



# THE WORLD ECONOMY THIS WEEK

1<sup>st</sup> AUGUST 2022

**SAUL ESLAKE**

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CORINNA ECONOMIC ADVISORY  
INDEPENDENT ECONOMICS

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# What's new?

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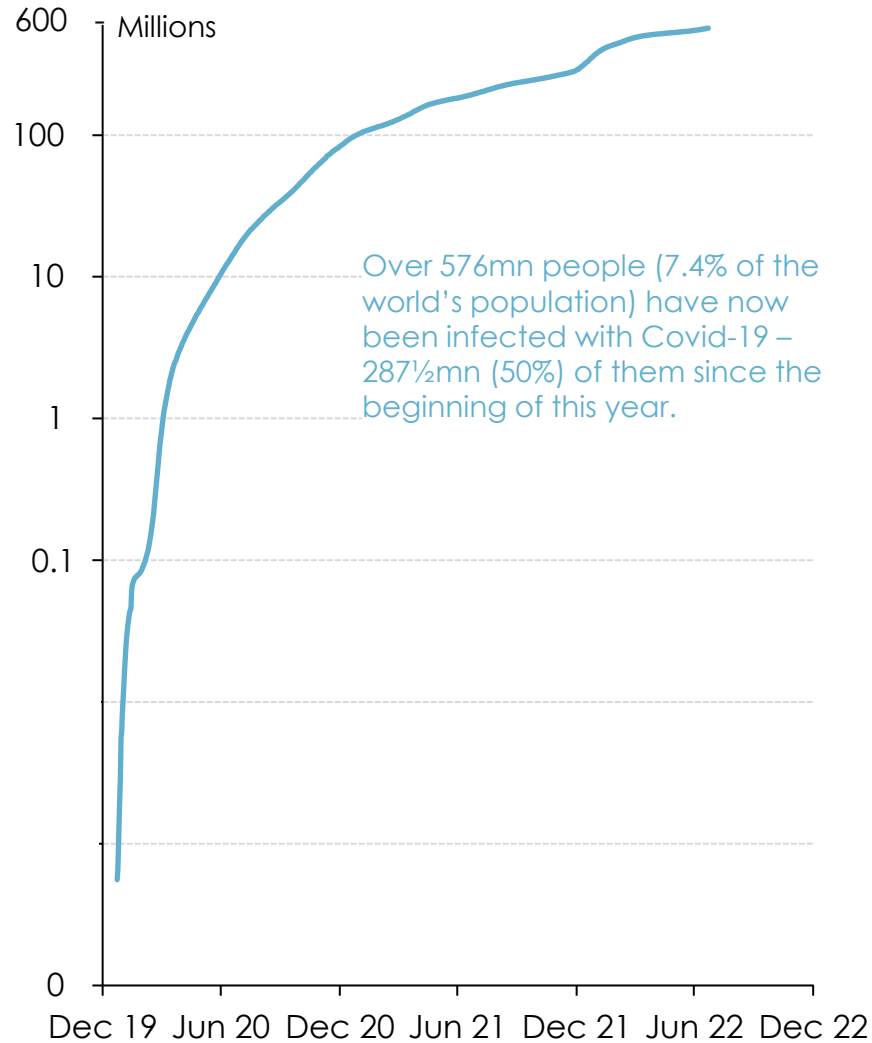
- ❑ The IMF downgraded its forecasts for global economic growth in 2022 and 2023 by 0.4 and 0.7 pc pt, to 3.2% and 2.9%, respectively, and revised its forecasts for global inflation to 8.3% and 5.7% respectively, in each case up by 0.9 pc pt, warning that the risks were “firmly skewed to the downside” ([slides 15-16](#))
- ❑ US real GDP declined by 0.2% (an annualized rate of 0.9%) in Q2, largely due to a sharp run-down in inventories, although residential & non-residential construction and government spending also fell ([slide 42](#))
- ❑ Although this was the second consecutive contraction in real GDP after a 0.4% (1.6% annualized) decline in Q1, that does not mean the US economy was ‘in recession’ in the first half of this year ([slide 43](#)), although the chances of a ‘genuine’ recession in the next 6-18 months are rising ([slide 44](#))
- ❑ One reason for that is the increasing ‘squeeze’ on real personal disposable incomes being exerted by the combination of rising energy and other prices, and increasing tax payments, which are eroding the savings US households accumulated during 2020 and the first half of 2021 ([slide 45](#))
- ❑ This ‘squeeze’ is occurring despite the fact that wages, as measured by the employment cost index (a measure of earnings which isn’t distorted by changes in the composition of employment) rose 5.7% over the year to Q2, the fastest since Q4 1982 ([slide 51](#))
- ❑ The implicit price deflator of personal consumption spending excluding food & energy, the Fed’s preferred measure of ‘core’ inflation, rose 0.6% in June, the largest monthly increase since April last year, pushing the annual ‘core’ inflation rate by this measure to 4.8% ([slide 52](#))
- ❑ As widely anticipated the Federal Reserve last week raised its funds rate target by 75 bp for the second successive meeting ([slides 32 & 60](#)), but financial markets interpreted Fed Chair Powell’s post-meeting remarks as suggesting that future rate increases may be smaller ([slide 37](#))
- ❑ The euro area’s real GDP increased by 0.7% in Q2, after a 0.6% increase in Q1, with growth of 1.0% in Italy and 1.0% in Spain dampened by 0.5% growth in France and a marginal contraction in Germany ([slides 62 & 67](#)); meanwhile the euro’s annual ‘headline’ and ‘core’ inflation rates rose to 8.9% and 4.0%, respectively, in July ([slide 66](#))
- ❑ ‘Official’ PMIs suggest a renewed slowdown in China’s economy in July, as lockdowns were re-imposed in some cities ([slide 74](#)): while China’s Politburo last week tacitly abandoned the 5½% growth target for 2022 established earlier this year ([slide 78](#))
- ❑ Japan’s unemployment rate remained unchanged at 2.6% in June, 0.4 pc pt above its pre-Covid low, reflecting sluggish growth in employment (still 0.3% below its pre-Covid peak) and record-high labour force participation ([slide 86](#))
- ❑ Korea’s real GDP grew 0.7% in Q2, after a 0.6% increase in Q1, but Taiwan’s contracted by 0.8%, partly reversing a 1.0% increase in Q1 ([slide 91](#))
- ❑ Australia’s CPI rose 1.8% in Q2, lifting the annual ‘headline’ inflation rate to 6.1% (the highest since Q4 1990), while the RBA’s preferred measure of ‘underlying’ inflation rose 4.5% over the year to Q2 ([slide 114](#))
- ❑ Hungary’s central bank raised its base rate by 100 bp to 10.75%, the third large increase in six weeks, while Colombia’s central bank raised its benchmark rate by 150 bp to 9.0% ([slides 117 and 123](#))
- ❑ Highlights of this week’s calendar are manufacturing and services PMIs for July, US June trade and July labour market data, New Zealand’s Q2 labour market data, and central bank meetings in Australia, Brazil, the Czech Republic, India and the UK

**Covid-19**

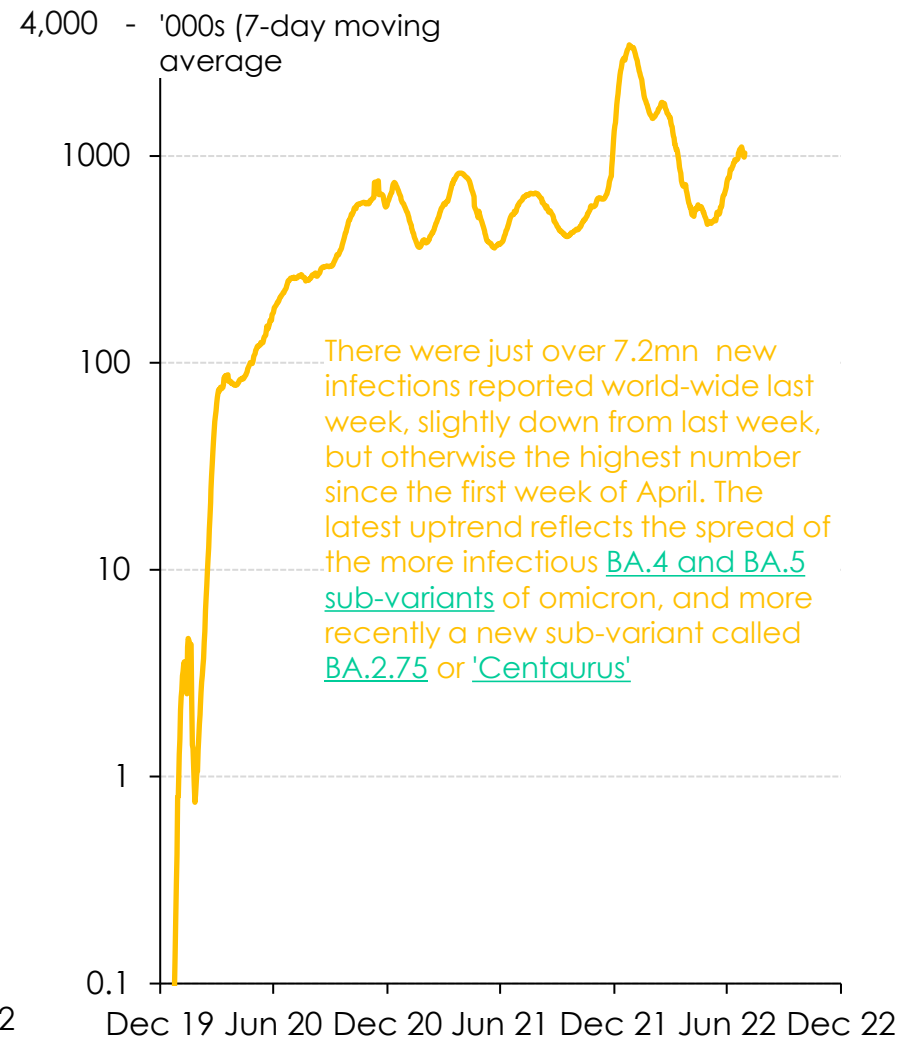
# The global total of new Covid-19 cases fell slightly last week, but remains relatively high as new, more transmissible, omicron sub-variants spread

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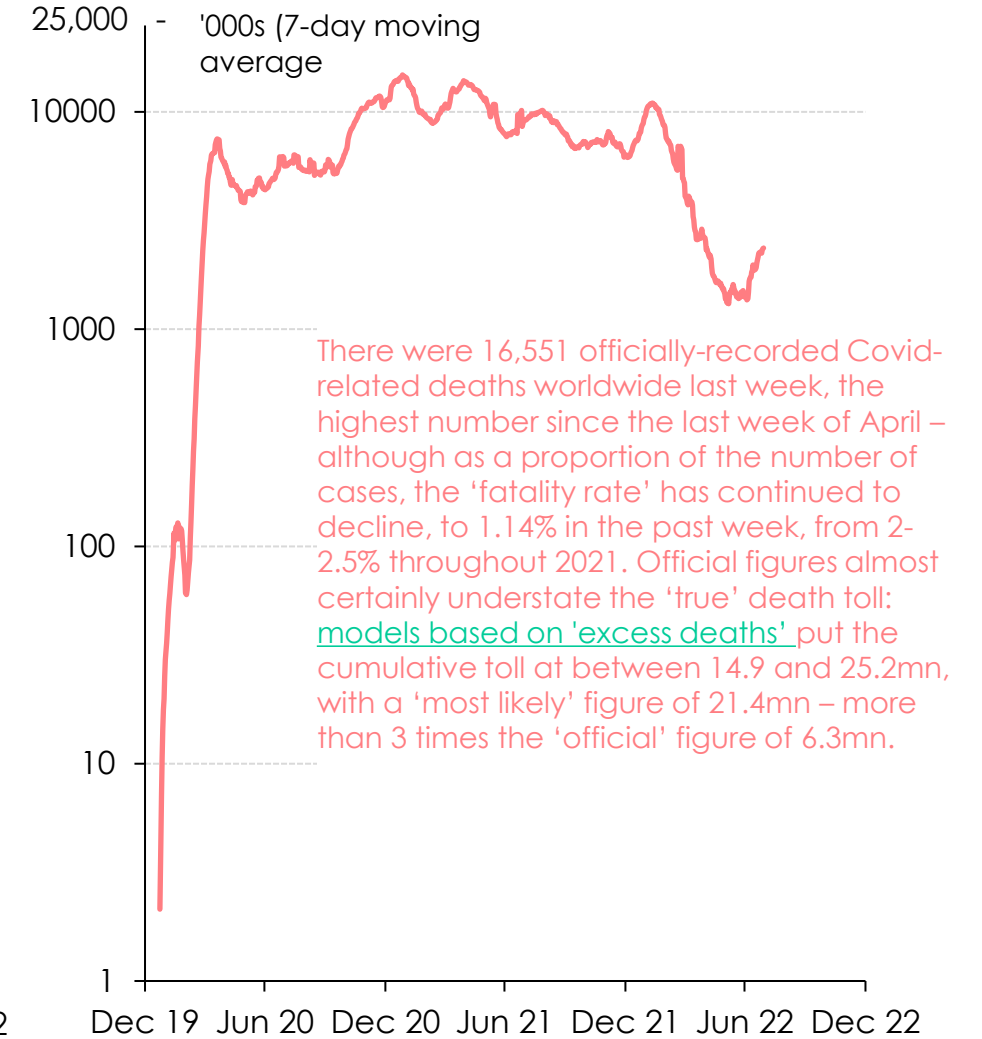
## Cumulative confirmed cases – global total



## New confirmed cases – global total



## New deaths – global total

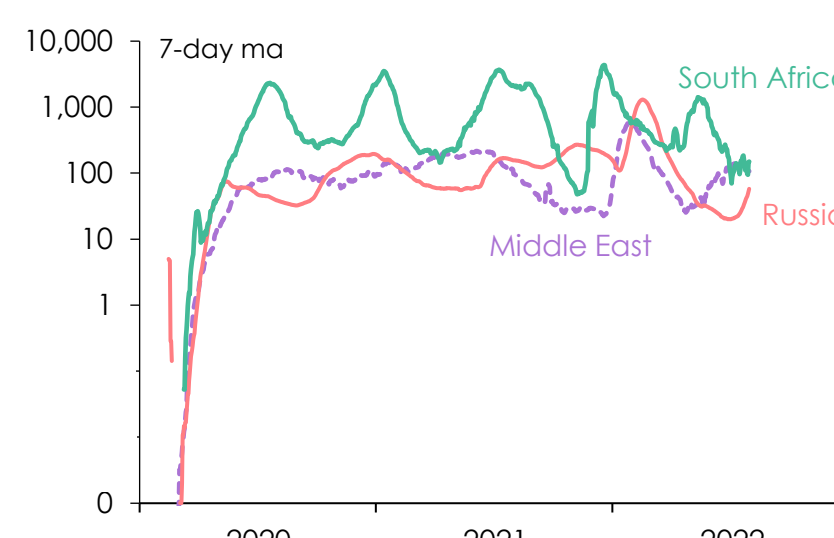
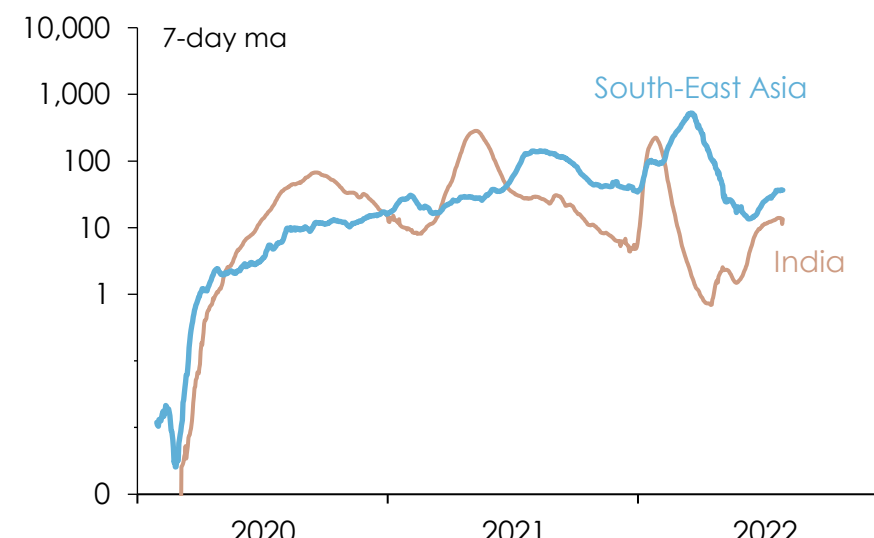
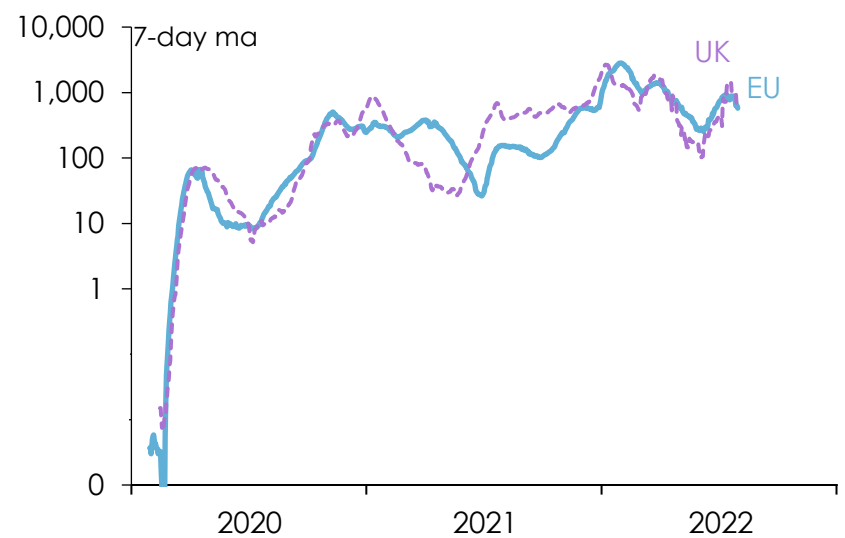
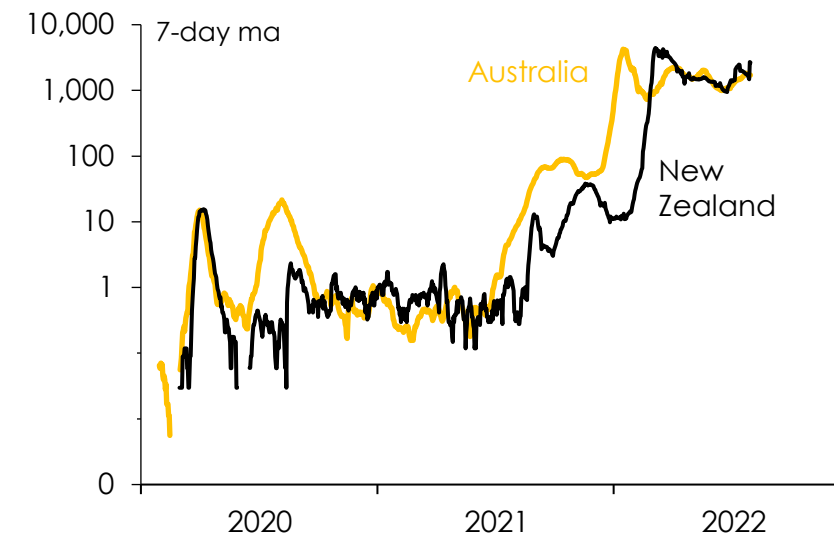
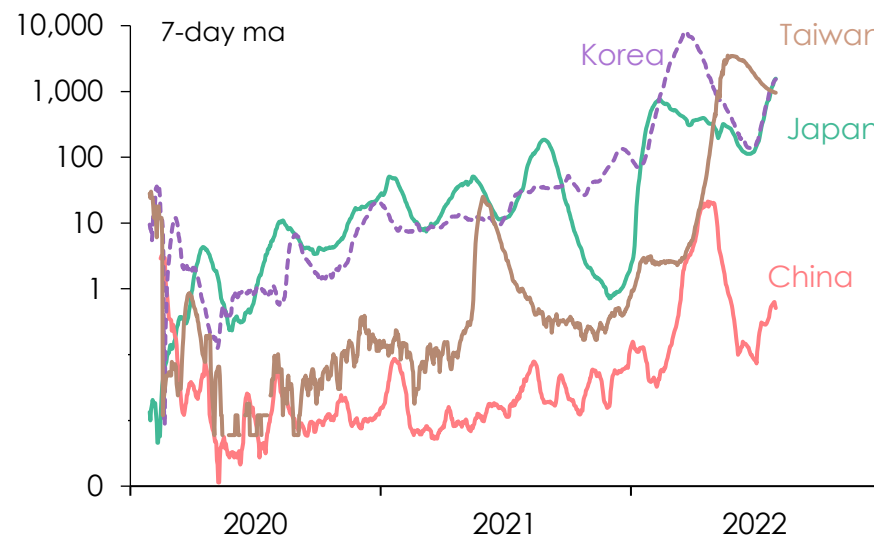
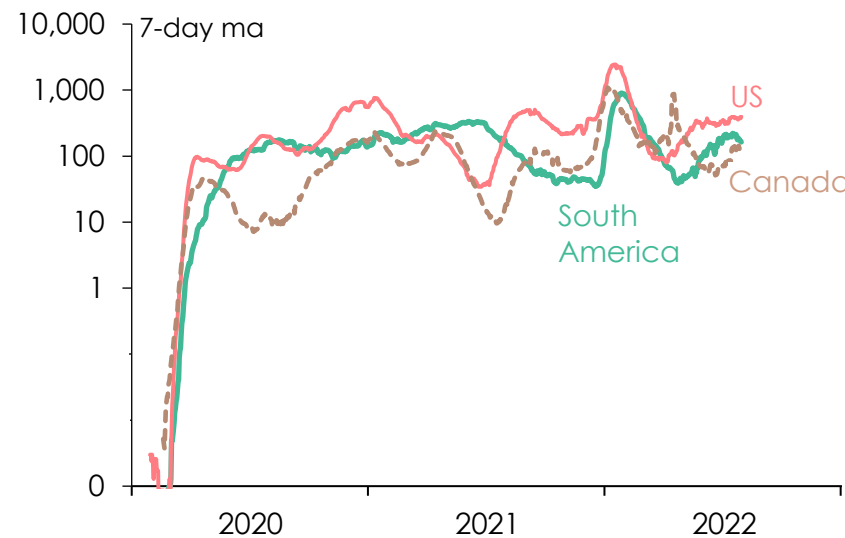


Note: All charts are on logarithmic scales. Data up to 29<sup>th</sup> July. Source: University of Oxford, [Our World in Data](#). [Return to "What's New"](#).

# Europe still accounts for the largest number of new cases, but the number fell last week, while there were large increases in Japan and Korea

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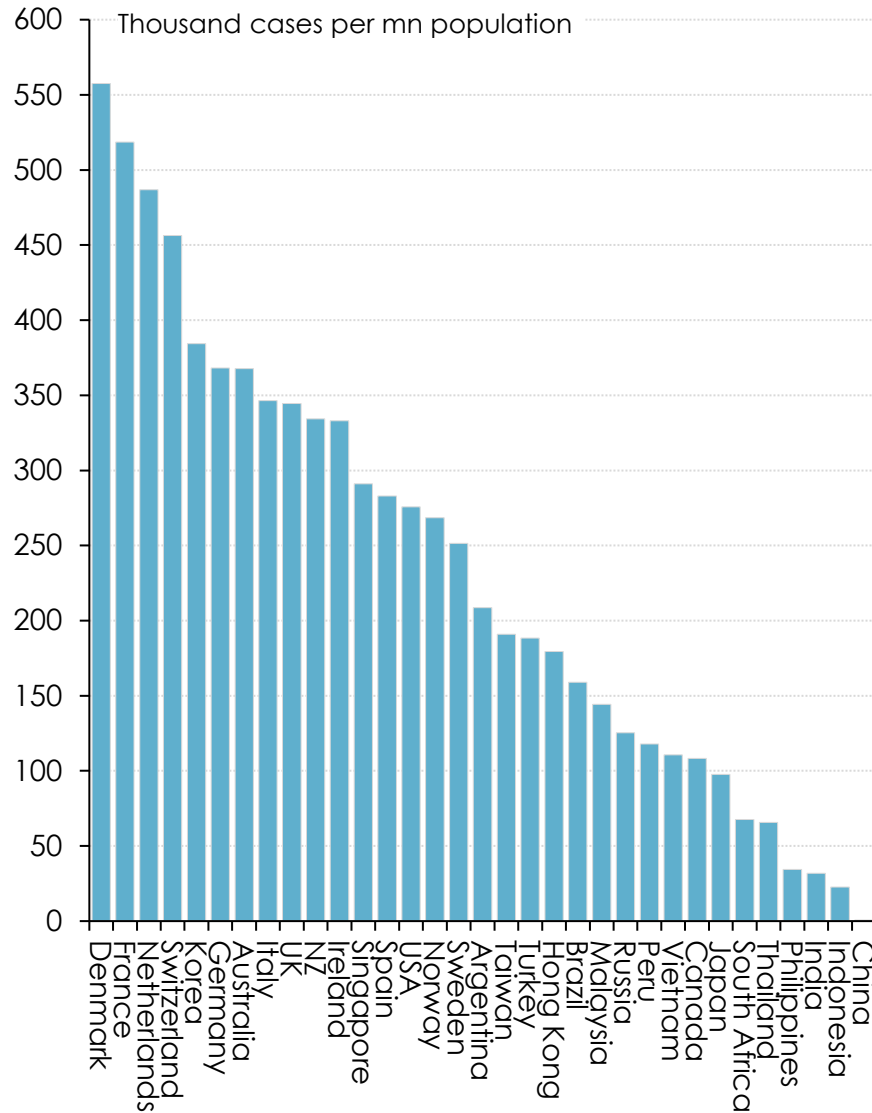
## Daily new cases per million population – major countries and regions



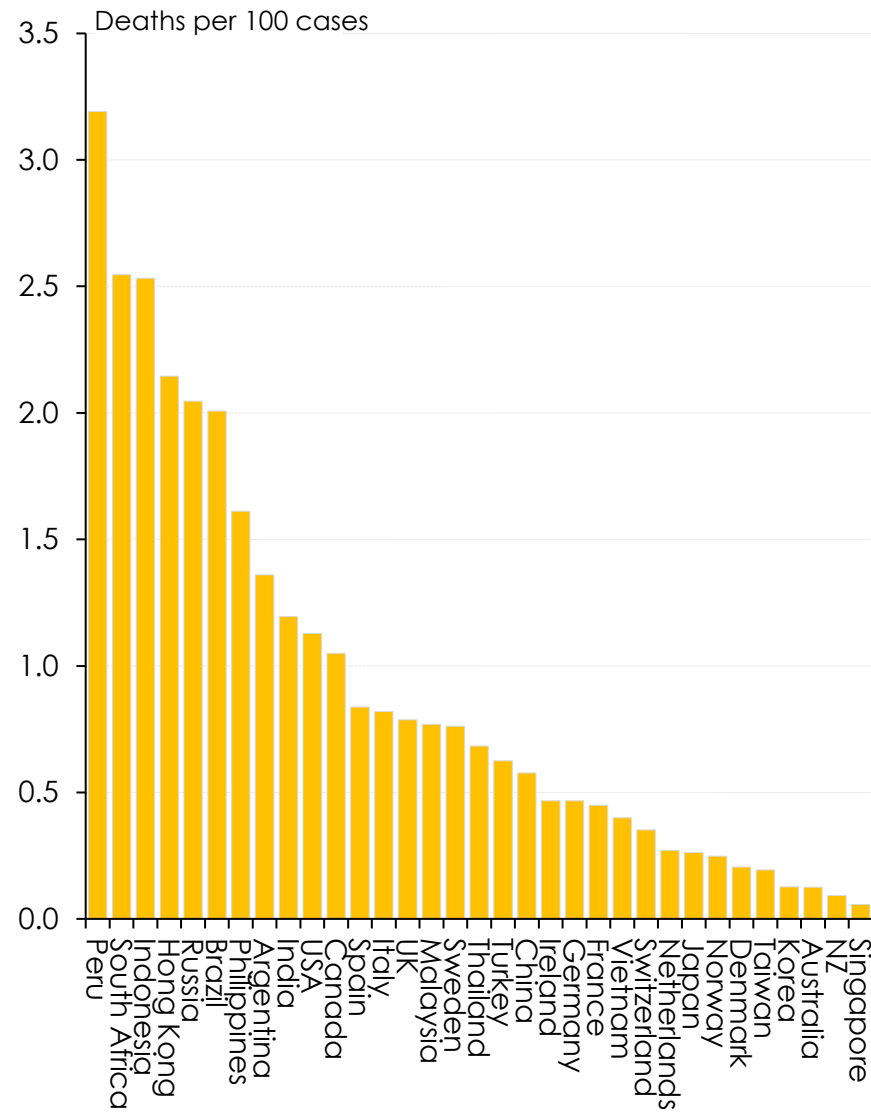
# The highest cumulative infection and death rates (since the onset of the pandemic) have been in Europe, South and North America

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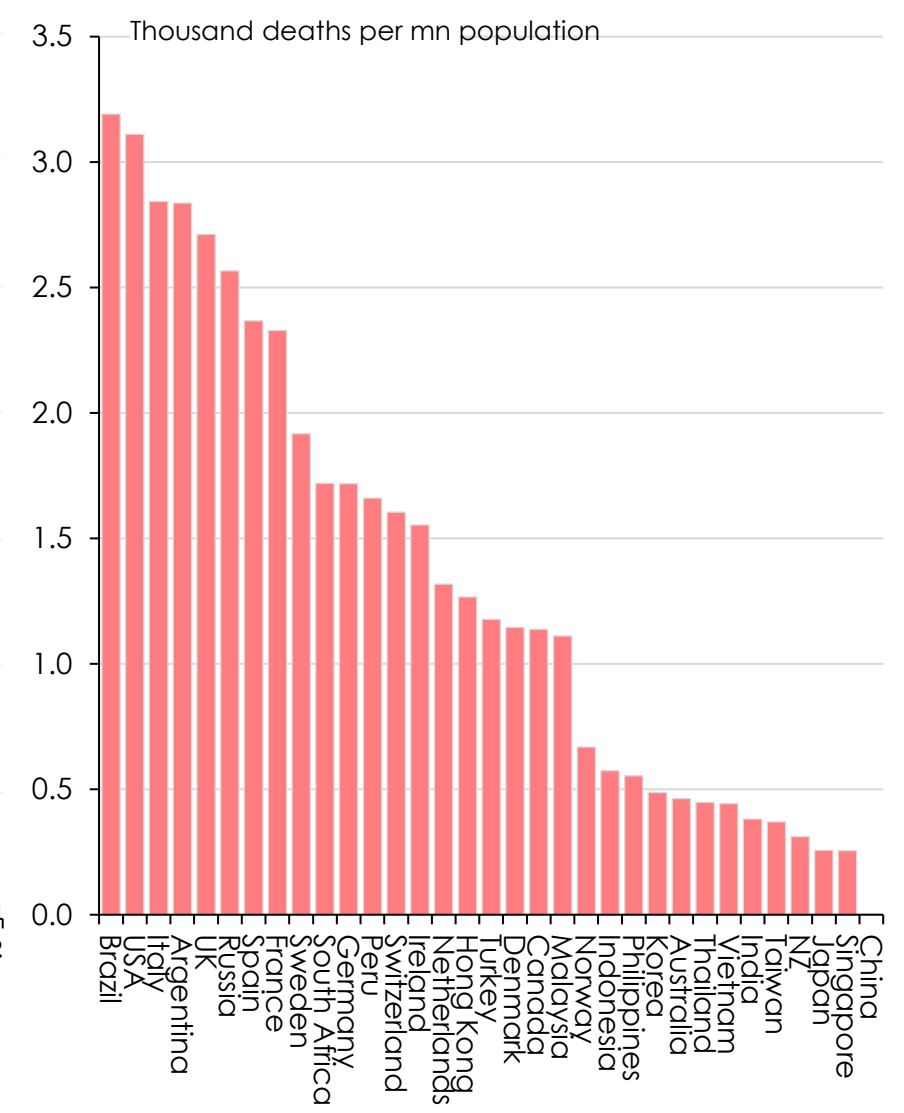
## Apparent infection rate



## Apparent fatality rate



## Apparent death rate



Note: Data shown in these charts are cumulative since the beginning of the pandemic, up to 29<sup>th</sup> July. Sources: University of Oxford, [Our World in Data](#); Corinna.

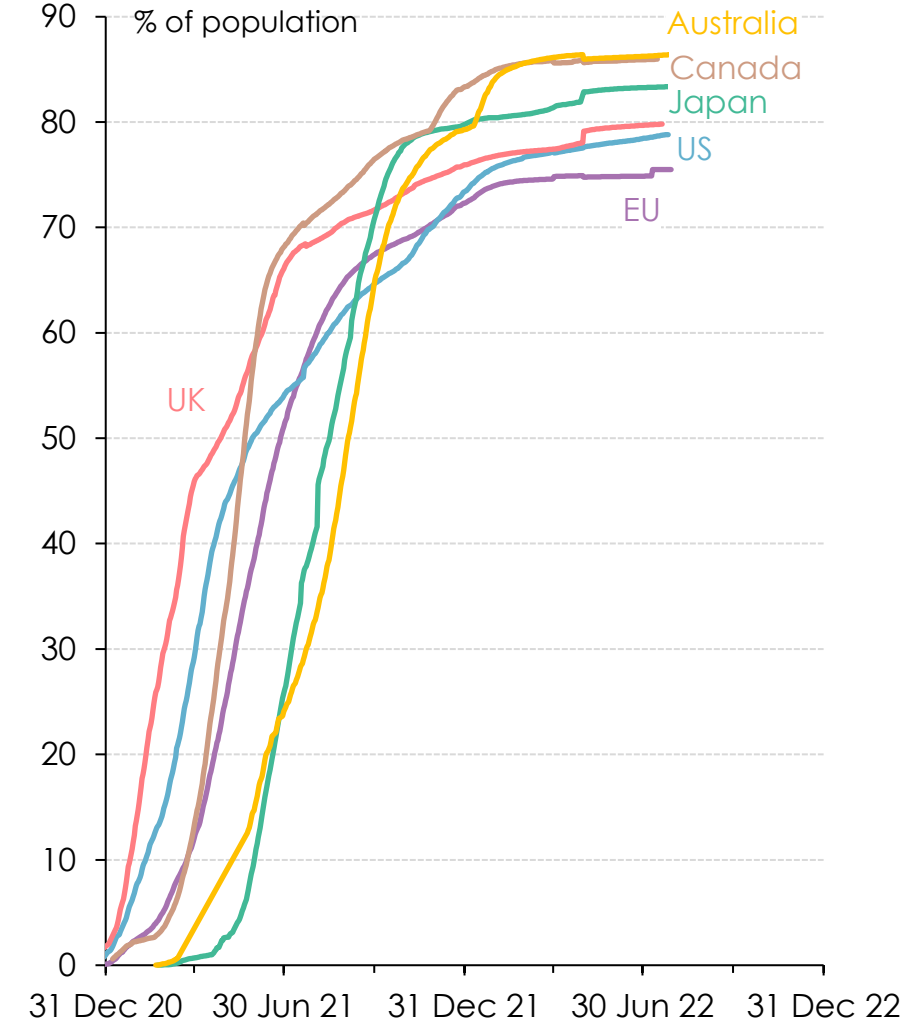
[Return to "What's New"](#).



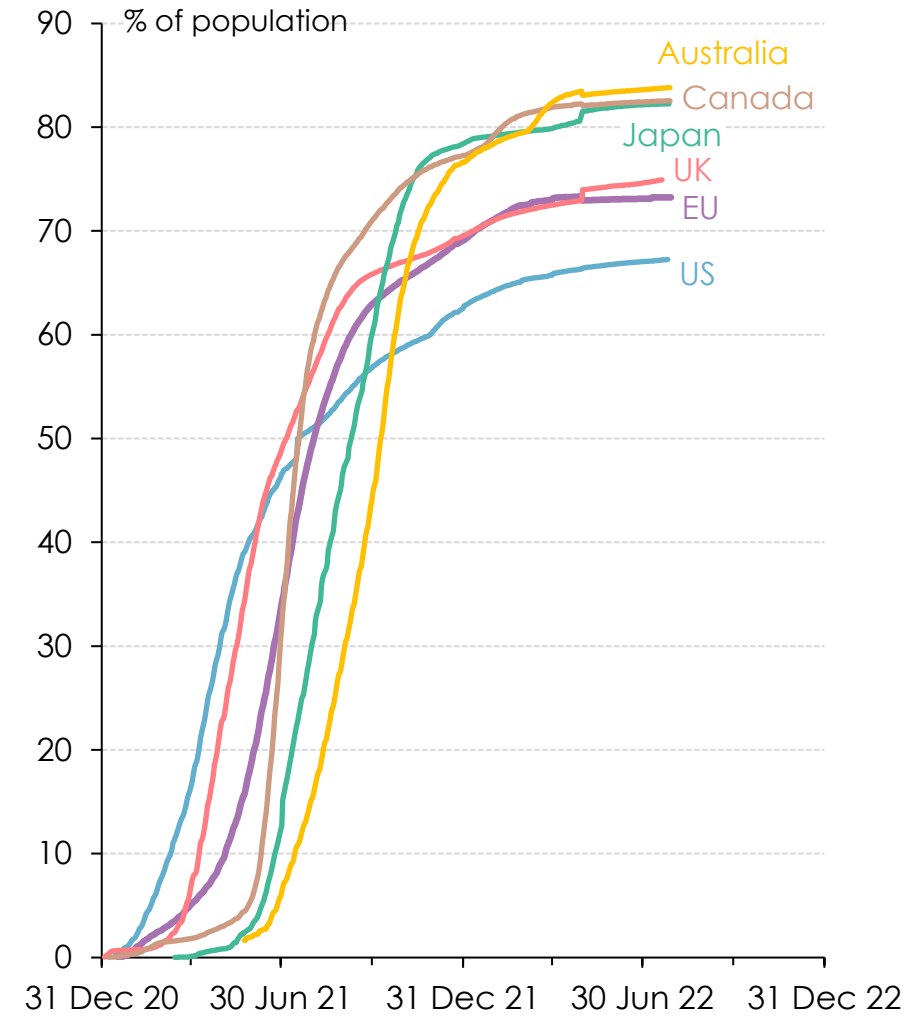
# The US lags behind most other 'advanced' economies in fully vaccinating its population and also now with regard to 'boosters'

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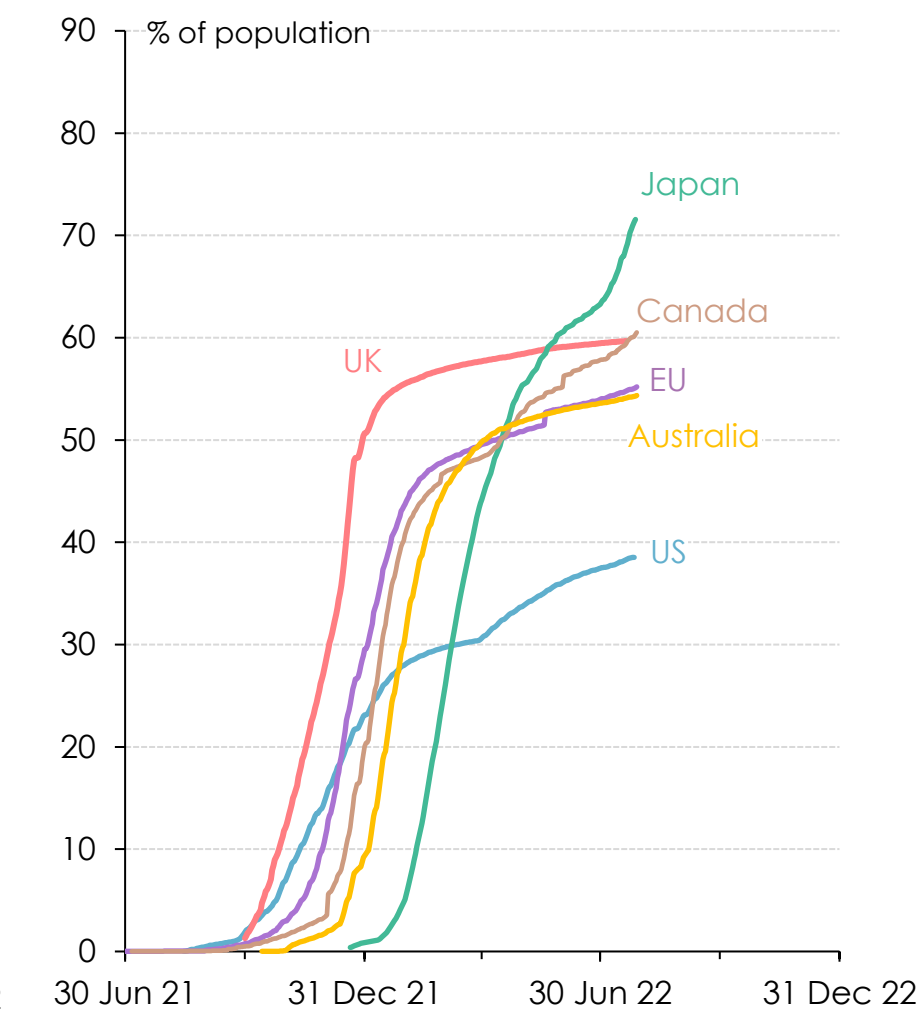
Percentage of populations who have had at least one shot



Percentage of populations who have had two shots



Percentage of populations who have had a 'booster' shot



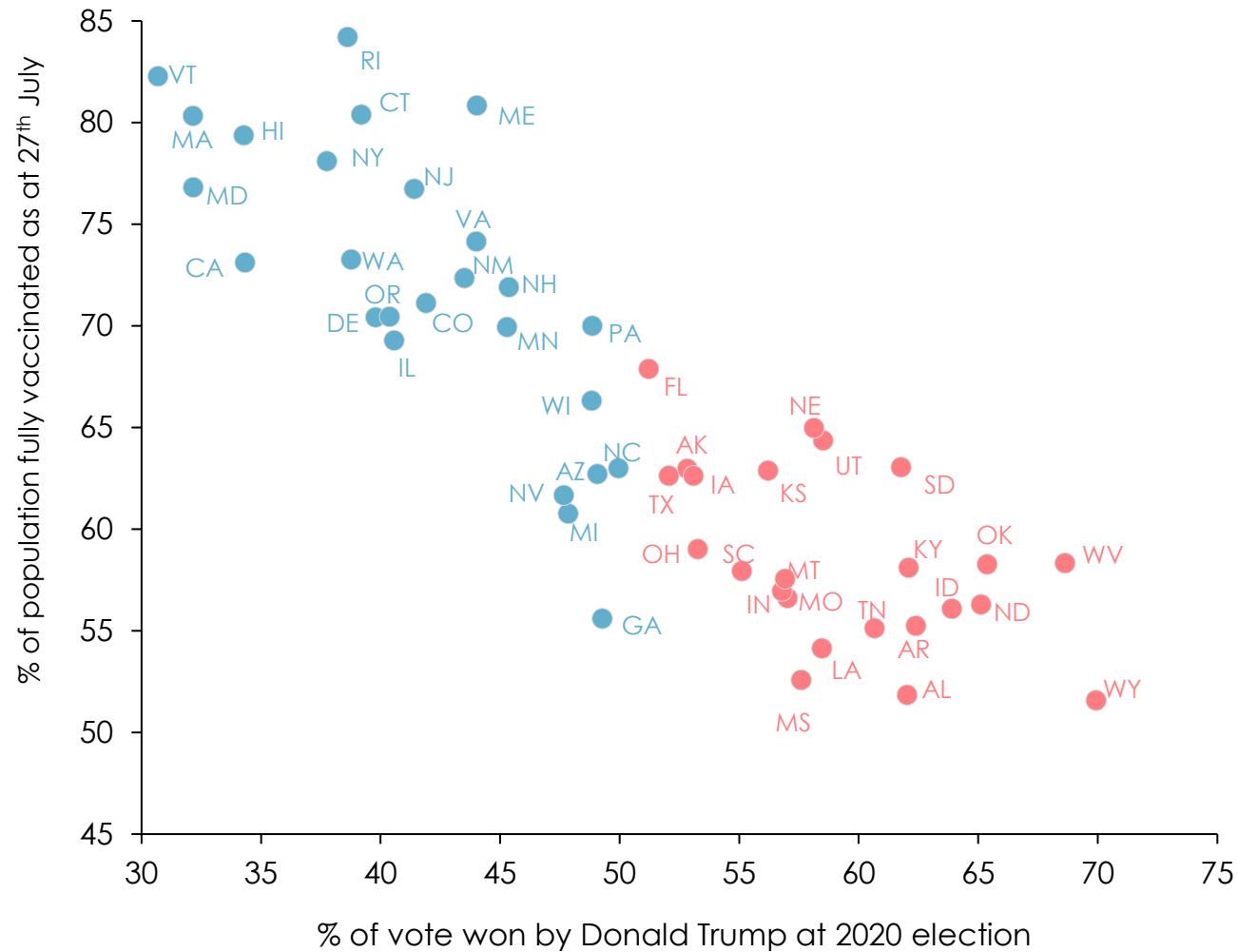
Note: Data up to 28<sup>th</sup> or 29<sup>th</sup> July, except for the UK, 20<sup>th</sup> July. Source: [Our World in Data](#); [Coronavirus \(COVID-19\) Vaccinations](#). [Return to "What's New"](#).



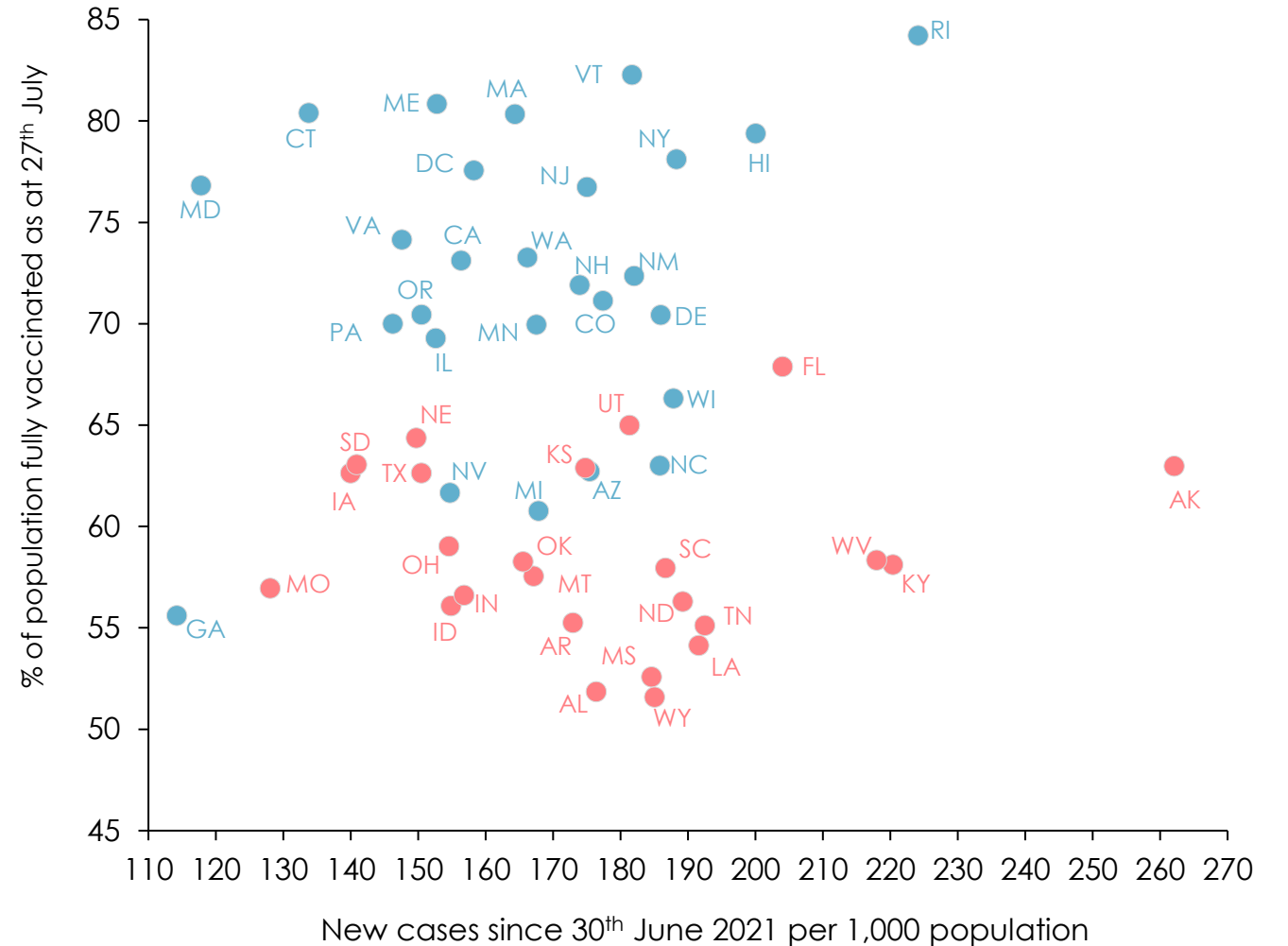
# In the US there's a strong correlation between voting patterns and vaccine hesitancy, and (inversely) between vaccination rates and infection rates

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



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

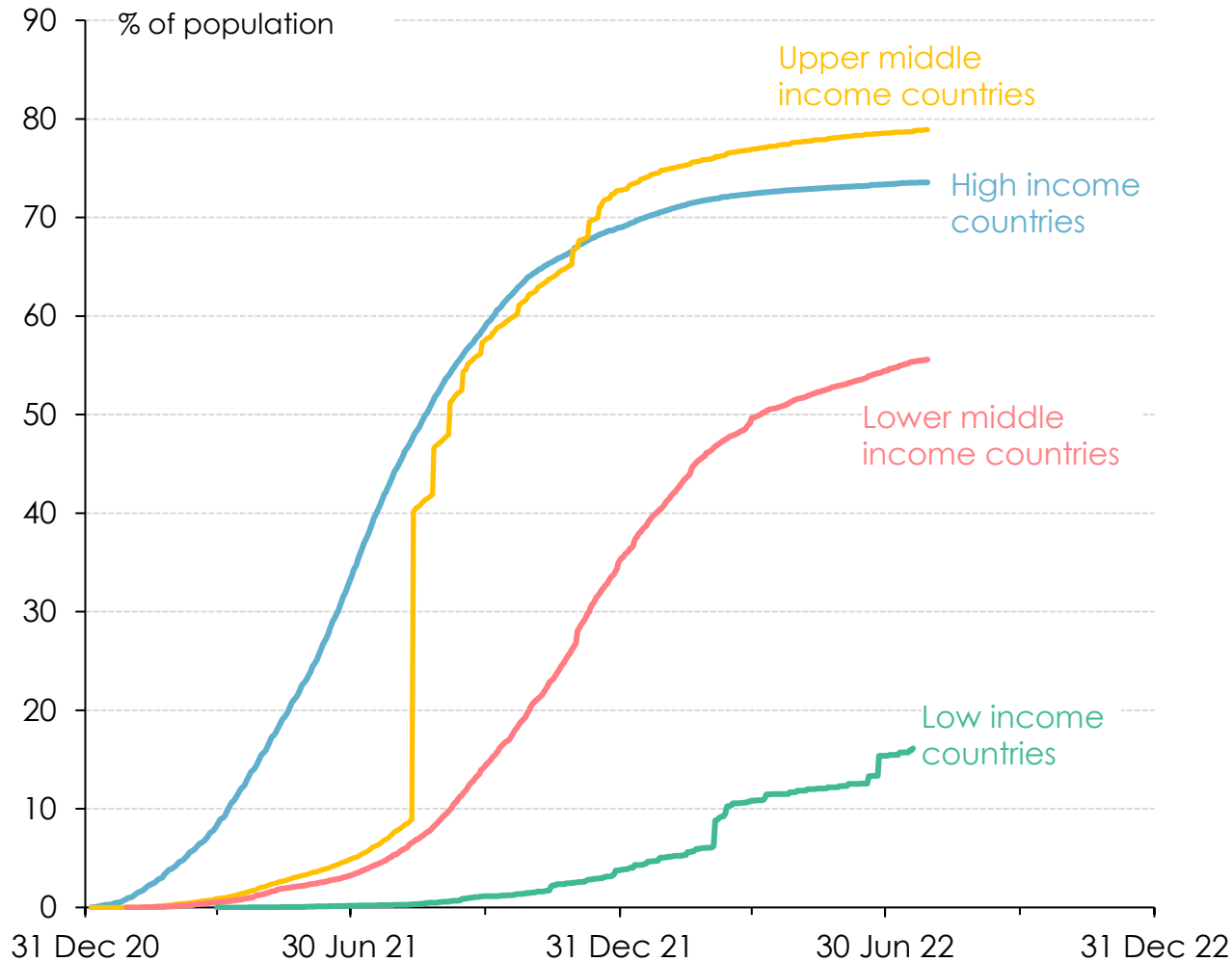


Note: Case data as at 26<sup>th</sup> July. Missouri and Nebraska have stopped reporting case numbers. Sources: [The Cook Political Report](#); [Our World in Data](#); [USA Facts](#); Corinna. [Return to "What's New"](#).

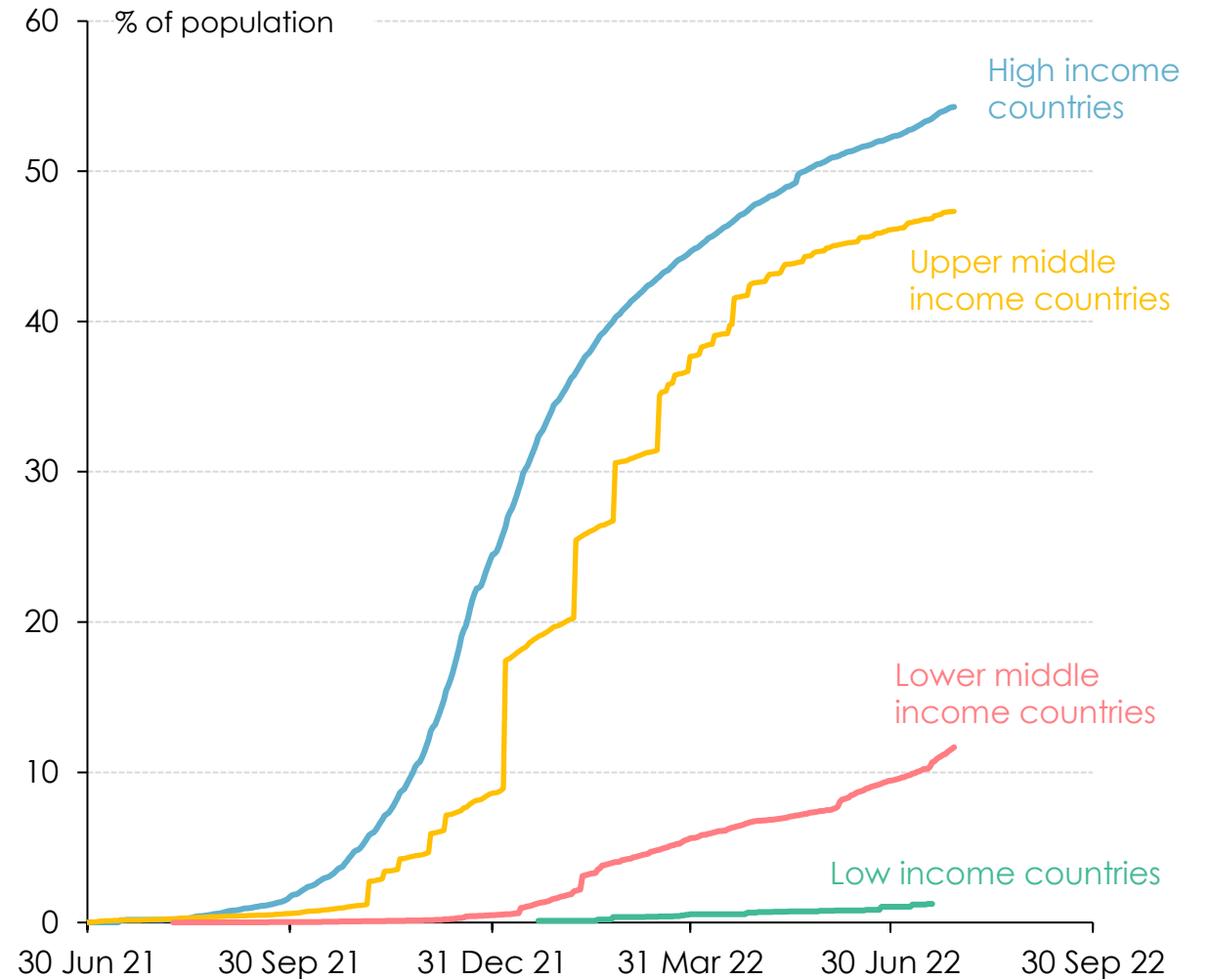
# The vaccine roll-out has proceeded much more slowly among low- and lower-middle income countries

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



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



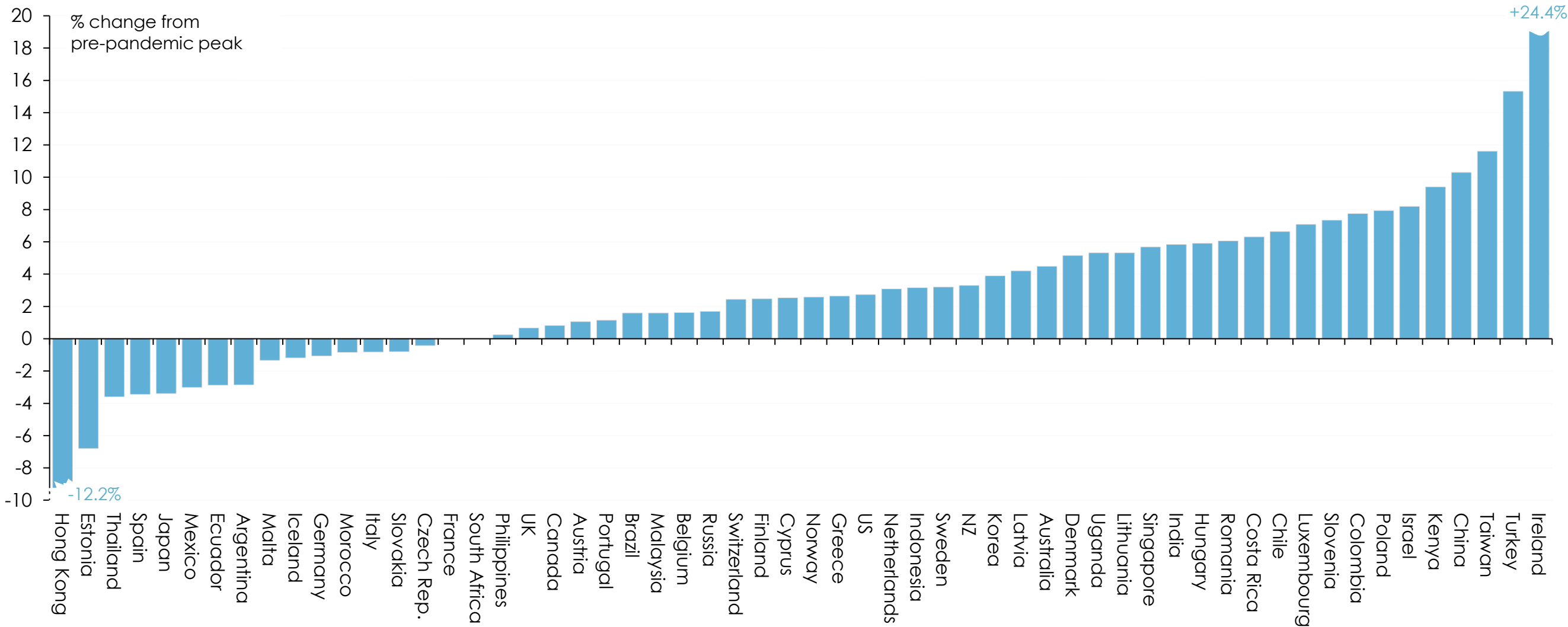
Note: Income categories are as defined by the [World Bank](#): high-income countries are (in 2021) those with a per capita gross national income (GNI) of over US\$12,535; upper-middle income countries are those with per capita GNI between US\$4,046 and \$12,535; lower middle-income countries are those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

# The world economy

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

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## Q1 2022 real GDP compared with pre-recession peak

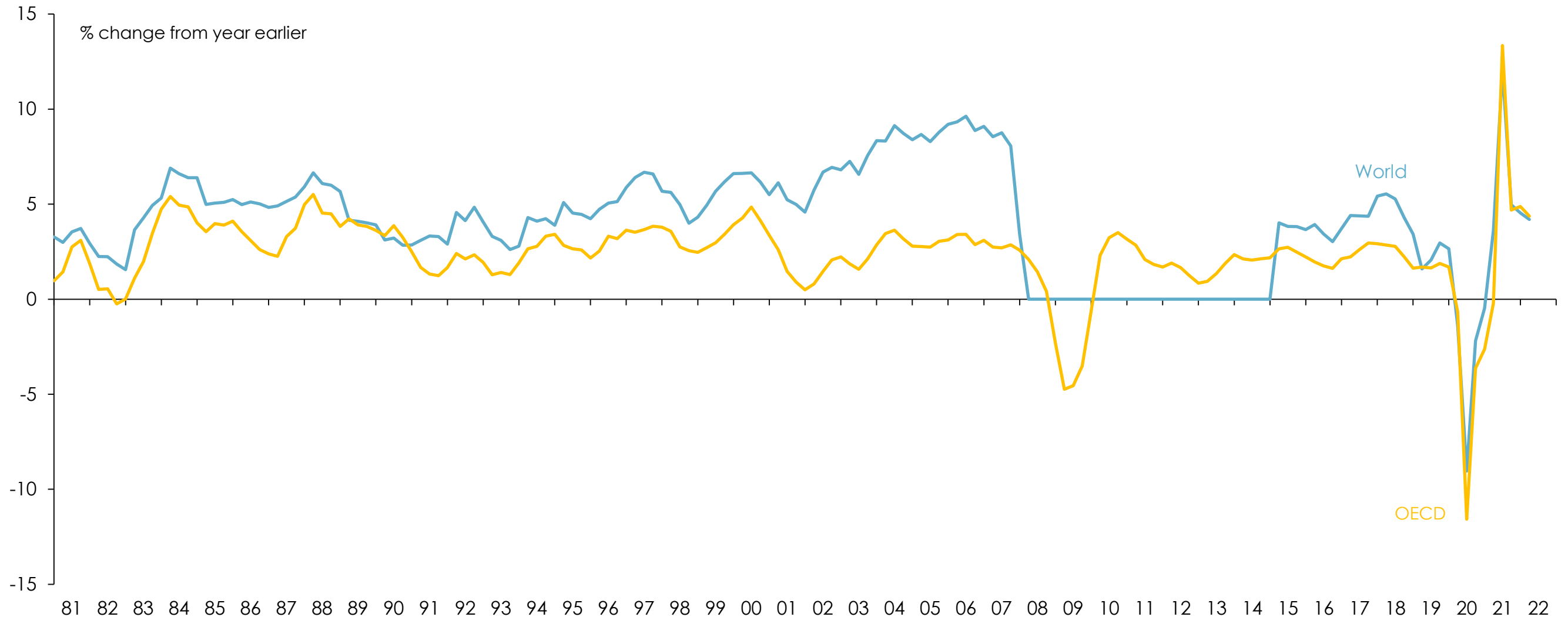


Note: Estimate for China is derived from quarterly growth rates published by China NBS; estimates for India, Indonesia and Russia are seasonally adjusted by the OECD. Sources: National statistical agencies and central banks, and OECD. [Return to "What's New"](#).

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

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## World and OECD area real GDP growth

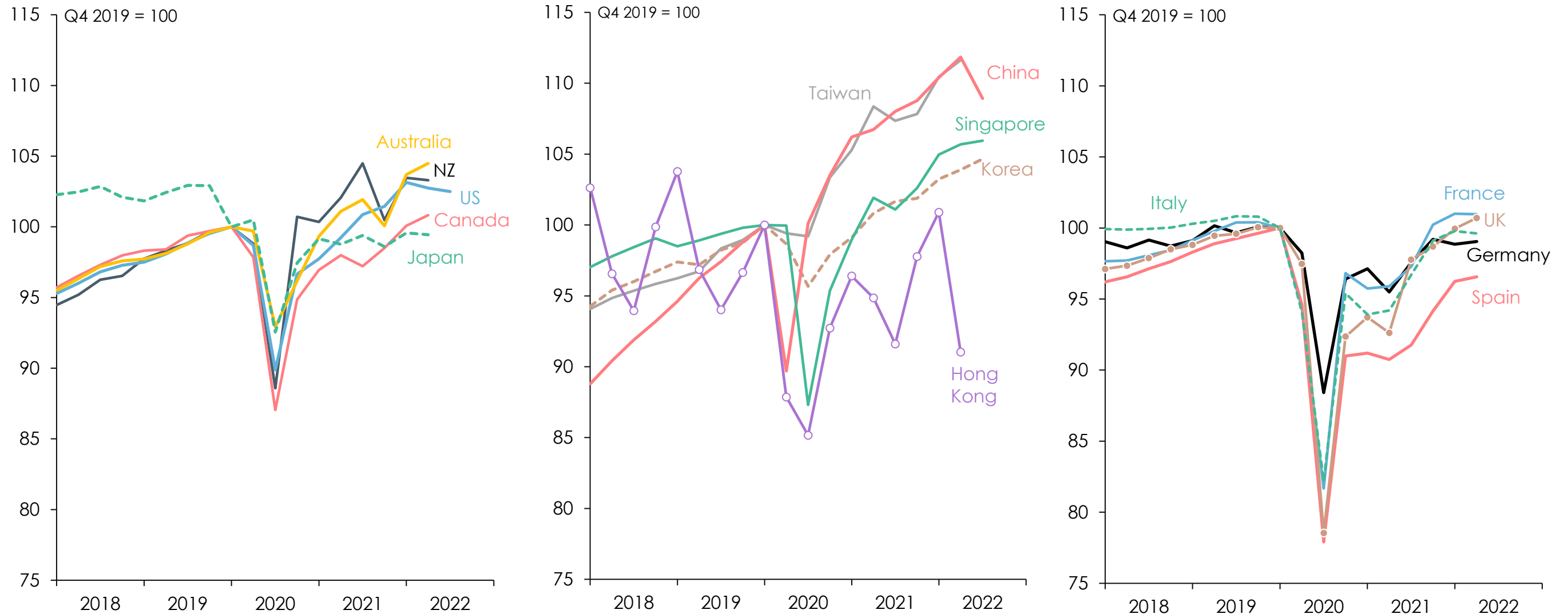


Note: Estimates of global GDP growth compiled by Corinna using data for 100 countries accounting for 94% of 2019 world GDP as measured by the IMF, weighted in accordance with each country's share of global GDP at purchasing power parities in 2019; excludes constituents of the former USSR before 1993,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

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

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## Levels of real GDP indexed to Q4 2019 = 100



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

# The IMF cut its forecasts for global growth in 2022 and 2023 by 0.4 and 0.7 pc pt, respectively, and raised its inflation forecasts by 0.8 pc pt pa

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## Major global institutions' growth forecasts for 2022 and 2023 compared

	Actual			IMF		OECD		World Bank			Australia/NZ Treasuries		
	2010-19 <sup>^</sup>	2020	2021	2022	2023	2022	2023	2022	2023	2024	2022	2023	2024
US	2.2	-3.4	5.7	2.3	1.0	2.5	1.2	2.5	2.4	2.0			
China	7.7	2.2	8.1	3.3	4.6	4.4	4.9	4.3	5.2	5.1			
Euro area	1.3	-6.3	5.4	2.6	1.2	2.6	1.6	2.5	1.9	1.9			
India	7.0	-6.6	8.7	7.4	6.1	6.9	6.2	7.5	7.1	6.5			
Japan	1.2	-4.5	1.7	1.7	1.7	1.7	1.8	1.7	1.3	0.6			
UK	1.8	-9.3	7.4	3.2	0.5	4.7	2.1	na	na	na			
Australia	2.6	-2.1	4.8	3.8	2.2	4.2	2.5	na	na	na	3.0*	2.0*	2.3*
New Zealand	2.9	-3.0	5.6	2.7	2.6	3.0	2.0	na	na	na	1.7 <sup>†</sup>	4.2 <sup>†</sup>	0.7 <sup>†</sup>
World	3.7	-3.1	6.1	3.2	2.9	3.0	2.8	2.9	3.0	3.0	3.3	3.3	3.3
World trade	3.7	-7.9	10.1	4.1	3.2	4.9	3.9	4.0	4.3	3.8	na	na	na
World inflation	3.5	3.2	4.7	8.3	5.7	7.6	6.3	na	na	na	na	na	na

Note: All actuals and forecasts are % per annum. <sup>^</sup> Annual average. \* Forecasts for fiscal years beginning 1<sup>st</sup> July (and finishing 30<sup>th</sup> June following year) <sup>†</sup> Forecasts by New Zealand Treasury for fiscal years beginning 1<sup>st</sup> July. Sources: International Monetary Fund (IMF), [World Economic Outlook Update](#), 26<sup>th</sup> July 2022; The World Bank, [Global Economic Prospects](#), 7<sup>th</sup> June 2022; Organization for Economic Co-operation & Development (OECD), [Economic Outlook 2022 \(preliminary version\)](#), 8<sup>th</sup> June 2022; Australian Treasury, [Ministerial Statement on the Economy](#), 28<sup>th</sup> July 2022; New Zealand Treasury, [Budget Economic and Fiscal Update 2022](#), 19<sup>th</sup> May 2022. [Return to "What's New"](#).



# The IMF's downward revisions to its global growth forecasts have been prompted by higher interest rates, China's lockdowns and Ukraine effects

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## IMF real GDP growth forecasts

	July forecast (%)		Revision from April (pc pts)	
	2022	2023	2022	2023
<i>Advanced economies</i>				
US	2.3	1.0	-1.4	-1.3
Euro area	2.6	1.2	-0.2	-1.1
Japan	1.7	1.7	-0.7	-0.6
UK	3.2	0.5	-1.4	-1.3
Canada	3.4	1.8	-0.5	-1.0
Australia	3.8	2.2	-0.4	-0.3
<i>Emerging economies</i>				
China	3.3	4.6	-1.1	-0.5
India	7.4	6.1	-0.8	-0.8
Brazil	1.7	1.1	0.9	-0.3
Russia	-6.0	-3.5	2.5	-1.2
South Africa	2.3	1.4	0.4	0.0
<i>World</i>	3.2	2.9	-0.4	-0.7

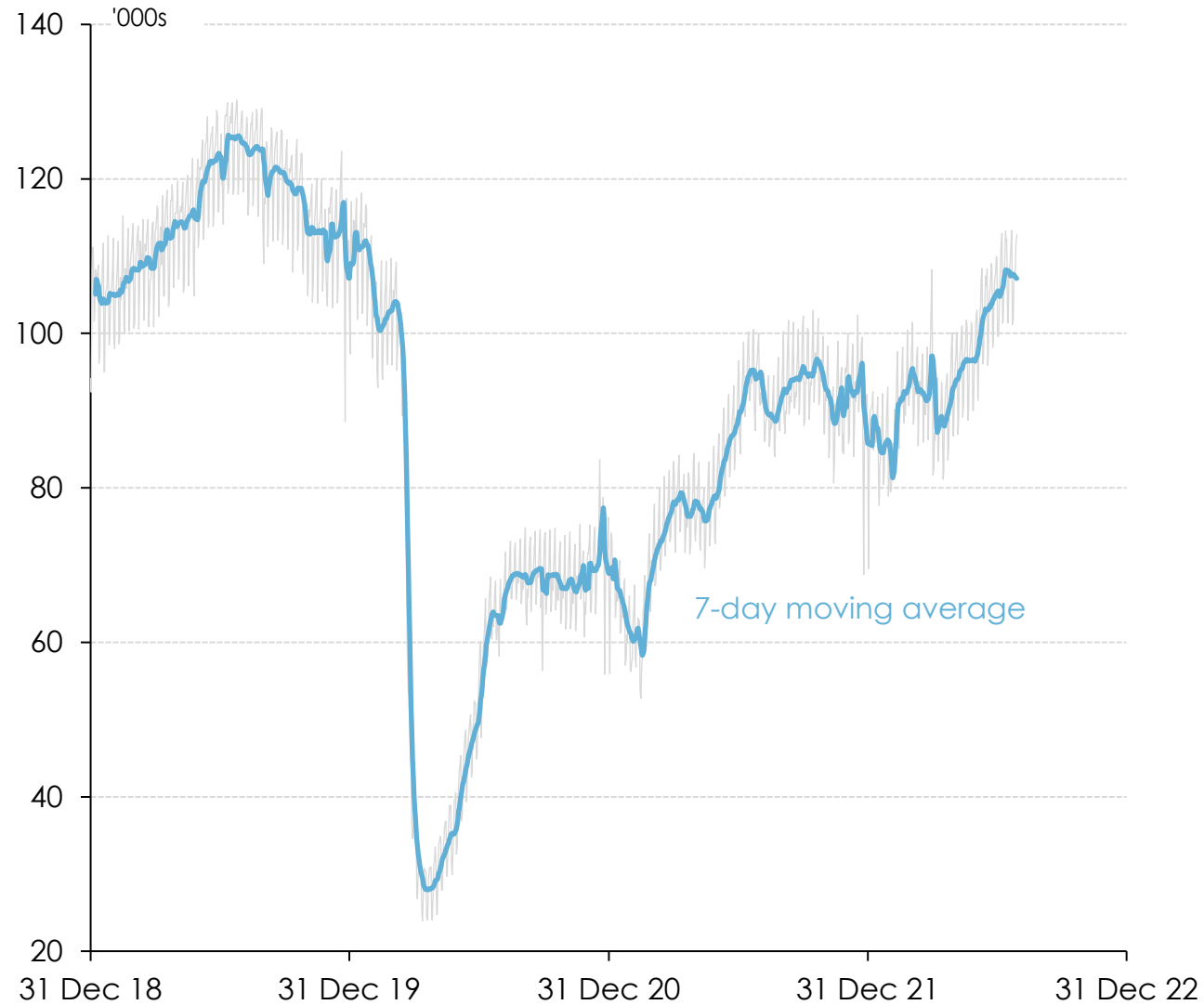
- ❑ The IMF now expects global economic growth to slow from 6.% in 2021 to 3.2% this year (a downward revision of 0.4 pc pt from its previous forecast in April) and to 2.9% in 2023 (a downward revision of 0.7 pc pt)
  - the downward revisions are particularly large (by IMF standards) for the US, the UK, China, India and (in 2023) the euro area
- ❑ It also raised its forecasts for global inflation by 0.9 pc pts in both 2022 and 2023, to 8.3% and 5.7% respectively
- ❑ The IMF attributes the downward revisions to its economic growth forecasts to a combination of
  - tighter financial conditions, in response to higher inflation
  - further lockdowns, in response to Covid-19, and “the deepening real estate crisis” in China, and
  - further “negative spillovers” from the war in Ukraine
- ❑ The IMF says the risks to the outlook are “overwhelmingly tilted to the downside”
  - its latest Update outlines an “alternative scenario” in which inflation expectations remain “persistently more elevated”, leading to a greater tightening of financial conditions, combined with tighter sanctions on Russia and/or Russia curtailing gas supplies to Europe
  - in this scenario global growth could fall to 2.6% in 2022 and 2.0% in 2023, growth rates which have “only occurred rarely in the past” (on only five occasions since 1970)

Source: International Monetary Fund (IMF), [World Economic Outlook Update](#), 26<sup>th</sup> July 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

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## Daily commercial flights worldwide



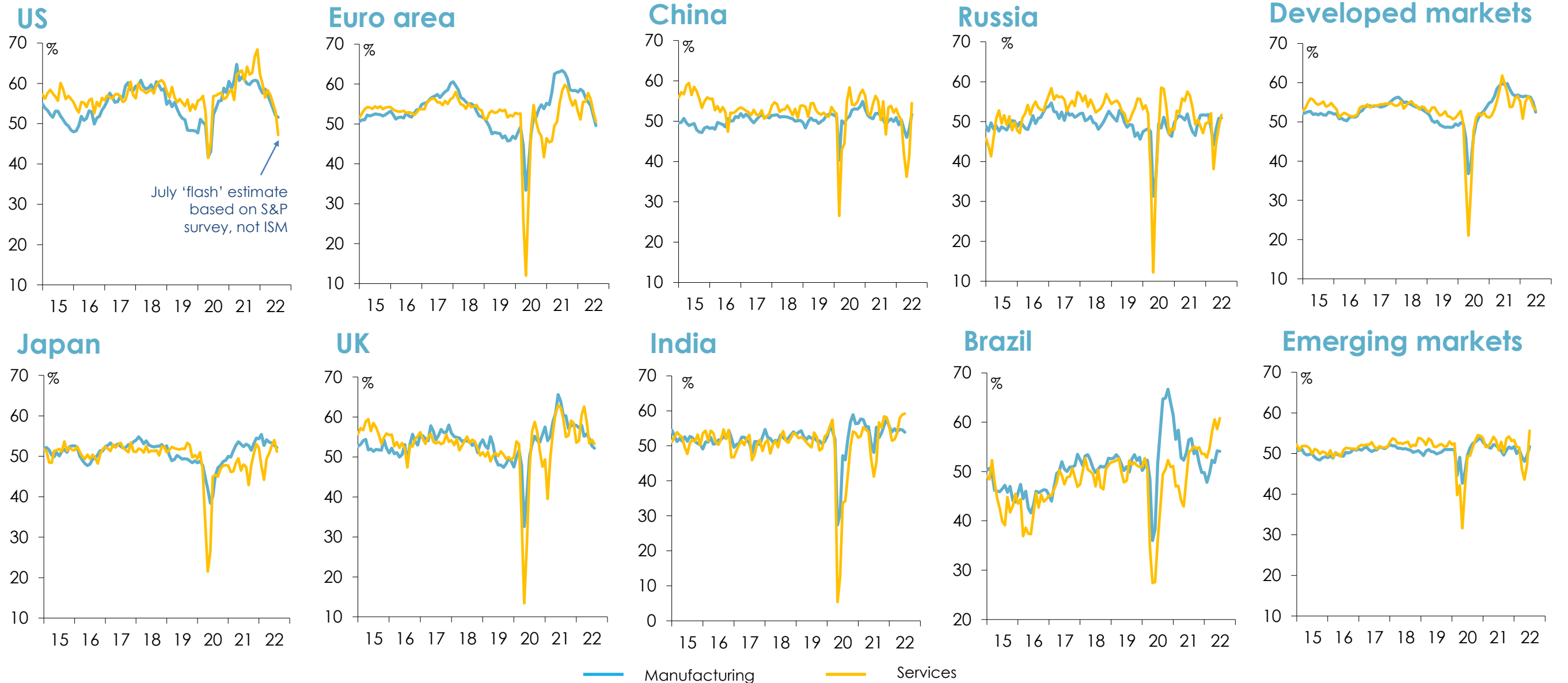
## Daily US TSA 'security' checks



Note: Commercial flights include commercial passenger flights, cargo flights, charter flights, and some business jet flights. Data are up to 29<sup>th</sup> July for commercial flights and 28<sup>th</sup> 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

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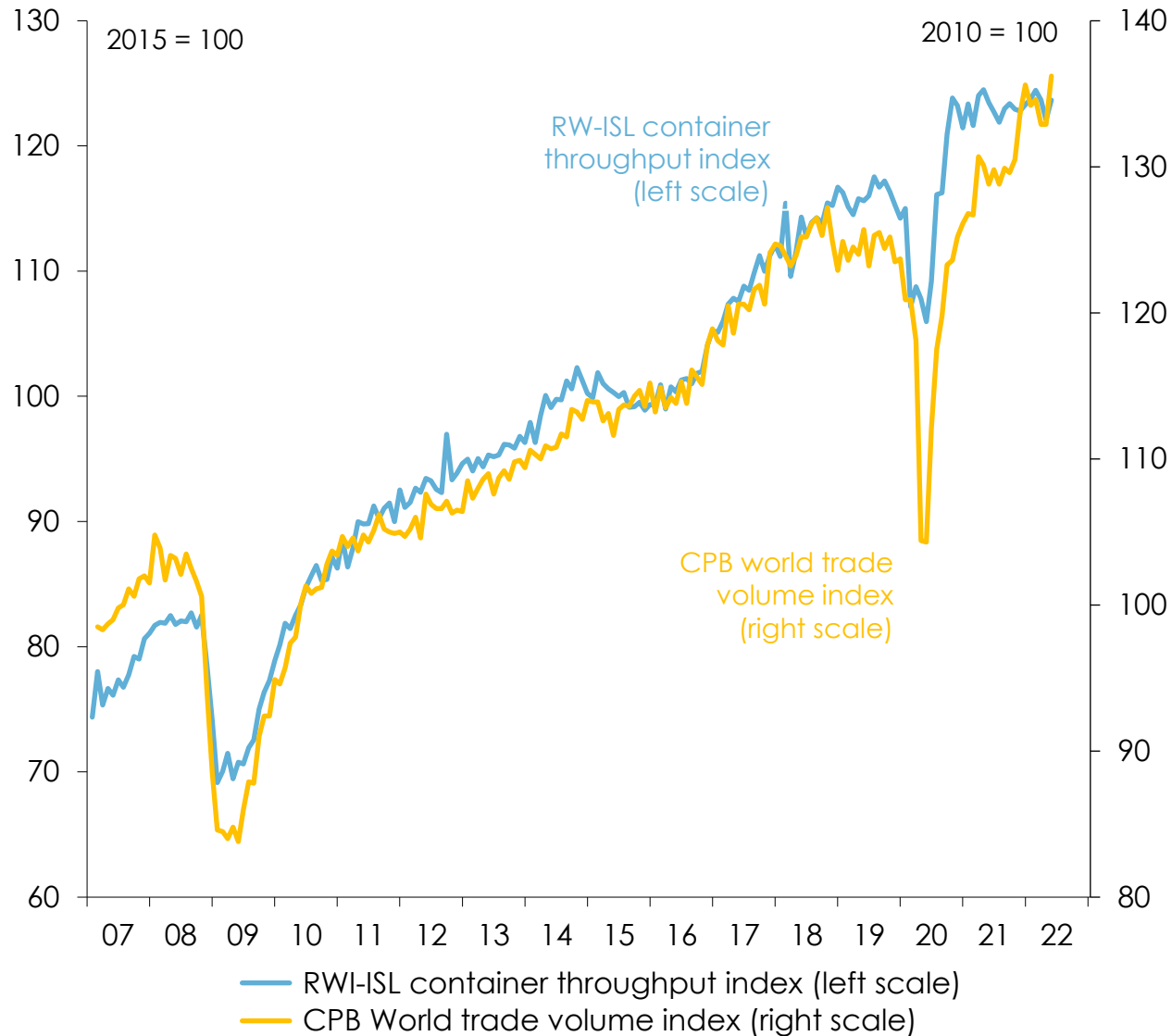


Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous month, and a reading of less than 50 indicates a decrease. Latest 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 92](#). Sources: [US Institute for Supply Management](#); [IHS Markit](#); JP Morgan; [Caixin](#); Refinitiv Datastream. [Return to "What's New"](#).

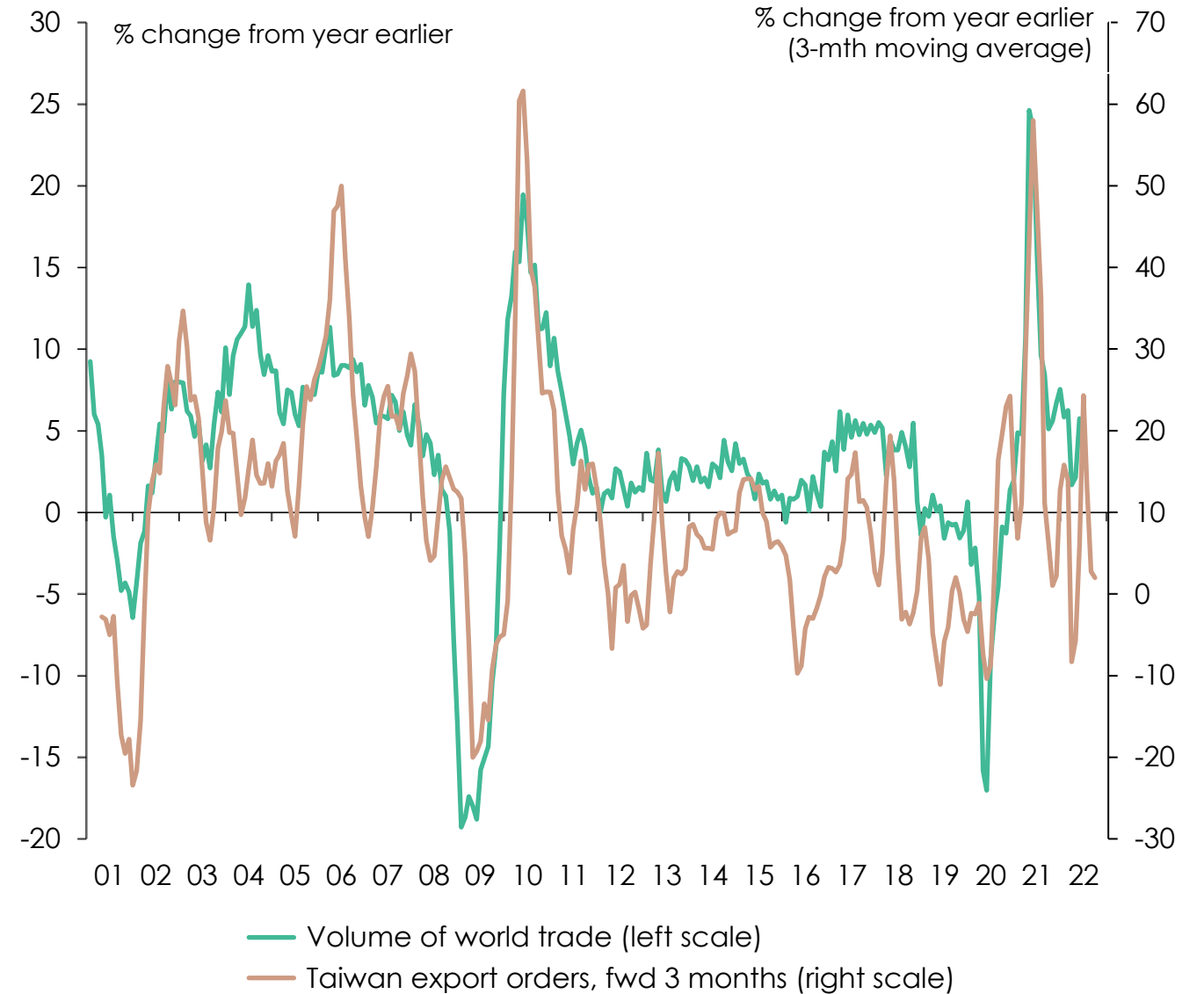
# The volume of world trade rose 2.5% in May, as China's ports re-opened, but leading indicators point to slower growth ahead

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## World trade volumes and container throughput



## Taiwan export orders and world trade volumes



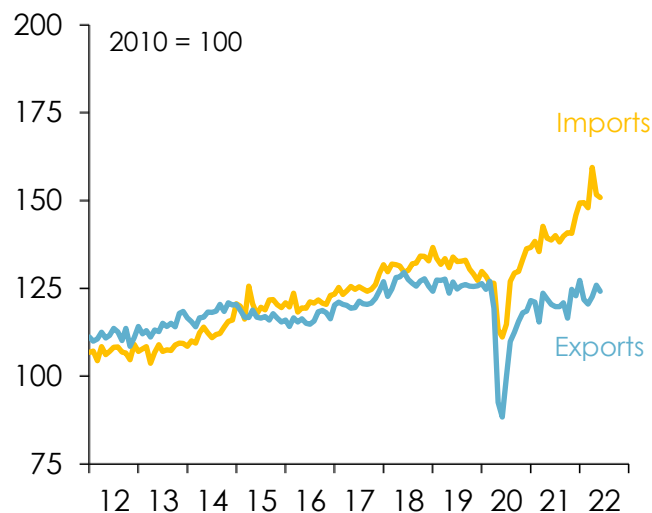
Note: The shipping container throughput index is based on reports from 91 ports around the world handling over 60% of global container shipping.

Sources: CPB Netherlands Economic Planning Bureau, [World Trade Monitor](#), May 2022 (June data to be released on 25<sup>th</sup> August); Institute of Shipping Economics & Logistics (ISL) and RWI Leibniz-Institut für Wirtschaftsforschung (RWI) [Container Throughput Index](#), April 2022; Taiwan [Ministry of Economic Affairs](#). [Return to "What's New"](#).

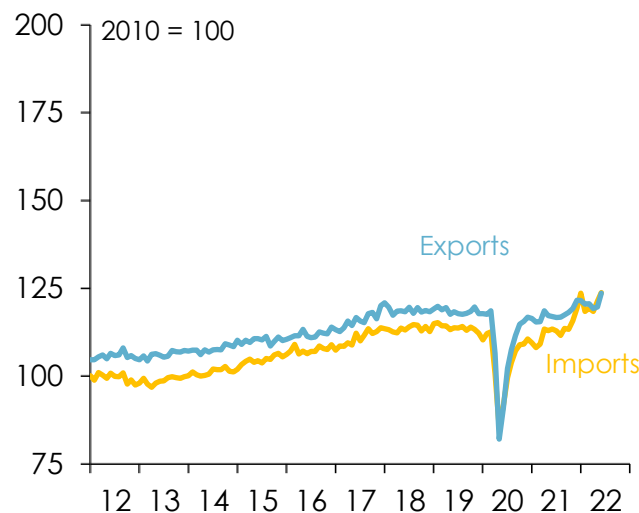
# Supply-chain disruptions in China have been a major factor in the slowing in world trade this year: the UK's poor trade performance is also notable

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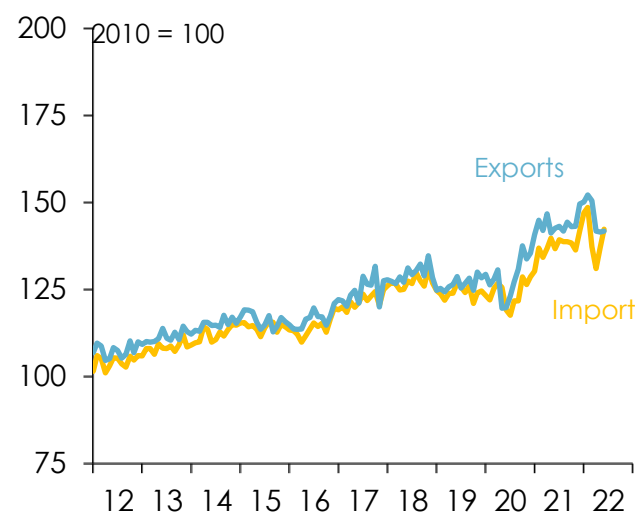
## United States



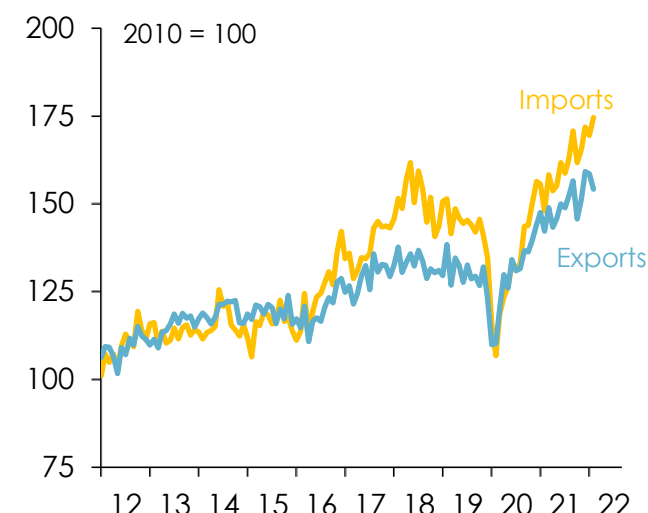
## Euro area



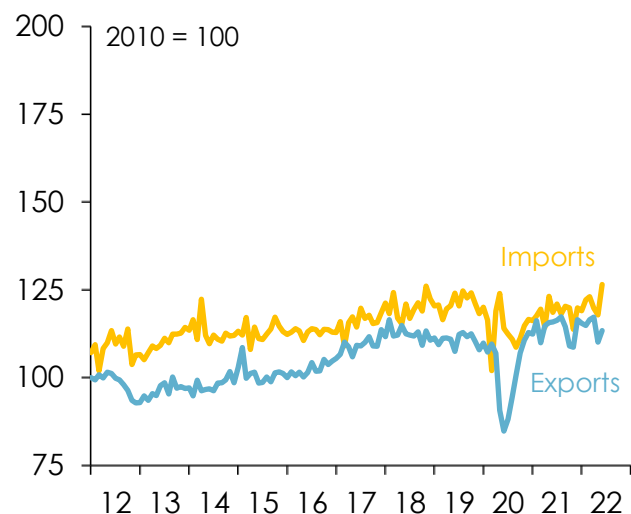
## Other 'advanced' Asia



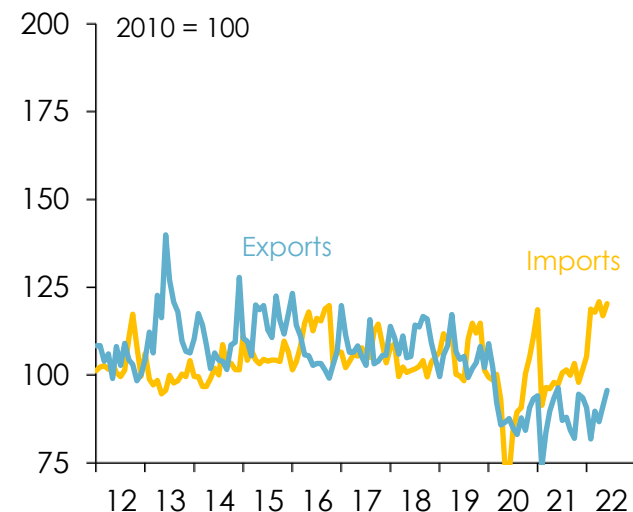
## Other 'emerging' Asia



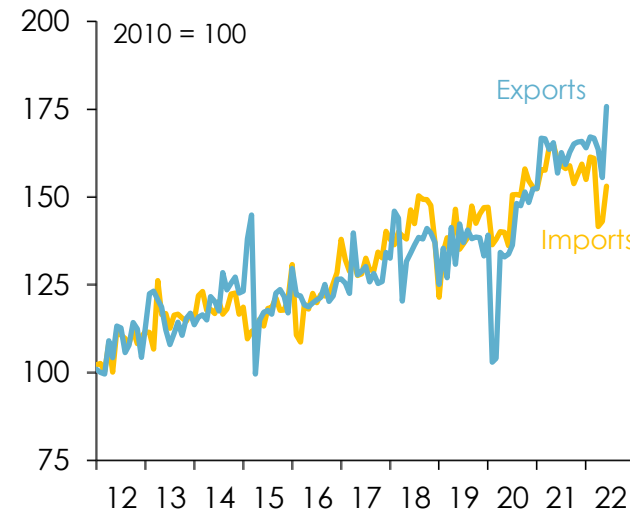
## Japan



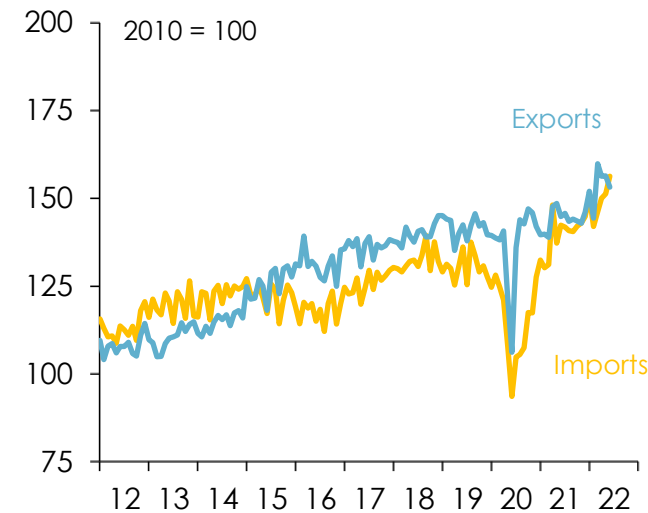
## United Kingdom



## China



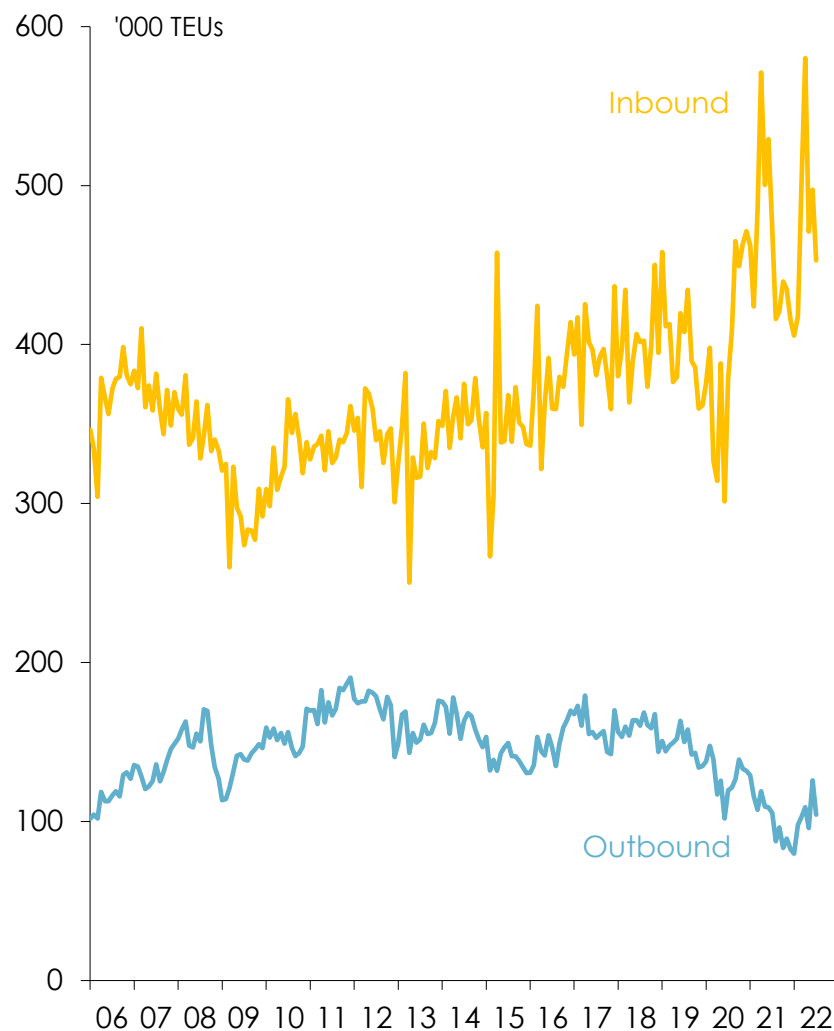
## Latin America



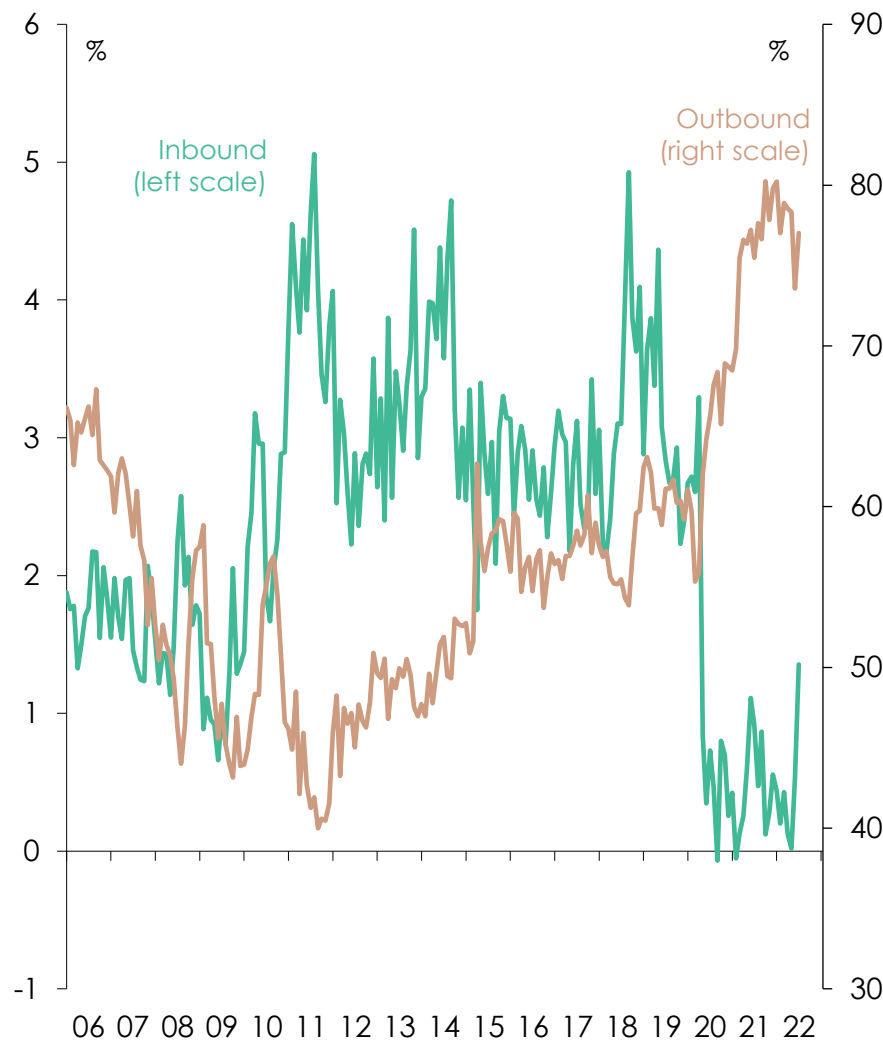
# Congestion at the Port of Los Angeles (the US' largest container port) has eased significantly but trade flows remain unusually unbalanced

THE WORLD ECONOMY THIS WEEK – 1<sup>ST</sup> AUGUST 2022

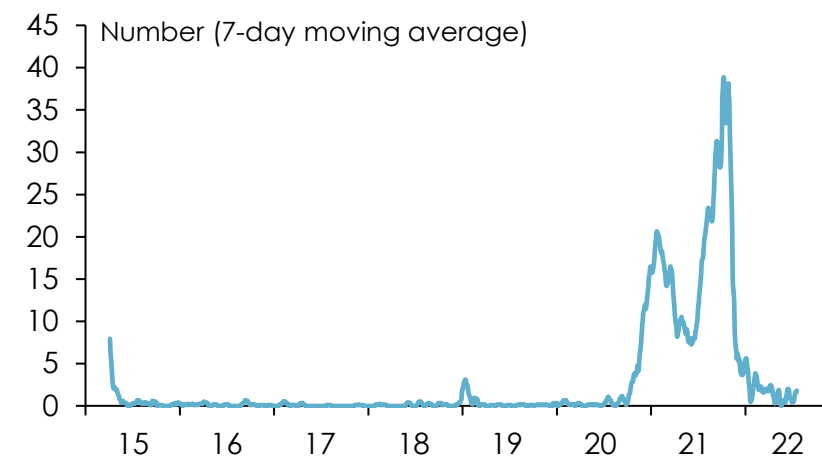
## Container traffic through the Port of Los Angeles



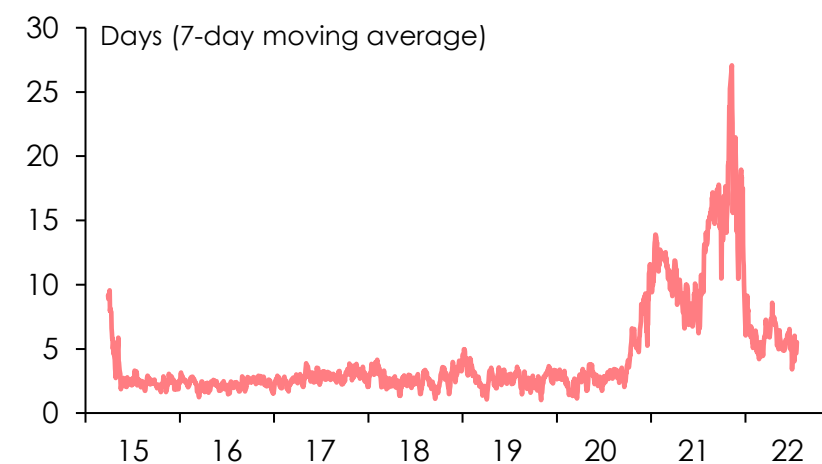
## Empty containers as a pc of total passing through PoLA



## Number of vessels at anchor outside PoLA



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



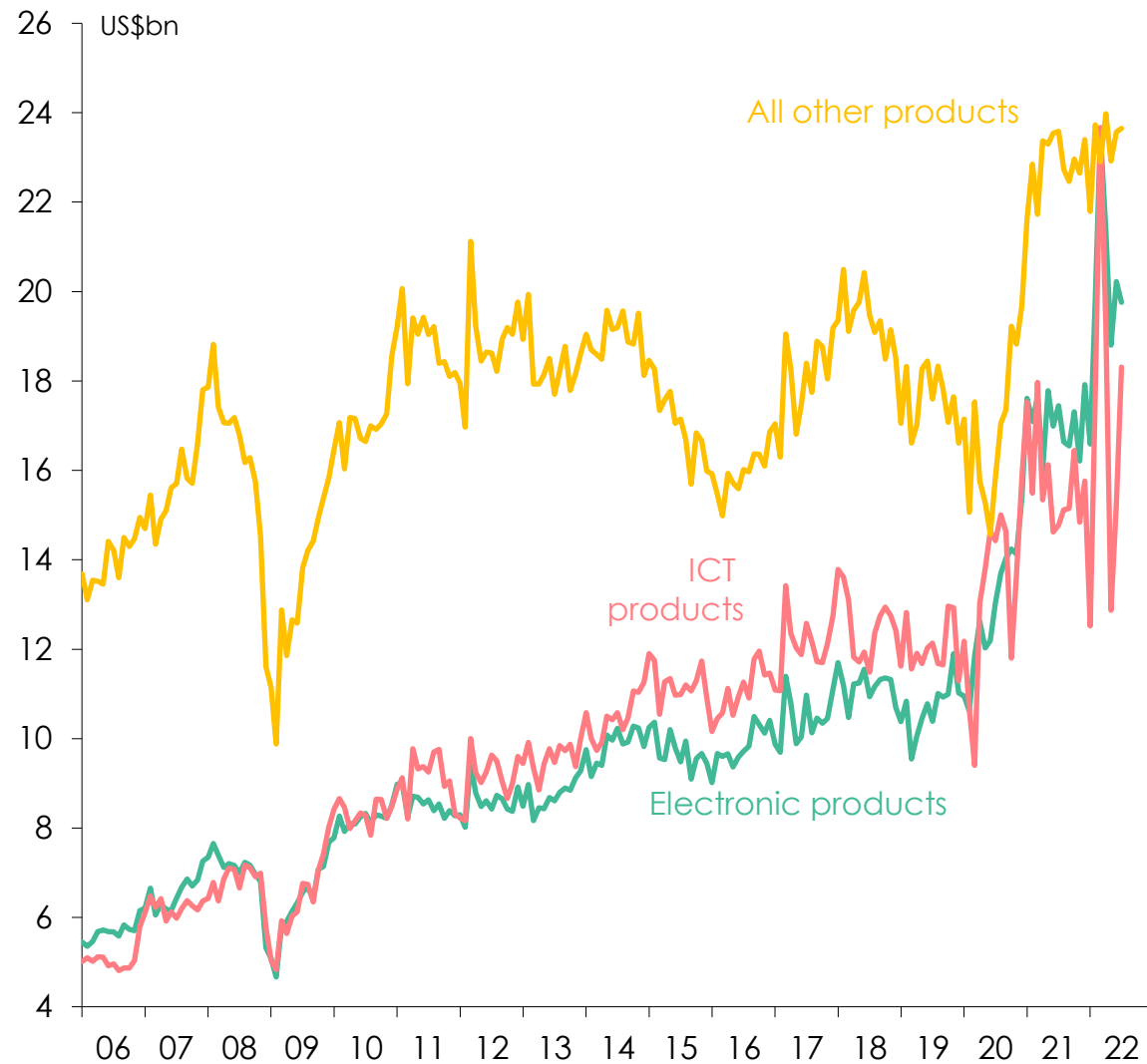
Note: TEU = 20-foot equivalent unit. Data on inbound and outbound container traffic in the first two charts have been seasonally adjusted by Corinna using Refinitiv Datastream. Data up to 29<sup>th</sup> July. Source: The Port of Los Angeles, [Container Statistics](#) and [Container vessels in port](#). [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

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## Taiwan export orders, by product



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

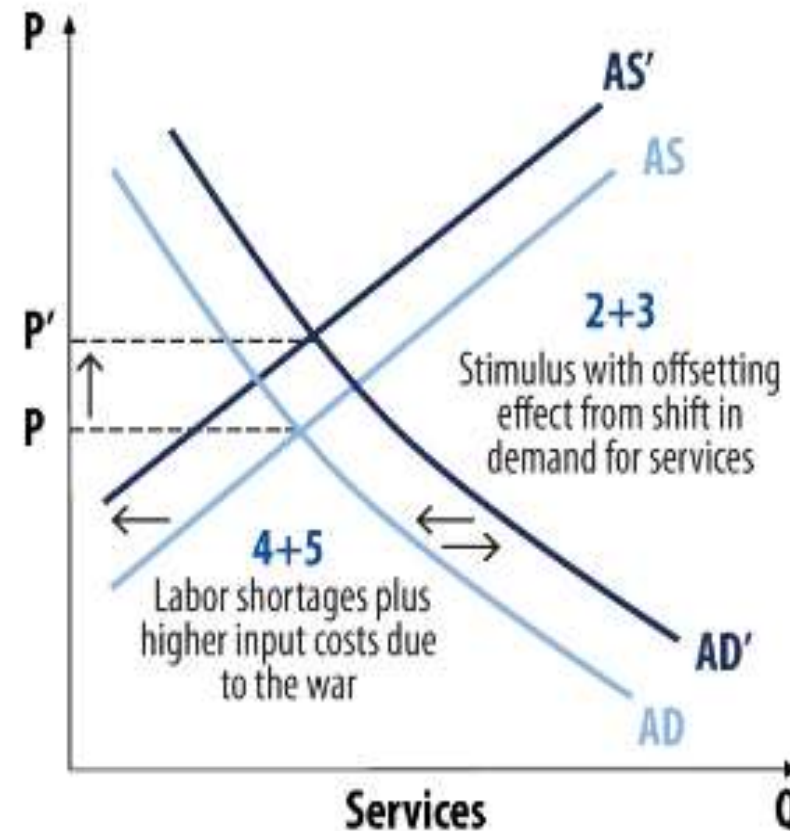
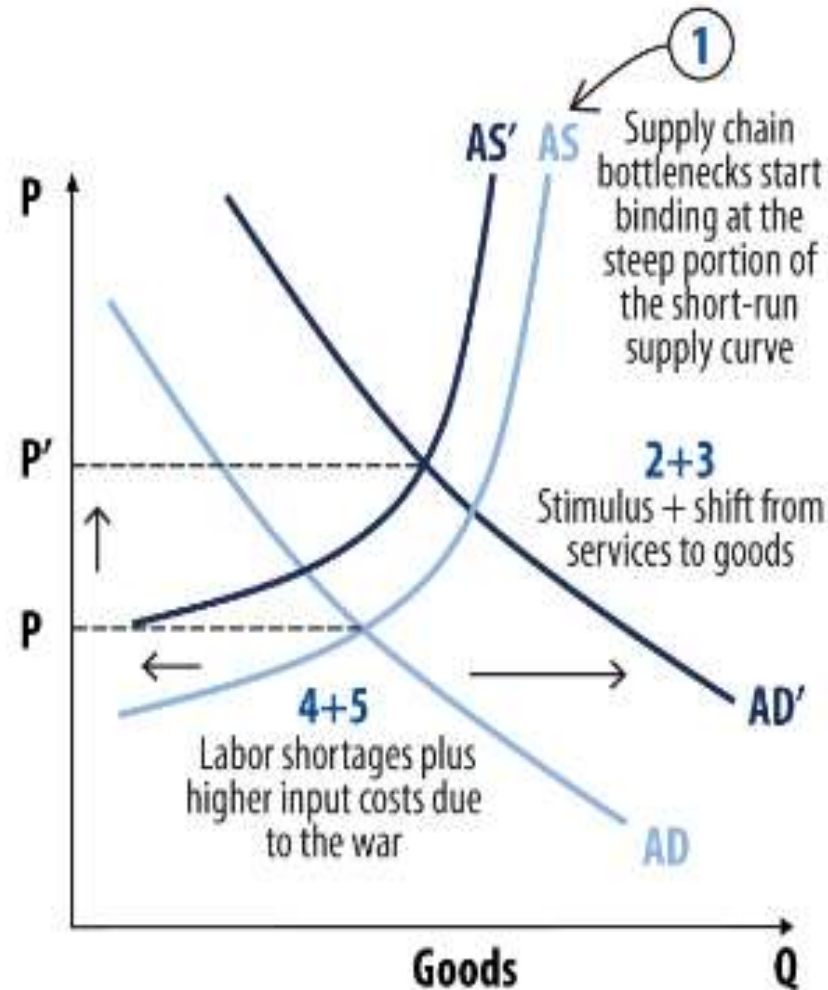
- ❑ Taiwan accounts for 63% of the US\$85bn global semi-conductor chip market (followed by Korea 18% and China 6%)
  - one Taiwanese company, Taiwan Semiconductor Manufacturing Co (TSMC) has 54% of the world market, and United Microelectronics Co (UMC) a further 7% (Samsung accounts for Korea's 18%)
- ❑ Semiconductor fabrication plants ("fabs") use very large amounts of water to rinse chips during their manufacture – a typical fab uses 7½-15 million litres of water daily (and water in Taiwan is very cheap, at less than US40¢/t)
  - Taiwan had been experiencing its worst drought in 56 years, resulting in rationing of water supplies including to semi-conductor manufacturers, although recent heavy rainfalls appear to have broken the drought
- ❑ World-wide semi-conductor production has also been crimped by [plant shutdowns](#) in Vietnam, Malaysia and the Philippines due to covid-19 outbreaks, and by damage caused by a fire at a Japanese fab earlier this year and a storm at a Texas plant
- ❑ Shortages of semi-conductor chips have caused major headaches for the motor vehicle industry (which uses lots of them)
- ❑ Foreign orders for Taiwanese ICT products have been especially volatile over the first five months of this year, in part because of recurring supply-chain disruptions in China
- ❑ Semi-conductor production 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 – 1<sup>ST</sup> AUGUST 2022

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



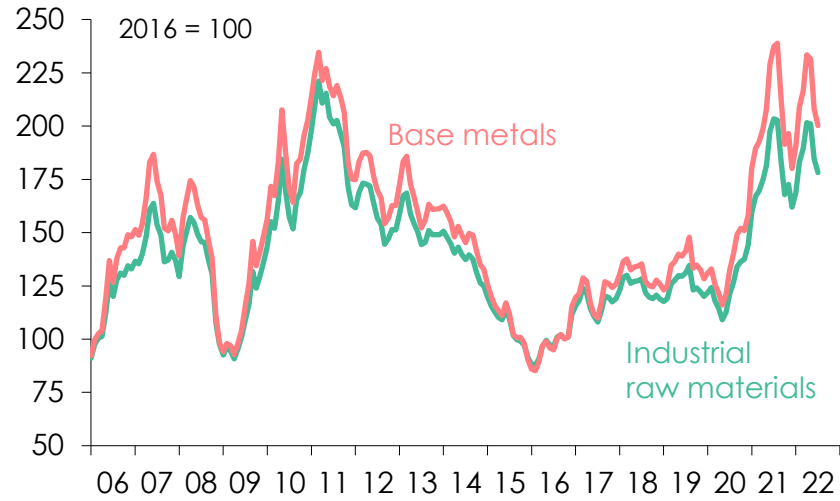
1. Supply chain bottlenecks reducing supply of durable goods – aggregate supply curve shifts to left (AS → AS')
  2. Shift in demand from services to goods (prompted by public health restrictions), with opposite effects on demand for services and goods – aggregate demand curve for goods shifts to right,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

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

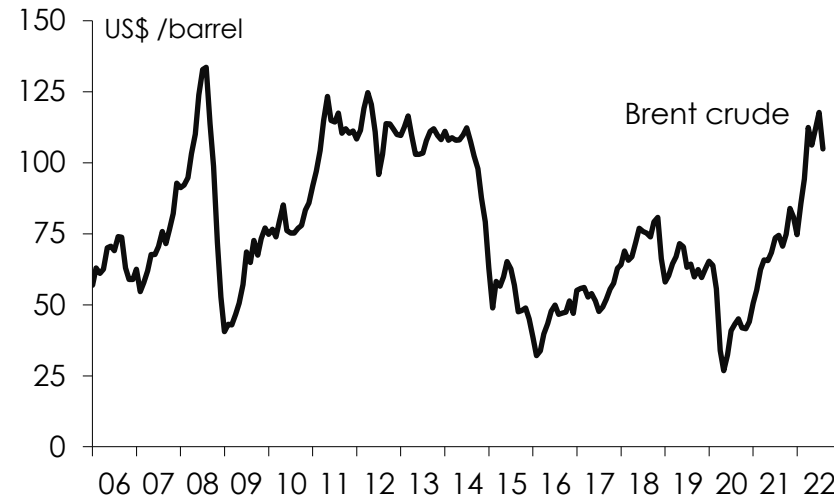
# Energy commodity prices remain elevated, but other commodity prices have eased a bit, and freight & semi-conductor prices are now falling

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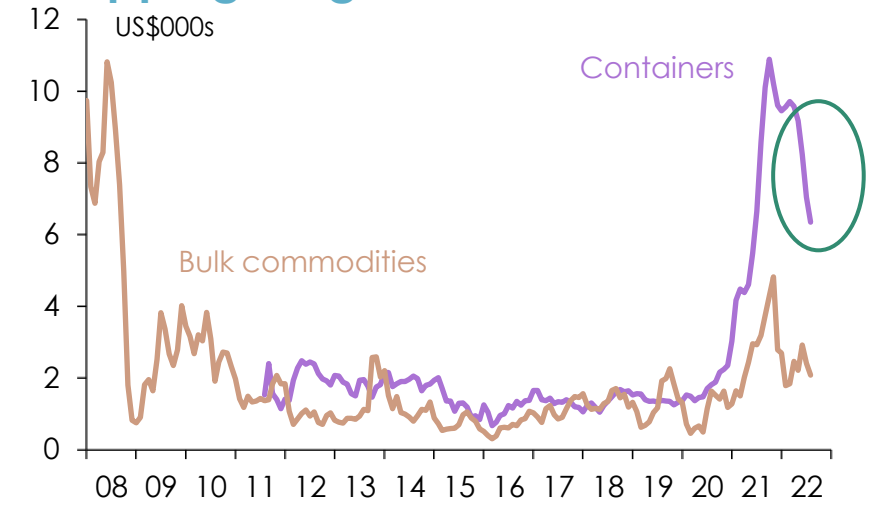
## 'Hard' commodity prices



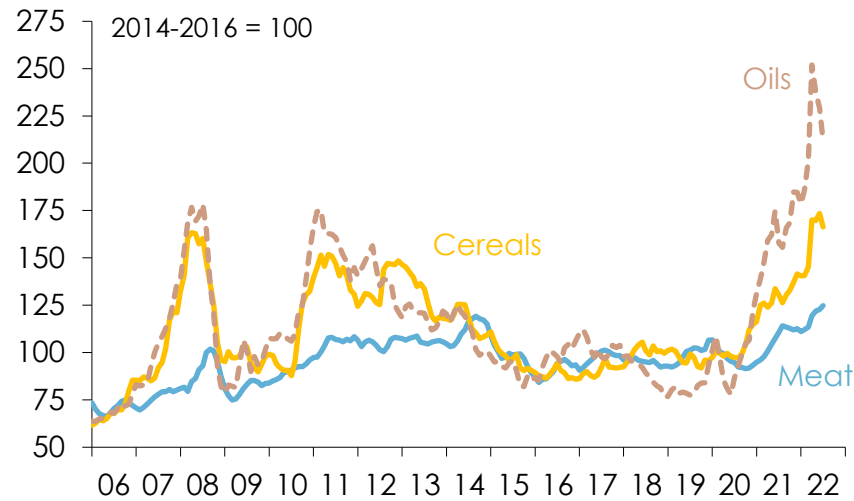
## Crude oil price



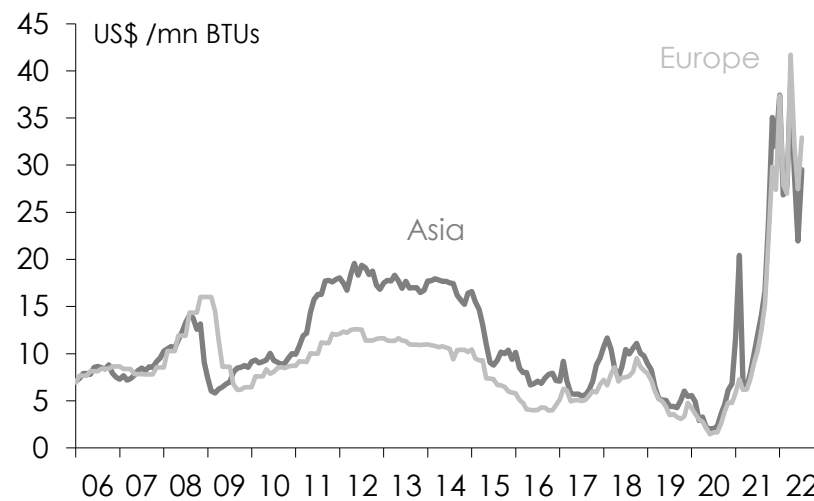
## Shipping freight costs



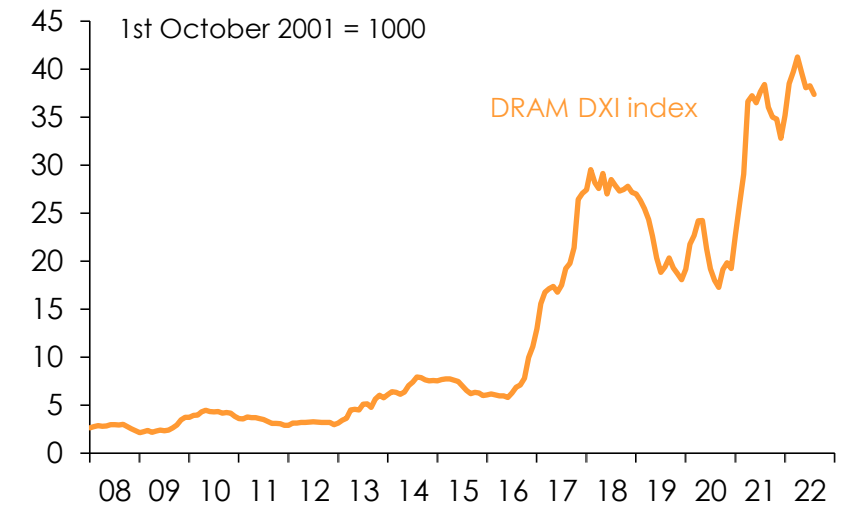
## Food commodity prices



## Natural gas prices



## Semiconductor chip prices



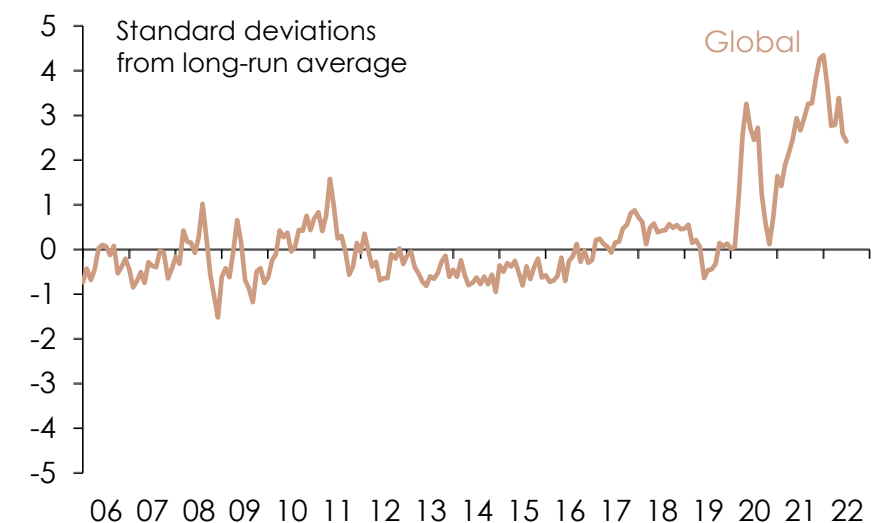
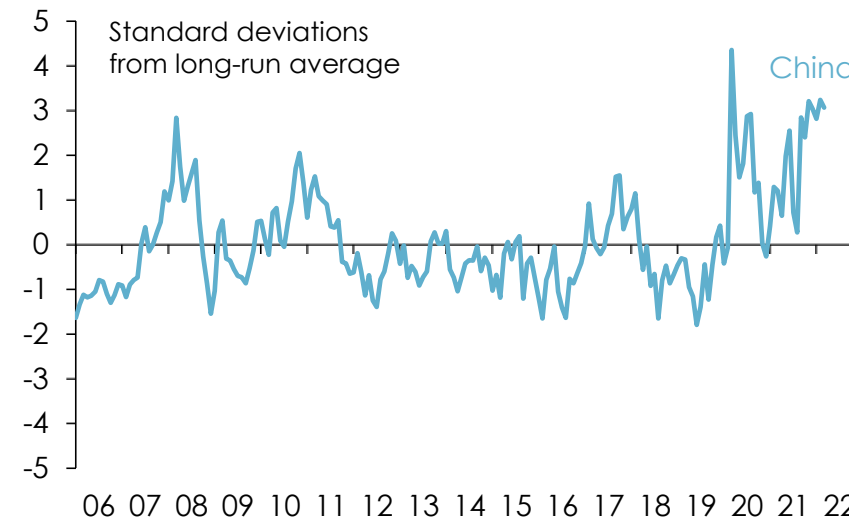
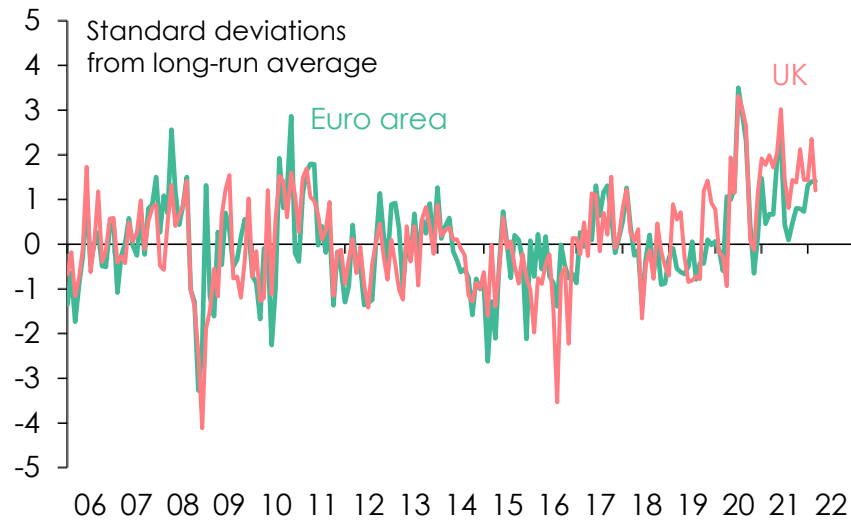
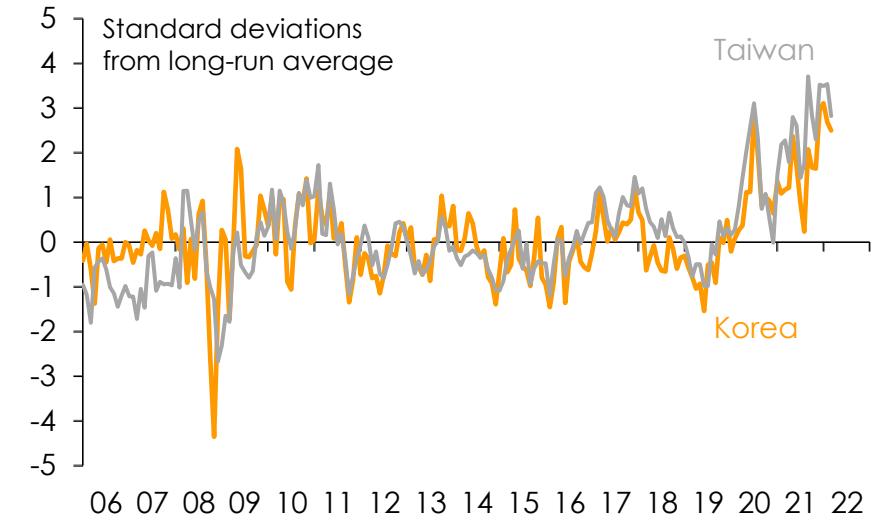
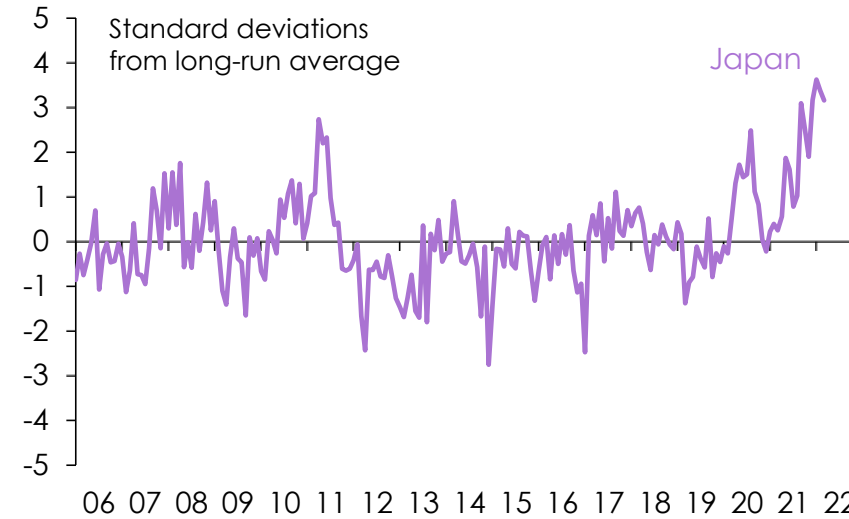
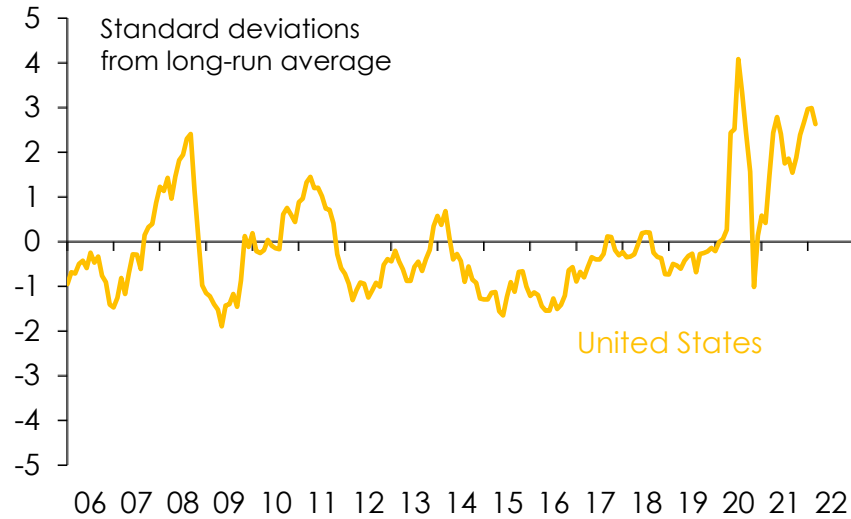
Note: The IMF commodity price indices were re-based to 2016 = 100.

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

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## NY Fed global supply chain pressure index

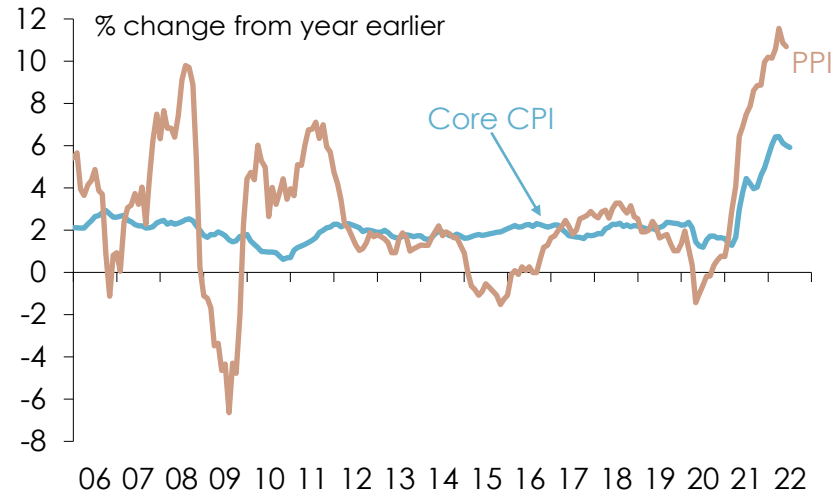


Sources: Gianluca Benigno, Julian Di Giovanni, Jan Groen & Adam Noble, [A New Barometer of Global Supply Chain Pressures](#), Federal Reserve Bank of New York, 4<sup>th</sup> January 2022 (which contains a detailed explanation of the construction of this index). Latest data for global index is for [June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

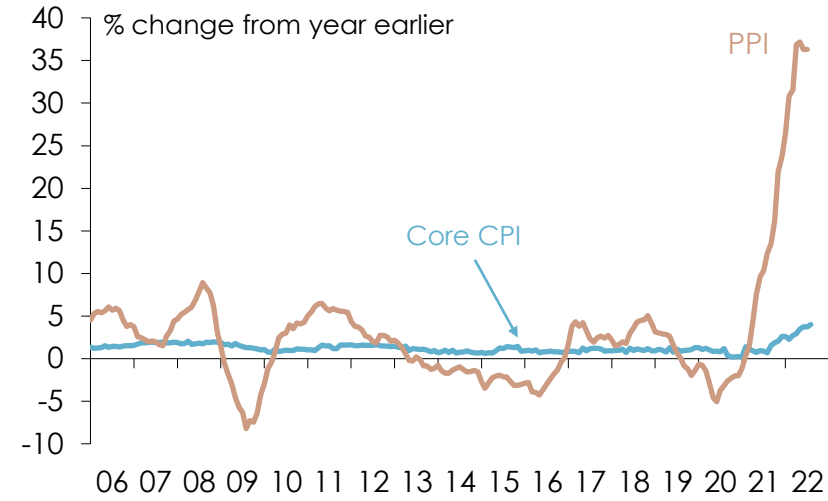
# Inflation has risen sharply at the producer level in all advanced economies, and (Japan aside) 'core' CPI inflation is also above central bank targets

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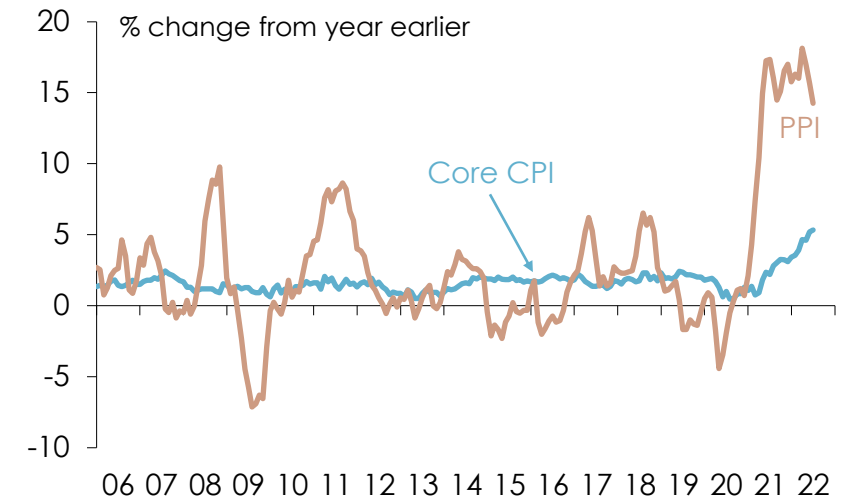
## United States



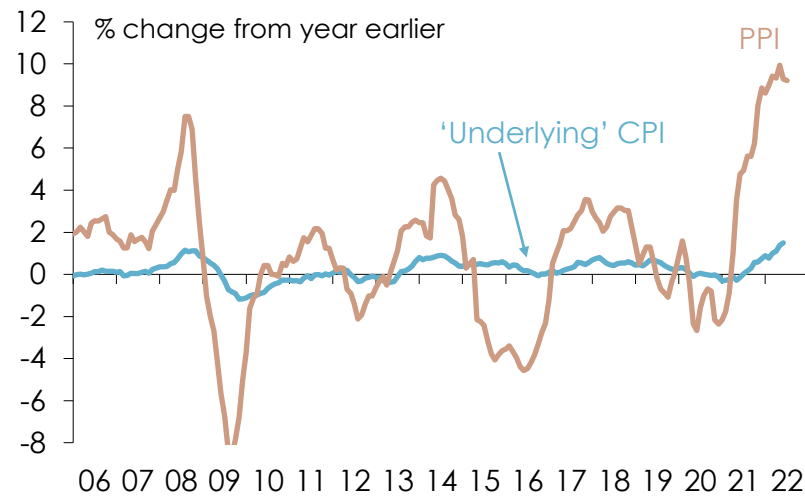
## Euro area



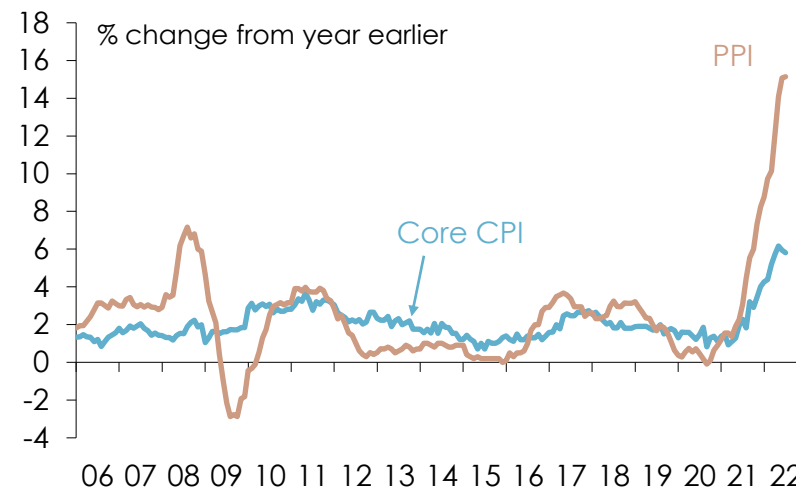
## Canada



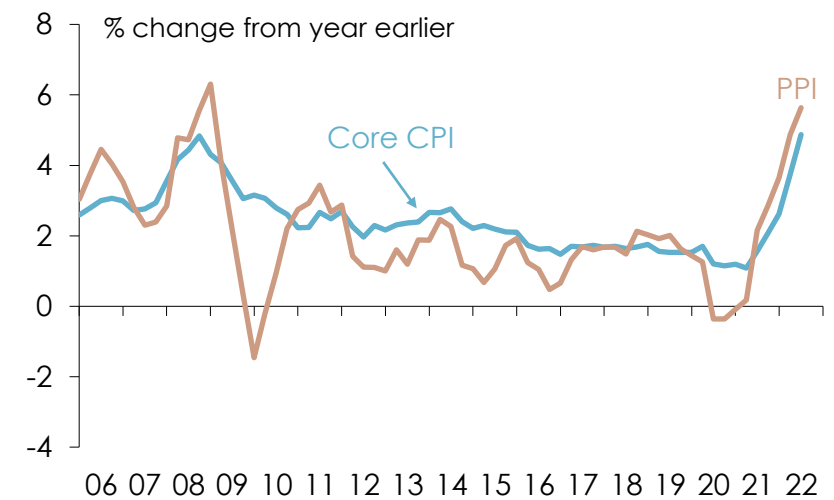
## Japan



## United Kingdom



## Australia

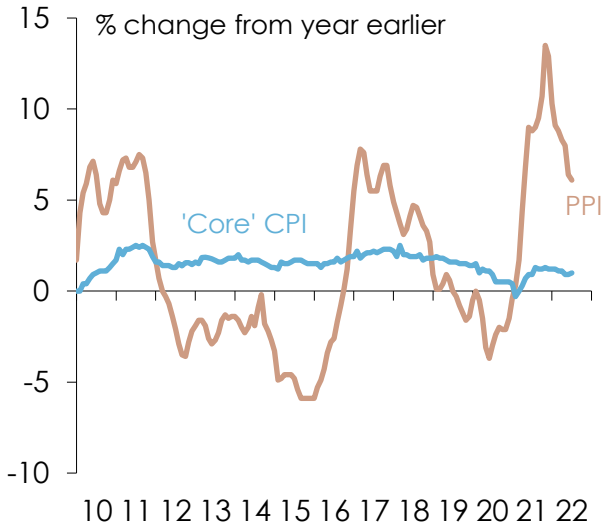


For a more detailed analysis of recent US inflation data see [slides 52-56](#). Sources: [US Bureau of Labor Statistics](#); [Statistics Bureau of Japan](#) and [Bank of Japan](#); [Eurostat](#); [UK Office for National Statistics](#); [Statistics Canada](#); [Australian Bureau of Statistics](#). [Return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

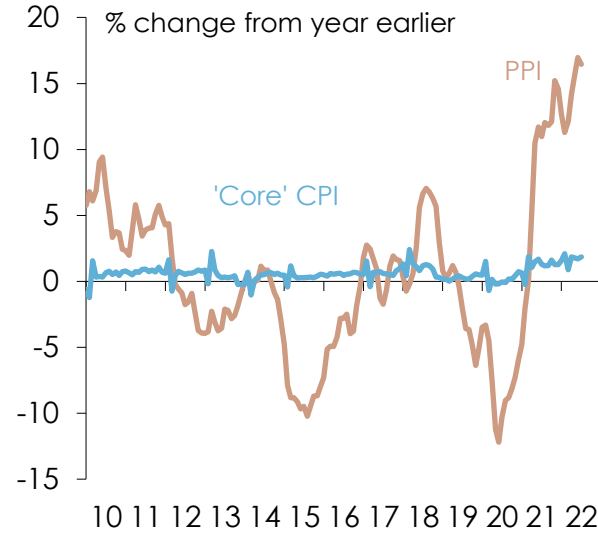
# Most Asian economies have been experiencing rapid 'upstream' inflation for some time, and 'core' consumer price inflation is now starting to pick up

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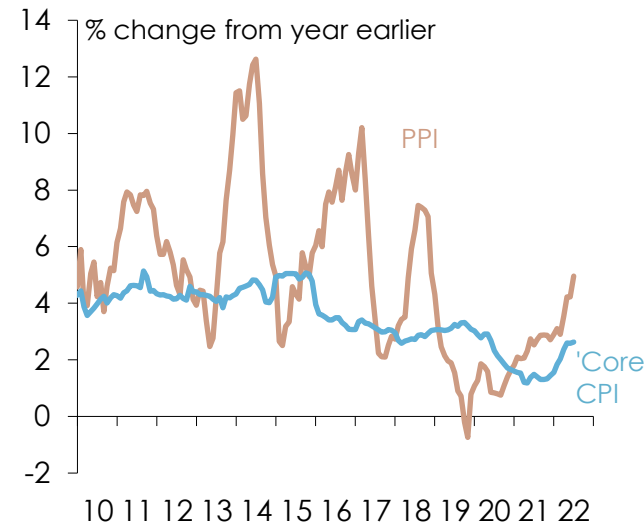
## China



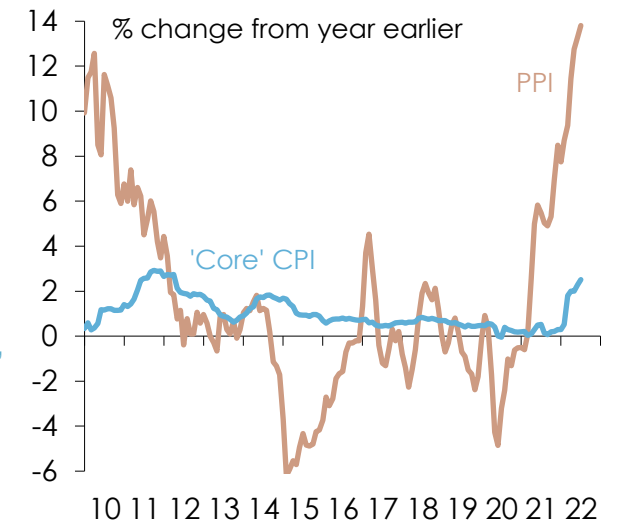
## Taiwan



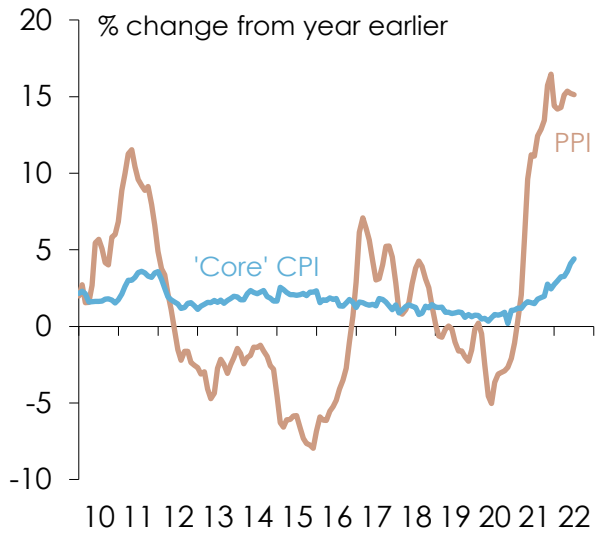
## Indonesia



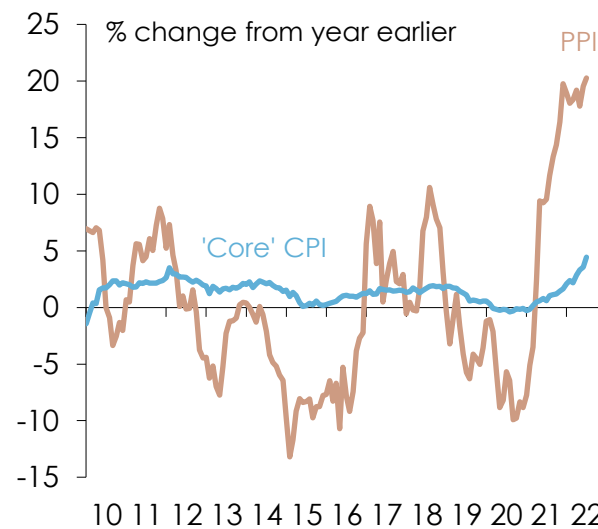
## Thailand



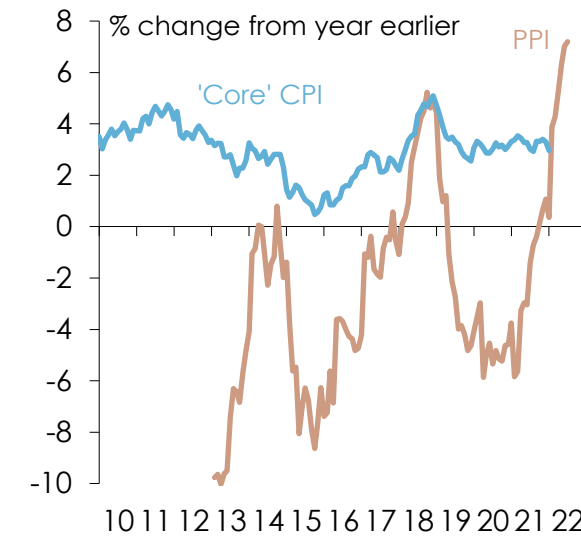
## Korea



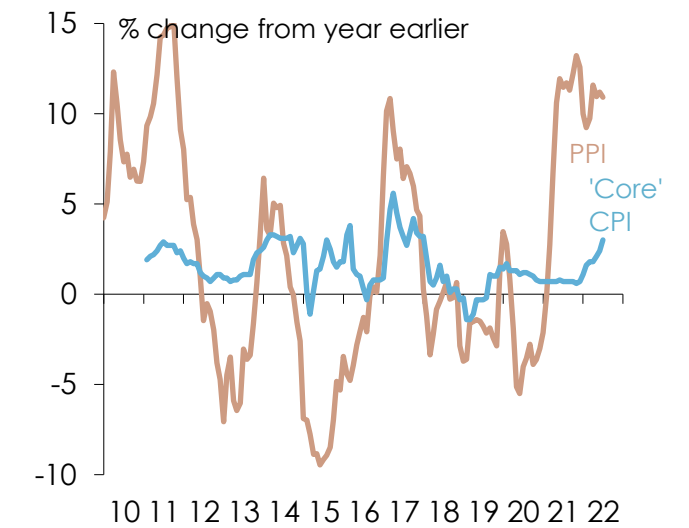
## Singapore



## Philippines



## Malaysia



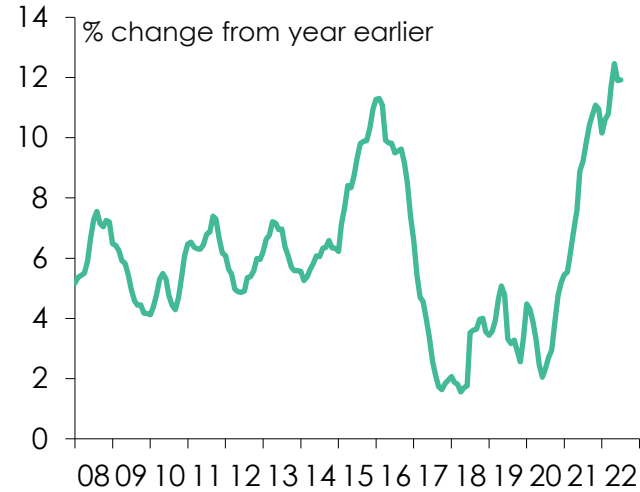
Note: 'Core' CPIs measure different things in different Asian economies – see footnotes to [slide 94](#). Sources: [China National Bureau of Statistics](#); [Statistics Korea](#); [Bank of Korea](#); [Taiwan Statistical Bureau](#); [Singstat](#); [Monetary Authority of Singapore](#); [Statistics Indonesia](#);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



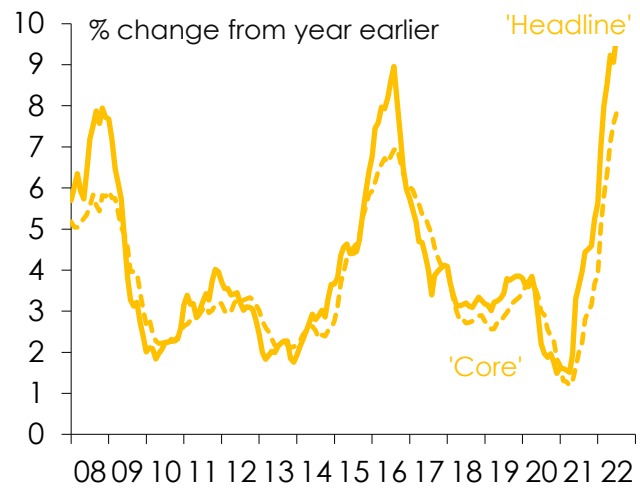
# Consumer price inflation is rising sharply across Latin America (except for Venezuela, where it's now down to just 155%!)

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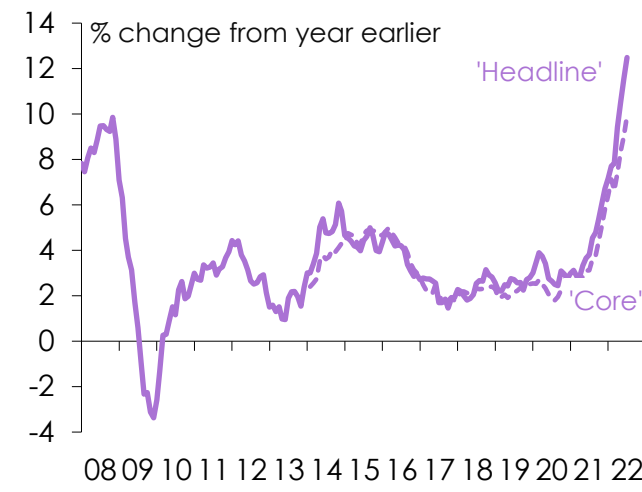
## Brazil



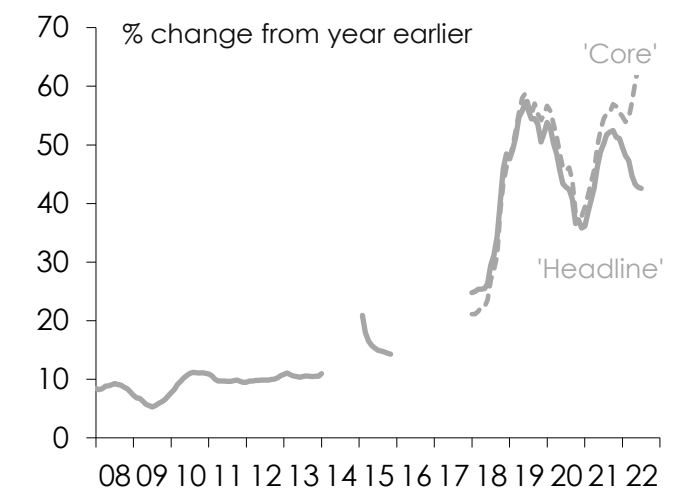
## Colombia



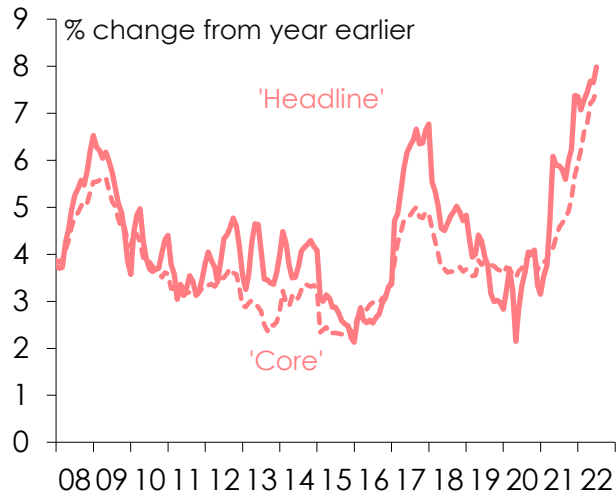
## Chile



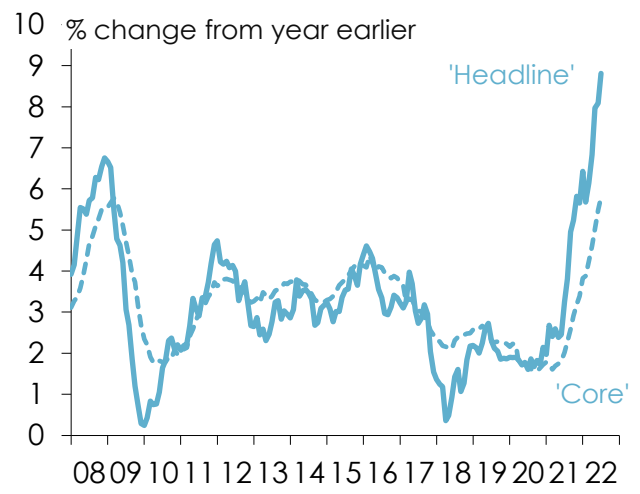
## Argentina



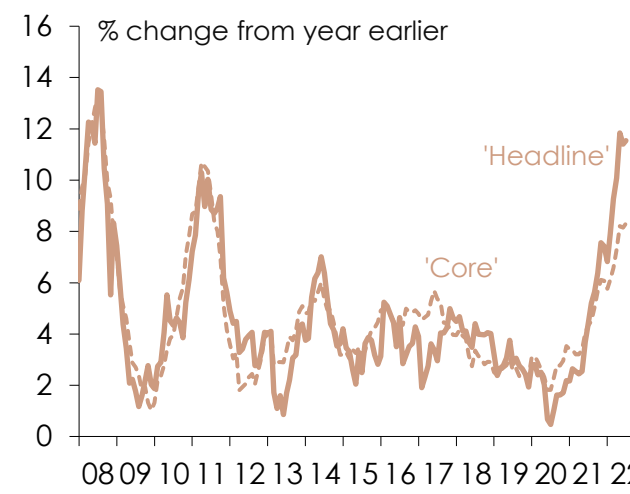
## Mexico



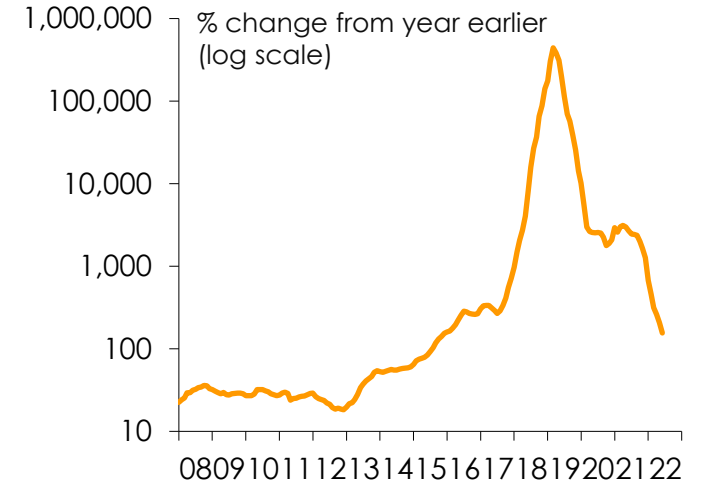
## Peru



## Paraguay



## Venezuela

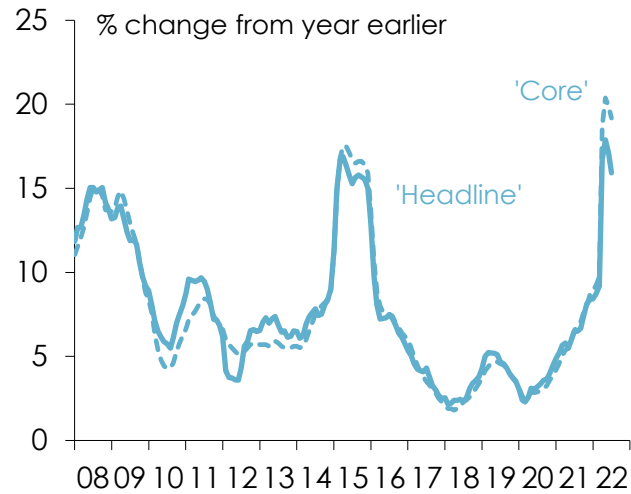


Sources: [Instituto Brasileiro de Geografia e Estatística](#); [Instituto Nacional de Estadística y Geografía](#) (Mexico); [Departamento Administrativo Nacional de Estadística](#) (Colombia); [Instituto Nacional de Estadística e Informática](#) (Peru); [Instituto Nacional de Estadísticas](#) (Chile);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

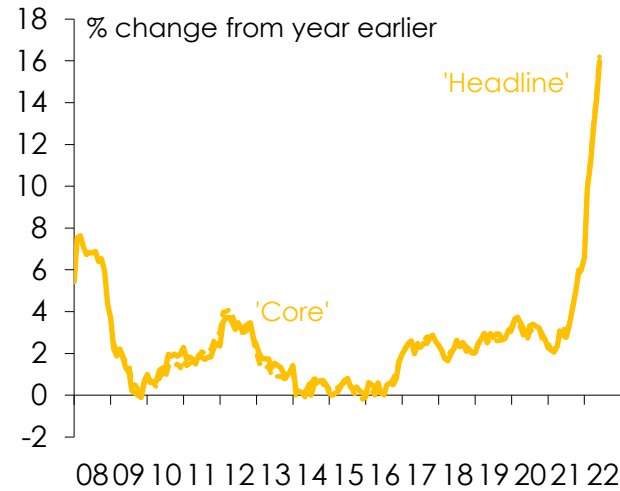
# Consumer price inflation is also rising across Central and Eastern Europe, and in South Africa

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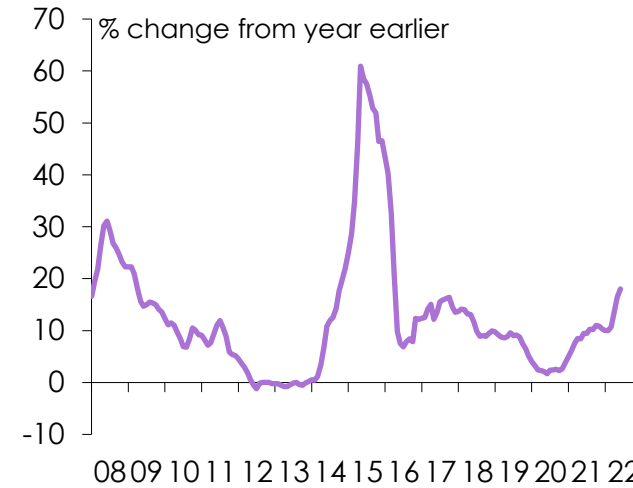
## Russia



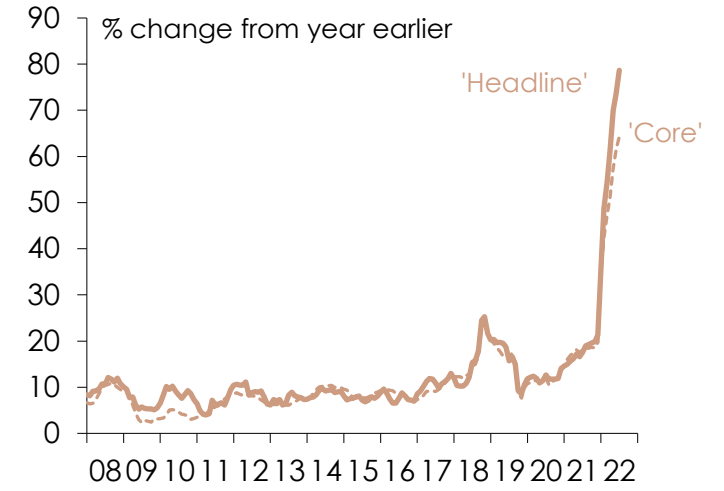
## Czech Republic



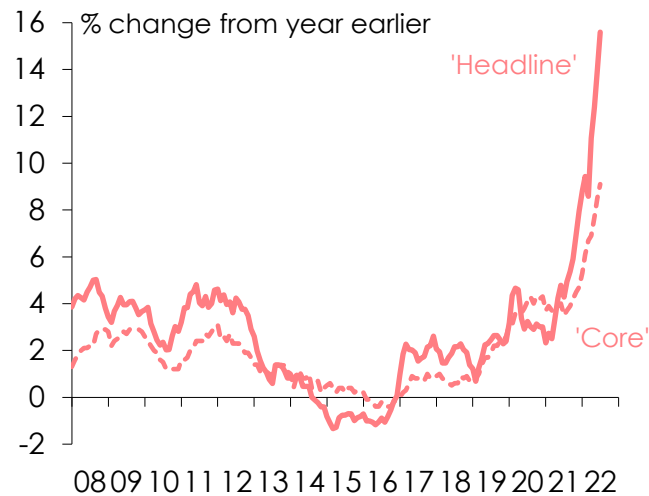
## Ukraine



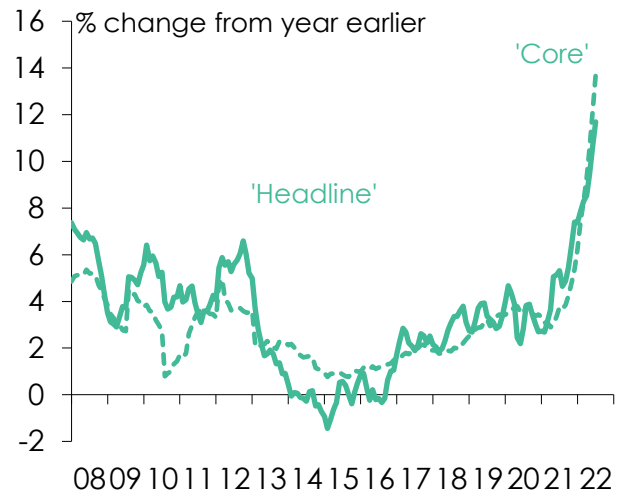
## Turkey



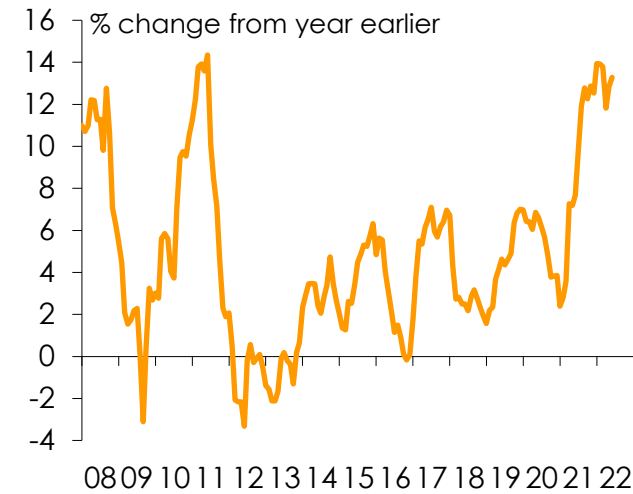
## Poland



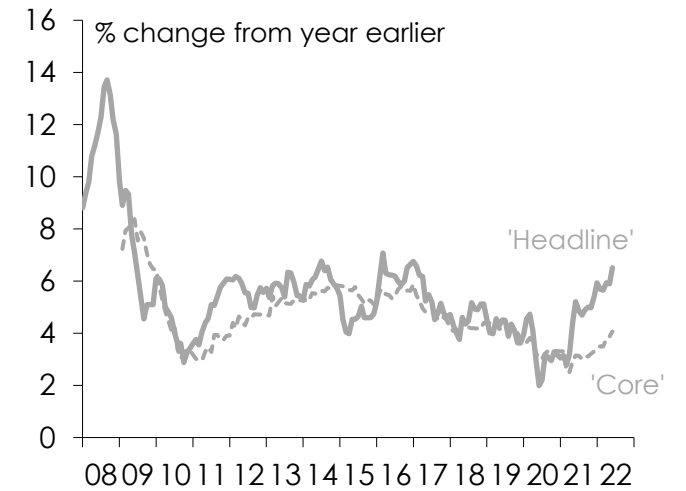
## Hungary



## Georgia



## South Africa



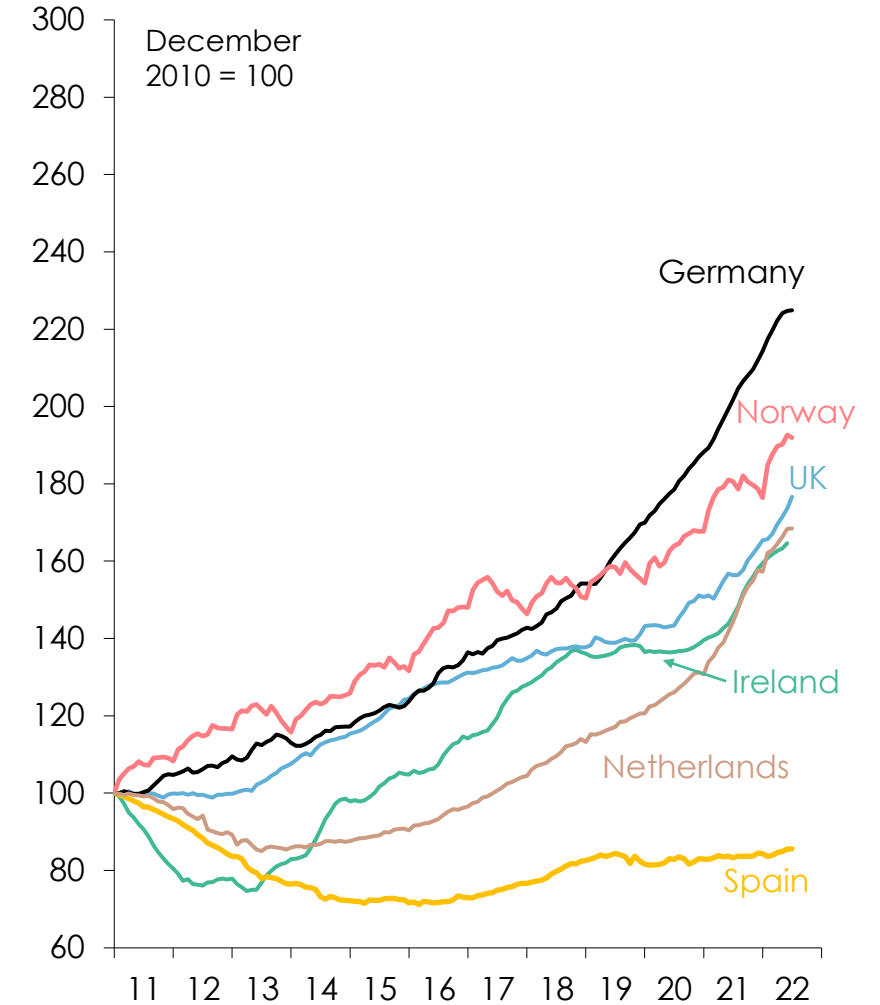
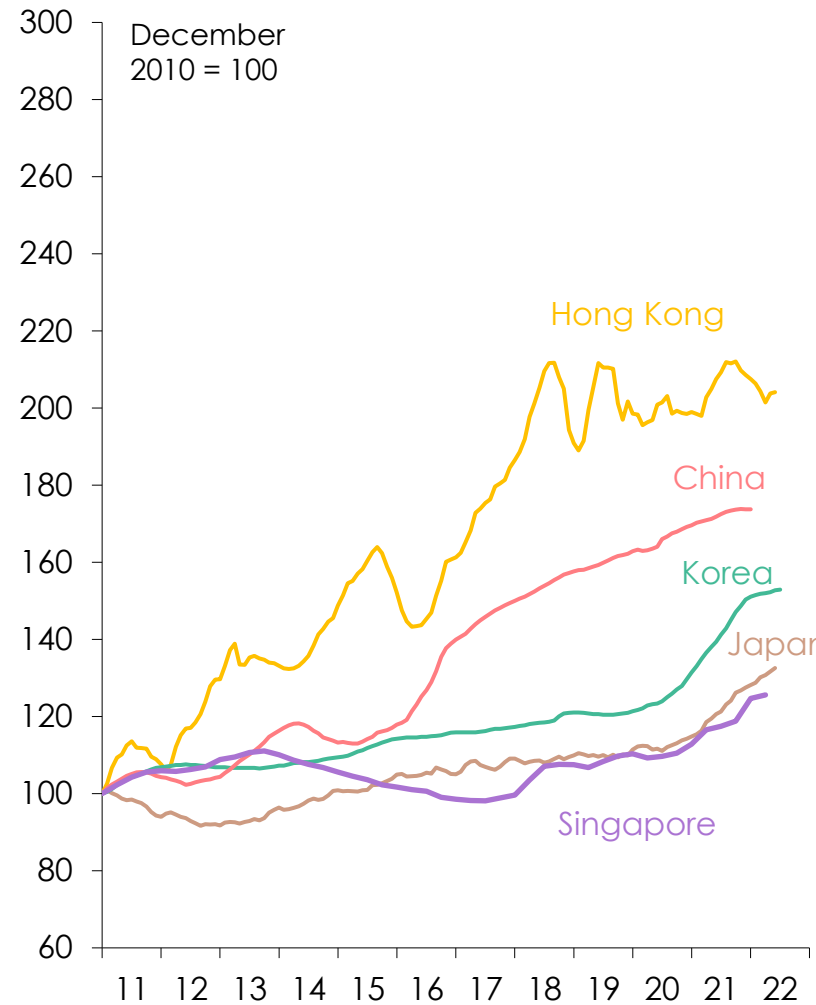
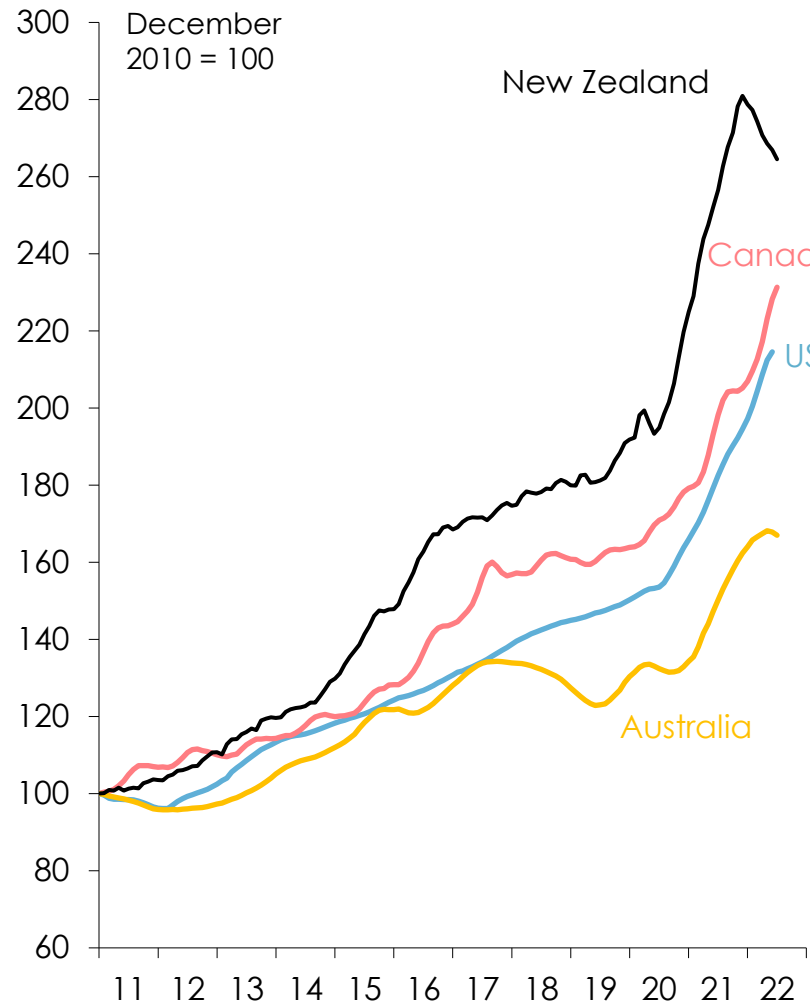
Sources: [Rosstat](#); [Główny Urząd Statystyczny](#) (Poland); [Český statistický úřad](#) (Czech Republic); [Központi Statisztikai Hivatal](#) (Hungary); [Ukrstat](#); [Sak'art'velos statistikis erovnuji samsakhuri](#) (Georgia); [Turkstat](#); [Statistics South Africa](#). Return to "What's New".



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

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## House price indices

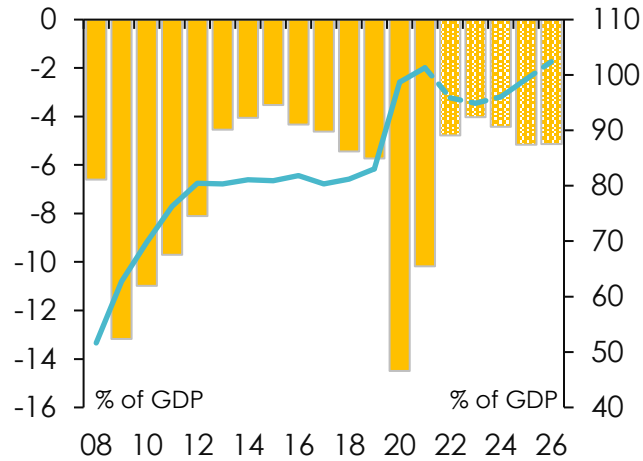


Note: House price indices shown in these charts are those published by [S&P-CoreLogic Case Shiller national](#) (United States); [Teranet-National Bank](#) (Canada); [CoreLogic](#) (Australia); [Real Estate Institute of New Zealand](#); [China Index Academy](#); [Japan Real Estate Institute](#) (Tokyo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

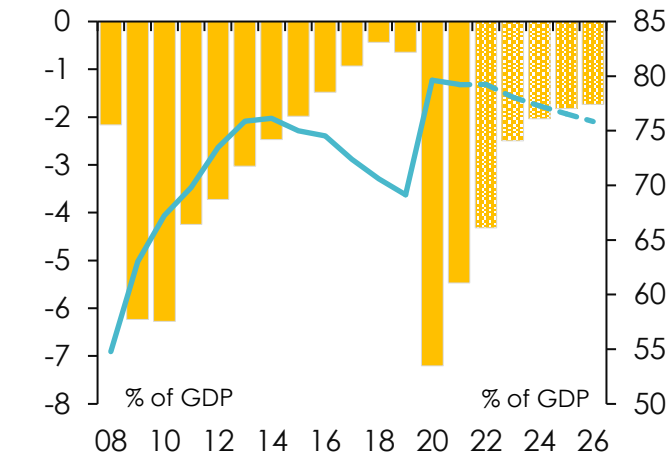
# Fiscal policy is set to be tightened significantly in 2022 in most major economies except Japan, China and India

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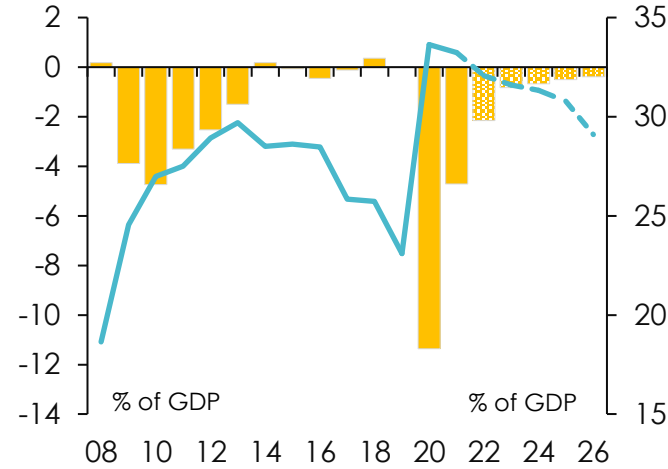
## United States



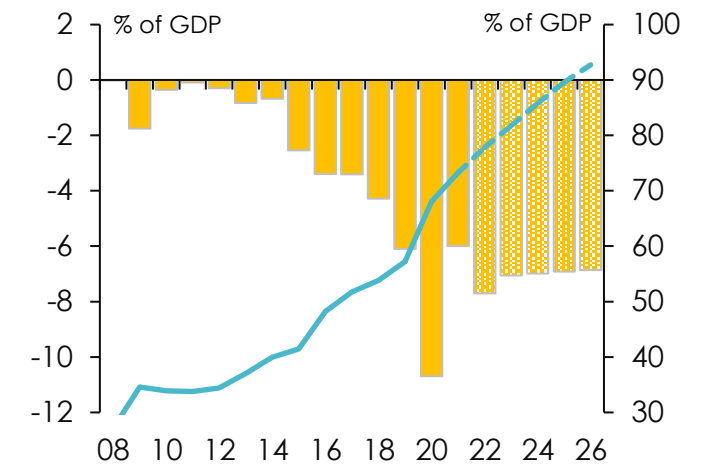
## Euro area



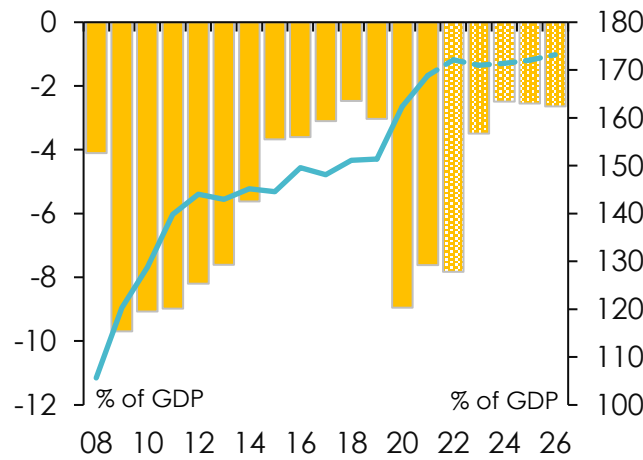
## Canada



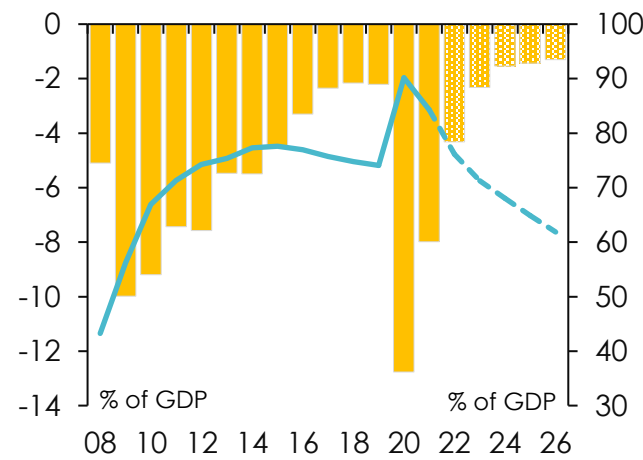
## China



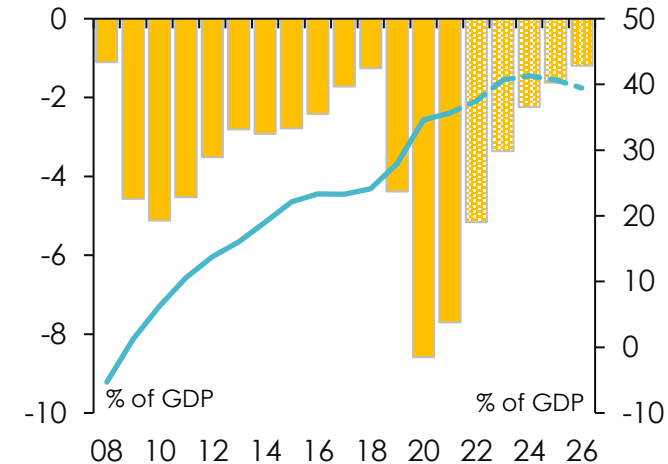
## Japan



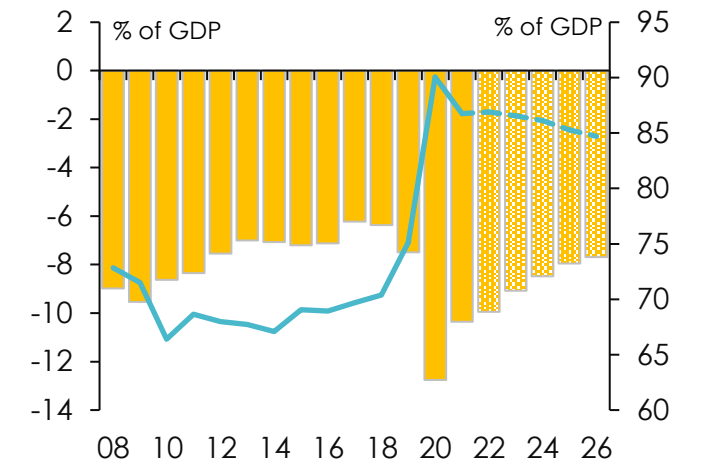
## United Kingdom



## Australia



## India



General government overall fiscal balance (left scale)

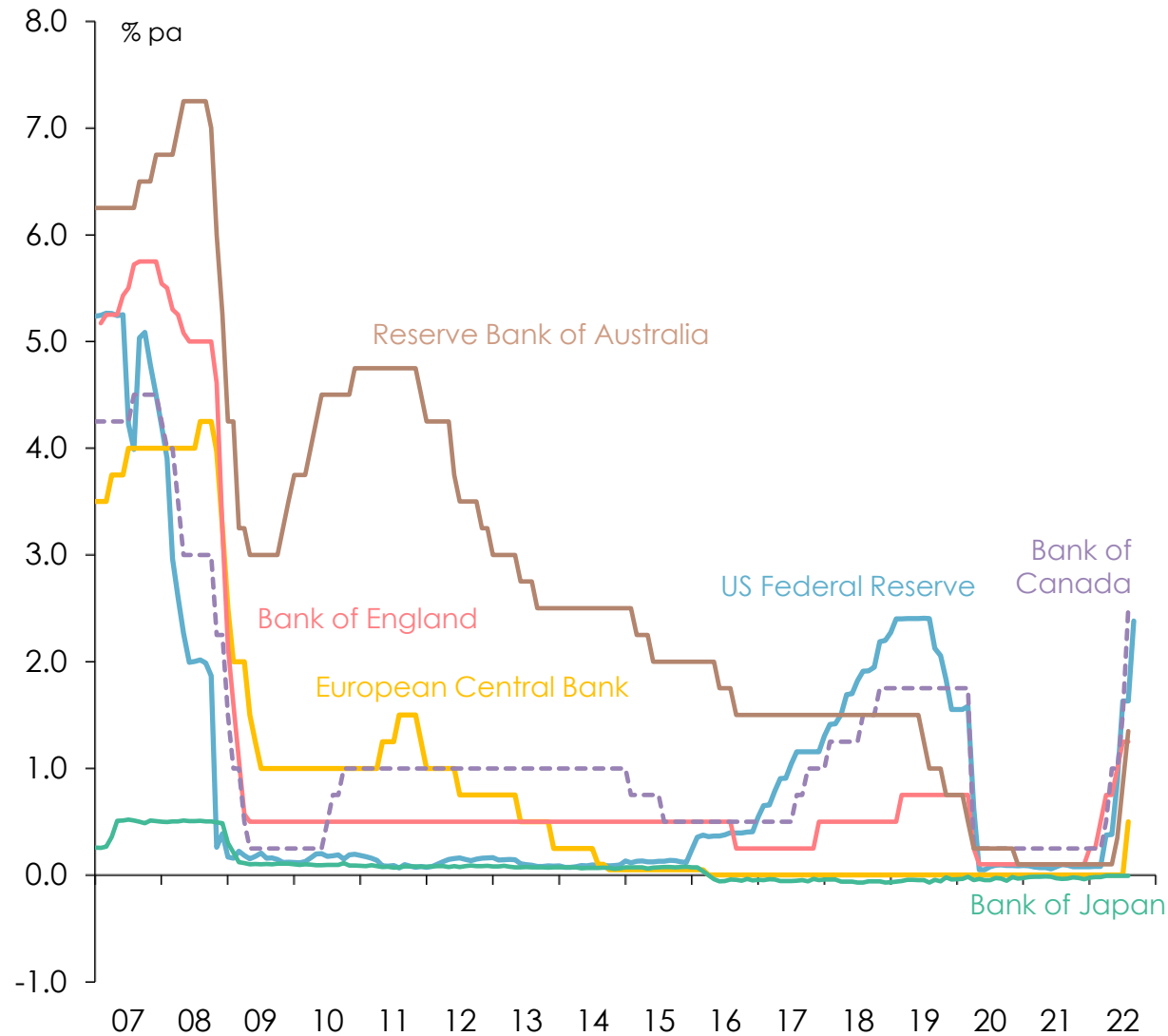


General government net debt (right scale)

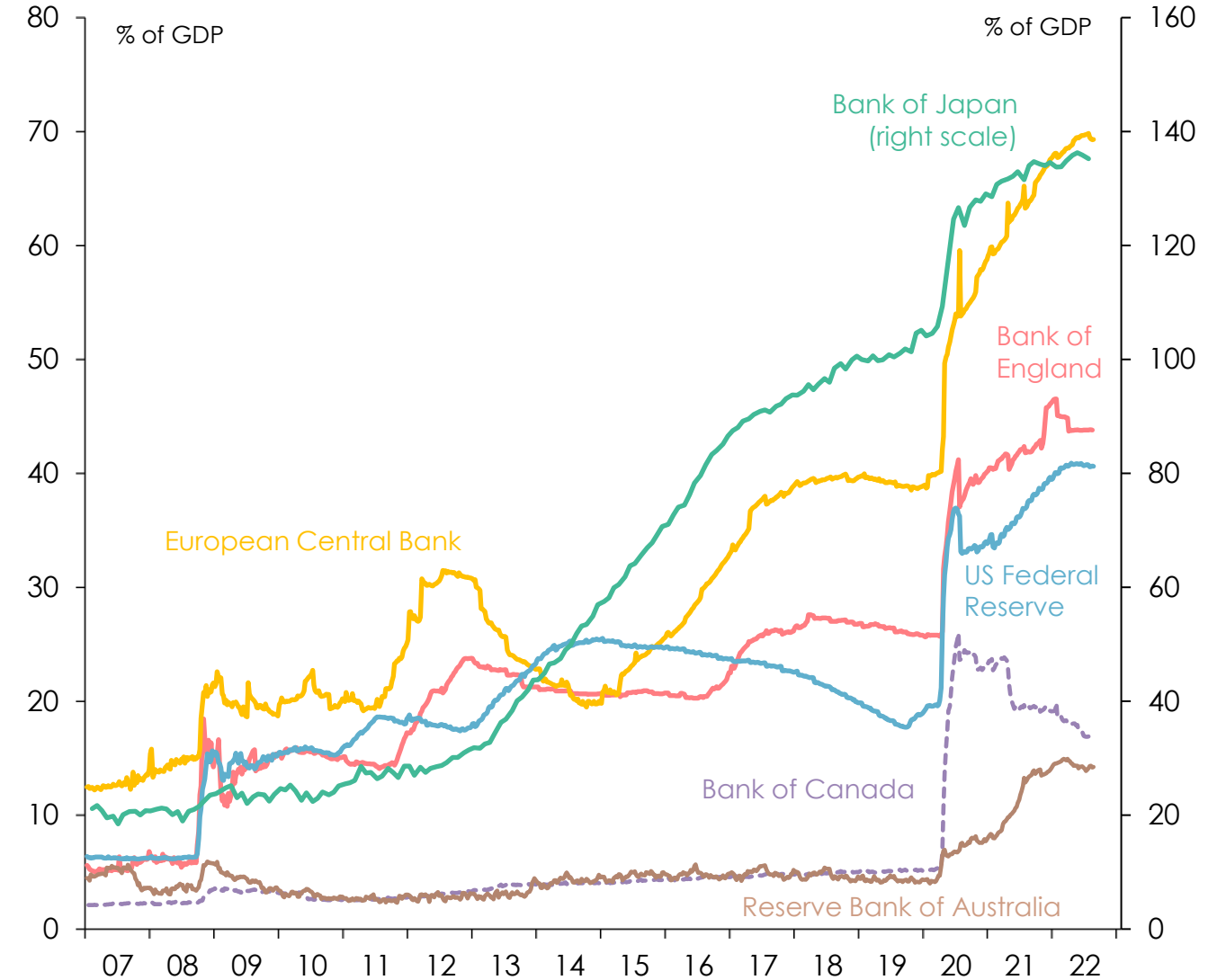
# Every major 'advanced' economy central bank, apart from Japan's, is now tightening monetary policy

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## 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?

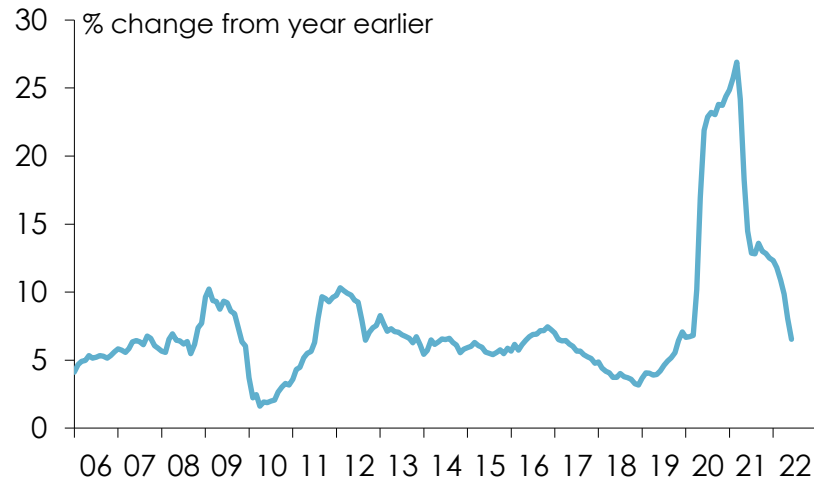
THE WORLD ECONOMY THIS WEEK – 1<sup>ST</sup> AUGUST 2022

- ❑ 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 24<sup>th</sup> June

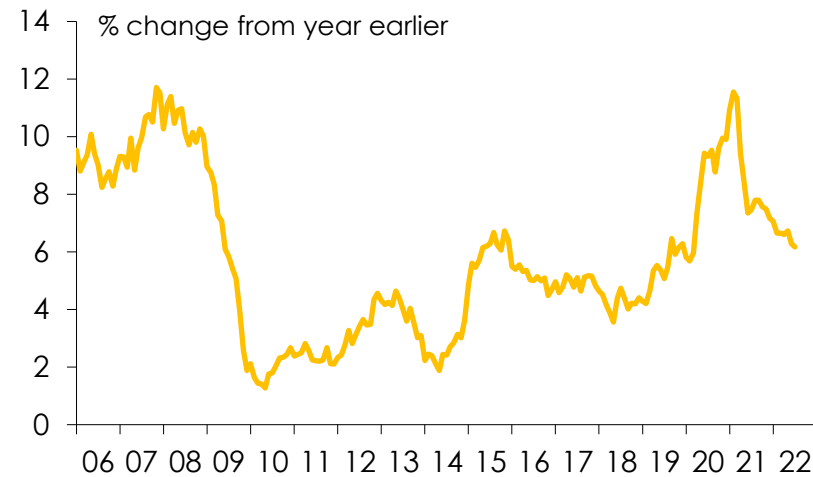
# Money supply growth has slowed sharply from the peaks recorded in the first half of 2021 as large monthly increases in 2020 'wash out'

THE WORLD ECONOMY THIS WEEK – 1<sup>ST</sup> AUGUST 2022

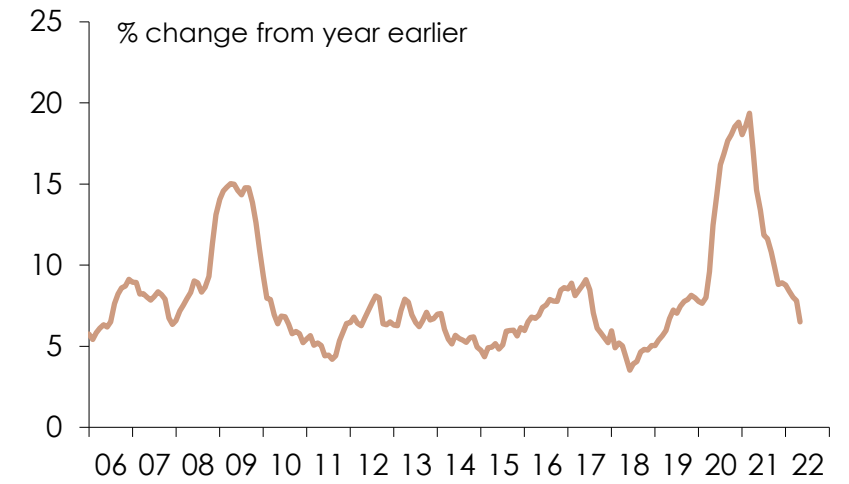
## US M2



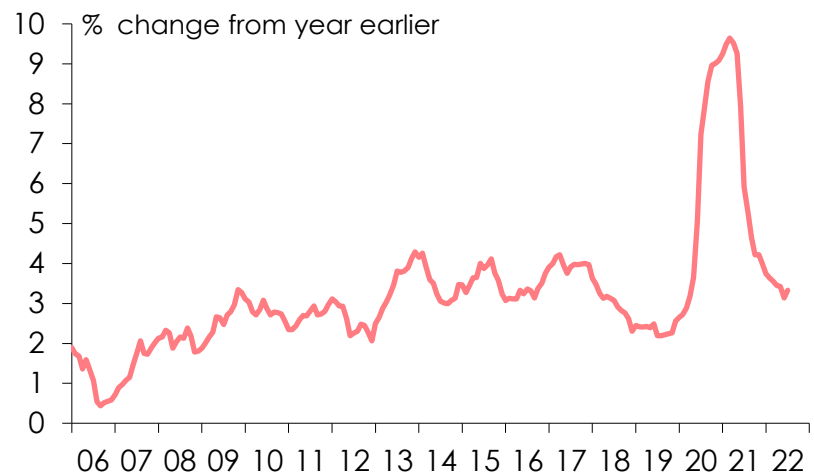
## Euro area M2



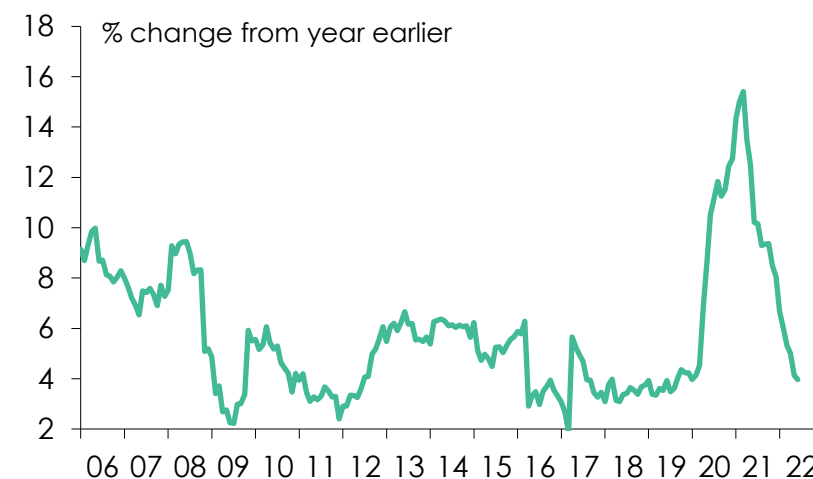
## Canada M2



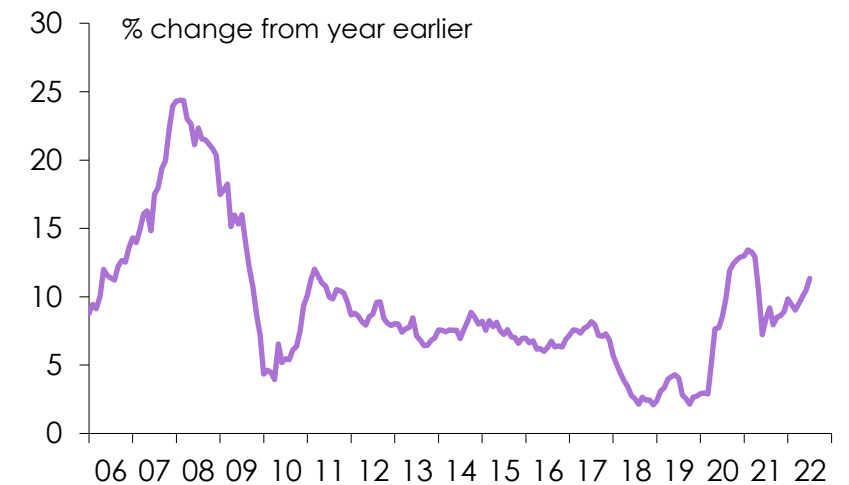
## Japan M2 + CDs



## UK M2



## Australia M3

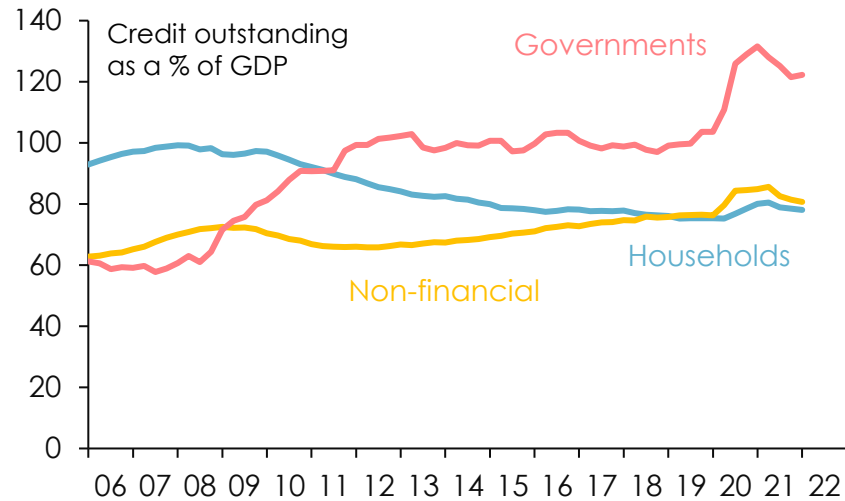


Sources: [US Federal Reserve](#); [Bank of Japan](#); [European Central Bank](#); [Bank of England](#); [Bank of Canada](#); [Reserve Bank of Australia](#).

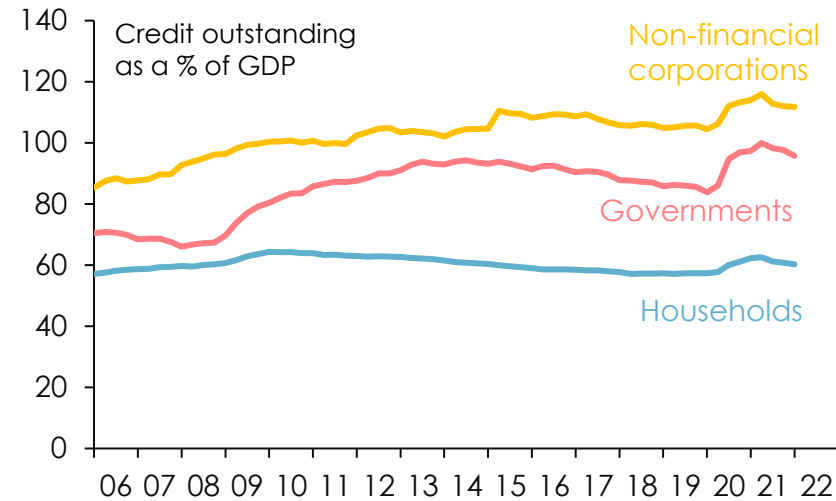
# Japanese, US and UK governments, Canadian corporations and Australian households appear most exposed to increases in interest rates

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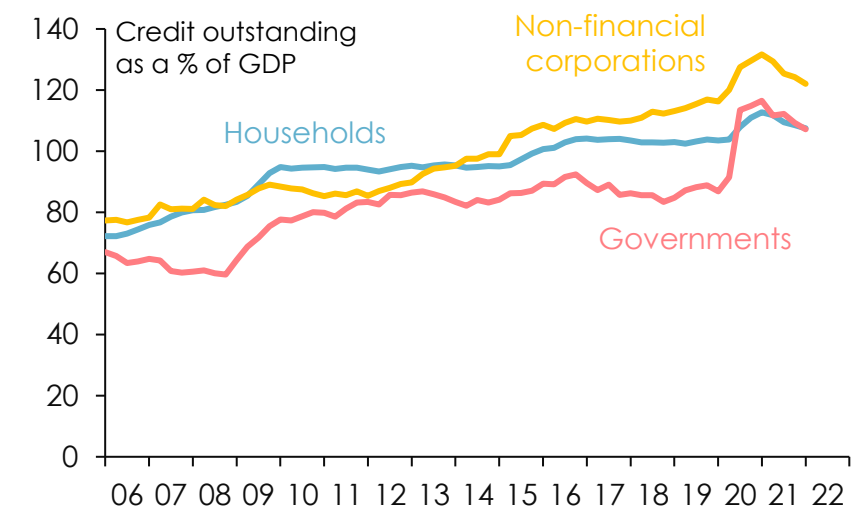
## US



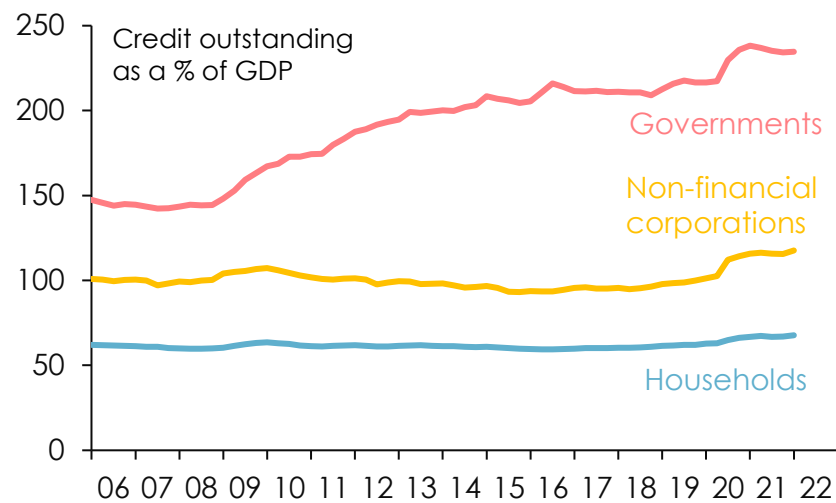
## Euro area



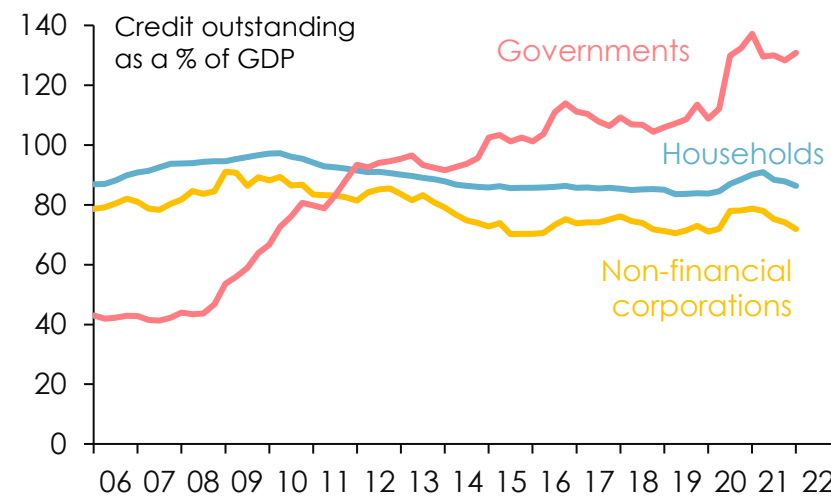
## Canada



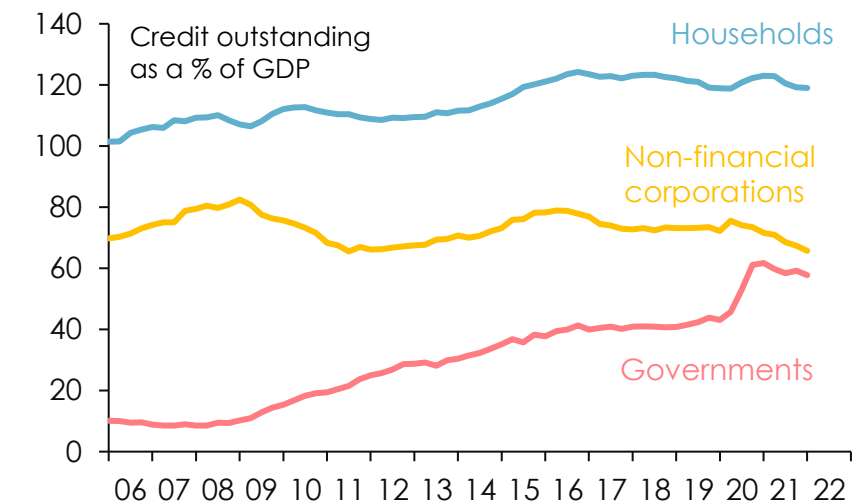
## Japan



## UK



## Australia



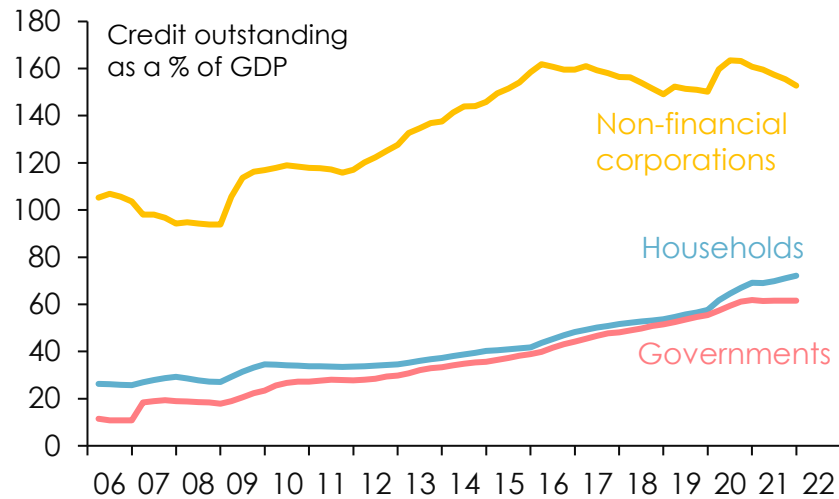
Source: Bank for International Settlements, [Credit Statistics](#); latest data are for Q4 2021, Q1 2022 data will be released in mid-September. [Return to "What's New"](#).



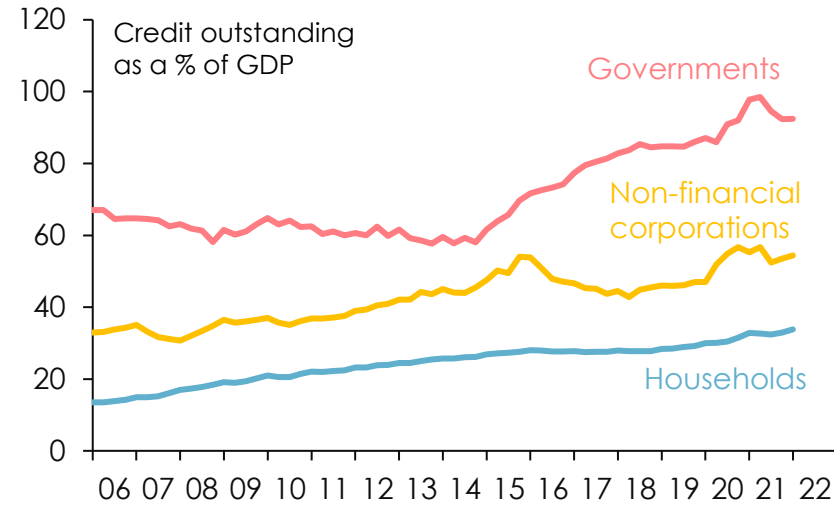
# In major 'developing' economies it's usually governments that are most exposed to rising interest rates – except for China, Russia and Turkey

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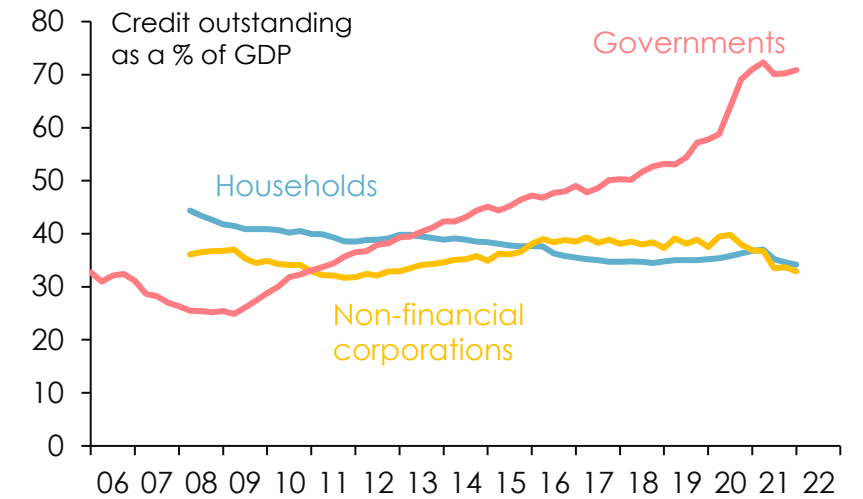
## China



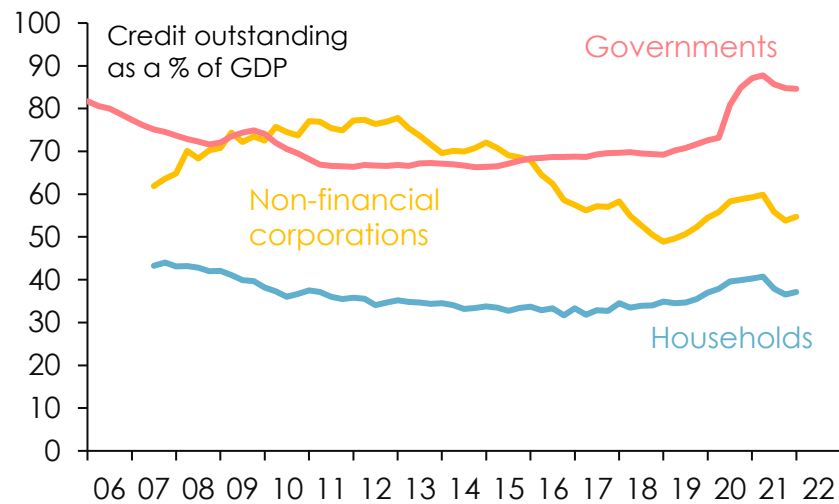
## Brazil



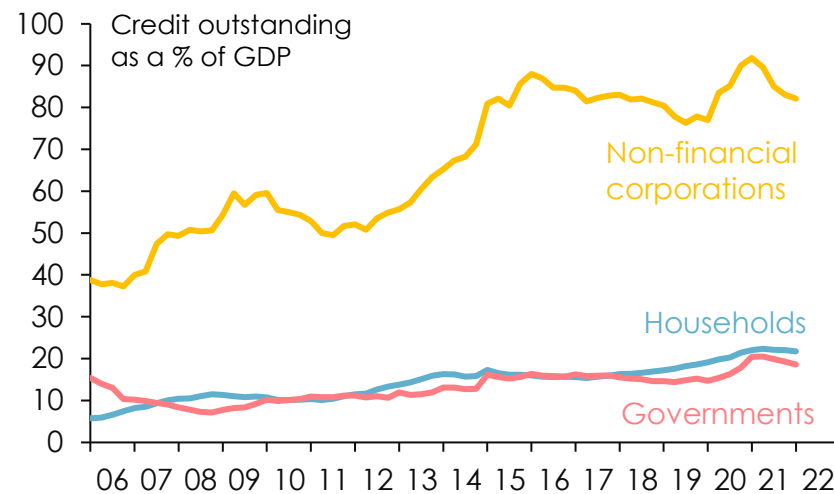
## South Africa



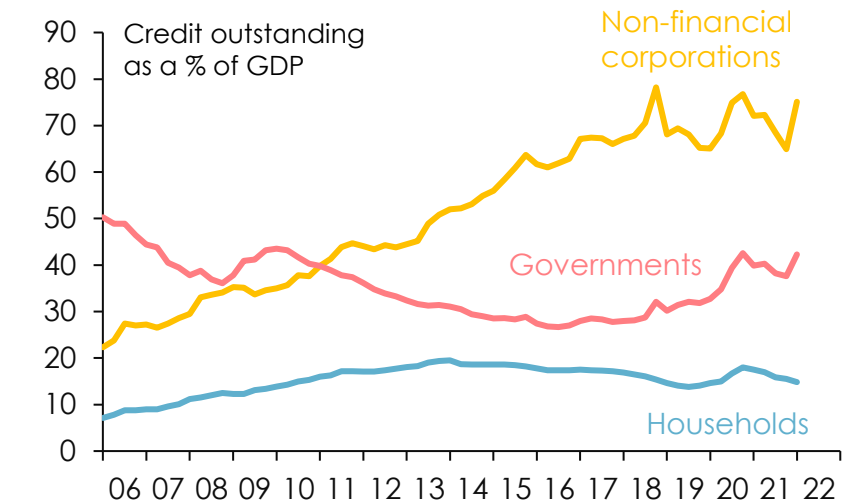
## India



## Russia



## Turkey

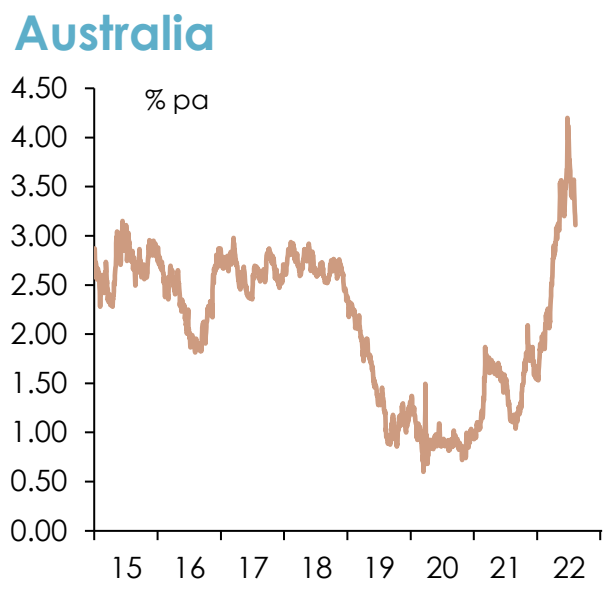
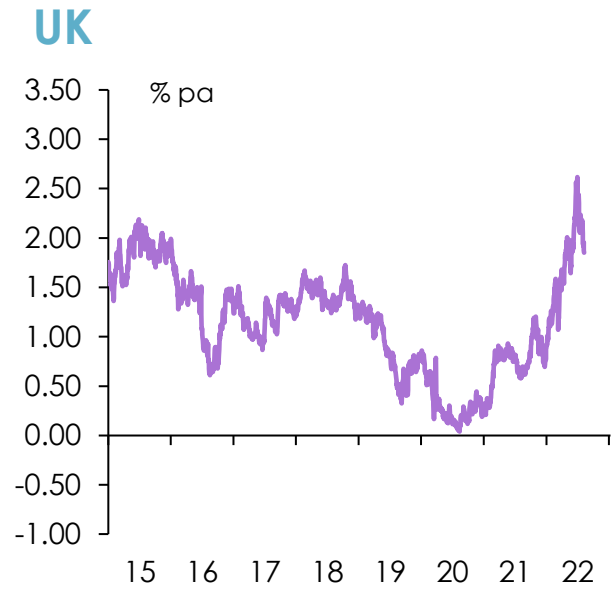
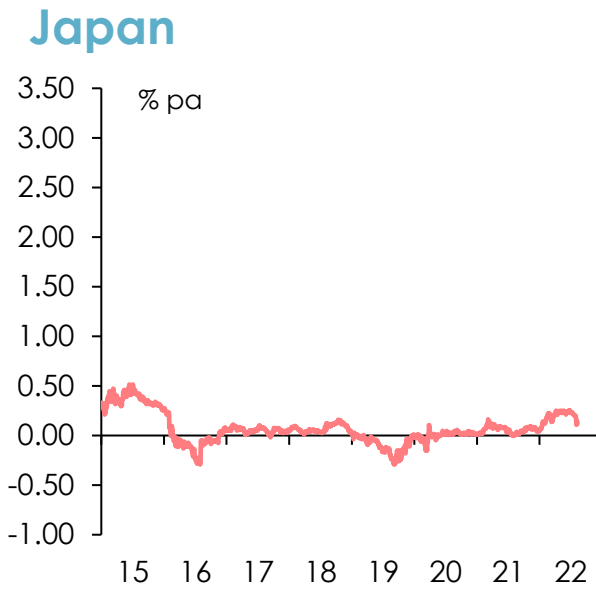
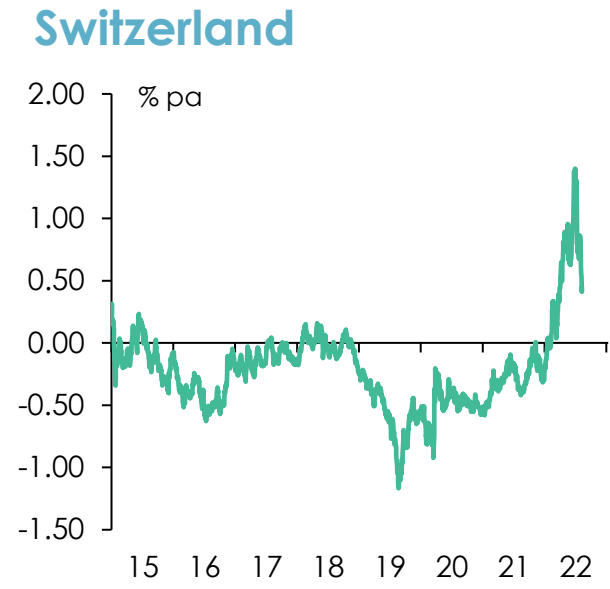
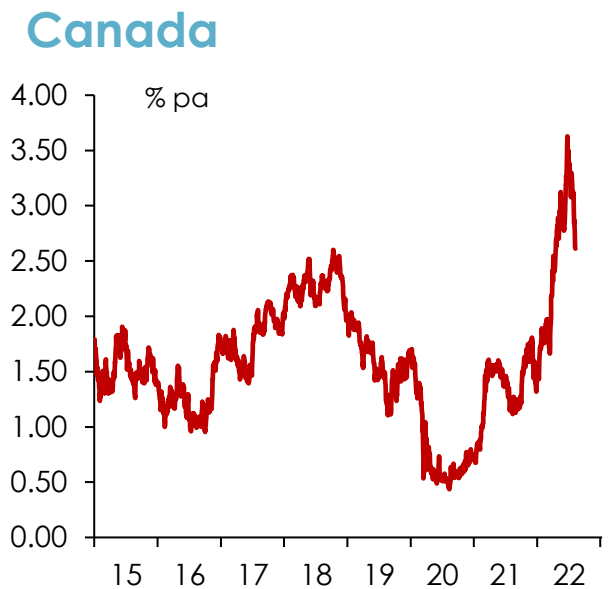
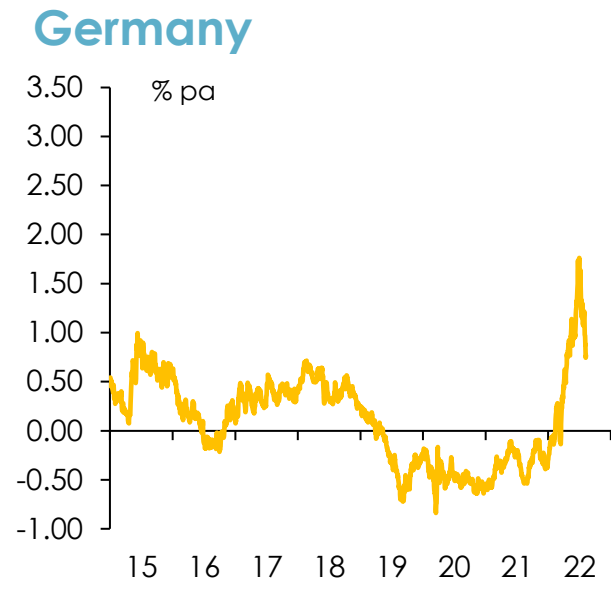
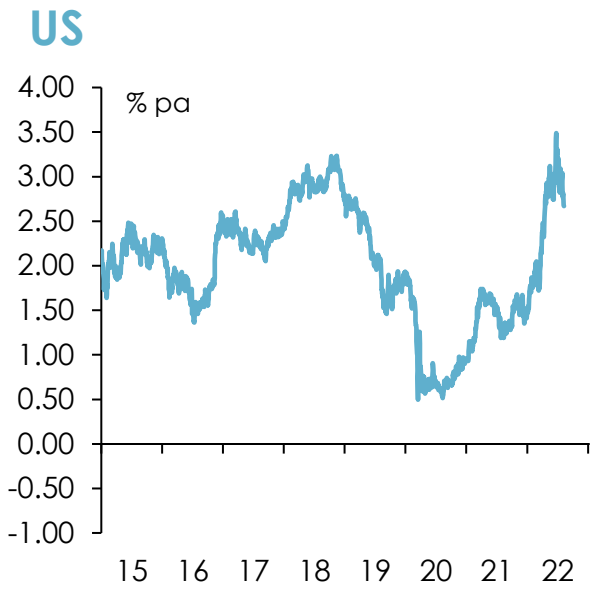


Source: Bank for International Settlements, [Credit Statistics](#); latest data are for Q4 2021, Q1 2022 data will be released in mid-September. For data for other Asian economies see [slide 103](#). [Return to "What's New"](#).



# 10-year bond yields continued their decline last week, as markets increasingly anticipate a global economic downturn

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Note: Data up to 29<sup>th</sup> July. For bond yields in other large euro area member states see [slide 67](#), and for bond yields in Asian economies see [slide 102](#).  
 Source: Refinitiv Datastream. [Return to "What's New"](#).

# 10-year yields also fell in most large emerging markets, except for Turkey (where they fell a lot the previous week)

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## China



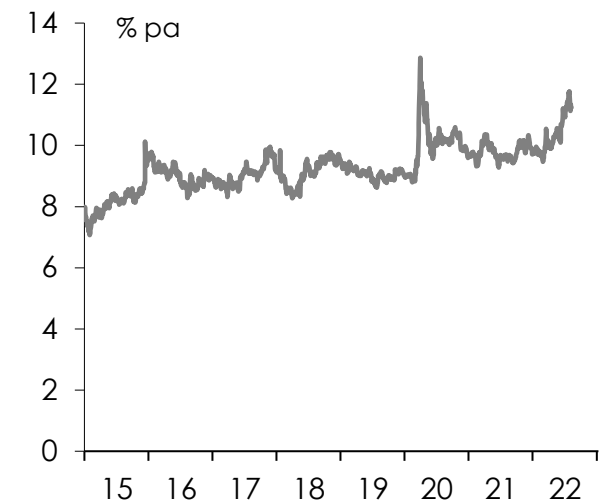
## Brazil



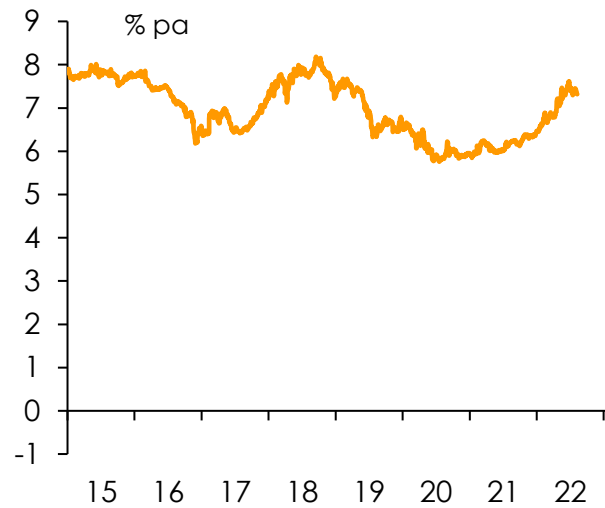
## Russia



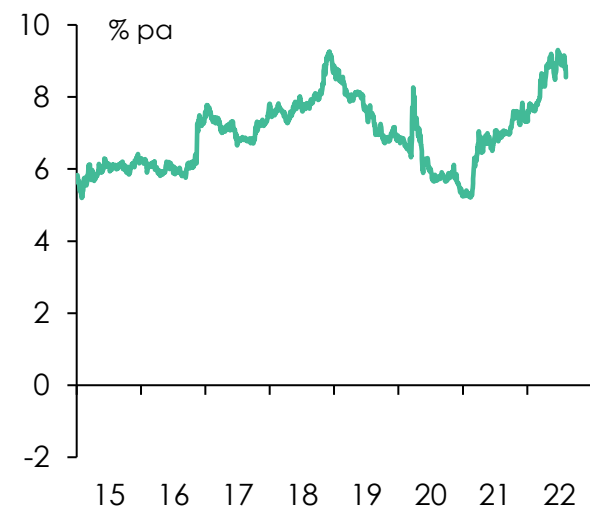
## South Africa



## India



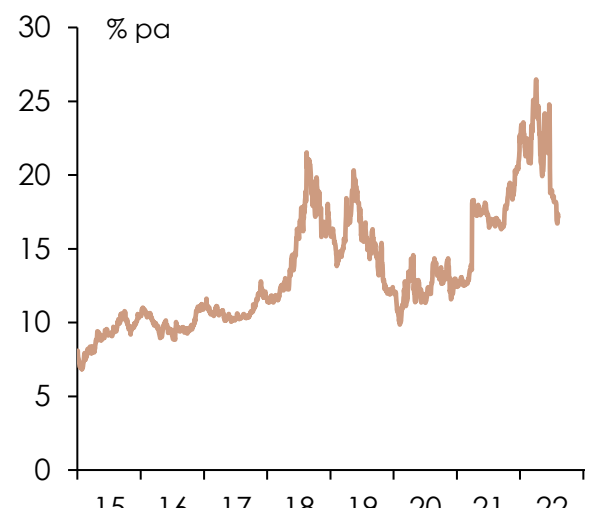
## Mexico



## Hungary



## Turkey



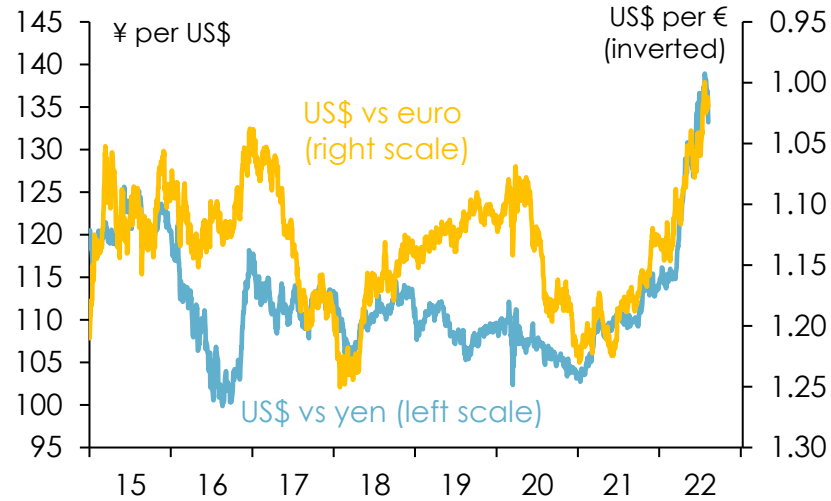
Note: Data up to 29<sup>th</sup> July. For bond yields in other Asian economies see [slide 102](#); and for policy interest rates in other emerging markets see [slide 123](#).

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

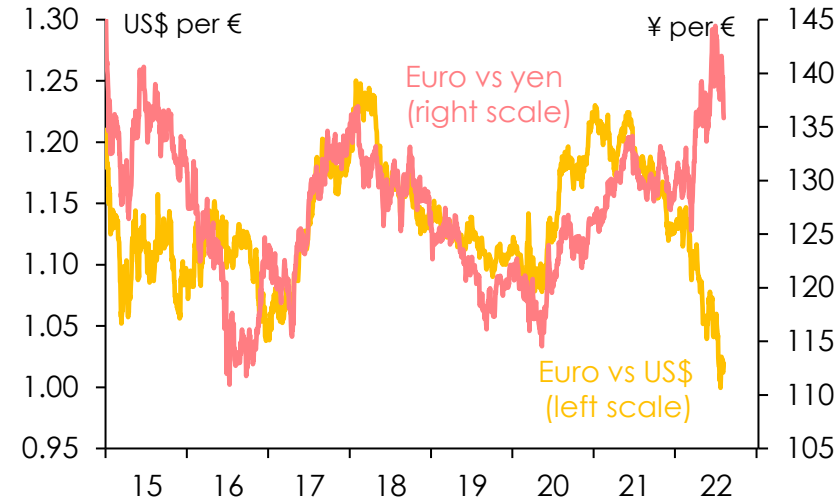
# The US\$ fell another ¾% in trade-weighted terms last week as recession concerns increased, with the yen the biggest beneficiary

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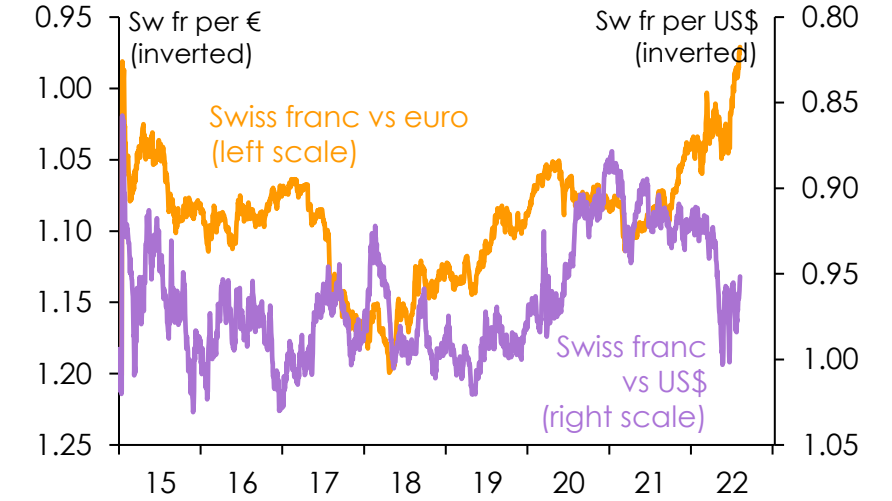
## US dollar



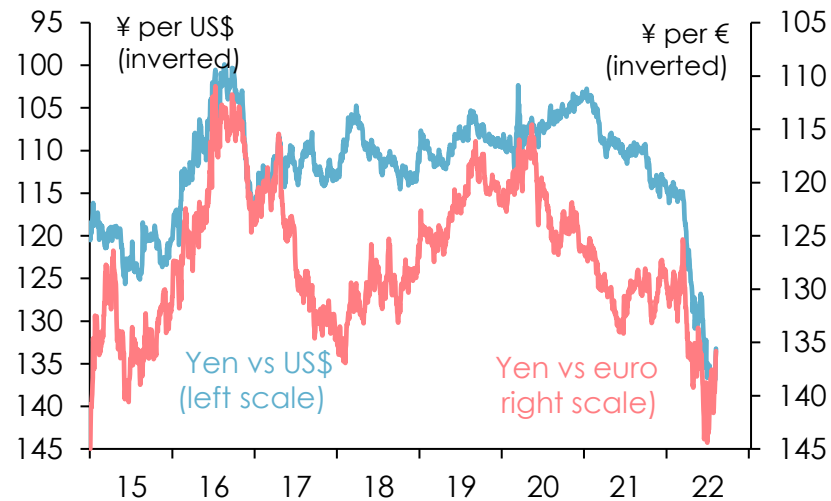
## Euro



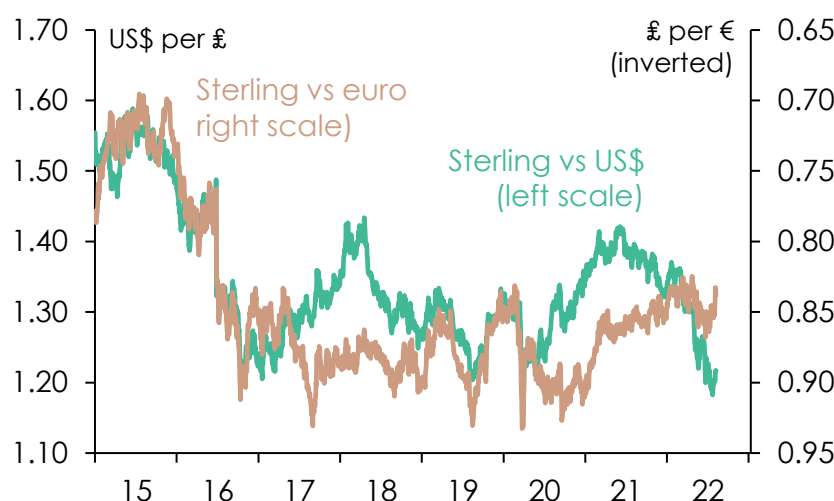
## Swiss franc



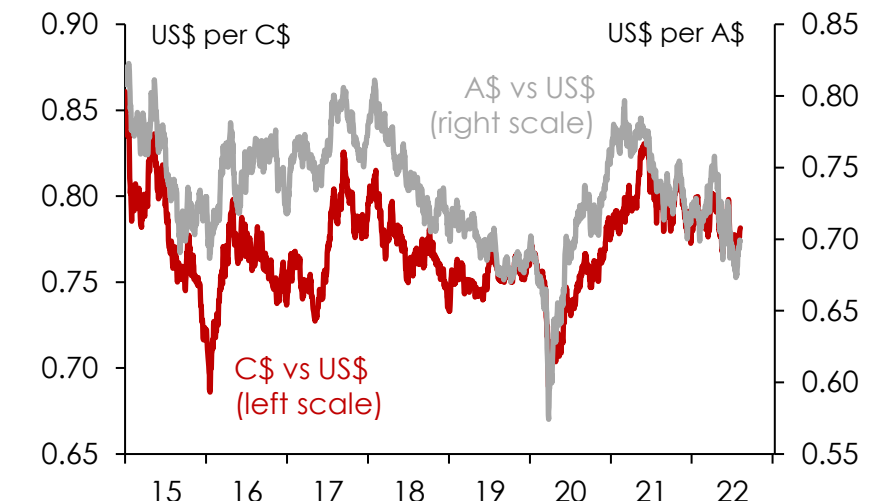
## Japanese yen



## Sterling



## Canadian & Australian dollars

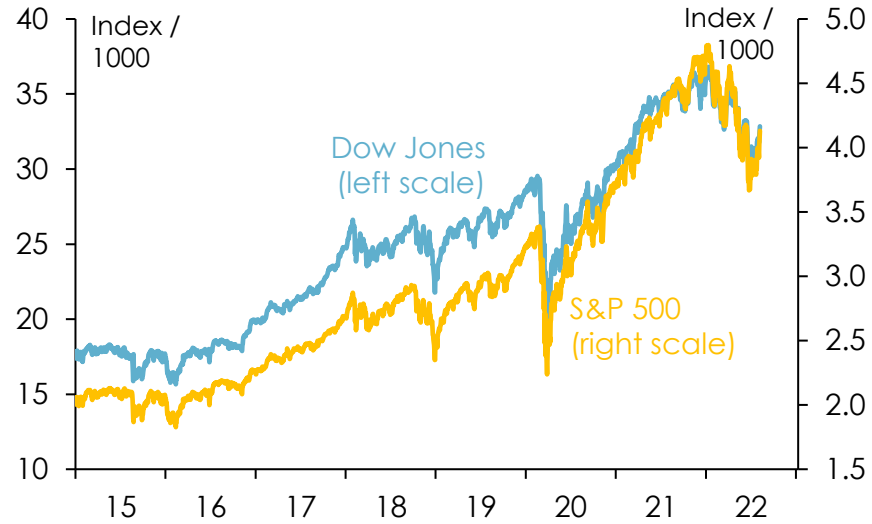


Note: Data up to 29<sup>th</sup> July. For Asian exchange rates see [slide 104](#). Source: Refintiv Datastream. [Return to "What's New"](#).

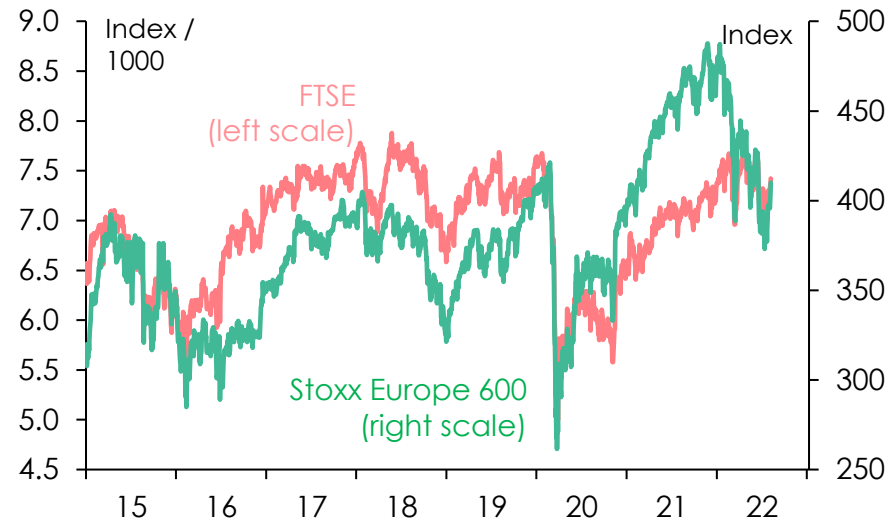
# Stocks continued rising last week (except in Japan & HK), despite recession fears, on hopes that interest rates won't rise as much

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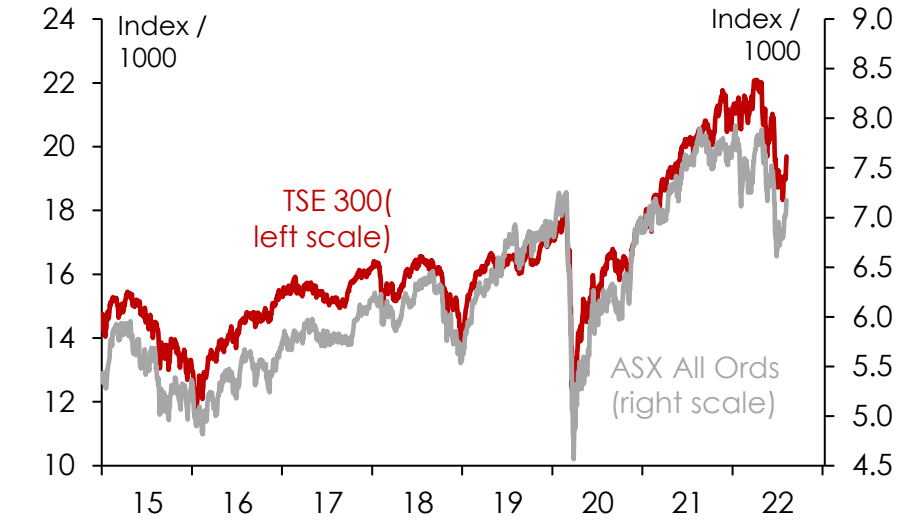
## US stock market



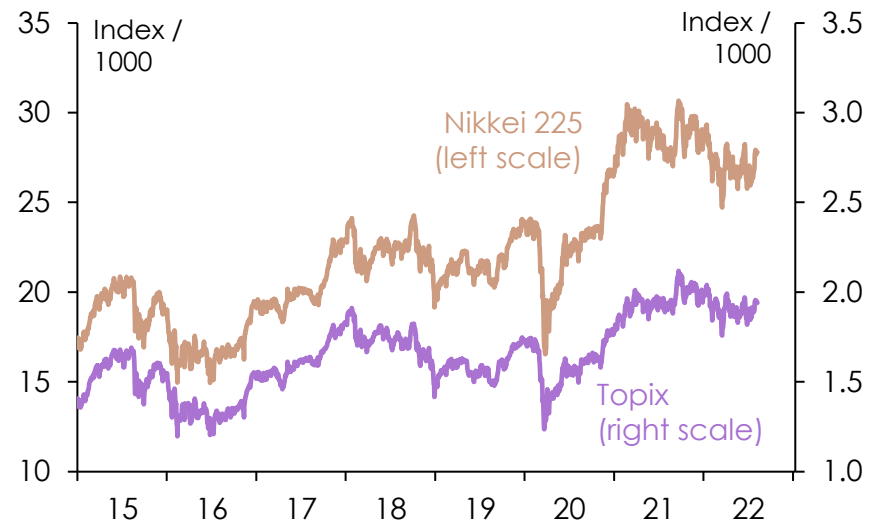
## European stock markets



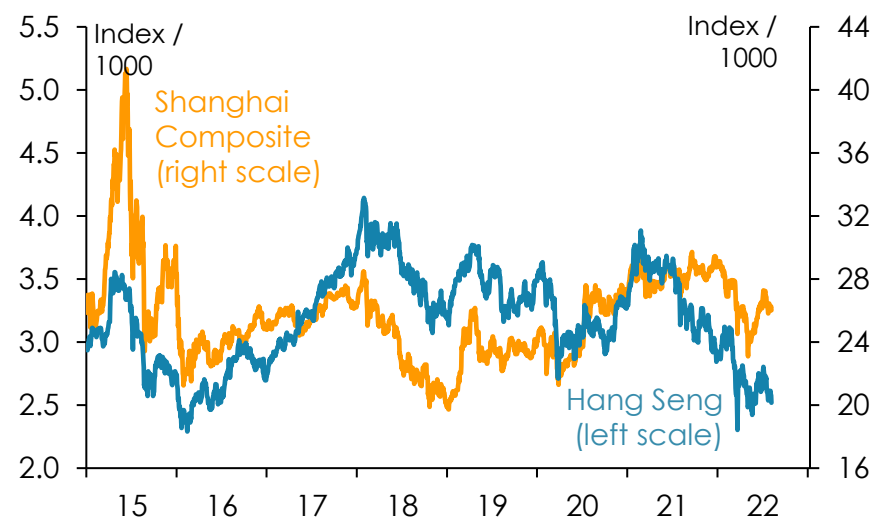
## Canadian & Australian stock markets



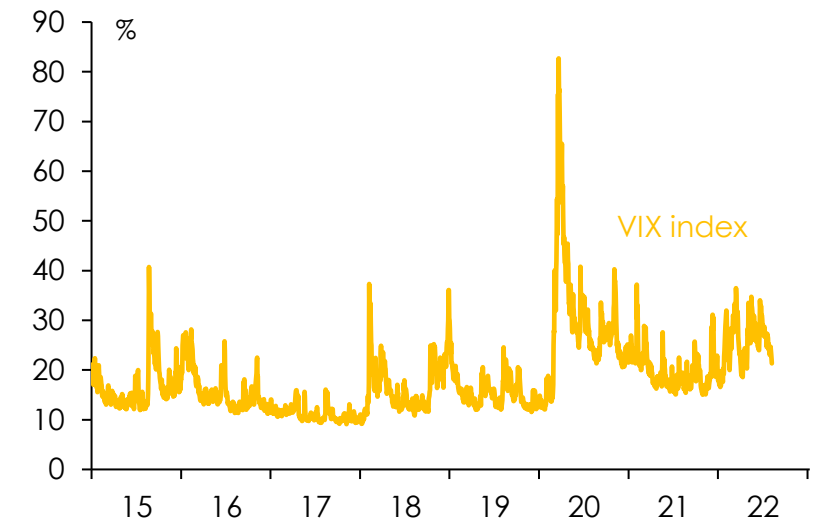
## Japanese stock market



## Chinese & HK stock markets



## Equity market volatility



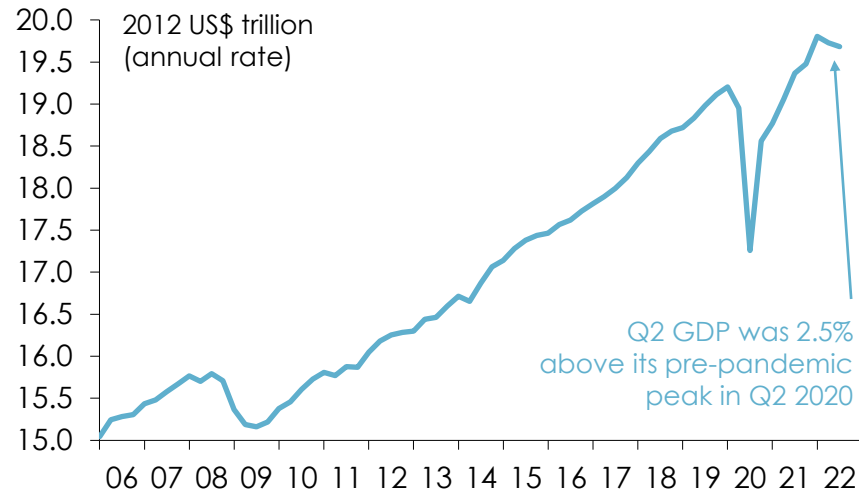
Note: Data up 29<sup>th</sup> July. Source: Refinitiv Datastream. For East Asian stock markets see [slide 105](#). [Return to "What's New"](#).

**The United States**

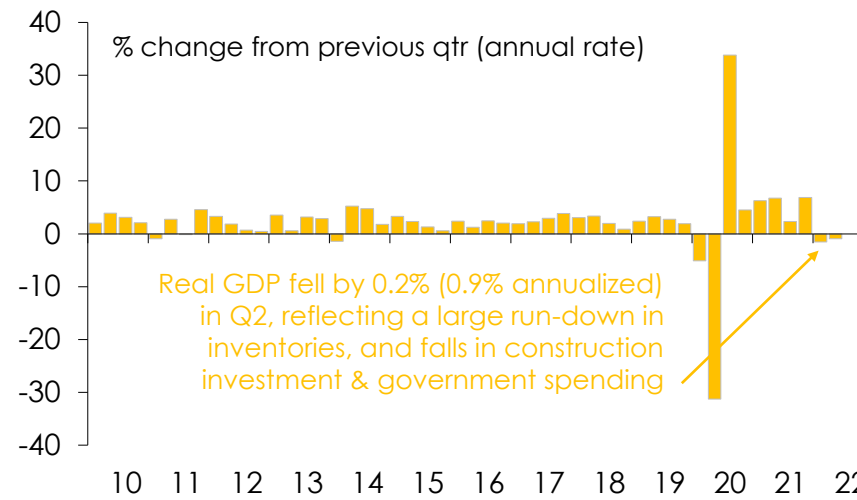
# US real GDP contracted by 0.2% in Q2, the second consecutive decline – driven by a run-down in inventories and sharp falls in construction

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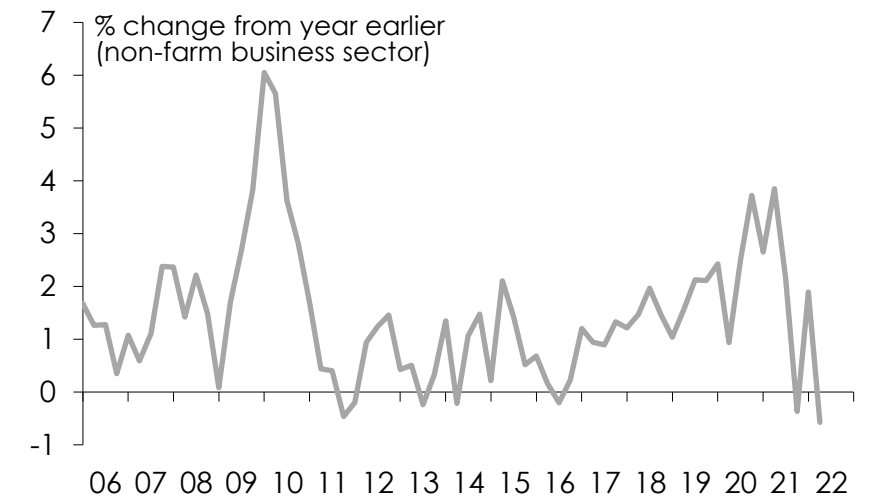
## Level of real GDP



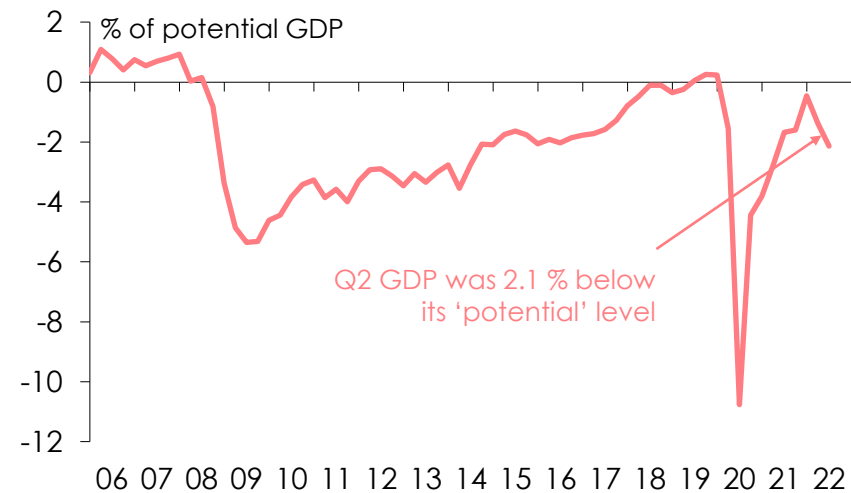
## Quarterly change in real GDP



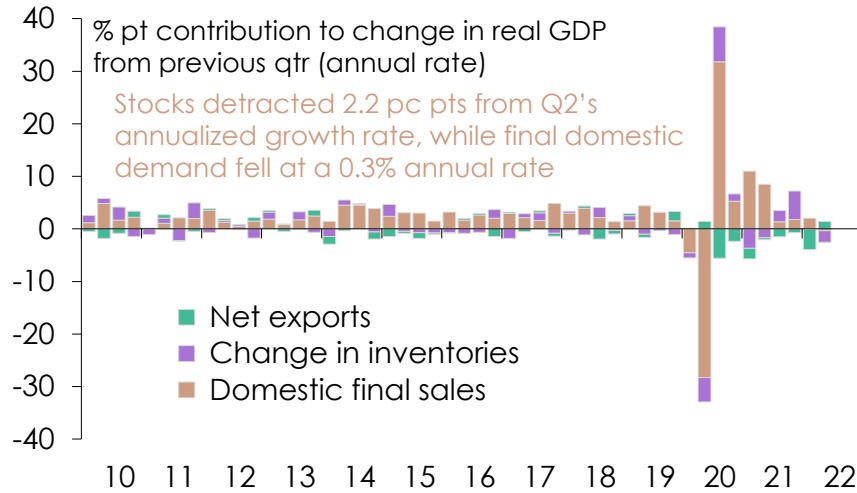
## Labour productivity growth



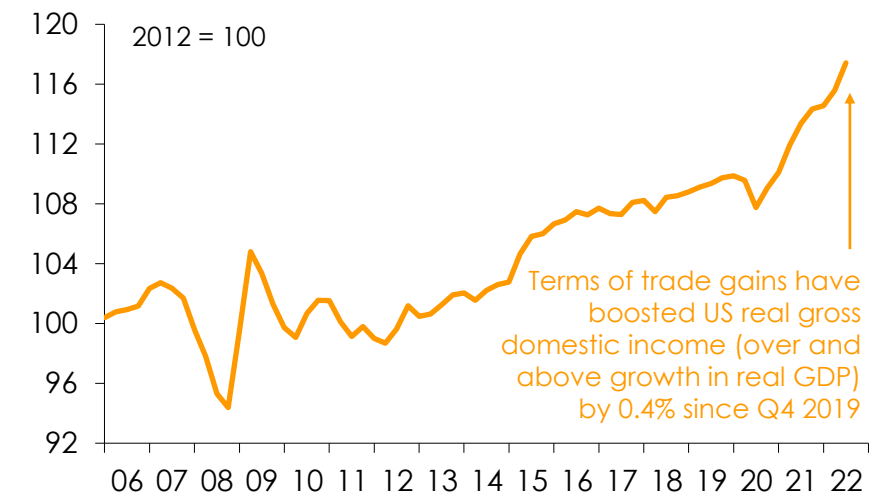
## The 'output gap'



## Contributions to change in real GDP



## Terms of trade



Note: the 'output gap' is the difference between actual and potential GDP (the volume of goods & services that could be produced if the economy were operating at full capacity); the 'terms of trade' is the ratio of the implicit price deflator of exports of goods & services to that of imports of goods & services – it gives an indication of the income gains or losses arising from changes in the prices of goods and services traded between the US and the rest of the world. Sources: 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"](#).

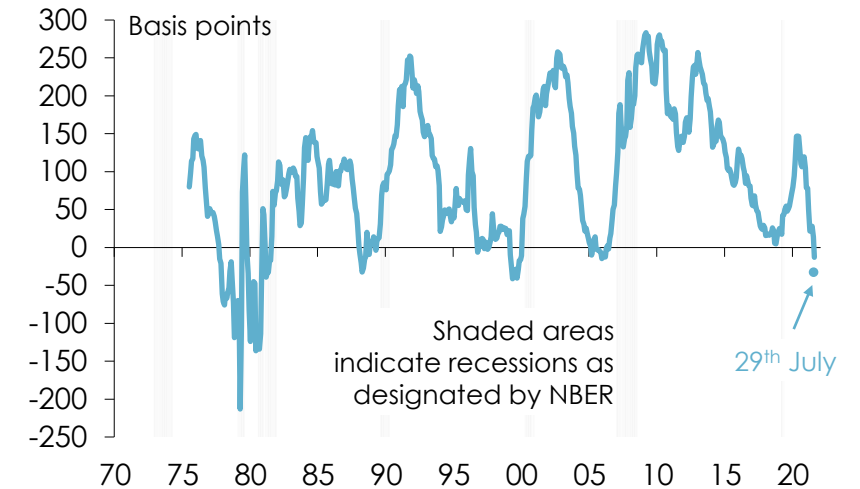


# The US economy was *not* in recession ('technical' or otherwise) in the first half of 2022 – but it could be in the second half, or in 2023

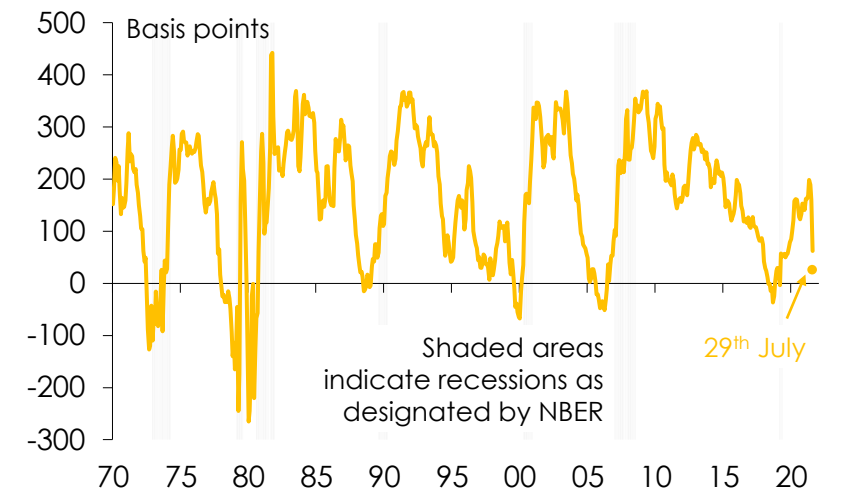
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- ❑ US real GDP contracted at annual rates of 1.6% in Q1 and 0.9% in Q2 which many people interpret as meaning that the US economy was in recession in the first half of this year
- ❑ While this 'rule of thumb' is widely used to identify recessions in many economies, in the US recessions are 'officially' designated by the [Business Cycle Dating Committee](#) of the [National Bureau of Economic Research](#) (an academic body).
- ❑ This Committee defines a recession as "the period between a peak of economic activity and its subsequent trough, or lowest point" which "involves a significant decline in economic activity that is spread across the economy and lasts more than a few months"
- ❑ The Committee [explicitly rejects](#) the two-or-more-quarters-of consecutive-contractions-in-real-GDP 'rule of thumb' as a 'definition' of recession
  - noting that "real GDP could decline by relatively small amounts in two consecutive quarters without warranting the determination that a peak had occurred" (which would appear to apply in this instance"
  - more broadly, it notes that "we do not identify economic activity solely with real GDP, but consider a range of indicators" (including real personal income and expenditure, employment, real wholesale & retail sales, and industrial production, as well as the income side of the national accounts)
- ❑ 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
  - employment *increased* by an average of 457K (0.3%) per month during the first half of this year, and the unemployment rate *fell* from 4.0% in January to 3.6% in April-June ([slide 49](#))
- ❑ However, there is clearly a growing risk that the US economy could fall into a recession by this definition (or according to the NBER-BCD criteria) over the next 6-18 months
  - the 10yr / 2yr yield curve has inverted (although the 10yr / 3mth curve hasn't – yet)
  - a growing number of survey-based and 'leading' indicators of US economic activity are presaging a significant slowdown or outright contraction ([slide 44](#))

## 10-year / 2-year yield spread



## 10-year / 3-month yield spread

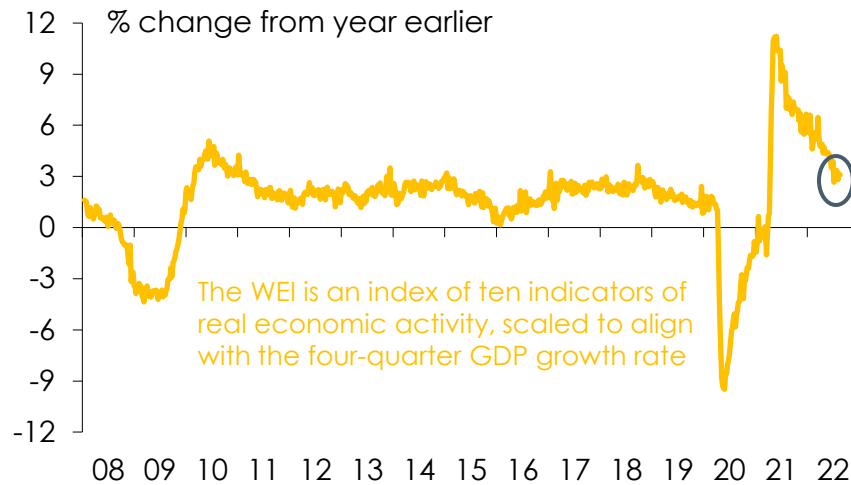


[Return to "What's New".](#)

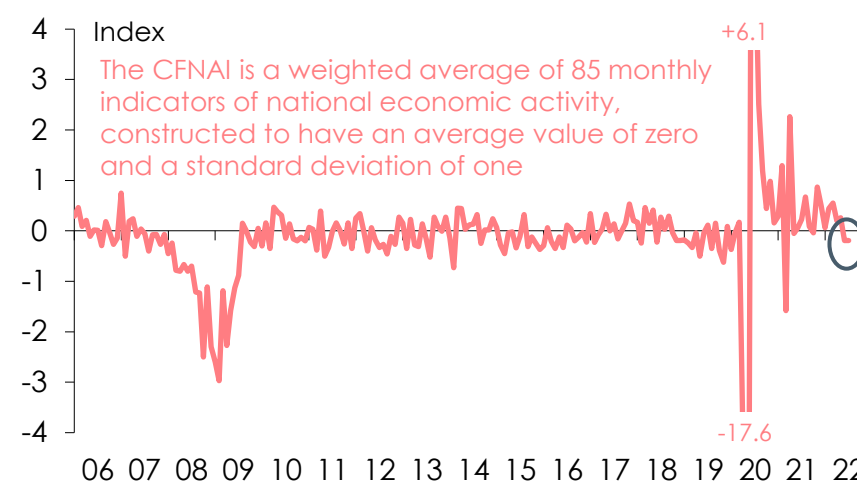
# A growing number of activity surveys and leading indicators are starting to warn of a sharp slowdown or outright contraction in US economic activity

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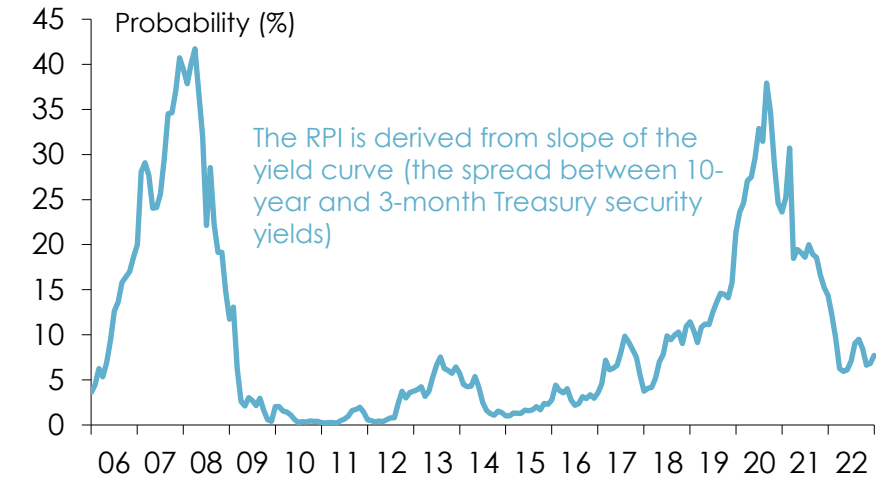
## NY Fed weekly economic index



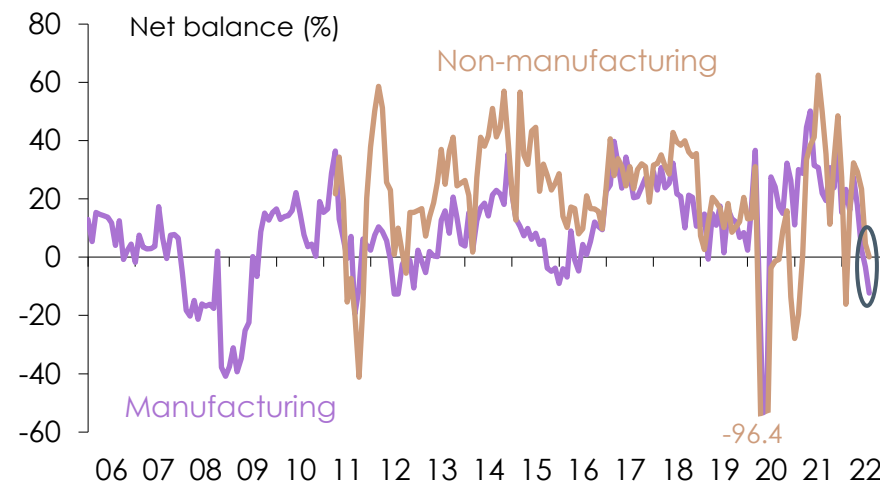
## Chicago Fed national activity index



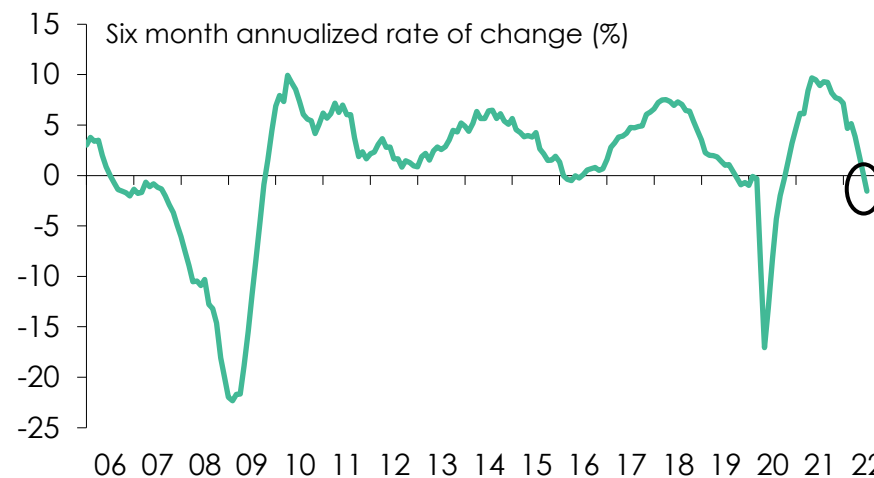
## NY Fed recession probability index



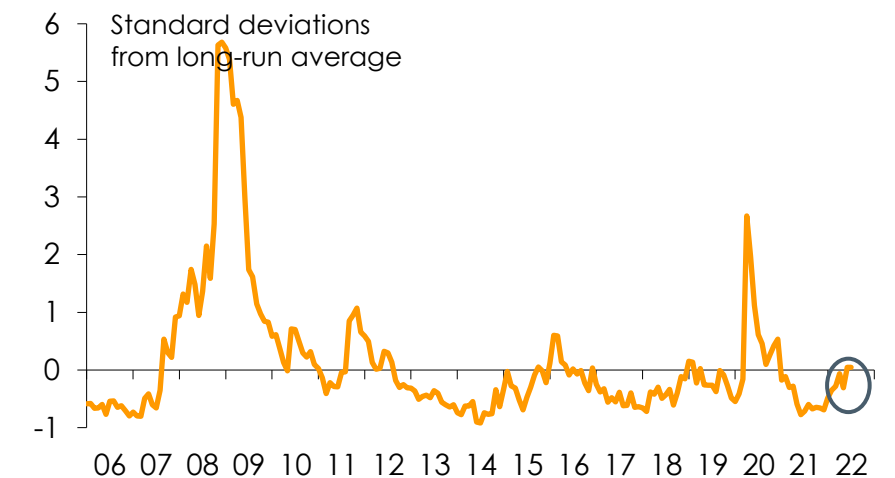
## 'Philly Fed' business outlook survey



## Conference Board leading indicators



## Kansas City Fed financial stress index

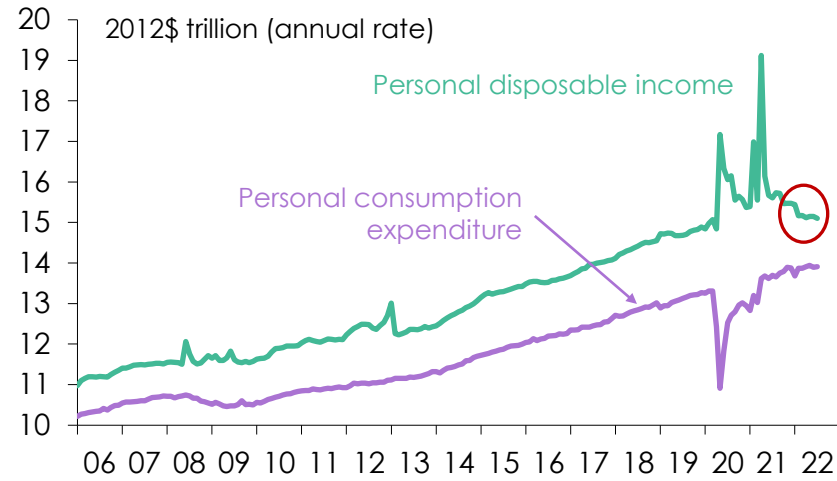


Sources: Federal Reserve Bank of New York, [Weekly Economic Index](#) and [The Yield Curve as a Leading Indicator](#); Federal Reserve Bank of Philadelphia, [Regional Economic Analysis](#), Manufacturing and Non-Manufacturing Business Outlook Surveys; Federal Reserve Bank of Chicago, [Chicago Fed National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

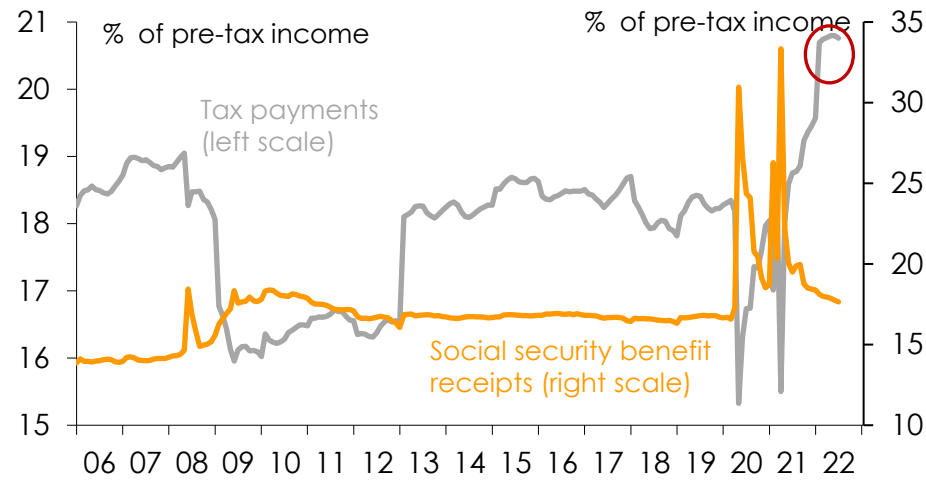
# US personal disposable income has been squeezed by rising inflation & tax payments, forcing households to cut saving in order to maintain spending

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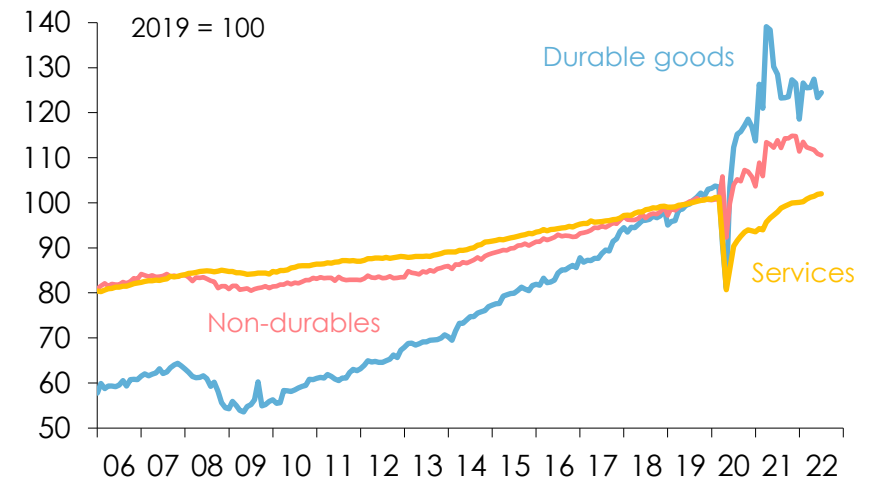
## Personal income and expenditure



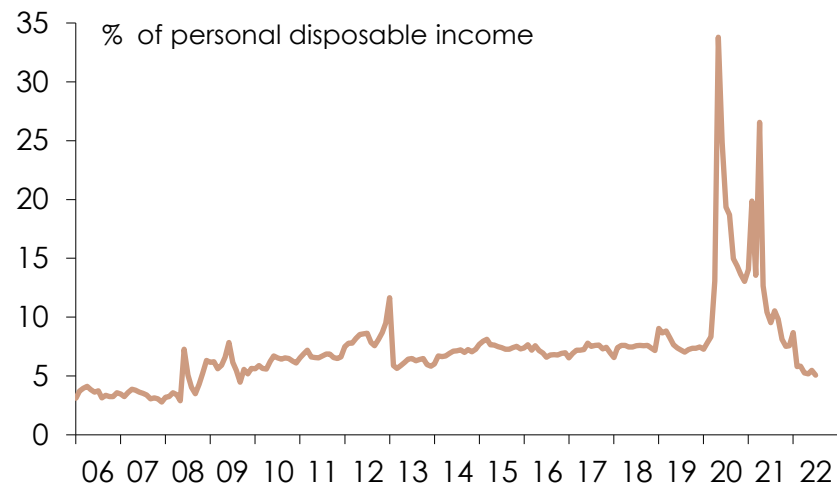
## Tax and social security



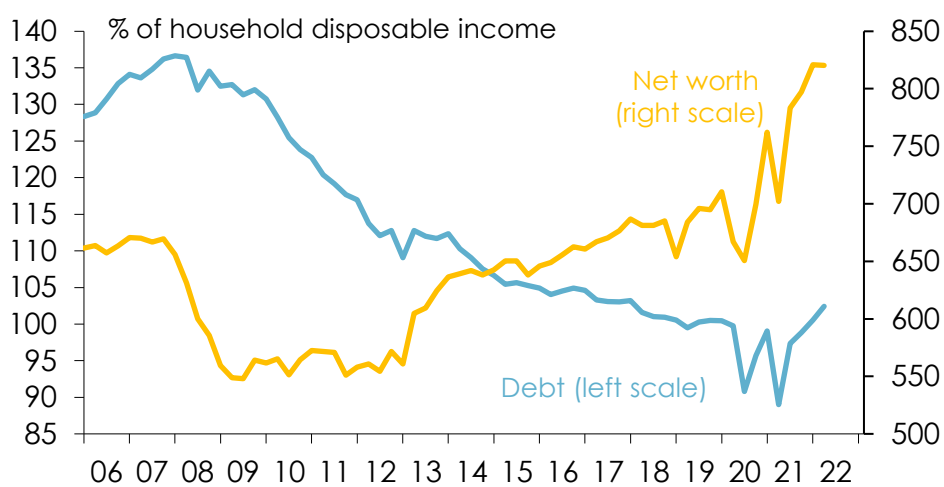
## Personal consumption expenditure



## Personal saving rate



## Household debt and net worth



## Spending on energy

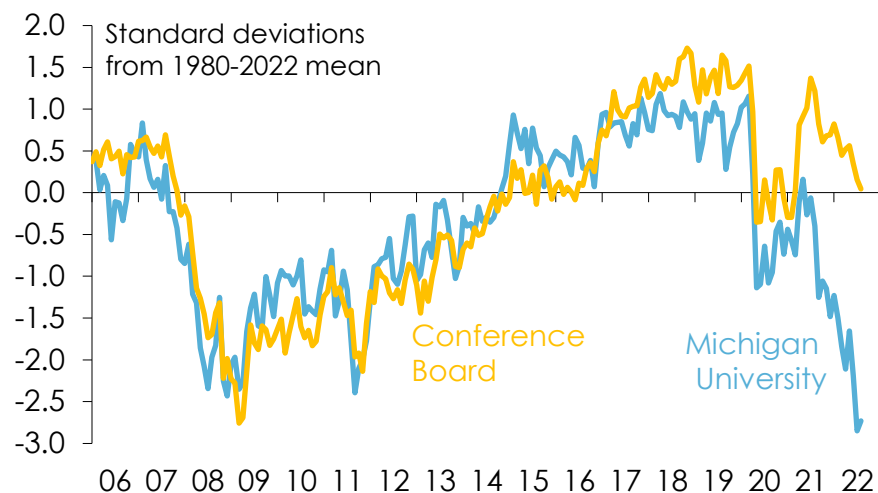


Note: data on personal income, spending and saving are monthly; data on debt and net worth are quarterly. Sources: US Bureau of Economic Analysis, [Gross Domestic Product](#), [Consumer Spending](#) and [Income and Saving](#); US Federal Reserve, [Financial Accounts of the United States - Z1](#). [Return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

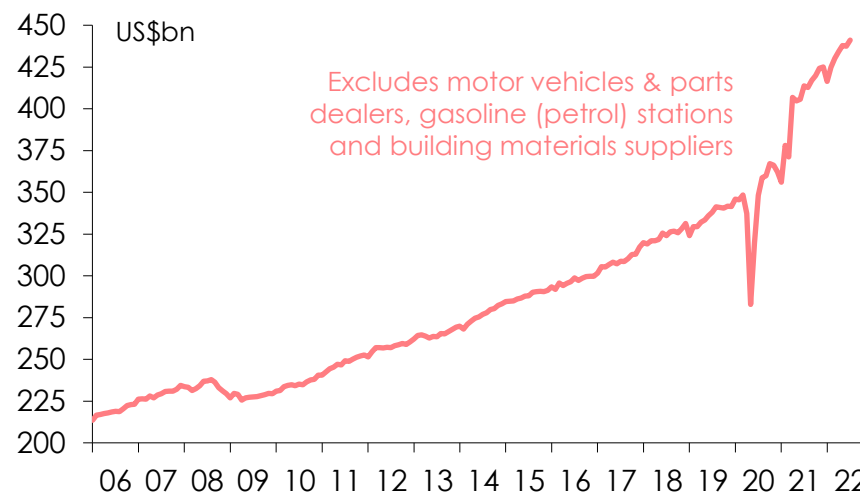
# Consumer confidence has fallen sharply in recent months – although it didn't fall any further in early July, and 'core' retail sales rose 0.8% in June

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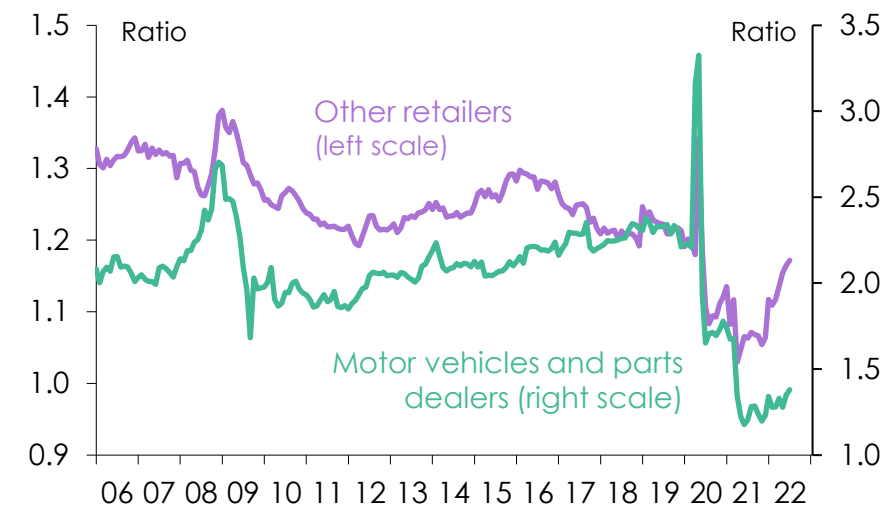
## Consumer sentiment



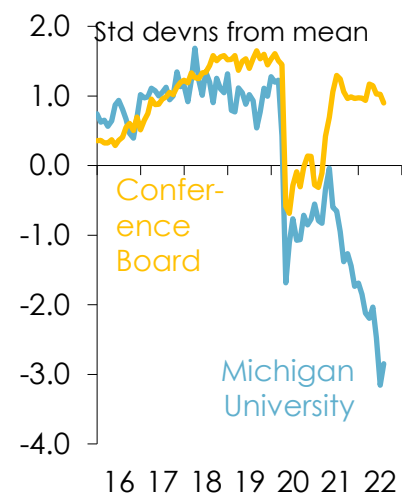
## Level of 'core' retail sales



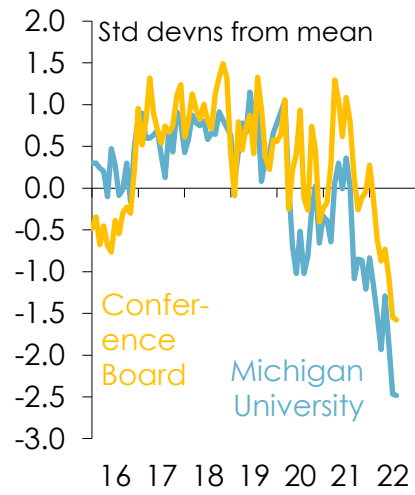
## Retail inventories-sales ratios



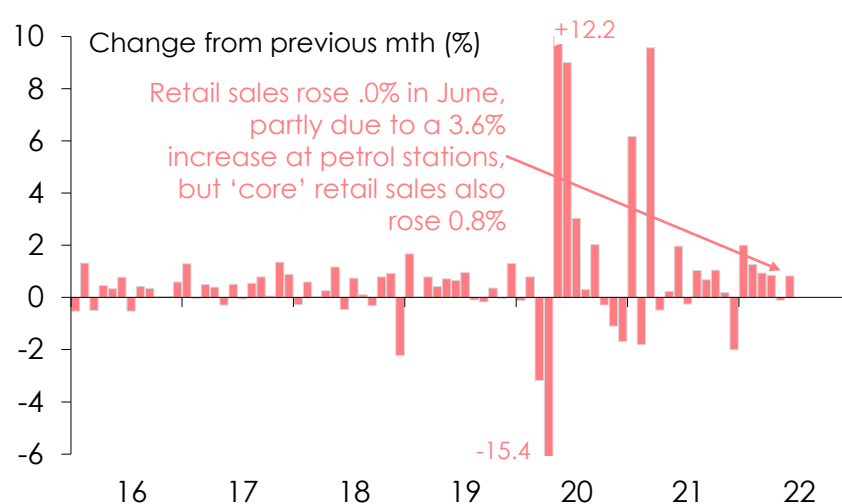
## Present situation



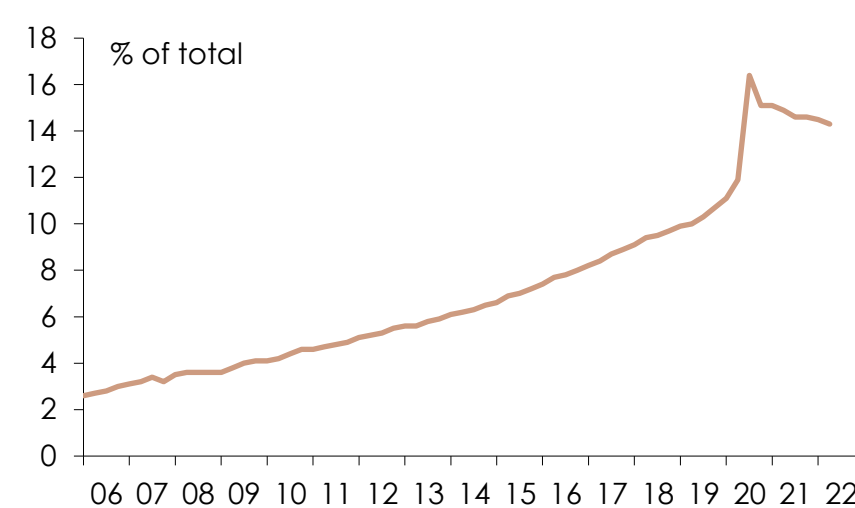
## Expectations



## Monthly changes in 'core' retail sales



## On-line retail sales

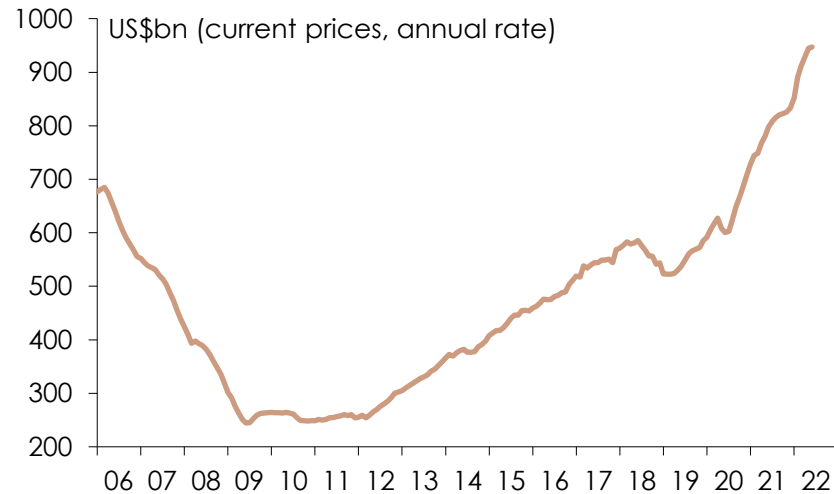


Note: The Michigan University measure of consumer sentiment gives greater weight to inflation, while the Conference Board measure gives greater weight to employment and unemployment. 'Core' retail sales excludes motor vehicles, petrol stations and building materials stores. Sources: Michigan University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

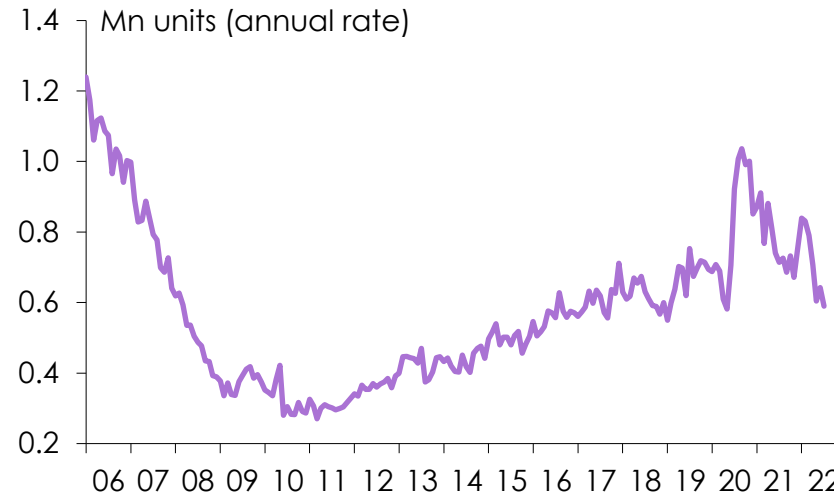
# New home sales in June were at their lowest level since April 2020, while house price inflation finally seems to be slowing

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## Housing construction spending



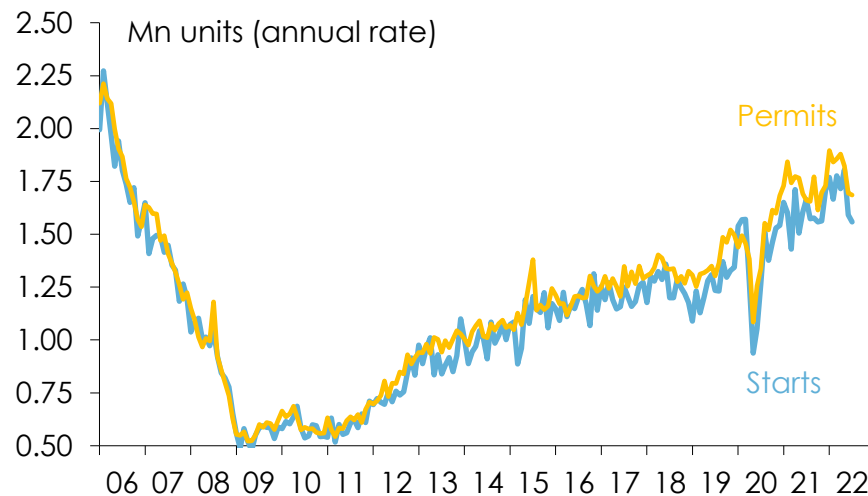
## New single-family home sales



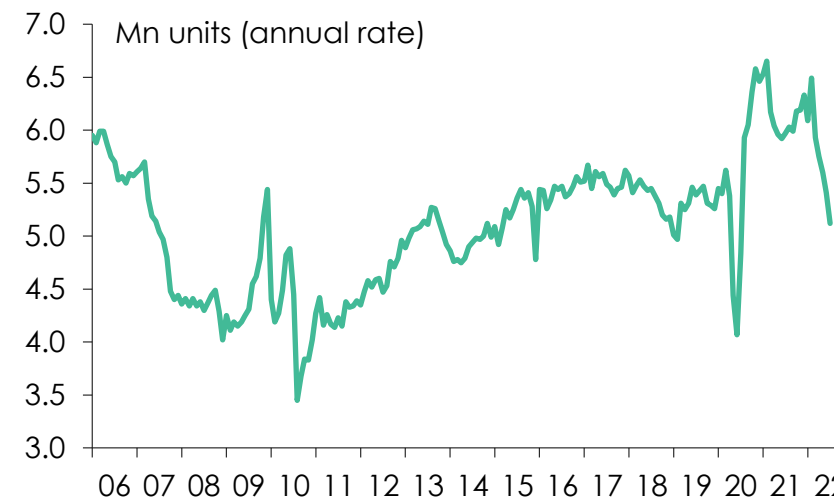
## 30-year fixed mortgage rates



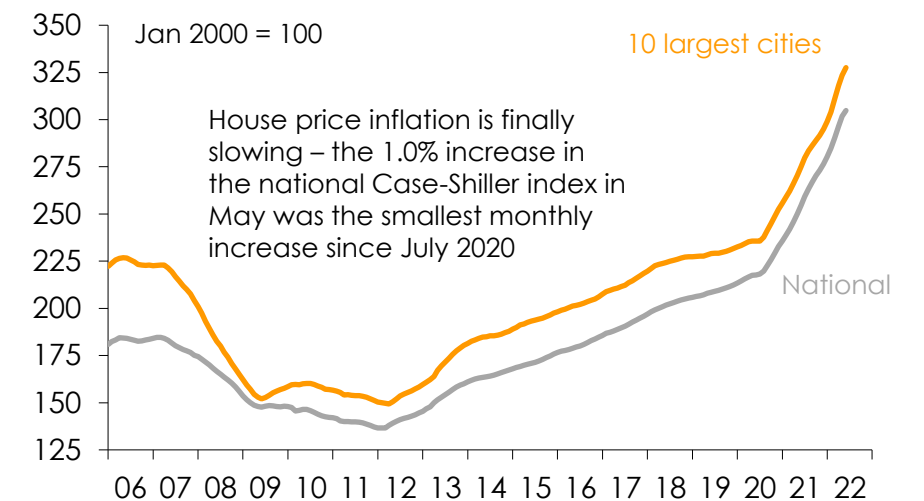
## Housing starts and permits



## Existing home sales



## House prices



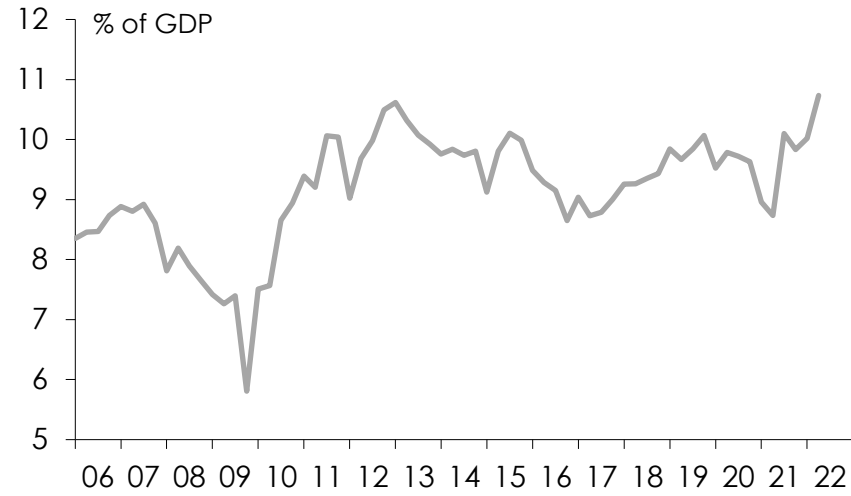
Sources: US Census Bureau, [Construction Spending](#), [New residential construction](#) and [New Residential Sales](#); US National Association of Realtors, [Existing-Home Sales](#); Mortgage Bankers' Association, [National Delinquency Survey](#); S&P Global, [S&P CoreLogic Case-Shiller Home Price Indices](#).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



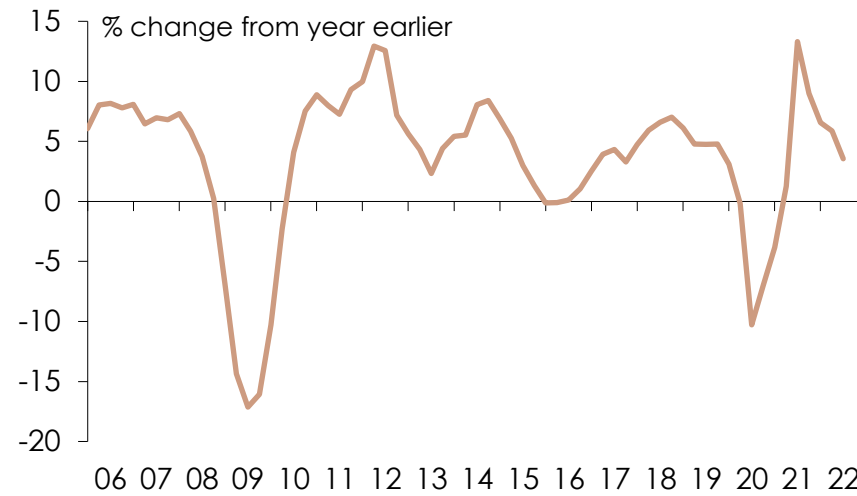
# US corporate profits and balance sheets are strong, and investment is increasing – except in non-residential construction

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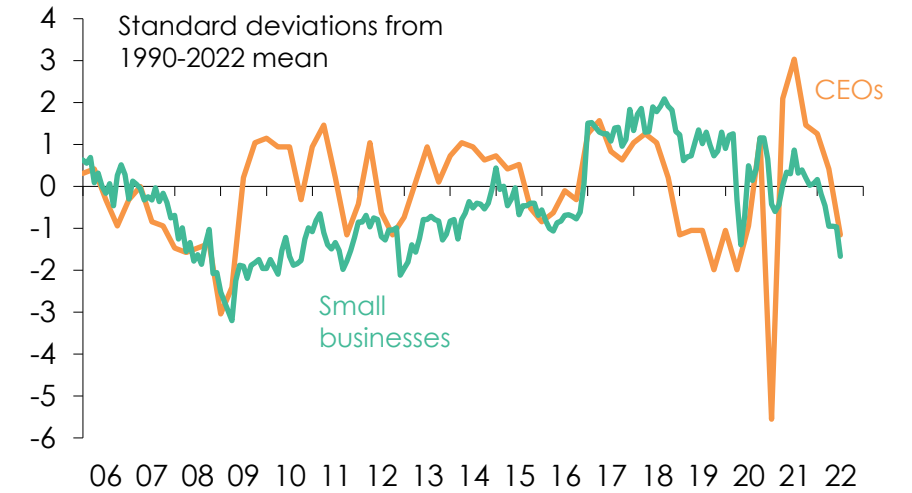
## After-tax corporate profits



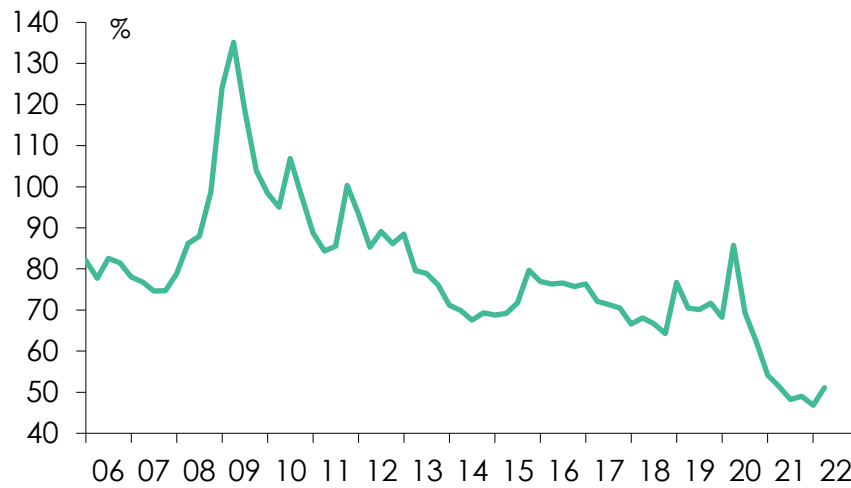
## Business investment



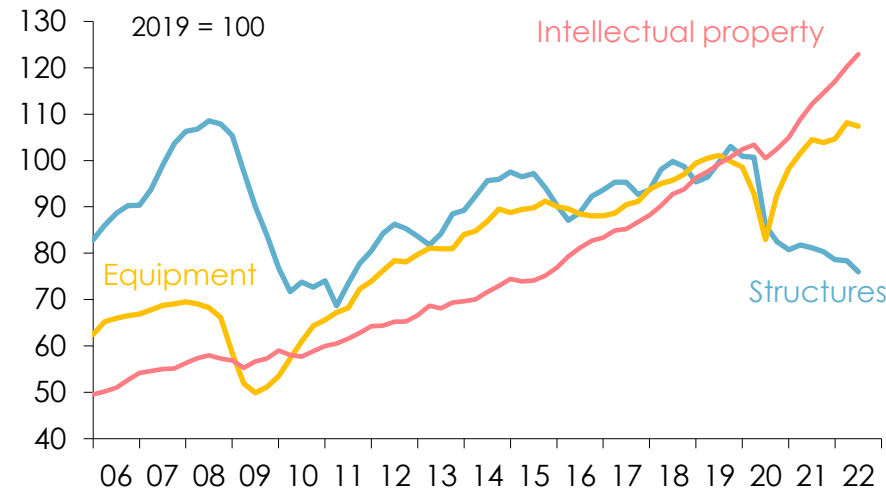
## Business confidence



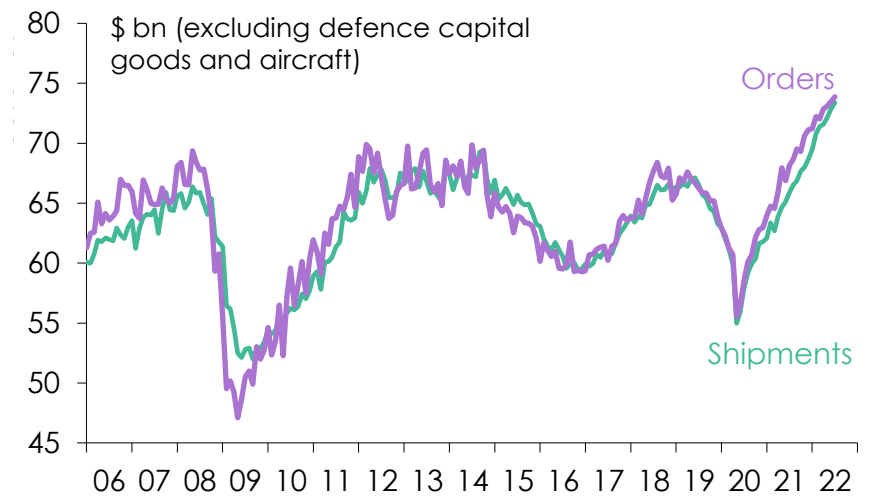
## Corporate debt-equity ratio



## Business investment by type



## Capital goods orders & shipments



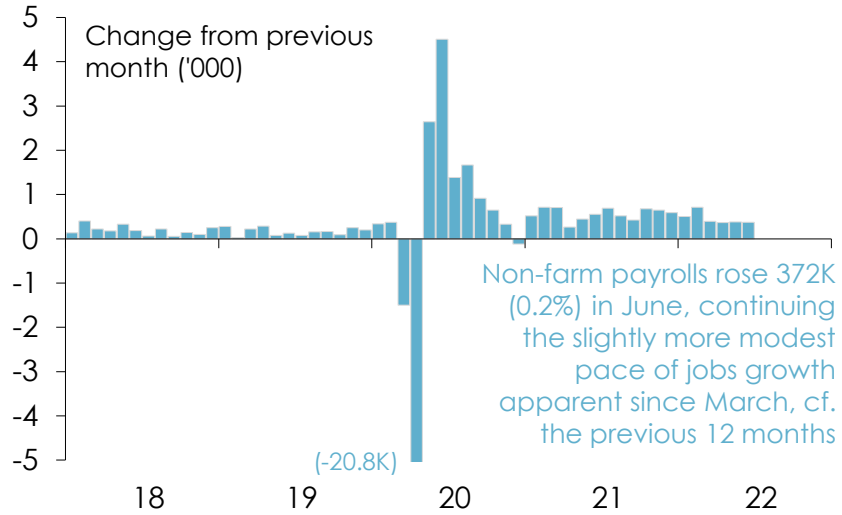
Sources: US Bureau of Economic Analysis, [Gross Domestic Product](#); US Federal Reserve, [Financial Accounts of the United States - Z1](#); The Conference Board, [US CEO Confidence](#); National Federation of Independent Business, [Small Business Economic Trends](#); US Commerce Department, [Manufacturers'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



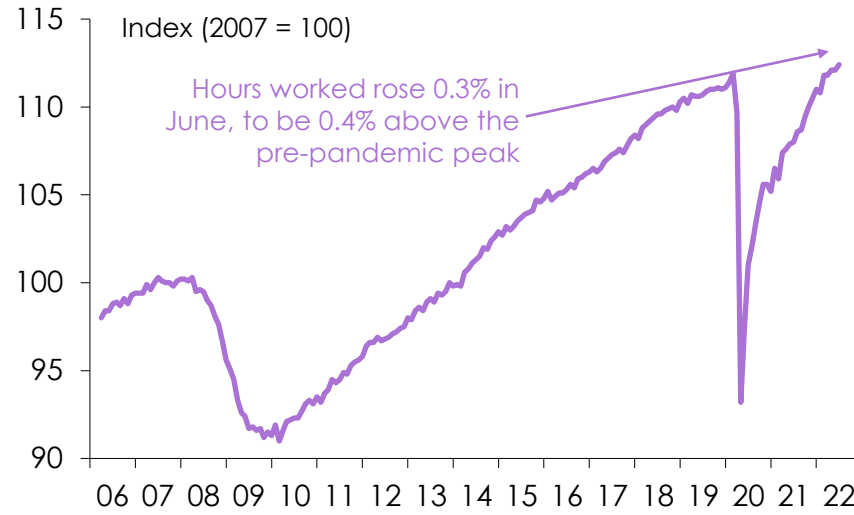
# Initial claims for unemployment insurance benefits have been trending up since mid-March, which may portend a softening in the US labour market

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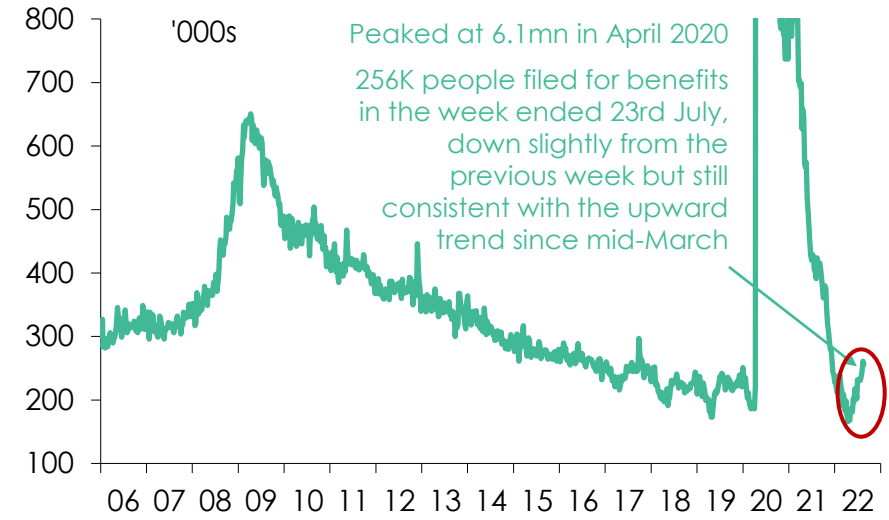
## Non-farm payroll employment



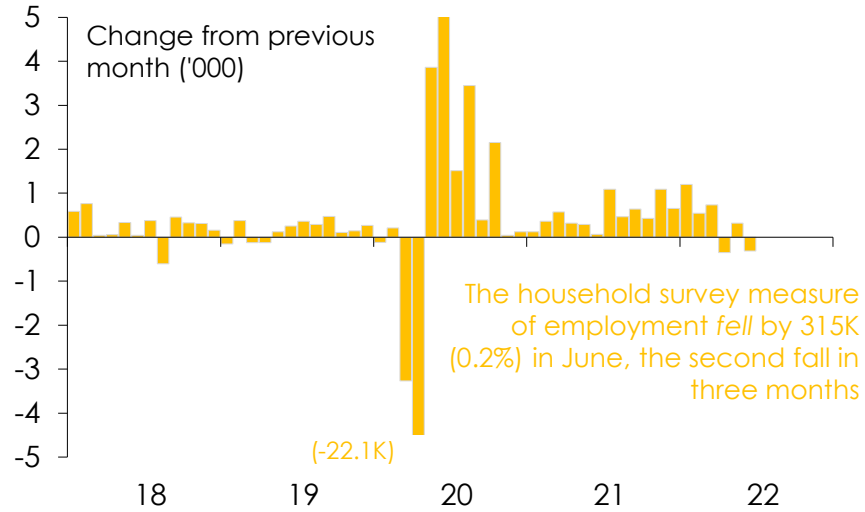
## Hours worked (private sector)



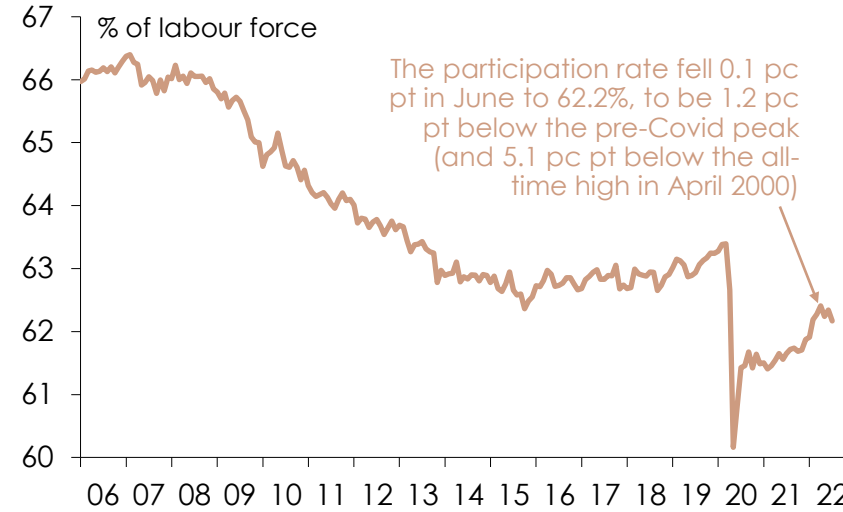
## Unemployment benefit initial claims



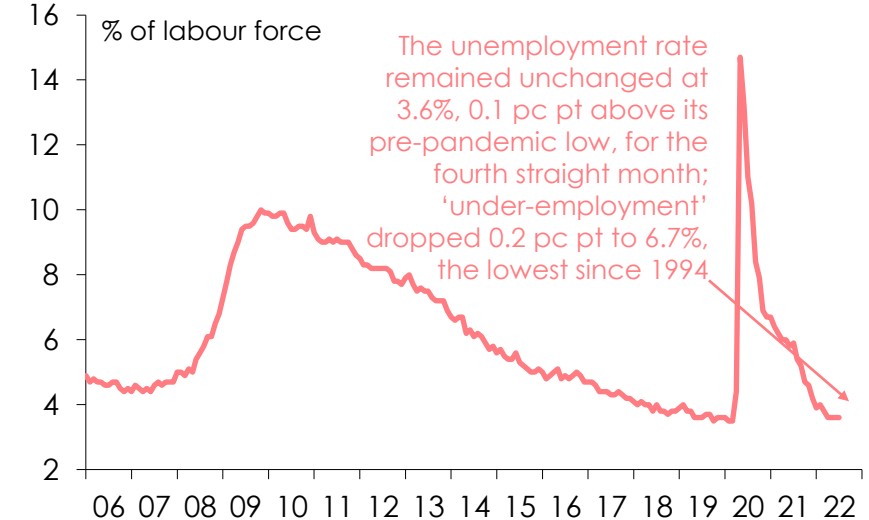
## Household survey employment



## Labour force participation rate



## Unemployment rate

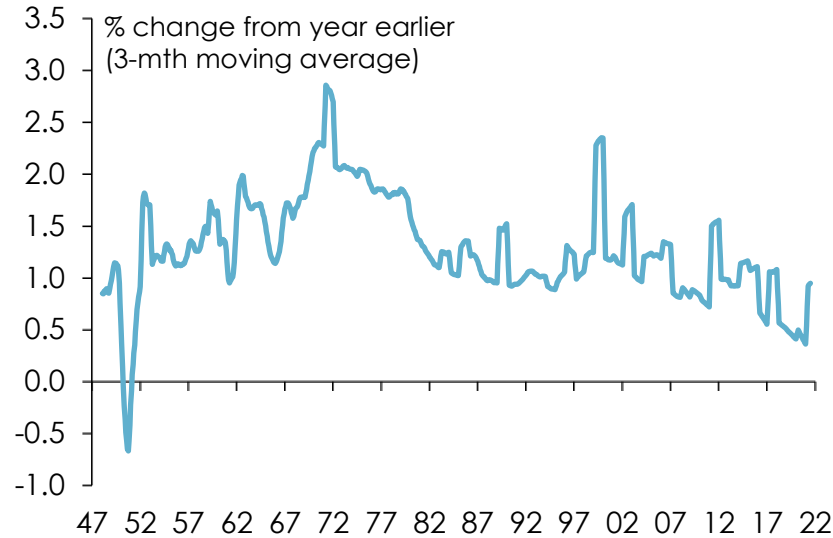


Sources: US Bureau of Labor Statistics, [Employment Situation](#); US Department of Labor, [Unemployment Insurance Weekly Claims](#). [Return to "What's New"](#).

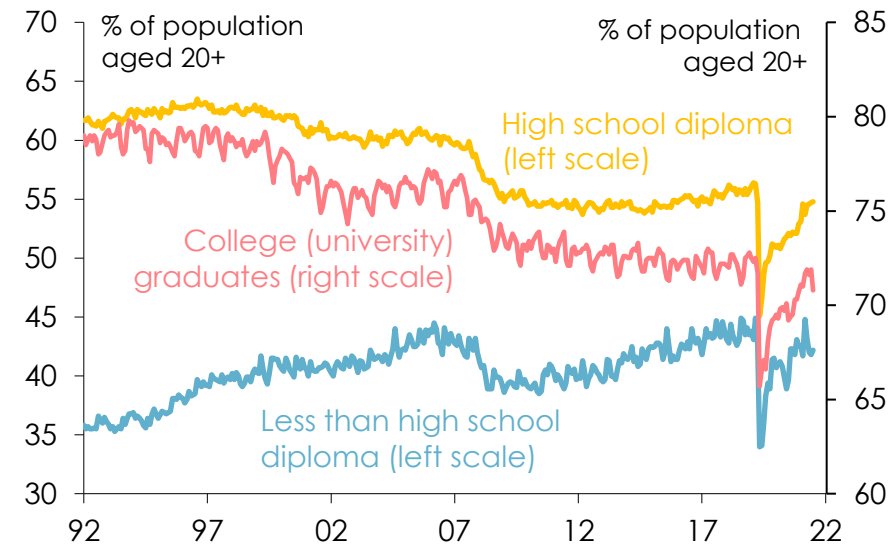
# US labour market tightness owes much to a persistent shortfall in labour force participation, especially among people aged 55 and over

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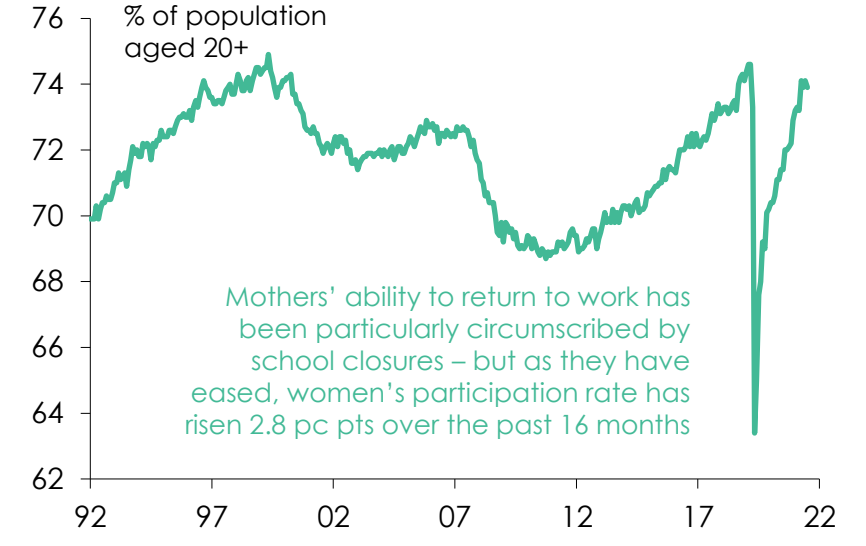
## Civilian working age population



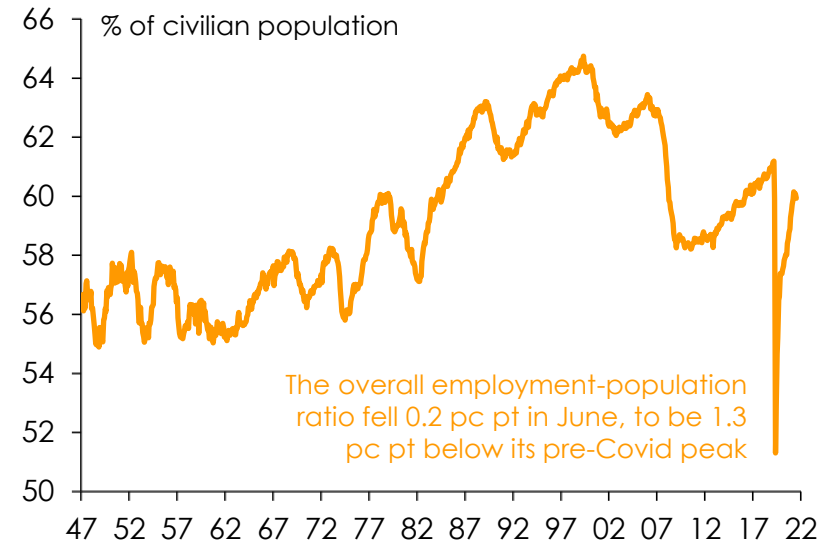
## 'E-pop' ratio – by education



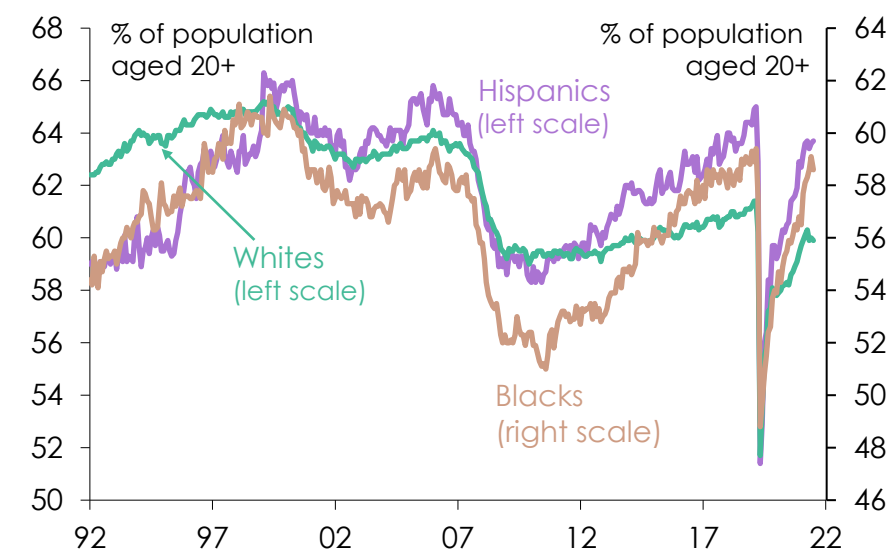
## 'E-pop' ratio – women 25-54



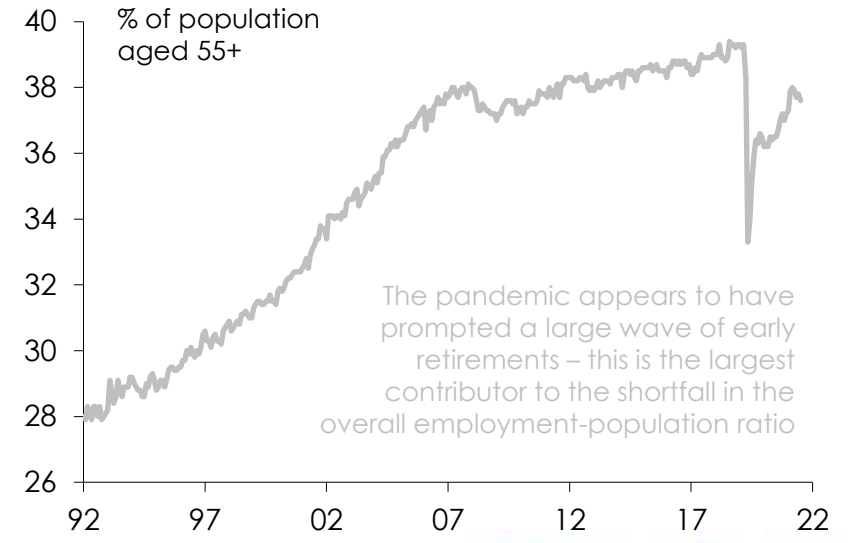
## Employment-to-population ratio



## 'E-Pop' ratio – Blacks & Hispanics



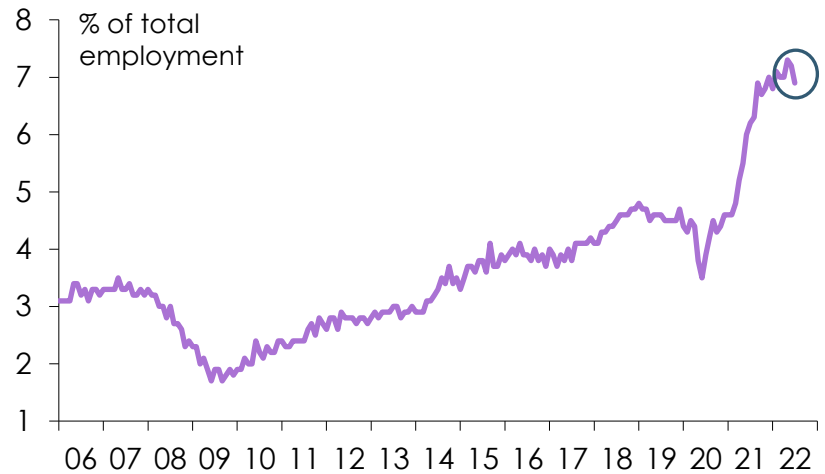
## 'E-pop' ratio – people 55 & over



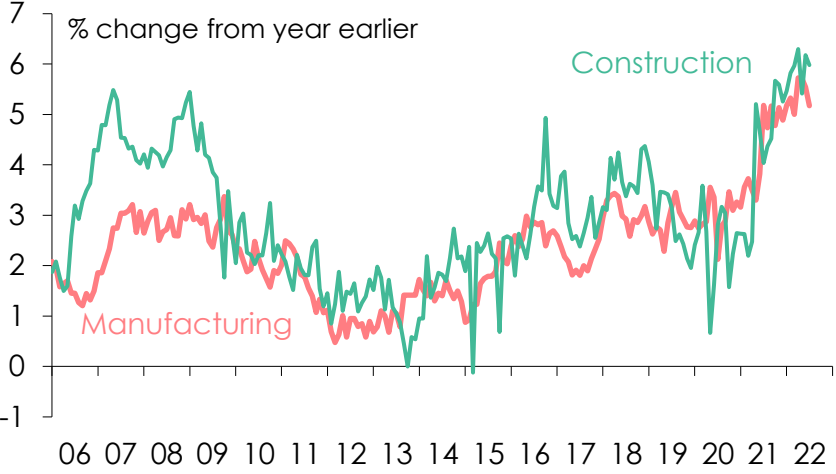
# The 'best' measure of wages growth (from the employment cost index) rose 5.7% over the year to Q2, the fastest since Q4 1982

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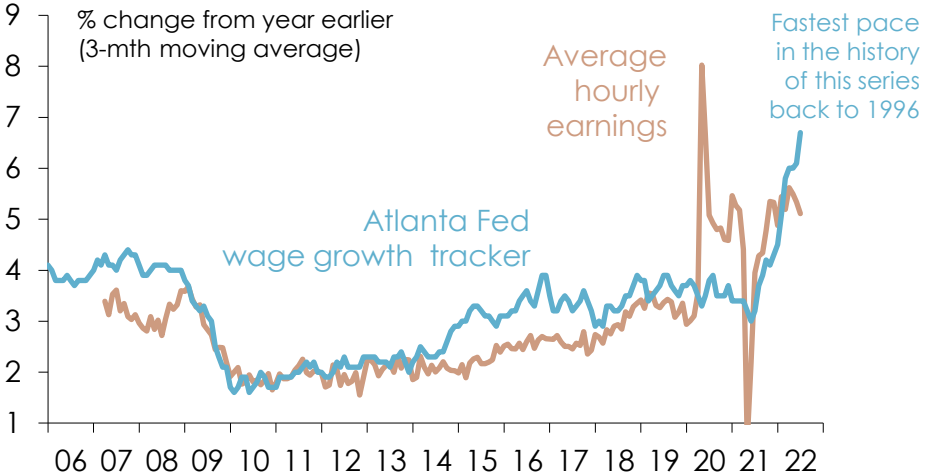
## Job openings



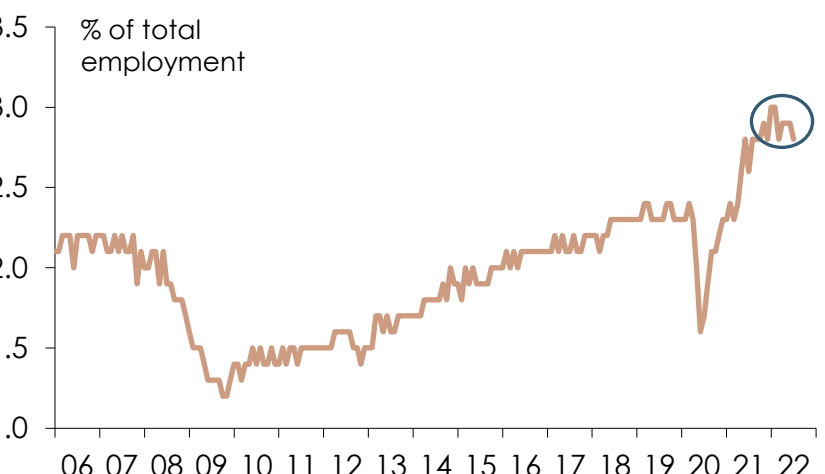
## Average hourly earnings



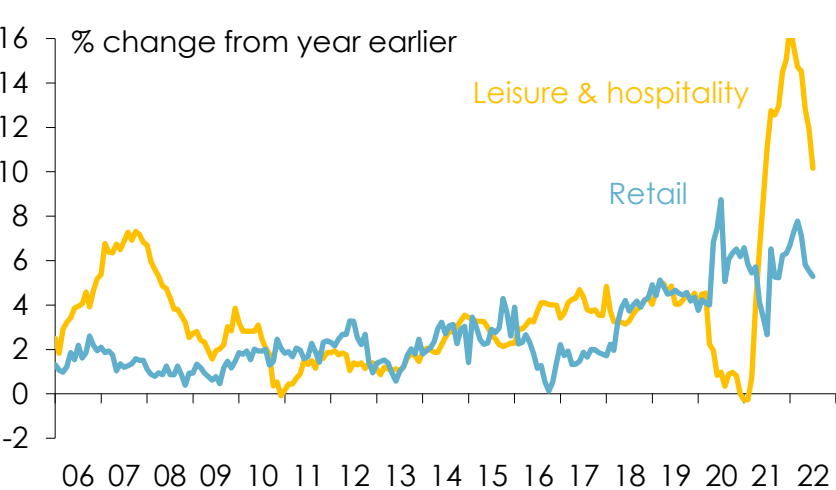
## Overall wages growth - monthly



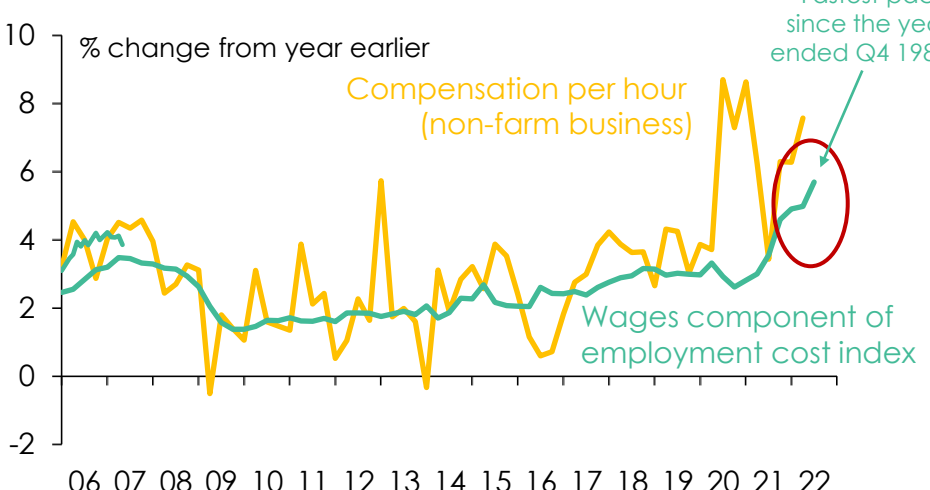
## Quit rate



## Average hourly earnings



## Wages growth - quarterly

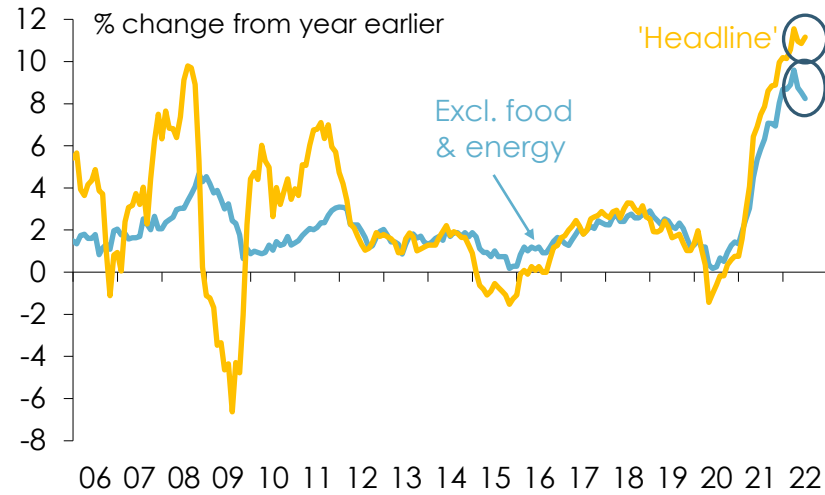


Note: Measures of average hourly earnings (especially the all-industries measures) and of average compensation per hour are affected by changes in the composition of employment (so for example they rose sharply in Q2 2020 when large numbers of low-paid workers were laid off and fell markedly when they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

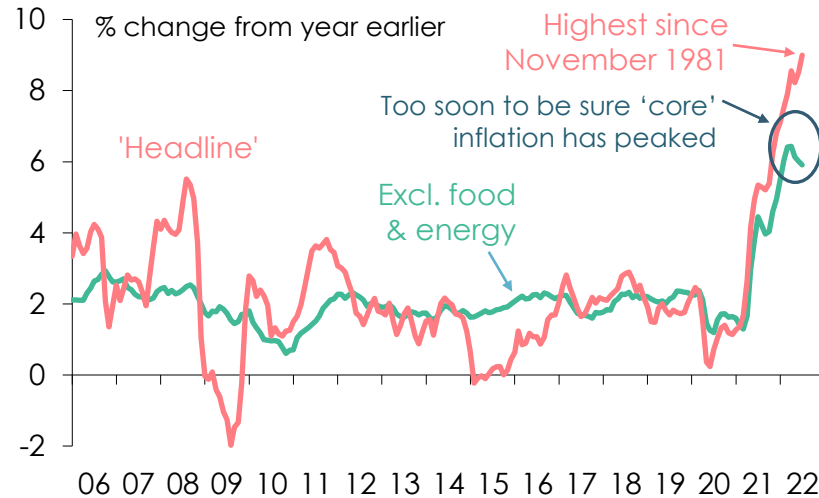
# The PCE deflator rose 1.0% in June and 6.8% from a year earlier, while ex food & energy (the Fed's targeted measure) it rose 0.6% and 4.8%

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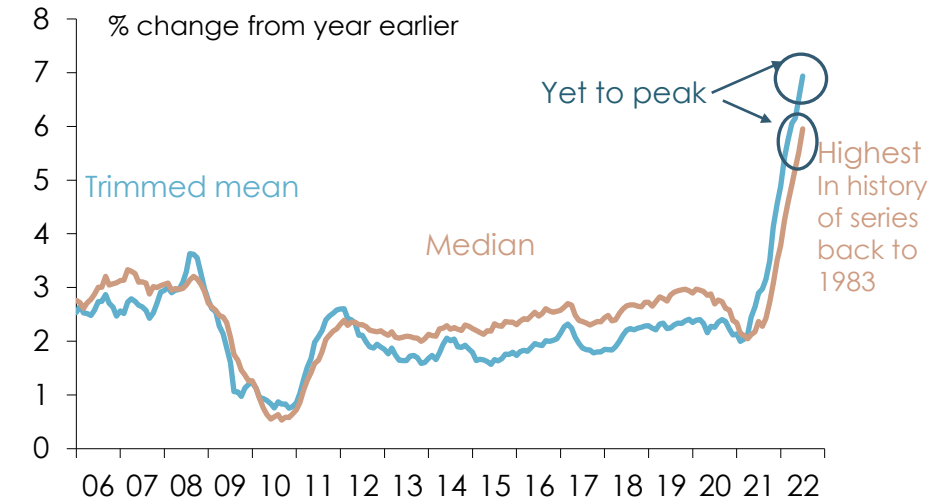
## Producer price index



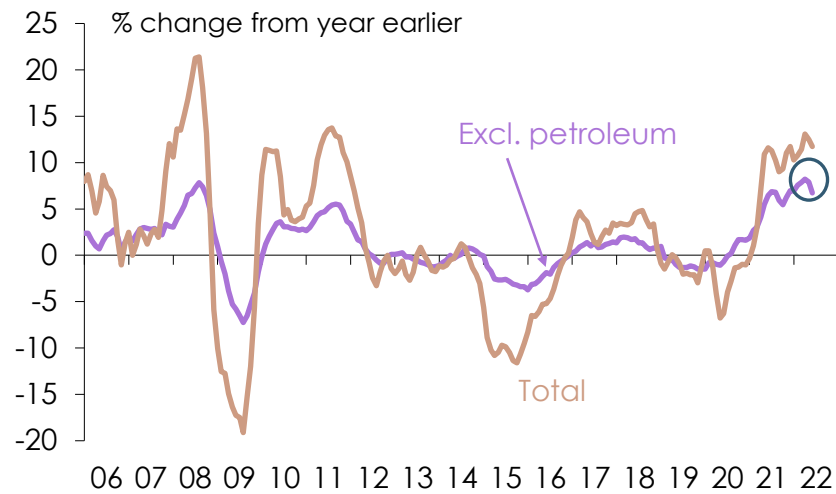
## Consumer price index



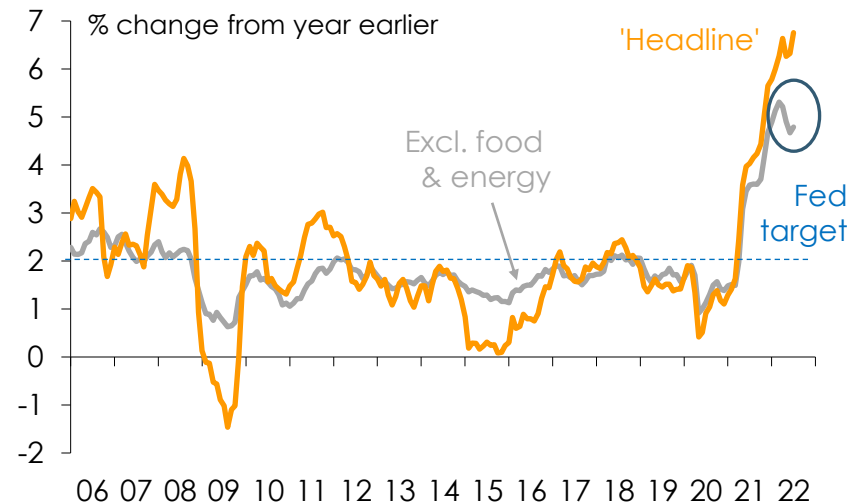
## 'Underlying' CPI inflation



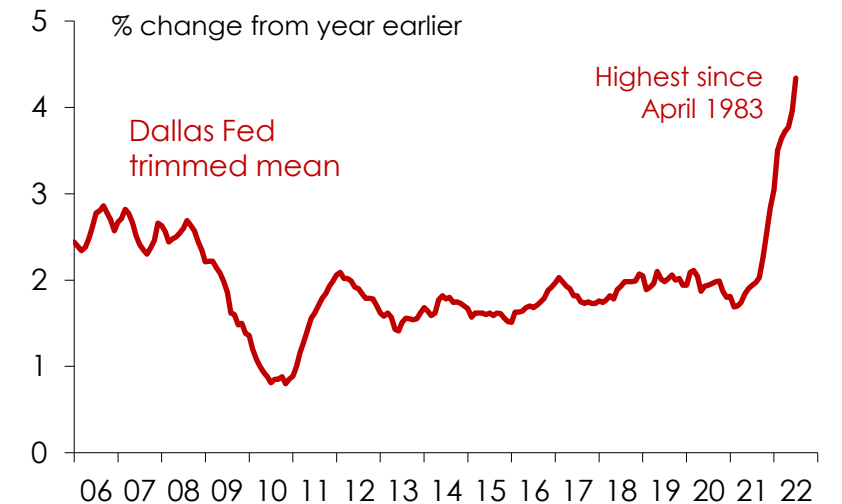
## Import price index



## Personal consumption deflator



## 'Underlying' PCE deflator inflation

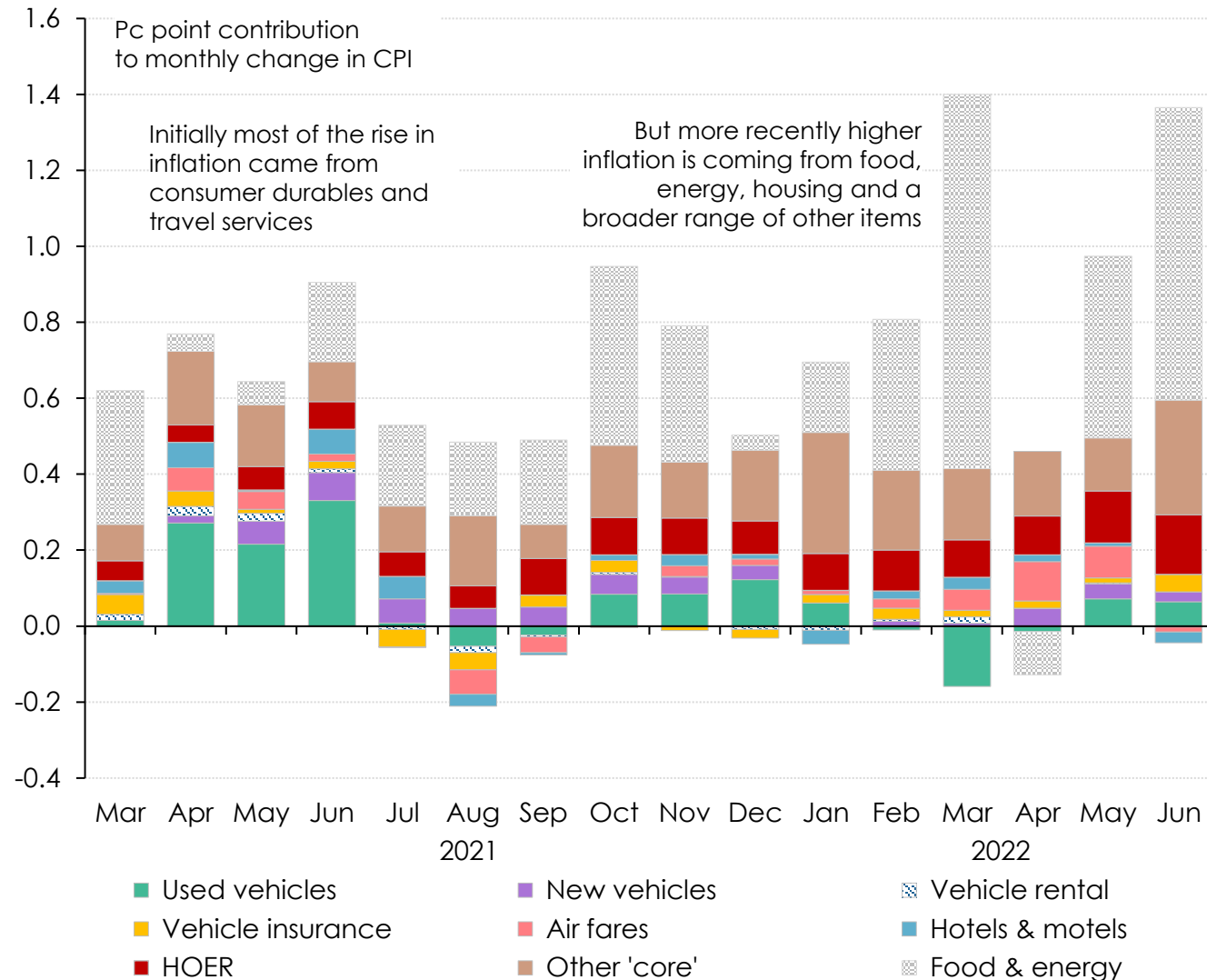


Sources: US Bureau of Labor Statistics, [Producer Price Index](#), [Import and Export Price Indexes](#) and [Consumer Price Index](#); US Bureau of Economic Analysis, [Personal Consumption Expenditures Price Index](#); Federal Reserve Bank of Cleveland, [Median CPI](#); Federal Reserve Bank of Dallas,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

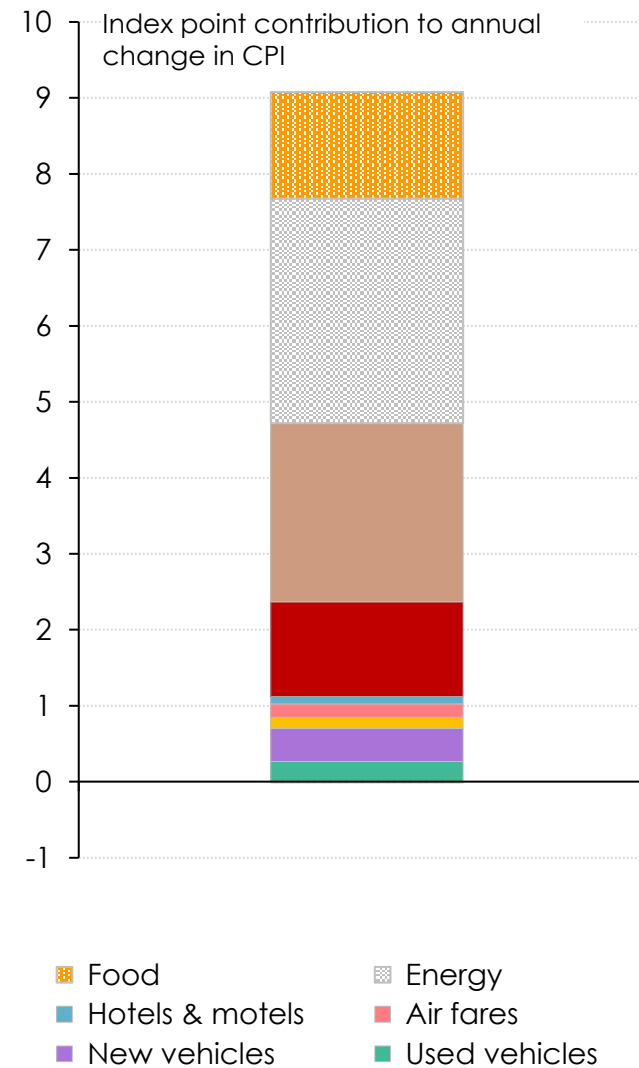
# Food & energy prices have accounted for most of the recent monthly rises in the CPI but the sources of 'core' inflation have also broadened out

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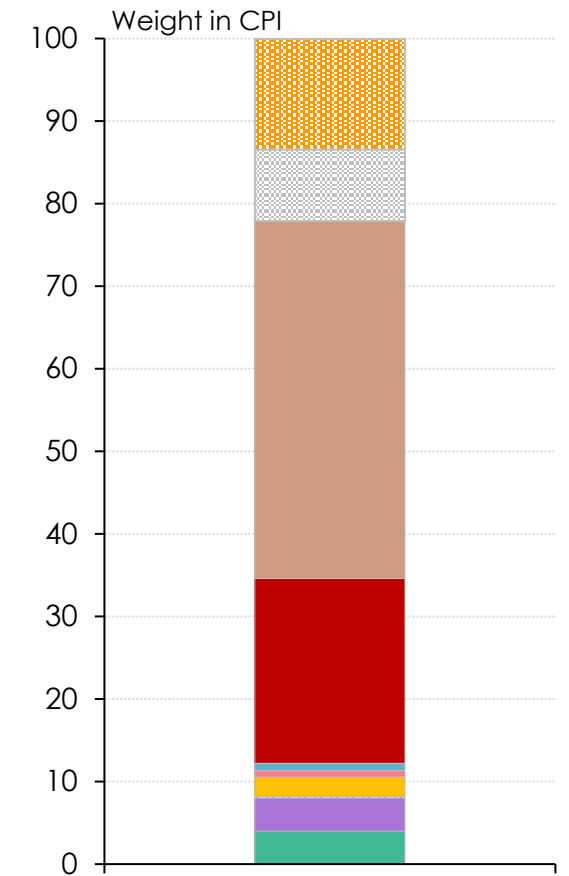
## Contributions to monthly changes in the US CPI since March last year



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



## Weights in CPI



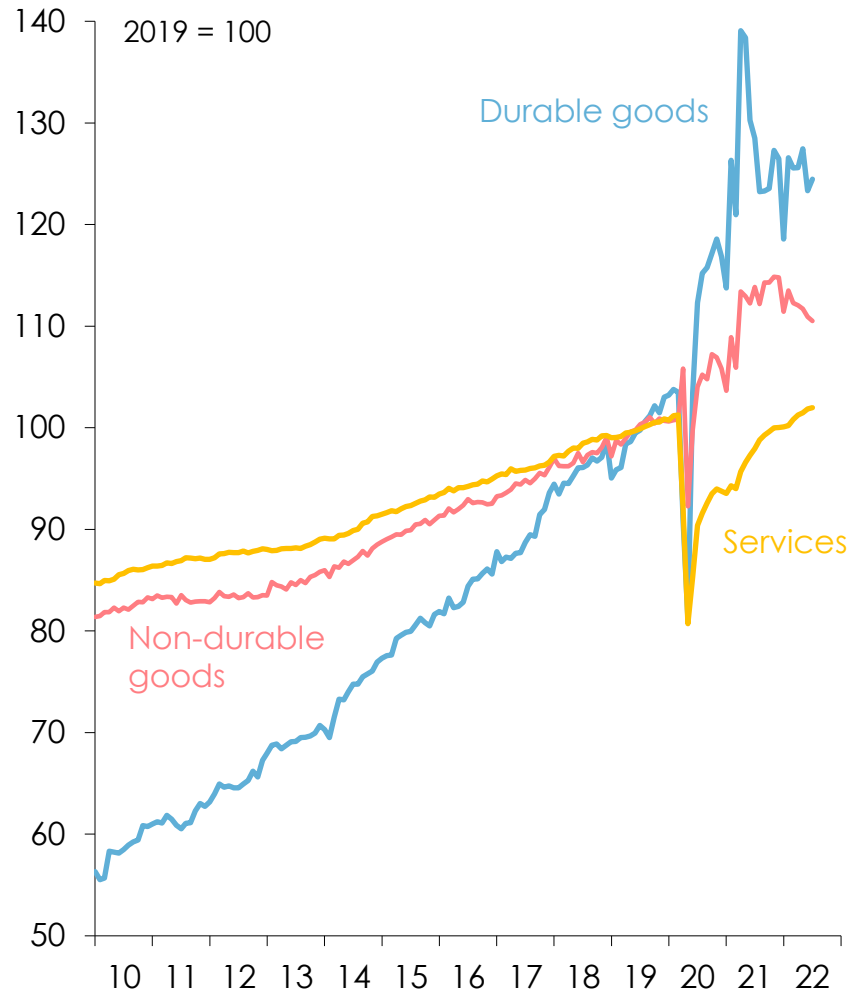
Note: 'HOER' = home-owners' equivalent rent (a measure of the 'imputed rent' notionally paid by owner-occupiers to themselves), and which accounts for (an uncommonly large, by international standards) 28½% of the CPI excluding food and energy. Source: US Bureau of Labor Statistics, CPI Table 6; Corinna.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



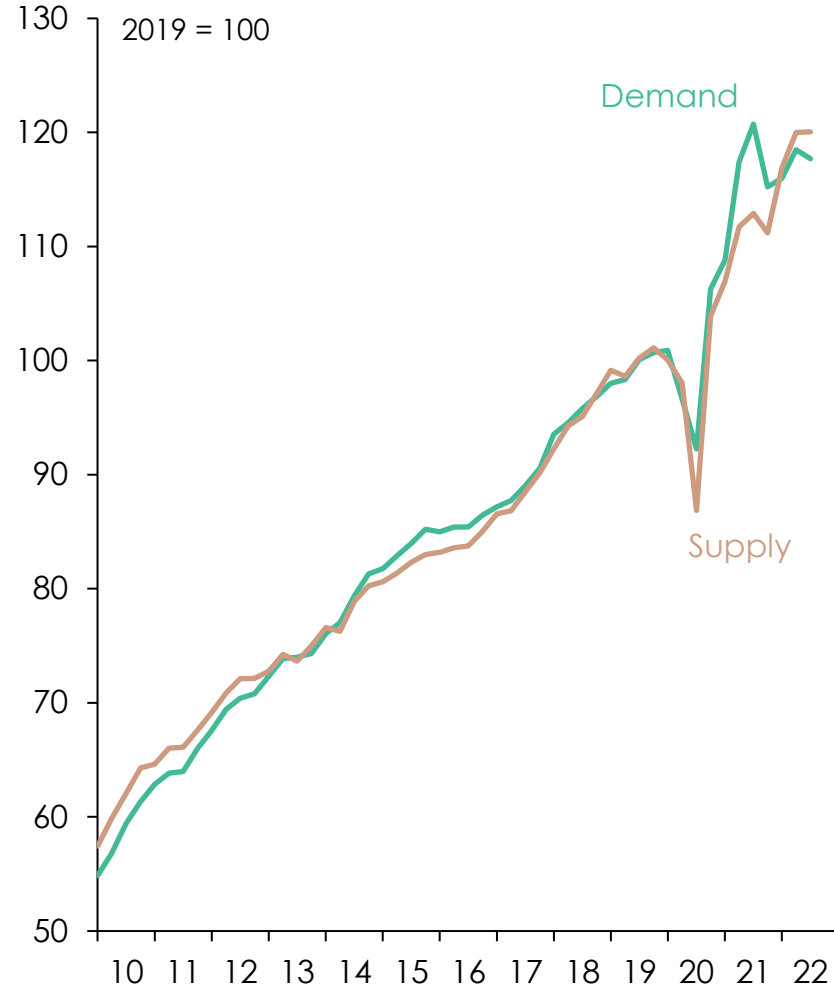
# The rise in inflation has until recently been largely attributable to large imbalances between supply of and demand for durable goods

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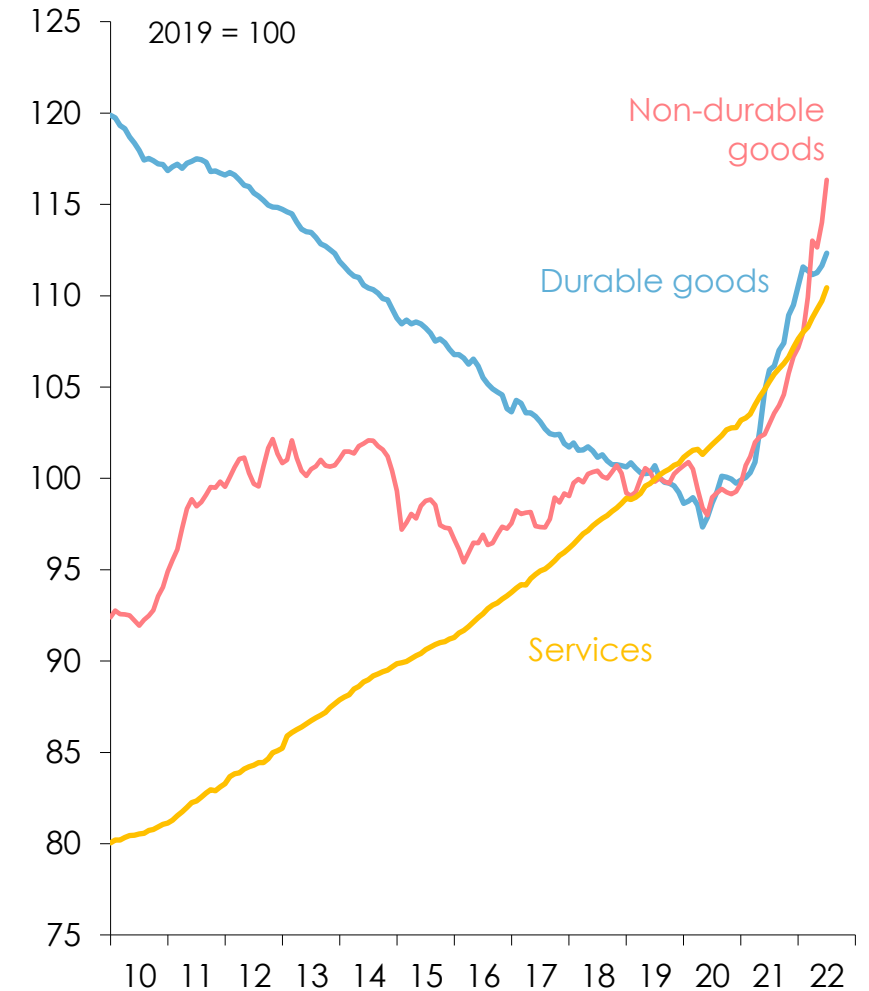
## Composition of personal consumption expenditures



## Aggregate demand for and supply of durable goods



## Implicit price deflators of personal consumption



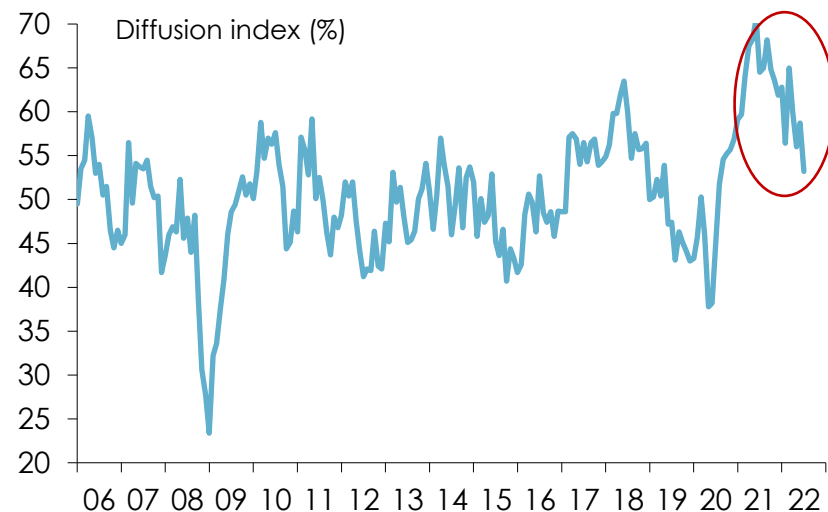
Note: 'Aggregate demand' for durable goods comprises personal consumption of durable goods plus business investment in equipment. 'Aggregate supply' of durable goods comprises gross domestic product (final sales plus change in inventories) plus net imports of durable goods. Sources: US Bureau of Economic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



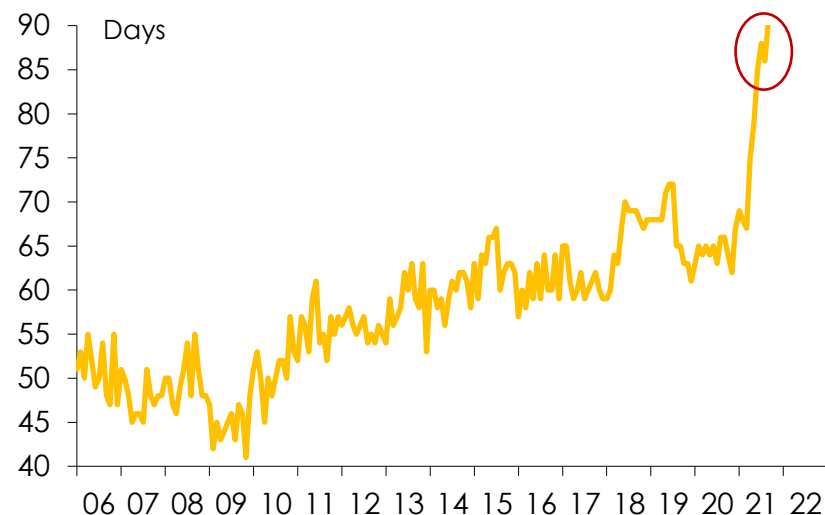
# Supply-chain disruptions appear to be easing gradually, but there's still a long way to go

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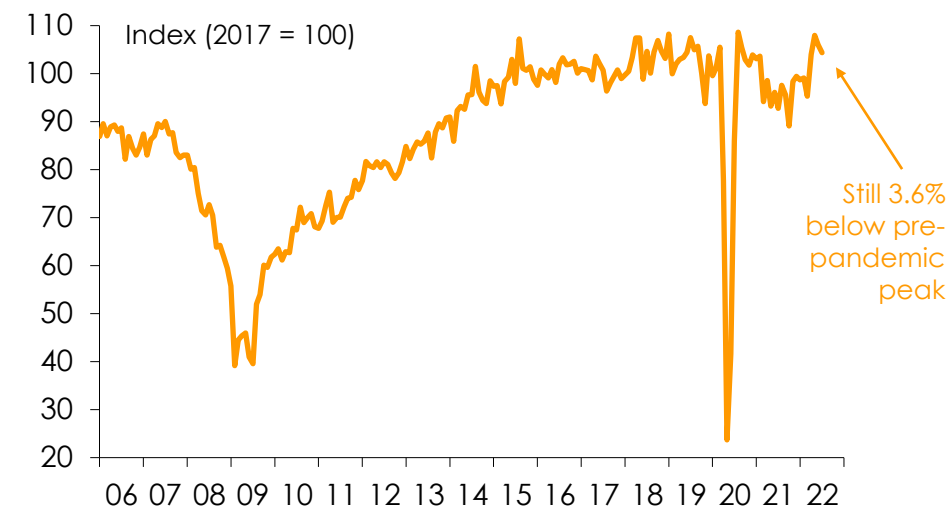
## Manufacturers' order backlogs



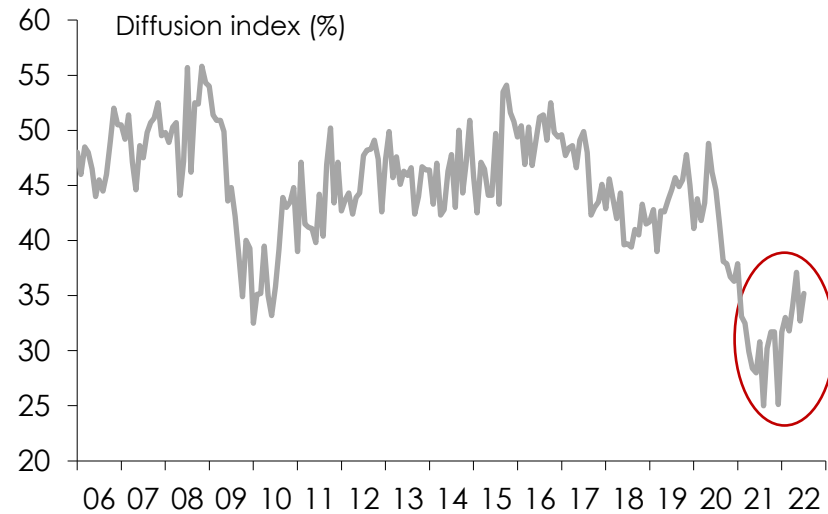
## Lead-time for production materials



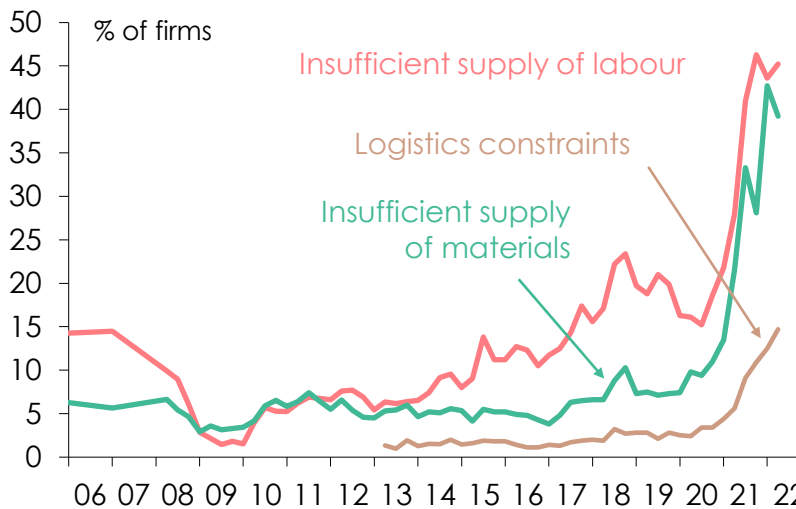
## Motor vehicles & parts production



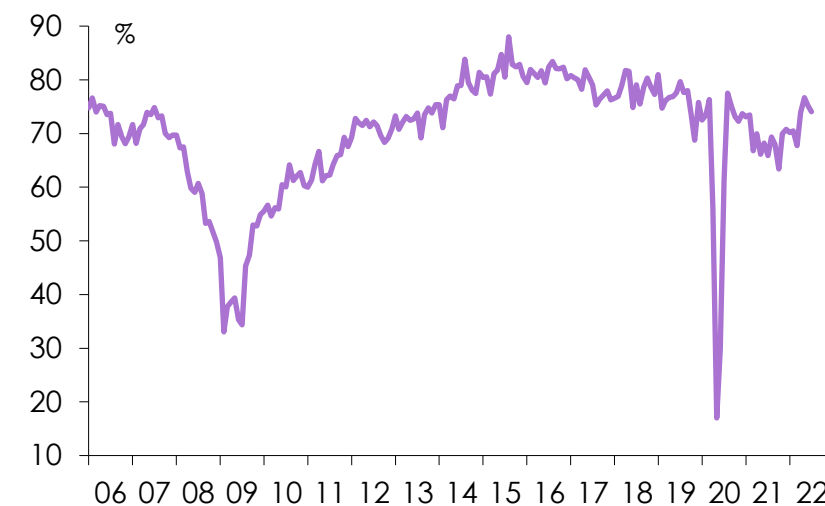
## Manufacturers' customer inventories



## Reasons for < full capacity



## Auto industry capacity utilization

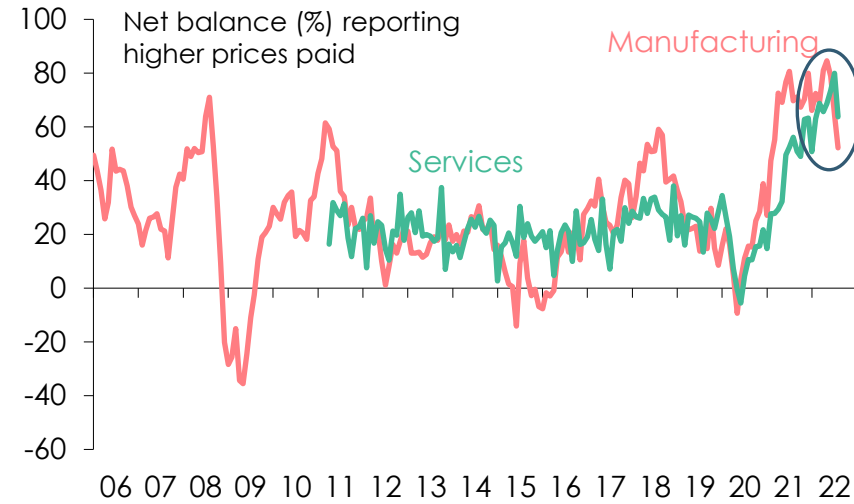


Note: The diffusion index of order backlogs is 50 plus the percentage of respondents reporting longer backlogs minus the percentage reporting shorter backlogs (and similarly for customer inventories). 'Reasons for < full capacity' means reasons for operating at less than full capacity. Sources: Institute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

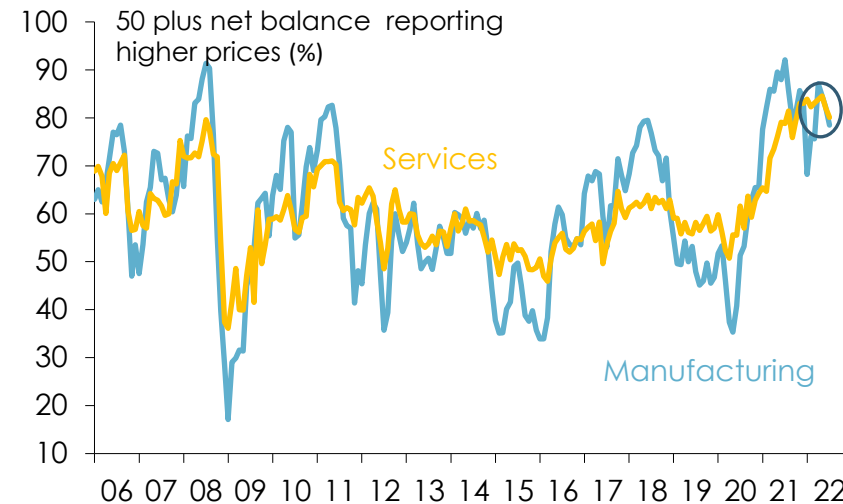
# A range of surveys are now hinting that 'upstream' inflation may have peaked, while longer-run household inflation expectations have fallen

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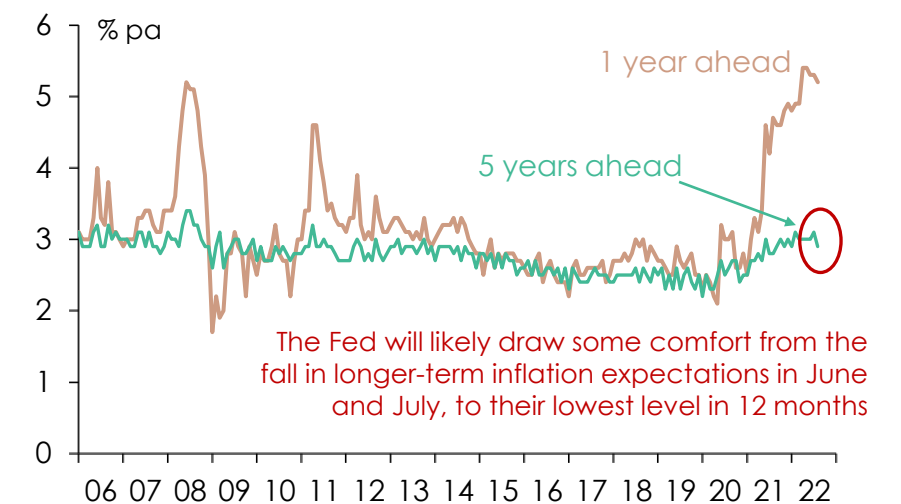
## 'Philly Fed' survey – prices paid



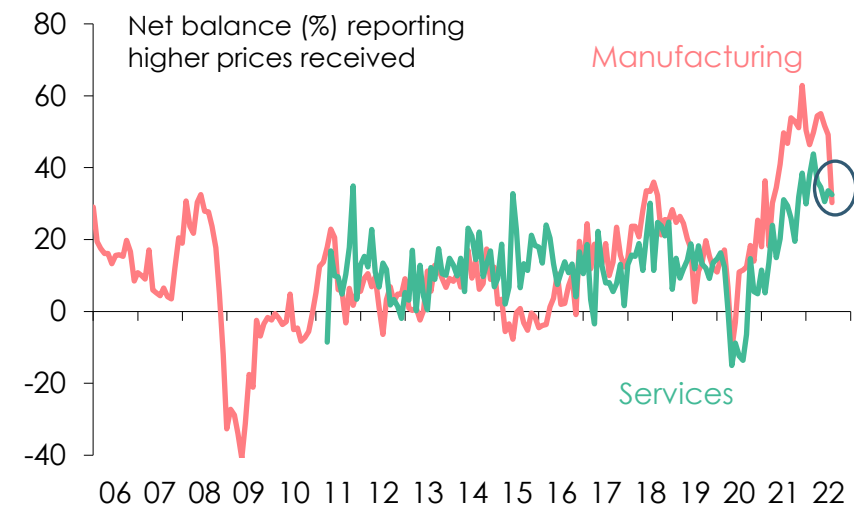
## ISM survey – prices paid



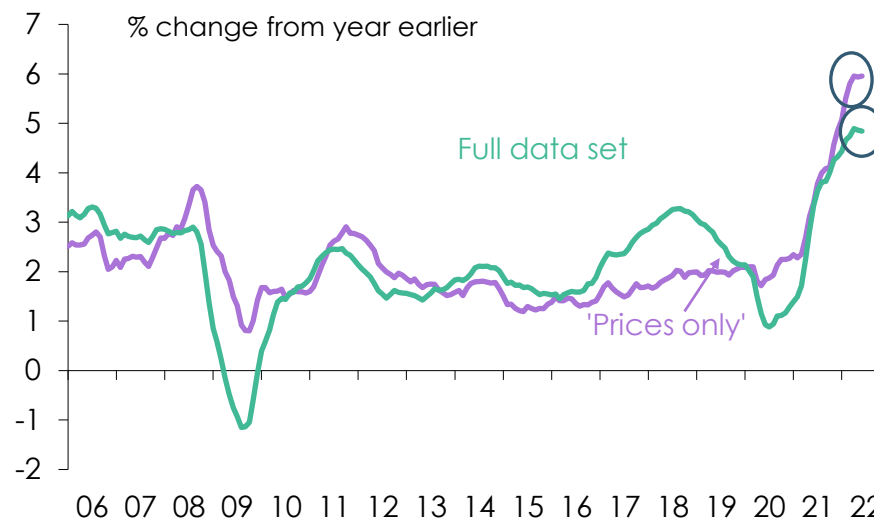
## Household inflation expectations



## 'Philly Fed' survey – prices received



## NY Fed 'underlying inflation gauge'



## Market-priced inflation probabilities

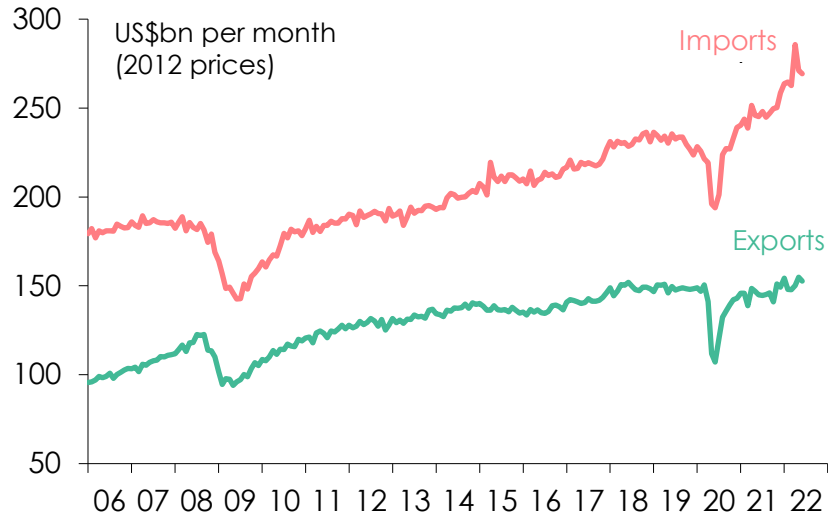


Sources: Federal Reserve Bank of Philadelphia, [Regional Economic Analysis](#), Manufacturing and Non-Manufacturing Business Outlook Surveys ; Institute for Supply Management, [ISM Report on Business](#); Federal Reserve Bank of New York, [Underlying Inflation Gauge](#); Federal Reserve Bank of Minneapolis,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

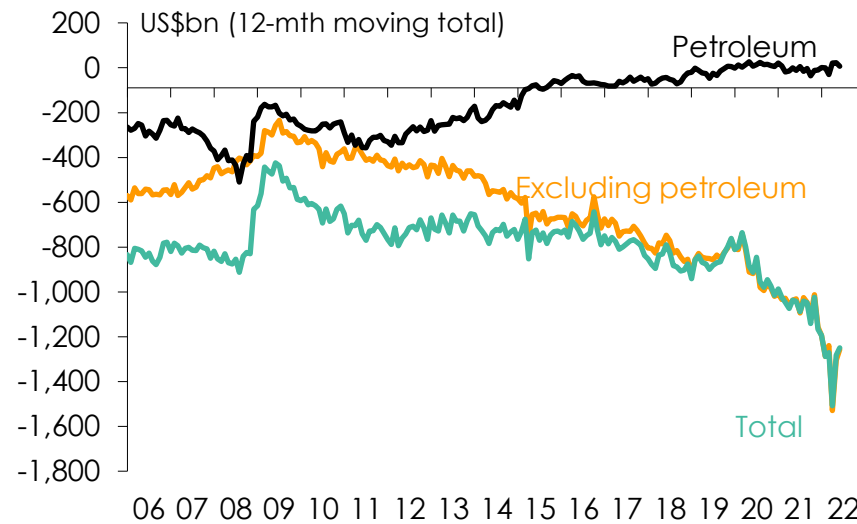
# The US recorded a \$98.2bn goods trade deficit in June, the smallest in seven months, with exports up 2.5% and imports down 0.5%

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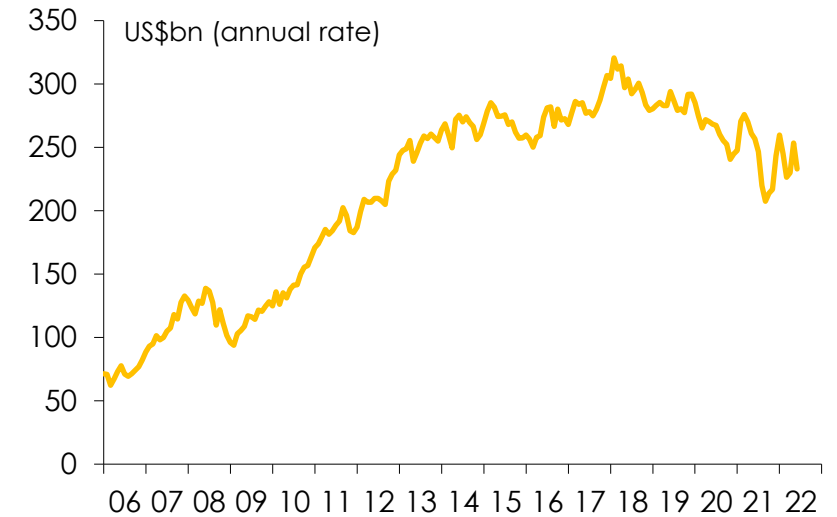
## US merchandise trade volumes



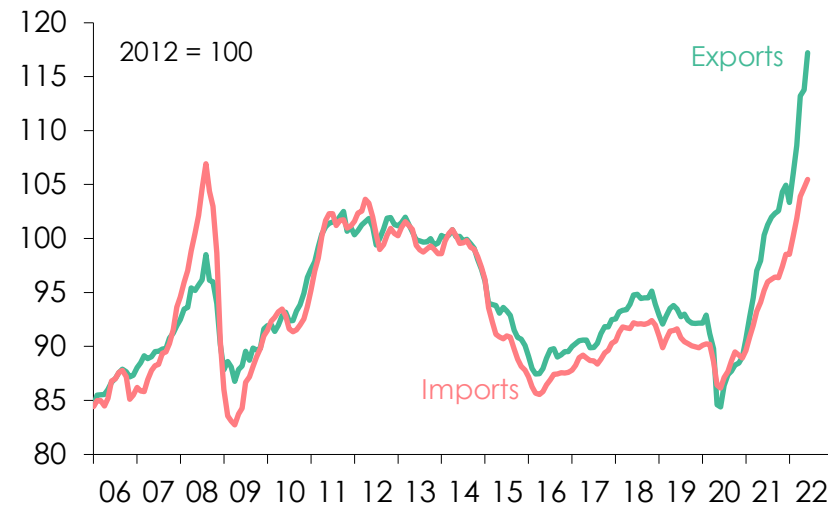
## US goods trade balance



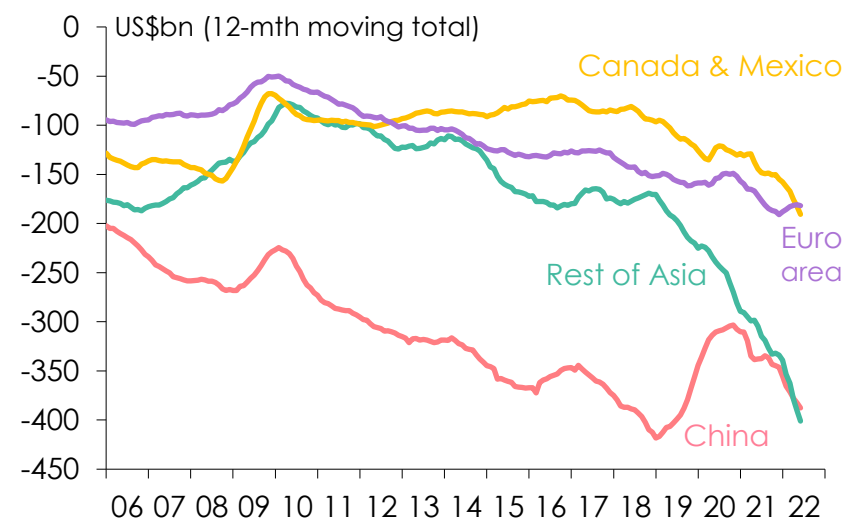
## US services trade balance



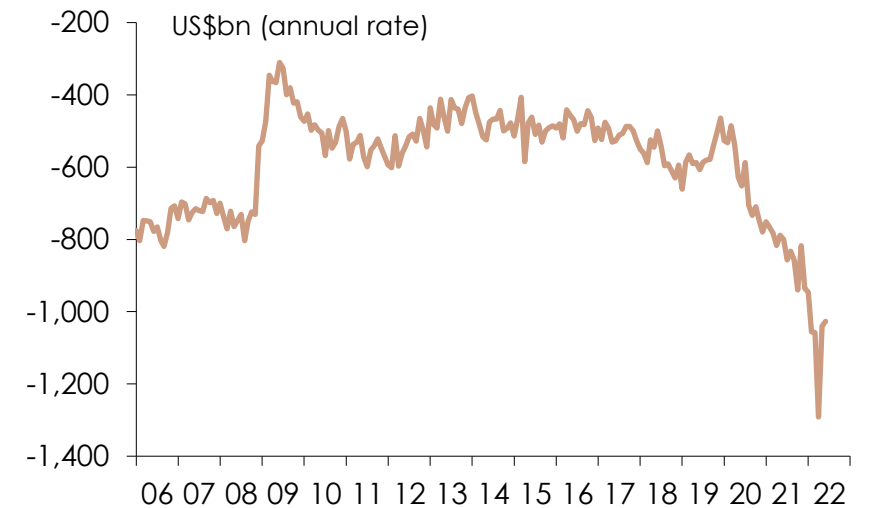
## US merchandise trade prices



## US bilateral goods trade balances



## US goods & services trade balance

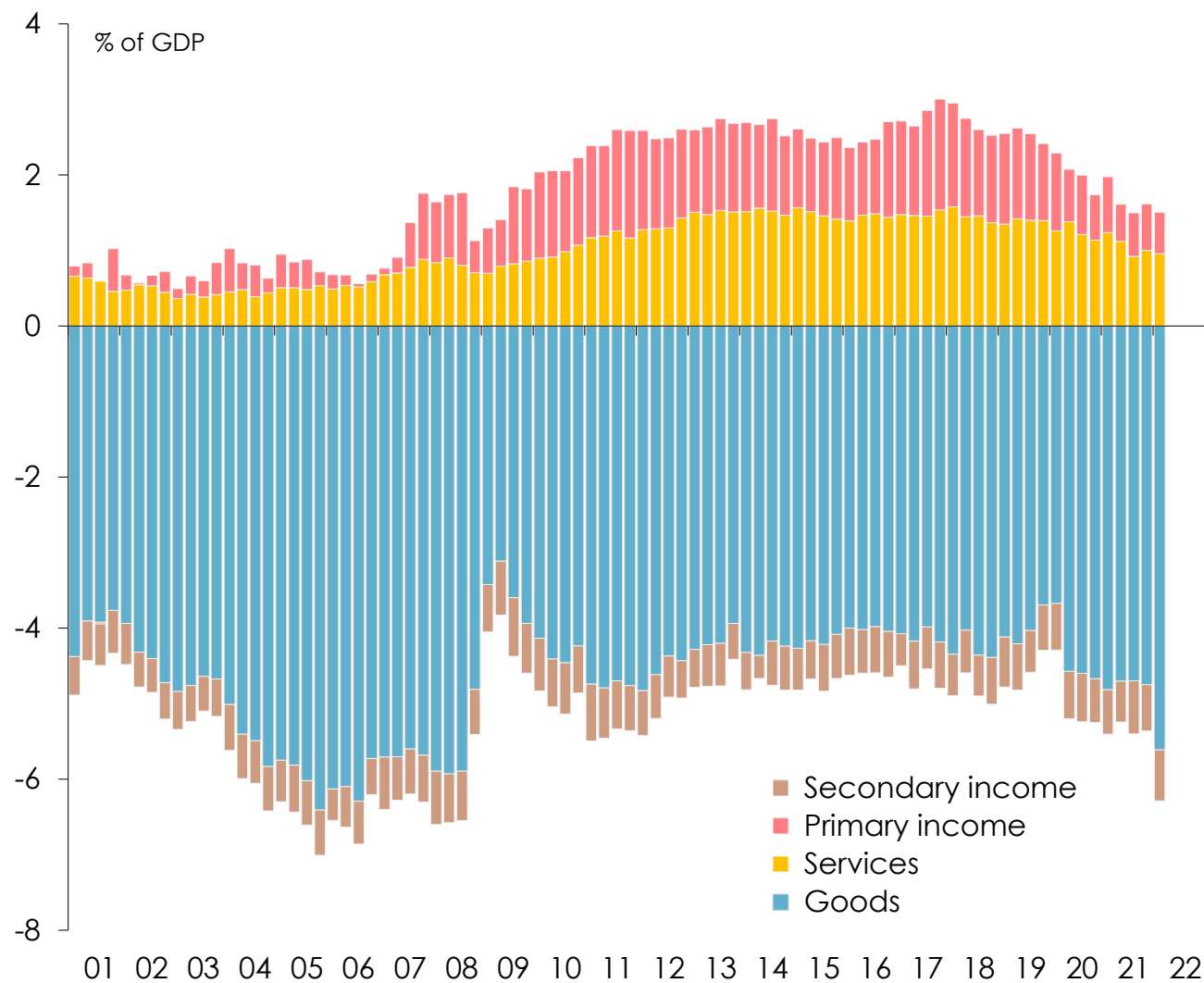


Source: US Census Bureau, [Foreign Trade](#); and US Bureau of Economic Analysis, [Advance Economic Indicators](#), and [U.S. International Trade in Goods and Services](#).  
[Return to "What's New"](#).

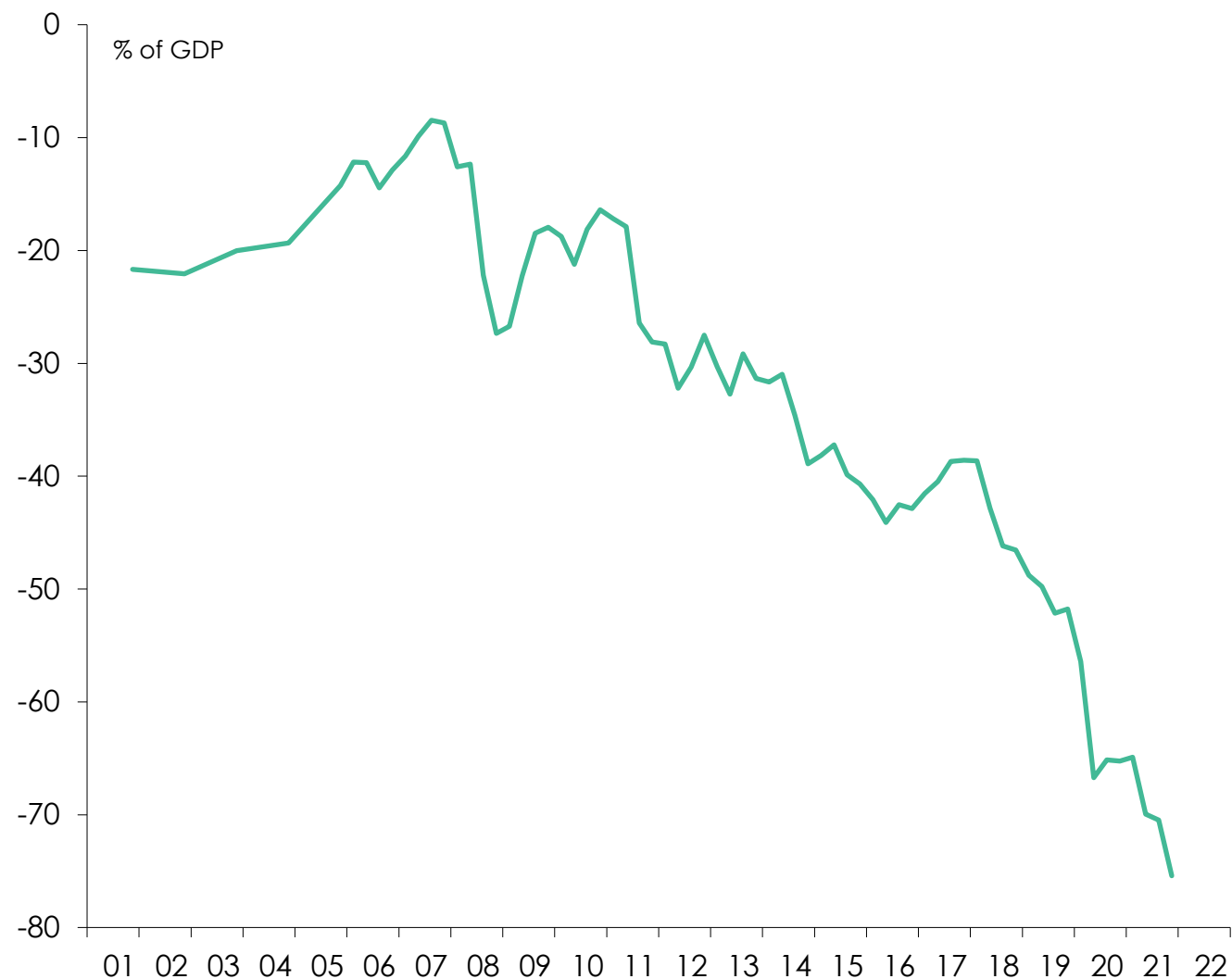
# The US current account deficit widened to US\$291bn in Q1, the largest on record in dollar terms and the highest as a pc of GDP since Q3 2008

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## US current account balance



## US net international investment position

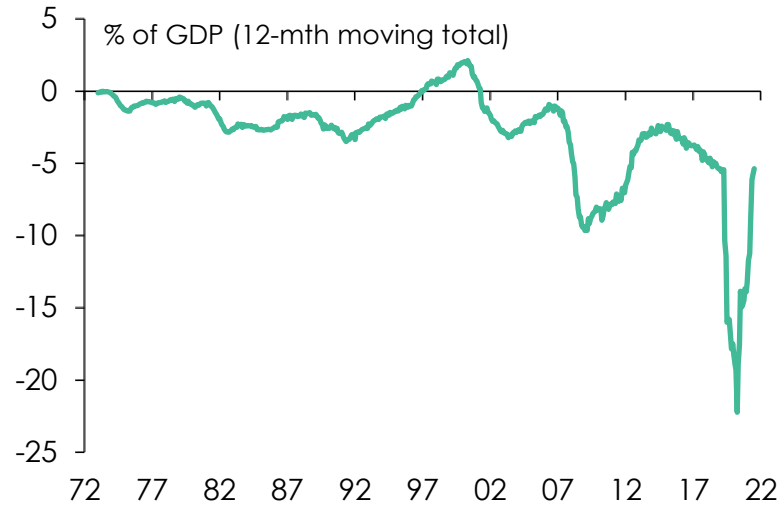


Note: 'Primary income' transactions are those involving investment income or compensation of employees. The US typically runs a surplus on investment income despite having a negative net international investment position since 1989, because US investors are able to derive much higher returns from their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

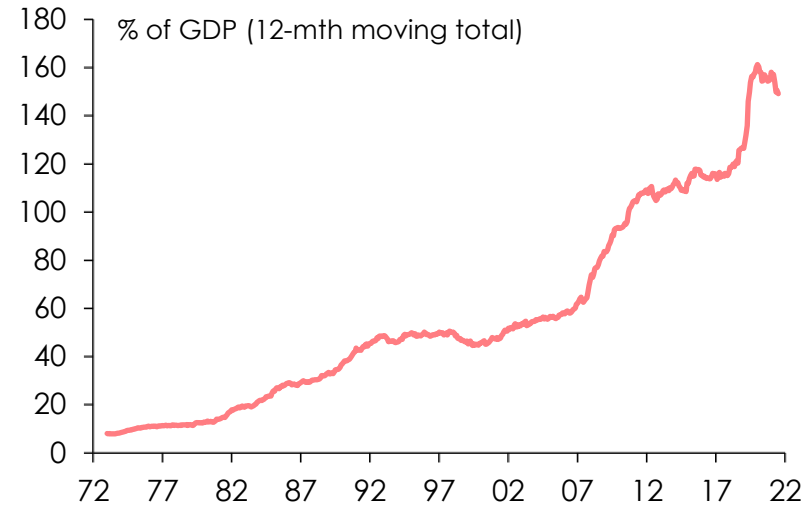
# The US Federal budget deficit is continuing to decline sharply, as a result of surging tax revenues and, to a lesser extent, falling spending

THE WORLD ECONOMY THIS WEEK – 1<sup>ST</sup> AUGUST 2022

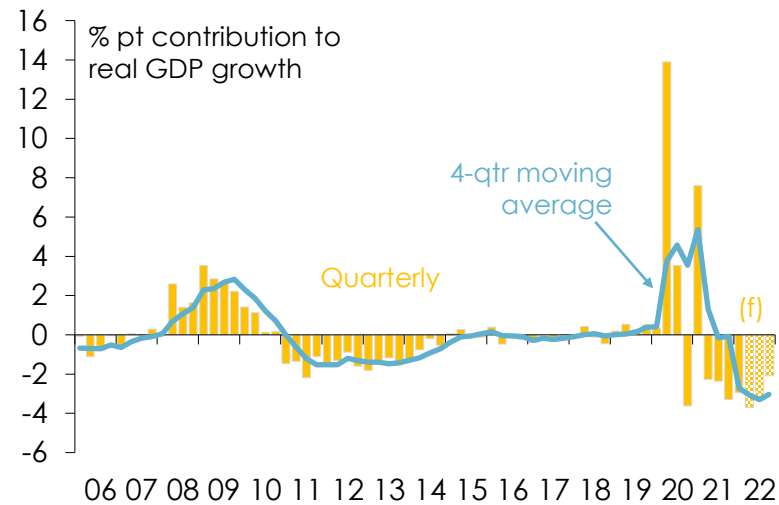
## US Federal budget deficit



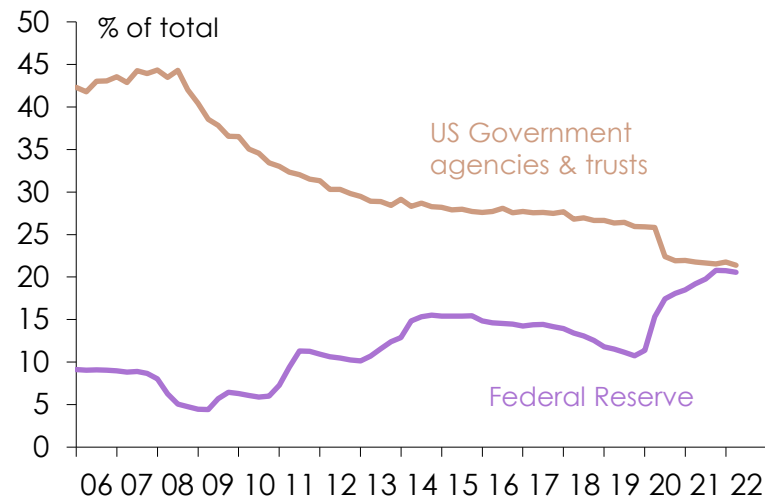
## US gross Federal debt



## 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 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
- ❑ A ‘scaled down’ (~ \$450bn) version of the Administration’s “Build Back Better” bill focused on controlling drug prices, emissions reduction measures, and stronger IRS enforcement, may be enacted by Congress following a ‘deal’ between maverick Senator Joe Manchin and Senate Majority Leader Charles Schumer

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"](#).



# As expected, the Fed raised its funds rate another 75bp at last week's FOMC meeting – but markets are now hoping future moves will be smaller

THE WORLD ECONOMY THIS WEEK – 1<sup>ST</sup> AUGUST 2022

- ❑ As expected, the Federal Reserve **raised its target range for the federal funds rate** by another 75 basis points, to 2.25-2.50%, at last Wednesday's FOMC meeting – the second consecutive such increase
  - this brings the cumulative tightening since March to 225 basis points, the fastest since 1981 (although that episode and others since then have ultimately entailed larger increases in interest rates, in total, than the Fed is currently foreshadowing)
- ❑ At his **post-meeting press conference** Fed Chair Jerome Powell acknowledged that “growth in consumer spending has slowed significantly ... activity in the housing sector has weakened [and] ...business fixed investment also looks to have declined in the second quarter”, but also observed that “the labor market has remained extremely tight” which he interpreted as suggesting “that underlying aggregate demand remains solid”
- ❑ Powell again indicated that “ongoing increases” in the funds rate target “will be appropriate”, but also said that “while another unusually large increase” (ie, of 75bp) “could be appropriate” at the next FOMC meeting (on 20-21 September), that would “depend on the data we get between now and then”
  - he also added that “as the stance of monetary policy tightens further, it likely will become appropriate to slow the pace of increases while we assess how our cumulative policy adjustments are affecting the economy and inflation” – a comment which financial markets immediately seized upon as foreshadowing that future rate increases *would* be smaller than the two most recent ones
- ❑ He re-iterated that “the process” of returning inflation to the Fed's 2% target would likely involve “a period of below-trend economic growth and some softening in labour market conditions”, but “such outcomes are likely necessary to restore price stability and to set the stage for achieving maximum employment and stable prices over the longer run”

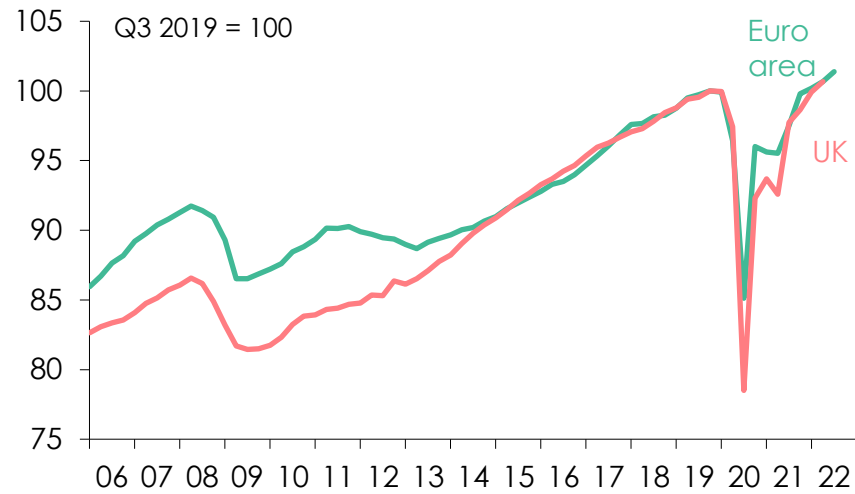


**Europe**

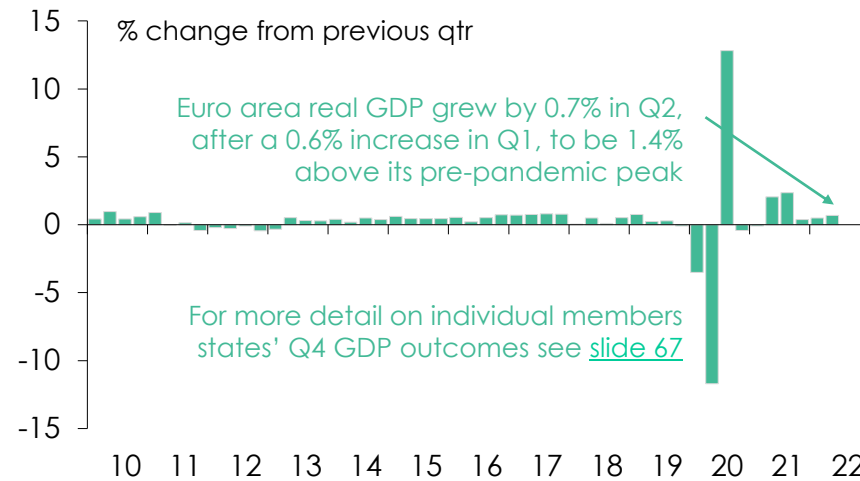
# The euro area's real GDP grew 0.7% in Q2, boosted by growth of 1.0% in Italy and 1.1% in Spain, but held back by a fractional decline in Germany

THE WORLD ECONOMY THIS WEEK – 1<sup>ST</sup> AUGUST 2022

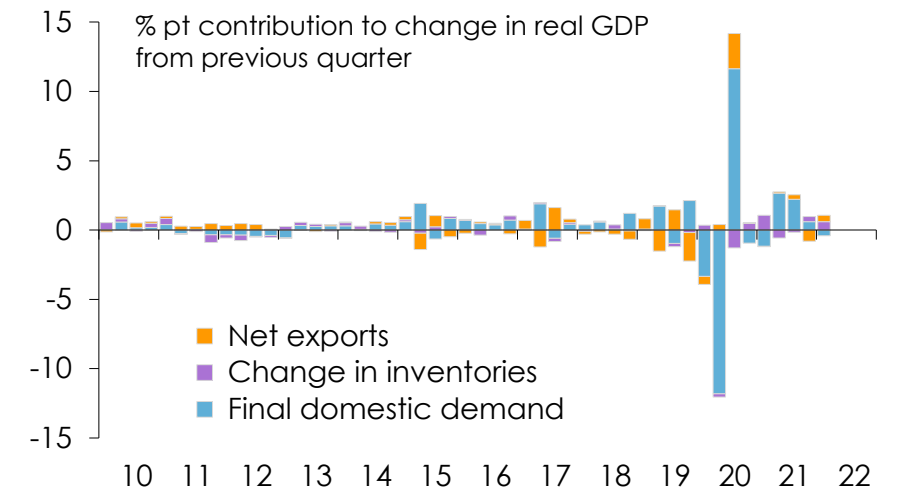
## Euro area and UK real GDP



## Euro area quarterly GDP growth



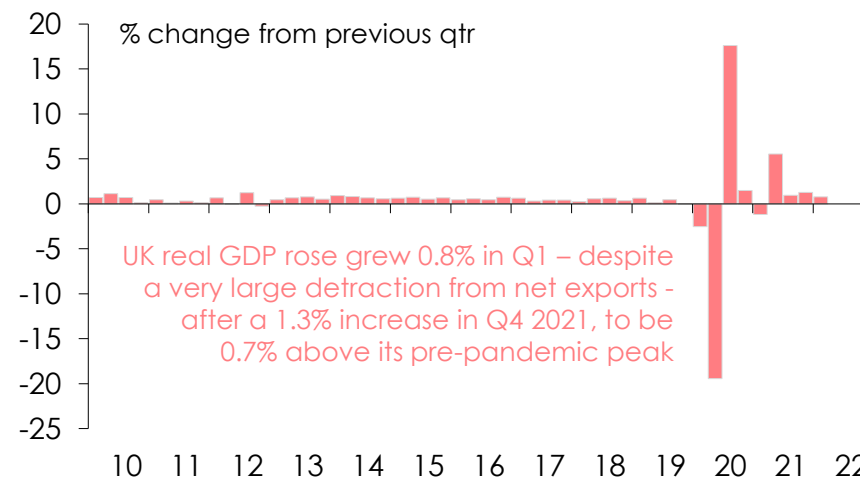
## Contributions to quarterly EA GDP



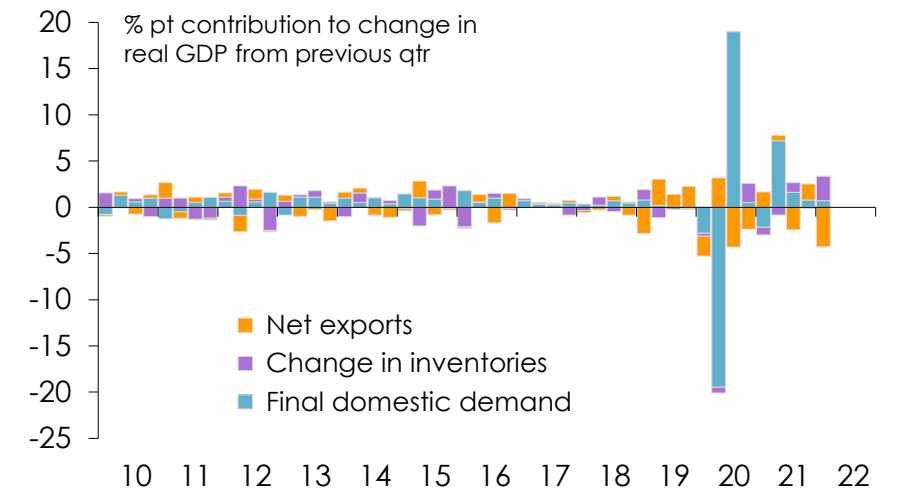
## Euro area and UK terms of trade



## UK quarterly GDP growth



## Contributions to quarterly UK GDP

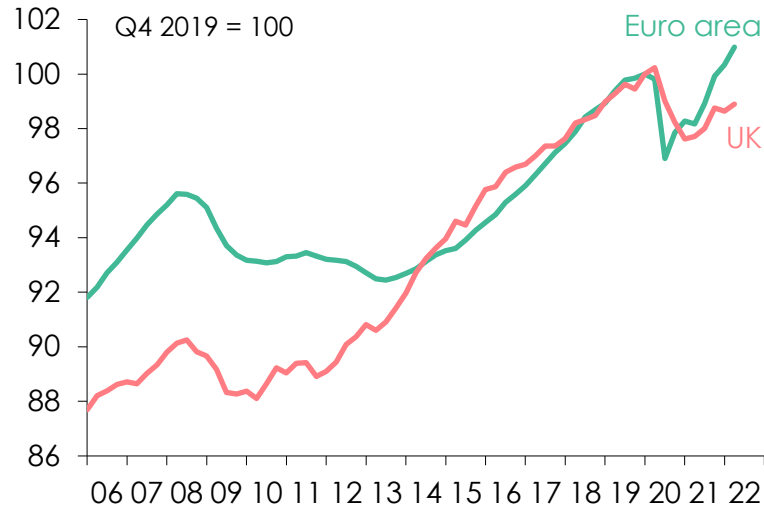


Note: the 'terms of trade' is the ratio of the implicit price deflator of exports of goods & services to that of imports of goods & services – it gives an indication of the income gains or losses arising from changes in the prices of goods and services traded with the rest of the world. Sources: Eurostat,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

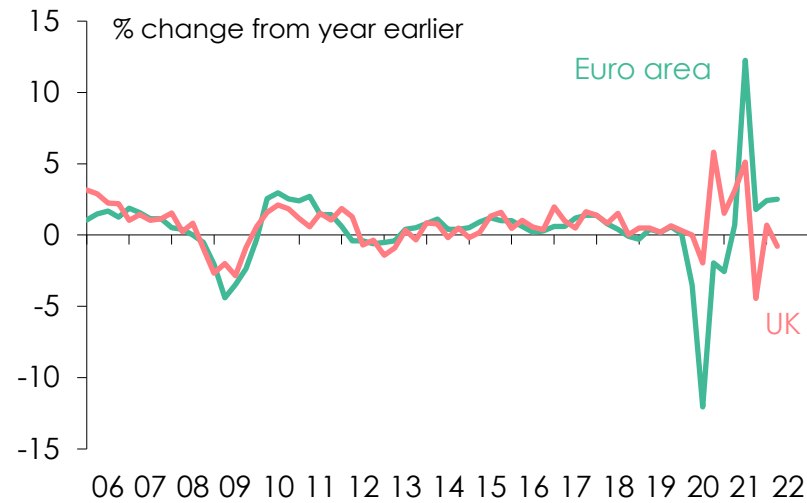
# Euro area unemployment fell to a new record (since 1998) low of 6.6% in May, while the UK's unemployment rate remained at 3.8%

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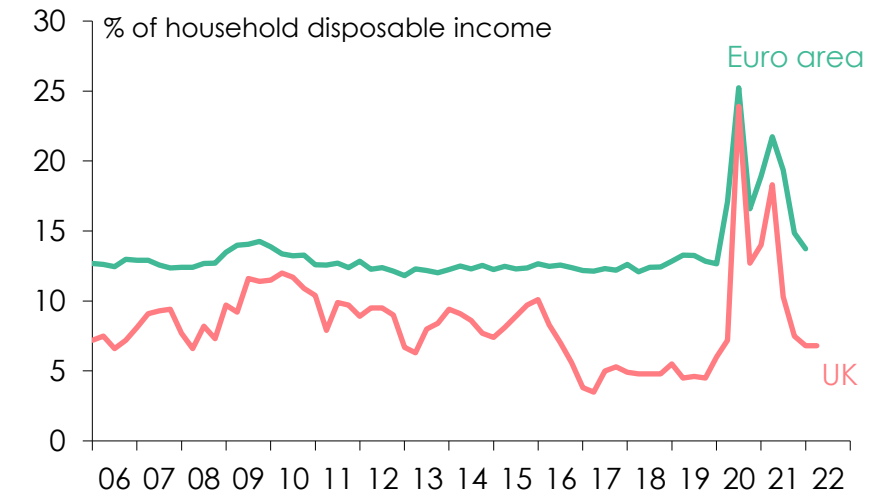
## Employment



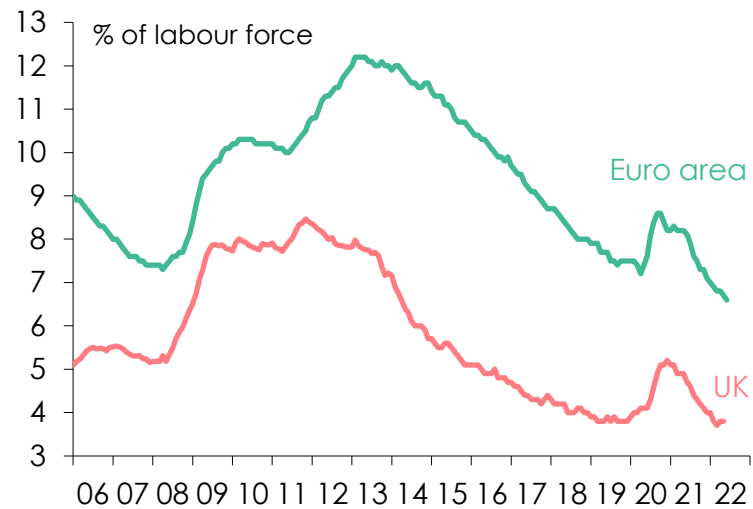
## Labour productivity



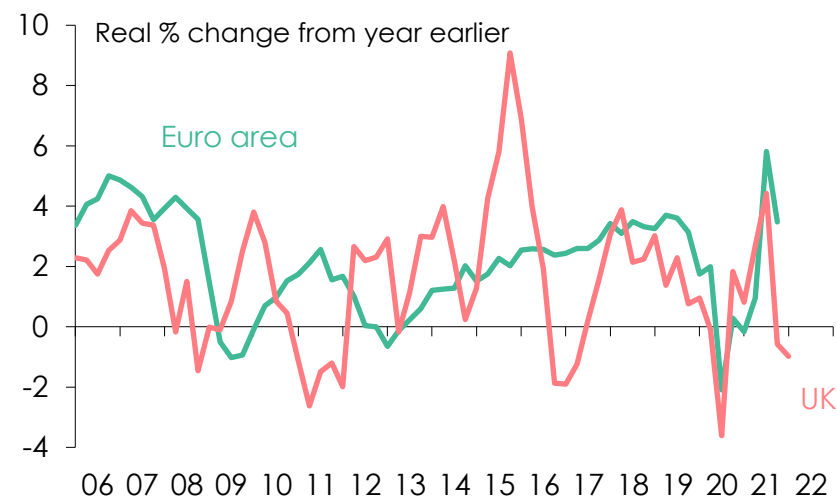
## Household saving rates



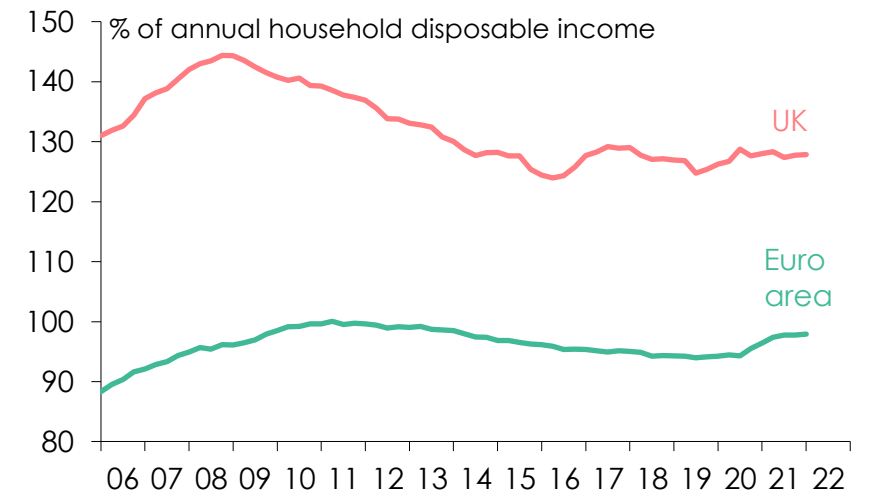
## Unemployment rates



## Household disposable income



## Household debt

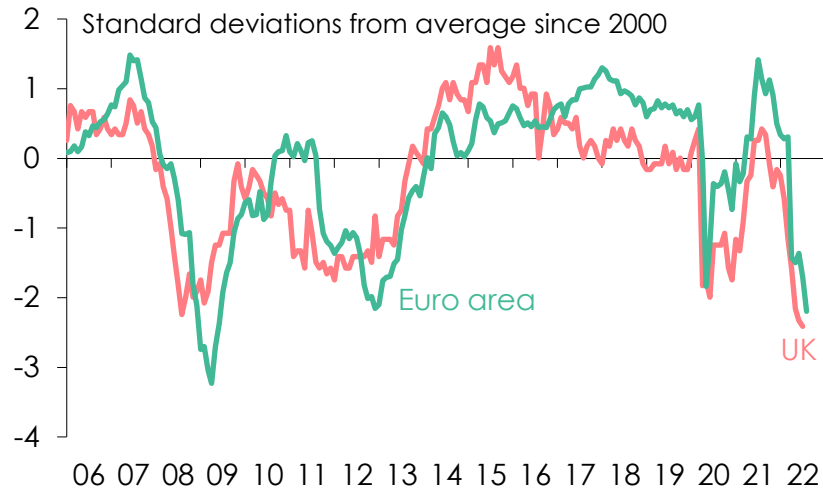


Sources: Eurostat, [Employment and unemployment \(Labour force survey\)](#), [Household saving rate](#) and [Labour productivity and unit labour costs](#); UK Office for National Statistics, [Employment in the UK](#), [Unemployment rate](#) (note, UK unemployment data are shown as a three-month moving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

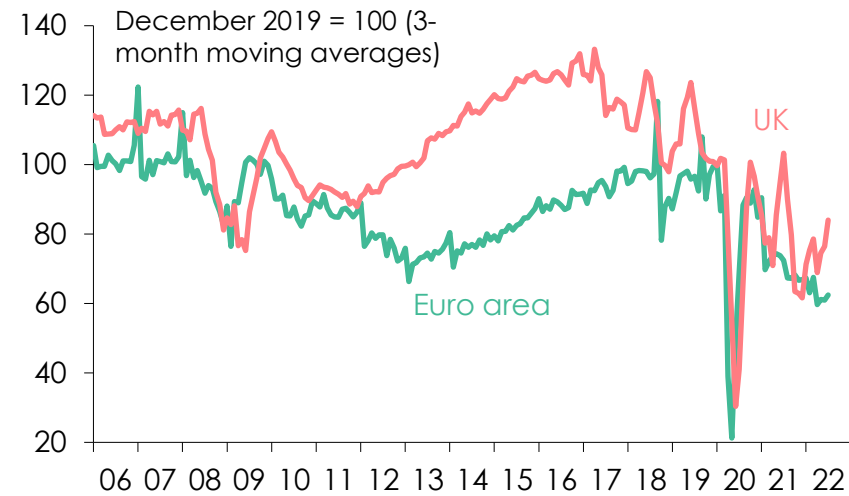
# Consumers in the euro area are now almost as pessimistic as those in the UK, although business confidence has held up better in the euro area

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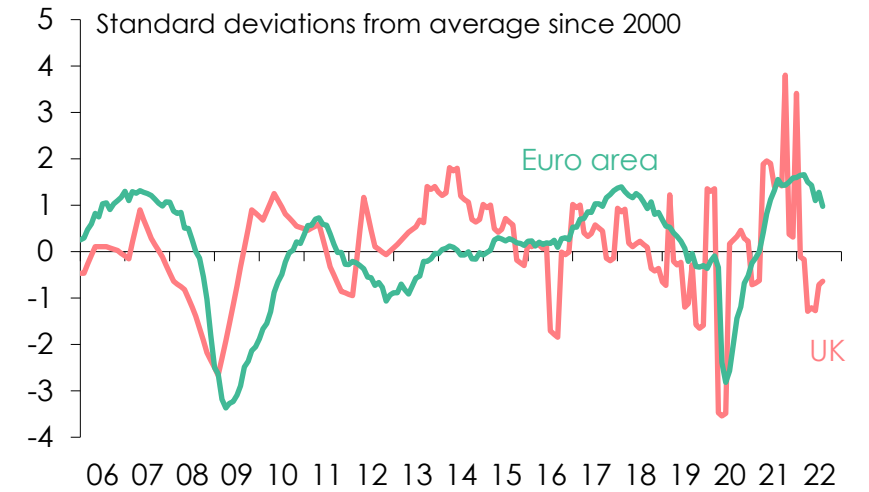
## Consumer confidence



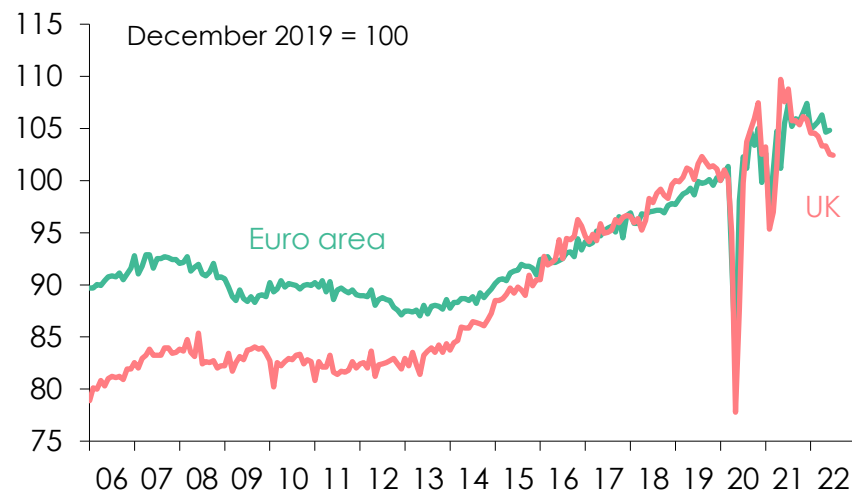
## New car registrations



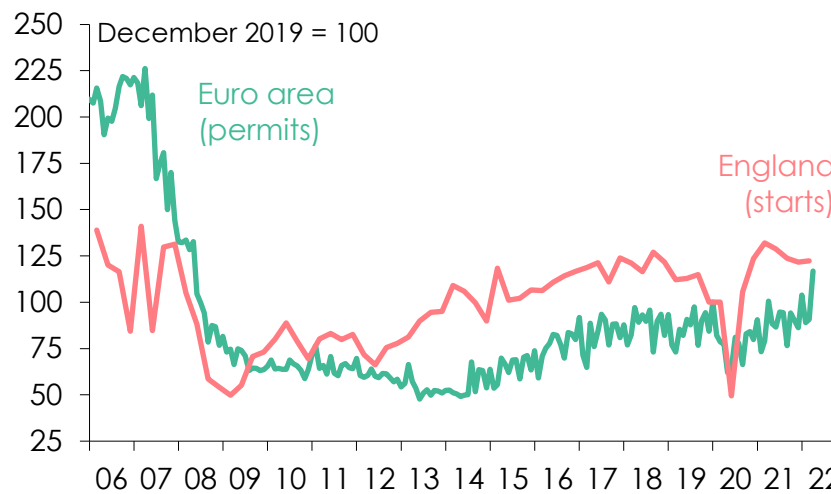
## Business confidence



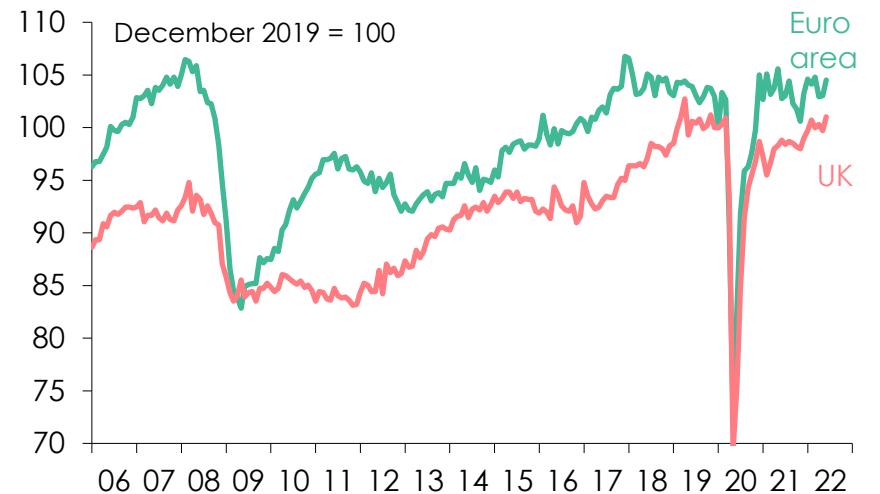
## Retail sales volume



## Housing activity



## Manufacturing production

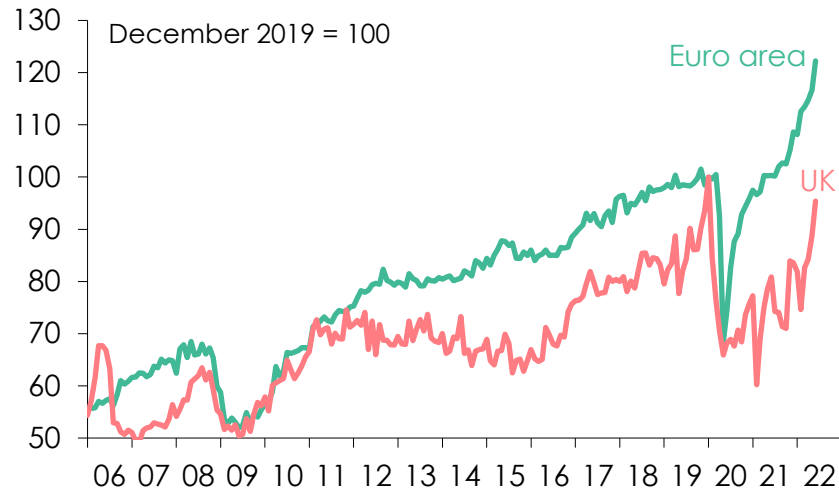


Sources: European Commission, [Business and consumer surveys](#); GfK, [Consumer confidence barometer](#); Confederation of British Industry, [Industrial Trends Survey](#); Eurostat, [Turnover and volume of sales in wholesale and retail trade](#), [New registrations of passenger cars](#), [Building permits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

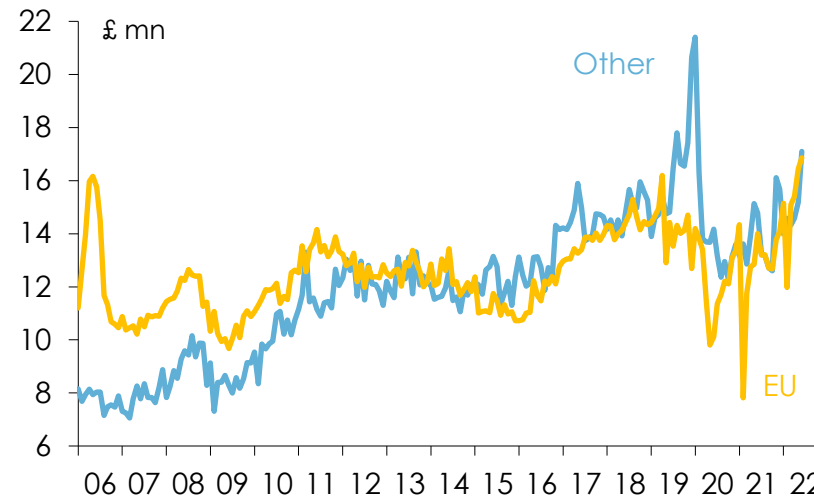
# Higher prices for energy imports have caused the euro area's trade balance to slip into deficit, and also widened the UK's external deficits

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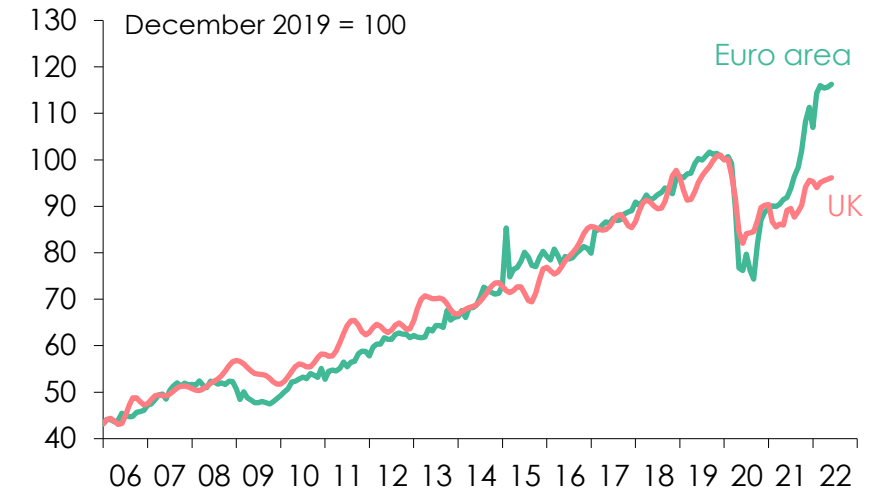
## Merchandise exports



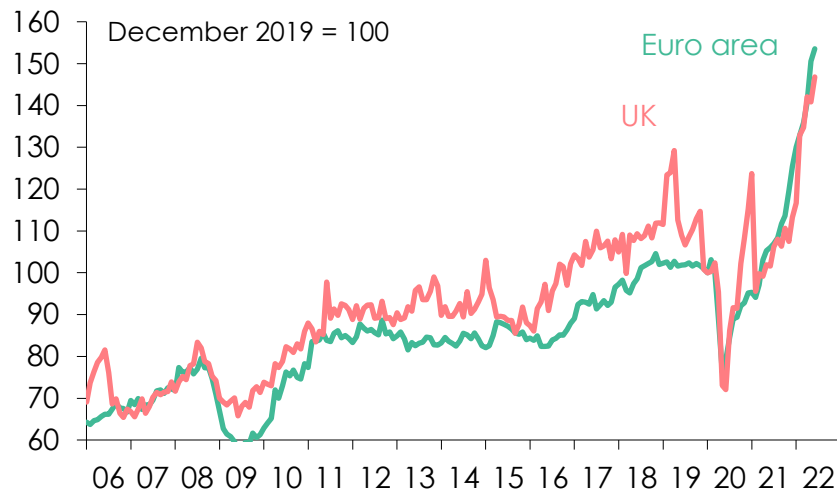
## UK exports by destination



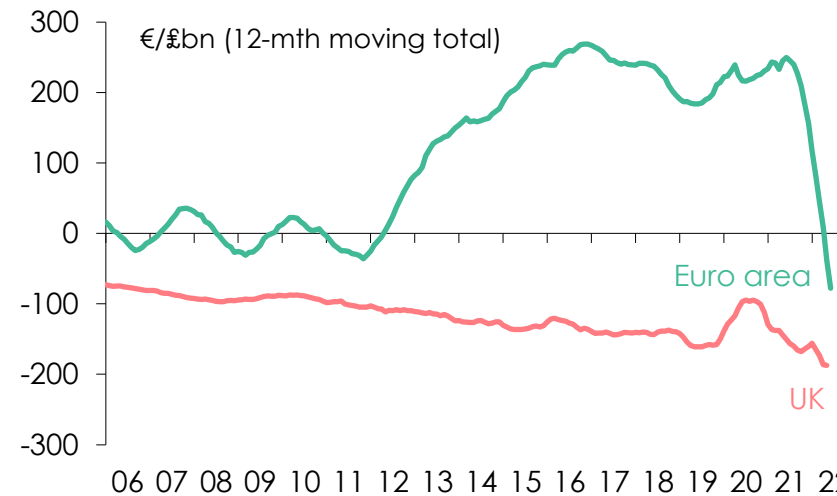
## Services exports



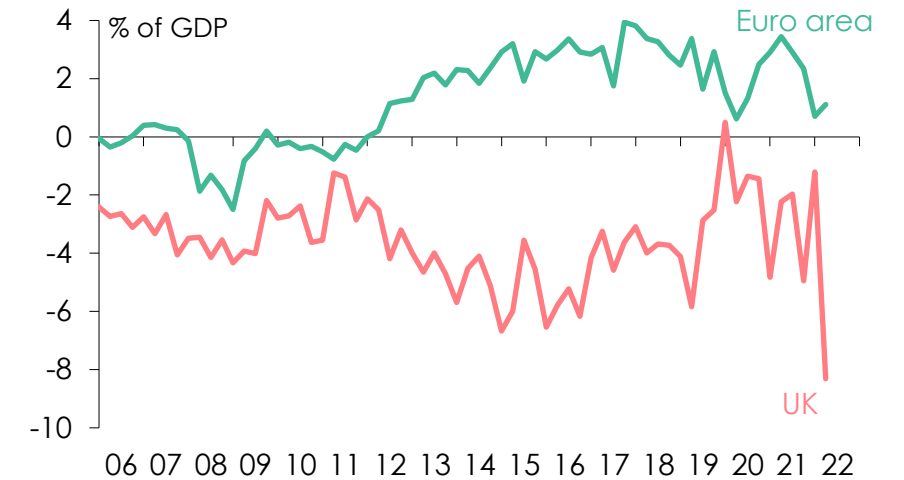
## Merchandise imports



## Merchandise trade balances



## Current account balance

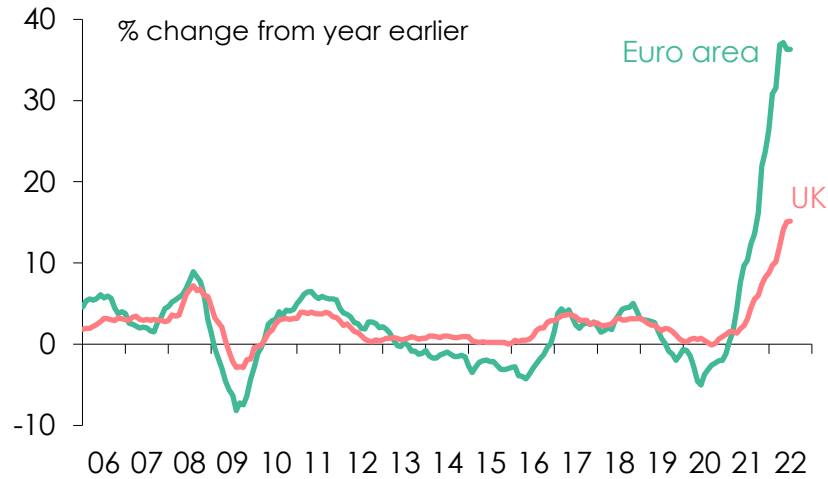


Sources: European Central Bank, Statistical Data Warehouse, [External Trade](#), [Balance of Payments and International Investment Position - Services](#), and [Balance of Payments and International Investment Position - Current Account](#); UK Office for National Statistics, [UK Trade](#) and [BoP Current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

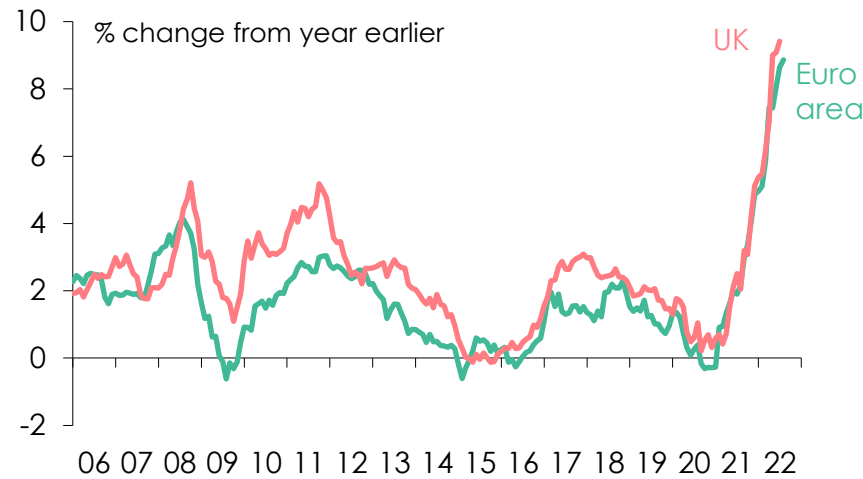
# The euro area's annual 'headline' inflation rate rose to 8.9% in July, according to the 'flash' estimate, while the 'core' rate reached 4.0%

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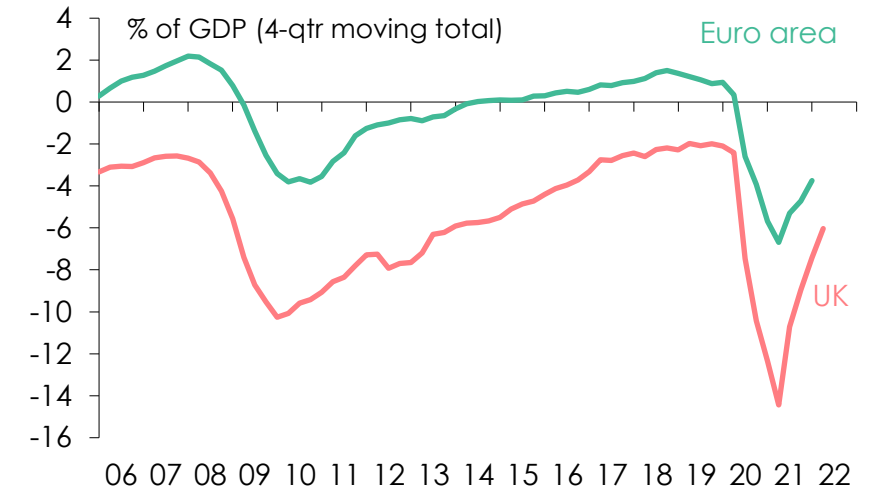
## Producer prices



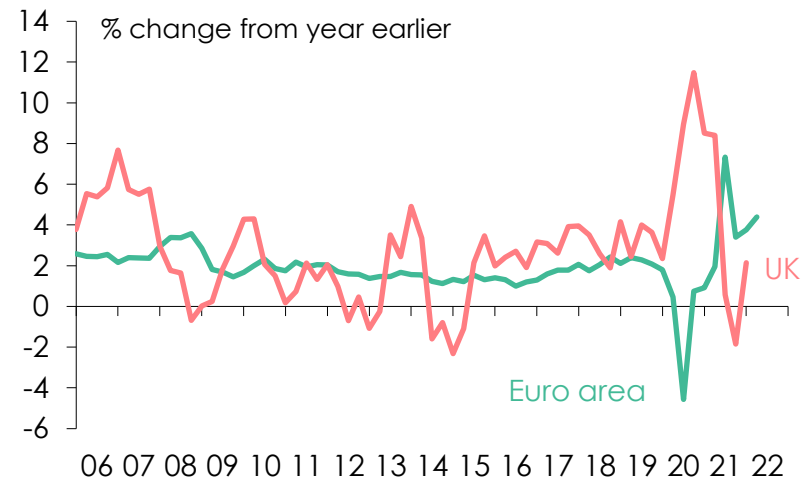
## 'Headline' consumer prices



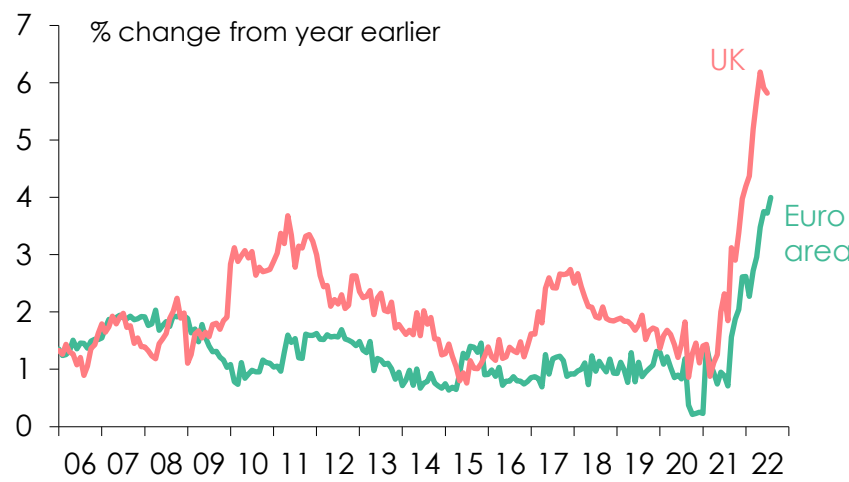
## Government fiscal balance



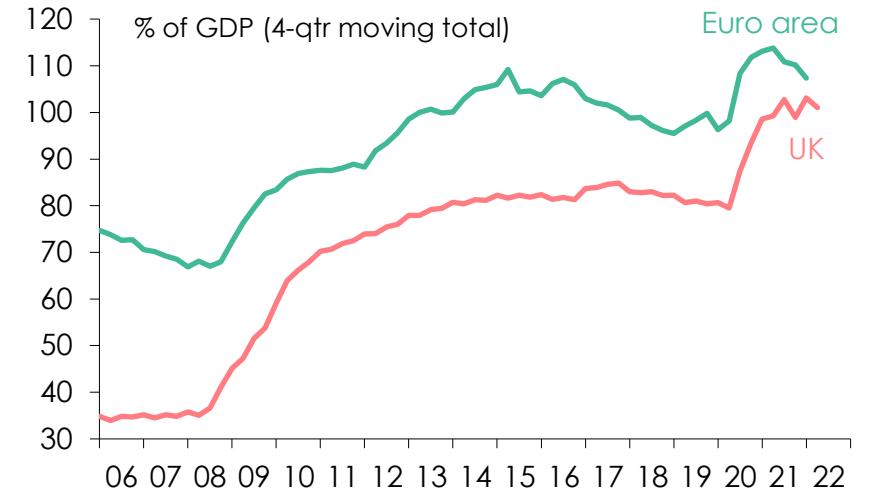
## Labour costs



## 'Core' consumer prices



## Government net debt



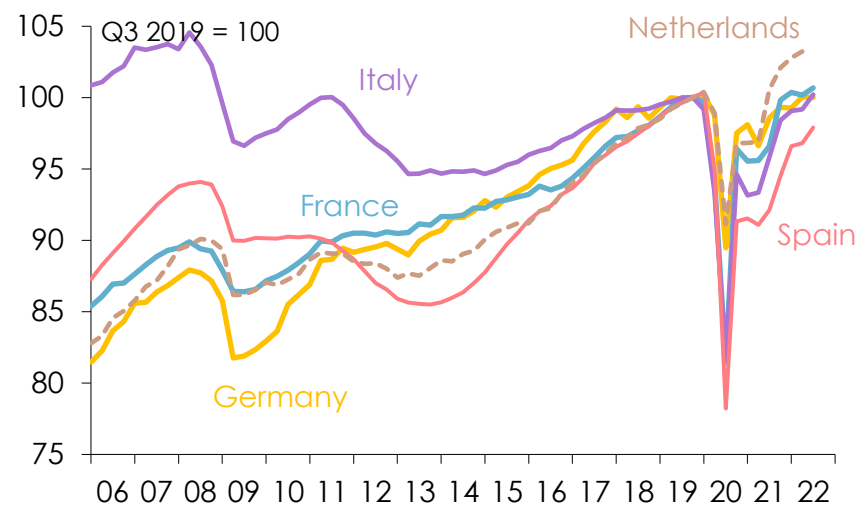
Note: Consumer price indices for the euro area and UK are 'harmonized' indices which exclude owner-occupied housing costs. Sources: Eurostat, [Producer prices in industry](#), [Compensation per employee and hours worked per employed person](#), [Consumer price index](#), and [Government finance statistics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



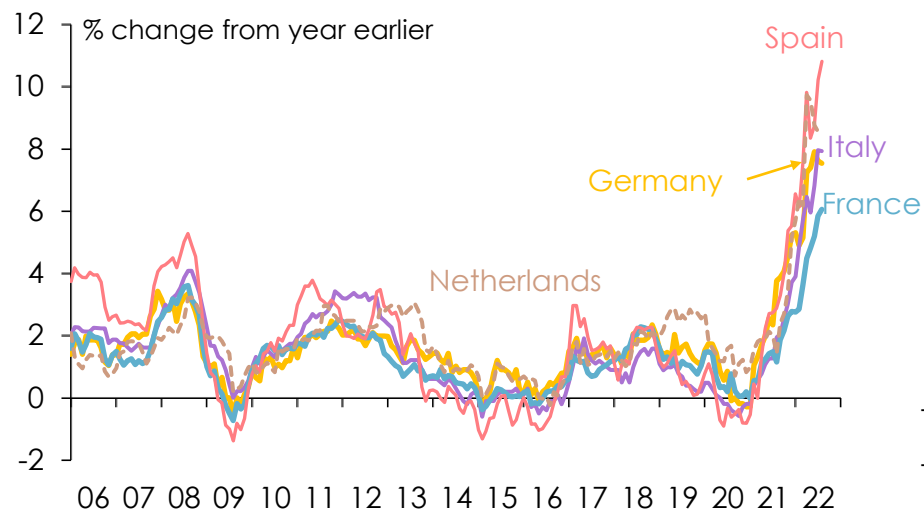
# The end of ECB asset purchases has led to a significant widening in yield spreads between Spanish & especially Italian, and German bonds

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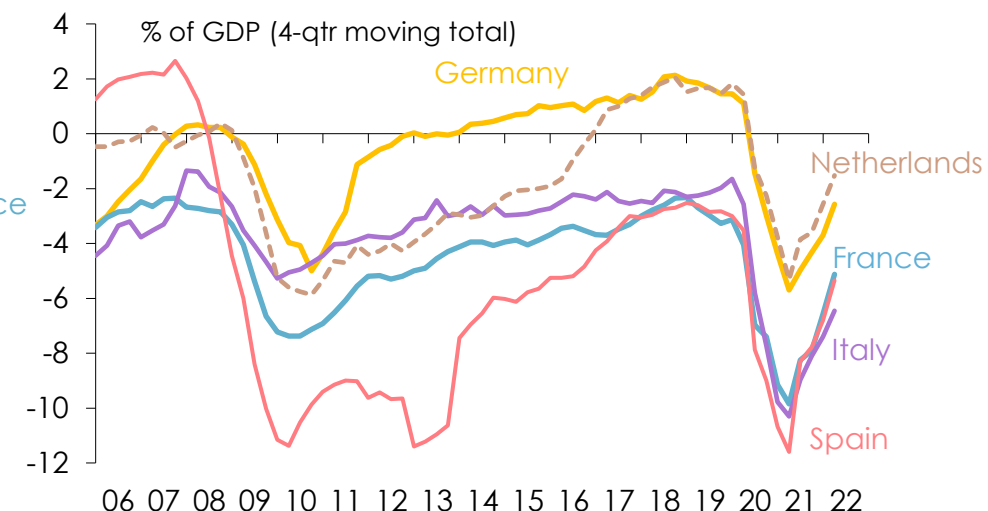
## Real GDP



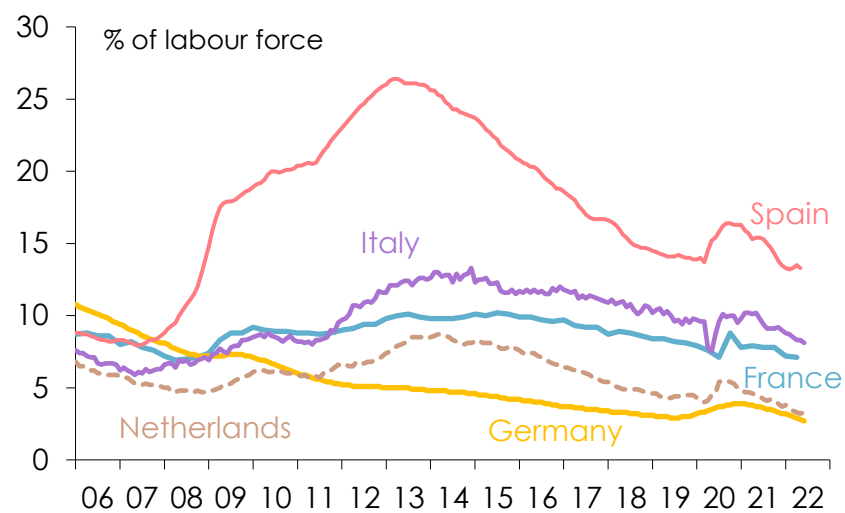
## Inflation



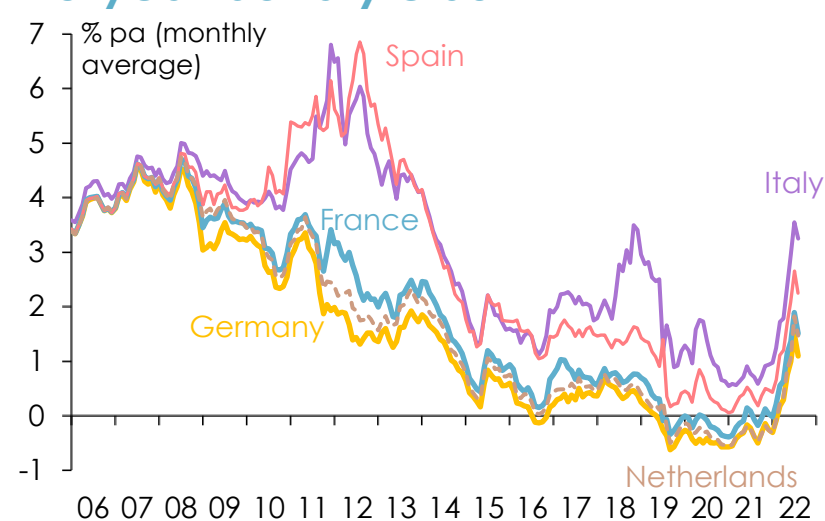
## Government net lending



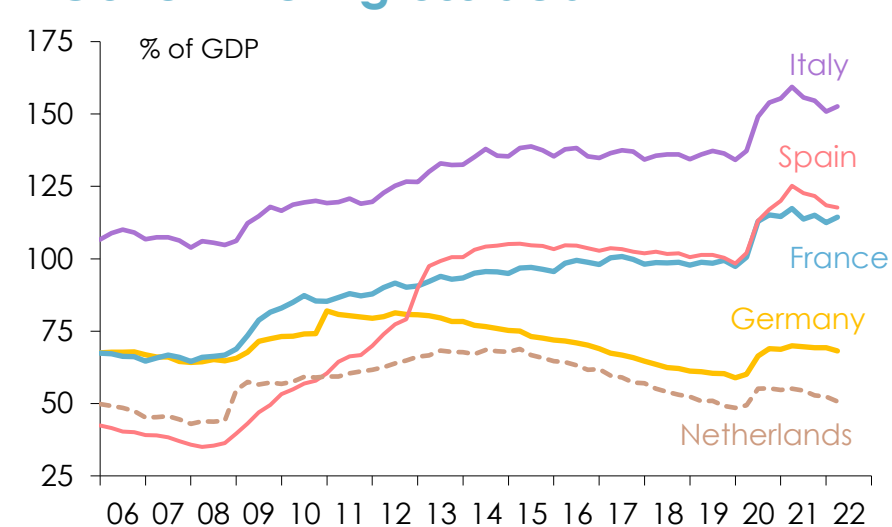
## Unemployment



## 10-year bond yields



## Government gross debt



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

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

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- ❑ 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 22<sup>nd</sup> July
  - this was twice as much as had been foreshadowed at the previous GC meeting on 16<sup>th</sup> 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 8<sup>th</sup> 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 is expected to raise its bank rate another 25bp at Wednesday's MPC meeting

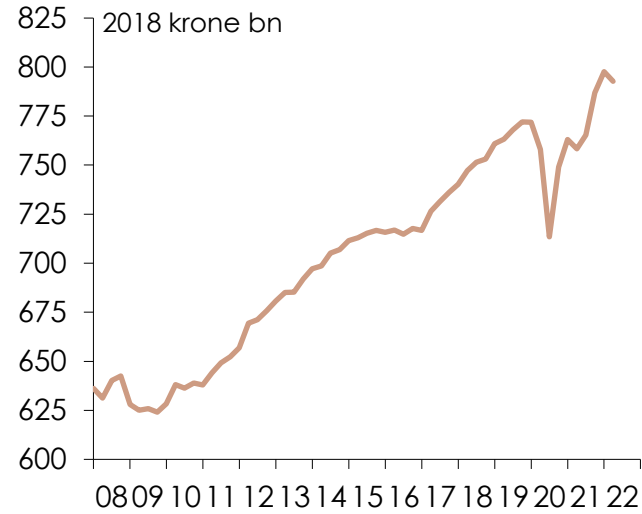
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- ❑ The **Bank of England** raised its Bank Rate by another 25 bp, to 1.25%, at its Monetary Policy Committee meeting on 16<sup>th</sup> June – the fifth consecutive increase, following increases of 15bp in December and 25bp at its February, March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

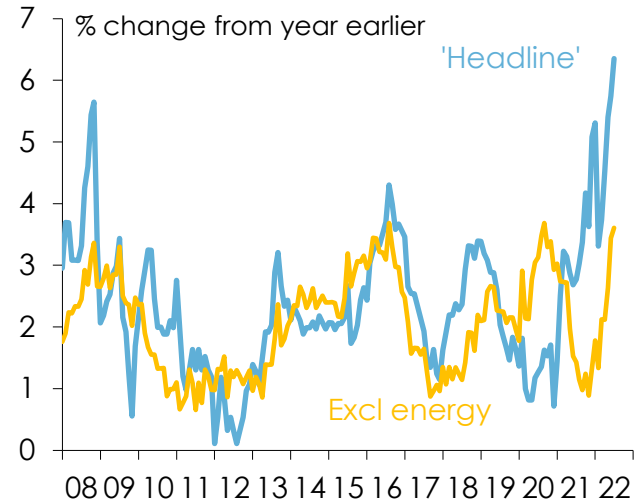
# Norway's 'headline' annual inflation rate hit a 35-year high of 6.3% in June

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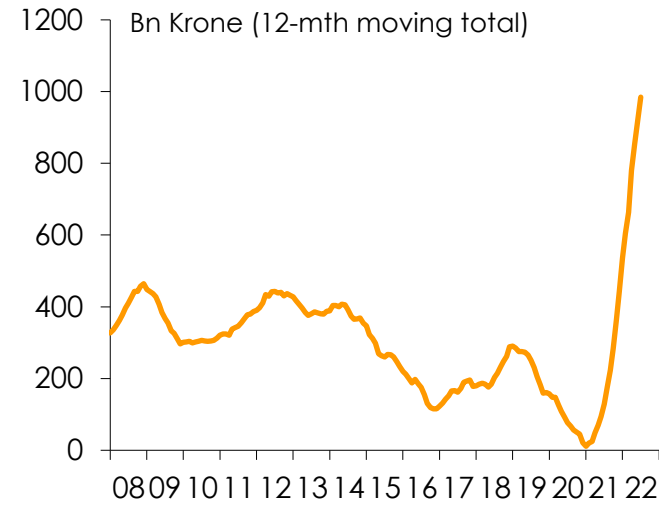
## 'Mainland' real GDP



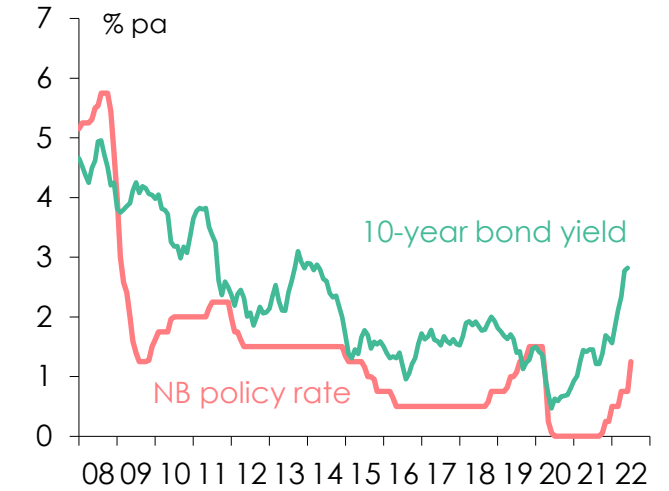
## Inflation



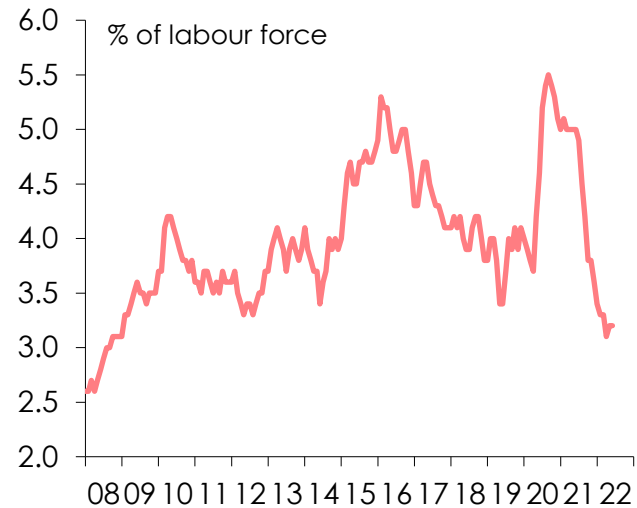
## Trade balance



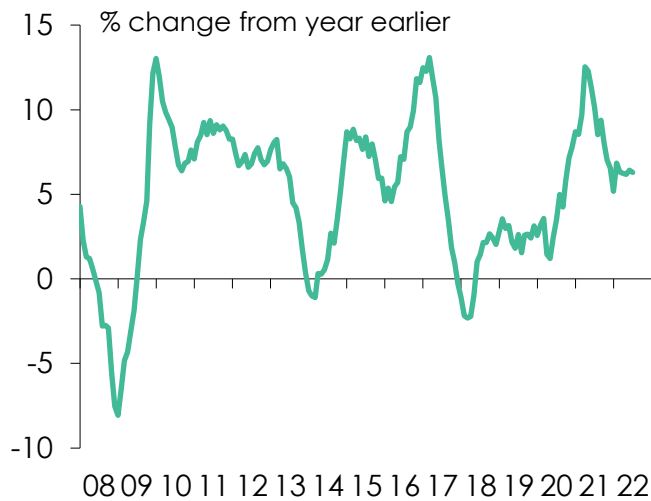
## Interest rates



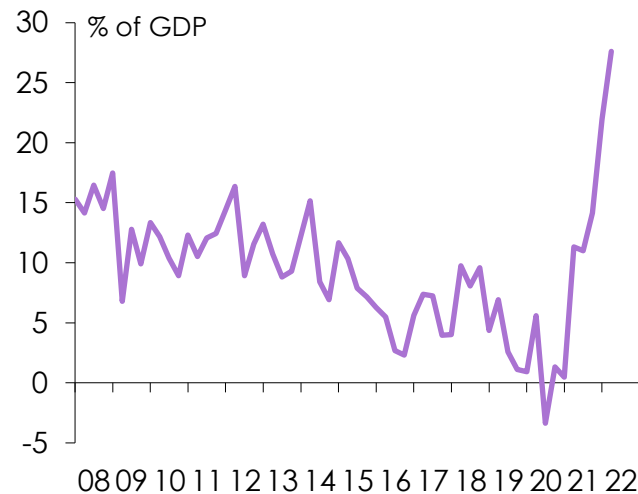
## Unemployment



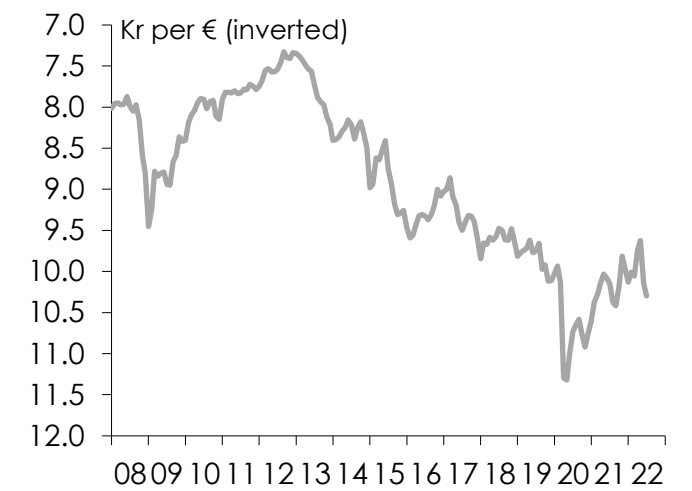
## House prices



## Current account balance



## Krone vs euro

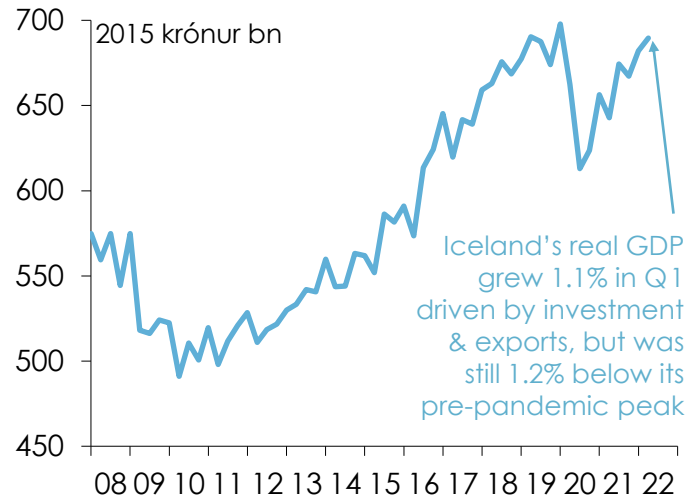


Note: 'mainland' GDP means excluding Norway's oil and gas industry which is entirely located offshore. Sources: [Statistisk sentralbyrå](#); [Norges Bank](#); Refinitiv Datastream.  
[Return to "What's New"](#).

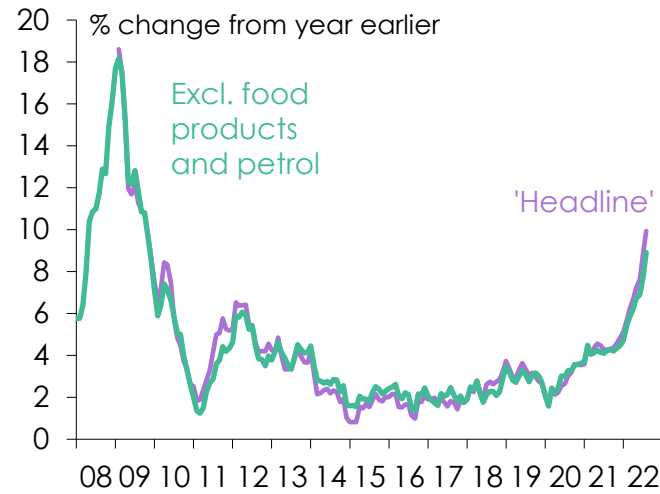
# Iceland's 'headline' inflation rate rose to 9.9% in July, the highest since September 2009, while 'core' inflation rose 1.2 pc pt to 8.9%

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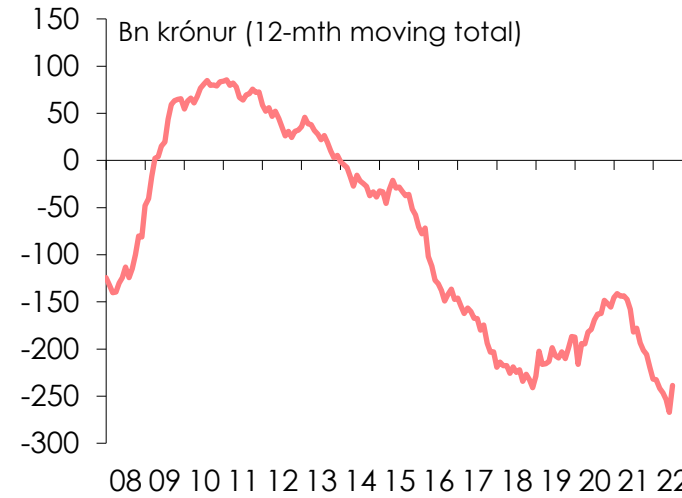
## Real GDP



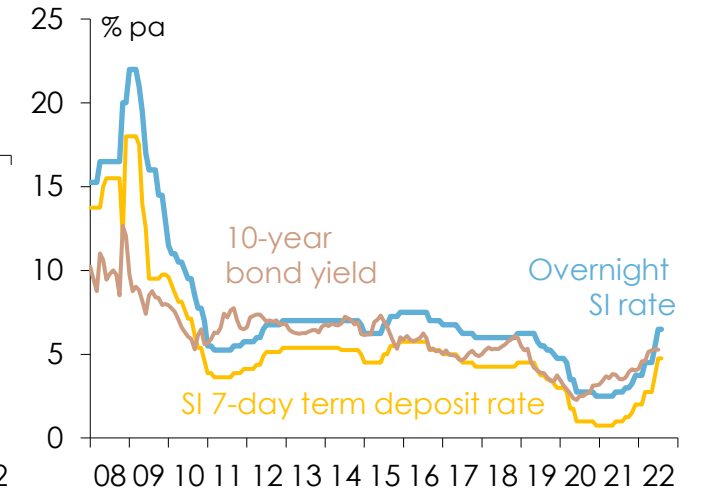
## Inflation



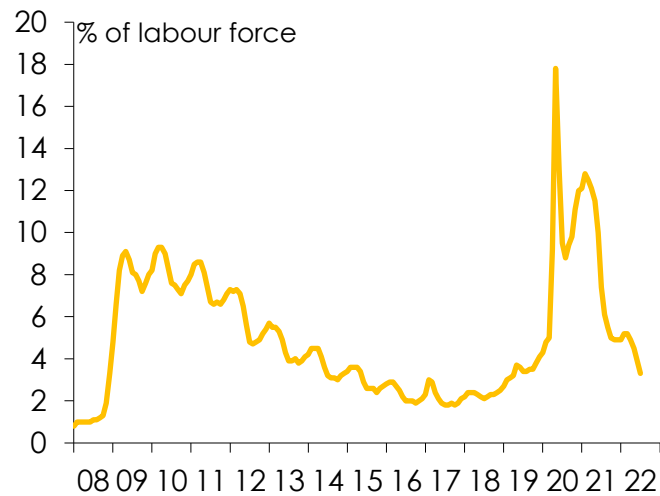
## Trade balance



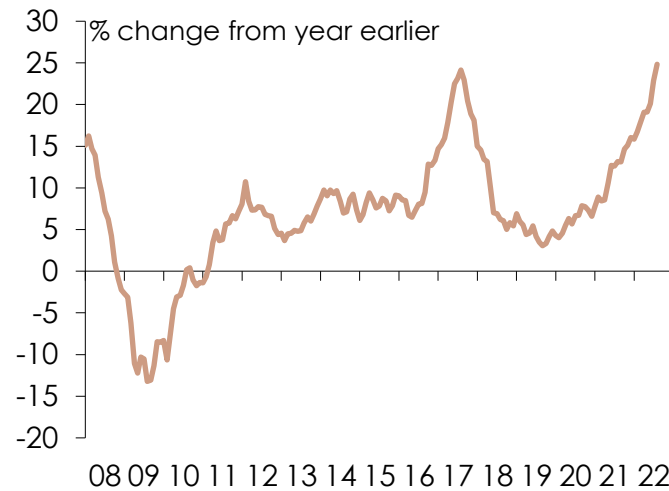
## Interest rates



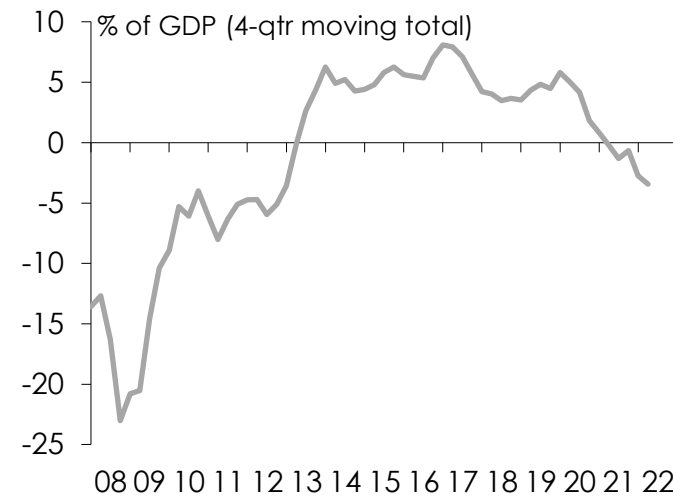
## Unemployment



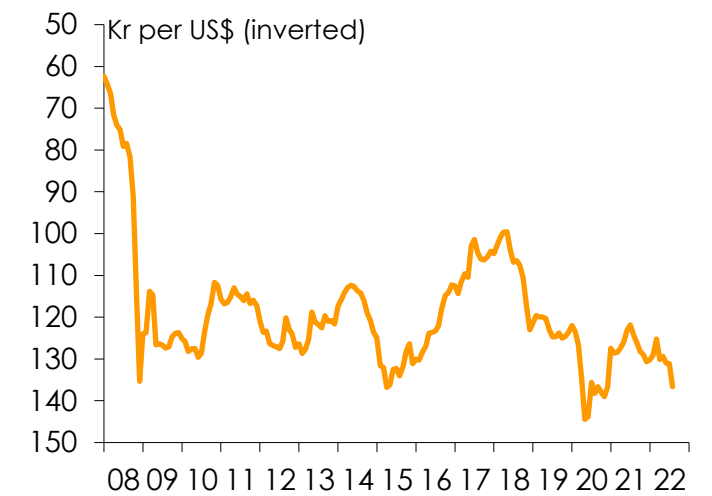
## House prices



## Current account balance



## Króna vs US dollar



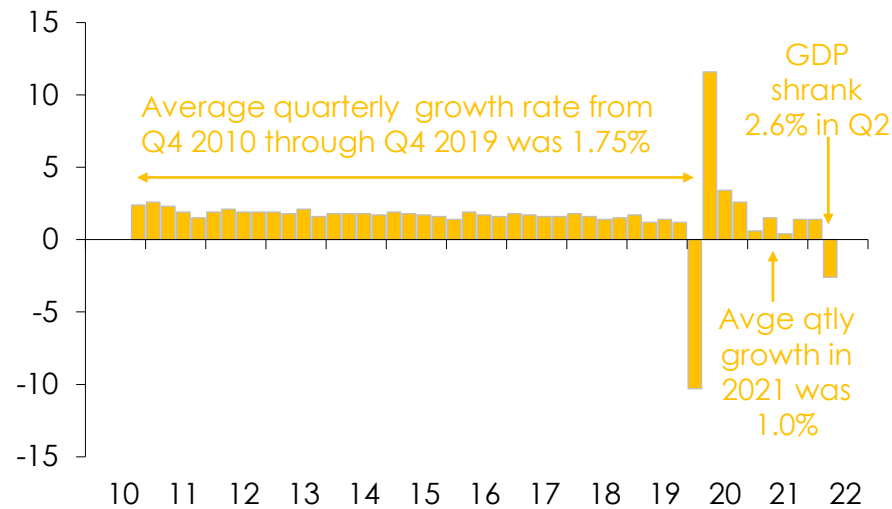
**China**



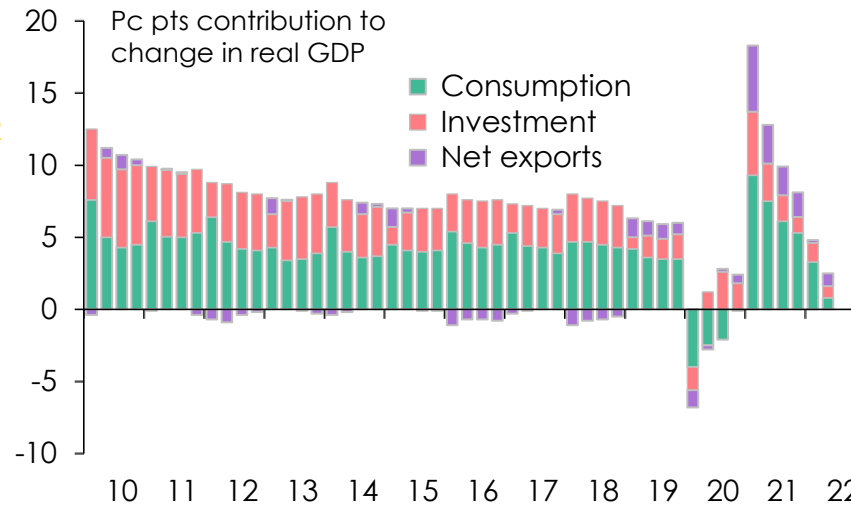
# China's real GDP shrank by 2.6% in Q2, to be only 0.4% higher than a year earlier – but the unemployment rate fell 0.4 pc pt to 5.5% in June

THE WORLD ECONOMY THIS WEEK – 1<sup>ST</sup> AUGUST 2022

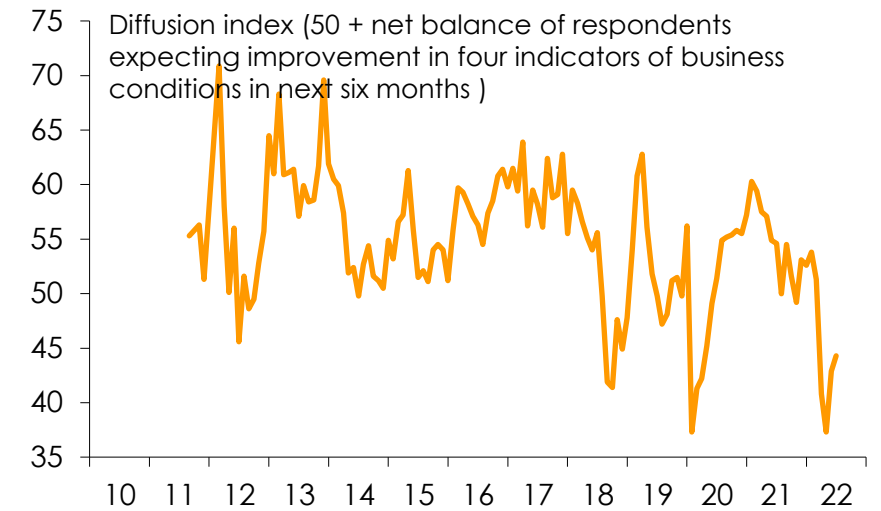
## Quarterly real GDP growth



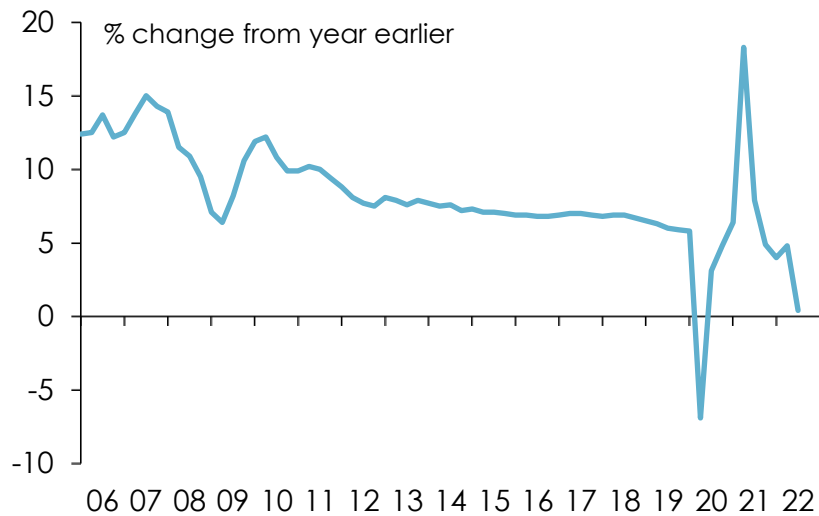
## Contributions to real GDP growth



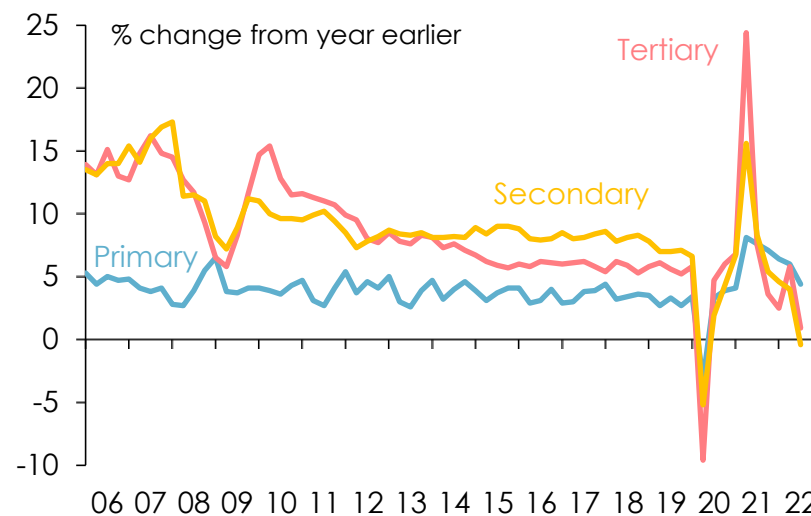
## CKGSB business conditions index



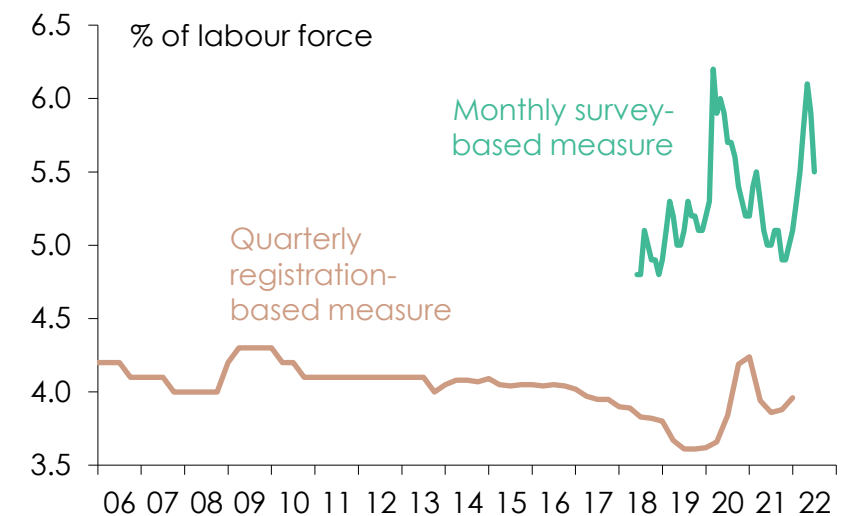
## Annual real GDP growth



## Annual GDP growth by industry



## Urban unemployment rate

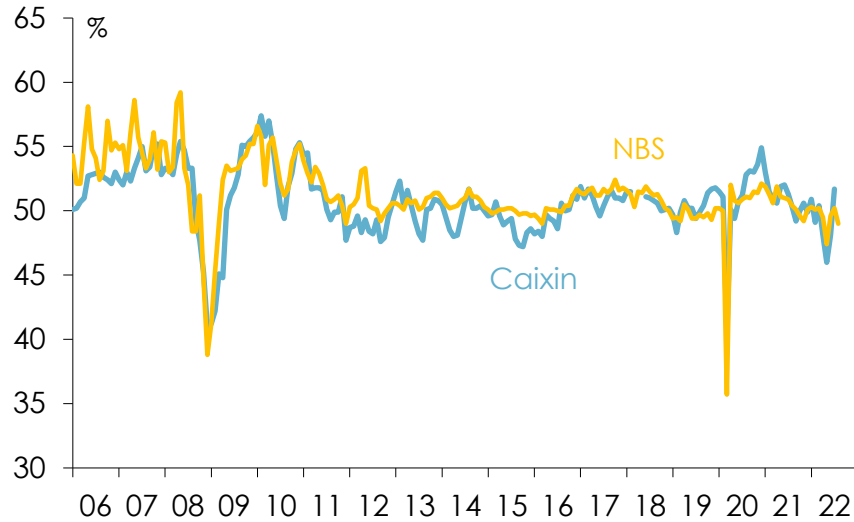


Sources: China National Bureau of Statistics, [National Data - National Accounts](#) and [The Urban Surveyed Unemployment Rate](#); Cheung Kong Graduate School of Business, [Business Conditions Index \(BCI\)](#). Before the monthly unemployment survey was introduced in 2018, the quarterly measure was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

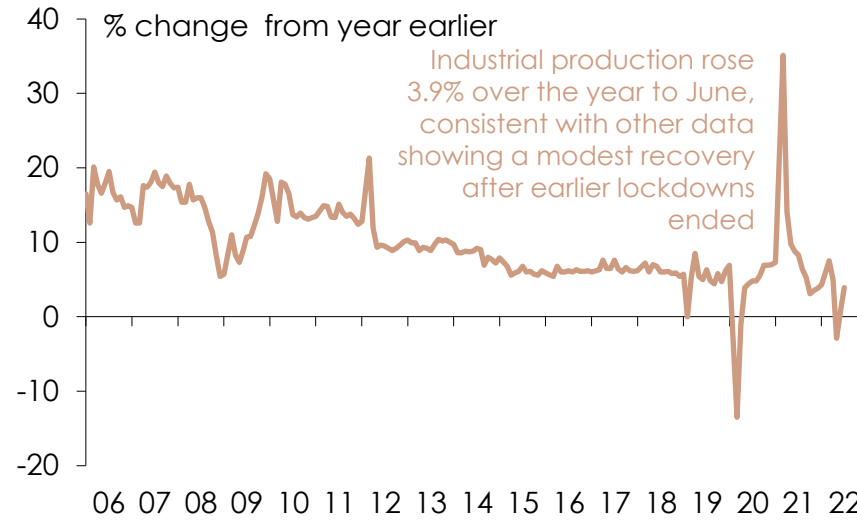
# 'Official' PMIs show a renewed contraction in manufacturing in July and a slowing in services as a result of lockdowns being reimposed in some cities

THE WORLD ECONOMY THIS WEEK – 1<sup>ST</sup> AUGUST 2022

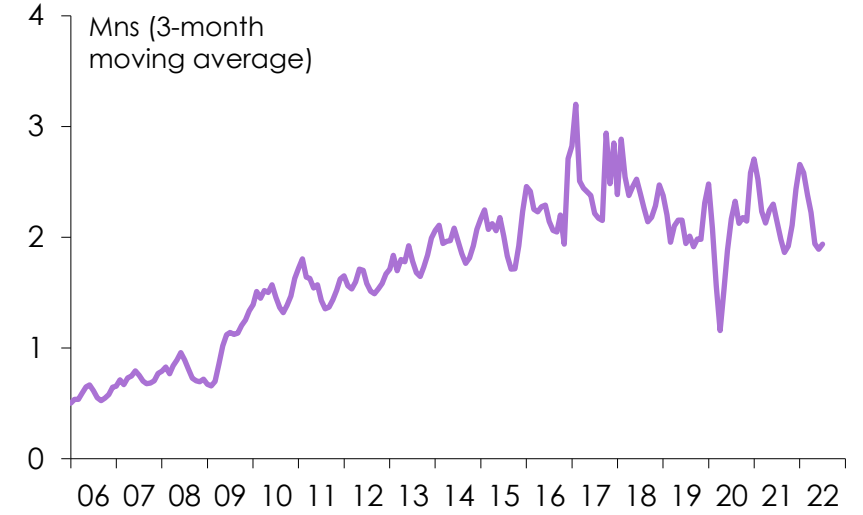
## Manufacturing PMIs



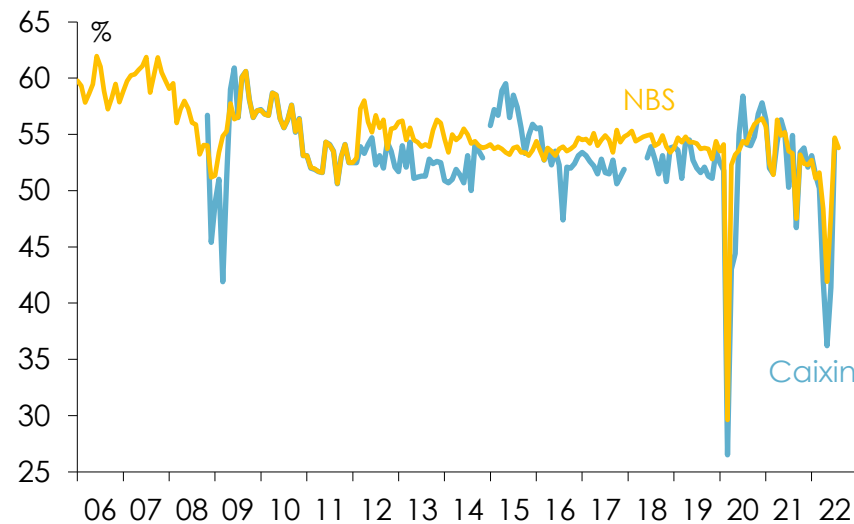
## Industrial production



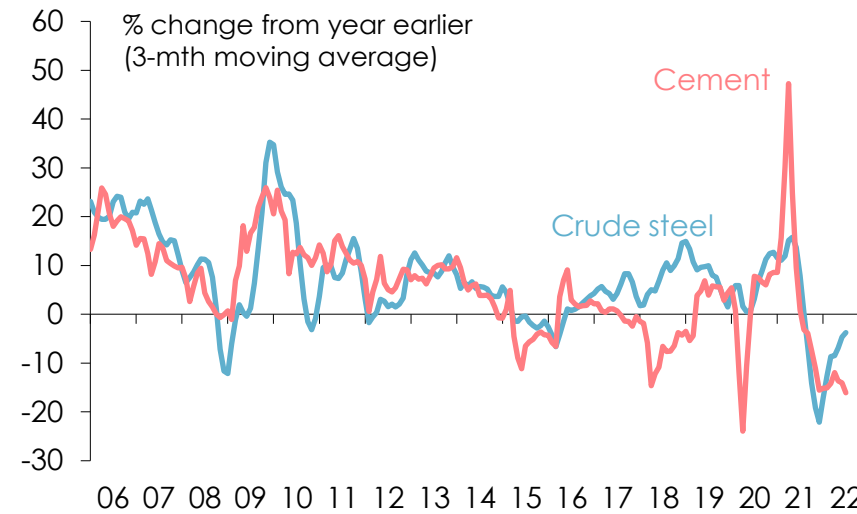
## Motor vehicle production



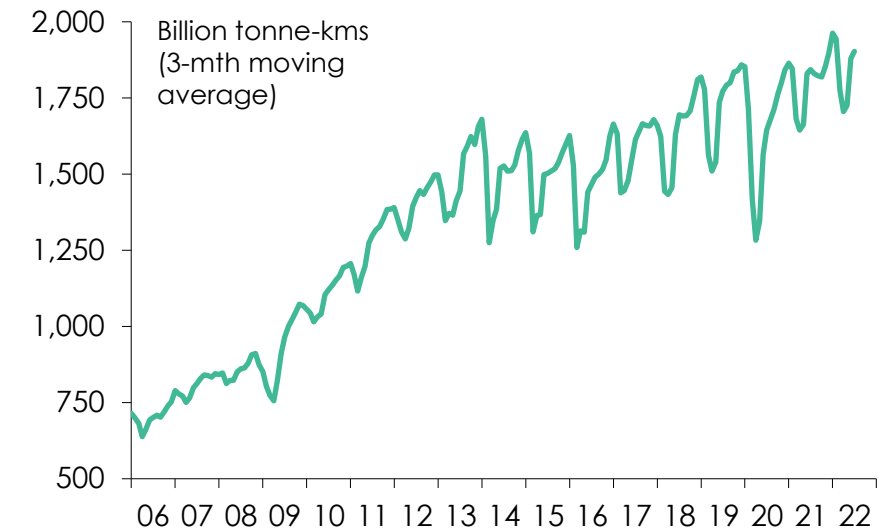
## Non-manufacturing PMIs



## Steel and cement production



## Freight traffic volumes

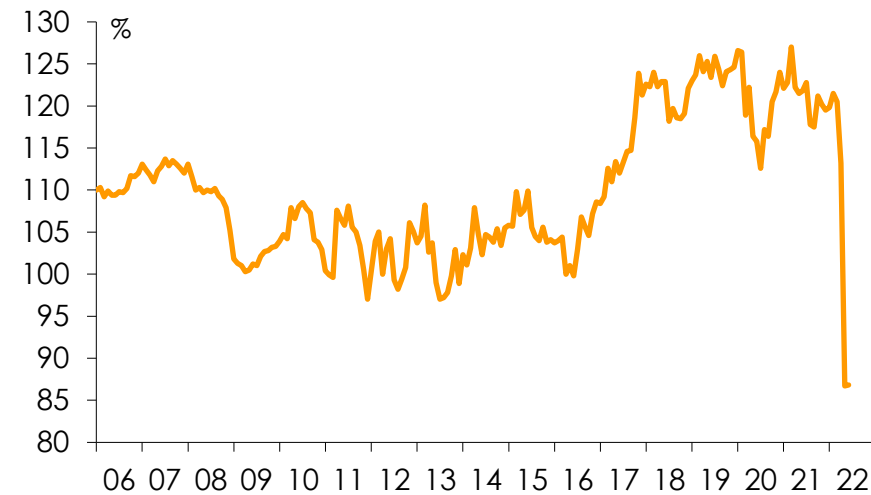


Note: The Caixin ('unofficial') PMIs are derived from a survey of around 500, mostly small private, enterprises, while the 'official' NBS PMIs are derived from a survey of about 3,000, mostly state-owned, enterprises: for more detail see [here](#). Sources: China National Bureau of Statistics, [National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

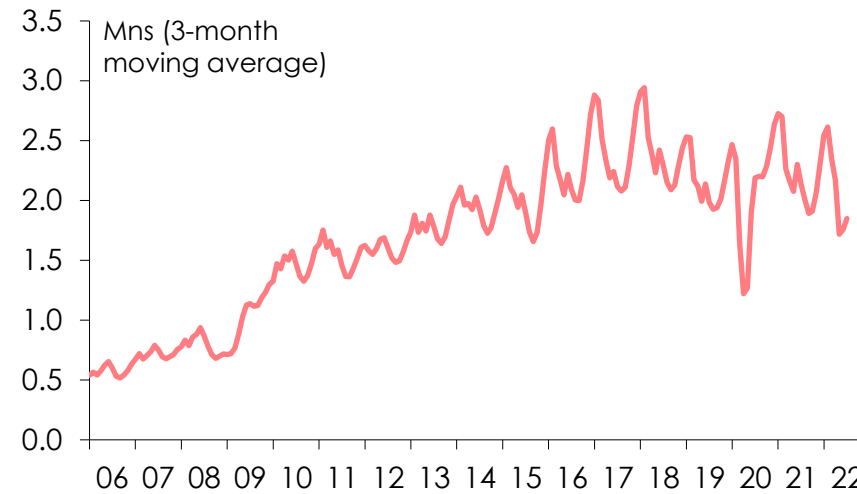
# Retail sales recovered in June after three months of decline, but real estate investment and property prices continued to decline

THE WORLD ECONOMY THIS WEEK – 1<sup>ST</sup> AUGUST 2022

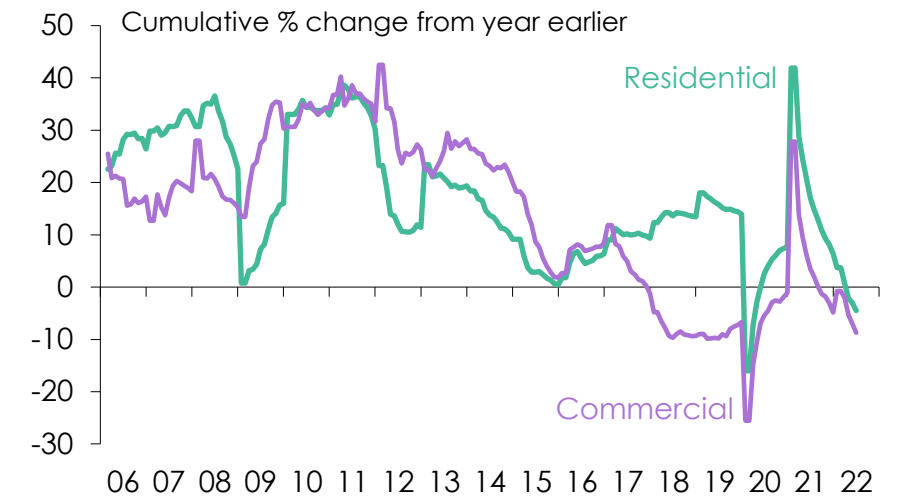
## Consumer sentiment



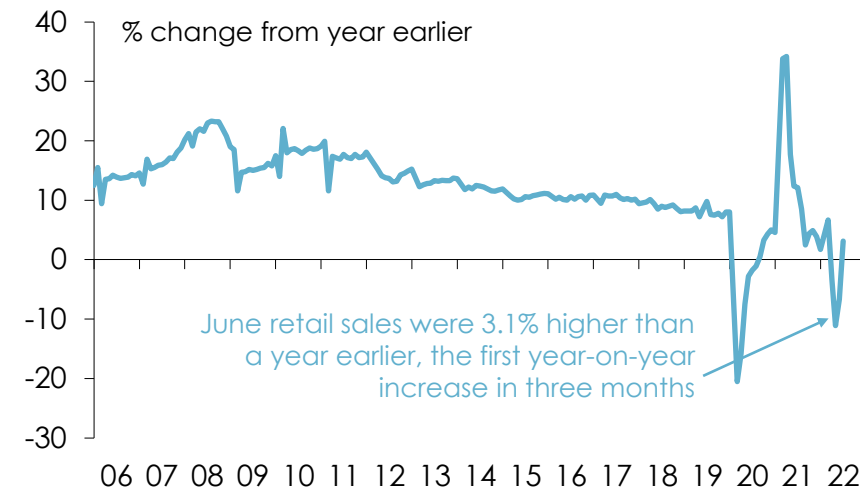
## Motor vehicle sales



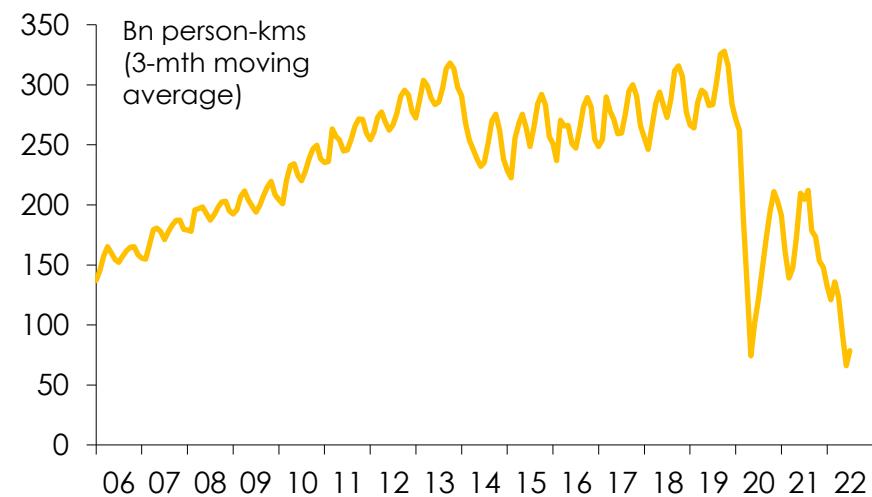
## Real estate investment



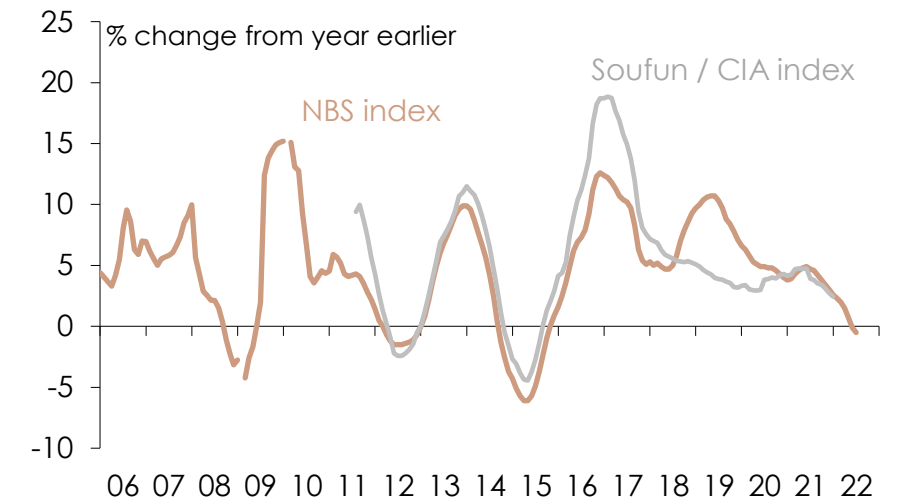
## Retail sales



## Passenger traffic volumes



## Residential real estate prices

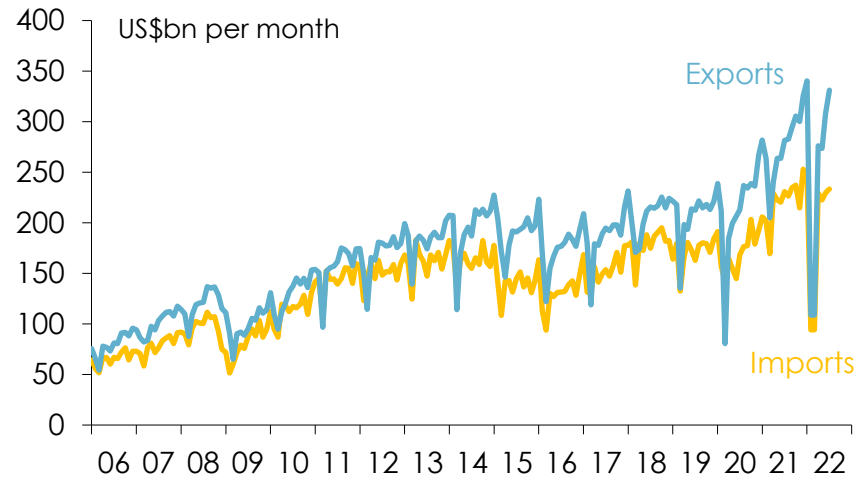


Sources: China National Bureau of Statistics, [National Data](#); China Association of Automobile Manufacturers, [Sales of Automobiles](#); China Index Academy, [CREIS China Residential HPI-100 Monthly](#) (not published since December last year). [Return to "What's New"](#).

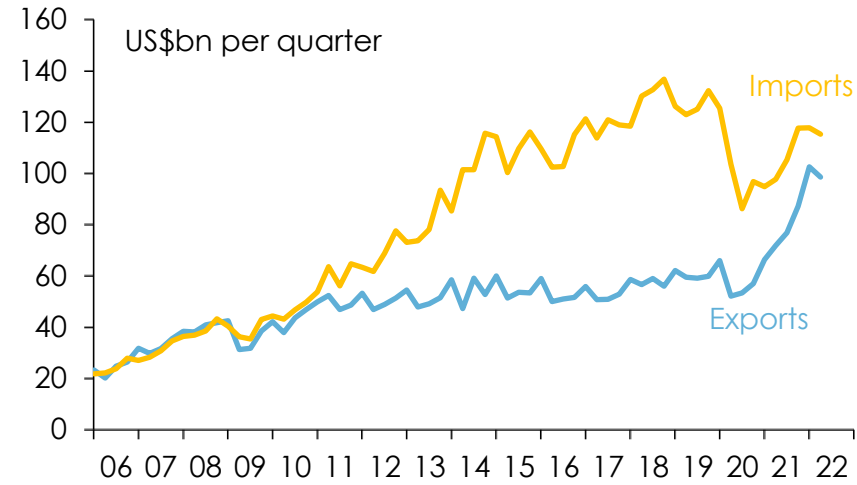
# China's trade surplus widened by US\$19bn to a record \$97.9bn in June, with exports up 17.7% from a year earlier but imports up only 1.0%

THE WORLD ECONOMY THIS WEEK – 1<sup>ST</sup> AUGUST 2022

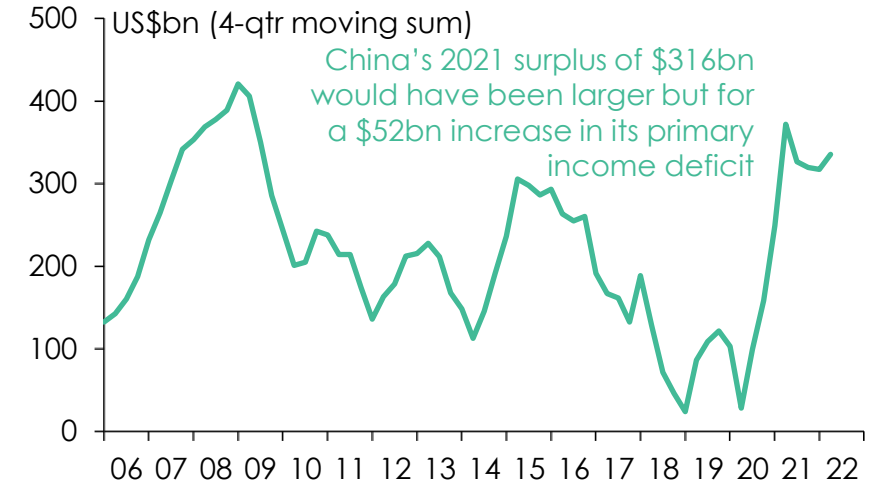
## Merchandise exports and imports



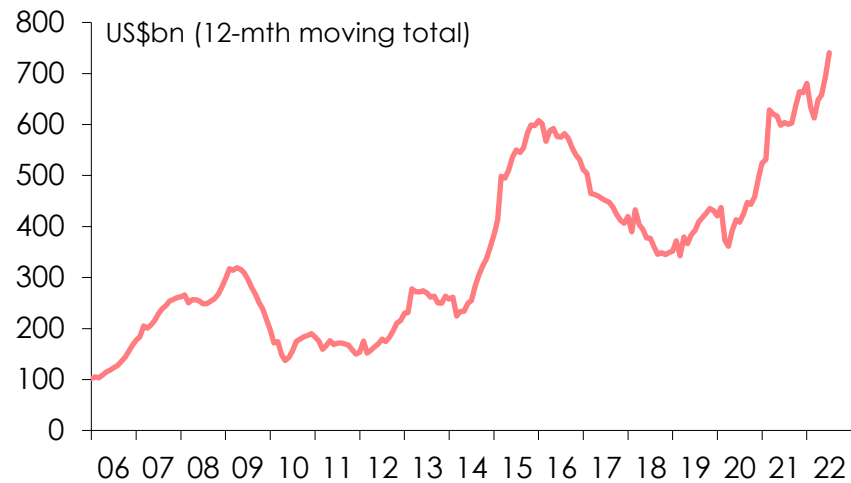
## Services exports and imports



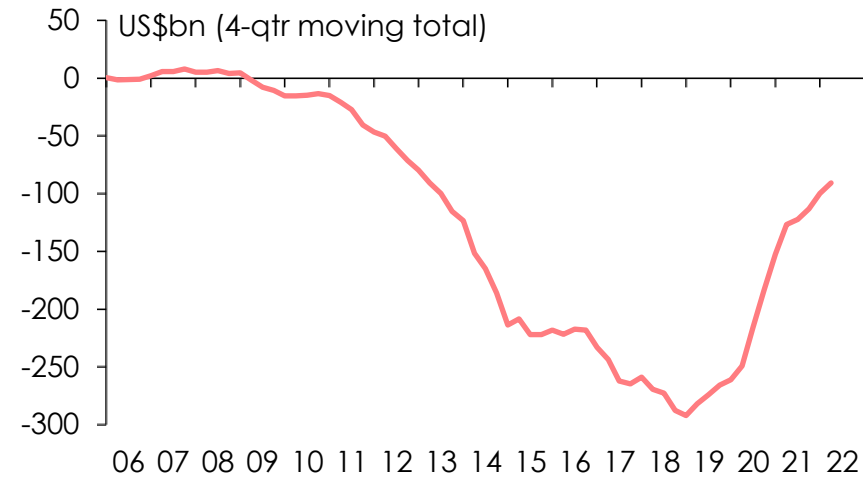
## Current account balance



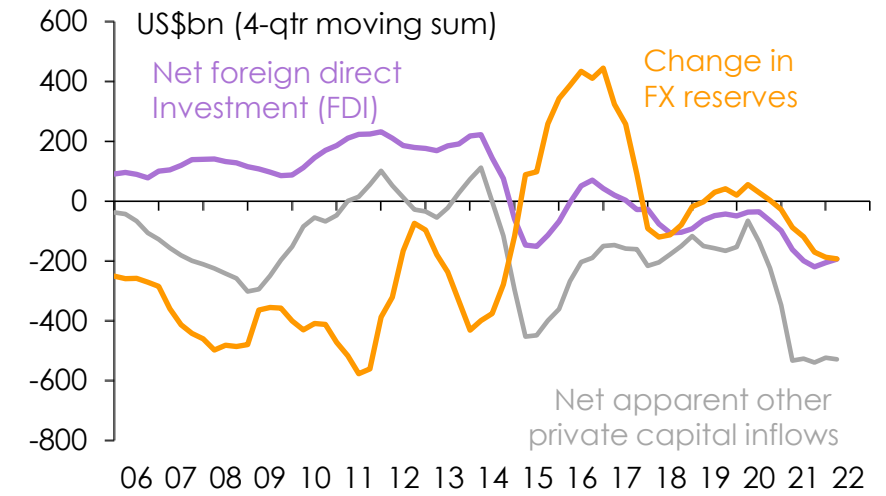
## Merchandise trade balance



## Services trade balance



## Capital flows

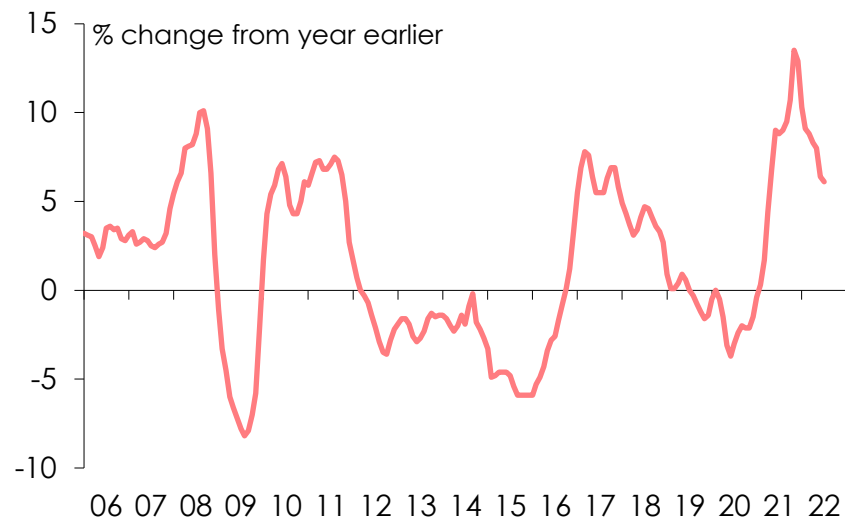


Sources: China General Administration of Customs, [Preliminary Release](#) and [Monthly Bulletin](#); State Administration of Foreign Exchange, [The time-series data of Balance of Payments of China](#). [Return to "What's New"](#).

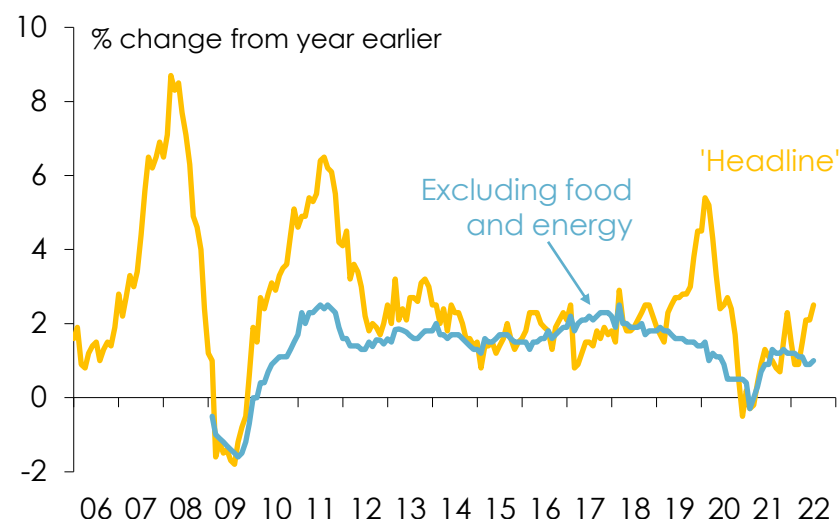
# 'Headline' CPI inflation rose further in June to 2.5%, the highest since April 2020, driven by food prices, though 'core' inflation was only 1.0%

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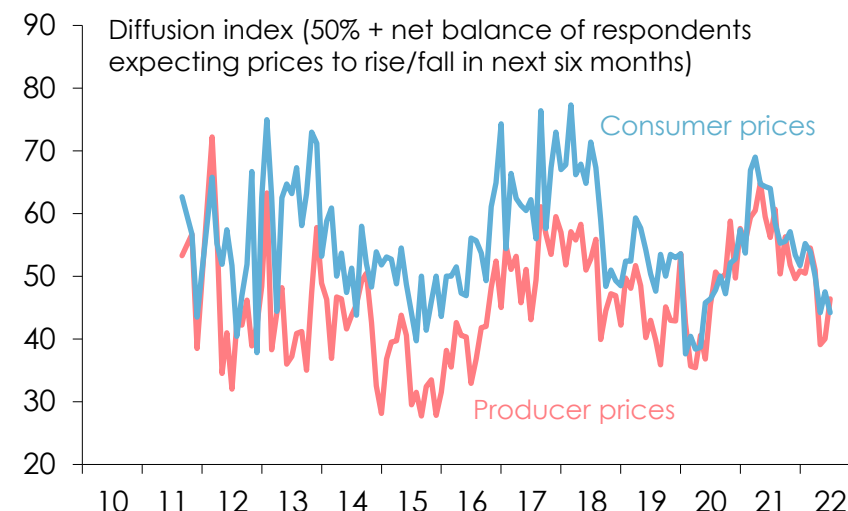
## Producer prices



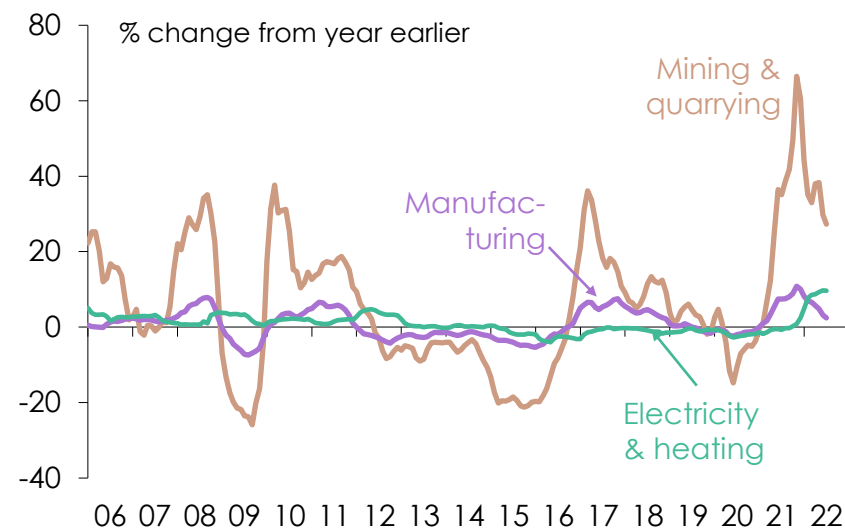
## Consumer prices



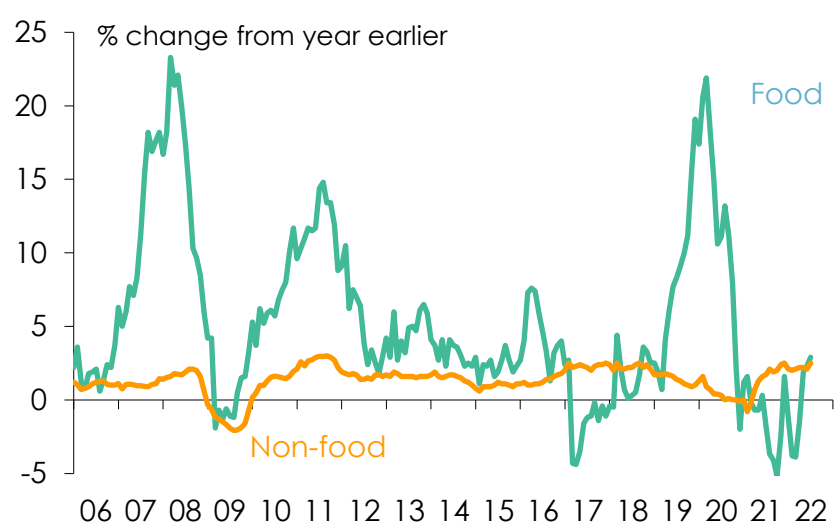
## CKGSB price diffusion indexes



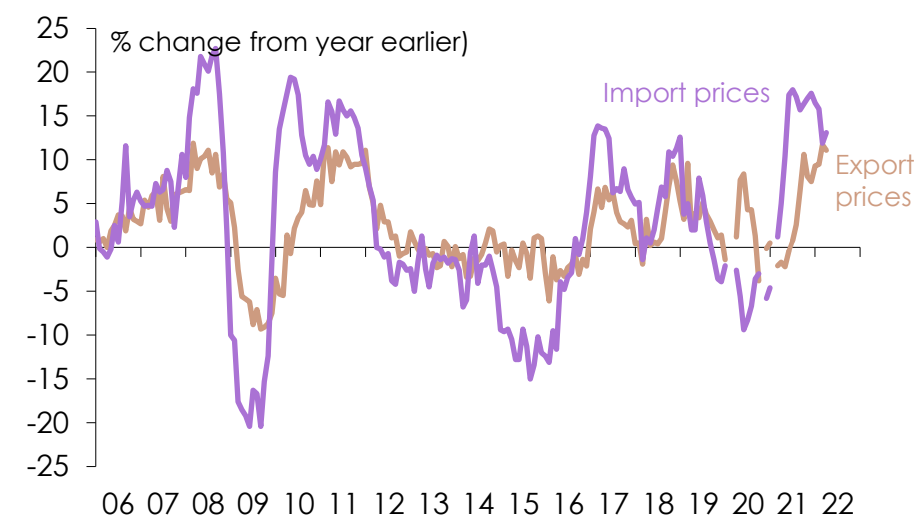
## Producer prices – major categories



## Consumer prices – food and other



## Trade prices



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



# China's Politburo last week tacitly abandoned the 5½% growth target it had set for 2022 earlier this year

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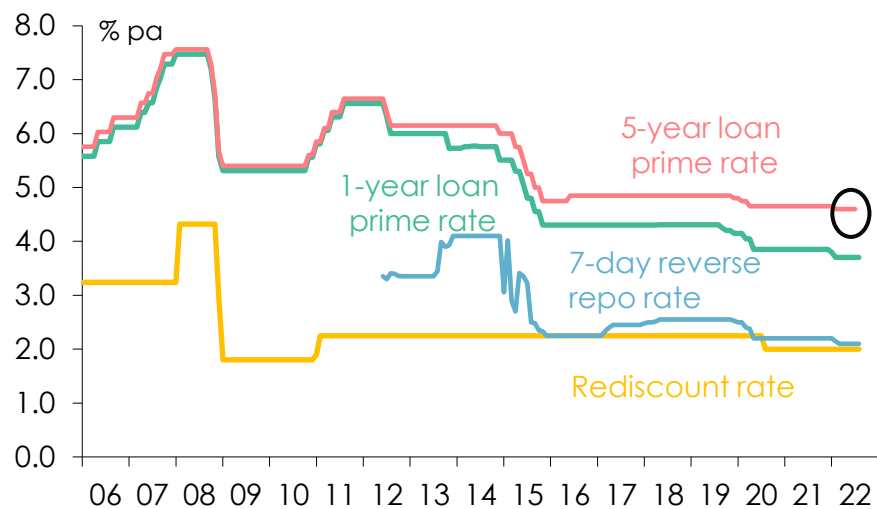
- ❑ **China's Politburo (chaired by Xi Jinping) last week tacitly abandoned the 5½% GDP growth target for 2022 which it had set earlier this year**
  - as [reported by Xinhua](#), the Politburo acknowledged that “the current economic operation is facing some prominent contradictions and problems”, and it was therefore “necessary to maintain strategic determination and firmly do our own thing [sic]”
  - the aim for the second half of the year was to “focus on stabilizing employment and prices, keep the economy running in a reasonable range, and strive to achieve the best results”
- ❑ **The Politburo re-affirmed its commitment to Xi's ‘zero tolerance’ for Covid-outbreaks, ordering that “the emergence of the epidemic must be strictly prevented and controlled immediately”, and that officials “must not be slack and weary of war”**
- ❑ **Regarding economic policies, the Politburo stressed that “fiscal and monetary policy should effectively make up for the lack of social demand”**
  - local governments should be supported to “make good use of special bond funds” and “make full use of special debt limits”
  - while monetary policy should “maintain reasonable and sufficient liquidity, increase credit support for enterprises, and make good use of new credit from policy banks and infrastructure construction investment funds”
  - “provinces with the necessary conditions should strive to achieve the expected goals of economic and social development” (which seems to be an acknowledgement that some provinces won't be able to achieve the ‘expected goals’)
- ❑ **The Politburo also stressed the importance of stabilizing the real estate market (whilst adhering to the principle that ‘housing is for living in, not for speculation’), and of doing “a good job in the employment of key groups such as college graduates”**



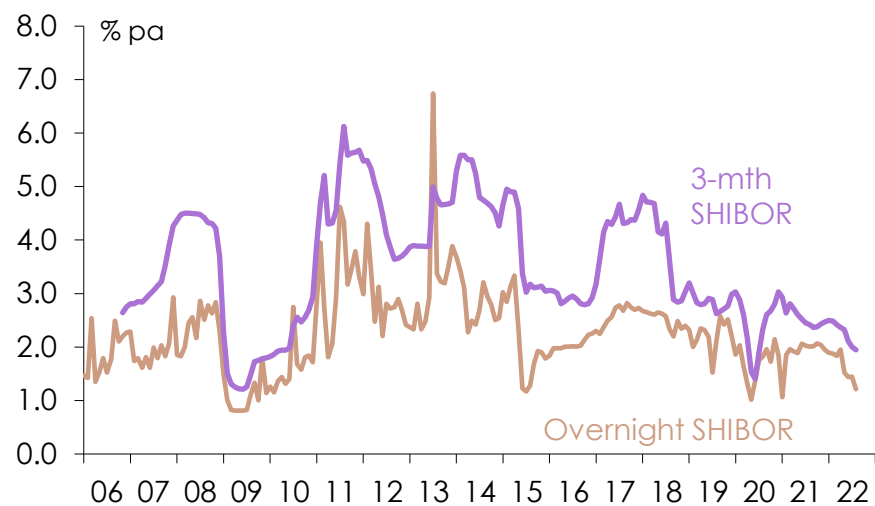
# Bank lending and other forms of credit picked up in June but to date the PBoC hasn't done much to ease monetary conditions

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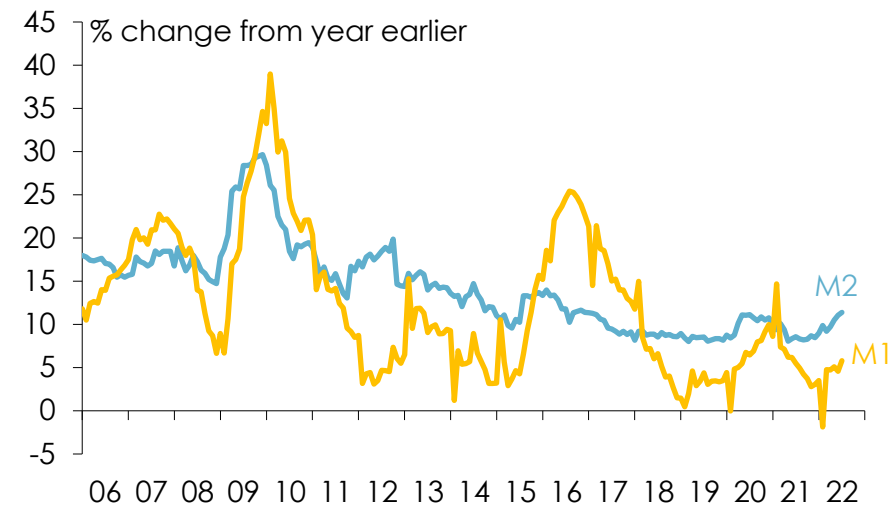
## PBoC policy interest rates



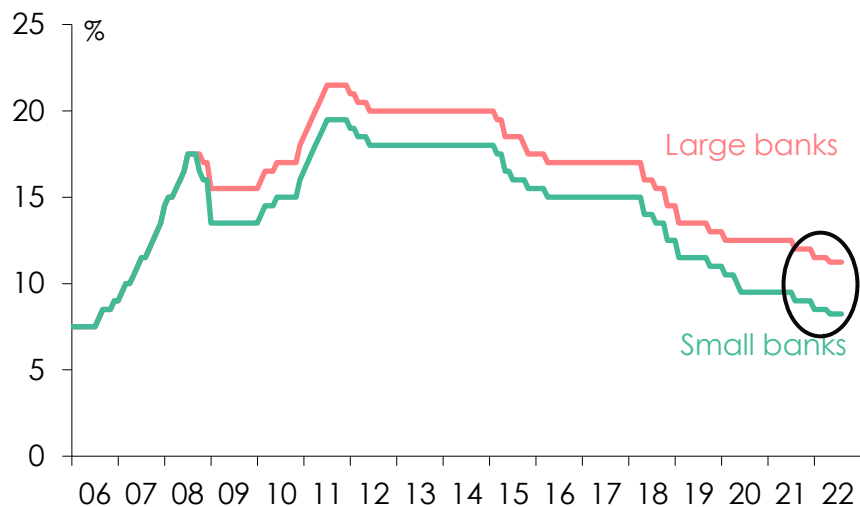
## Short-term market interest rates



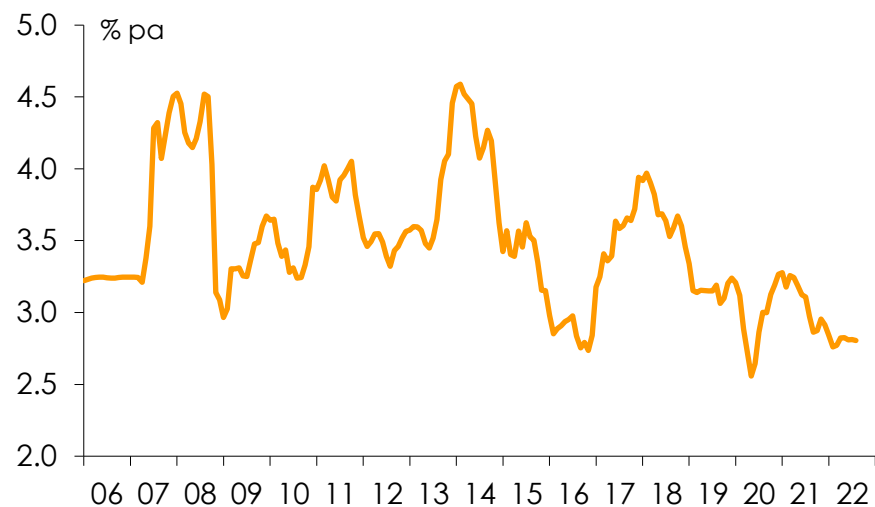
## Monetary aggregates



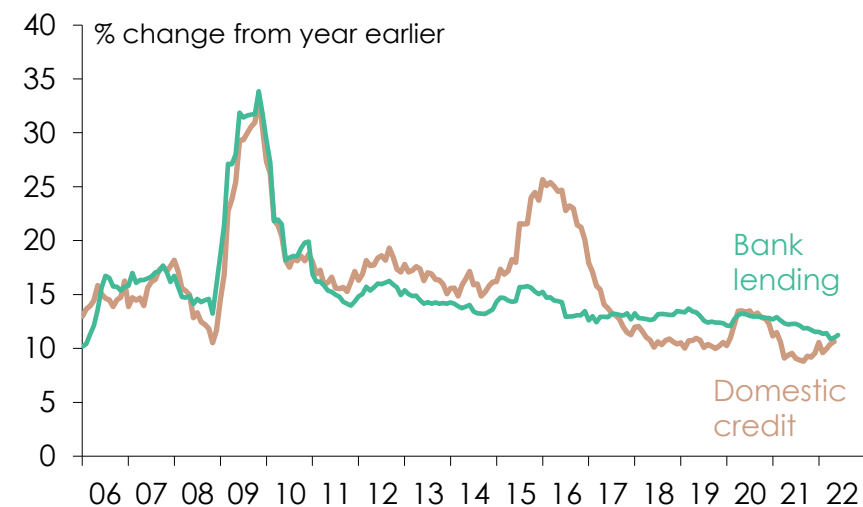
## Bank reserve requirement ratios



## 10-year government bond yield



## Credit growth

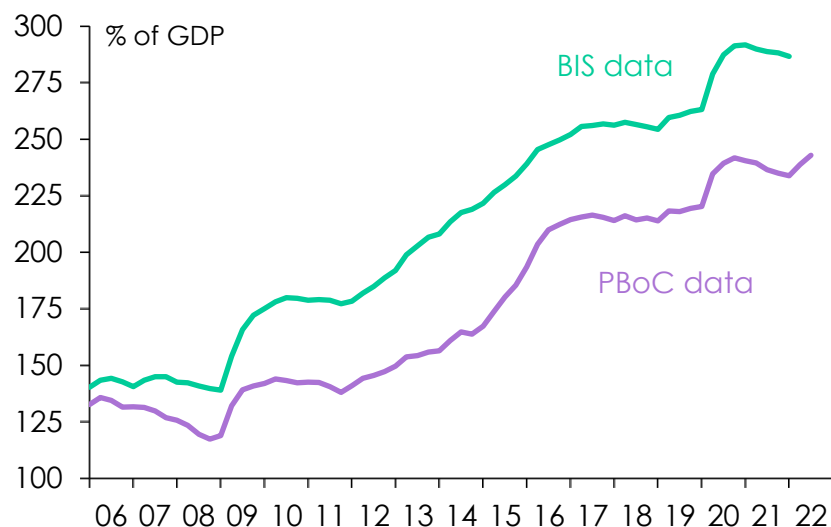


Note: 'SHIBOR' is the Shanghai Inter-Bank Offered Rate. Sources: Refintiv Datastream; People's Bank of China, [Financial Statistics Reports](#) and [Aggregate Financing Reports](#). [Return to "What's New"](#).

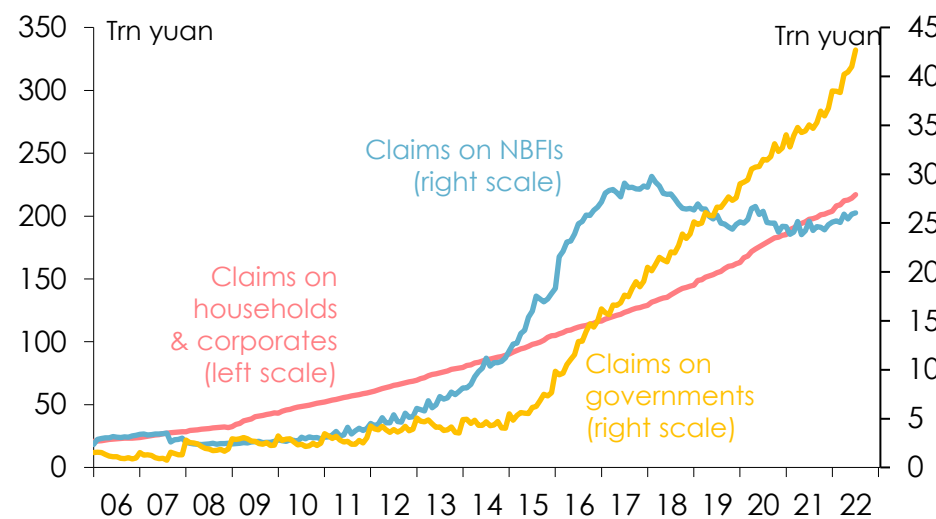
# The Chinese banking system's risk profile has increased significantly over the past decade – particularly on the liabilities side of its balance sheet

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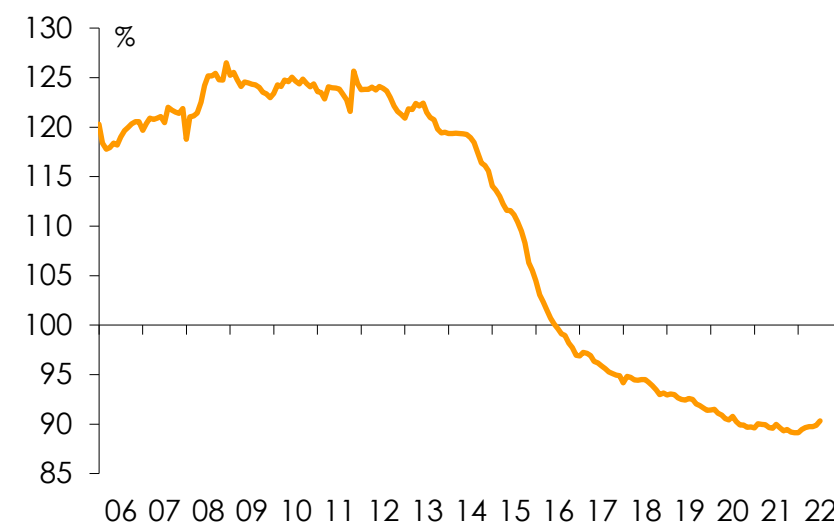
## Credit outstanding as a pc of GDP



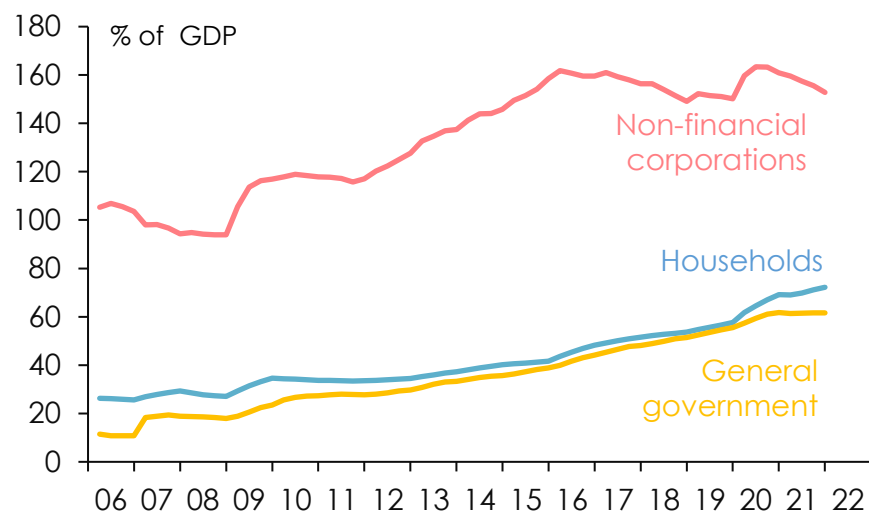
## Banks' assets



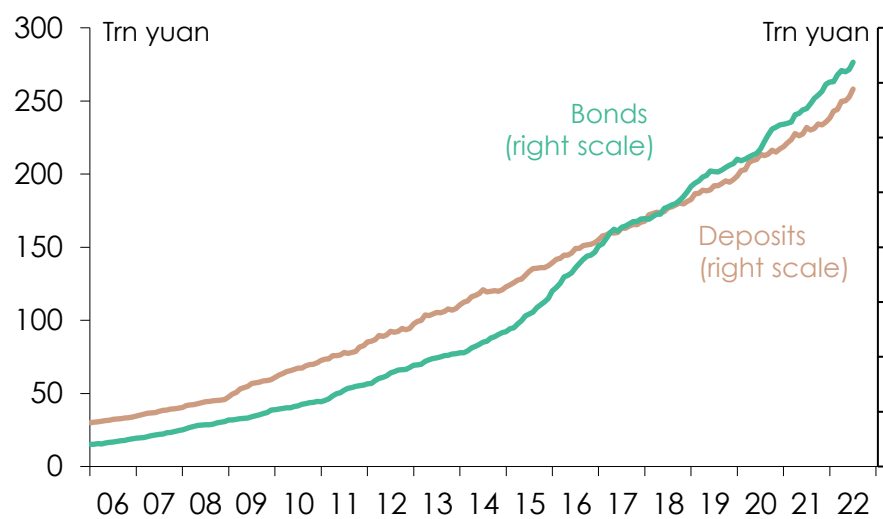
## Banks' deposits-to-loans ratio



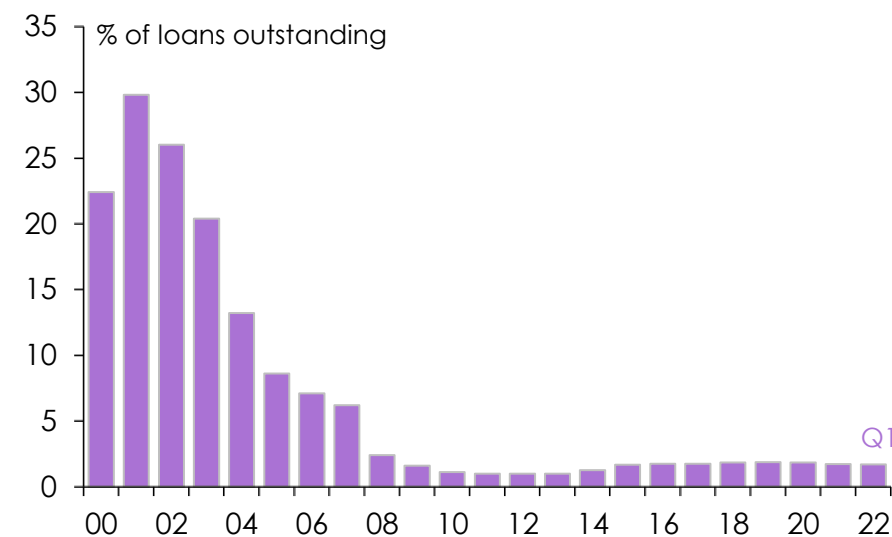
## Credit outstanding by sector



## Banks' liabilities



## Banks NPLs – official estimates

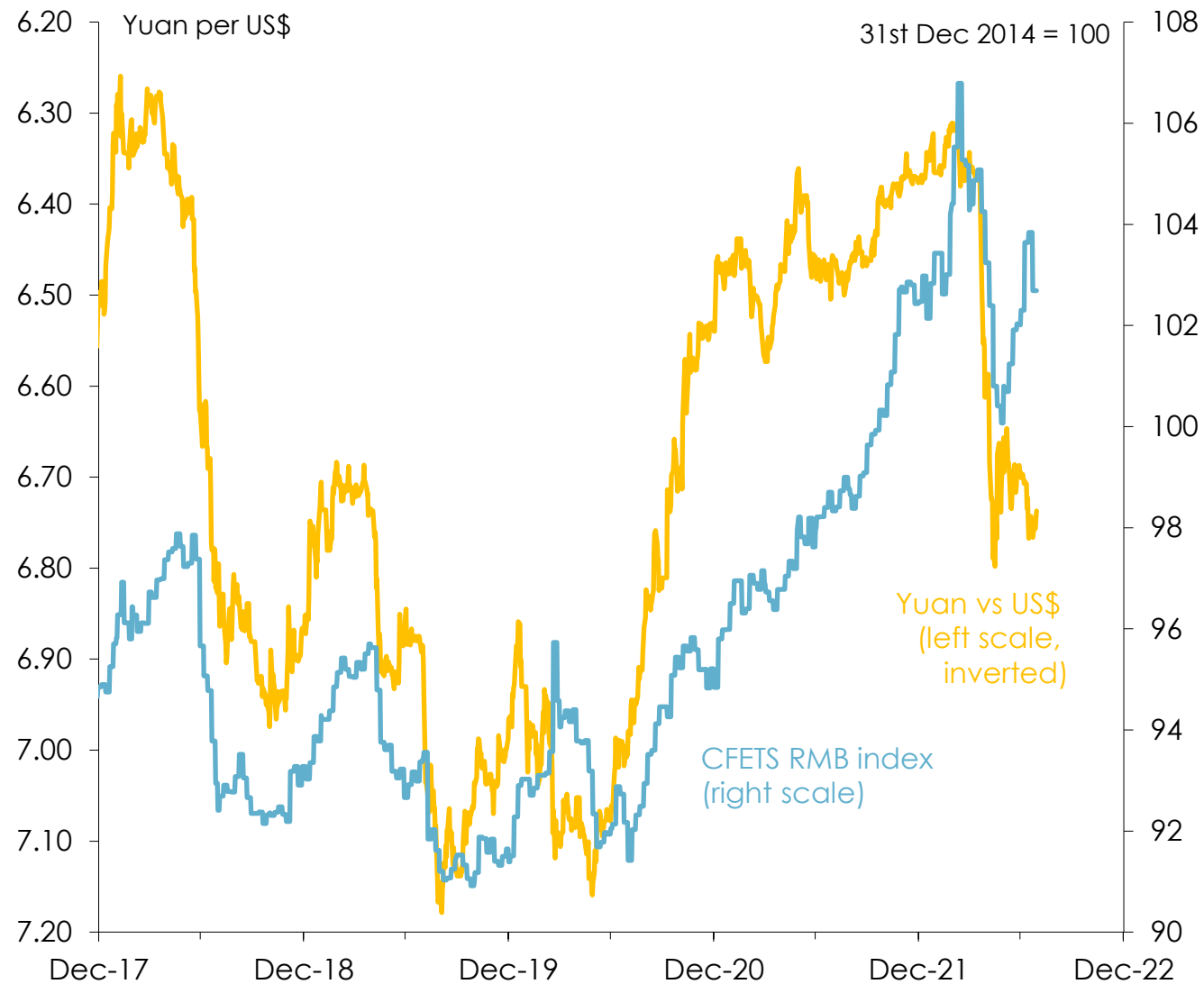


Sources: People's Bank of China, [Financial Statistics Reports](#); Bank for International Settlements, [Credit to the non-financial sector](#); China Banking and Insurance Regulatory Commission, [Supervisory Statistics of the Banking and Insurance Sectors](#). [Return to "What's New"](#).

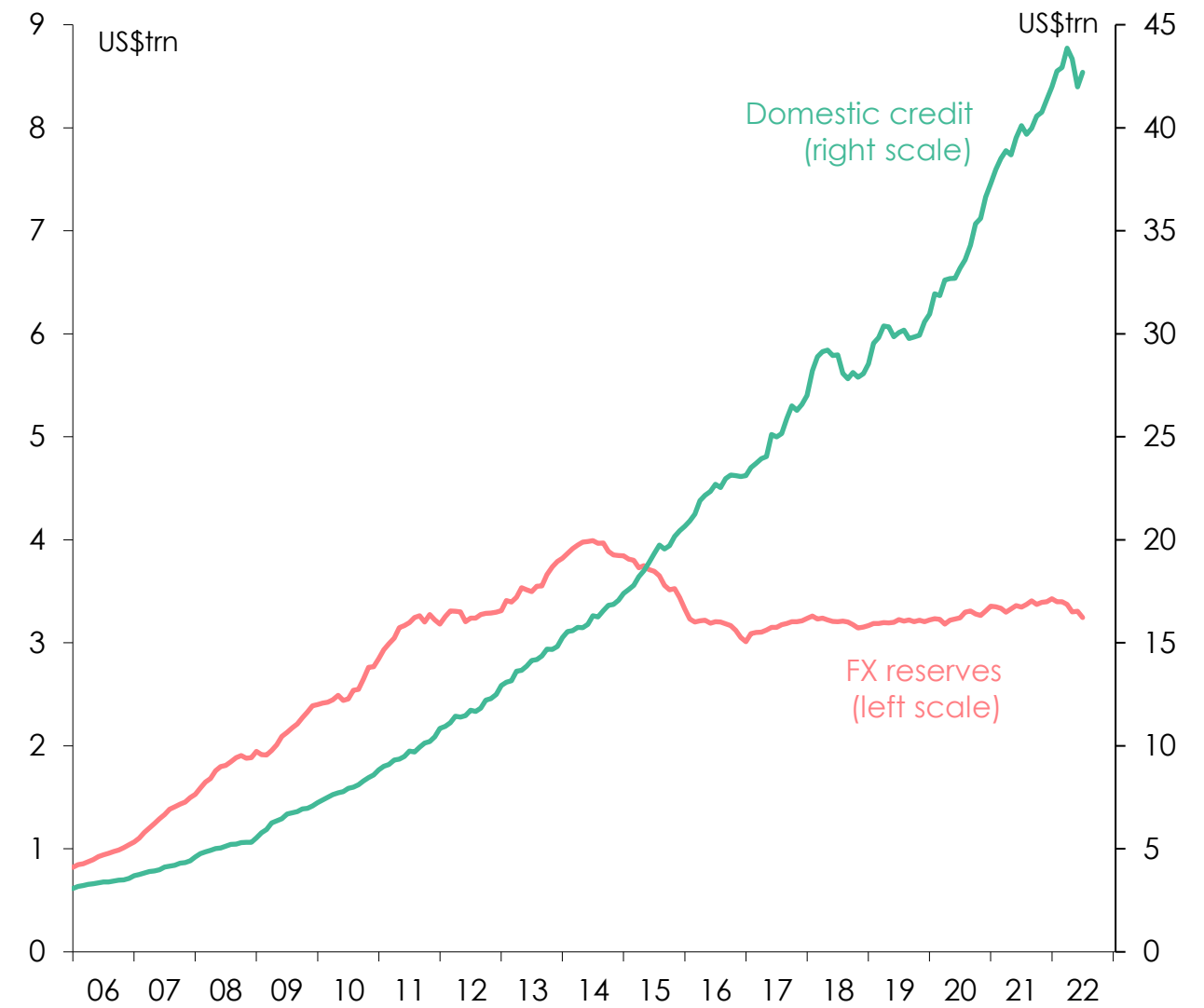
# The yuan rose 0.4% against the softer US dollar last week but fell 1.1% on the PBoC's trade-weighted index

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



## FX reserves and domestic credit



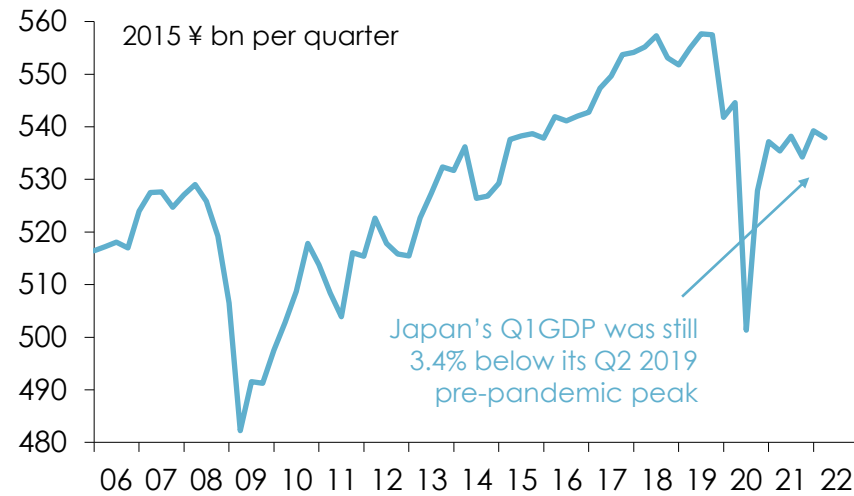
Sources: Refinitiv Datastream; [China Foreign Exchange Trading System](#); People's Bank of China. Exchange rates up to 29<sup>th</sup> July; FX reserves and credit data up to June (note fall in domestic credit expressed in US\$ in April & May largely reflects depreciation of yuan vs US\$). [Return to "What's New"](#).

**Japan**

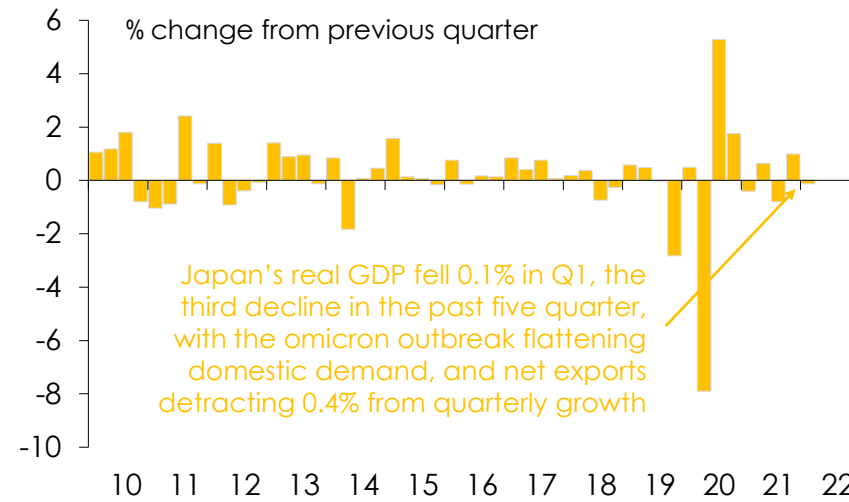
# Japan's real GDP fell 0.1% in Q1, the third decline in the past five quarters, to be still 3.4% below its pre-pandemic peak

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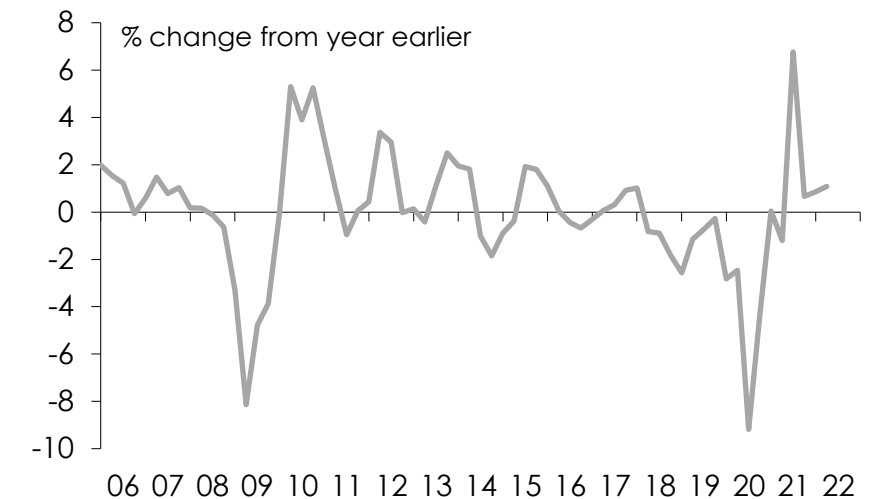
## Level of real GDP



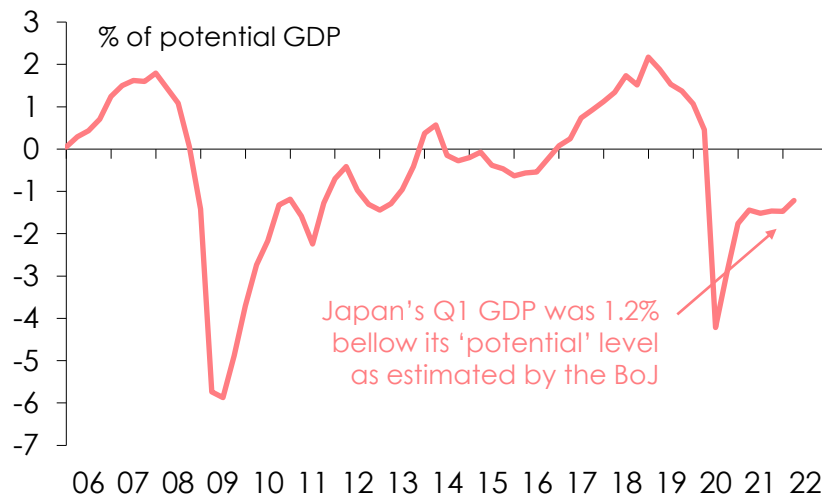
## Quarterly change in real GDP



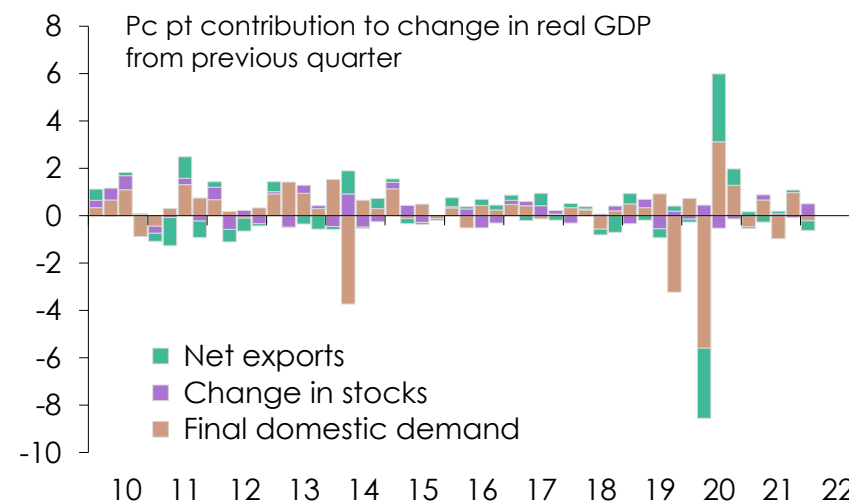
## Labour productivity growth



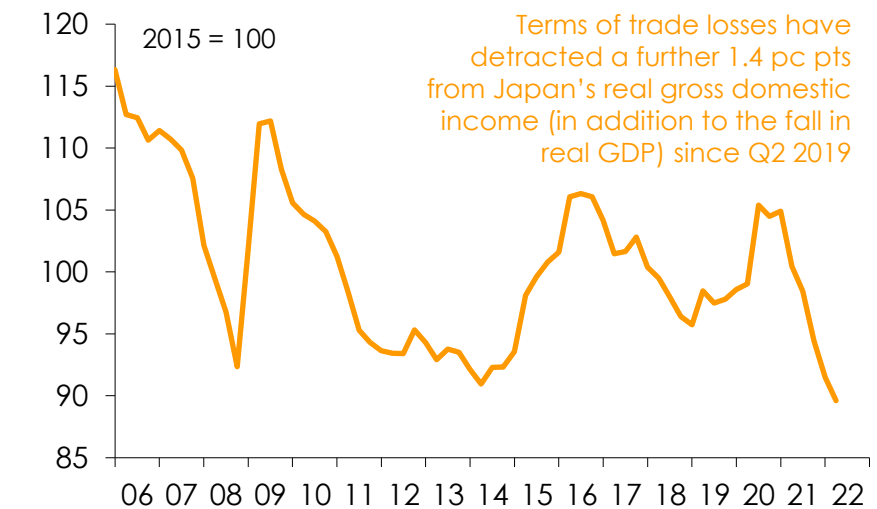
## The 'output gap'



## Contributions to change in real GDP



## Terms of trade

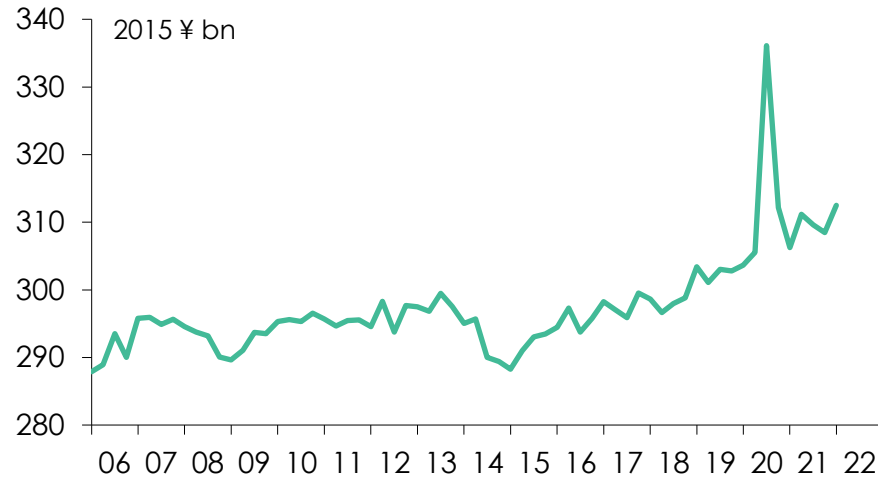


Note: the 'output gap' is the difference between actual and potential GDP (the volume of goods & services that could be produced if the economy were operating at full capacity); the 'terms of trade' is the ratio of the implicit price deflator of exports of goods & services to that of imports of goods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

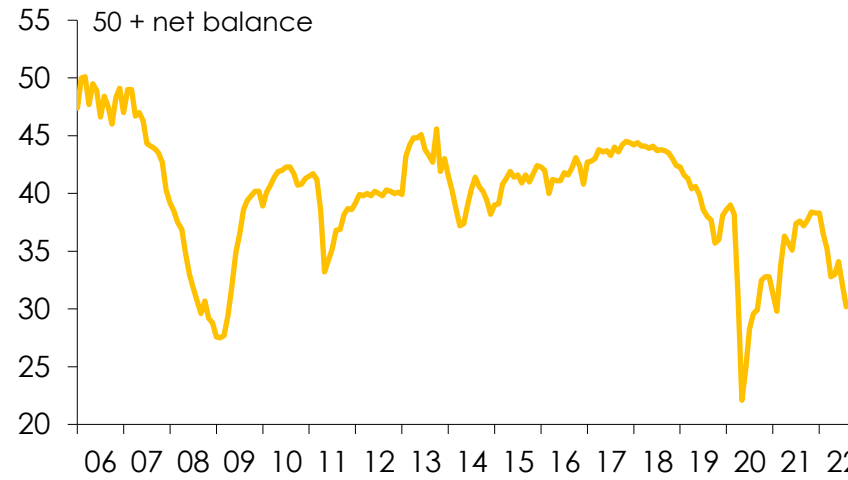
# Consumer spending picked up a little during Q2, but housing activity softened, and consumer confidence fell further in July

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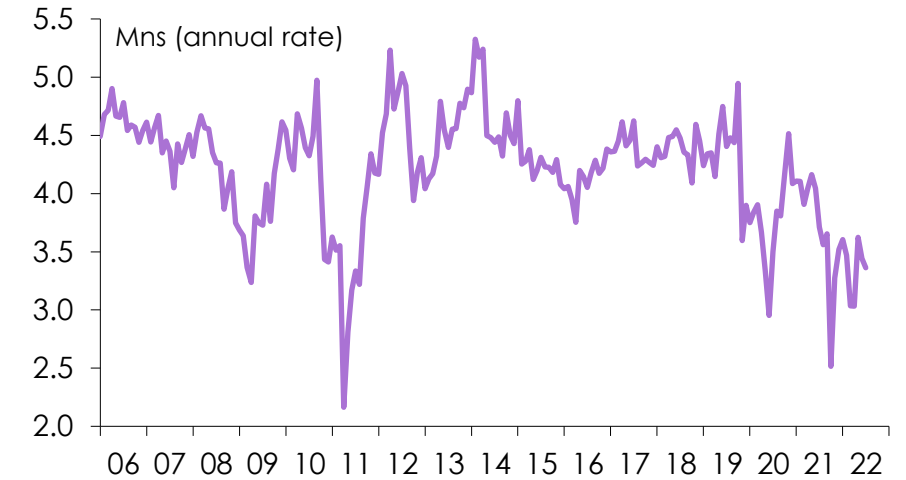
## Real household disposable income



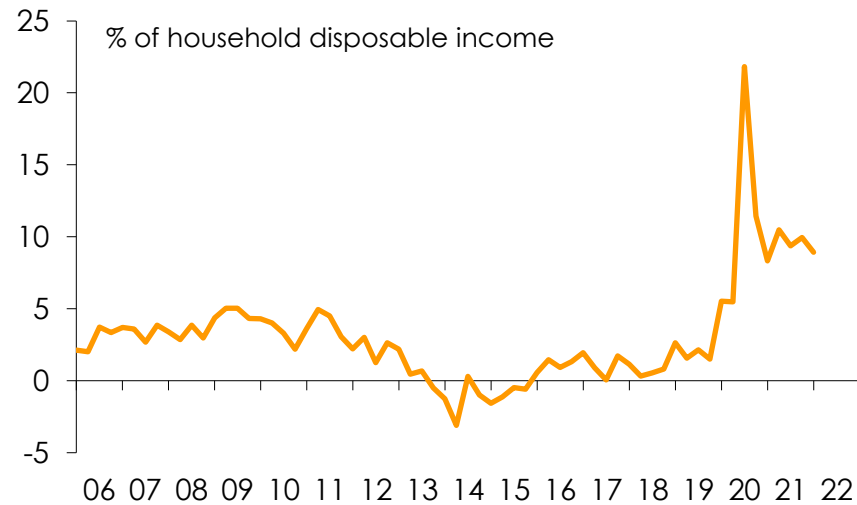
## Consumer confidence



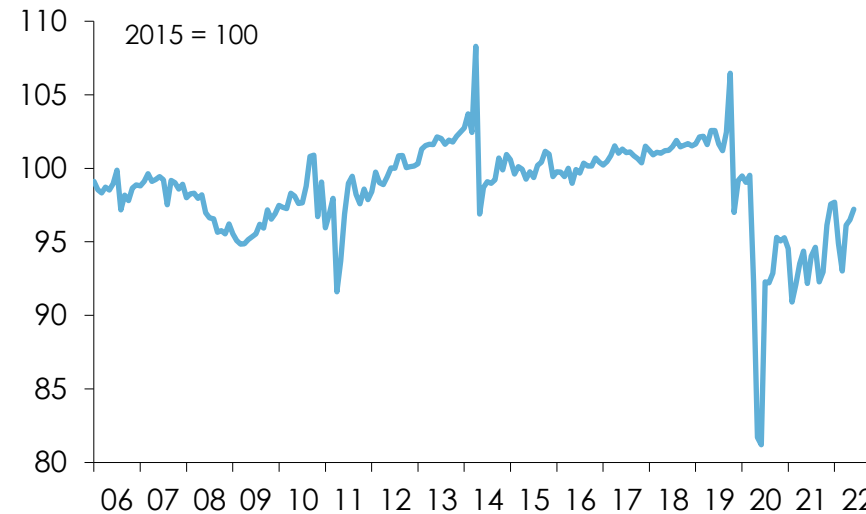
## Motor vehicle sales



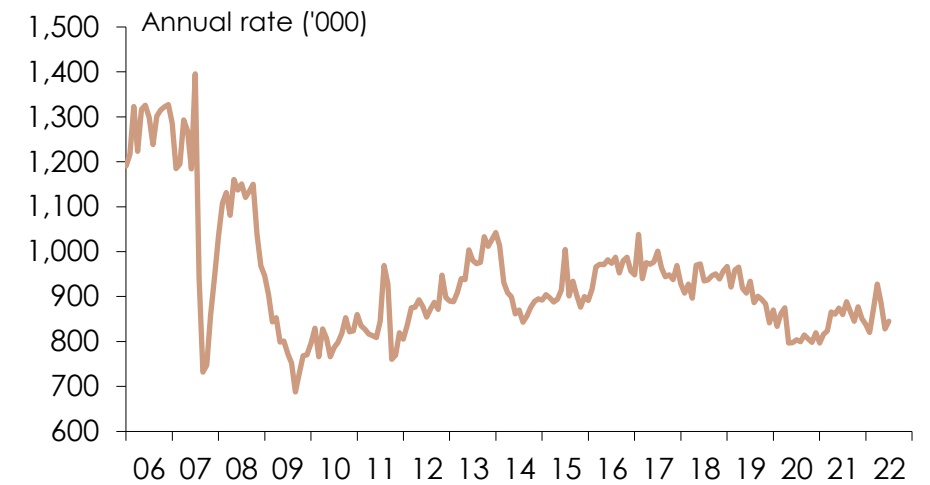
## Household saving



## Consumption activity index



## Housing starts



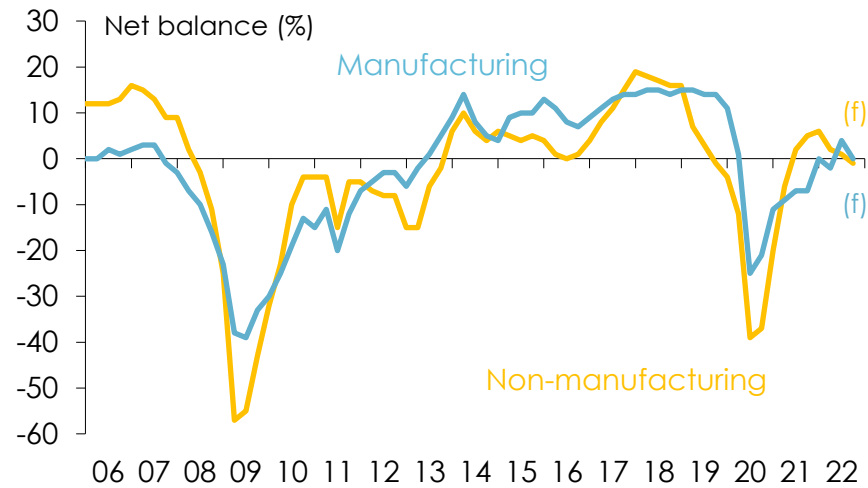
Sources: Japan Cabinet Office, [Quarterly Estimates of Household Disposable Income and Household Saving Ratio](#) and [Consumer Confidence Survey](#); Bank of Japan, [Consumption Activity Index](#); Japan Automobile Dealers Association, [Statistical Data](#); Japan e-Stat, [Building Starts](#). [Return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



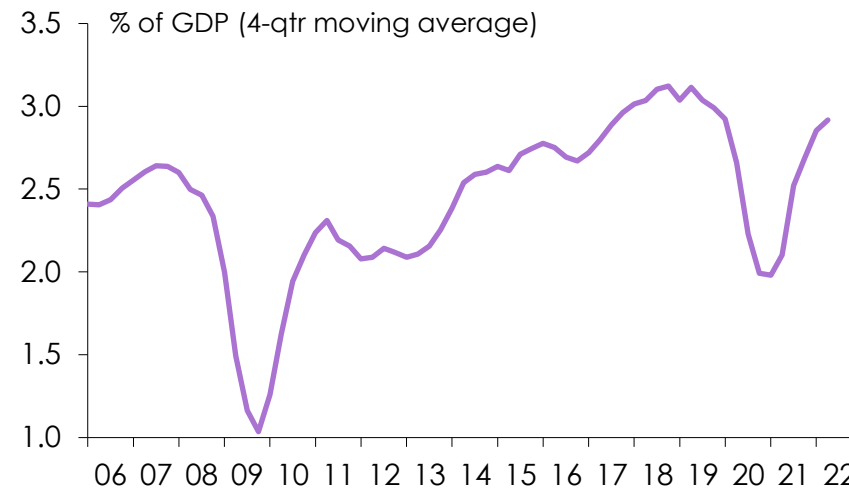
# Japanese industrial production rebounded strongly in June after an unusually large fall in May (caused by supply-chain disruptions)

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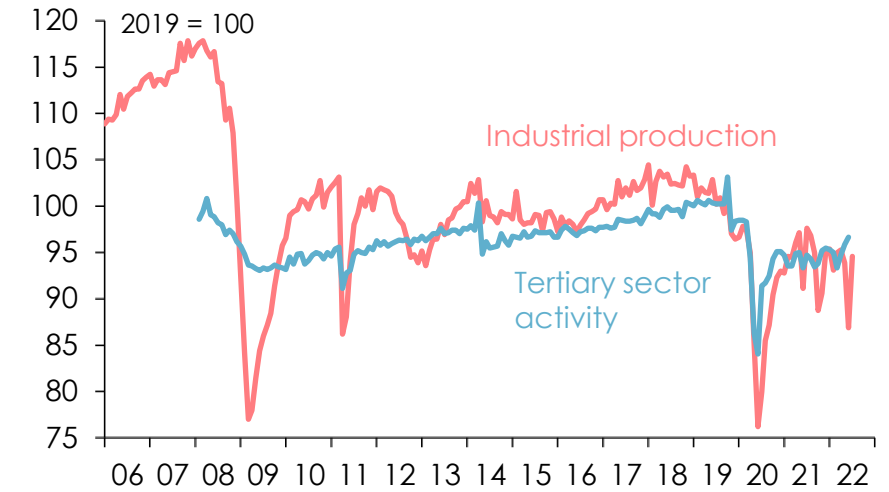
## Business conditions by industry



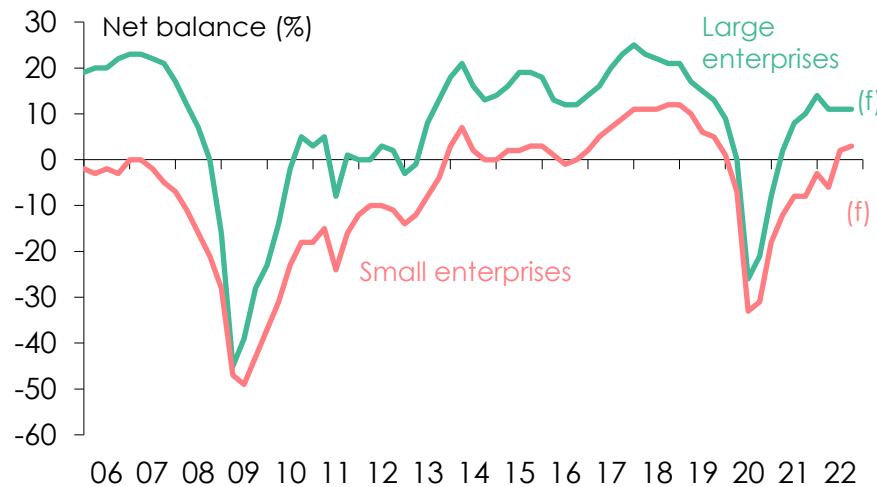
## Corporate operating profits



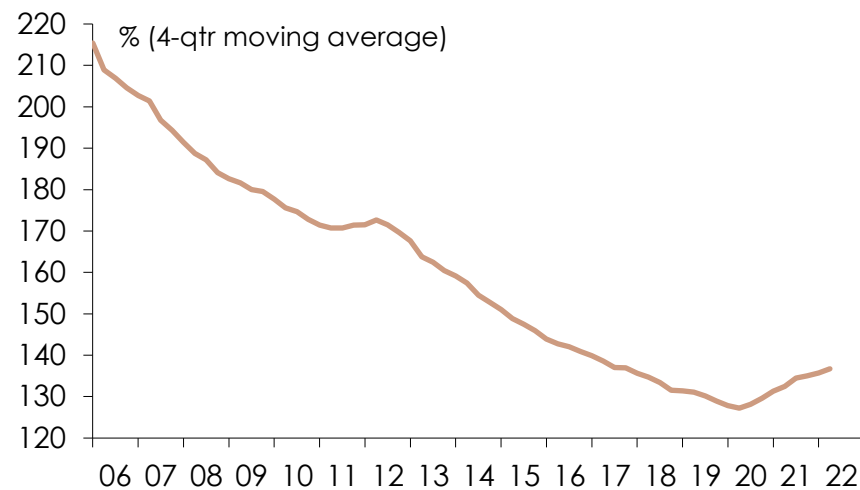
## Indexes of economic activity



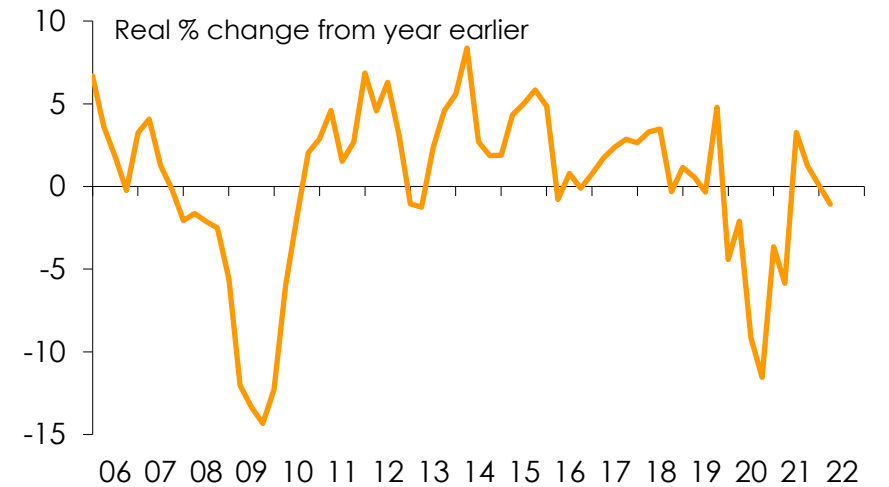
## Business conditions by firm size



## Corporate debt-equity ratio



## Business investment

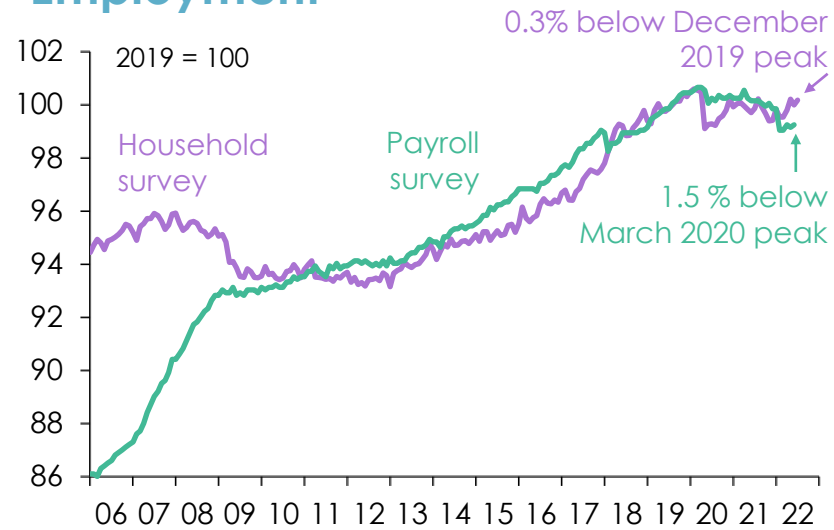


Sources: Bank of Japan, [Short-Term Economic Survey of Enterprises in Japan \('Tankan'\)](#); Policy Research Institute, Ministry of Finance, [Financial Statements Statistics of Corporations by Industry, Quarterly](#); Ministry of Economy, Trade & Industry, [Indices of Industrial Production](#) and [Indices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

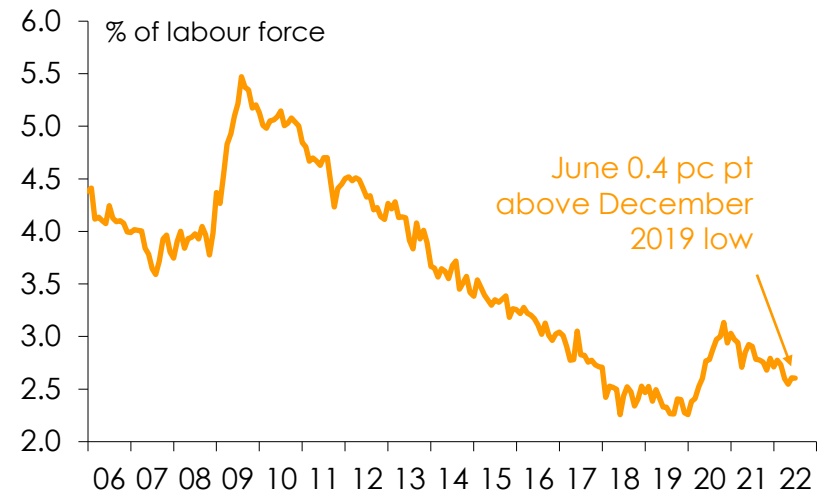
# Japan's unemployment rate remained at 2.6% in June, 0.4 pc pt above the pre-pandemic low, in part reflecting a record participation rate

THE WORLD ECONOMY THIS WEEK – 1<sup>ST</sup> AUGUST 2022

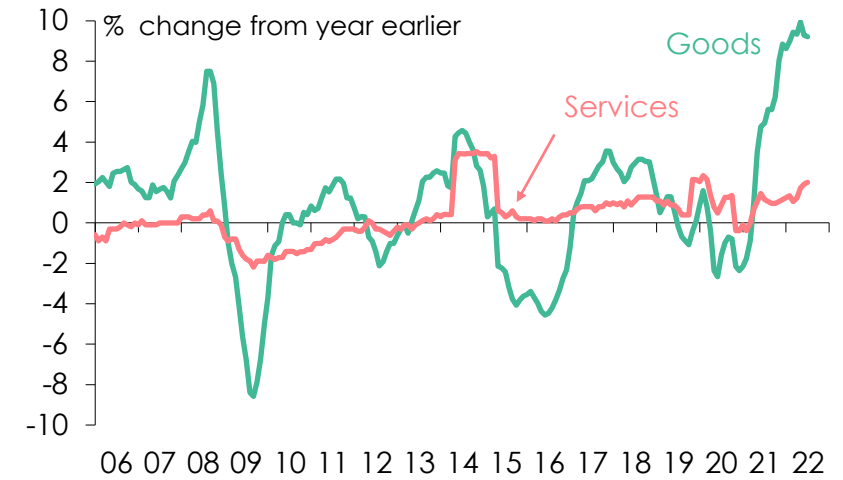
## Employment



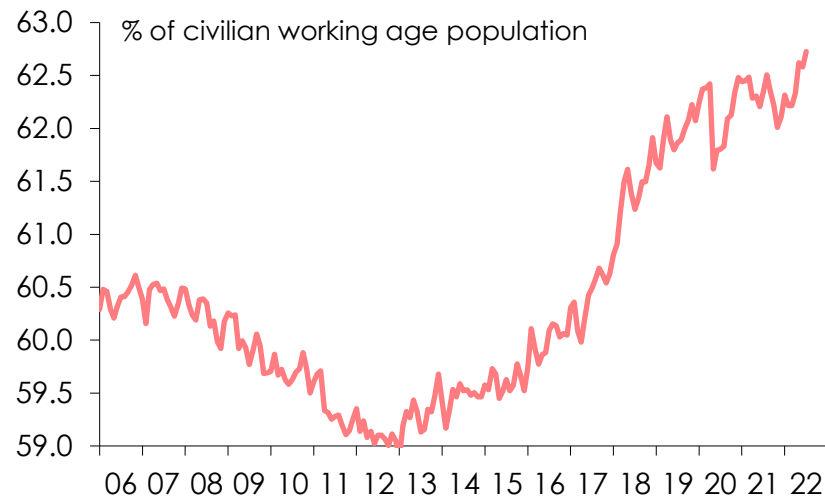
## Unemployment rate



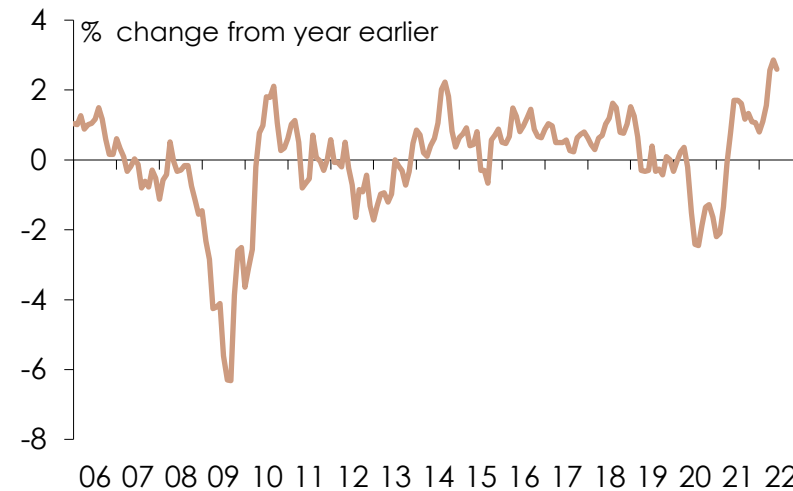
## 'Corporate' (producer) prices



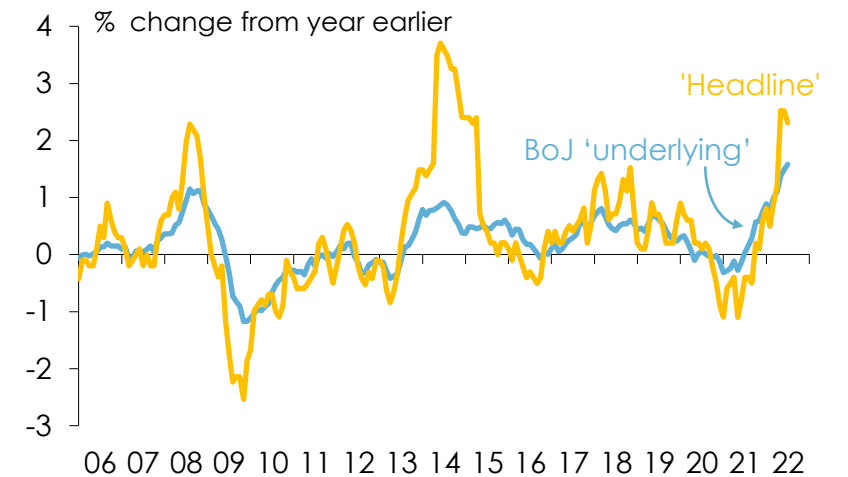
## Labour force participation rate



## Wages growth



## Consumer prices

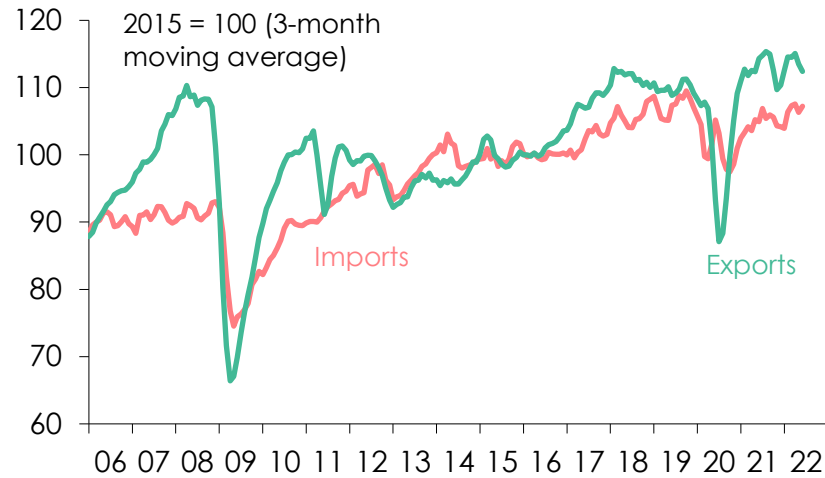


Sources: Statistics Bureau of Japan, [Labour Force Survey](#) and [Consumer Price Index](#); Ministry of Health, Labour and Welfare, [Monthly Labour Survey](#); Bank of Japan, [Prices and Measures of Underlying Inflation](#). [Return to "What's New"](#).

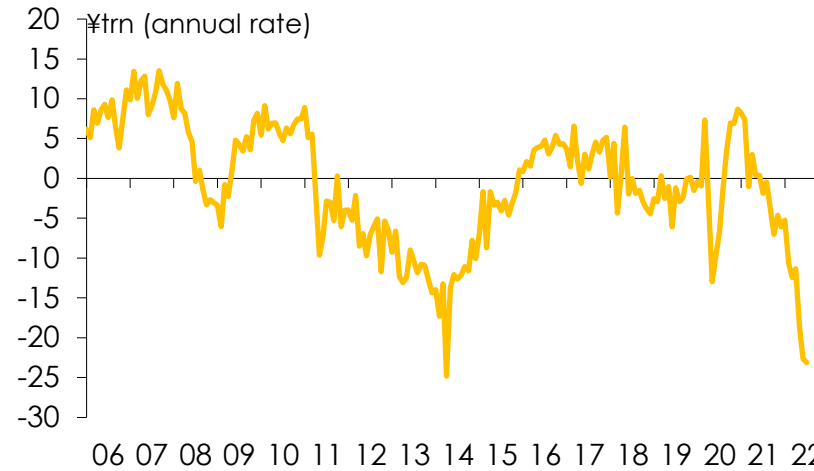
# Japan is now incurring large (by its standards) external deficits as a result largely of higher prices commodity imports and loss of tourism exports

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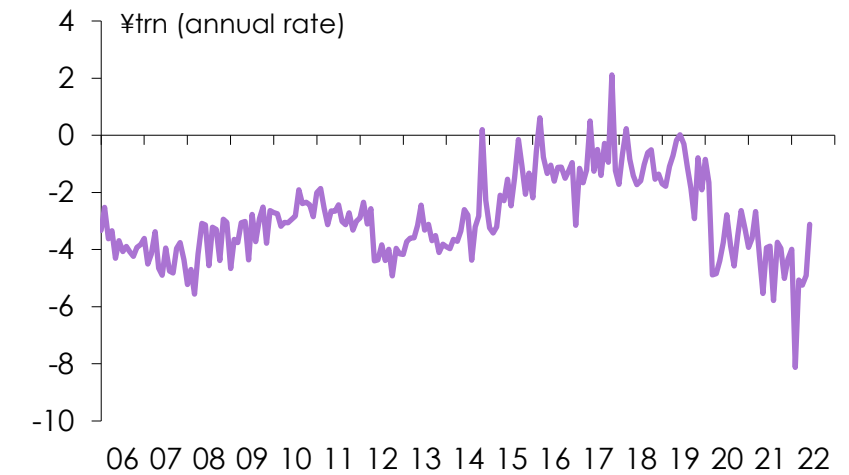
## Merchandise trade volumes



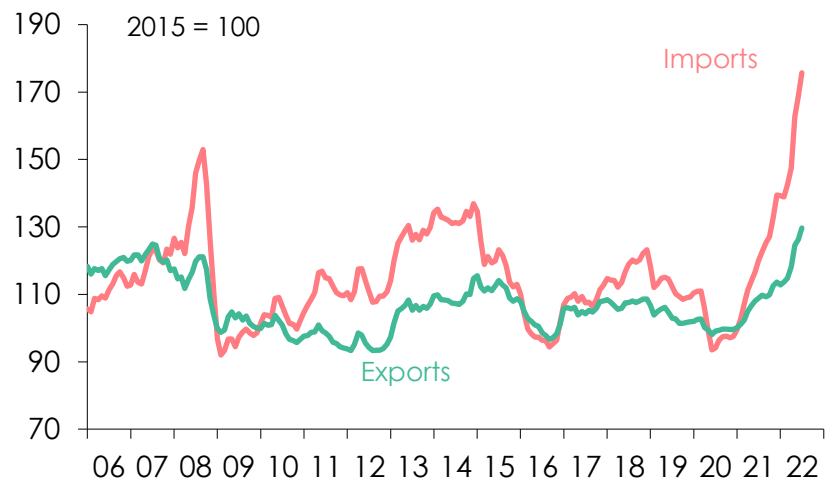
## Merchandise trade balance



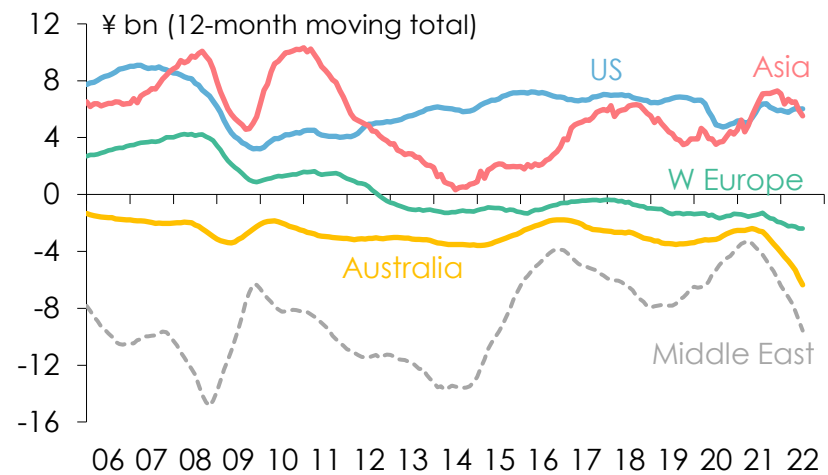
## Services trade balance



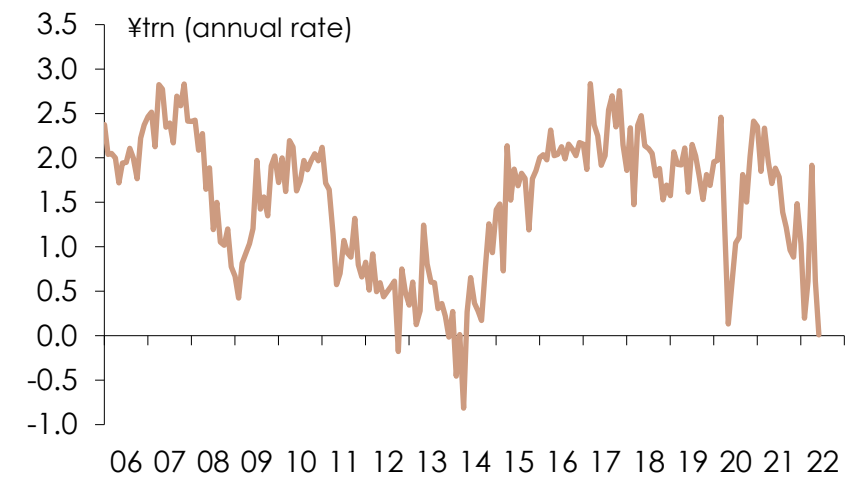
## Merchandise trade prices



## Bilateral goods trade balances



## Current account balance



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

# The Bank of Japan again left its monetary policy settings unchanged at last month's Policy Board meeting, and made almost no reference to the yen

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- ❑ 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 month'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 month lowered its growth forecasts for most East Asian economies (except for Indonesia) and raised its forecasts for inflation

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## IMF and Asian Development Bank forecasts for East Asian economies

	Real GDP growth							Inflation						
	Actual		IMF			ADB		Actual		IMF			ADB	
	2010-19*	2020	2021	2022	2023	2022	2023	2010-19*	2020	2021	2022	2023	2022	2023
Korea	3.3	-0.9	4.1	2.3	2.1	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	3.7	5.3	5.2	5.2	5.2	4.7	2.0	1.6	3.3	3.3	4.0	3.3
Philippines	6.4	-9.6	5.7	6.7	5.0	6.5	6.3	3.0	2.6	3.9	4.3	3.7	4.9	4.3
Thailand	3.6	-6.1	1.5	2.8	4.0	2.9	4.2	1.6	-0.8	1.2	3.5	2.8	6.3	2.7
Malaysia	5.4	-5.6	3.1	5.1	4.7	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

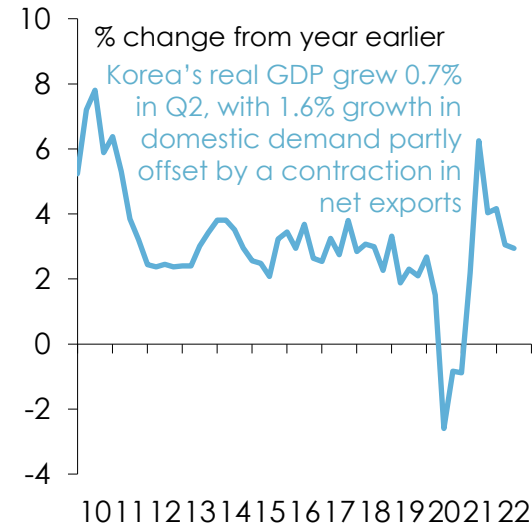
Note: \* Pp per annum. IMF forecasts for GDP growth in Korea, Indonesia, Philippines, Thailand and Malaysia are as of July 2022; all other GDP forecasts and all IMF inflation forecasts are from April 2022. Sources: International Monetary Fund (IMF), [World Economic Outlook Update](#), 26<sup>th</sup> July 2022 and [World Economic Outlook](#), 19<sup>th</sup> April 2022; Asian Development Bank, [Asian Development Outlook Supplement](#), 21<sup>st</sup> July 2022. [Return to "What's New"](#).



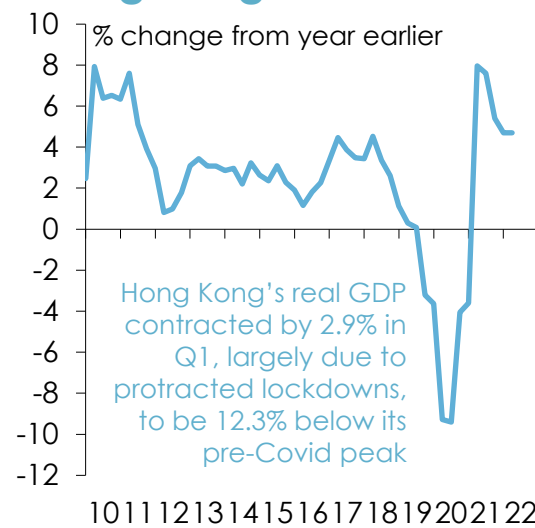
# Korea's real GDP grew 0.7% in Q2, up from 0.6% in Q1, but Taiwan's real GDP contracted by 0.8%, after increasing 1.0% in Q1

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## Korea



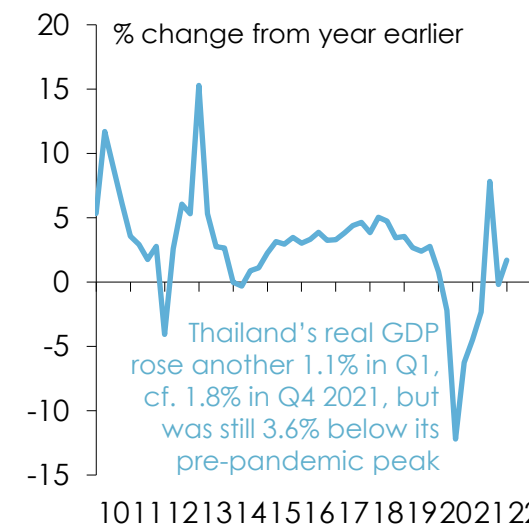
## Hong Kong



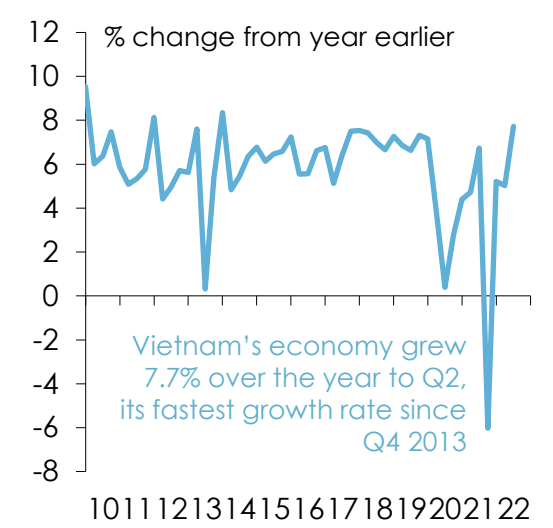
## Indonesia



## Thailand



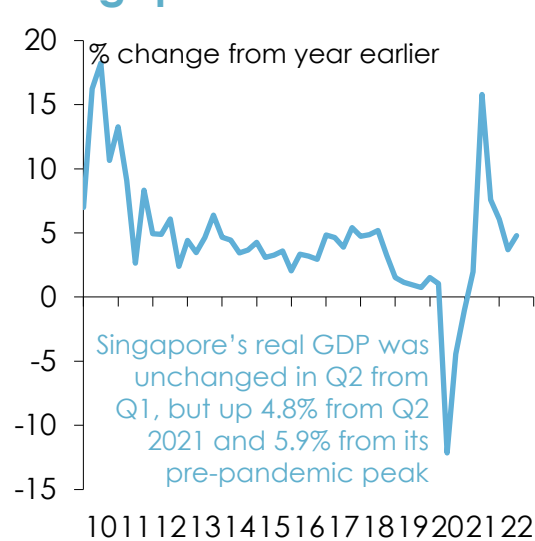
## Vietnam



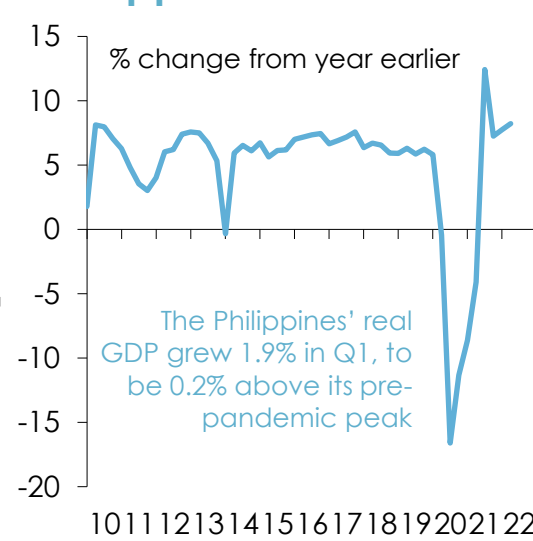
## Taiwan



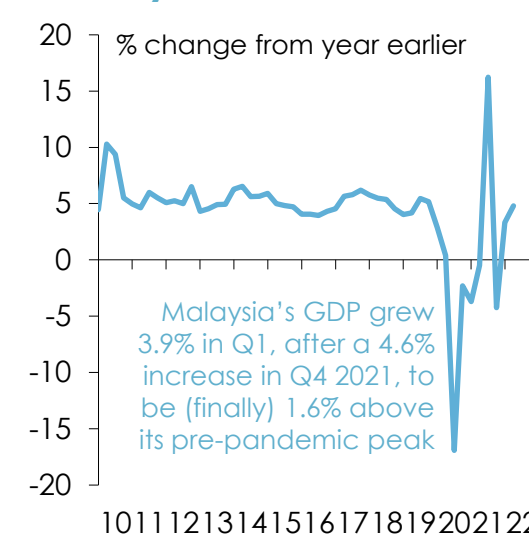
## Singapore



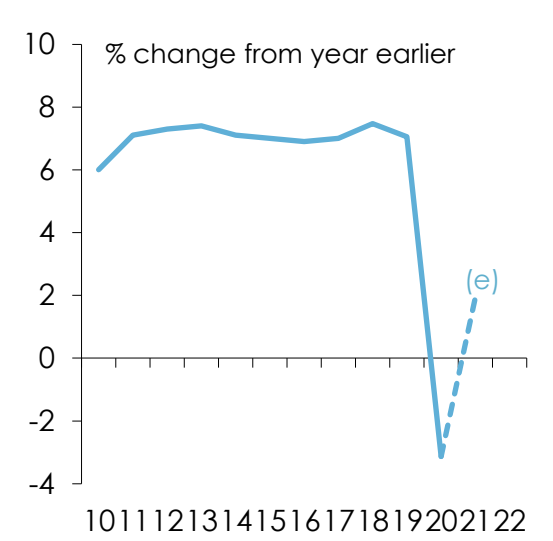
## Philippines



## Malaysia



## Cambodia

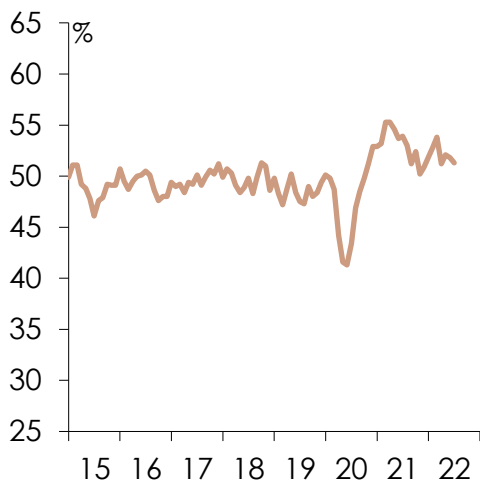


Sources: Bank of Korea; Taiwan Directorate-General of Budget, Accounting & Statistics; Hong Kong Census & Statistics Department; Singapore Ministry of Trade and Industry; Department of Statistics Malaysia; Office of the National Economic & Social Development Council of Thailand; Statistics Indonesia;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

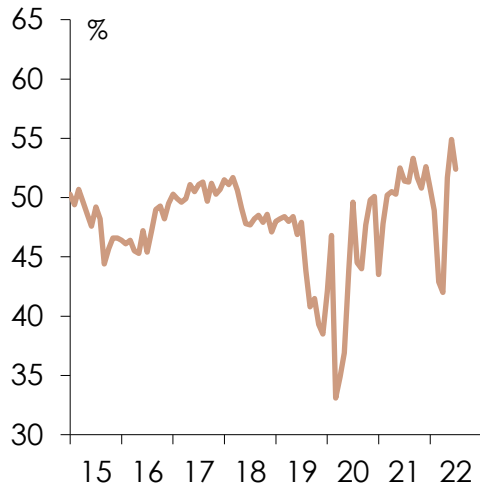
# PMIs were slightly lower in most Asian economies in June, except for Malaysia

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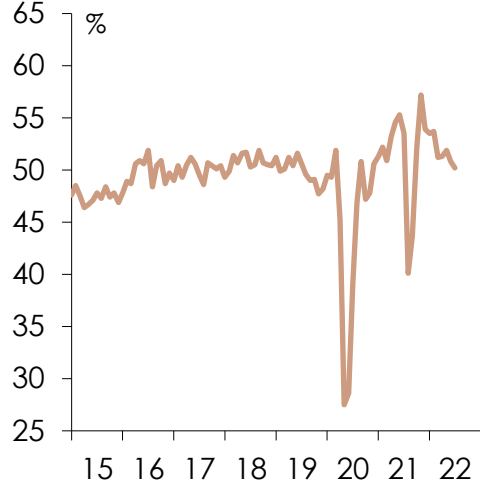
**Korea**



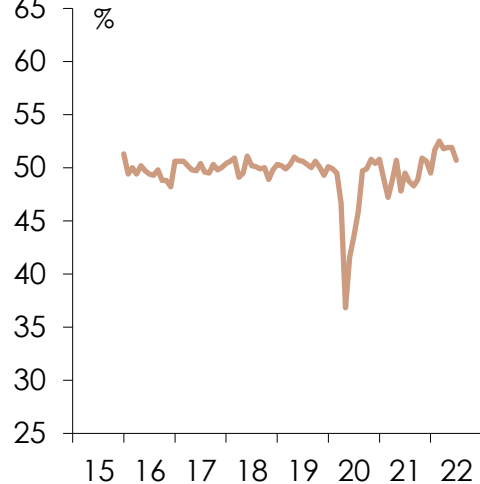
**Hong Kong**



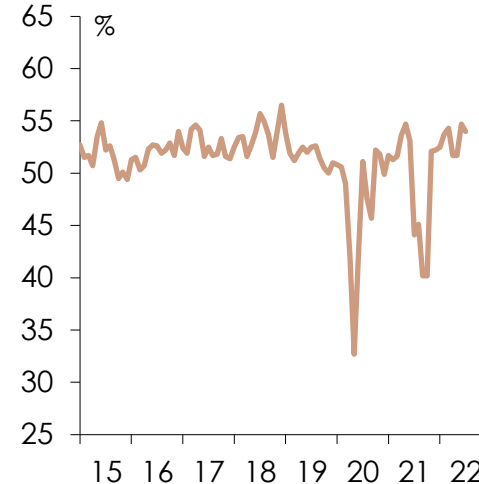
**Indonesia**



**Thailand**



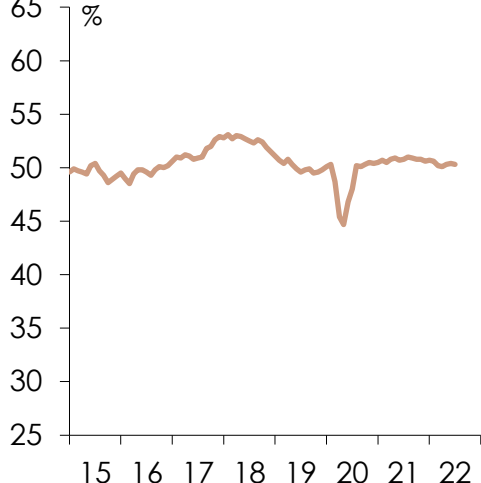
**Vietnam**



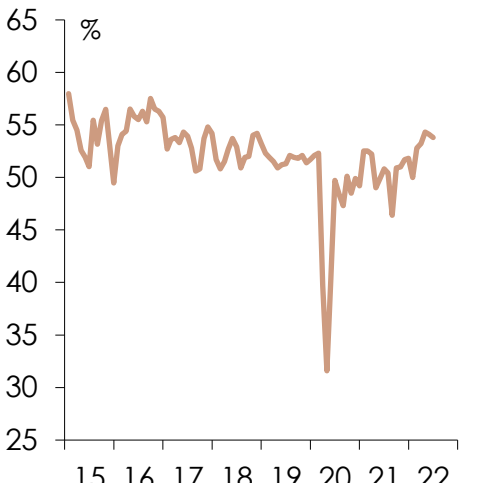
**Taiwan**



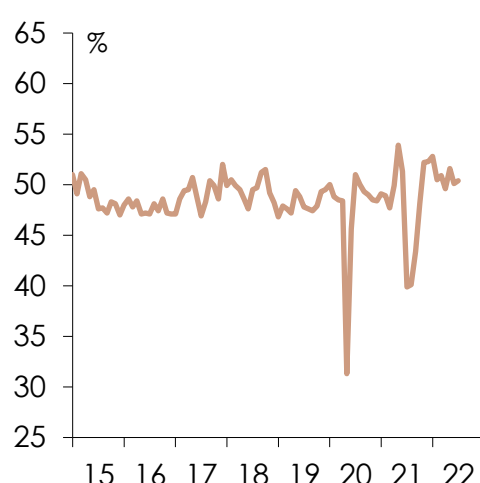
**Singapore**



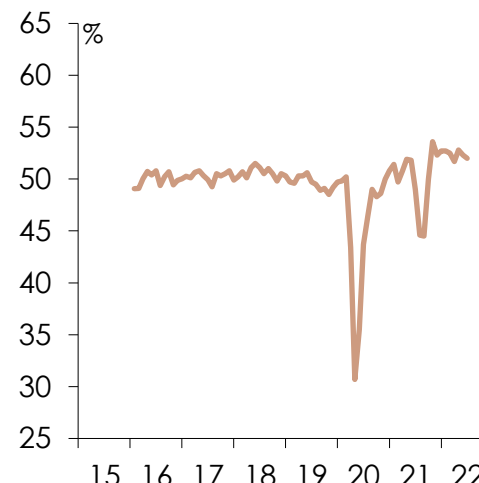
**Philippines**



**Malaysia**



**ASEAN**

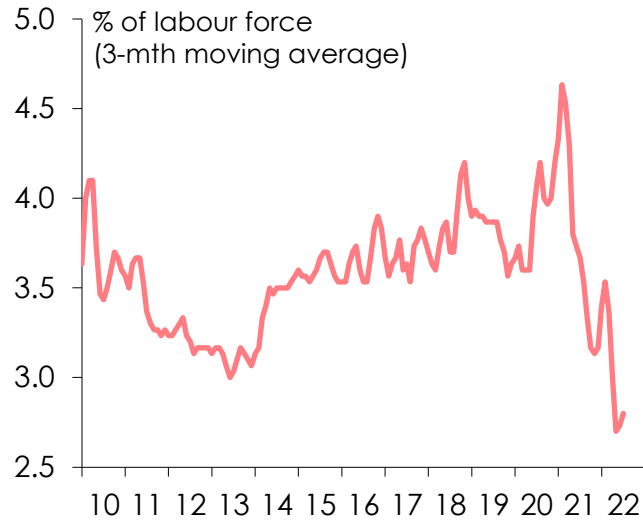


Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous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

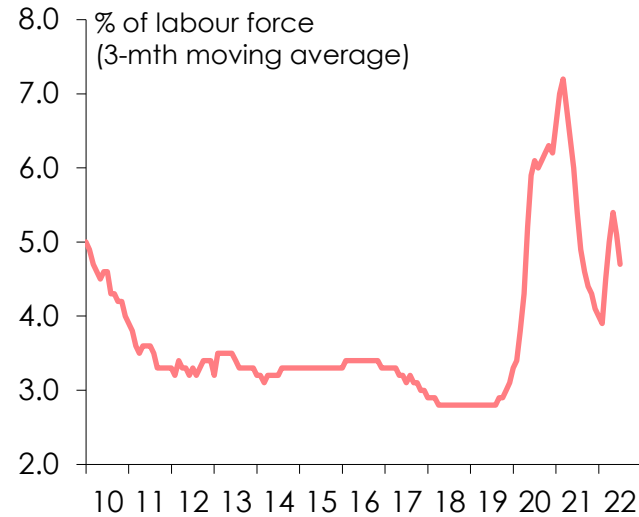
# Unemployment rose sharply in most Asian economies last year but is now falling in most of them (except for Hong Kong)

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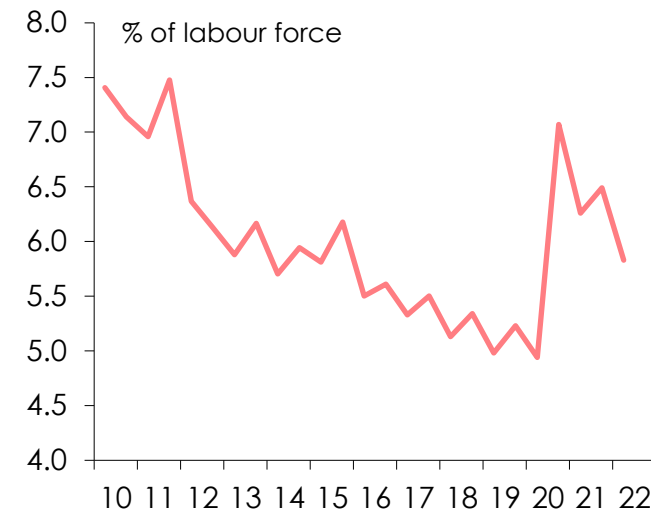
## Korea



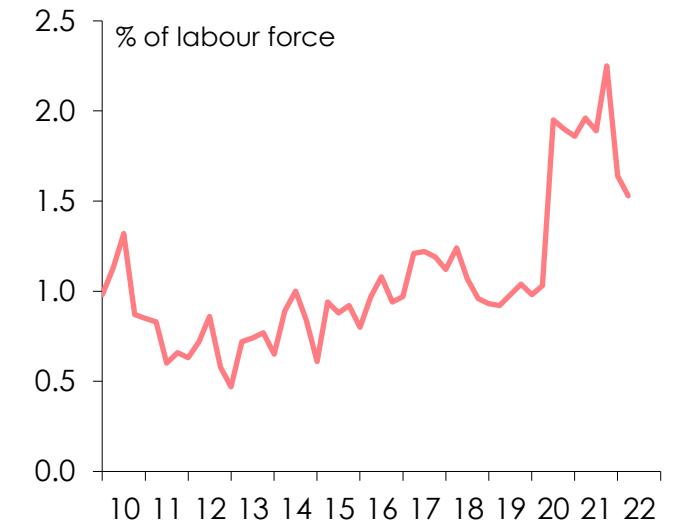
## Hong Kong



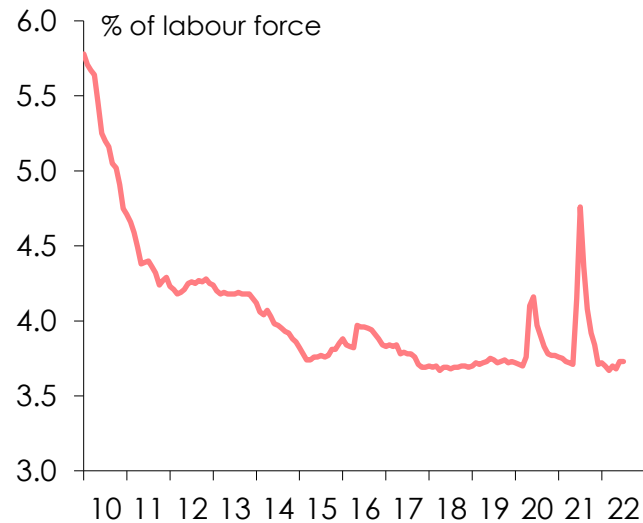
## Indonesia



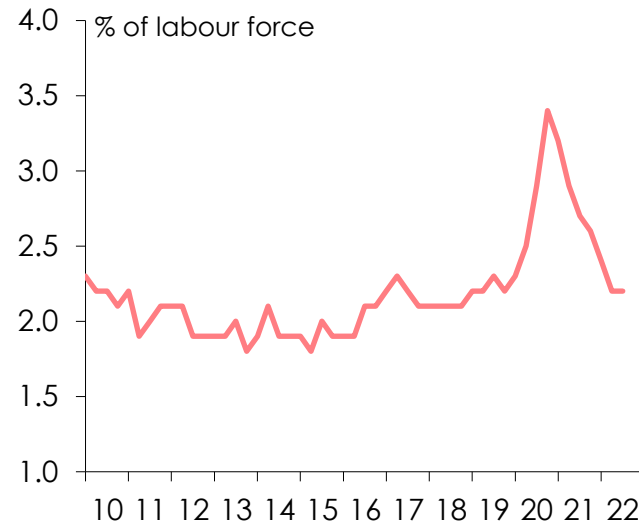
## Thailand



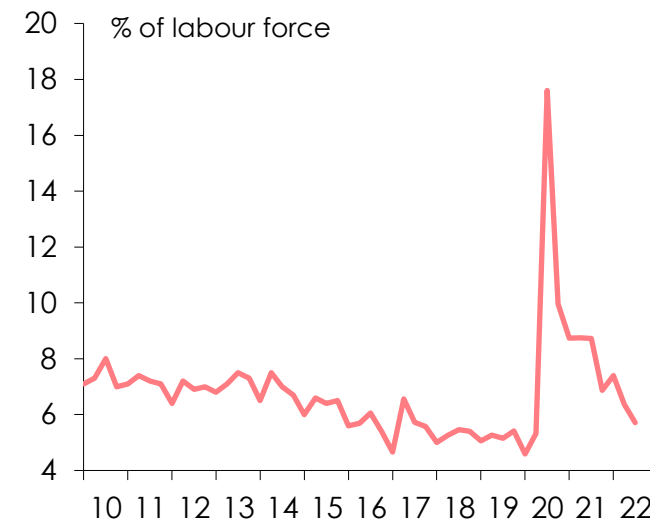
## Taiwan



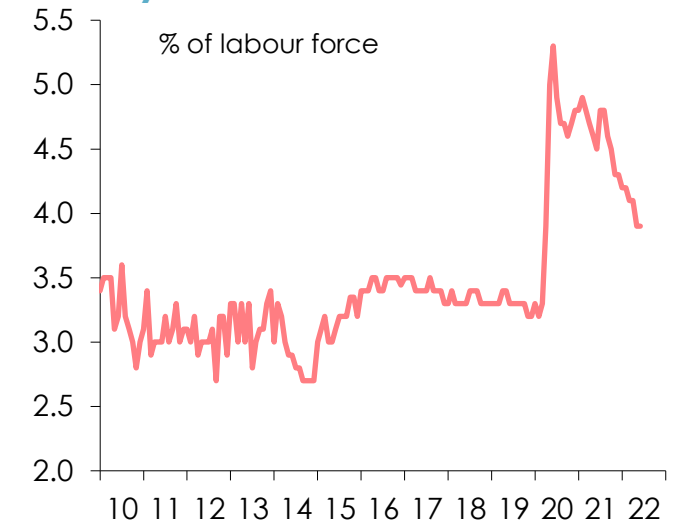
## Singapore



## Philippines



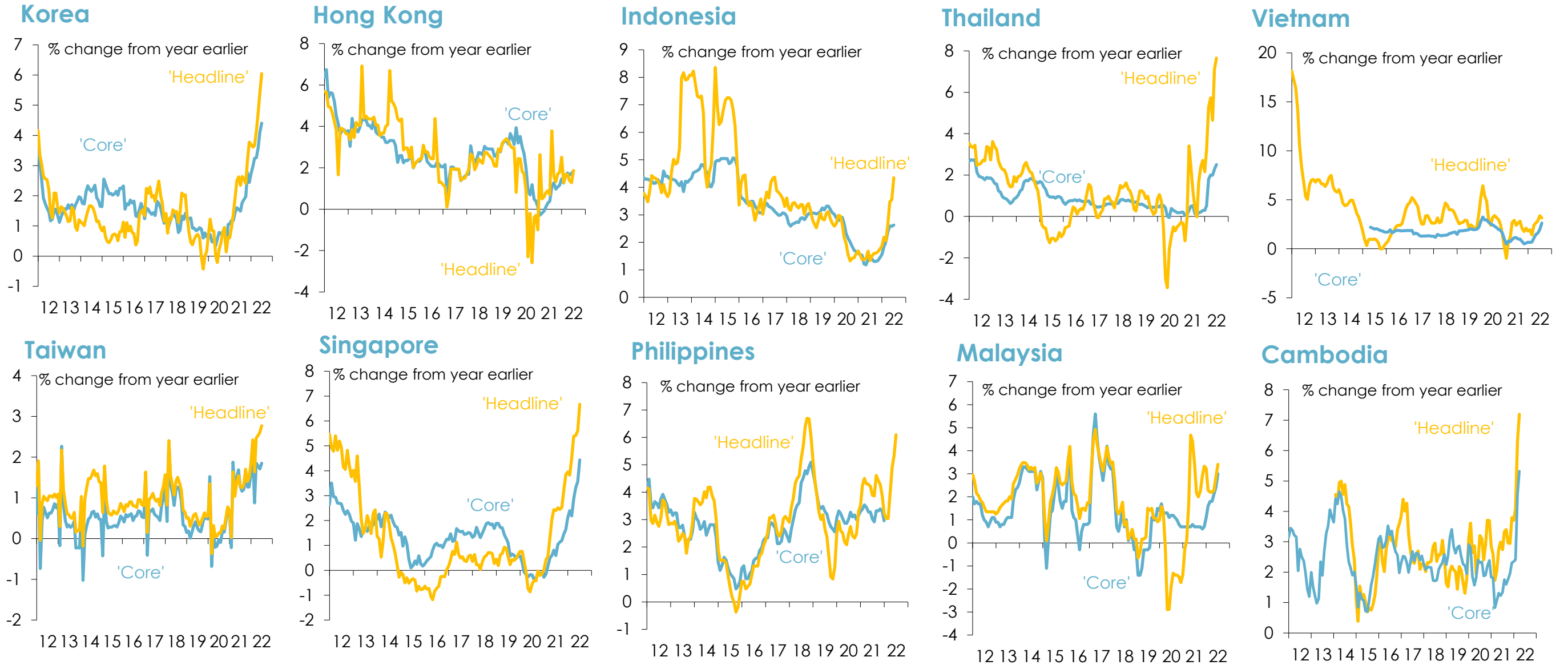
## Malaysia



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

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

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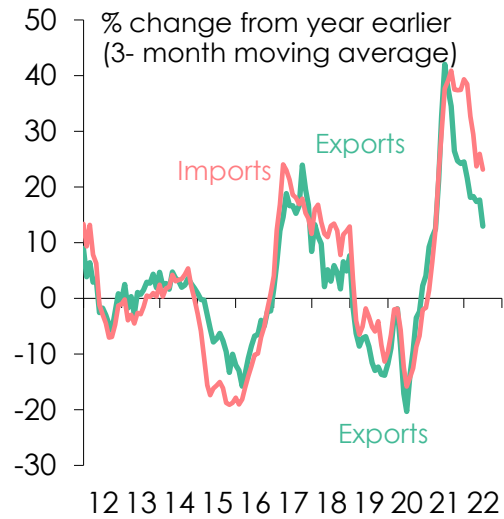


Note: 'Core' inflation in Korea excludes agricultural products & oil; in Taiwan it excludes fresh fruit, vegetables & energy; in Singapore it excludes accommodation & private transport; and in Hong Kong it excludes the effect of 'one-off government relief measures'. 'Core' inflation in Indonesia excludes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

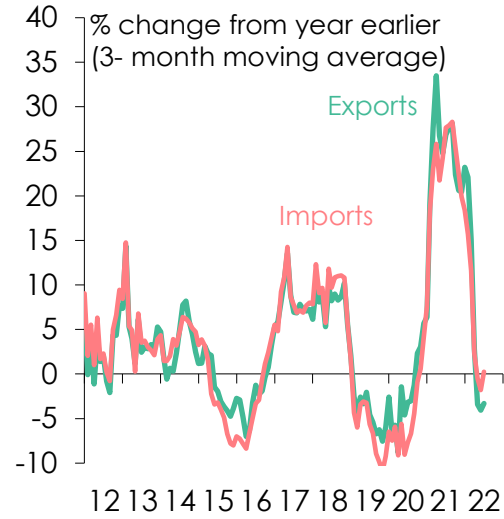
# Asian exports are returning to more 'normal' growth rates following the 'bump' in 2021 inflated by comparison with 2020

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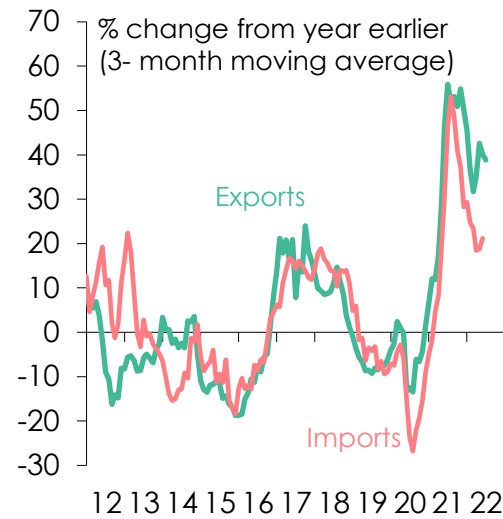
## Korea



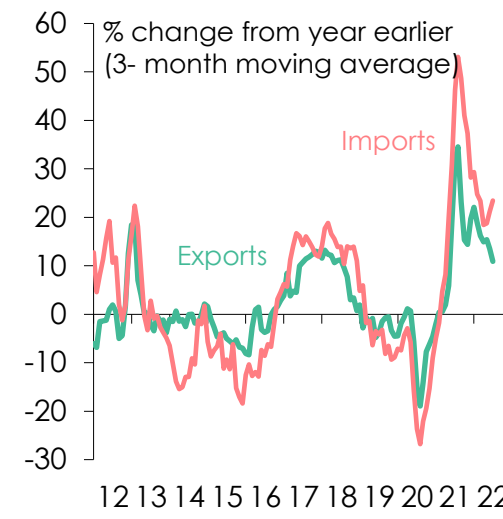
## Hong Kong



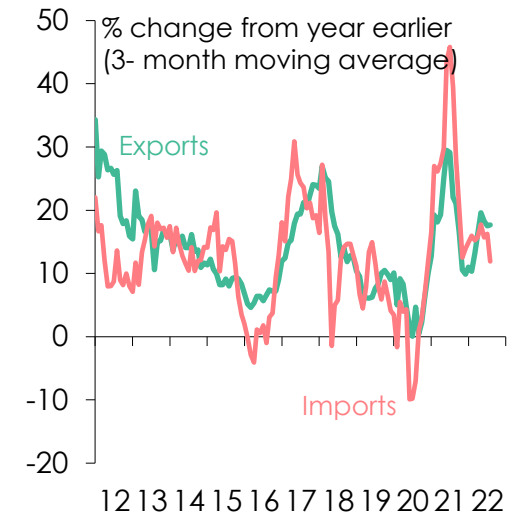
## Indonesia



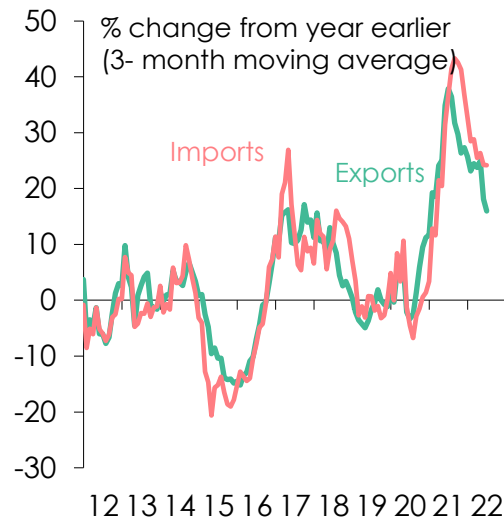
## Thailand



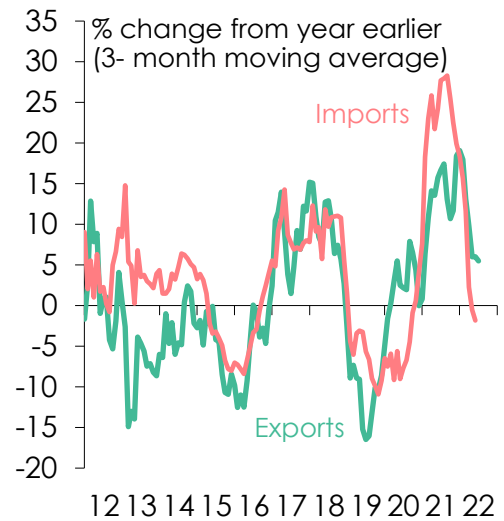
## Vietnam



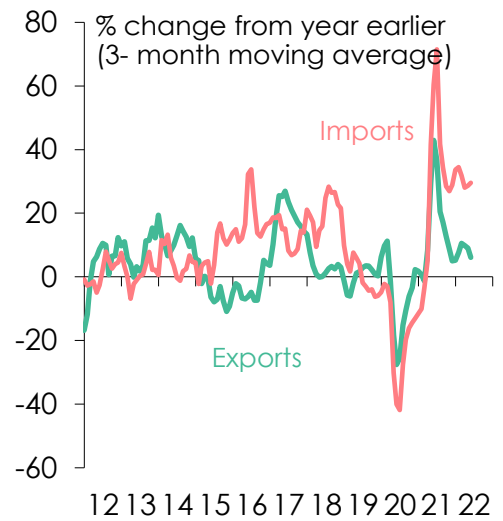
## Taiwan



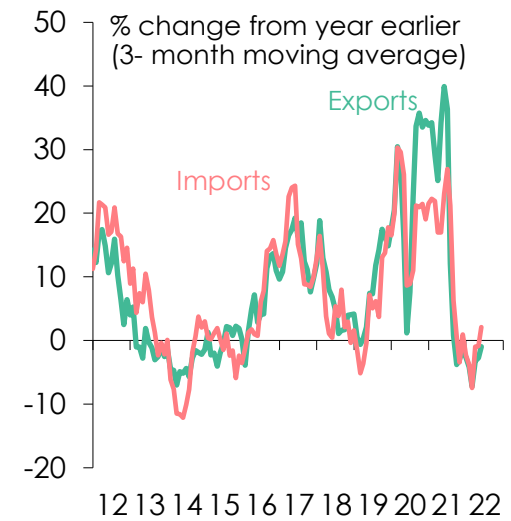
## Singapore



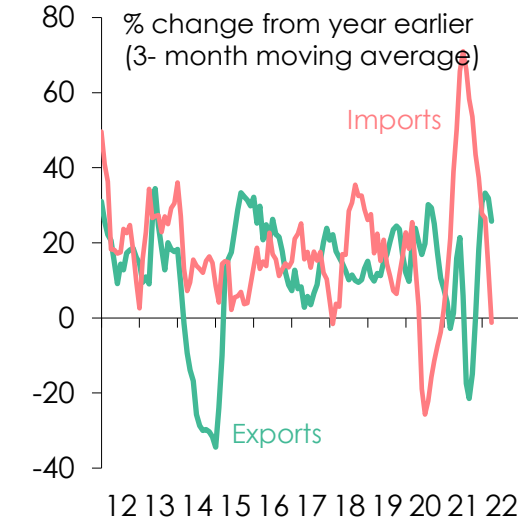
## Philippines



## Malaysia



## Cambodia



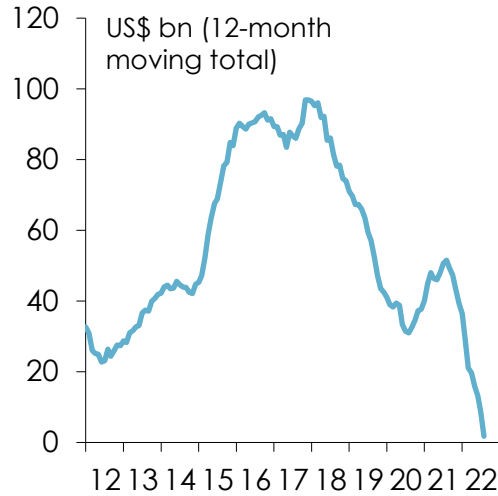
Note: Data for Hong Kong, Singapore and Malaysia are published in national currencies and converted to US dollars by Corinna using month-average exchange rates. Sources: national statistical agencies and central banks. [Return to "What's New"](#).



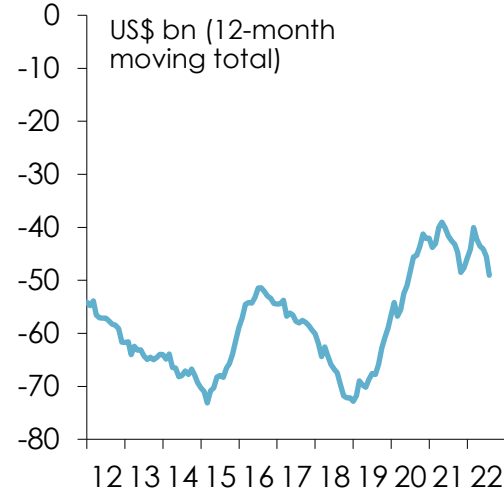
# Most Asian economies – except for Indonesia, Malaysia and Singapore – are experiencing some deterioration in their trade balances

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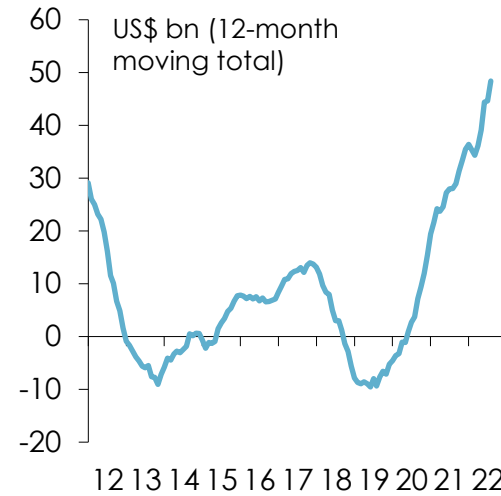
## Korea



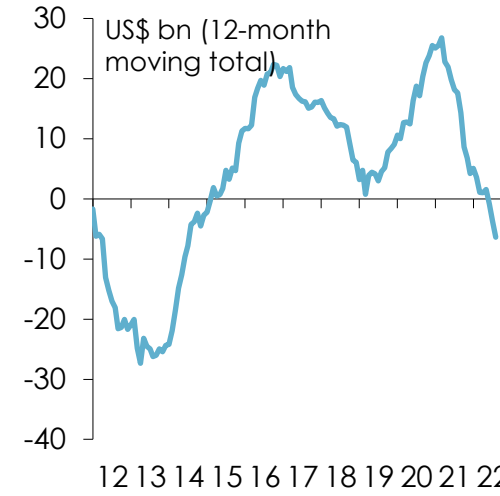
## Hong Kong



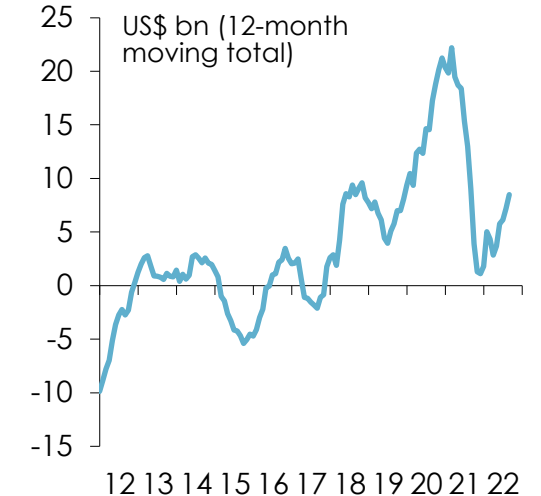
## Indonesia



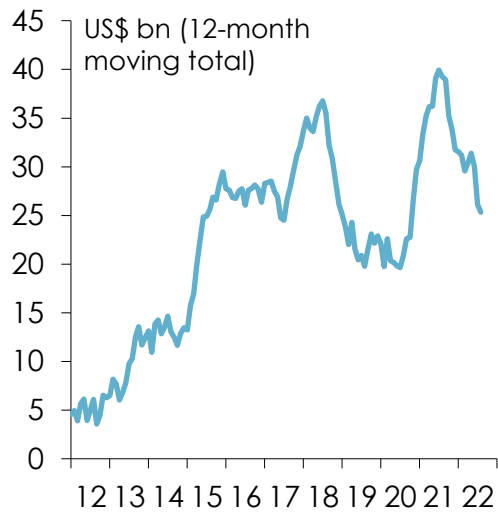
## Thailand



## Vietnam



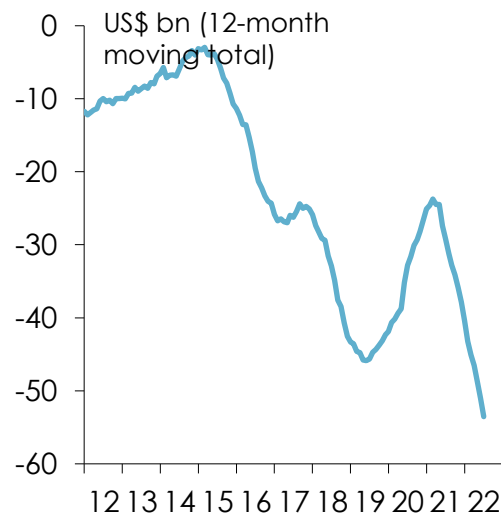
## Taiwan



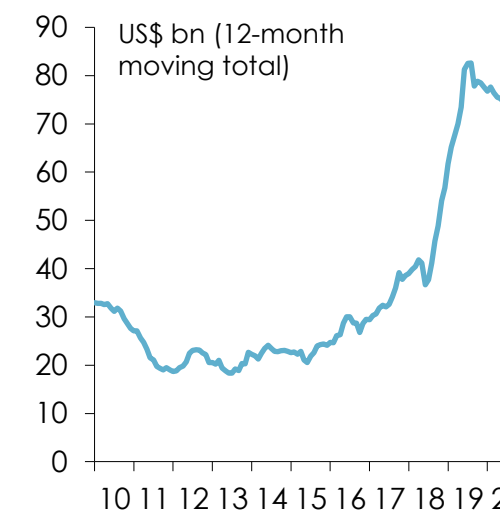
## Singapore



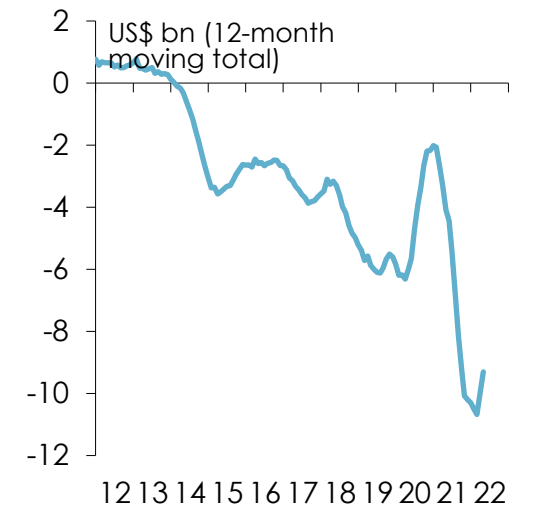
## Philippines



## Malaysia



## Cambodia



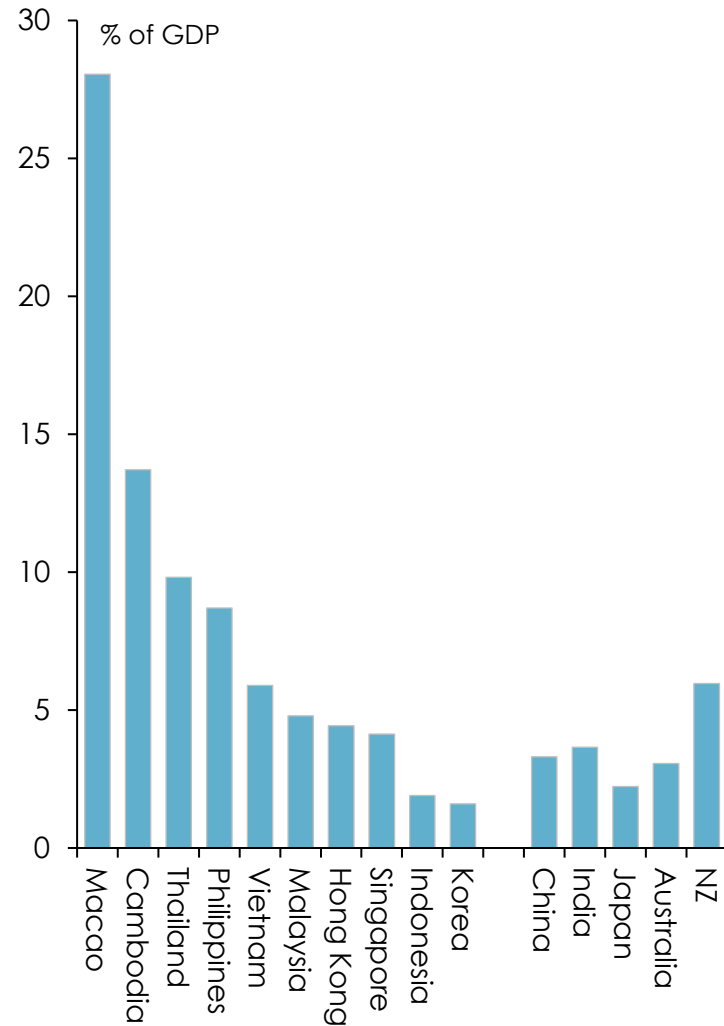
Note: Data for Hong Kong, Singapore and Malaysia are published in national currencies and converted to US dollars by Corinna using month-average exchange rates.  
Sources: national statistical agencies and central banks. [Return to "What's New"](#).



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

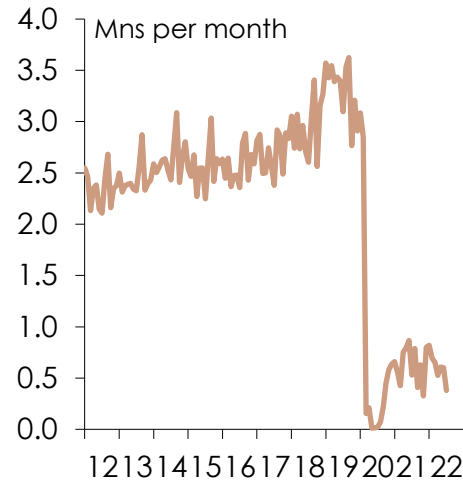
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## International tourism direct contribution to GDP, 2018

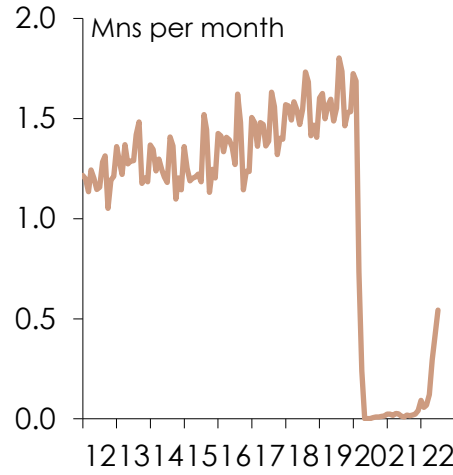


## International visitor arrivals

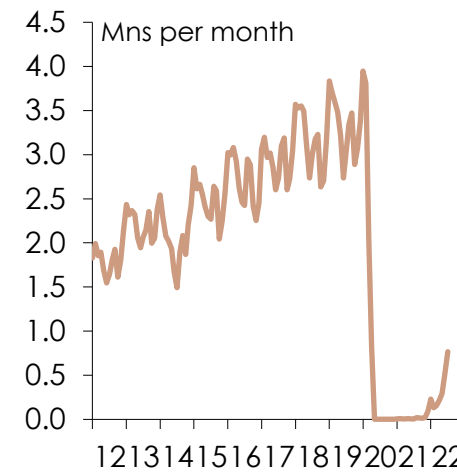
### Macao



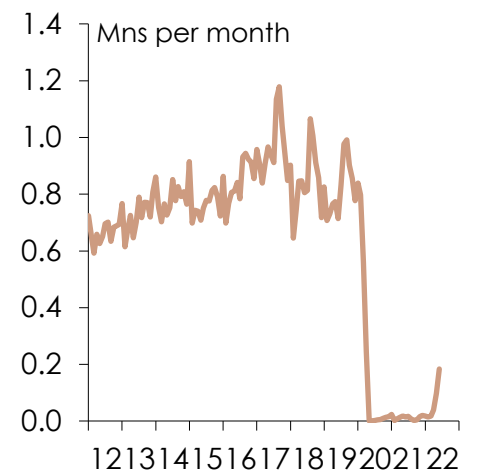
### Singapore



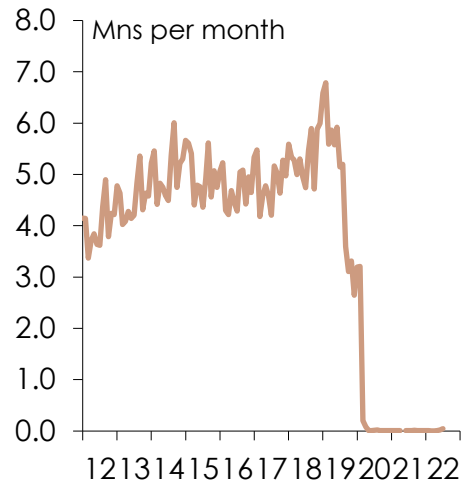
### Thailand



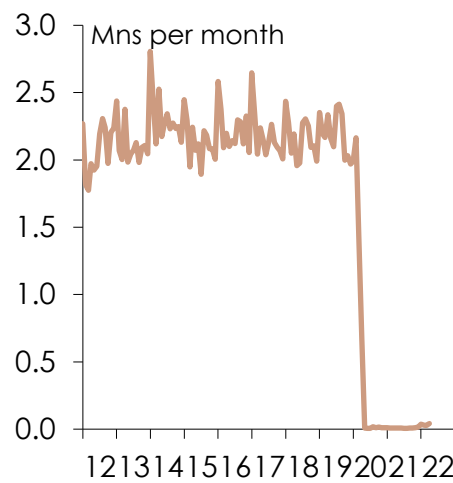
### Indonesia



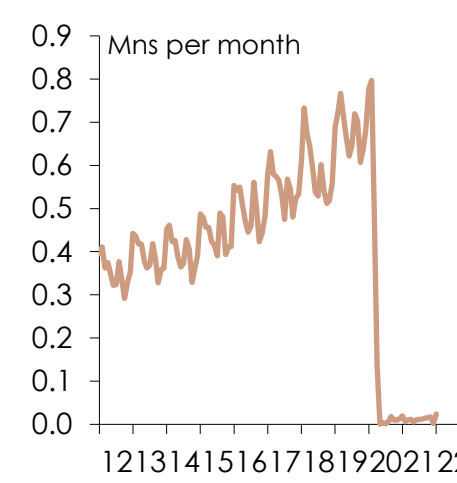
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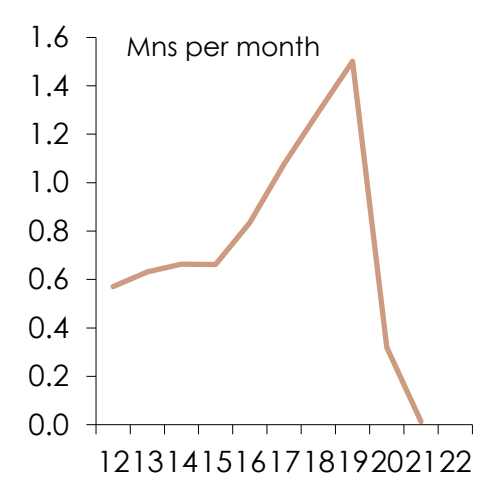
### Malaysia



### Philippines



### Vietnam



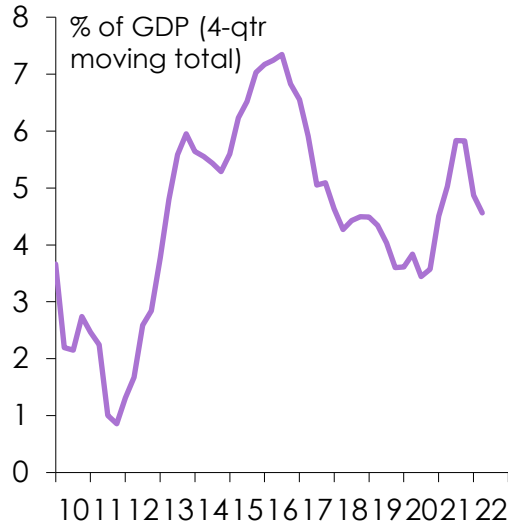
Note: Visitor arrivals data for Vietnam is only published annually. Malaysia and the Philippines have thus far not published data for months after December 2021.

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

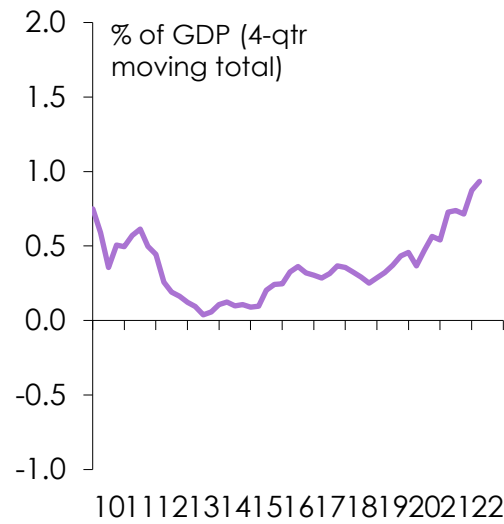
# The more 'advanced' Asian economies have strong current account positions, Indonesia's is much improved but others have deteriorated

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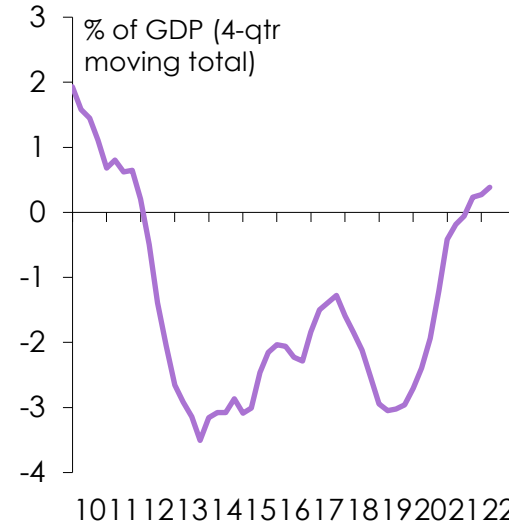
## Korea



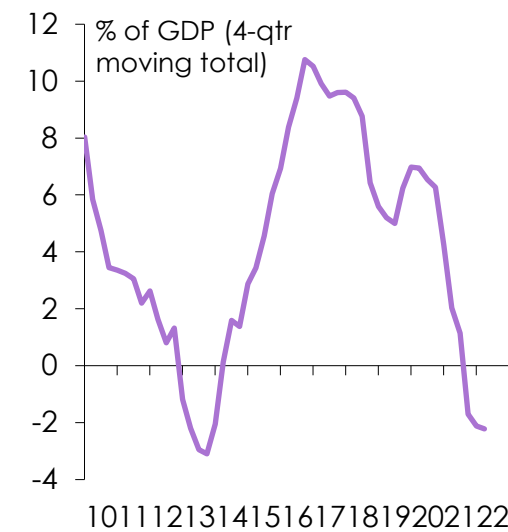
## Hong Kong



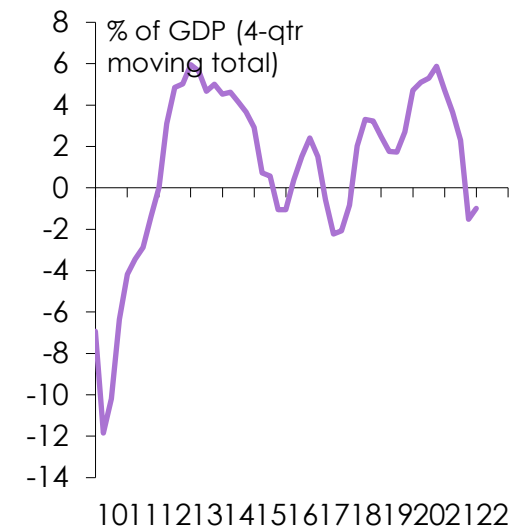
## Indonesia



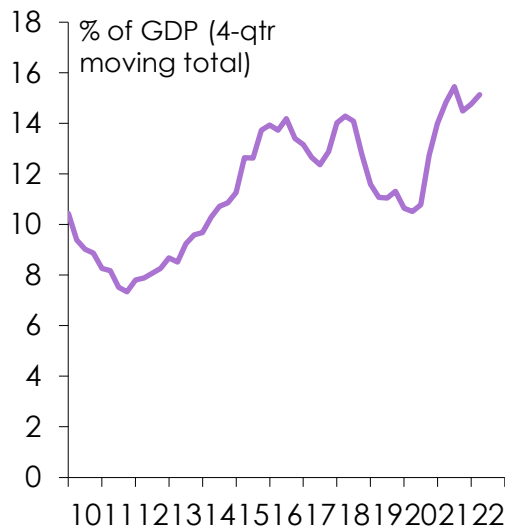
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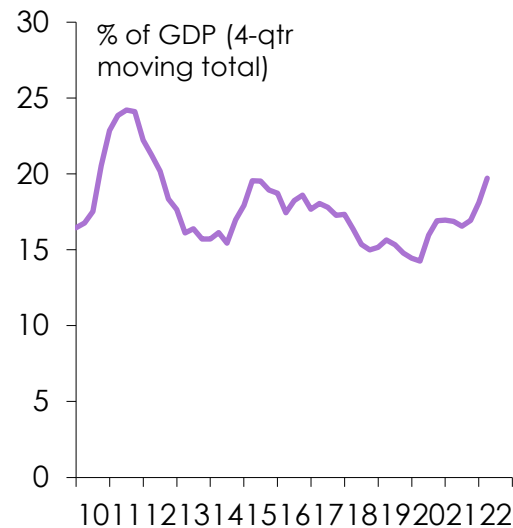
## Vietnam



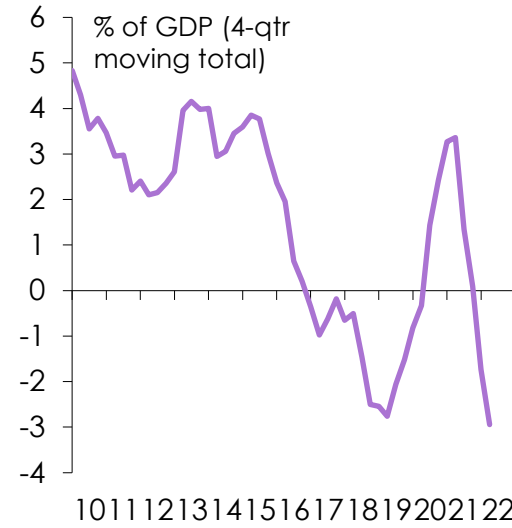
## Taiwan



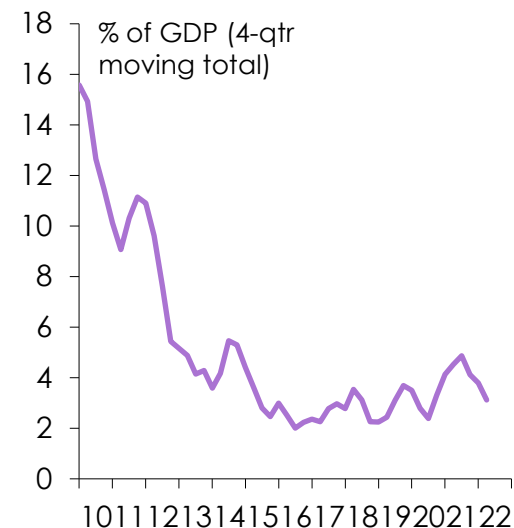
## Singapore



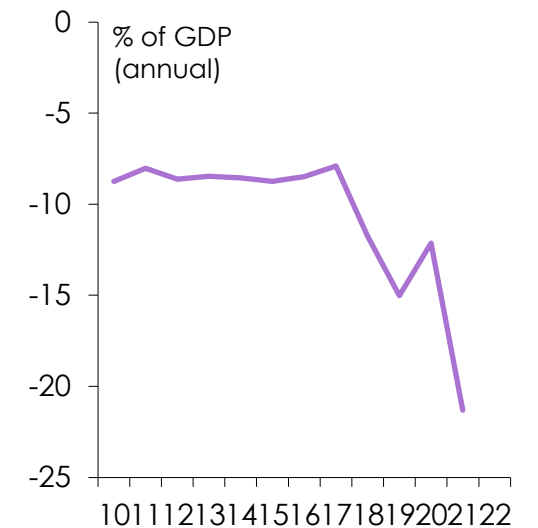
## Philippines



## Malaysia



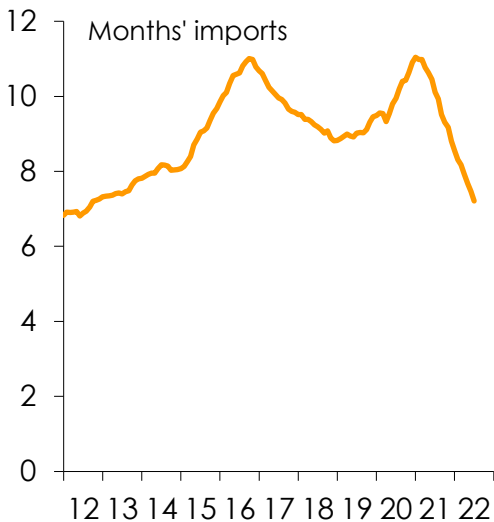
## Cambodia



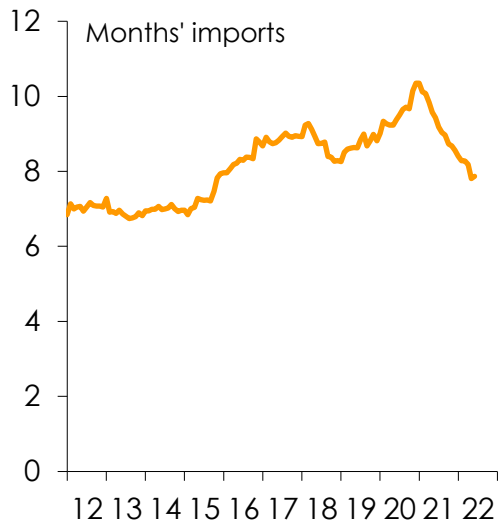
# Most Asian economies have sought to maintain high levels of FX reserves since the 1997-98 crisis – although Malaysia's have deteriorated recently

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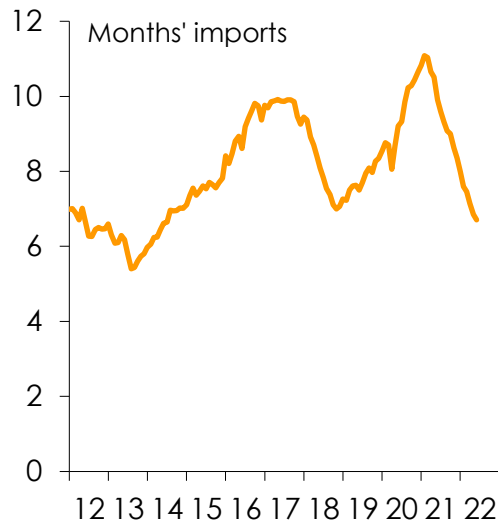
## Korea



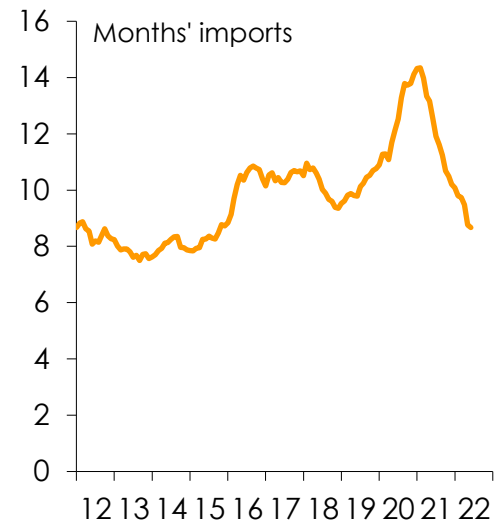
## Hong Kong



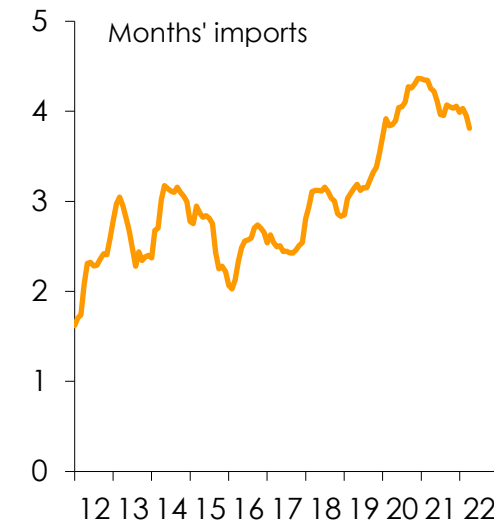
## Indonesia



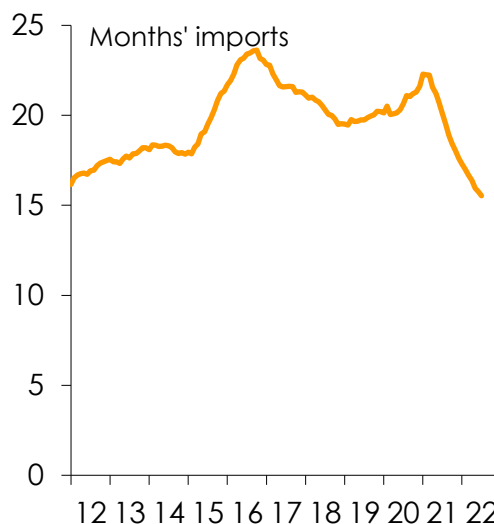
## Thailand



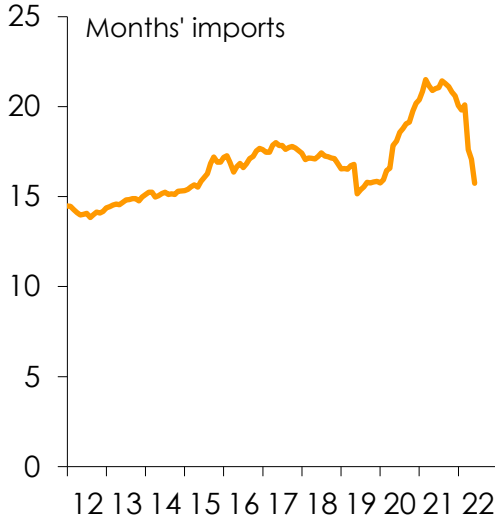
## Vietnam



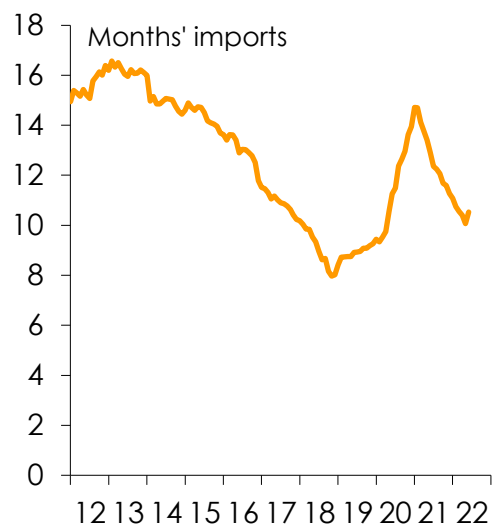
## Taiwan



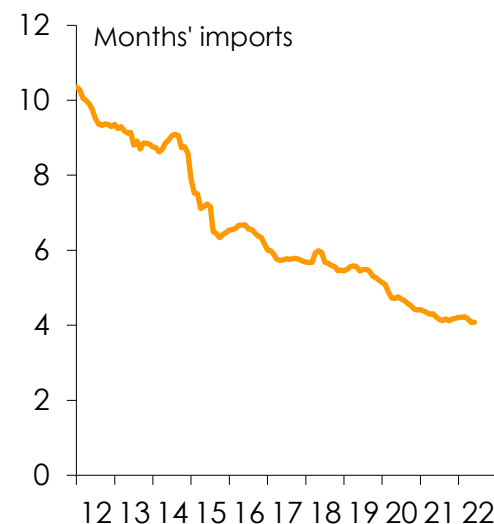
## Singapore



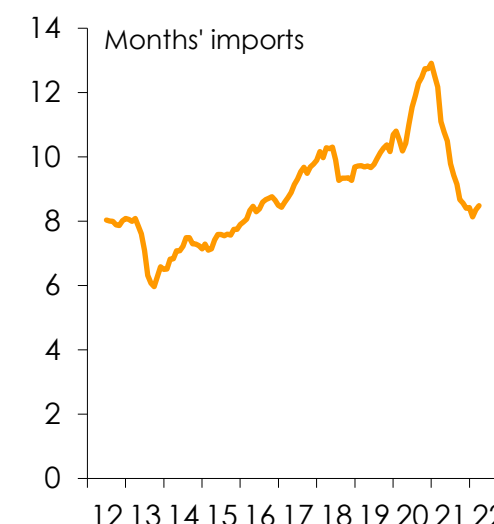
## Philippines



## Malaysia



## Cambodia

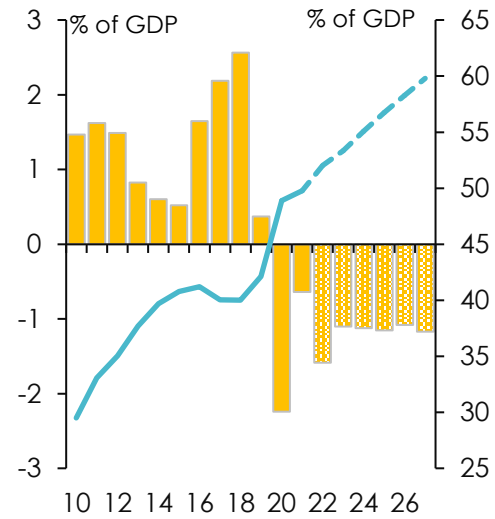


Note: Foreign exchange reserves in the above charts are shown as a multiple of average monthly imports (measured in US\$) over the preceding 12 months.  
Sources: national statistical agencies and central banks; IMF; Refinitiv Datastream. [Return to "What's New"](#).

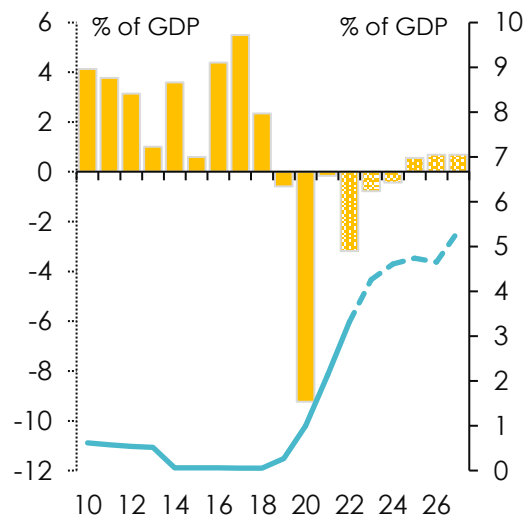
# Most Asian governments, apart from Korea, Taiwan, Malaysia and Vietnam, will be tightening fiscal policy over the next few years

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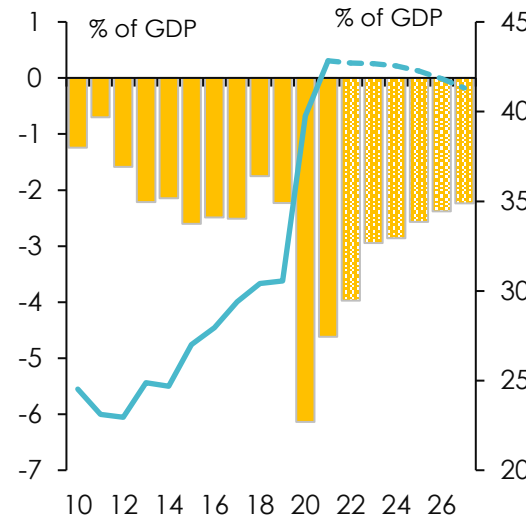
## Korea



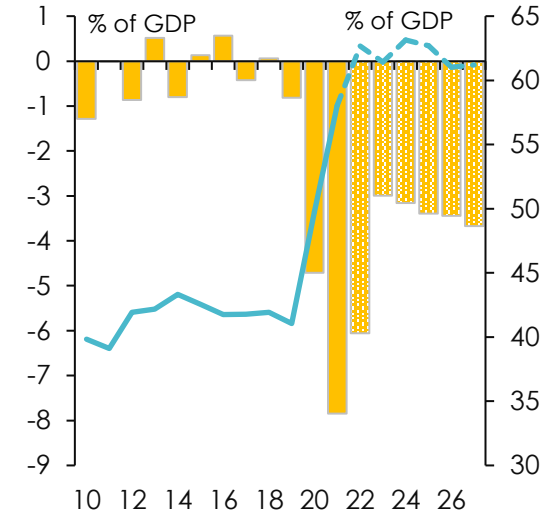
## Hong Kong



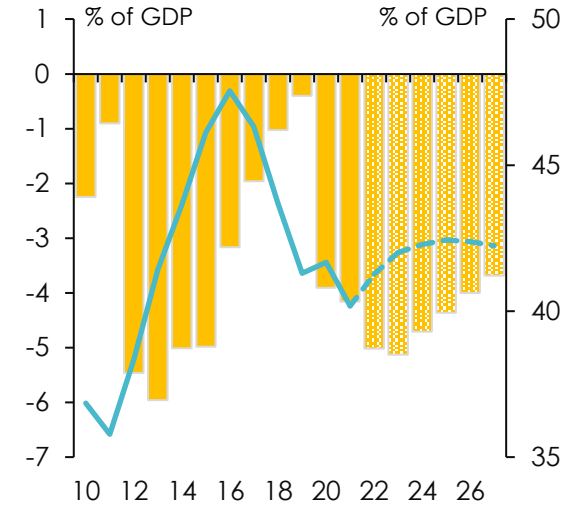
## Indonesia



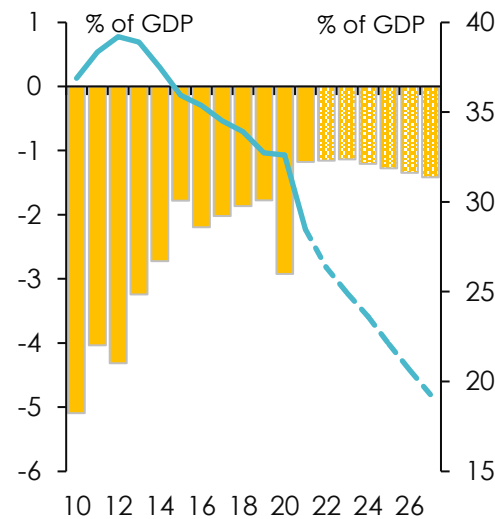
## Thailand



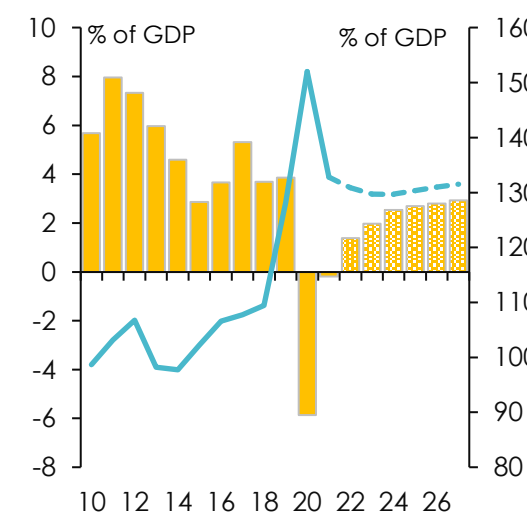
## Vietnam



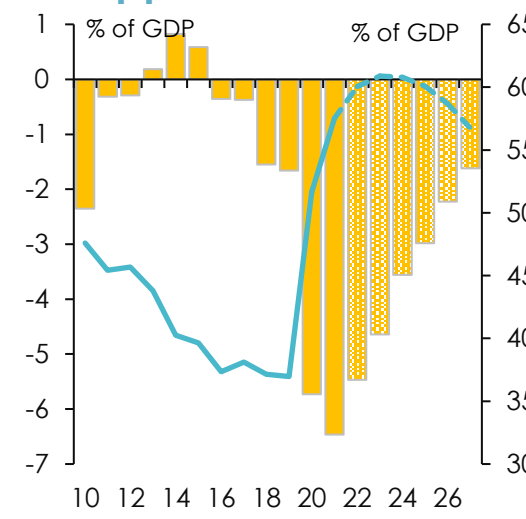
## Taiwan



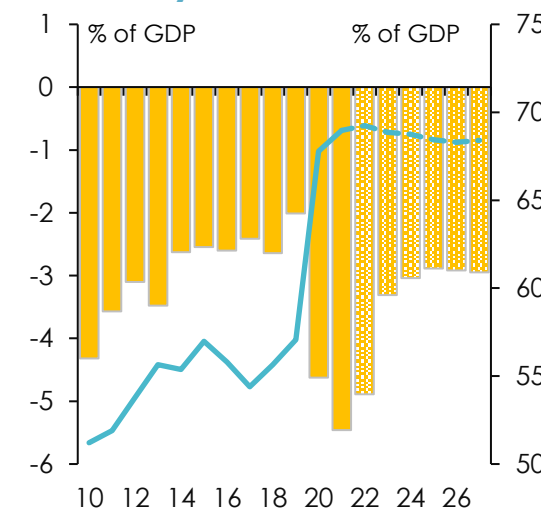
## Singapore



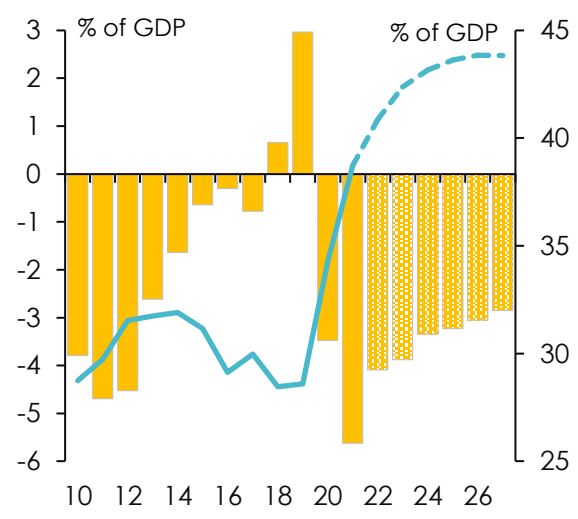
## Philippines



## Malaysia



## Cambodia



General government overall fiscal balance (left scale)



General government gross debt (right scale)

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

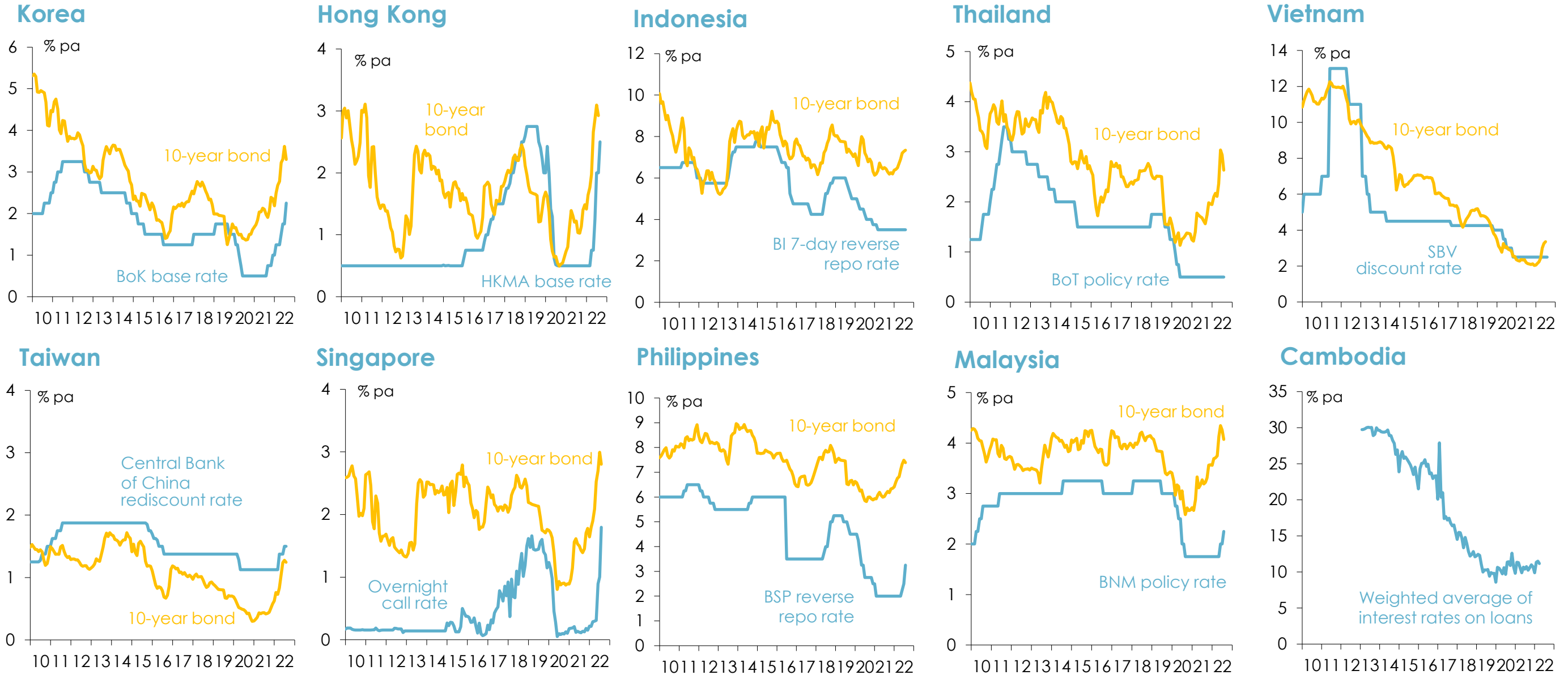
# The Hong Kong Monetary Authority raised its base rate by 75bp on Thursday following the US FOMC meeting, as required by its currency board system

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- ❑ The [Hong Kong Monetary Authority](#) raised its base rate by 75 basis points, to 2.75%, on Thursday, following the US Federal Reserve's 75 bp increase in its funds rate target
  - these adjustments occur in accordance with a [pre-set formula](#) under Hong Kong's long-standing [currency board system](#) whereby the HK\$ is fixed to the US\$
- ❑ [Bank Indonesia](#) again left its 7-day repo rate unchanged at 3.50%, where it has been since February last year, at its Board of Governors meeting on 21<sup>st</sup> July
  - 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”
- ❑ 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 10<sup>th</sup> August

# The HKMA raised its base rate by 75bp in line with the Fed's move the day before: the BoT will likely raise rates for the first time on 10<sup>th</sup> August

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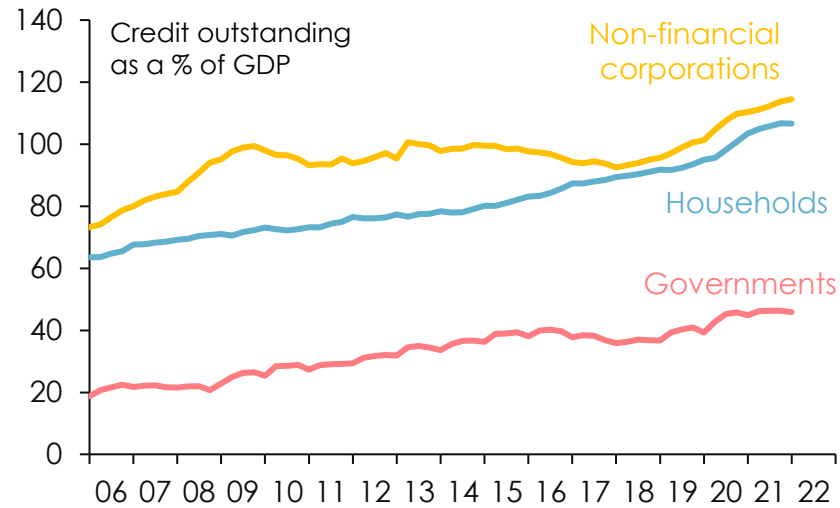
Note: Neither Hong Kong nor Singapore use a monetary policy indicator interest rate. Hong Kong has a currency board system, under which the HKMA base rate moves in line with a pre-set formula based on the US fed funds rate; the Monetary Authority of Singapore uses the (effective) exchange rate as its principal monetary policy instrument. The National Bank of Cambodia administers monetary policy primarily through changes in bank reserve requirement ratios. Data are monthly averages up to 29<sup>th</sup> July 2022. Sources: national central banks; Refinitiv Datastream. [Return to "What's New"](#).



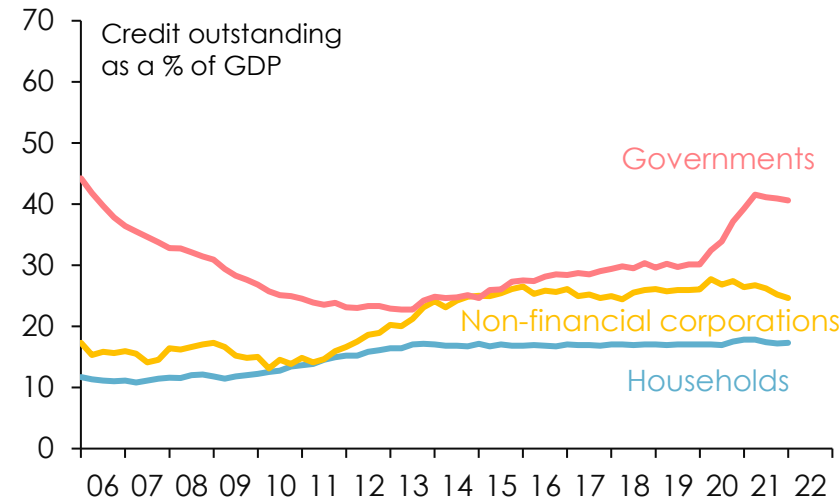
# In Asia, Hong Kong, Singaporean and Korean corporates, and Korean households, have the greatest exposure to any increases in interest rates

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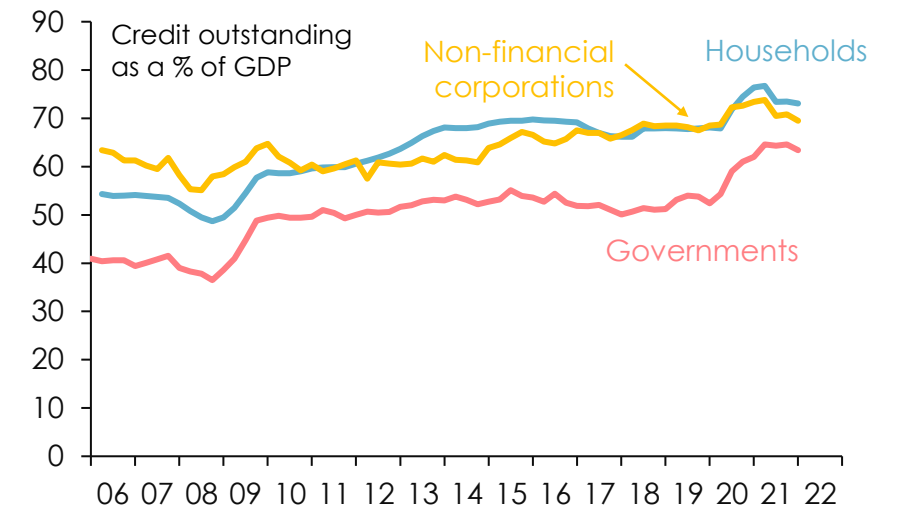
## Korea



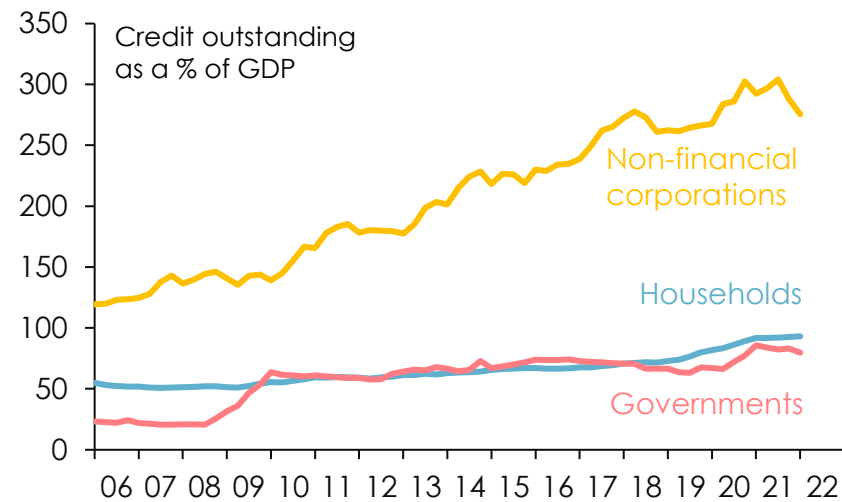
## Indonesia



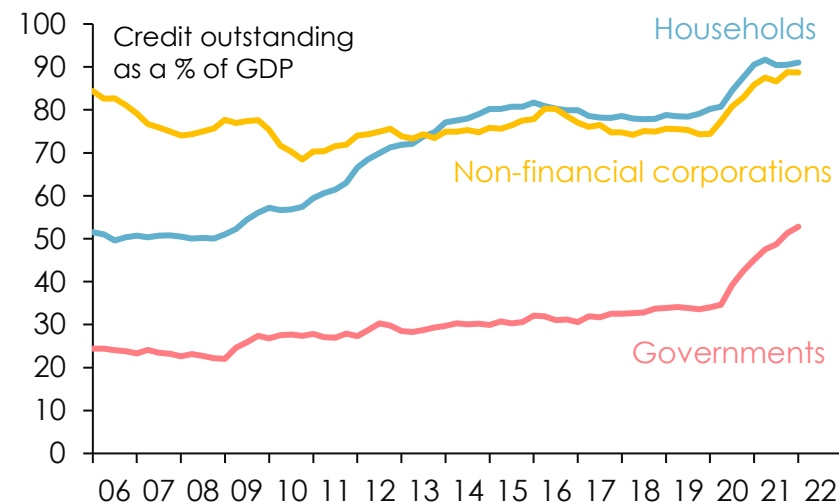
## Malaysia



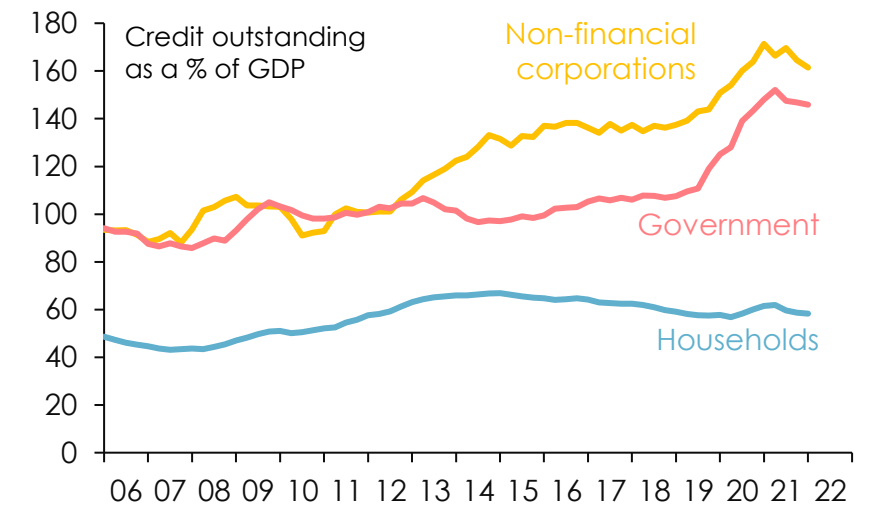
## Hong Kong



## Thailand



## Singapore

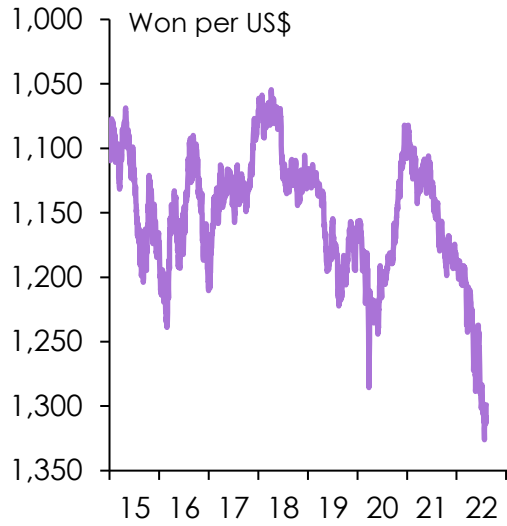


Source: Bank for International Settlements, [Credit Statistics](#); latest data are for Q4 2021, Q1 2022 data will be released in mid-September. [Return to "What's New"](#).

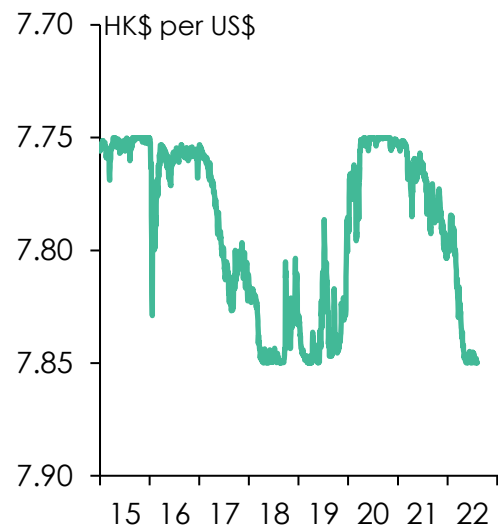
# Asian currencies were again mixed against the softer US\$ last week, with the peso up 2%, the rupiah 1¼% and the won 1% but the baht down ¼%

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### Korean won



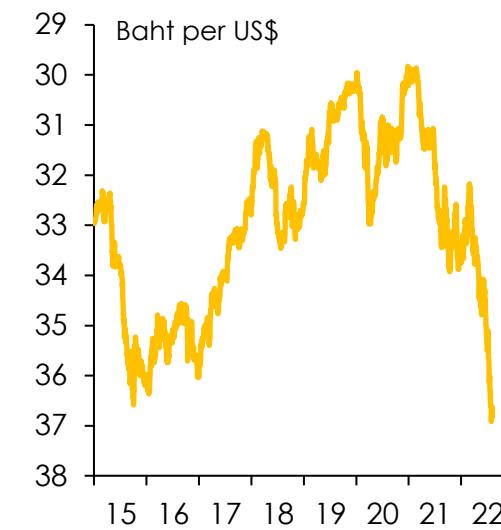
### Hong Kong dollar



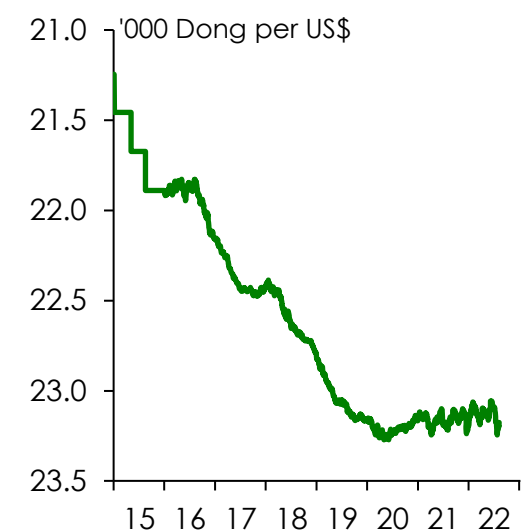
### Indonesian rupiah



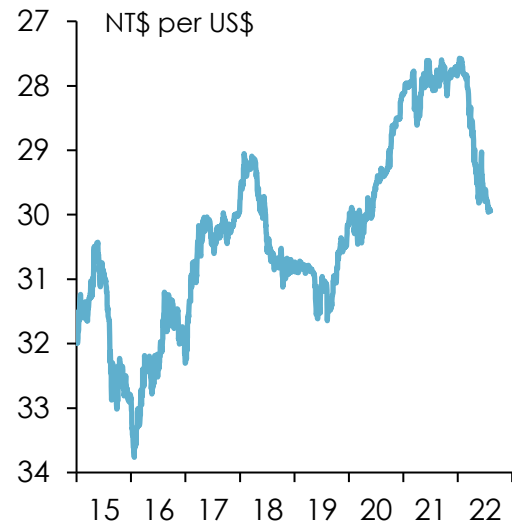
### Thai baht



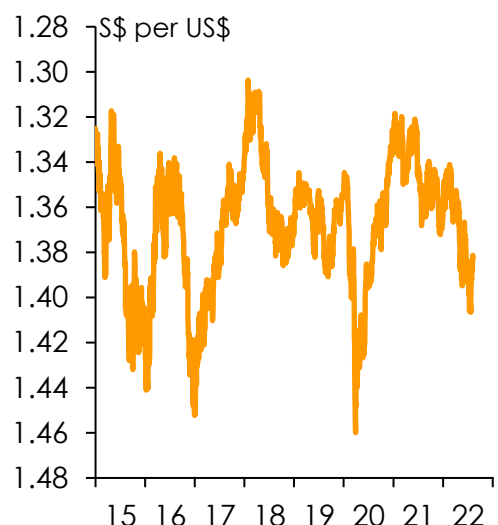
### Vietnamese dong



### New Taiwan dollar



### Singapore dollar



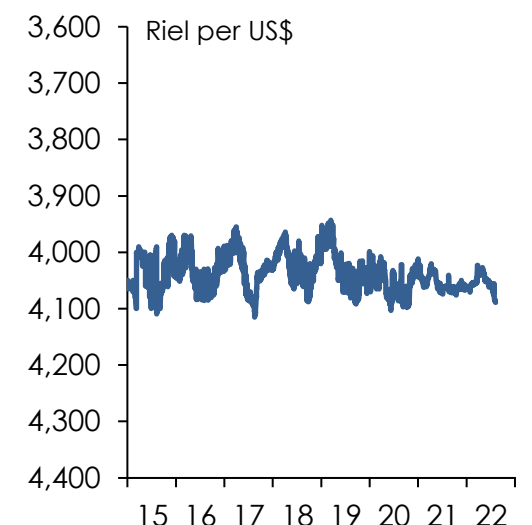
### Philippine peso



### Malaysian ringgit



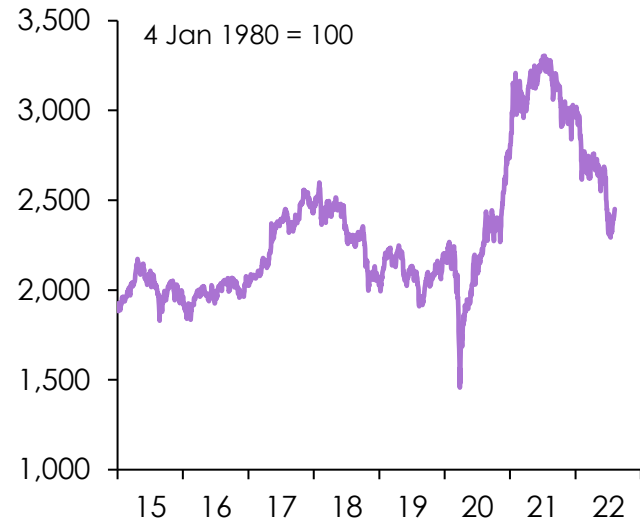
### Cambodian riel



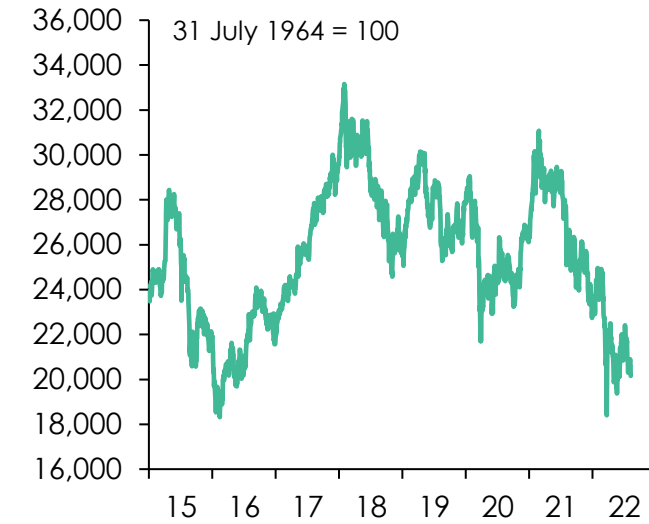
# Asian stock markets were mostly higher last week, especially Seoul up 2½%, but HK was the outlier losing 2¼%

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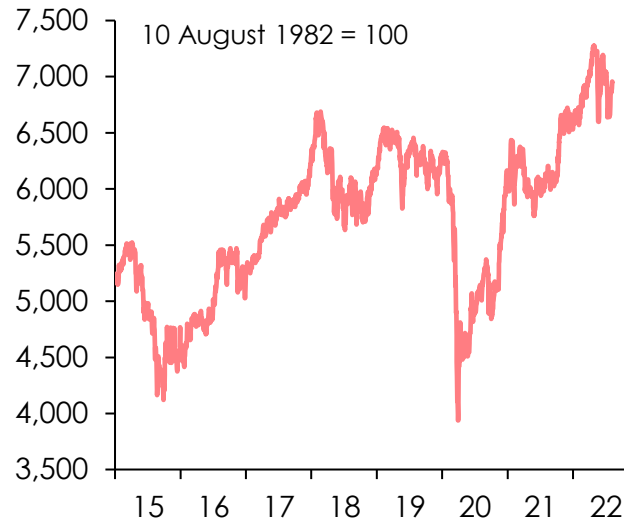
## KOSPI



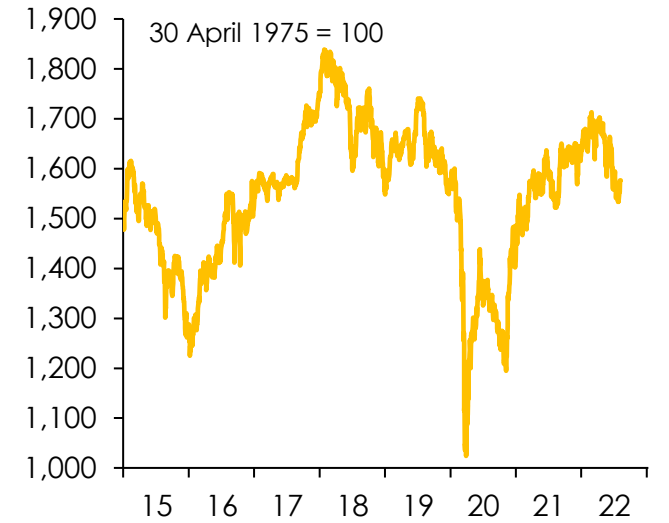
## Hang Seng Index



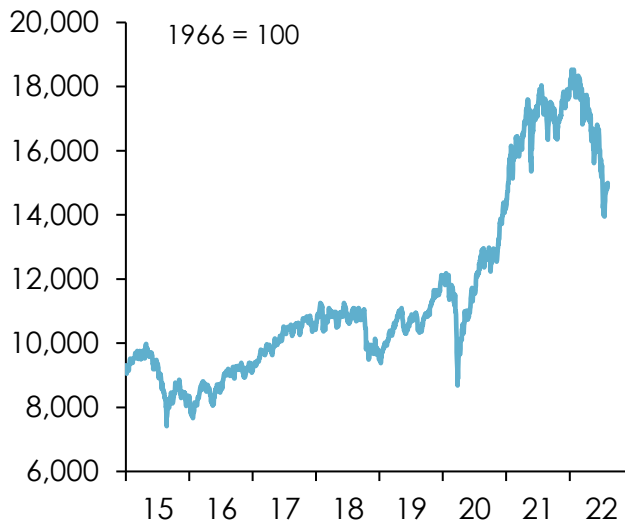
## JCI



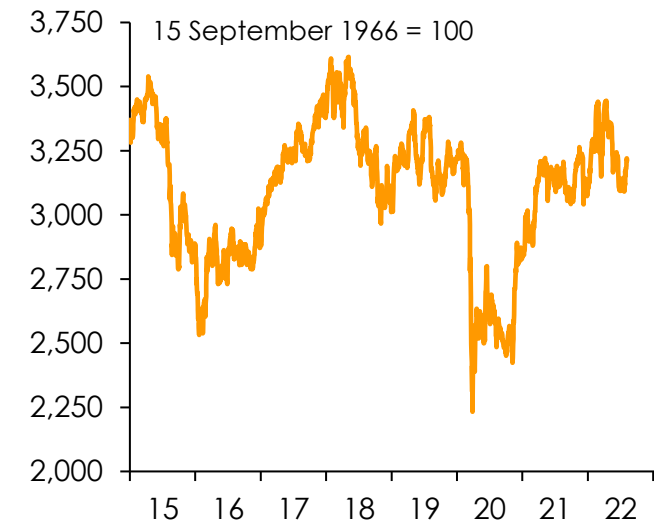
## SETI



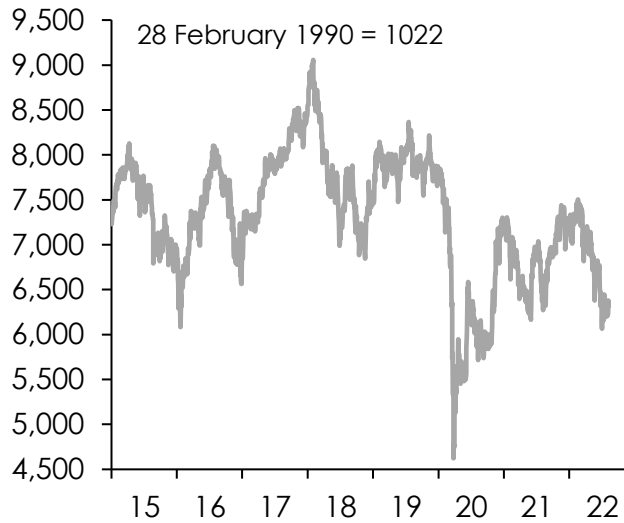
## TAIEX



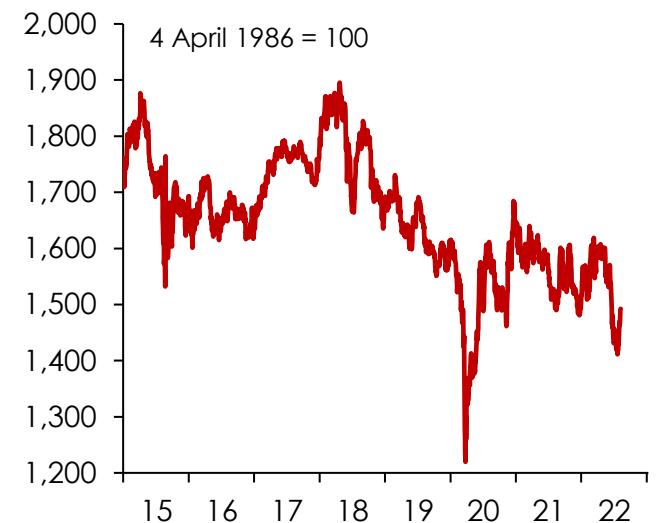
## Straits Times Index



## PSE i



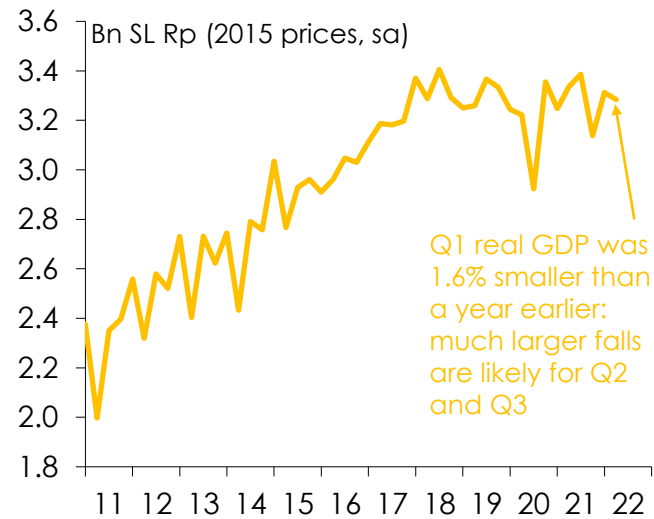
## KLCI



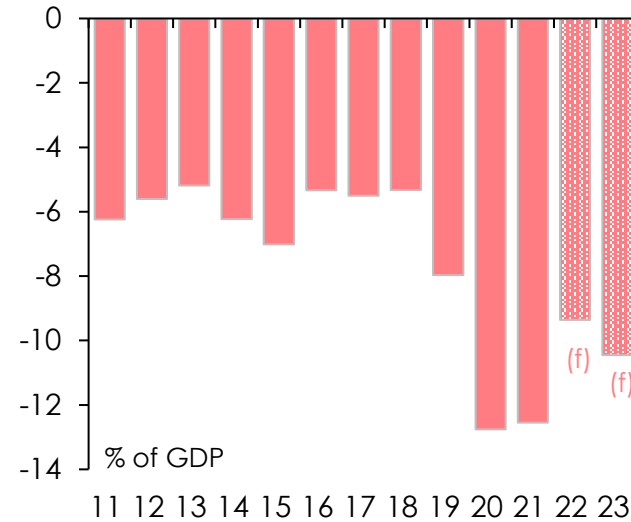
# Sri Lanka's newly-installed President, former PM Ranil Wickremesinghe, is unlikely to be able to restore confidence or stability

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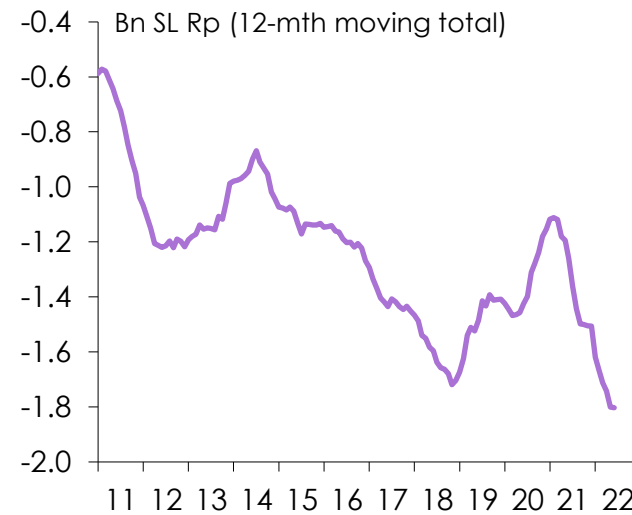
## Real GDP



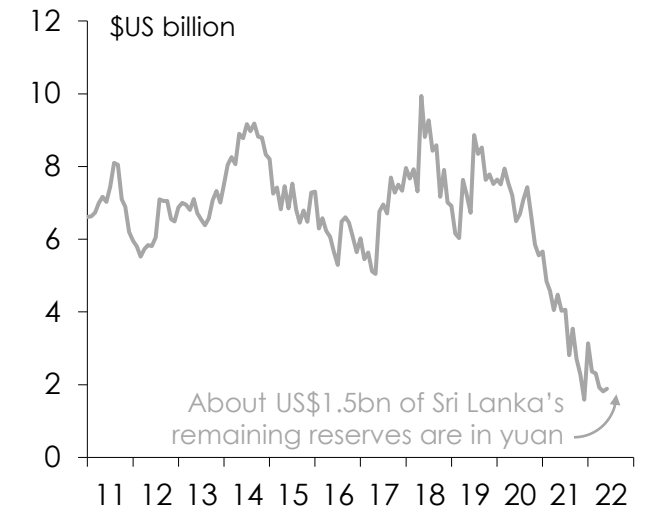
## Fiscal balance



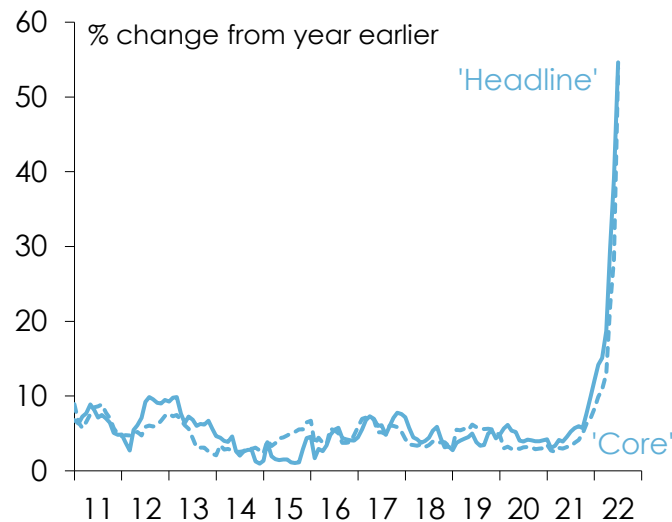
## Merchandise trade balance



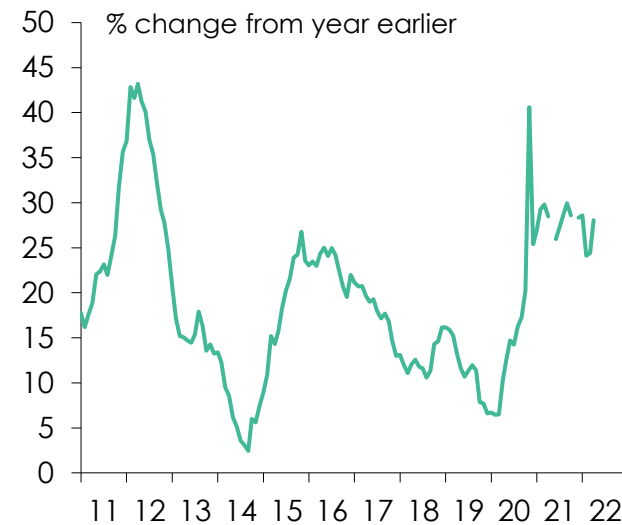
## FX reserves



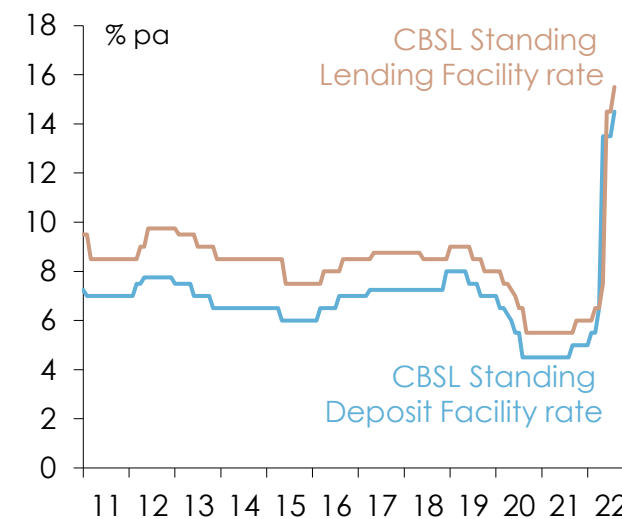
## Consumer prices



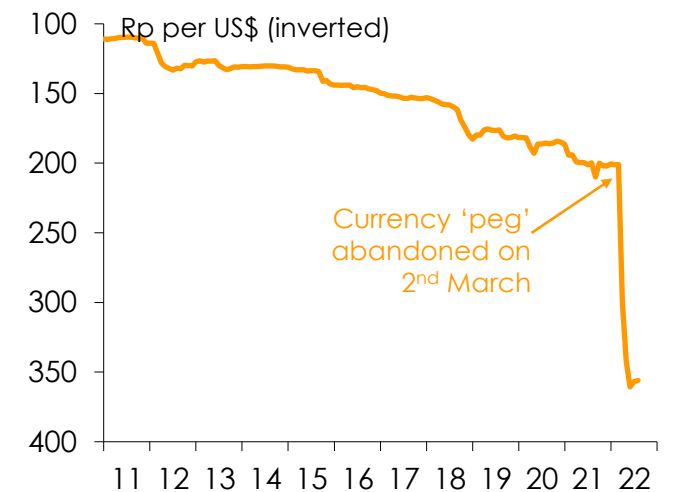
## Credit growth



## Interest rates



## SL rupee vs US\$



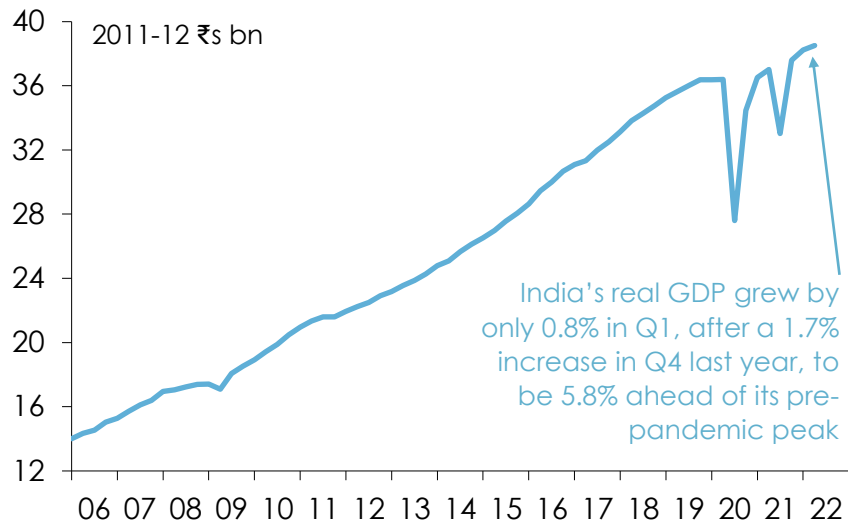
Note: GDP data seasonally adjusted using Refinitiv Datastream; CPI data are for Colombo. Sources: [Sri Lanka Department of Census and Statistics](#); [Central Bank of Sri Lanka](#); IMF, [Fiscal Monitor](#), April 2022; Refinitiv Datastream. [Return to "What's New"](#).

**India**

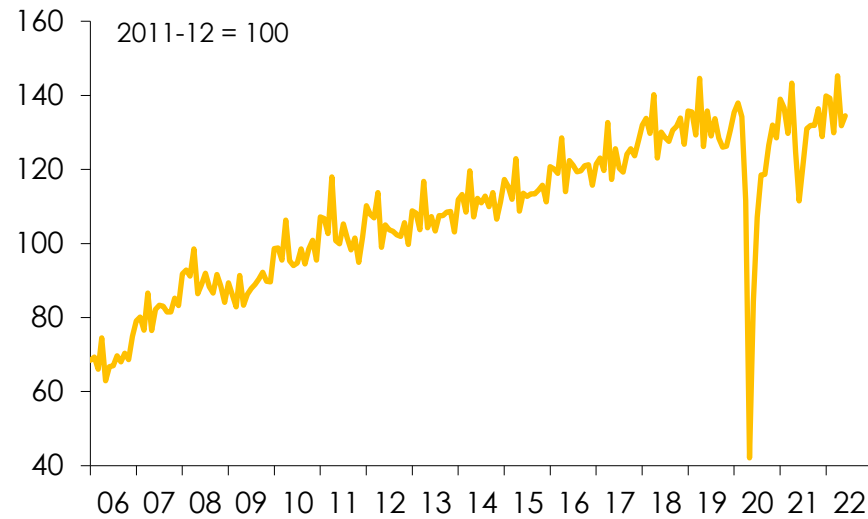
# India's GDP growth rate has slowed sharply over the past two quarters, after bouncing strongly out of its second Covid recession in mid-2022

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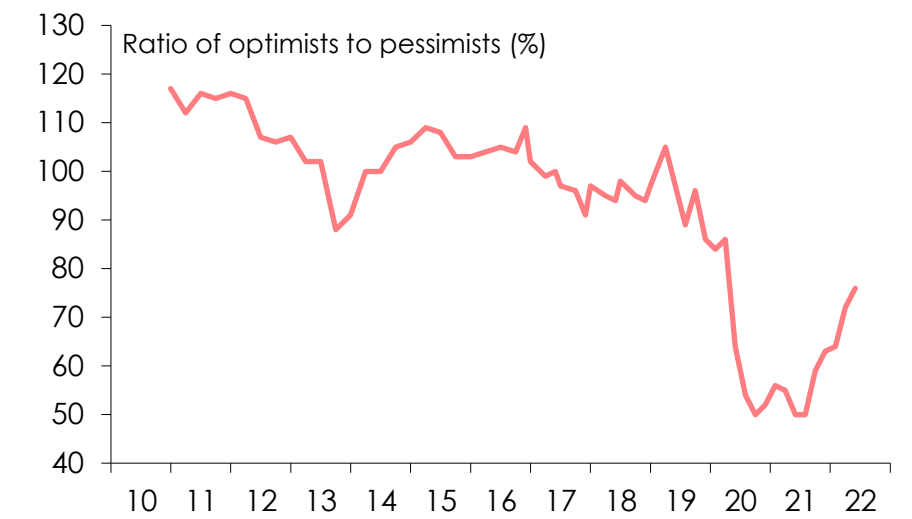
## Quarterly real GDP



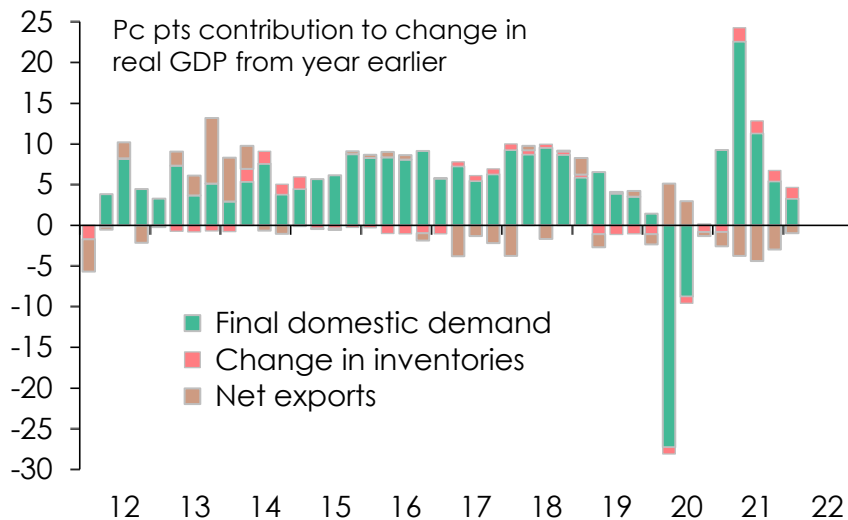
## Manufacturing production



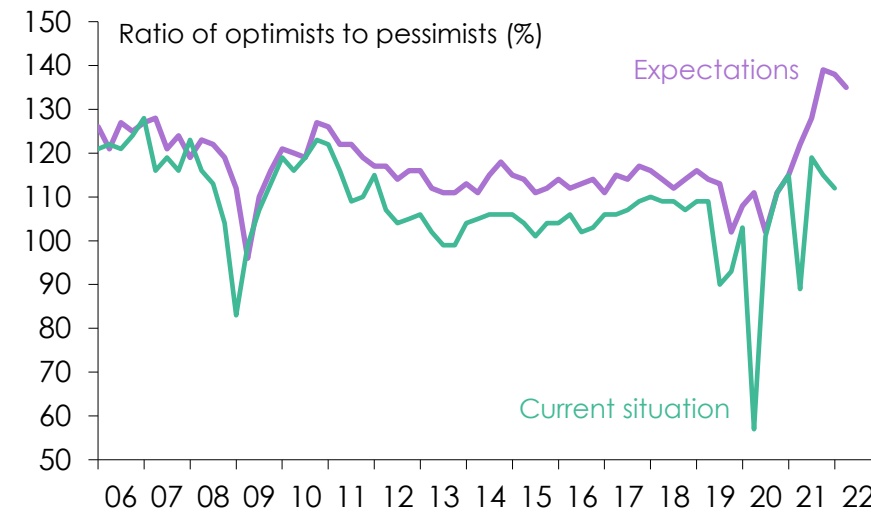
## Consumer confidence



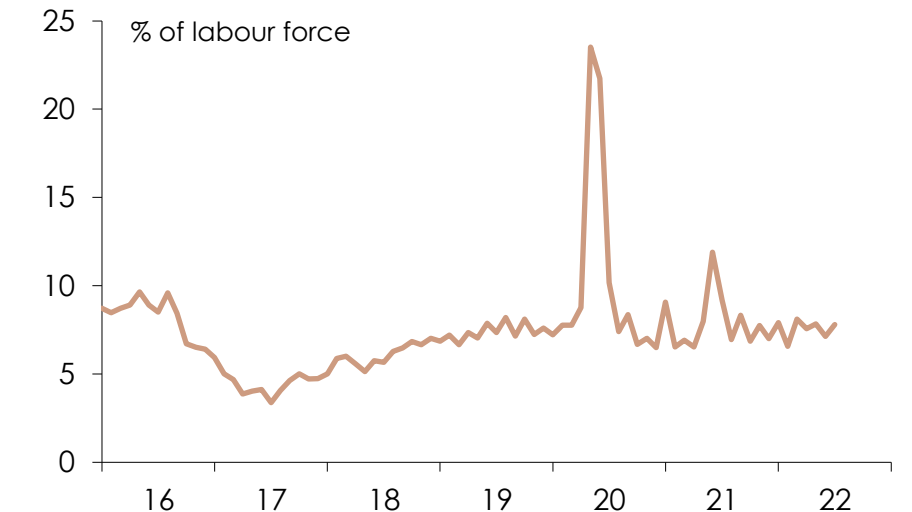
## Contributions to real GDP growth



## Industrial sector sentiment



## Unemployment rate



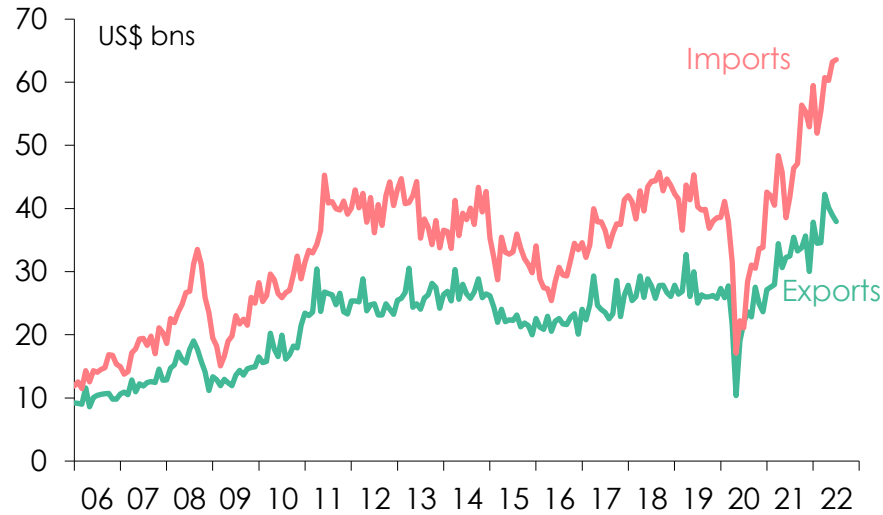
Sources: OECD, [Quarterly National Accounts dataset](#); Government of India, Ministry of Statistics and Programme Implementation, [National Accounts Data](#), and [IIP Data](#); Reserve Bank of India, [Quarterly Industrial Outlook Survey](#) and [Consumer Confidence Survey Bi-Monthly](#); Centre for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



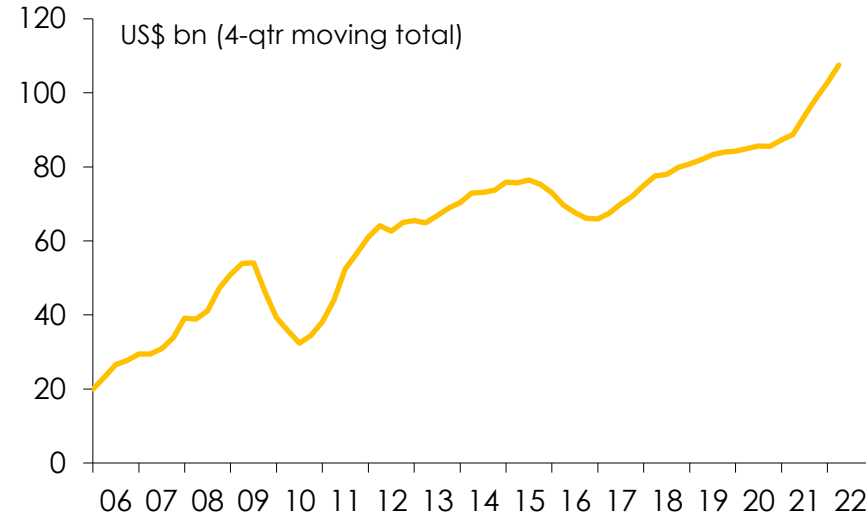
# India's merchandise trade deficit has deteriorated sharply due to higher oil prices but its overall external position remains relatively stable

THE WORLD ECONOMY THIS WEEK – 1<sup>ST</sup> AUGUST 2022

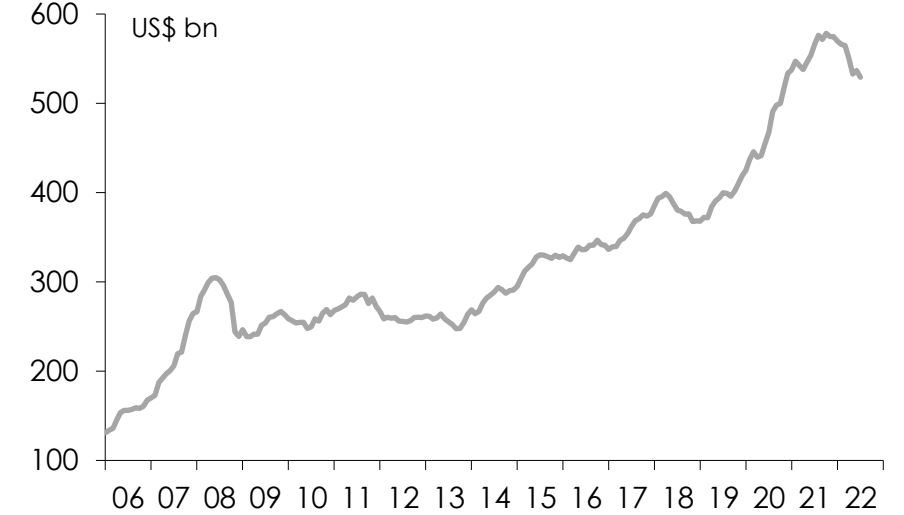
## Merchandise exports and imports



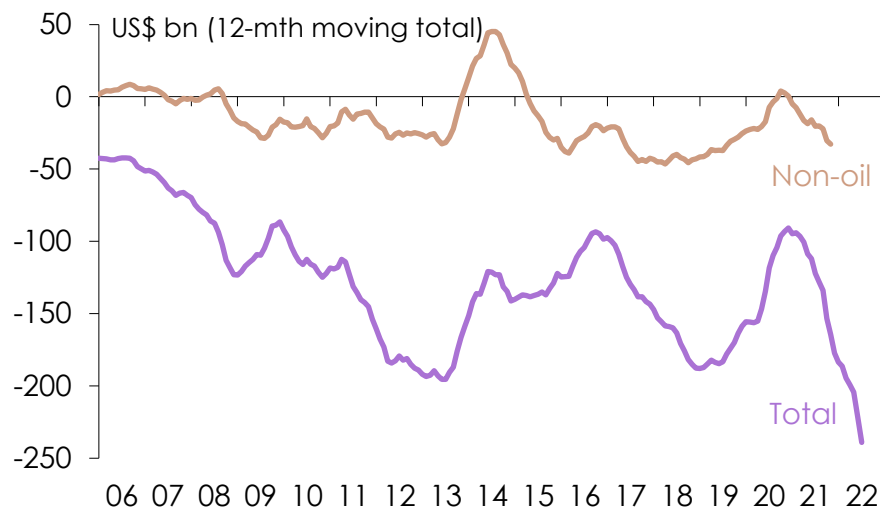
## Services trade balance



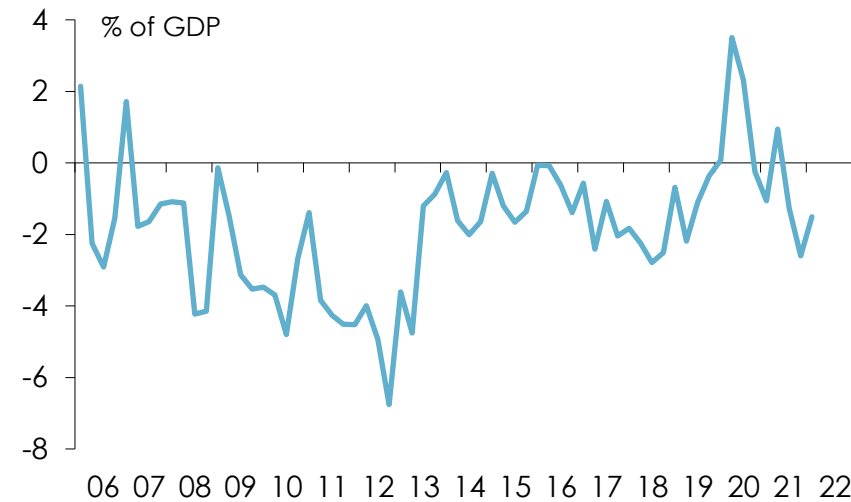
## Foreign exchange reserves



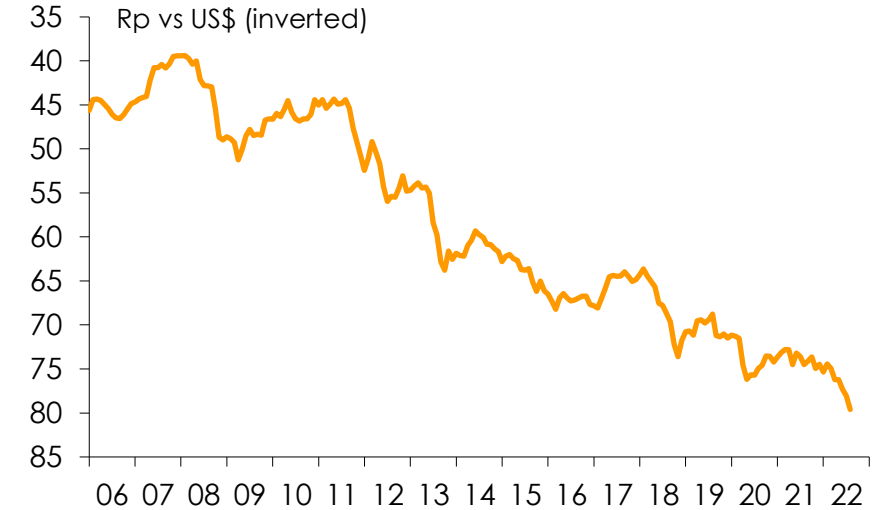
## Merchandise trade balance



## Current account balance



## Rupee vs US dollar

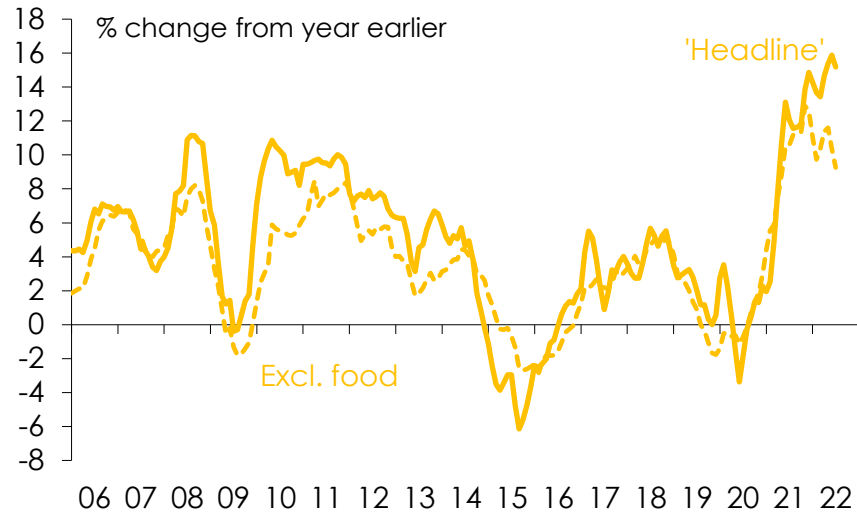


Note: data on trade in oil hasn't been published since December 2021. Sources: Government of India, Ministry of Commerce and Industry, [Trade Statistics](#); Reserve Bank of India, [Special Data Dissemination Standards - Balance of Payments](#) and [Weekly Statistical Supplement - Extract](#); Refinitiv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

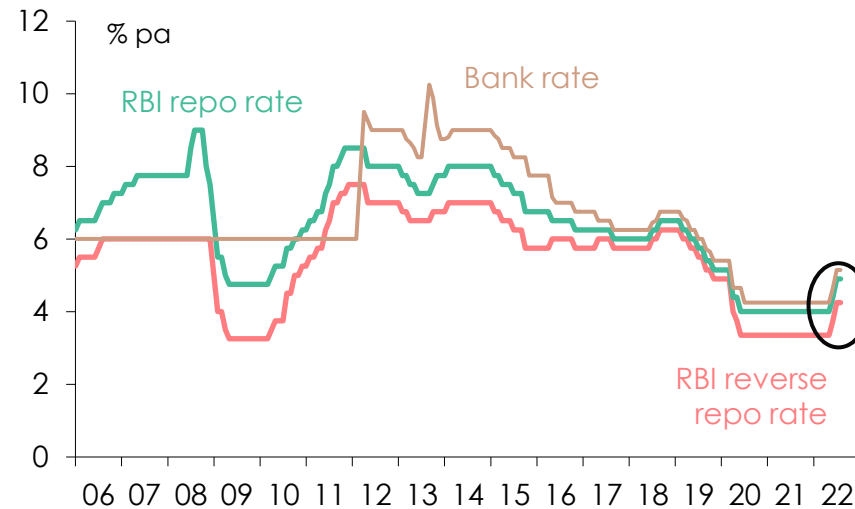
# The RBI is widely expected to hike rates by 35 basis points at its MPC meeting this week, returning them to their pre-pandemic level

THE WORLD ECONOMY THIS WEEK – 1<sup>ST</sup> AUGUST 2022

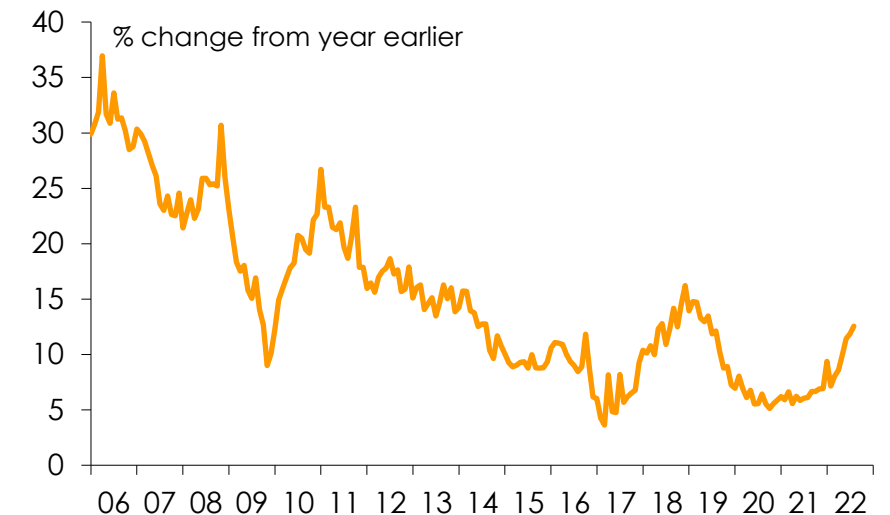
## Wholesale prices



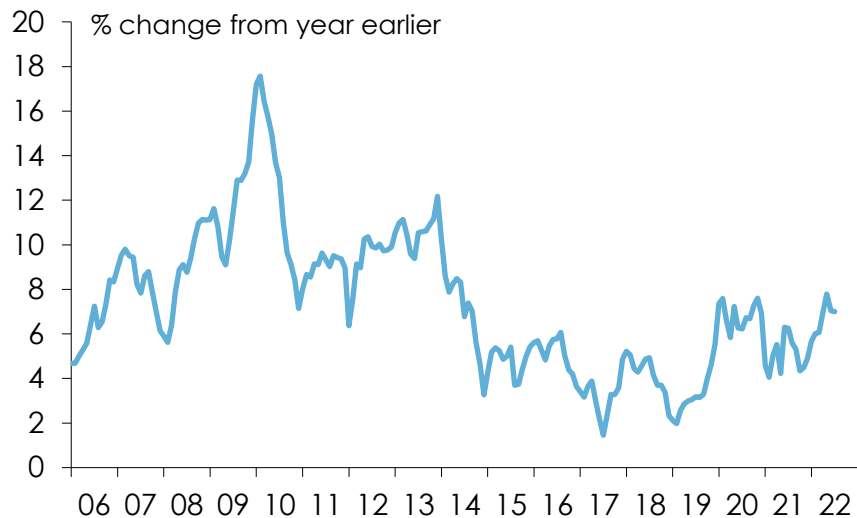
## RBI policy interest rates



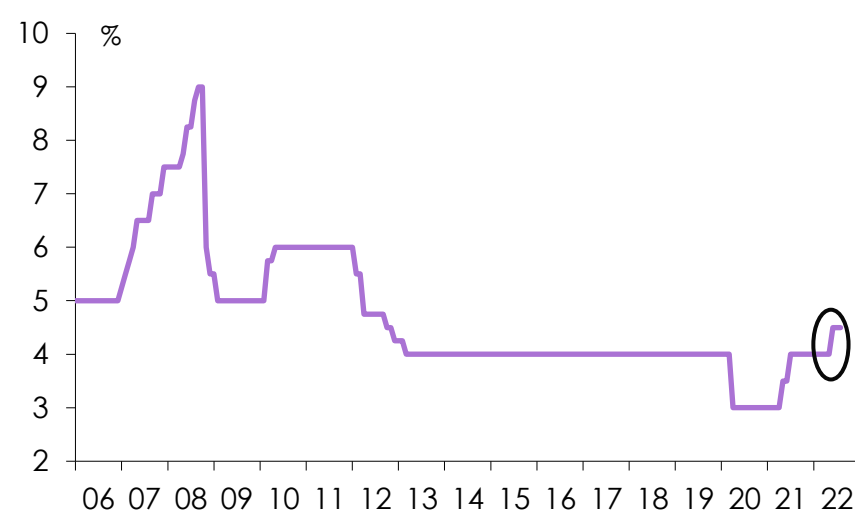
## Bank lending



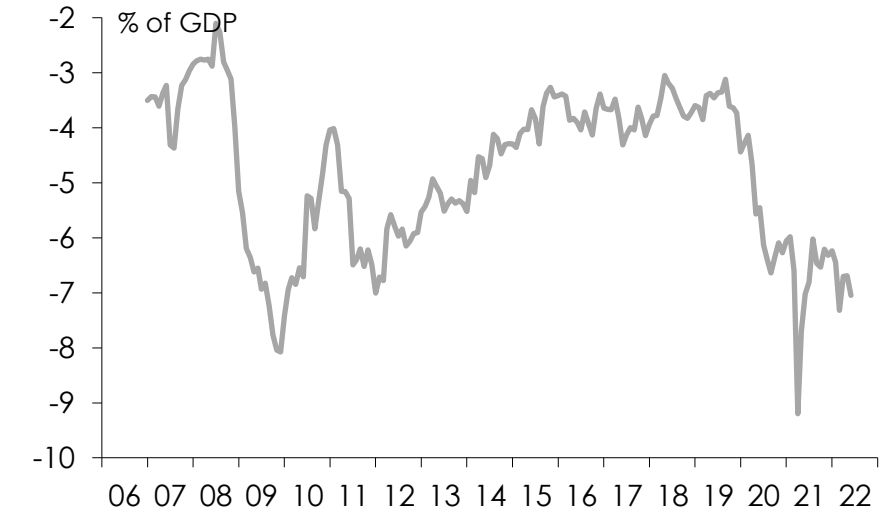
## Consumer prices



## RBI cash reserve ratio



## Central government fiscal balance



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

**Canada, Australia and New Zealand**

# The Reserve Bank of Australia is likely to raise its cash rate another 50 bp, to 1.85%, at this week's Board meeting

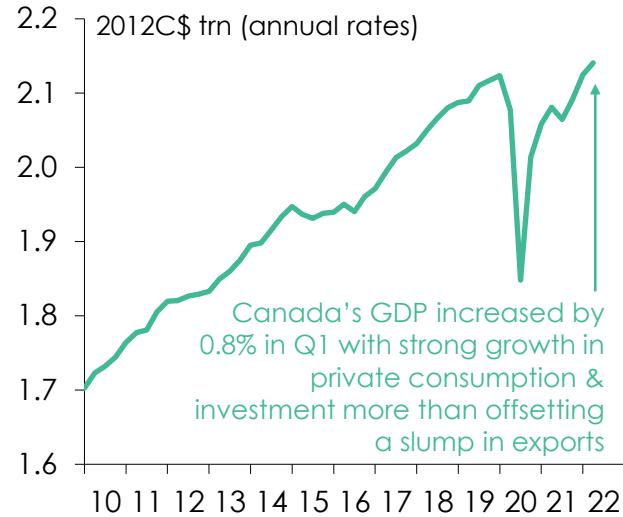
THE WORLD ECONOMY THIS WEEK – 1<sup>ST</sup> AUGUST 2022

- ❑ The [Reserve Bank of Australia](#) is likely to raise its cash rate another 50 basis points, to 1.85%, at its Board meeting on Tuesday
  - this would follow a further rise in Australia's 'headline' and 'underlying' inflation rates to 6.1% and 4.5%, respectively, over the year to Q2 ([slide 114](#)), and an upwardly-revised forecast from Treasury calling for 'headline' inflation to peak at 7¾% in Q4 this year
- ❑ 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 113](#))
  - [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 13<sup>th</sup> July – the seventh increase, for a total of 225bp, since October last year ([slide 115](#))
  - 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

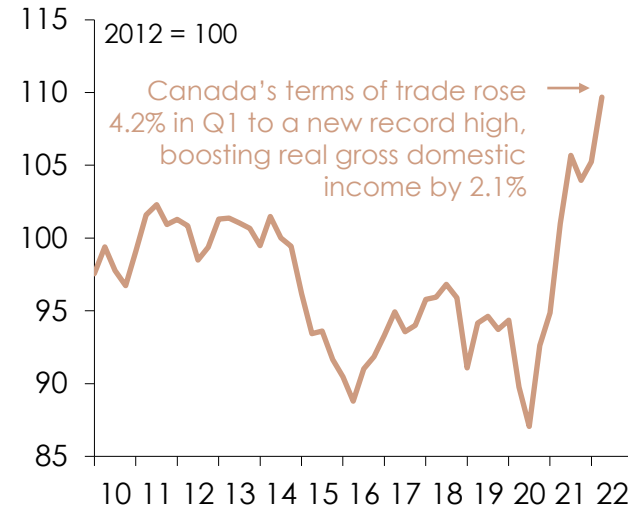
# Canada's CPI rose 0.6% in June, the smallest increase this year, pushing the annual inflation rate to 8.1%, with 'core' inflation at 5.3%

THE WORLD ECONOMY THIS WEEK – 1<sup>ST</sup> AUGUST 2022

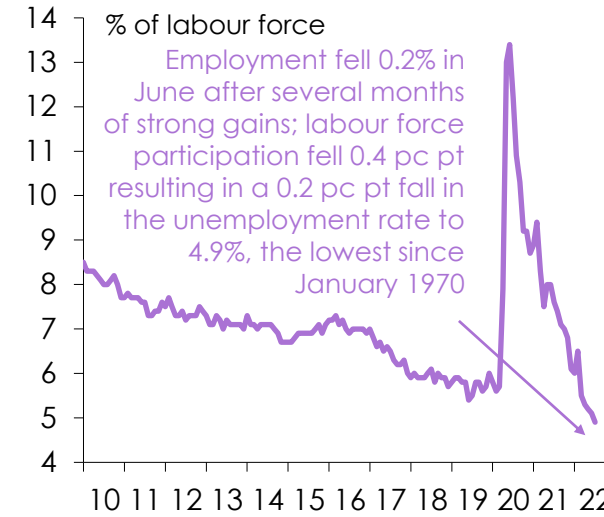
## Real GDP



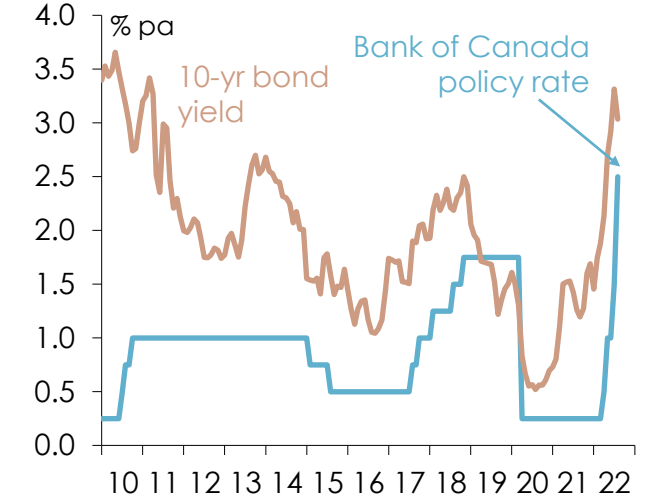
## Terms of trade



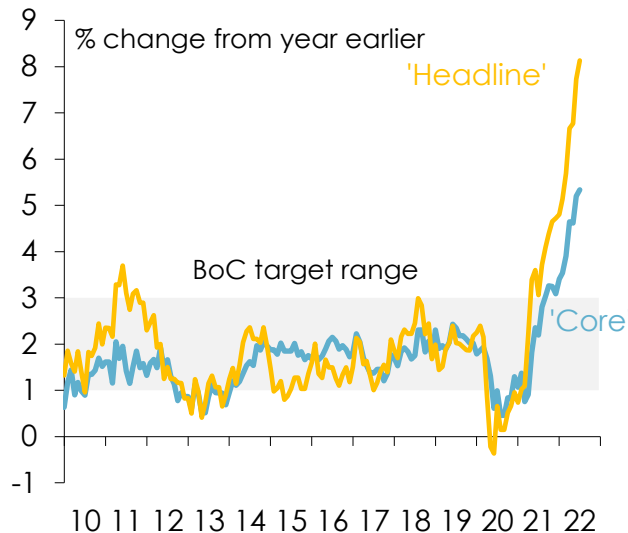
## Unemployment



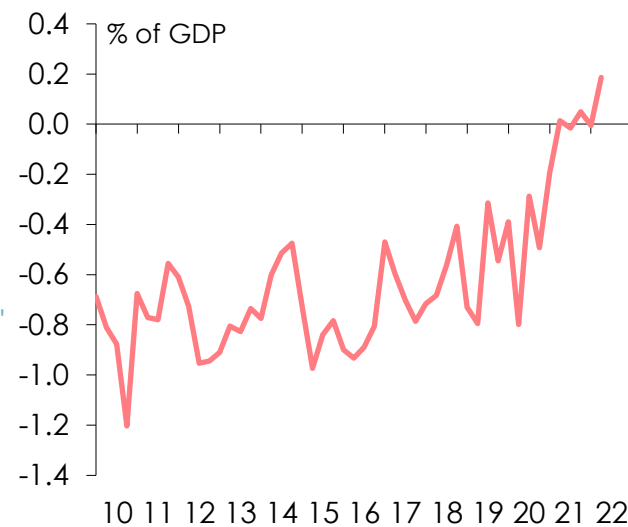
## Interest rates



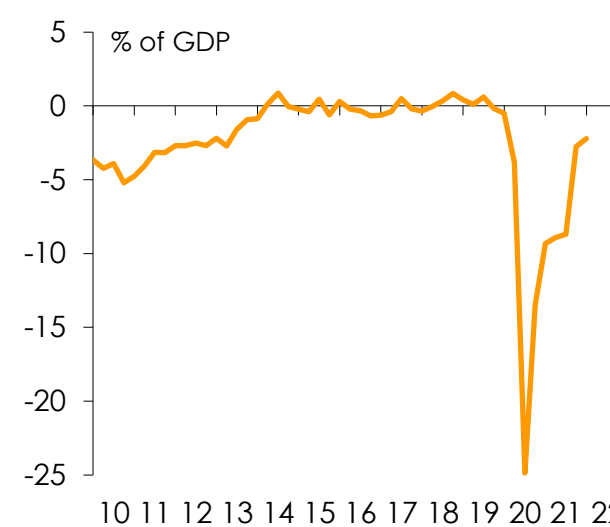
## Consumer prices



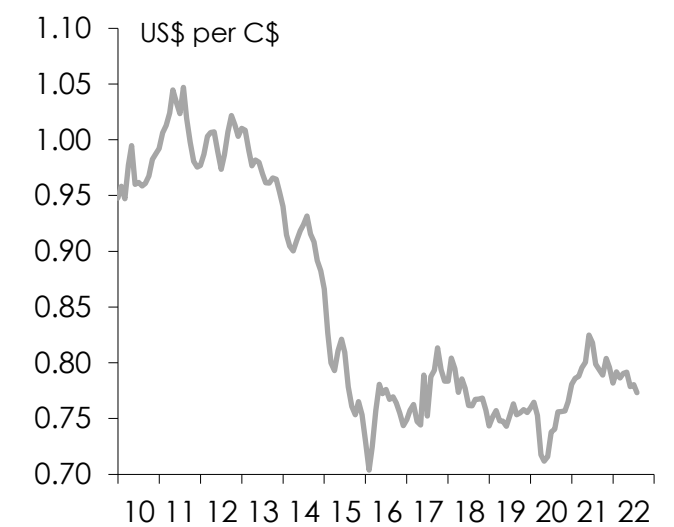
## Current account balance



## Government net lending



## C\$ vs US\$

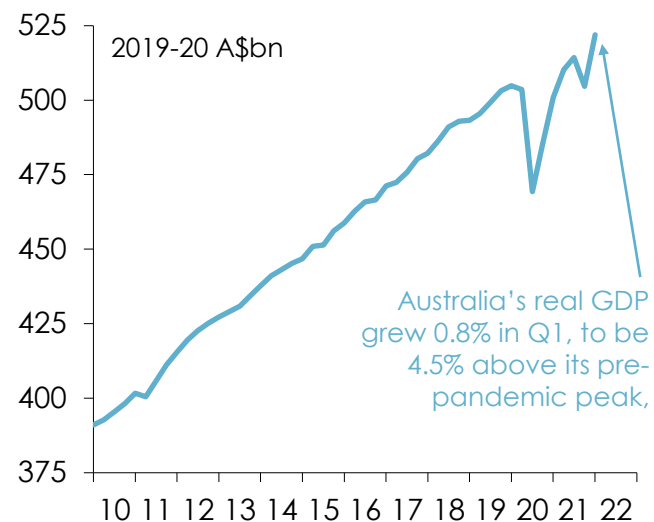


Sources: Statistics Canada, [National Gross Domestic Product \(GDP\) by Income and by Expenditure Accounts](#); [Consumer price index portal](#); [Canada's Balance of International Payments](#); [Labour Statistics](#); Bank of Canada, [Policy Interest Rate](#); Refinitiv Datastream. [Return to "What's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

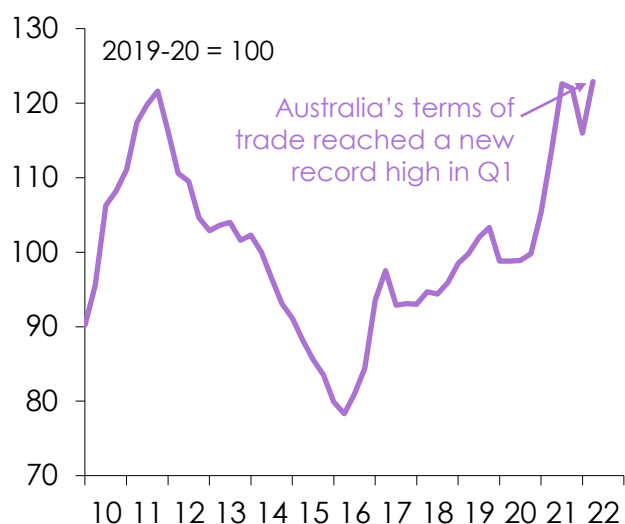
# Australia's CPI rose 1.8% in Q2, pushing the annual 'headline' inflation rate up to a 32-year high of 6.1%, and 'underlying' inflation to 4.5%

THE WORLD ECONOMY THIS WEEK – 1<sup>ST</sup> AUGUST 2022

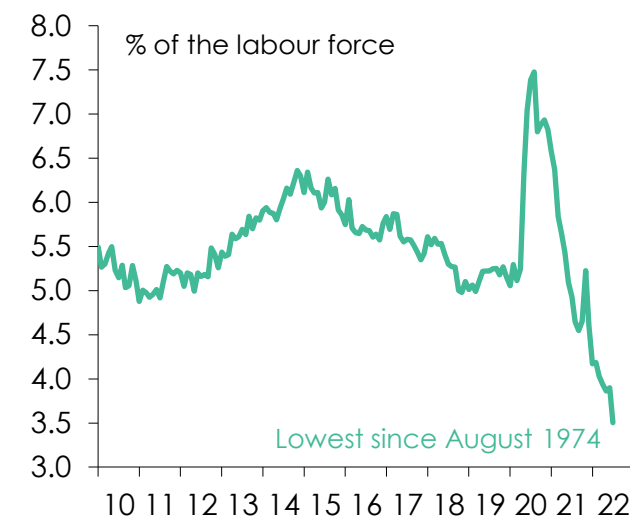
## Real GDP



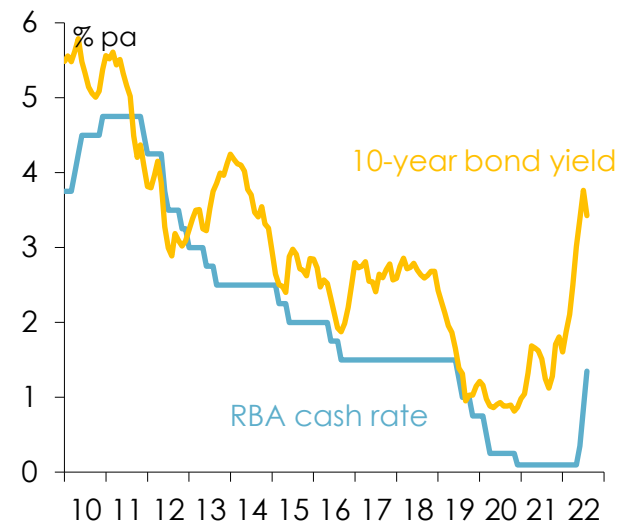
## Terms of trade



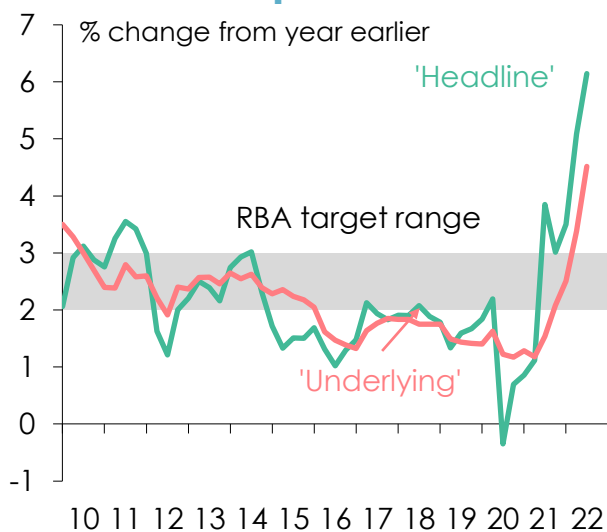
## Unemployment



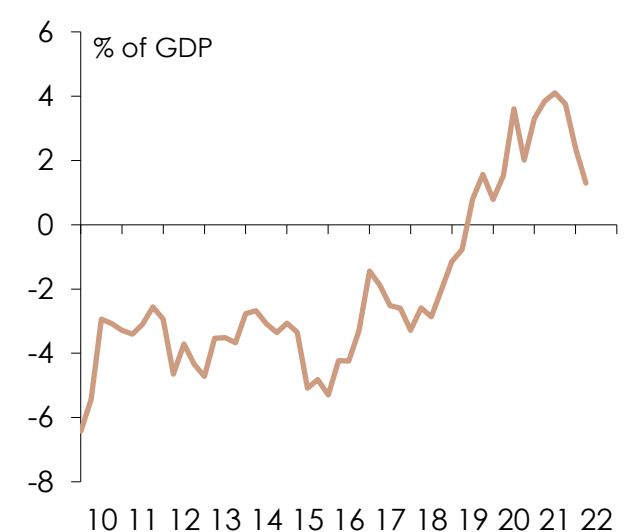
## Interest rates



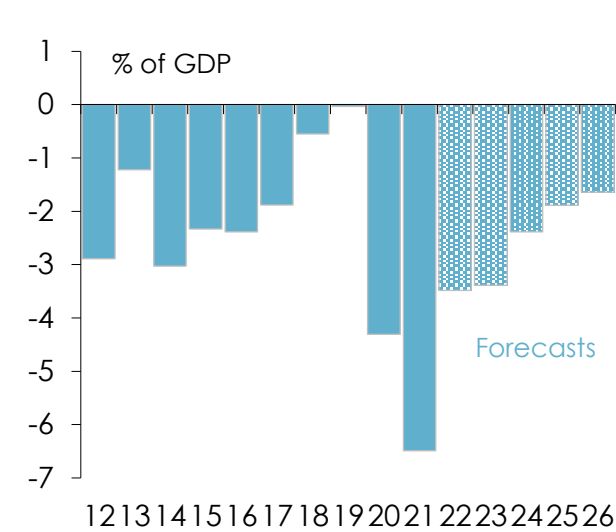
## Consumer prices



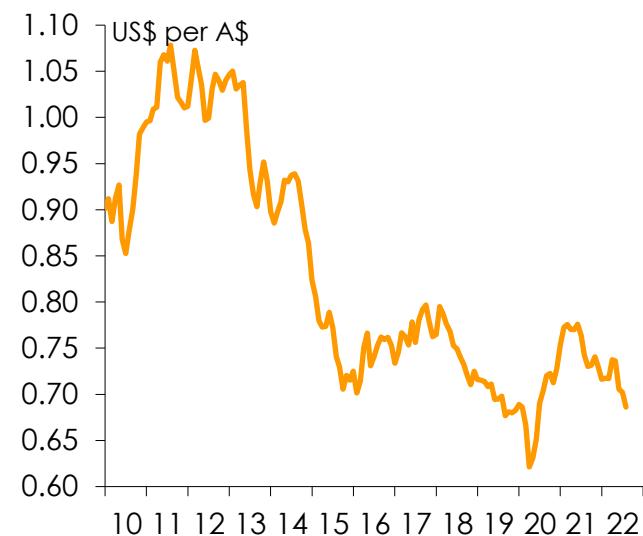
## Current account balance



## Government cash balance



## A\$ vs US\$



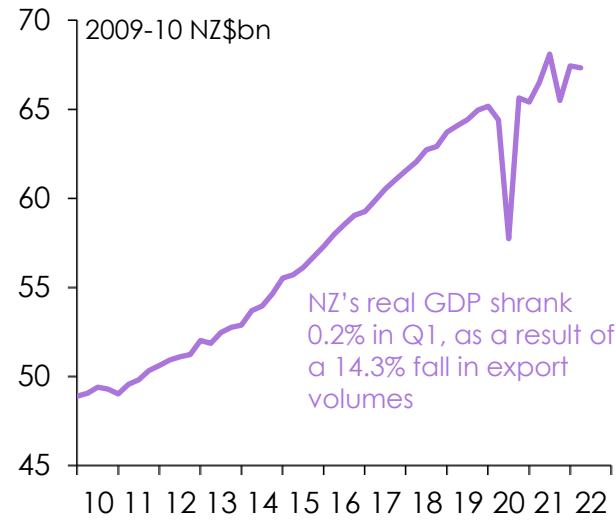
Note: The measure of 'underlying' inflation shown here is the trimmed mean. Government cash balance data are for fiscal years ended 30<sup>th</sup> June. Sources: Australian Bureau of Statistics, [Australian National Accounts: National Income, Expenditure and Product](#); [Consumer Price Index](#); [Balance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



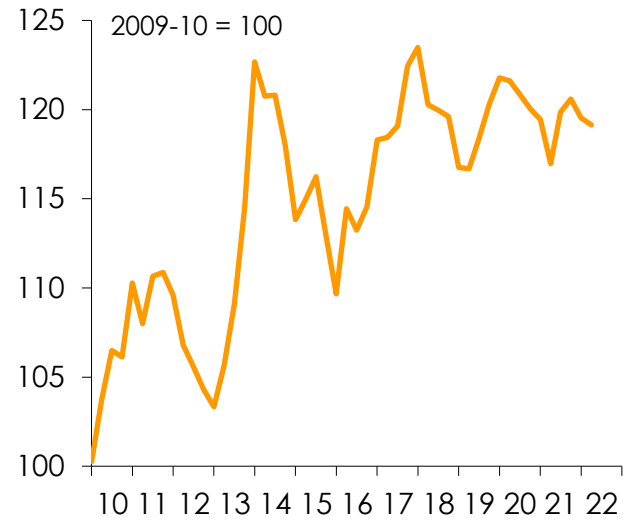
# New Zealand's CPI rose 1.7% in Q2, pushing the annual 'headline' inflation rate up to 7.3%, with the RBNZ's preferred 'underlying' rate rising to 4.8%

THE WORLD ECONOMY THIS WEEK – 1<sup>ST</sup> AUGUST 2022

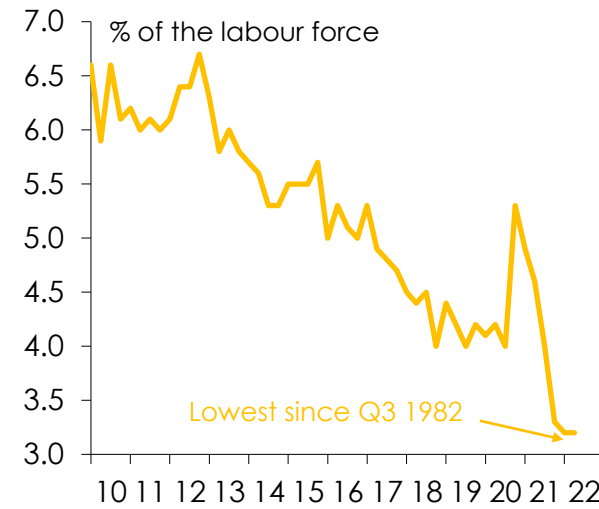
## Real GDP



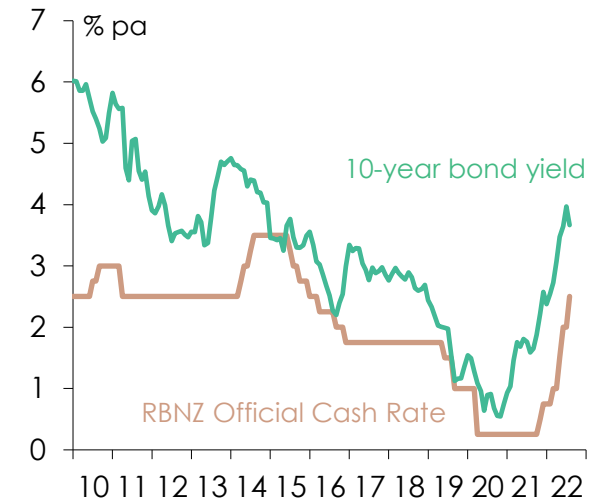
## Terms of trade



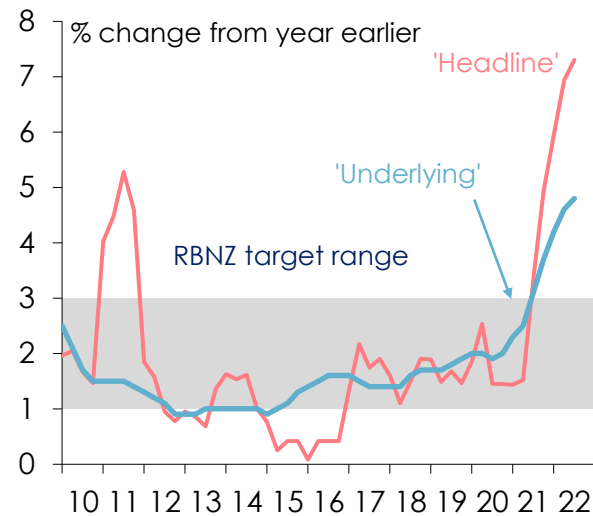
## Unemployment



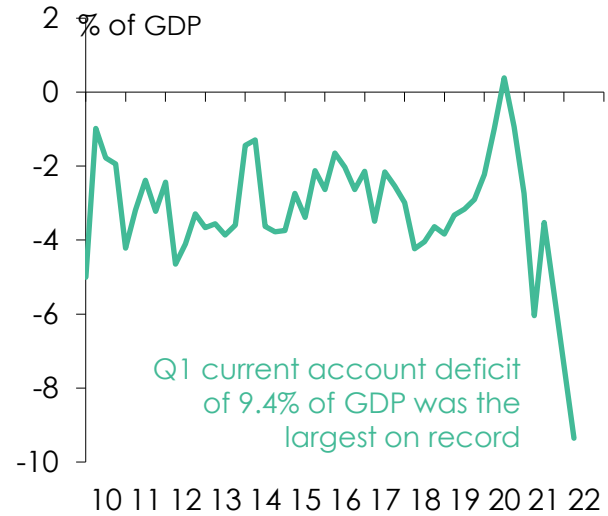
## Interest rates



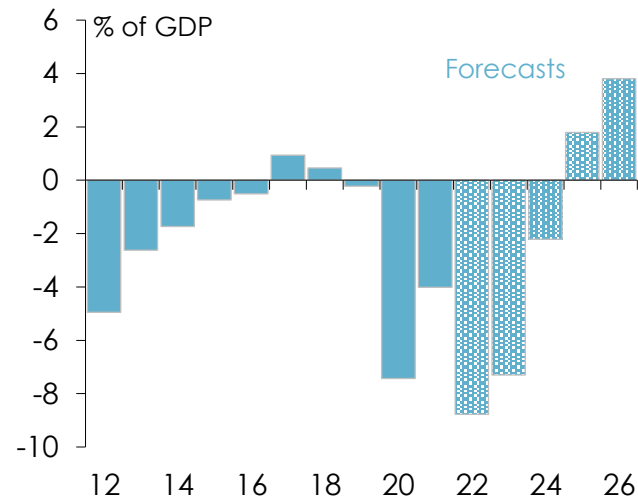
## Consumer prices



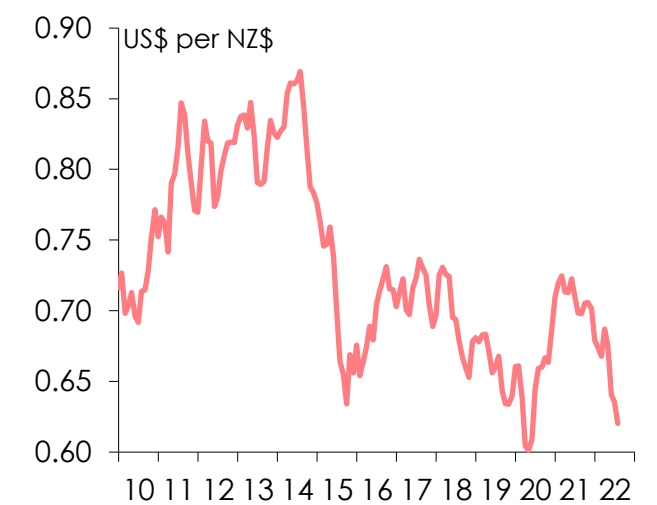
## Current account balance



## Government cash balance



## NZ\$ vs US\$



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

**The rest of the world**

# Central banks in Hungary, Colombia and Argentina raised interest rates last week – in Hungary’s case for the third time in six weeks

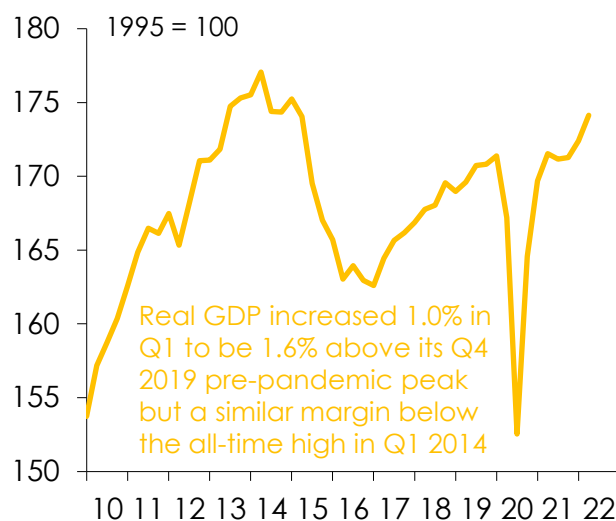
THE WORLD ECONOMY THIS WEEK – 1<sup>ST</sup> AUGUST 2022

- ❑ **Magyar Nemzeti Bank** (Hungary’s central bank) raised its base rate another 100 basis points, to 10.75% at a Monetary Council meeting on Tuesday – following increases of 200bp at an unscheduled meeting on 12<sup>th</sup> July and 185 bp on 28<sup>th</sup> June
  - MNB has now raised its base rate by 1015 basis points since June last year ([slide 123](#))
  - in the [press release](#) issued after last Tuesday’s meeting, MNB again stressed that “upside risks to inflation have strengthened further since the June interest rate decision, while the risk of second-round inflationary effects has increased”, and also cited “the situation in financial markets” (presumably a reference to the ongoing weakness of the forint) which it said “has recently increased the risk of persistent inflationary effects, posing a clear threat to price stability”
  - it concluded that “maintaining tighter monetary conditions for a longer period is warranted to manage increasing second-round inflation risks resulting from persistently negative supply effects” and pledged to “continue the cycle of interest rate hikes until the outlook for inflation stabilizes around the central bank target in a sustainable manner and inflation risks become evenly balanced on the horizon of monetary policy”
- ❑ **Banco de la República Colombia** raised its benchmark interest rate by 150 basis points, to 9.00%, at its Board of Directors meeting on Friday ([slide 123](#))
  - this was the second successive increase of this magnitude, and brings the cumulative increase since October last year to 725 bp
  - [explaining](#) this latest decision, BCR pointed to the continued increases in both ‘headline’ and ‘core’ inflation (to 9.1% and 6.1%, respectively, in June), further increases in inflation expectations, and persistent “excess demand” resulting from continued strength in economic activity (BCR revised up its forecast for 2022 GDP growth from 6.3% to 6.9%)
- ❑ **Banco de la República Argentina** raised its Leliq note rate (its principal monetary policy instrument) by 800 basis points, to 60%, in response to rising inflation (expected to have exceeded 70% in July) and ongoing currency depreciation (the peso has fallen 22% vs the US\$ so far this year), and alongside the [dismissal of the country's Economy Minister](#) only a few weeks after her appointment (and while she was meeting the IMF in Washington)

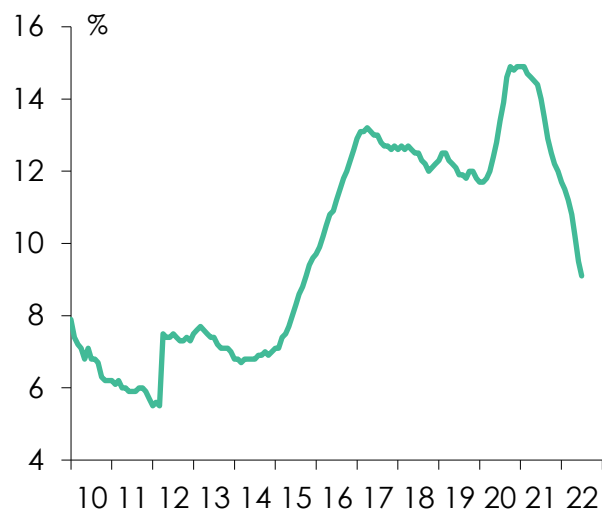
# Brazil's unemployment rate dropped to 9.1% in June, the lowest since August 2015 – but another rate rise is likely this coming week

THE WORLD ECONOMY THIS WEEK – 1<sup>ST</sup> AUGUST 2022

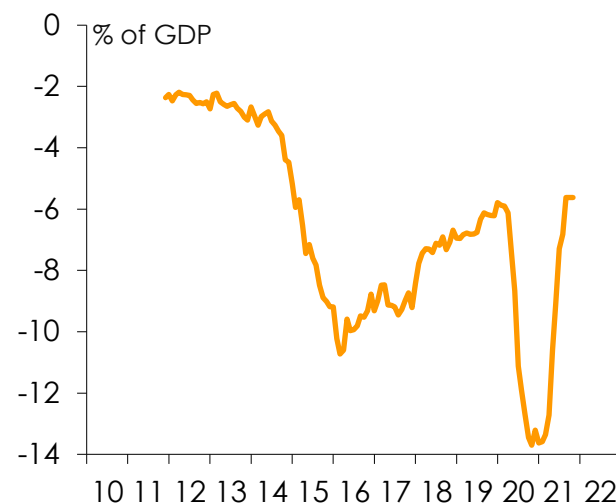
## Real GDP



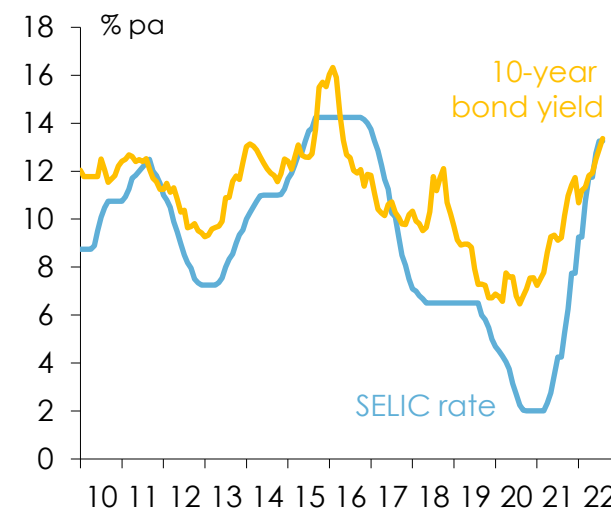
## Unemployment



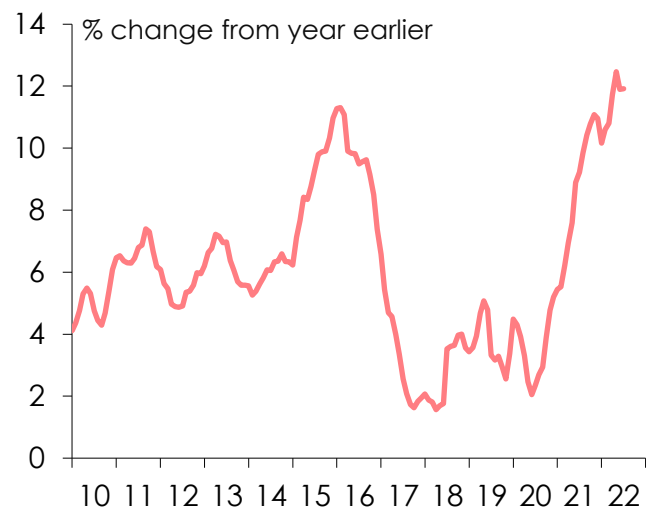
## Public sector borrowing



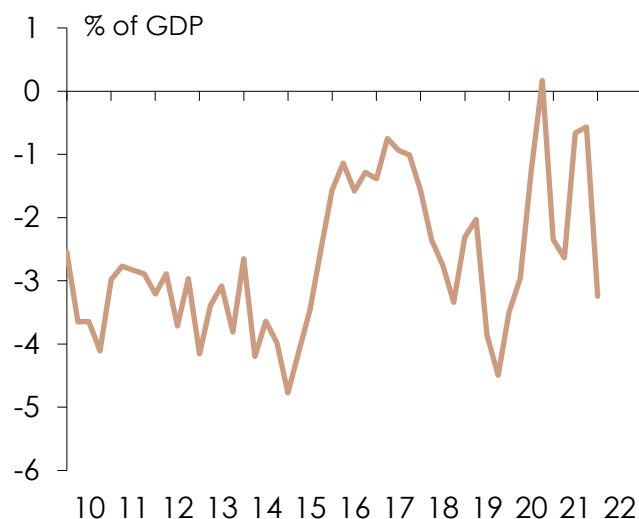
## Interest rates



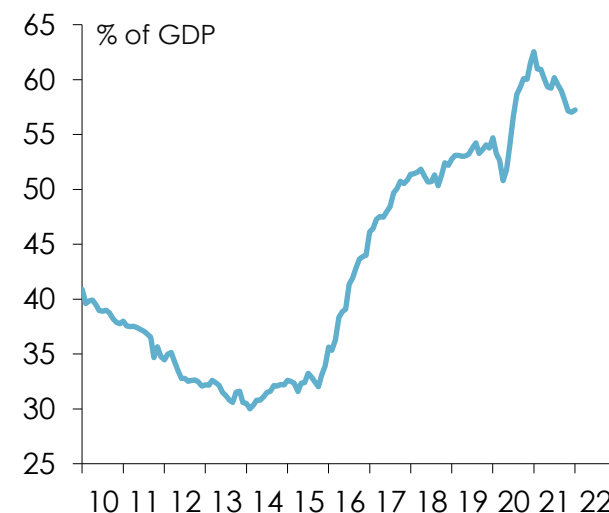
## Inflation



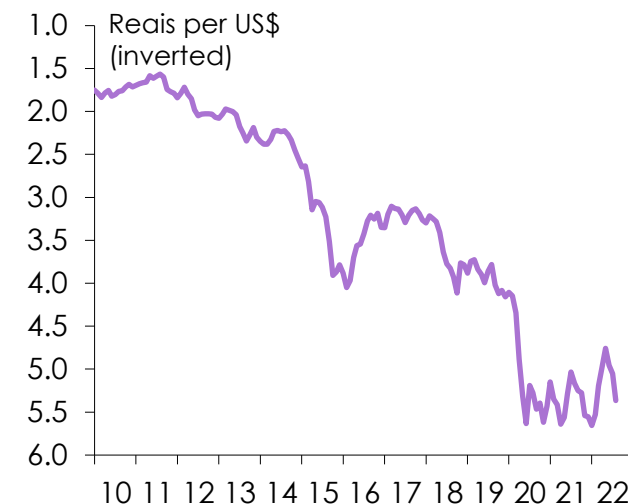
## Current account balance



## Public sector net debt



## Brazilian real vs US\$

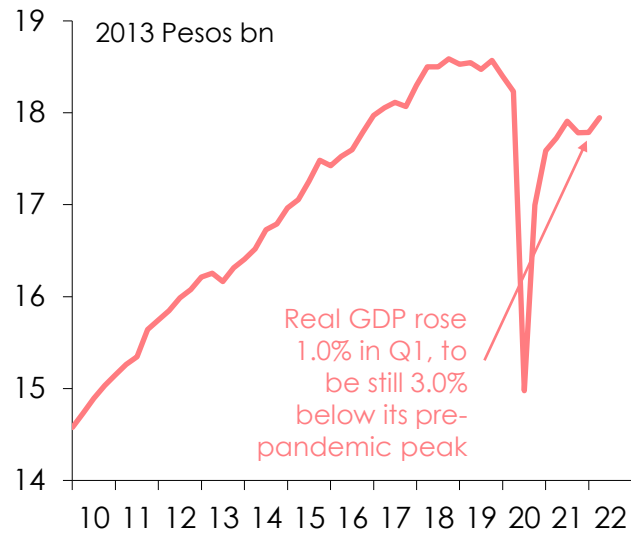


Sources: [Instituto Brasileiro de Geografia e Estatística](#) (IBGE); [Banco Central do Brasil](#); Refinitiv Datastream. [Return to "What's New"](#).

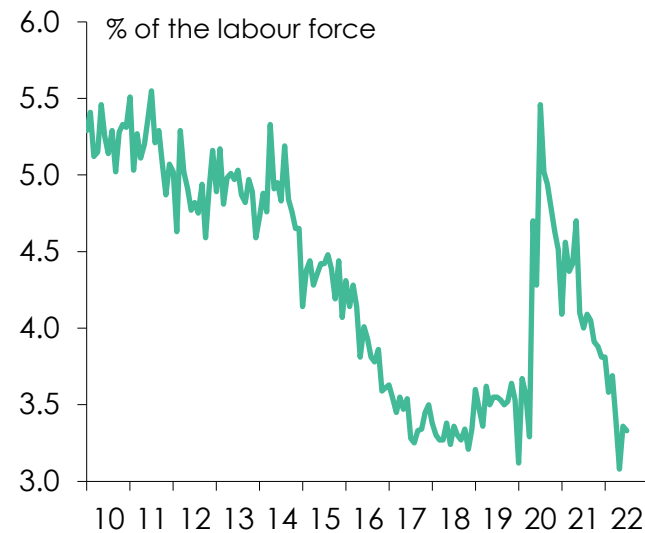
# Mexico's annual 'headline' inflation rate rose to 8.0% over the year to June, the highest since January 2001, and 'core' inflation rose to 7.5%

THE WORLD ECONOMY THIS WEEK – 1<sup>ST</sup> AUGUST 2022

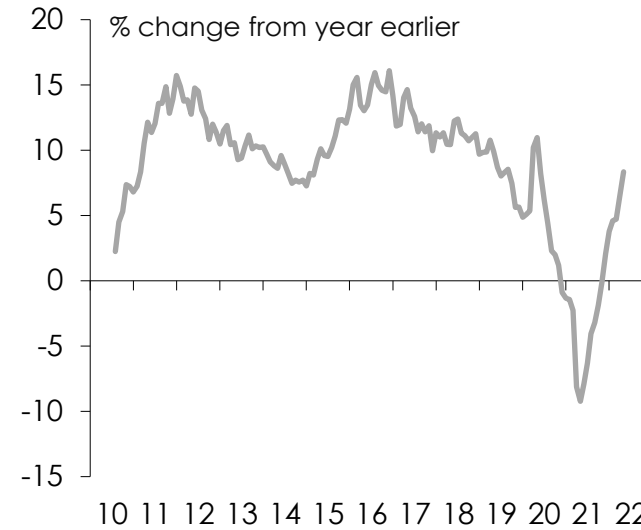
## Real GDP



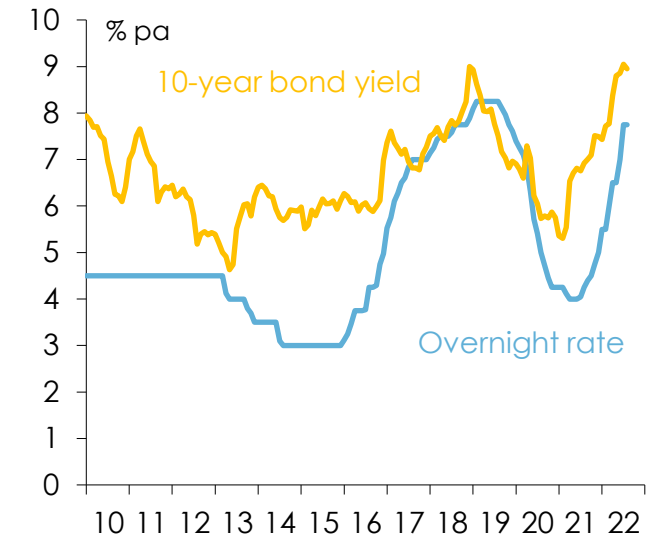
## Unemployment



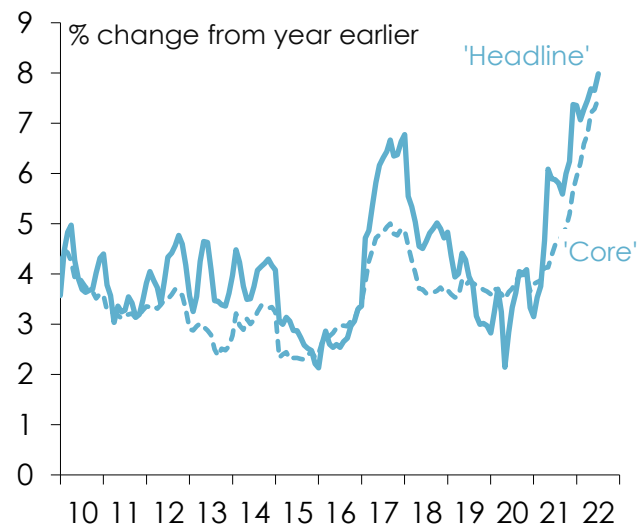
## Bank lending



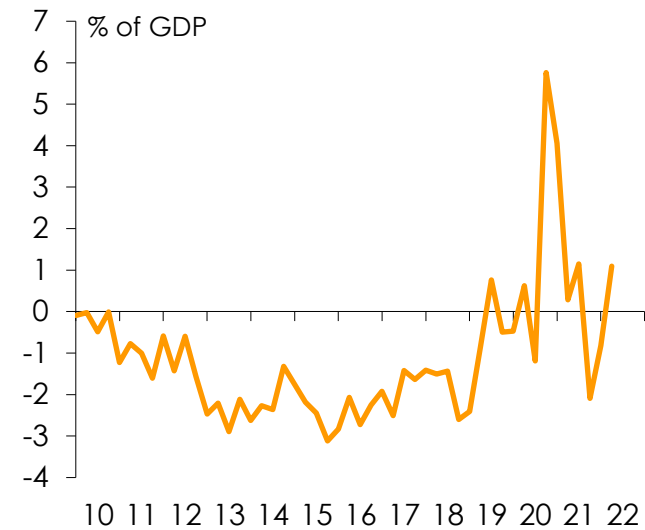
## Interest rates



## Inflation



## Current account balance



## Federal budget deficit



## Mexican peso vs US\$

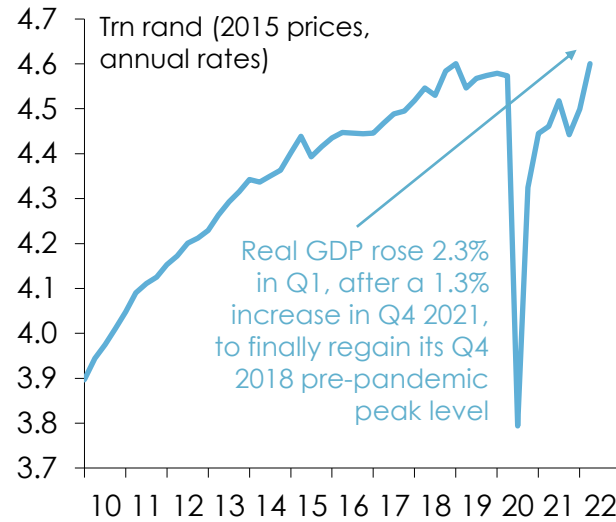


Sources [Banco de México](#); [Instituto Nacional de Estadística y Geografía \(INEGI\)](#); Refinitiv Datastream.. [Return to "What's New"](#).

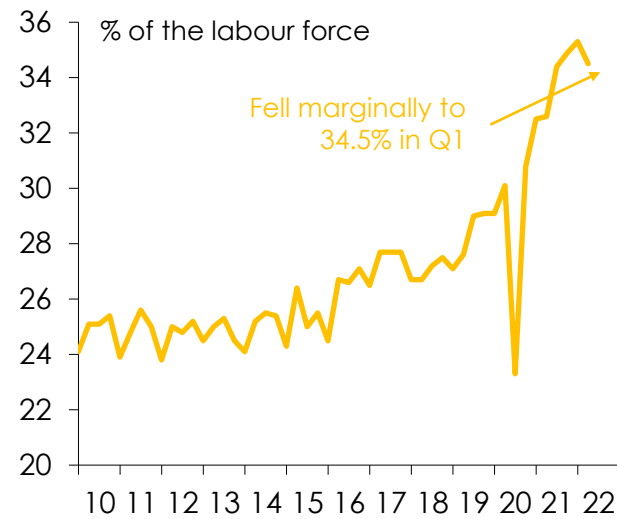
# South Africa's Reserve Bank raised its repo rate by 75bp (the largest increase in 20 years), to 5.5%, last month

THE WORLD ECONOMY THIS WEEK – 1<sup>ST</sup> AUGUST 2022

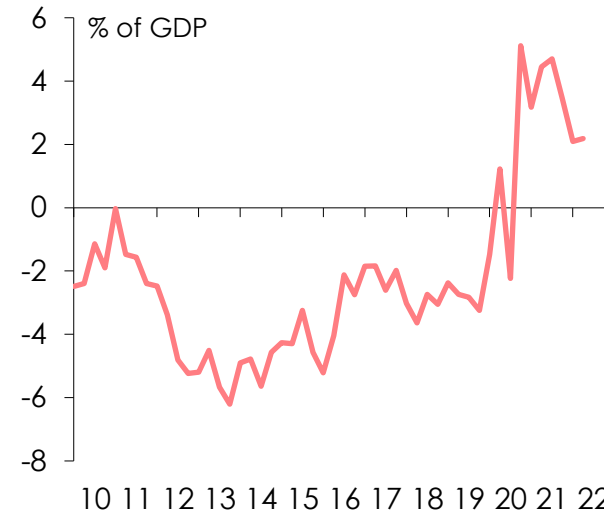
## Real GDP



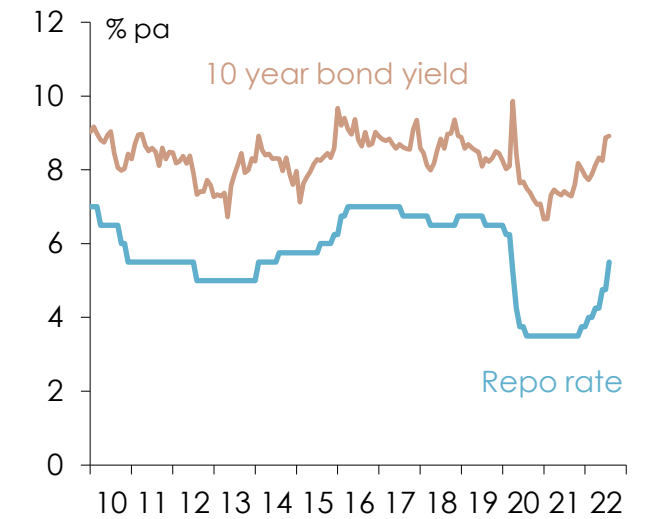
## Unemployment



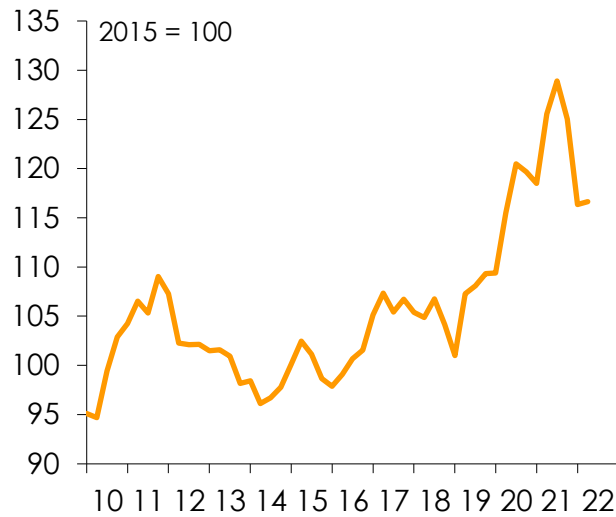
## Current account balance



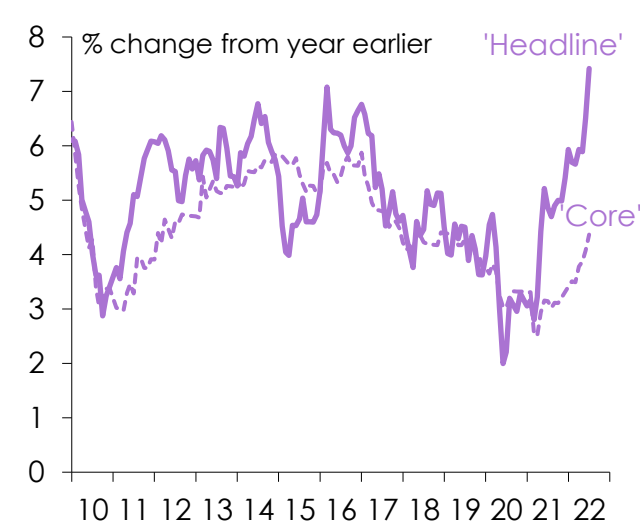
## Interest rates



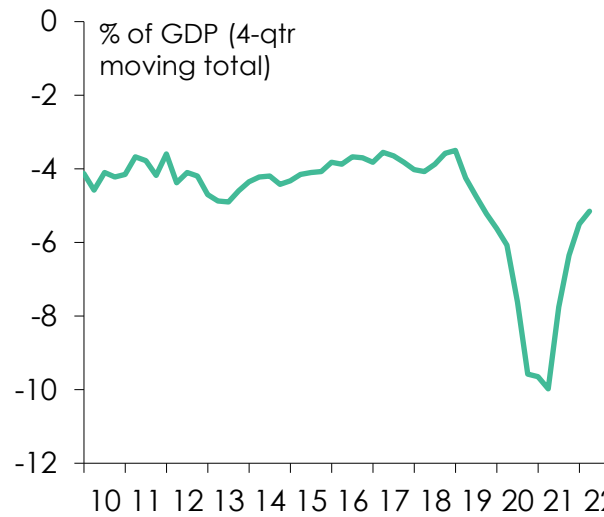
## Terms of trade



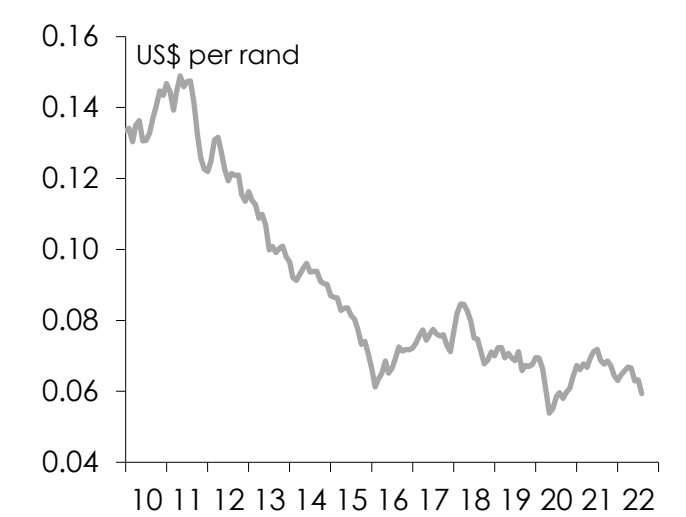
## Inflation



## Budget deficit



## Rand vs US\$

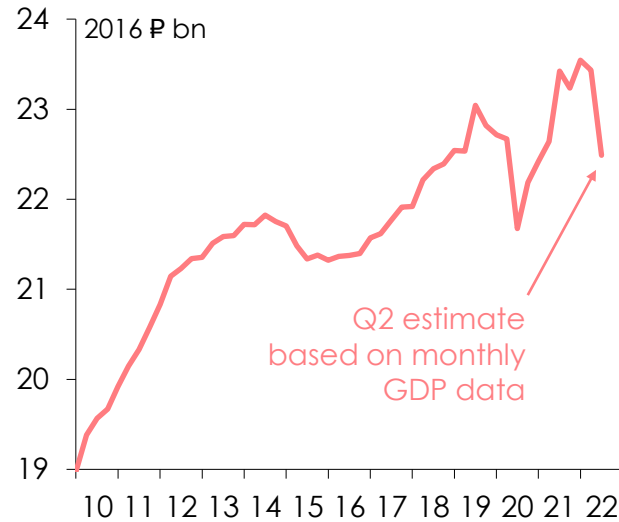




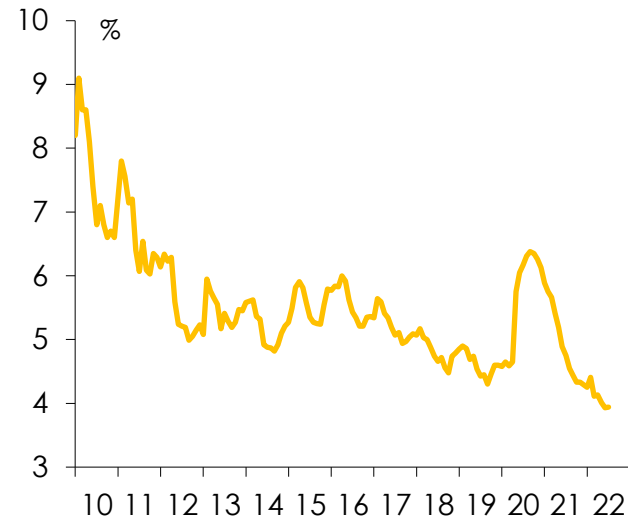
# Russia's central bank last month cut its 7-day repo rate another 150 basis points, to 8% (below where it had been before the Ukraine conflict began)

THE WORLD ECONOMY THIS WEEK – 1<sup>ST</sup> AUGUST 2022

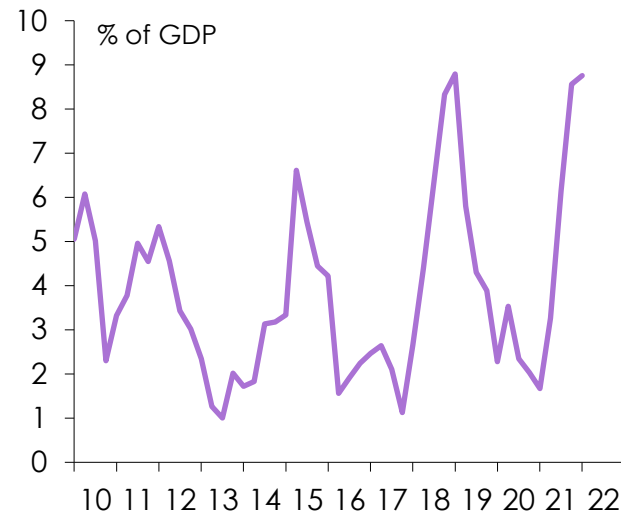
## Real GDP



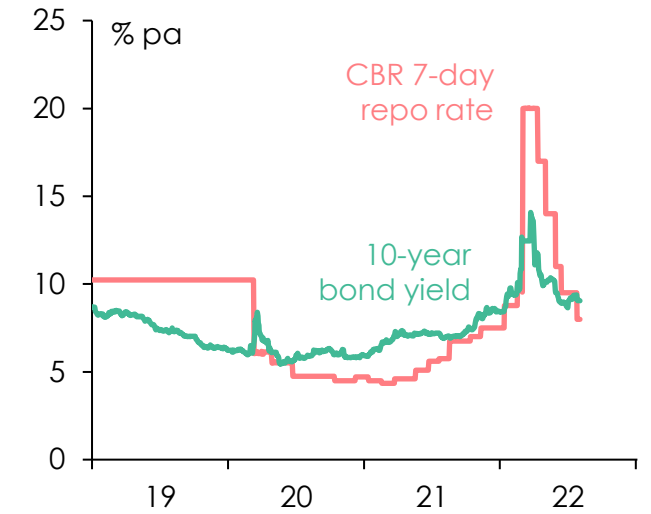
## Unemployment



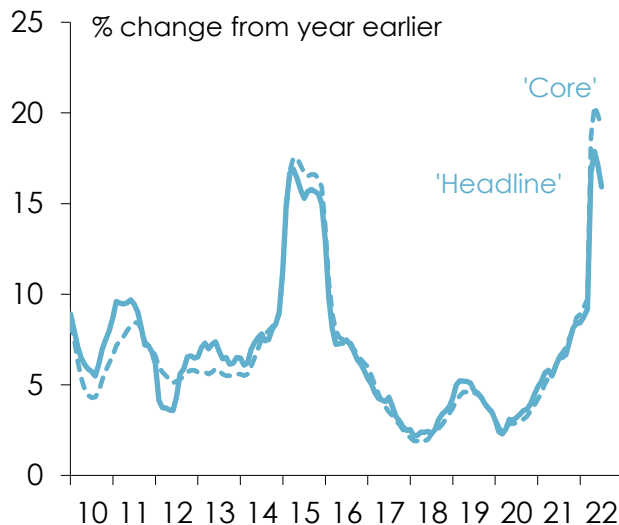
## Current account balance



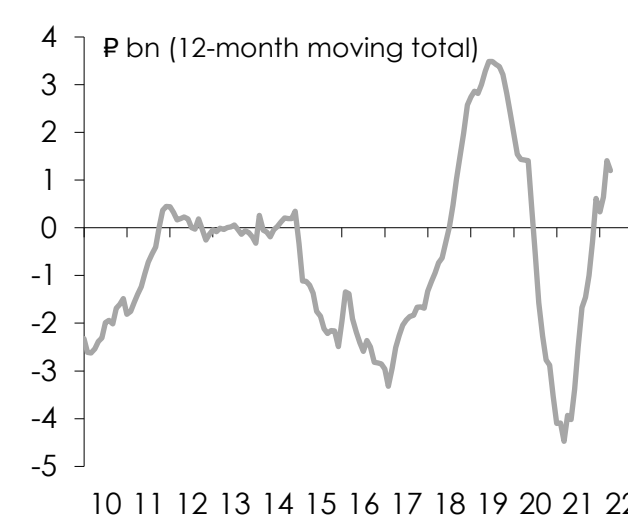
## Interest rates



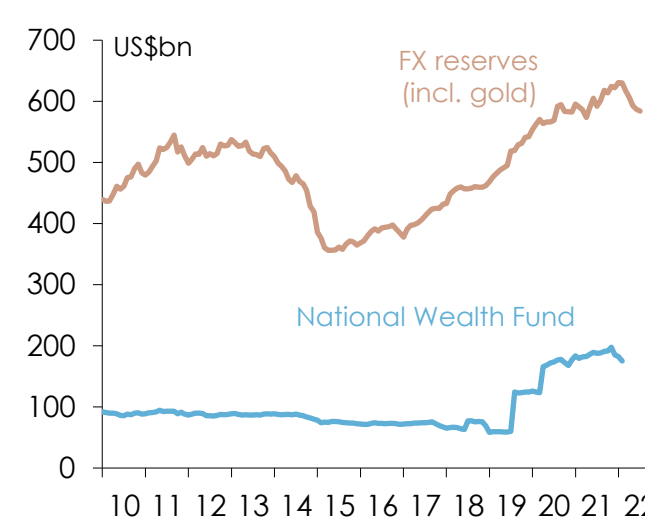
## Inflation



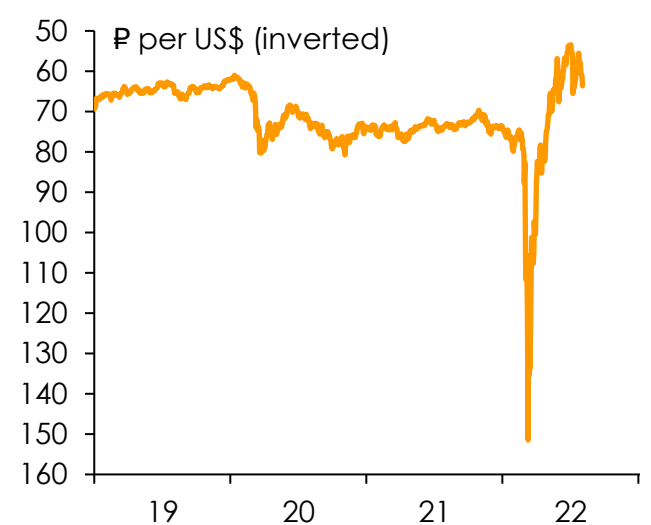
## Federal budget balance



## State financial assets



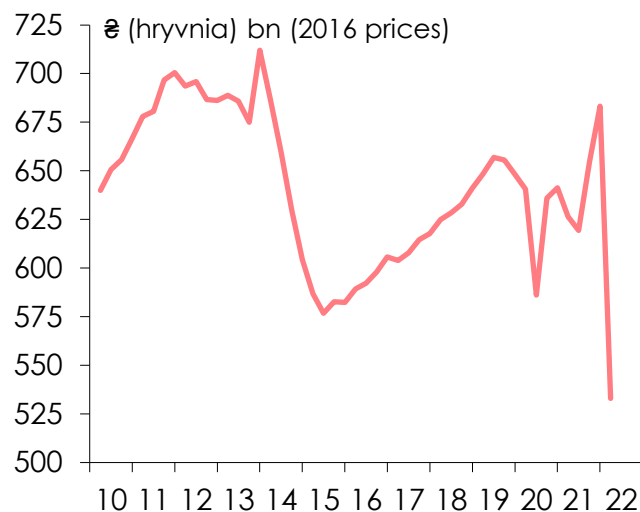
## Russian ruble vs US\$



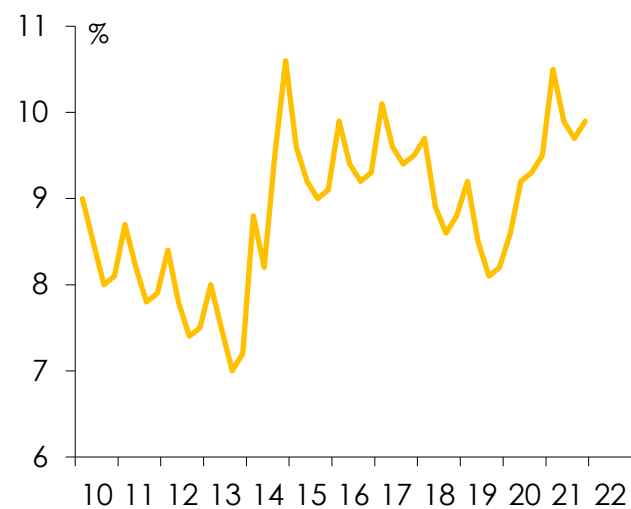
# Ukraine devalued its currency by 25% against the US\$ last month in view of the “change in the fundamental characteristics of Ukraine’s economy”

THE WORLD ECONOMY THIS WEEK – 1<sup>ST</sup> AUGUST 2022

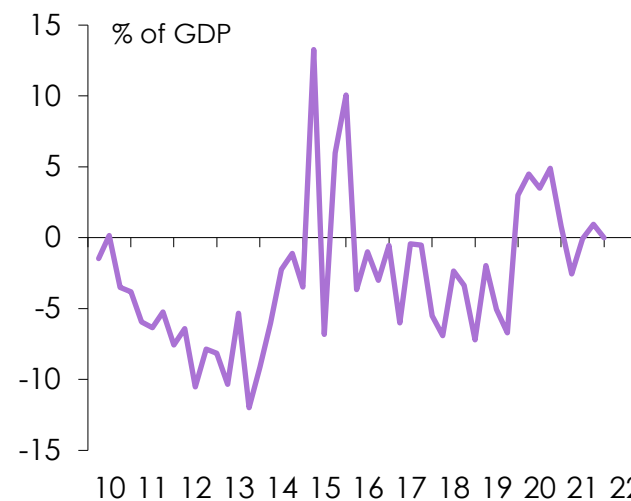
## Real GDP



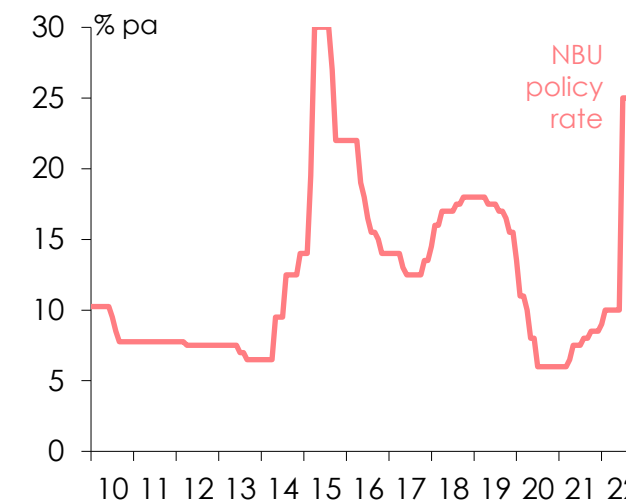
## Unemployment



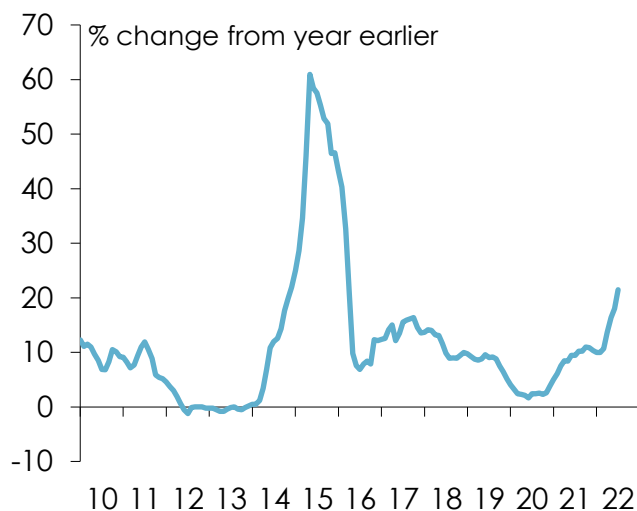
## Current account balance



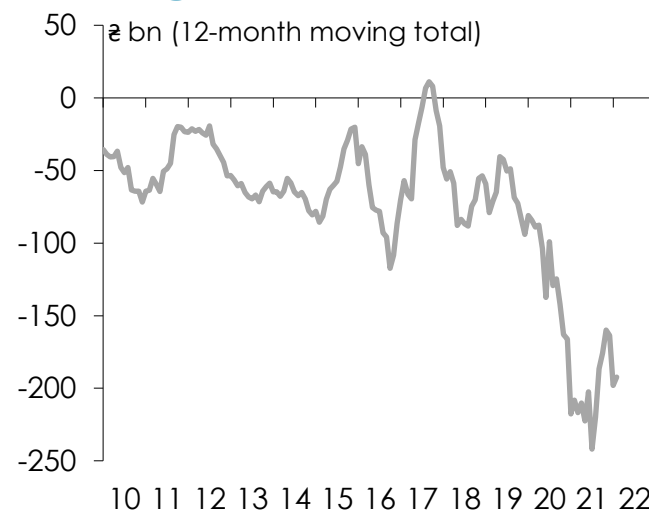
## Interest rates



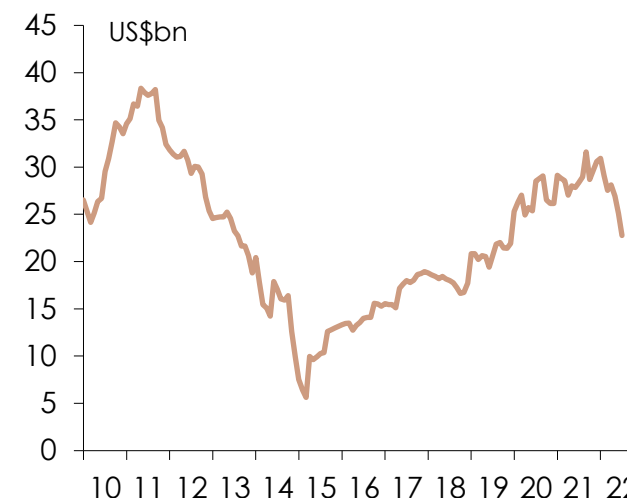
## Inflation



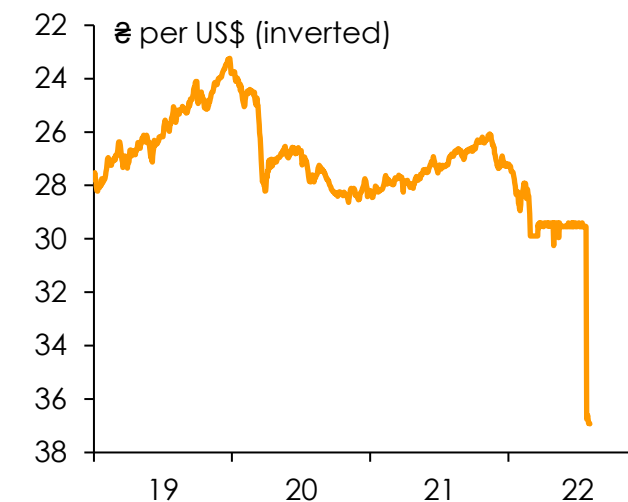
## Budget deficit



## FX reserves



## Ukrainian hryvnia vs US\$

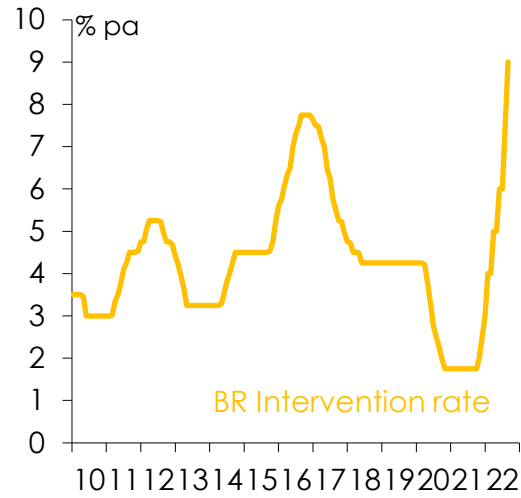


Sources: [State Statistics Service of Ukraine](#); [National Bank of Ukraine](#); Refinitiv Datastream. [Return to "What's New"](#).

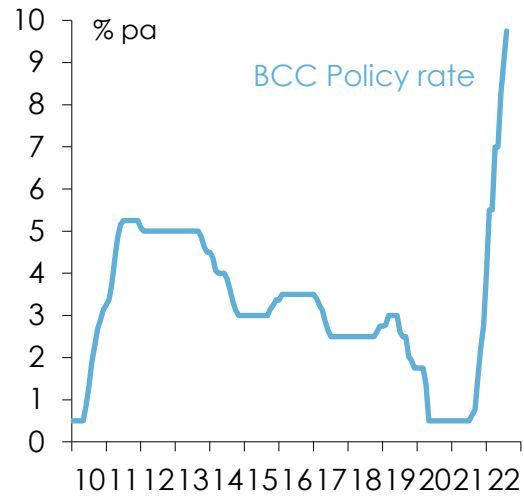
# Central banks in Latin America, Central & Eastern Europe, and South Asia have been very forceful in tightening monetary policy

THE WORLD ECONOMY THIS WEEK – 1<sup>ST</sup> AUGUST 2022

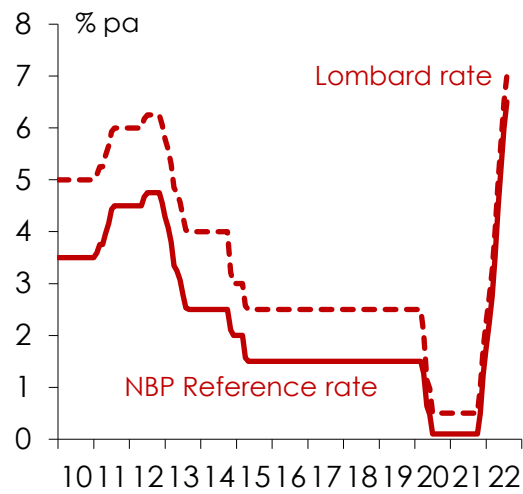
## Colombia



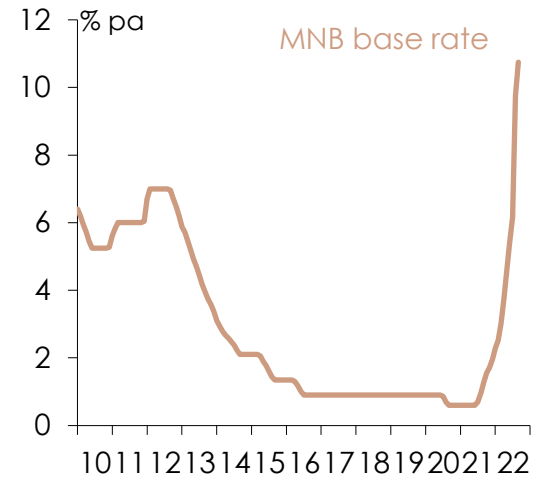
## Chile



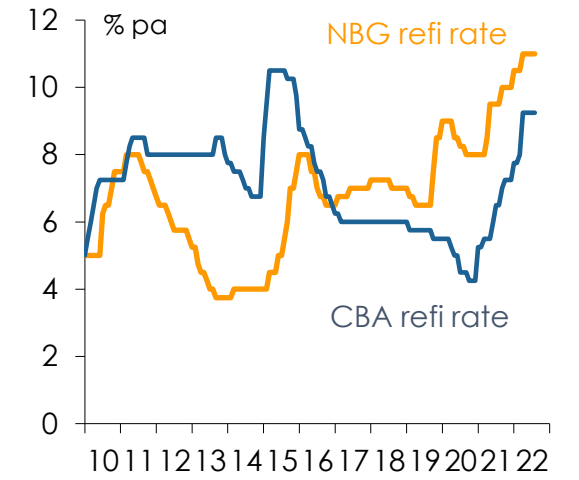
## Poland



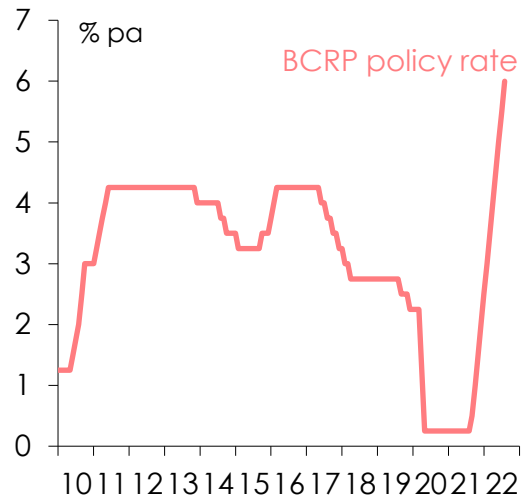
## Hungary



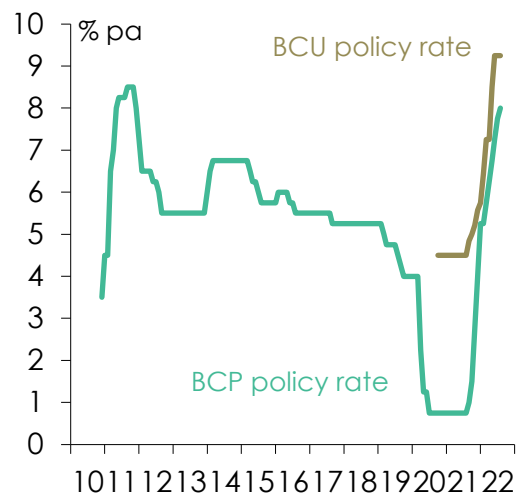
## Georgia & Armenia



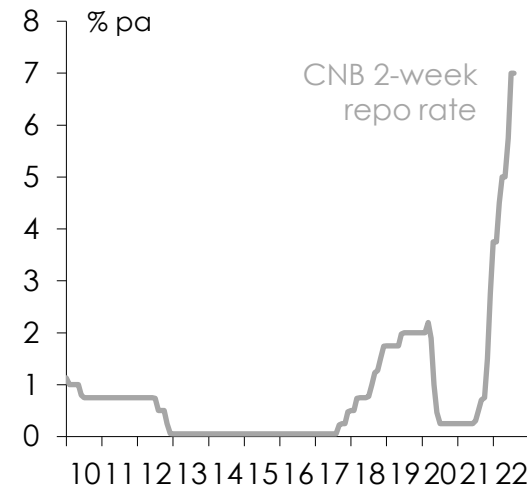
## Peru



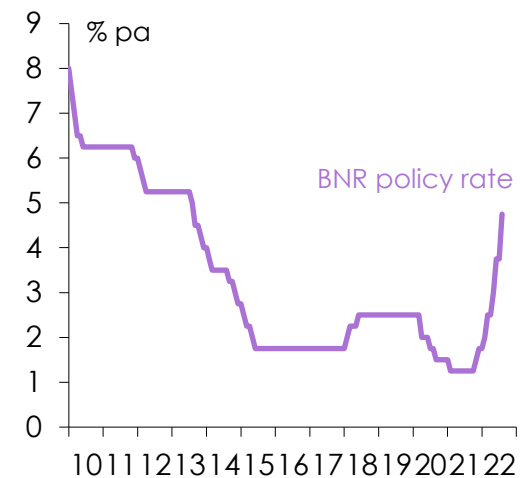
## Paraguay & Uruguay



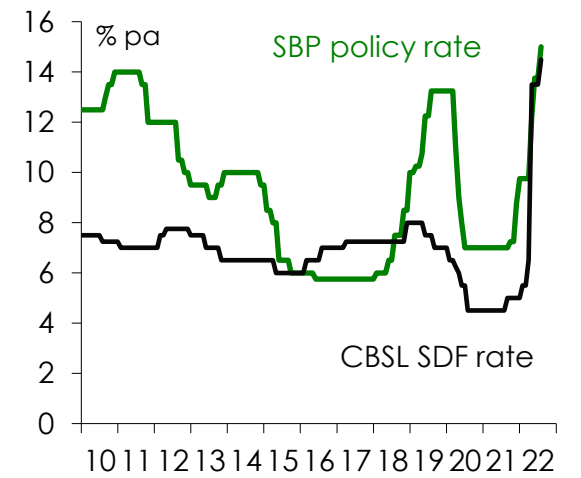
## Czech Republic



## Romania



## Pakistan & Sri Lanka

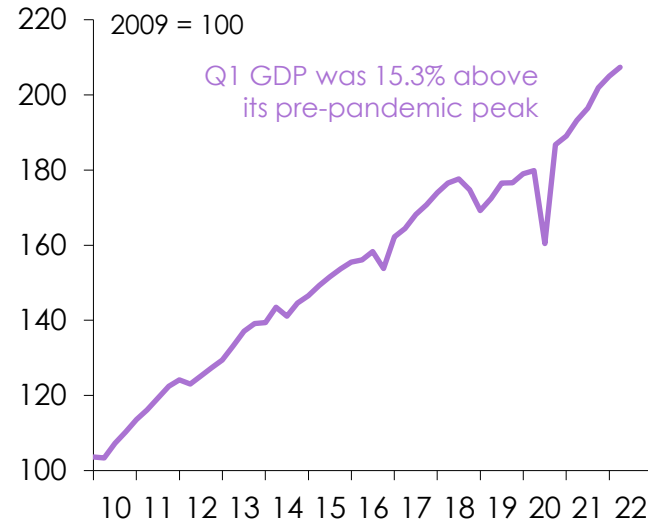


Sources: [Banco de la República Colombia](#); [Banco Central de Reserva del Perú](#); [Banco Central de Chile](#); [Banco Central del Uruguay](#); [Banco Central del Paraguay](#); [Narodowy Bank Polski](#); [Česká Národní Banka](#); [Magyar Nemzeti Bank](#); [Banca Națională a României](#); [Sakartvelos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

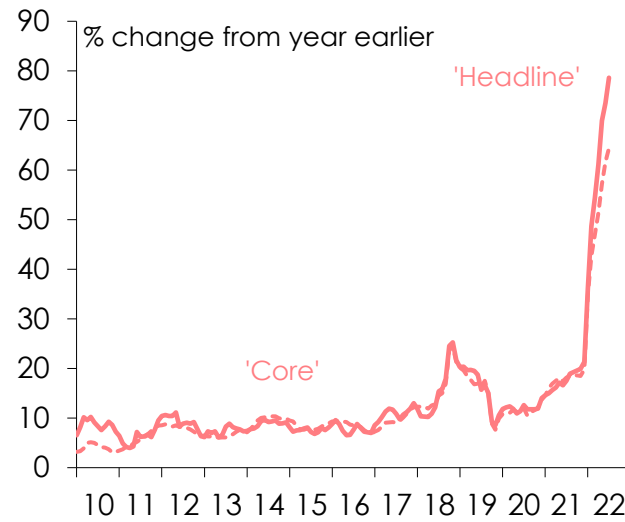
# Turkey's monthly inflation rate has slowed significantly over the past four months, to just 0.2% in June, but the annual rate rose further to 78.6%

THE WORLD ECONOMY THIS WEEK – 1<sup>ST</sup> AUGUST 2022

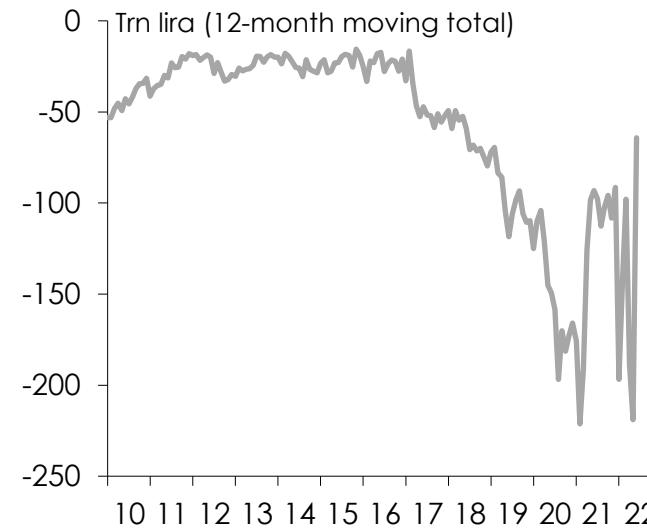
## Real GDP



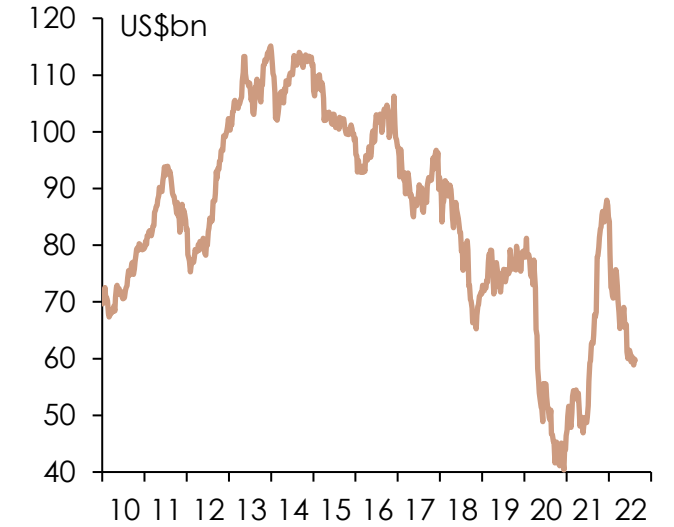
## Inflation



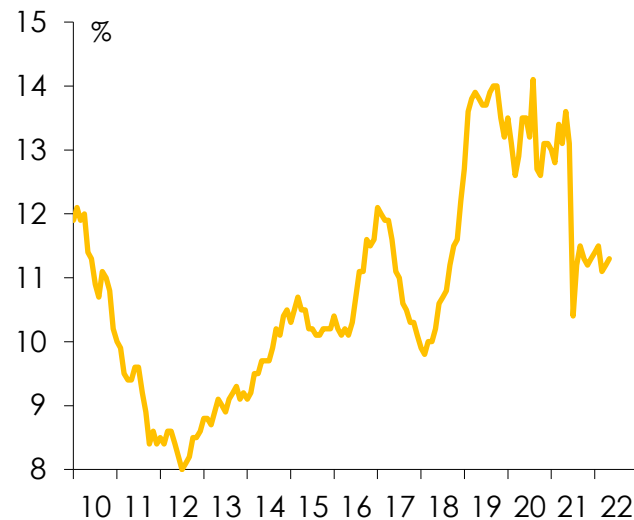
## Budget balance



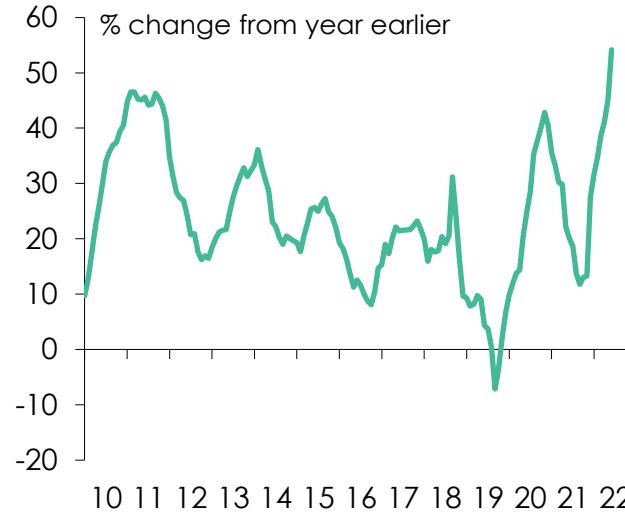
## FX reserves



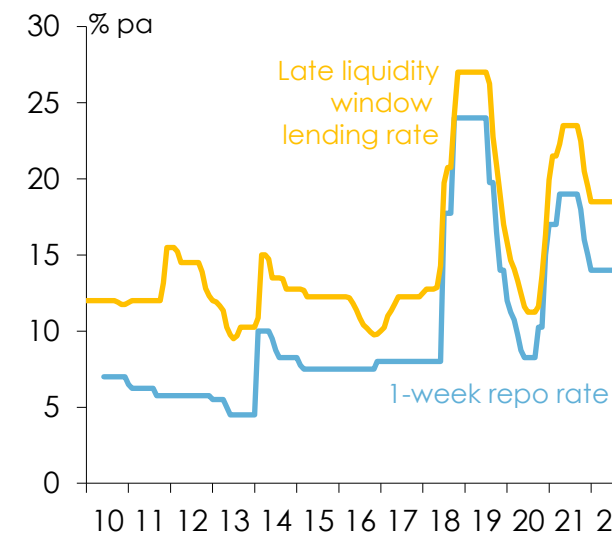
## Unemployment rate



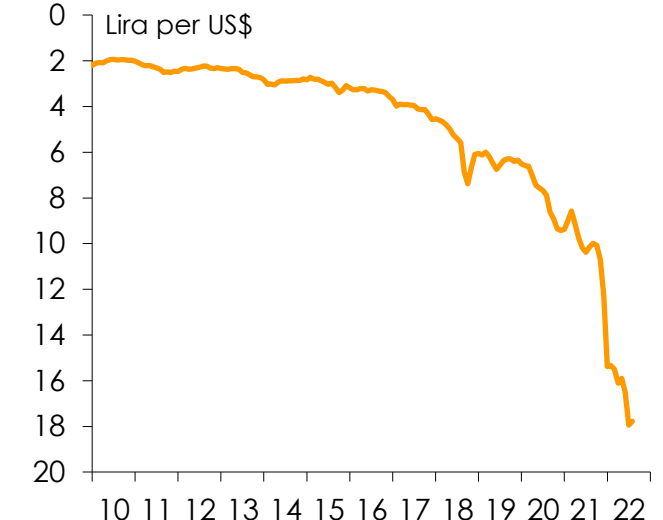
## Bank lending



## Interest rates



## Turkish lira vs US\$



# Key data and events this week

# Key data and events for week ended 5<sup>th</sup> August

THE WORLD ECONOMY THIS WEEK – 1<sup>ST</sup> AUGUST 2022

Monday 1<sup>st</sup> August

**Most Asian & European economies** July manufacturing PMIs; **Korea** July trade balance; **Indonesia** June CPI; **Hong Kong** Q2 GDP (p); **euro area** June unemployment; **US** July manufacturing ISM and June construction spending; **Mexico** July business confidence; **Brazil** July trade balance; **Peru** July CPI

Tuesday 2<sup>nd</sup> August

**Australia** RBA meeting, June building approvals & housing finance commitments; **Korea** July CPI; **Hong Kong** June retail sales; **India** July trade balance (p); **Armenia** CBA meeting; **US** July JOLTS survey (vacancies & turnover); **Brazil** June industrial production

Wednesday 3<sup>rd</sup> August

**New Zealand** Q2 employment & unemployment; **Japan** July services PMI; **China** July 'unofficial' services PMI; **Thailand** July business confidence; **Georgia** NBG meeting; **Turkey** July CPI & PPI; **euro area** July services PMI, June retail sales & PPI; **UK** July services PMI; **Norway** July house prices; **US** July services ISM and June factory orders & shipments; **Brazil** BdoB Copom meeting

Thursday 4<sup>th</sup> August

**Australia** June trade balance; **Thailand** July consumer confidence; **Czech Republic** CNB meeting; **UK** BoE MPC meeting; **Iceland** June unemployment; **US** June goods & services trade balance; **Canada** June trade balance

Friday 5<sup>th</sup> August

**Australia** July services PMI & RBA Statement on Monetary Policy; **Japan** June employee earnings; **Korea** June current account balance; **Taiwan** July CPI & PPI; **Philippines** July CPI; **Indonesia** Q2 GDP; **Thailand** July CPI; **Singapore** June retail sales; **China** Q2 current account balance (p); **India** RBI meeting; **UK** July Halifax house price index; **US** July employment, unemployment & average earnings; **Canada** July employment & unemployment and July PMI; **Colombia** July CPI

Sunday 7<sup>th</sup> August

**China** July trade balance & FX reserves



## Important information

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

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

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