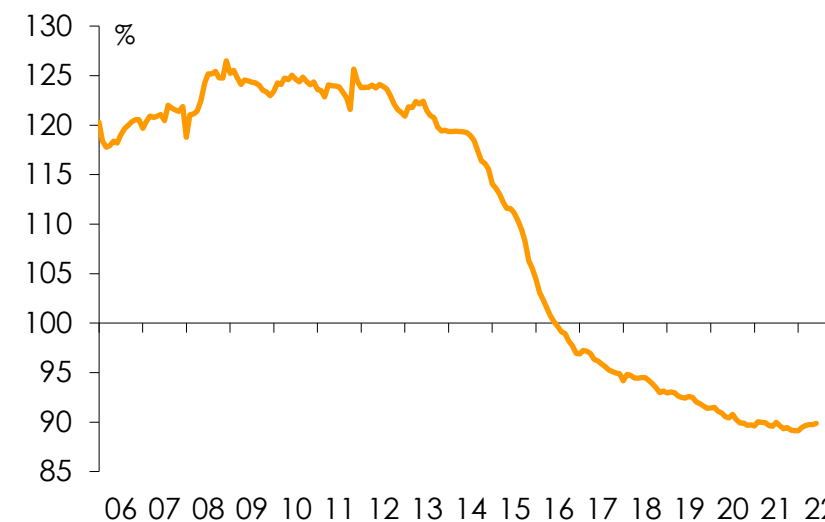
Credit outstanding as a pc of GDP



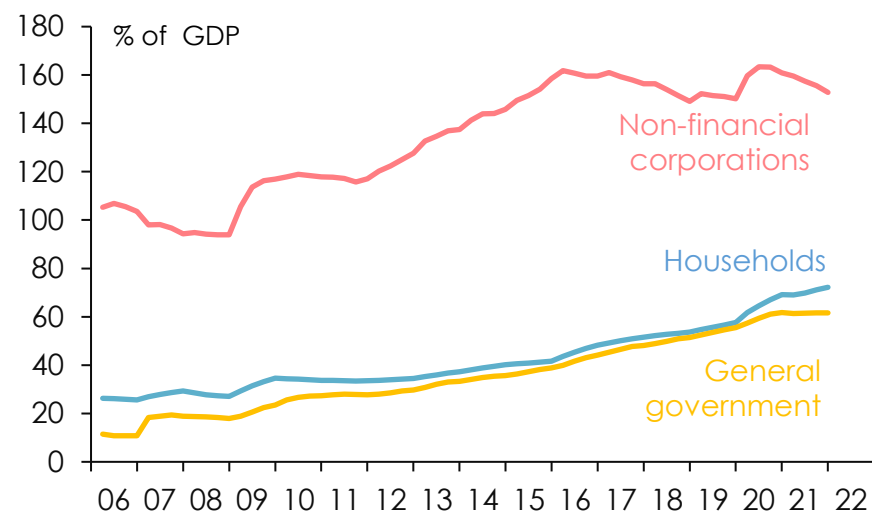
Banks' assets



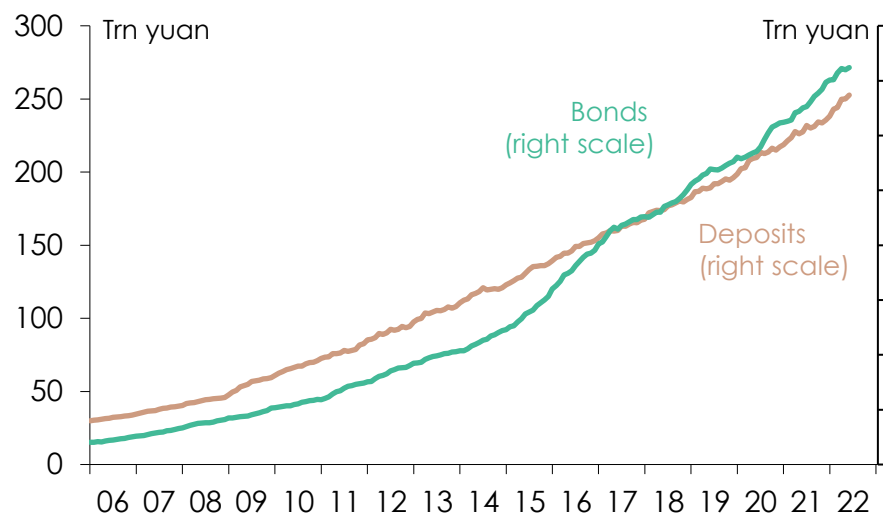
Banks' deposits-to-loans ratio



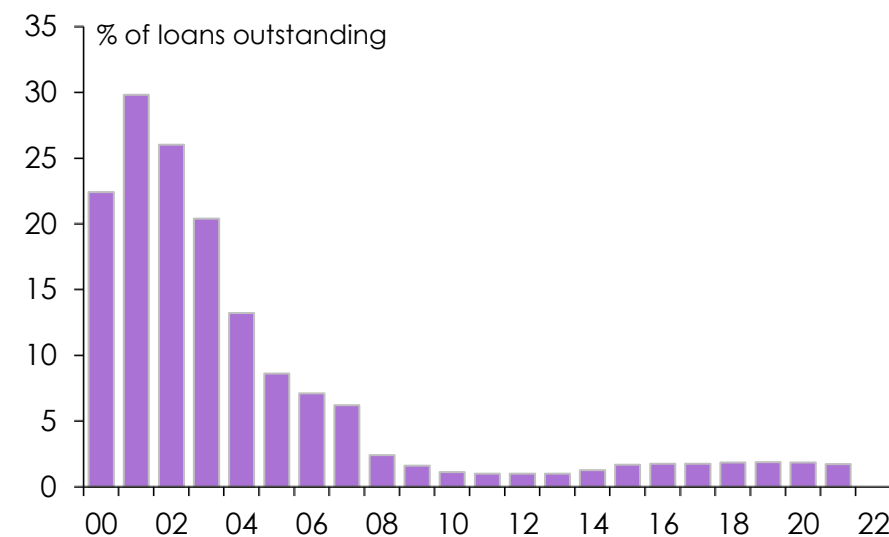
Credit outstanding by sector



Banks' liabilities



Banks NPLs – official estimates

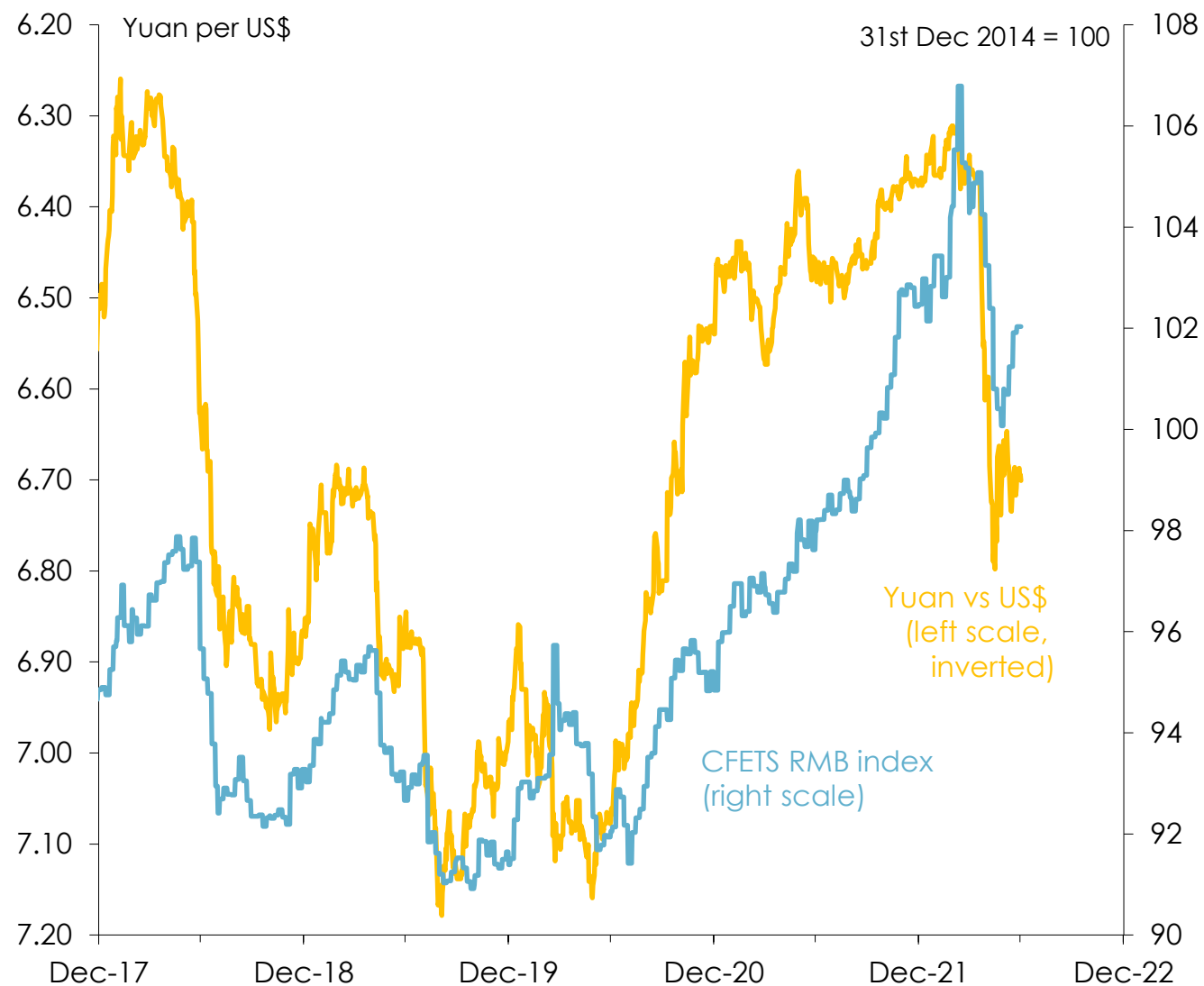


Sources: People's Bank of China, [Financial Statistics Reports](#); Bank for International Settlements, [Credit to the non-financial sector](#); China Banking and Insurance Regulatory Commission, [Supervisory Statistics of the Banking and Insurance Sectors](#). [Return to "What's New"](#).

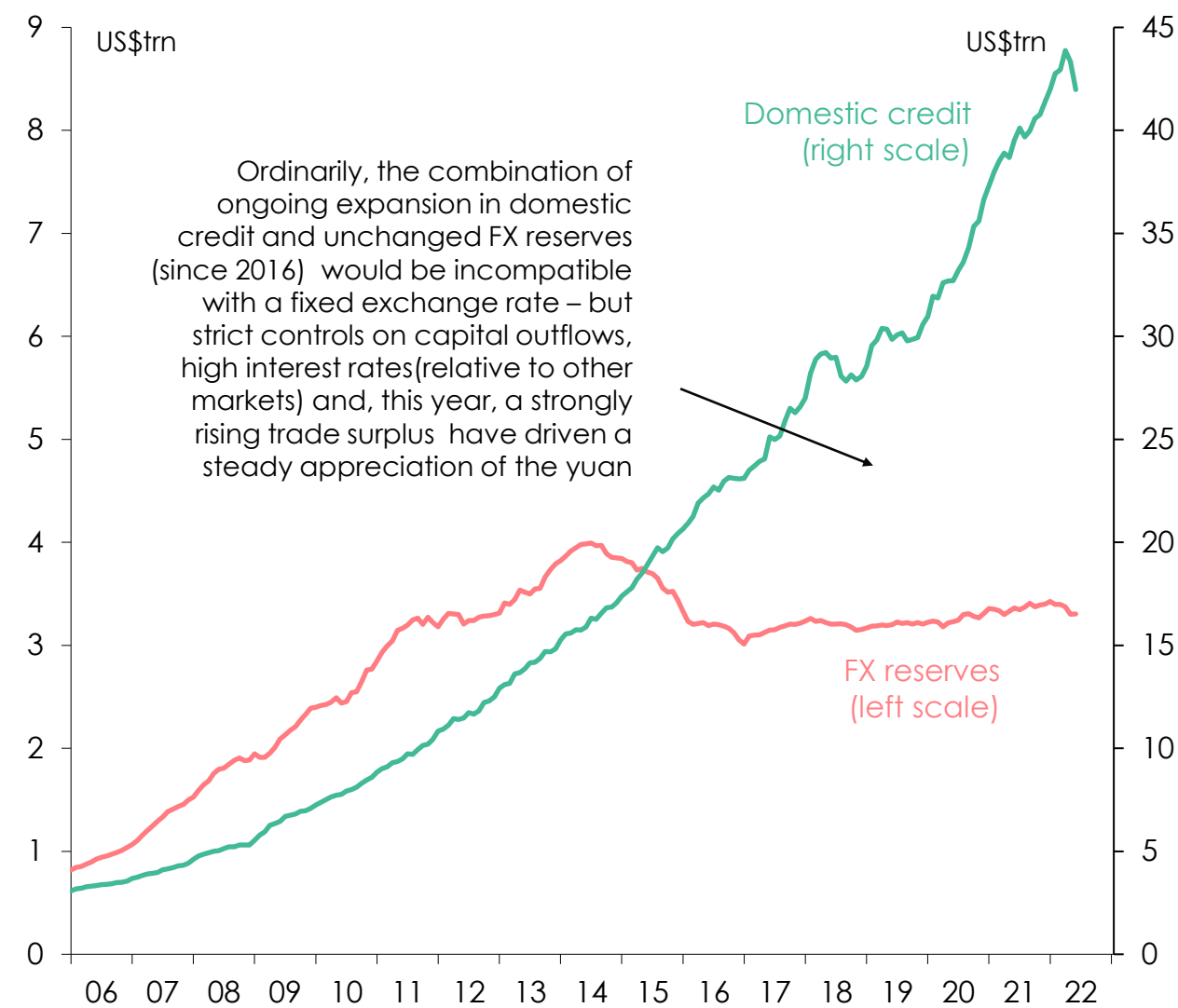
The yuan fell 0.2% against a stronger US dollar last week (to be down 5% so far this year) but rose 0.1% in trade-weighted terms

THE WORLD ECONOMY THIS WEEK – 4TH JULY 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 1st July; FX reserves and credit data up to May.

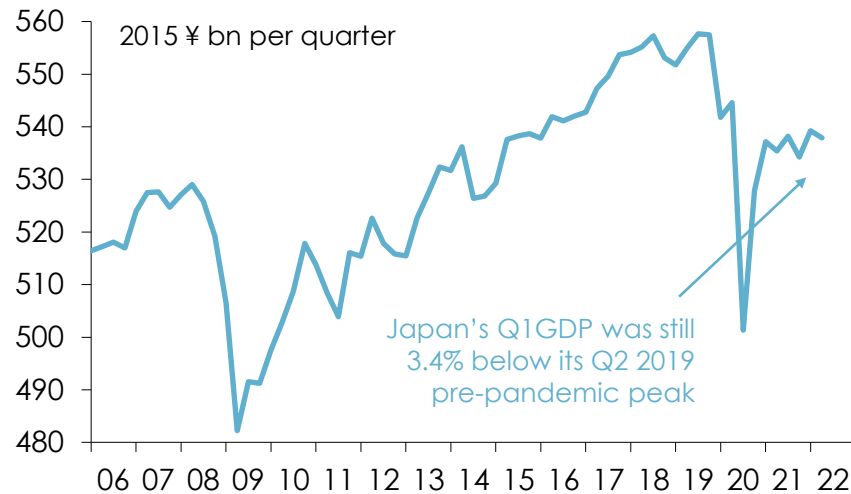
[Return to "What's New".](#)

Japan

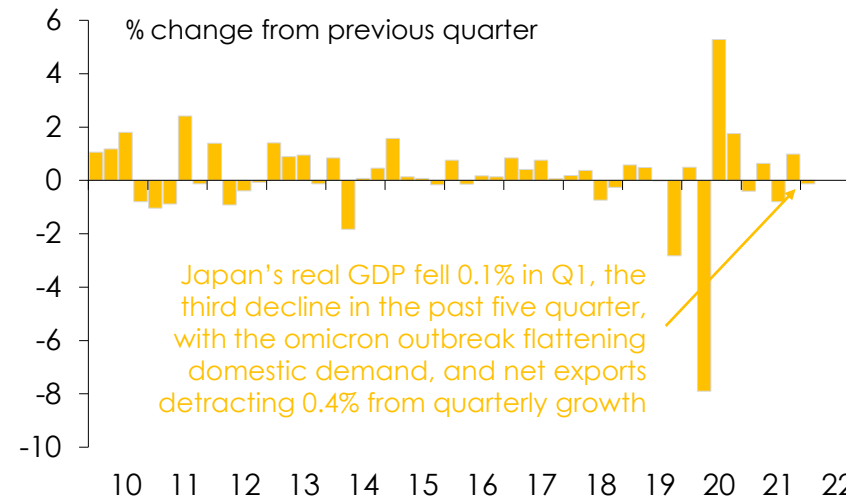
Japan's real GDP fell 0.1% in Q1, the third decline in the past five quarters, to be still 3.4% below its pre-pandemic peak

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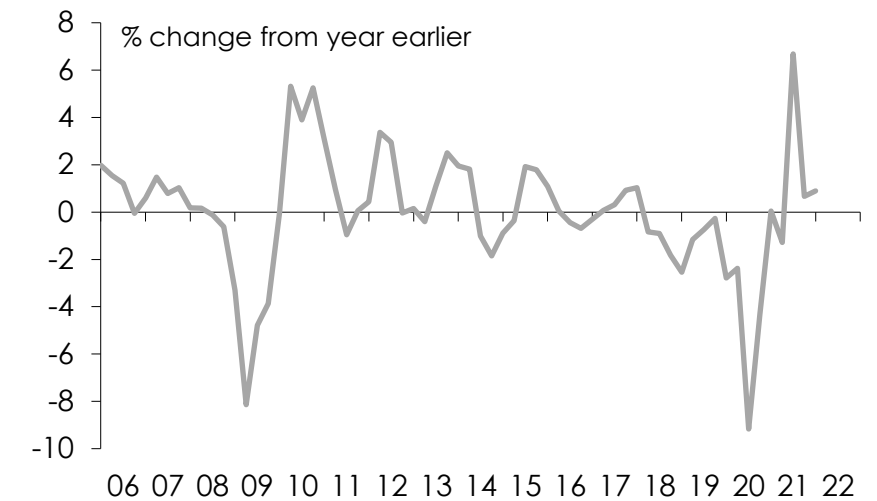
Level of real GDP



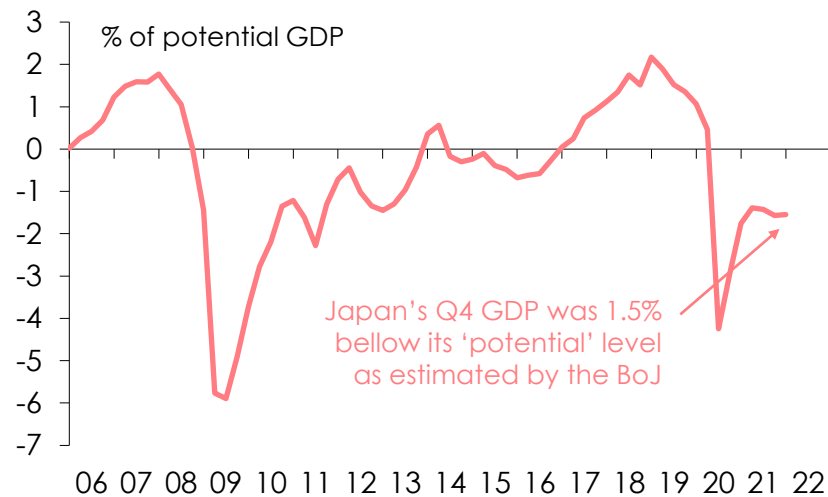
Quarterly change in real GDP



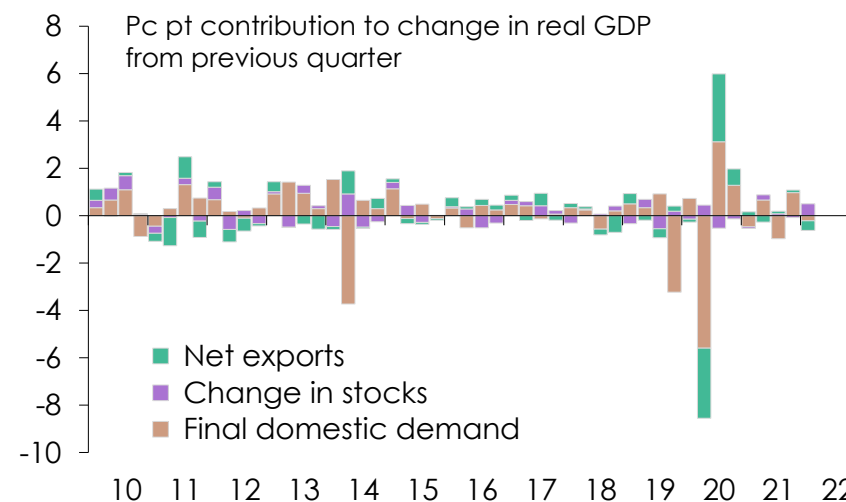
Labour productivity growth



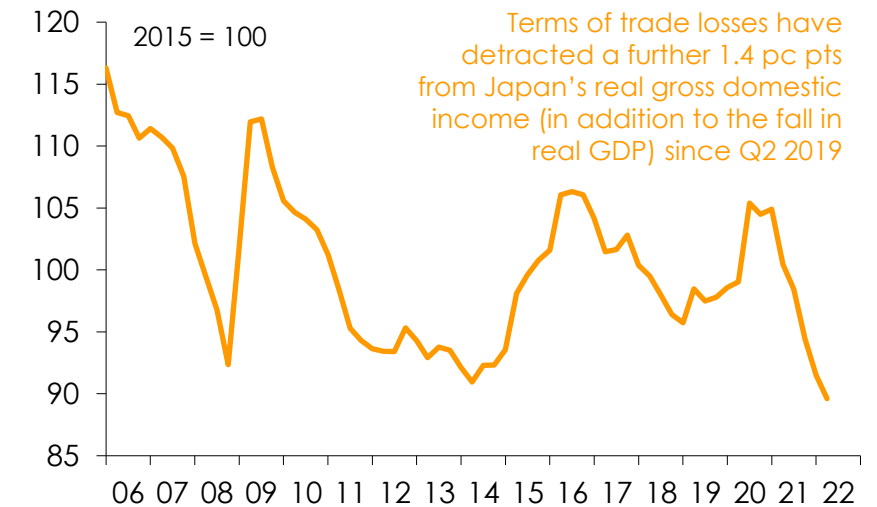
The 'output gap'



Contributions to change in real GDP



Terms of trade

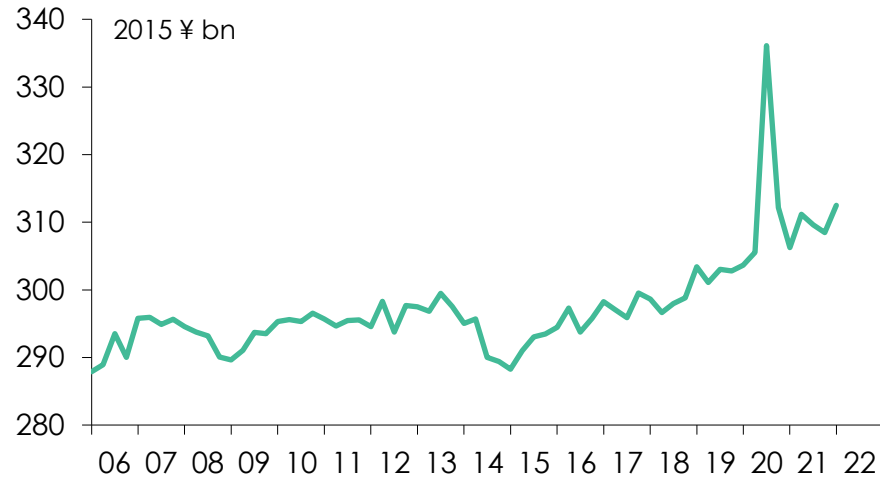


Note: the 'output gap' is the difference between actual and potential GDP (the volume of goods & services that could be produced if the economy were operating at full capacity); the 'terms of trade' is the ratio of the implicit price deflator of exports of goods & services to that of imports of goods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

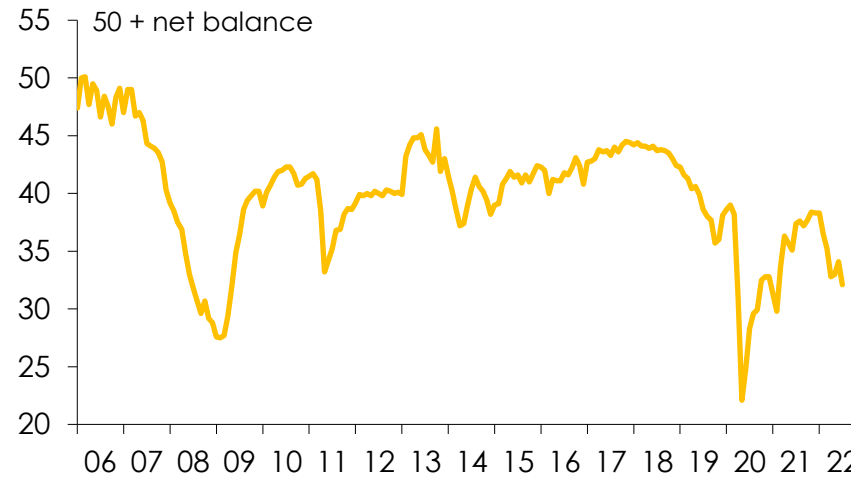
April data provides some tentative evidence of a pick-up in domestic spending as Japan's 'omicron wave' slowly recedes

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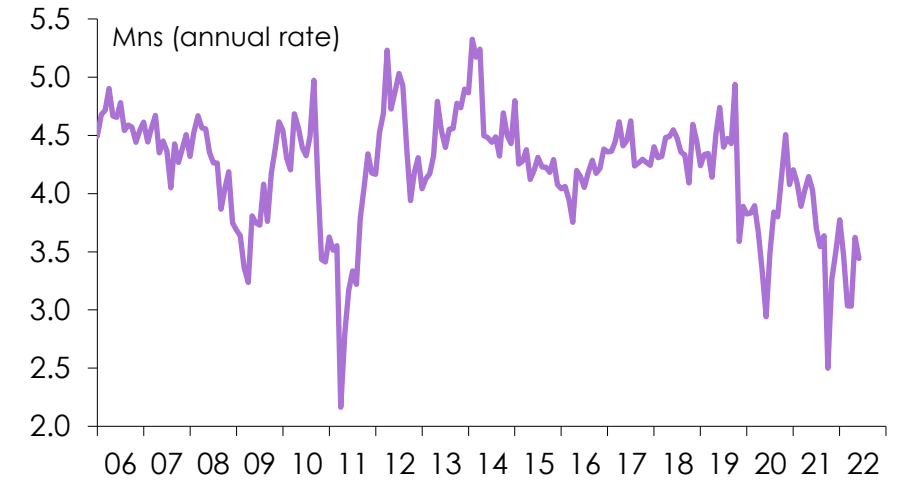
Real household disposable income



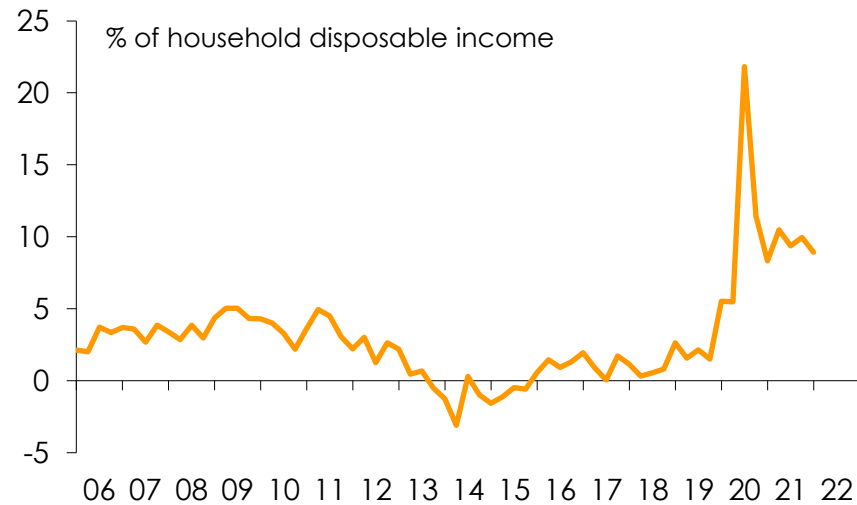
Consumer confidence



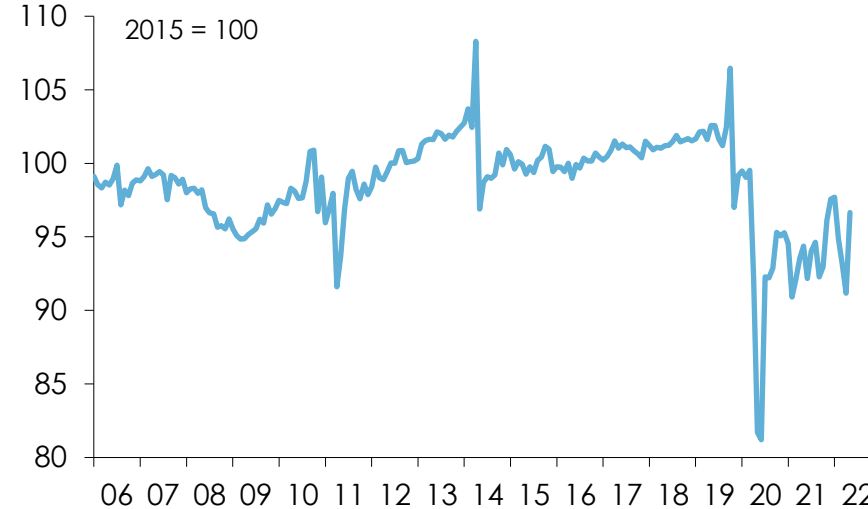
Motor vehicle sales



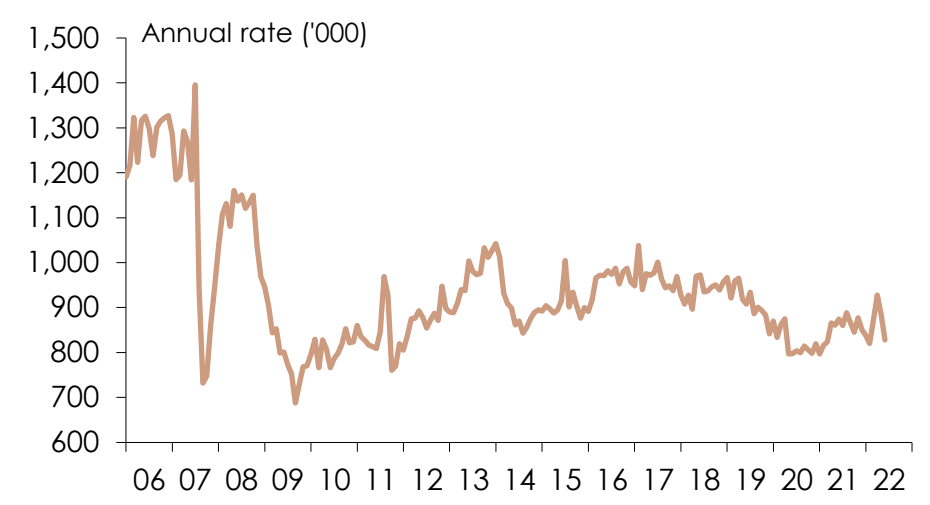
Household saving



Consumption activity index



Housing starts

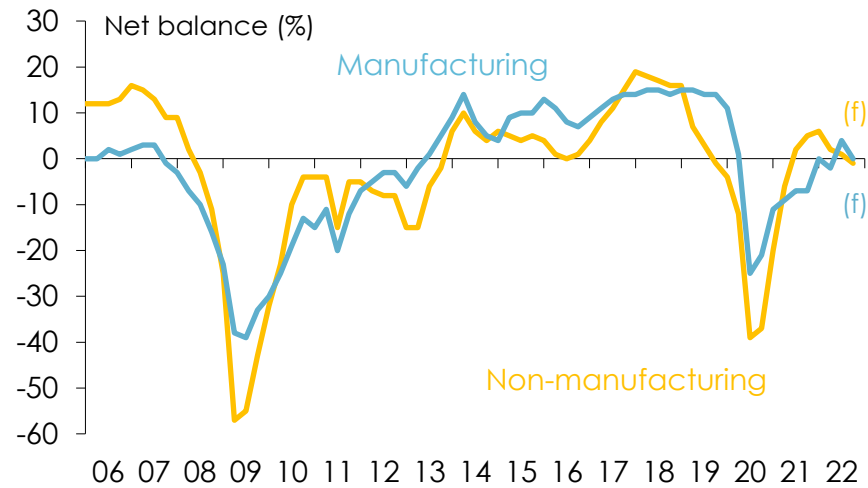


Sources: Japan Cabinet Office, [Quarterly Estimates of Household Disposable Income and Household Saving Ratio](#) and [Consumer Confidence Survey](#); Bank of Japan, [Consumption Activity Index](#); Japan Automobile Dealers Association, [Statistical Data](#); Japan e-Stat, [Building Starts](#). [Return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

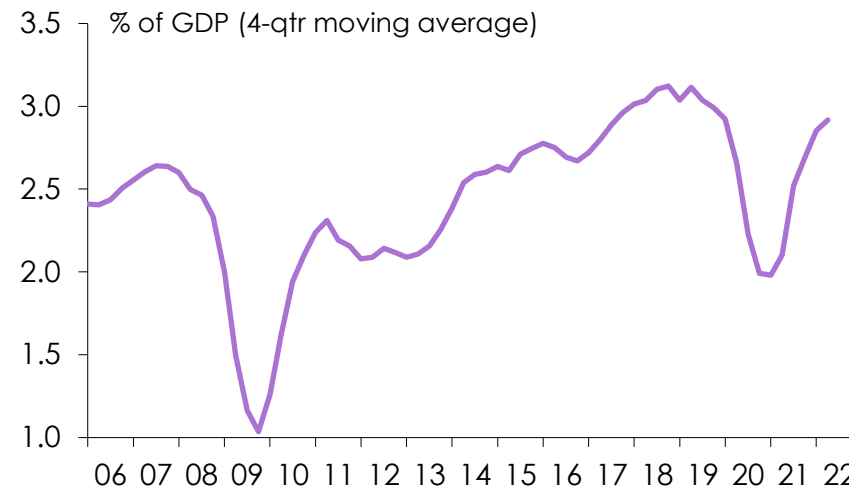
Japanese industrial production fell 7.2% in May, the largest drop since May 2020, due to large falls in vehicles, electrical machinery, ICT & chemicals

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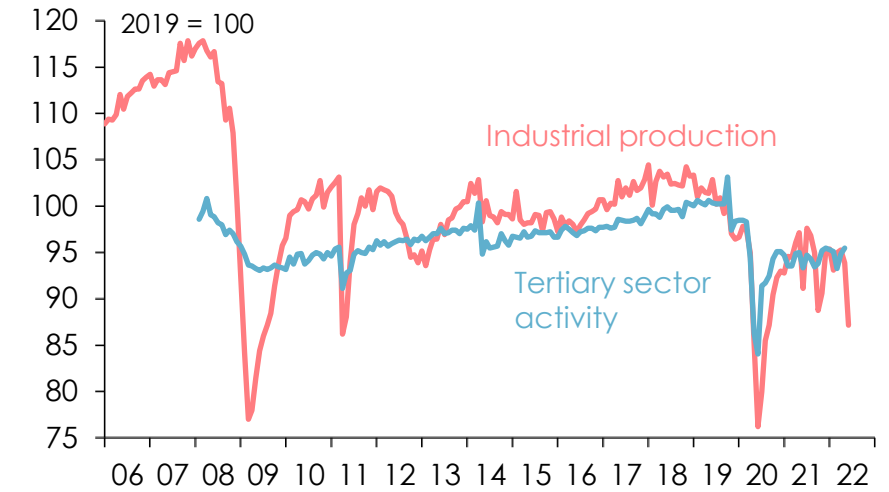
Business conditions by industry



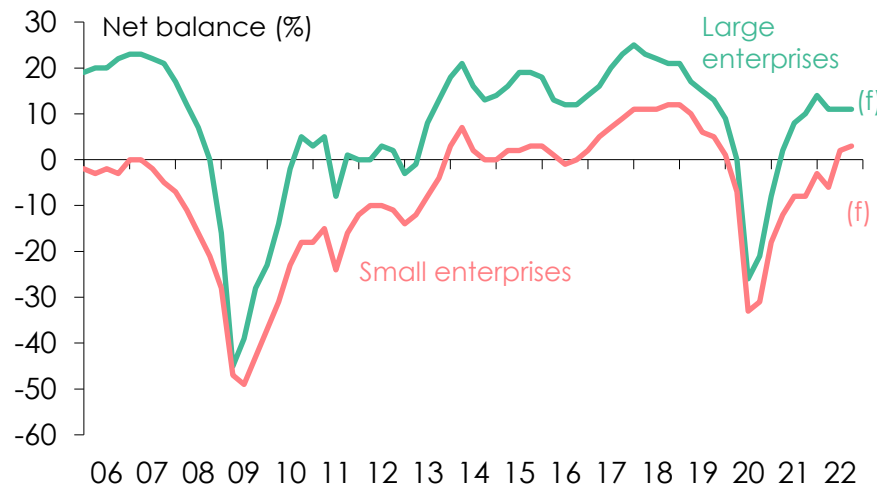
Corporate operating profits



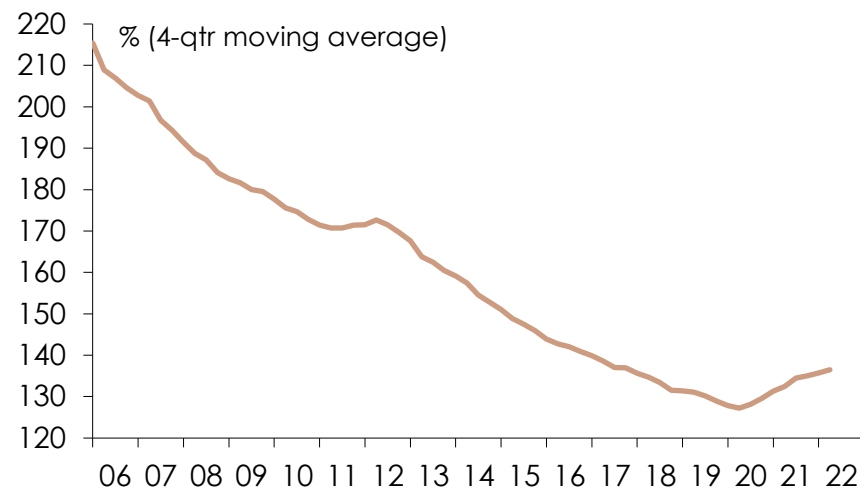
Indexes of economic activity



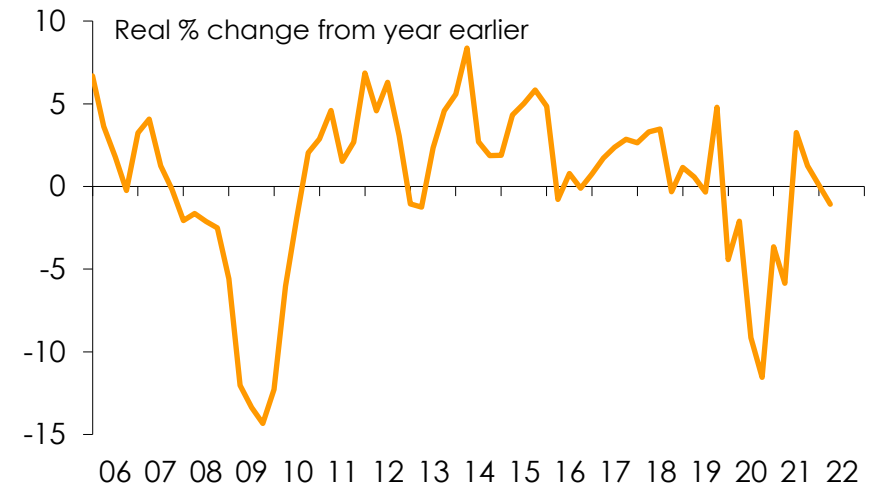
Business conditions by firm size



Corporate debt-equity ratio



Business investment

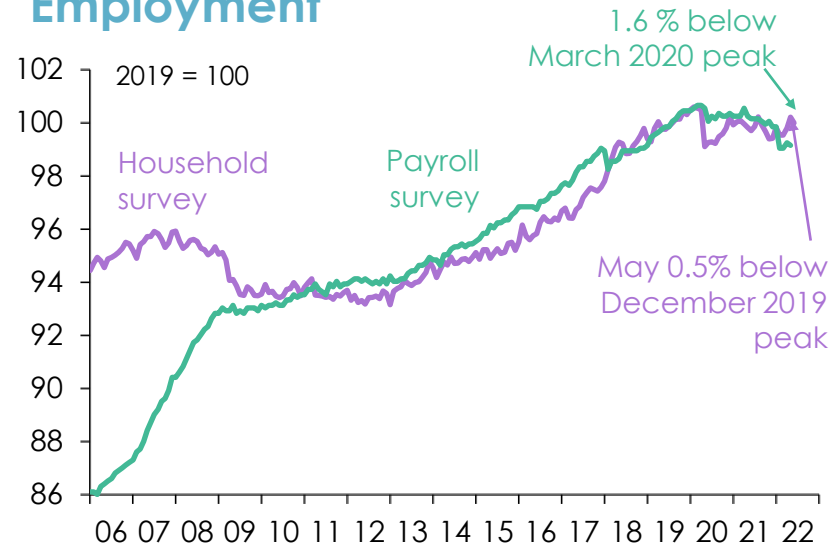


Sources: Bank of Japan, [Short-Term Economic Survey of Enterprises in Japan \('Tankan'\)](#); Policy Research Institute, Ministry of Finance, [Financial Statements Statistics of Corporations by Industry, Quarterly](#); Ministry of Economy, Trade & Industry, [Indices of Industrial Production](#) and [Indices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

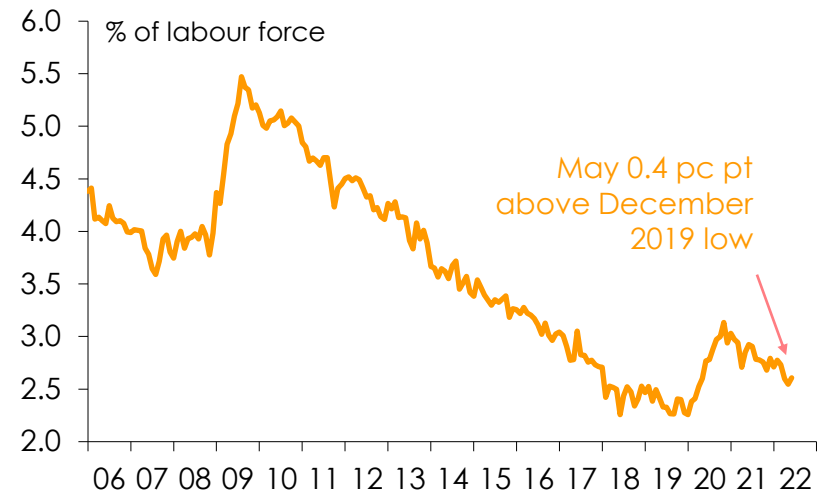
Employment in Japan fell 0.2% in May, and is yet to regain its pre-Covid peak; and the unemployment rate was 0.4 pc pt above its pre-Covid low

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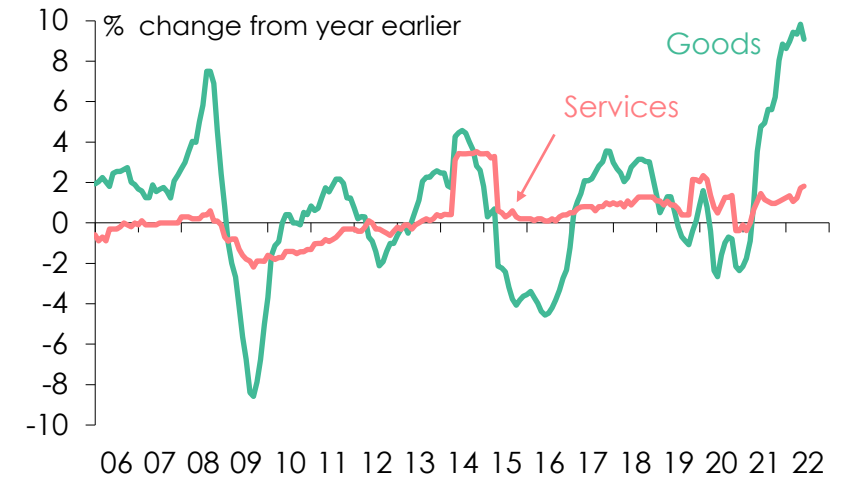
Employment



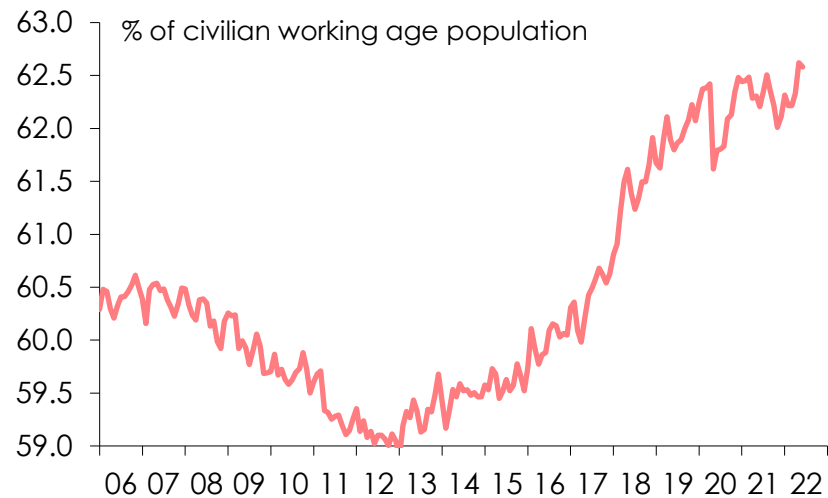
Unemployment rate



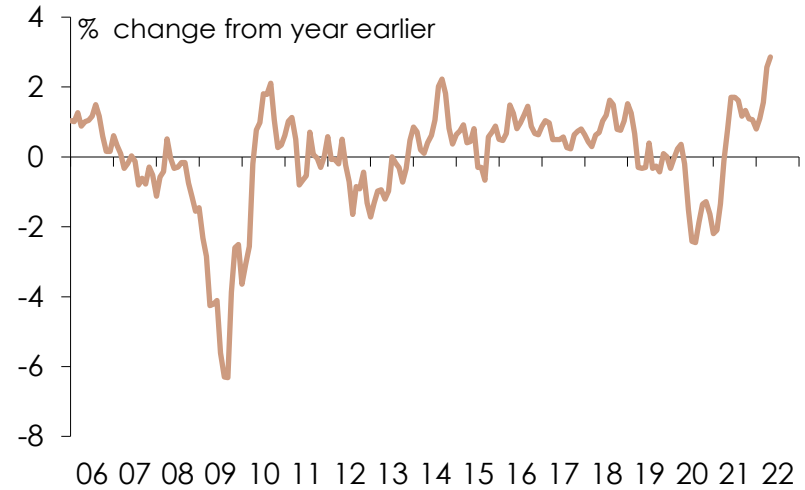
'Corporate' (producer) prices



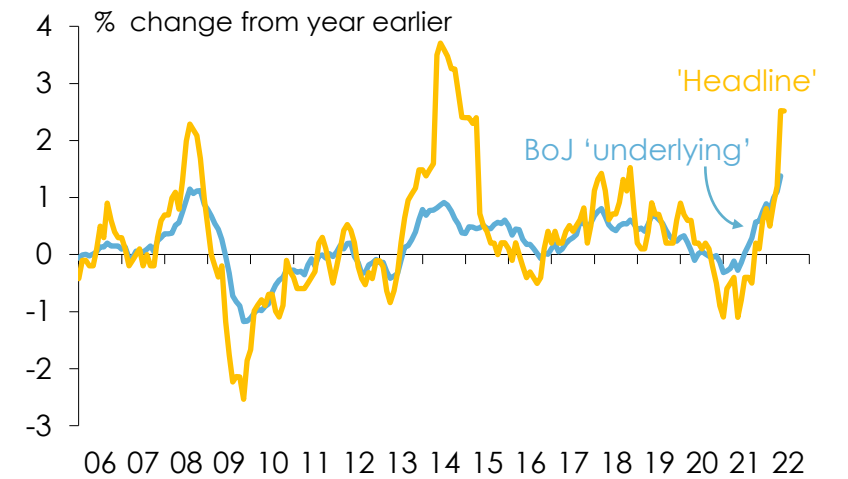
Labour force participation rate



Wages growth



Consumer prices

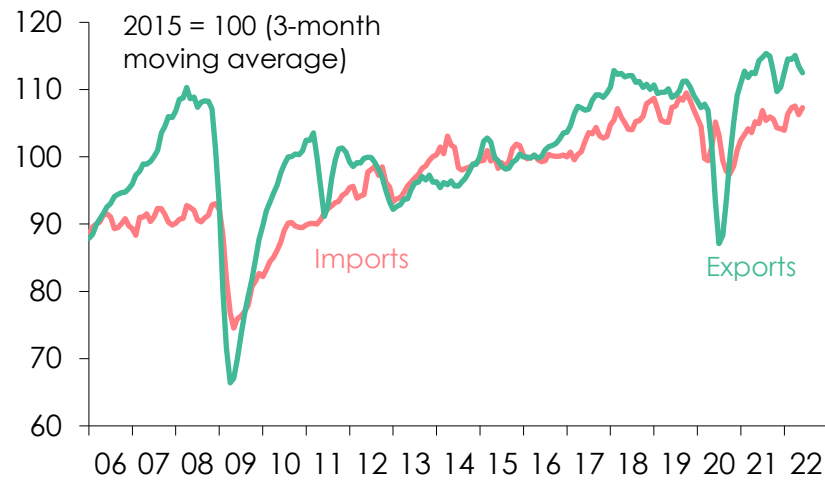


Sources: Statistics Bureau of Japan, [Labour Force Survey](#) and [Consumer Price Index](#); Ministry of Health, Labour and Welfare, [Monthly Labour Survey](#); Bank of Japan, [Prices and Measures of Underlying Inflation](#). [Return to "What's New"](#).

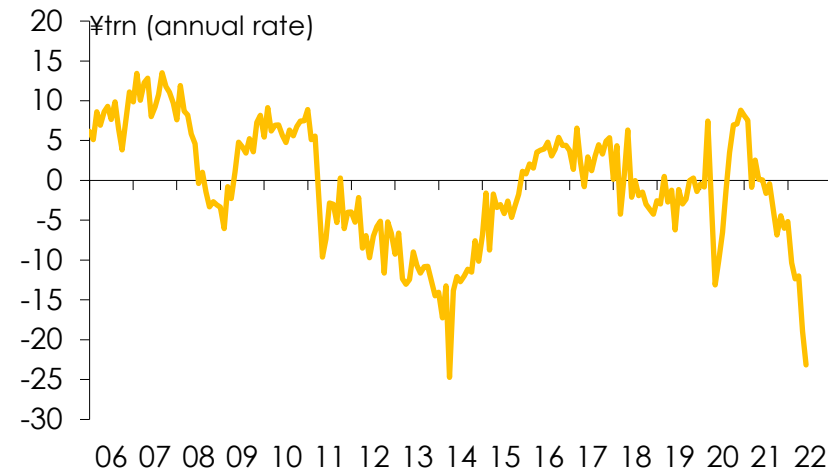
Japan is now incurring large (by its standards) external deficits as a result largely of higher prices commodity imports and loss of tourism exports

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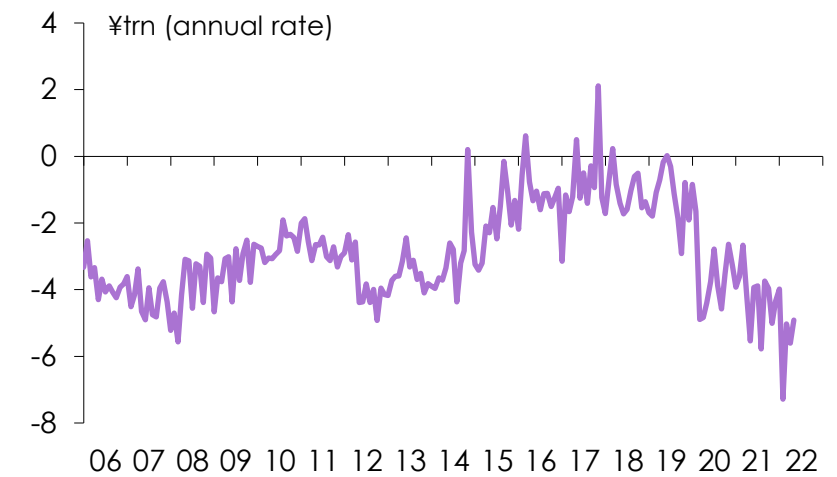
Merchandise trade volumes



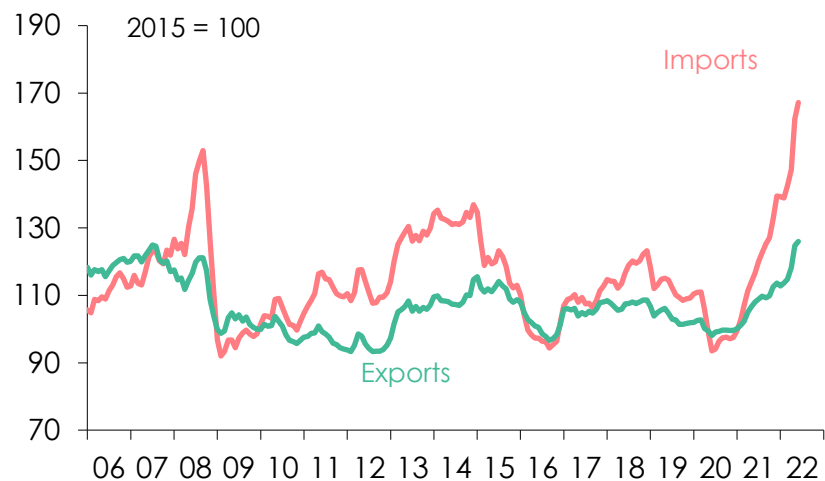
Merchandise trade balance



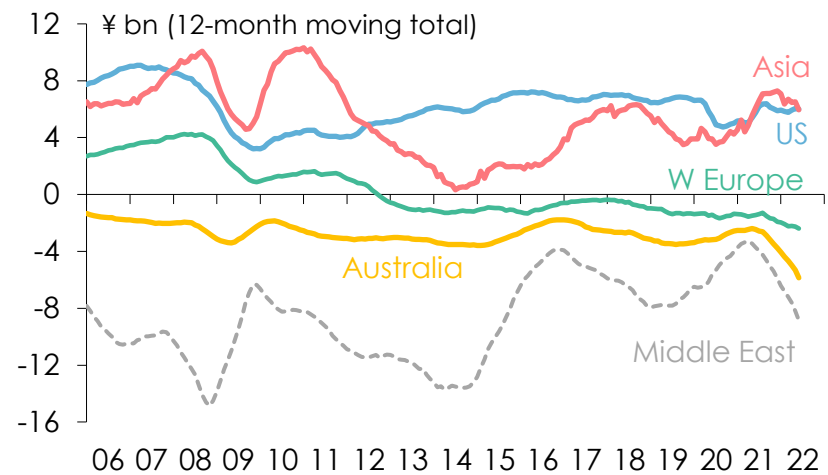
Services trade balance



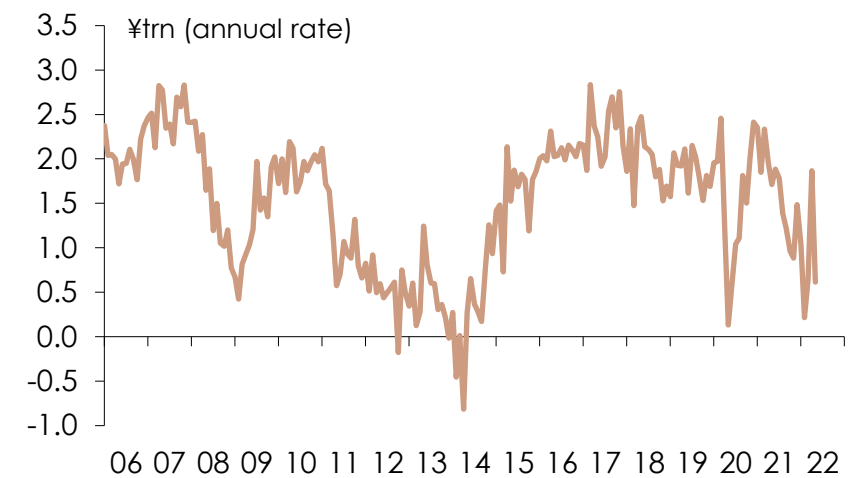
Merchandise trade prices



Bilateral goods trade balances



Current account balance



Sources: Bank of Japan, [Developments in Real Exports and Real Imports](#) and [Balance of Payments Related Statistics](#); Ministry of Finance, [Trade Statistics of Japan](#), [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

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

- ❑ 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

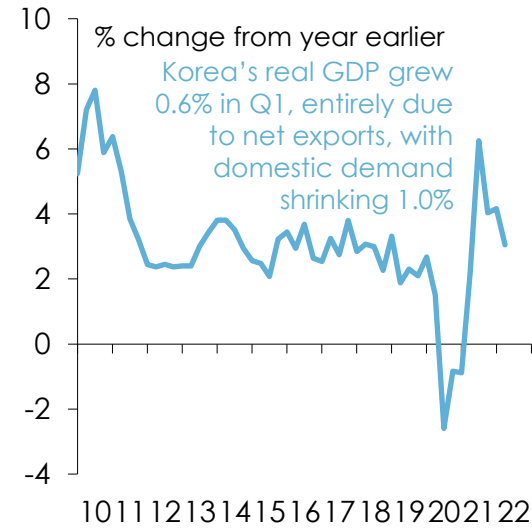
	Real GDP growth							Inflation						
	Actual		IMF			ADB		Actual		IMF			ADB	
	2010-19*	2020	2021	2022	2023	2022	2023	2010-19*	2020	2021	2022	2023	2022	2023
Korea	3.3	-0.9	4.0	2.5	2.9	3.0	2.6	1.7	0.5	2.5	4.0	2.4	3.2	2.0
Taiwan	3.6	3.1	5.9	3.2	2.9	3.8	3.0	1.0	-0.2	1.8	2.3	2.2	1.9	1.6
Hong Kong	2.8	-6.1	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](#), 19th April 2022; Asian Development Bank, [Asian Development Outlook](#), 6th April 2022. [Return to "What's New"](#).

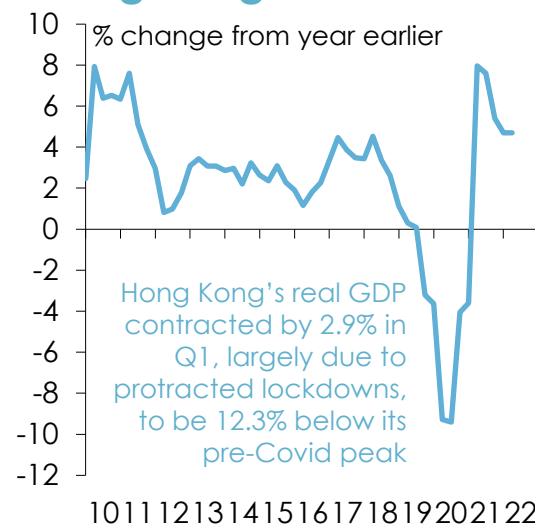
Vietnam's economy grew 7.7% over the year to Q2, its fastest rate since Q4 2013: while HK's and Thailand's GDPs are yet to regain their pre-Covid peak

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

Korea



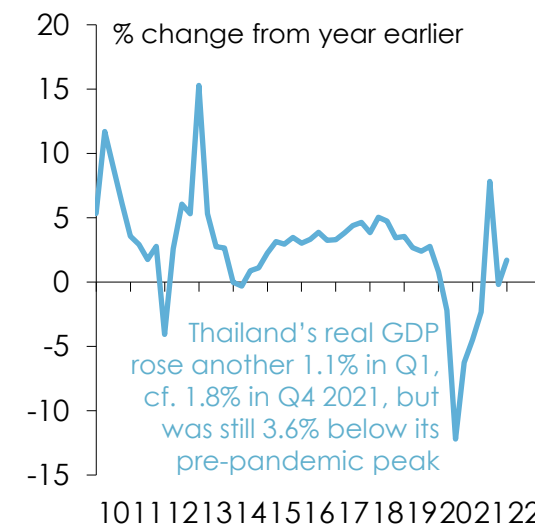
Hong Kong



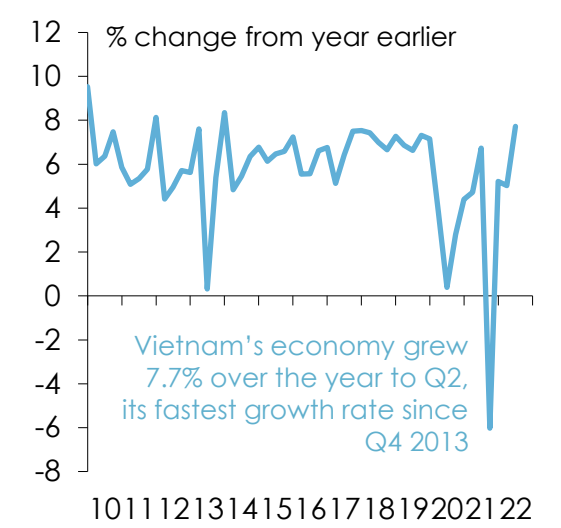
Indonesia



Thailand



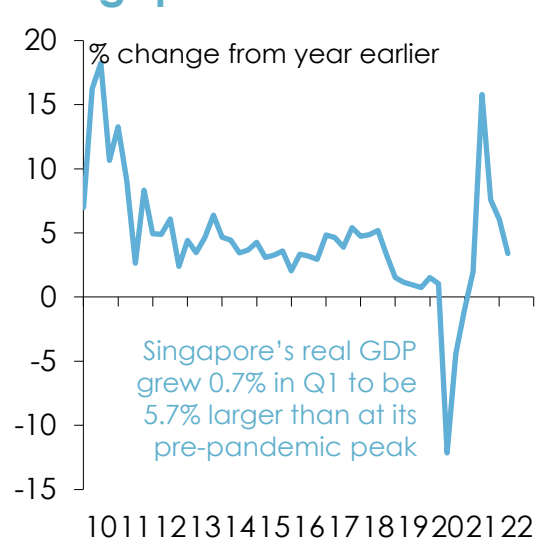
Vietnam



Taiwan



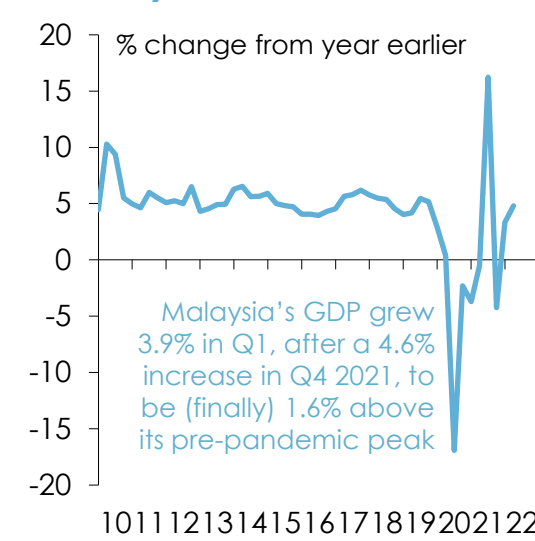
Singapore



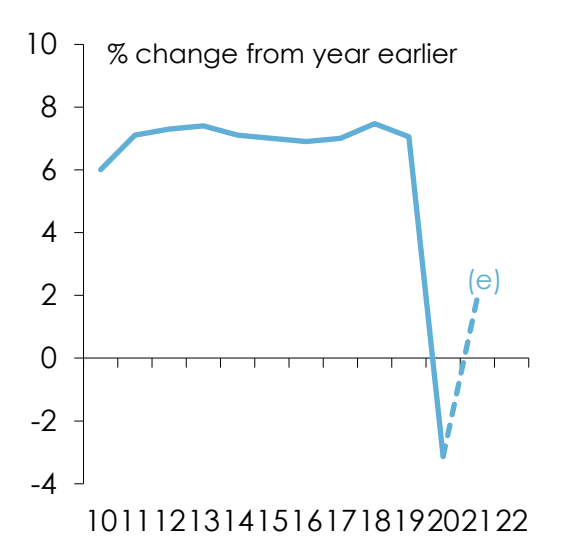
Philippines



Malaysia



Cambodia

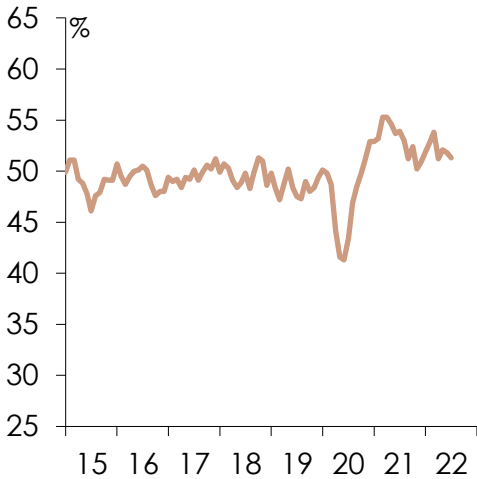


Sources: Bank of Korea; Taiwan Directorate-General of Budget, Accounting & Statistics; Hong Kong Census & Statistics Department; Singapore Ministry of Trade and Industry; Department of Statistics Malaysia; Office of the National Economic & Social Development Council of Thailand; Statistics Indonesia;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

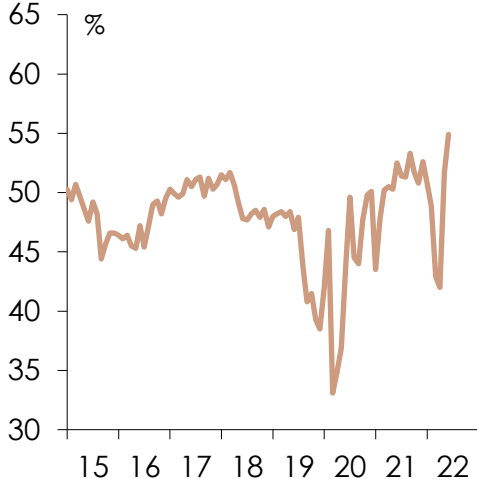
PMIs were slightly lower in most Asian economies in June, except for Malaysia

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

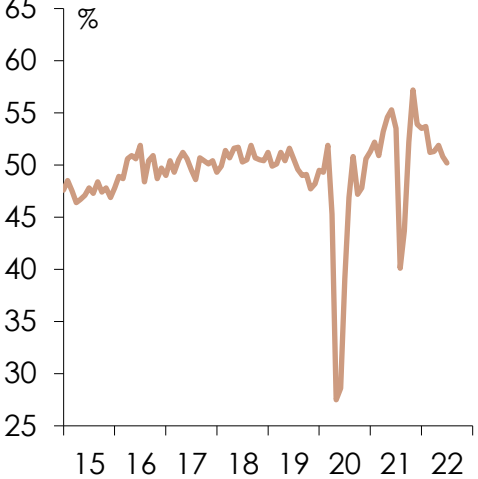
Korea



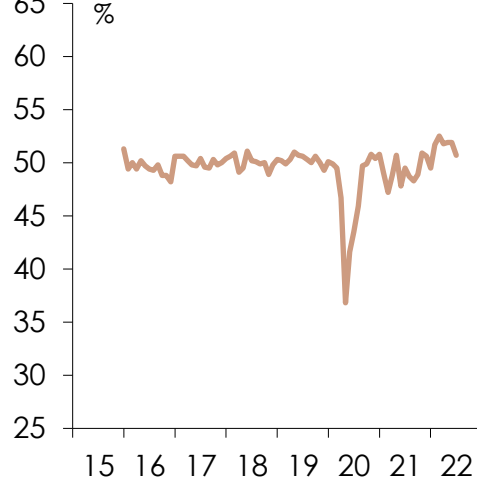
Hong Kong



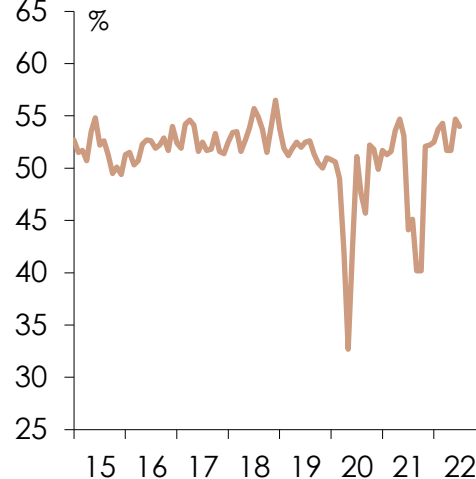
Indonesia



Thailand



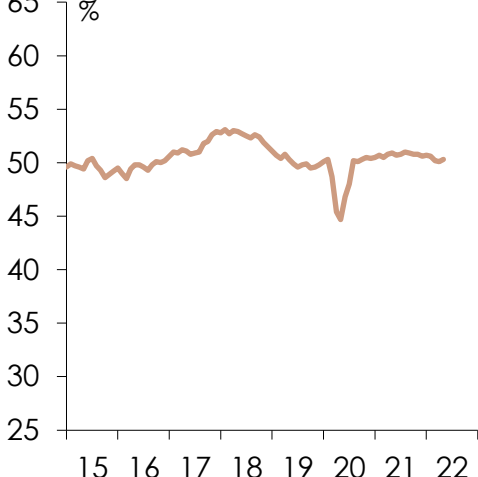
Vietnam



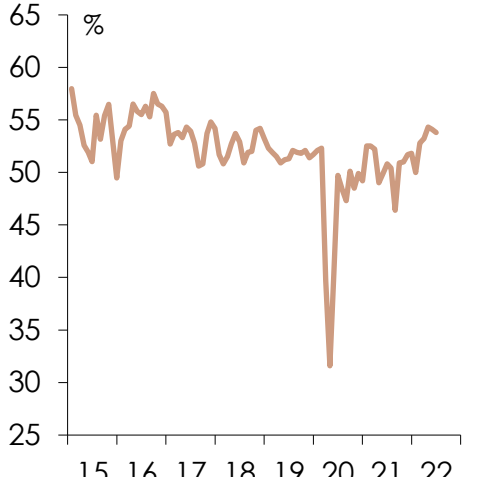
Taiwan



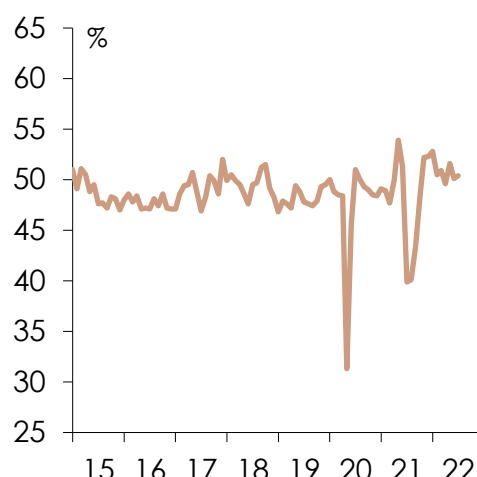
Singapore



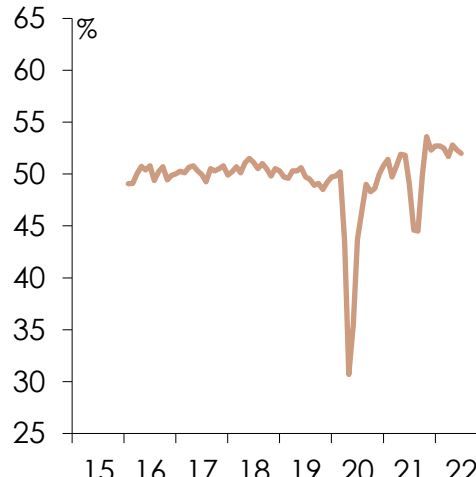
Philippines



Malaysia



ASEAN

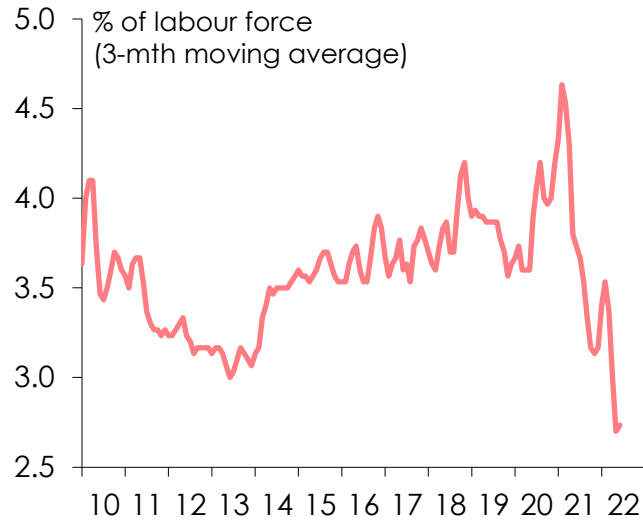


Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous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

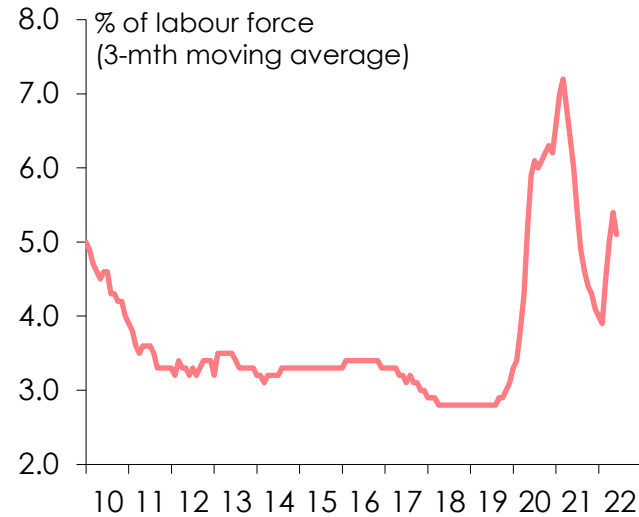
Unemployment rose sharply in most Asian economies last year but is now falling in most of them (except for Hong Kong)

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

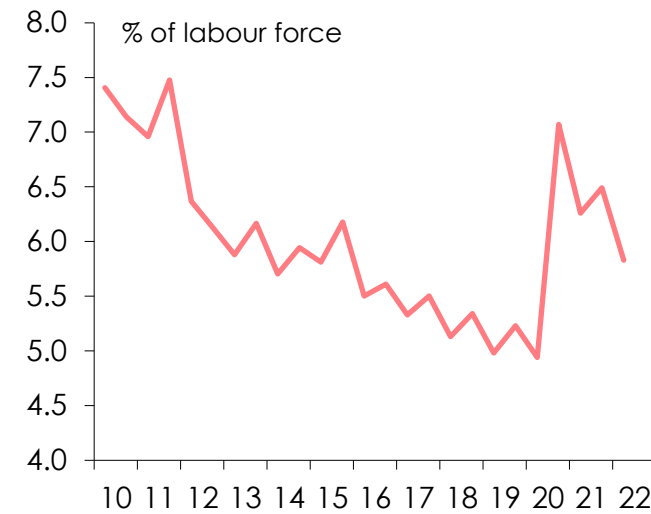
Korea



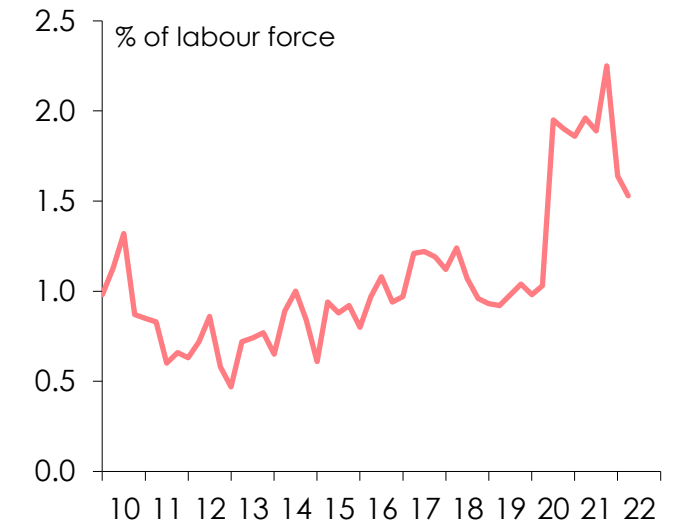
Hong Kong



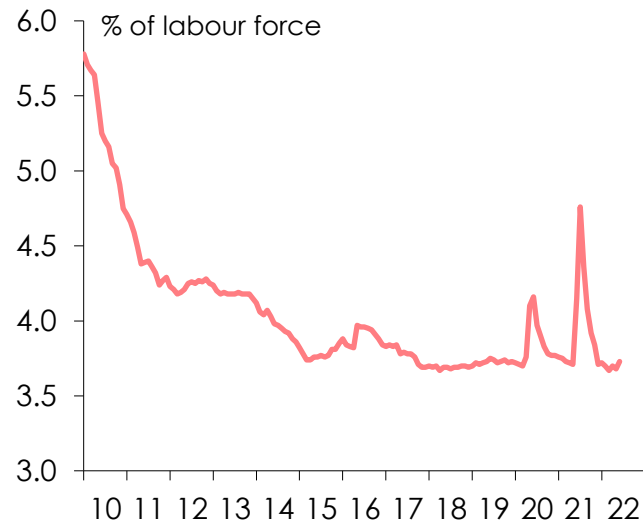
Indonesia



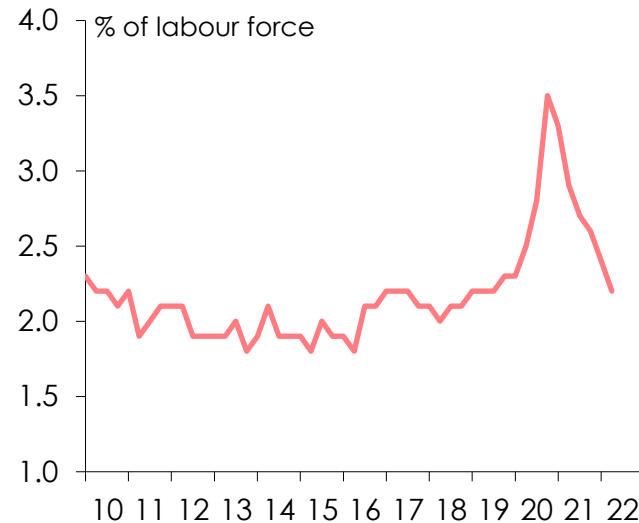
Thailand



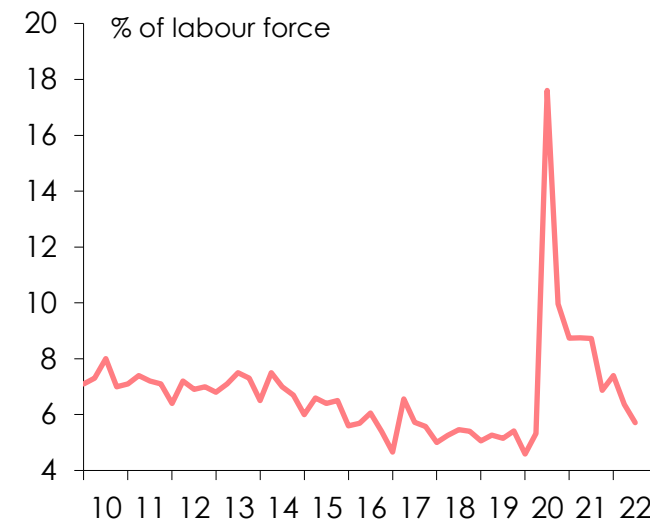
Taiwan



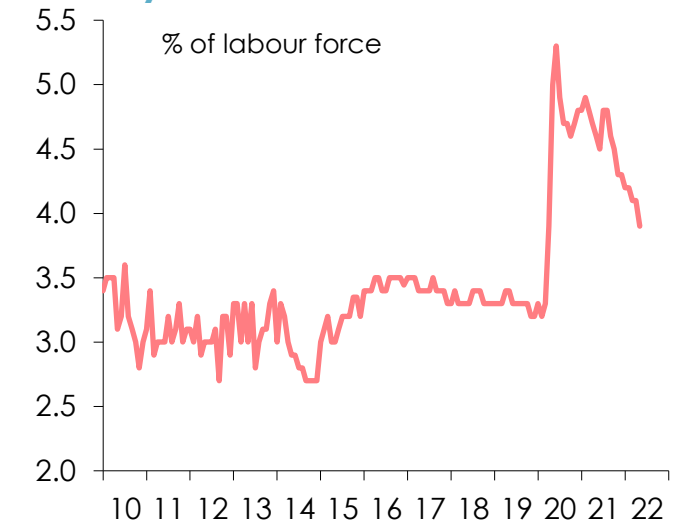
Singapore



Philippines



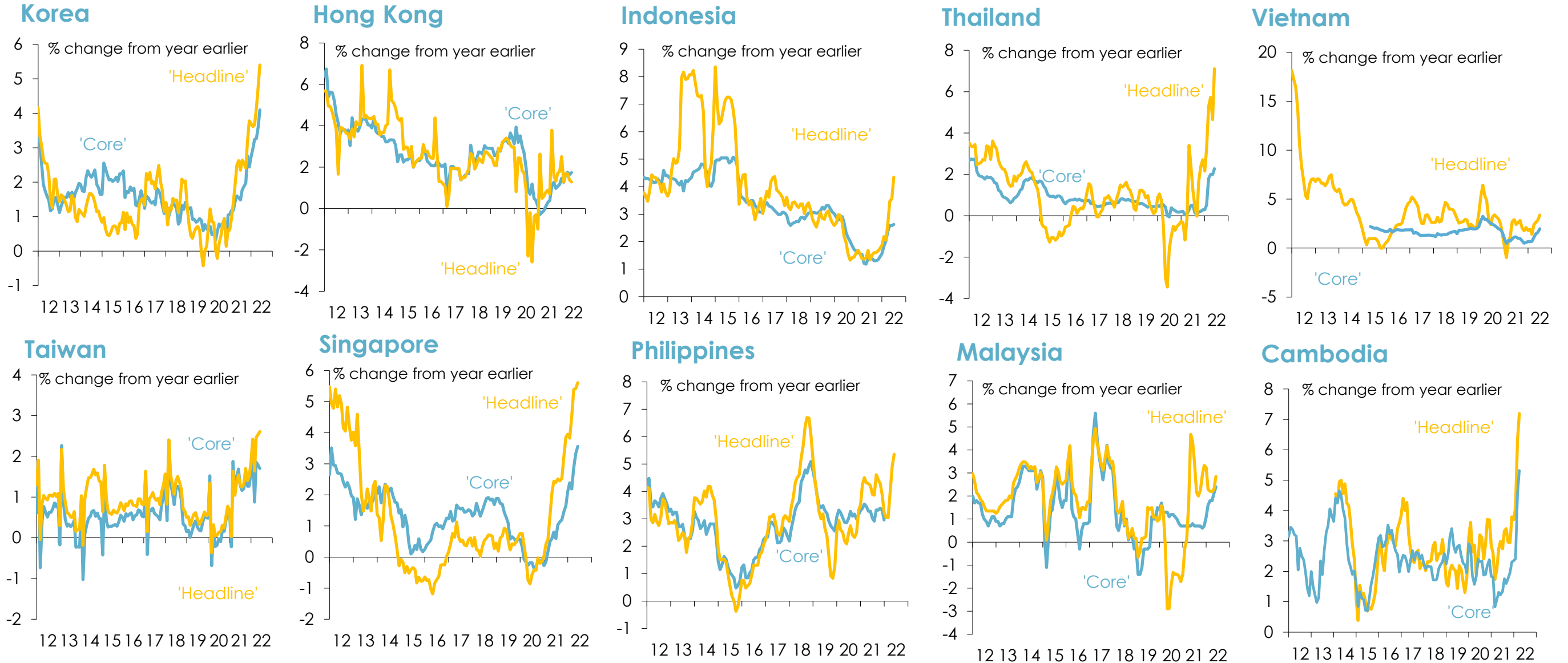
Malaysia



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

'Headline' and 'core' inflation are now rising in all East Asian economies and especially in Korea and Singapore

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

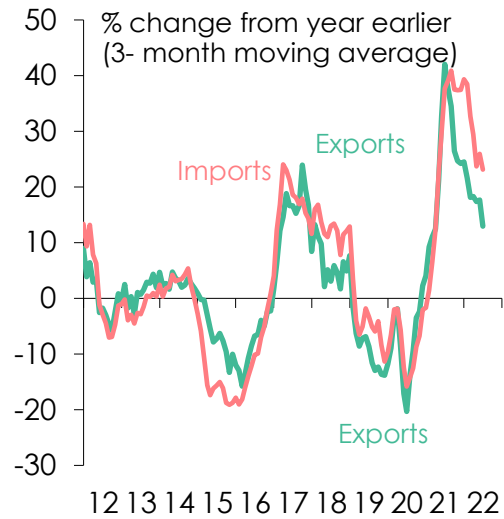


Note: 'Core' inflation in Korea excludes agricultural products & oil; in Taiwan it excludes fresh fruit, vegetables & energy; in Singapore it excludes accommodation & private transport; and in Hong Kong it excludes the effect of 'one-off government relief measures'. 'Core' inflation in Indonesia excludes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

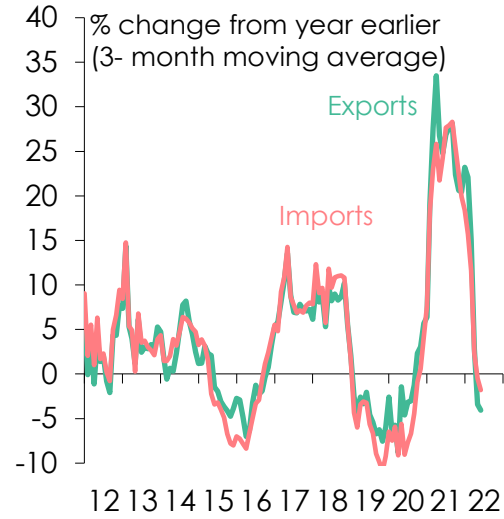
Asian exports are returning to more 'normal' growth rates following the 'bump' in 2021 inflated by comparison with 2020

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

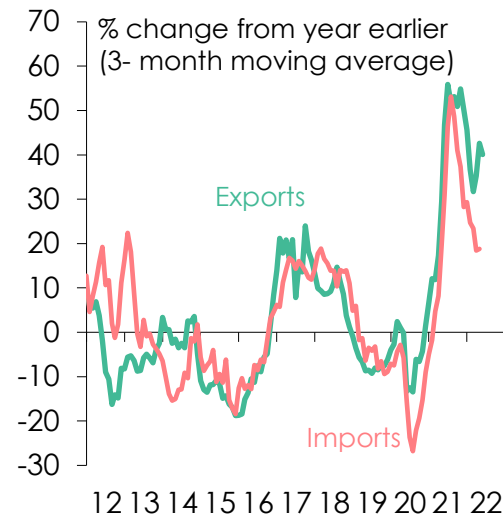
Korea



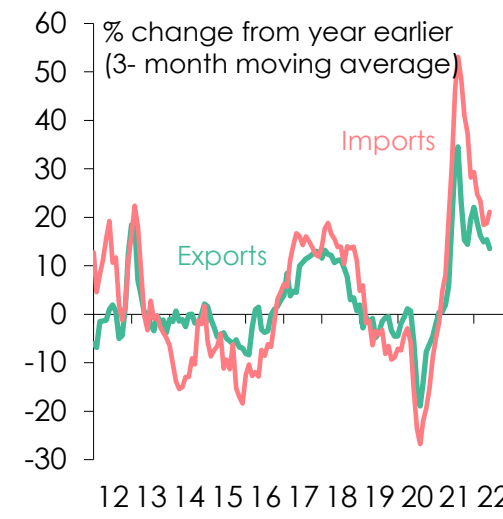
Hong Kong



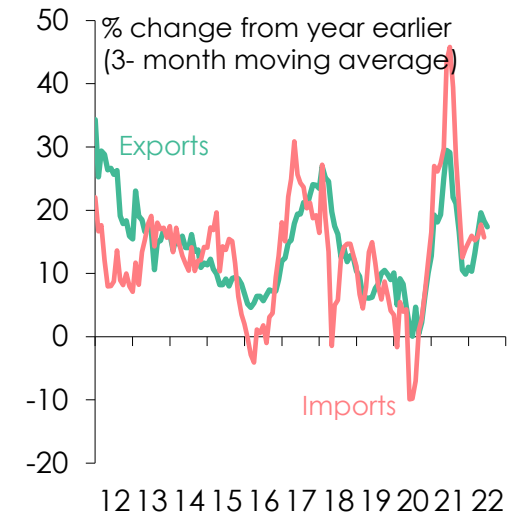
Indonesia



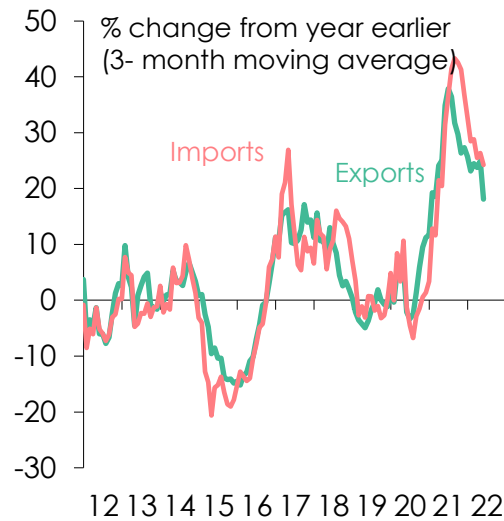
Thailand



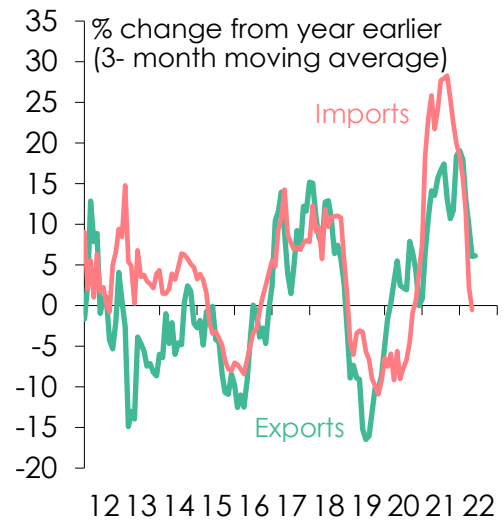
Vietnam



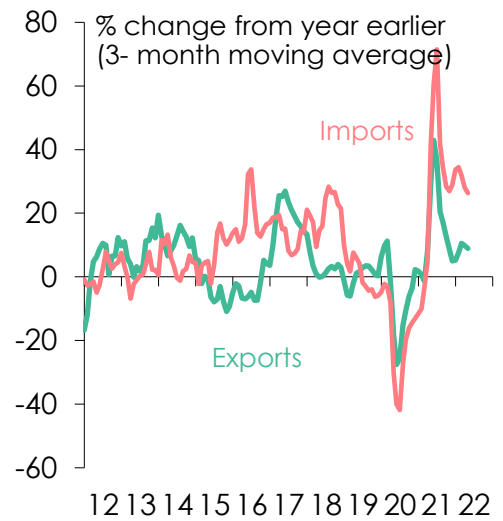
Taiwan



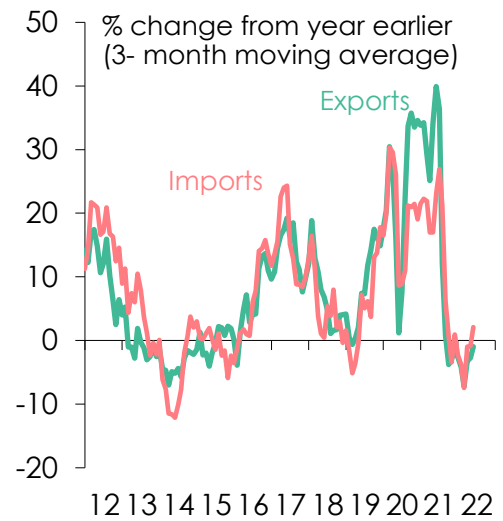
Singapore



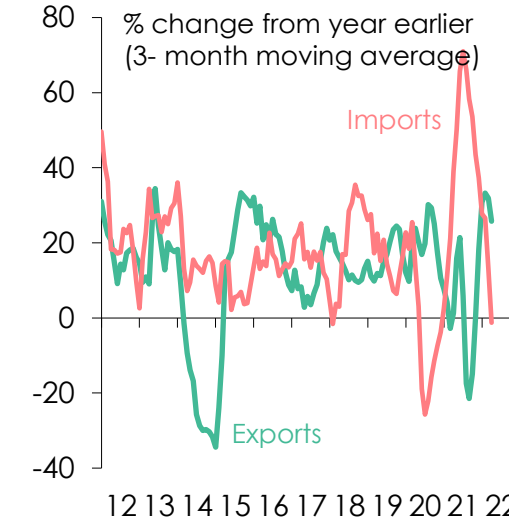
Philippines



Malaysia



Cambodia

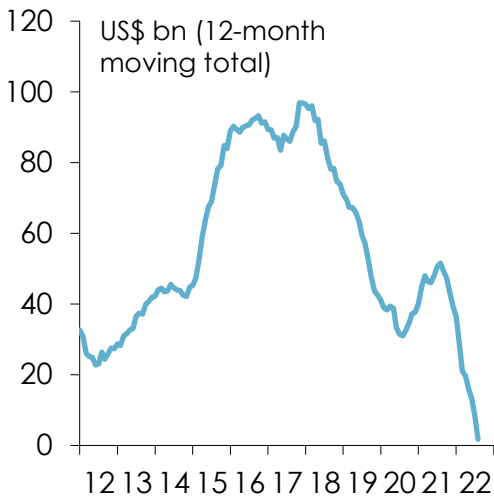


Note: Data for Hong Kong, Singapore and Malaysia are published in national currencies and converted to US dollars by Corinna using month-average exchange rates. Sources: national statistical agencies and central banks. [Return to "What's New"](#).

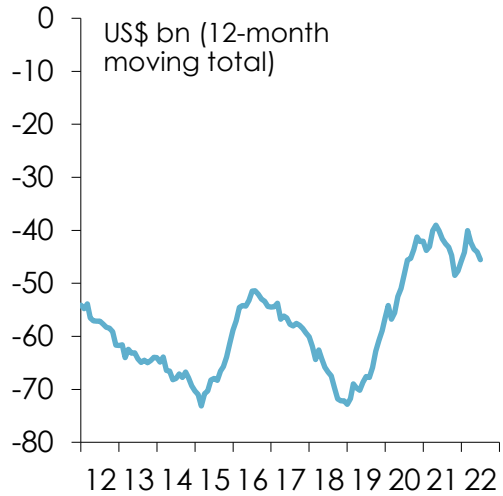
Most Asian economies – except for Indonesia, Malaysia and Singapore – are experiencing some deterioration in their trade balances

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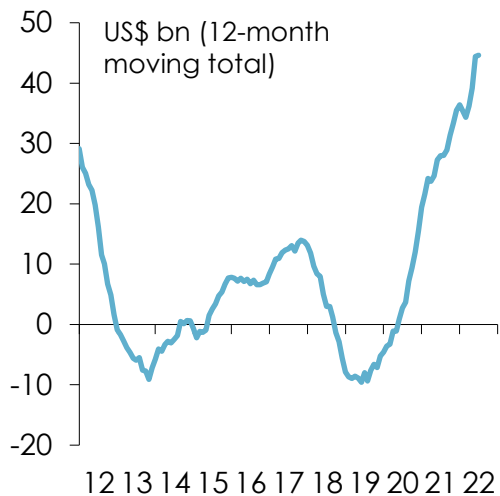
Korea



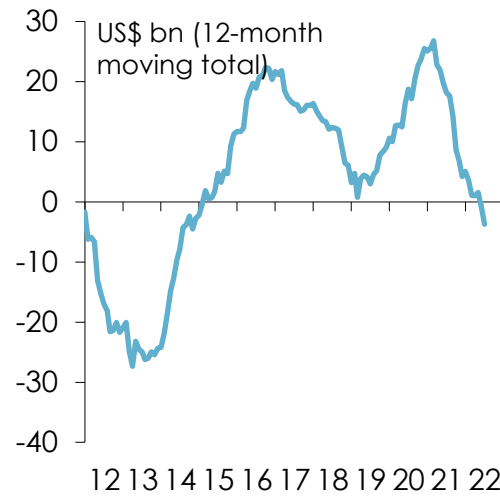
Hong Kong



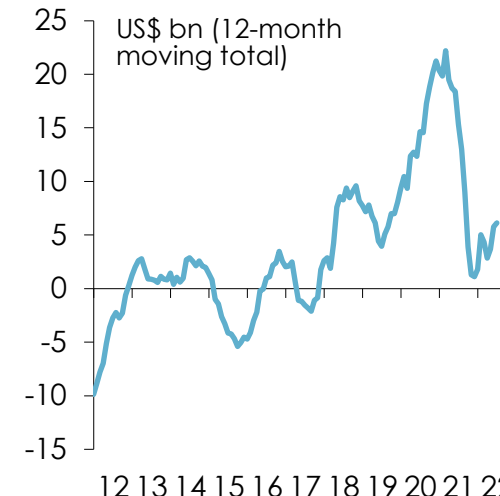
Indonesia



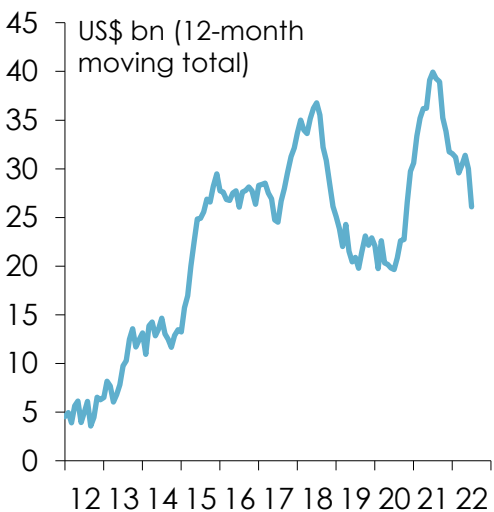
Thailand



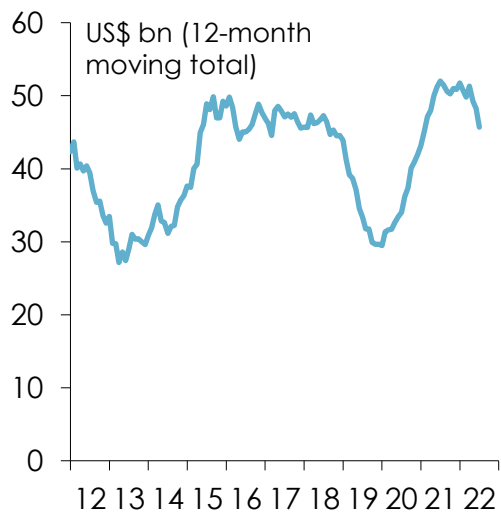
Vietnam



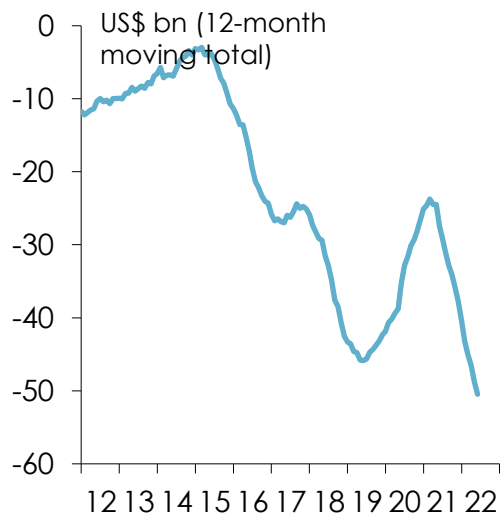
Taiwan



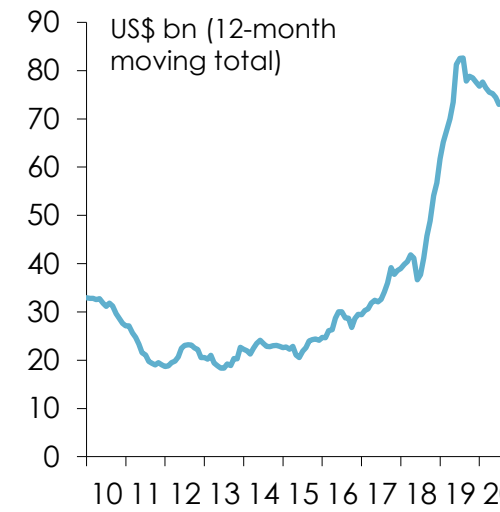
Singapore



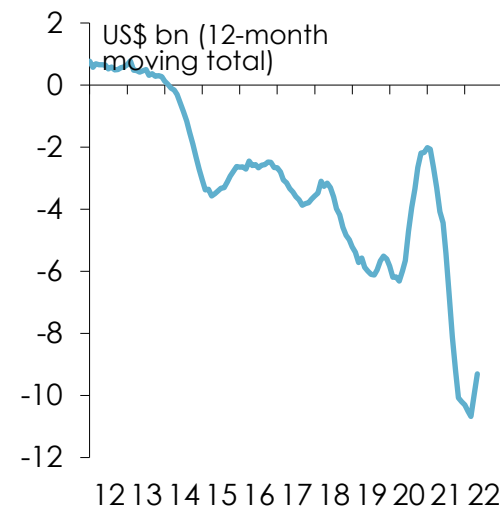
Philippines



Malaysia



Cambodia

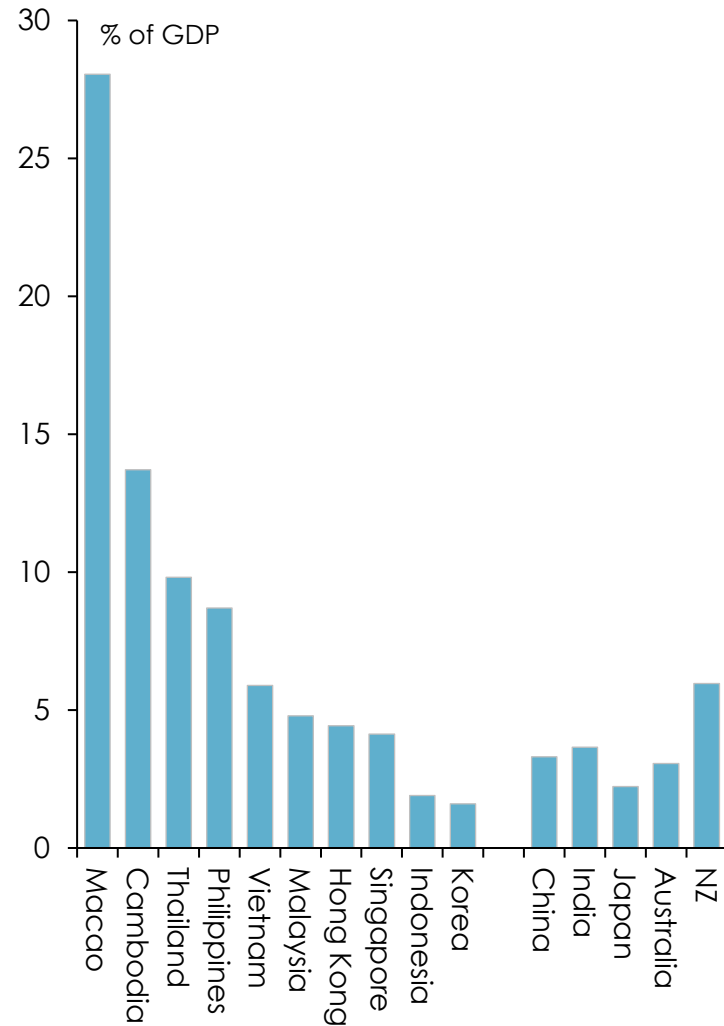


Note: Data for Hong Kong, Singapore and Malaysia are published in national currencies and converted to US dollars by Corinna using month-average exchange rates. Sources: national statistical agencies and central banks. [Return to "What's New"](#).

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

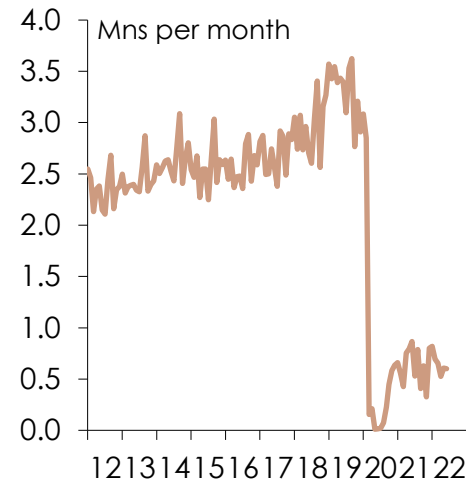
THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

International tourism direct contribution to GDP, 2018

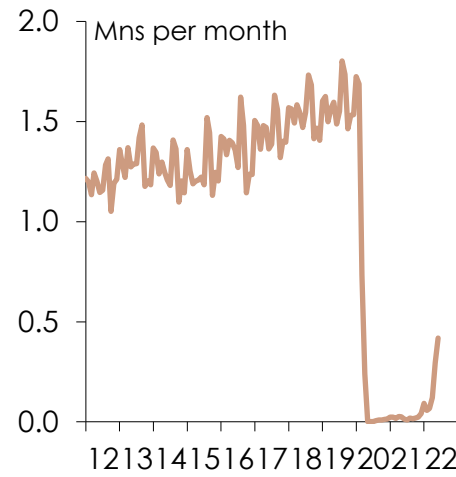


International visitor arrivals

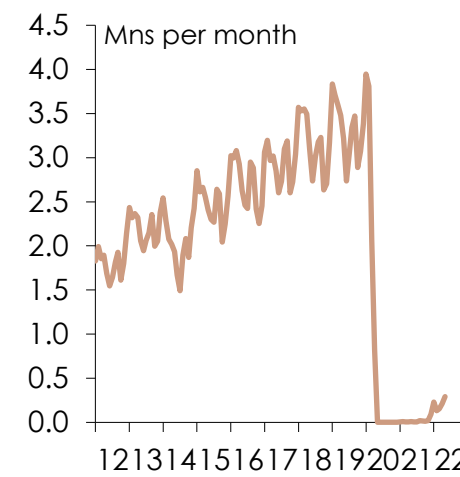
Macao



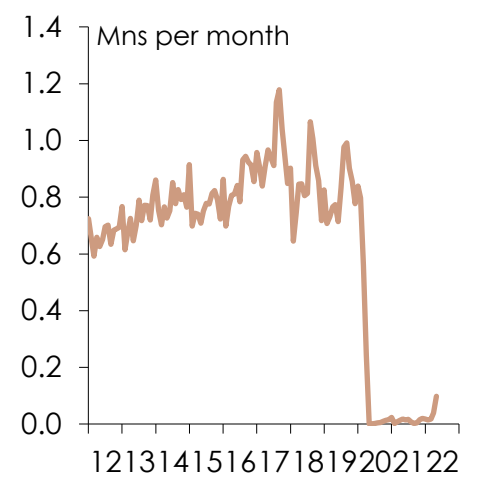
Singapore



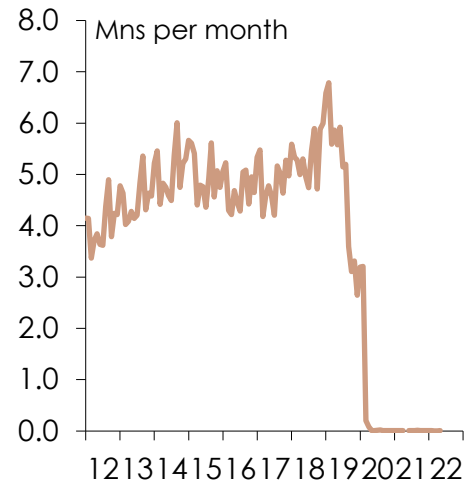
Thailand



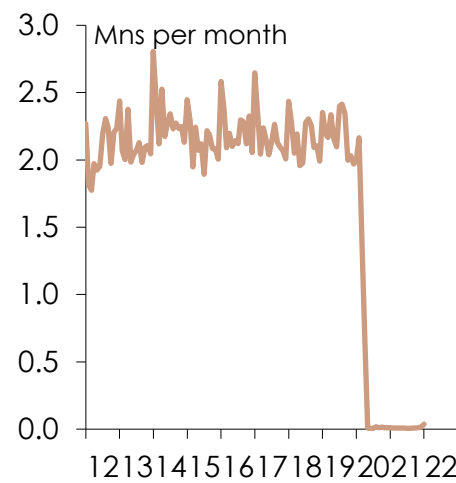
Indonesia



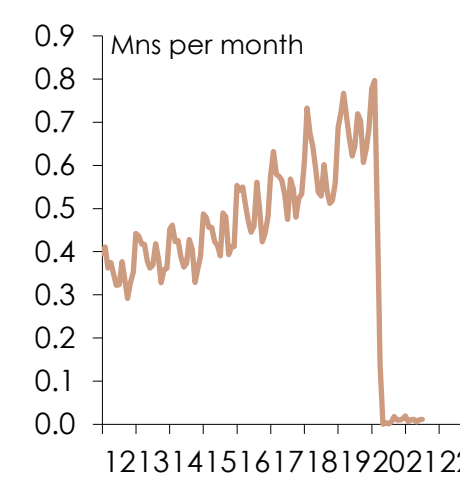
Hong Kong



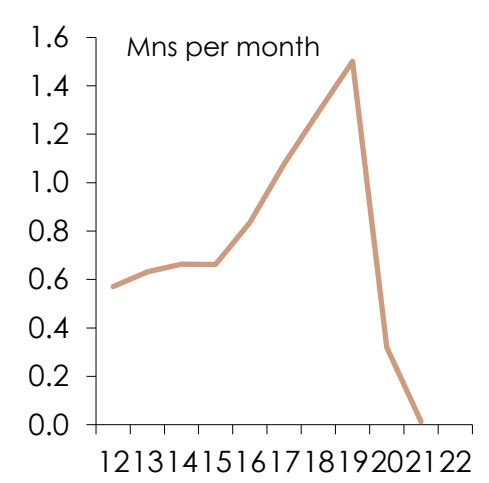
Malaysia



Philippines



Vietnam

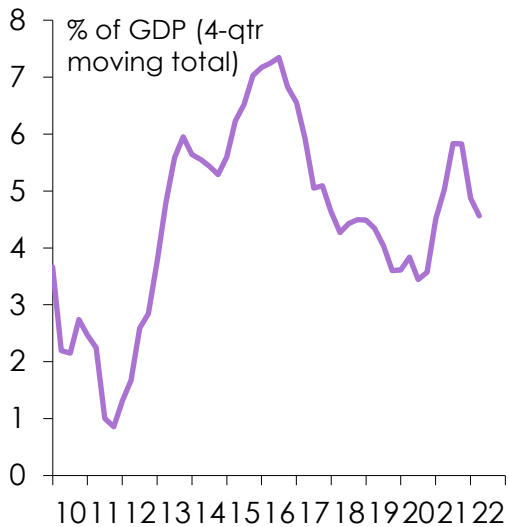


Note: Visitor arrivals data for Vietnam is only published annually. The Philippines stopped publishing data on visitor arrivals in December 2020.
Sources: The World Bank, [ICdata360](#); national statistical agencies. [Return to "What's New"](#).

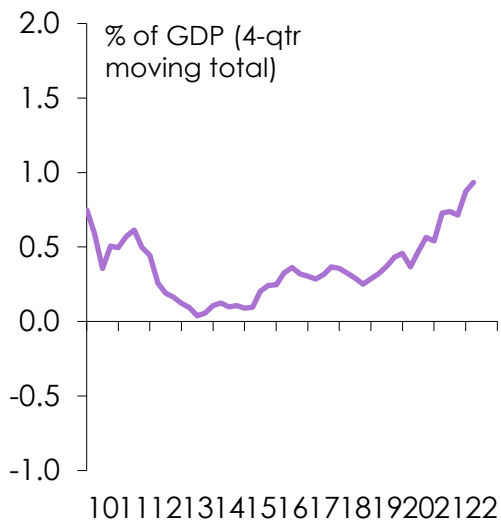
The more 'advanced' Asian economies have strong current account positions, Indonesia's is much improved but others have deteriorated

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

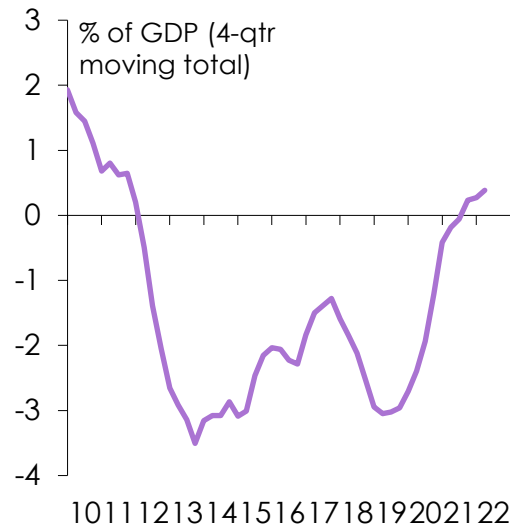
Korea



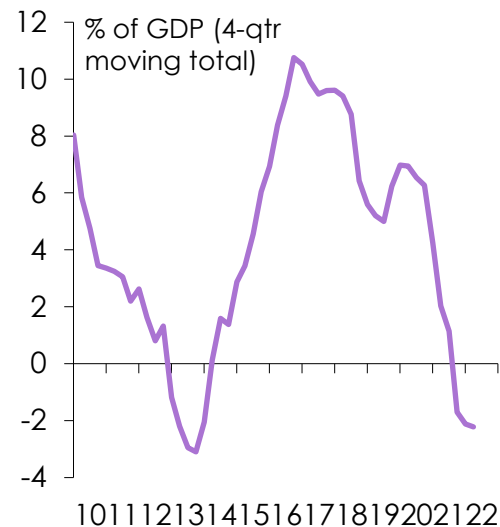
Hong Kong



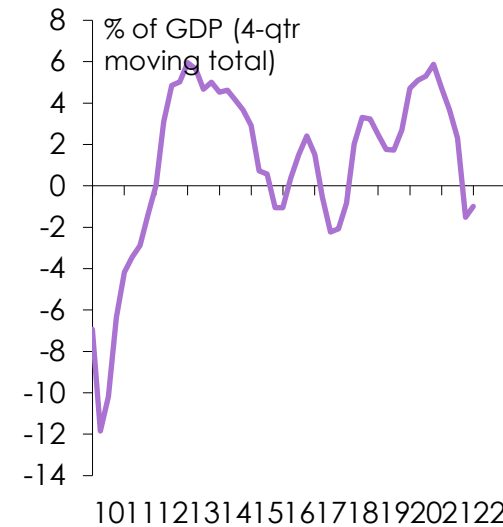
Indonesia



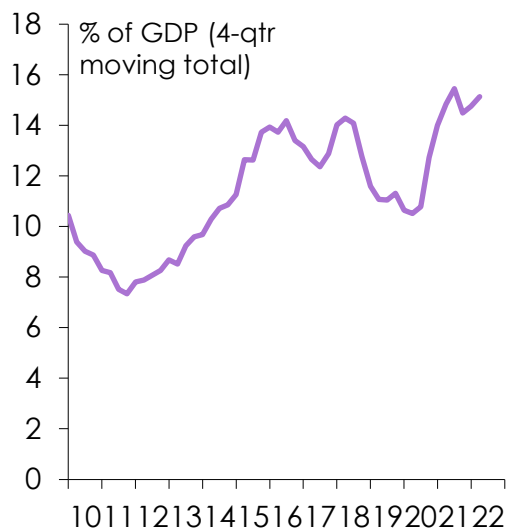
Thailand



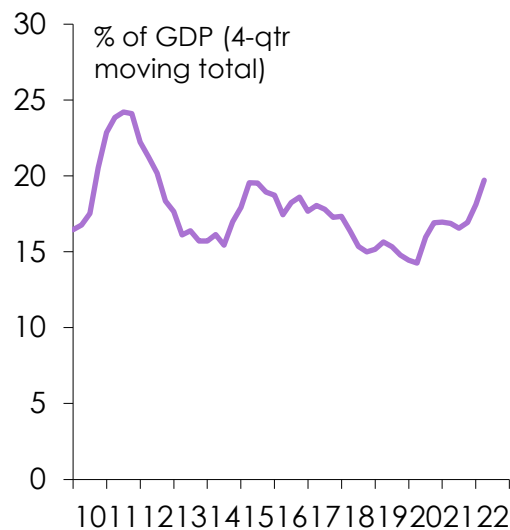
Vietnam



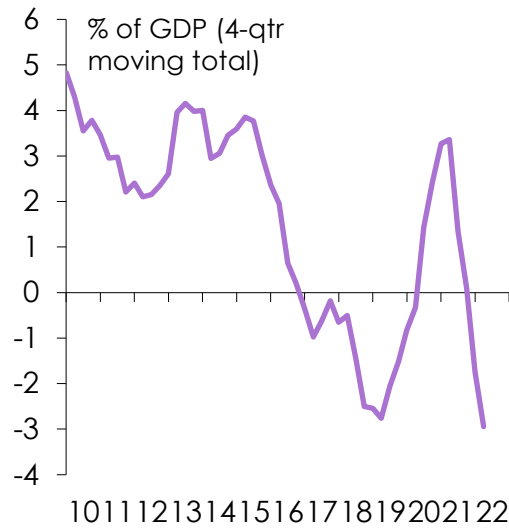
Taiwan



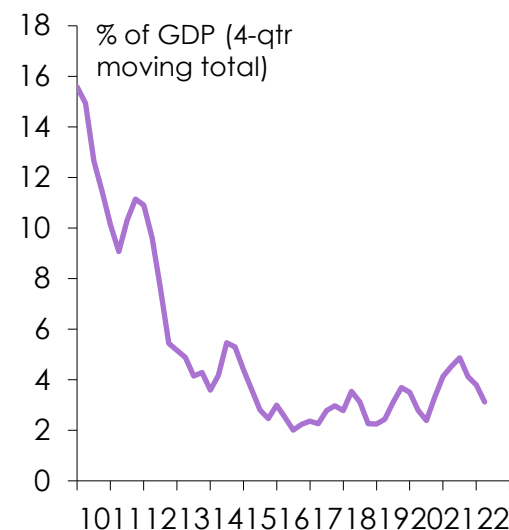
Singapore



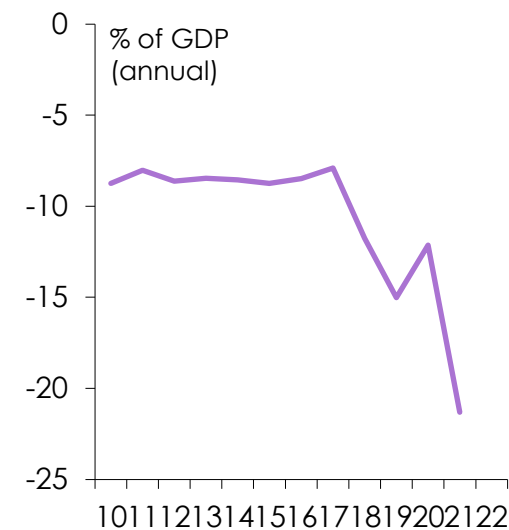
Philippines



Malaysia



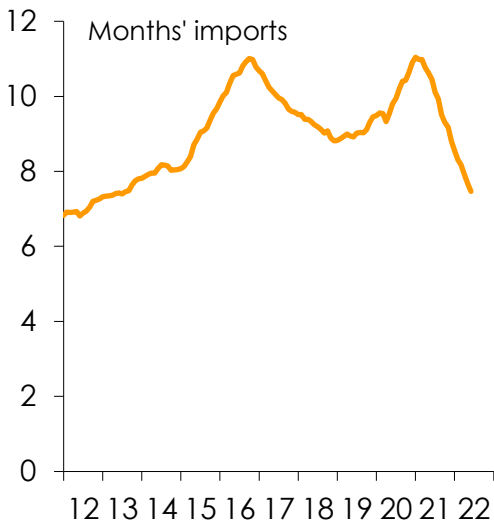
Cambodia



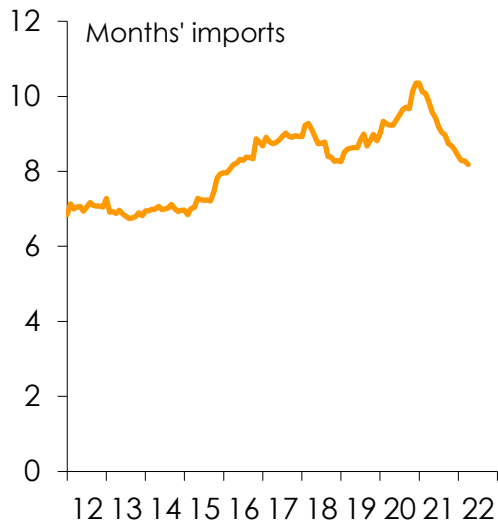
Most Asian economies have sought to maintain high levels of FX reserves since the 1997-98 crisis – although Malaysia's have deteriorated recently

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

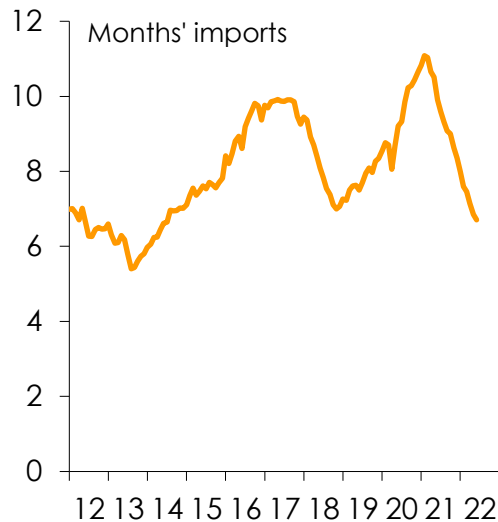
Korea



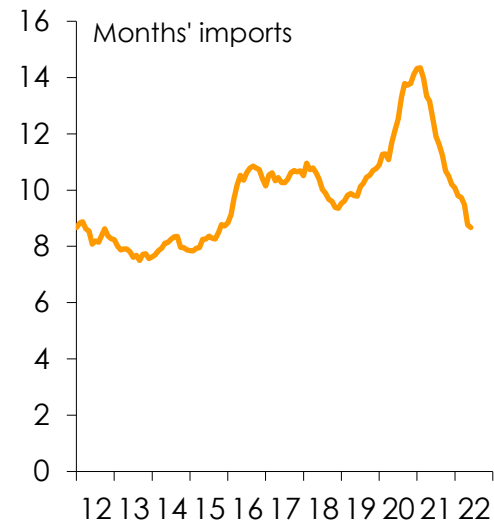
Hong Kong



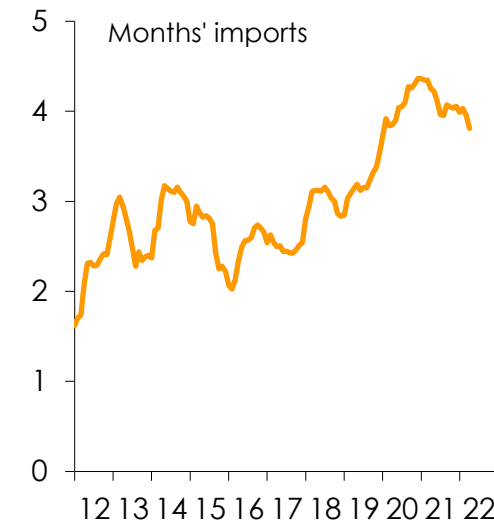
Indonesia



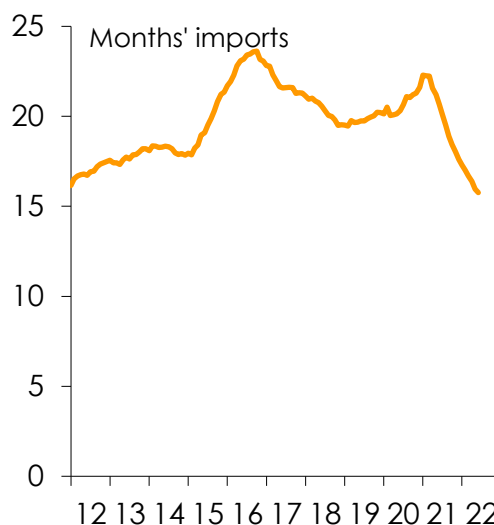
Thailand



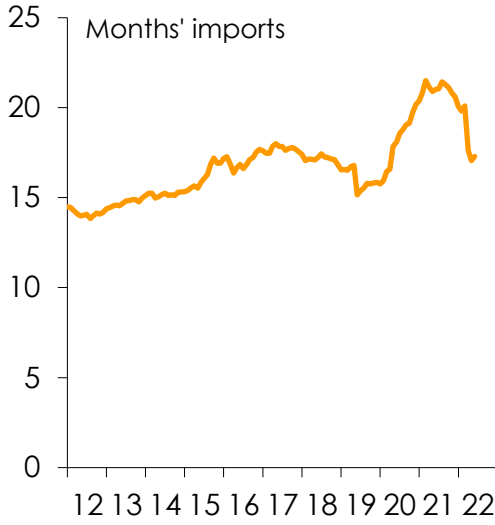
Vietnam



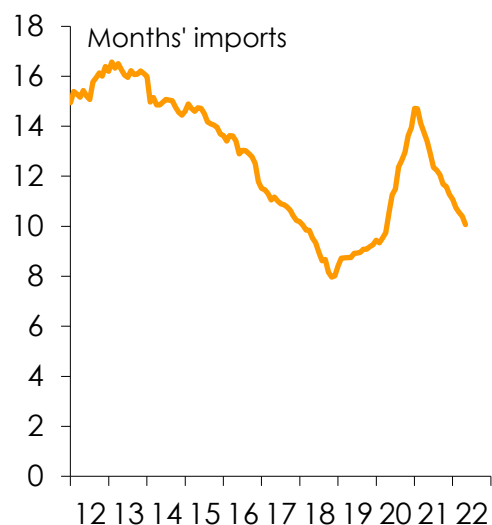
Taiwan



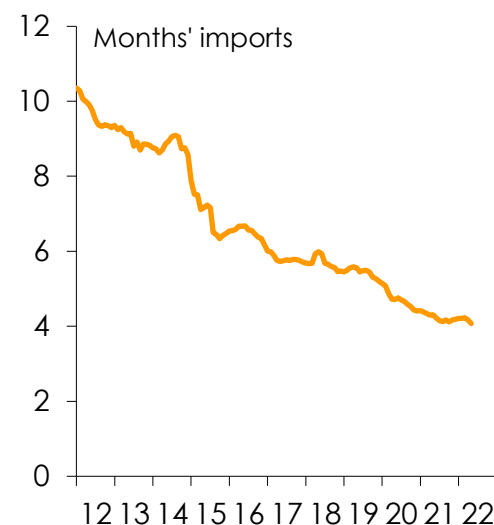
Singapore



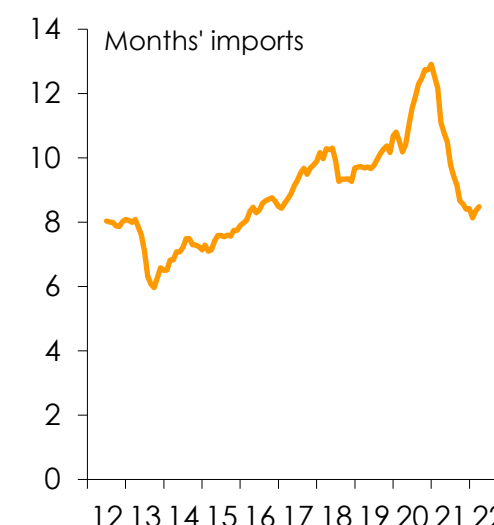
Philippines



Malaysia



Cambodia



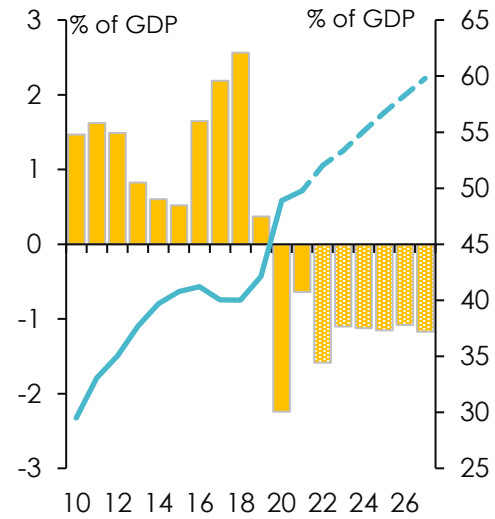
Note: Foreign exchange reserves in the above charts are shown as a multiple of average monthly imports (measured in US\$) over the preceding 12 months.

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

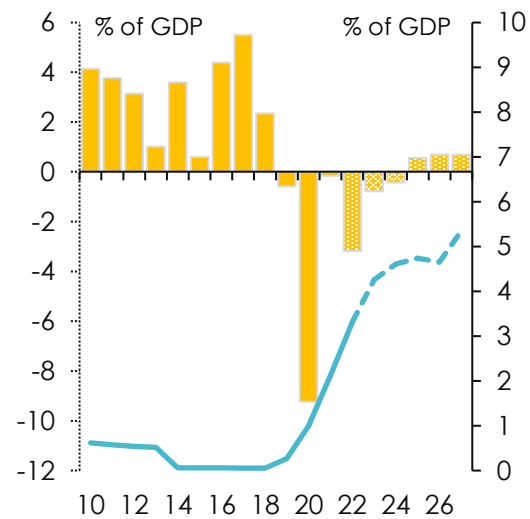
Most Asian governments, apart from Korea, Taiwan, Malaysia and Vietnam, will be tightening fiscal policy over the next few years

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

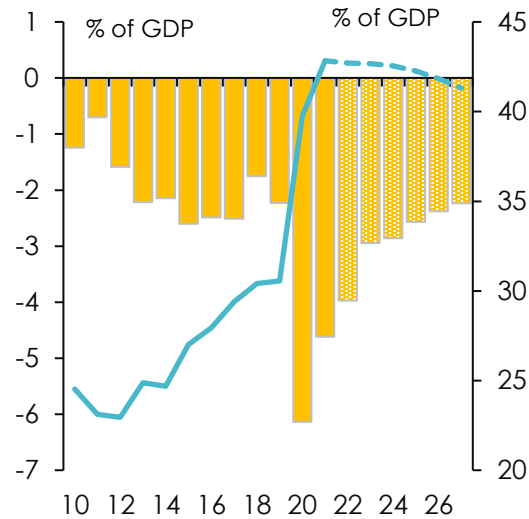
Korea



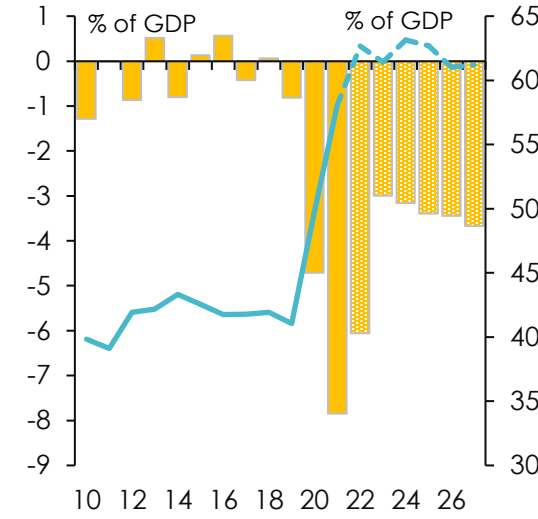
Hong Kong



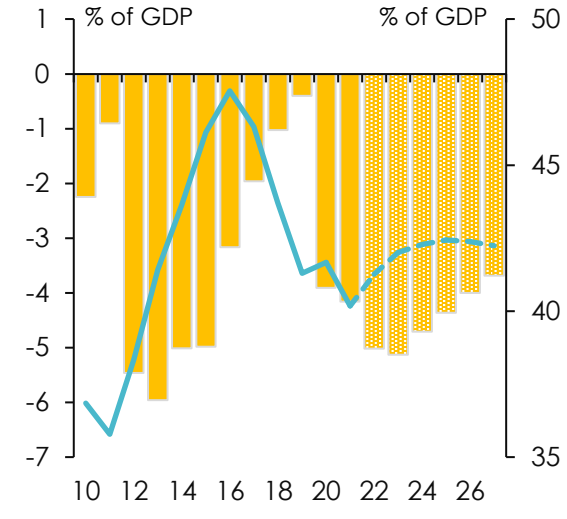
Indonesia



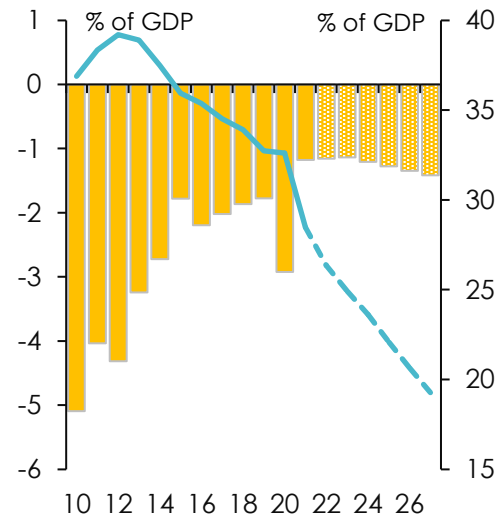
Thailand



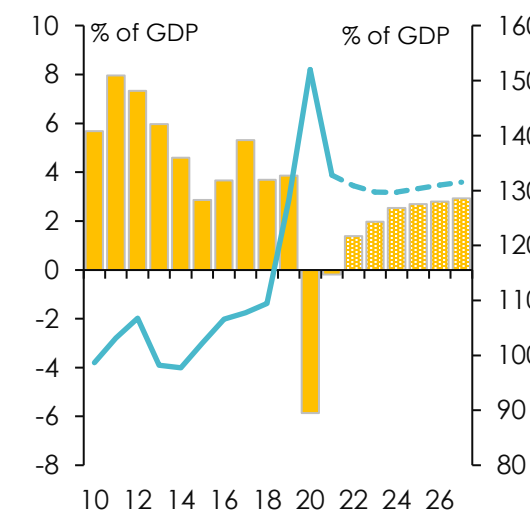
Vietnam



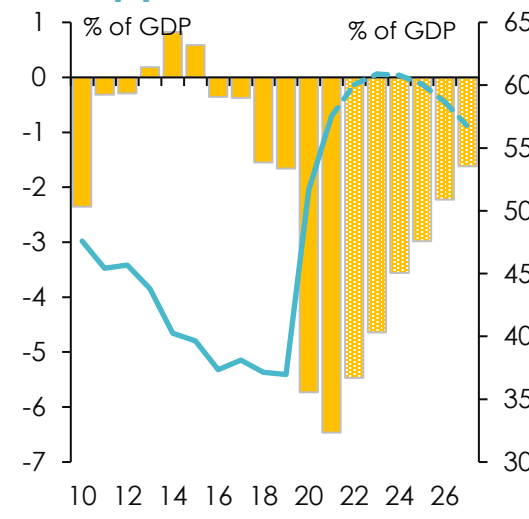
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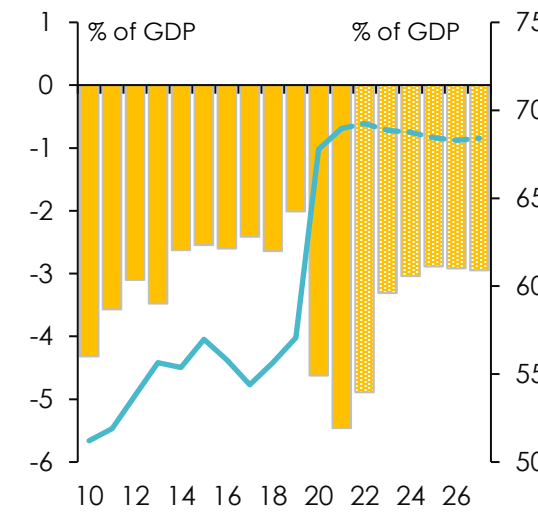
Singapore



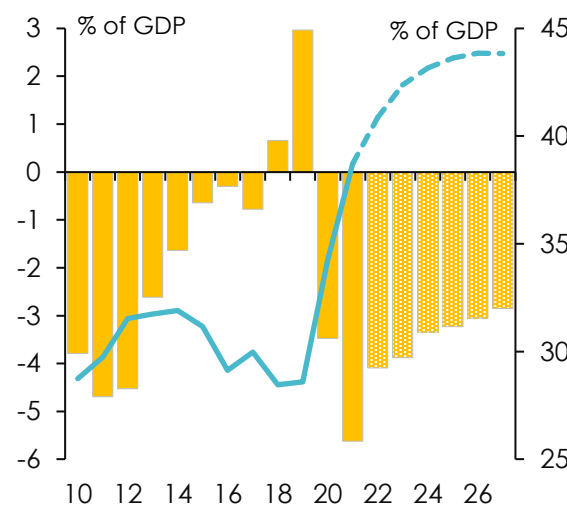
Philippines



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"](#)

Malaysia's central bank is likely to lift its policy rate again this week, while Thailand's will likely do so for the first time at its next meeting in August

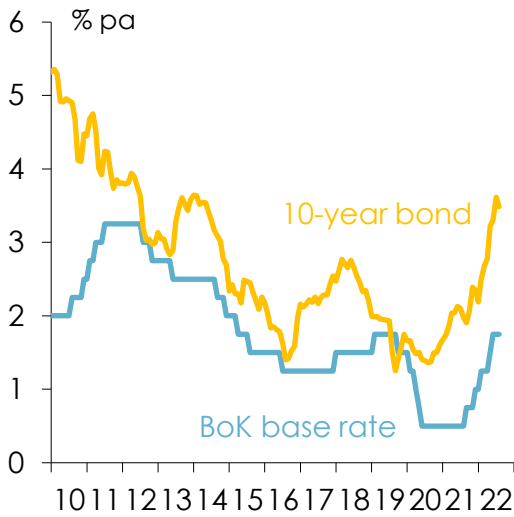
THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

- ❑ **Bank Negara Malaysia** is likely to lift its policy rate by another 25 bp at its meeting this coming Wednesday, having done so for the first time at its last meeting in May
- ❑ The **minutes** of last month's Bank of Thailand Monetary Policy Committee meeting, released last week, indicate that an initial tightening of policy is imminent – even though that meeting decided (by a 4-3 vote) not to raise the policy rate at that meeting
 - the minutes record that the MPC assessed that “the economic recovery has continued to gain more traction, while the upside inflationary risks continued to increase”, and that “a very accommodative monetary policy would be less needed going forward”
 - The next BoT MPC meeting is on 10th August
- ❑ **Bangko Sentral ng Pilipinas** increased its overnight reverse repo rate by 25 basis points, to 2.5%, at its Monetary Board meeting on 23rd June – 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, at its 23rd June meeting
 - 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”

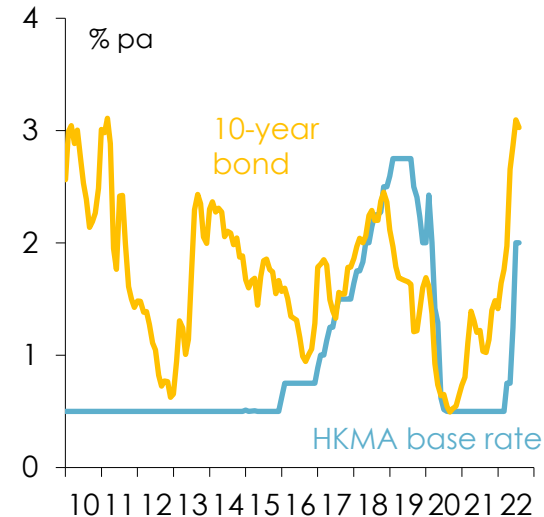
The Philippines', Taiwan's and Hong Kong's central banks lifted their policy rates again last month, and Thailand's is likely to next month

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

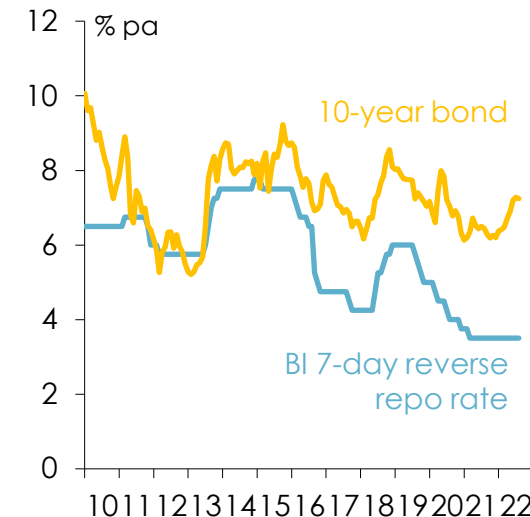
Korea



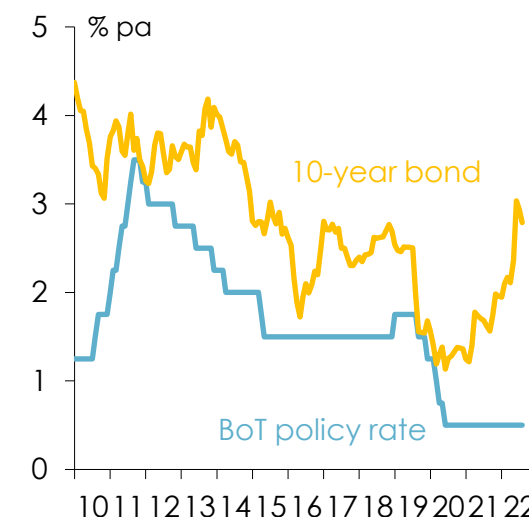
Hong Kong



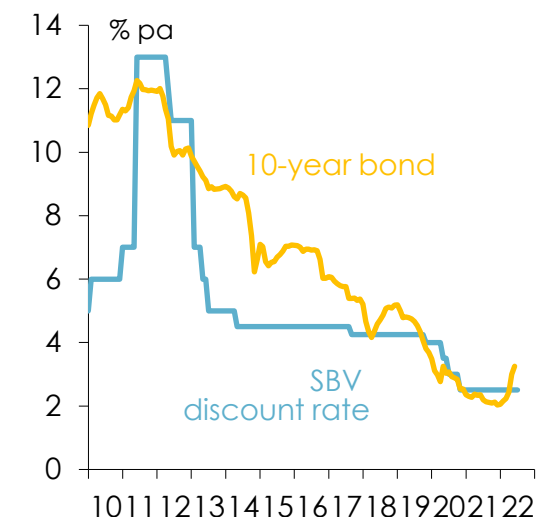
Indonesia



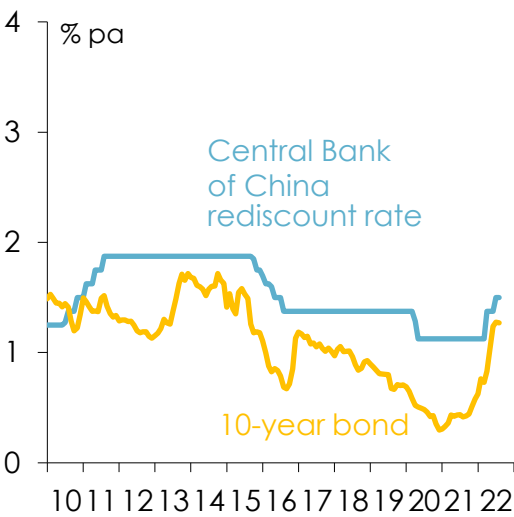
Thailand



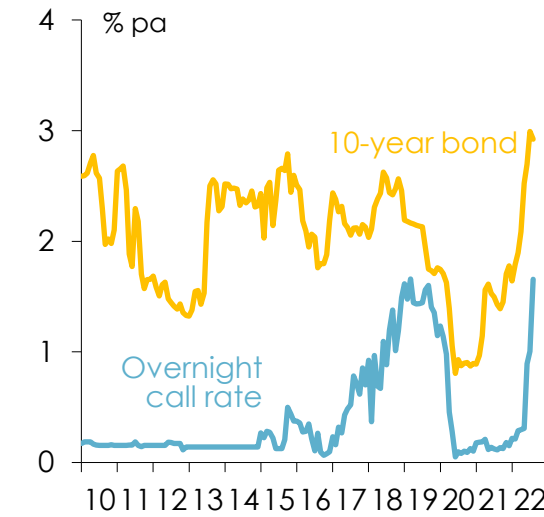
Vietnam



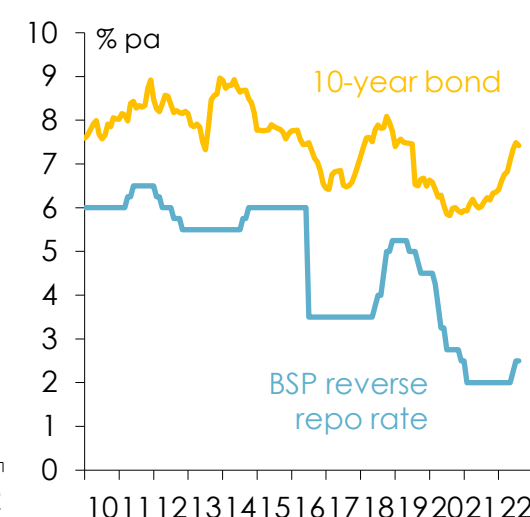
Taiwan



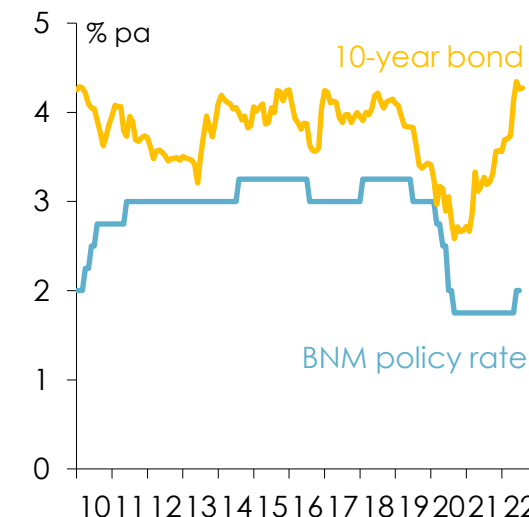
Singapore



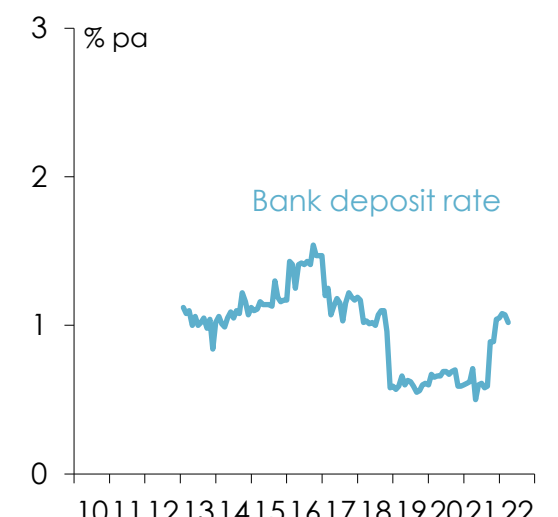
Philippines



Malaysia



Cambodia

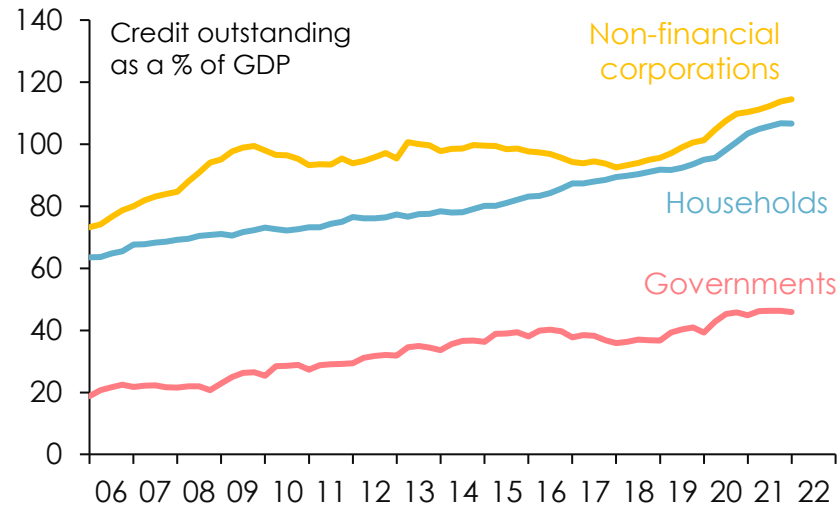


Note: Neither Hong Kong nor Singapore use a monetary policy indicator interest rate. Hong Kong has a currency board system, under which the HKMA base rate moves in line with a pre-set formula based on the US fed funds rate; the Monetary Authority of Singapore uses the (effective) exchange rate as its 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 1st July 2022. Sources: national central banks; Refinitiv Datastream. [Return to "What's New"](#).

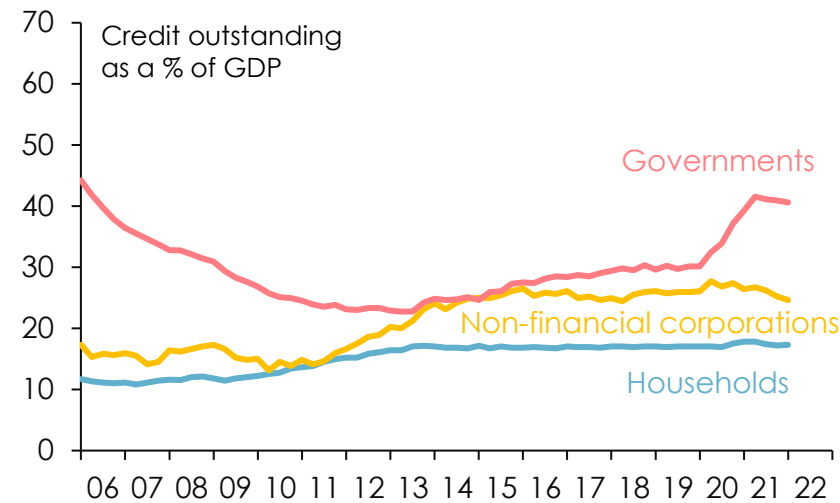
In Asia, Hong Kong, Singaporean and Korean corporates, and Korean households, have the greatest exposure to any increases in interest rates

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

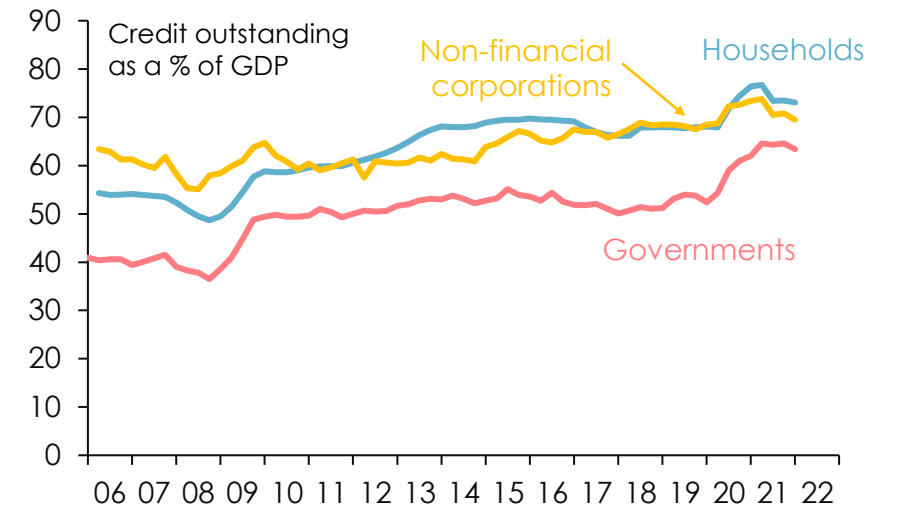
Korea



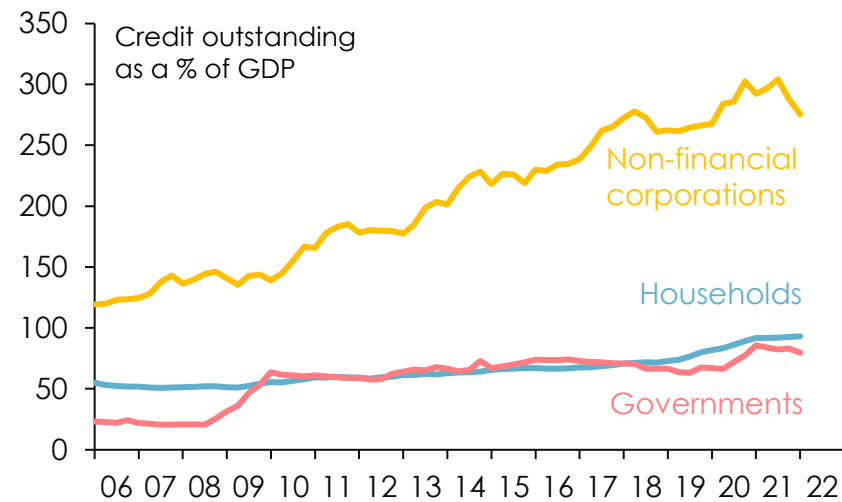
Indonesia



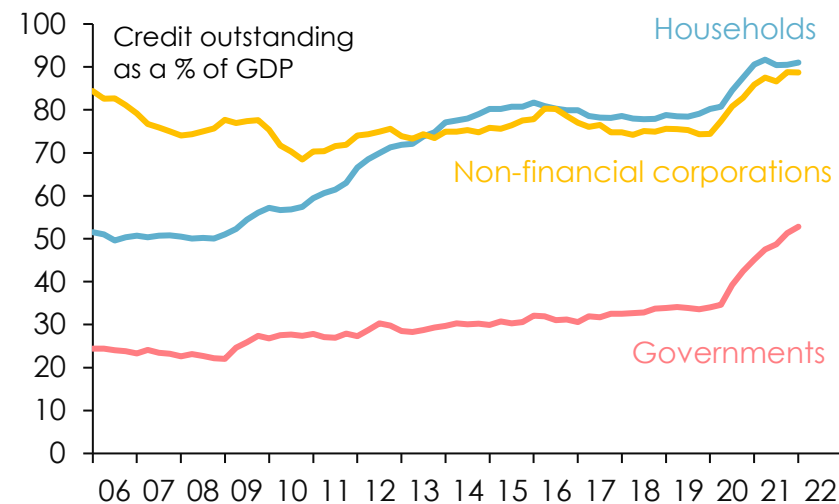
Malaysia



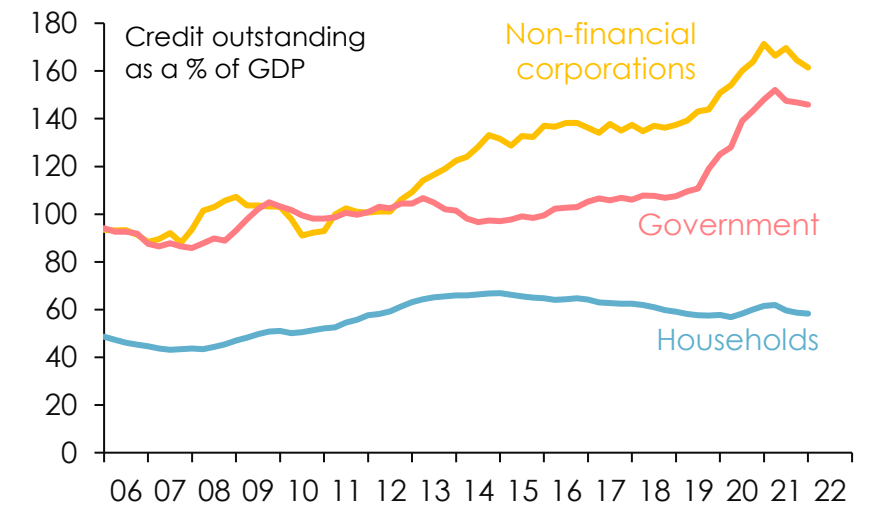
Hong Kong



Thailand



Singapore

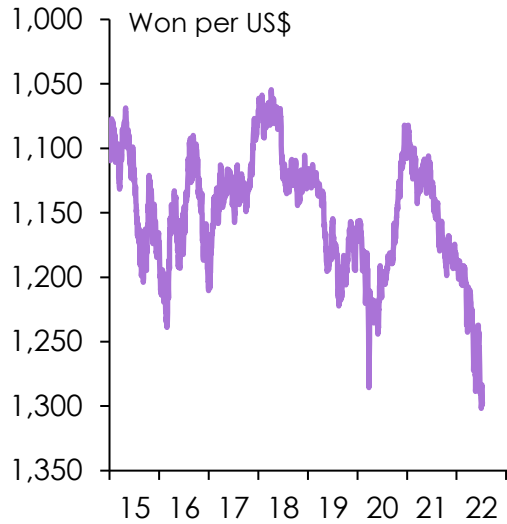


Source: Bank for International Settlements, [Credit Statistics](#); latest data are for Q4 2021, Q1 2022 data will be released in mid-September. [Return to "What's New"](#).

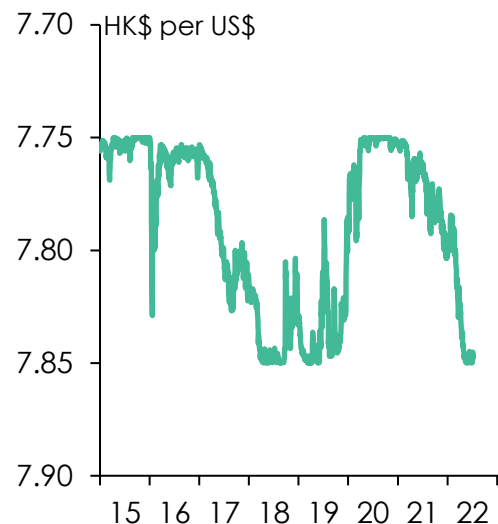
Asian currencies were again mostly weaker against a stronger US\$ last week, with the S\$ down 0.8%, the rupiah down 0.6% and the baht down 0.4%

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

Korean won



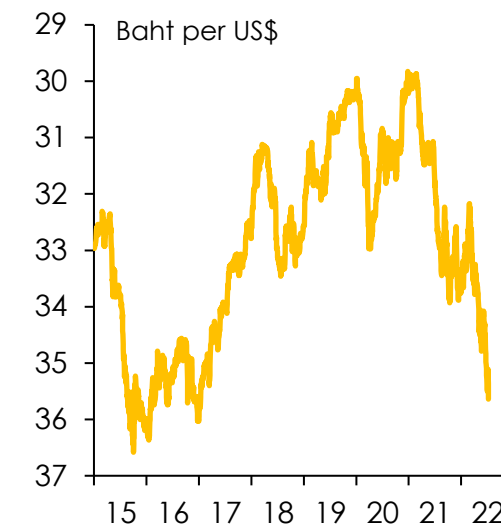
Hong Kong dollar



Indonesian rupiah



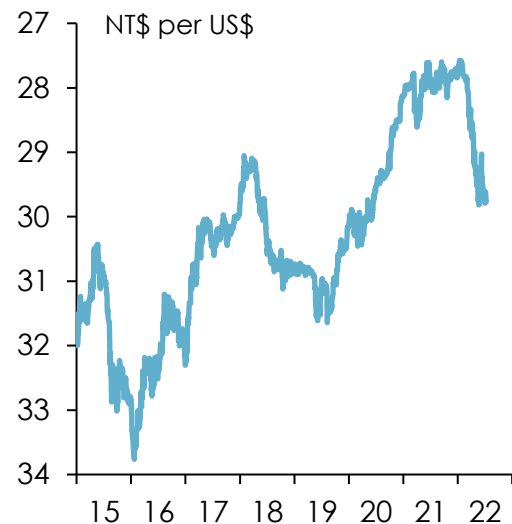
Thai baht



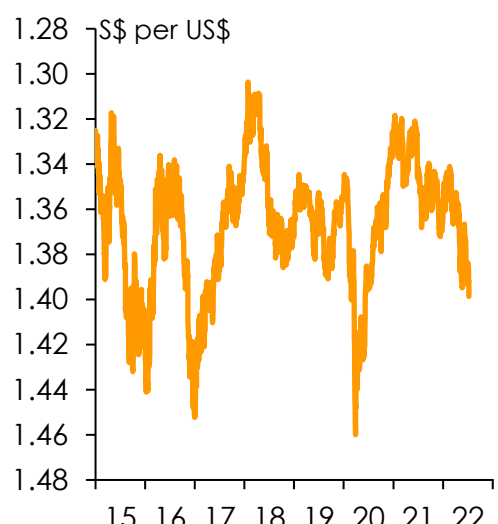
Vietnamese dong



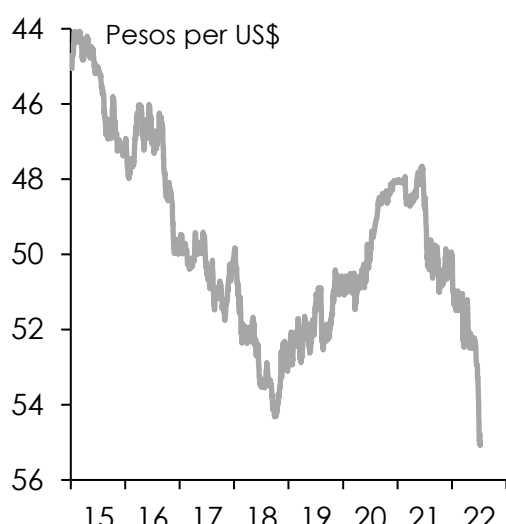
New Taiwan dollar



Singapore dollar



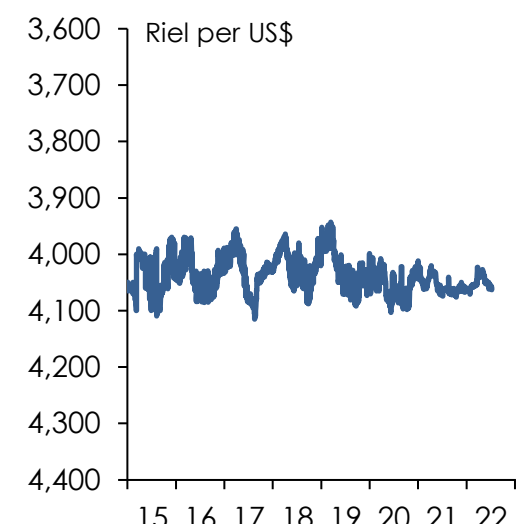
Philippine peso



Malaysian ringgit



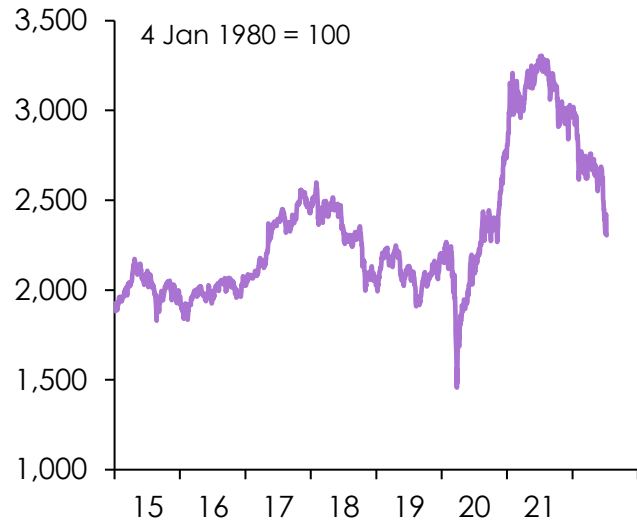
Cambodian riel



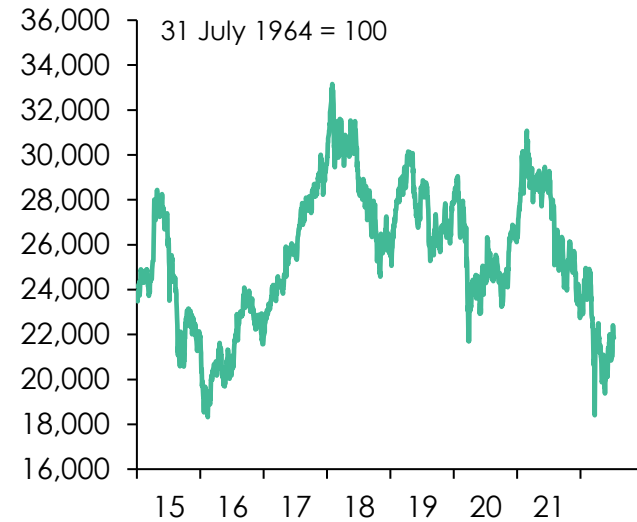
Asian stock markets were mixed last week with Taipei down 6¼%, Jakarta 3½% and Seoul 2½%, but HK, Bangkok & KL were up marginally

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

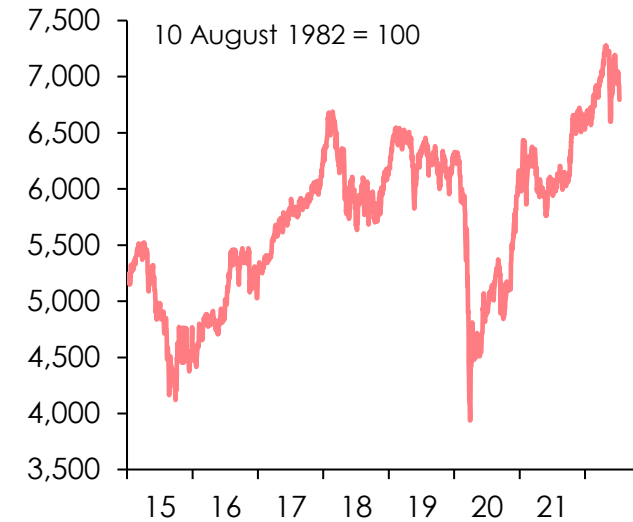
KOSPI



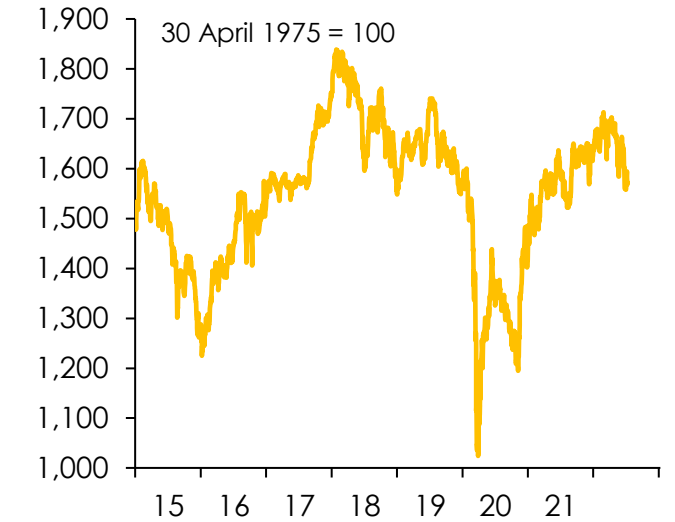
Hang Seng Index



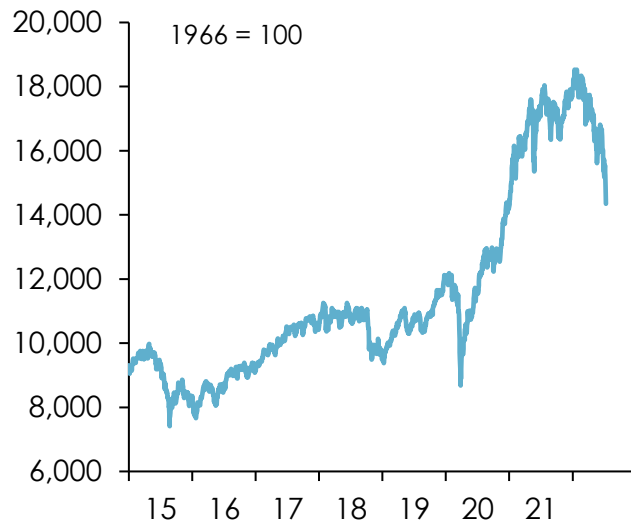
JCI



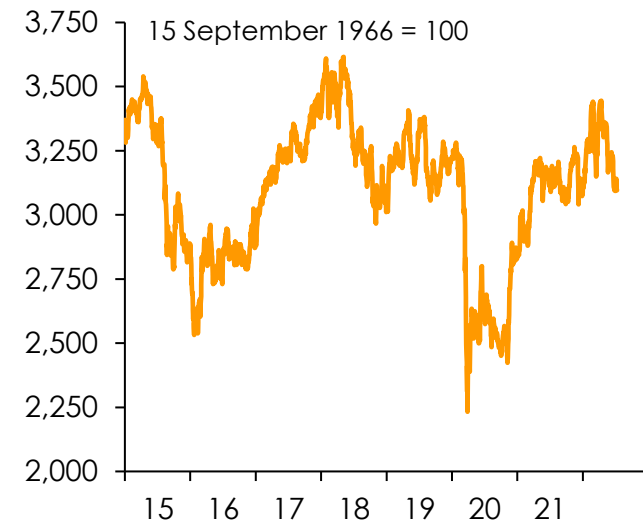
SETI



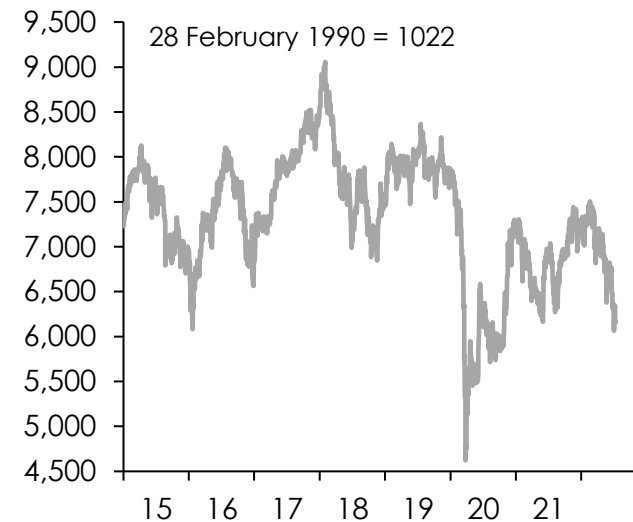
TAIEX



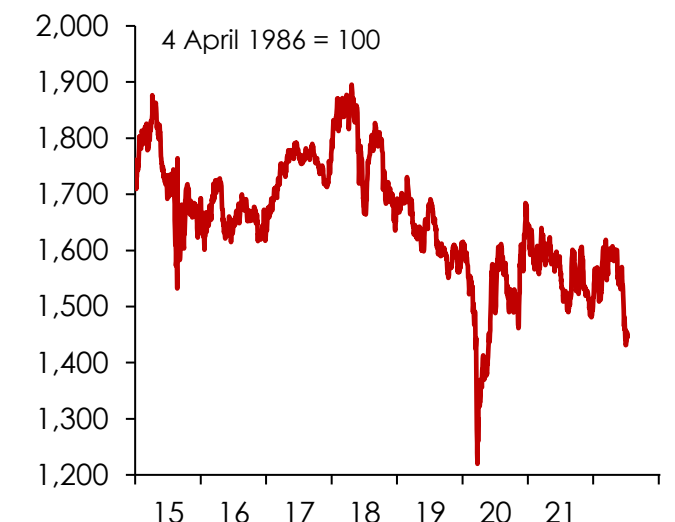
Straits Times Index



PSE i



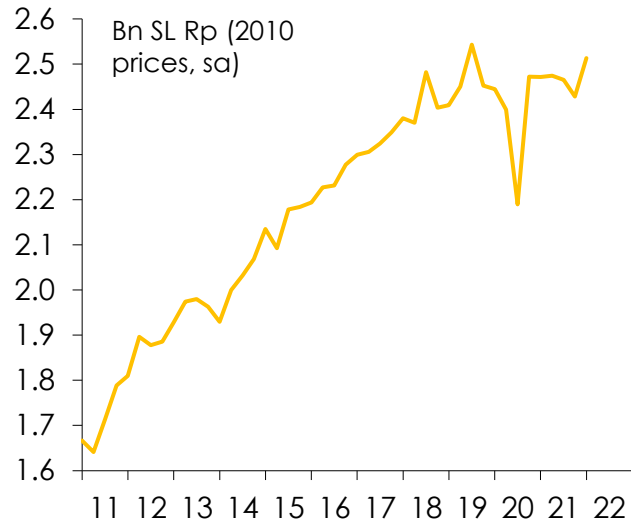
KLCI



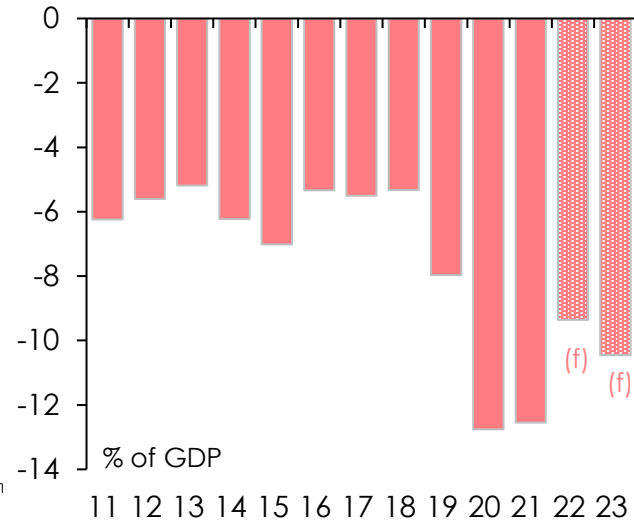
Sri Lanka's inflation rate jumped to 39% in May (with core inflation at 28%) following the sharp depreciation of its currency since early March

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

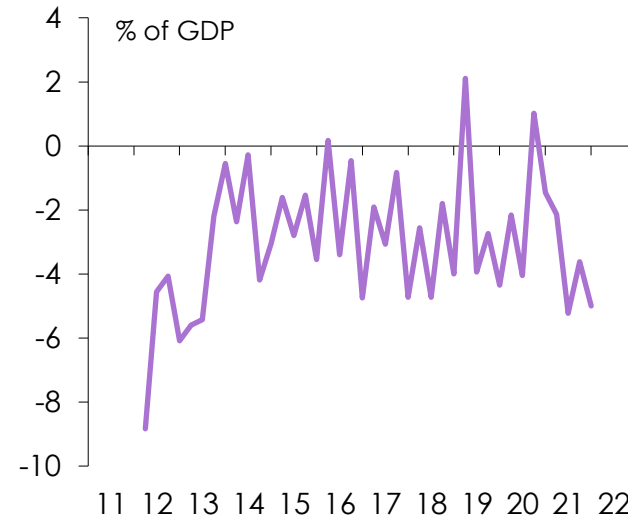
Real GDP



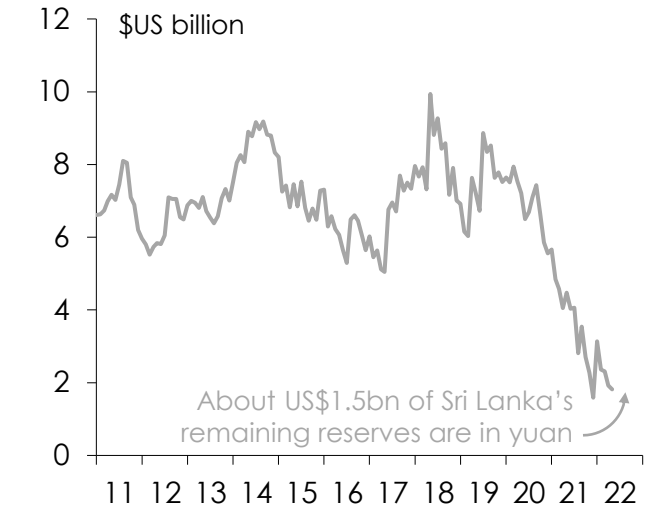
Fiscal balance



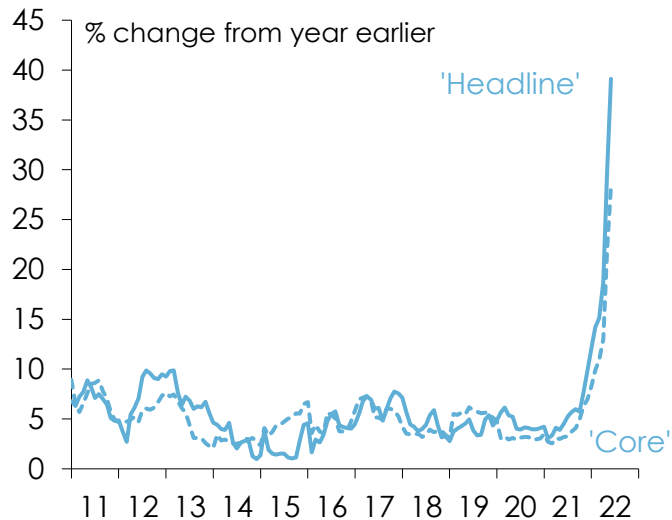
Current account balance



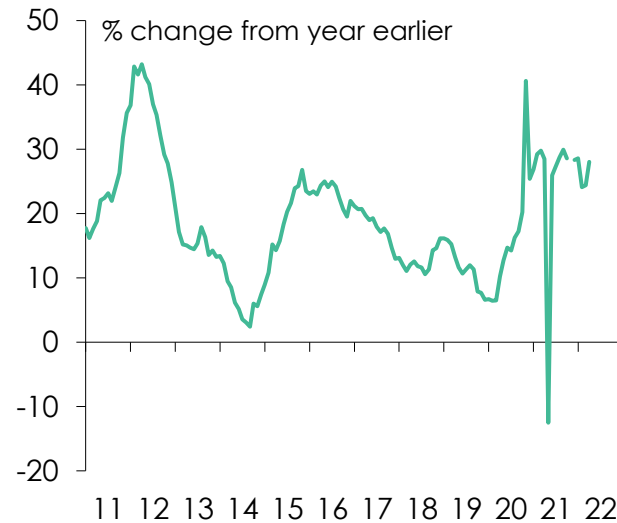
FX reserves



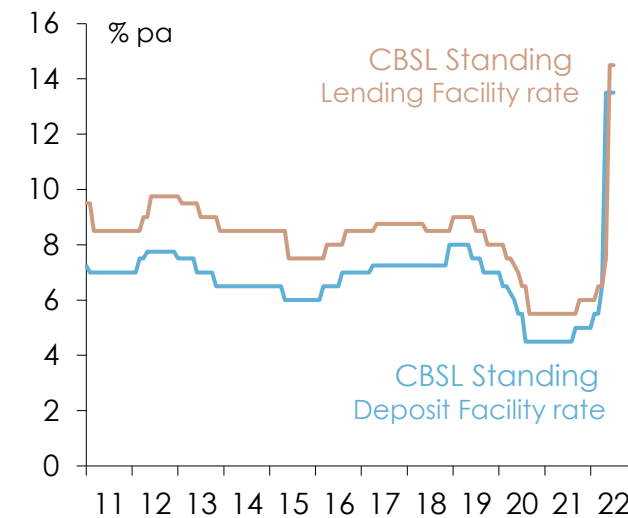
Consumer prices



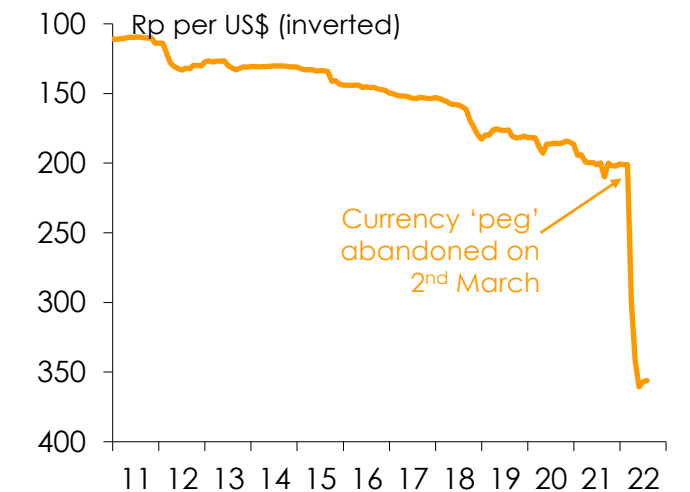
Credit growth



Interest rates



SL rupee vs US\$



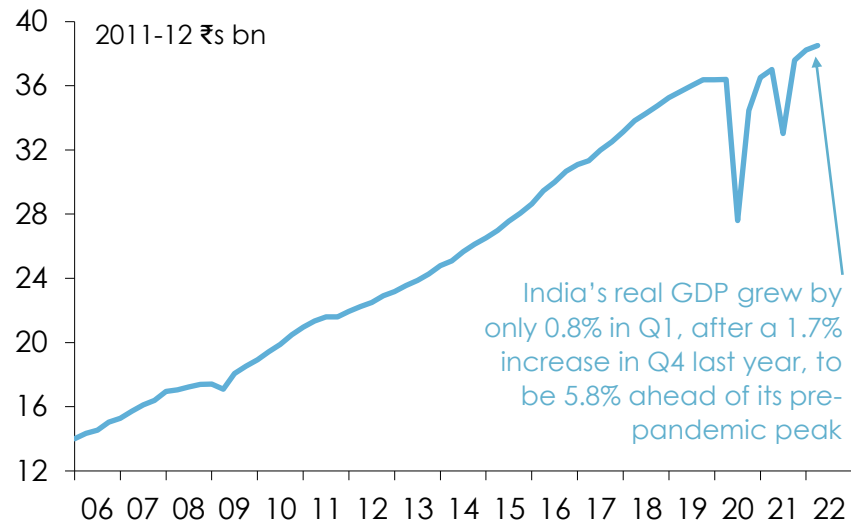
Note: GDP data seasonally adjusted using Refinitiv Datastream; CPI data are for Colombo. Sources: [Sri Lanka Department of Census and Statistics](#); [Central Bank of Sri Lanka](#); IMF, [Fiscal Monitor](#), April 2022; Refinitiv Datastream. [Return to "What's New"](#).

India

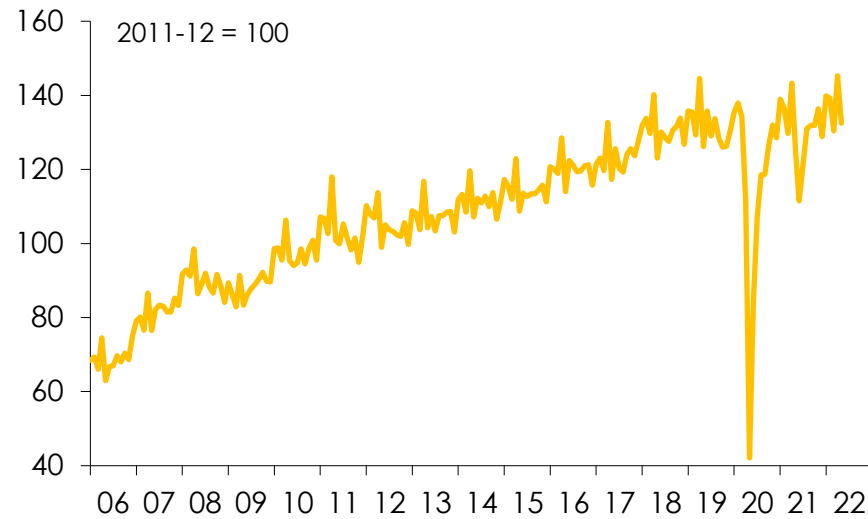
India's GDP growth rate has slowed sharply over the past two quarters, after bouncing strongly out of its second Covid recession in mid-2022

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

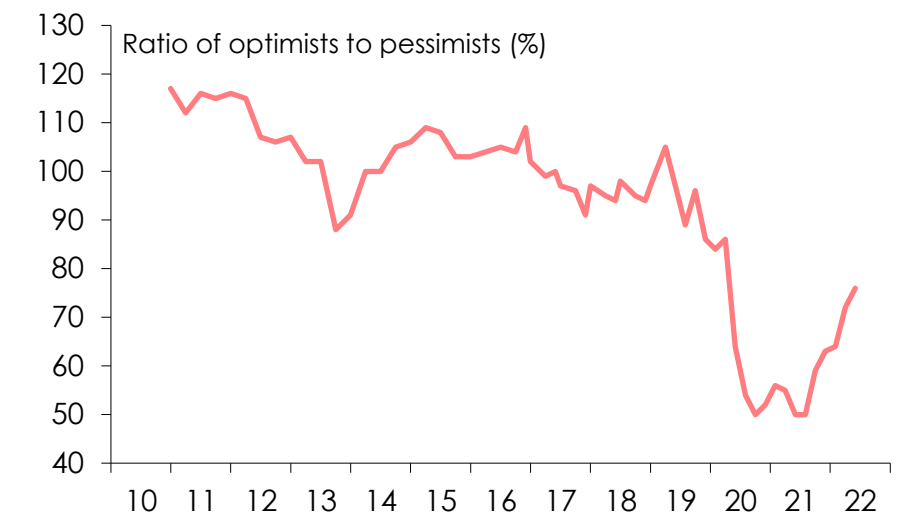
Quarterly real GDP



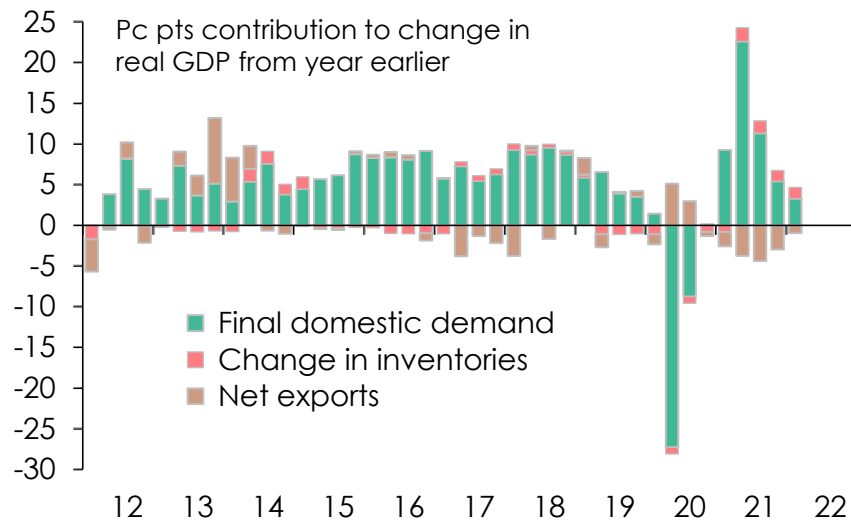
Manufacturing production



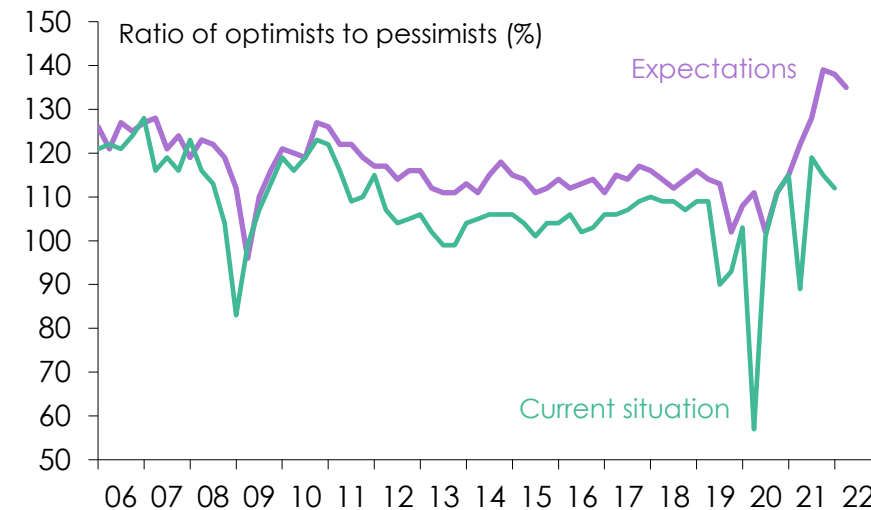
Consumer confidence



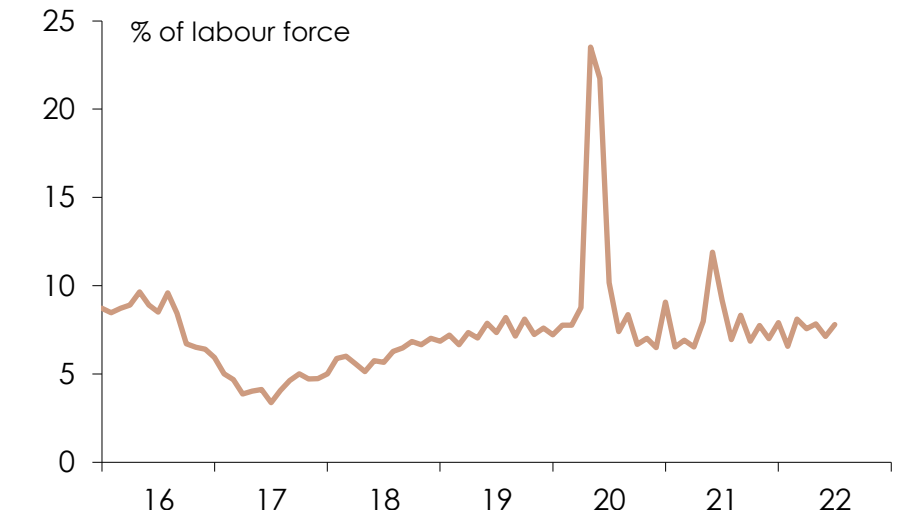
Contributions to real GDP growth



Industrial sector sentiment



Unemployment rate

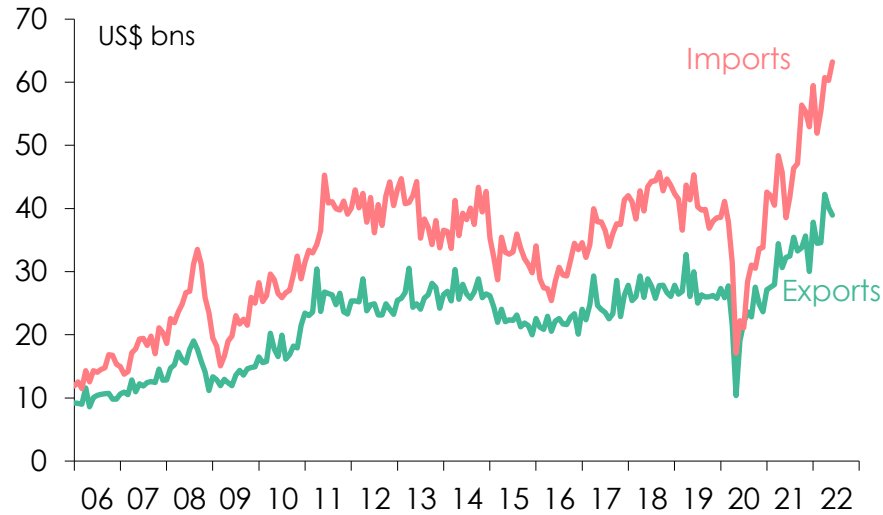


Sources: OECD, [Quarterly National Accounts dataset](#); Government of India, Ministry of Statistics and Programme Implementation, [National Accounts Data](#), and [IIP Data](#); Reserve Bank of India, [Quarterly Industrial Outlook Survey](#) and [Consumer Confidence Survey Bi-Monthly](#); Centre for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

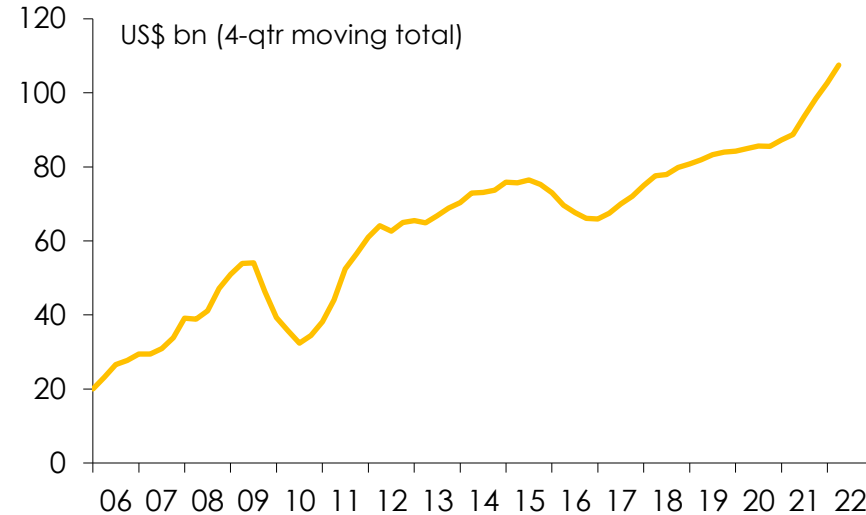
India's merchandise trade deficit has deteriorated sharply due to higher oil prices but its overall external position remains relatively stable

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

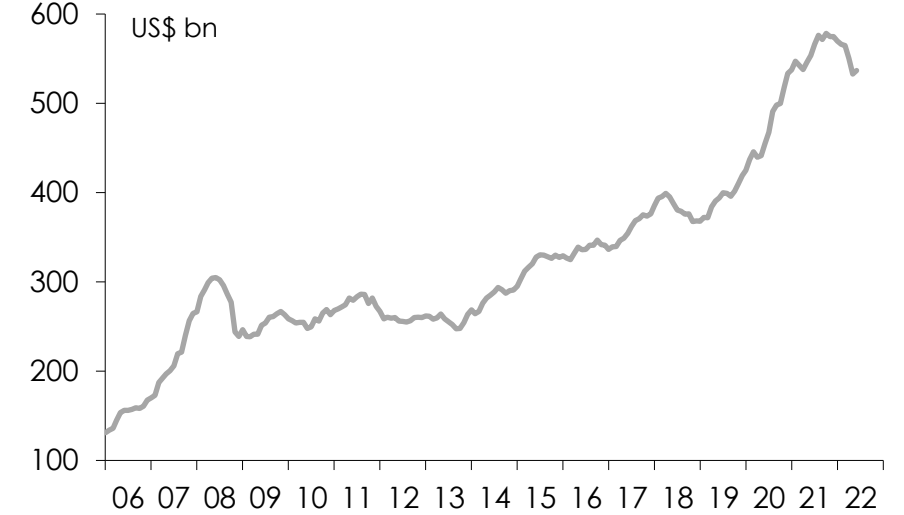
Merchandise exports and imports



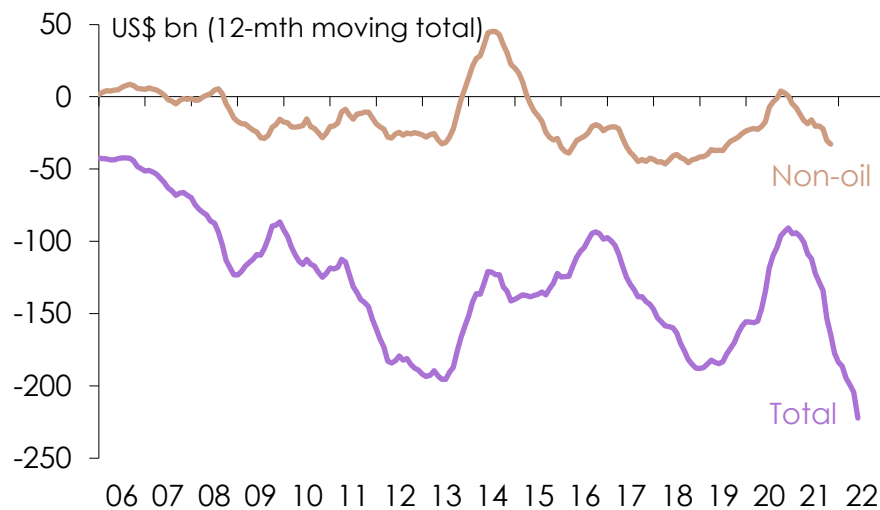
Services trade balance



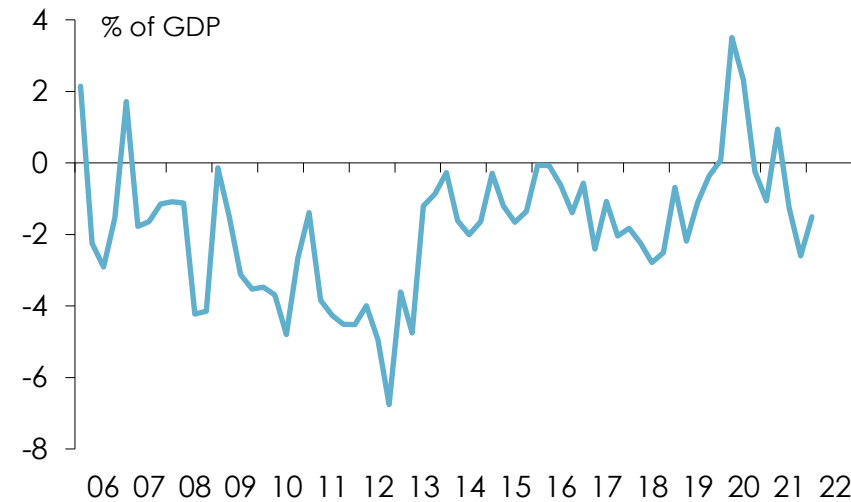
Foreign exchange reserves



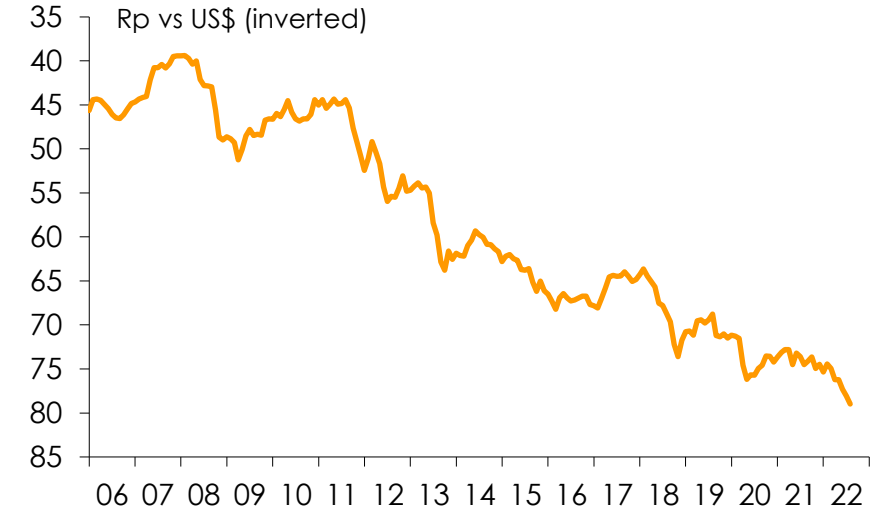
Merchandise trade balance



Current account balance



Rupee vs US dollar

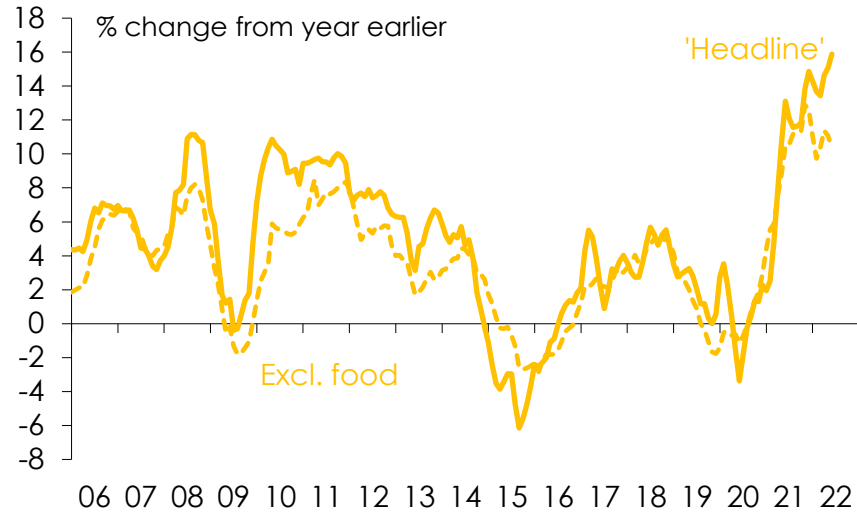


Sources: Government of India, Ministry of Commerce and Industry, [Trade Statistics](#); Reserve Bank of India, [Special Data Dissemination Standards - Balance of Payments](#) and [Weekly Statistical Supplement - Extract](#); Refinitiv Datastream. [Return to "What's New"](#).

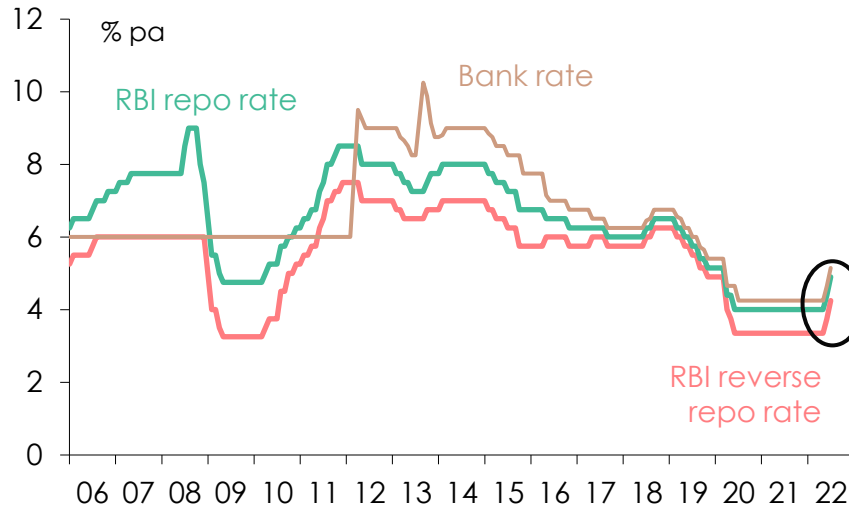
India's annual inflation rate eased slightly to 7.0% in May from 7.8% in April, but it's still well above the RBI's 2-6% target range

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

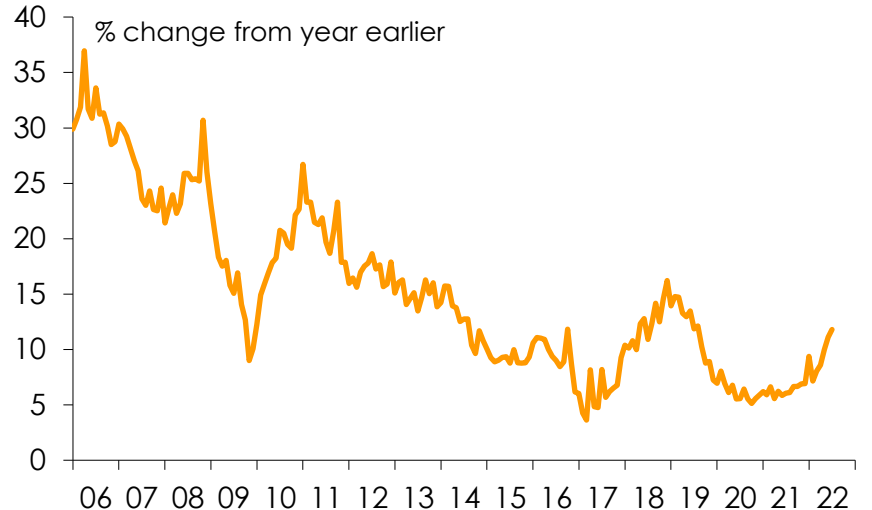
Wholesale prices



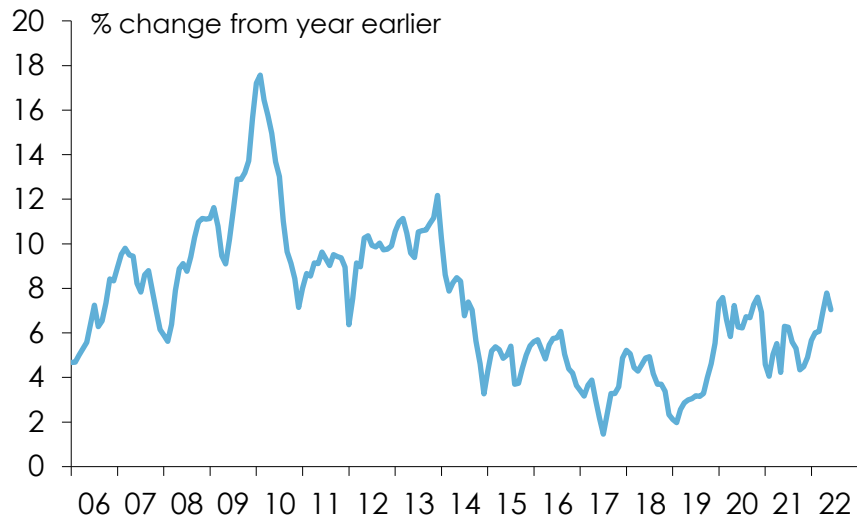
RBI policy interest rates



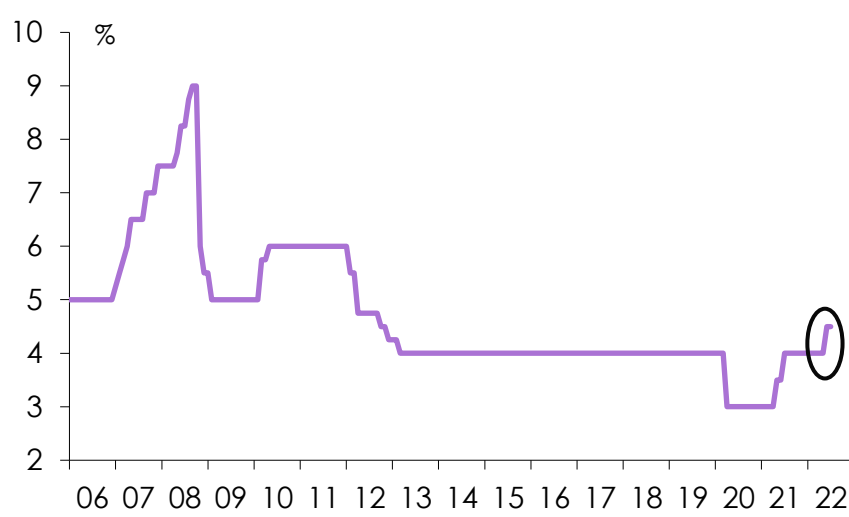
Bank lending



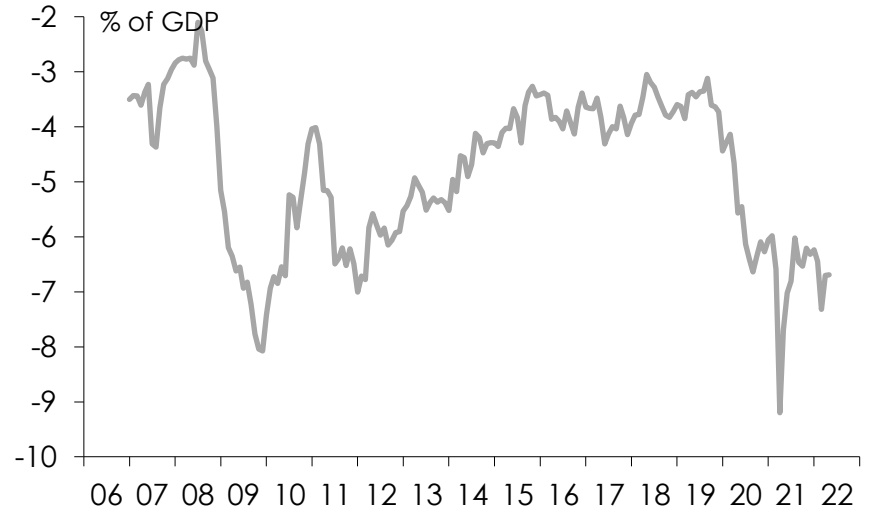
Consumer prices



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"](#).

Canada, Australia and New Zealand

The RBA will likely raise its cash rate again, perhaps by 50bp, on Tuesday, while the BoC and RBNZ will lift their policy rates again next week

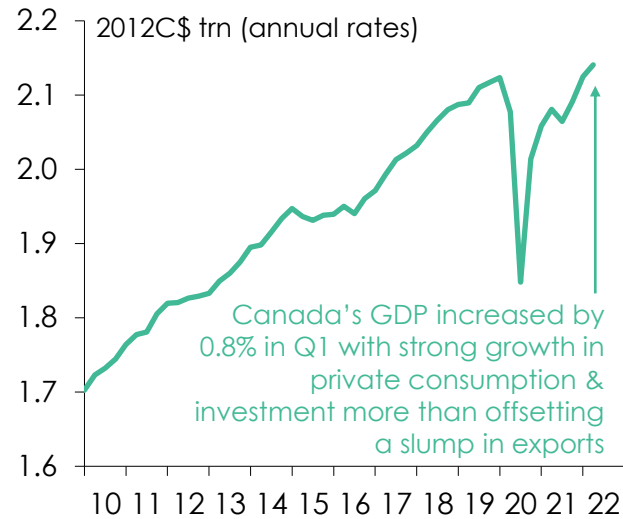
THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

- ❑ The [Bank of Canada](#) lifted its policy interest rate by 50 basis points, to 1.50%, at its Governing Council meeting on 1st June, following a similar move at its last meeting in April and an initial 25bp rise in March ([slide 112](#))
 - [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 BoC Governing Council meets again on 13th August
- ❑ The [Reserve Bank of Australia](#) is expected to lift its cash rate again, possibly by another 50 basis points, at this coming Tuesday’s Board meeting ([slide 113](#))
 - the RBA raised its cash rate by 25bp, to 0.35%, at the beginning of May, and then surprised markets with a 50bp increase at its June meeting
 - 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, in a [speech](#) the following week, committed the RBA to doing “whatever is necessary to ensure that inflation returns to the 2-3% target over time”
- ❑ The [Reserve Bank of New Zealand](#) raised its official cash rate by 50bp, to 2.0%, at its 25th May Monetary Policy Committee meeting – the sixth increase, for a total of 175bp, since October last year ([slide 114](#))
 - 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
 - the RBNZ MPC meets again on 13th July

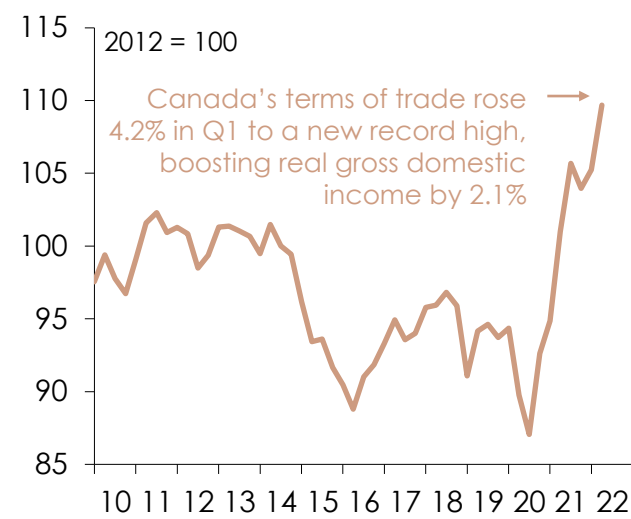
Canada's annual 'headline' inflation rate rose to 7.6% in May, the highest since 1983, and 'core' inflation to 5.2%, the highest since 1991

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

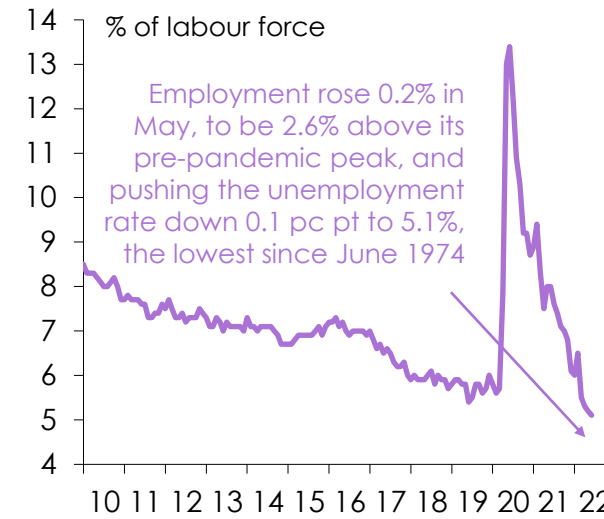
Real GDP



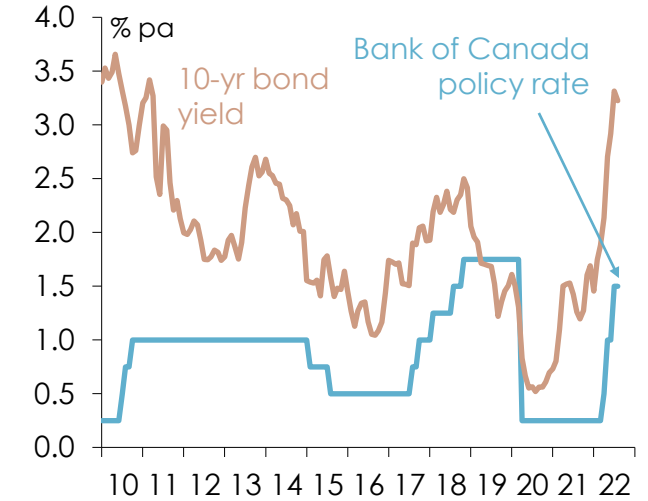
Terms of trade



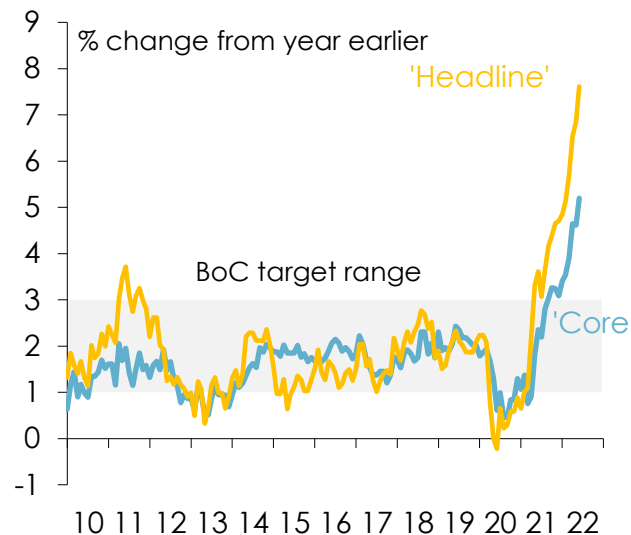
Unemployment



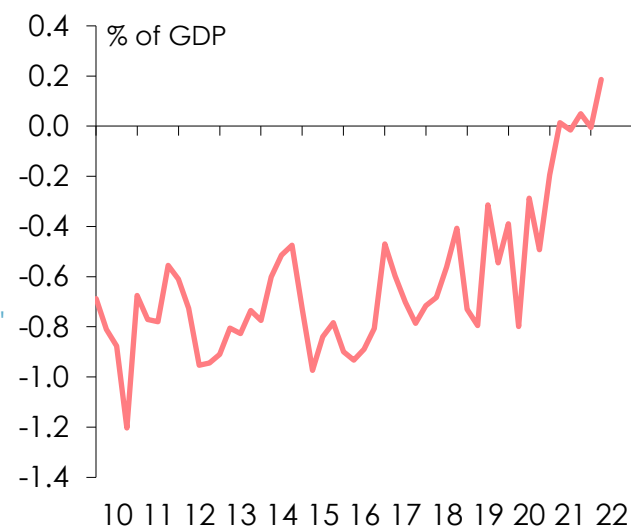
Interest rates



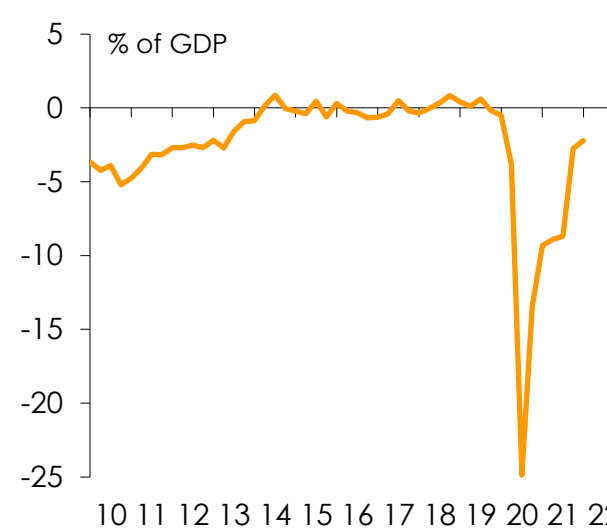
Consumer prices



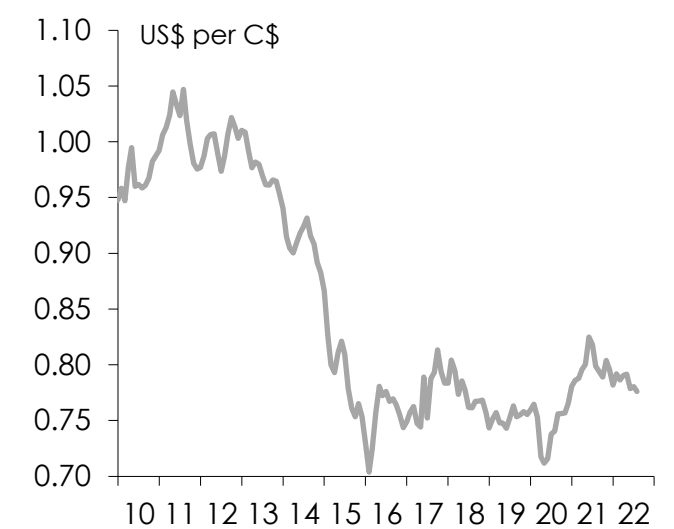
Current account balance



Government net lending



C\$ vs US\$

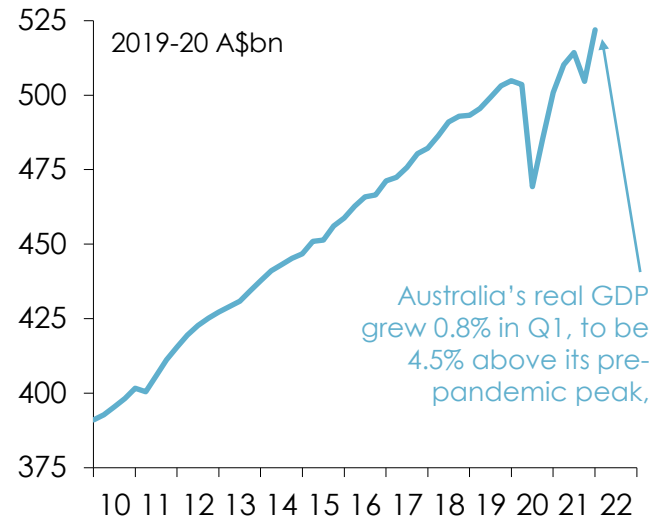


Sources: Statistics Canada, [National Gross Domestic Product \(GDP\) by Income and by Expenditure Accounts](#); [Consumer price index portal](#); [Canada's Balance of International Payments](#); [Labour Statistics](#); Bank of Canada, [Policy Interest Rate](#); Refinitiv Datastream. [Return to "What's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

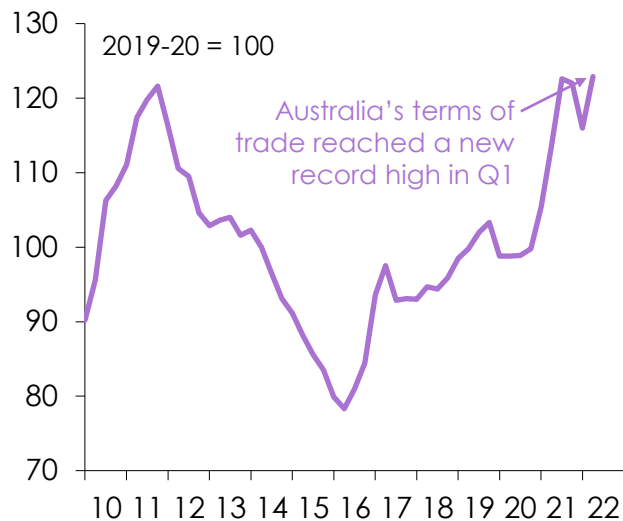
The RBA raised its cash rate by 50bp, to 0.85%, at its June board meeting, signalling much greater urgency in containing inflation pressures

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

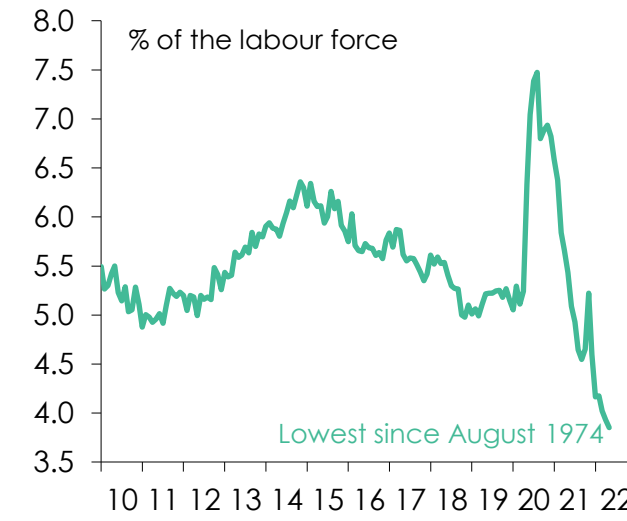
Real GDP



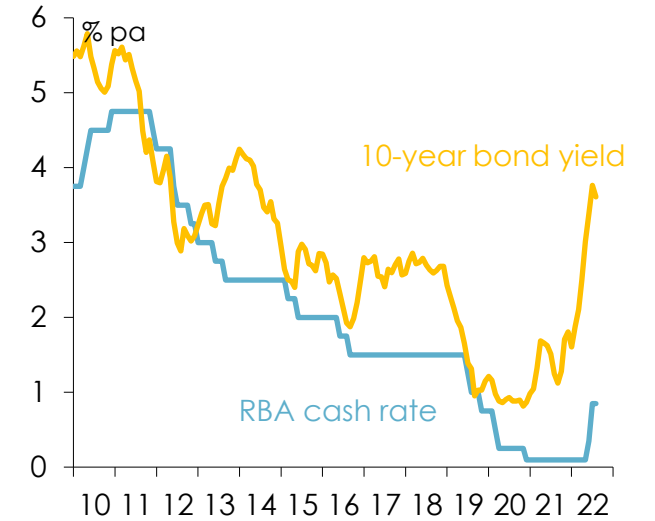
Terms of trade



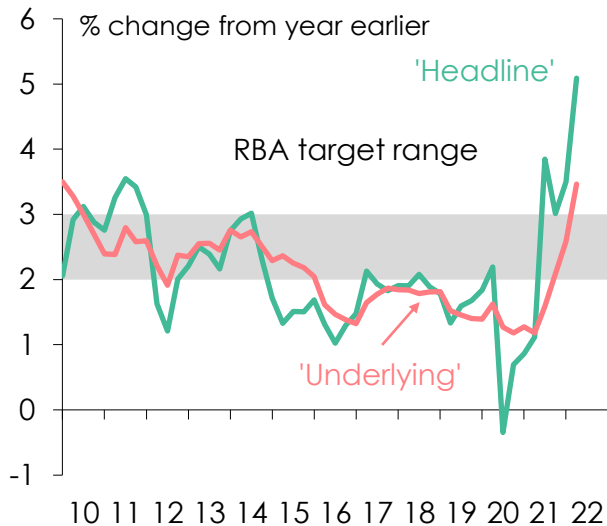
Unemployment



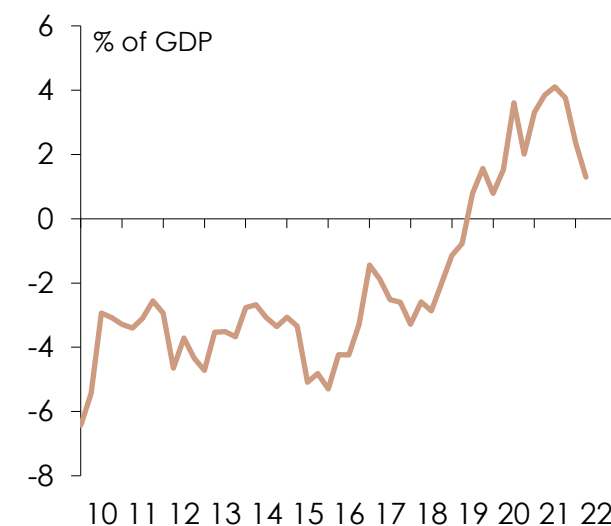
Interest rates



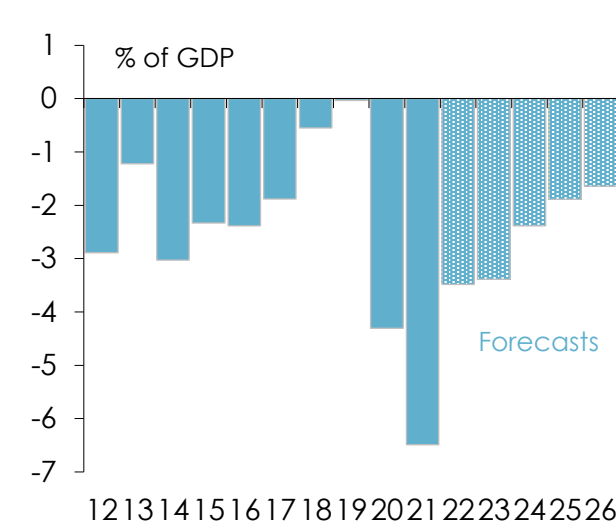
Consumer prices



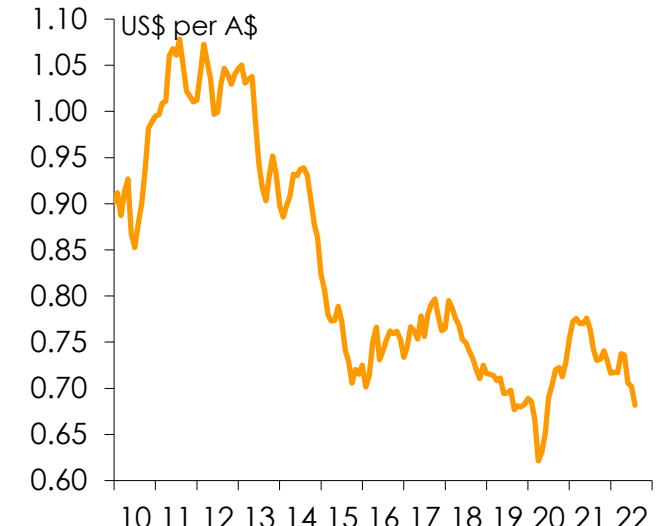
Current account balance



Government cash balance



A\$ vs US\$

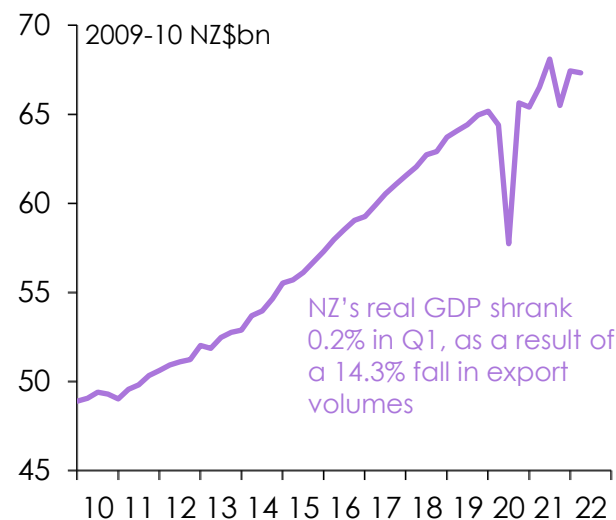


Note: The measure of 'underlying' inflation shown here is the trimmed mean. Government cash balance data are for fiscal years ended 30th June. Sources: Australian Bureau of Statistics, [Australian National Accounts: National Income, Expenditure and Product](#); [Consumer Price Index](#); [Balance of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

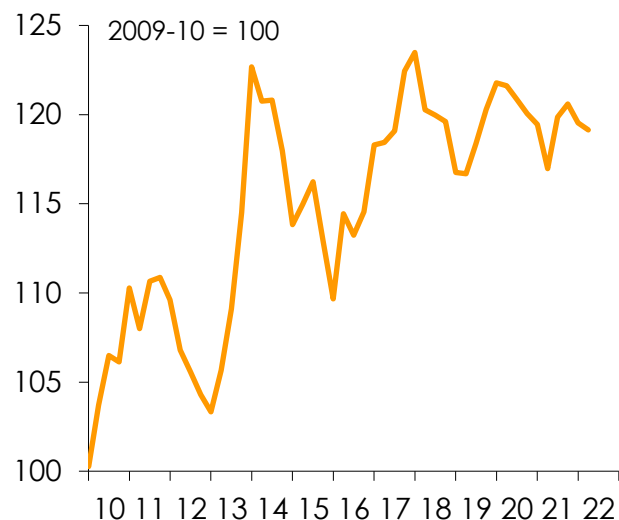
New Zealand's real GDP unexpectedly shrank 0.2% in Q1, with a 14.3% slump in export volumes outweighing 3.3% growth in domestic demand

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

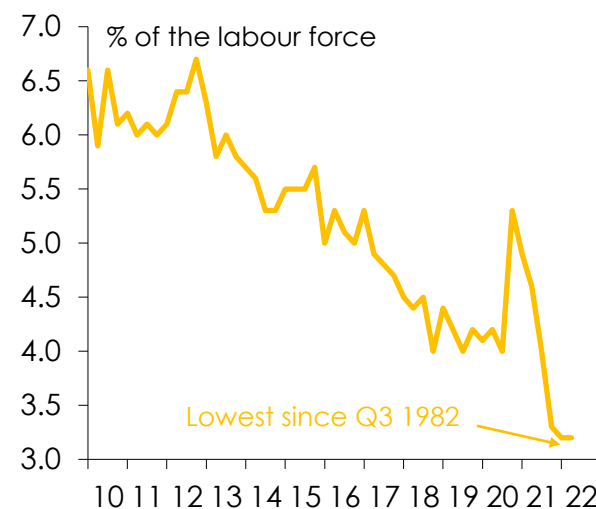
Real GDP



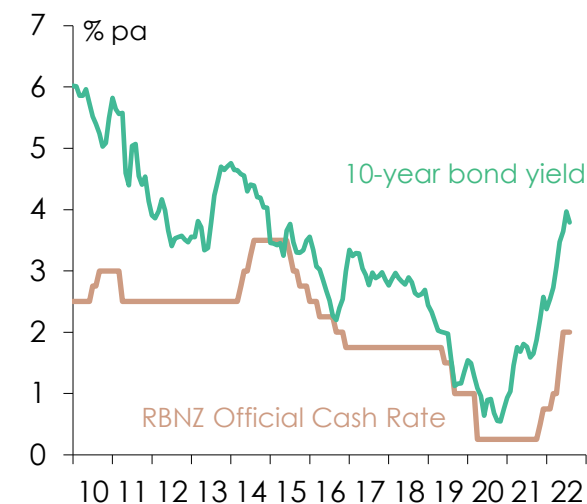
Terms of trade



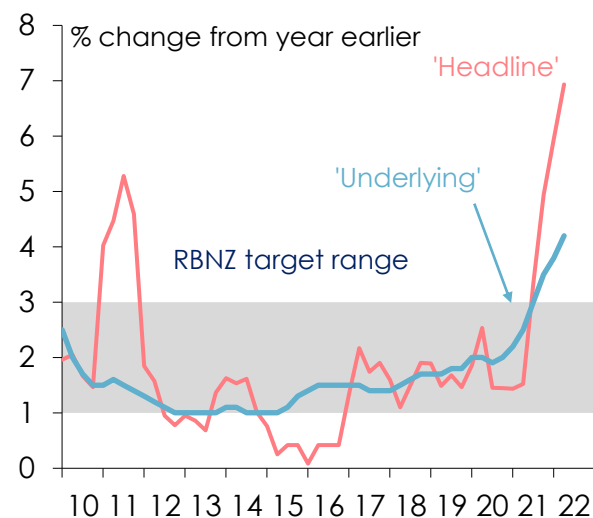
Unemployment



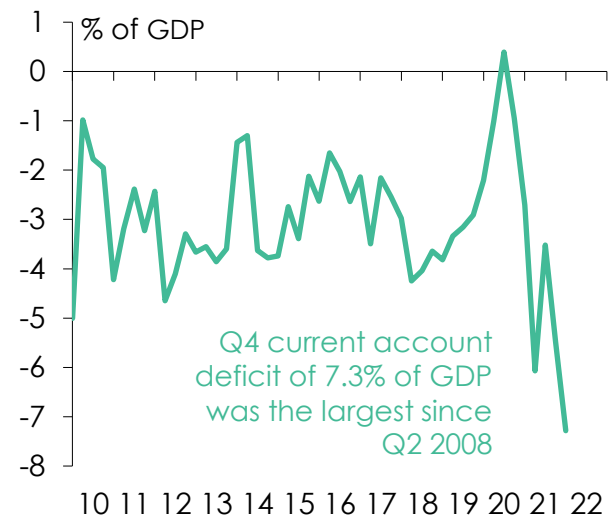
Interest rates



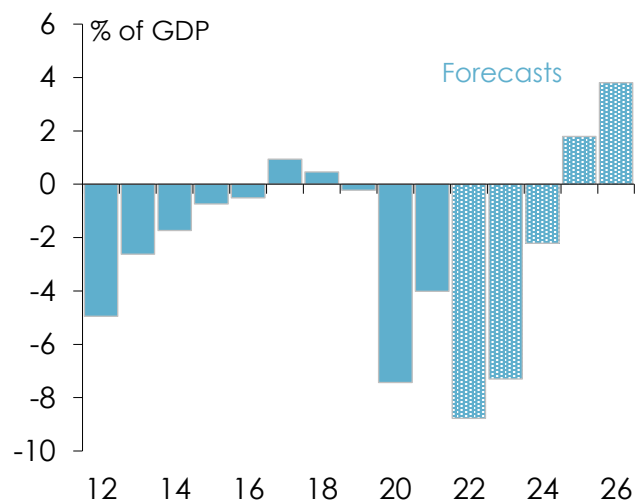
Consumer prices



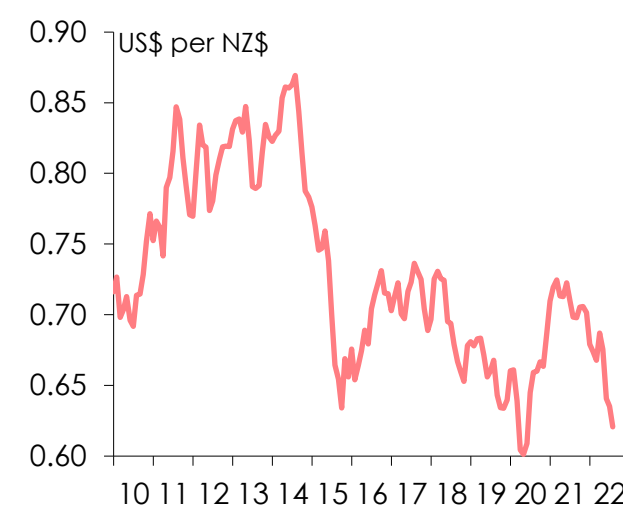
Current account balance



Government cash balance



NZ\$ vs US\$



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

The rest of the world

Hungary's and Colombia's central banks raised their policy rates by 185 and 150 bps, respectively, last week – the largest increments thus far

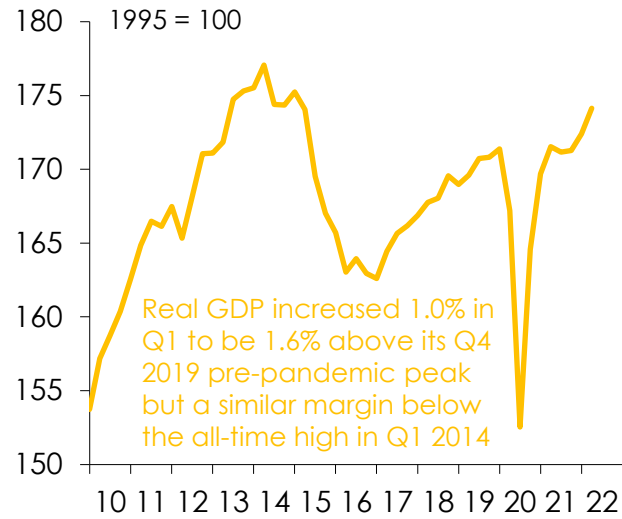
THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

- ❑ **Magyar Nemzeti Bank** (Hungary's central bank) raised its base rate by 185 basis points, to 7.75%, at its Monetary Council meeting on 28th June ([slide 122](#))
 - this was the 13th, and by far the largest, increase since MNB began tightening monetary policy in June last year – in part because the Monetary Council wanted to narrow the spread between the base
 - in its [post-meeting statement](#) the Monetary Council characterized its latest move as “a decisive step in order to anchor inflation expectations and mitigate second-round inflation risks”, noting that “inflation risks [had] further intensified over the past quarter”, prompting it to raise its forecasts for inflation this year and next to 11-12.6% (from 7.5-9.8% previously) and 6.8-9.2% (from 3.3-5%) respectively before returning to the 3% target in 2024 “as the first-round effects of war tensions abate, external inflationary effects moderate, the inflationary effects of the tax measures announced in June fade and as a result of the proactive central bank measures”
 - the Council concluded that “maintaining tighter monetary conditions for a longer period is warranted to manage increasing second-round inflation risks resulting from persistently negative supply effects” and foreshadowed that it would “continue the cycle of interest rate hikes until the outlook for inflation stabilizes around the central bank target in a sustainable manner and inflation risks become evenly balanced on the horizon of monetary policy”
- ❑ **Banco de la República Colombia** raised its policy rate by 150 basis points to 7.50% – the seventh, and largest, increase since October last year – at a Board of Directors meeting on 29th June ([slide 122](#))
 - the Board [described](#) its decision as “compatible with the strength that economic activity has shown in recent quarters” (prompting Bank staff to revise up their growth forecast for 2022 from 5% to 6.3%) and “will help monetary policy to position itself more quickly on a path that reduces inflation and converges to the target in the medium term” (inflation over the year to May was 9.1%, and “inflation expectations continued to rise and are significantly above the 3% target over the policy horizon”

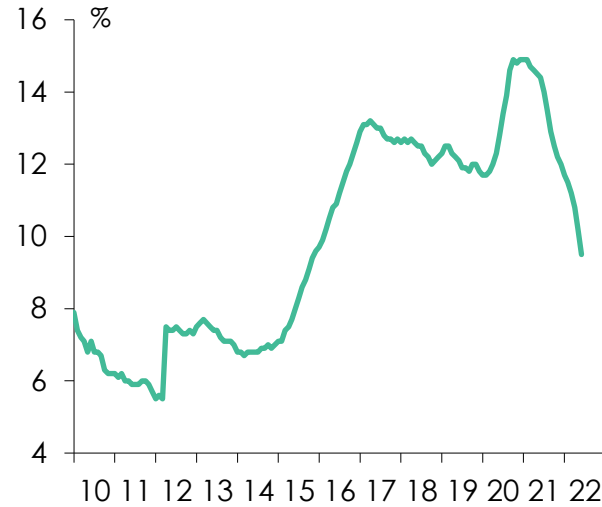
Brazil's central bank raised its policy (SELIC) rate another 50 bp, to 13.25%, at its most recent meeting in June

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

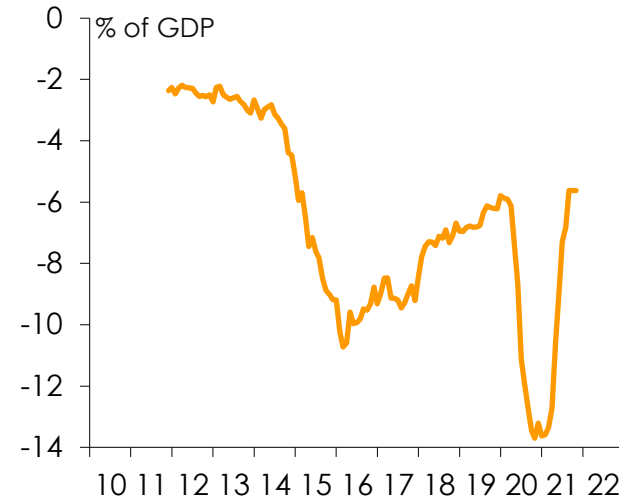
Real GDP



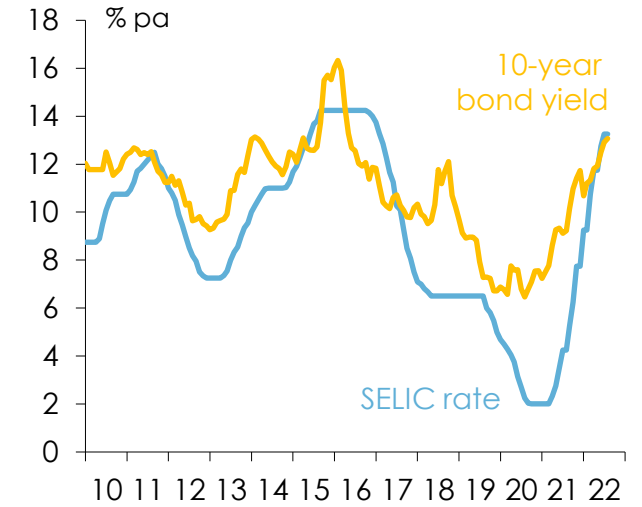
Unemployment



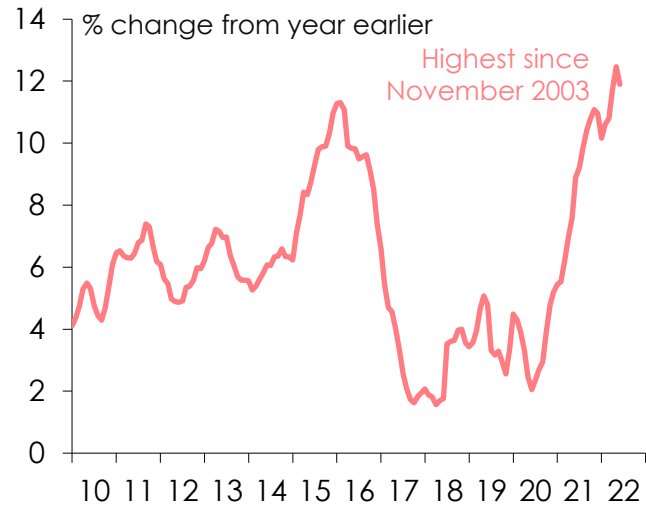
Public sector borrowing



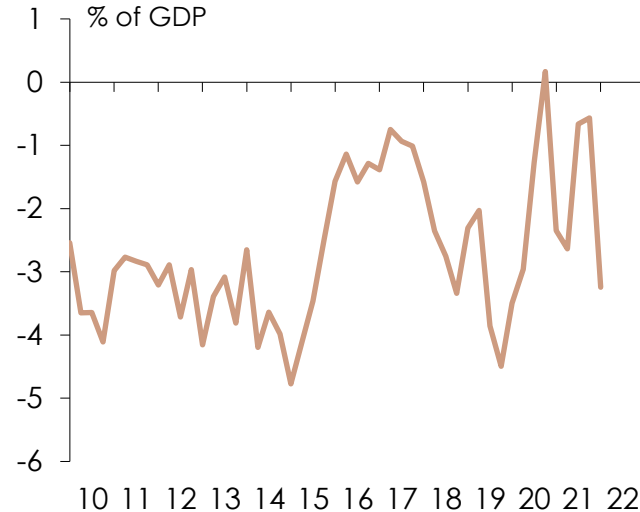
Interest rates



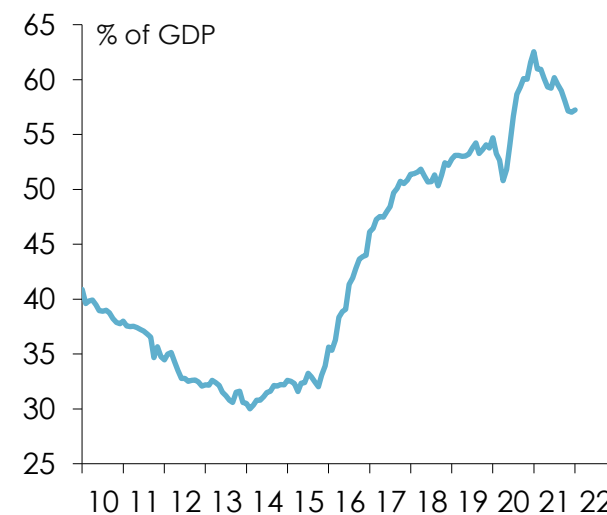
Inflation



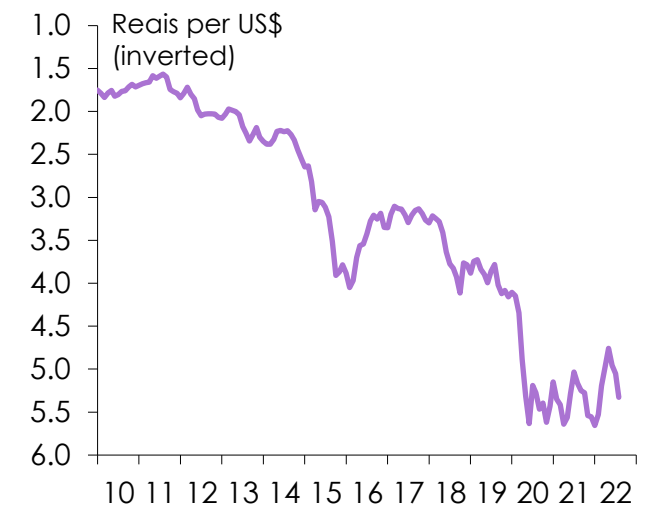
Current account balance



Public sector net debt



Brazilian real vs US\$

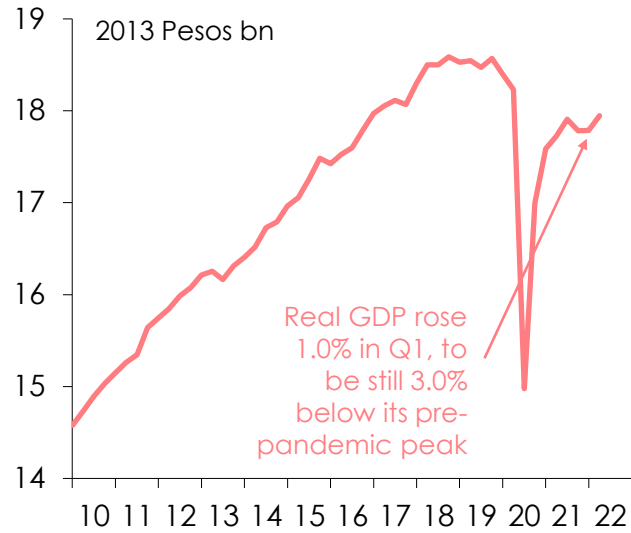


Sources: [Instituto Brasileiro de Geografia e Estatística](#) (IBGE); [Banco Central do Brasil](#); Refinitiv Datastream. [Return to "What's New"](#).

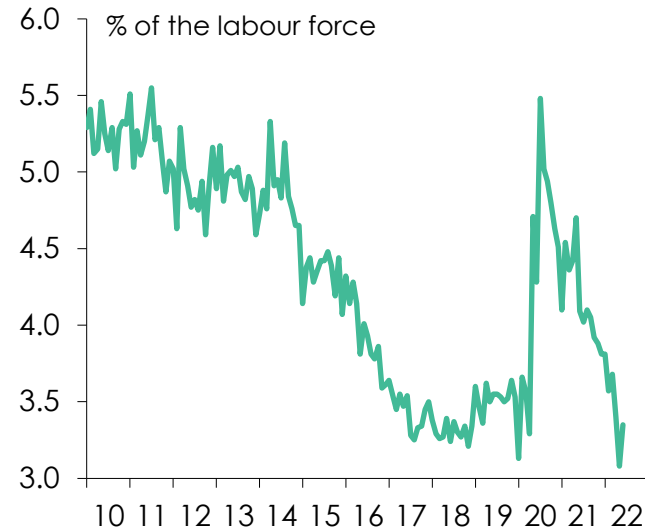
Banco de México raised its overnight rate by another 75bp, to 7.75%, at last month's Governing Board meeting

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Real GDP



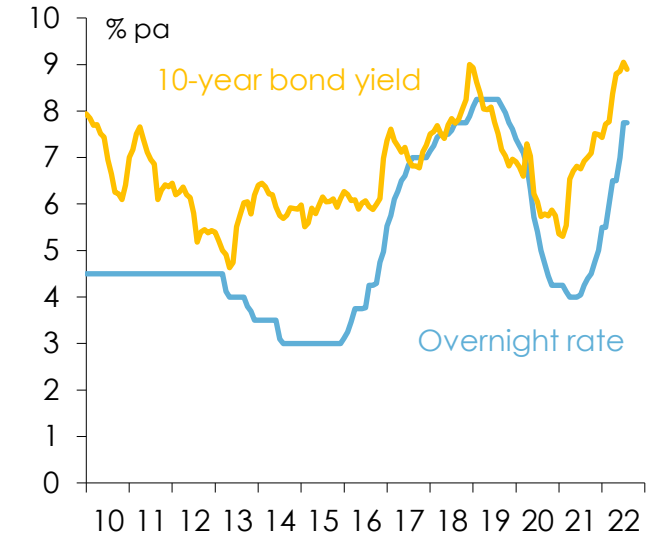
Unemployment



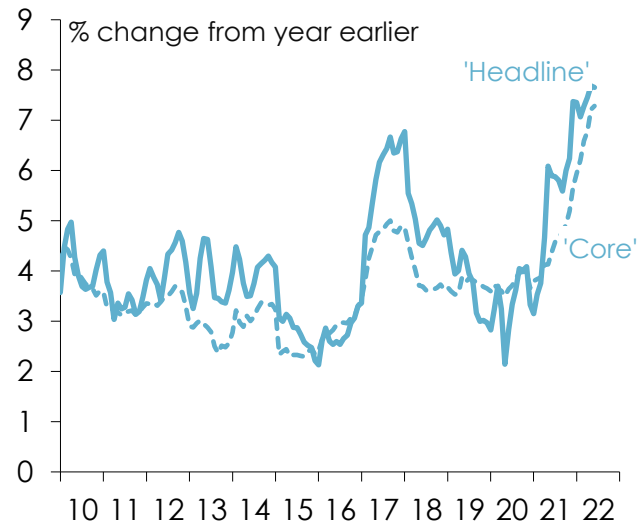
Bank lending



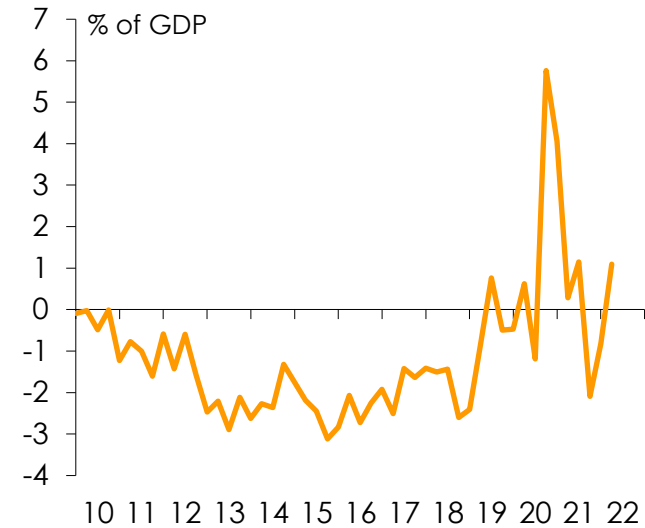
Interest rates



Inflation



Current account balance



Federal budget deficit



Mexican peso vs US\$

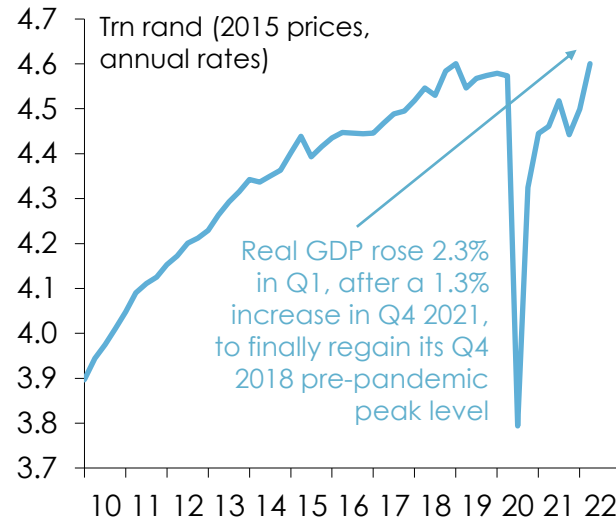


Sources [Banco de México](#); [Instituto Nacional de Estadística y Geografía \(INEGI\)](#); Refinitiv Datastream.. [Return to "What's New"](#).

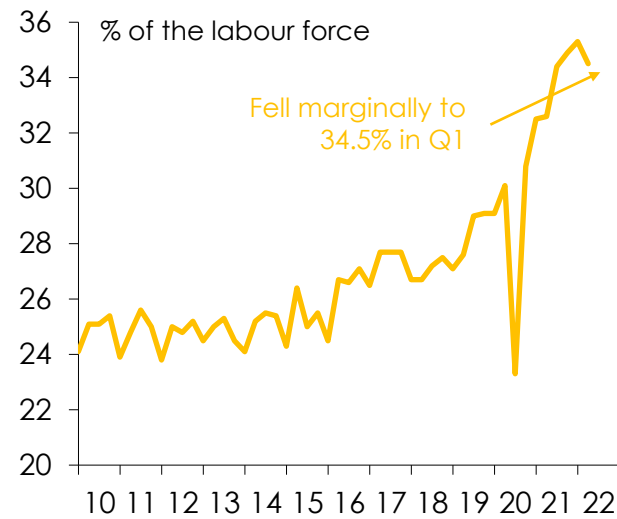
South Africa's annual 'headline' inflation rate jumped to 6.5% in May, the highest since January 2017, though 'core' inflation was lower at 4.1%

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

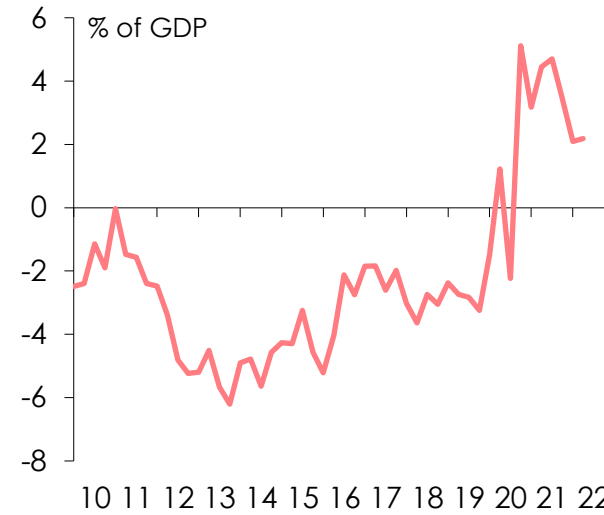
Real GDP



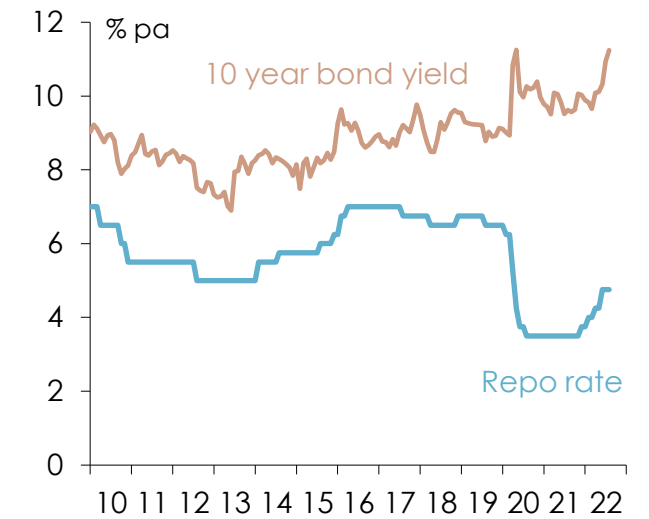
Unemployment



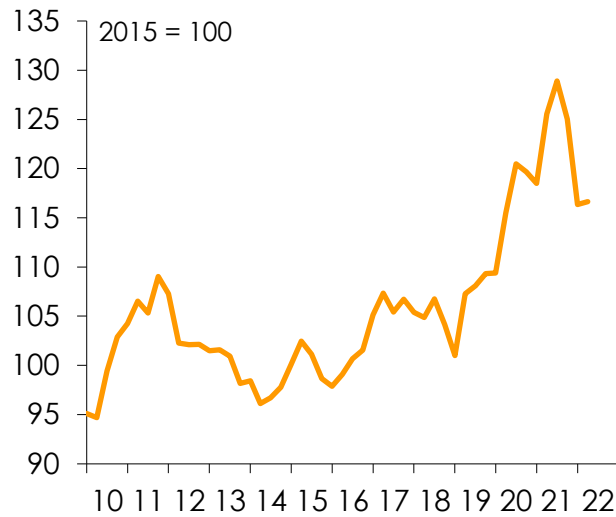
Current account balance



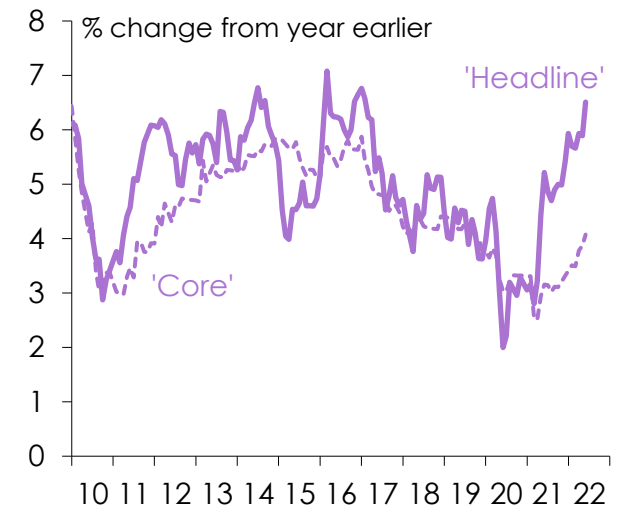
Interest rates



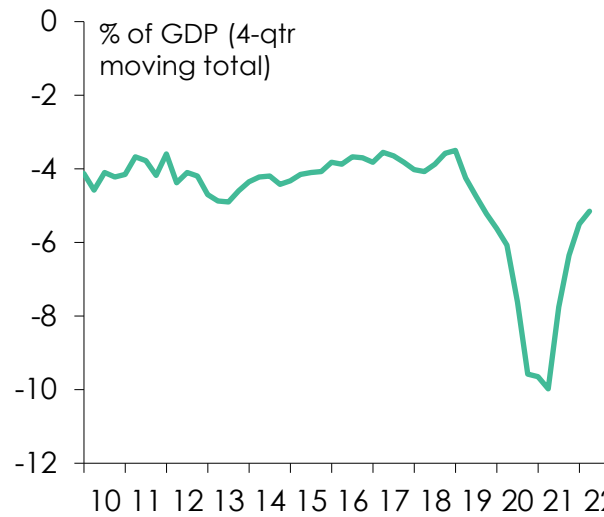
Terms of trade



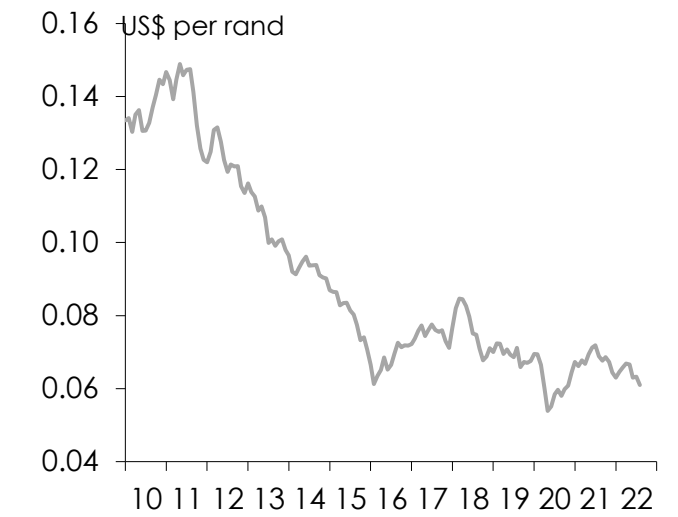
Inflation



Budget deficit



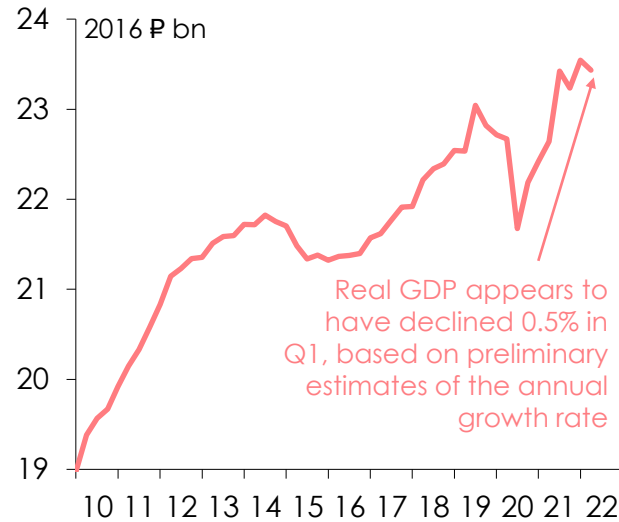
Rand vs US\$



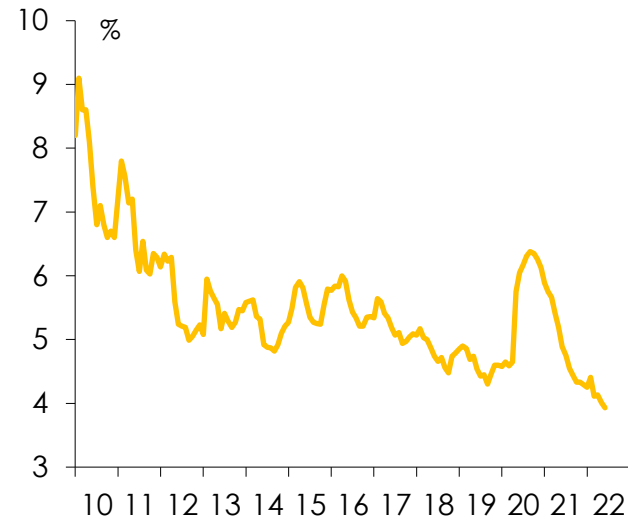
Russia's central bank has now fully unwound the large hike in interest rates after the imposition of sanctions, as the ruble rebounded strongly

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

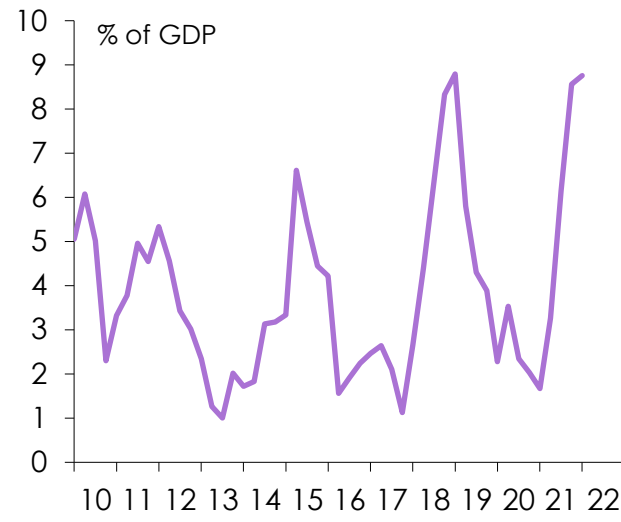
Real GDP



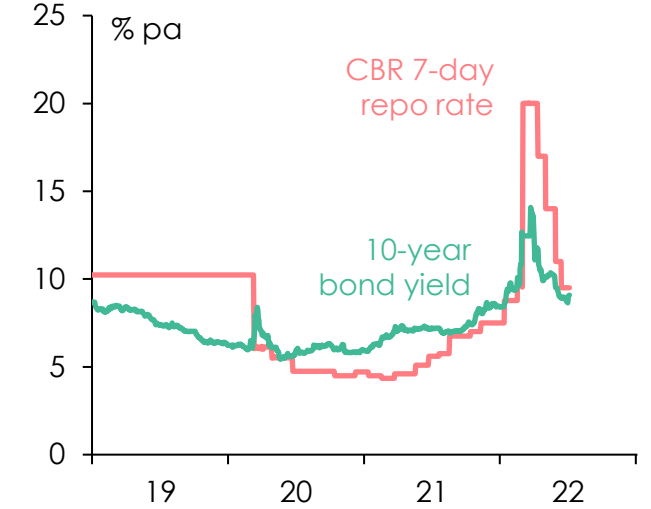
Unemployment



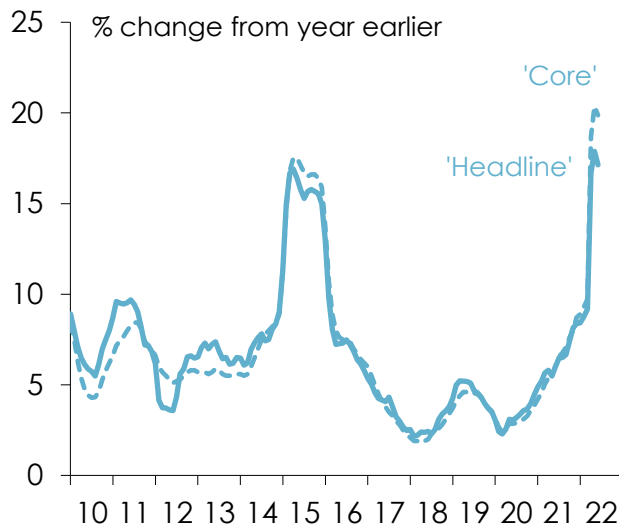
Current account balance



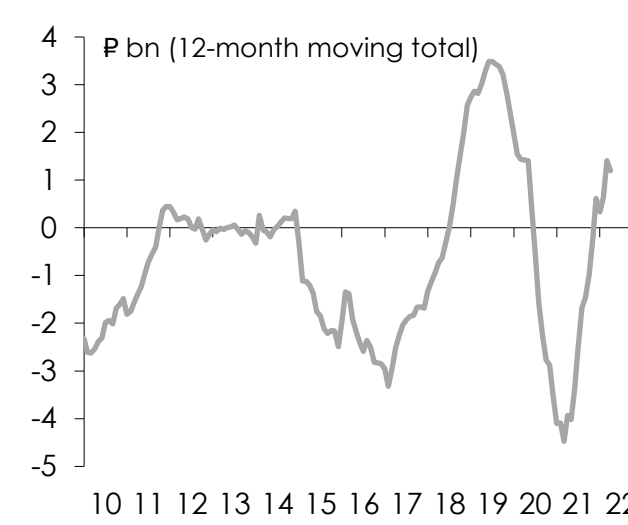
Interest rates



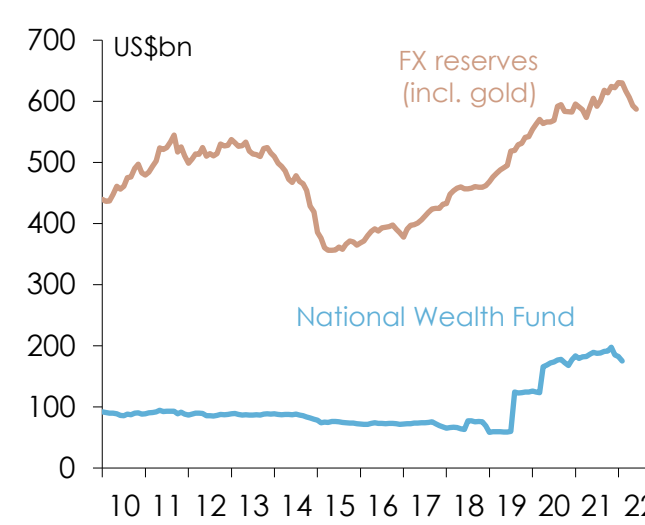
Inflation



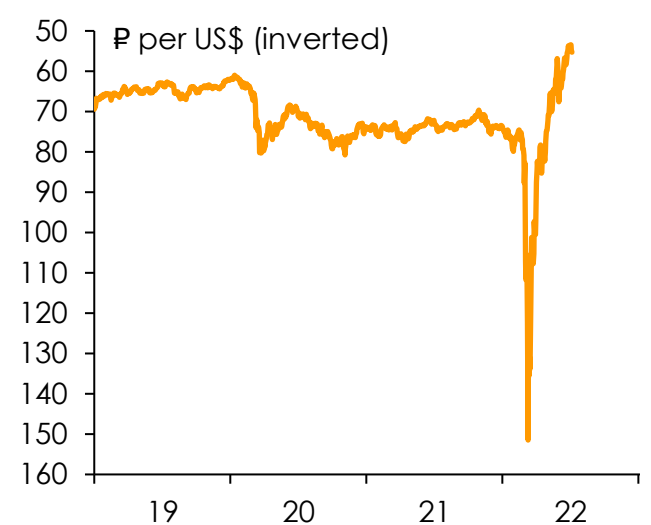
Federal budget balance



State financial assets



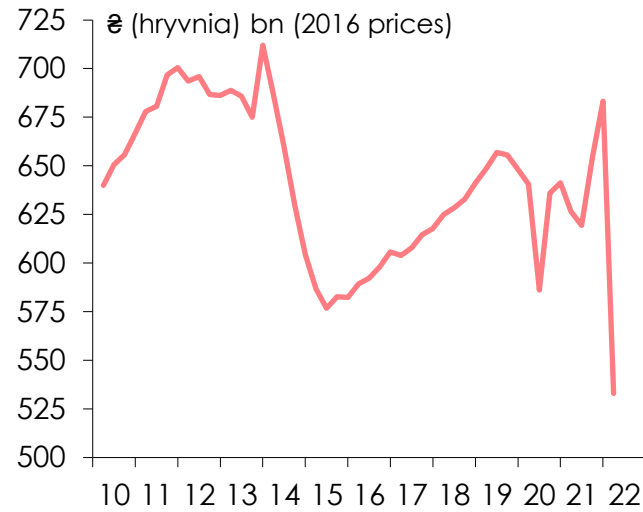
Russian ruble vs US\$



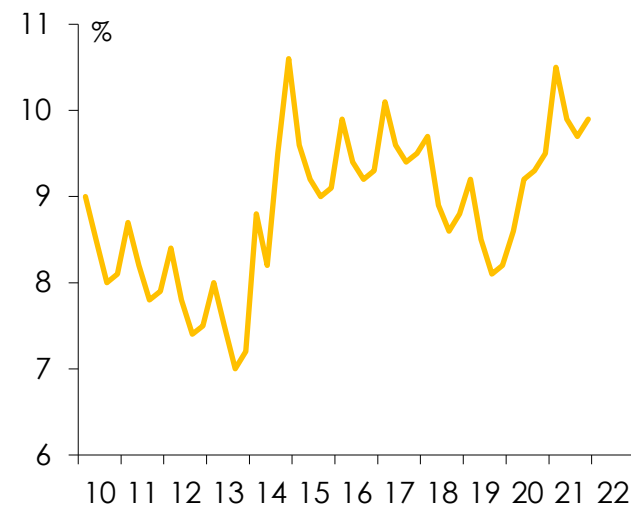
Ukraine's Q1 GDP was 15% smaller than a year earlier – despite which, Ukraine's central bank hiked its policy rate by 15 pc pts, to 25%

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

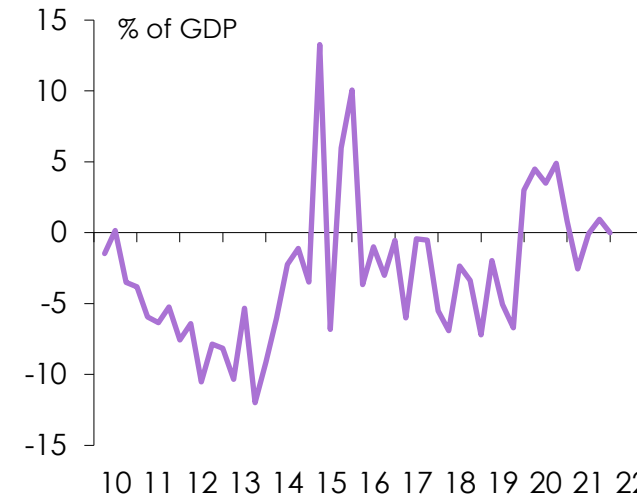
Real GDP



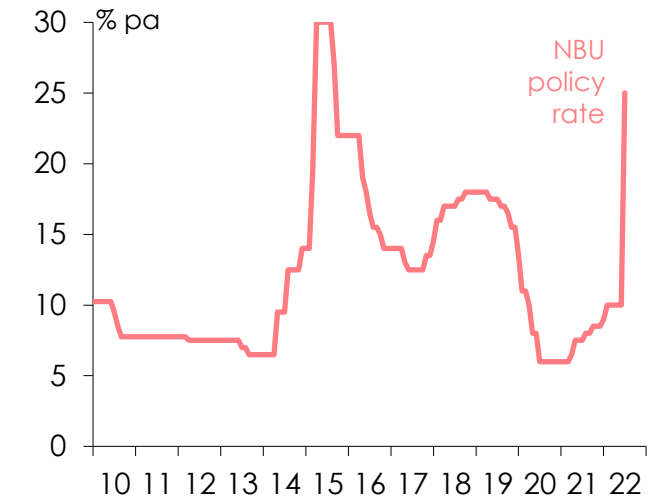
Unemployment



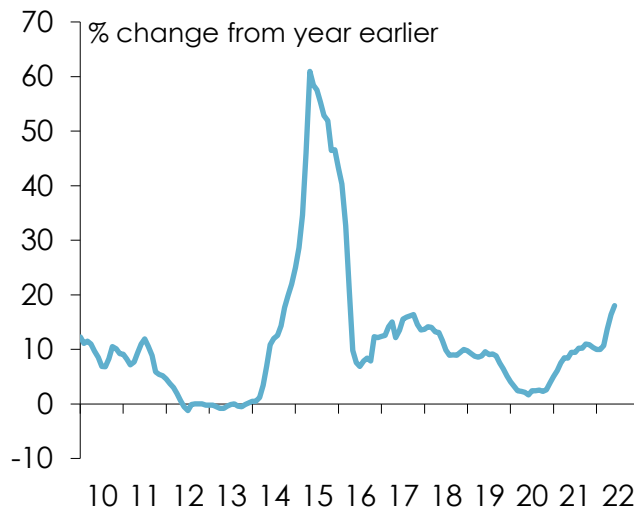
Current account balance



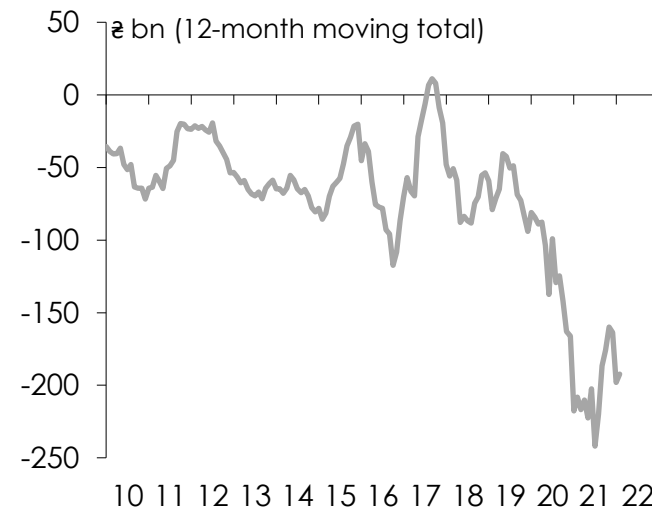
Interest rates



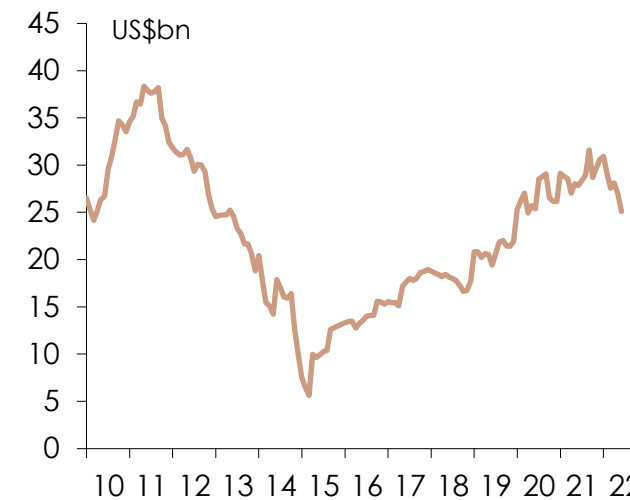
Inflation



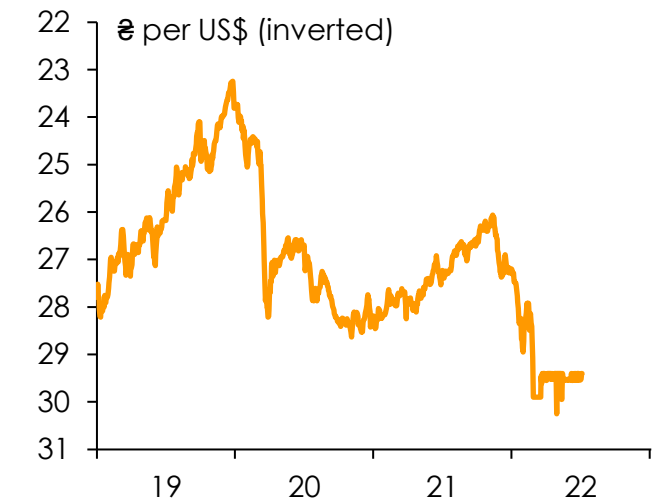
Budget deficit



FX reserves



Ukrainian hryvnia vs US\$

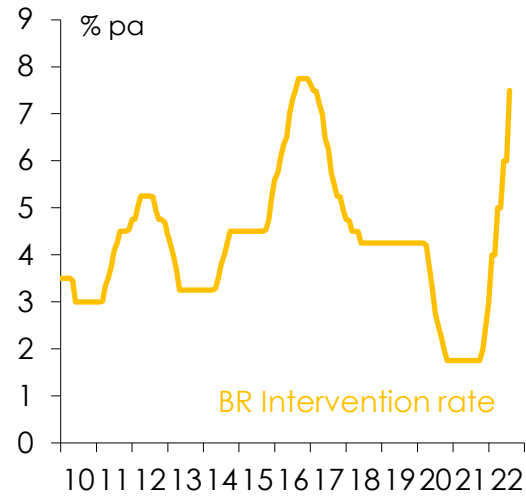


Sources: [State Statistics Service of Ukraine](#); [National Bank of Ukraine](#); Refinitiv Datastream. [Return to "What's New"](#).

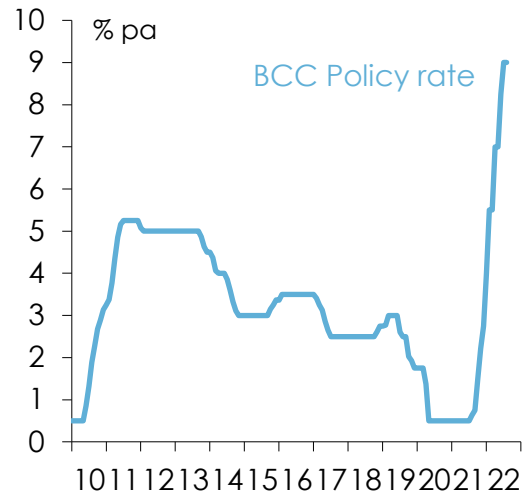
Central banks in Latin America, Central & Eastern Europe, and South Asia have been very forceful in tightening monetary policy

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

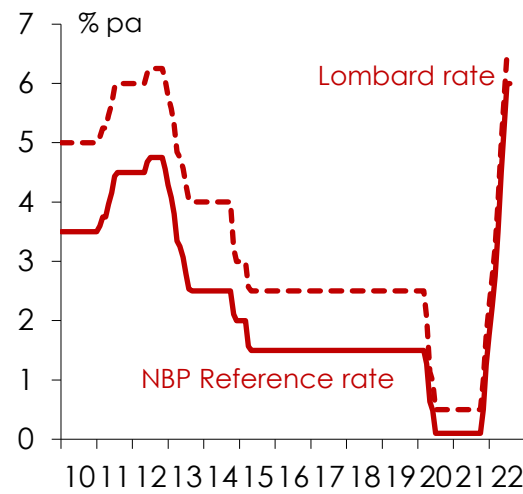
Colombia



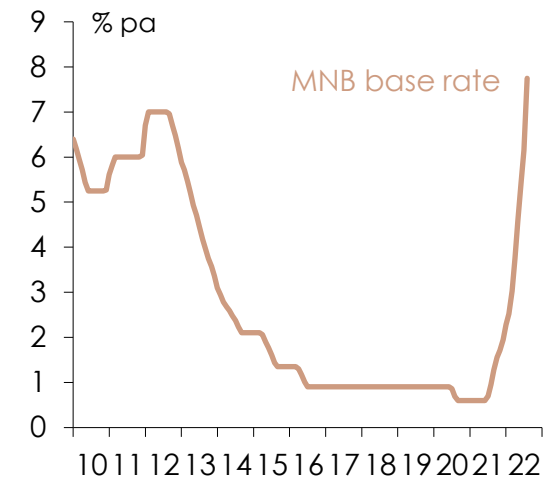
Chile



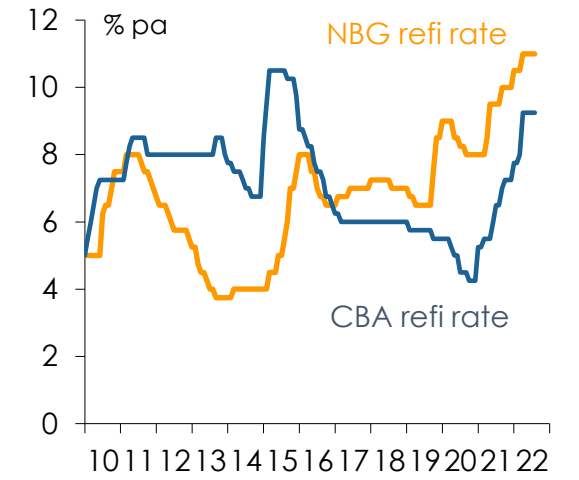
Poland



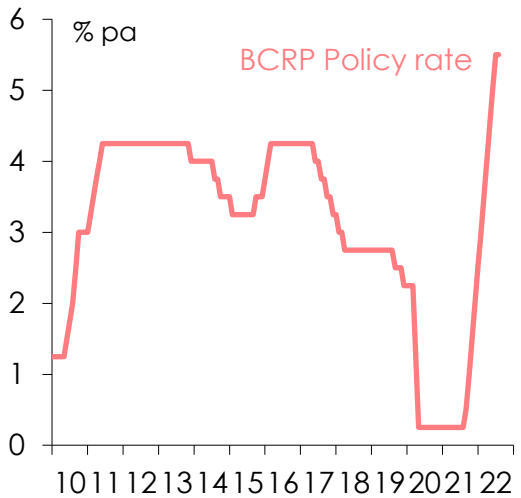
Hungary



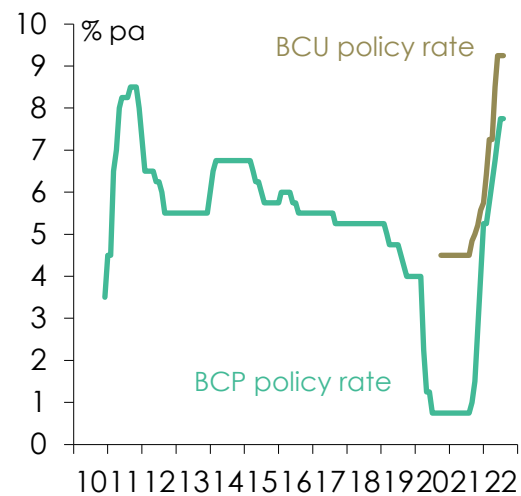
Georgia & Armenia



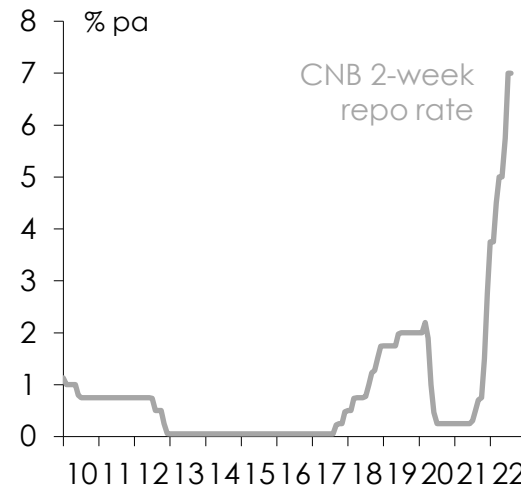
Peru



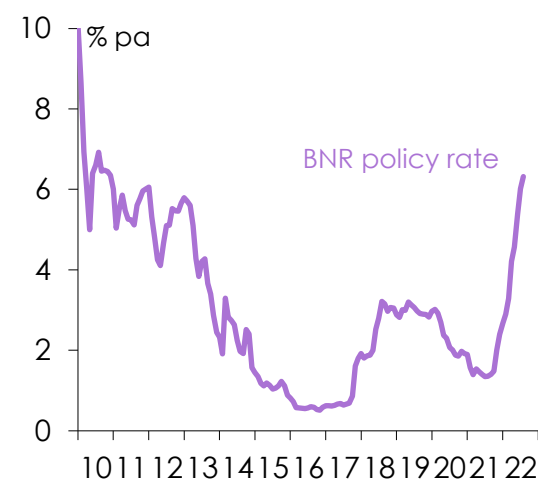
Paraguay & Uruguay



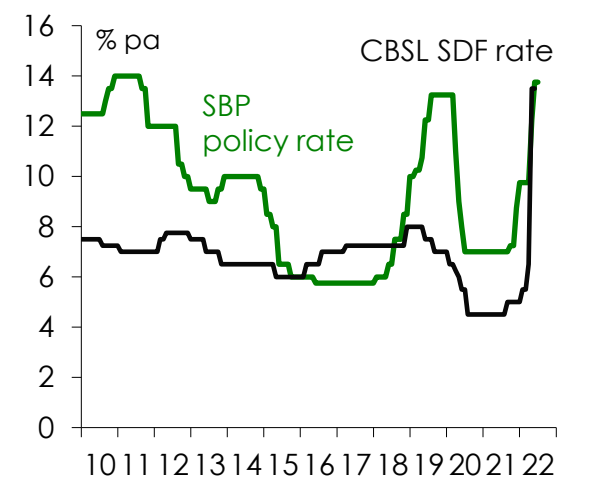
Czech Republic



Romania



Pakistan & Sri Lanka

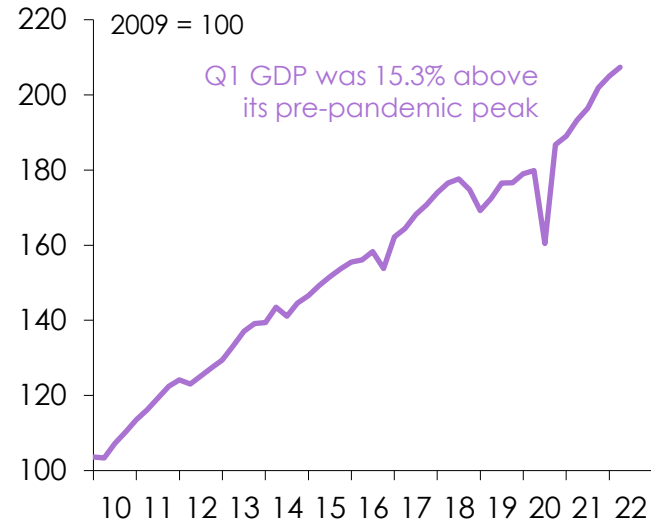


Sources: [Banco de la República Colombia](#); [Banco Central de Reserva del Perú](#); [Banco Central de Chile](#); [Banco Central del Uruguay](#); [Banco Central del Paraguay](#); [Narodowy Bank Polski](#); [Česká Národní Banka](#); [Magyar Nemzeti Bank](#); [Banca Națională a României](#); [Sakartvelos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

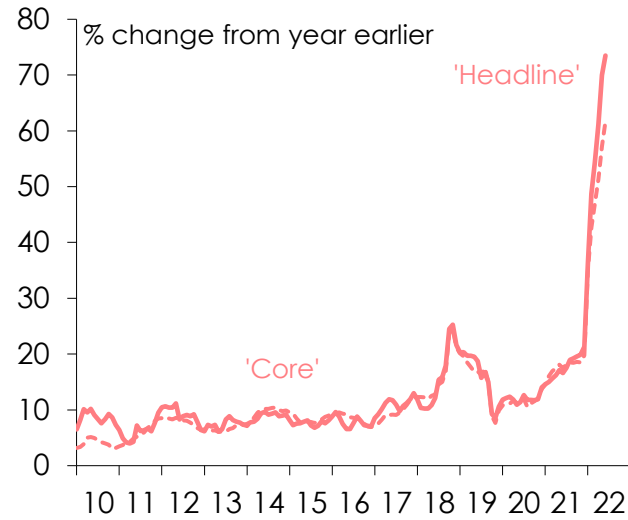
Turkey's real GDP grew by 1.2% in Q1 – while annual 'headline' and 'core' inflation rose to 73.5% and 61.6% in May

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

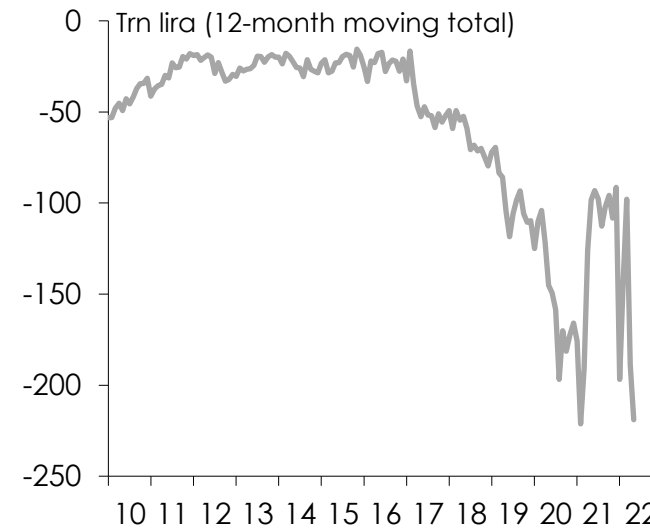
Real GDP



Inflation



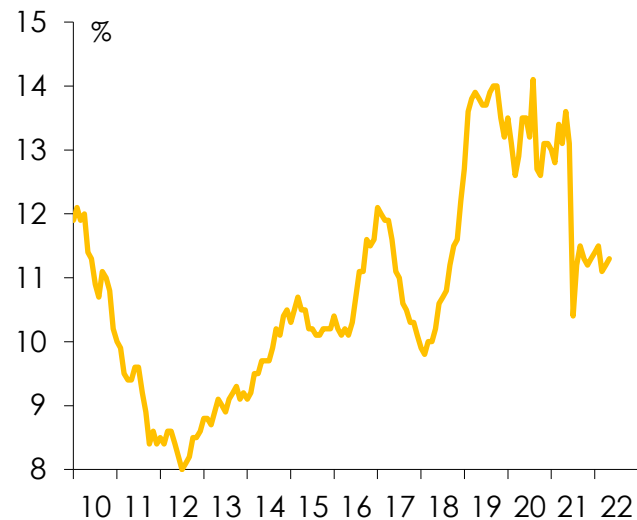
Budget balance



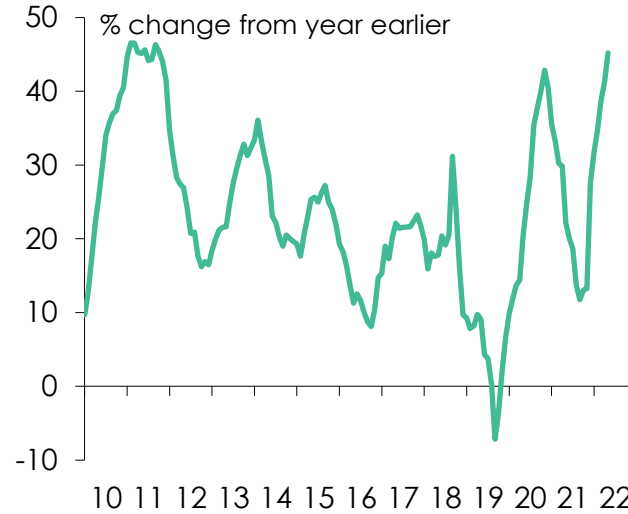
FX reserves



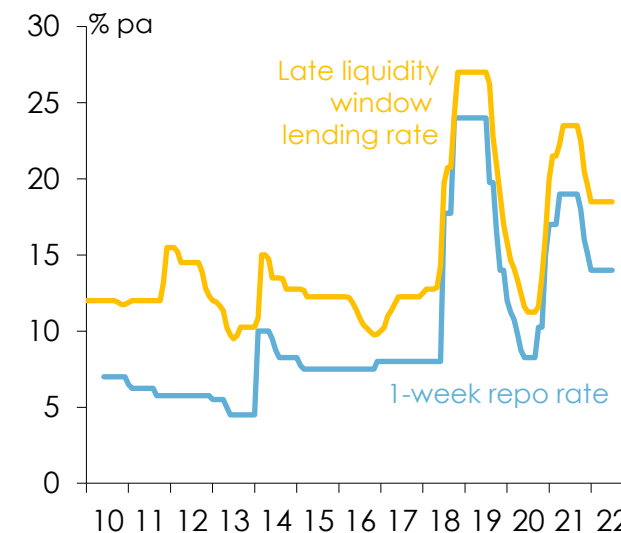
Unemployment rate



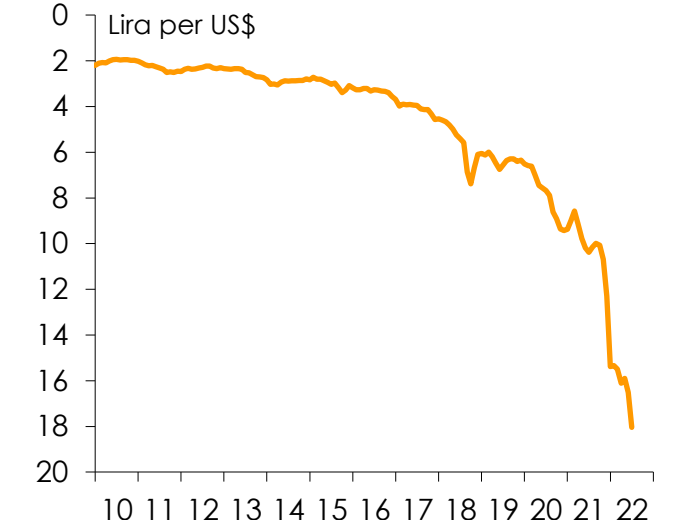
Bank lending



Interest rates



Turkish lira vs US\$



Key data and events this week

Key data and events for week ended 8th July

THE WORLD ECONOMY THIS WEEK – 4TH JULY 2022

Monday 4th July

Australia May building approvals & housing finance commitments; **Singapore** June PPI; **Thailand** June business confidence; **India** June merchandise trade; **Turkey** June CPI & PPI; **euro area** May PPI; **Brazil** June PPI

Tuesday 5th July

Australia RBA Board meeting; **Korea** June CPI; **Japan** May average earnings; **Philippines** June CPI; **Thailand** June CPI; **Singapore** May retail sales; **China** June 'unofficial' services PMI; **euro area** June services PMI; **UK** June services PMI; **Norway** June house prices; **US** May factory orders; **Brazil** May industrial production; **Mexico** June consumer confidence; **Colombia** June CPI

Wednesday 6th July

Hong Kong June PMI; **Taiwan** June CPI & PPI; **Malaysia** Bank Negara meeting; **euro area** May retail sales; **US** services ISM, June JOLTS survey, minutes of June FOMC meeting

Thursday 7th July

Australia June services PMI, May goods & services trade; **Korea** May current account balance; **Philippines** May industrial production & Q2 unemployment; **Thailand** June consumer confidence; **Malaysia** May unemployment; **Sri Lanka** CBSL meeting; **Poland** NBP meeting; **UK** June Halifax house price index; **Iceland** June merchandise trade; **US** May goods & services trade; **Canada** May merchandise trade; **Mexico** June CPI; **Argentina** May industrial production; **Peru** BCRP meeting, May merchandise trade

Friday 8th July

Japan May household spending & current account balance; **Taiwan** June merchandise trade balance; **Indonesia** June consumer confidence; **Malaysia** May industrial production & retail sales; **Russia** June CPI; **Ukraine** June CPI; **Hungary** June CPI; **Norway** June merchandise trade balance; **US** June non-farm payrolls, unemployment & average earnings; **Canada** June employment & unemployment; **Brazil** June CPI; **Chile** June CPI

Saturday 9th July

China June CPI & PPI

Important information

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

Corinna Economic Advisory is a partner (with Llewellyn Consulting, of 1 St Andrews Hill, London EC4V 5BY, United Kingdom) in Independent Economics.

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