



THE WORLD ECONOMY THIS WEEK

11TH JULY 2022

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CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

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What's new?

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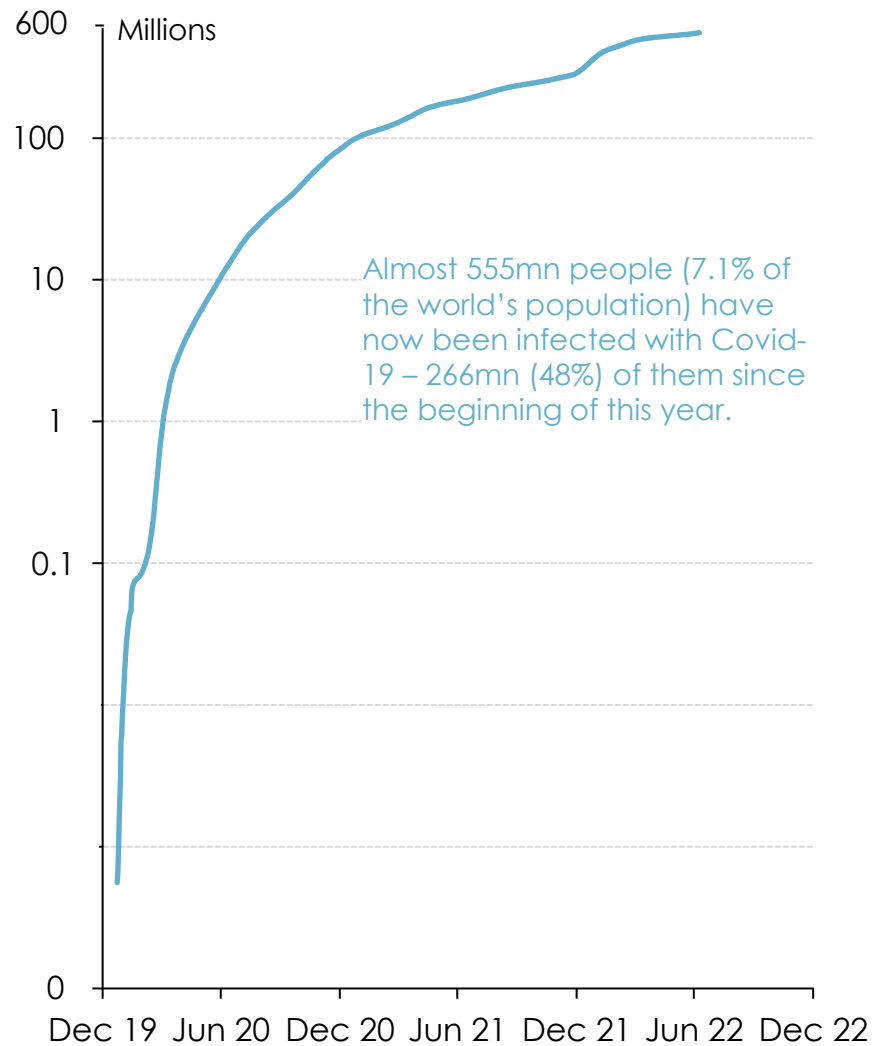
- ❑ The number of new Covid-19 cases has risen by more than 80% over the past five weeks, as new, more infectious, sub-variants of omicron spread initially in Europe but more recently in most other regions as well, including China ([slides 5-6](#))
- ❑ Recession fears are increasing across most 'advanced' and many 'emerging' economies, as a result of both large losses of real income induced by sharply rising energy and food prices and more aggressive monetary policy tightening (accompanied, in some economies, by tighter fiscal policy as well – which in the past few weeks has prompted financial markets to scale back their earlier expectations as to how high short-term interest rates will rise, leading in turn to falls in bond yields ([slide 37](#)) and tentative recoveries (after large falls) in stock prices ([slide 40](#)) – as well as an ongoing appreciation of the US dollar ([slide 39](#))
- ❑ There have been some suggestions that the US economy may already have entered recession in the first half of this year, with the Atlanta Fed's GDPNow model suggesting that real GDP may have contracted again after shrinking at a 1.6% annual rate in Q1 : this says more about the misleading qualities of this widely-used 'rule of thumb' for delineating recessions than it does about what has actually happened, but the risks of the US falling into a genuine recession in the next 6-12 months are clearly rising, as highlighted by the inversion (for a second time in three months) of the 2-10 year Treasury bond yield curve, something which has been an accurate harbinger of recessions over the past four decades ([slide 44](#))
- ❑ Underscoring that the US is not currently in recession, non-farm payrolls increased another 372K (0.2%) in June, while the unemployment rate remained (for the fourth consecutive month) at 3.6%, with a fall in the labour force participation rate offsetting a fall in the household survey measure of employment ([slides 49-50](#)) – although there are also some tentative indication that the so-called 'Great Resignation' may be fading ([slide 51](#))
- ❑ The US goods and services trade deficit narrowed by US\$1.2bn in May to \$85.5bn, following a larger decline in April from March's record deficit of \$107.7bn; the improvement in May was largely due to higher prices for US exports ([slide 57](#))
- ❑ 'Unofficial' PMIs suggest an even stronger rebound in China's economy in June, as lockdowns eased, than the 'official' ones released a week earlier ([slide 74](#)), while there were reports last week of more steps to boost infrastructure spending ([slide 78](#))
- ❑ China's consumer prices rose 2.5% over the year to June, the highest annual 'headline' inflation rate since June 2020, largely on account of higher food prices; 'core' inflation was only 1.0%, and inflation at the producer level, which peaked at 13.5% last October, fell to 6.1% ([slide 77](#))
- ❑ Elsewhere in east Asia, 'headline' inflation is continuing to rise, with June figures out last week reaching 7.7% in Thailand, 6.1% in the Philippines, 6.0% in Korea, 4.4% in Indonesia and 2.8% (the highest since October 2008) in Taiwan ([slide 94](#)); Malaysia's central bank last week raised its policy rate by 25bp for the second consecutive meeting ([slides 101-102](#))
- ❑ The Reserve Bank of Australia raised its cash rate by 50 bp, for the second month in a row, to 1.35%, and foreshadowed "further steps in the process of normalizing monetary conditions in Australia over the months ahead" ([slide 114](#))
- ❑ Other emerging market central banks to raise interest rates last week were Poland's, Peru's, Pakistan's and Sri Lanka's ([slides 117 and 123](#))
- ❑ This week's highlights are US June CPI, China Q2 GDP and June retail sales, industrial production and unemployment, and central bank meetings in New Zealand, Korea, Canada and Chile

Covid-19

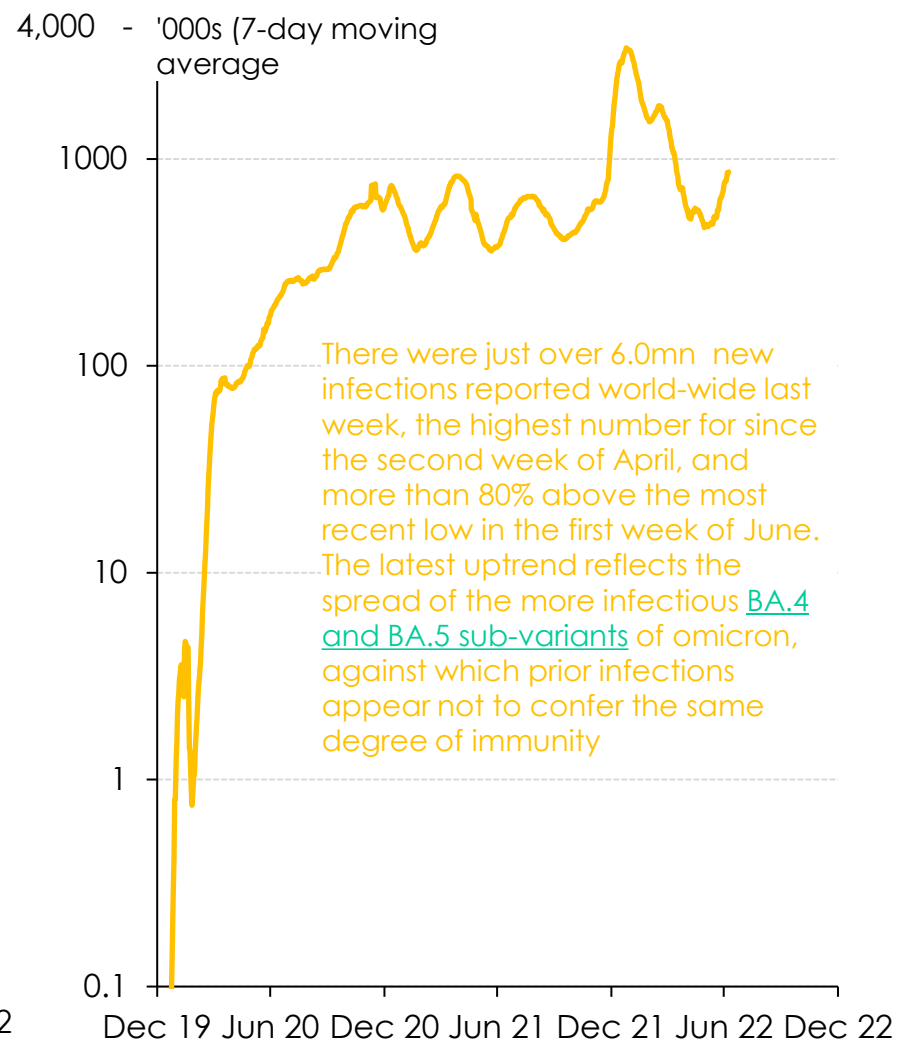
There's been an 80% increase in the global total number of new Covid-19 cases over the past five weeks due to the spread of new sub-variants

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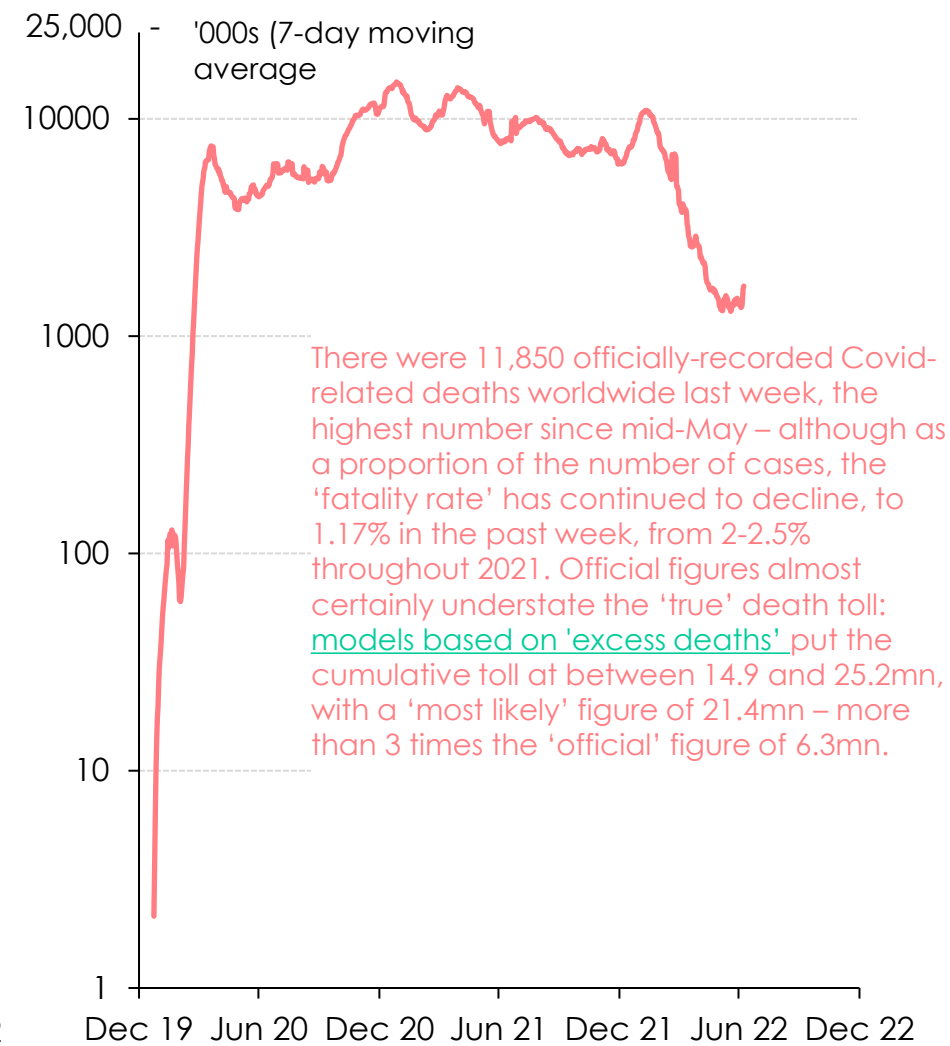
Cumulative confirmed cases – global total



New confirmed cases – global total



New deaths – global total

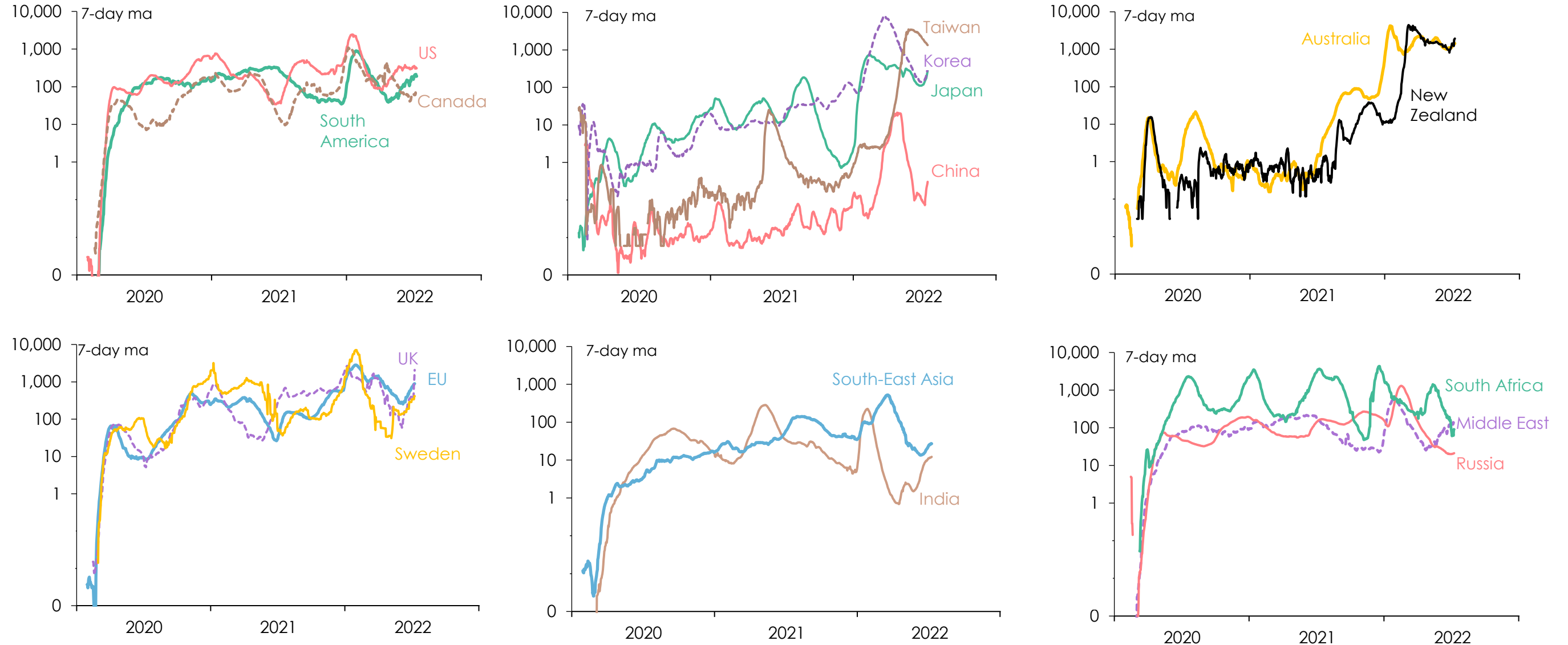


Note: All charts are on logarithmic scales. Data up to 8th July. Source: University of Oxford, [Our World in Data](#). [Return to "What's New"](#).

Europe accounts for the lion's share of the increase in case numbers over the past few weeks, but numbers are now increasing again everywhere

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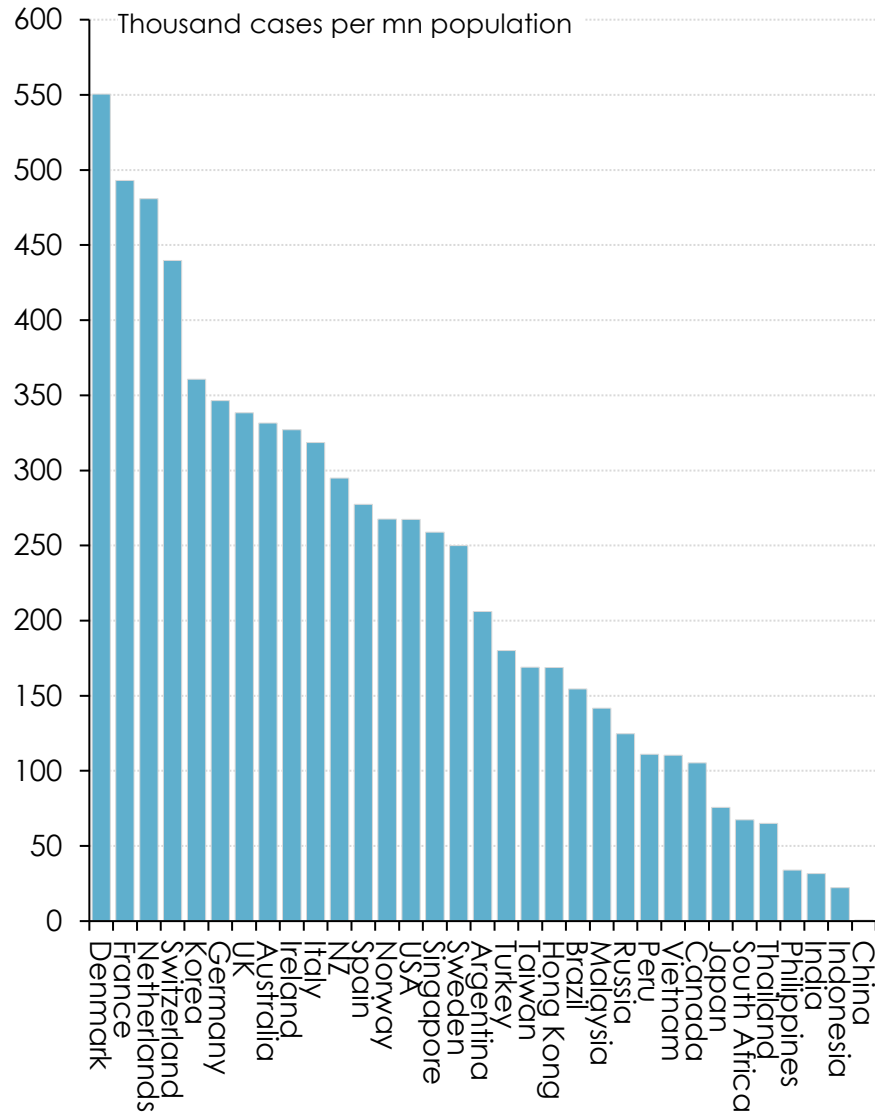
Daily new cases per million population – major countries and regions



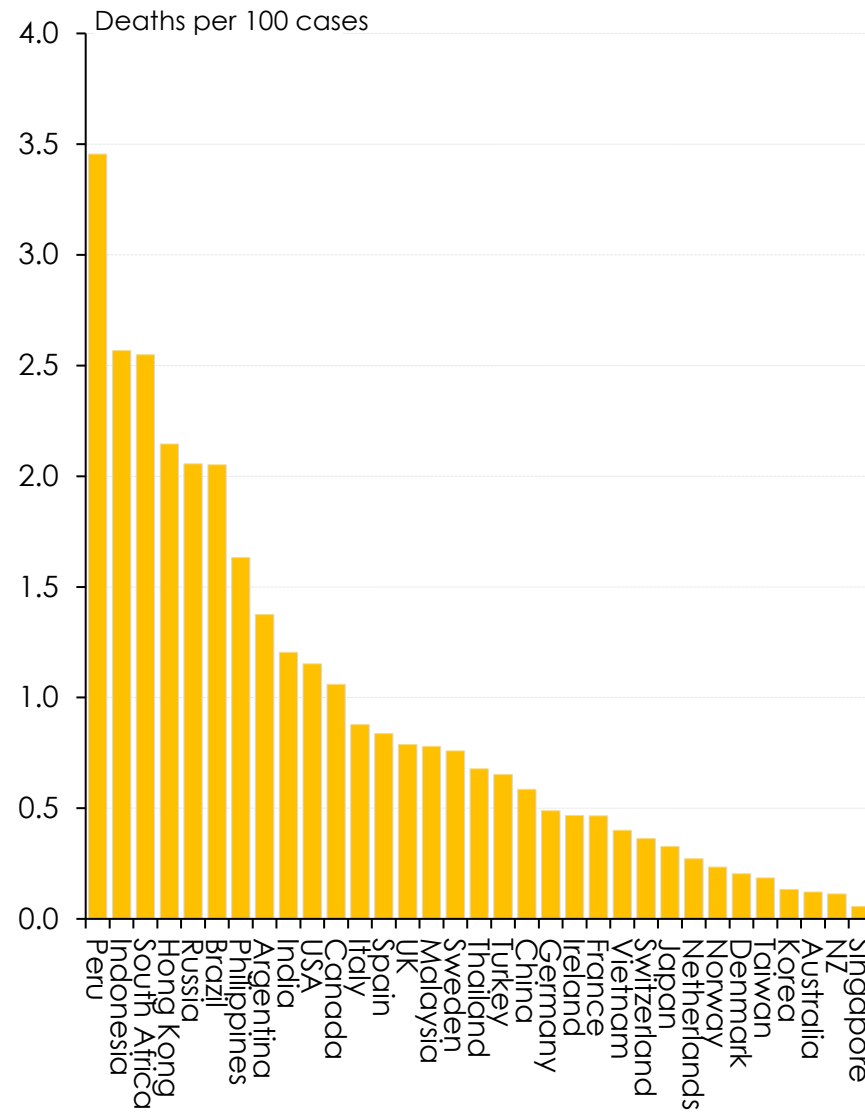
The highest cumulative infection and death rates (since the onset of the pandemic) have been in Europe, South and North America

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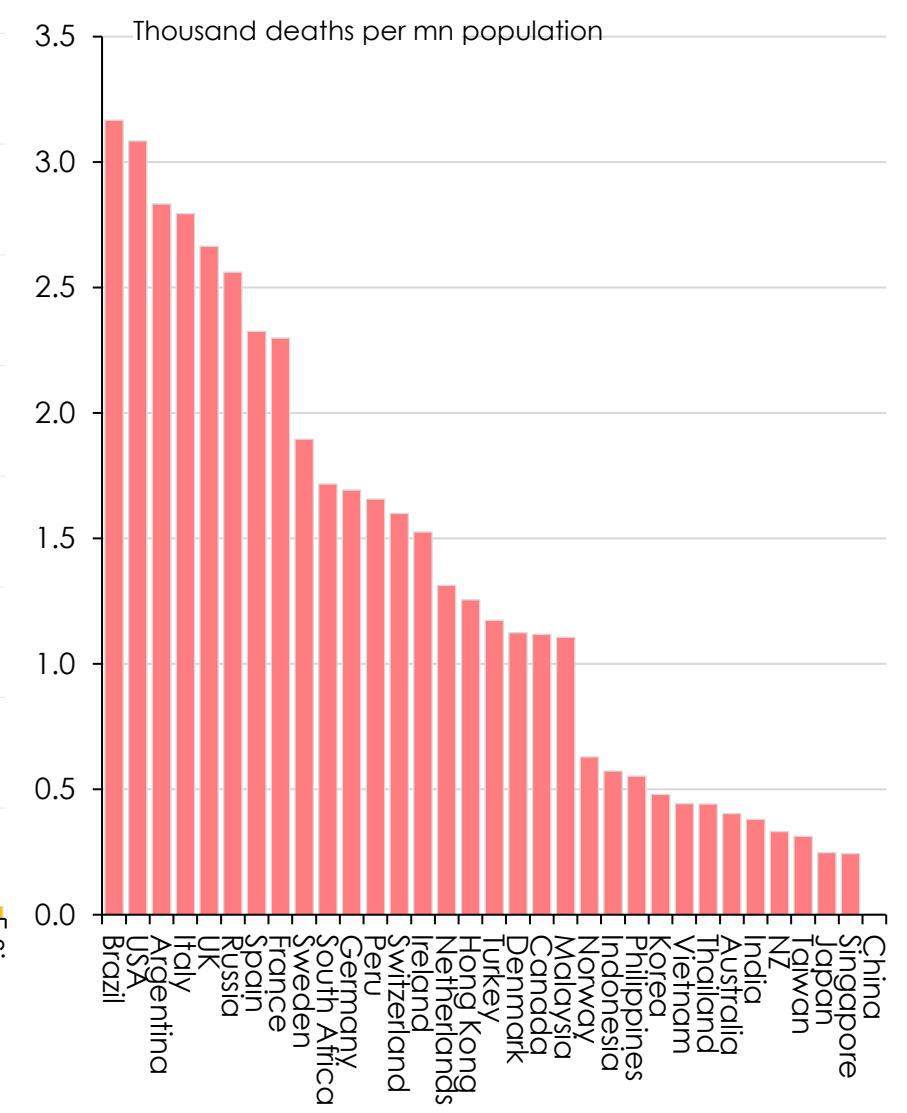
Apparent infection rate



Apparent fatality rate



Apparent death rate



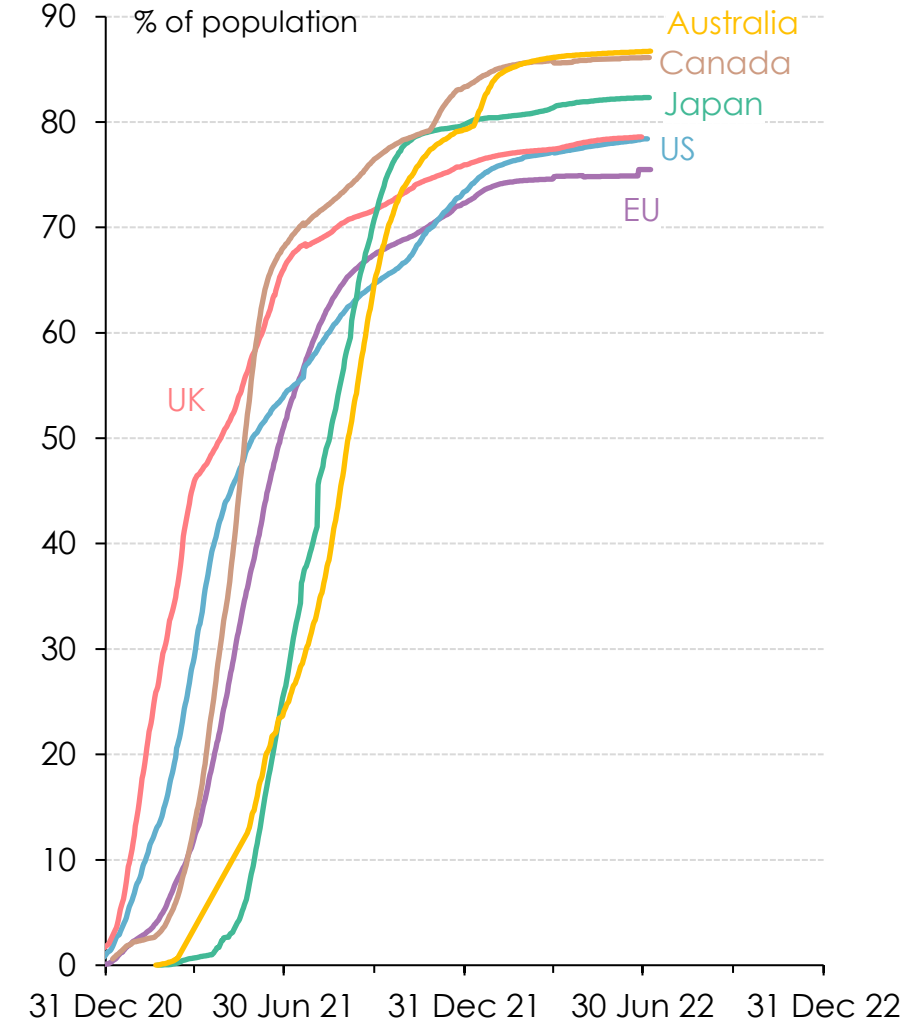
Note: Data shown in these charts are cumulative since the beginning of the pandemic, up to 8th July. Sources: University of Oxford, [Our World in Data](#); Corinna.

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

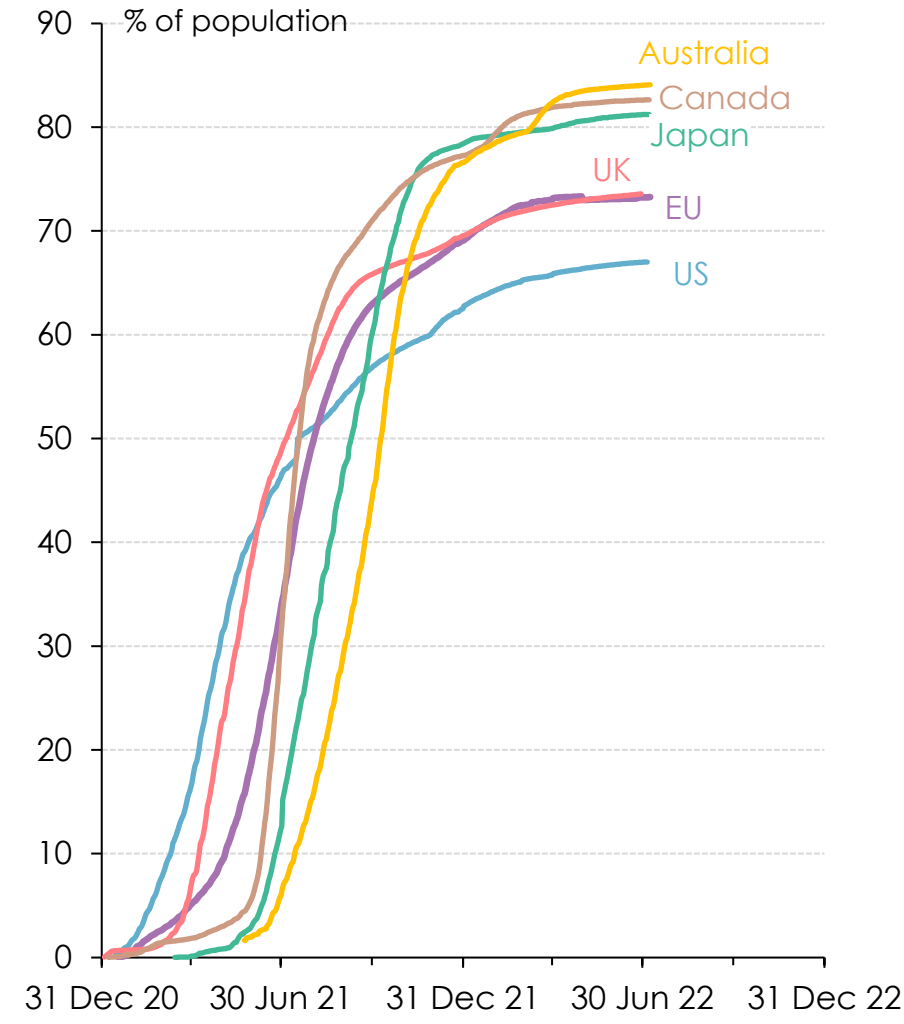
The US lags behind most other 'advanced' economies in fully vaccinating its population and also now with regard to 'boosters'

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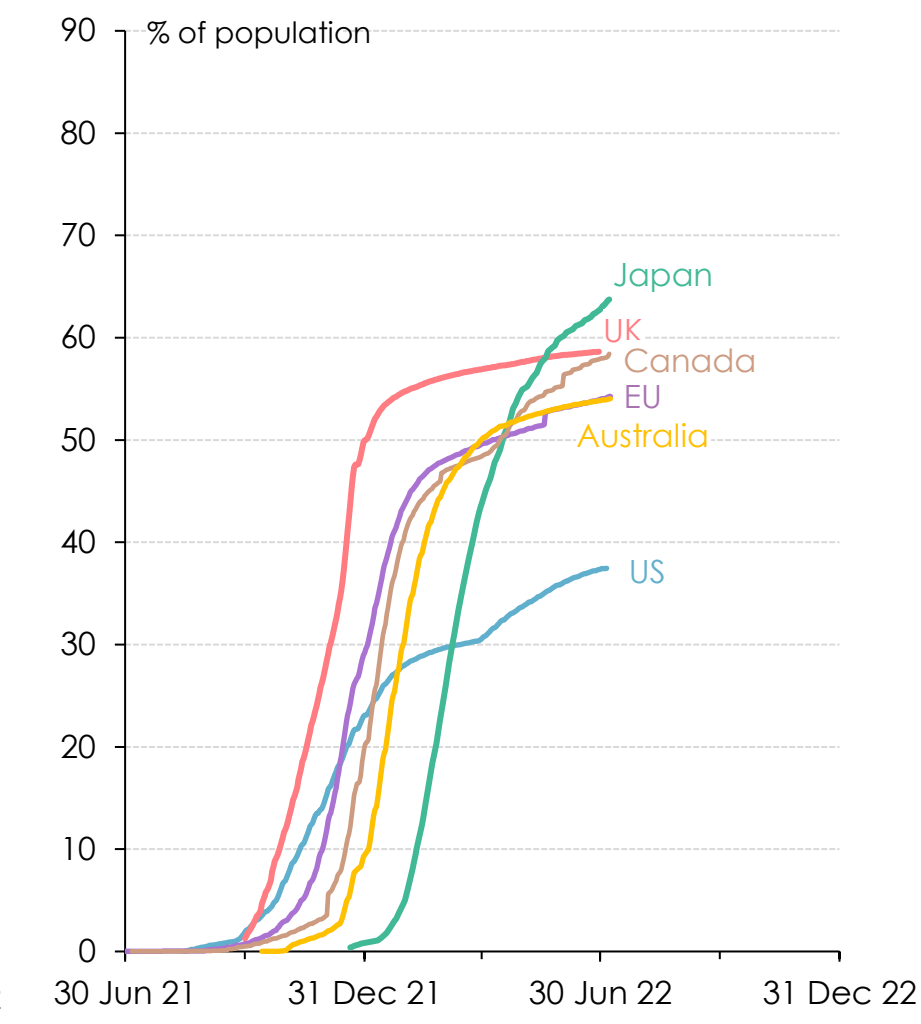
Percentage of populations who have had at least one shot



Percentage of populations who have had two shots



Percentage of populations who have had a 'booster' shot

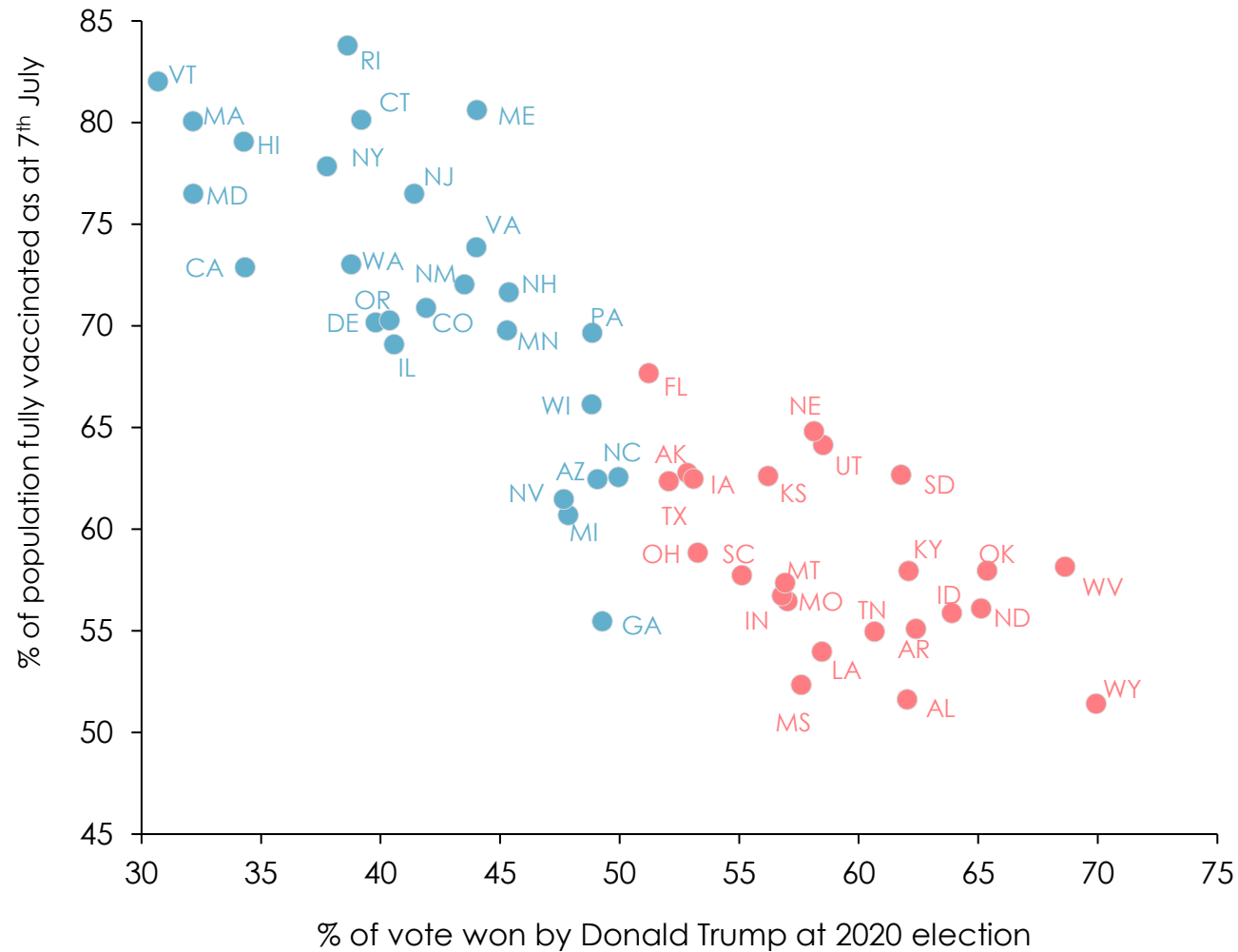


Note: Data up to 7th or 9th July, except for the UK, 29th June. Source: [Our World in Data](#); [Coronavirus \(COVID-19\) Vaccinations](#). [Return to "What's New"](#).

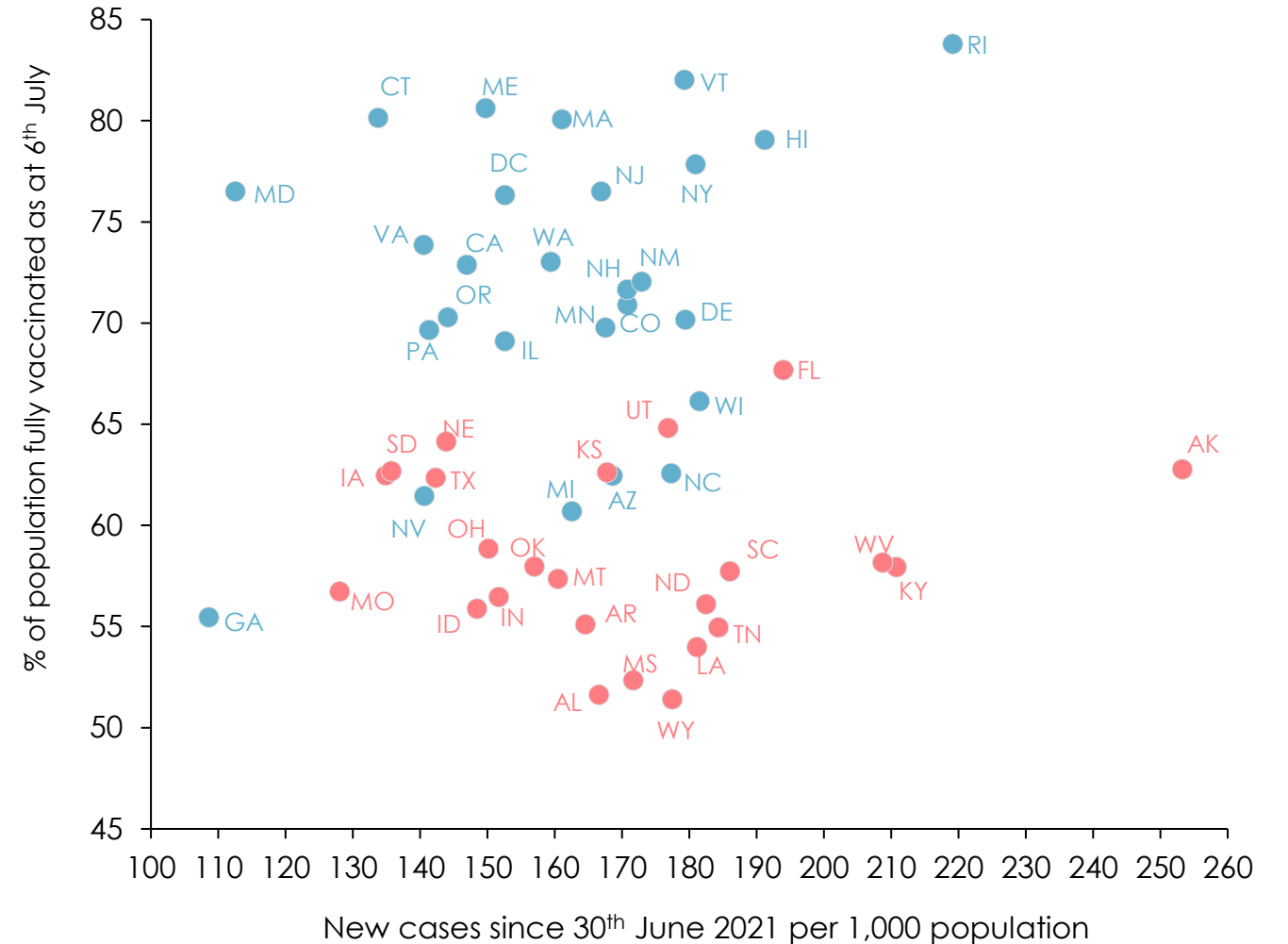
In the US there's a strong correlation between voting patterns and vaccine hesitancy, and (inversely) between vaccination rates and infection rates

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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

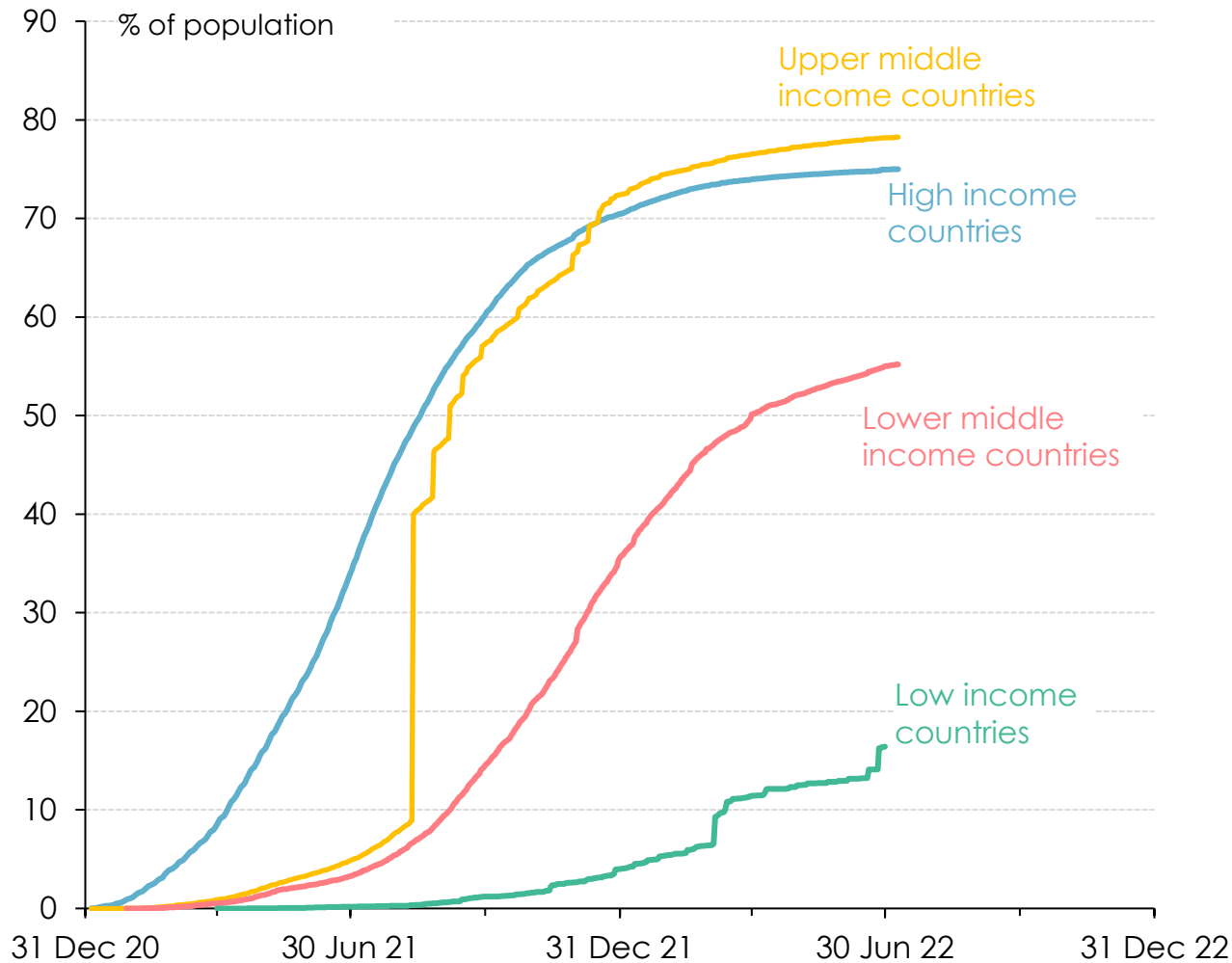


Note: Case data as at 7th July. Sources: [The Cook Political Report](#); [Our World in Data](#); [USA Facts](#); Corinna. [Return to "What's New"](#).

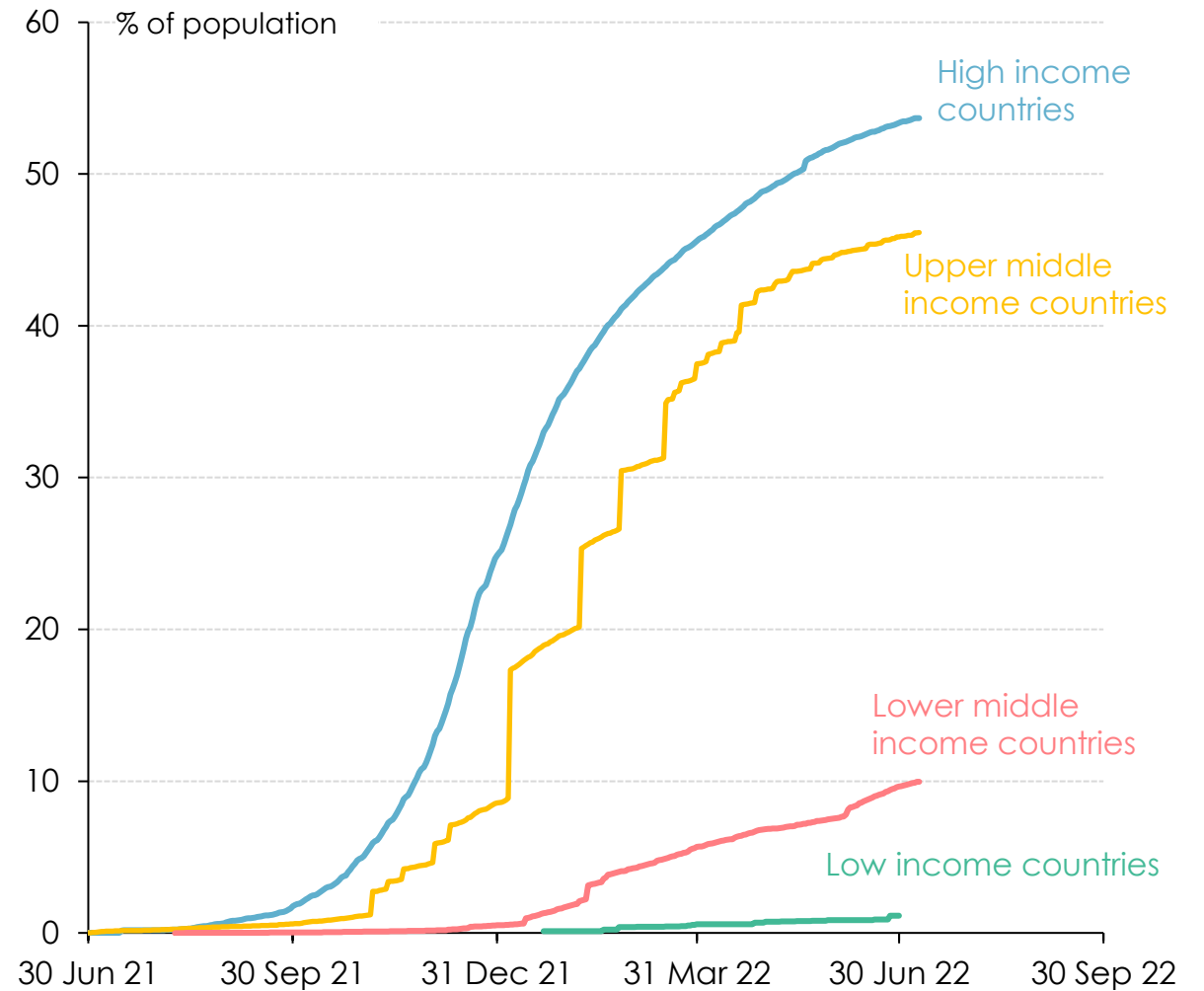
The vaccine roll-out has proceeded much more slowly among low- and lower-middle income countries

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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



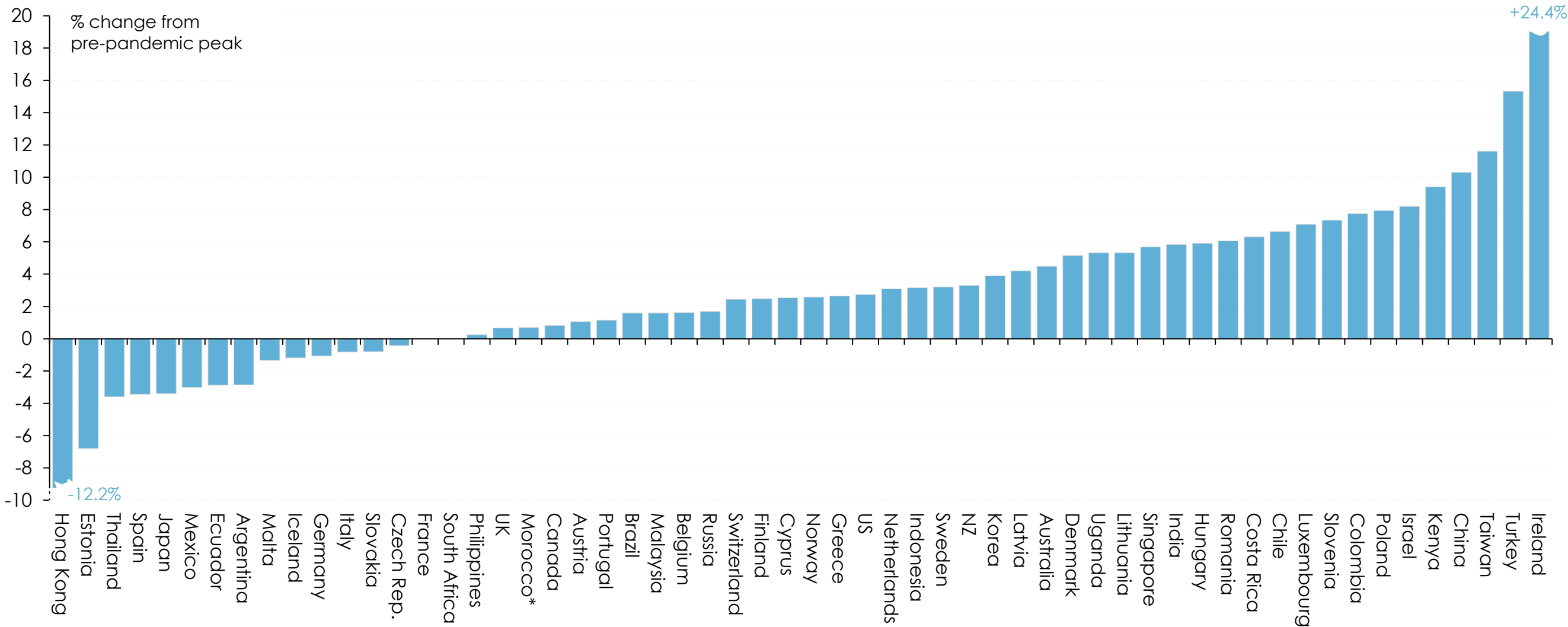
Note: Income categories are as defined by the [World Bank](#): high-income countries are (in 2021) those with a per capita gross national income (GNI) of over US\$12,535; upper-middle income countries are those with per capita GNI between US\$4,046 and \$12,535; lower middle-income countries are those 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

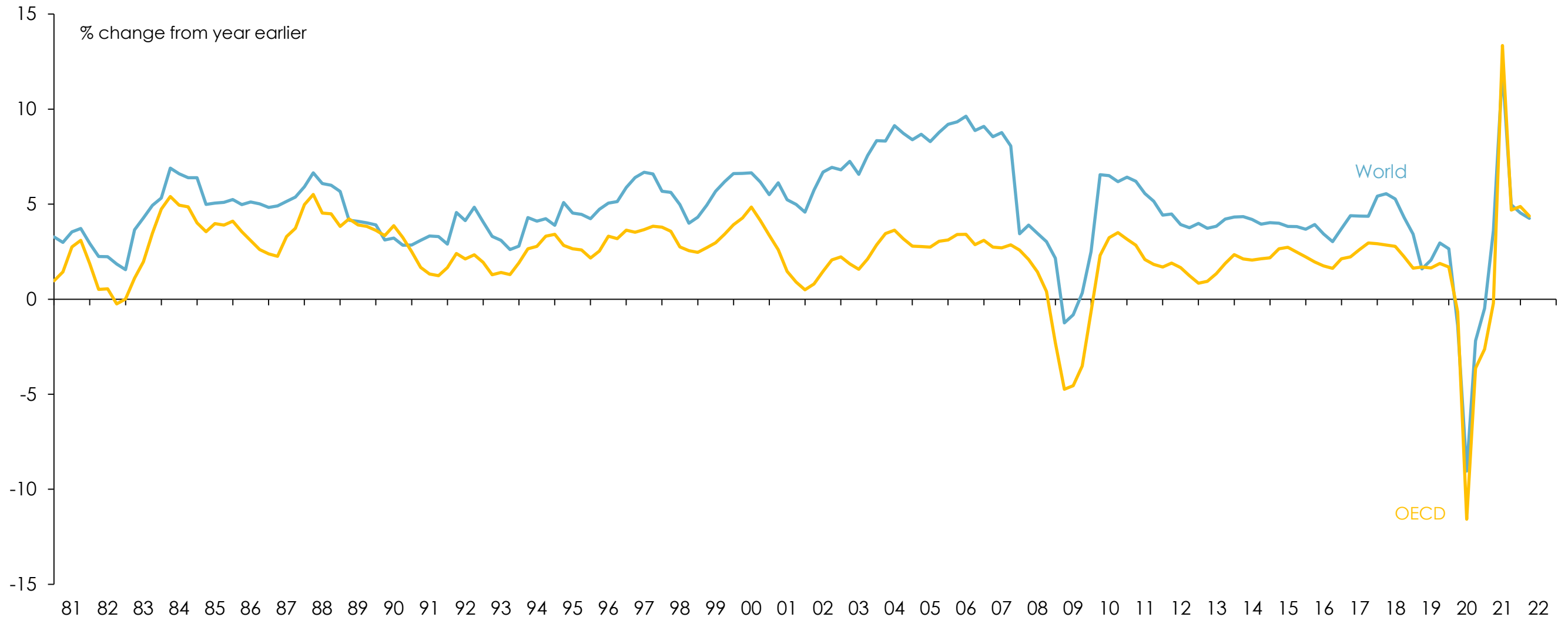


Note: * Q4 2021. Estimate for China is derived from quarterly growth rates published by China NBS; estimates for India, Indonesia and Russia are seasonally adjusted by the OECD. Sources: National statistical agencies and central banks, and OECD. [Return to "What's New"](#).

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

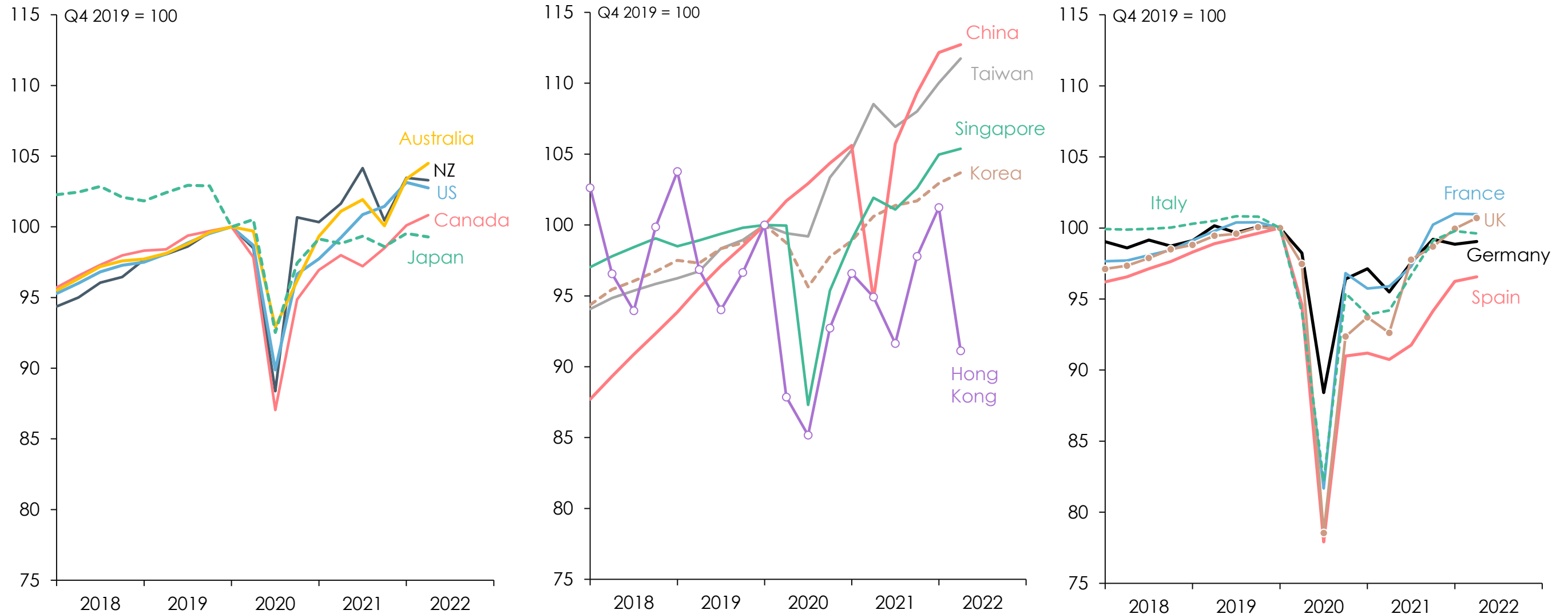


Note: Estimates of global GDP growth compiled by Corinna using data for 100 countries accounting for 94% of 2019 world GDP as measured by the IMF, weighted in accordance with each country's share of global GDP at purchasing power parities in 2019; excludes constituents of the former USSR before 1993,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

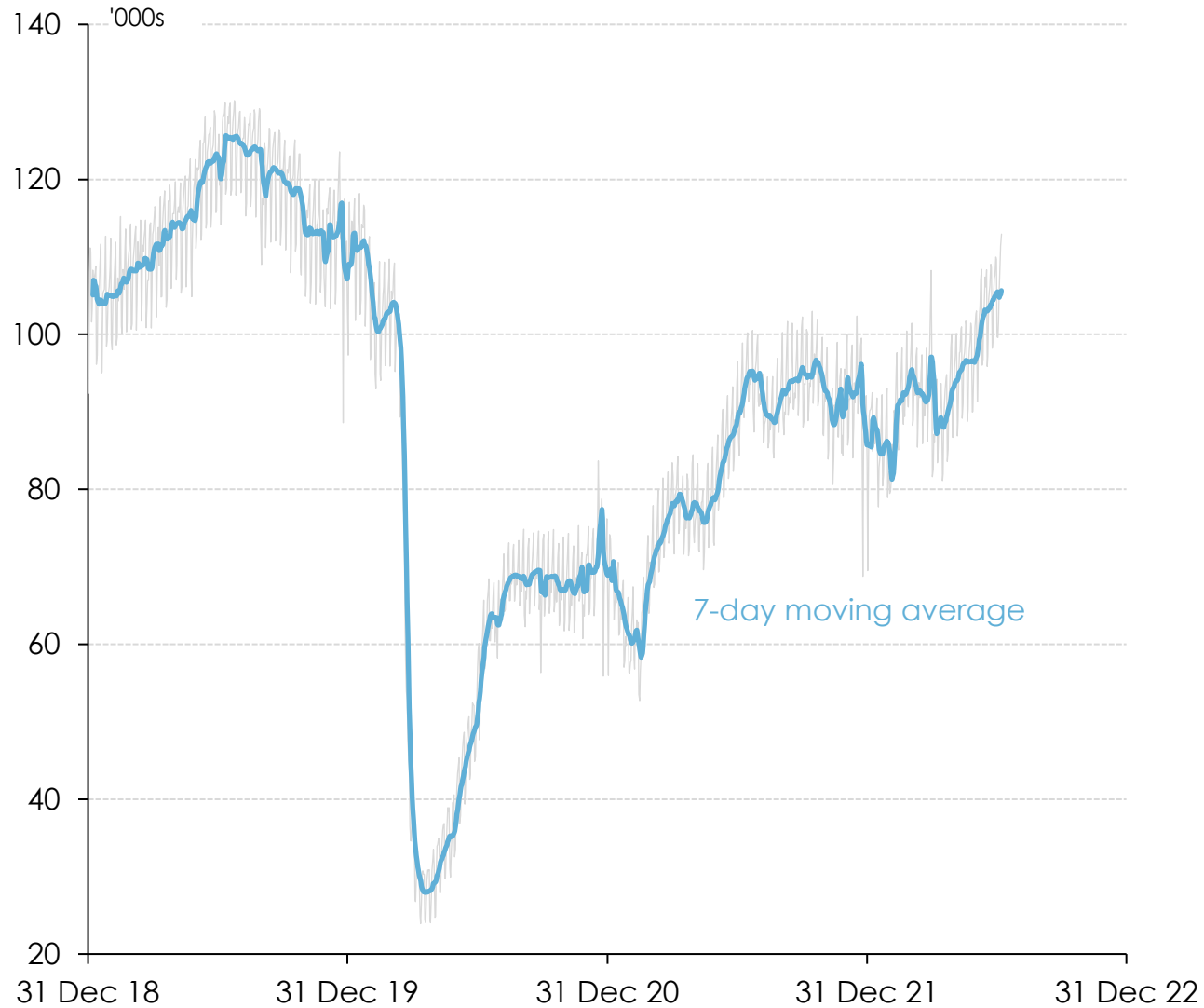
	Actual		IMF			OECD			World Bank			Australian/NZ Treasury		
	2010-19 [^]	2020	2021	2022	2023	2021	2022	2023	2022	2023	2024	2022	2023	2024
US	2.2	-3.5	5.7	3.7	2.3	5.7	2.5	1.2	2.5	2.4	2.0	3.5	2.5	2.0
China	7.7	2.3	8.1	4.4	5.1	8.1	4.4	4.9	4.3	5.2	5.1	4.8	5.3	5.0
Euro area	1.3	-6.6	5.3	2.8	2.3	5.3	2.6	1.6	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, although US traffic has slowed over the past two weeks

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Daily commercial flights worldwide



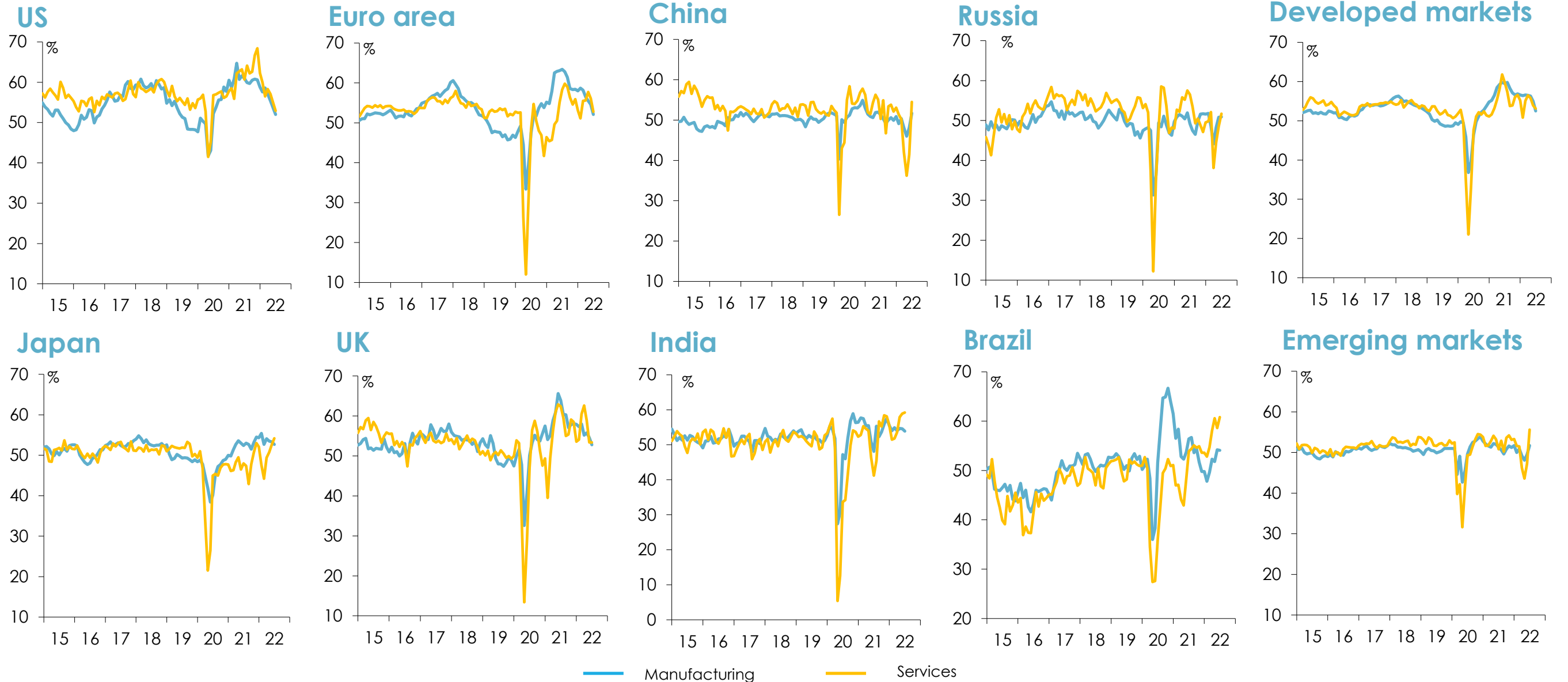
Daily US TSA 'security' checks



Note: Commercial flights include commercial passenger flights, cargo flights, charter flights, and some business jet flights. Data are up to 8th July for commercial flights and 7th July for 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"](#).

June PMIs show a slowing in both manufacturing and services activity in the US and Europe, but a strong recovery in China and Brazil

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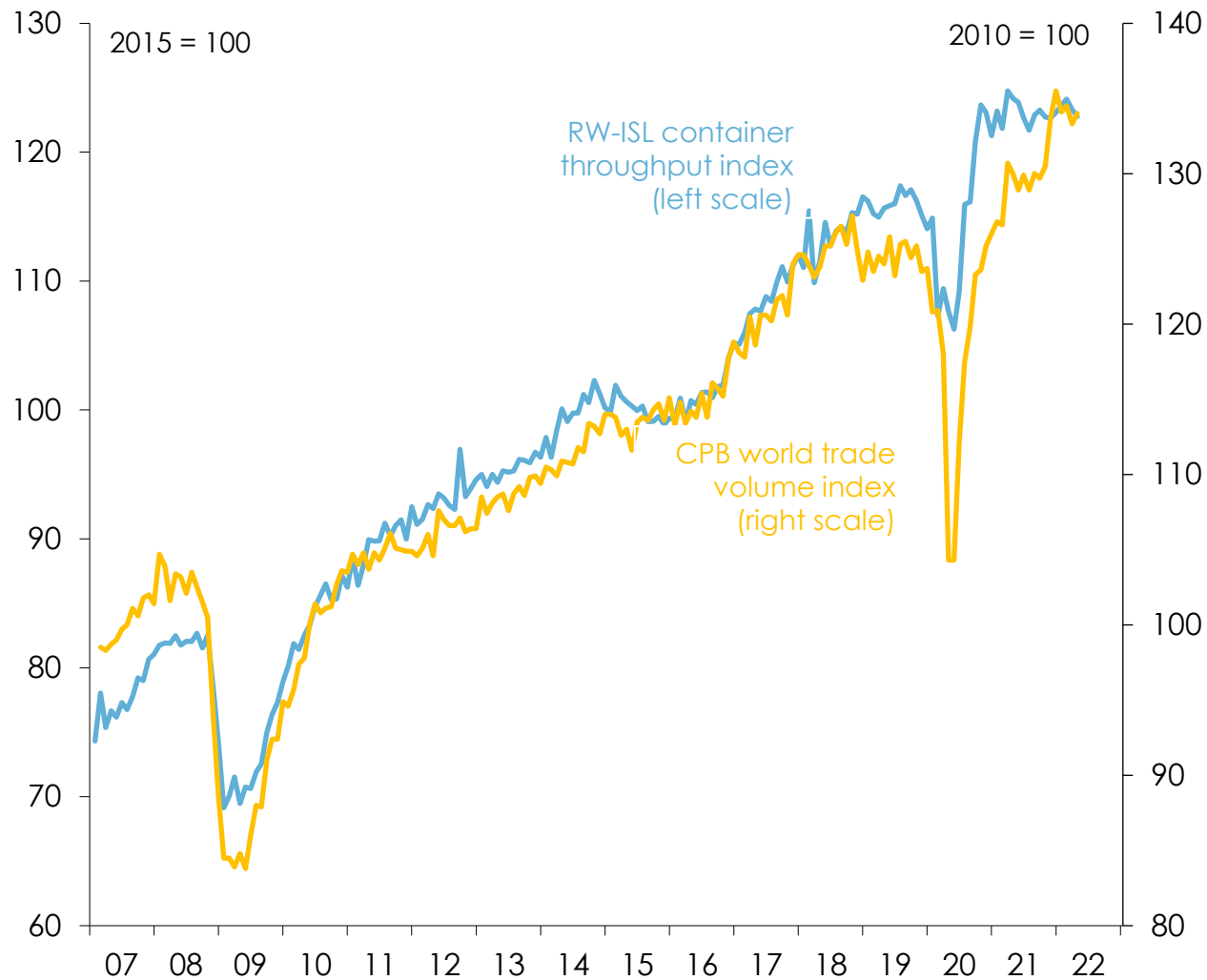


Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous month, and a reading of less than 50 indicates a decrease. Latest data are for June. See also PMIs for other Asia-Pacific economies on [slide 92](#). 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

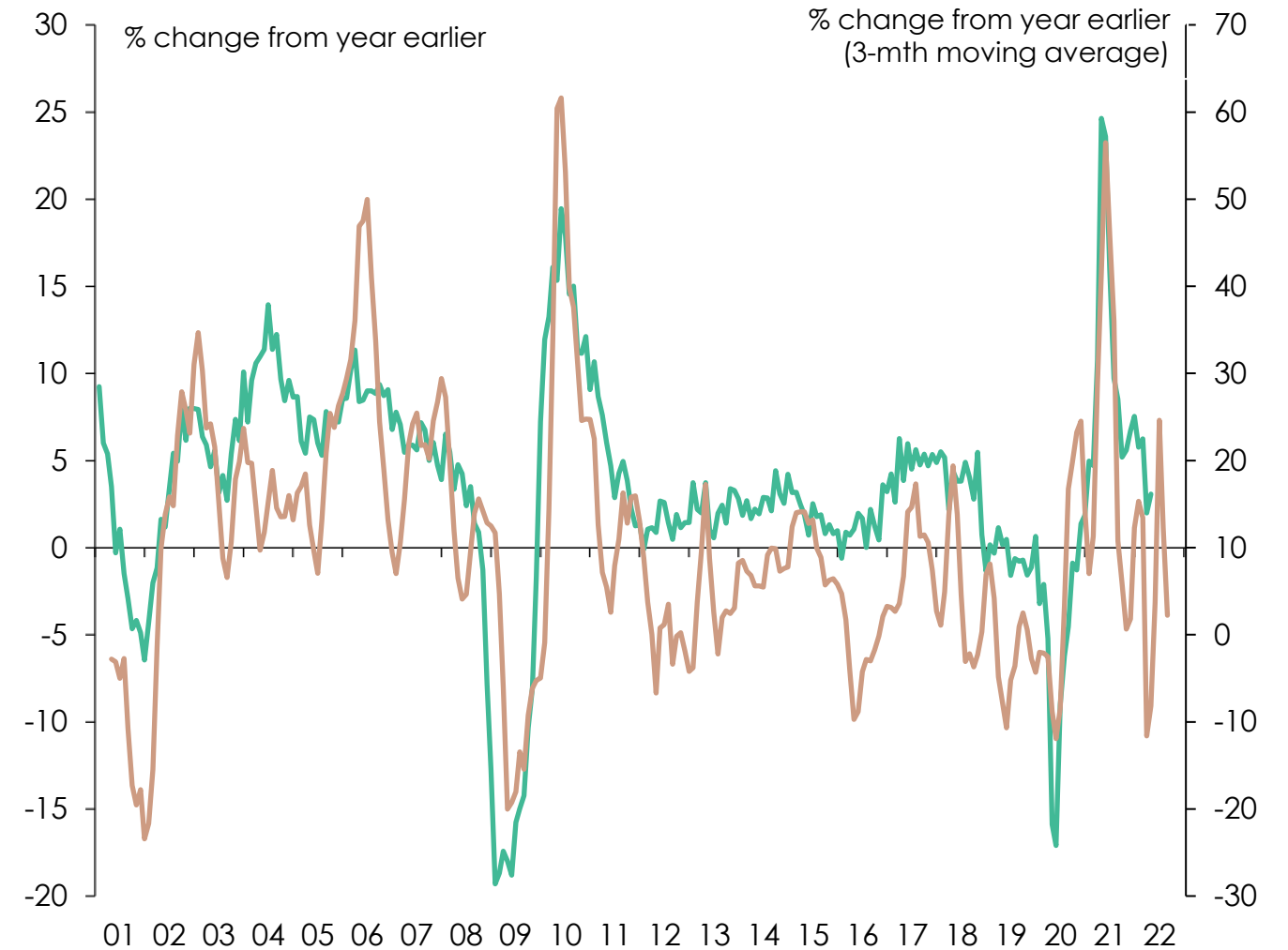
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World trade volumes and container throughput



— 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)

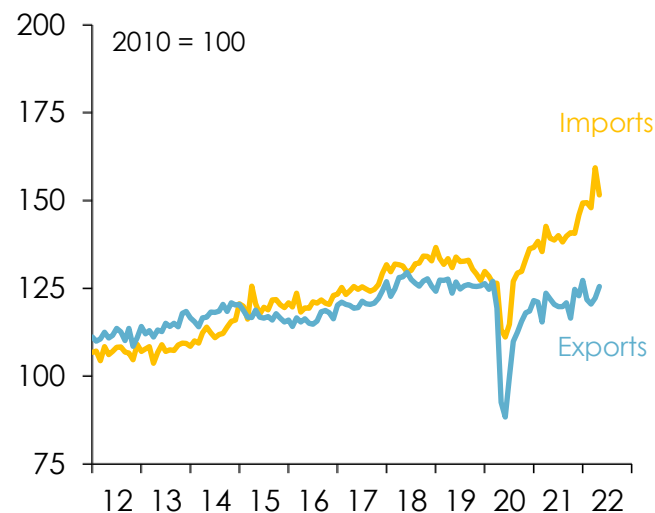
Note: The shipping container throughput index is based on reports from 91 ports around the world handling over 60% of global container shipping.

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"](#).

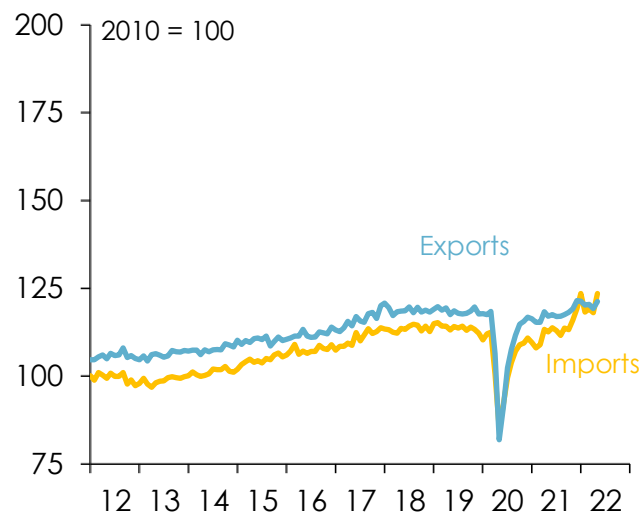
Supply-chain disruptions in China have been a major factor in the slowing in world trade this year: the UK's poor trade performance is also notable

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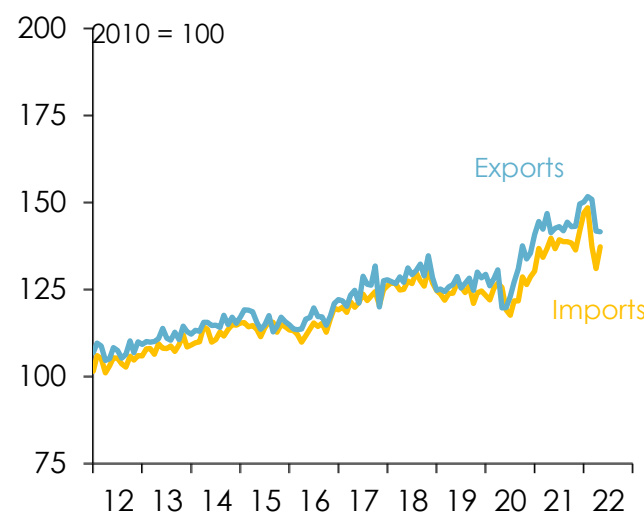
United States



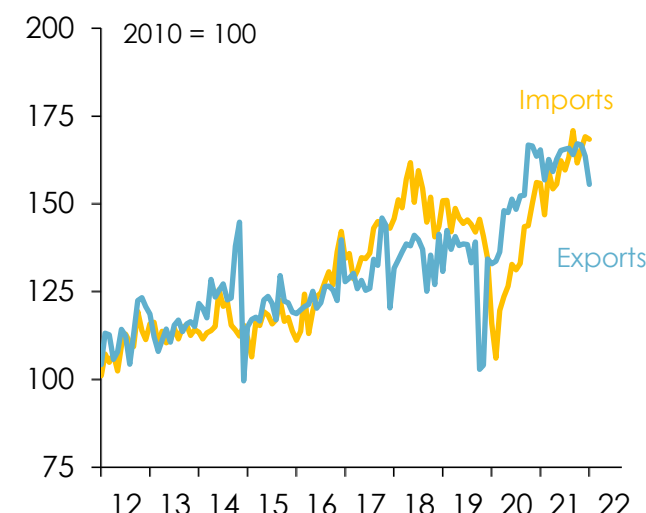
Euro area



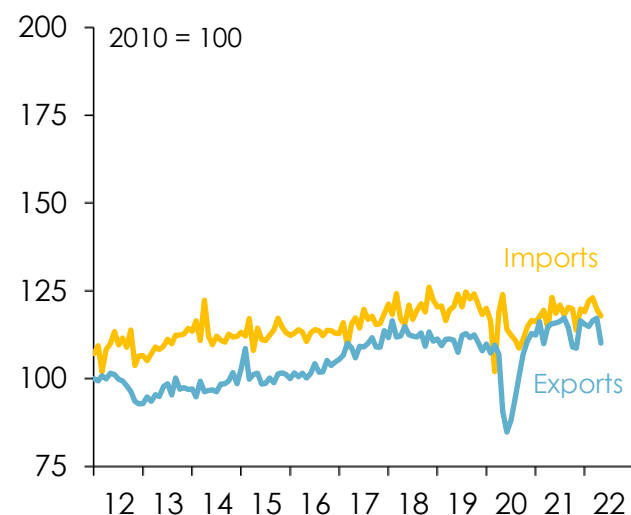
Other 'advanced' Asia



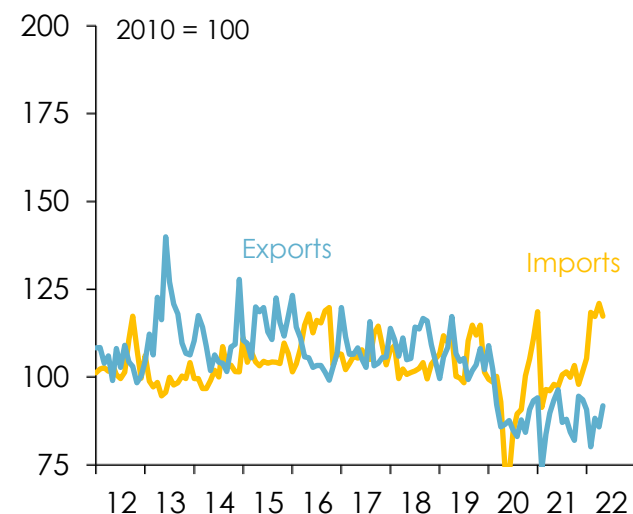
Other 'emerging' Asia



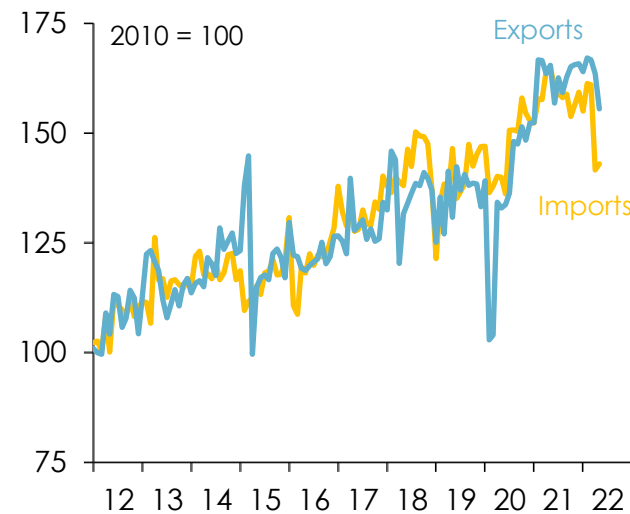
Japan



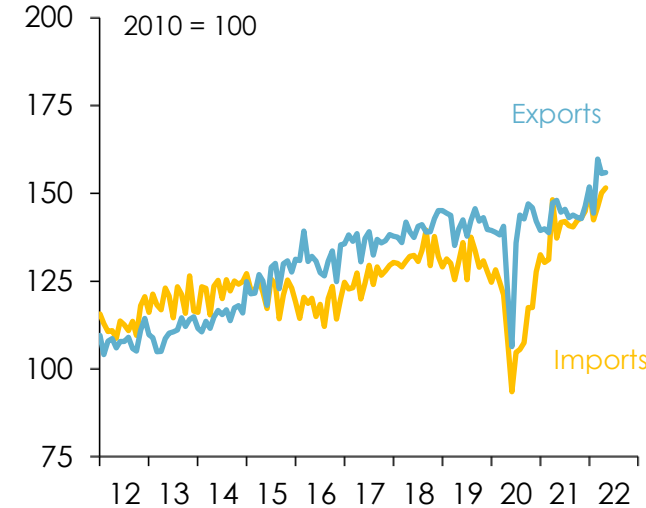
United Kingdom



China



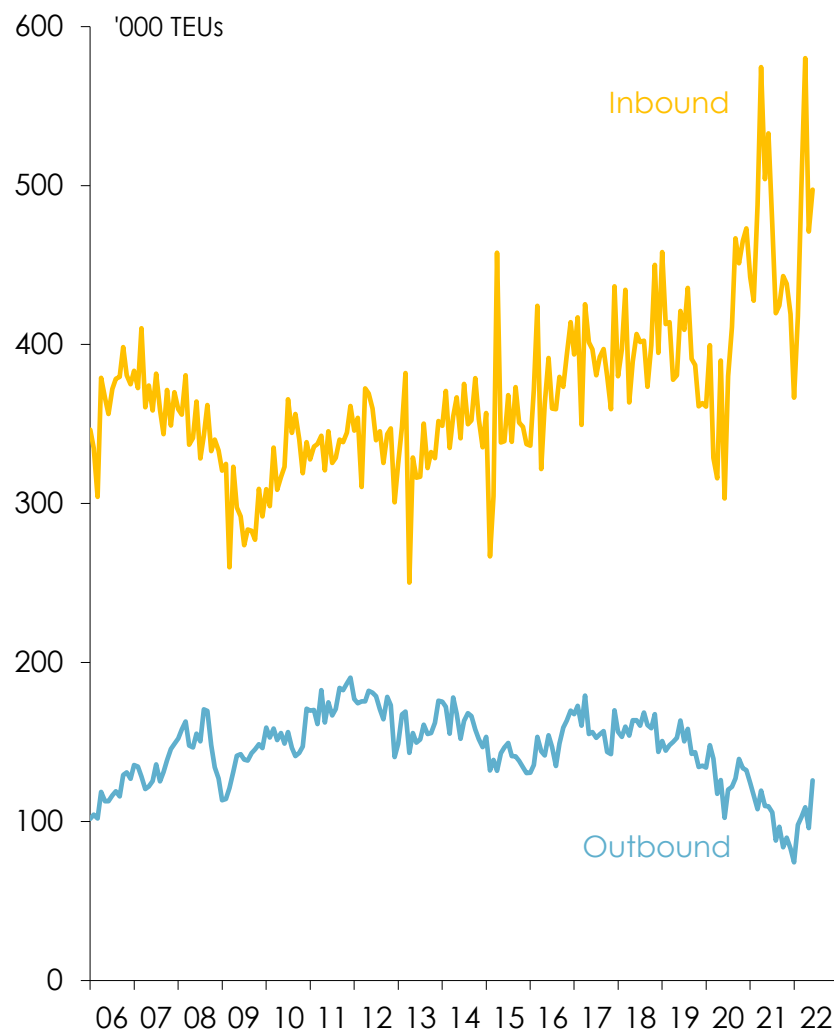
Latin America



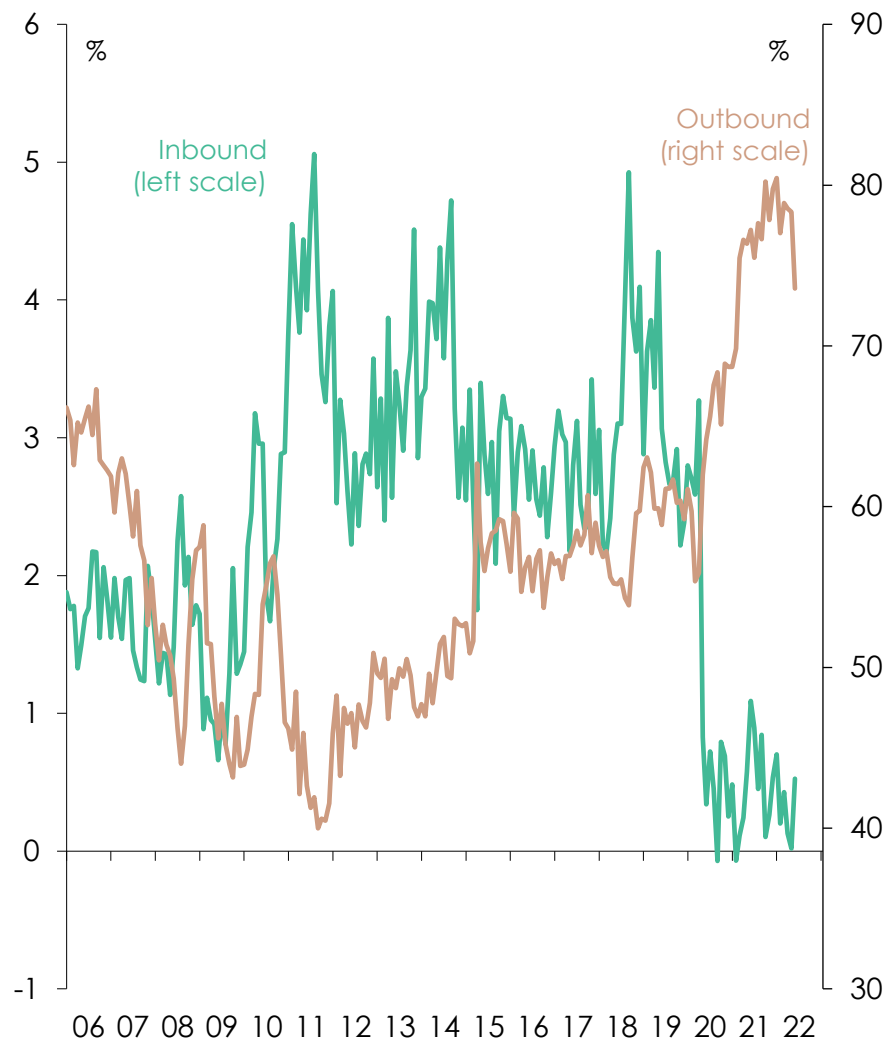
Congestion at the Port of Los Angeles (the US' largest container port) has eased significantly but trade flows remain unusually unbalanced

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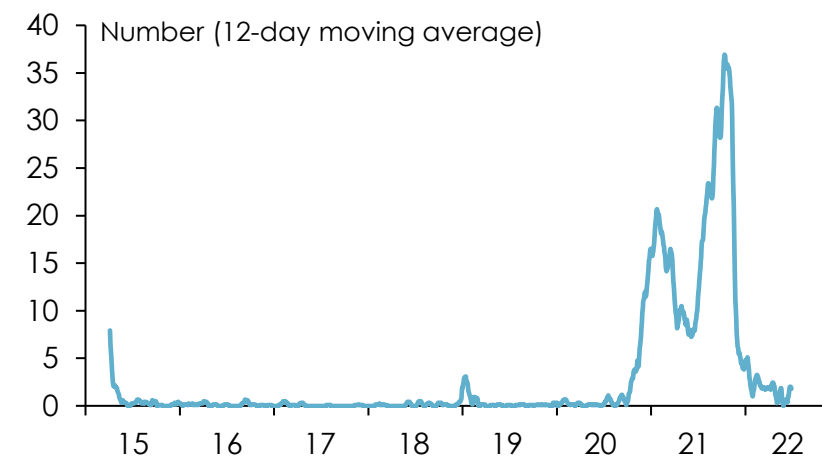
Container traffic through the Port of Los Angeles



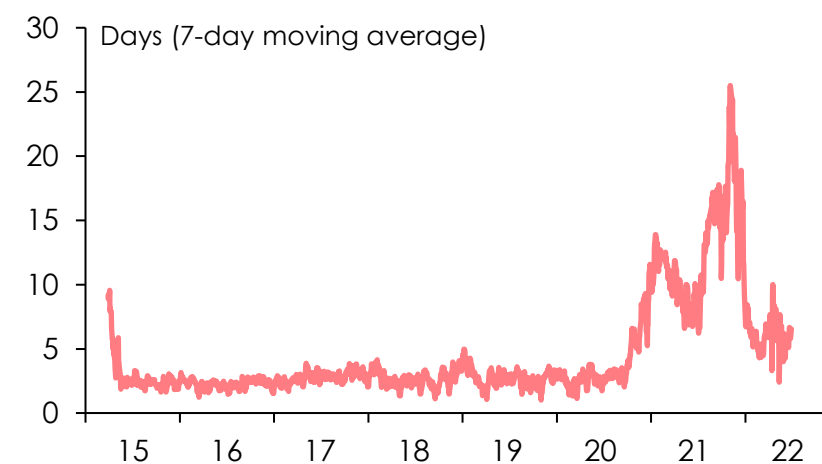
Empty containers as a pc of total passing through PoLA



Number of vessels at anchor outside PoLA



Average time at anchor and berth for ships at PoLA

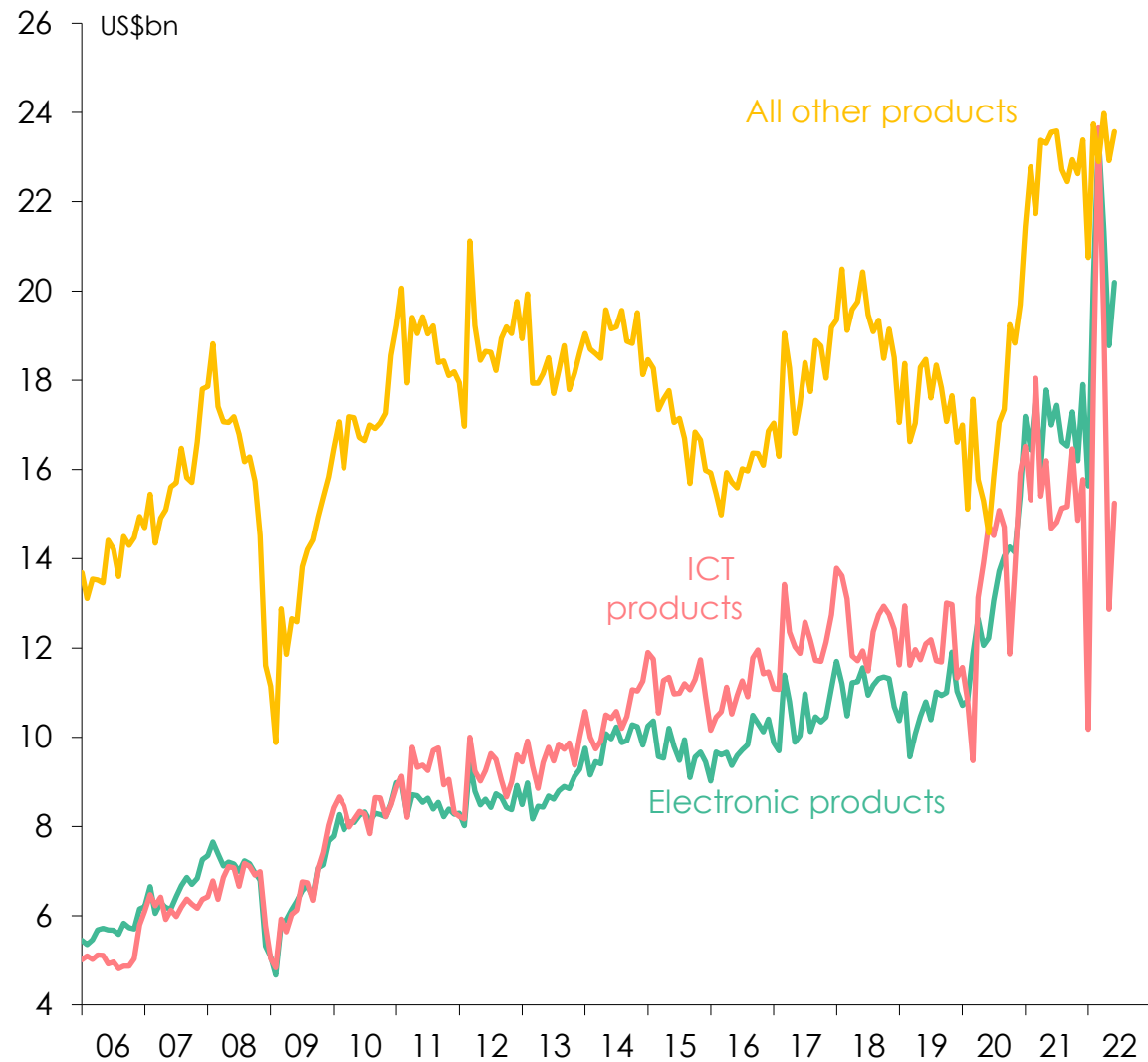


Note: TEU = 20-foot equivalent unit. Data on inbound and outbound container traffic in the first two charts have been seasonally adjusted by Corinna using Refinitiv Datastream. Data up to 8th July. Source: The Port of Los Angeles, [Container Statistics](#) and [Container vessels in port](#). [Return 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



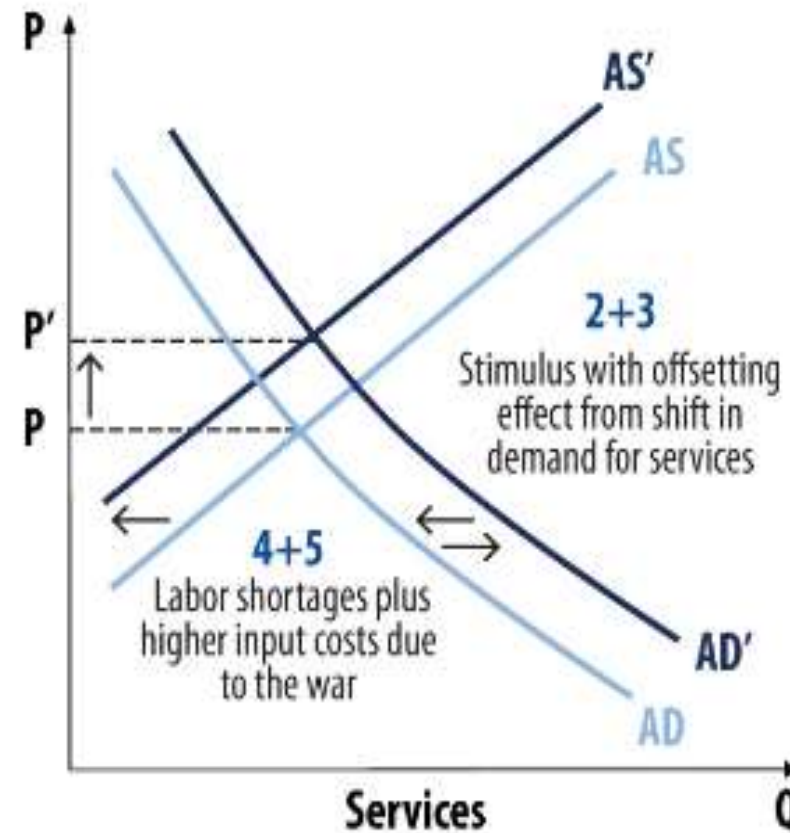
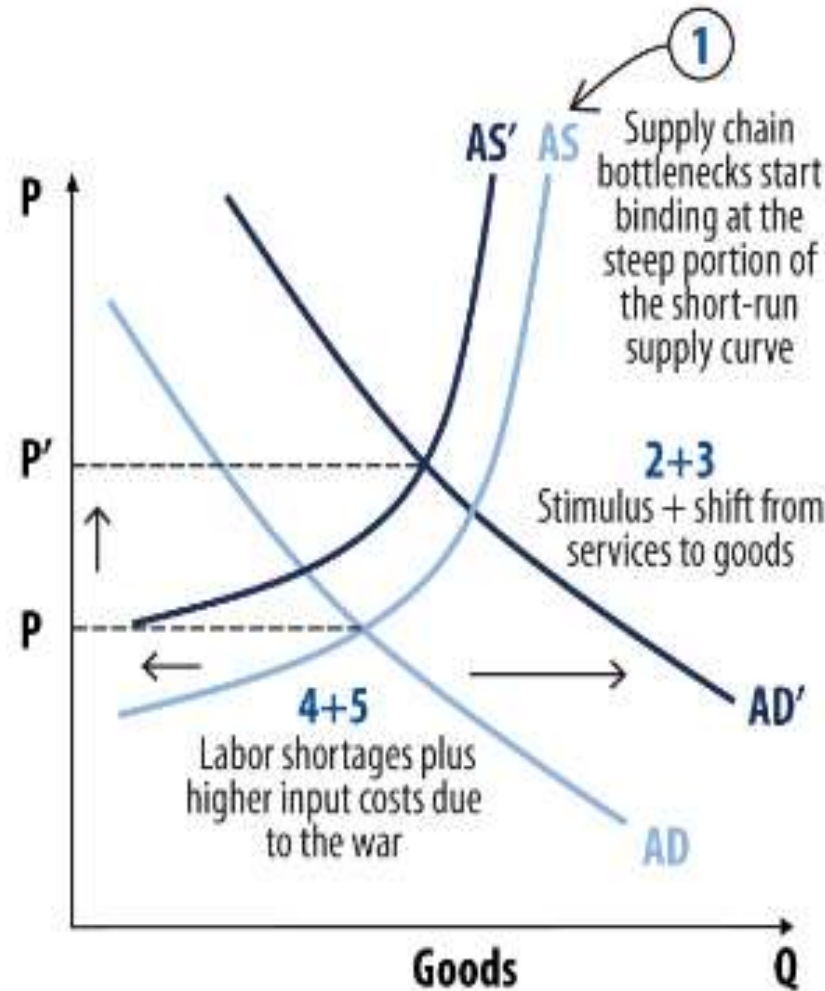
Note: Data have been seasonally adjusted by Corinna using Refinitiv Datastream. Latest data are for May. Source: Taiwan [Ministry of Economic Affairs](#). [Return to "What's New"](#).

- ❑ 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



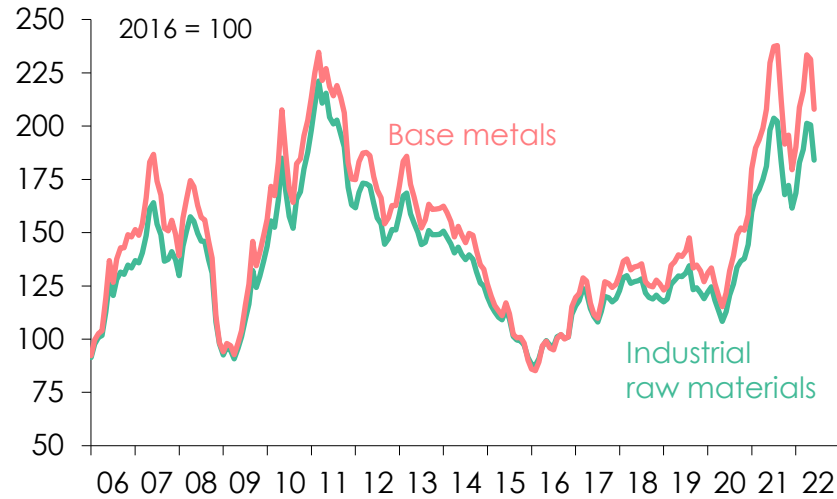
1. Supply chain bottlenecks reducing supply of durable goods – aggregate supply curve shifts to left (AS → AS')
 2. Shift in demand from services to goods (prompted by public health restrictions), with opposite effects on demand for services and goods – aggregate demand curve for goods shifts to right,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

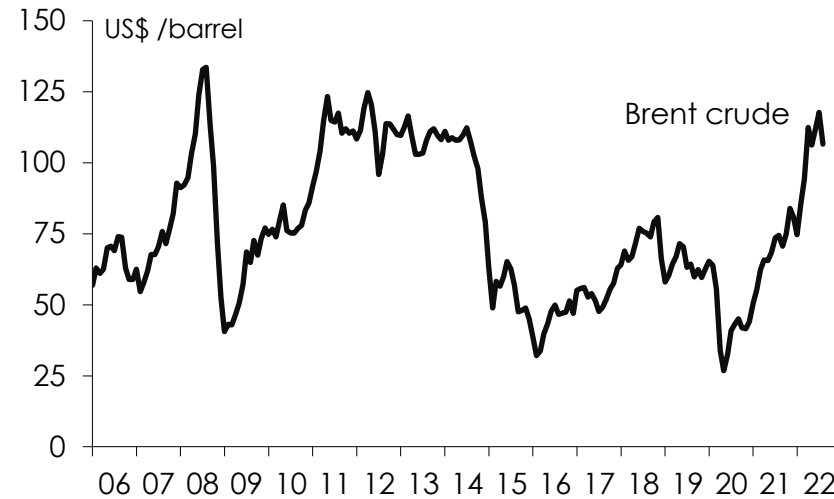
Energy commodity prices remain elevated, but other commodity prices have eased a bit, and freight & semi-conductor prices are now falling

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

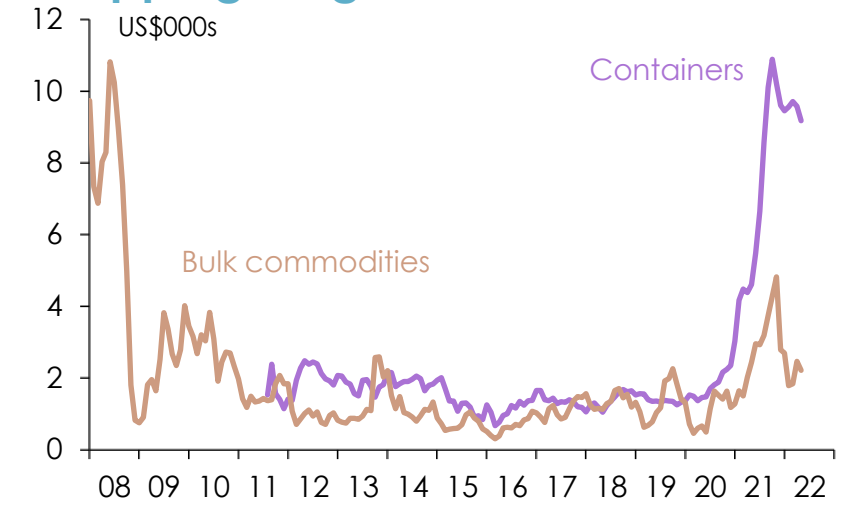
'Hard' commodity prices



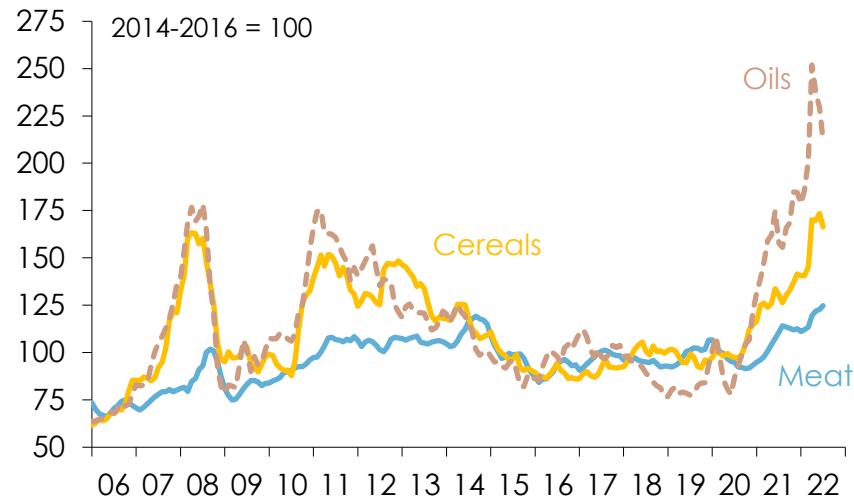
Crude oil price



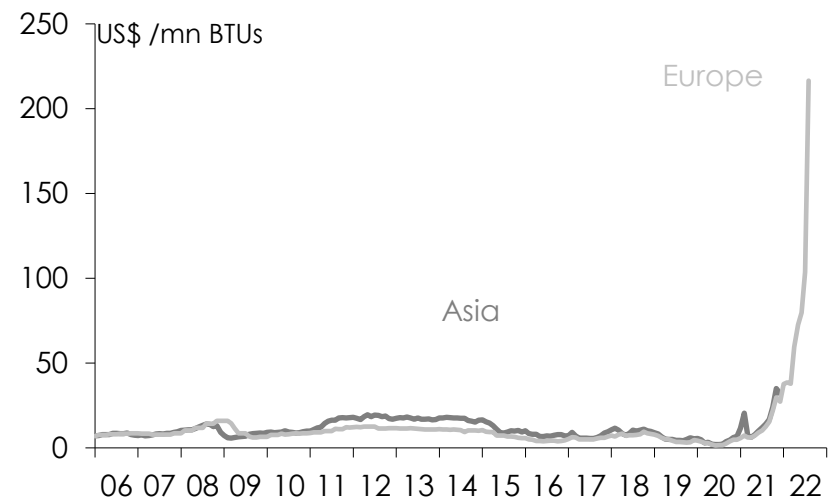
Shipping freight costs



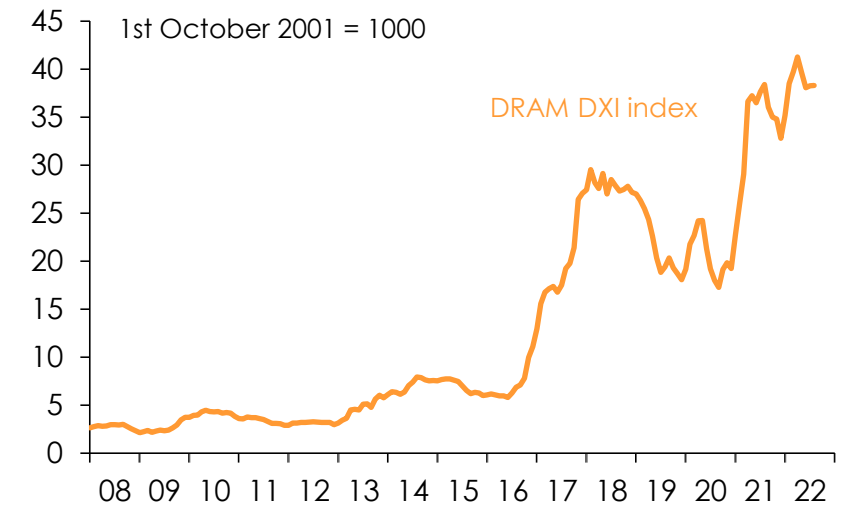
Food commodity prices



Natural gas prices



Semiconductor chip prices

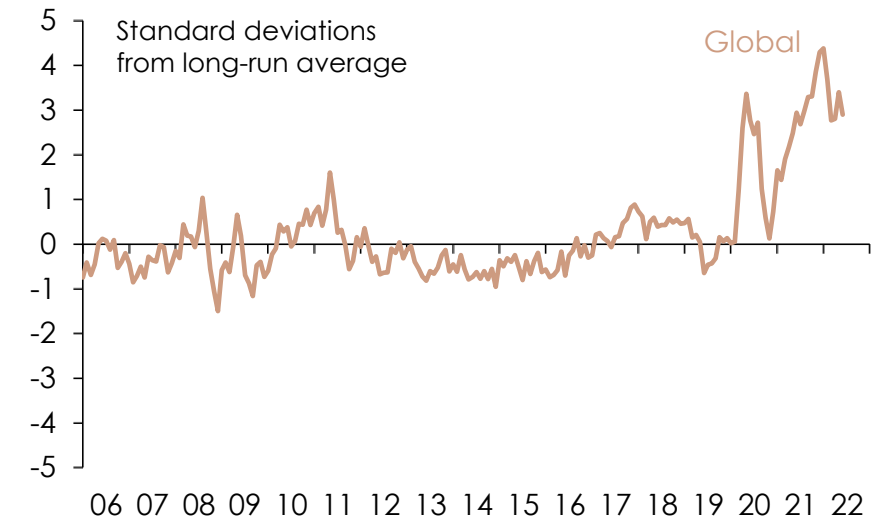
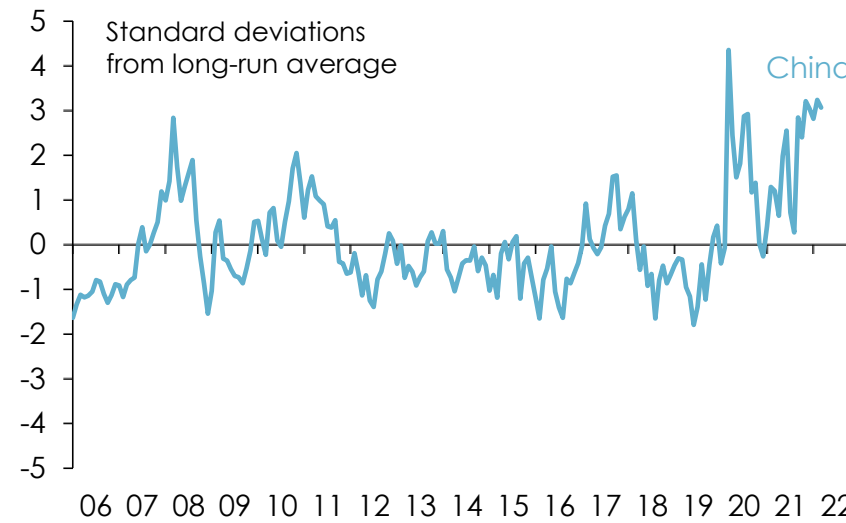
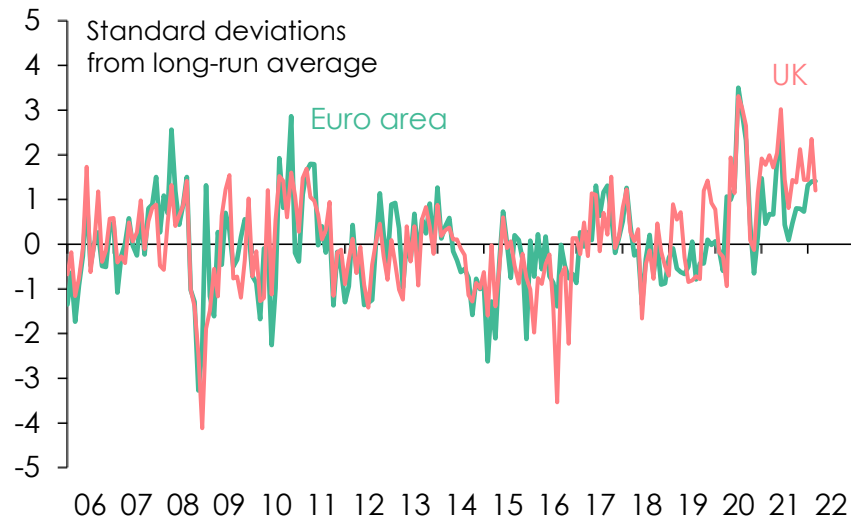
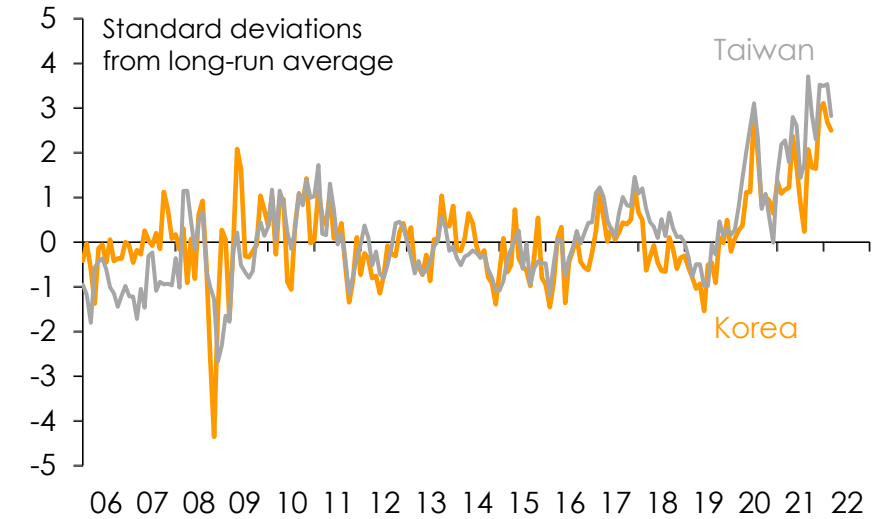
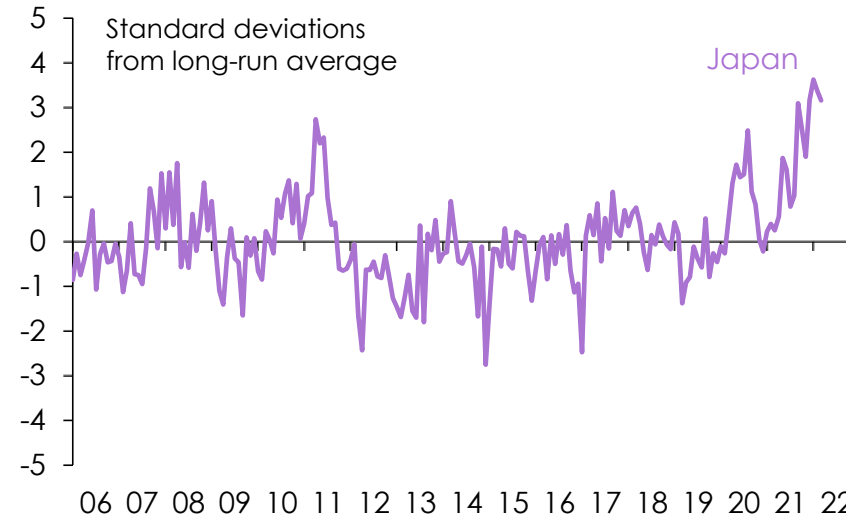
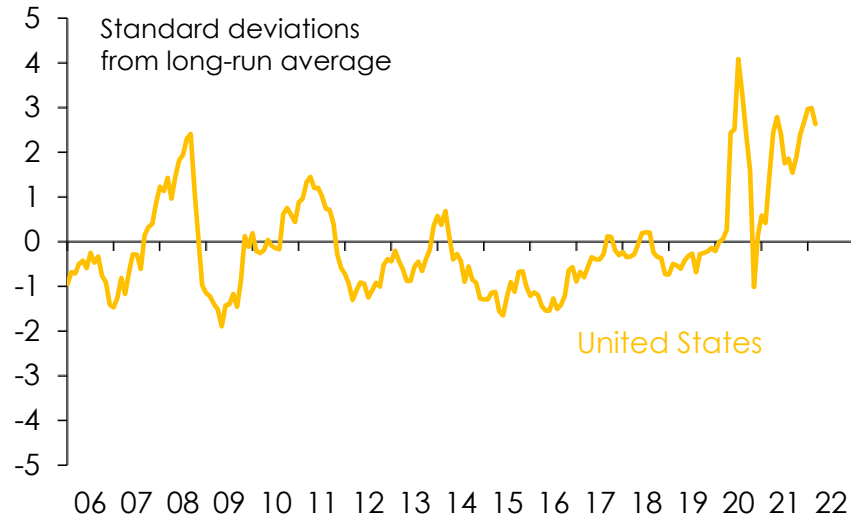


Note: The IMF commodity price indices were re-based to 2016 = 100 (previously 2005) in October 2021; but the IMF appears to have indefinitely suspended its series of commodity prices (other than indexes). Sources: [International Monetary Fund](#); [UN Food and Agriculture Organization](#); [Freightos](#); [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 – 11TH JULY 2022

NY Fed global supply chain pressure index

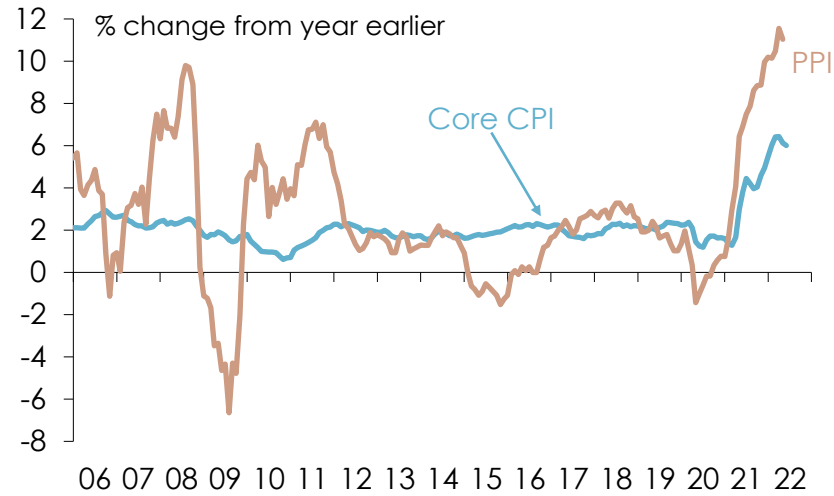


Sources: Gianluca Benigno, Julian Di Giovanni, Jan Groen & Adam Noble, [A New Barometer of Global Supply Chain Pressures](#), Federal Reserve Bank of New York, 4th January 2022 (which contains a detailed explanation of the construction of this index). Latest data for global index is for [May 2022](#);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

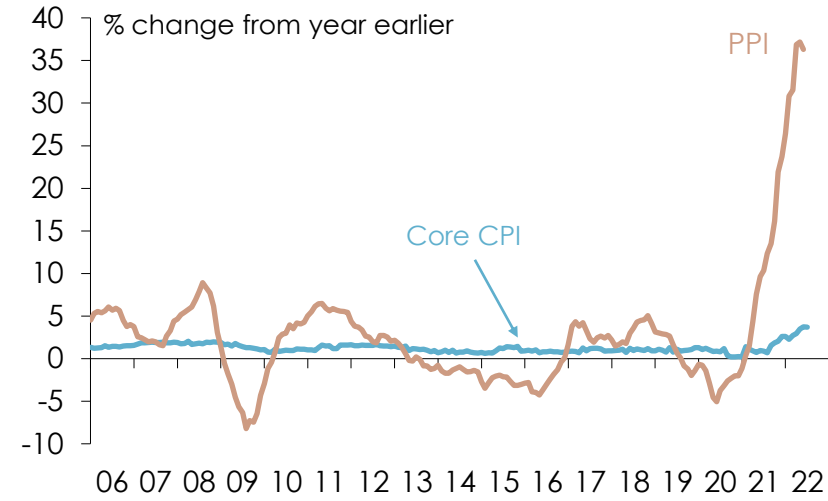
Inflation has risen sharply at the producer level in all advanced economies, and (Japan aside) 'core' CPI inflation is also above central bank targets

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

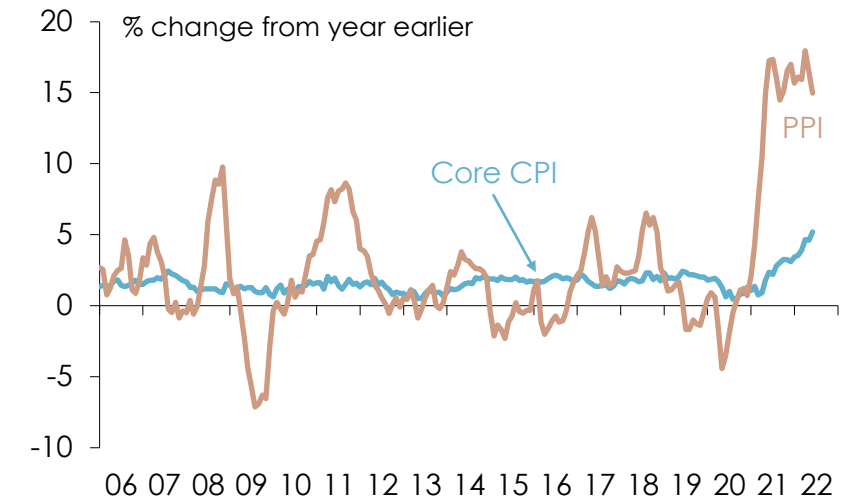
United States



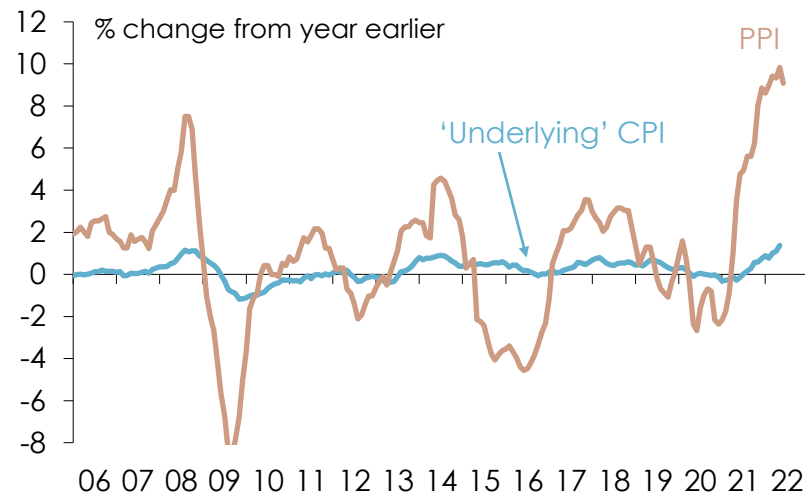
Euro area



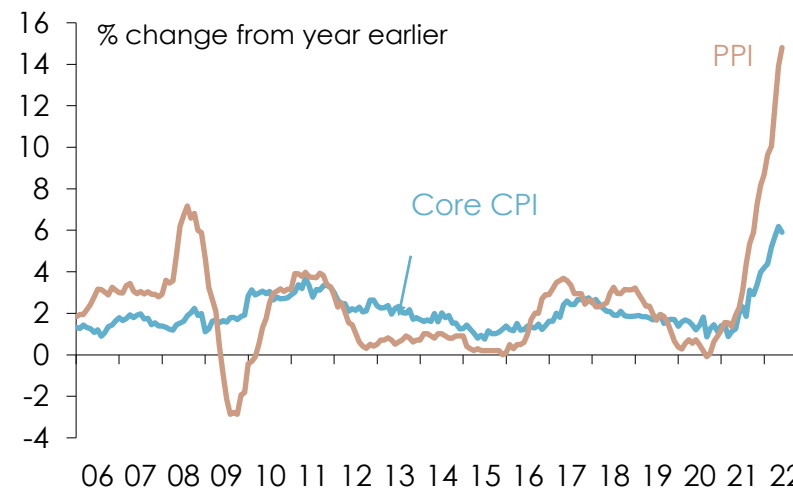
Canada



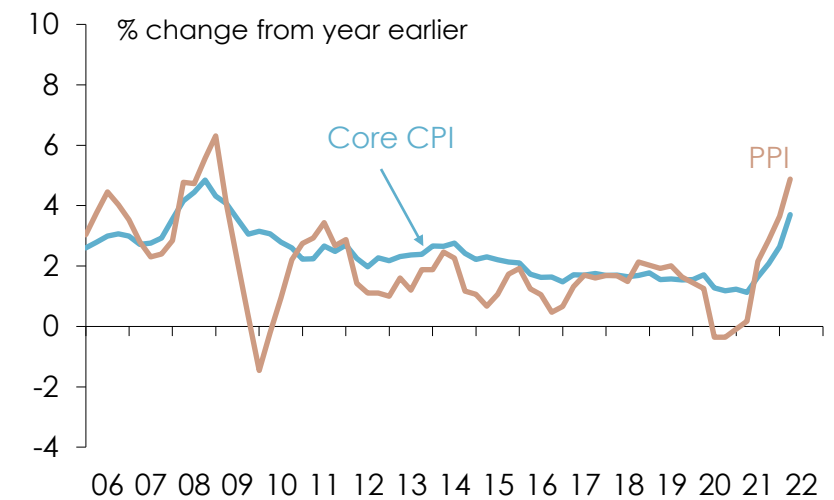
Japan



United Kingdom



Australia

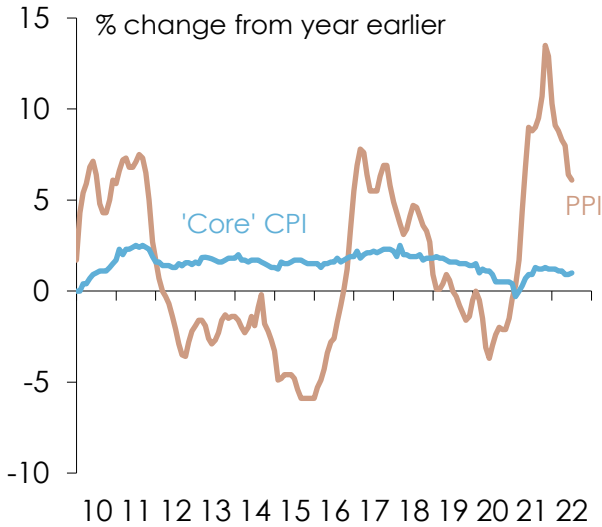


For a more detailed analysis of recent US inflation data see [slides 52-56](#). Sources: [US Bureau of Labor Statistics](#); [Statistics Bureau of Japan](#) and [Bank of Japan](#); [Eurostat](#); [UK Office for National Statistics](#); [Statistics Canada](#); [Australian Bureau of Statistics](#). [Return to "What's New"](#).

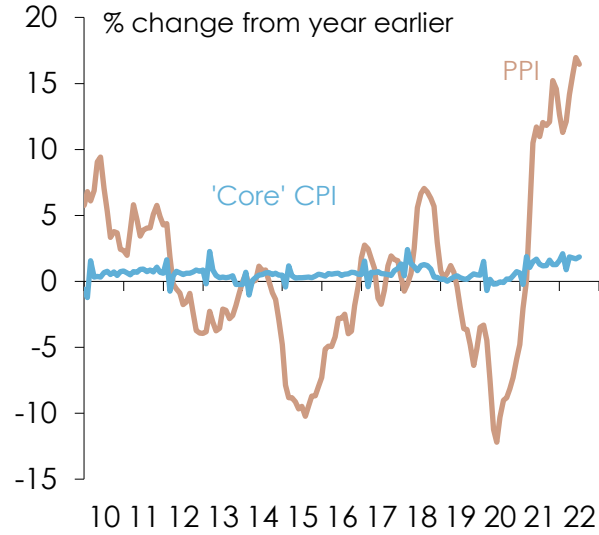
Most Asian economies have been experiencing rapid 'upstream' inflation for some time, and 'core' consumer price inflation is now starting to pick up

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

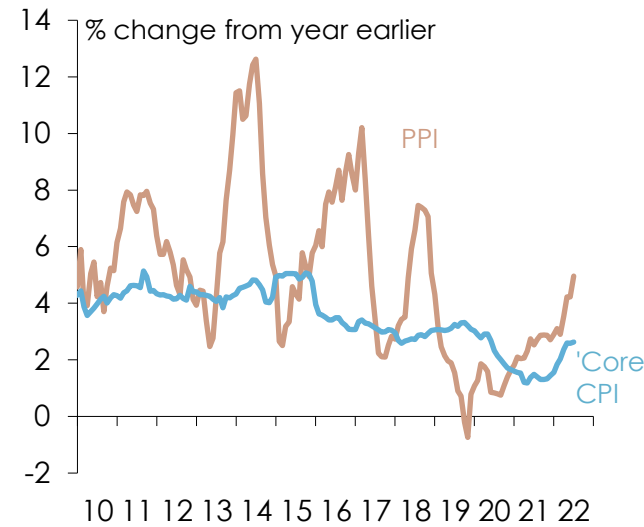
China



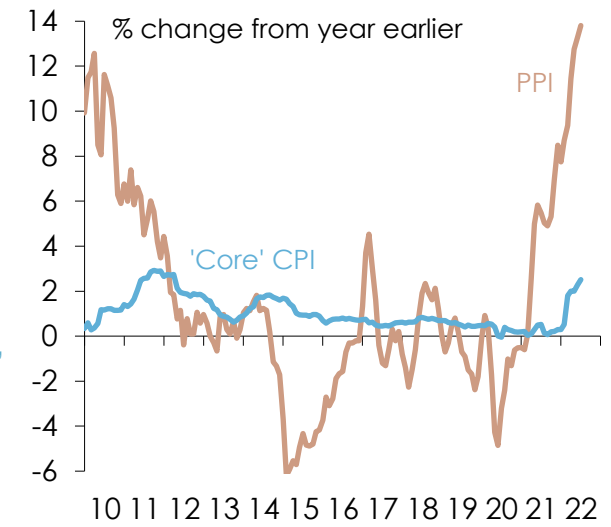
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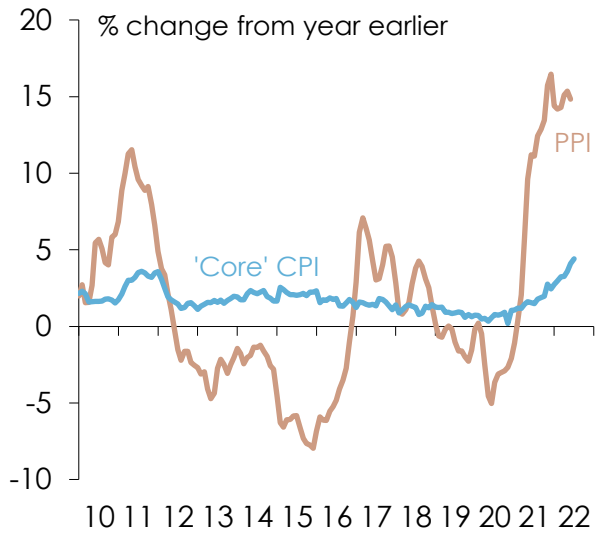
Indonesia



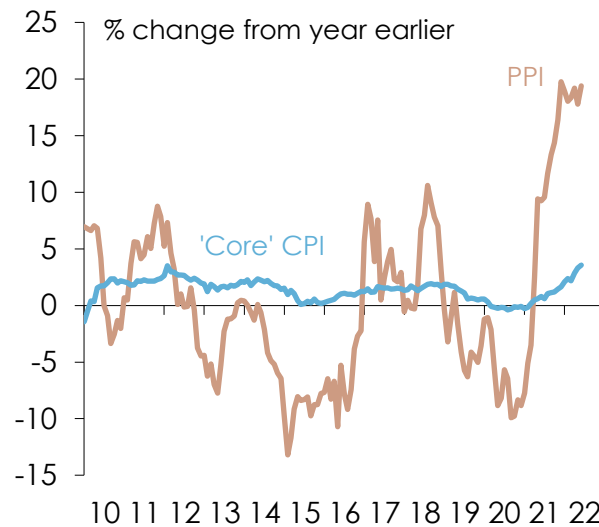
Thailand



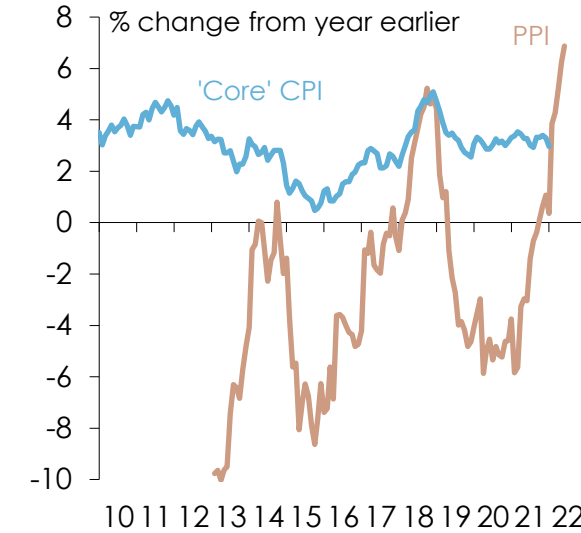
Korea



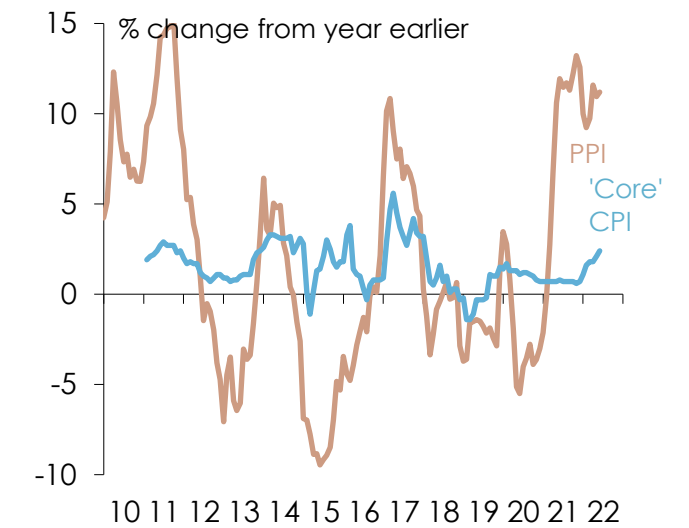
Singapore



Philippines



Malaysia

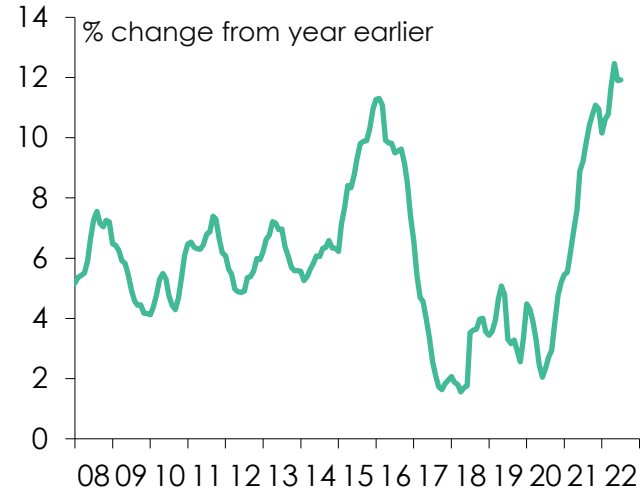


Note: 'Core' CPIs measure different things in different Asian economies – see footnotes to [slide 94](#). Sources: [China National Bureau of Statistics](#); [Statistics Korea](#); [Bank of Korea](#); [Taiwan Statistical Bureau](#); [Singstat](#); [Monetary Authority of Singapore](#); [Statistics Indonesia](#); [Philippine Statistics Authority](#); [Thailand Bureau of Trade and Economic Indices](#); [Department of Statistics Malaysia](#). [Return to "What's New"](#).

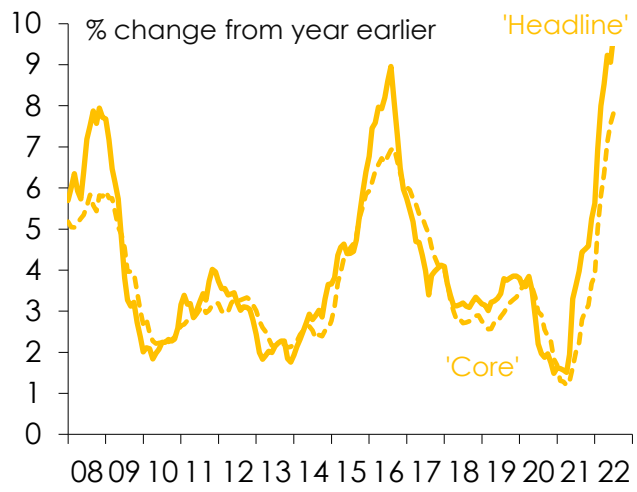
Consumer price inflation is rising sharply across Latin America (except for Venezuela, where it's now down to just 155%!)

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

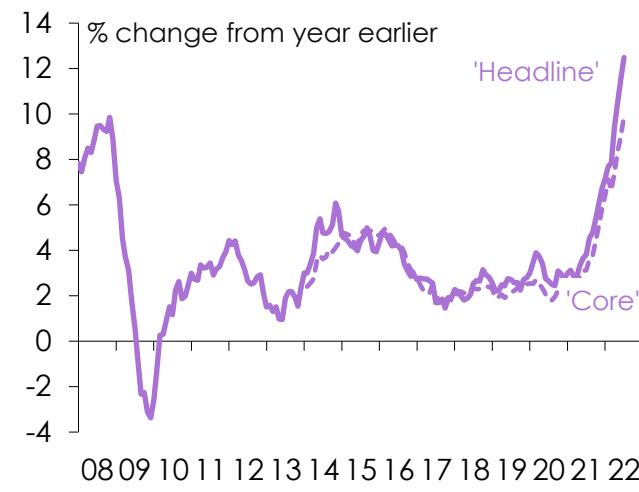
Brazil



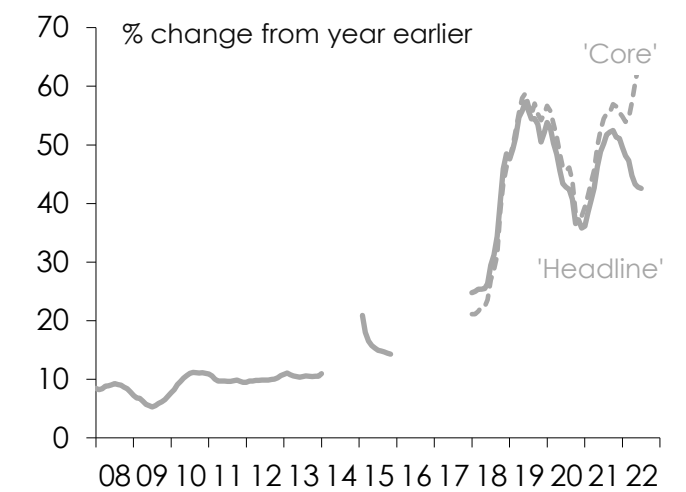
Colombia



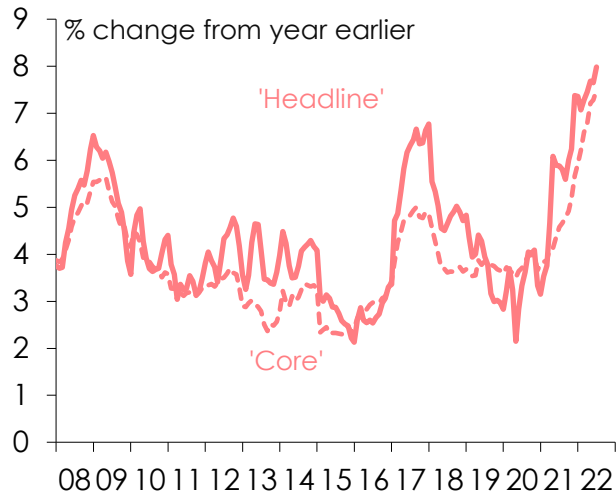
Chile



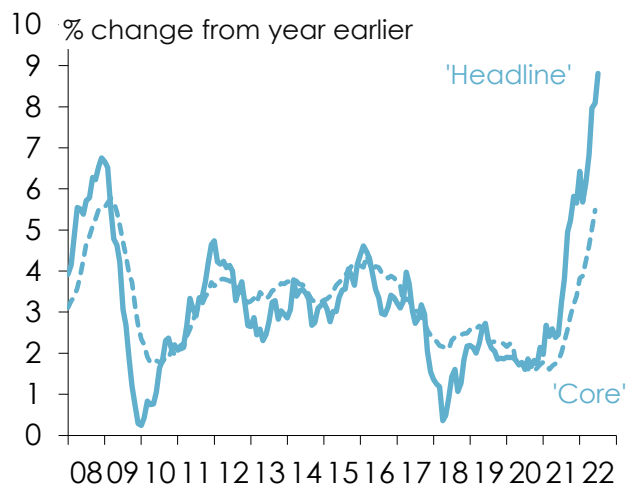
Argentina



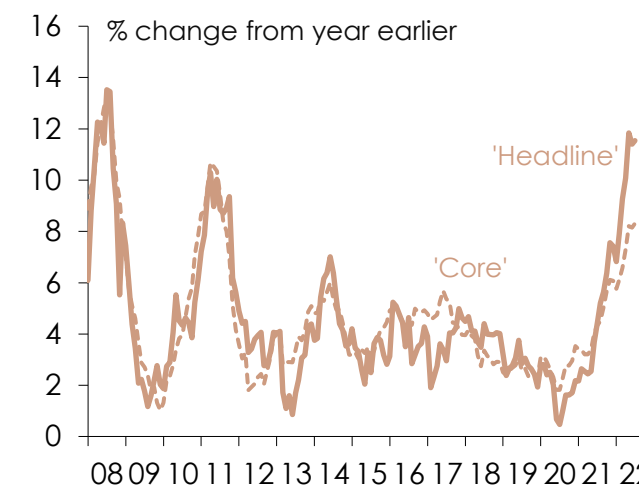
Mexico



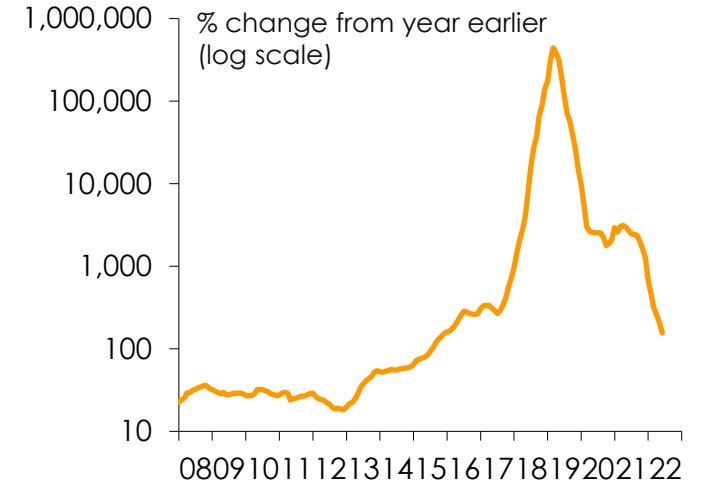
Peru



Paraguay



Venezuela

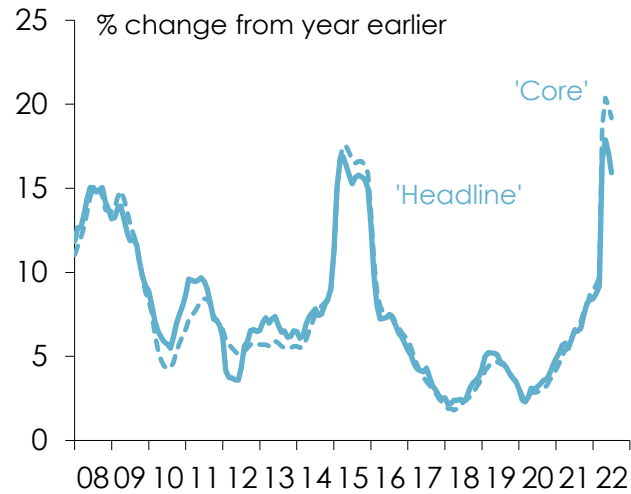


Sources: [Instituto Brasileiro de Geografia e Estatística](#); [Instituto Nacional de Estadística y Geografía](#) (Mexico); [Departamento Administrativo Nacional de Estadística](#) (Colombia); [Instituto Nacional de Estadística e Informática](#) (Peru); [Instituto Nacional de Estadísticas](#) (Chile);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

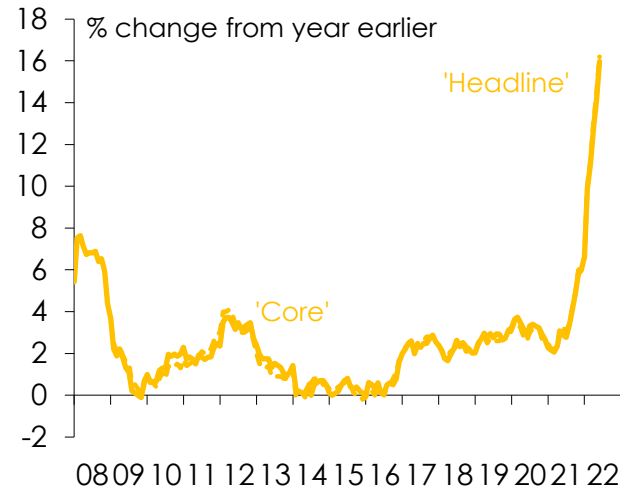
Consumer price inflation is also rising across Central and Eastern Europe, and in South Africa

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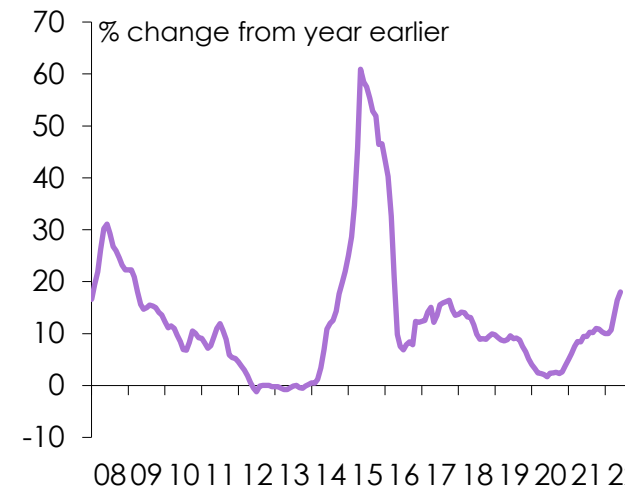
Russia



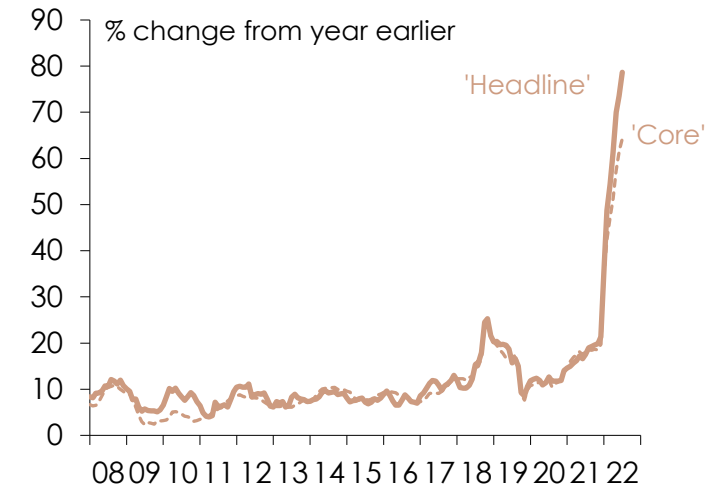
Czech Republic



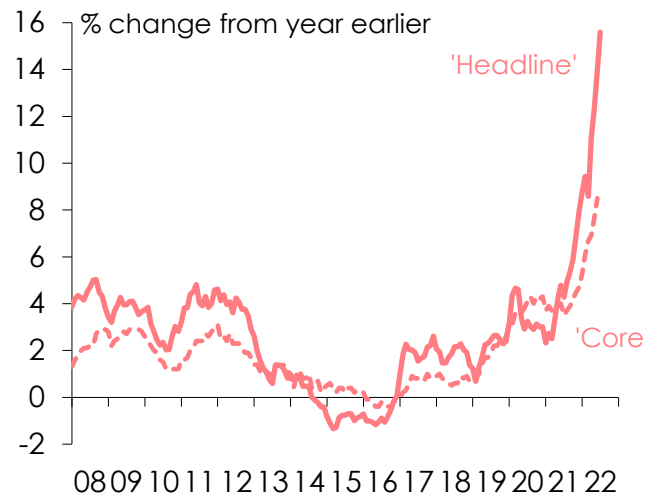
Ukraine



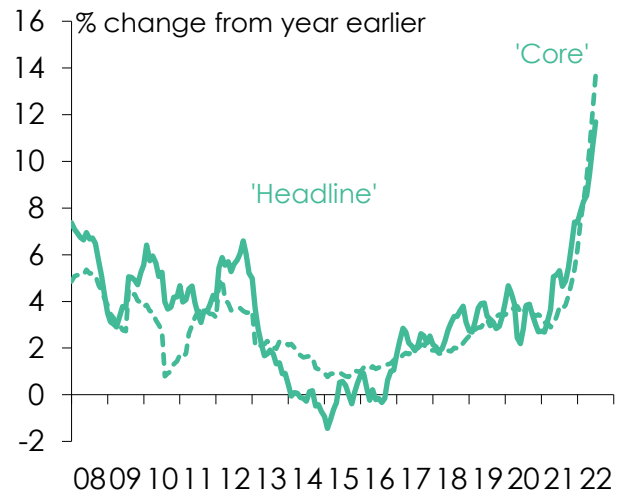
Turkey



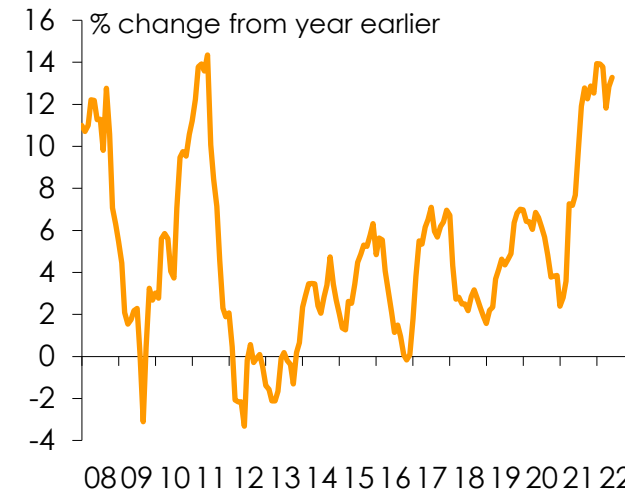
Poland



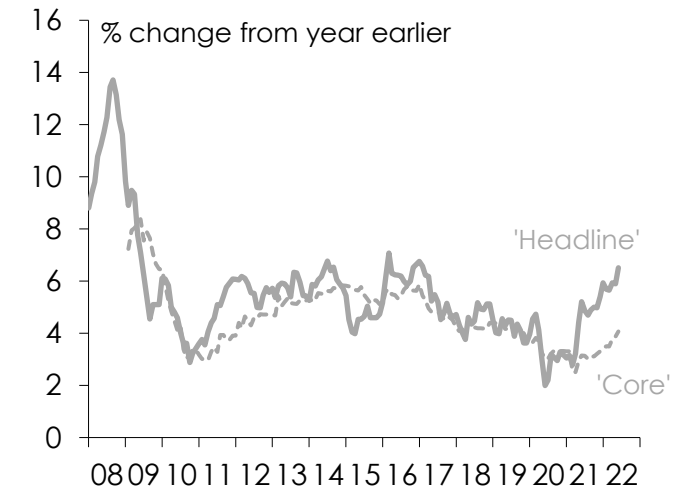
Hungary



Georgia



South Africa

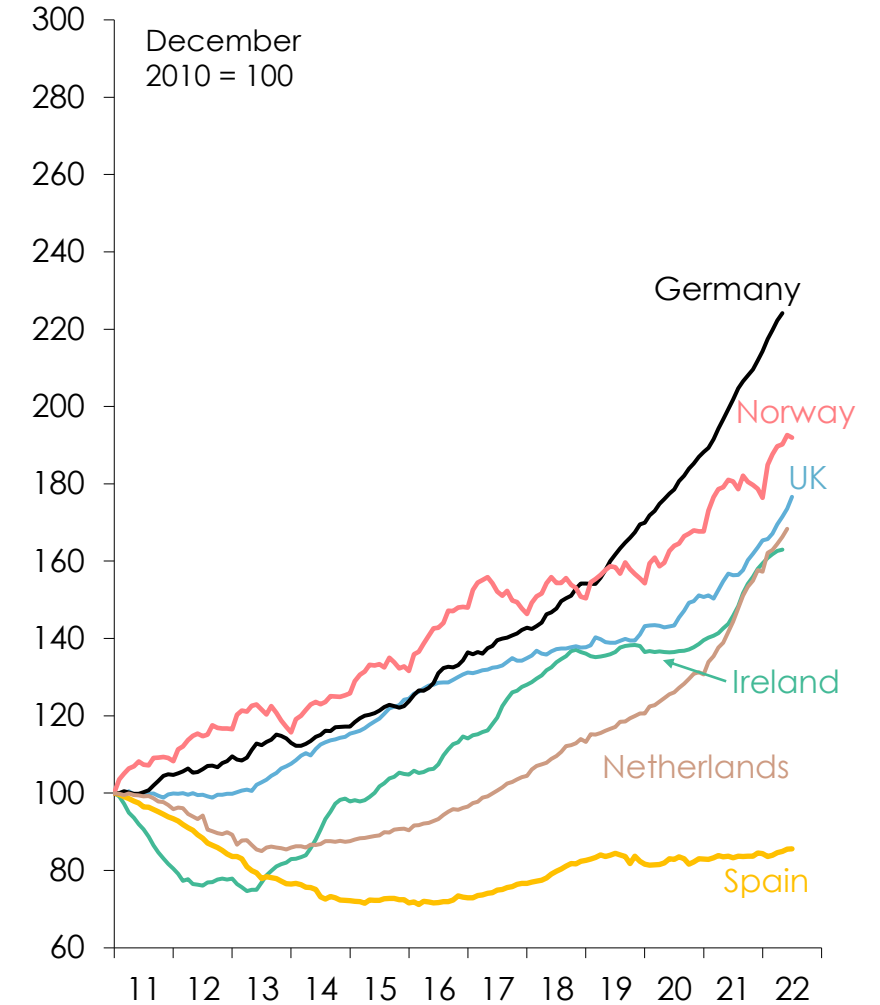
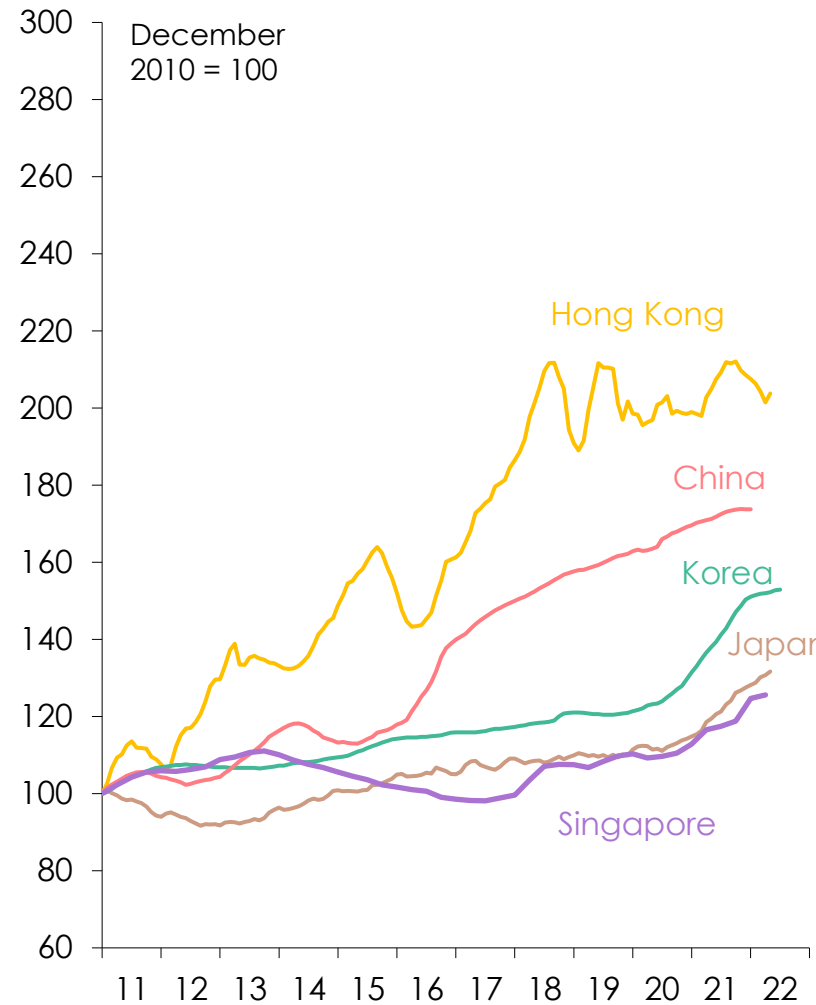
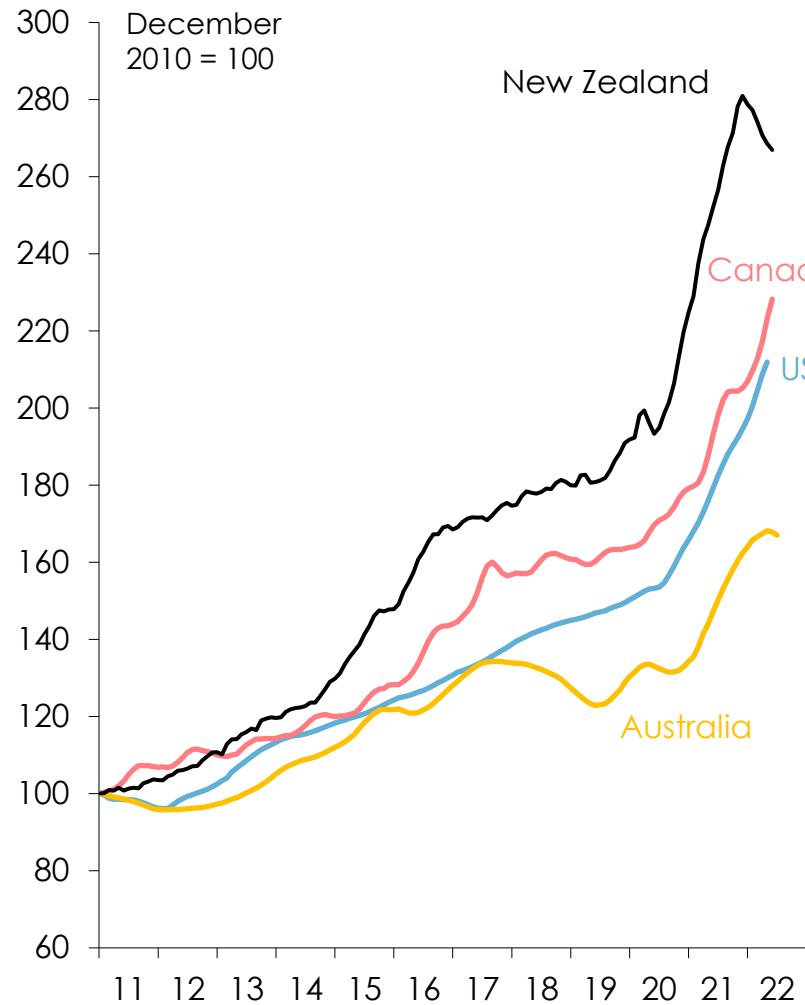


Sources: Rosstat; Główny Urząd Statystyczny (Poland); Český statistický úřad (Czech Republic); Központi Statisztikai Hivatal (Hungary); Ukrstat; Sak'art'velos statistikis erovnuli samsakhuri (Georgia); Turkstat; Statistics South Africa. Return to "What's New".

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 – 11TH JULY 2022

House price indices

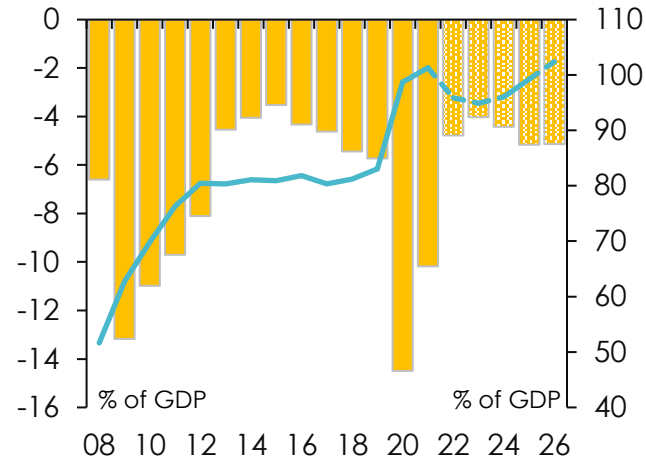


Note: House price indices shown in these charts are those published by [S&P-CoreLogic Case Shiller national](#) (United States); [Teranet-National Bank](#) (Canada); [CoreLogic](#) (Australia); [Real Estate Institute of New Zealand](#); [China Index Academy](#); [Japan Real Estate Institute](#) (Tokyo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

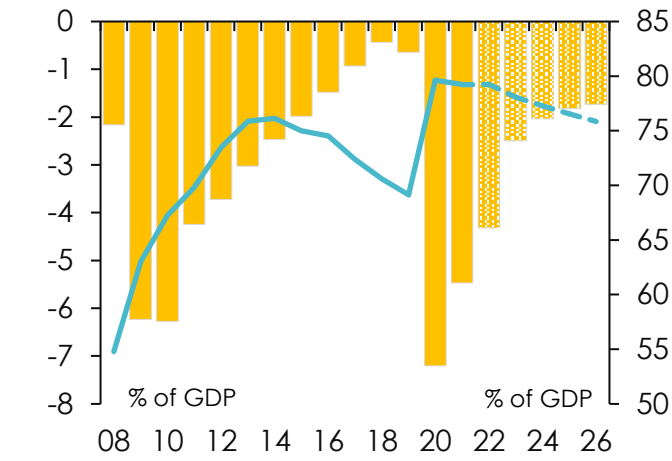
Fiscal policy is set to be tightened significantly in 2022 in most major economies except Japan, China and India

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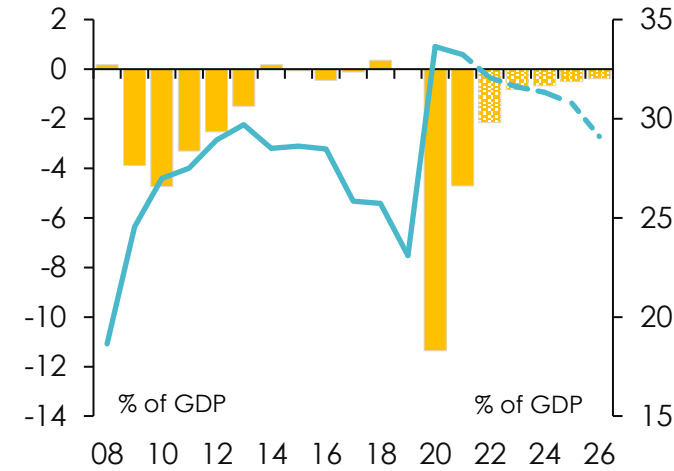
United States



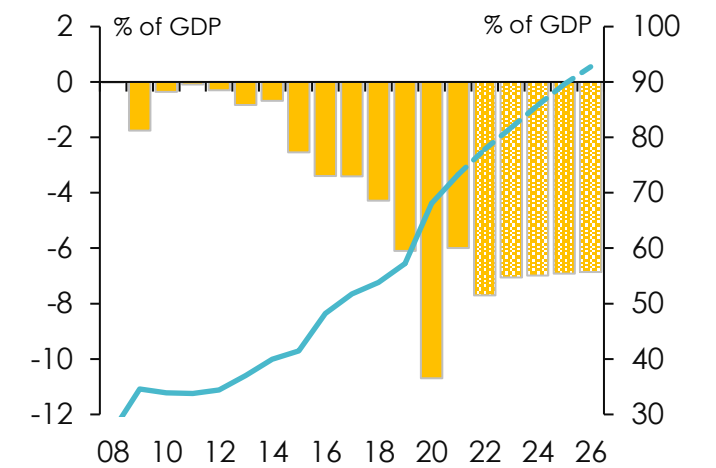
Euro area



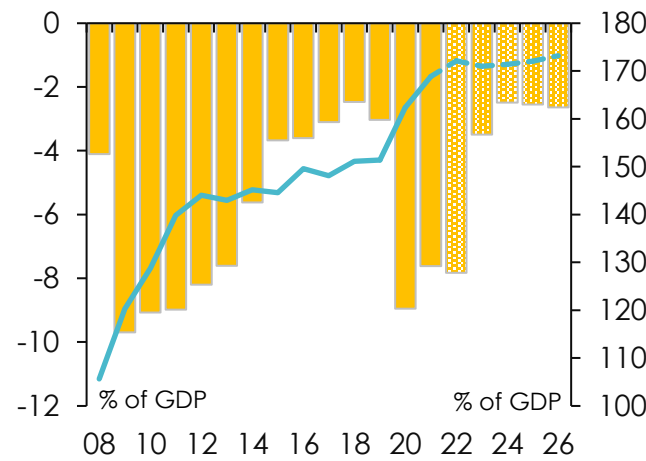
Canada



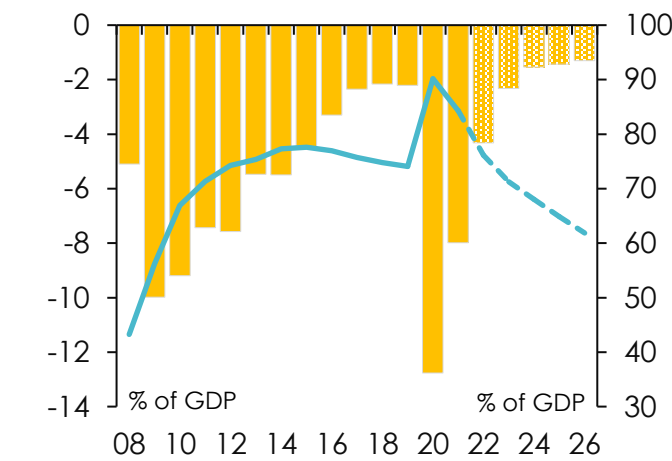
China



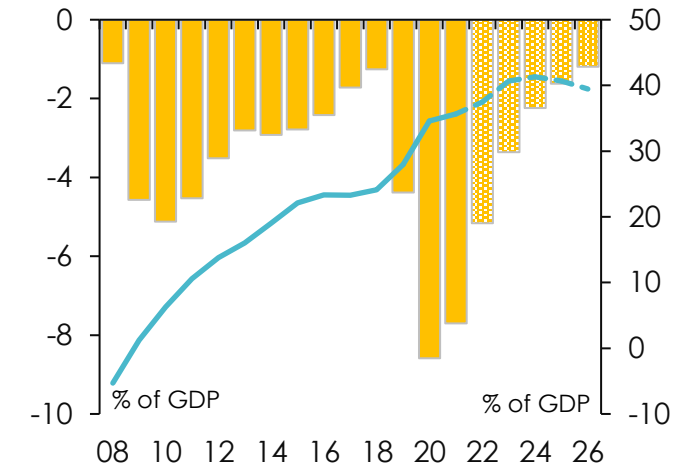
Japan



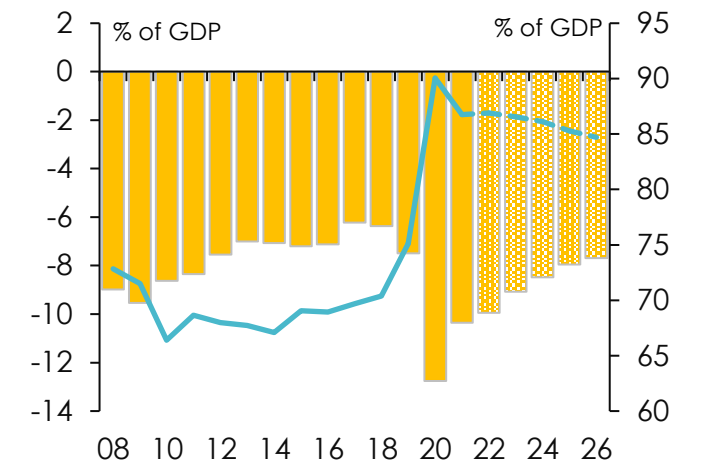
United Kingdom



Australia



India



General government overall fiscal balance (left scale)

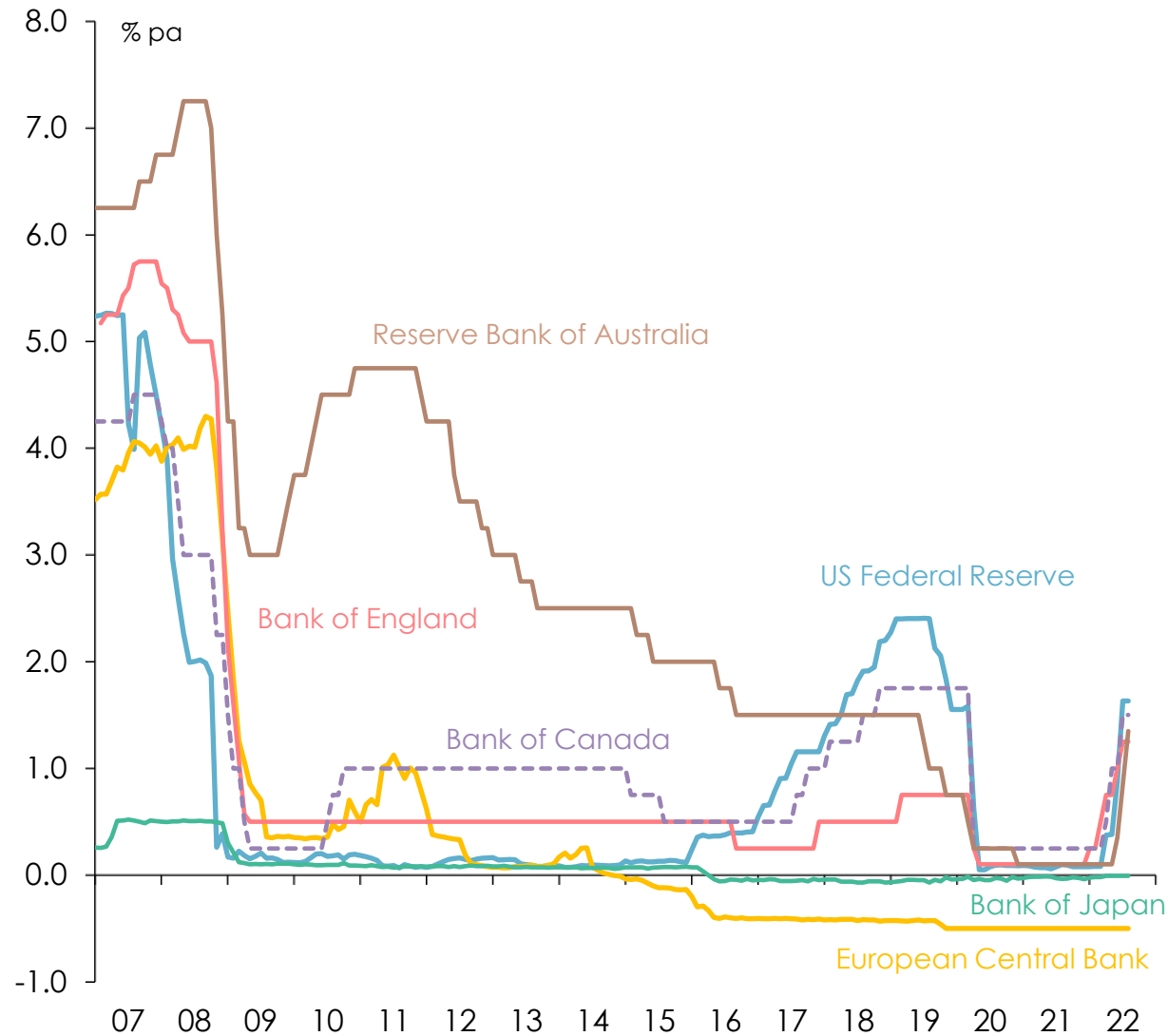


General government net debt (right scale)

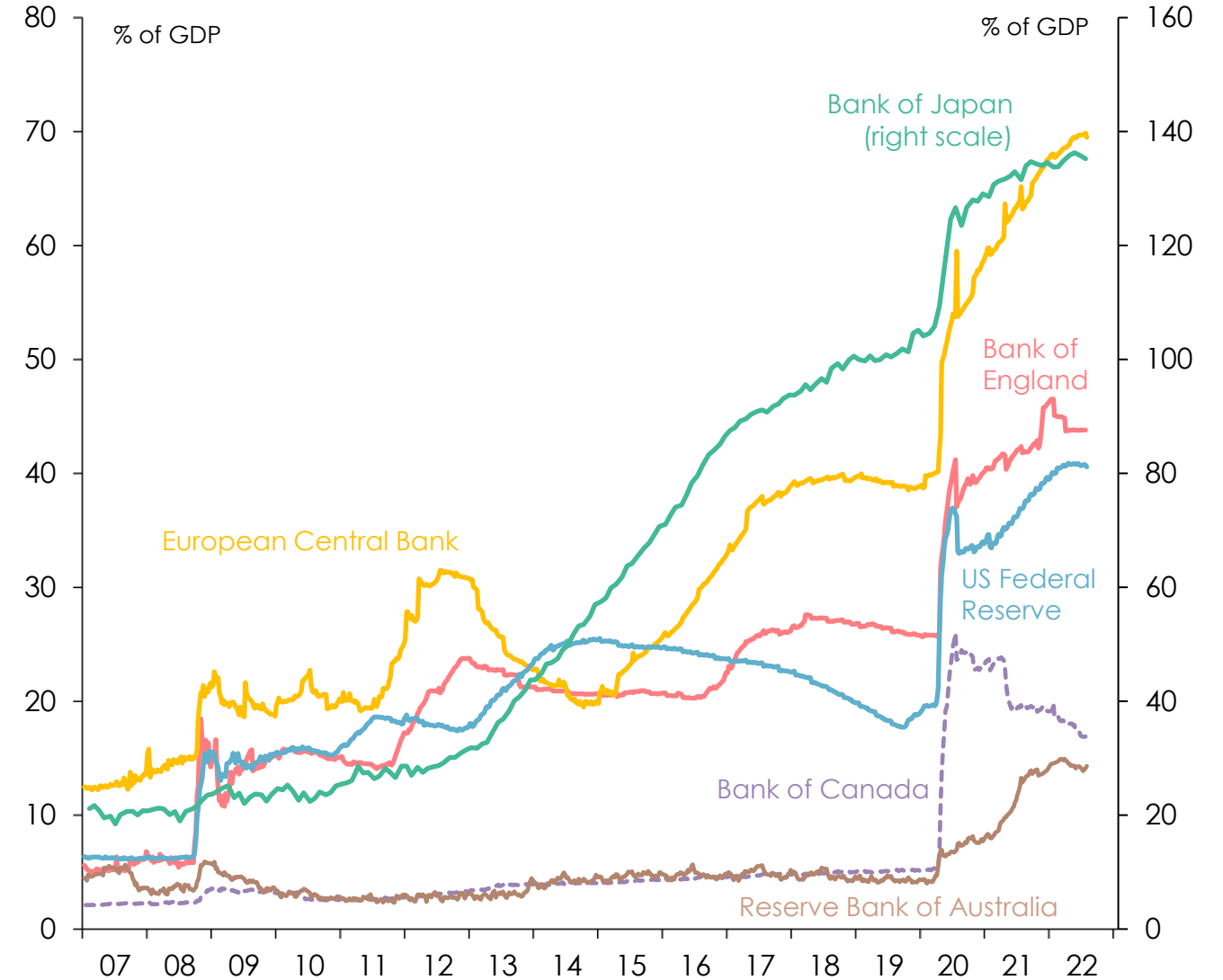
Major 'advanced' economy central banks (apart from the BoJ) have become much more hawkish in response to persistently higher inflation

THE WORLD ECONOMY THIS WEEK – 11TH 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](#); [Reserve Bank of Australia](#); national statistical agencies; Corinna. [Return to "What's New"](#).

The Bank for International Settlements' latest Annual Report sounded some ominous warnings about the risks ahead for the global economy

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

- ❑ The **Bank for International Settlements** (often referred to as “the central banks’ central bank”) warned in its **Annual Economic Report** released in the last week of June 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 the week before last)
 - 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?

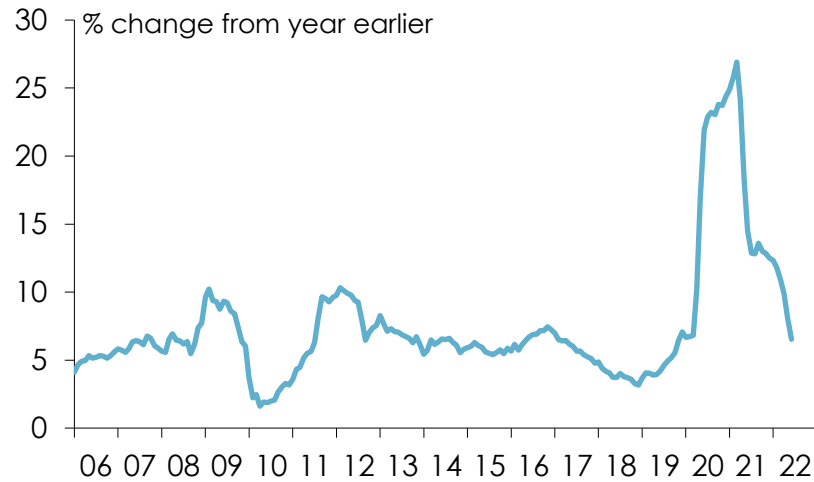
THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

- ❑ 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

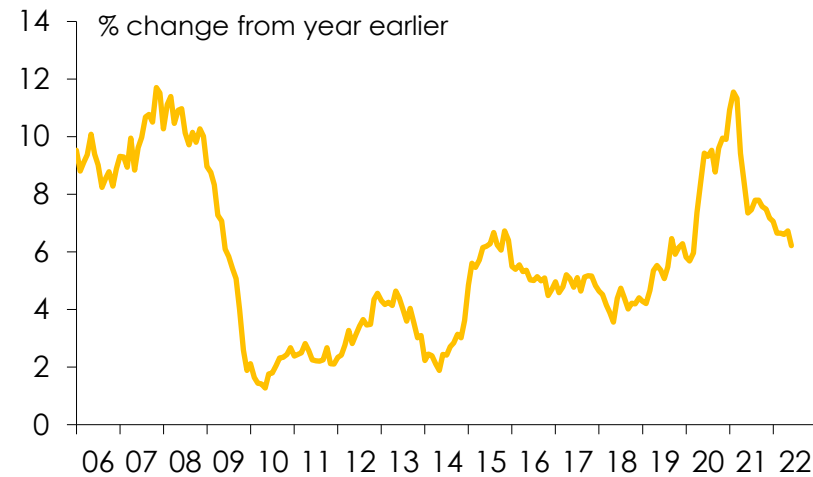
Money supply growth has slowed sharply from the peaks recorded in the first half of 2021 as large monthly increases in 2020 'wash out'

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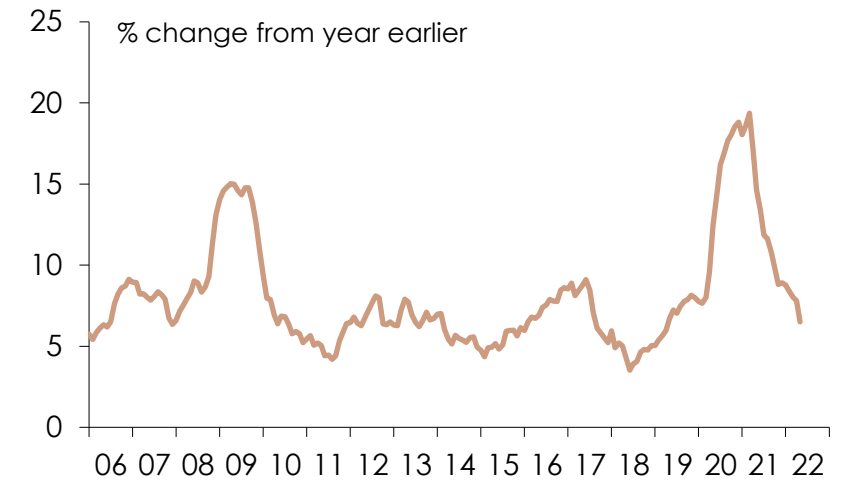
US M2



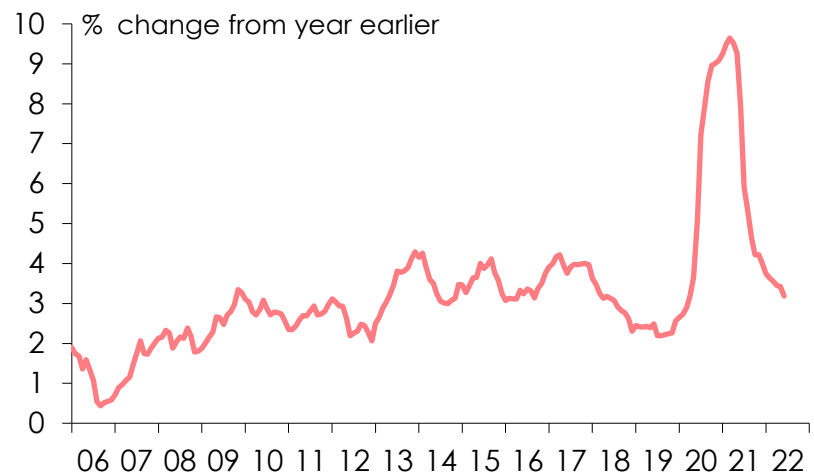
Euro area M2



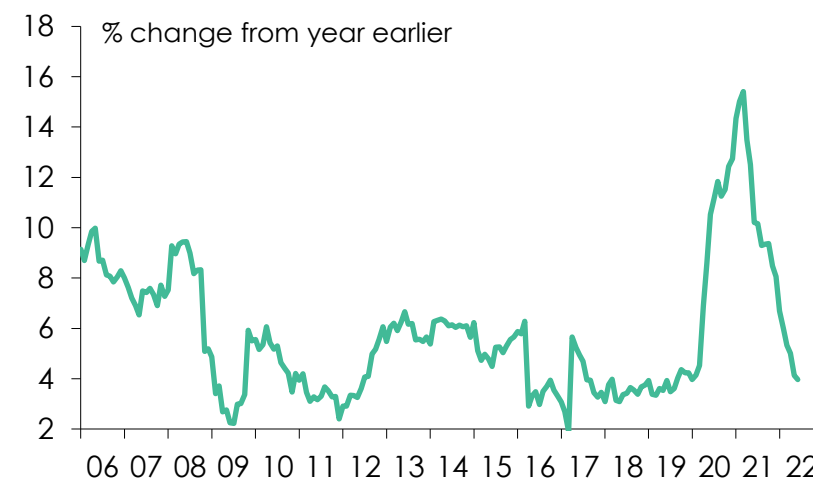
Canada M2



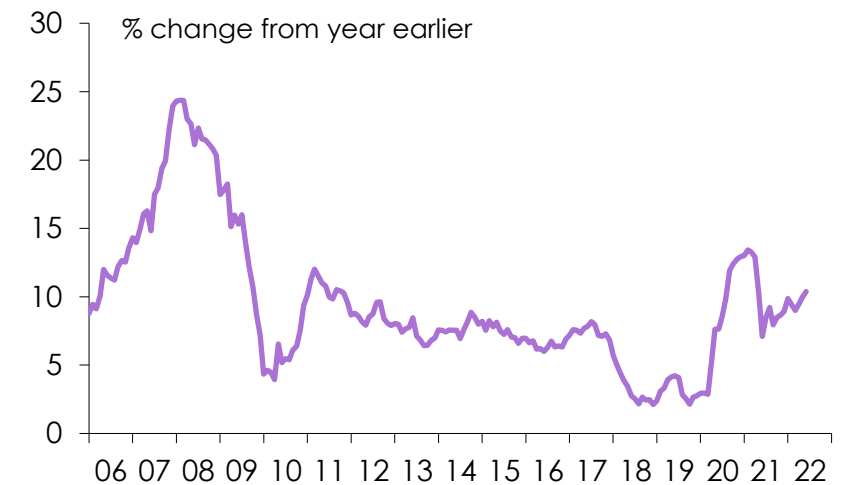
Japan M2 + CDs



UK M2



Australia M3

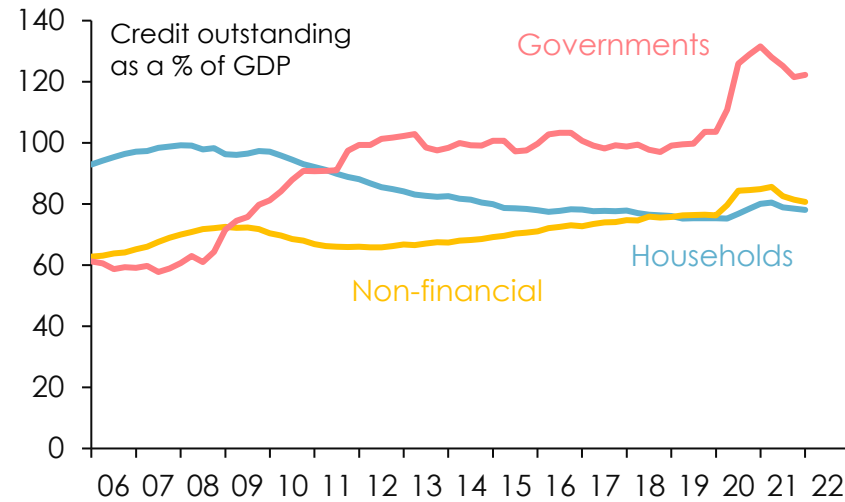


Sources: [US Federal Reserve](#); [Bank of Japan](#); [European Central Bank](#); [Bank of England](#); [Bank of Canada](#); [Reserve Bank of Australia](#).

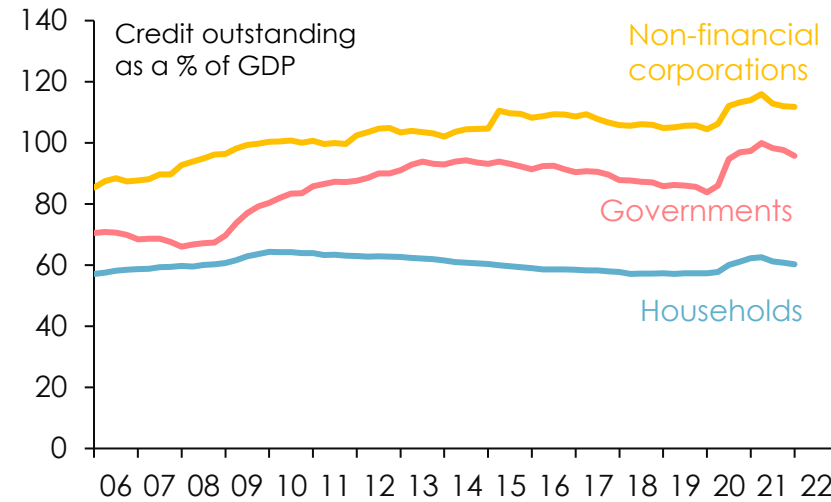
Japanese, US and UK governments, Canadian corporations and Australian households appear most exposed to increases in interest rates

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

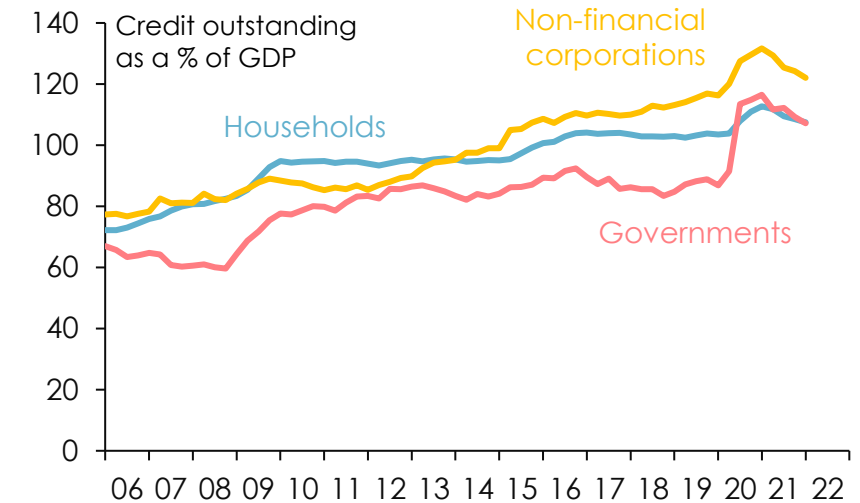
US



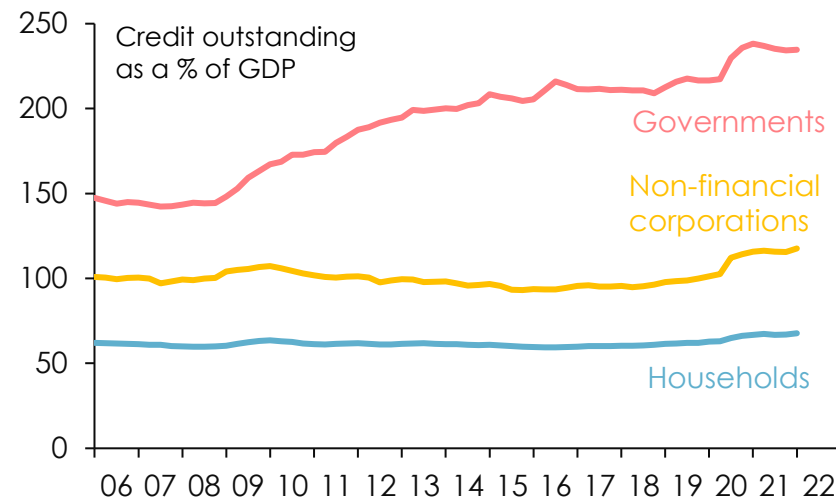
Euro area



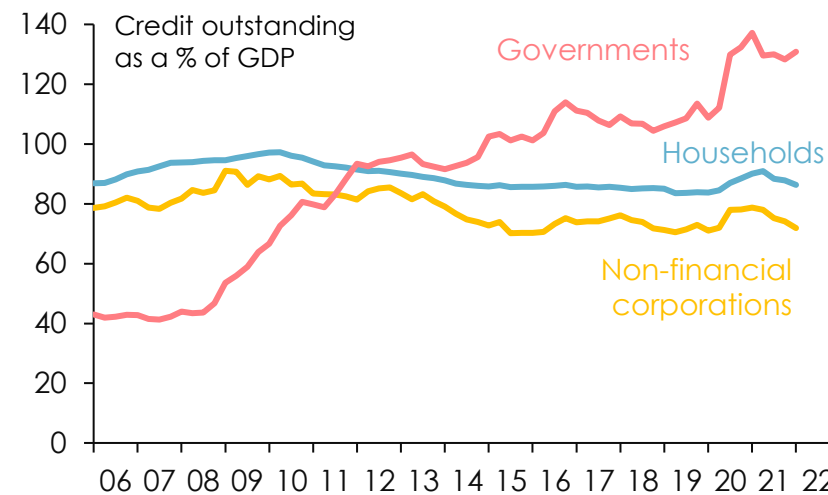
Canada



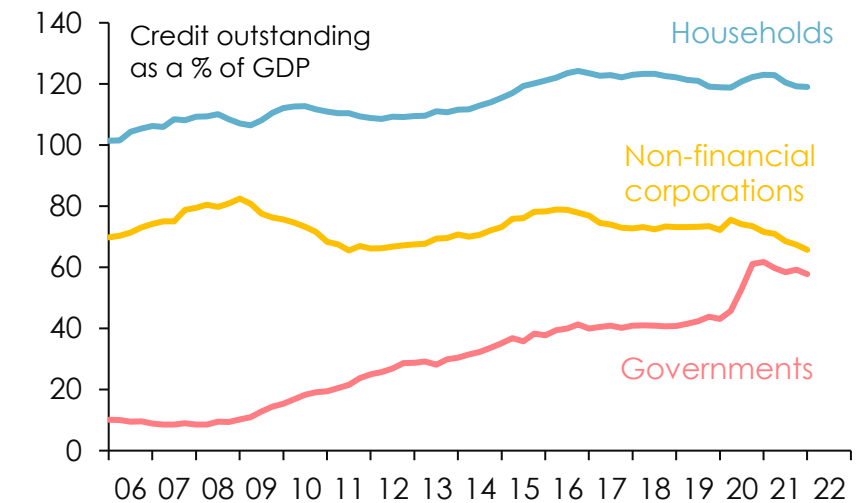
Japan



UK



Australia

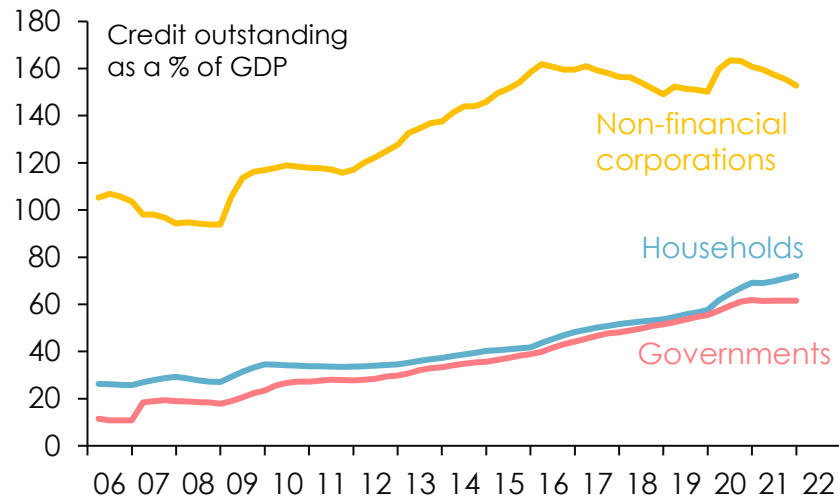


Source: Bank for International Settlements, [Credit Statistics](#); latest data are for Q4 2021, Q1 2022 data will be released in mid-September. [Return to "What's New"](#).

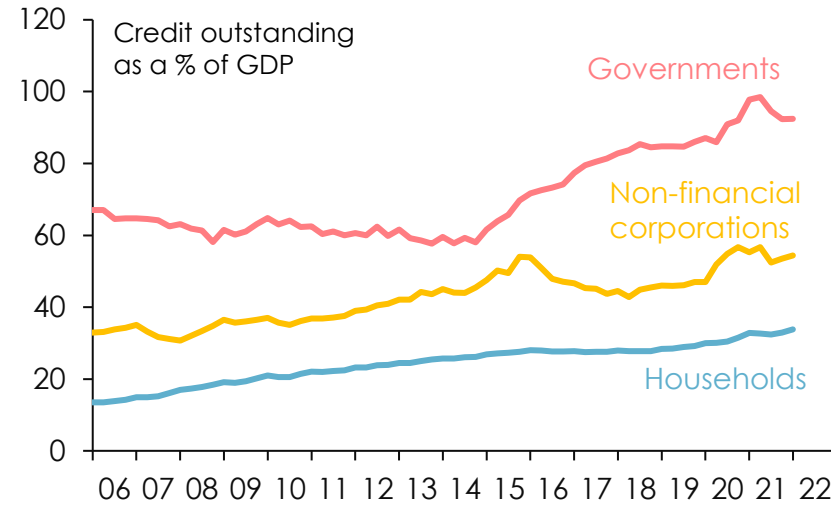
In major 'developing' economies it's usually governments that are most exposed to rising interest rates – except for China, Russia and Turkey

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

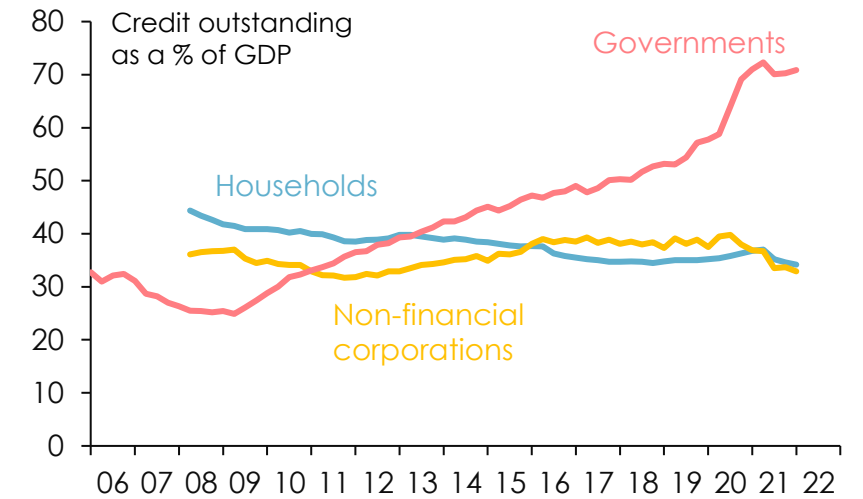
China



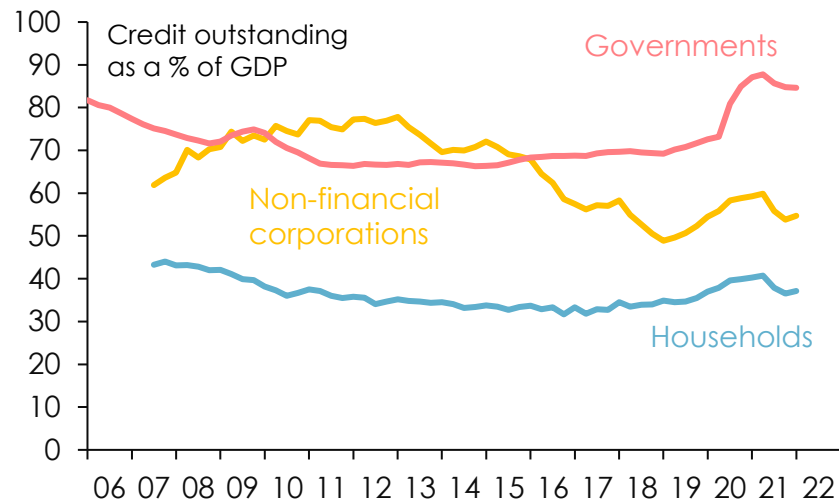
Brazil



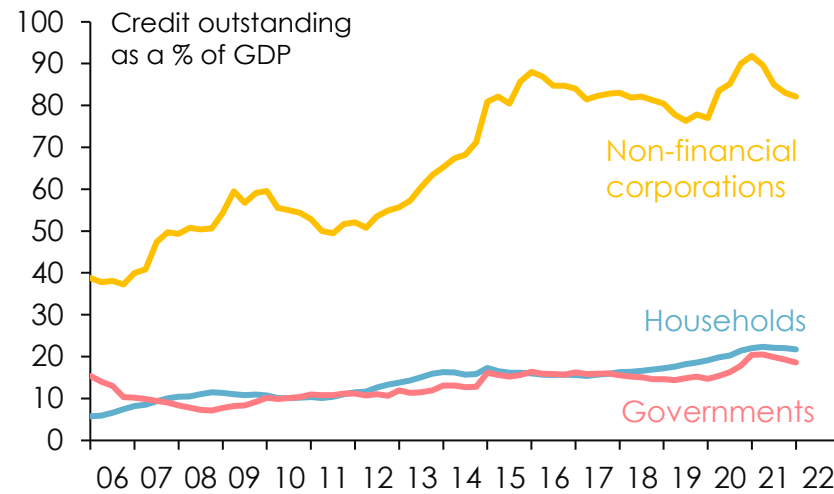
South Africa



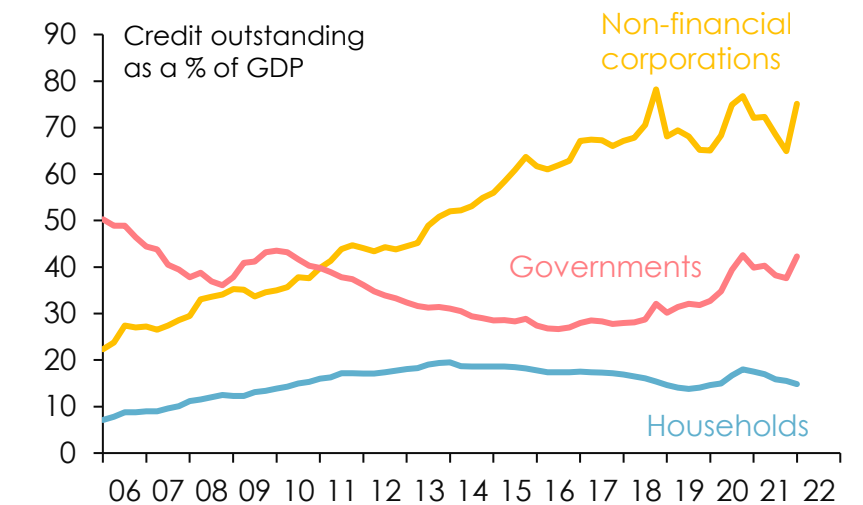
India



Russia



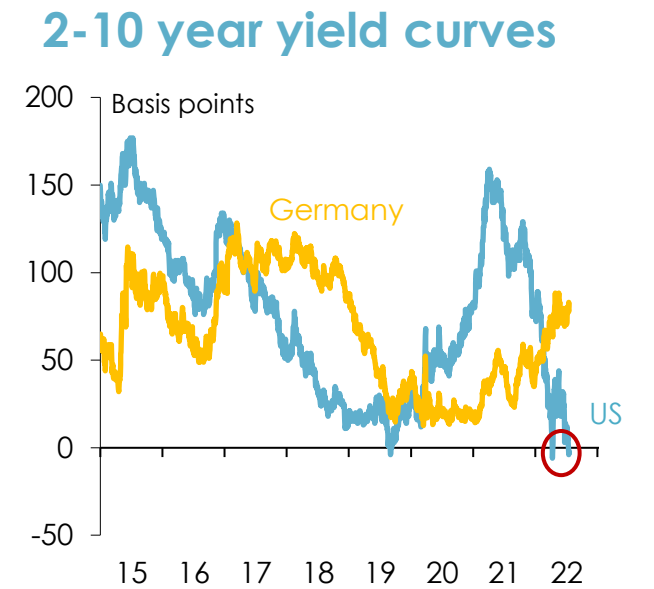
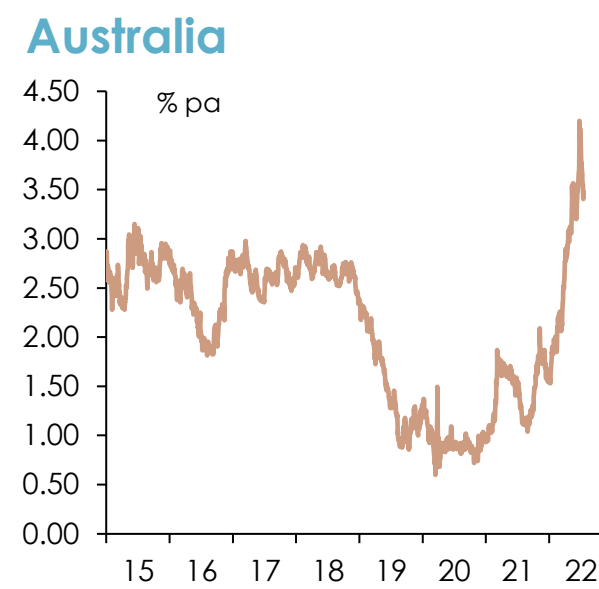
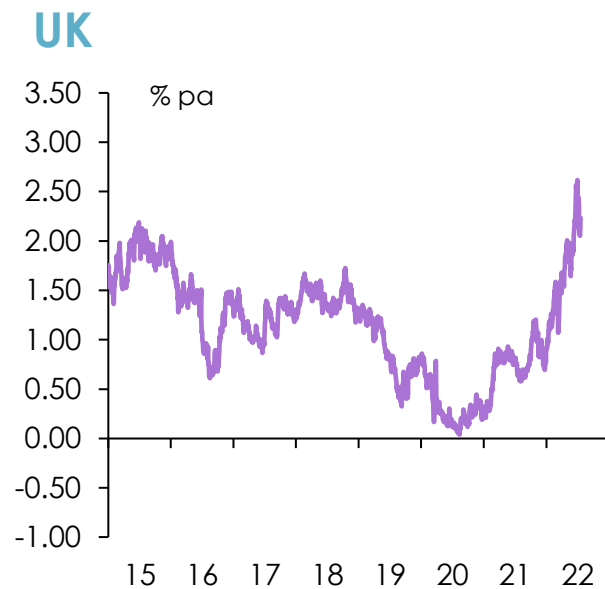
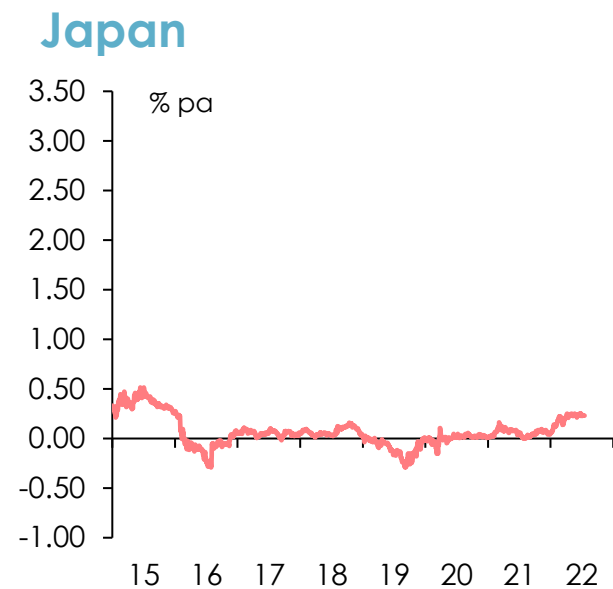
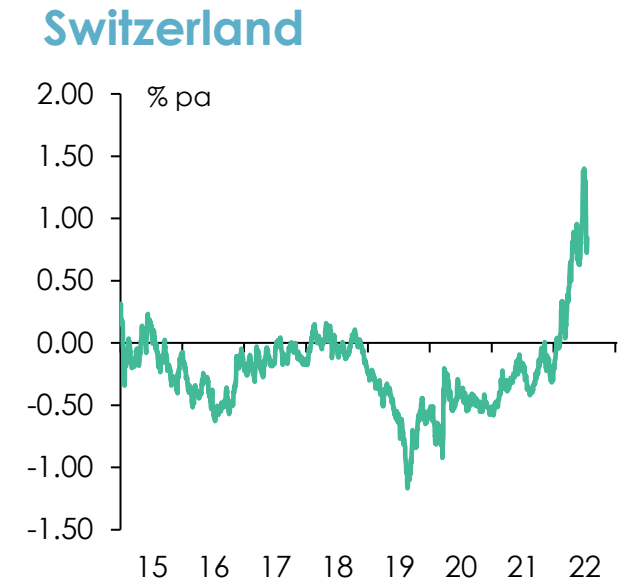
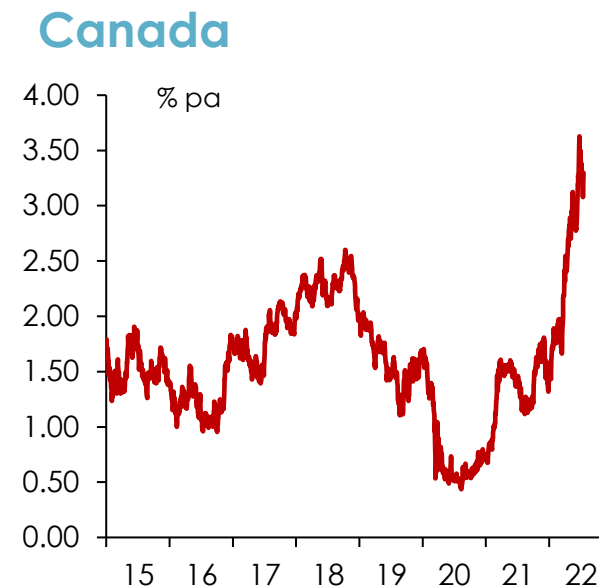
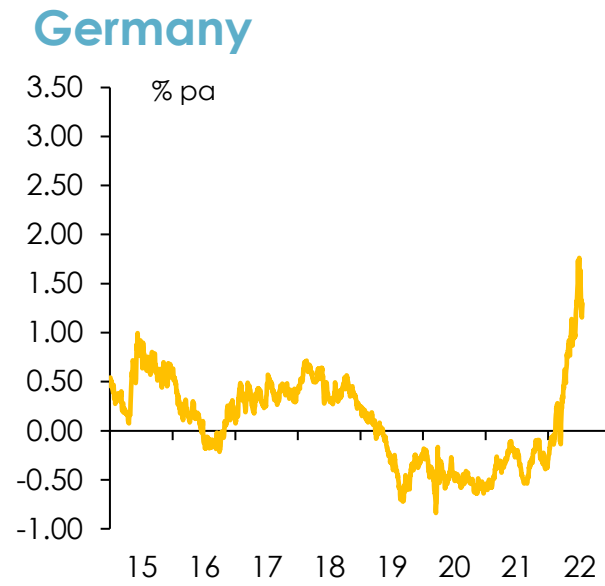
Turkey



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

'Advanced' economy bond yields rose in the second half of last week – and the US yield curve became inverted again

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022



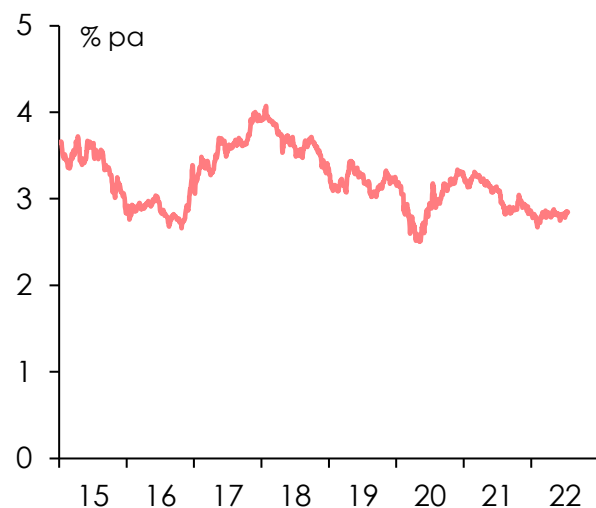
Note: Data up to 8th July. For bond yields in other large euro area member states see [slide 67](#), and for bond yields in Asian economies see [slide 102](#).

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

10-year yields rose in most 'emerging' markets, too, except for Turkey (where they fell 40bp) and China & India (where they were little changed)

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

China



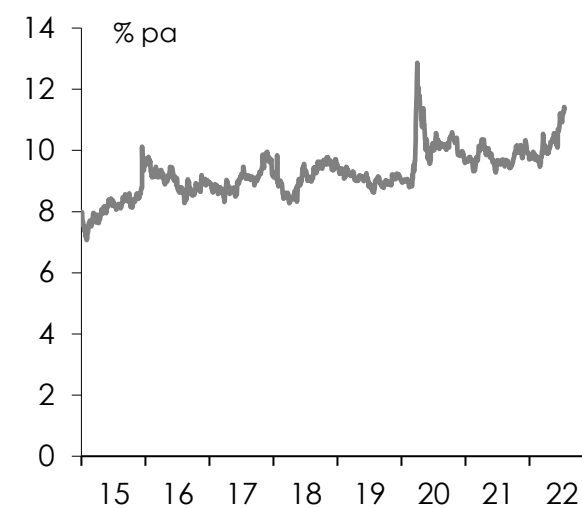
Brazil



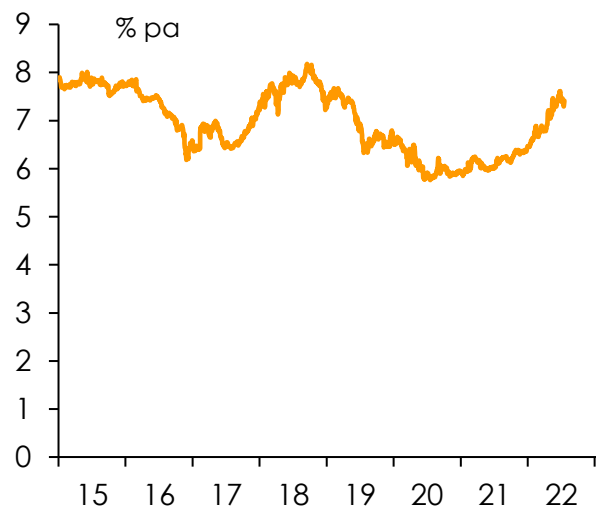
Russia



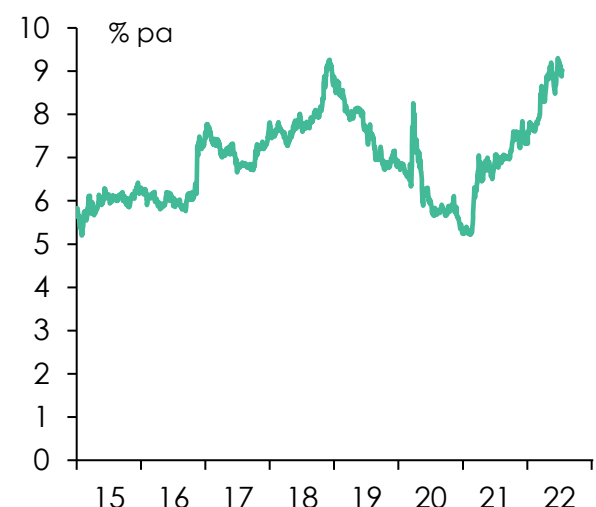
South Africa



India



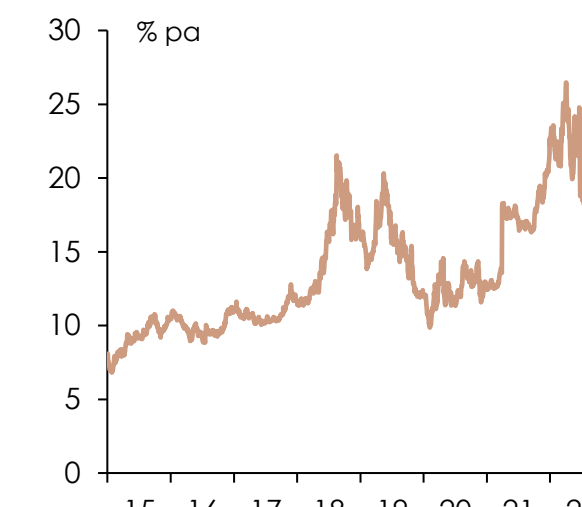
Mexico



Hungary



Turkey



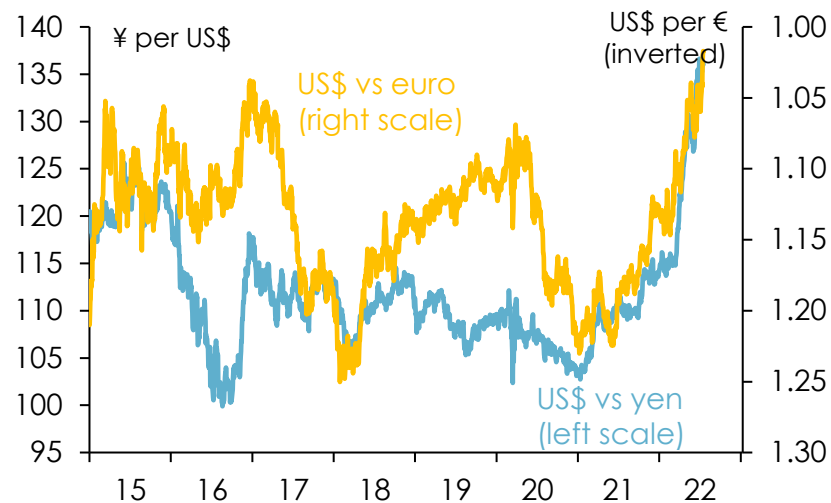
Note: Data up to 8th July. For bond yields in other Asian economies see [slide 102](#); and for policy interest rates in other emerging markets see [slide 123](#).

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

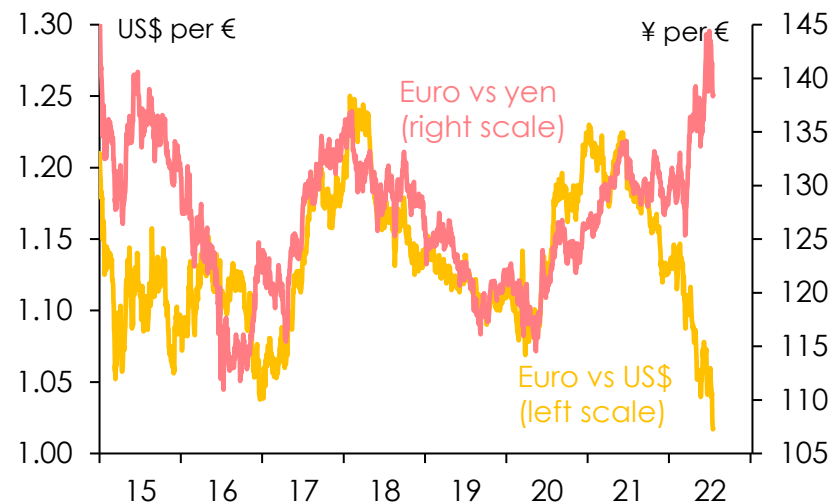
The US\$ rose further last week, by about 1¾% in trade-weighted terms to its highest level since October 2002, while the euro was notably weaker

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

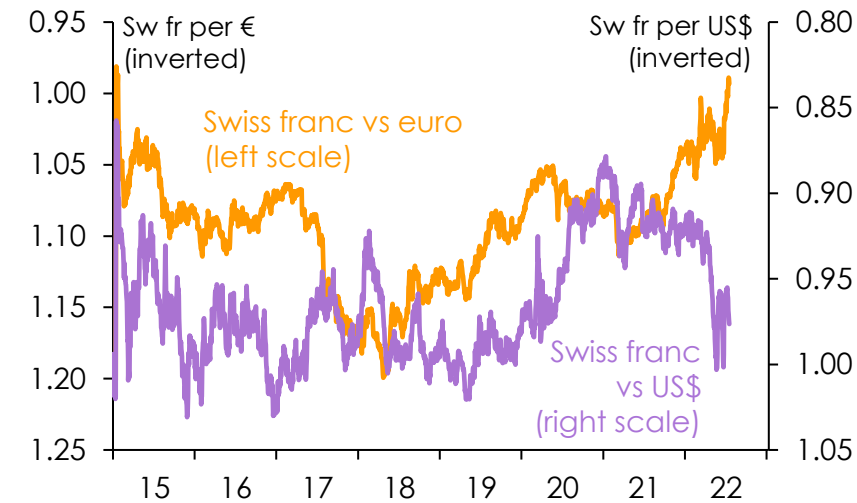
US dollar



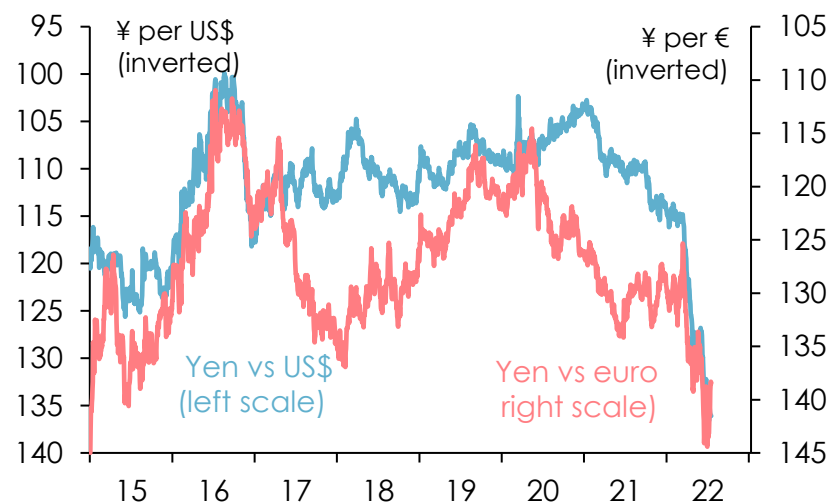
Euro



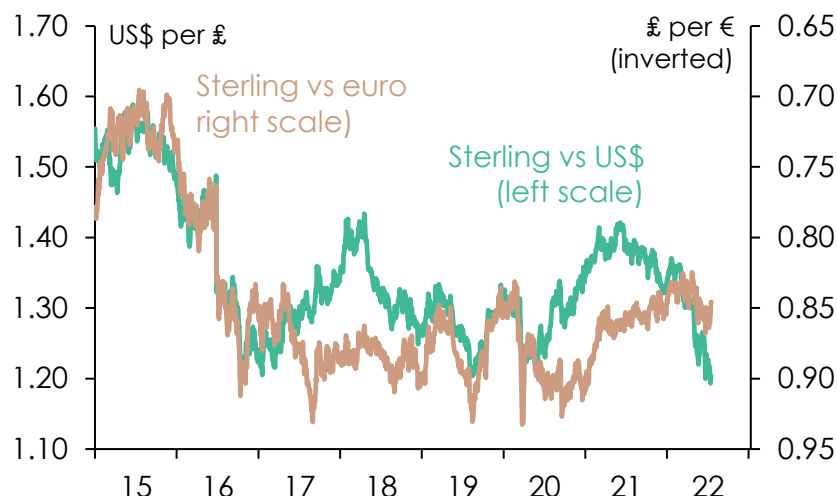
Swiss franc



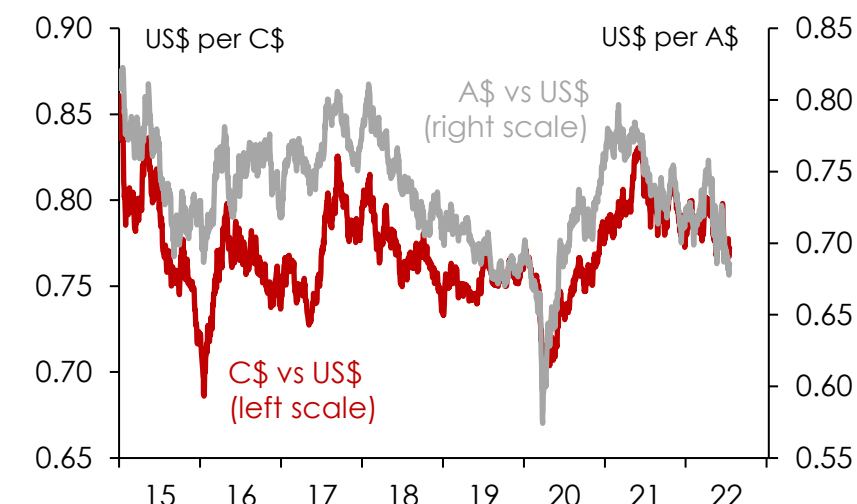
Japanese yen



Sterling



Canadian & Australian dollars

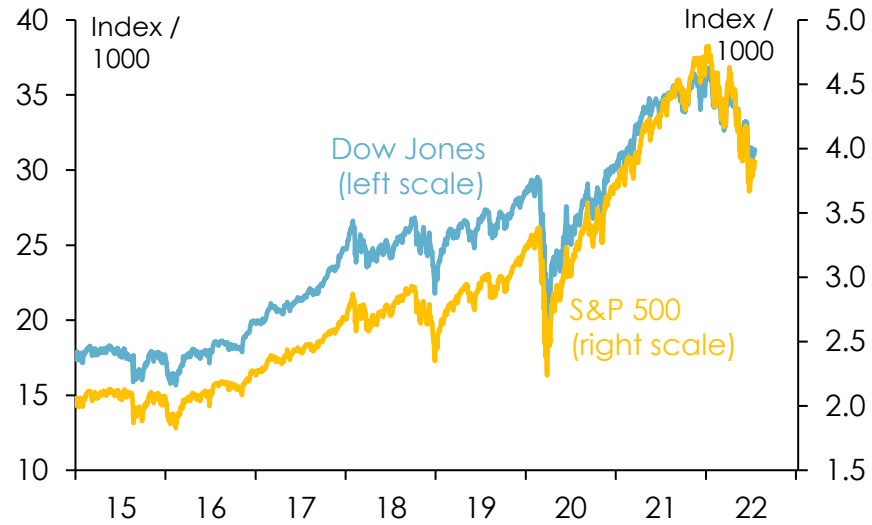


Note: Data up to 8th July. For Asian exchange rates see [slide 104](#). Source: Refinitiv Datastream. [Return to "What's New"](#).

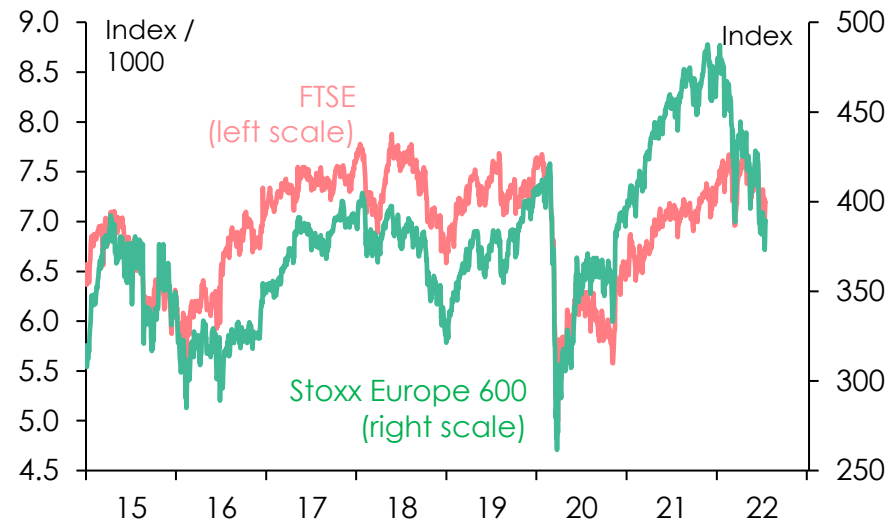
Stocks rose last week, somewhat perversely, as investors concluded that greater recession risks imply lower risk of aggressive interest rate hikes

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

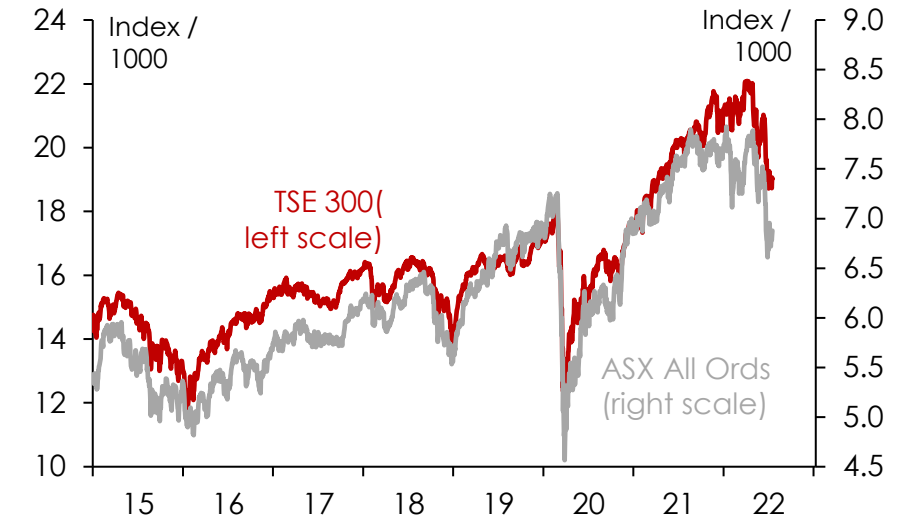
US stock market



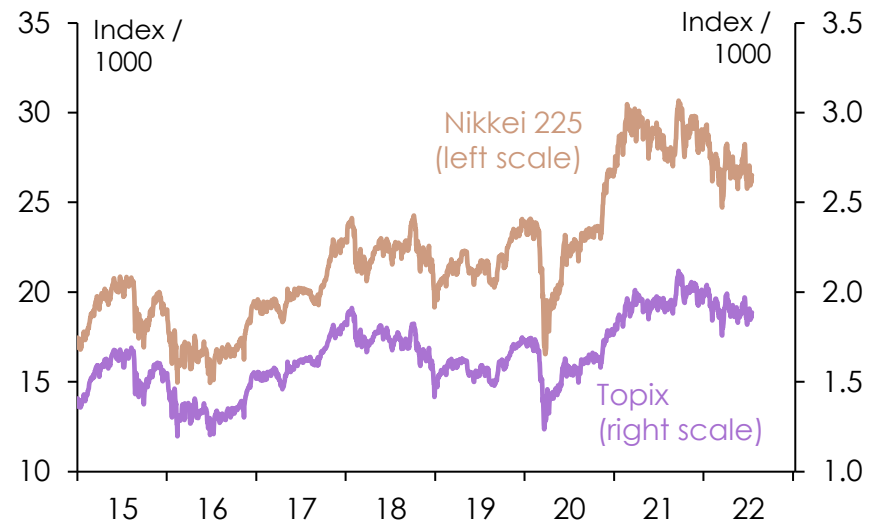
European stock markets



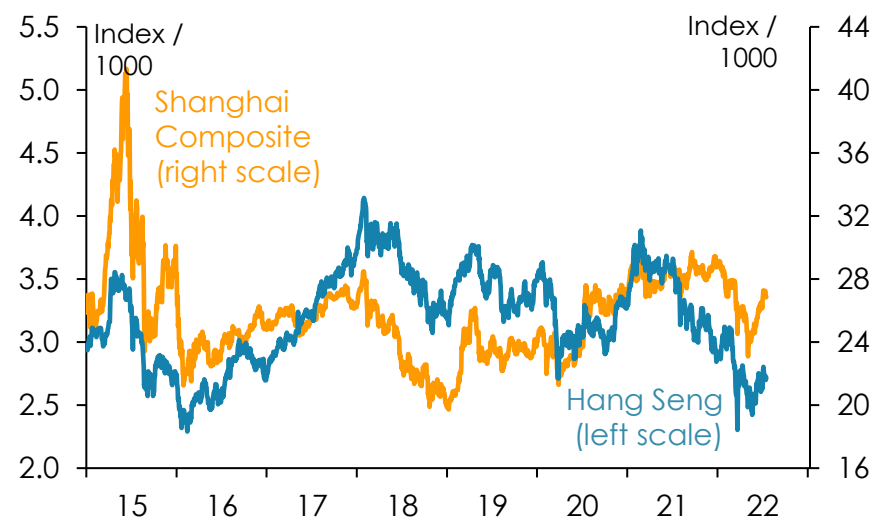
Canadian & Australian stock markets



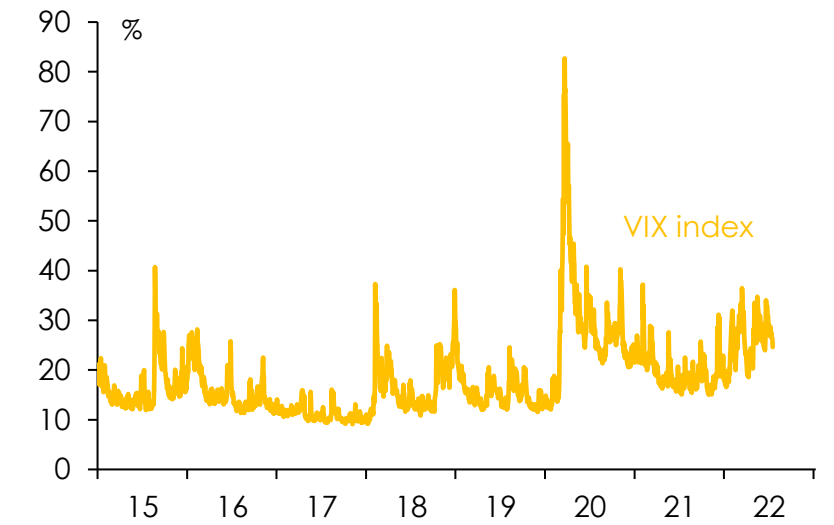
Japanese stock market



Chinese & HK stock markets



Equity market volatility



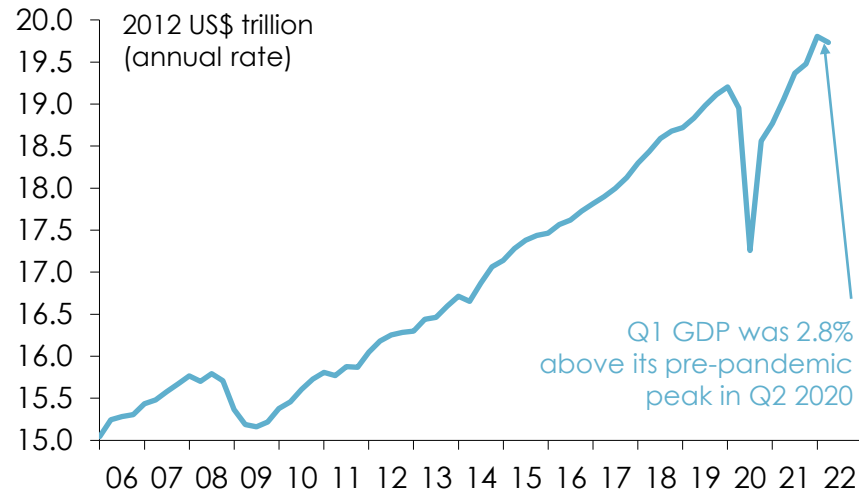
Note: Data up 8th July. Source: Refinitiv Datastream. For East Asian stock markets see [slide 105](#). [Return to "What's New"](#).

The United States

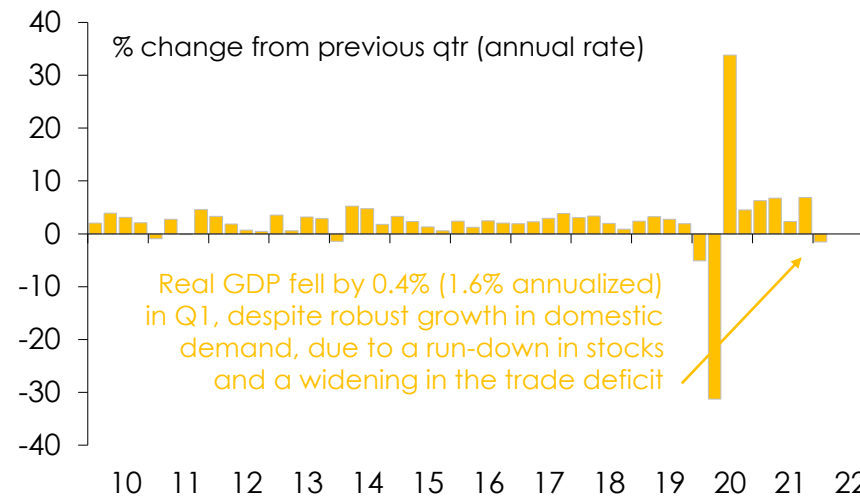
US real GDP shrank 0.4% (1.6% annualized) in Q1, despite strong domestic demand, due to a run-down in inventories and a large fall in net exports

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

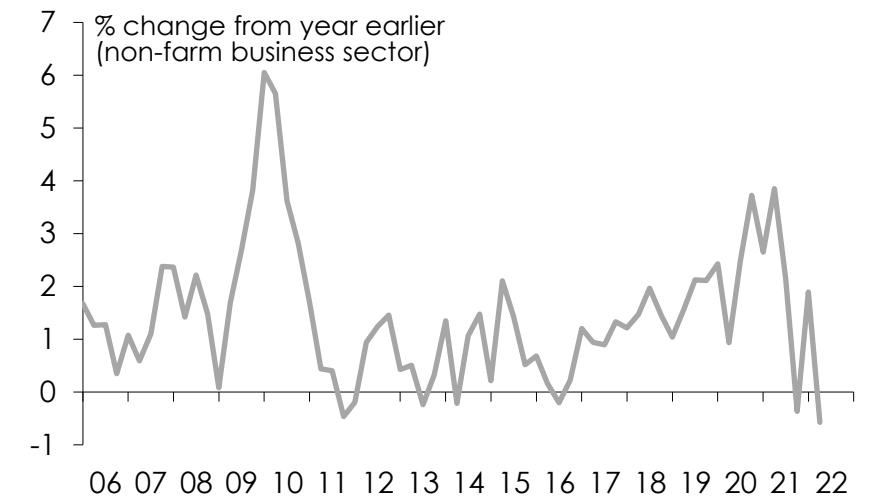
Level of real GDP



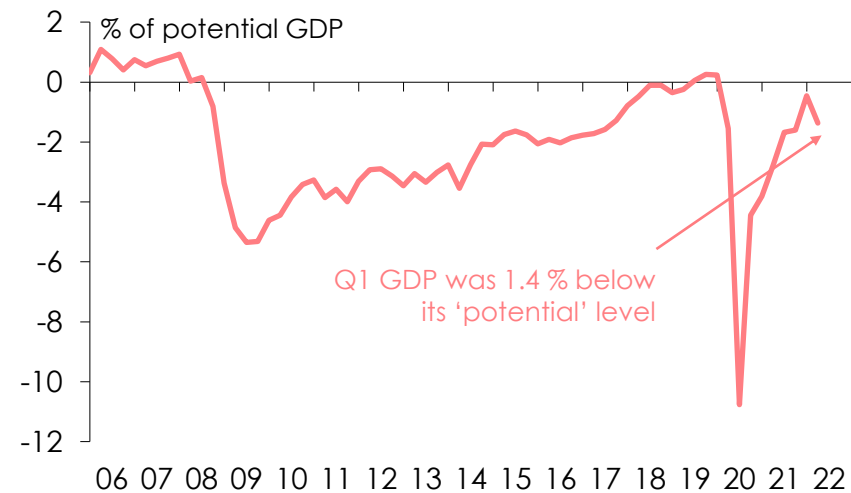
Quarterly change in real GDP



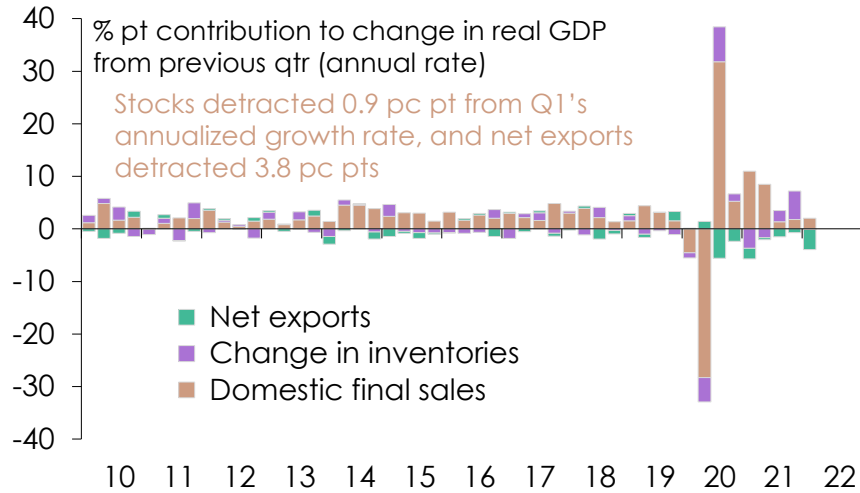
Labour productivity growth



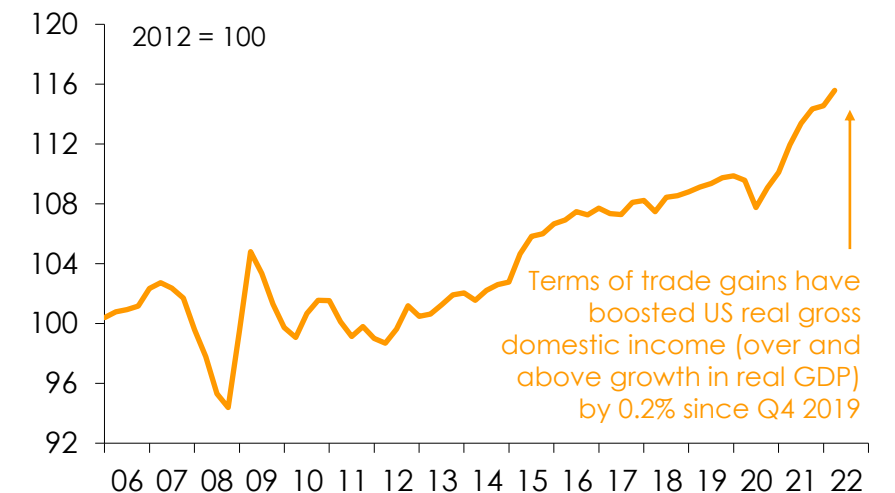
The 'output gap'



Contributions to change in real GDP



Terms of trade

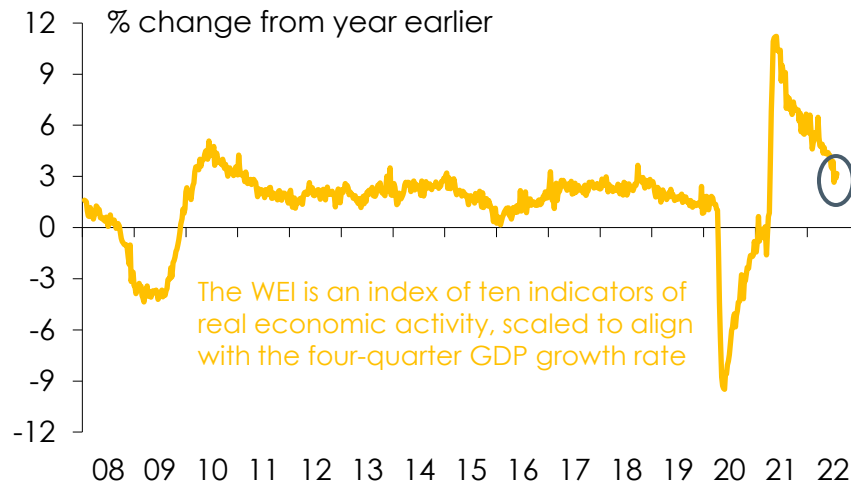


Note: the 'output gap' is the difference between actual and potential GDP (the volume of goods & services that could be produced if the economy were operating at full capacity); the 'terms of trade' is the ratio of the implicit price deflator of exports of goods & services to that of imports of goods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

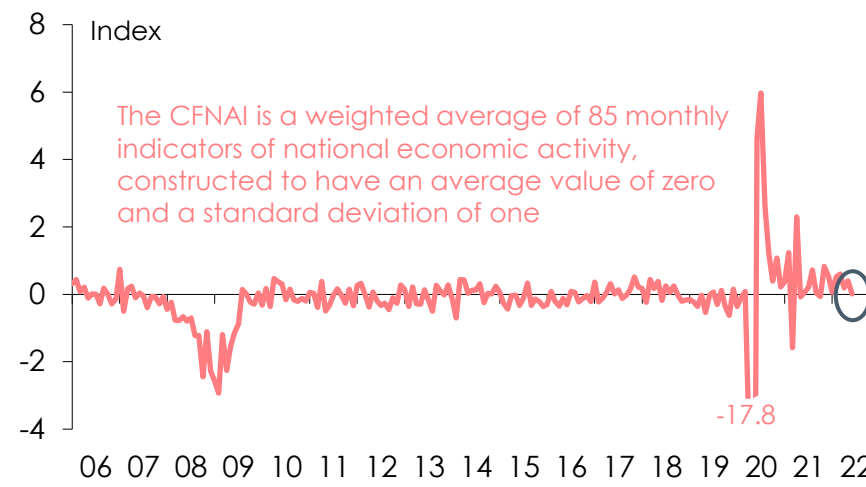
A growing number of activity surveys and leading indicators are starting to warn of a sharp slowdown or outright contraction in US economic activity

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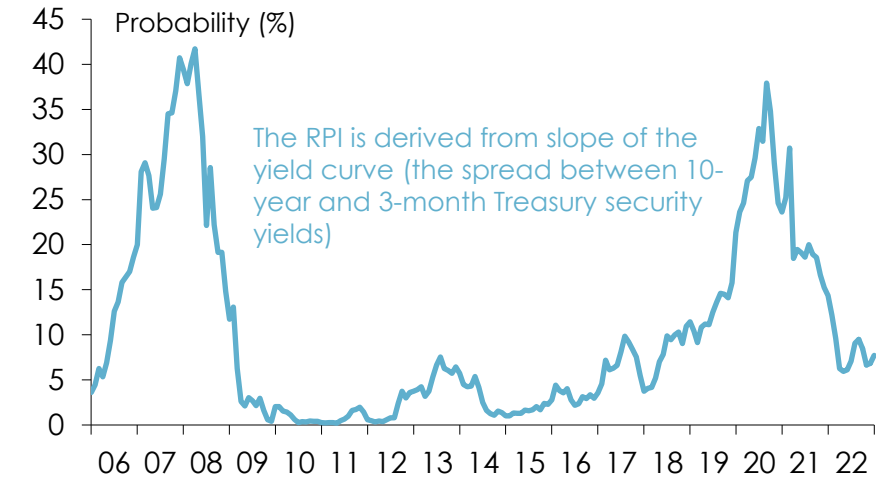
NY Fed weekly economic index



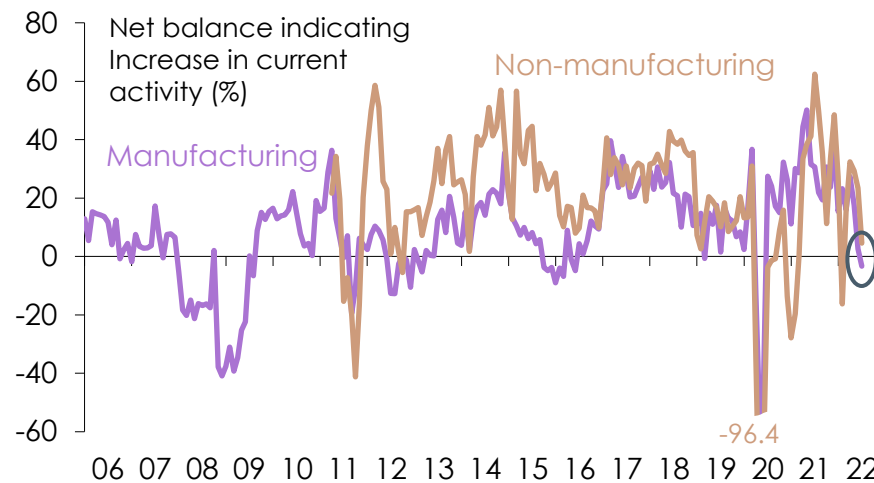
Chicago Fed national activity index



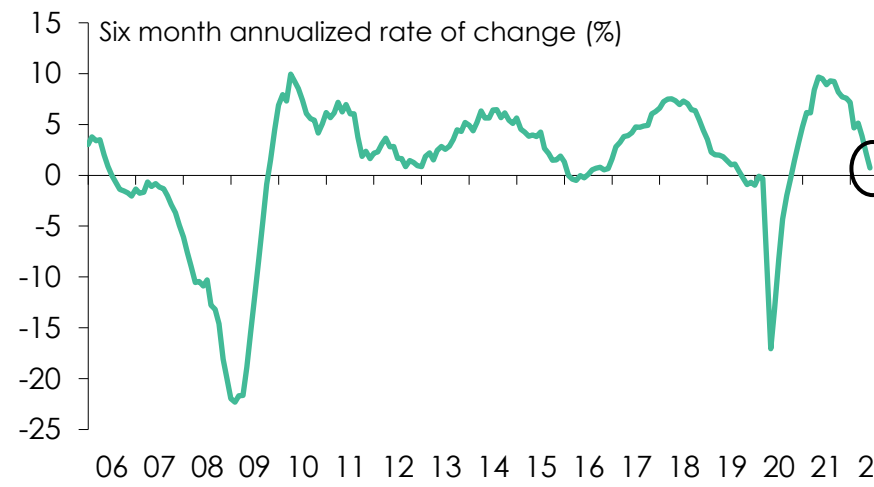
NY Fed recession probability index



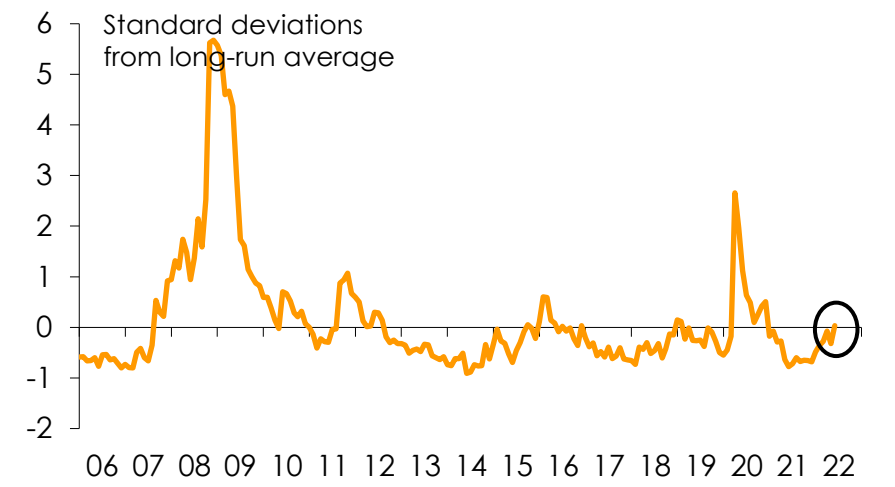
'Philly Fed' business outlook survey



Conference Board leading indicators



Kansas City Fed financial stress index

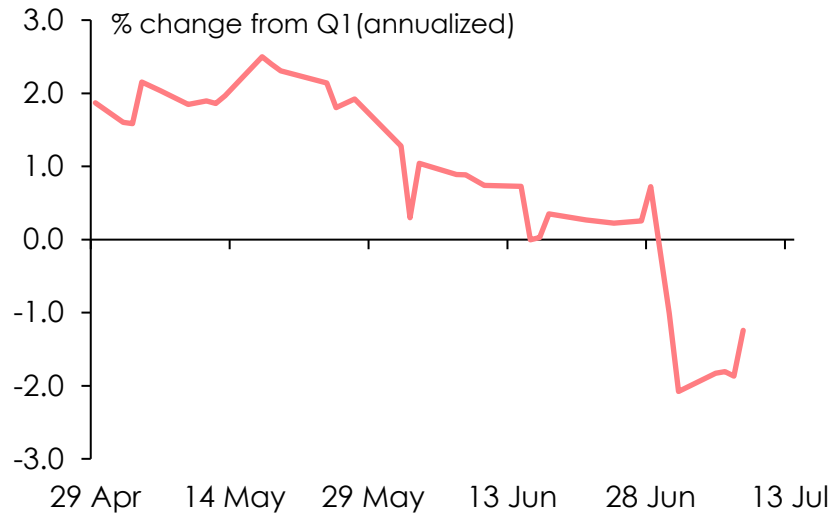


Sources: Federal Reserve Bank of New York, [Weekly Economic Index](#) and [The Yield Curve as a Leading Indicator](#); Federal Reserve Bank of Philadelphia, [Regional Economic Analysis](#), Manufacturing and Non-Manufacturing Business Outlook Surveys; Federal Reserve Bank of Chicago, [Chicago Fed National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

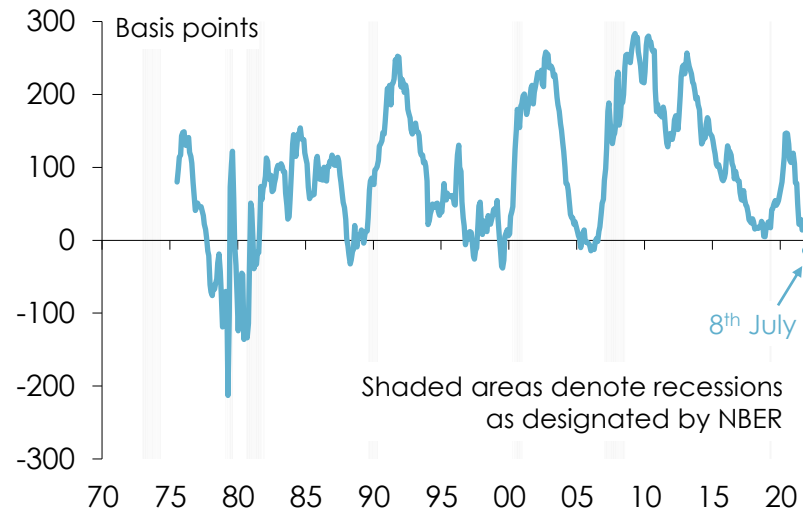
Is the US economy in recession already? Or will it soon be?

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

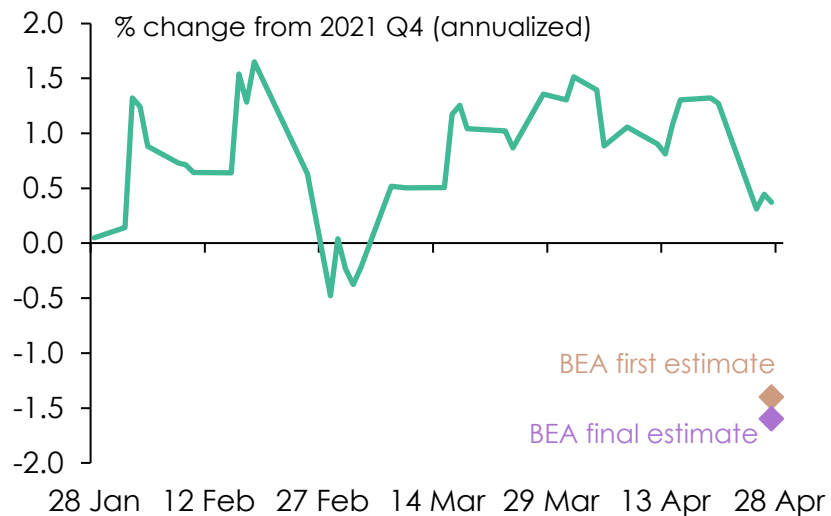
Atlanta Fed GDPNow Q2 estimate



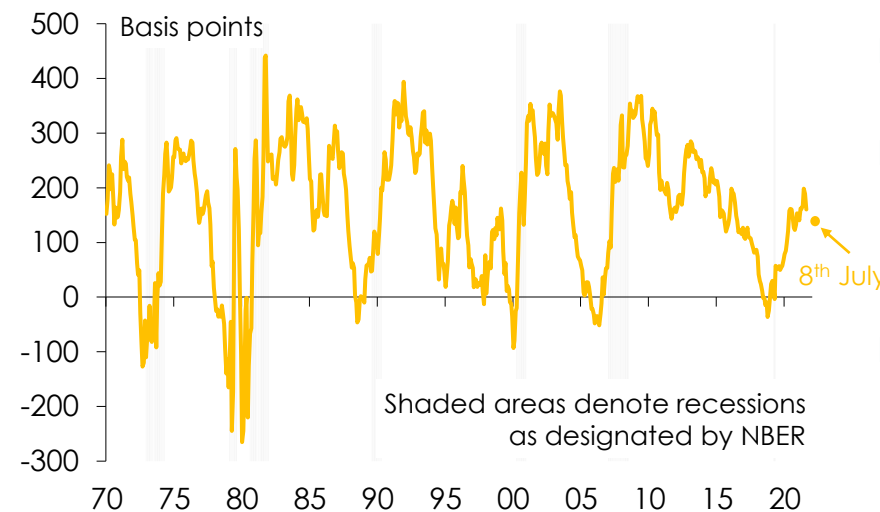
10-year / 2-year yield spread



Atlanta Fed GDPNow Q1 estimate



10-year / 3-month yield spread



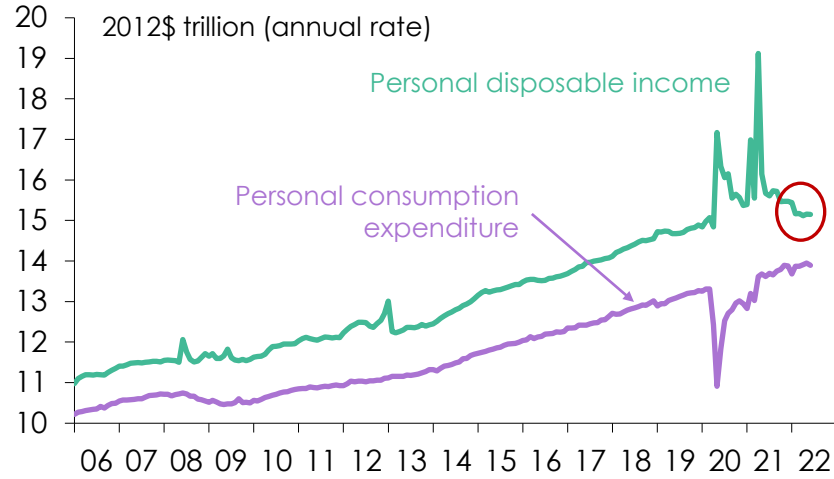
- ❑ US real GDP contracted at a 1.6% annual rate in Q1 ([slide 42](#)) and since 30h June the Atlanta Fed's [GDPNow](#) model has been forecasting a further contraction in Q2 – leading some to [suggest](#) that the US is already in a 'technical recession'
- ❑ Before jumping to this conclusion note that the US National Bureau of Economic Research's Business Cycle Dating Committee (which 'officially' designates US recessions) [explicitly rejects](#) the 'two consecutive quarters of negative real GDP growth' rule-of-thumb as a recession marker
- ❑ A [much more sensible definition](#) of a recession is when the unemployment rate rises by 1½ pc pts or more in 12 months or less – which clearly hasn't happened ([slide 49](#))
- ❑ It's also worth noting that the GDPNow model didn't pick the Q1 contraction in real GDP
- ❑ Even if it does turn out that real GDP did shrink for a second consecutive quarter, it wouldn't make sense to 'blame' that on the Fed since it didn't start raising rates until mid-March
- ❑ However the odds on a recession (as defined above) occurring in the next 6-12 months are rising, as suggested by the inversion of the 10-2 year yield curve (which has accurately signalled recessions over the past 40 years) last week

Sources: [US Bureau of Economic Analysis](#); [Federal Reserve Bank of Atlanta](#); [Board of Governors of the Federal Reserve System](#); [National Bureau of Economic Research](#). [Return to "What's New"](#).

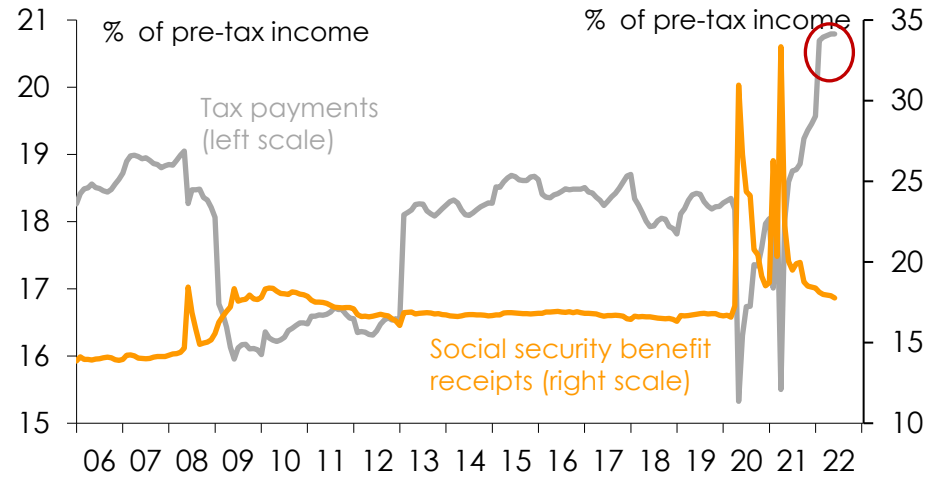
US personal disposable income has been squeezed by rising inflation & tax payments, forcing households to cut saving in order to maintain spending

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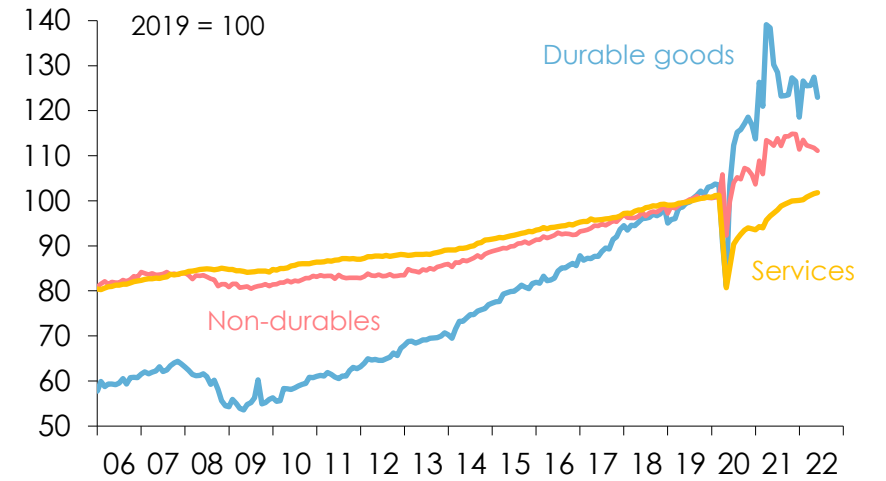
Personal income and expenditure



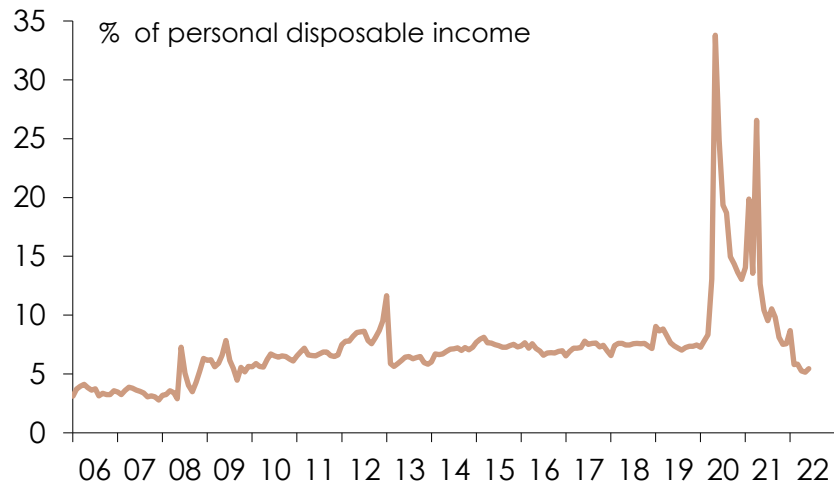
Tax and social security



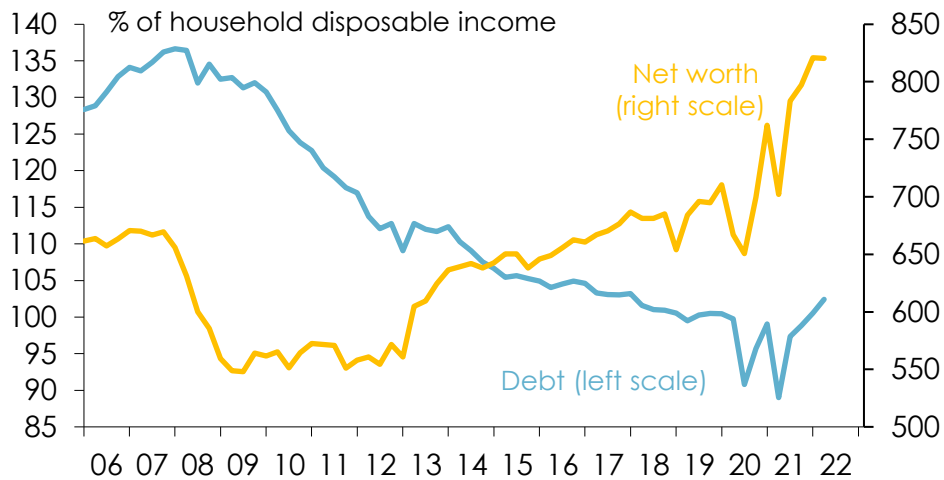
Personal consumption expenditure



Personal saving rate



Household debt and net worth



Spending on energy

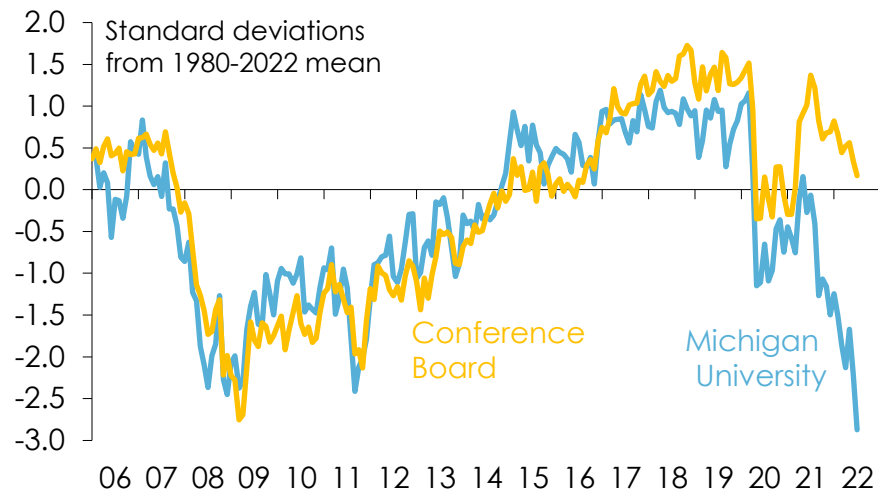


Note: data on personal income, spending and saving are monthly; data on debt and net worth are quarterly. Sources: US Bureau of Economic Analysis, [Gross Domestic Product](#), [Consumer Spending](#) and [Income and Saving](#); US Federal Reserve, [Financial Accounts of the United States - Z1](#). [Return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

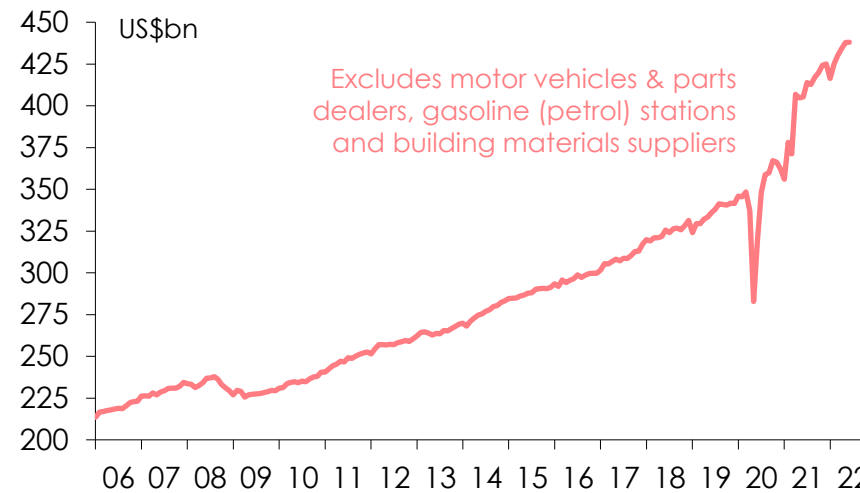
Consumer confidence has fallen sharply in recent months in response to the sharp rise in inflation and the prospect of more rate hikes

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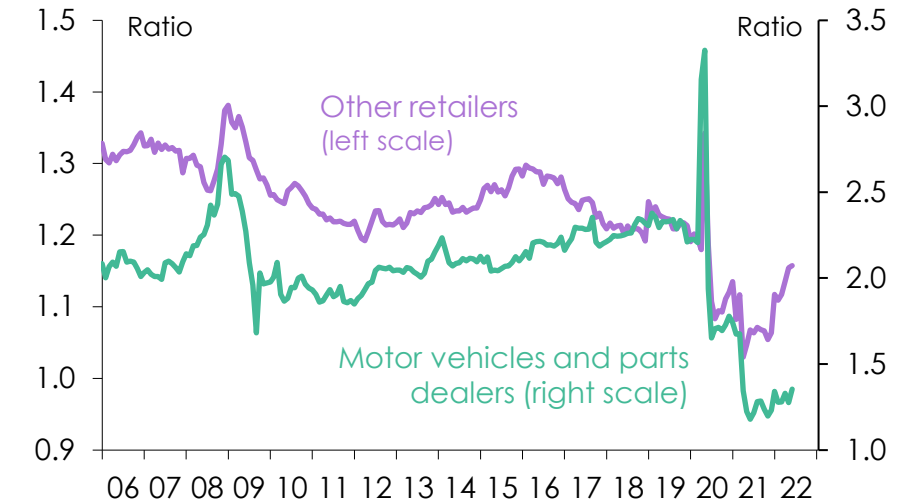
Consumer sentiment



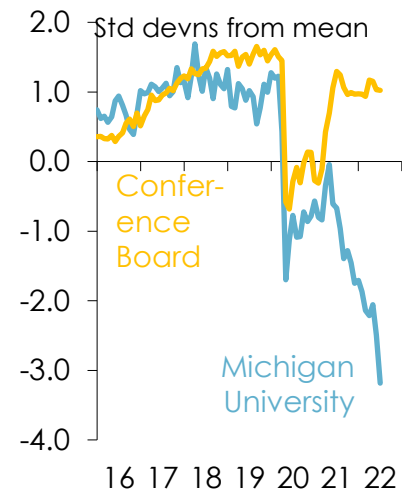
Level of 'core' retail sales



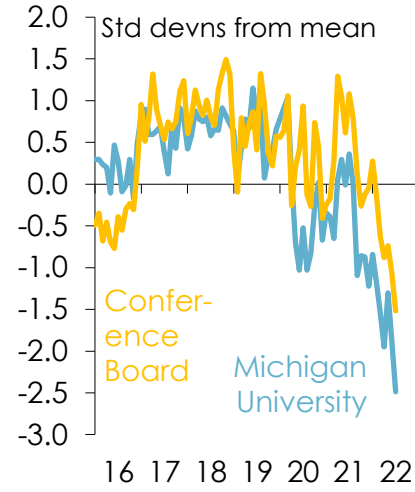
Retail inventories-sales ratios



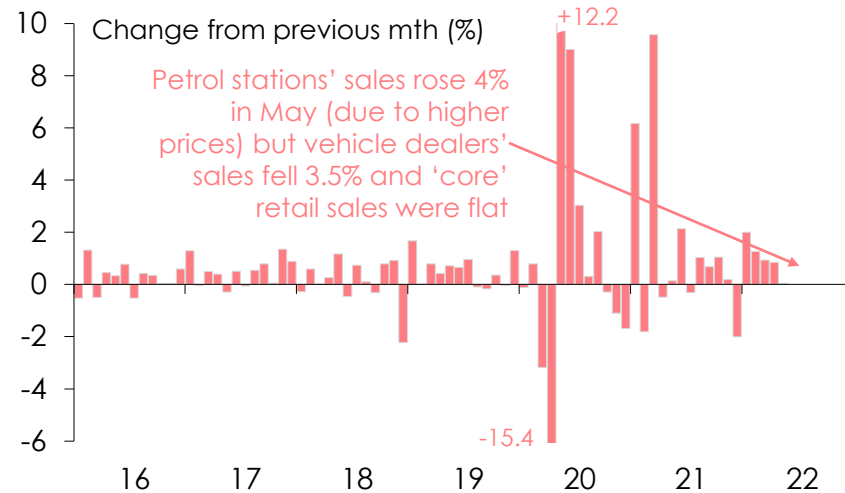
Present situation



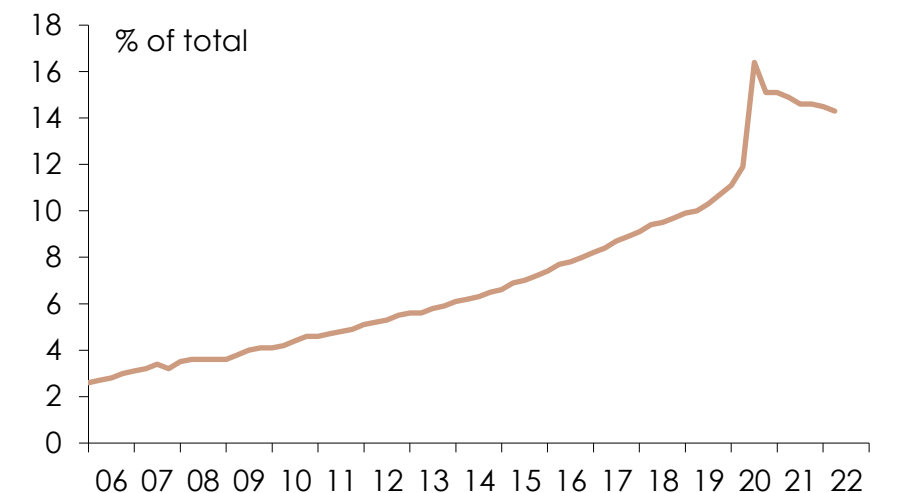
Expectations



Monthly changes in 'core' retail sales



On-line retail sales

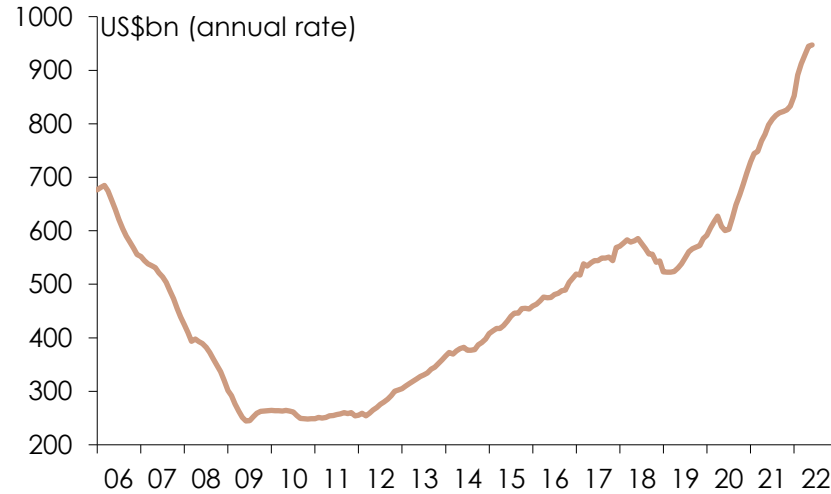


Note: The Michigan University measure of consumer sentiment gives greater weight to inflation, while the Conference Board measure gives greater weight to employment and unemployment. 'Core' retail sales excludes motor vehicles, petrol stations and building materials stores. Sources: Michigan University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

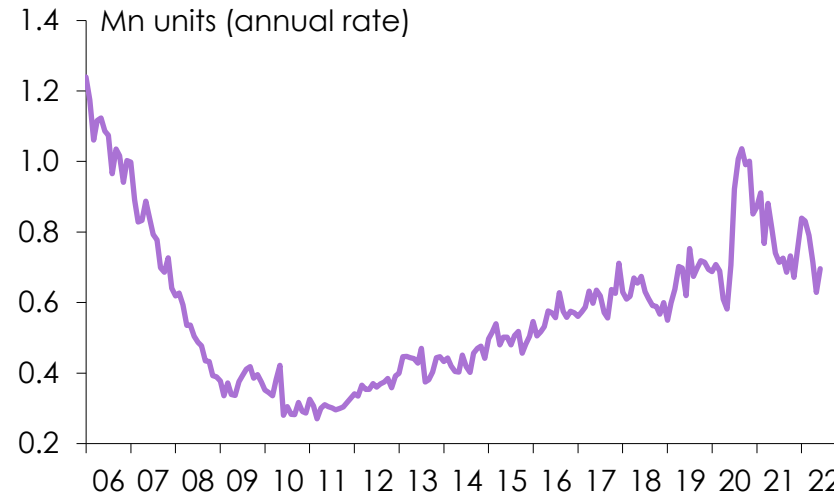
US house prices rose another 1.5% in April, slightly less than the 2% in February and 2.1% in March, to be 20.4% higher than in April 2021

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Housing construction spending



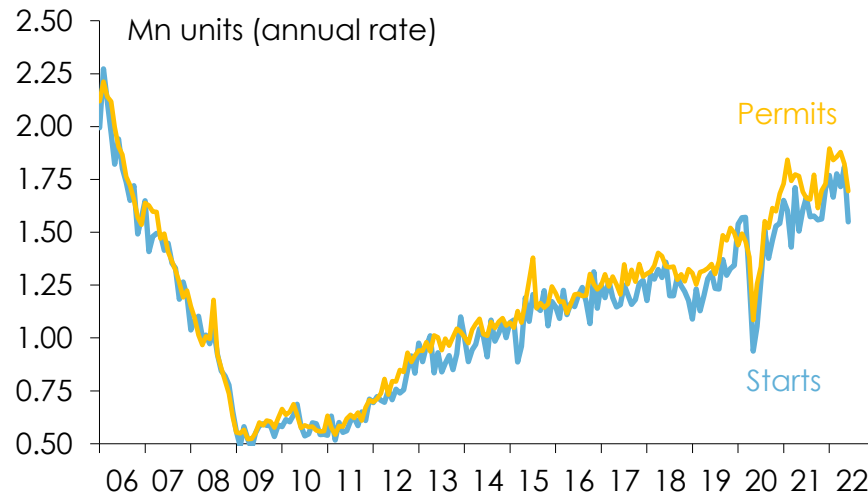
New single-family home sales



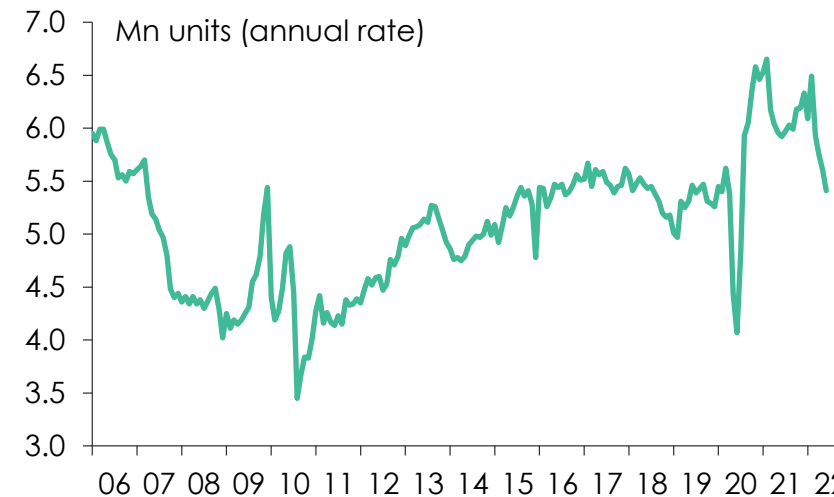
30-year fixed mortgage rates



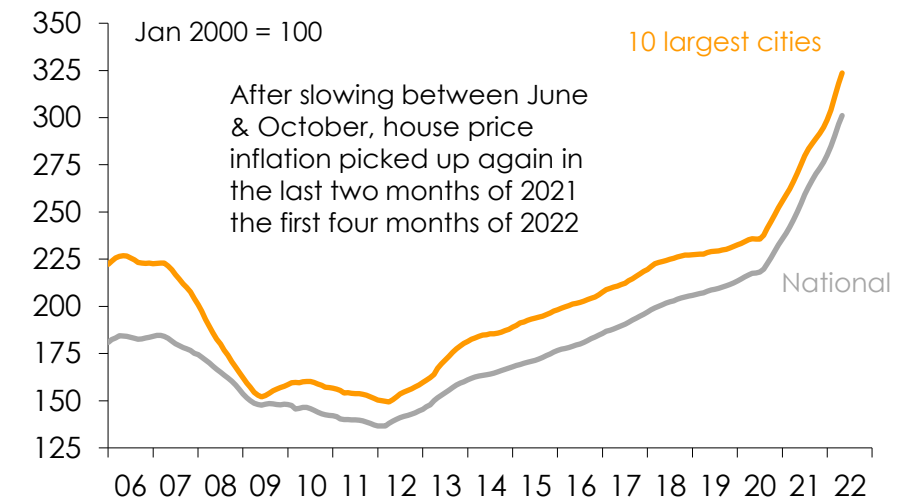
Housing starts and permits



Existing home sales



House prices

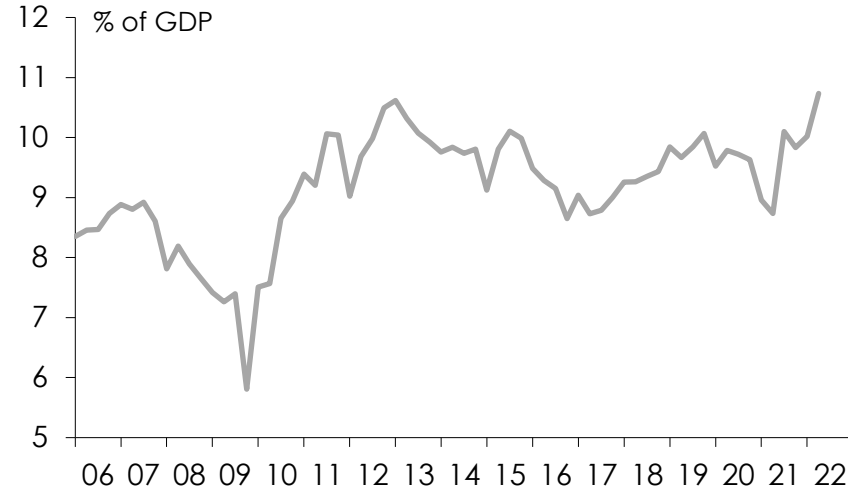


Sources: US Census Bureau, [Construction Spending](#), [New residential construction](#) and [New Residential Sales](#); US National Association of Realtors, [Existing-Home Sales](#); Mortgage Bankers' Association, [National Delinquency Survey](#); S&P Global, [S&P CoreLogic Case-Shiller Home Price Indices](#).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

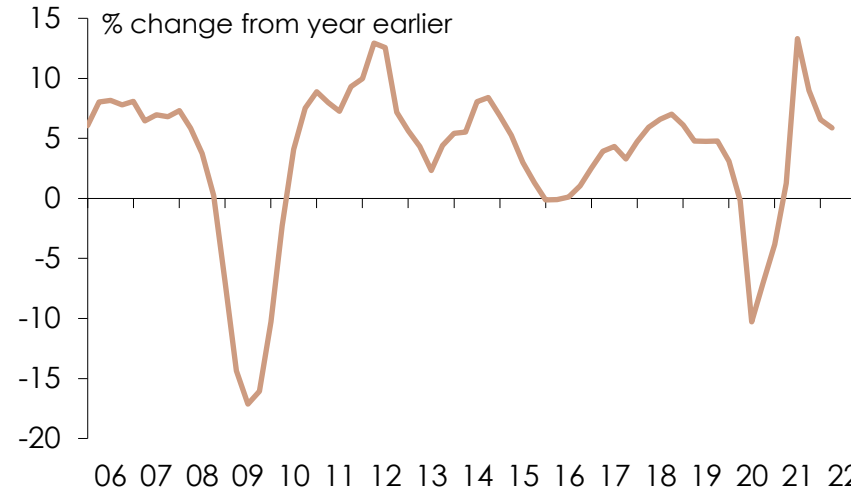
US corporate profits and balance sheets are strong, and investment is increasing – except in non-residential construction

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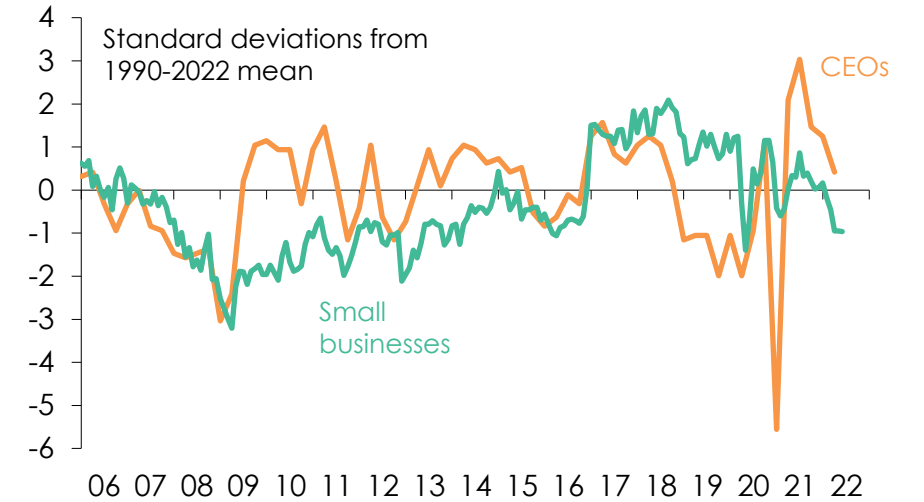
After-tax corporate profits



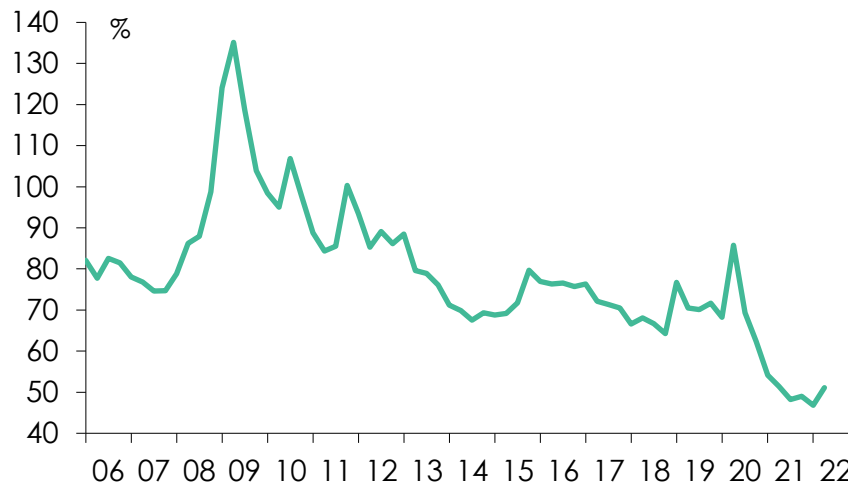
Business investment



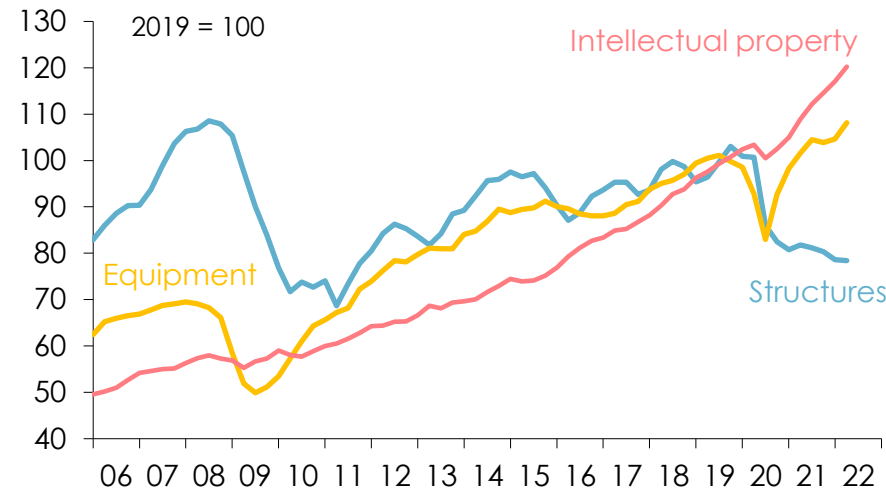
Business confidence



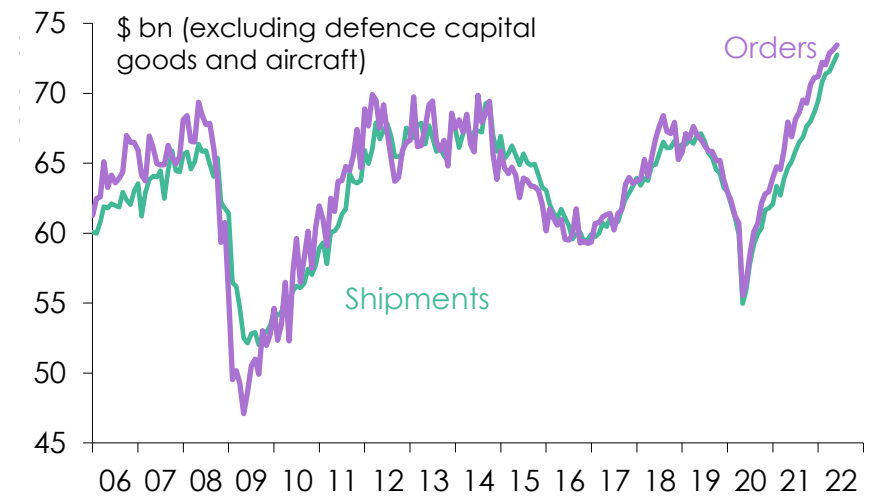
Corporate debt-equity ratio



Business investment by type



Capital goods orders & shipments

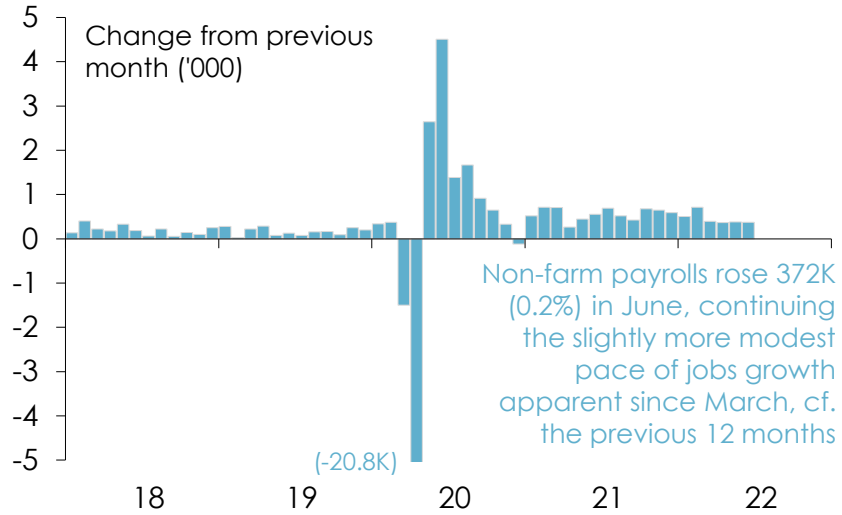


Sources: US Bureau of Economic Analysis, [Gross Domestic Product](#); US Federal Reserve, [Financial Accounts of the United States - Z1](#); The Conference Board, [US CEO Confidence](#); National Federation of Independent Business, [Small Business Economic Trends](#); US Commerce Department, [Manufacturers'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

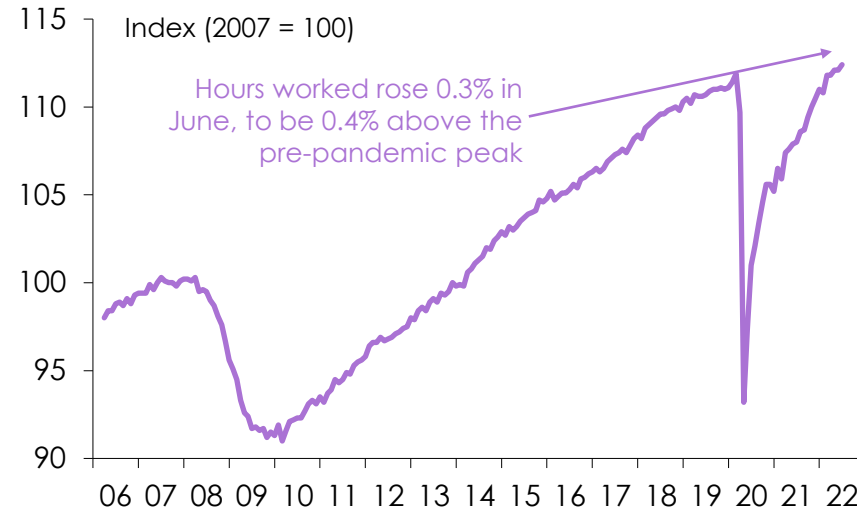
US non-farm payrolls rose 372K in June, and the unemployment rate again remained unchanged at 3.6%

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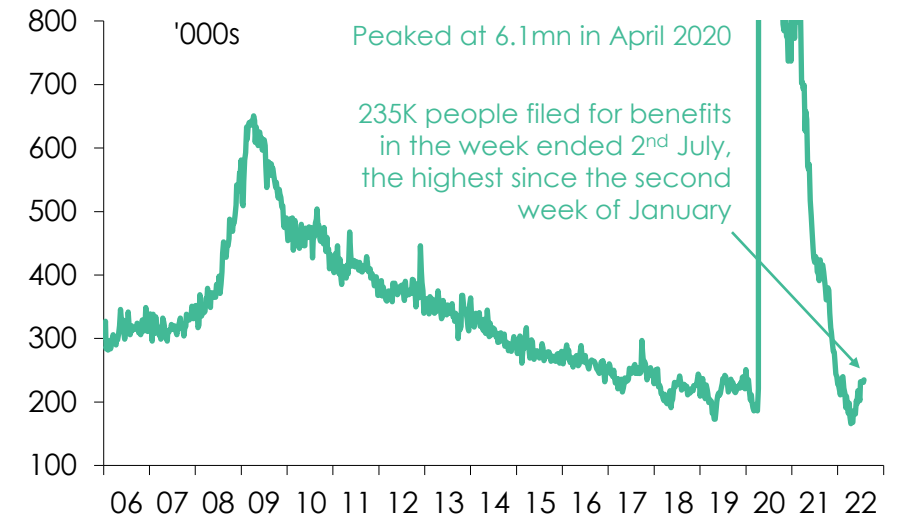
Non-farm payroll employment



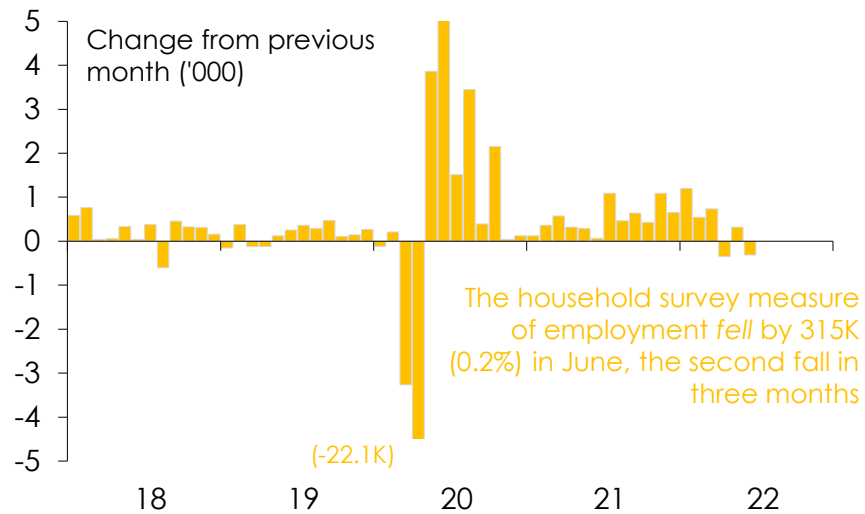
Hours worked (private sector)



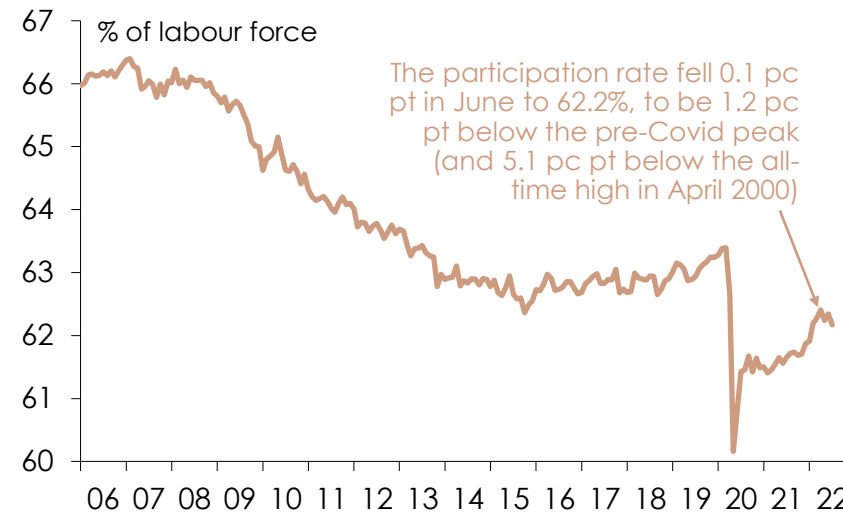
Unemployment benefit initial claims



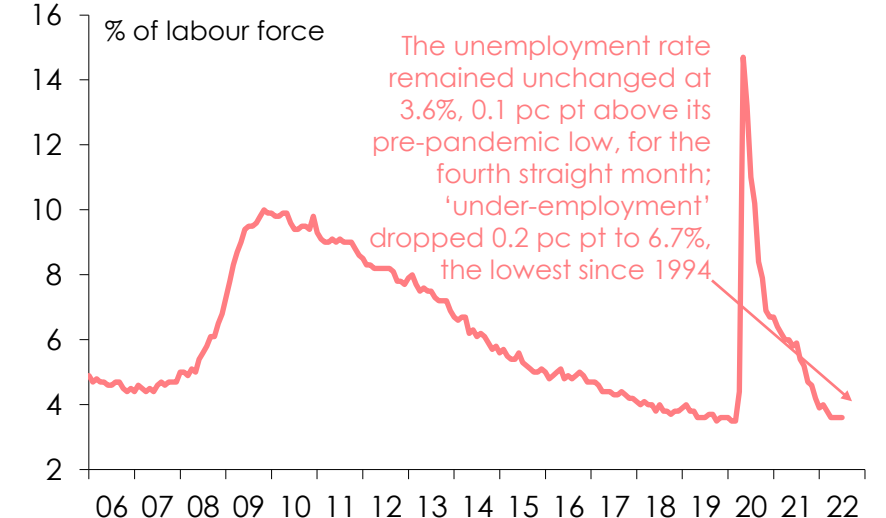
Household survey employment



Labour force participation rate



Unemployment rate

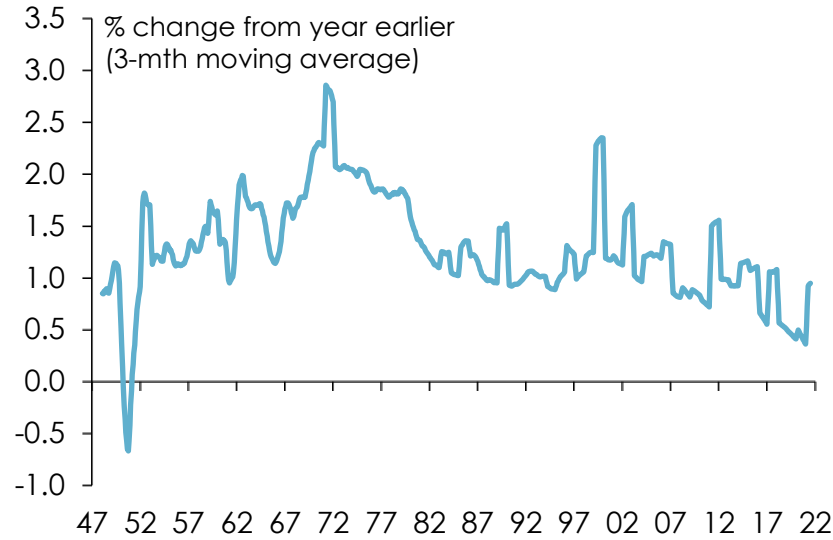


Sources: US Bureau of Labor Statistics, [Employment Situation](#); US Department of Labor, [Unemployment Insurance Weekly Claims](#). [Return to "What's New"](#).

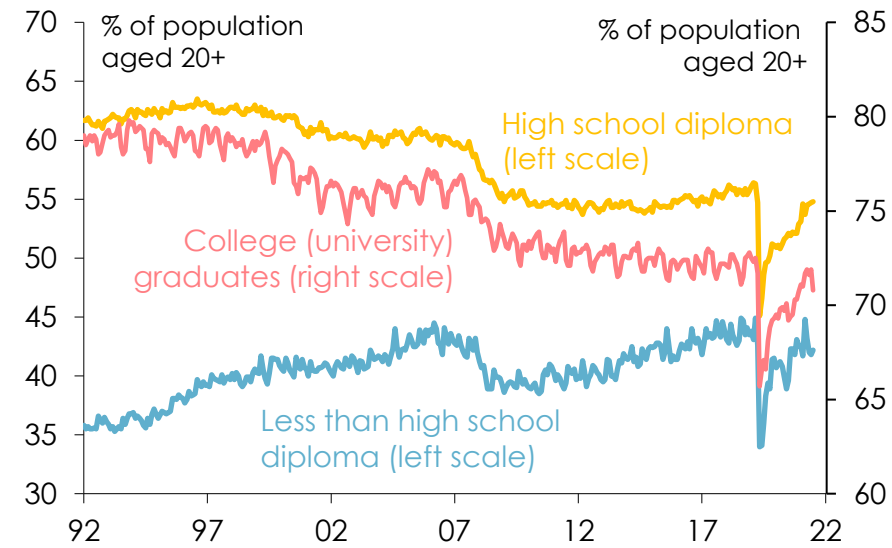
US labour market tightness owes much to a persistent shortfall in labour force participation, especially among people aged 55 and over

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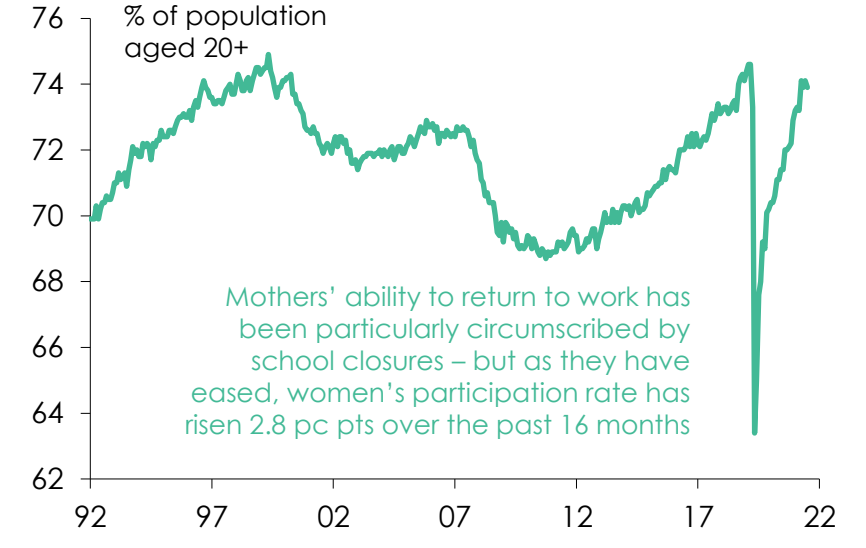
Civilian working age population



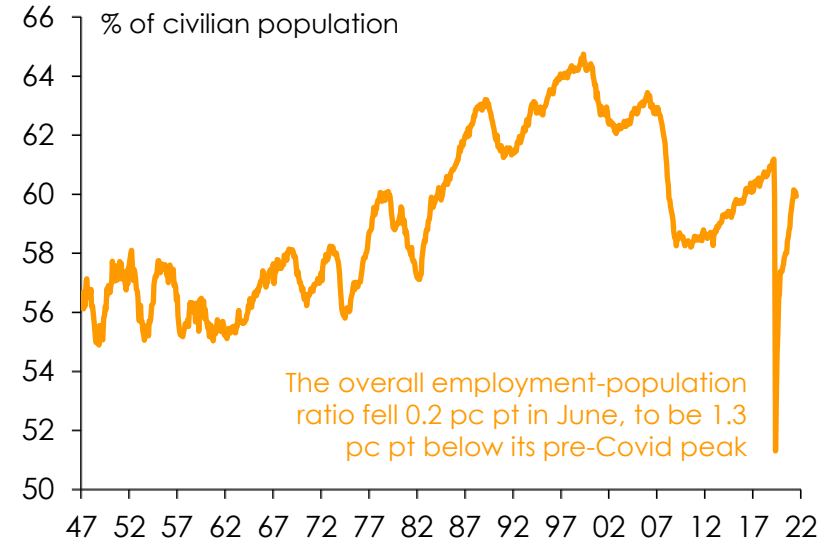
'E-pop' ratio – by education



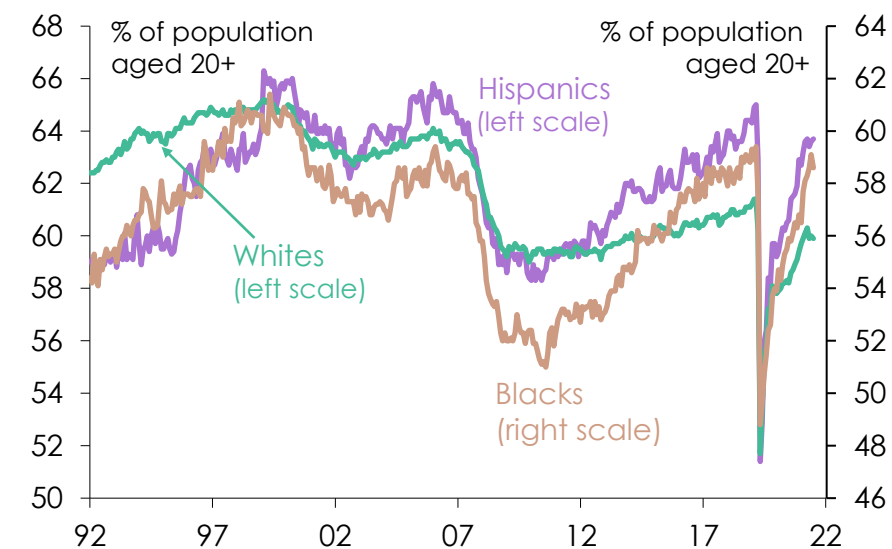
'E-pop' ratio – women 25-54



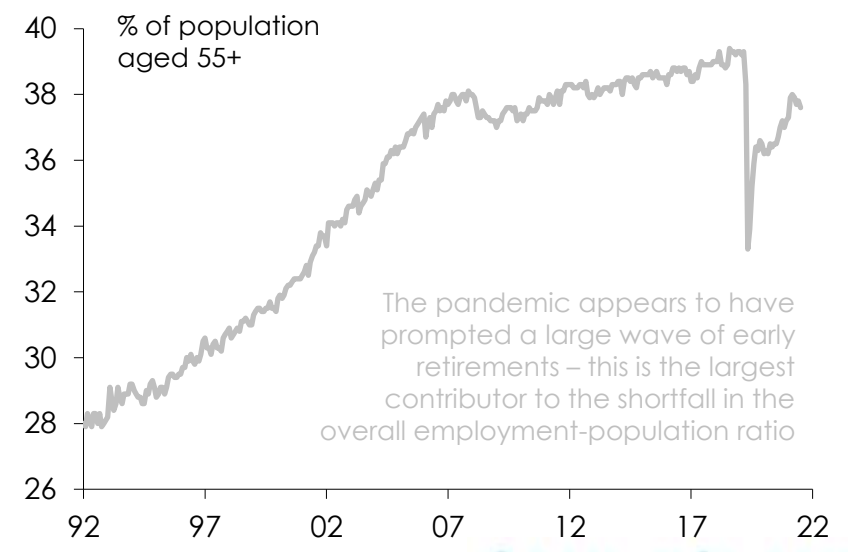
Employment-to-population ratio



'E-Pop' ratio – Blacks & Hispanics



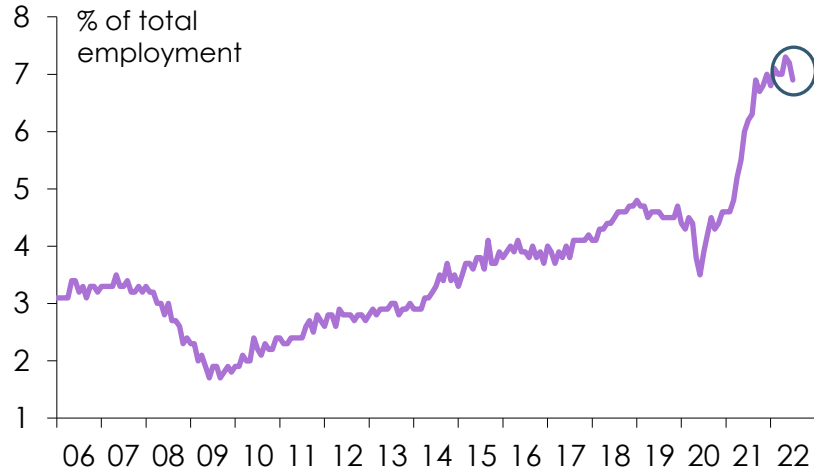
'E-pop' ratio – people 55 & over



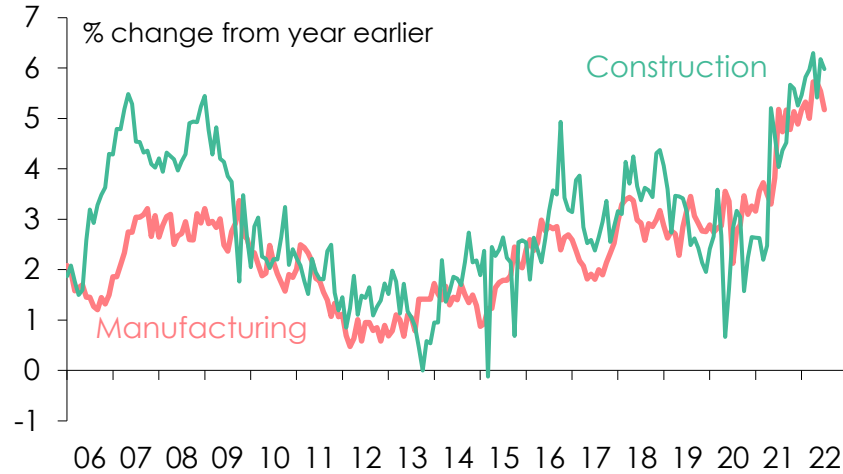
The so-called 'Great Resignation' may have peaked, with job vacancies and voluntary separations falling in May and June

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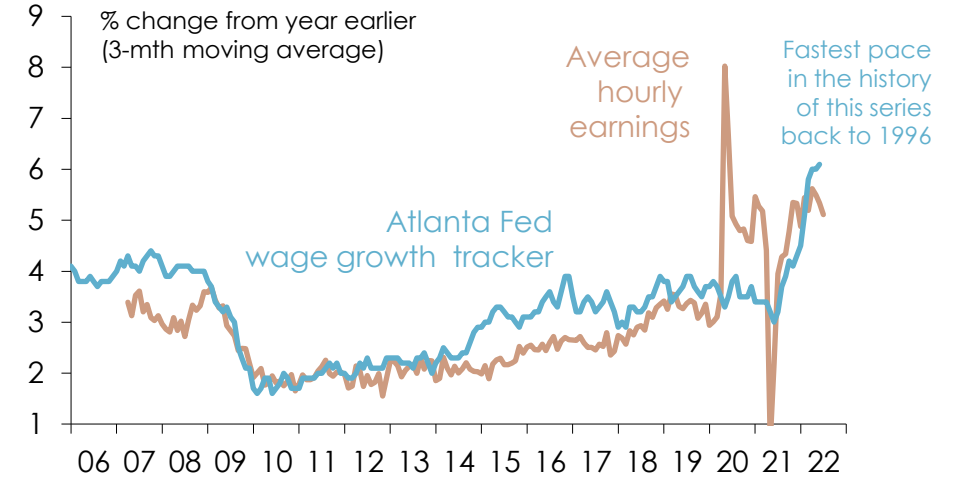
Job openings



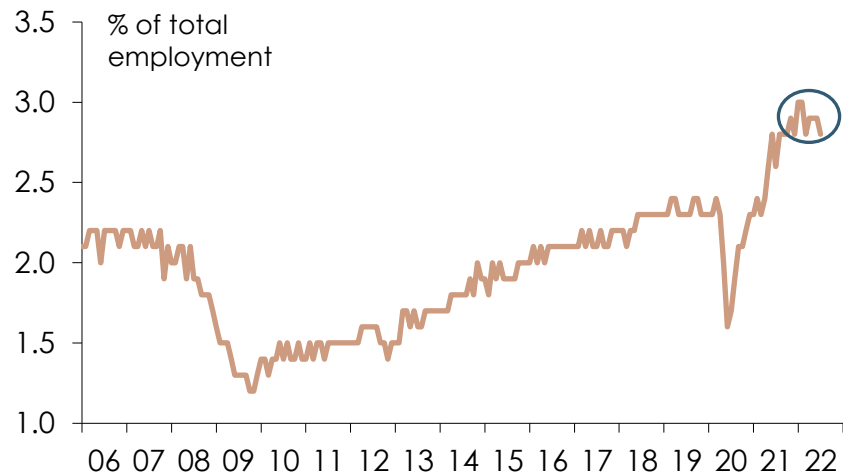
Average hourly earnings



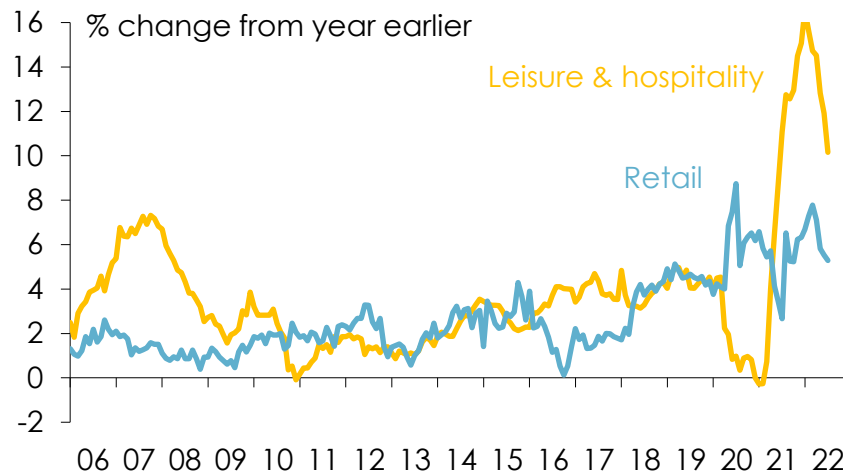
Overall wages growth - monthly



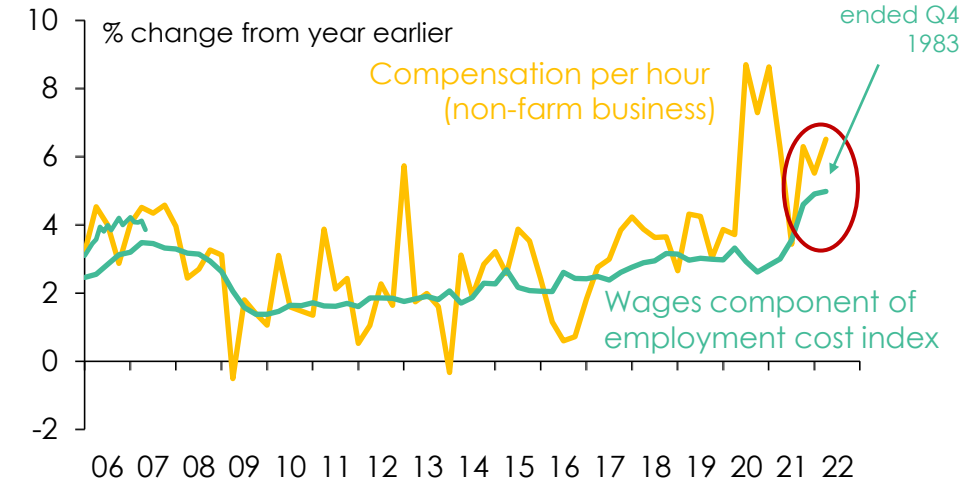
Quit rate



Average hourly earnings



Wages growth - quarterly

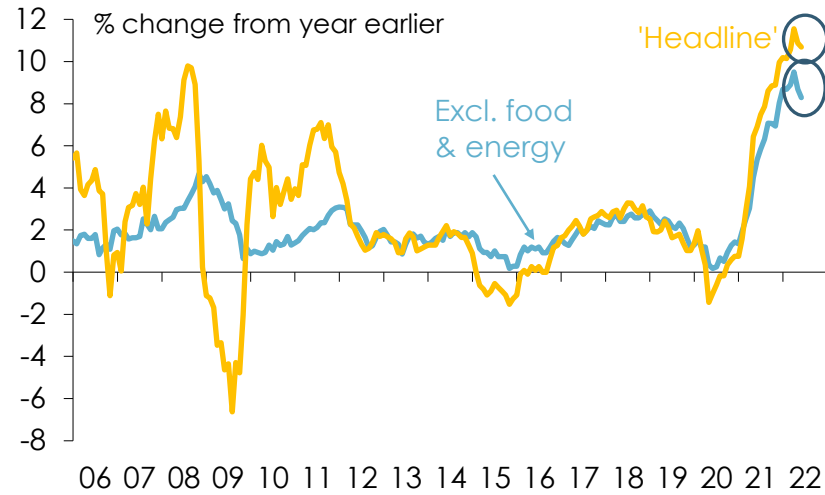


Note: Measures of average hourly earnings (especially the all-industries measures) and of average compensation per hour are affected by changes in the composition of employment (so for example they rose sharply in Q2 2020 when large numbers of low-paid workers were laid off and fell markedly when they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

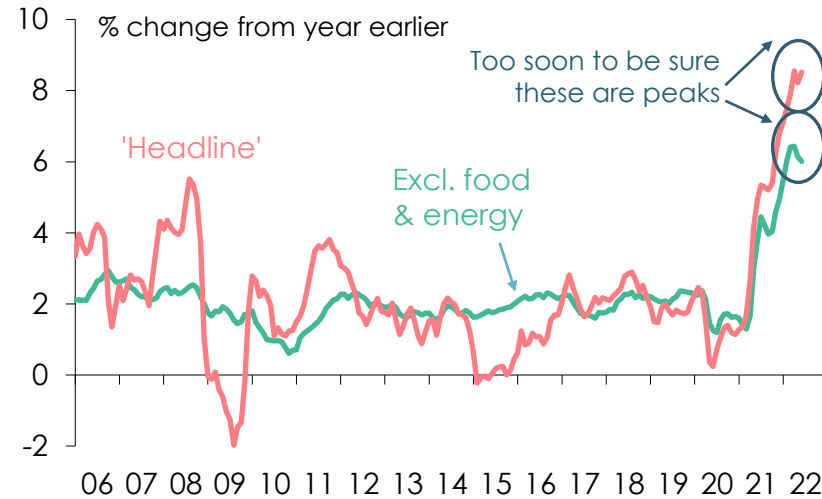
The Fed's targeted measure of 'core' inflation rose 0.3% in May, as it did in each of the 3 prior months, cutting the annual rate to 4.7% (from 5.3%)

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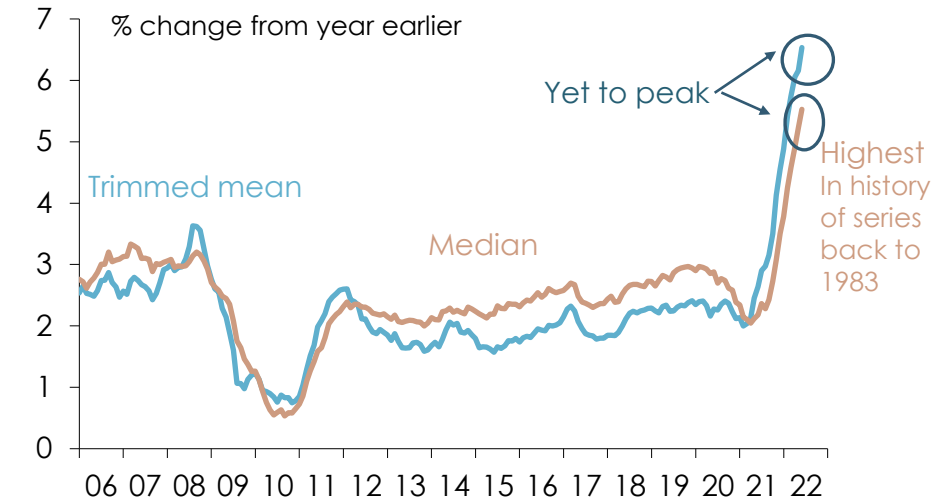
Producer price index



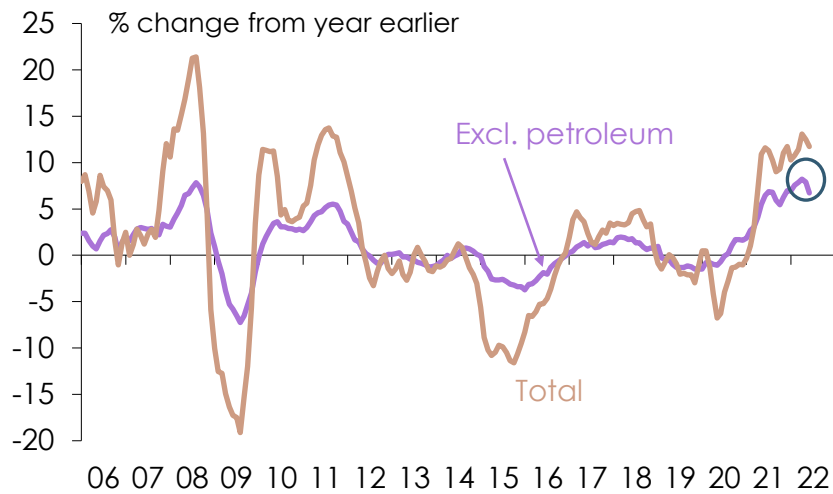
Consumer price index



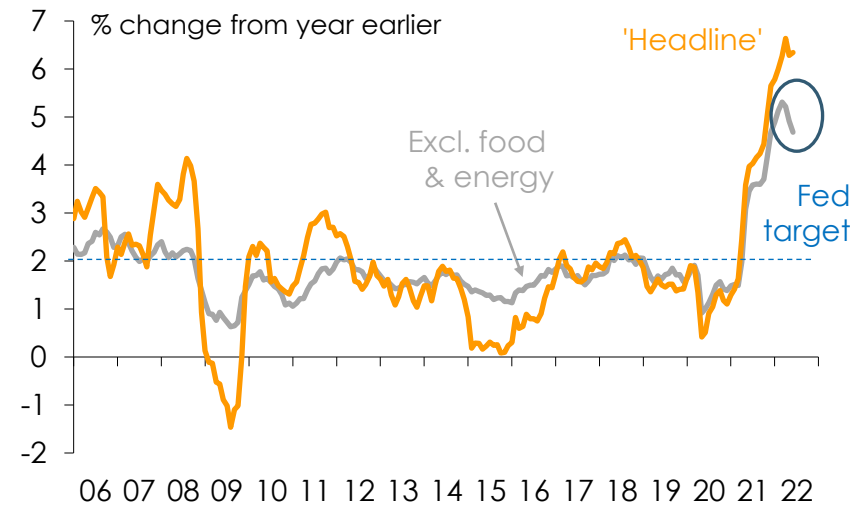
'Underlying' CPI inflation



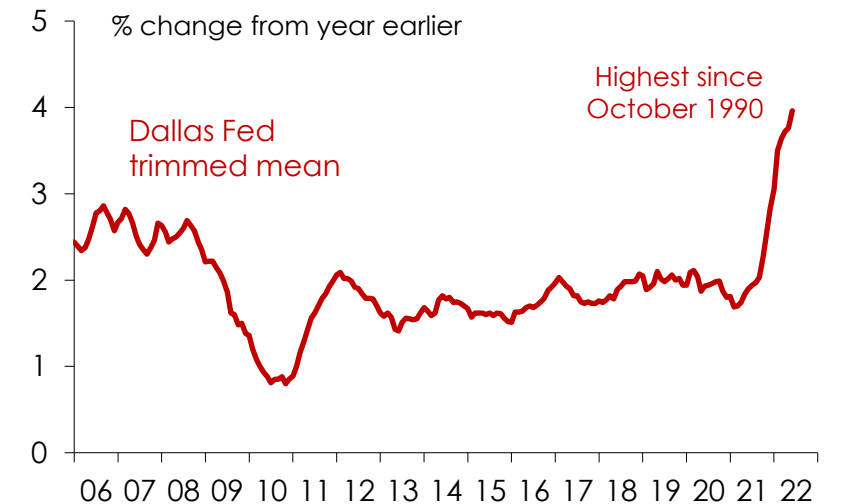
Import price index



Personal consumption deflator



'Underlying' PCE deflator inflation

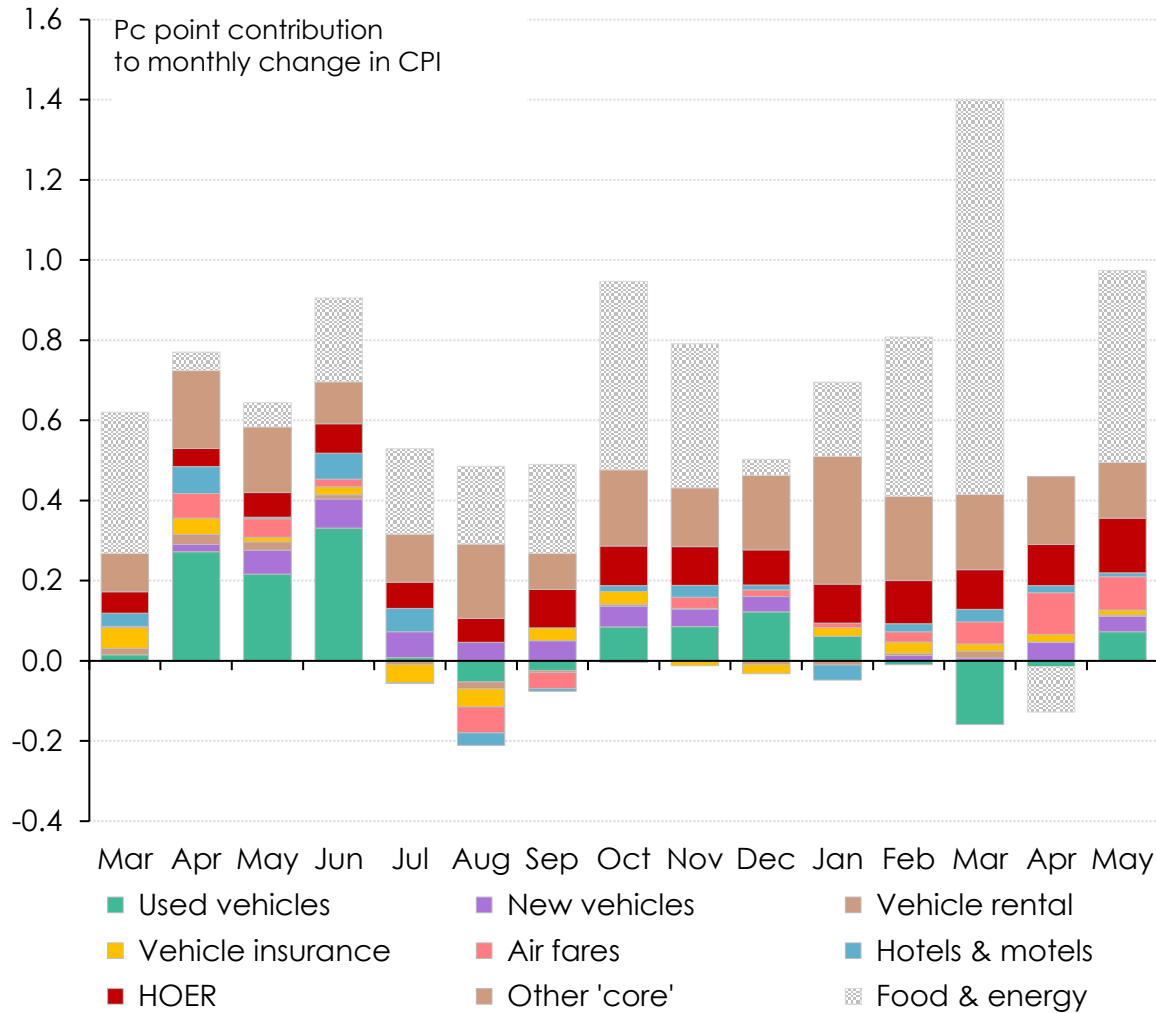


Sources: US Bureau of Labor Statistics, [Producer Price Index](#), [Import and Export Price Indexes](#) and [Consumer Price Index](#); US Bureau of Economic Analysis, [Personal Consumption Expenditures Price Index](#); Federal Reserve Bank of Cleveland, [Median CPI](#); Federal Reserve Bank of Dallas,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

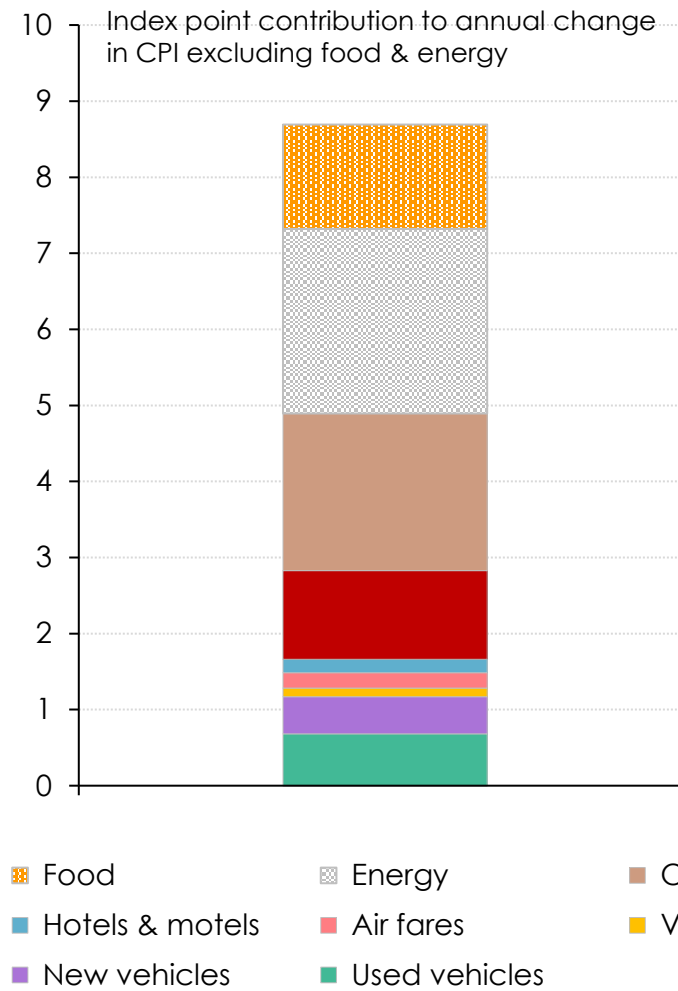
The CPI ex food & energy rose 0.6% in May, slightly above the average for the previous 6 months, so it's premature to say 'core' inflation has peaked

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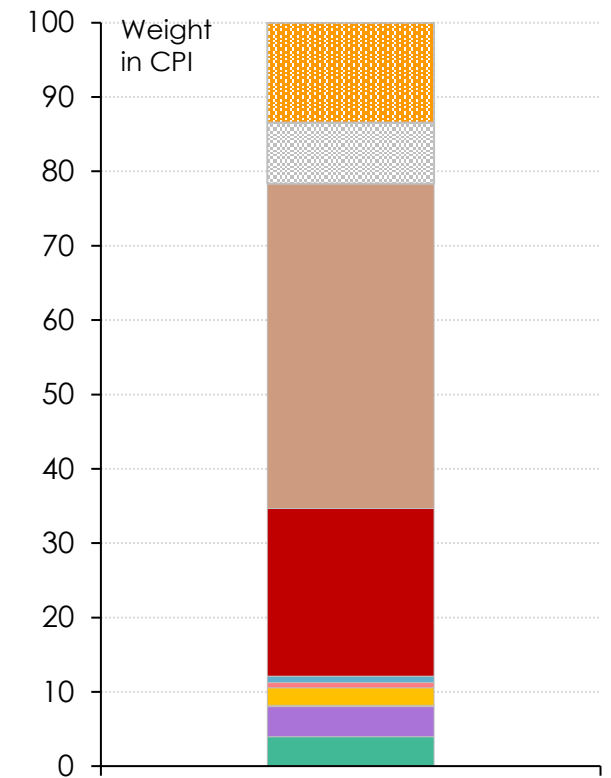
Contributions to monthly changes in the US CPI



Contributions to change in CPI over the year to March



Weights in CPI

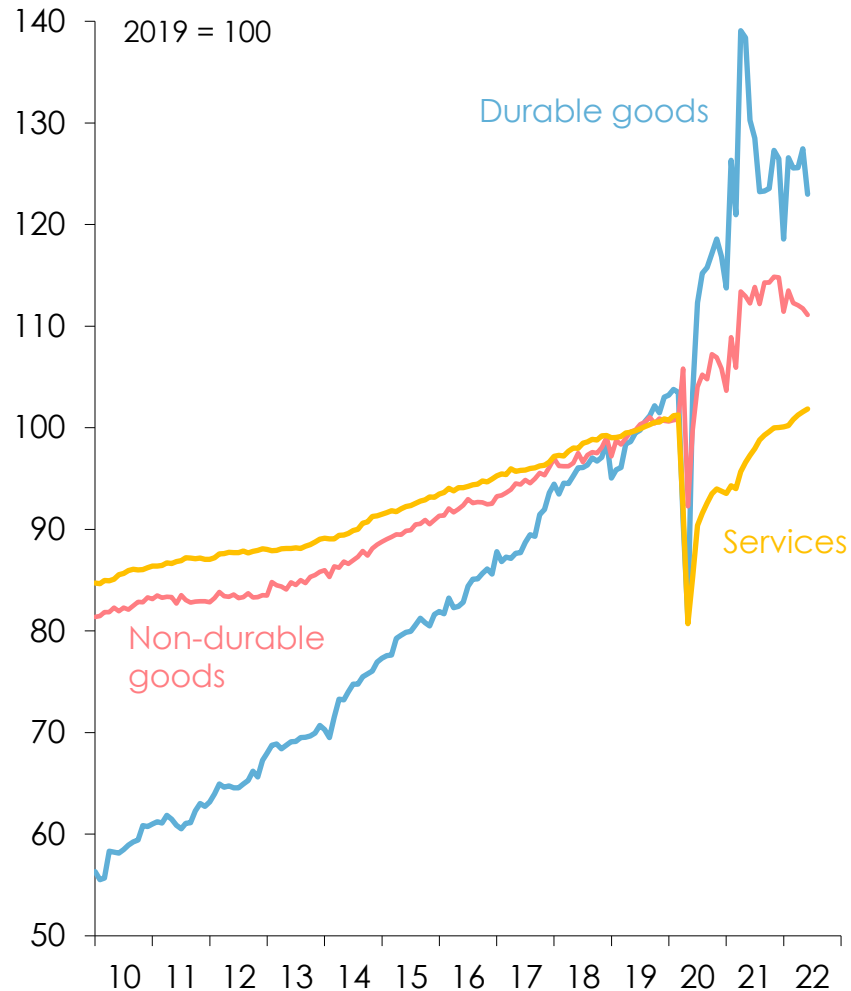


Note: 'HOER' = home-owners' equivalent rent (a measure of the 'imputed rent' notionally paid by owner-occupiers to themselves), and which accounts for (an uncommonly large, by international standards) 28½% of the CPI excluding food and energy. Source: US [Bureau of Labor Statistics](#), CPI Table 6;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

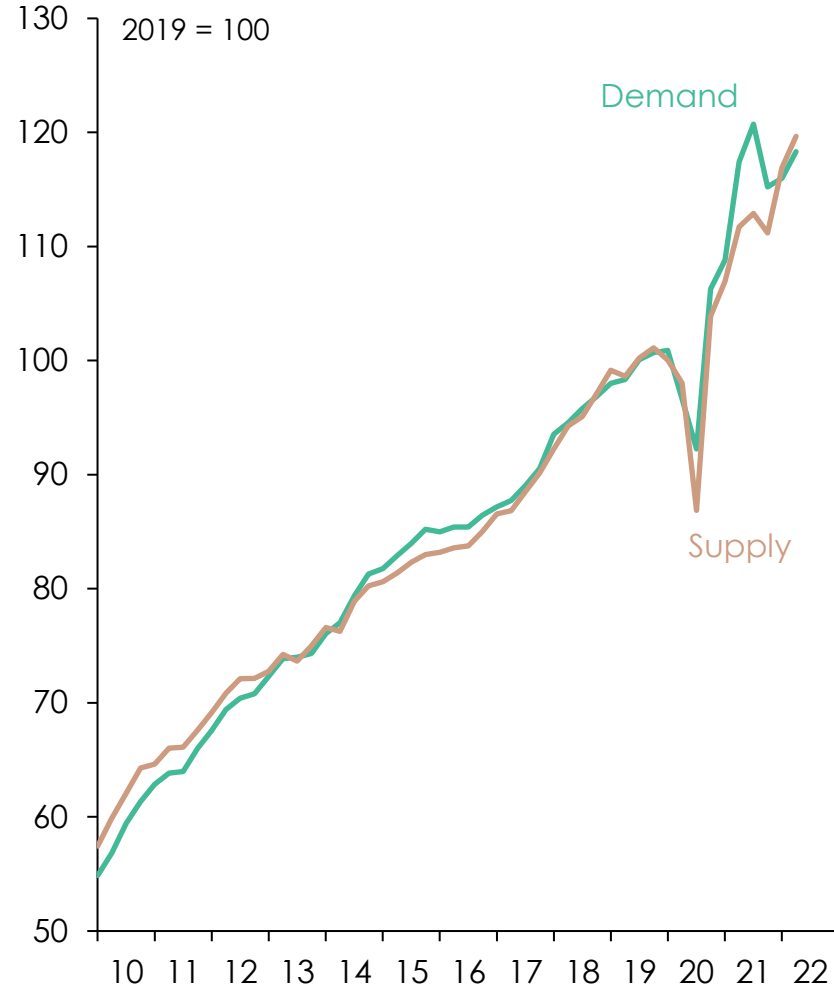
The rise in inflation has until recently been largely attributable to the imbalance between supply and demand for durable goods

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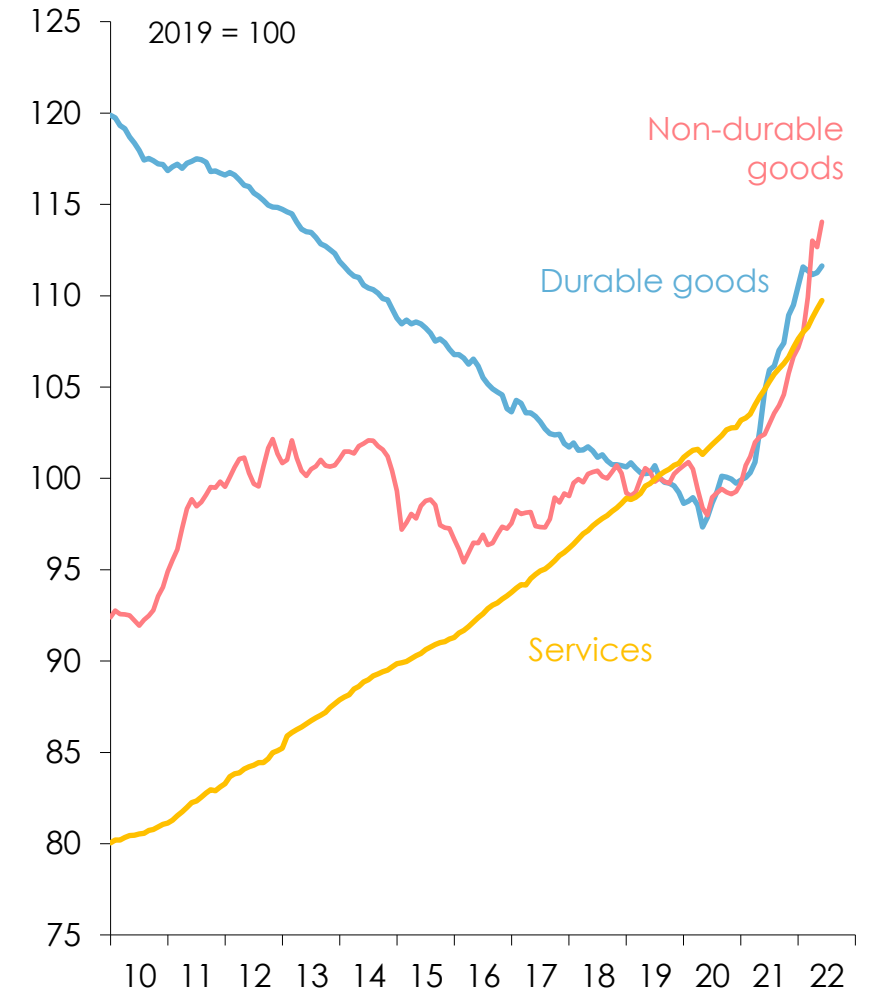
Composition of personal consumption expenditures



Aggregate demand for and supply of durable goods



Implicit price deflators of personal consumption

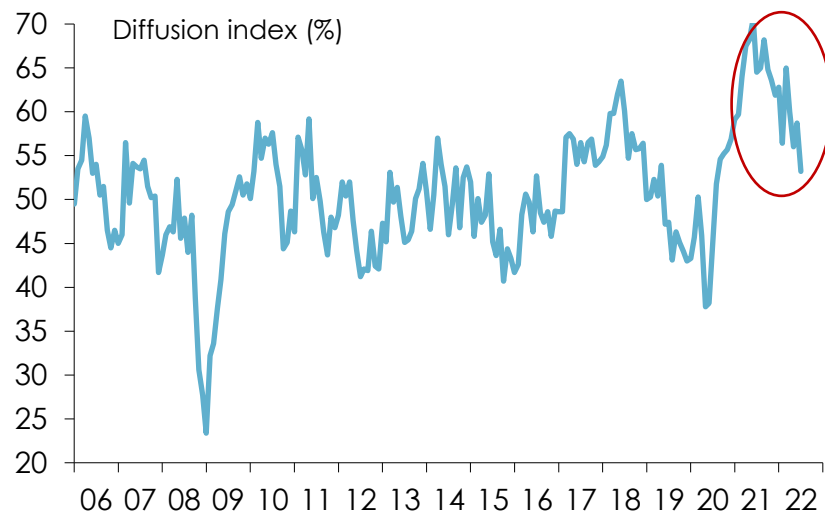


Note: 'Aggregate demand' for durable goods comprises personal consumption of durable goods plus business investment in equipment. 'Aggregate supply' of durable goods comprises gross domestic product (final sales plus change in inventories) plus net imports of durable goods. Sources: US Bureau of Economic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

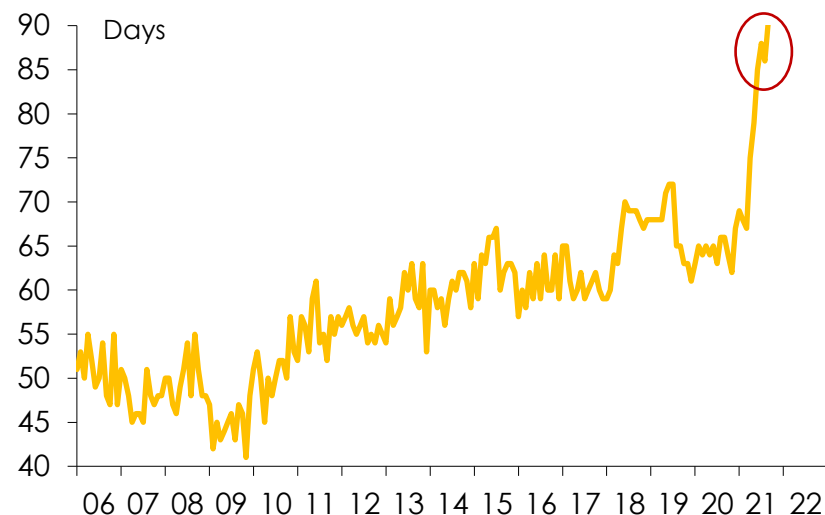
Supply-chain difficulties have intensified again this year, after seeming to have peaked during the second half of last year

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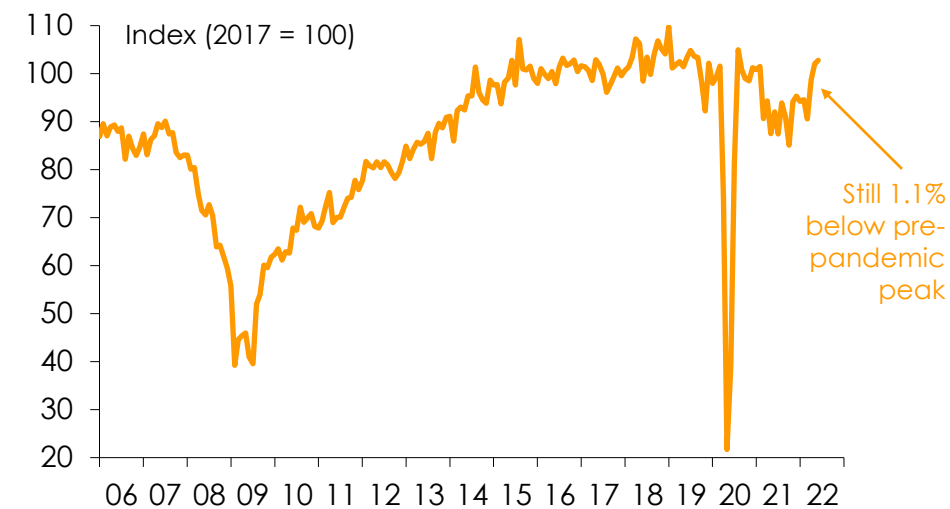
Manufacturers' order backlogs



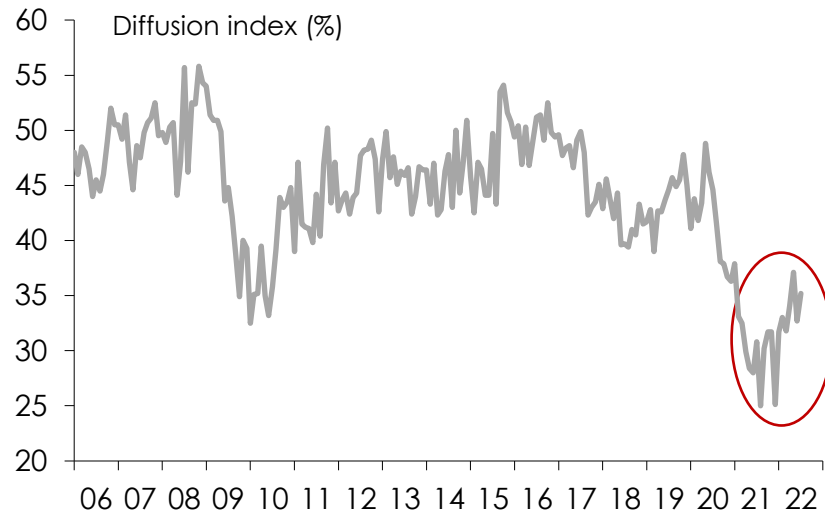
Lead-time for production materials



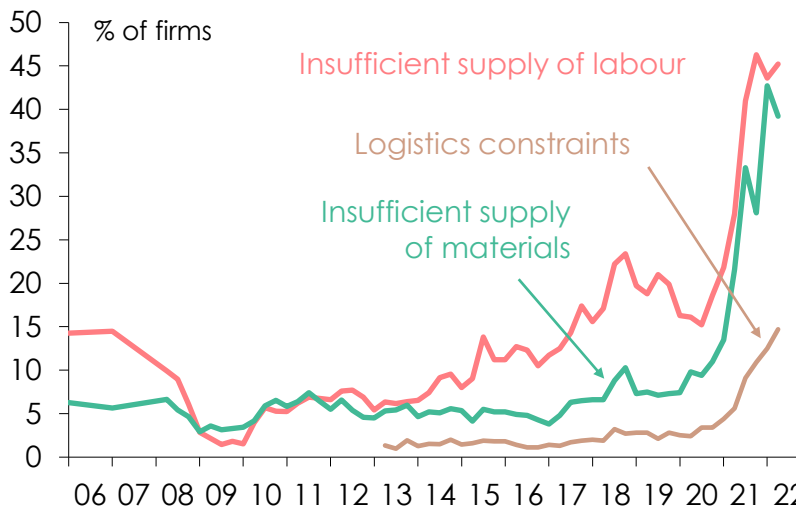
Motor vehicles & parts production



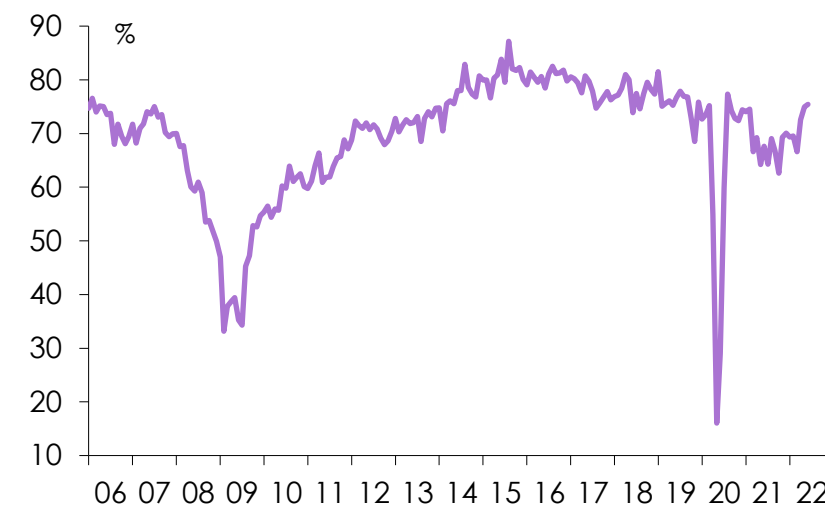
Manufacturers' customer inventories



Reasons for < full capacity



Auto industry capacity utilization

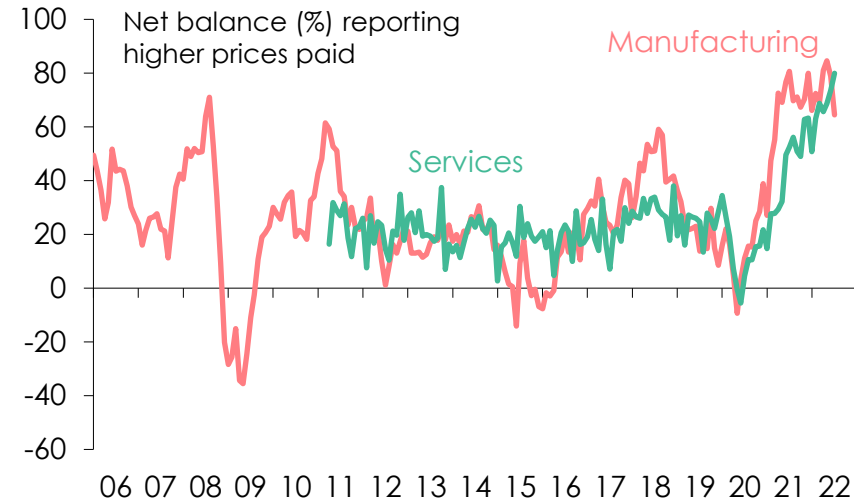


Note: The diffusion index of order backlogs is 50 plus the percentage of respondents reporting longer backlogs minus the percentage reporting shorter backlogs (and similarly for customer inventories). 'Reasons for < full capacity' means reasons for operating at less than full capacity. Sources: Institute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

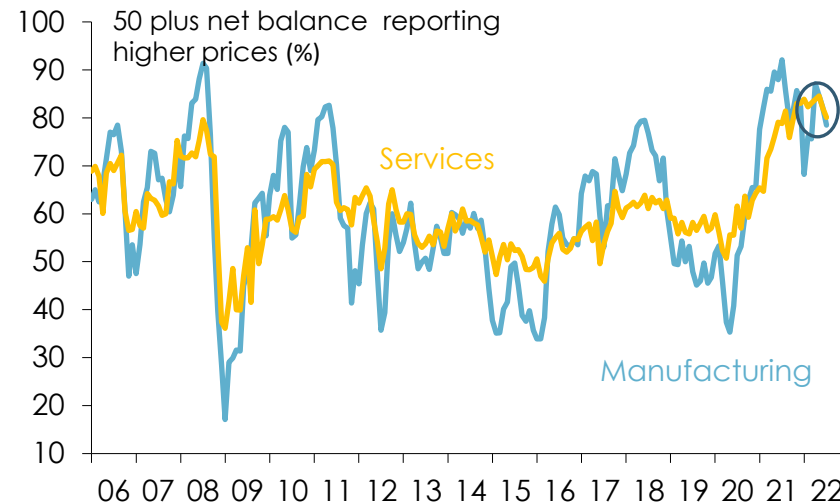
Household medium-term inflation expectations didn't rise as much in June as suggested by the preliminary results of the Michigan U survey

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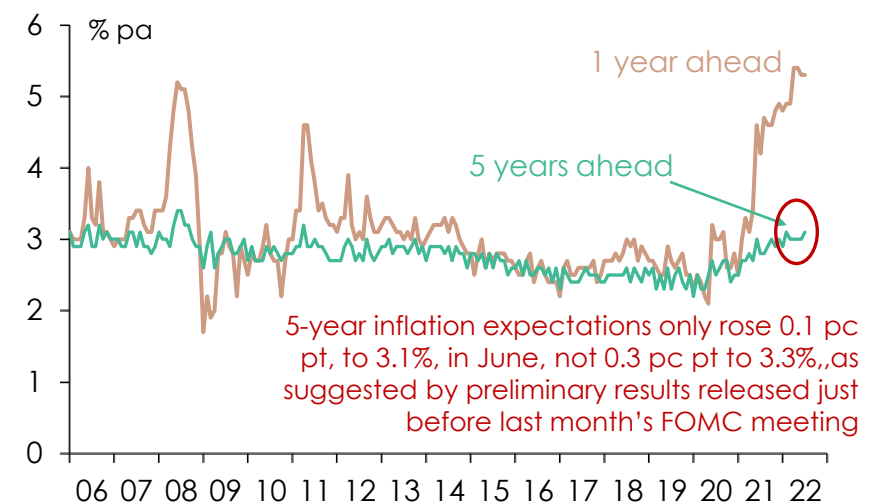
'Philly Fed' survey – prices paid



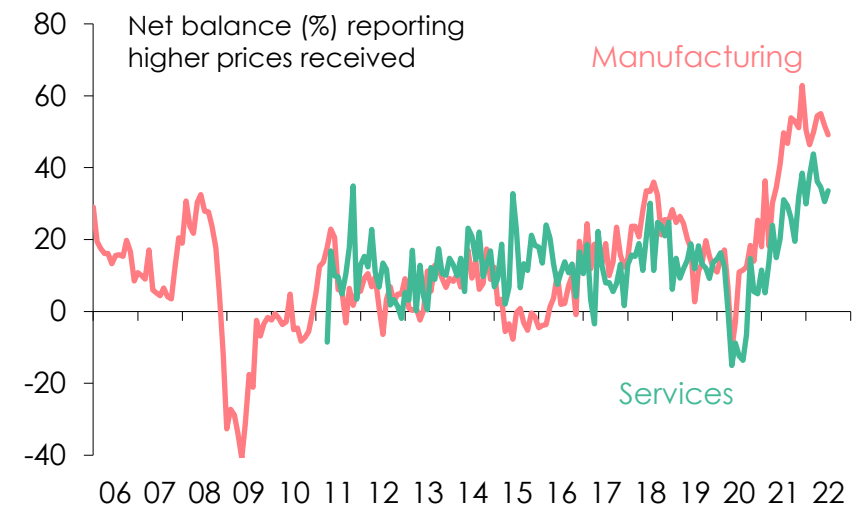
ISM survey – prices paid



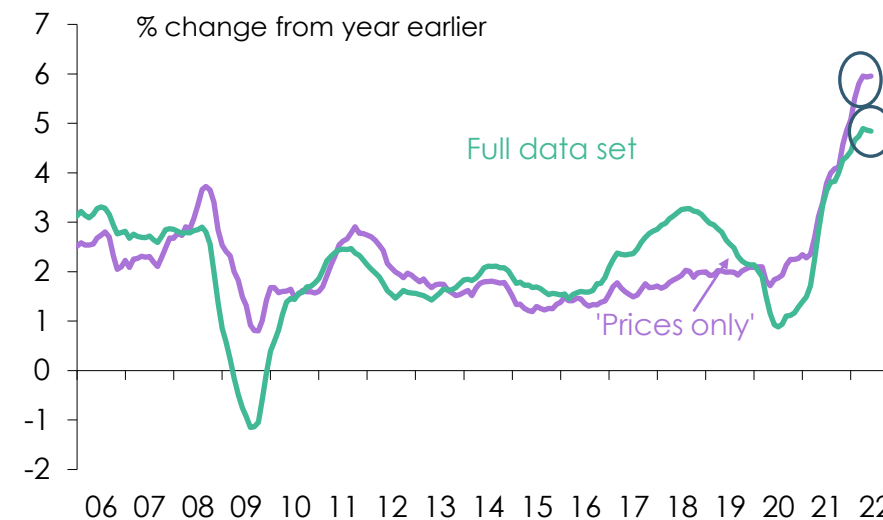
Household inflation expectations



'Philly Fed' survey – prices received



NY Fed 'underlying inflation gauge'



Market-priced inflation probabilities

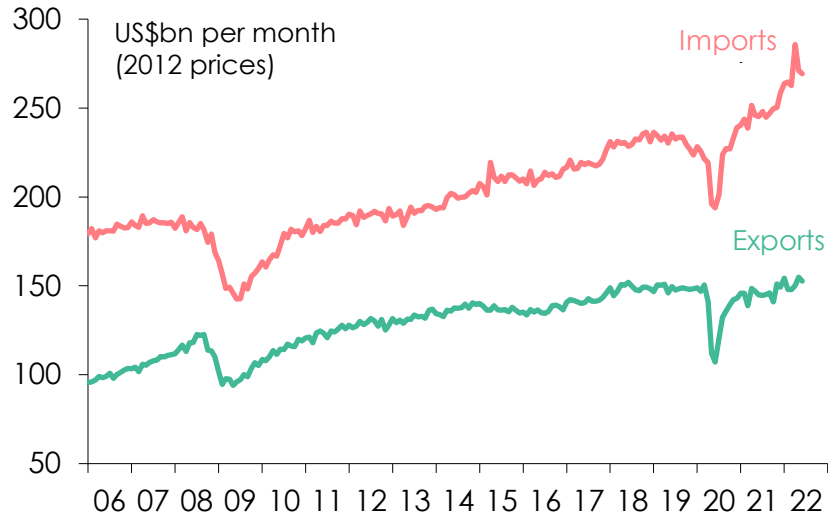


Sources: Federal Reserve Bank of Philadelphia, [Regional Economic Analysis](#), Manufacturing and Non-Manufacturing Business Outlook Surveys ; Institute for Supply Management, [ISM Report on Business](#); Federal Reserve Bank of New York, [Underlying Inflation Gauge](#); Federal Reserve Bank of Minneapolis,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

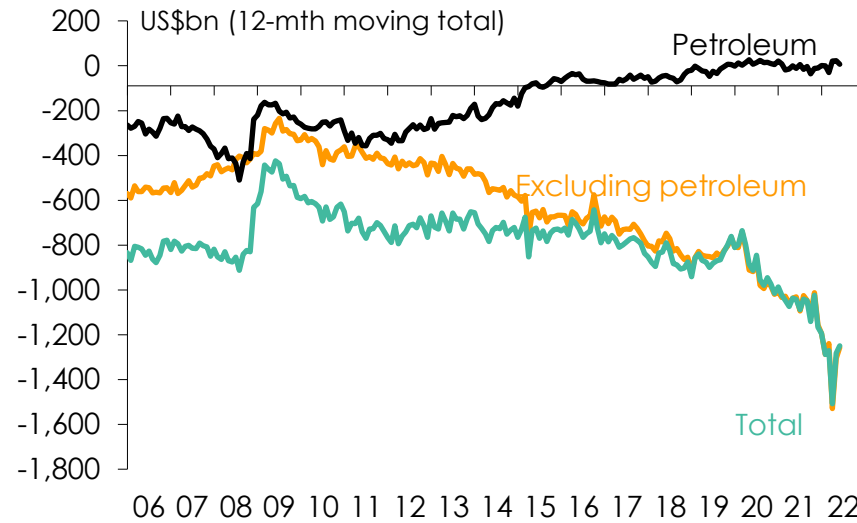
The US goods & services trade deficit narrowed by \$1.2bn to \$85.5bn in May, largely due to higher prices for US goods exports

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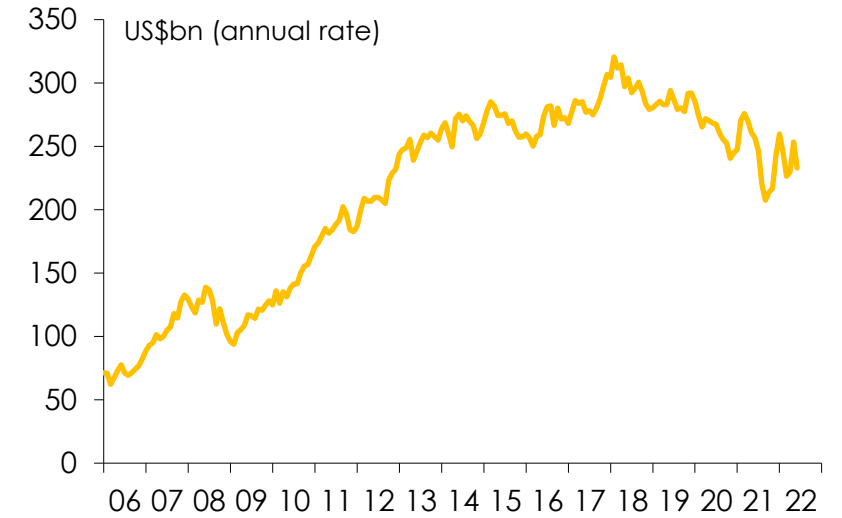
US merchandise trade volumes



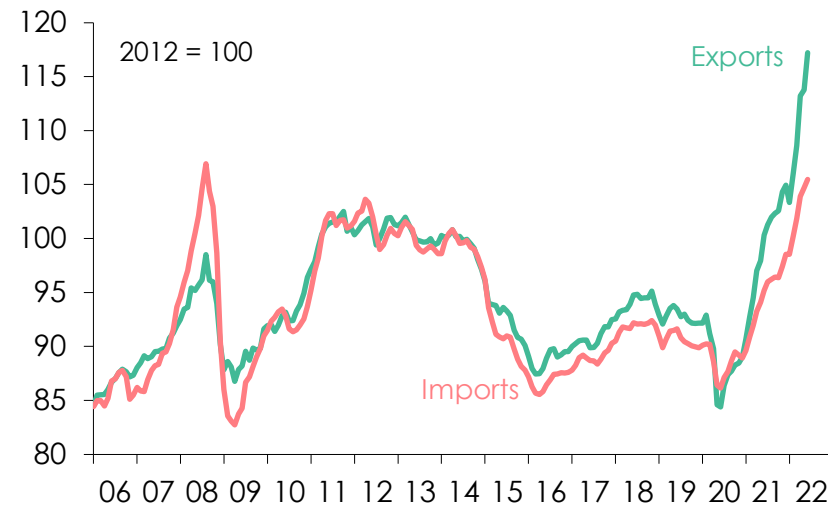
US goods trade balance



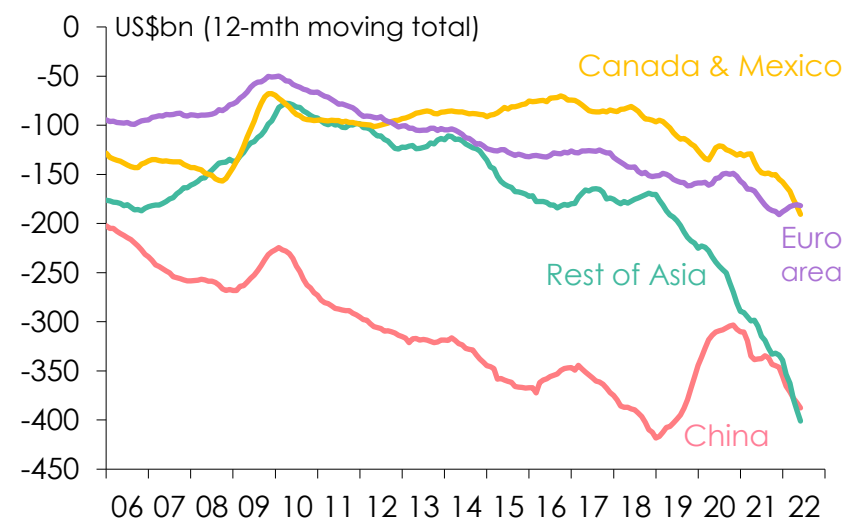
US services trade balance



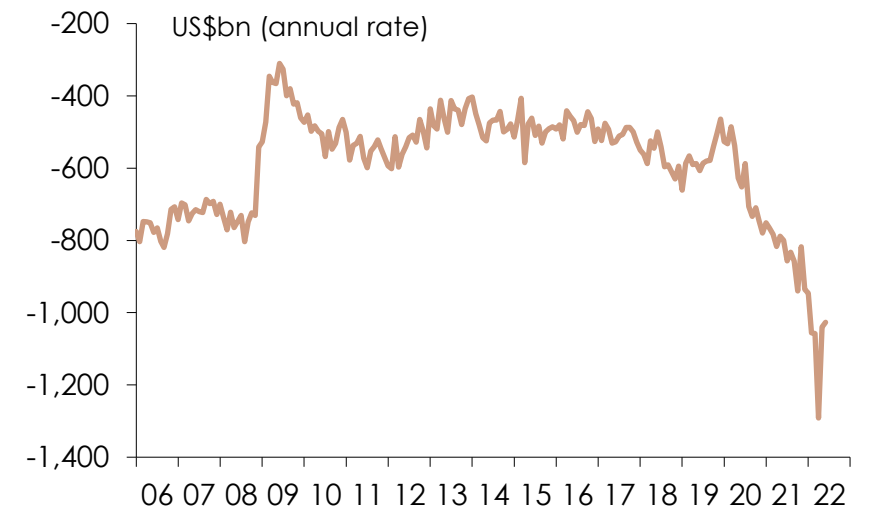
US merchandise trade prices



US bilateral goods trade balances



US goods & services trade balance

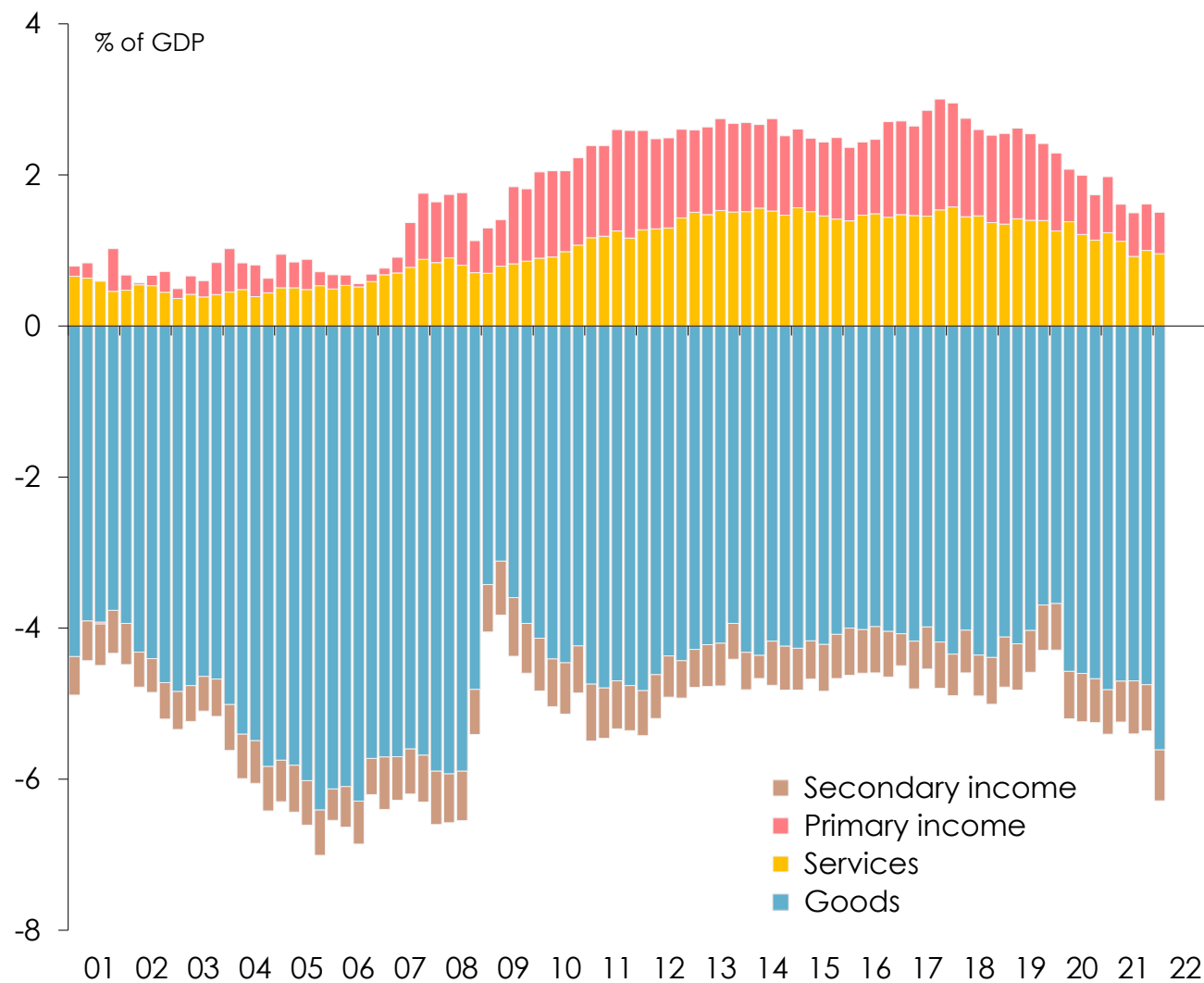


Source: US Census Bureau, [Foreign Trade](#); and US Bureau of Economic Analysis, [Advance Economic Indicators](#), and [U.S. International Trade in Goods and Services](#).
[Return to "What's New"](#).

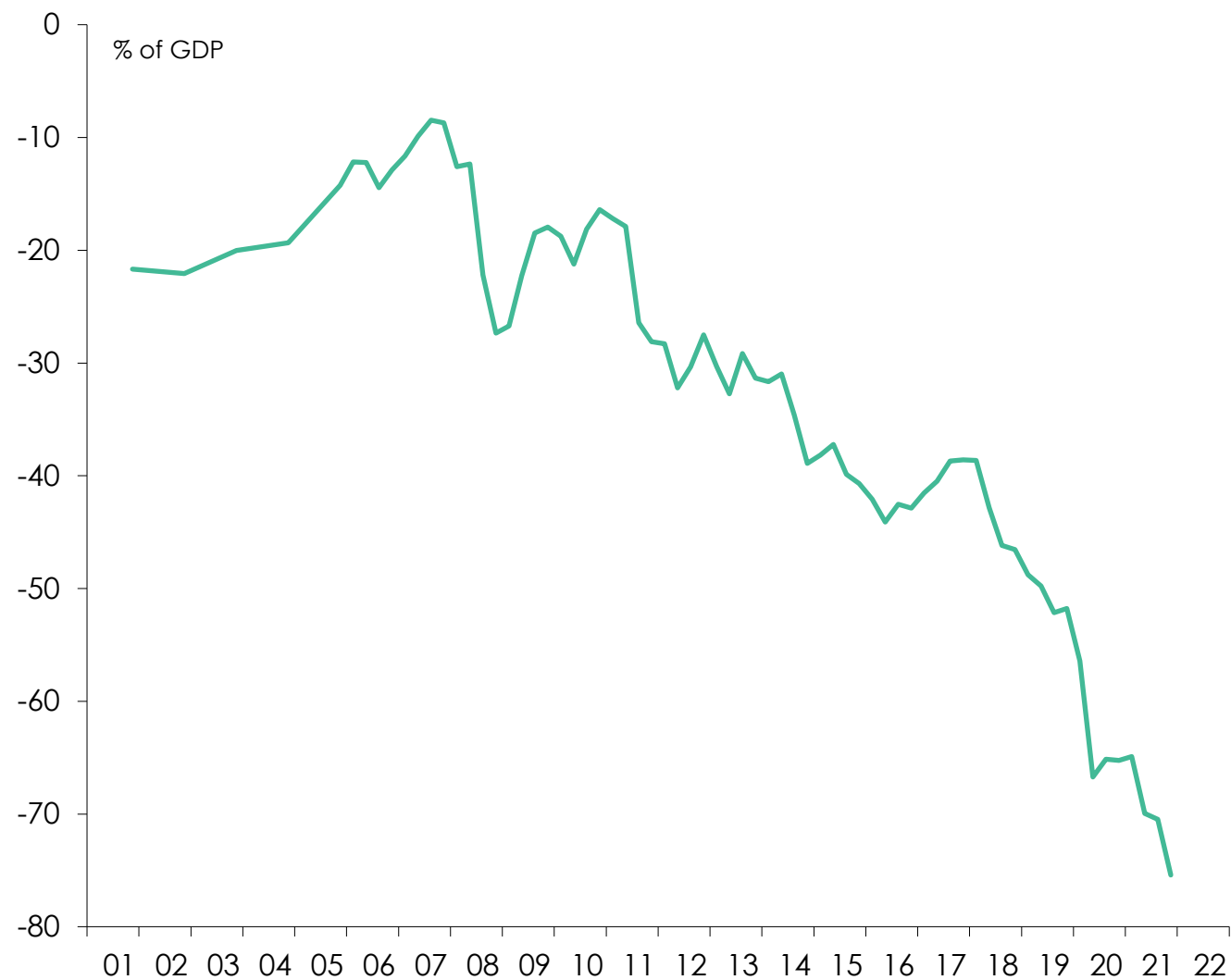
The US current account deficit widened to US\$291bn in Q1, the largest on record in dollar terms and the highest as a pc of GDP since Q3 2008

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US current account balance



US net international investment position

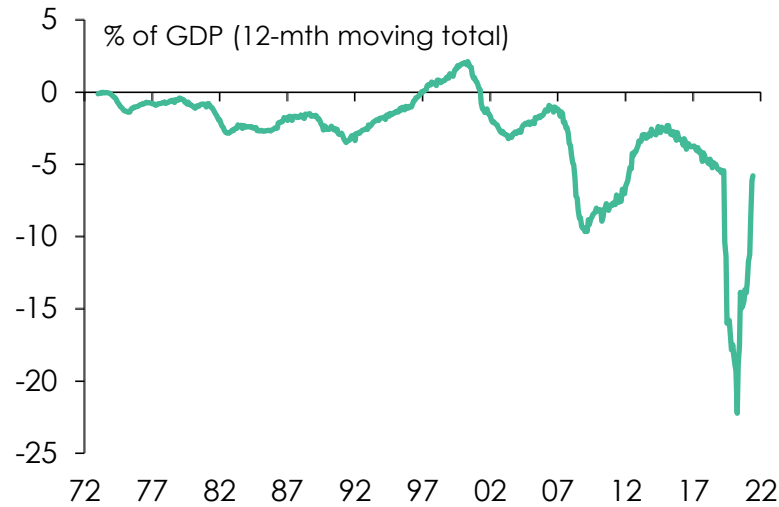


Note: 'Primary income' transactions are those involving investment income or compensation of employees. The US typically runs a surplus on investment income despite having a negative net international investment position since 1989, because US investors are able to derive much higher returns from their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

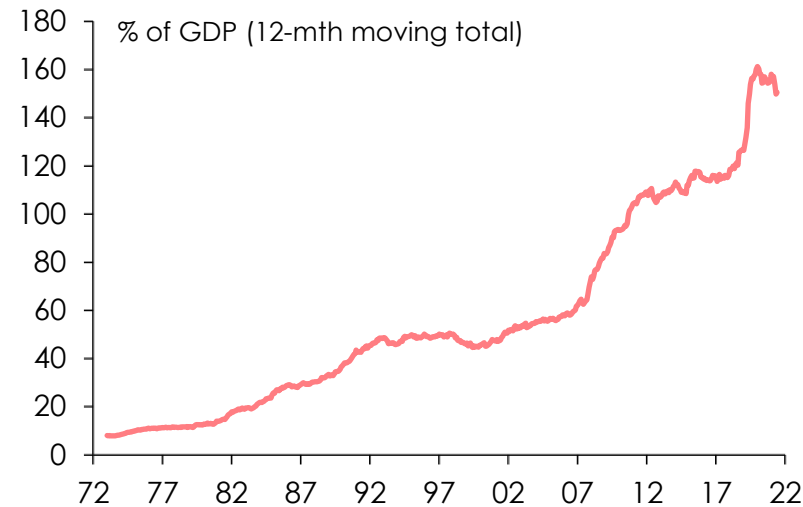
The US Federal budget deficit is continuing to decline sharply, as a result of surging tax revenues and, to a lesser extent, falling spending

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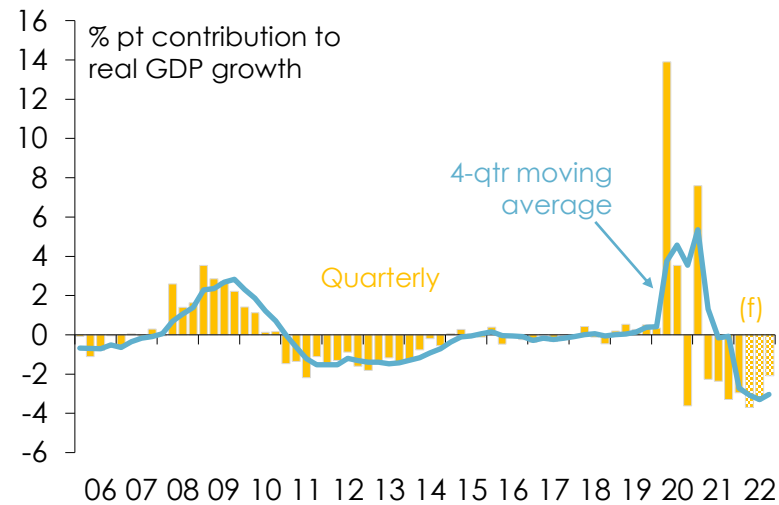
US Federal budget deficit



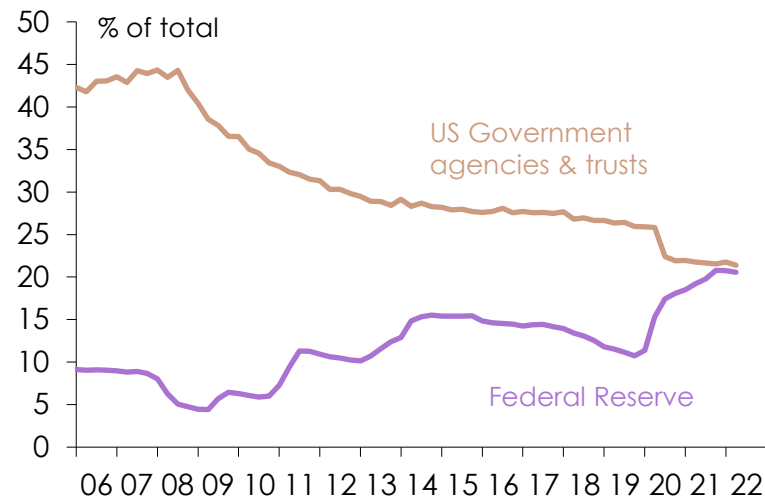
US gross Federal debt



Fiscal policy impact on GDP



Holdings of US Federal debt



- ❑ The US Federal Government recorded a budget deficit of US\$66bn in May, almost exactly half the deficit incurred in the same month last year
- ❑ For the 12 months ended May the budget deficit totalled \$1.1 trn (5.8% of GDP), the smallest 12-month total since March 2020, and down from a peak of \$4.1 trn (22.2% of GDP) in the 12 months ended June 2021 – and federal debt appears to have peaked as a percentage of GDP
- ❑ The Biden Administration’s [Budget](#) for FY23 (which begins on 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"](#).

Minutes of last month's FOMC meeting indicate that the Fed is planning to move monetary policy settings to a "restrictive" stance

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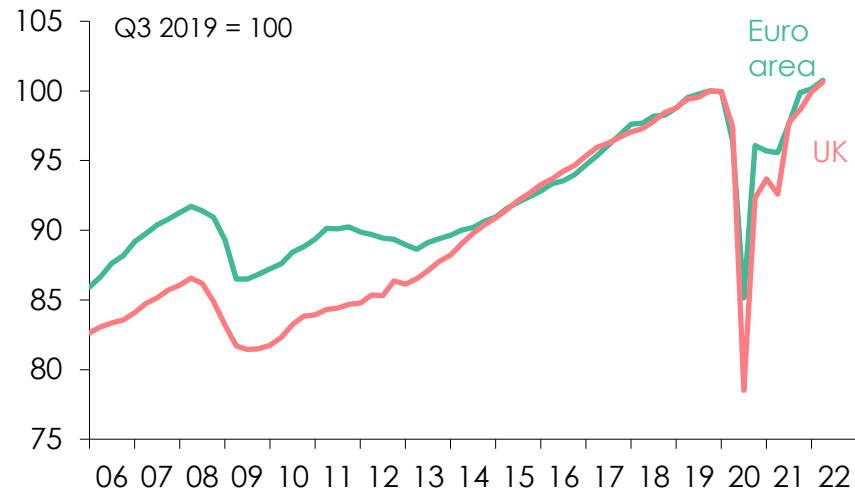
- ❑ The Federal Reserve [raised its target for the Fed funds rate](#) by 75 basis points, to 1.50-1.75%, at its Federal Open Market Committee meeting on 16th June, and foreshadowed that “ongoing increases in the target range will be appropriate”
- ❑ FOMC members also significantly raised their projections 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’
- ❑ The [minutes](#) of that meeting, released last Wednesday, record that FOMC members viewed inflation as remaining “much too high”, and that it had “yet to show signs of abating”, with “many” participants expressing “concern that longer-run inflation expectations could be beginning to drift up to levels inconsistent with the 2% objective” and that “if inflation expectations were to become unanchored, it would be more costly to bring inflation back down to the [FOMC’s] objective
- ❑ The minutes also record that Fed staff projected that GDP growth would “rebound” in Q2 and “remain solid over the remainder of the year” (albeit growing less rapidly than previously forecast), and that FOMC members also agreed that “real GDP growth was expanding”
 - which contrasts with the (more recent) estimate by the Atlanta Fed’s [GDPNow](#) estimate that real GDP declined at a 2.1% annual rate, which would imply a so-called ‘technical recession’ following the 1.6% contraction in Q1
- ❑ Regarding future meetings the minutes record participants as judging that “an increase of 50 or 75 bp would likely be appropriate at the next meeting”, and that “the economic outlook warranted moving to a restrictive stance”, with “an even more restrictive stance” appropriate “if elevated inflation pressures were to persist”

Europe

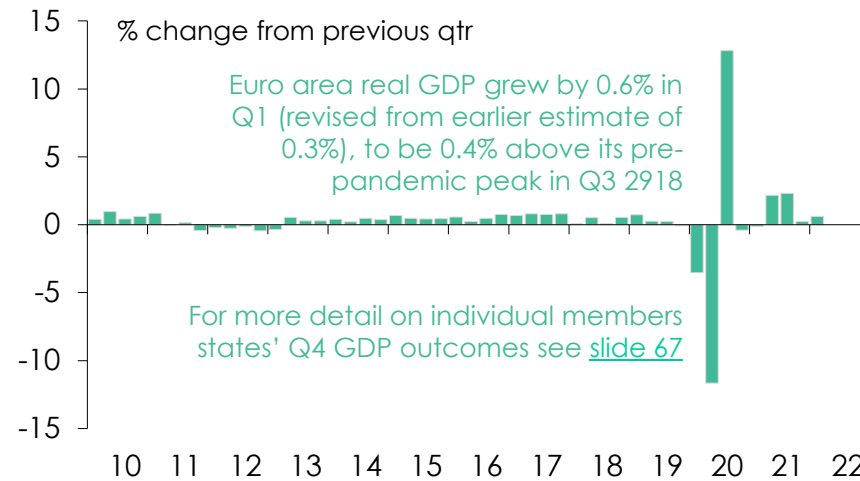
The euro area's real GDP grew 0.6% (revised from 0.3%) in Q1, but its terms of trade have deteriorated 3% over the past two quarters

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

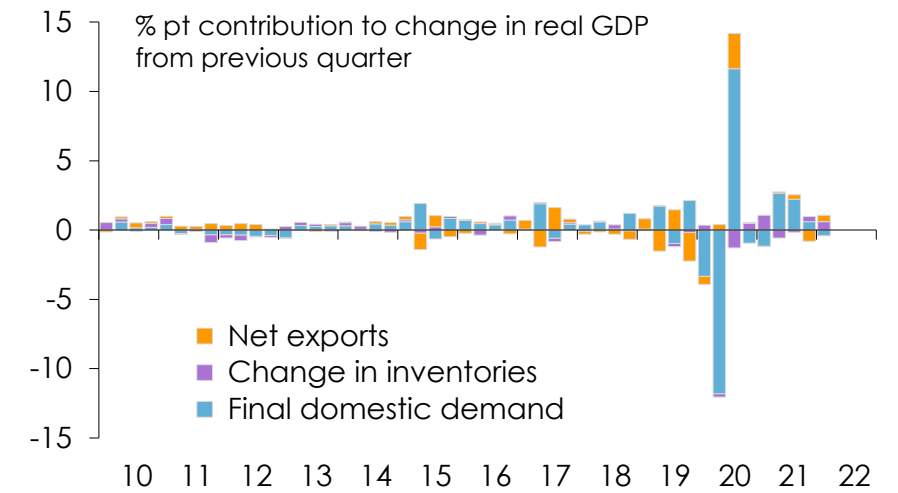
Euro area and UK real GDP



Euro area quarterly GDP growth



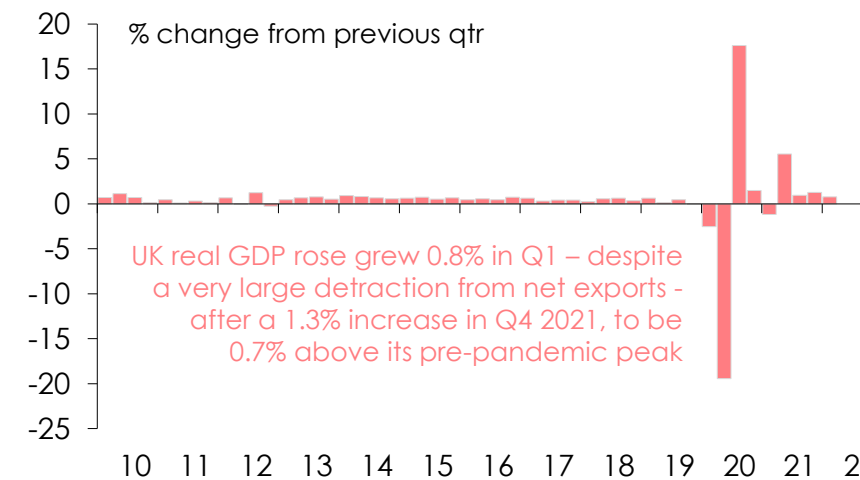
Contributions to quarterly EA GDP



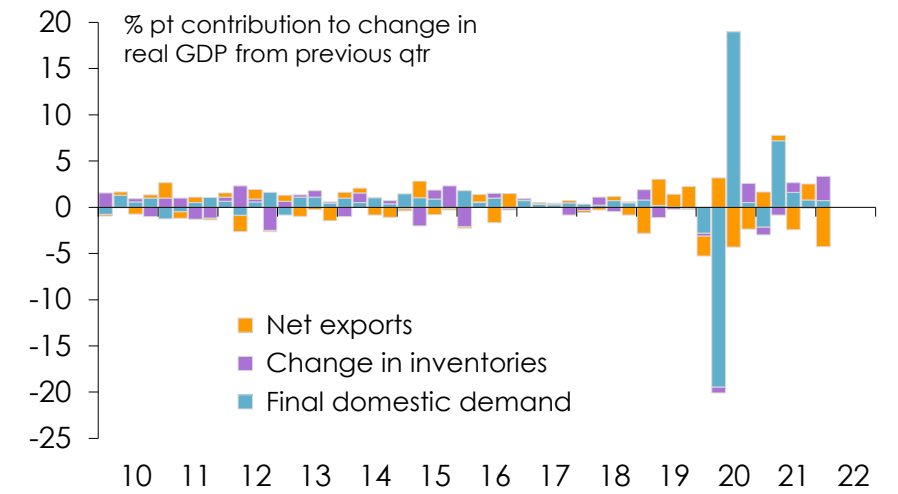
Euro area and UK terms of trade



UK quarterly GDP growth



Contributions to quarterly UK GDP

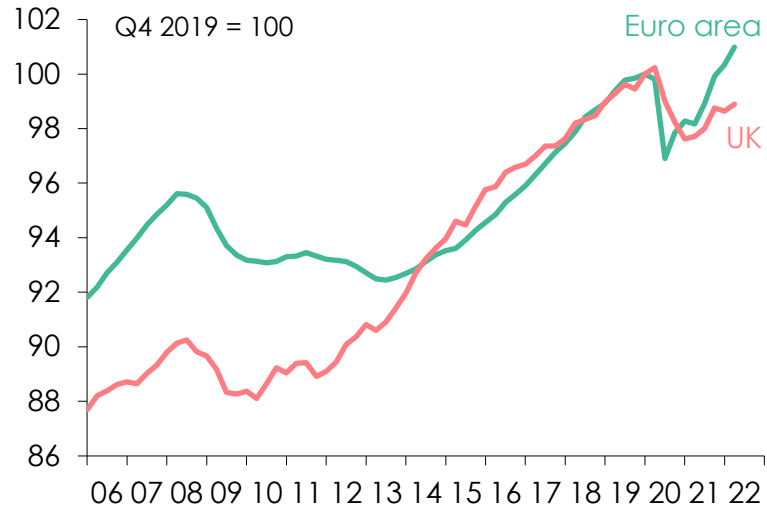


Note: the 'terms of trade' is the ratio of the implicit price deflator of exports of goods & services to that of imports of goods & services – it gives an indication of the income gains or losses arising from changes in the prices of goods and services traded with the rest of the world. Sources: Eurostat,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

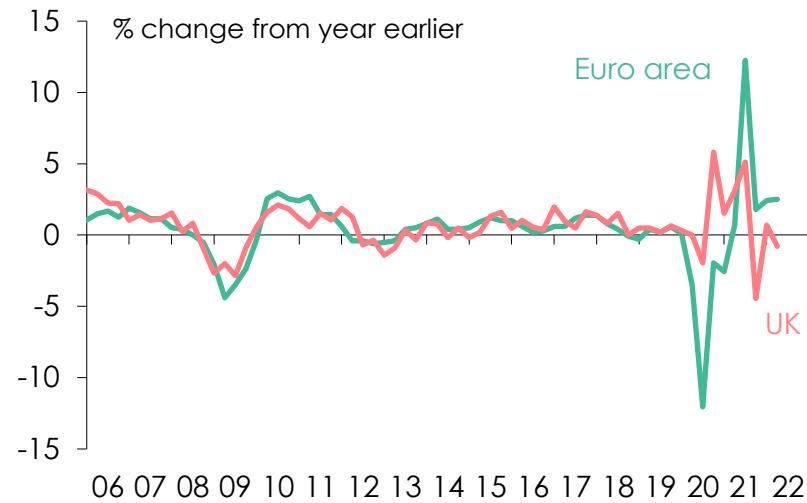
Euro area unemployment fell to a new record (since 1998) low of 6.6% in May

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

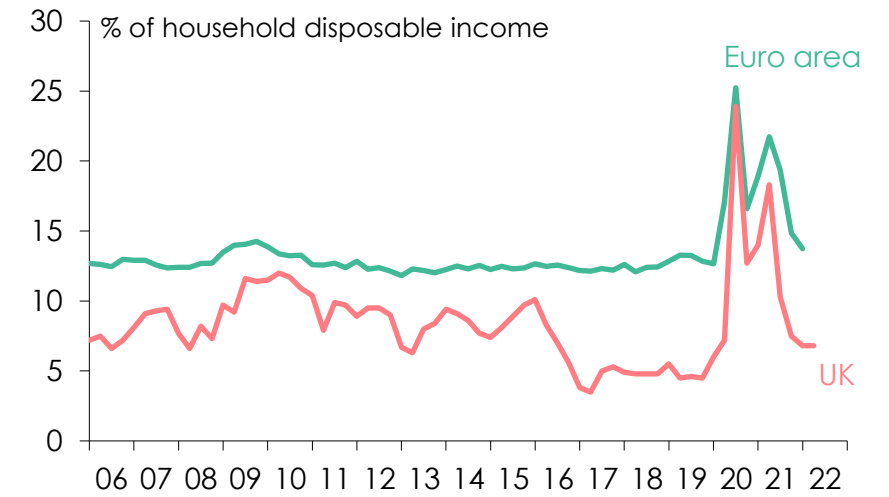
Employment



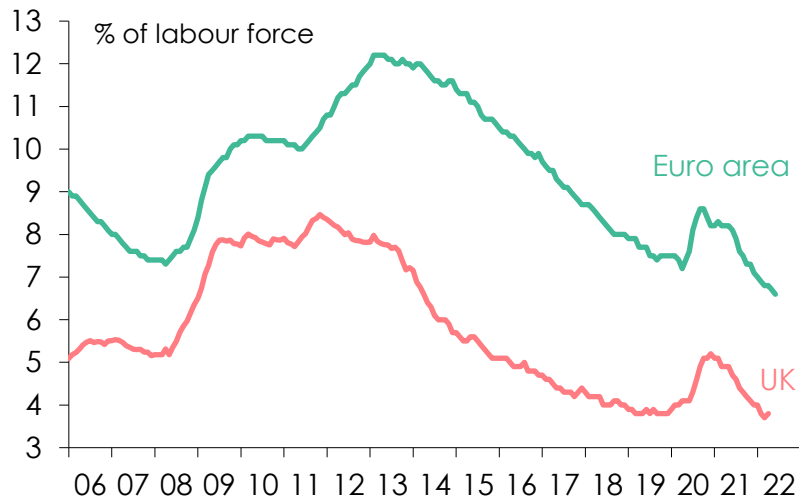
Labour productivity



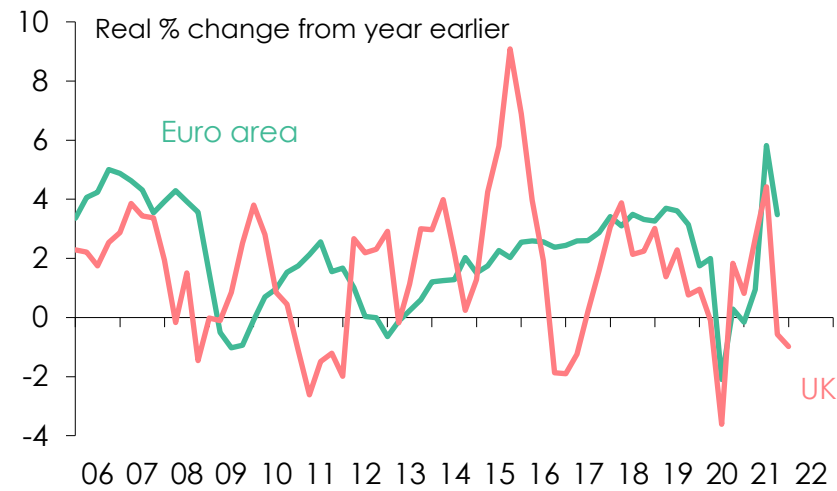
Household saving rates



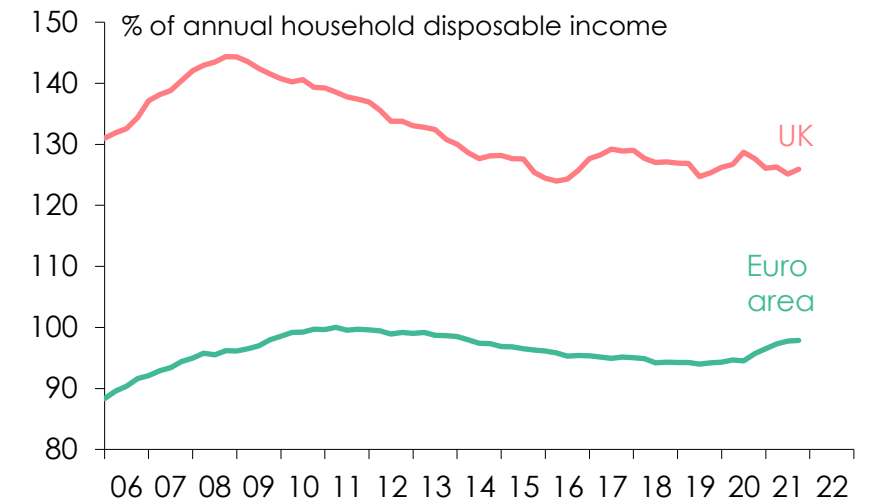
Unemployment rates



Household disposable income



Household debt

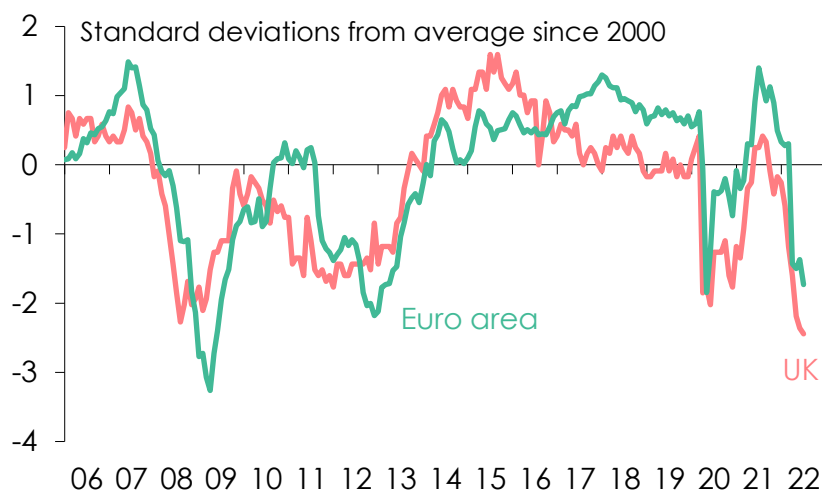


Sources: Eurostat, [Employment and unemployment \(Labour force survey\)](#), [Household saving rate](#) and [Labour productivity and unit labour costs](#); UK Office for National Statistics, [Employment in the UK](#), [Unemployment rate](#) (note, UK unemployment data are shown as a three-month moving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

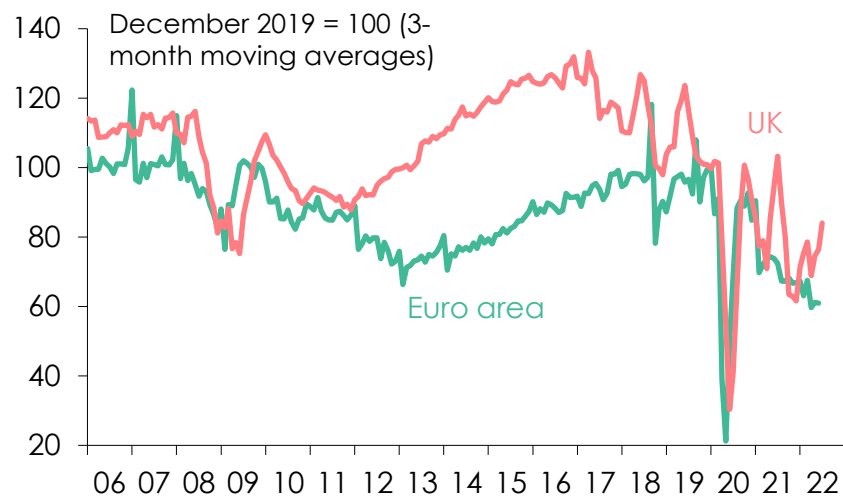
Consumer confidence deteriorated further in the euro area and (even more so) in the UK in June

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

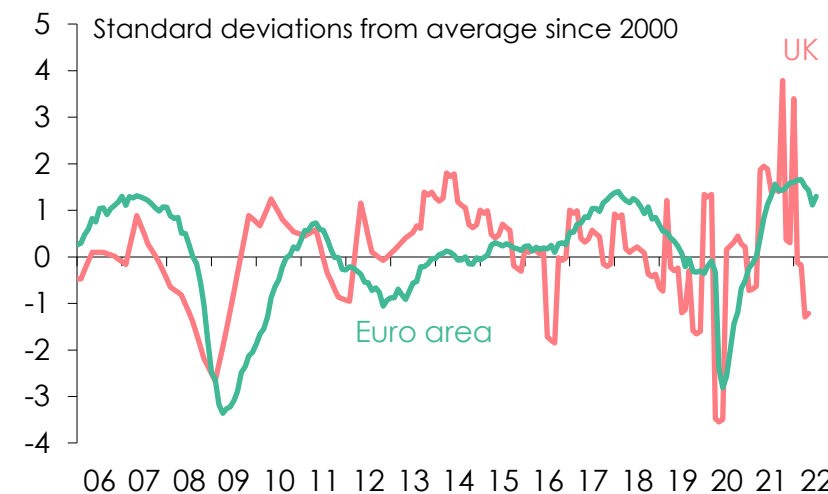
Consumer confidence



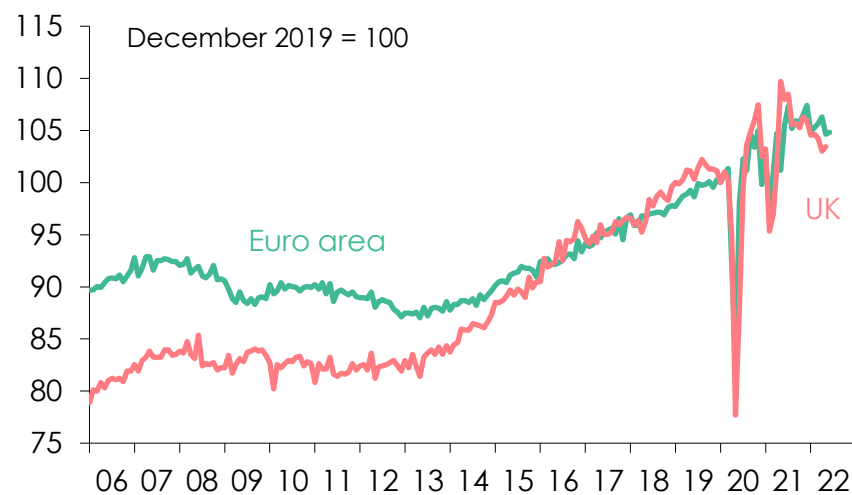
New car registrations



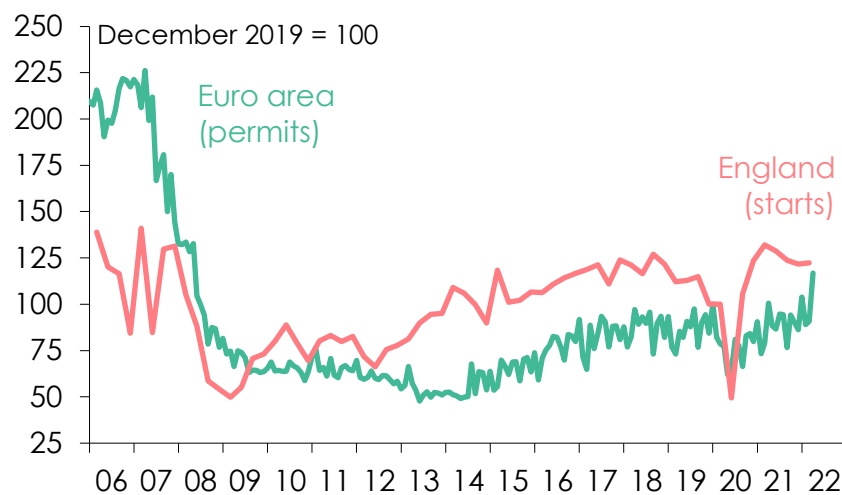
Business confidence



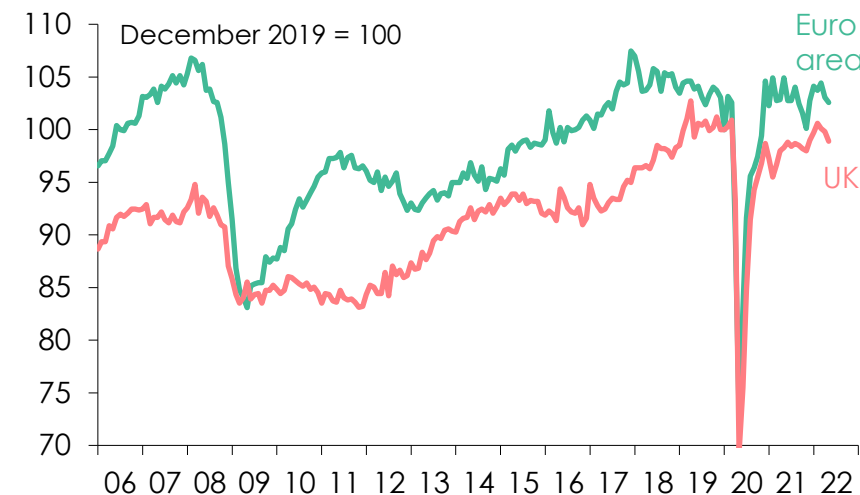
Retail sales volume



Housing activity



Manufacturing production

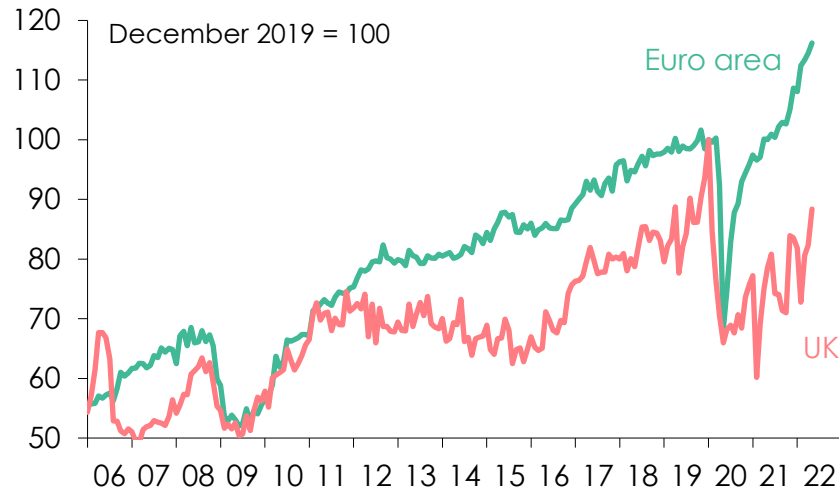


Sources: European Commission, [Business and consumer surveys](#); GfK, [Consumer confidence barometer](#); Confederation of British Industry, [Industrial Trends Survey](#); Eurostat, [Turnover and volume of sales in wholesale and retail trade](#), [New registrations of passenger cars](#), [Building permits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

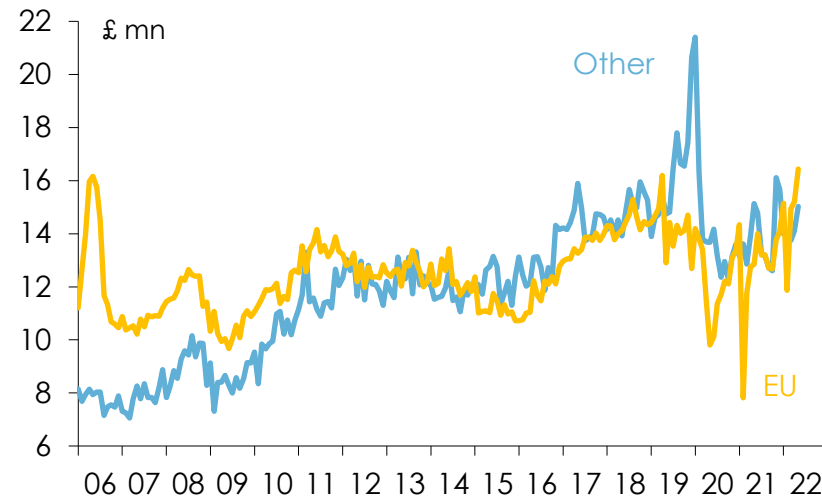
Higher prices for energy imports have caused the euro area's trade balance to slip into deficit, and also widened the UK's external deficits

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

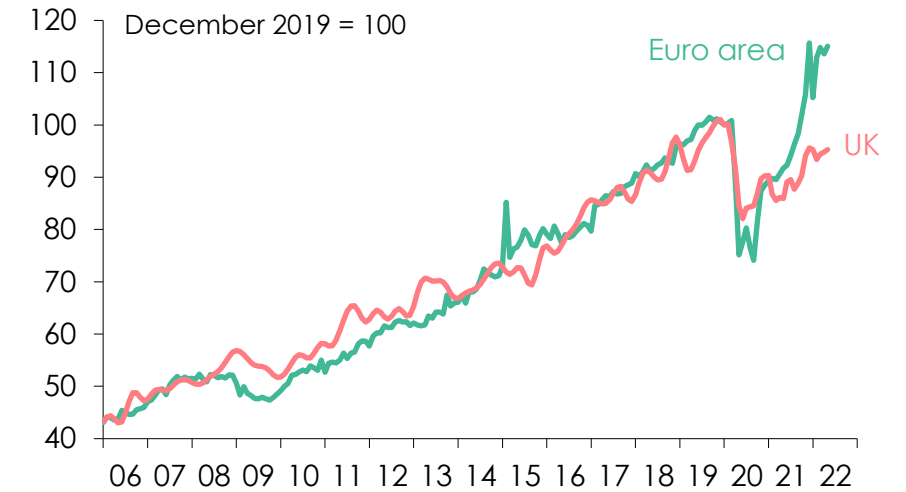
Merchandise exports



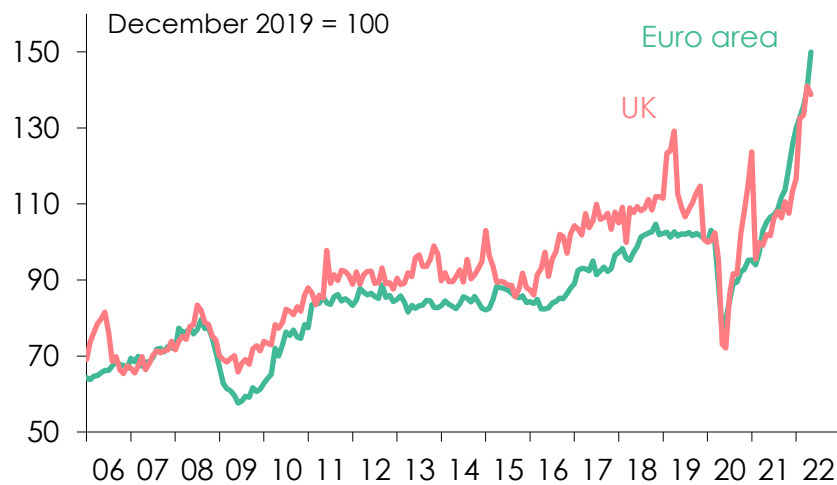
UK exports by destination



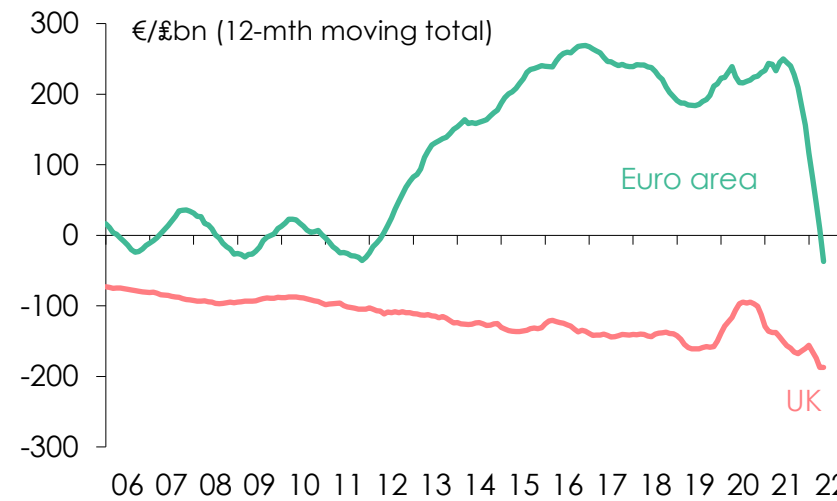
Services exports



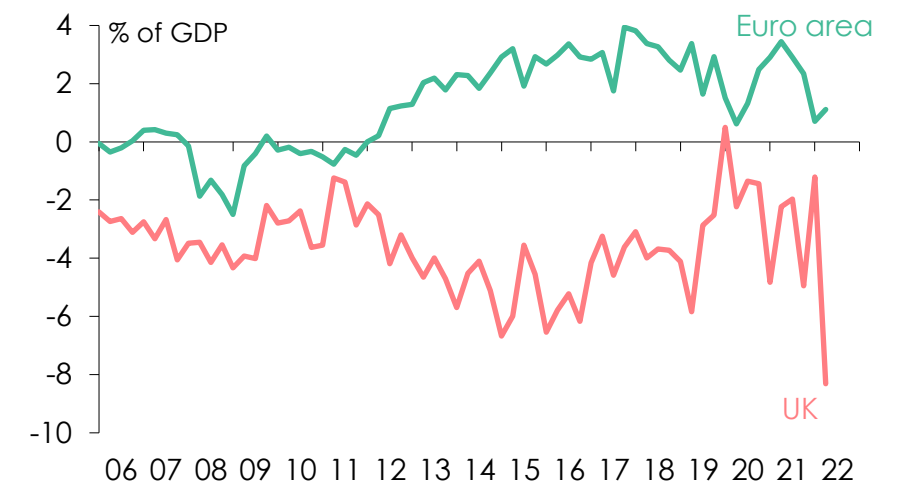
Merchandise imports



Merchandise trade balances



Current account balance

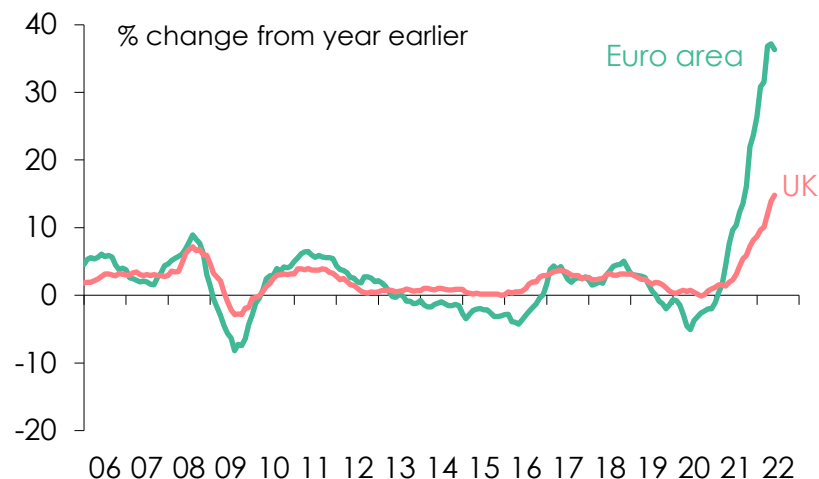


Sources: European Central Bank, Statistical Data Warehouse, [External Trade](#), [Balance of Payments and International Investment Position - Services](#), and [Balance of Payments and International Investment Position - Current Account](#); UK Office for National Statistics, [UK Trade](#) and [BoP Current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

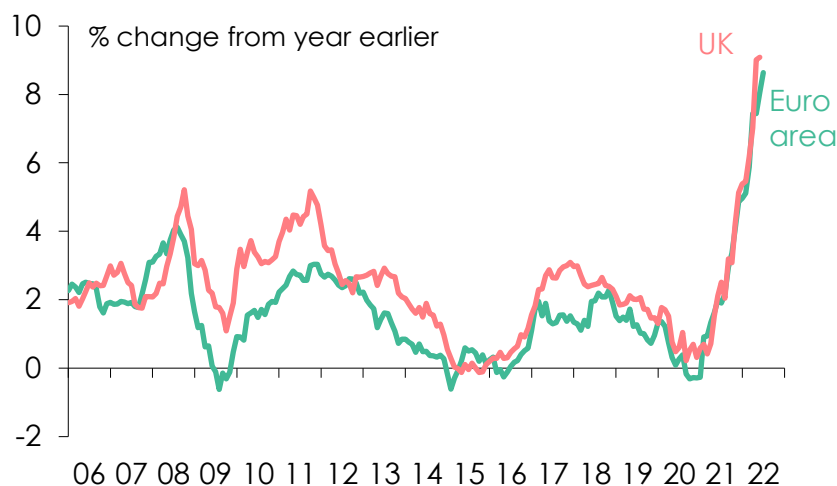
Euro area consumer prices rose 0.8% in June, and 8.6% from June 2021, but 'core' prices rose just 0.2%, cutting the annual rate from 3.8% to 3.7%

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

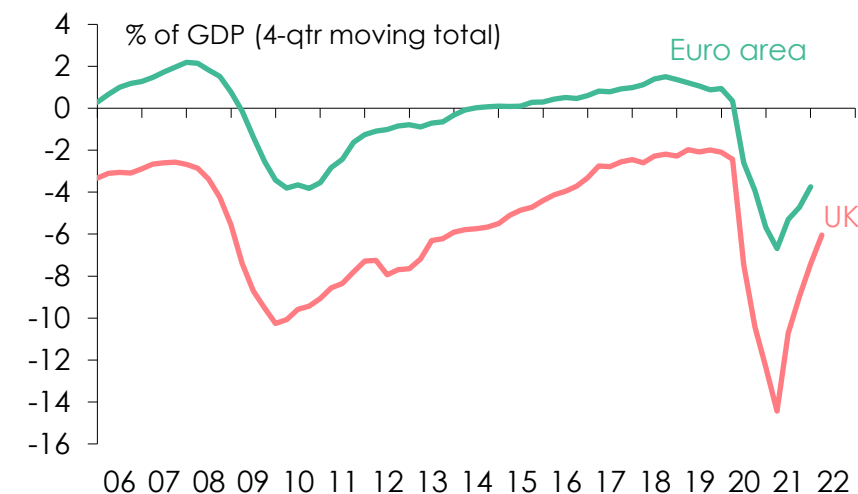
Producer prices



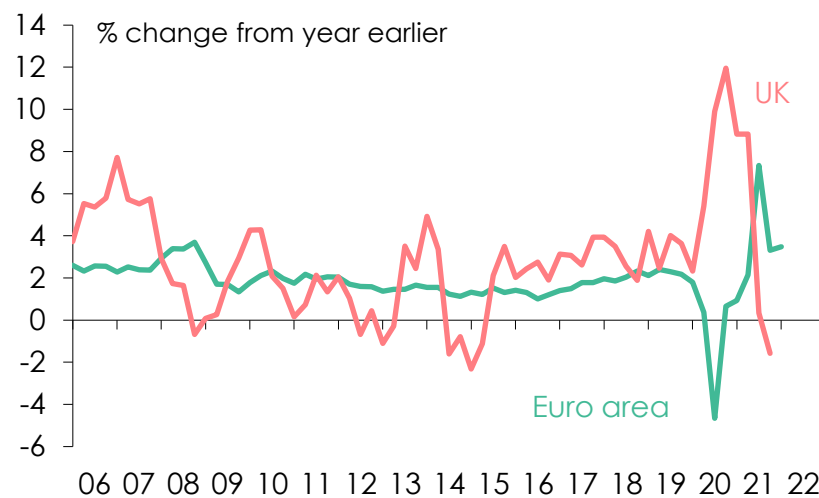
'Headline' consumer prices



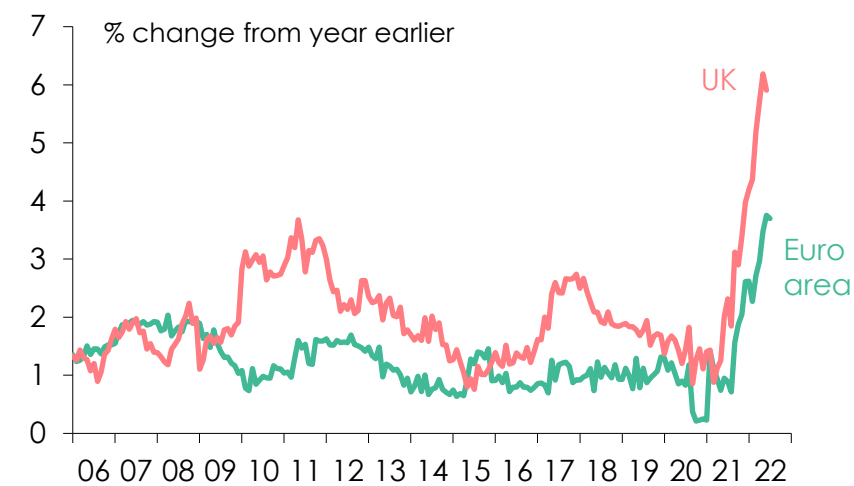
Government fiscal balance



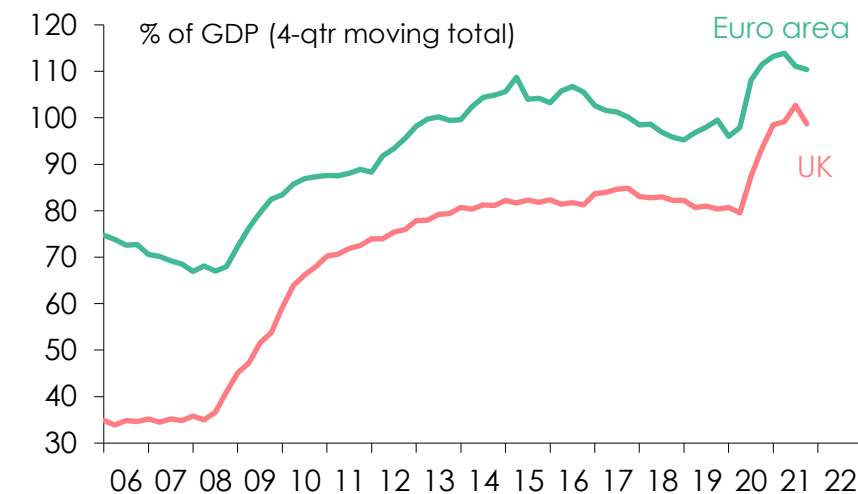
Labour costs



'Core' consumer prices



Government net debt

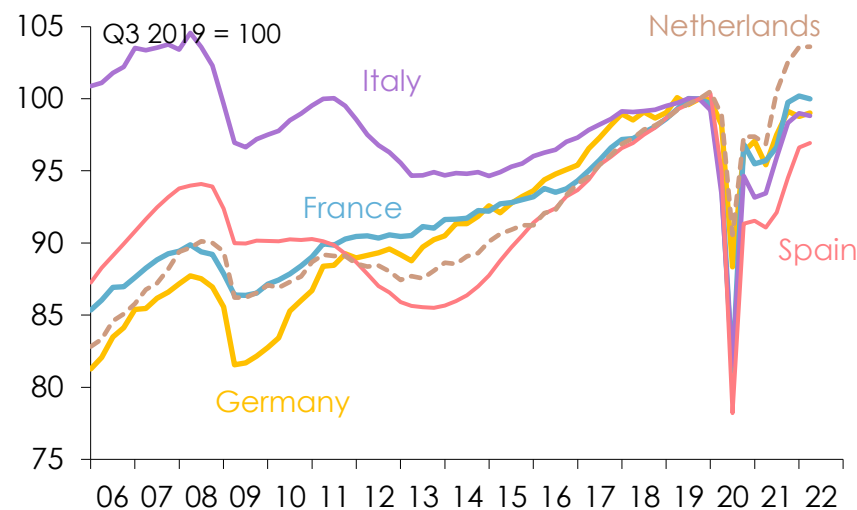


Note: Consumer price indices for the euro area and UK are 'harmonized' indices which exclude owner-occupied housing costs. Sources: Eurostat, [Producer prices in industry](#), [Compensation per employee and hours worked per employed person](#), [Consumer price index](#), and [Government finance statistics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

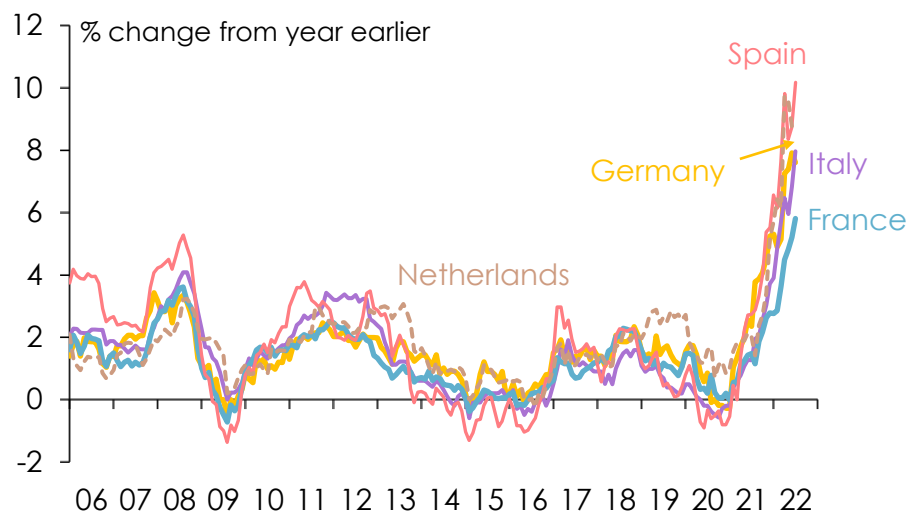
The end of ECB asset purchases has led to a significant widening in yield spreads between Spanish & especially Italian, and German bonds

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

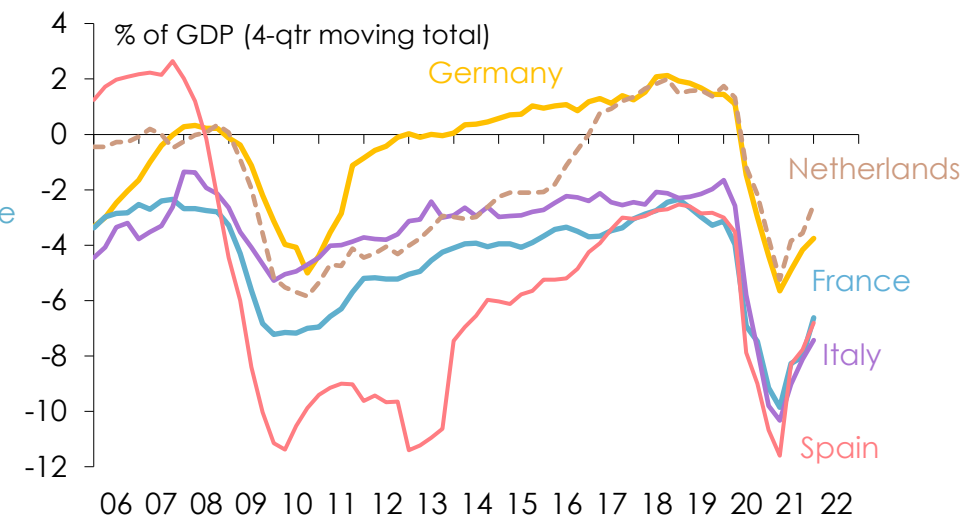
Real GDP



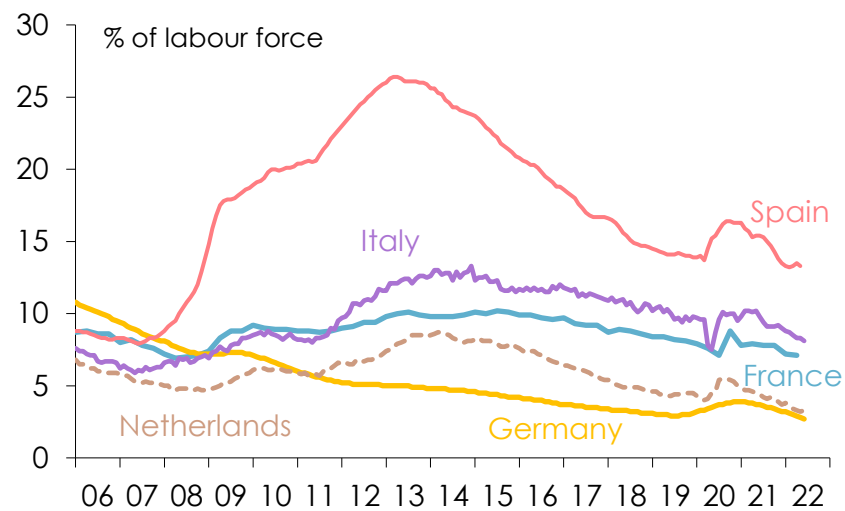
Inflation



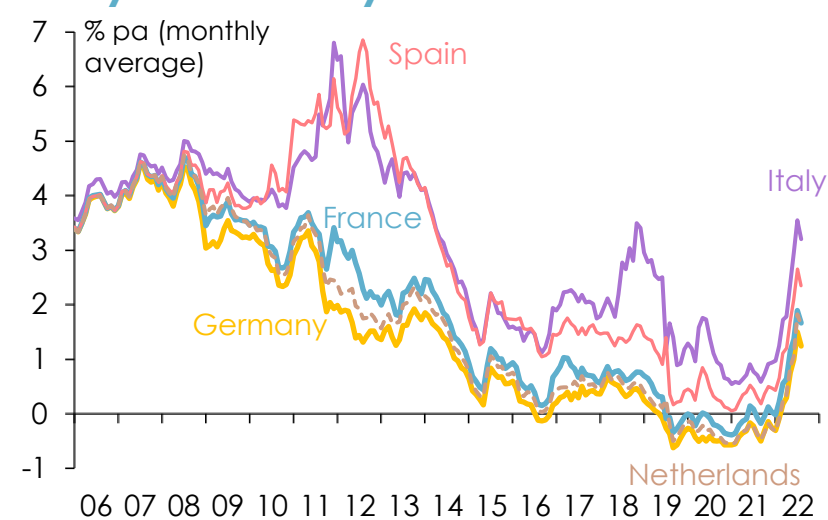
Government net lending



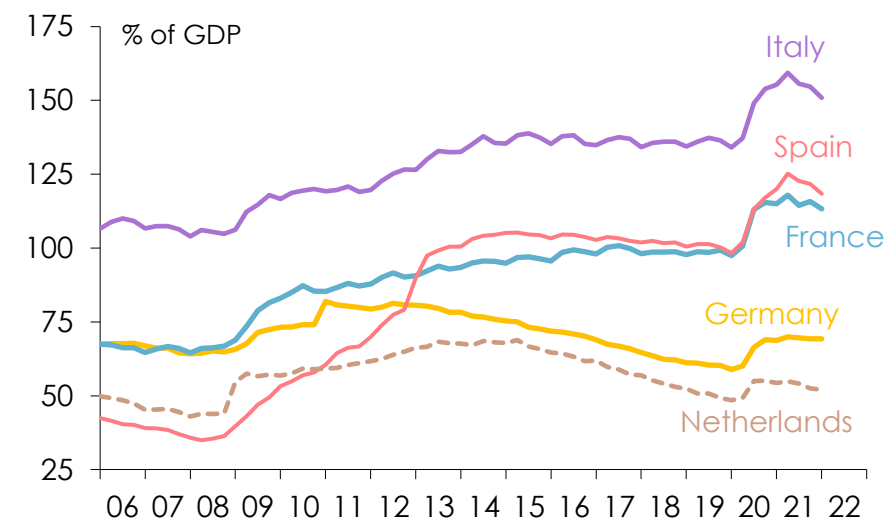
Unemployment



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 – 11TH 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 67](#)) 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 month’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

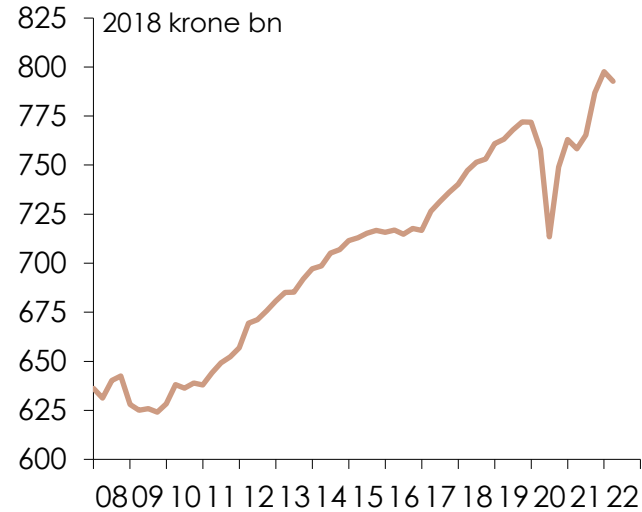
THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

- ❑ 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 month, [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

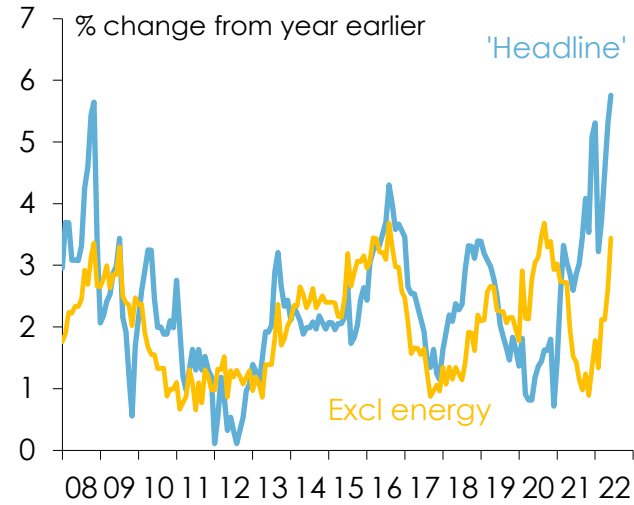
Norges Bank raised its policy rates by 50 bp last month, the fourth and largest increase since August last year

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

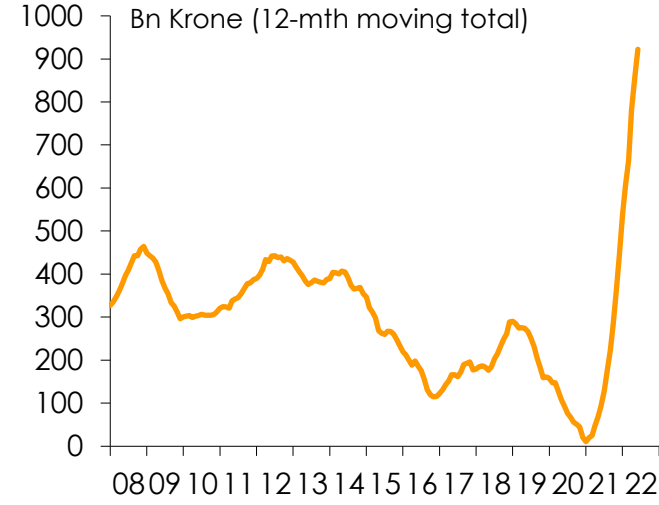
'Mainland' real GDP



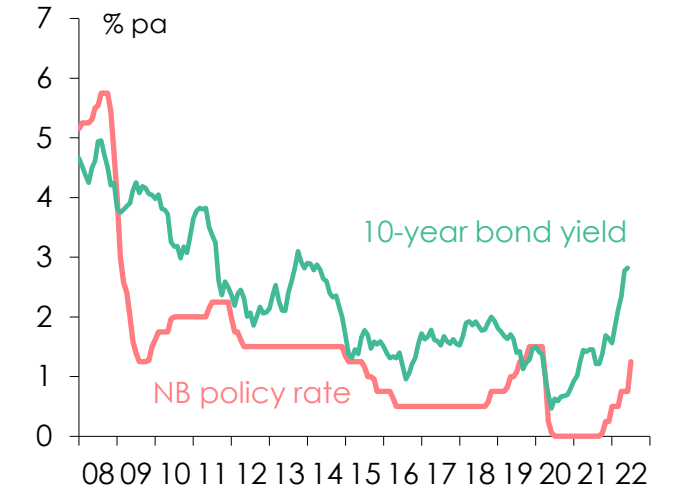
Inflation



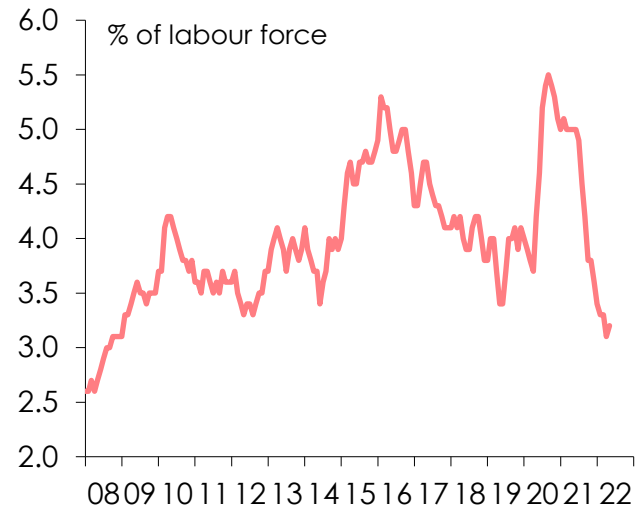
Trade balance



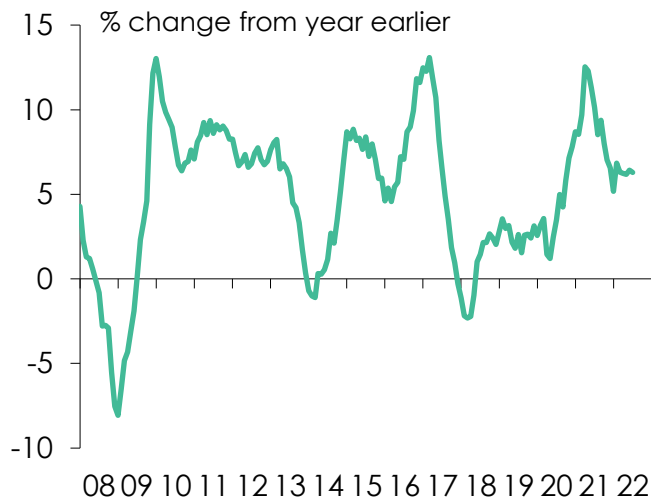
Interest rates



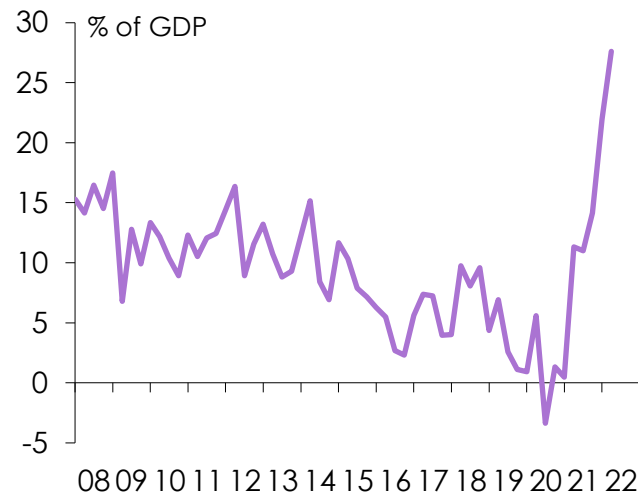
Unemployment



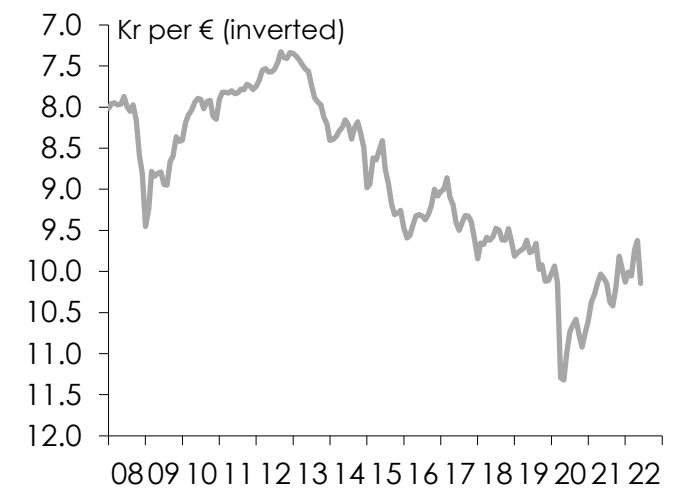
House prices



Current account balance



Krone vs euro

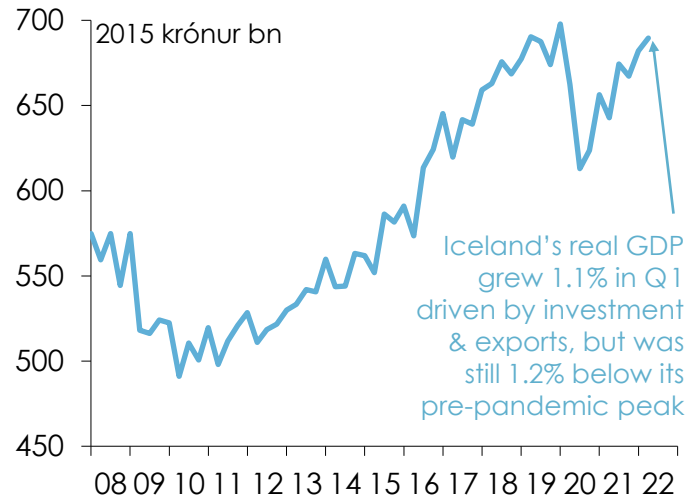


Note: 'mainland' GDP means excluding Norway's oil and gas industry which is entirely located offshore. Sources: [Statistisk sentralbyrå](#); [Norges Bank](#); Refinitiv Datastream.
[Return to "What's New"](#).

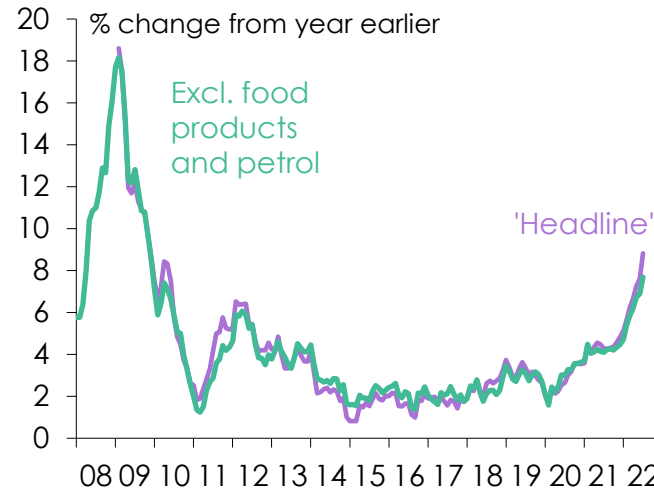
Iceland's central bank raised its policy interest rates by another 100bp last month, and foreshadowed further tightening in coming months

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

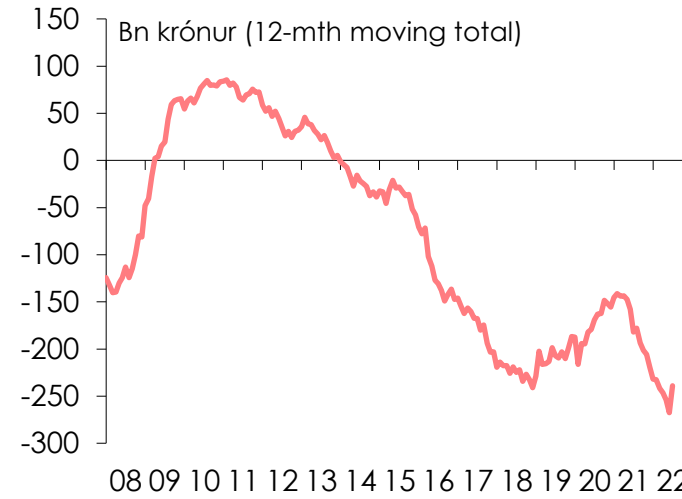
Real GDP



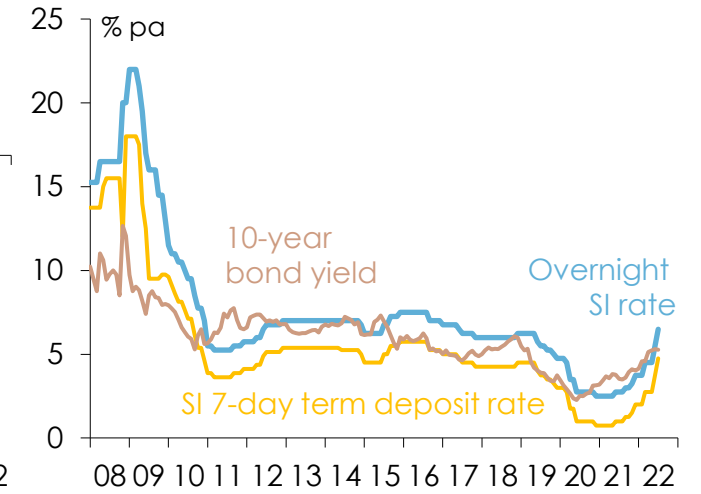
Inflation



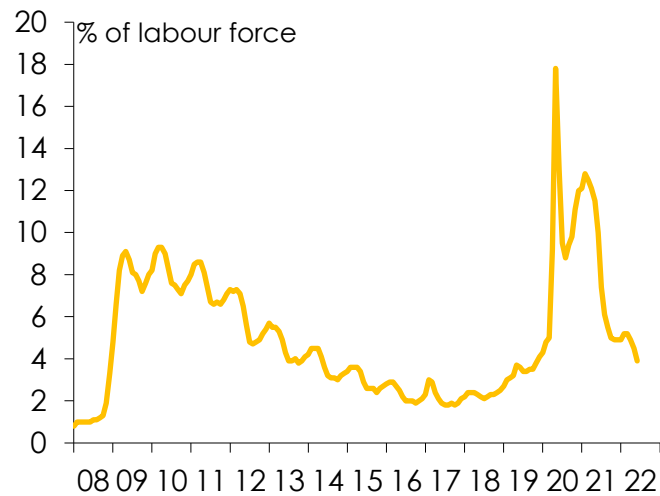
Trade balance



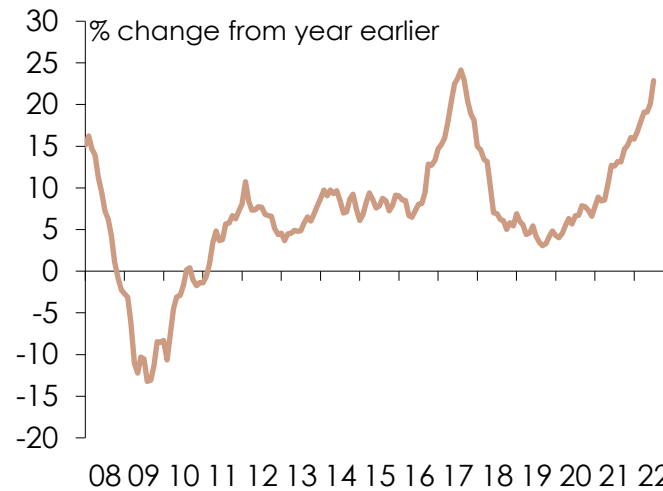
Interest rates



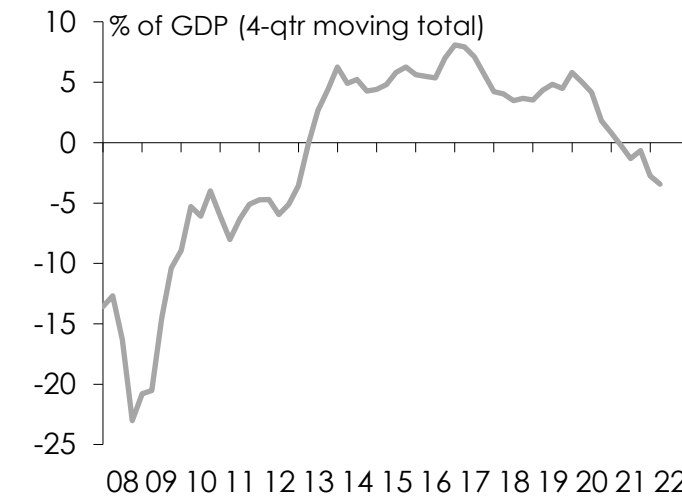
Unemployment



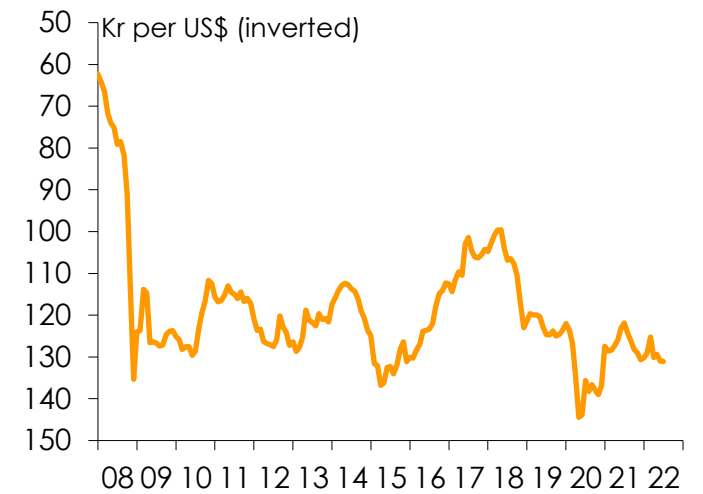
House prices



Current account balance



Króna vs US dollar

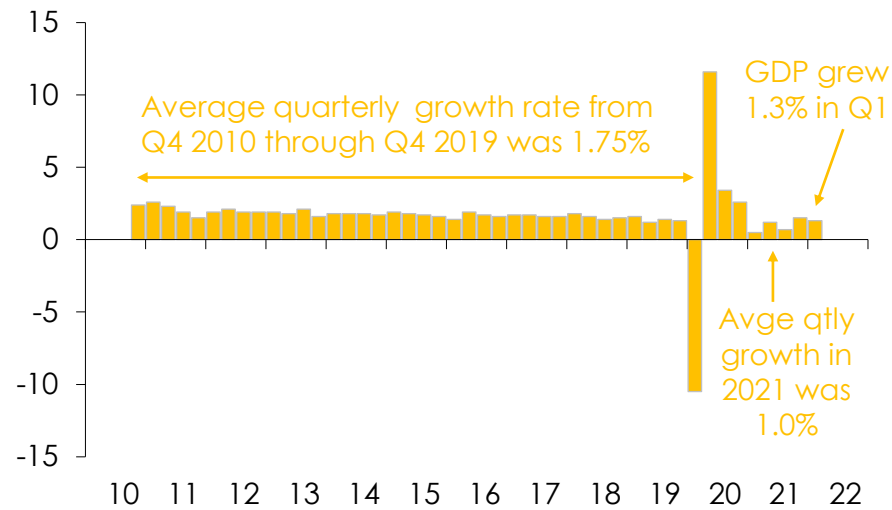


China

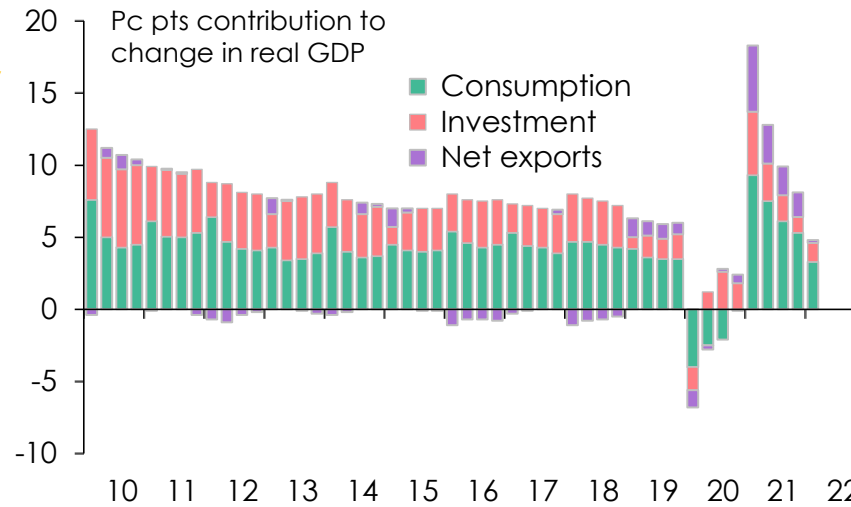
China's urban unemployment rate fell 0.2 pc pts in May to 5.9%, after rising 1.2 pc pts between October and April when it peaked at 6.1%

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

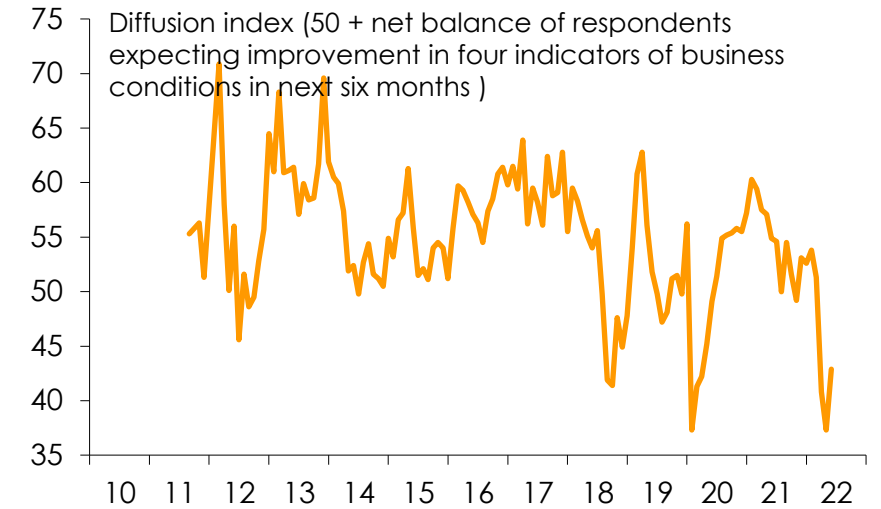
Quarterly real GDP growth



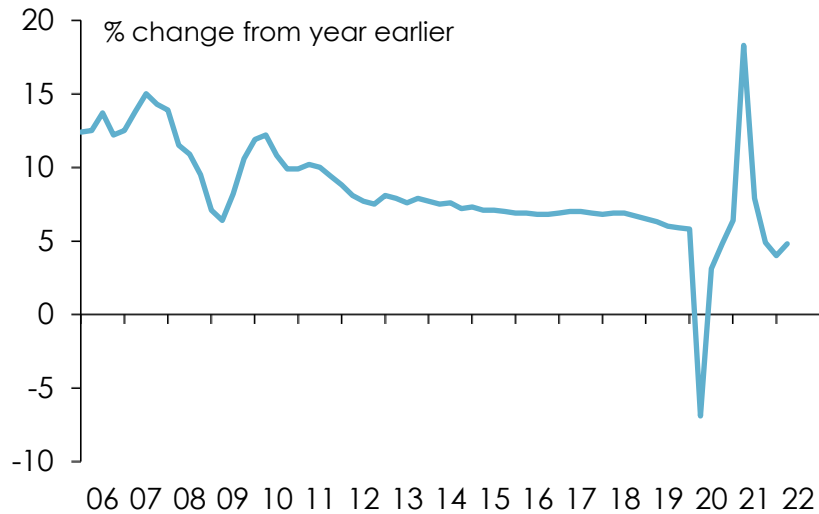
Contributions to real GDP growth



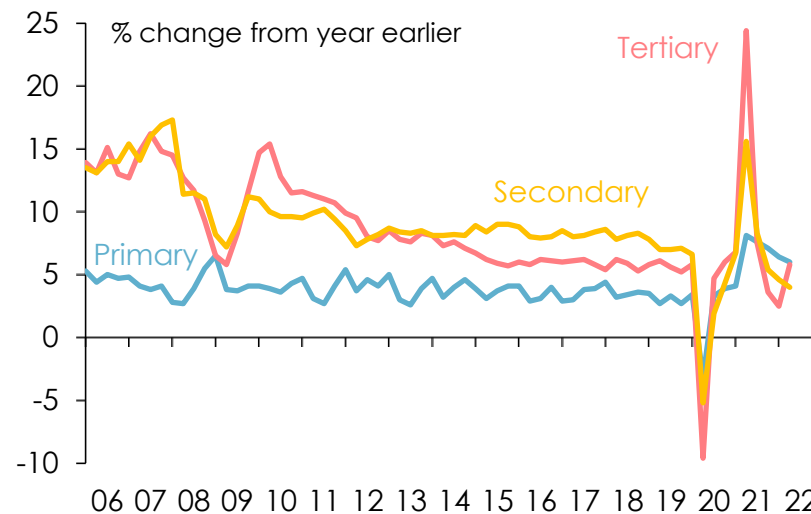
CKGSB business conditions index



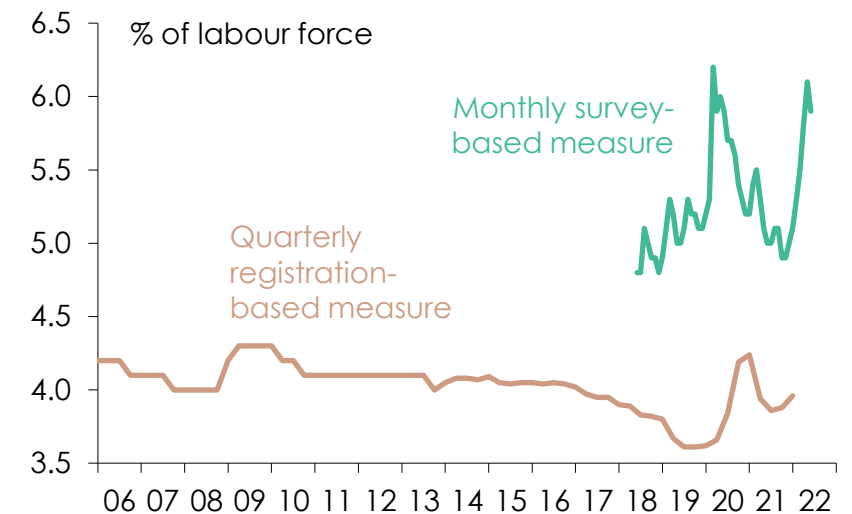
Annual real GDP growth



Annual GDP growth by industry



Urban unemployment rate

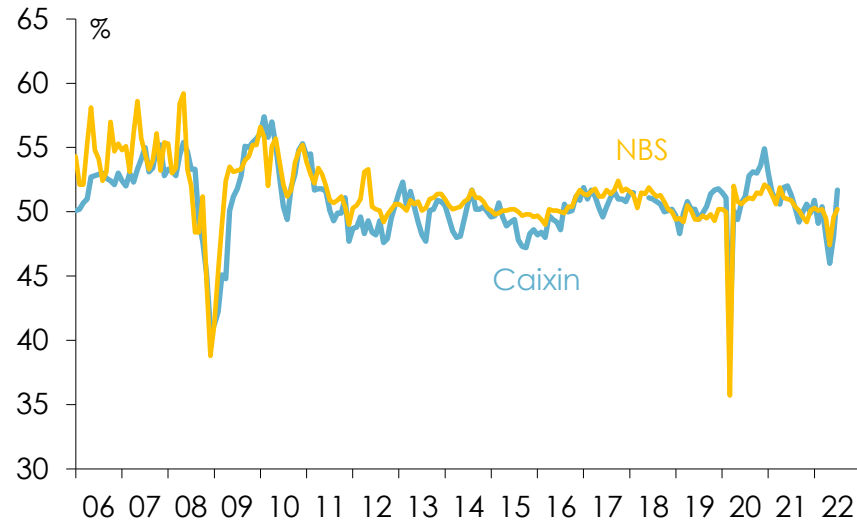


Sources: China National Bureau of Statistics, [National Data - National Accounts](#) and [The Urban Surveyed Unemployment Rate](#); Cheung Kong Graduate School of Business, [Business Conditions Index \(BCI\)](#). Before the monthly unemployment survey was introduced in 2018, the quarterly measure was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

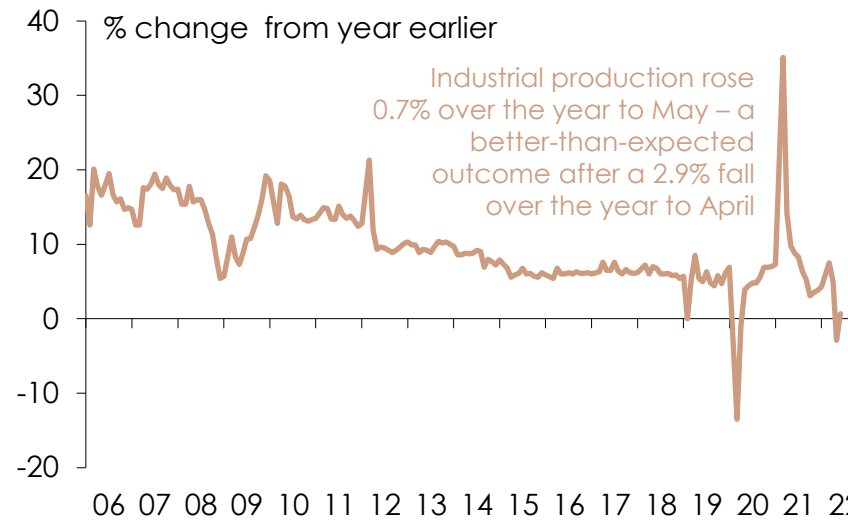
'Official' and 'unofficial' PMIs suggest that manufacturing and especially services sector activity rebounded strongly in June as lockdowns eased

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

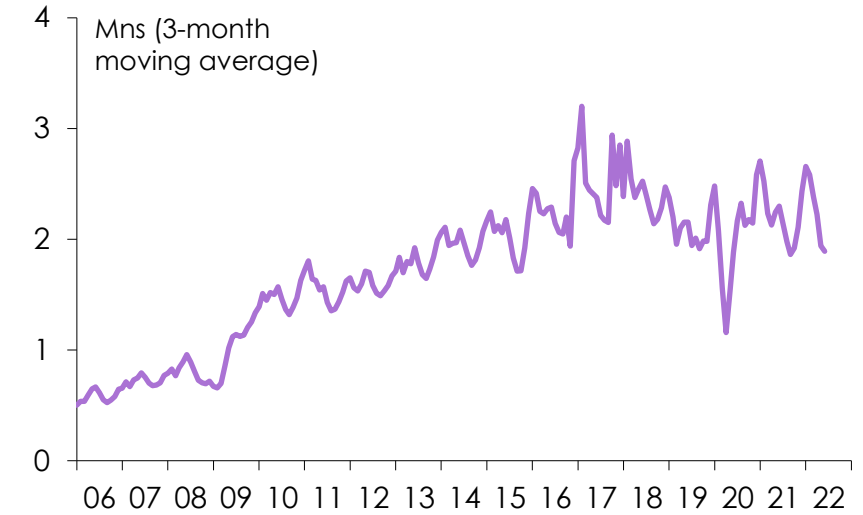
Manufacturing PMIs



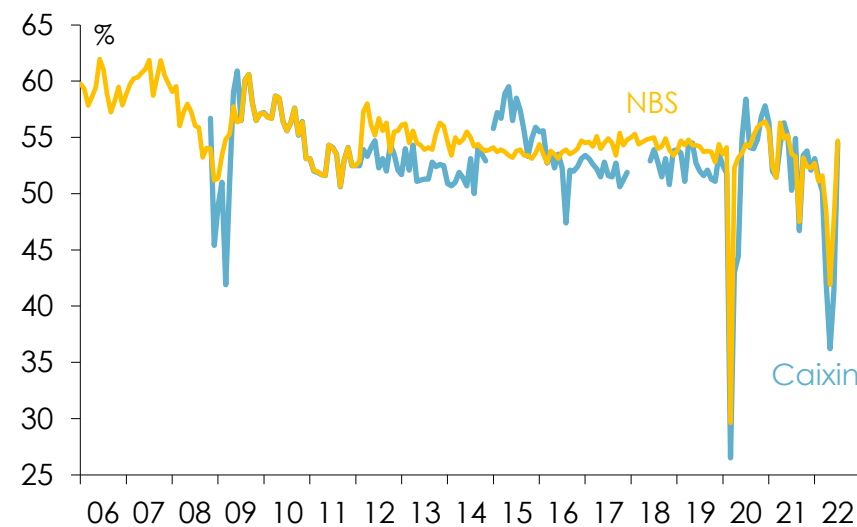
Industrial production



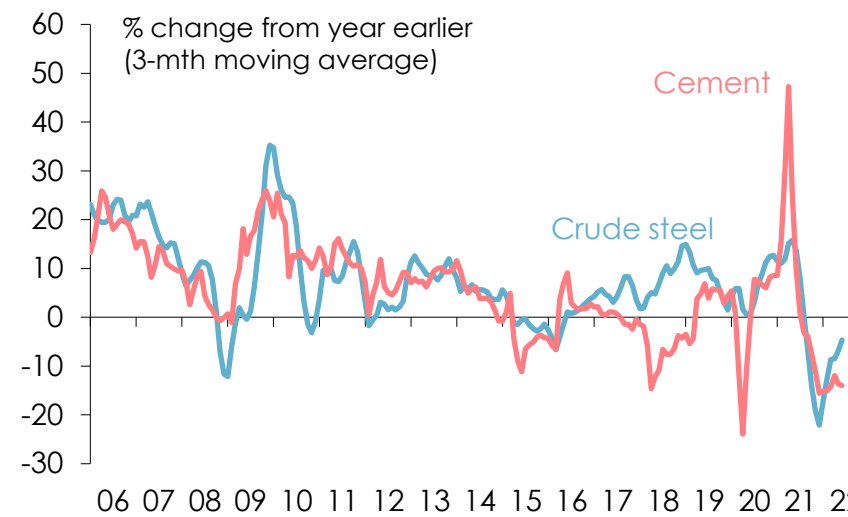
Motor vehicle production



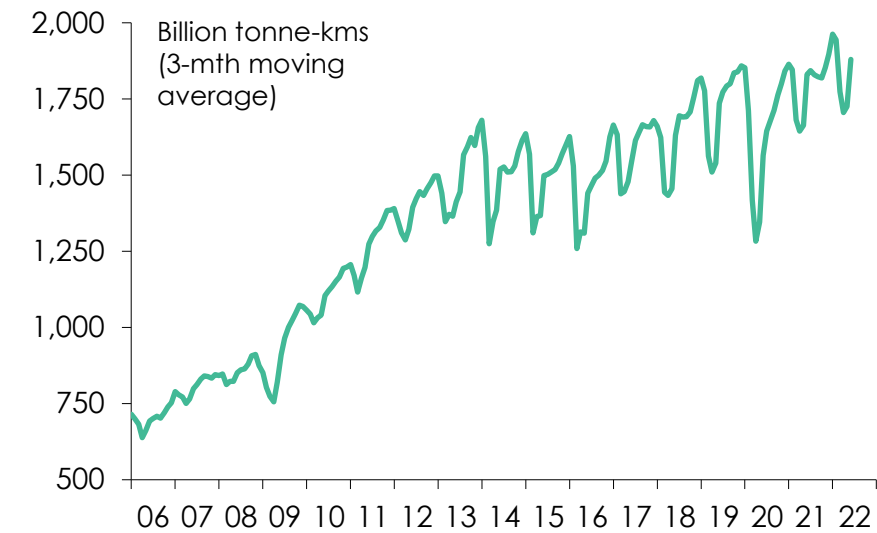
Non-manufacturing PMIs



Steel and cement production



Freight traffic volumes

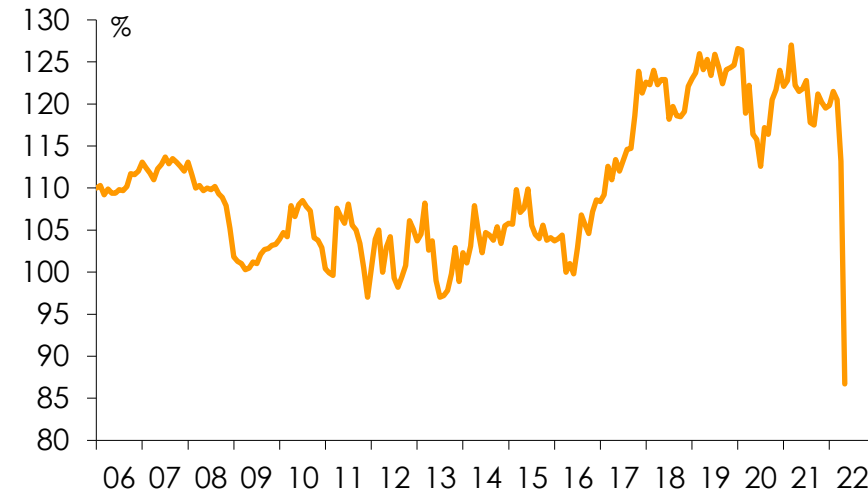


Note: The Caixin ('unofficial') PMIs are derived from a survey of around 500, mostly small private, enterprises, while the 'official' NBS PMIs are derived from a survey of about 3,000, mostly state-owned, enterprises: for more detail see [here](#). Sources: China National Bureau of Statistics, [National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

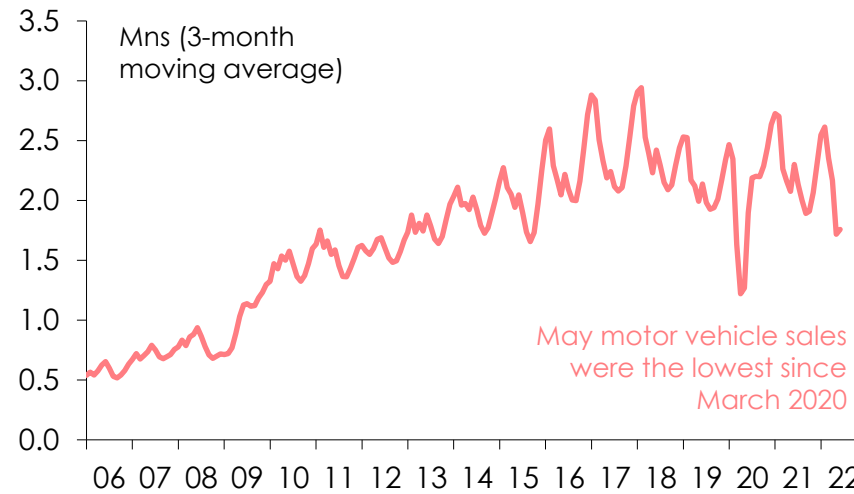
However indicators of consumer demand, and of property construction activity, remained weak in May – June data are out this Friday

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

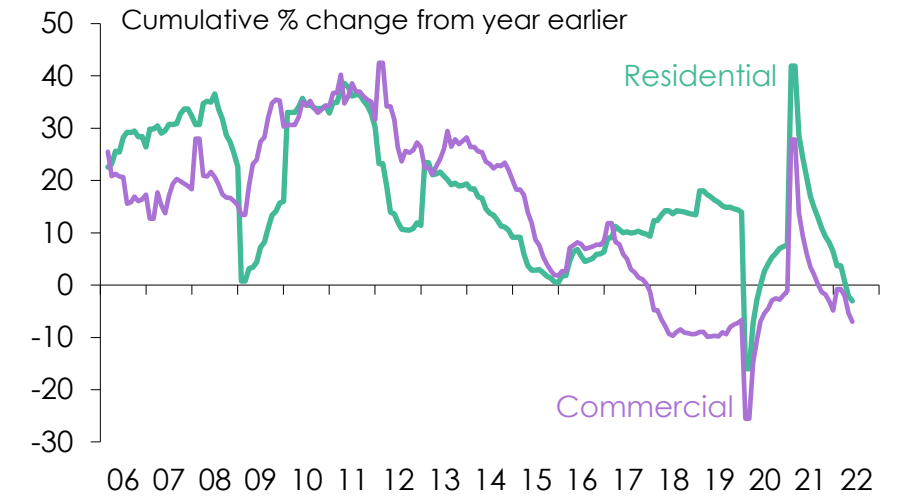
Consumer sentiment



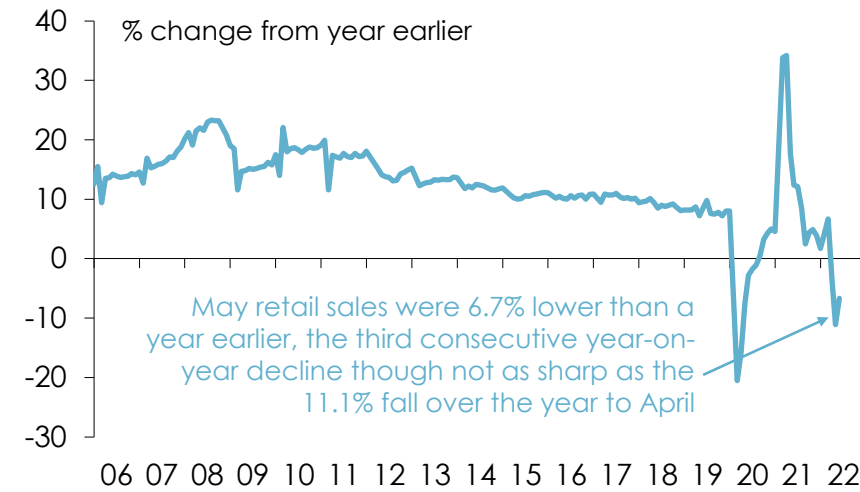
Motor vehicle sales



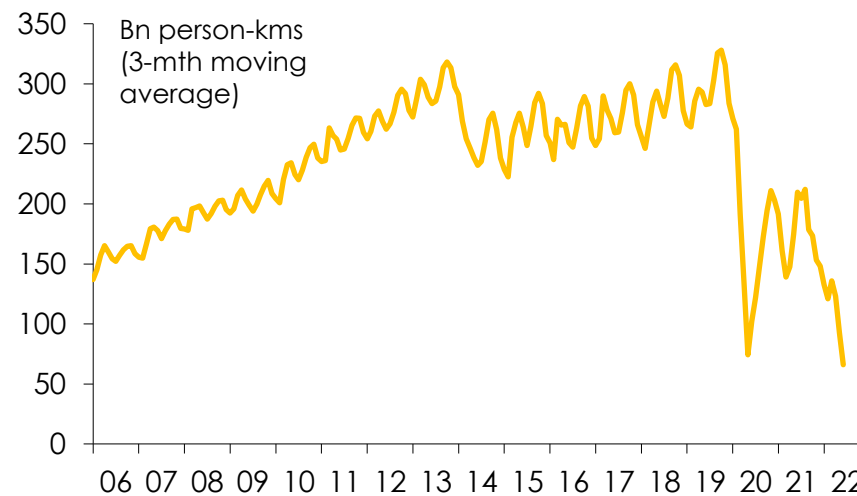
Real estate investment



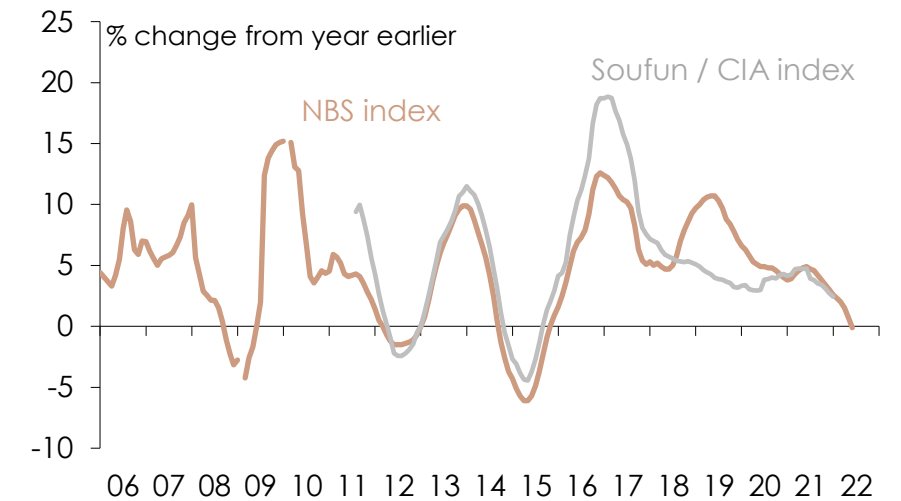
Retail sales



Passenger traffic volumes



Residential real estate prices

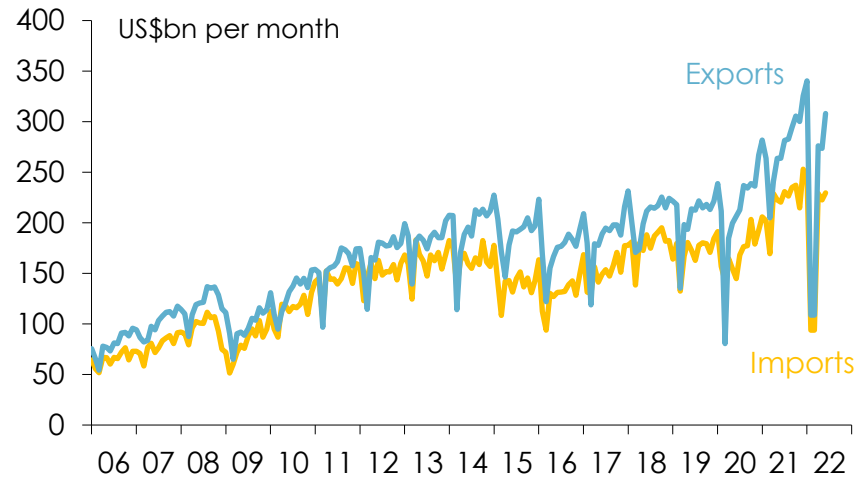


Sources: China National Bureau of Statistics, [National Data](#); China Association of Automobile Manufacturers, [Sales of Automobiles](#); China Index Academy, [CREIS China Residential HPI-100 Monthly](#) (not published since December last year). [Return to "What's New"](#).

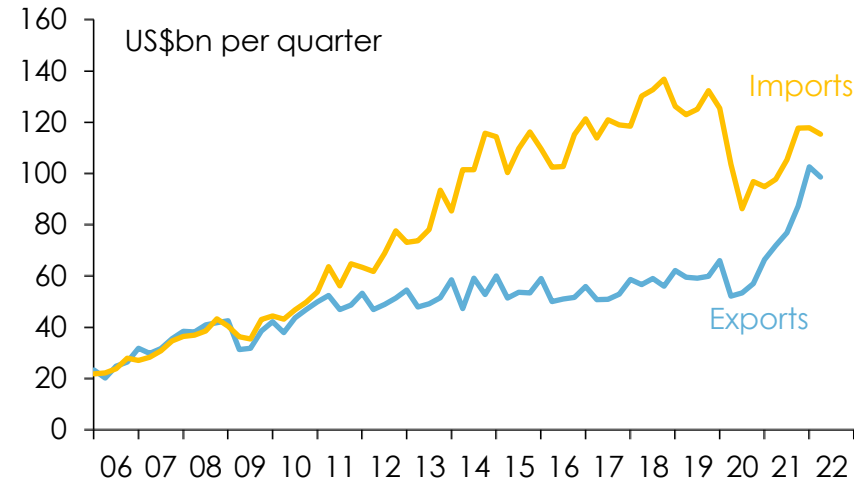
China's trade surplus widened to US\$78.7bn in May, the largest so far this year, as exports recovered more than imports as restrictions eased

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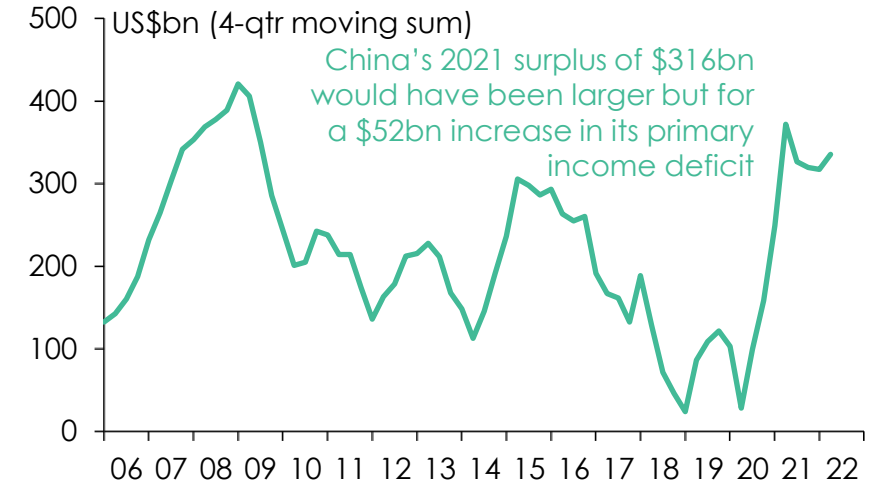
Merchandise exports and imports



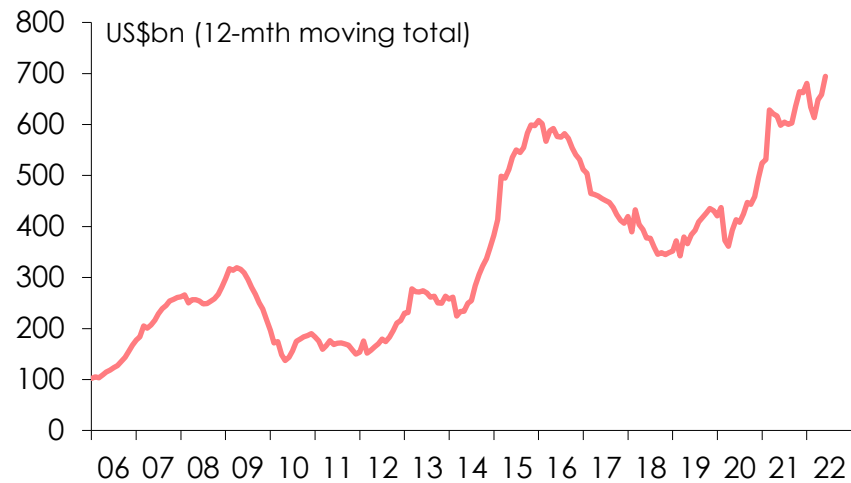
Services exports and imports



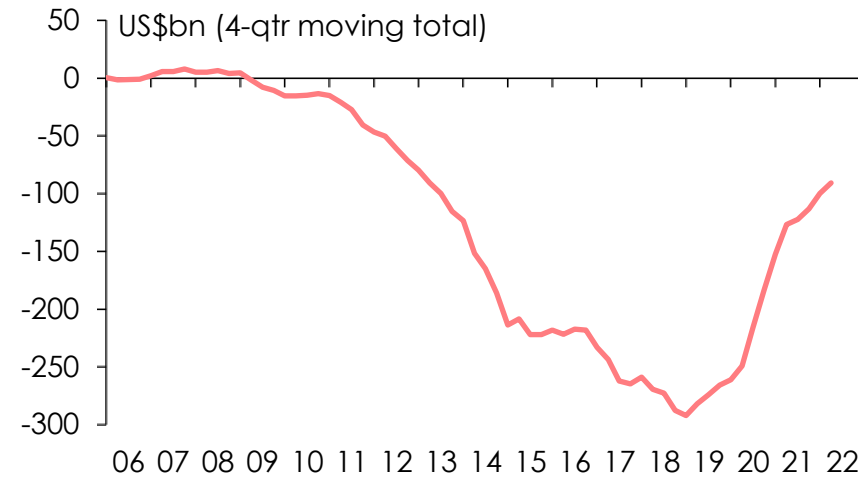
Current account balance



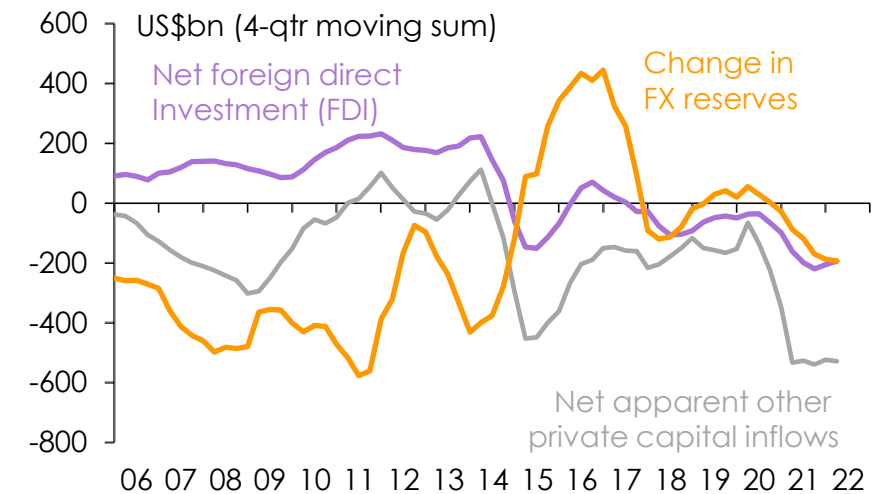
Merchandise trade balance



Services trade balance



Capital flows

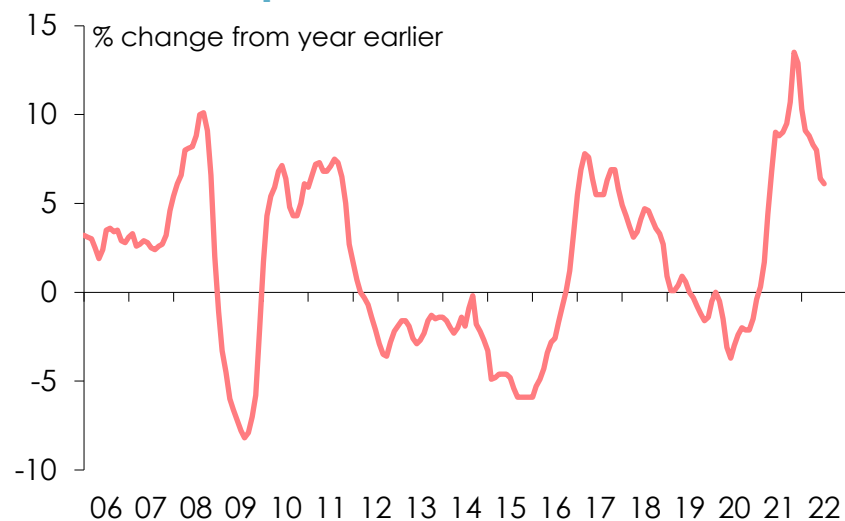


Sources: China General Administration of Customs, [Preliminary Release](#) and [Monthly Bulletin](#); State Administration of Foreign Exchange, [The time-series data of Balance of Payments of China](#). [Return to "What's New"](#).

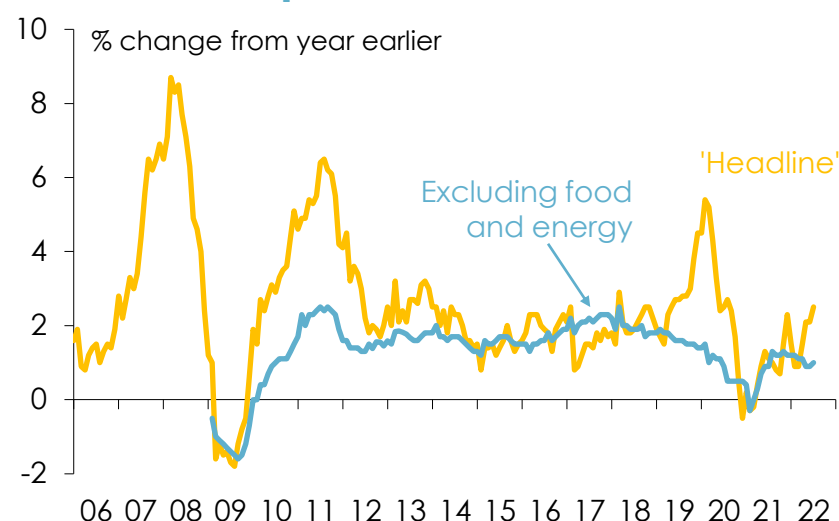
'Headline' CPI inflation rose further in June to 2.5%, the highest since April 2020, driven by food prices, though 'core' inflation was only 1.0%

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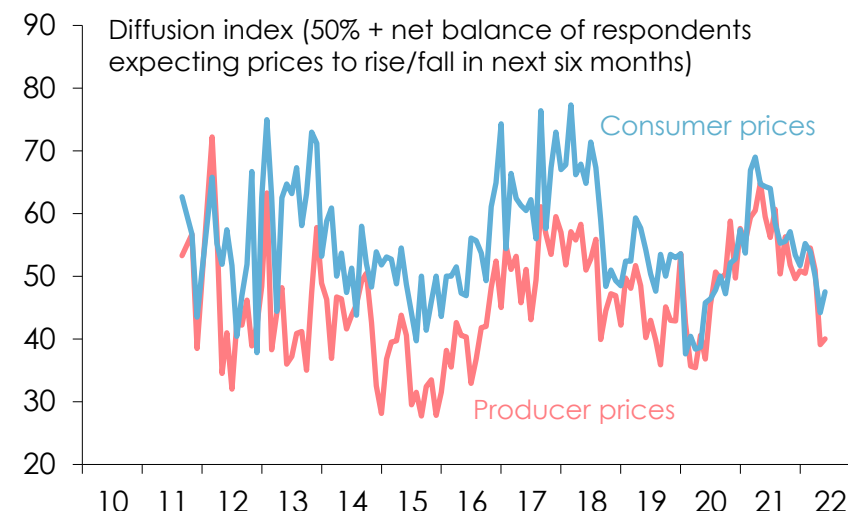
Producer prices



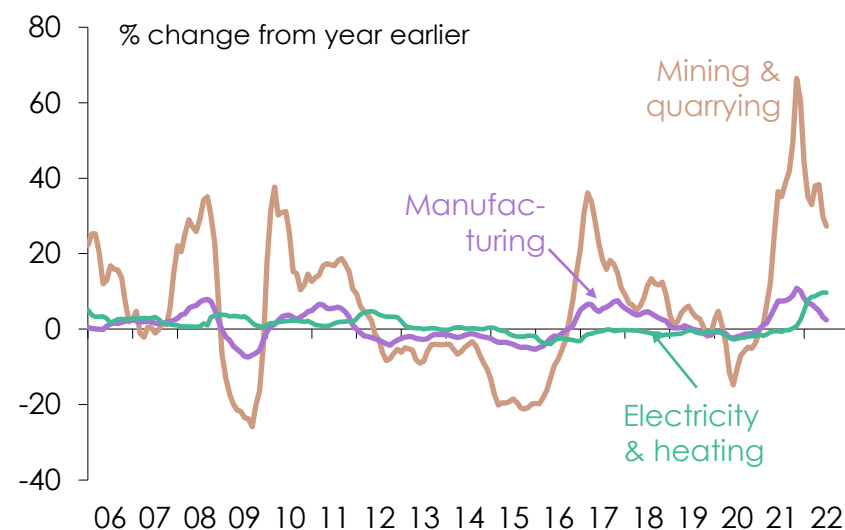
Consumer prices



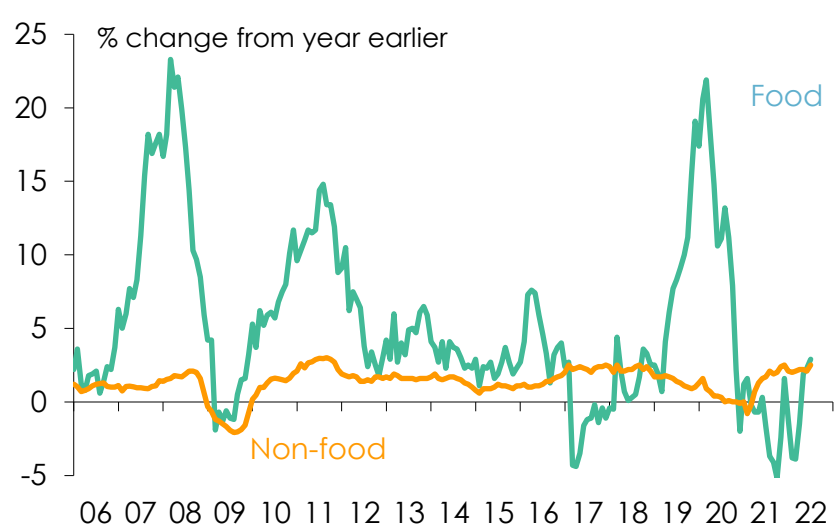
CKGSB price diffusion indexes



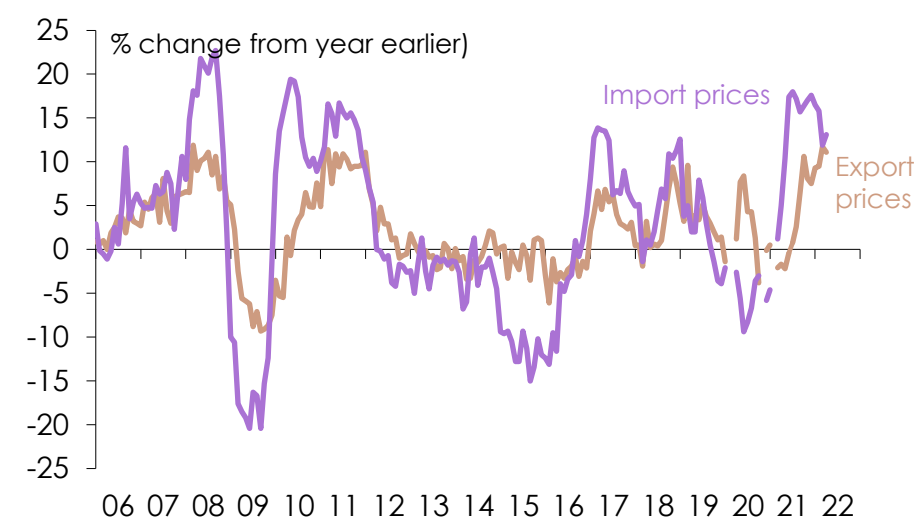
Producer prices – major categories



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".

Reports last week suggest that China is mulling new ways of speeding up infrastructure spending

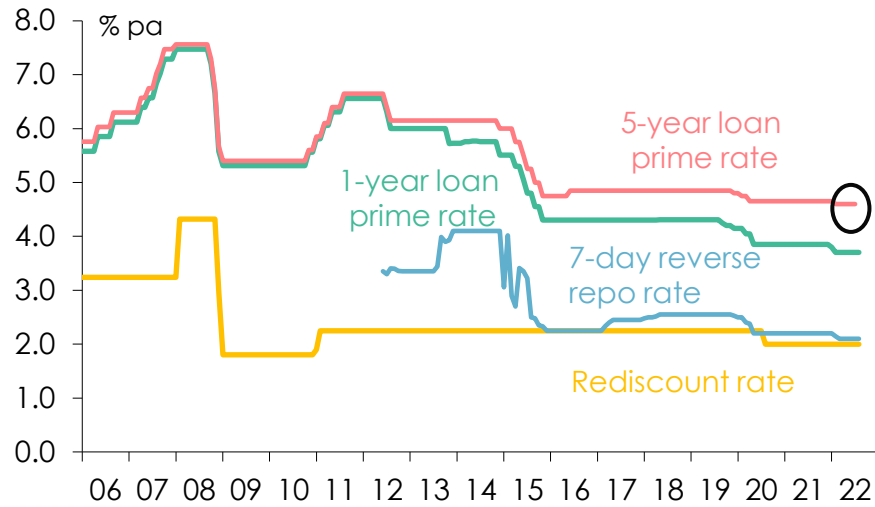
THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

- ❑ Reports emanating from Beijing and Hong Kong last week suggested that Chinese authorities had approved the establishment of a [state infrastructure investment fund](#) worth Yn 500bn (about 0.4% of GDP), and were considering allowing local governments to [bring forward up to Yn 1.5 trn](#) (about 1.2% of GDP) in ‘special bonds’ from next year’s authorized ‘borrowing quota’, in order to speed up proposed infrastructure spending
 - local governments reportedly issued Yn 1.9 trn of bonds in June, using up almost all of the Yn 3.6 trillion quota approved for 2021
 - local government finances are under greater pressure because of falling revenue from land sales, which have traditionally been a major source of revenue
- ❑ In late May, the State Council approved, [33 measures](#) in a ‘Policy Package to Stabilize the Economy’ which had been agreed at a nationwide ‘virtual’ conference of senior officials
 - 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
- ❑ While there’s been a lot of talk about fiscal policy measures to improve the chances of meeting the 5½% GDP growth target for 2022 set earlier this year, there’s been very little movement from monetary policy
 - the last measure was a 5bp reduction in prime loan rates on 9th May
 - the [press release](#) issued after the PBoC’s quarterly Monetary Policy Committee meeting on 24th June merely committed the PBoC to “follow the requirements of ‘containing the pandemic, stabilizing the economy, and maintaining sound development’ ... plac[ing] the utmost priority on stability and pursue progress while ensuring stability”

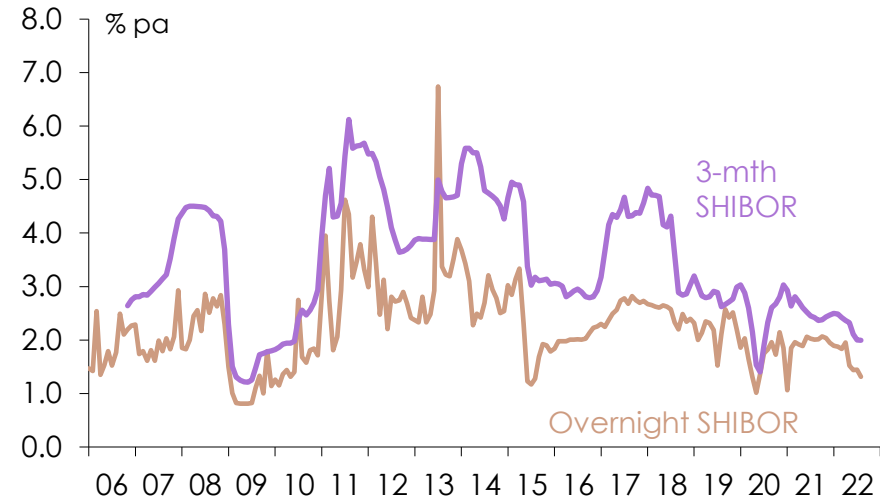
The PBoC lowered the 5-year prime loan rate by 15bp to 4.45% on 27th May but left the 1-year rate unchanged

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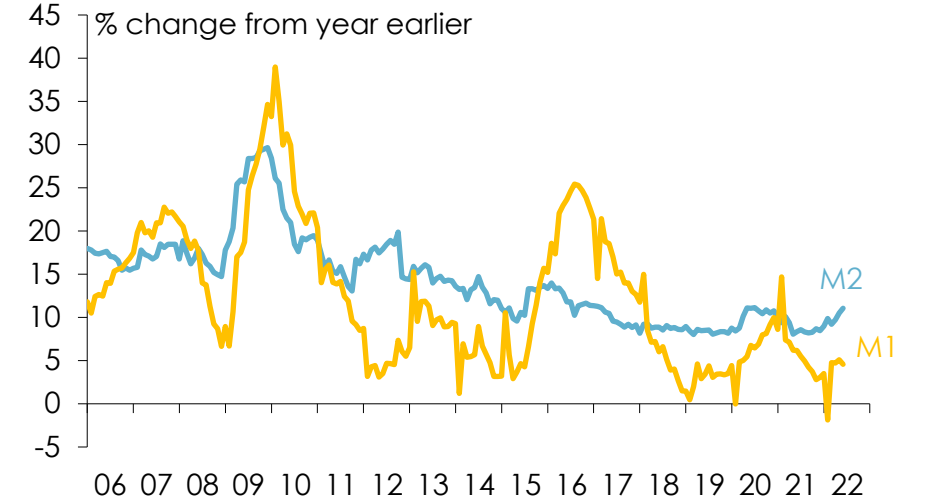
PBoC policy interest rates



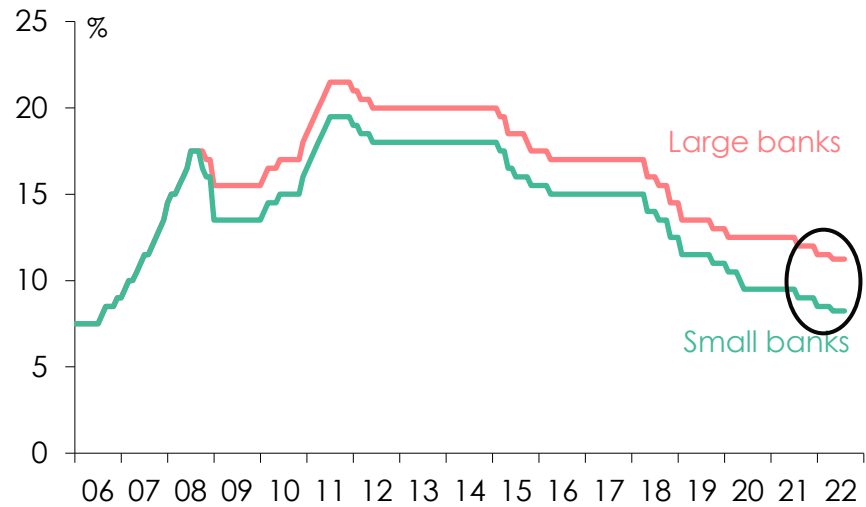
Short-term market interest rates



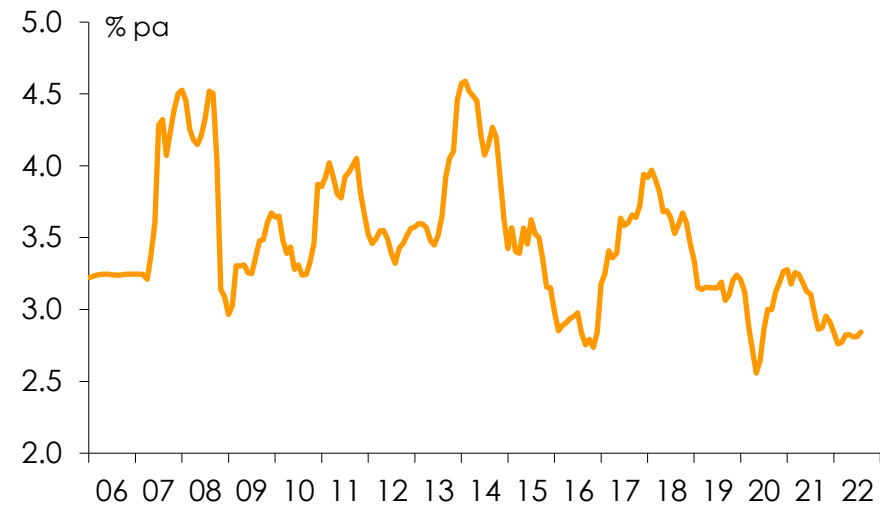
Monetary aggregates



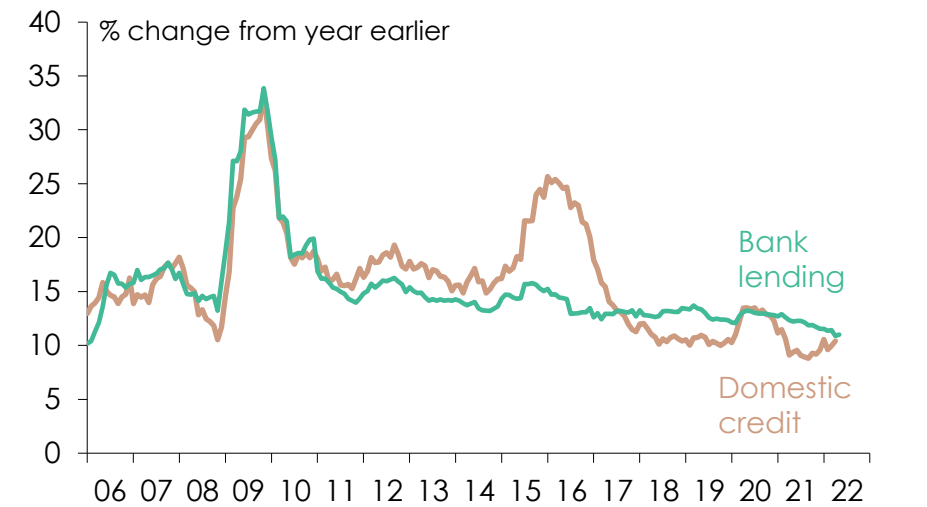
Bank reserve requirement ratios



10-year government bond yield



Credit growth

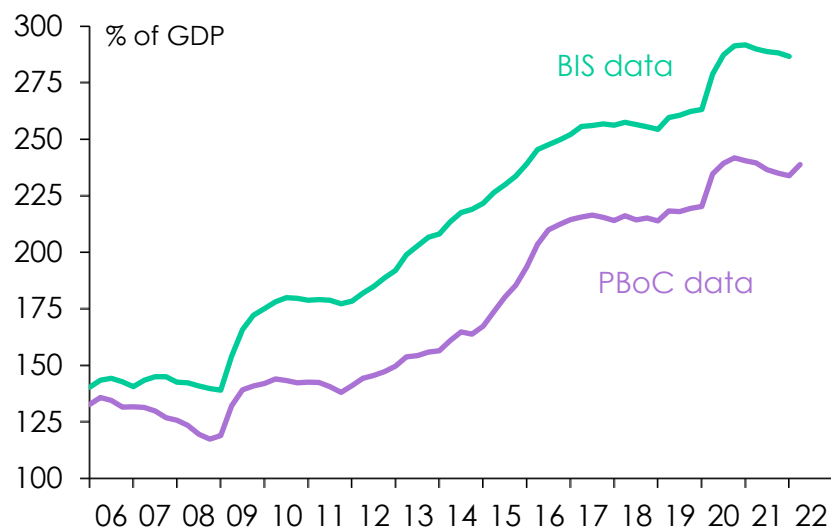


Note: 'SHIBOR' is the Shanghai Inter-Bank Offered Rate. Sources: Refintiv Datastream; People's Bank of China, [Financial Statistics Reports](#) and [Aggregate Financing Reports](#). [Return to "What's New"](#).

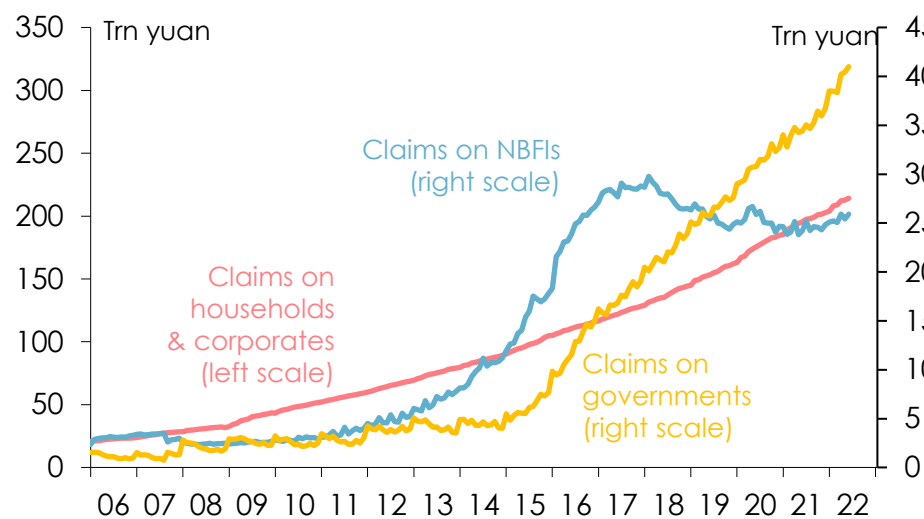
The Chinese banking system's risk profile has increased significantly over the past decade – particularly on the liabilities side of its balance sheet

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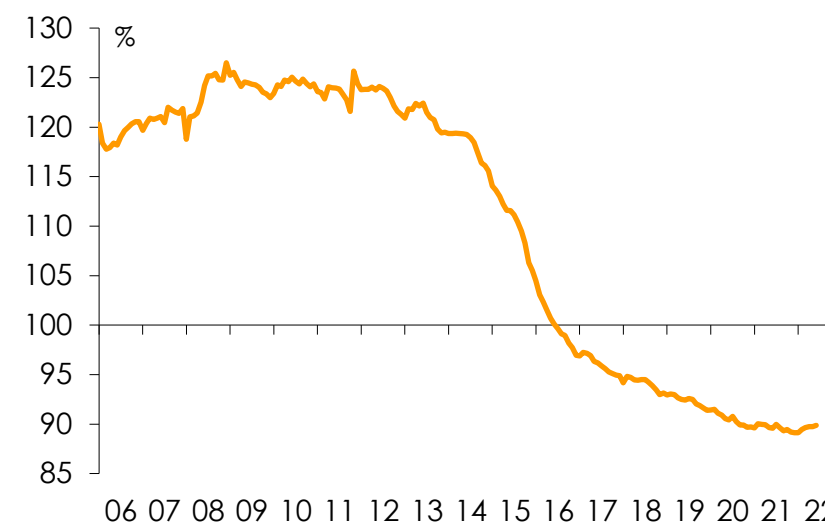
Credit outstanding as a pc of GDP



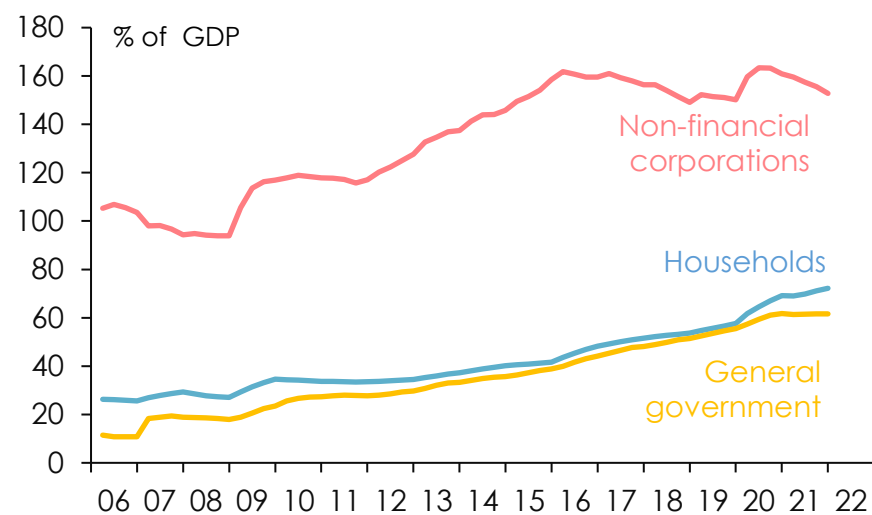
Banks' assets



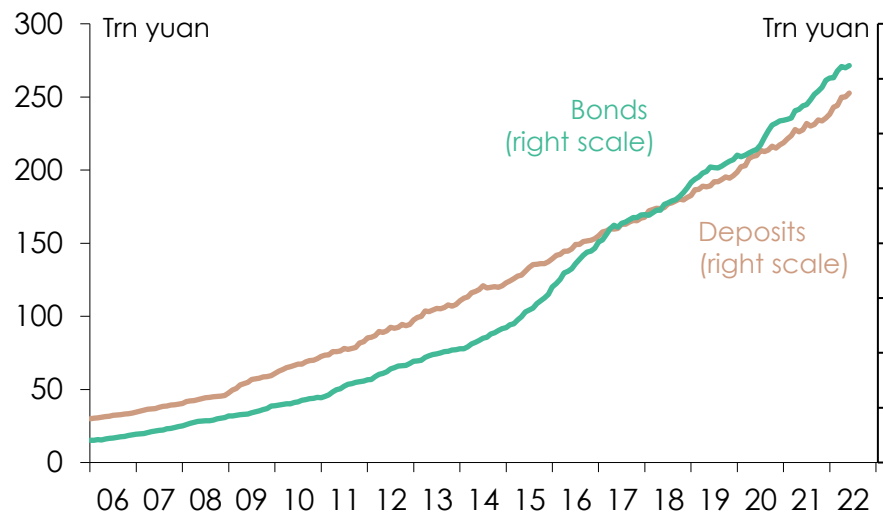
Banks' deposits-to-loans ratio



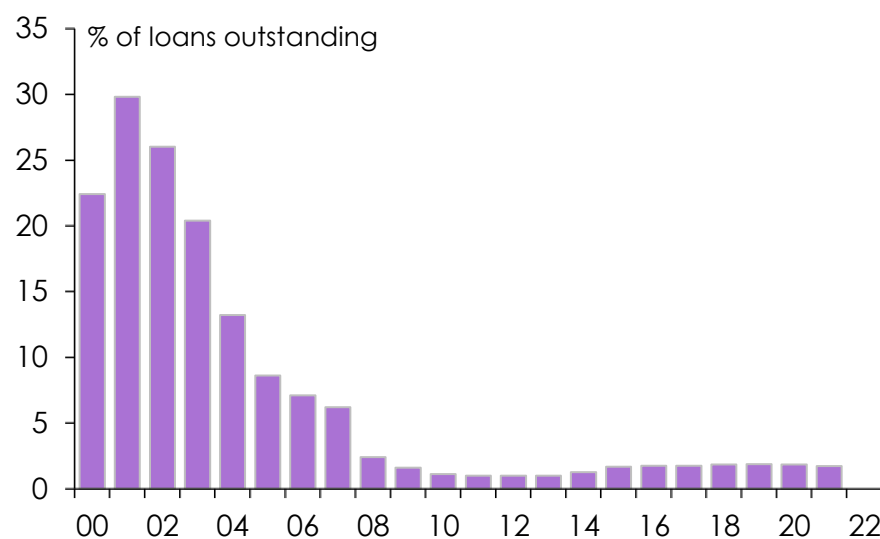
Credit outstanding by sector



Banks' liabilities



Banks NPLs – official estimates

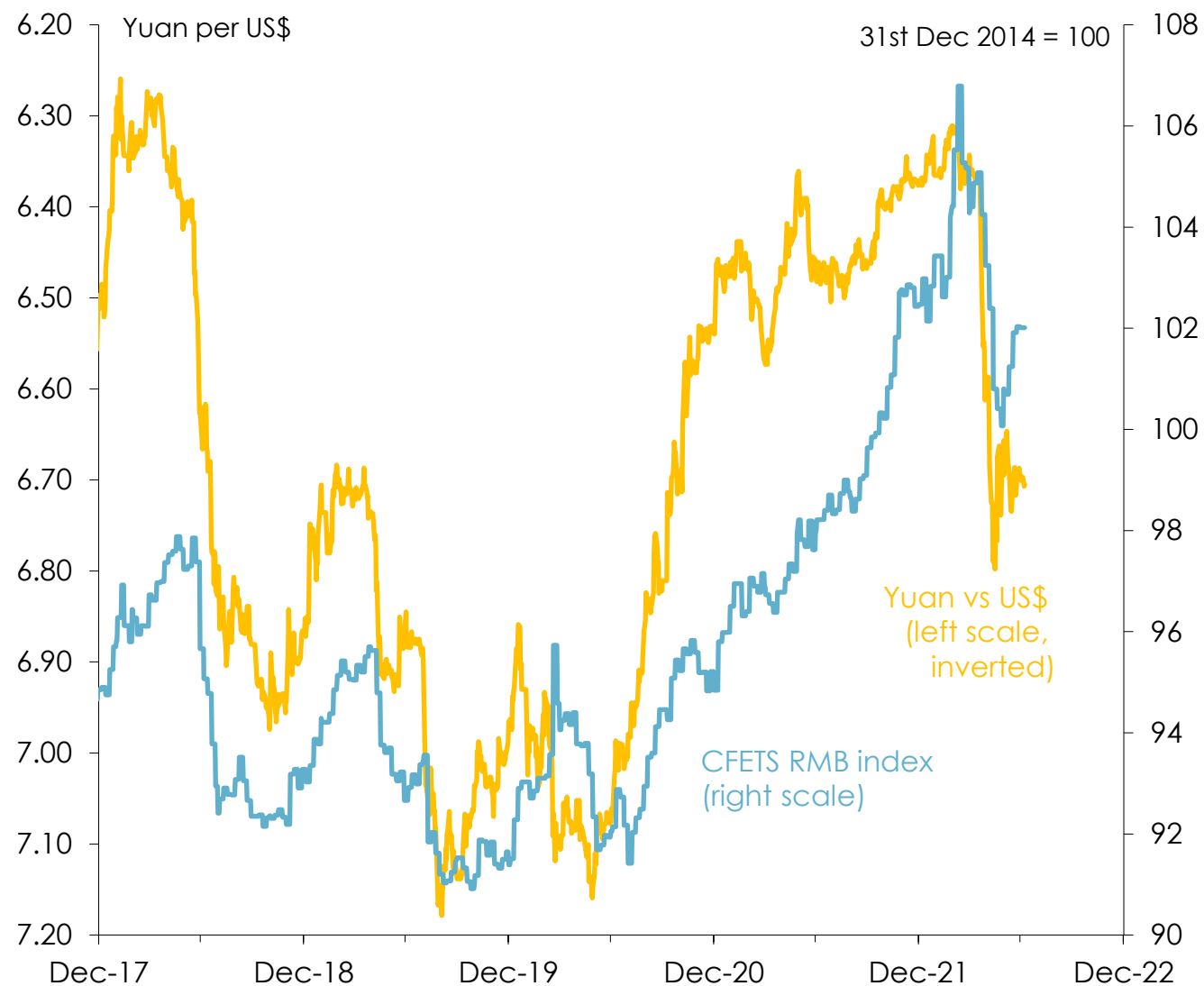


Sources: People's Bank of China, [Financial Statistics Reports](#); Bank for International Settlements, [Credit to the non-financial sector](#); China Banking and Insurance Regulatory Commission, [Supervisory Statistics of the Banking and Insurance Sectors](#). [Return to "What's New"](#).

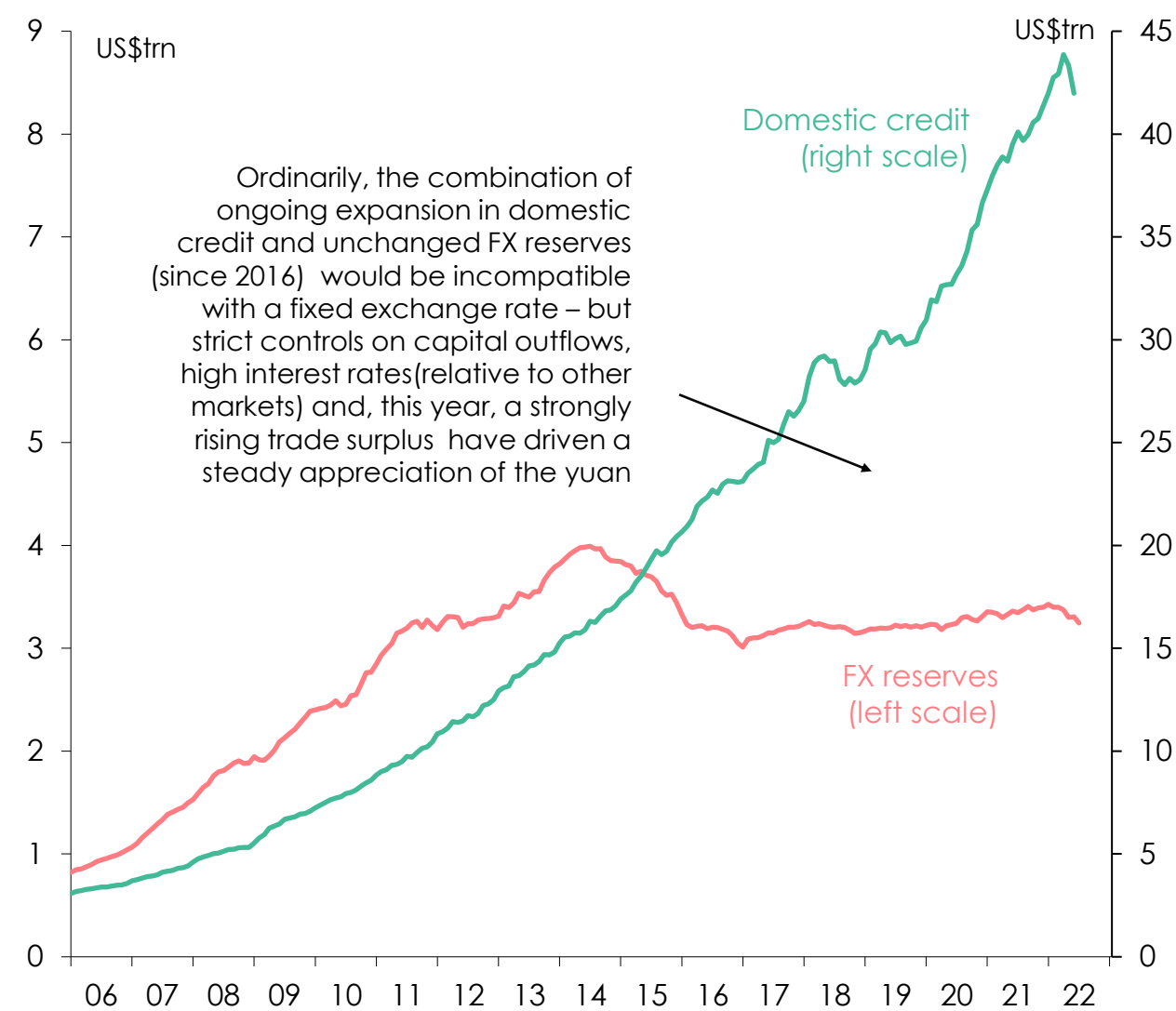
The yuan fell marginally against the US\$ last week (to be down 5.1% year to date) and was unchanged on the PBoC's index

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Chinese renminbi vs US\$ and trade-weighted index



FX reserves and domestic credit



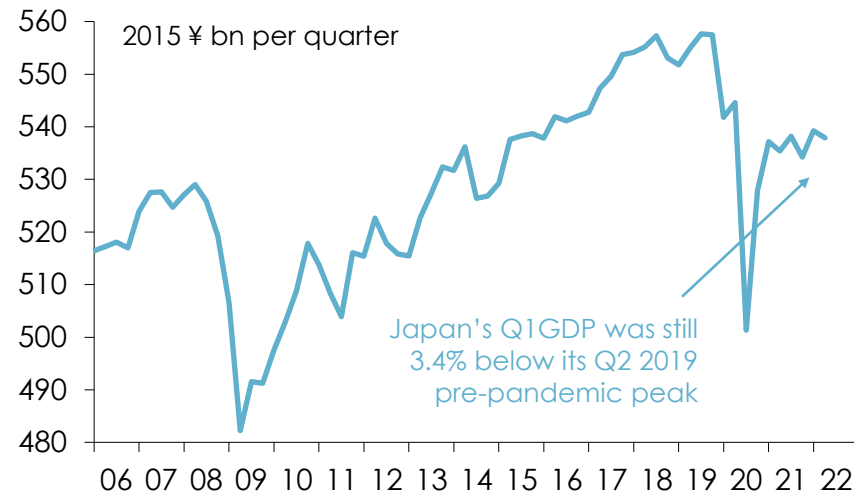
Sources: Refinitiv Datastream; China Foreign Exchange Trading System; People's Bank of China. Exchange rates up to 8th July; FX reserves data up to June, and credit data up to May (note fall in May largely reflects depreciation of yuan vs US\$). [Return to "What's New"](#).

Japan

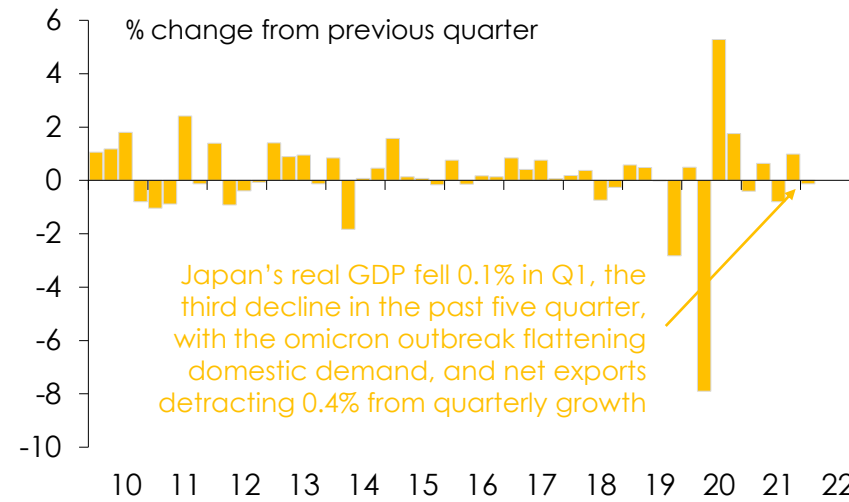
Japan's real GDP fell 0.1% in Q1, the third decline in the past five quarters, to be still 3.4% below its pre-pandemic peak

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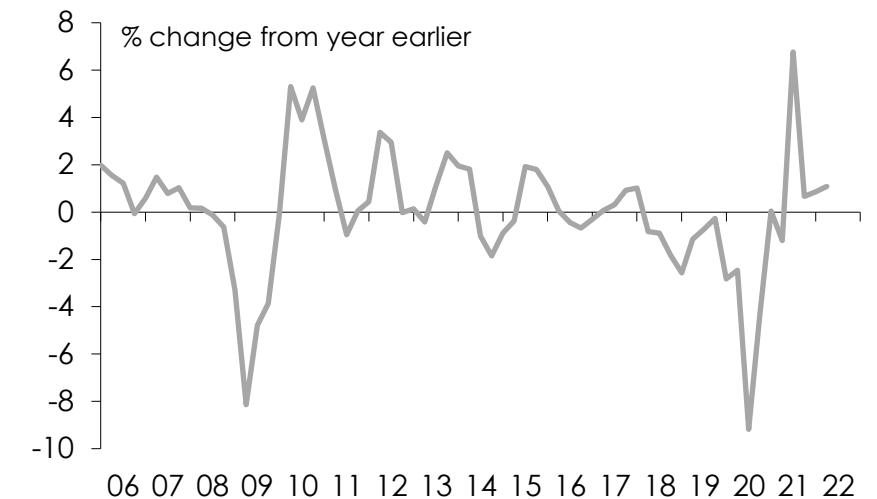
Level of real GDP



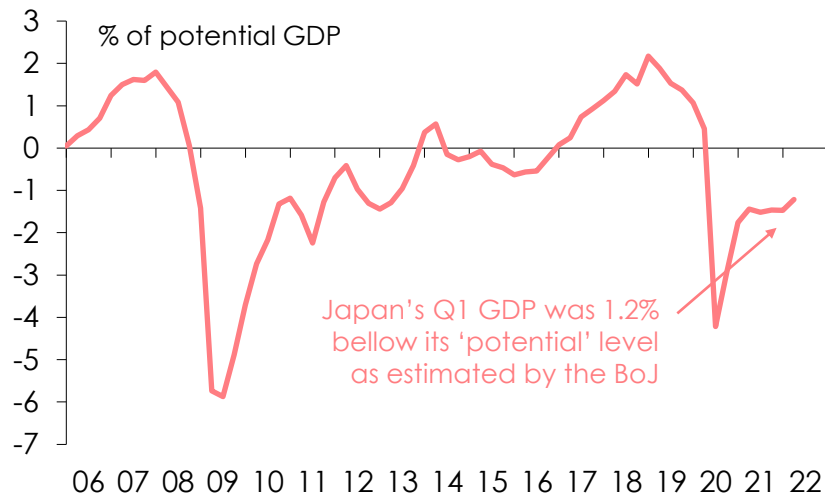
Quarterly change in real GDP



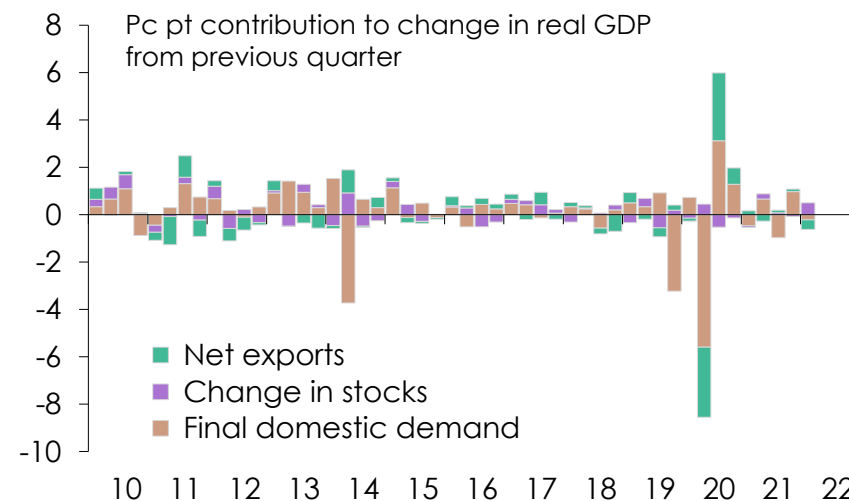
Labour productivity growth



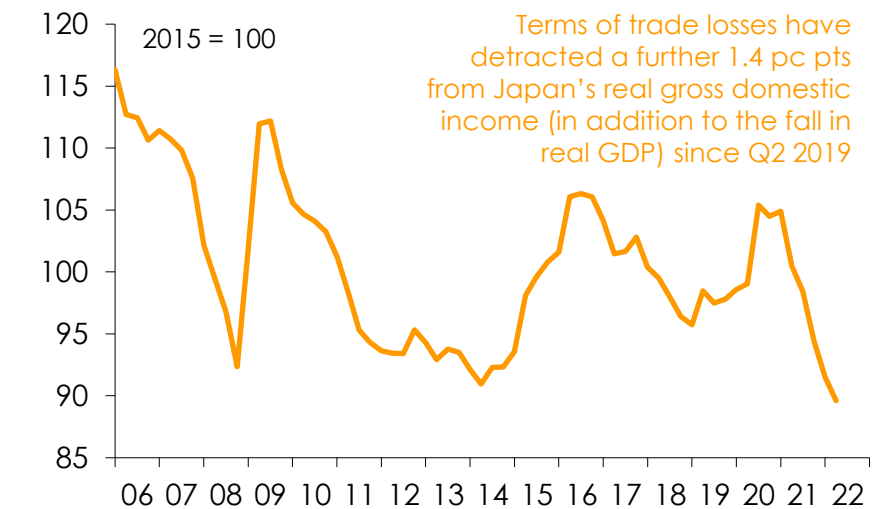
The 'output gap'



Contributions to change in real GDP



Terms of trade

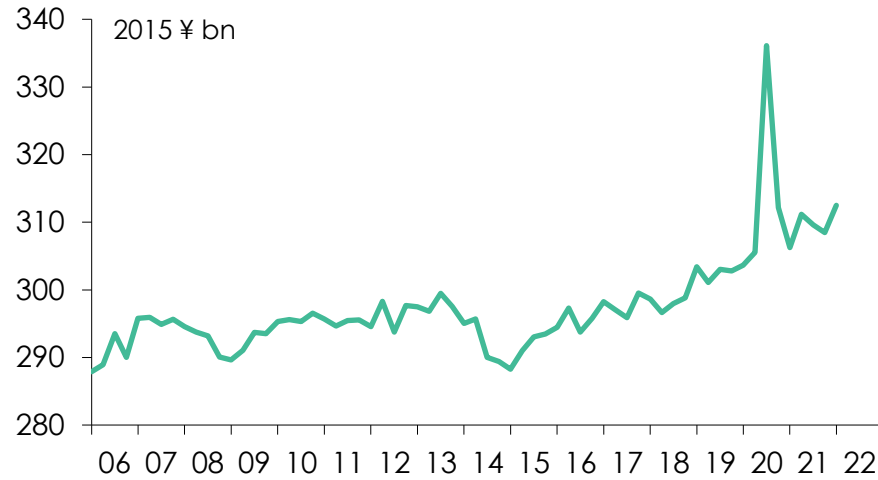


Note: the 'output gap' is the difference between actual and potential GDP (the volume of goods & services that could be produced if the economy were operating at full capacity); the 'terms of trade' is the ratio of the implicit price deflator of exports of goods & services to that of imports of goods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

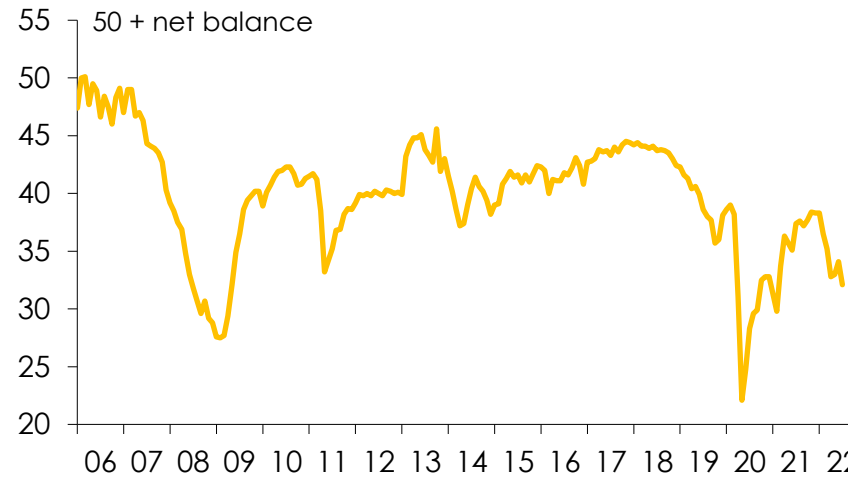
April data provides some tentative evidence of a pick-up in domestic spending as Japan's 'omicron wave' slowly recedes

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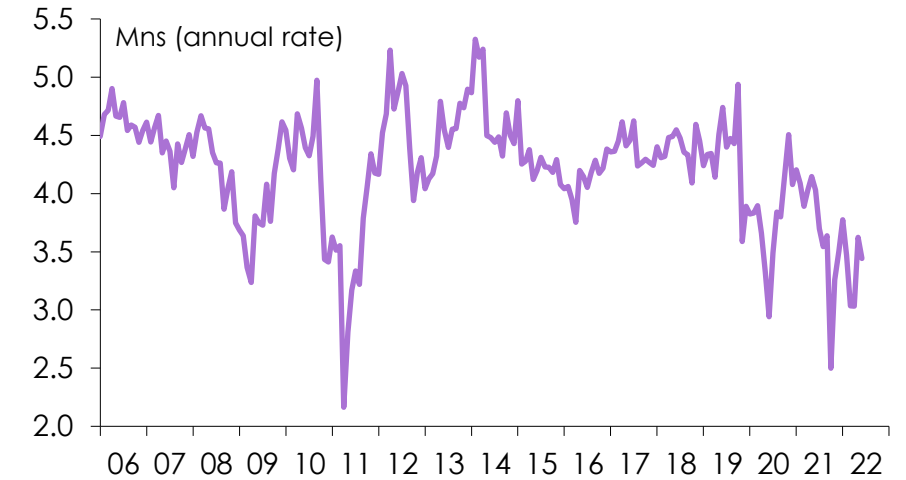
Real household disposable income



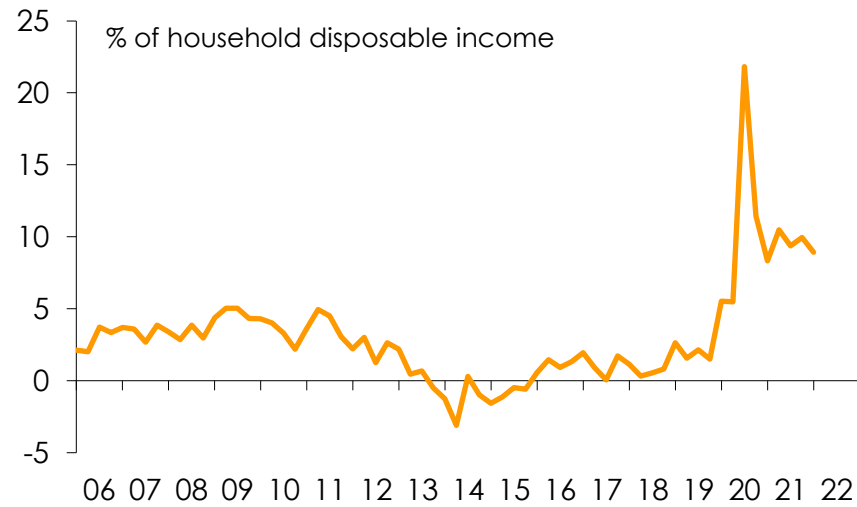
Consumer confidence



Motor vehicle sales



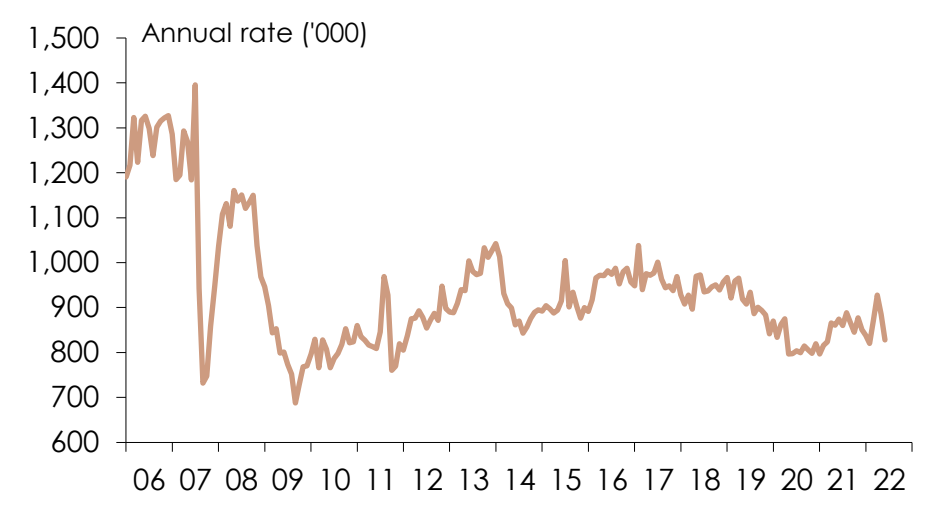
Household saving



Consumption activity index



Housing starts

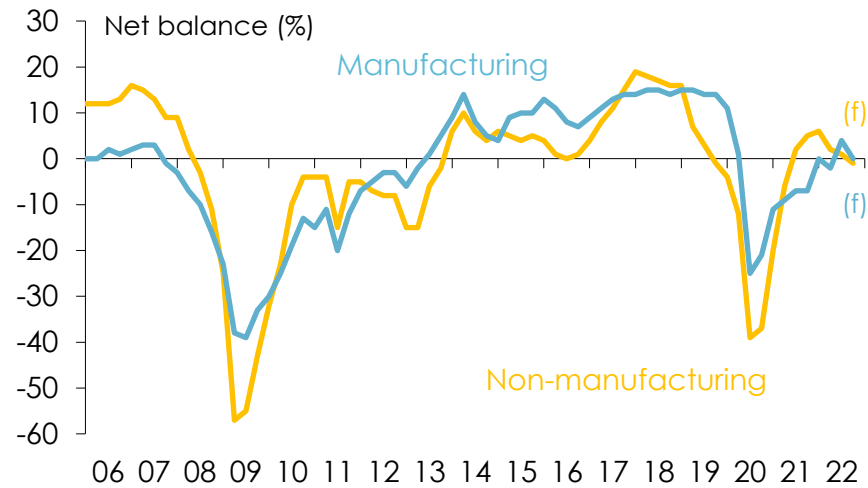


Sources: Japan Cabinet Office, [Quarterly Estimates of Household Disposable Income and Household Saving Ratio](#) and [Consumer Confidence Survey](#); Bank of Japan, [Consumption Activity Index](#); Japan Automobile Dealers Association, [Statistical Data](#); Japan e-Stat, [Building Starts](#). [Return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

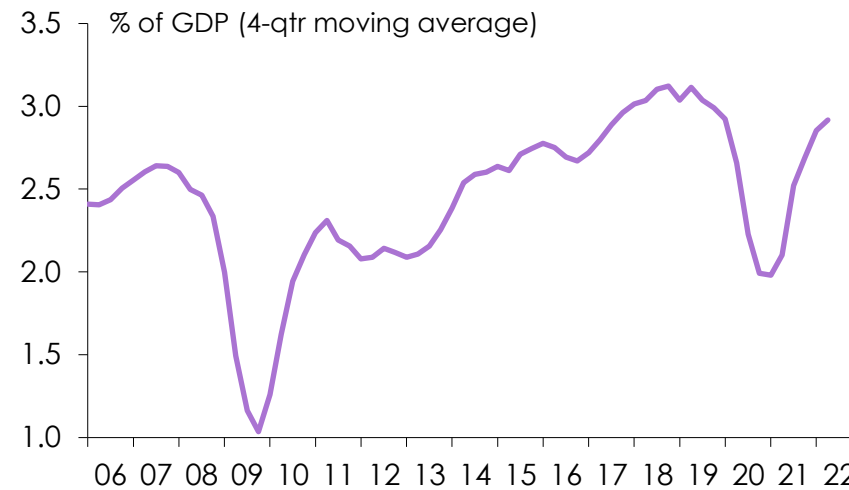
Japanese industrial production fell 7.2% in May, the largest drop since May 2020, due to large falls in vehicles, electrical machinery, ICT & chemicals

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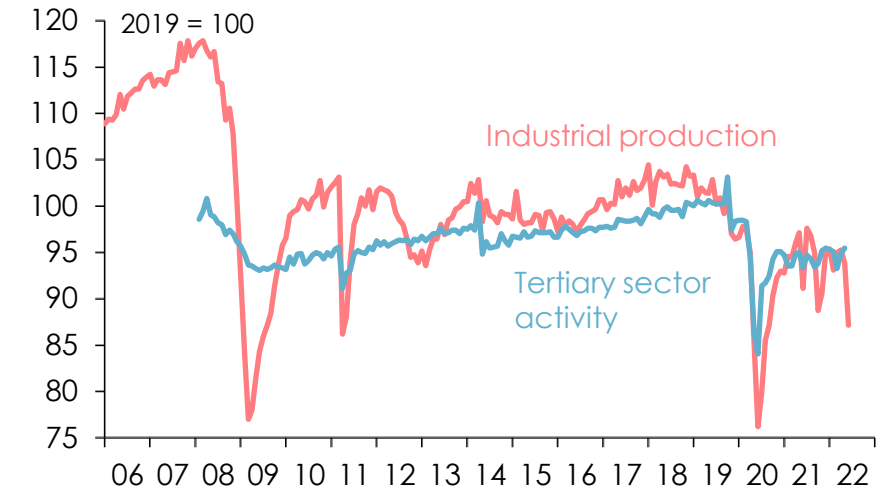
Business conditions by industry



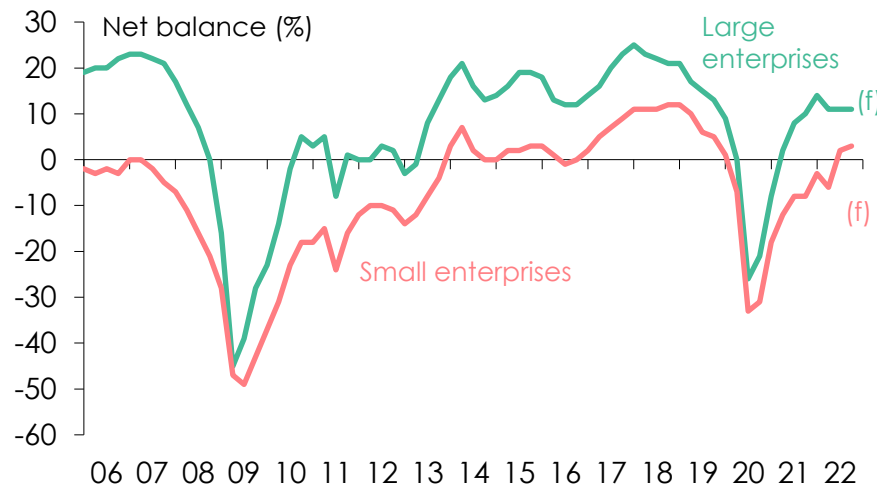
Corporate operating profits



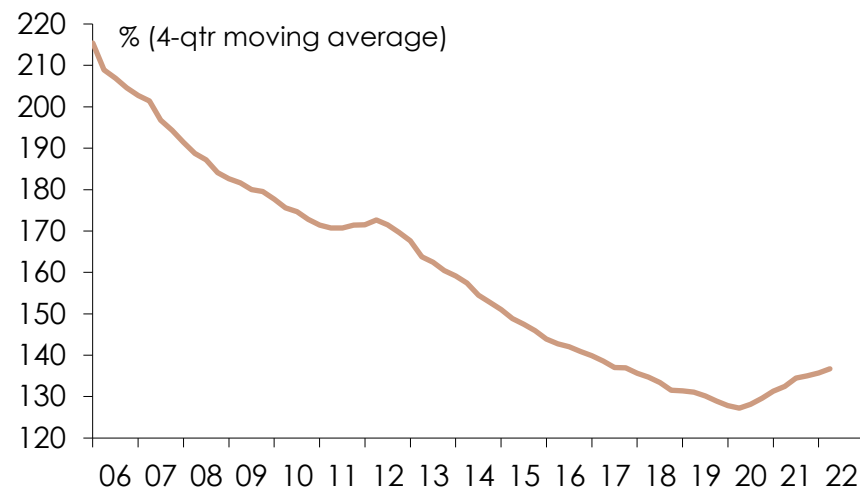
Indexes of economic activity



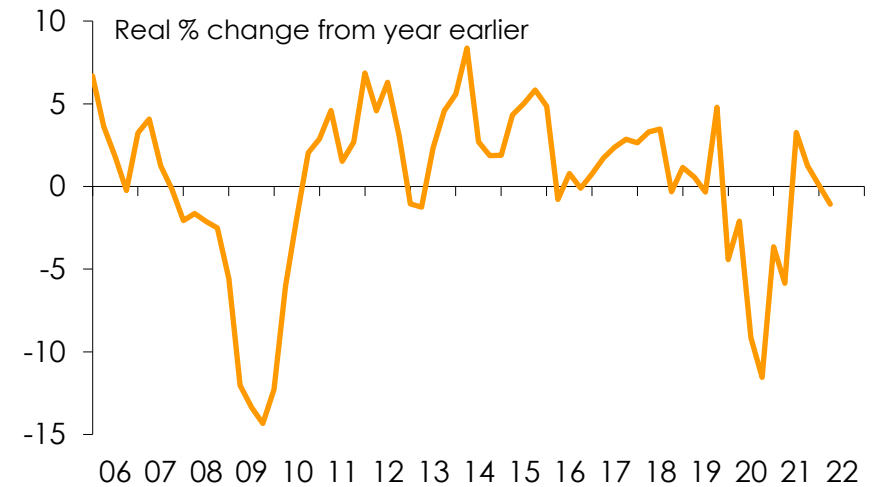
Business conditions by firm size



Corporate debt-equity ratio



Business investment

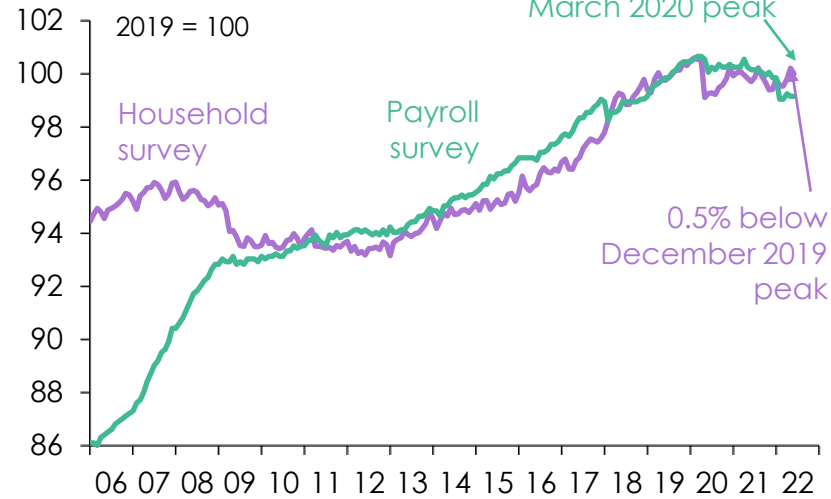


Sources: Bank of Japan, [Short-Term Economic Survey of Enterprises in Japan \('Tankan'\)](#); Policy Research Institute, Ministry of Finance, [Financial Statements Statistics of Corporations by Industry, Quarterly](#); Ministry of Economy, Trade & Industry, [Indices of Industrial Production](#) and [Indices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

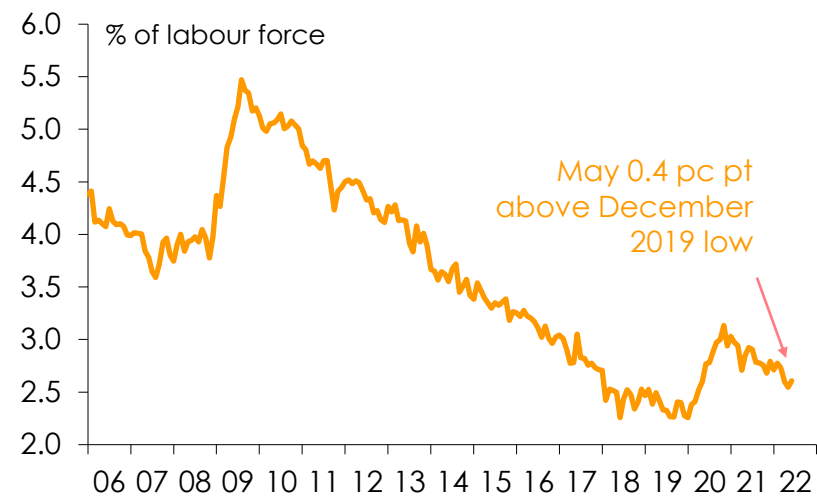
Employment in Japan fell 0.2% in May, and is yet to regain its pre-Covid peak; and the unemployment rate was 0.4 pc pt above its pre-Covid low

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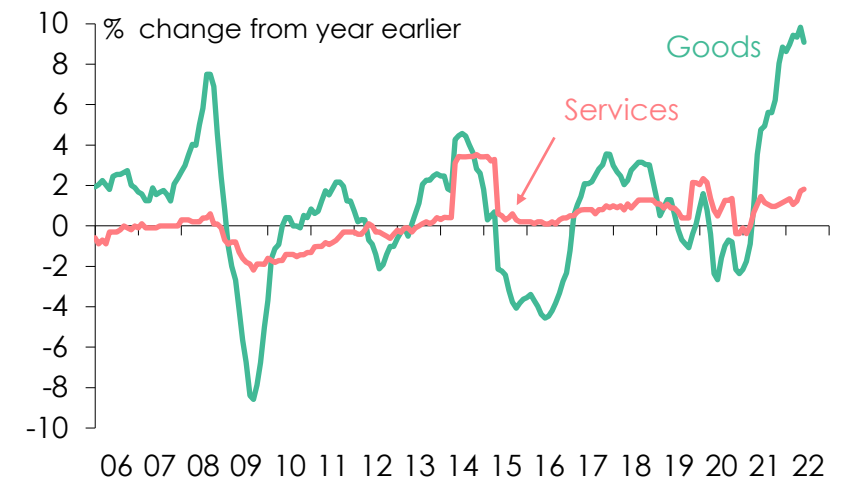
Employment



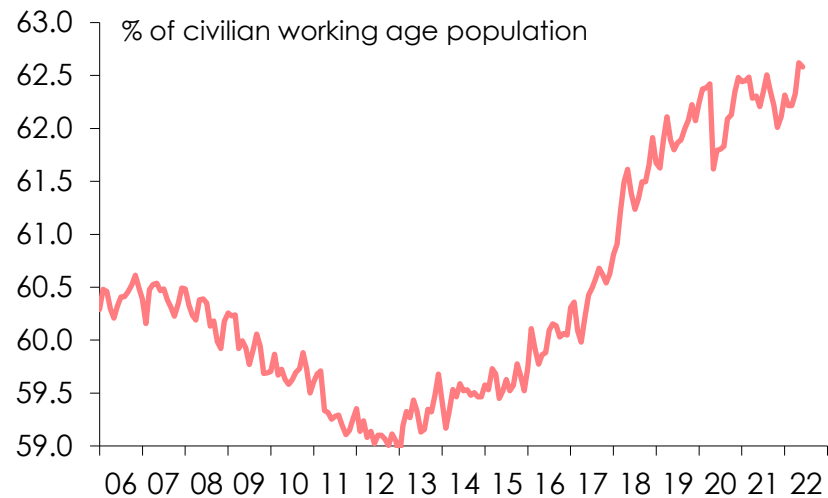
Unemployment rate



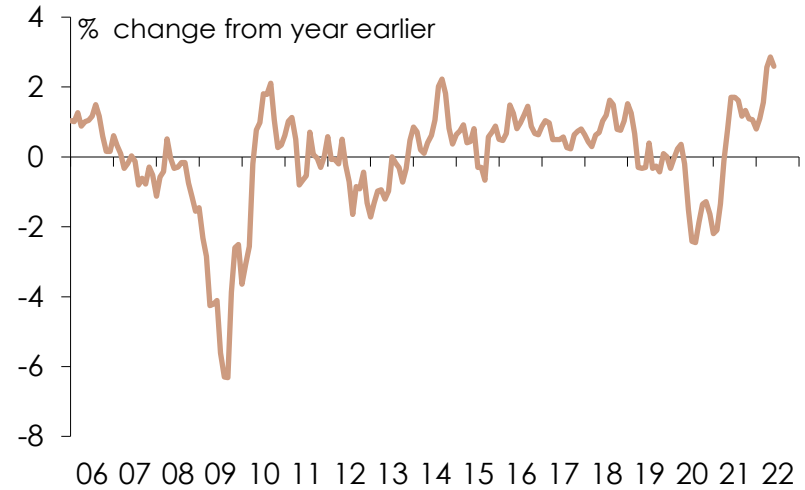
'Corporate' (producer) prices



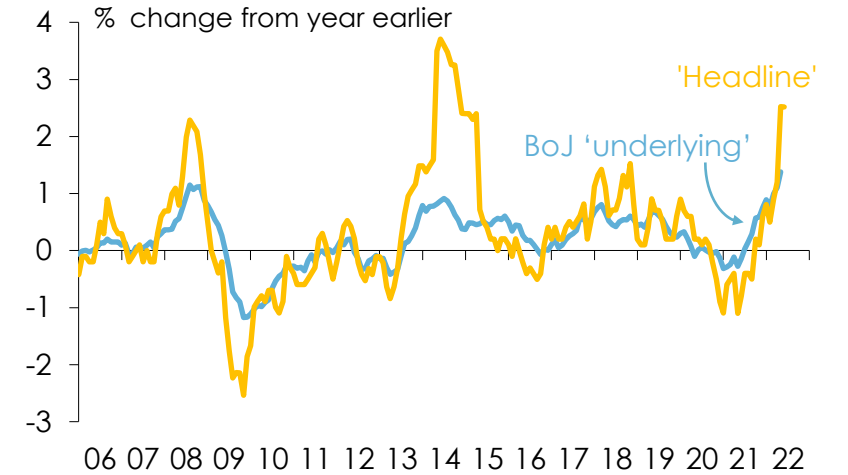
Labour force participation rate



Wages growth



Consumer prices

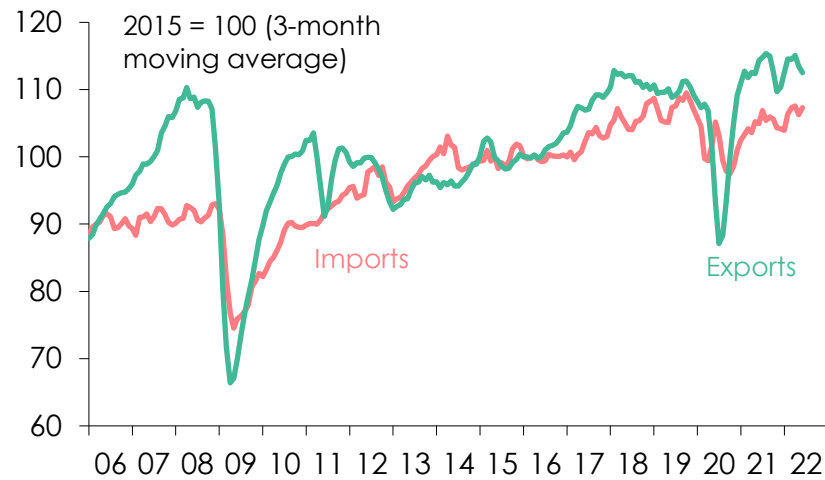


Sources: Statistics Bureau of Japan, [Labour Force Survey](#) and [Consumer Price Index](#); Ministry of Health, Labour and Welfare, [Monthly Labour Survey](#); Bank of Japan, [Prices and Measures of Underlying Inflation](#). [Return to "What's New"](#).

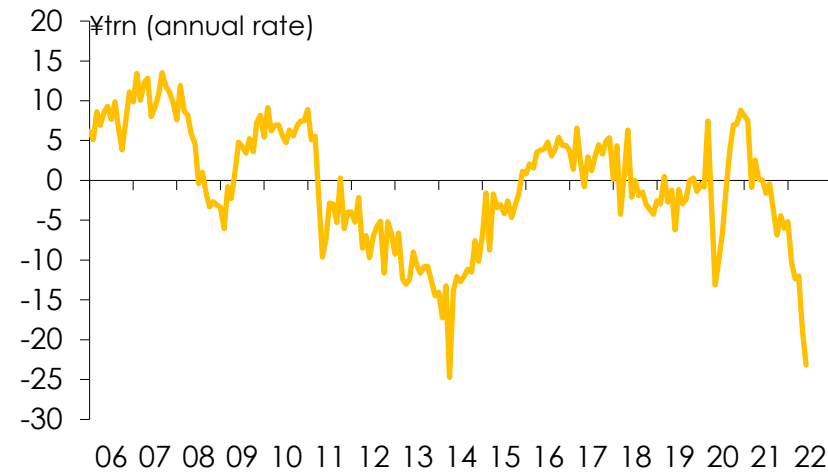
Japan is now incurring large (by its standards) external deficits as a result largely of higher prices commodity imports and loss of tourism exports

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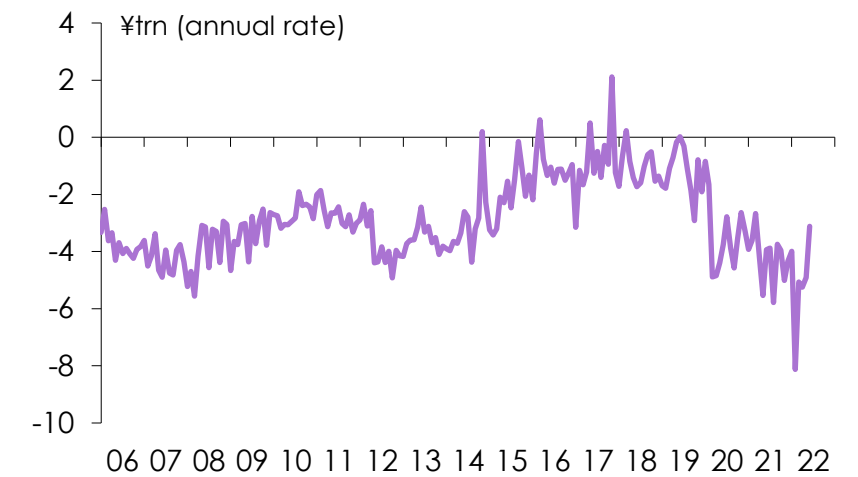
Merchandise trade volumes



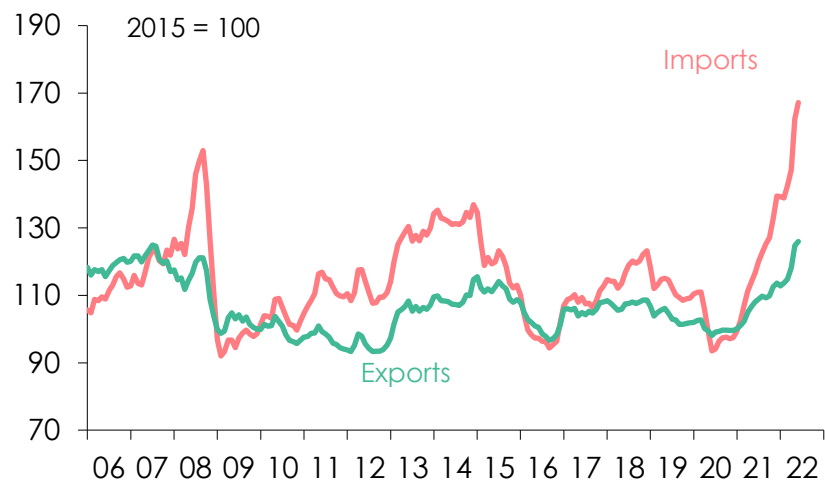
Merchandise trade balance



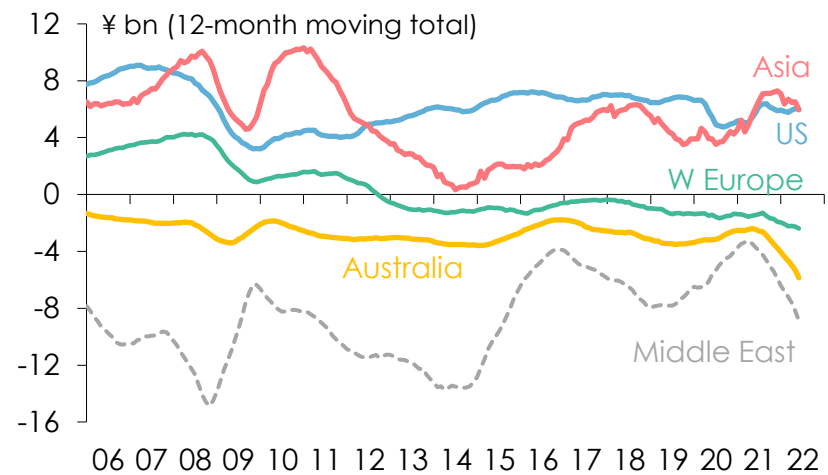
Services trade balance



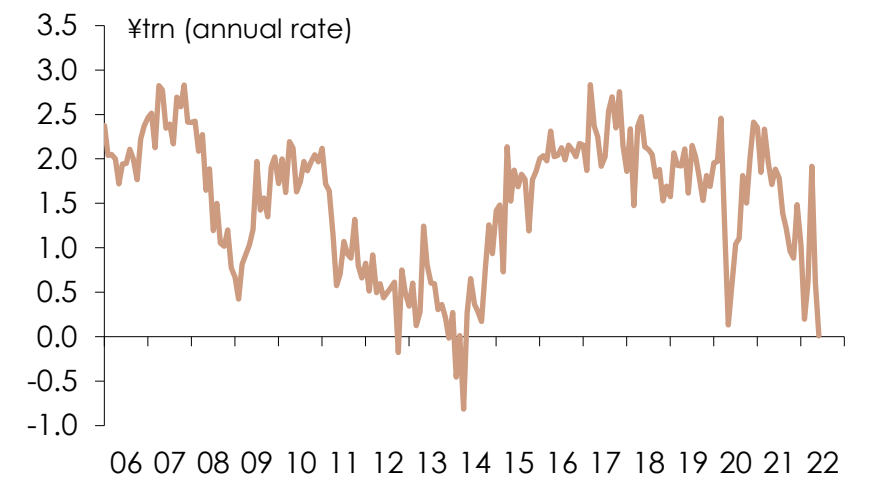
Merchandise trade prices



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 last month's Policy Board meeting, with only an oblique reference to persistent yen weakness

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- ❑ The [Bank of Japan](#) left its monetary policy settings unchanged at its Policy Board meeting on 16th June
 - 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 in recent weeks has been flirting with its lowest levels since May 1998 (during the Asian financial crisis)
 - the policy tightening now being implemented by the Fed and other central banks is making the BoJ's policy of capping 10-year JGB yields at zero is becoming increasingly difficult, and contributing to ongoing yen weakness

Other East Asian economies

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

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

IMF and Asian Development Bank forecasts for East Asian economies

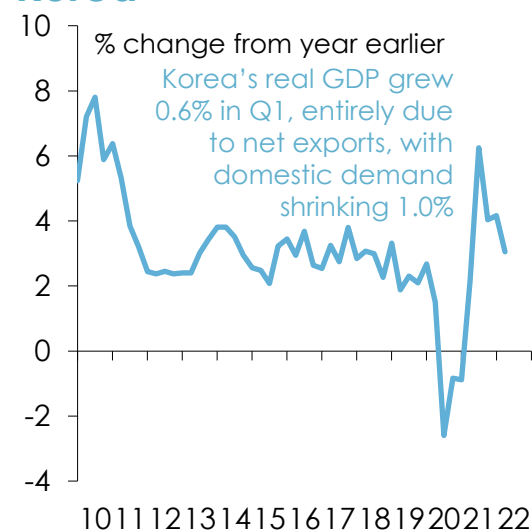
	Real GDP growth							Inflation						
	Actual		IMF			ADB		Actual		IMF			ADB	
	2010-19*	2020	2021	2022	2023	2022	2023	2010-19*	2020	2021	2022	2023	2022	2023
Korea	3.3	-0.9	4.0	2.5	2.9	3.0	2.6	1.7	0.5	2.5	4.0	2.4	3.2	2.0
Taiwan	3.6	3.1	5.9	3.2	2.9	3.8	3.0	1.0	-0.2	1.8	2.3	2.2	1.9	1.6
Hong Kong	2.8	-6.1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

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

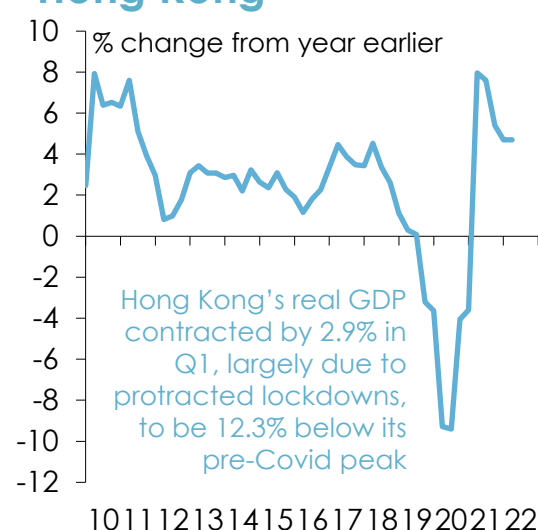
Vietnam's economy grew 7.7% over the year to Q2, its fastest rate since Q4 2013: while HK's and Thailand's GDPs are yet to regain their pre-Covid peak

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

Korea



Hong Kong



Indonesia



Thailand



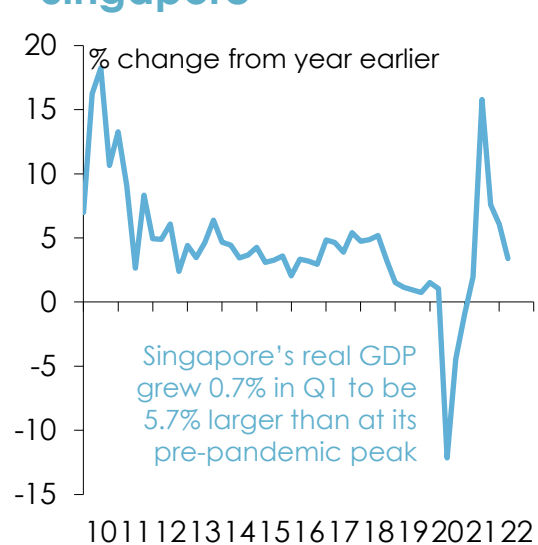
Vietnam



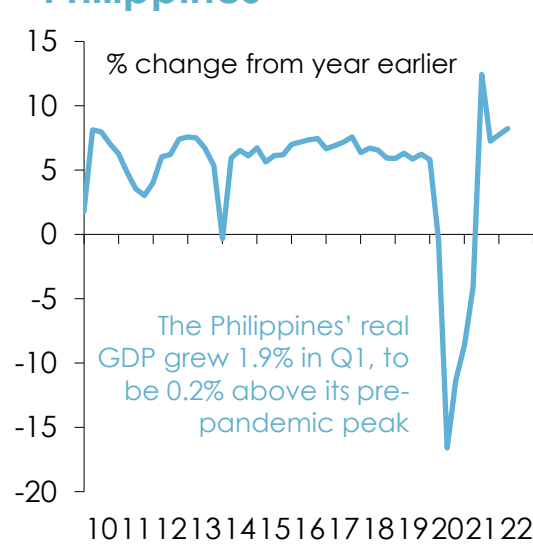
Taiwan



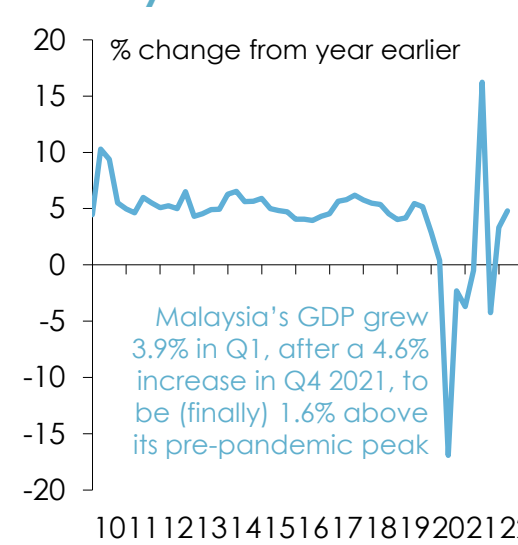
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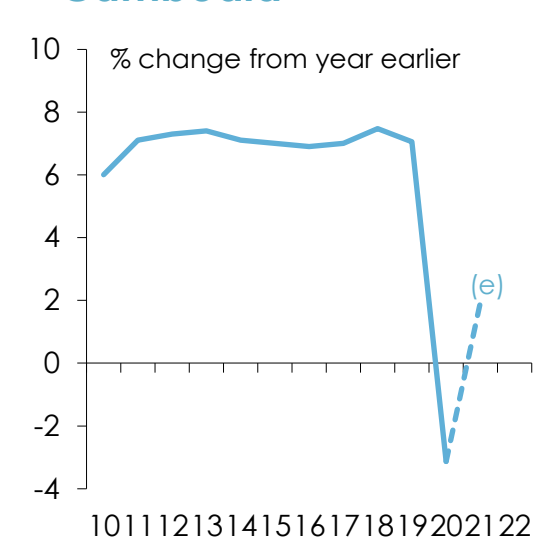
Philippines



Malaysia



Cambodia

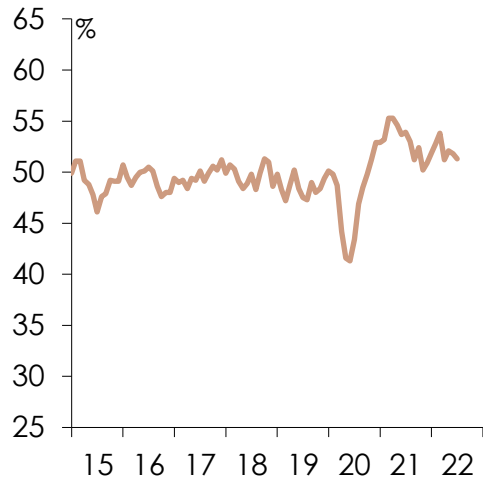


Sources: Bank of Korea; Taiwan Directorate-General of Budget, Accounting & Statistics; Hong Kong Census & Statistics Department; Singapore Ministry of Trade and Industry; Department of Statistics Malaysia; Office of the National Economic & Social Development Council of Thailand; Statistics Indonesia;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

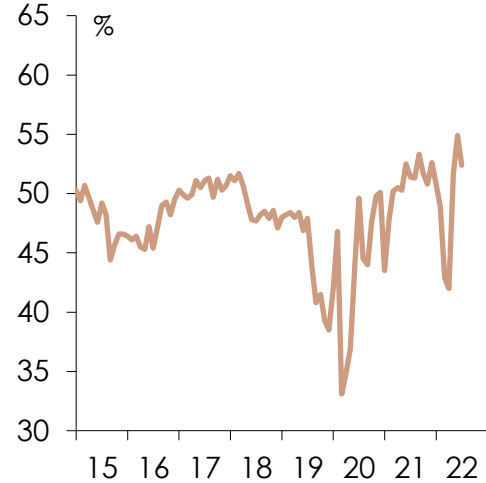
PMIs were slightly lower in most Asian economies in June, except for Malaysia

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

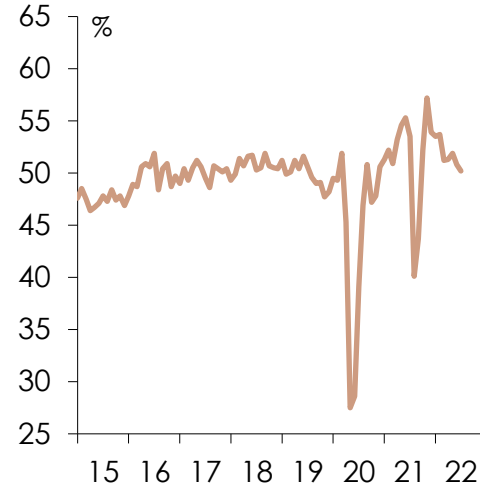
Korea



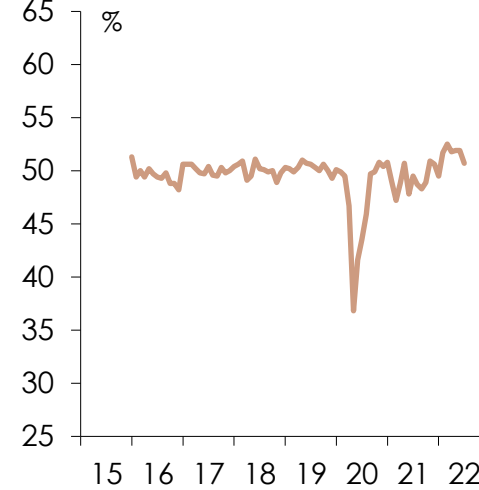
Hong Kong



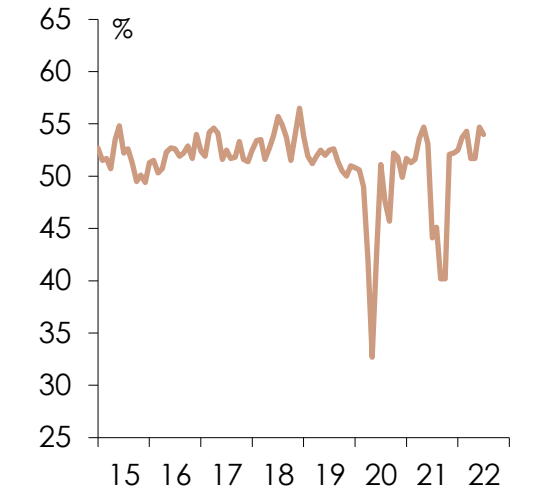
Indonesia



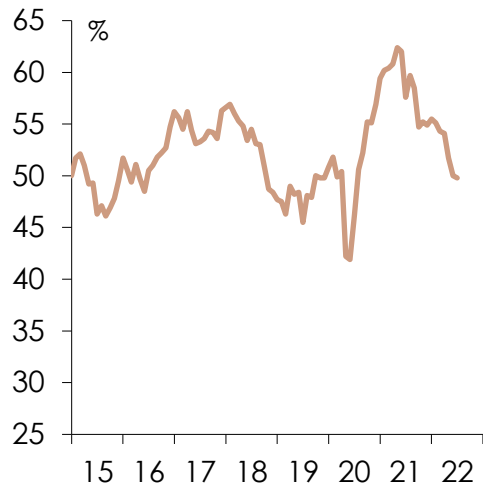
Thailand



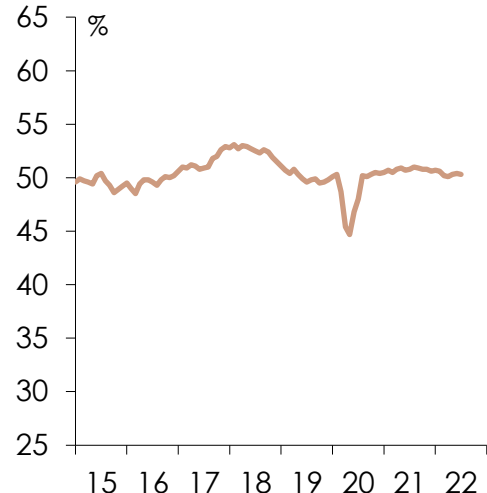
Vietnam



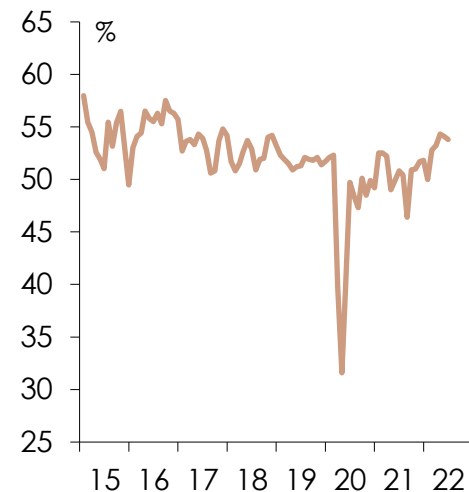
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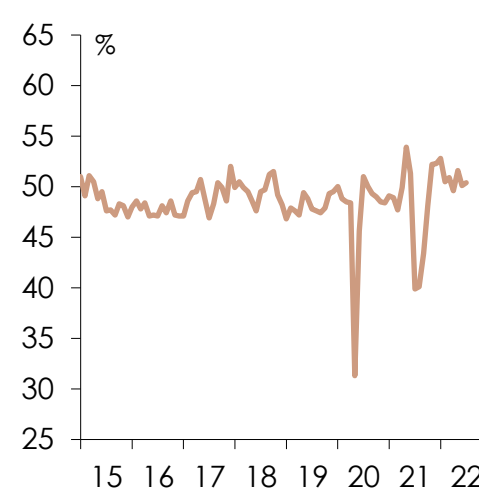
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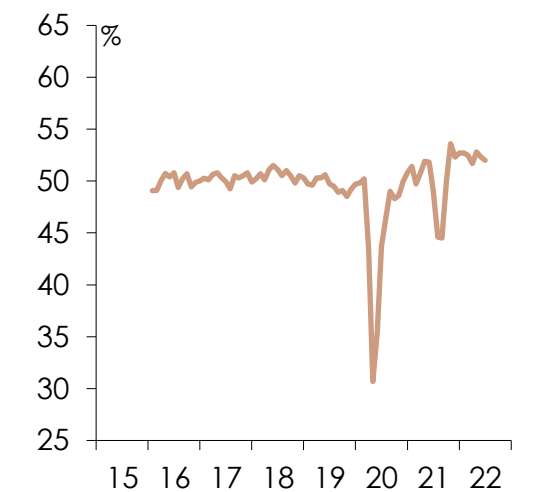
Philippines



Malaysia



ASEAN

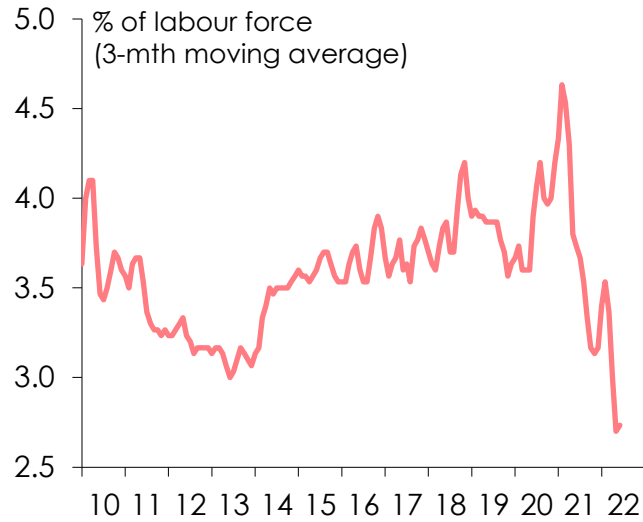


Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous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

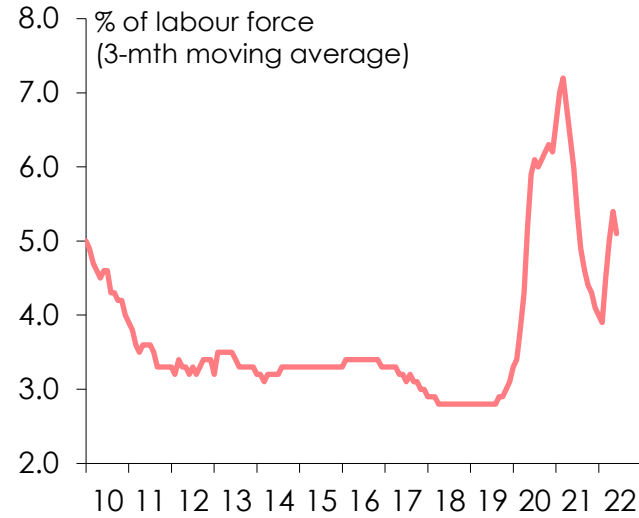
Unemployment rose sharply in most Asian economies last year but is now falling in most of them (except for Hong Kong)

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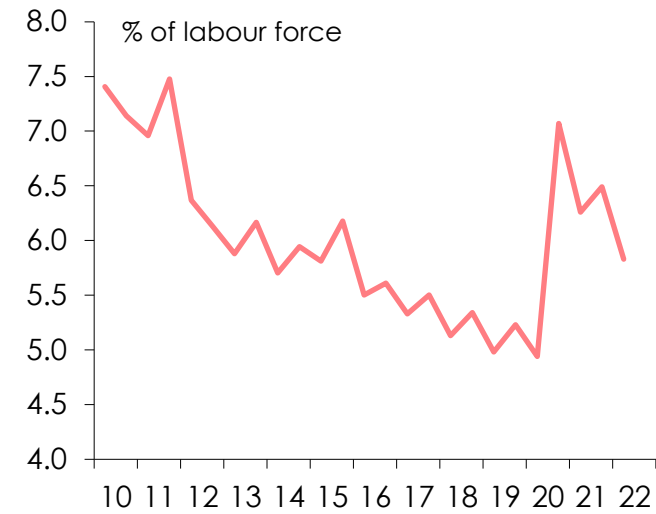
Korea



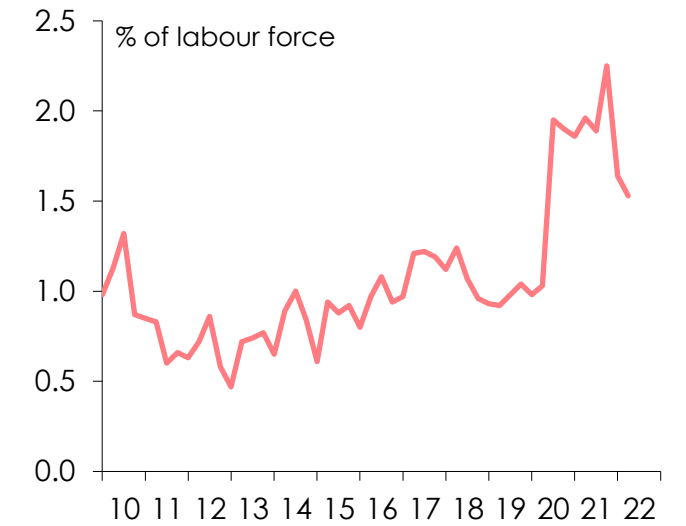
Hong Kong



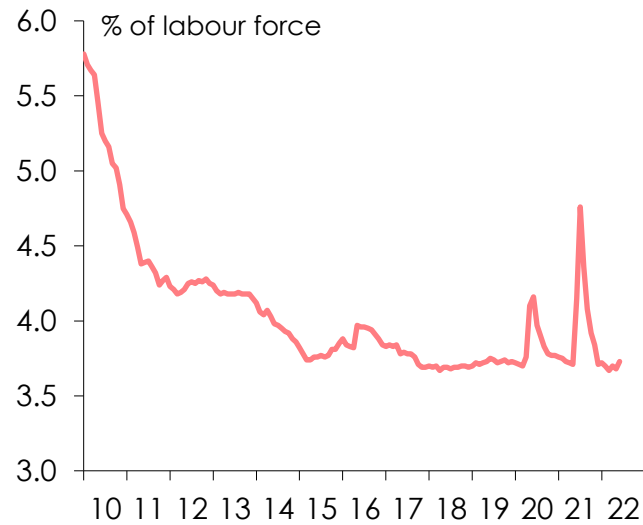
Indonesia



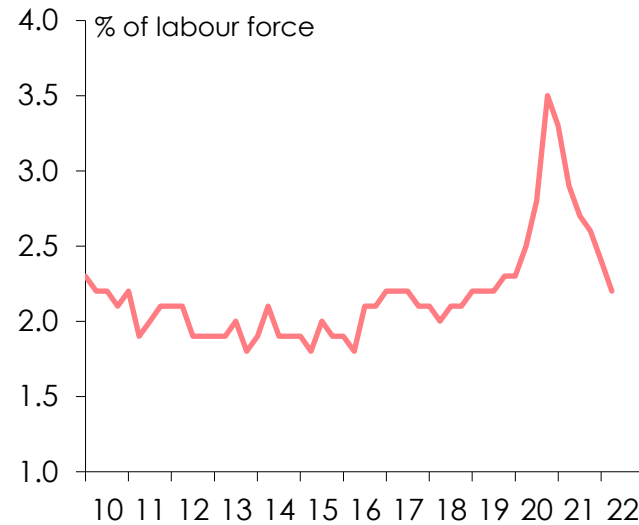
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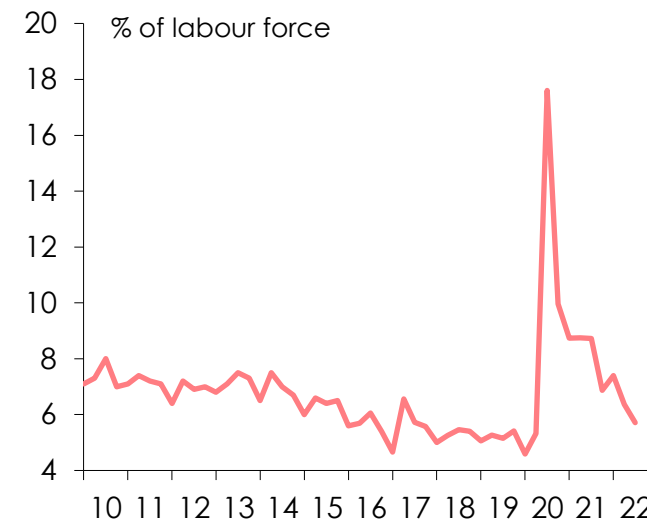
Taiwan



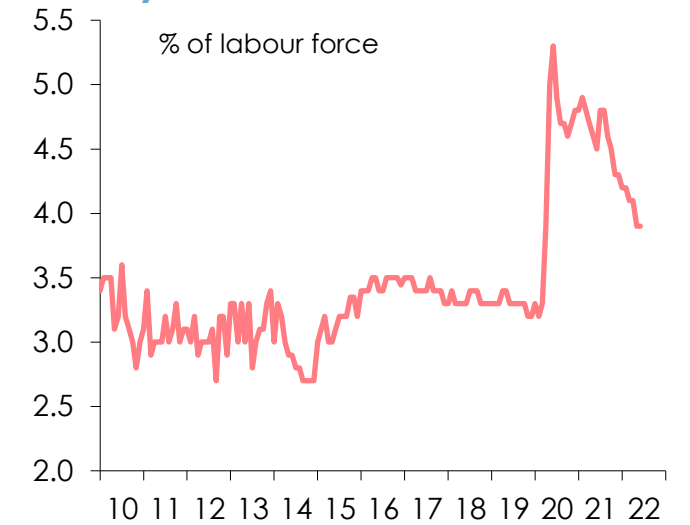
Singapore



Philippines



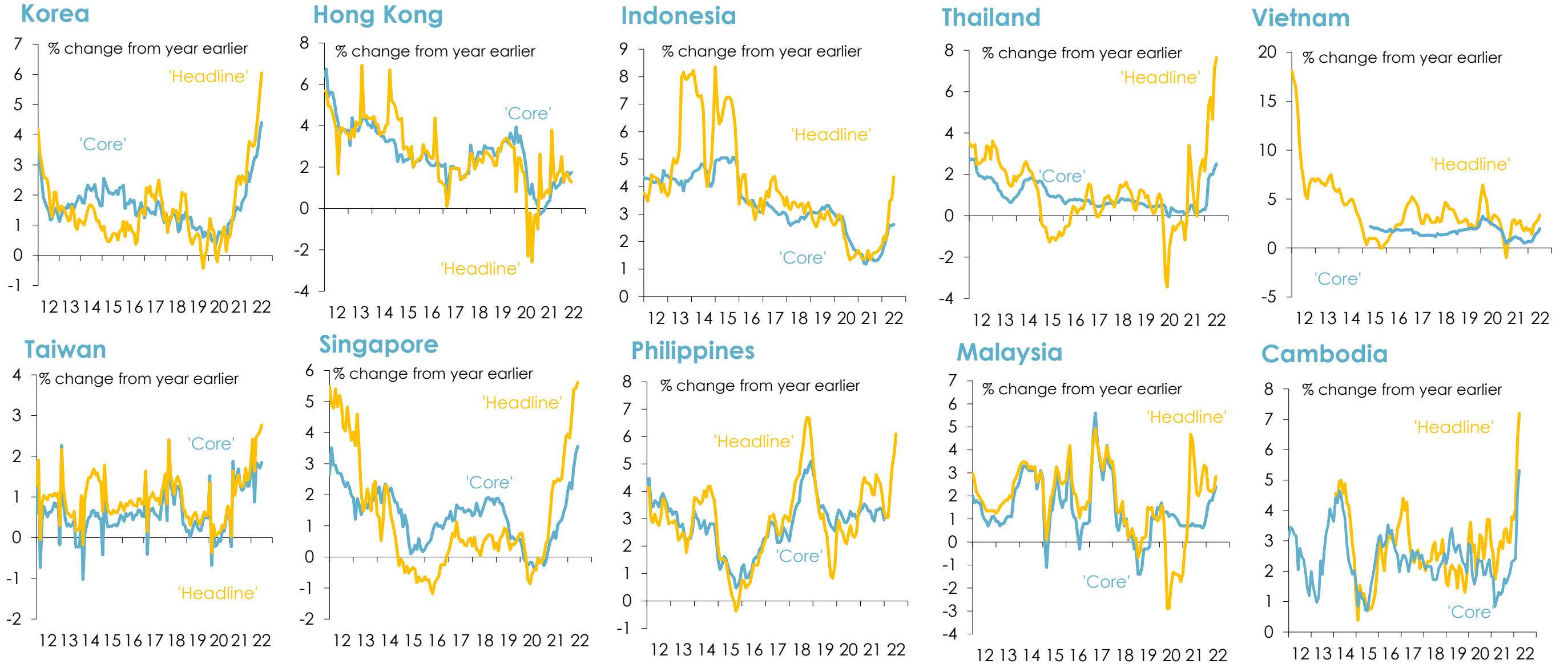
Malaysia



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 – 11TH JULY 2022

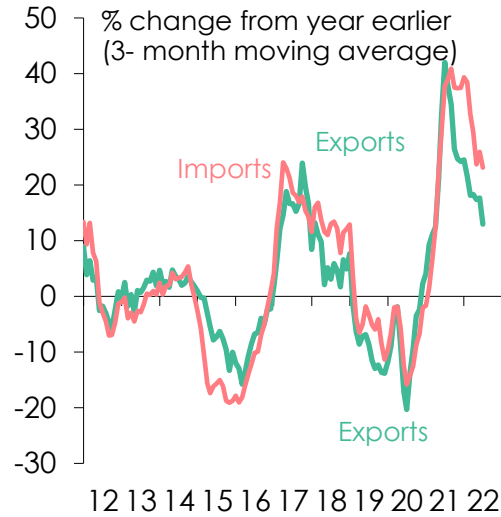


Note: 'Core' inflation in Korea excludes agricultural products & oil; in Taiwan it excludes fresh fruit, vegetables & energy; in Singapore it excludes accommodation & private transport; and in Hong Kong it excludes the effect of 'one-off government relief measures'. 'Core' inflation in Indonesia excludes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

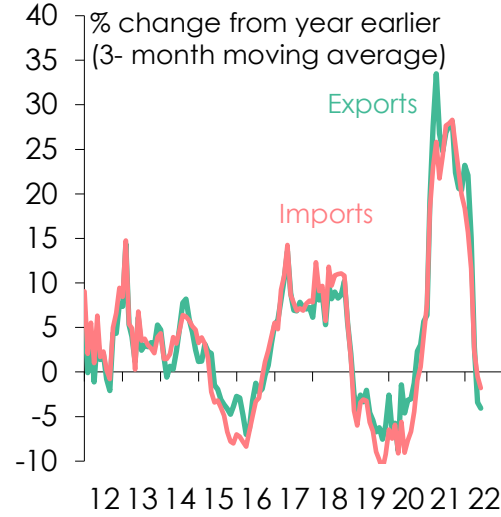
Asian exports are returning to more 'normal' growth rates following the 'bump' in 2021 inflated by comparison with 2020

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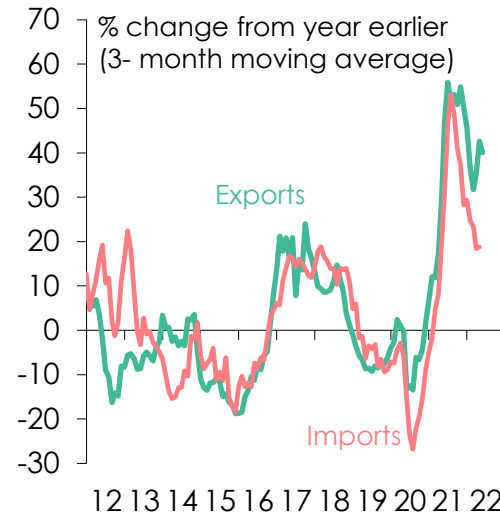
Korea



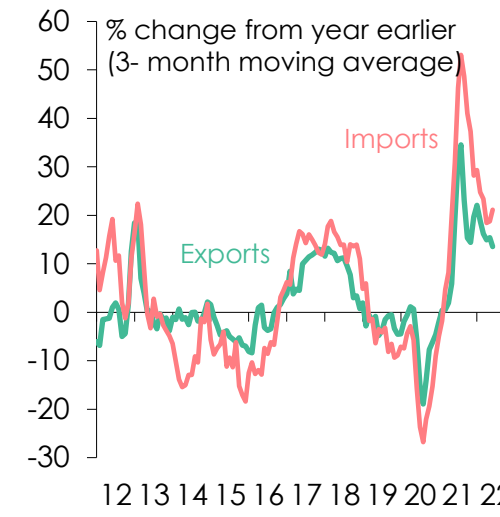
Hong Kong



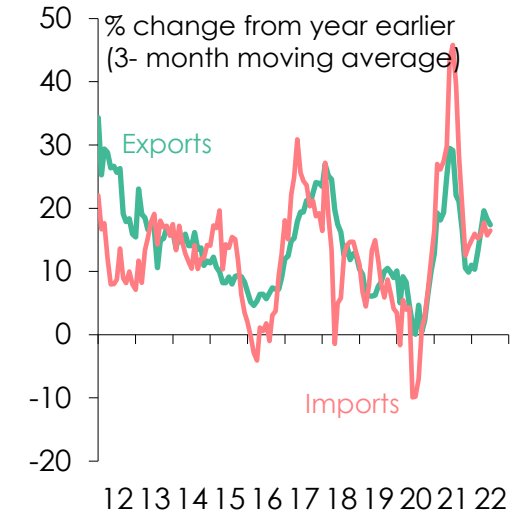
Indonesia



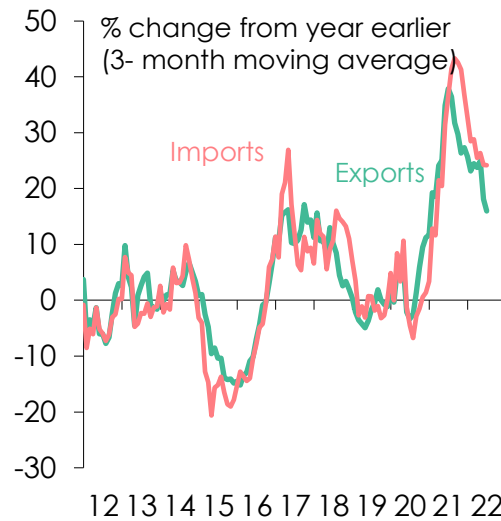
Thailand



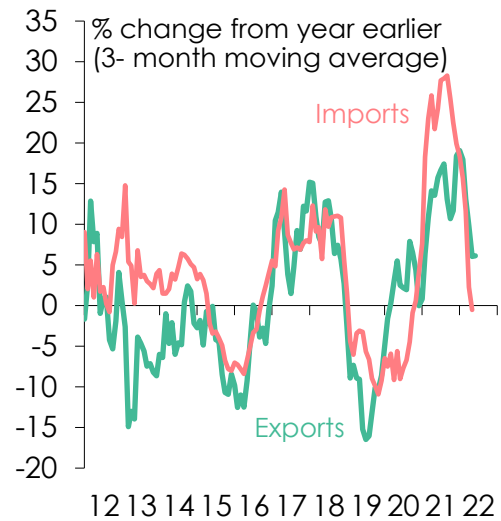
Vietnam



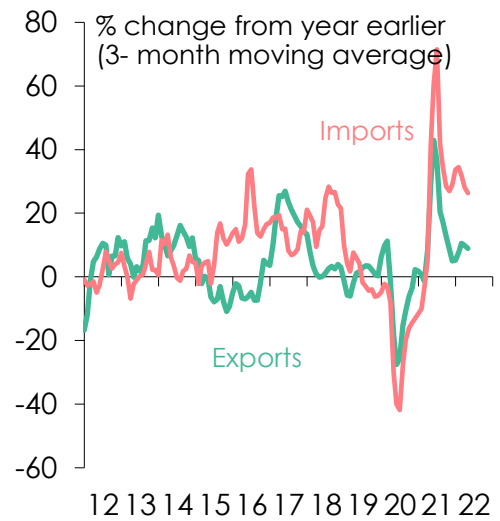
Taiwan



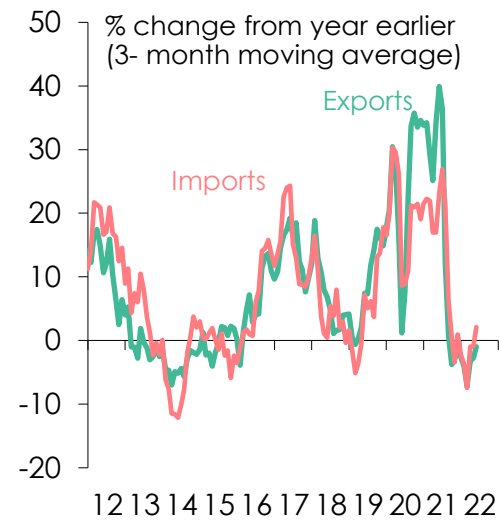
Singapore



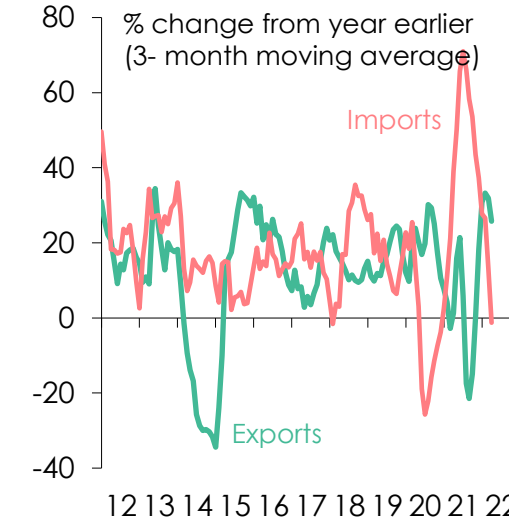
Philippines



Malaysia



Cambodia

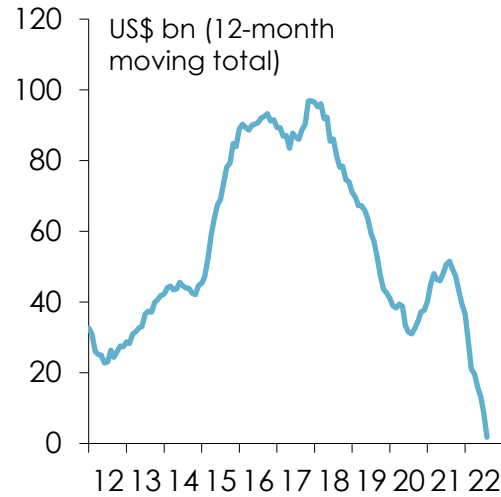


Note: Data for Hong Kong, Singapore and Malaysia are published in national currencies and converted to US dollars by Corinna using month-average exchange rates. Sources: national statistical agencies and central banks. [Return to "What's New"](#).

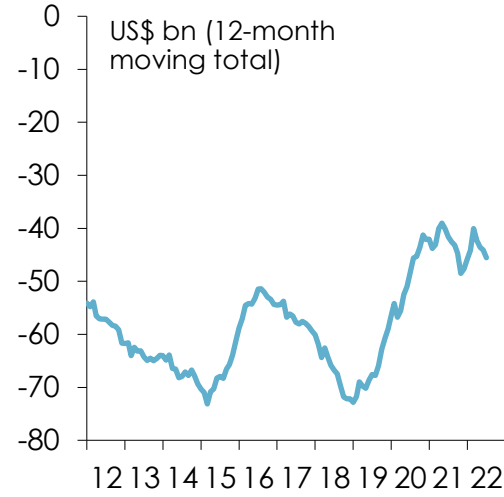
Most Asian economies – except for Indonesia, Malaysia and Singapore – are experiencing some deterioration in their trade balances

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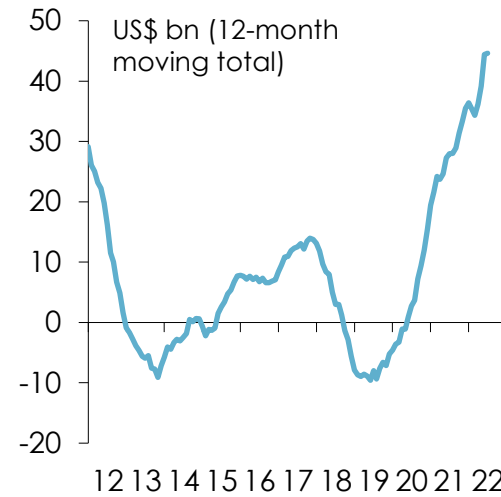
Korea



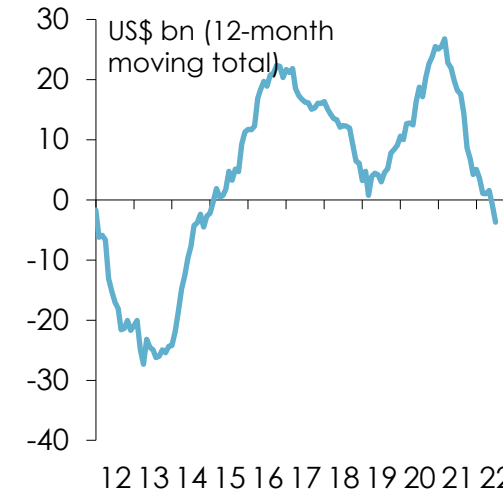
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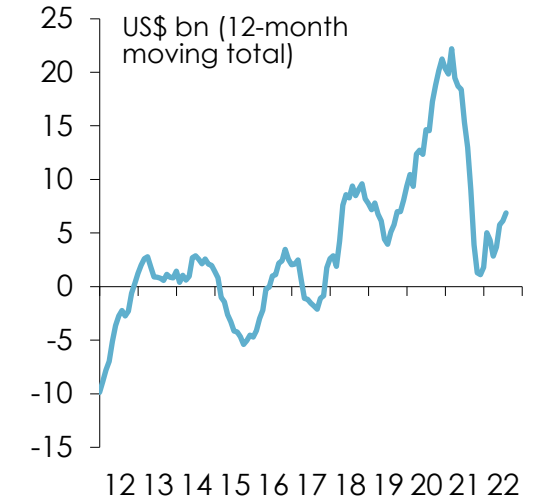
Indonesia



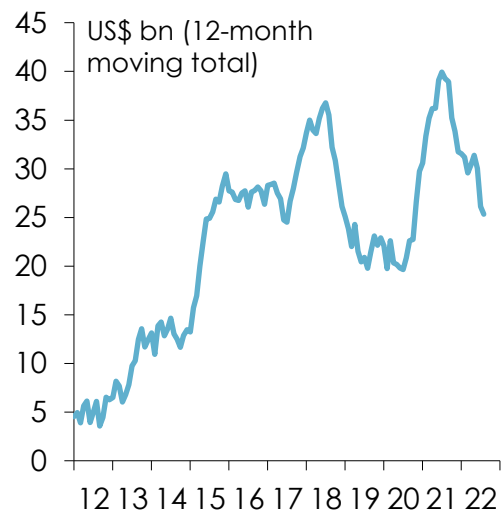
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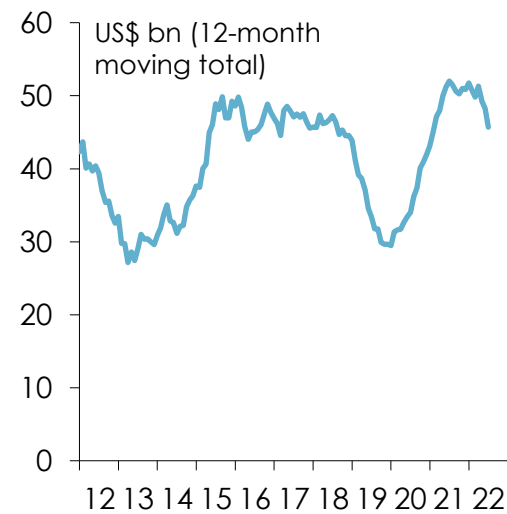
Vietnam



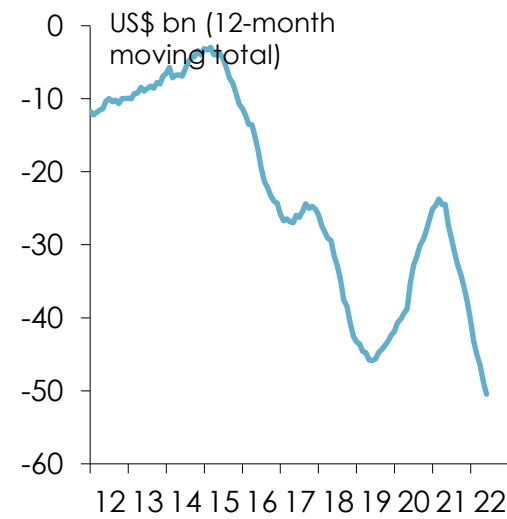
Taiwan



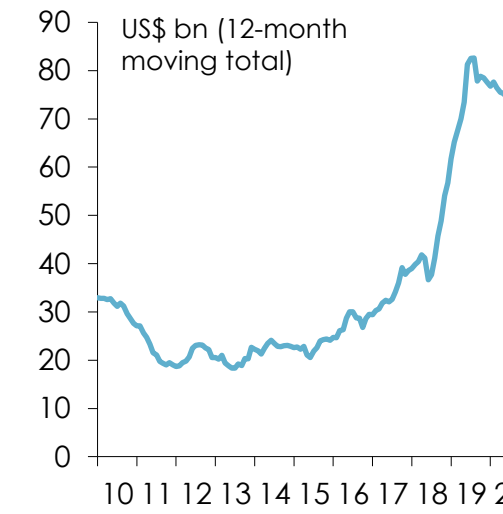
Singapore



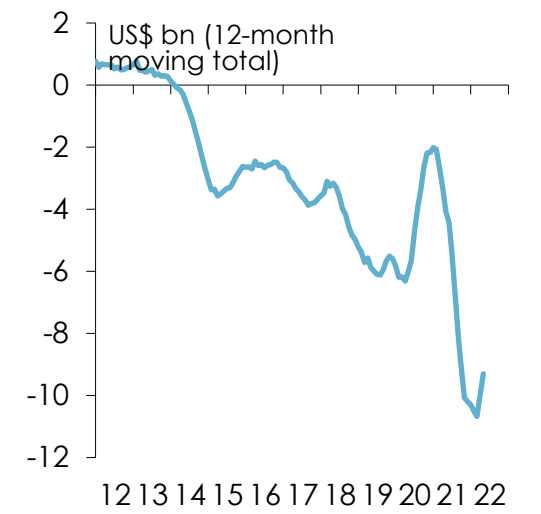
Philippines



Malaysia



Cambodia



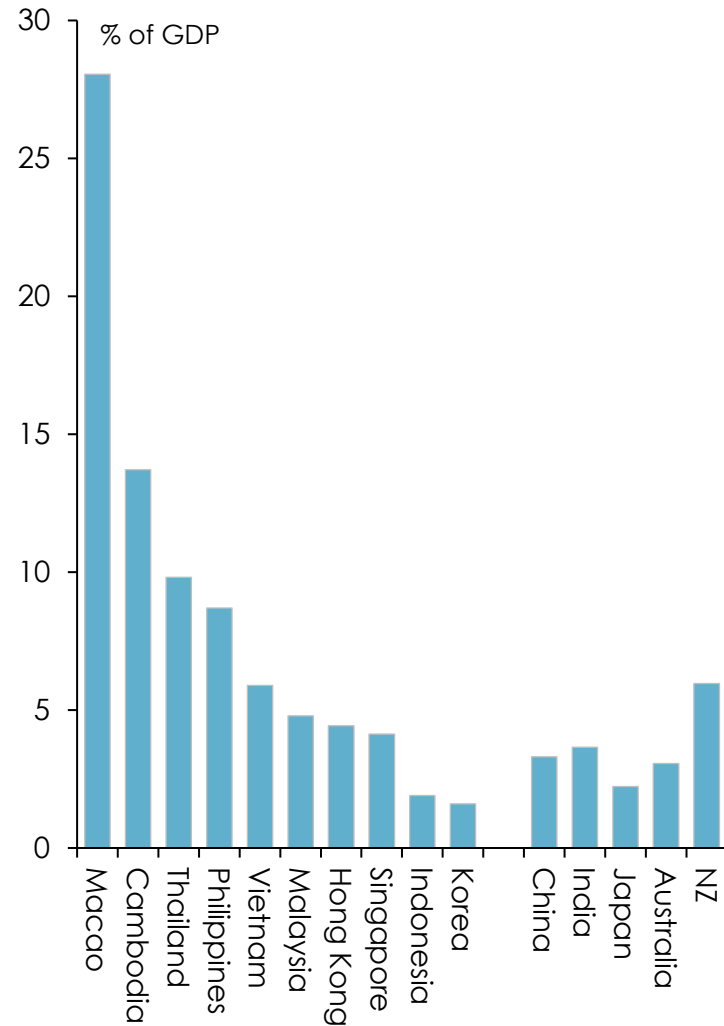
Note: Data for Hong Kong, Singapore and Malaysia are published in national currencies and converted to US dollars by Corinna using month-average exchange rates.

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

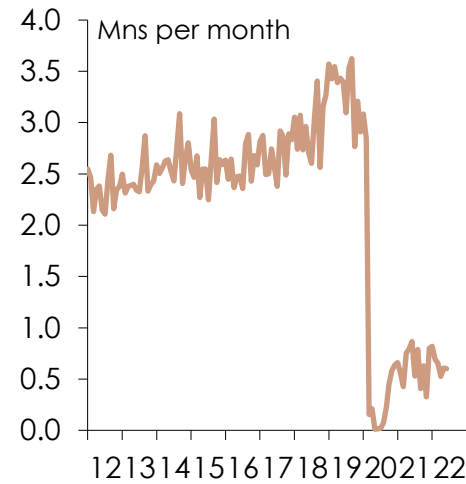
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International tourism direct contribution to GDP, 2018

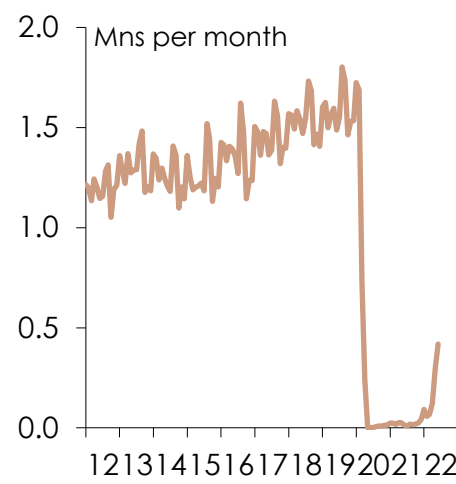


International visitor arrivals

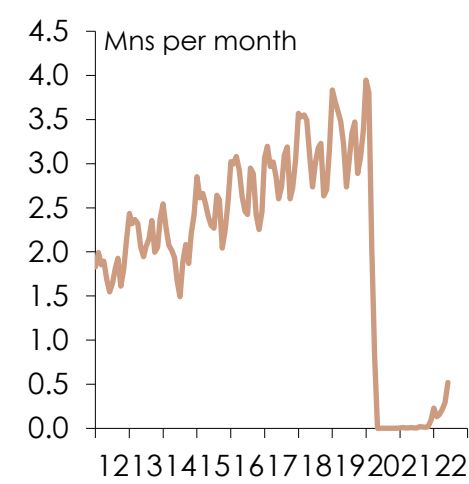
Macao



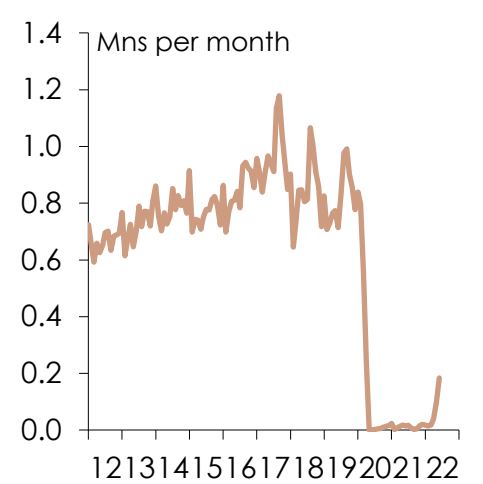
Singapore



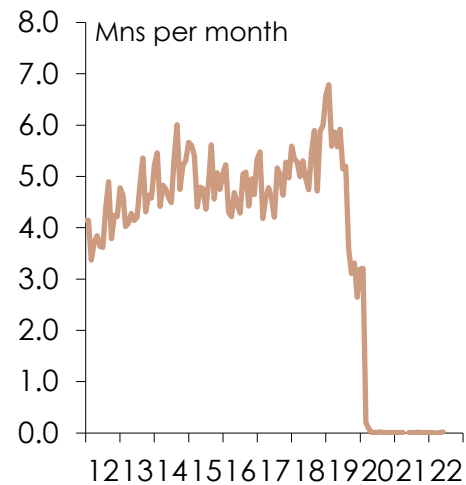
Thailand



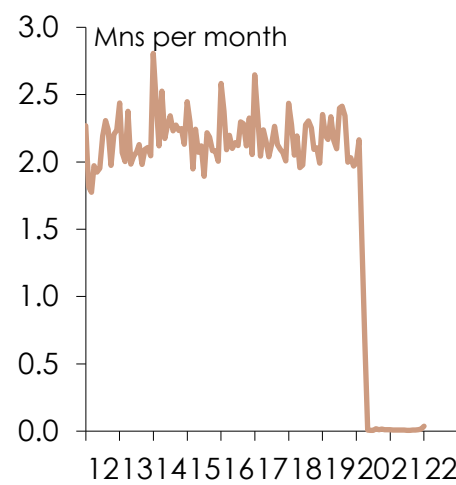
Indonesia



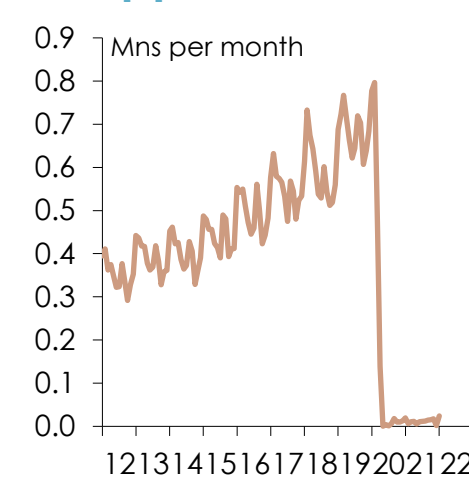
Hong Kong



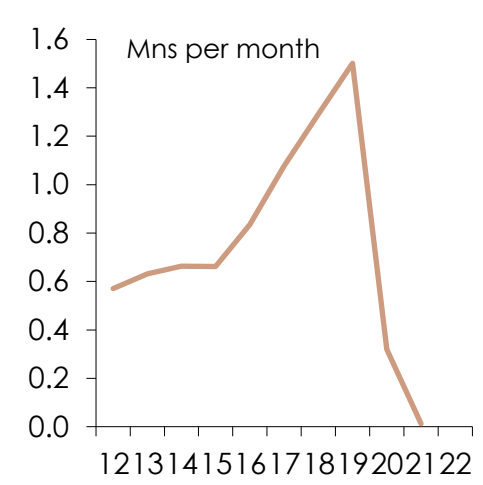
Malaysia



Philippines



Vietnam



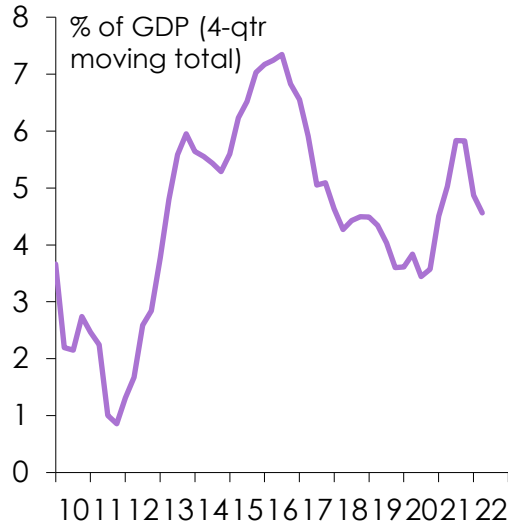
Note: Visitor arrivals data for Vietnam is only published annually. Malaysia and the Philippines have thus far not published data for months after December 2021.

Sources: The World Bank, [ICdata360](#); national statistical agencies. [Return to "What's New"](#).

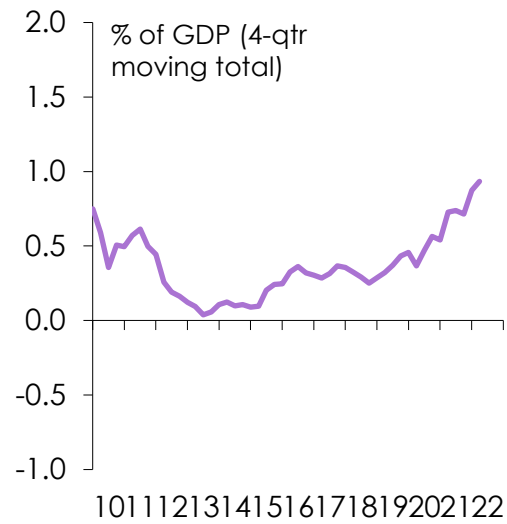
The more 'advanced' Asian economies have strong current account positions, Indonesia's is much improved but others have deteriorated

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

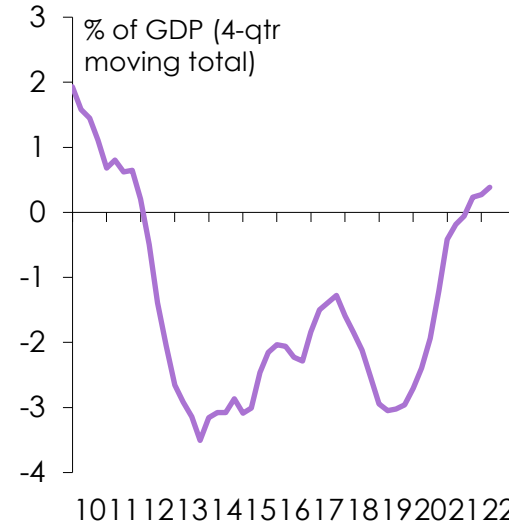
Korea



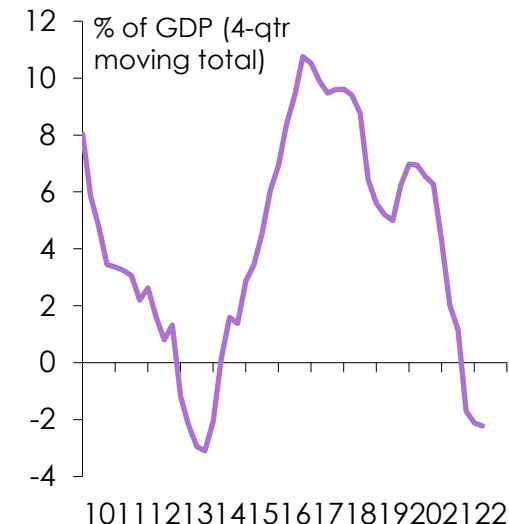
Hong Kong



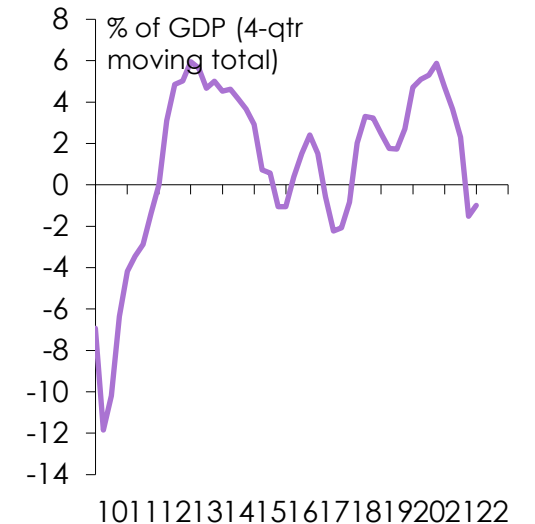
Indonesia



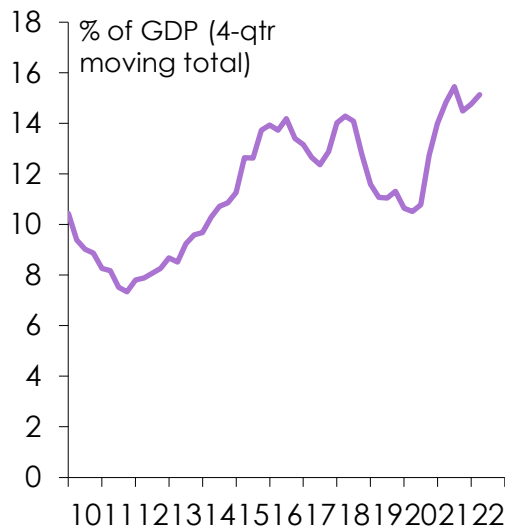
Thailand



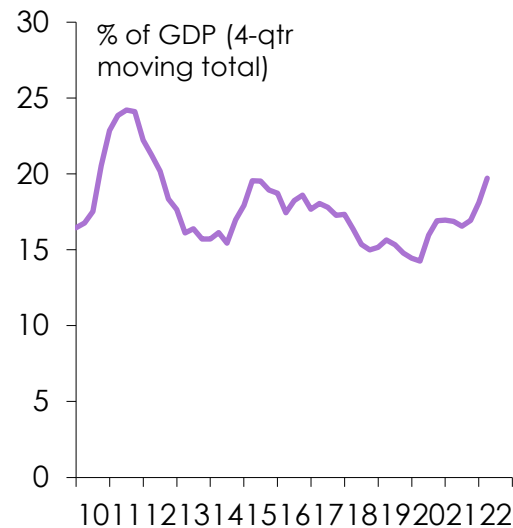
Vietnam



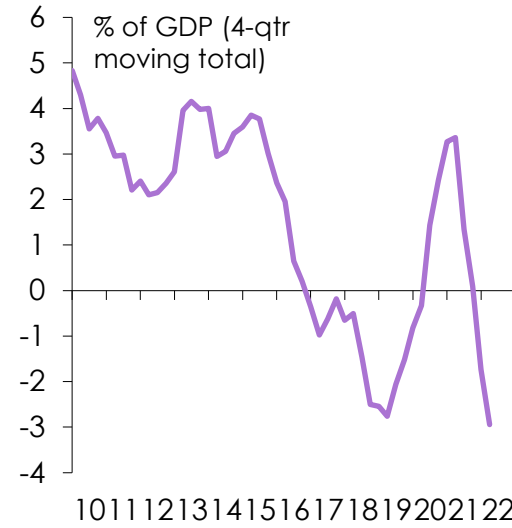
Taiwan



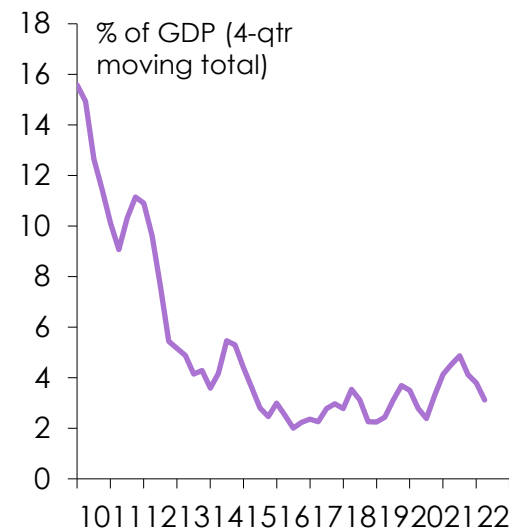
Singapore



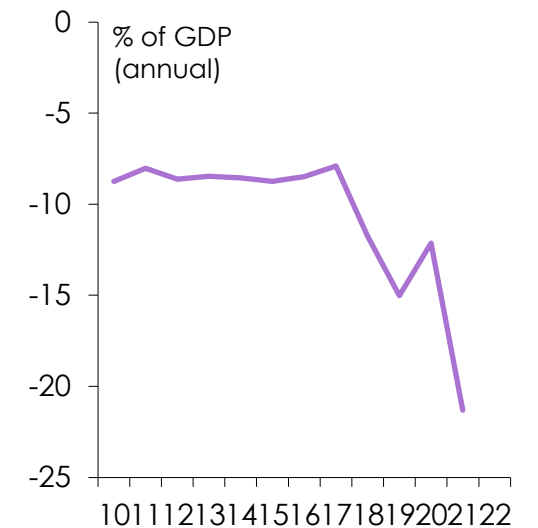
Philippines



Malaysia



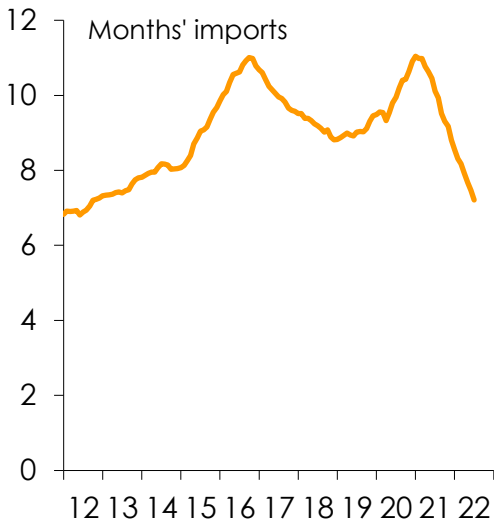
Cambodia



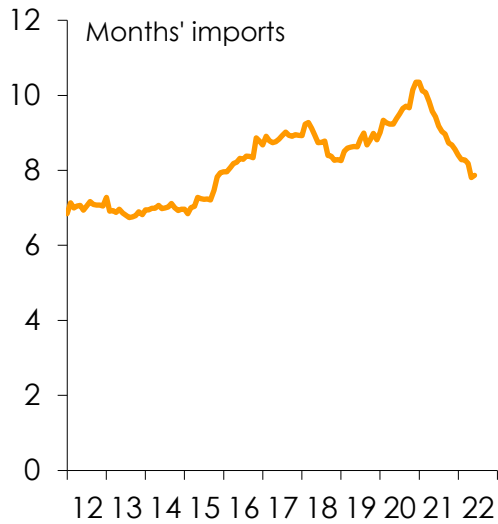
Most Asian economies have sought to maintain high levels of FX reserves since the 1997-98 crisis – although Malaysia's have deteriorated recently

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

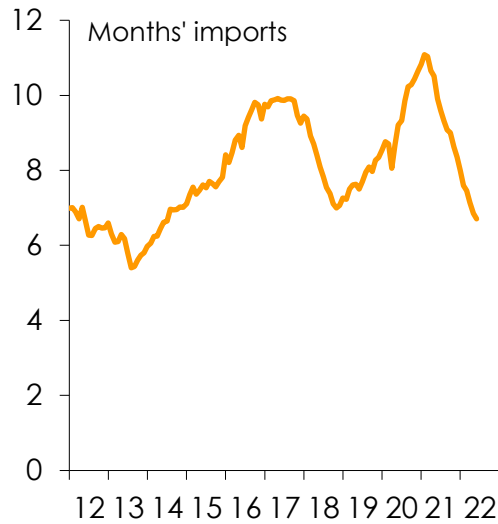
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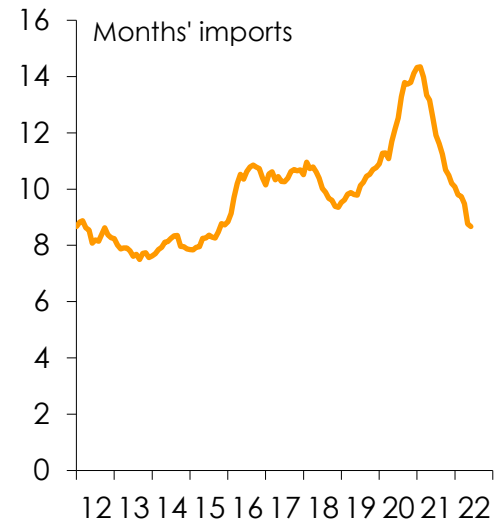
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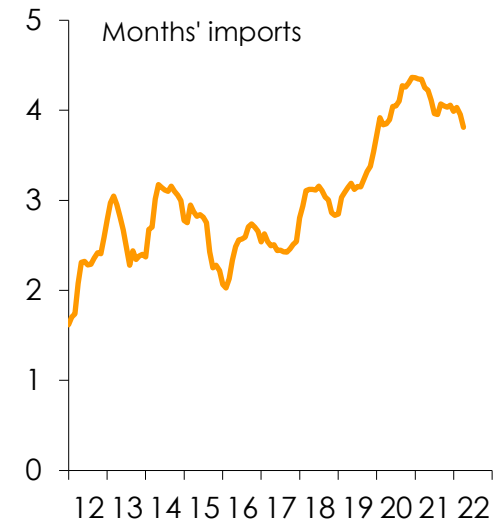
Indonesia



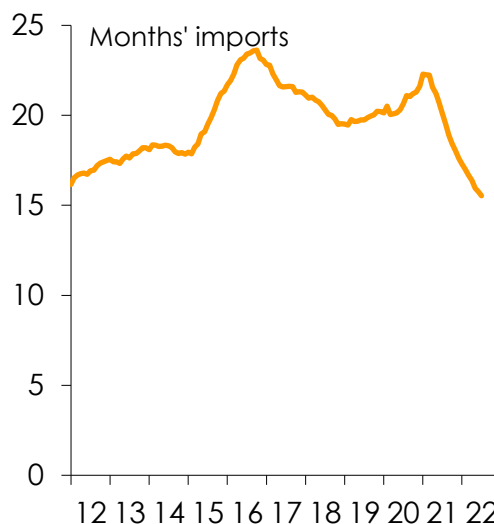
Thailand



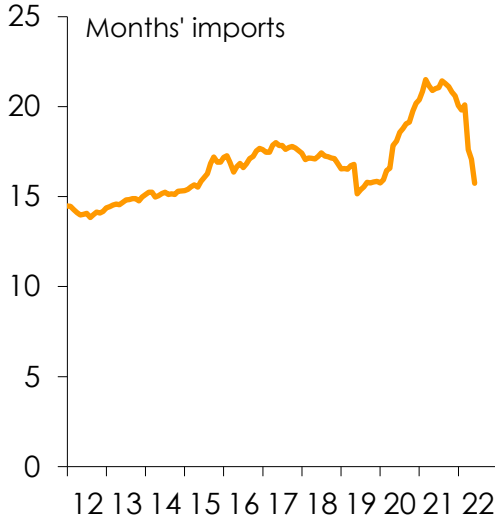
Vietnam



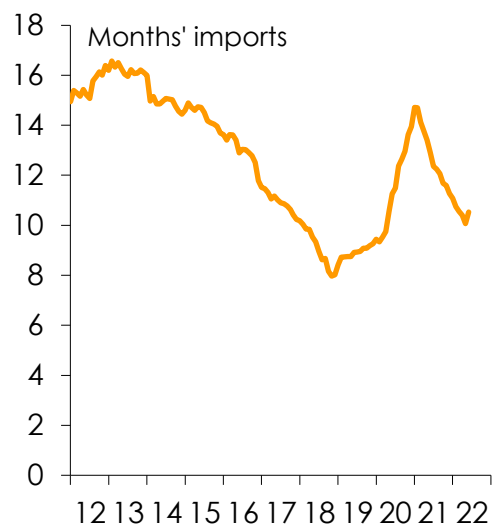
Taiwan



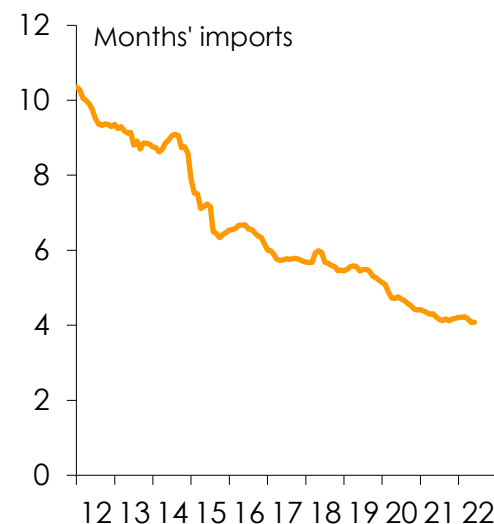
Singapore



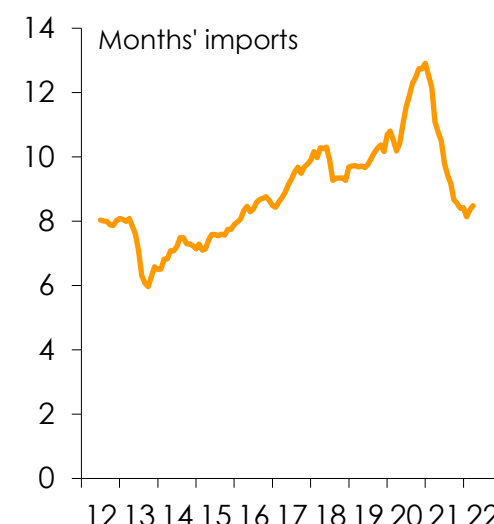
Philippines



Malaysia



Cambodia

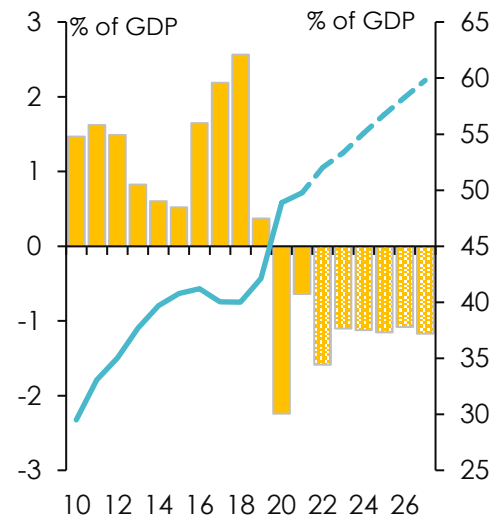


Note: Foreign exchange reserves in the above charts are shown as a multiple of average monthly imports (measured in US\$) over the preceding 12 months.
Sources: national statistical agencies and central banks; IMF; Refinitiv Datastream. [Return to "What's New"](#).

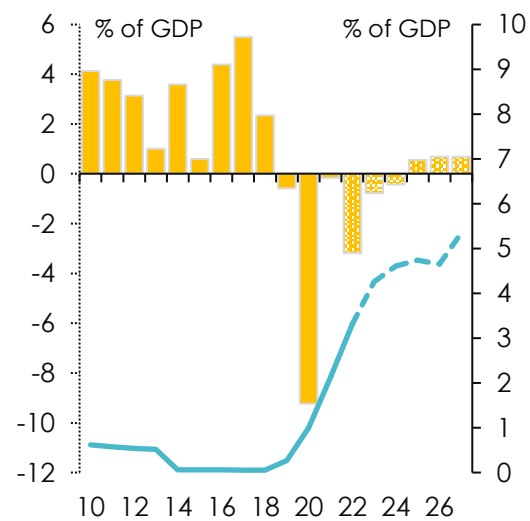
Most Asian governments, apart from Korea, Taiwan, Malaysia and Vietnam, will be tightening fiscal policy over the next few years

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

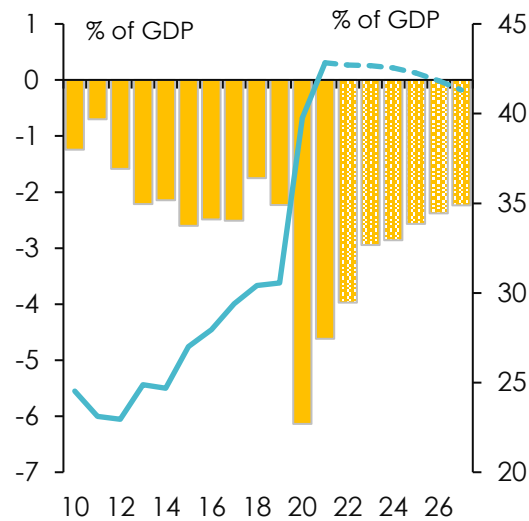
Korea



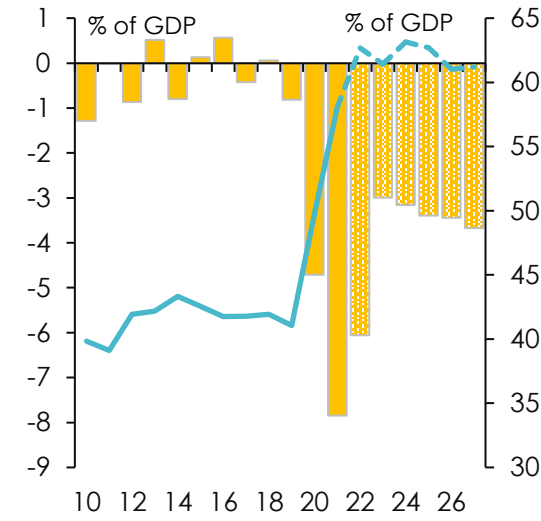
Hong Kong



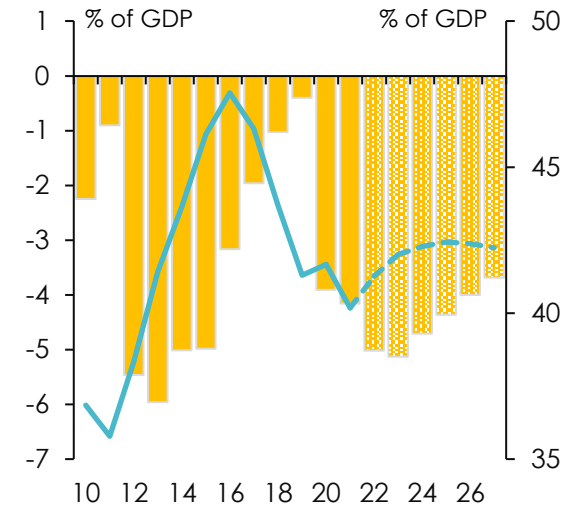
Indonesia



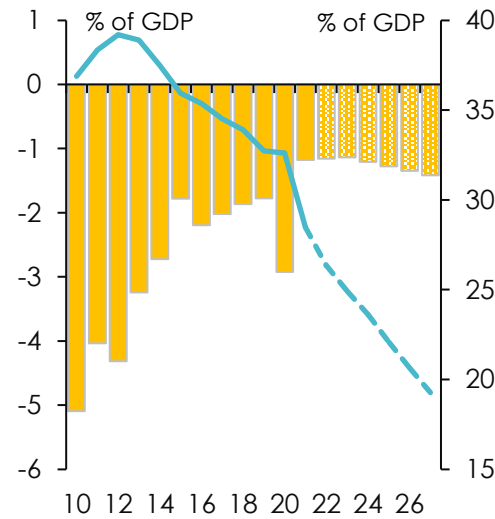
Thailand



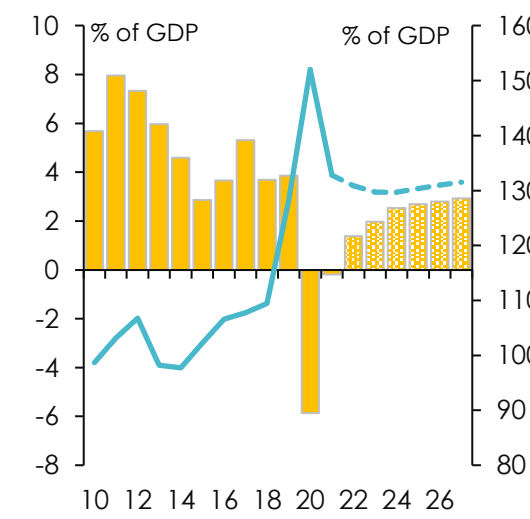
Vietnam



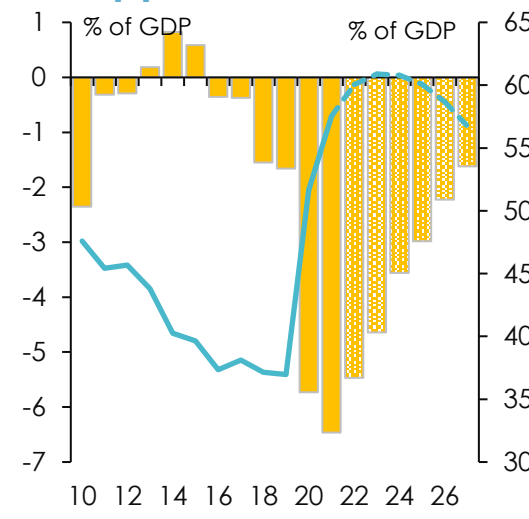
Taiwan



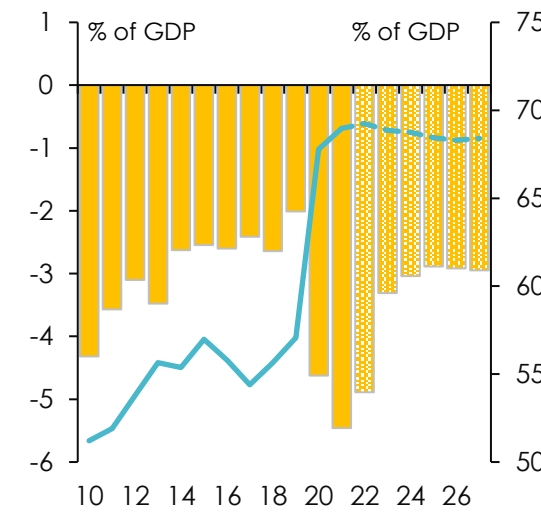
Singapore



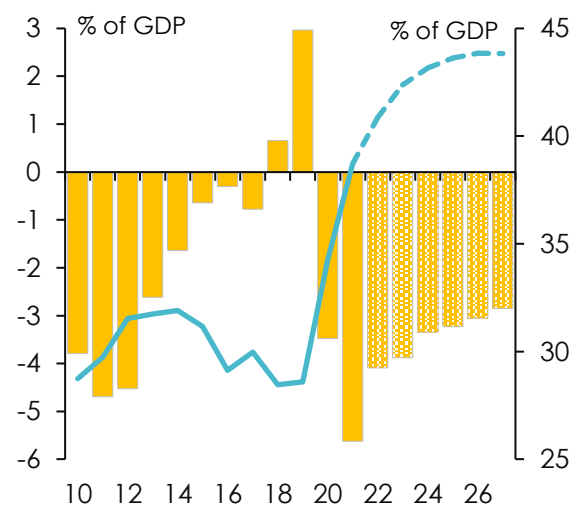
Philippines



Malaysia



Cambodia



General government overall fiscal balance (left scale)



General government gross debt (right scale)

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

Malaysia's central bank lifted its policy rate for the second time last week, and Korea's will probably do likewise for a sixth time this Wednesday

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

- ❑ **As expected, [Bank Negara Malaysia](#) raised its overnight policy rate by another 25 basis points, to 2.25%, at its Monetary Policy Committee meeting last Wednesday**
 - this decision reflects the MPC's [view](#) that “the unprecedented conditions that necessitated a historically low OPR have continued to recede”, given that “economic activity [has] continued to strengthen in recent months ... and will be supported by firm domestic demand”
 - BNM expects inflation to remain within a 2.2-3.2% range this year, with upward pressures “partly contained by existing price controls, fuel subsidies and the continued spare capacity in the economy”
 - it noted that “the stance of monetary policy remains accommodative and supportive of economic growth”, and that “any adjustments to monetary policy settings going forward” would remain so in order to “support a sustainable economic growth in an environment of price stability”

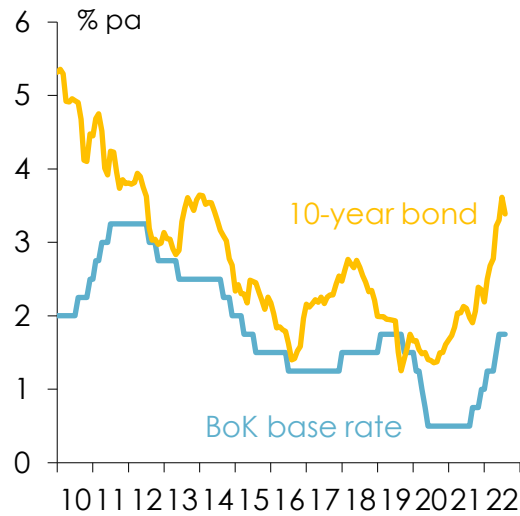
- ❑ **The [Bank of Korea](#) will likely raise its base rate by another 25 bp, to 2.0%, when its Monetary Policy Board meets this coming Wednesday**
 - the BoK has raised its policy rate five times, by 25 bp on each occasion, since November last year, the most recent increase being at the last meeting on 26th May
 - since that meeting, Korea's ‘headline’ and ‘core’ inflation rates have risen further to 6.0% and 4.4%, respectively, over the year to July, well above the BoK's target of 2%, and the BoK's latest [Monetary Policy Report](#), issued on 9th June, says that it will “need to conduct monetary policy with more emphasis on inflation for some time”

- ❑ **The [minutes](#) of last month's Bank of Thailand Monetary Policy Committee meeting 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**
 - 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

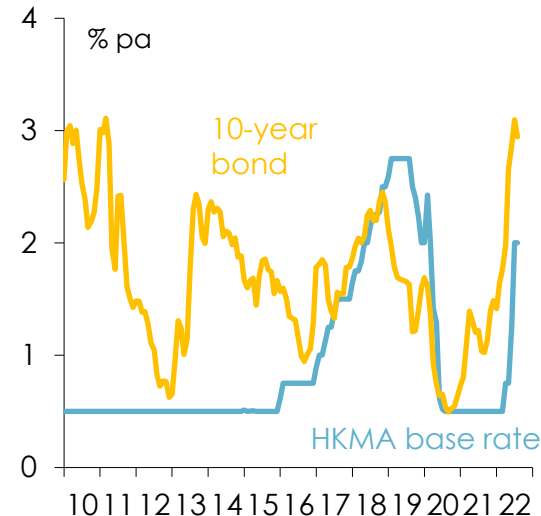
Malaysia's central bank lifted its policy rate for the second time last week, Korea's is likely to lift its policy rate again this week

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

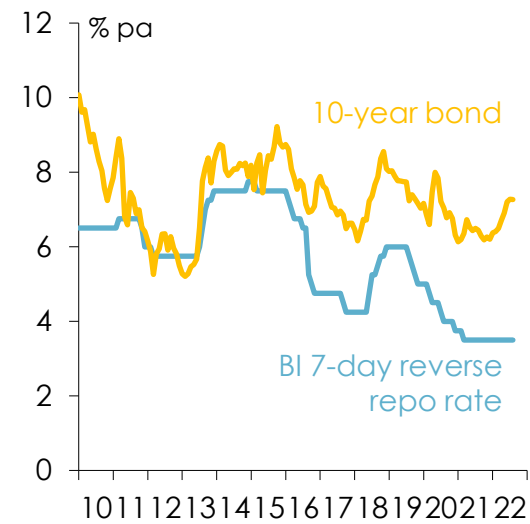
Korea



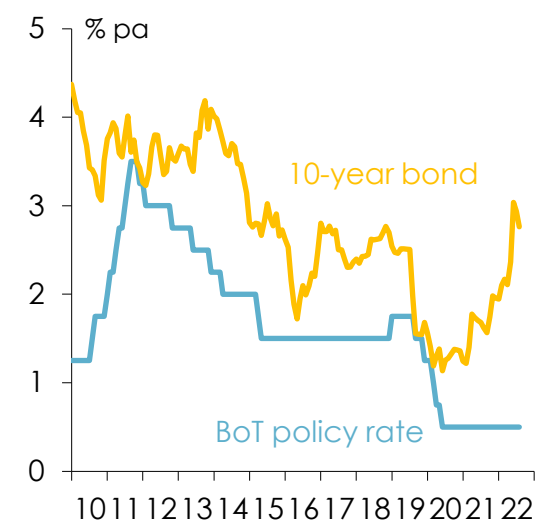
Hong Kong



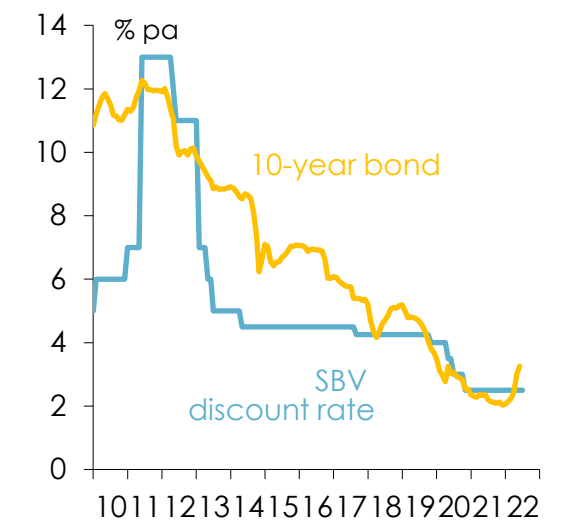
Indonesia



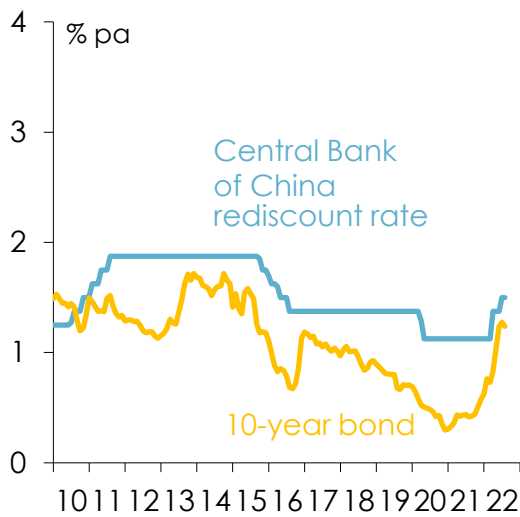
Thailand



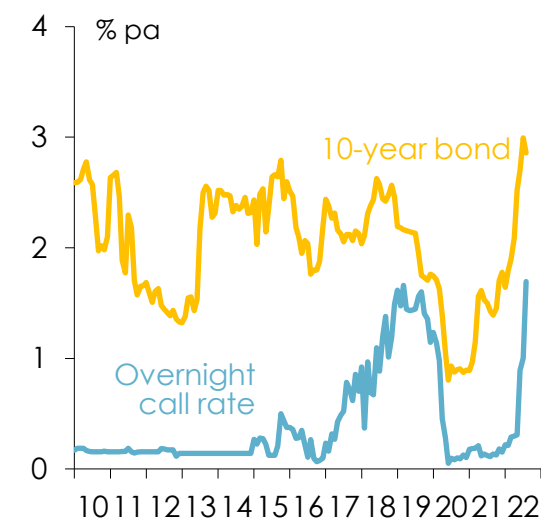
Vietnam



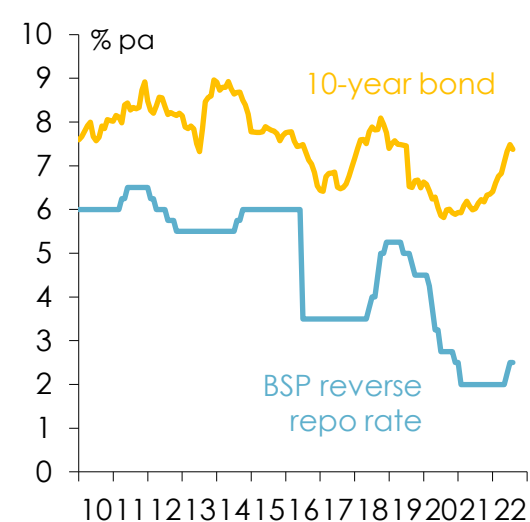
Taiwan



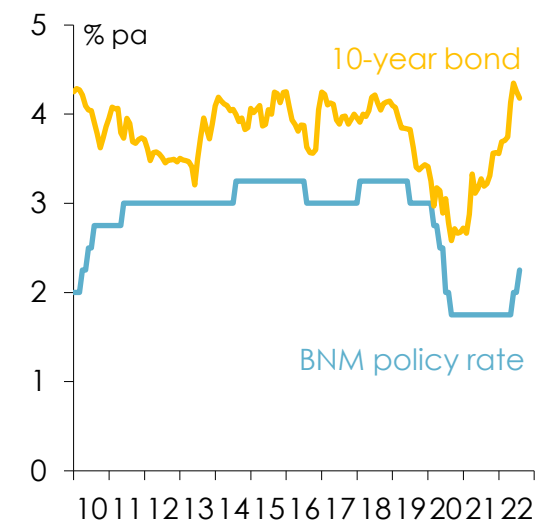
Singapore



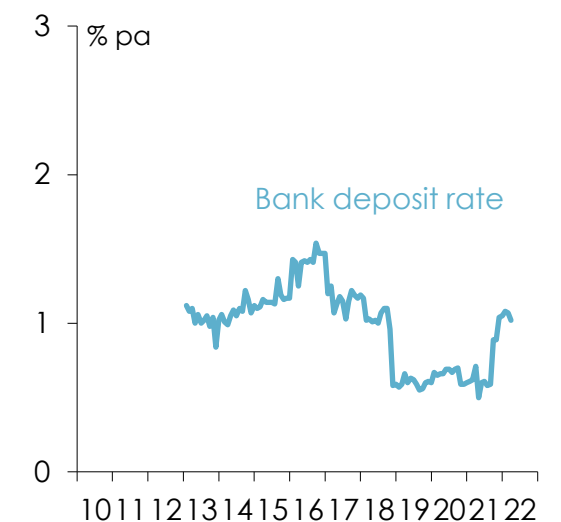
Philippines



Malaysia



Cambodia

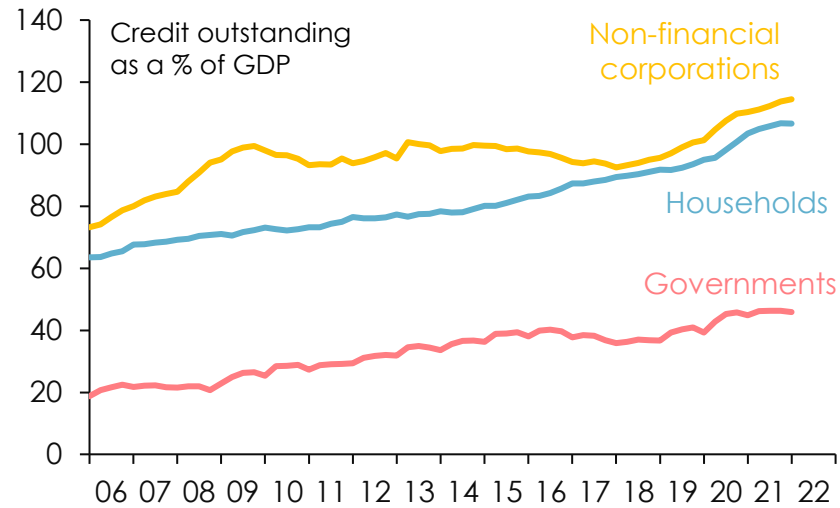


Note: Neither Hong Kong nor Singapore use a monetary policy indicator interest rate. Hong Kong has a currency board system, under which the HKMA base rate moves in line with a pre-set formula based on the US fed funds rate; the Monetary Authority of Singapore uses the (effective) exchange rate as its 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 8th July 2022. Sources: national central banks; Refinitiv Datastream. [Return to "What's New"](#).

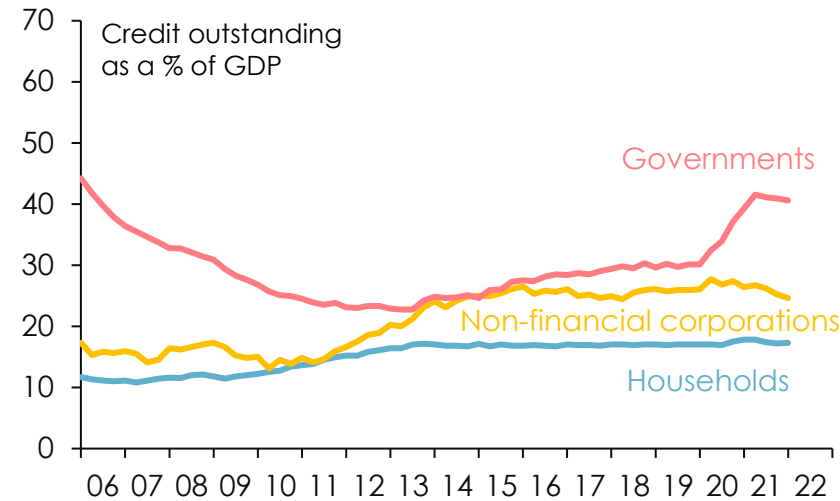
In Asia, Hong Kong, Singaporean and Korean corporates, and Korean households, have the greatest exposure to any increases in interest rates

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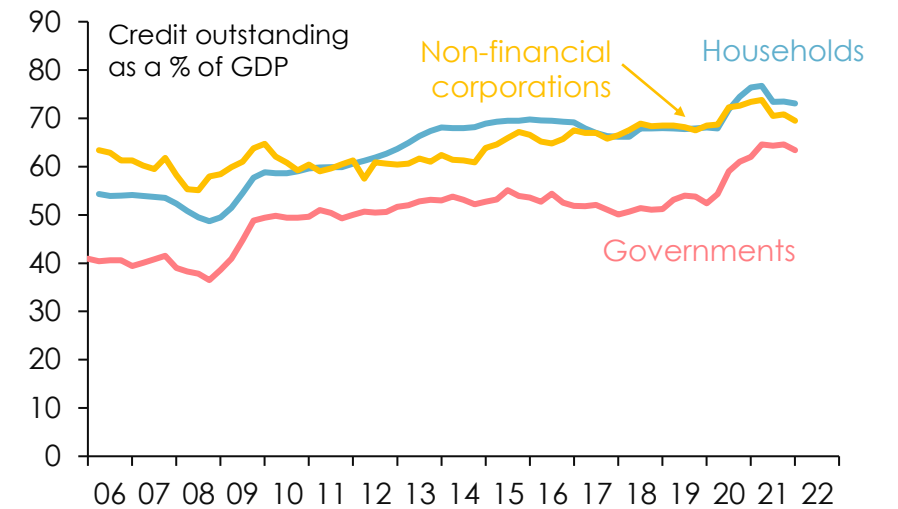
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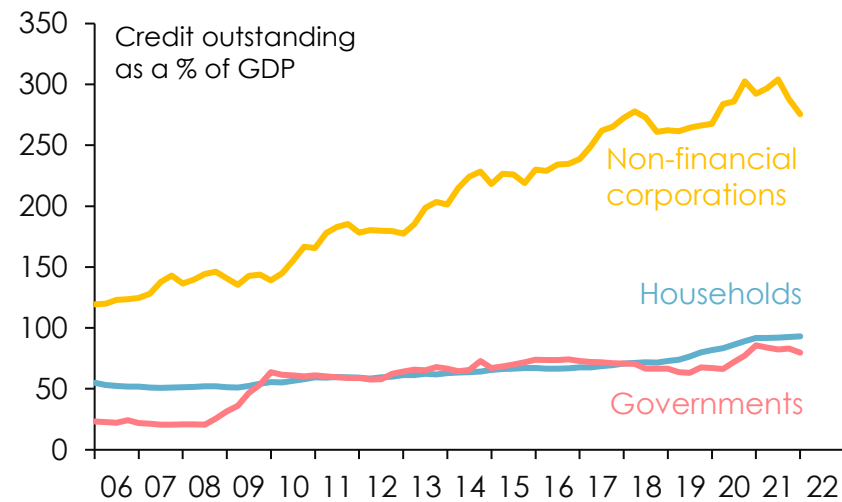
Indonesia



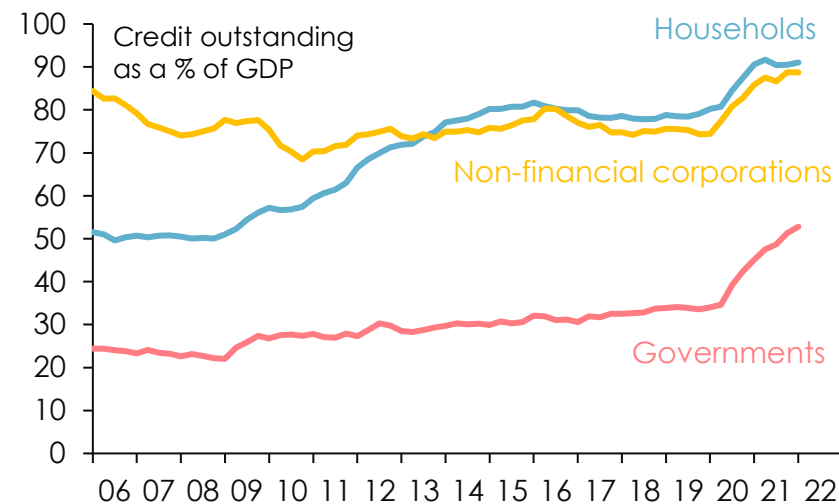
Malaysia



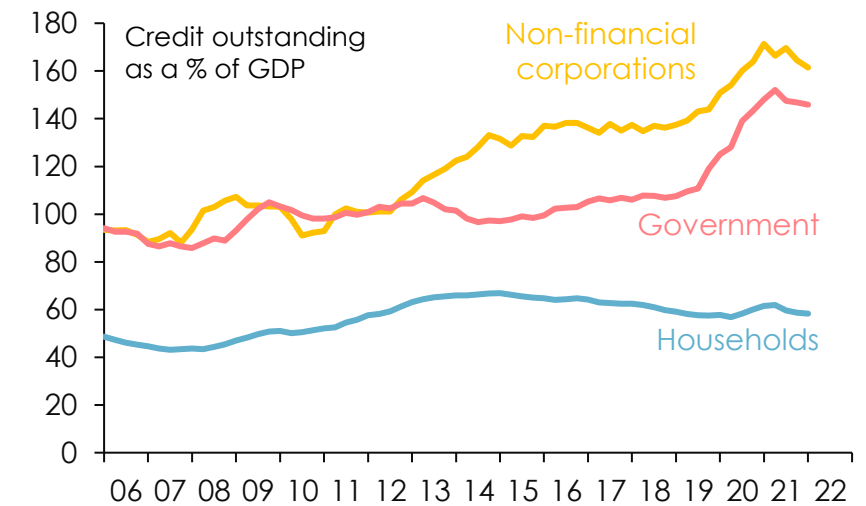
Hong Kong



Thailand



Singapore

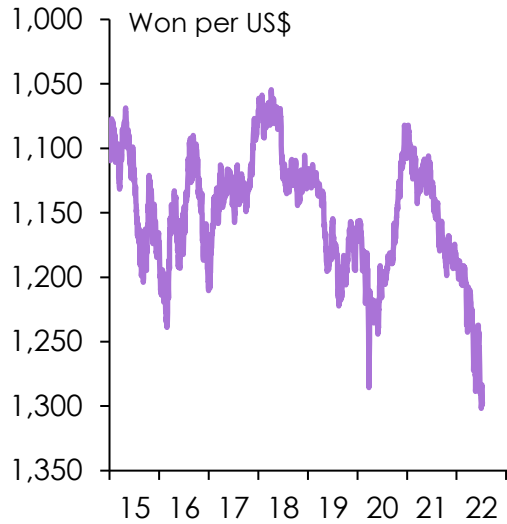


Source: Bank for International Settlements, [Credit Statistics](#); latest data are for Q4 2021, Q1 2022 data will be released in mid-September. [Return to "What's New"](#).

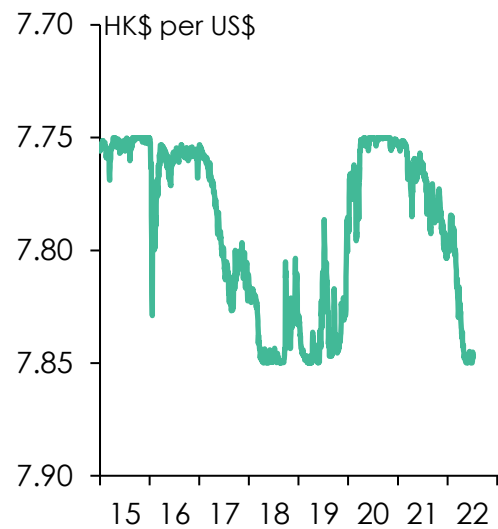
Asian currencies were again mostly weaker against a stronger US\$ last week, with the S\$ down 0.8%, the rupiah down 0.6% and the baht down 0.4%

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Korean won



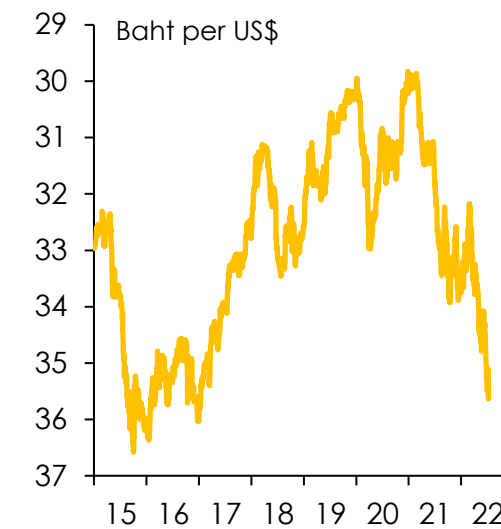
Hong Kong dollar



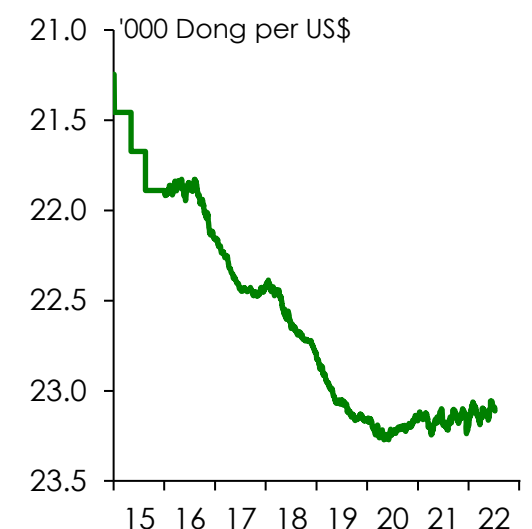
Indonesian rupiah



Thai baht



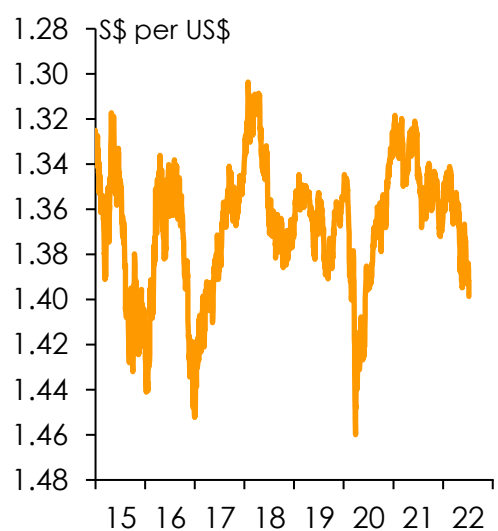
Vietnamese dong



New Taiwan dollar



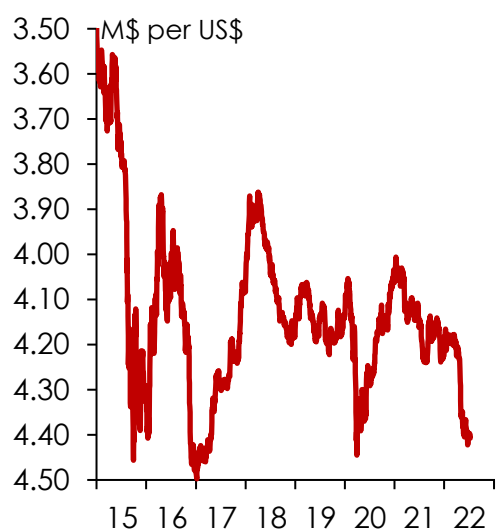
Singapore dollar



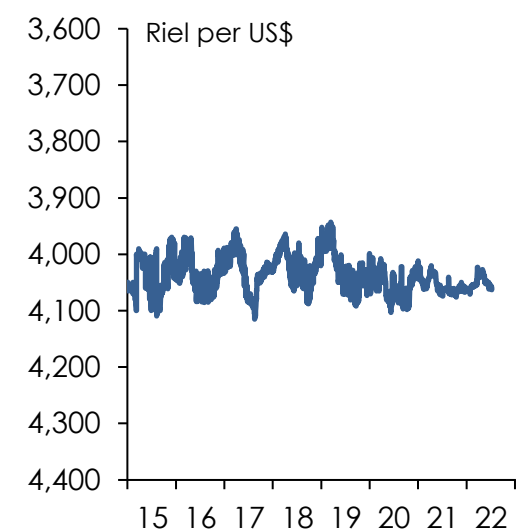
Philippine peso



Malaysian ringgit



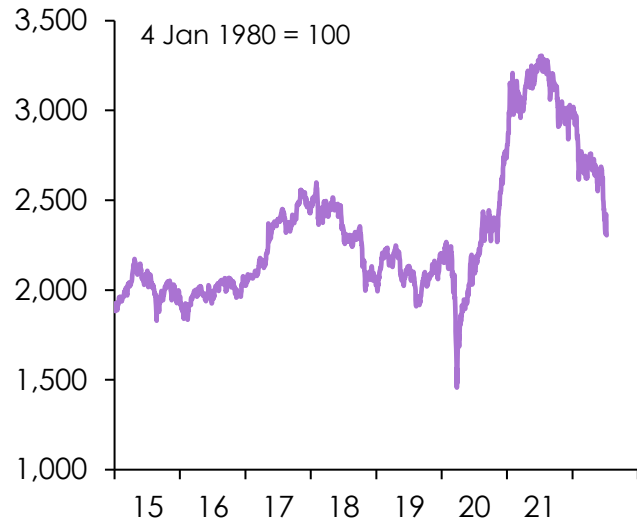
Cambodian riel



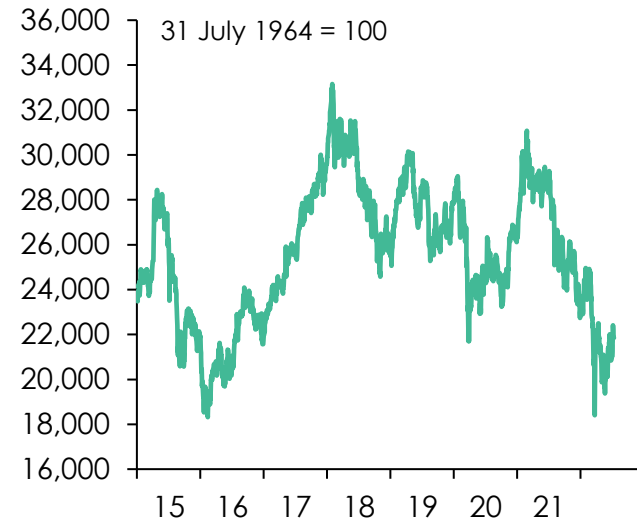
Asian stock markets were mixed last week with Taipei down 6¼%, Jakarta 3½% and Seoul 2½%, but HK, Bangkok & KL were up marginally

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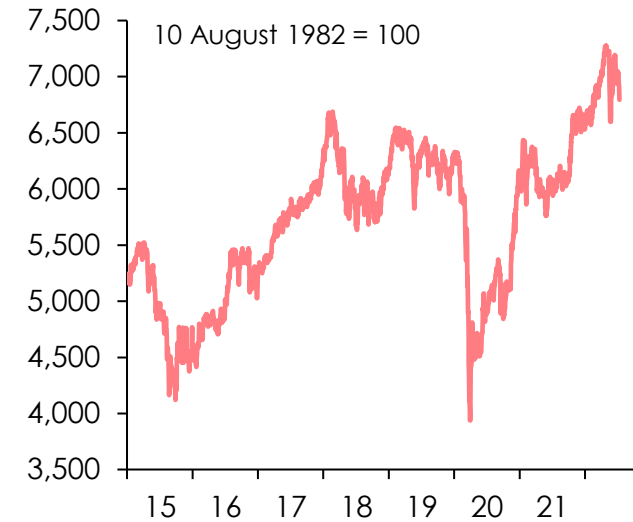
KOSPI



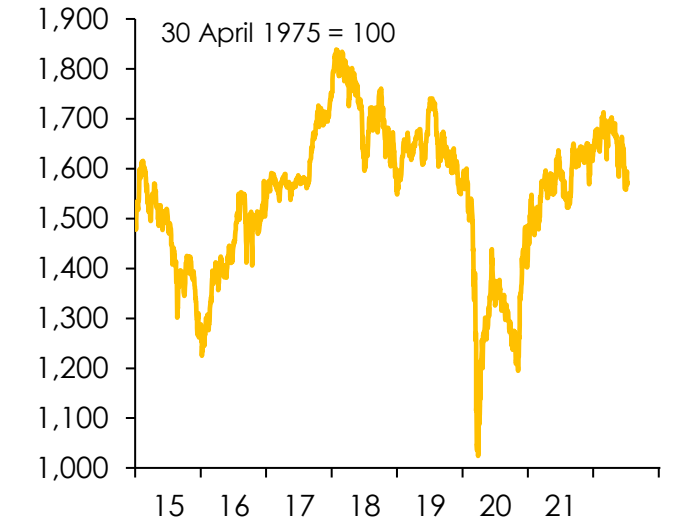
Hang Seng Index



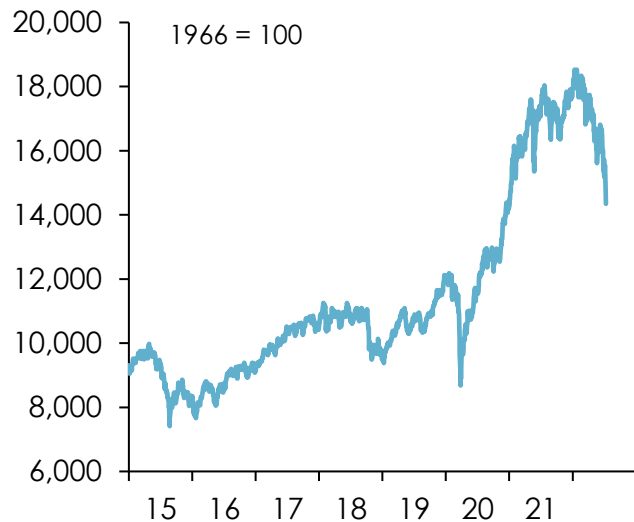
JCI



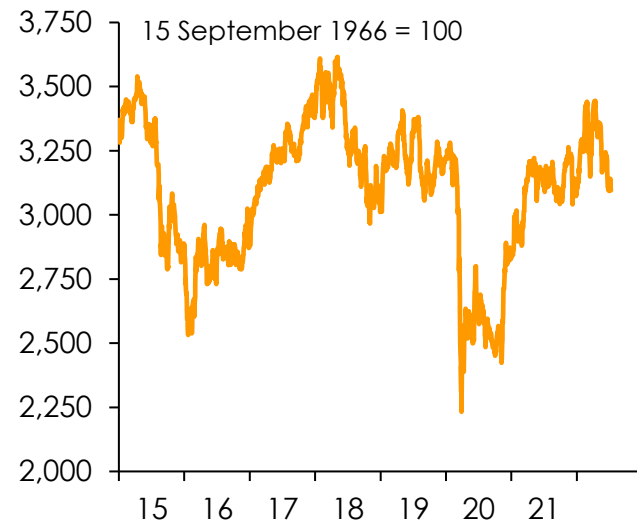
SETI



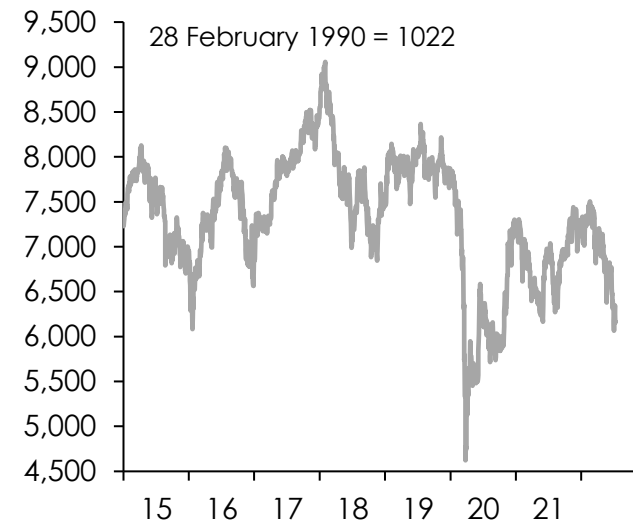
TAIEX



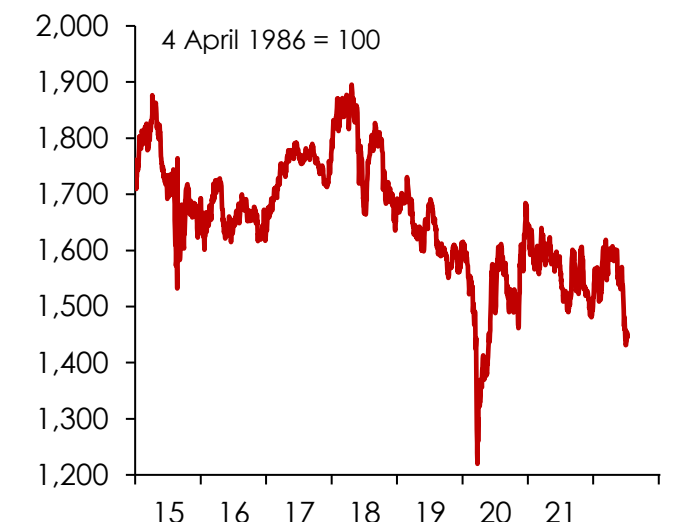
Straits Times Index



PSE i



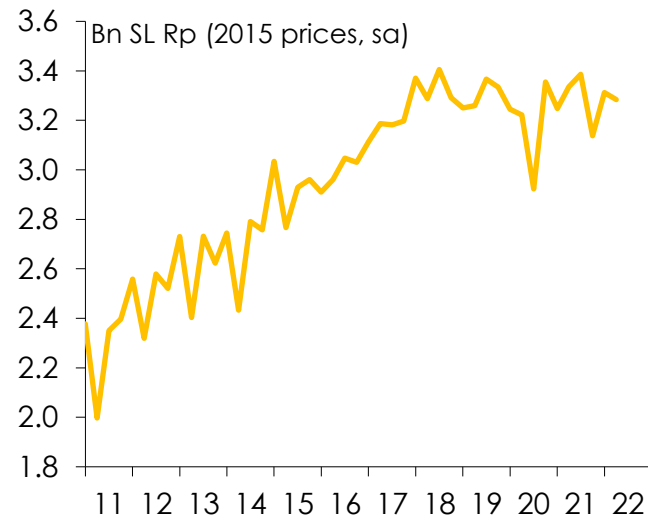
KLCI



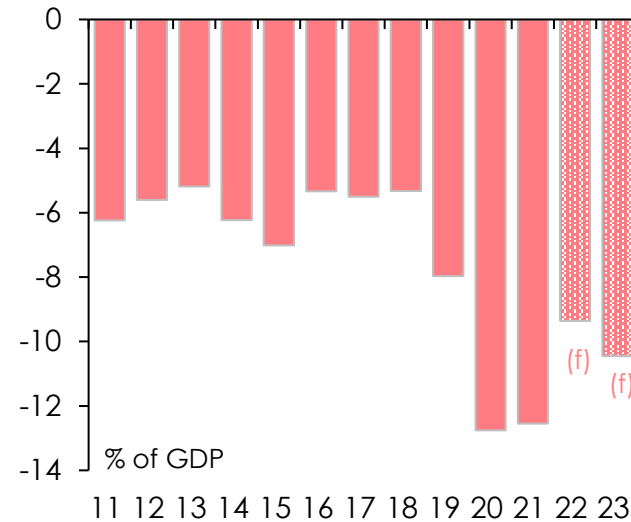
Sri Lanka's central bank last week raised its policy rates another 100bp in order to "contain any build-up of adverse inflation expectations"

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

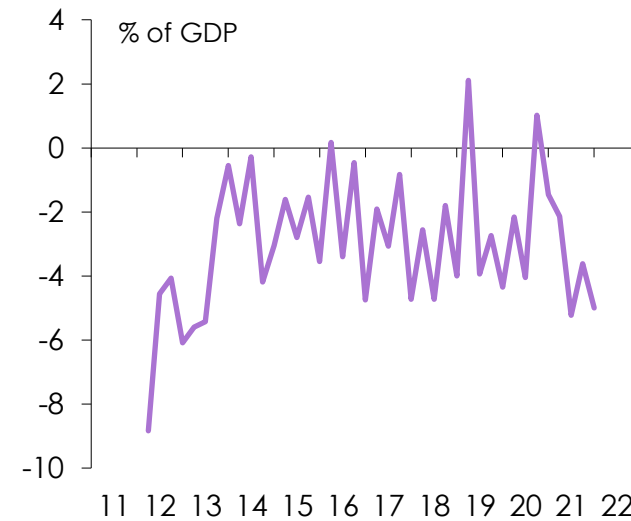
Real GDP



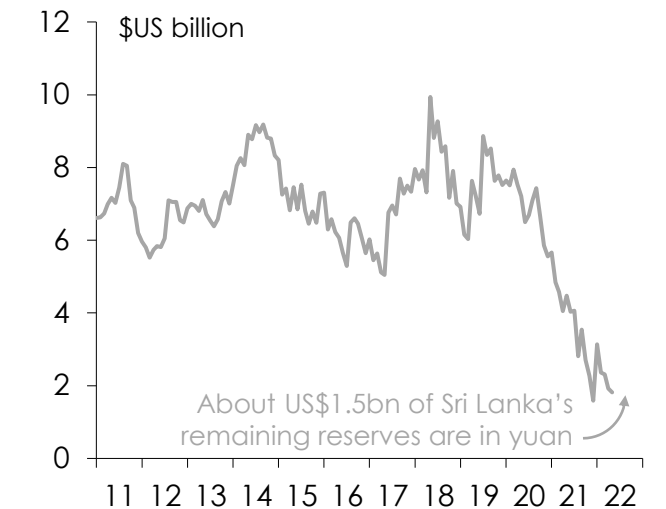
Fiscal balance



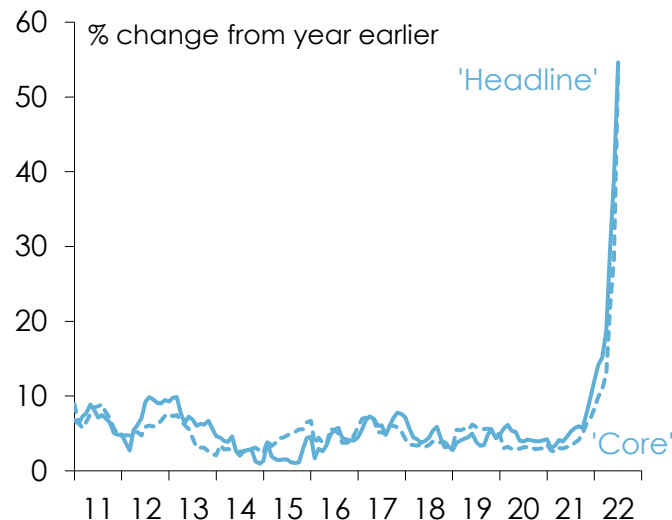
Current account balance



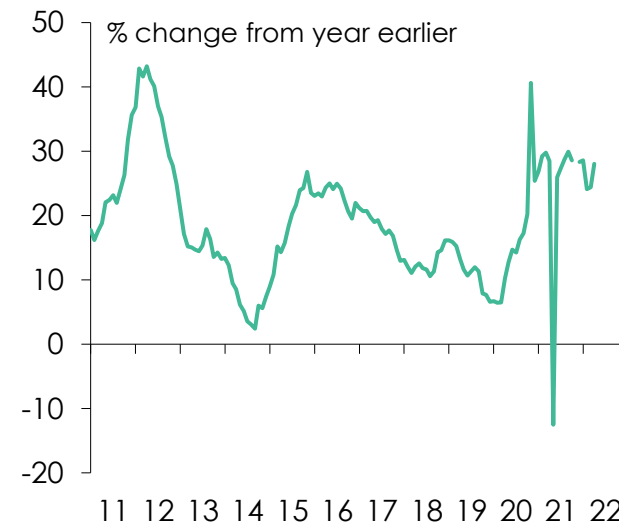
FX reserves



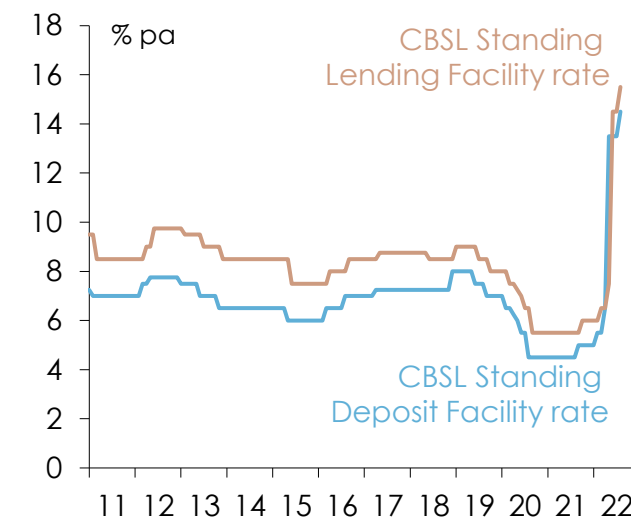
Consumer prices



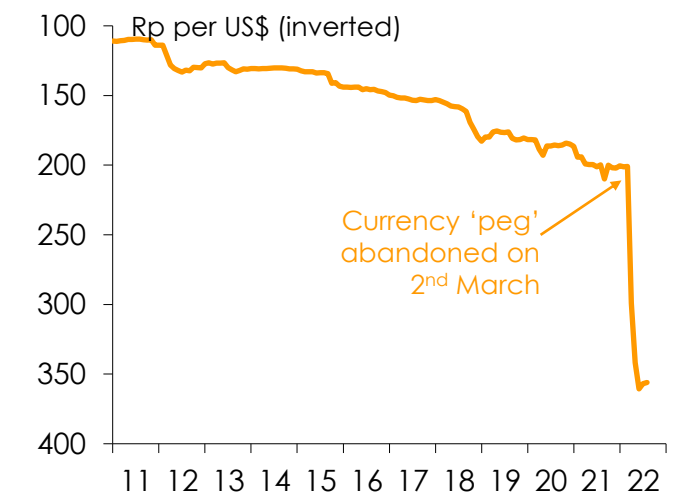
Credit growth



Interest rates



SL rupee vs US\$



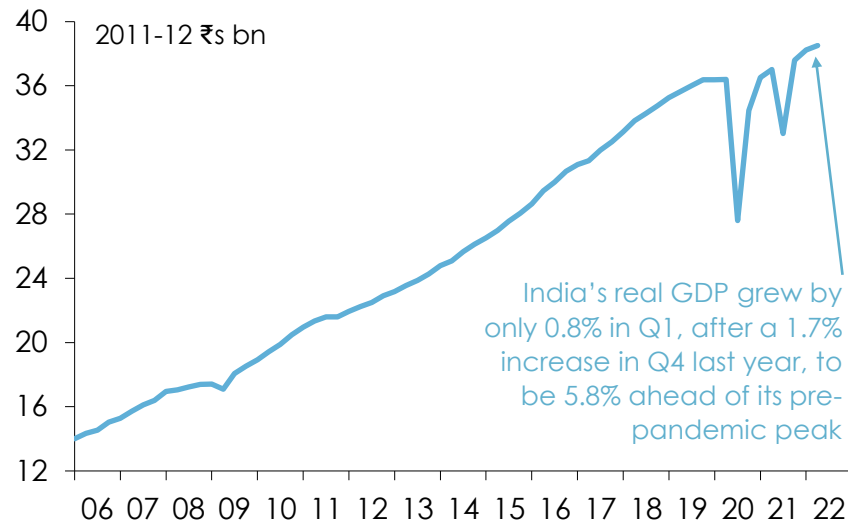
Note: GDP data seasonally adjusted using Refinitiv Datastream; CPI data are for Colombo. Sources: [Sri Lanka Department of Census and Statistics](#); [Central Bank of Sri Lanka](#); IMF, [Fiscal Monitor](#), April 2022; Refinitiv Datastream. [Return to "What's New"](#).

India

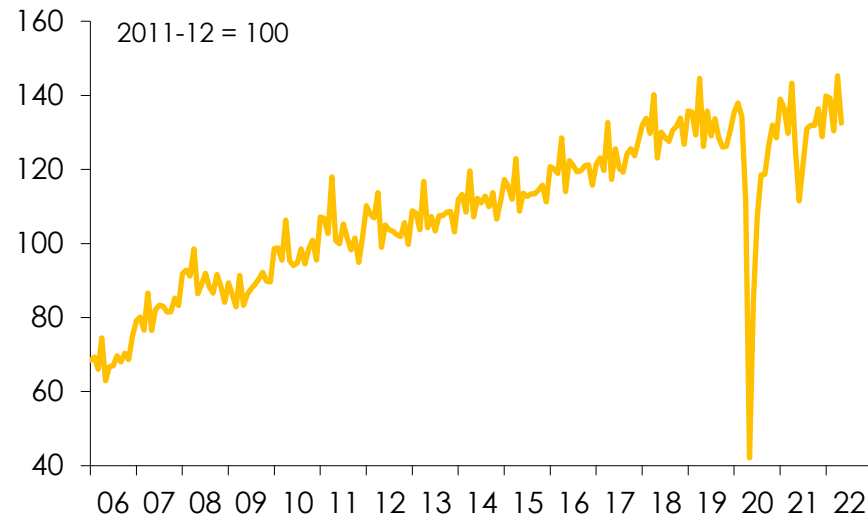
India's GDP growth rate has slowed sharply over the past two quarters, after bouncing strongly out of its second Covid recession in mid-2022

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

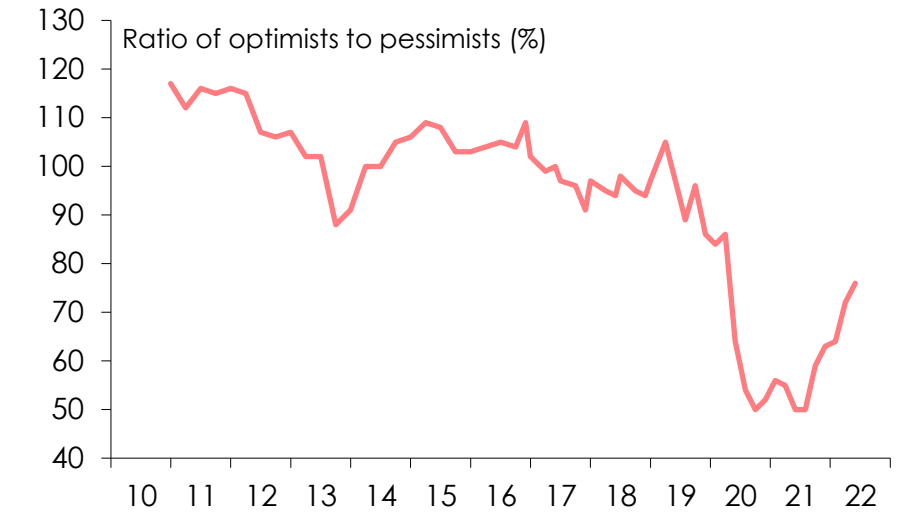
Quarterly real GDP



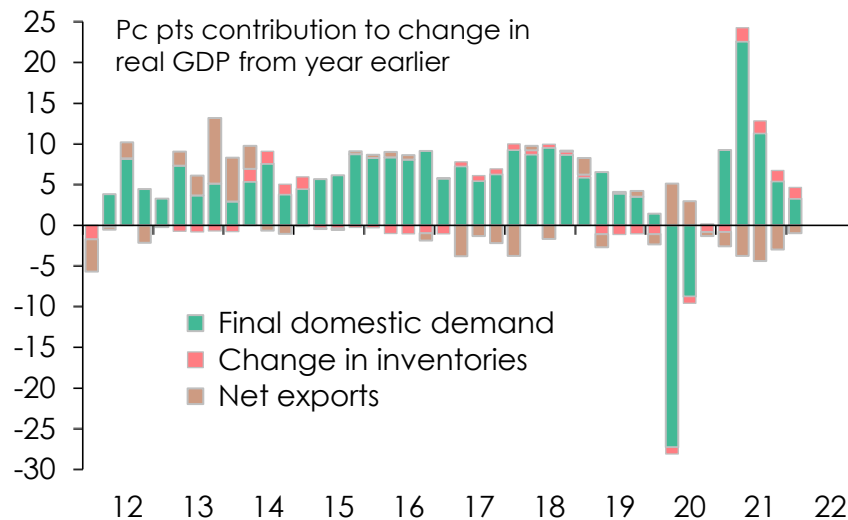
Manufacturing production



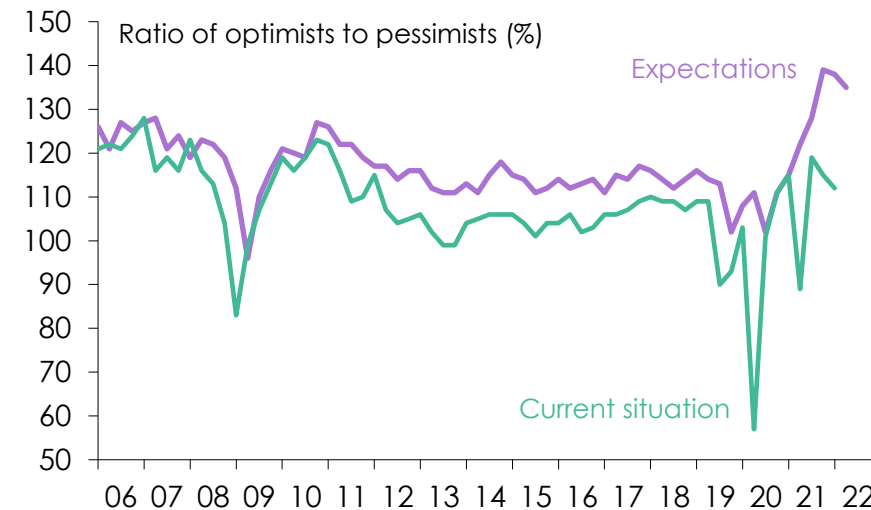
Consumer confidence



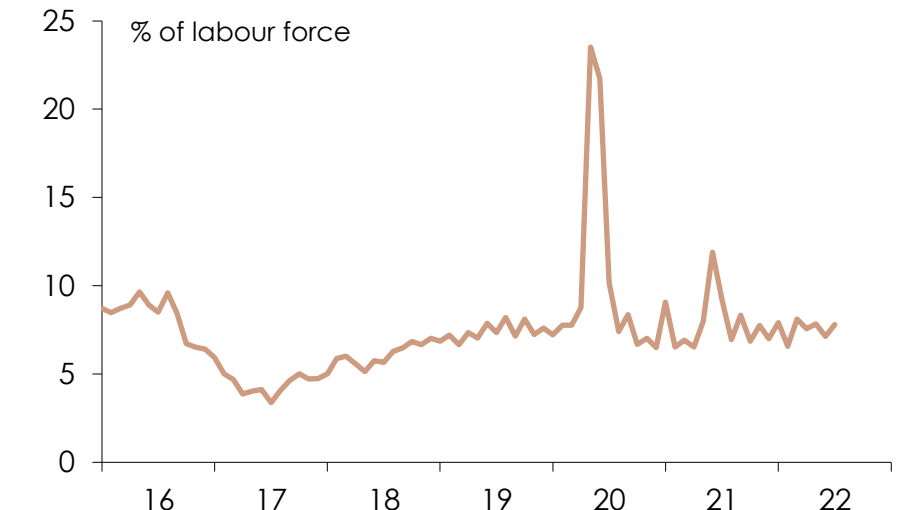
Contributions to real GDP growth



Industrial sector sentiment



Unemployment rate

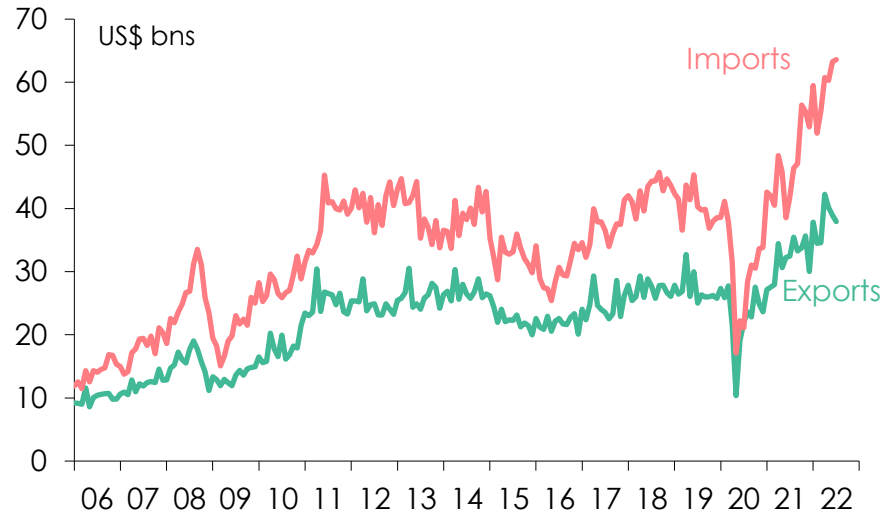


Sources: OECD, [Quarterly National Accounts dataset](#); Government of India, Ministry of Statistics and Programme Implementation, [National Accounts Data](#), and [IIP Data](#); Reserve Bank of India, [Quarterly Industrial Outlook Survey](#) and [Consumer Confidence Survey Bi-Monthly](#); Centre for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

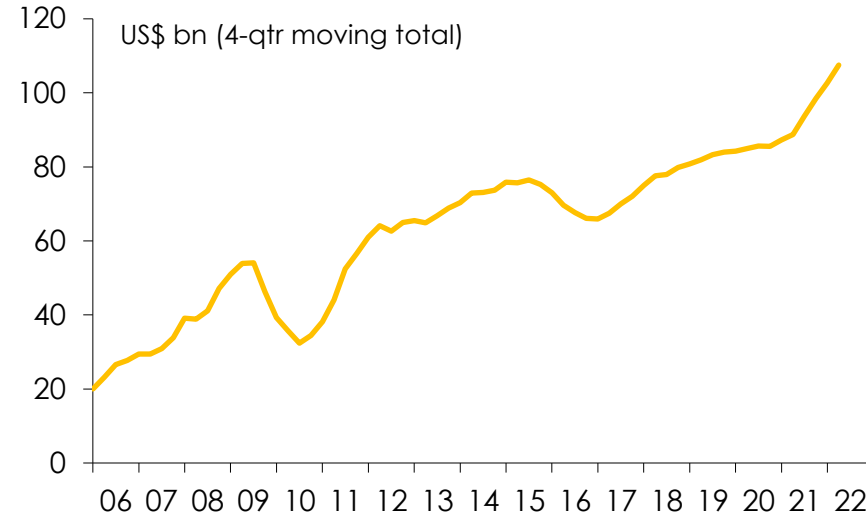
India's merchandise trade deficit has deteriorated sharply due to higher oil prices but its overall external position remains relatively stable

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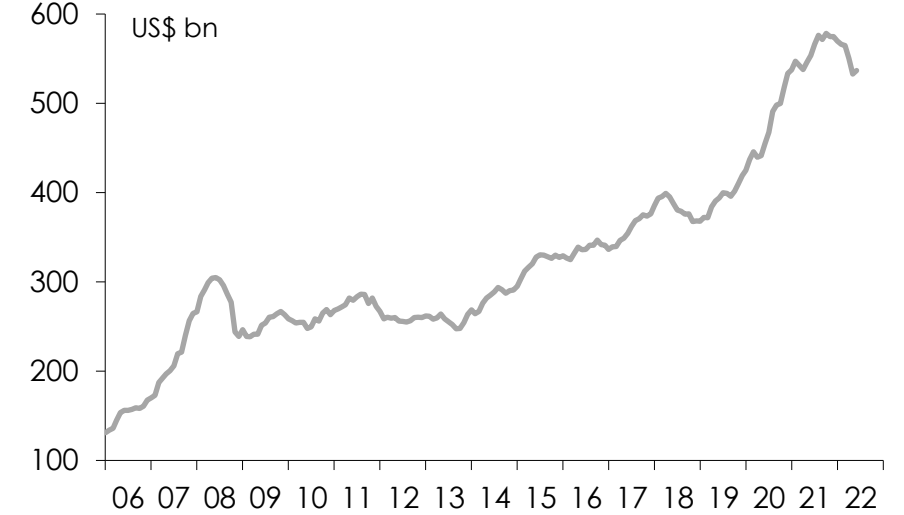
Merchandise exports and imports



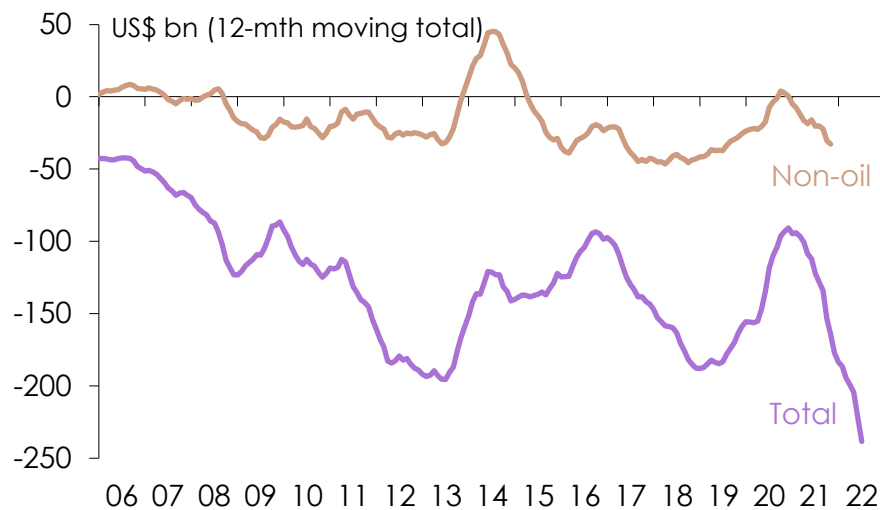
Services trade balance



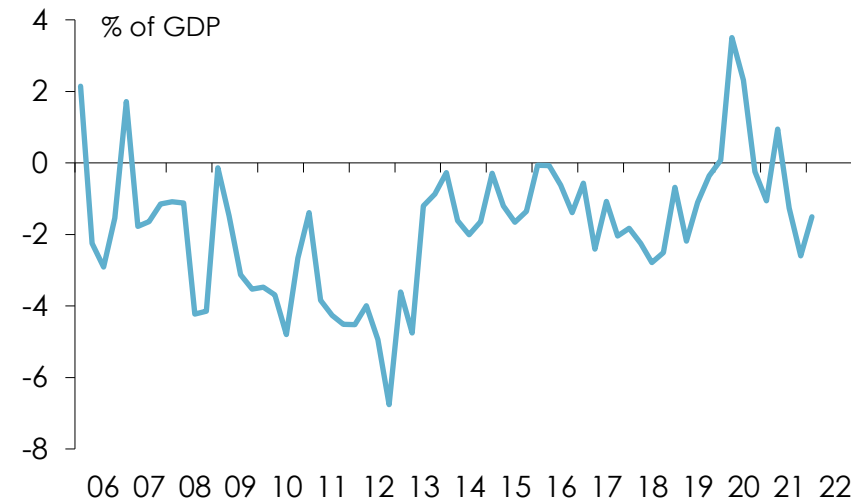
Foreign exchange reserves



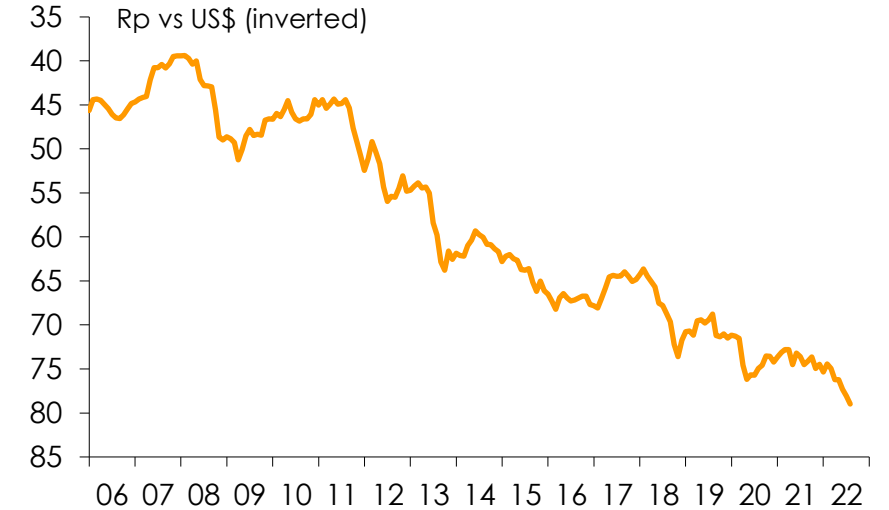
Merchandise trade balance



Current account balance



Rupee vs US dollar

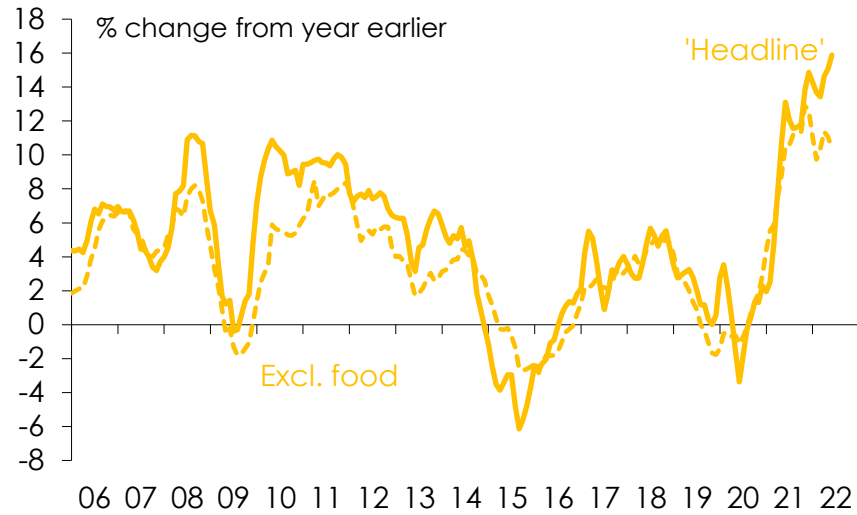


Sources: Government of India, Ministry of Commerce and Industry, [Trade Statistics](#); Reserve Bank of India, [Special Data Dissemination Standards - Balance of Payments](#) and [Weekly Statistical Supplement - Extract](#); Refinitiv Datastream. [Return to "What's New"](#).

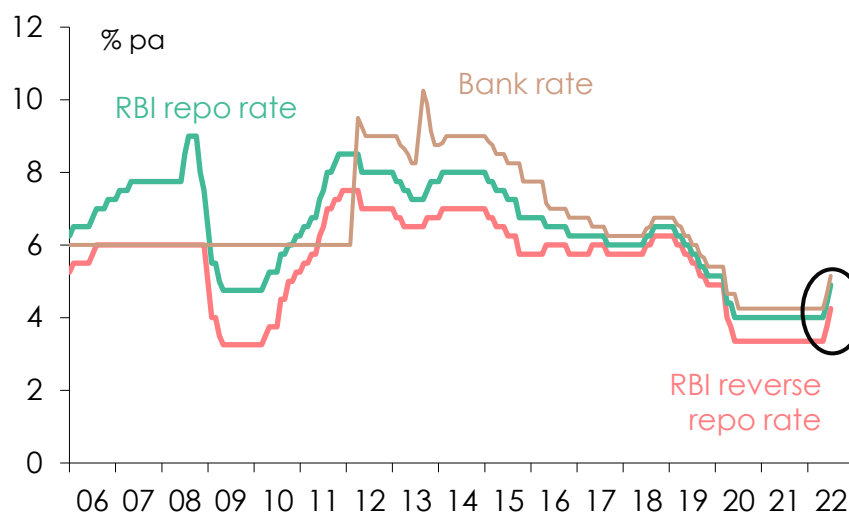
India's annual inflation rate eased slightly to 7.0% in May from 7.8% in April, but it's still well above the RBI's 2-6% target range

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

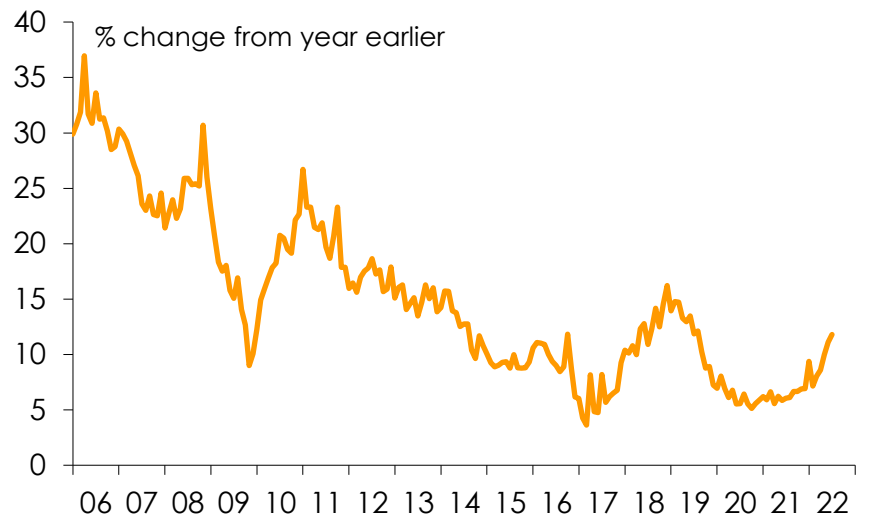
Wholesale prices



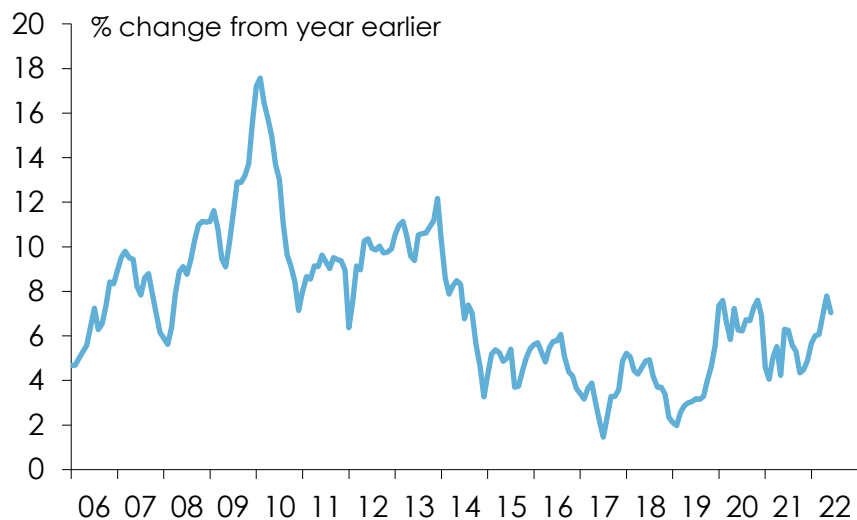
RBI policy interest rates



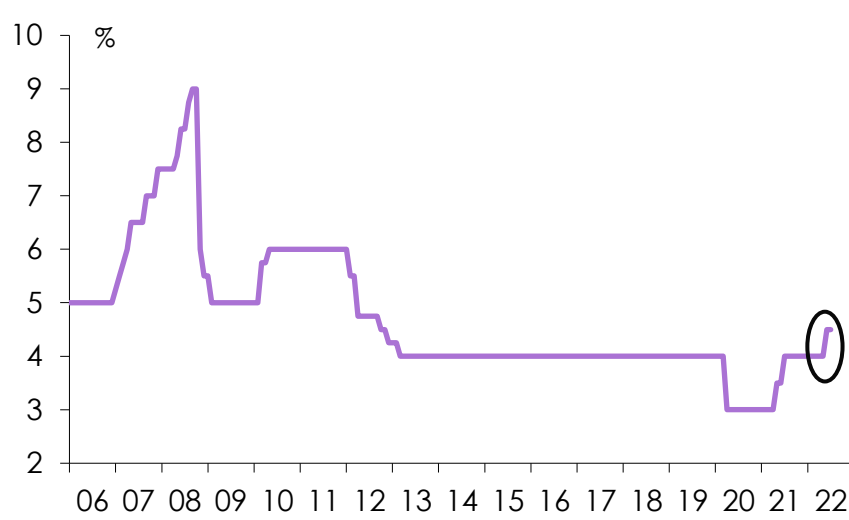
Bank lending



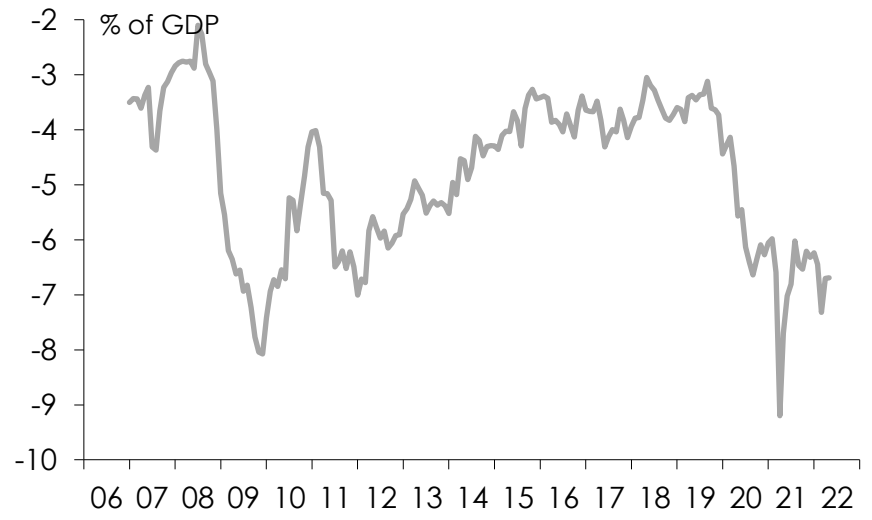
Consumer prices



RBI cash reserve ratio



Central government fiscal balance



Note: The RBI's inflation target is 4% ± 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 raised its cash rate another 50 bp, to 1.35%, last week, and the BoC and RBNZ are expected to do likewise this week

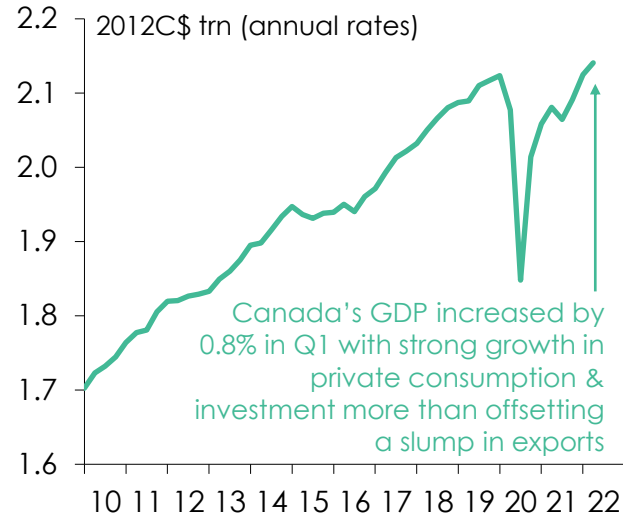
THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

- ❑ **The [Reserve Bank of Australia](#), as expected, raised its cash rate another 50 basis points, to 1.35%, at last Tuesday's Board meeting, and signalled more increases to come ([slide 114](#))**
 - In his [post-meeting statement](#), RBA Governor Philip Lowe depicted the move as “a further step in the withdrawal of the extraordinary monetary support” that was put in place during the pandemic (although in fact the reductions in interest rates during 2020 had been more than fully reversed at last month's meeting), and indicated that the RBA “expects to take further steps in the process of normalizing monetary conditions in Australia over the months ahead”
 - the RBA seems intent on moving monetary policy settings to ‘neutral’ (which probably implies a cash rate of around 2½%) by the end of this year
- ❑ **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 113](#))**
 - [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 this Wednesday, 13th July, and is likely to lift its policy rate another 50 bp
- ❑ **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 115](#))**
 - 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 this coming Wednesday, 13th July, and will likely raise the OCR another 50 bp

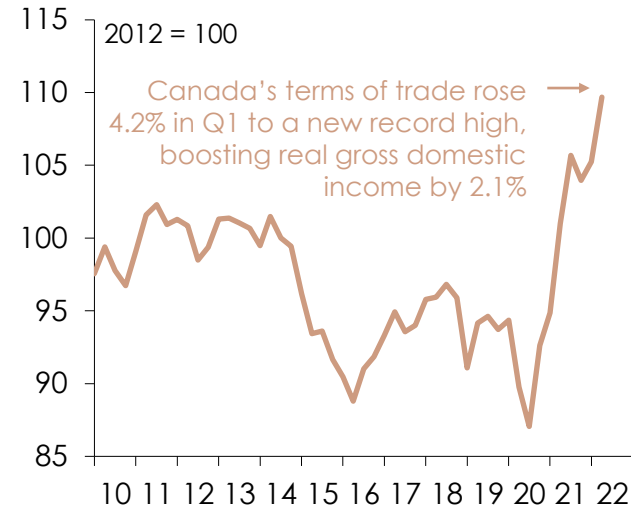
Canada's unemployment rate fell to 4.9% in June, the lowest since January 1970, despite a 43K (0.2%) fall in employment

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

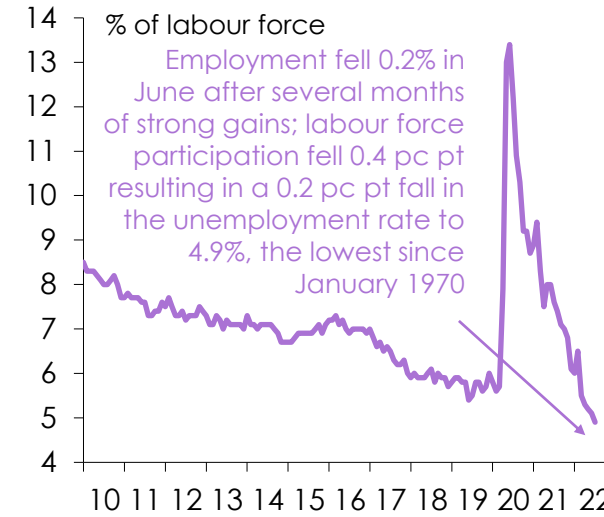
Real GDP



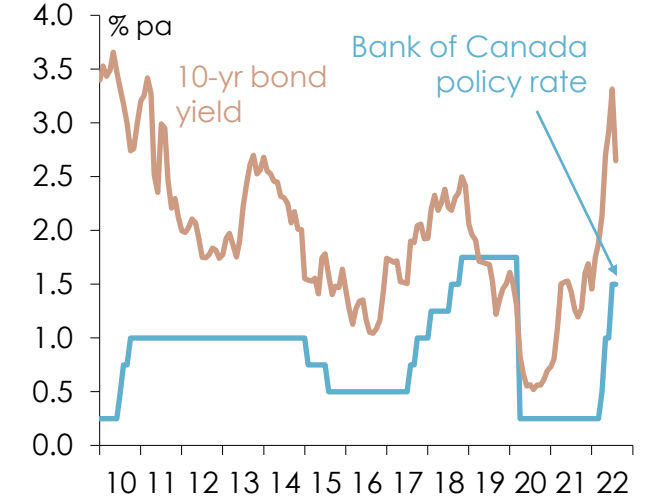
Terms of trade



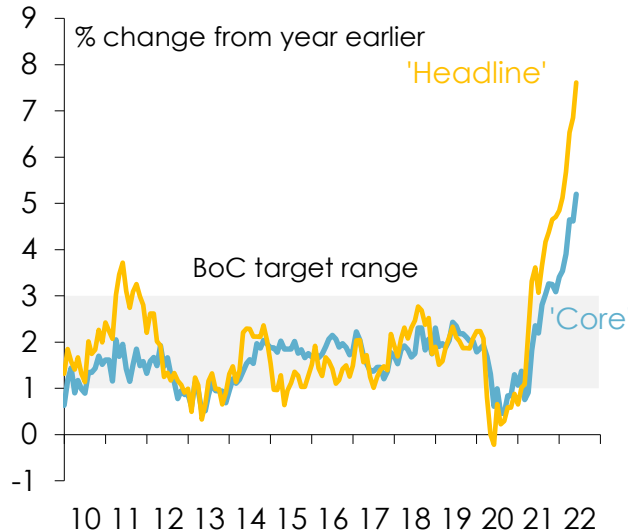
Unemployment



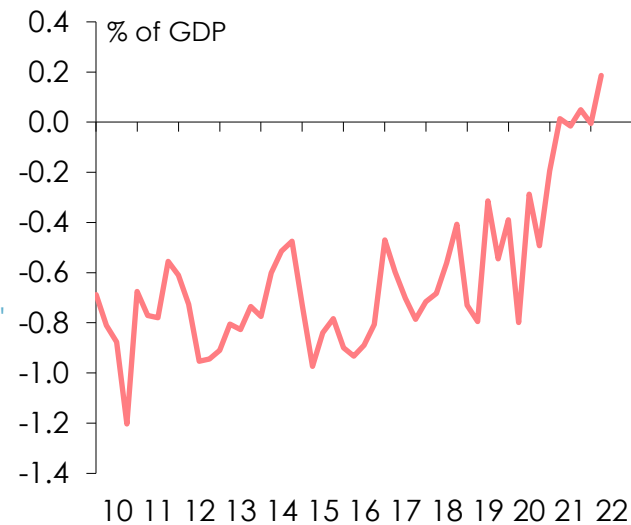
Interest rates



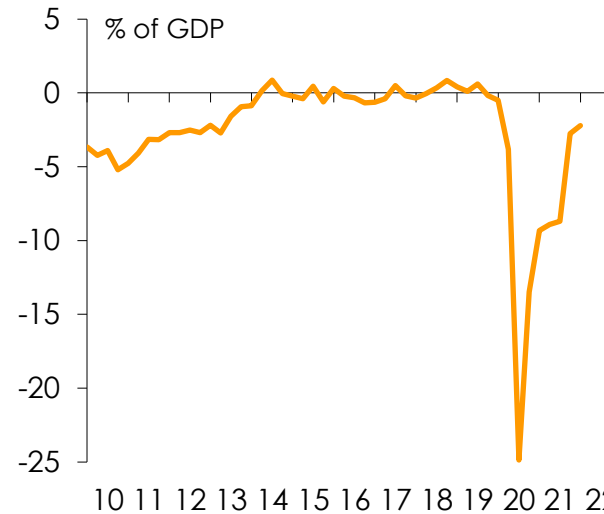
Consumer prices



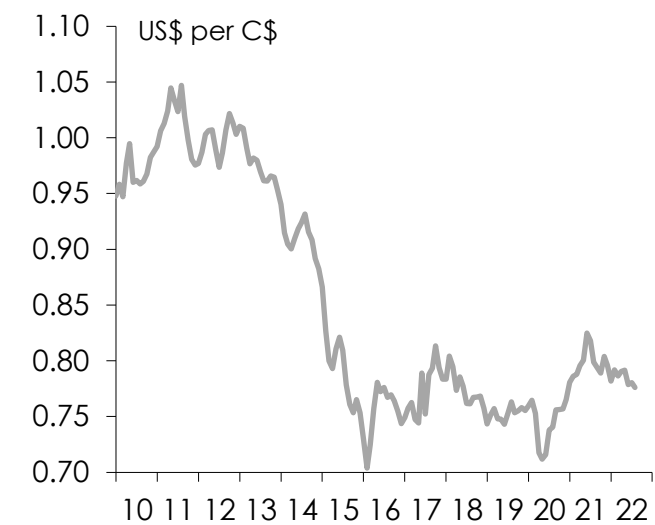
Current account balance



Government net lending



C\$ vs US\$

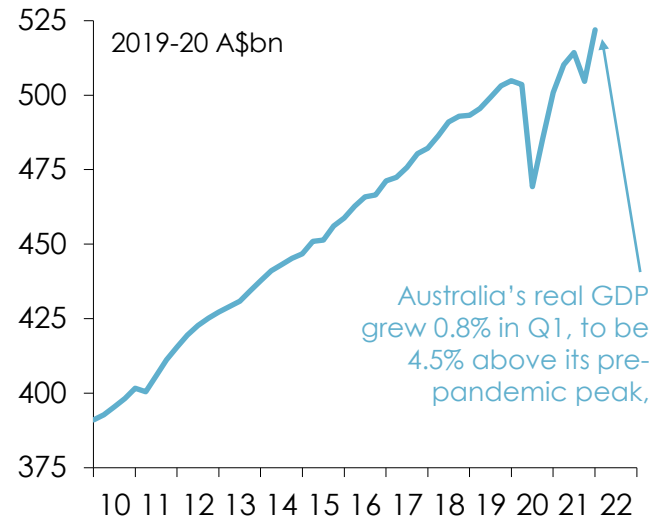


Sources: Statistics Canada, [National Gross Domestic Product \(GDP\) by Income and by Expenditure Accounts](#); [Consumer price index portal](#); [Canada's Balance of International Payments](#); [Labour Statistics](#); Bank of Canada, [Policy Interest Rate](#); Refinitiv Datastream. [Return to "What's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

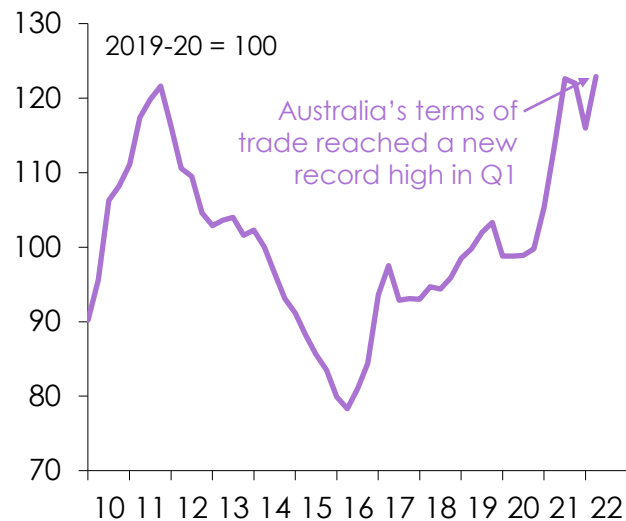
The RBA raised its cash rate by 50bp, to 1.35%, at its July board meeting, as a further step towards 'normalizing monetary conditions'

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

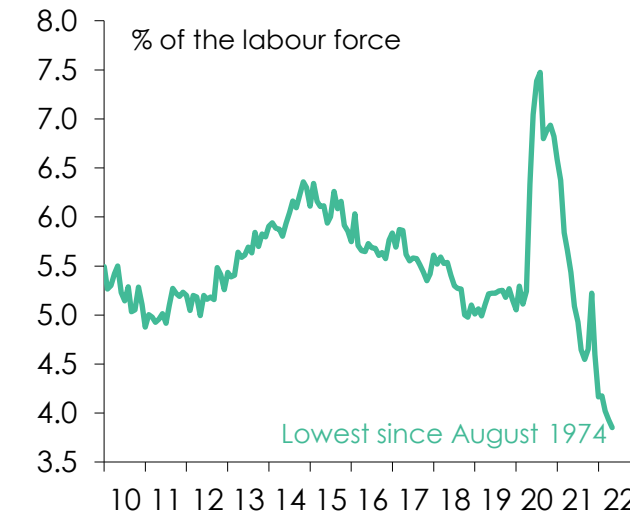
Real GDP



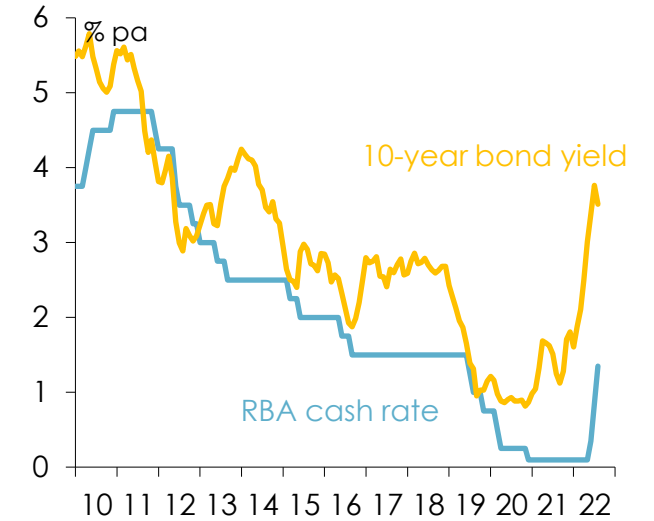
Terms of trade



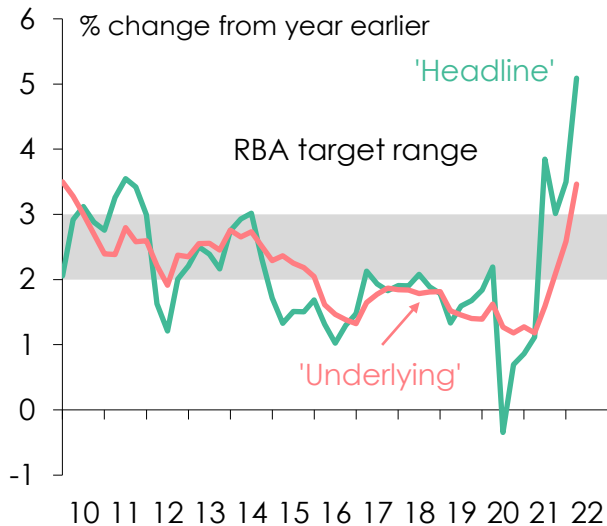
Unemployment



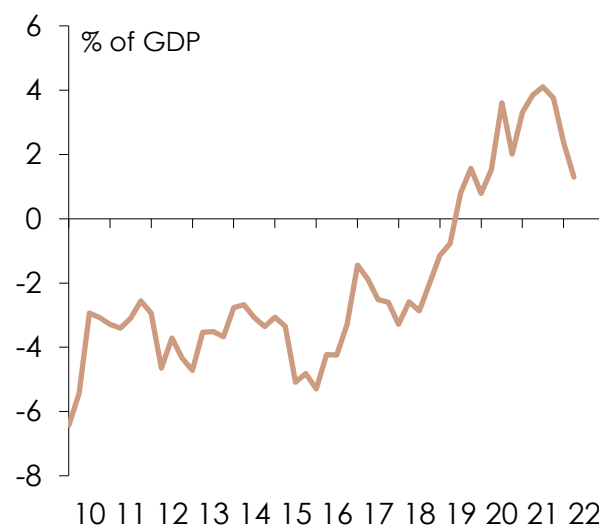
Interest rates



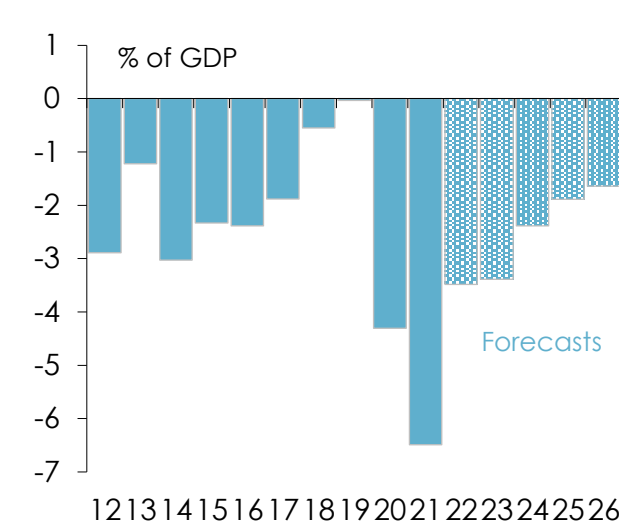
Consumer prices



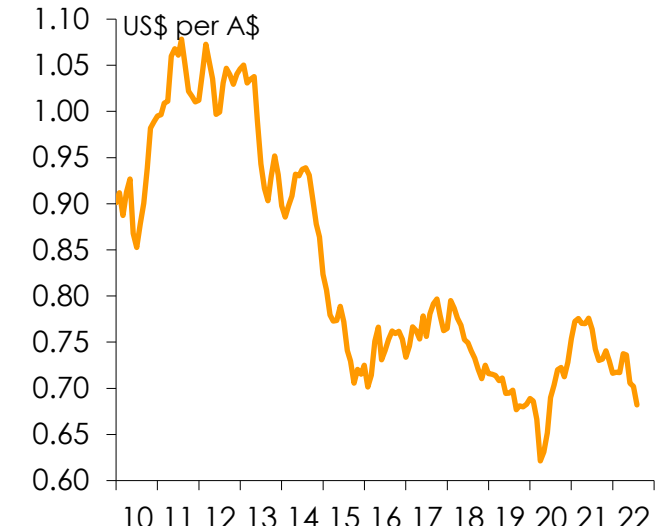
Current account balance



Government cash balance



A\$ vs US\$

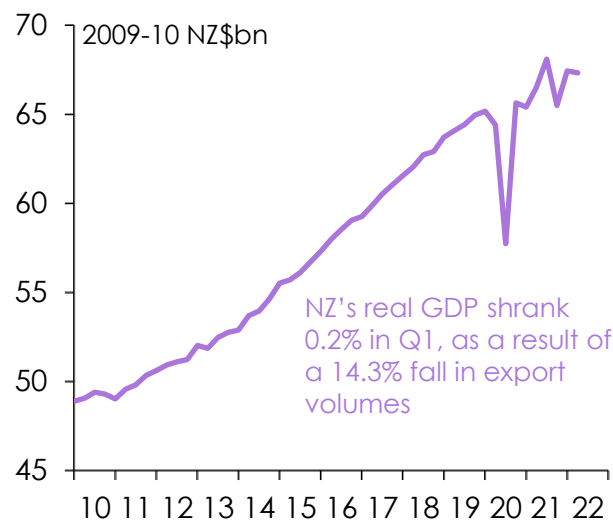


Note: The measure of 'underlying' inflation shown here is the trimmed mean. Government cash balance data are for fiscal years ended 30th June. Sources: Australian Bureau of Statistics, [Australian National Accounts: National Income, Expenditure and Product](#); [Consumer Price Index](#); [Balance of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

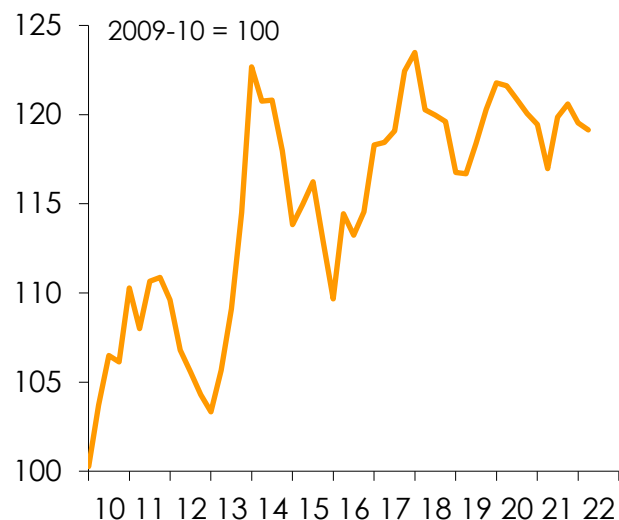
New Zealand's real GDP unexpectedly shrank 0.2% in Q1, with a 14.3% slump in export volumes outweighing 3.3% growth in domestic demand

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

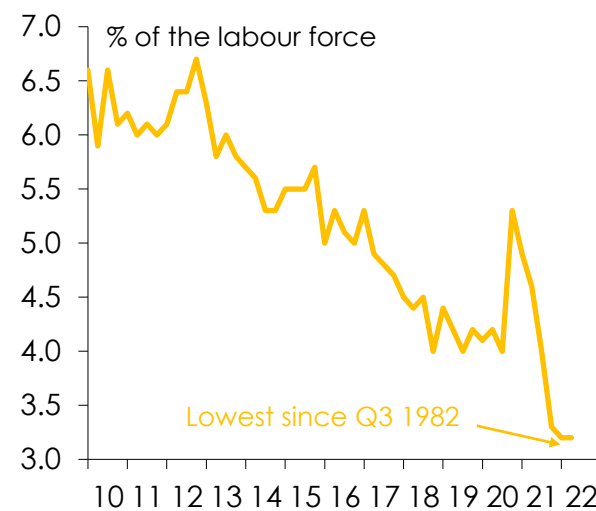
Real GDP



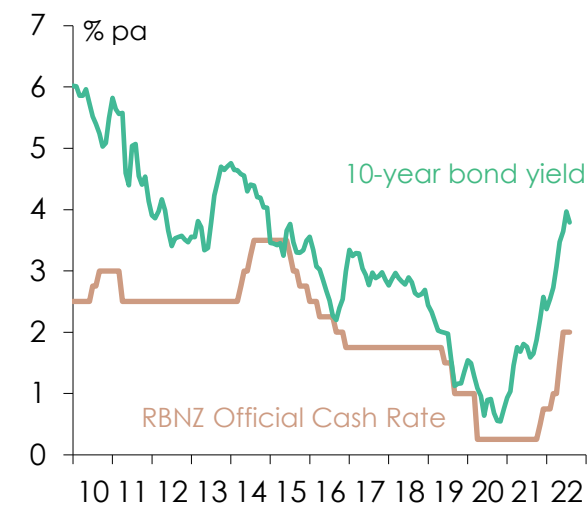
Terms of trade



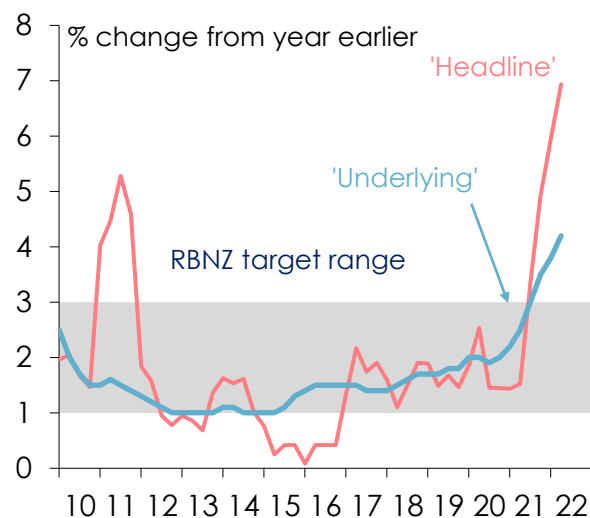
Unemployment



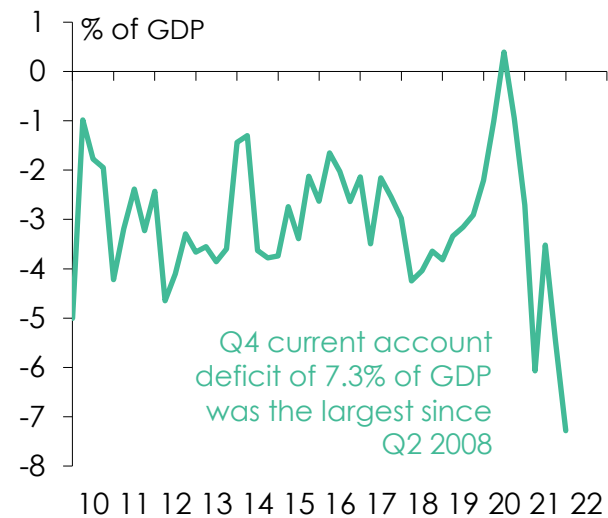
Interest rates



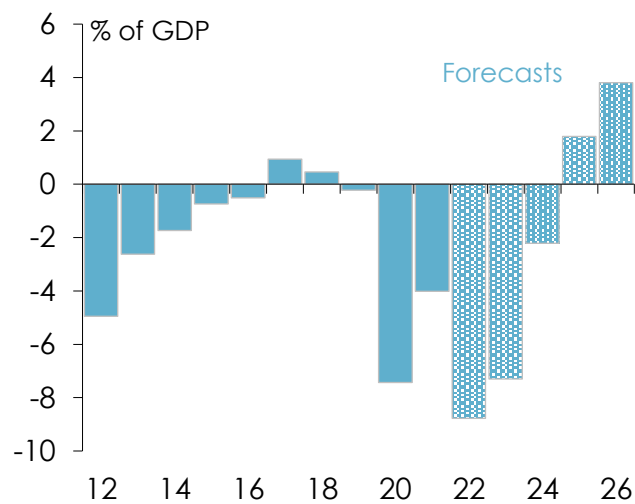
Consumer prices



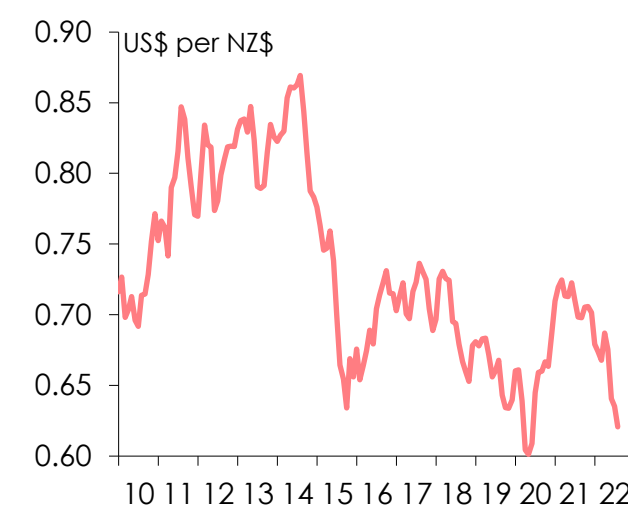
Current account balance



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

Emerging market central banks are continuing to raise their policy interest rates – last week it was Poland, Peru, Pakistan and Sri Lanka

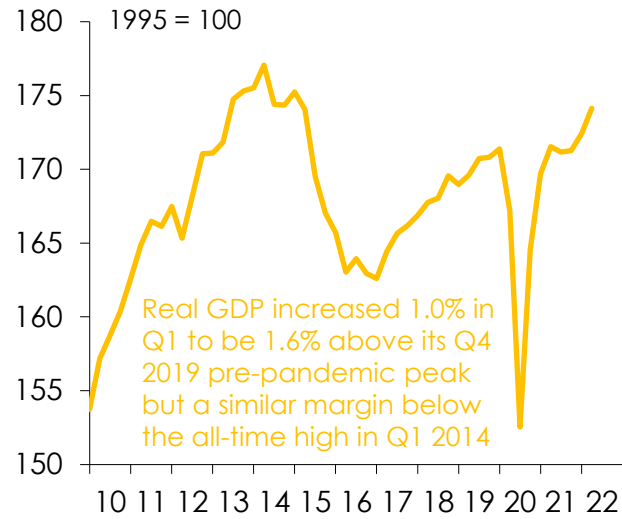
THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

- ❑ **Narodowy Bank Polski** (Poland's central bank) raised its base and Lombard rates by another 50 basis points, to 6.5% and 7.0%, respectively, at its Monetary Policy Council meeting on 7th July ([slide 123](#))
 - this was the tenth consecutive increase, for a total of 640 basis points, since October last year
 - in its [post-meeting statement](#) the MPC noted that although high inflation (of 15.6% over the year to June) “results mainly from an earlier strong rise in global energy and agricultural commodity prices”, and in regulated household energy tariffs, “continued robust demand which enables enterprises to pass rising costs on to final prices has had also a positive contribution to price growth”
 - it also pointed to “the lowest unemployment rate on record and a marked rise in wages”
 - the MPC also expressed concern about the ongoing depreciation of the zloty (down 10½% against the US\$ and 2½% against the euro so far this year), warning that it “may intervene in the foreign exchange market, in particular to limit fluctuations of the zloty exchange rate that are inconsistent with the direction of monetary policy”
- ❑ **Banco Central de Reserva del Perú** raised its reference rate another 50 basis points, to 6.0%, at its Board of Directors meeting on 7th July ([slide 123](#)) – the tenth increase, for a total of 575 basis points, since August last year
 - in its [post-meeting press release](#) described the latest rate increase as “continuing to normalize its monetary policy stance”, taking account of increases in both actual inflation (to 8.8% in June, with ‘core’ inflation at 5.0%) and year-ahead expected inflation (to 5.4% in June, from 4.9% in May)
 - it raised rates again despite anticipating that “the downward path of year-to-year inflation [will] begin in July”, due to a “moderation” in globally-driven food & energy prices and “an economy still below potential”, and despite acknowledging that “most leading indicators and expectations for economic activity deteriorated in June and remain pessimistic”
- ❑ The **State Bank of Pakistan** raised its policy rate by 25bp, to 15%, last Wednesday in order to “moderate domestic demand, prevent a risk of compounding inflationary pressures and reduce risks to external stability” (after inflation jumped from 13.8% in May to 21.3% in June), while the **Central Bank of Sri Lanka** also raised its policy rates by 100bp after inflation in the crisis-afflicted country reached 54.6% in June ([slide 106](#))

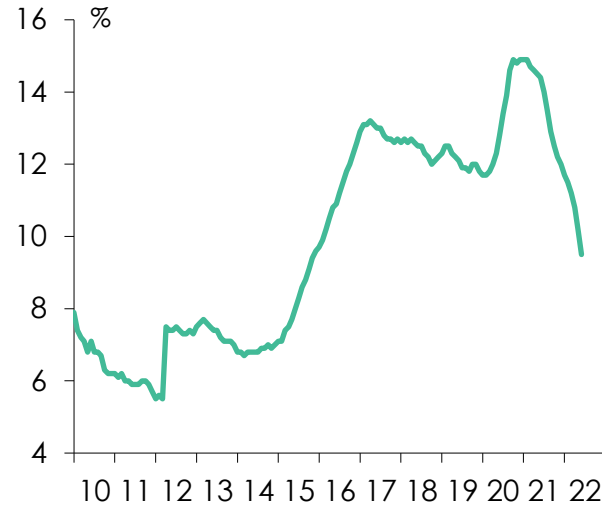
Brazil's central bank raised its policy (SELIC) rate another 50 bp, to 13.25%, at its most recent meeting in June

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

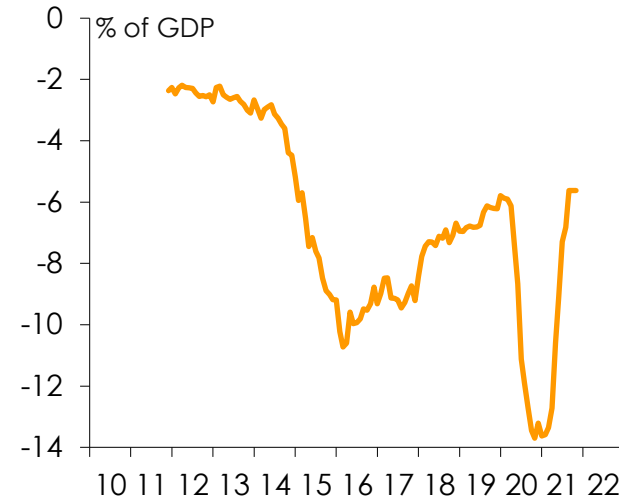
Real GDP



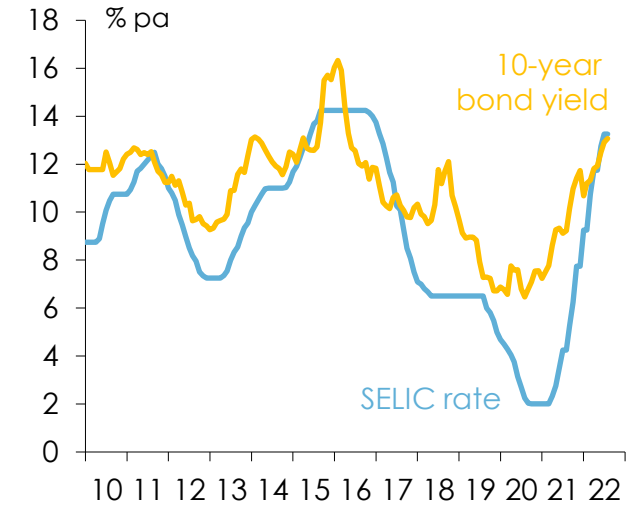
Unemployment



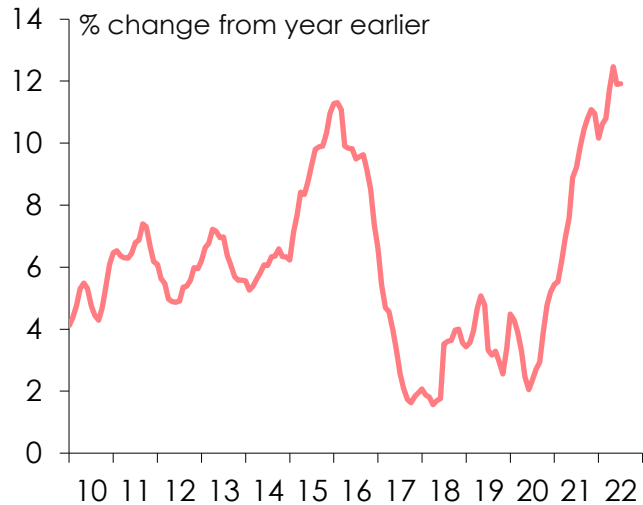
Public sector borrowing



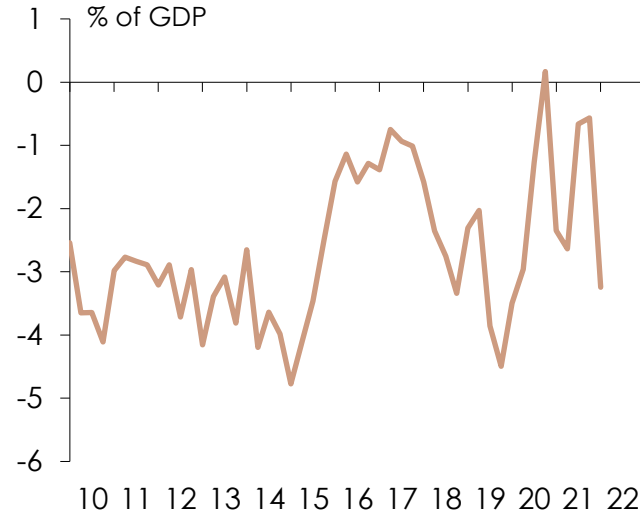
Interest rates



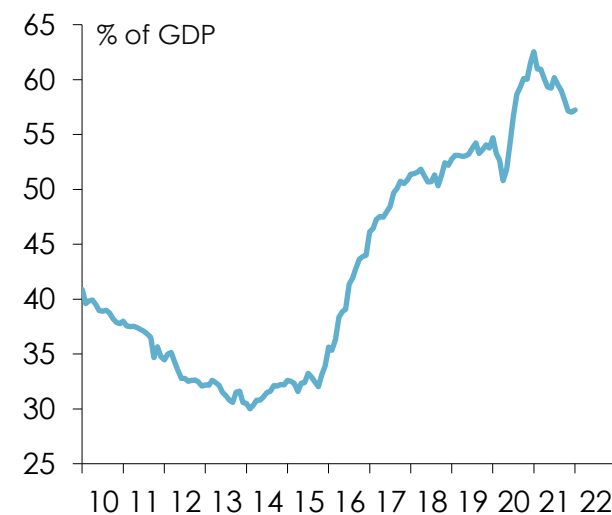
Inflation



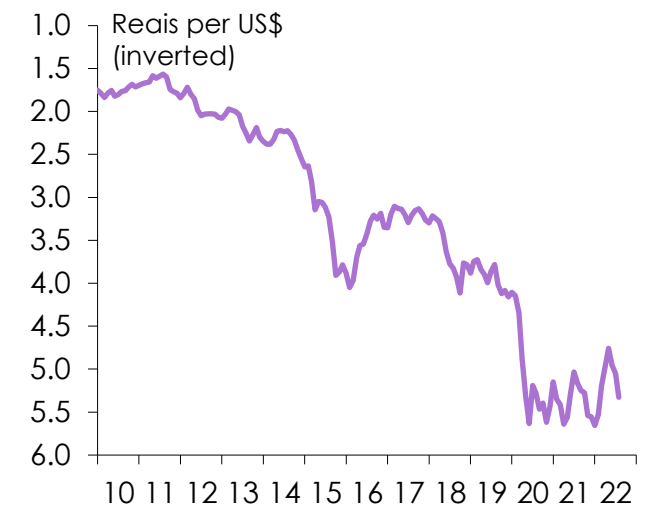
Current account balance



Public sector net debt



Brazilian real vs US\$

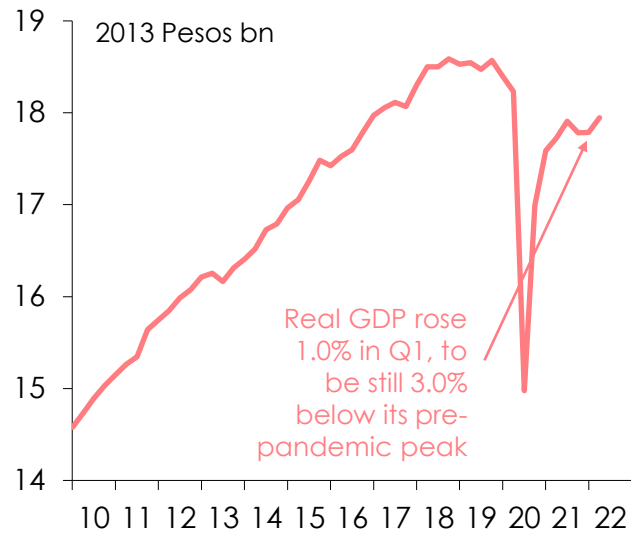


Sources: [Instituto Brasileiro de Geografia e Estatística](#) (IBGE); [Banco Central do Brasil](#); Refinitiv Datastream. [Return to "What's New"](#).

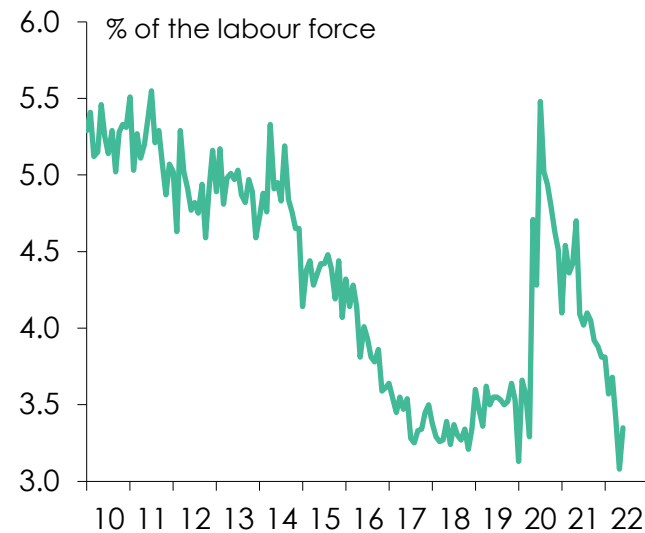
Mexico's annual 'headline' inflation rate rose to 8.0% over the year to June, the highest since January 2001, and 'core' inflation rose to 7.5%

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Real GDP



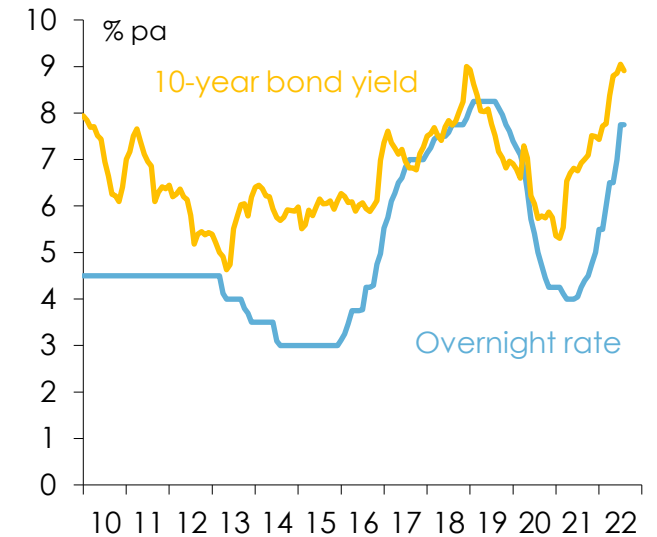
Unemployment



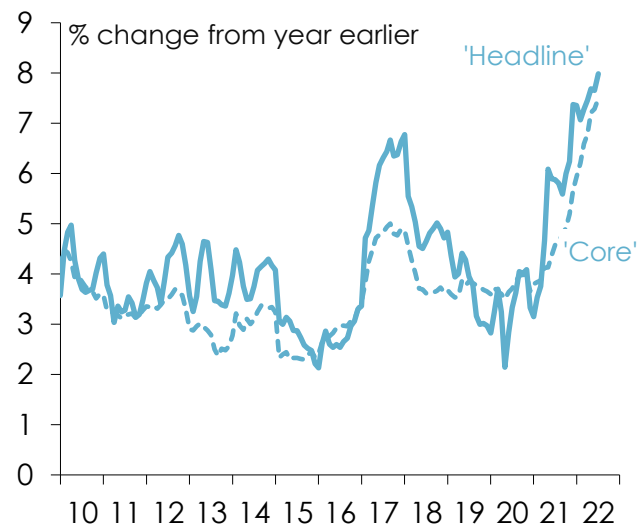
Bank lending



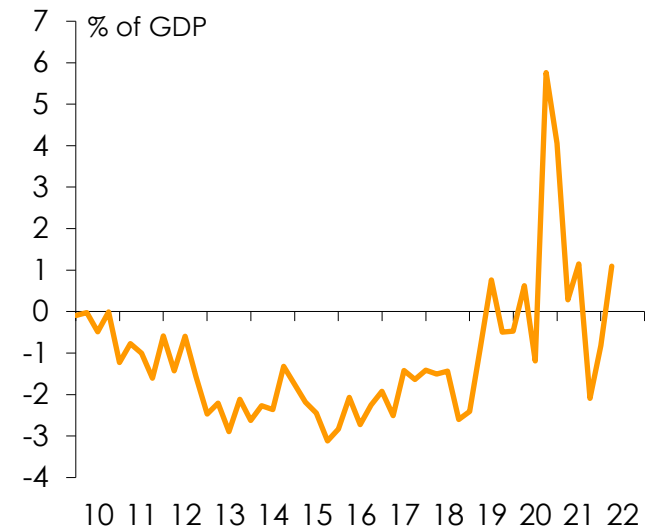
Interest rates



Inflation



Current account balance



Federal budget deficit



Mexican peso vs US\$

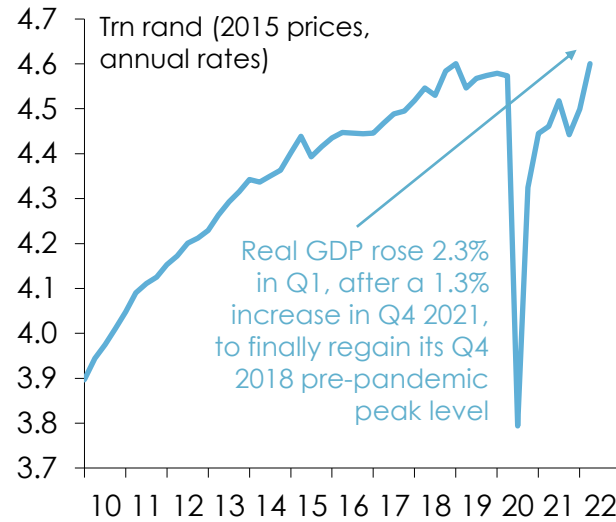


Sources [Banco de México](#); [Instituto Nacional de Estadística y Geografía \(INEGI\)](#); Refinitiv Datastream.. [Return to "What's New"](#).

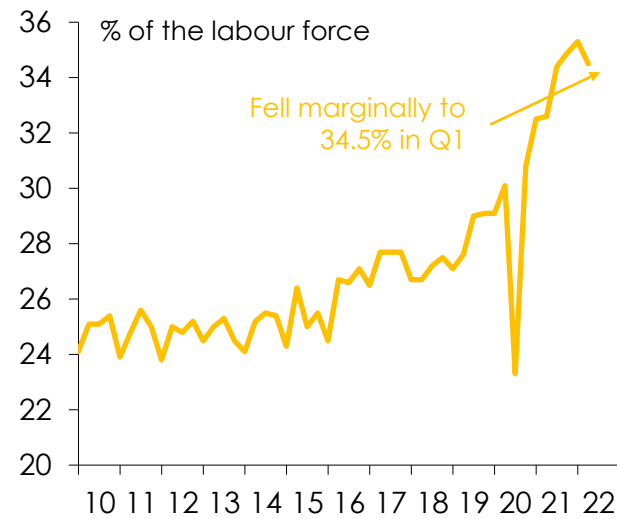
South Africa's annual 'headline' inflation rate jumped to 6.5% in May, the highest since January 2017, though 'core' inflation was lower at 4.1%

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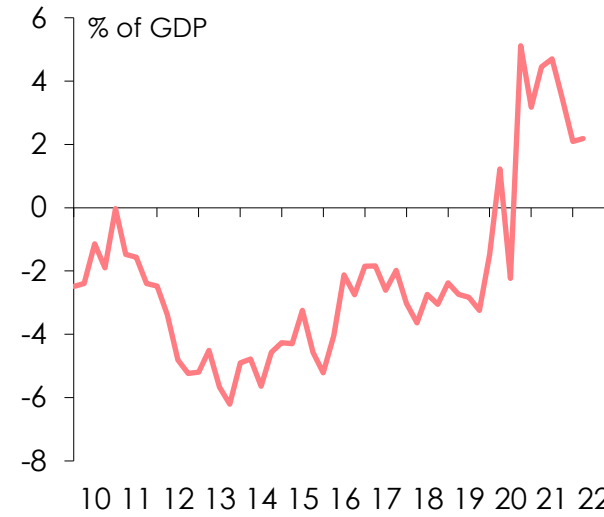
Real GDP



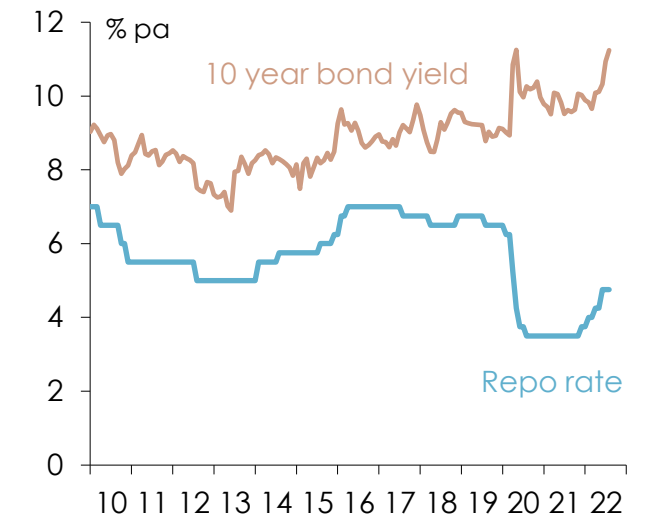
Unemployment



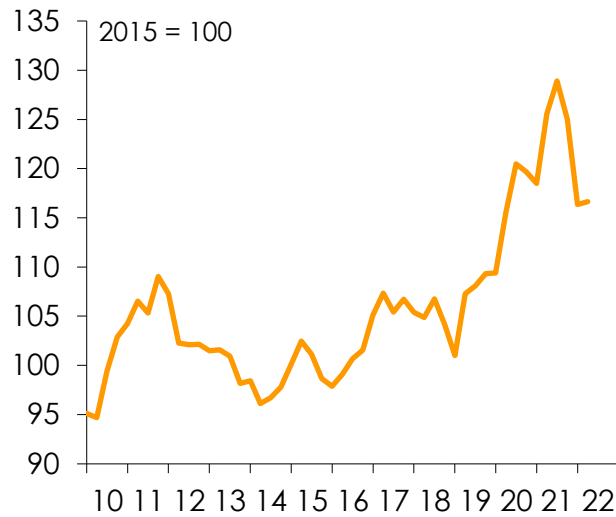
Current account balance



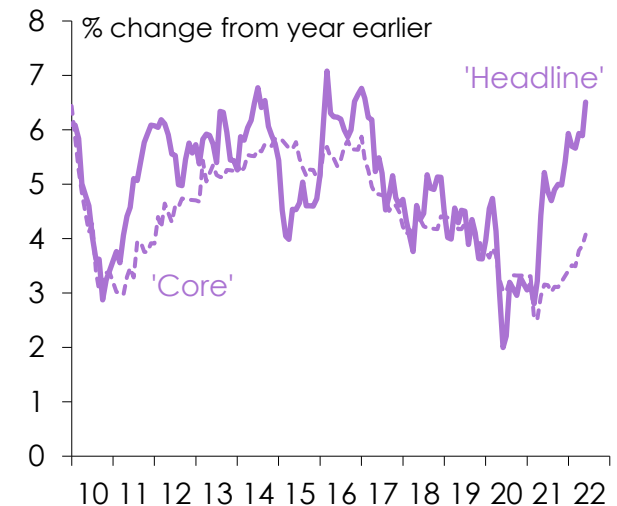
Interest rates



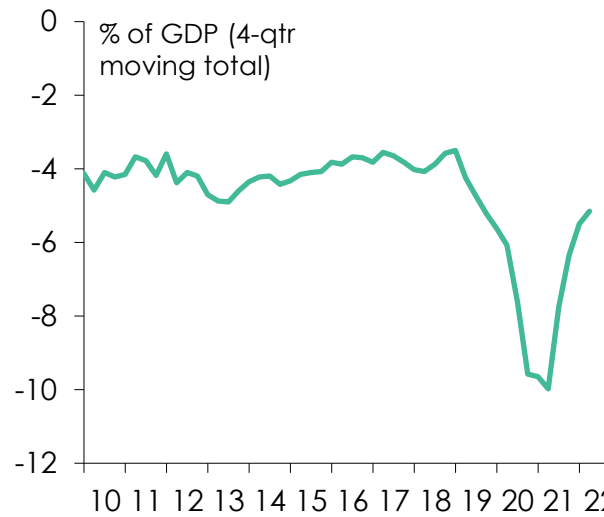
Terms of trade



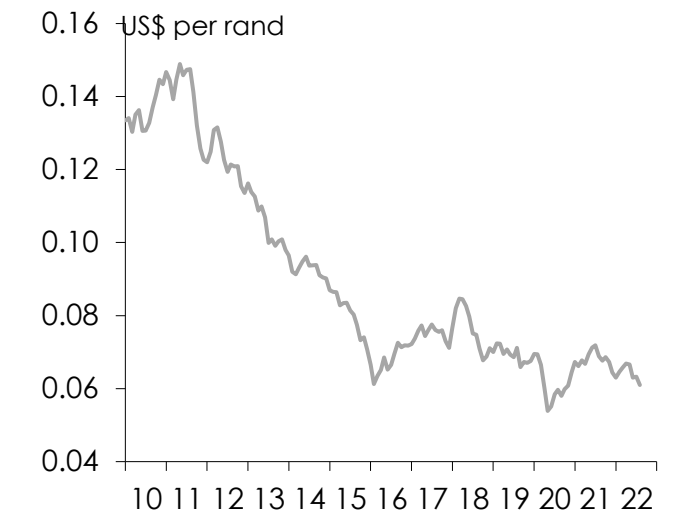
Inflation



Budget deficit



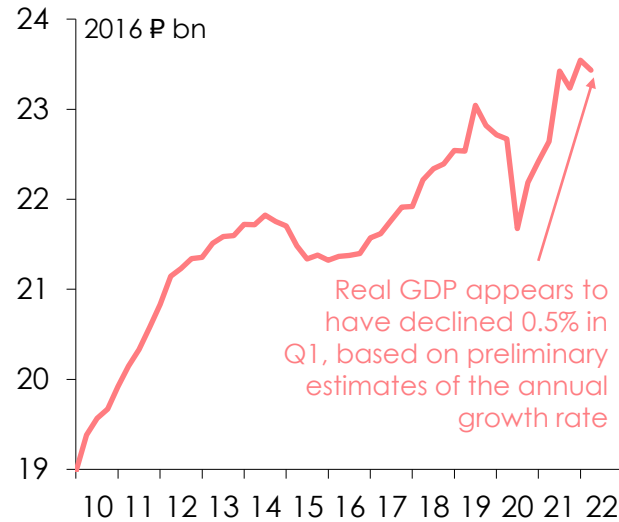
Rand vs US\$



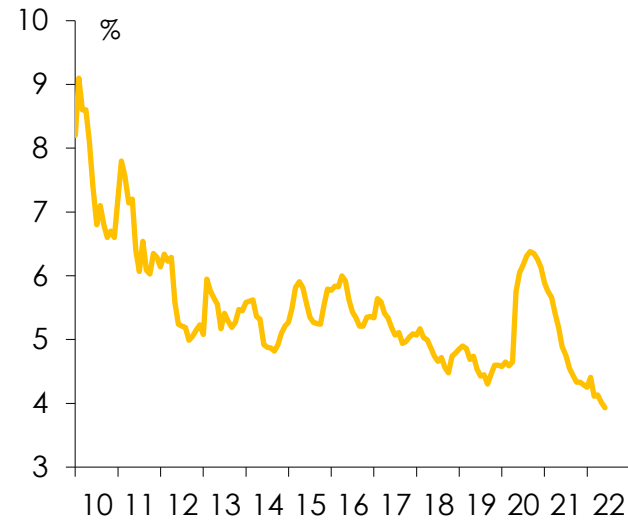
Russia's 'headline' inflation rate declined to 15.9% in June from a peak of 17.9% in April, though 'core' inflation was still at 19.2%

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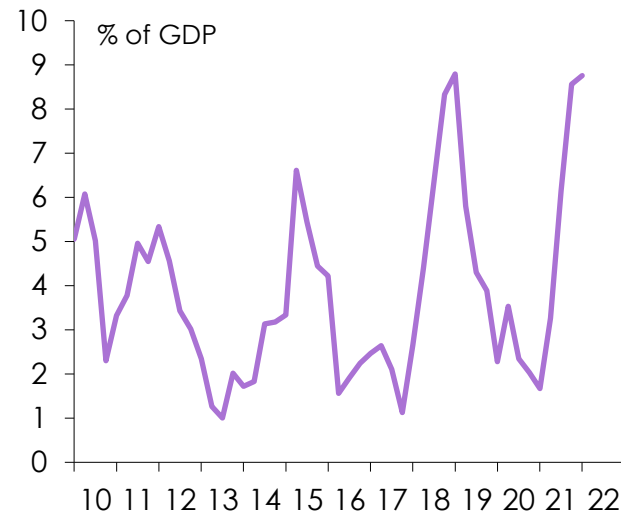
Real GDP



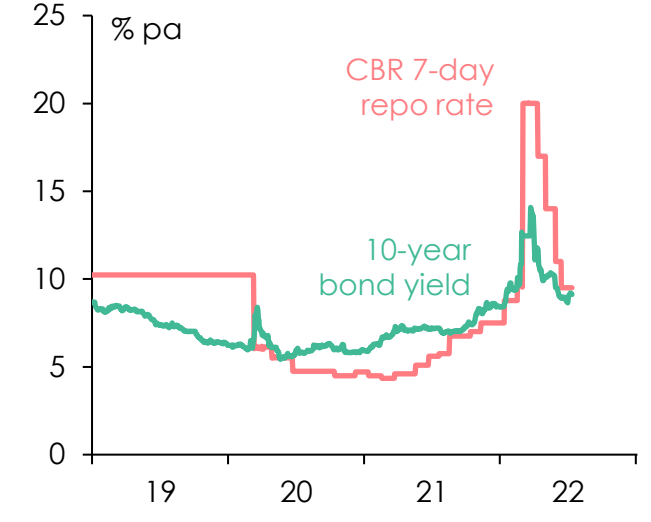
Unemployment



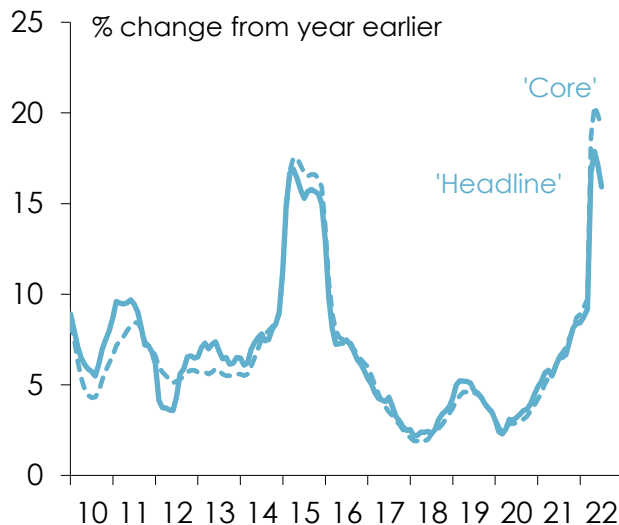
Current account balance



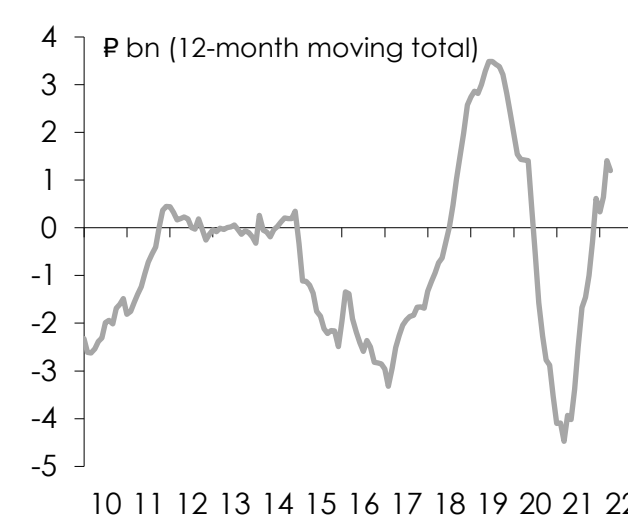
Interest rates



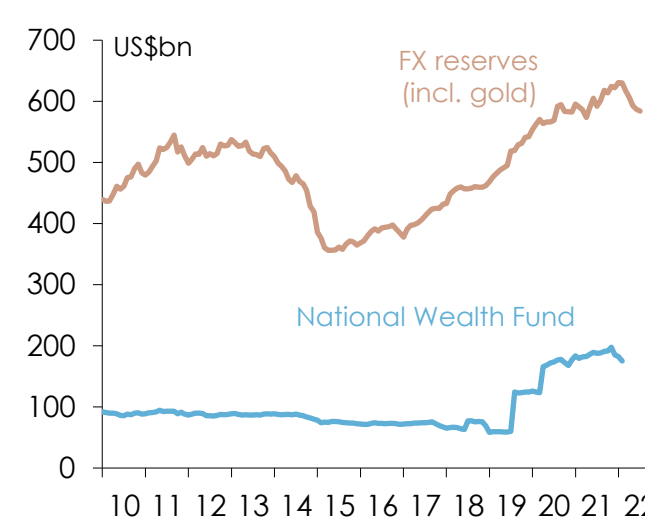
Inflation



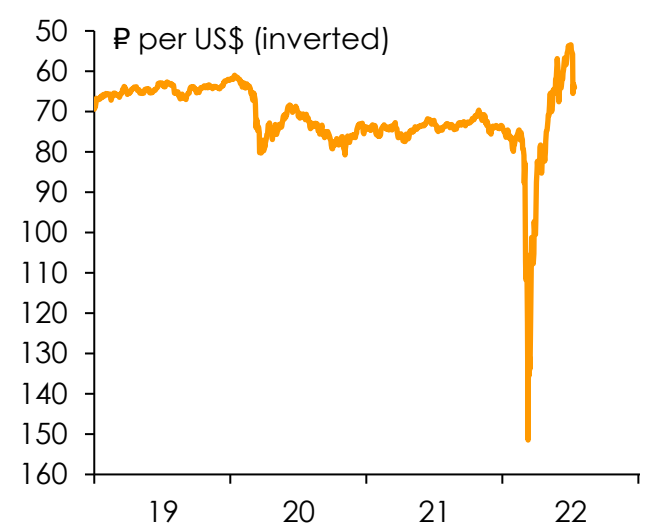
Federal budget balance



State financial assets



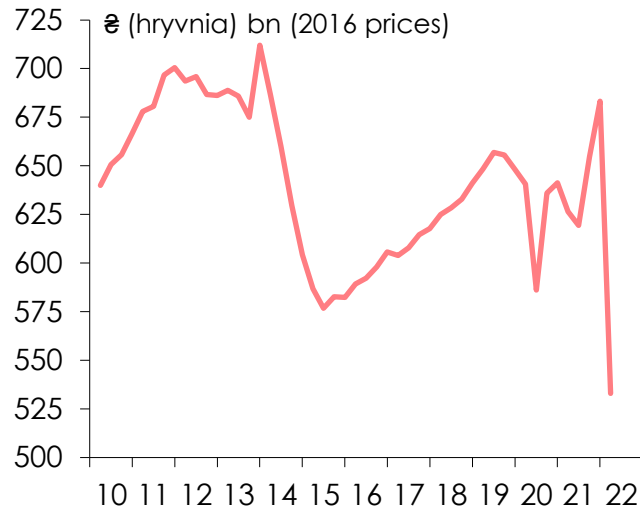
Russian ruble vs US\$



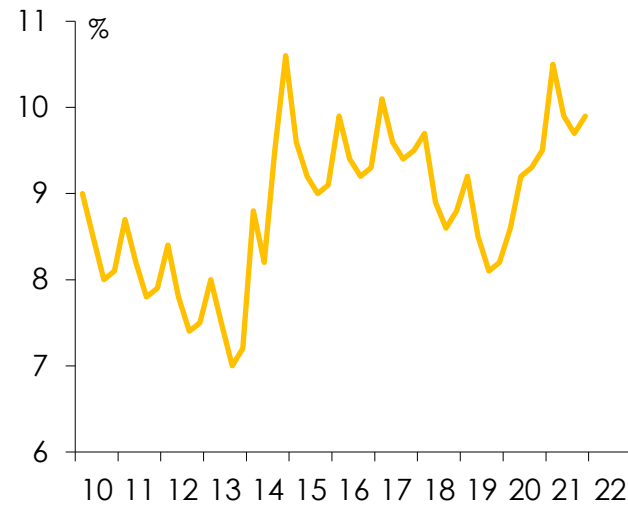
Ukraine's annual inflation rate rose to 21.5% in June

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

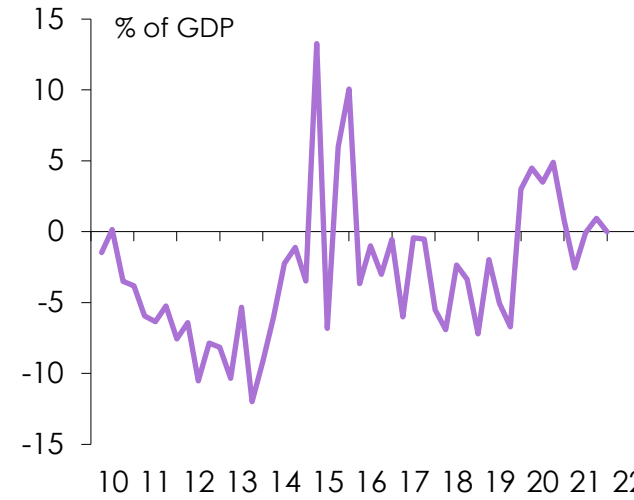
Real GDP



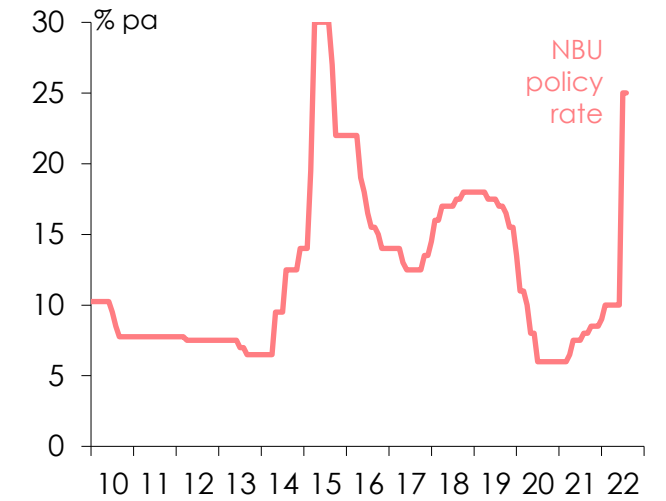
Unemployment



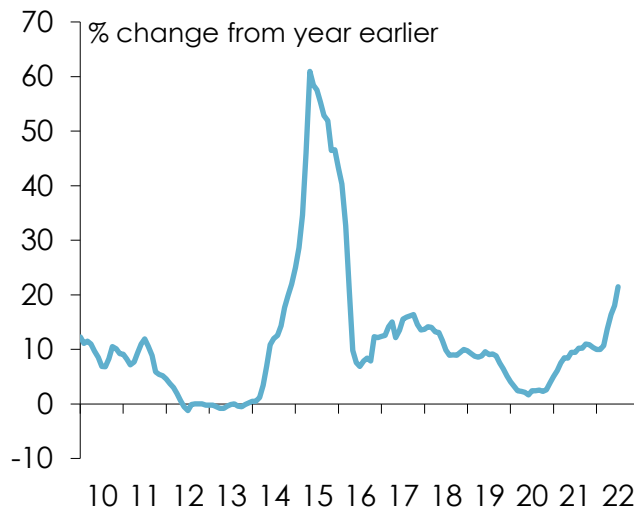
Current account balance



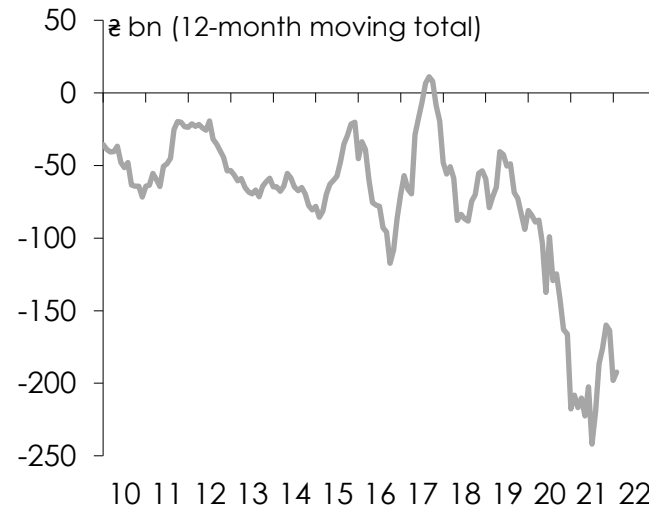
Interest rates



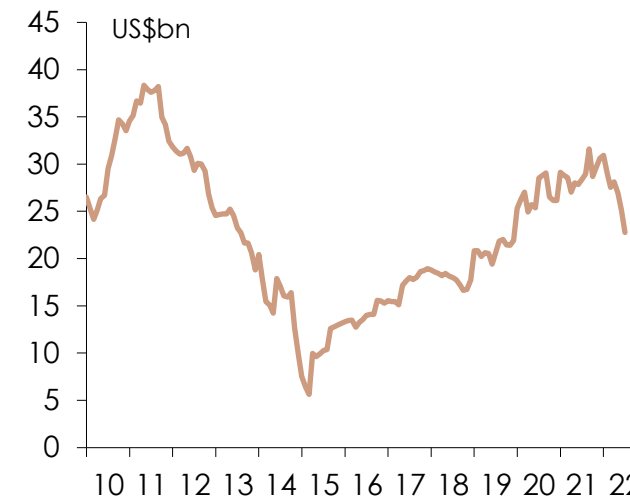
Inflation



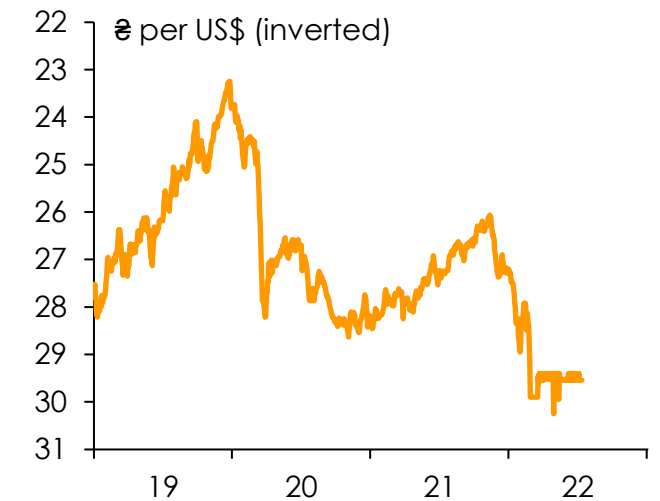
Budget deficit



FX reserves



Ukrainian hryvnia vs US\$

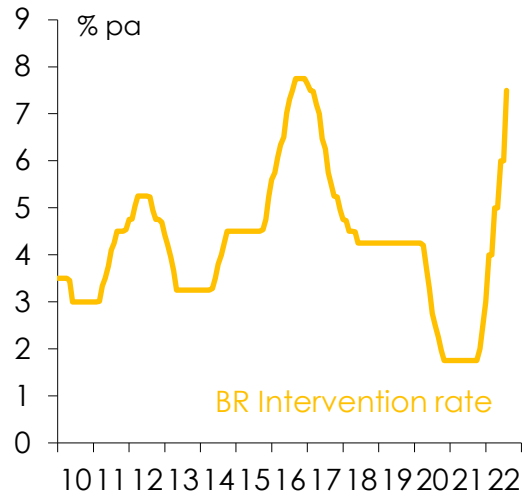


Sources: [State Statistics Service of Ukraine](#); [National Bank of Ukraine](#); Refinitiv Datastream. [Return to "What's New"](#).

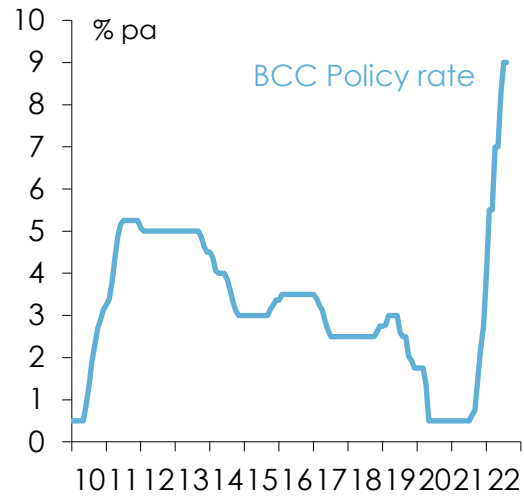
Central banks in Latin America, Central & Eastern Europe, and South Asia have been very forceful in tightening monetary policy

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

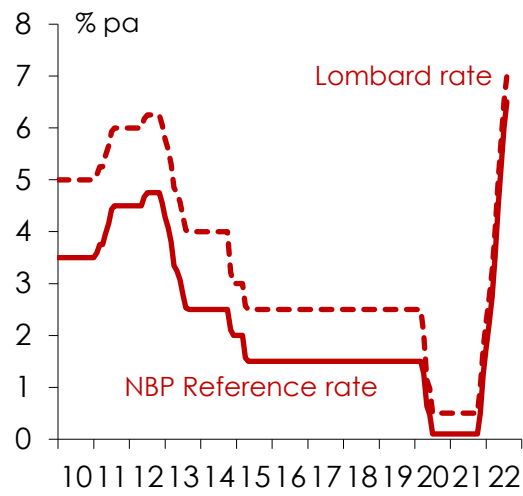
Colombia



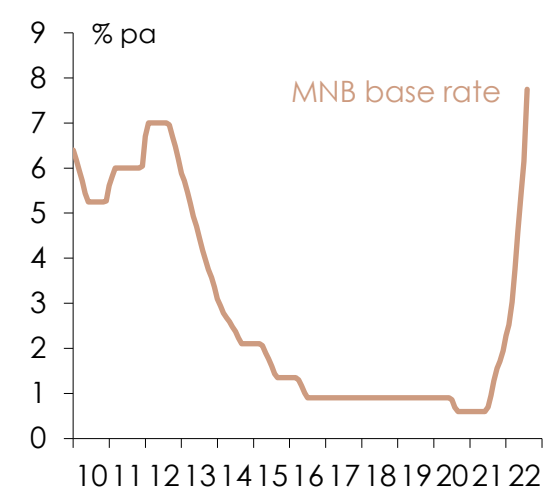
Chile



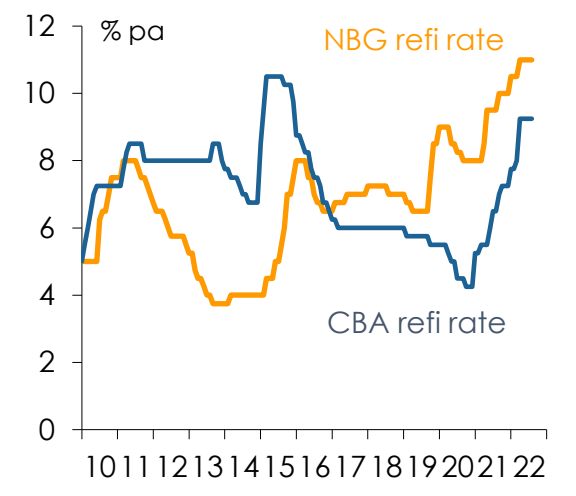
Poland



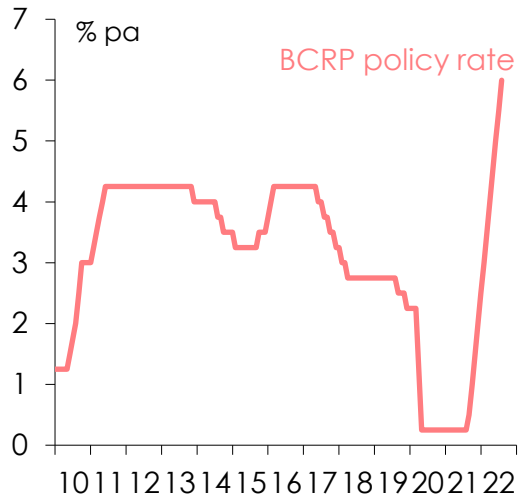
Hungary



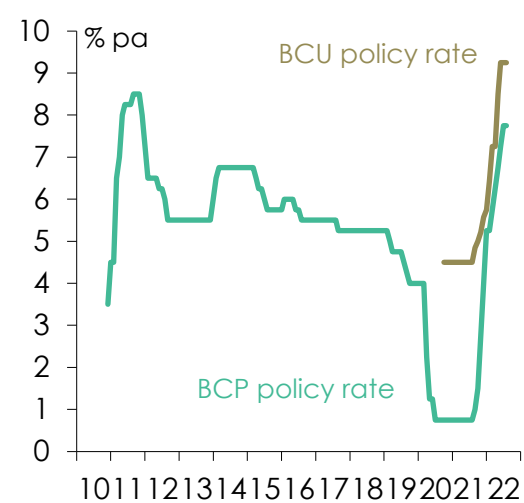
Georgia & Armenia



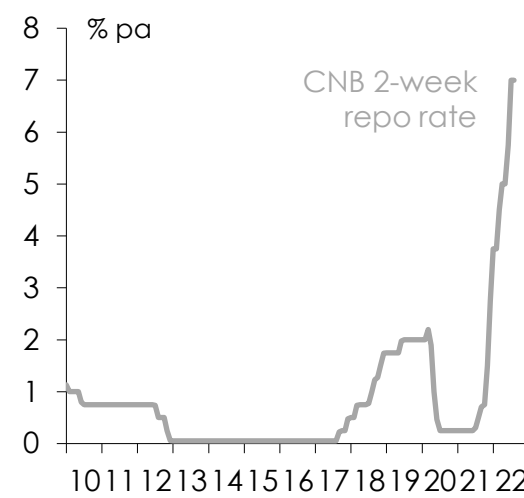
Peru



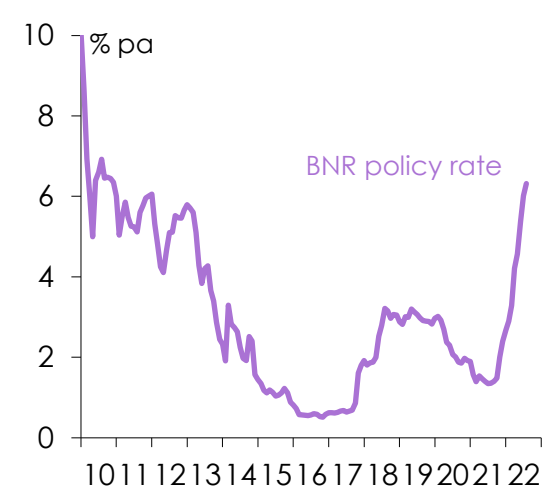
Paraguay & Uruguay



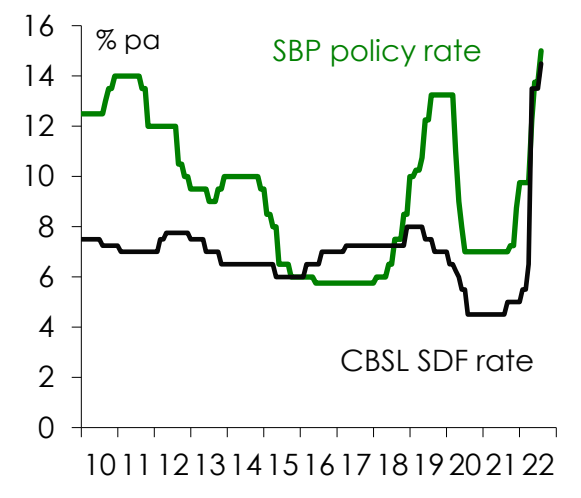
Czech Republic



Romania



Pakistan & Sri Lanka

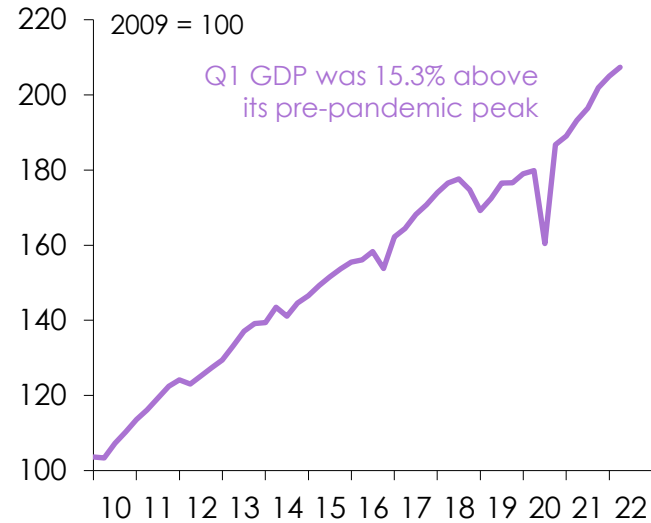


Sources: [Banco de la República Colombia](#); [Banco Central de Reserva del Perú](#); [Banco Central de Chile](#); [Banco Central del Uruguay](#); [Banco Central del Paraguay](#); [Narodowy Bank Polski](#); [Česká Národní Banka](#); [Magyar Nemzeti Bank](#); [Banca Națională a României](#); [Sakartvelos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

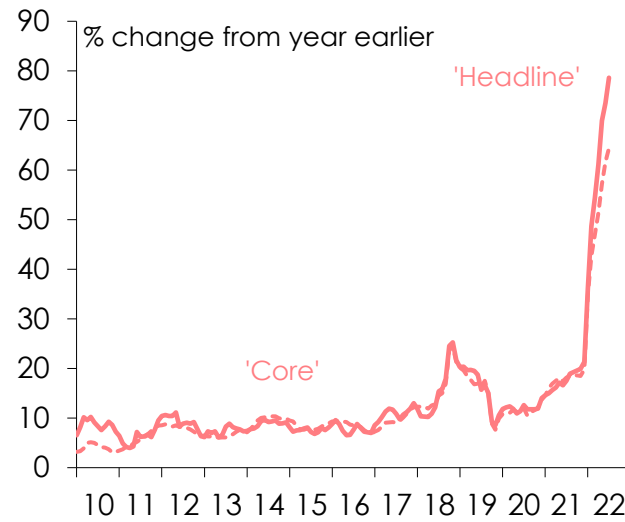
Turkey's monthly inflation rate has slowed significantly over the past four months, to just 0.2% in June, but the annual rate rose further to 78.6%

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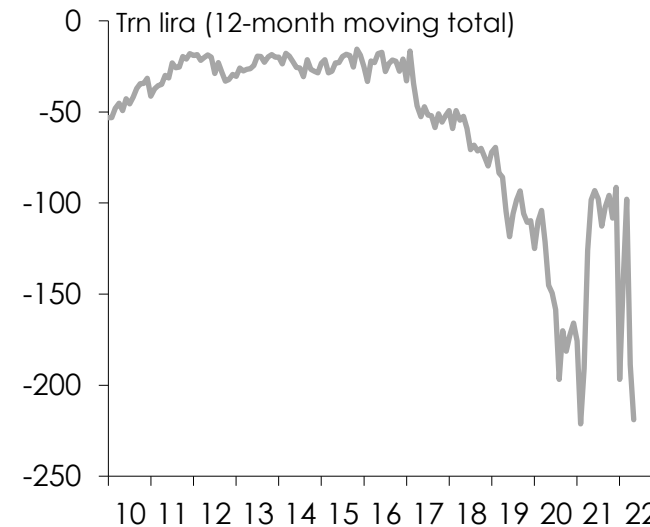
Real GDP



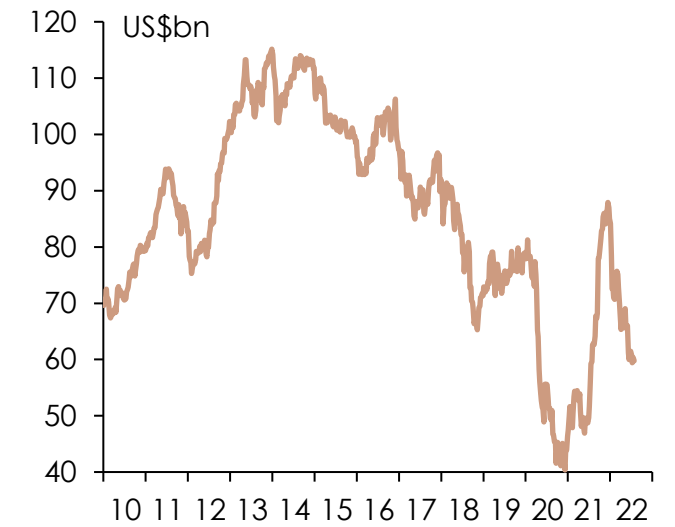
Inflation



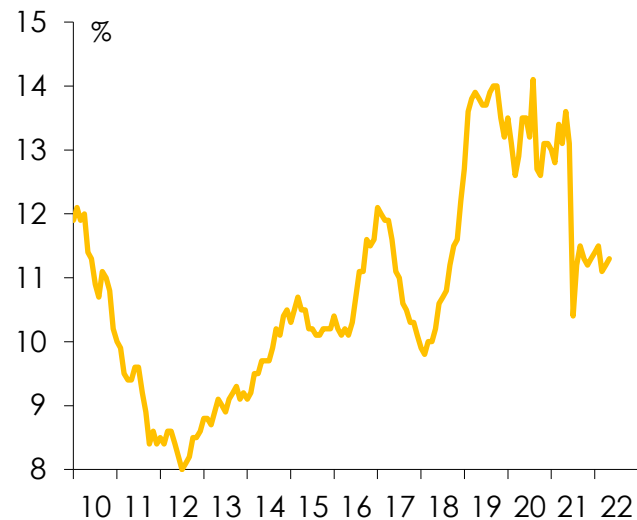
Budget balance



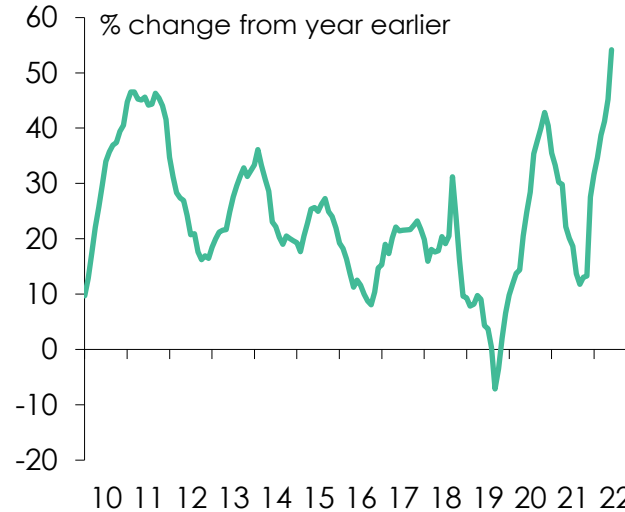
FX reserves



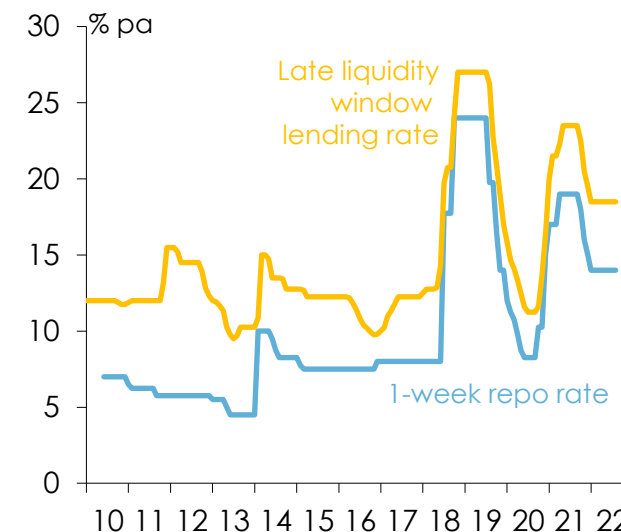
Unemployment rate



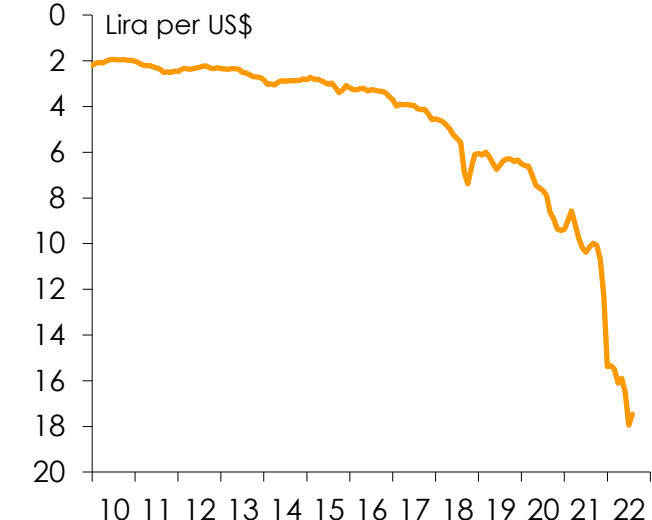
Bank lending



Interest rates



Turkish lira vs US\$



Key data and events this week

Key data and events for week ended 15th July

THE WORLD ECONOMY THIS WEEK – 11TH JULY 2022

Monday 11 th July	Indonesia May retail sales; China June money & credit aggregates; Norway June CPI; Colombia June consumer confidence
Tuesday 12 th July	Australia June business conditions & confidence; Japan June PPI; Philippines May trade balance; India June CPI and May industrial production; US June NY Fed consumer inflation expectations survey, June NFIB small business optimism index; Mexico May industrial production
Wednesday 13 th July	New Zealand RBNZ meeting; Australia July consumer confidence; Korea BoK meeting and June unemployment; China June merchandise trade; Turkey May unemployment; Czech Republic June CPI; euro area May industrial production; UK May industrial production, merchandise trade and monthly GDP; US June CPI and budget balance; Canada BoC meeting; Brazil May retail sales; Chile BCC meeting
Thursday 14 th July	Australia June employment & unemployment and July consumer inflation expectations; Singapore Q2 GDP (preliminary); India June WPI; Turkey May industrial production and retail sales; US June PPI; Argentina June CPI
Friday 15 th July	New Zealand June PMI; Japan May tertiary industry activity; China Q2 GDP, June industrial production, retail sales, unemployment & fixed asset investment; Hong Kong Q3 business confidence; Indonesia June merchandise trade; euro area May merchandise trade; US June retail sales, industrial production & traded goods prices, July Michigan consumer confidence & inflation expectations, and July NY Fed 'Empire State' index; Colombia May industrial production; Peru May unemployment

Important information

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

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