

A dark blue world map is centered in the background of the slide. The map shows the outlines of continents and is rendered in a slightly lighter shade of blue than the background.

THE WORLD ECONOMY THIS WEEK

25TH JULY 2022

SAUL ESLAKE

CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

Table of contents

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

What's new	<u>3</u>
Covid-19	<u>4</u>
The world economy	<u>11</u>
The United States	<u>40</u>
Europe	<u>60</u>
China	<u>71</u>
Japan	<u>81</u>
Other East Asia	<u>88</u>
India	<u>106</u>
Canada, Australia & New Zealand	<u>110</u>
Other economies	<u>115</u>
Key data and events this coming week	<u>124</u>
Legal information	<u>126</u>

What's new?

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

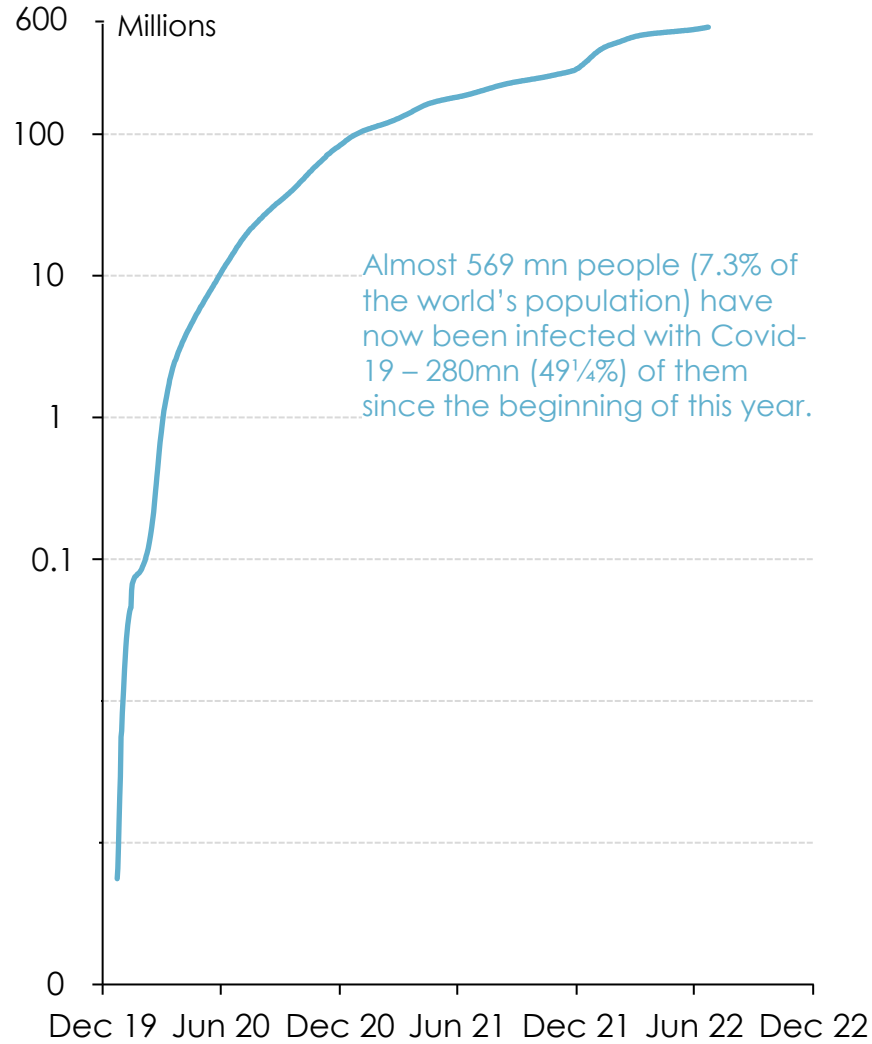
- ❑ The number of new Covid-19 cases is continuing to rise – last week to more than 125% above the most recent low in the first week of June – as new, more infectious, sub-variants of omicron spread more widely ([slides 5-6](#))
- ❑ July 'flash' PMIs for the US and euro area fell below 50 (which normally demarcates between “expansion” and “contraction”) for the first time since June 2020 and February 21, respectively, while those for Japan and the UK also fell, but remained above 50 ([slide 17](#))
- ❑ Two other potentially ominous signals for the US economy were a fall in the Philadelphia Fed's manufacturing survey general activity index in July to its lowest level since May 2020, and a fourth consecutive monthly decline in the Conference Board's index of leading indicators in June ([slide 42](#))
- ❑ US housing starts fell 2.0% in June, after an 11.9% fall in May, to their lowest level since last September, despite a 10.3% jump in the more volatile multi-unit dwellings component: single-family housing starts were at their lowest since June 2020, as were existing home sales ([slide 46](#))
- ❑ In what may be the first signs of an imminent softening in the US labour market, initial claims for unemployment insurance benefits have been drifting higher since striking 53-year lows in mid-March, by mid-July reaching their highest levels since November last year ([slide 48](#))
- ❑ The Philadelphia Fed manufacturing survey also contained some more promising news on inflation, with the indexes of prices paid and received by manufacturers falling in July to their lowest levels since January and February 2021, respectively ([slide 55](#))
- ❑ The European Central Bank raised its policy rates by 50 basis points at last Thursday's Governing Council meeting, the first increase since July 2011, and double what had been foreshadowed at the previous meeting on 16th; it foreshadowed “further normalization” of interest rates at future meetings, albeit “dependent on the data”, with the “ultimate destination” being “a broadly neutral setting” ([slide 31](#) and [67](#))
- ❑ Consumer prices in the UK rose 0.8% in June, pushing the annual 'headline' inflation rate up to 9.4%, to which petrol (up 42.3%), food (up 9.8%) and housing & utilities (up 19.6%) made the largest contribution – however the annual 'core' inflation rate dropped 0.1 pc pt to 5.8% ([slide 65](#))
- ❑ Japan's consumer prices were unchanged in June, after five months of 0.3-0.4% increases, resulting in a 0.1 pc pt decline in the 'headline' inflation rate to 2.4% ([slide 85](#)); while the BoJ left all its monetary policy settings (including the commitment to 'cap' 10-year JGB yields at 0.25%) unchanged, making almost no mention of the slide in the yen ([slide 87](#))
- ❑ Bank Indonesia also left its monetary policy settings unchanged, despite acknowledging “increasing pressure” on the rupiah and that inflation would be above the upper band of its target range this year ([slides 100-101](#))
- ❑ Canada's CPI rose 0.7% in June, pushing the annual 'headline' inflation rate to 8.1%, the highest since January 1983, while the annual 'core' inflation rate rose 0.1 pc pt to 5.3%, the highest since September 1991 ([slide 112](#))
- ❑ New Zealand's annual 'headline' inflation rate rose to 7.3% over the year to Q2, the highest since Q2 1990 ([slide 114](#))
- ❑ South Africa's Reserve Bank raised its policy rate by 75bp to 5.5% ([slides 116](#) and [119](#)), Russia's central bank cut its key rate by 150bp to 8.0% ([slide 120](#)), Ukraine devalued the hryvna by 25% ([slide 121](#)) and Turkey's central bank again left its policy rate at 14% despite inflation of 79% ([slide 123](#))
- ❑ Wednesday's FOMC meeting is the highlight of this week's calendar, but there's also Q2 GDP for the US, euro area, Korea, Taiwan & Mexico, June PCE deflator for the US, Australia's Q2 CPI, updated forecasts from the IMF and (on Sunday) China's 'official' PMIs for July ([slide 125](#))

Covid-19

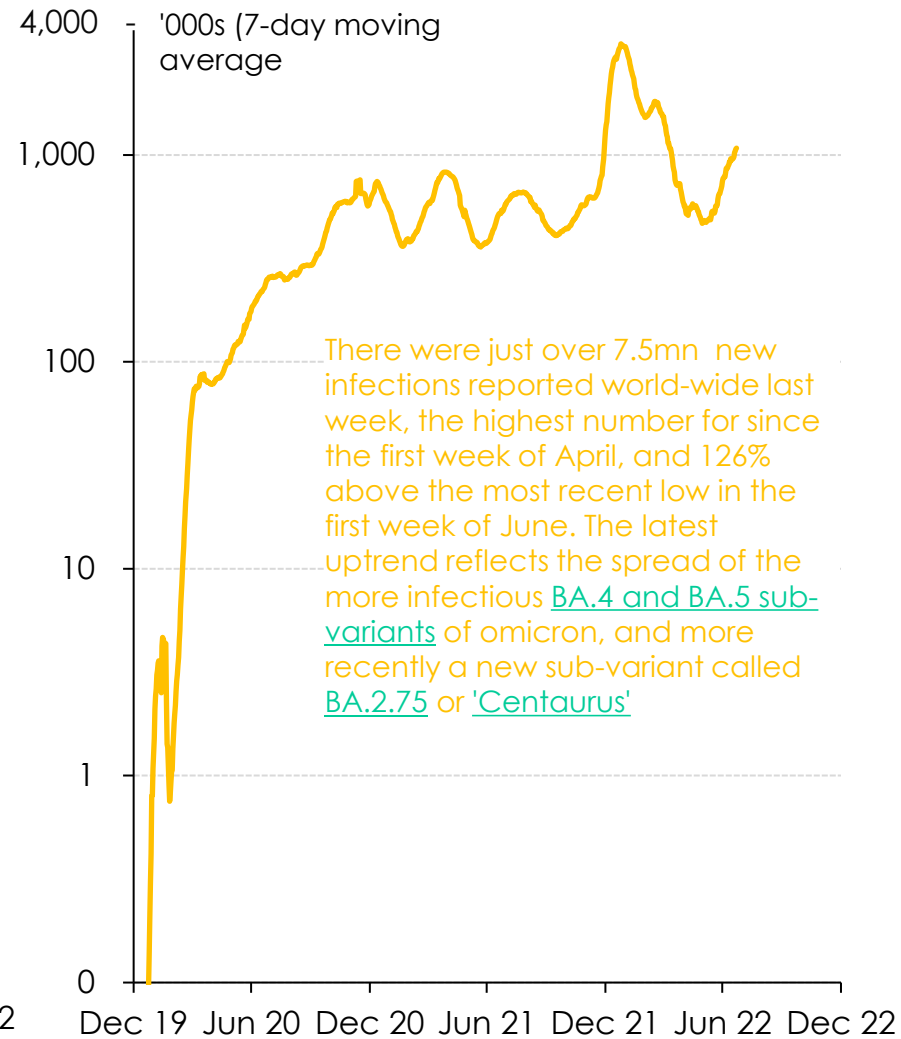
The weekly global total of new Covid-19 cases has increased by more than 125% over the past 7 weeks as new sub-variants of omicron spread

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

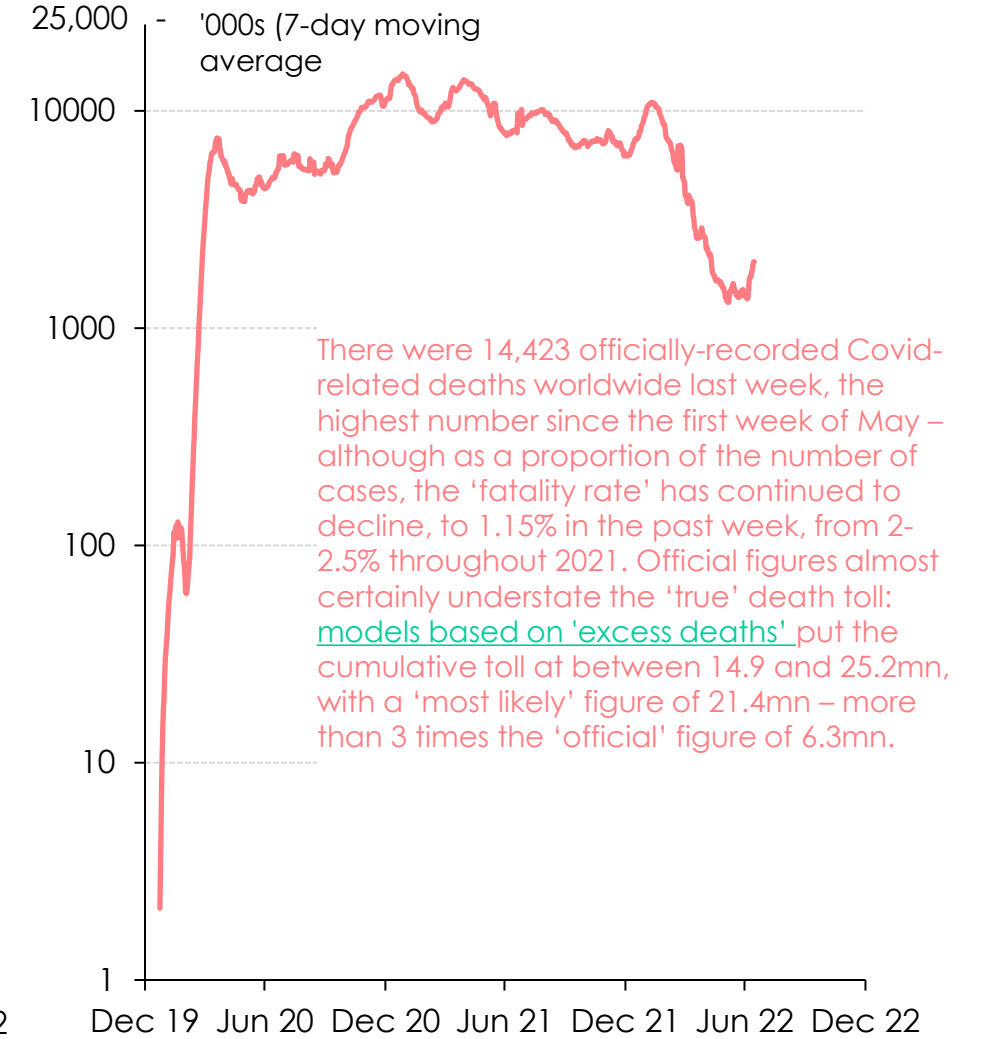
Cumulative confirmed cases – global total



New confirmed cases – global total



New deaths – global total

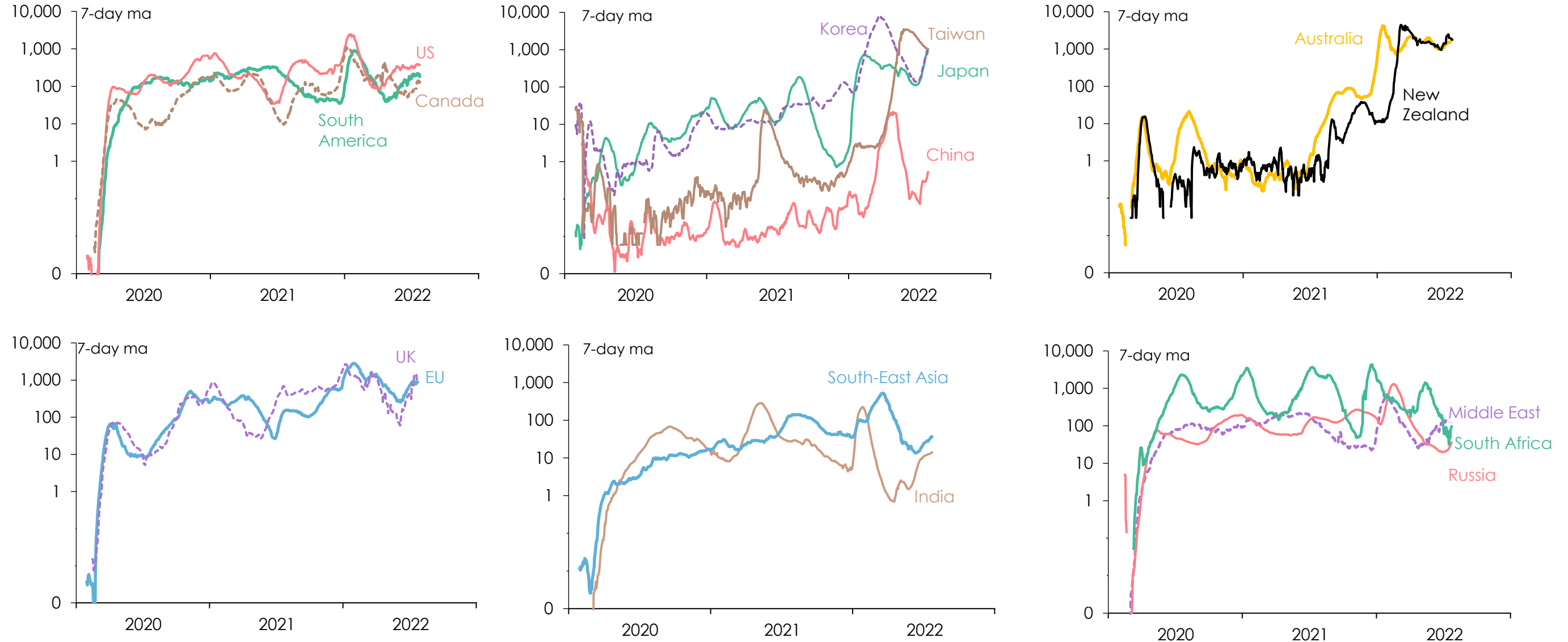


Note: All charts are on logarithmic scales. Data up to 22nd July. Source: University of Oxford, [Our World in Data](#). [Return to "What's New"](#).

Europe still accounts for the largest number of new cases, but they are also rising in the US, India, the Middle East, SE Asia, Japan and China

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

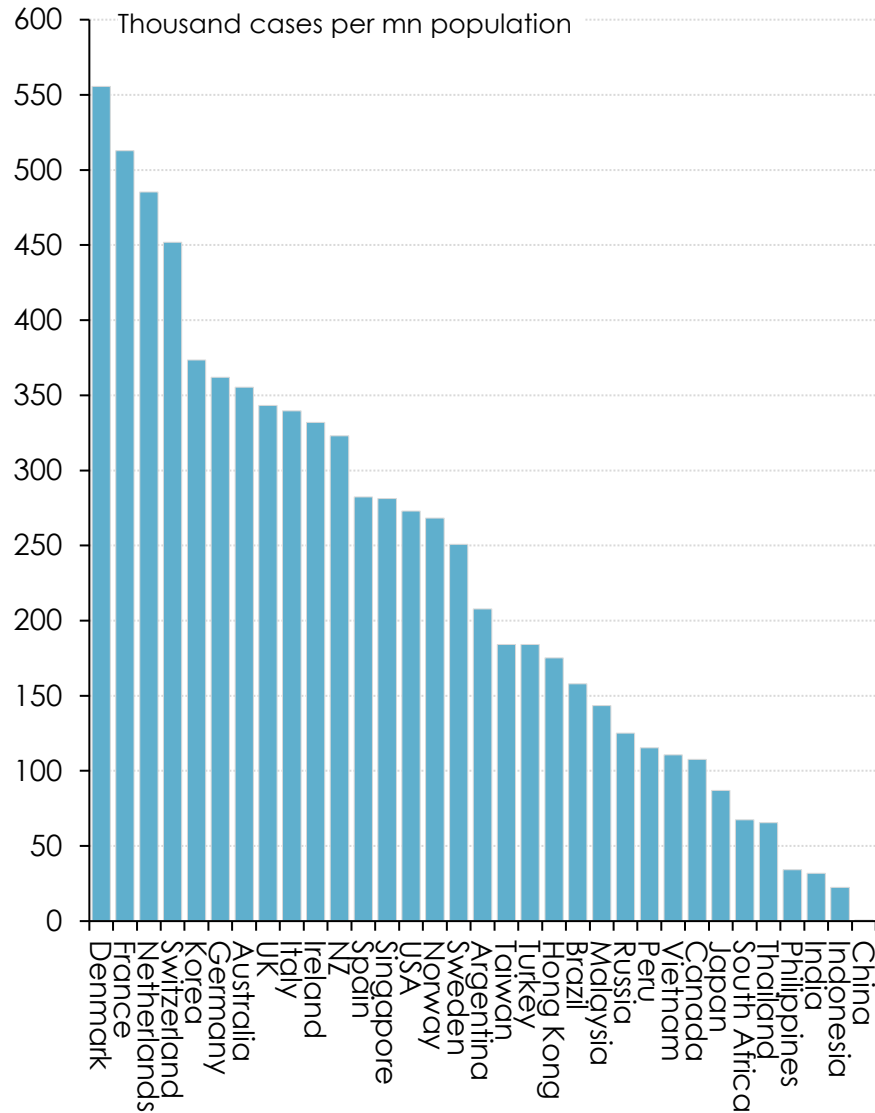
Daily new cases per million population – major countries and regions



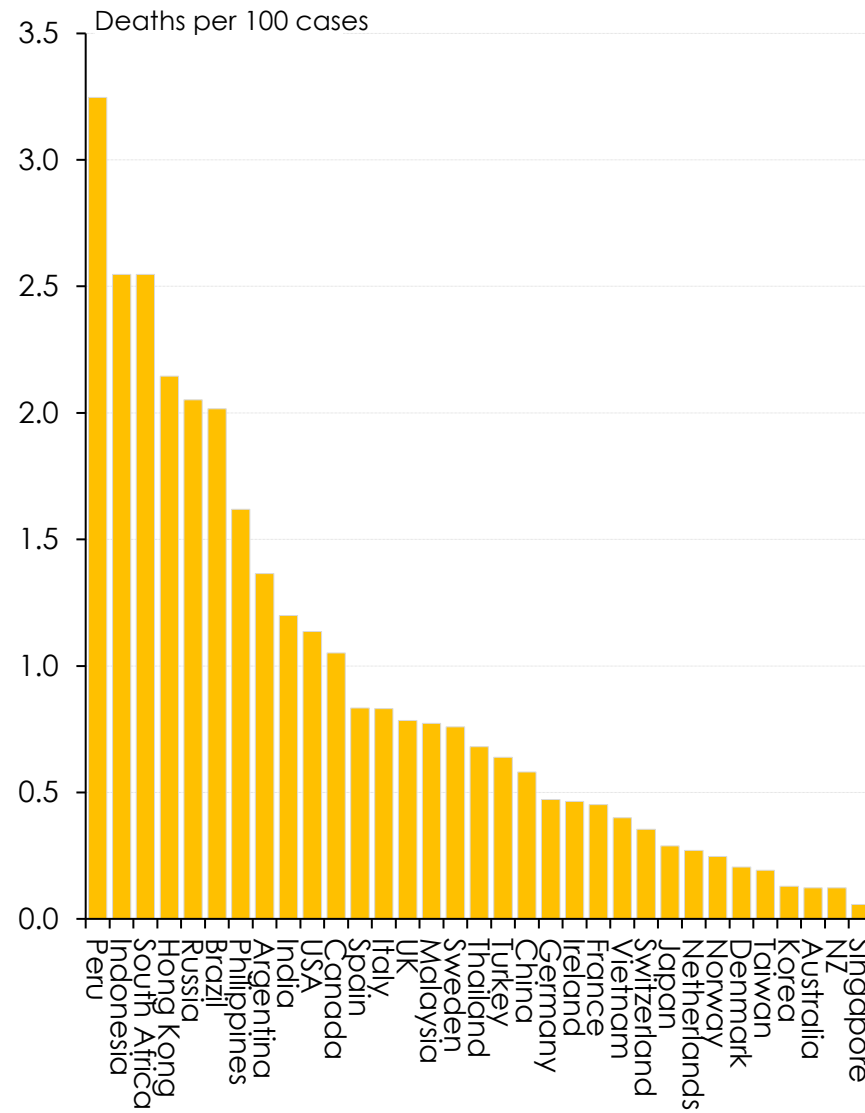
The highest cumulative infection and death rates (since the onset of the pandemic) have been in Europe, South and North America

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

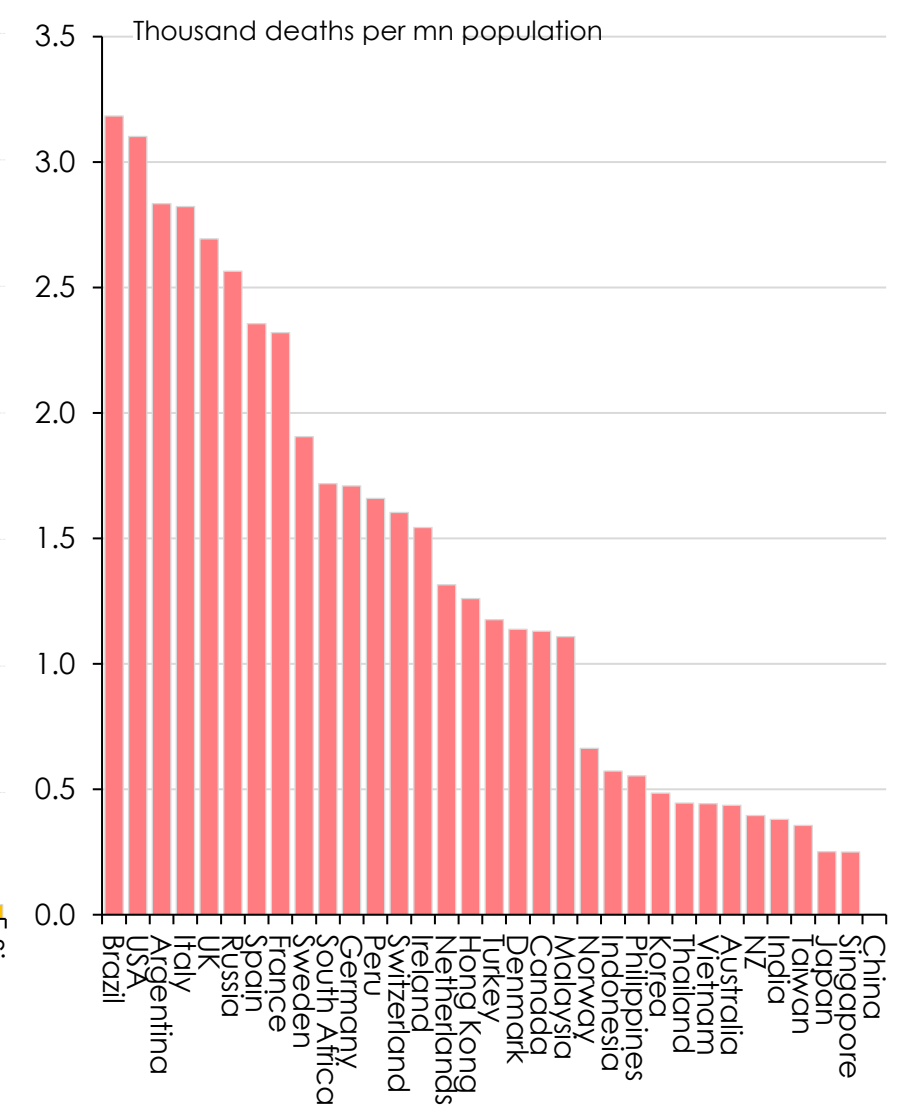
Apparent infection rate



Apparent fatality rate



Apparent death rate



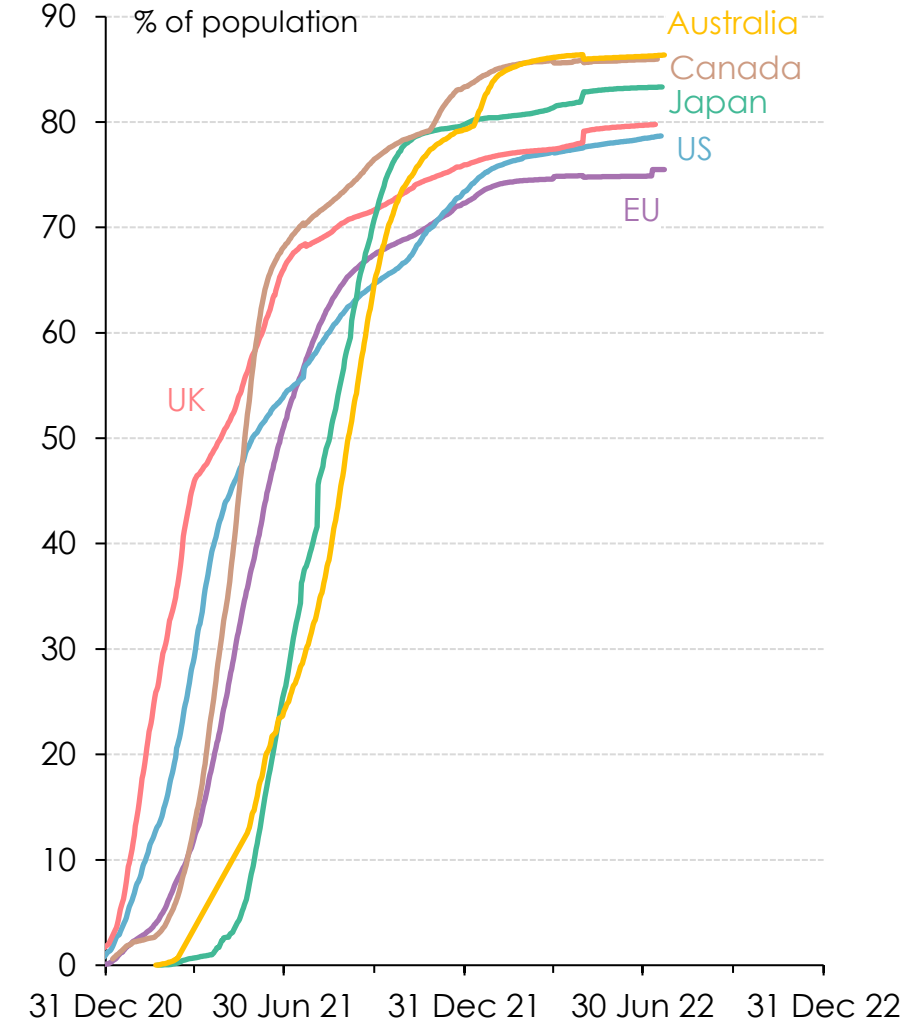
Note: Data shown in these charts are cumulative since the beginning of the pandemic, up to 22nd July. Sources: University of Oxford, [Our World in Data](#); Corinna.

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

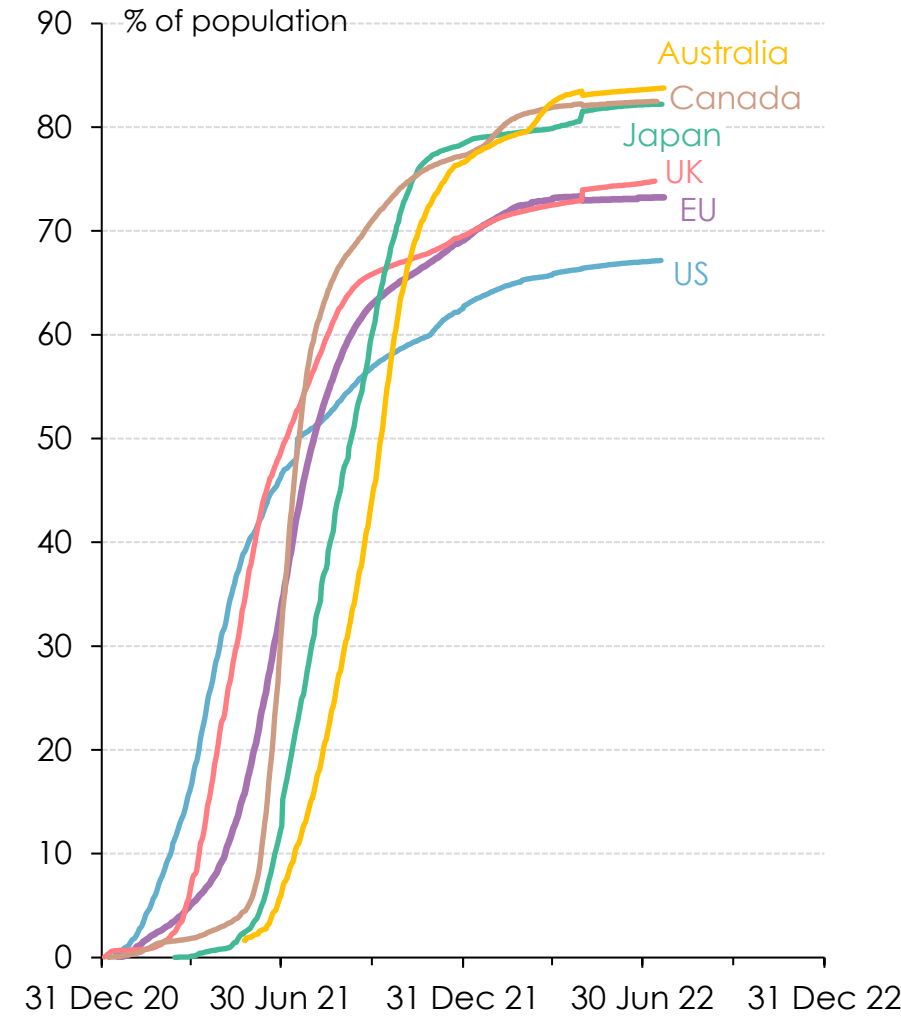
The US lags behind most other 'advanced' economies in fully vaccinating its population and also now with regard to 'boosters'

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

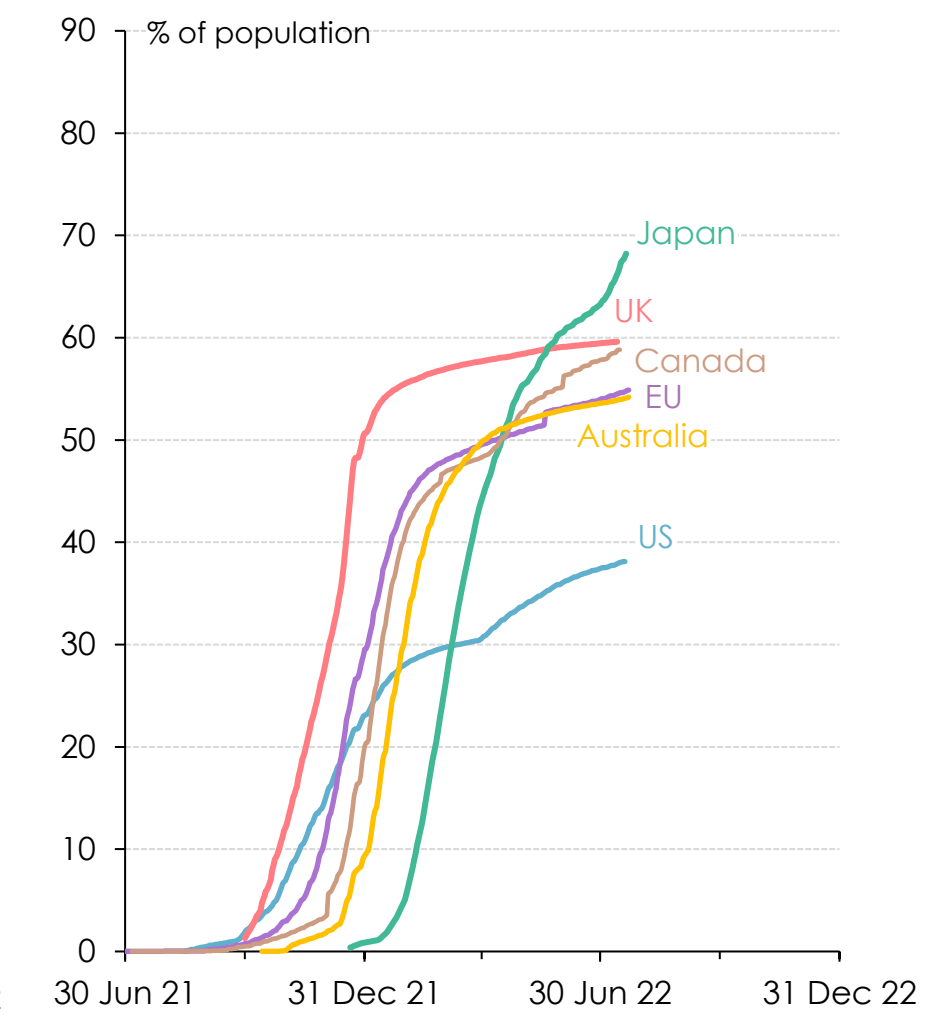
Percentage of populations who have had at least one shot



Percentage of populations who have had two shots



Percentage of populations who have had a 'booster' shot

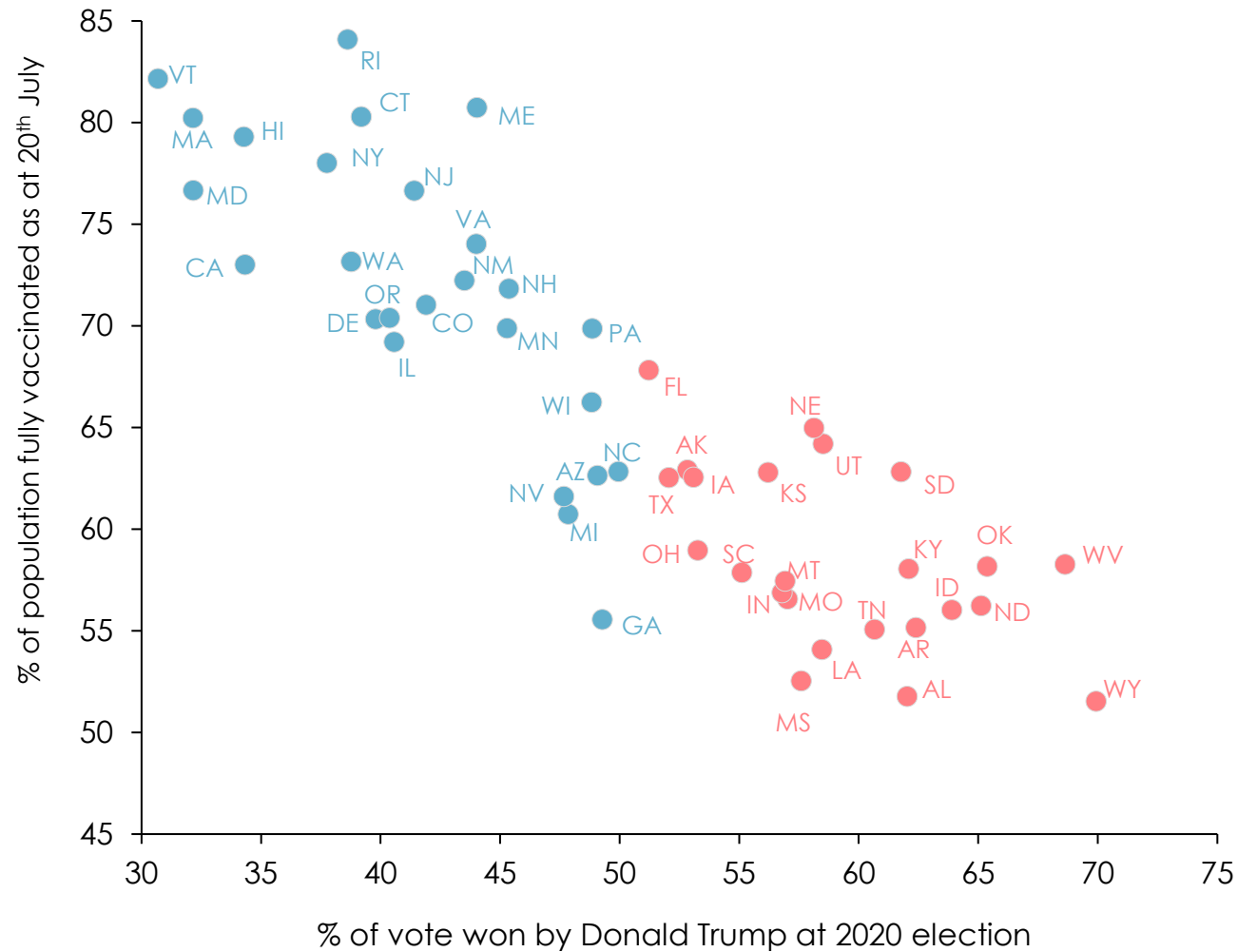


Note: Data up to 21st or 22nd July, except for the UK, 13th July. Source: [Our World in Data](#); [Coronavirus \(COVID-19\) Vaccinations](#). [Return to "What's New"](#).

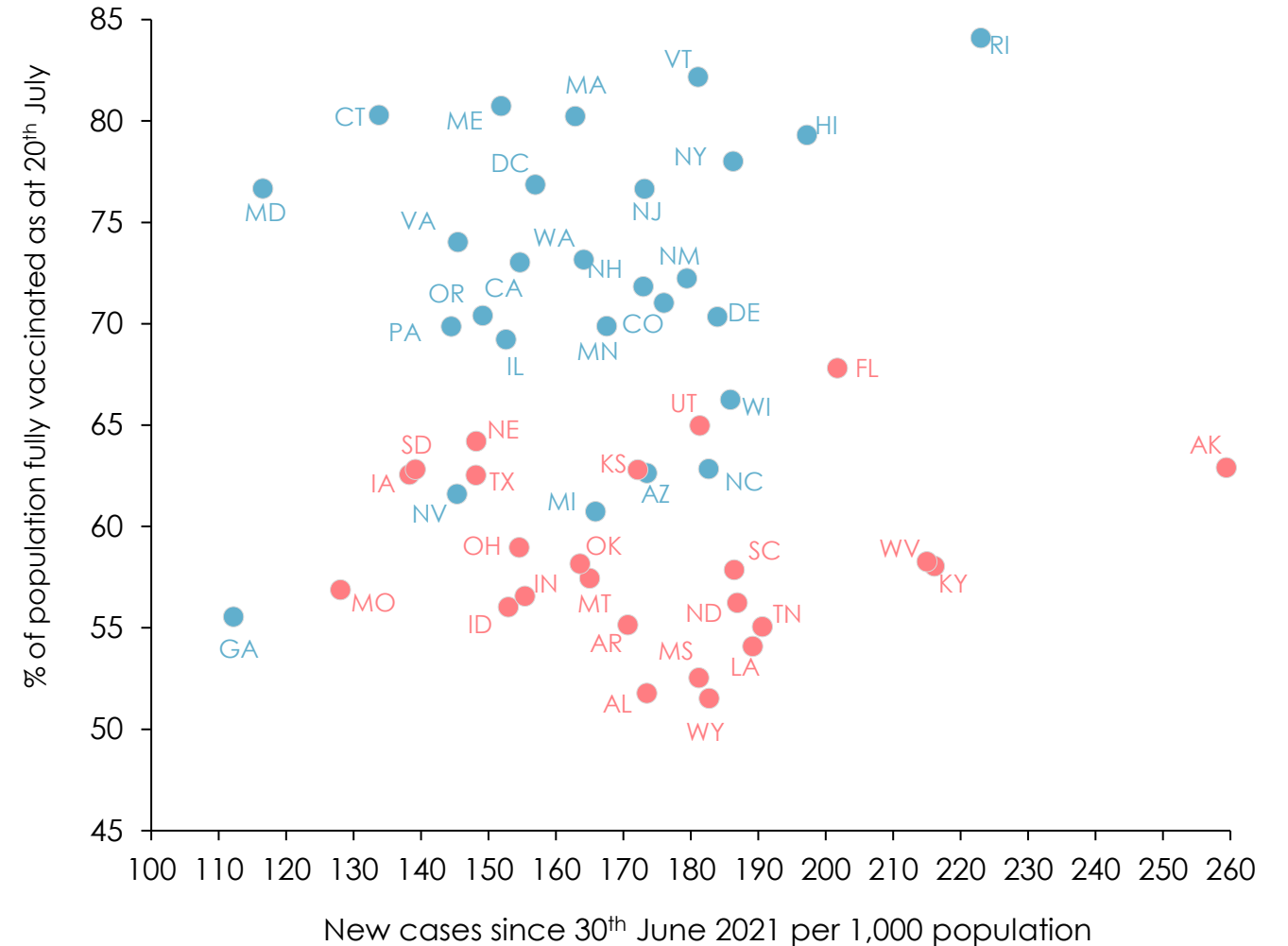
In the US there's a strong correlation between voting patterns and vaccine hesitancy, and (inversely) between vaccination rates and infection rates

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

Vaccination rates vs Trump vote at 2020 elections, by state



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

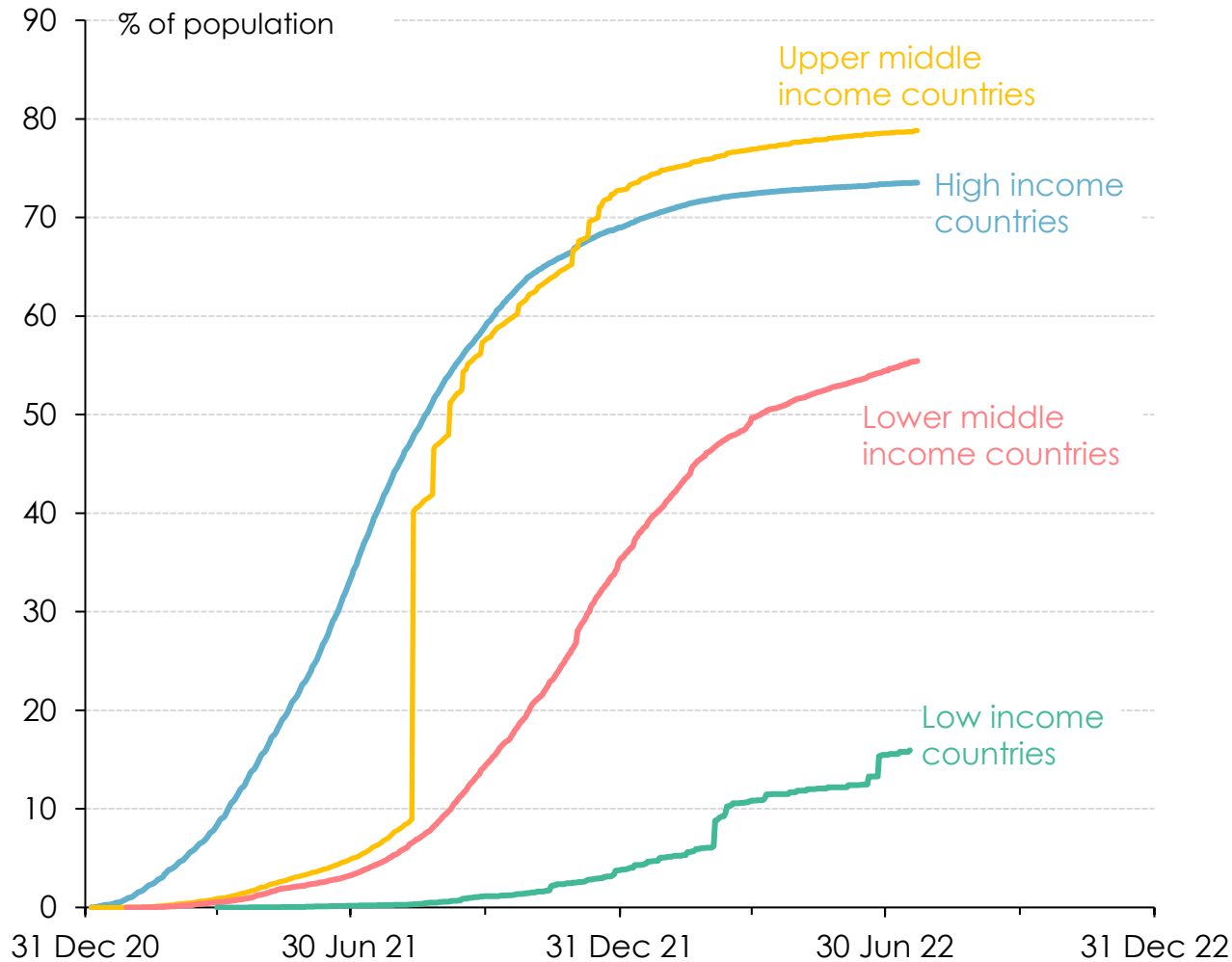


Note: Case data as at 20th July. Missouri and Nebraska have stopped reporting case numbers. Sources: [The Cook Political Report](#); [Our World in Data](#); [USA Facts](#); Corinna. [Return to "What's New"](#).

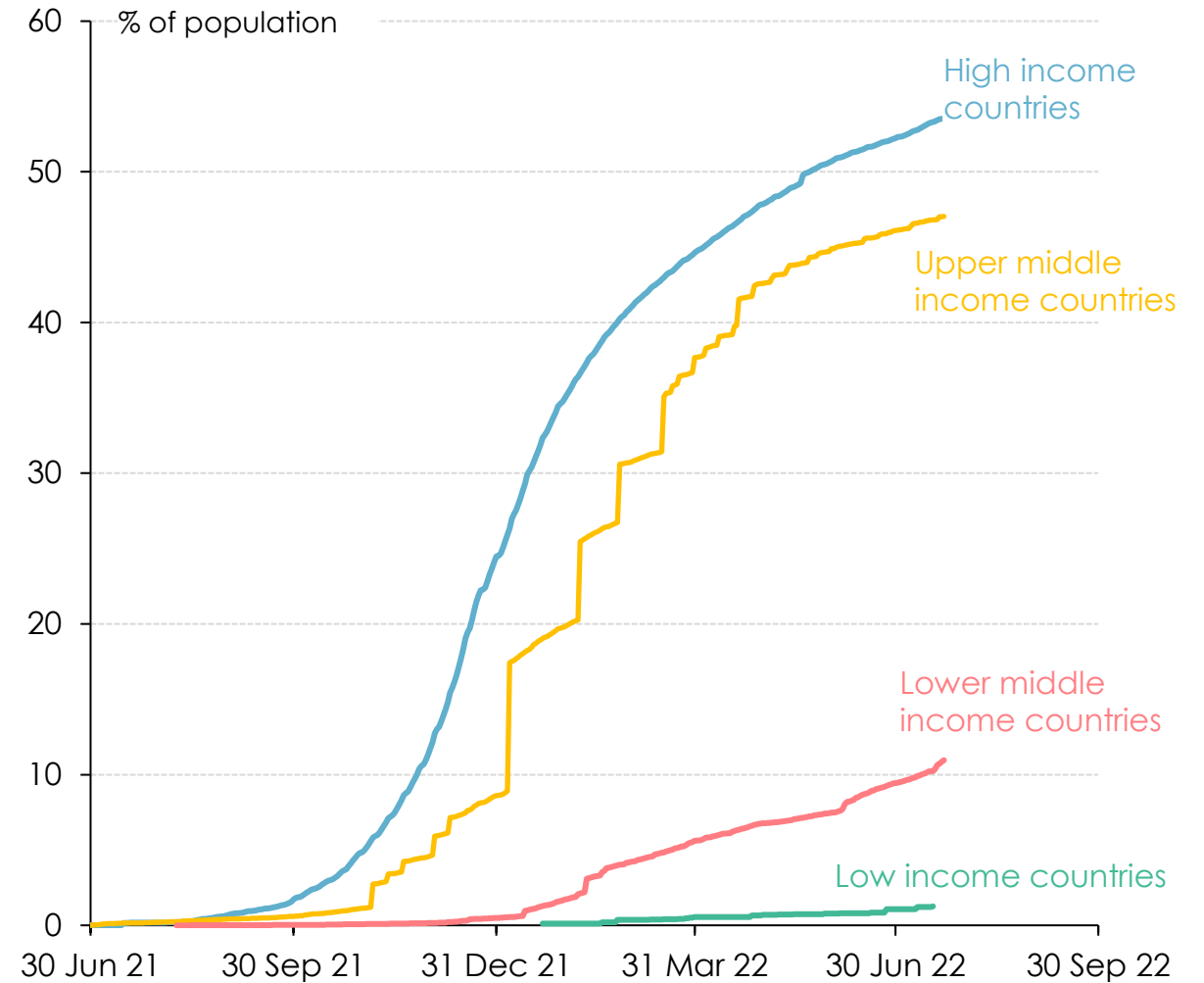
The vaccine roll-out has proceeded much more slowly among low- and lower-middle income countries

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

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



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



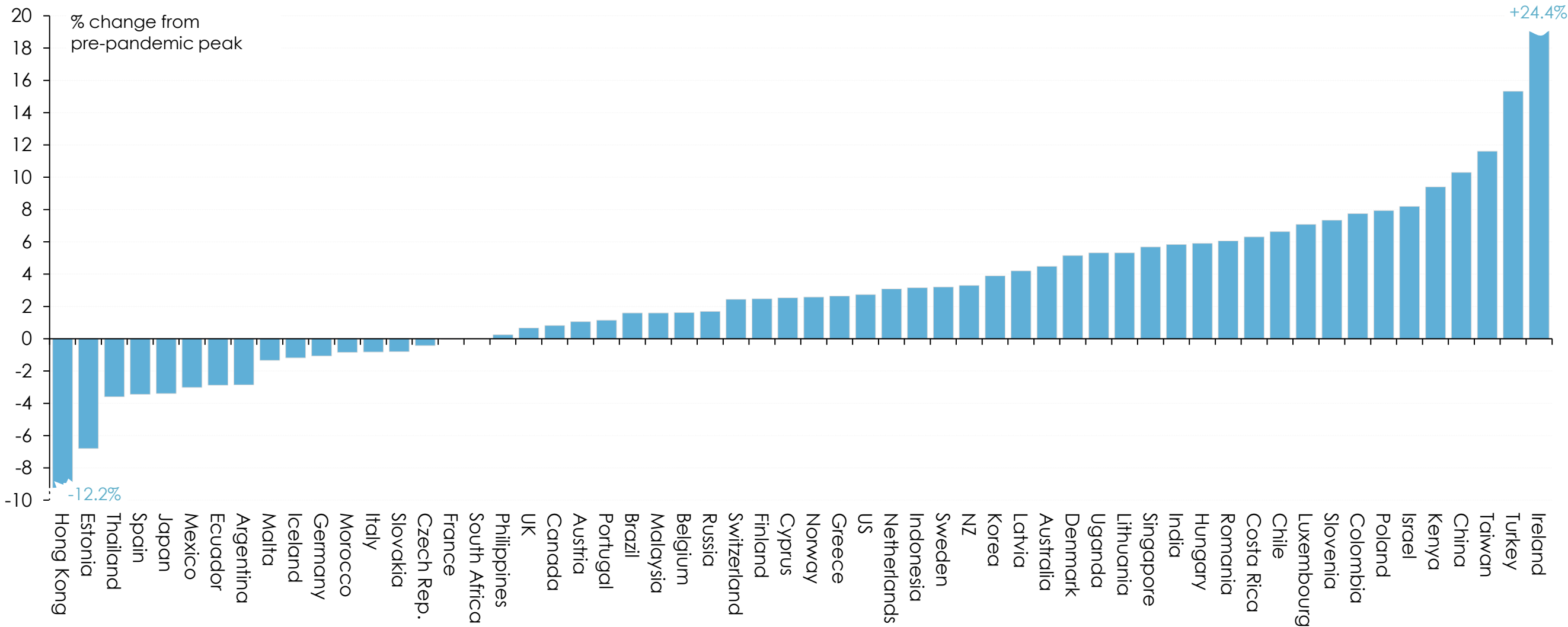
Note: Income categories are as defined by the [World Bank](#): high-income countries are (in 2021) those with a per capita gross national income (GNI) of over US\$12,535; upper-middle income countries are those with per capita GNI between US\$4,046 and \$12,535; lower middle-income countries are those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

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

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

Q1 2022 real GDP compared with pre-recession peak

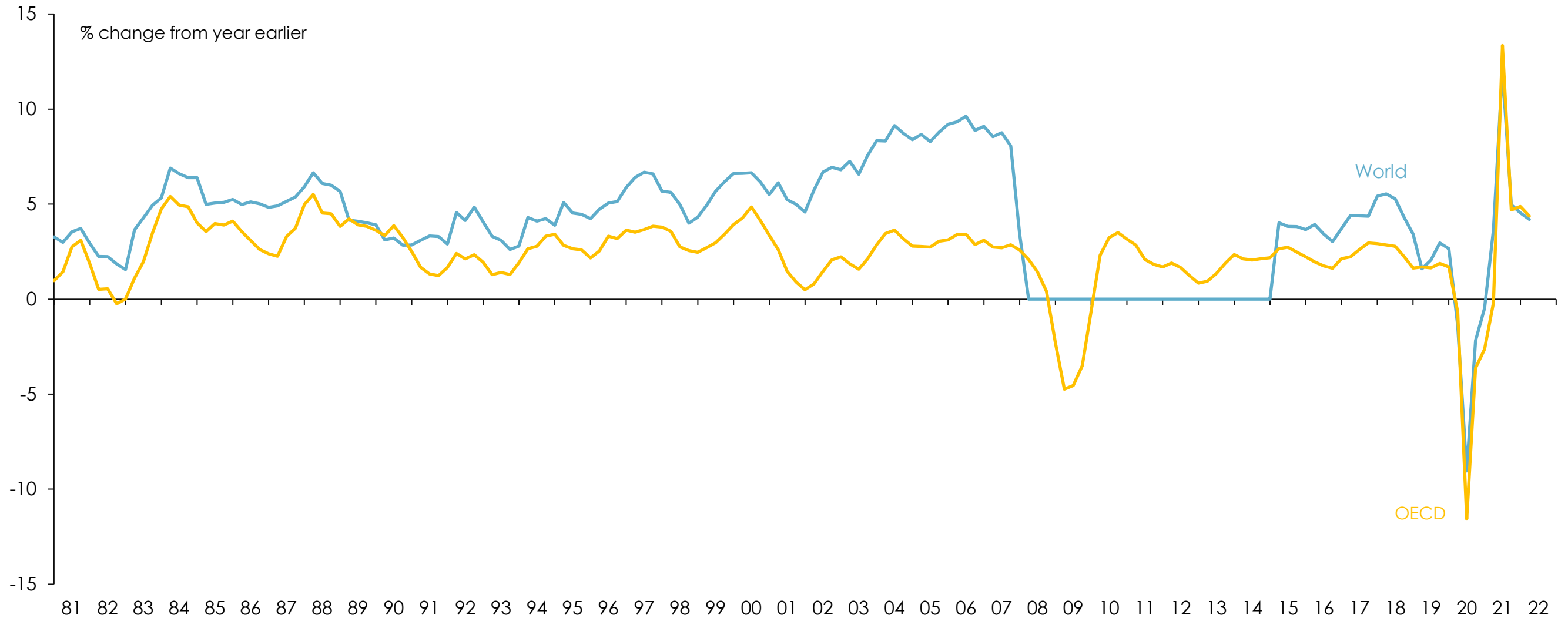


Note: Estimate for China is derived from quarterly growth rates published by China NBS; estimates for India, Indonesia and Russia are seasonally adjusted by the OECD. Sources: National statistical agencies and central banks, and OECD. [Return to "What's New"](#).

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

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

World and OECD area real GDP growth

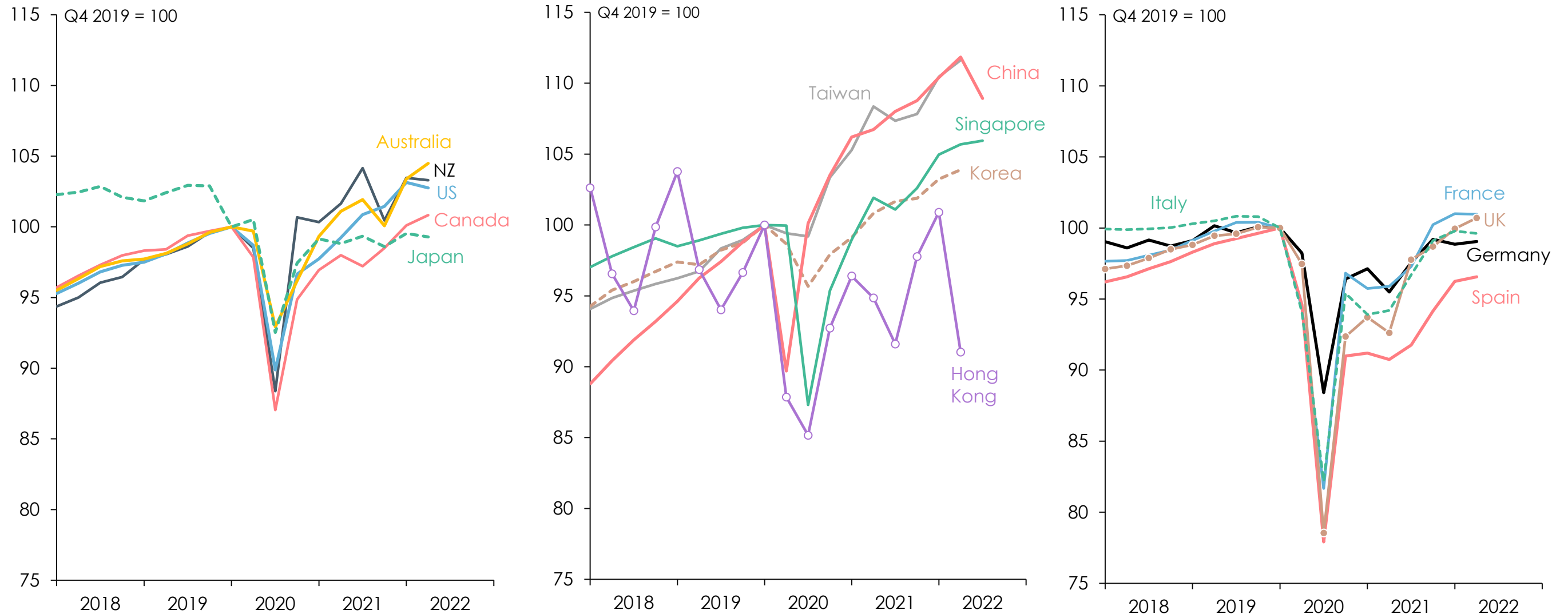


Note: Estimates of global GDP growth compiled by Corinna using data for 100 countries accounting for 94% of 2019 world GDP as measured by the IMF, weighted in accordance with each country's share of global GDP at purchasing power parities in 2019; excludes constituents of the former USSR before 1993,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

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

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

Levels of real GDP indexed to Q4 2019 = 100



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

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

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

Major global institutions' growth forecasts for 2021- 2023 compared

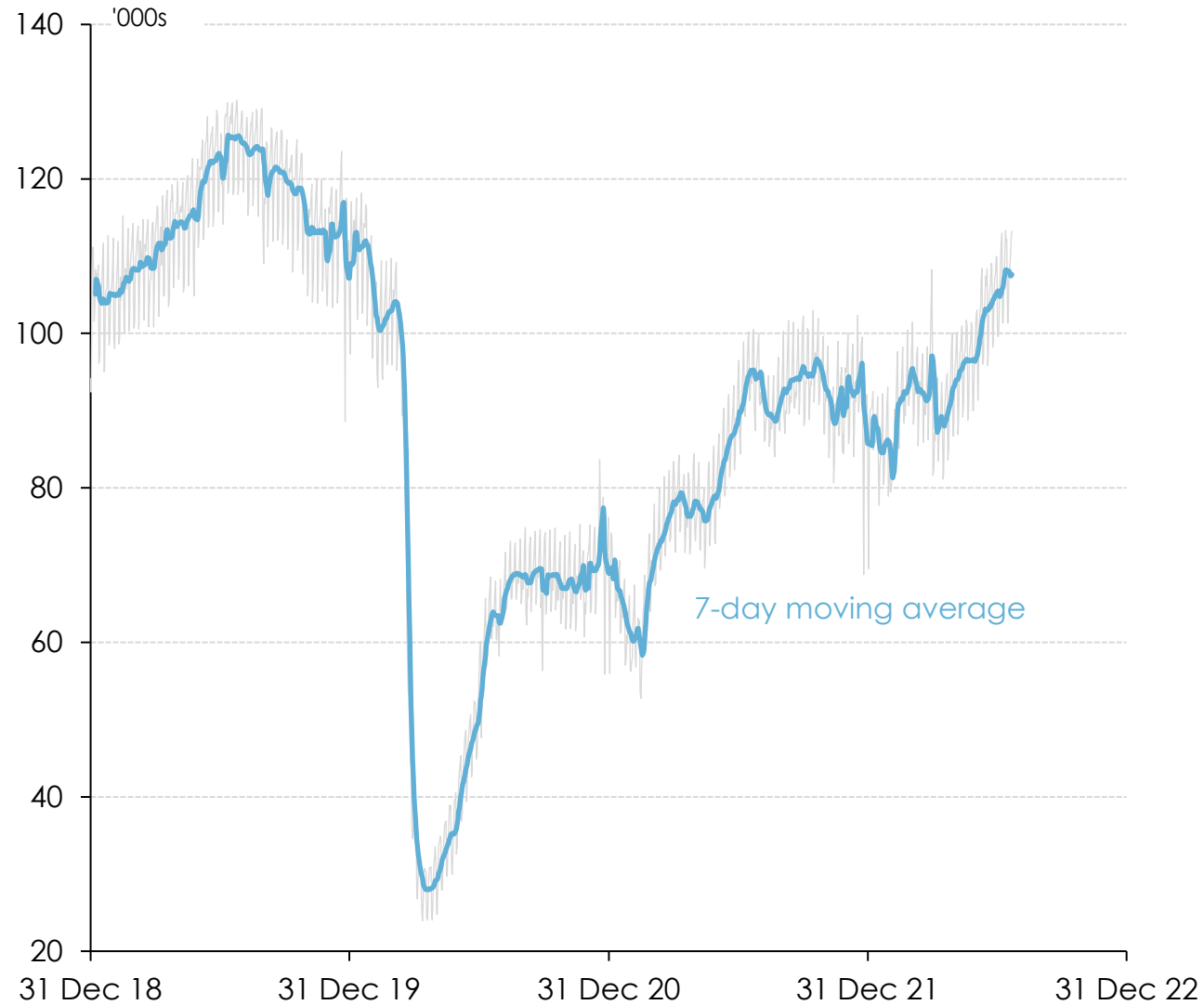
	Actual		IMF			OECD			World Bank			Australian/NZ Treasury		
	2010-19 [^]	2020	2021	2022	2023	2021	2022	2023	2022	2023	2024	2022	2023	2024
US	2.2	-3.5	5.7	3.7	2.3	5.7	2.5	1.2	2.5	2.4	2.0	3.5	2.5	2.0
China	7.7	2.3	8.1	4.4	5.1	8.1	4.4	4.9	4.3	5.2	5.1	4.8	5.3	5.0
Euro area	1.3	-6.6	5.3	2.8	2.3	5.3	2.6	1.6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

Note: All actuals and forecasts are \$ per annum. [^] Annual average. * Forecasts for fiscal years beginning 1st July (and finishing 30th June following year) [†] Forecasts by New Zealand Treasury for fiscal years beginning 1st July. Sources: International Monetary Fund (IMF), [World Economic Outlook](#), 19th April 2022 (to be updated on 26th July); 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, though not yet quite back to pre-Covid levels

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

Daily commercial flights worldwide



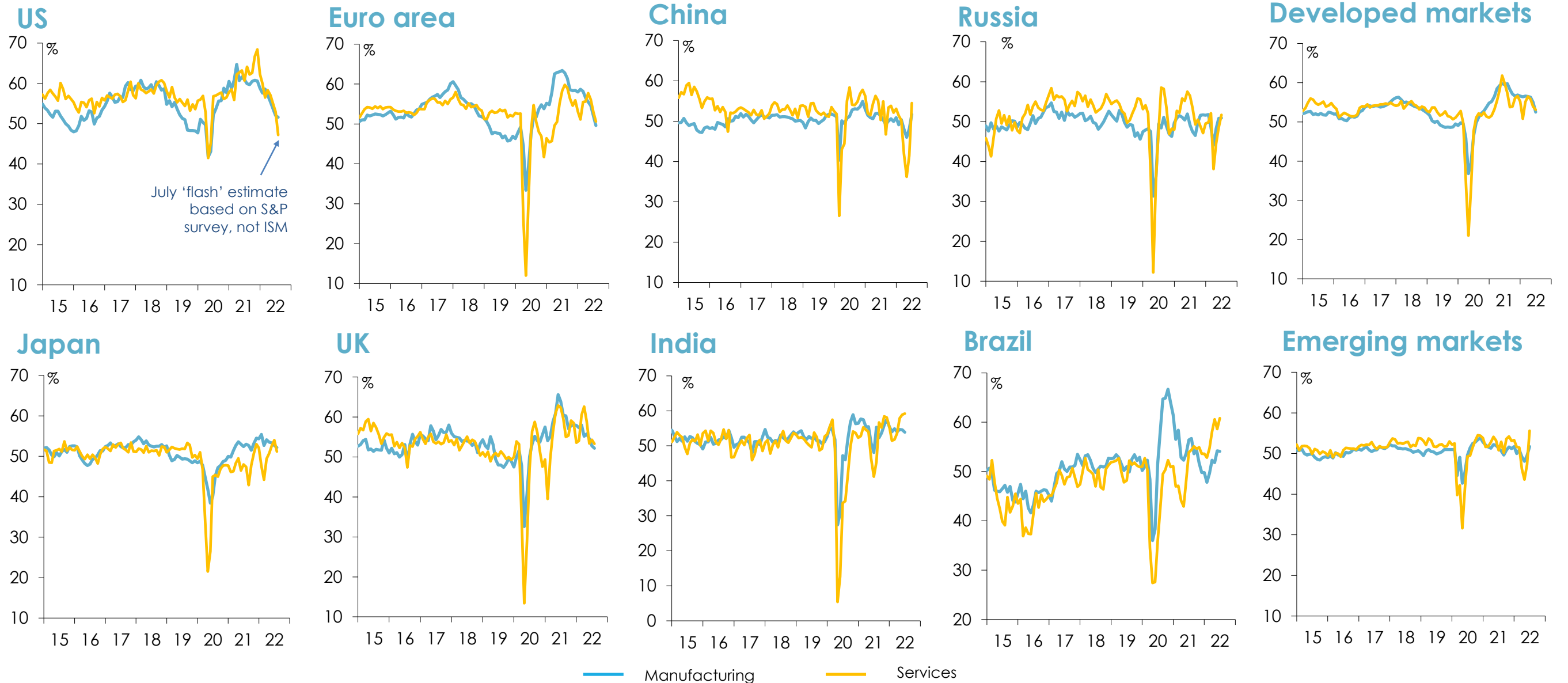
Daily US TSA 'security' checks



Note: Commercial flights include commercial passenger flights, cargo flights, charter flights, and some business jet flights. Data are up to 22nd July for commercial flights and 21st 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"](#).

'Flash' PMIs point to a further slowing in both manufacturing and services activity in the US, euro area and the UK in July, and a set-back in Japan

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

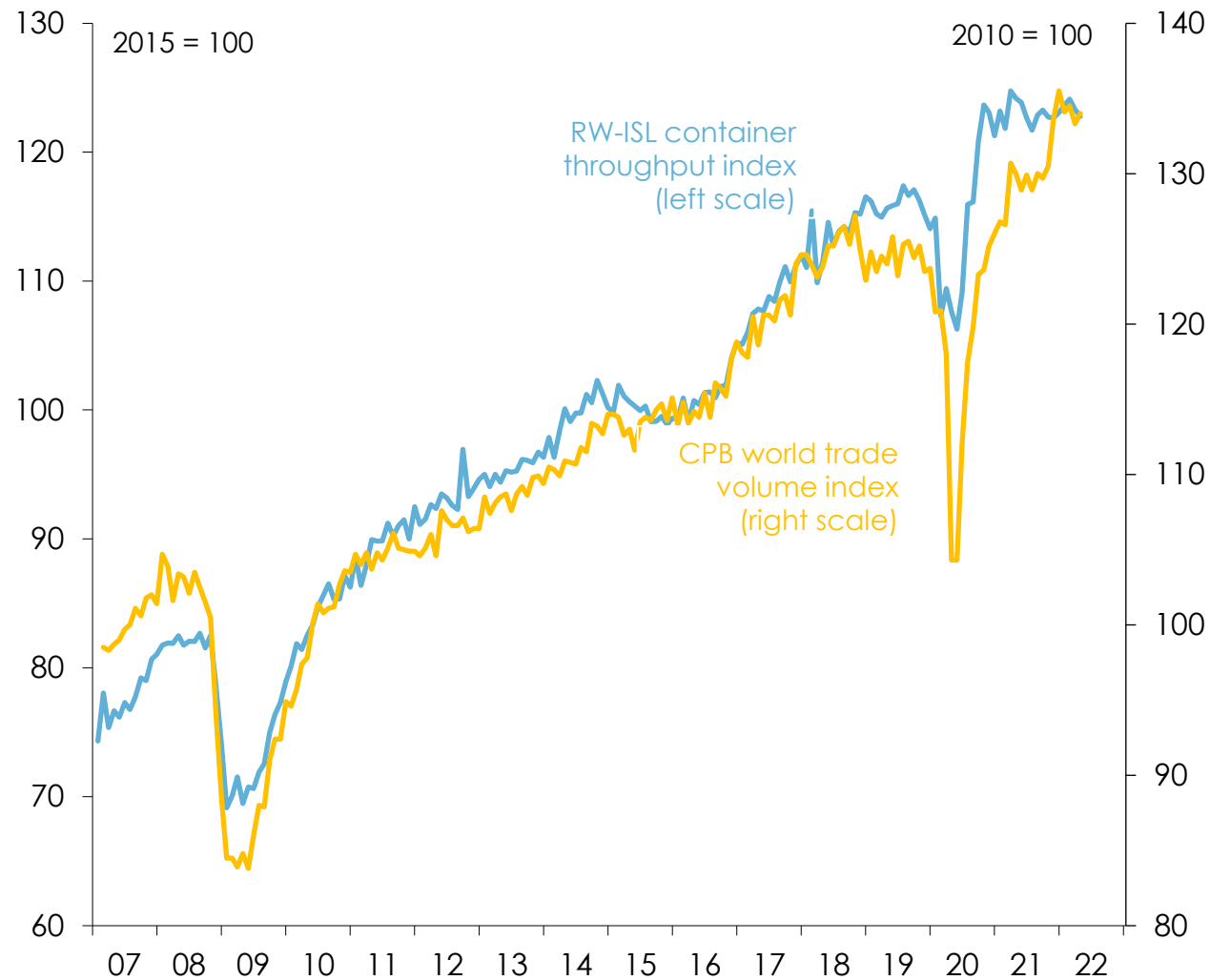


Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous month, and a reading of less than 50 indicates a decrease. Latest readings for US, Japan, euro area & UK are 'flash' July estimates; others are for June. See also PMIs for other Asia-Pacific economies on [slide 91](#). Sources: [US Institute for Supply Management](#); [IHS Markit](#); JP Morgan; [Caixin](#); Refinitiv Datastream. [Return to "What's New"](#).

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

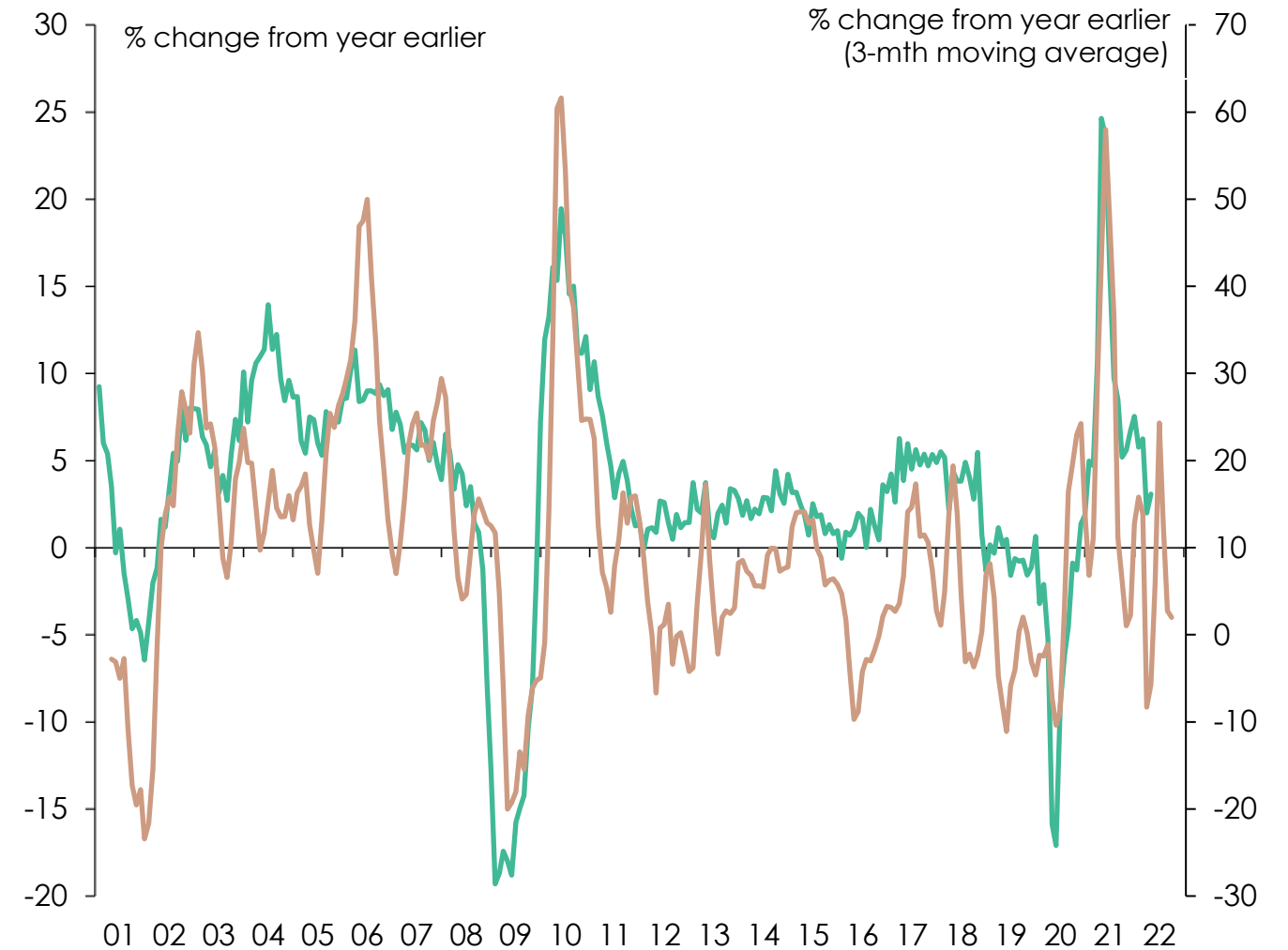
THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

World trade volumes and container throughput



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

Taiwan export orders and world trade volumes



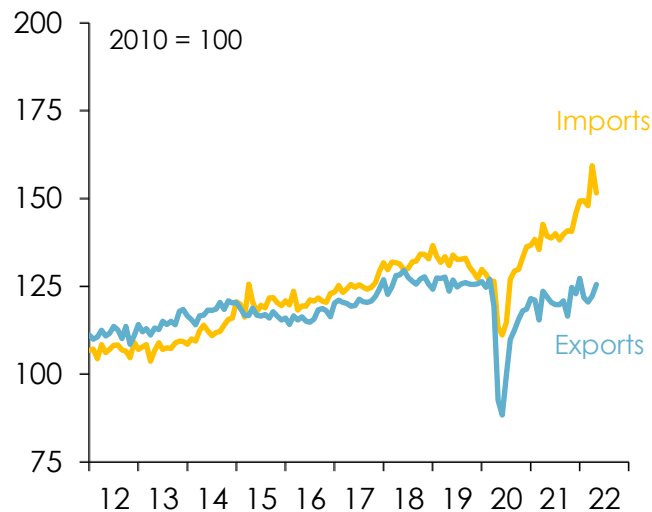
— Volume of world trade (left scale)
— Taiwan export orders, fwd 3 months (right scale)

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

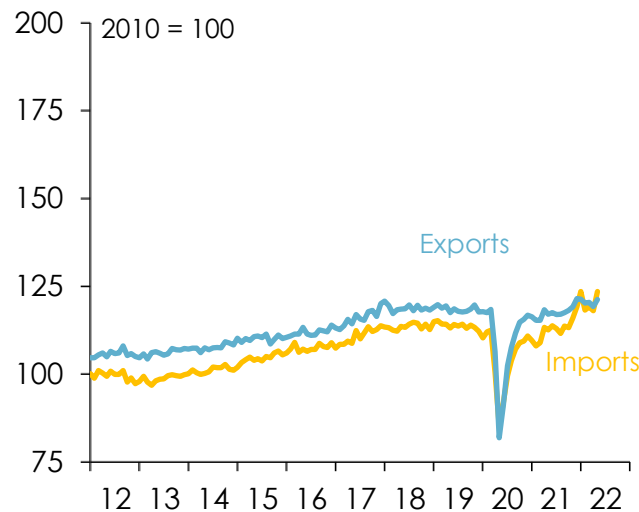
Supply-chain disruptions in China have been a major factor in the slowing in world trade this year: the UK's poor trade performance is also notable

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

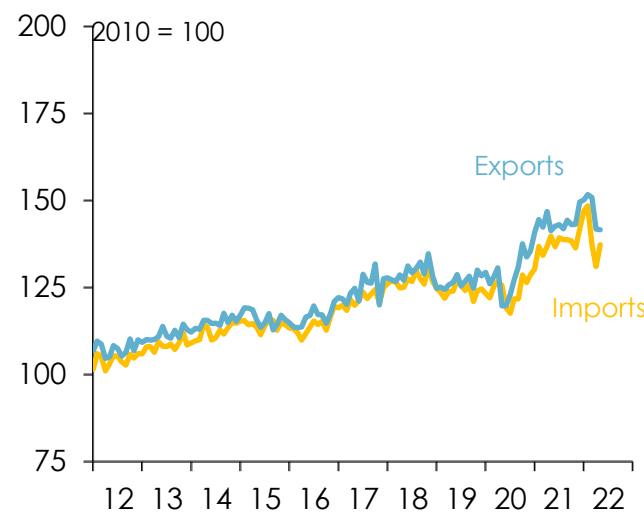
United States



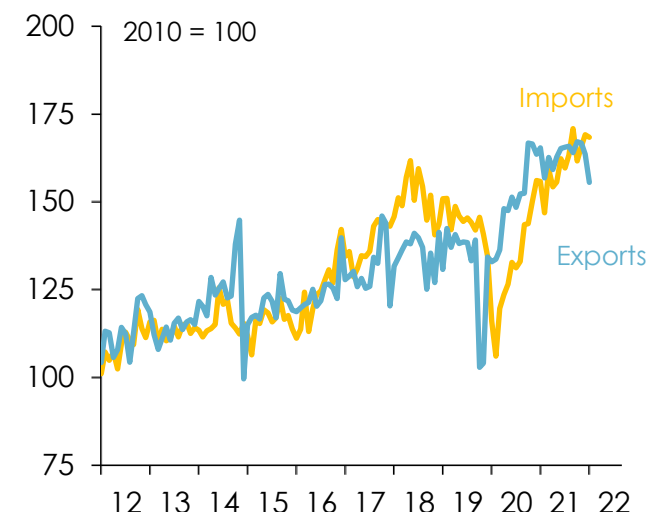
Euro area



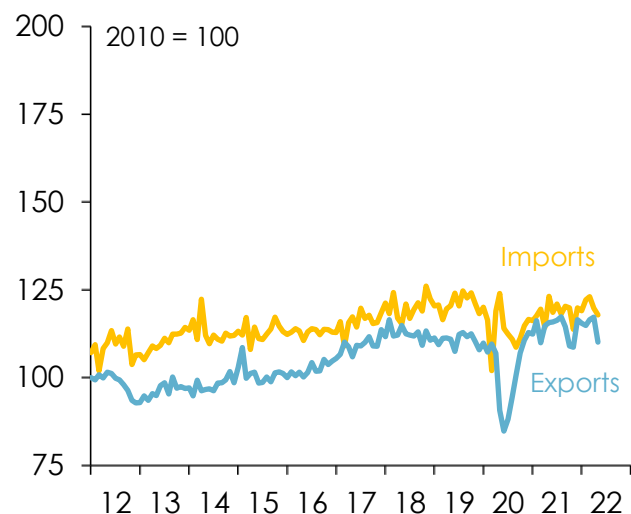
Other 'advanced' Asia



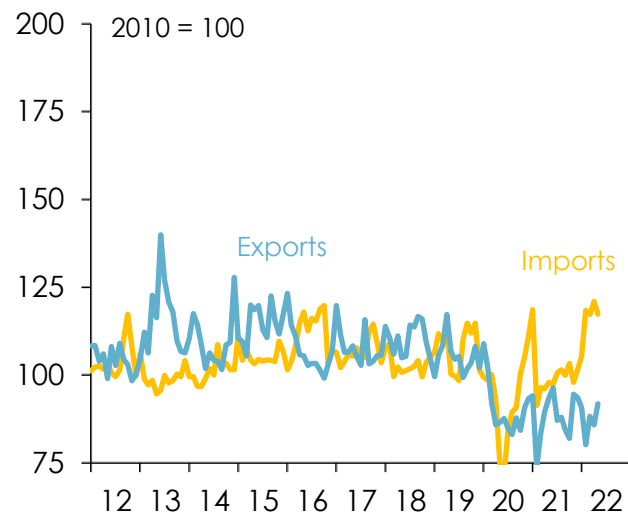
Other 'emerging' Asia



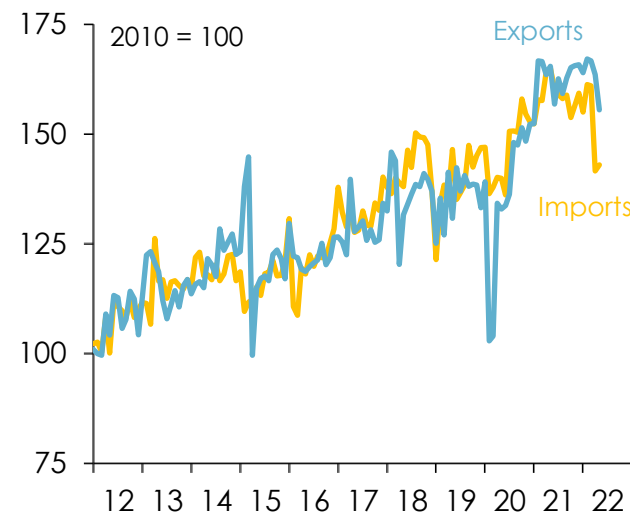
Japan



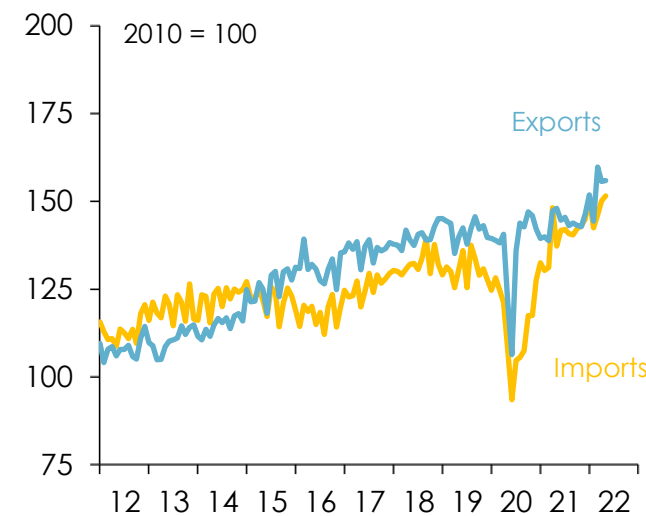
United Kingdom



China



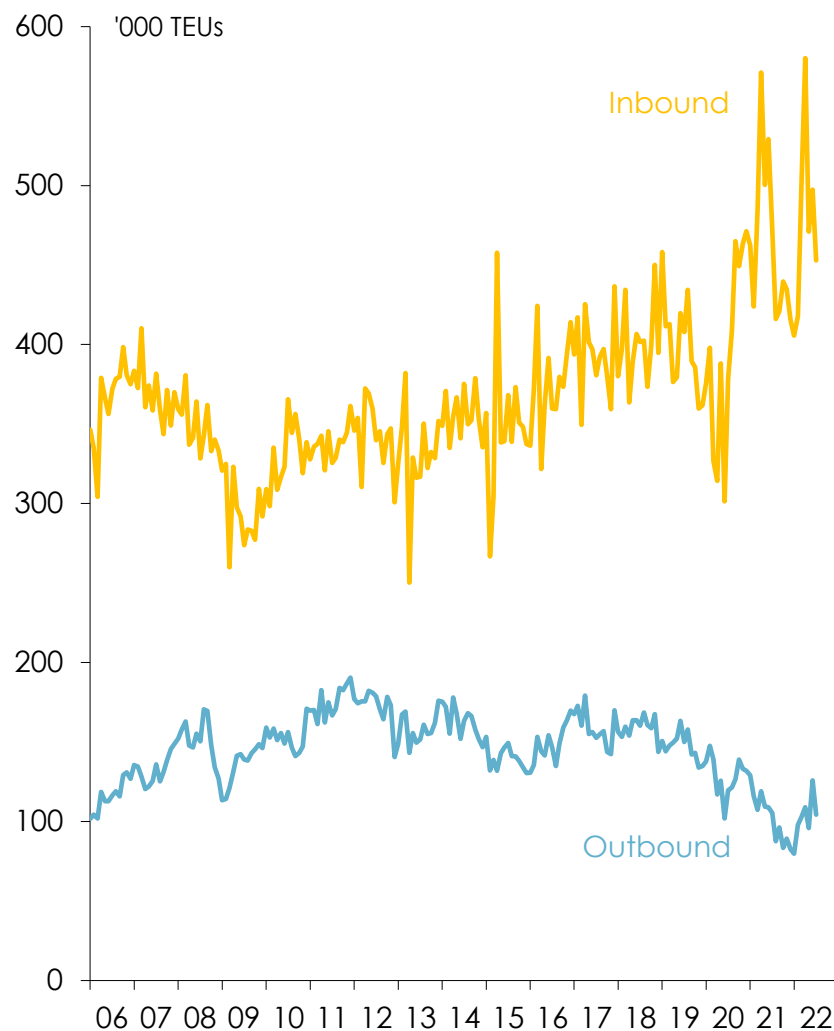
Latin America



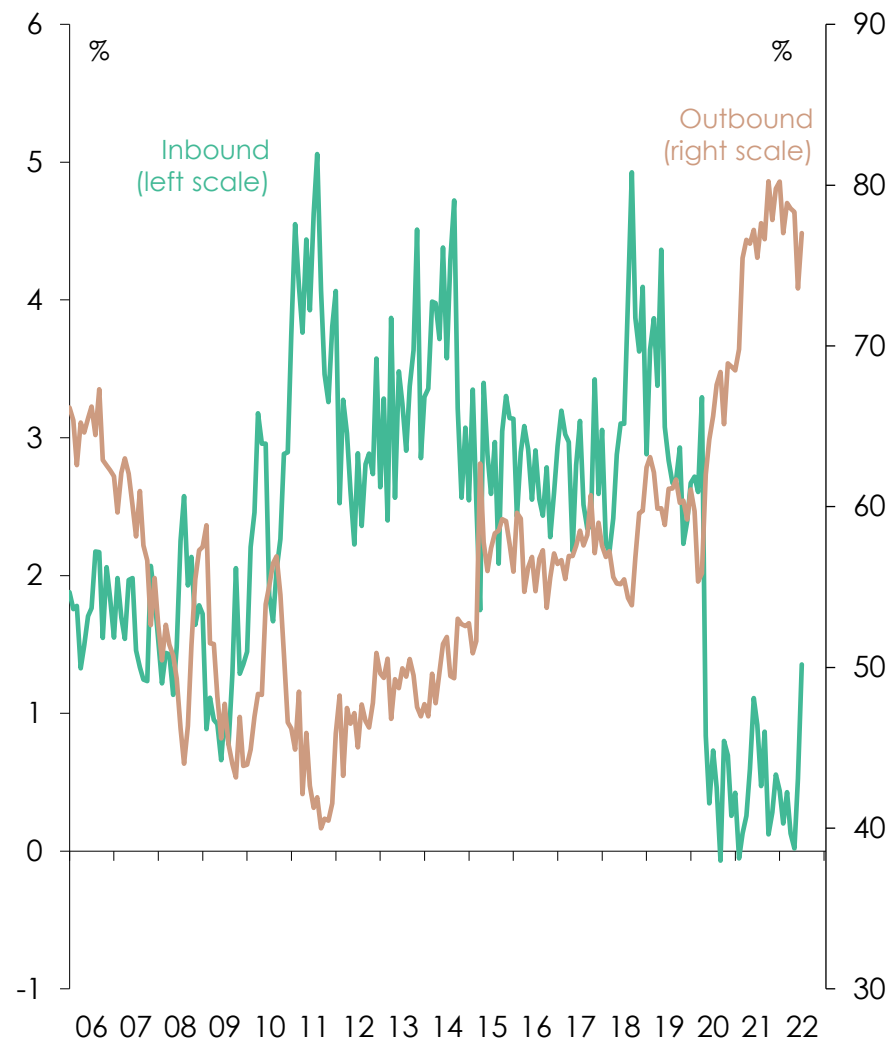
Congestion at the Port of Los Angeles (the US' largest container port) has eased significantly but trade flows remain unusually unbalanced

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

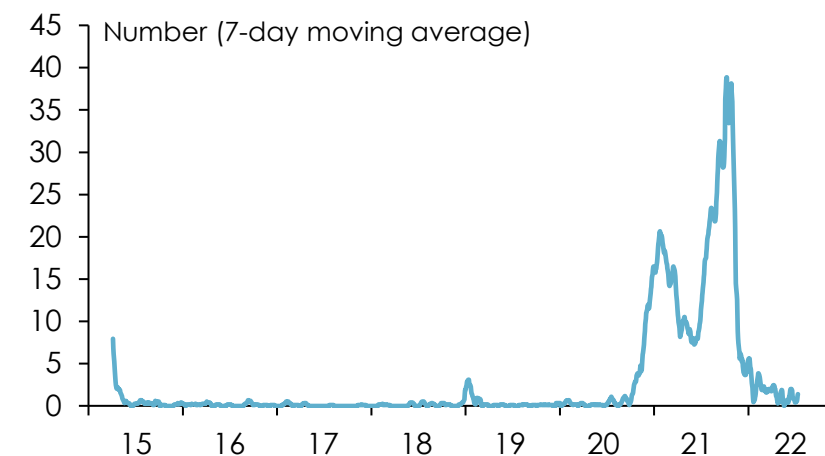
Container traffic through the Port of Los Angeles



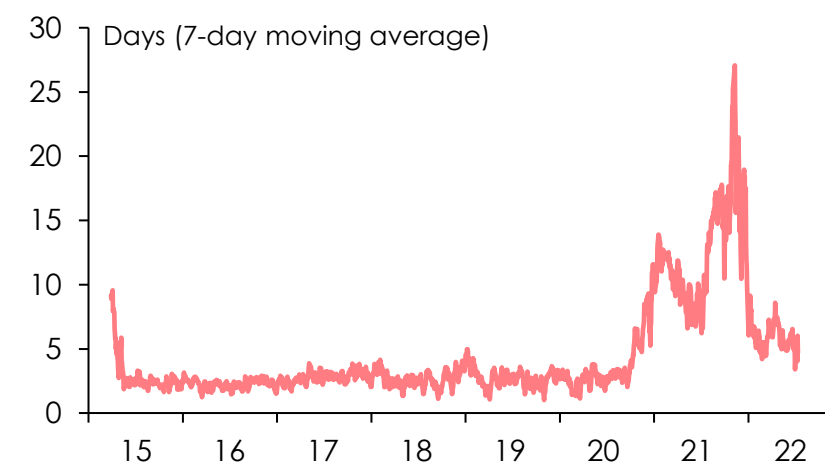
Empty containers as a pc of total passing through PoLA



Number of vessels at anchor outside PoLA



Average time at anchor and berth for ships at PoLA

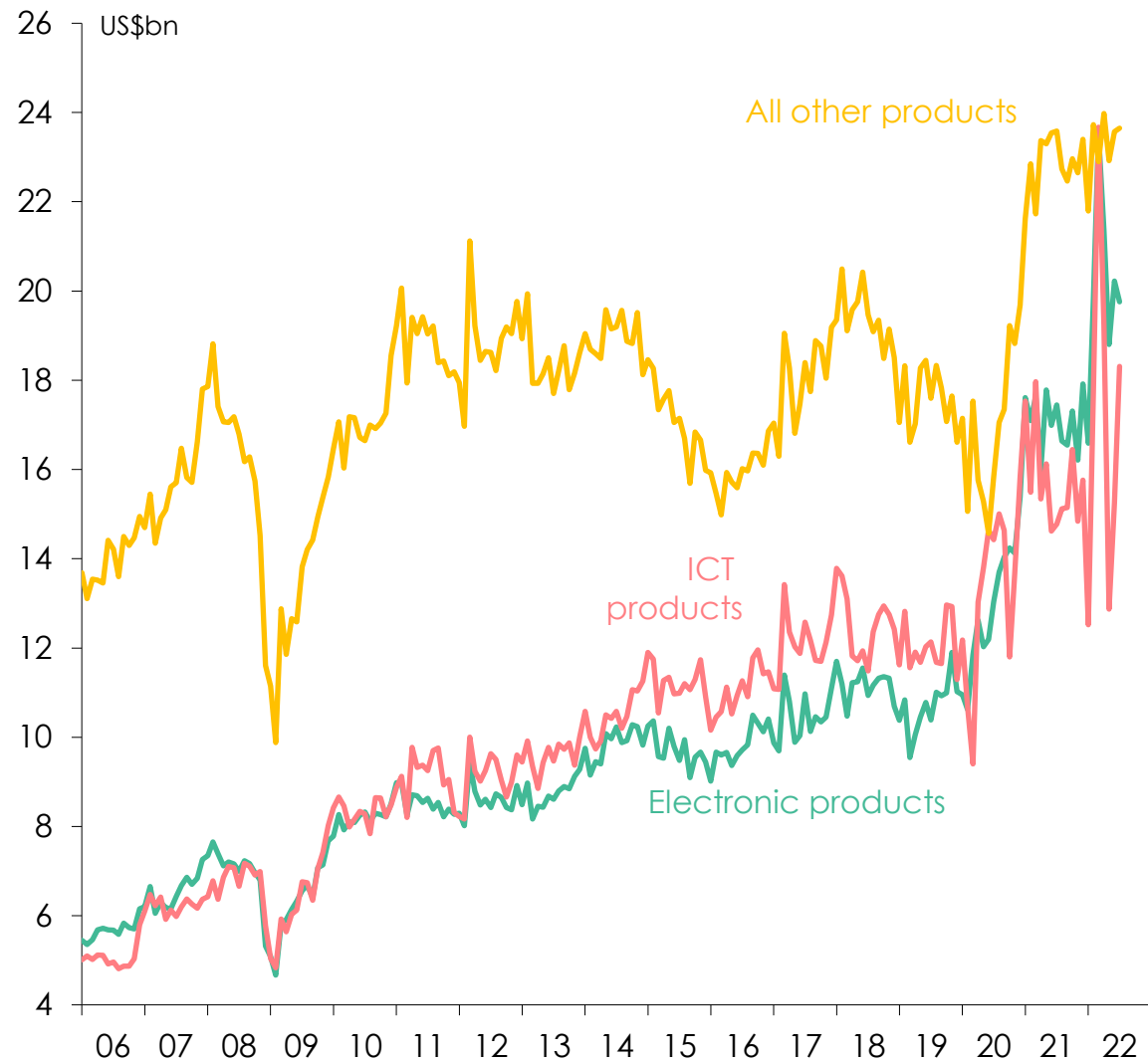


Note: TEU = 20-foot equivalent unit. Data on inbound and outbound container traffic in the first two charts have been seasonally adjusted by Corinna using Refinitiv Datastream. Data up to 22nd July. Source: The Port of Los Angeles, [Container Statistics](#) and [Container vessels in port](#). [Return to "What's New"](#).

Export orders for Taiwanese ICT products rose 20% in June, after an 18.6% rise in May, to be back to 'normal' levels

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

Taiwan export orders, by product



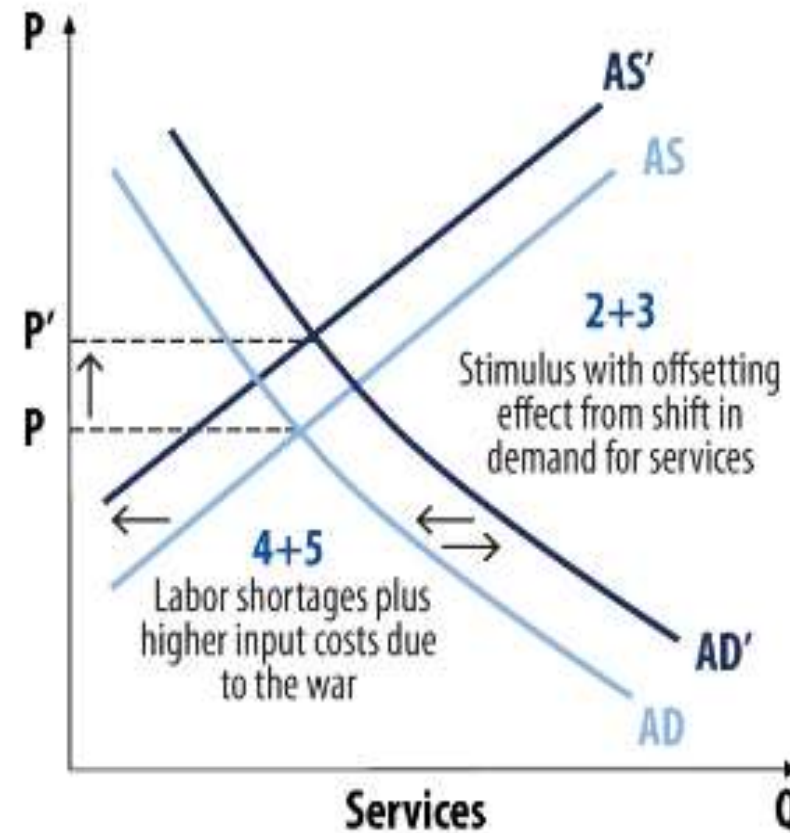
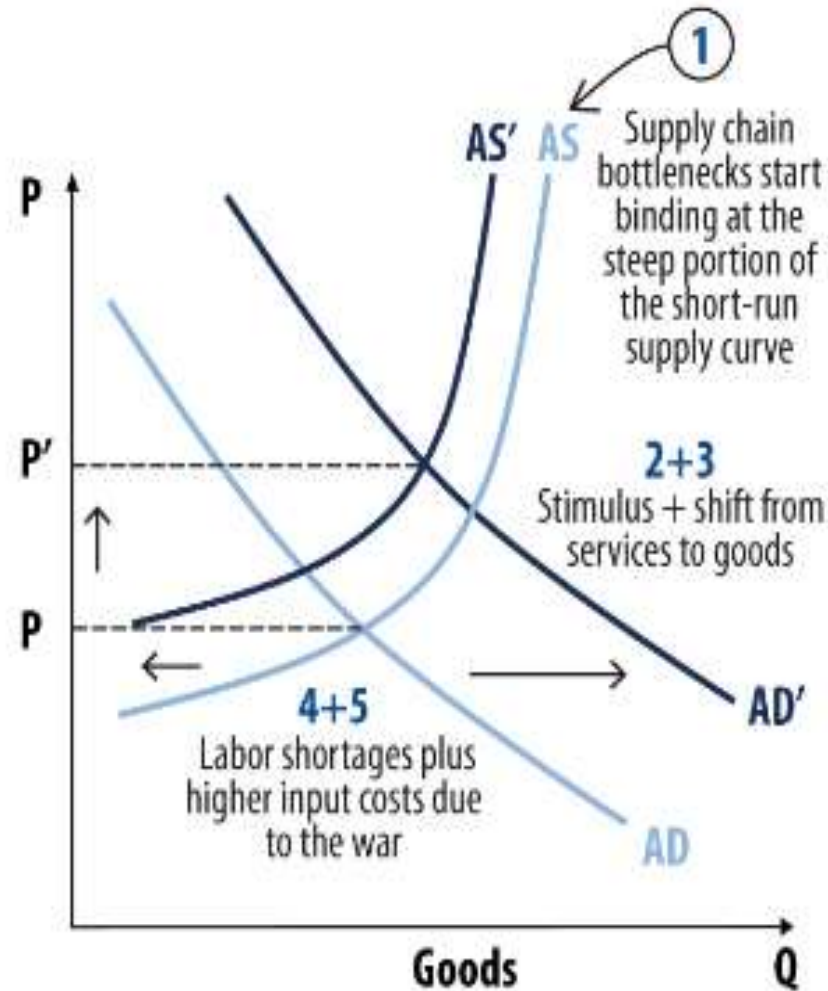
Note: Data have been seasonally adjusted by Corinna using Refinitiv Datastream. Latest data are for May. Source: Taiwan [Ministry of Economic Affairs](#). [Return to "What's New"](#).

- ❑ 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 has also been affected by the war in Ukraine, because Ukraine is a major producer of neon gas which is used in semi-conductor production

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

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

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



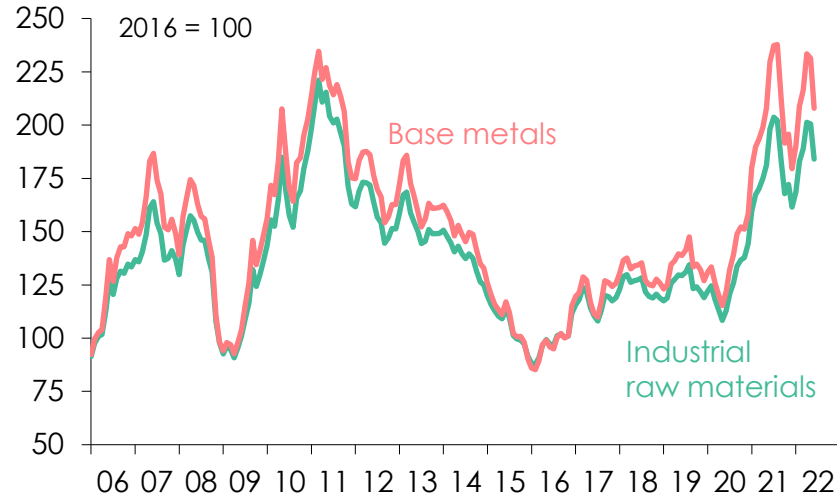
1. Supply chain bottlenecks reducing supply of durable goods – aggregate supply curve shifts to left (AS → AS')
 2. Shift in demand from services to goods (prompted by public health restrictions), with opposite effects on demand for services and goods – aggregate demand curve for goods shifts to right,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

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

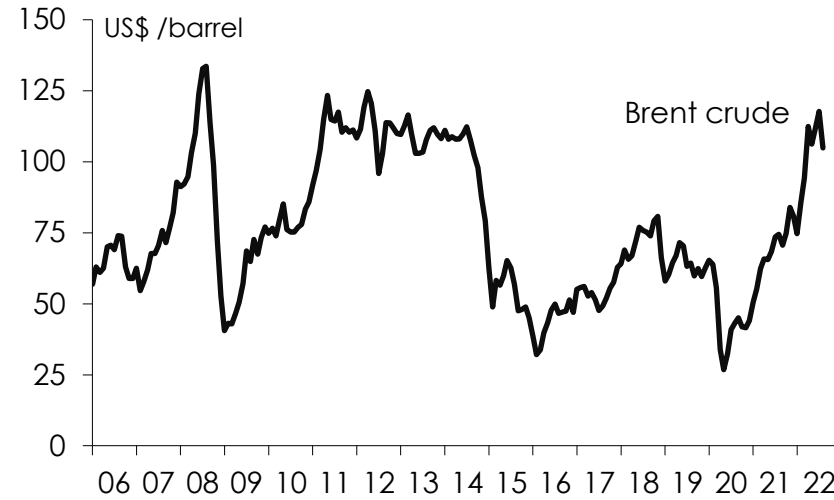
Energy commodity prices remain elevated, but other commodity prices have eased a bit, and freight & semi-conductor prices are now falling

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

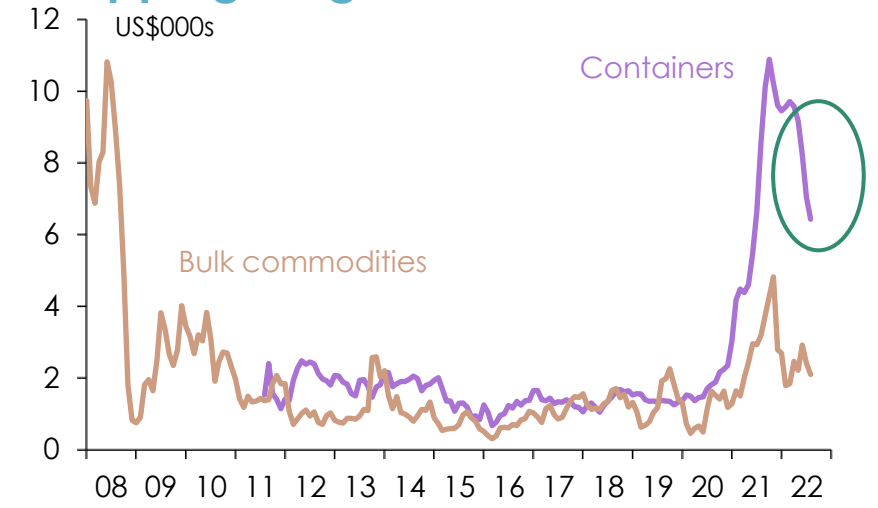
'Hard' commodity prices



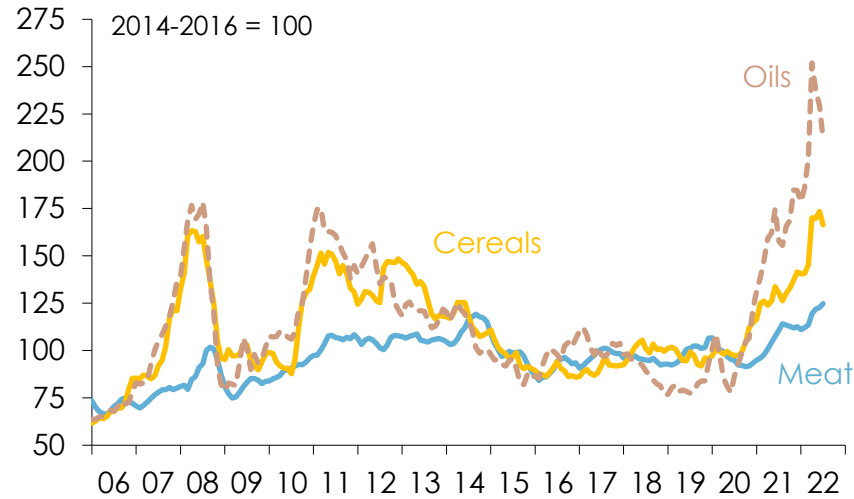
Crude oil price



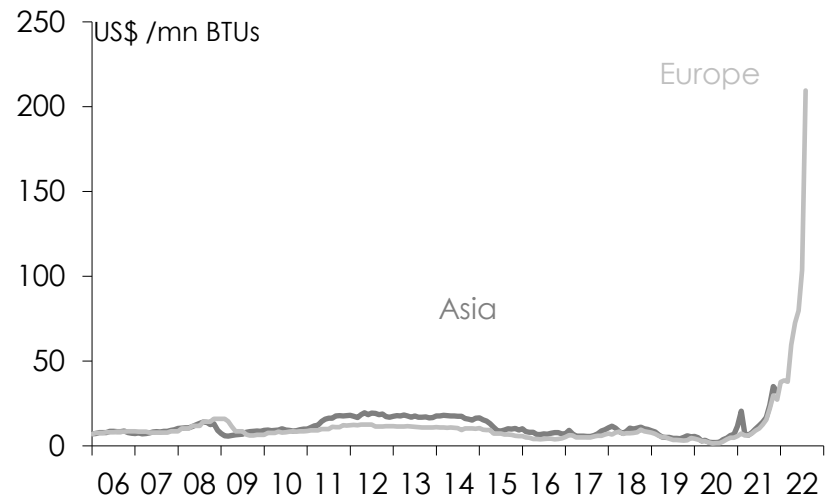
Shipping freight costs



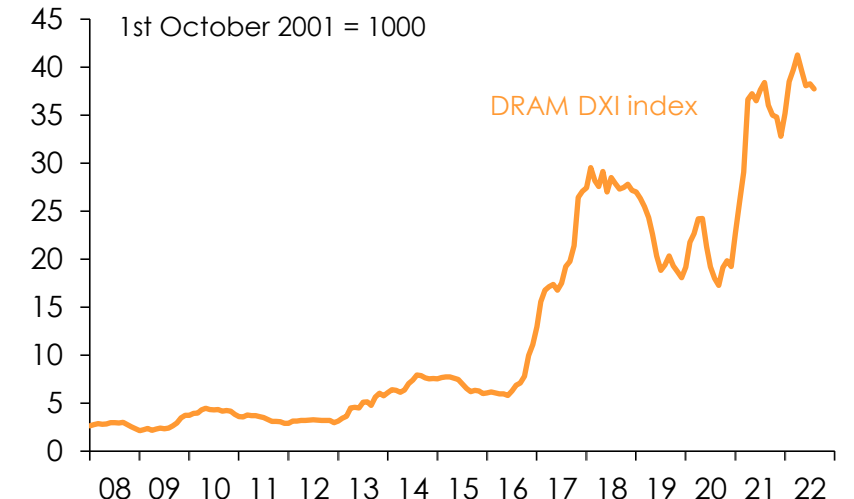
Food commodity prices



Natural gas prices



Semiconductor chip prices

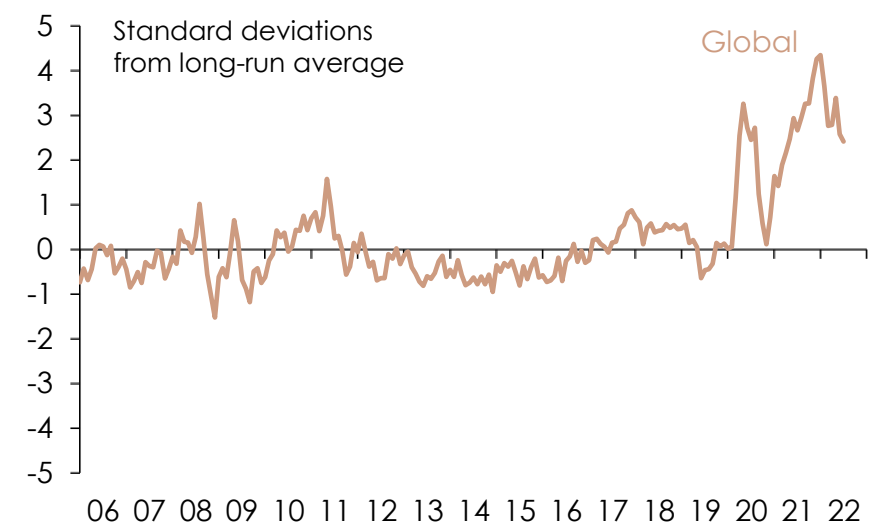
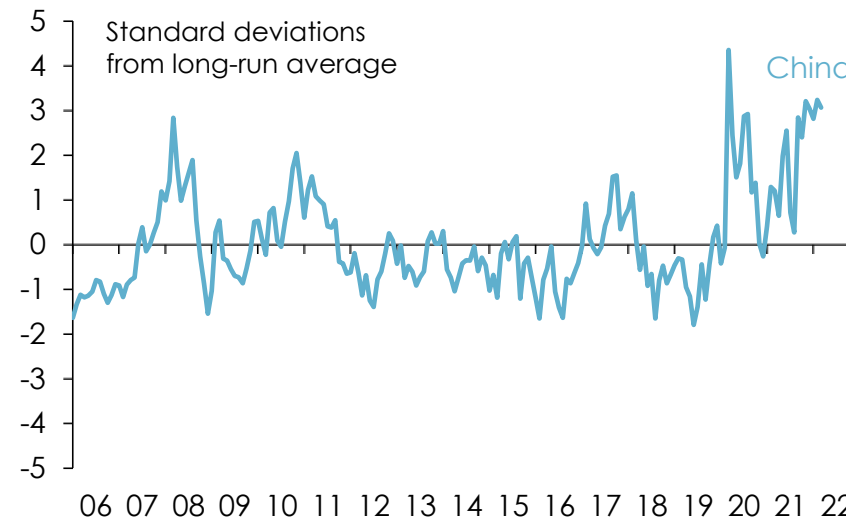
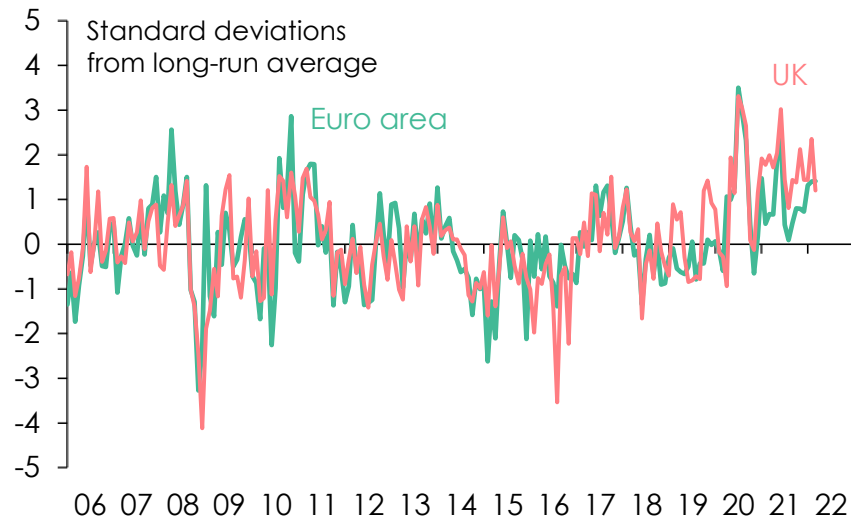
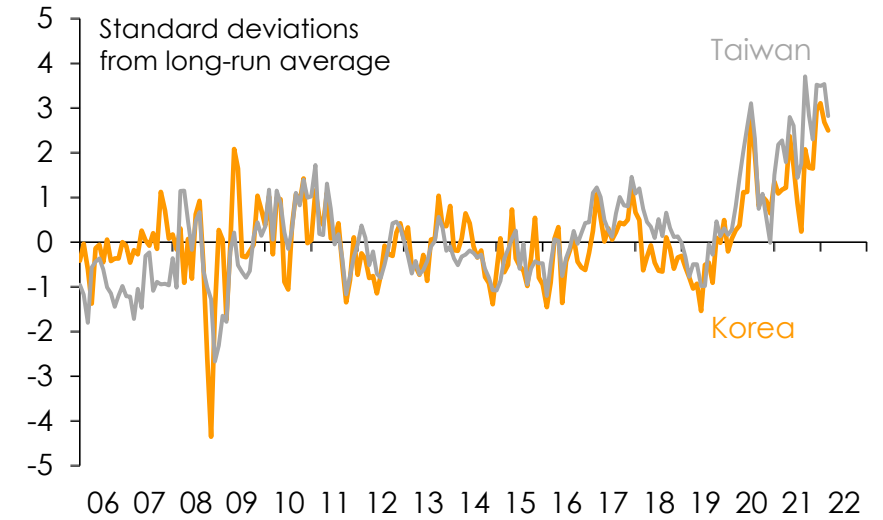
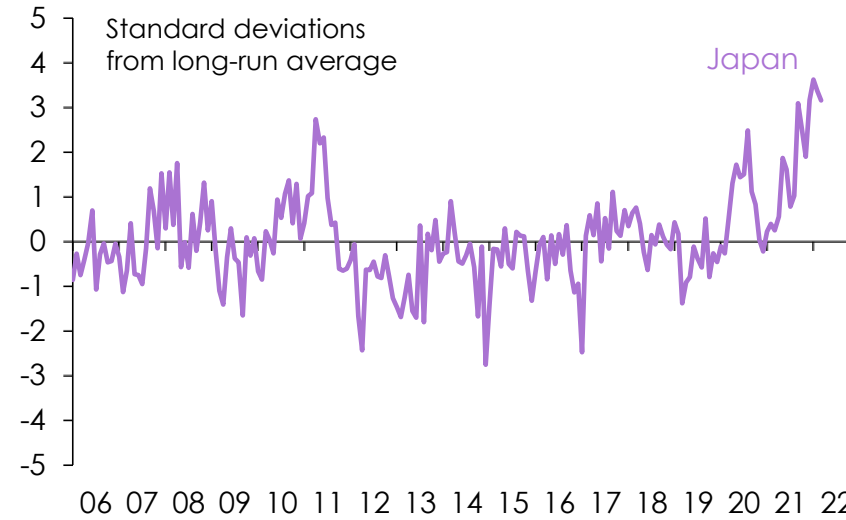
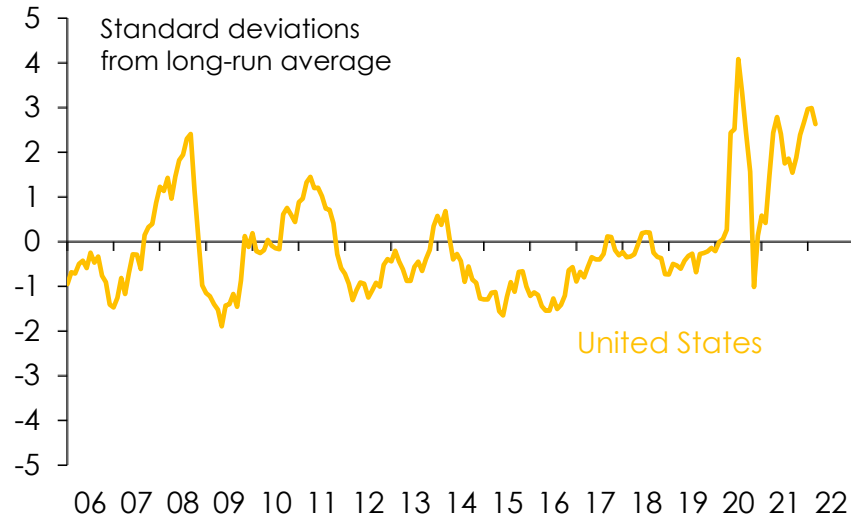


Note: The IMF commodity price indices were re-based to 2016 = 100 (previously 2005) in October 2021; but the IMF appears to have indefinitely suspended its series of commodity prices (other than indexes). Sources: [International Monetary Fund](#); [UN Food and Agriculture Organization](#); [Freightos](#); [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 – 25TH JULY 2022

NY Fed global supply chain pressure index

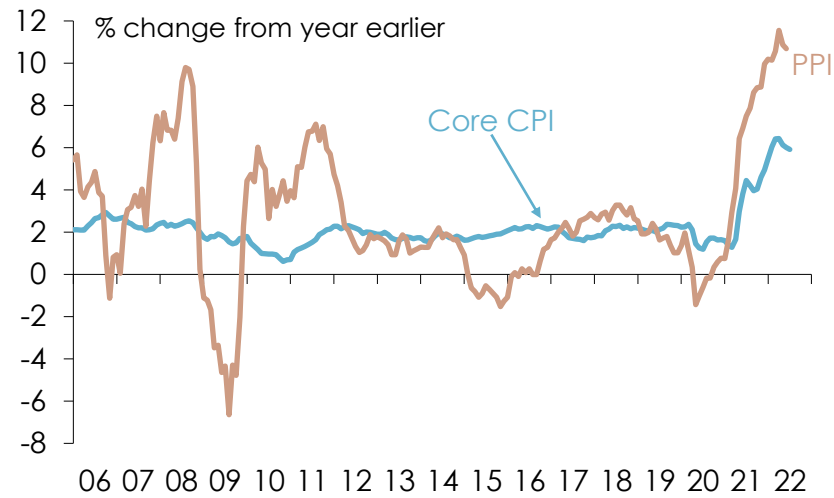


Sources: Gianluca Benigno, Julian Di Giovanni, Jan Groen & Adam Noble, [A New Barometer of Global Supply Chain Pressures](#), Federal Reserve Bank of New York, 4th January 2022 (which contains a detailed explanation of the construction of this index). Latest data for global index is for [June 2022](#);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

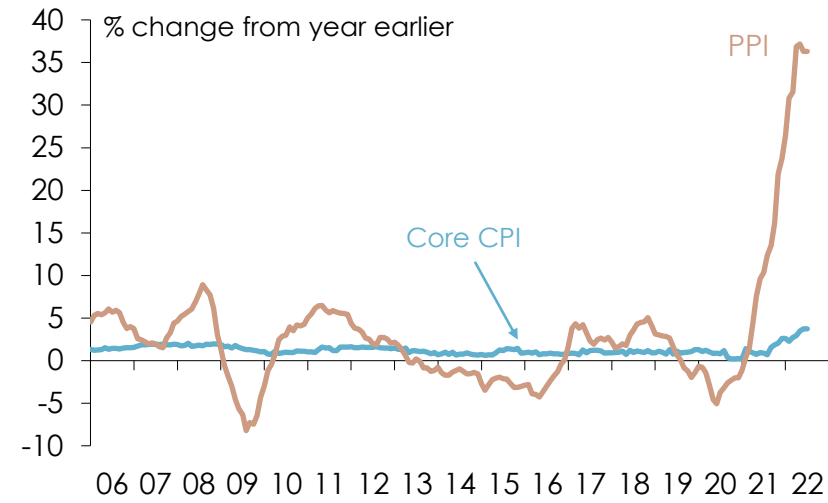
Inflation has risen sharply at the producer level in all advanced economies, and (Japan aside) 'core' CPI inflation is also above central bank targets

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

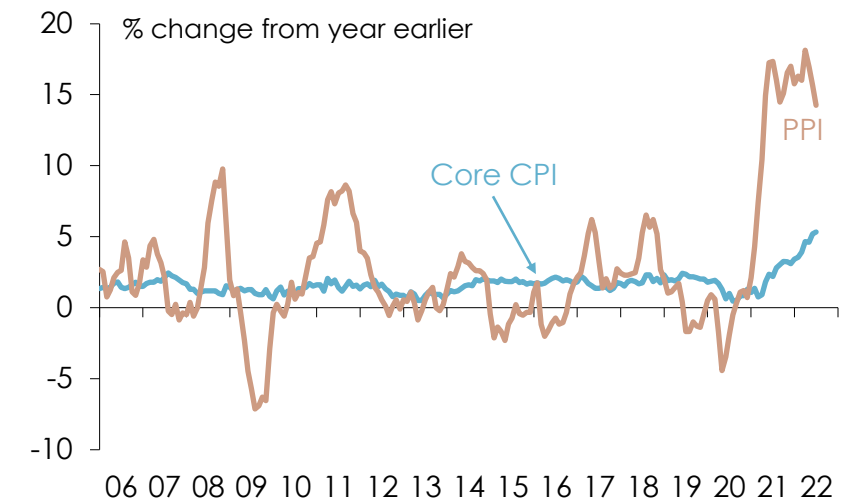
United States



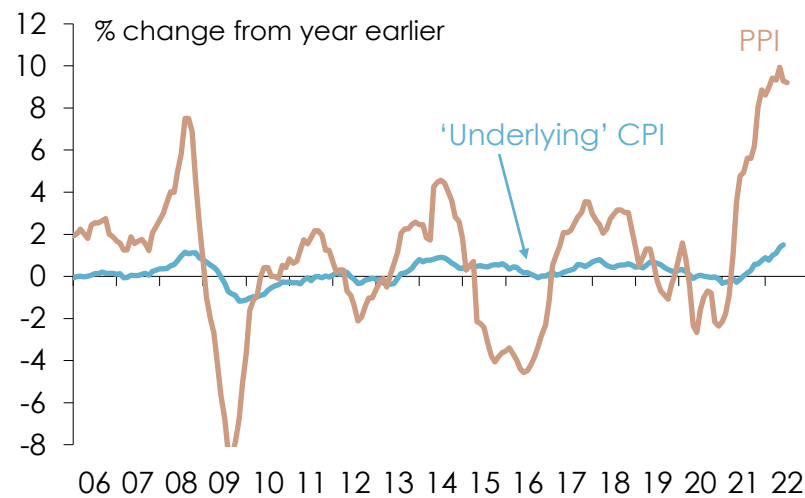
Euro area



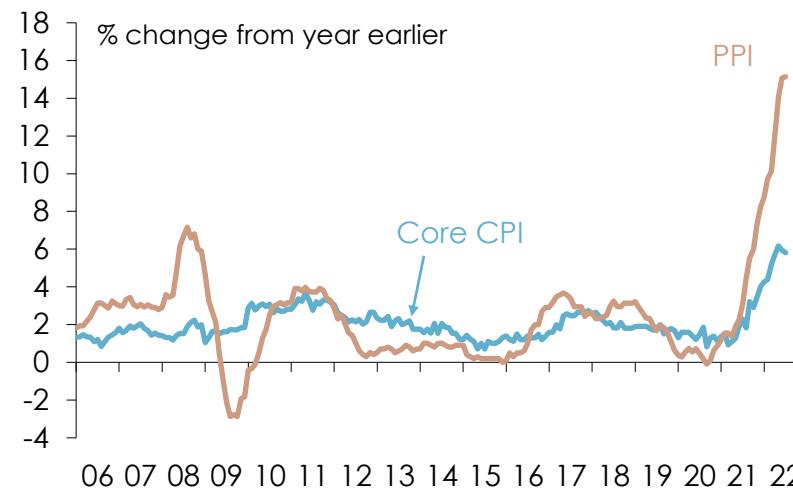
Canada



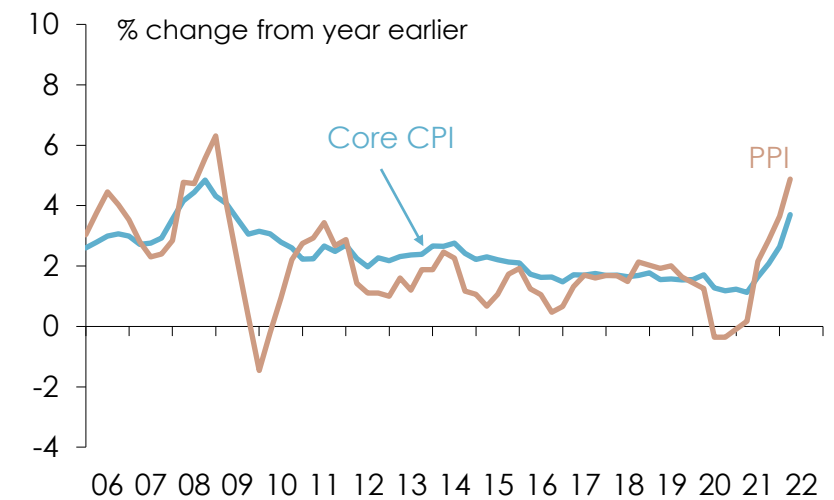
Japan



United Kingdom



Australia

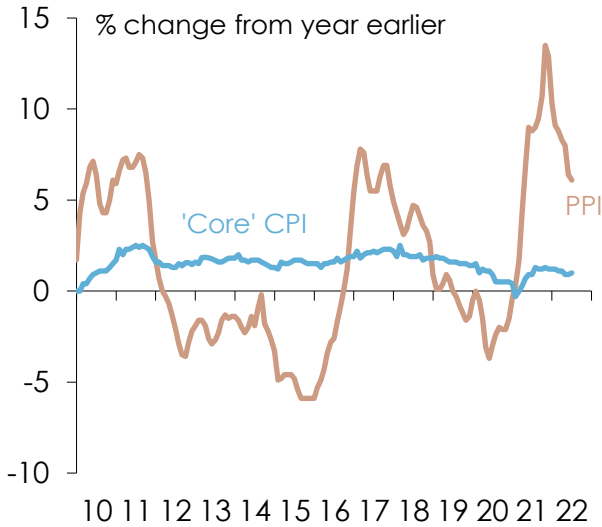


For a more detailed analysis of recent US inflation data see [slides 51-55](#). Sources: [US Bureau of Labor Statistics](#); [Statistics Bureau of Japan](#) and [Bank of Japan](#); [Eurostat](#); [UK Office for National Statistics](#); [Statistics Canada](#); [Australian Bureau of Statistics](#). [Return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

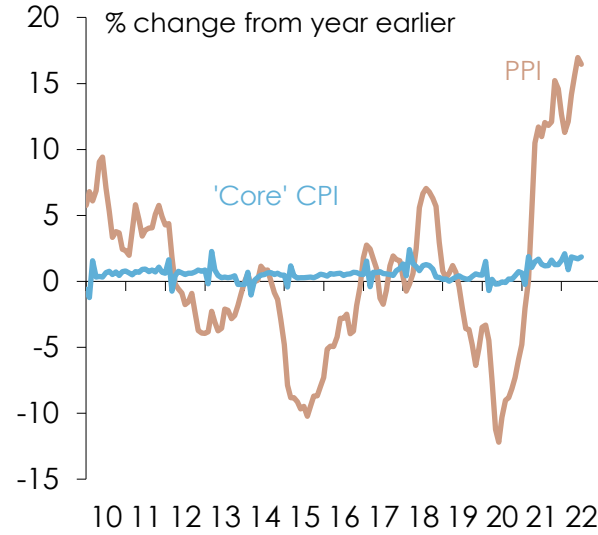
Most Asian economies have been experiencing rapid 'upstream' inflation for some time, and 'core' consumer price inflation is now starting to pick up

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

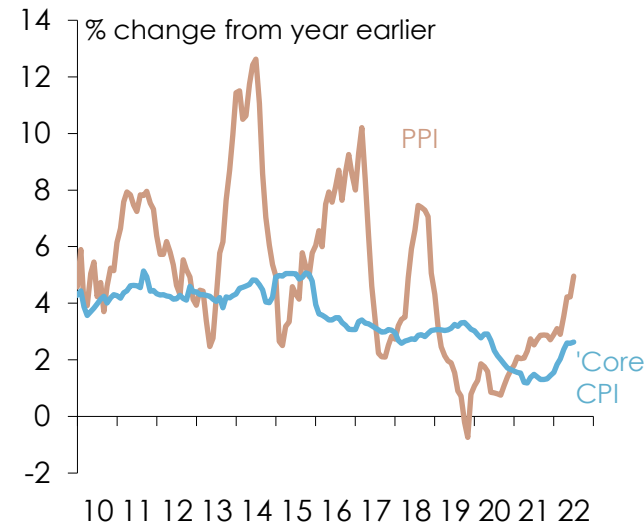
China



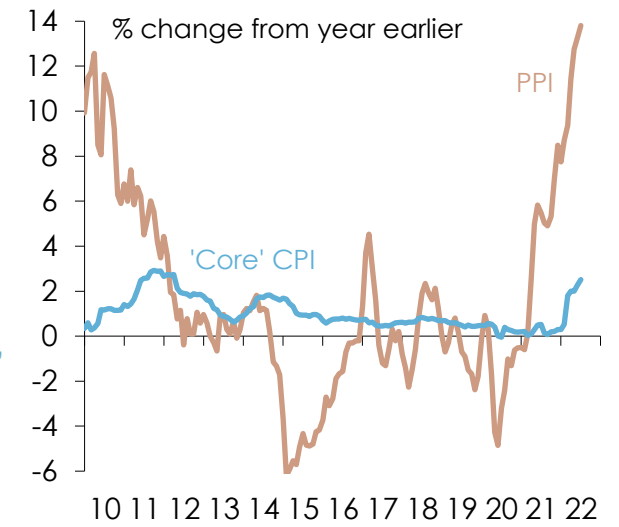
Taiwan



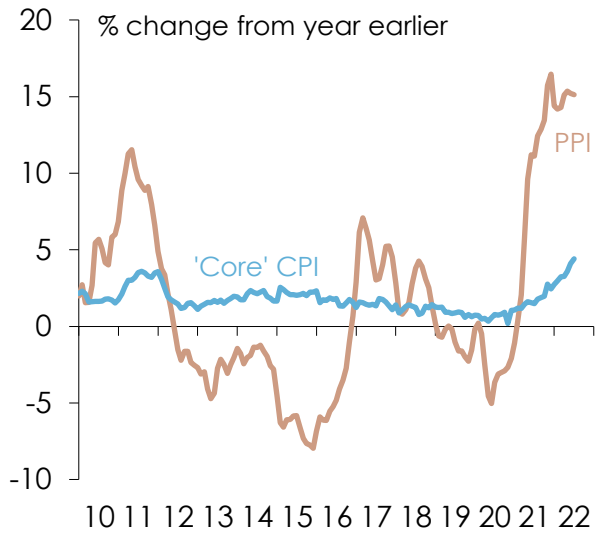
Indonesia



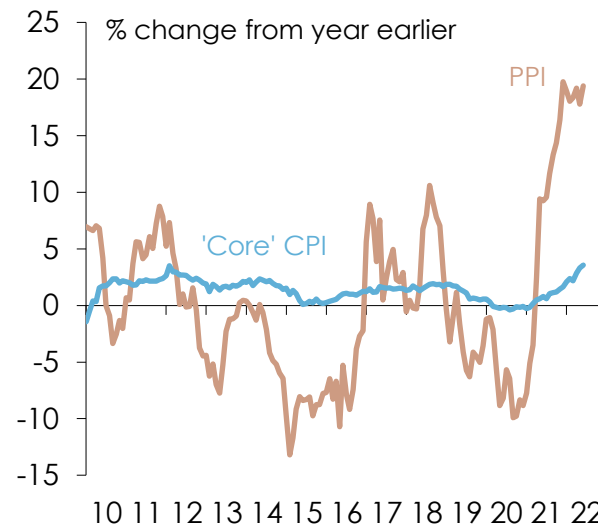
Thailand



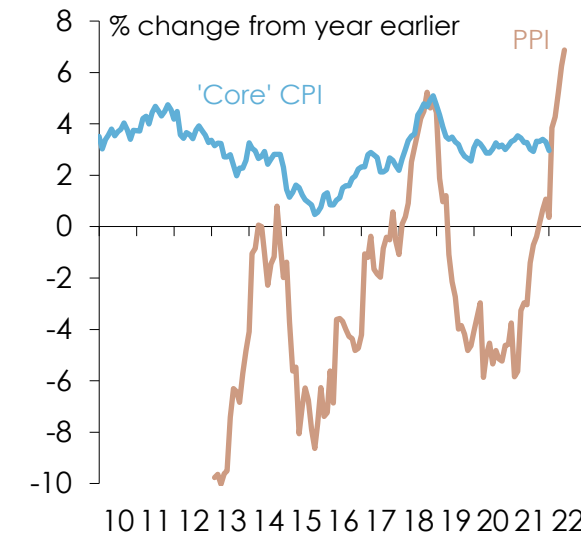
Korea



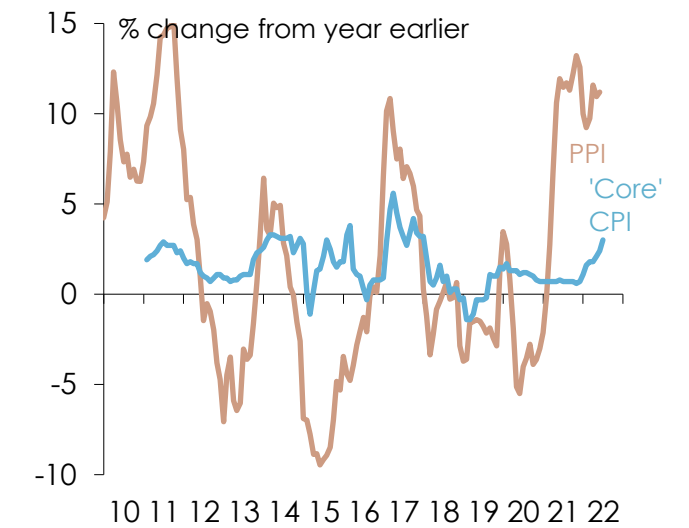
Singapore



Philippines



Malaysia

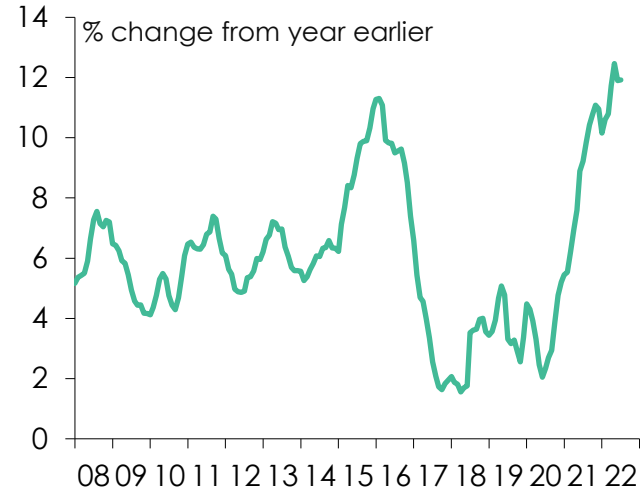


Note: 'Core' CPIs measure different things in different Asian economies – see footnotes to [slide 93](#). Sources: [China National Bureau of Statistics](#); [Statistics Korea](#); [Bank of Korea](#); [Taiwan Statistical Bureau](#); [Singstat](#); [Monetary Authority of Singapore](#); [Statistics Indonesia](#);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

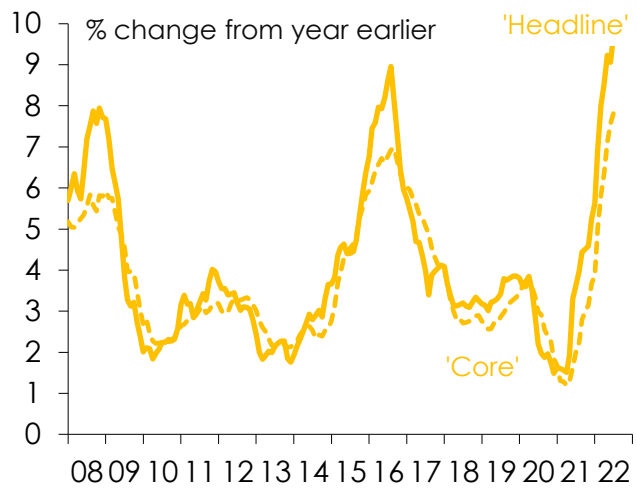
Consumer price inflation is rising sharply across Latin America (except for Venezuela, where it's now down to just 155%!)

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

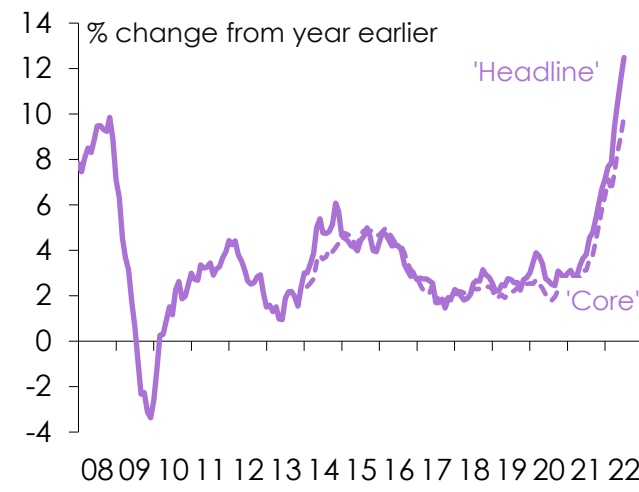
Brazil



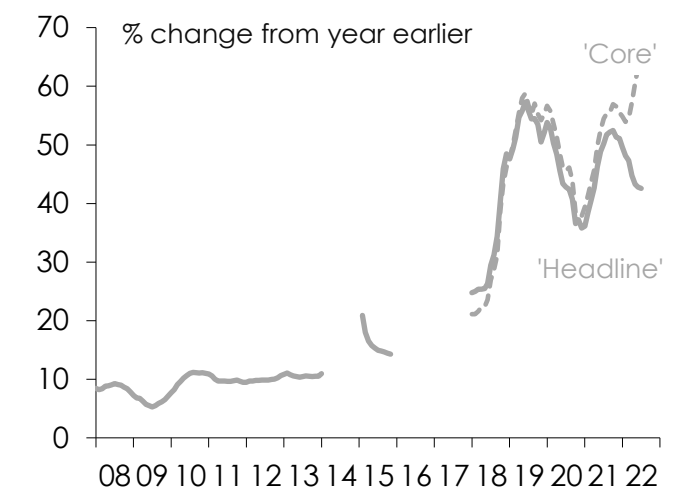
Colombia



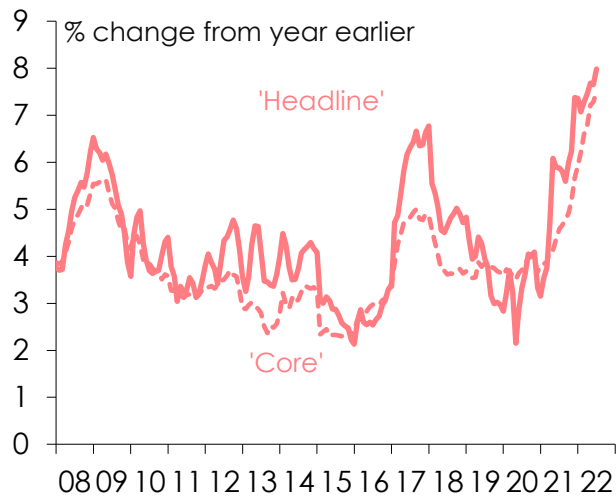
Chile



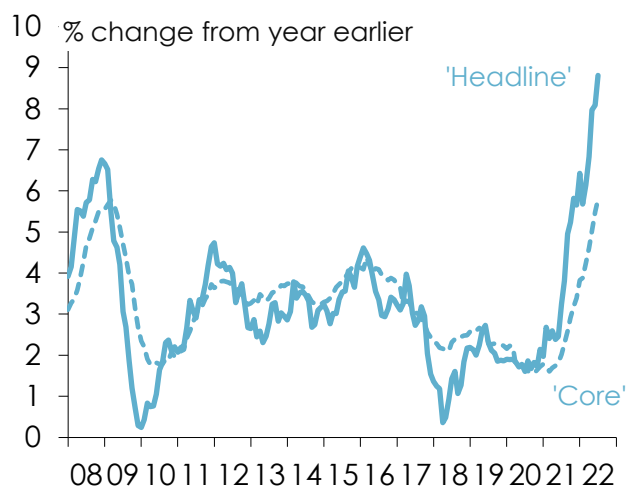
Argentina



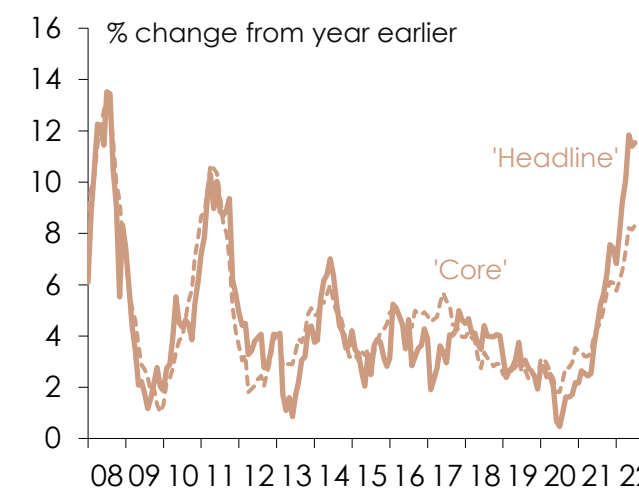
Mexico



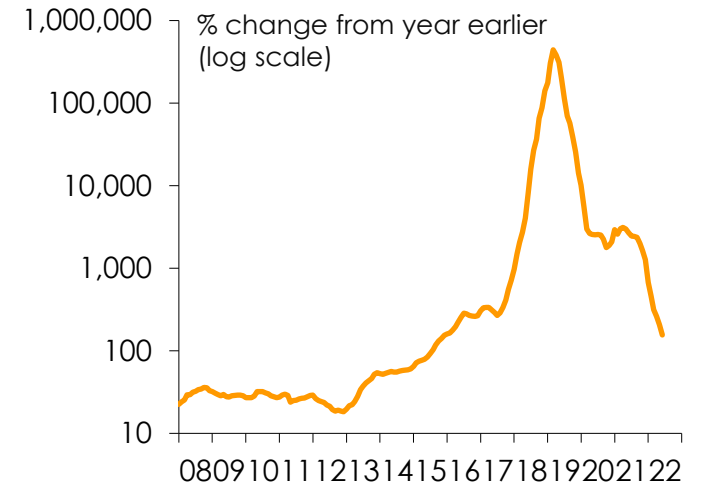
Peru



Paraguay



Venezuela

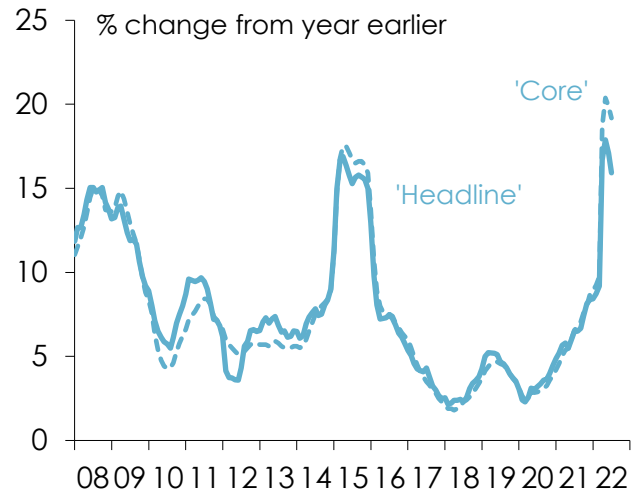


Sources: [Instituto Brasileiro de Geografia e Estatística](#); [Instituto Nacional de Estadística y Geografía](#) (Mexico); [Departamento Administrativo Nacional de Estadística](#) (Colombia); [Instituto Nacional de Estadística e Informática](#) (Peru); [Instituto Nacional de Estadísticas](#) (Chile);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

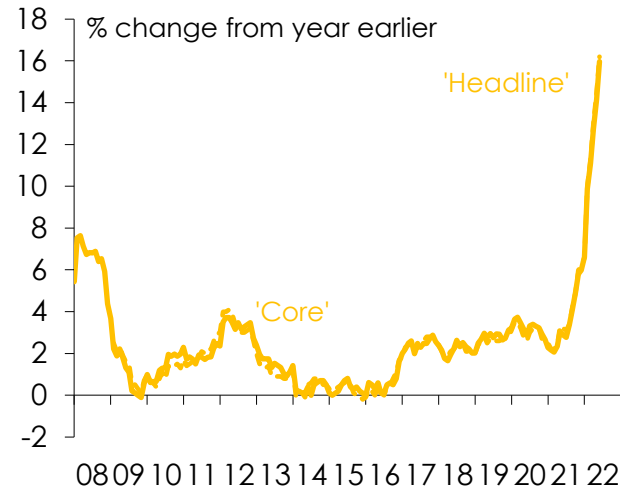
Consumer price inflation is also rising across Central and Eastern Europe, and in South Africa

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

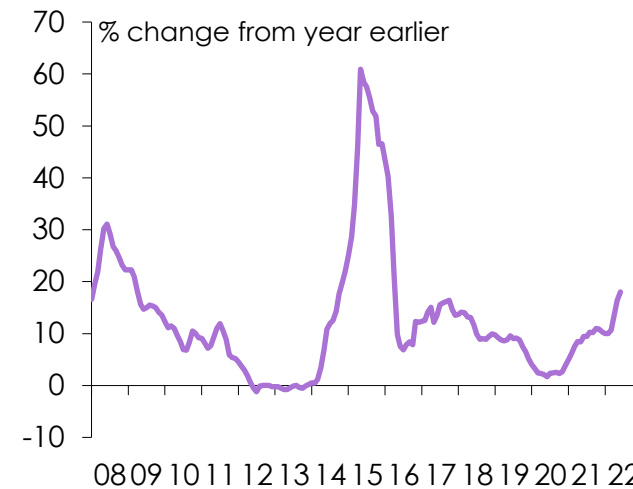
Russia



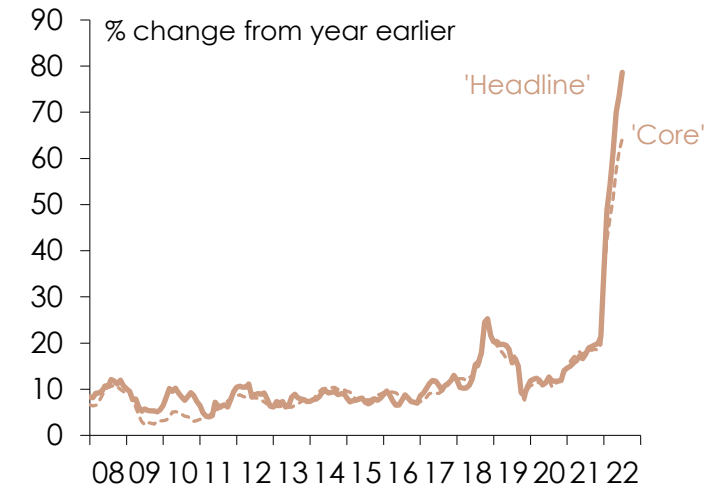
Czech Republic



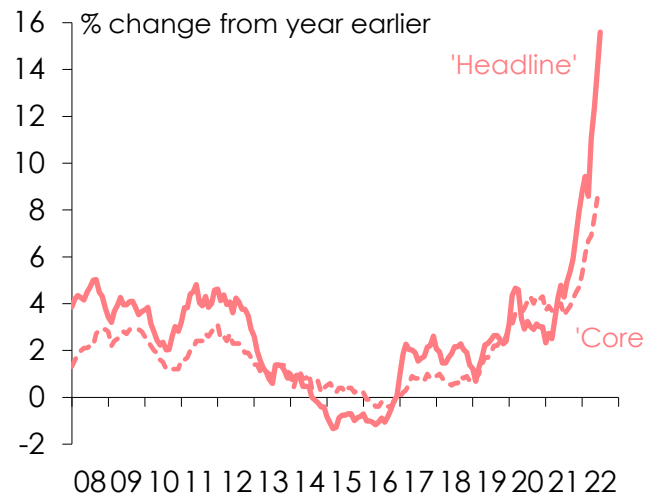
Ukraine



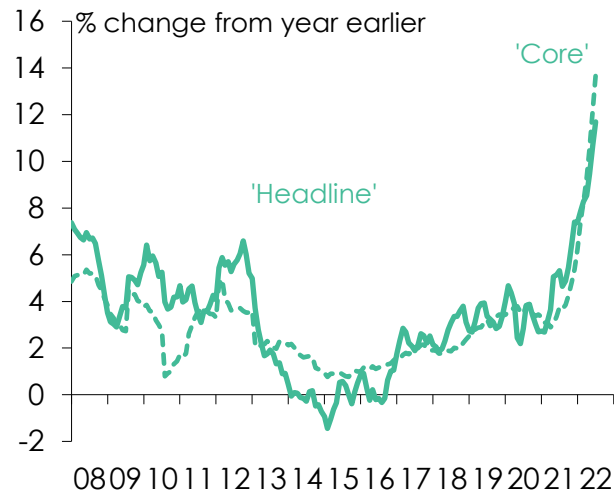
Turkey



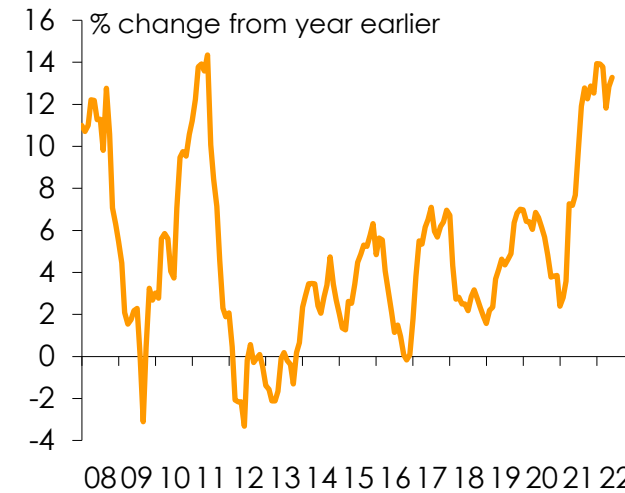
Poland



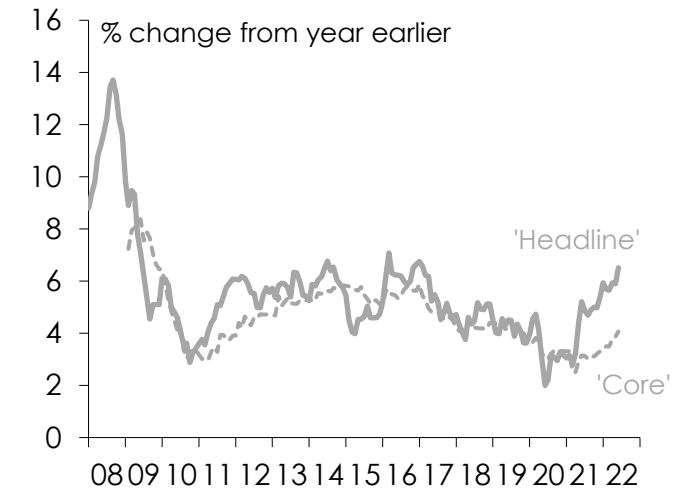
Hungary



Georgia



South Africa

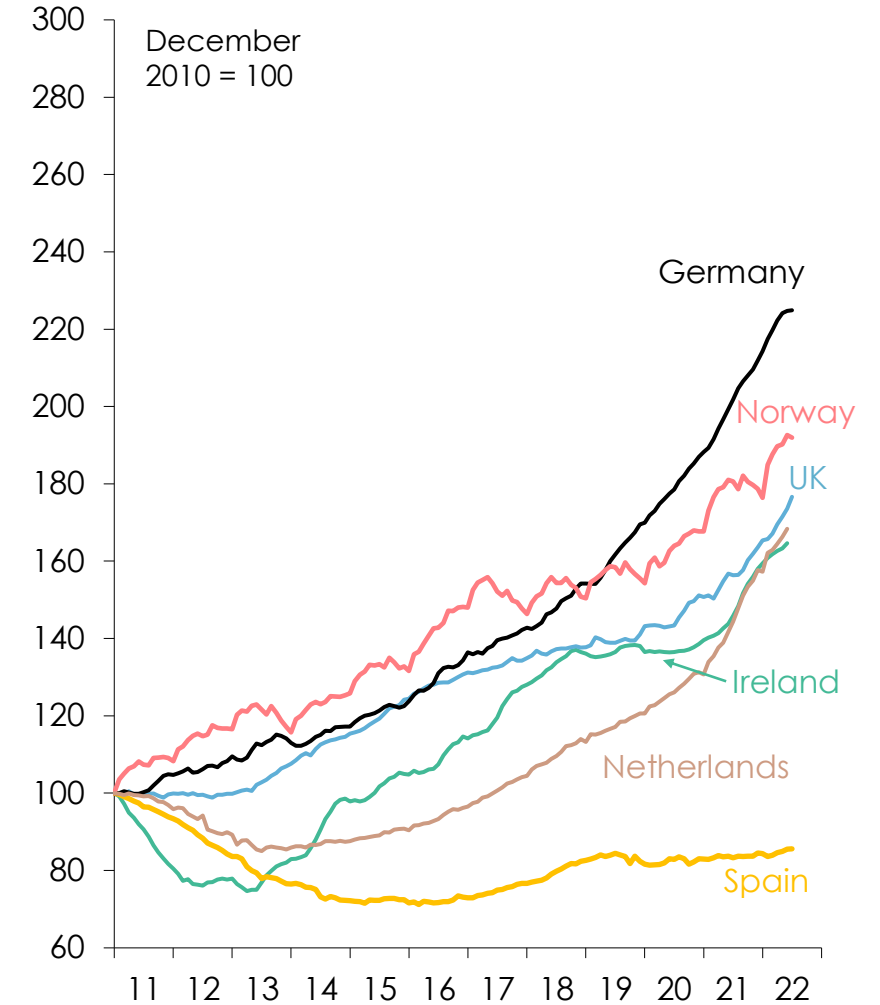
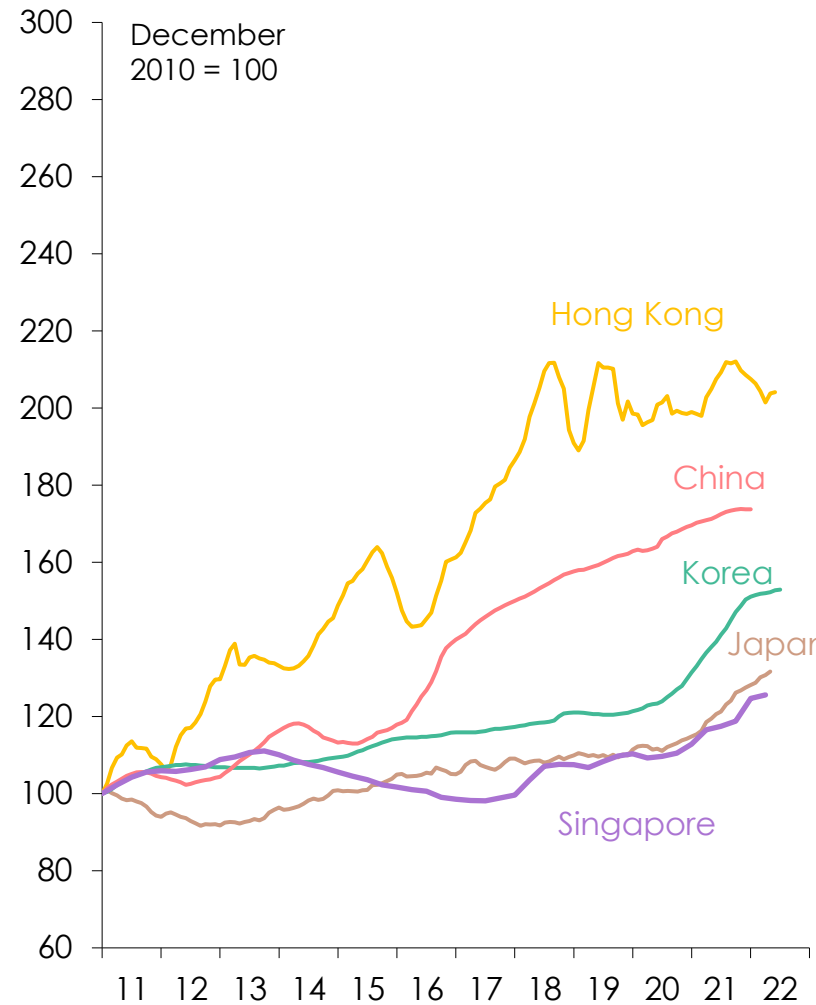
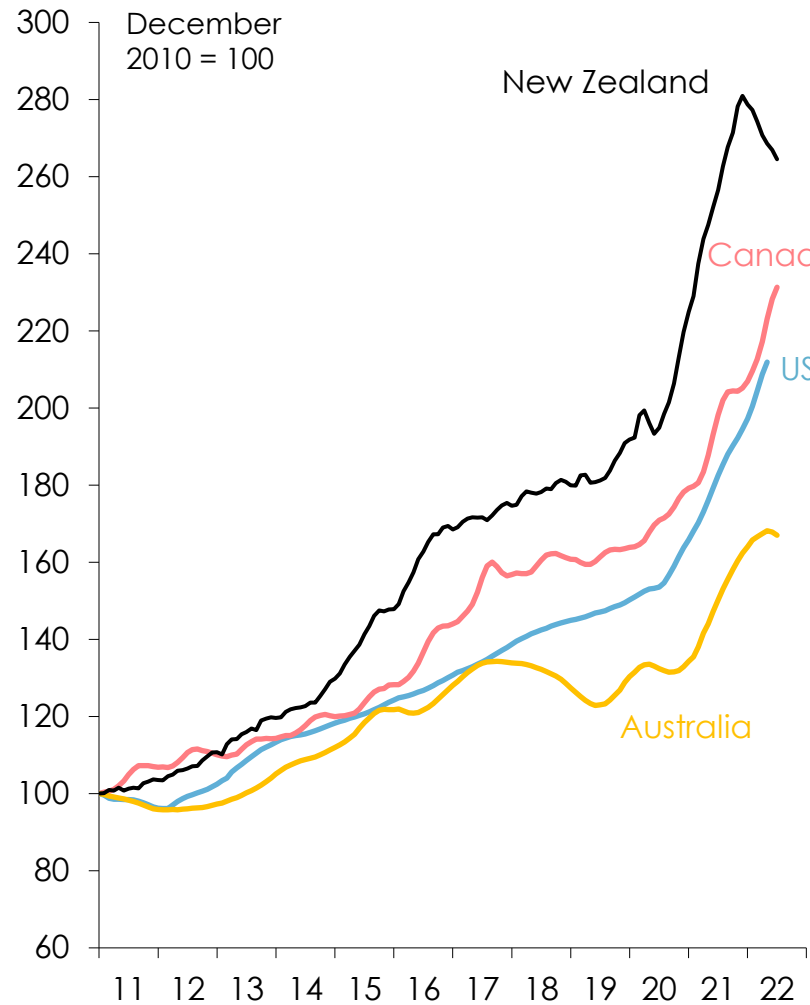


Sources: [Rosstat](#); [Główny Urząd Statystyczny](#) (Poland); [Český statistický úřad](#) (Czech Republic); [Központi Statisztikai Hivatal](#) (Hungary); [Ukrstat](#); [Sak'art'velos statistikis erovnuji samsakhuri](#) (Georgia); [Turkstat](#); [Statistics South Africa](#). Return to "What's New".

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 – 25TH JULY 2022

House price indices

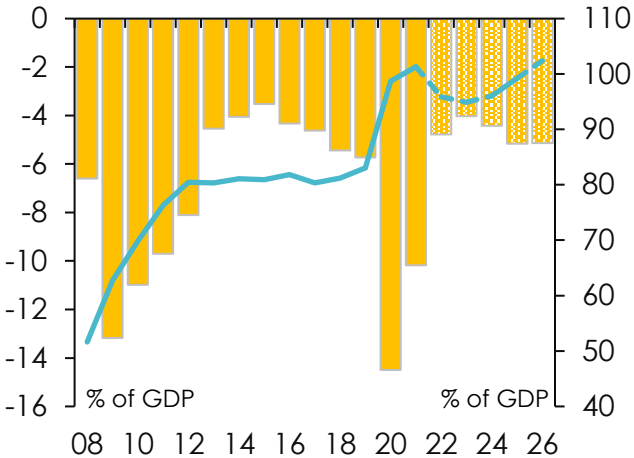


Note: House price indices shown in these charts are those published by [S&P-CoreLogic Case Shiller national](#) (United States); [Teranet-National Bank](#) (Canada); [CoreLogic](#) (Australia); [Real Estate Institute of New Zealand](#); [China Index Academy](#); [Japan Real Estate Institute](#) (Tokyo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

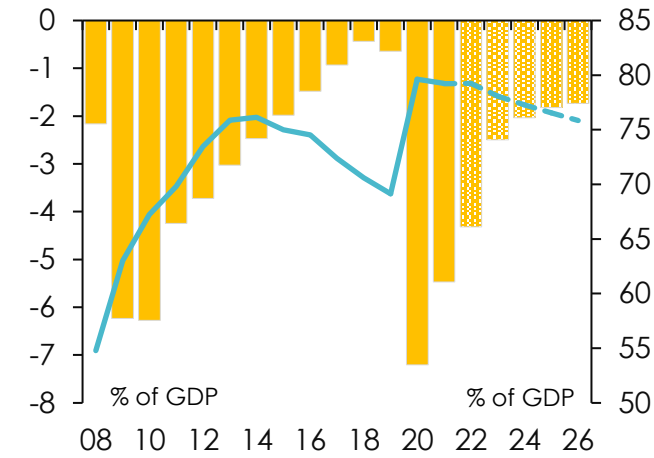
Fiscal policy is set to be tightened significantly in 2022 in most major economies except Japan, China and India

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

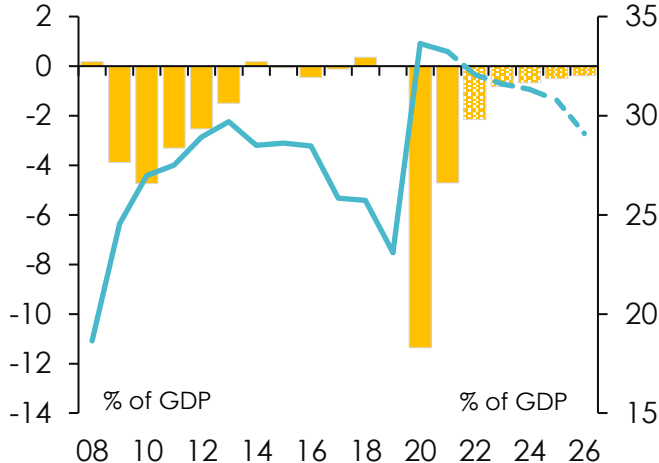
United States



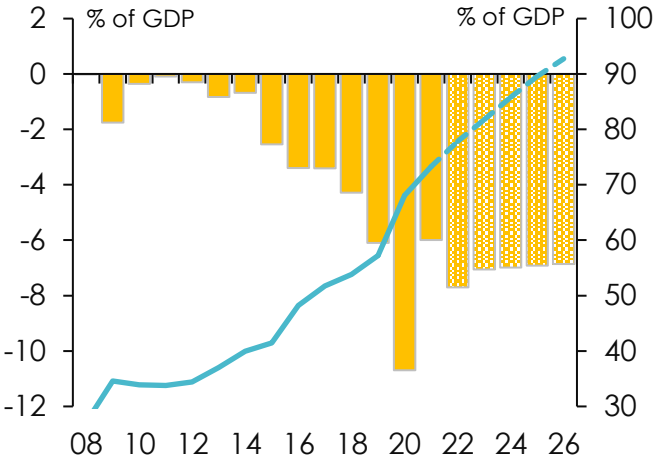
Euro area



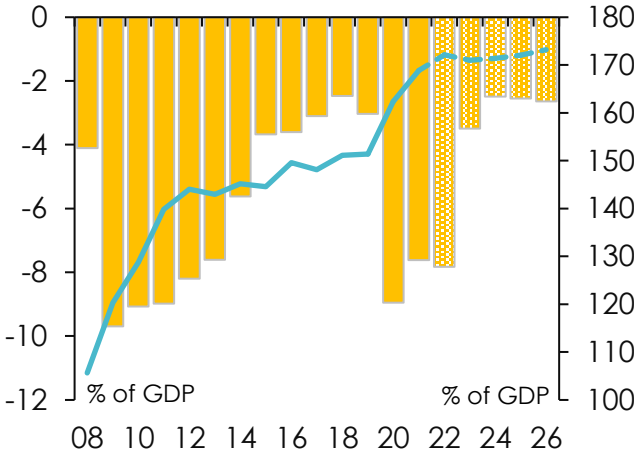
Canada



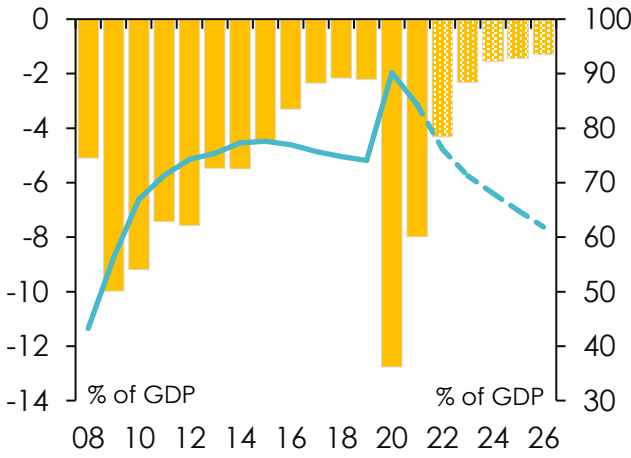
China



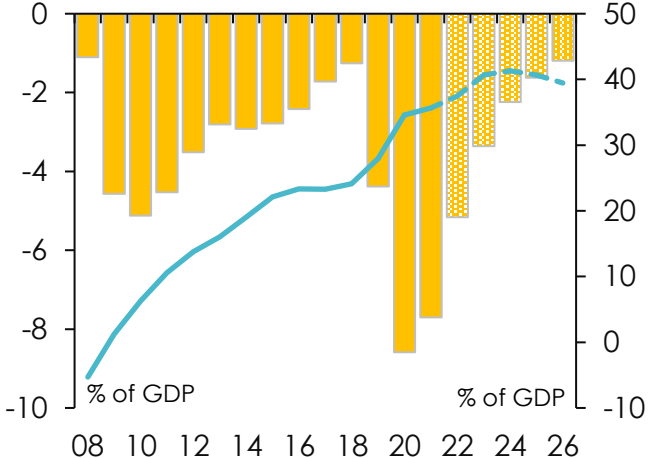
Japan



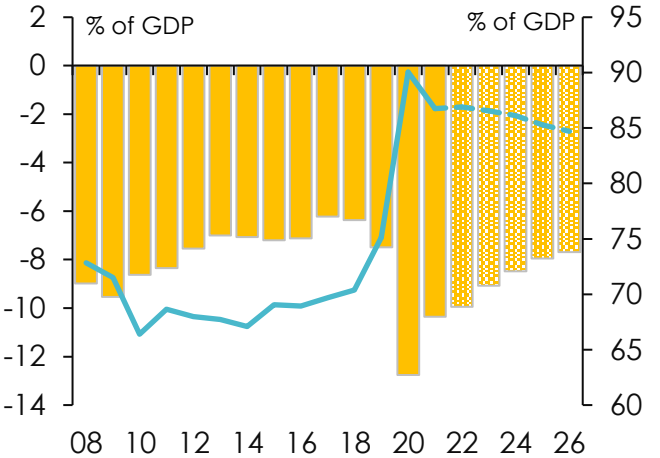
United Kingdom





Australia



India



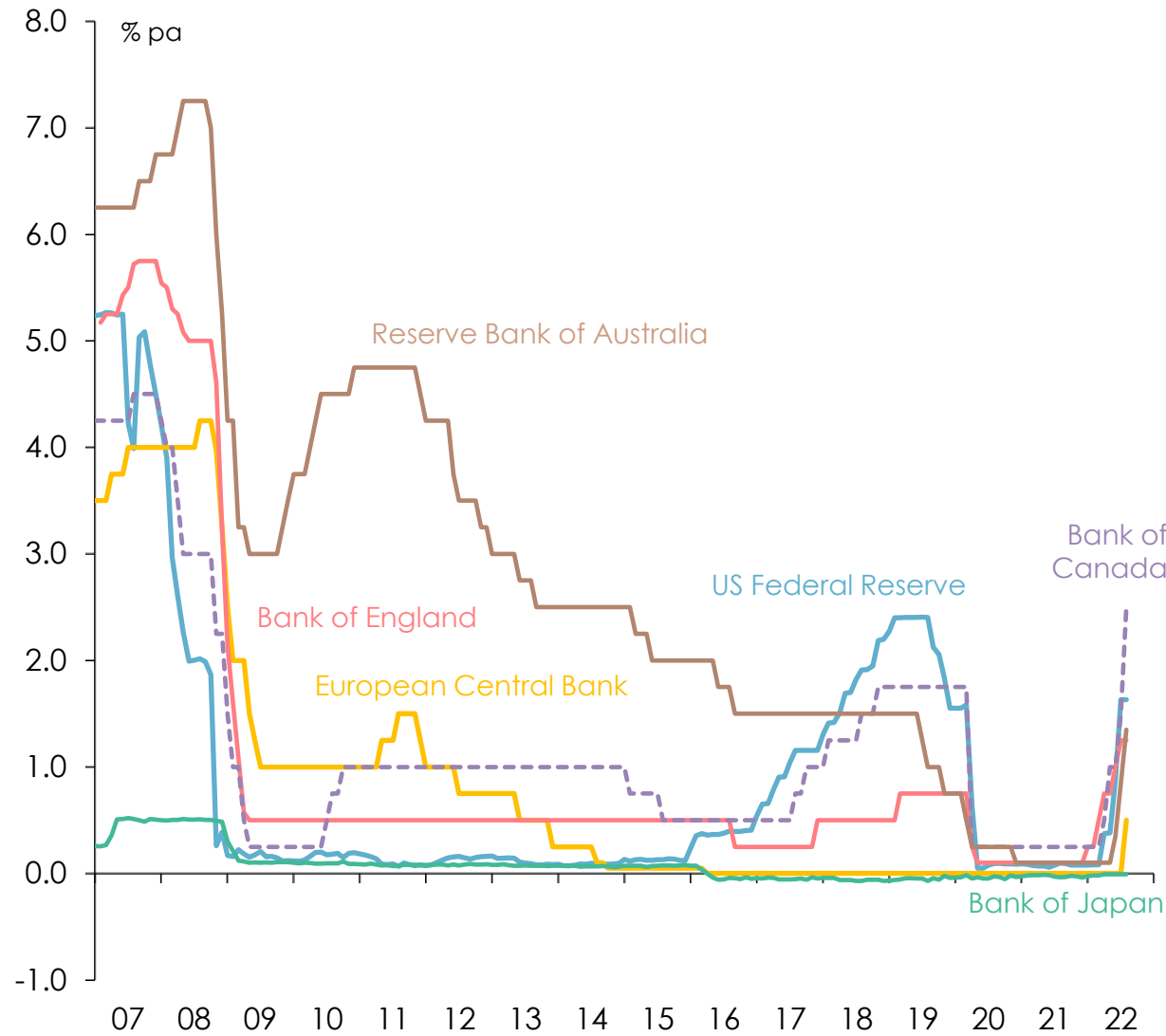
 General government overall fiscal balance (left scale)  General government net debt (right scale)

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

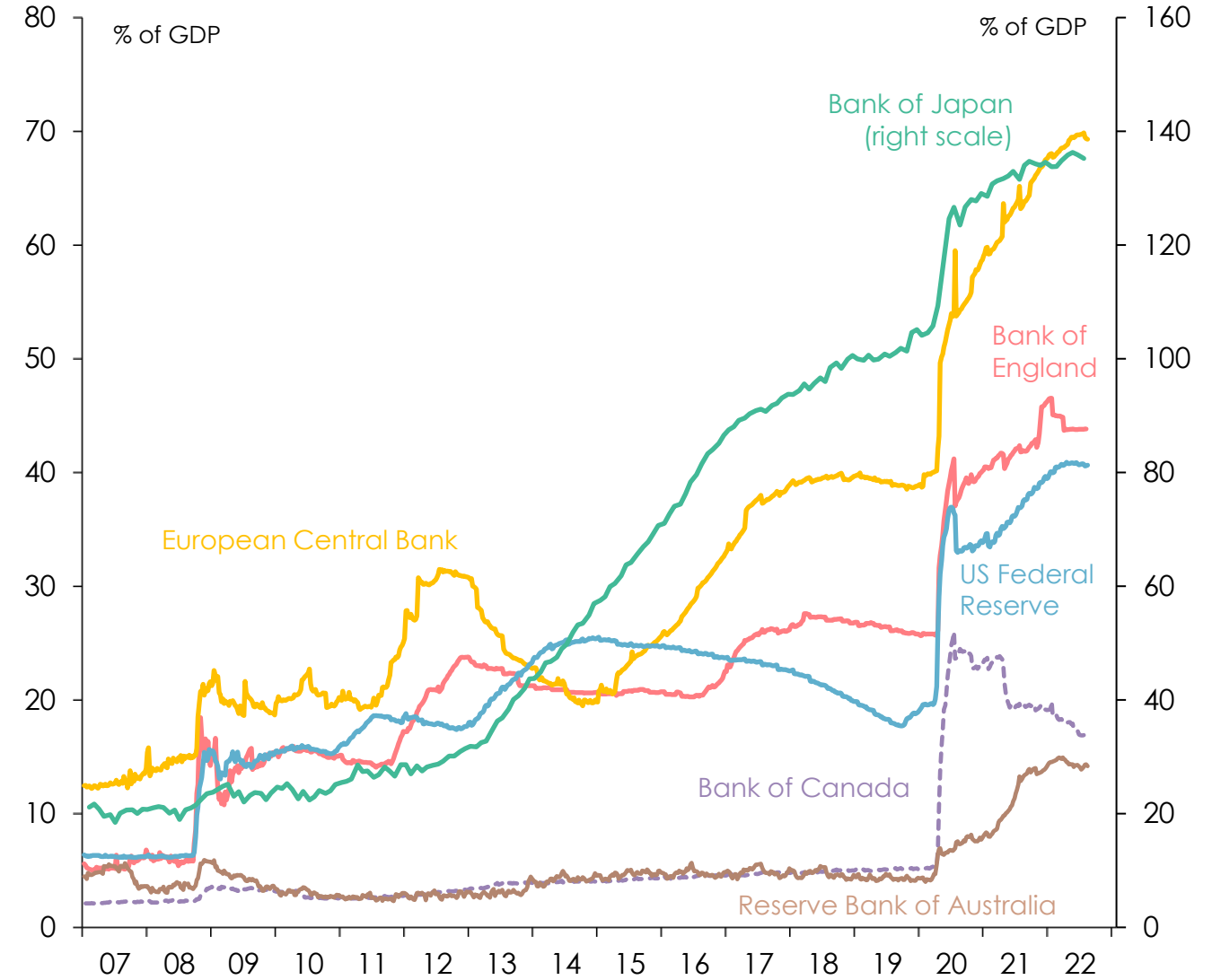
Every major 'advanced' economy central bank, apart from Japan's, is now tightening monetary policy

THE WORLD ECONOMY THIS WEEK – 25TH 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"](#).

How will 'quantitative tightening' work, in practice?

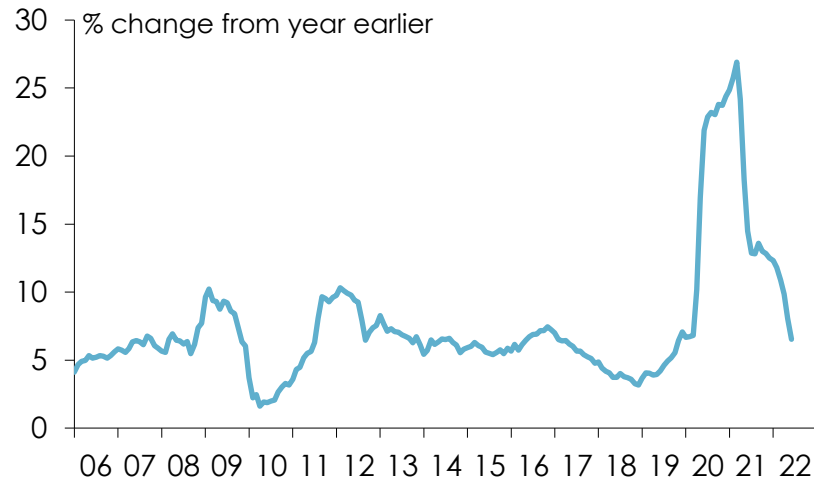
THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

- ❑ Research by central bank and academic economists (see for example [Gagnon et al 2011](#); [D'Amico & King 2011](#); [Bauer & Rudebusch 2014](#); [Di Maggio, Kermani & Palmer 2016](#); [Krishnamurthy & Vissing-Jørgensen 2016](#); [Haddad, Moreira & Muir 2020](#); [Viyanos & Vila 2021](#); [Krishnamurthy 2022](#); and [Lucca & Wright 2022](#)) suggests that 'quantitative easing' (asset purchases) by central banks works through three main 'channels'
 - broad macro channels (similarly to conventional monetary policy administered through policy interest rates) such as exchange rates and (real & financial) asset prices;
 - narrower channels associated with the specific assets which central banks are buying (such as mortgage-backed securities, longer-dated securities, or in the euro area, specific government securities) which affect the 'risk premiums' on those assets;
 - and as an additional 'signalling channel' for communicating more information about central banks' intentions
- ❑ Although central banks have almost no experience with 'quantitative tightening' (other than the Fed's limited episode between October 2017 and June 2019), it seems reasonable to think that it will also 'work' (to the extent that it does) through similar channels (albeit in the opposite direction)
- ❑ Specifically, 'QT' is likely to have a dampening effect on asset prices
 - which is already evident in the falls in stock prices – and especially prices of 'tech stocks' – since the Fed first formally announced that it would embark on 'QT' – and it will also likely have a dampening impact on real estate prices
- ❑ 'QT' will also likely have some impact on exchange rates, at least for the US\$ vs the euro and yen
 - because the Fed is doing 'QT', but the BoJ and the ECB aren't
- ❑ To the extent that 'QT' does re-inforce the impact of 'conventional' monetary policy (higher policy interest rates), 'QT' may mean that those policy interest rates may not need to rise as much
 - though it may take some time for central banks to reach that judgement, if it's warranted
- ❑ For a recent, more formal discussion of how 'QT' may work, refer to a [speech](#) given by the Bank of England's Chief Economist Huw Pill at a conference in Freiburg, Germany, on 24th June

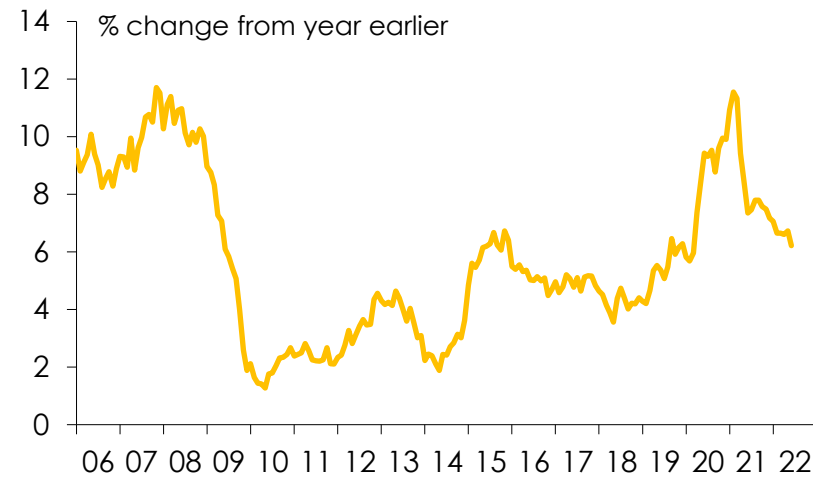
Money supply growth has slowed sharply from the peaks recorded in the first half of 2021 as large monthly increases in 2020 'wash out'

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

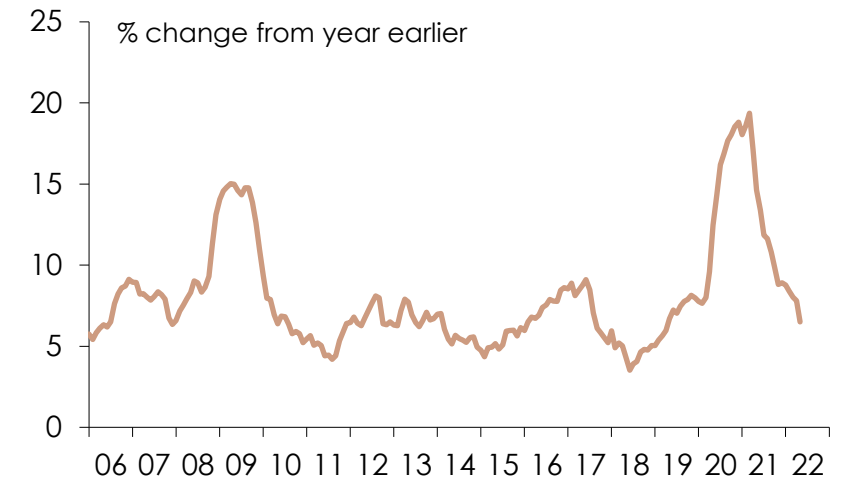
US M2



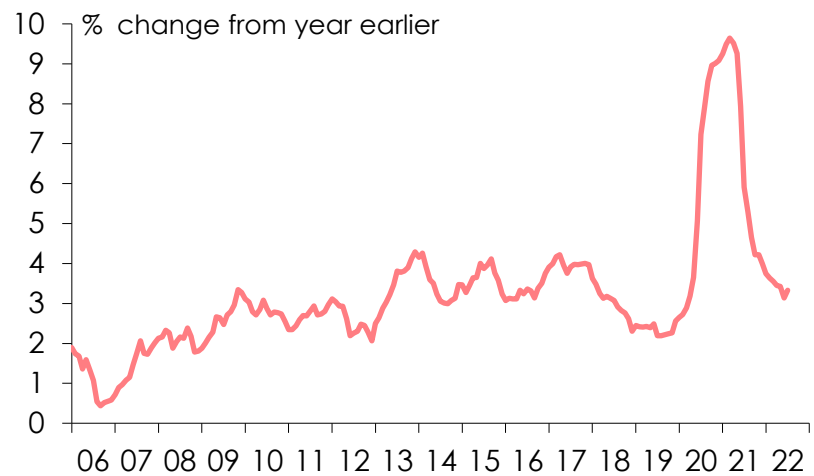
Euro area M2



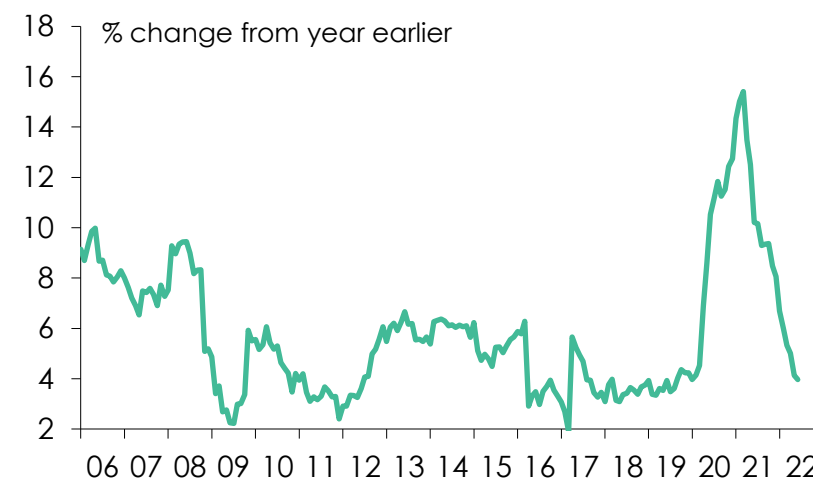
Canada M2



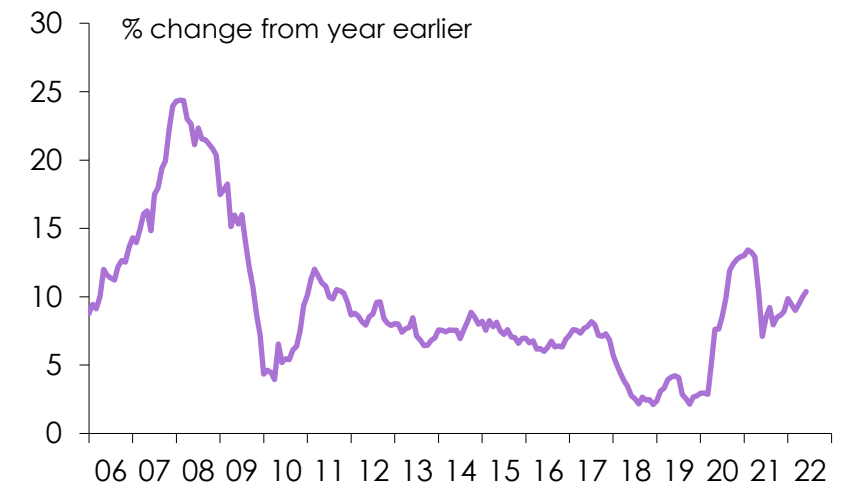
Japan M2 + CDs



UK M2



Australia M3

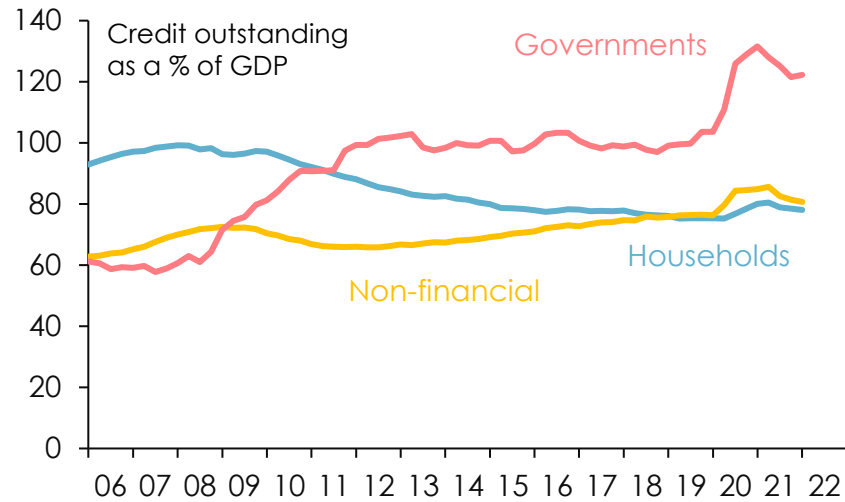


Sources: [US Federal Reserve](#); [Bank of Japan](#); [European Central Bank](#); [Bank of England](#); [Bank of Canada](#); [Reserve Bank of Australia](#).

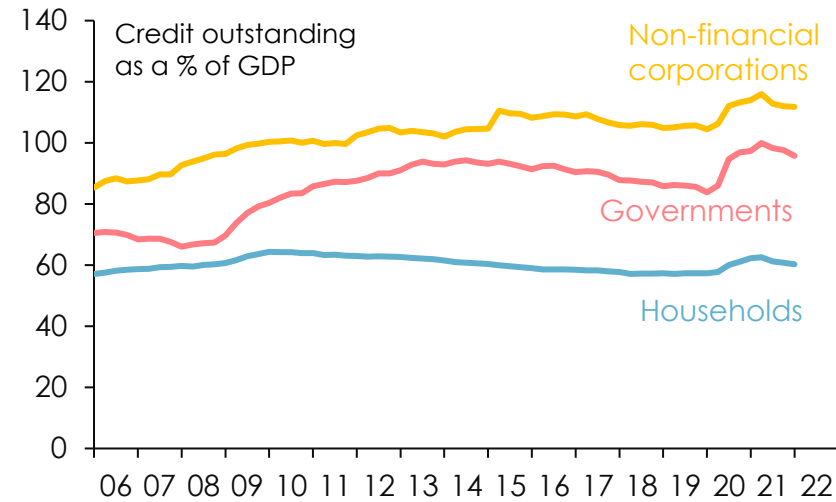
Japanese, US and UK governments, Canadian corporations and Australian households appear most exposed to increases in interest rates

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

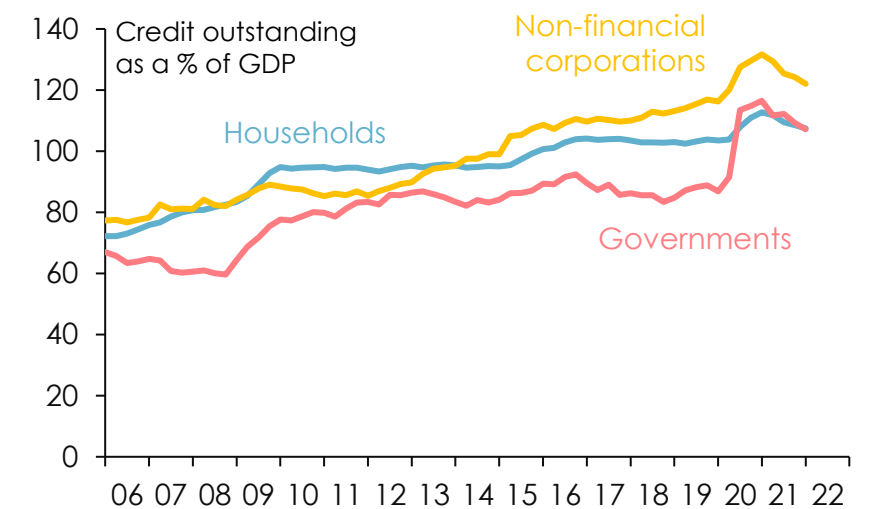
US



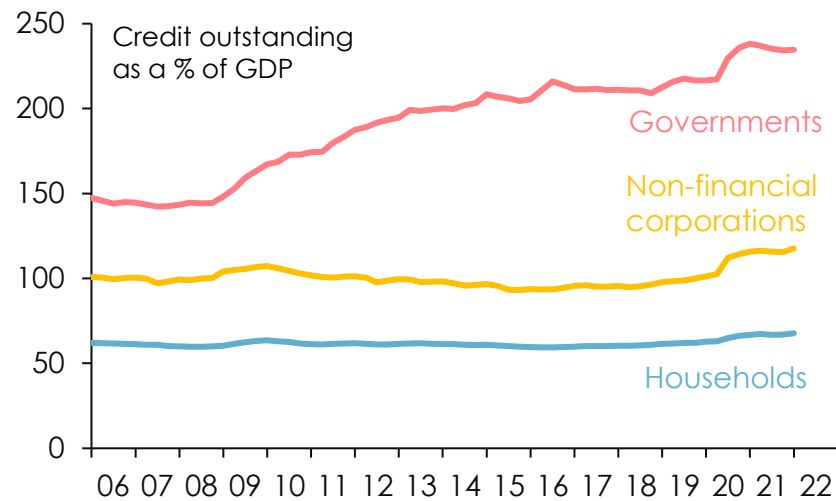
Euro area



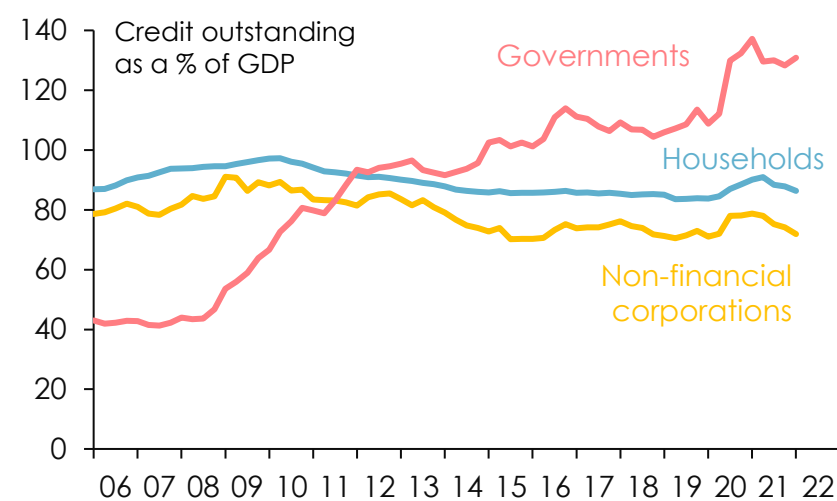
Canada



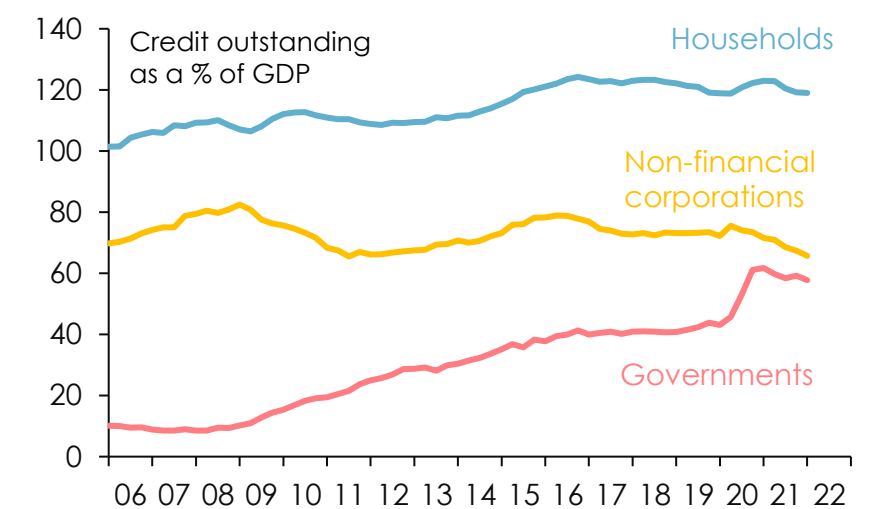
Japan



UK



Australia

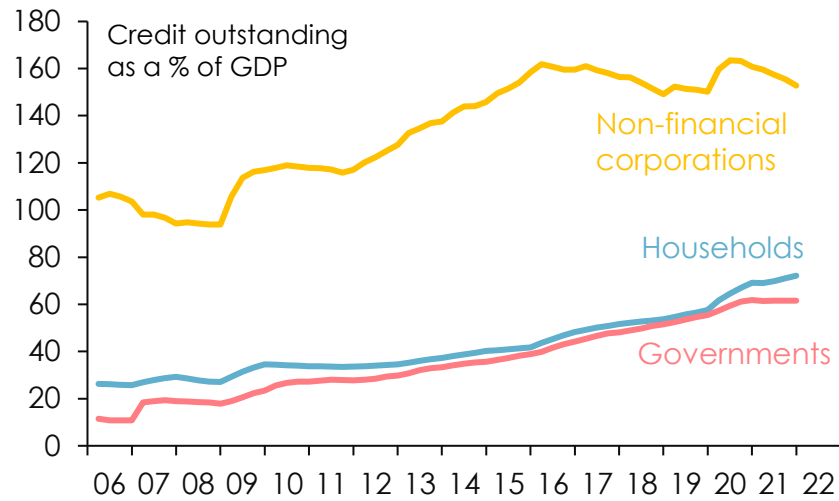


Source: Bank for International Settlements, [Credit Statistics](#); latest data are for Q4 2021, Q1 2022 data will be released in mid-September. [Return to "What's New"](#).

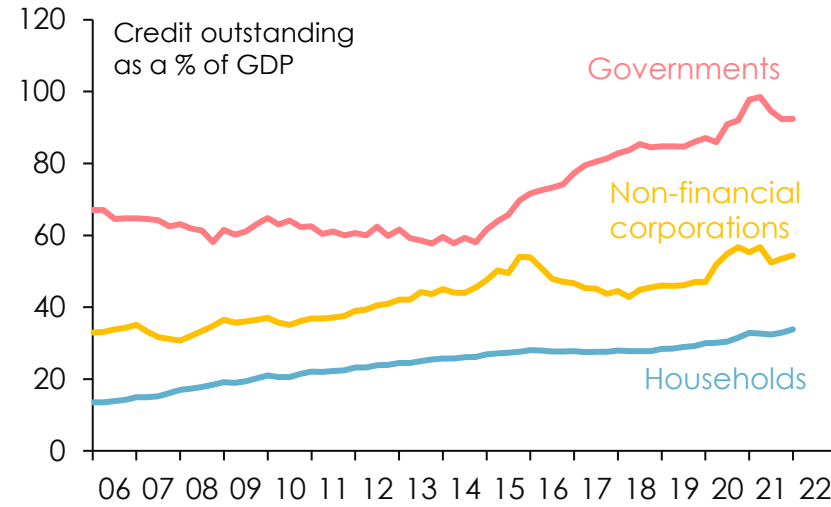
In major 'developing' economies it's usually governments that are most exposed to rising interest rates – except for China, Russia and Turkey

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

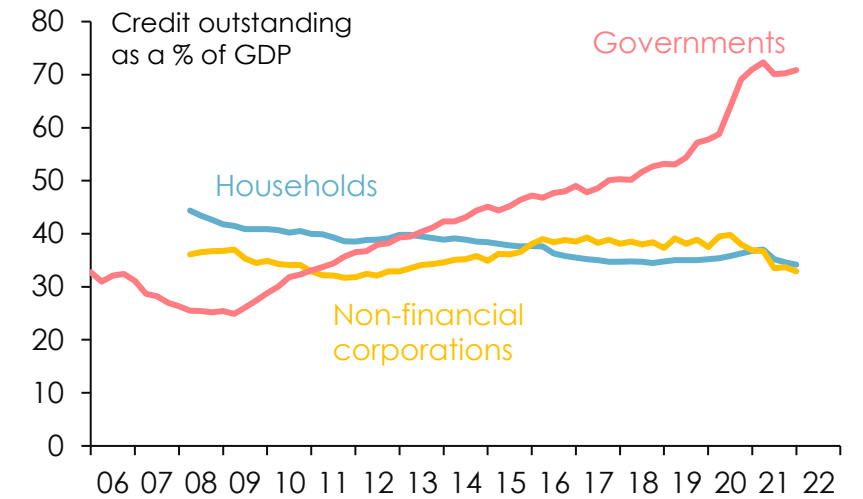
China



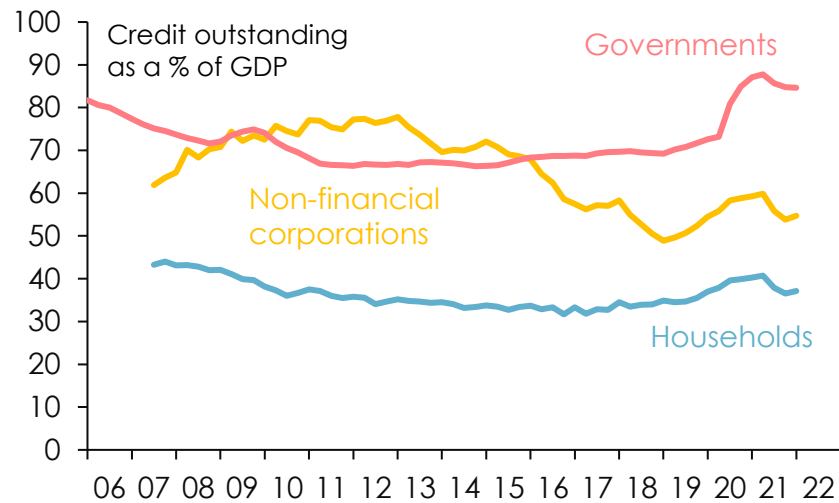
Brazil



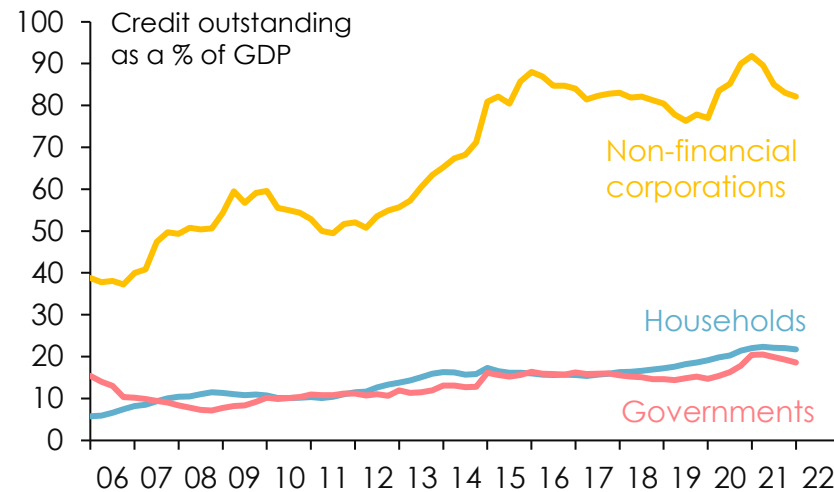
South Africa



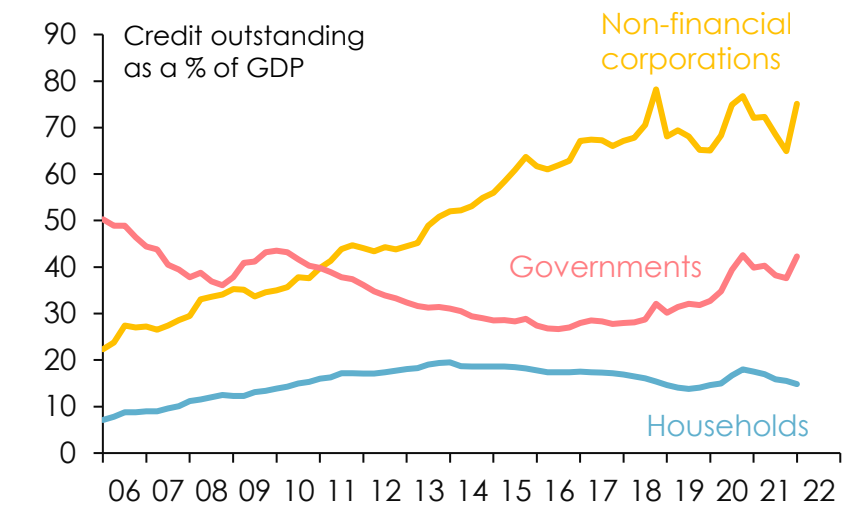
India



Russia



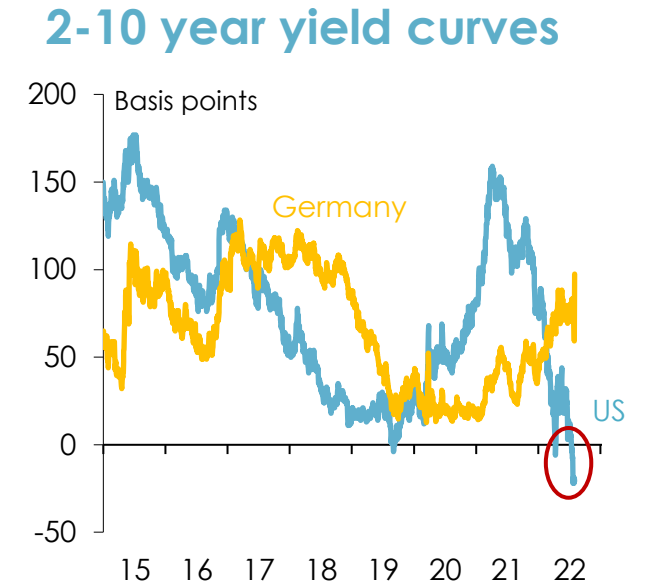
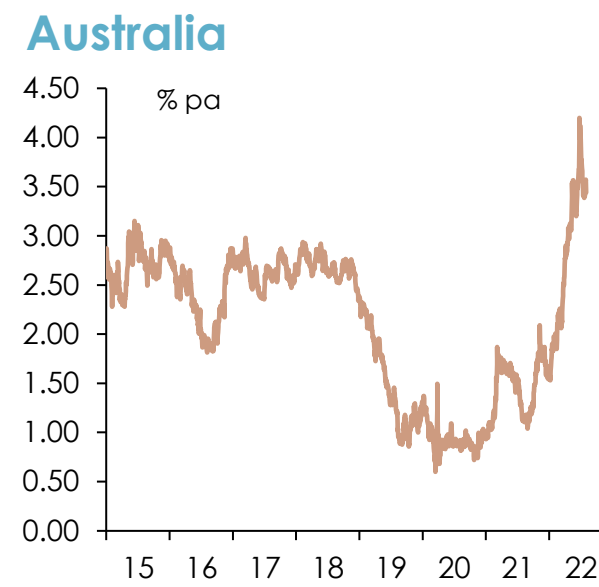
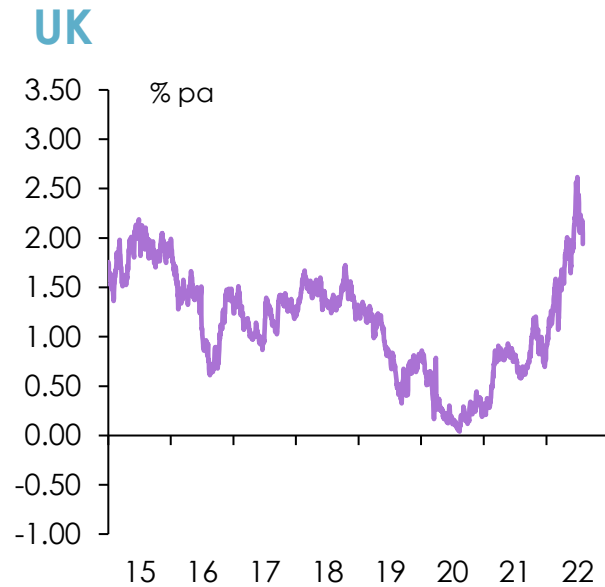
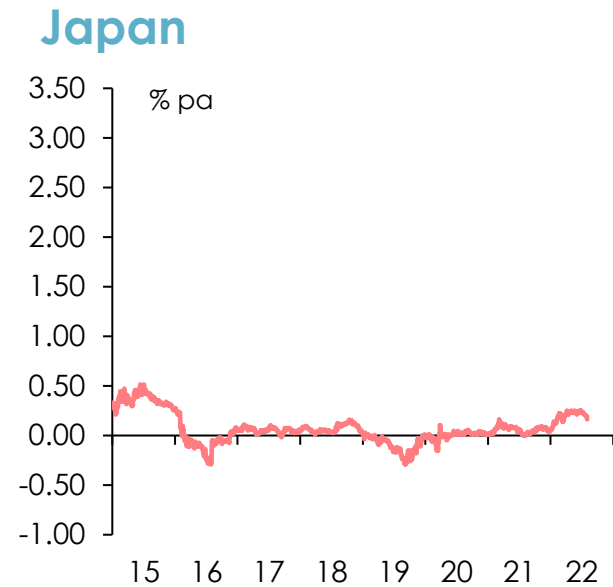
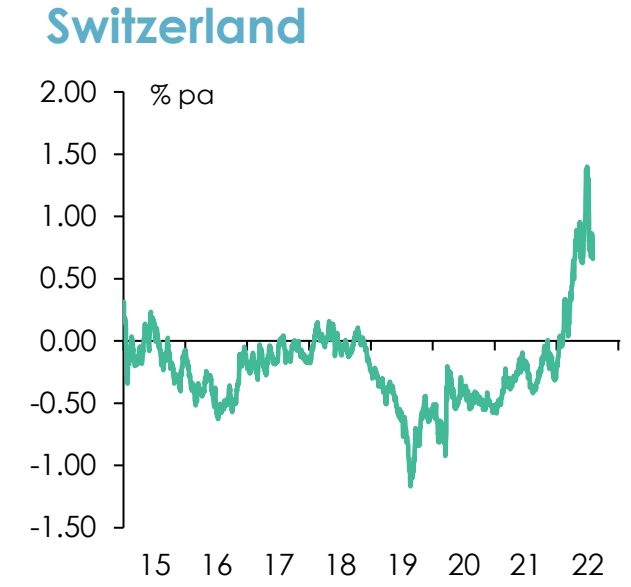
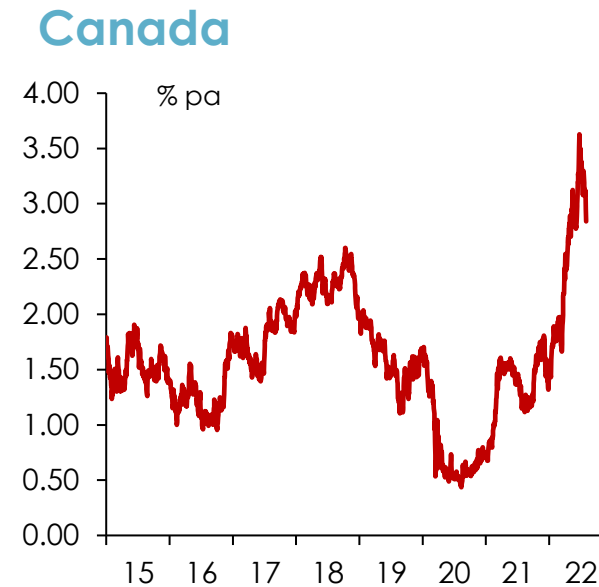
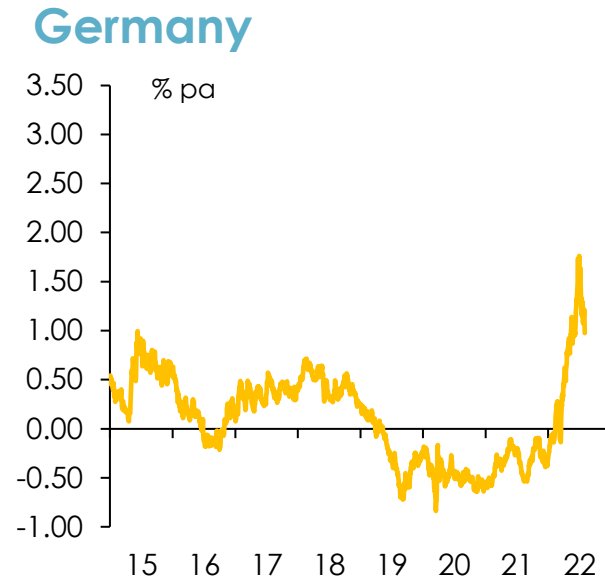
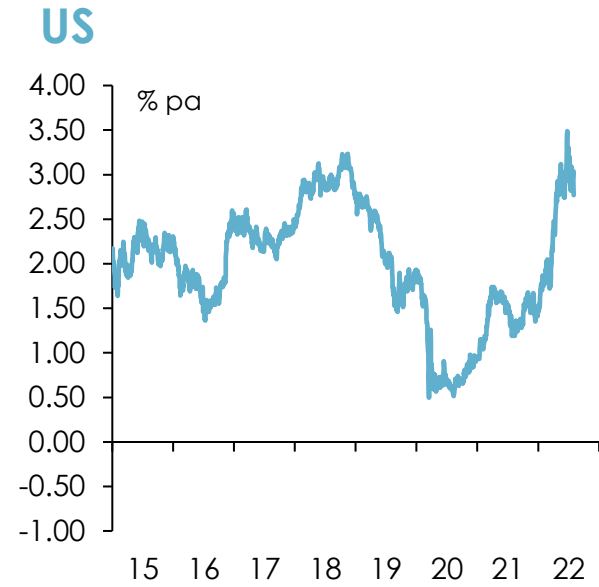
Turkey



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

10-year bond yields fell further this week, in most cases to their lowest levels since late May, as markets shade their central bank interest rate forecasts

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022



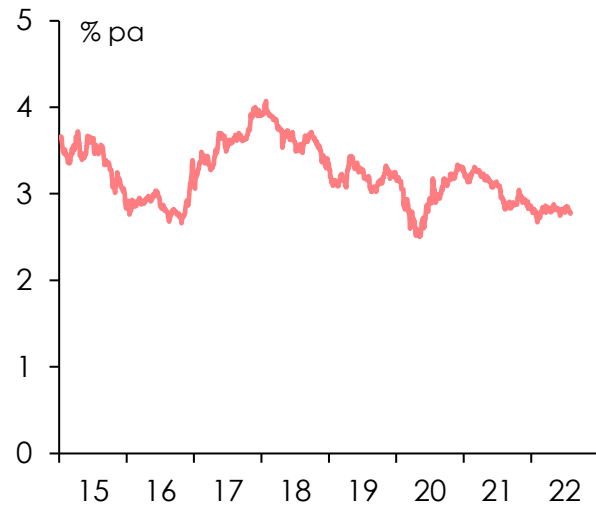
Note: Data up to 22nd July. For bond yields in other large euro area member states see [slide 66](#), and for bond yields in Asian economies see [slide 101](#).

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

10-year yields also fell in most large emerging markets, except for Brazil, with a particularly large fall in Turkey

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

China



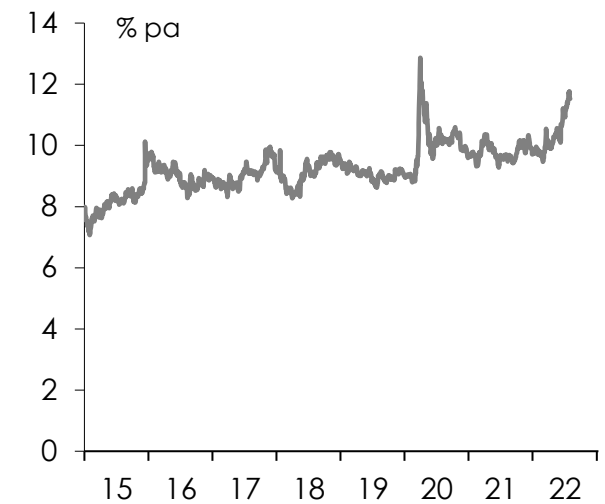
Brazil



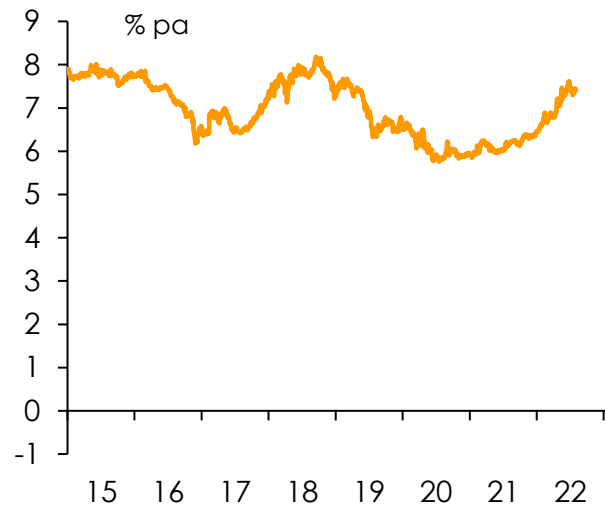
Russia



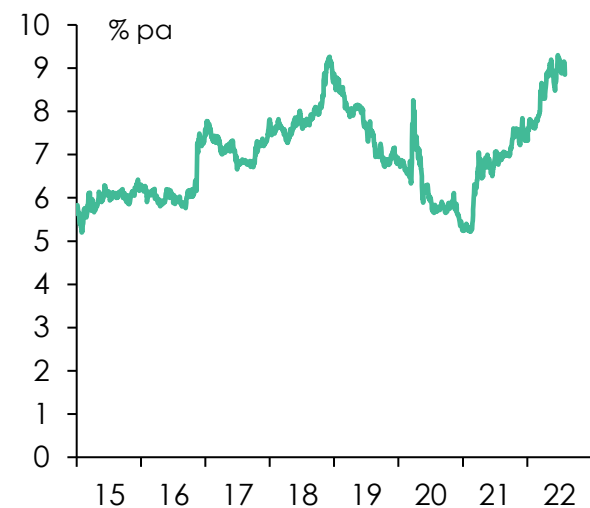
South Africa



India



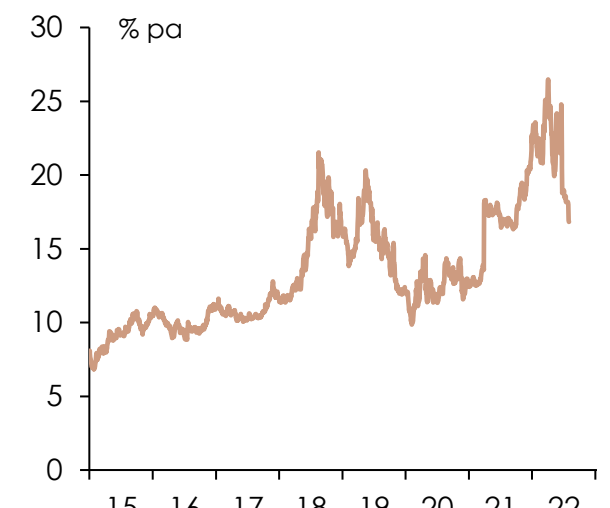
Mexico



Hungary



Turkey



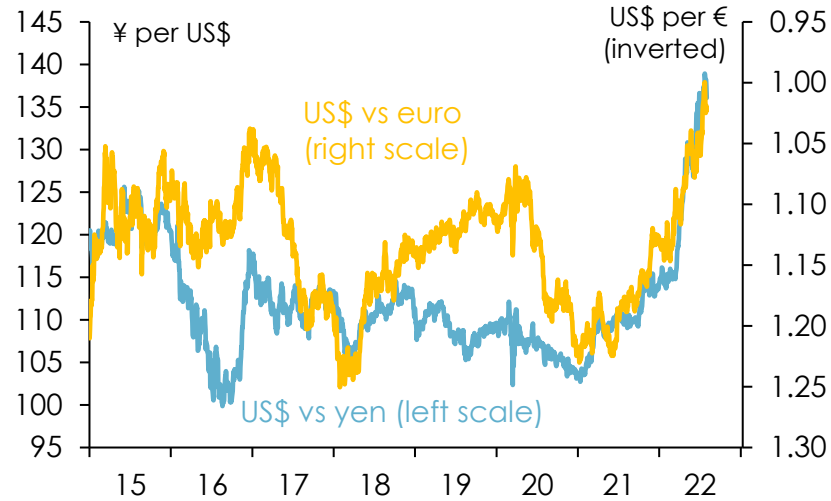
Note: Data up to 22nd July. For bond yields in other Asian economies see [slide 101](#); and for policy interest rates in other emerging markets see [slide 122](#).

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

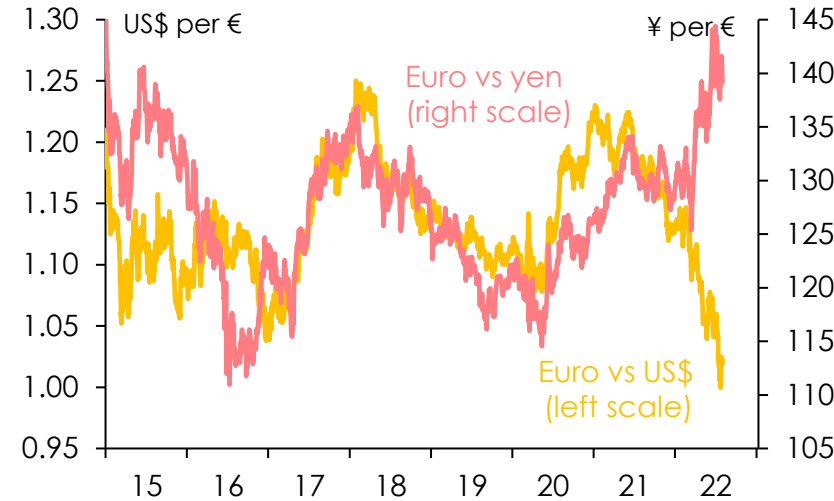
The US\$ fell more than 1% against other major currencies last week, though it is still up more than 10% since the beginning of 2022

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

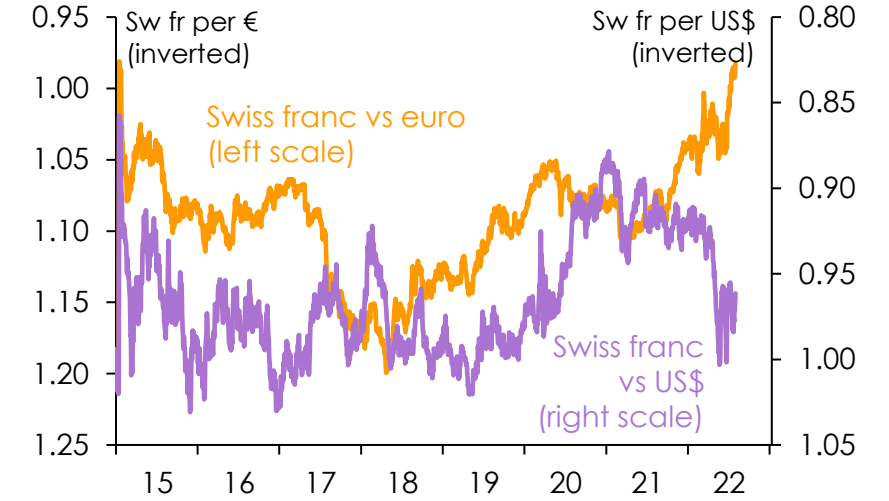
US dollar



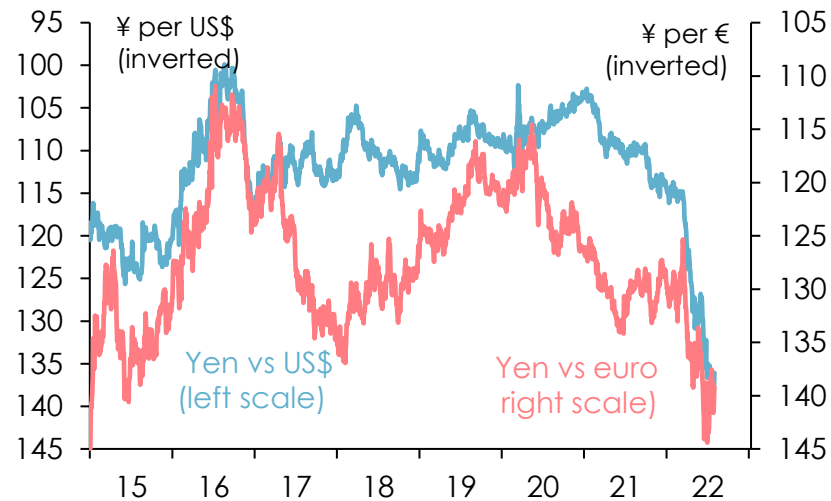
Euro



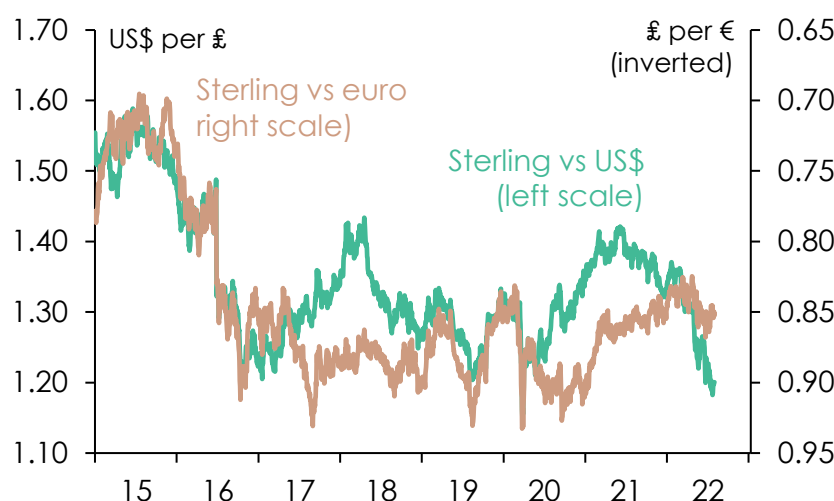
Swiss franc



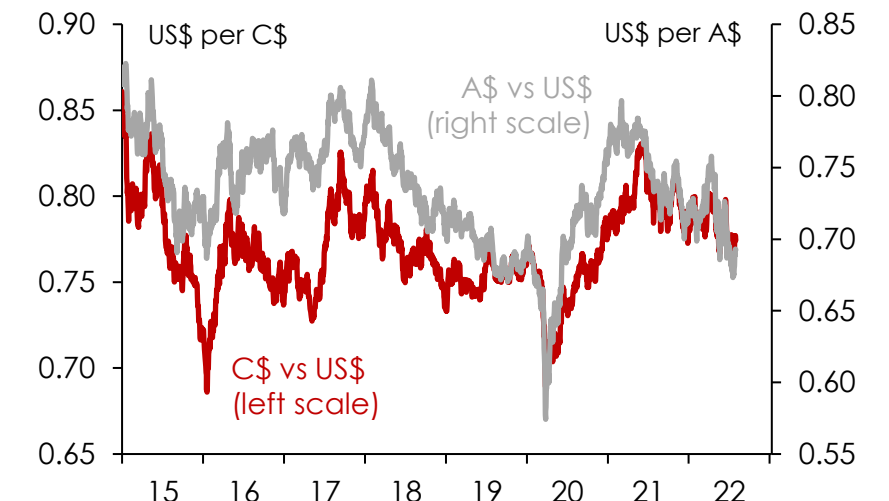
Japanese yen



Sterling



Canadian & Australian dollars

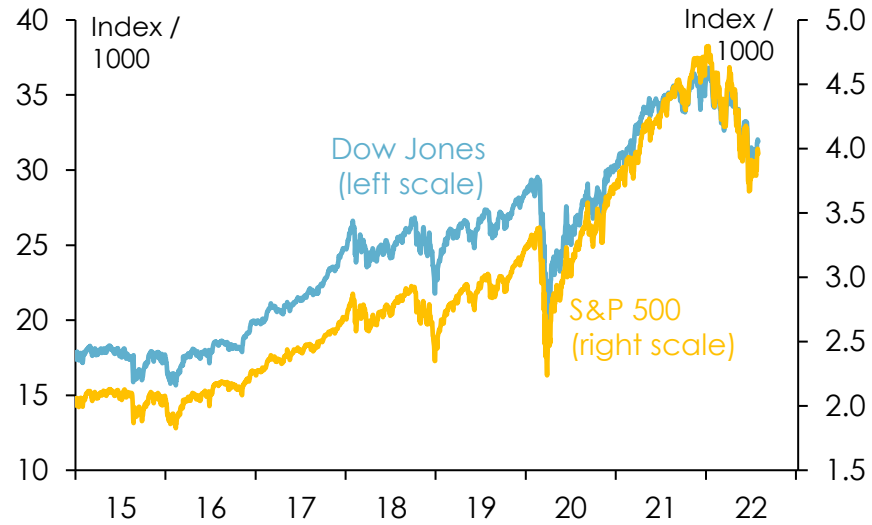


Note: Data up to 22nd July. For Asian exchange rates see [slide 103](#). Source: Refinitiv Datastream. [Return to "What's New"](#).

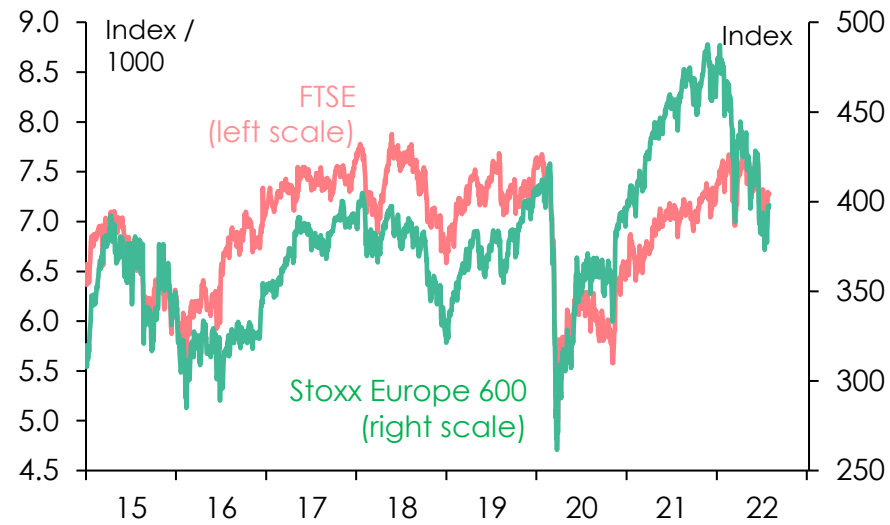
Stock markets posted gains of 2-4% last week despite growing recession fears, boosted by lower expectations for interest rate hikes

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

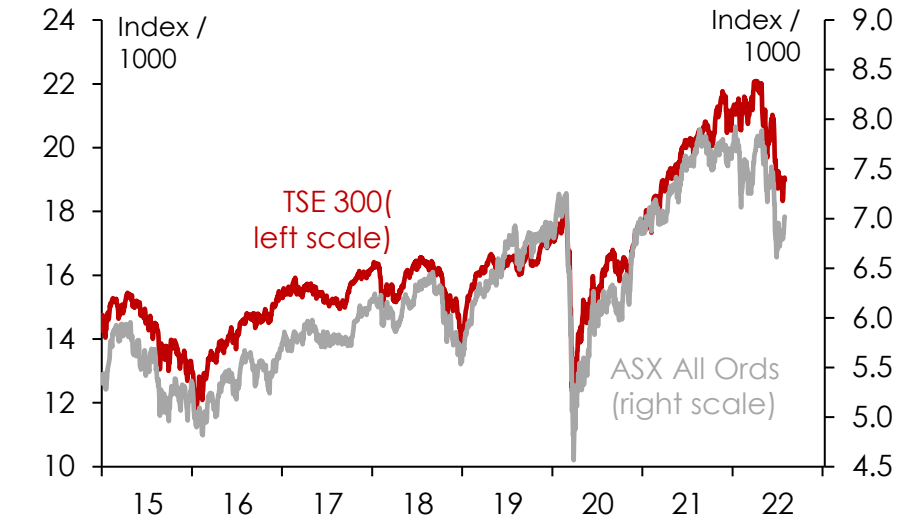
US stock market



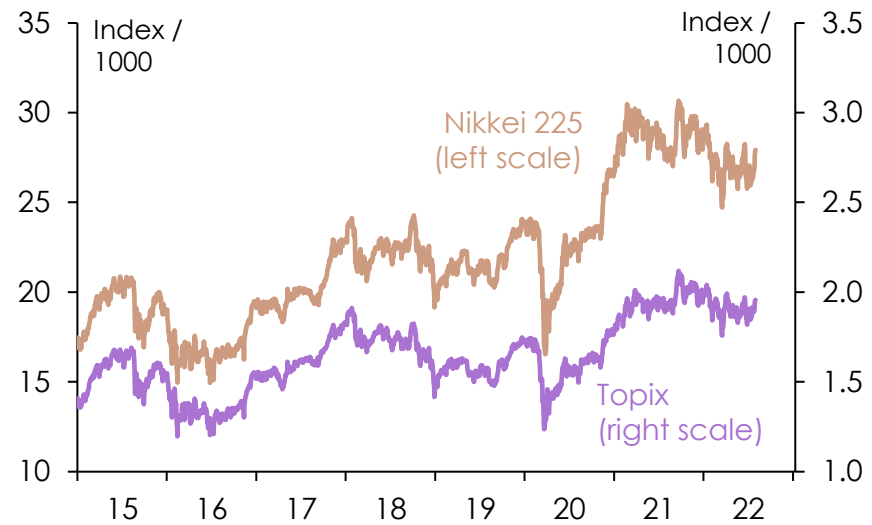
European stock markets



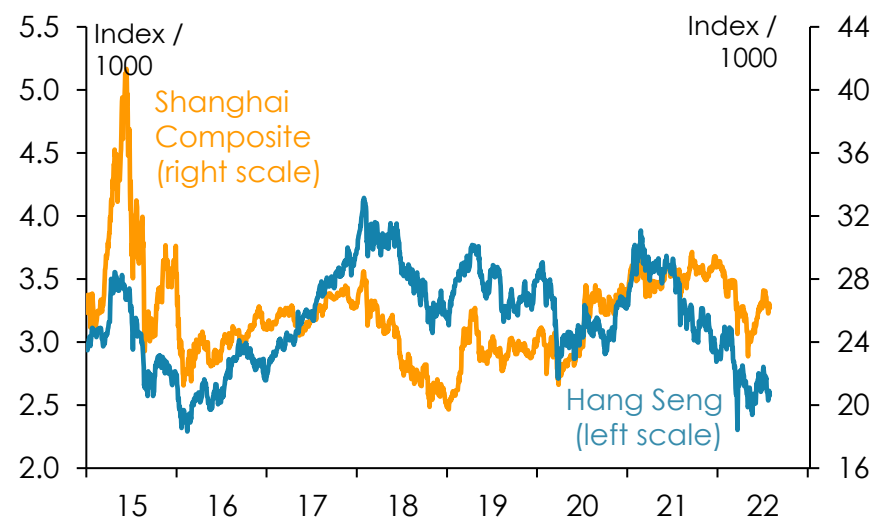
Canadian & Australian stock markets



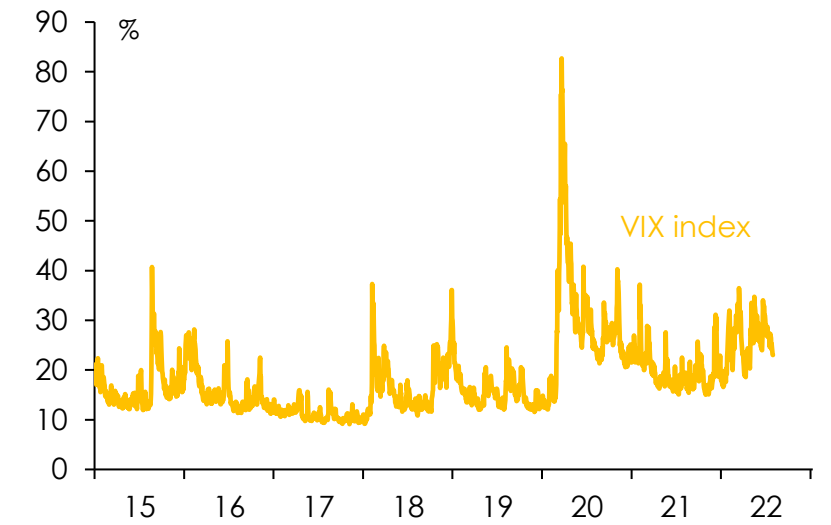
Japanese stock market



Chinese & HK stock markets



Equity market volatility



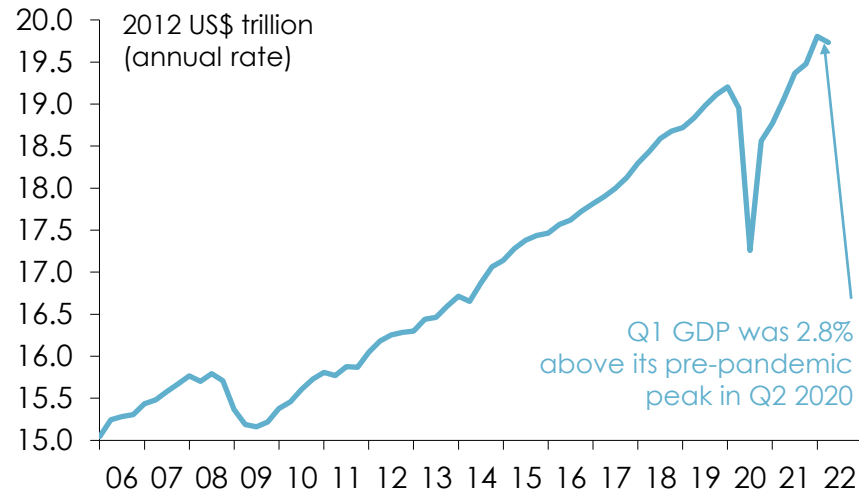
Note: Data up 22nd July. US inflation expectations for July are on [slide 55](#). Source: Refinitiv Datastream. For East Asian stock markets see [slide 104](#). [Return to "What's New"](#).

The United States

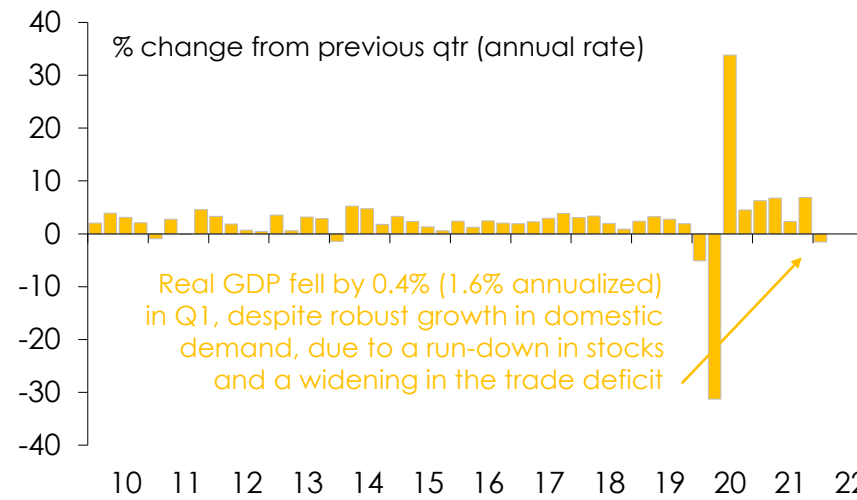
US real GDP shrank 0.4% (1.6% annualized) in Q1, despite strong domestic demand, due to a run-down in inventories and a large fall in net exports

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

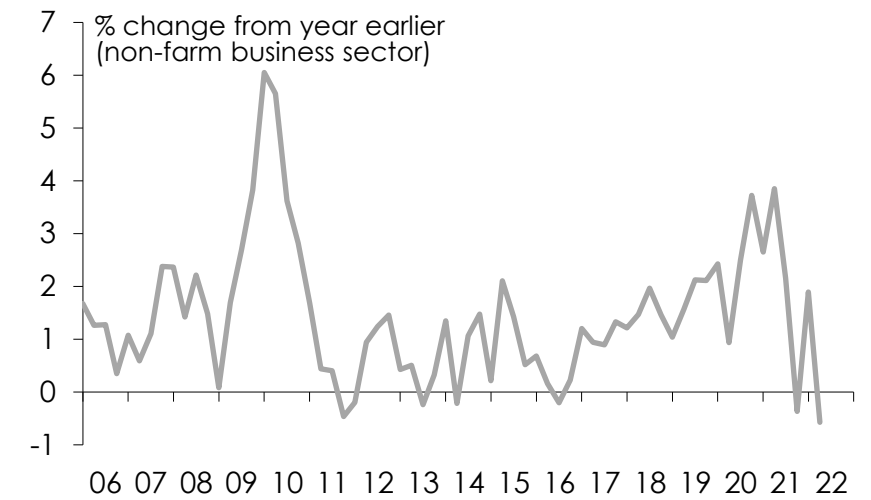
Level of real GDP



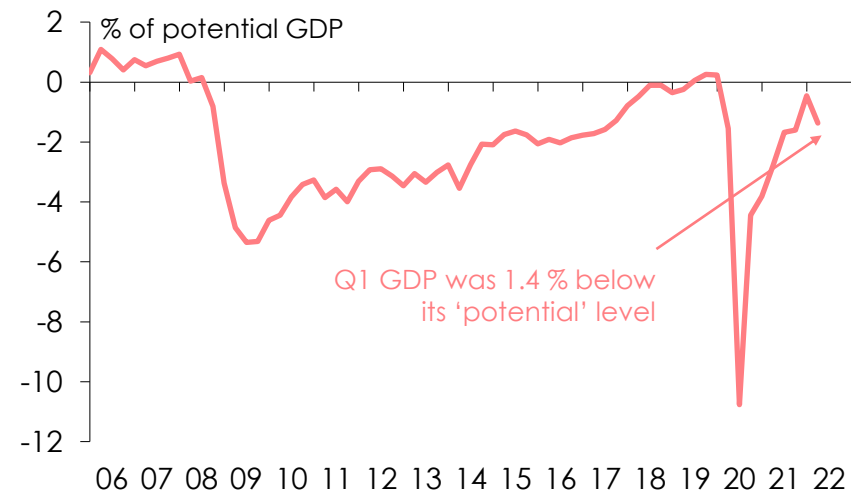
Quarterly change in real GDP



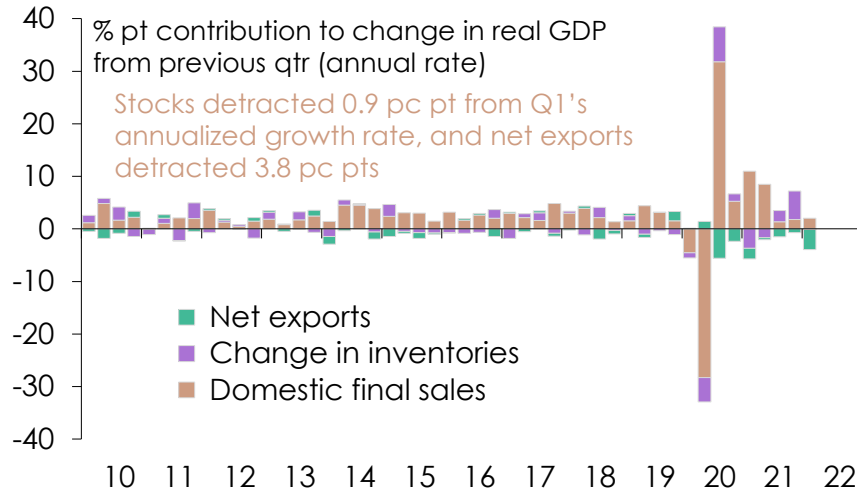
Labour productivity growth



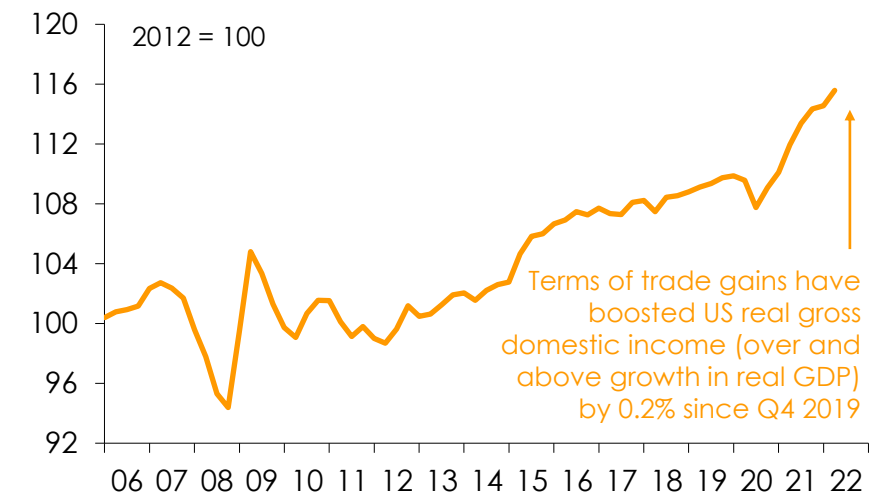
The 'output gap'



Contributions to change in real GDP



Terms of trade

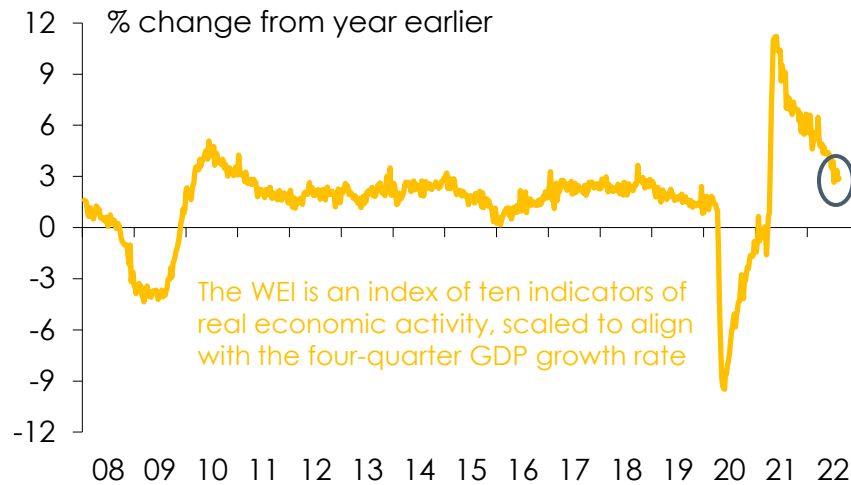


Note: the 'output gap' is the difference between actual and potential GDP (the volume of goods & services that could be produced if the economy were operating at full capacity); the 'terms of trade' is the ratio of the implicit price deflator of exports of goods & services to that of imports of goods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

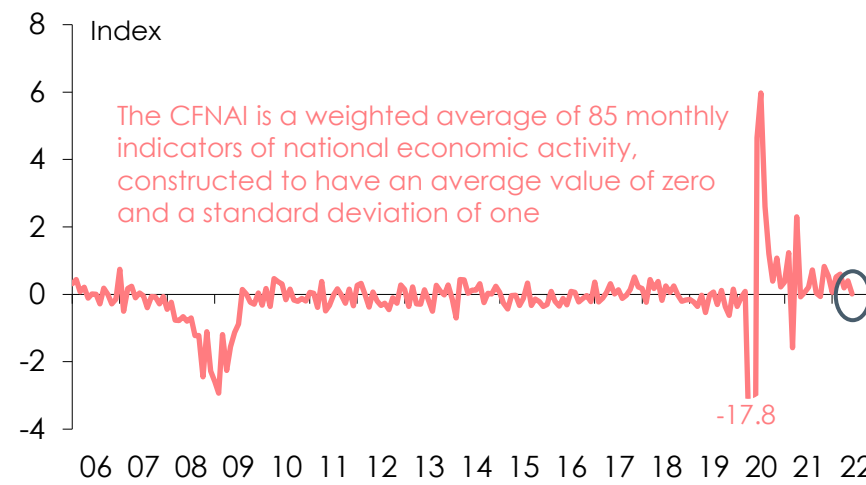
A growing number of activity surveys and leading indicators are starting to warn of a sharp slowdown or outright contraction in US economic activity

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

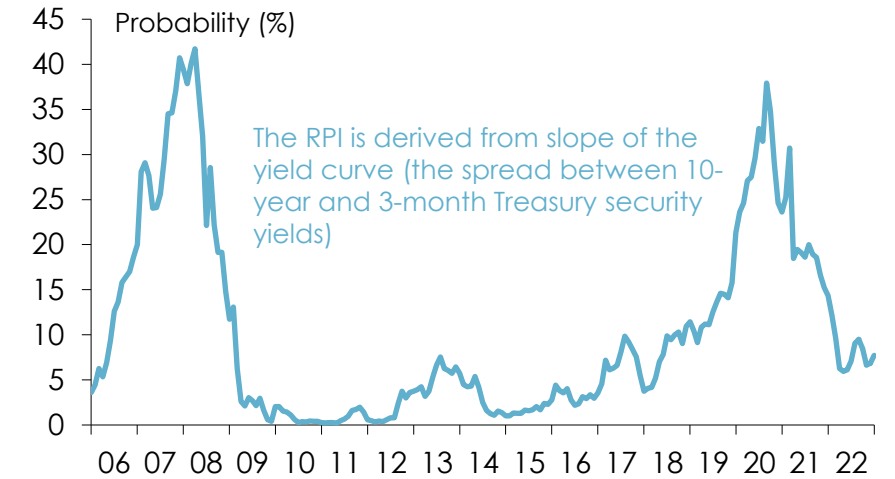
NY Fed weekly economic index



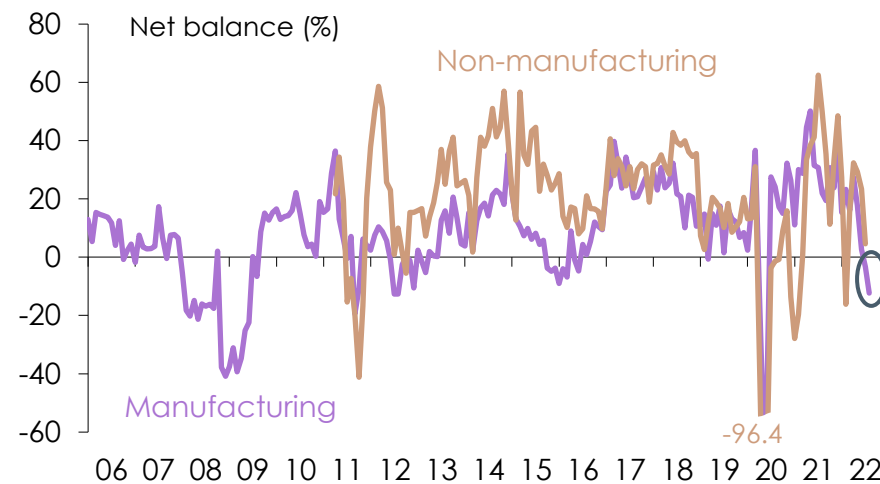
Chicago Fed national activity index



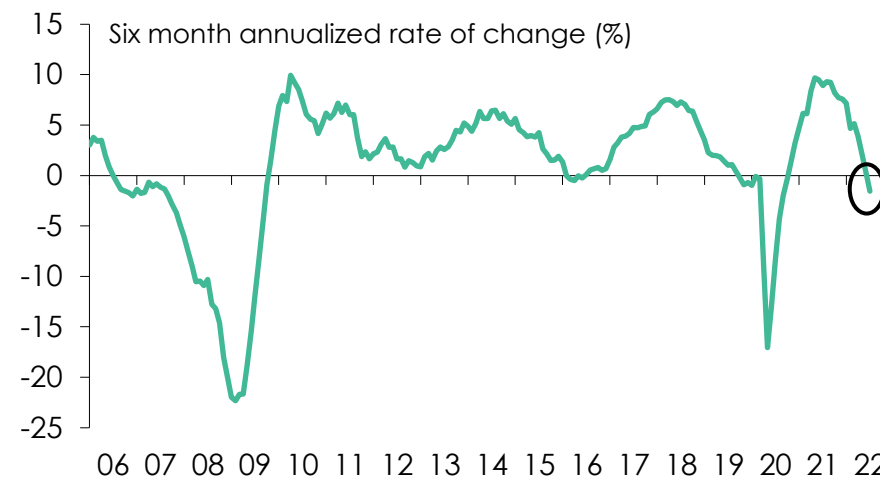
NY Fed recession probability index



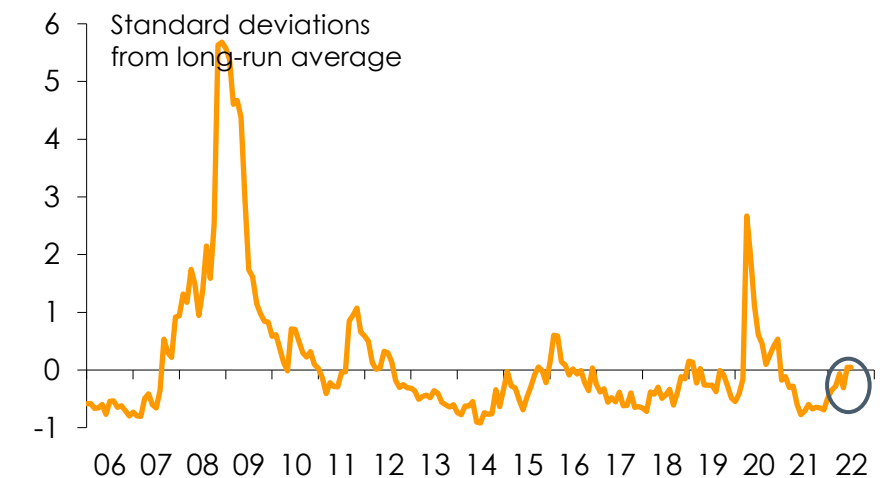
'Philly Fed' business outlook survey



Conference Board leading indicators



Kansas City Fed financial stress index

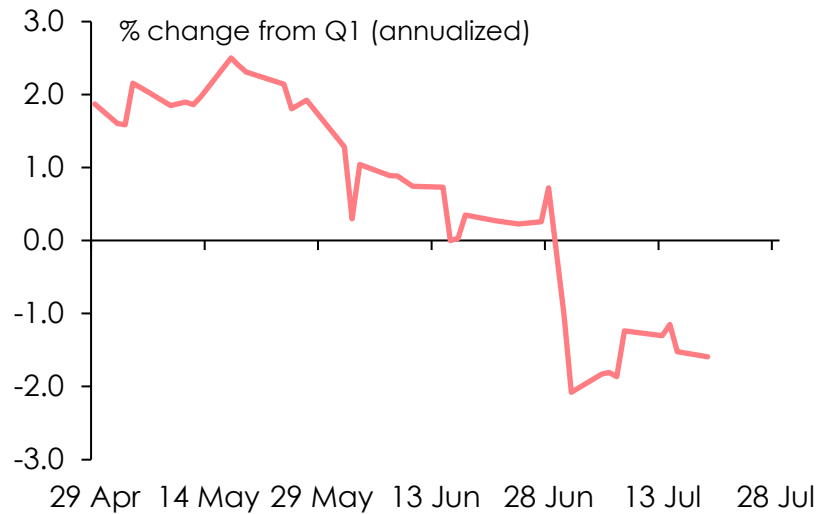


Sources: Federal Reserve Bank of New York, [Weekly Economic Index](#) and [The Yield Curve as a Leading Indicator](#); Federal Reserve Bank of Philadelphia, [Regional Economic Analysis](#), Manufacturing and Non-Manufacturing Business Outlook Surveys; Federal Reserve Bank of Chicago, [Chicago Fed National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

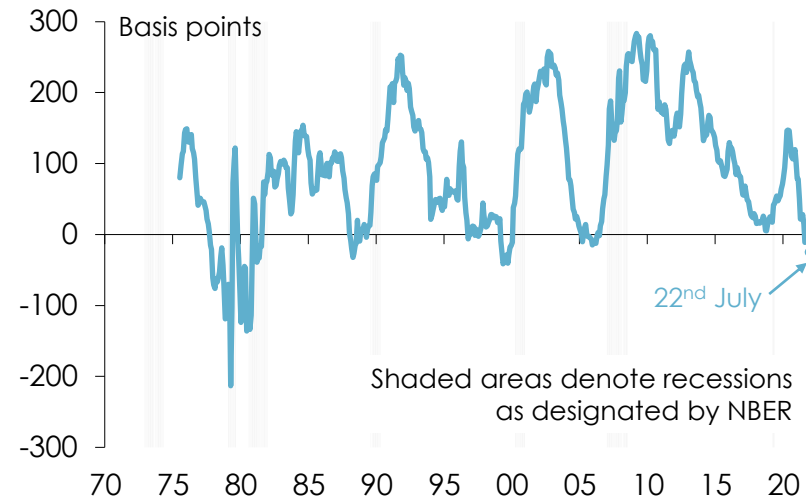
Is the US economy in recession already? Or will it soon be?

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

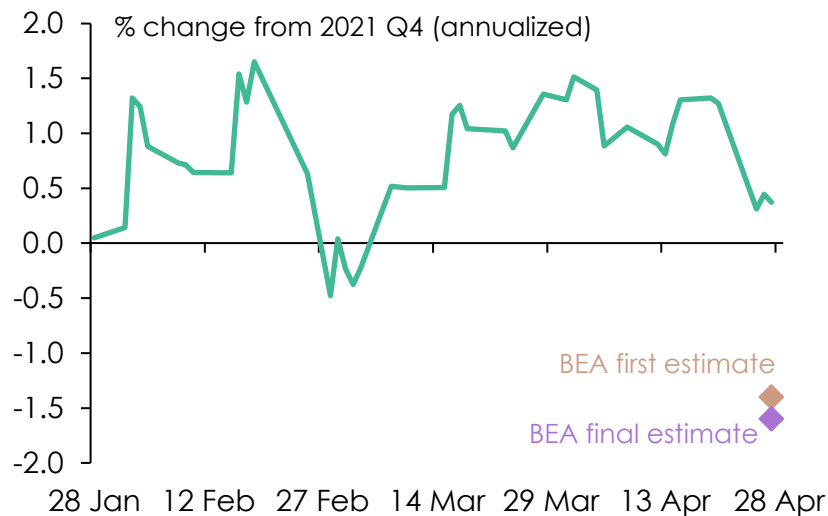
Atlanta Fed GDPNow Q2 estimate



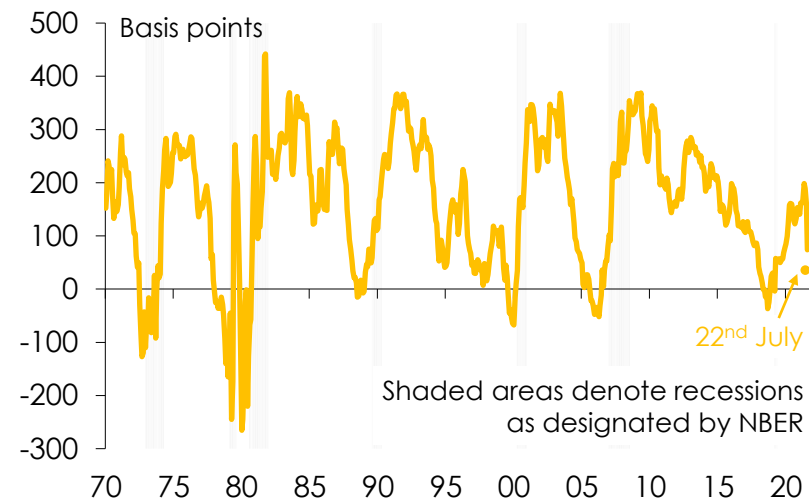
10-year / 2-year yield spread



Atlanta Fed GDPNow Q1 estimate



10-year / 3-month yield spread



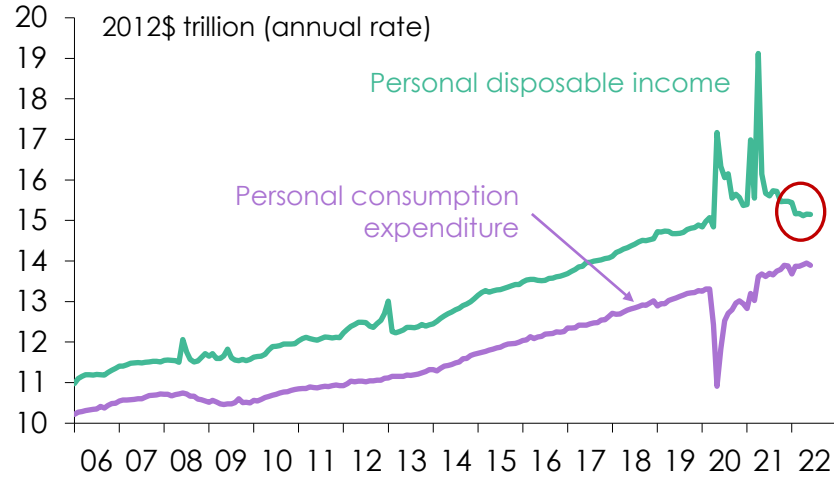
- ❑ US real GDP contracted at a 1.6% annual rate in Q1 ([slide 41](#)) and since 30h June the Atlanta Fed's [GDPNow](#) model has been forecasting a further contraction in Q2 – leading some to [suggest](#) that the US is already in a 'technical recession'
- ❑ Before jumping to this conclusion note that 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 48](#))
- ❑ 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) during the past two weeks

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"](#).

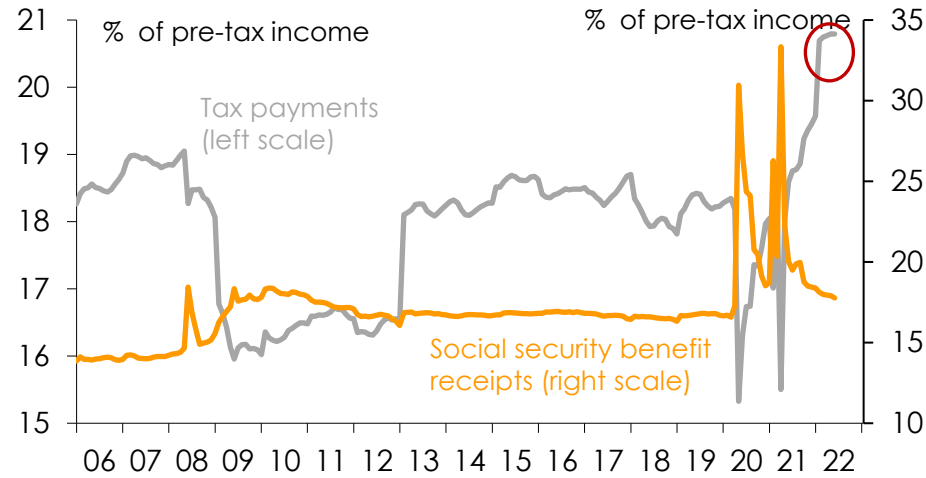
US personal disposable income has been squeezed by rising inflation & tax payments, forcing households to cut saving in order to maintain spending

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

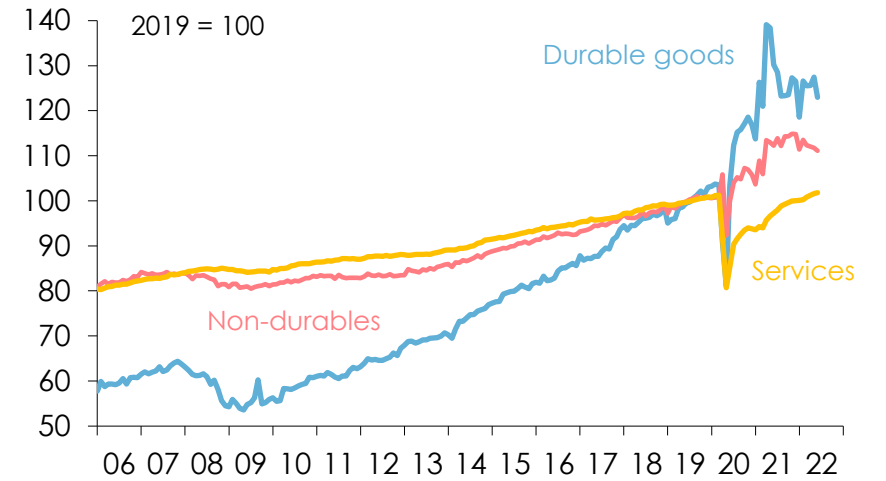
Personal income and expenditure



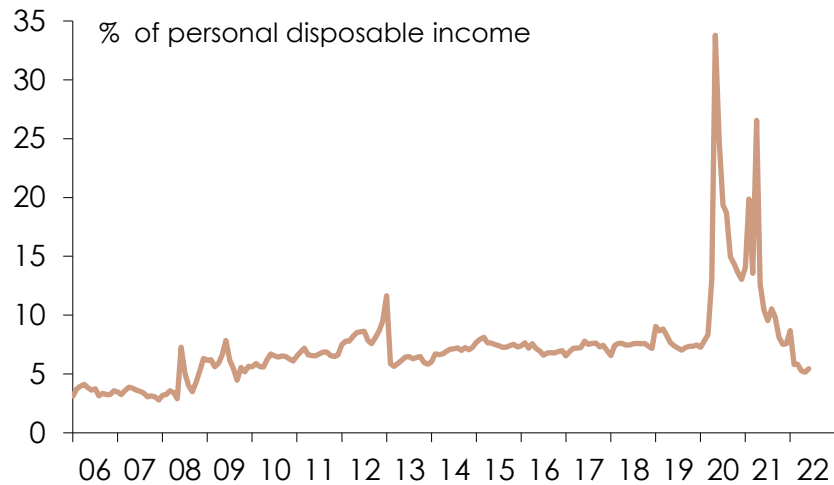
Tax and social security



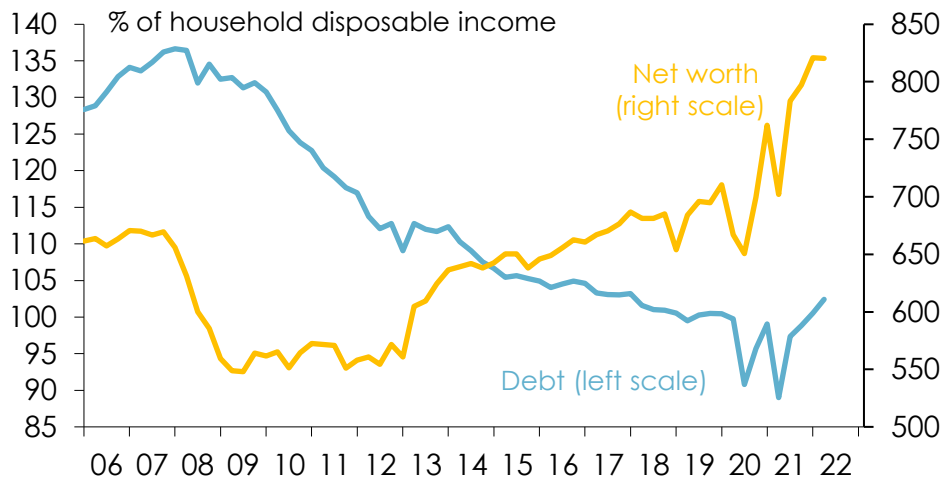
Personal consumption expenditure



Personal saving rate



Household debt and net worth



Spending on energy

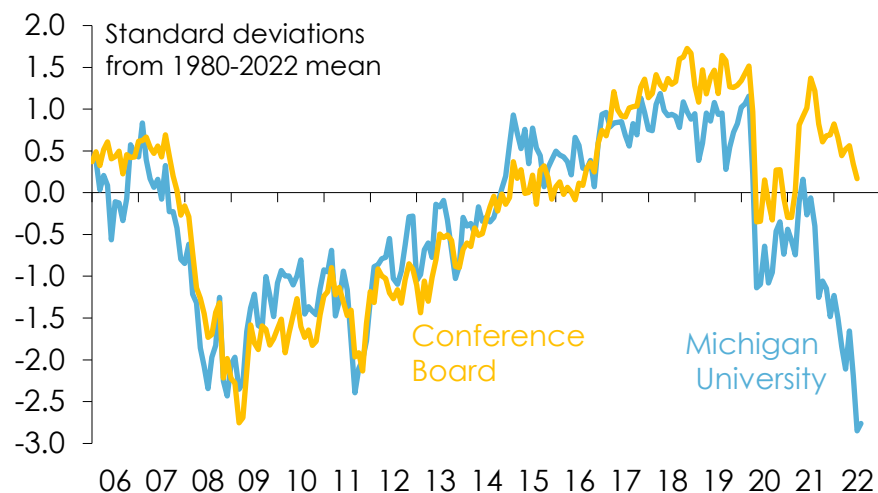


Note: data on personal income, spending and saving are monthly; data on debt and net worth are quarterly. Sources: US Bureau of Economic Analysis, [Gross Domestic Product](#), [Consumer Spending](#) and [Income and Saving](#); US Federal Reserve, [Financial Accounts of the United States - Z1](#). [Return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

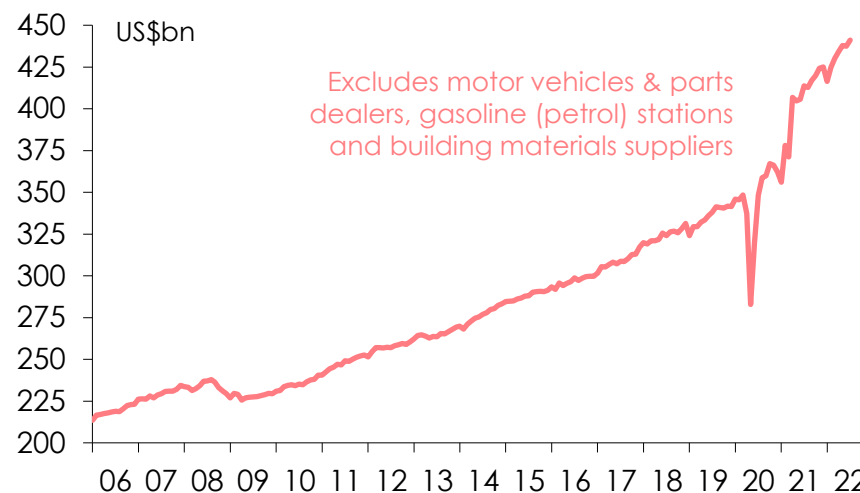
Consumer confidence has fallen sharply in recent months – although it didn't fall any further in early July, and 'core' retail sales rose 0.8% in June

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

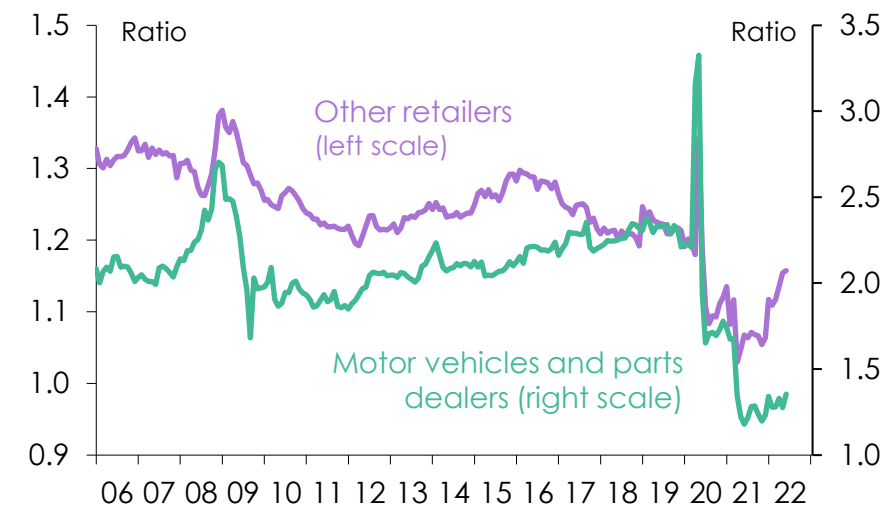
Consumer sentiment



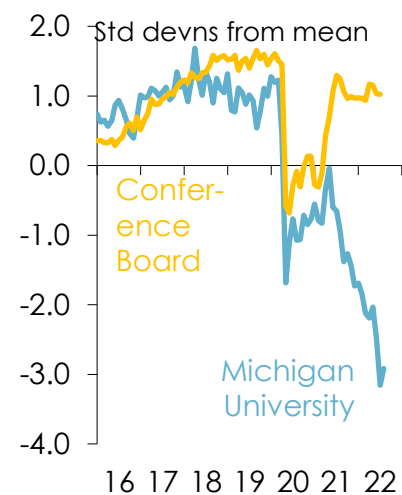
Level of 'core' retail sales



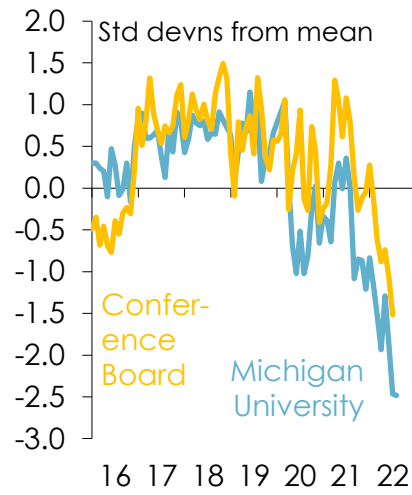
Retail inventories-sales ratios



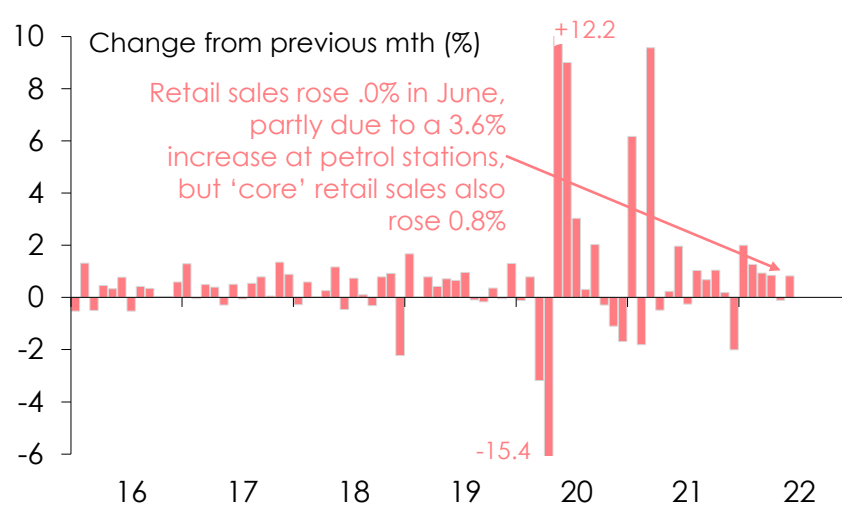
Present situation



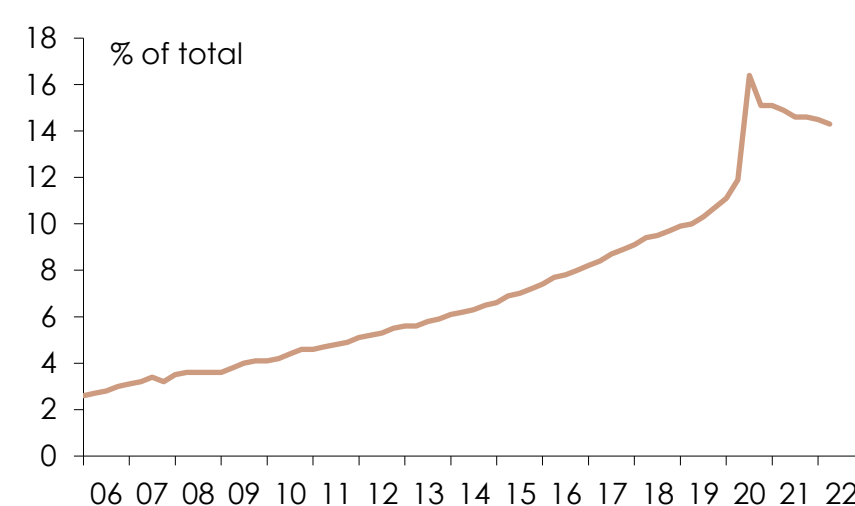
Expectations



Monthly changes in 'core' retail sales



On-line retail sales

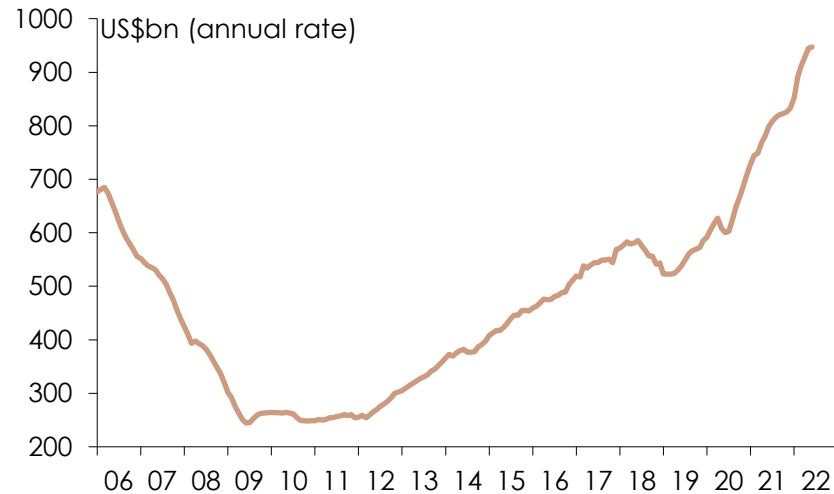


Note: The Michigan University measure of consumer sentiment gives greater weight to inflation, while the Conference Board measure gives greater weight to employment and unemployment. 'Core' retail sales excludes motor vehicles, petrol stations and building materials stores. Sources: Michigan University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

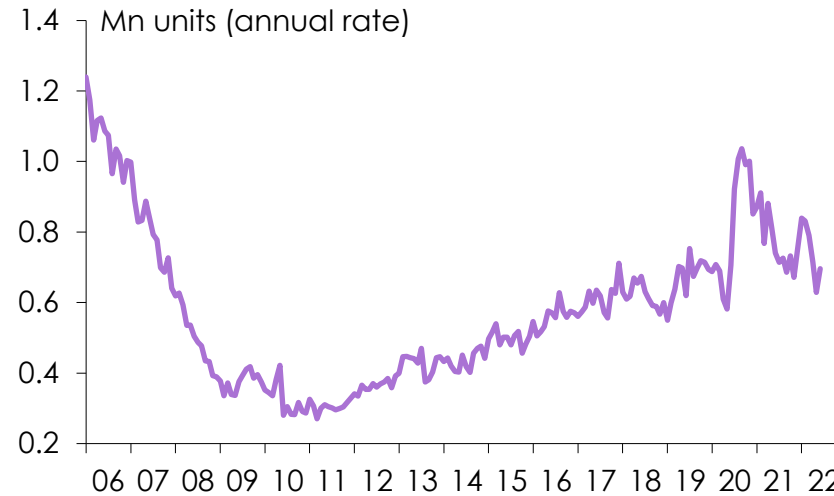
Housing starts fell 2.0% (including a 9.4% fall in single-family starts) in June, after an 11.9% decline in May, to their lowest level since last September

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

Housing construction spending



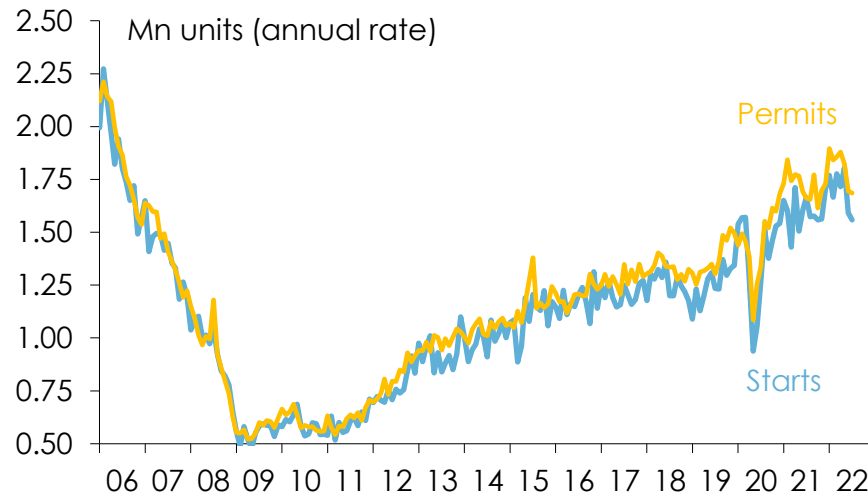
New single-family home sales



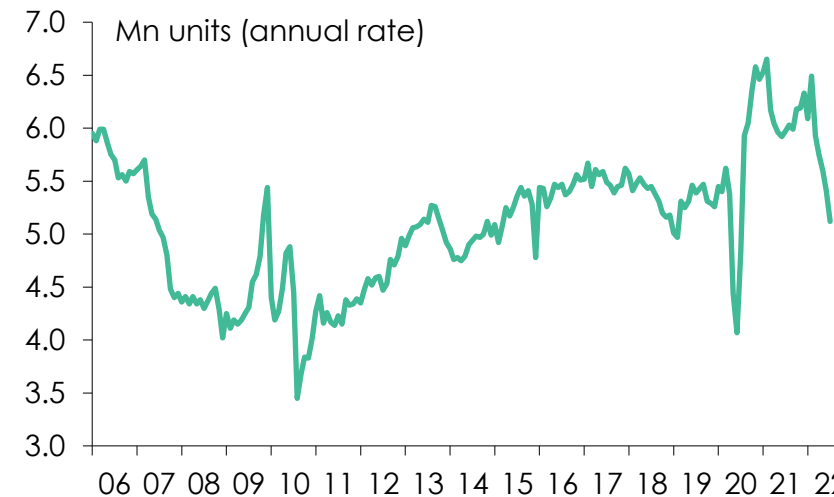
30-year fixed mortgage rates



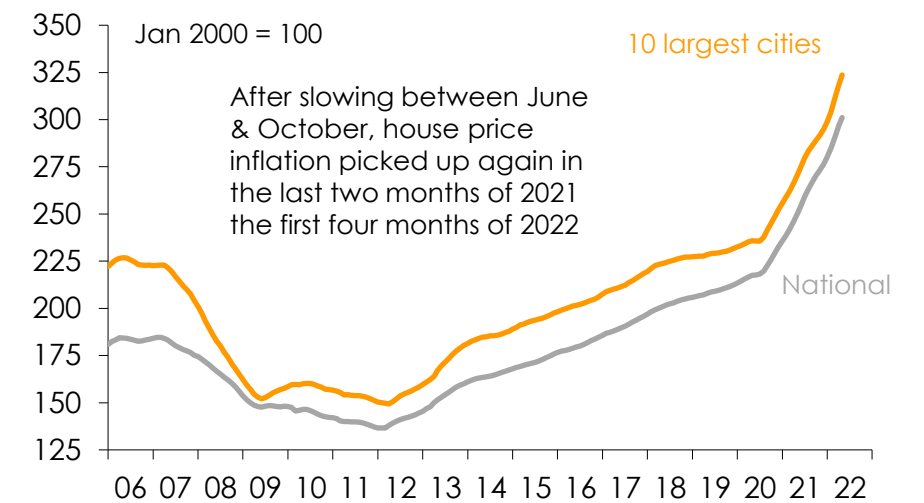
Housing starts and permits



Existing home sales



House prices

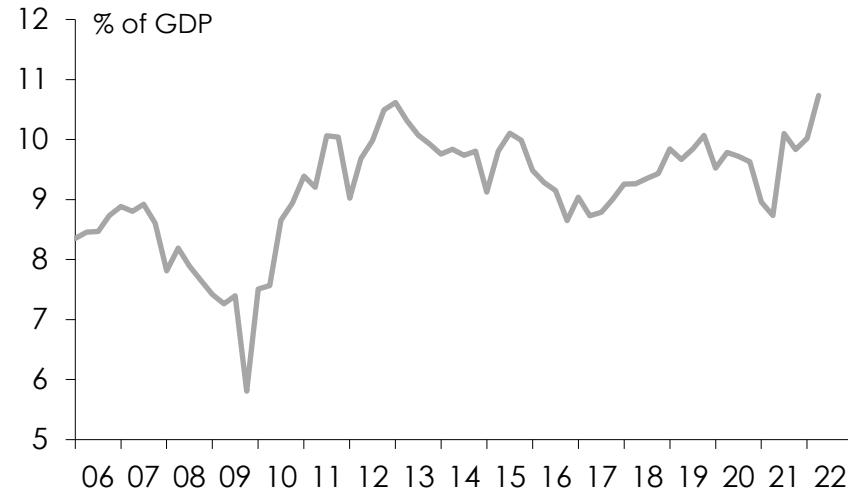


Sources: US Census Bureau, [Construction Spending](#), [New residential construction](#) and [New Residential Sales](#); US National Association of Realtors, [Existing-Home Sales](#); Mortgage Bankers' Association, [National Delinquency Survey](#); S&P Global, [S&P CoreLogic Case-Shiller Home Price Indices](#).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

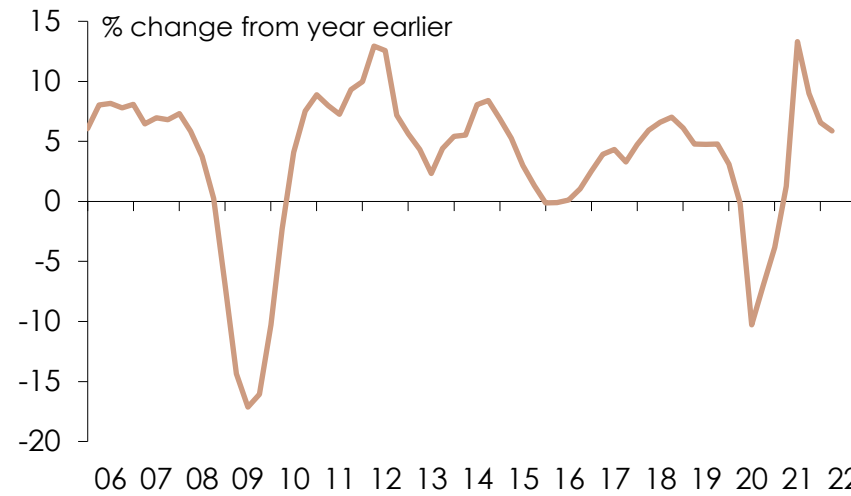
US corporate profits and balance sheets are strong, and investment is increasing – except in non-residential construction

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

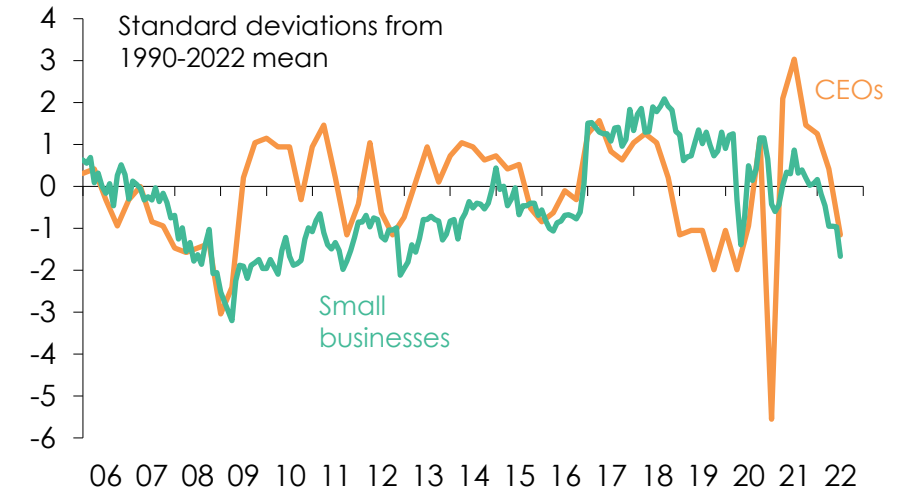
After-tax corporate profits



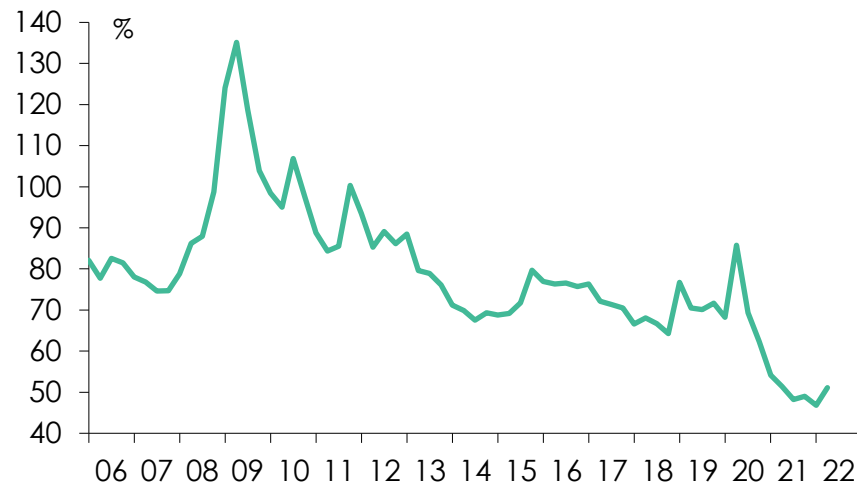
Business investment



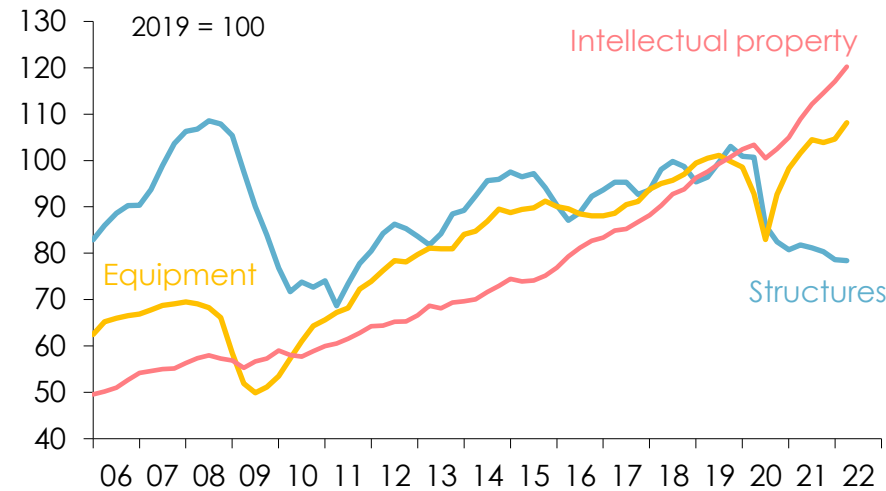
Business confidence



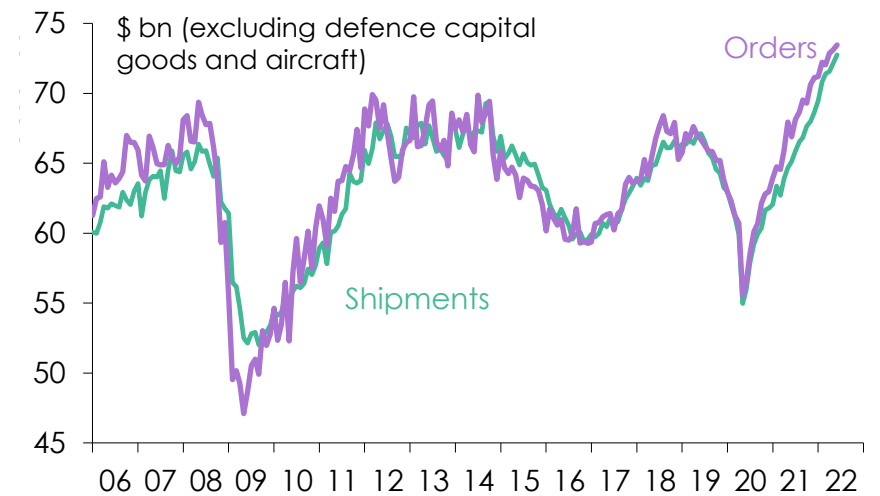
Corporate debt-equity ratio



Business investment by type



Capital goods orders & shipments

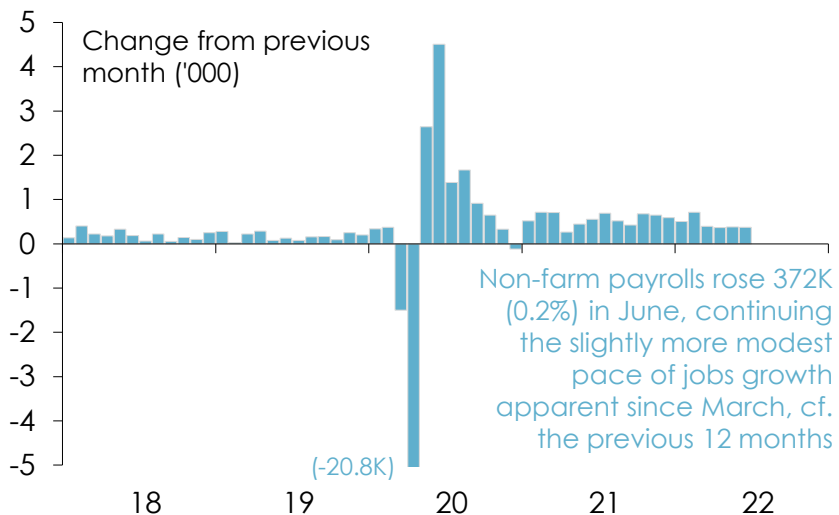


Sources: US Bureau of Economic Analysis, [Gross Domestic Product](#); US Federal Reserve, [Financial Accounts of the United States - Z1](#); The Conference Board, [US CEO Confidence](#); National Federation of Independent Business, [Small Business Economic Trends](#); US Commerce Department, [Manufacturers'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

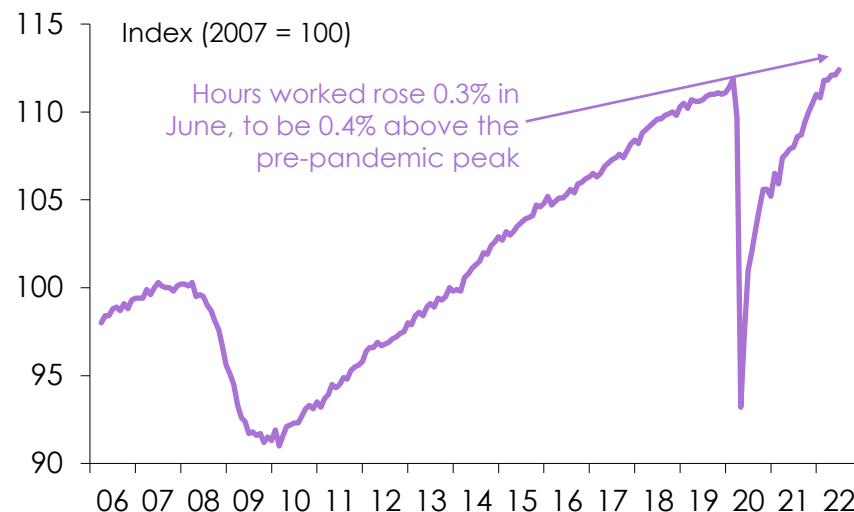
Initial claims for unemployment insurance benefits have been trending up since mid-March, which may portend a softening in the US labour market

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

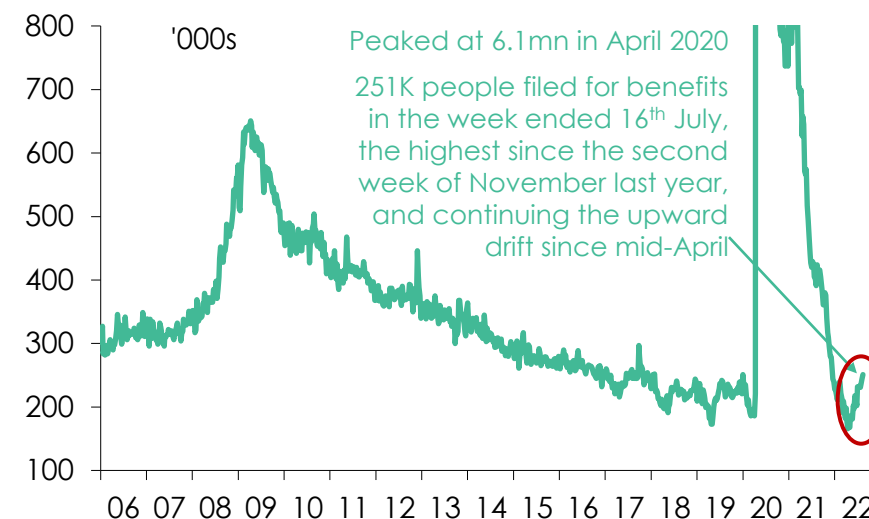
Non-farm payroll employment



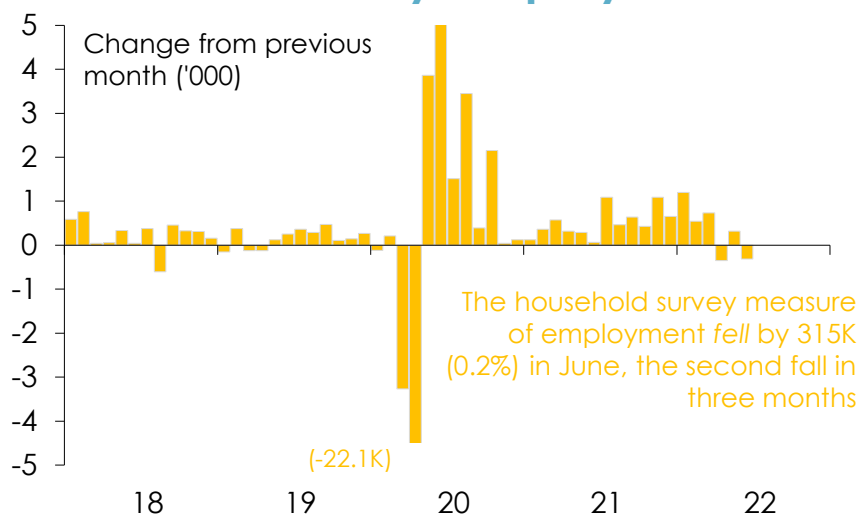
Hours worked (private sector)



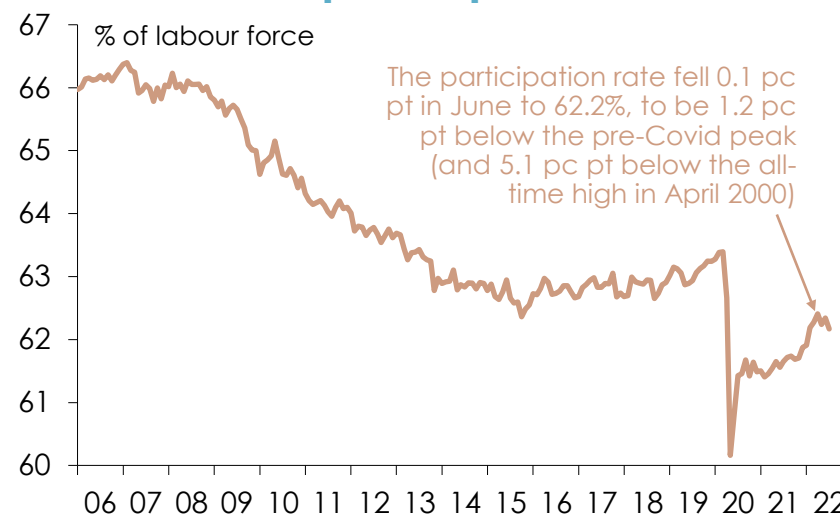
Unemployment benefit initial claims



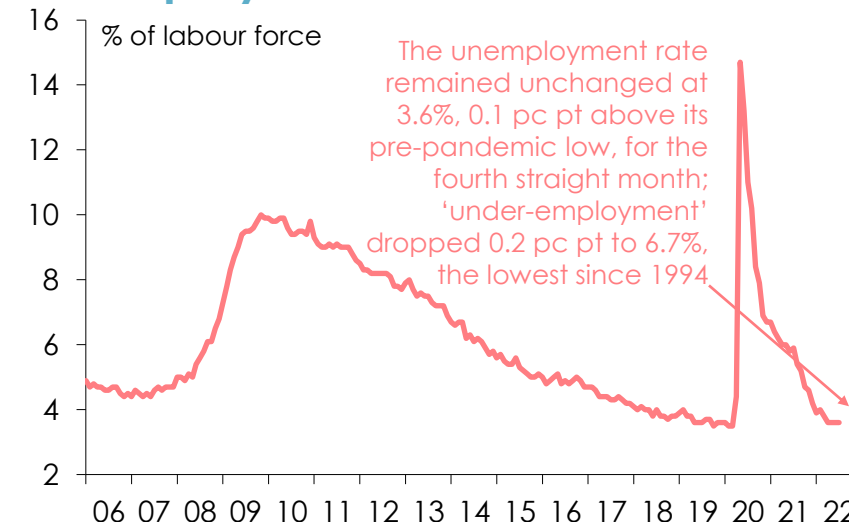
Household survey employment



Labour force participation rate



Unemployment rate

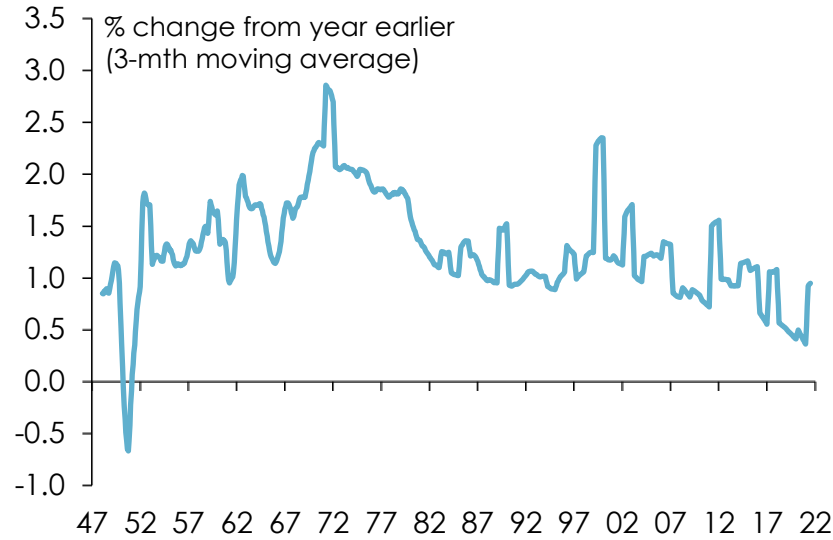


Sources: US Bureau of Labor Statistics, [Employment Situation](#); US Department of Labor, [Unemployment Insurance Weekly Claims](#). [Return to "What's New"](#).

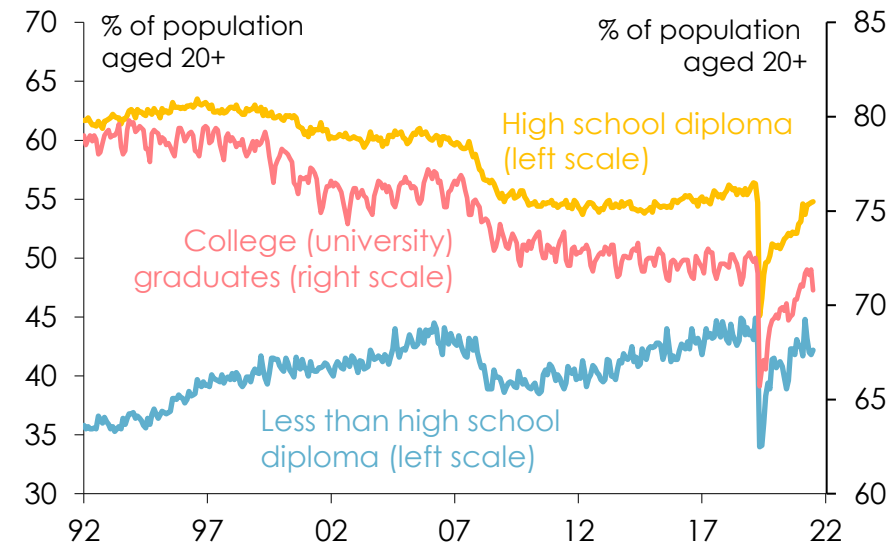
US labour market tightness owes much to a persistent shortfall in labour force participation, especially among people aged 55 and over

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

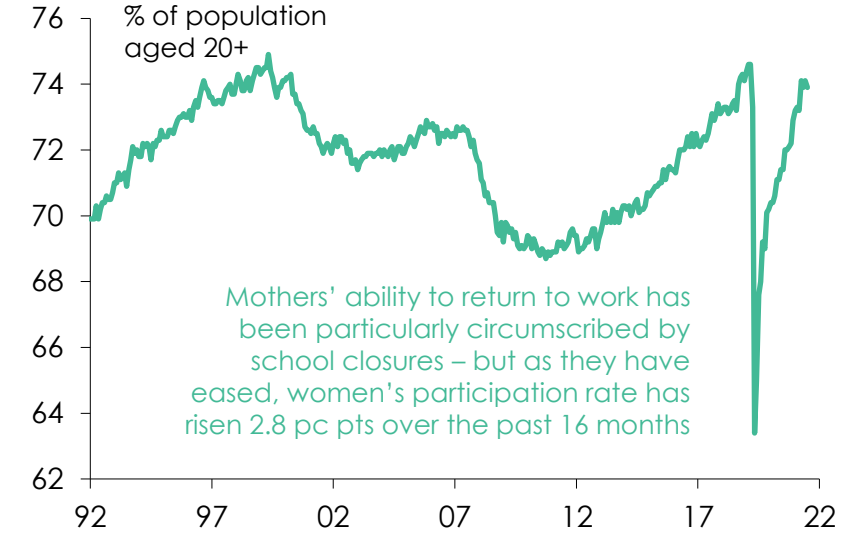
Civilian working age population



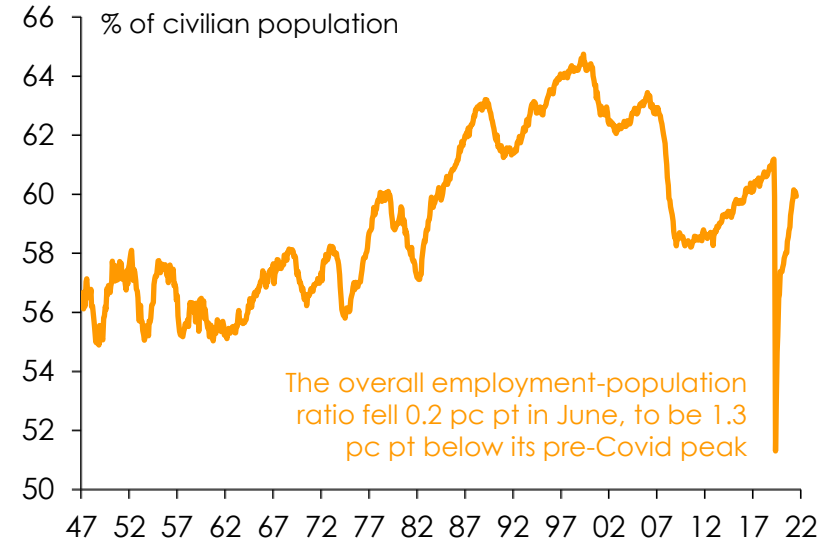
'E-pop' ratio – by education



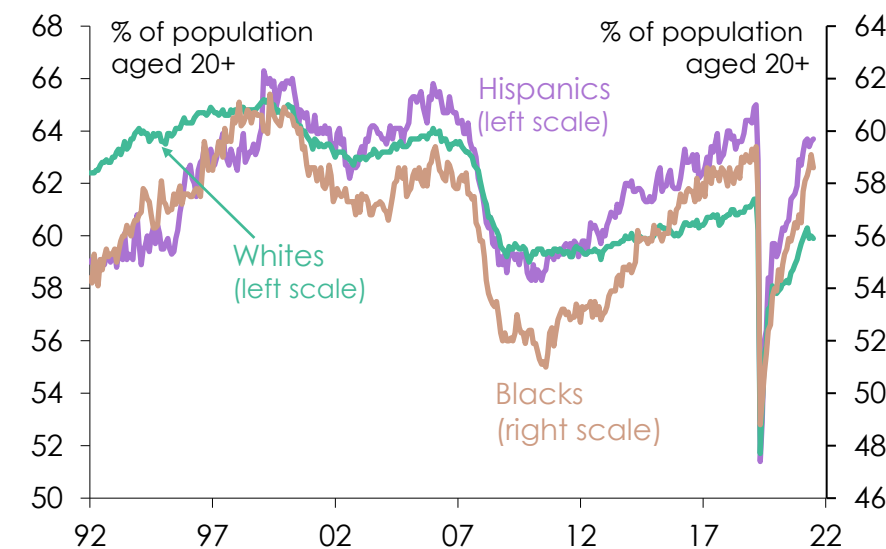
'E-pop' ratio – women 25-54



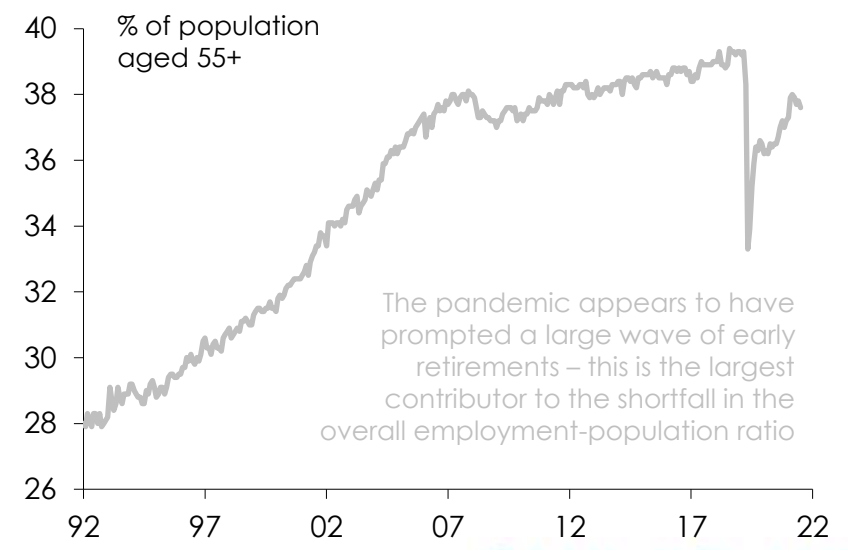
Employment-to-population ratio



'E-Pop' ratio – Blacks & Hispanics



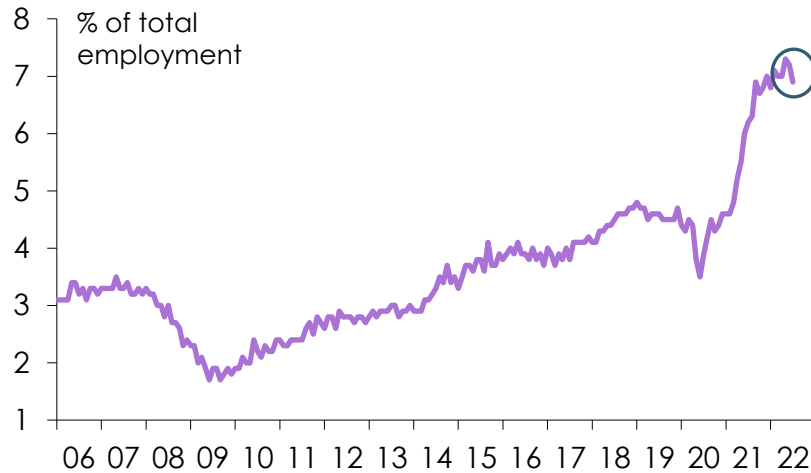
'E-pop' ratio – people 55 & over



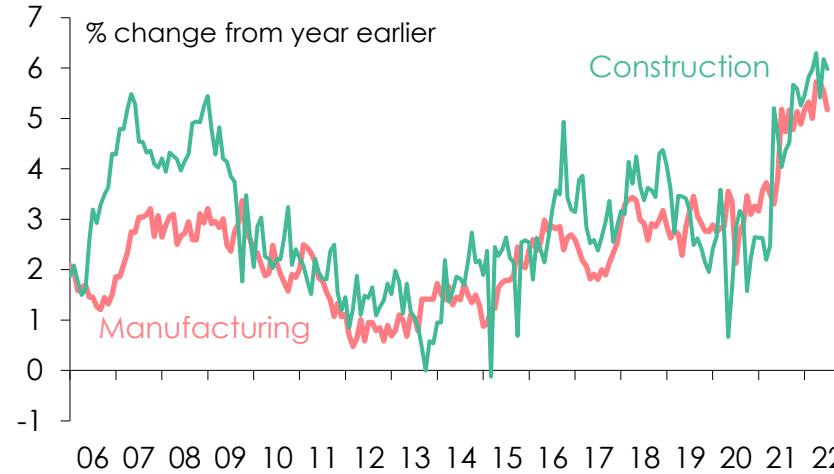
The so-called 'Great Resignation' may have peaked, with job vacancies and voluntary separations falling in May and June

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

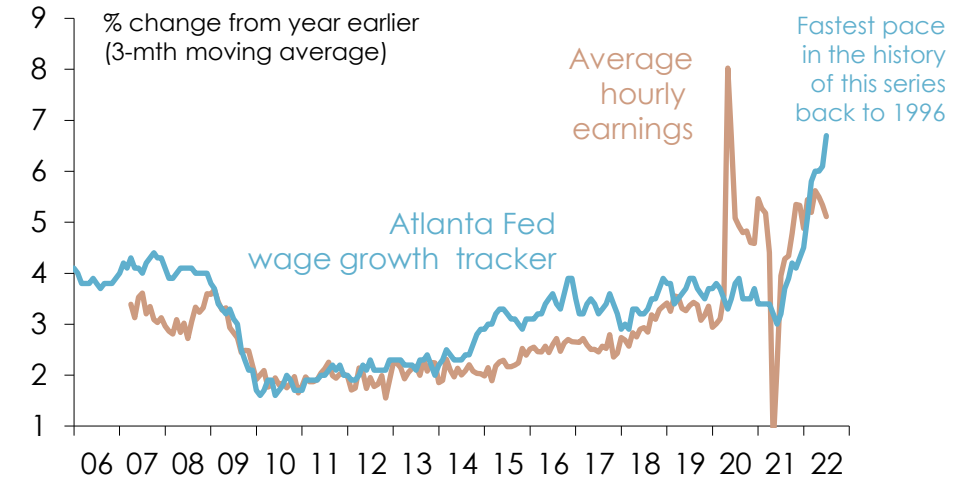
Job openings



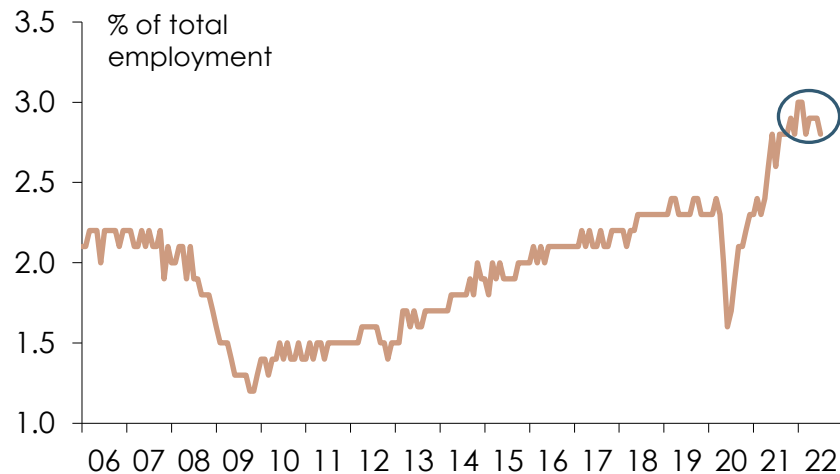
Average hourly earnings



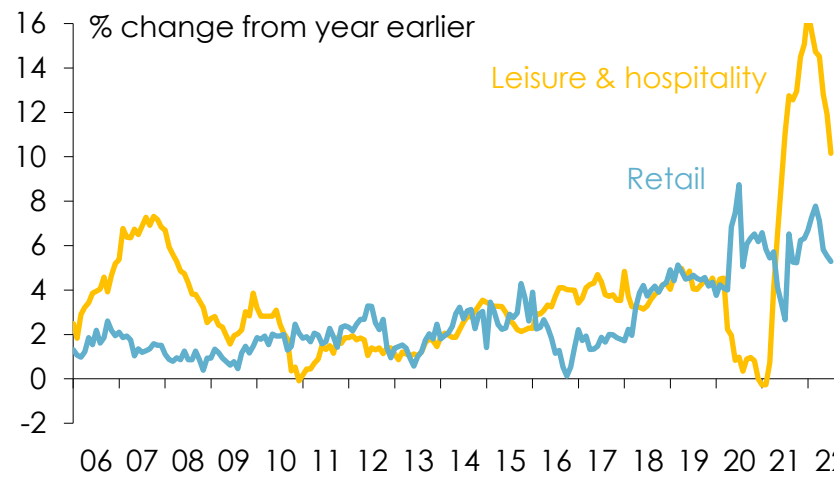
Overall wages growth - monthly



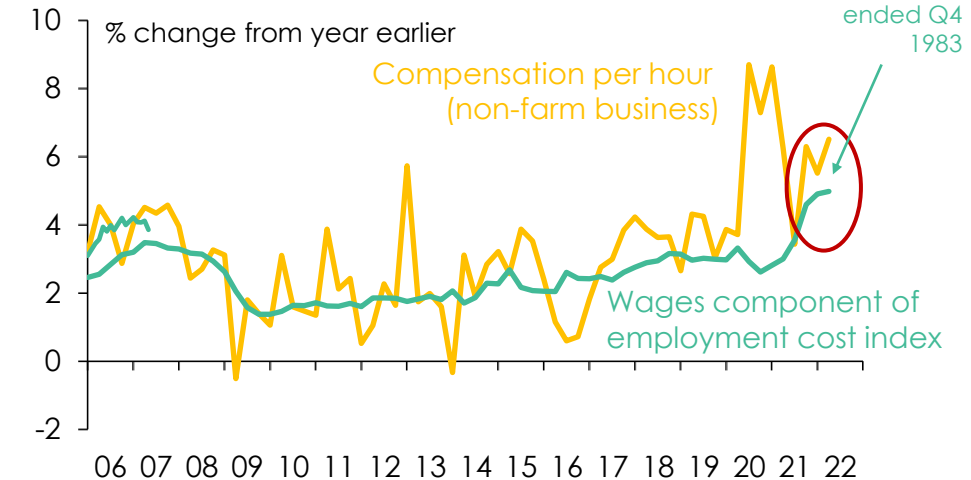
Quit rate



Average hourly earnings



Wages growth - quarterly

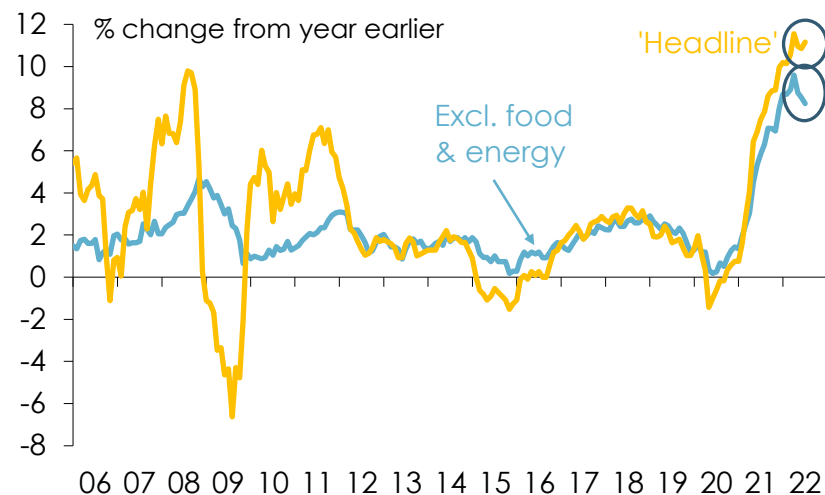


Note: Measures of average hourly earnings (especially the all-industries measures) and of average compensation per hour are affected by changes in the composition of employment (so for example they rose sharply in Q2 2020 when large numbers of low-paid workers were laid off and fell markedly when they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

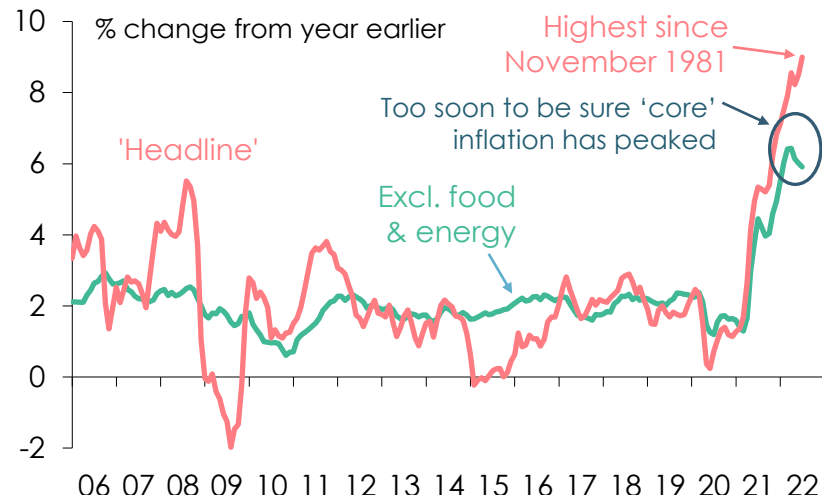
The CPI rose 1.3% in June, pushing the annual inflation rate to 9.1%, while the ex-food-&energy CPI rose 0.7%, the largest since June 2021

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

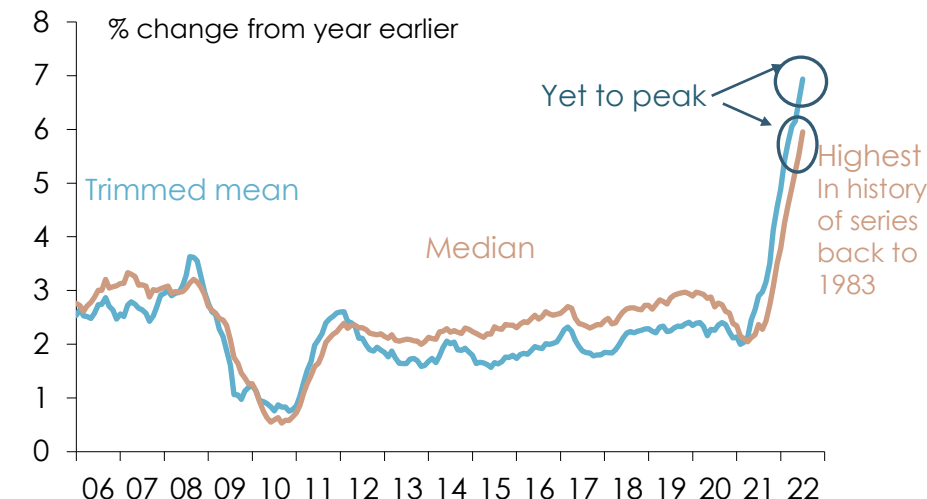
Producer price index



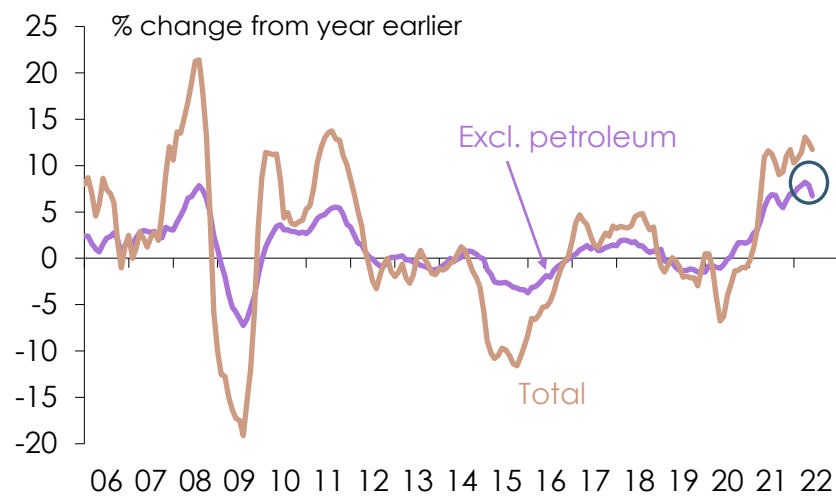
Consumer price index



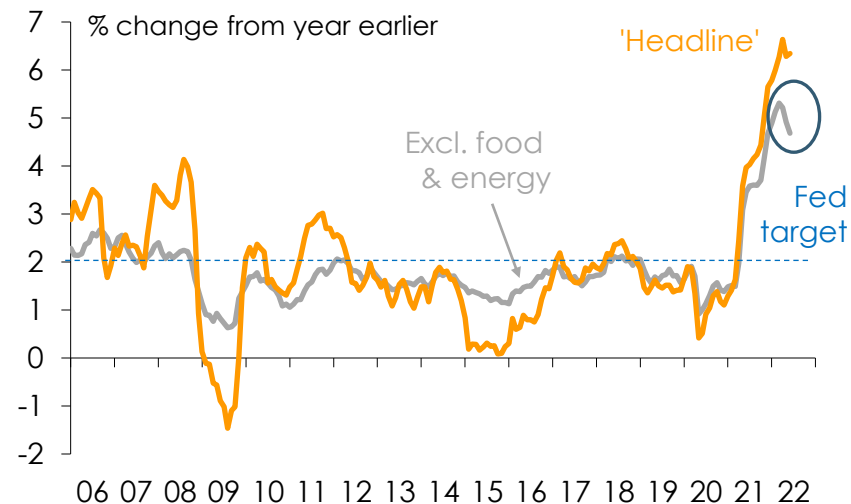
'Underlying' CPI inflation



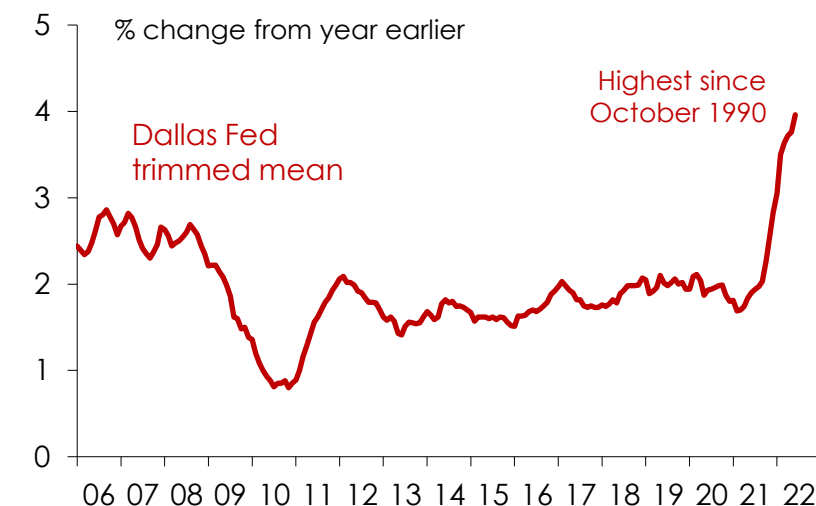
Import price index



Personal consumption deflator



'Underlying' PCE deflator inflation

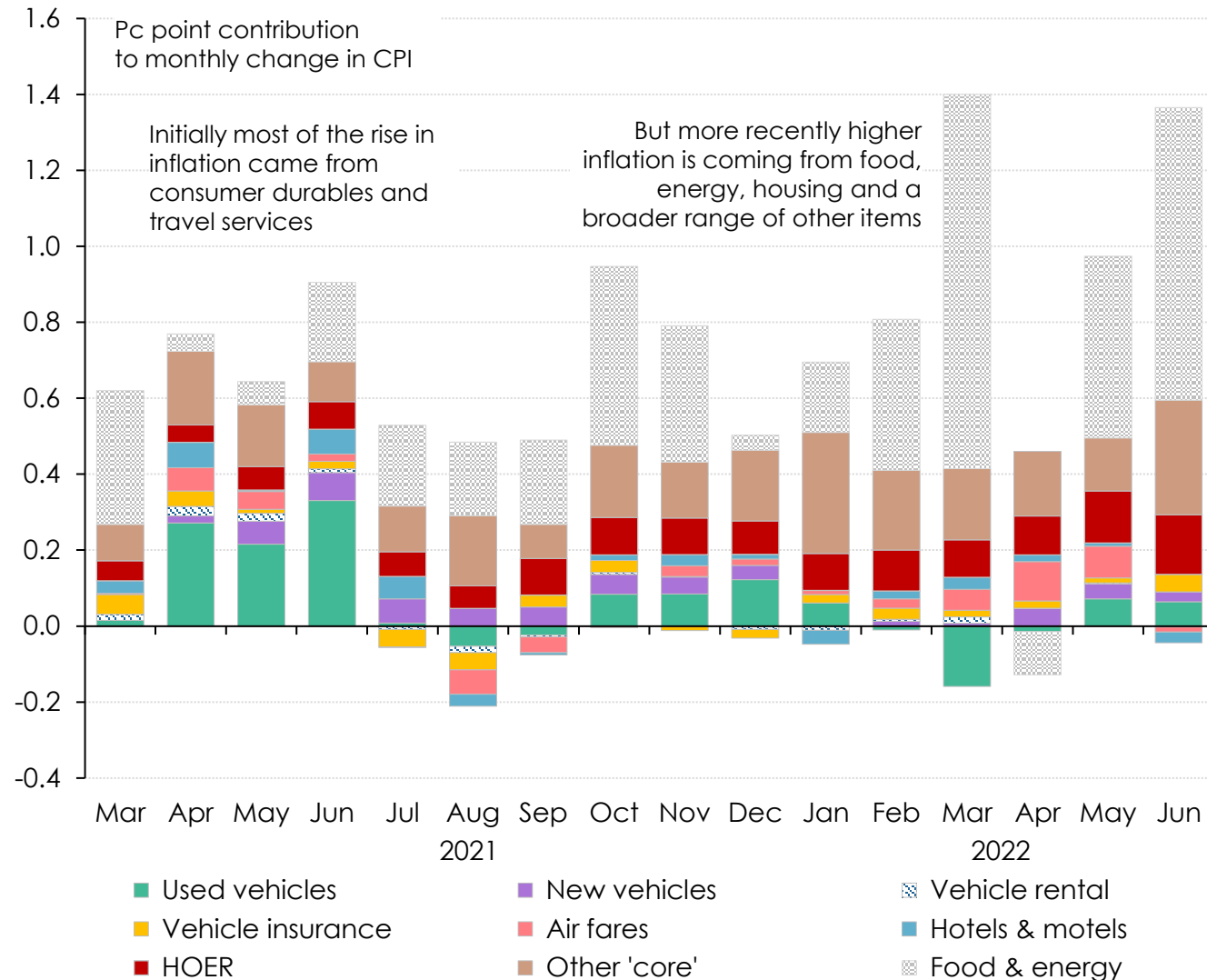


Sources: US Bureau of Labor Statistics, [Producer Price Index](#), [Import and Export Price Indexes](#) and [Consumer Price Index](#); US Bureau of Economic Analysis, [Personal Consumption Expenditures Price Index](#); Federal Reserve Bank of Cleveland, [Median CPI](#); Federal Reserve Bank of Dallas,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

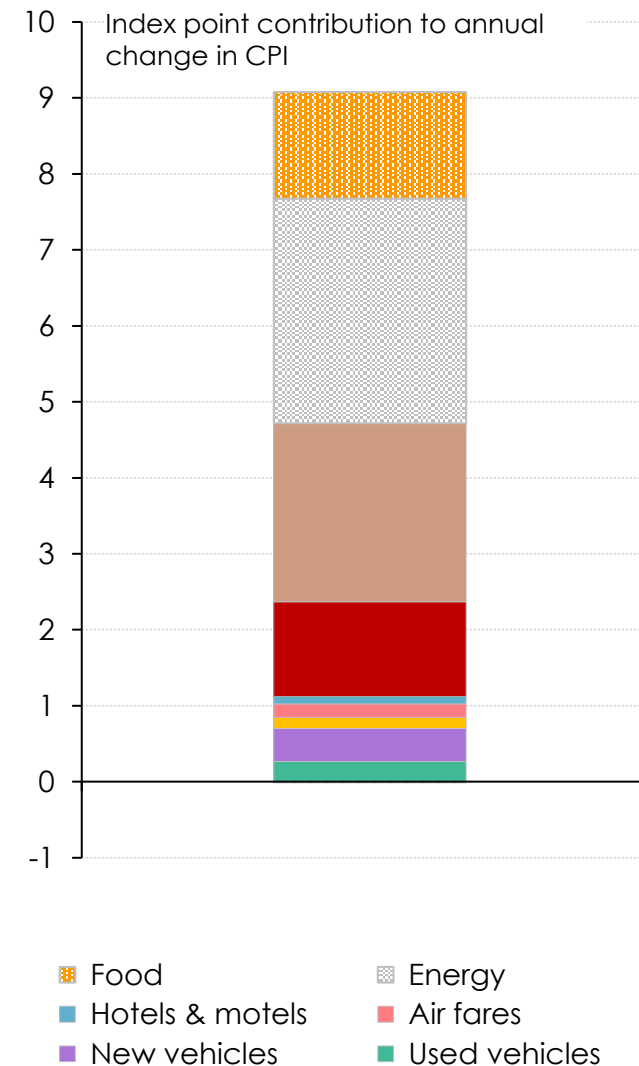
Food & energy prices have accounted for most of the recent monthly rises in the CPI but the sources of 'core' inflation have also broadened out

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

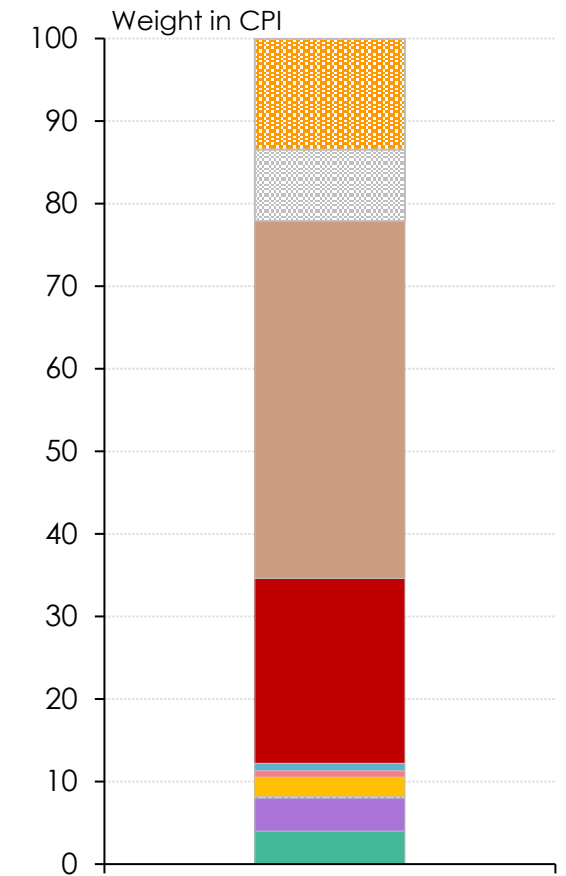
Contributions to monthly changes in the US CPI since March last year



Contributions to change in CPI over the year to June



Weights in CPI

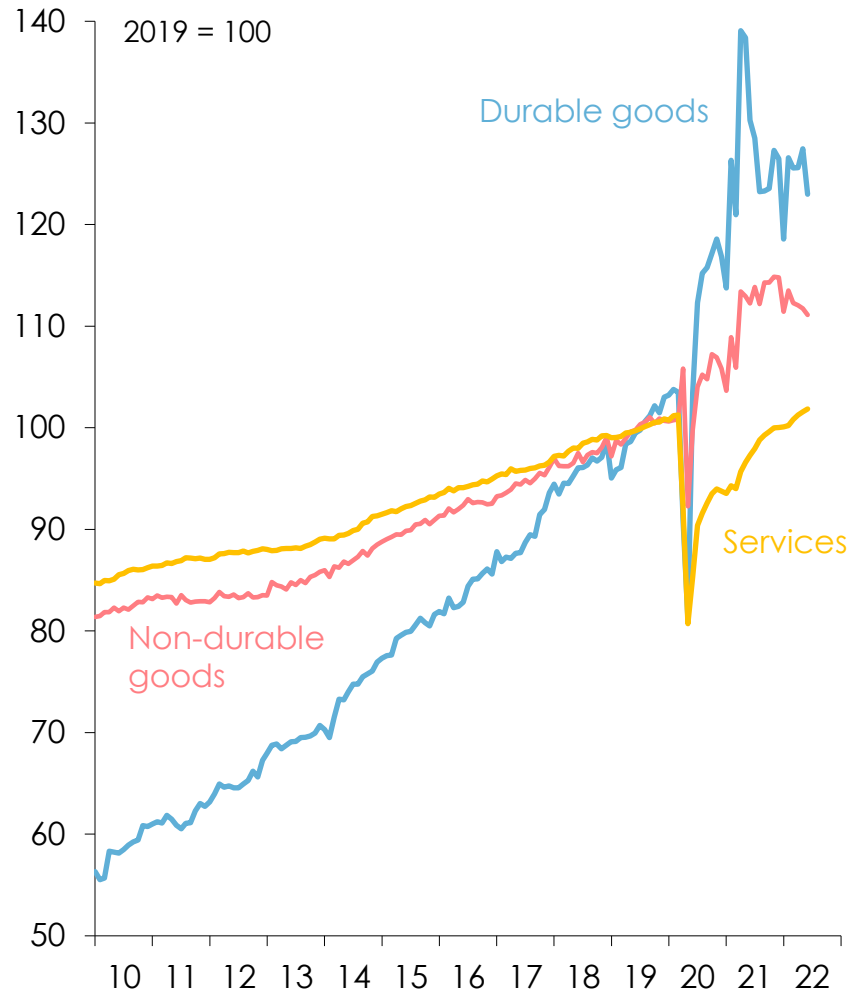


Note: 'HOER' = home-owners' equivalent rent (a measure of the 'imputed rent' notionally paid by owner-occupiers to themselves), and which accounts for (an uncommonly large, by international standards) 28½% of the CPI excluding food and energy. Source: US Bureau of Labor Statistics, CPI Table 6; Corinna.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

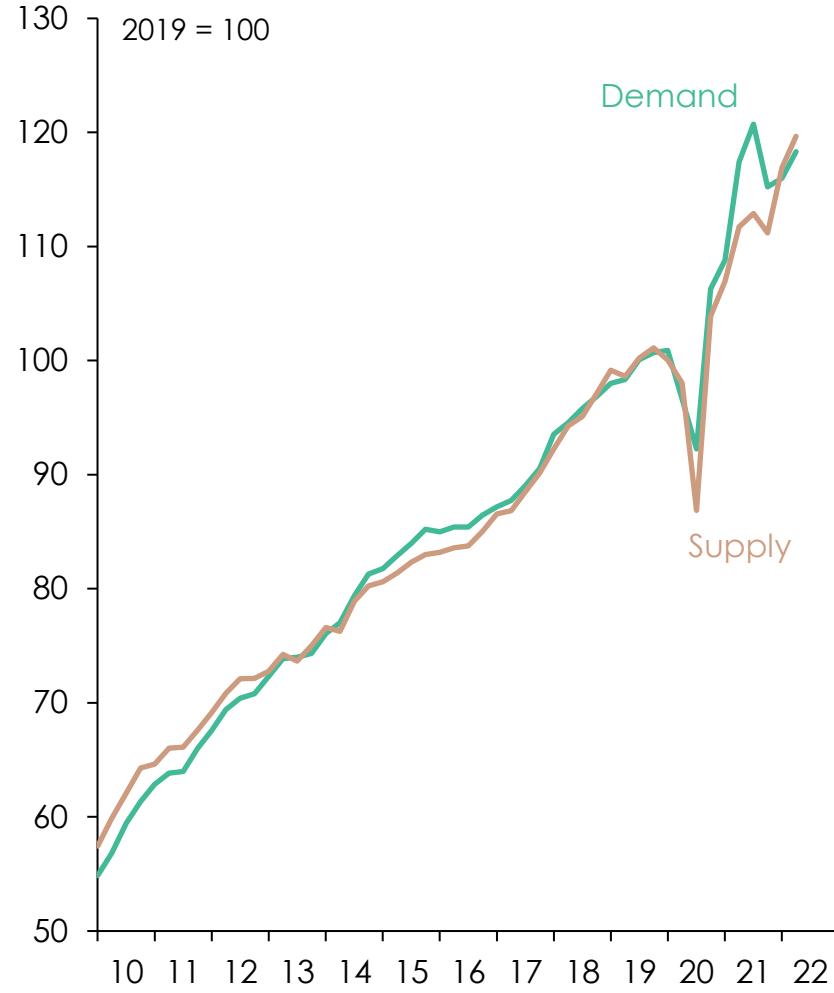
The rise in inflation has until recently been largely attributable to the imbalance between supply and demand for durable goods

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

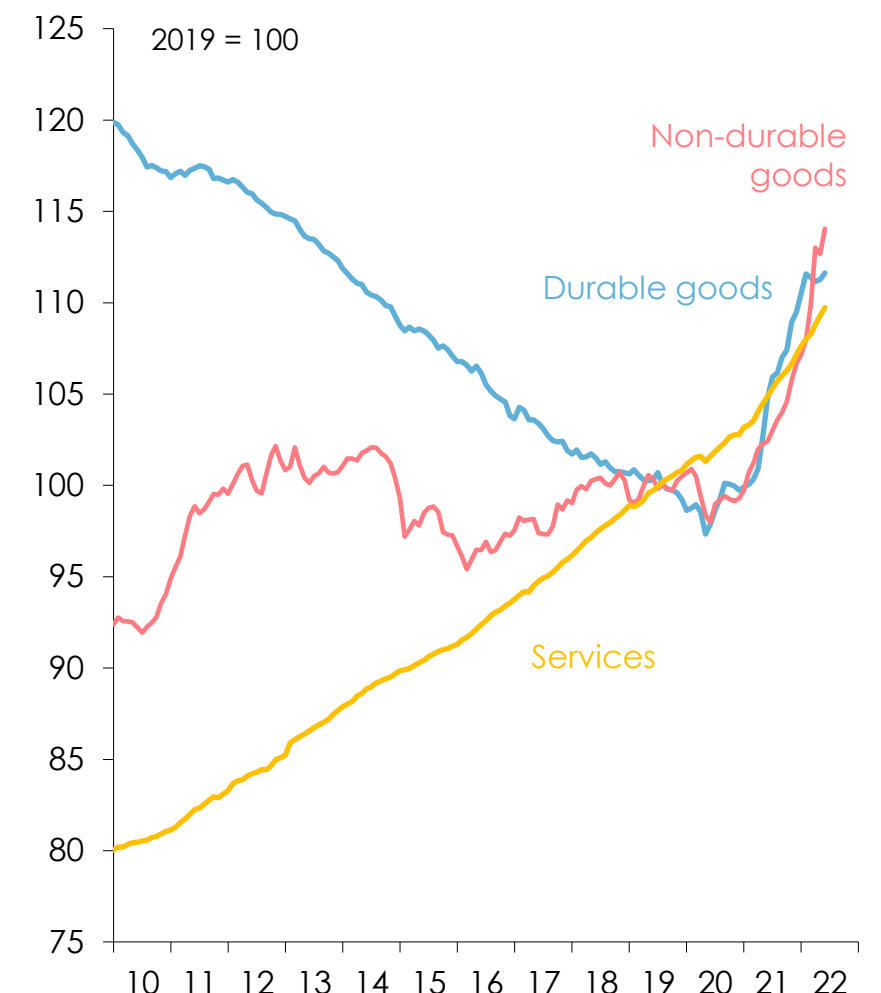
Composition of personal consumption expenditures



Aggregate demand for and supply of durable goods



Implicit price deflators of personal consumption

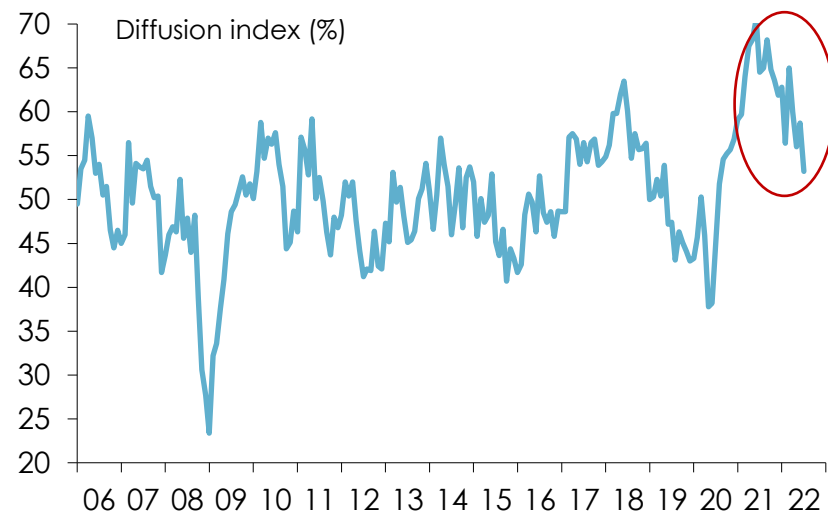


Note: 'Aggregate demand' for durable goods comprises personal consumption of durable goods plus business investment in equipment. 'Aggregate supply' of durable goods comprises gross domestic product (final sales plus change in inventories) plus net imports of durable goods. Sources: US Bureau of Economic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

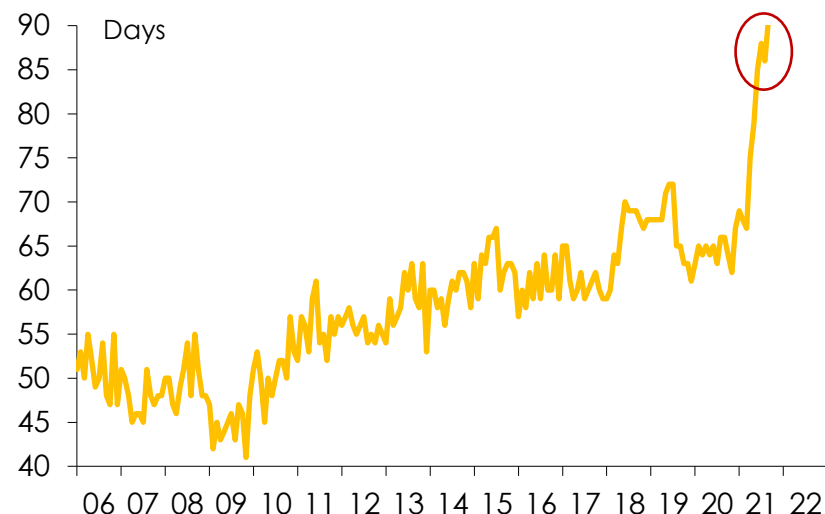
Supply-chain disruptions appear to be easing gradually, but there's still a long way to go

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

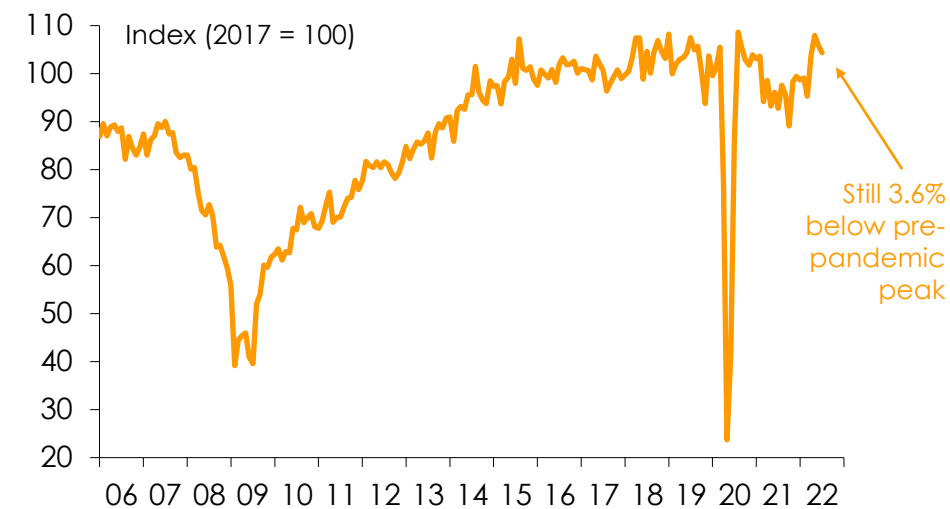
Manufacturers' order backlogs



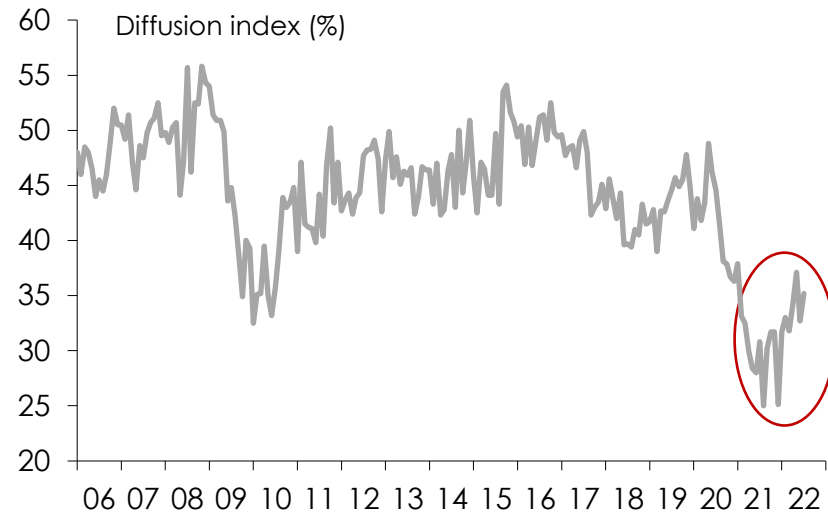
Lead-time for production materials



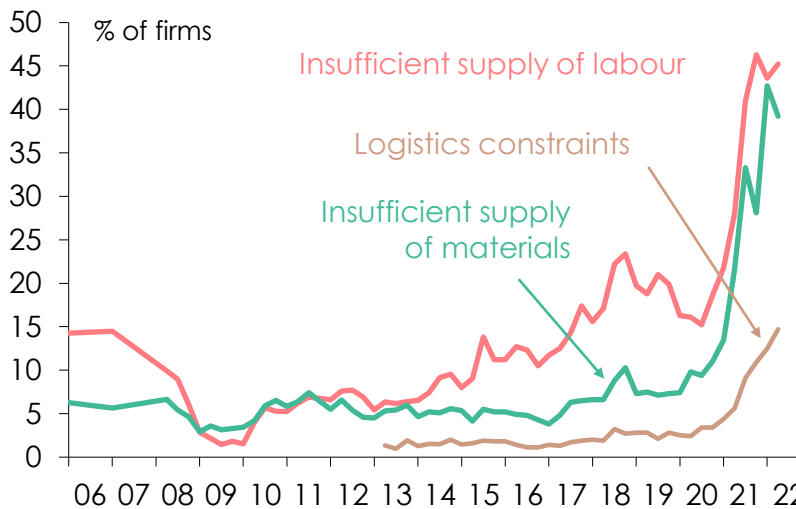
Motor vehicles & parts production



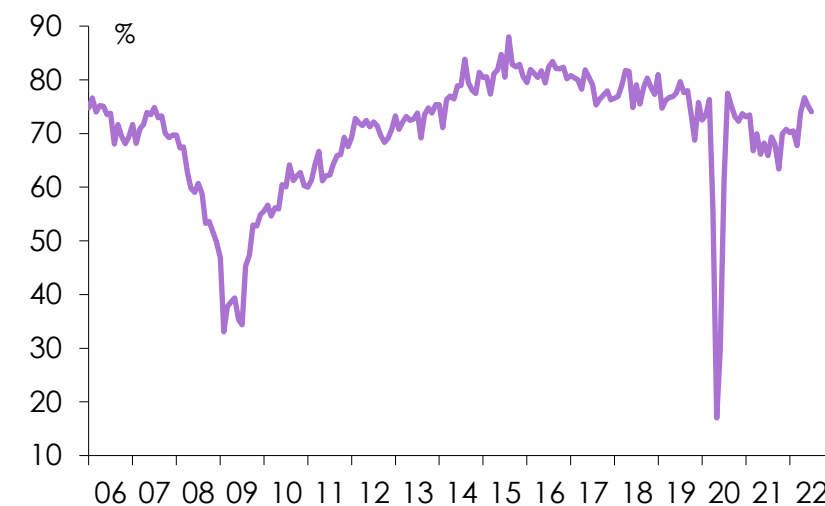
Manufacturers' customer inventories



Reasons for < full capacity



Auto industry capacity utilization

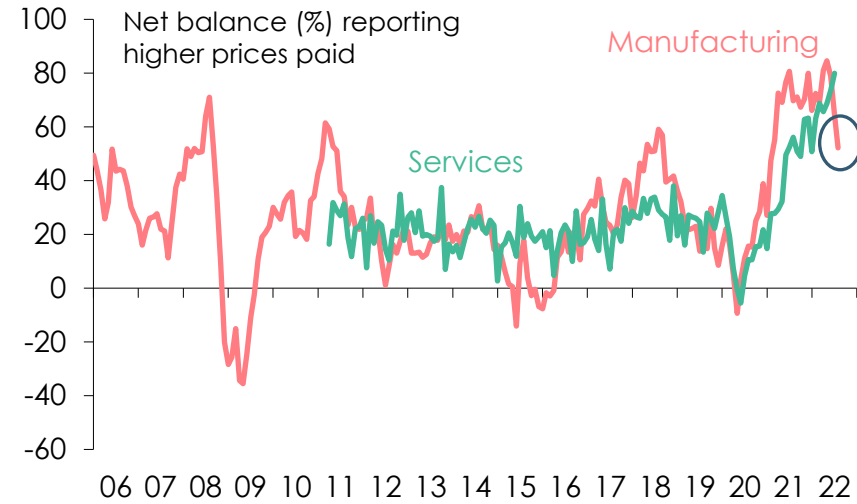


Note: The diffusion index of order backlogs is 50 plus the percentage of respondents reporting longer backlogs minus the percentage reporting shorter backlogs (and similarly for customer inventories). 'Reasons for < full capacity' means reasons for operating at less than full capacity. Sources: Institute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

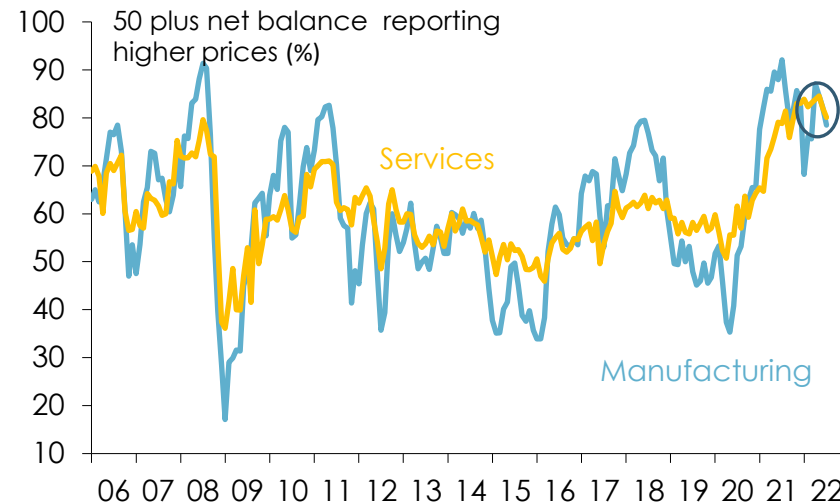
A range of surveys are now hinting that 'upstream' inflation may have peaked, while longer-run household inflation expectations have fallen

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

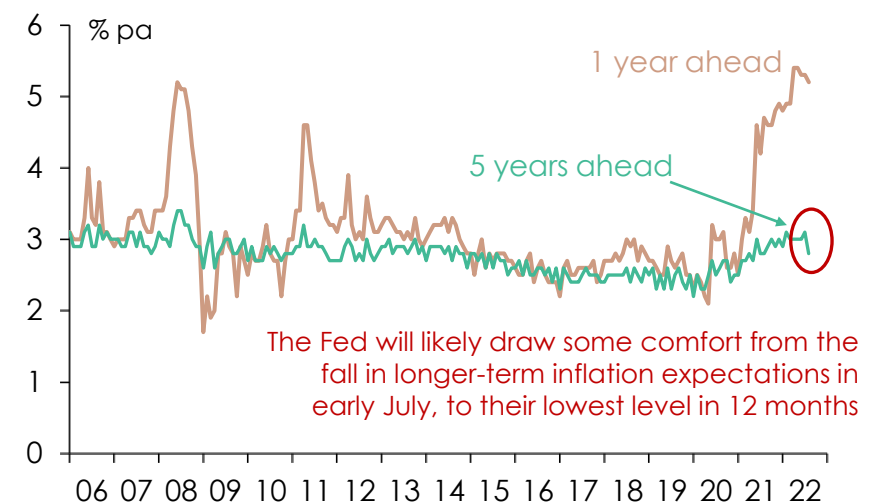
'Philly Fed' survey – prices paid



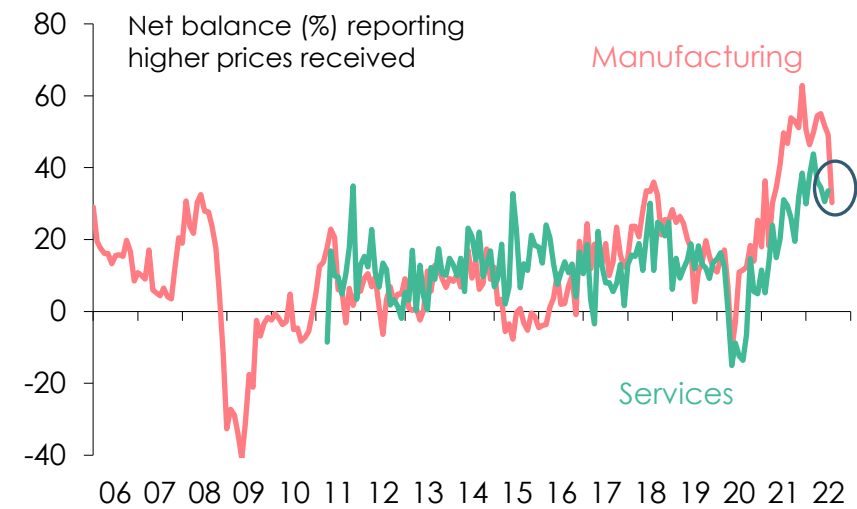
ISM survey – prices paid



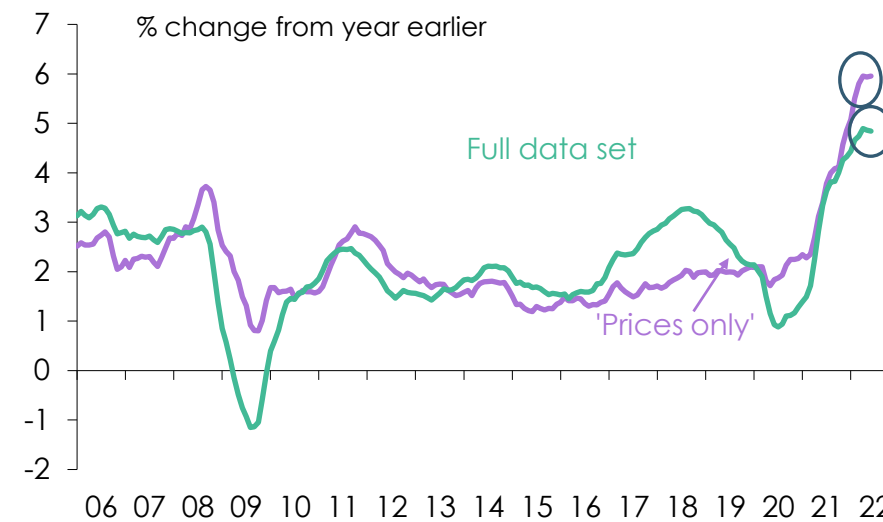
Household inflation expectations



'Philly Fed' survey – prices received



NY Fed 'underlying inflation gauge'



Market-priced inflation probabilities

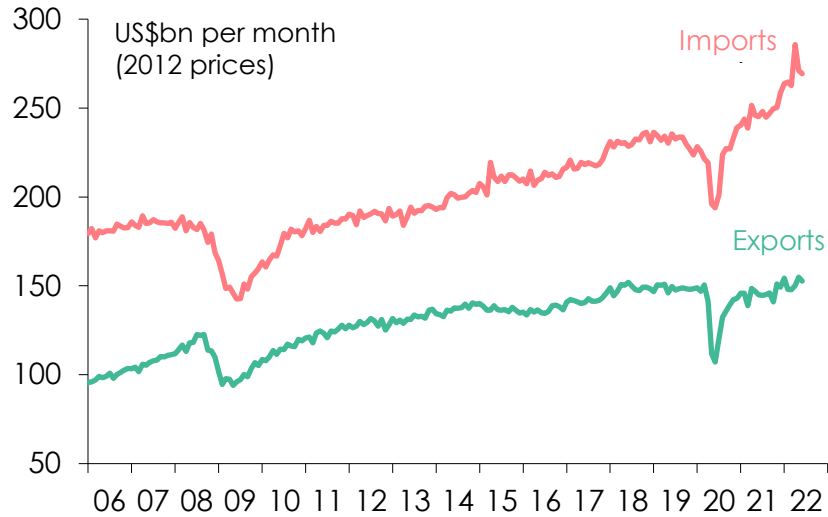


Sources: Federal Reserve Bank of Philadelphia, [Regional Economic Analysis](#), Manufacturing and Non-Manufacturing Business Outlook Surveys ; Institute for Supply Management, [ISM Report on Business](#); Federal Reserve Bank of New York, [Underlying Inflation Gauge](#); Federal Reserve Bank of Minneapolis,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

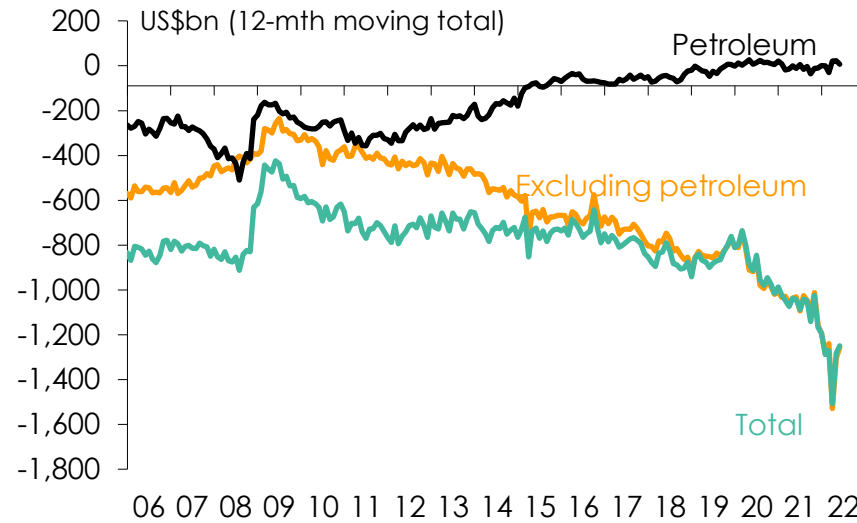
The US goods & services trade deficit narrowed by \$1.2bn to \$85.5bn in May, largely due to higher prices for US goods exports

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

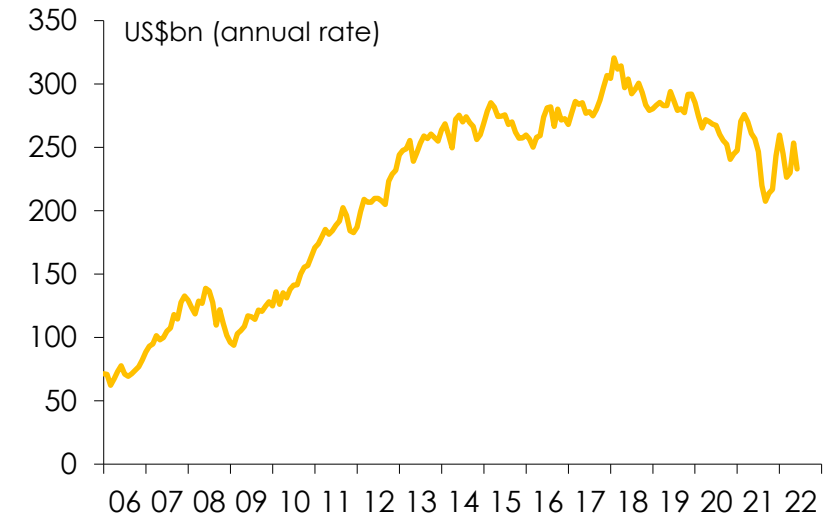
US merchandise trade volumes



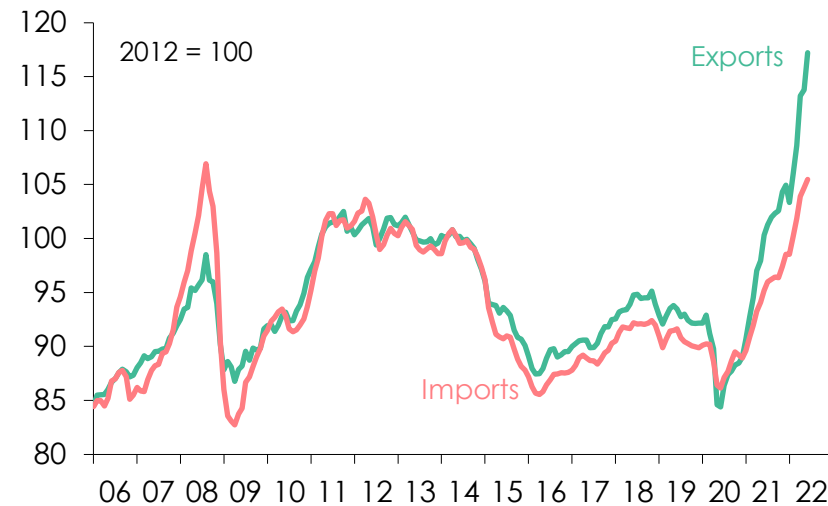
US goods trade balance



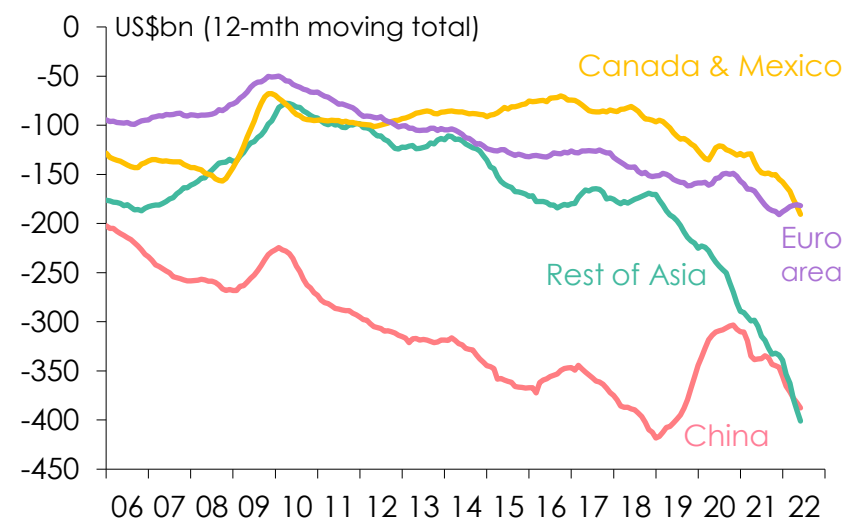
US services trade balance



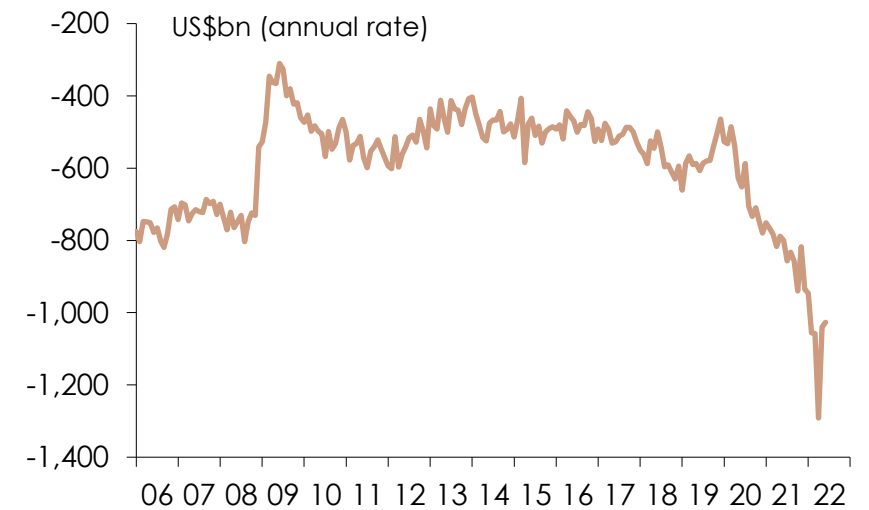
US merchandise trade prices



US bilateral goods trade balances



US goods & services trade balance

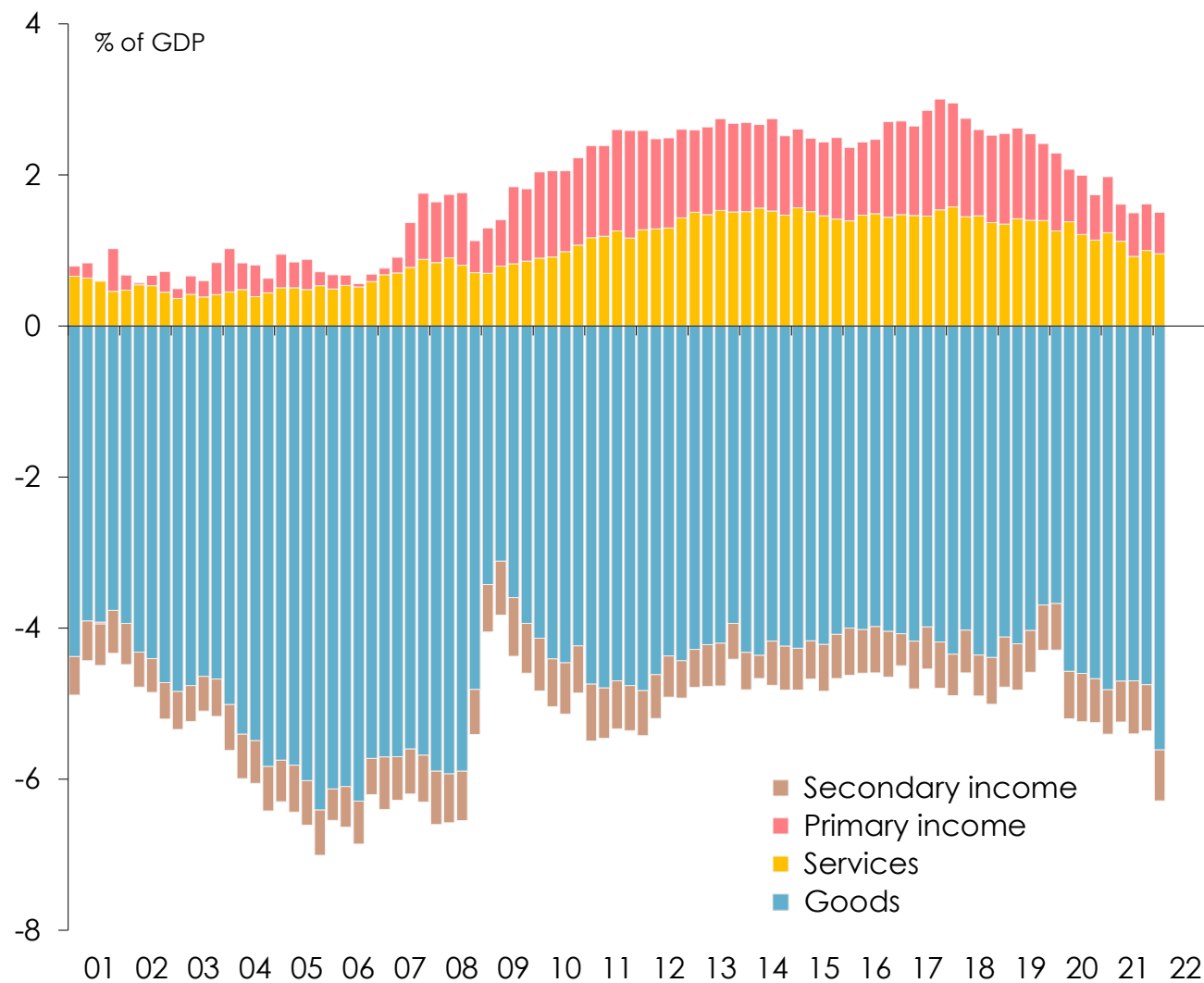


Source: US Census Bureau, [Foreign Trade](#); and US Bureau of Economic Analysis, [Advance Economic Indicators](#), and [U.S. International Trade in Goods and Services](#).
[Return to "What's New"](#).

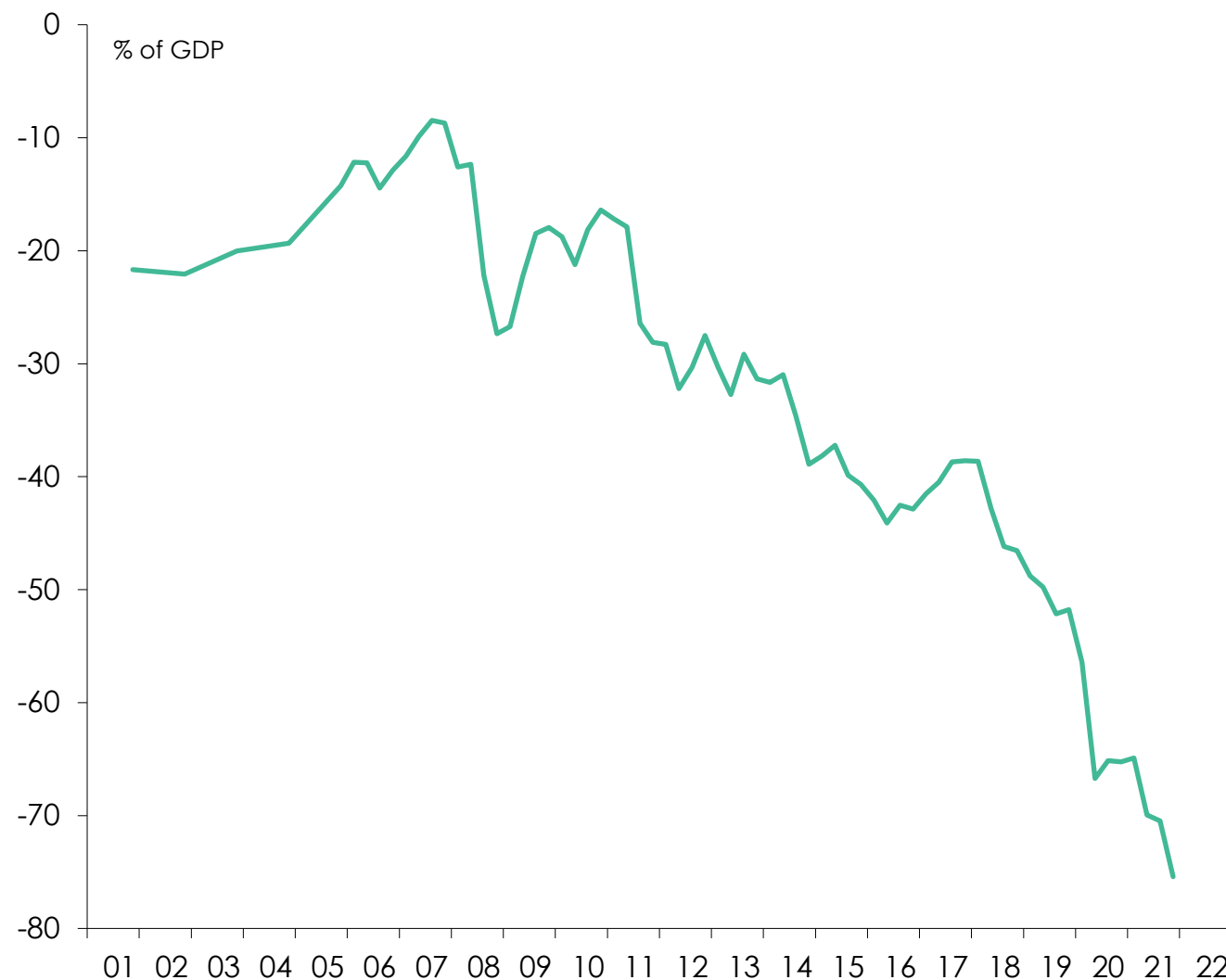
The US current account deficit widened to US\$291bn in Q1, the largest on record in dollar terms and the highest as a pc of GDP since Q3 2008

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

US current account balance



US net international investment position

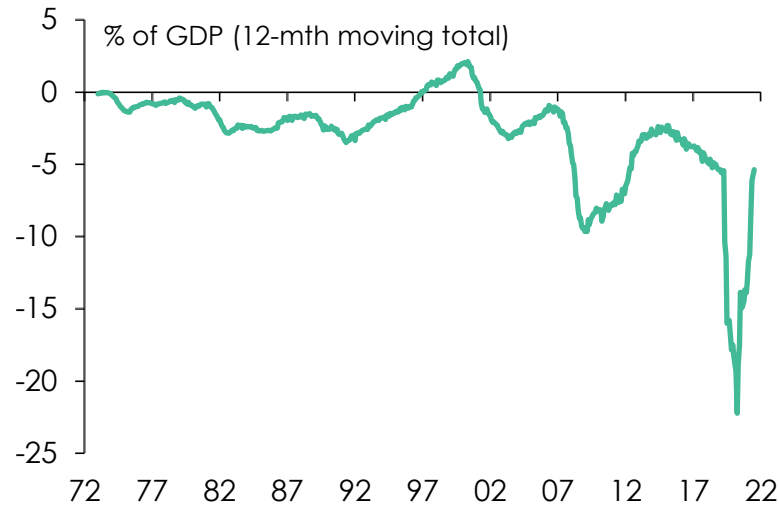


Note: 'Primary income' transactions are those involving investment income or compensation of employees. The US typically runs a surplus on investment income despite having a negative net international investment position since 1989, because US investors are able to derive much higher returns from their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

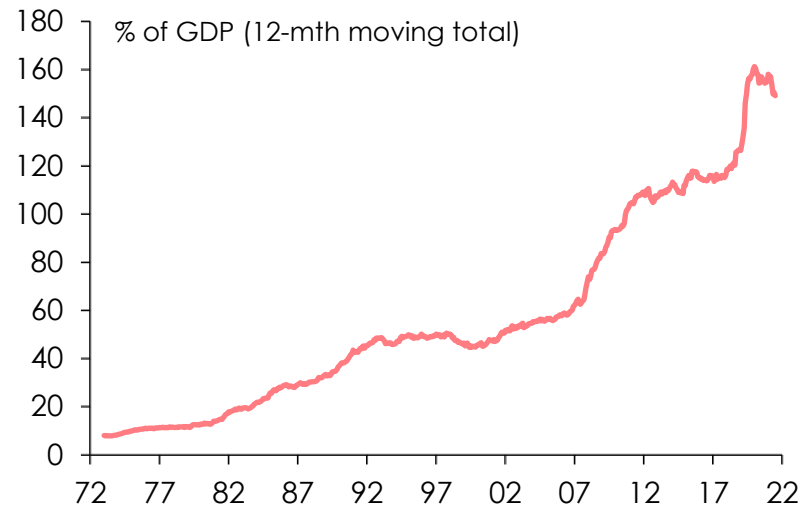
The US Federal budget deficit is continuing to decline sharply, as a result of surging tax revenues and, to a lesser extent, falling spending

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

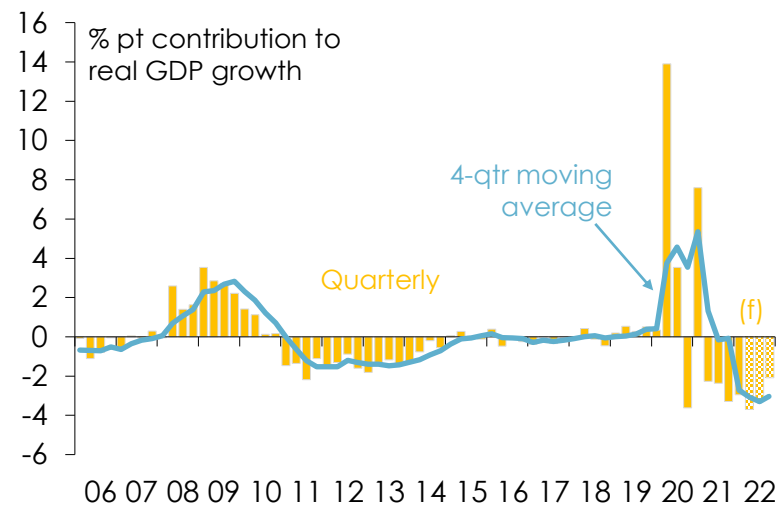
US Federal budget deficit



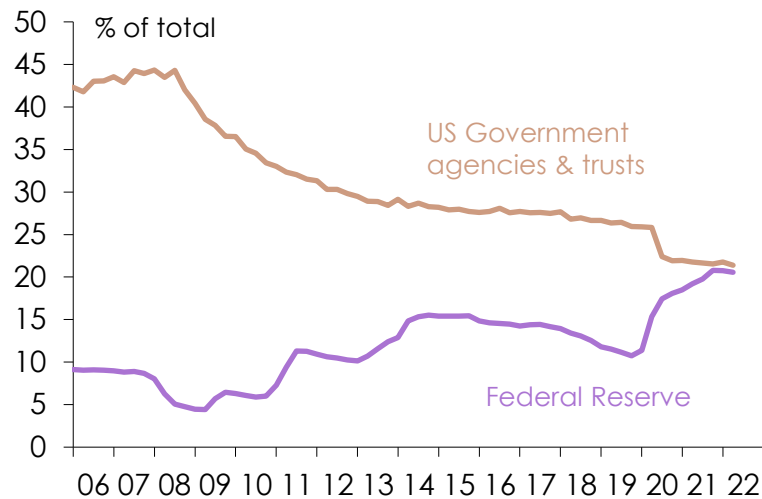
US gross Federal debt



Fiscal policy impact on GDP



Holdings of US Federal debt



- ❑ The US Federal Government recorded a budget deficit of US\$89bn in June, less than half the \$174bn incurred in the same month last year
- ❑ For the 12 months ended June the budget deficit totalled \$1.1 trn (5.4% of GDP), the smallest 12-month total since December 2019, and down from a peak of \$4.1 trn (22.2% of GDP) in the 12 months ended March 2021 – and federal debt appears to have peaked as a pc of GDP
- ❑ The Biden Administration’s [Budget](#) for FY23 (which begins on 1st October) envisages the deficit falling from \$1.4trn or 5.8% of GDP in FY22 (cf. 15% of GDP in FY20 and 12.4% of GDP in FY21) to \$1.2trn or 4.5% of GDP in FY23, and remaining at 4.5%-4.8% of GDP through FY27 – although of course what eventually gets through Congress is likely to look very different
- ❑ The Fed holds almost 21% of the total stock of outstanding US Government debt (up from 11% in Q4 2019), while the share held by agencies and trusts (such as the Social Security Trust Fund) has fallen to just under 21.4% (from 26%) and the share held by foreign investors has fallen to 25% from a peak of 34% in 2014 and 2015

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

The Fed is widely expected to raise its funds rate target by another 75 bp at this Wednesday's FOMC meeting

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

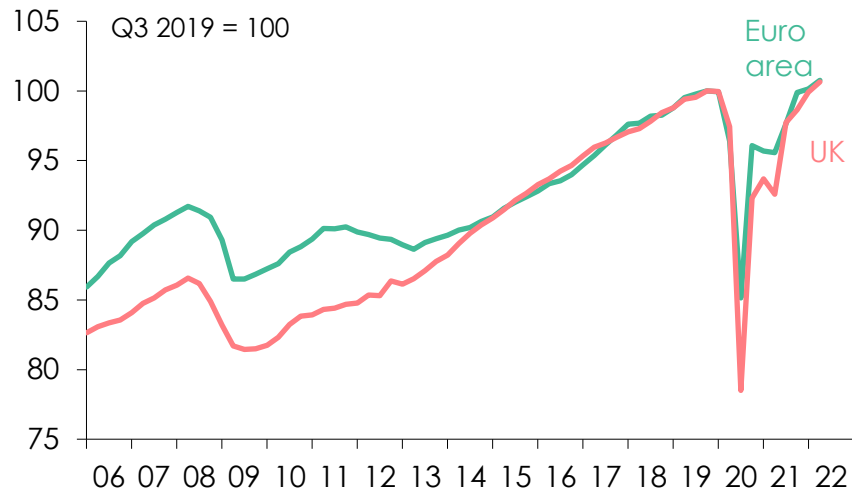
- ❑ The Federal Reserve [raised its target for the Fed funds rate](#) by 75 basis points, to 1.50-1.75%, at its Federal Open Market Committee meeting on 16th June, and foreshadowed that “ongoing increases in the target range will be appropriate”
- ❑ FOMC members also significantly raised their projections 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 on 6th July, 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

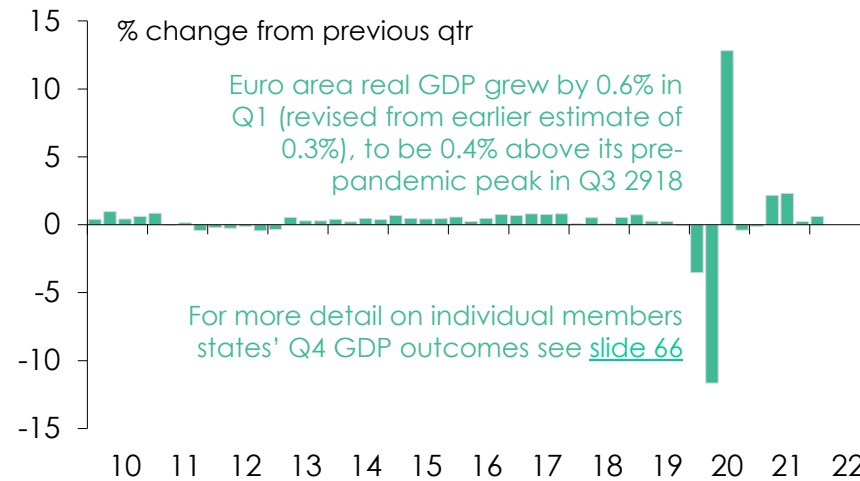
The euro area's real GDP grew 0.6% (revised from 0.3%) in Q1, but its terms of trade have deteriorated 3% over the past two quarters

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

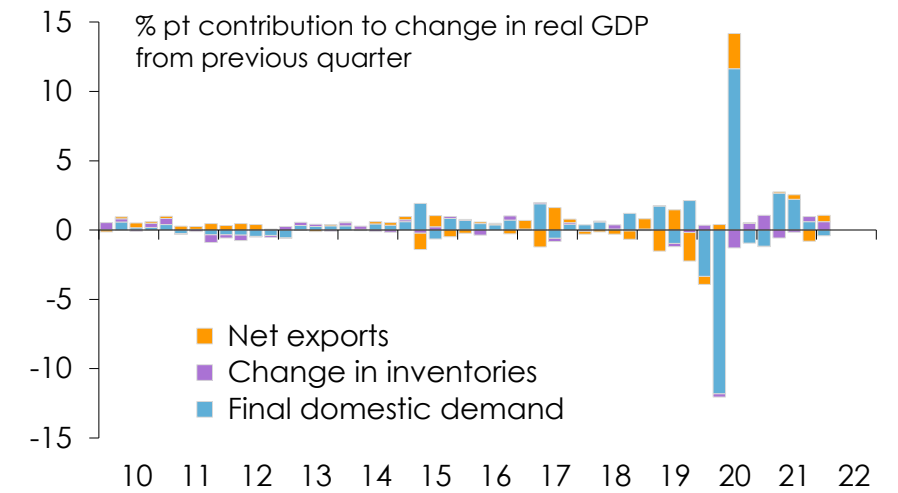
Euro area and UK real GDP



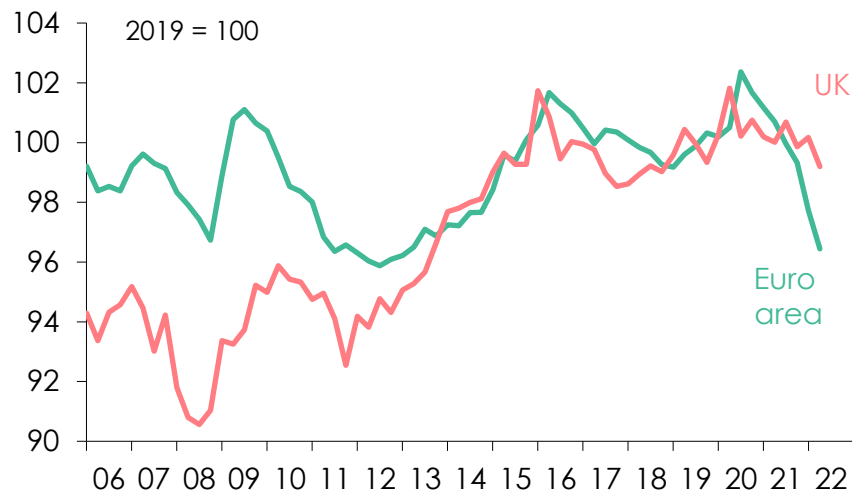
Euro area quarterly GDP growth



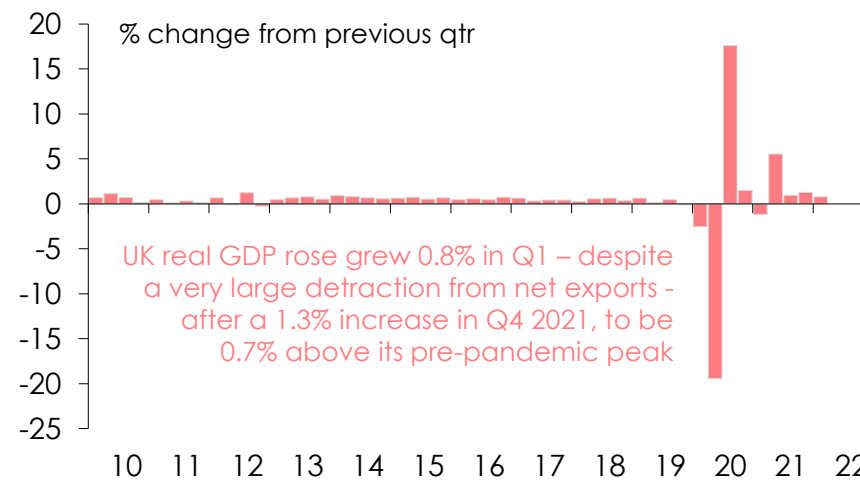
Contributions to quarterly EA GDP



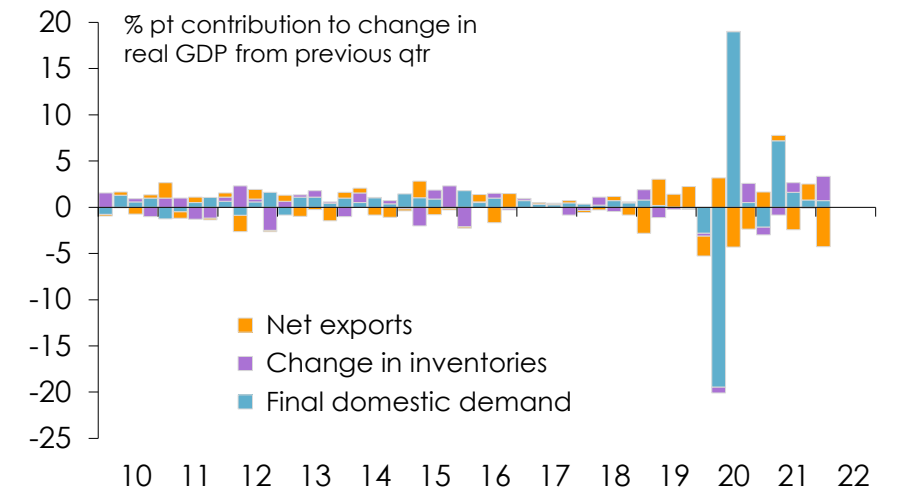
Euro area and UK terms of trade



UK quarterly GDP growth



Contributions to quarterly UK GDP

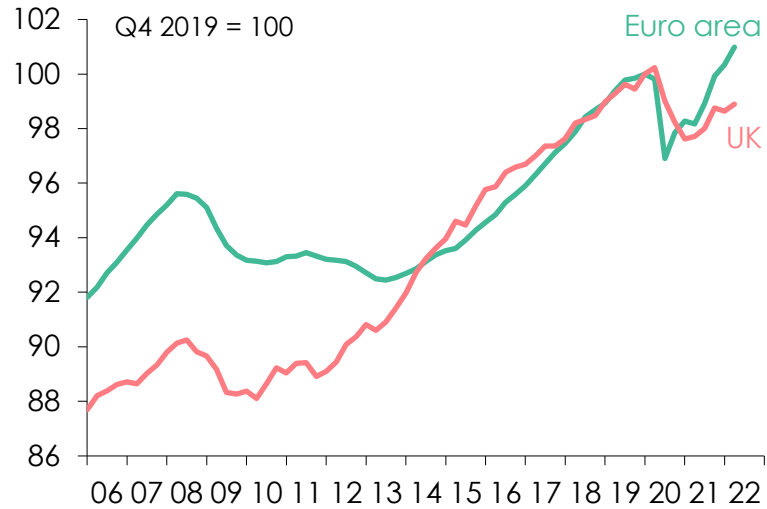


Note: the 'terms of trade' is the ratio of the implicit price deflator of exports of goods & services to that of imports of goods & services – it gives an indication of the income gains or losses arising from changes in the prices of goods and services traded with the rest of the world. Sources: Eurostat,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

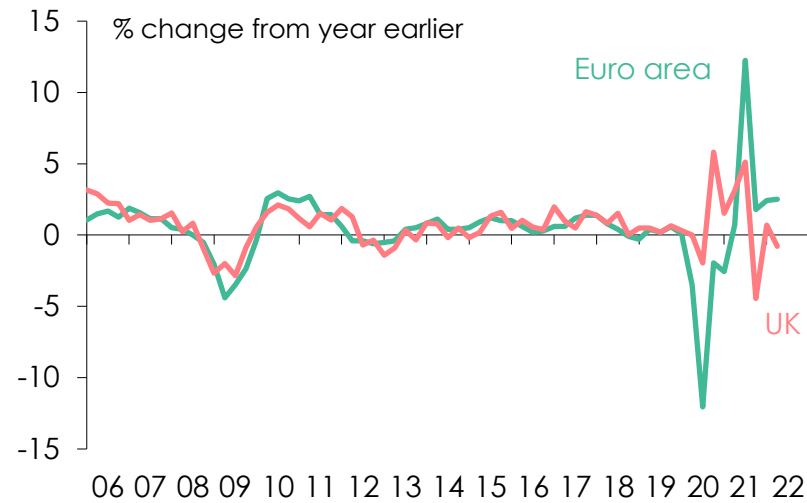
Euro area unemployment fell to a new record (since 1998) low of 6.6% in May, while the UK's unemployment rate remained at 3.8%

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

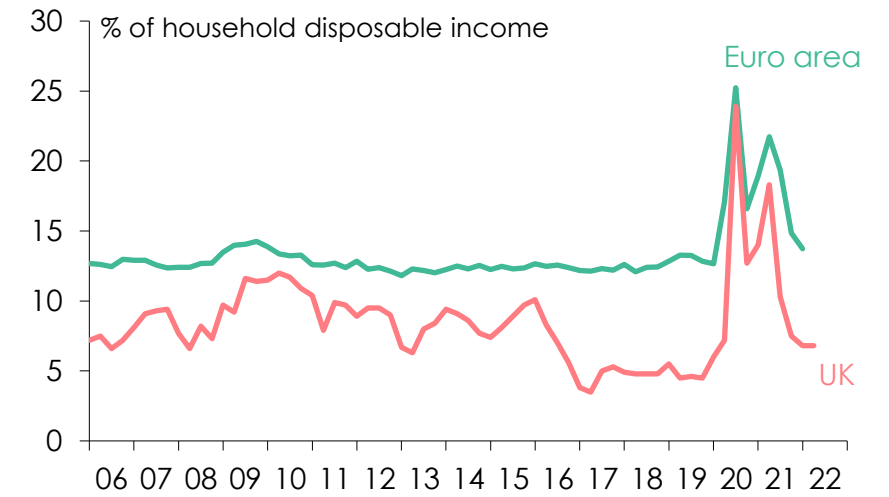
Employment



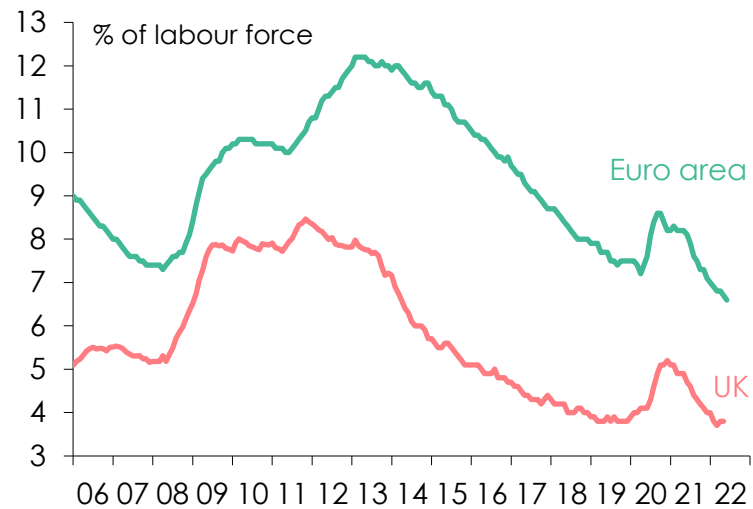
Labour productivity



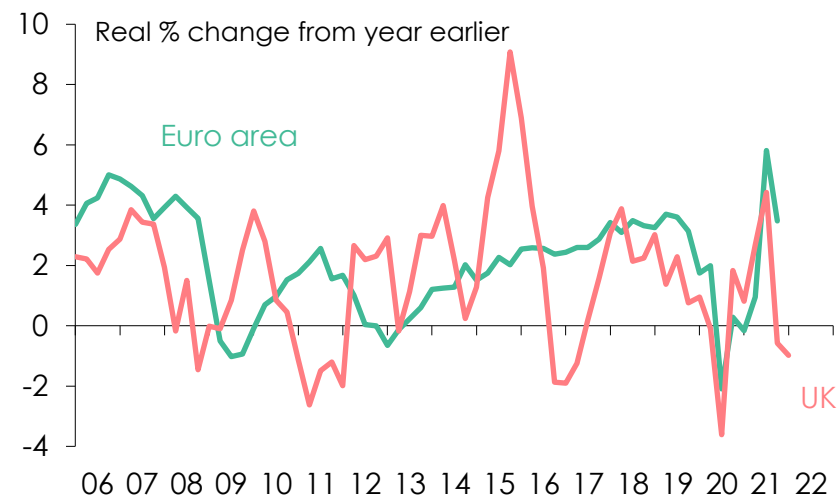
Household saving rates



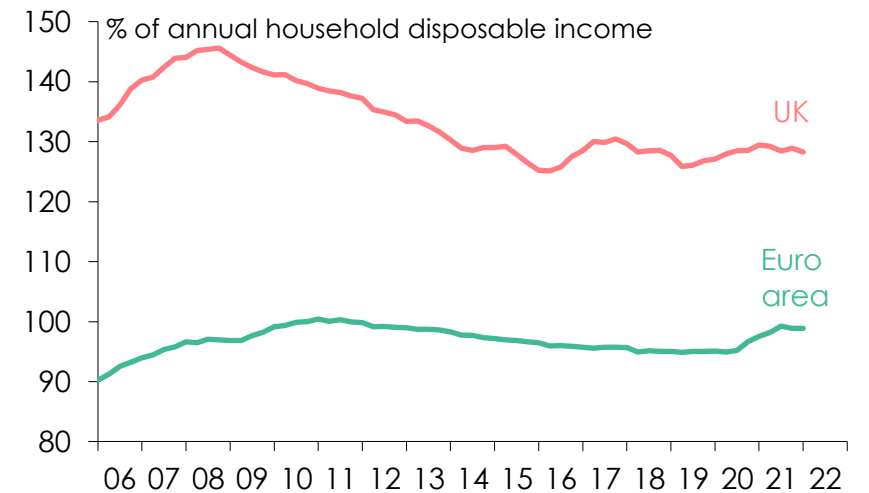
Unemployment rates



Household disposable income



Household debt

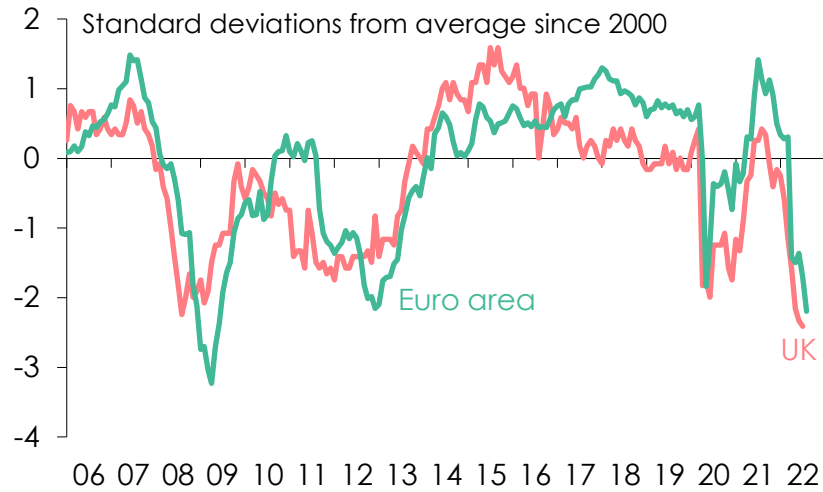


Sources: Eurostat, [Employment and unemployment \(Labour force survey\)](#), [Household saving rate](#) and [Labour productivity and unit labour costs](#); UK Office for National Statistics, [Employment in the UK](#), [Unemployment rate](#) (note, UK unemployment data are shown as a three-month moving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

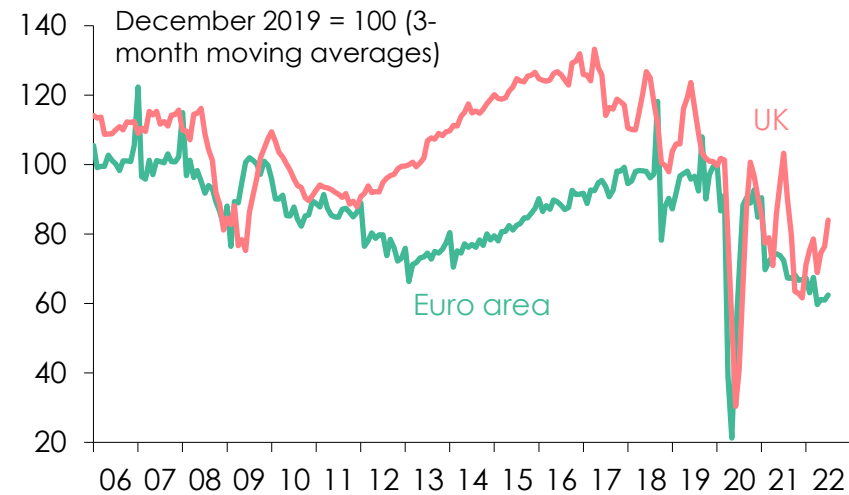
Consumers in the euro area are now almost as pessimistic as those in the UK, although business confidence has held up better in the euro area

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

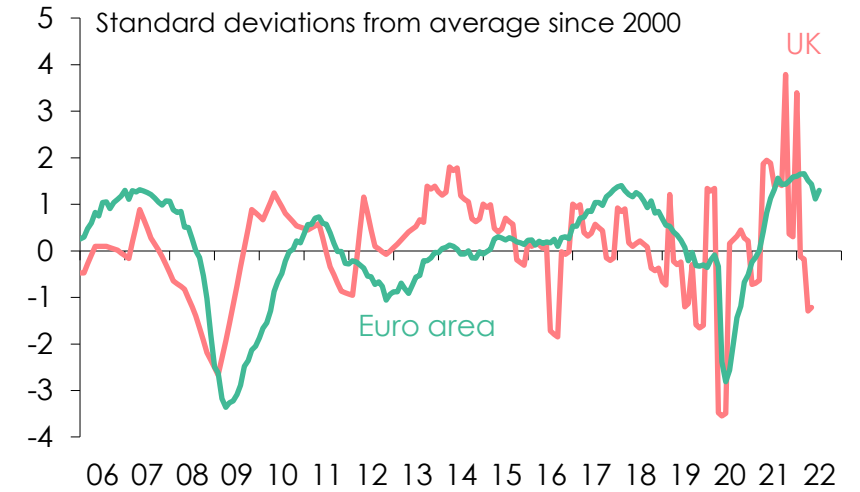
Consumer confidence



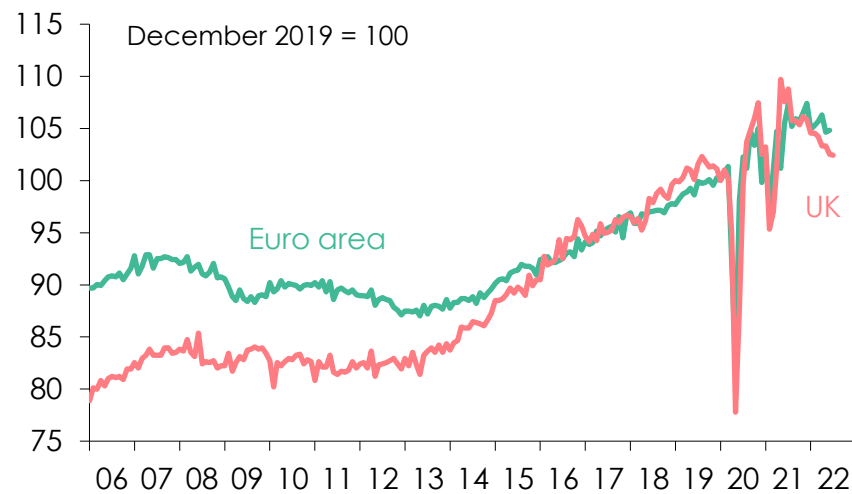
New car registrations



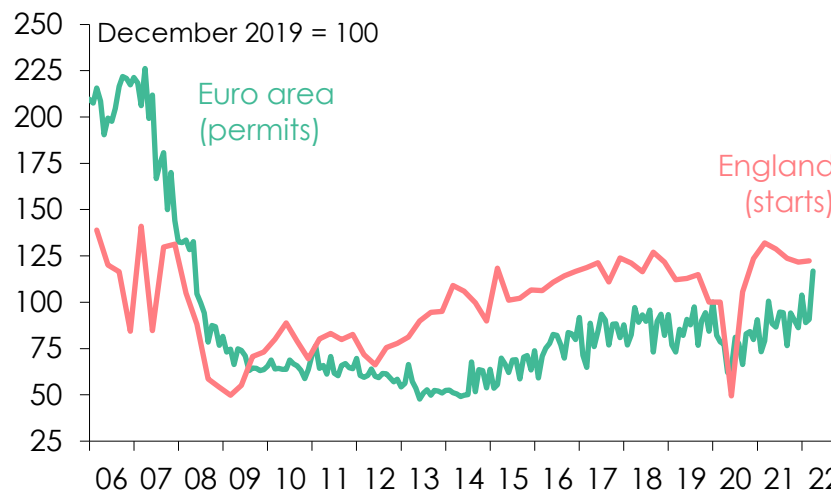
Business confidence



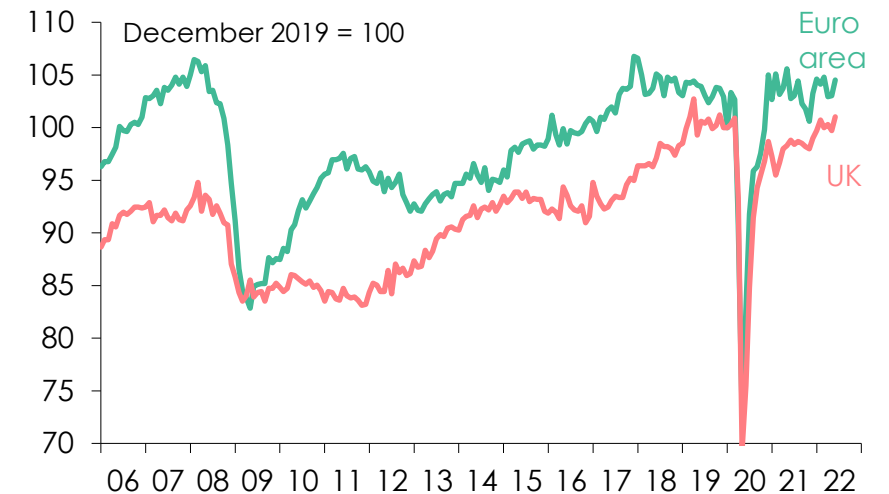
Retail sales volume



Housing activity



Manufacturing production

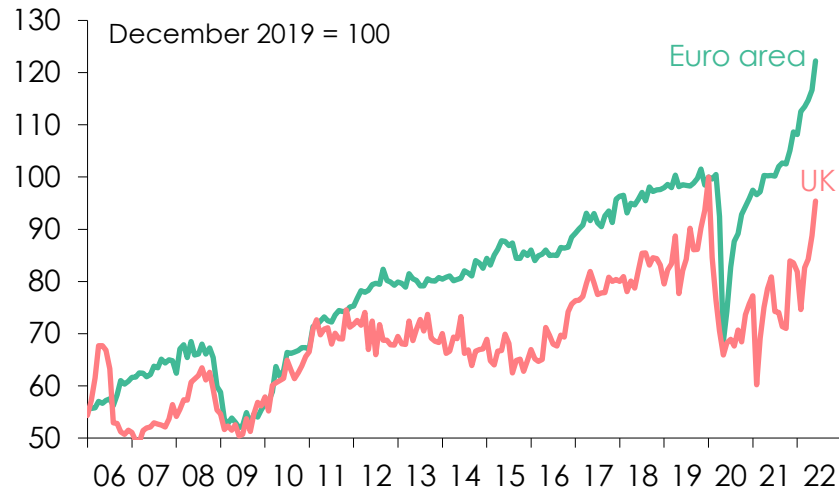


Sources: European Commission, [Business and consumer surveys](#); GfK, [Consumer confidence barometer](#); Confederation of British Industry, [Industrial Trends Survey](#); Eurostat, [Turnover and volume of sales in wholesale and retail trade](#), [New registrations of passenger cars](#), [Building permits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

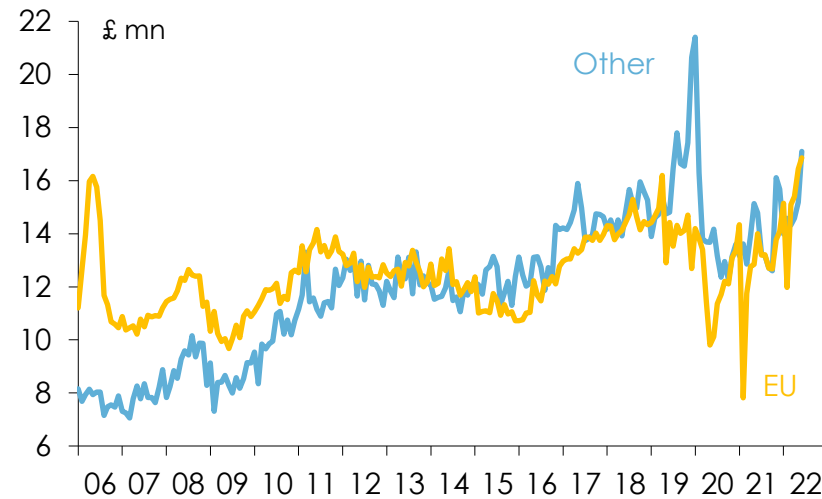
Higher prices for energy imports have caused the euro area's trade balance to slip into deficit, and also widened the UK's external deficits

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

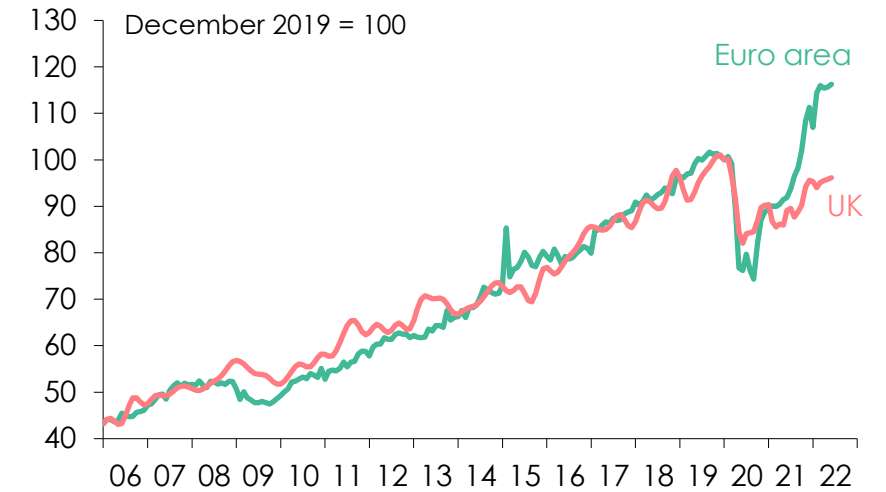
Merchandise exports



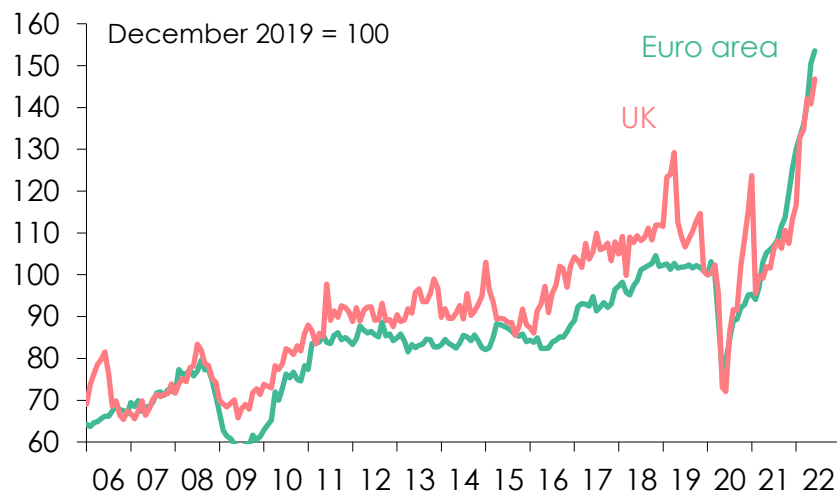
UK exports by destination



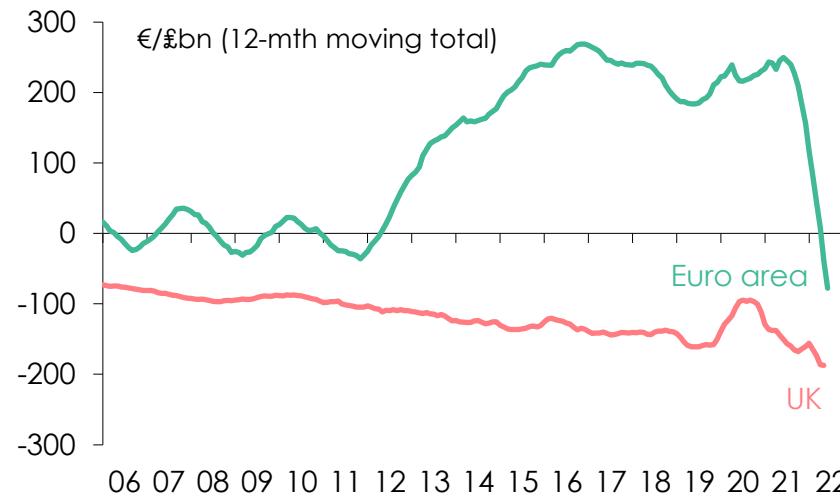
Services exports



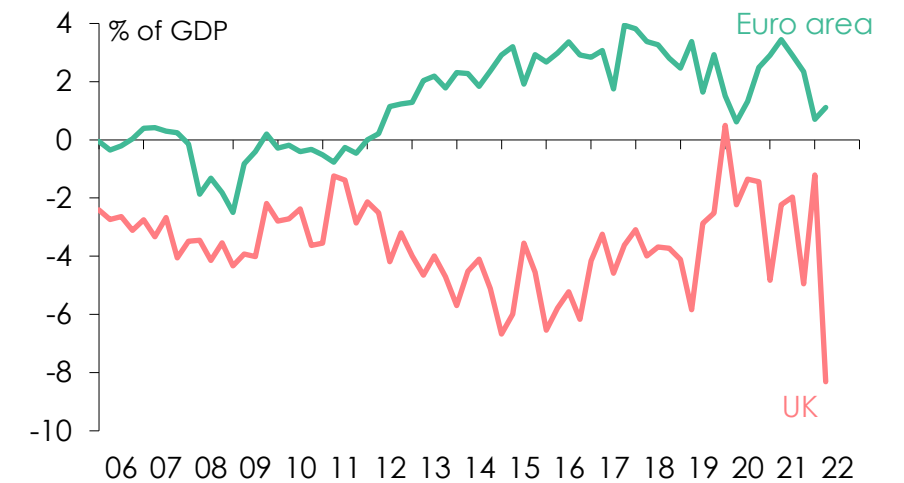
Merchandise imports



Merchandise trade balances



Current account balance

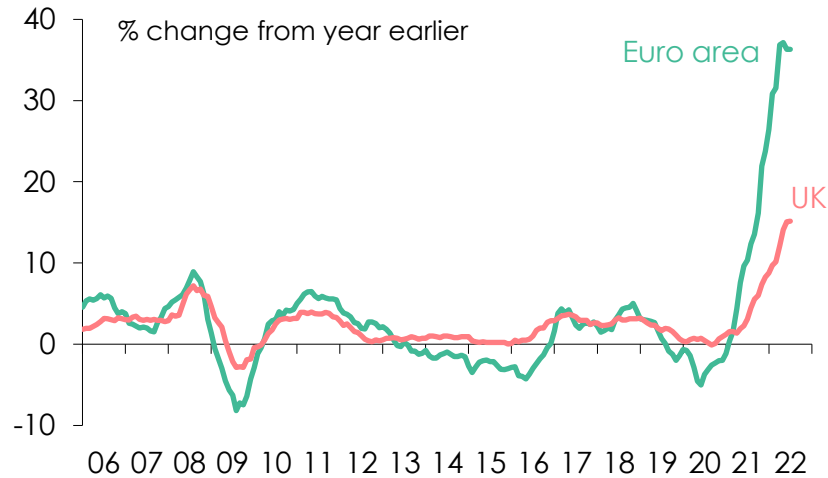


Sources: European Central Bank, Statistical Data Warehouse, [External Trade](#), [Balance of Payments and International Investment Position - Services](#), and [Balance of Payments and International Investment Position - Current Account](#); UK Office for National Statistics, [UK Trade](#) and [BoP Current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

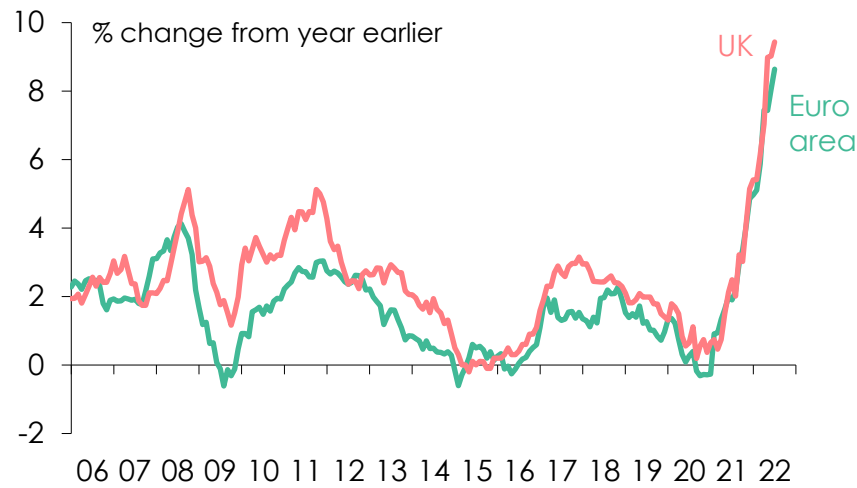
UK consumer prices rose 0.8% in June, pushing annual 'headline' inflation up to 9.4%, but 'core' CPI rose only 0.4%, cutting the annual rate to 5.8%

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

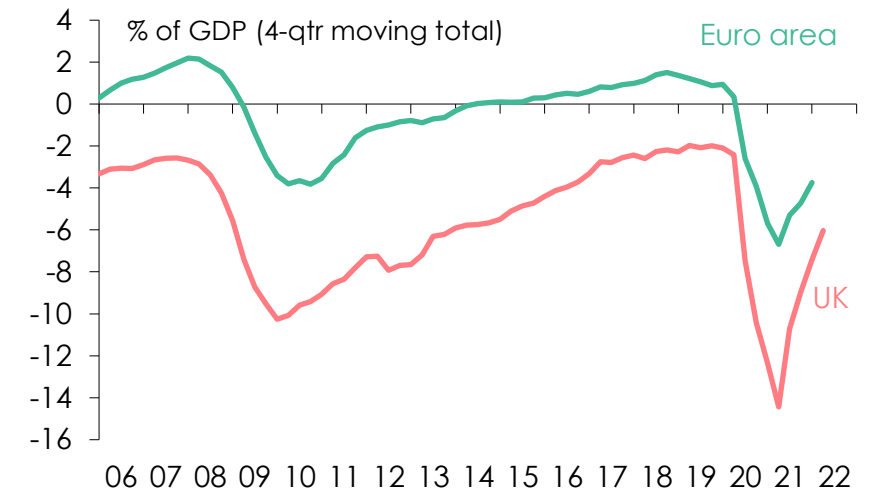
Producer prices



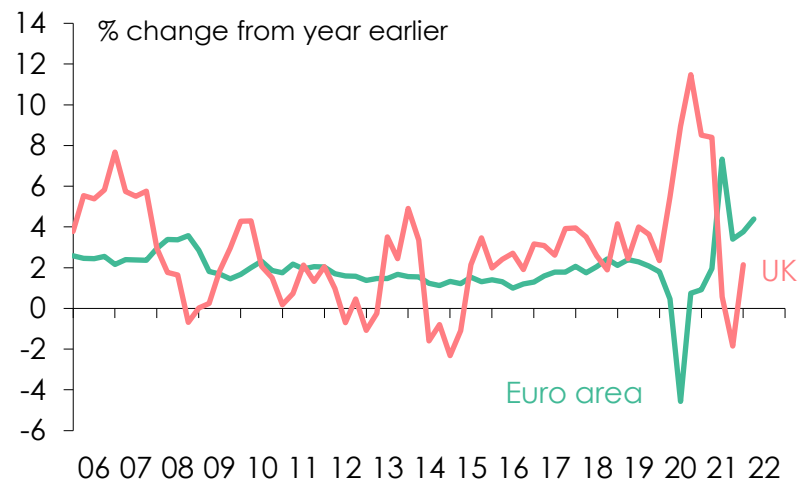
'Headline' consumer prices



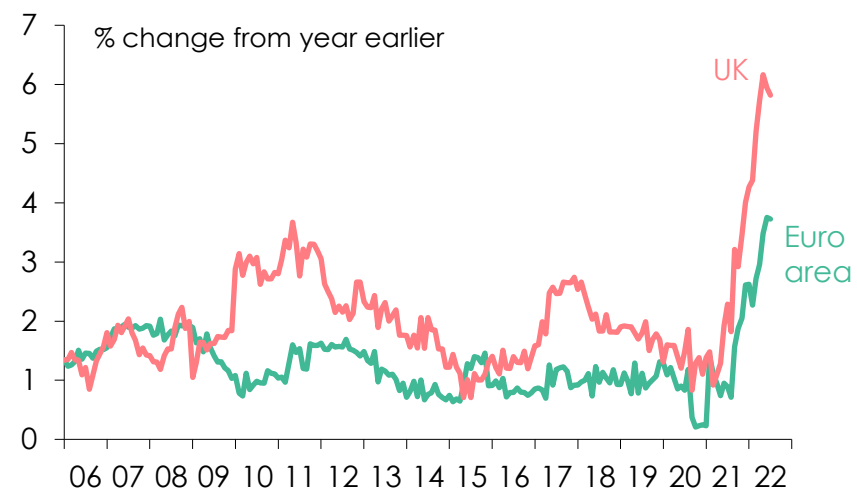
Government fiscal balance



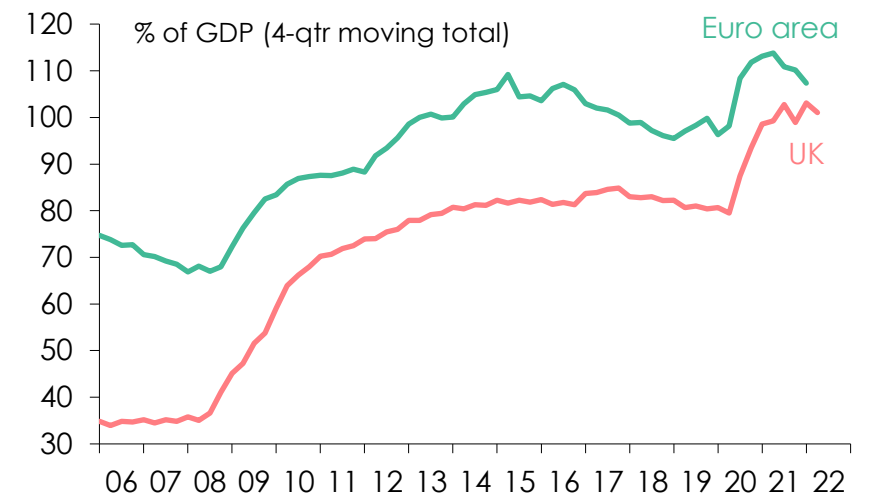
Labour costs



'Core' consumer prices



Government net debt

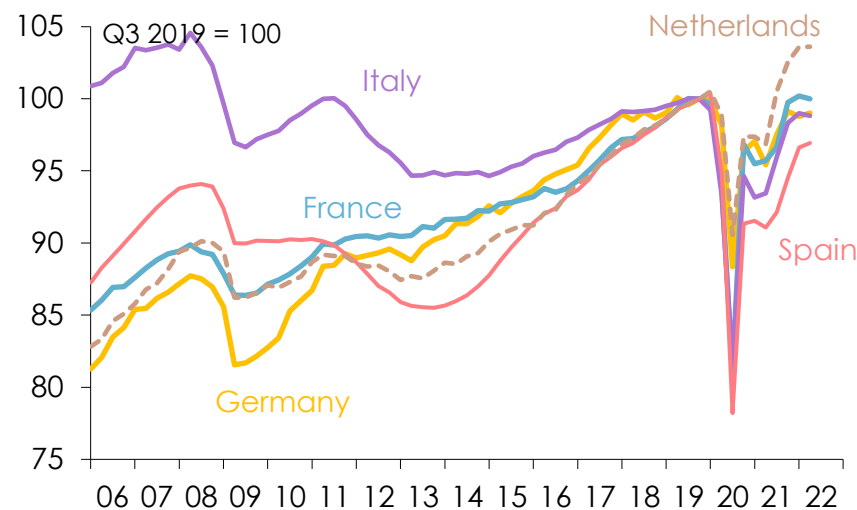


Note: Consumer price indices for the euro area and UK are 'harmonized' indices which exclude owner-occupied housing costs. Sources: Eurostat, [Producer prices in industry](#), [Compensation per employee and hours worked per employed person](#), [Consumer price index](#), and [Government finance statistics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

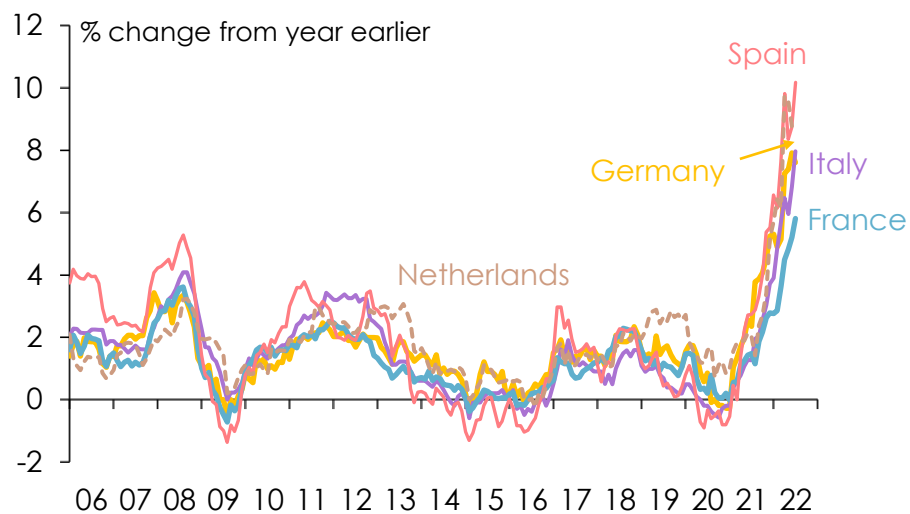
The end of ECB asset purchases has led to a significant widening in yield spreads between Spanish & especially Italian, and German bonds

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

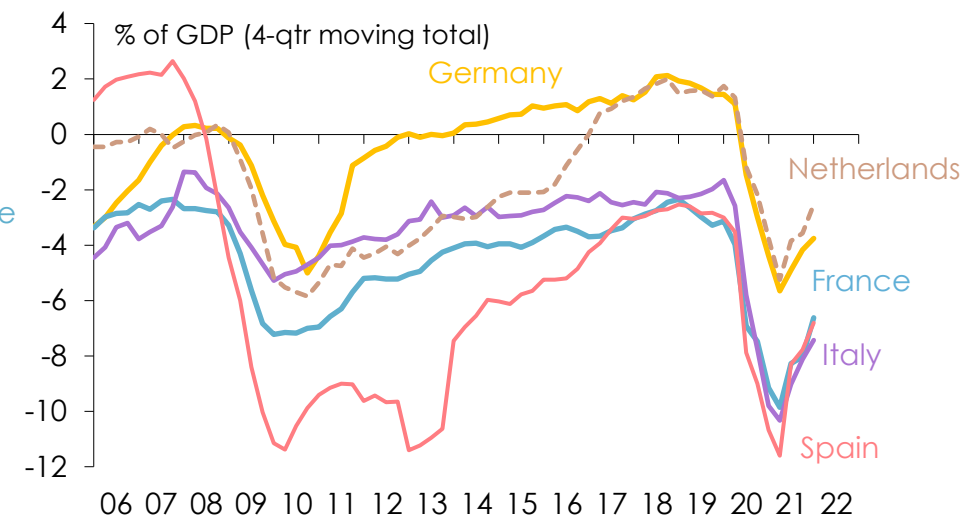
Real GDP



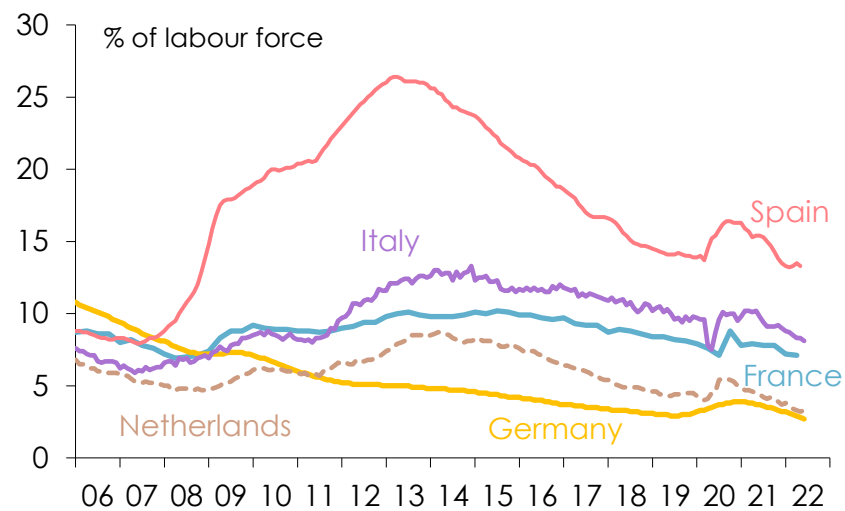
Inflation



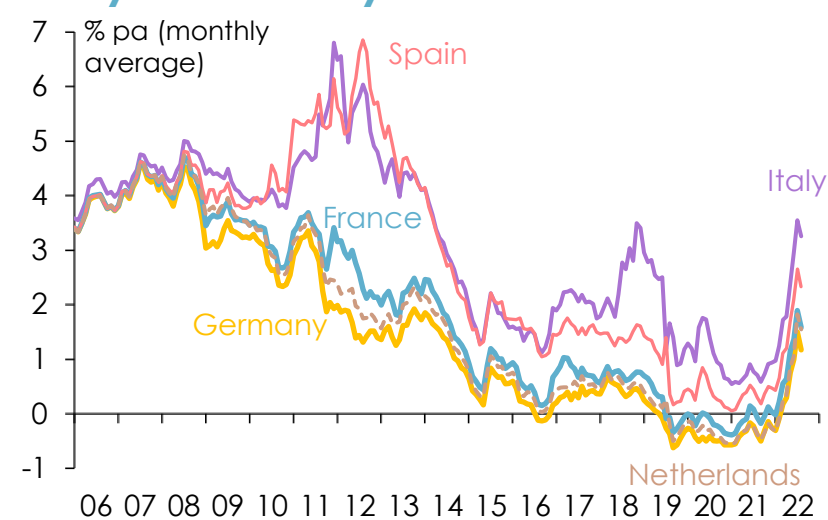
Government net lending



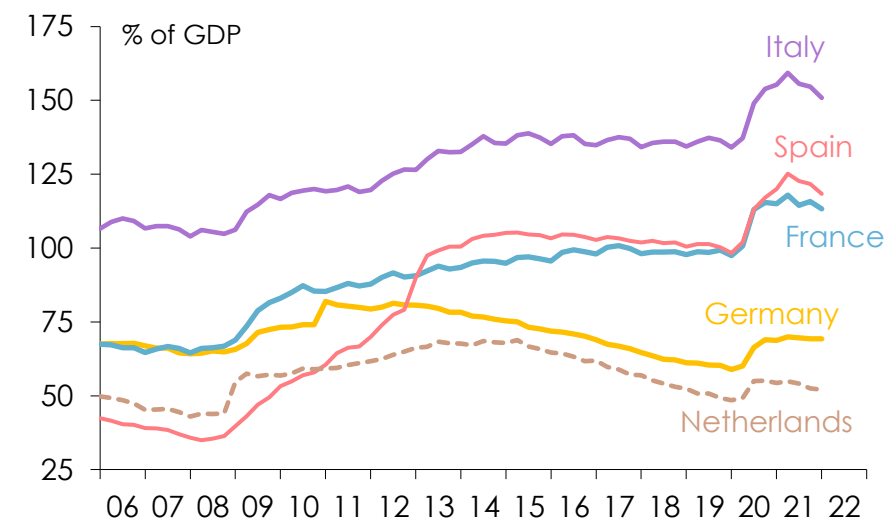
Unemployment



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 raised its policy interest rates by 50bp – twice as much as had previously been flagged – at last week’s Governing Council meeting

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

- ❑ The **European Central Bank** raised refi rate by 50 basis points, from zero to 0.50%, and its margin lending and deposit facility rates by a similar margin to 0.75% and zero, at its Governing Council meeting on Thursday
 - this was twice as much as had been foreshadowed at the previous GC meeting on 16th June, which the GC **said** was prompted by its “updated assessment of the inflation outlook” and, by exiting from negative rates, allowed the GC to “make a transition to a meeting-by-meeting approach to interest rate decisions”, foreshadowing that “further normalization of interest rates will be appropriate” at upcoming meetings
- ❑ The ECB also approved the establishment of a **Transmission Protection Instrument** (TPI) to “ensure that the monetary policy stance is transmitted smoothly across all euro area countries”
 - this instrument will allow the ECB to “make secondary market purchases of securities issued in jurisdictions experiencing a deterioration in financing conditions not warranted by country-specific fundamentals” in order to “counter unwarranted, disorderly market dynamics that pose a serious threat to the transmission of monetary policy across the euro area”
 - in other words, to prevent destabilizing ‘blow-outs’ in the spreads between euro area member states bond yields
- ❑ At her **post-meeting press conference**, ECB President Christine Lagarde explained that the decision to raise rates by 50 bp (rather than the 25bp that had been foreshadowed) was prompted by a “clear realization of upside risk to inflation” (as evidenced by higher-than-forecast inflation outcomes since the previous GC meeting), and by the “substantial” fall in the euro in recent weeks “which obviously has a bearing on inflation going forward”
- ❑ Mme Lagarde also indicated that the ‘guidance’ provided after the GC’s June meeting that the initial rate increase in July could be followed by a larger increase at the next meeting on 8th September was “no longer applicable”
 - the ECB would “determine what step we take” based on “the data that we receive”
 - she went on to say that “the ultimate destination of our policy path remains the same, which is to progressively raise interest rates to [a] broadly neutral setting” (although she didn’t know what that “neutral setting” was)

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

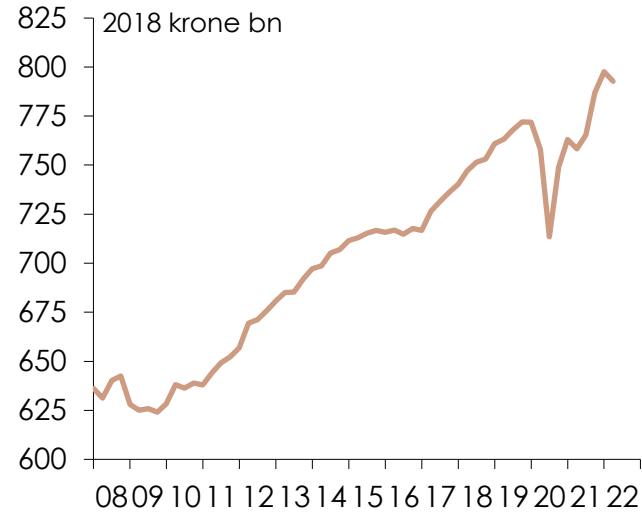
THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

- ❑ 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

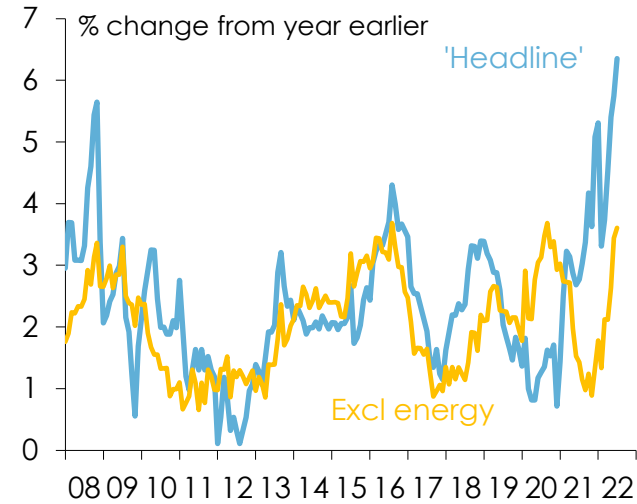
Norway's 'headline' annual inflation rate hit a 35-year high of 6.3% in June

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

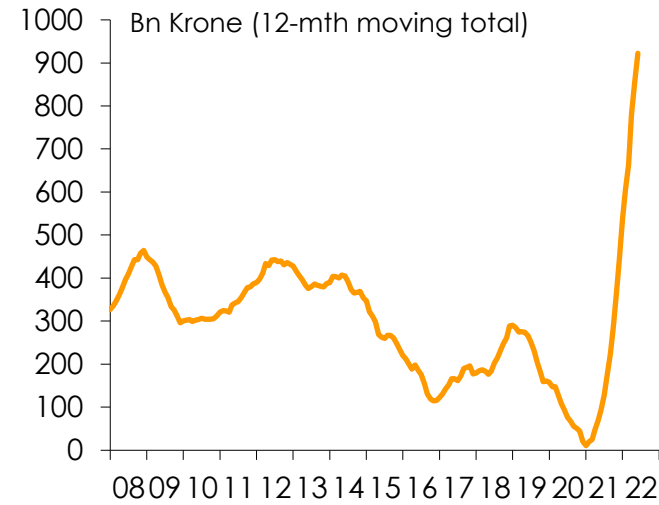
'Mainland' real GDP



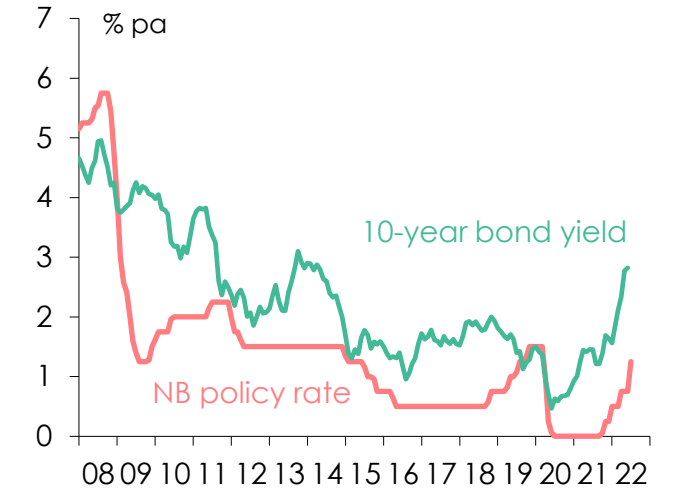
Inflation



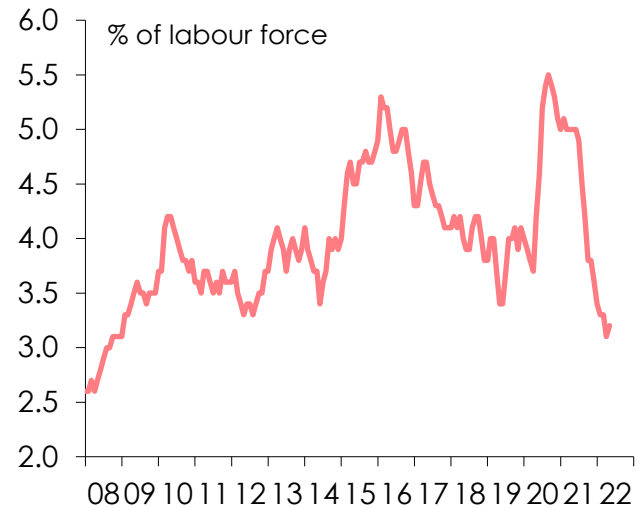
Trade balance



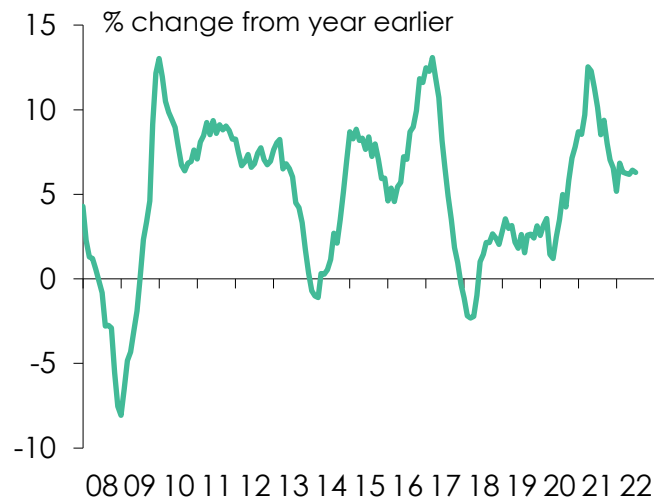
Interest rates



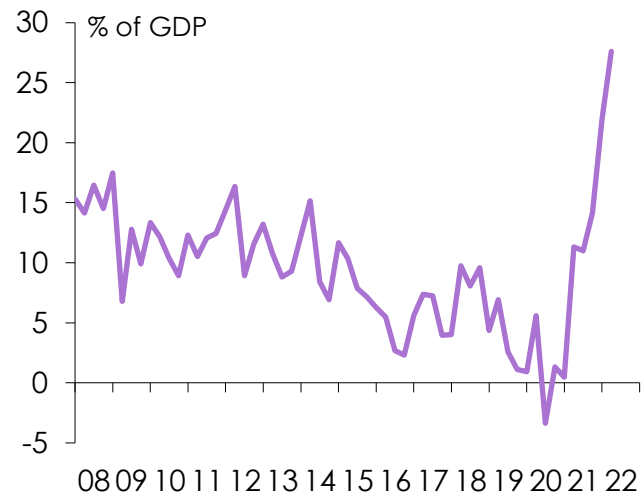
Unemployment



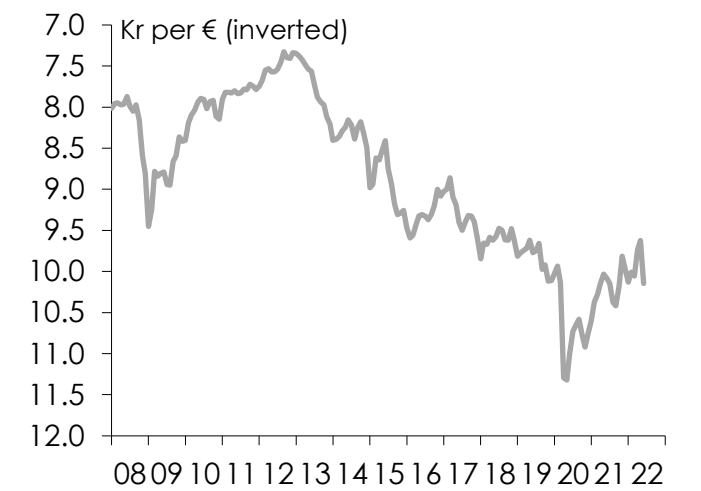
House prices



Current account balance



Krone vs euro

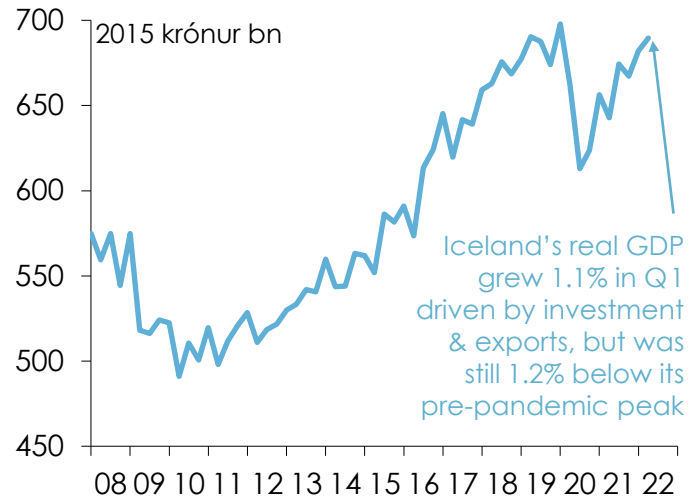


Note: 'mainland' GDP means excluding Norway's oil and gas industry which is entirely located offshore. Sources: [Statistisk sentralbyrå](#); [Norges Bank](#); Refinitiv Datastream.
[Return to "What's New"](#).

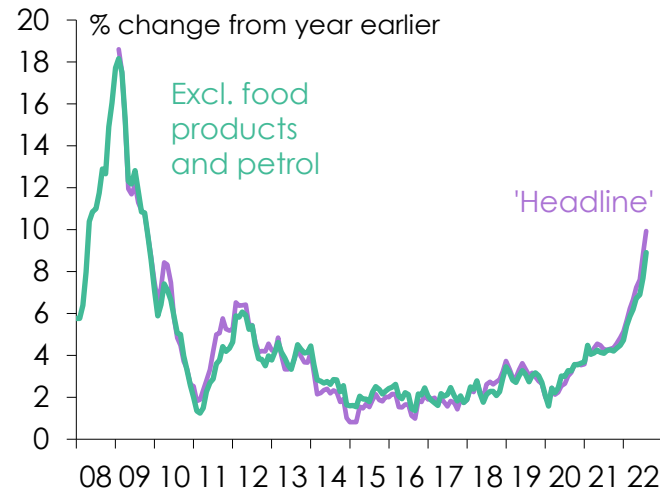
Iceland's 'headline' inflation rate rose to 9.9% in July, the highest since September 2009, while 'core' inflation rose 1.2 pc pt to 8.9%

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

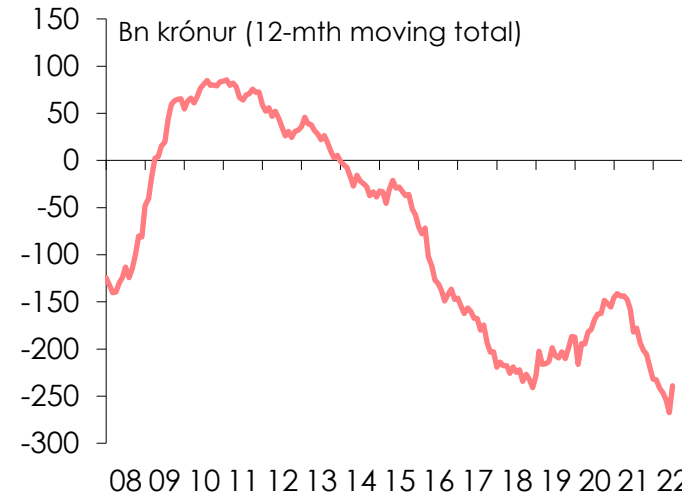
Real GDP



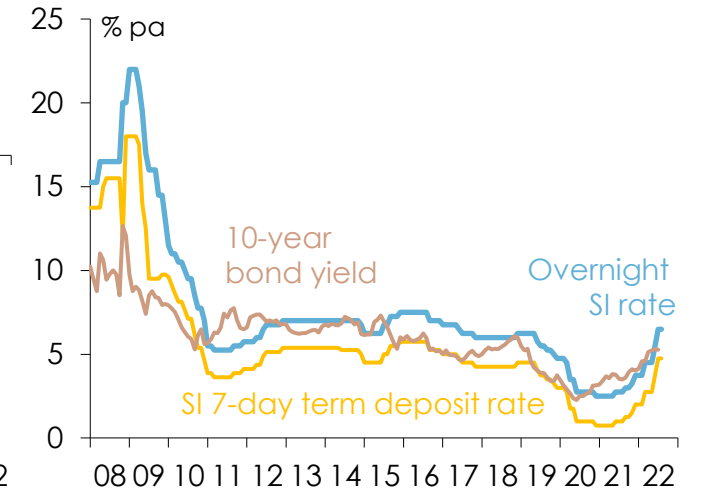
Inflation



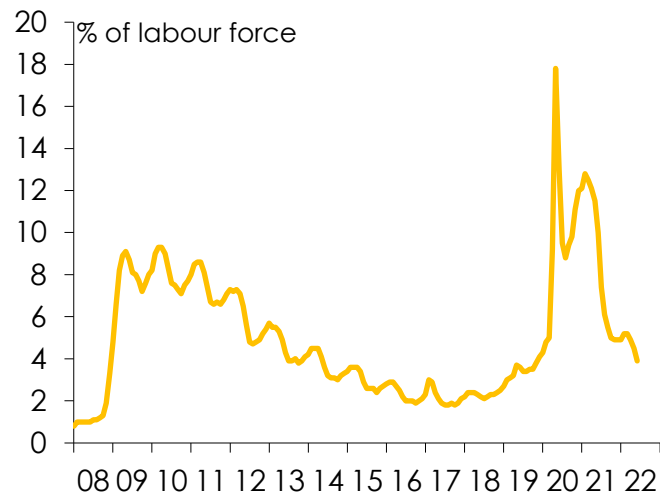
Trade balance



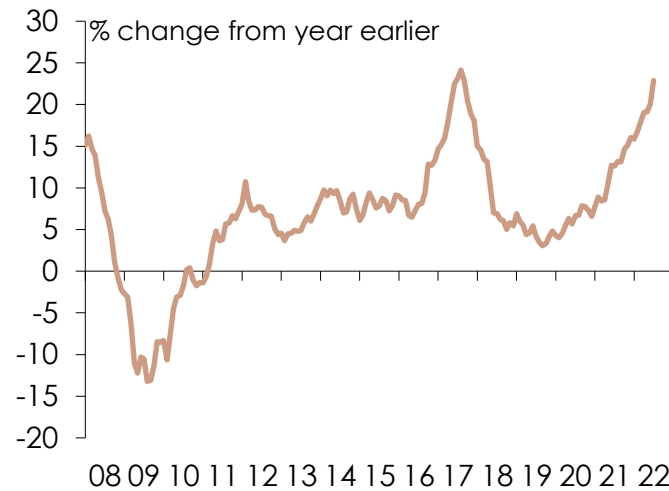
Interest rates



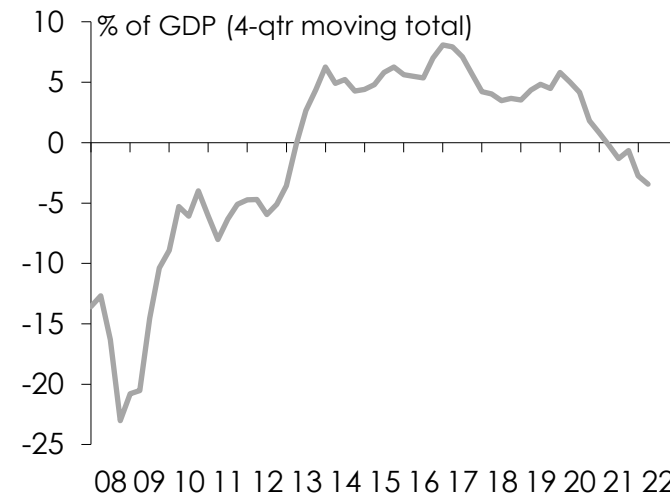
Unemployment



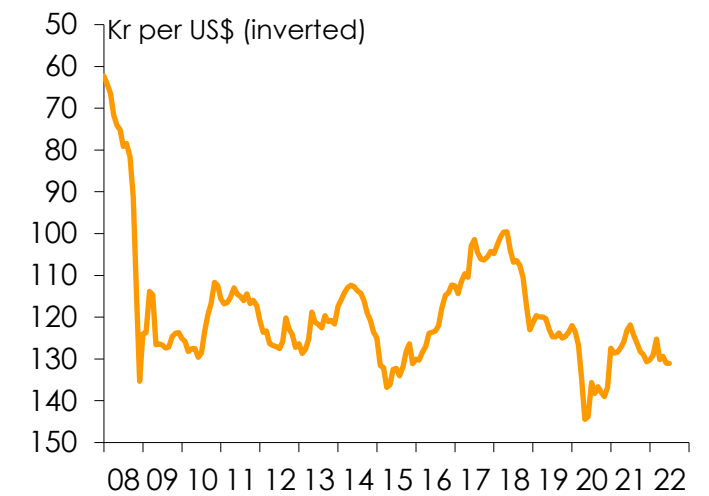
House prices



Current account balance



Króna vs US dollar

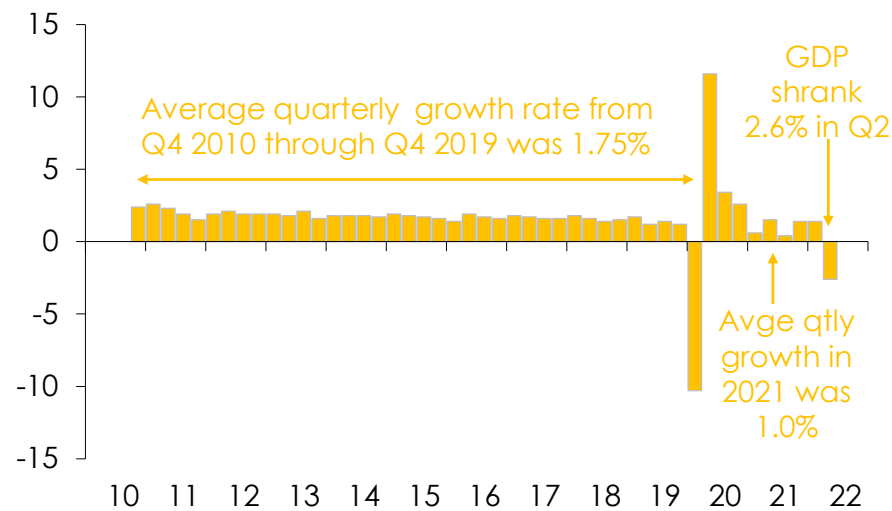


China

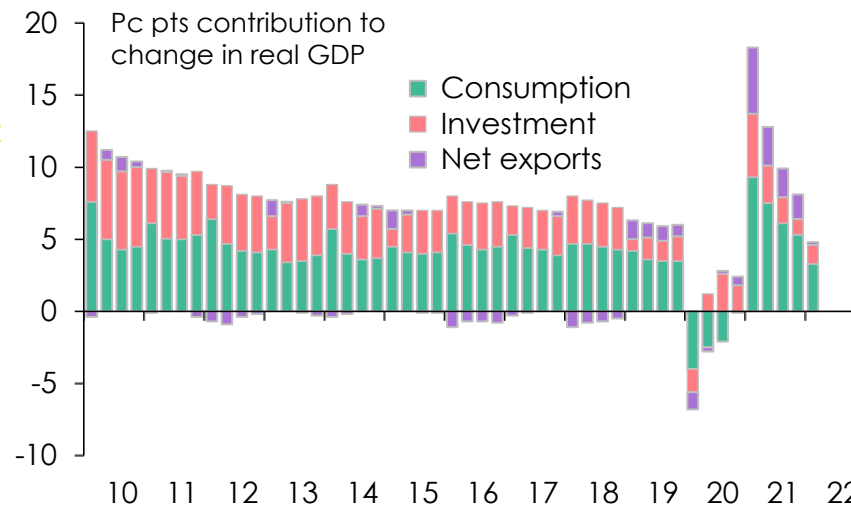
China's real GDP shrank by 2.6% in Q2, to be only 0.4% higher than a year earlier – but the unemployment rate fell 0.4 pc pt to 5.5% in June

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

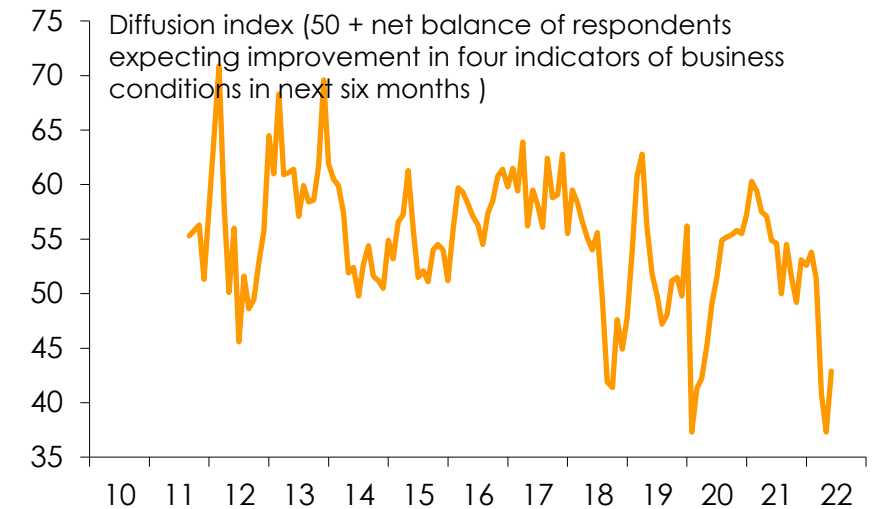
Quarterly real GDP growth



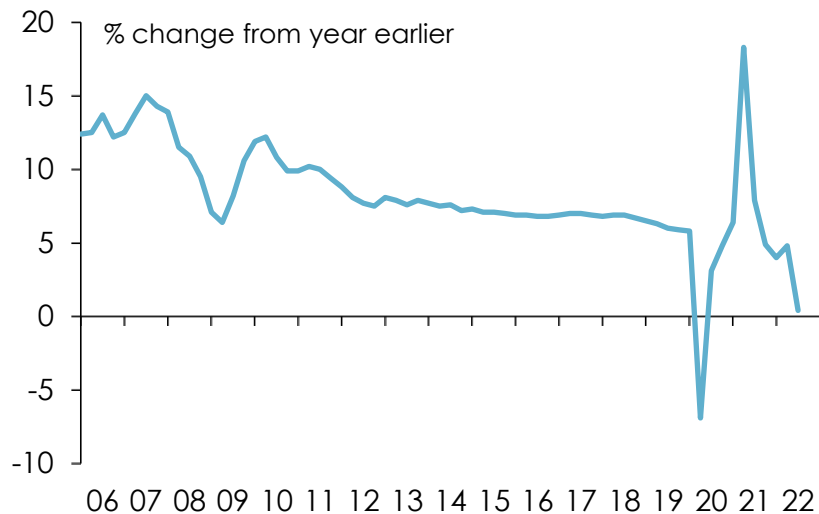
Contributions to real GDP growth



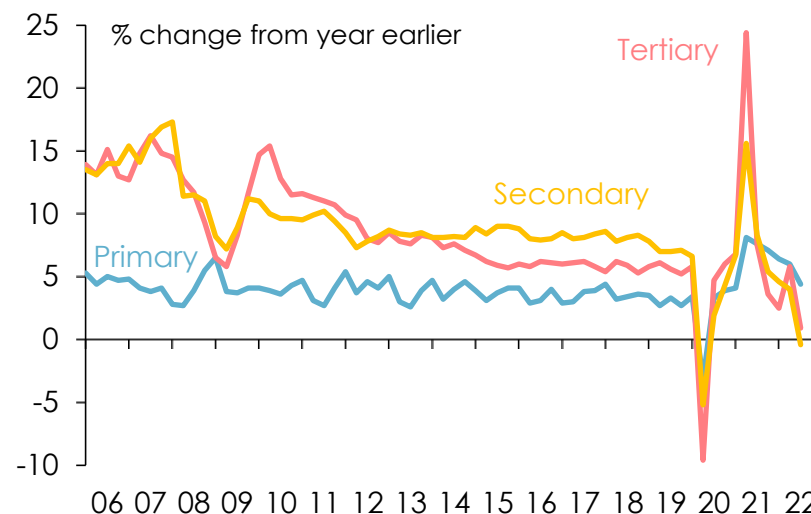
CKGSB business conditions index



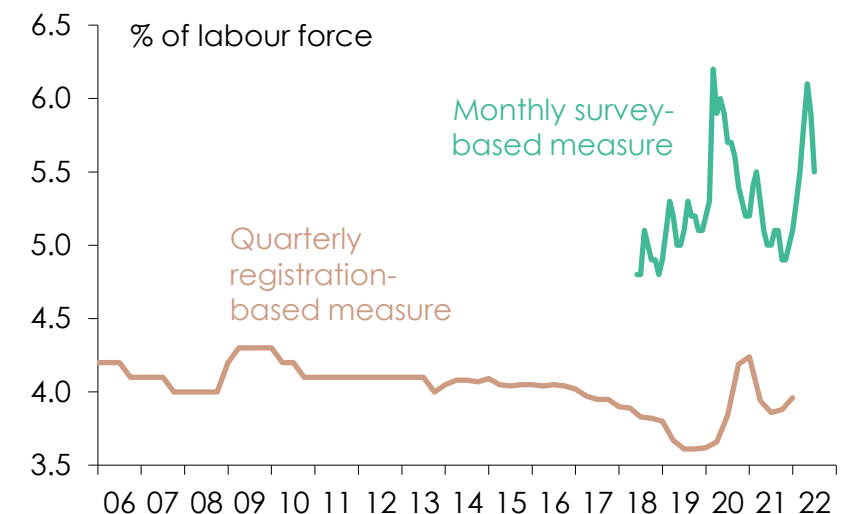
Annual real GDP growth



Annual GDP growth by industry



Urban unemployment rate

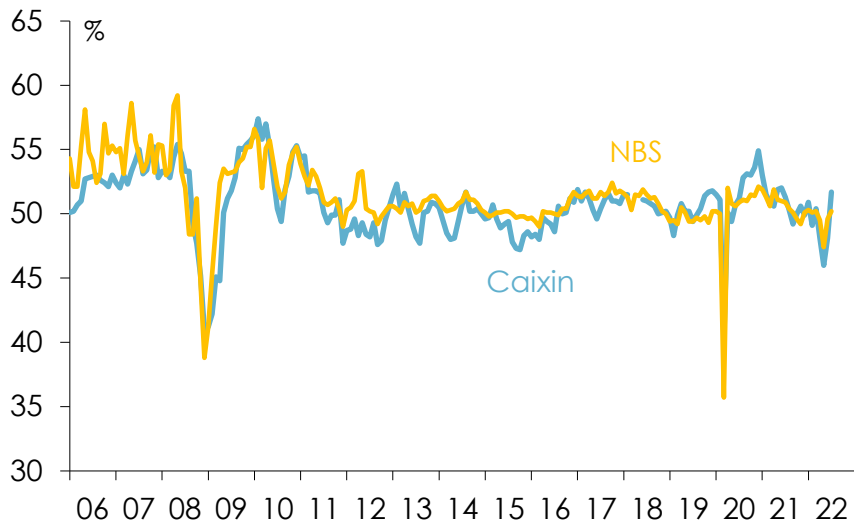


Sources: China National Bureau of Statistics, [National Data - National Accounts](#) and [The Urban Surveyed Unemployment Rate](#); Cheung Kong Graduate School of Business, [Business Conditions Index \(BCI\)](#). Before the monthly unemployment survey was introduced in 2018, the quarterly measure was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

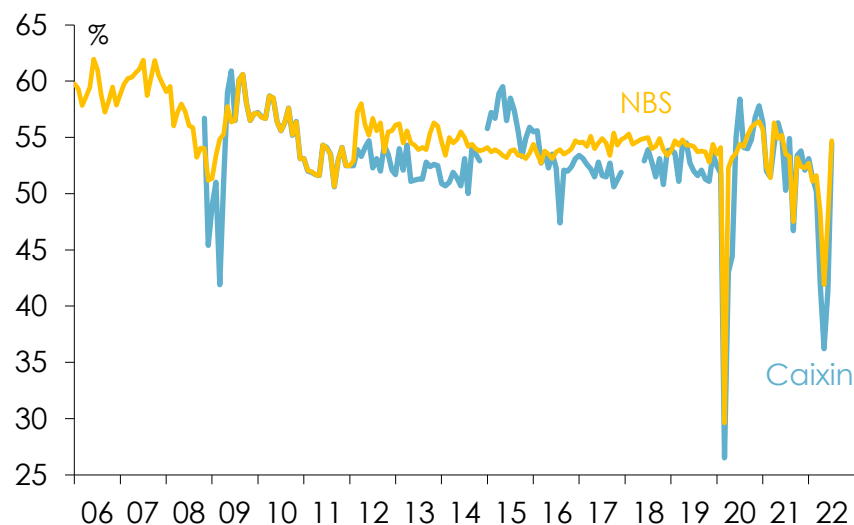
Industrial activity recovered in June as lockdowns eased – although with Covid-19 cases rising again there may be a further setback in July

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

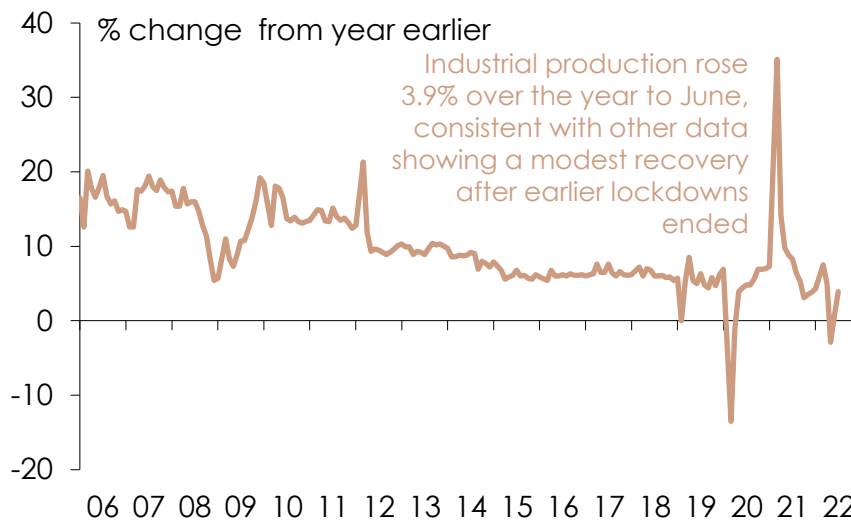
Manufacturing PMIs



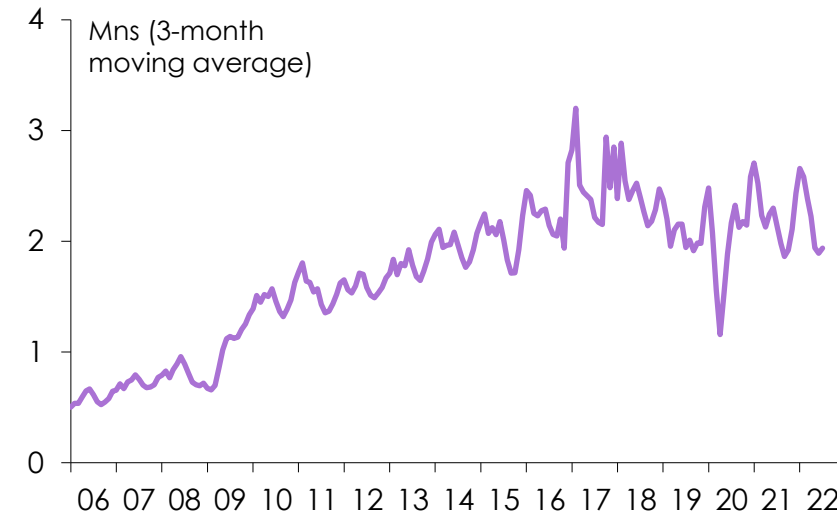
Non-manufacturing PMIs



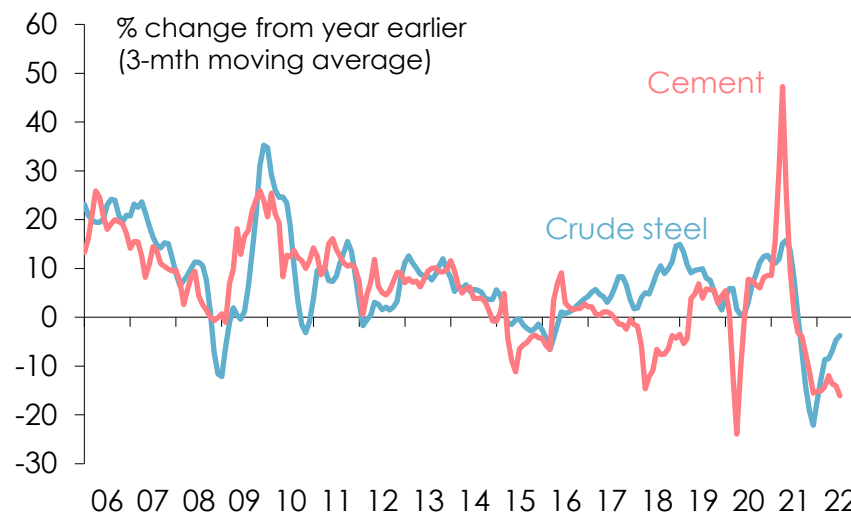
Industrial production



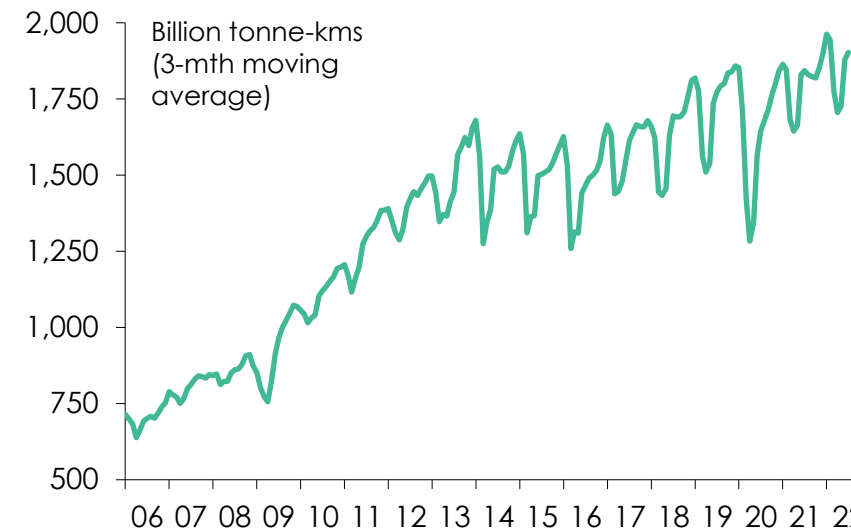
Motor vehicle production



Steel and cement production



Freight traffic volumes

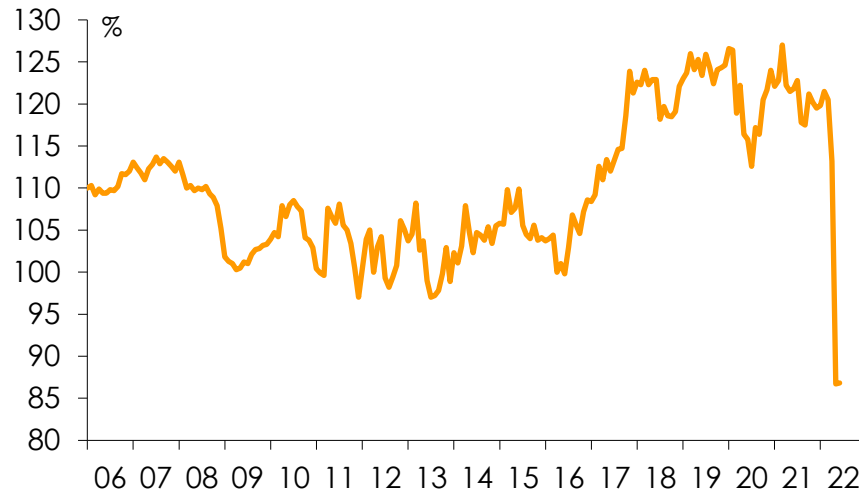


Note: The Caixin ('unofficial') PMIs are derived from a survey of around 500, mostly small private, enterprises, while the 'official' NBS PMIs are derived from a survey of about 3,000, mostly state-owned, enterprises: for more detail see [here](#). Sources: China National Bureau of Statistics, [National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

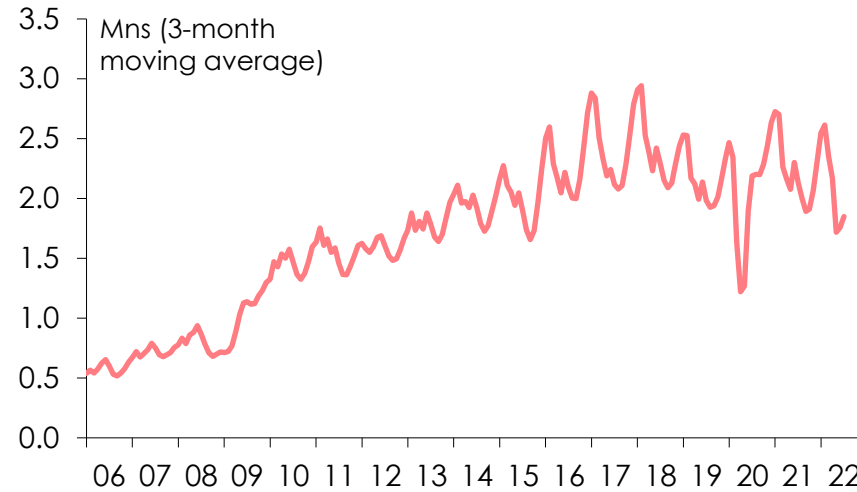
Retail sales recovered in June after three months of decline, but real estate investment and property prices continued to decline

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

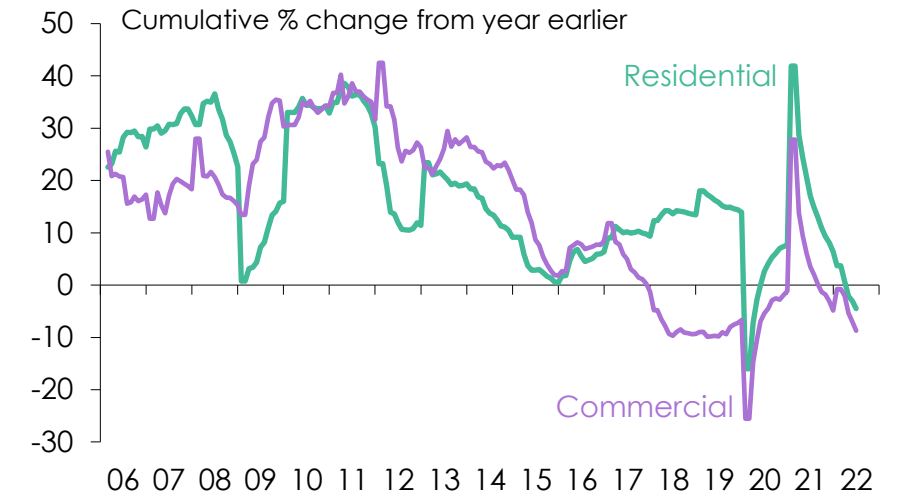
Consumer sentiment



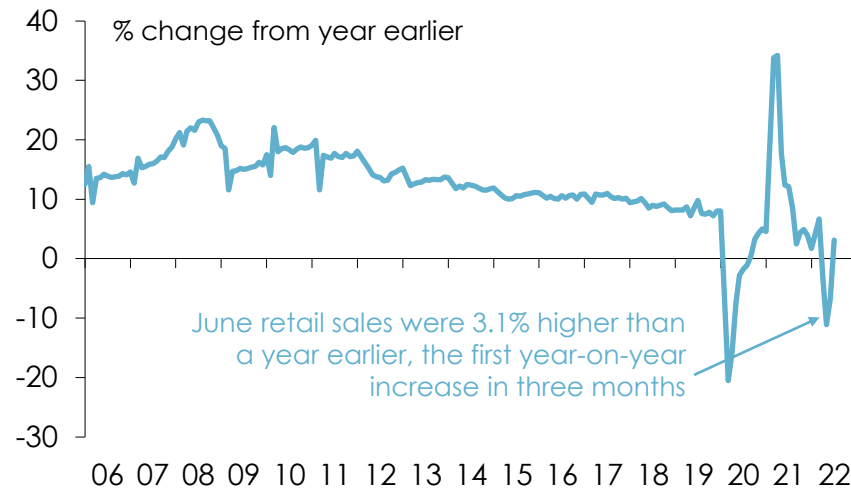
Motor vehicle sales



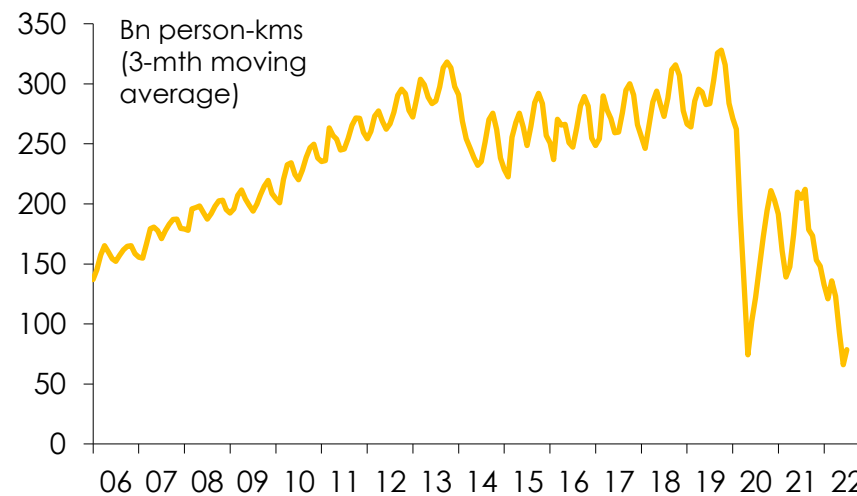
Real estate investment



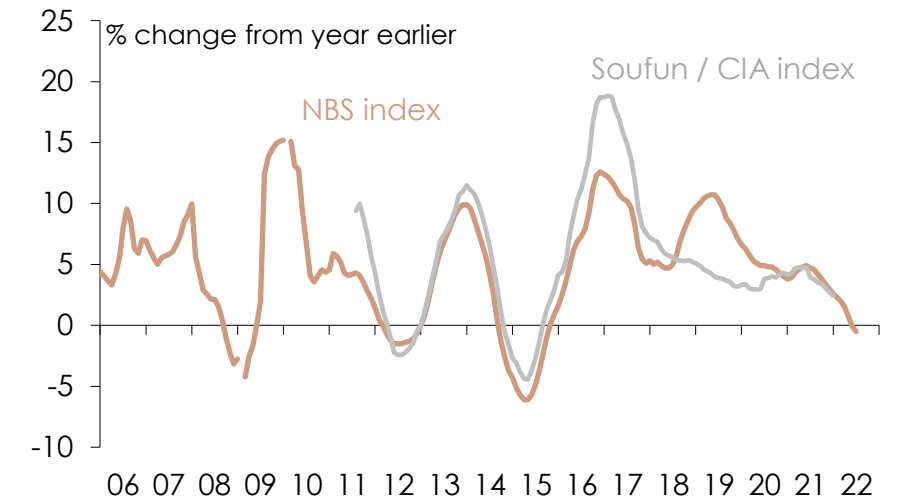
Retail sales



Passenger traffic volumes



Residential real estate prices

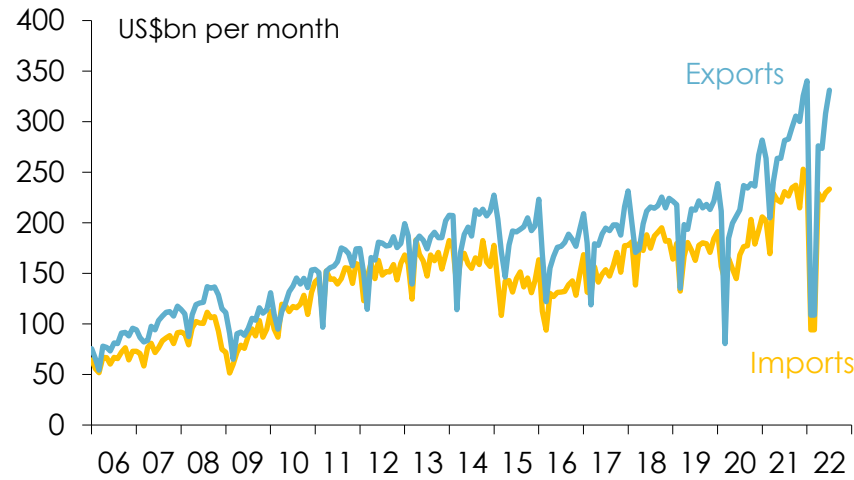


Sources: China National Bureau of Statistics, [National Data](#); China Association of Automobile Manufacturers, [Sales of Automobiles](#); China Index Academy, [CREIS China Residential HPI-100 Monthly](#) (not published since December last year). [Return to "What's New"](#).

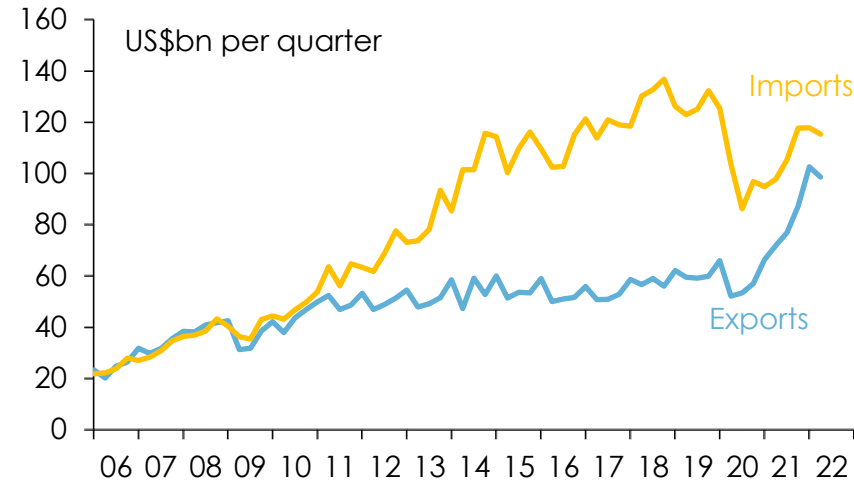
China's trade surplus widened by US\$19bn to a record \$97.9bn in June, with exports up 17.7% from a year earlier but imports up only 1.0%

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

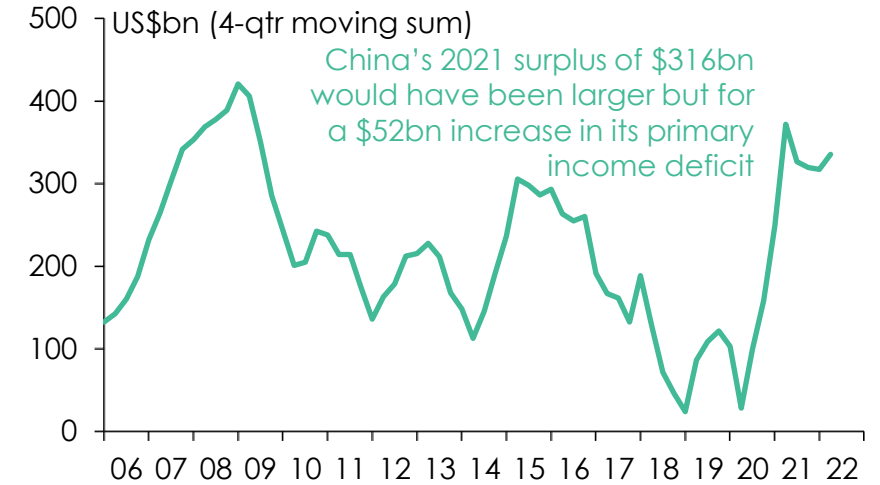
Merchandise exports and imports



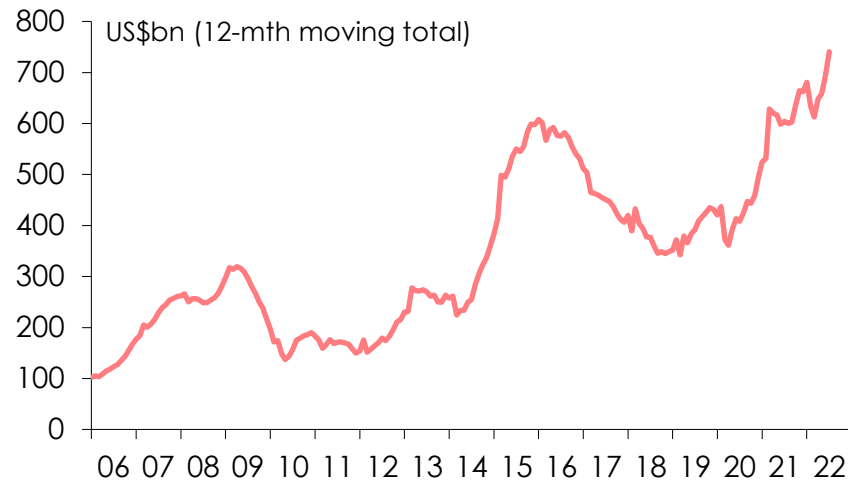
Services exports and imports



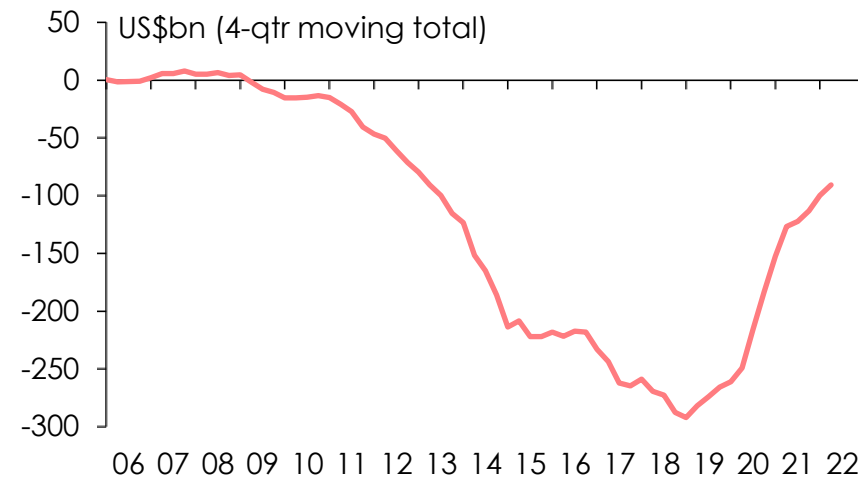
Current account balance



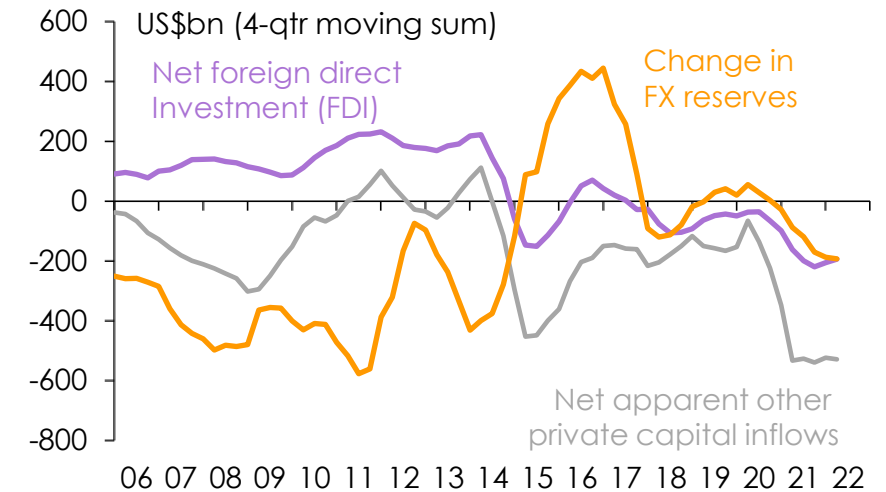
Merchandise trade balance



Services trade balance



Capital flows

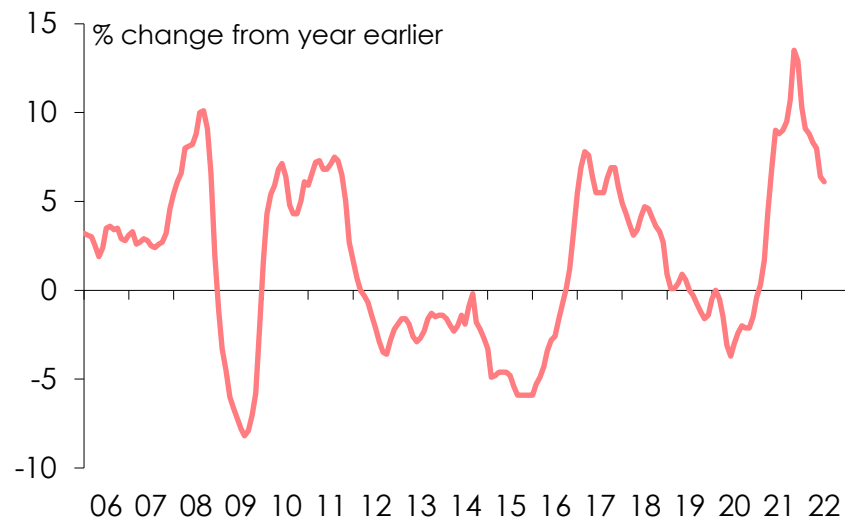


Sources: China General Administration of Customs, [Preliminary Release](#) and [Monthly Bulletin](#); State Administration of Foreign Exchange, [The time-series data of Balance of Payments of China](#). [Return to "What's New"](#).

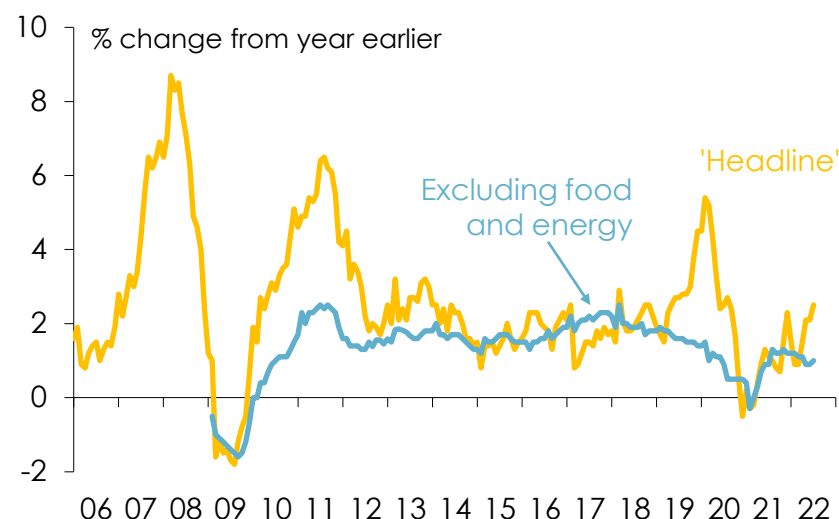
'Headline' CPI inflation rose further in June to 2.5%, the highest since April 2020, driven by food prices, though 'core' inflation was only 1.0%

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

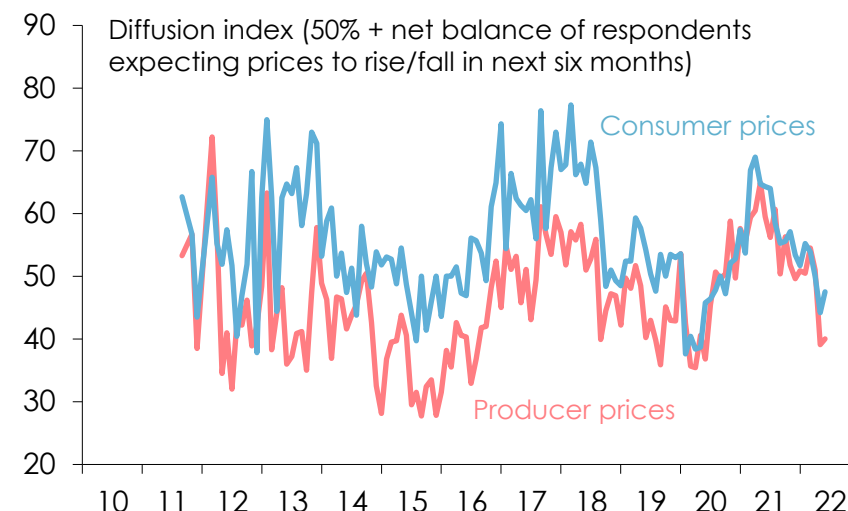
Producer prices



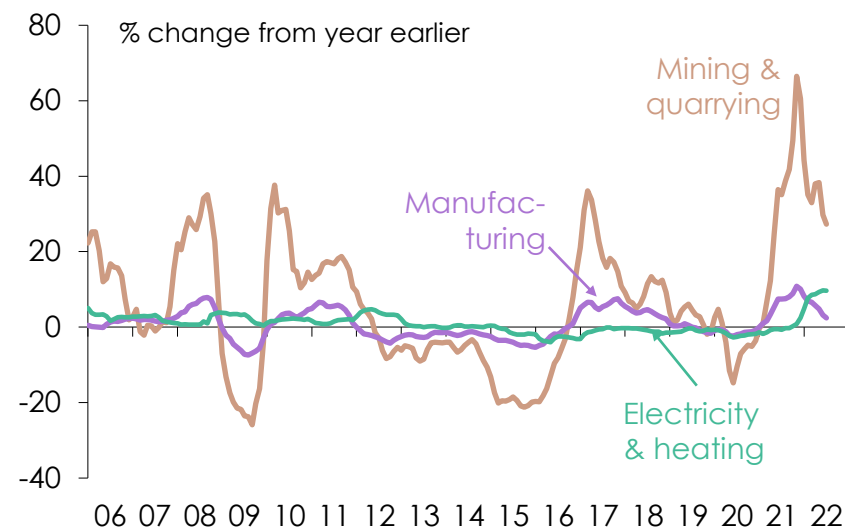
Consumer prices



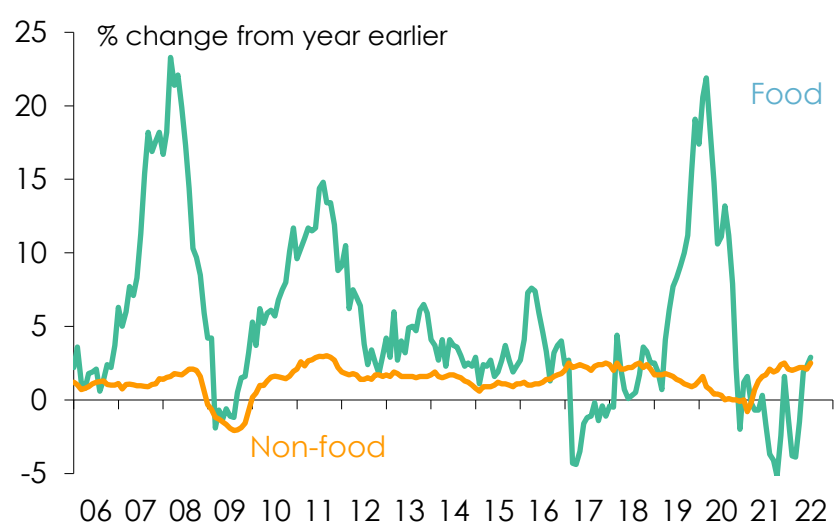
CKGSB price diffusion indexes



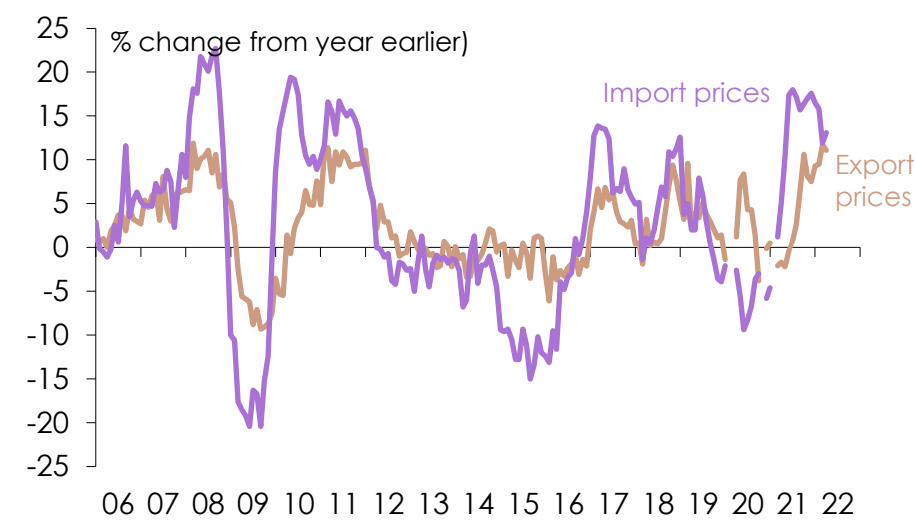
Producer prices – major categories



Consumer prices – food and other



Trade prices



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

Premier Li Keqiang appears to be as concerned about inflation risks as about 'stabilizing' economic growth

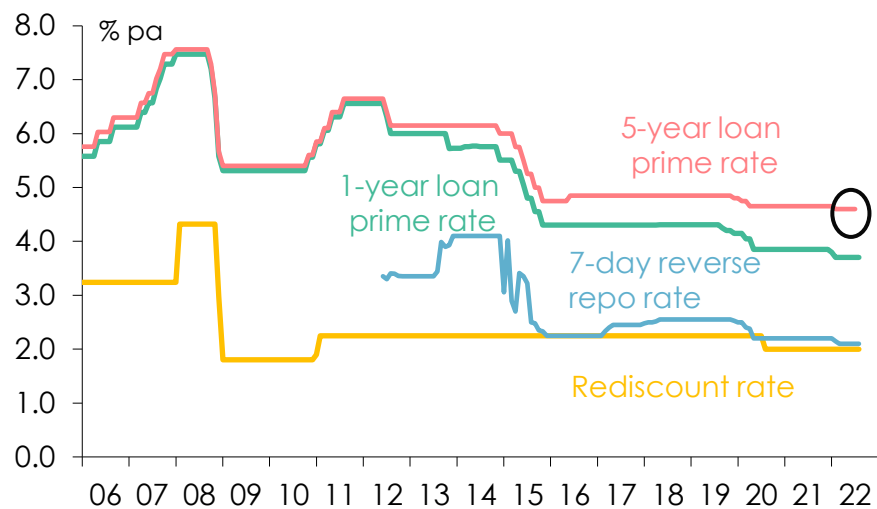
THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

- ❑ Premier Li Keqiang, presiding over a ['symposium of experts and entrepreneurs to analyze the economic situation'](#) in mid-July, described China's economic performance in Q2 as "highly unusual", and despite noting the recovery in June, said "the foundation of economic recovery is not stable, there are many uncertainties in the development environment, and it is necessary to continue to make arduous efforts to stabilize the economic market"
 - Li said that "it is necessary ... not only to stabilize growth, but also to prevent inflation and pay attention to preventing imported inflation", and "to increase the implementation of the package of policies for stabilizing the economy, and at the same time to be reasonable and moderate, and not to advance the future"
 - which seems to downplay the prospect of further measures to boost economic growth
- ❑ Reports emanating from Beijing and Hong Kong two weeks ago 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
- ❑ 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"

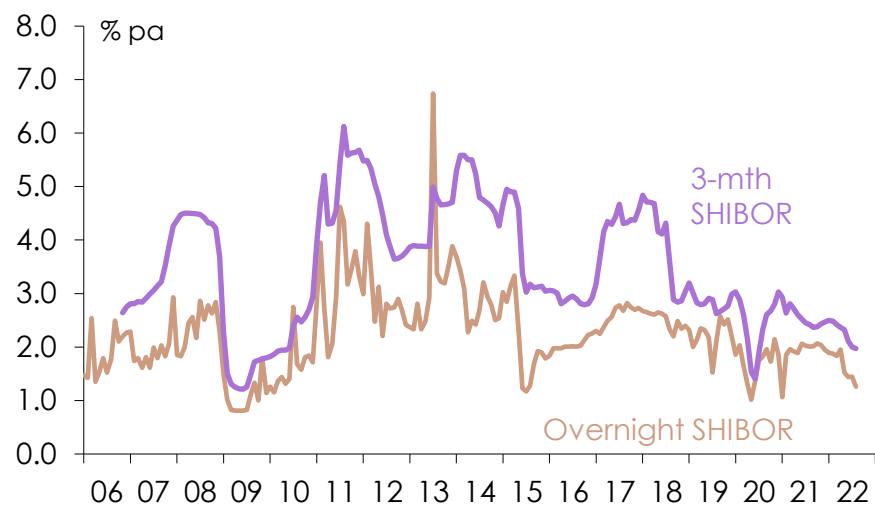
Bank lending and other forms of credit picked up in June but to date the PBoC hasn't done much to ease monetary conditions

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

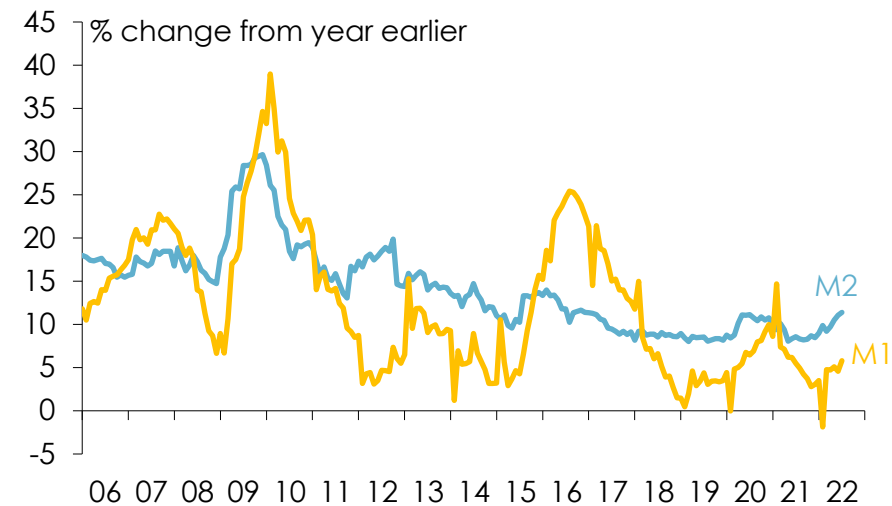
PBoC policy interest rates



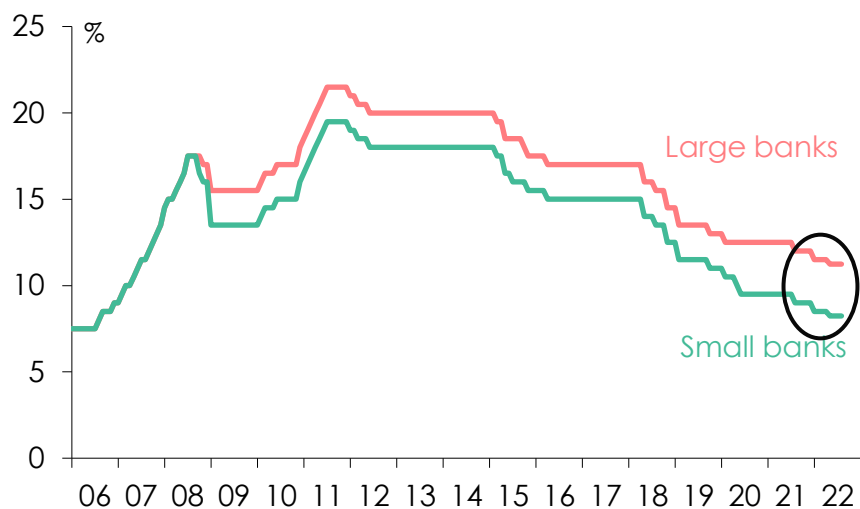
Short-term market interest rates



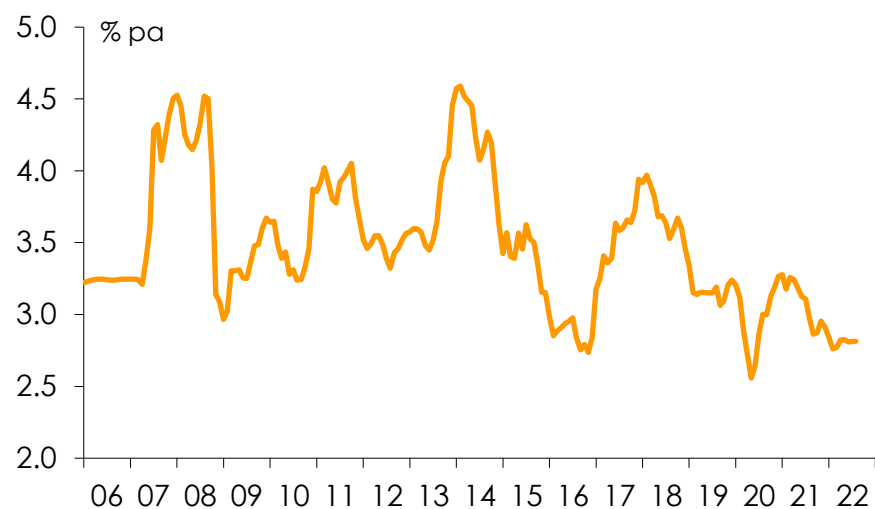
Monetary aggregates



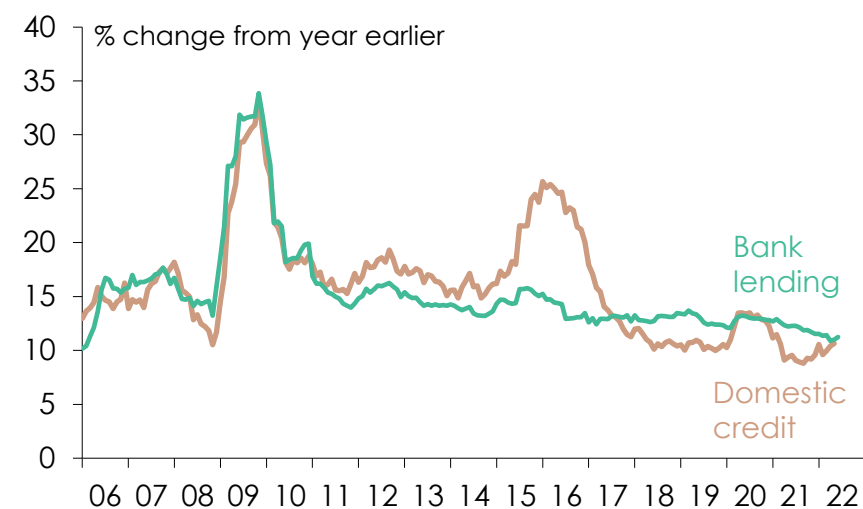
Bank reserve requirement ratios



10-year government bond yield



Credit growth

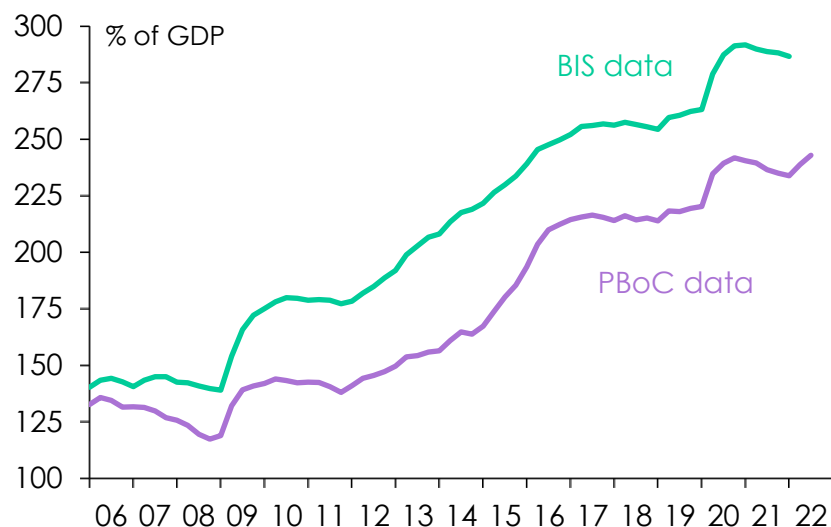


Note: 'SHIBOR' is the Shanghai Inter-Bank Offered Rate. Sources: Refintiv Datastream; People's Bank of China, [Financial Statistics Reports](#) and [Aggregate Financing Reports](#). [Return to "What's New"](#).

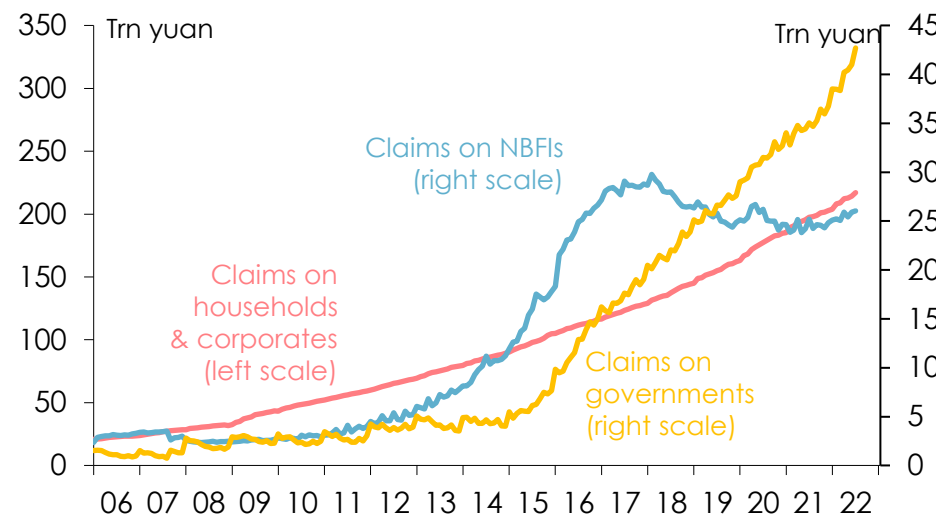
The Chinese banking system's risk profile has increased significantly over the past decade – particularly on the liabilities side of its balance sheet

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

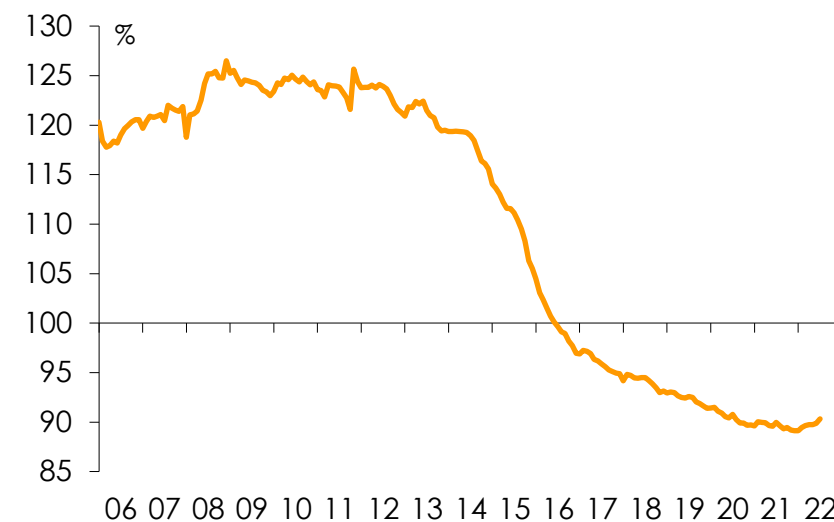
Credit outstanding as a pc of GDP



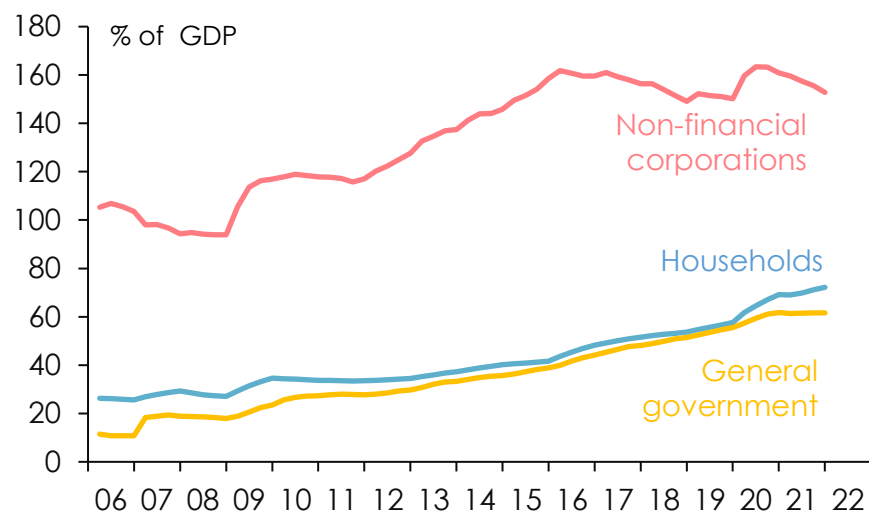
Banks' assets



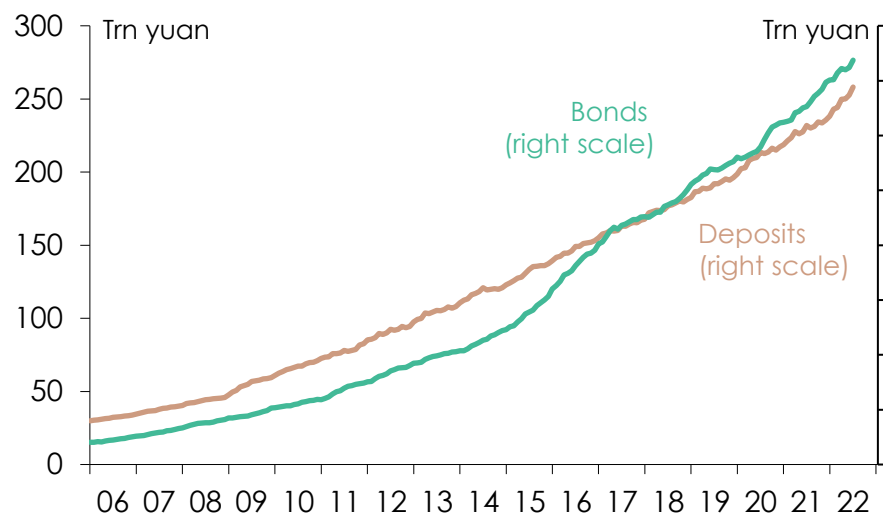
Banks' deposits-to-loans ratio



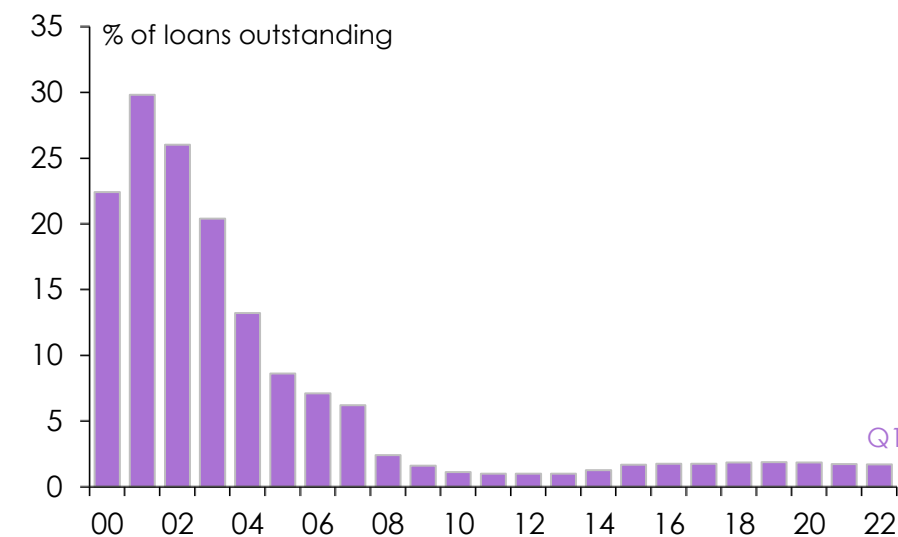
Credit outstanding by sector



Banks' liabilities



Banks NPLs – official estimates

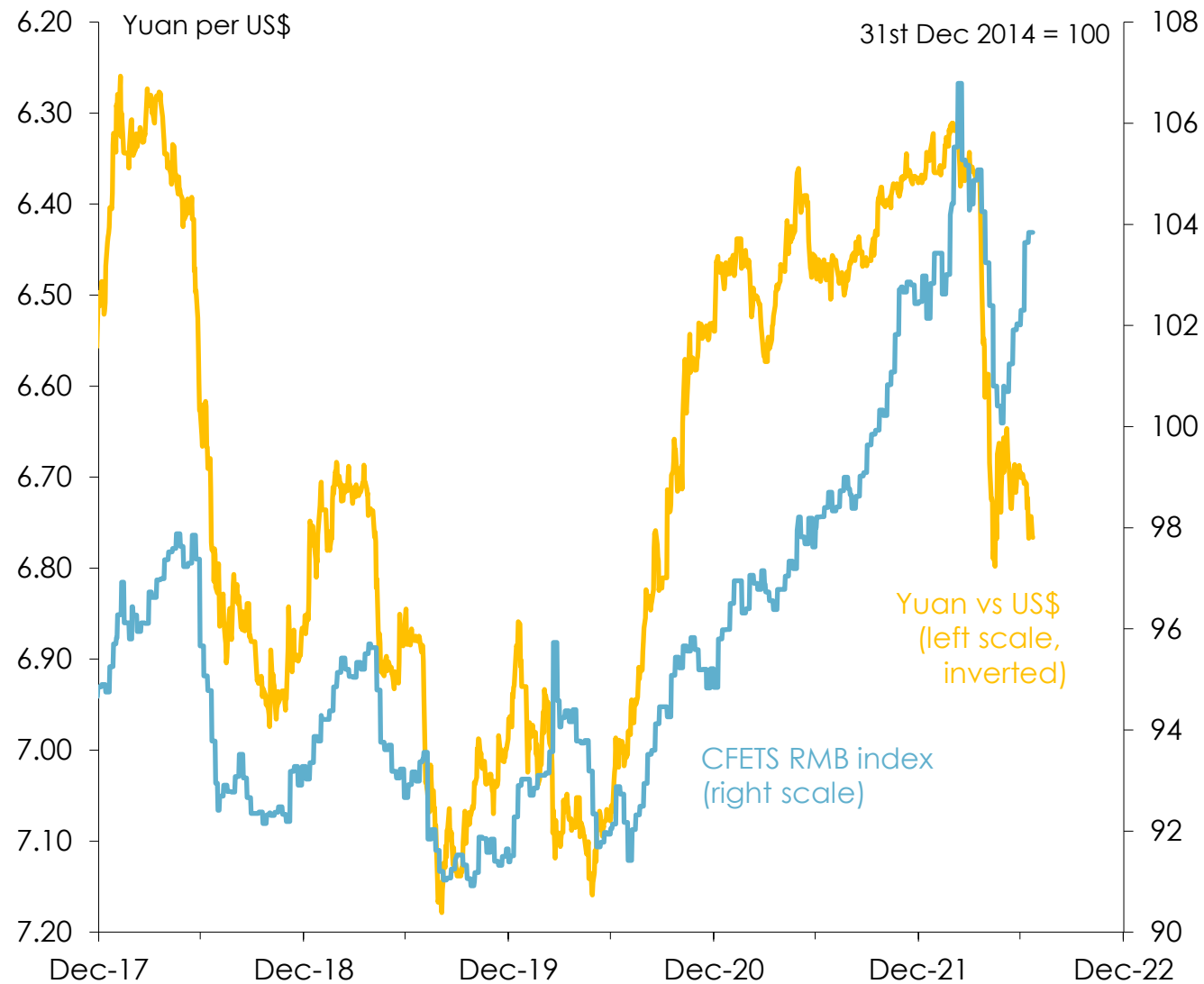


Sources: People's Bank of China, [Financial Statistics Reports](#); Bank for International Settlements, [Credit to the non-financial sector](#); China Banking and Insurance Regulatory Commission, [Supervisory Statistics of the Banking and Insurance Sectors](#). [Return to "What's New"](#).

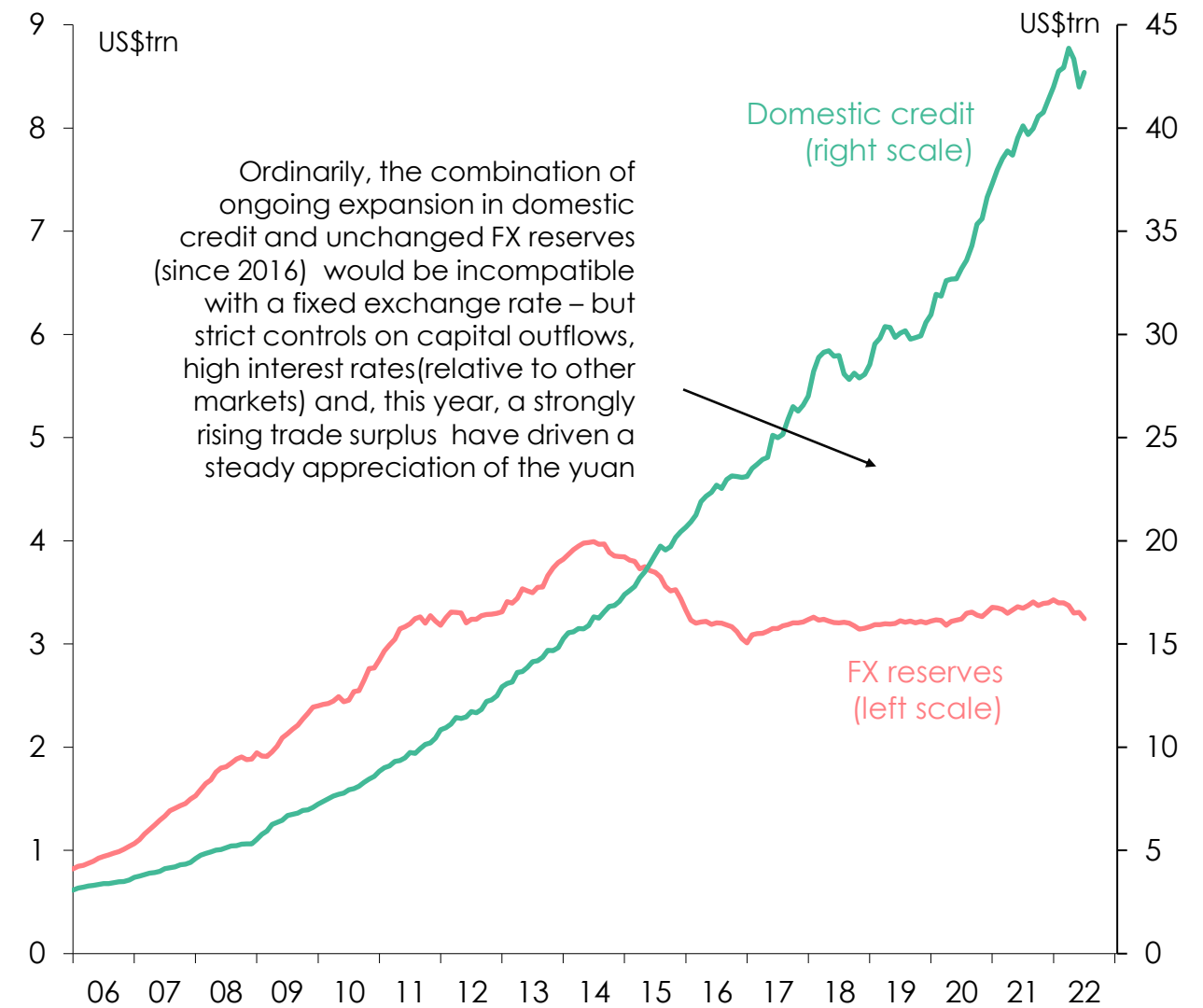
The yuan was unchanged against the US\$ last week (though still down 6% so far this year) but rose 0.2% against the PBoC's index

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

Chinese renminbi vs US\$ and trade-weighted index



FX reserves and domestic credit



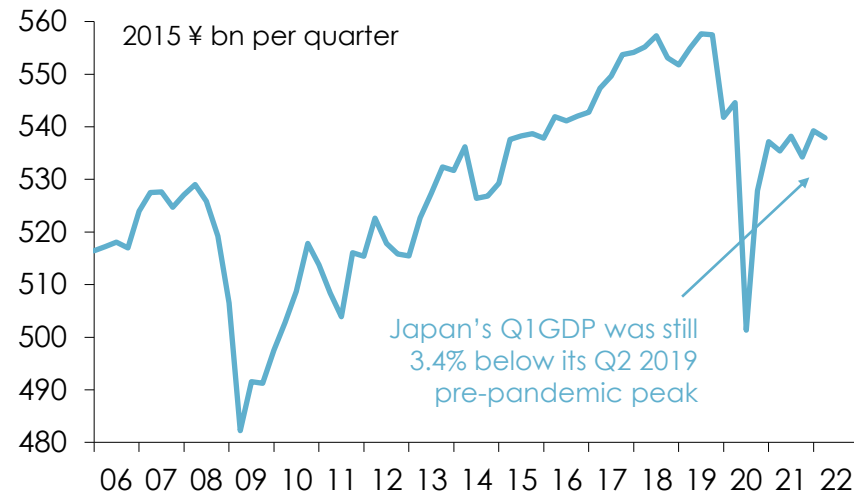
Sources: Refinitiv Datastream; [China Foreign Exchange Trading System](#); People's Bank of China. Exchange rates up to 22nd July; FX reserves and credit data up to June (note fall in domestic credit expressed in US\$ in April & May largely reflects depreciation of yuan vs US\$). [Return to "What's New"](#).

Japan

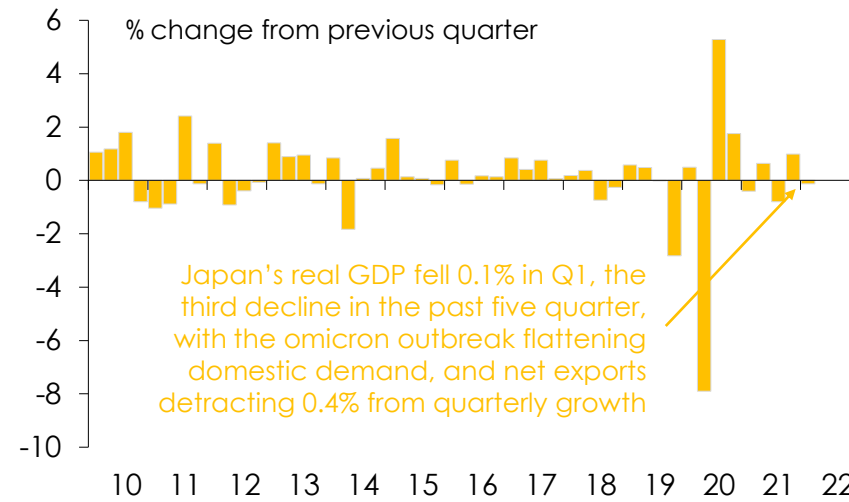
Japan's real GDP fell 0.1% in Q1, the third decline in the past five quarters, to be still 3.4% below its pre-pandemic peak

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

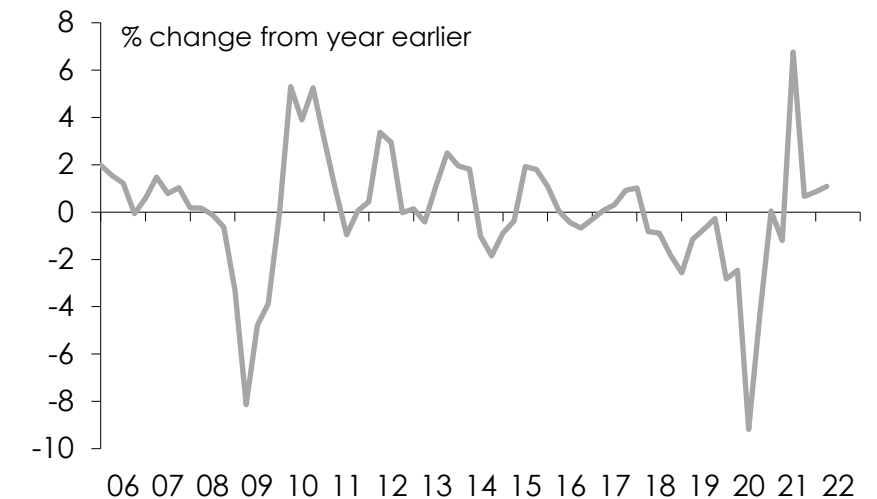
Level of real GDP



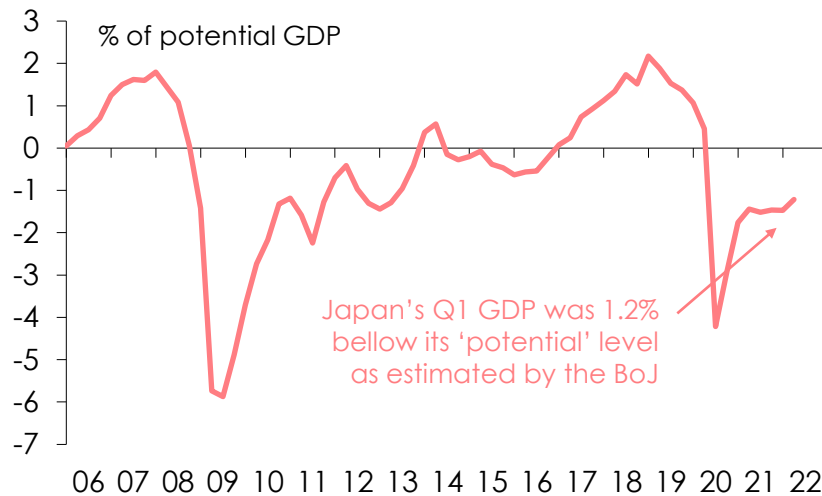
Quarterly change in real GDP



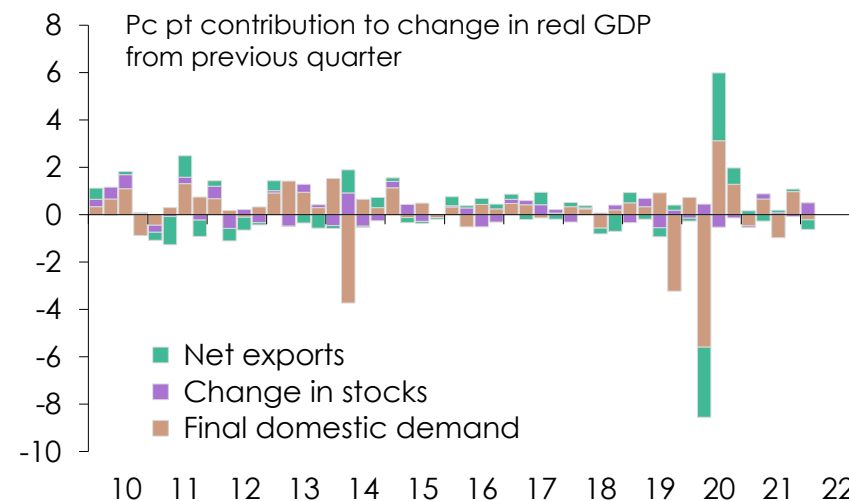
Labour productivity growth



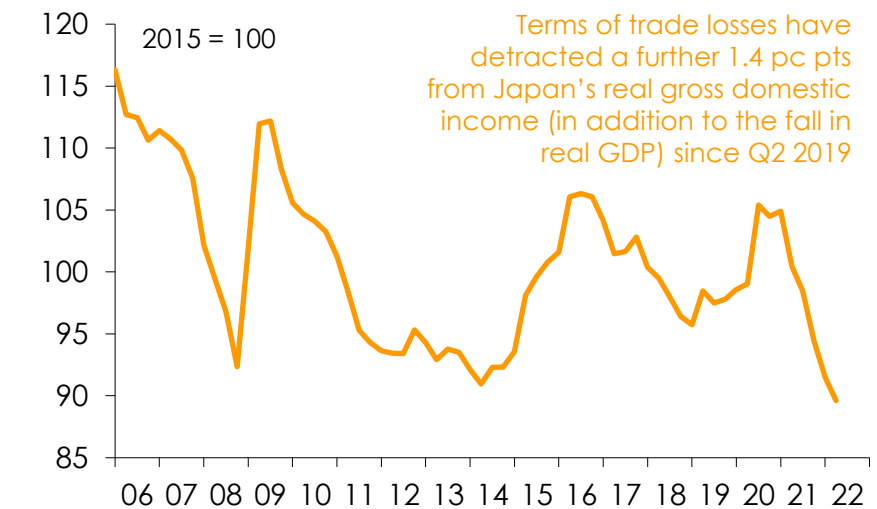
The 'output gap'



Contributions to change in real GDP



Terms of trade

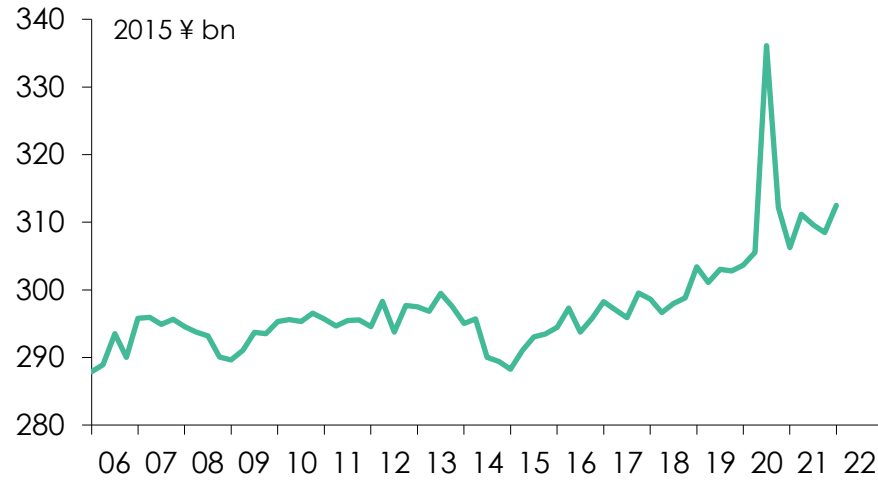


Note: the 'output gap' is the difference between actual and potential GDP (the volume of goods & services that could be produced if the economy were operating at full capacity); the 'terms of trade' is the ratio of the implicit price deflator of exports of goods & services to that of imports of goods & 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: Japan Cabinet Office, [Quarterly Estimates of GDP](#); Bank of Japan, [Output Gap and Potential Growth Rate](#); OECD, [Main Economic Indicators](#), Early Estimates of Quarterly ULC Indicators. [Return to "What's New"](#).

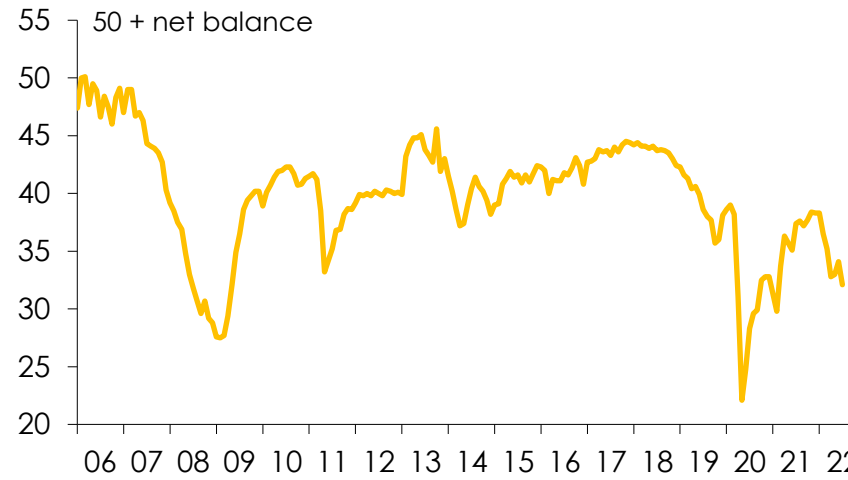
April data provides some tentative evidence of a pick-up in domestic spending as Japan's 'omicron wave' slowly recedes

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

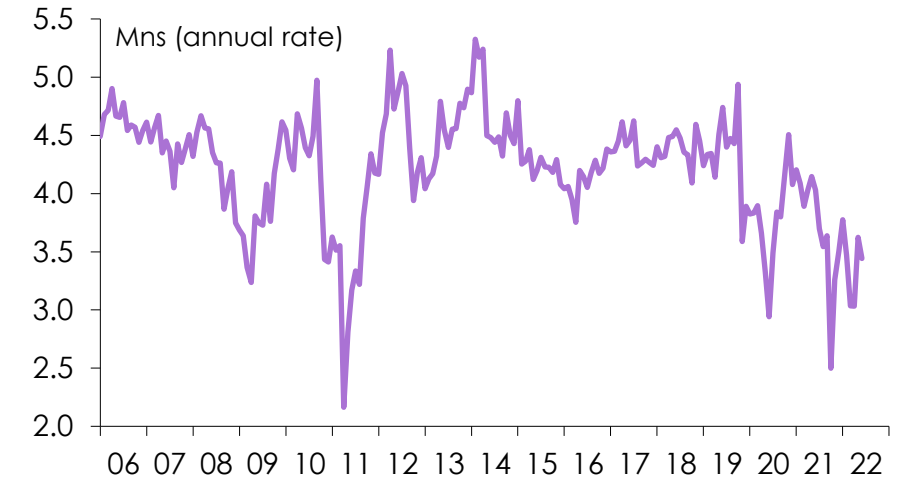
Real household disposable income



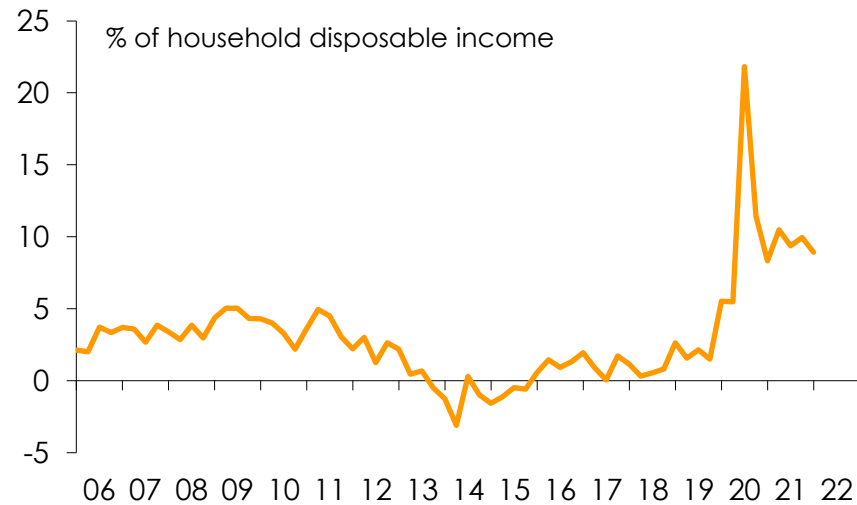
Consumer confidence



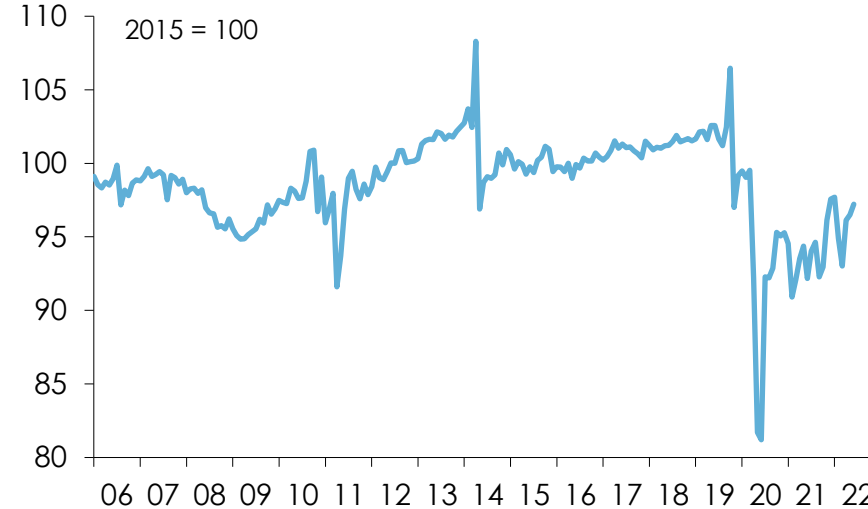
Motor vehicle sales



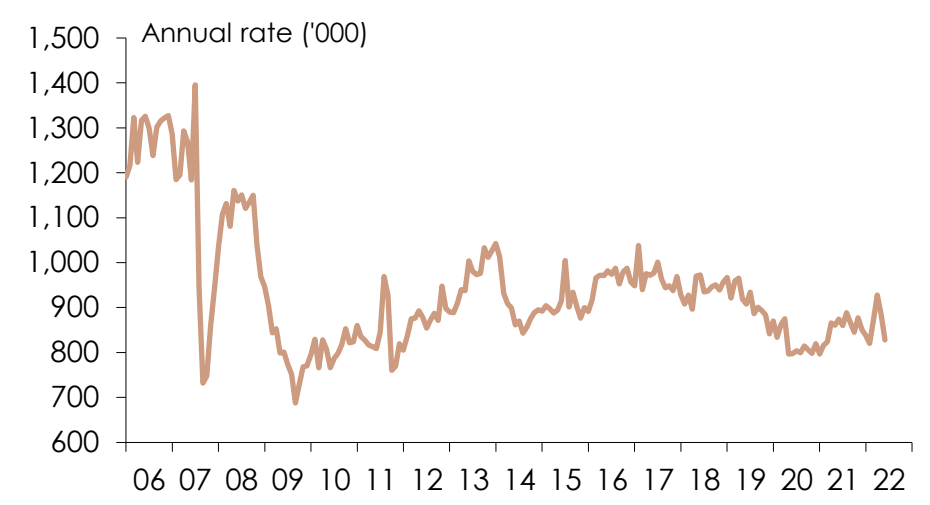
Household saving



Consumption activity index



Housing starts

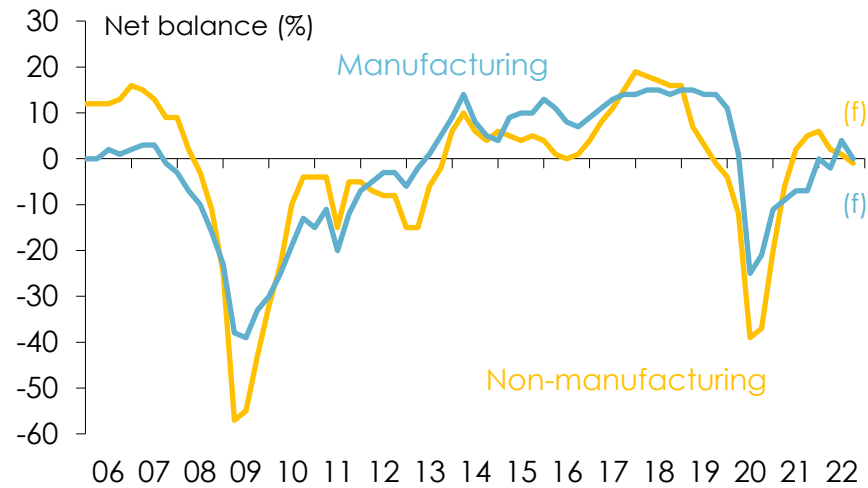


Sources: Japan Cabinet Office, [Quarterly Estimates of Household Disposable Income and Household Saving Ratio](#) and [Consumer Confidence Survey](#); Bank of Japan, [Consumption Activity Index](#); Japan Automobile Dealers Association, [Statistical Data](#); Japan e-Stat, [Building Starts](#). [Return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

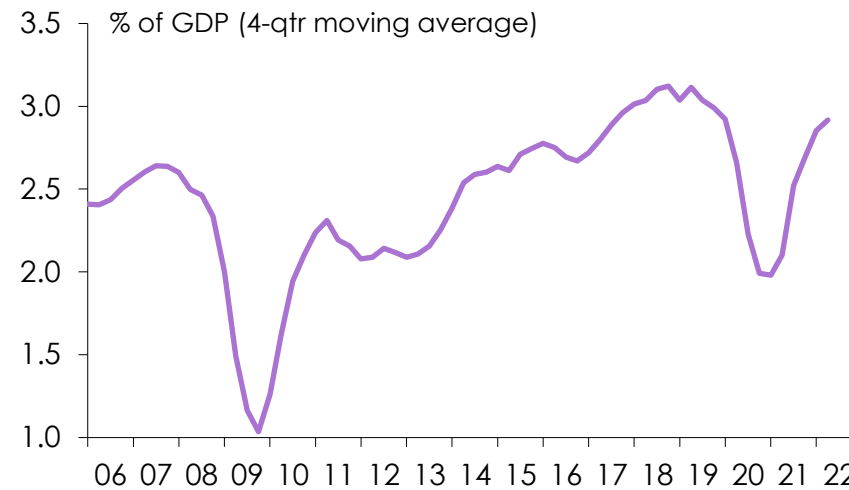
Japanese industrial production fell 7.2% in May, the largest drop since May 2020, due to large falls in vehicles, electrical machinery, ICT & chemicals

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

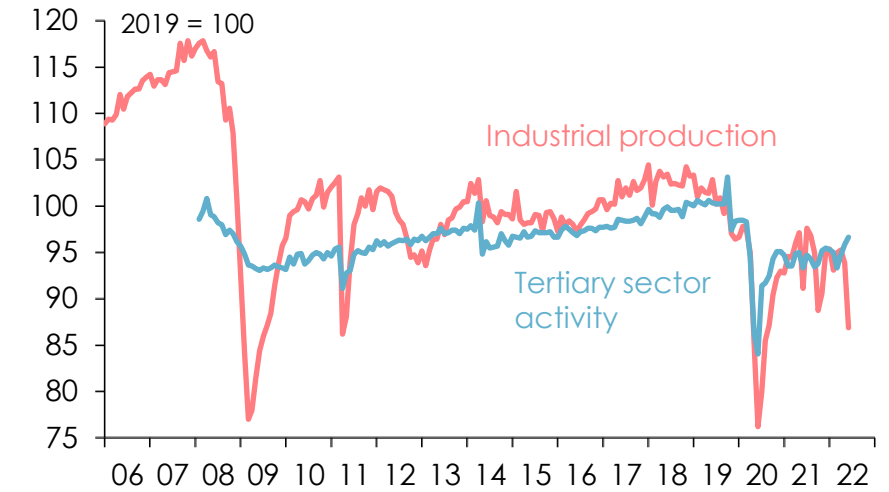
Business conditions by industry



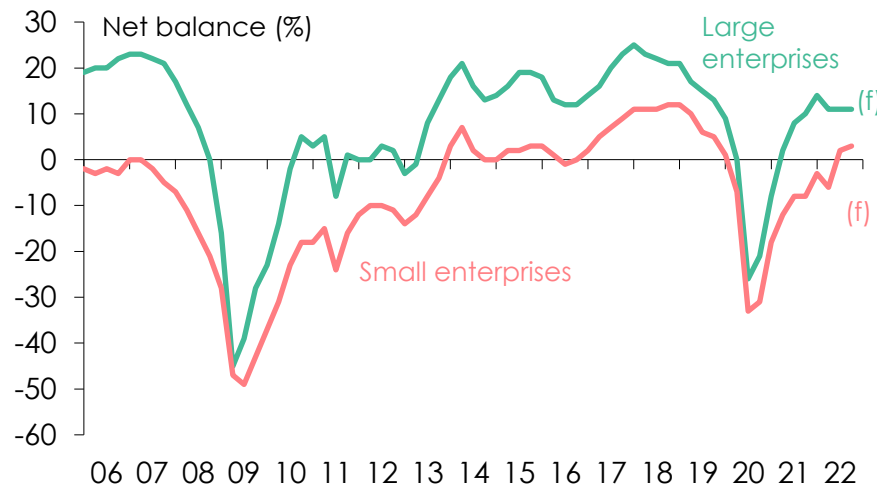
Corporate operating profits



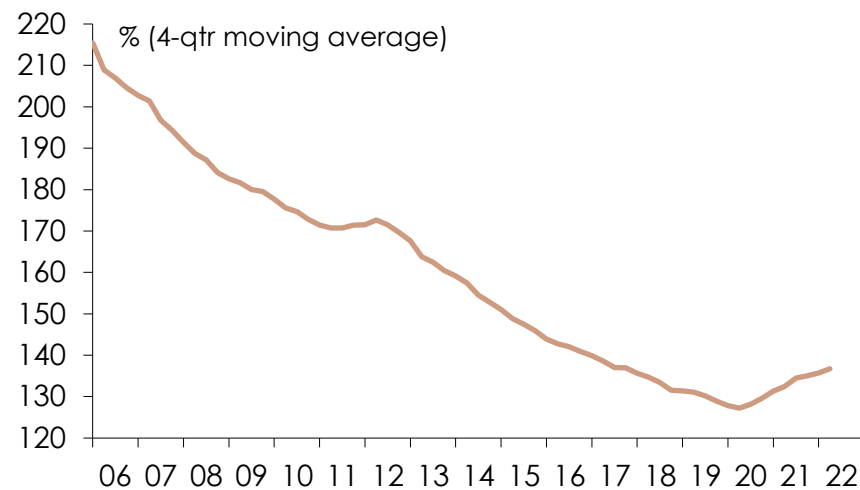
Indexes of economic activity



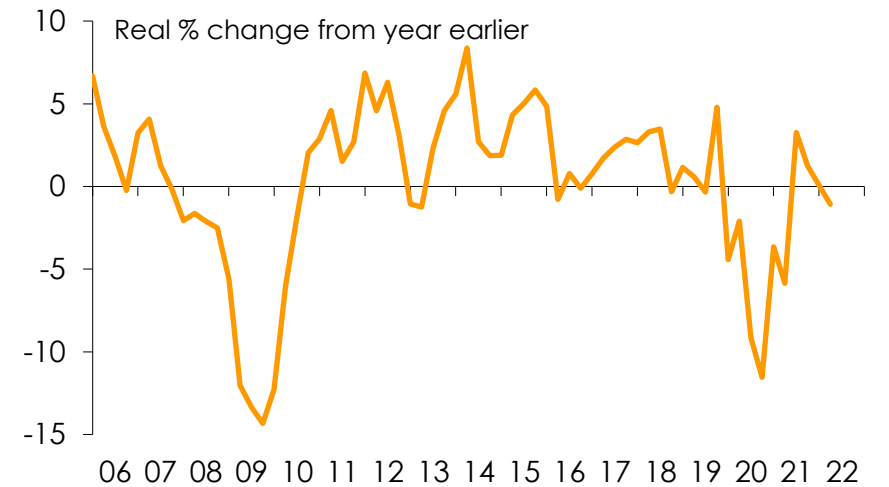
Business conditions by firm size



Corporate debt-equity ratio



Business investment

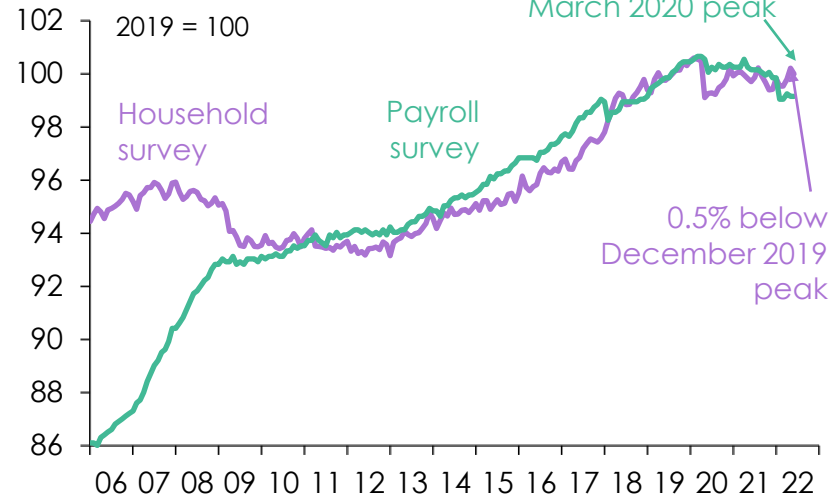


Sources: Bank of Japan, [Short-Term Economic Survey of Enterprises in Japan \('Tankan'\)](#); Policy Research Institute, Ministry of Finance, [Financial Statements Statistics of Corporations by Industry, Quarterly](#); Ministry of Economy, Trade & Industry, [Indices of Industrial Production](#) and [Indices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

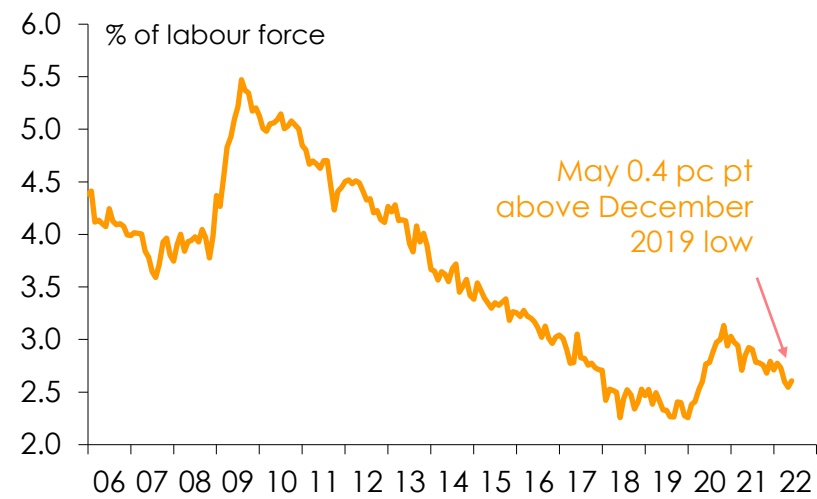
Japan's annual 'headline' inflation rate dropped marginally to 2.4% over the year to June

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

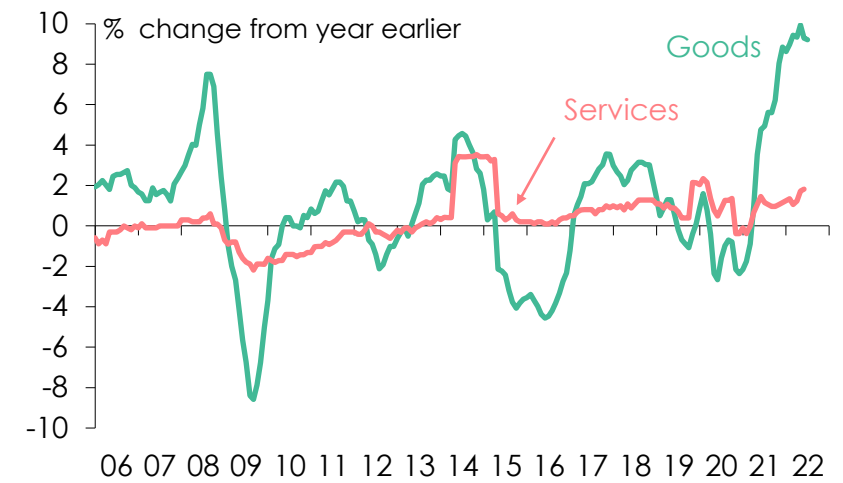
Employment



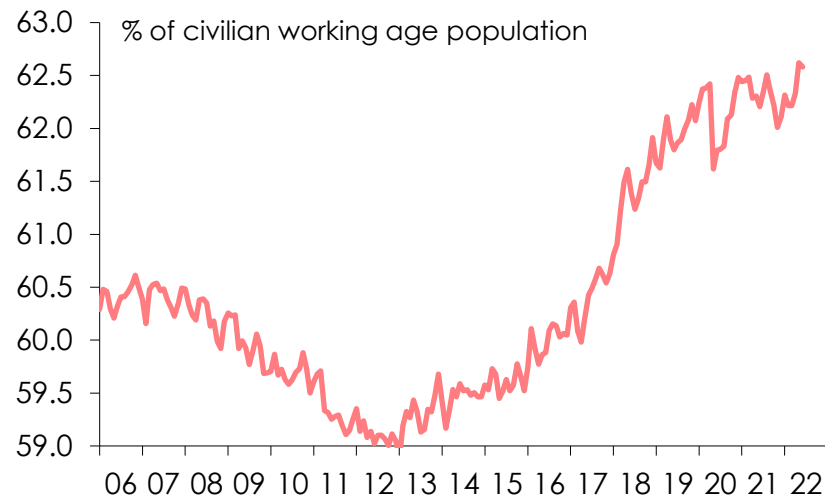
Unemployment rate



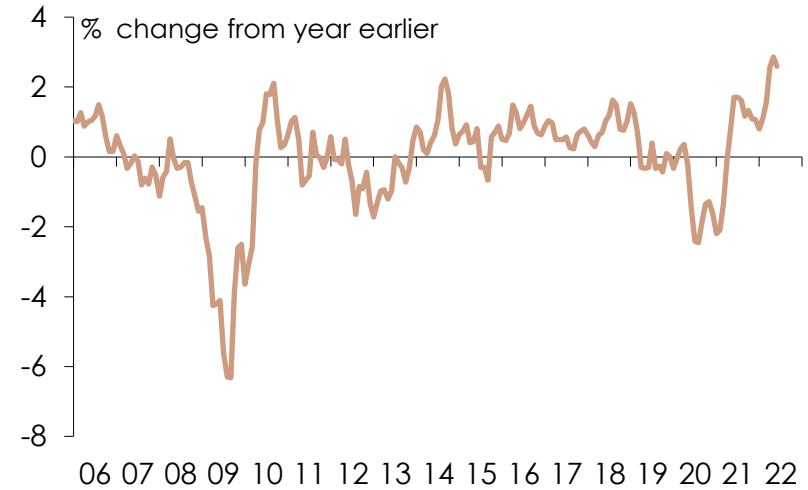
'Corporate' (producer) prices



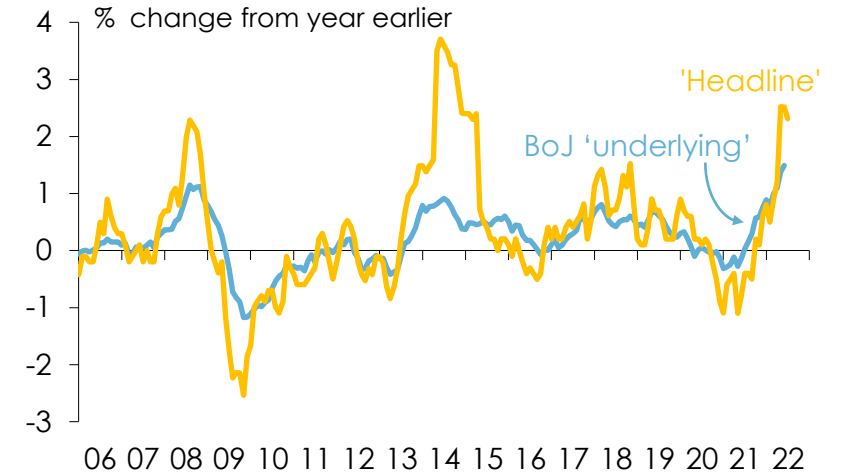
Labour force participation rate



Wages growth



Consumer prices

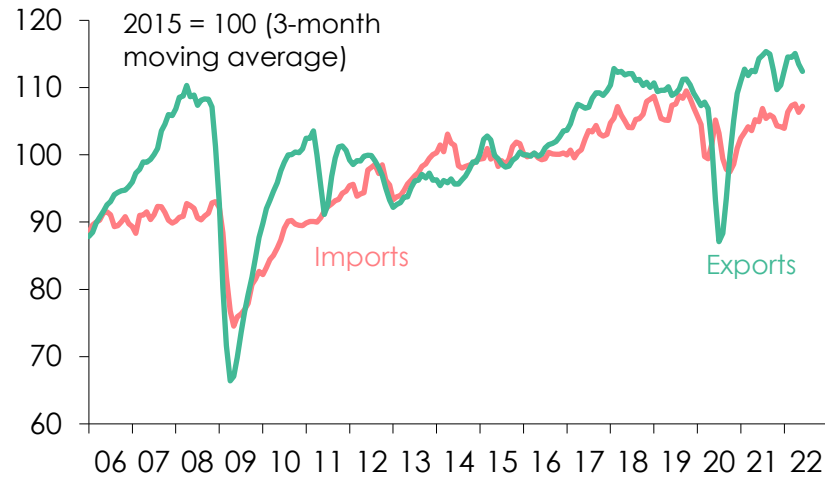


Sources: Statistics Bureau of Japan, [Labour Force Survey](#) and [Consumer Price Index](#); Ministry of Health, Labour and Welfare, [Monthly Labour Survey](#); Bank of Japan, [Prices and Measures of Underlying Inflation](#). [Return to "What's New"](#).

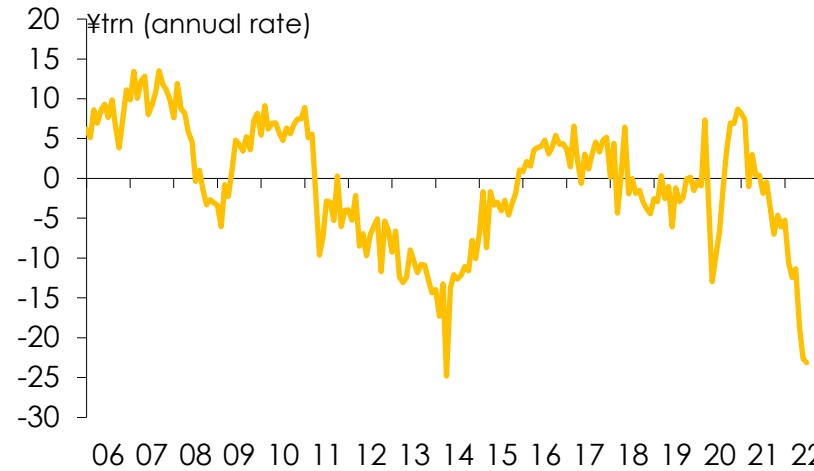
Japan is now incurring large (by its standards) external deficits as a result largely of higher prices commodity imports and loss of tourism exports

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

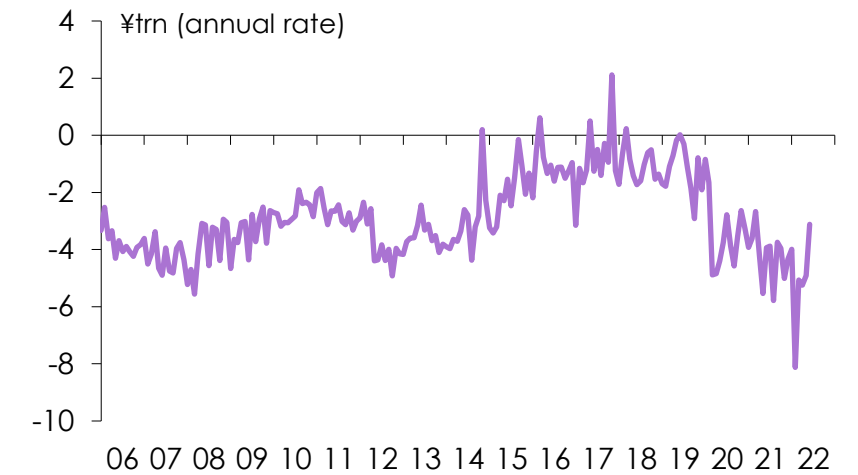
Merchandise trade volumes



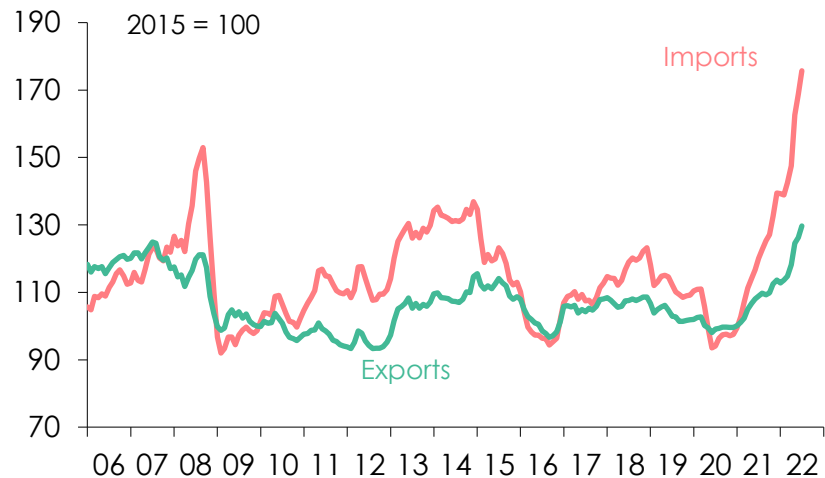
Merchandise trade balance



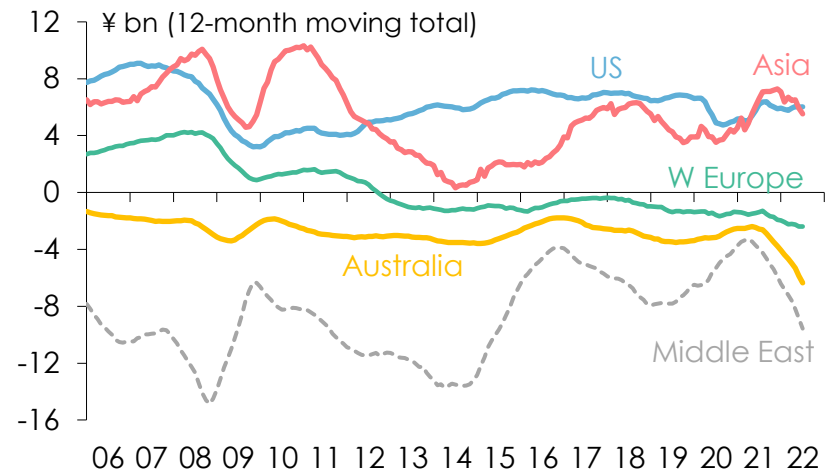
Services trade balance



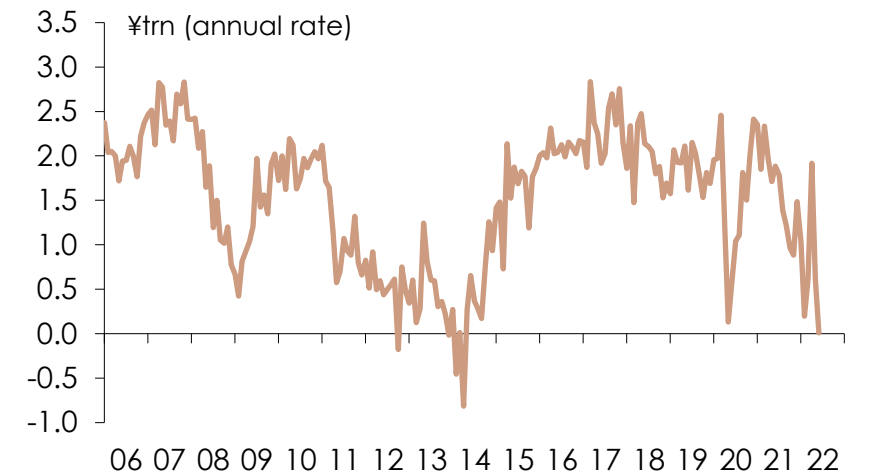
Merchandise trade prices



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 monetary policy settings unchanged at its Policy Board meeting last week, and made almost no reference to the yen

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

- ❑ As expected, the [Bank of Japan](#) left all its monetary policy settings unchanged – including the commitment to cap 10-year JGB yields at 0.25% - at last Thursday's Monetary Policy Board meeting
- ❑ In the [Statement on Monetary Policy](#), issued after the meeting, 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"
- ❑ In the accompanying [Outlook for Economic Activity and Prices](#), the BoJ lowered its forecast for real GDP growth in FY22 to 2.4% (from 2.9%) due to "a slowdown in overseas economies and an intensification of supply-side constraints", but revised up its forecasts for FY23 and FY24 to 2.0% and 1.3% (from 1.9% and 1.1%) respectively
- ❑ It also raised its forecasts for its targeted inflation measure (CPI excluding fresh food) in FY22 to 2.3% (from 1.9%) and in FY23 to 1.4% (from 1.1%), due to higher prices for energy, food and durable goods
 - but it continues to expect this measure of inflation to decelerate after the end of 2022 "because the positive contribution of the rise in energy prices to the CPI is likely to wane"
- ❑ The BoJ sees risks to economic activity as "skewed to the downside for the time being but generally balanced thereafter" while risks to prices are "skewed to the upside for the time being but generally balanced thereafter"
 - 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"
- ❑ The BoJ again made very little mention of the increasing weakness in the yen, beyond noting "future developments in foreign exchange rates" and "the extent to which such developments will spread to import prices or domestic prices"

Other East Asian economies

The ADB last week lowered its growth forecasts for most East Asian economies (except for Indonesia) and raised its forecasts for inflation

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

IMF and Asian Development Bank forecasts for East Asian economies

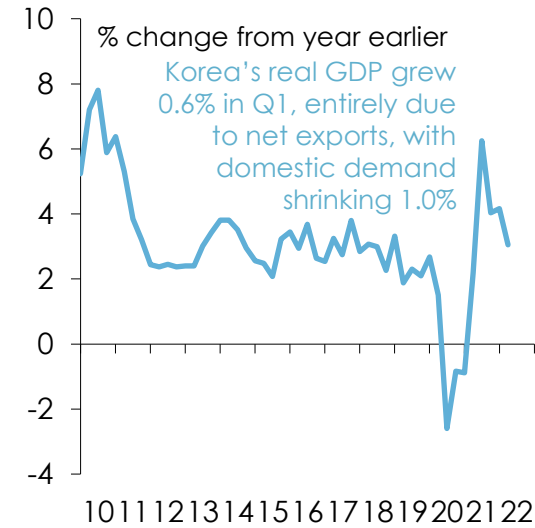
	Real GDP growth							Inflation						
	Actual		IMF			ADB		Actual		IMF			ADB	
	2010-19*	2020	2021	2022	2023	2022	2023	2010-19*	2020	2021	2022	2023	2022	2023
Korea	3.3	-0.9	4.0	2.5	2.9	2.6	2.6	1.7	0.5	2.5	4.0	2.4	4.5	3.0
Taiwan	3.6	3.1	5.9	3.2	2.9	3.8	3.0	1.0	-0.2	1.8	2.3	2.2	2.8	2.0
Hong Kong	2.8	-6.1	6.4	0.5	4.9	1.0	3.9	3.3	0.3	1.6	1.9	2.1	2.3	2.1
Singapore	4.9	-5.4	6.0	4.0	2.9	3.9	3.2	1.6	-0.2	2.3	3.5	2.0	4.7	2.3
Indonesia	5.4	-2.1	3.3	5.4	6.0	5.2	5.2	4.7	2.0	1.6	3.3	3.3	4.0	3.3
Philippines	6.4	-9.6	4.6	6.5	6.3	6.5	6.3	3.0	2.6	3.9	4.3	3.7	4.9	4.3
Thailand	3.6	-6.1	1.3	3.3	4.1	2.9	4.2	1.6	-0.8	1.2	3.5	2.8	6.3	2.7
Malaysia	5.4	-5.6	3.5	5.6	5.5	5.8	5.1	2.1	-1.1	2.5	3.0	2.4	2.7	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 Supplement](#), 21st July 2022. The IMF's forecasts will be updated on 26th July. [Return to "What's New"](#).

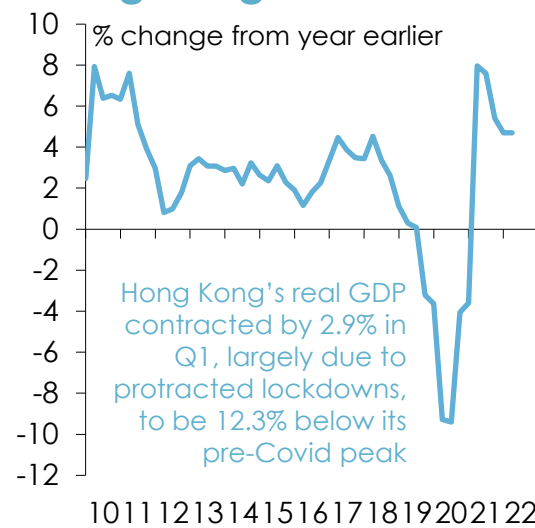
Singapore's real GDP was unchanged in Q2, but 5.9% larger than at its pre-pandemic peak

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

Korea



Hong Kong



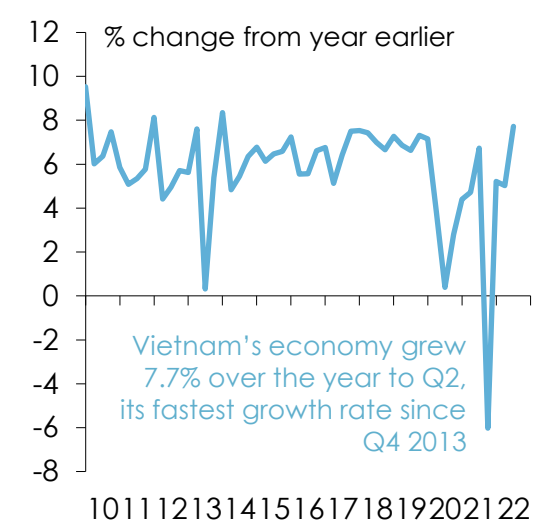
Indonesia



Thailand



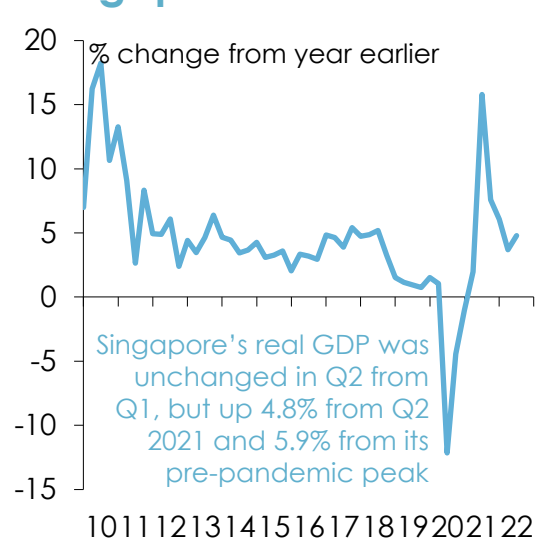
Vietnam



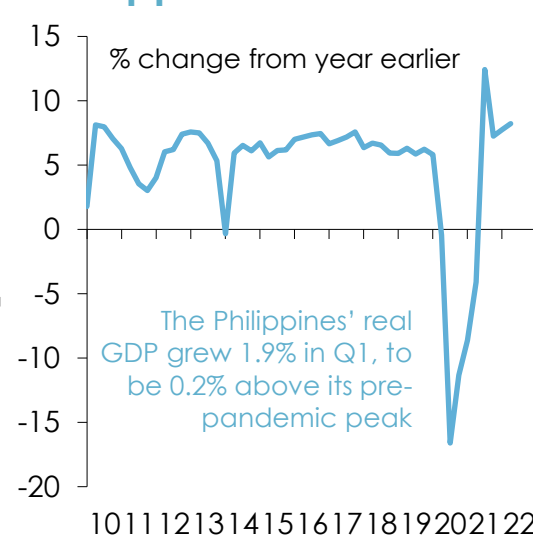
Taiwan



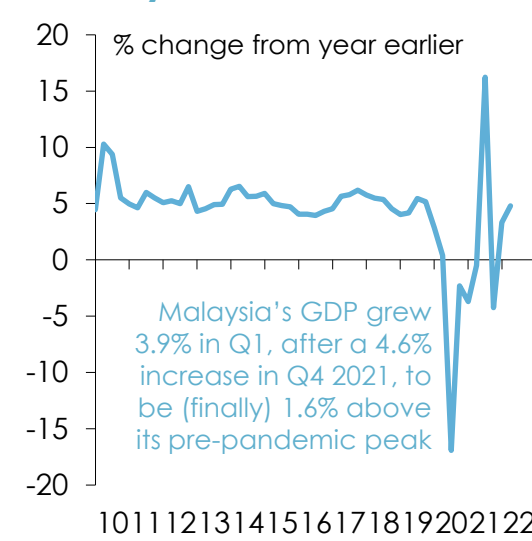
Singapore



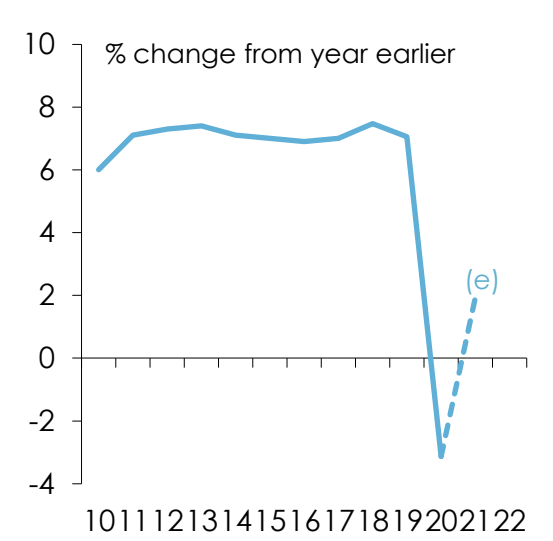
Philippines



Malaysia



Cambodia

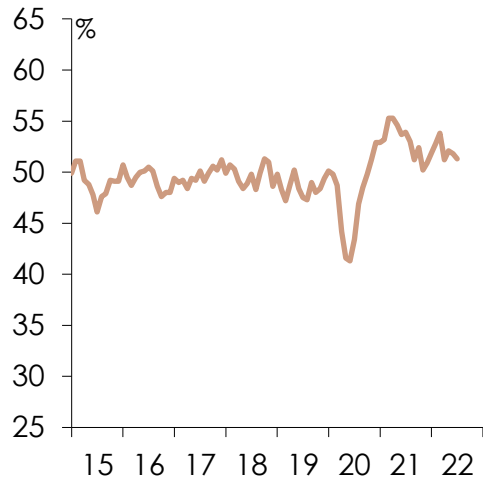


Sources: Bank of Korea; Taiwan Directorate-General of Budget, Accounting & Statistics; Hong Kong Census & Statistics Department; Singapore Ministry of Trade and Industry; Department of Statistics Malaysia; Office of the National Economic & Social Development Council of Thailand; Statistics Indonesia;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

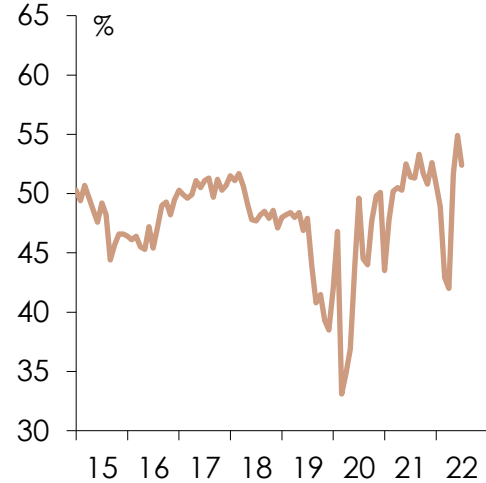
PMIs were slightly lower in most Asian economies in June, except for Malaysia

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

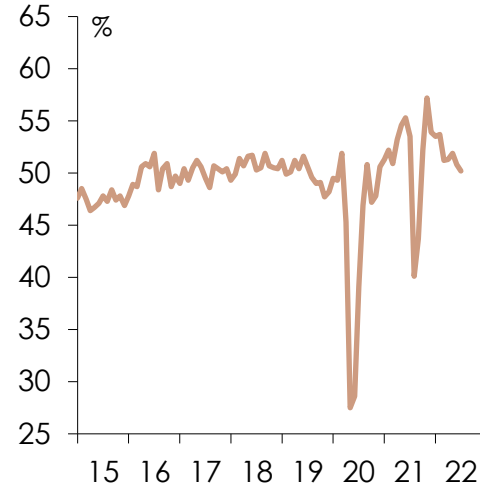
Korea



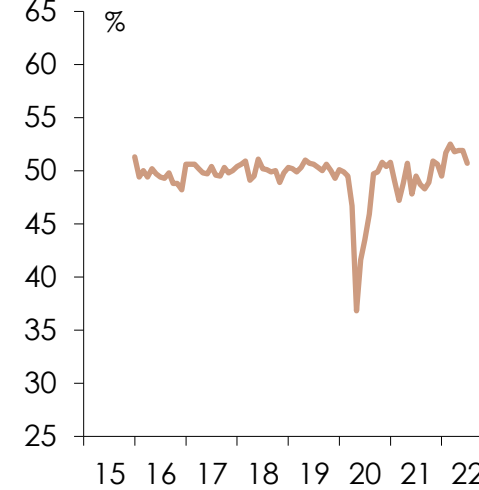
Hong Kong



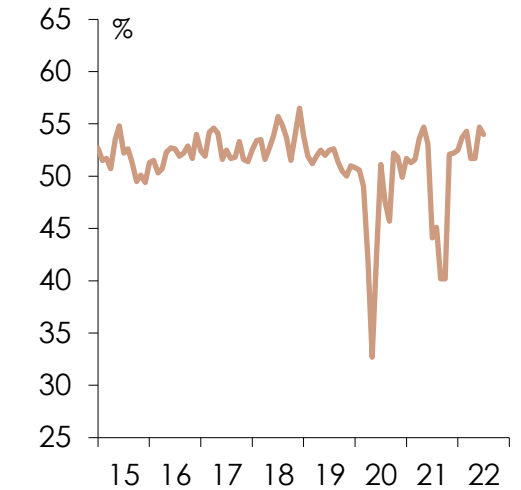
Indonesia



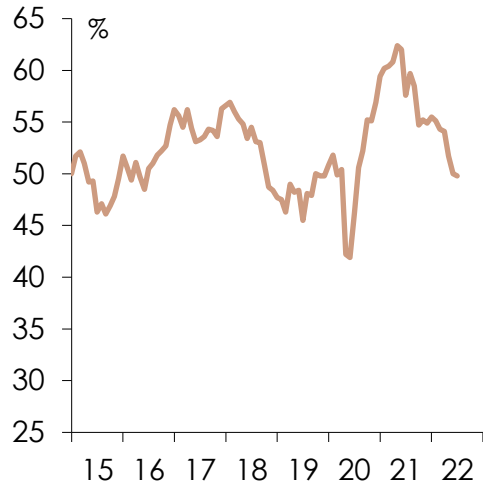
Thailand



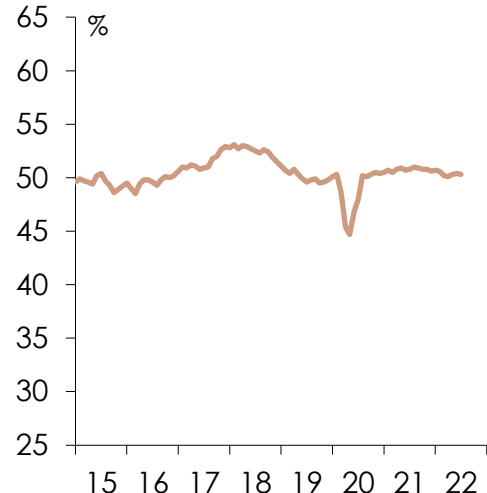
Vietnam



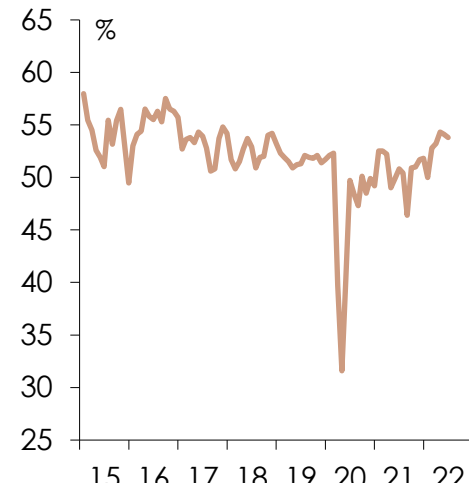
Taiwan



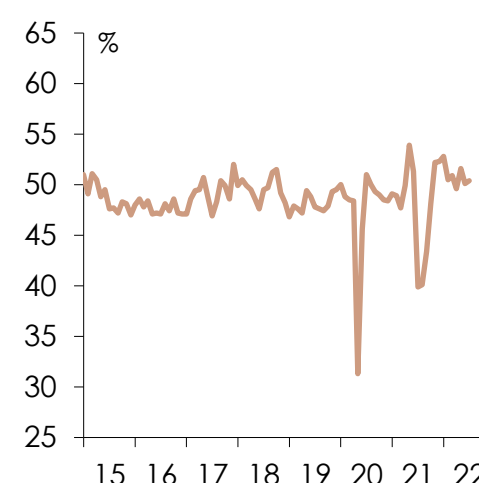
Singapore



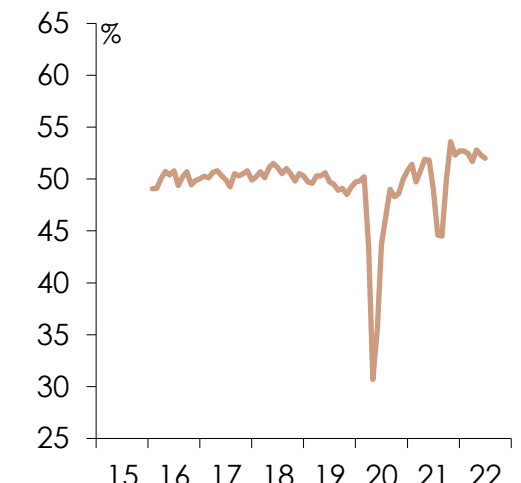
Philippines



Malaysia



ASEAN

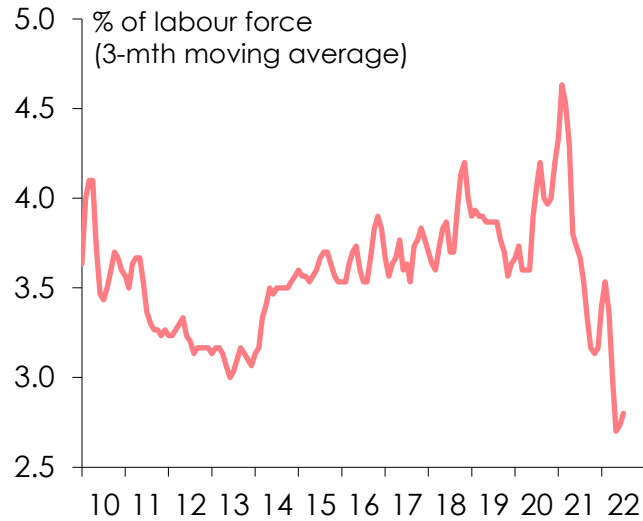


Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous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

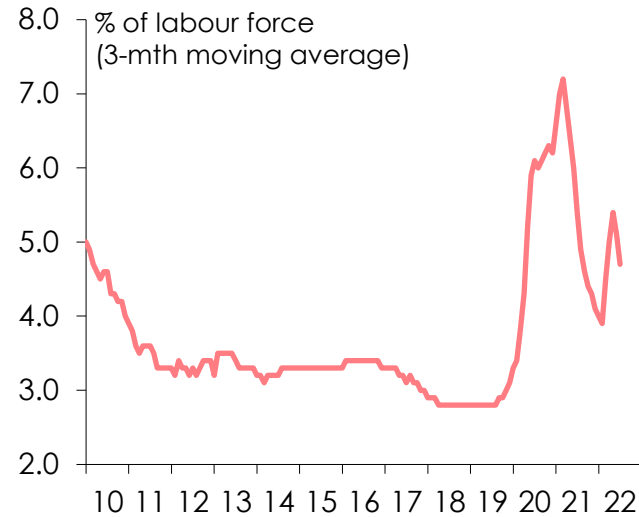
Unemployment rose sharply in most Asian economies last year but is now falling in most of them (except for Hong Kong)

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

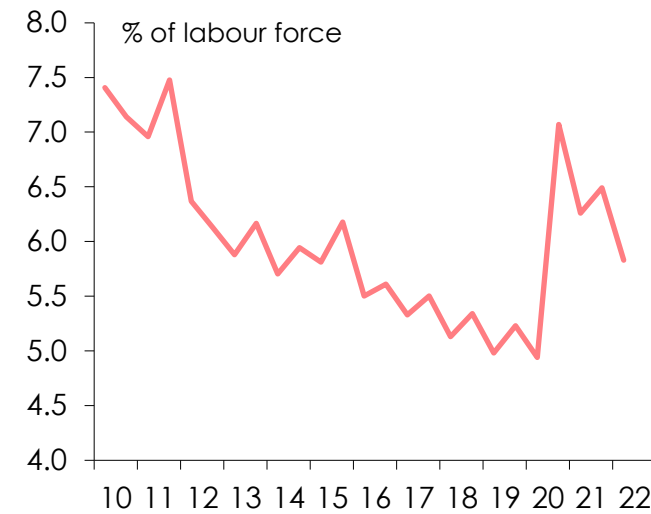
Korea



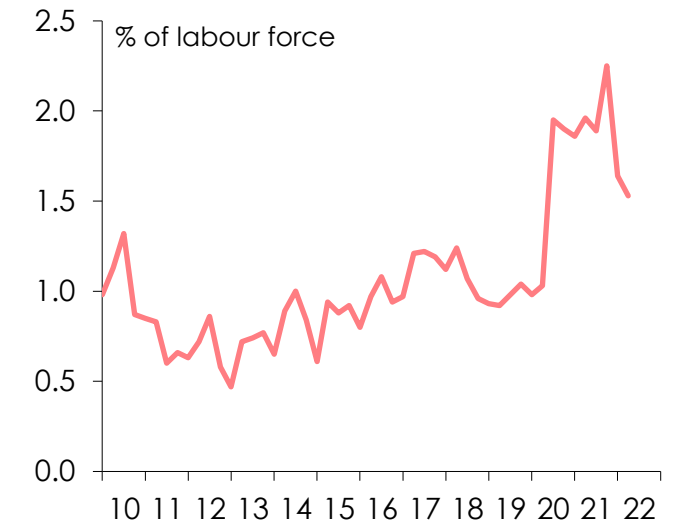
Hong Kong



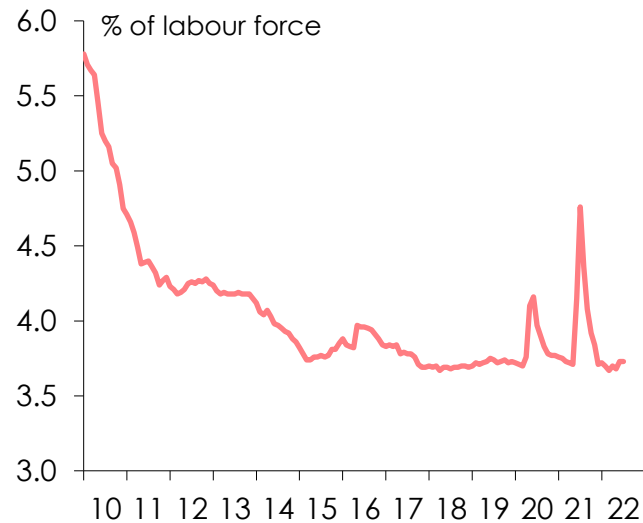
Indonesia



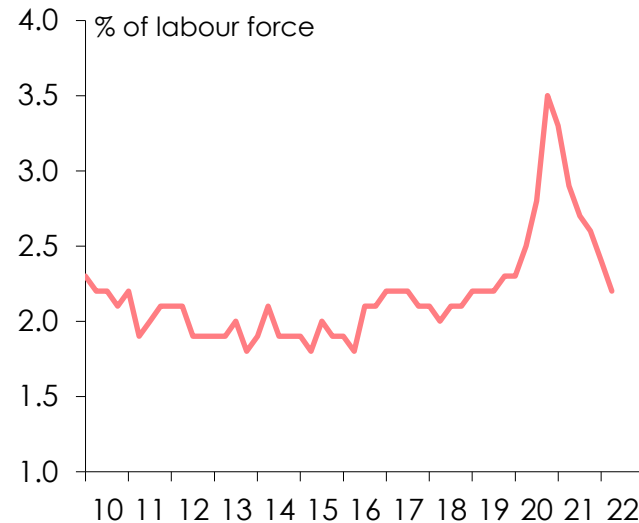
Thailand



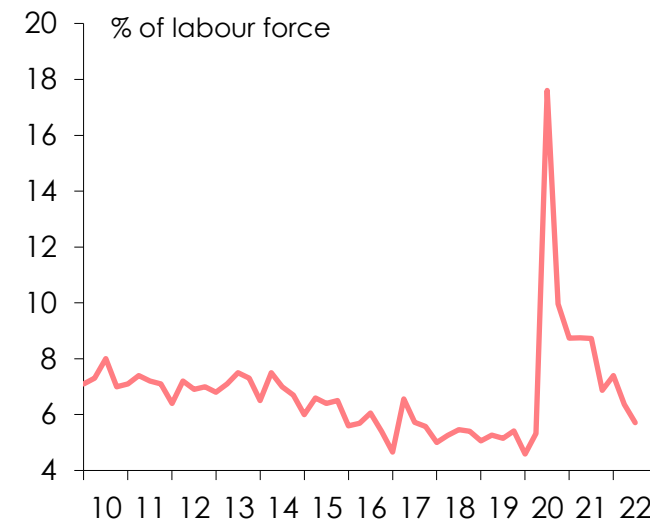
Taiwan



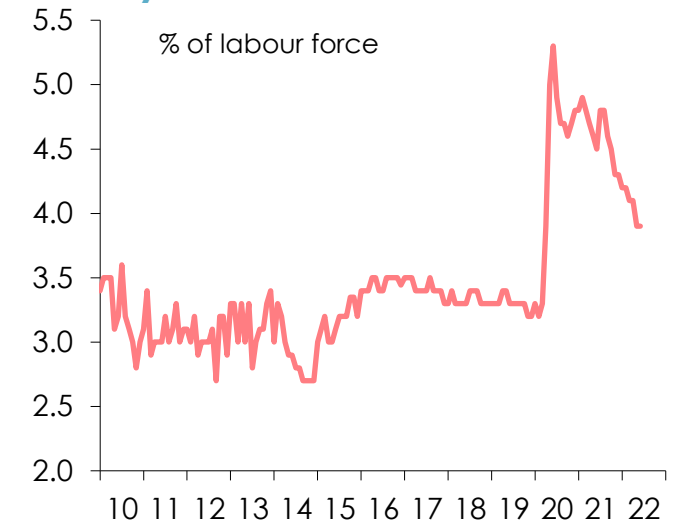
Singapore



Philippines



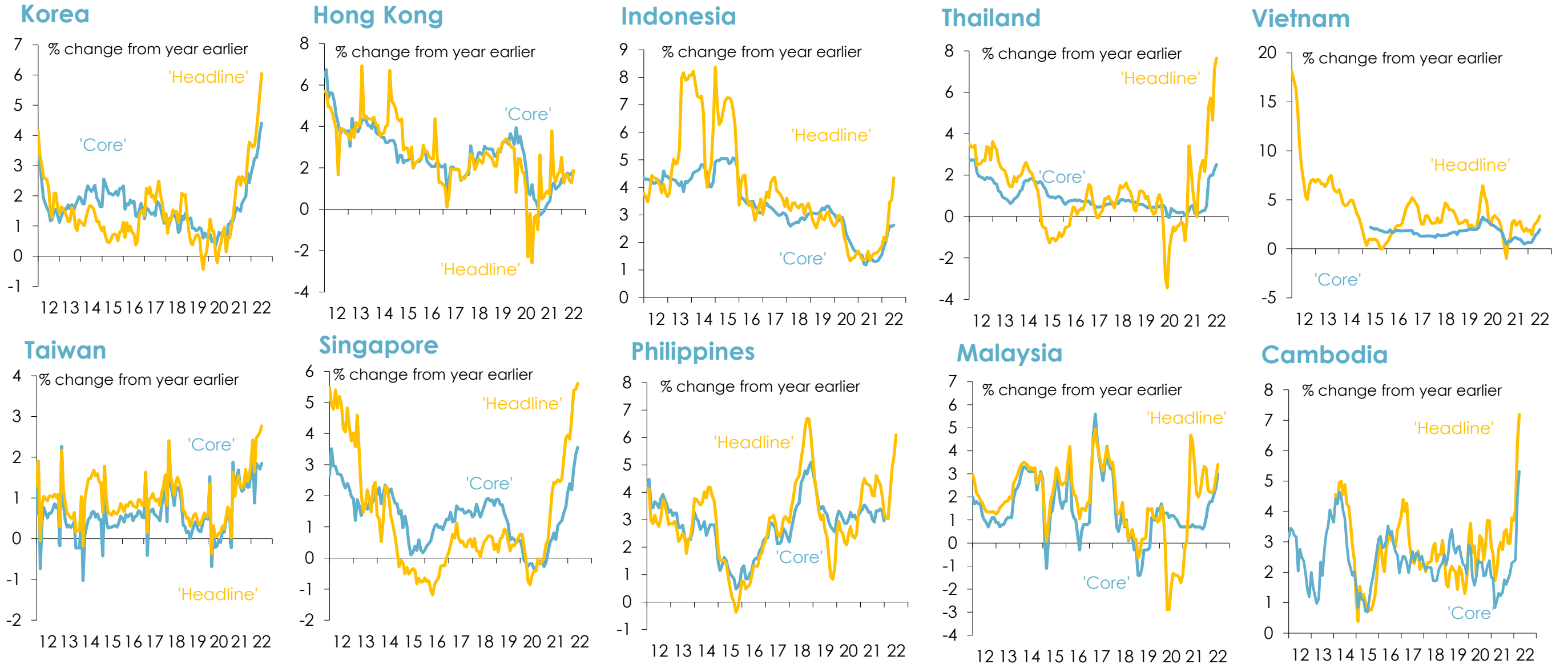
Malaysia



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

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

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

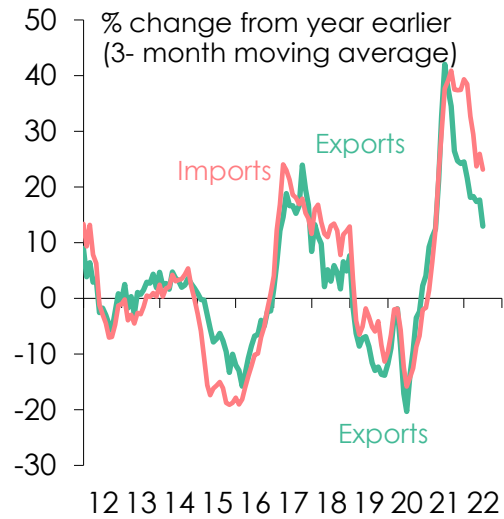


Note: 'Core' inflation in Korea excludes agricultural products & oil; in Taiwan it excludes fresh fruit, vegetables & energy; in Singapore it excludes accommodation & private transport; and in Hong Kong it excludes the effect of 'one-off government relief measures'. 'Core' inflation in Indonesia excludes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

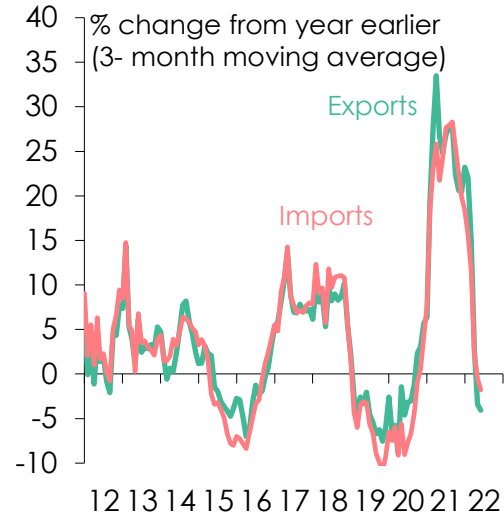
Asian exports are returning to more 'normal' growth rates following the 'bump' in 2021 inflated by comparison with 2020

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

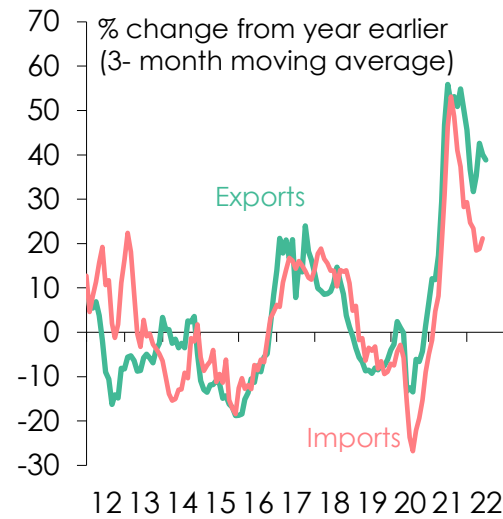
Korea



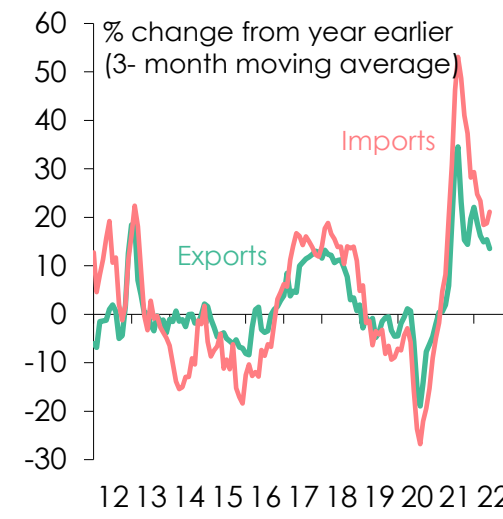
Hong Kong



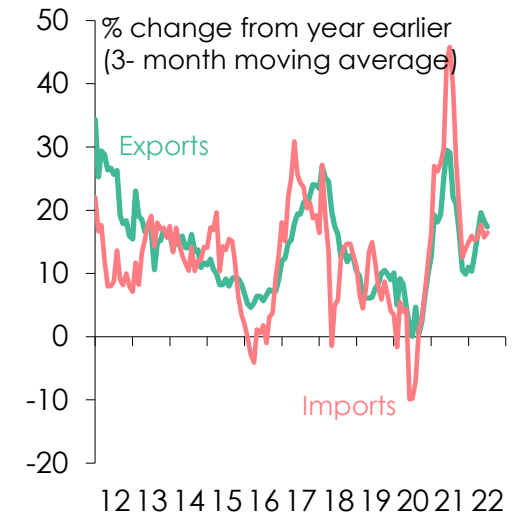
Indonesia



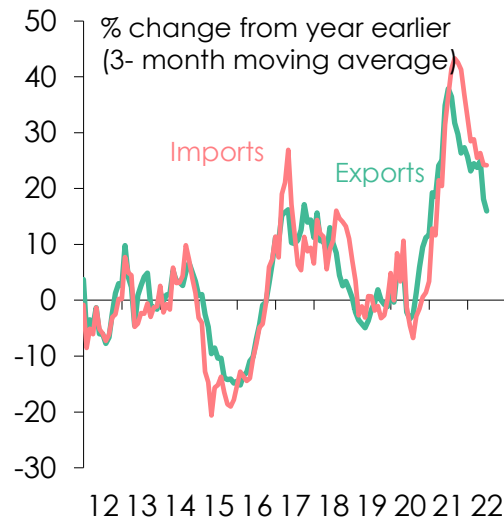
Thailand



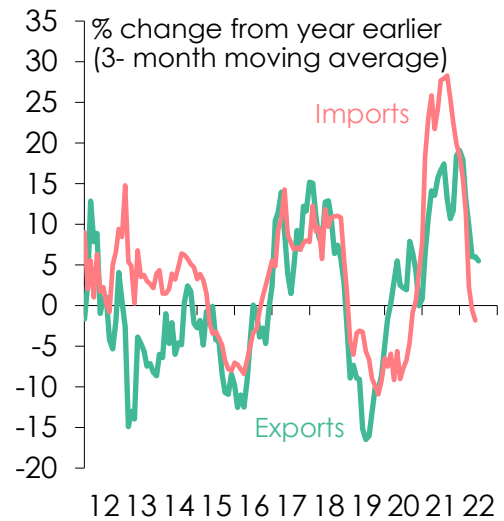
Vietnam



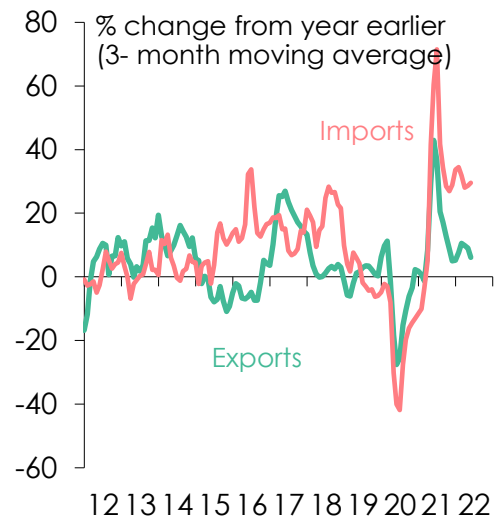
Taiwan



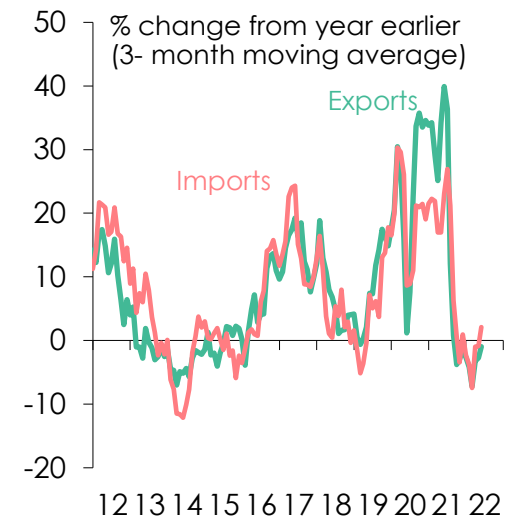
Singapore



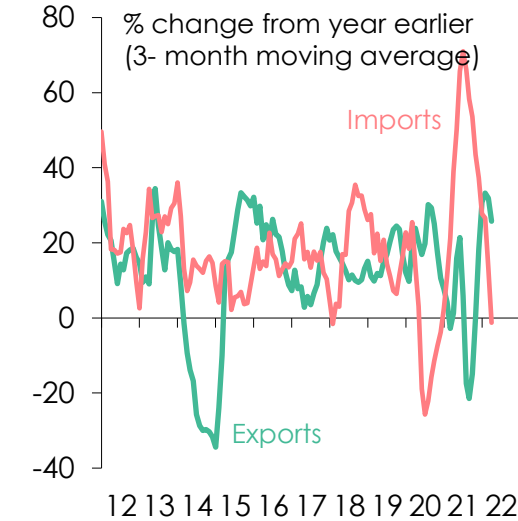
Philippines



Malaysia



Cambodia

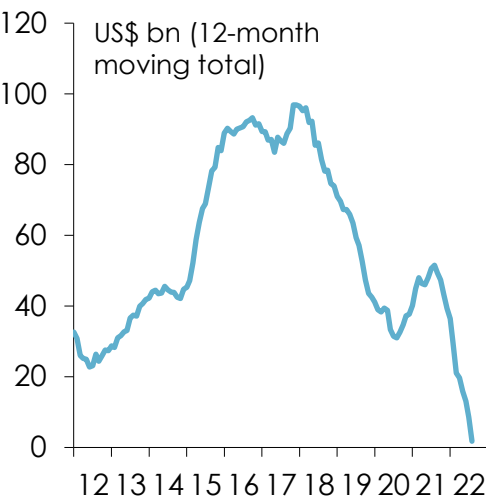


Note: Data for Hong Kong, Singapore and Malaysia are published in national currencies and converted to US dollars by Corinna using month-average exchange rates. Sources: national statistical agencies and central banks. [Return to "What's New"](#).

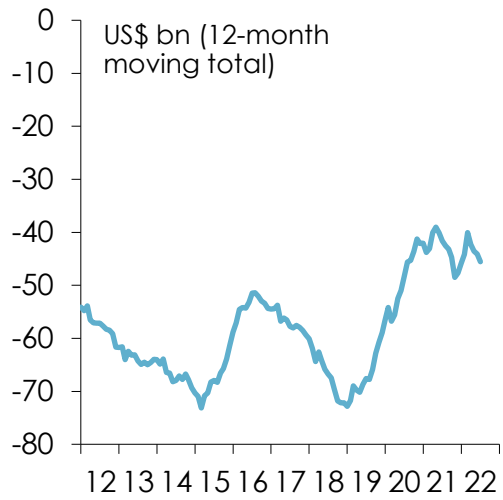
Most Asian economies – except for Indonesia, Malaysia and Singapore – are experiencing some deterioration in their trade balances

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

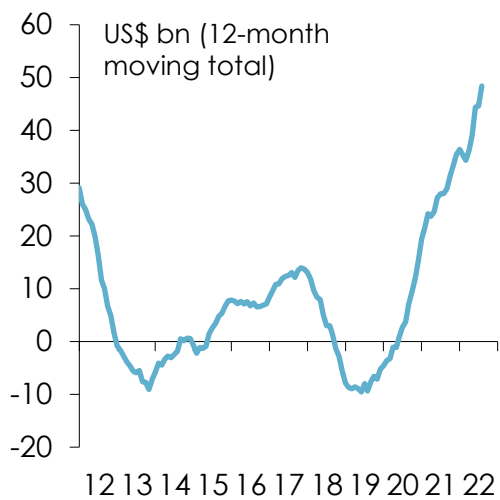
Korea



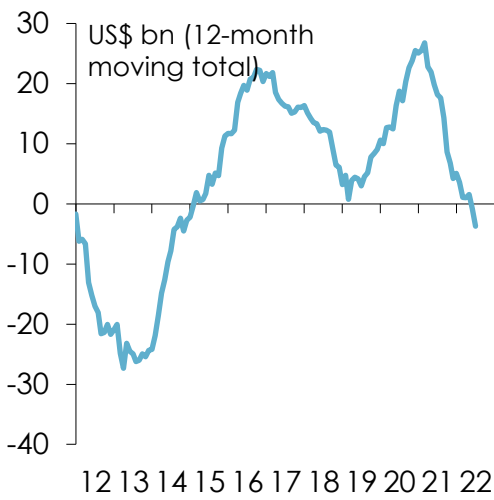
Hong Kong



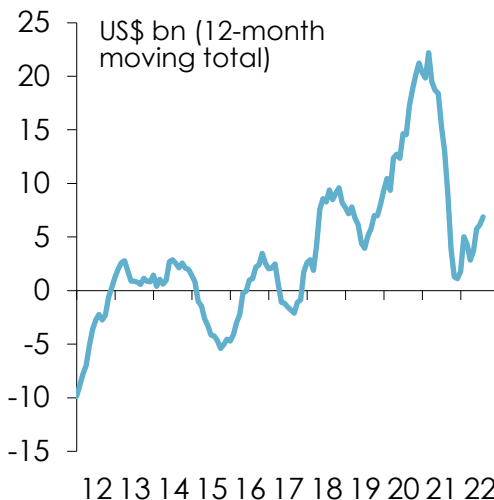
Indonesia



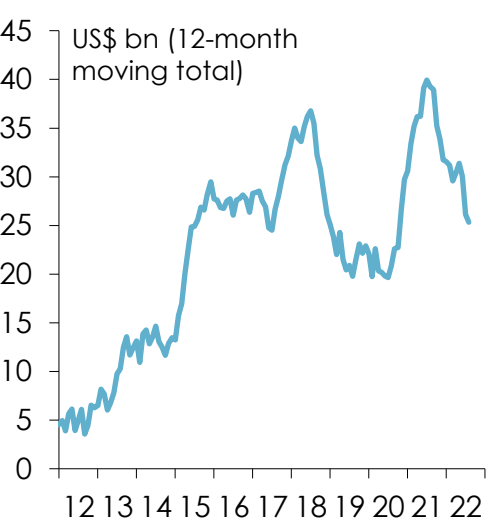
Thailand



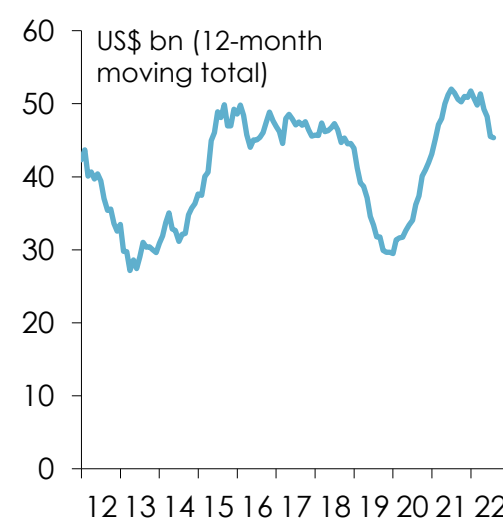
Vietnam



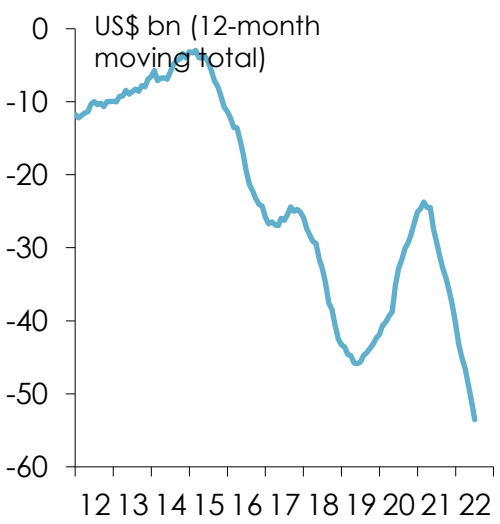
Taiwan



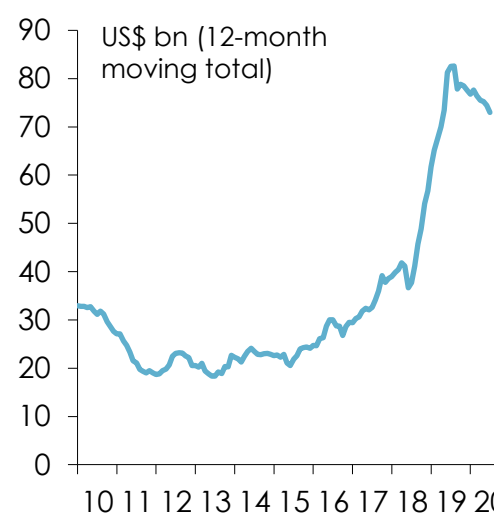
Singapore



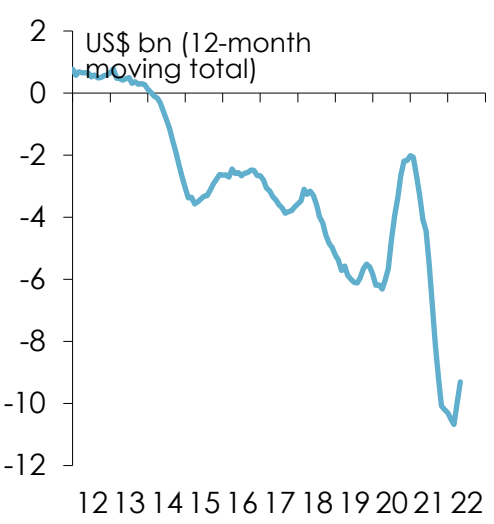
Philippines



Malaysia



Cambodia

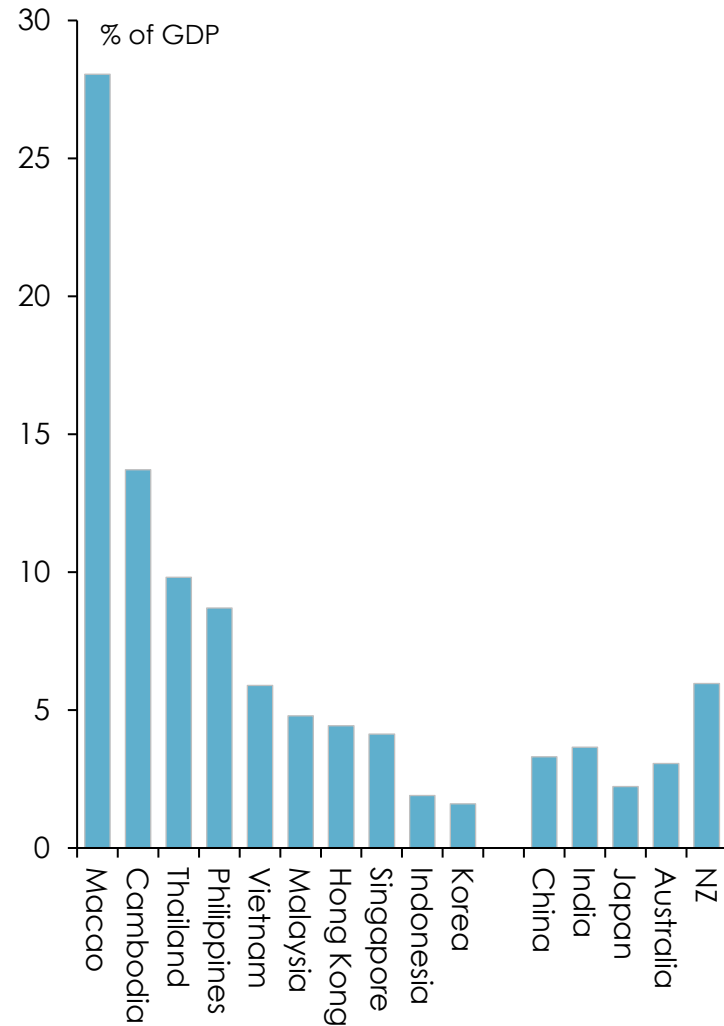


Note: Data for Hong Kong, Singapore and Malaysia are published in national currencies and converted to US dollars by Corinna using month-average exchange rates. Sources: national statistical agencies and central banks. [Return to "What's New"](#).

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

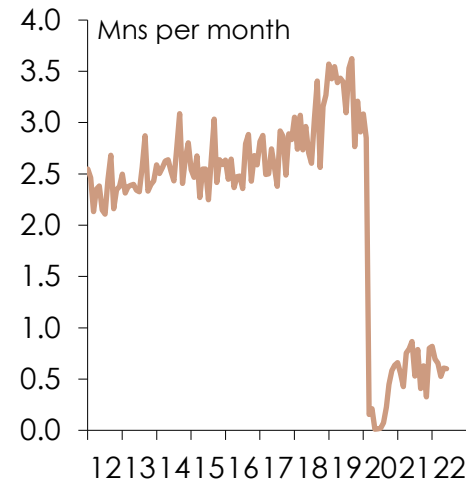
THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

International tourism direct contribution to GDP, 2018

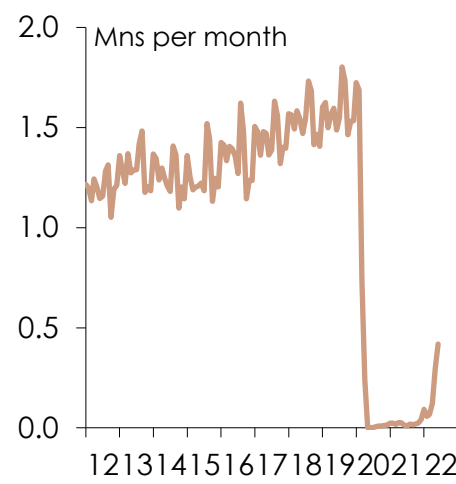


International visitor arrivals

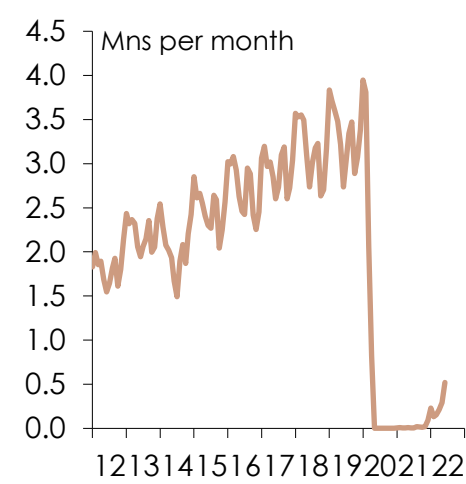
Macao



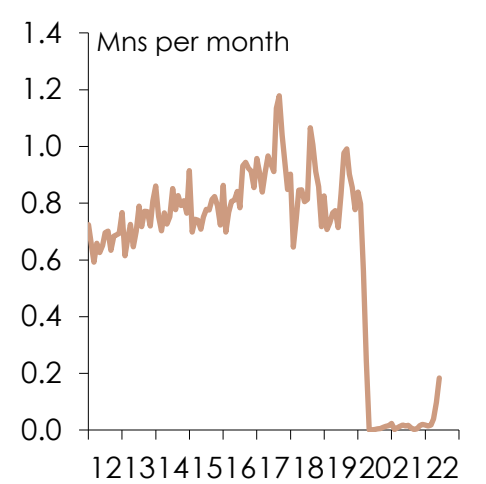
Singapore



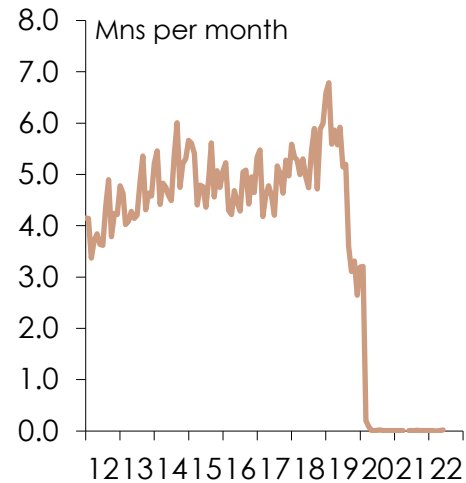
Thailand



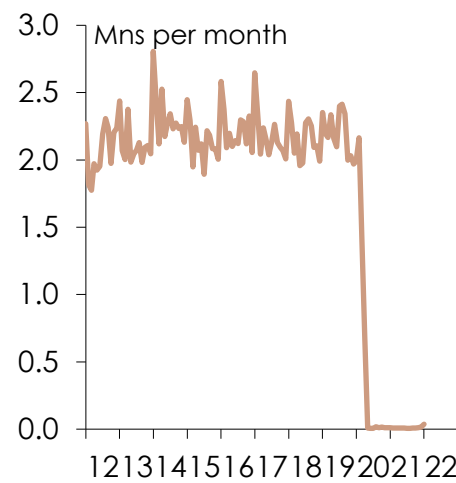
Indonesia



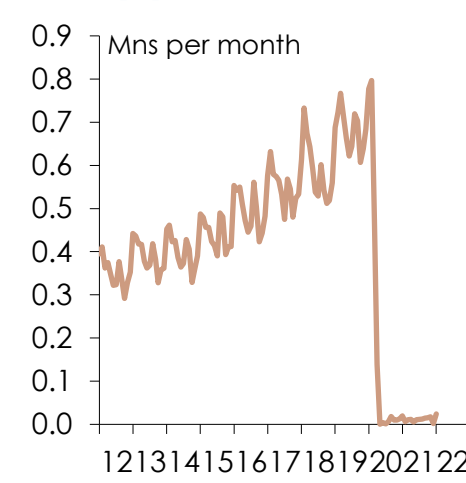
Hong Kong



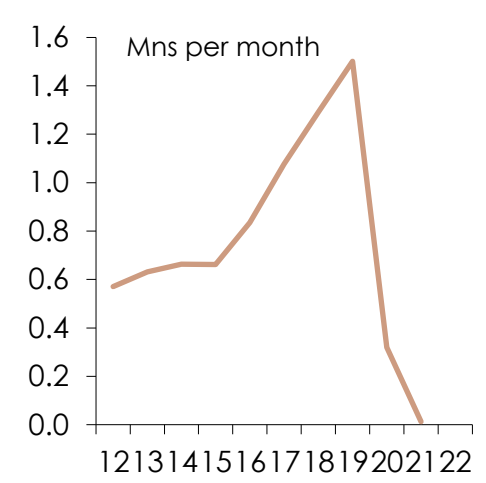
Malaysia



Philippines



Vietnam



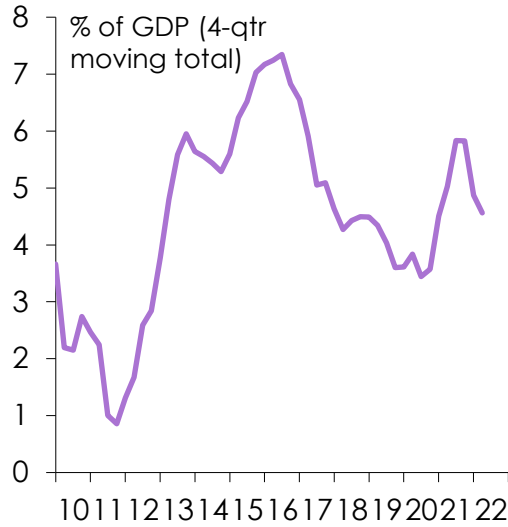
Note: Visitor arrivals data for Vietnam is only published annually. Malaysia and the Philippines have thus far not published data for months after December 2021.

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

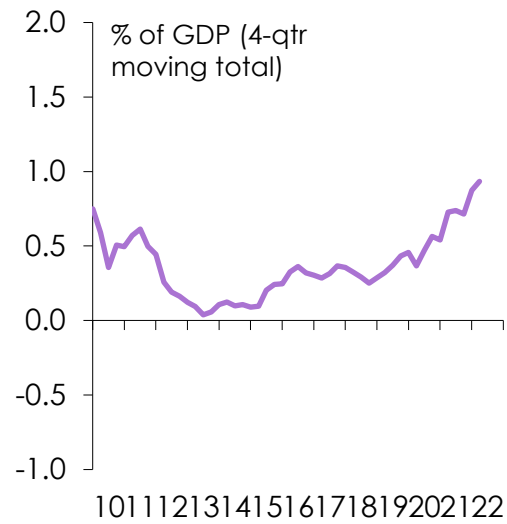
The more 'advanced' Asian economies have strong current account positions, Indonesia's is much improved but others have deteriorated

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

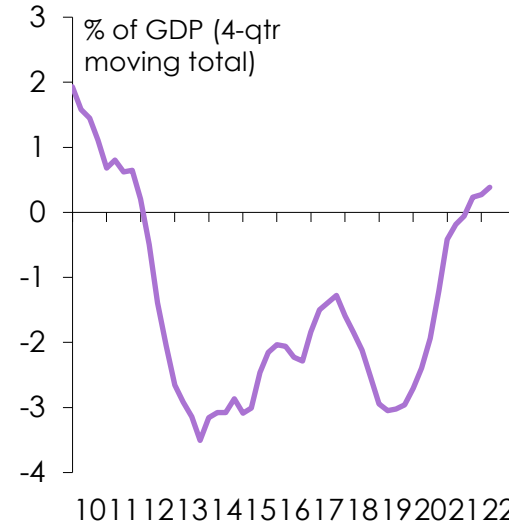
Korea



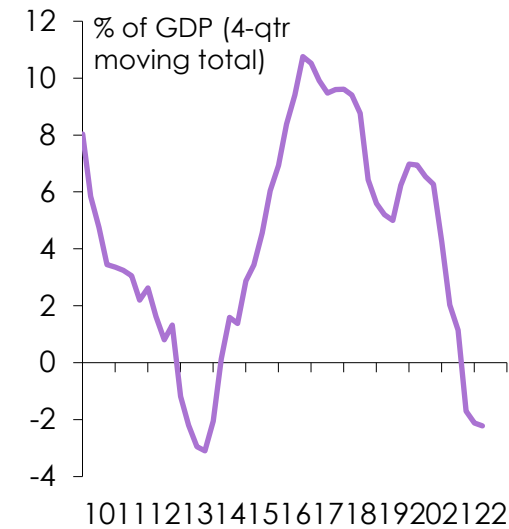
Hong Kong



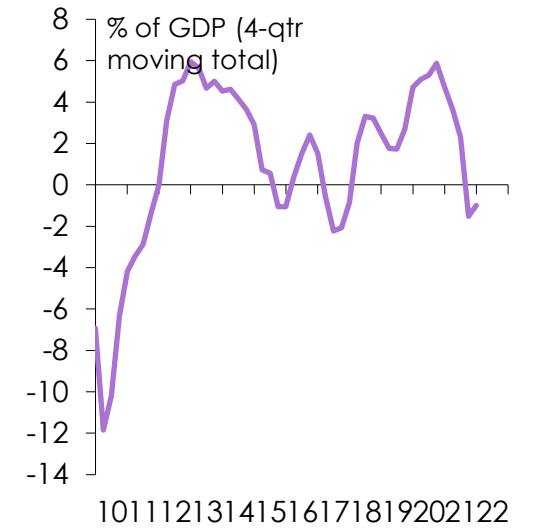
Indonesia



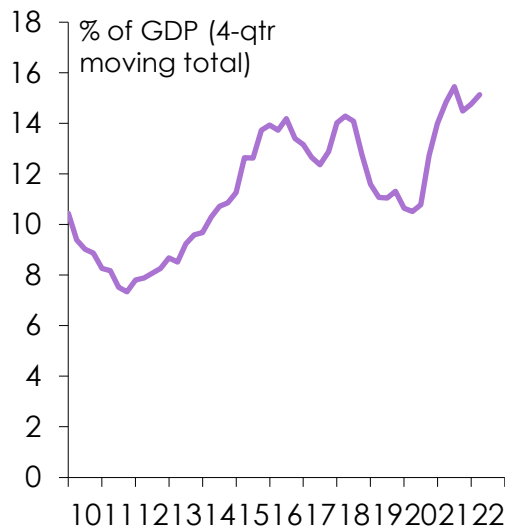
Thailand



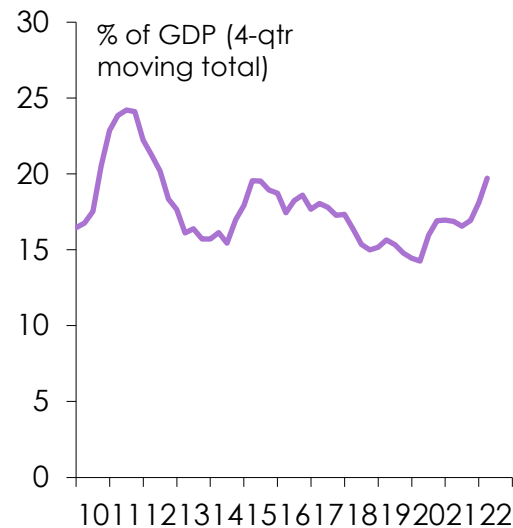
Vietnam



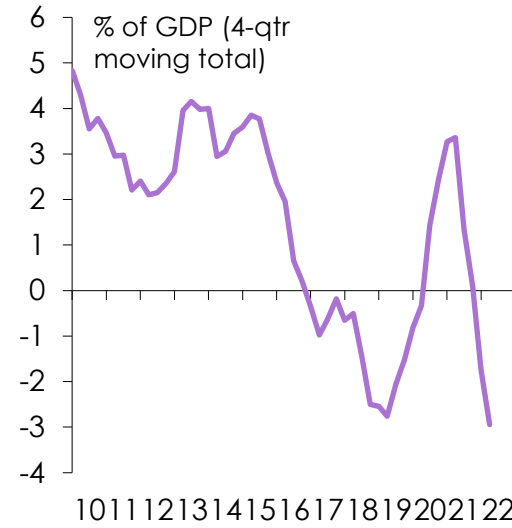
Taiwan



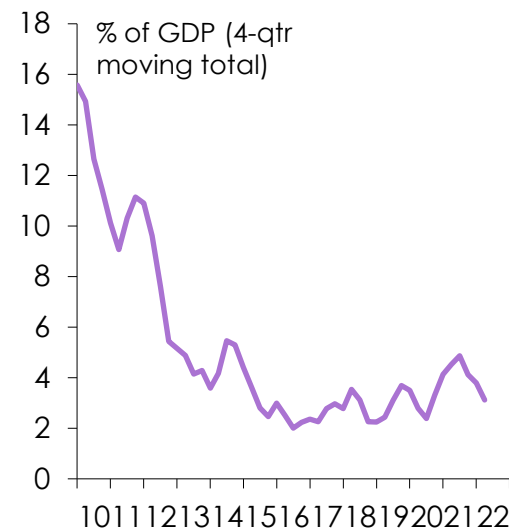
Singapore



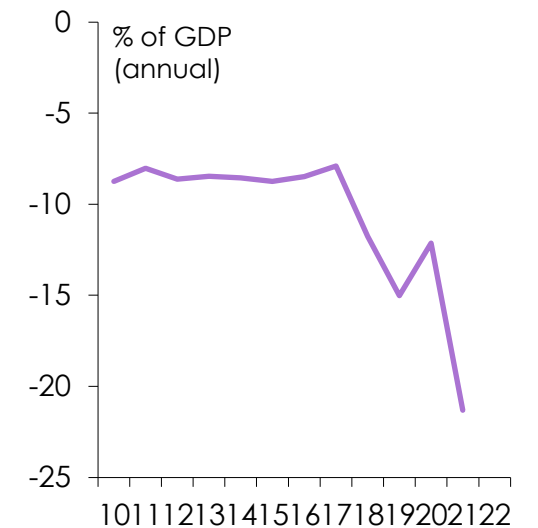
Philippines



Malaysia



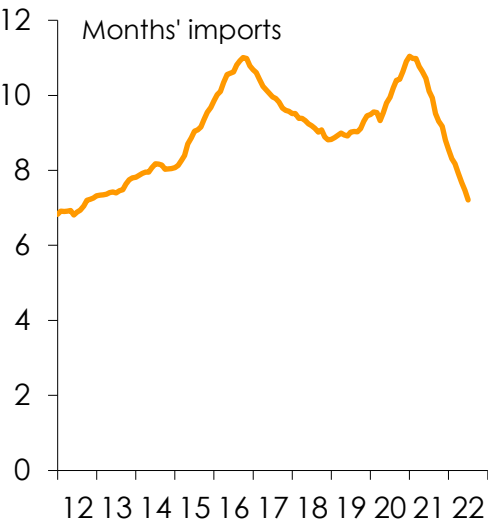
Cambodia



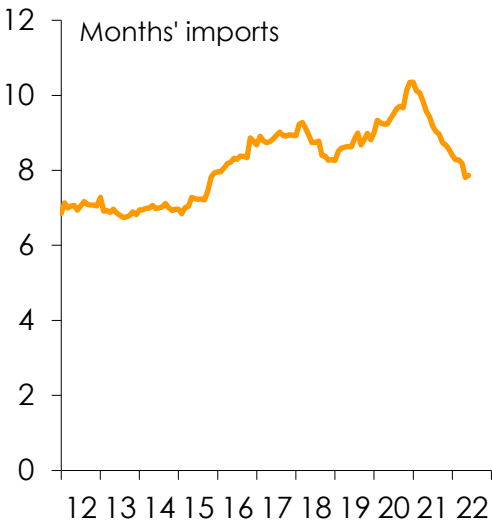
Most Asian economies have sought to maintain high levels of FX reserves since the 1997-98 crisis – although Malaysia's have deteriorated recently

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

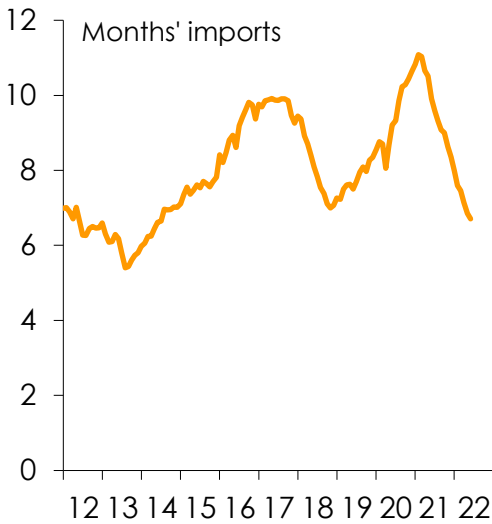
Korea



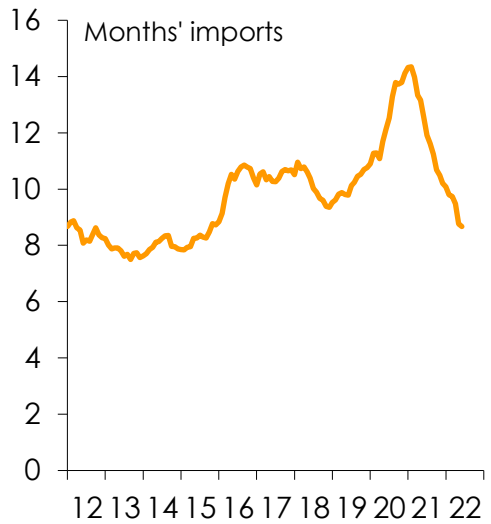
Hong Kong



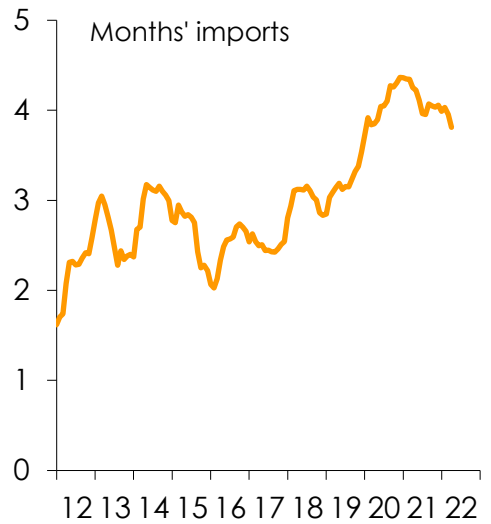
Indonesia



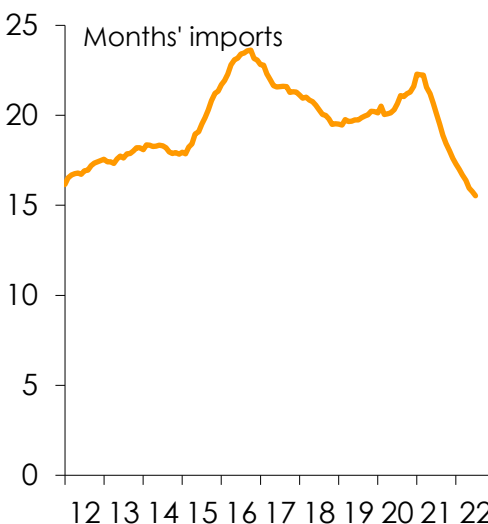
Thailand



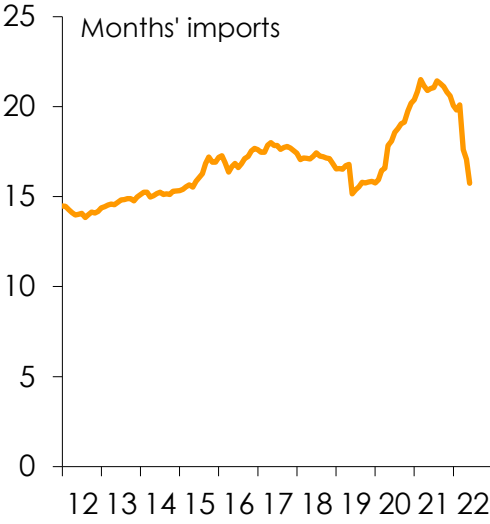
Vietnam



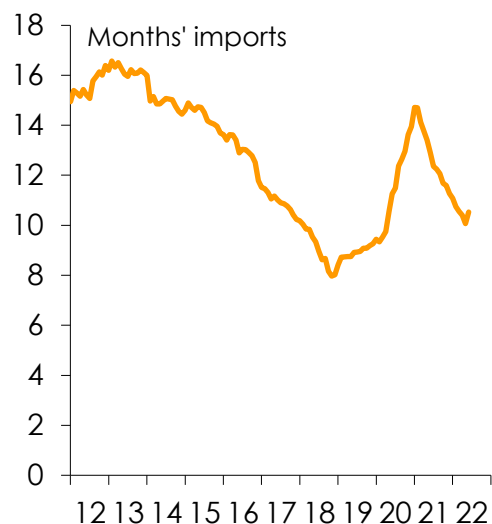
Taiwan



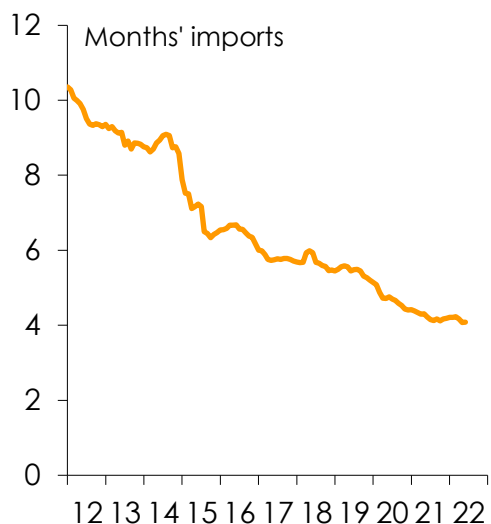
Singapore



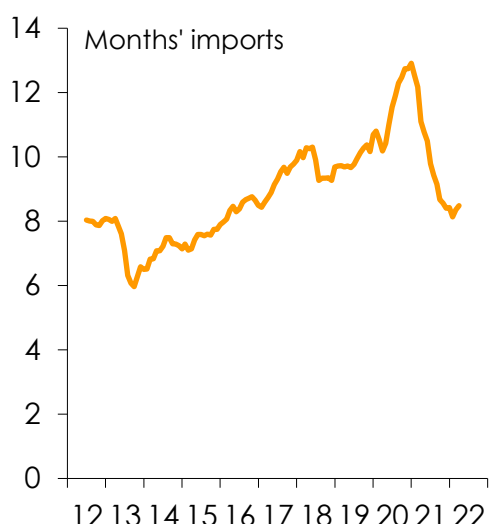
Philippines



Malaysia



Cambodia

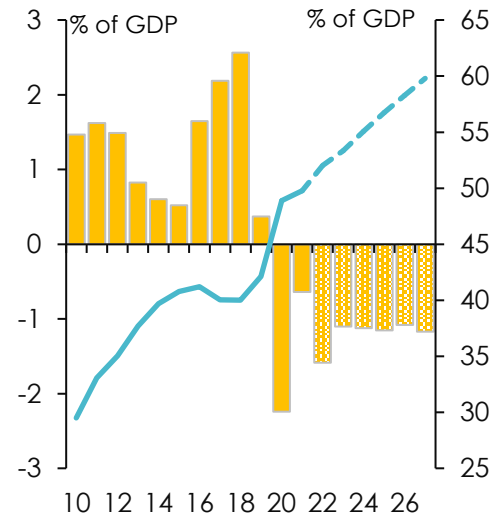


Note: Foreign exchange reserves in the above charts are shown as a multiple of average monthly imports (measured in US\$) over the preceding 12 months. Sources: national statistical agencies and central banks; IMF; Refinitiv Datastream. [Return to "What's New"](#).

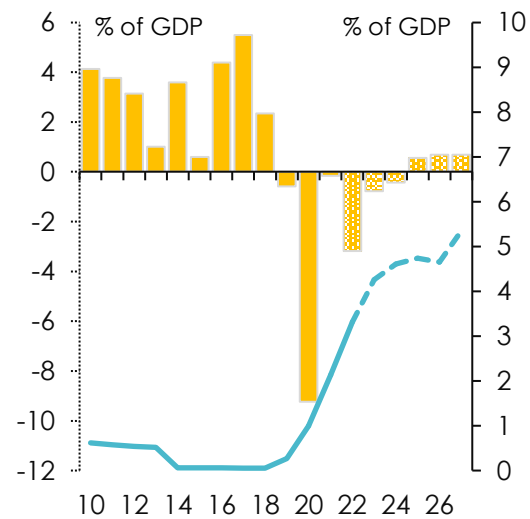
Most Asian governments, apart from Korea, Taiwan, Malaysia and Vietnam, will be tightening fiscal policy over the next few years

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

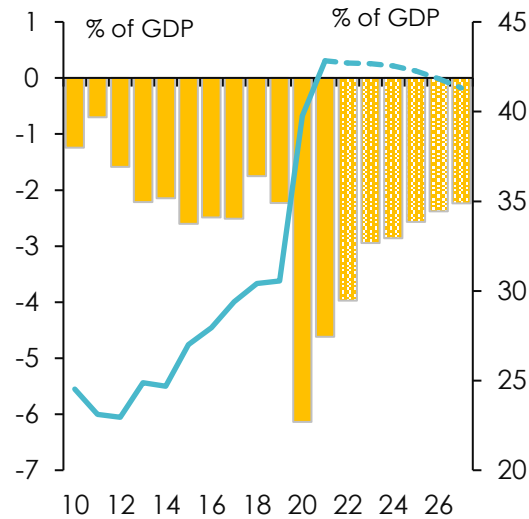
Korea



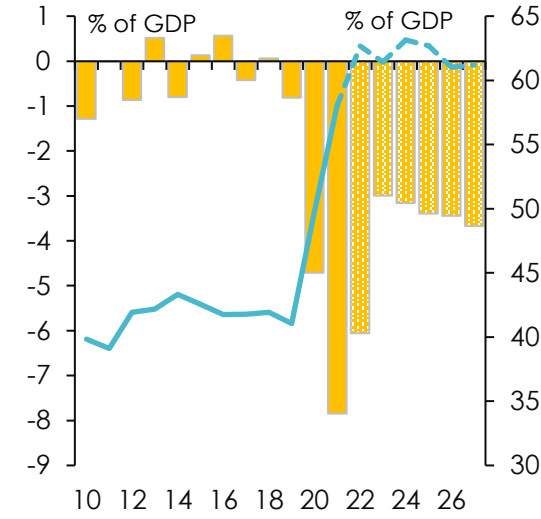
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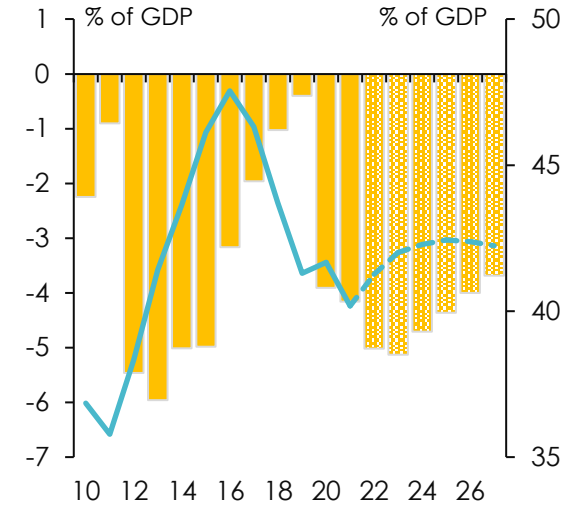
Indonesia



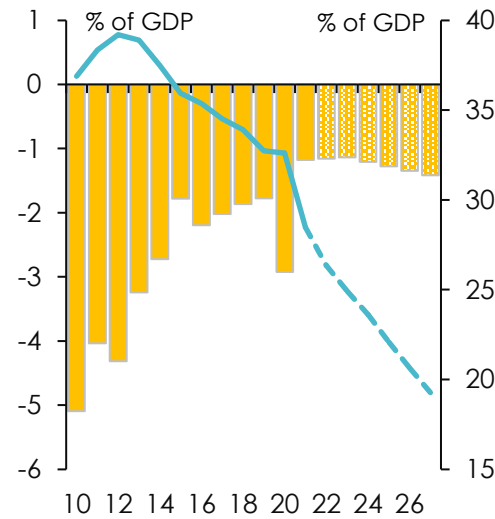
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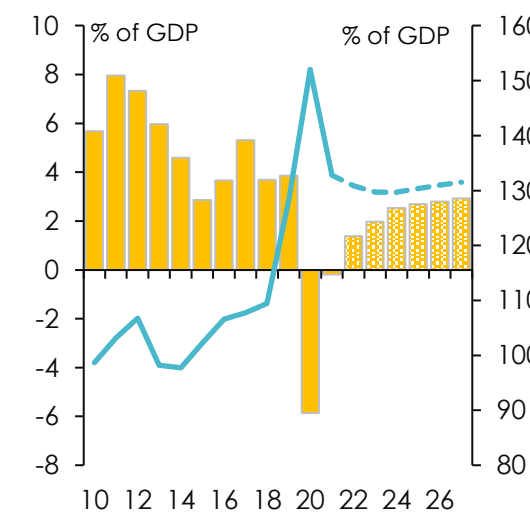
Vietnam



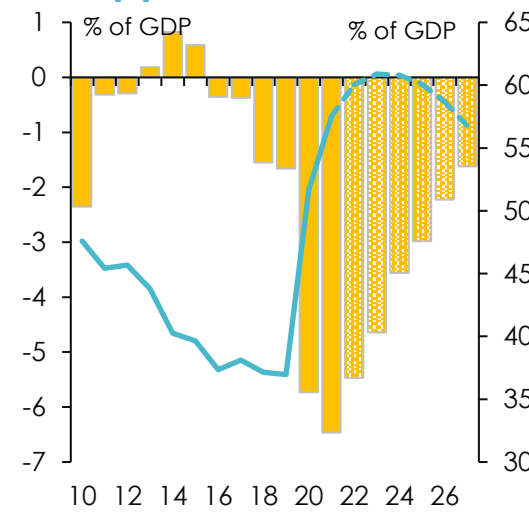
Taiwan



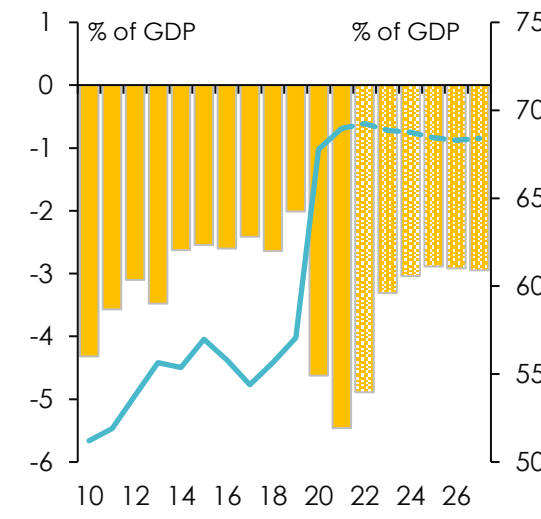
Singapore



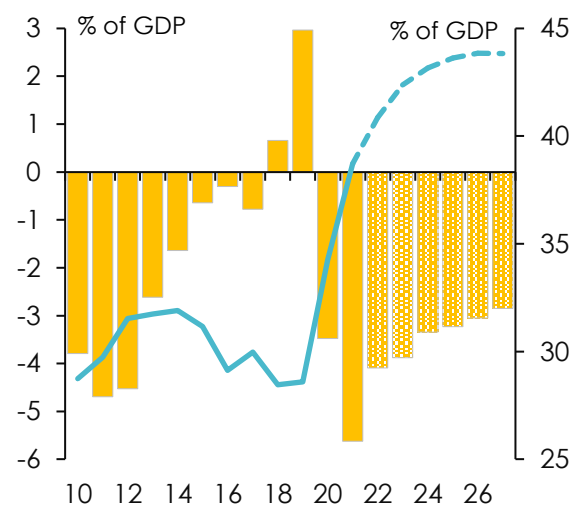
Philippines



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"](#)

Bank Indonesia left its monetary policy settings on hold at its meeting last Thursday, but it looks increasingly an ‘outlier’ among Asian central banks

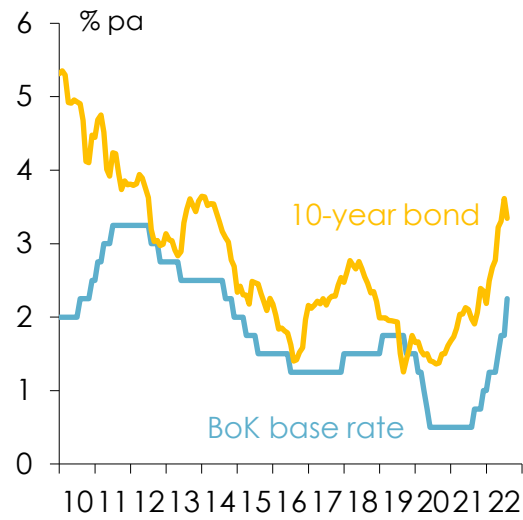
THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

- ❑ **Bank Indonesia** again left its 7-day repo rate unchanged at 3.50%, where it has been since February last year, at last Thursday’s Board of Governors meeting
 - in its [post-meeting statement](#) BI depicted this decision as “consistent with the projected maintained core inflation amidst the risk of the impact of the global economic slowdown on domestic economic growth”
 - BI also committed to being “vigilant of the risks of rising inflation expectations and core inflation”, and indicated that it would “strengthen monetary operations as a pre-emptive and forward-looking measure ... through an increase in the interest rate structure in the money market and the sale of [bonds] in the secondary market”
- ❑ BI acknowledged that inflation would be “higher than the upper limit of the target corridor” this year but projected it would be “back within the target corridor of $3.0 \pm 1\%$ in 2023”
 - although it seems to be putting a lot of faith in “policy coordination with the Government through the Central and Regional Inflation Control Teams”
- ❑ BI noted that “rupiah exchange rates are under increasing pressure”
 - it attributed this to “persistently high global financial market uncertainty due to more aggressive monetary policy tightening in various countries to respond to increasing inflationary pressures and fears of a global economic slowdown, amidst the perception of Indonesia’s economic outlook that remains positive”
 - which seems to downplay the fact that BI is now the only Asian central bank which is yet to initiate or foreshadow any tightening of monetary policy
- ❑ The [Bank of Thailand](#) – the only other East Asian central bank which is yet to raise its policy interest rate – has [foreshadowed](#) an initial rate increase at its next meeting on 10th August

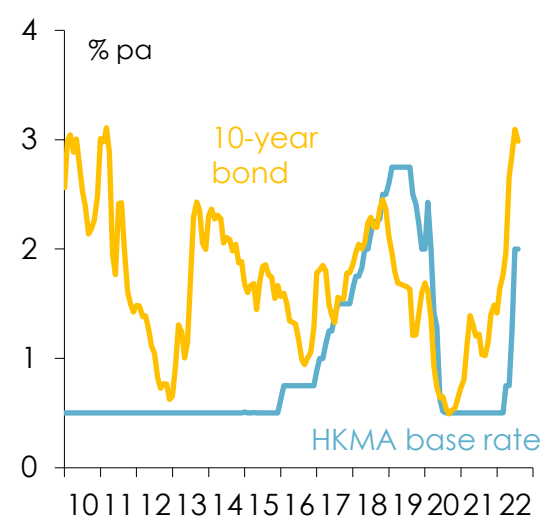
Bank Indonesia is now the only East Asian central bank which is yet to start tightening monetary policy, or to foreshadow that it shortly will

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

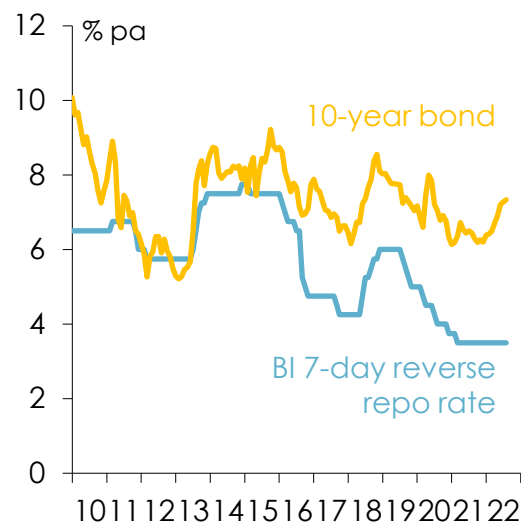
Korea



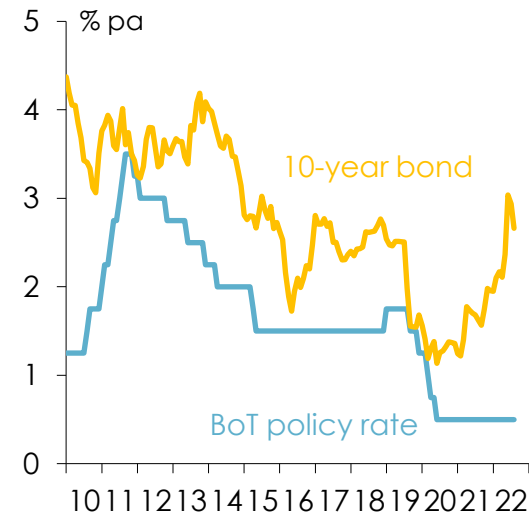
Hong Kong



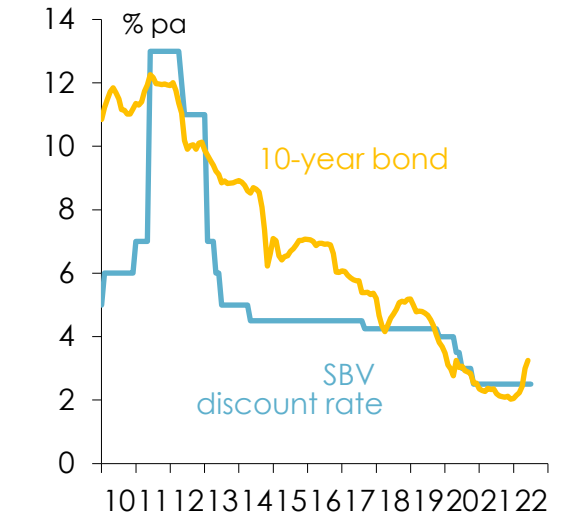
Indonesia



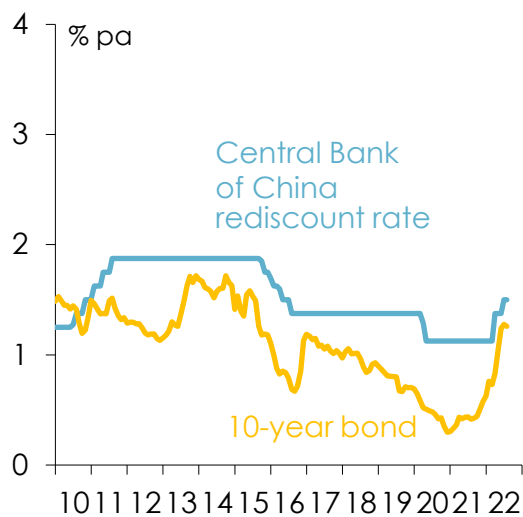
Thailand



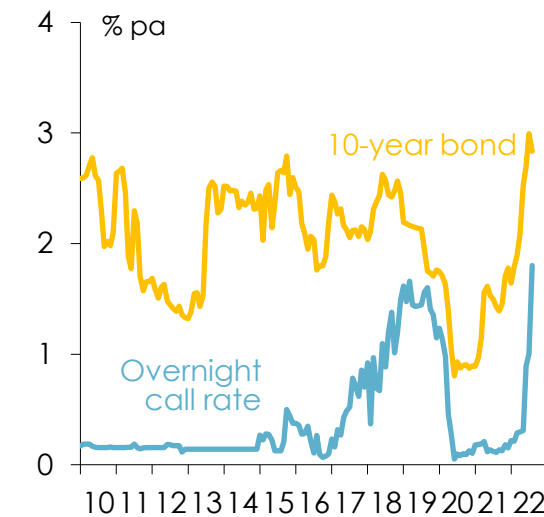
Vietnam



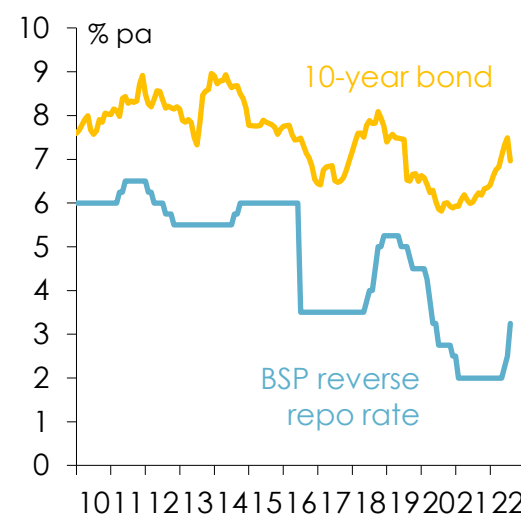
Taiwan



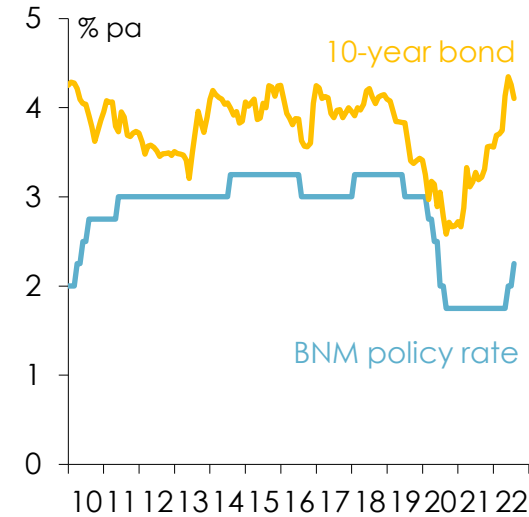
Singapore



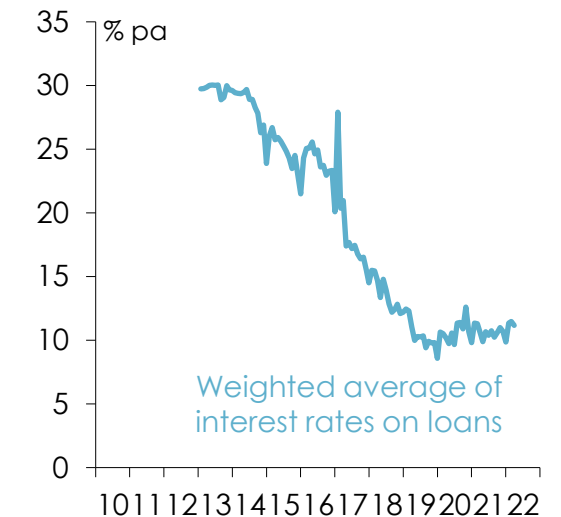
Philippines



Malaysia



Cambodia

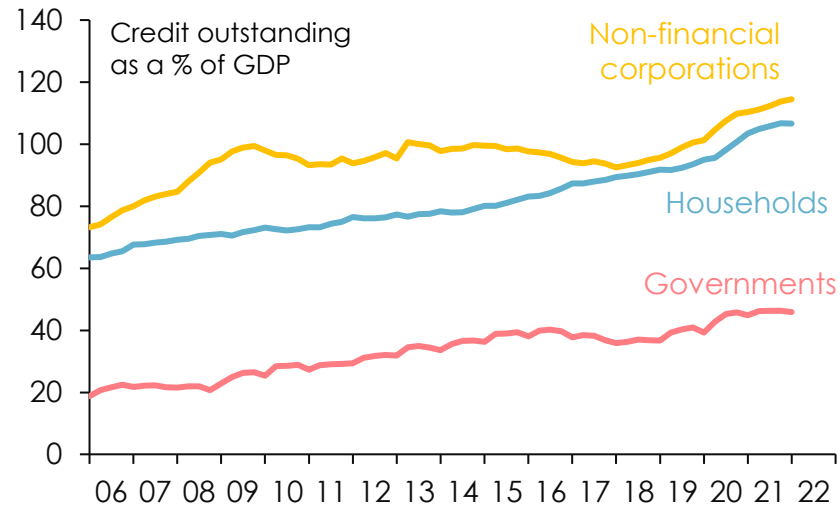


Note: Neither Hong Kong nor Singapore use a monetary policy indicator interest rate. Hong Kong has a currency board system, under which the HKMA base rate moves in line with a pre-set formula based on the US fed funds rate; the Monetary Authority of Singapore uses the (effective) exchange rate as its 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 22nd July 2022. Sources: national central banks; Refinitiv Datastream. [Return to "What's New"](#).

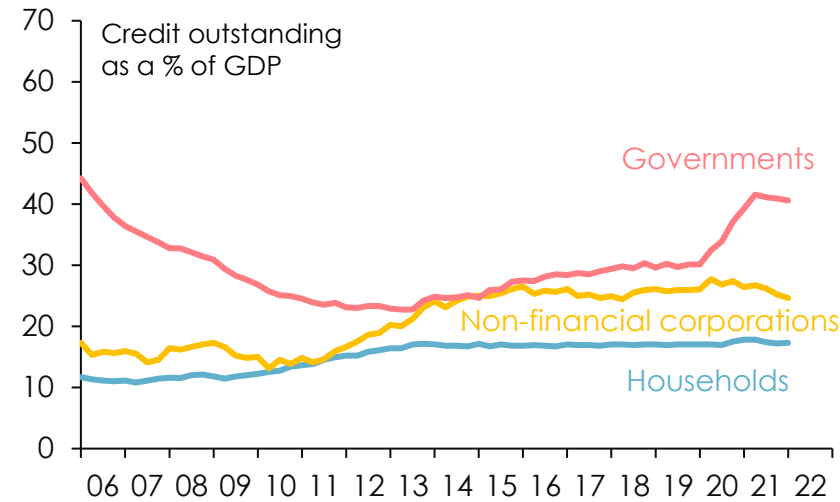
In Asia, Hong Kong, Singaporean and Korean corporates, and Korean households, have the greatest exposure to any increases in interest rates

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

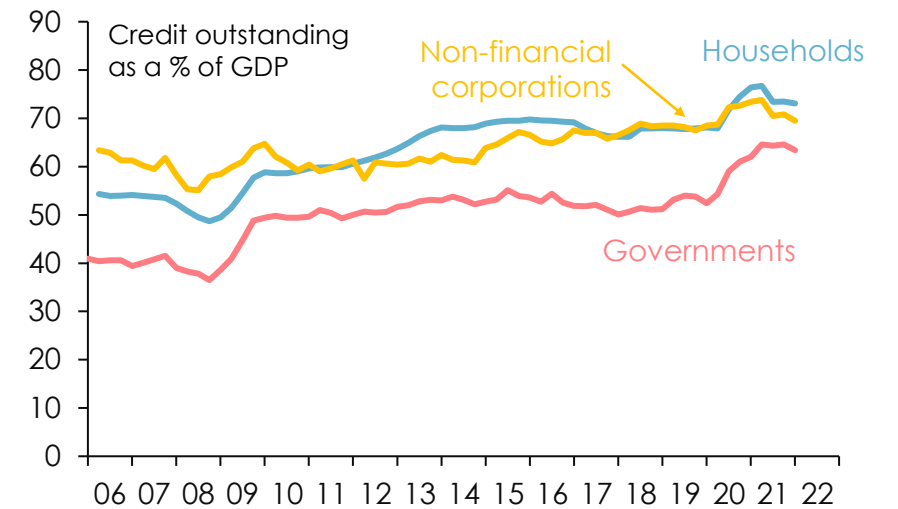
Korea



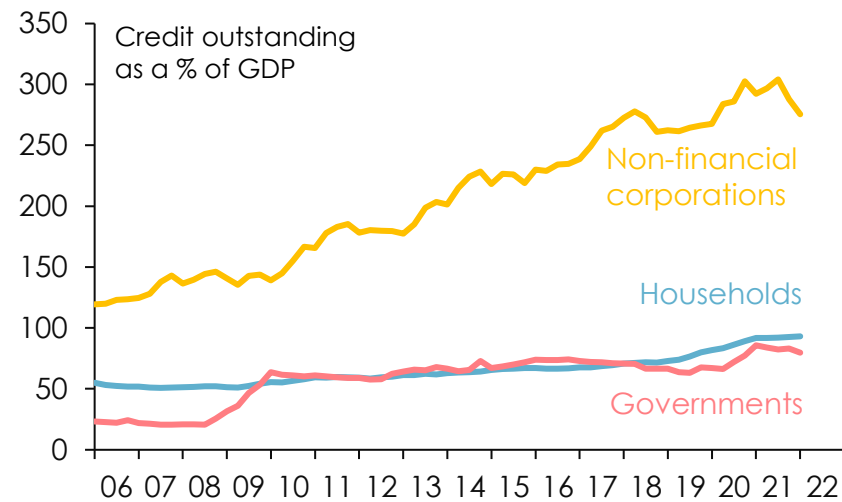
Indonesia



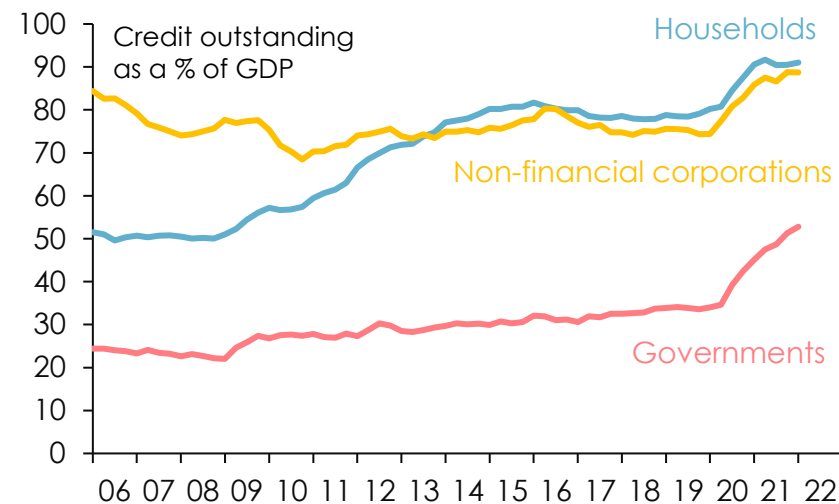
Malaysia



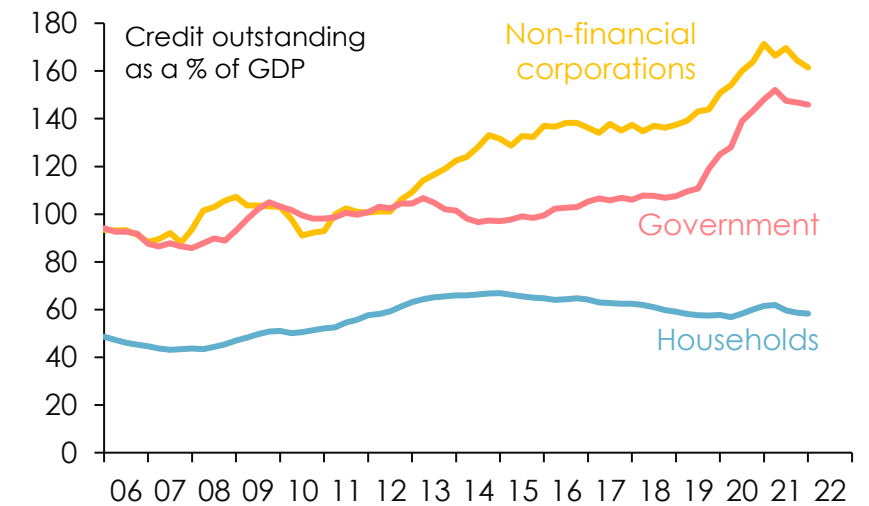
Hong Kong



Thailand



Singapore

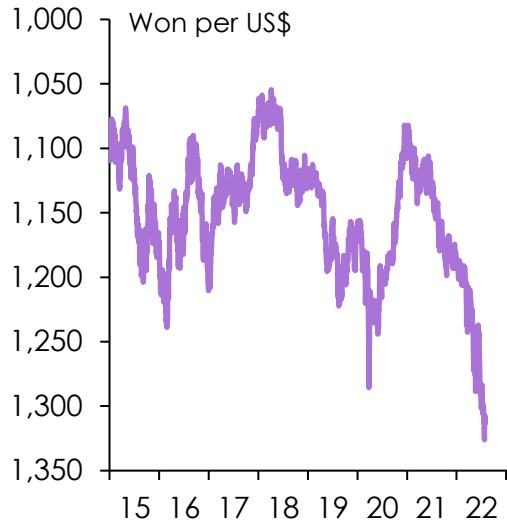


Source: Bank for International Settlements, [Credit Statistics](#); latest data are for Q4 2021, Q1 2022 data will be released in mid-September. [Return to "What's New"](#).

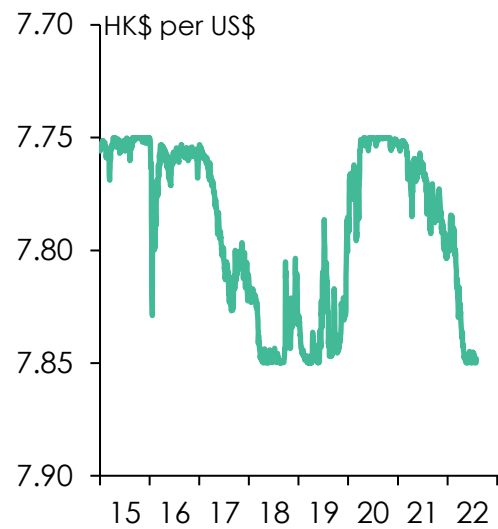
Asian currencies were mixed against a softer US\$ last week, with the won & Sing\$ up 1%, but the baht and rupiah slipping marginally

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

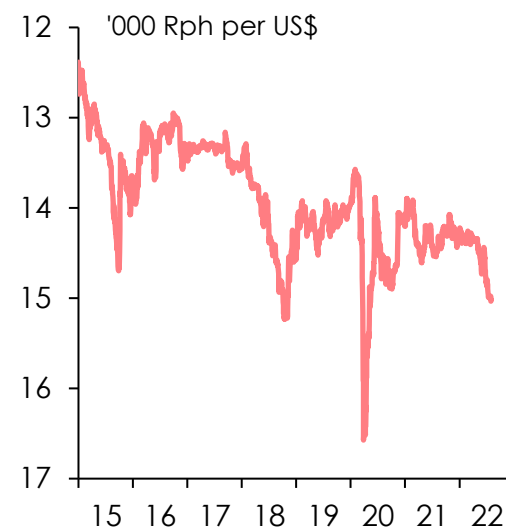
Korean won



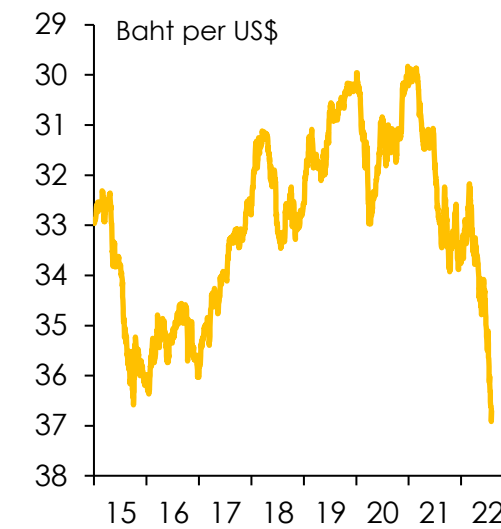
Hong Kong dollar



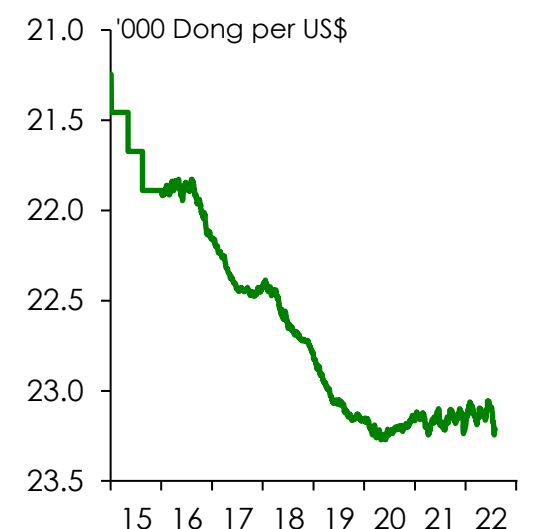
Indonesian rupiah



Thai baht



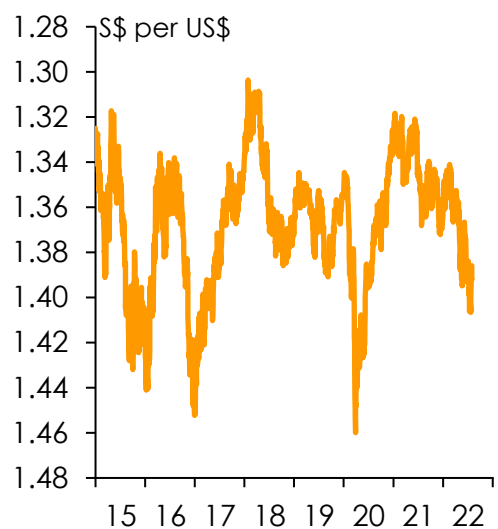
Vietnamese dong



New Taiwan dollar



Singapore dollar



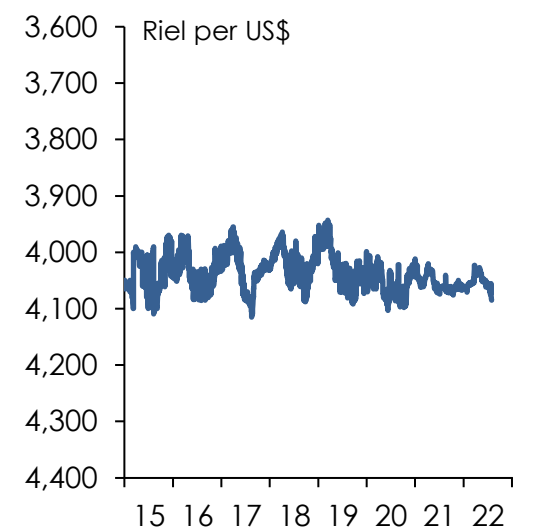
Philippine peso



Malaysian ringgit



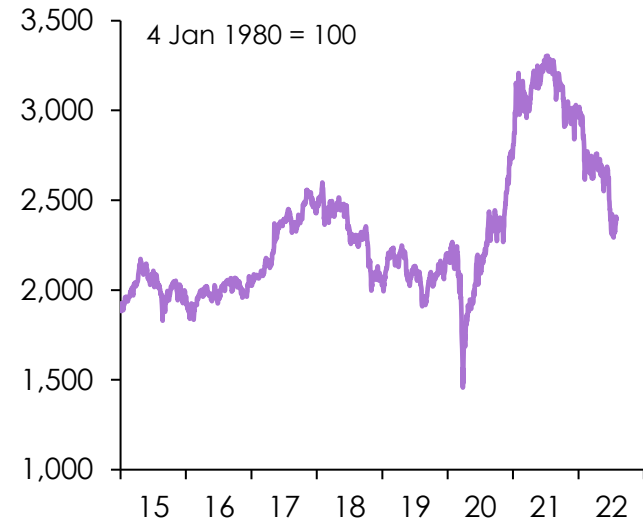
Cambodian riel



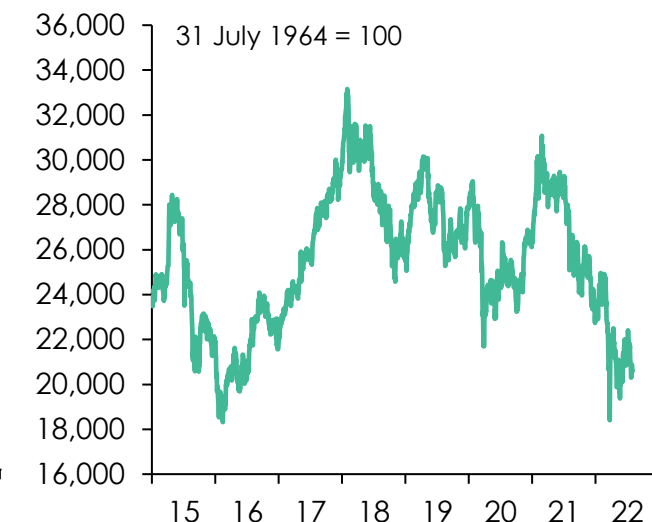
Asian stock markets rose last week in line with major markets, with Jakarta up 3½%, KL up 3¼%, and Seoul, Taipei & Singapore up 2¾%

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

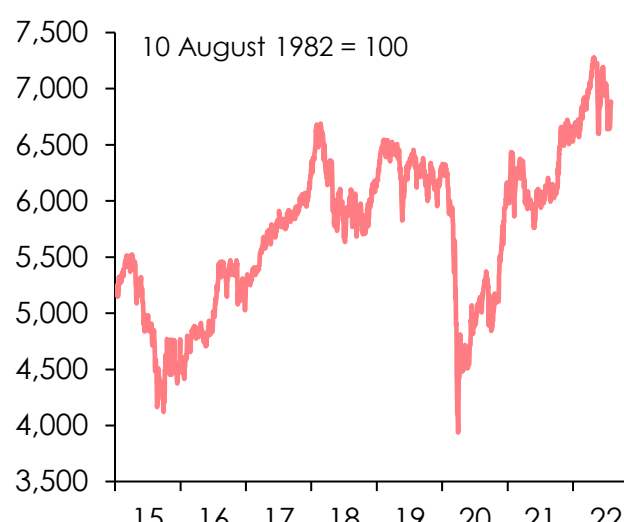
KOSPI



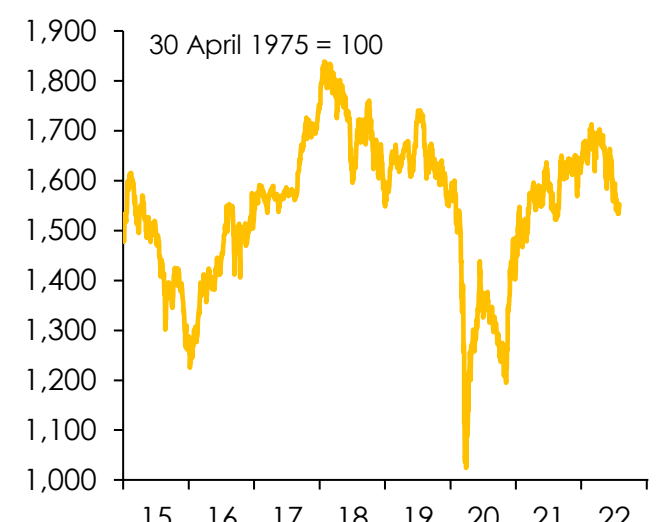
Hang Seng Index



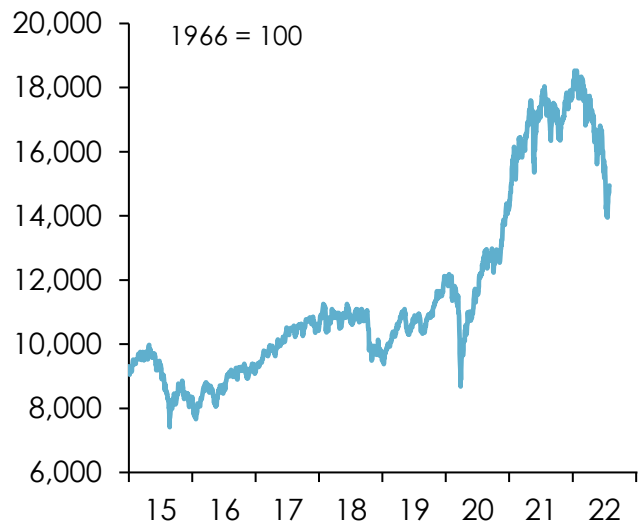
JCI



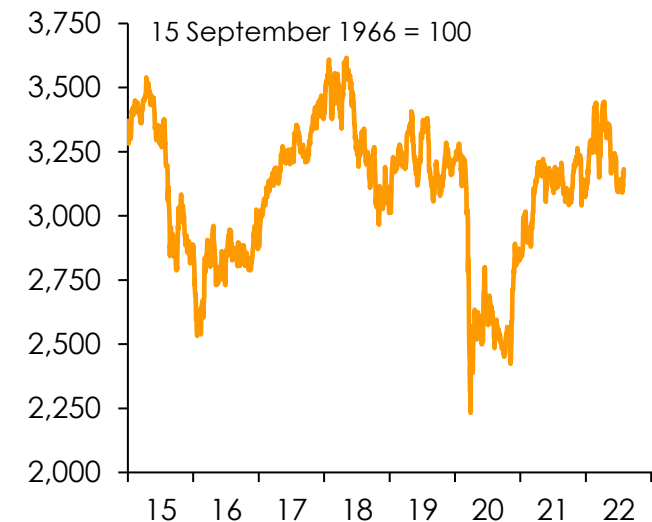
SETI



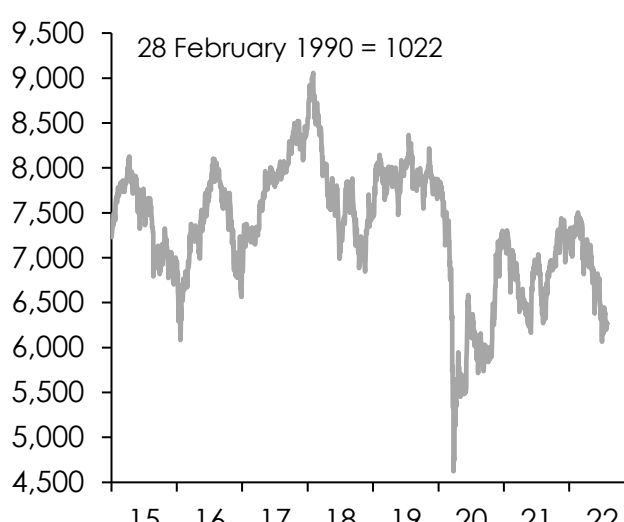
TAIEX



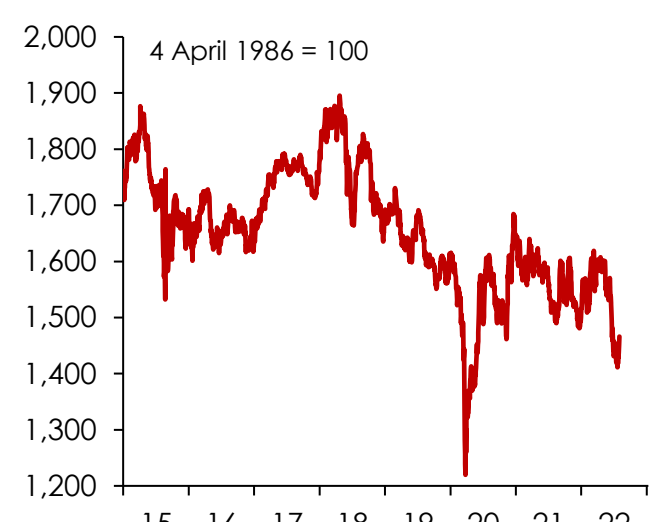
Straits Times Index



PSE i



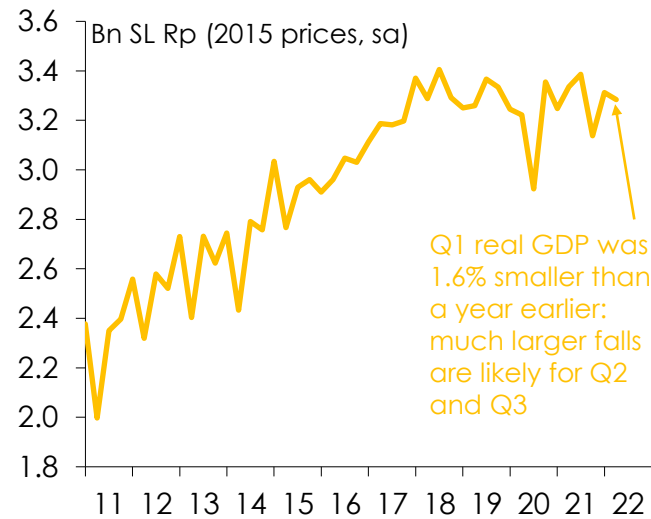
KLCI



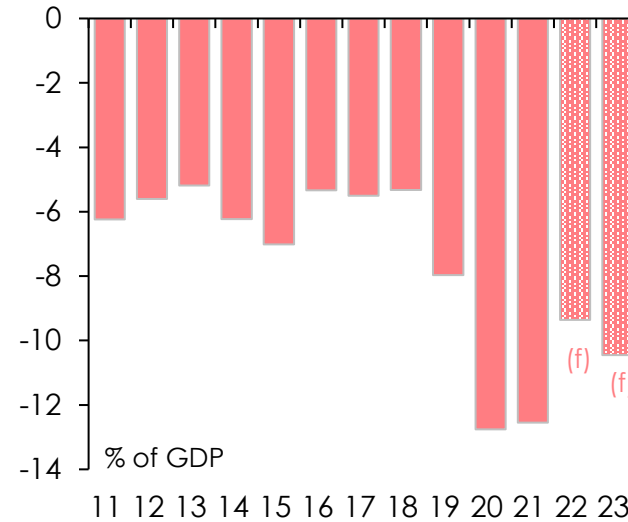
Sri Lanka's newly-installed President, former PM Ranil Wickremesinghe, is unlikely to be able to restore confidence or stability

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

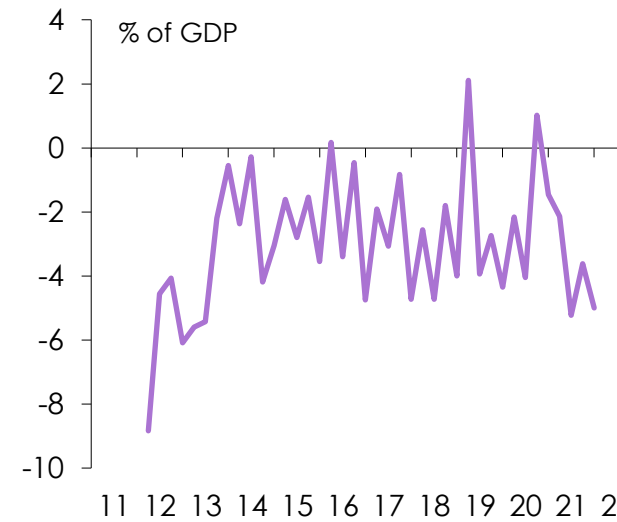
Real GDP



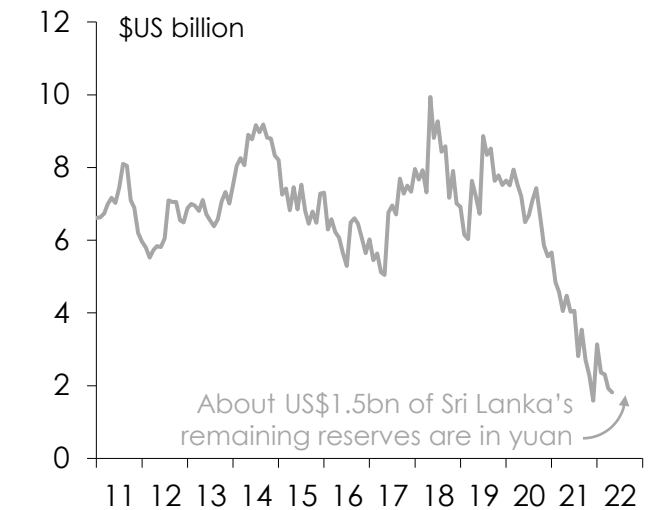
Fiscal balance



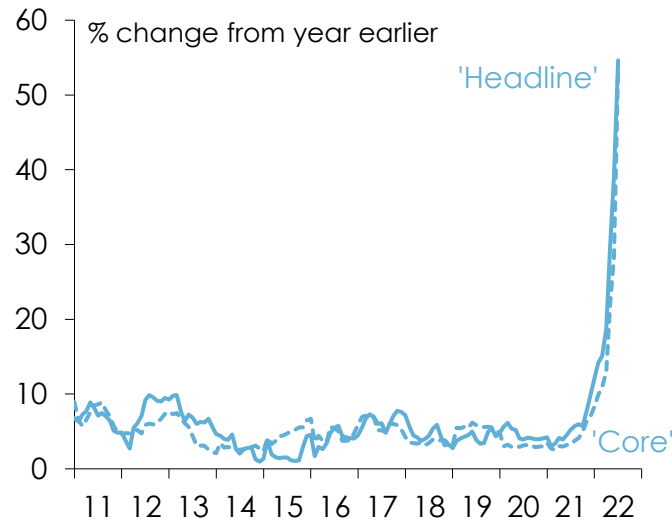
Current account balance



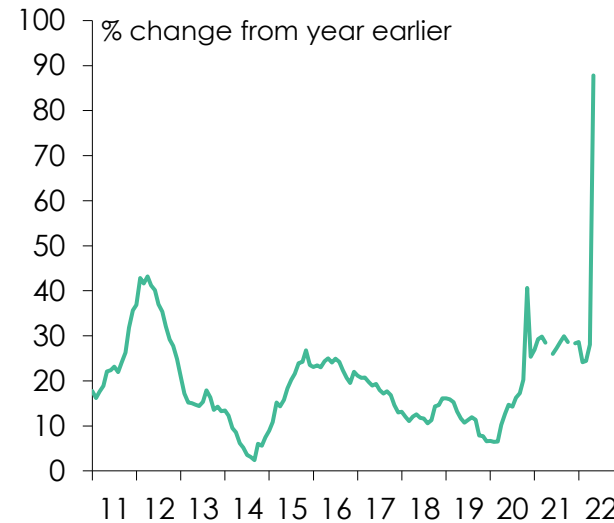
FX reserves



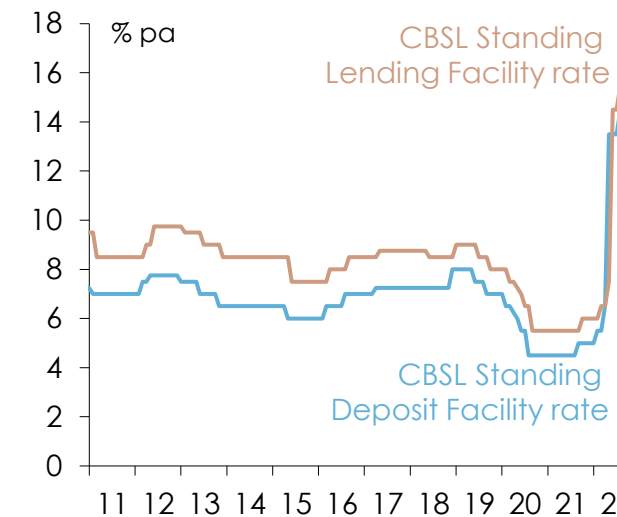
Consumer prices



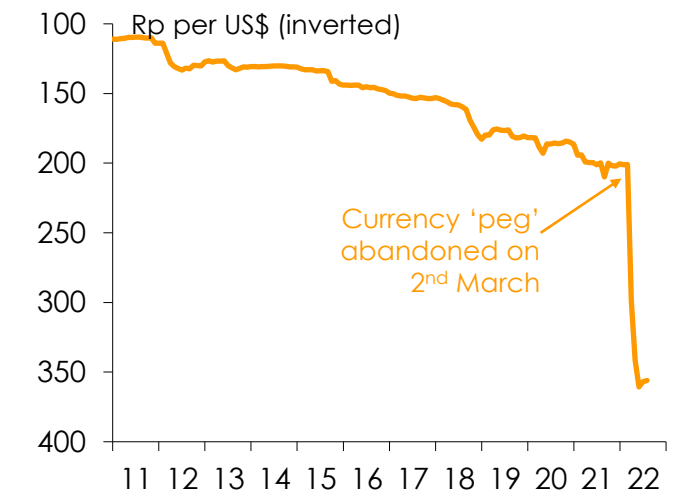
Credit growth



Interest rates



SL rupee vs US\$



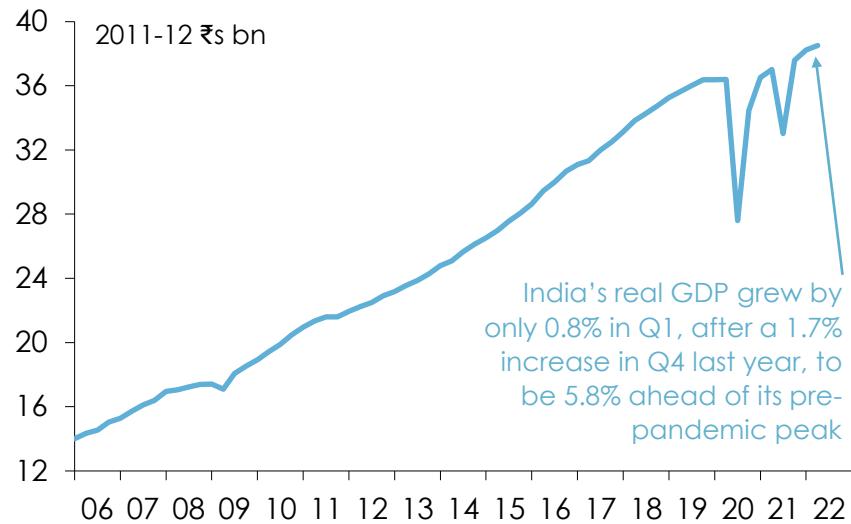
Note: GDP data seasonally adjusted using Refinitiv Datastream; CPI data are for Colombo. Sources: [Sri Lanka Department of Census and Statistics](#); [Central Bank of Sri Lanka](#); IMF, [Fiscal Monitor](#), April 2022; Refinitiv Datastream. [Return to "What's New"](#).

India

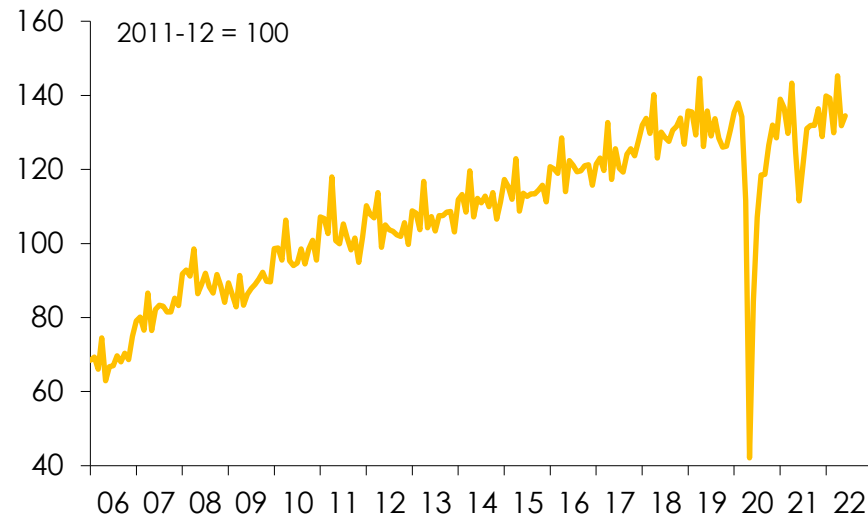
India's GDP growth rate has slowed sharply over the past two quarters, after bouncing strongly out of its second Covid recession in mid-2022

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

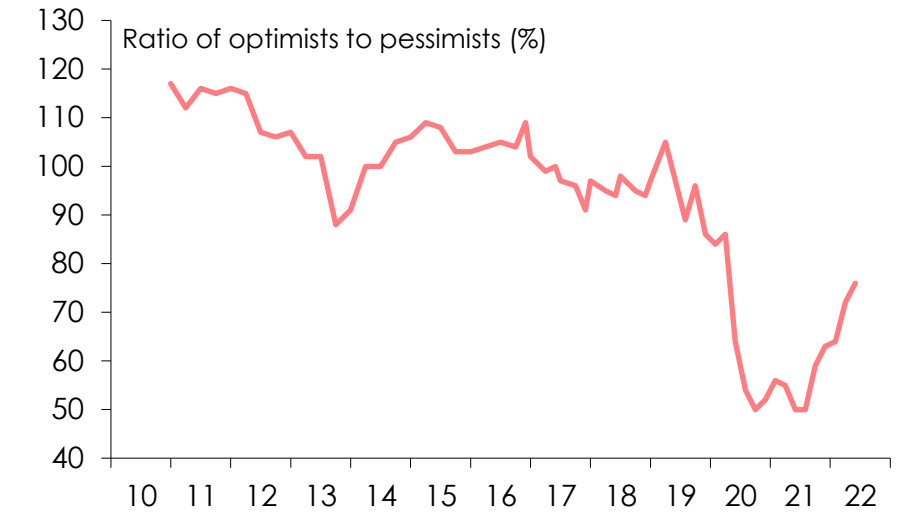
Quarterly real GDP



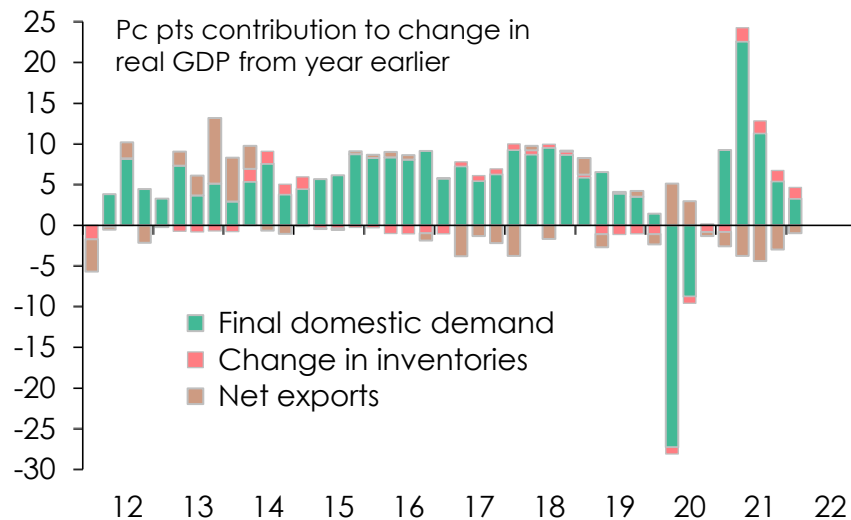
Manufacturing production



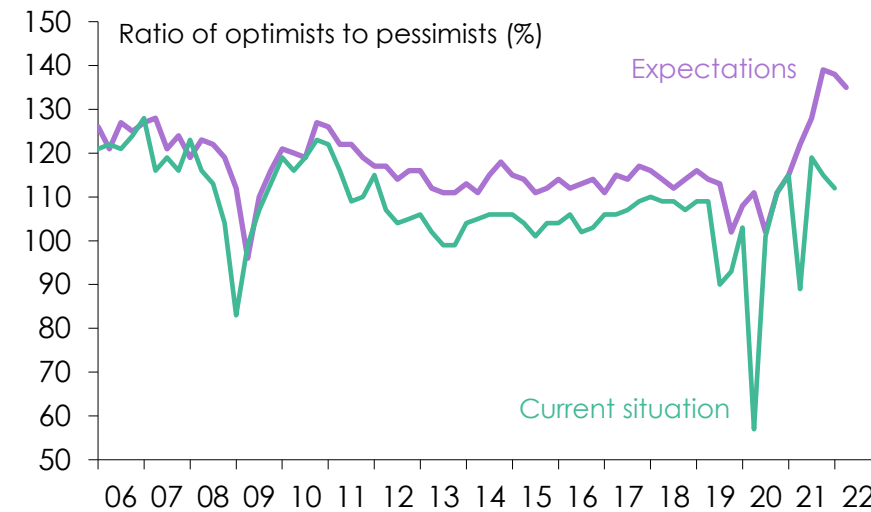
Consumer confidence



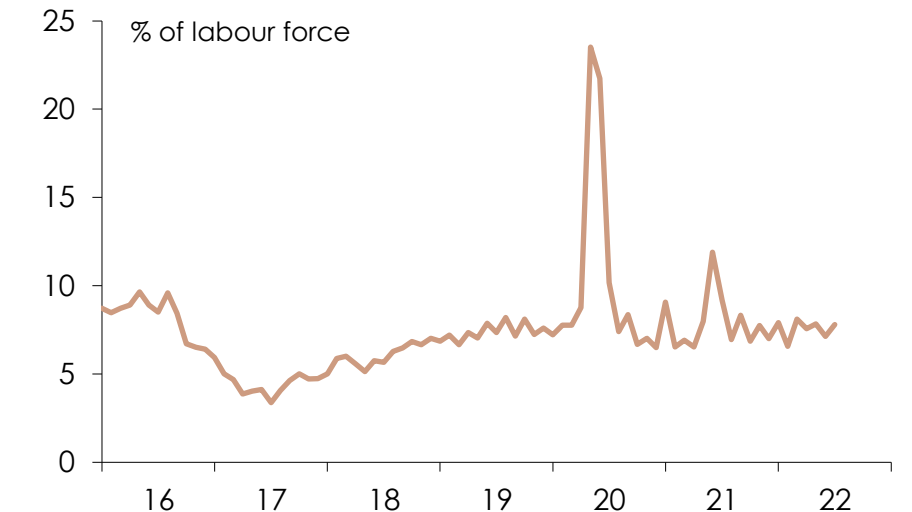
Contributions to real GDP growth



Industrial sector sentiment



Unemployment rate

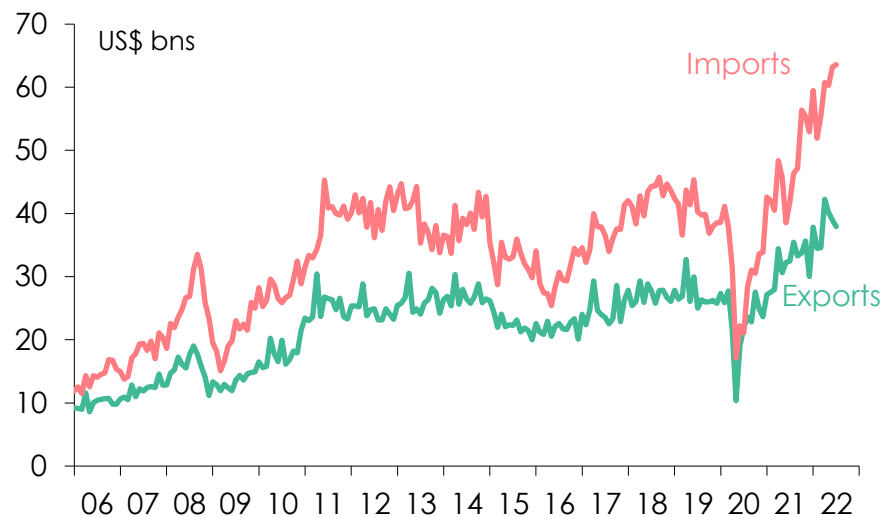


Sources: OECD, [Quarterly National Accounts dataset](#); Government of India, Ministry of Statistics and Programme Implementation, [National Accounts Data](#), and [IIP Data](#); Reserve Bank of India, [Quarterly Industrial Outlook Survey](#) and [Consumer Confidence Survey Bi-Monthly](#); Centre for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

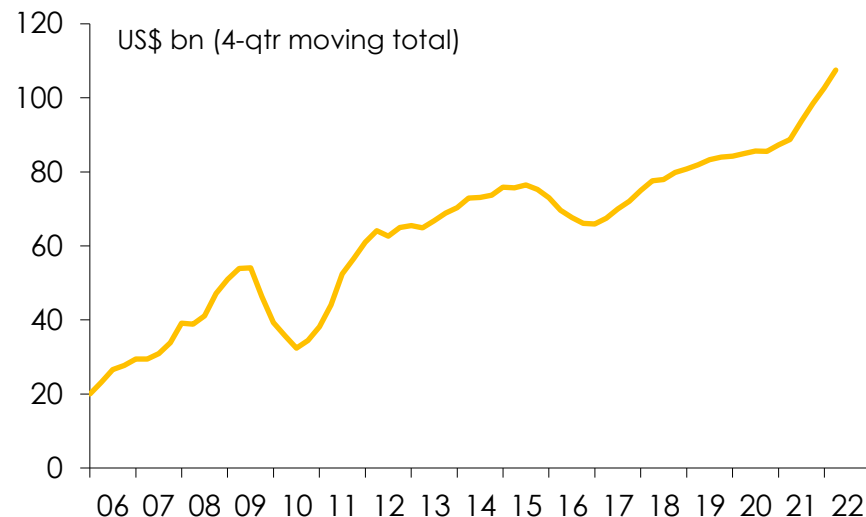
India's merchandise trade deficit has deteriorated sharply due to higher oil prices but its overall external position remains relatively stable

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

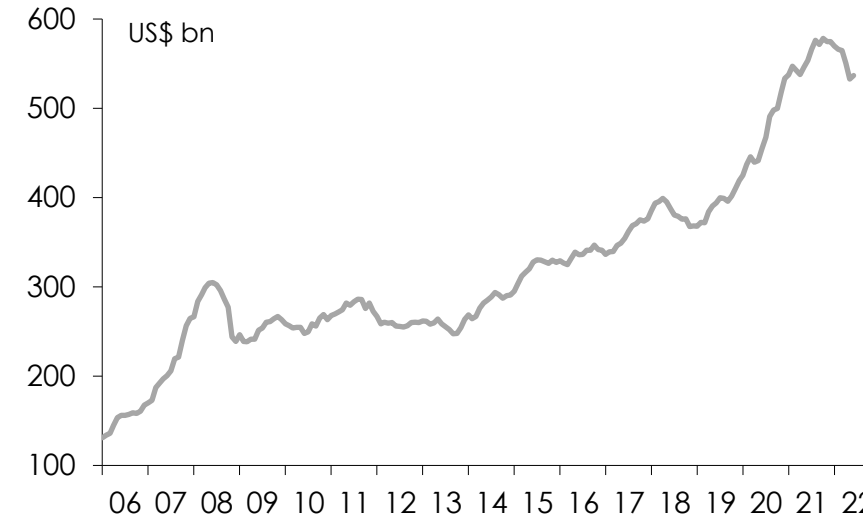
Merchandise exports and imports



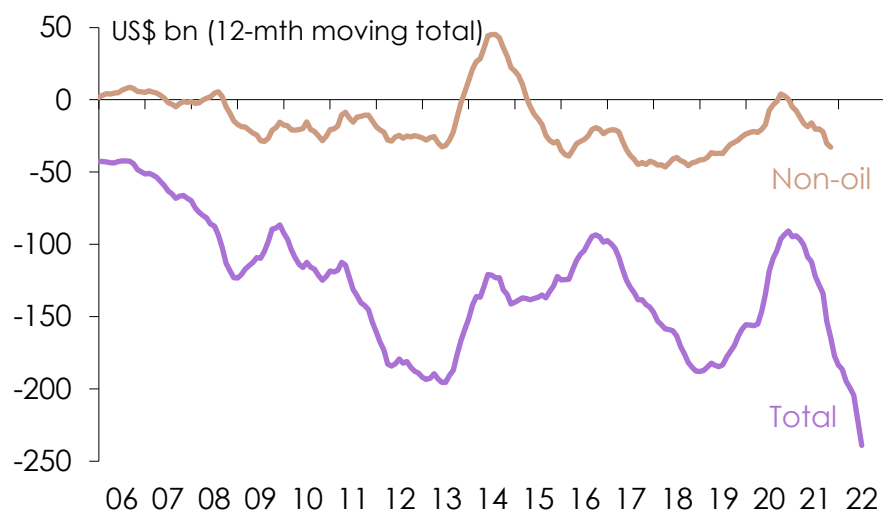
Services trade balance



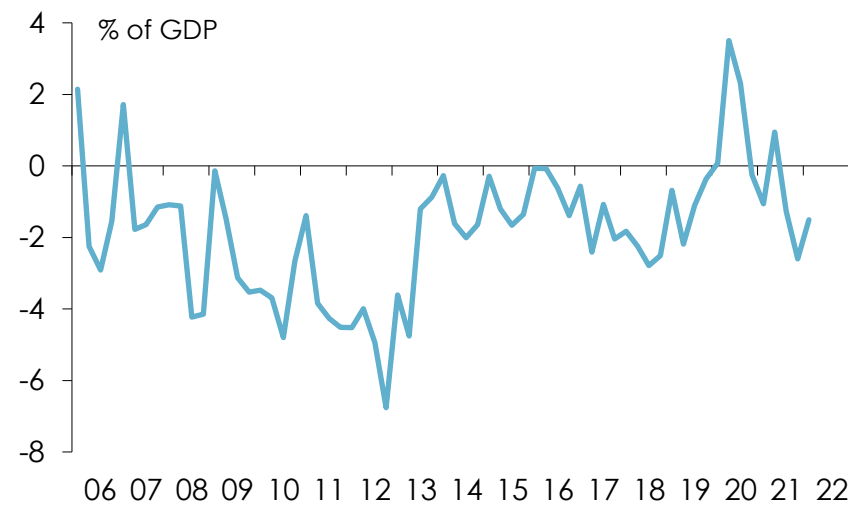
Foreign exchange reserves



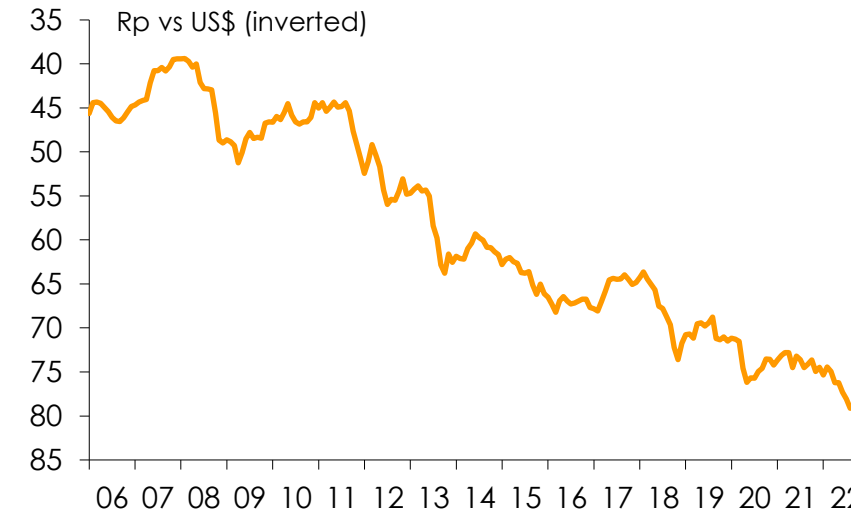
Merchandise trade balance



Current account balance



Rupee vs US dollar

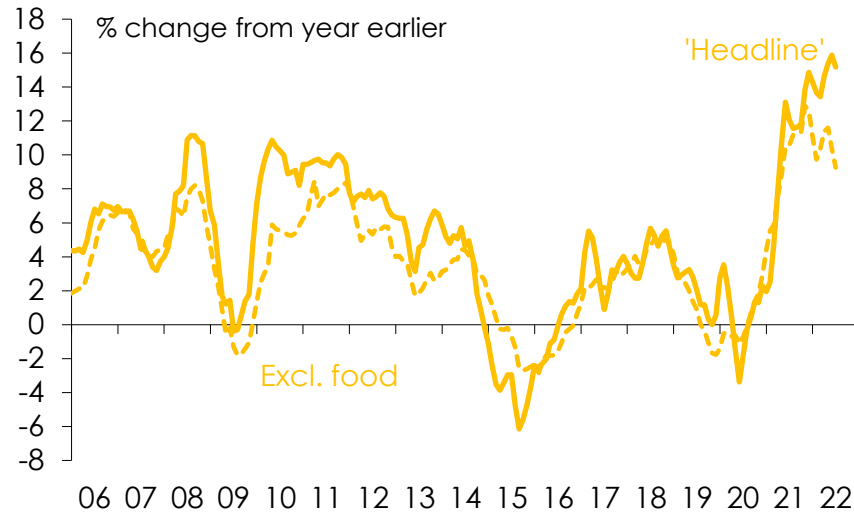


Note: data on trade in oil hasn't been published since December 2021. Sources: Government of India, Ministry of Commerce and Industry, [Trade Statistics](#); Reserve Bank of India, [Special Data Dissemination Standards - Balance of Payments](#) and [Weekly Statistical Supplement - Extract](#); Refinitiv Datastream. [Return to "What's New"](#).

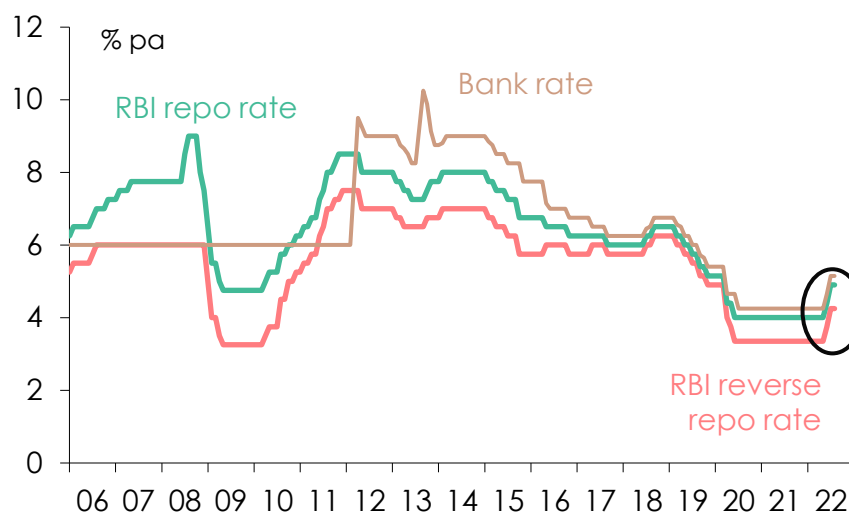
India's annual inflation rate remained at 7.0% in June, down from a peak of 7.8% in April but above the RBI's 2-6% target range for a sixth month

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

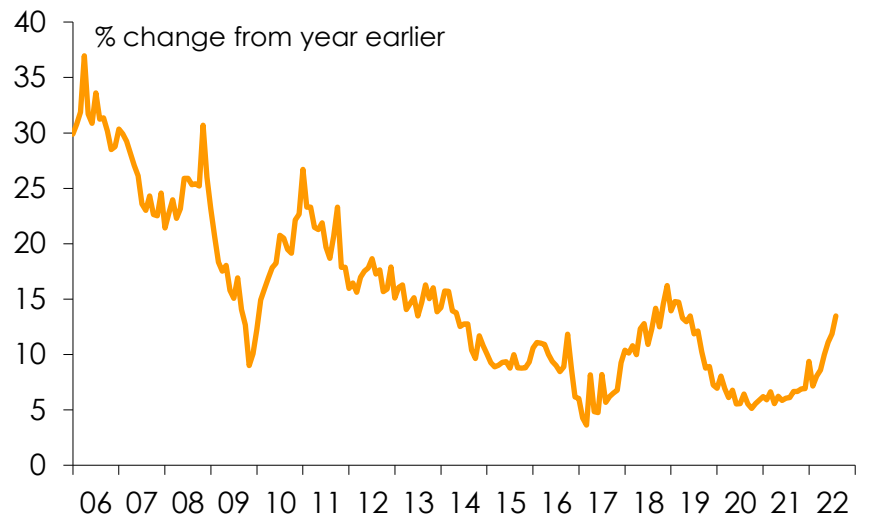
Wholesale prices



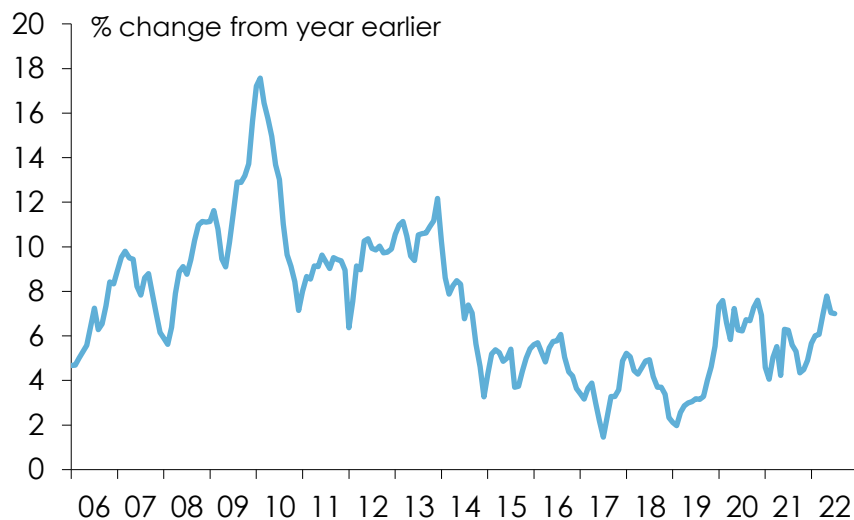
RBI policy interest rates



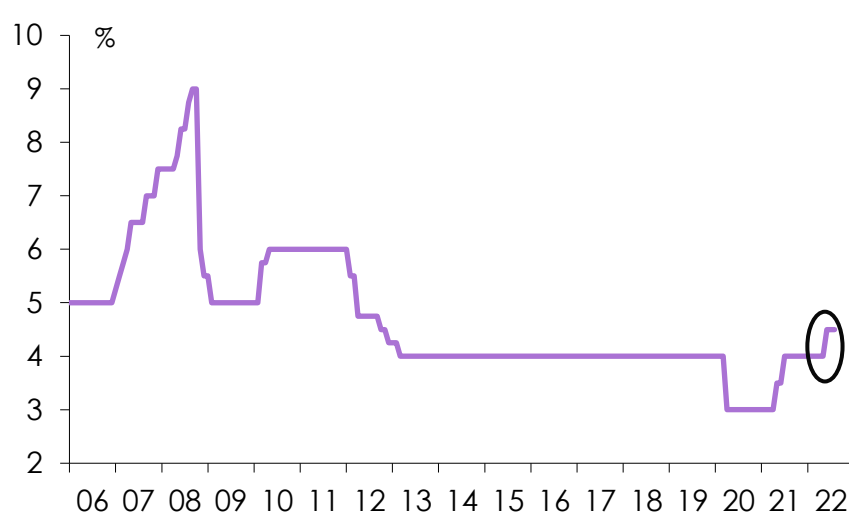
Bank lending



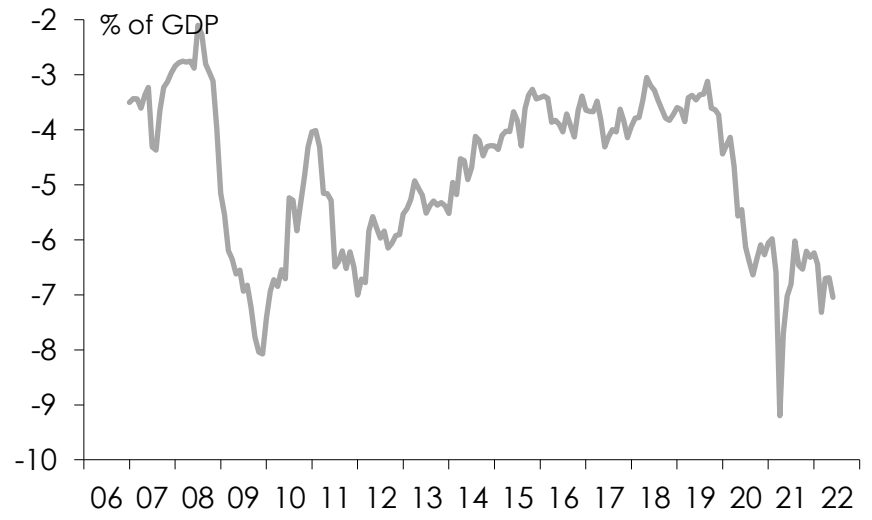
Consumer prices



RBI cash reserve ratio



Central government fiscal balance



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

Canada, Australia and New Zealand

The BoC raised its policy rate by 100bp at last Wednesday's Governing Council meeting, while the RBNZ raised its cash rate by 50bp

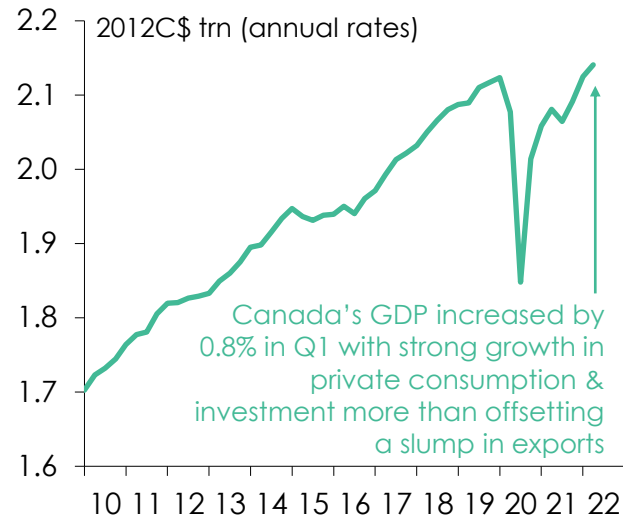
THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

- ❑ The [Bank of Canada](#) raised its policy interest rate by a larger-than-expected 100 basis points (the biggest increase since August 1998) at its Governing Council meeting last Wednesday, to 2.75% ([slide 112](#))
 - [explaining](#) its decision, the Governing Council said that with inflation being “higher and more persistent” than previously expected, “domestic price pressures from excess demand becoming more prominent”, and “more consumers and businesses expecting inflation to be higher for longer, raising the risk that elevated inflation becomes entrenched in price- and wage-setting”, it had decided to “front-load the path to higher interest rates”
 - BoC Governor Tiff Macklem [warned](#) that “interest rates will need to rise further to cool demand and achieve the inflation target”, but expressed confidence that “interest rate increases can cool demand and inflation without choking off growth or causing a surge in unemployment”
- ❑ The [Reserve Bank of New Zealand](#) raised its official cash rate another 50bp, to 2.5%, at its Monetary Policy Committee meeting on 13th July – the seventh increase, for a total of 225bp, since October last year ([slide 114](#))
 - in the [Summary Record](#) issued after the meeting, the RBNZ said that it had “agreed to maintain its approach of briskly lifting the OCR until it is confident that monetary conditions are sufficient to constrain inflation expectations and bring consumer price inflation to within the target range”
 - the MPC said it “remains broadly comfortable” with the projected trajectory for the OCR set out in its [May Monetary Policy Statement](#), which envisages it reaching 3.95% by Q3 2023, and remaining there until Q1 2024
- ❑ The [Reserve Bank of Australia](#), as expected, raised its cash rate another 50 basis points, to 1.35%, at its 5th July Board meeting, and signalled more increases to come ([slide 113](#))
 - 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 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

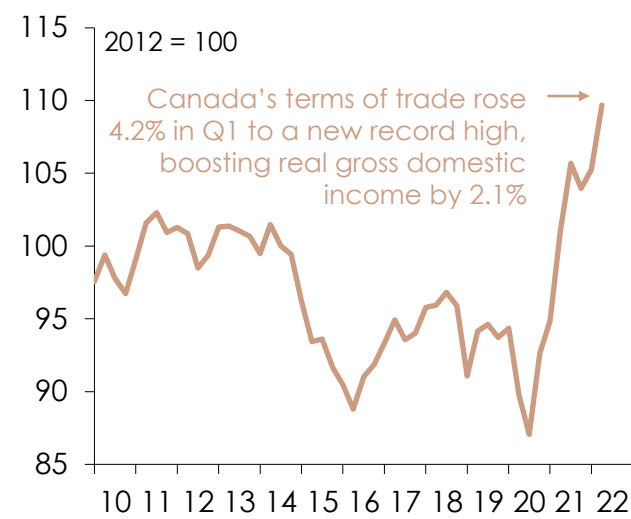
Canada's CPI rose 0.6% in June, the smallest increase this year, pushing the annual inflation rate to 8.1%, with 'core' inflation at 5.3%

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

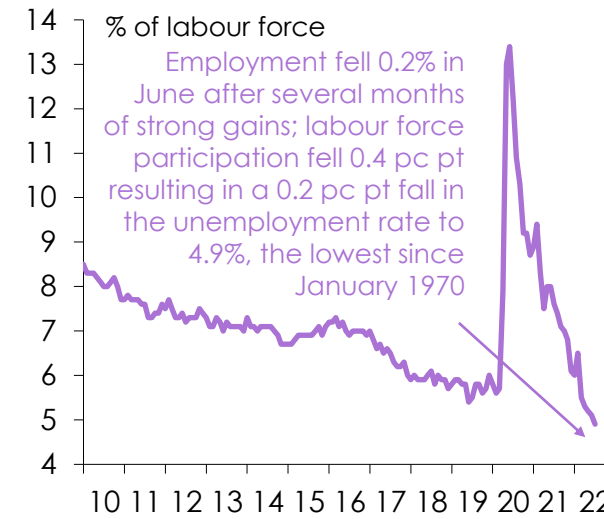
Real GDP



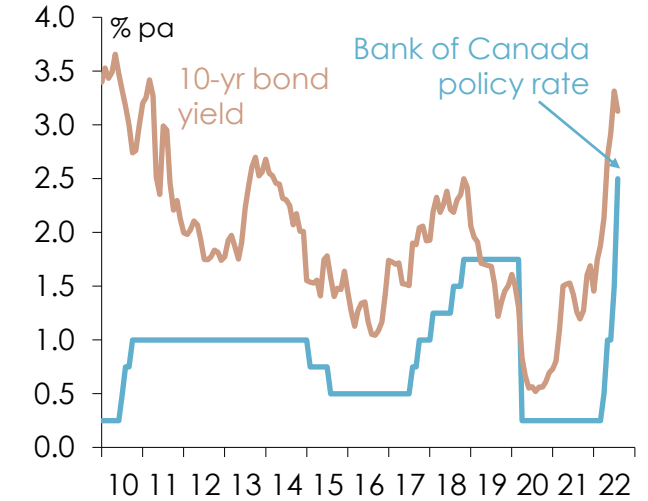
Terms of trade



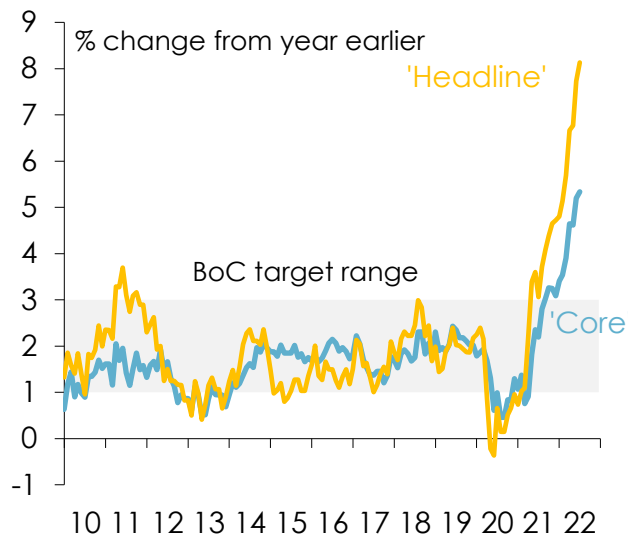
Unemployment



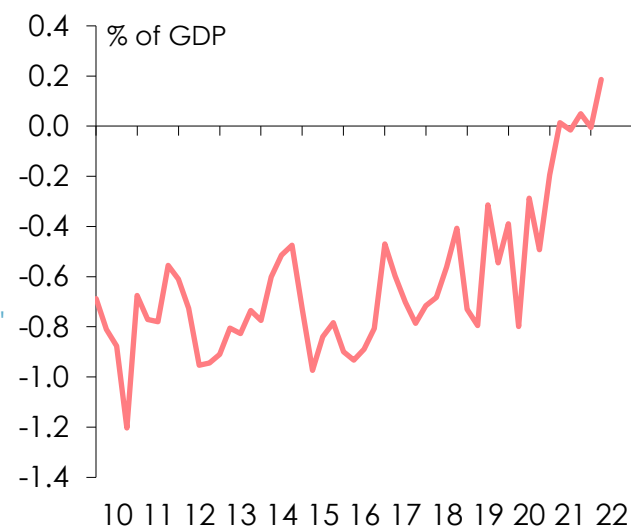
Interest rates



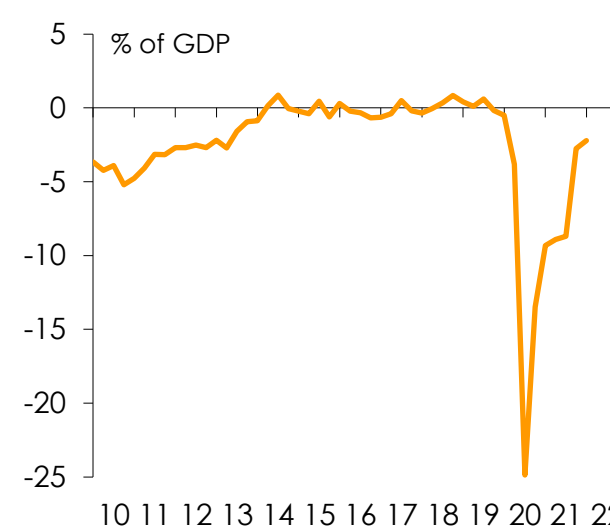
Consumer prices



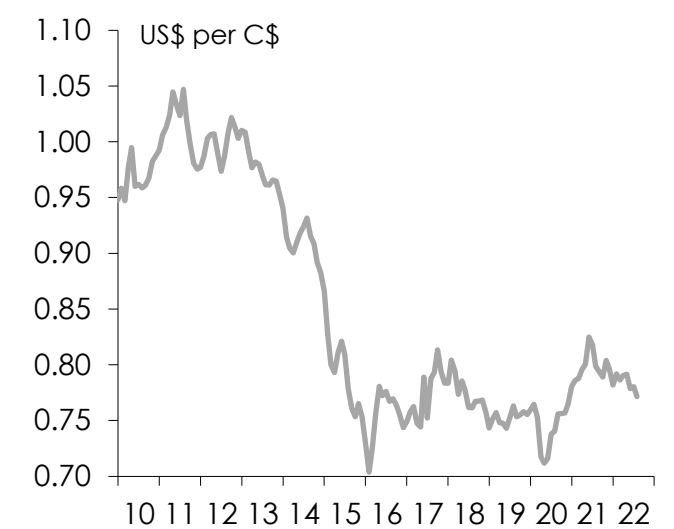
Current account balance



Government net lending



C\$ vs US\$

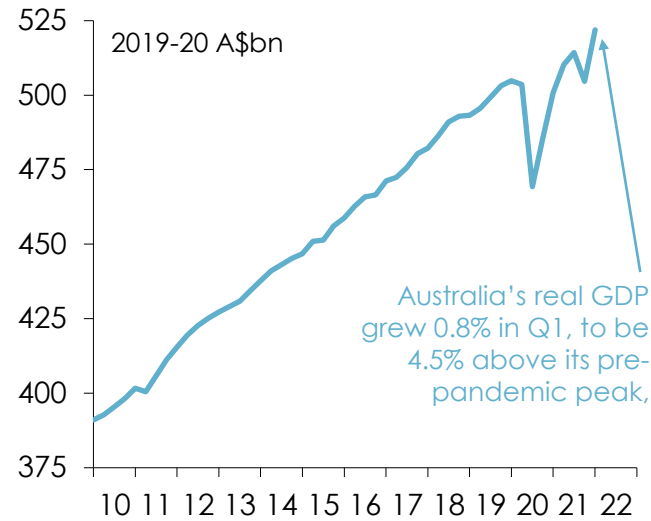


Sources: Statistics Canada, [National Gross Domestic Product \(GDP\) by Income and by Expenditure Accounts](#); [Consumer price index portal](#); [Canada's Balance of International Payments](#); [Labour Statistics](#); Bank of Canada, [Policy Interest Rate](#); Refinitiv Datastream. [Return to "What's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

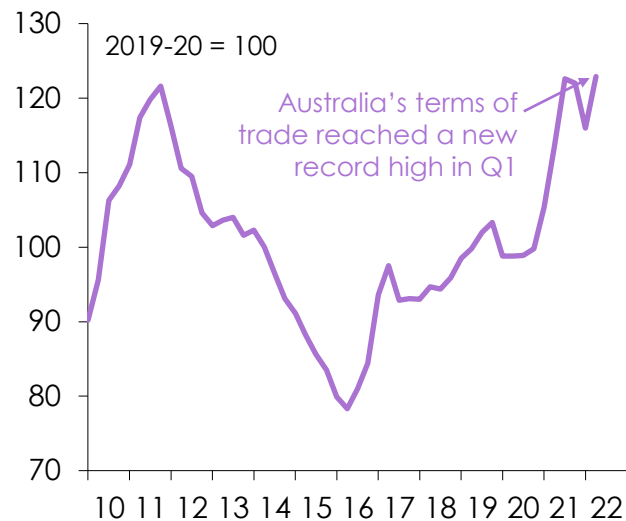
Australia's unemployment rate dropped 0.4 pc pt in June to 3.5%, the lowest since August 1974

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

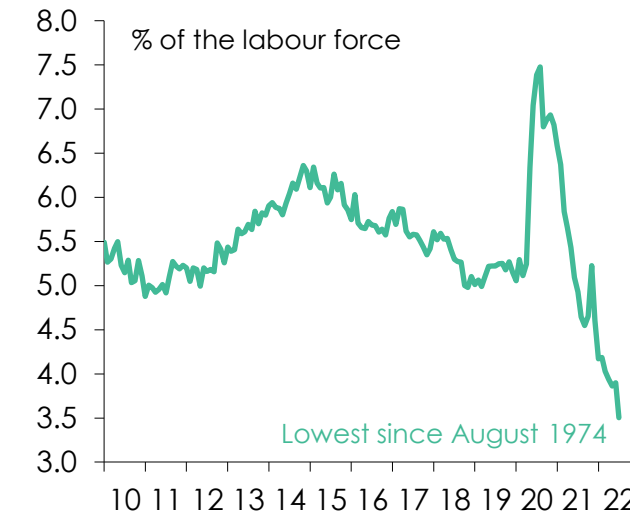
Real GDP



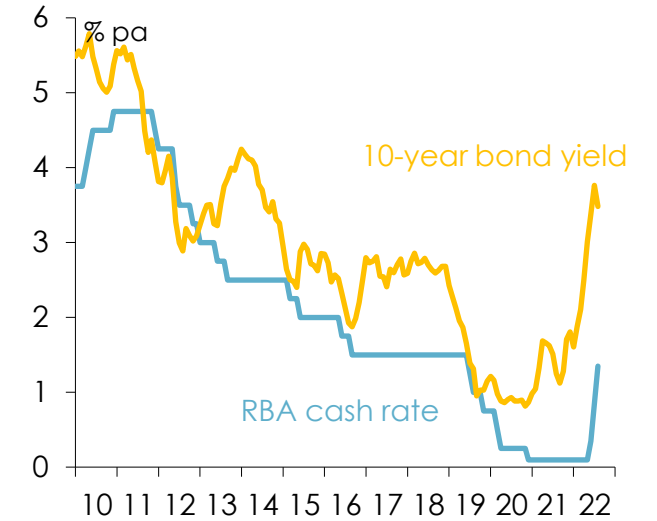
Terms of trade



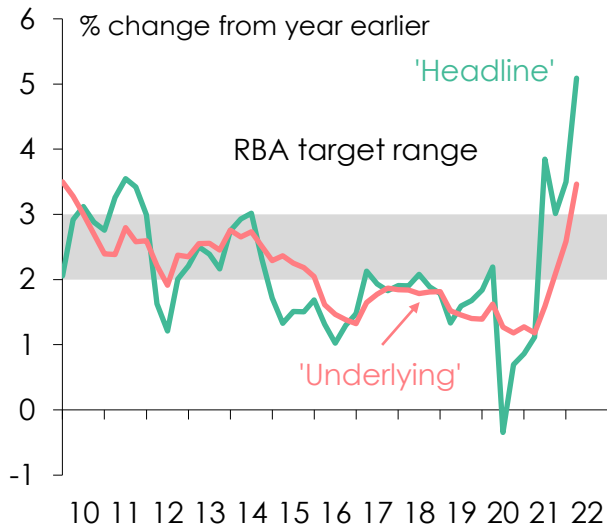
Unemployment



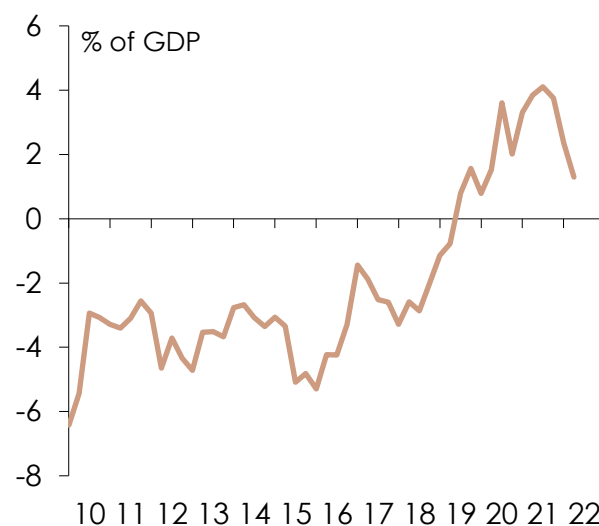
Interest rates



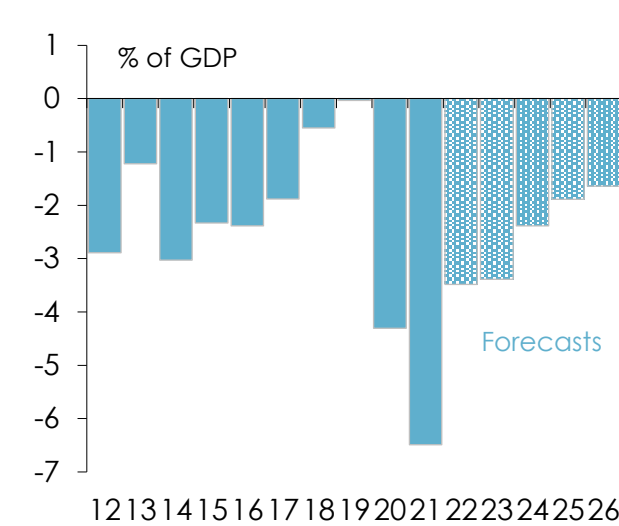
Consumer prices



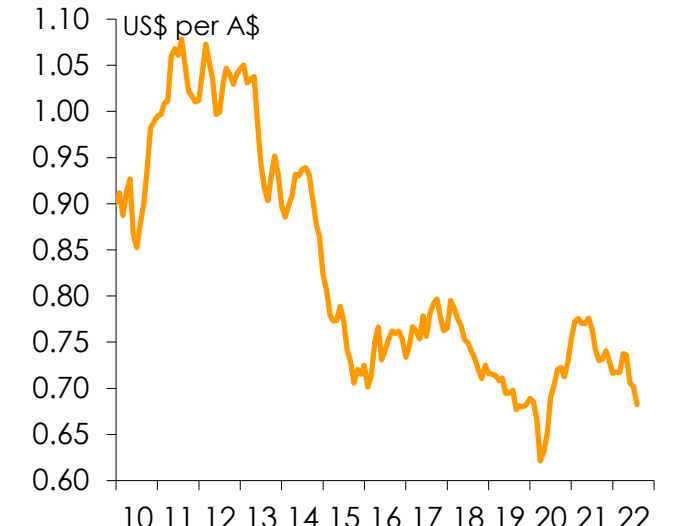
Current account balance



Government cash balance



A\$ vs US\$

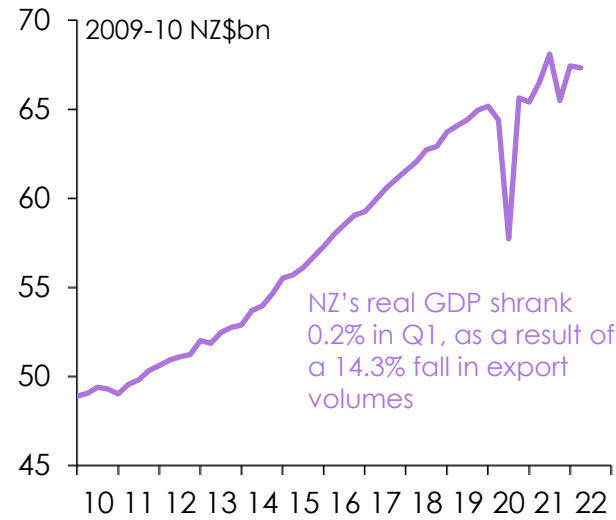


Note: The measure of 'underlying' inflation shown here is the trimmed mean. Government cash balance data are for fiscal years ended 30th June. Sources: Australian Bureau of Statistics, [Australian National Accounts: National Income, Expenditure and Product](#); [Consumer Price Index](#); [Balance of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

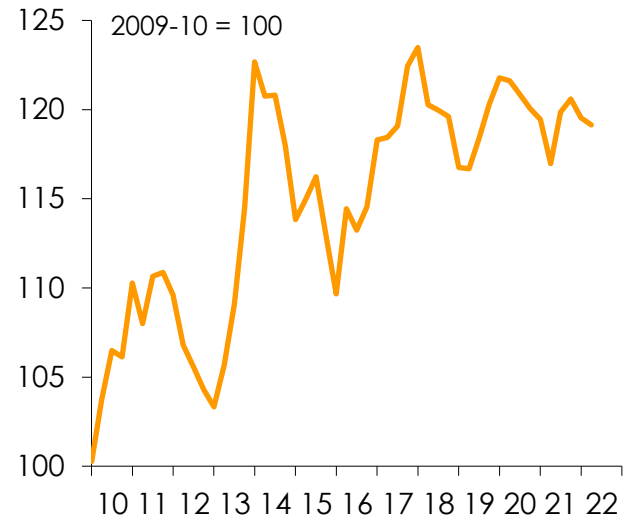
New Zealand's CPI rose 1.7% in Q2, pushing the annual 'headline' inflation rate up to 7.3%, with the RBNZ's preferred 'underlying' rate rising to 4.8%

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

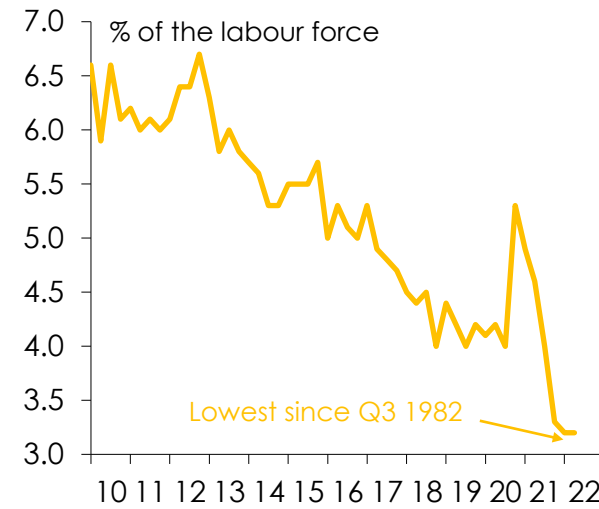
Real GDP



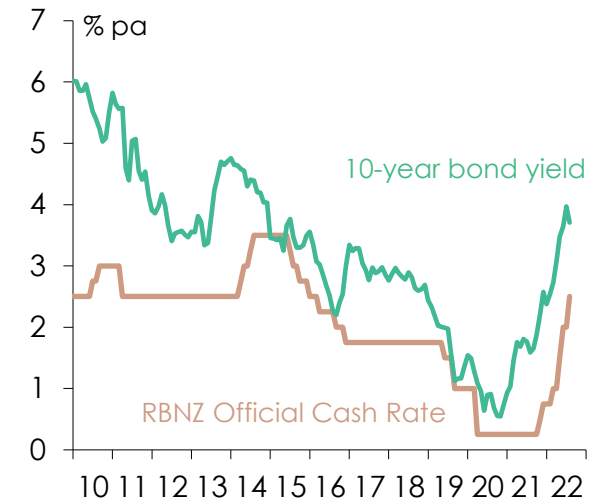
Terms of trade



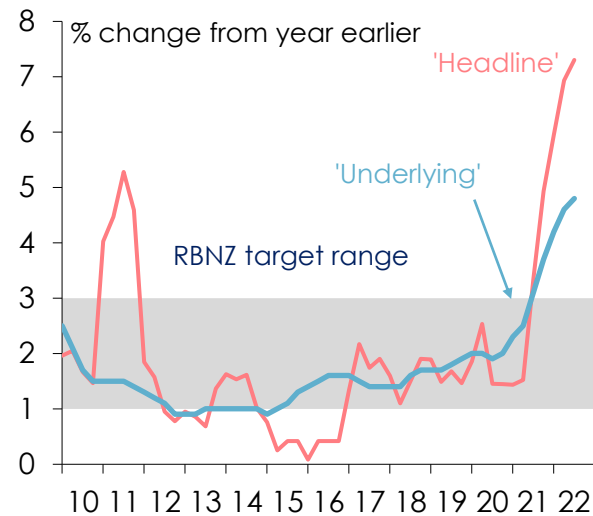
Unemployment



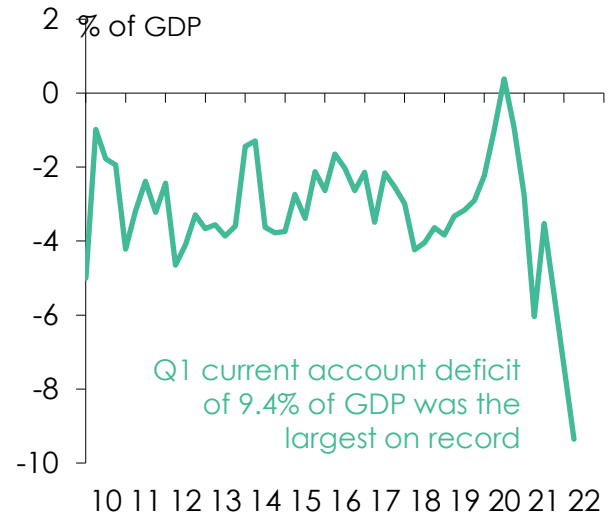
Interest rates



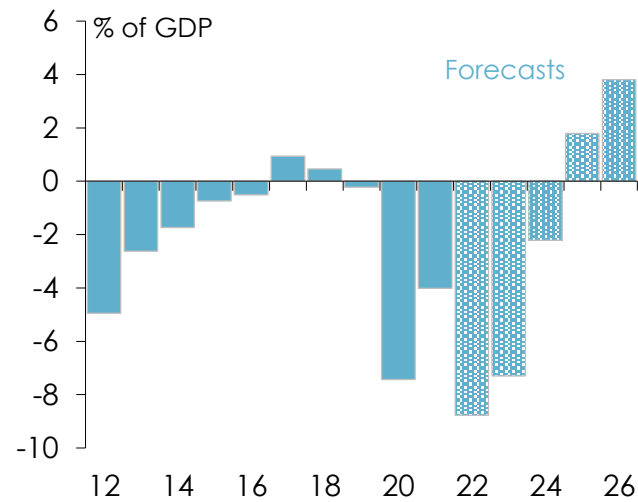
Consumer prices



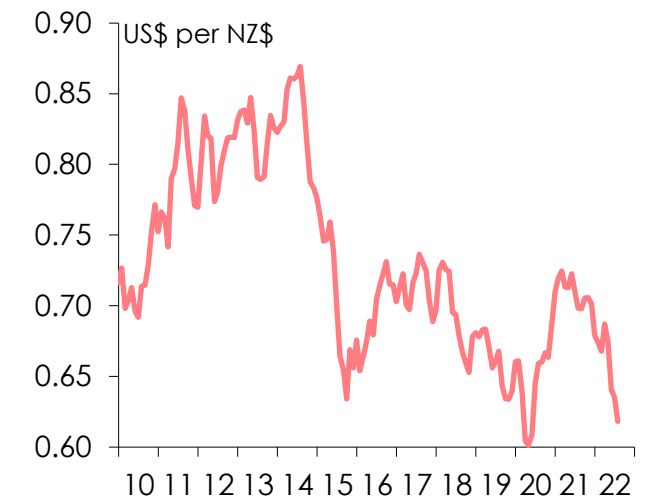
Current account balance



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

South Africa's central bank raised its policy rate by 75 bp last week, Turkey left its rates unchanged, Russia cut by 150bp and Ukraine devalued 25%

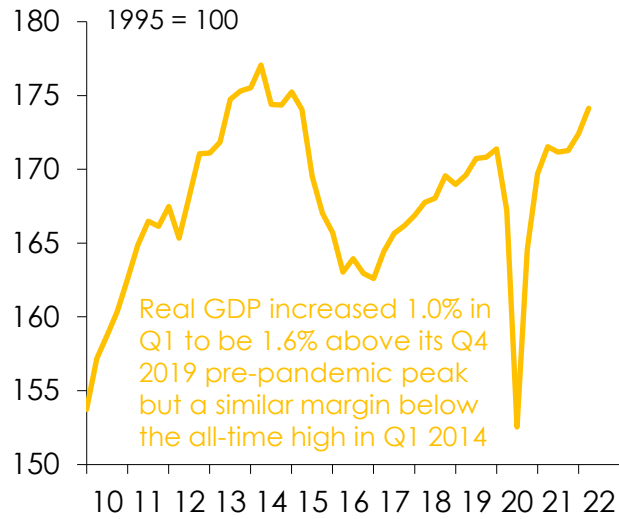
THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

- ❑ **The [South African Reserve Bank](#) raised its repo rate by 75 basis points (the largest increase since June 2002), to 5.5%, at its Monetary Policy Committee meeting last Thursday ([slide 119](#))**
 - in his [post-meeting statement](#) Governor Lesetja Kganyago noted that ‘headline’ inflation was expected to remain above SARB’s 3-6% target range until Q2 2023, with the forecasts for headline inflation in 2022 and 2023 having been revised upwards to 6.5% (from 5.9% in May) and 5.7% (from 5.0%) respectively, and with ‘core’ inflation expected to rise from 4.3% (cf. 3.9% previously) this year to 5.6% (previously 5.1%) in 2023
 - apart from higher energy and food prices, another factor contributing to the upward revisions to inflation forecasts was a weaker currency, due to “policy normalization in major economies and the slowdown in China”
 - SARB raised its forecast for real GDP growth in 2022 to 2.0% (from 1.7%), but lowered the forecasts for 2023 and 2024 to 1.3% and 1.5%, respectively (from 1.9% for both years), noting that these lower rates were nonetheless still above its estimates of South Africa’s potential growth rate, leading to the ‘output gap’ being closed from Q2 2023 onwards
- ❑ **[Türkiye Cumhuriyet Merkez Bankası](#) (Turkey’s central bank) again left its one-week repo rate unchanged at 14% last Thursday’s Monetary Policy Committee meeting ([slide 123](#))**
 - between September and December last year, TCMB cut its policy rate from 19% to 14%, despite inflation increasing during this period from 19% to 36%, and has left it at 14% despite inflation increasing further to 78.6% over the year to July
 - this unusual approach to monetary policy-making is the direct result of pressure from Turkey’s President Erdoğan, who [believes](#) that higher interest rates “cause” inflation and that those who think interest rates should rise when inflation does are [“traitors or illiterates”](#)
- ❑ **[Bank of Russia](#) cut its key rate by 150bp to 8.0%, the lowest since November last year, [citing](#) “a further slowdown in annual inflation”, a “significant decrease” in inflation expectations, and forecast declines in real GDP in 2022 and 2023 of 4-6% and 1-4% respectively, and foreshadowing further rate cuts in the second half of this year ([slide 120](#))**
- ❑ **Ukraine [devalued its currency](#) by 25% last Thursday, citing “the shift in the fundamental parameters of the Ukrainian during the war and the strengthening of the dollar” ([slide 121](#))**
- ❑ **[Banco Central del Paraguay](#) lifted its policy rate by 25bp (the 11th increase since last August and the smallest since the first one) to 8.0% ([slide 122](#))**

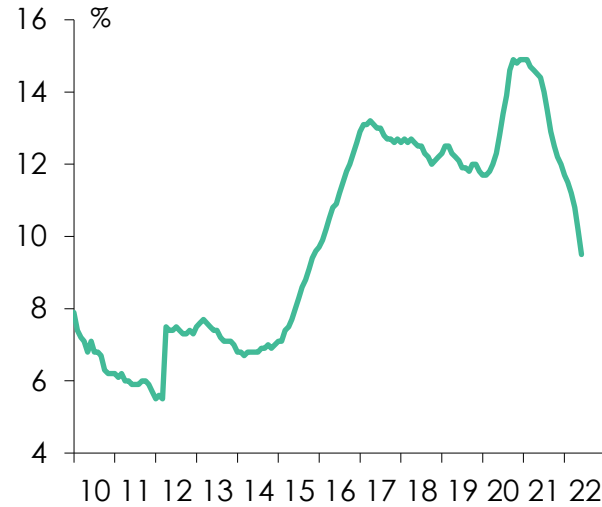
Brazil's central bank raised its policy (SELIC) rate another 50 bp, to 13.25%, at its most recent meeting in June

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

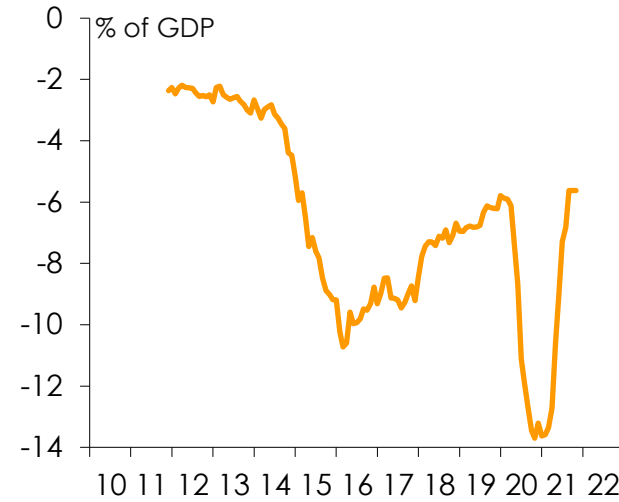
Real GDP



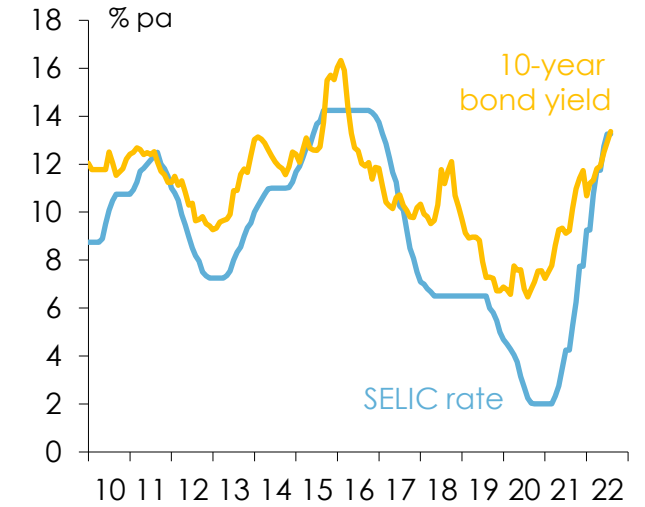
Unemployment



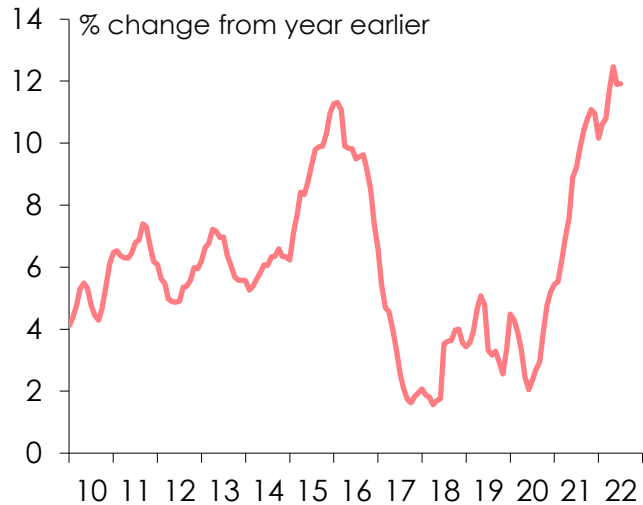
Public sector borrowing



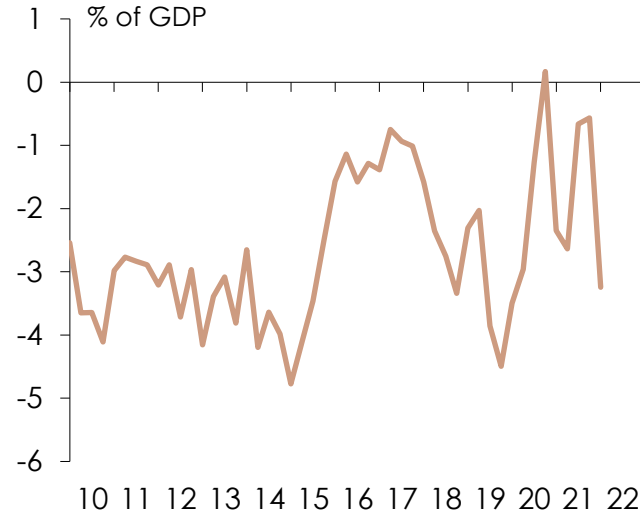
Interest rates



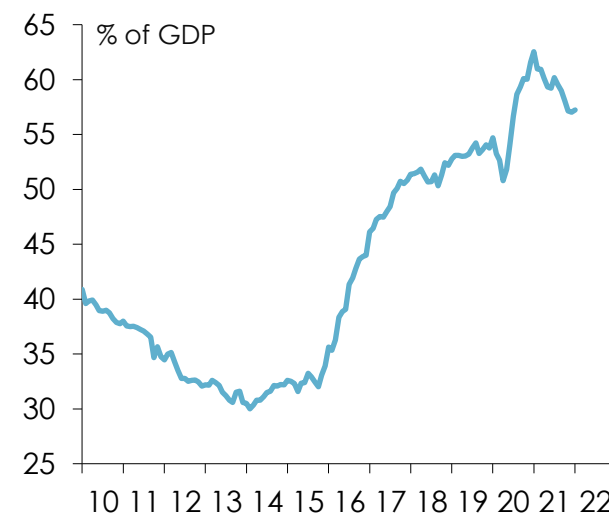
Inflation



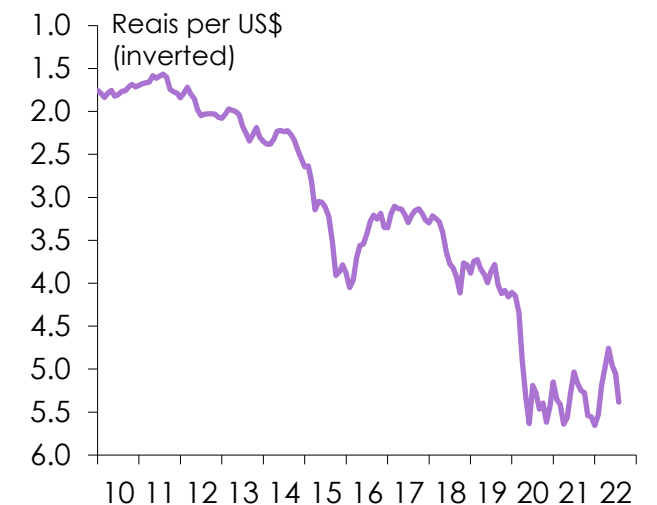
Current account balance



Public sector net debt



Brazilian real vs US\$

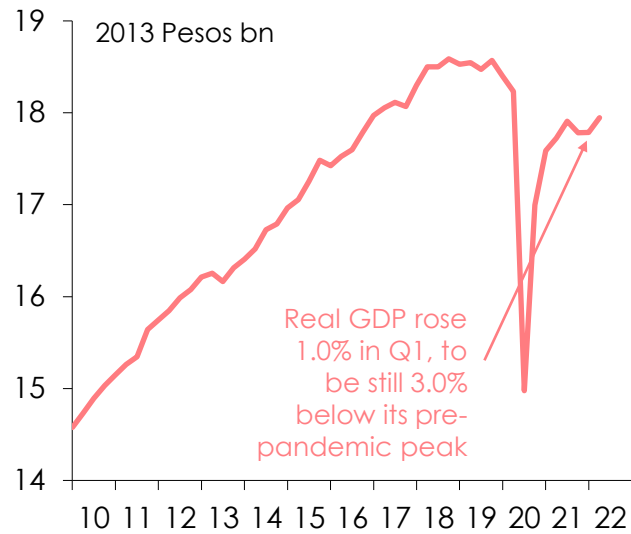


Sources: [Instituto Brasileiro de Geografia e Estatística](#) (IBGE); [Banco Central do Brasil](#); Refinitiv Datastream. [Return to "What's New"](#).

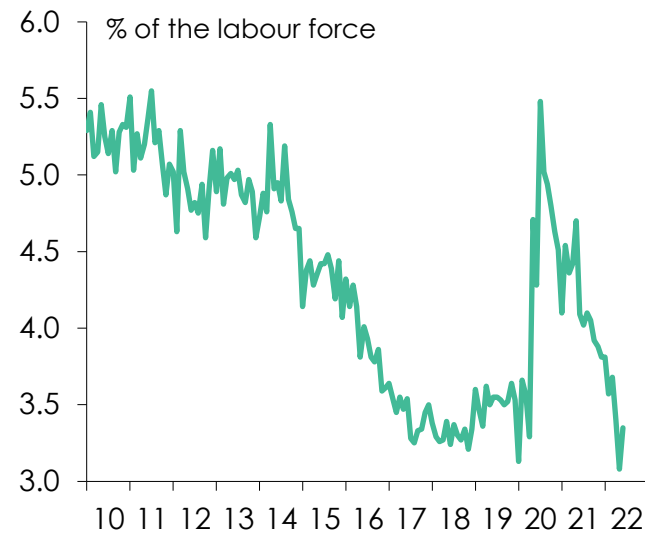
Mexico's annual 'headline' inflation rate rose to 8.0% over the year to June, the highest since January 2001, and 'core' inflation rose to 7.5%

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

Real GDP



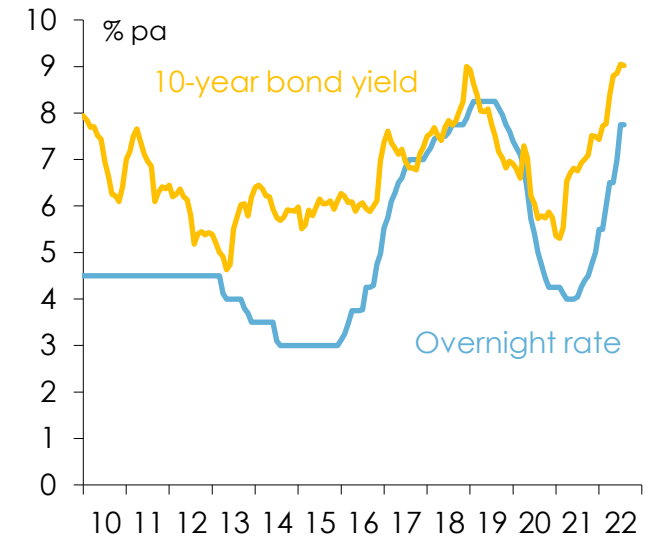
Unemployment



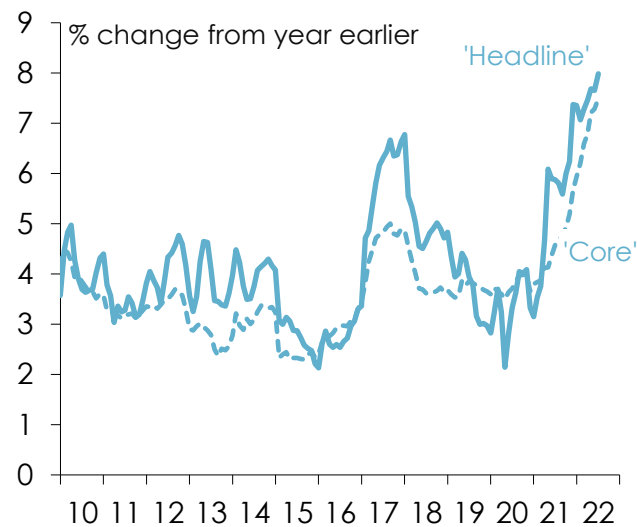
Bank lending



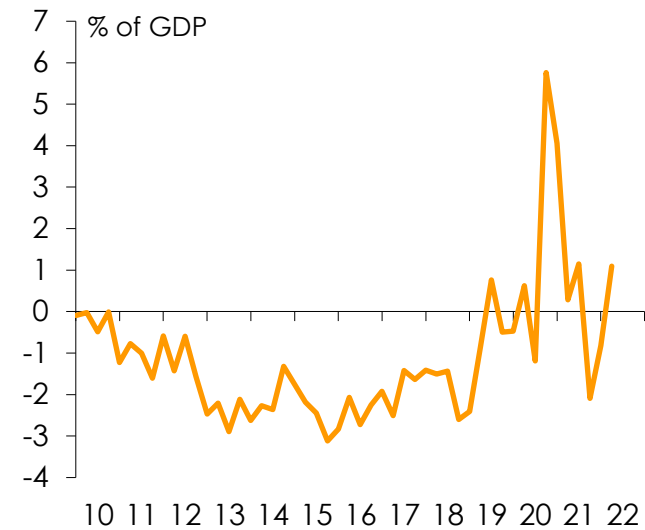
Interest rates



Inflation



Current account balance



Federal budget deficit



Mexican peso vs US\$

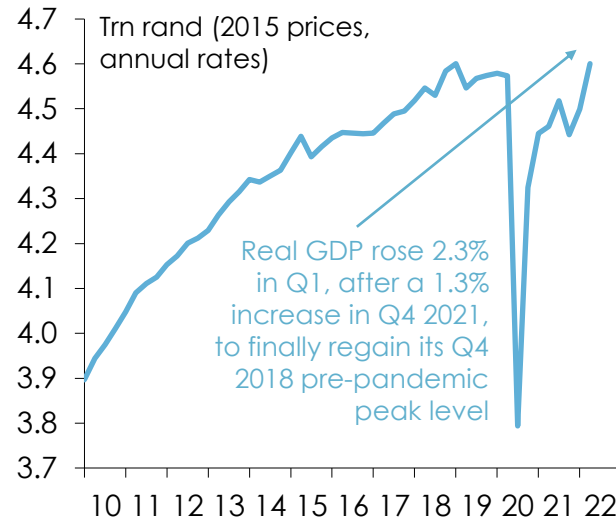


Sources [Banco de México](#); [Instituto Nacional de Estadística y Geografía \(INEGI\)](#); Refinitiv Datastream.. [Return to "What's New"](#).

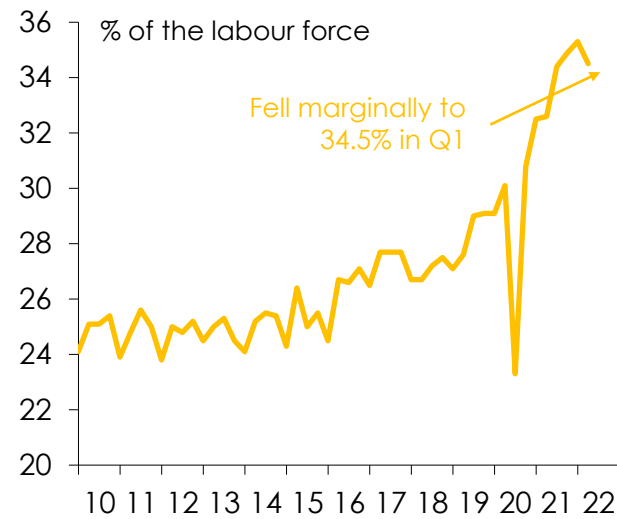
South Africa's Reserve Bank raised its repo rate by 75bp (the largest increase in 20 years), to 5.5%, last Thursday

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

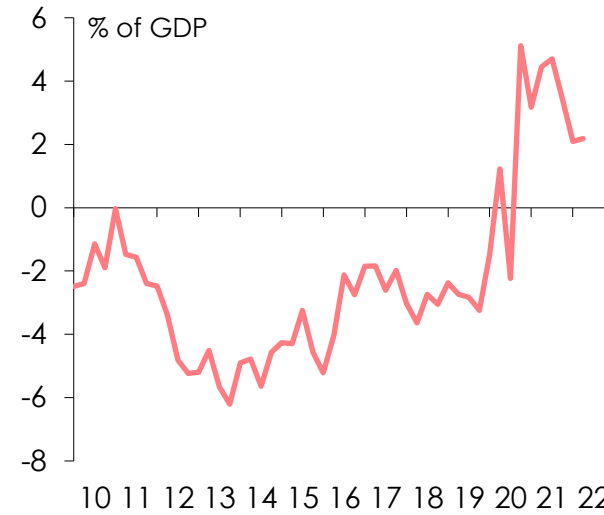
Real GDP



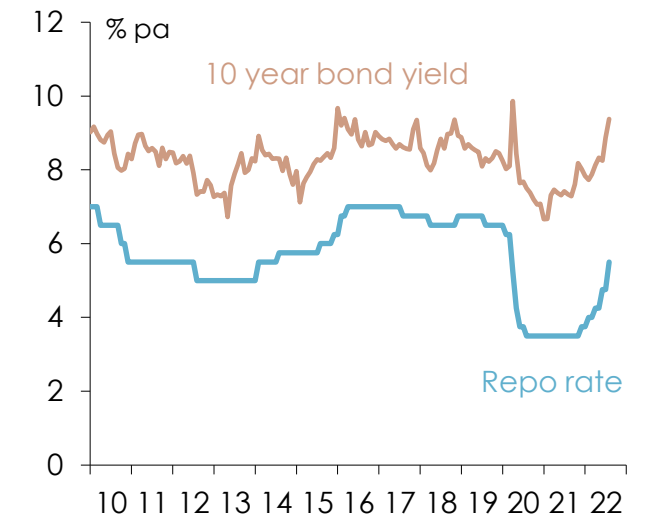
Unemployment



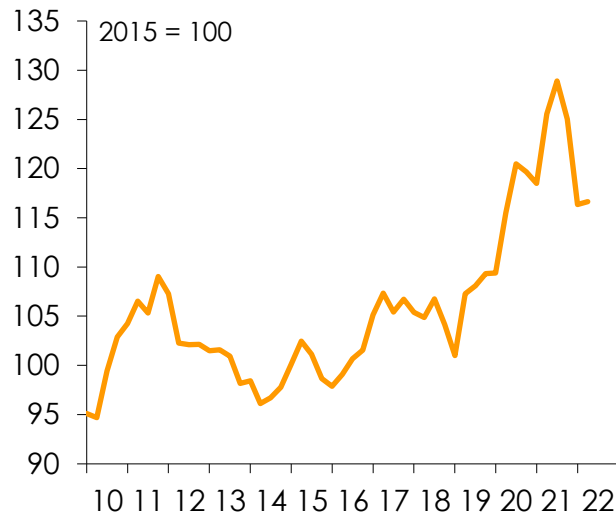
Current account balance



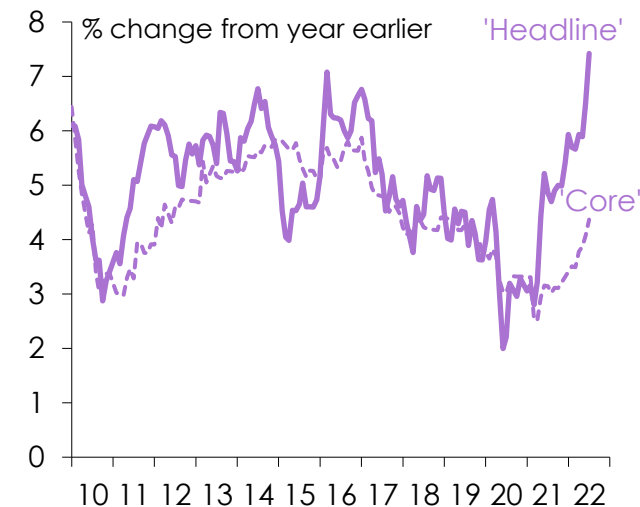
Interest rates



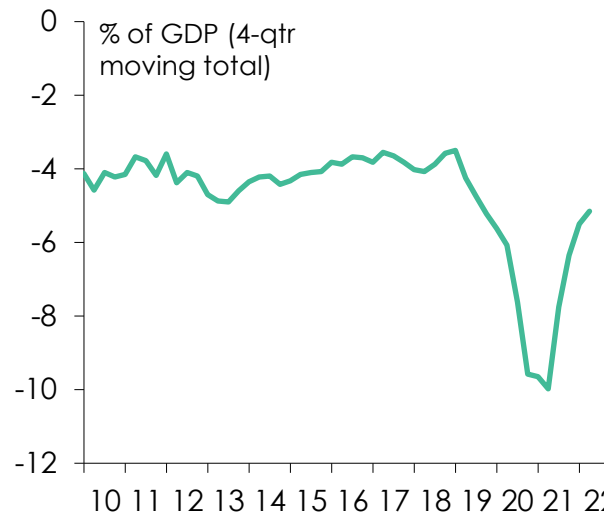
Terms of trade



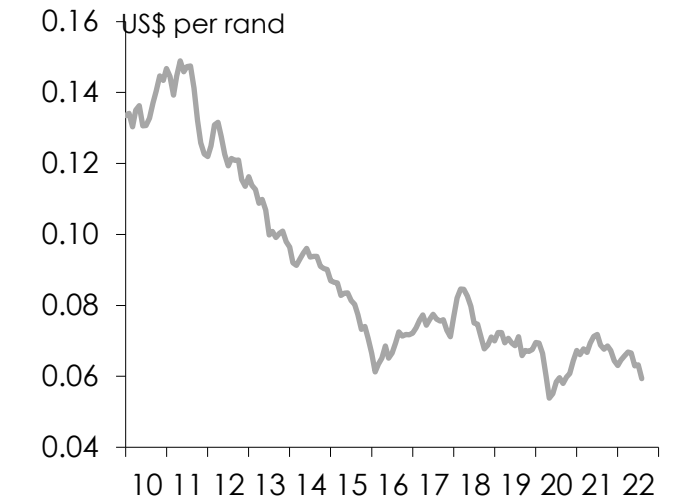
Inflation



Budget deficit



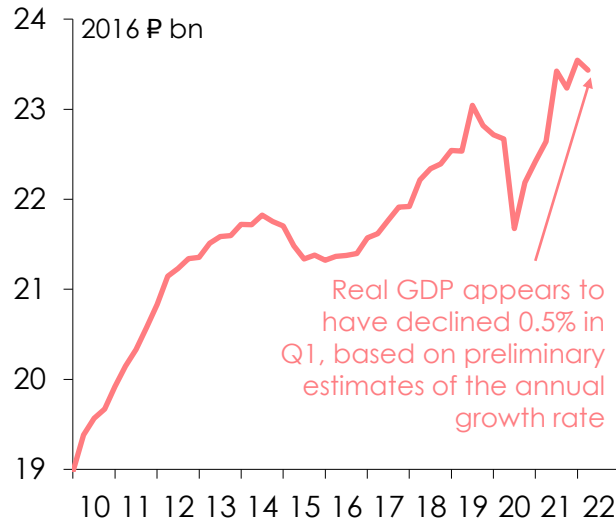
Rand vs US\$



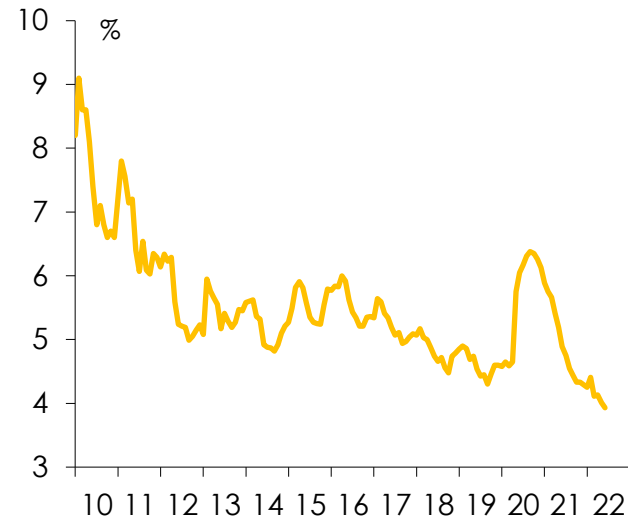
The Central Bank of Russia cut its 7-day repo rate another 150 basis points, to 8% (below where it had been before the Ukraine conflict began)

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

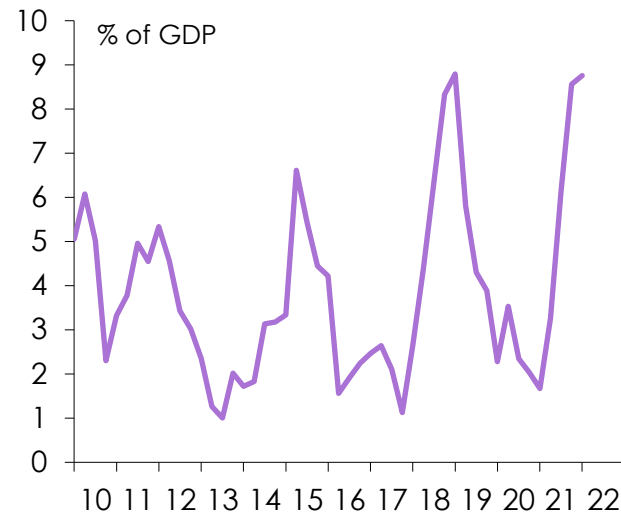
Real GDP



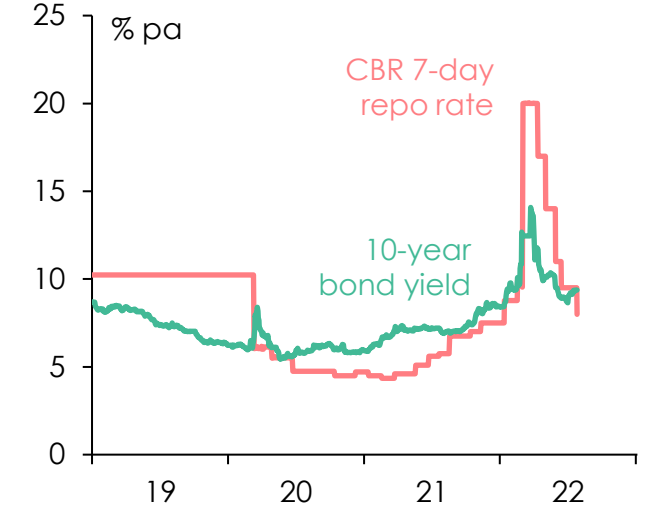
Unemployment



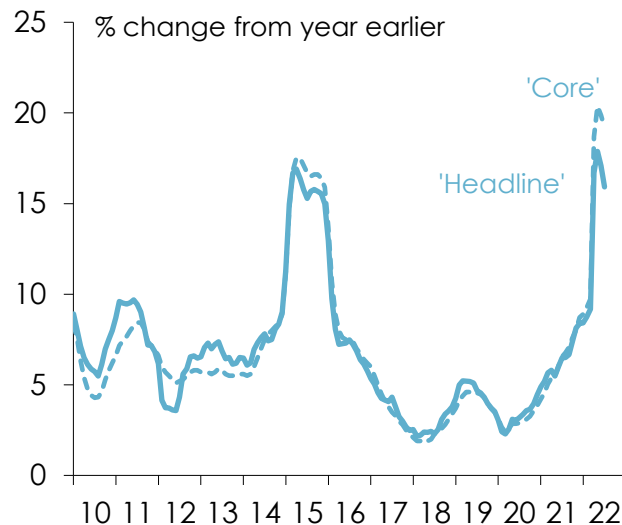
Current account balance



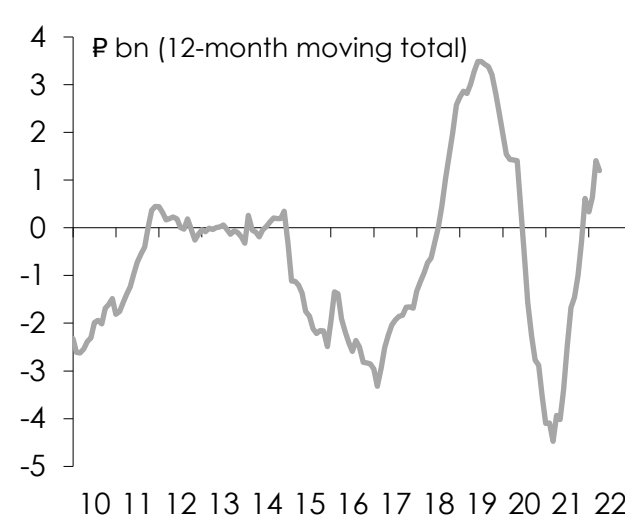
Interest rates



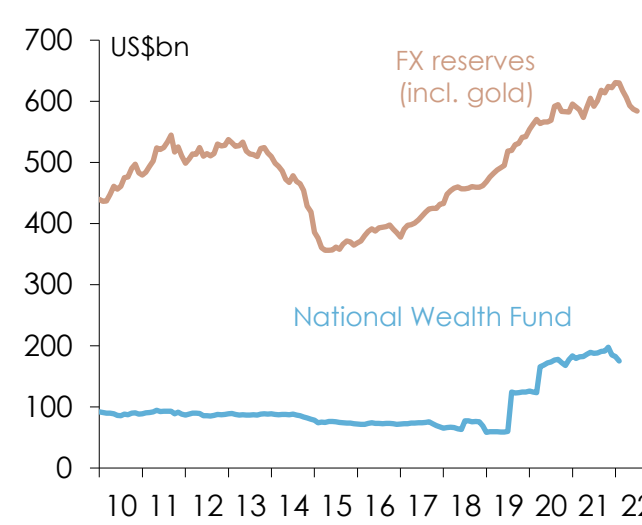
Inflation



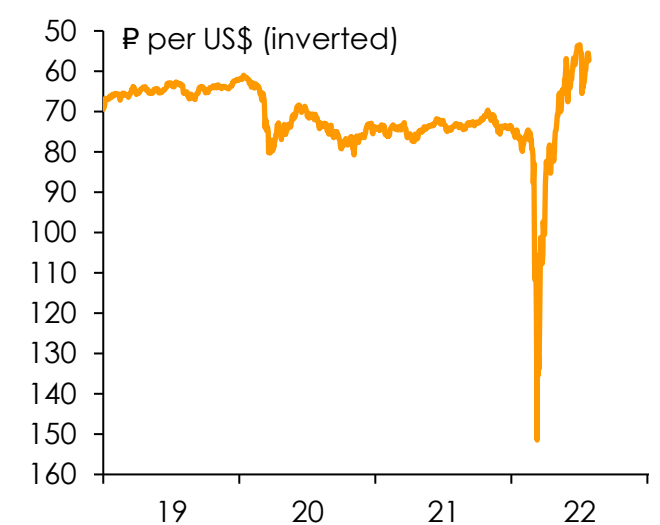
Federal budget balance



State financial assets



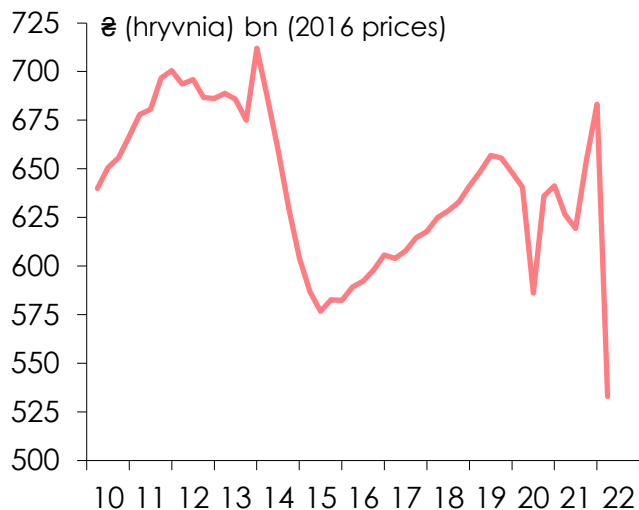
Russian ruble vs US\$



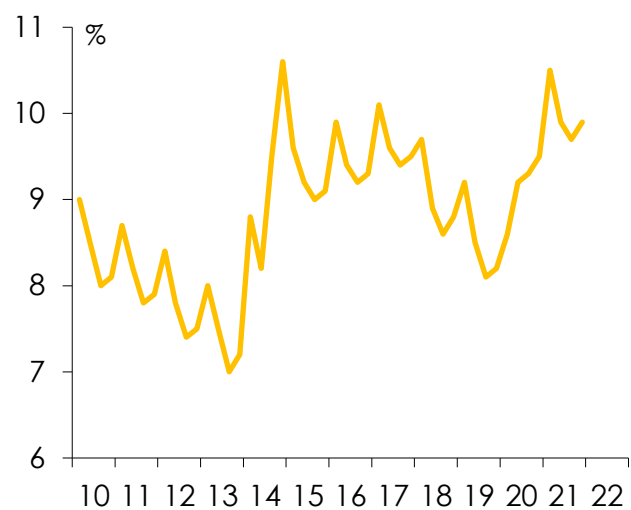
Ukraine devalued its currency by 25% against the US\$ last week in view of the “change in the fundamental characteristics of Ukraine’s economy”

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

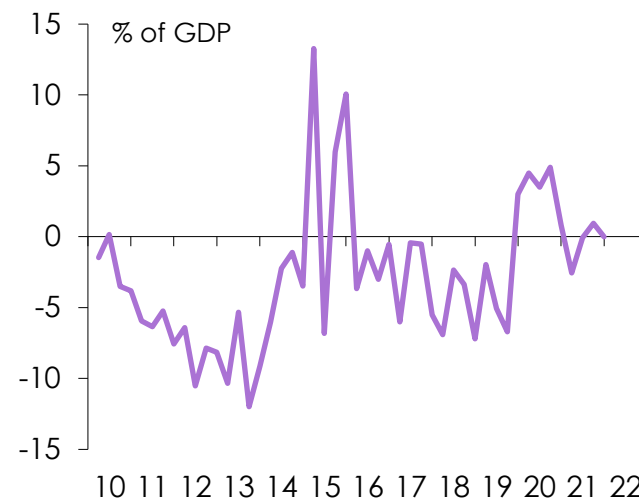
Real GDP



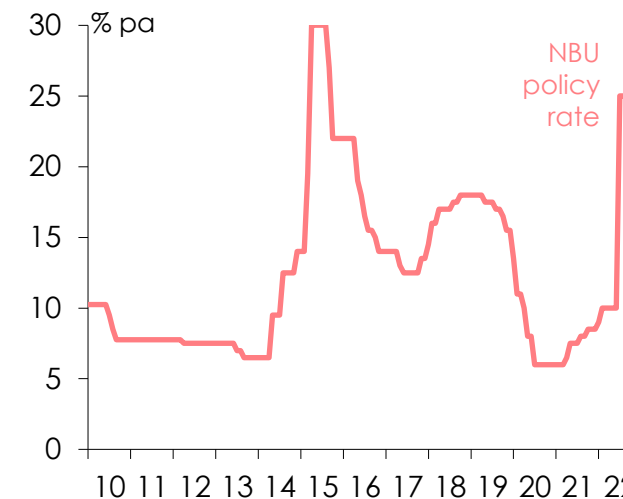
Unemployment



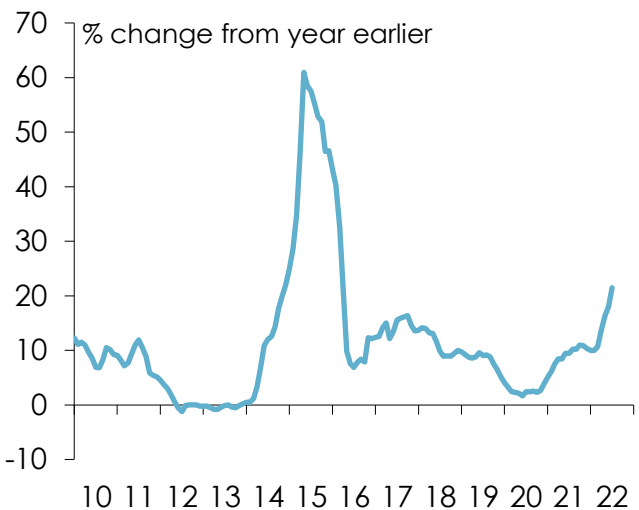
Current account balance



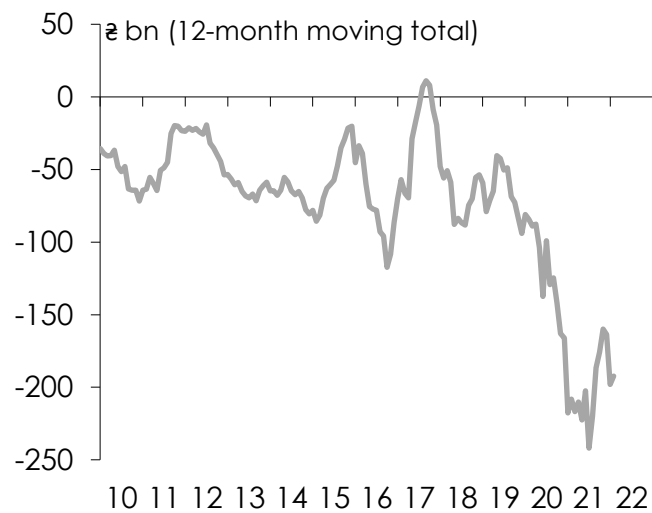
Interest rates



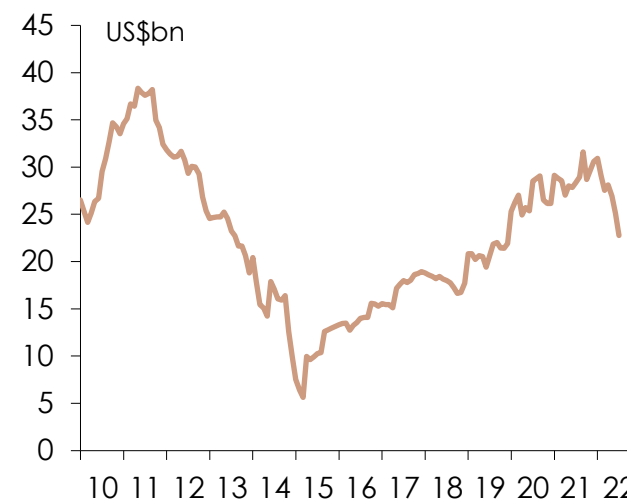
Inflation



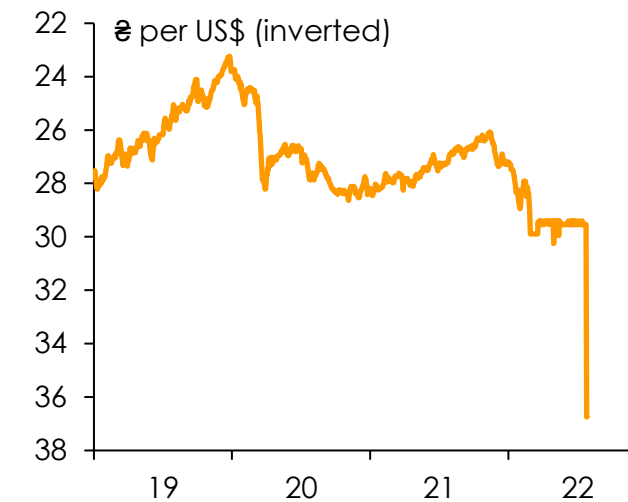
Budget deficit



FX reserves



Ukrainian hryvnia vs US\$

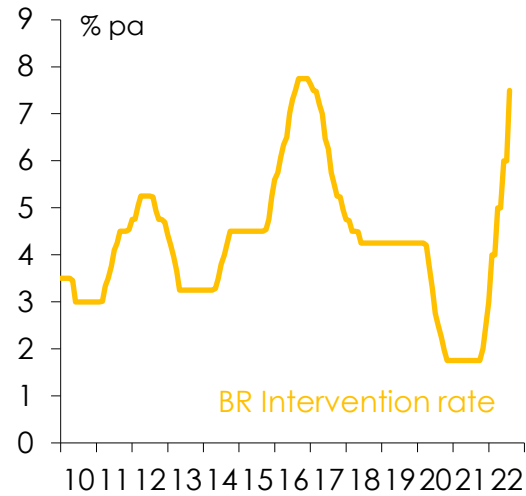


Sources: [State Statistics Service of Ukraine](#); [National Bank of Ukraine](#); Refinitiv Datastream. [Return to "What's New"](#).

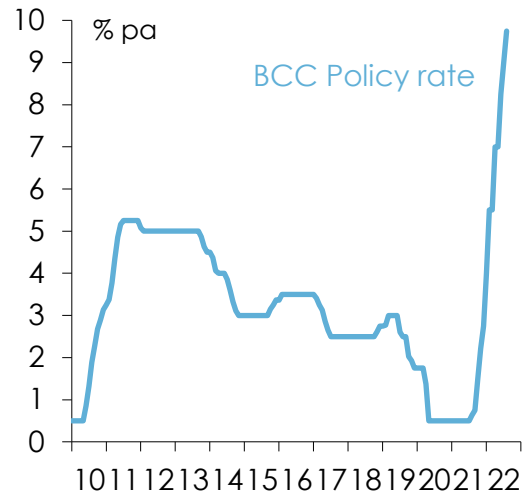
Central banks in Latin America, Central & Eastern Europe, and South Asia have been very forceful in tightening monetary policy

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

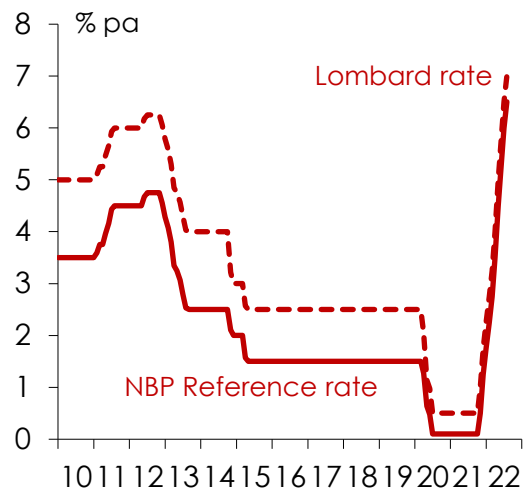
Colombia



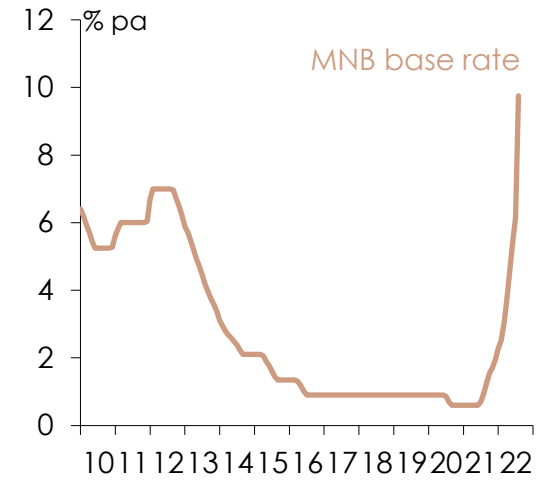
Chile



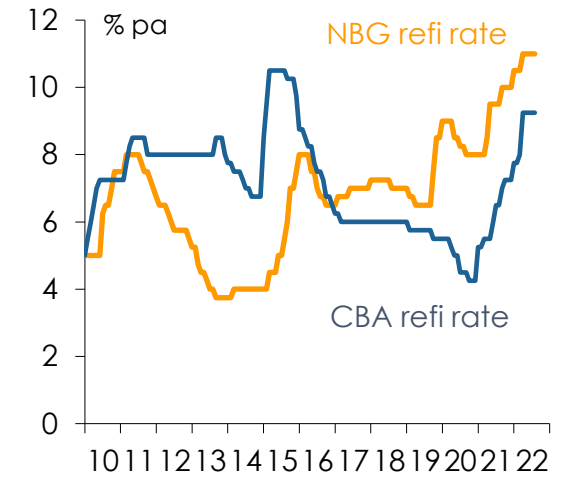
Poland



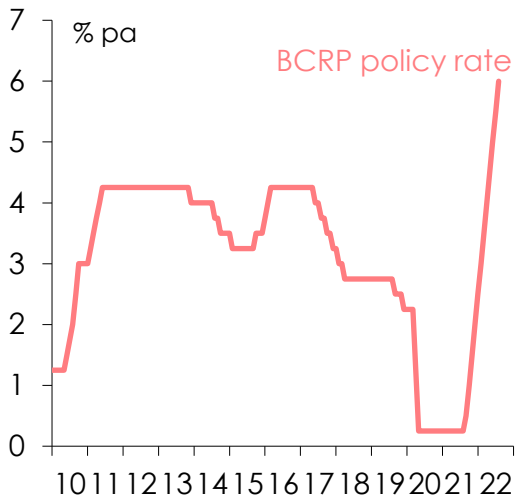
Hungary



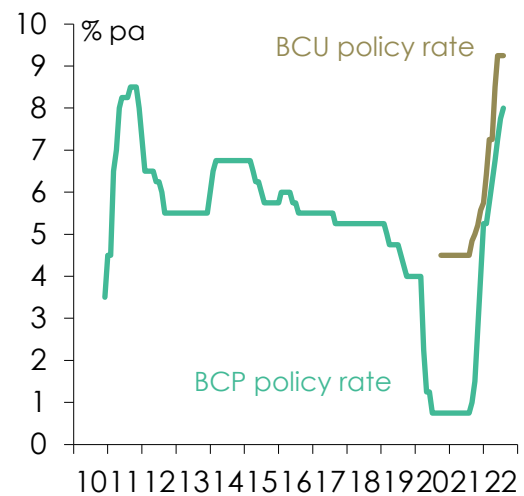
Georgia & Armenia



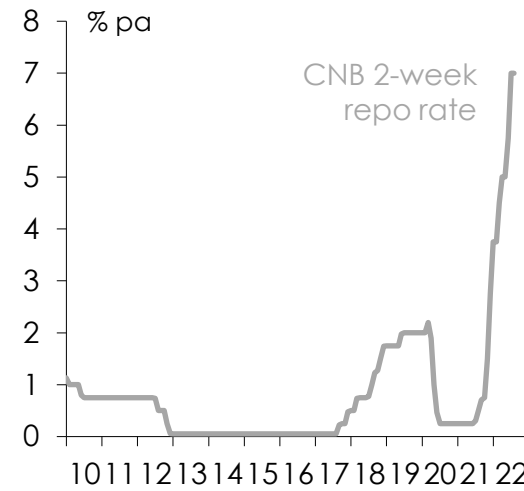
Peru



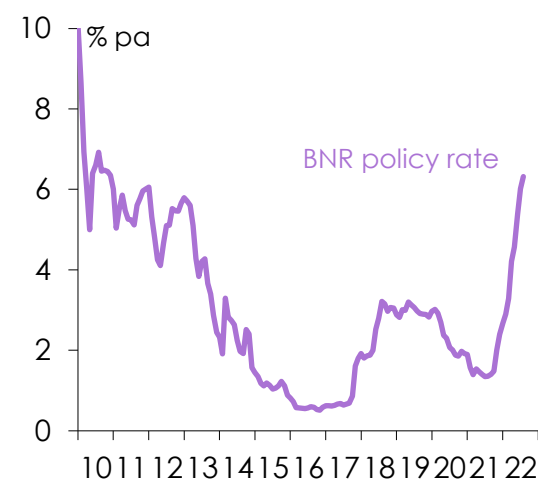
Paraguay & Uruguay



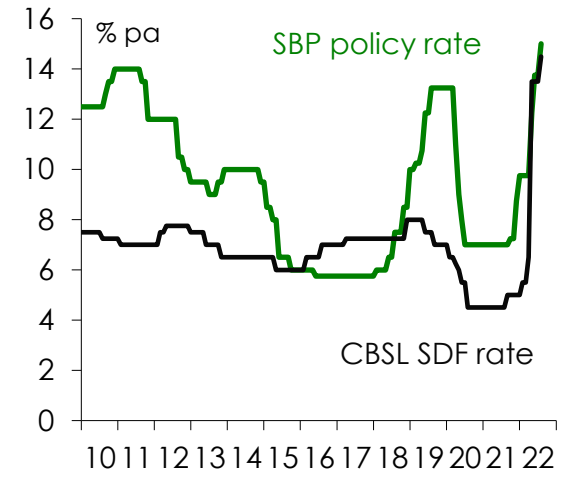
Czech Republic



Romania



Pakistan & Sri Lanka

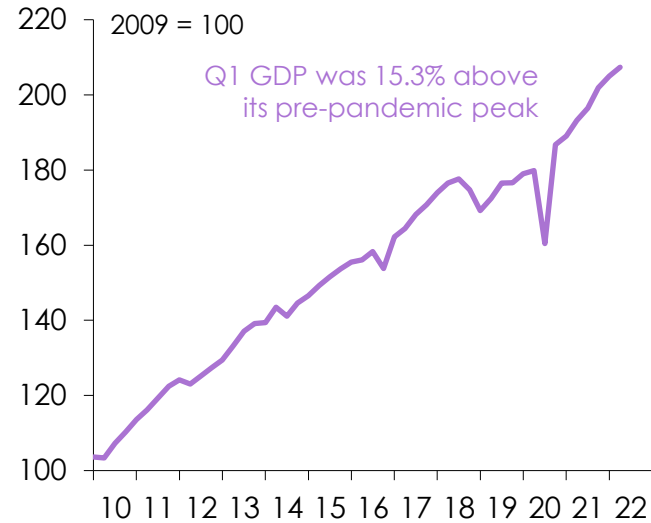


Sources: [Banco de la República Colombia](#); [Banco Central de Reserva del Perú](#); [Banco Central de Chile](#); [Banco Central del Uruguay](#); [Banco Central del Paraguay](#); [Narodowy Bank Polski](#); [Česká Národní Banka](#); [Magyar Nemzeti Bank](#); [Banca Națională a României](#); [Sakartvelos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

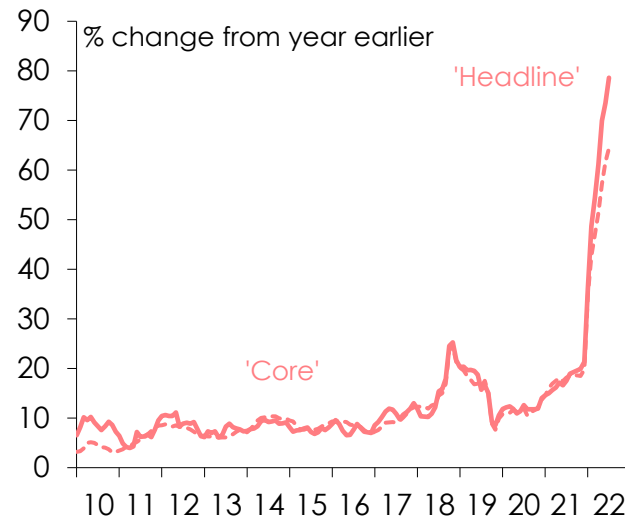
Turkey's monthly inflation rate has slowed significantly over the past four months, to just 0.2% in June, but the annual rate rose further to 78.6%

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

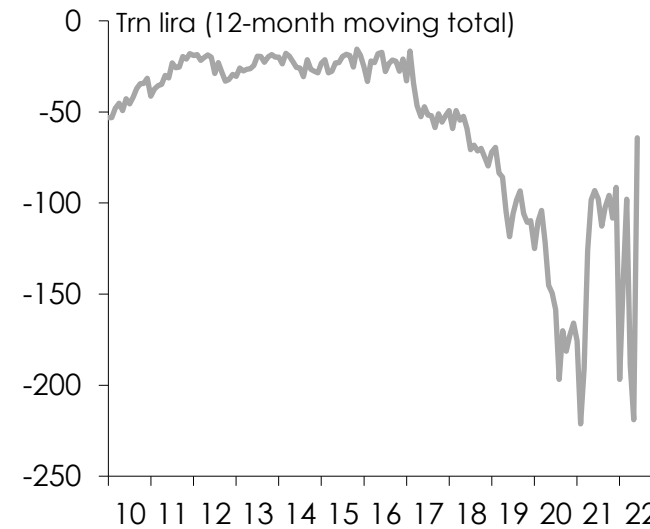
Real GDP



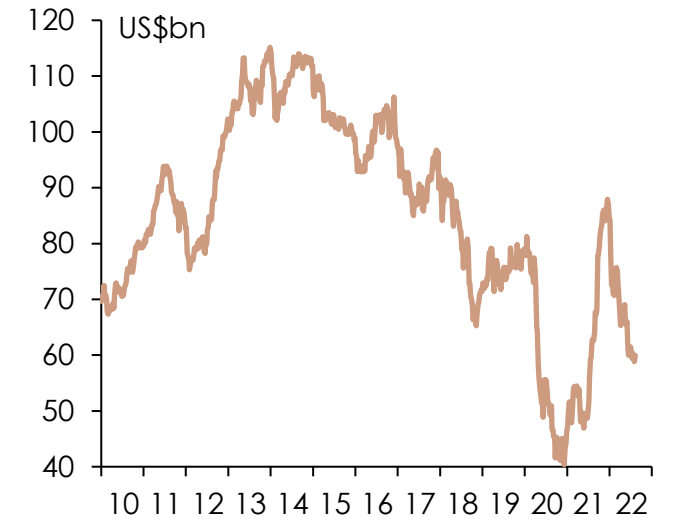
Inflation



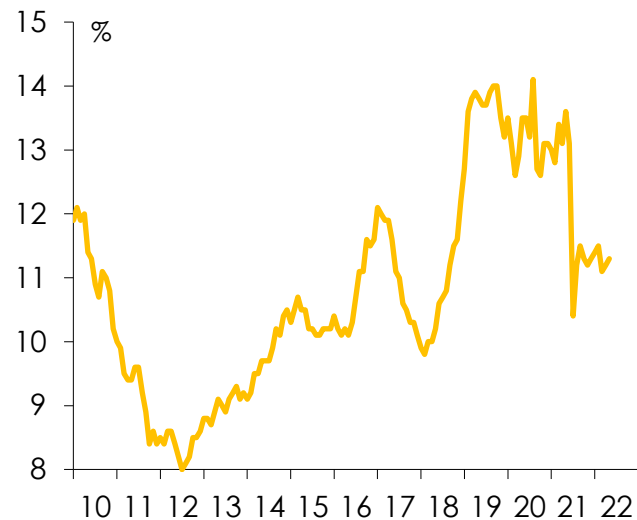
Budget balance



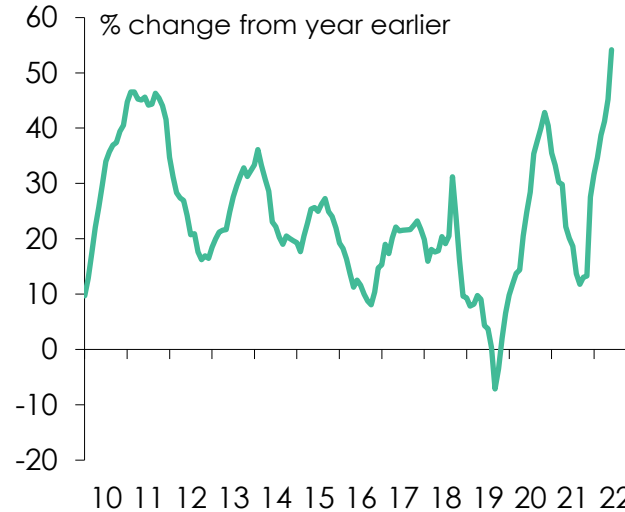
FX reserves



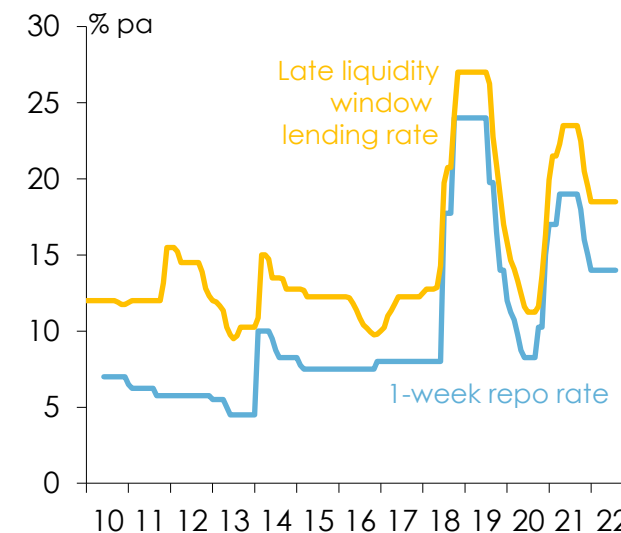
Unemployment rate



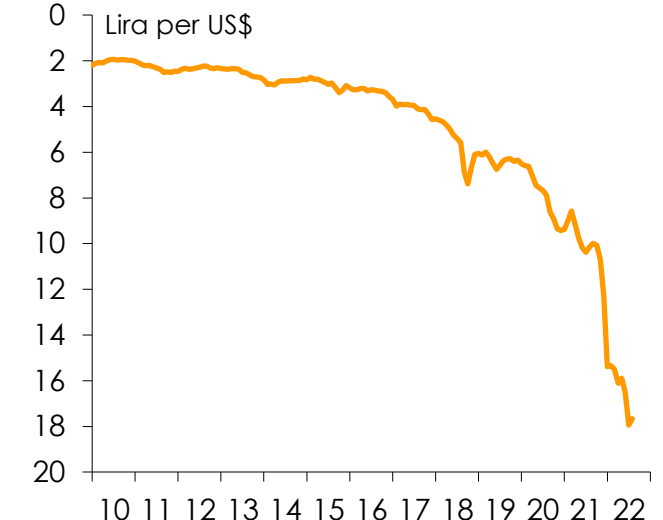
Bank lending



Interest rates



Turkish lira vs US\$



Key data and events this week

Key data and events for week ended 29th July

THE WORLD ECONOMY THIS WEEK – 25TH JULY 2022

Monday 25 th July	Thailand June trade balance; Singapore June CPI; Taiwan June industrial production & retail sales; Hong Kong June trade balance; UK Q3 business confidence; US June Chicago Fed national activity index; Brazil July consumer confidence
Tuesday 26 th July	Korea Q2 GDP (p); Singapore June industrial production; Hungary MNB meeting; US May house prices, June new home sales, July Richmond & Dallas Fed activity indexes, and July Conference Board consumer confidence; Argentina May retail sales; IMF World Economic Outlook update
Wednesday 27 th July	Australia Q2 CPI; Korea July consumer confidence; Taiwan July consumer confidence; Malaysia June PPI; Thailand June industrial production & current account balance, and May retail sales; Russia June unemployment, industrial production & retail sales; euro area June money & credit aggregates; US FOMC meeting and June durable goods orders
Thursday 28 th July	New Zealand July business confidence; Australia June retail sales and Q2 export & import prices; Korea July business confidence; Hong Kong interest rate adjustment; euro area July consumer & business confidence; Norway Q2 unemployment; US Q2 GDP; Mexico June unemployment; Chile June unemployment
Friday 29 th July	New Zealand July business confidence; Australia Q2 PPI; Japan June unemployment, retail sales & industrial production, and July Tokyo CPI; Korea June retail sales & industrial production; Taiwan Q2 GDP (p); Philippines June PPI; Vietnam July CPI, industrial production, retail sales & trade balance; Singapore Q2 unemployment & business confidence, and June PPI; South Africa June trade balance; Czech Republic Q2 GDP; France Q2 GDP; Germany Q2 GDP; euro area Q2 GDP (p) and July 'flash' CPI; US June personal income & expenditure and PCE deflator, July inflation expectations (final) and Q2 employment cost index; Mexico Q2 GDP; Colombia BCR meeting and June unemployment; Chile June retail sales & industrial production
Sunday 31 st July	China July 'official' PMIs

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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