

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

THE WORLD ECONOMY THIS WEEK

15TH AUGUST 2022

SAUL ESLAKE

CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

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What's new?

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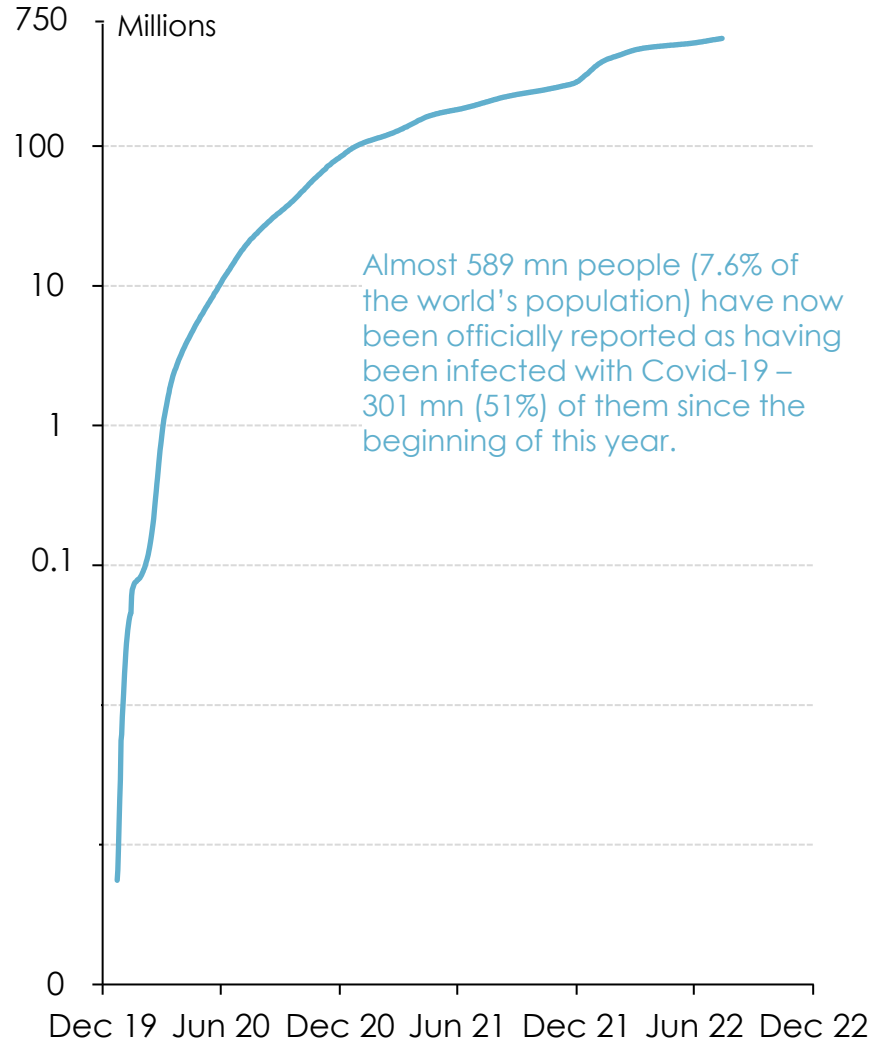
- ❑ US consumer prices were unchanged in July, providing something of a respite after rising by an average of 0.7% per month over the previous 15 months: the June outcome owed much to a 7.7% fall in petrol prices, but the increase in the CPI excluding food and energy of 0.3% was also the smallest since September last year – so that the annual ‘headline’ and ‘core’ inflation rates fell to 8.5% and 5.9% respectively from peaks of 9.0% in June and 6.4% in February (respectively) – while producer prices also fell in July ([slides 52-53](#))
- ❑ Financial markets interpreted the better-than-expected US inflation numbers as suggesting that inflation may now have peaked, and that the Fed could therefore raise rates by less than previously anticipated (especially after the previous week’s stronger-than-anticipated July employment report) ([slides 36-39](#)) – although senior Fed officials re-iterated that it was too early to “declare victory” and that the fed funds rate was still likely to rise a lot more ([slide 59](#))
- ❑ The UK economy contracted by 0.1% in Q2, largely because of a 2.9% decline in government consumption as Covid-related support programs wound down, although private consumption also fell 0.2% reflecting the impact of surging energy costs and higher interest rates on household real incomes ([slide 61](#)); the Bank of England is now forecasting a five-quarter-long recession beginning in Q4 this year ([slide 61](#))
- ❑ China’s merchandise trade surplus widened by US\$3.3bn to a second consecutive record of \$101.3bn in July – but it is an indication of on-going weakness, rather than strength, in the Chinese economy, reflecting growth of only 2.3% from a year earlier in imports, as against a 17.8% increase in exports over the same period ([slide 75](#))
- ❑ China’s CPI rose 2.7% over the twelve months to July, the fastest pace in two years, entirely as a result of a 6.4% increase in food prices, which declined for much of last year; the annual ‘core’ inflation rate fell from 1.0% in June to 0.8% in July, the lowest since April 2021 ([slide 76](#))
- ❑ The Philippines’ real GDP shrank by 0.1% in Q2, the first decline since Q2 2020, due to falls in household consumption and net exports; by contrast, Malaysia’s real GDP grew a robust 3.5% in Q2 (to be 5.1% above its pre-pandemic peak level), while Hong Kong’s real GDP rebounded by 1.0% after shrinking 2.9% in Q1 (but was still 4.8% below its previous peak in Q1 2019) ([slide 90](#))
- ❑ The Bank of Thailand became the latest Asian central bank to begin ‘normalizing’ monetary policy, raising its policy rate by 25bp to 0.75% ([slides 100-101](#))
- ❑ India’s CPI rose 6.7% over the twelve months to July, down from 7.0% in May and June, and the peak of 7.8% in April ([slide 109](#))
- ❑ Mexico’s central bank lifted its reference rate by 75 basis points to 8.5%, the tenth increase since June last year; Peru’s central bank raised its policy rate by 50 basis points to 6.5%; while in Argentina, where consumer prices rose 71% over the year to July, the central bank increased its benchmark Leliq rate by 950 basis points to 69.5% ([slides 116, 118 and 122](#))
- ❑ Highlights of this week’s calendar are US July retail sales and housing starts, the August ‘Philly Fed’ manufacturing survey and the minutes of last month’s FOMC meeting; Japan’s Q2 GDP; China’s July retail sales, industrial production and unemployment; Australia’s July employment and unemployment; and central bank meetings in New Zealand, Norway, the Philippines and Turkey ([slide 125](#))

Covid-19

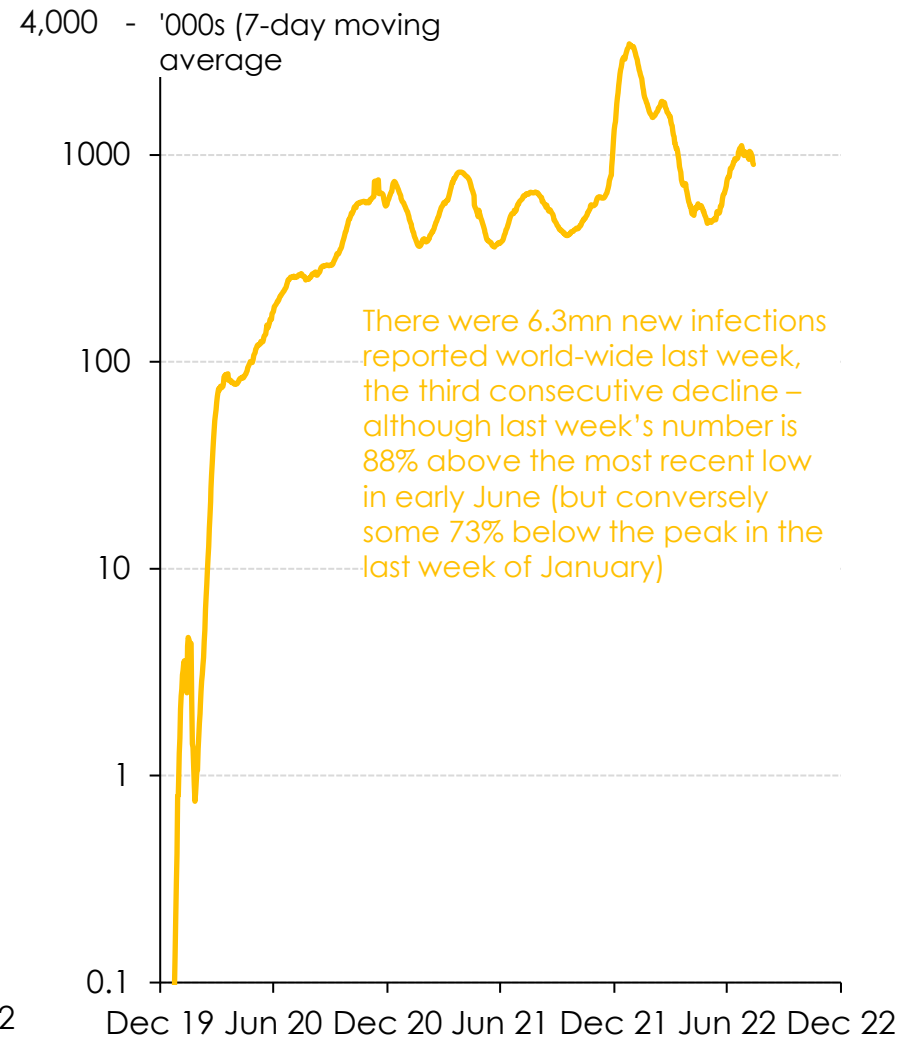
The global total of new Covid-19 cases has now fallen for three weeks in a row, although it remains relatively high

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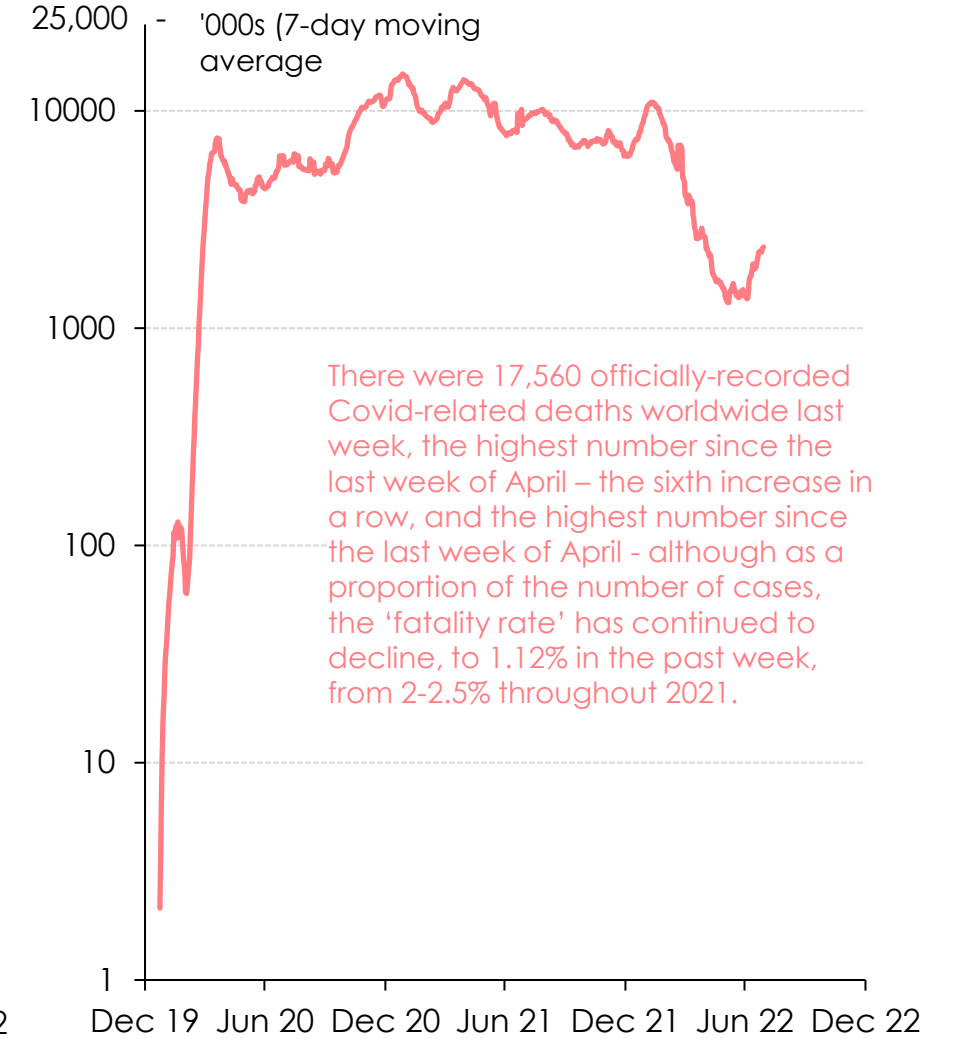
Cumulative confirmed cases – global total



New confirmed cases – global total



New deaths – global total

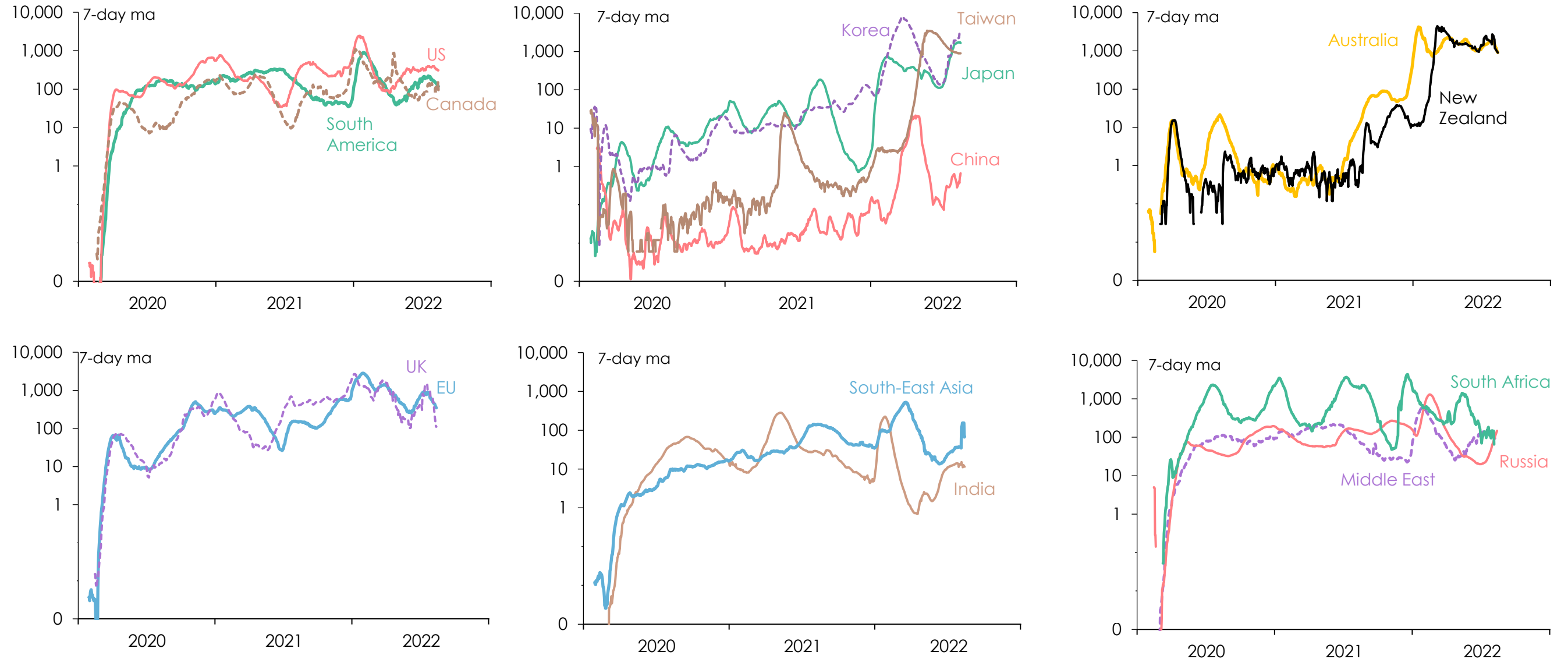


Note: All charts are on logarithmic scales. Data up to 12th August. Source: University of Oxford, [Our World in Data](#). [Return to "What's New"](#).

Case numbers are now falling quite sharply in Europe, but are still rising in parts of Asia, and remain high in North America and Australia

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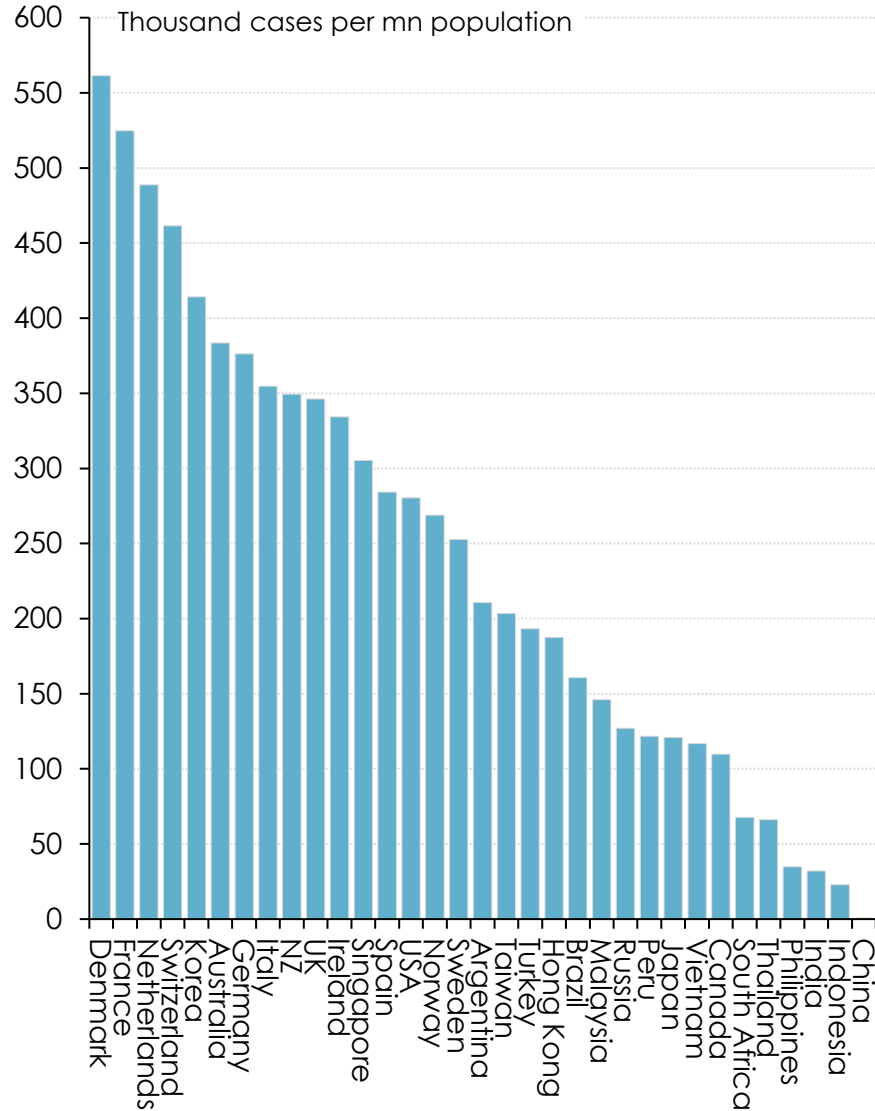
Daily new cases per million population – major countries and regions



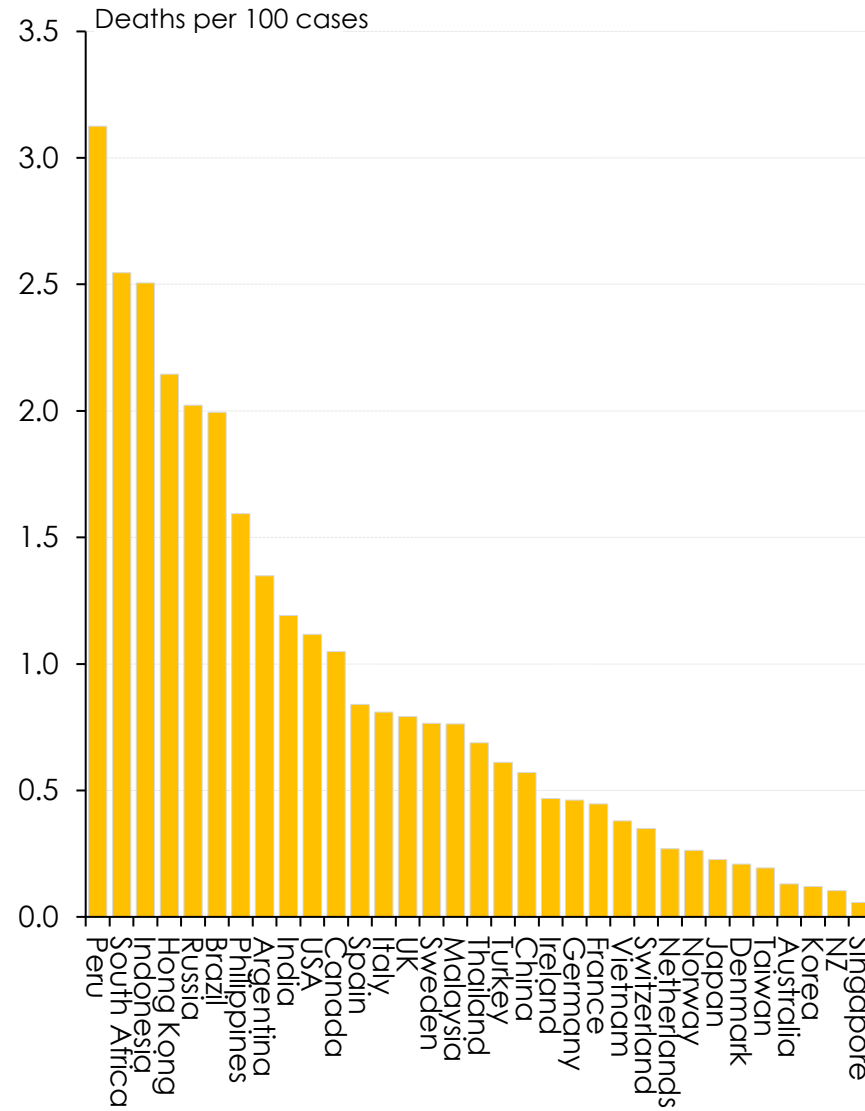
The highest cumulative infection and death rates (since the onset of the pandemic) have been in Europe, South and North America

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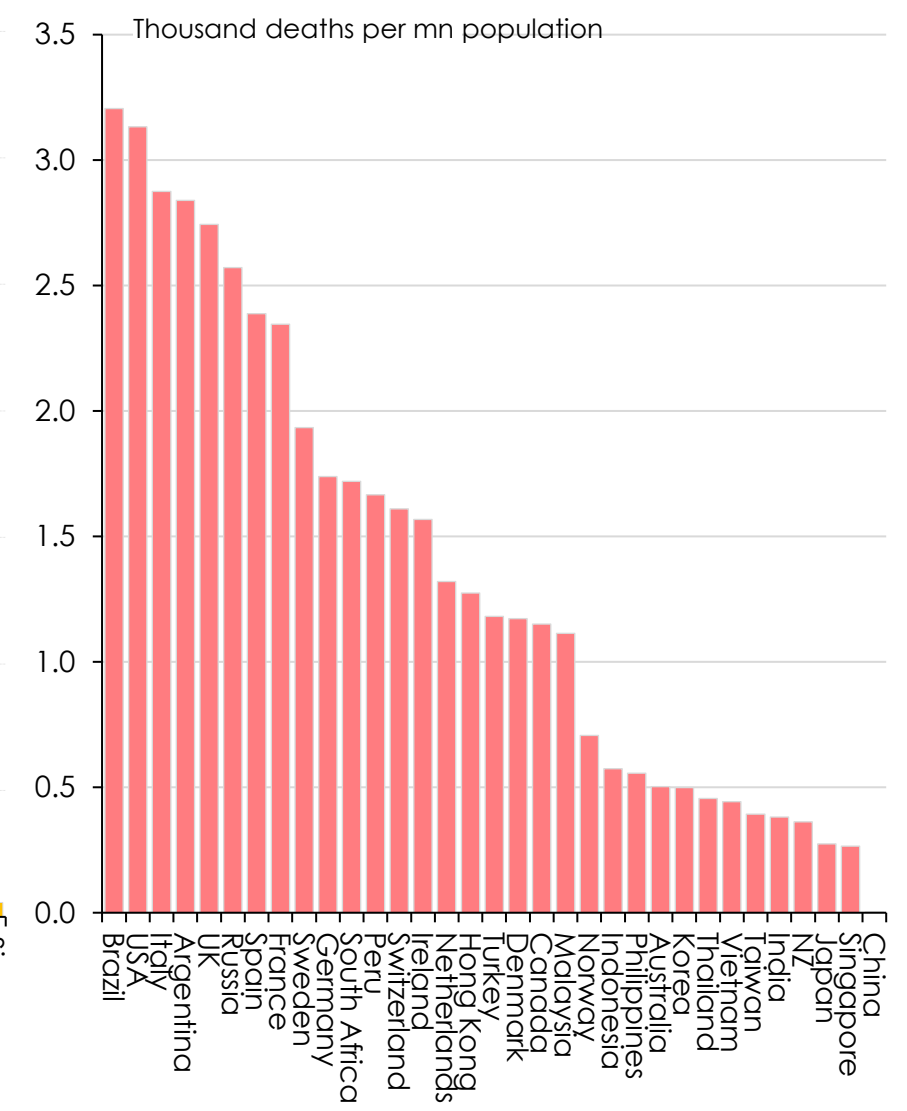
Apparent infection rate



Apparent fatality rate



Apparent death rate



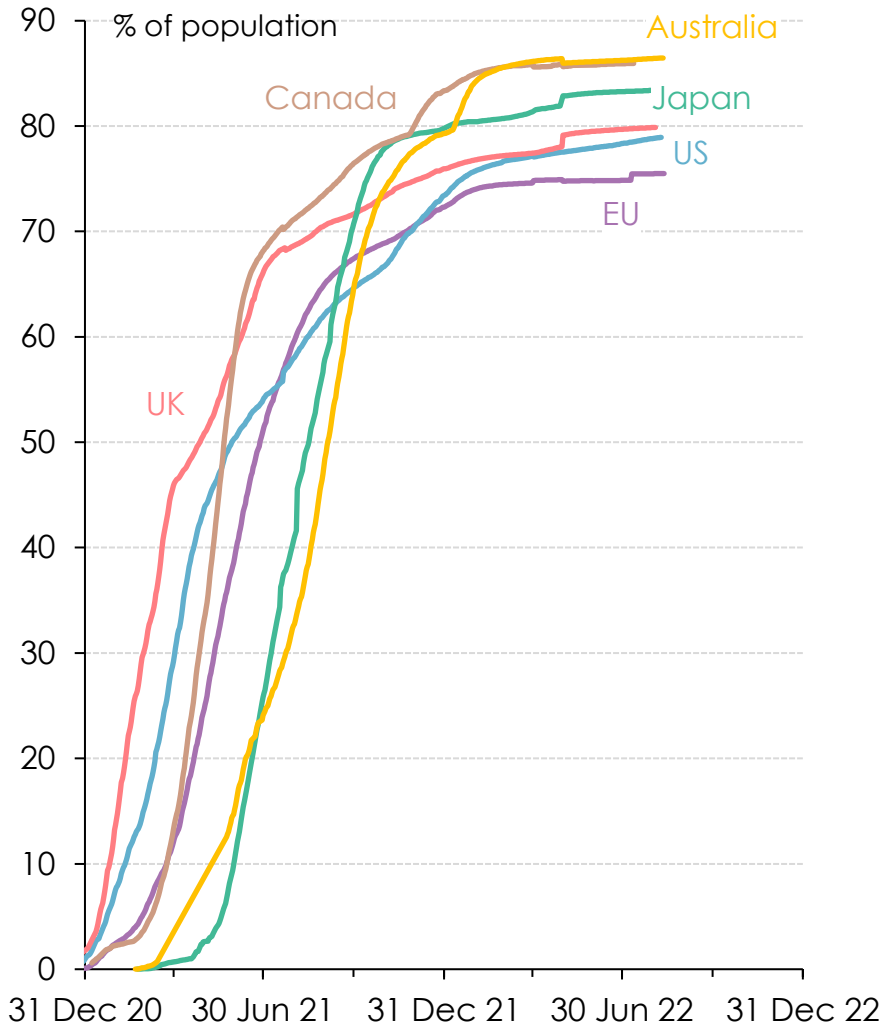
Note: Data shown in these charts are cumulative since the beginning of the pandemic, up to 12th August. Sources: University of Oxford, [Our World in Data](#); Corinna.

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

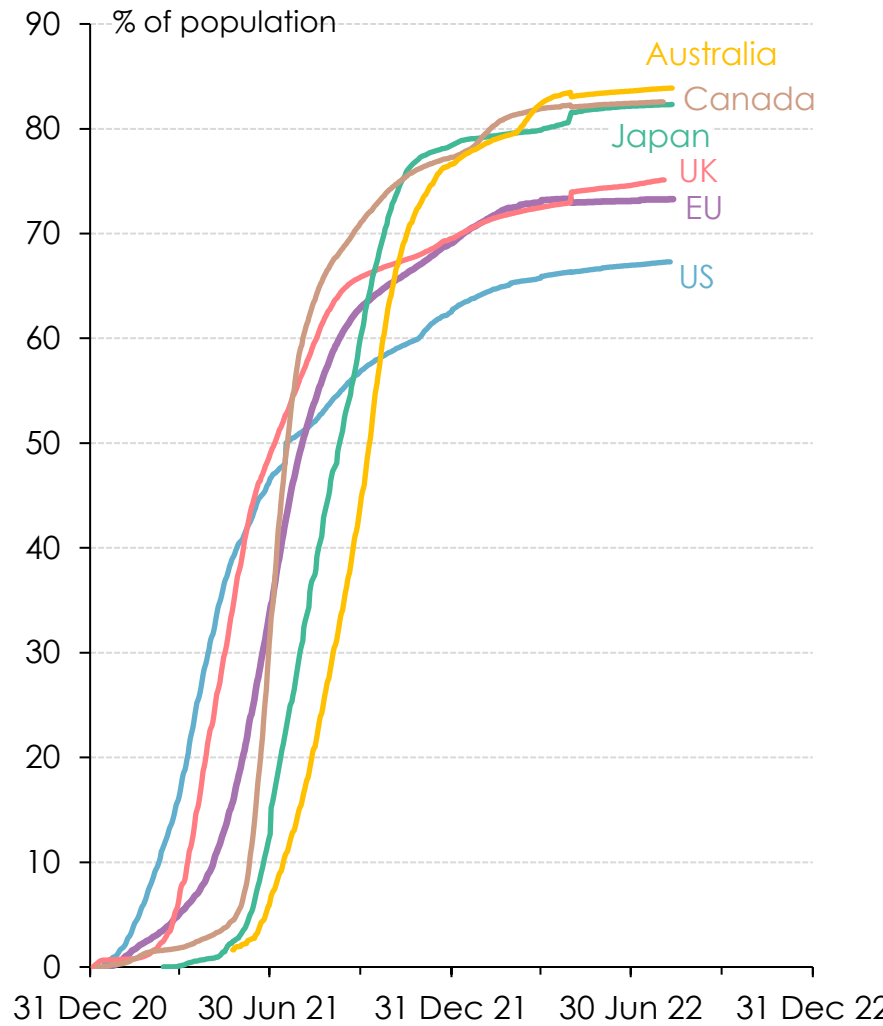
The US lags behind most other 'advanced' economies in fully vaccinating its population and also now with regard to 'boosters'

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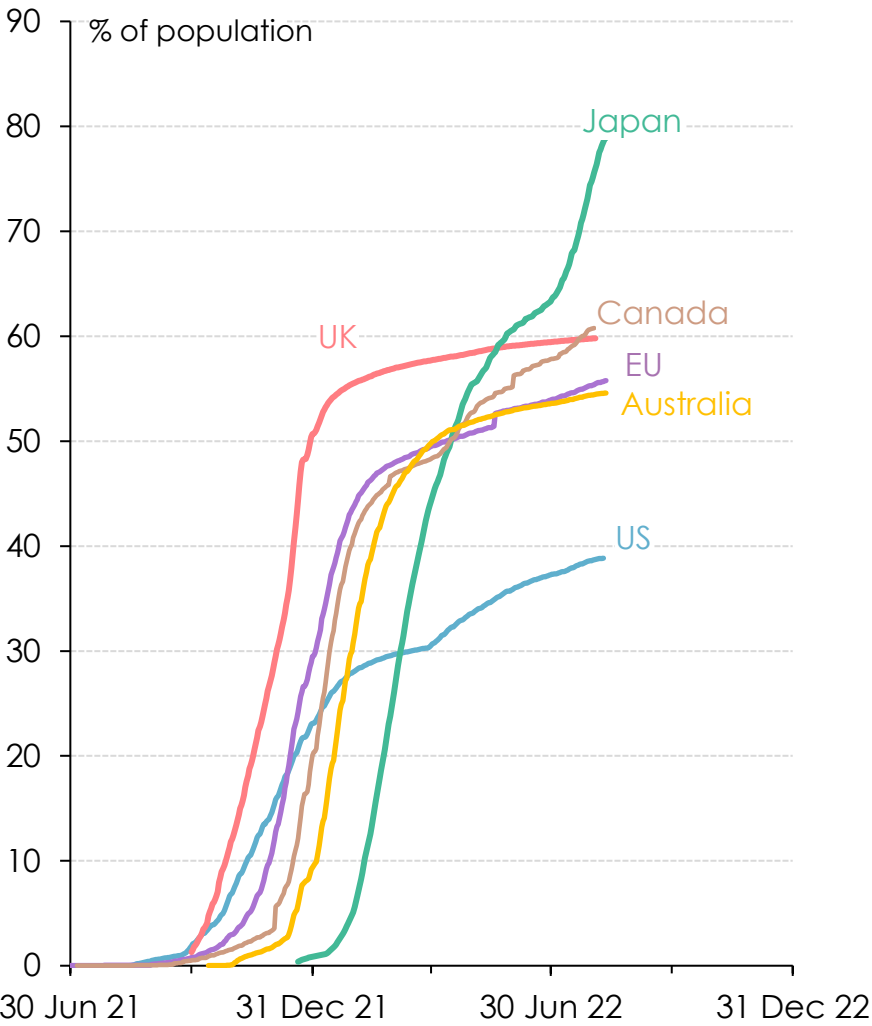
Percentage of populations who have had at least one shot



Percentage of populations who have had two shots



Percentage of populations who have had a 'booster' shot



Note: Data up to 11th or 12th August, except for the UK, 3rd August, and Canada, 2nd August.
 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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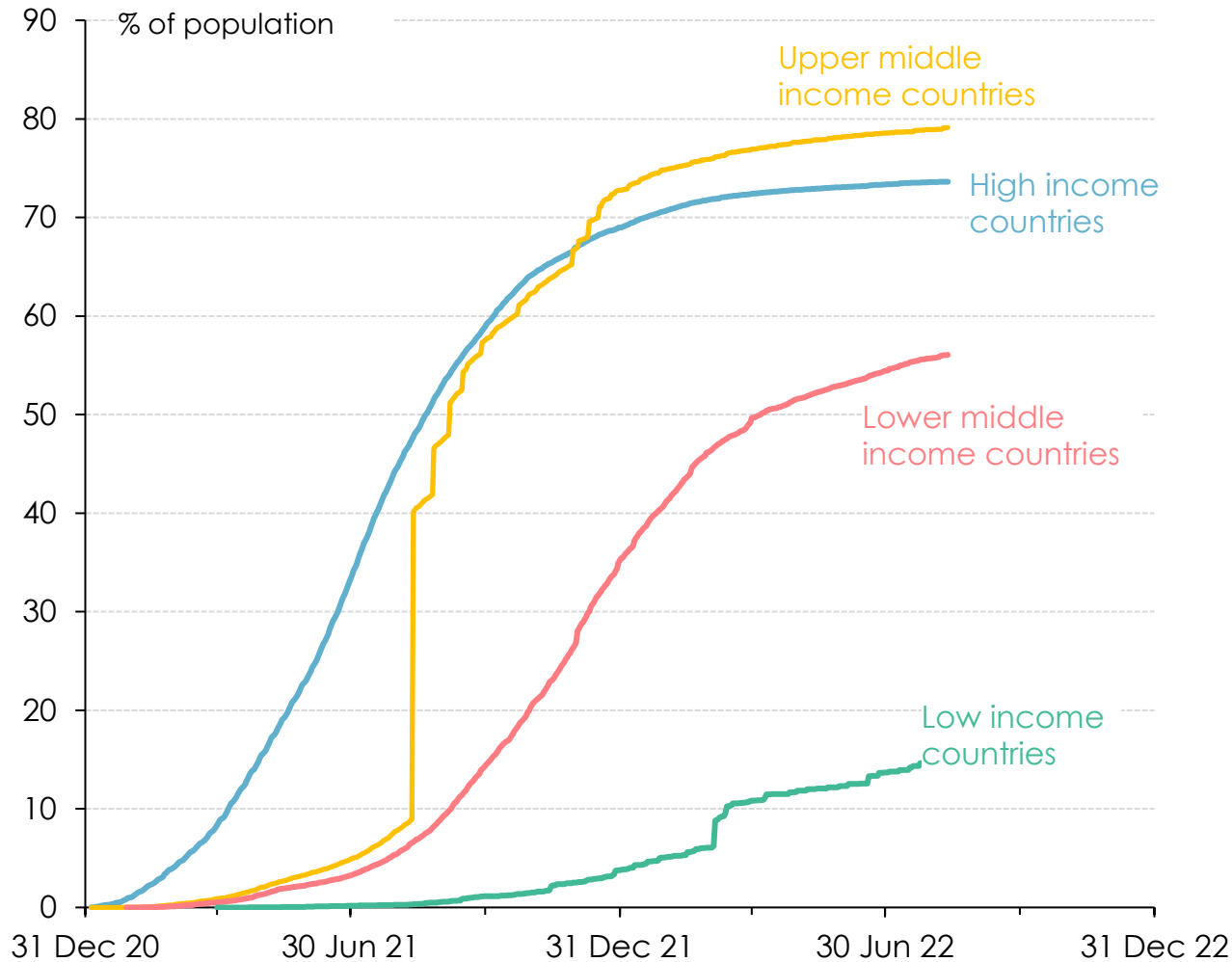
Vaccination rates vs Trump vote at 2020 elections, by state



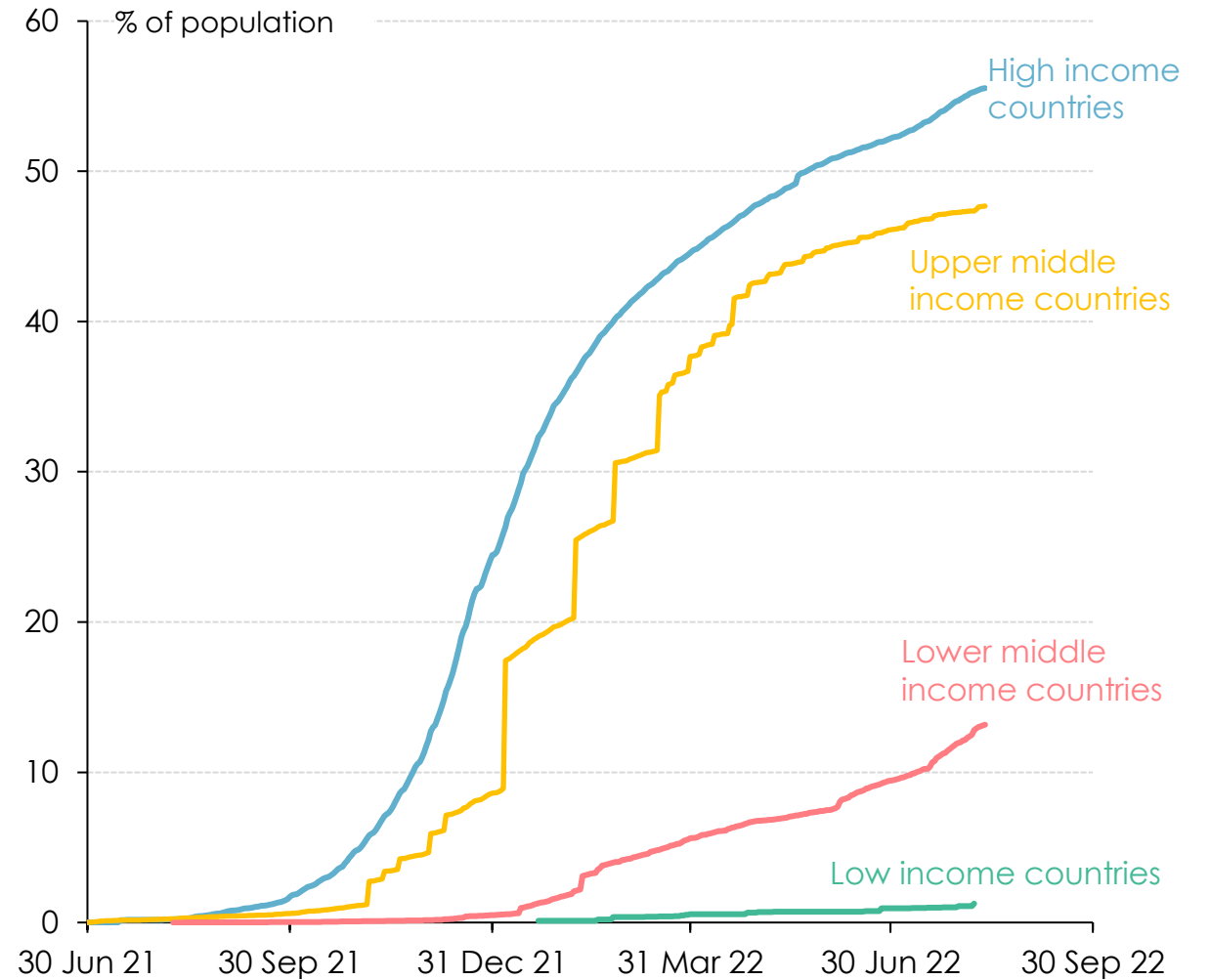
The vaccine roll-out has proceeded much more slowly among low- and lower-middle income countries

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



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



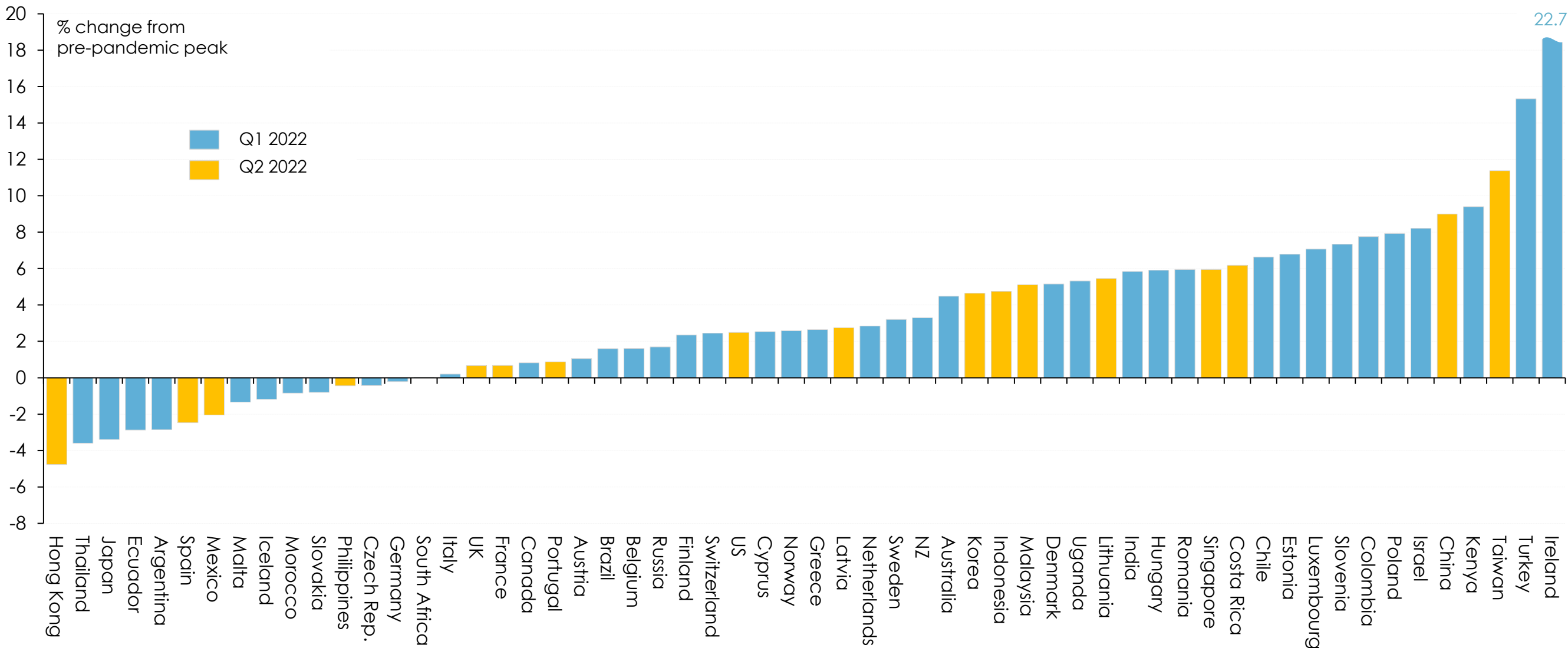
Note: Income categories are as defined by the [World Bank](#): high-income countries are (in 2021) those with a per capita gross national income (GNI) of over US\$12,535; upper-middle income countries are those with per capita GNI between US\$4,046 and \$12,535; lower middle-income countries are those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

The world economy

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

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Q1 or Q2 2022 real GDP compared with pre-recession peak

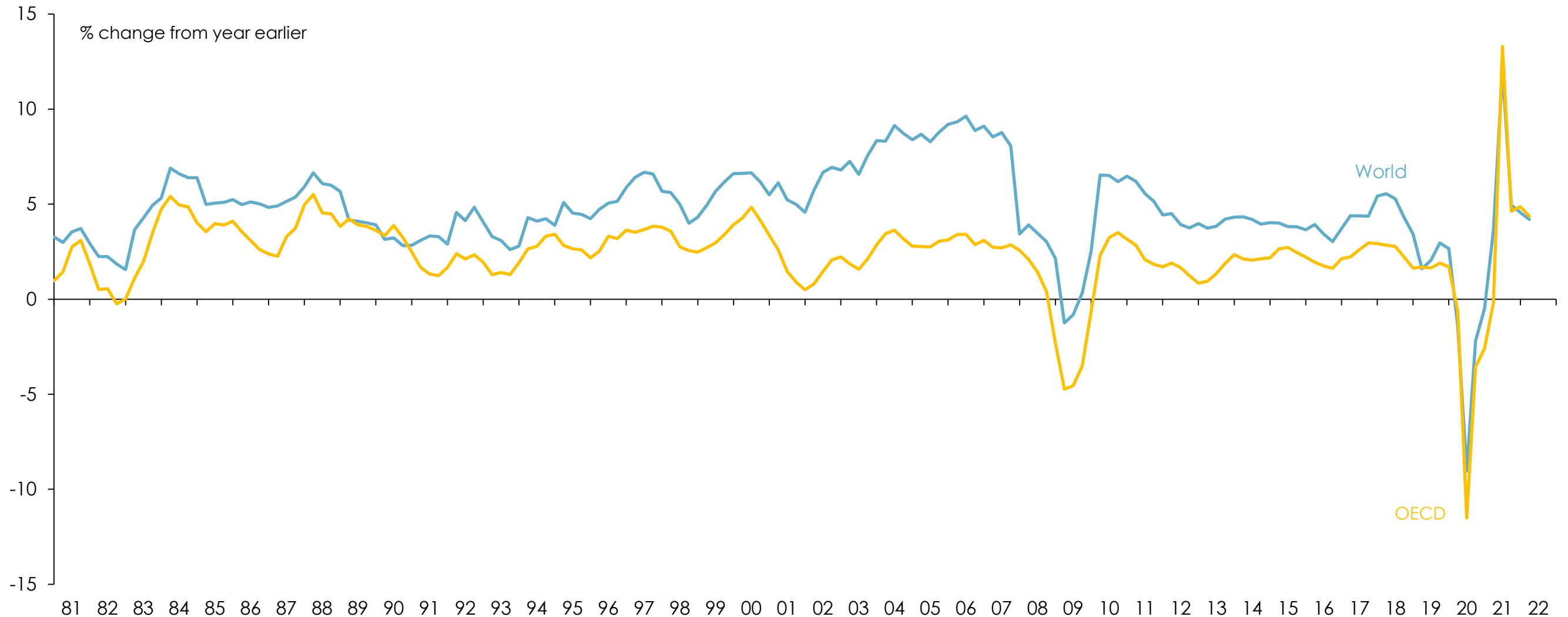


Note: Estimate for China is derived from quarterly growth rates published by China NBS; estimates for India, Indonesia and Russia are seasonally adjusted by the OECD. Sources: National statistical agencies and central banks, and OECD. [Return to "What's New"](#).

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

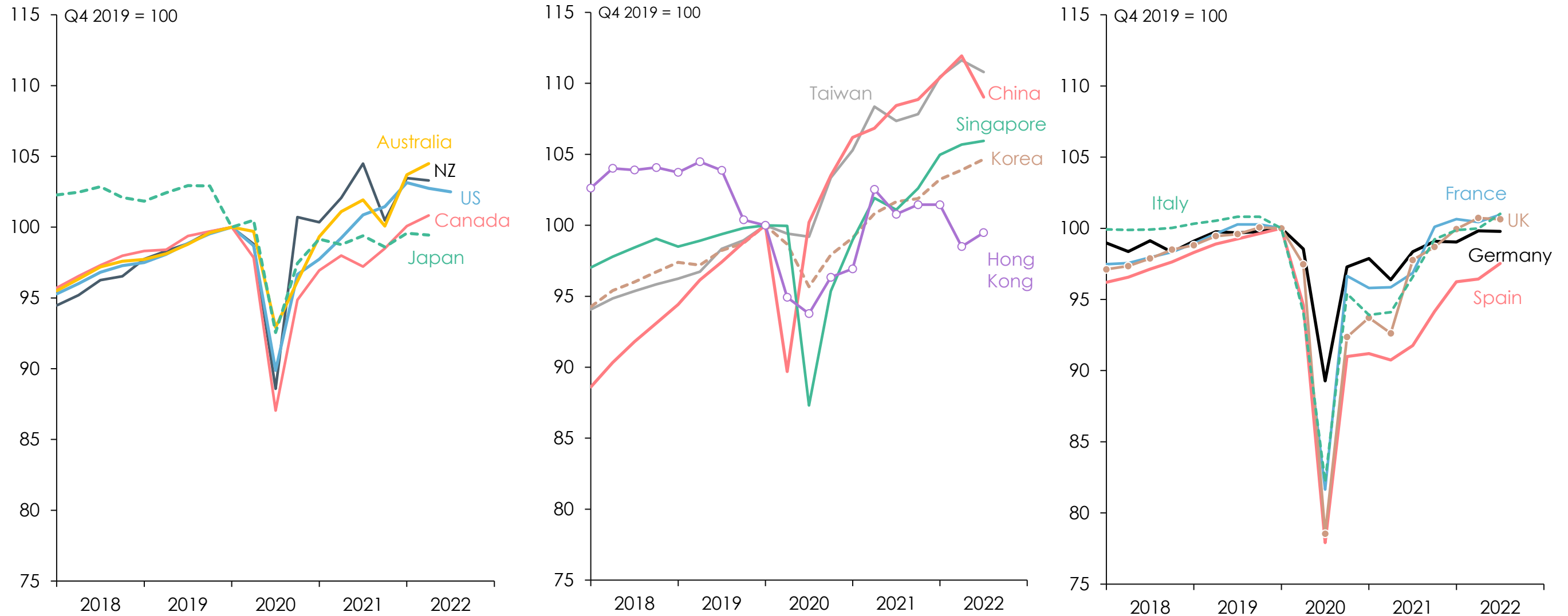


Note: Estimates of global GDP growth compiled by Corinna using data for 100 countries accounting for 94% of 2019 world GDP as measured by the IMF, weighted in accordance with each country's share of global GDP at purchasing power parities in 2019; excludes constituents of the former USSR before 1993, 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 [^]	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 [†]	4.2 [†]	0.7 [†]
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. [^] Annual average. * Forecasts for fiscal years beginning 1st July (and finishing 30th June following year) [†] Forecasts by New Zealand Treasury for fiscal years beginning 1st July. Sources: International Monetary Fund (IMF), [World Economic Outlook Update](#), 26th July 2022; The World Bank, [Global Economic Prospects](#), 7th June 2022; Organization for Economic Co-operation & Development (OECD), [Economic Outlook 2022 \(preliminary version\)](#), 8th June 2022; Australian Treasury, [Ministerial Statement on the Economy](#), 28th July 2022; New Zealand Treasury, [Budget Economic and Fiscal Update 2022](#), 19th 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

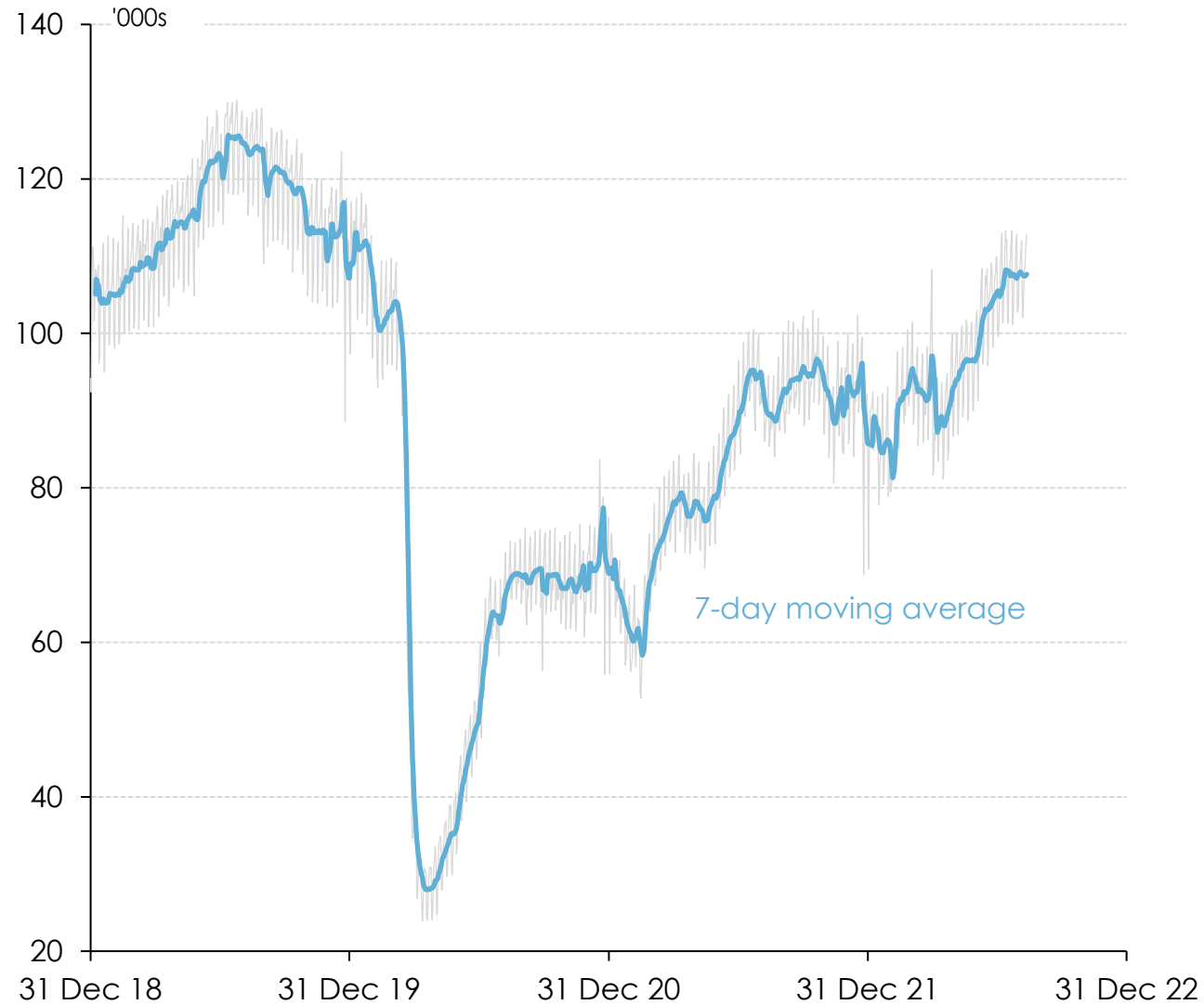
- ❑ The IMF now expects global economic growth to slow from 6.% in 2021 to 3.2% this year (a downward revision of 0.4 pc pt from its previous forecast in April) and to 2.9% in 2023 (a downward revision of 0.7 pc pt)
 - the downward revisions are particularly large (by IMF standards) for the US, the UK, 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](#), 26th July 2022. [Return to "What's New"](#).

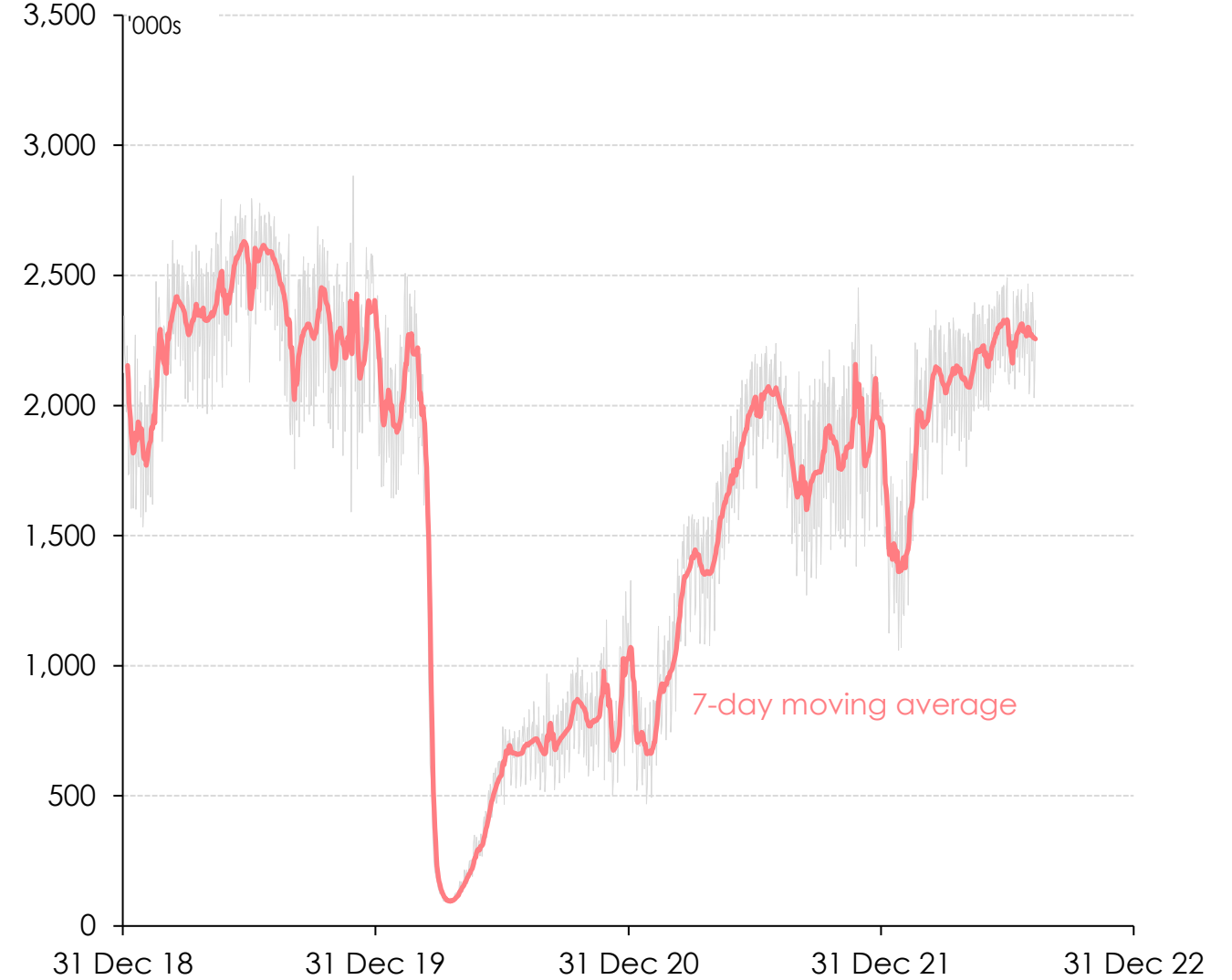
Global aviation traffic has picked up significantly over the past three months, though not yet quite back to pre-Covid levels

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Daily commercial flights worldwide



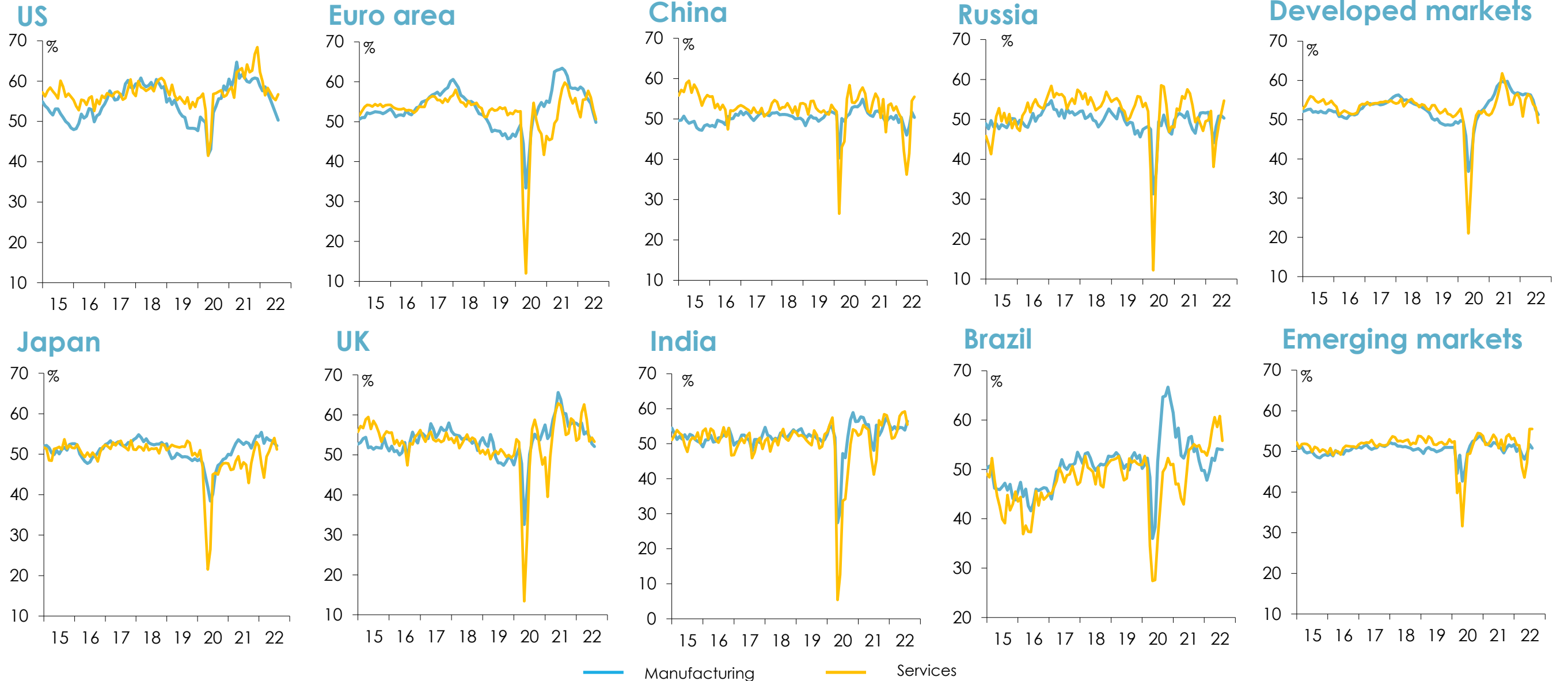
Daily US TSA 'security' checks



Note: Commercial flights include commercial passenger flights, cargo flights, charter flights, and some business jet flights. Data are up to 12th August for commercial flights and 11th August 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"](#).

July PMIs point to a slowdown in activity in 'advanced' economies (though with US services resilient) but continued growth in 'emerging' markets

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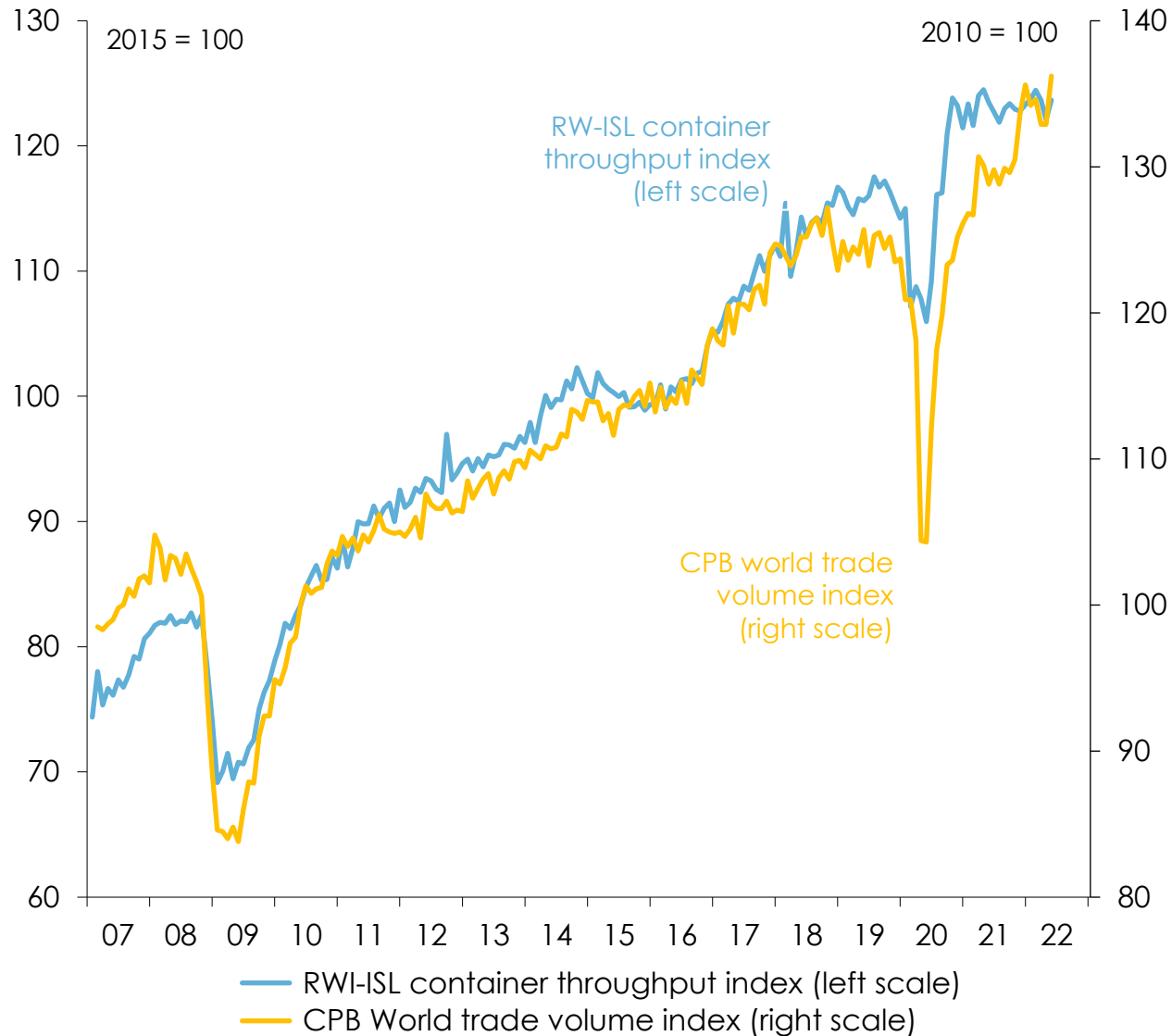


Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous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

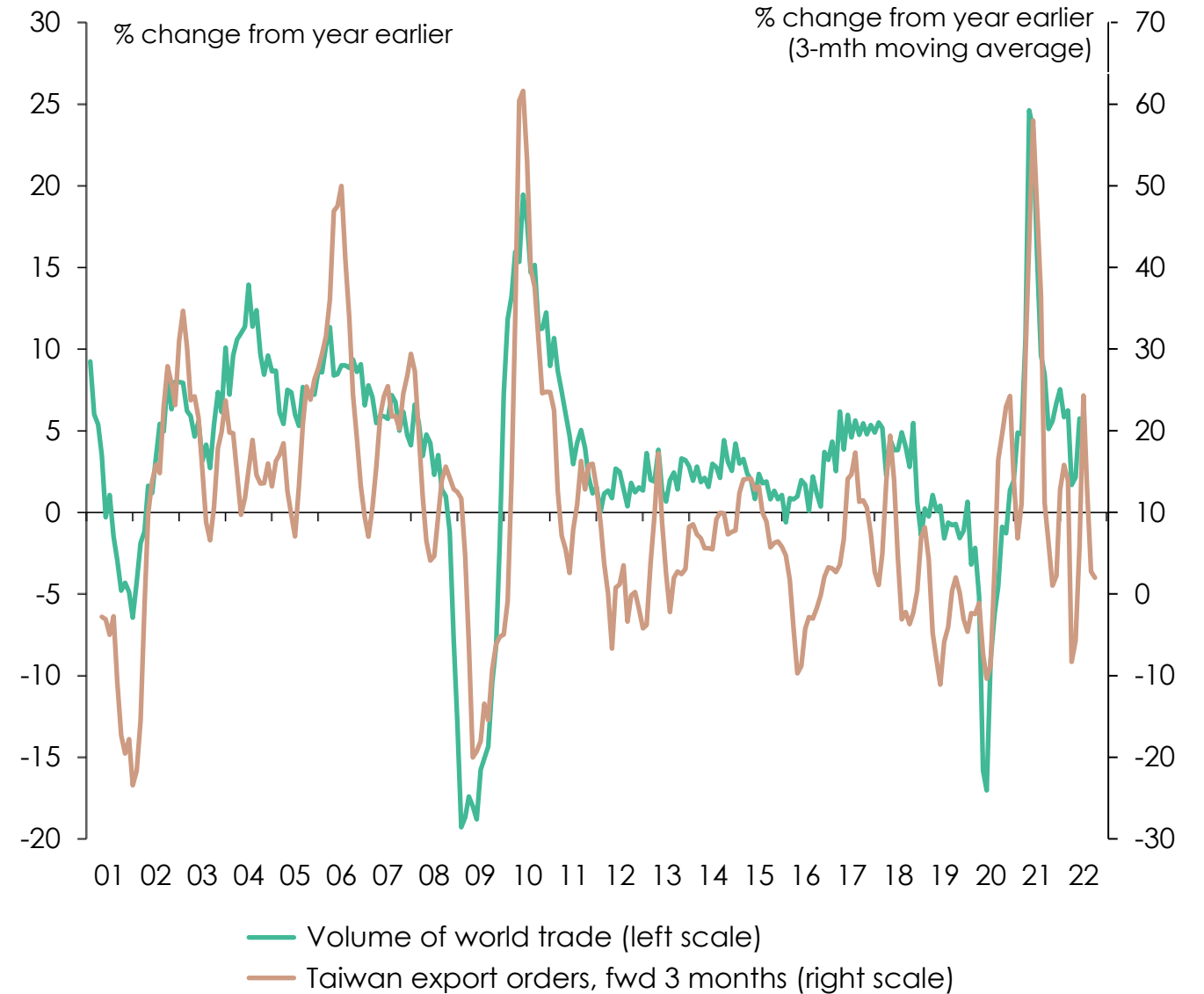
The volume of world trade rose 2.5% in May, as China's ports re-opened, but leading indicators point to slower growth ahead

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World trade volumes and container throughput



Taiwan export orders and world trade volumes



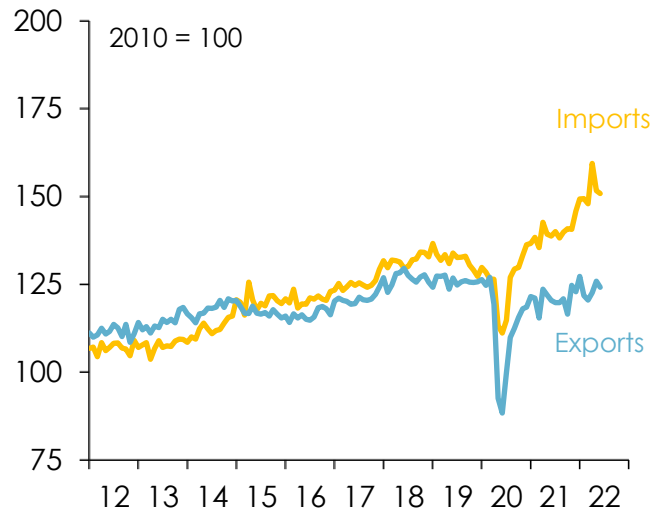
Note: The shipping container throughput index is based on reports from 91 ports around the world handling over 60% of global container shipping.

Sources: CPB Netherlands Economic Planning Bureau, [World Trade Monitor](#), May 2022 (June data to be released on 25th 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"](#).

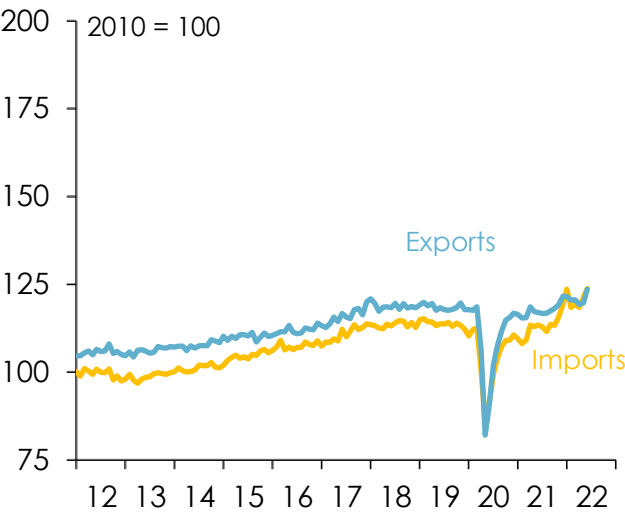
Supply-chain disruptions in China have been a major factor in the slowing in world trade this year: the UK's poor trade performance is also notable

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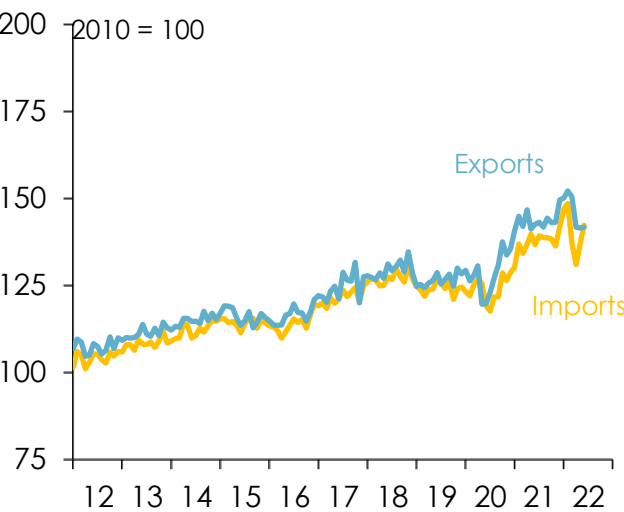
United States



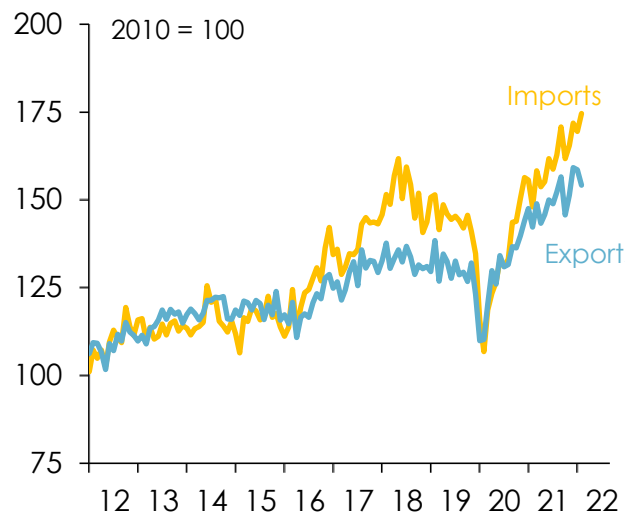
Euro area



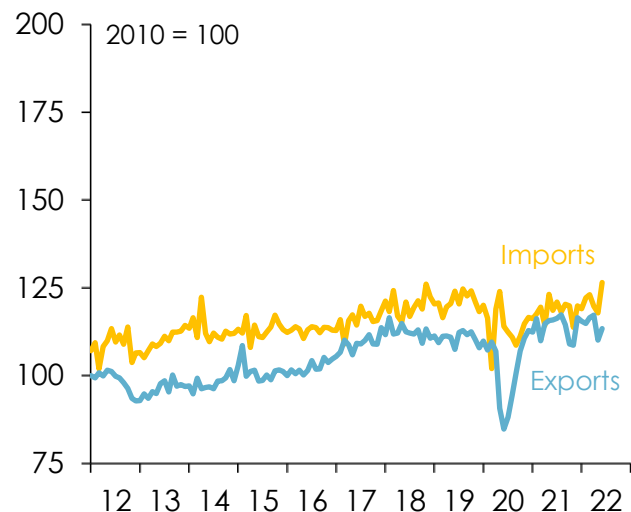
Other 'advanced' Asia



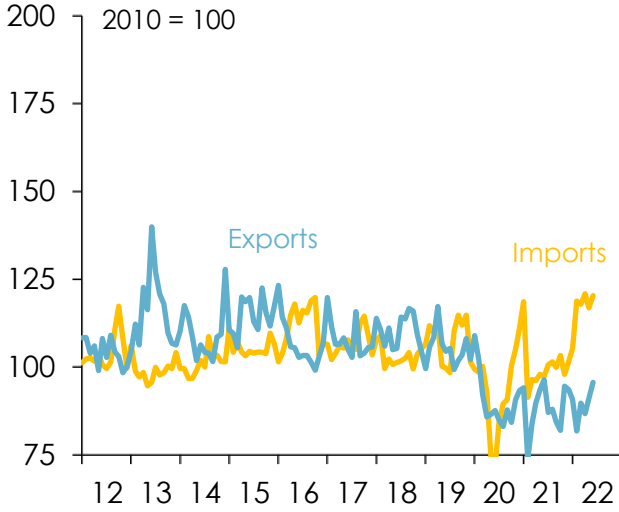
Other 'emerging' Asia



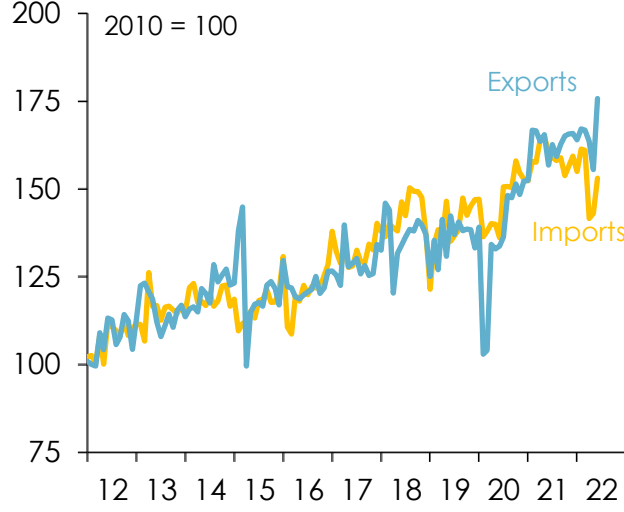
Japan



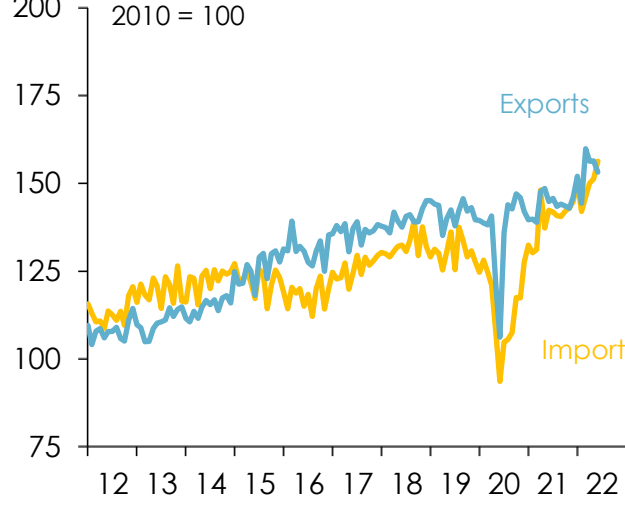
United Kingdom



China



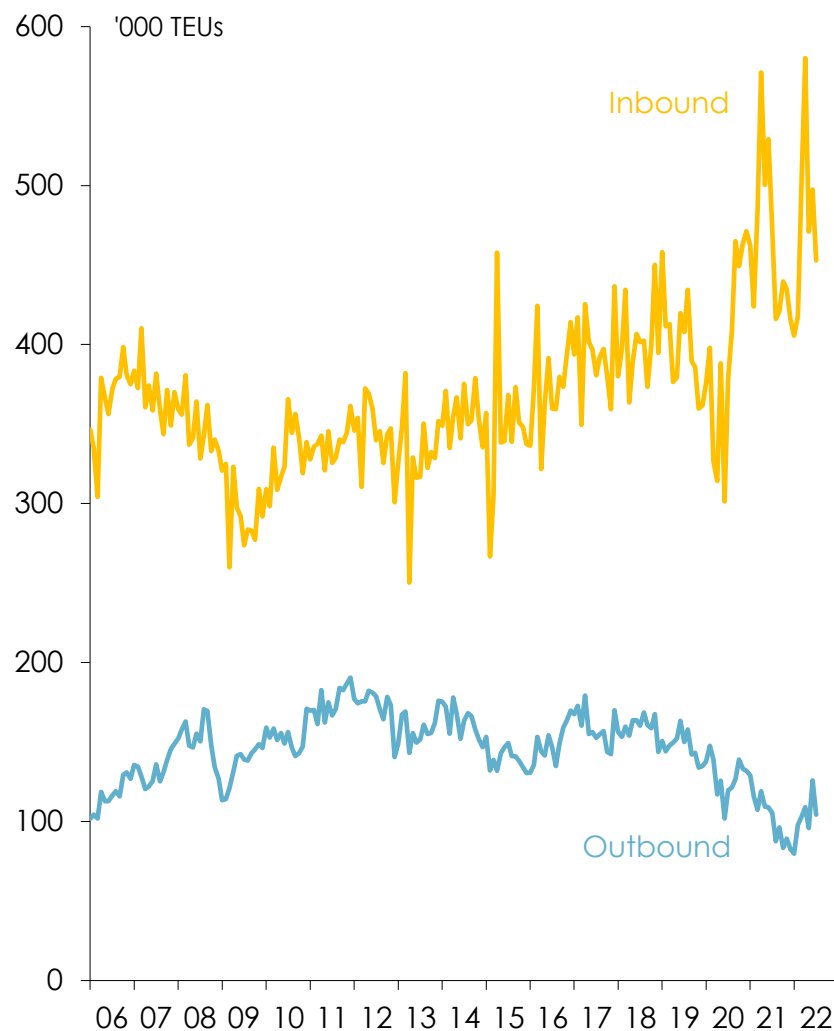
Latin America



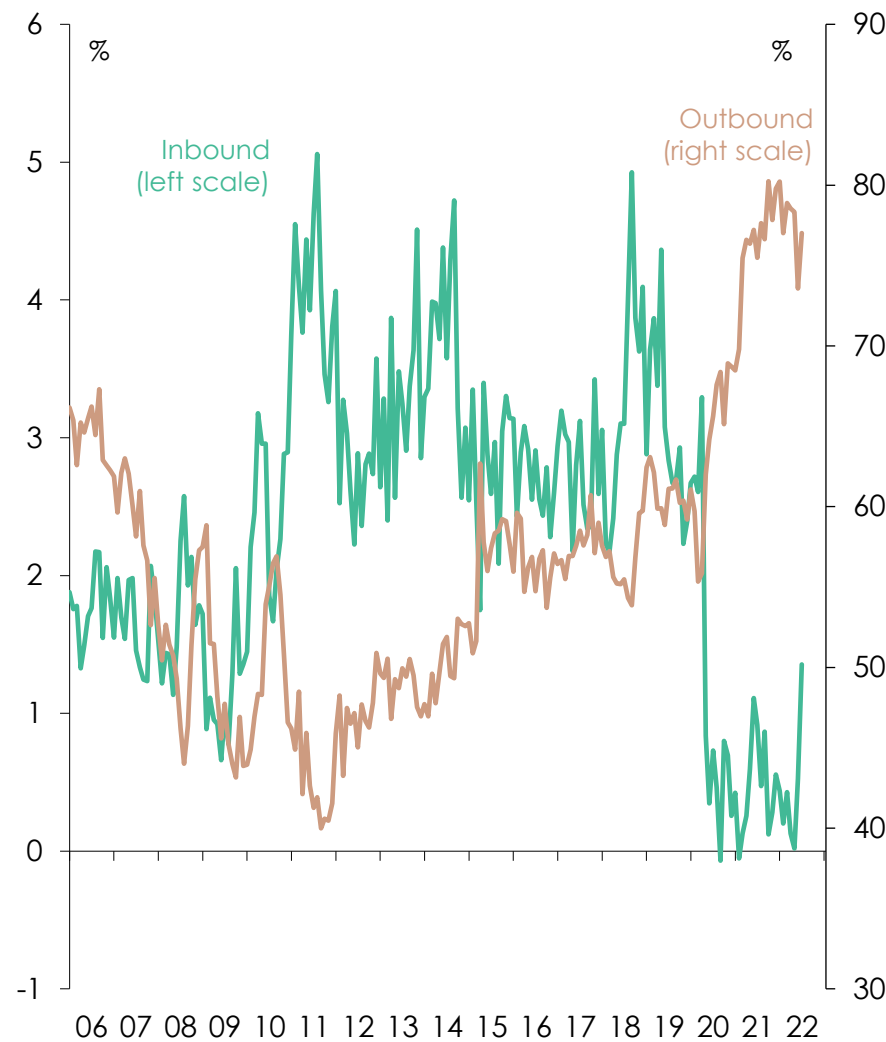
Congestion at the Port of Los Angeles (the US' largest container port) has eased significantly but trade flows remain unusually unbalanced

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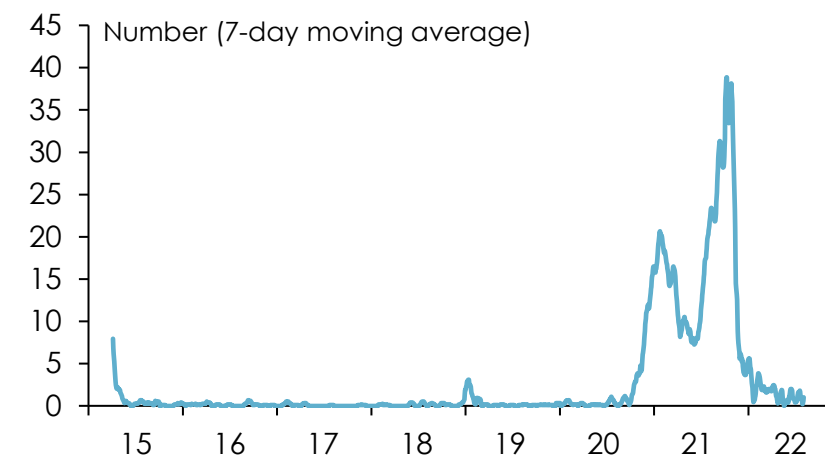
Container traffic through the Port of Los Angeles



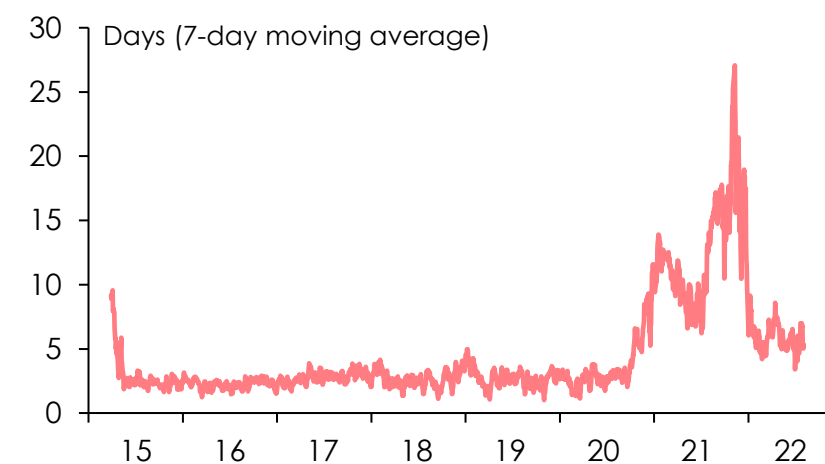
Empty containers as a pc of total passing through PoLA



Number of vessels at anchor outside PoLA



Average time at anchor and berth for ships at PoLA

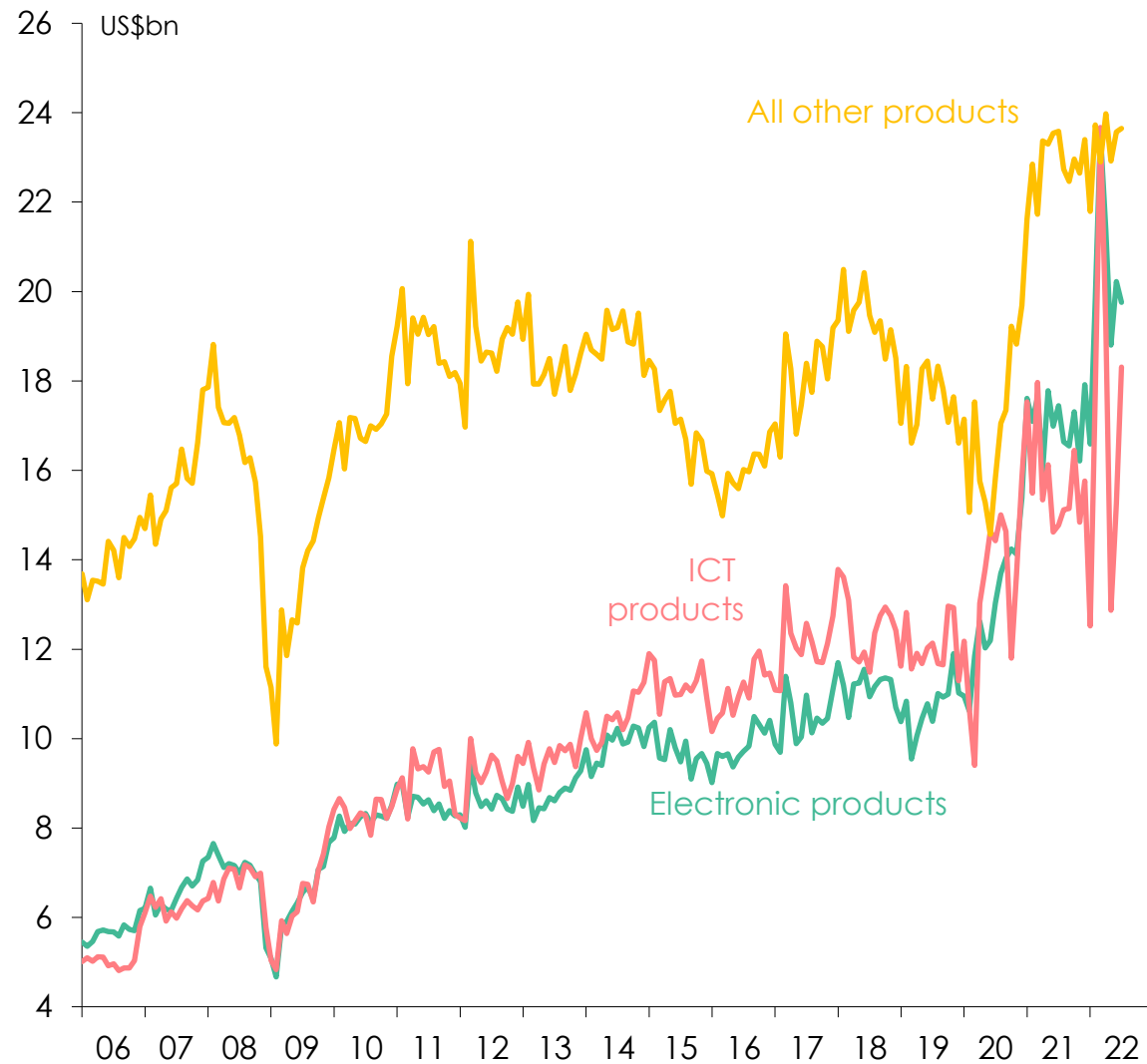


Note: TEU = 20-foot equivalent unit. Data on inbound and outbound container traffic in the first two charts have been seasonally adjusted by Corinna using Refinitiv Datastream. Data up to 12th August. Source: The Port of Los Angeles, [Container Statistics](#) and [Container vessels in port](#). [Return 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



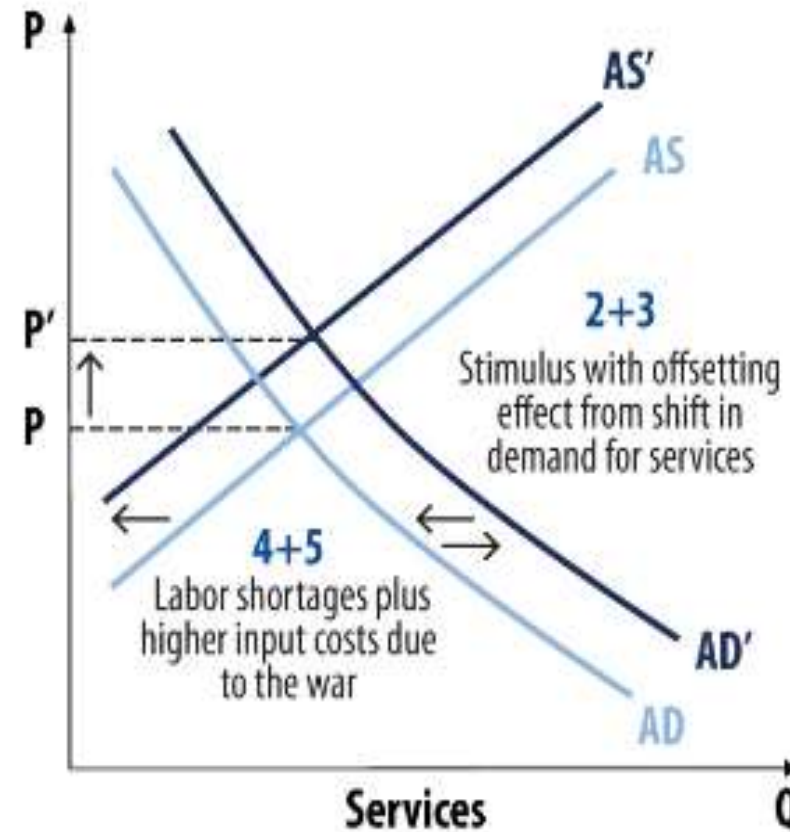
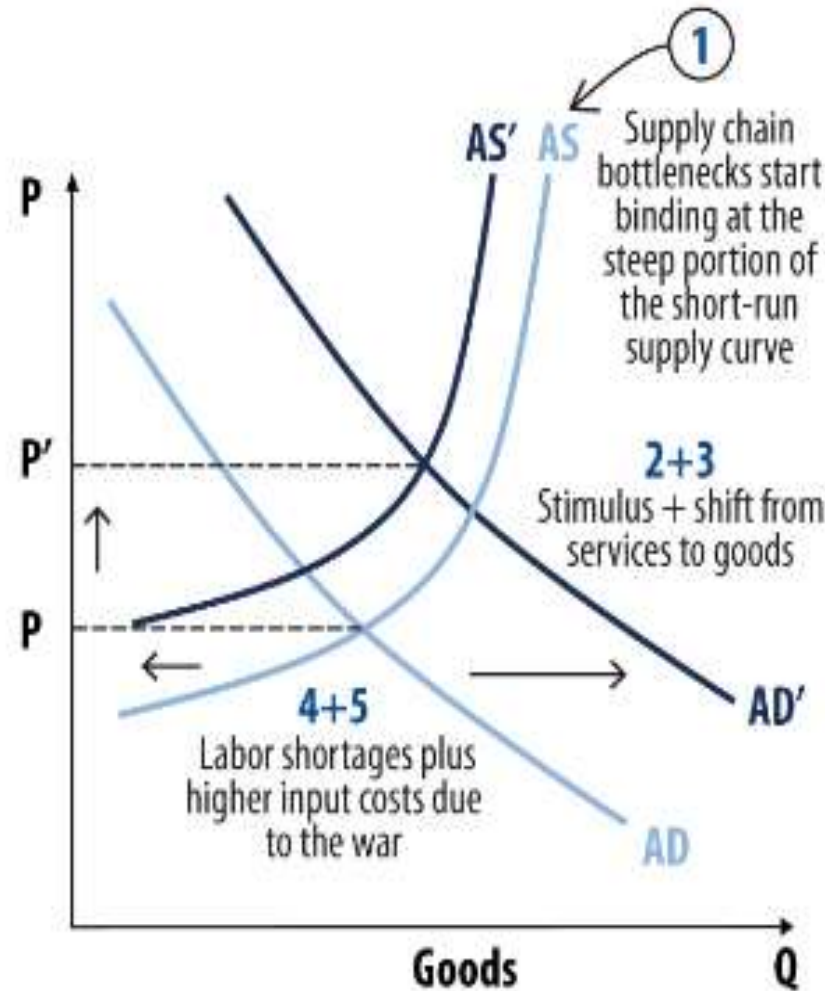
Note: Data have been seasonally adjusted by Corinna using Refinitiv Datastream. Latest data are for May. Source: Taiwan [Ministry of Economic Affairs](#). [Return to "What's New"](#).

- ❑ 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 – 15TH 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



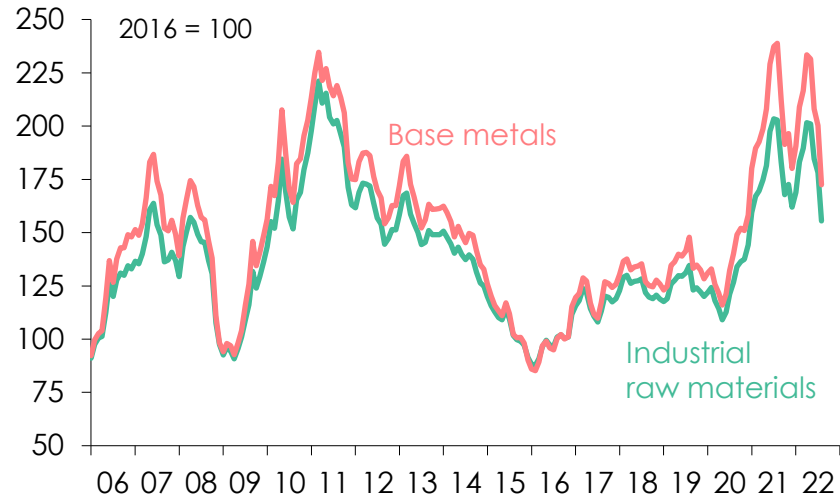
1. Supply chain bottlenecks reducing supply of durable goods – aggregate supply curve shifts to left (AS → AS')
 2. Shift in demand from services to goods (prompted by public health restrictions), with opposite effects on demand for services and goods – aggregate demand curve for goods shifts to right,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

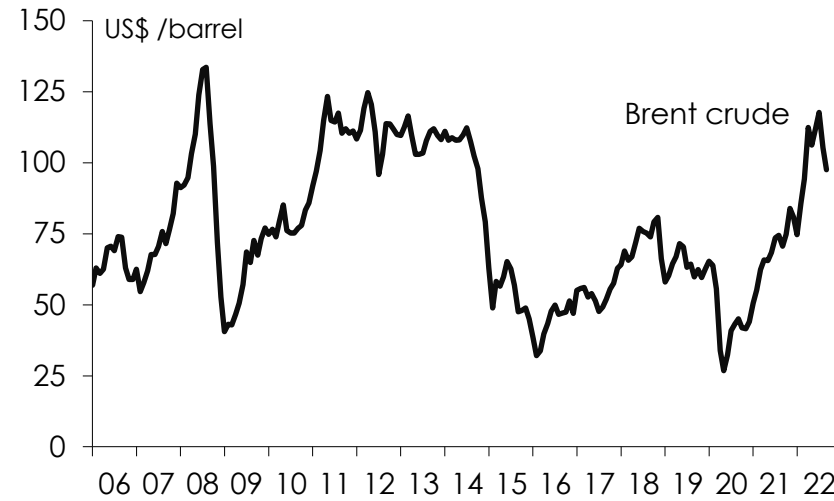
Commodity prices, apart from gas, are now falling – and supply chain pressures are easing too

THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

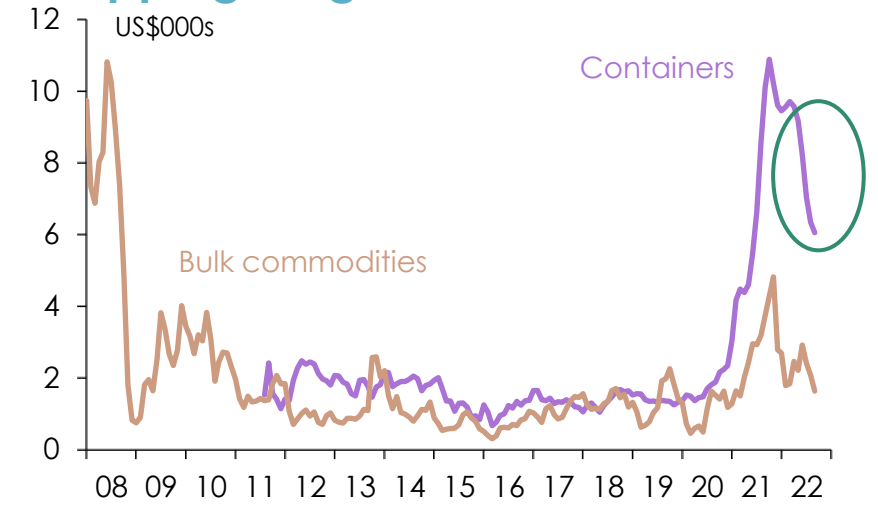
'Hard' commodity prices



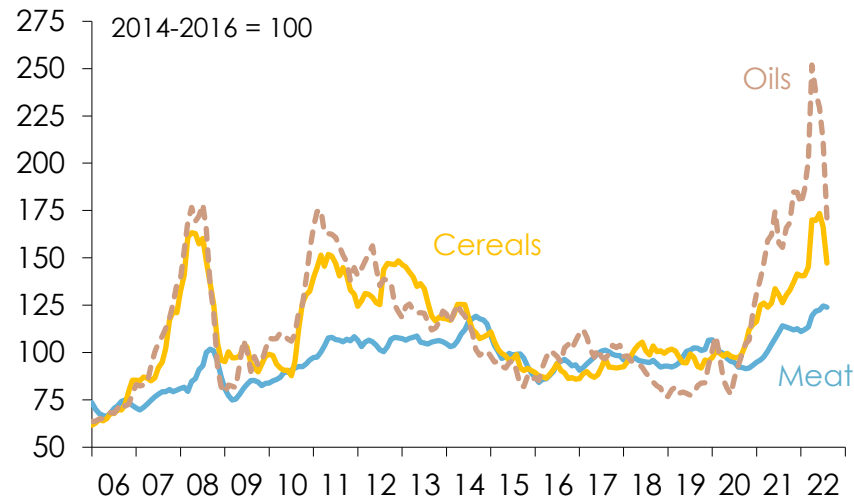
Crude oil price



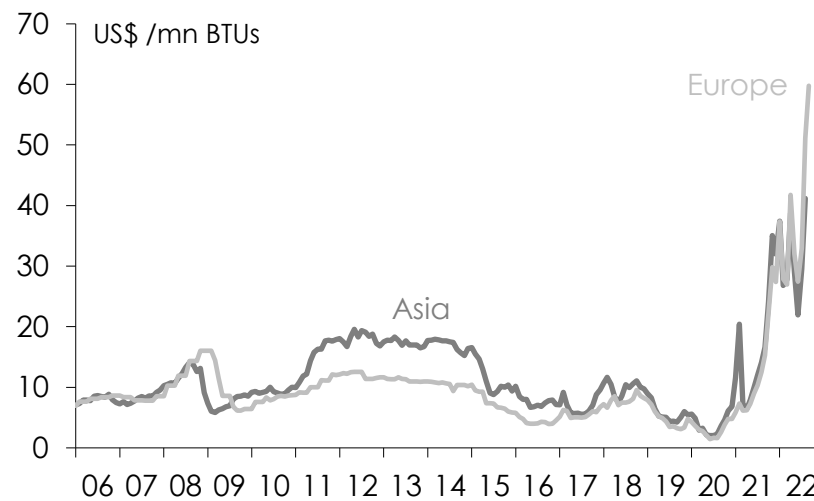
Shipping freight costs



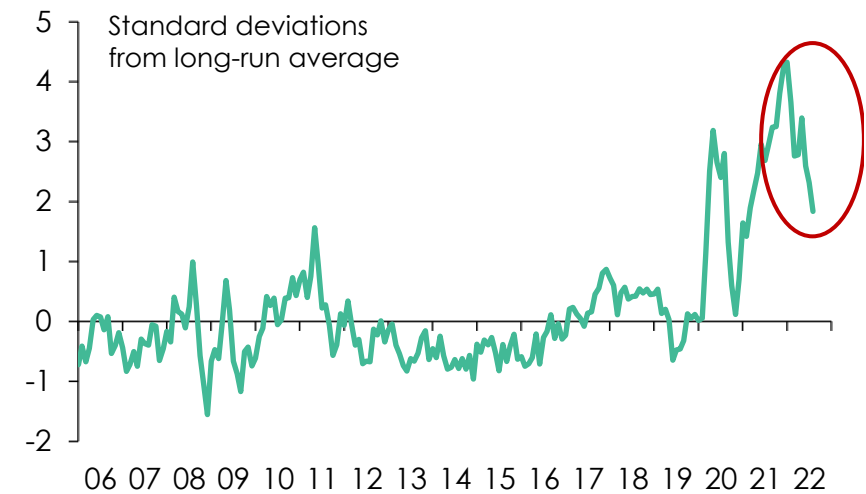
Food commodity prices



Natural gas prices



Global supply chain pressure index

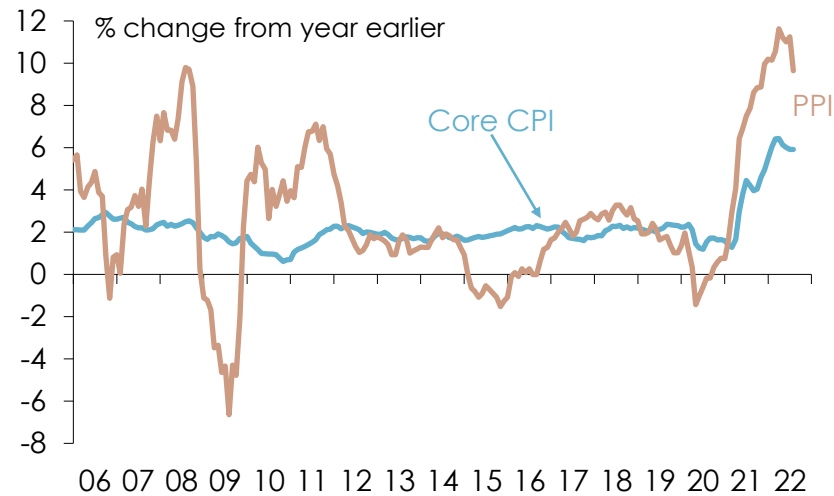


Sources: [International Monetary Fund](#); [UN Food and Agriculture Organization](#); [Freightos](#); [Drewry](#); [The Baltic Exchange](#); [Federal Reserve Bank of New York](#); Refinitiv Datastream.

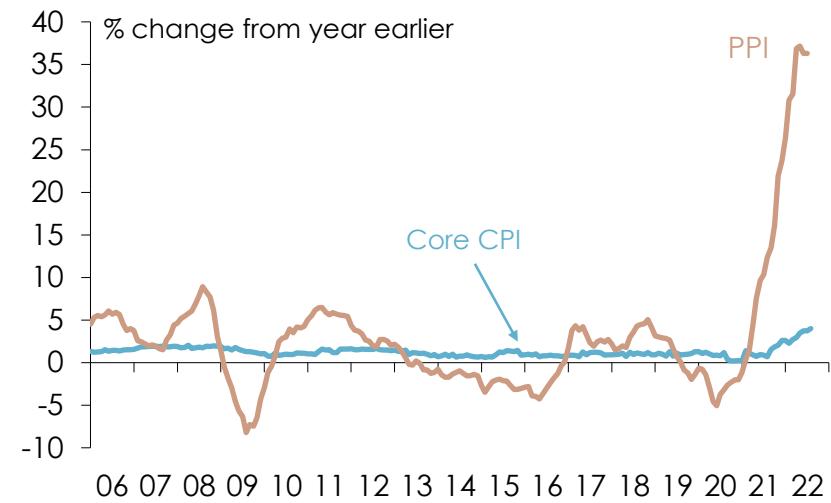
Last week's July US CPI and PPI data has raised hopes that inflation may be peaking – although it is still a long way above targets in most economies

THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

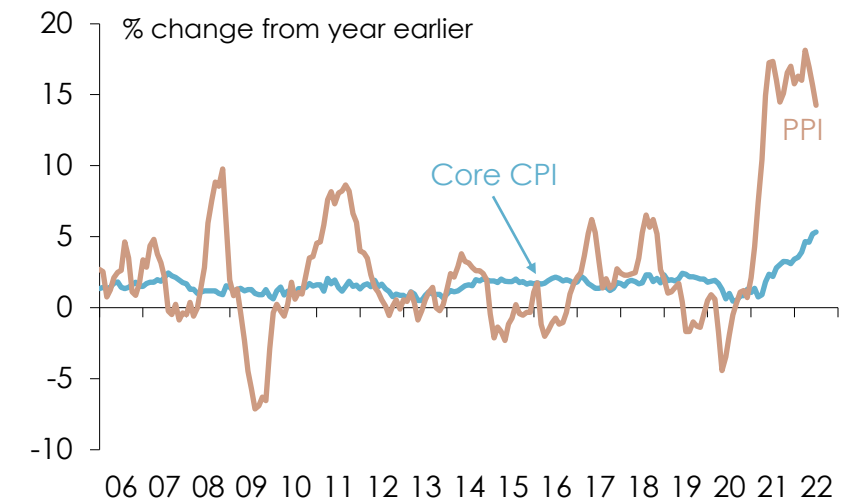
United States



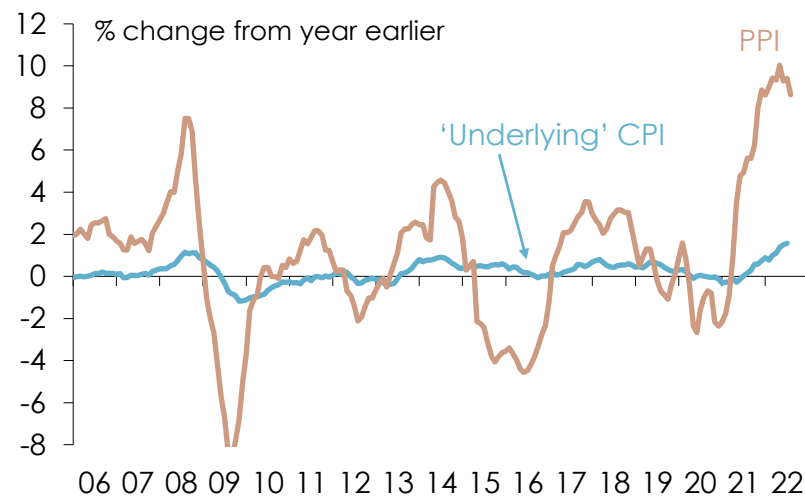
Euro area



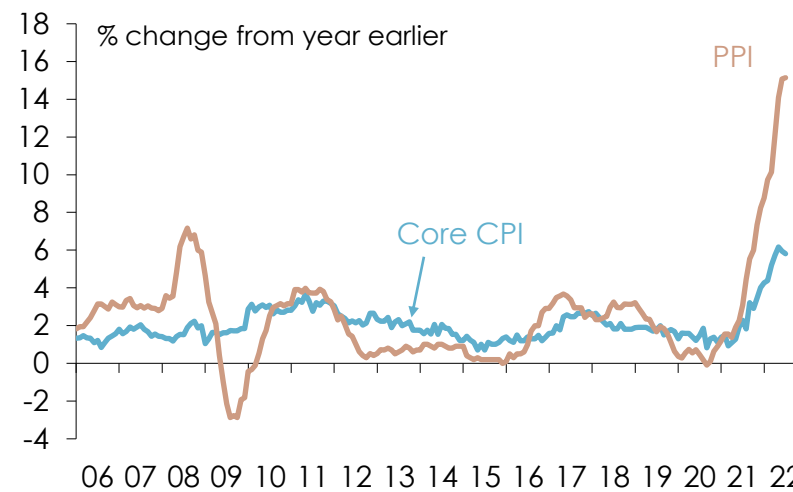
Canada



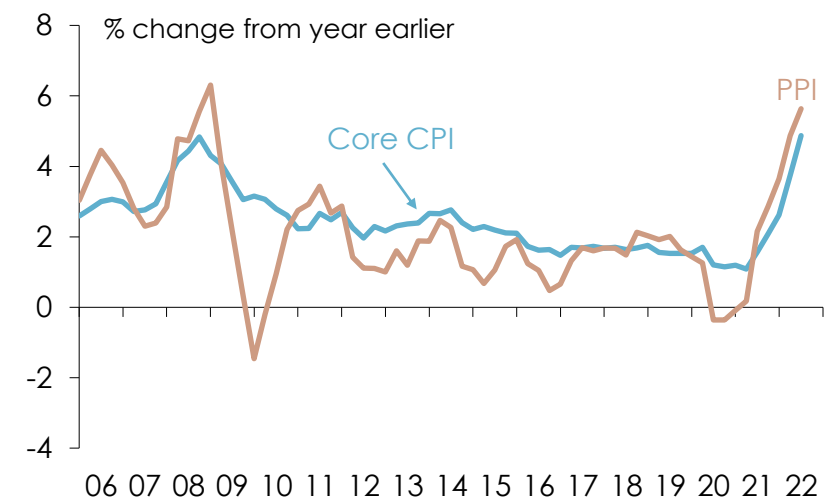
Japan



United Kingdom



Australia

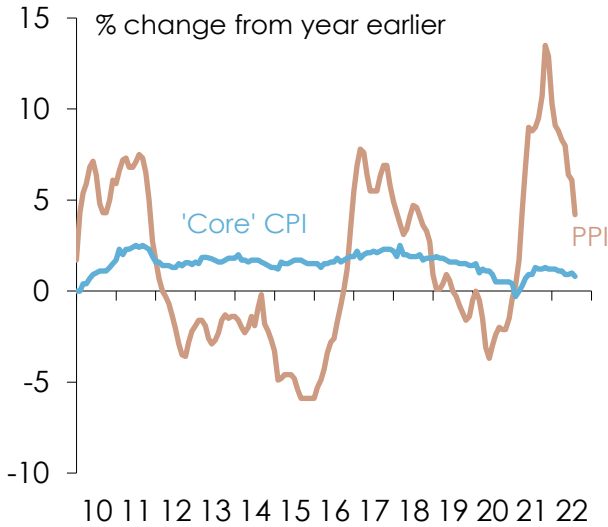


For a more detailed analysis of recent US inflation data see [slides 51-54](#). Sources: [US Bureau of Labor Statistics](#); [Statistics Bureau of Japan](#) and [Bank of Japan](#); [Eurostat](#); [UK Office for National Statistics](#); [Statistics Canada](#); [Australian Bureau of Statistics](#). [Return to "What's New"](#).

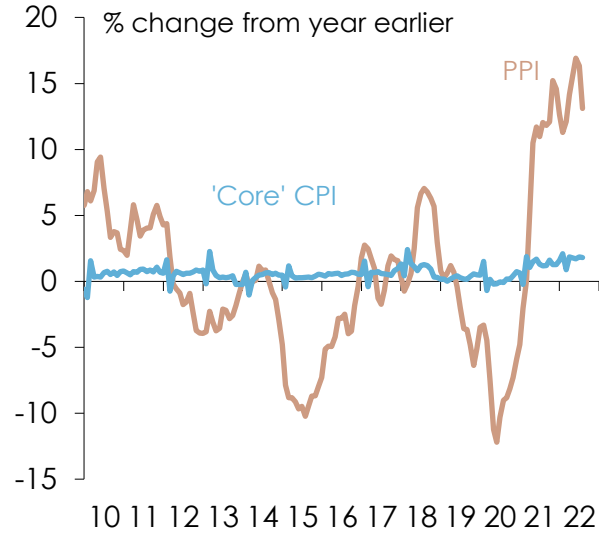
Most Asian economies have been experiencing rapid 'upstream' inflation for some time, and 'core' consumer price inflation is now starting to pick up

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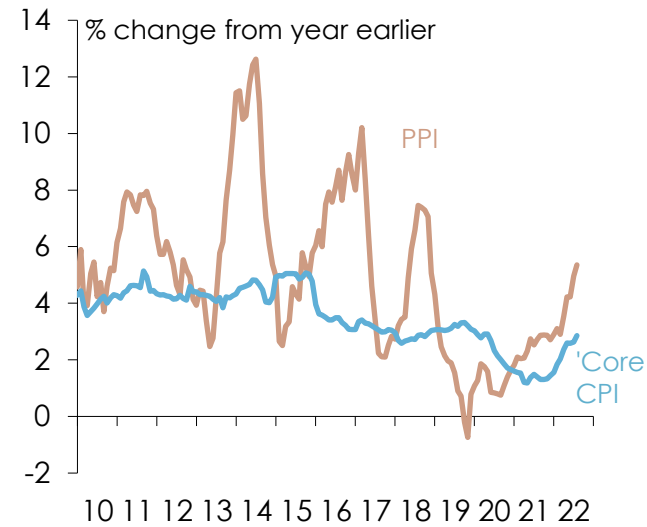
China



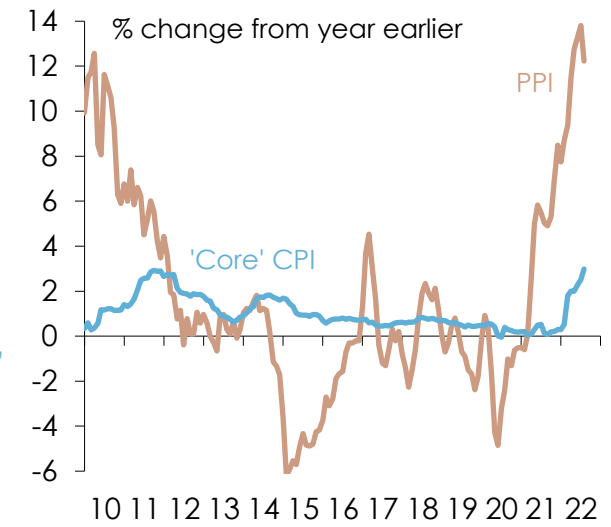
Taiwan



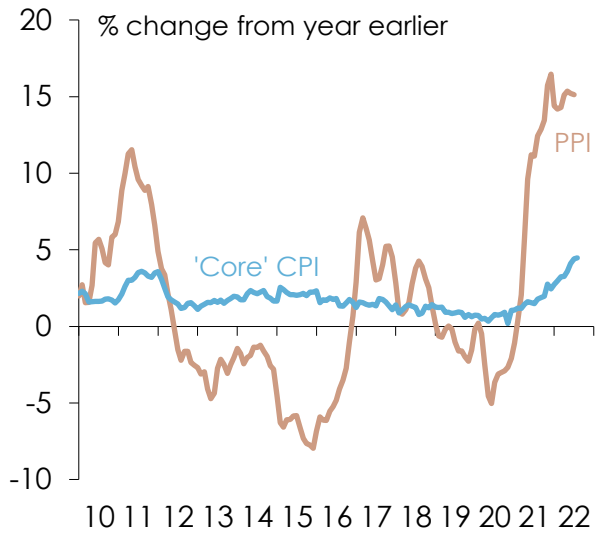
Indonesia



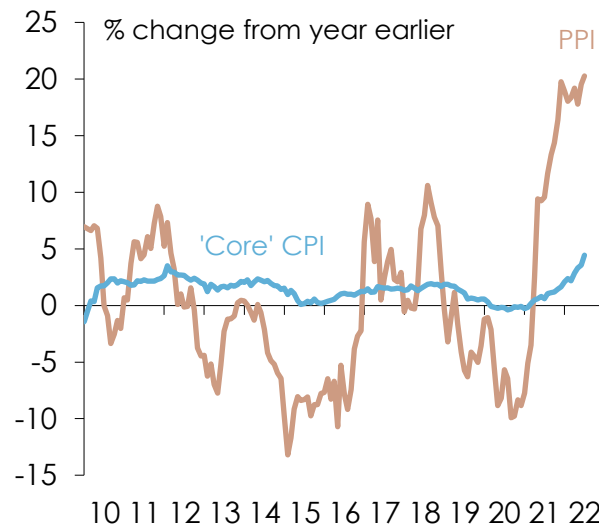
Thailand



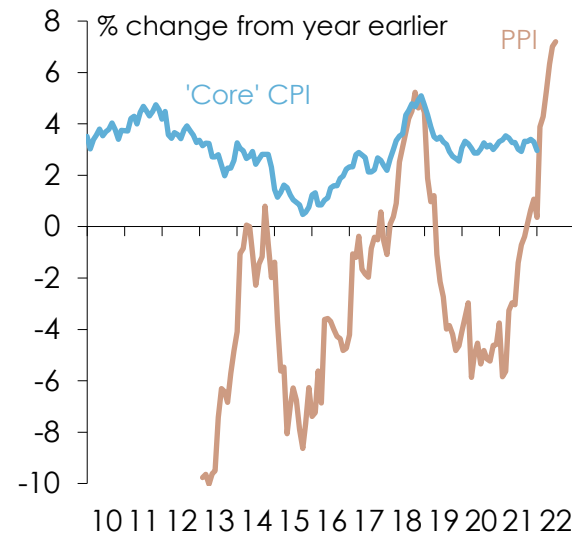
Korea



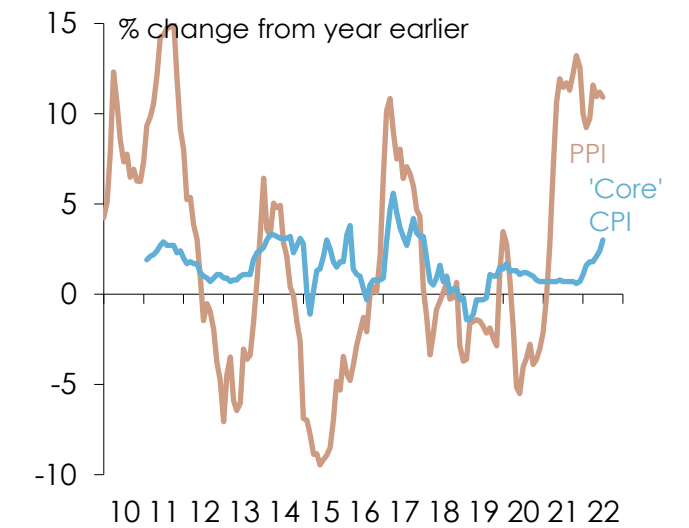
Singapore



Philippines



Malaysia

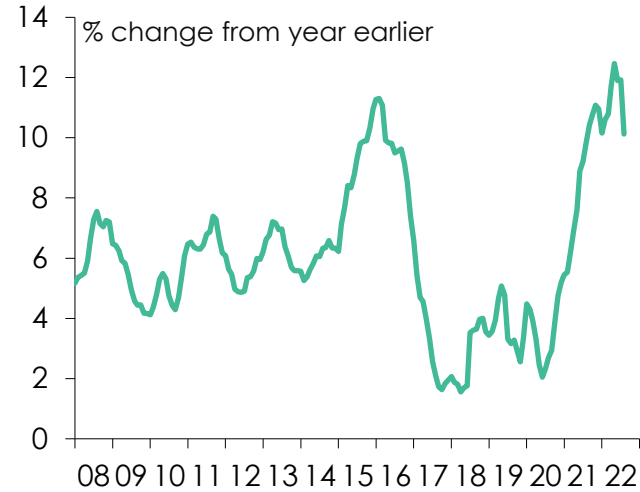


Note: 'Core' CPIs measure different things in different Asian economies – see footnotes to [slide 93](#). The Philippines hasn't published data on 'core' CPI inflation since December 2021. Sources: [China National Bureau of Statistics](#); [Statistics Korea](#); [Bank of Korea](#); [Taiwan Statistical 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"](#).

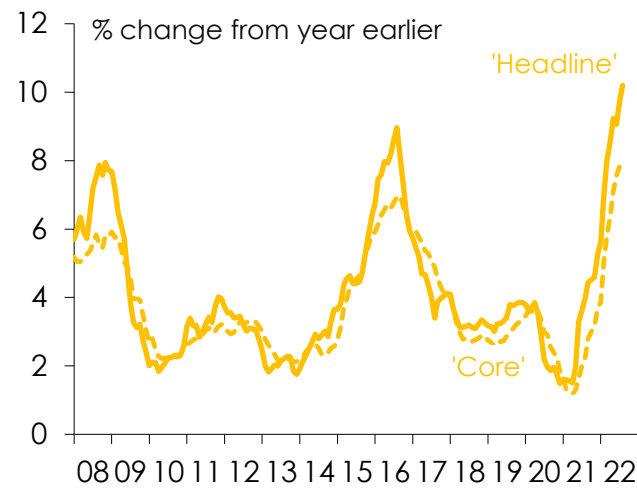
Consumer price inflation has risen sharply across Latin America – although it may perhaps have peaked in Brazil, Peru and Paraguay

THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

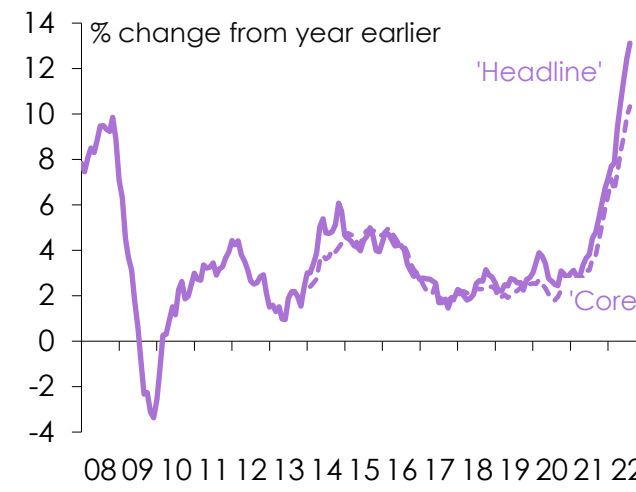
Brazil



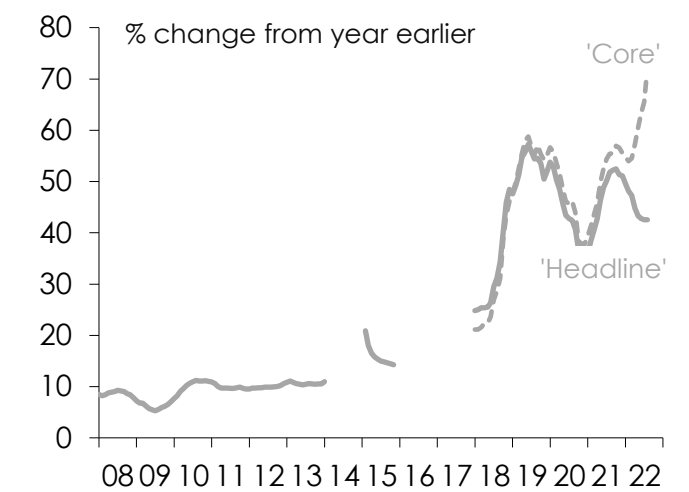
Colombia



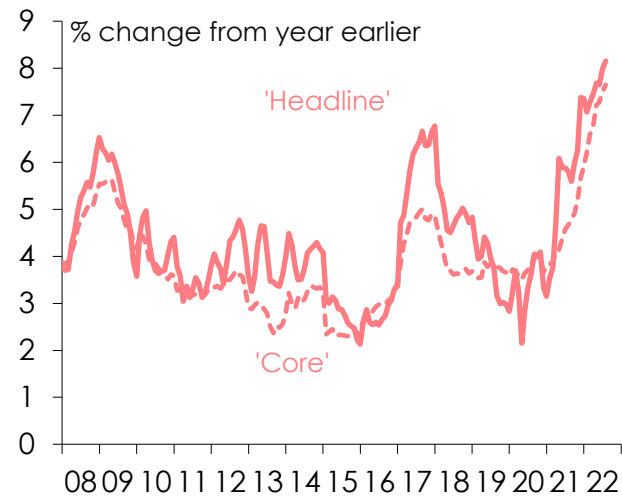
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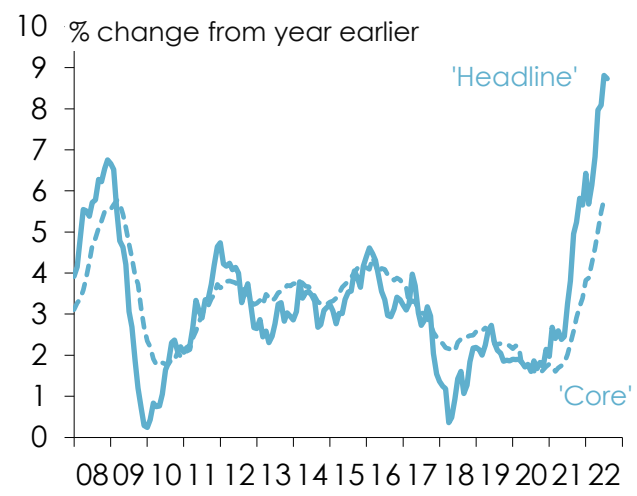
Argentina



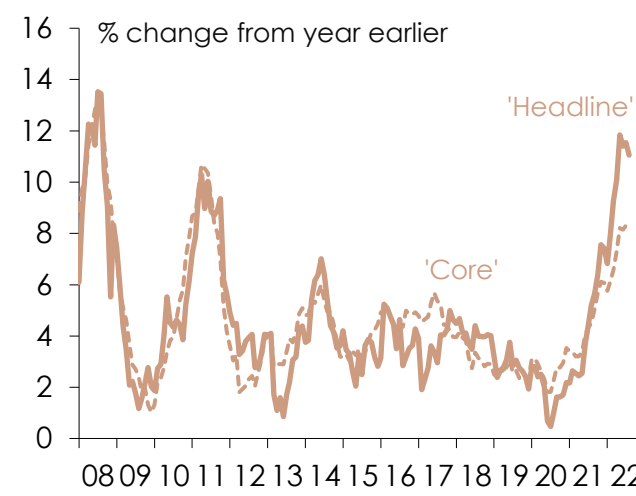
Mexico



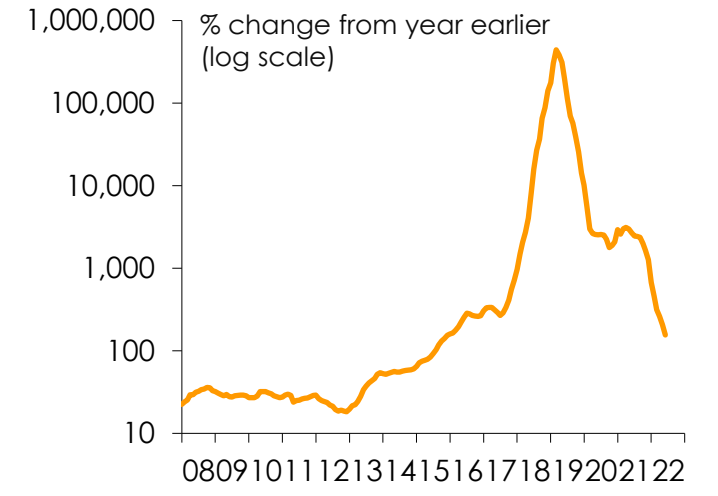
Peru



Paraguay



Venezuela

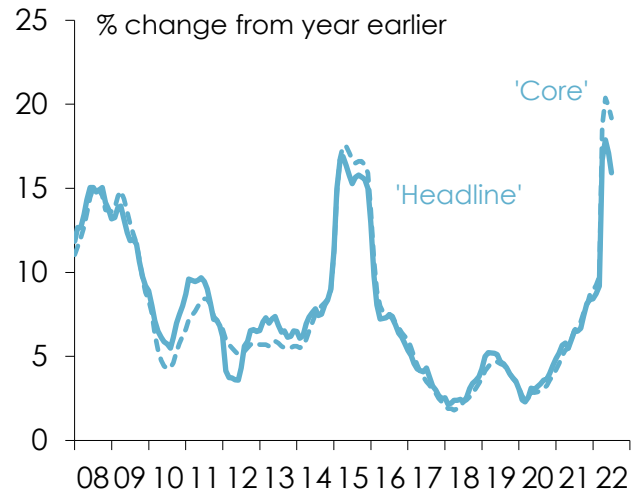


Sources: [Instituto Brasileiro de Geografia e Estatística](#); [Instituto Nacional de Estadística y Geografía](#) (Mexico); [Departamento Administrativo Nacional de Estadística](#) (Colombia); [Instituto Nacional de Estadística e Informática](#) (Peru); [Instituto Nacional de Estadísticas](#) (Chile);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

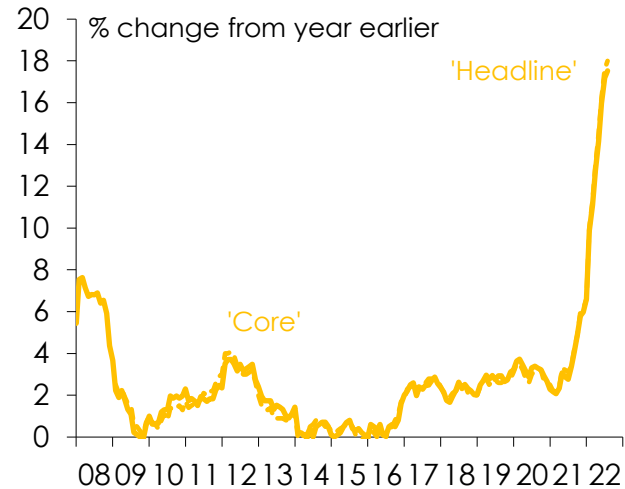
Consumer price inflation is also rising across Central and Eastern Europe, and in South Africa

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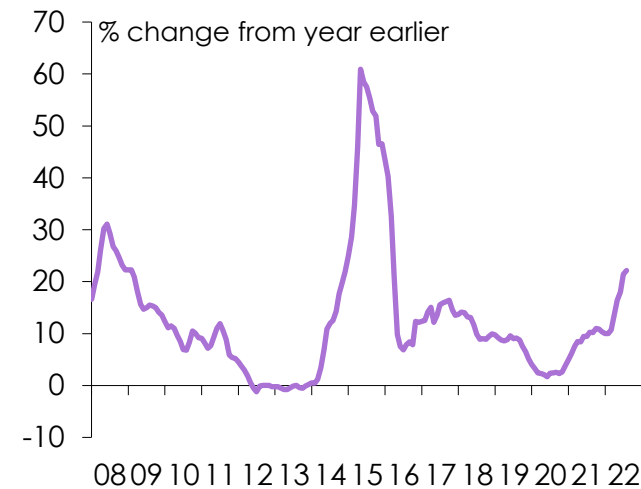
Russia



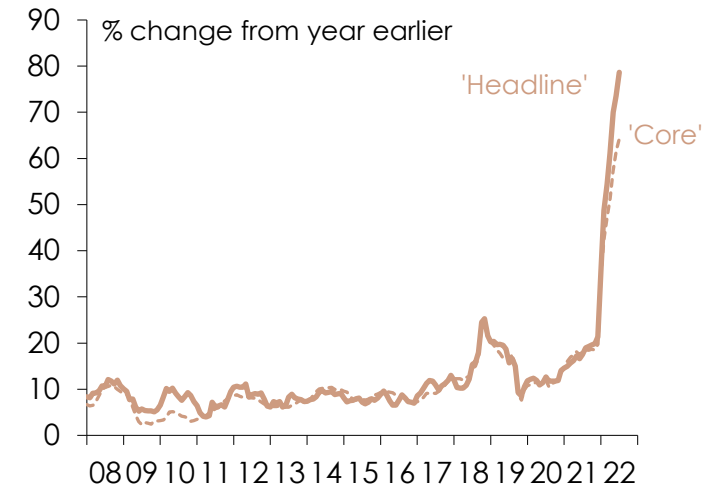
Czech Republic



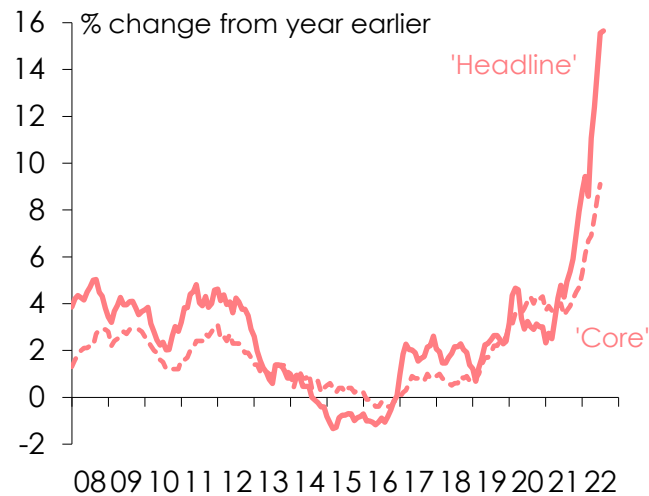
Ukraine



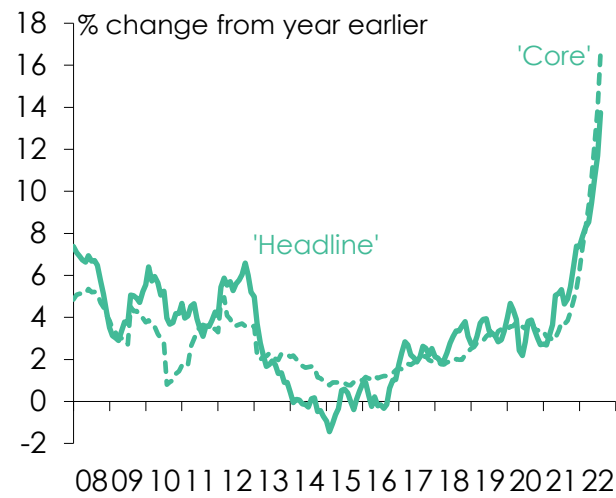
Turkey



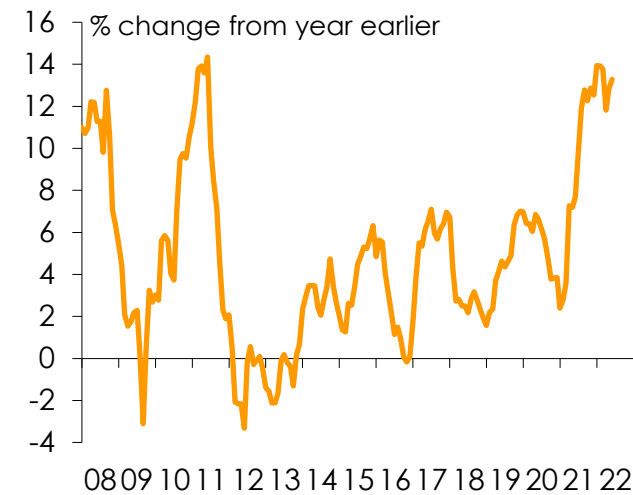
Poland



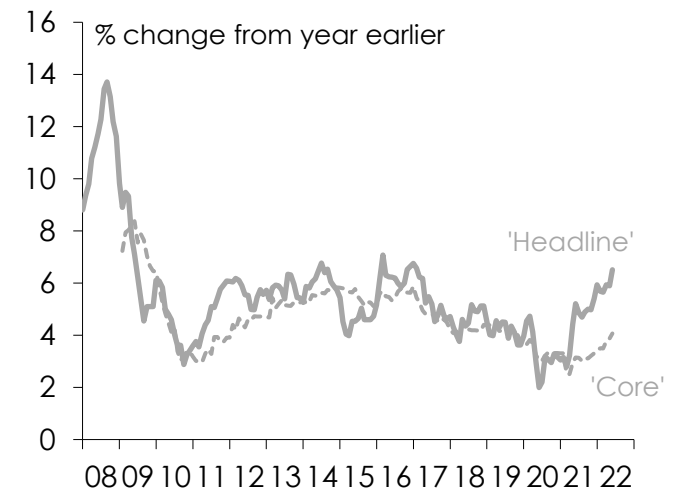
Hungary



Georgia



South Africa

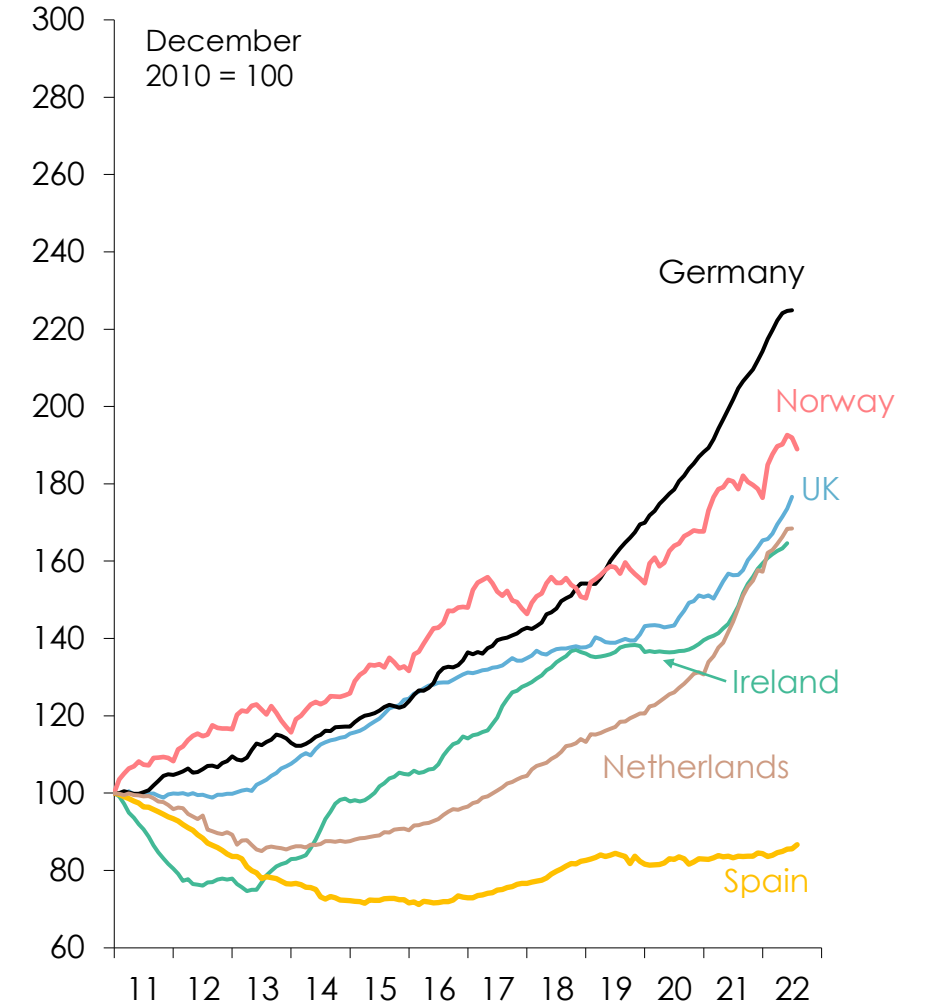
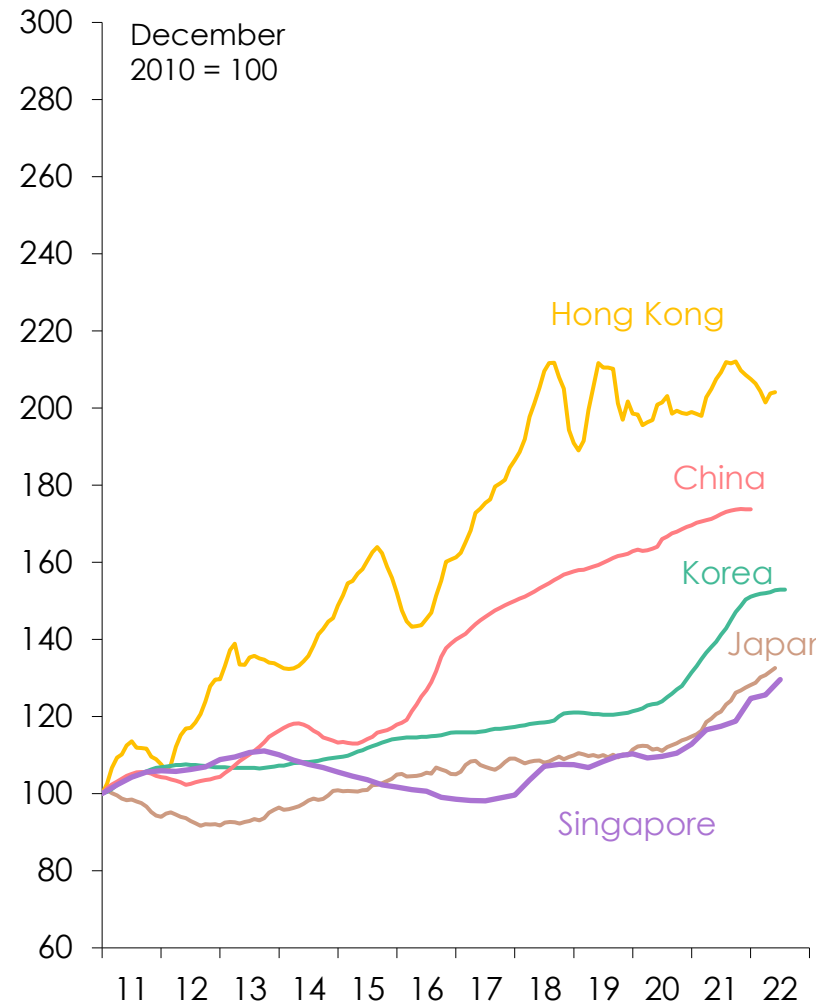
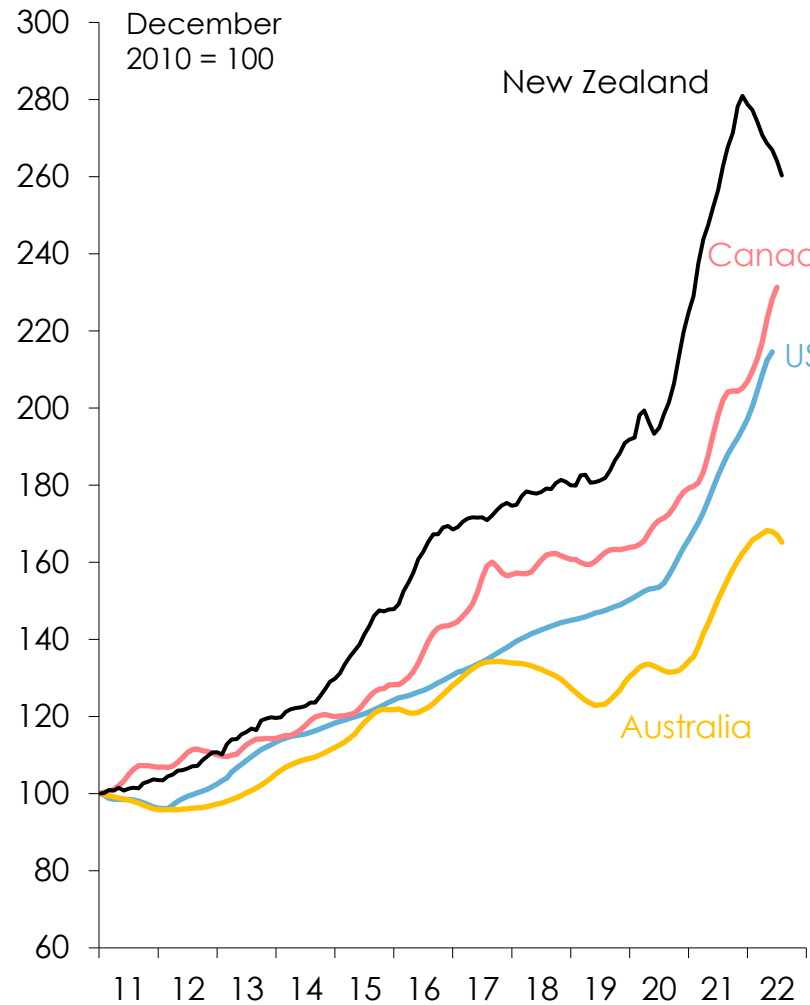


Sources: [Rosstat](#); [Główny Urząd Statystyczny](#) (Poland); [Český statistický úřad](#) (Czech Republic); [Központi Statisztikai Hivatal](#) (Hungary); [Ukrstat](#); [Sak'art'velos statistikis erovnuji samsakhuri](#) (Georgia); [Turkstat](#); [Statistics South Africa](#). Return to "What's New".

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

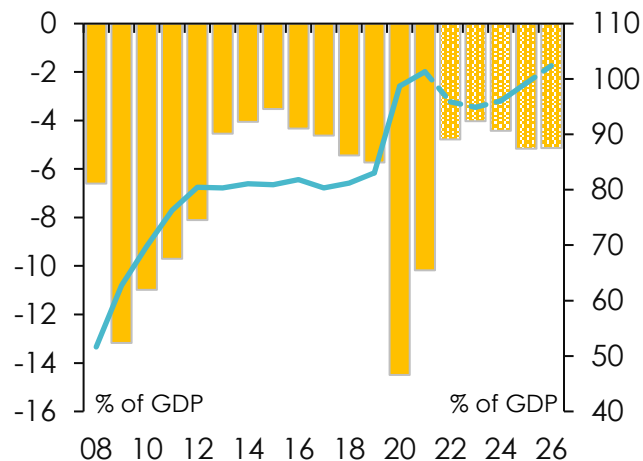


Note: House price indices shown in these charts are those published by [S&P-CoreLogic Case Shiller national](#) (United States); [Teranet-National Bank](#) (Canada); [CoreLogic](#) (Australia); [Real Estate Institute of New Zealand](#); [China Index Academy](#); [Japan Real Estate Institute](#) (Tokyo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

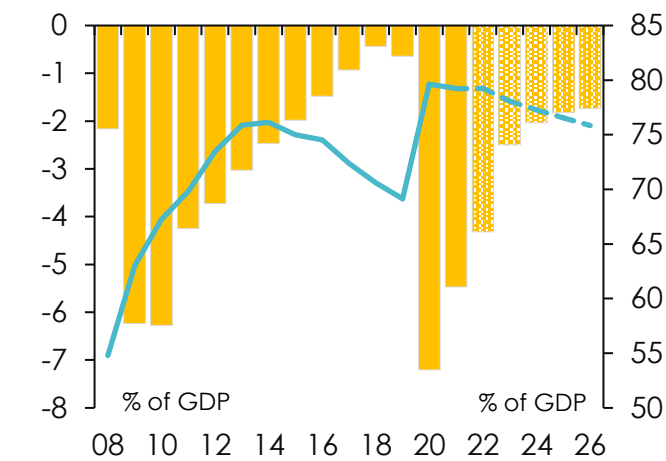
Fiscal policy is set to be tightened significantly in 2022 in most major economies except Japan, China and India

THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

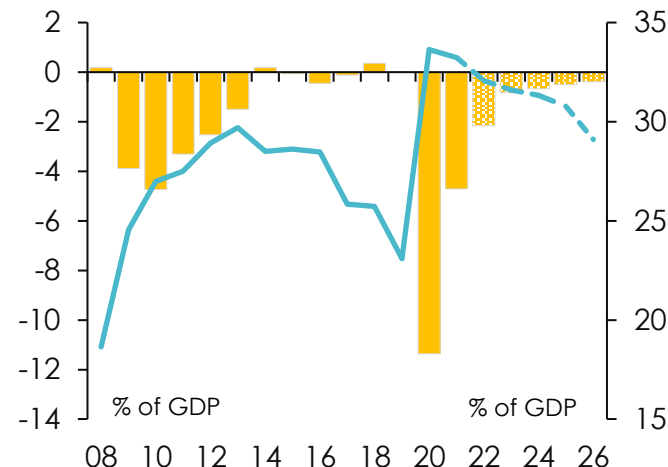
United States



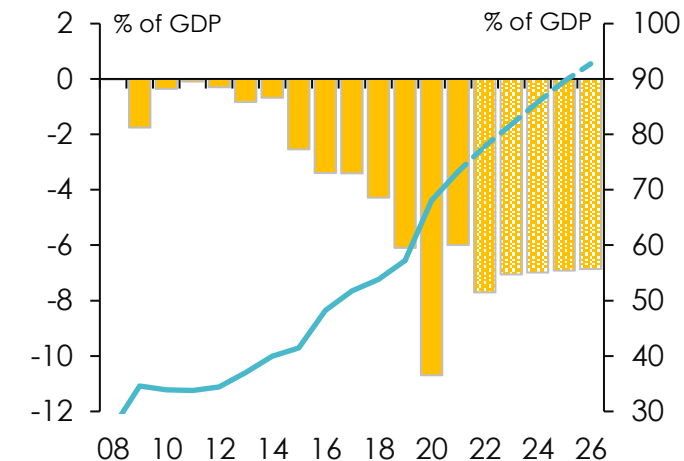
Euro area



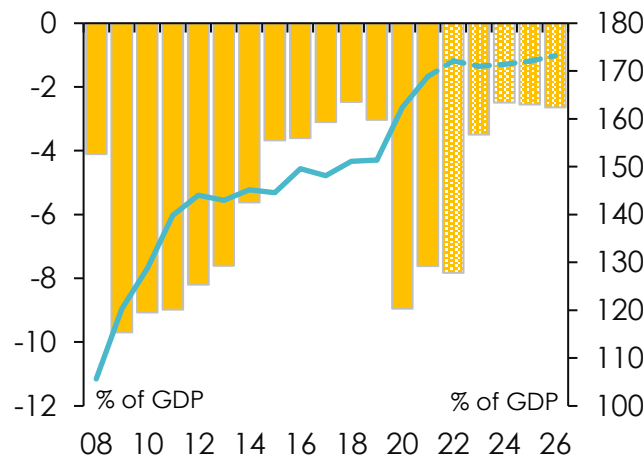
Canada



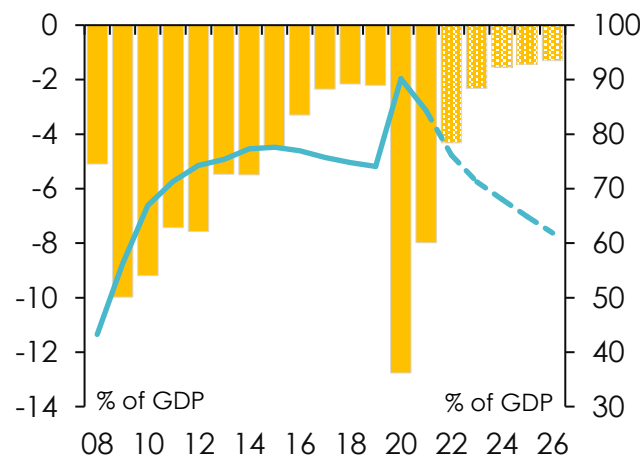
China



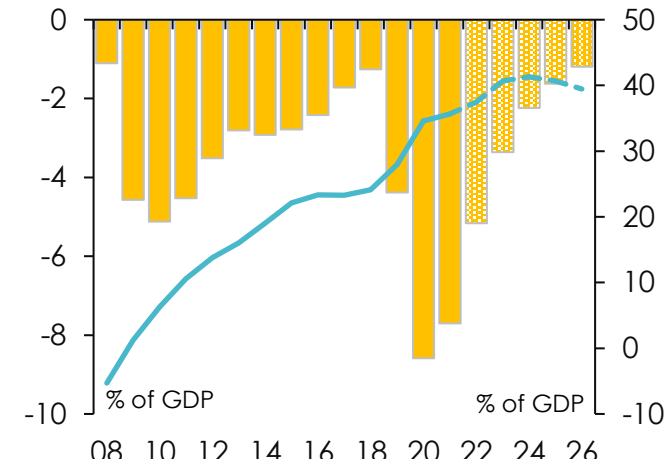
Japan



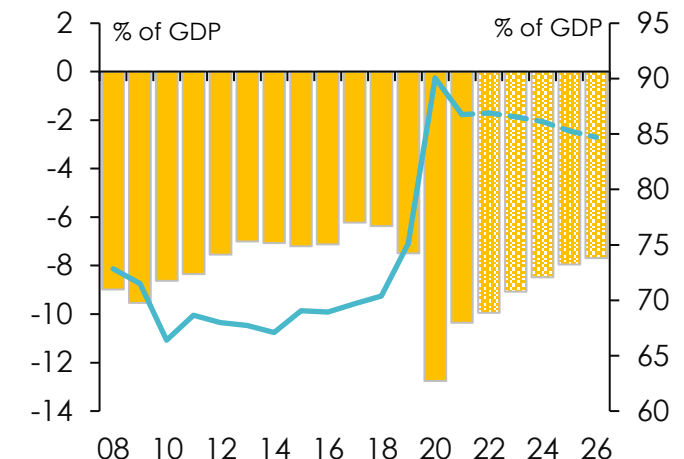
United Kingdom



Australia



India



General government overall fiscal balance (left scale)

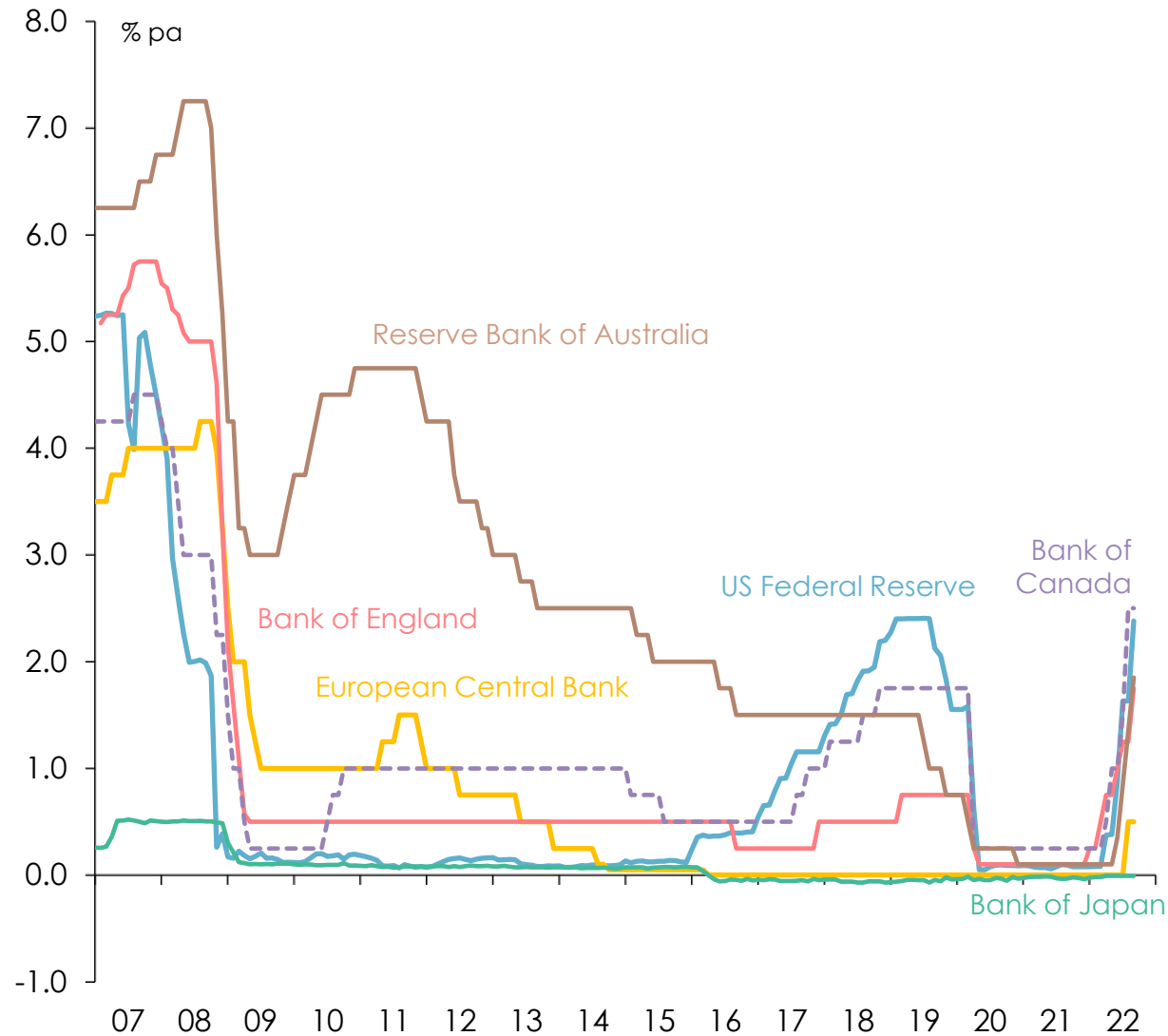


General government net debt (right scale)

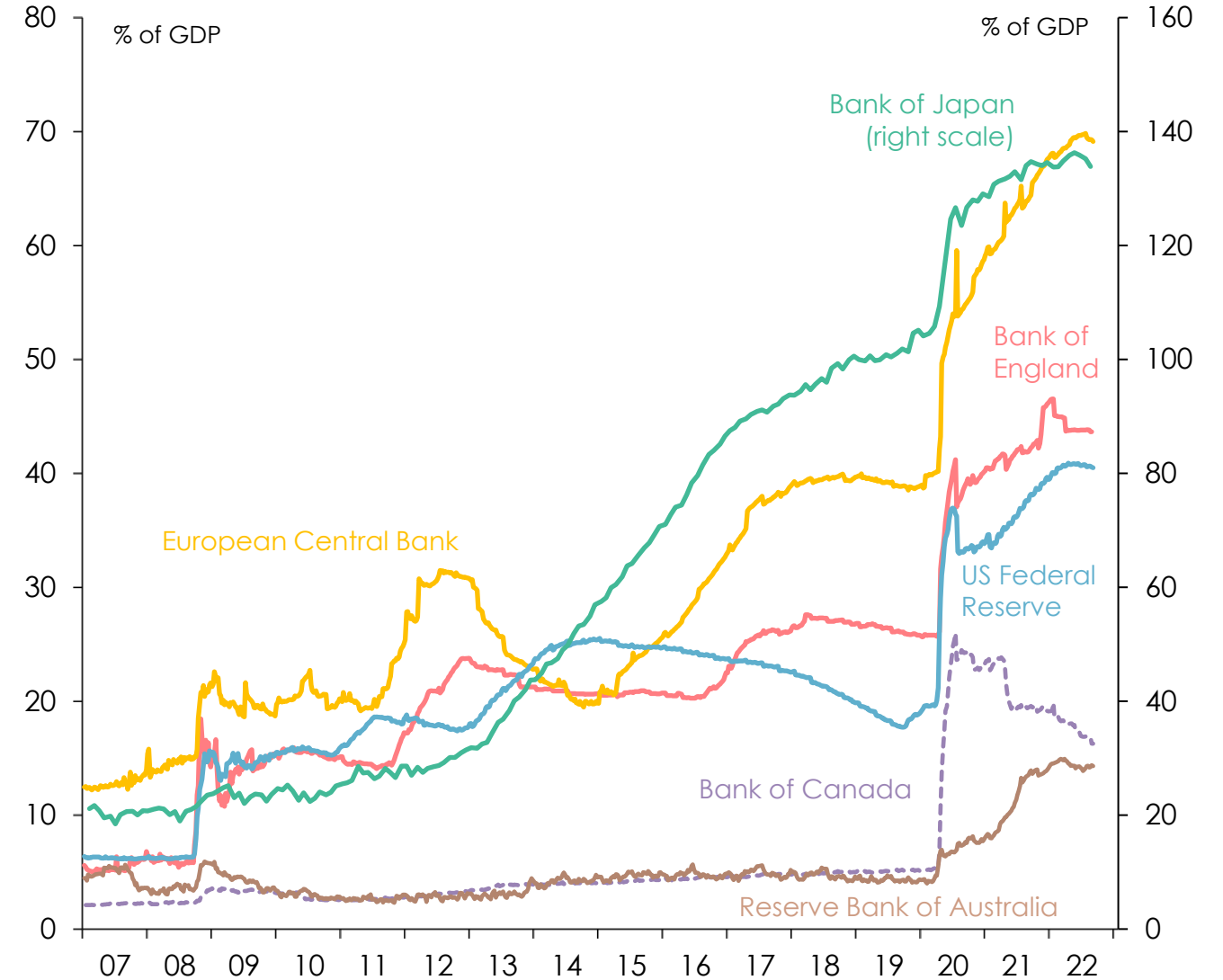
Every major 'advanced' economy central bank, apart from Japan's, is now tightening monetary policy

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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?

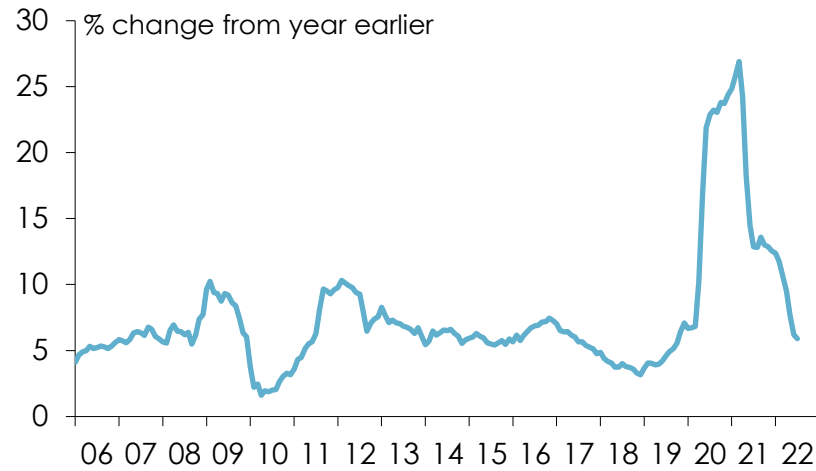
THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

- ❑ 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 24th June

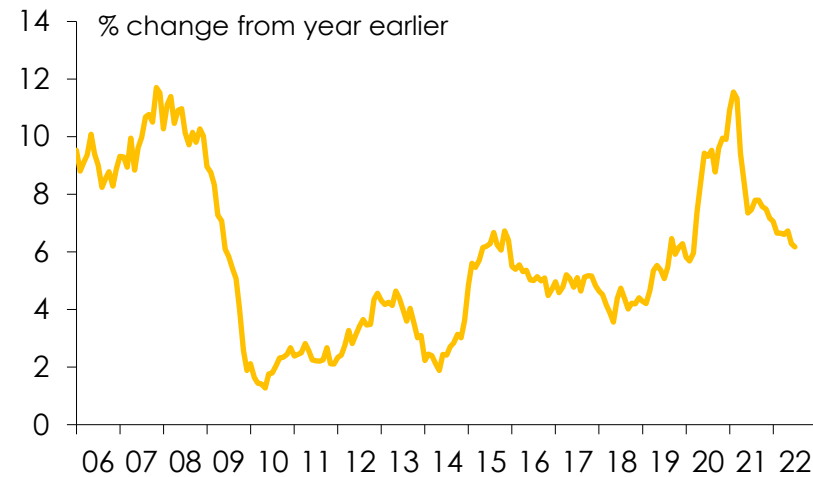
Money supply growth has slowed sharply from the peaks recorded in the first half of 2021 as large monthly increases in 2020 'wash out'

THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

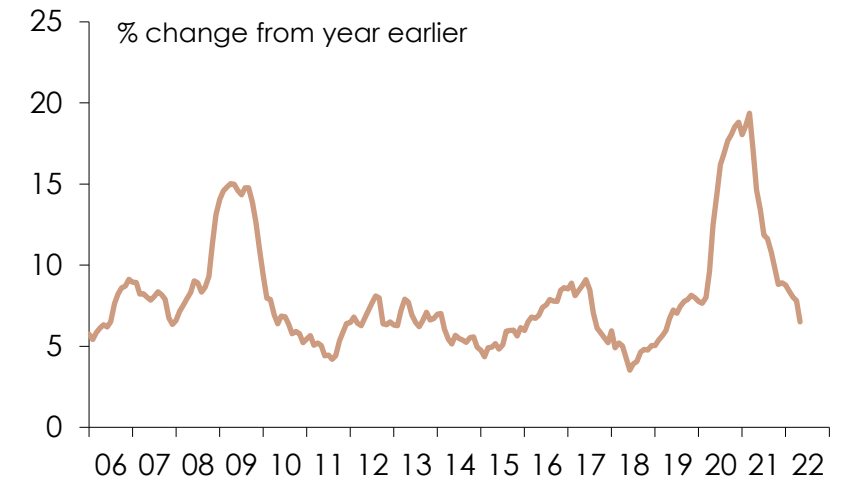
US M2



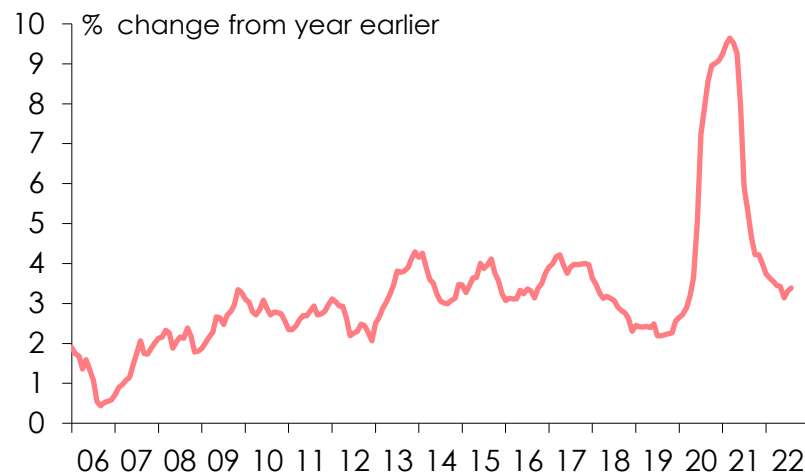
Euro area M2



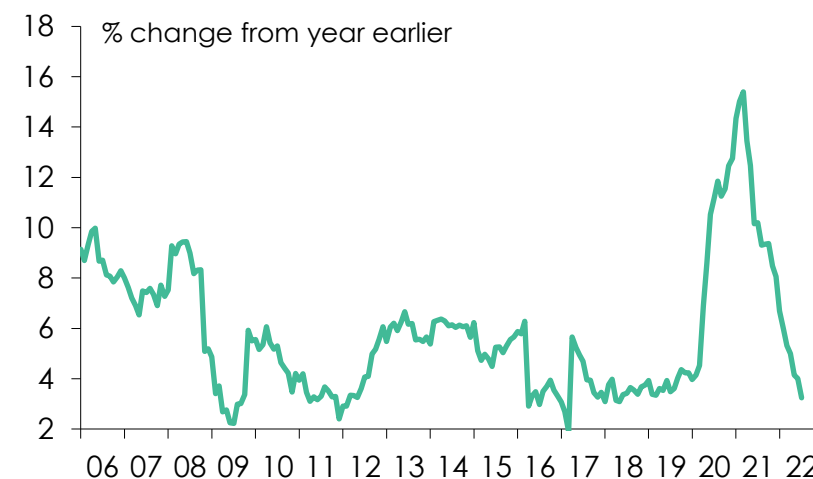
Canada M2



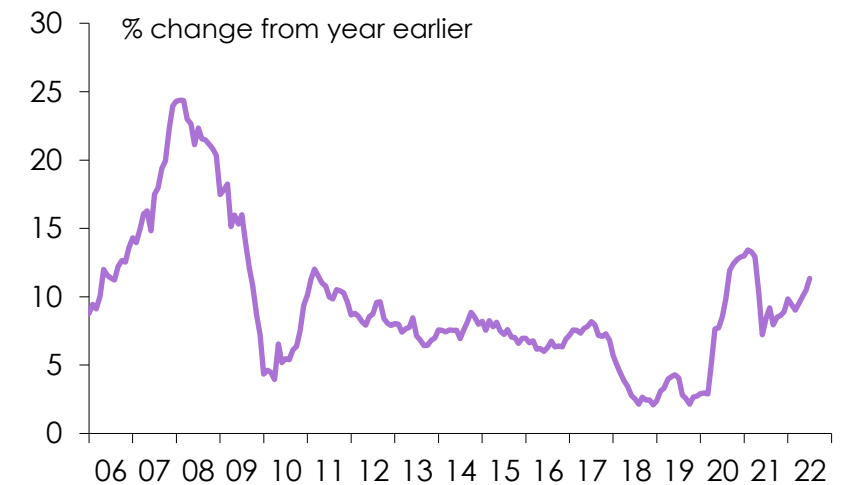
Japan M2 + CDs



UK M2



Australia M3

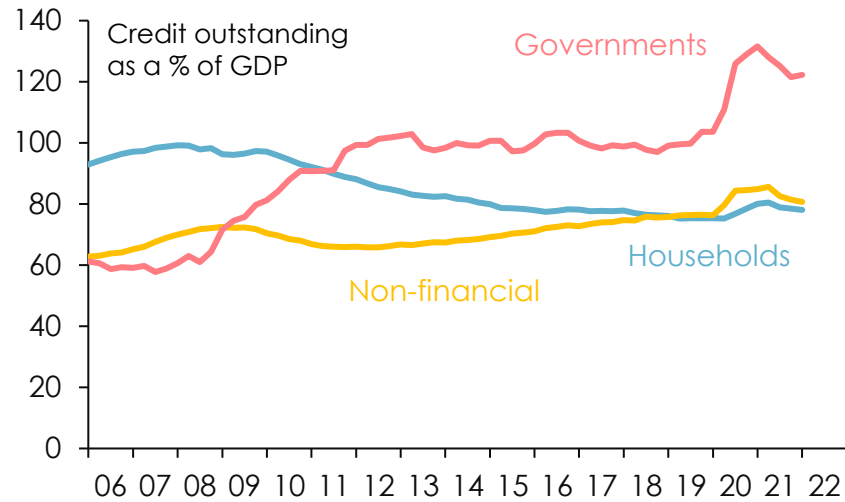


Sources: [US Federal Reserve](#); [Bank of Japan](#); [European Central Bank](#); [Bank of England](#); [Bank of Canada](#); [Reserve Bank of Australia](#).

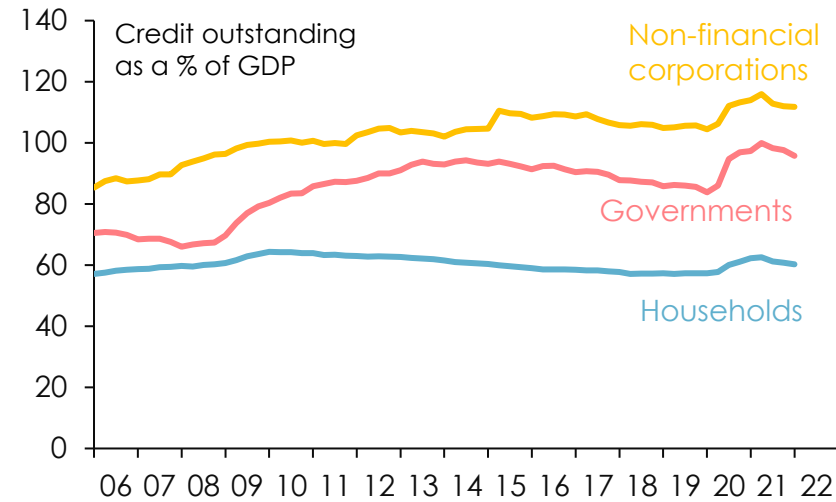
Japanese, US and UK governments, Canadian corporations and Australian households appear most exposed to increases in interest rates

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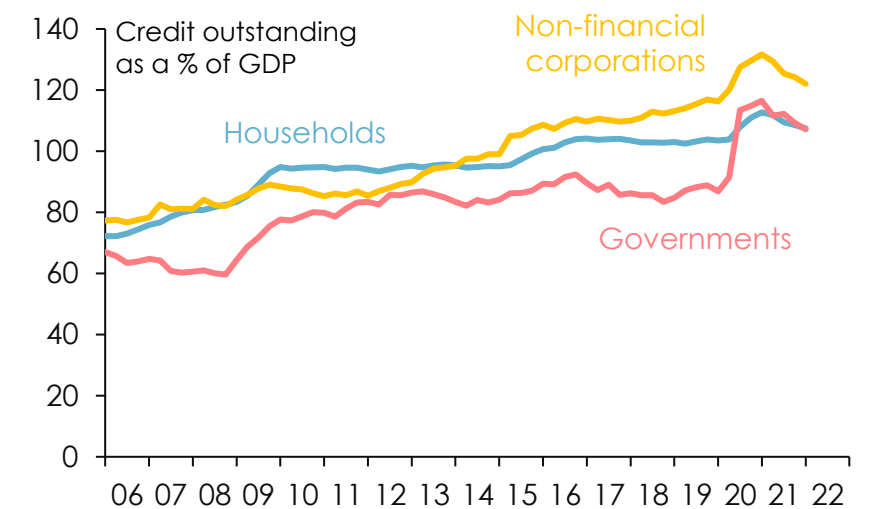
US



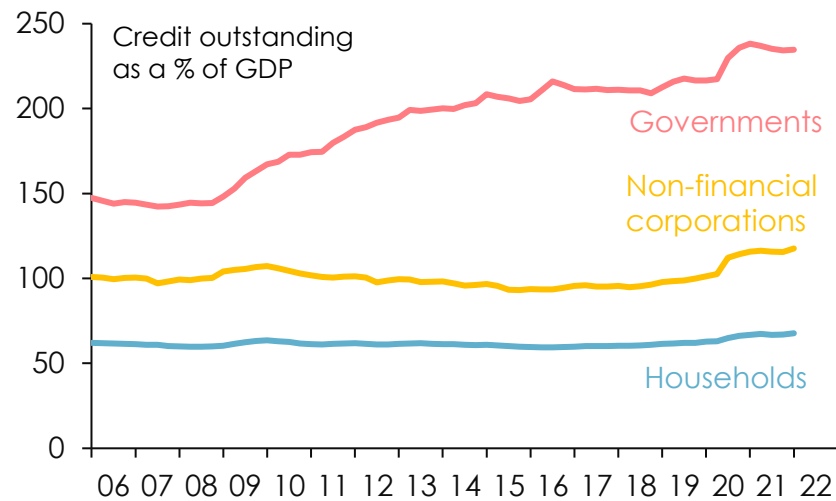
Euro area



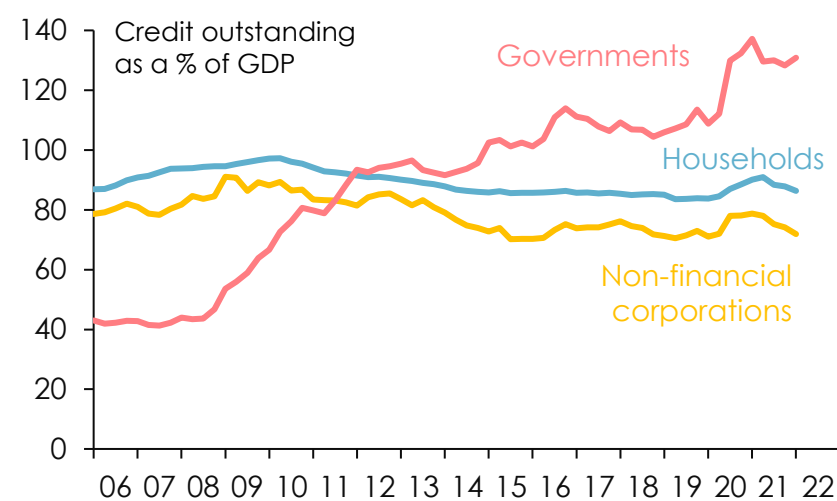
Canada



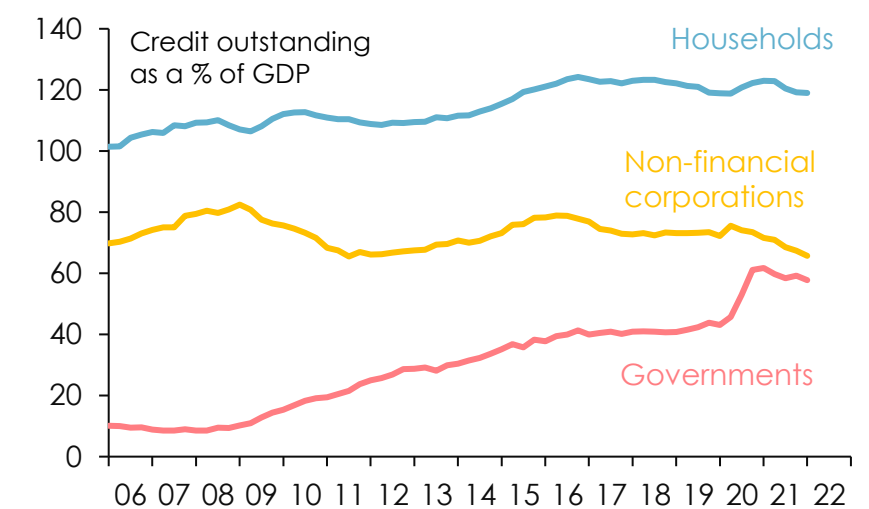
Japan



UK



Australia

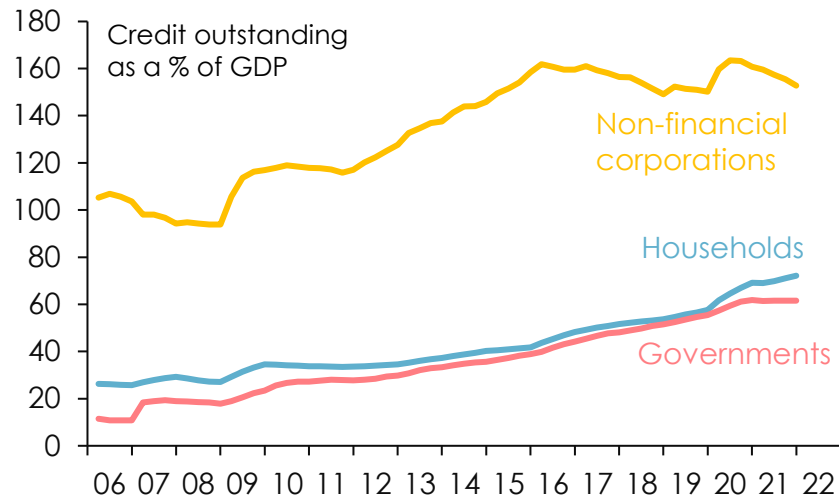


Source: Bank for International Settlements, [Credit Statistics](#); latest data are for Q4 2021, Q1 2022 data will be released in mid-September. [Return to "What's New"](#).

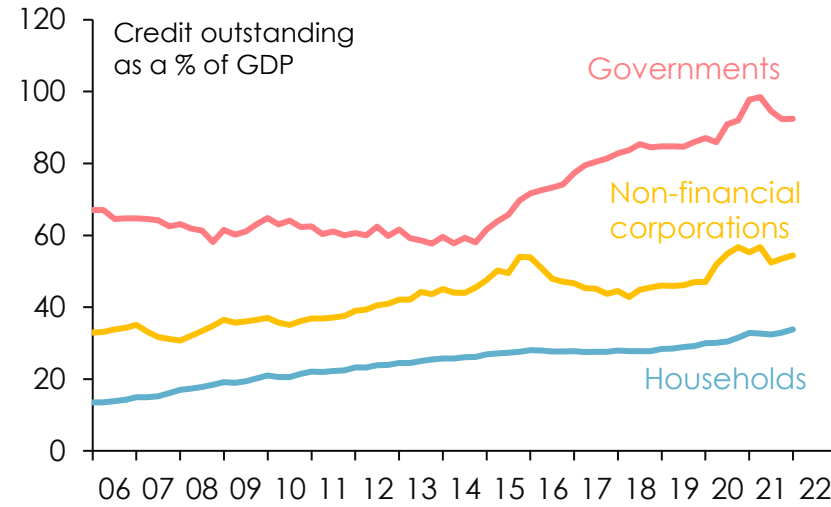
In major 'developing' economies it's usually governments that are most exposed to rising interest rates – except for China, Russia and Turkey

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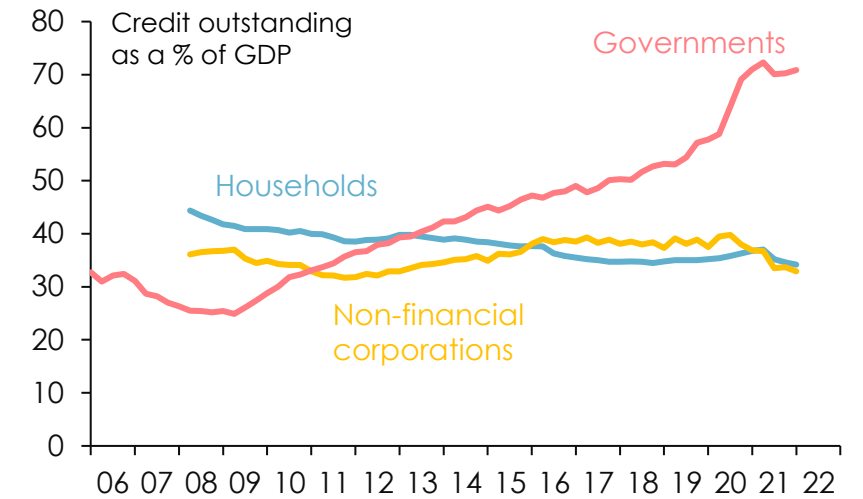
China



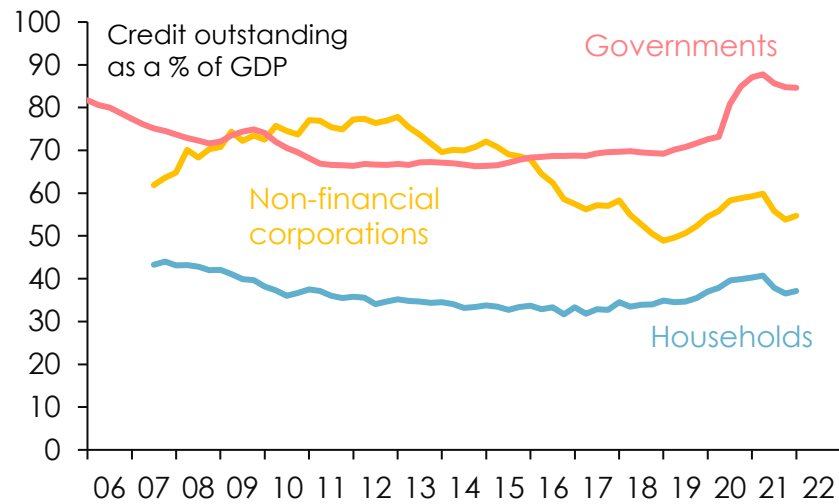
Brazil



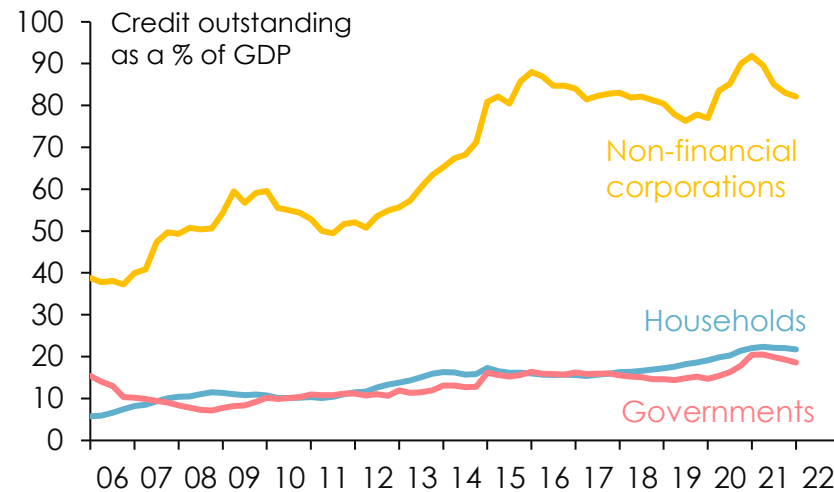
South Africa



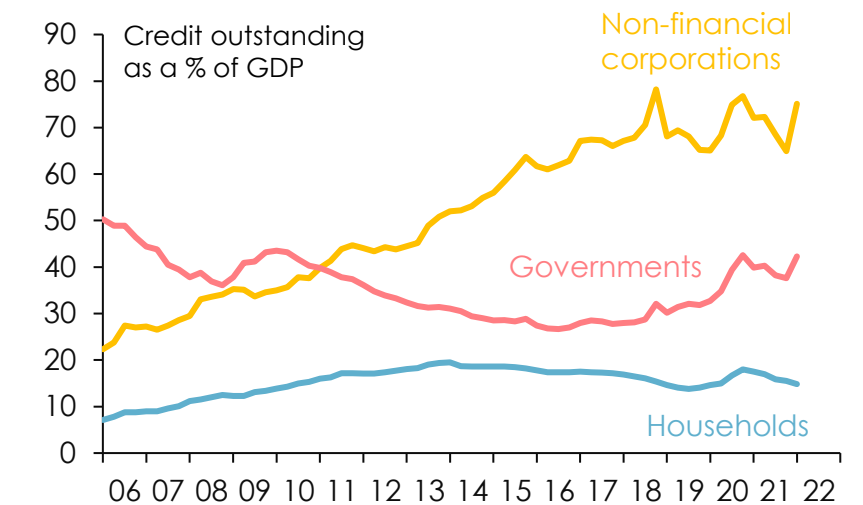
India



Russia



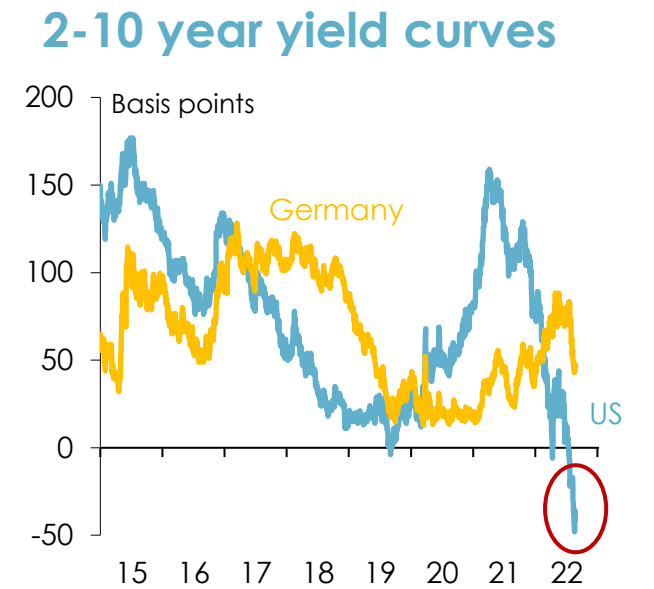
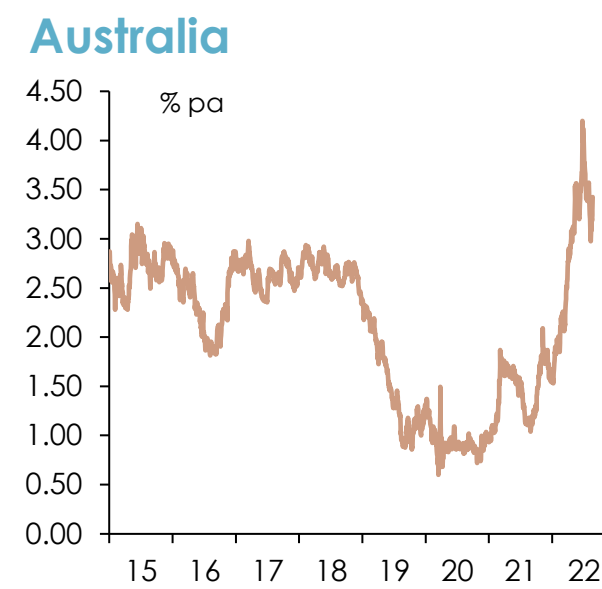
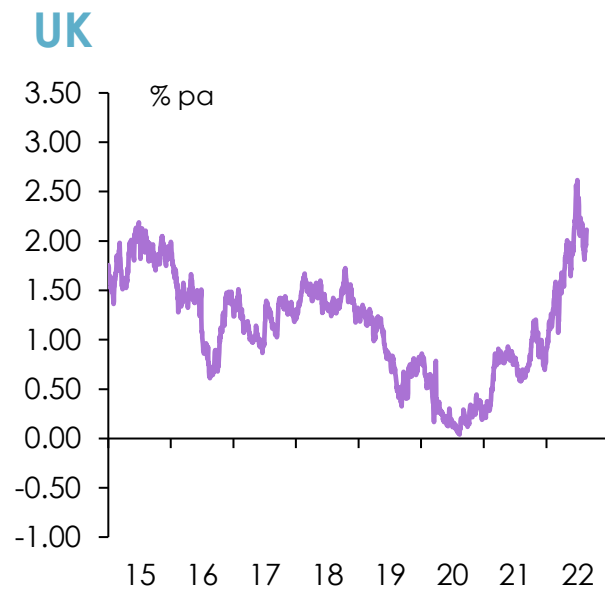
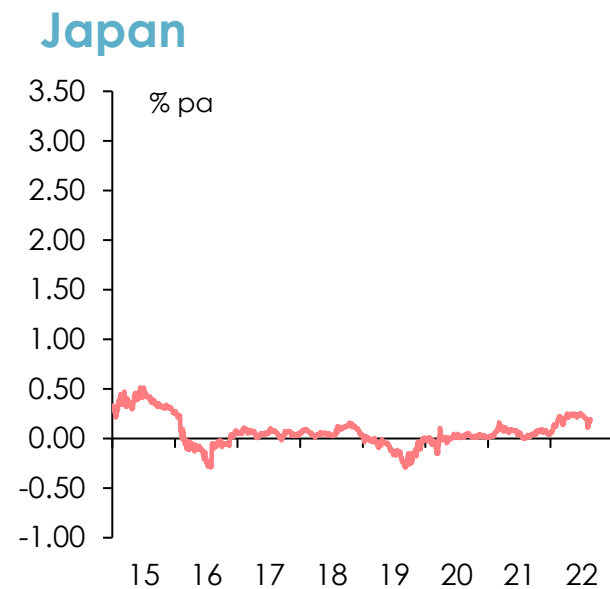
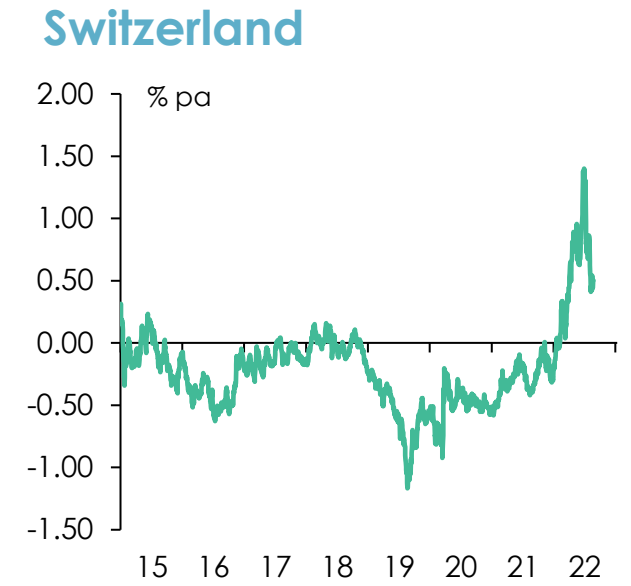
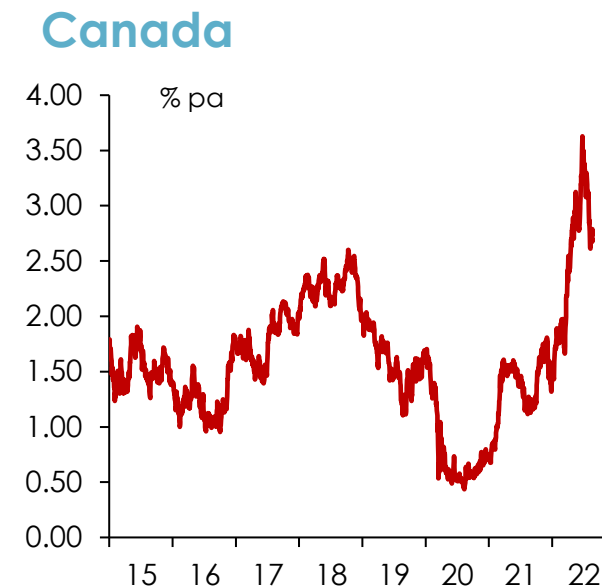
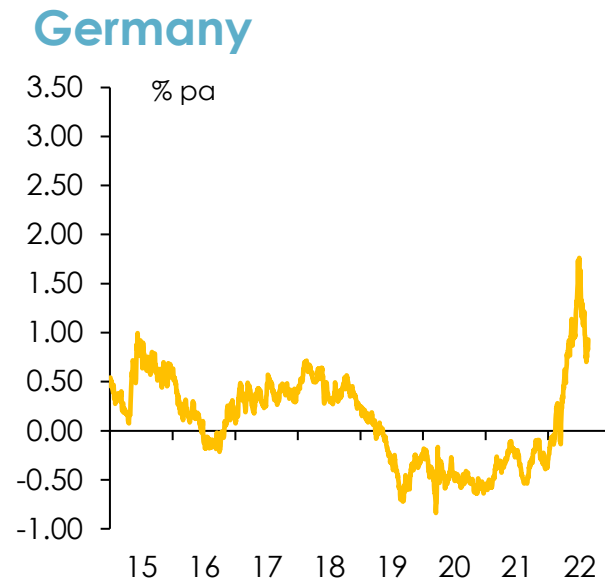
Turkey



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

10-year bond yields edged higher in most advanced economies as Fed officials downplayed the significance of the better US inflation data

THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022



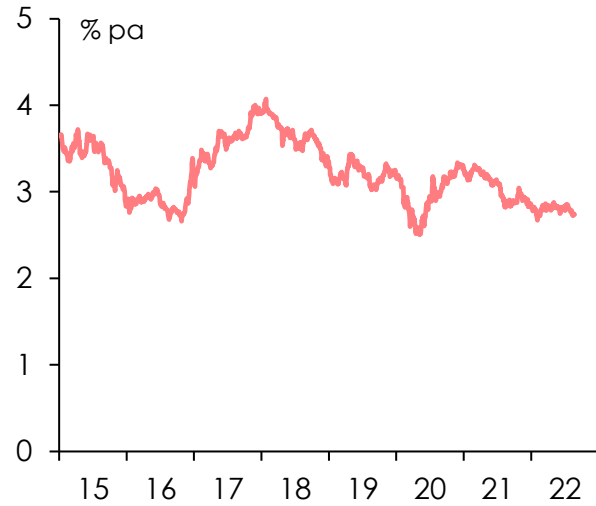
Note: Data up to 12th August. For bond yields in other large euro area member states see [slide 66](#), and for bond yields in Asian economies see [slide 101](#).

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

By contrast, 10-year bond yields continued declining in most major 'emerging' markets

THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

China



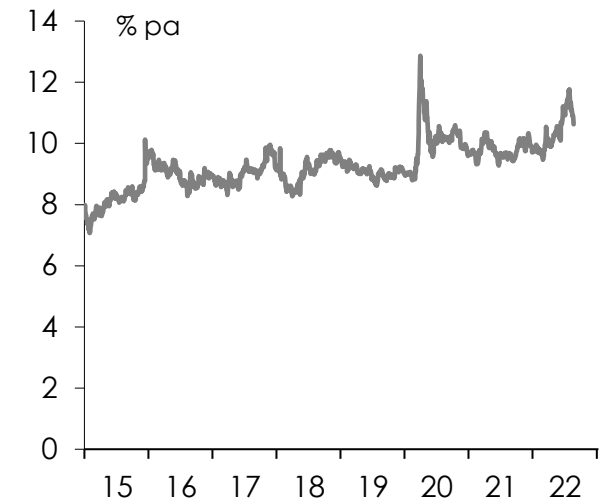
Brazil



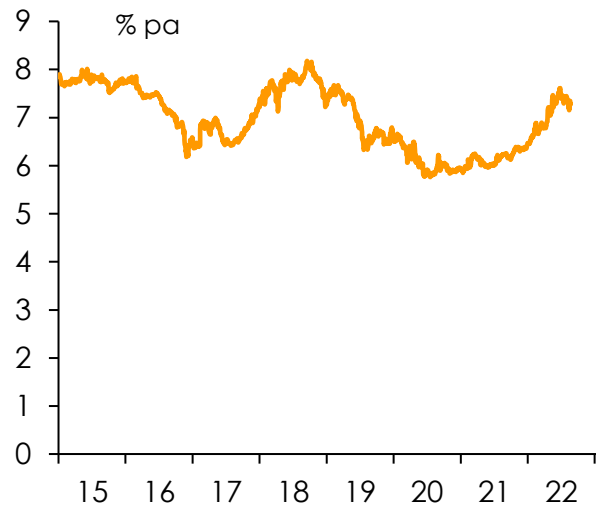
Russia



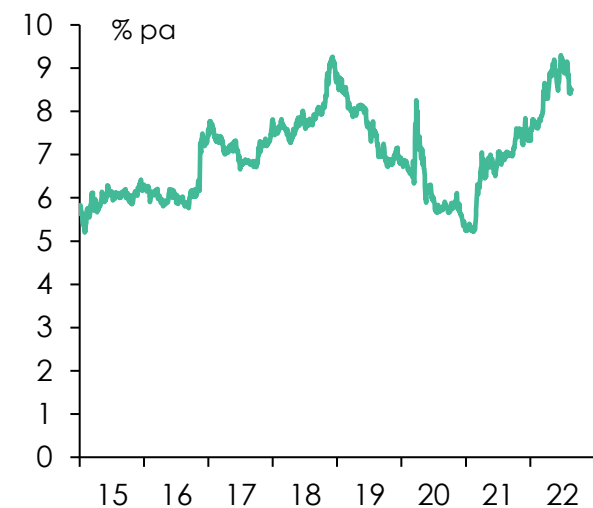
South Africa



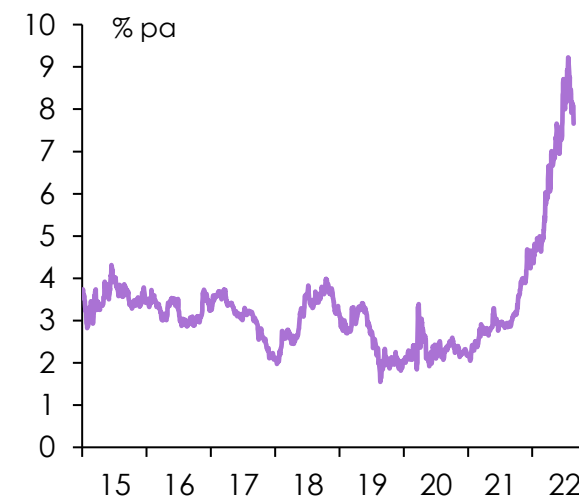
India



Mexico



Hungary



Turkey



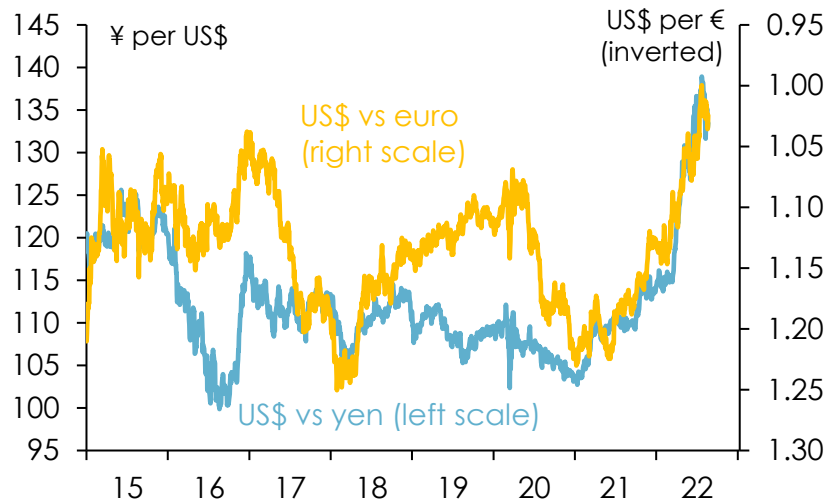
Note: Data up to 12th August. For bond yields in other Asian economies see [slide 101](#); and for policy interest rates in other emerging markets see [slide 122](#).

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

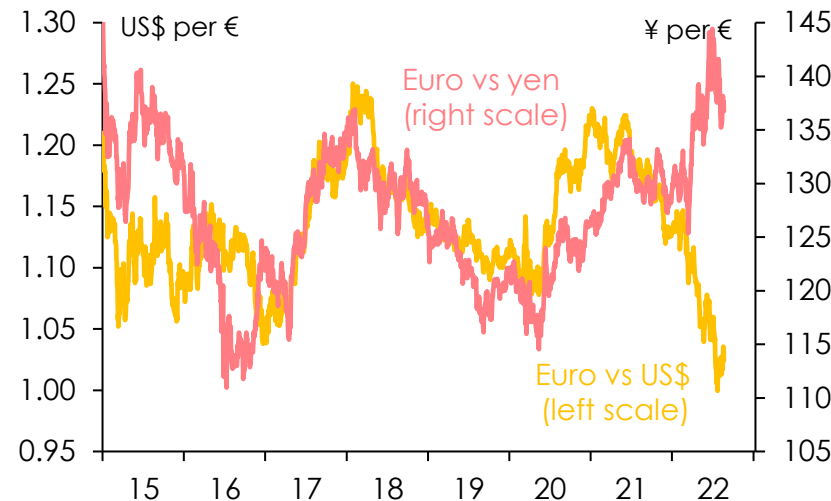
The US dollar eased back last week after the US inflation data, with the A\$, C\$ and the yen the largest beneficiaries

THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

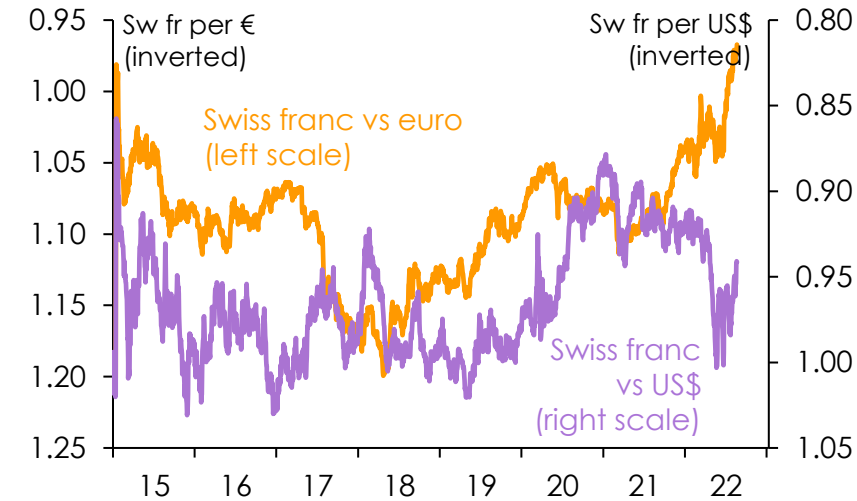
US dollar



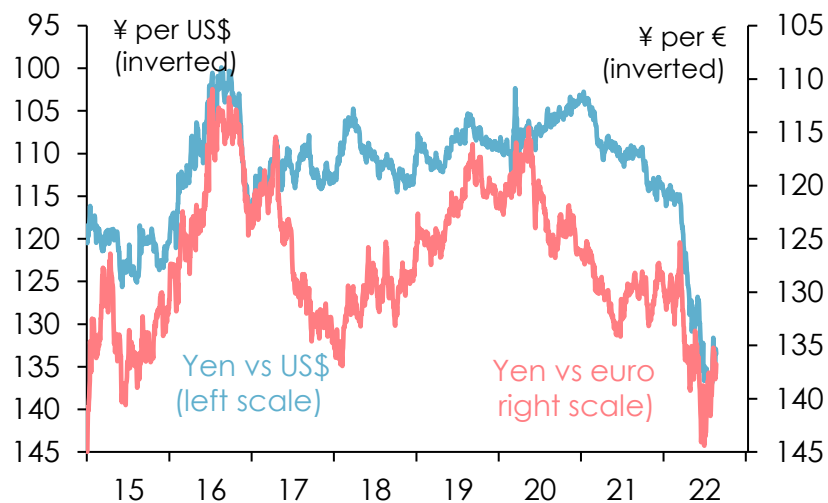
Euro



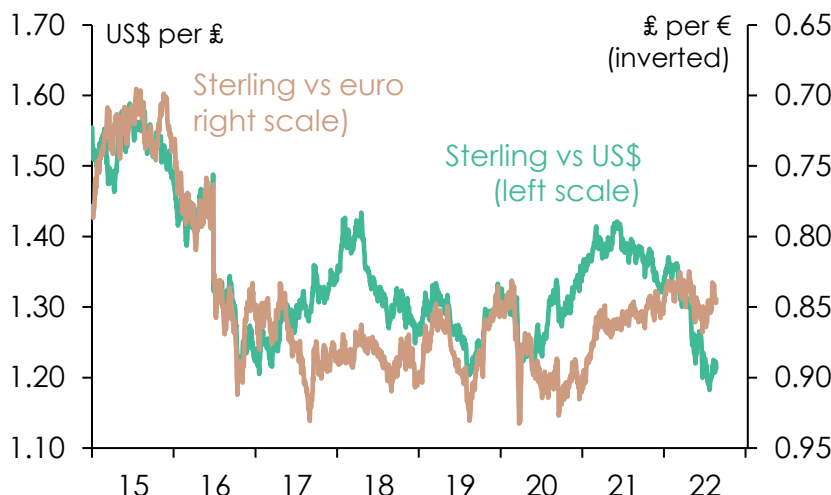
Swiss franc



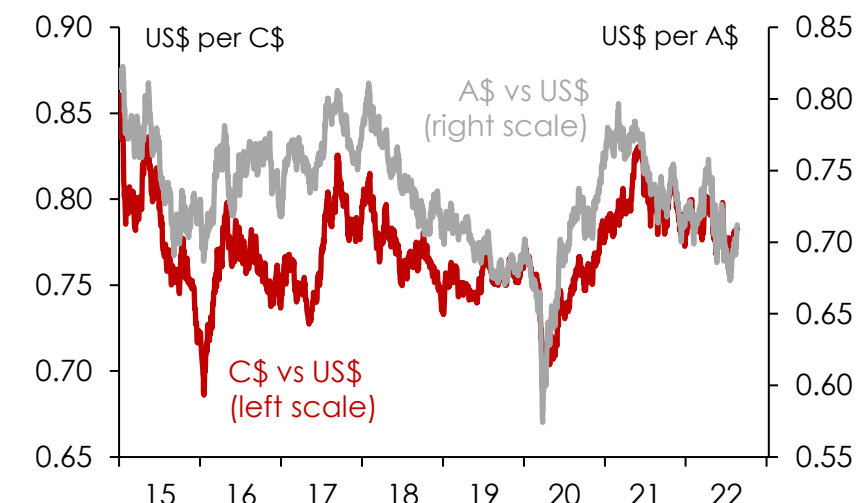
Japanese yen



Sterling



Canadian & Australian dollars

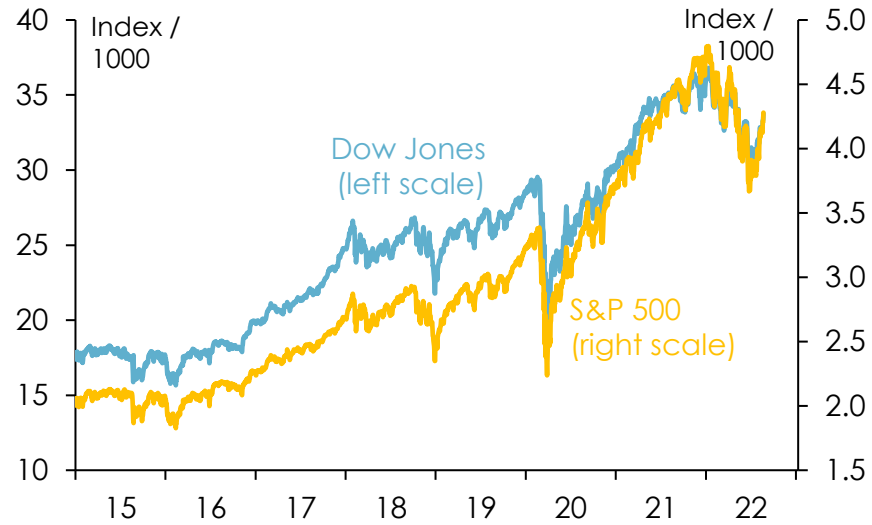


Note: Data up to 12th August. For Asian exchange rates see [slide 103](#). For details of the US July labour market report see [slide 48](#).
Source: Refinitiv Datastream. [Return to "What's New"](#).

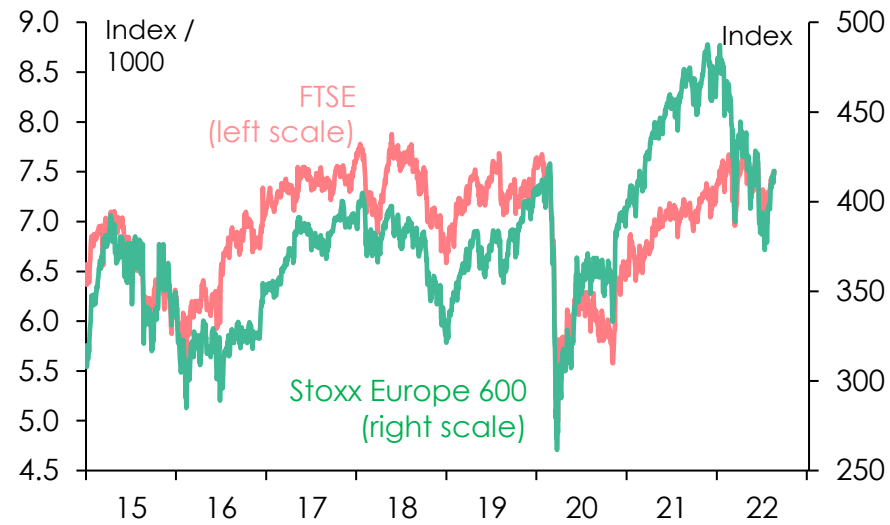
Stocks continued rising last week, buoyed by hopes that the Fed would raise rates by 50 rather than another 75 bp next month

THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

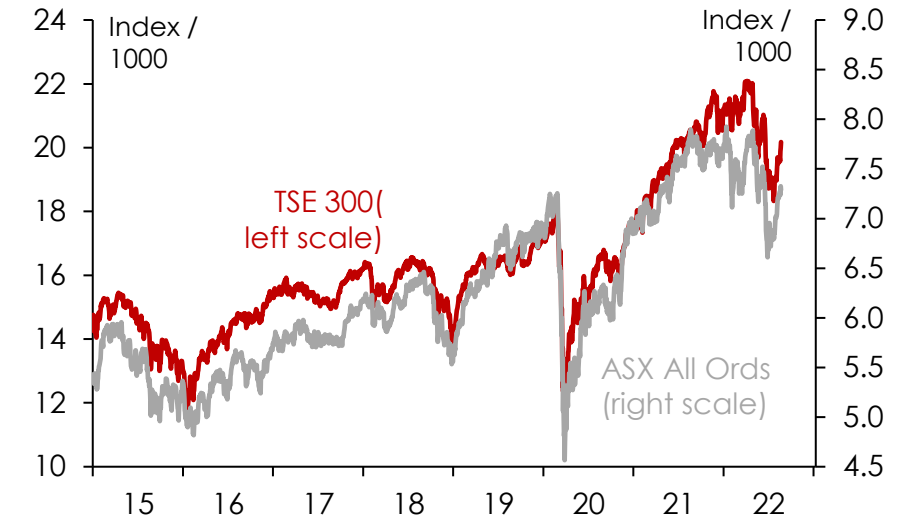
US stock market



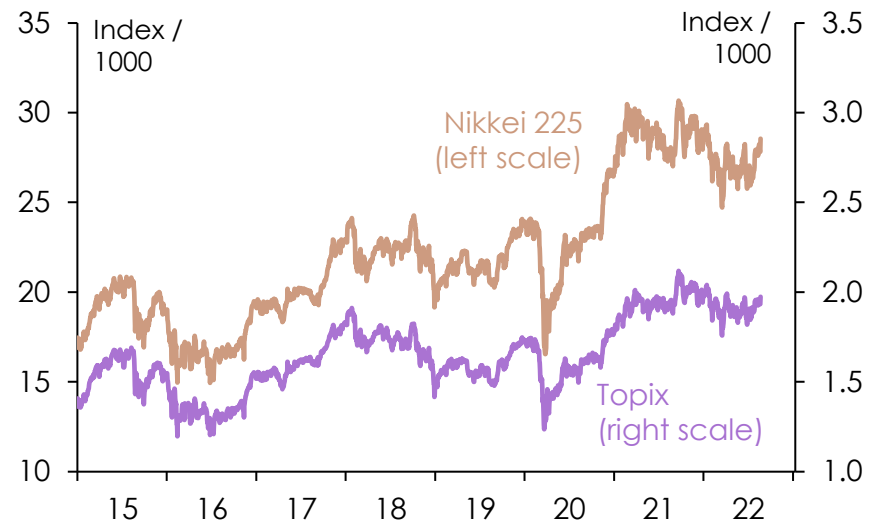
European stock markets



Canadian & Australian stock markets



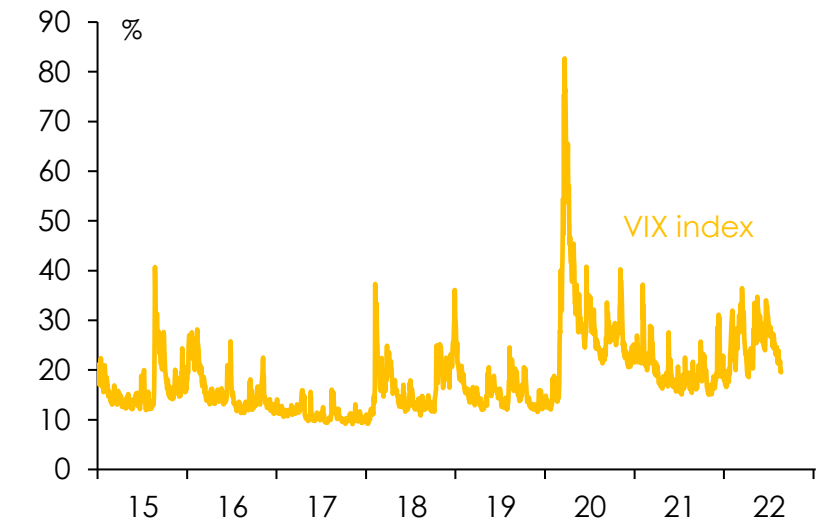
Japanese stock market



Chinese & HK stock markets



Equity market volatility



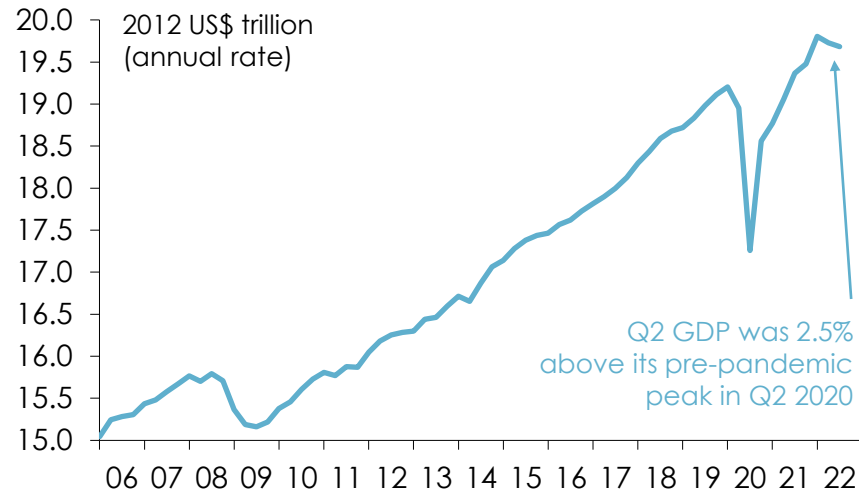
Note: Data up 12th August. Source: Refintiv Datastream. For East Asian stock markets see [slide 104](#). [Return to "What's New"](#).

The United States

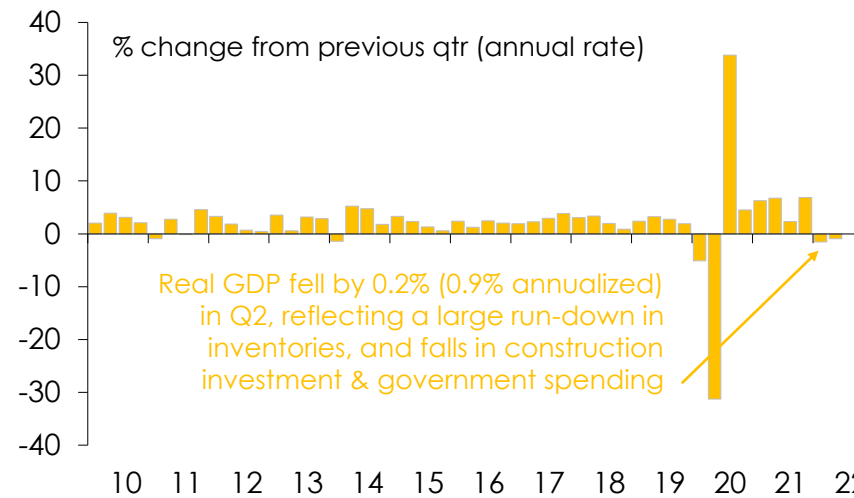
US real GDP contracted by 0.2% in Q2, the second consecutive decline – driven by a run-down in inventories and sharp falls in construction

THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

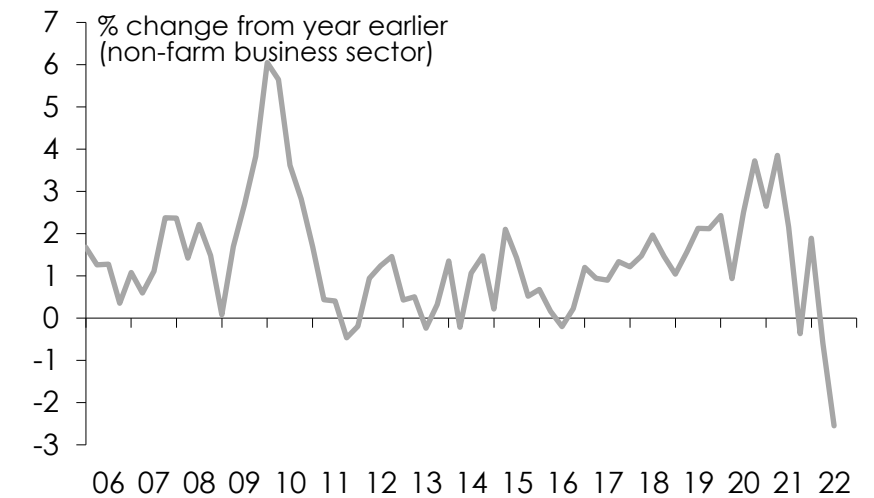
Level of real GDP



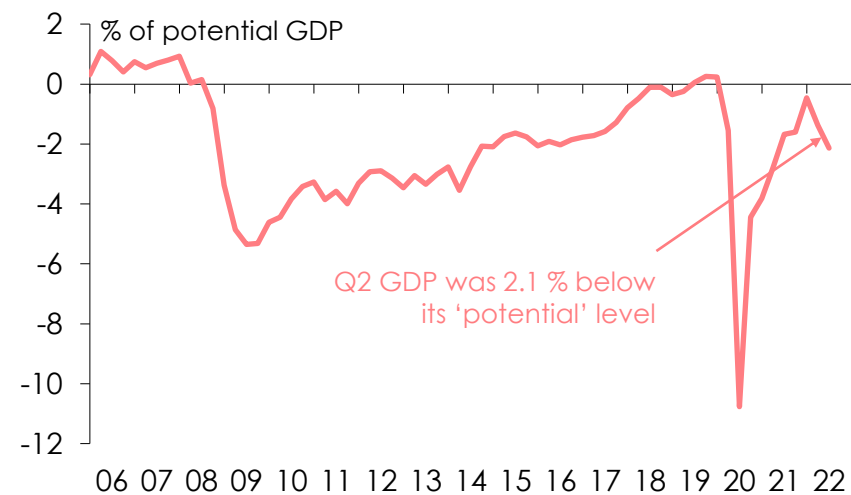
Quarterly change in real GDP



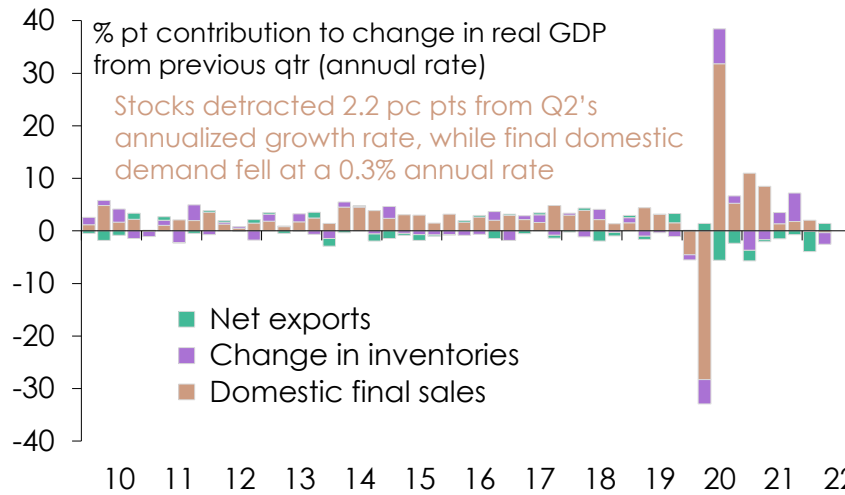
Labour productivity growth



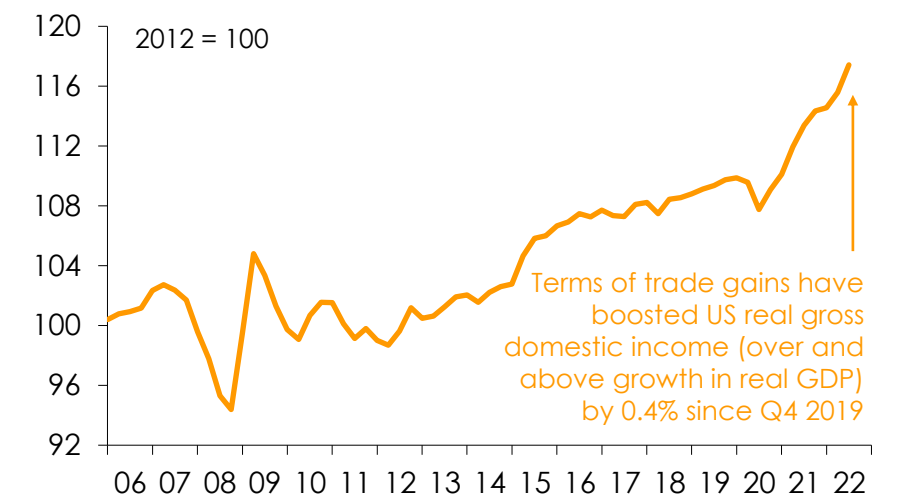
The 'output gap'



Contributions to change in real GDP



Terms of trade



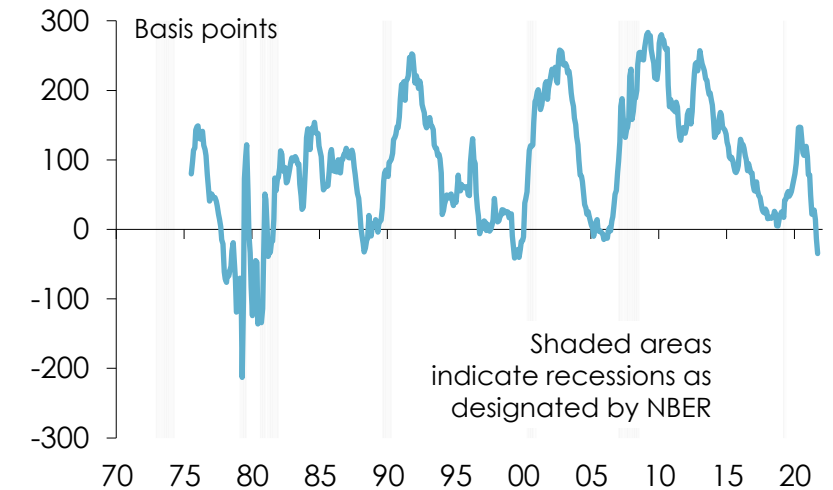
Note: the 'output gap' is the difference between actual and potential GDP (the volume of goods & services that could be produced if the economy were operating at full capacity); the 'terms of trade' is the ratio of the implicit price deflator of exports of goods & services to that of imports of goods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

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

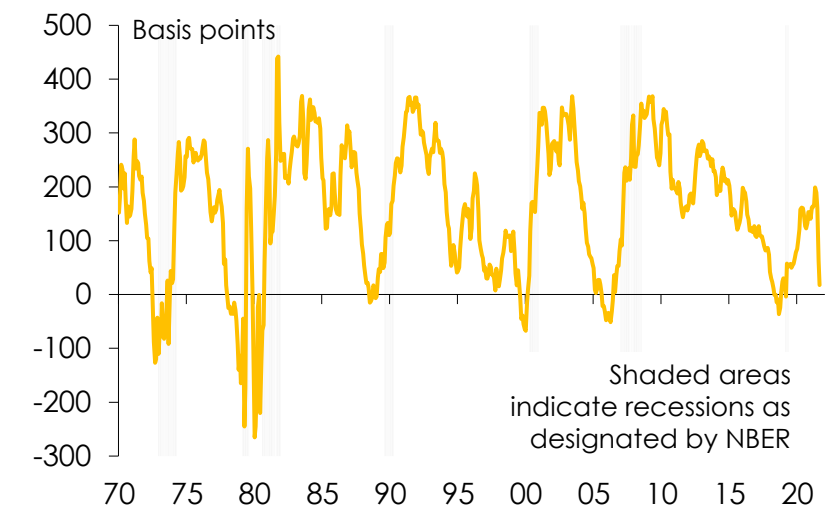
THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

- ❑ 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 471K (0.3%) per month between January and July, and the unemployment rate *fell* from 4.0% in January to 3.5% in July ([slide 48](#))
- ❑ 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 43](#))

10-year / 2-year yield spread



10-year / 3-month yield spread

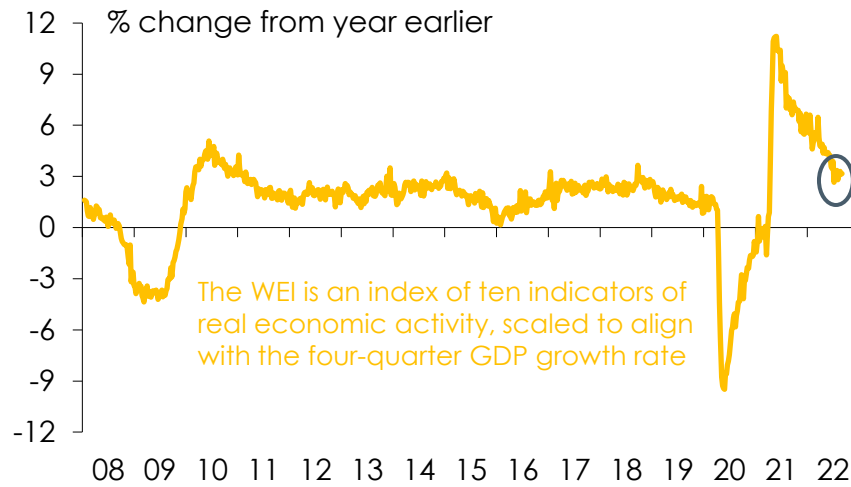


[Return to "What's New".](#)

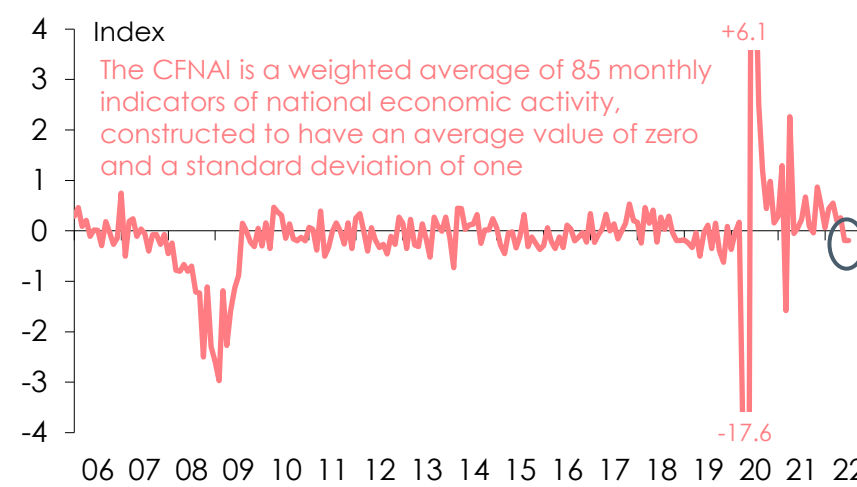
A growing number of activity surveys and leading indicators are starting to warn of a sharp slowdown or outright contraction in US economic activity

THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

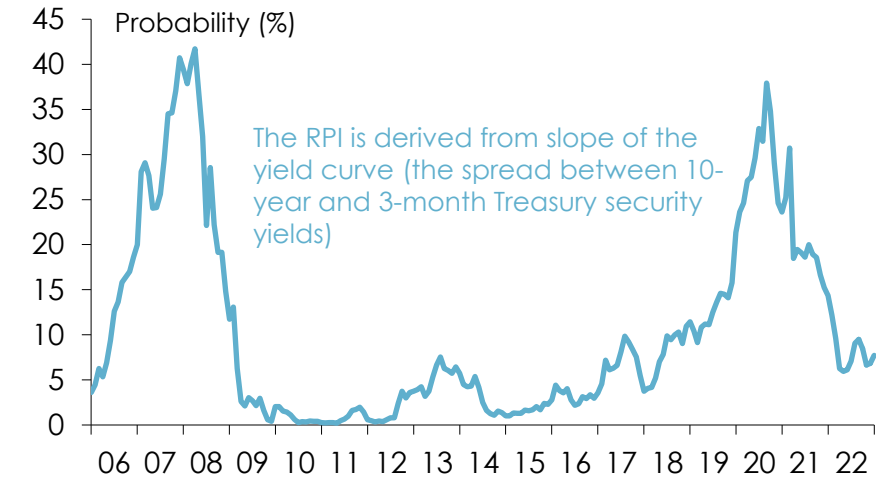
NY Fed weekly economic index



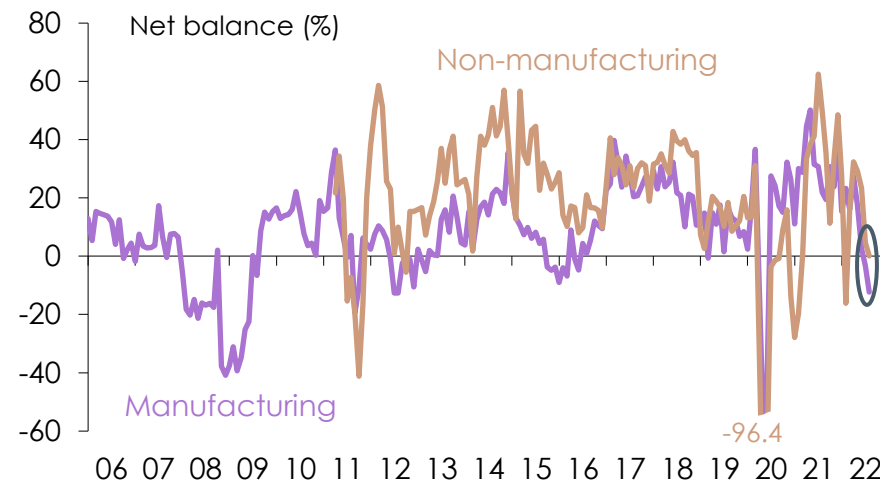
Chicago Fed national activity index



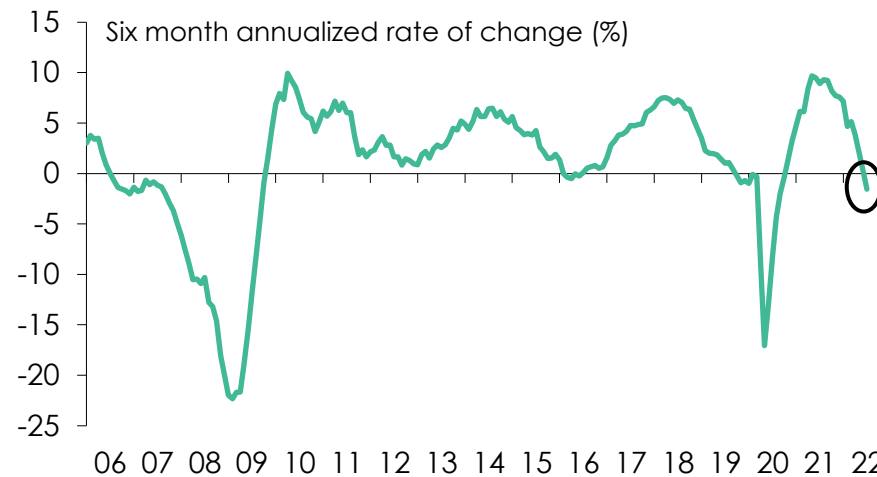
NY Fed recession probability index



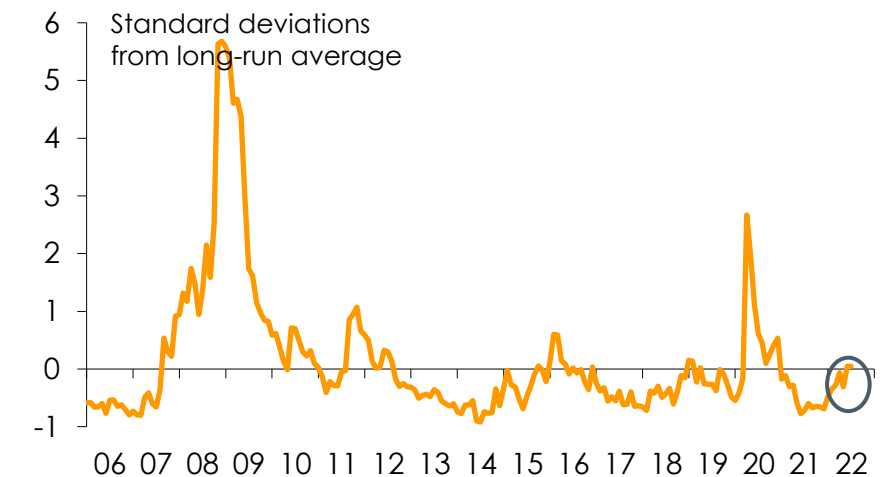
'Philly Fed' business outlook survey



Conference Board leading indicators



Kansas City Fed financial stress index

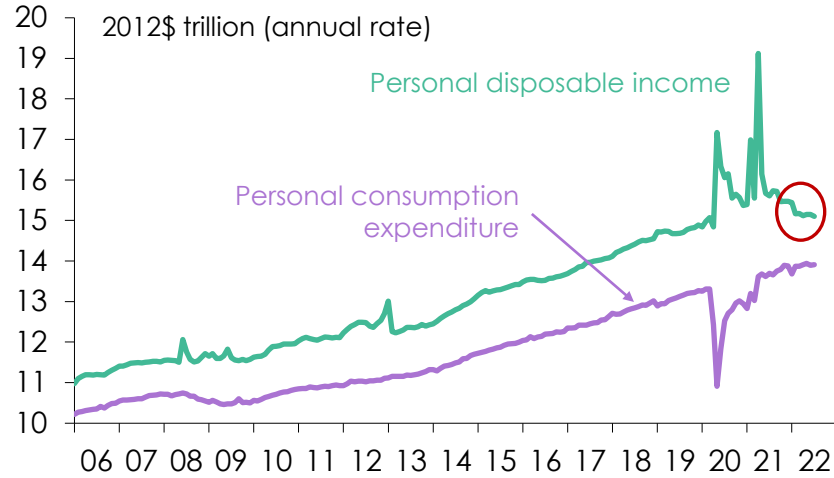


Sources: Federal Reserve Bank of New York, [Weekly Economic Index](#) and [The Yield Curve as a Leading Indicator](#); Federal Reserve Bank of Philadelphia, [Regional Economic Analysis](#), Manufacturing and Non-Manufacturing Business Outlook Surveys; Federal Reserve Bank of Chicago, [Chicago Fed National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

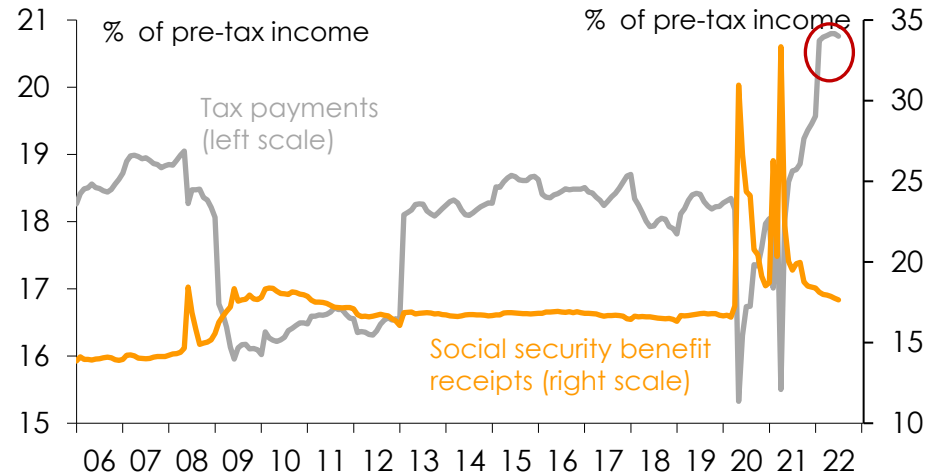
US personal disposable income has been squeezed by rising inflation & tax payments, forcing households to cut saving in order to maintain spending

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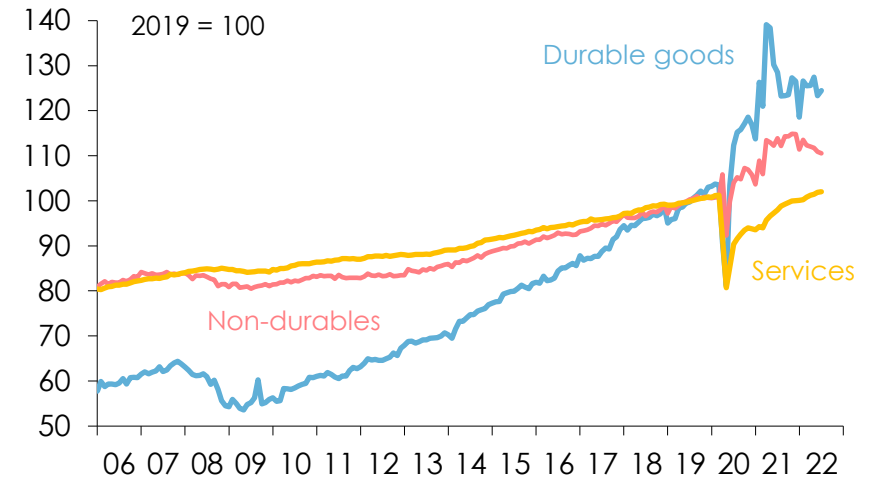
Personal income and expenditure



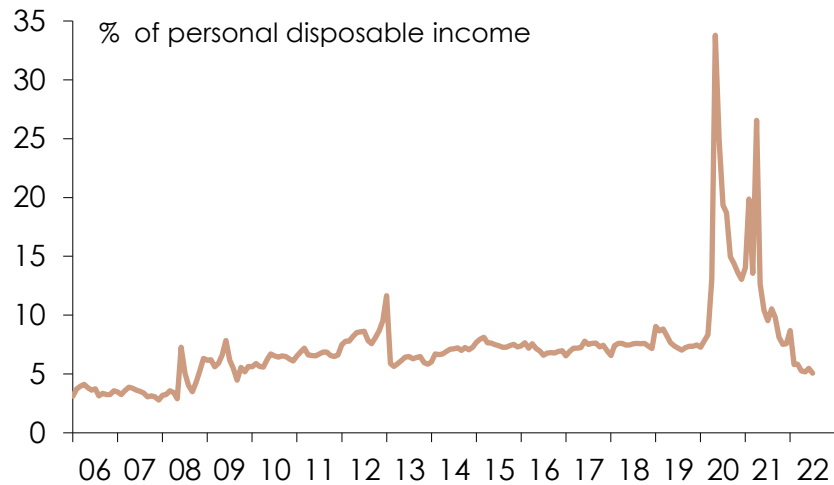
Tax and social security



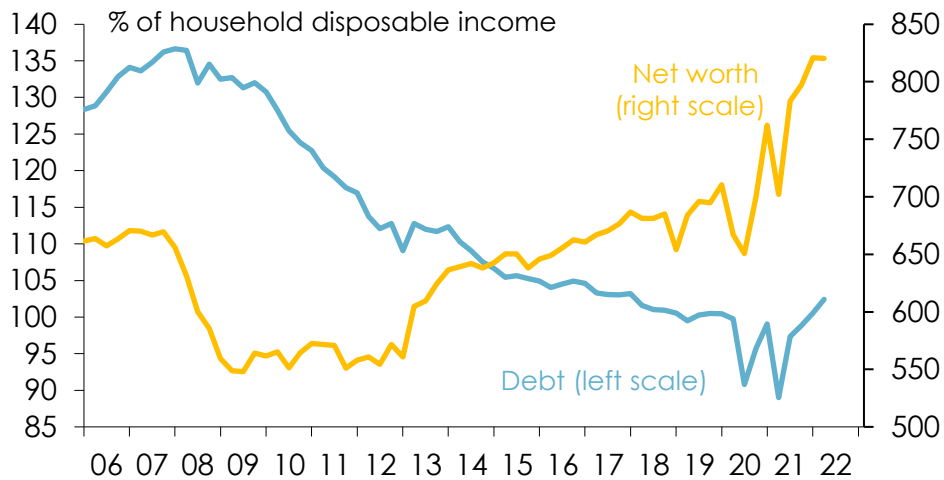
Personal consumption expenditure



Personal saving rate



Household debt and net worth



Spending on energy

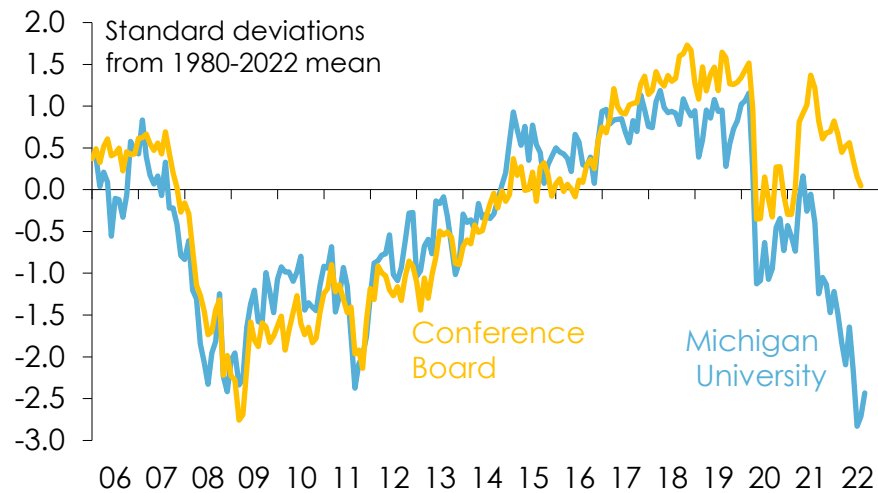


Note: data on personal income, spending and saving are monthly; data on debt and net worth are quarterly. Sources: US Bureau of Economic Analysis, [Gross Domestic Product](#), [Consumer Spending](#) and [Income and Saving](#); US Federal Reserve, [Financial Accounts of the United States - Z1](#). [Return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

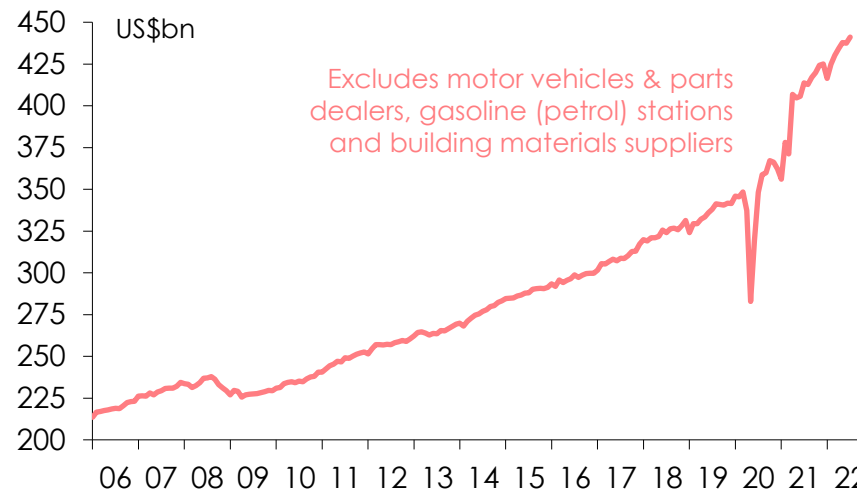
Consumer sentiment improved a little in early August, but remains weak by historical standards

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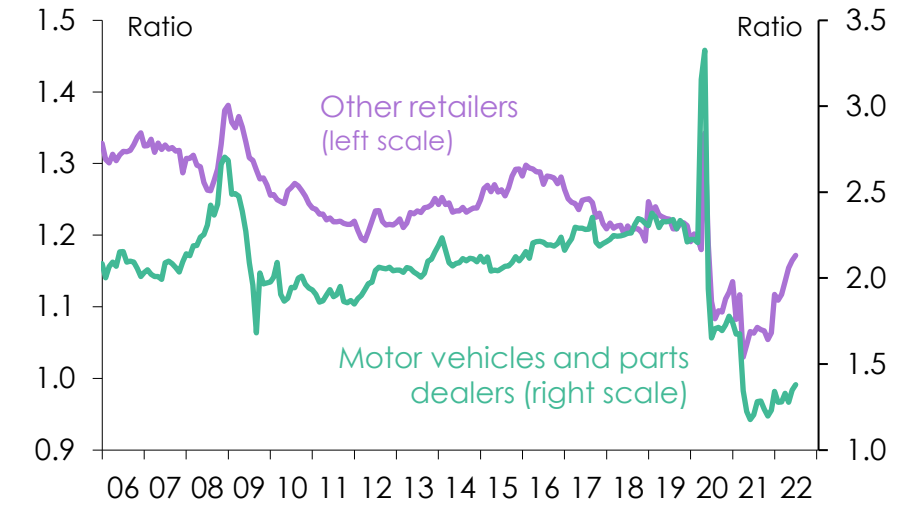
Consumer sentiment



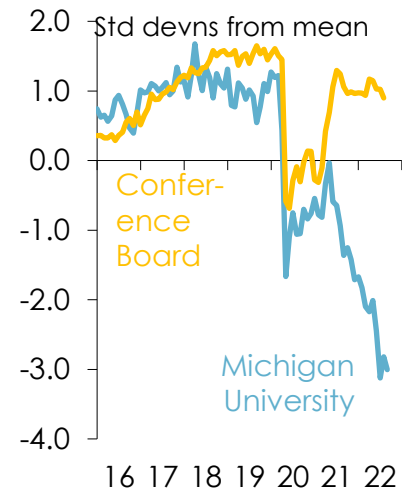
Level of 'core' retail sales



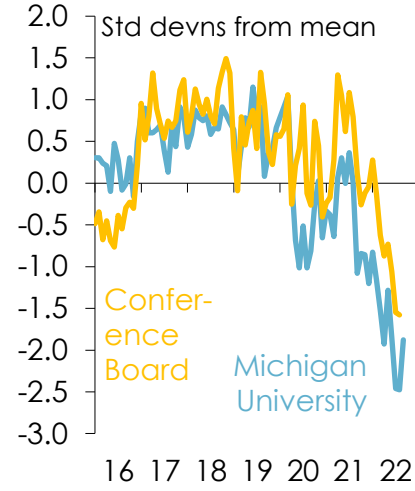
Retail inventories-sales ratios



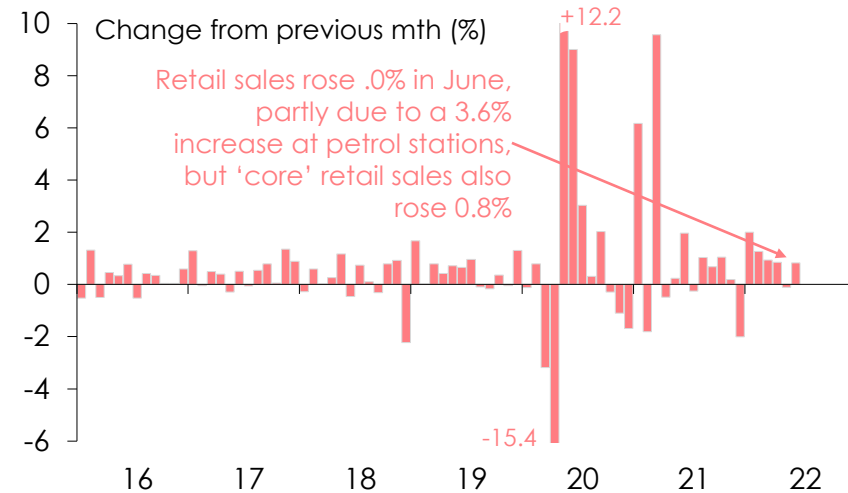
Present situation



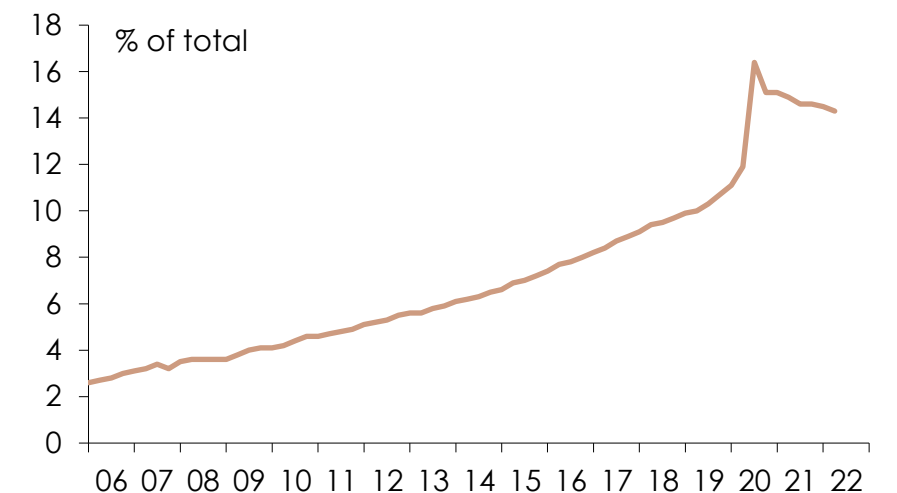
Expectations



Monthly changes in 'core' retail sales



On-line retail sales

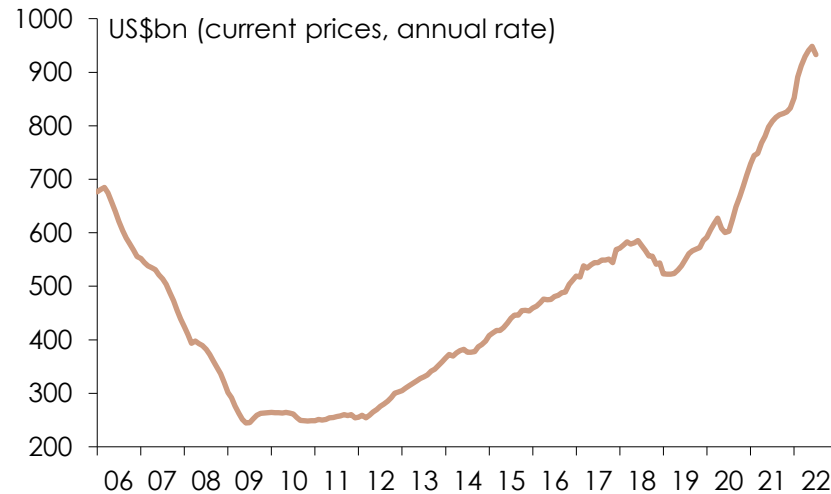


Note: The Michigan University measure of consumer sentiment gives greater weight to inflation, while the Conference Board measure gives greater weight to employment and unemployment. 'Core' retail sales excludes motor vehicles, petrol stations and building materials stores. Sources: Michigan University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

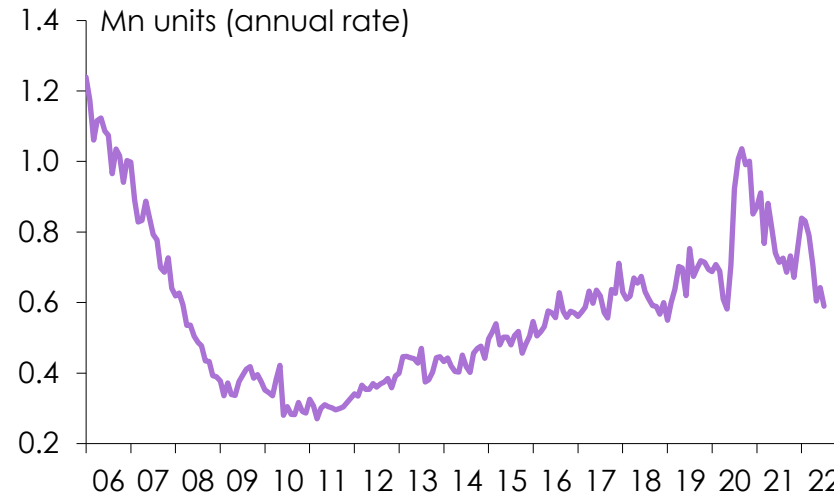
New home sales in June were at their lowest level since April 2020, while house price inflation finally seems to be slowing

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Housing construction spending



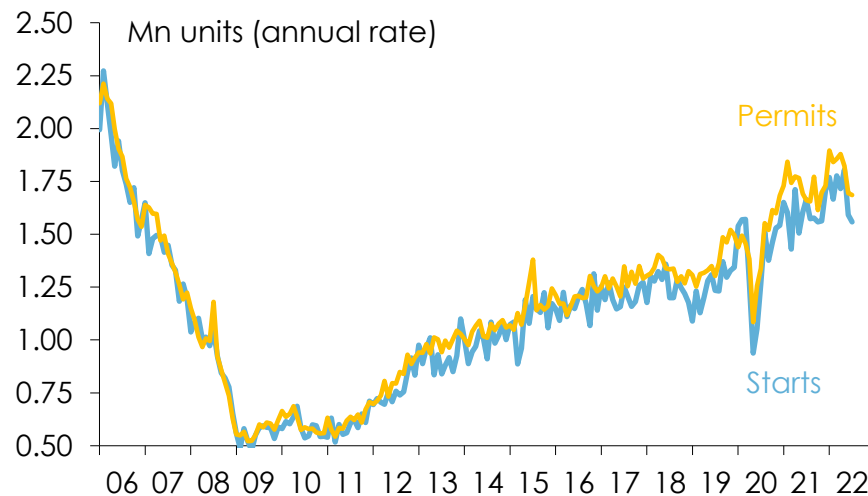
New single-family home sales



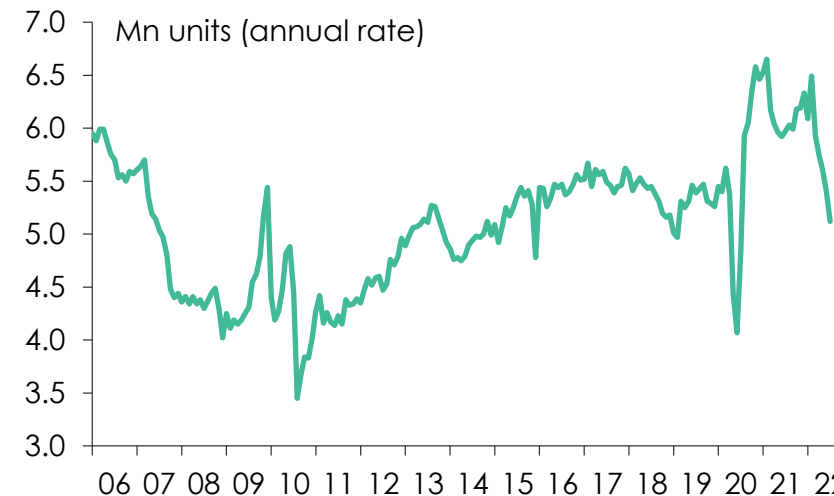
30-year fixed mortgage rates



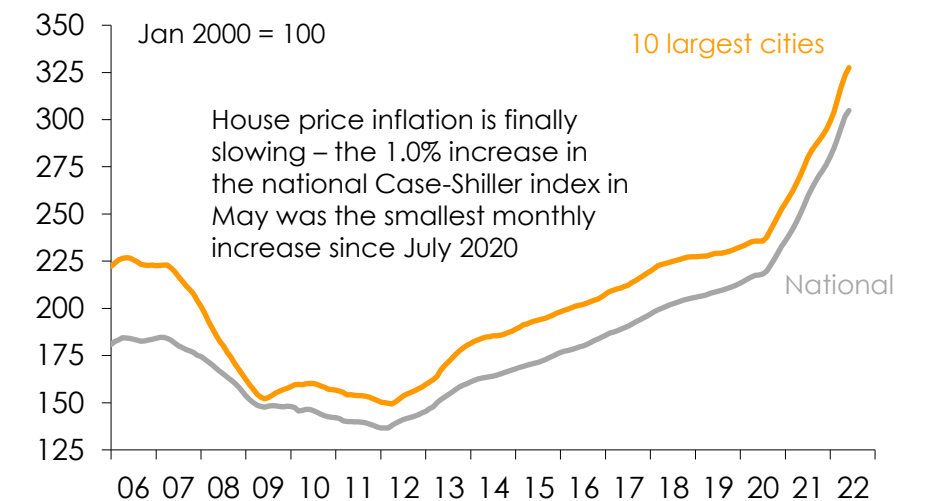
Housing starts and permits



Existing home sales



House prices

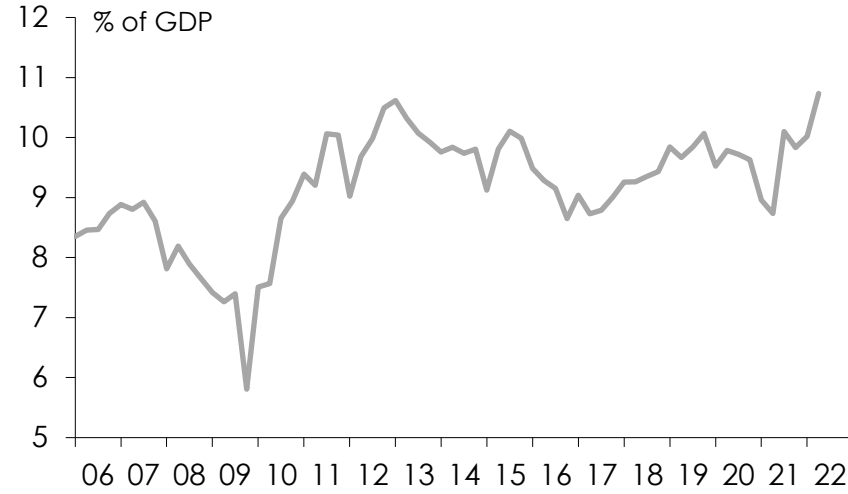


Sources: US Census Bureau, [Construction Spending](#), [New residential construction](#) and [New Residential Sales](#); US National Association of Realtors, [Existing-Home Sales](#); Mortgage Bankers' Association, [National Delinquency Survey](#); S&P Global, [S&P CoreLogic Case-Shiller Home Price Indices](#).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

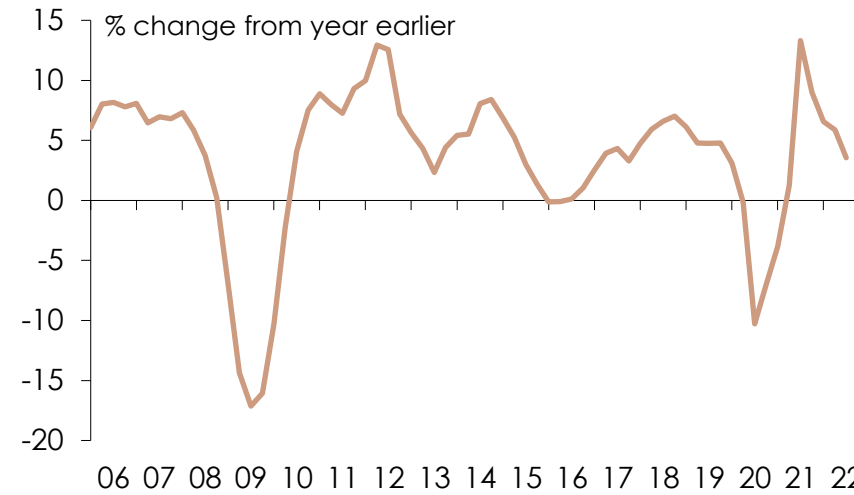
US corporate profits and balance sheets are strong, and investment is increasing – except in non-residential construction

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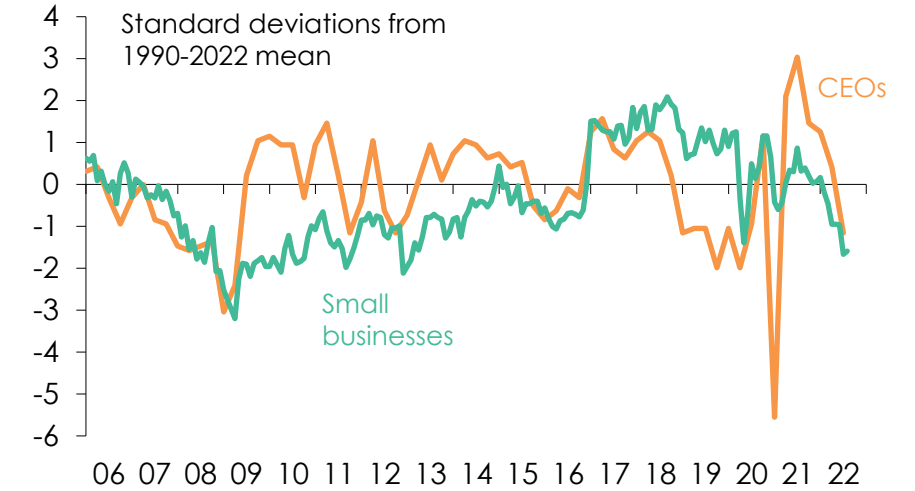
After-tax corporate profits



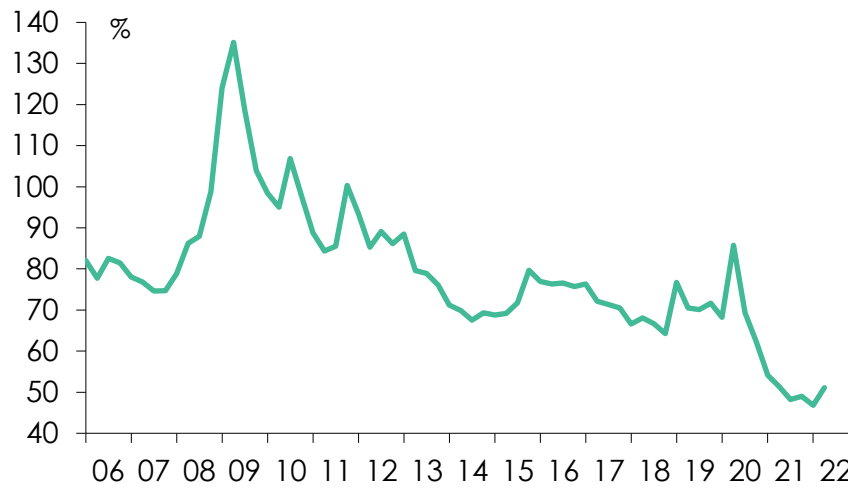
Business investment



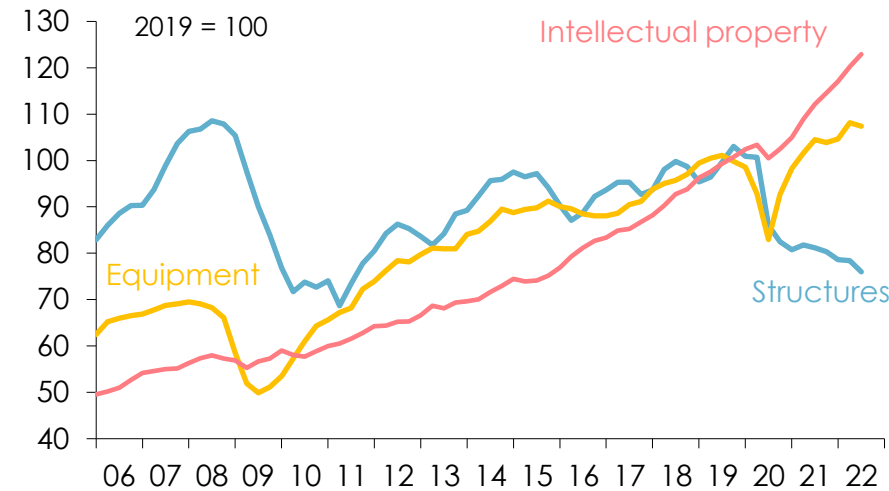
Business confidence



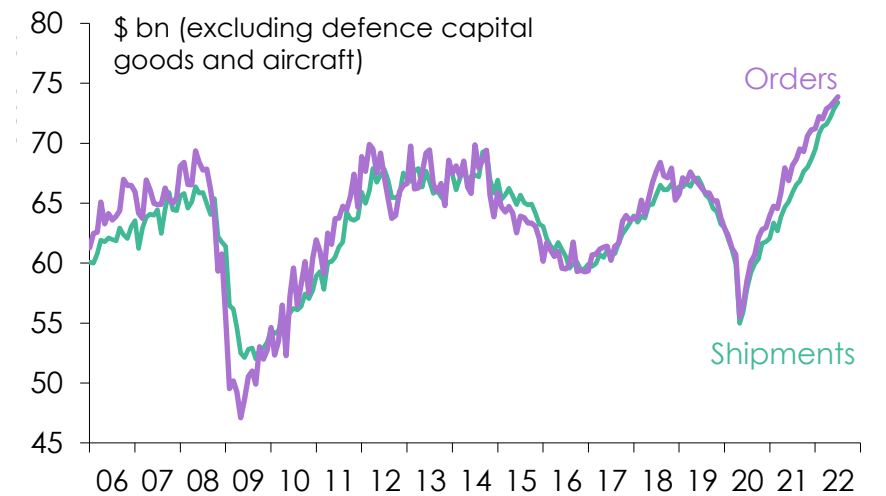
Corporate debt-equity ratio



Business investment by type



Capital goods orders & shipments

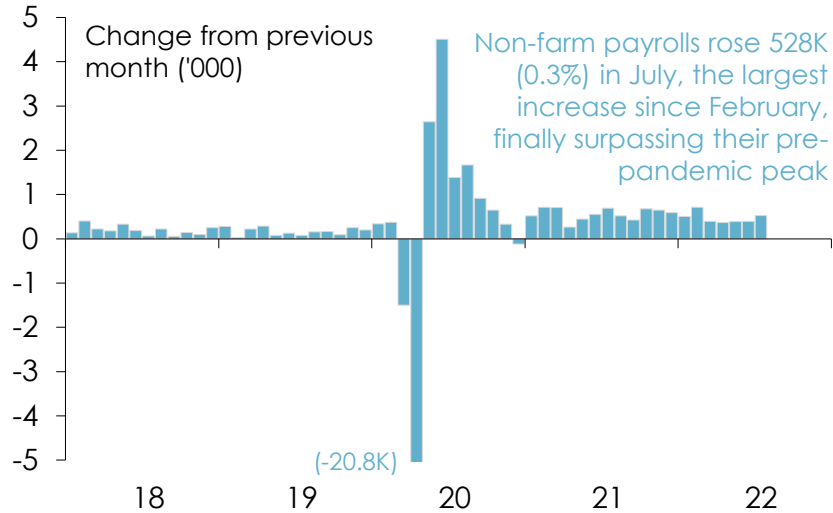


Sources: US Bureau of Economic Analysis, [Gross Domestic Product](#); US Federal Reserve, [Financial Accounts of the United States - Z1](#); The Conference Board, [US CEO Confidence](#); National Federation of Independent Business, [Small Business Economic Trends](#); US Commerce Department, [Manufacturers'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

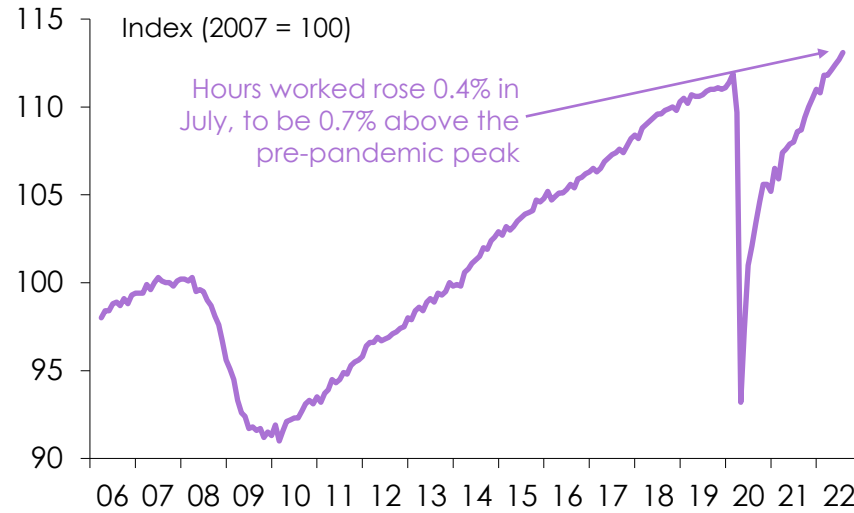
US non-farm payroll employment rose a stronger-than-expected 528K (0.3%) in July, although the household survey presents a weaker picture

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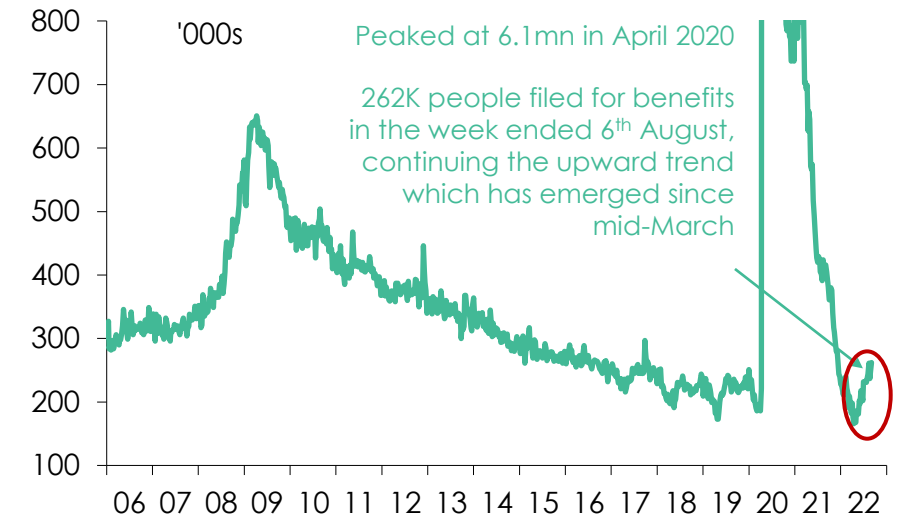
Non-farm payroll employment



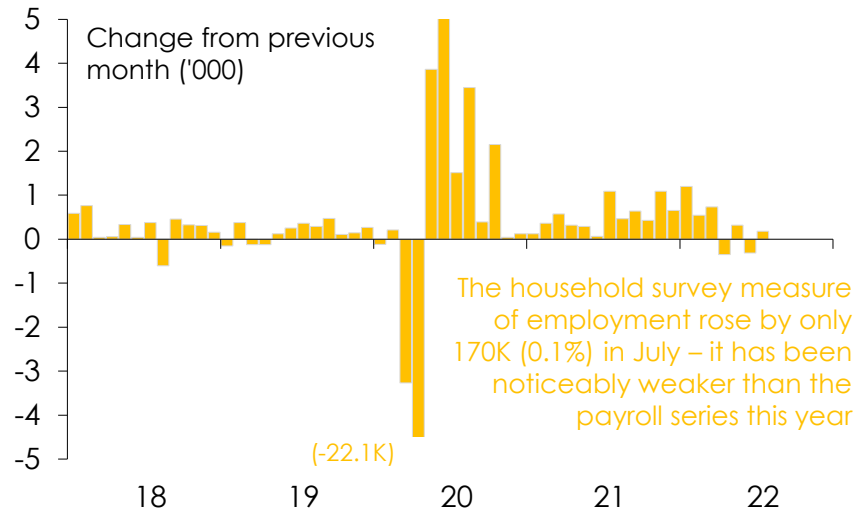
Hours worked (private sector)



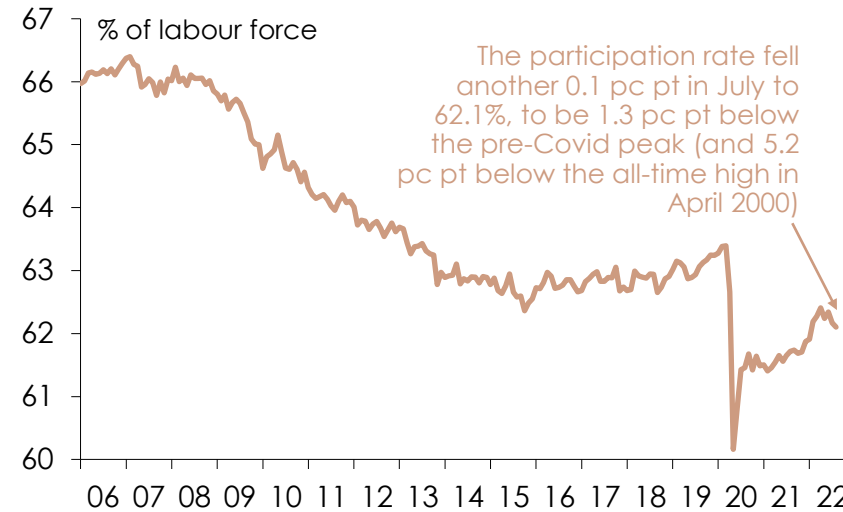
Unemployment benefit initial claims



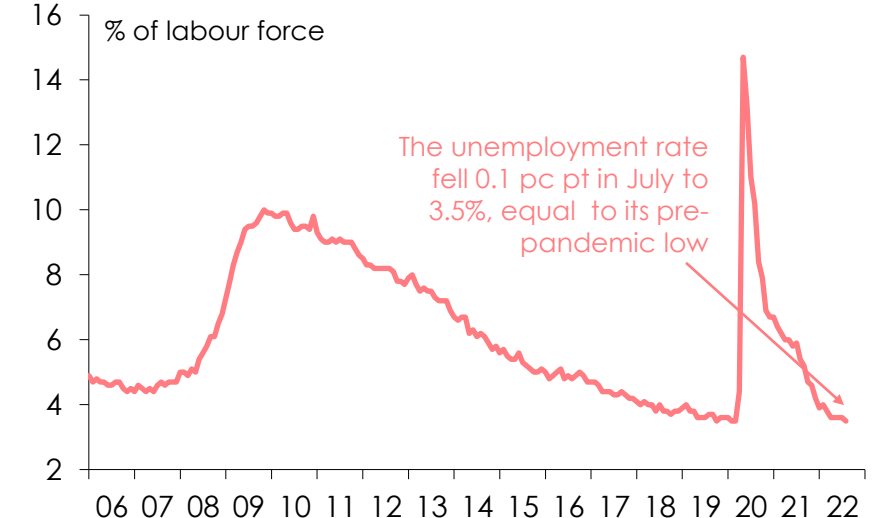
Household survey employment



Labour force participation rate



Unemployment rate

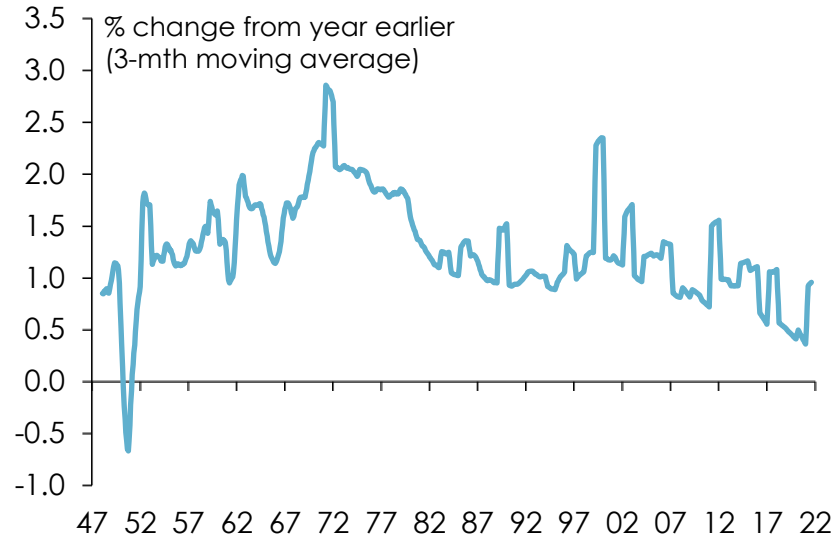


Sources: US Bureau of Labor Statistics, [Employment Situation](#); US Department of Labor, [Unemployment Insurance Weekly Claims](#). [Return to "What's New"](#).

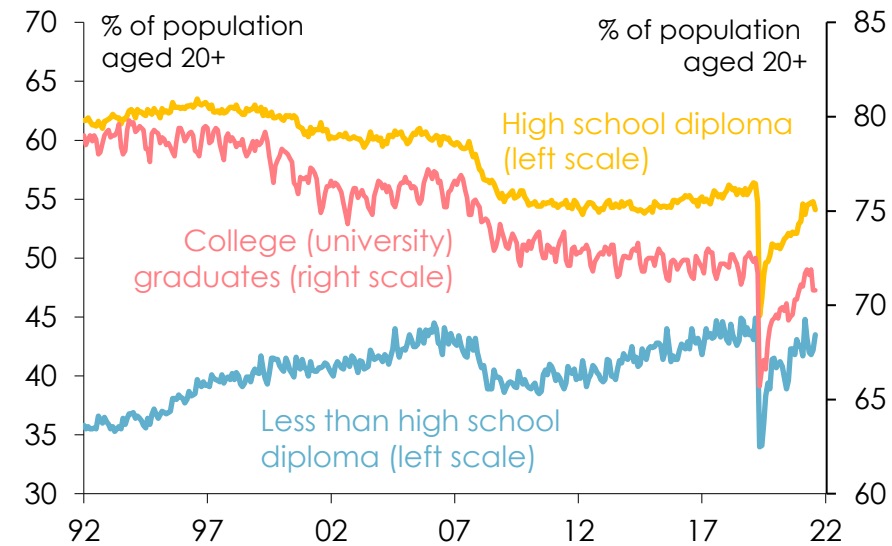
US labour market tightness is partly due to a persistent shortfall in labour force participation, especially among people aged 55 and over

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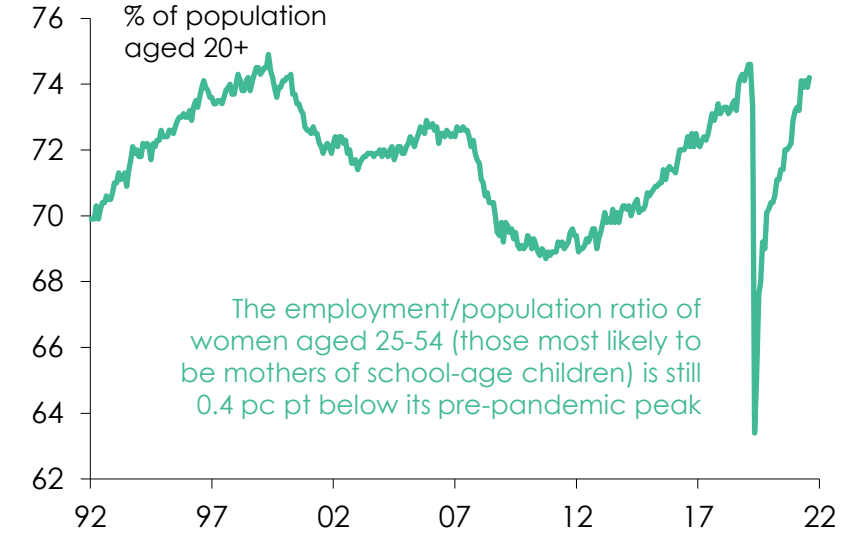
Civilian working age population



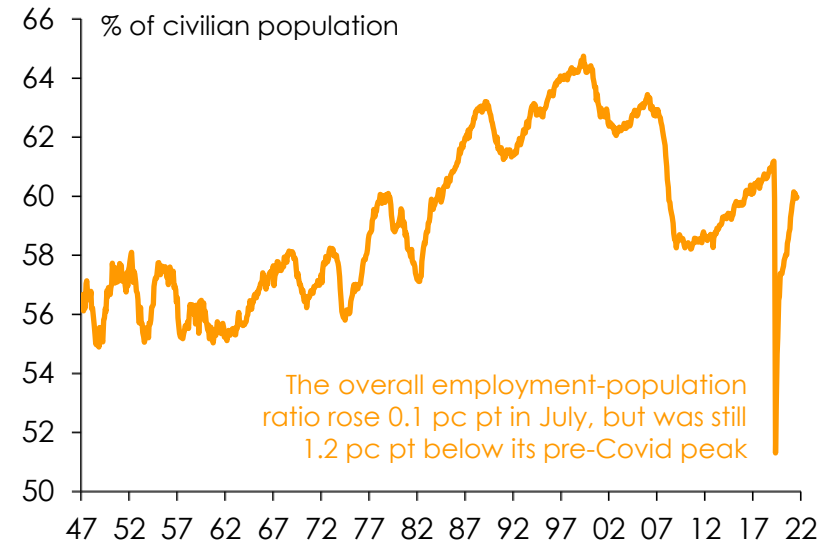
'E-pop' ratio – by education



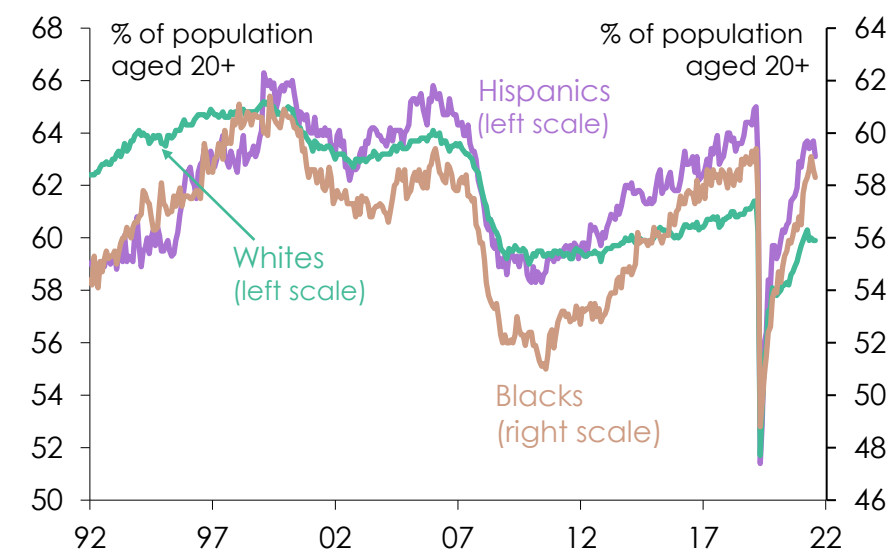
'E-pop' ratio – women 25-54



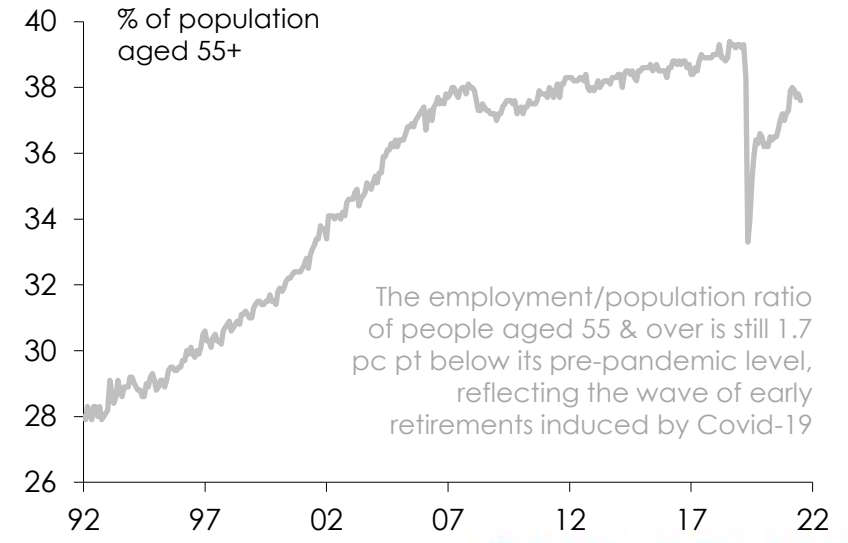
Employment-to-population ratio



'E-Pop' ratio – Blacks & Hispanics



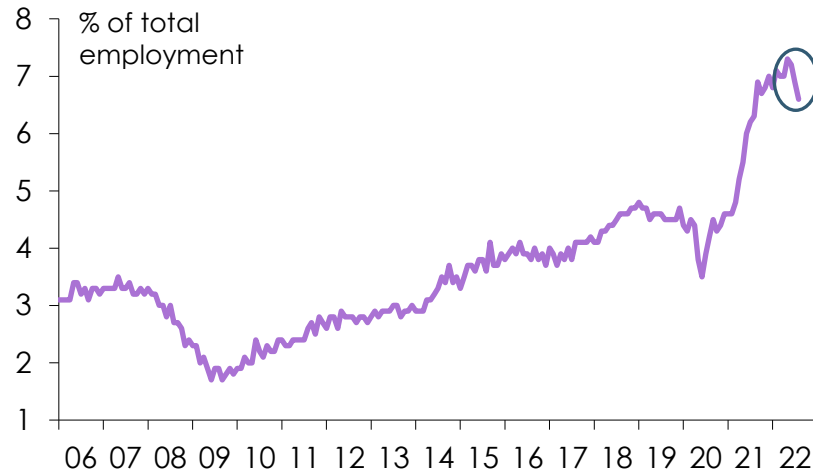
'E-pop' ratio – people 55 & over



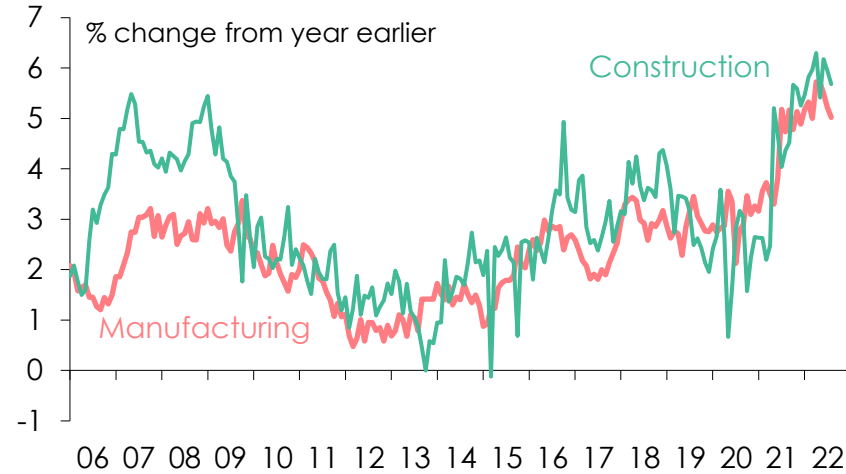
The 'best' measure of wages growth (from the employment cost index) rose 5.7% over the year to Q2, the fastest since Q4 1982

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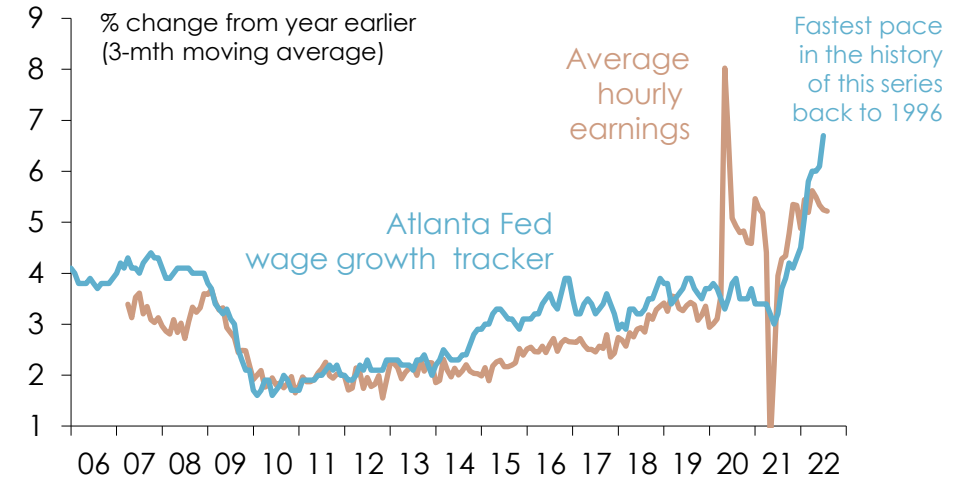
Job openings



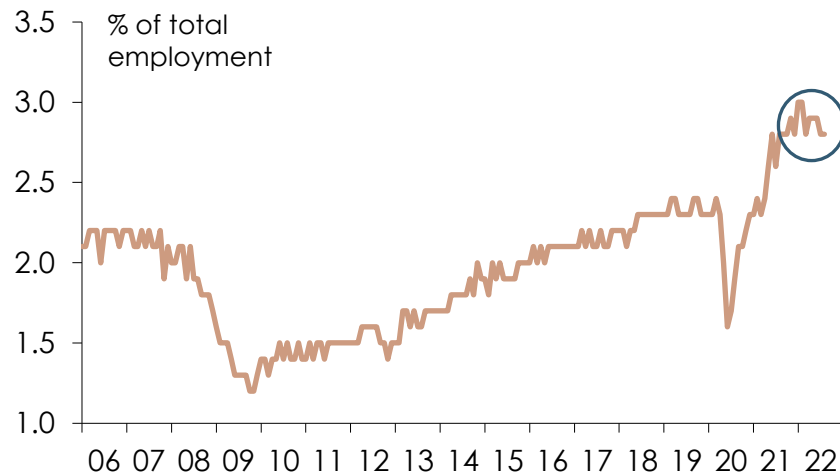
Average hourly earnings



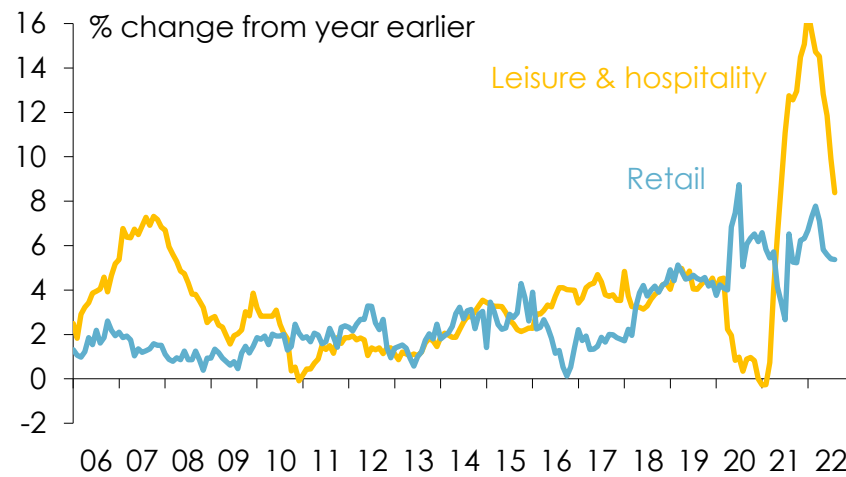
Overall wages growth - monthly



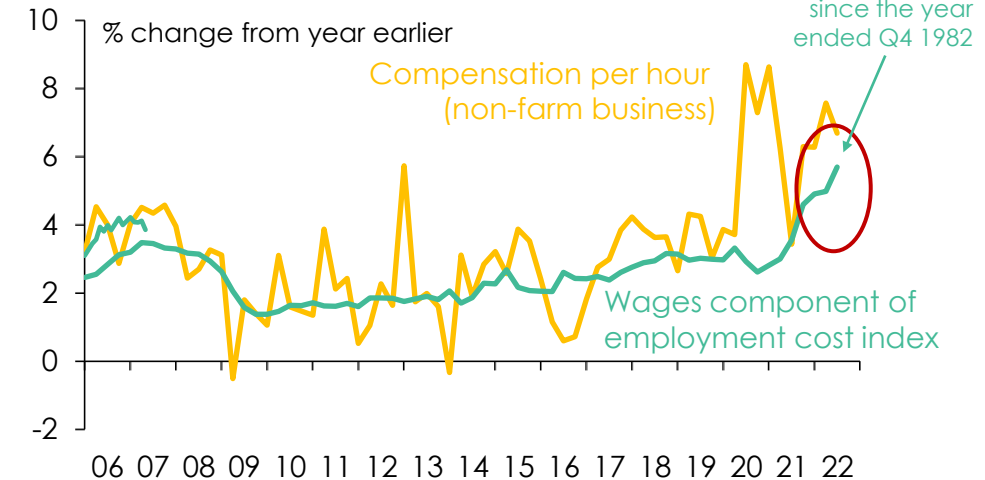
Quit rate



Average hourly earnings



Wages growth - quarterly

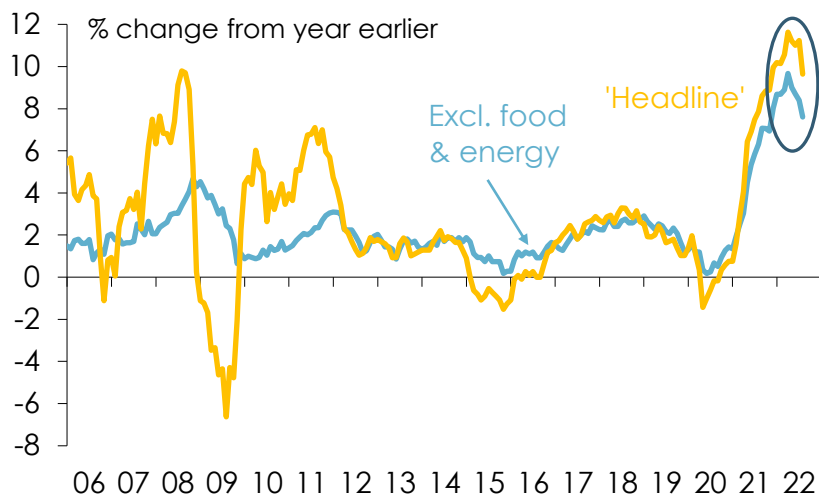


Note: Measures of average hourly earnings (especially the all-industries measures) and of average compensation per hour are affected by changes in the composition of employment (so for example they rose sharply in Q2 2020 when large numbers of low-paid workers were laid off and fell markedly when they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

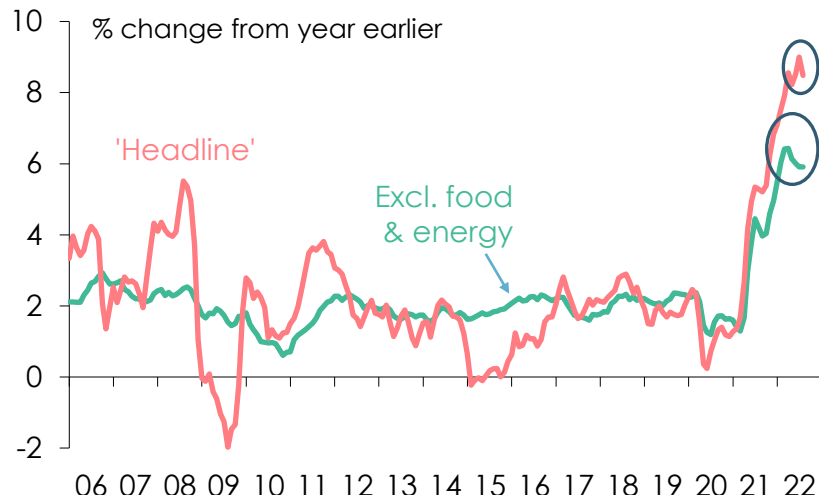
US consumer prices were flat in July, thanks to a 7.7% fall in petrol prices, but the 0.3% increase in the 'core' CPI was also less than expected

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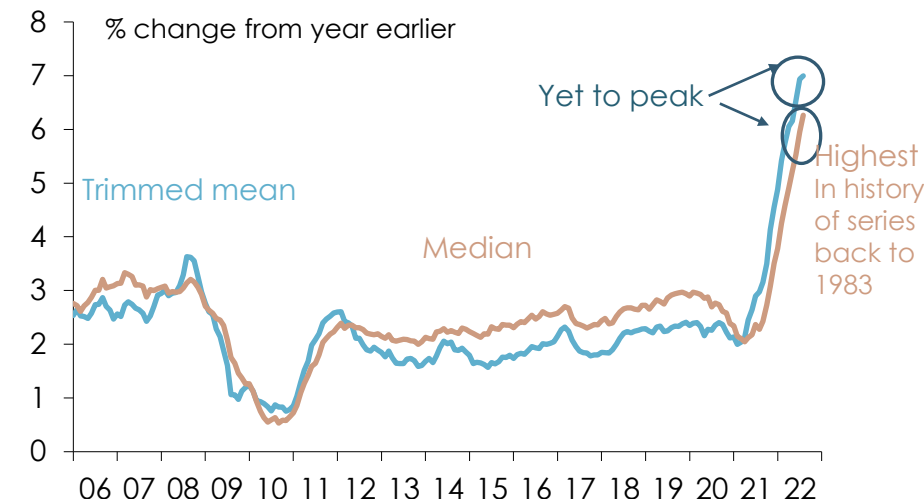
Producer price index



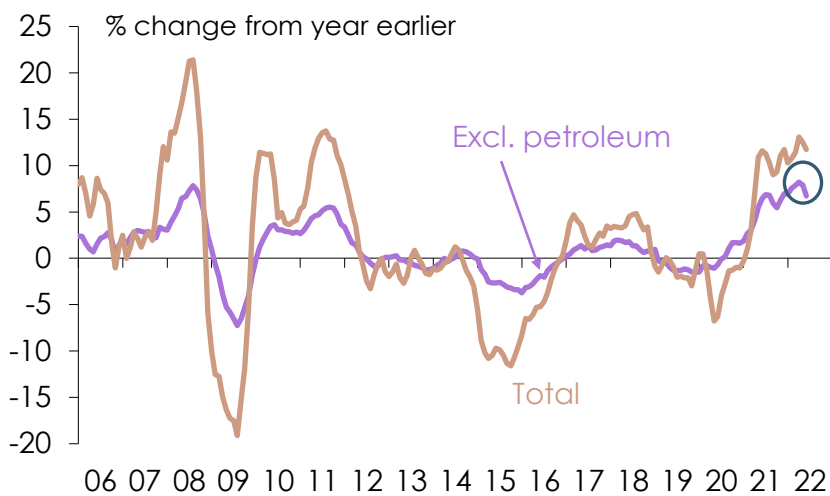
Consumer price index



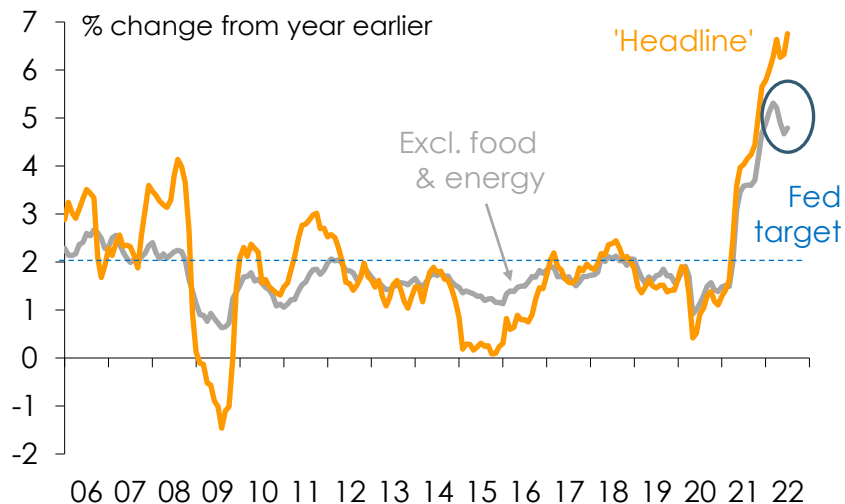
'Underlying' CPI inflation



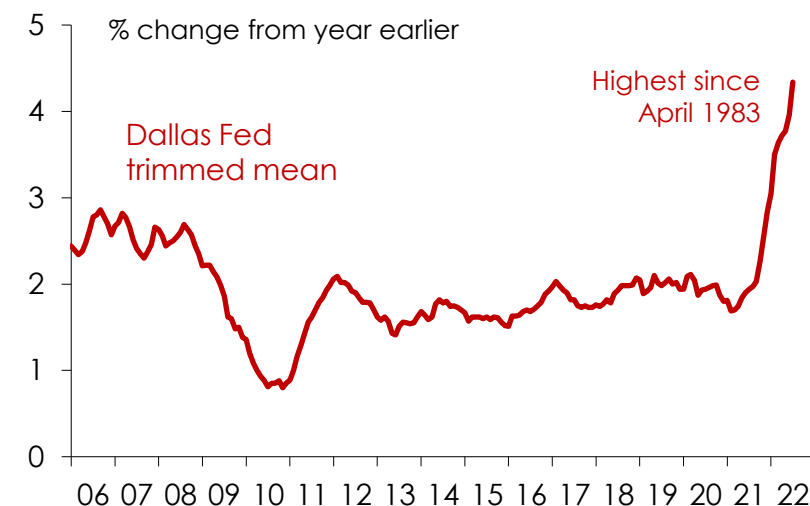
Import price index



Personal consumption deflator



'Underlying' PCE deflator inflation

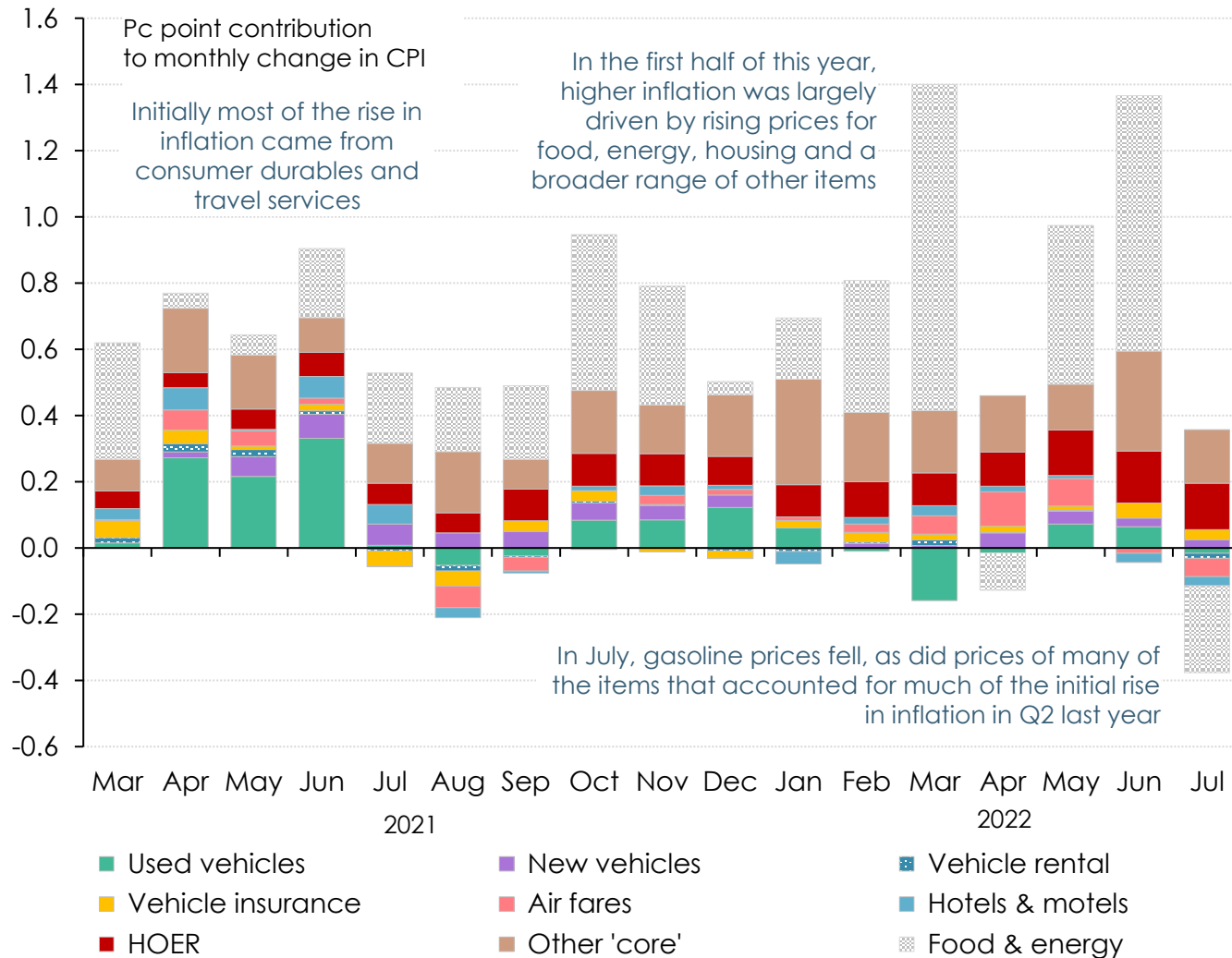


Sources: US Bureau of Labor Statistics, [Producer Price Index](#), [Import and Export Price Indexes](#) and [Consumer Price Index](#); US Bureau of Economic Analysis, [Personal Consumption Expenditures Price Index](#); Federal Reserve Bank of Cleveland, [Median CPI](#); Federal Reserve Bank of Dallas,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

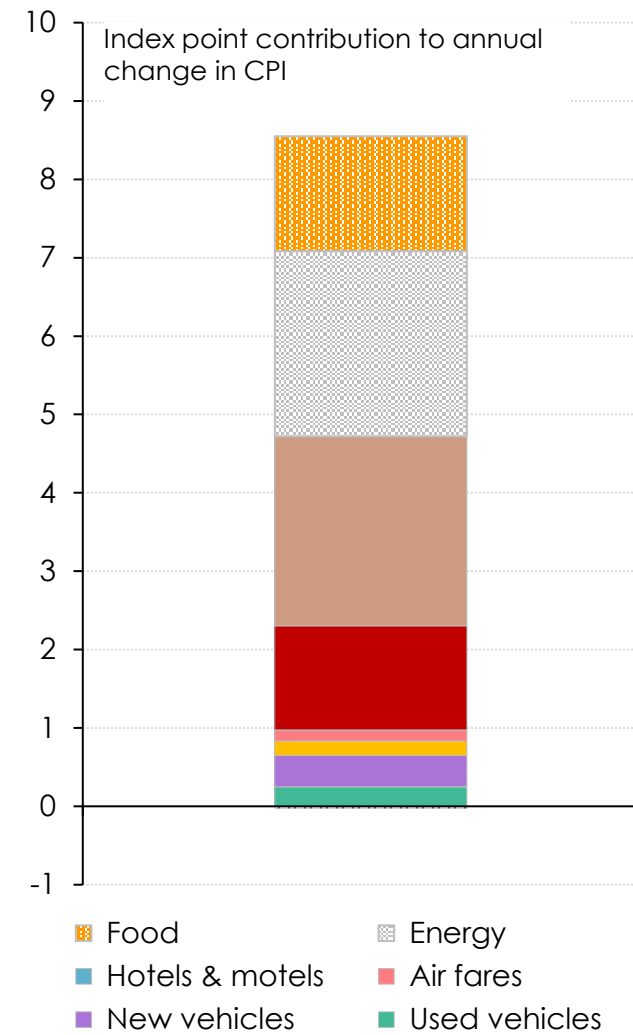
Energy prices fell in July, as did prices of many of the items that drove the original spike in inflation last year, but other prices are continuing to rise

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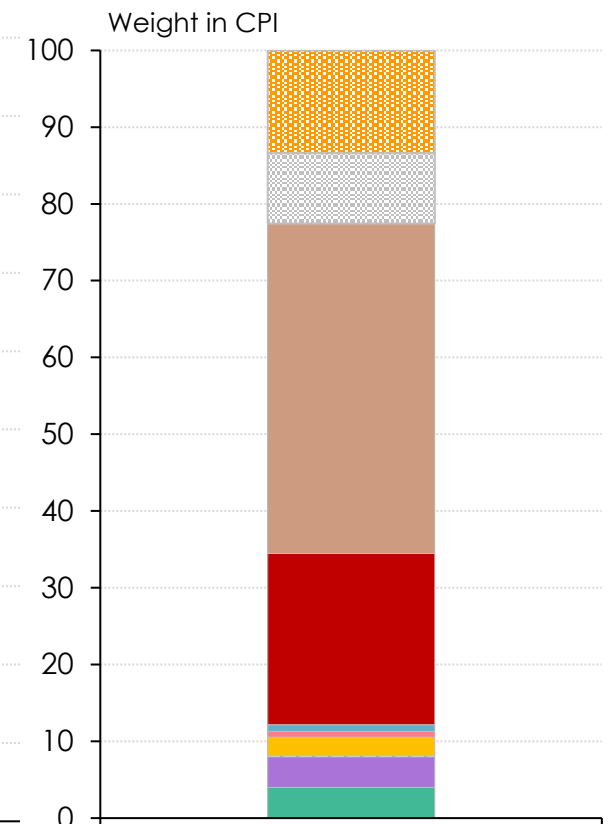
Contributions to monthly changes in the US CPI since March last year



Contributions to change in CPI over the year to July



Weights in CPI

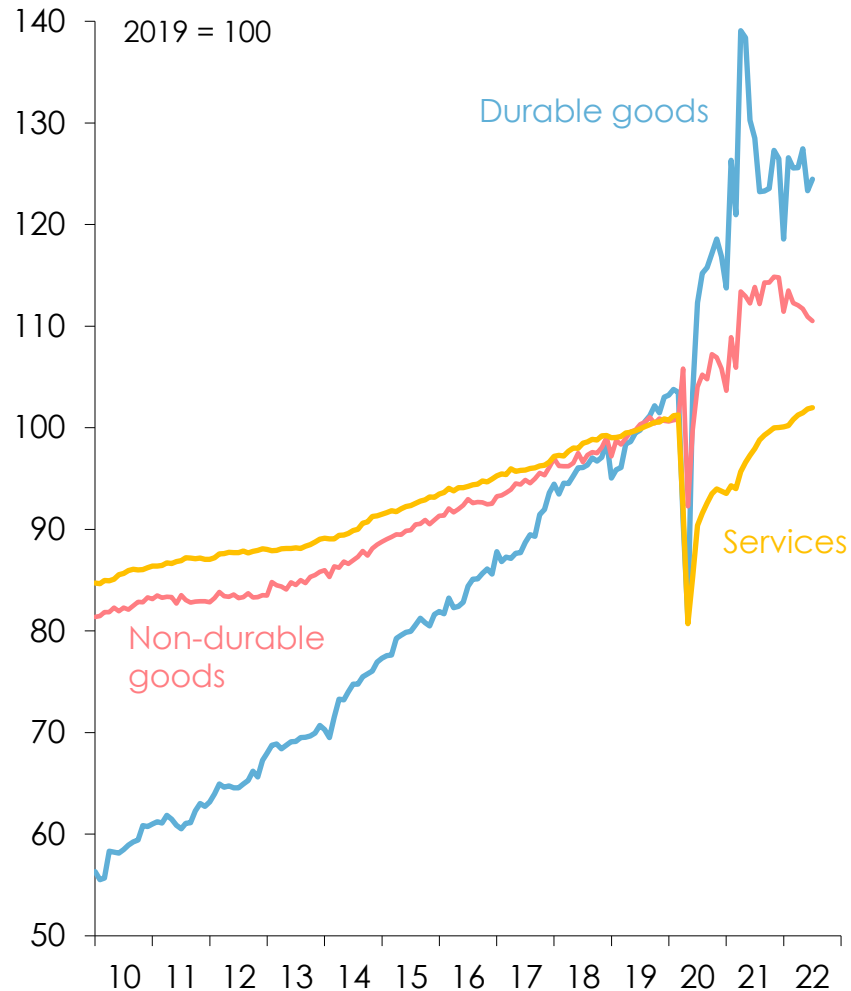


Note: 'HOER' = home-owners' equivalent rent (a measure of the 'imputed rent' notionally paid by owner-occupiers to themselves), and which accounts for (an uncommonly large, by international standards) 28½% of the CPI excluding food and energy. Source: US Bureau of Labor Statistics, CPI Table 6; Corinna.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

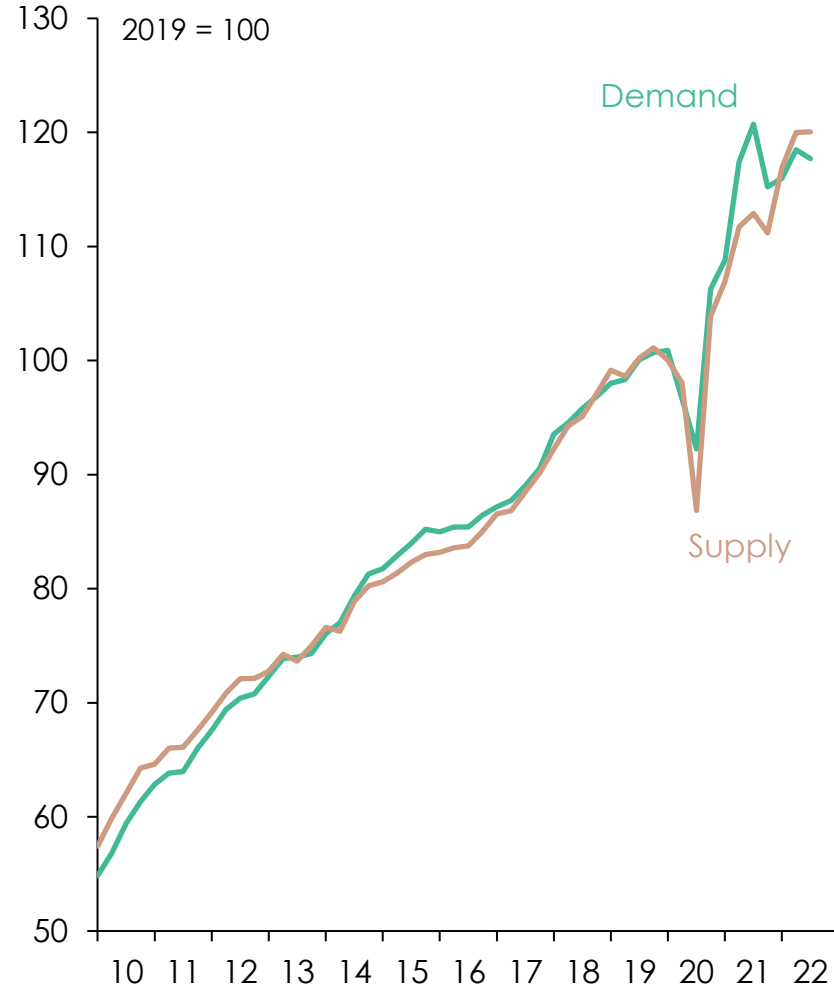
The rise in inflation has until recently been largely attributable to large imbalances between supply of and demand for durable goods

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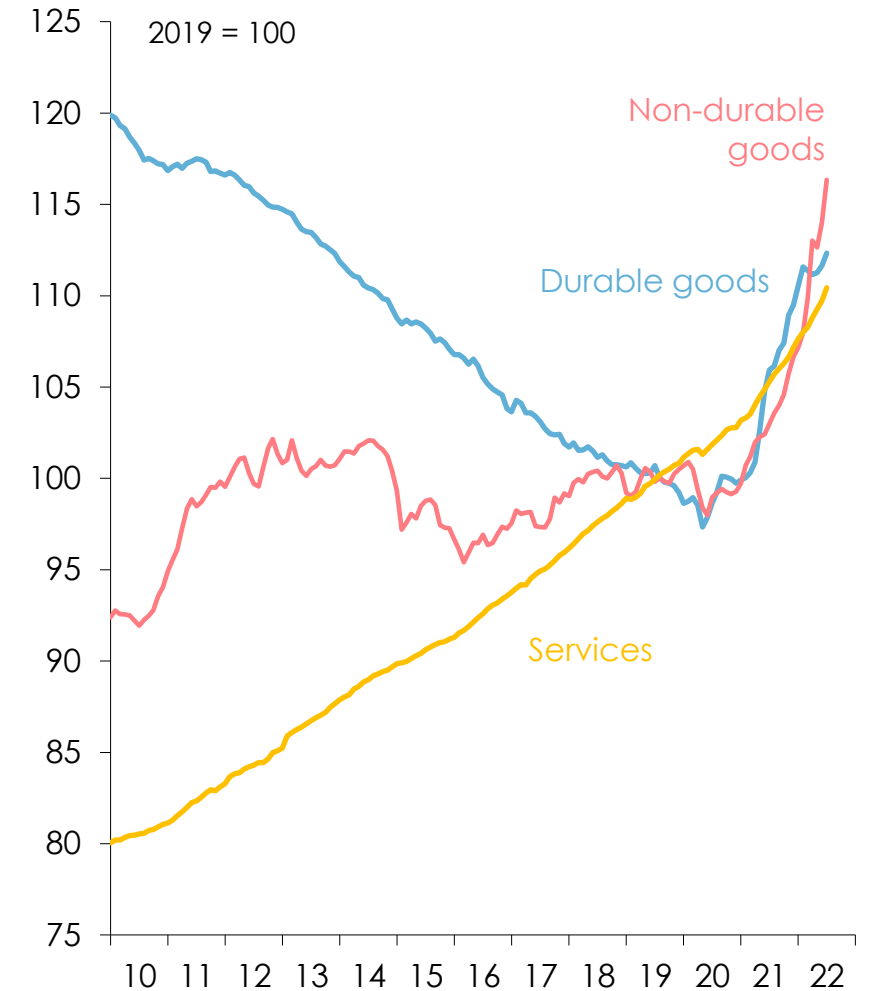
Composition of personal consumption expenditures



Aggregate demand for and supply of durable goods



Implicit price deflators of personal consumption

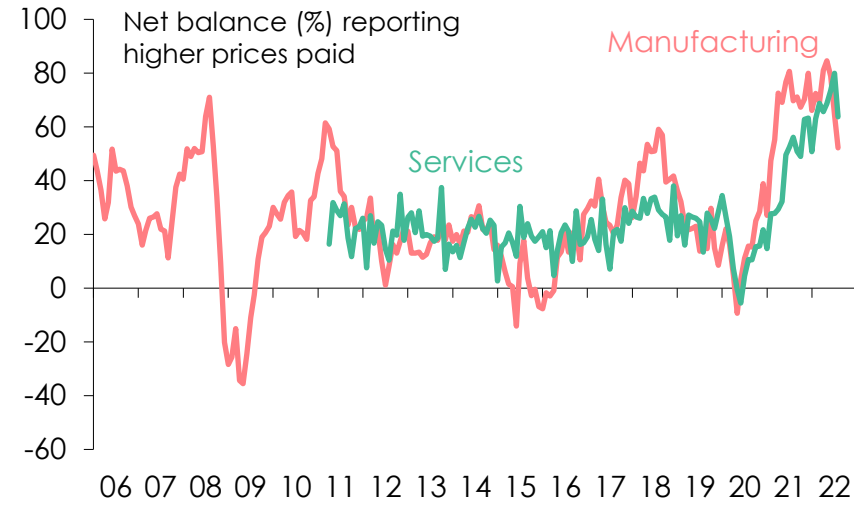


Note: 'Aggregate demand' for durable goods comprises personal consumption of durable goods plus business investment in equipment. 'Aggregate supply' of durable goods comprises gross domestic product (final sales plus change in inventories) plus net imports of durable goods. Sources: US Bureau of Economic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

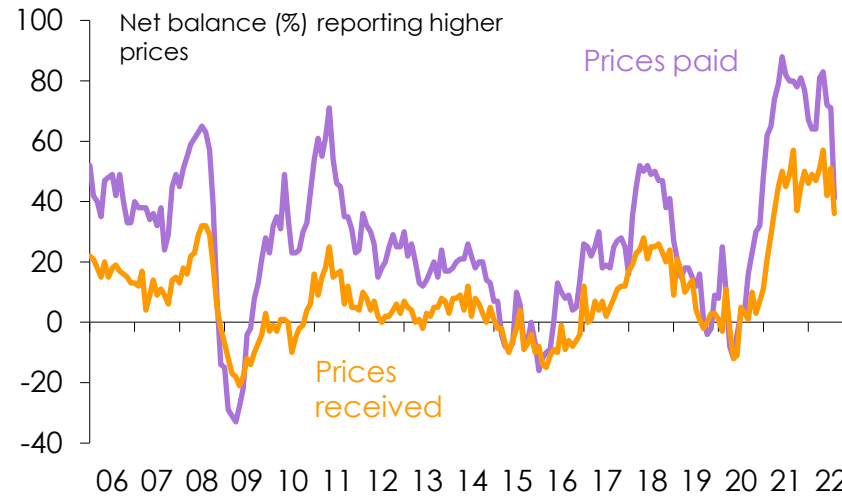
A range of US surveys are now hinting that 'upstream' inflation may have peaked – while longer-run household inflation expectations have fallen

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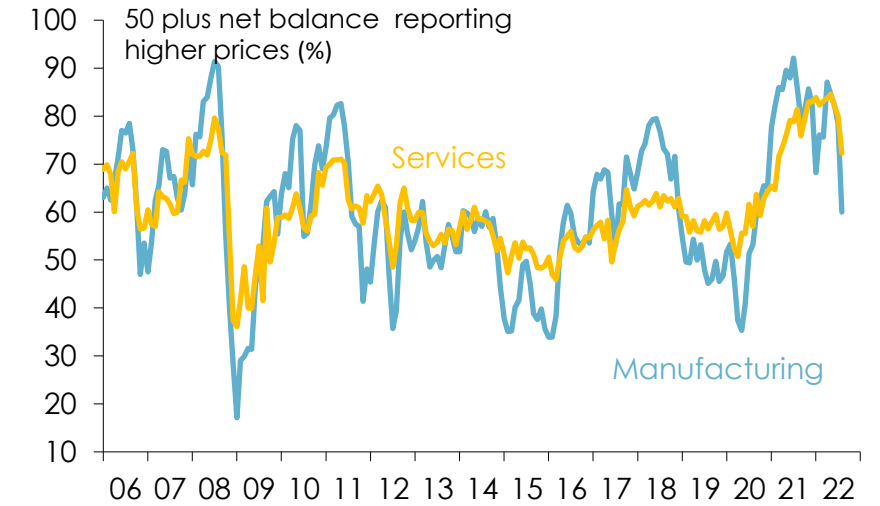
'Philly' Fed survey – prices paid



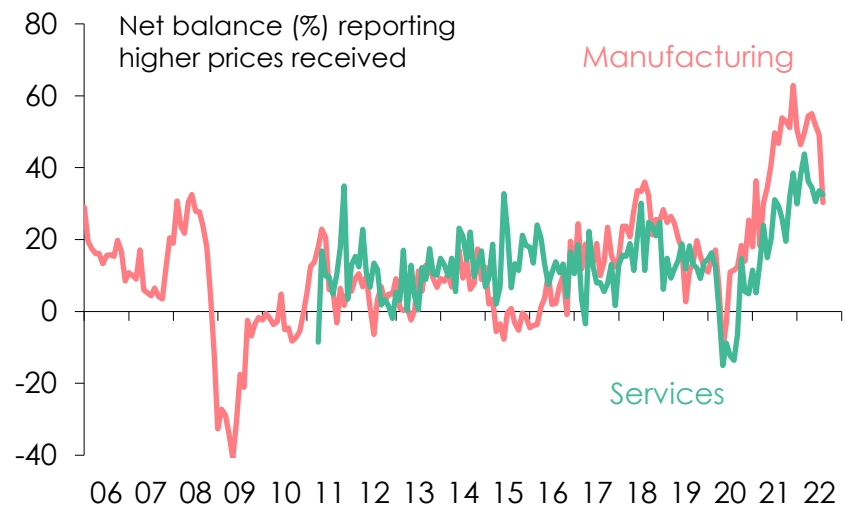
Kansas City Fed manufacturers survey



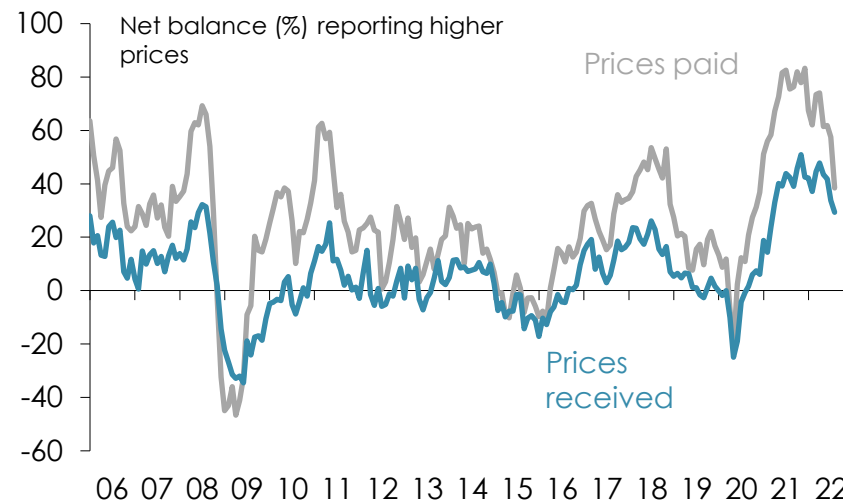
ISM survey – prices paid



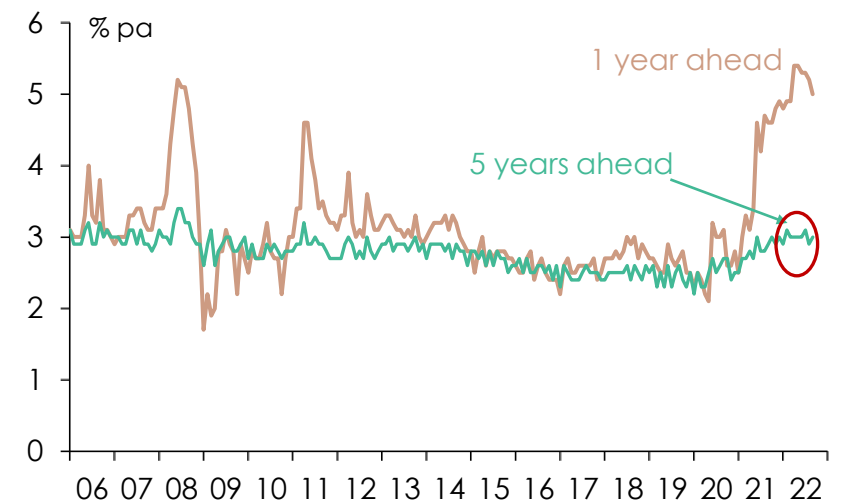
'Philly' Fed survey – prices received



Dallas Fed manufacturers survey



Household inflation expectations

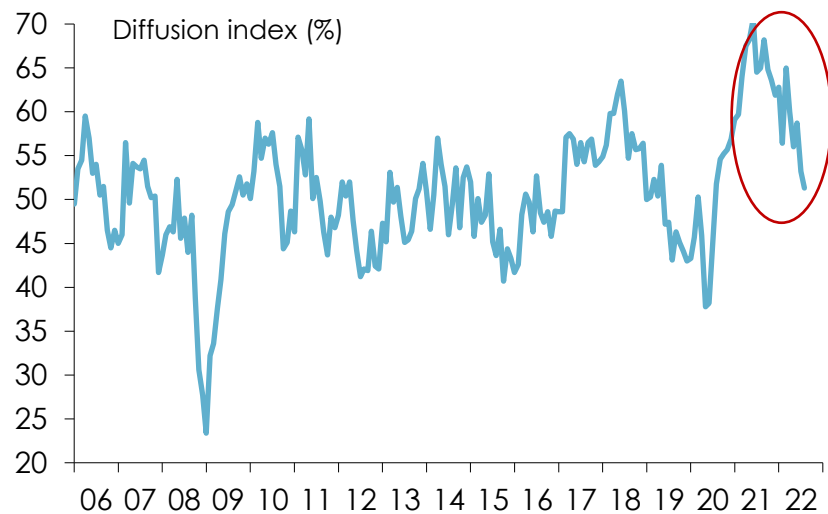


Sources: [Federal Reserve Bank of Philadelphia](#); [Federal Reserve Bank of Kansas City](#); [Federal Reserve Bank of Dallas](#); [Institute of Supply Management](#); [Michigan University Survey Research Center](#). [Return to "What's New"](#).

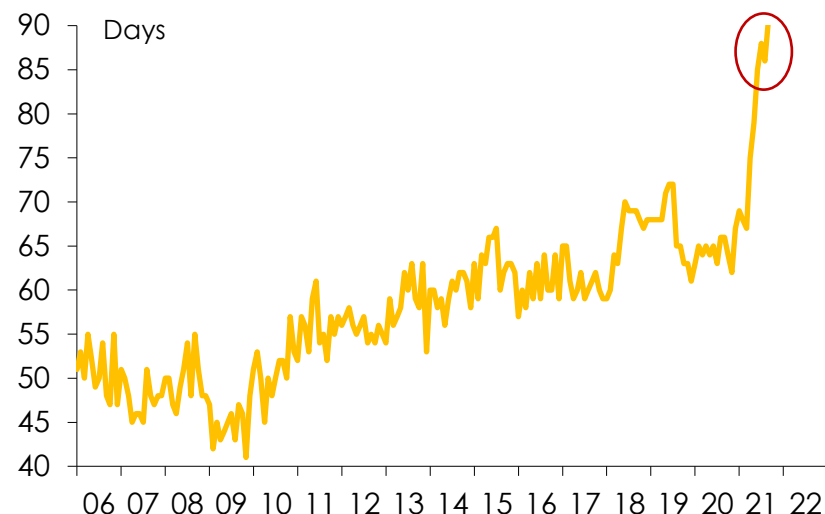
Supply-chain disruptions appear to be easing gradually, but there's still a long way to go

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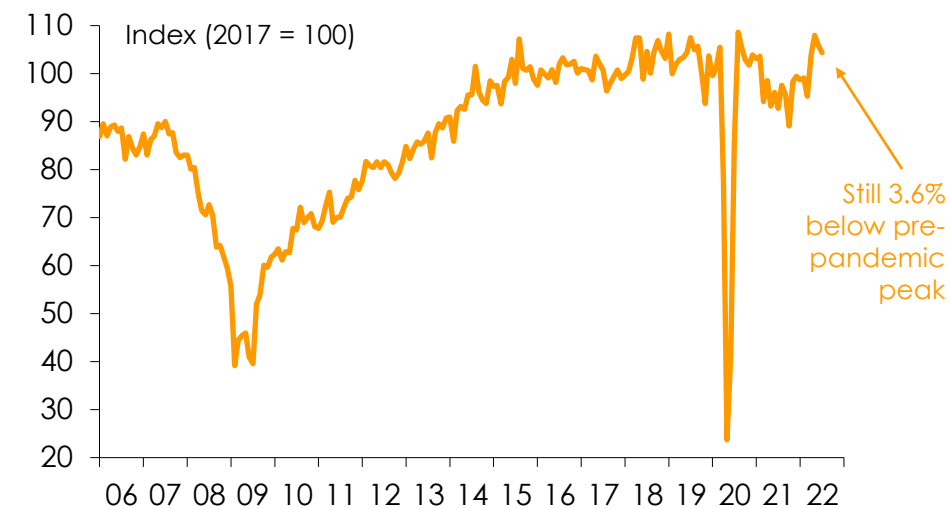
Manufacturers' order backlogs



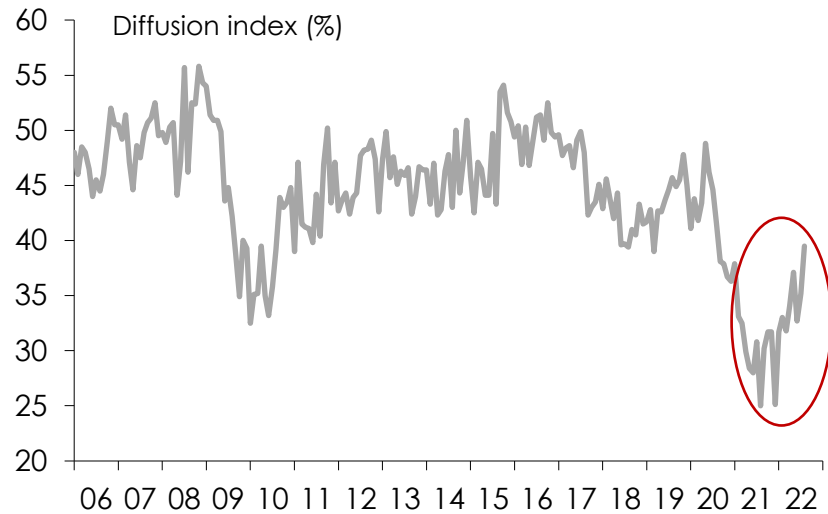
Lead-time for production materials



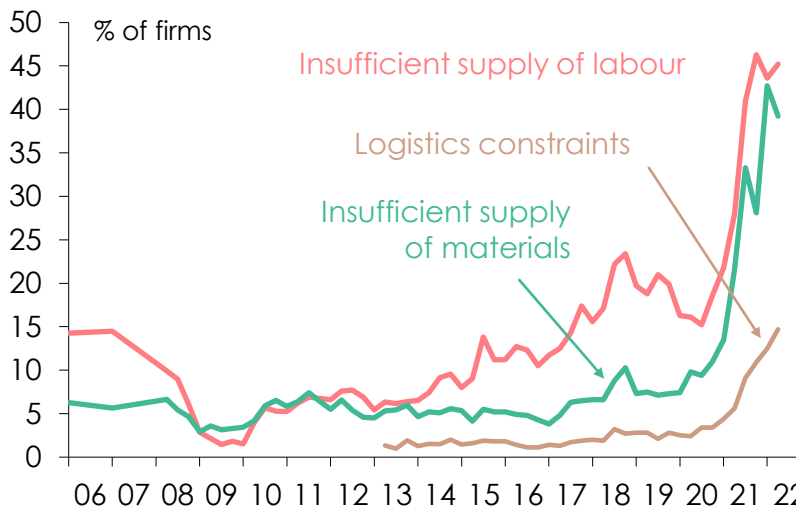
Motor vehicles & parts production



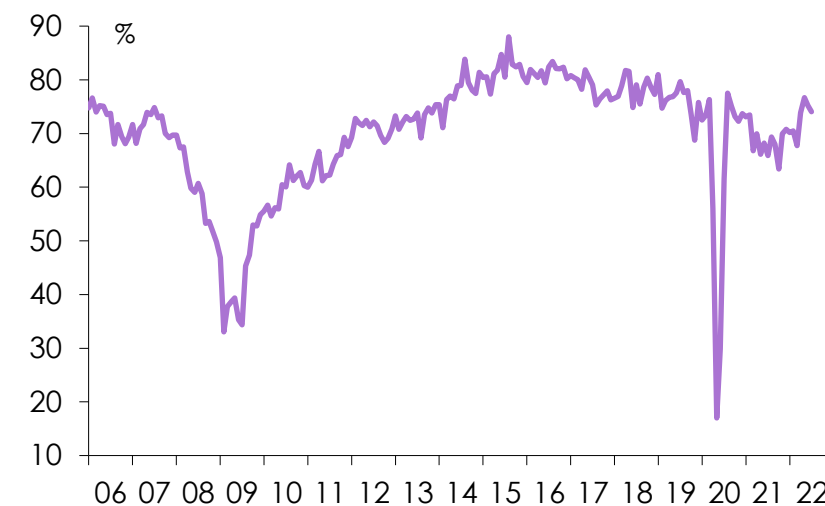
Manufacturers' customer inventories



Reasons for < full capacity



Auto industry capacity utilization

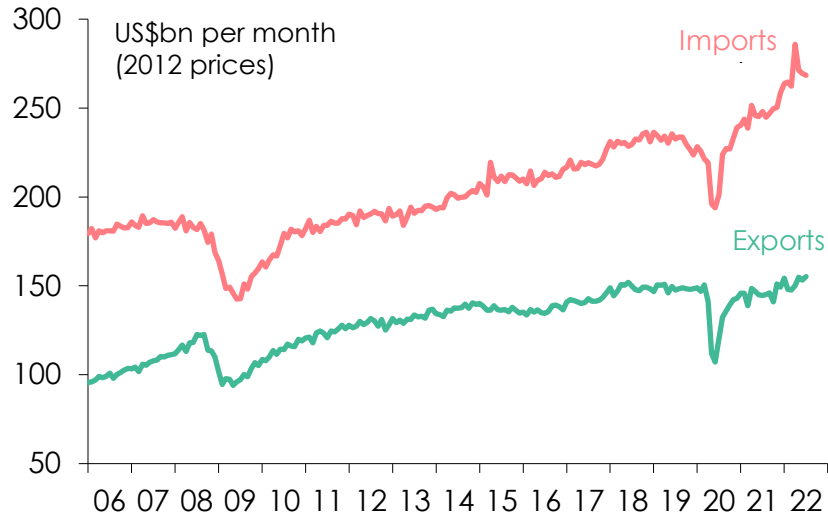


Note: The diffusion index of order backlogs is 50 plus the percentage of respondents reporting longer backlogs minus the percentage reporting shorter backlogs (and similarly for customer inventories). 'Reasons for < full capacity' means reasons for operating at less than full capacity. Sources: Institute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

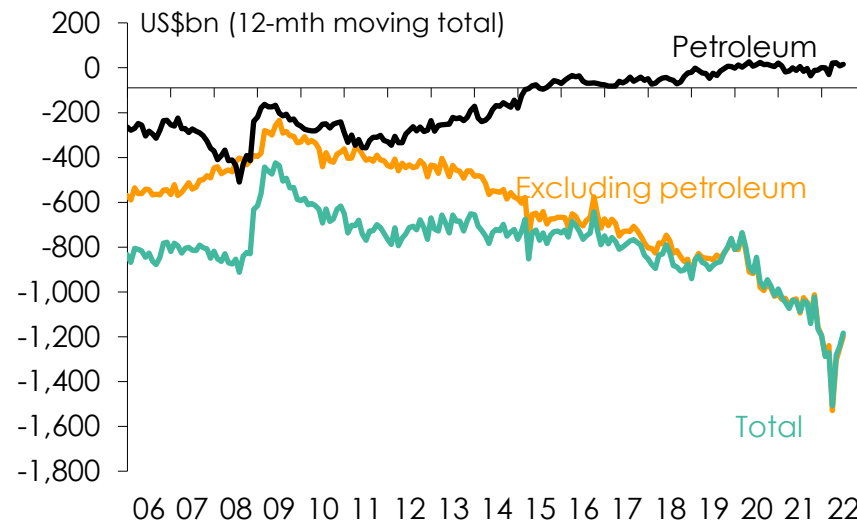
The US goods & services trade deficit narrowed by \$5.3bn to \$79.6bn in June, the smallest this year, with exports up 1.7% and imports down 0.3%

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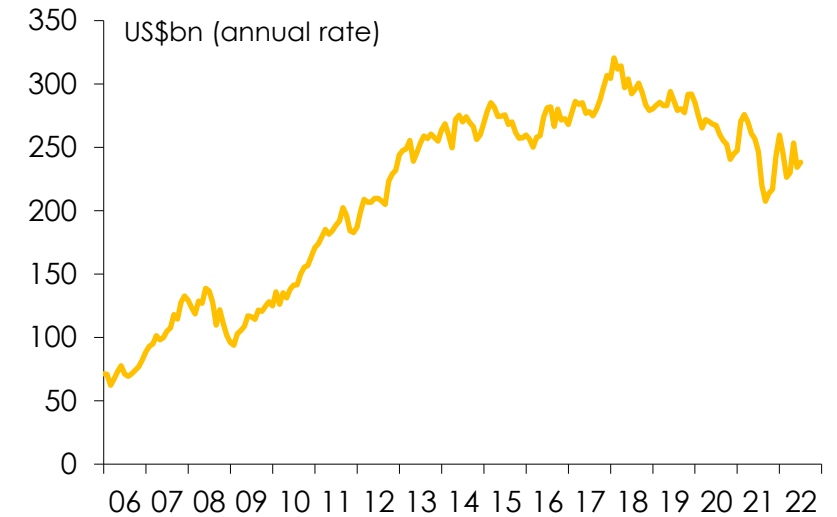
US merchandise trade volumes



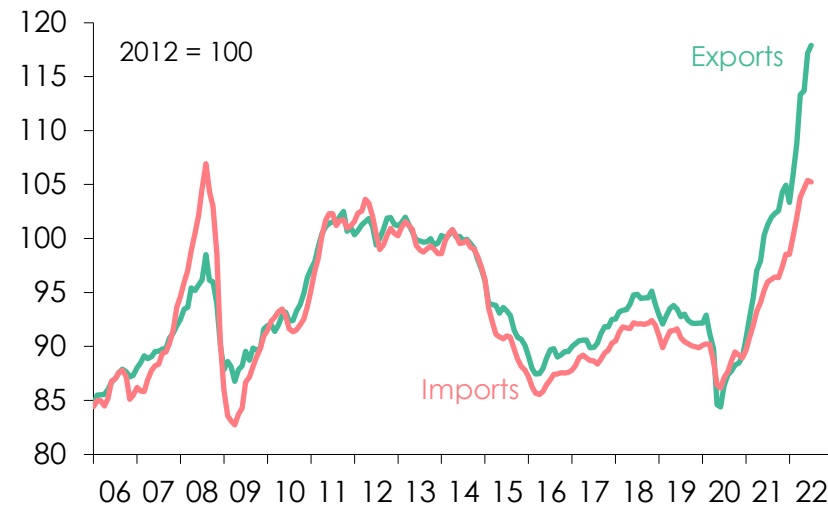
US goods trade balance



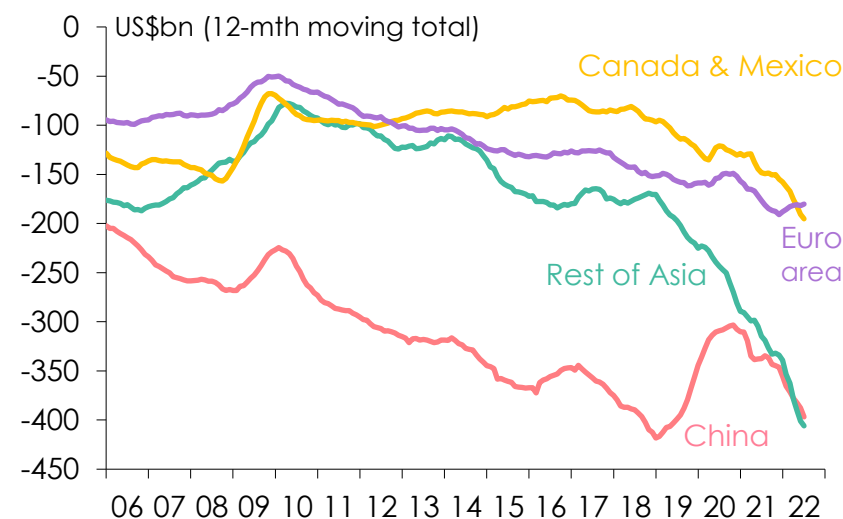
US services trade balance



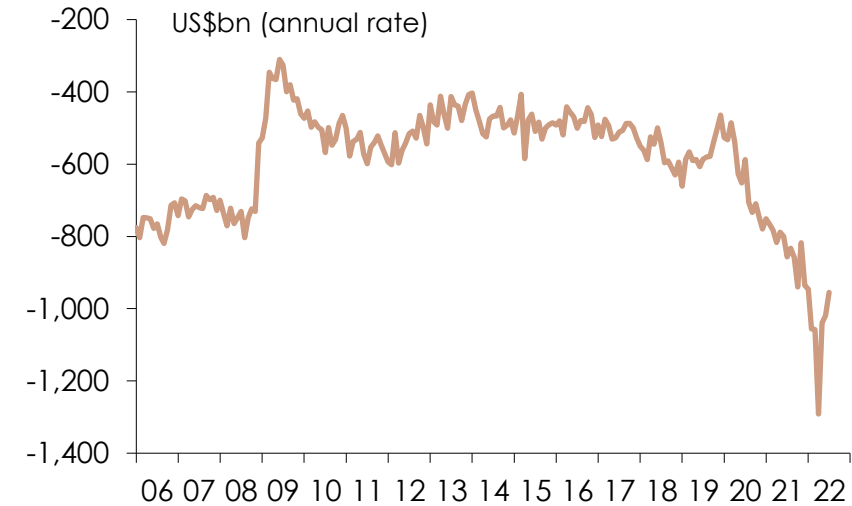
US merchandise trade prices



US bilateral goods trade balances



US goods & services trade balance

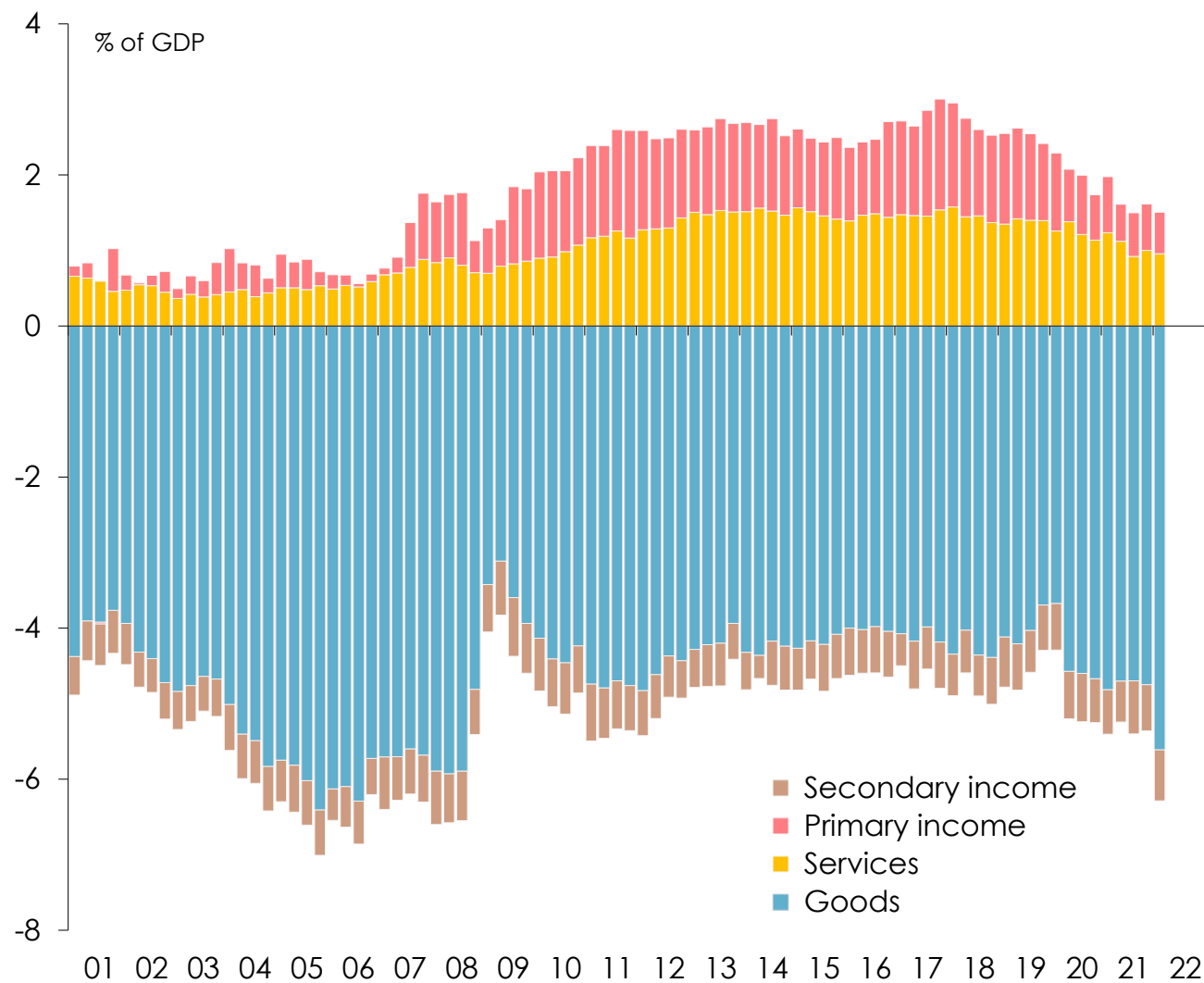


Source: US Census Bureau, [Foreign Trade](#); and US Bureau of Economic Analysis, [Advance Economic Indicators](#), and [U.S. International Trade in Goods and Services](#).
[Return to "What's New"](#).

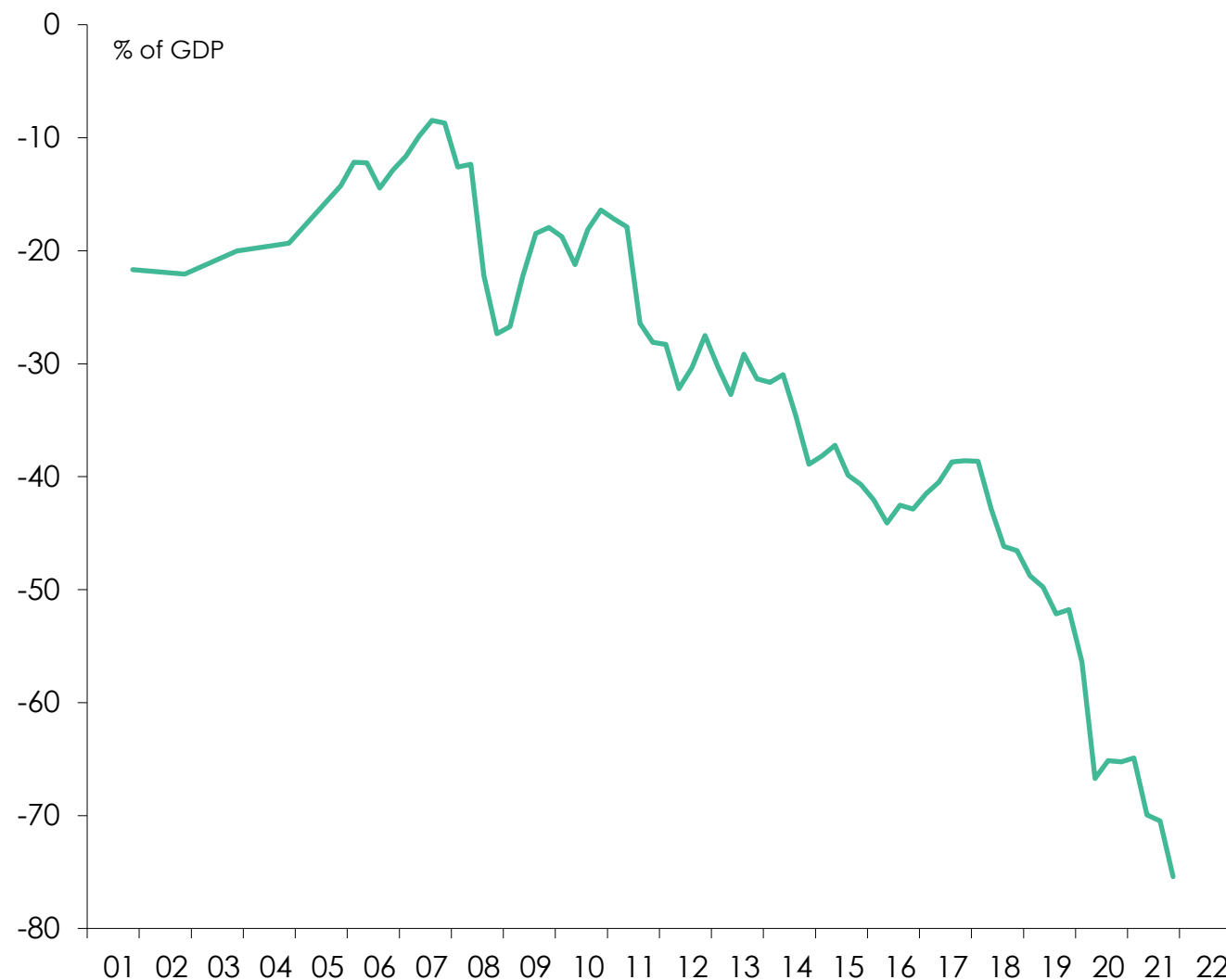
The US current account deficit widened to US\$291bn in Q1, the largest on record in dollar terms and the highest as a pc of GDP since Q3 2008

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US current account balance



US net international investment position

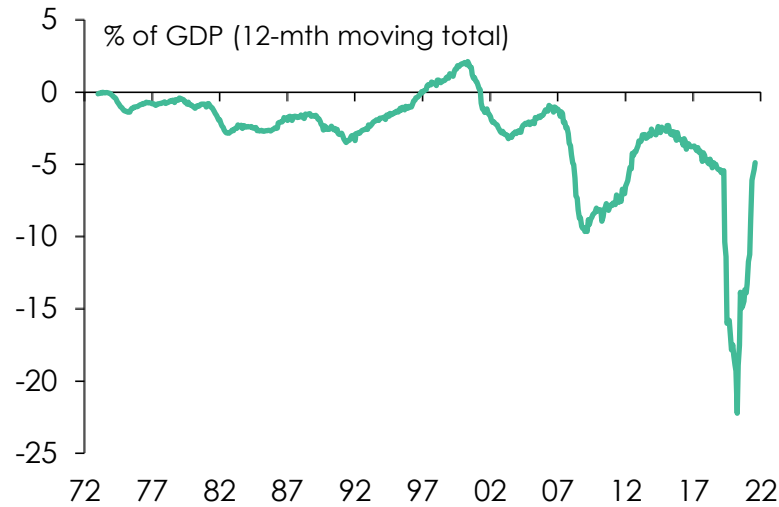


Note: 'Primary income' transactions are those involving investment income or compensation of employees. The US typically runs a surplus on investment income despite having a negative net international investment position since 1989, because US investors are able to derive much higher returns from their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

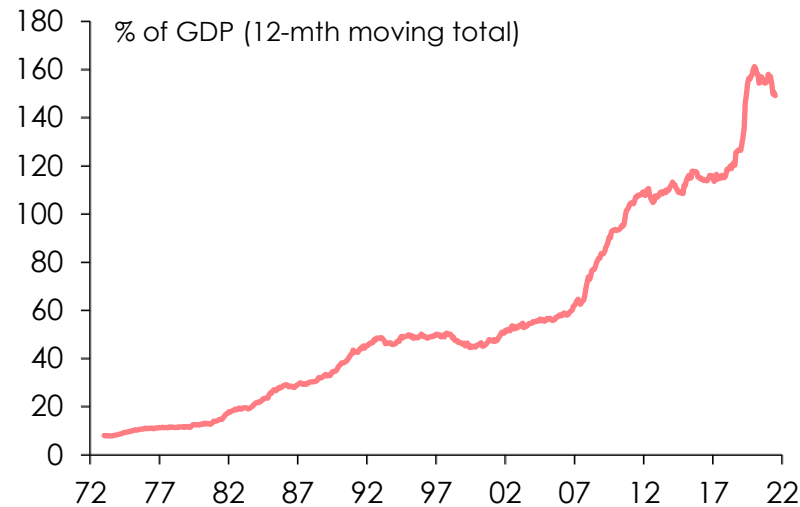
The US Federal budget deficit is continuing to decline sharply, as a result of surging tax revenues and, to a lesser extent, falling spending

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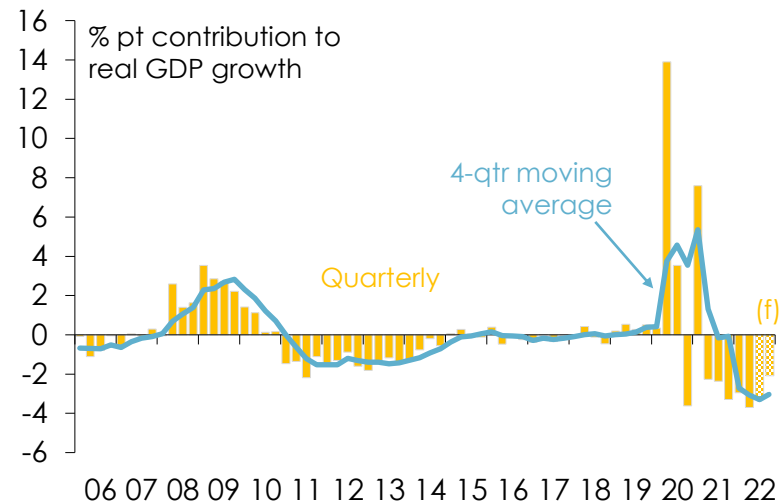
US Federal budget deficit



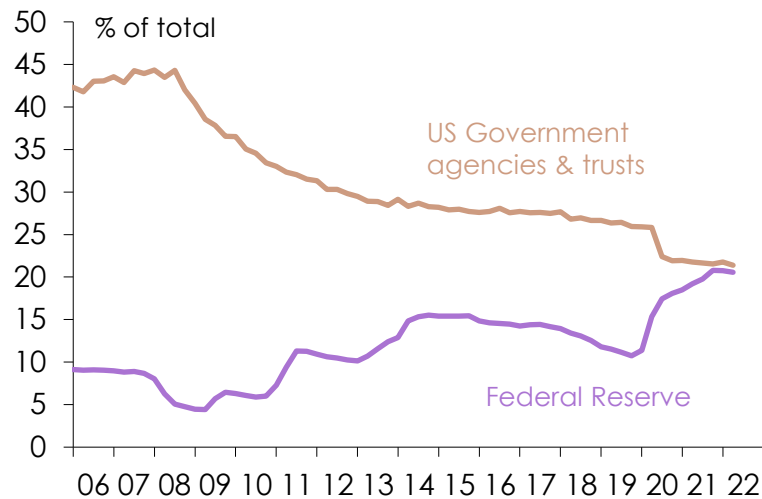
US gross Federal debt



Fiscal policy impact on GDP



Holdings of US Federal debt



- ❑ The US Federal Government recorded a budget deficit of US\$211bn in July, down from \$302bn in July last year
- ❑ For the 12 months ended July the budget deficit totalled \$962bn (4.9% of GDP), the smallest 12-month total since September 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
- ❑ The Senate passed, and the House is likely to pass, the “Inflation Reduction Act” (a scaled-down version of the Administration’s “Build Back Better” proposals) focussed on controlling drug prices, clean energy measures, tax law enforcement, and extension of affordable care subsidies, together with a minimum 15% tax on large corporations and a 1% tax on stock buybacks

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

Fed officials last week downplayed the significance of the better-than-expected July inflation numbers for next month's FOMC meeting decision

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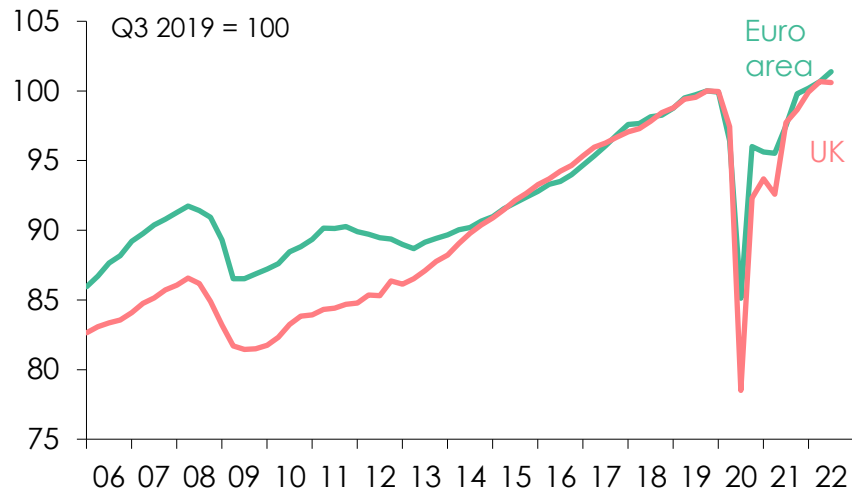
- ❑ As expected, the Federal Reserve **raised its target range for the federal funds rate** by another 75 basis points, to 2.25-2.50%, at its FOMC meeting on 27th July – the second consecutive such increase
 - this brings the cumulative tightening since March to 225 basis points, the fastest since 1981 (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
 - although Friday’s larger-than-expected increase in non-farm payroll employment in July prompted markets to put a third 75bp increase at the September FOMC meeting back ‘on the table’
- ❑ While financial markets took some heart from the lower-than-expected increases in the ‘headline’ and ‘core’ CPI, and the fall in the PPI, in July (**slides 51-52**), several senior Fed officials **re-iterated** that inflation was still “unacceptably high”, that it was “far too early” to “declare victory”, and that the funds rate would need to rise further (to between 3½% and 4%) by the end of this year

Europe

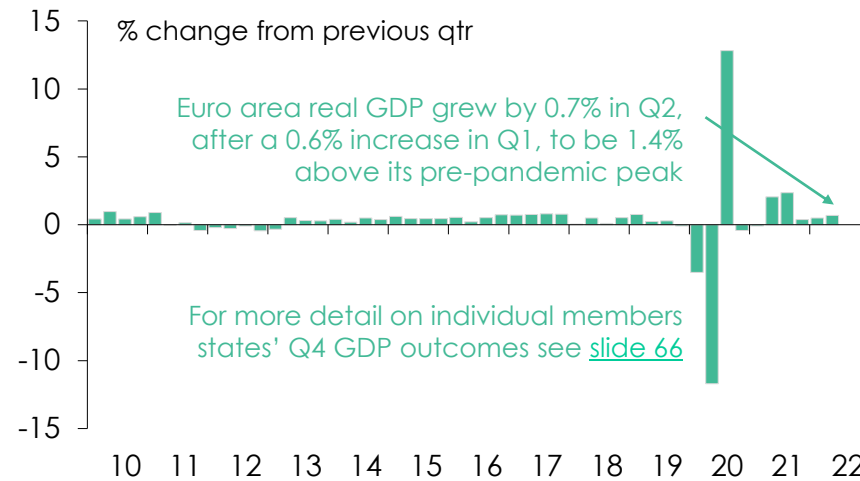
The UK's real GDP shrank 0.1% in Q2, due to falls in private and government consumption, and in public investment

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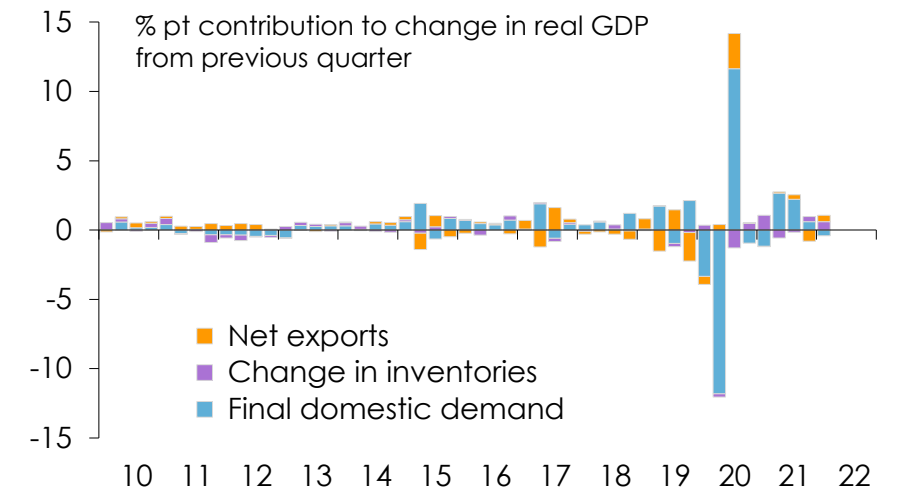
Euro area and UK real GDP



Euro area quarterly GDP growth



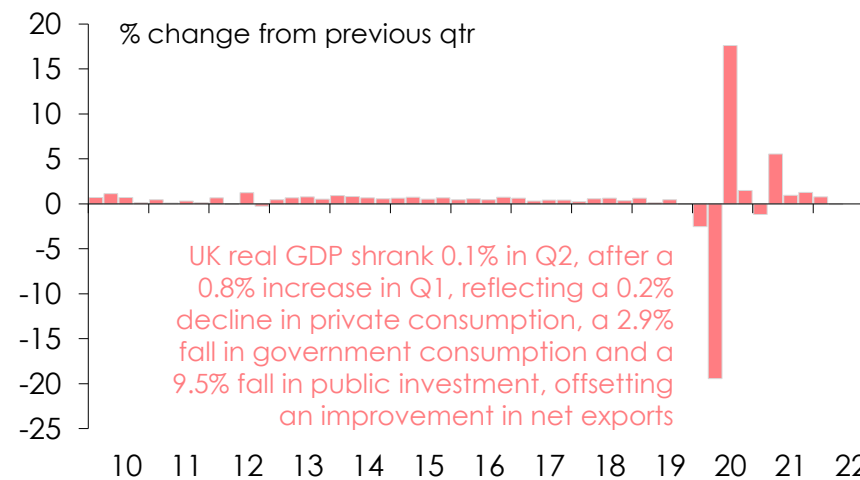
Contributions to quarterly EA GDP



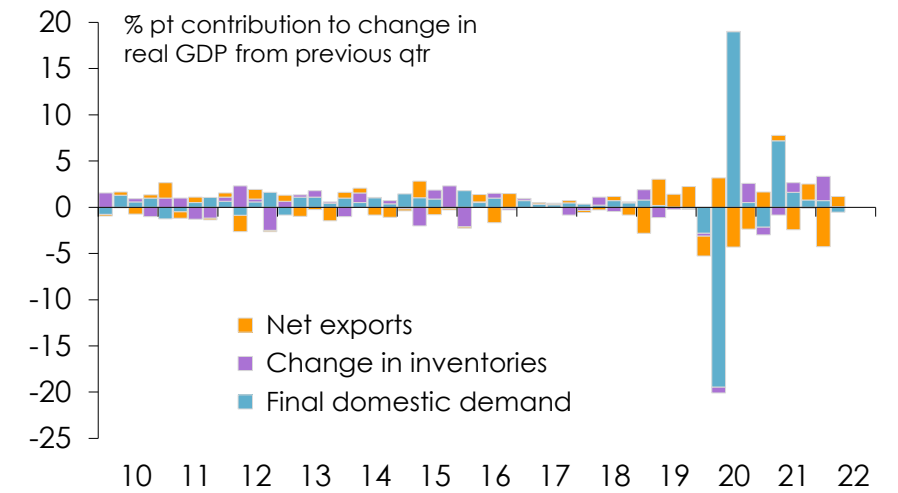
Euro area and UK terms of trade



UK quarterly GDP growth



Contributions to quarterly UK GDP

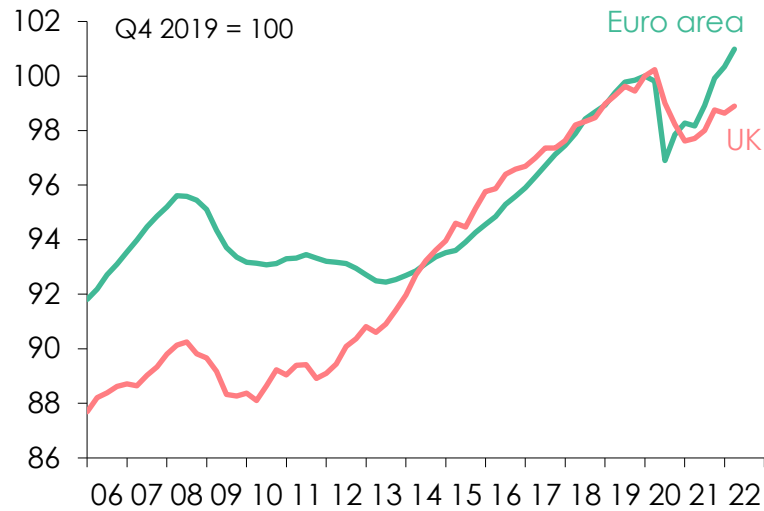


Note: the 'terms of trade' is the ratio of the implicit price deflator of exports of goods & services to that of imports of goods & services – it gives an indication of the income gains or losses arising from changes in the prices of goods & services traded with the rest of the world. Sources: Eurostat,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

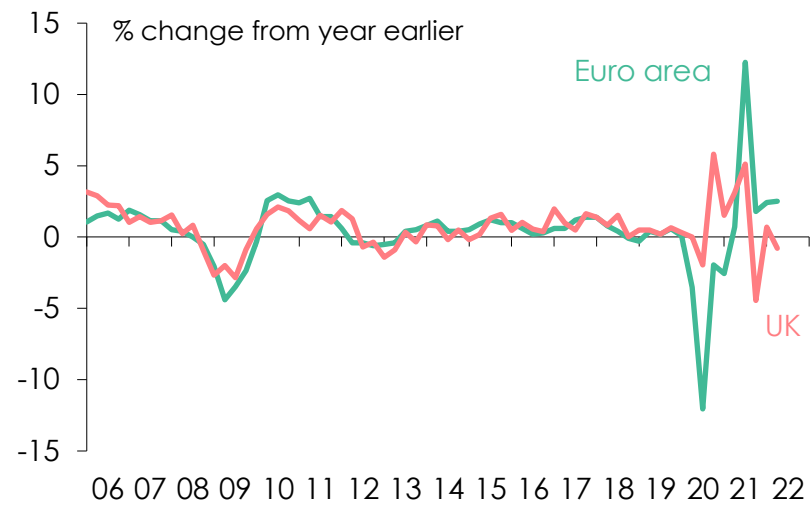
Euro area unemployment fell to a new record (since 1998) low of 6.6% in April, May & June, while the UK's unemployment rate remained at 3.8%

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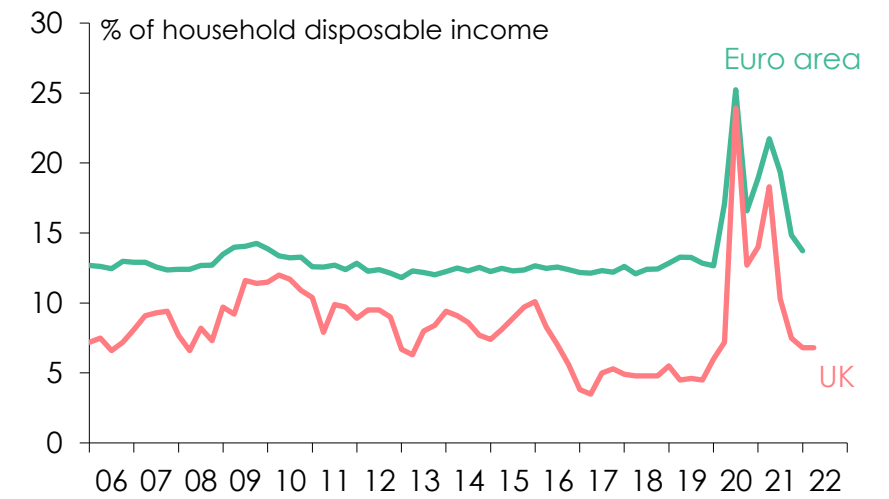
Employment



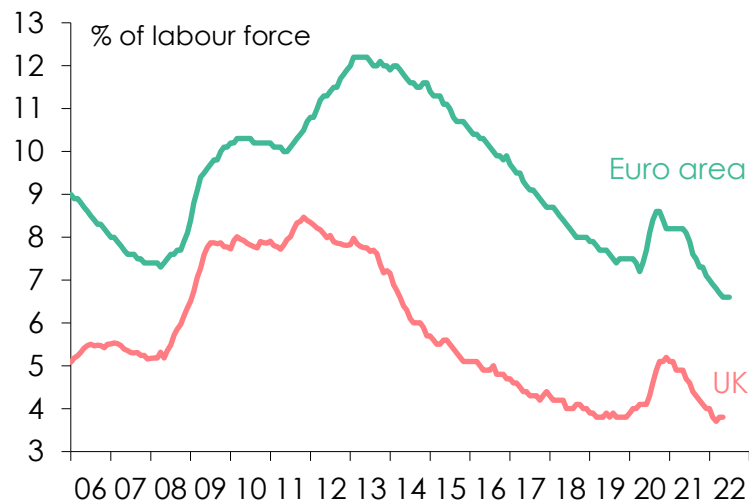
Labour productivity



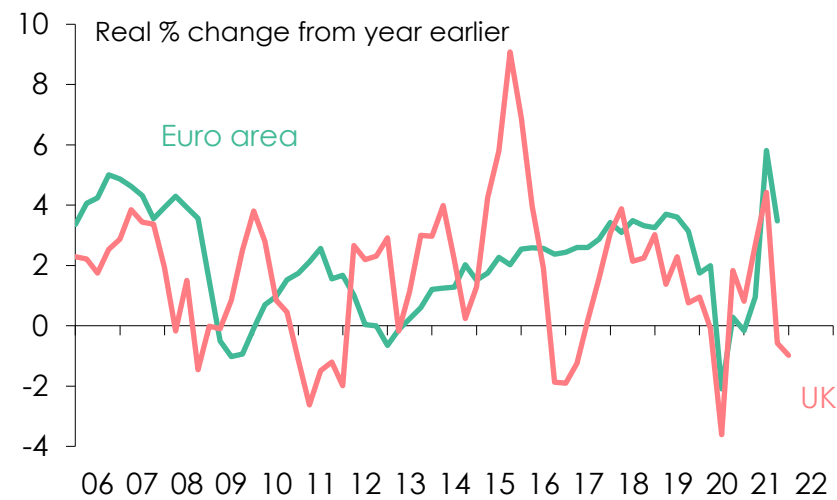
Household saving rates



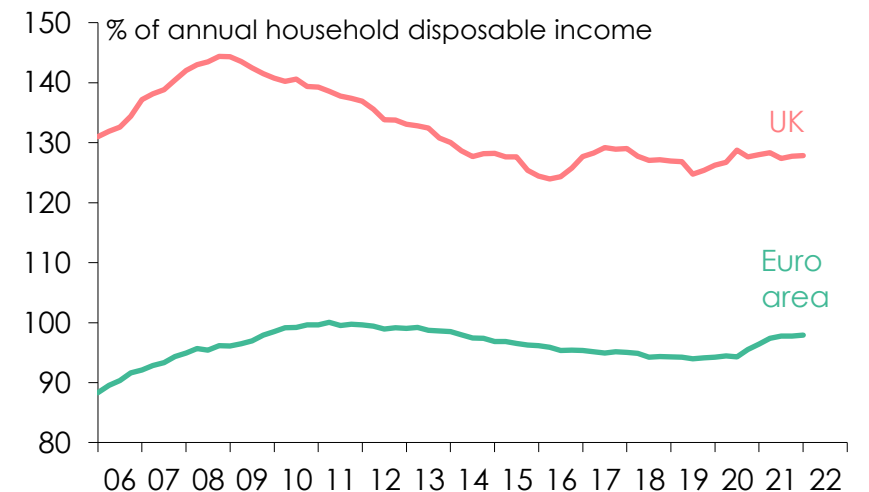
Unemployment rates



Household disposable income



Household debt

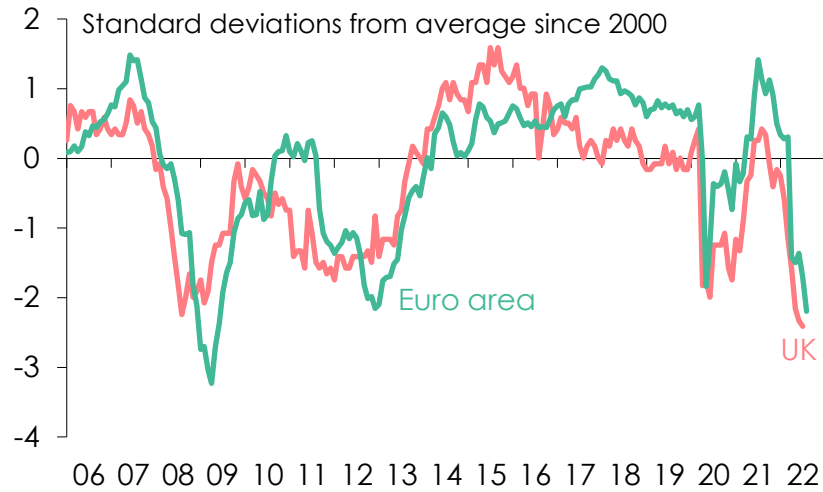


Sources: Eurostat, [Employment and unemployment \(Labour force survey\)](#), [Household saving rate](#) and [Labour productivity and unit labour costs](#); UK Office for National Statistics, [Employment in the UK](#), [Unemployment rate](#) (note, UK unemployment data are shown as a three-month moving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

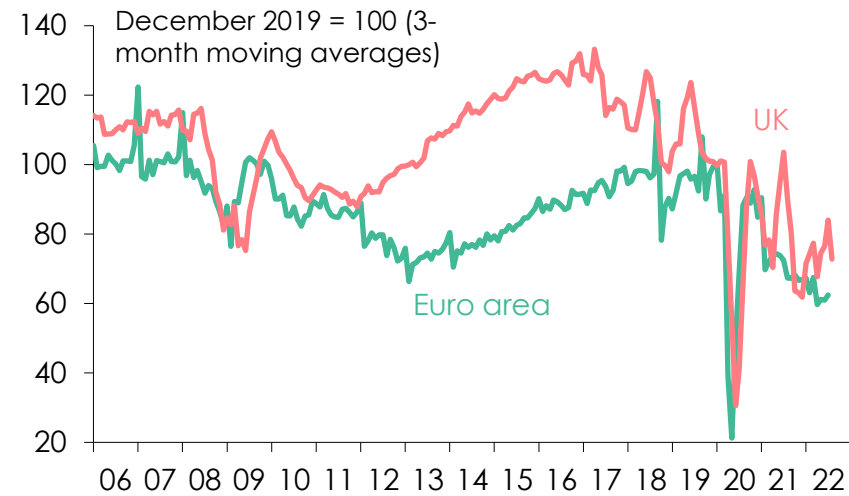
Consumers in the euro area are now almost as pessimistic as those in the UK, although business confidence has held up better in the euro area

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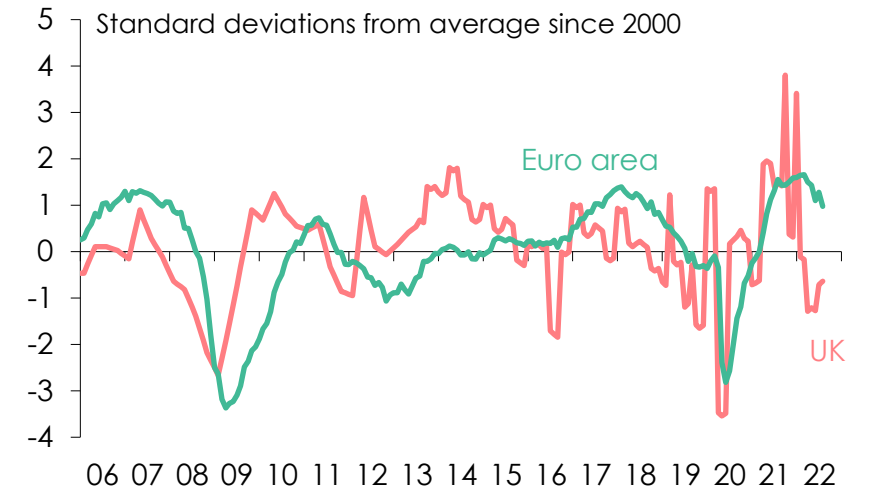
Consumer confidence



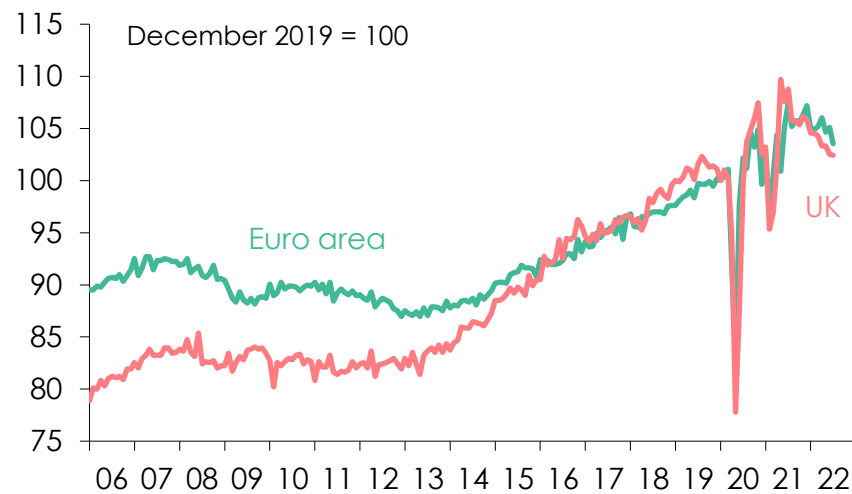
New car registrations



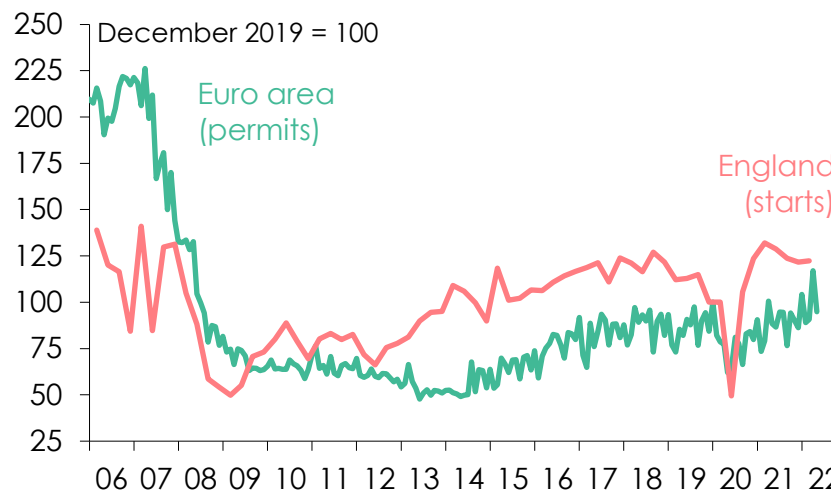
Business confidence



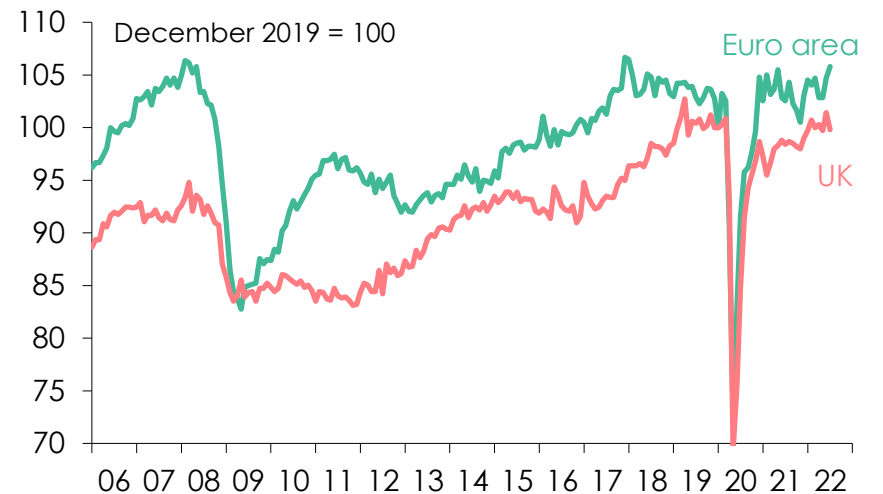
Retail sales volume



Housing activity



Manufacturing production

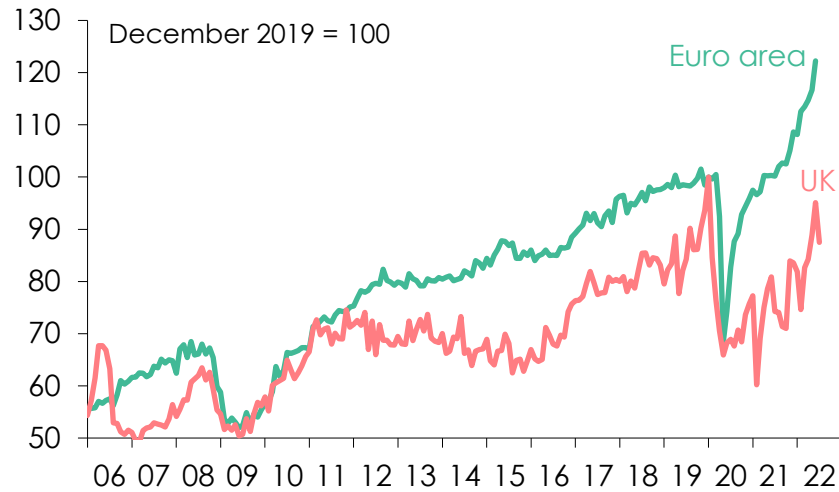


Sources: European Commission, [Business and consumer surveys](#); GfK, [Consumer confidence barometer](#); Confederation of British Industry, [Industrial Trends Survey](#); Eurostat, [Turnover and volume of sales in wholesale and retail trade](#), [New registrations of passenger cars](#), [Building permits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

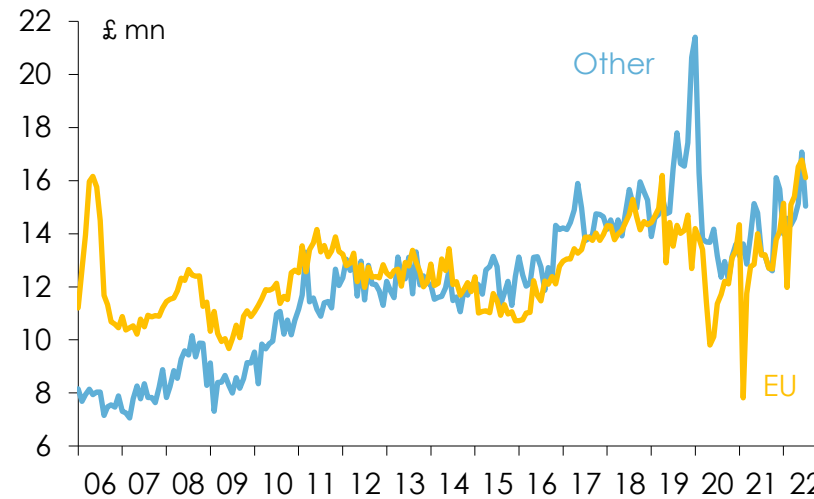
Higher prices for energy imports have caused the euro area's trade balance to slip into deficit, and also widened the UK's external deficits

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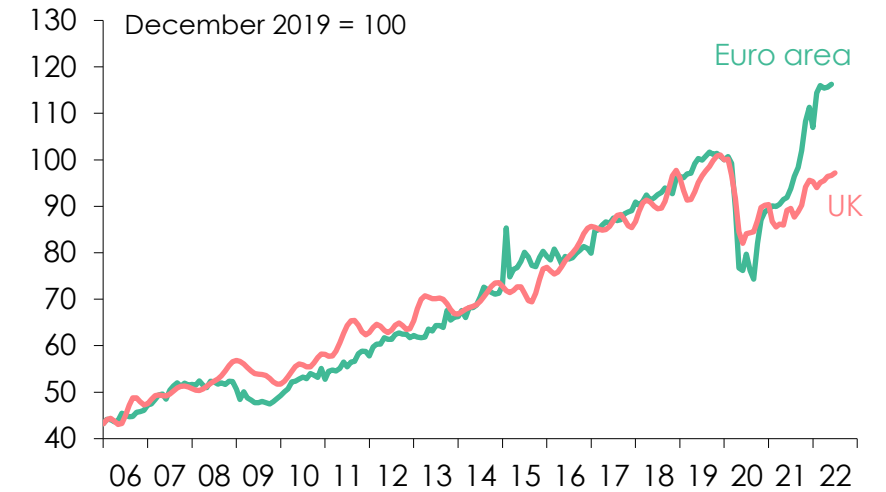
Merchandise exports



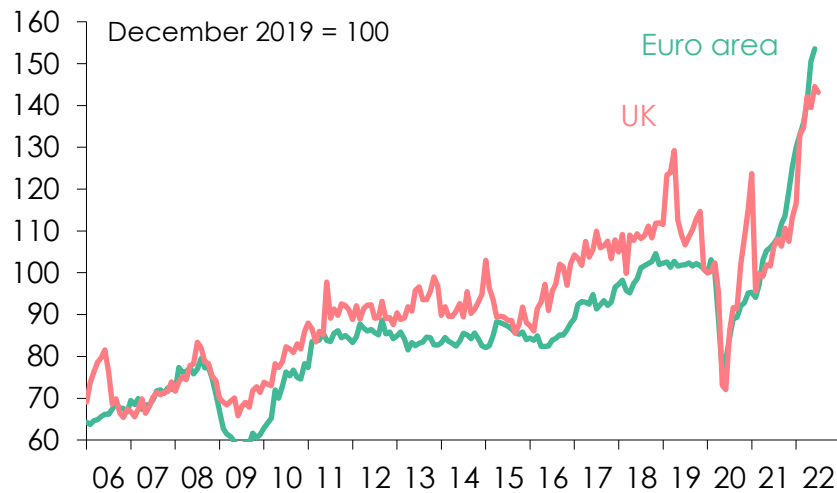
UK exports by destination



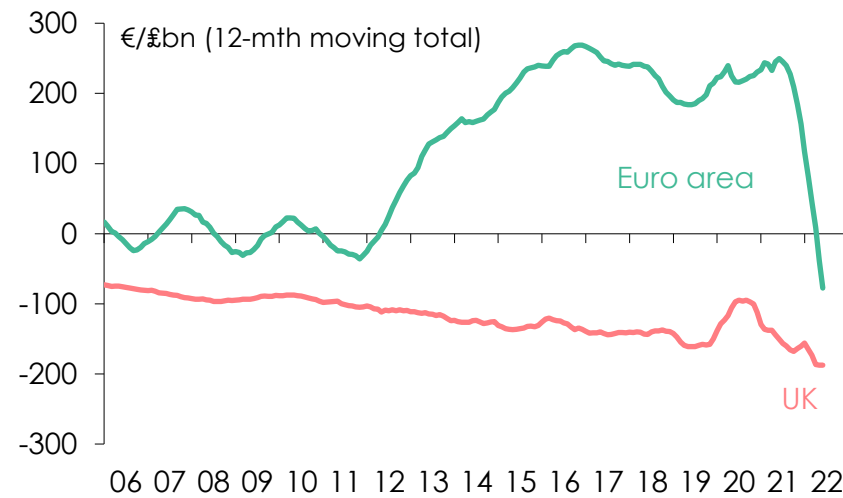
Services exports



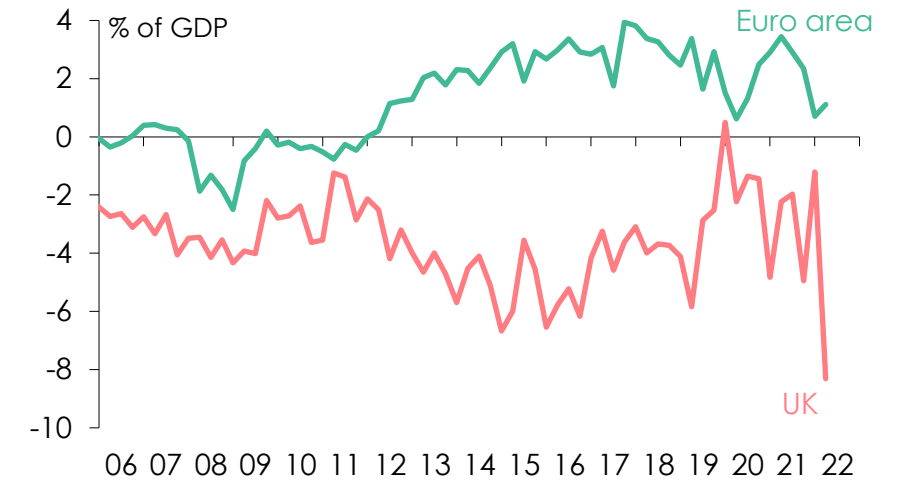
Merchandise imports



Merchandise trade balances



Current account balance

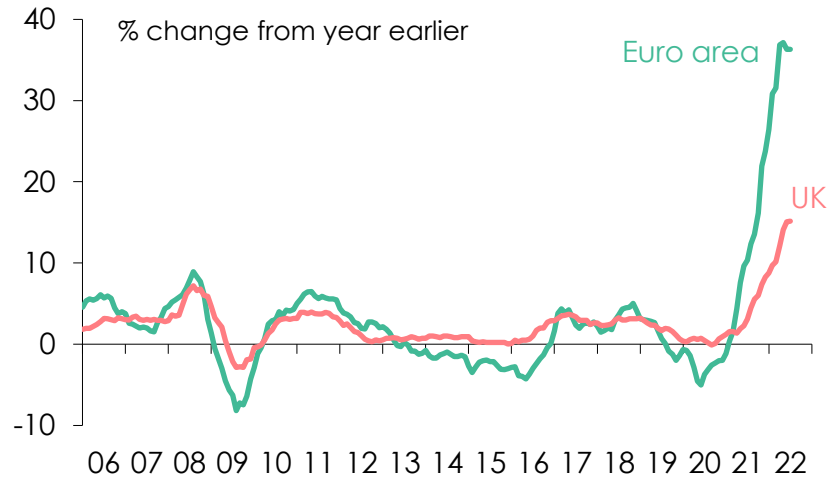


Sources: European Central Bank, Statistical Data Warehouse, [External Trade](#), [Balance of Payments and International Investment Position - Services](#), and [Balance of Payments and International Investment Position - Current Account](#); UK Office for National Statistics, [UK Trade](#) and [BoP Current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

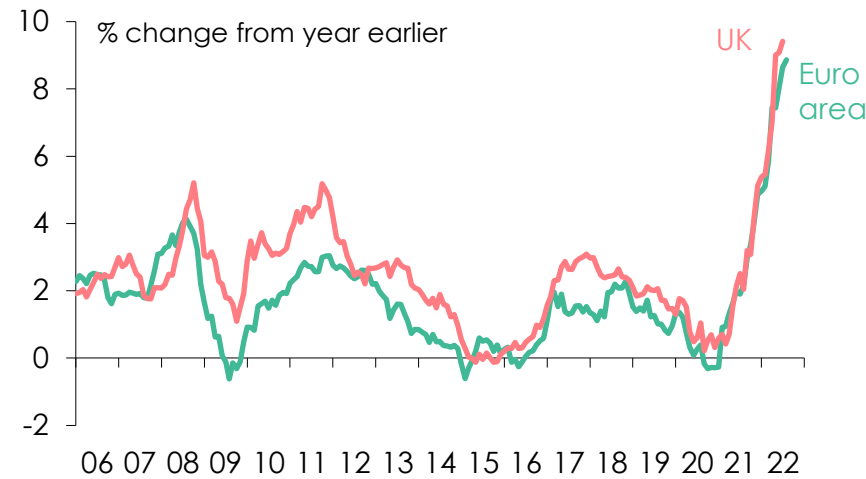
The euro area's annual 'headline' inflation rate rose to 8.9% in July, according to the 'flash' estimate, while the 'core' rate reached 4.0%

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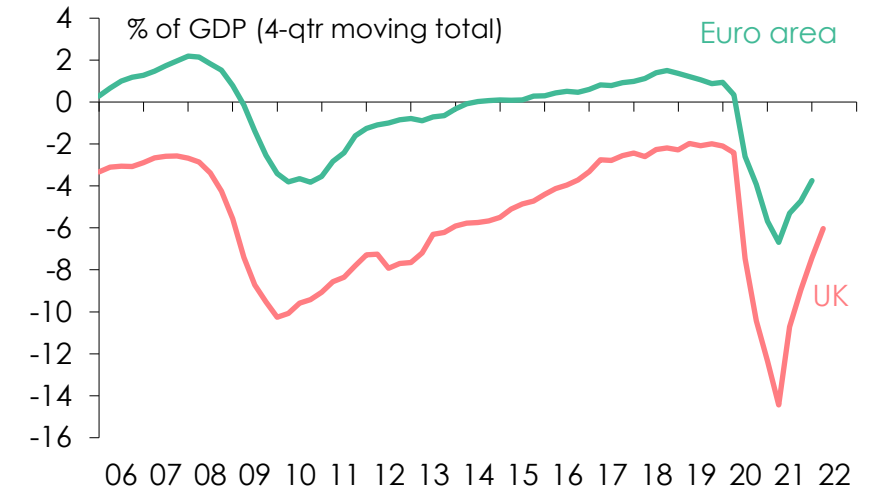
Producer prices



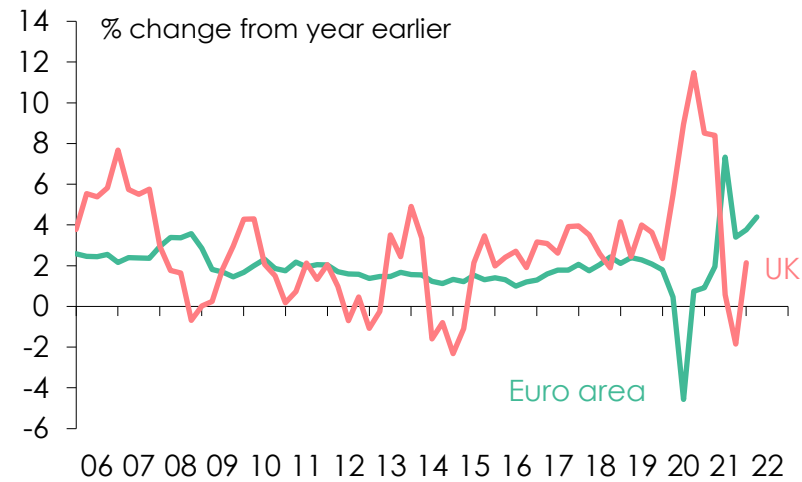
'Headline' consumer prices



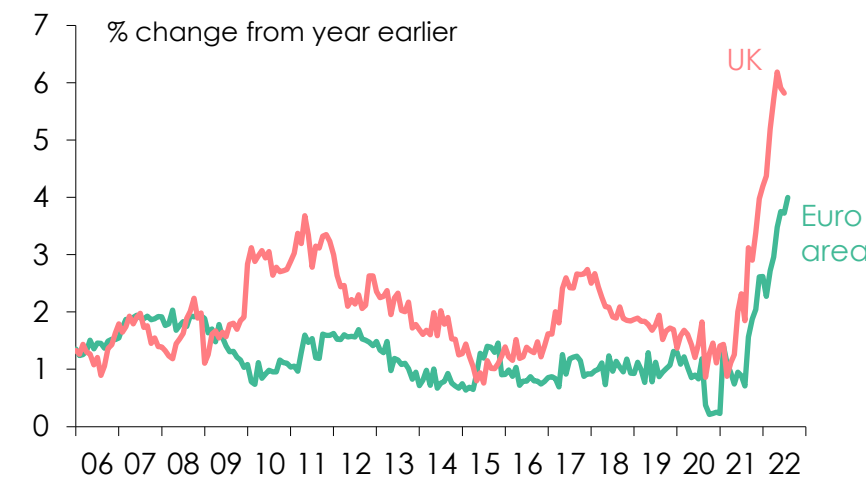
Government fiscal balance



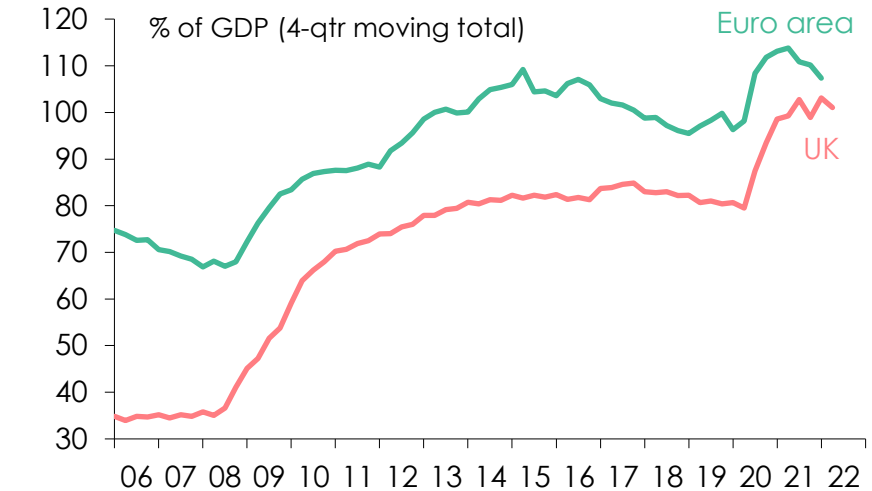
Labour costs



'Core' consumer prices



Government net debt

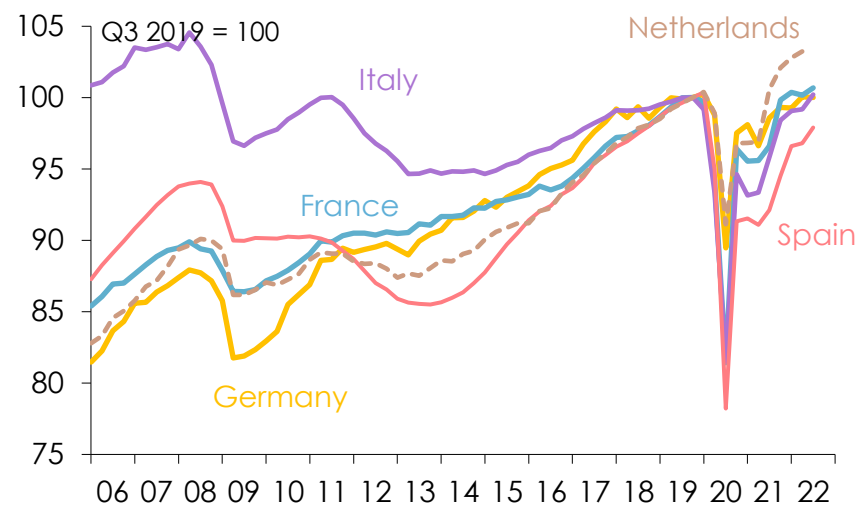


Note: Consumer price indices for the euro area and UK are 'harmonized' indices which exclude owner-occupied housing costs. Sources: Eurostat, [Producer prices in industry](#), [Compensation per employee and hours worked per employed person](#), [Consumer price index](#), and [Government finance statistics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

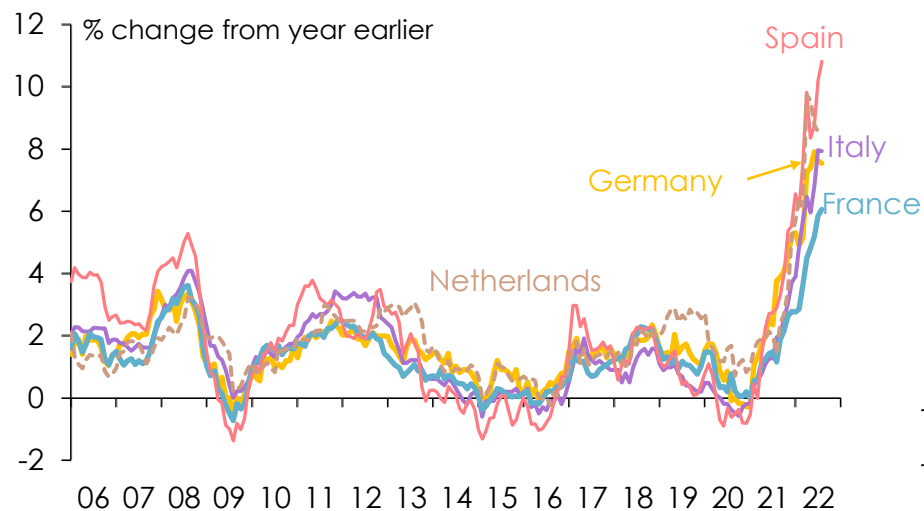
The end of ECB asset purchases has led to a significant widening in yield spreads between Spanish & especially Italian, and German bonds

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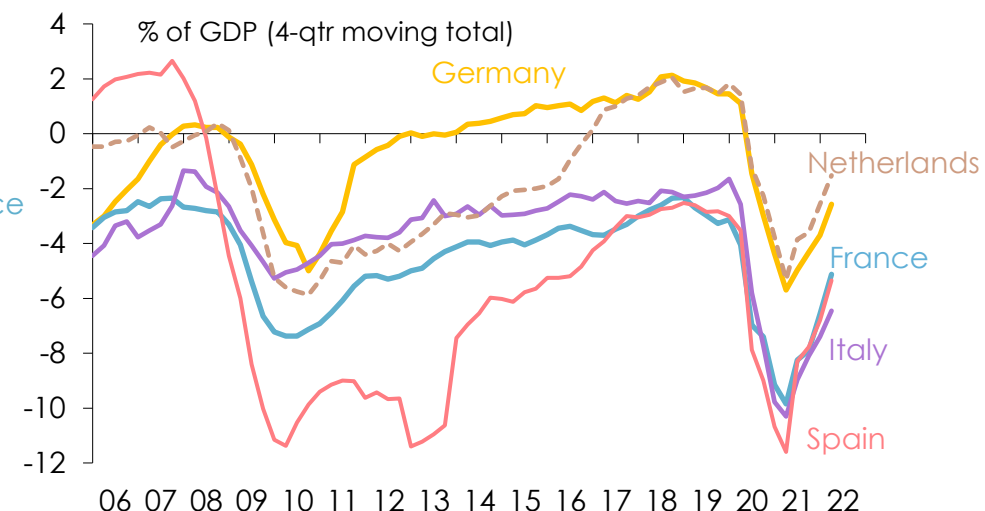
Real GDP



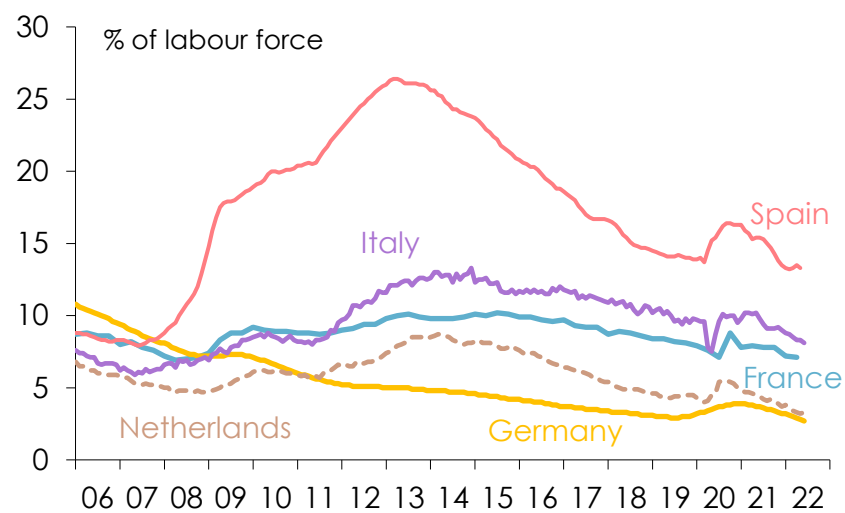
Inflation



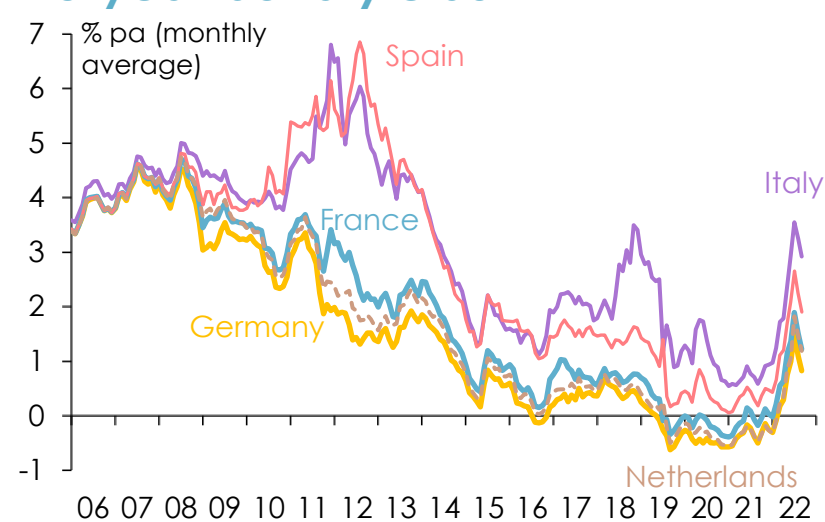
Government net lending



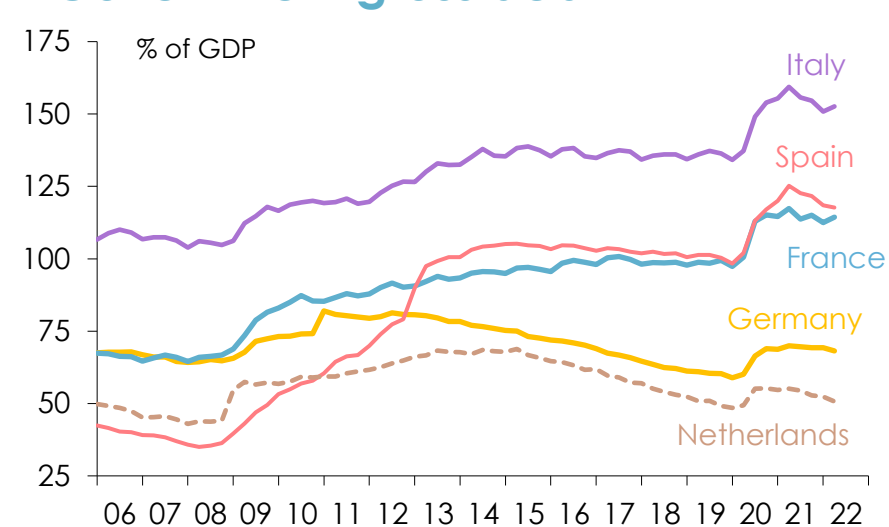
Unemployment



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 22nd July
 - this was twice as much as had been foreshadowed at the previous GC meeting on 16th June, which the GC **said** was prompted by its “updated assessment of the inflation outlook” and, by exiting from negative rates, allowed the GC to “make a transition to a meeting-by-meeting approach to interest rate decisions”, foreshadowing that “further normalization of interest rates will be appropriate” at upcoming meetings
- ❑ The ECB also approved the establishment of a **Transmission Protection Instrument** (TPI) to “ensure that the monetary policy stance is transmitted smoothly across all euro area countries”
 - this instrument will allow the ECB to “make secondary market purchases of securities issued in jurisdictions experiencing a deterioration in financing conditions not warranted by country-specific fundamentals” in order to “counter unwarranted, disorderly market dynamics that pose a serious threat to the transmission of monetary policy across the euro area”
 - in other words, to prevent destabilizing ‘blow-outs’ in the spreads between euro area member states bond yields
- ❑ At her **post-meeting press conference**, ECB President Christine Lagarde explained that the decision to raise rates by 50 bp (rather than the 25bp that had been foreshadowed) was prompted by a “clear realization of upside risk to inflation” (as evidenced by higher-than-forecast inflation outcomes since the previous GC meeting), and by the “substantial” fall in the euro in recent weeks “which obviously has a bearing on inflation going forward”
- ❑ Mme Lagarde also indicated that the ‘guidance’ provided after the GC’s June meeting that the initial rate increase in July could be followed by a larger increase at the next meeting on 8th September was “no longer applicable”
 - the ECB would “determine what step we take” based on “the data that we receive”
 - she went on to say that “the ultimate destination of our policy path remains the same, which is to progressively raise interest rates to [a] broadly neutral setting” (although she didn’t know what that “neutral setting” was)

The Bank of England raised its bank rate by 50bp this month, and forecast that inflation would peak at 13% in Q4, and that real GDP would shrink 2¼%

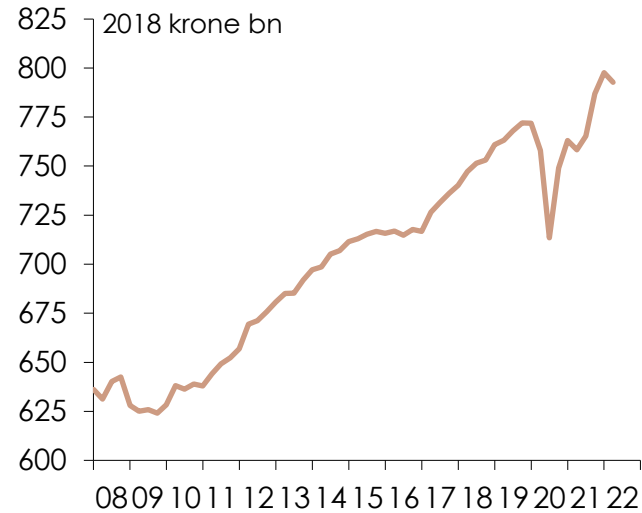
THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

- ❑ The [Bank of England](#) raised its Bank Rate by 50bp to 1.75% at its Monetary Policy Committee meeting on 4th August
 - this was the sixth successive increase, and the largest since February 1995, bringing the cumulative increase since the first move in December last year to 165 bp
- ❑ In the [Monetary Policy Summary](#) published after the meeting, the MPC said that the latest increase was warranted by “elevated” domestic cost and price pressures, and the “tight” labour market, which created “risk that a longer period of externally generated price inflation will lead to more enduring domestic price and wage pressures”
 - the seven (out of eight) MPC members voting for a 50bp increase judged that “a faster pace of policy tightening at this meeting would help to bring inflation back to the 2% target sustainably in the medium term, and to reduce the risks of a more extended and costly tightening cycle later”
- ❑ The MPC also indicated that it was “provisionally minded” to commence selling gilts out of its Asset Purchase Facility in September, with sales likely to be of the order of £10bn per quarter (over and above redemptions)
- ❑ In the [Monetary Policy Report](#) released after the MPC meeting, Bank of England staff expect the annual CPI inflation rate to peak at 13.1% in Q4 this year (3 pc points higher than the previous forecast in May) before falling to 5.5% in Q4 next year and then to 1.4% by Q4 2024
 - the upward revisions are largely attributable to energy prices (which are expected to account for 6½ pc pts of the peak inflation rate in Q4), but also reflect faster than previously forecast growth in labour costs
- ❑ The Bank explicitly predicts that the UK economy will enter recession in Q4 this year, with real GDP contracting by 2¼% over five quarters to Q4 2023, with growth thereafter being “very weak by historical standards” -
 - the recession is largely the result of the “adverse impact of the very sharp increases in energy, non-energy commodities and tradable goods prices on UK household real incomes and spending”
 - the Bank expects the unemployment rate to remain at around its present level of 3¾% through Q1 next year, but then rise to 4¾% by Q4 next year, and to reach 6¼% by the second half of 2025

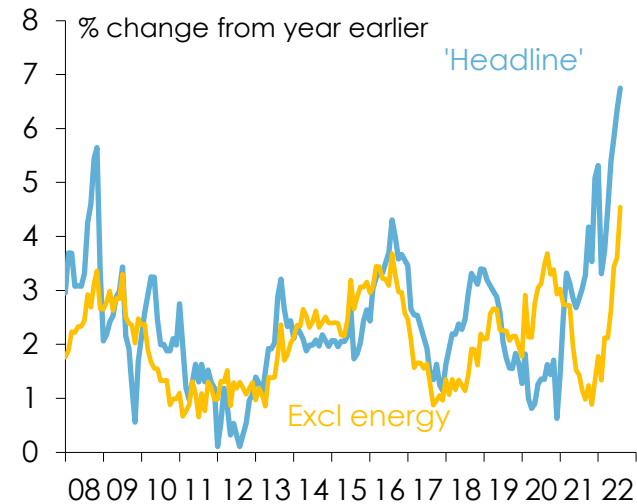
Norway's consumer prices rose 6.8% over the year to July, the fastest since January 1988, while the 'core' inflation rate jumped to 4.5%

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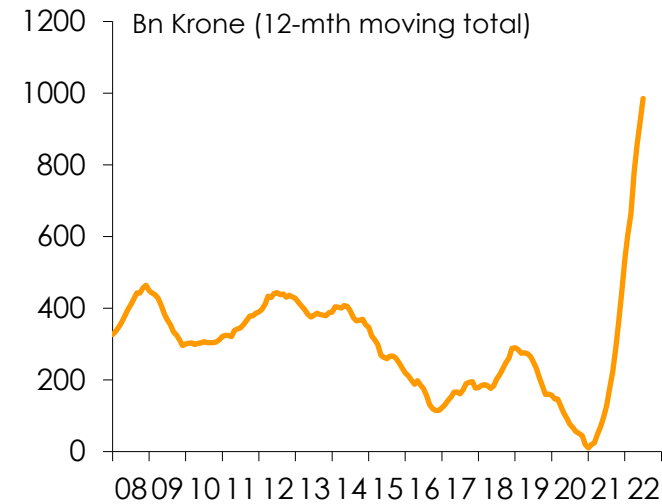
'Mainland' real GDP



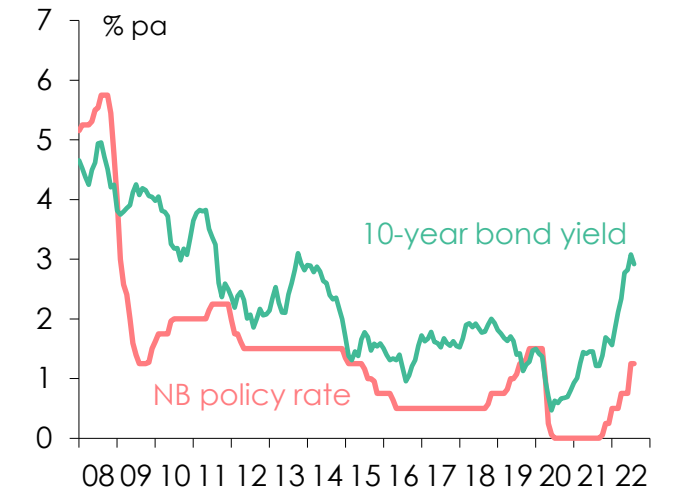
Inflation



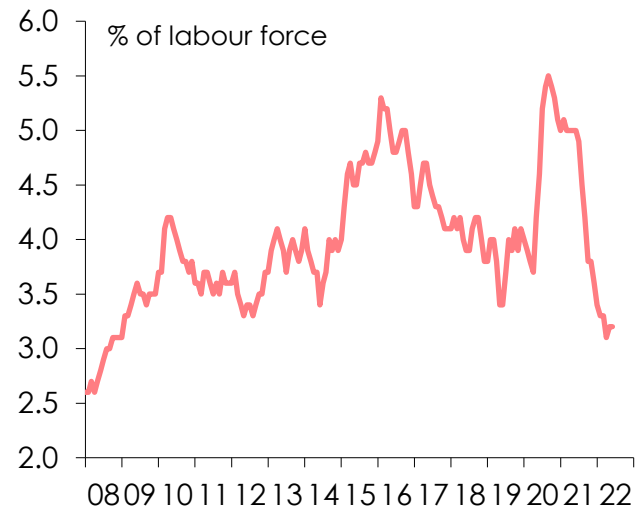
Trade balance



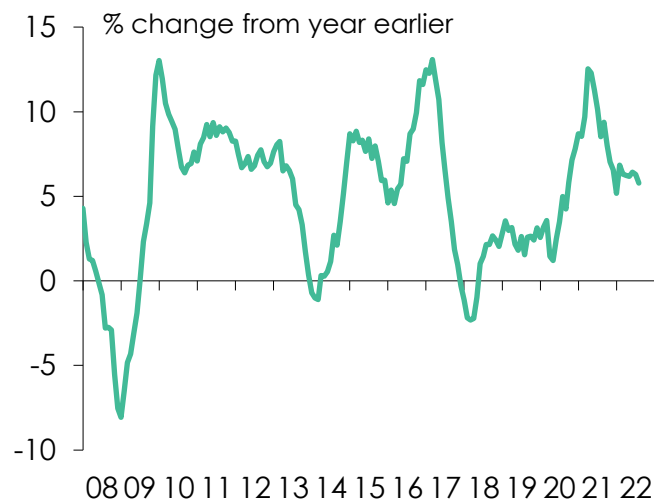
Interest rates



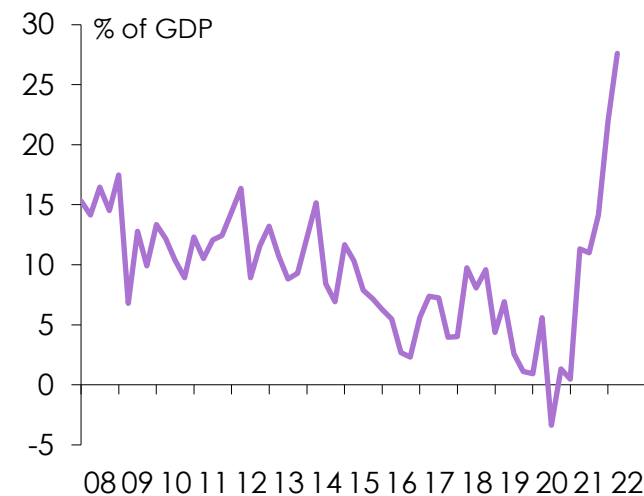
Unemployment



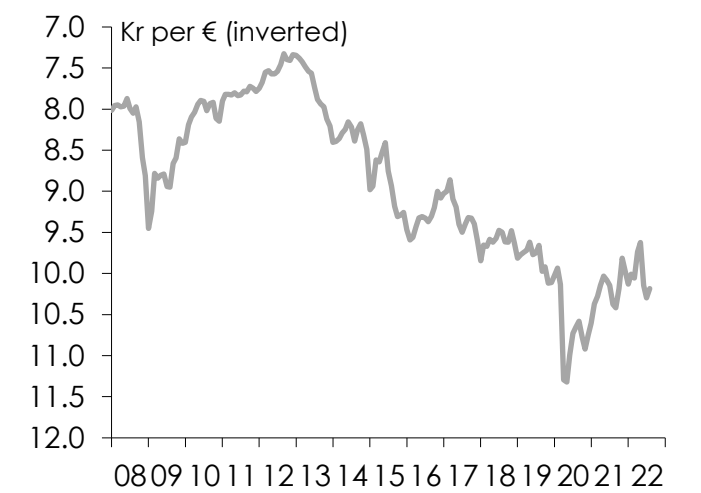
House prices



Current account balance



Krone vs euro

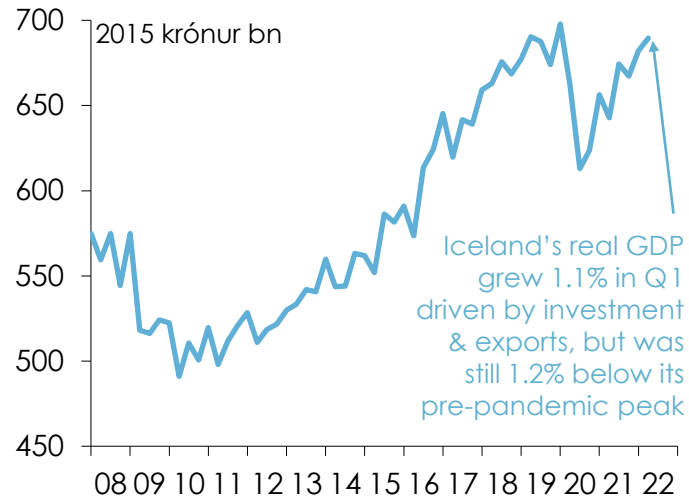


Note: 'mainland' GDP means excluding Norway's oil and gas industry which is entirely located offshore. Sources: [Statistisk sentralbyrå](#); [Norges Bank](#); Refinitiv Datastream.
[Return to "What's New"](#).

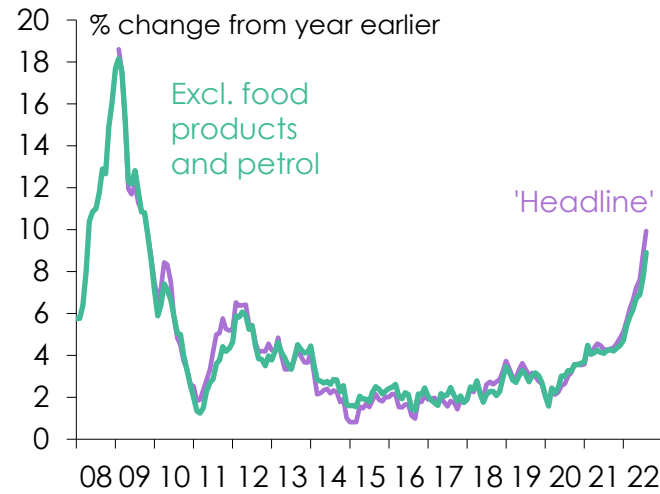
Iceland's 'headline' inflation rate rose to 9.9% in July, the highest since September 2009, while 'core' inflation rose 1.2 pc pt to 8.9%

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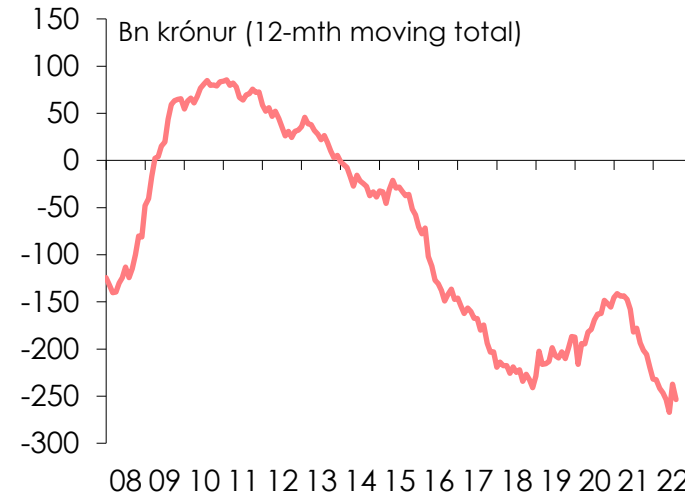
Real GDP



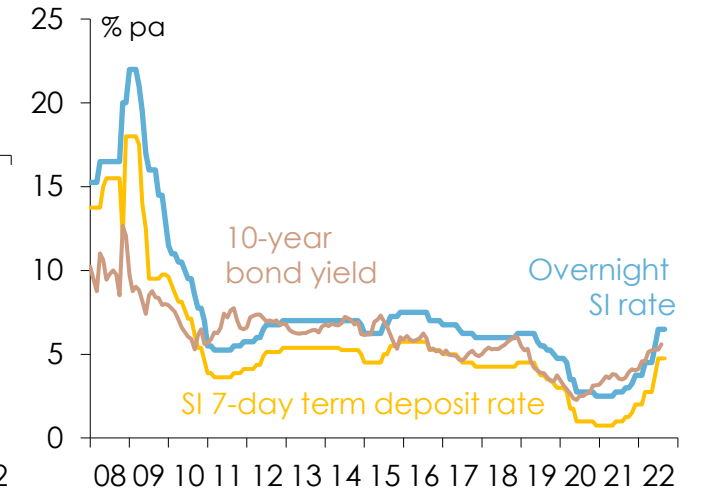
Inflation



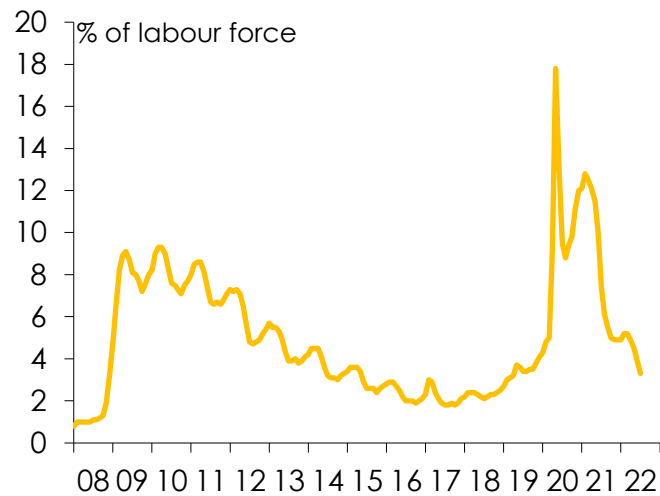
Trade balance



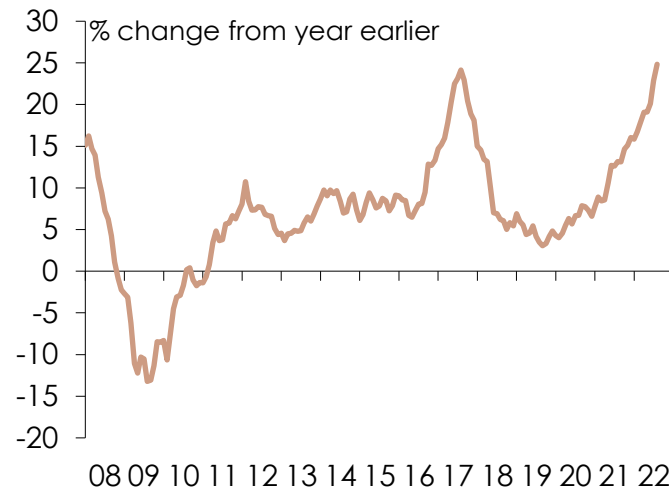
Interest rates



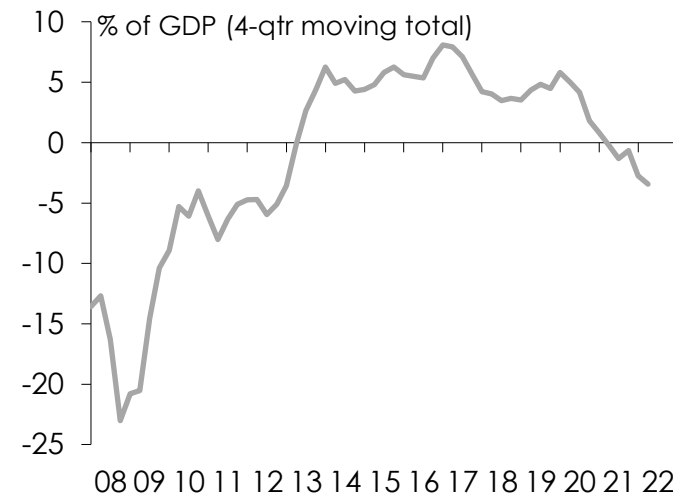
Unemployment



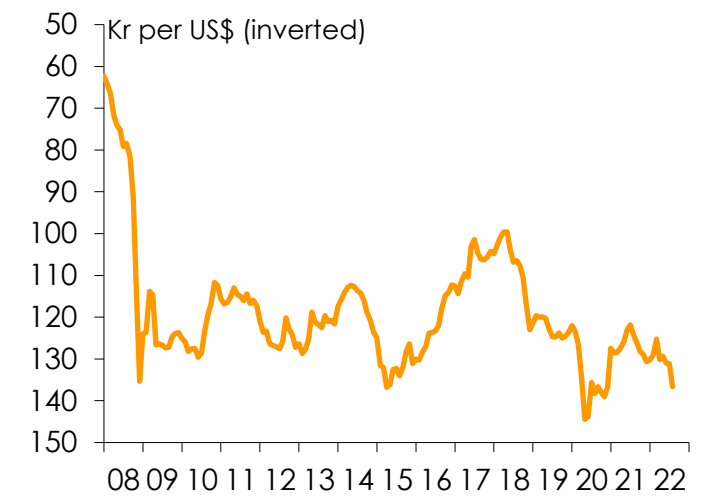
House prices



Current account balance



Króna vs US dollar

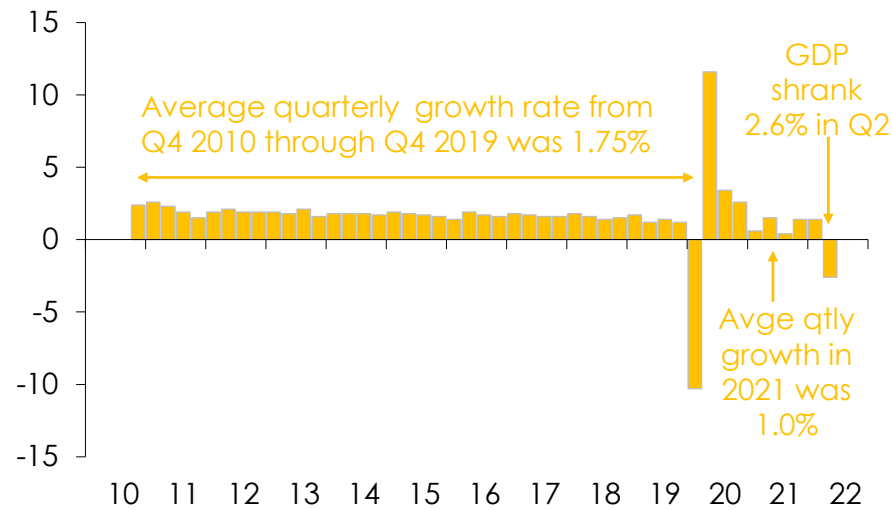


China

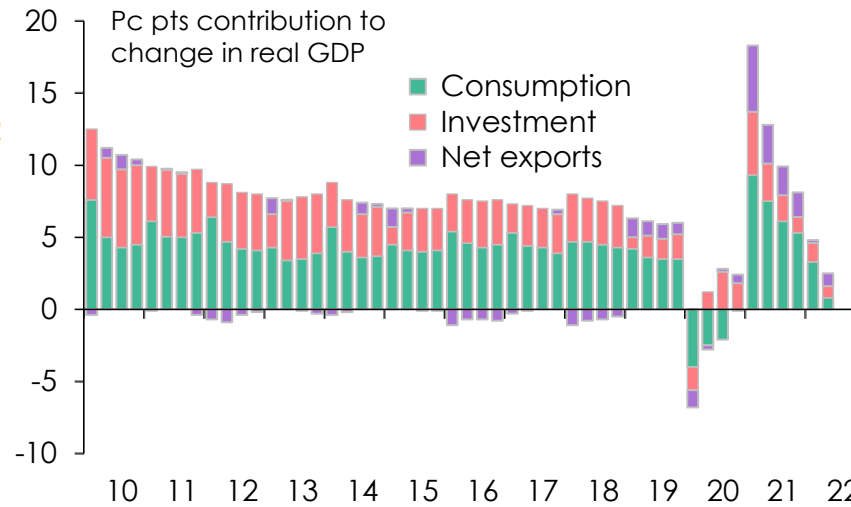
China's real GDP shrank by 2.6% in Q2, to be only 0.4% higher than a year earlier – but the unemployment rate fell 0.4 pc pt to 5.5% in June

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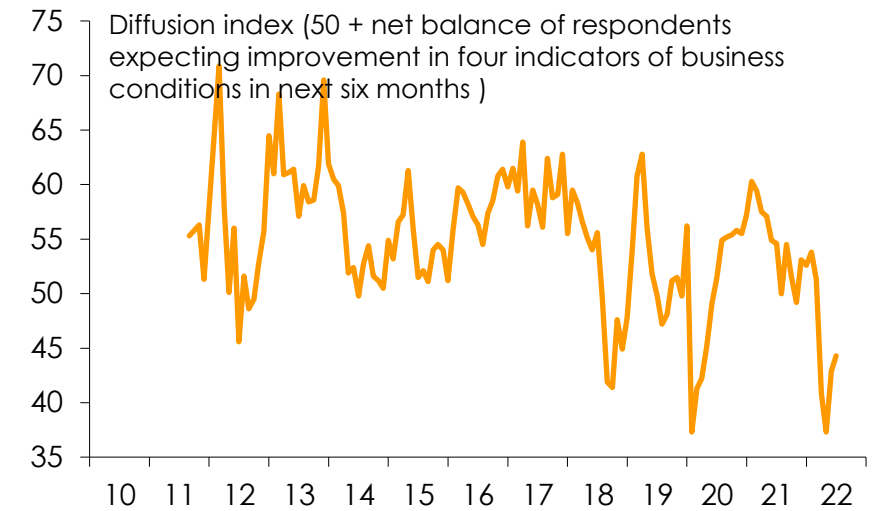
Quarterly real GDP growth



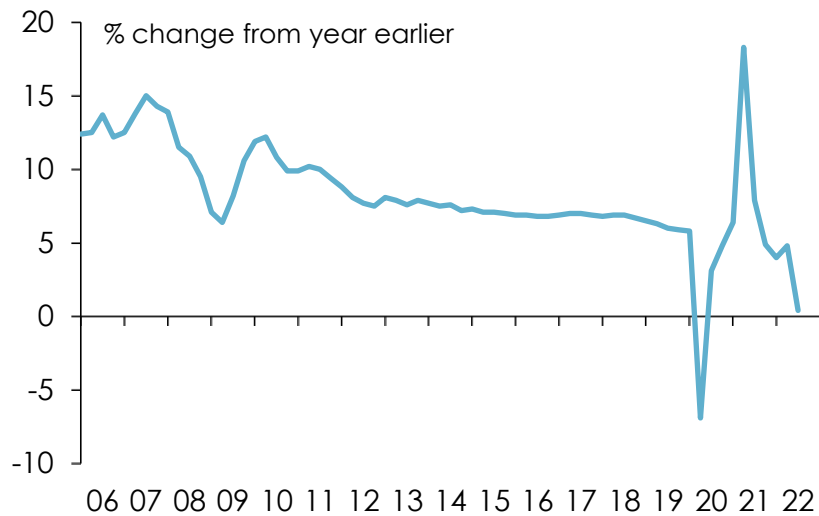
Contributions to real GDP growth



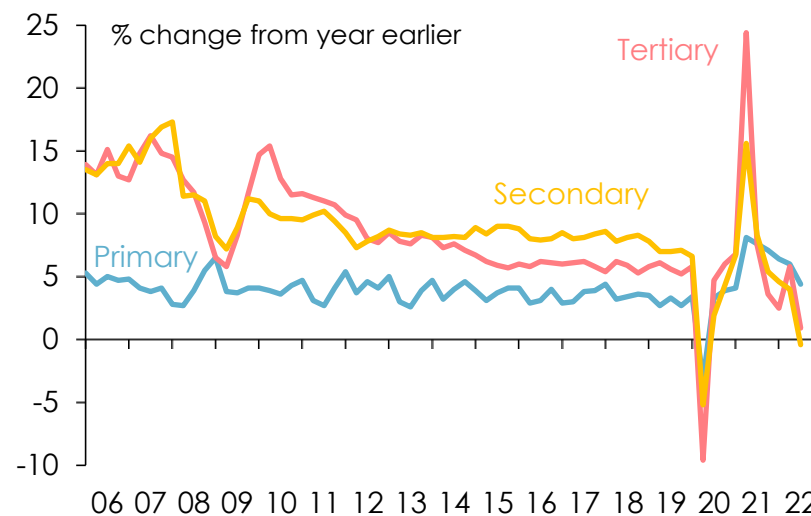
CKGSB business conditions index



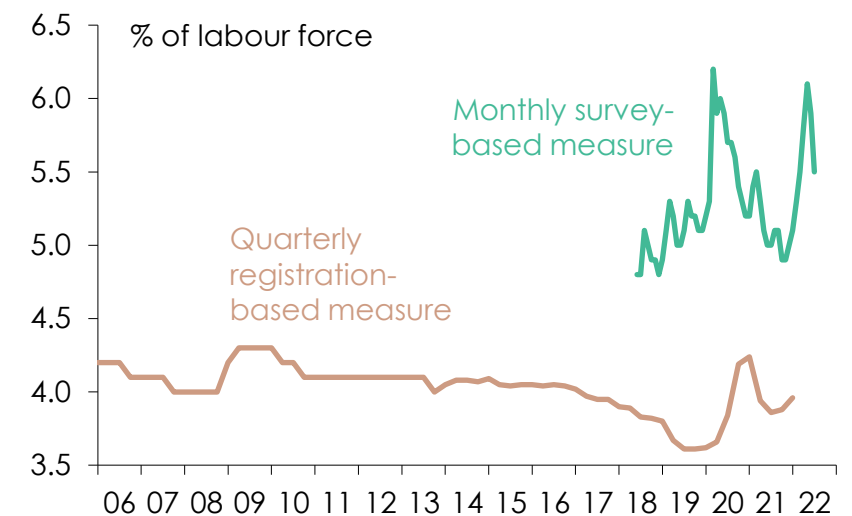
Annual real GDP growth



Annual GDP growth by industry



Urban unemployment rate

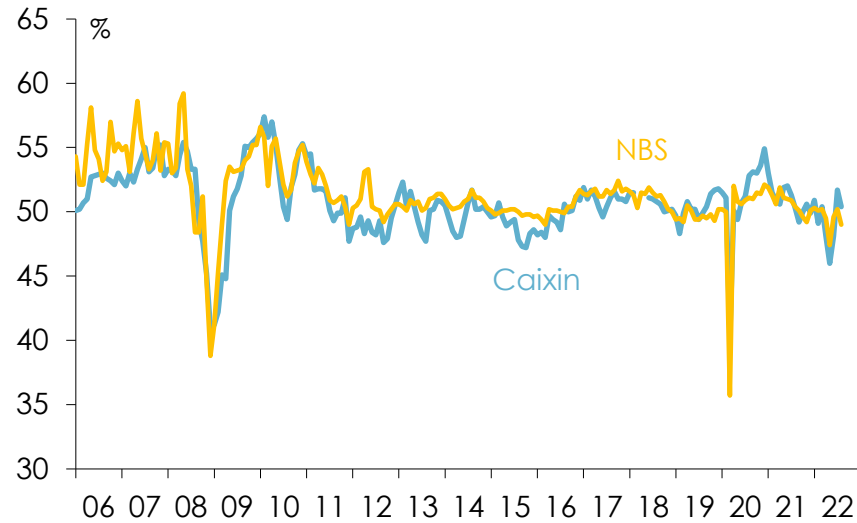


Sources: China National Bureau of Statistics, [National Data - National Accounts](#) and [The Urban Surveyed Unemployment Rate](#); Cheung Kong Graduate School of Business, [Business Conditions Index \(BCI\)](#). Before the monthly unemployment survey was introduced in 2018, the quarterly measure was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

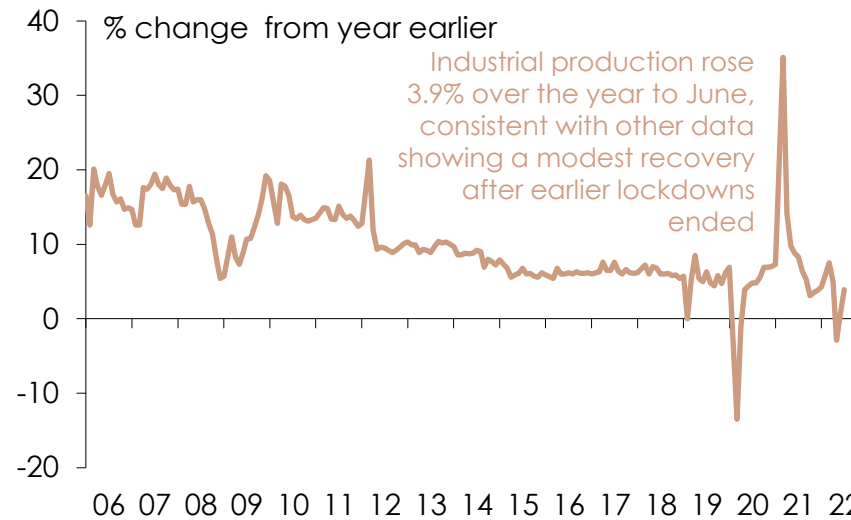
'Official' PMIs show a renewed contraction in manufacturing in July as a result of fresh lockdowns, but continued growth in services

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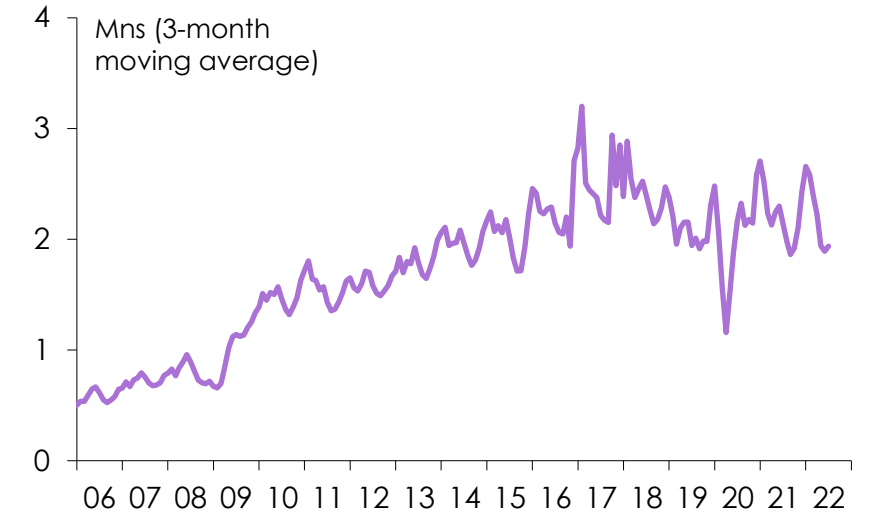
Manufacturing PMIs



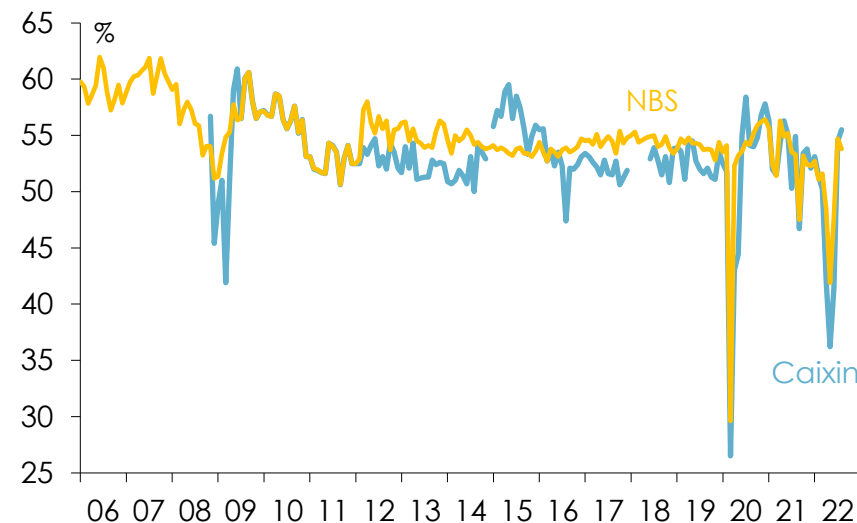
Industrial production



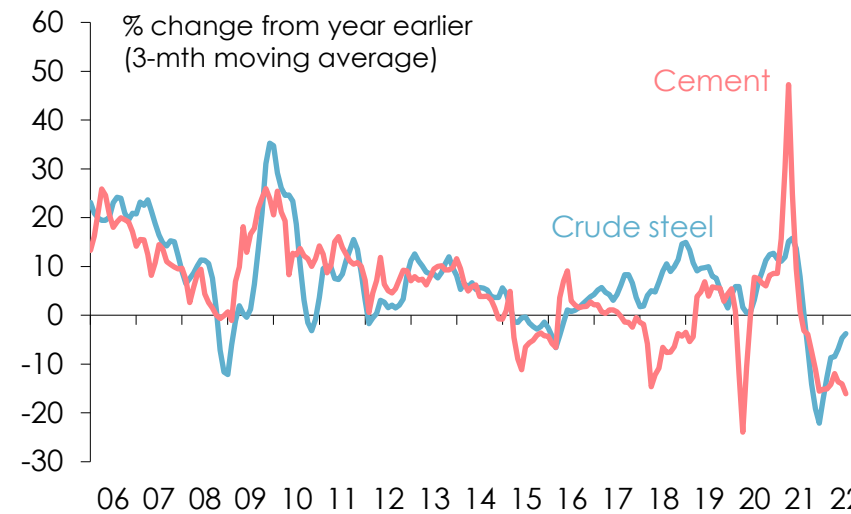
Motor vehicle production



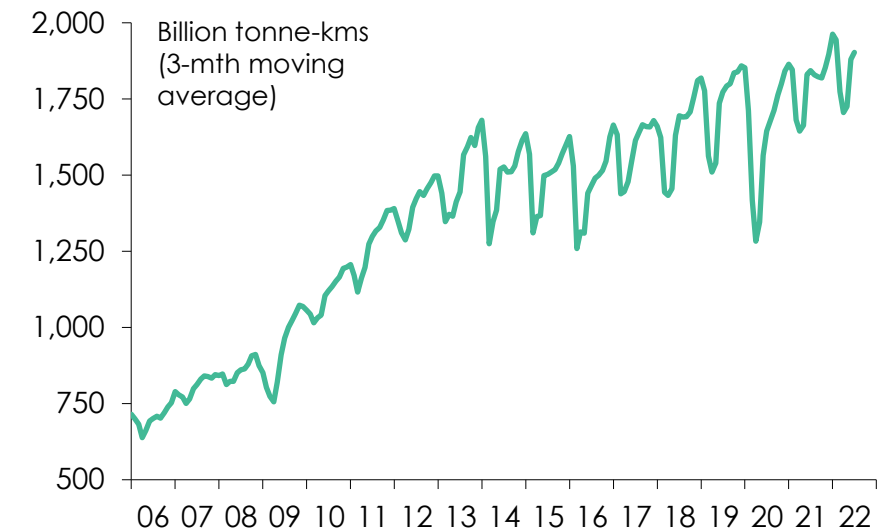
Non-manufacturing PMIs



Steel and cement production



Freight traffic volumes

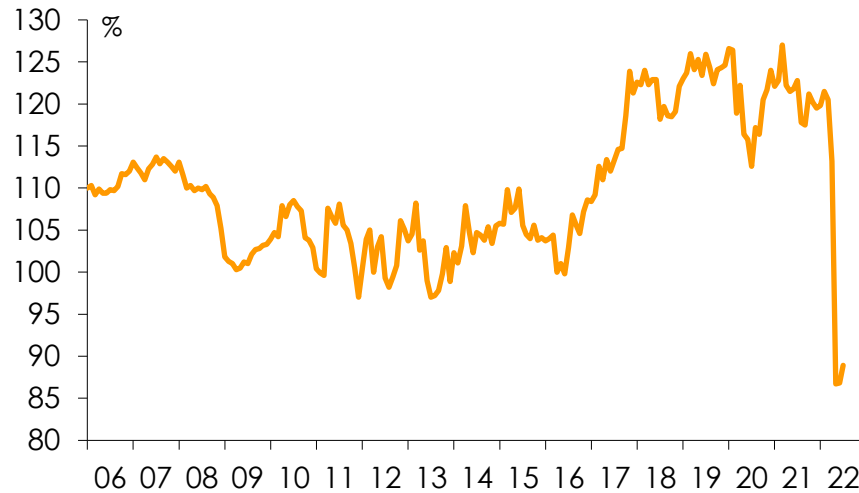


Note: The Caixin ('unofficial') PMIs are derived from a survey of around 500, mostly small private, enterprises, while the 'official' NBS PMIs are derived from a survey of about 3,000, mostly state-owned, enterprises: for more detail see [here](#). Sources: China National Bureau of Statistics, [National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

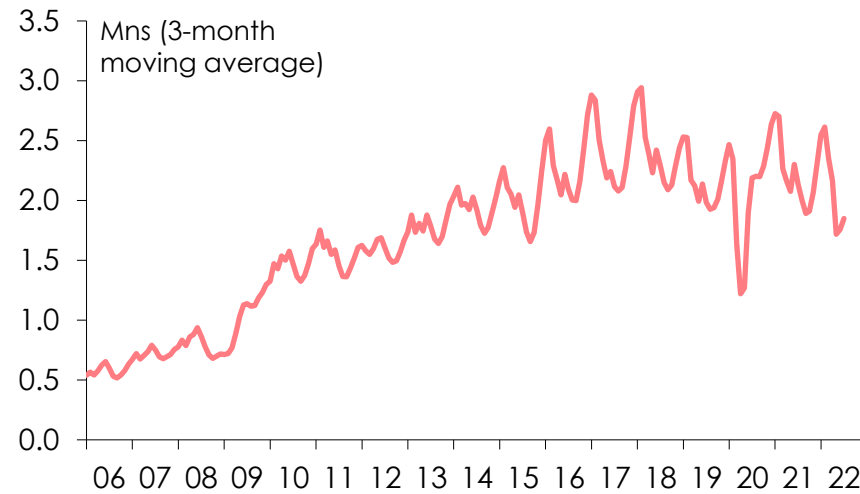
Retail sales recovered in June after three months of decline, but real estate investment and property prices continued to decline

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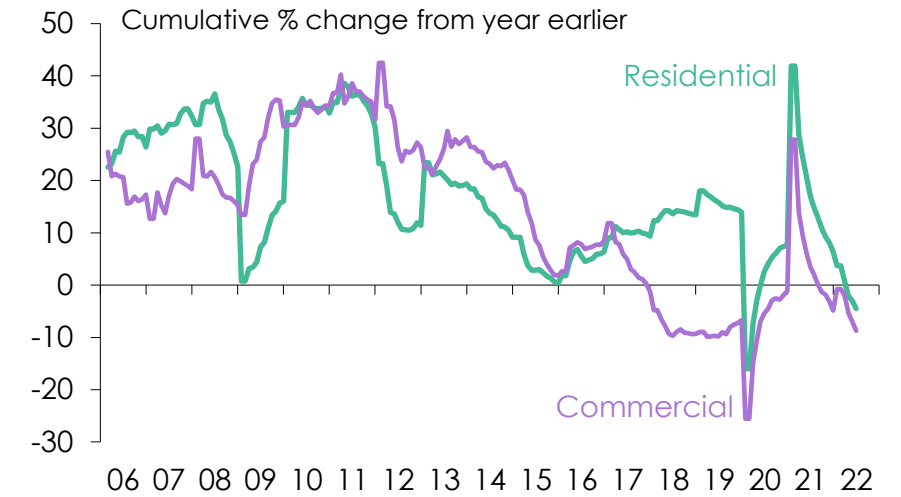
Consumer sentiment



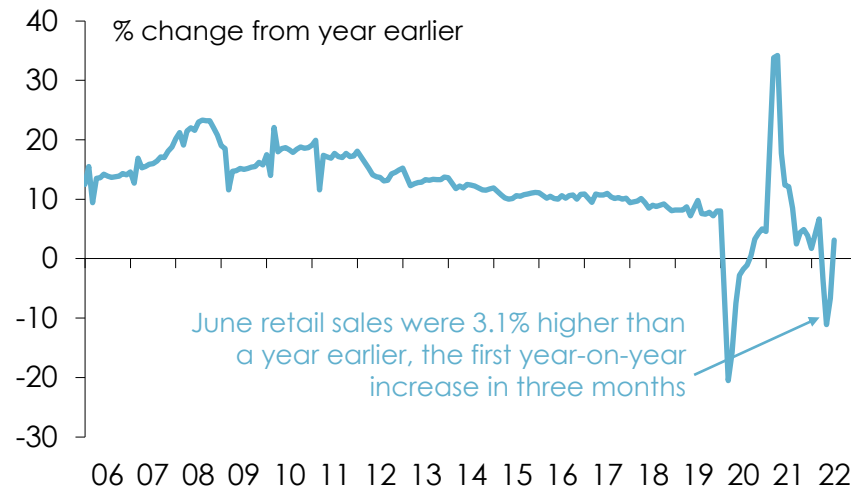
Motor vehicle sales



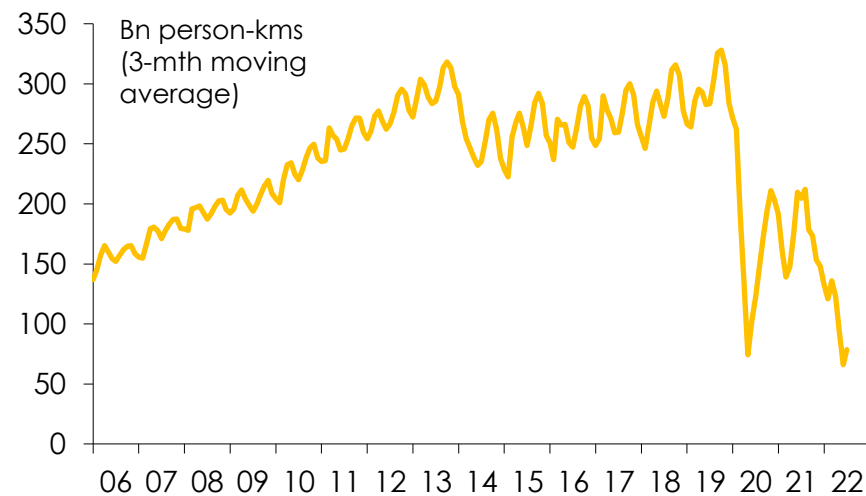
Real estate investment



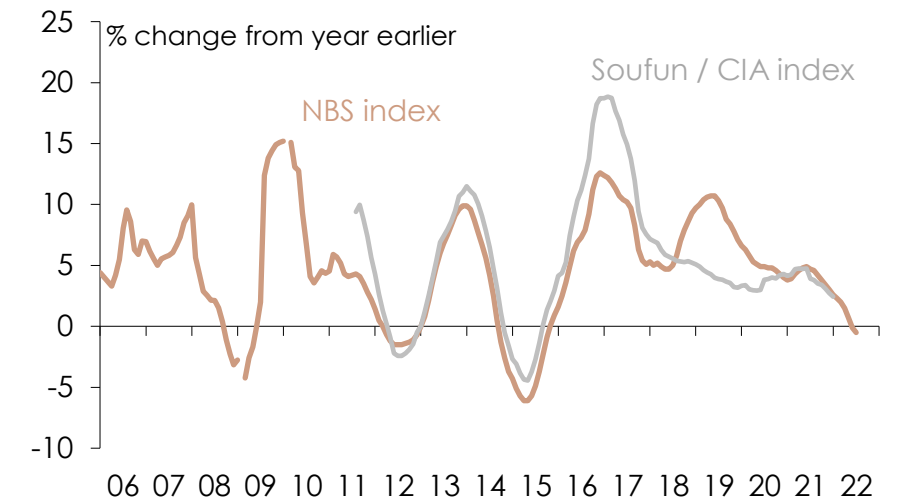
Retail sales



Passenger traffic volumes



Residential real estate prices

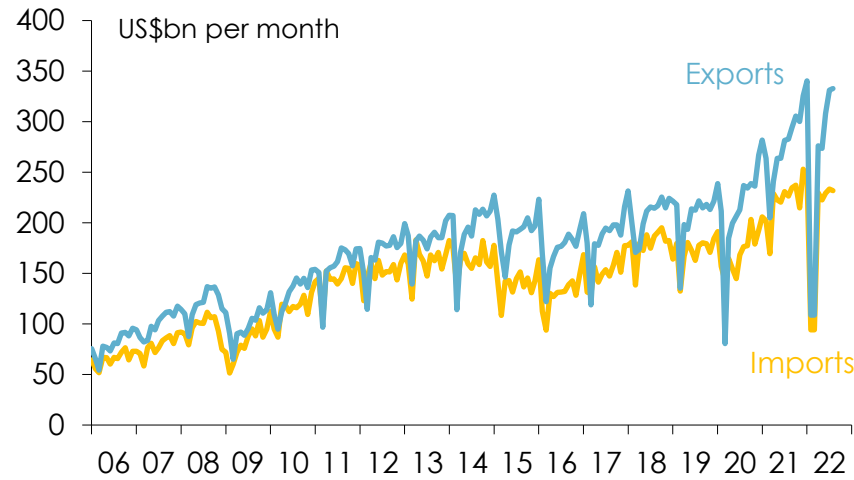


Sources: China National Bureau of Statistics, [National Data](#); China Association of Automobile Manufacturers, [Sales of Automobiles](#); China Index Academy, [CREIS China Residential HPI-100 Monthly](#) (not published since December last year). [Return to "What's New"](#).

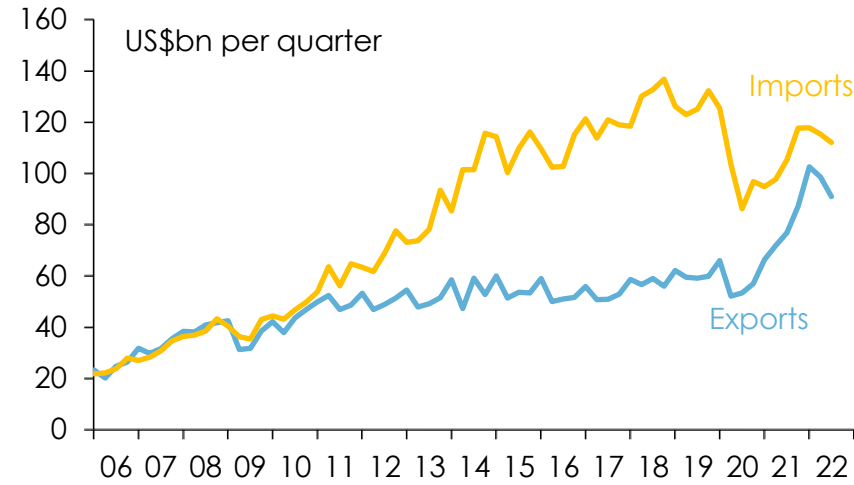
China's trade surplus widened another US\$3.3bn in July to a new record \$101.3bn, with exports up 17.8% from a year earlier but imports up only 2.3%

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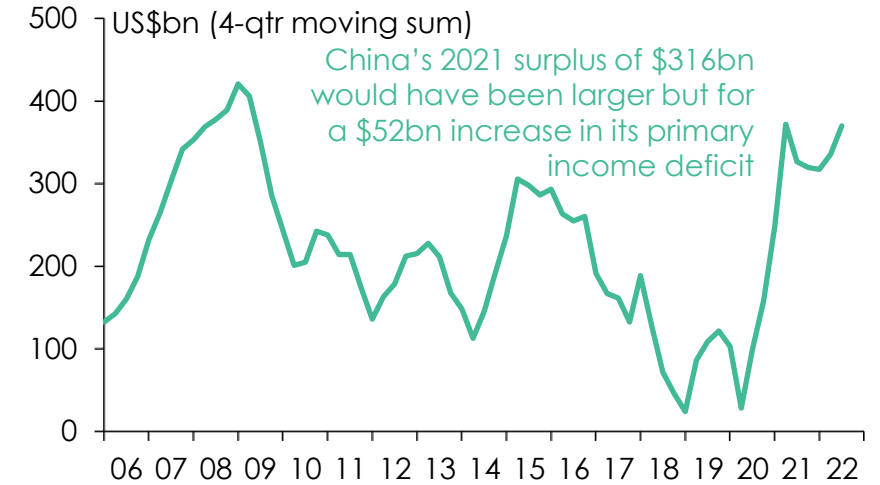
Merchandise exports and imports



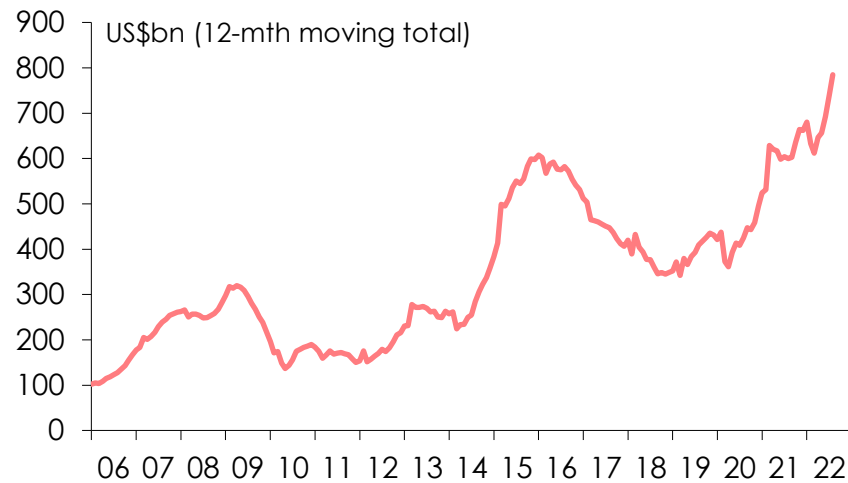
Services exports and imports



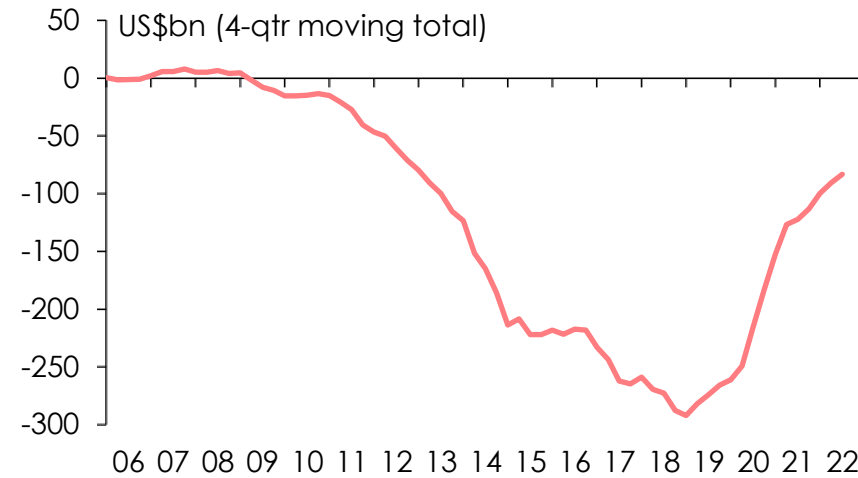
Current account balance



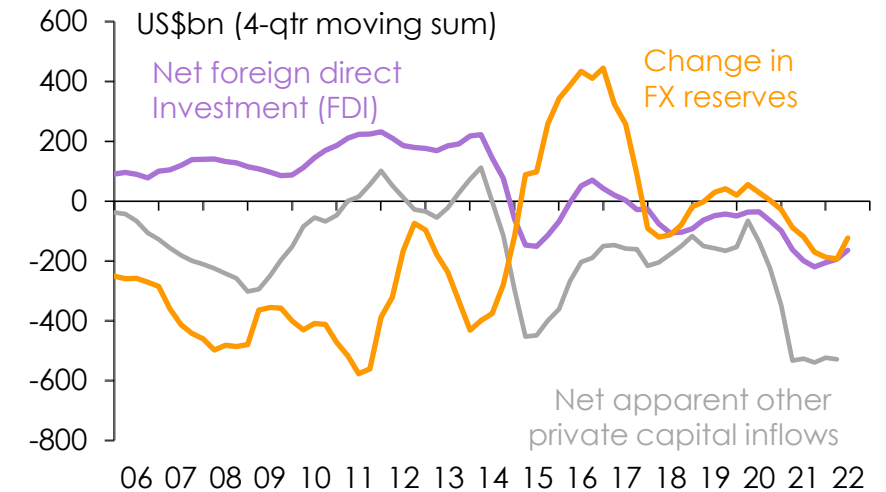
Merchandise trade balance



Services trade balance



Capital flows

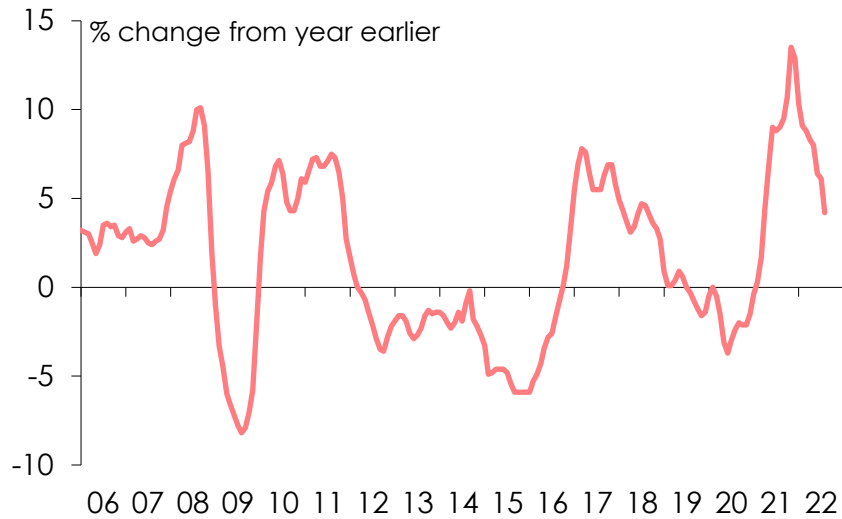


Sources: China General Administration of Customs, [Preliminary Release](#) and [Monthly Bulletin](#); State Administration of Foreign Exchange, [The time-series data of Balance of Payments of China](#). [Return to "What's New"](#).

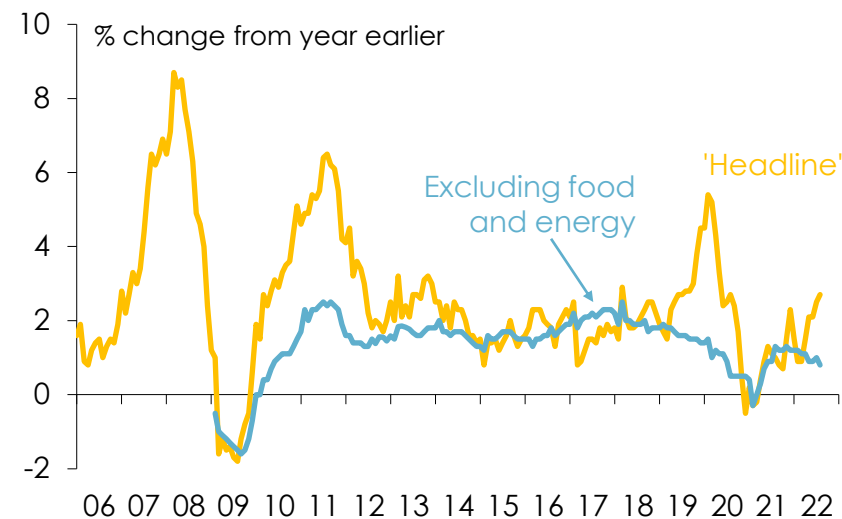
'Headline' CPI inflation rose further in July to 2.7%, the highest since July 2020, driven by food prices, though 'core' inflation was only 0.8%

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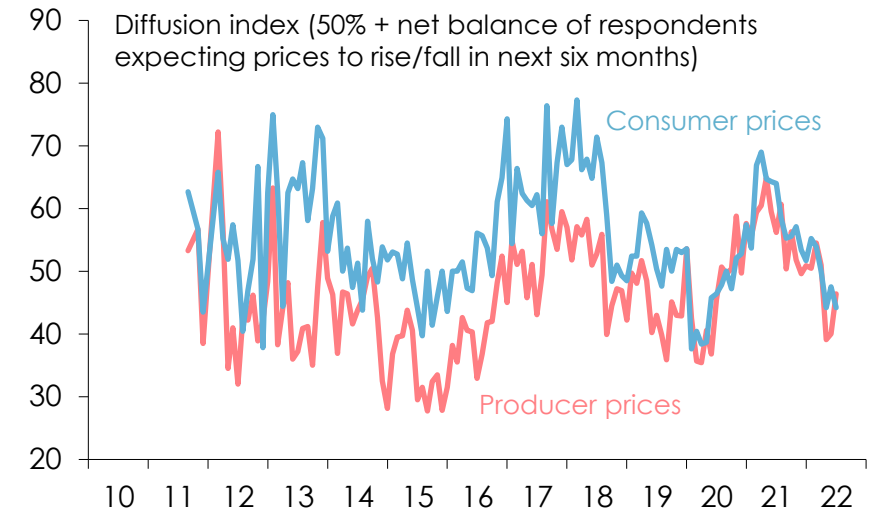
Producer prices



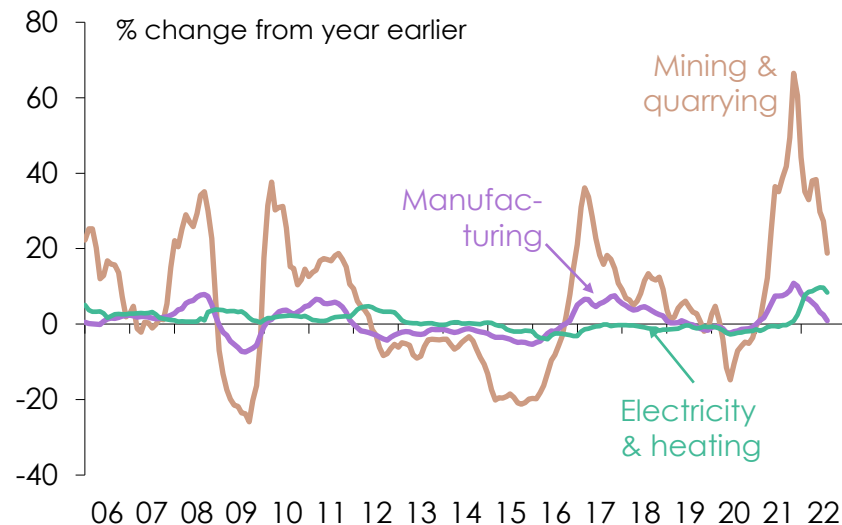
Consumer prices



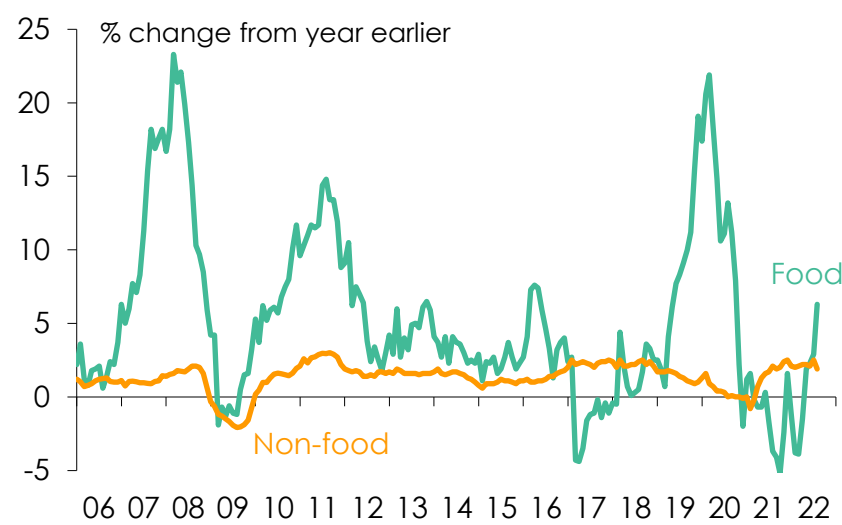
CKGSB price diffusion indexes



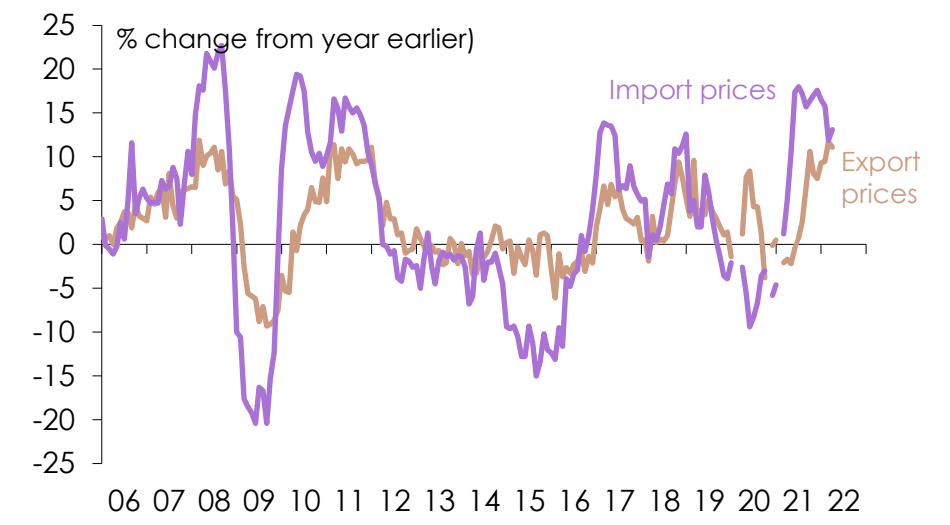
Producer prices – major categories



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 month tacitly abandoned the 5½% growth target it had set for 2022 earlier this year

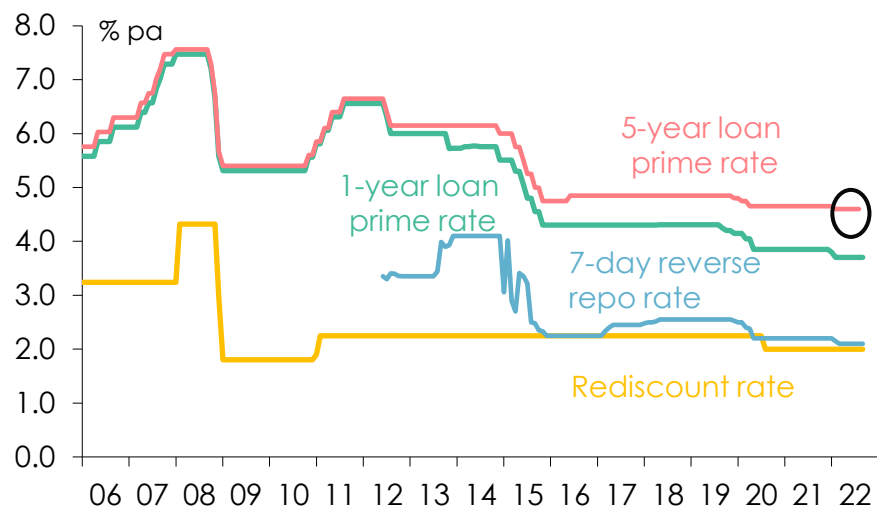
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- ❑ China's Politburo (chaired by Xi Jinping) last month tacitly abandoned the 5½% GDP growth target for 2022 which it had set earlier this year
 - as [reported by Xinhua](#), the Politburo acknowledged that “the current economic operation is facing 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”

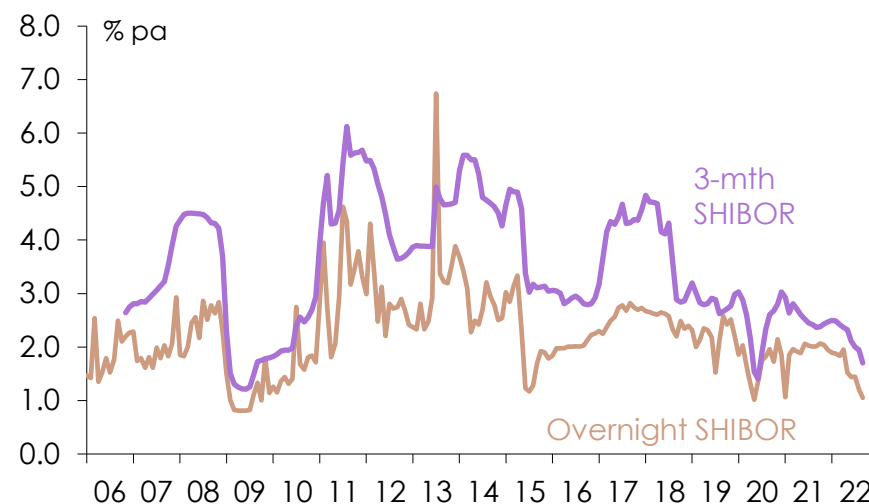
Bank lending and other forms of credit have picked up since June, but to date the PBoC hasn't done much to ease monetary conditions

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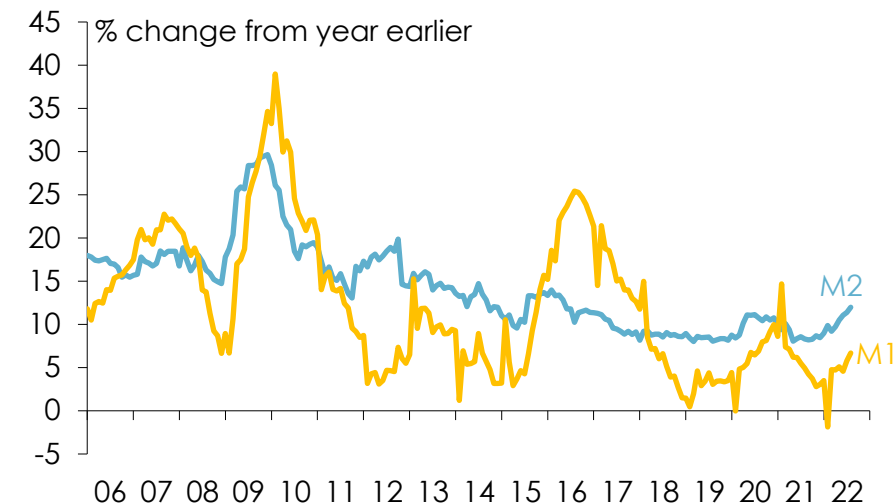
PBoC policy interest rates



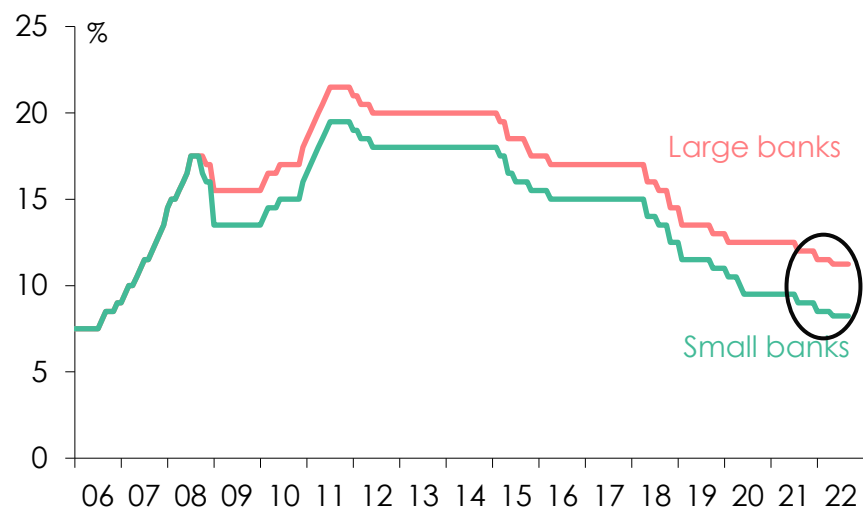
Short-term market interest rates



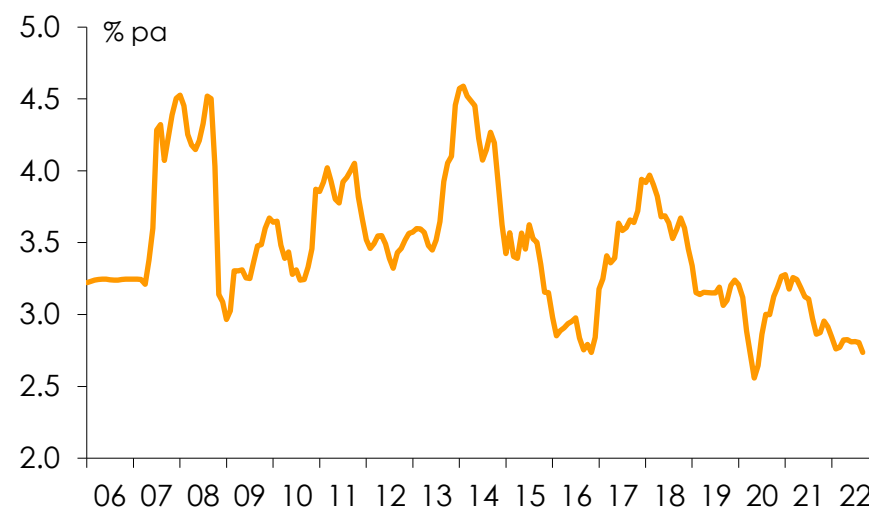
Monetary aggregates



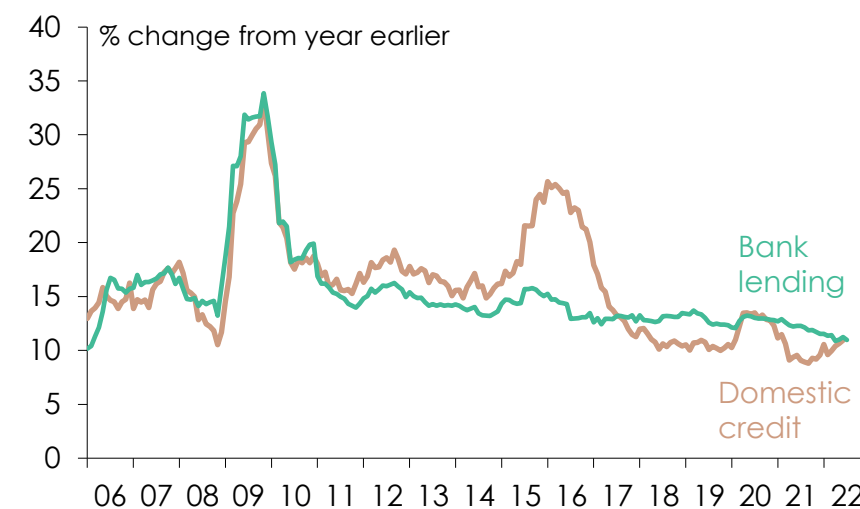
Bank reserve requirement ratios



10-year government bond yield



Credit growth

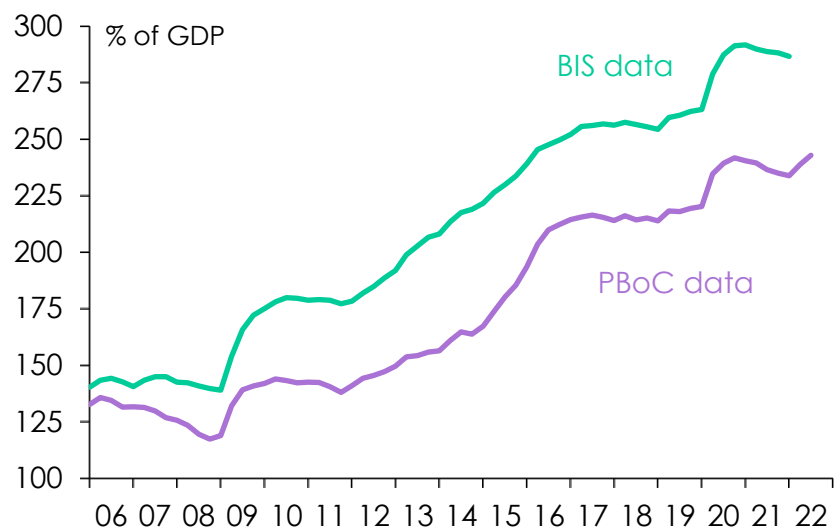


Note: 'SHIBOR' is the Shanghai Inter-Bank Offered Rate. Sources: Refintiv Datastream; People's Bank of China, [Financial Statistics Reports](#) and [Aggregate Financing Reports](#). [Return to "What's New"](#).

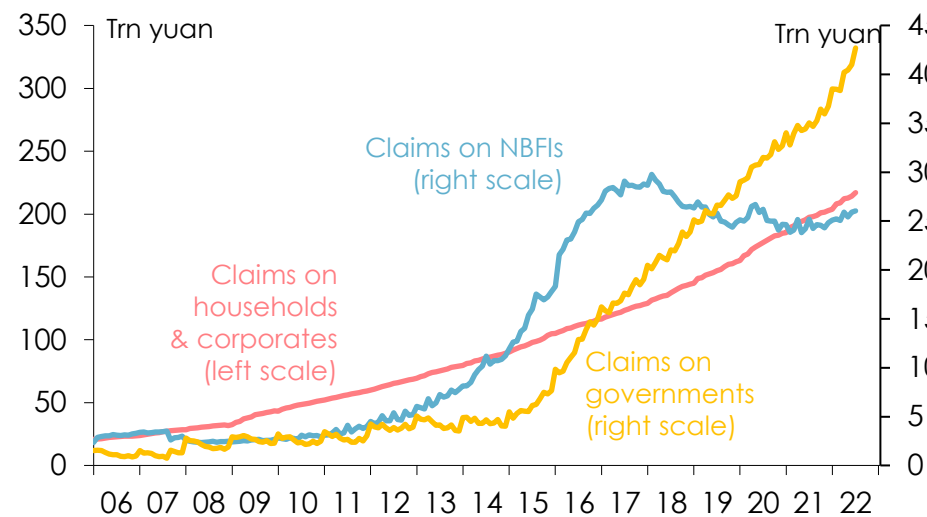
The Chinese banking system's risk profile has increased significantly over the past decade – particularly on the liabilities side of its balance sheet

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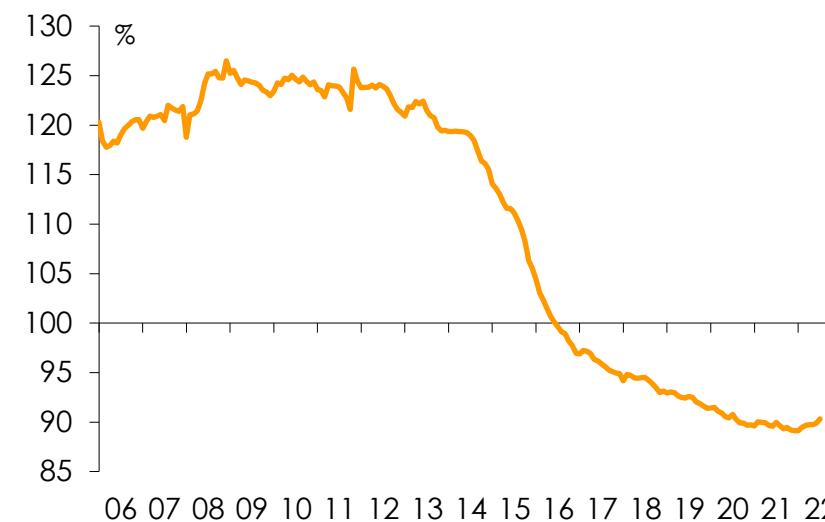
Credit outstanding as a pc of GDP



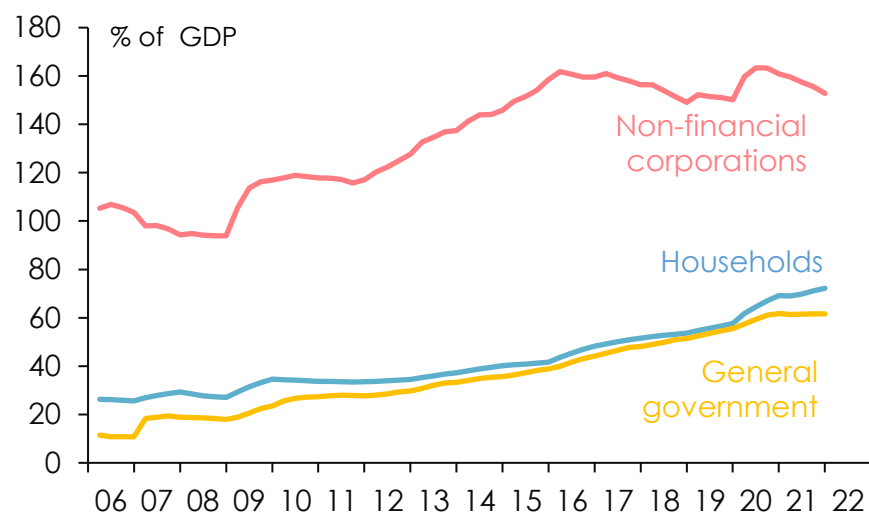
Banks' assets



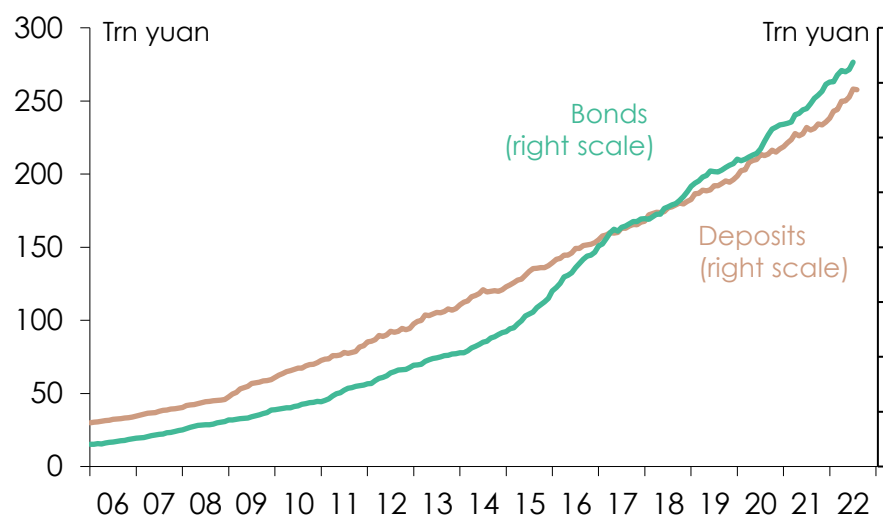
Banks' deposits-to-loans ratio



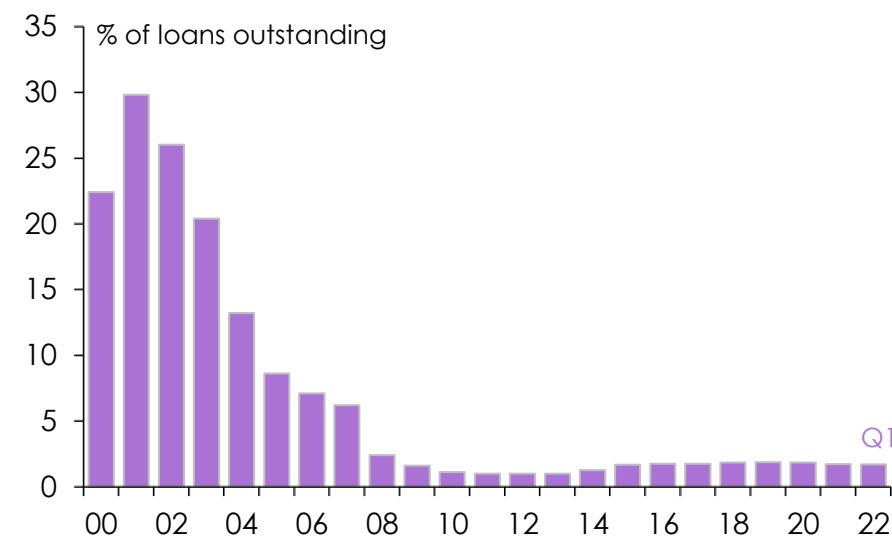
Credit outstanding by sector



Banks' liabilities



Banks NPLs – official estimates

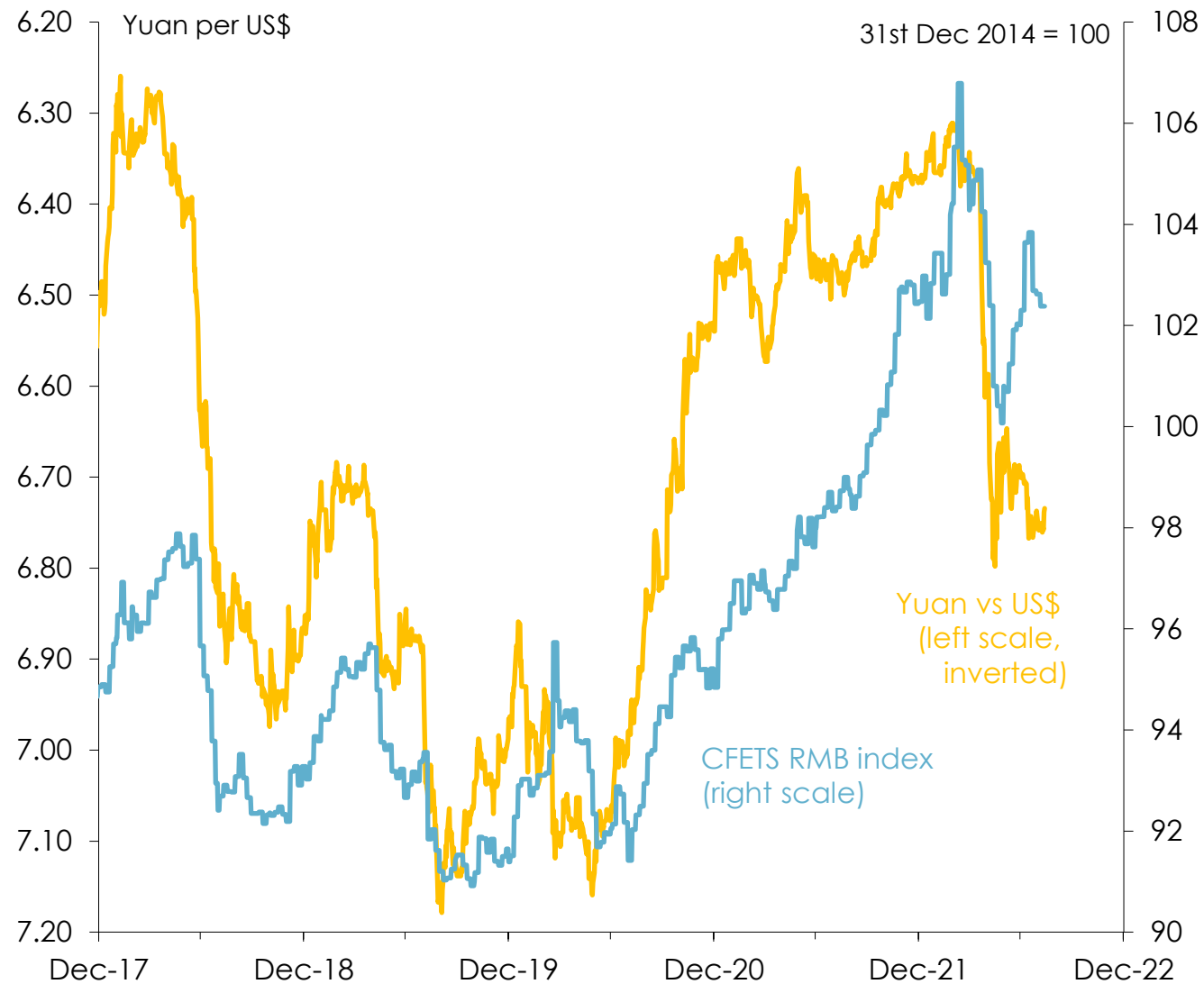


Sources: People's Bank of China, [Financial Statistics Reports](#); Bank for International Settlements, [Credit to the non-financial sector](#); China Banking and Insurance Regulatory Commission, [Supervisory Statistics of the Banking and Insurance Sectors](#). [Return to "What's New"](#).

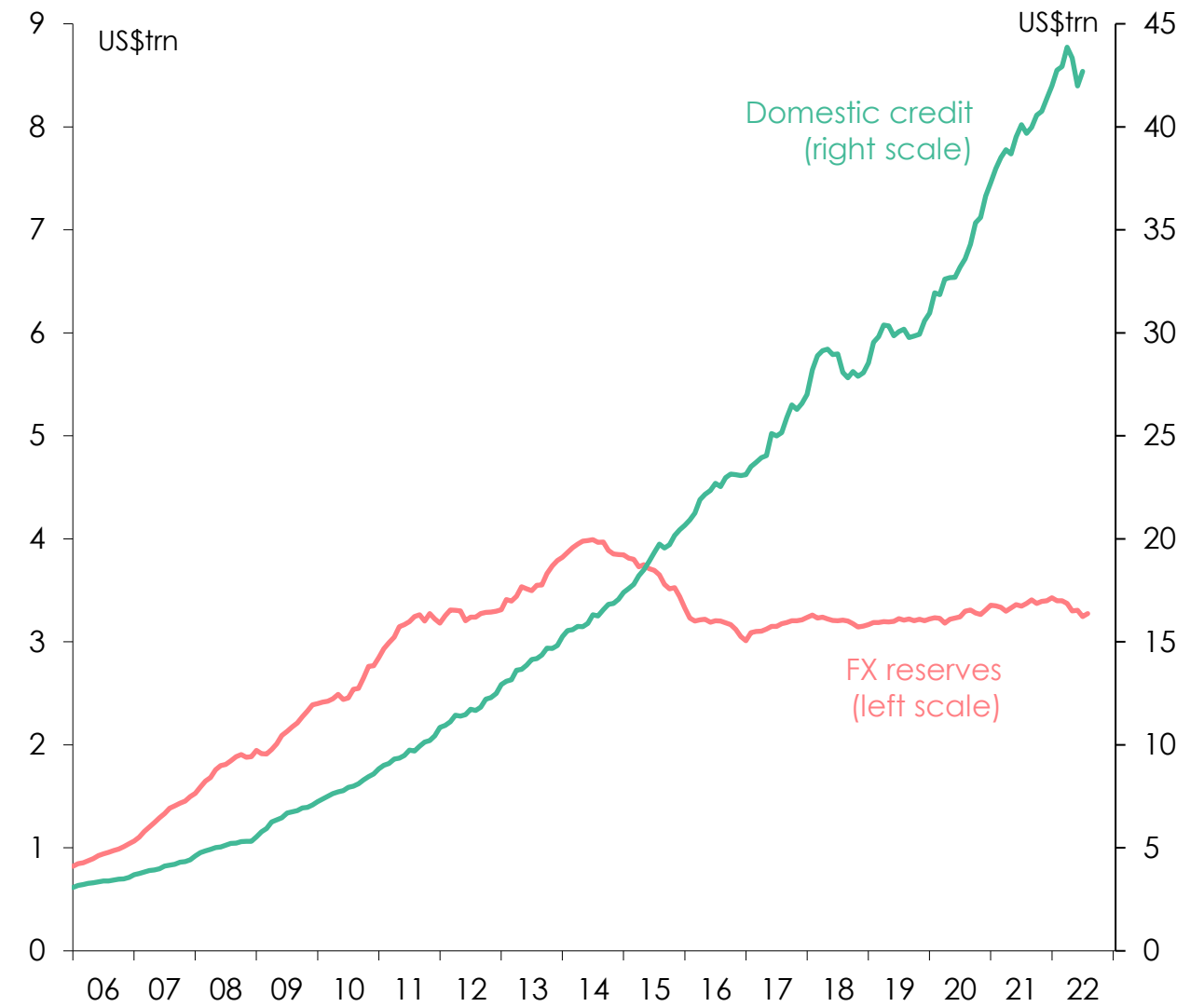
The yuan rose 0.3% vs the US\$ last week (though it's still down 5½% so far this year) but fell ¼ against the PBoC index

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Chinese renminbi vs US\$ and trade-weighted index



FX reserves and domestic credit



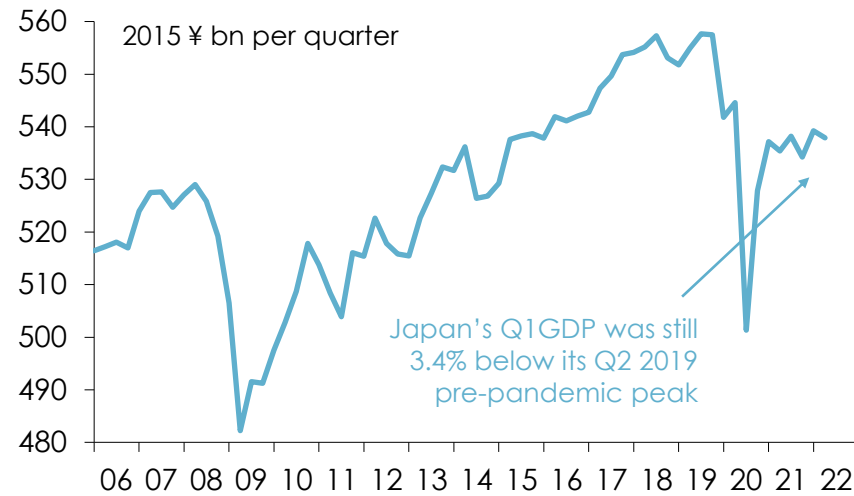
Sources: Refinitiv Datastream; [China Foreign Exchange Trading System](#); People's Bank of China. Exchange rates up to 5th August; FX reserves and credit data up to June (note fall in domestic credit expressed in US\$ in April & May largely reflects depreciation of yuan vs US\$). [Return to "What's New"](#).

Japan

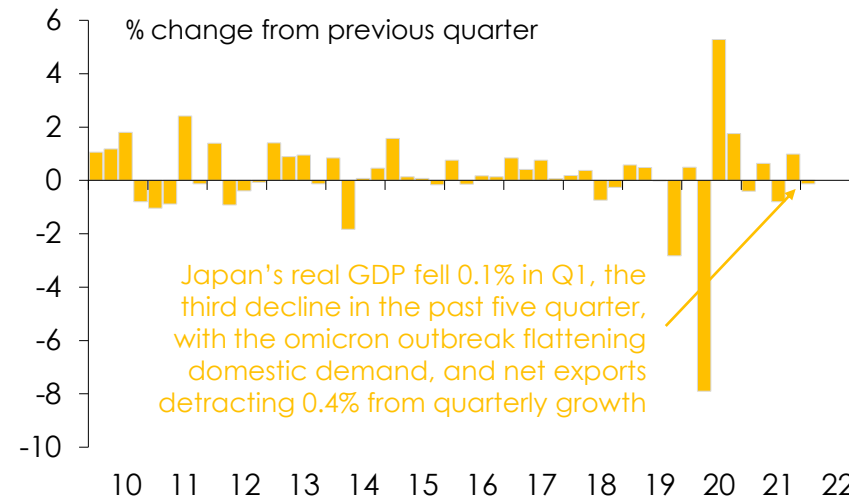
Japan's real GDP fell 0.1% in Q1, the third decline in the past five quarters, to be still 3.4% below its pre-pandemic peak

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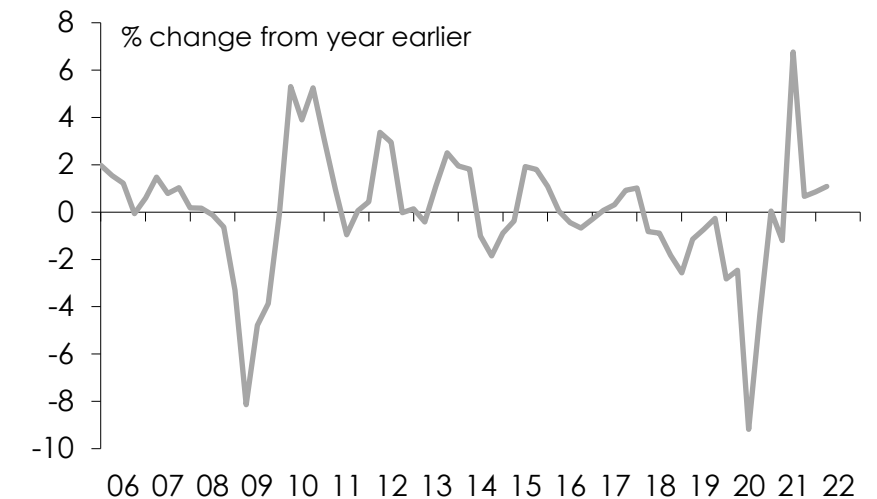
Level of real GDP



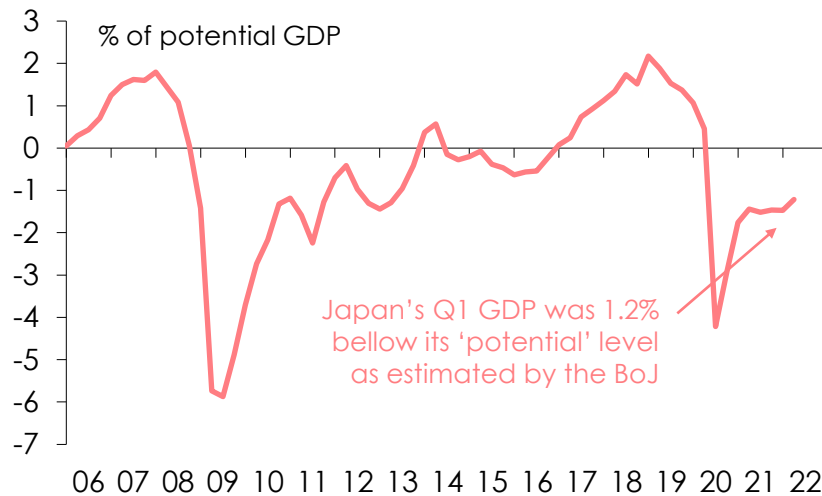
Quarterly change in real GDP



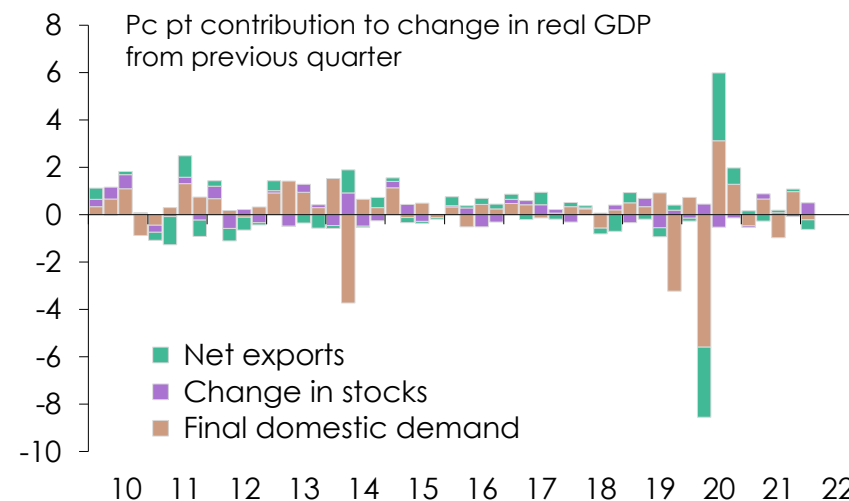
Labour productivity growth



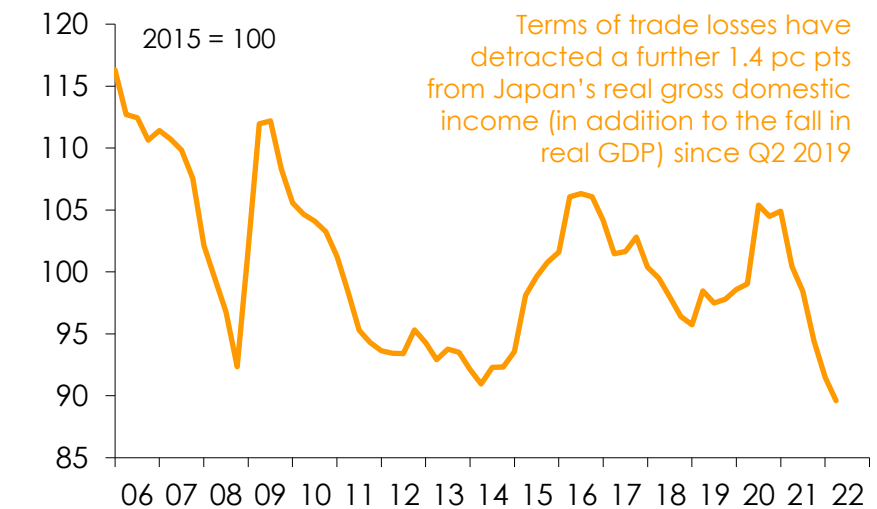
The 'output gap'



Contributions to change in real GDP



Terms of trade

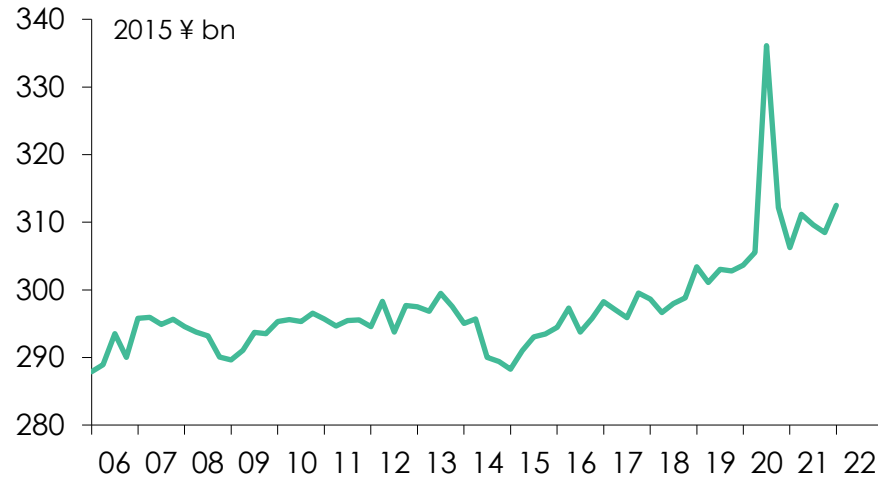


Note: the 'output gap' is the difference between actual and potential GDP (the volume of goods & services that could be produced if the economy were operating at full capacity); the 'terms of trade' is the ratio of the implicit price deflator of exports of goods & services to that of imports of goods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

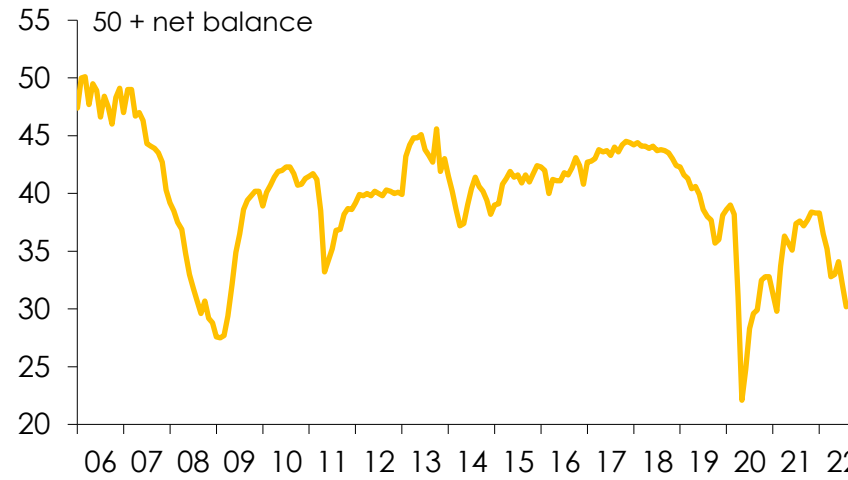
Consumer spending picked up a little during Q2, but housing activity softened, and consumer confidence fell further in July

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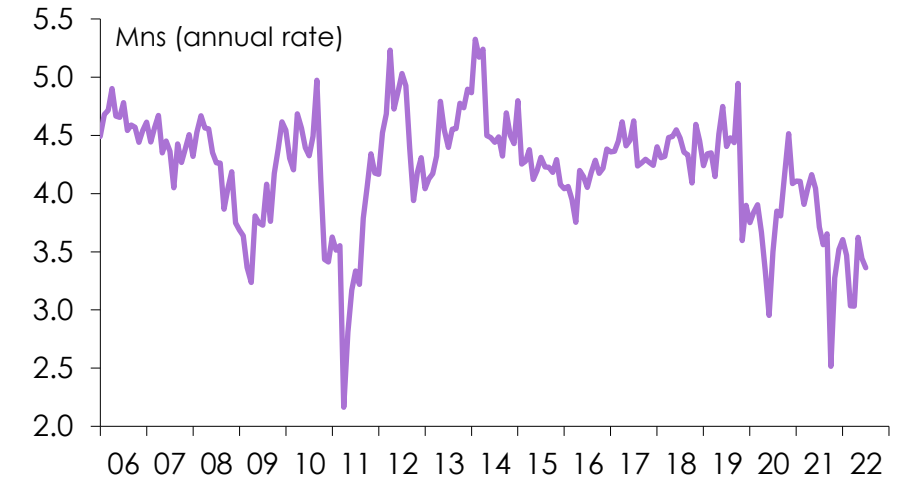
Real household disposable income



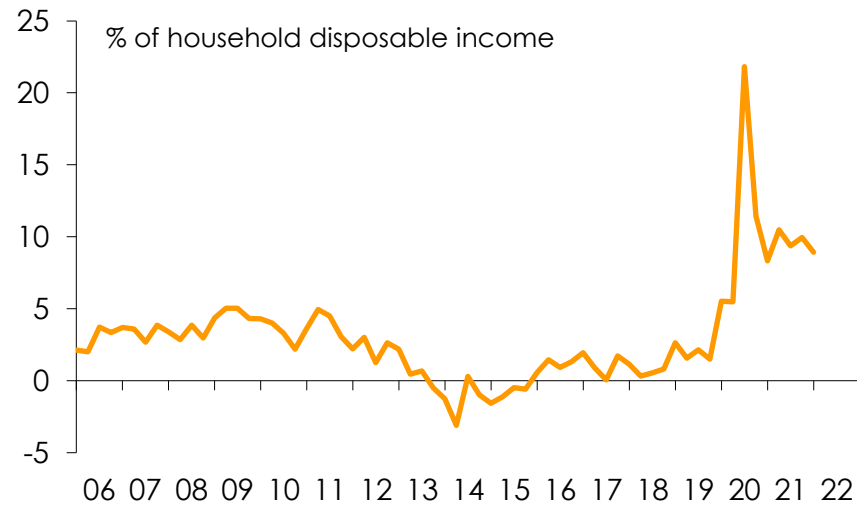
Consumer confidence



Motor vehicle sales



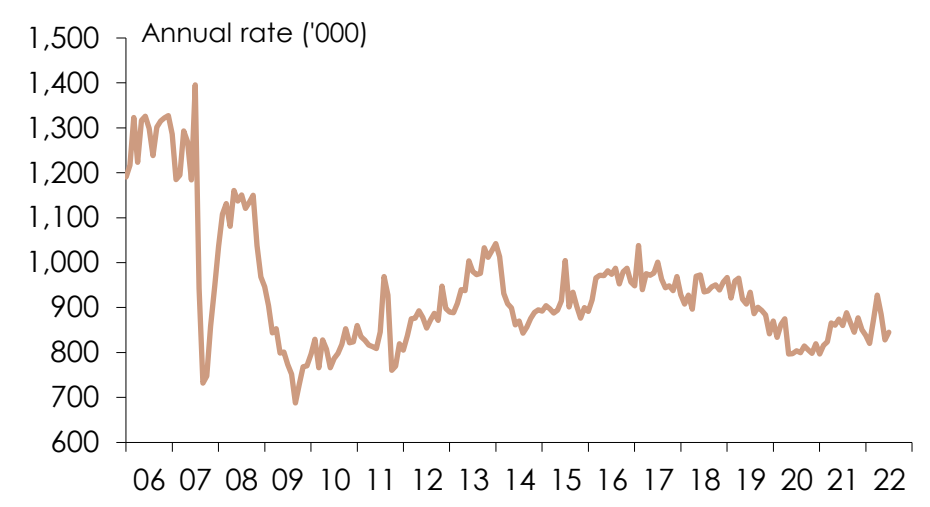
Household saving



Consumption activity index



Housing starts

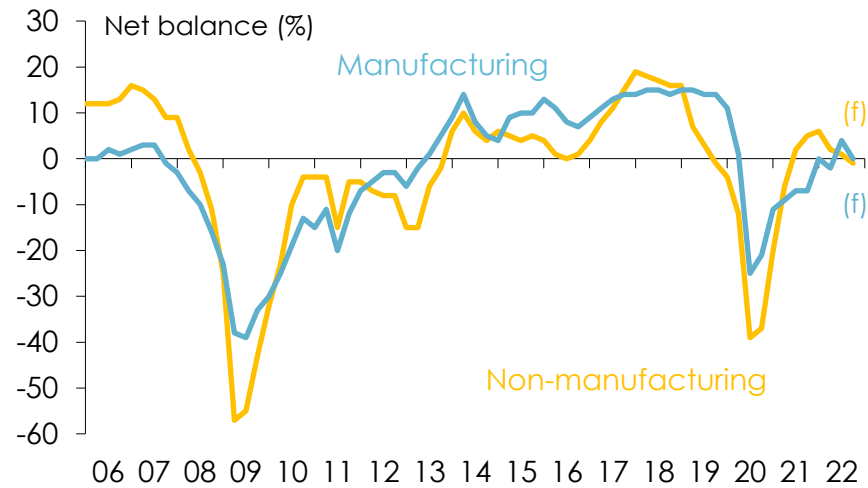


Sources: Japan Cabinet Office, [Quarterly Estimates of Household Disposable Income and Household Saving Ratio](#) and [Consumer Confidence Survey](#); Bank of Japan, [Consumption Activity Index](#); Japan Automobile Dealers Association, [Statistical Data](#); Japan e-Stat, [Building Starts](#). [Return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

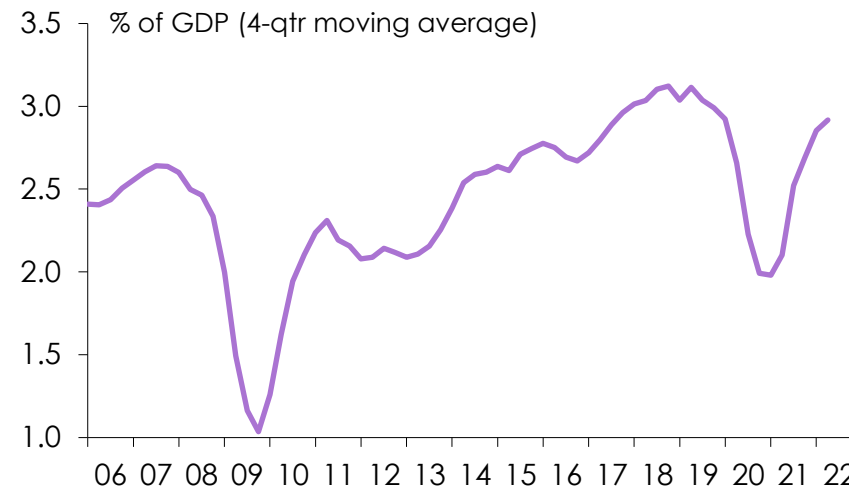
Japanese industrial production rebounded strongly in June after an unusually large fall in May (caused by supply-chain disruptions)

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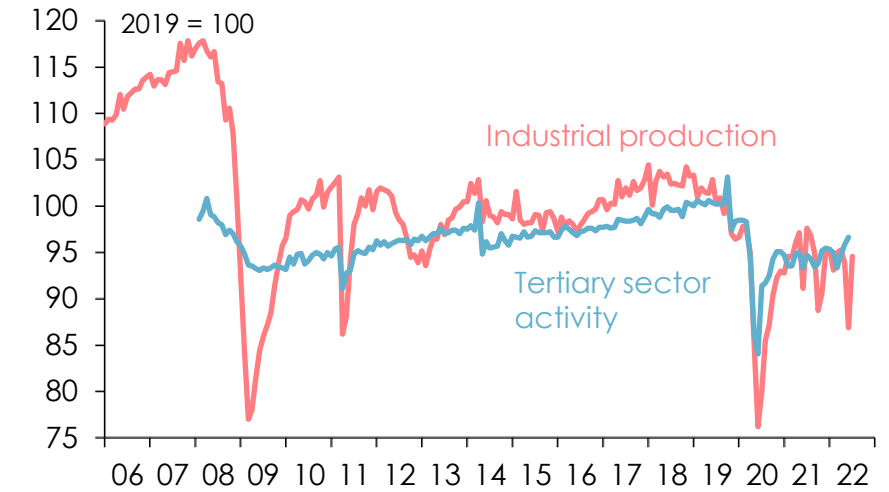
Business conditions by industry



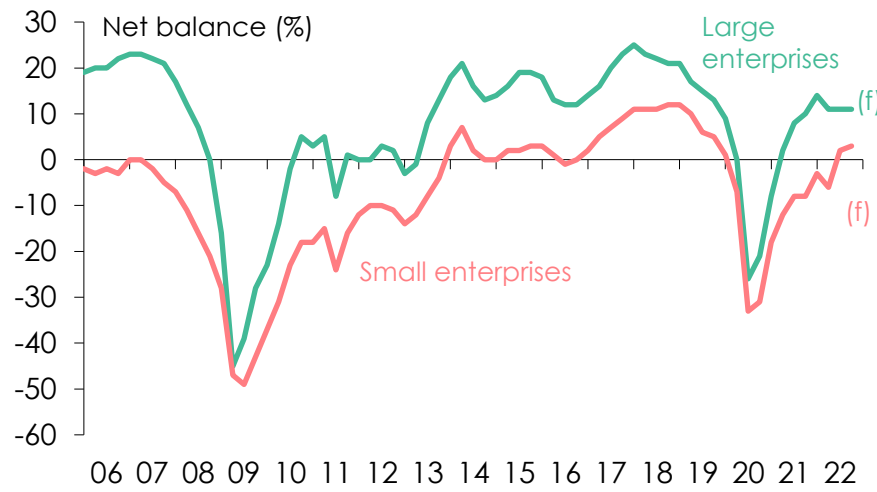
Corporate operating profits



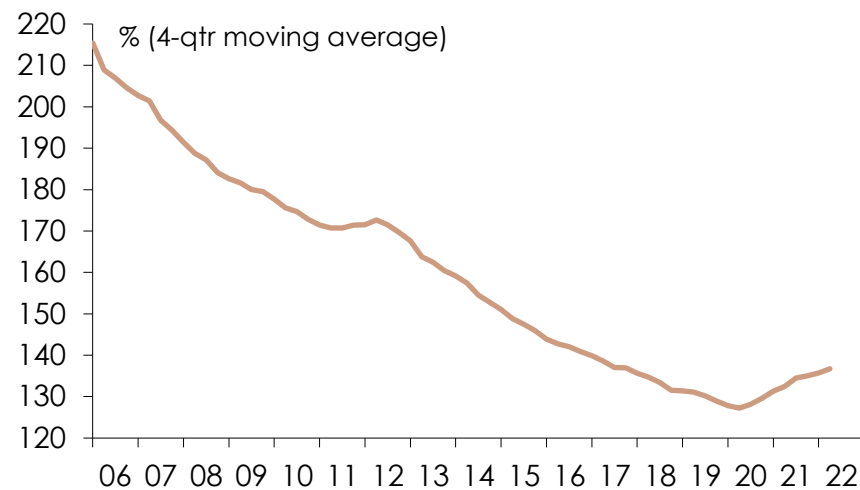
Indexes of economic activity



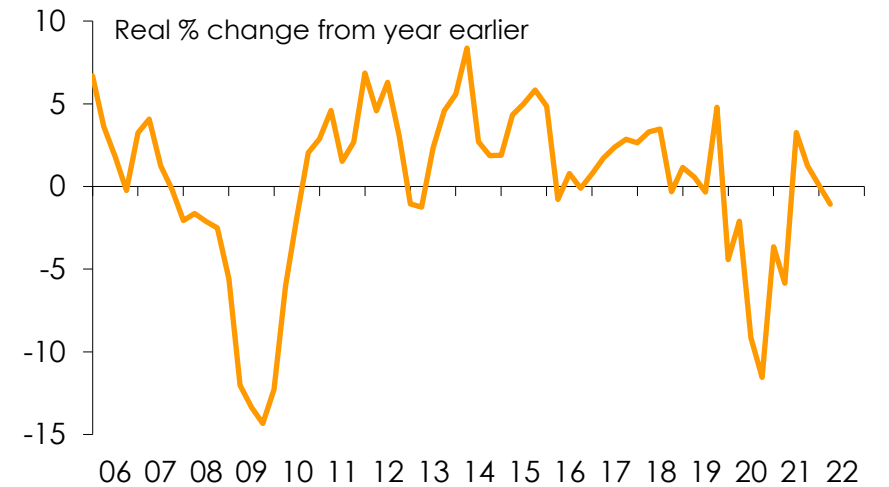
Business conditions by firm size



Corporate debt-equity ratio



Business investment

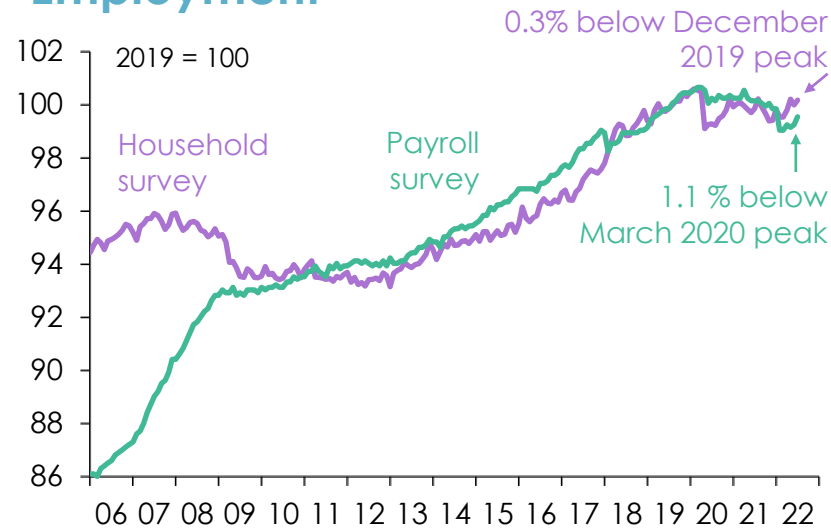


Sources: Bank of Japan, [Short-Term Economic Survey of Enterprises in Japan \('Tankan'\)](#); Policy Research Institute, Ministry of Finance, [Financial Statements Statistics of Corporations by Industry, Quarterly](#); Ministry of Economy, Trade & Industry, [Indices of Industrial Production](#) and [Indices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

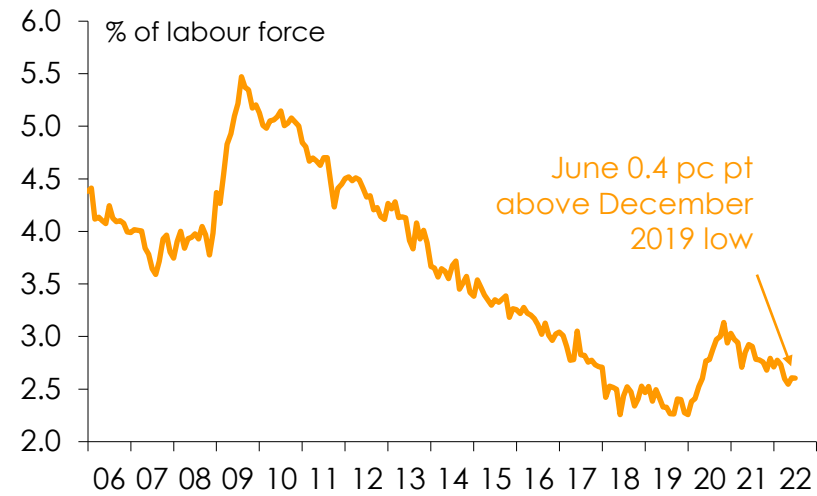
Japan's unemployment rate remained at 2.6% in June, 0.4 pc pt above the pre-pandemic low, in part reflecting a record participation rate

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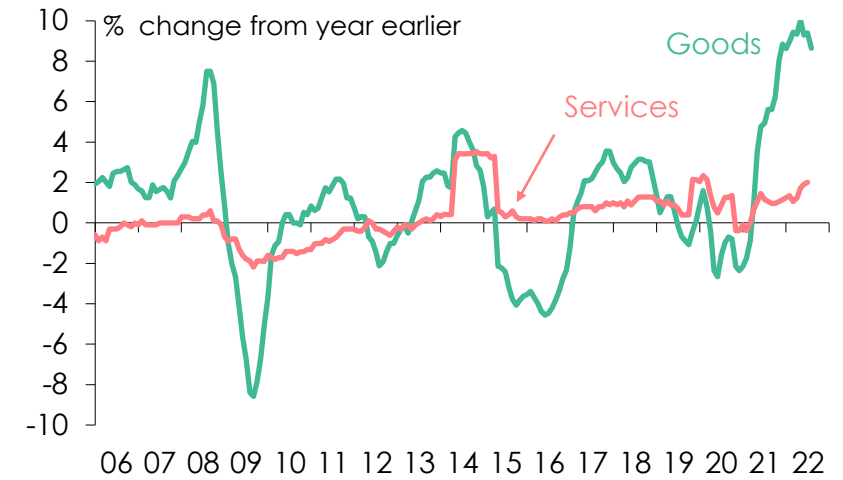
Employment



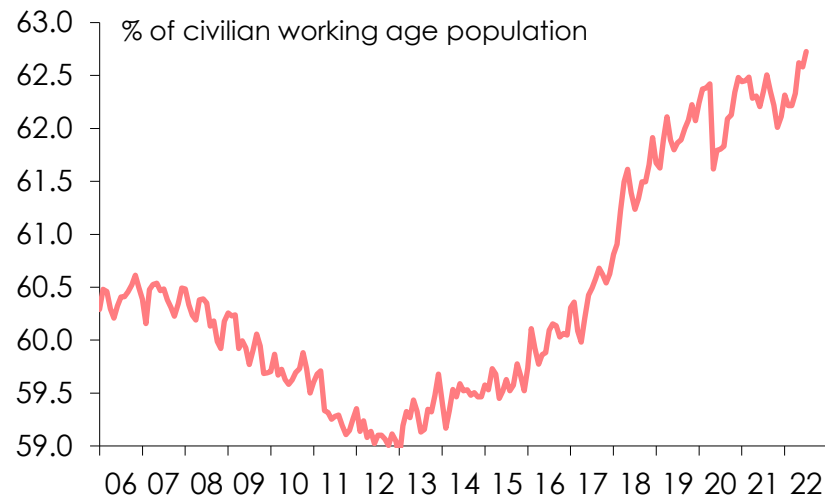
Unemployment rate



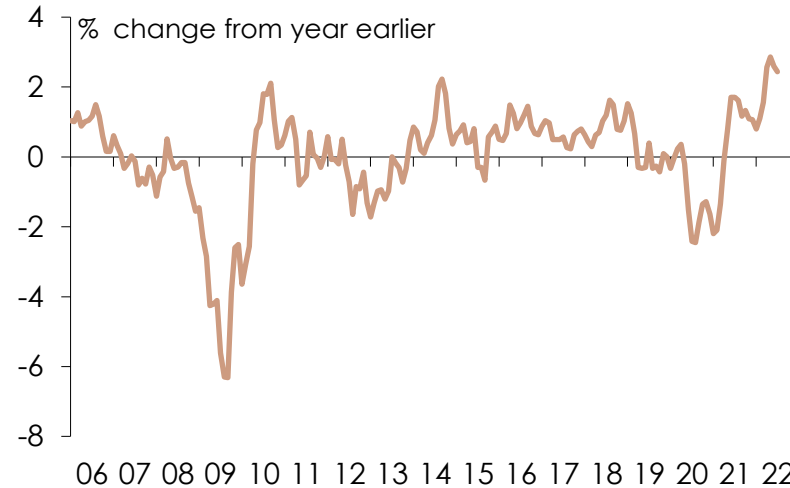
'Corporate' (producer) prices



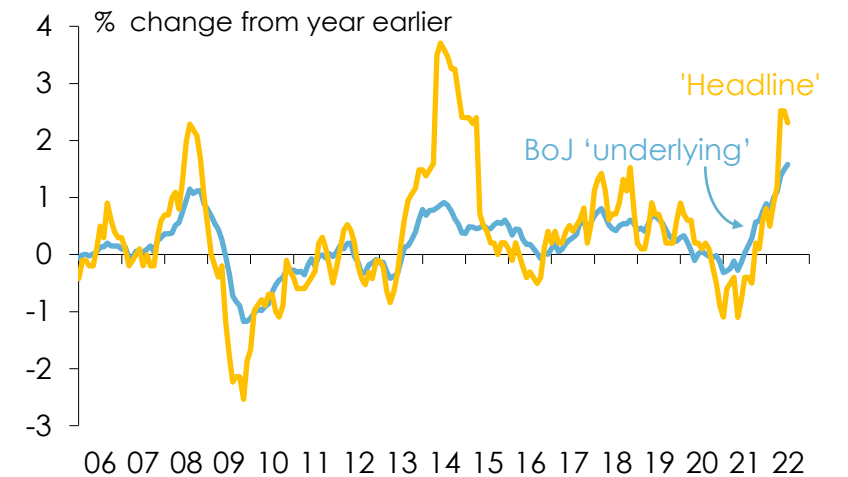
Labour force participation rate



Wages growth



Consumer prices

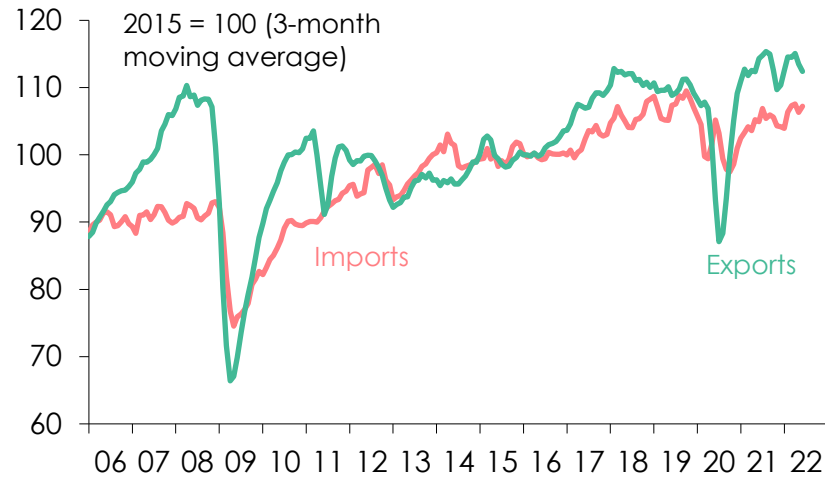


Sources: Statistics Bureau of Japan, [Labour Force Survey](#) and [Consumer Price Index](#); Ministry of Health, Labour and Welfare, [Monthly Labour Survey](#); Bank of Japan, [Prices and Measures of Underlying Inflation](#). [Return to "What's New"](#).

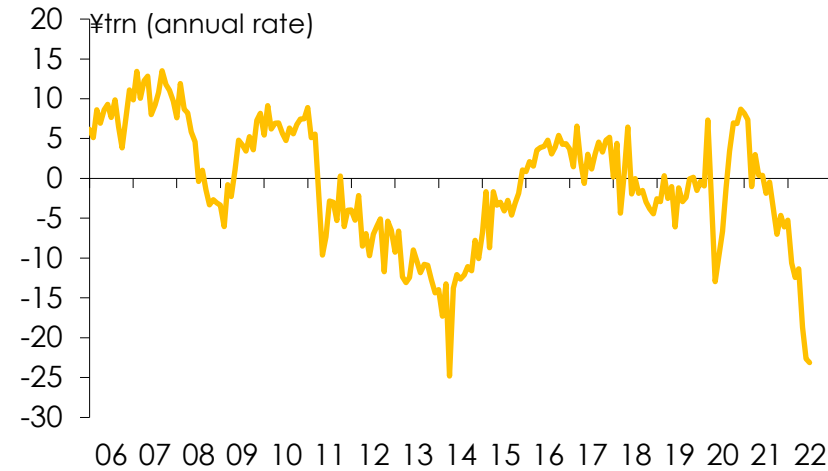
Japan is now incurring large (by its standards) external deficits as a result largely of higher prices commodity imports and loss of tourism exports

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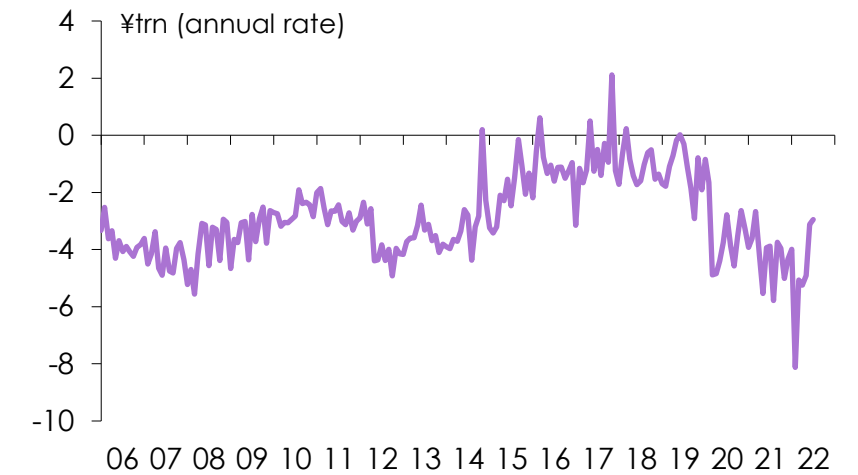
Merchandise trade volumes



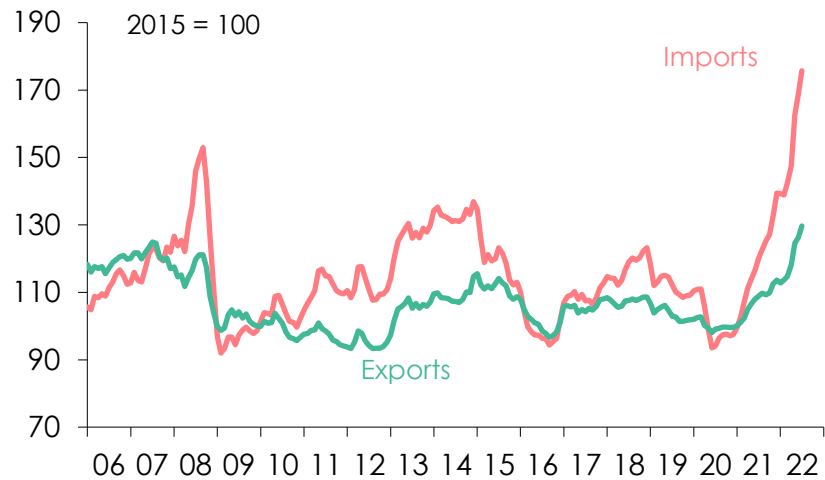
Merchandise trade balance



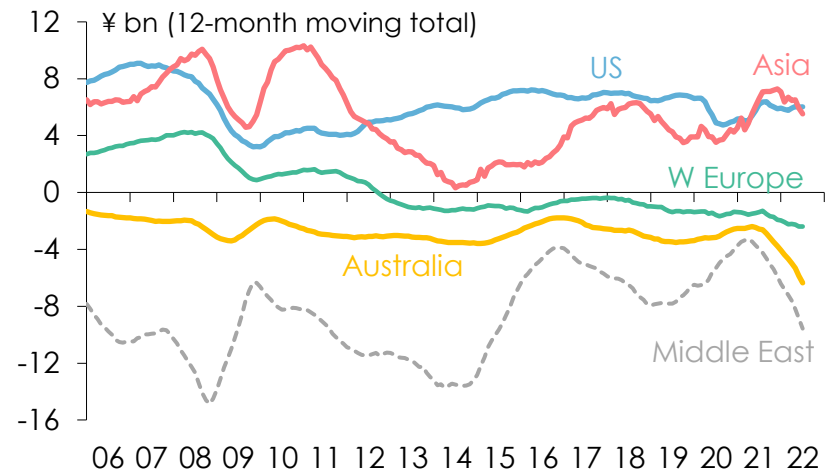
Services trade balance



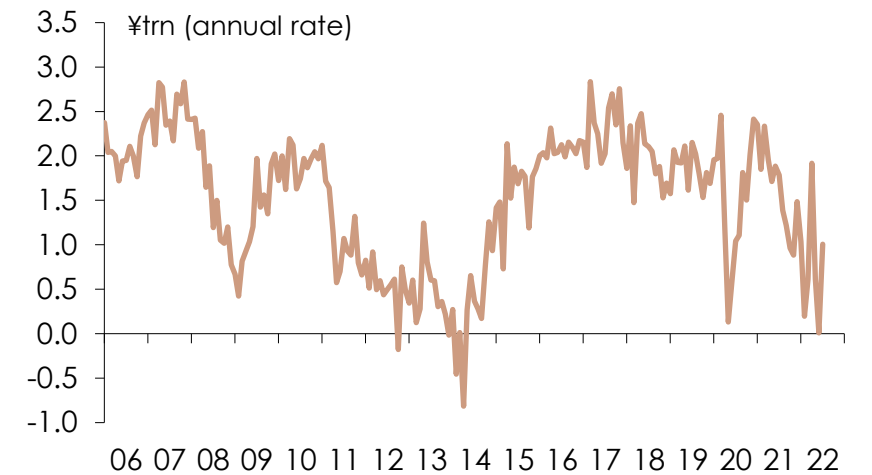
Merchandise trade prices



Bilateral goods trade balances



Current account balance



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

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

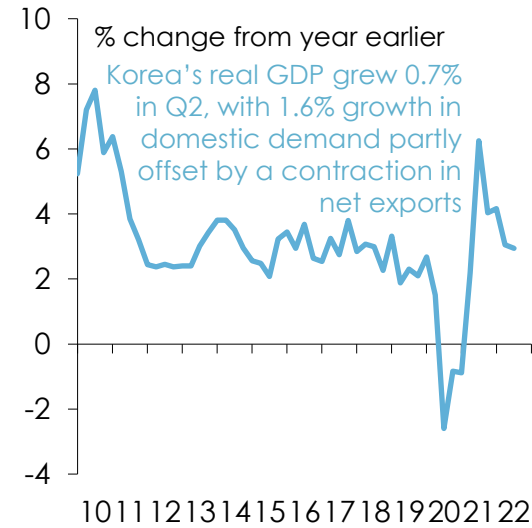
	Real GDP growth							Inflation						
	Actual		IMF			ADB		Actual		IMF			ADB	
	2010-19*	2020	2021	2022	2023	2022	2023	2010-19*	2020	2021	2022	2023	2022	2023
Korea	3.3	-0.9	4.1	2.3	2.1	2.6	2.6	1.7	0.5	2.5	4.0	2.4	4.5	3.0
Taiwan	3.6	3.1	5.9	3.2	2.9	3.8	3.0	1.0	-0.2	1.8	2.3	2.2	2.8	2.0
Hong Kong	2.8	-6.1	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](#), 26th July 2022 and [World Economic Outlook](#), 19th April 2022; Asian Development Bank, [Asian Development Outlook Supplement](#), 21st July 2022. [Return to "What's New"](#).

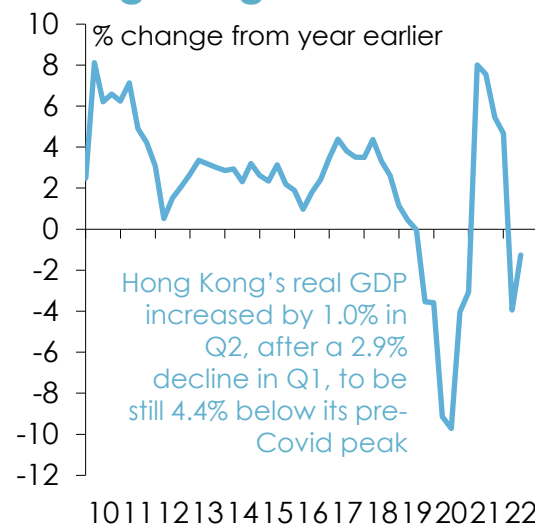
Malaysia's real GDP grew 3.8% in Q2 to be 5.1% above its pre-Covid peak, Hong Kong's grew by 1.0%, but the Philippines' shrank by 0.1%

THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

Korea



Hong Kong



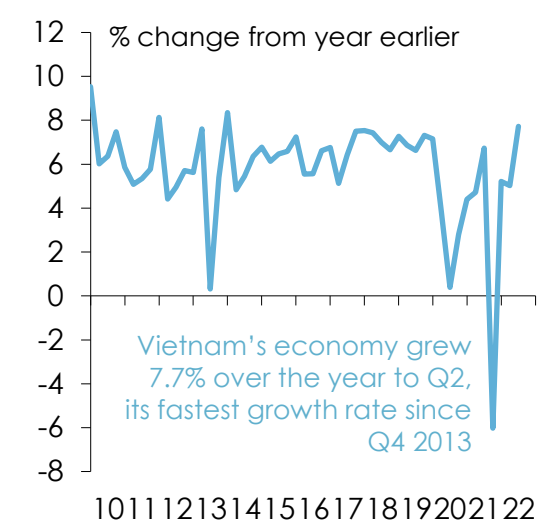
Indonesia



Thailand



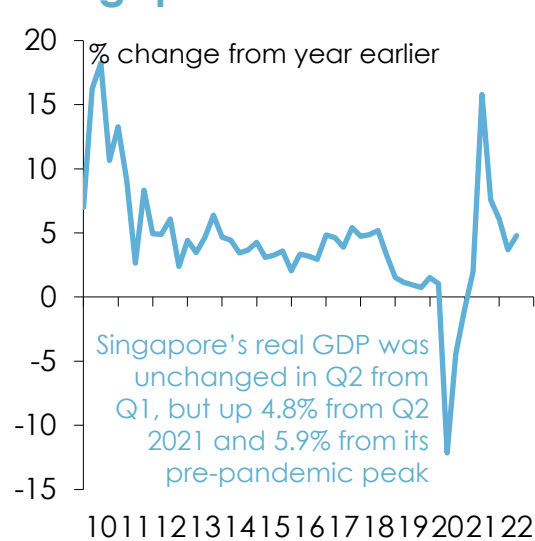
Vietnam



Taiwan



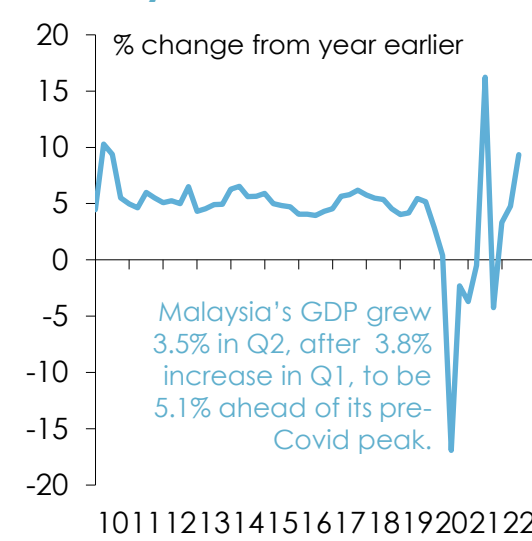
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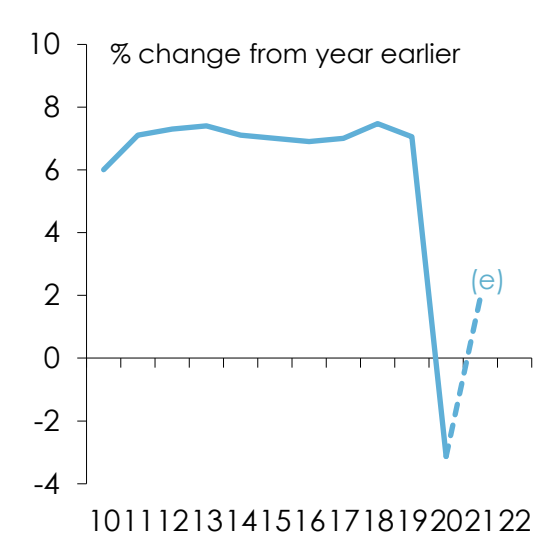
Philippines



Malaysia



Cambodia

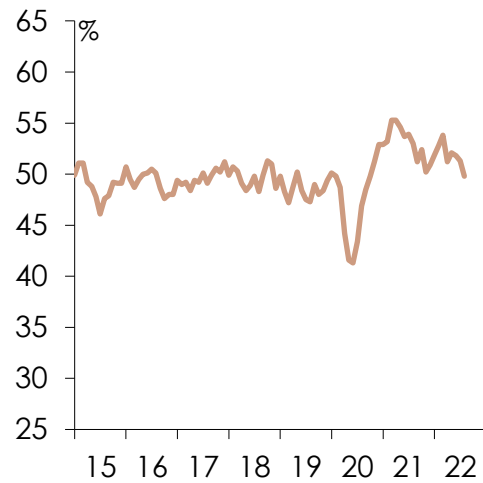


Sources: Bank of Korea; Taiwan Directorate-General of Budget, Accounting & Statistics; Hong Kong Census & Statistics Department; Singapore Ministry of Trade and Industry; Department of Statistics Malaysia; Office of the National Economic & Social Development Council of Thailand; Statistics Indonesia;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

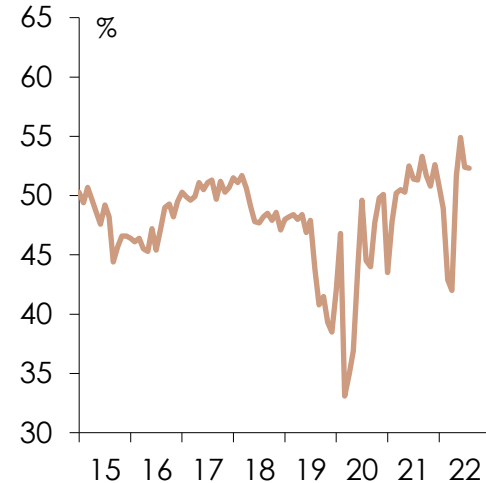
July PMIs suggest contractions in manufacturing activity in Korea and Taiwan, slower growth in the Philippines but a pick-up in Thailand

THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

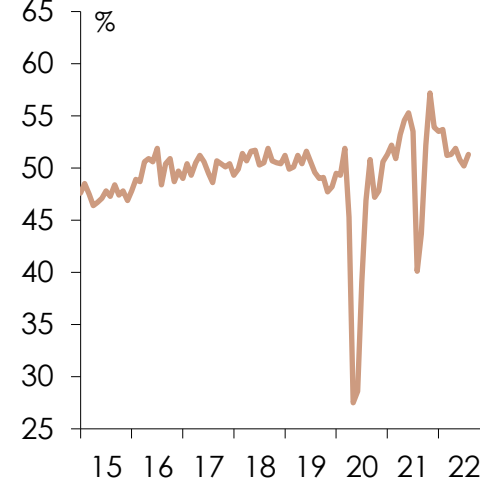
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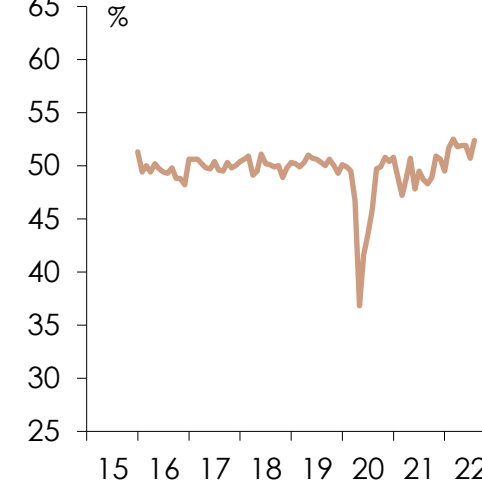
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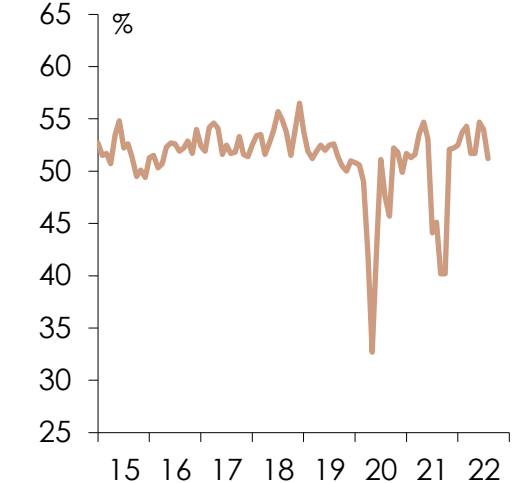
Indonesia



Thailand



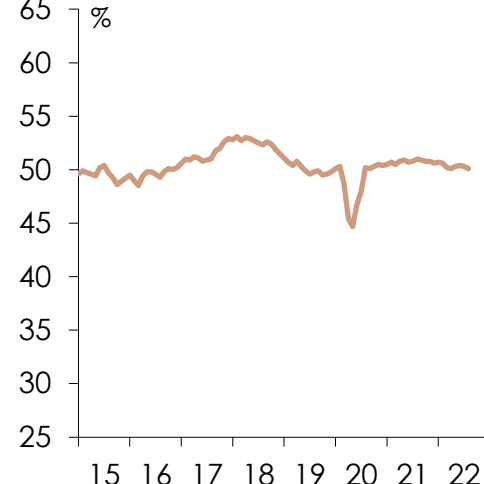
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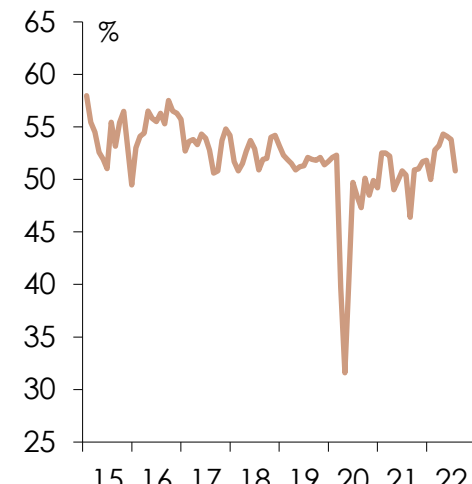
Taiwan



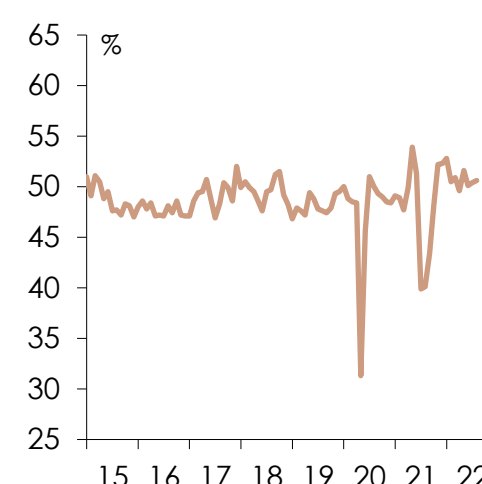
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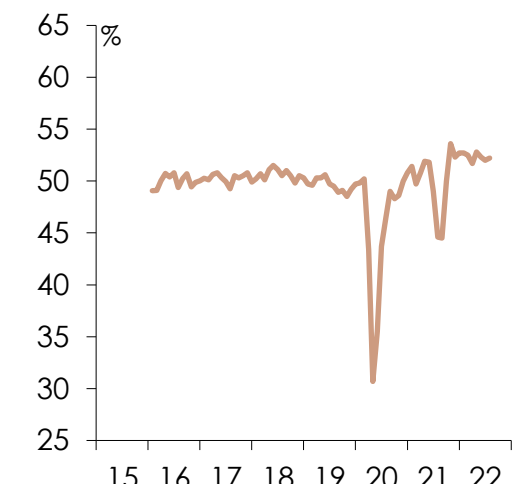
Philippines



Malaysia



ASEAN

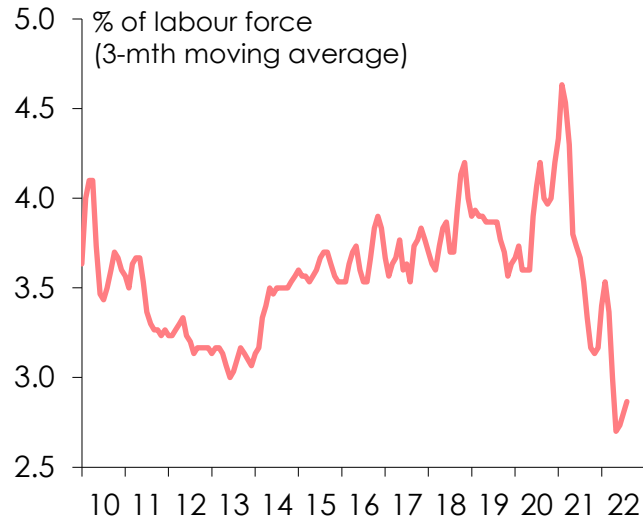


Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous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

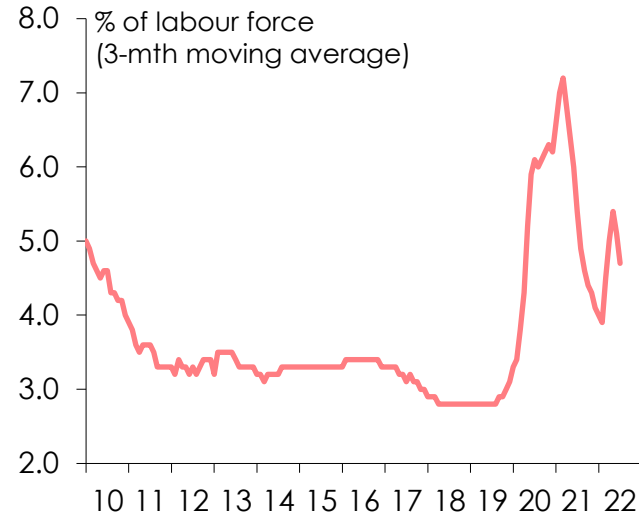
Unemployment rose sharply in most Asian economies last year but is now falling in most of them (except for Hong Kong)

THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

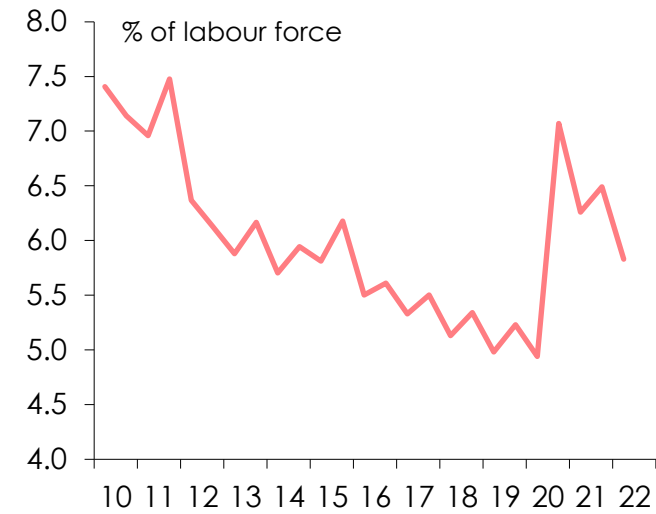
Korea



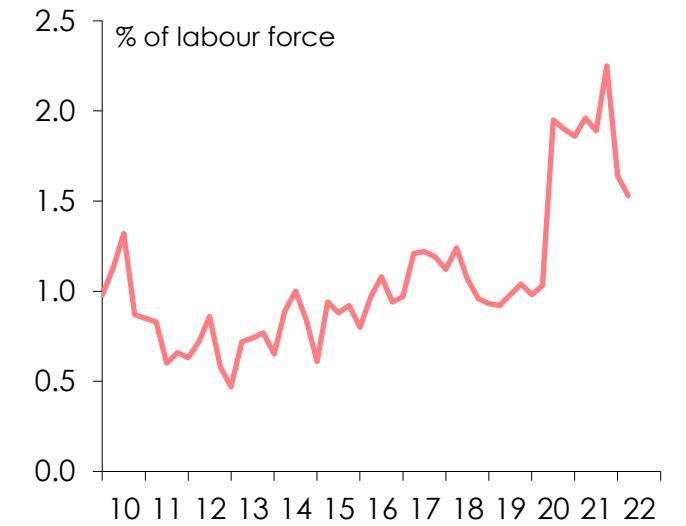
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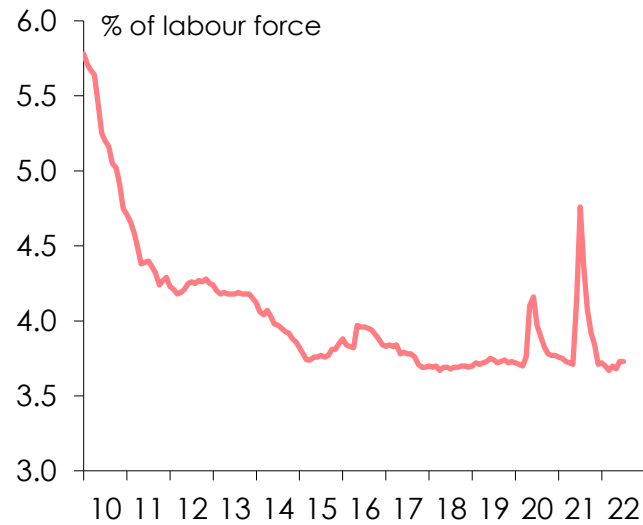
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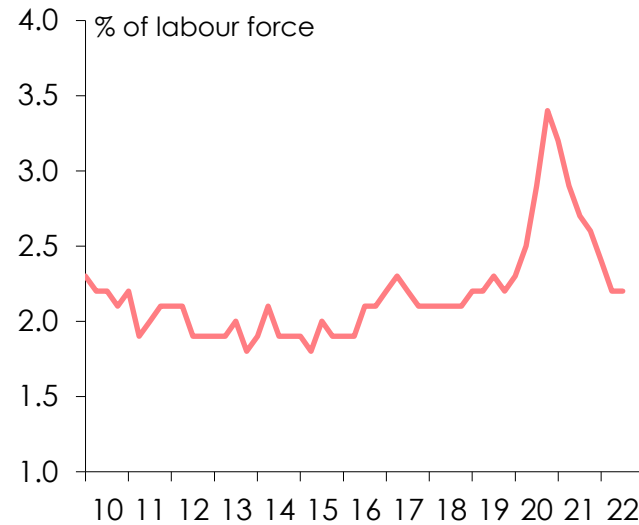
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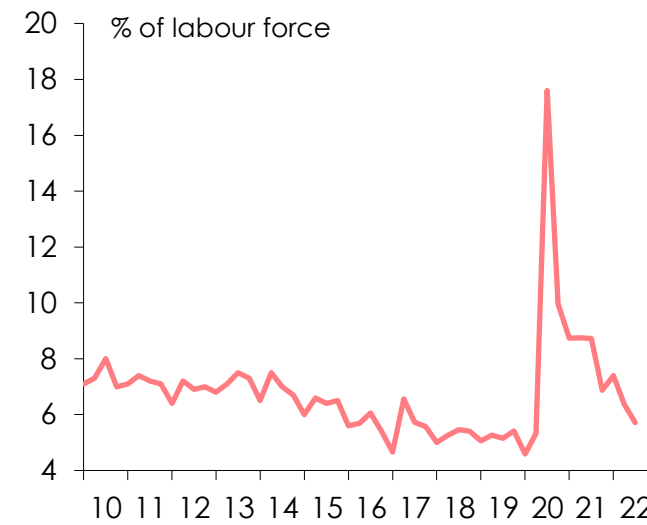
Taiwan



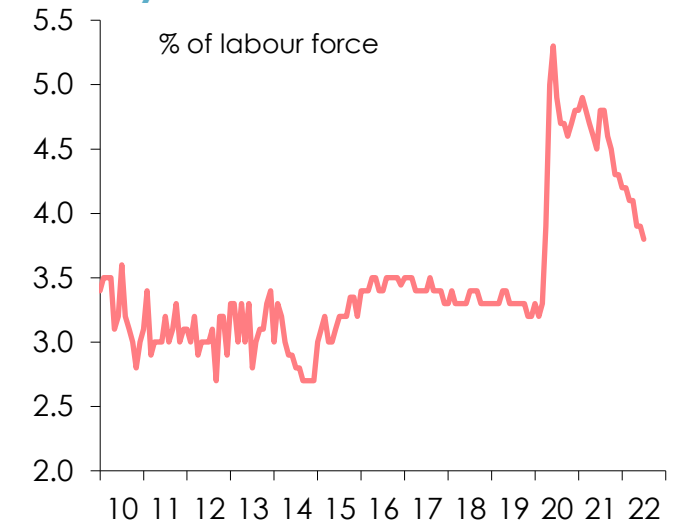
Singapore



Philippines



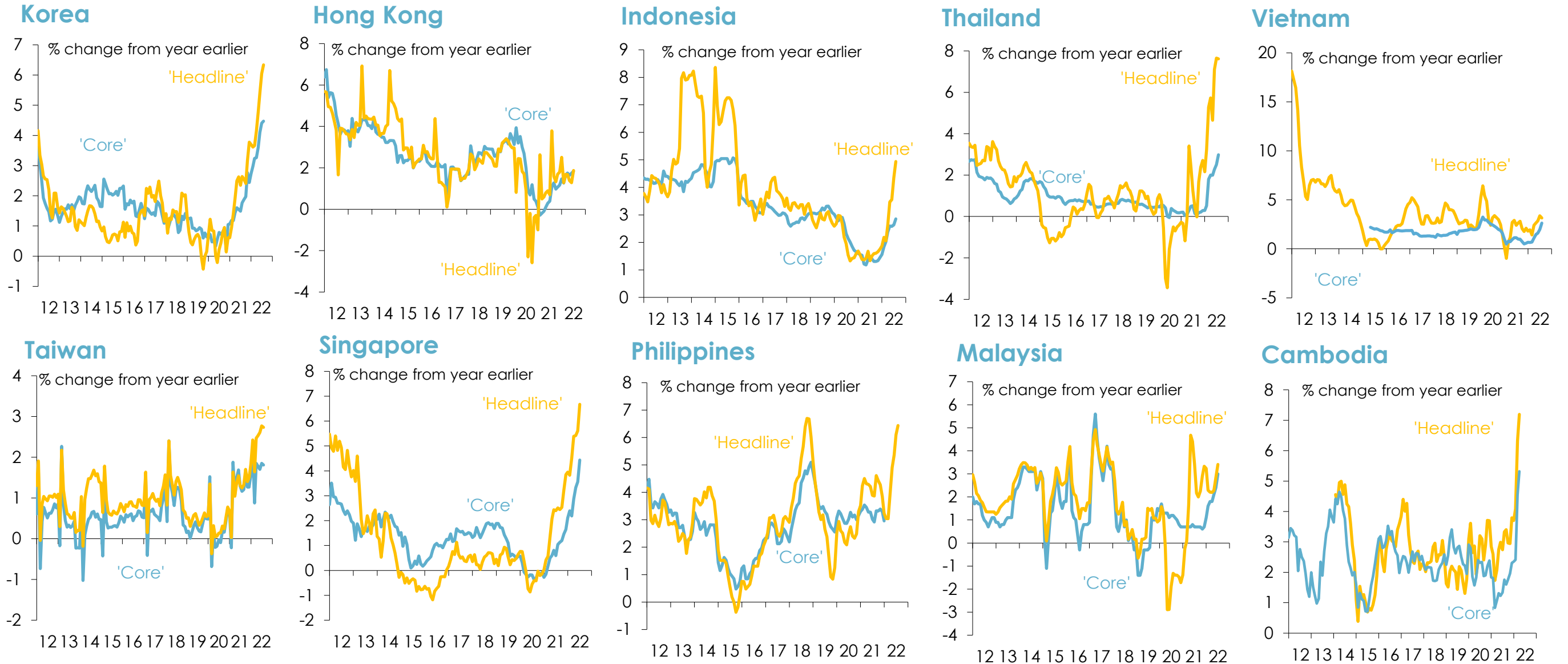
Malaysia



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

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

THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

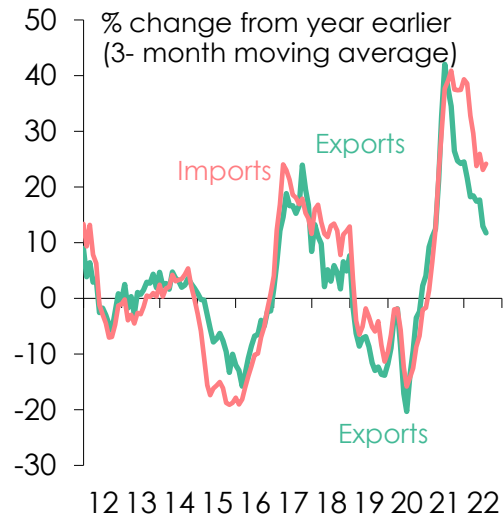


Note: 'Core' inflation in Korea excludes agricultural products & oil; in Taiwan it excludes fresh fruit, vegetables & energy; in Singapore it excludes accommodation & private transport; and in Hong Kong it excludes the effect of 'one-off government relief measures'. 'Core' inflation in Indonesia excludes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

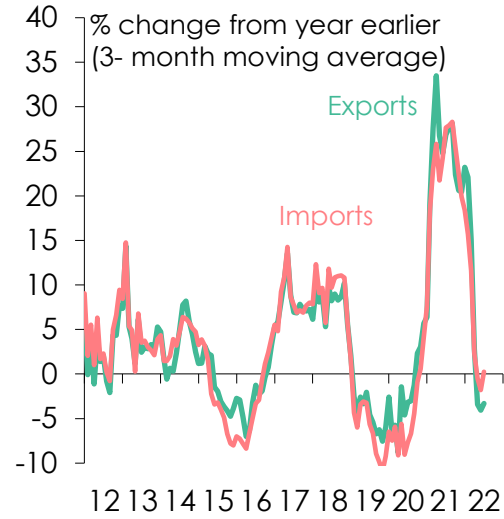
Asian exports are returning to more 'normal' growth rates following the 'bump' in 2021 inflated by comparison with 2020

THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

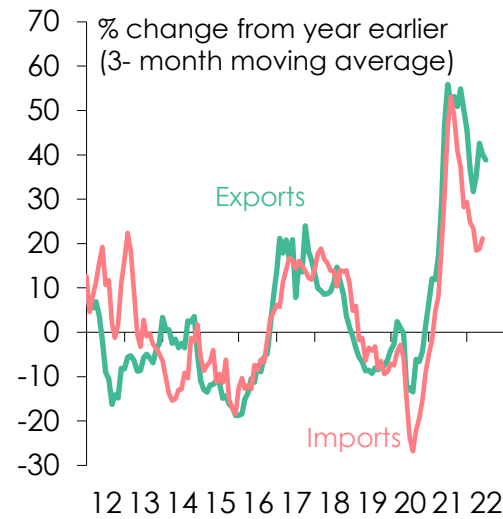
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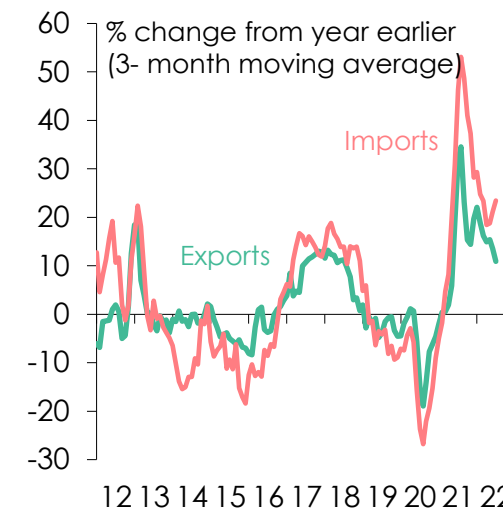
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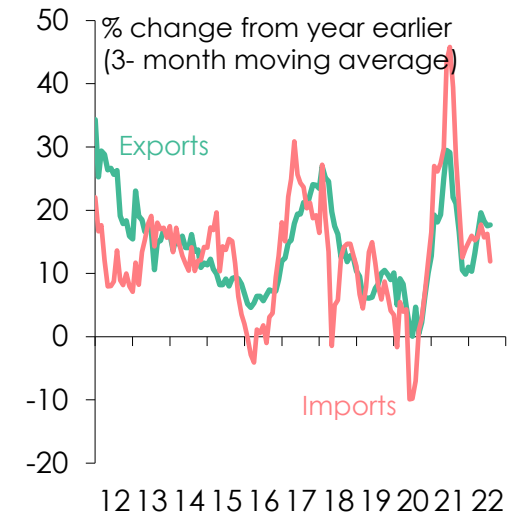
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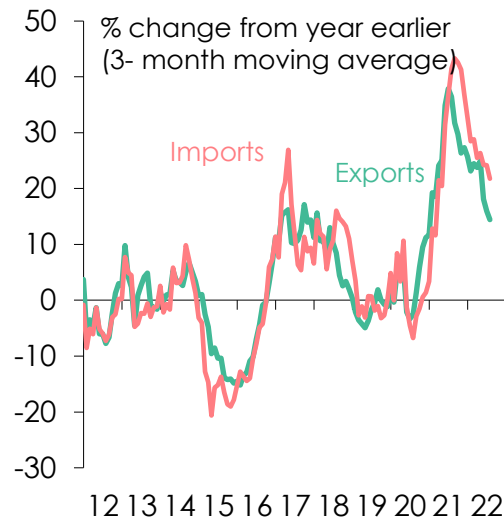
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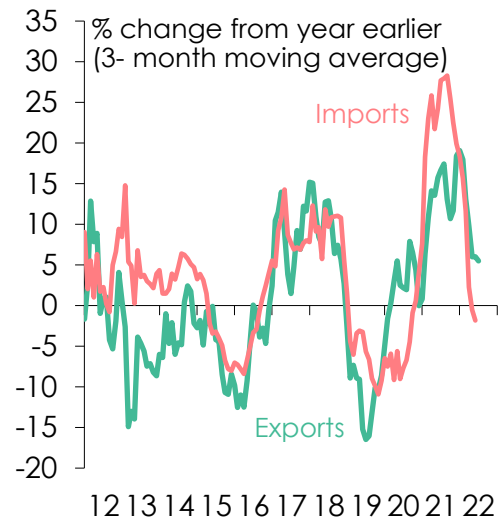
Vietnam



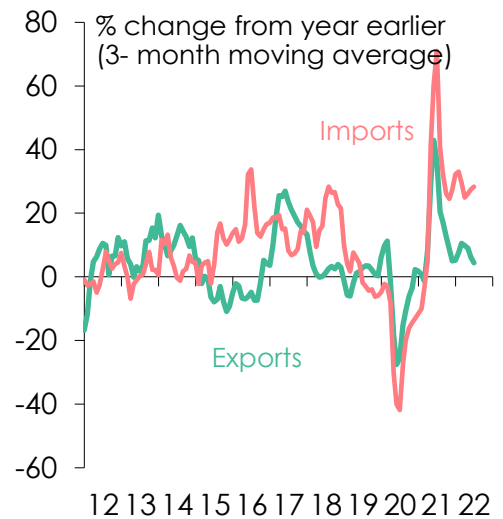
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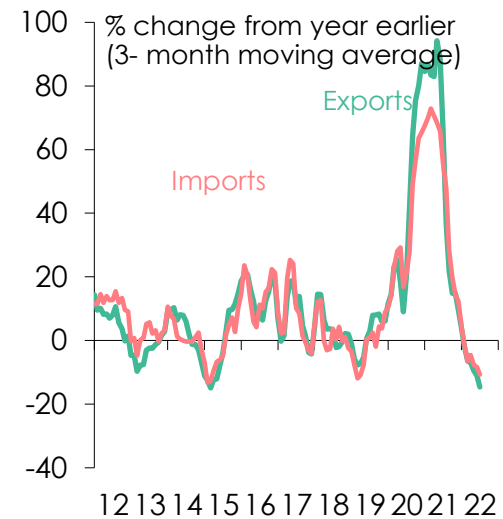
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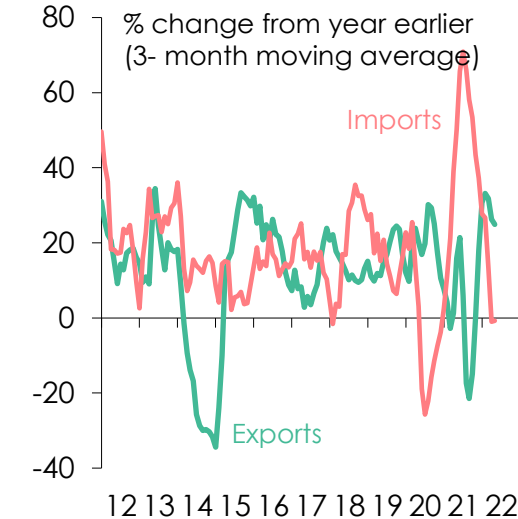
Philippines



Malaysia



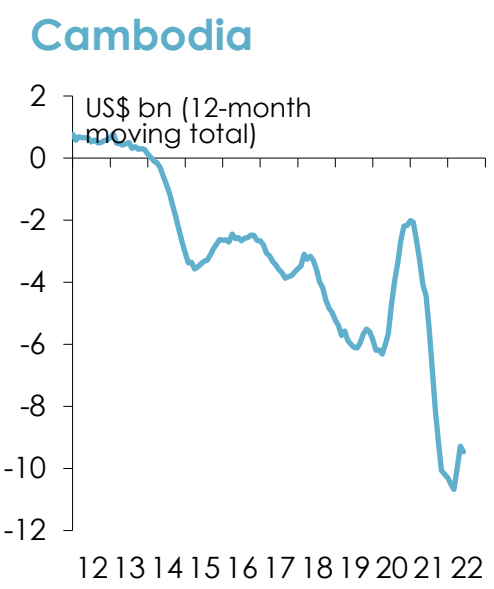
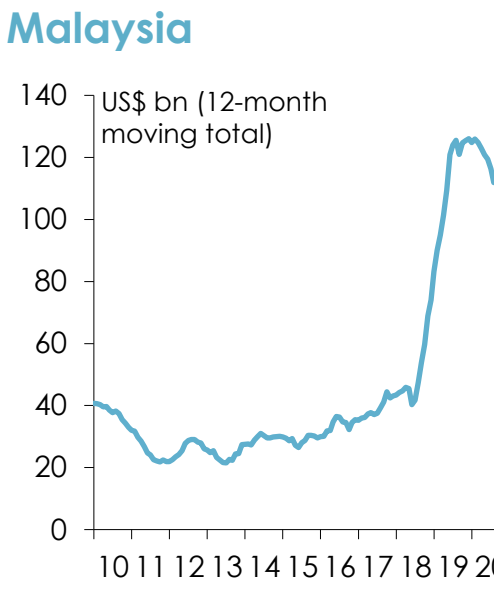
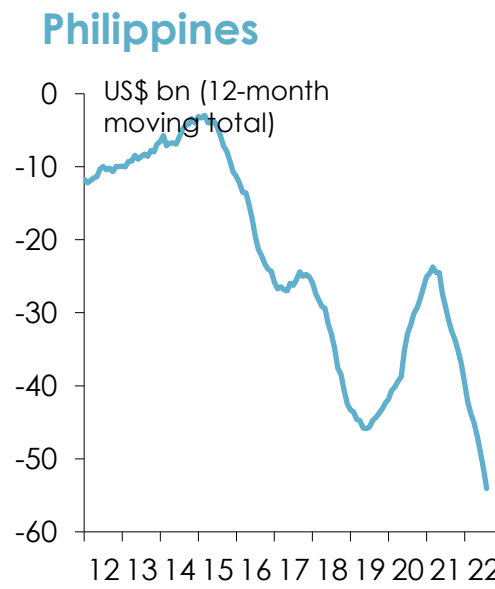
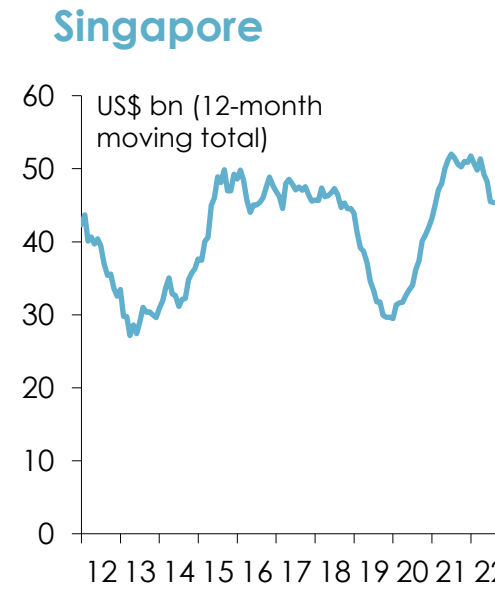
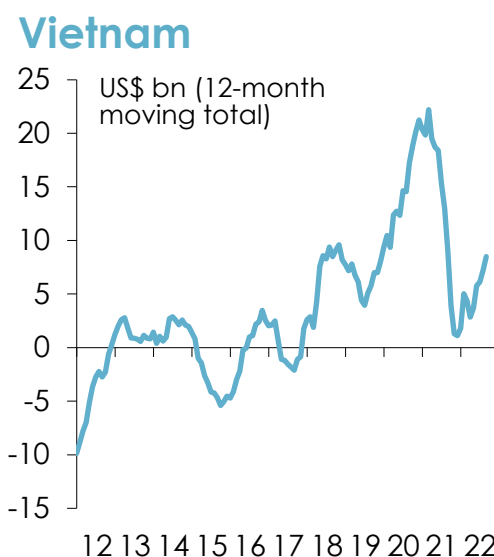
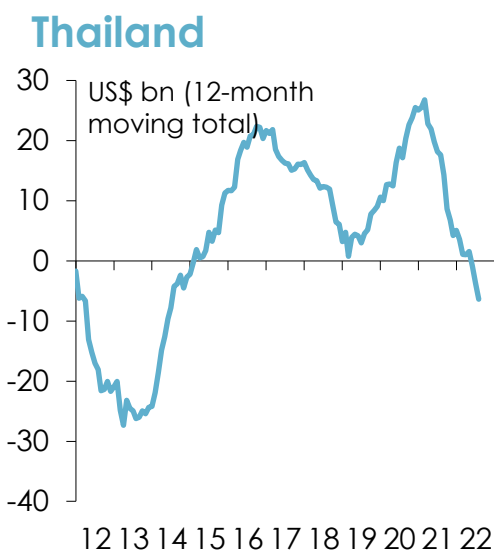
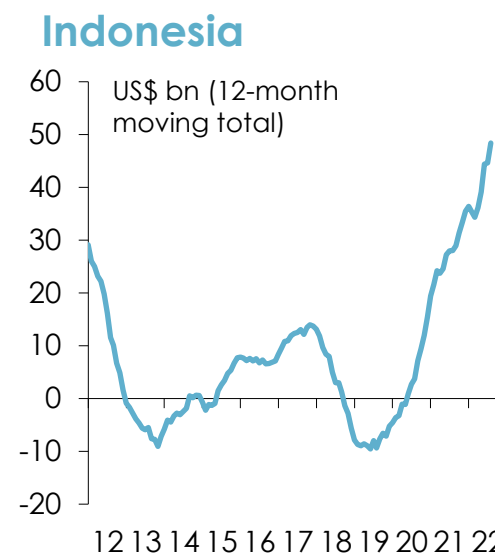
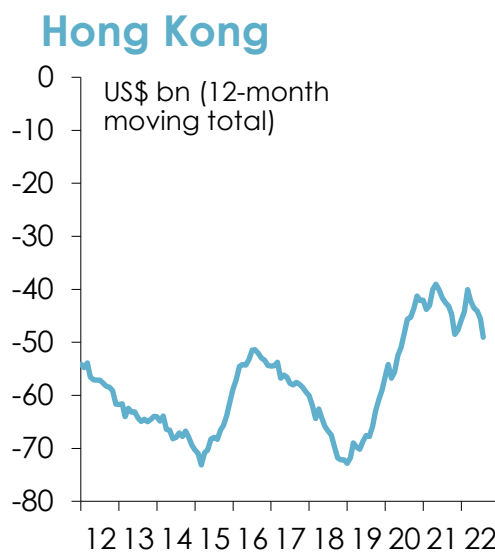
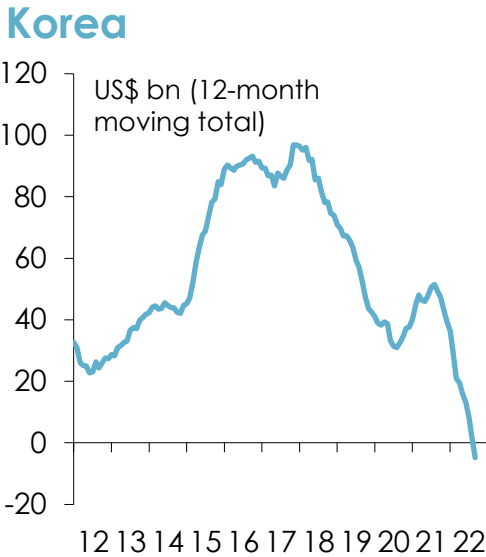
Cambodia



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

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

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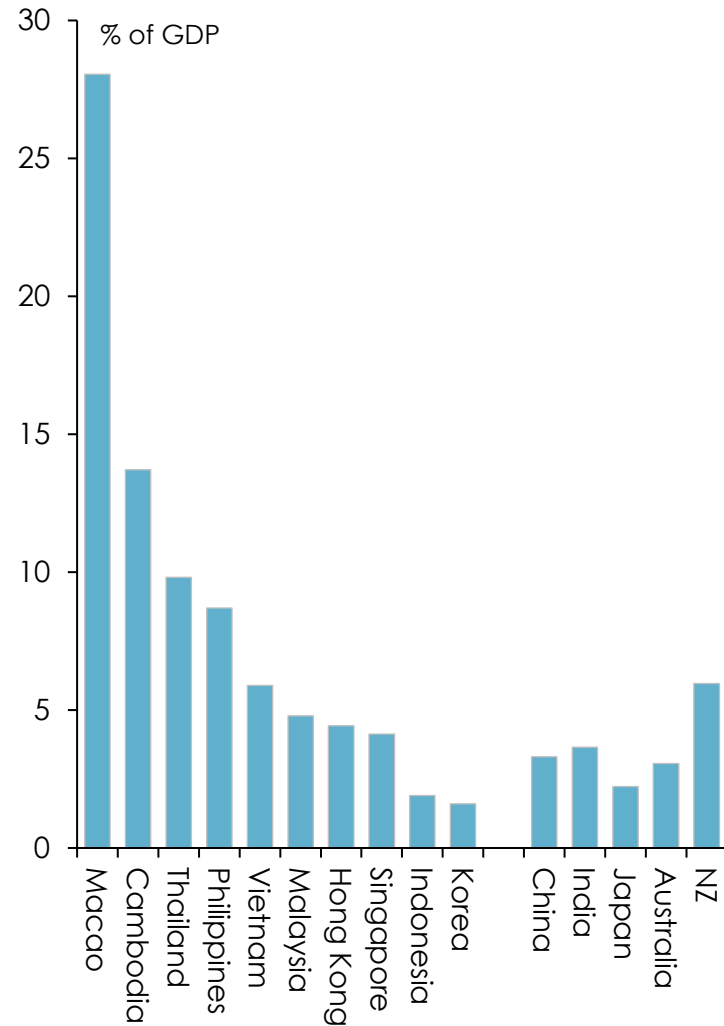


Note: Data for Hong Kong, Singapore and Malaysia are published in national currencies and converted to US dollars by Corinna using month-average exchange rates. Sources: national statistical agencies and central banks. [Return to "What's New"](#).

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

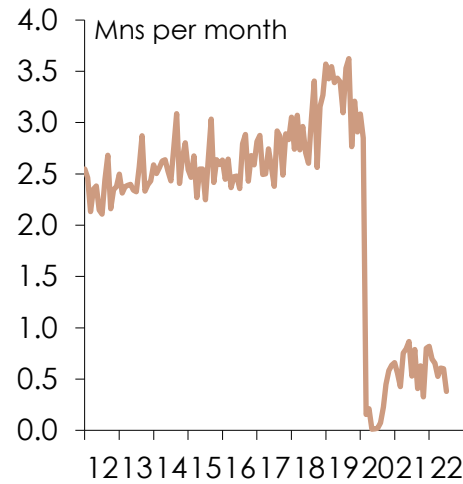
THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

International tourism direct contribution to GDP, 2018

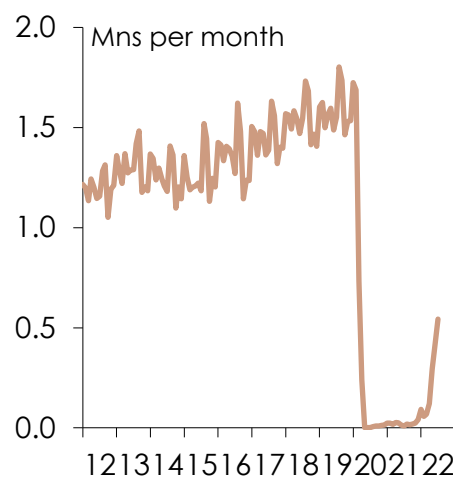


International visitor arrivals

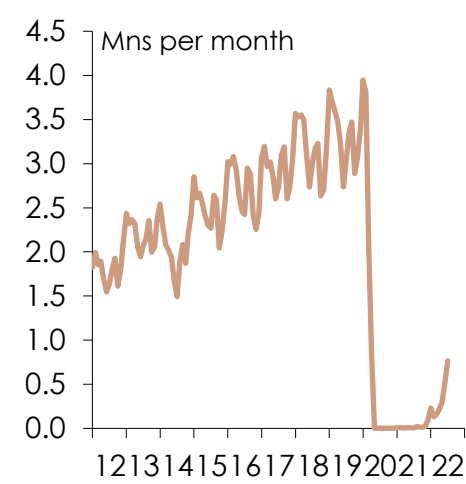
Macao



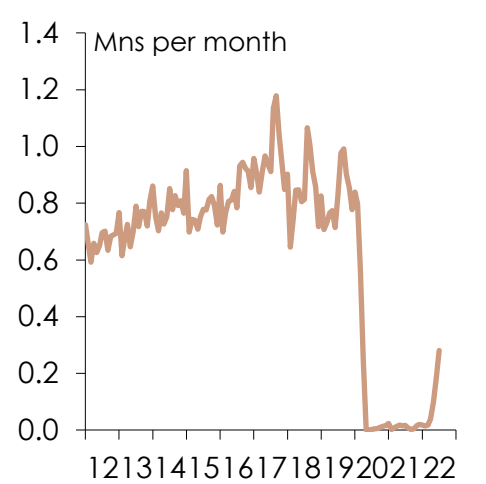
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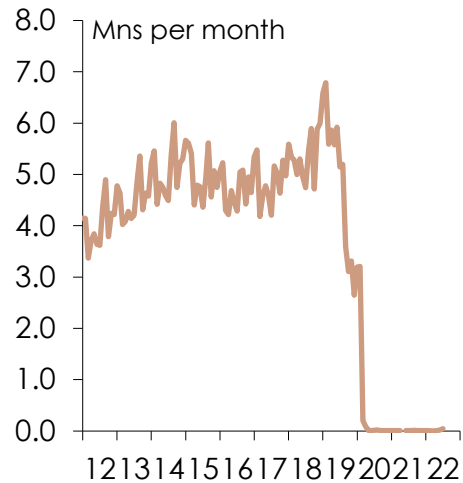
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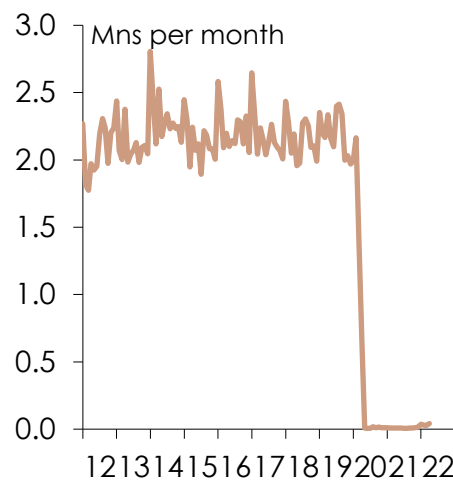
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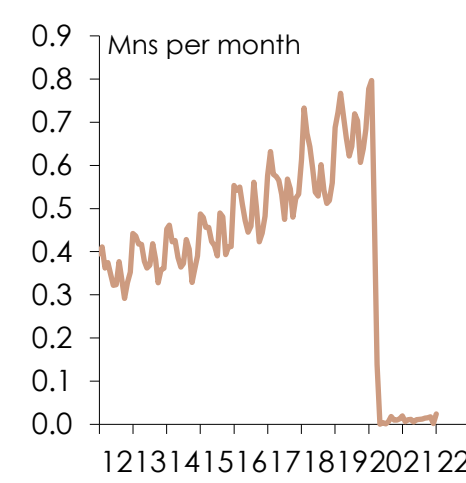
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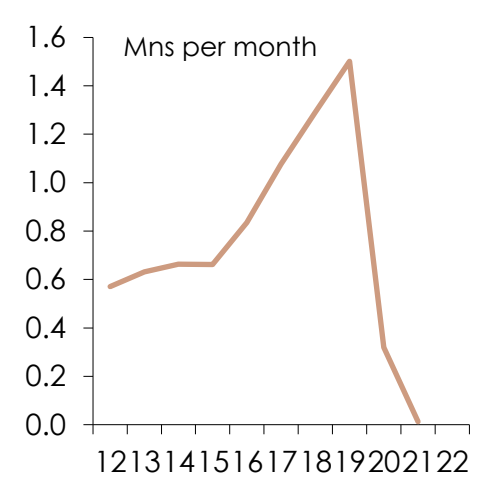
Malaysia



Philippines



Vietnam



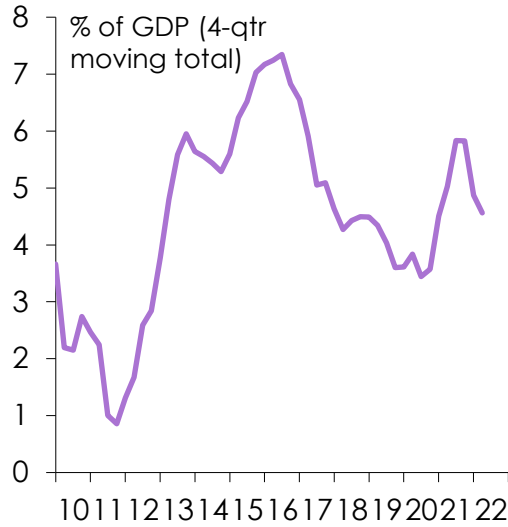
Note: Visitor arrivals data for Vietnam is only published annually. Malaysia and the Philippines have thus far not published data for months after December 2021.

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

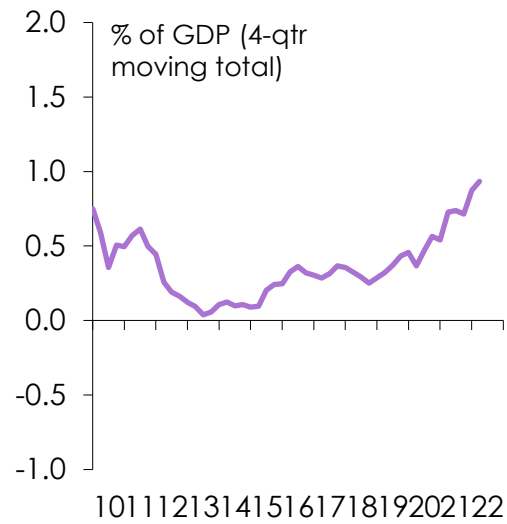
The more 'advanced' Asian economies have strong current account positions, Indonesia's is much improved but others have deteriorated

THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

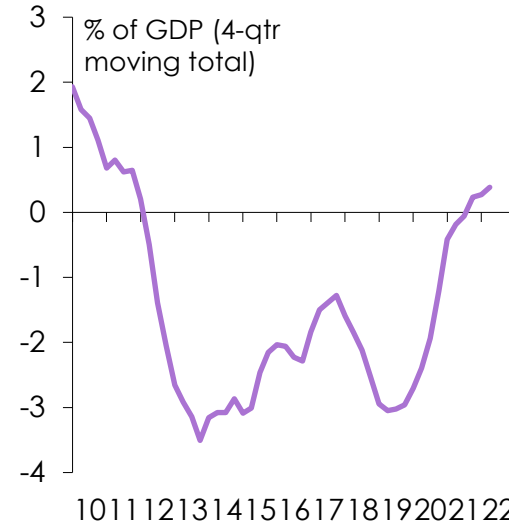
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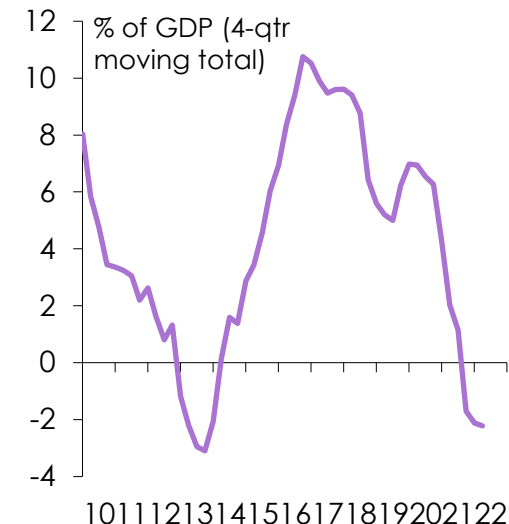
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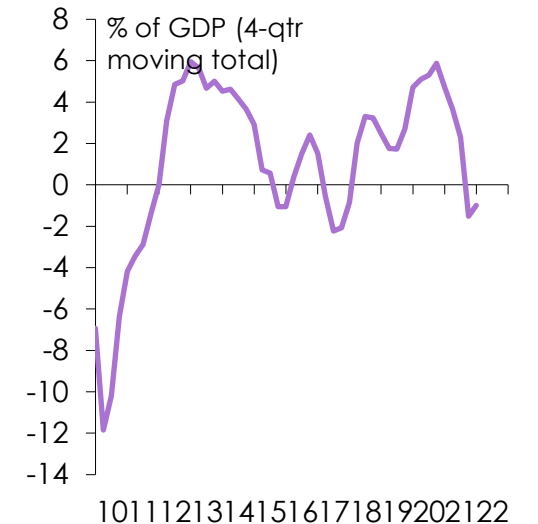
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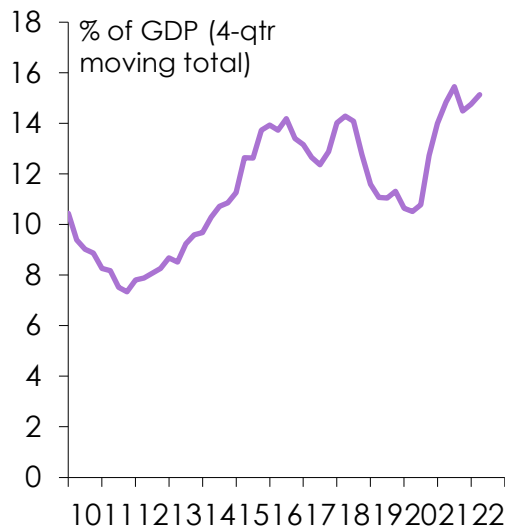
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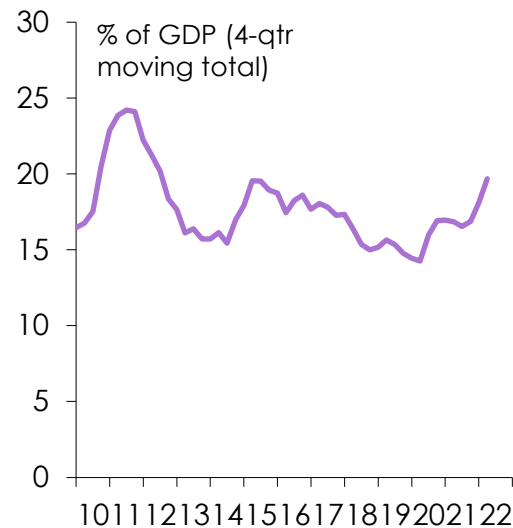
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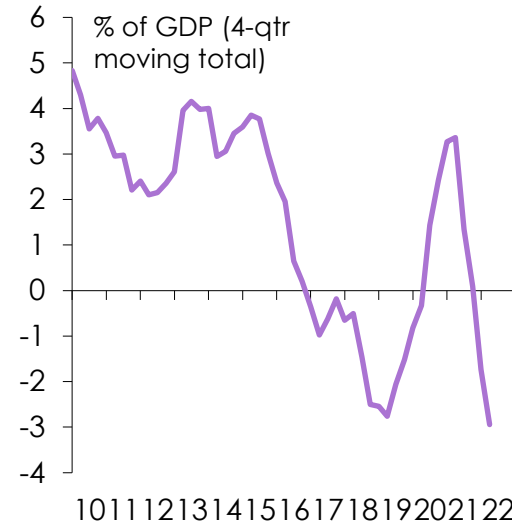
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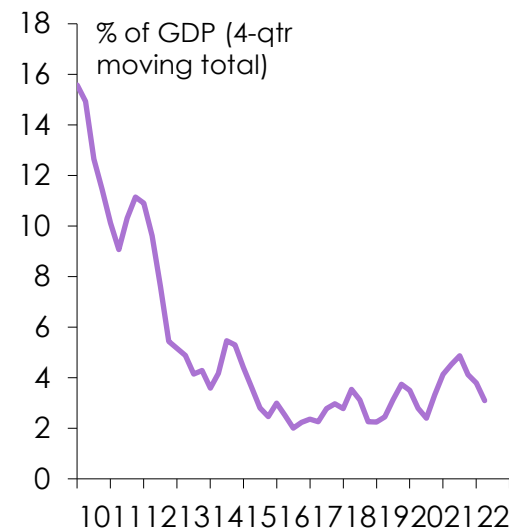
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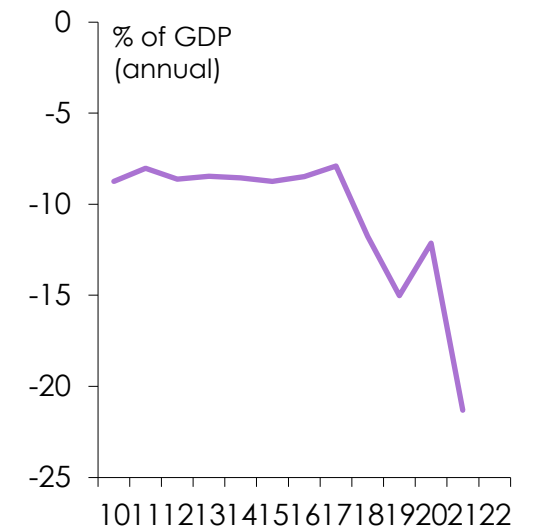
Philippines



Malaysia



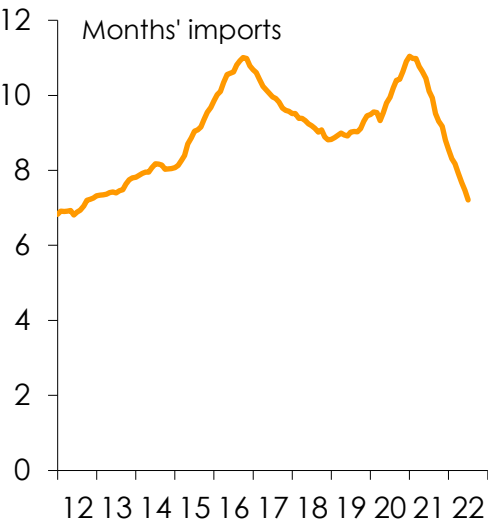
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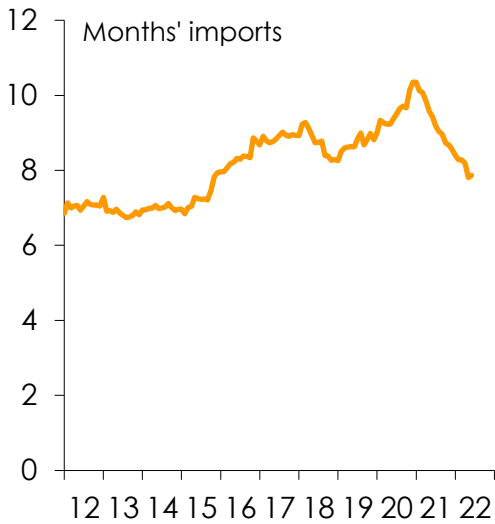
Most Asian economies have sought to maintain high levels of FX reserves since the 1997-98 crisis – although Malaysia's have deteriorated recently

THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

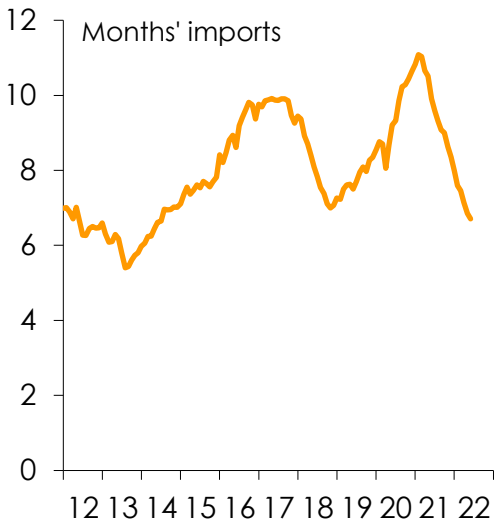
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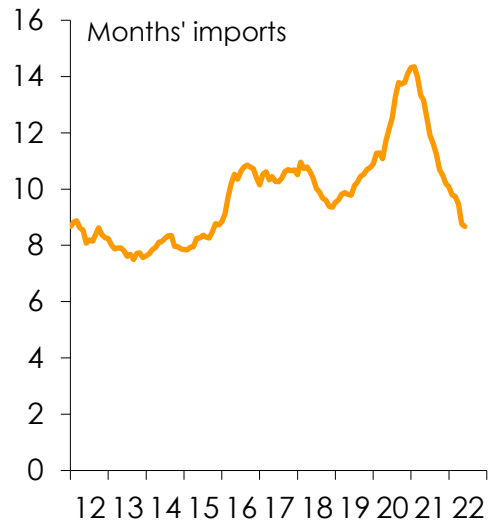
Hong Kong



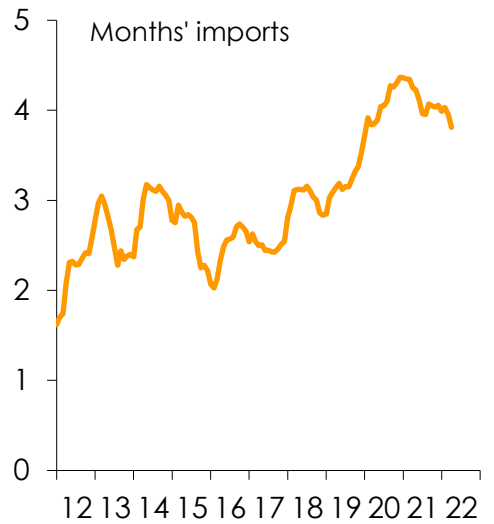
Indonesia



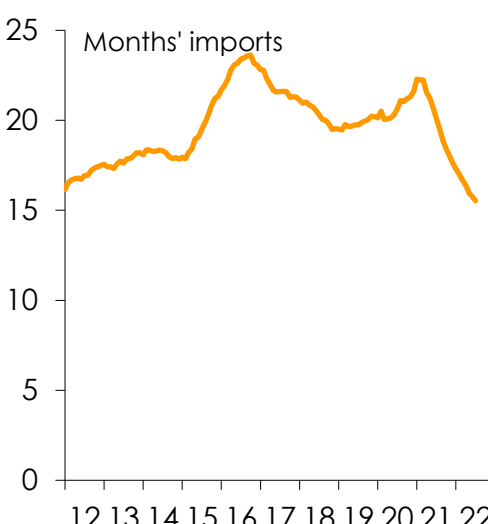
Thailand



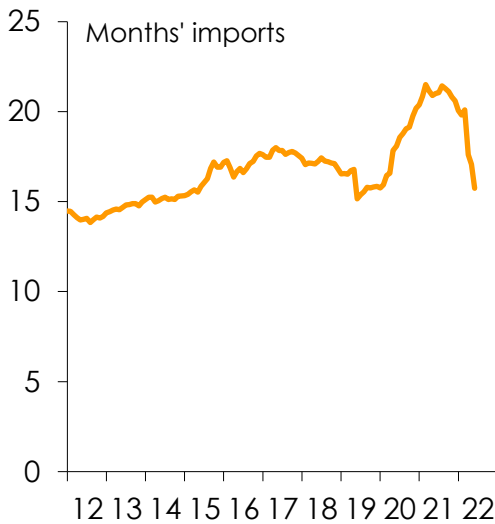
Vietnam



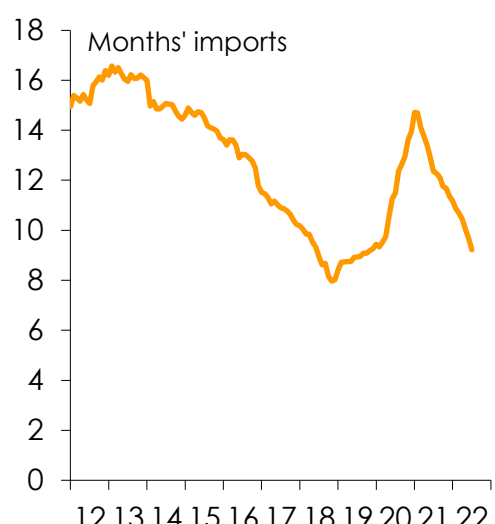
Taiwan



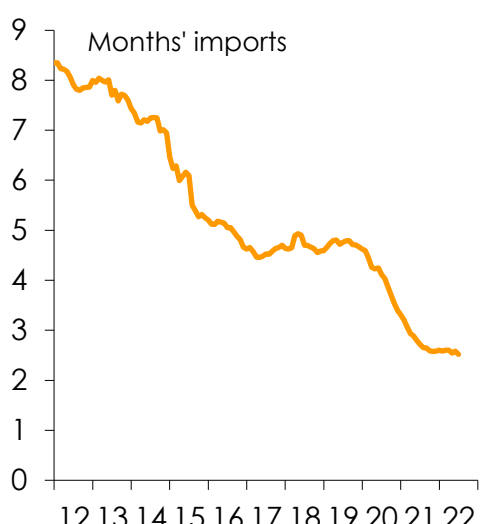
Singapore



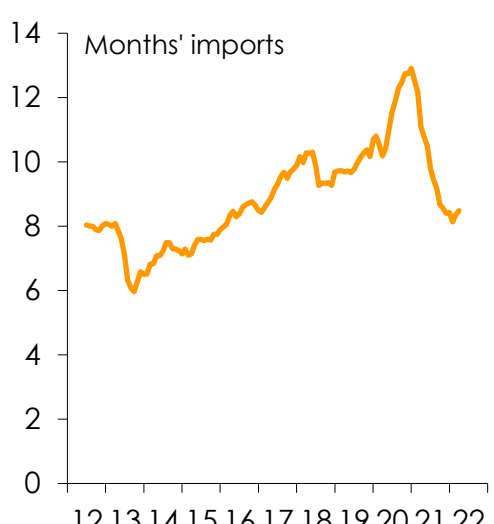
Philippines



Malaysia



Cambodia

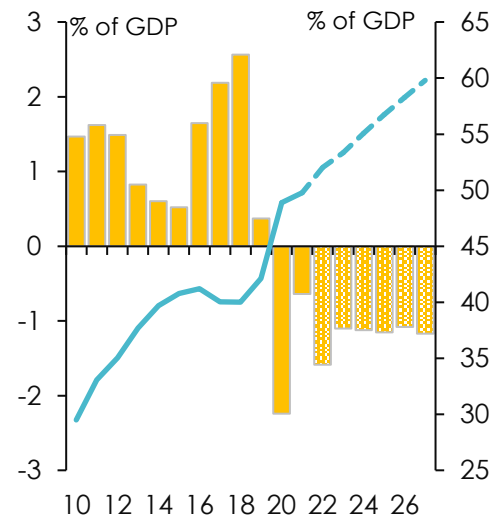


Note: Foreign exchange reserves in the above charts are shown as a multiple of average monthly imports (measured in US\$) over the preceding 12 months. Sources: national statistical agencies and central banks; IMF; Refinitiv Datastream. [Return to "What's New"](#).

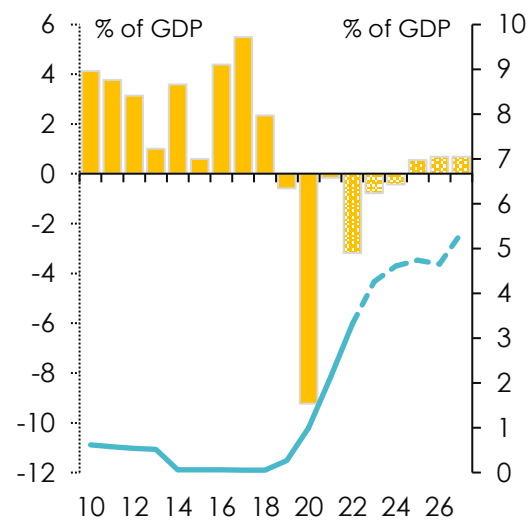
Most Asian governments, apart from Korea, Taiwan, Malaysia and Vietnam, will be tightening fiscal policy over the next few years

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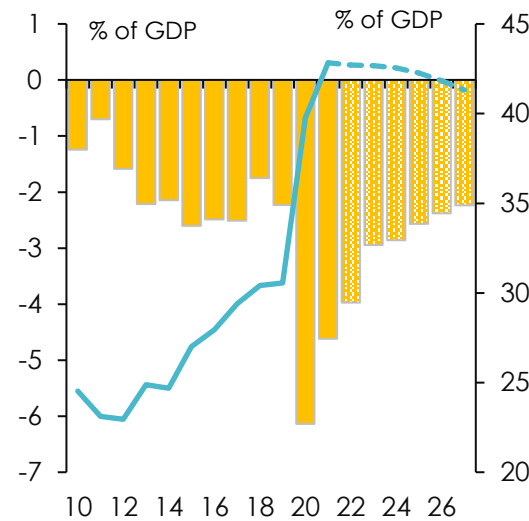
Korea



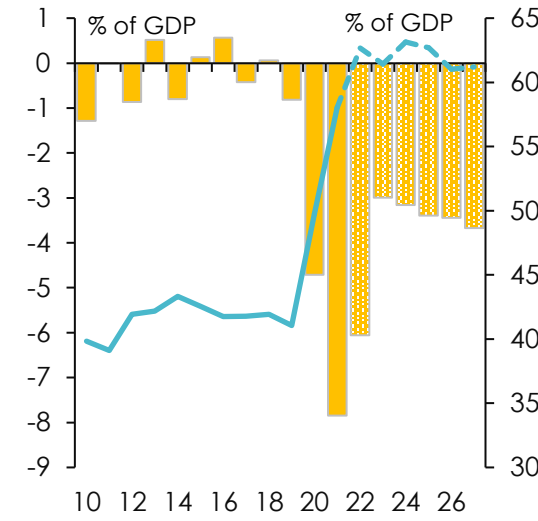
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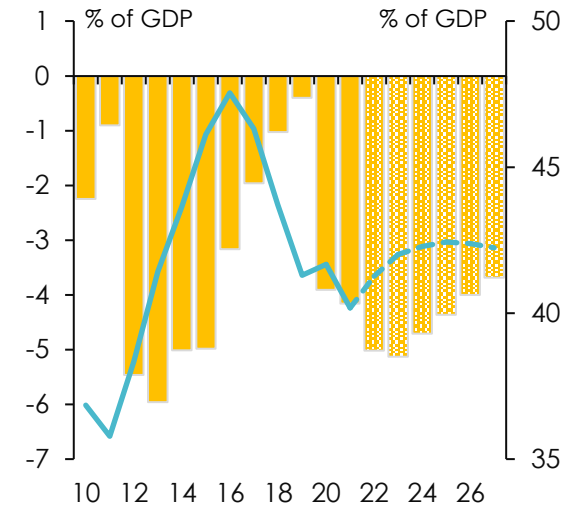
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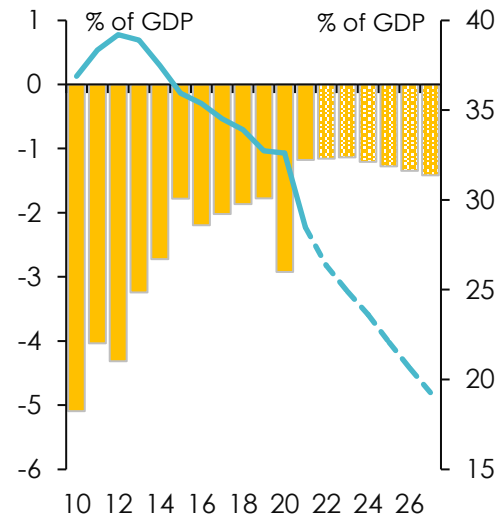
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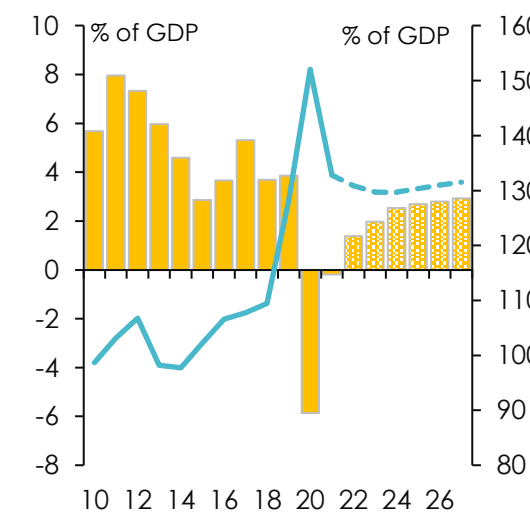
Vietnam



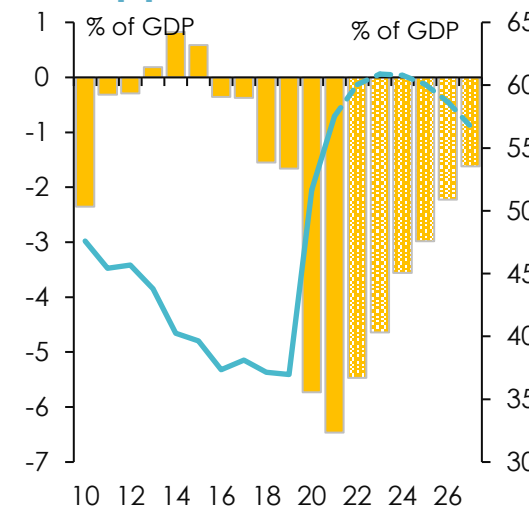
Taiwan



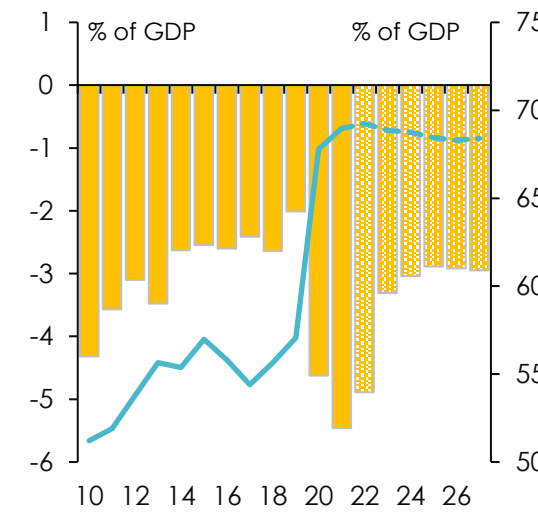
Singapore



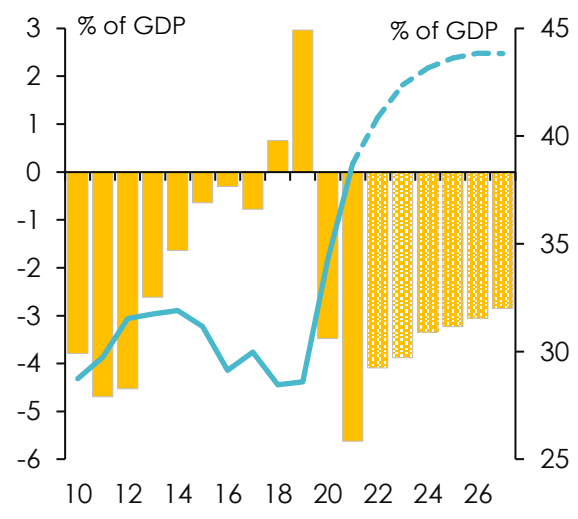
Philippines



Malaysia



Cambodia



General government overall fiscal balance (left scale)



General government gross debt (right scale)

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

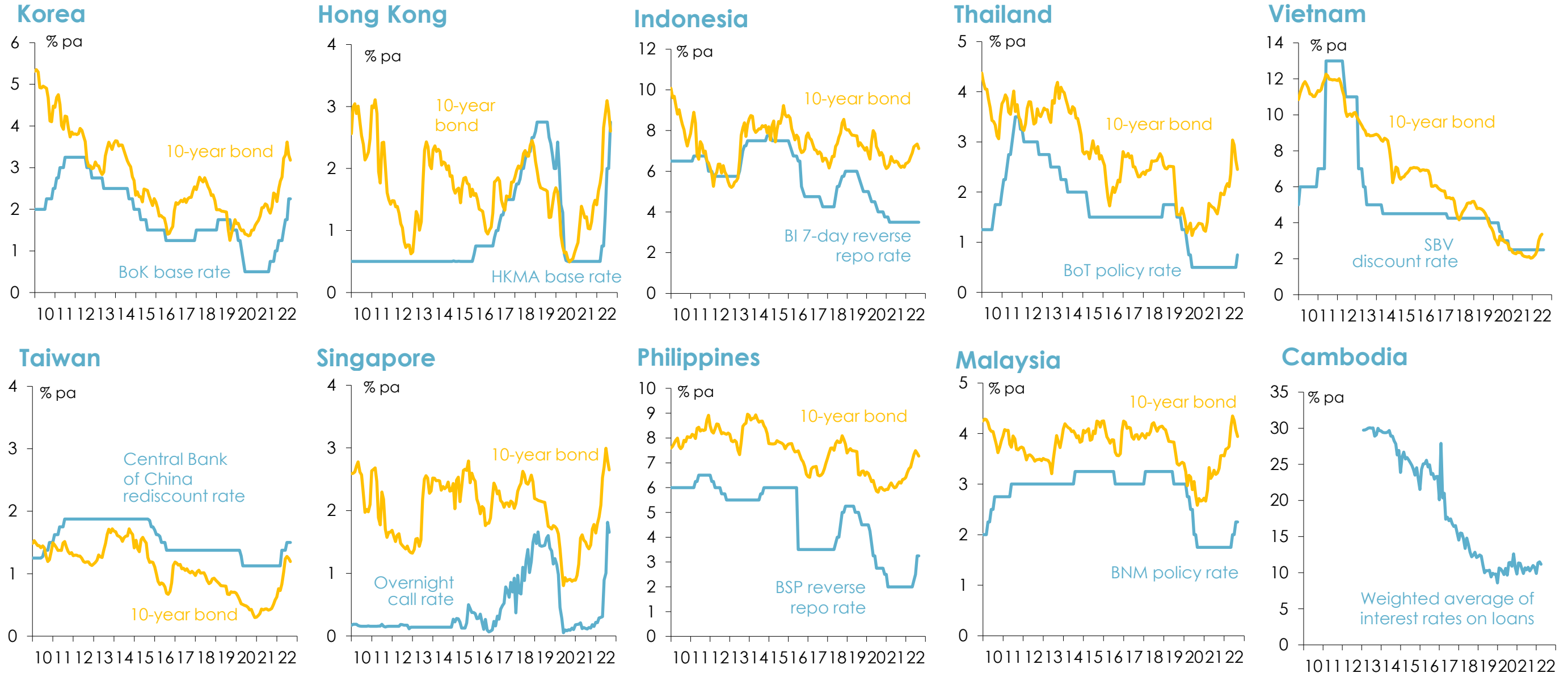
The Bank of Thailand, as anticipated, raised its policy interest rate last week for the first time in 11 years

THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

- ❑ **As widely expected, the [Bank of Thailand](#) raised its policy rate by 25 basis points, to 0.75%, at its Monetary Policy Committee meeting on 10th August – the first increase since August 2011**
 - in its [post-meeting press release](#) the BoT projected that the Thai economy would “continue recovering with strong momentum”, due to “a larger-than-expected number of foreign tourist arrivals” and a continued recovery in private consumption “in line with improvements in labour market conditions and household incomes”
 - it predicted that “headline inflation will remain at a high level for some time”, with the inflation outlook “still subject to upside risks, including potentially higher and faster cost-pass through to core inflation”, although it also noted that “inflation expectations have not increased significantly”
 - the BoT concluded that “the policy rate should be normalized to the level consistent with sustainable growth in the longer term”, implying that further increases are likely in coming months
- ❑ **[Bank Indonesia](#) is thus now the only East Asian central bank (apart from the BoJ, SBV and PBoC) not to have initiated a monetary policy tightening cycle – it 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 21st 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”
- ❑ **The next East Asian central bank meeting is Bangko Sentral ng Pilipinas on 18th August, followed by Bank Indonesia on 23rd August and the Bank of Korea on 25th August**

The Bank of Thailand raised its policy rate last week, leaving Indonesia's and Vietnam's as the only central banks yet to begin 'normalizing' policy

THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

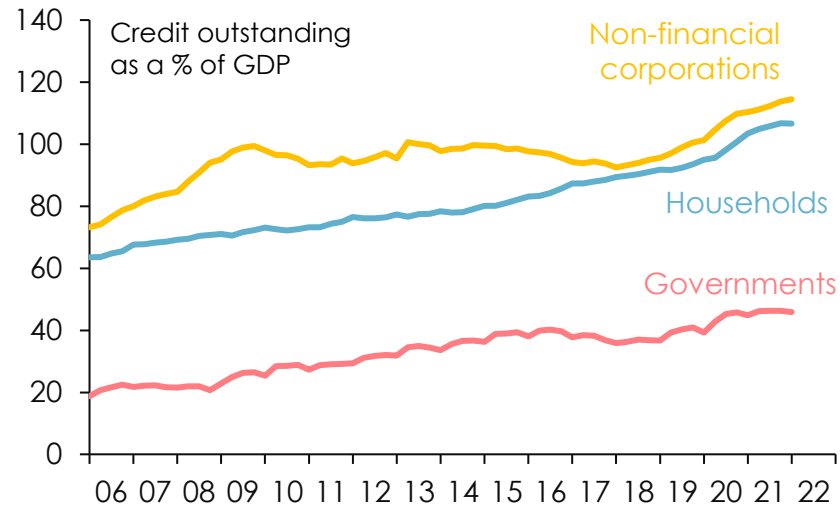


Note: Neither Hong Kong nor Singapore use a monetary policy indicator interest rate. Hong Kong has a currency board system, under which the HKMA base rate moves in line with a pre-set formula based on the US fed funds rate; the Monetary Authority of Singapore uses the (effective) exchange rate as its 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 12th August 2022. Sources: national central banks; Refinitiv Datastream. [Return to "What's New"](#).

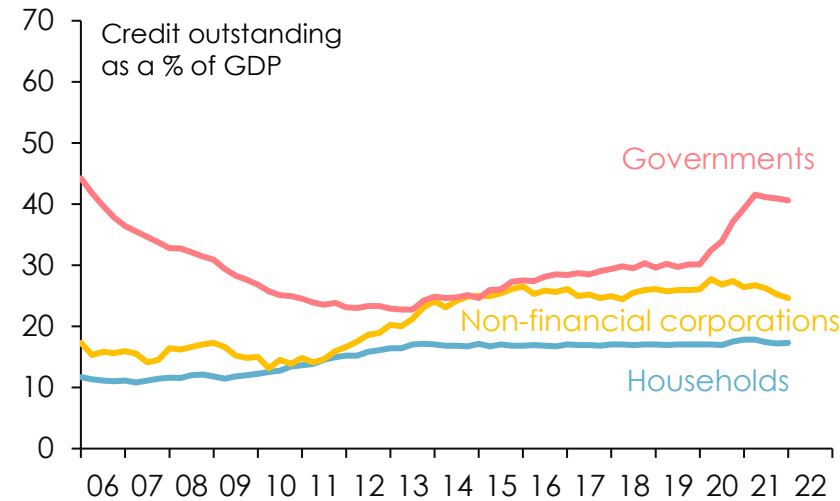
In Asia, Hong Kong, Singaporean and Korean corporates, and Korean households, have the greatest exposure to any increases in interest rates

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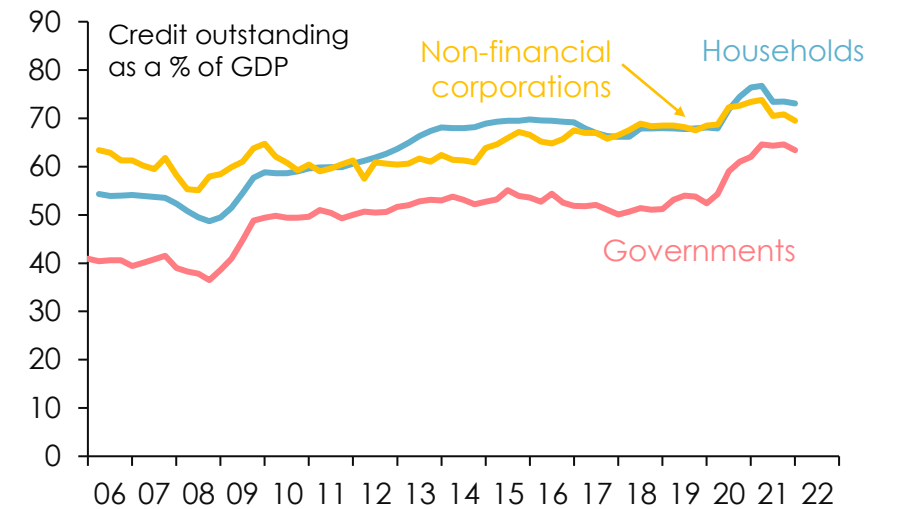
Korea



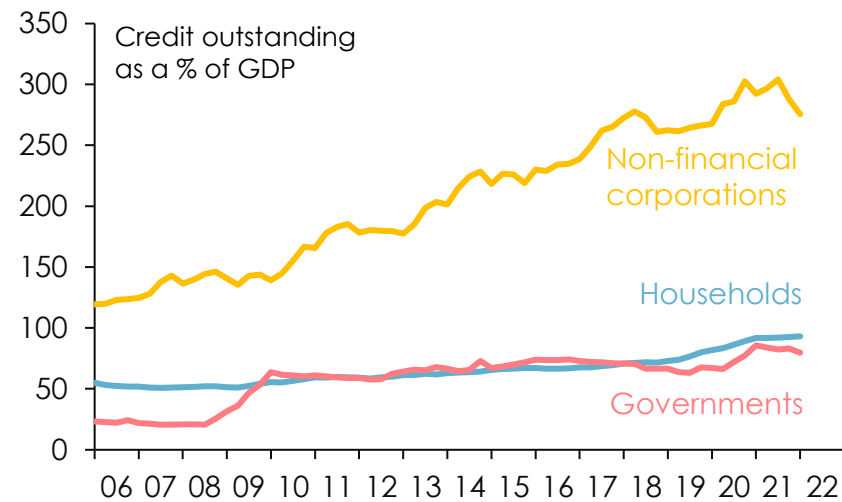
Indonesia



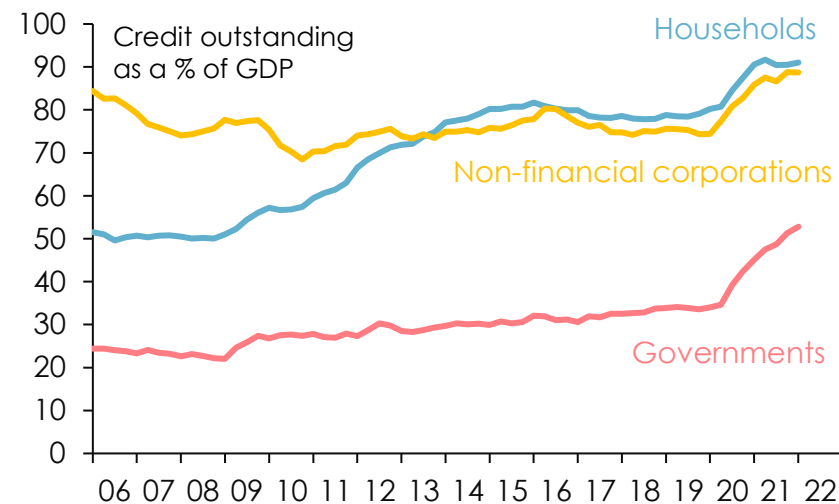
Malaysia



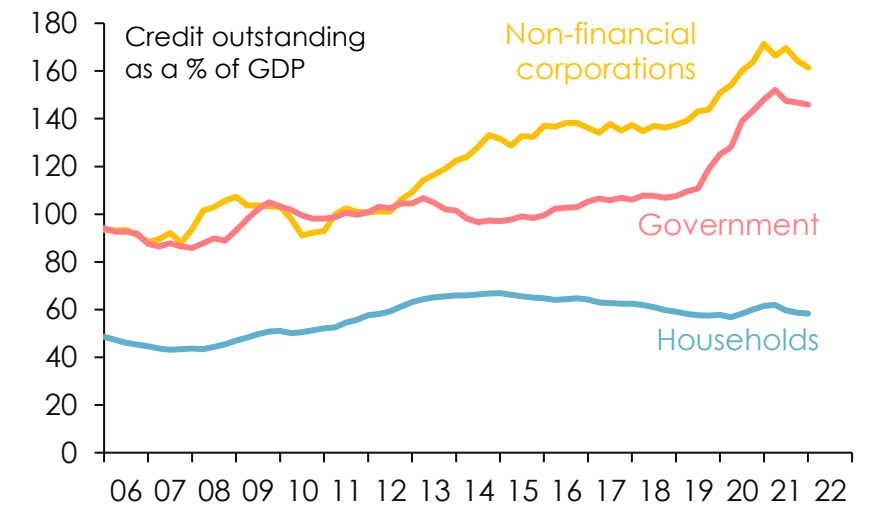
Hong Kong



Thailand



Singapore

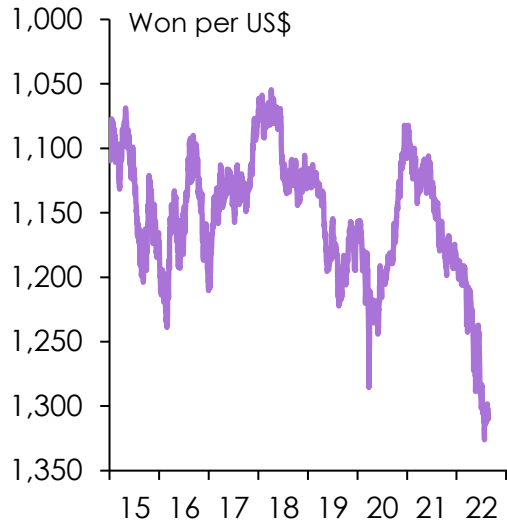


Source: Bank for International Settlements, [Credit Statistics](#); latest data are for Q4 2021, Q1 2022 data will be released in mid-September. [Return to "What's New"](#).

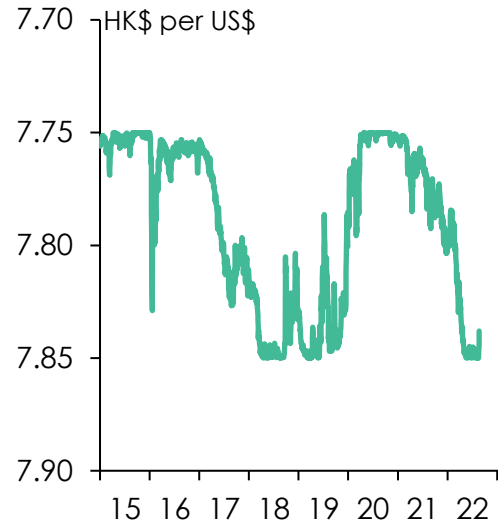
Asian currencies were mixed against a softer US\$ last week, with the rupiah & baht rising more than 1%, but the peso, won and NT\$ fell

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Korean won



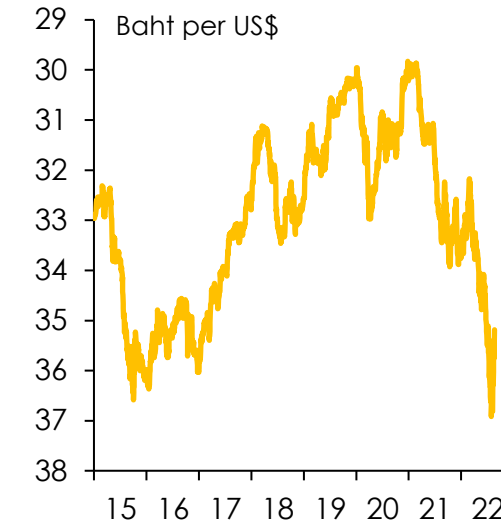
Hong Kong dollar



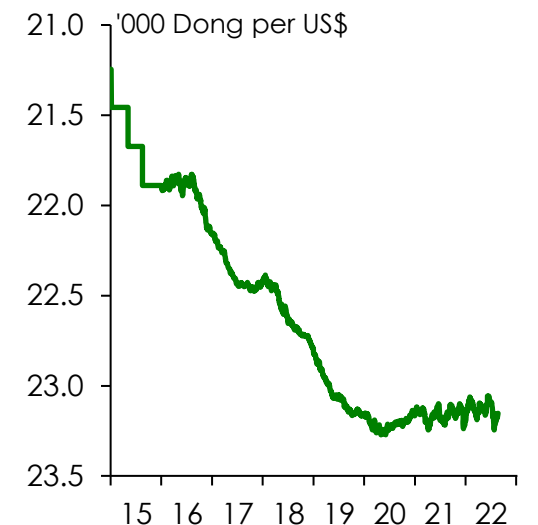
Indonesian rupiah



Thai baht



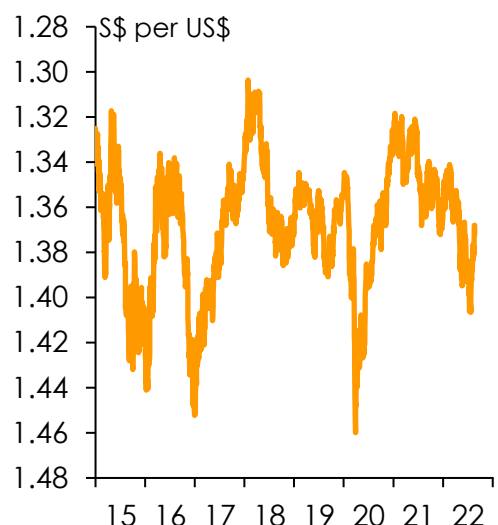
Vietnamese dong



New Taiwan dollar



Singapore dollar



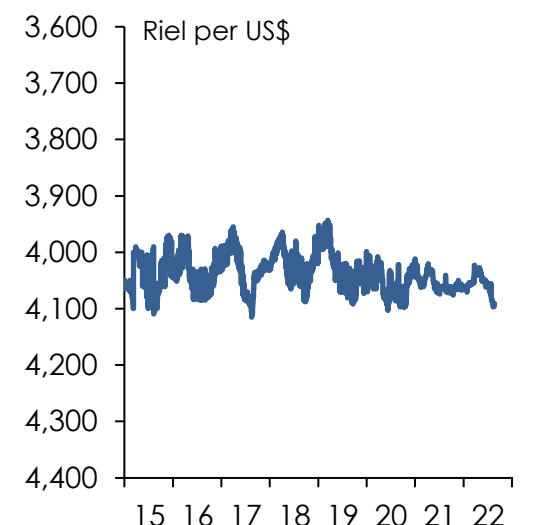
Philippine peso



Malaysian ringgit



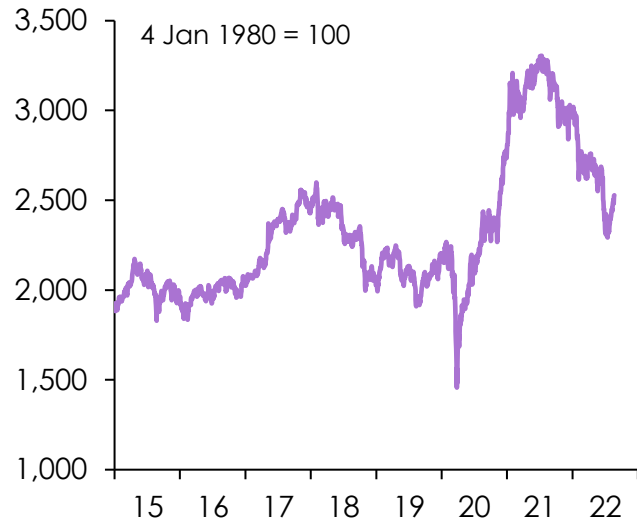
Cambodian riel



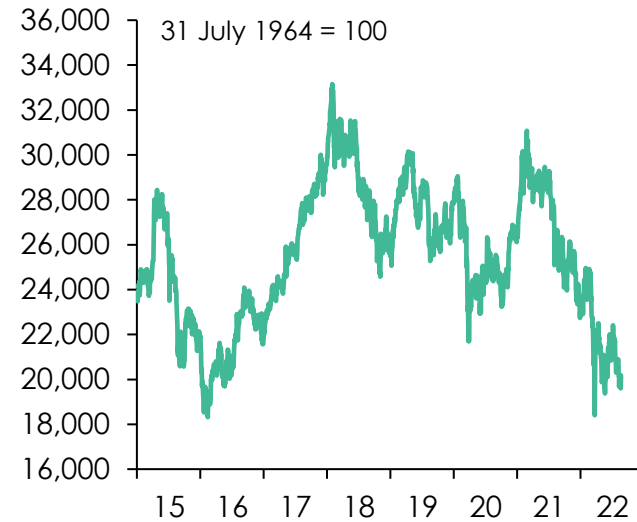
Most Asian stockmarkets rose last week in line with major markets, with Manila up 4½%, though HK and Singapore were down marginally

THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

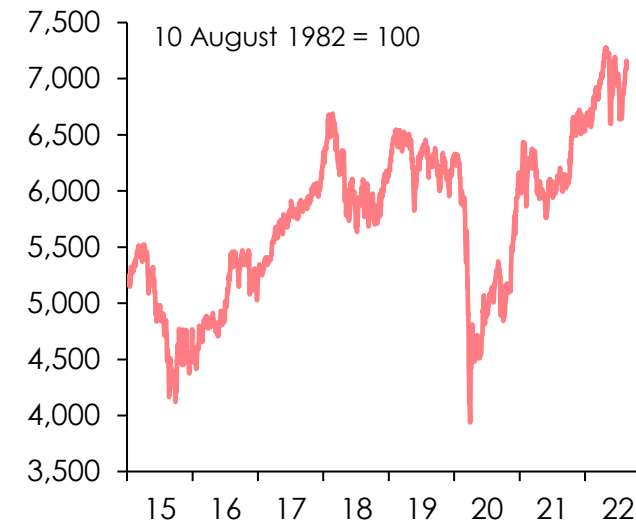
KOSPI



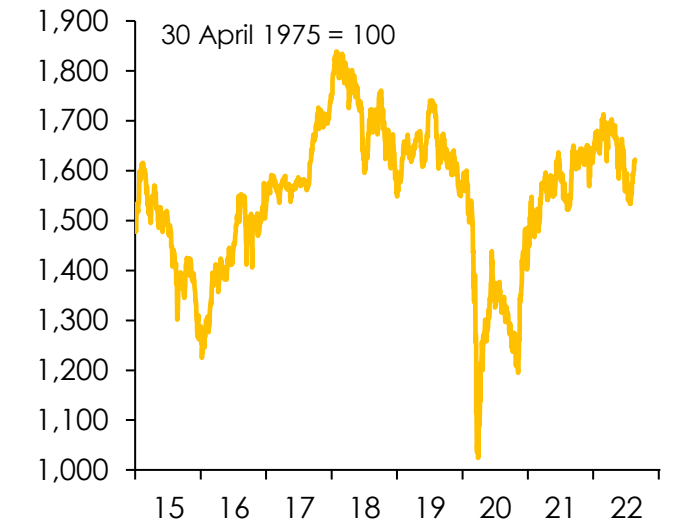
Hang Seng Index



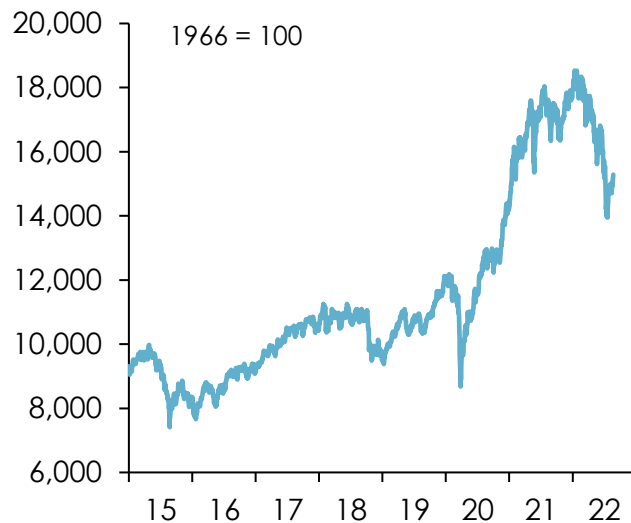
JCI



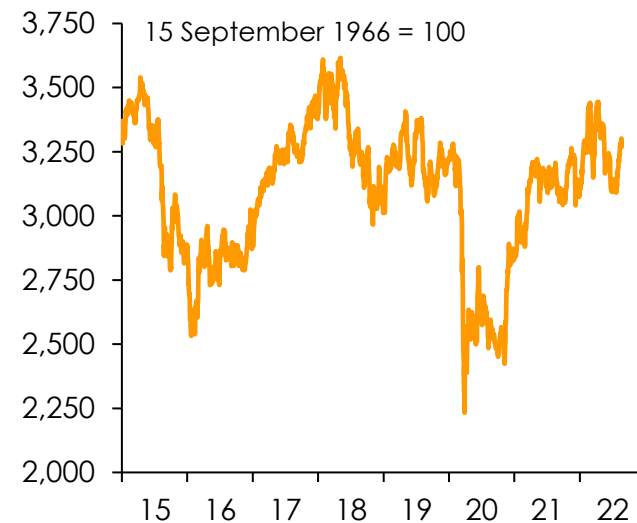
SETI



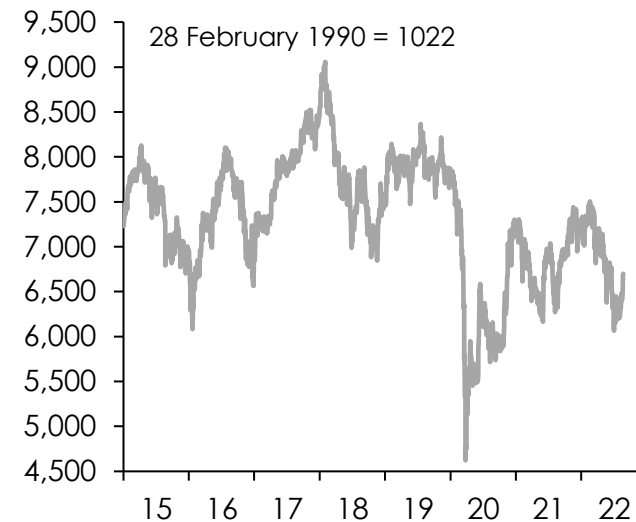
TAIEX



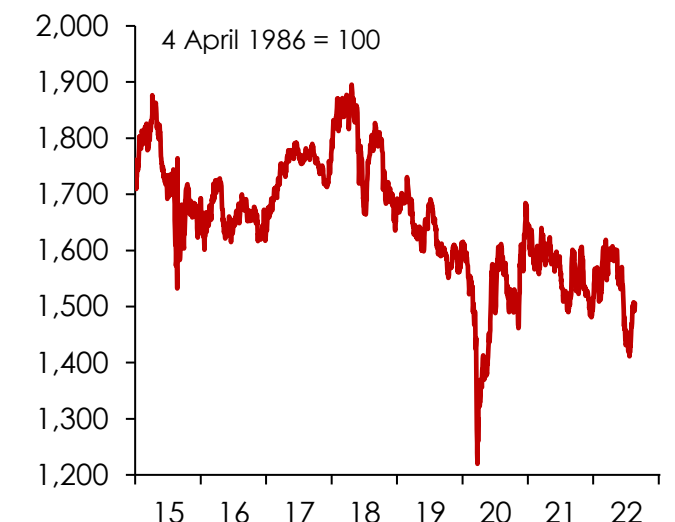
Straits Times Index



PSE i



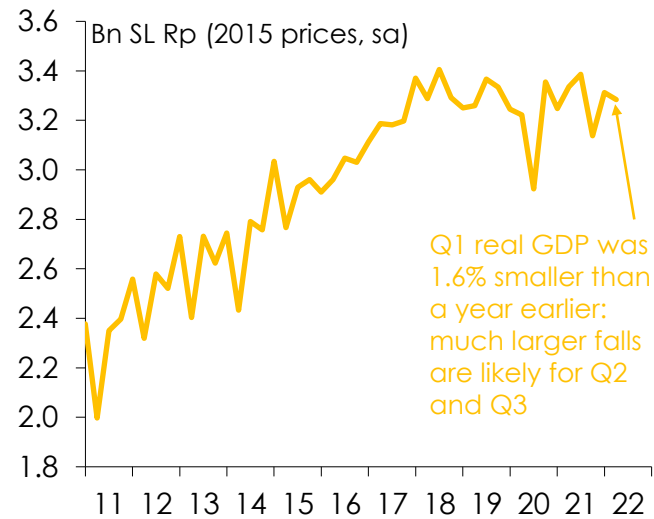
KLCI



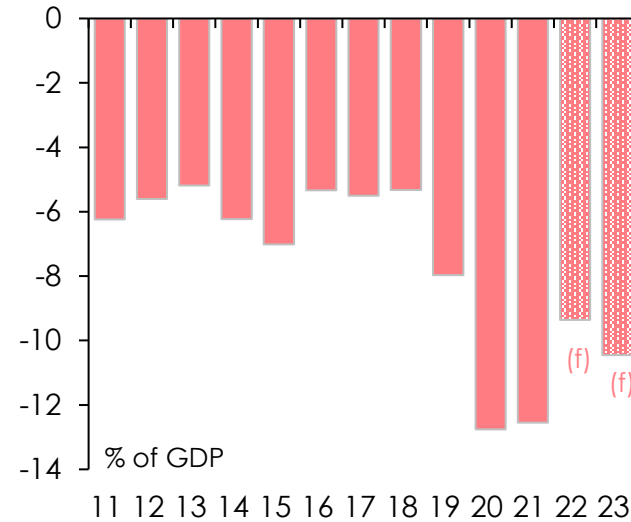
Sri Lanka's 'headline' inflation rate rose further to 60.8% in July, ahead of a resumption of bail-out talks with the IMF

THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

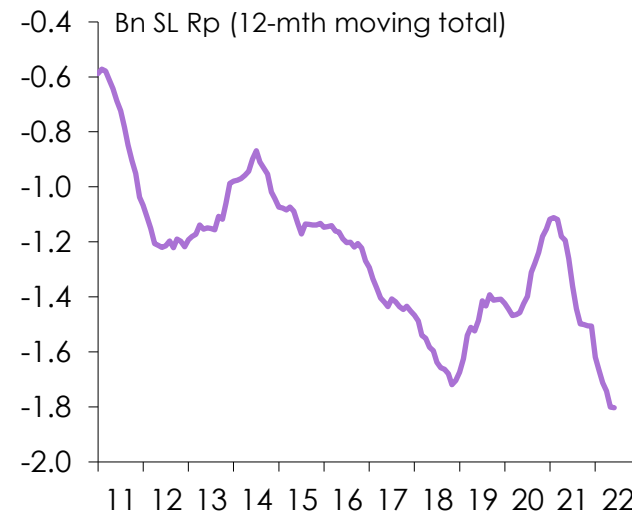
Real GDP



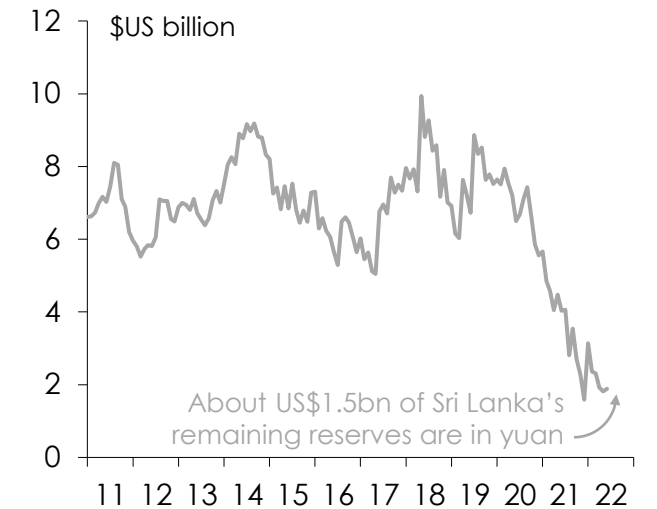
Fiscal balance



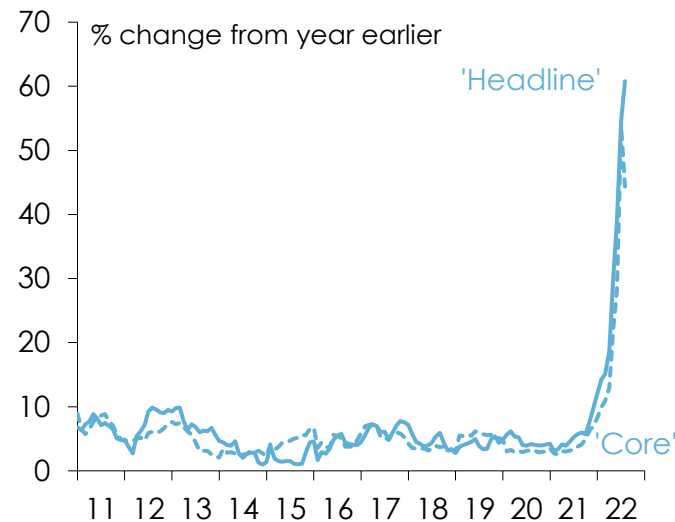
Merchandise trade balance



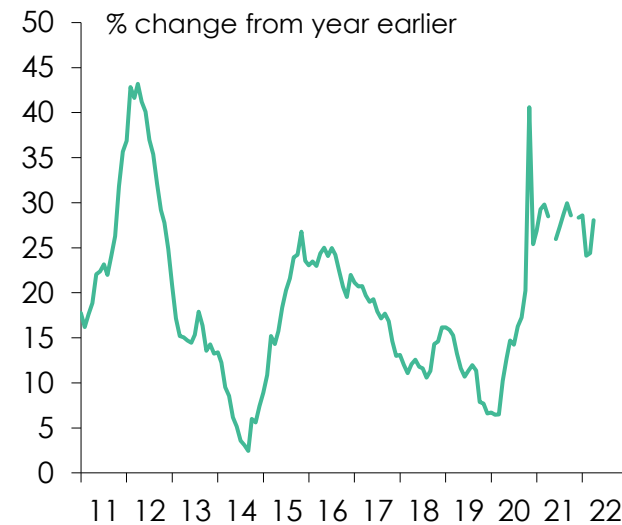
FX reserves



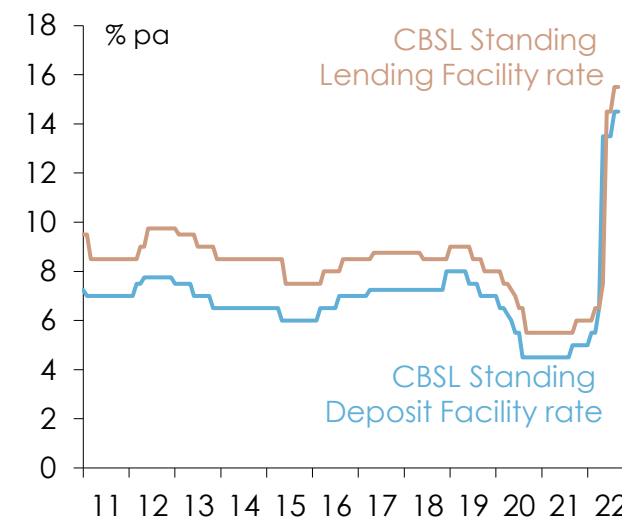
Consumer prices



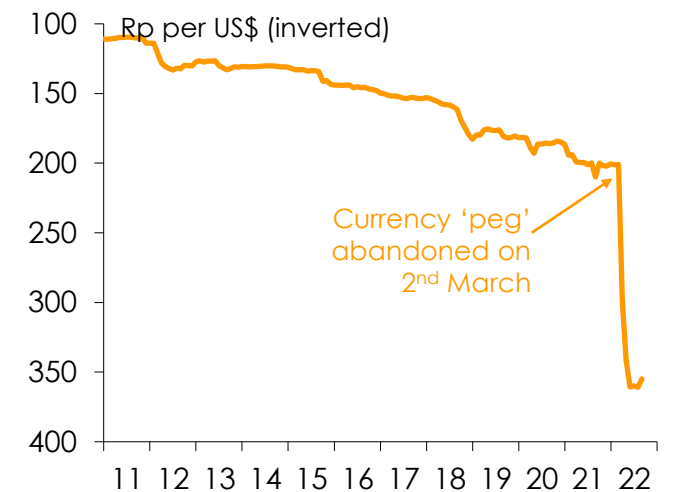
Credit growth



Interest rates



SL rupee vs US\$



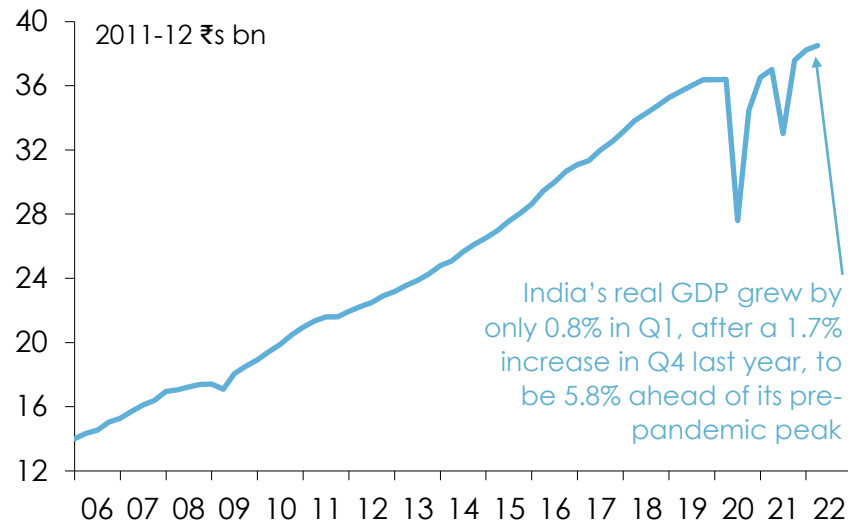
Note: GDP data seasonally adjusted using Refinitiv Datastream; CPI data are for Colombo. Sources: [Sri Lanka Department of Census and Statistics](#); [Central Bank of Sri Lanka](#); IMF, [Fiscal Monitor](#), April 2022; Refinitiv Datastream. [Return to "What's New"](#).

India

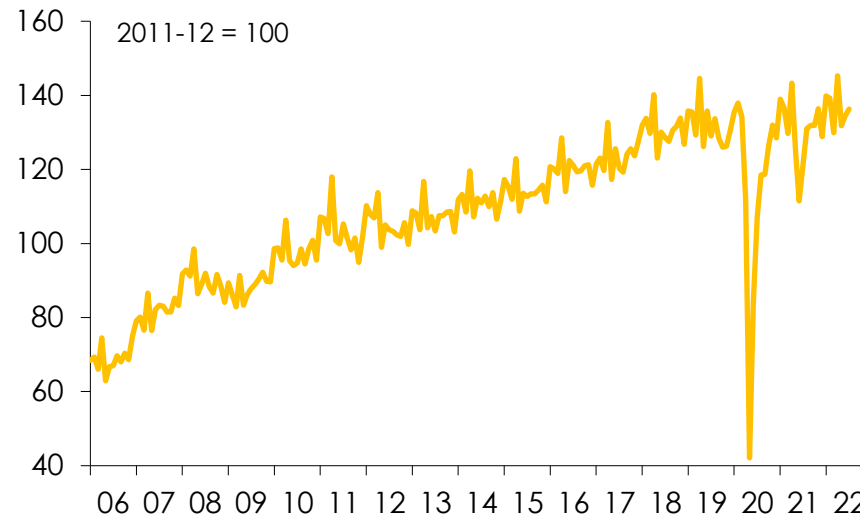
India's GDP growth rate has slowed sharply over the past two quarters, after bouncing strongly out of its second Covid recession in mid-2022

THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

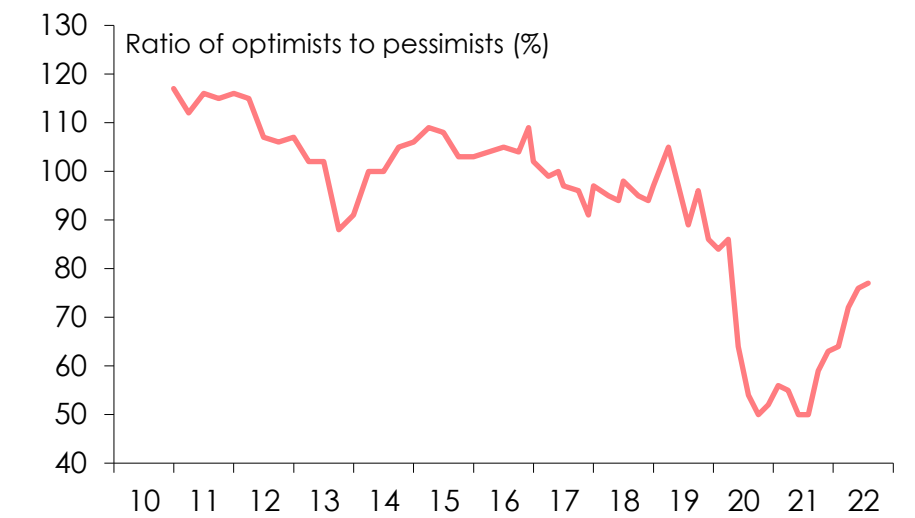
Quarterly real GDP



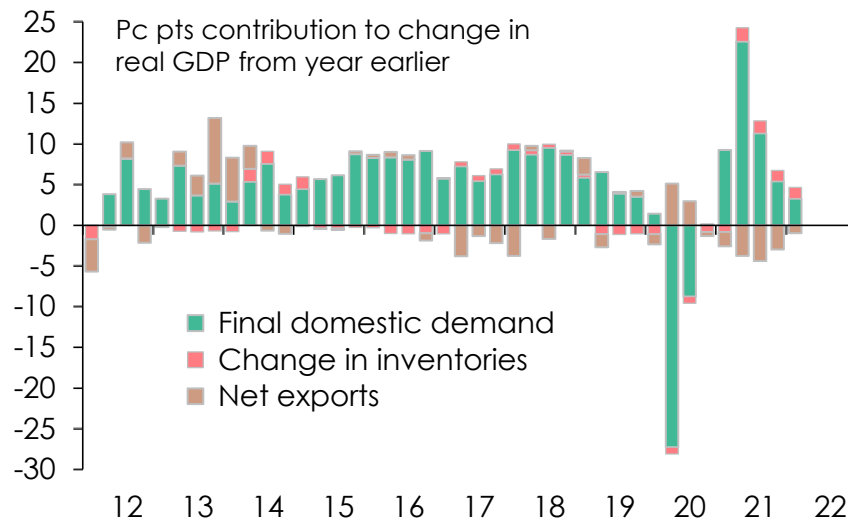
Manufacturing production



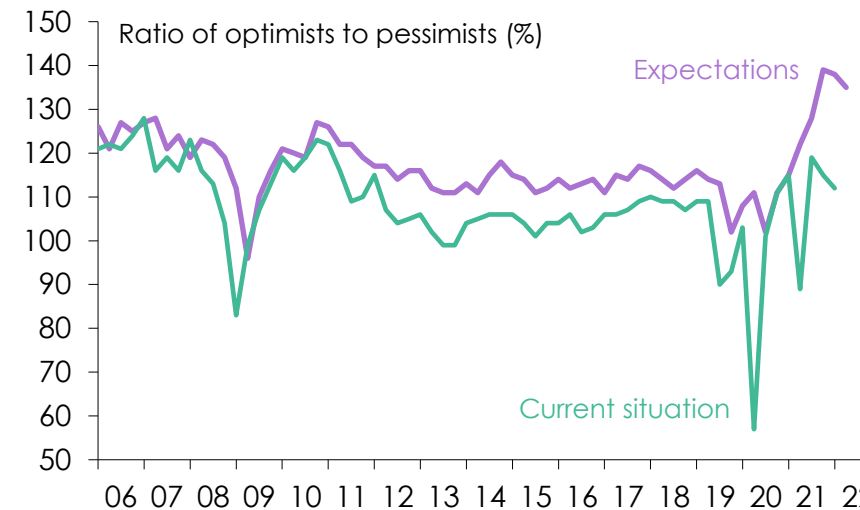
Consumer confidence



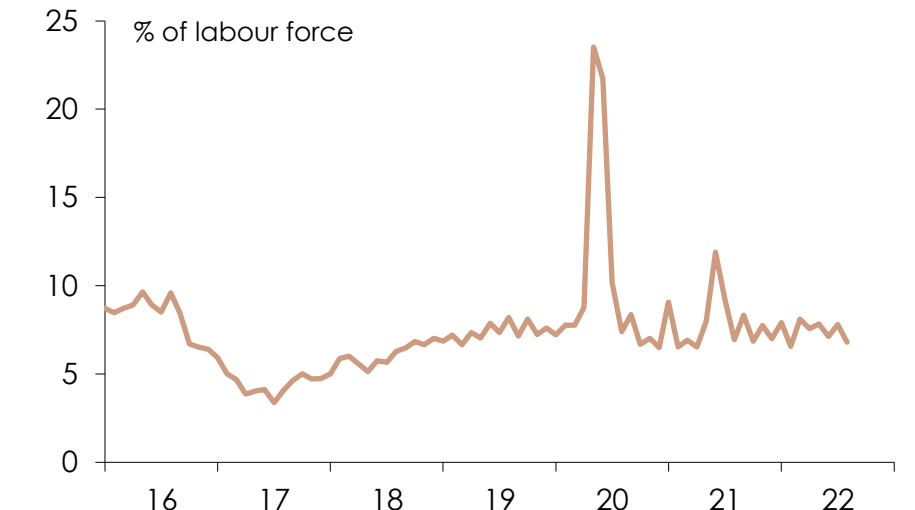
Contributions to real GDP growth



Industrial sector sentiment



Unemployment rate

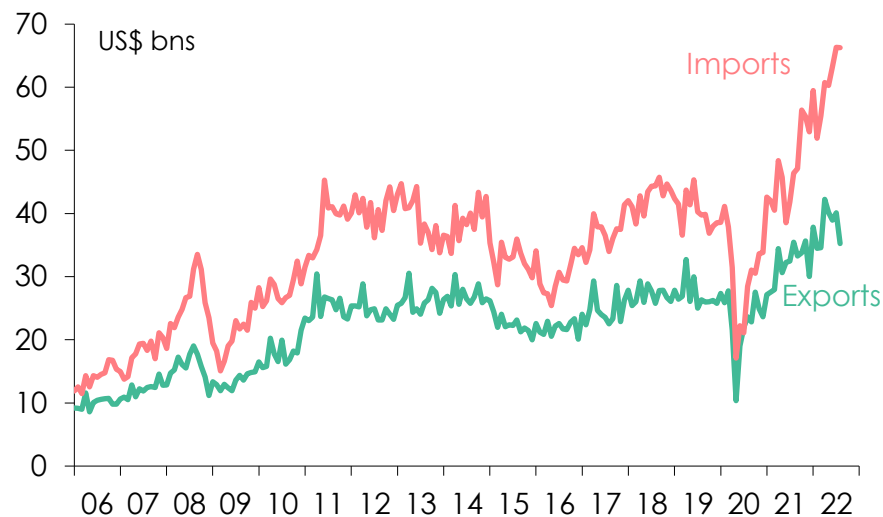


Sources: OECD, [Quarterly National Accounts dataset](#); Government of India, Ministry of Statistics and Programme Implementation, [National Accounts Data](#), and [IIP Data](#); Reserve Bank of India, [Quarterly Industrial Outlook Survey](#) and [Consumer Confidence Survey Bi-Monthly](#); Centre for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

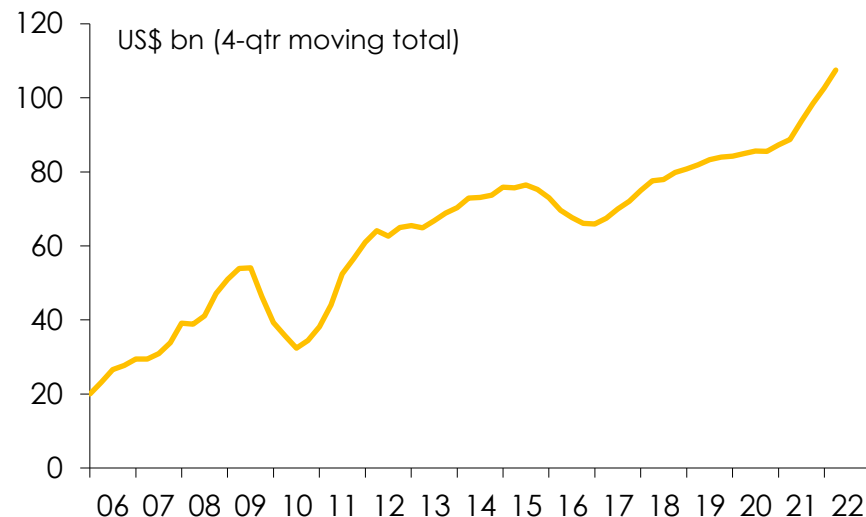
India's merchandise trade deficit has deteriorated sharply due to higher oil prices but its overall external position remains relatively stable

THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

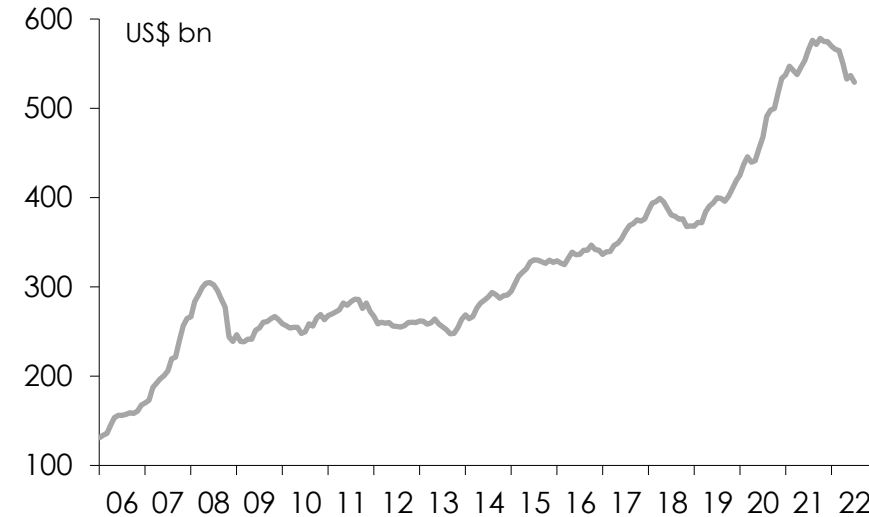
Merchandise exports and imports



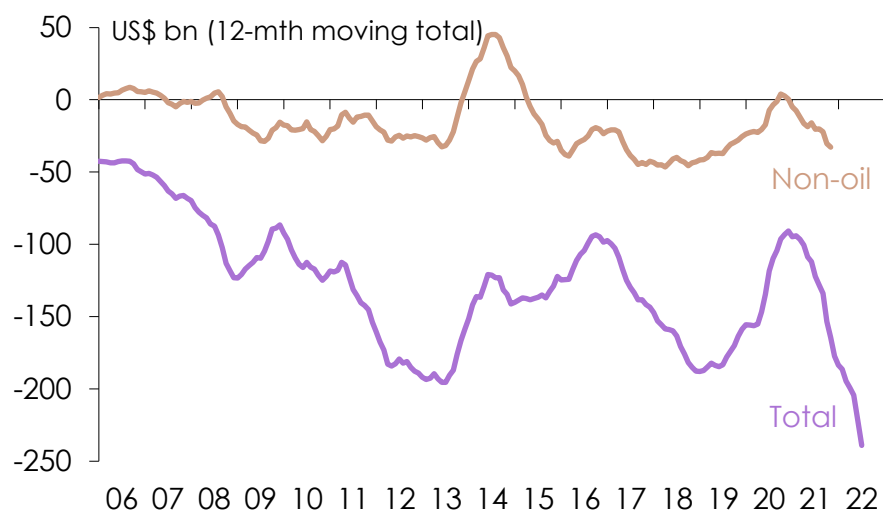
Services trade balance



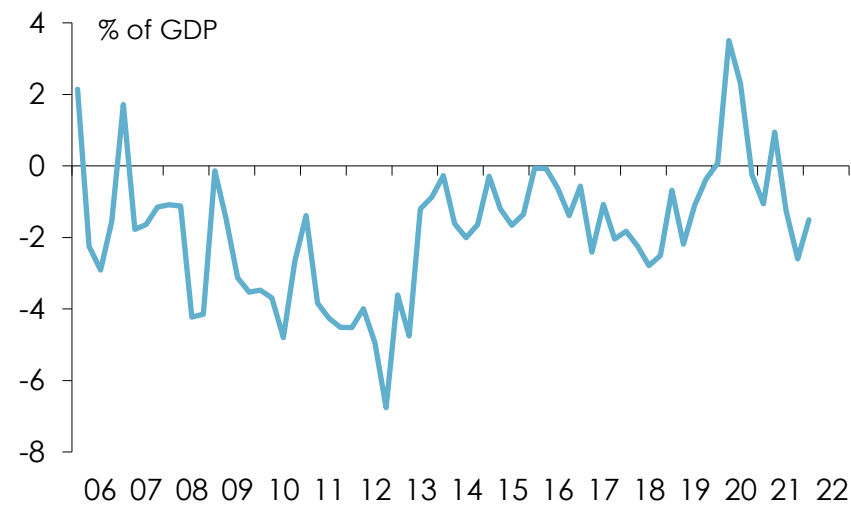
Foreign exchange reserves



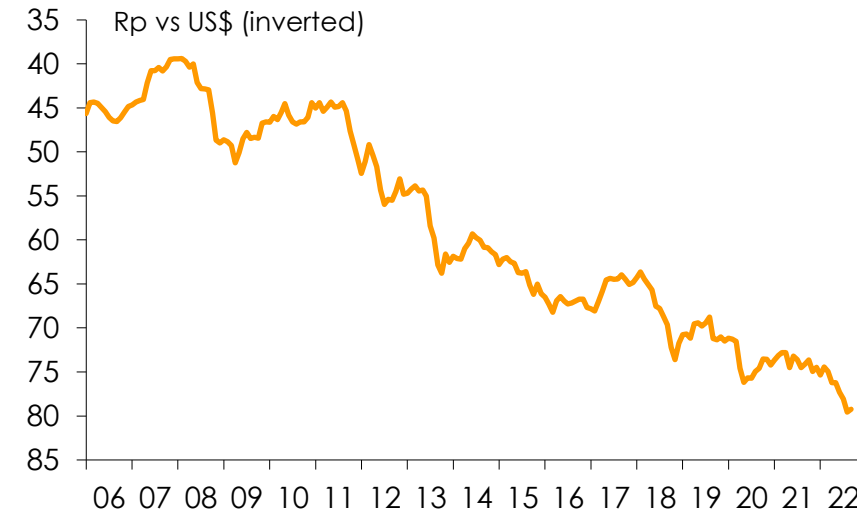
Merchandise trade balance



Current account balance



Rupee vs US dollar

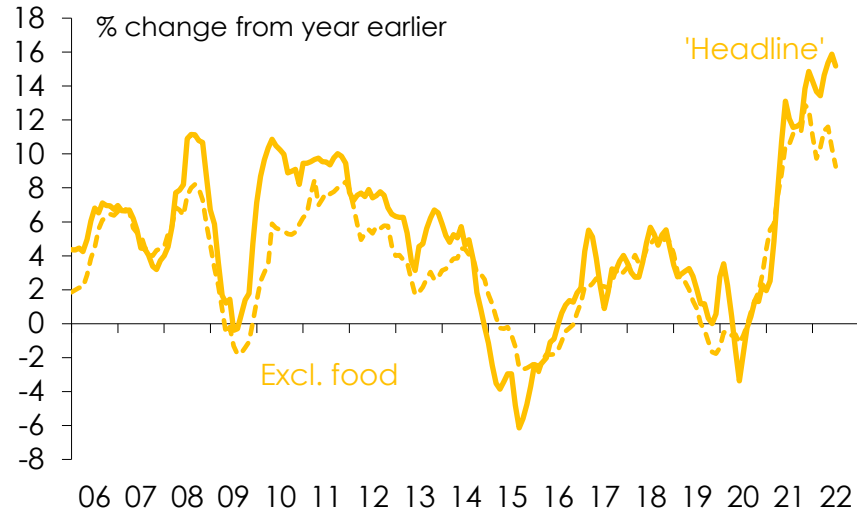


Note: data on trade in oil hasn't been published since December 2021. Sources: Government of India, Ministry of Commerce and Industry, [Trade Statistics](#); Reserve Bank of India, [Special Data Dissemination Standards - Balance of Payments](#) and [Weekly Statistical Supplement - Extract](#); Refinitiv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

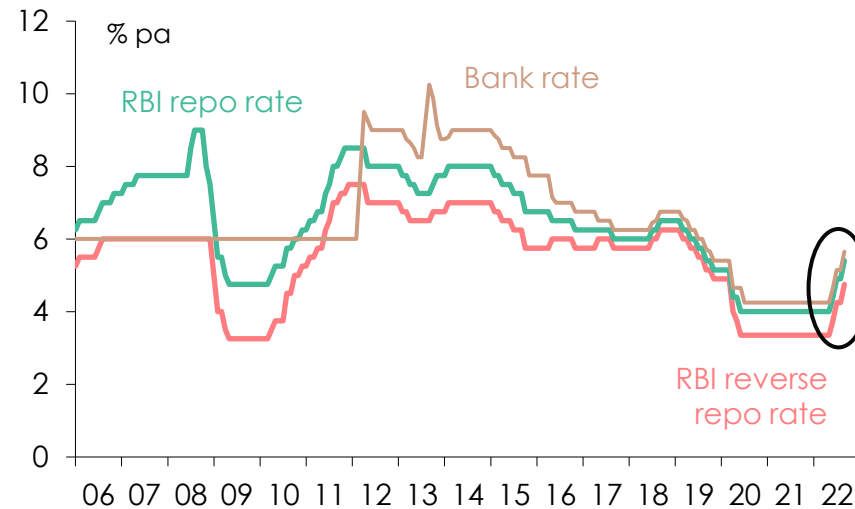
India's consumer prices rose 6.7% over the year to July, down from 7% in May & June, and the peak of 7.8% over the year to April

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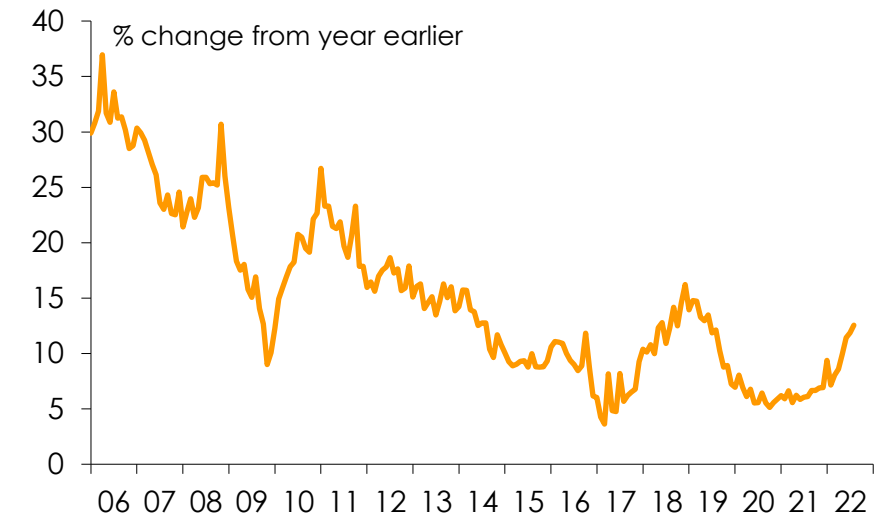
Wholesale prices



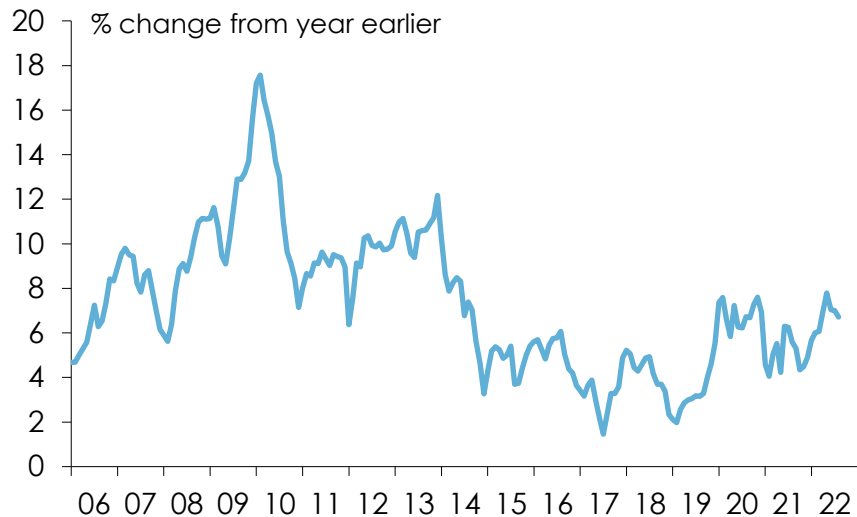
RBI policy interest rates



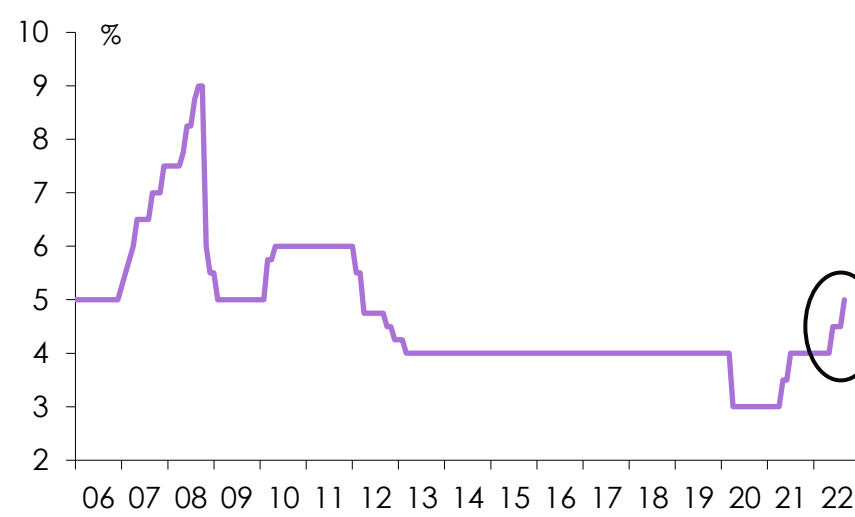
Bank lending



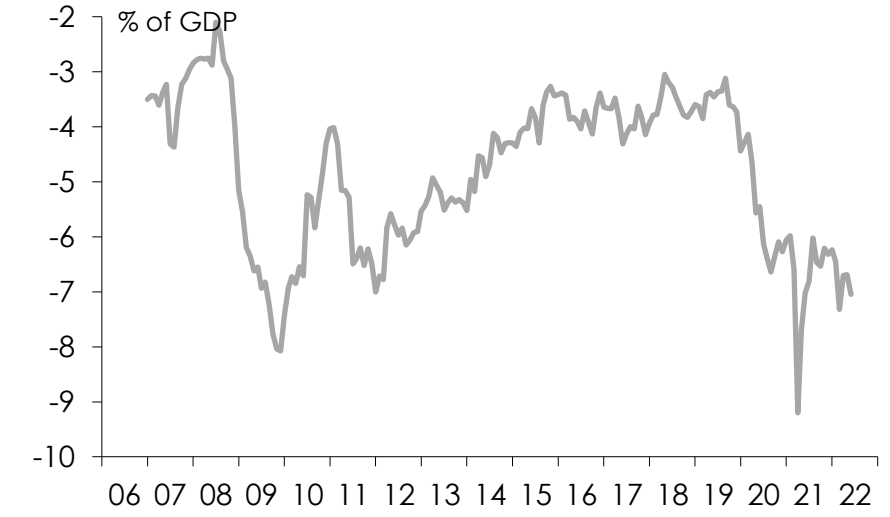
Consumer prices



RBI cash reserve ratio



Central government fiscal balance



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

Canada, Australia and New Zealand

The RBNZ is expected to lift its official cash rate another 50 basis points (to 3%) when it meets this coming Wednesday

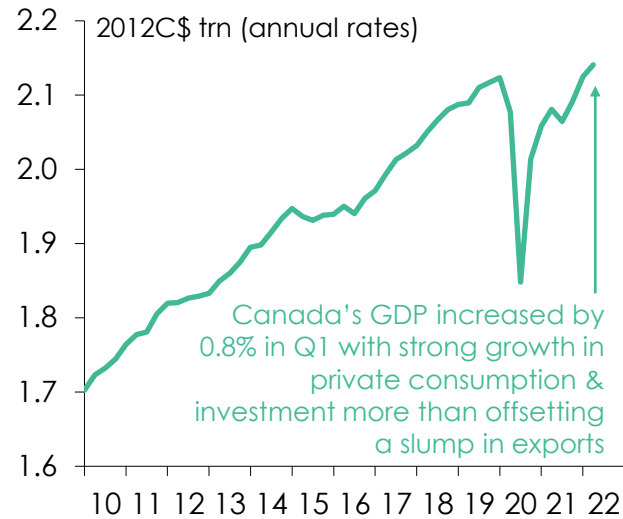
THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

- ❑ The [Reserve Bank of Australia](#) raised its cash rate another 50 basis points, to 1.85%, at its Board meeting on 2nd August, and [foreshadowed](#) “further steps in ... normalizing monetary conditions over the months ahead” ([slide 113](#))
 - in its quarterly [Statement on Monetary Policy](#) released the Friday before last, the RBA raised its forecast for the peak in ‘headline’ inflation to 7¾% in Q4, followed by a gradual decline to 3% by Q4 2024, and foreshadowed a slowing in real GDP growth from 3¼% this year to 1¾% through 2023 and 2024, accompanied by a small rise in the unemployment rate from a low of 3¼% in Q4 this year to 4% by Q4 2024
- ❑ 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 13th July Governing Council meeting, to 2.75% ([slide 112](#))
 - [explaining](#) its decision, the Governing Council said that with inflation being “higher and more persistent” than previously expected, “domestic price pressures from excess demand becoming more prominent”, and “more consumers and businesses expecting inflation to be higher for longer, raising the risk that elevated inflation becomes entrenched in price- and wage-setting”, it had decided to “front-load the path to higher interest rates”
 - BoC Governor Tiff Macklem [warned](#) that “interest rates will need to rise further to cool demand and achieve the inflation target”, but expressed confidence that “interest rate increases can cool demand and inflation without choking off growth or causing a surge in unemployment”
- ❑ The [Reserve Bank of New Zealand](#) raised its official cash rate another 50bp, to 2.5%, at its Monetary Policy Committee meeting on 13th July – the seventh increase, for a total of 225bp, since October last year ([slide 114](#))
 - in the [Summary Record](#) issued after the meeting, the RBNZ said that it had “agreed to maintain its approach of briskly lifting the OCR until it is confident that monetary conditions are sufficient to constrain inflation expectations and bring consumer price inflation to within the target range”
 - the RBNZ is almost universally expected to lift the OCR by another 50bp when its Monetary Policy Committee meets on Wednesday

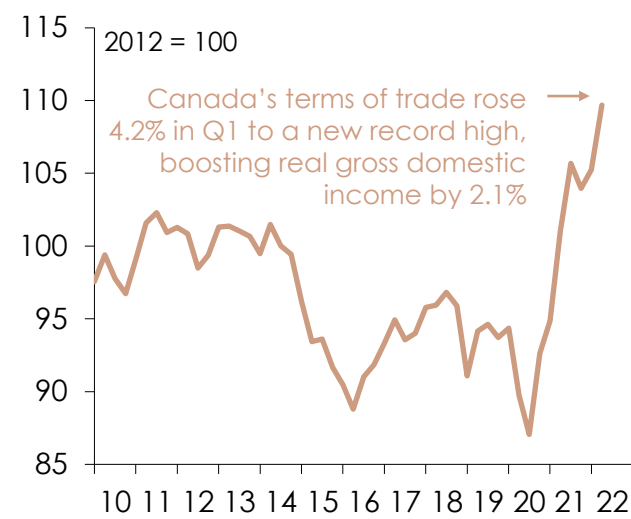
Canadian employment dropped 0.2% in July, as it did in June, but the unemployment rate remained unchanged at 4.9%, the lowest since 1970

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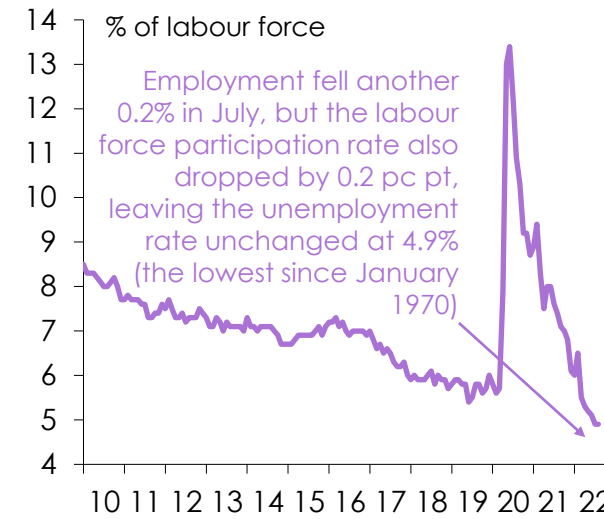
Real GDP



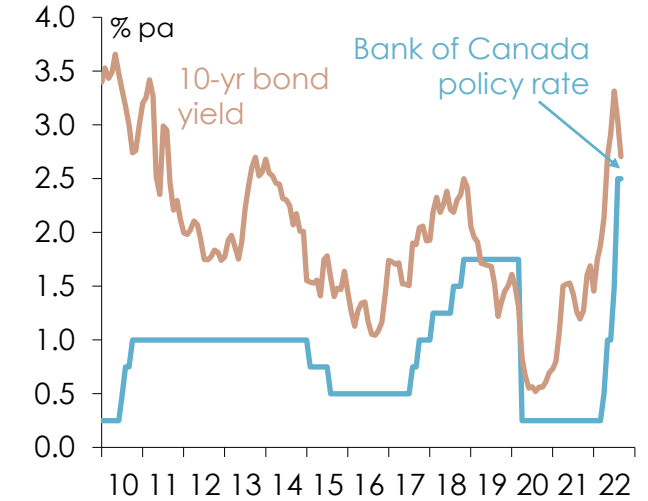
Terms of trade



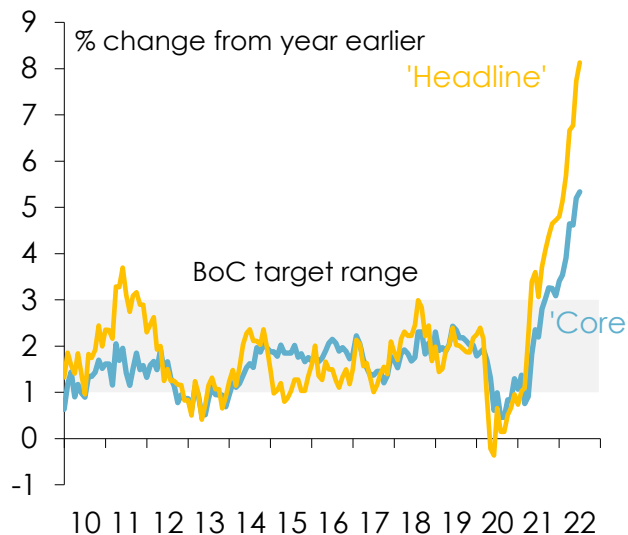
Unemployment



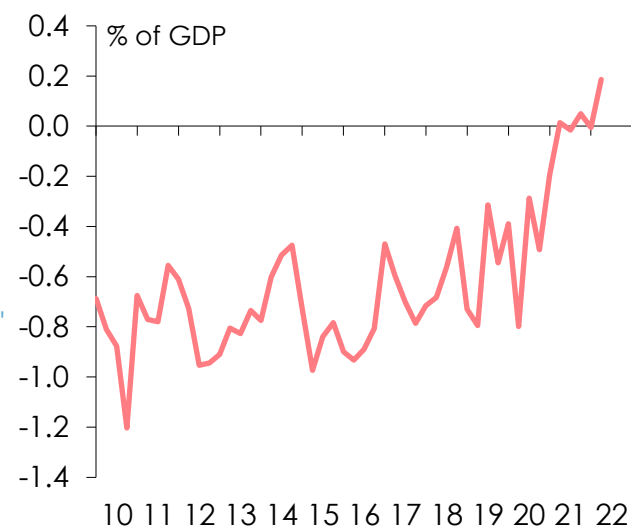
Interest rates



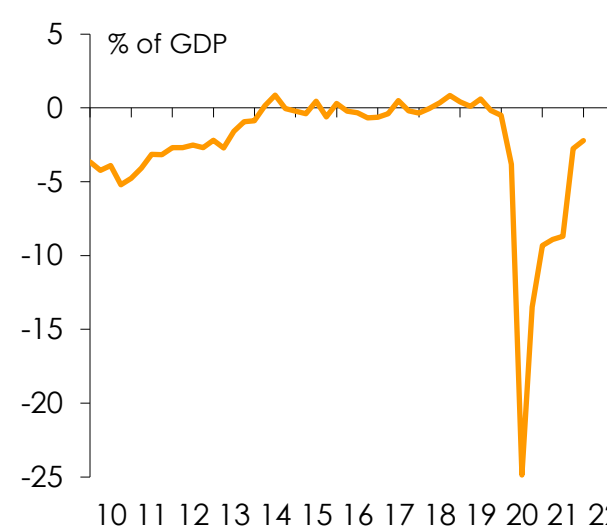
Consumer prices



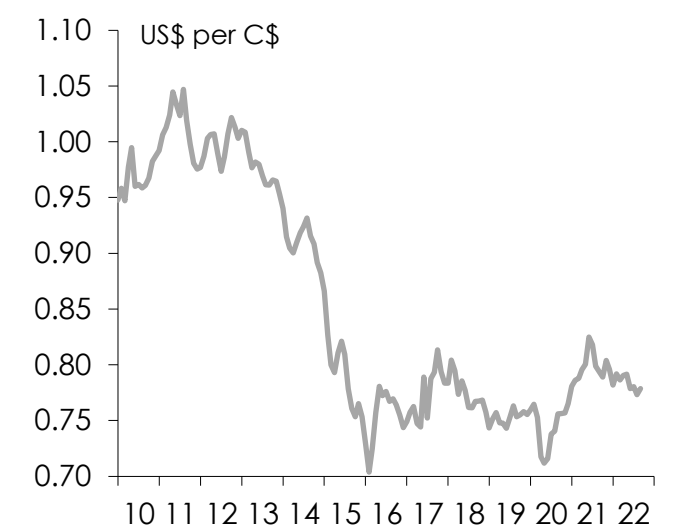
Current account balance



Government net lending



C\$ vs US\$

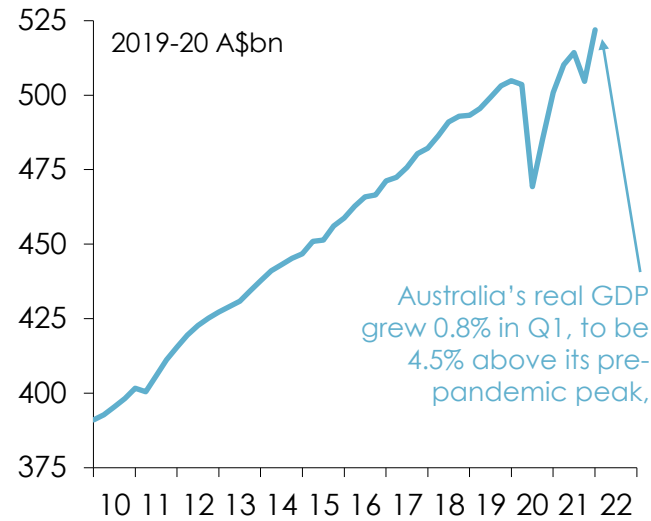


Sources: Statistics Canada, [National Gross Domestic Product \(GDP\) by Income and by Expenditure Accounts](#); [Consumer price index portal](#); [Canada's Balance of International Payments](#); [Labour Statistics](#); Bank of Canada, [Policy Interest Rate](#); Refinitiv Datastream. [Return to "What's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

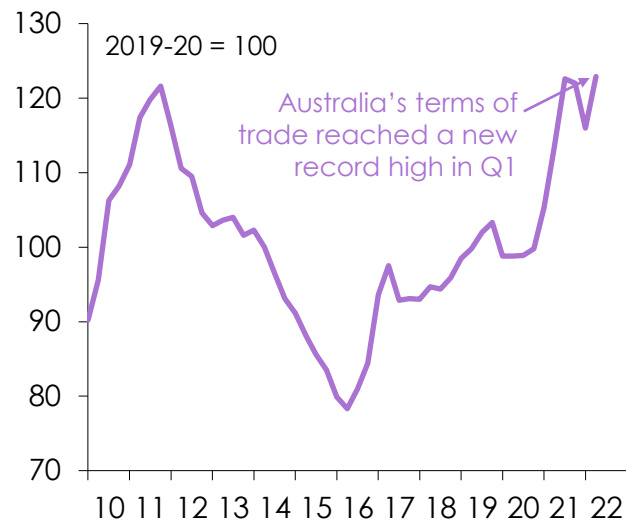
Australia's Reserve Bank raised its cash rate another 50bp at its August meeting, to 1.85%, in what is now the most rapid tightening since 1994

THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

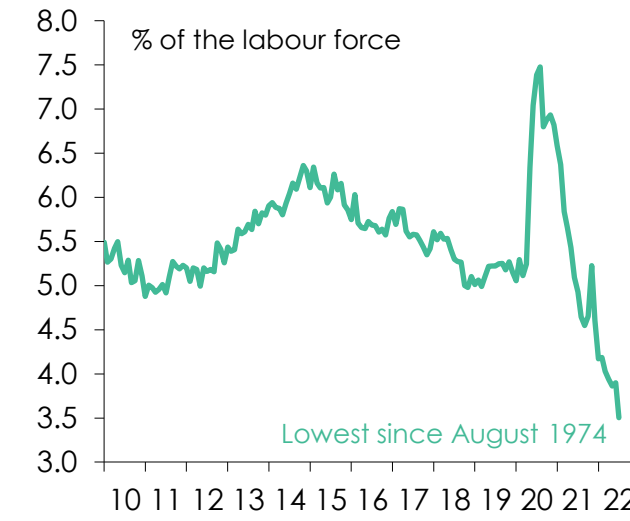
Real GDP



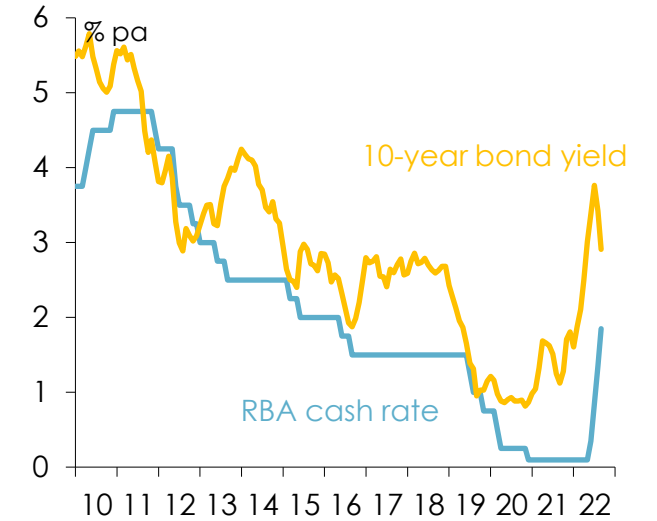
Terms of trade



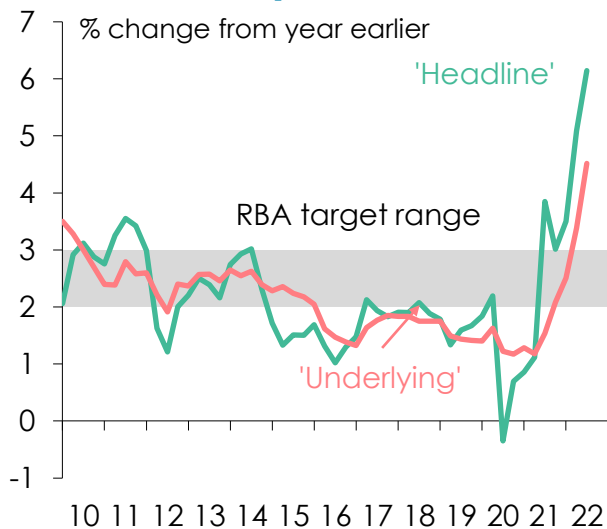
Unemployment



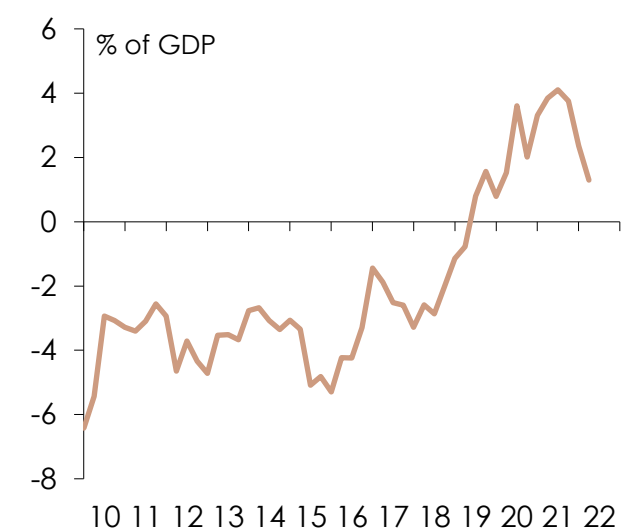
Interest rates



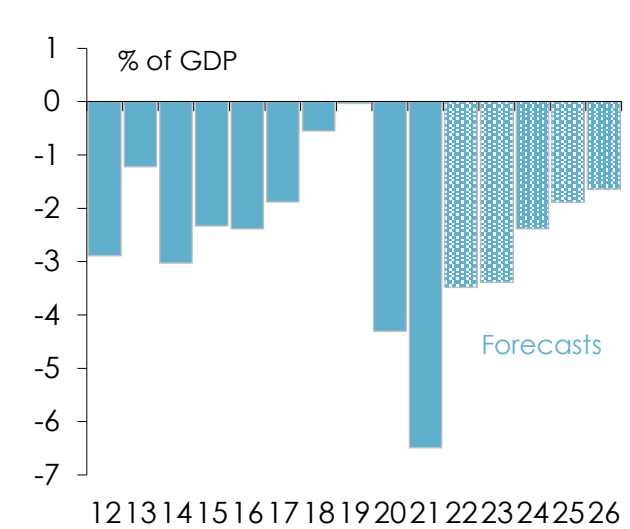
Consumer prices



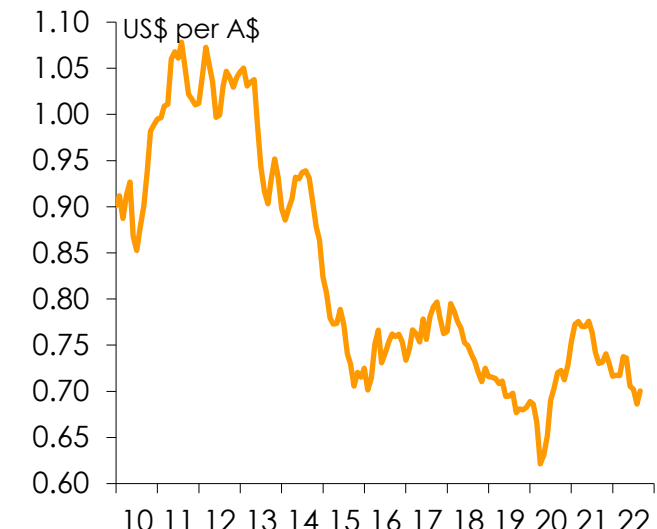
Current account balance



Government cash balance



A\$ vs US\$

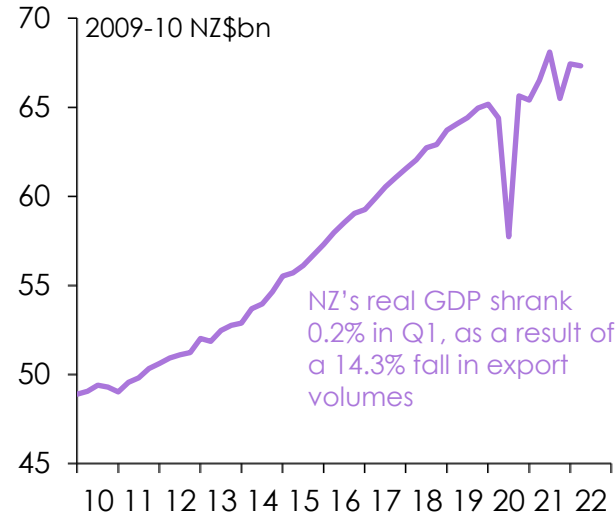


Note: The measure of 'underlying' inflation shown here is the trimmed mean. Government cash balance data are for fiscal years ended 30th June. Sources: Australian Bureau of Statistics, [Australian National Accounts: National Income, Expenditure and Product](#); [Consumer Price Index](#); [Balance of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

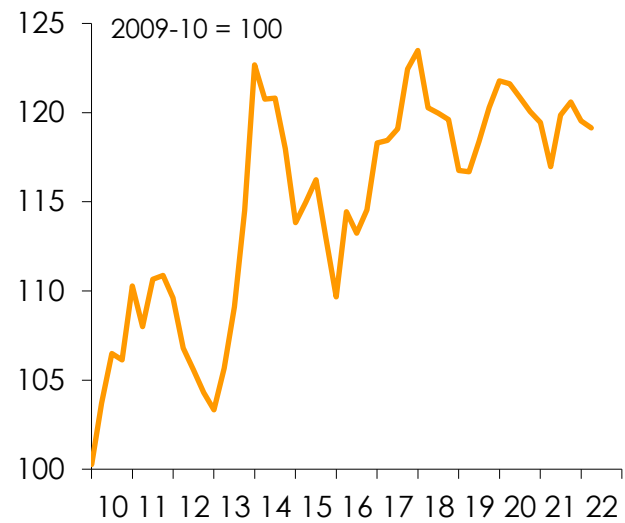
New Zealand's unemployment rate rose 0.1 pc pt to 3.3% in Q2, but wages growth picked up sharply which will concern the RBNZ

THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

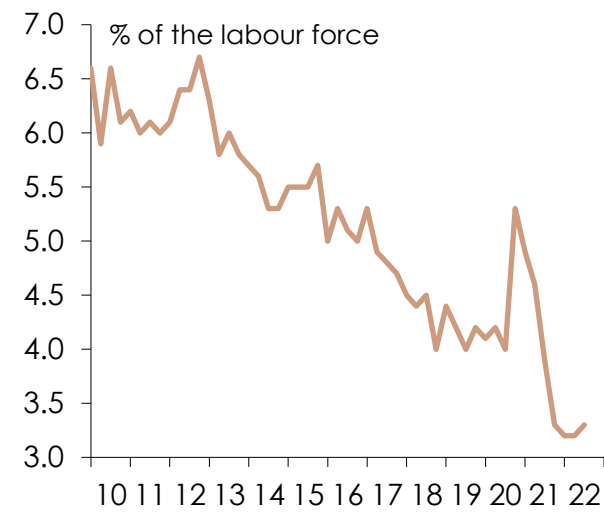
Real GDP



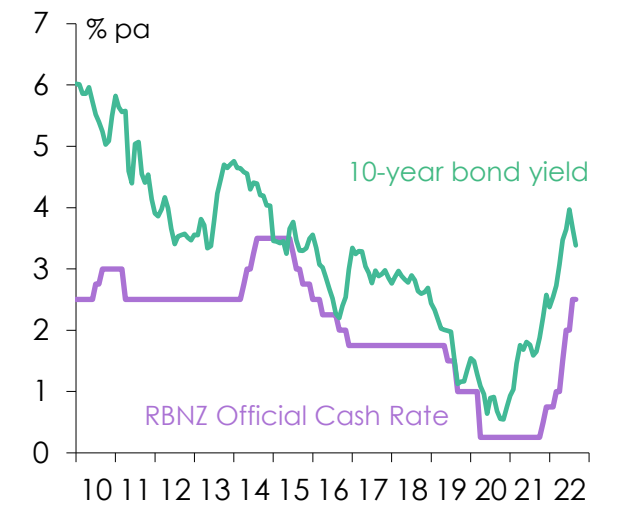
Terms of trade



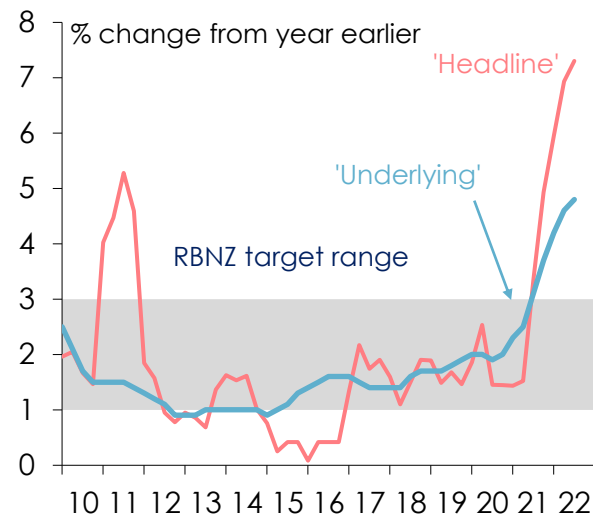
Unemployment



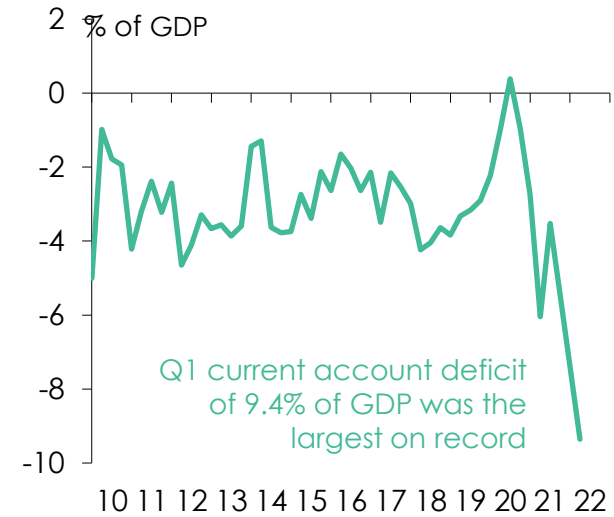
Interest rates



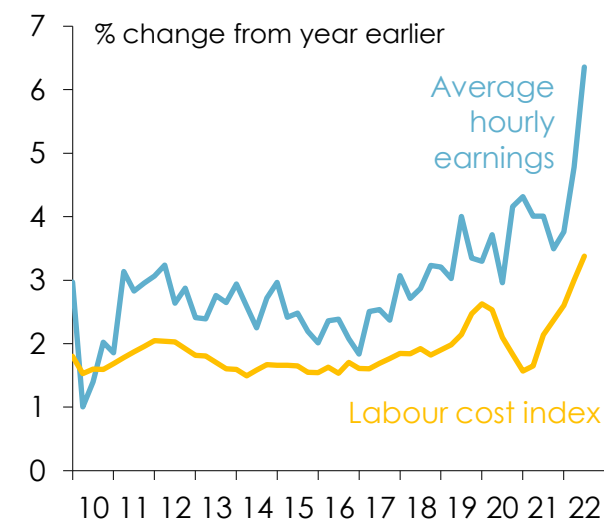
Consumer prices



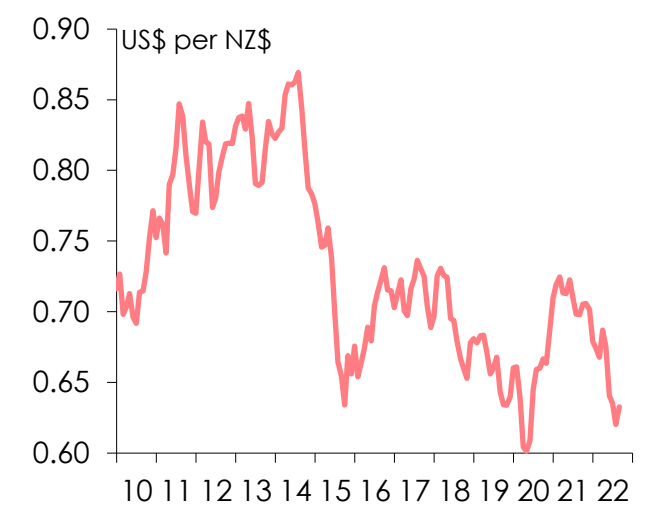
Current account balance



Wages and labour costs



NZ\$ vs US\$



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

The rest of the world

Latin American central banks continue to tighten monetary policy, with rate hikes in Mexico, Peru and Argentina

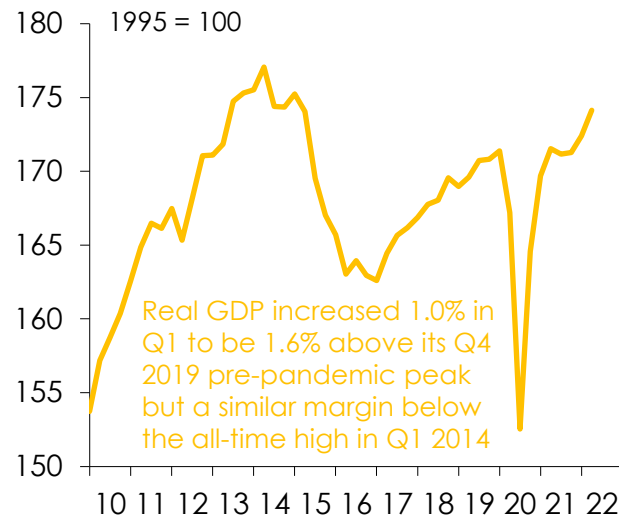
THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

- ❑ **Banco de México** raised its overnight rate another 75 basis points to 8.5%, the highest since November 2005, at its 11th August Governing Board meeting
 - this was the tenth increase, for a total of 450 basis points, since June last year ([slide 118](#))
 - in the [Monetary Policy Statement](#) issued after the meeting, Banxico raised its forecast for the current-quarter peaks in ‘headline’ and ‘core’ inflation to 8.5% (from 8.1%) and 7.9% (from 7.4%) respectively, with similar upward revisions to forecasts for the first half of next year, whilst leaving the Q4 2023 projections unchanged both at 3.2%
 - although it continues to expect inflation to return to within its target range by 2024, “the balance of risks for the trajectory of inflation within the forecast horizon remains biased significantly to the upside”, and indicated that further “upward adjustments in the reference rate for its next policy decisions” would be based on “prevailing conditions”
- ❑ **Banco Central de Reserva del Perú** raised its reference rate another 50 basis points, to 6.50%, the thirteenth consecutive increase (for a total of 625bp) since July last year ([slide 122](#))
 - BCRP’s Board of Directors [characterized](#) the latest move as “continuing to normalize its monetary policy stance”, despite the annual inflation rate declining marginally from 8.8% in June to 8.7% in July, and inflation expectations also falling slightly in July to 5.4% from 5.2% in June
 - BCRP expects inflation to “return to the target range in the second half of next year” thanks to “a moderation of the impact of international food and fuel prices, and to a reduction in inflation expectations”
- ❑ **Banco Central de la República Argentina** raised its Leliq rate (the rate on 28-day liquidity bills) by 950 bp, to 69.5%, the eighth increase this year, for a total of 31½ percentage points
 - last week’s increase was in response to a renewed acceleration in inflation (to 71% in July) and reflects a perceived need to “accelerate the process of normalization of the structure of active and passive interest rates of the economy to bring them closer to positive territory in real terms”
 - and to “to increase the incentive to save in pesos”

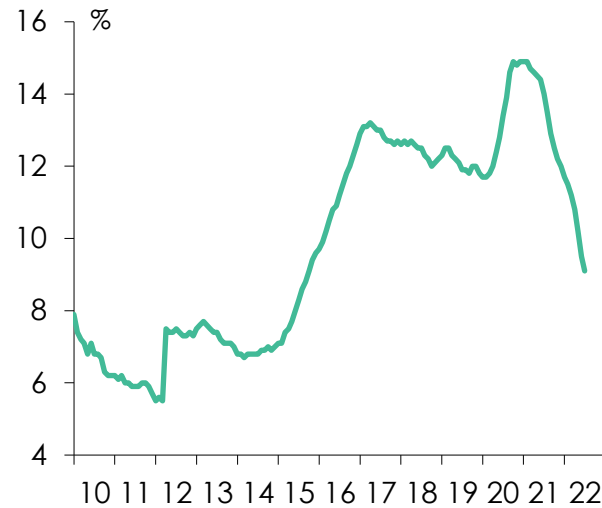
Brazil's annual inflation rate dropped again in July to 10.1%, the lowest in a year, from a peak of 12.5% in April

THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

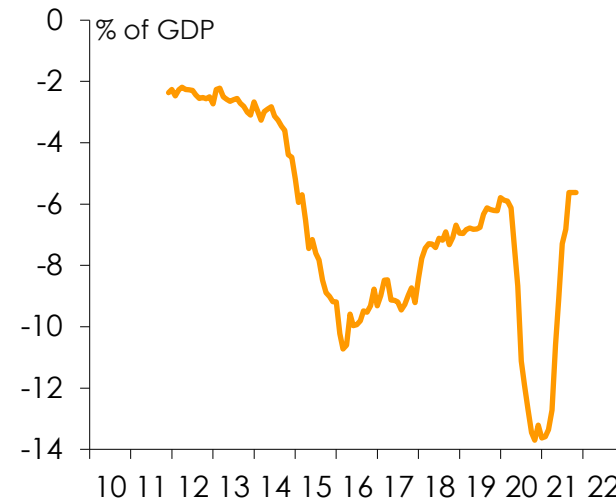
Real GDP



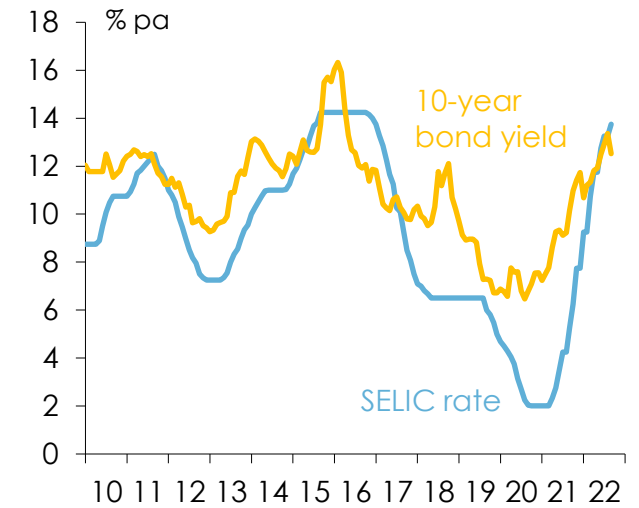
Unemployment



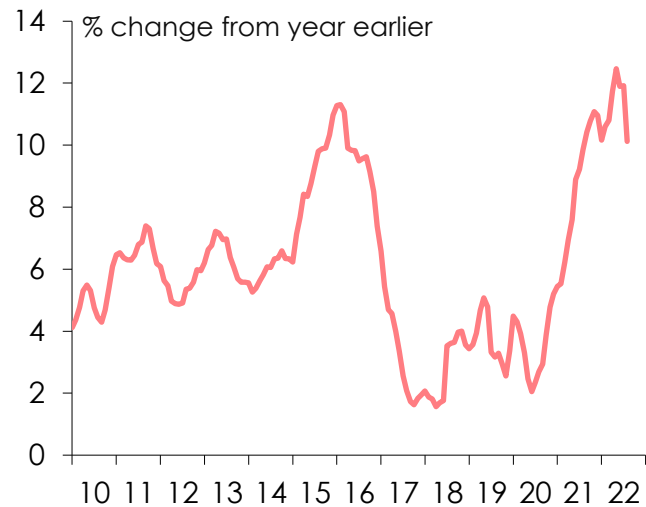
Public sector borrowing



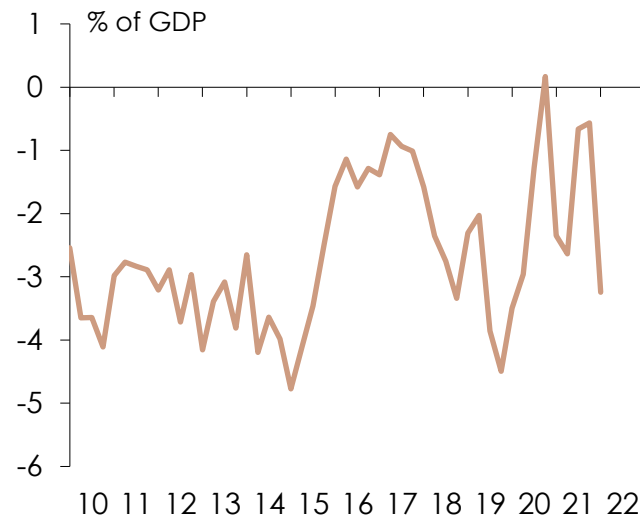
Interest rates



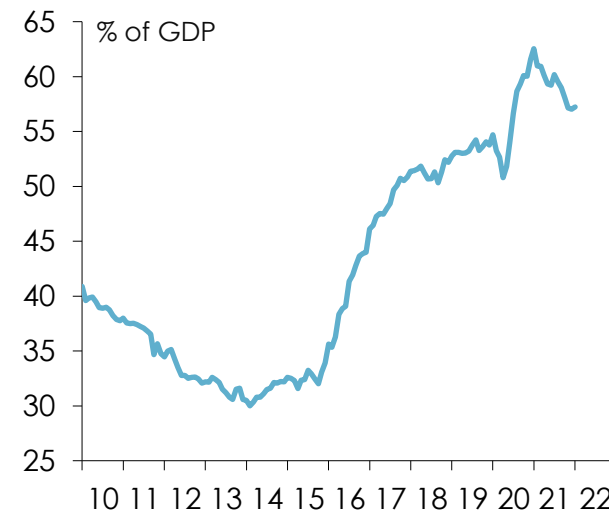
Inflation



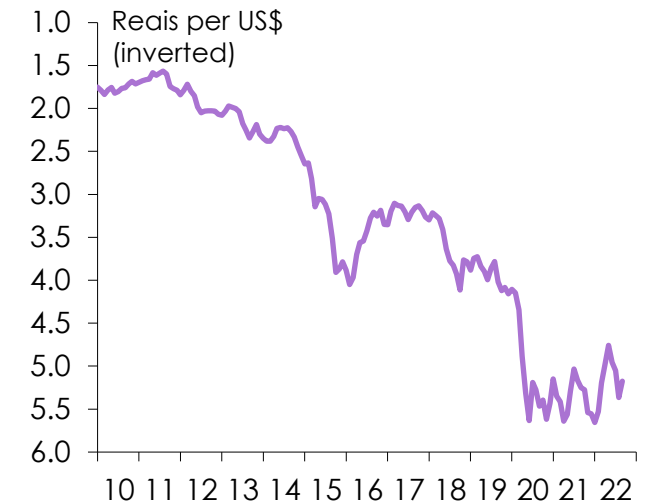
Current account balance



Public sector net debt



Brazilian real vs US\$

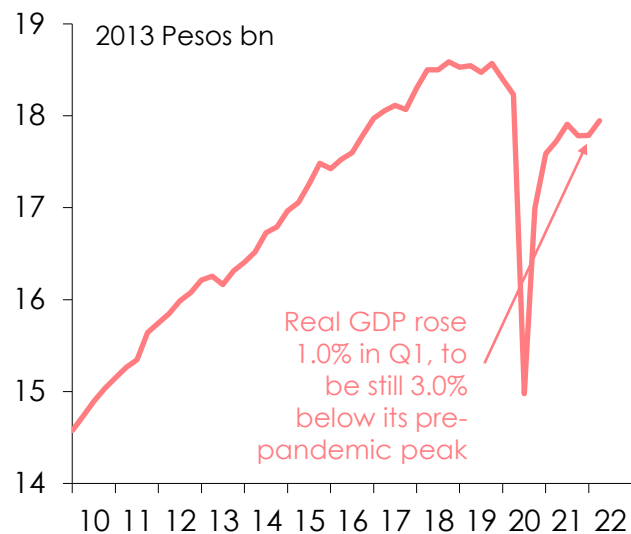


Sources: [Instituto Brasileiro de Geografia e Estatística \(IBGE\)](#); [Banco Central do Brasil](#); Refinitiv Datastream. [Return to "What's New"](#).

Banco de Mexico raised its overnight rate another 75bp to 8.5%, the highest since November 2005

THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

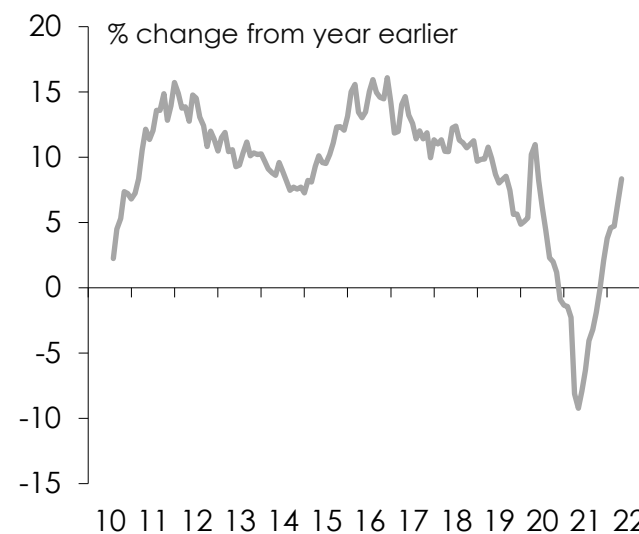
Real GDP



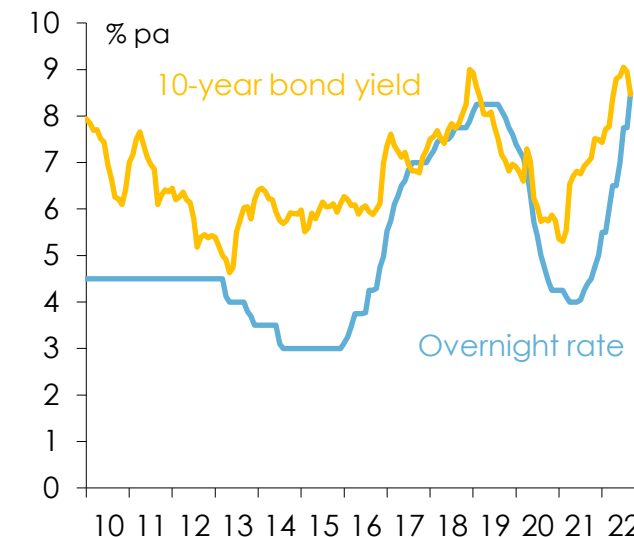
Unemployment



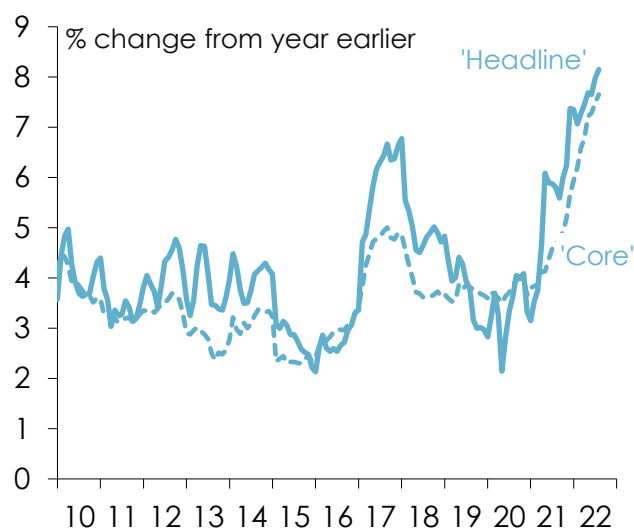
Bank lending



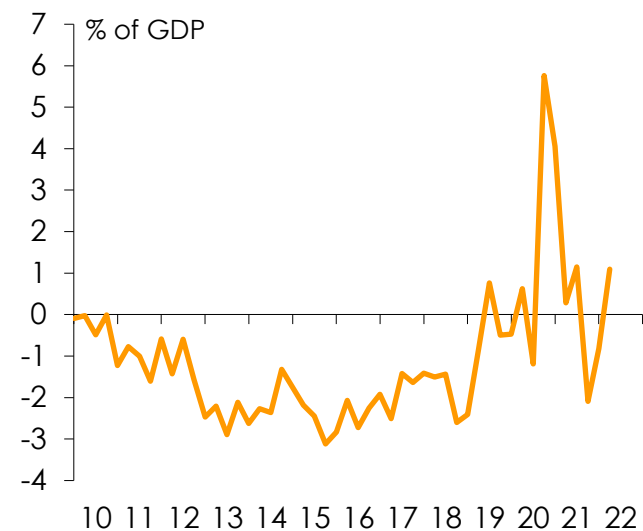
Interest rates



Inflation



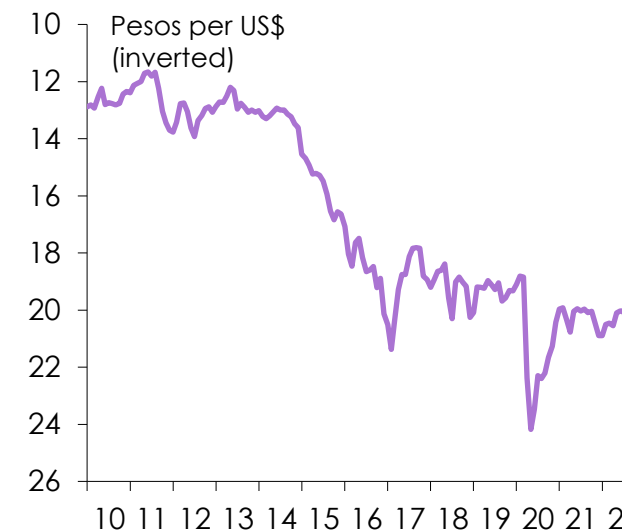
Current account balance



Federal budget deficit



Mexican peso vs US\$

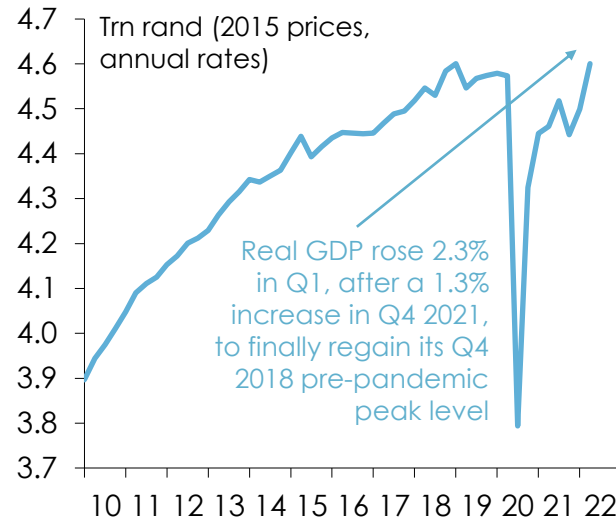


Sources [Banco de México](#); [Instituto Nacional de Estadística y Geografía \(INEGI\)](#); Refinitiv Datastream.. [Return to "What's New"](#).

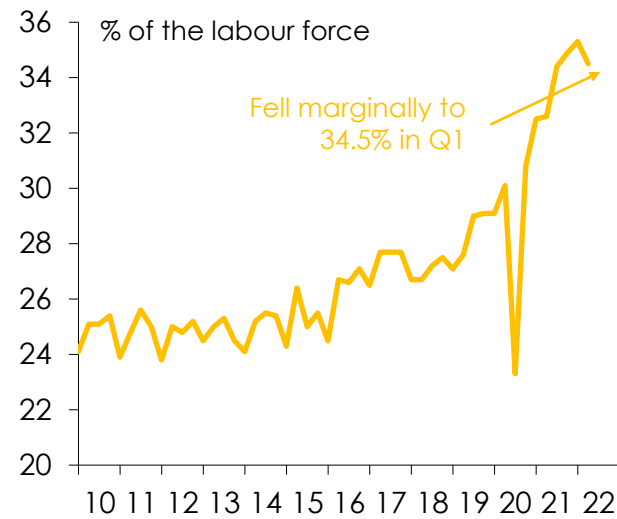
South Africa's Reserve Bank raised its repo rate by 75bp (the largest increase in 20 years), to 5.5%, last month

THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

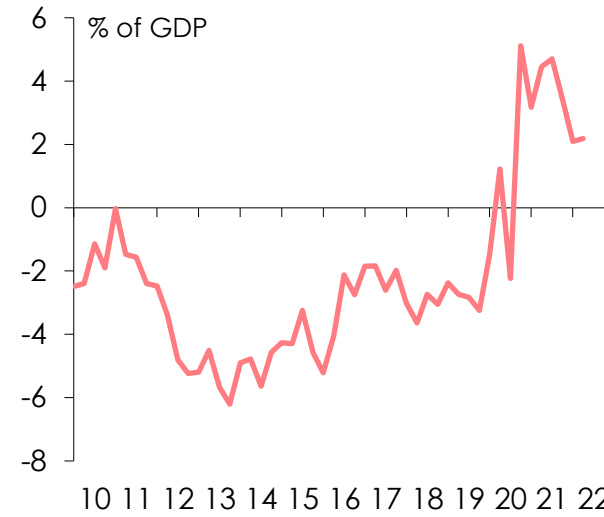
Real GDP



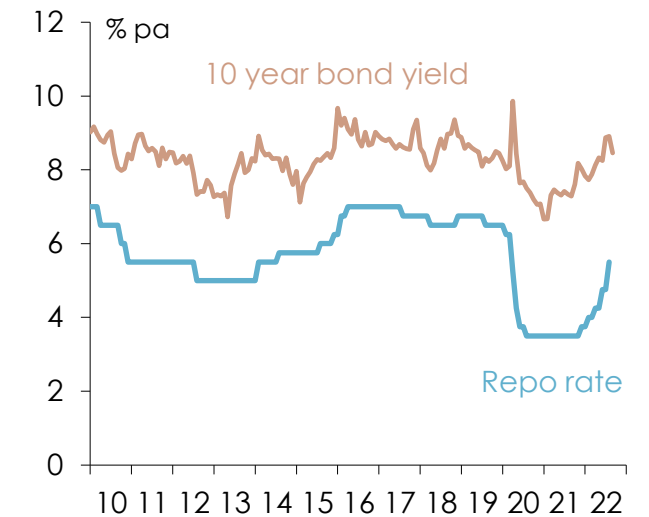
Unemployment



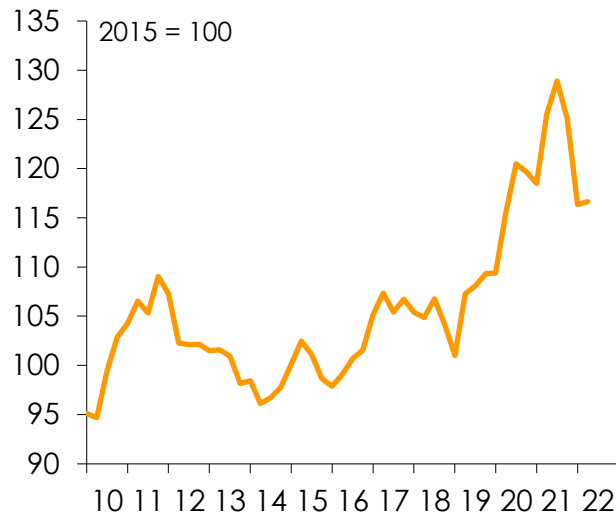
Current account balance



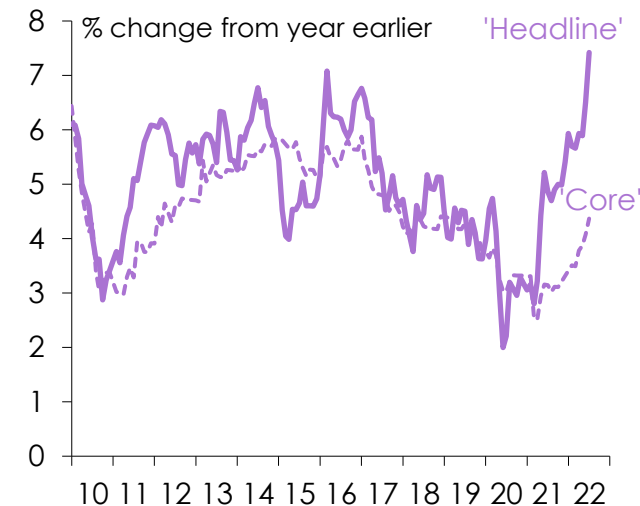
Interest rates



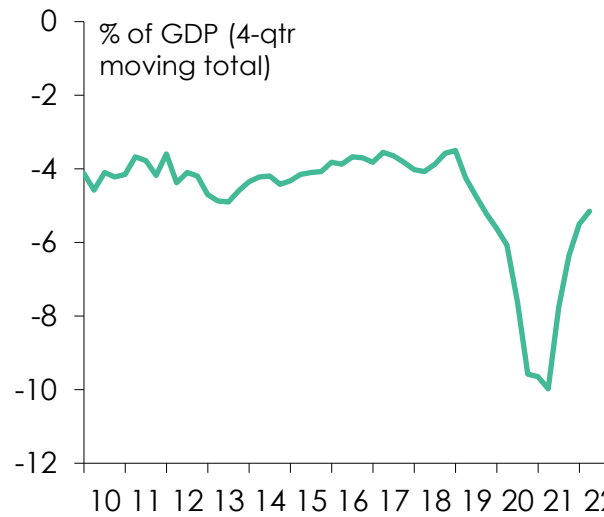
Terms of trade



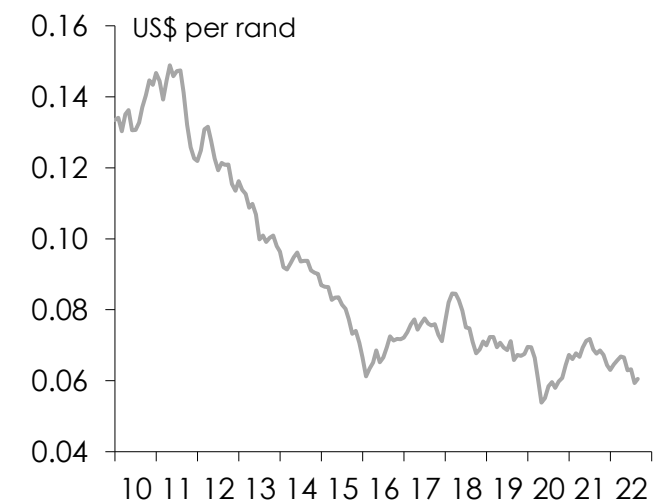
Inflation



Budget deficit



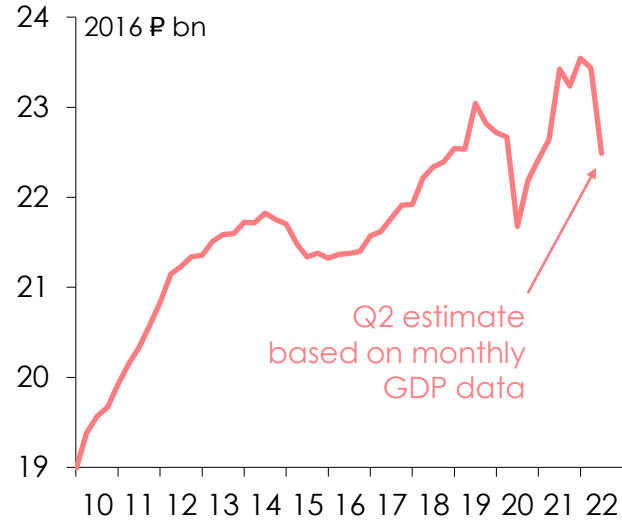
Rand vs US\$



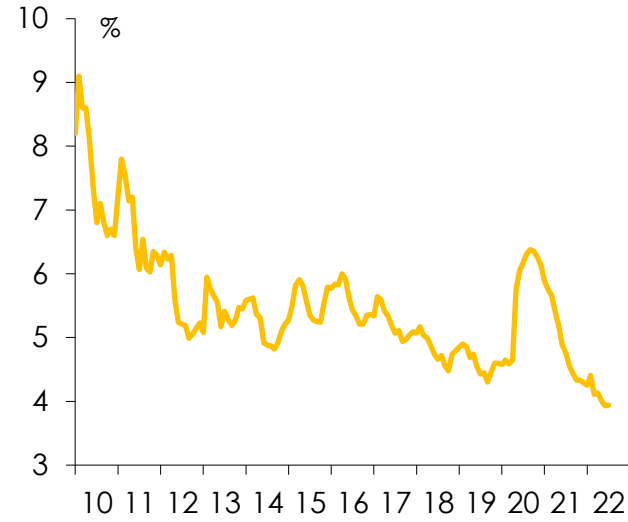
Russia's annual inflation rate fell to 15.1% in July, down from a peak of 17.9% in April

THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

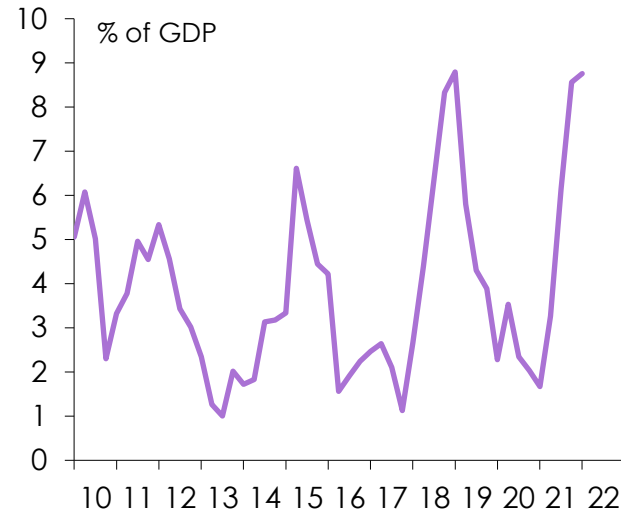
Real GDP



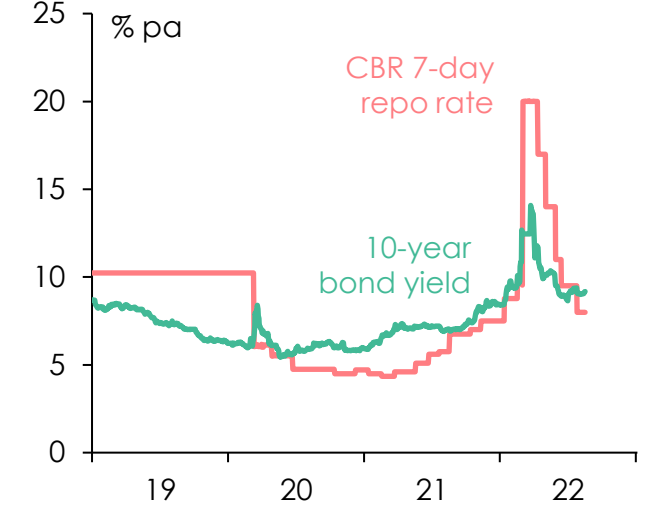
Unemployment



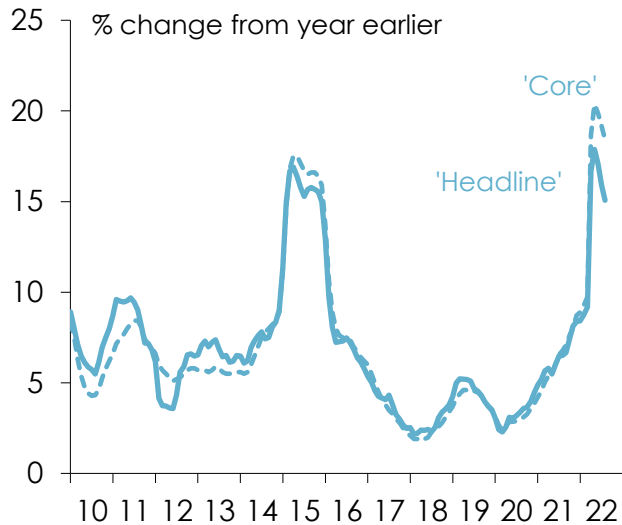
Current account balance



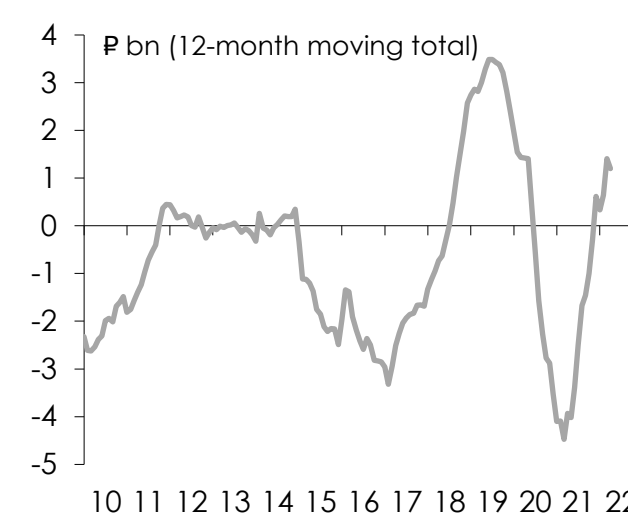
Interest rates



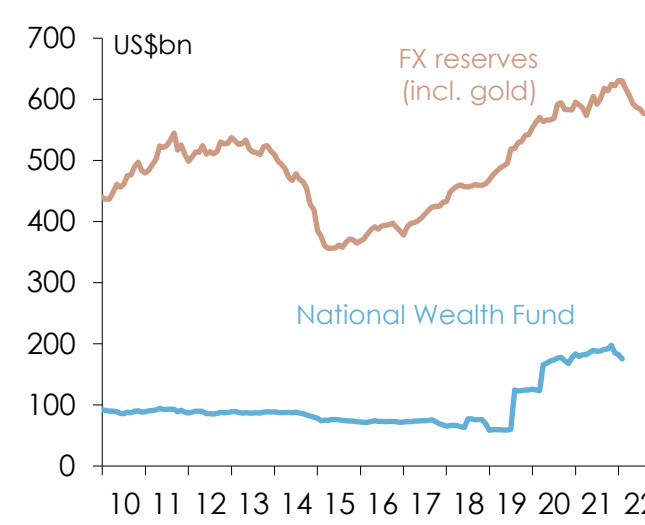
Inflation



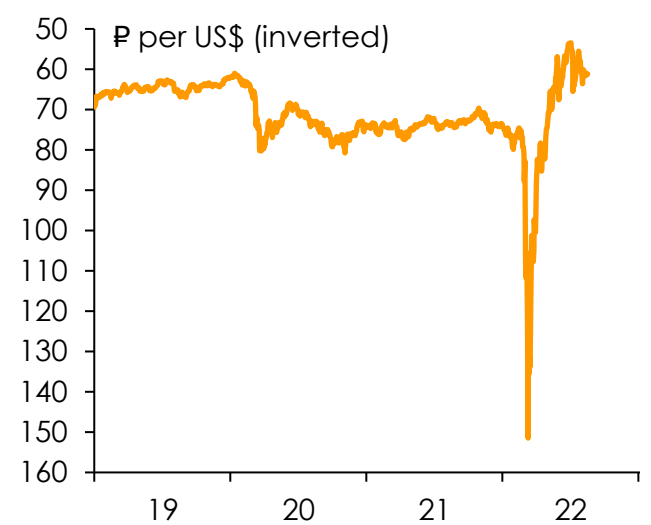
Federal budget balance



State financial assets



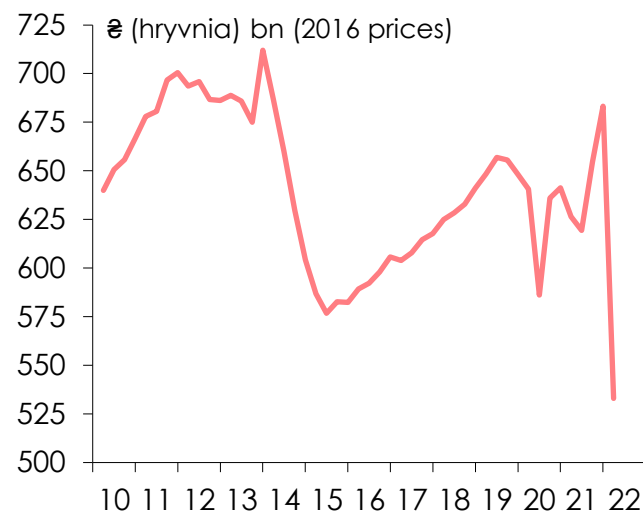
Russian ruble vs US\$



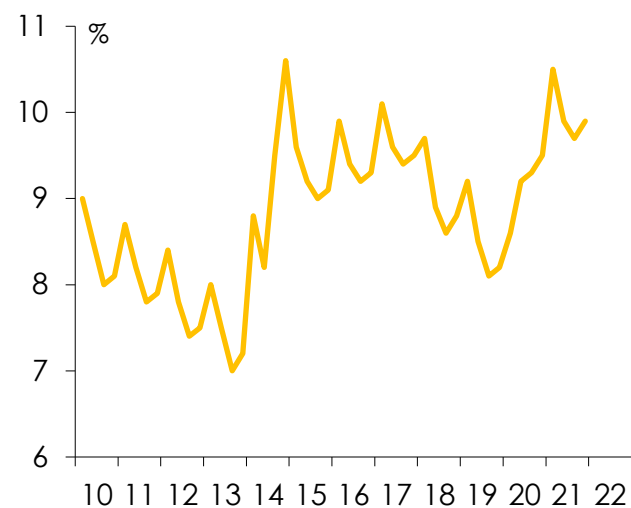
Ukraine devalued its currency by 25% against the US\$ last month in view of the “change in the fundamental characteristics of Ukraine’s economy”

THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

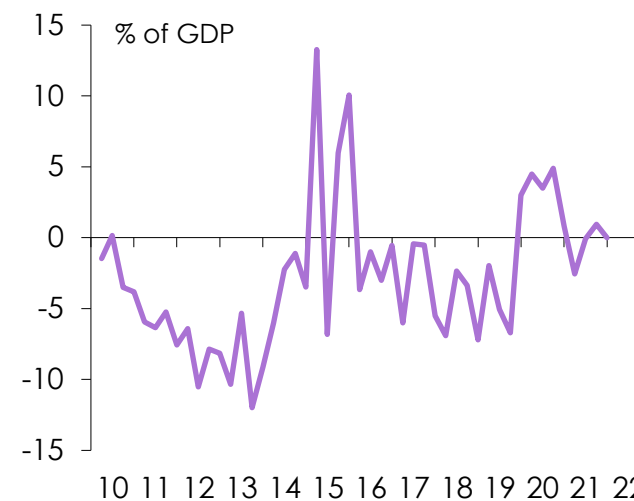
Real GDP



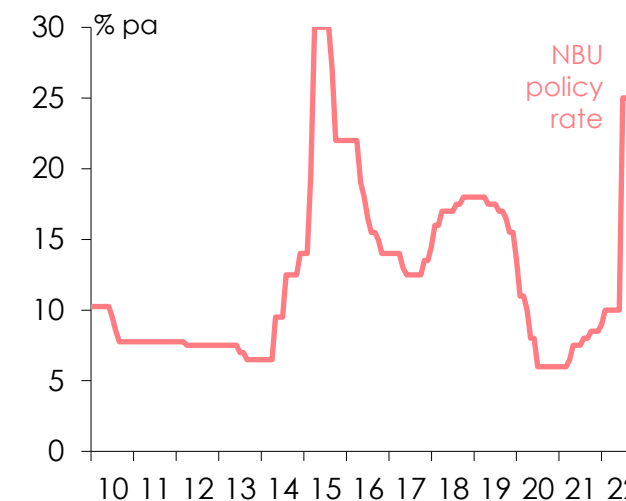
Unemployment



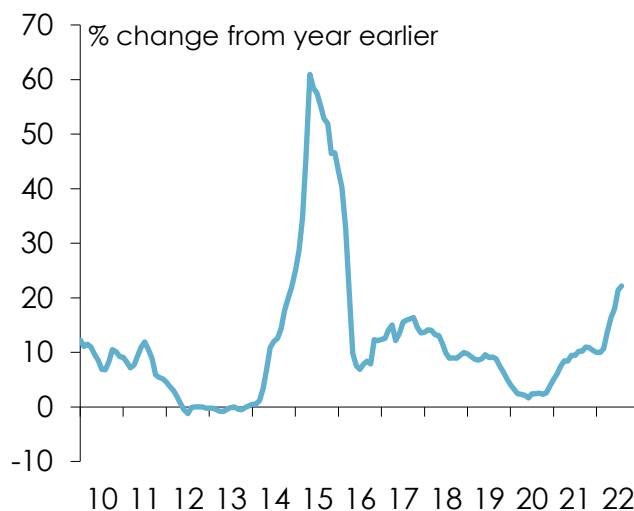
Current account balance



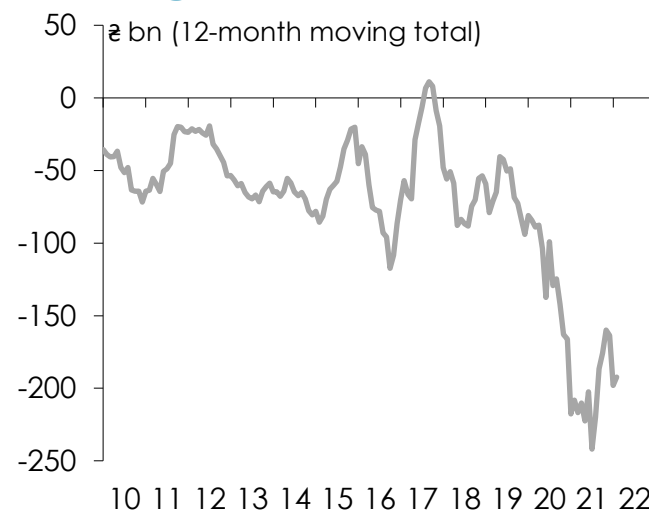
Interest rates



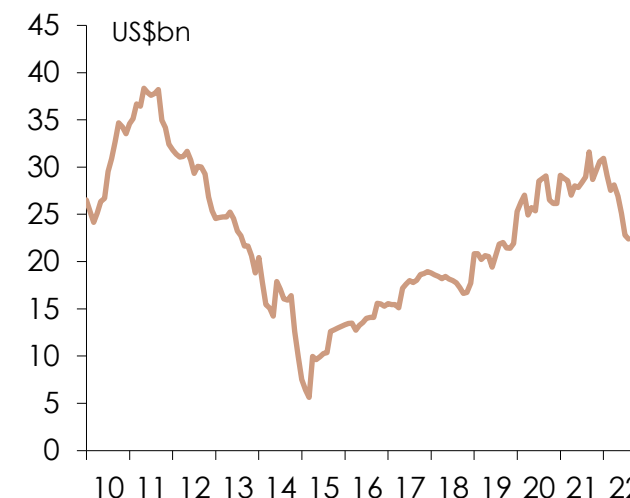
Inflation



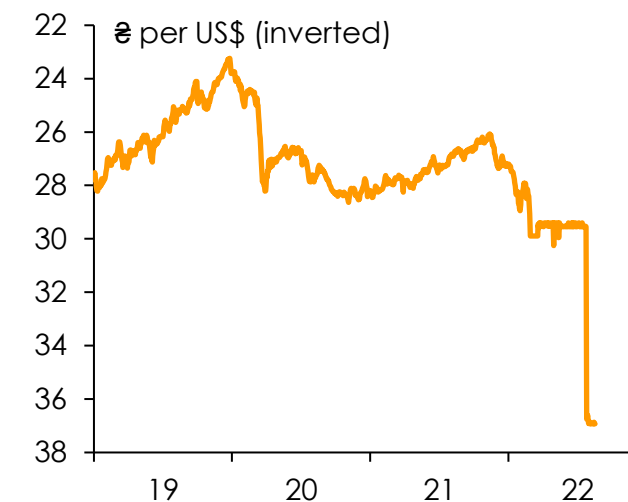
Budget deficit



FX reserves



Ukrainian hryvnia vs US\$

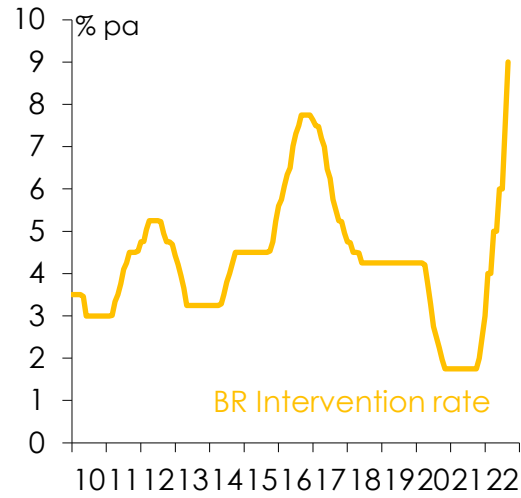


Sources: [State Statistics Service of Ukraine](#); [National Bank of Ukraine](#); Refinitiv Datastream. [Return to "What's New"](#).

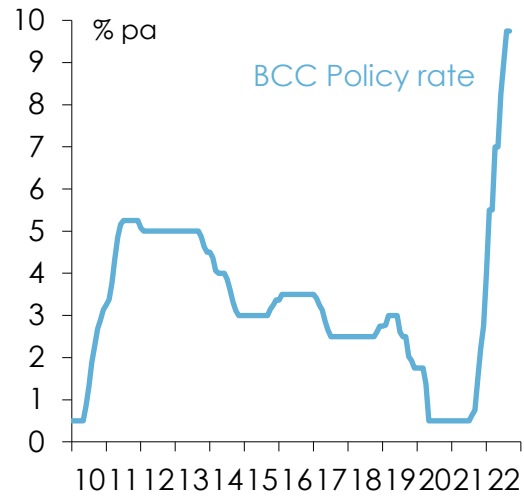
Central banks in Latin America, Central & Eastern Europe, and South Asia have been very forceful in tightening monetary policy

THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

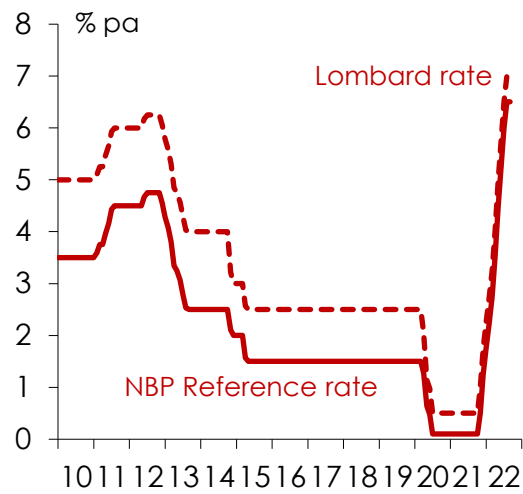
Colombia



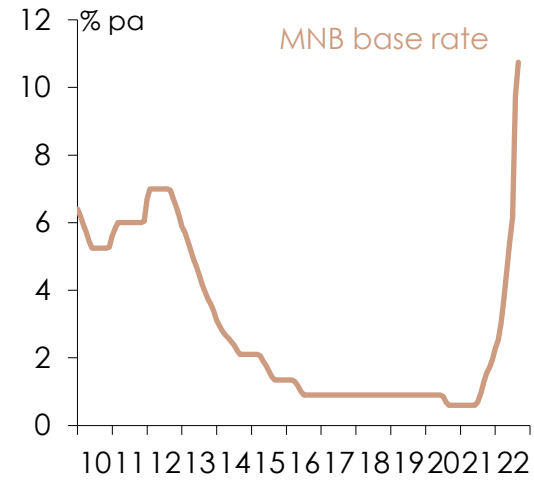
Chile



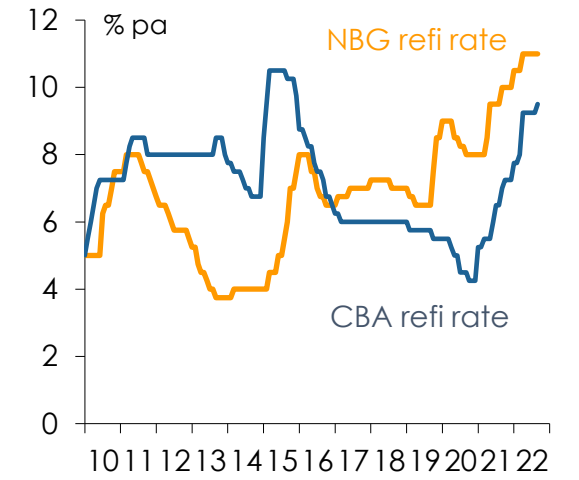
Poland



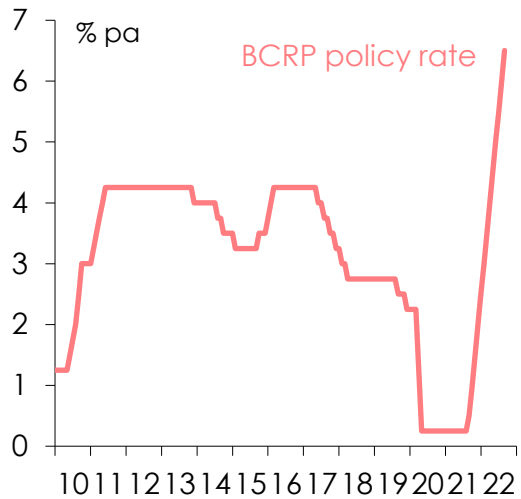
Hungary



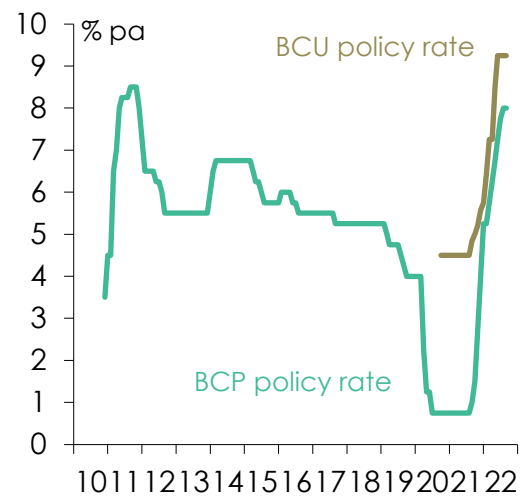
Georgia & Armenia



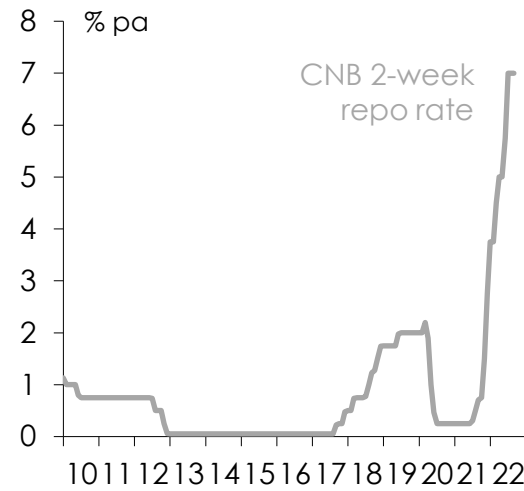
Peru



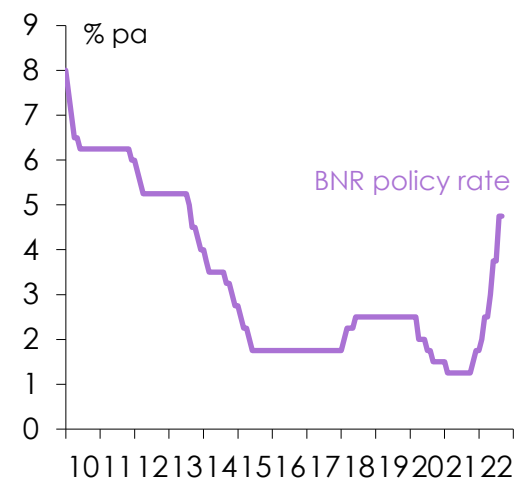
Paraguay & Uruguay



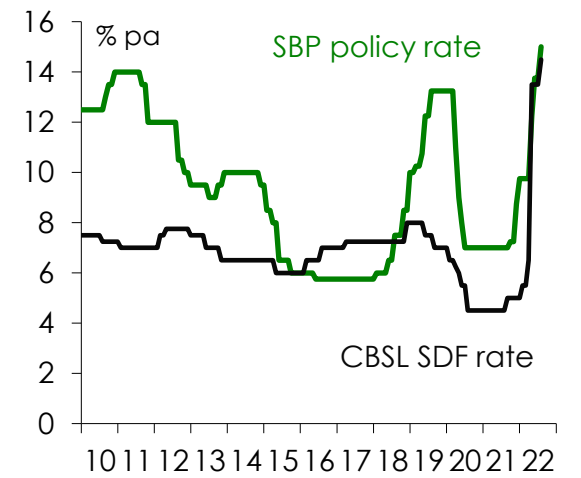
Czech Republic



Romania



Pakistan & Sri Lanka

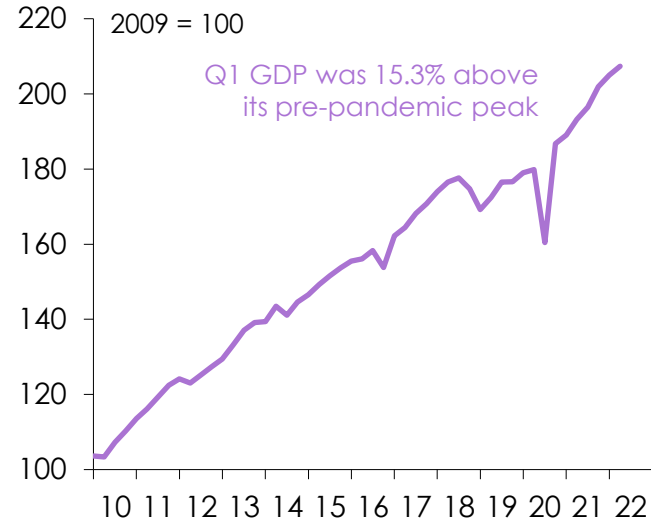


Sources: [Banco de la República Colombia](#); [Banco Central de Reserva del Perú](#); [Banco Central de Chile](#); [Banco Central del Uruguay](#); [Banco Central del Paraguay](#); [Narodowy Bank Polski](#); [Česká Národní Banka](#); [Magyar Nemzeti Bank](#); [Banca Națională a României](#); [Sakartvelos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

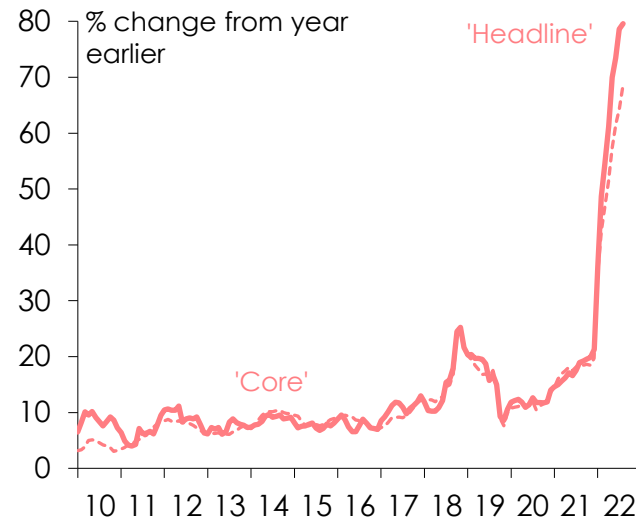
Turkey's 'headline' inflation rate edged higher, to 79.6% in July, with 'core' inflation rising to 68.5% - but TCMB is unlikely to respond in any way

THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

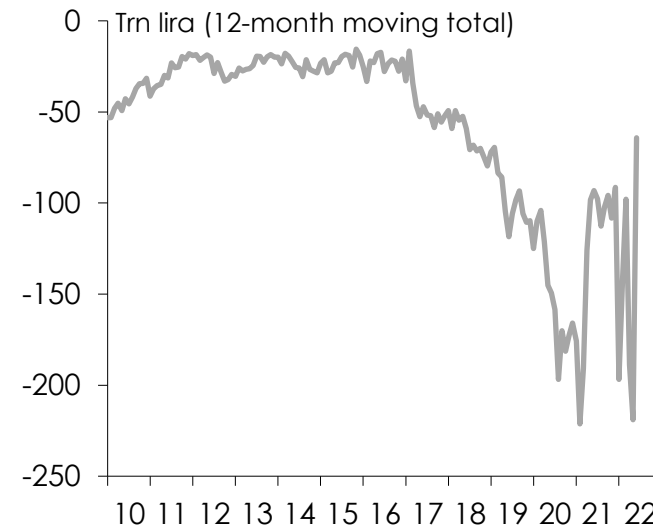
Real GDP



Inflation



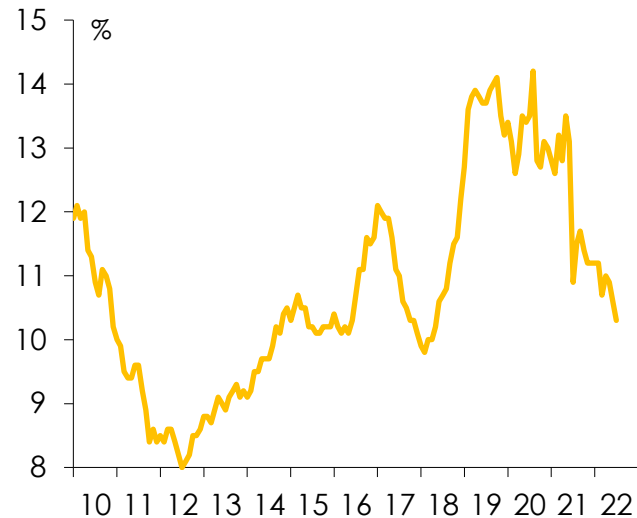
Budget balance



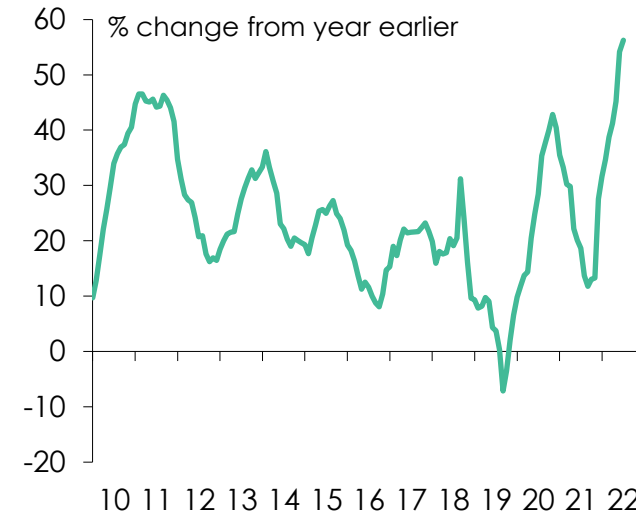
FX reserves



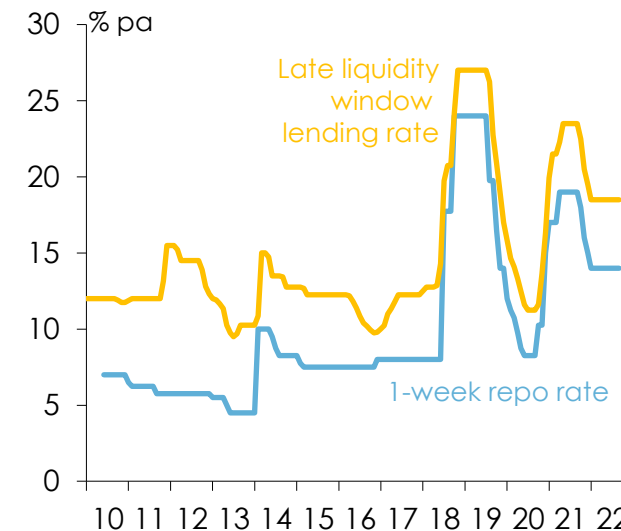
Unemployment rate



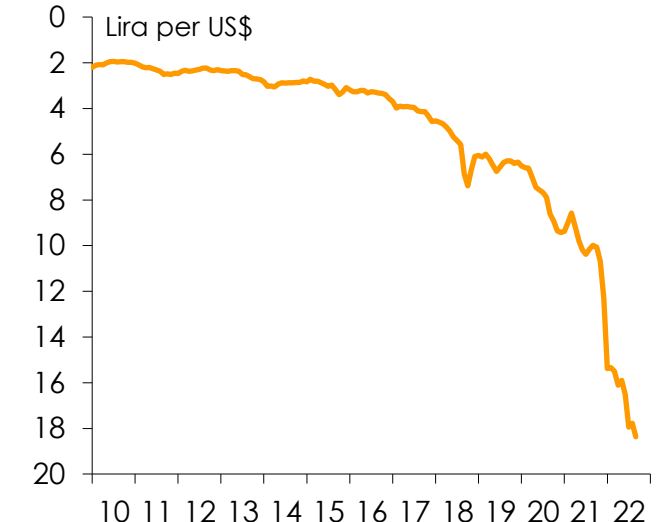
Bank lending



Interest rates



Turkish lira vs US\$



Key data and events this week

Key data and events for week ended 19th August

THE WORLD ECONOMY THIS WEEK – 15TH AUGUST 2022

Monday 15th August

Japan Q2 GDP; **Indonesia** July trade balance; **Thailand** Q2 GDP; **China** July industrial production, retail sales, fixed asset investment and unemployment; **Norway** July trade balance; **US** August NY Fed 'Empire State' manufacturing index, August NAHB housing market index; **Uruguay** BCU meeting

Tuesday 16th August

Australia August RBA Board minutes; **Japan** June tertiary industry activity index; **India** July WPI; **euro area** June trade balance; **UK** June unemployment rate & average earnings; **US** July housing starts & building permits and July industrial production; **Canada** July CPI and housing starts; **Peru** July unemployment; **Colombia** Q2 GDP and June trade balance

Wednesday 17th August

New Zealand RBNZ meeting, Q2 PPI; **Japan** July trade balance; **Singapore** July trade balance; **Hong Kong** July unemployment; **South Africa** June retail sales; **Poland** Q2 GDP; **euro area** Q2 GDP (2nd estimate) and Q2 employment; **US** FOMC meeting minutes and July retail sales

Thursday 18th August

Australia July employment & unemployment; **Philippines** BSP meeting; **Sri Lanka** CBSL meeting; **Turkey** TCMB meeting; **euro area** July CPI (final); **Norway** Norges Bank meeting and Q2 GDP; **US** August Philadelphia Fed manufacturing survey and July existing home sales; **Canada** July PPI

Friday 19th August

New Zealand July trade balance; **Japan** July CPI; **Taiwan** Q2 current account balance; **Indonesia** Q2 current account balance; **Malaysia** July trade balance; **euro area** June current account balance; **UK** August consumer confidence, July retail sales and July PSBR; **Canada** June retail sales; **Mexico** June retail sales

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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