



THE WORLD ECONOMY THIS WEEK

5TH SEPTEMBER 2022

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CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

Table of contents

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

What's new	<u>3</u>
The world economy	<u>4</u>
The United States	<u>31</u>
Europe	<u>51</u>
China	<u>62</u>
Japan	<u>72</u>
Other East Asia	<u>79</u>
India	<u>97</u>
Canada, Australia & New Zealand	<u>101</u>
Other economies	<u>106</u>
Key data and events this coming week	<u>114</u>
Legal information	<u>116</u>

What's new?

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

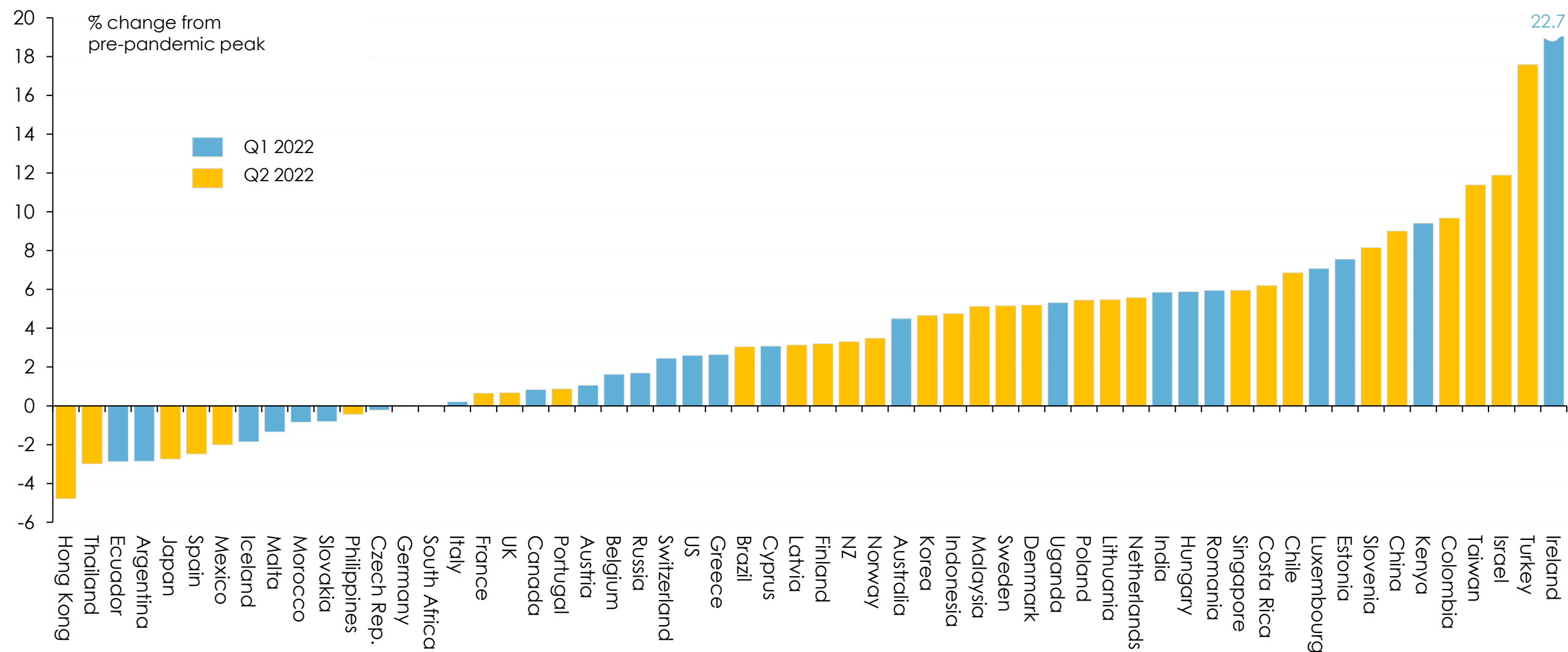
- ❑ US non-farm payrolls increased by 315K (0.2%) in August, a solid result albeit the second-smallest in the past 12 months, while the household survey measure of employment (which has showed slower growth than the payroll series for most of this year so far) rose by 442K (0.3%); the unemployment rate rose 0.2 pc pts to 3.7%, due to a 0.3 pc pt increase in the labour force participation rate ([slide 39](#))
- ❑ Average hourly earnings rose 0.3% in August, the smallest increase since February: over the year to August earnings rose 5.2%, down from a peak of 5.6% over the year to March ([slide 41](#))
- ❑ The US ISM (purchasing managers') manufacturing index was unchanged at 52.8 in August, together with July the lowest reading since June 2020 although still signalling modest growth; components of the index indicate some further easing of supply-chain pressures, although they remain acute in some areas ([slide 46](#)), while the 'prices paid' component fell 10.1 pc pts to its lowest level since October 2020, consistent with similar readings from regional Fed surveys for last month ([slide 45](#))
- ❑ Euro area consumer prices rose 0.5% in August and by 9.1% from a year earlier, while the annual 'core' inflation rate rose to 4.3%, in each case the highest inflation rates since the inception of data for the euro area in 1997 ([slide 56](#)); meanwhile the euro area's unemployment rate remained at 6.7%, a record low, in July ([slide 53](#)), but business confidence fell sharply in August ([slide 54](#))
- ❑ China's 'official' manufacturing PMI rose 0.4 pc pt to 49.4 in August, while the 'unofficial' version (which gives more weight to private SMEs) fell 0.9 pc pt to 49.5 – both indicating that manufacturing activity remained soft last month ([slide 64](#))
- ❑ Employment in Japan was unchanged in July, remaining 0.3% below its pre-pandemic peak, while the unemployment rate was also unchanged at 2.6%, 0.4 pc pt above its pre-pandemic low ([slide 76](#))
- ❑ Brazil's real GDP grew by 1.2% in Q2, after a 1.1% increase in Q1, to be just 0.3% below its prior peak (before the recession which preceded the onset of the pandemic) in Q1 2014 ([slide 107](#)); while Turkey's real GDP increased by 2.1% in Q2, to be 17.6% ahead of its pre-pandemic peak ([slide 113](#))
- ❑ Hungary's central bank raised its base rate another 100bp, to 11.75%, for a cumulative increase since last May of over 10 pc pts ([slide 112](#))
- ❑ Financial markets continued to react to last Friday's hawkish remarks by Federal Reserve Chair Jerome Powell at the annual Jackson Hole conference ([slide 50](#)), with the US dollar rising further against other major currencies, particularly the yen ([slide 29](#)), and stock markets falling further ([slide 30](#))
- ❑ The ECB will likely raise its refi rate by 50 bp at this week's Governing Council meeting (with some possibility of a 75bp rise) ([slide 58](#)) Canada's and Australia's central banks are expected to raise their policy rates by a similar amount ([slide 102](#)) while Malaysia's central bank will likely opt for another 25 bp increase ([slide 92](#))

The world economy

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

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

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

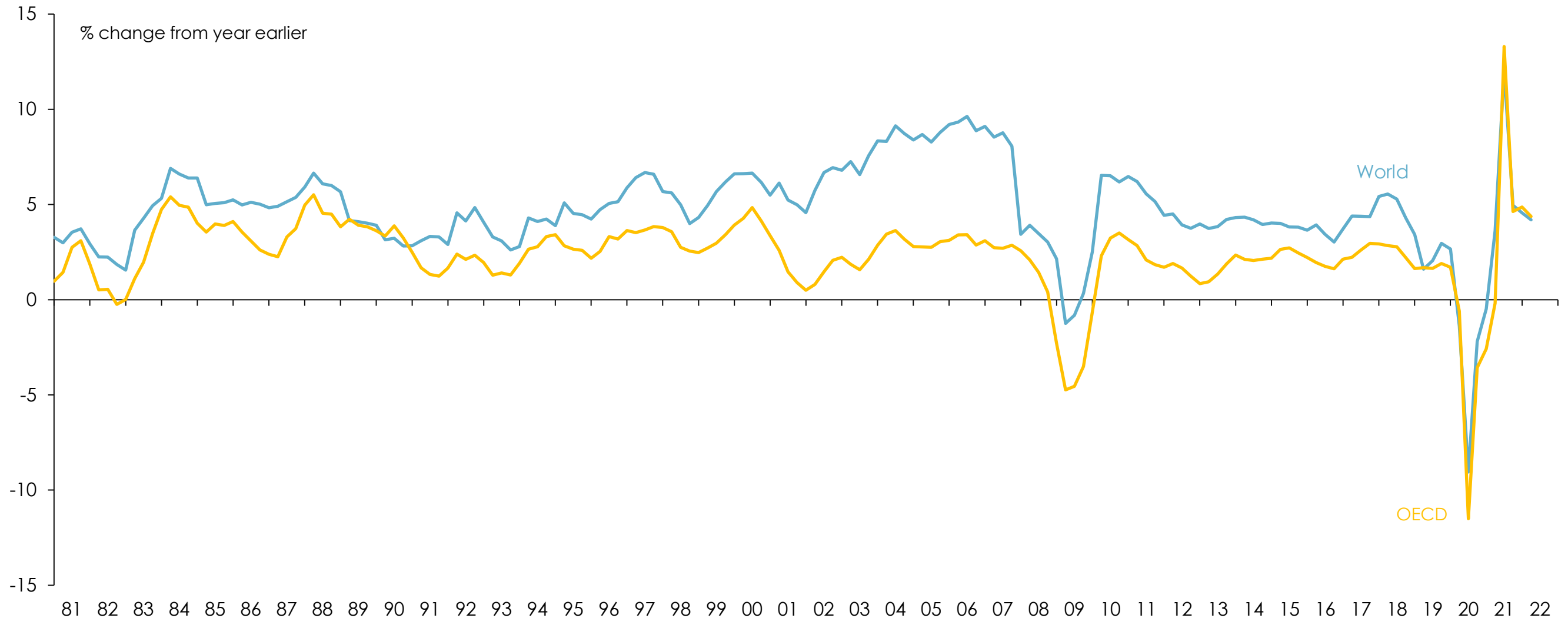


Note: Estimate for China is derived from quarterly growth rates published by China NBS; estimates for India, Indonesia and Russia are seasonally adjusted by the OECD.
Sources: National statistical agencies and central banks, and OECD. [Return to "What's New"](#).

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

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

World and OECD area real GDP growth

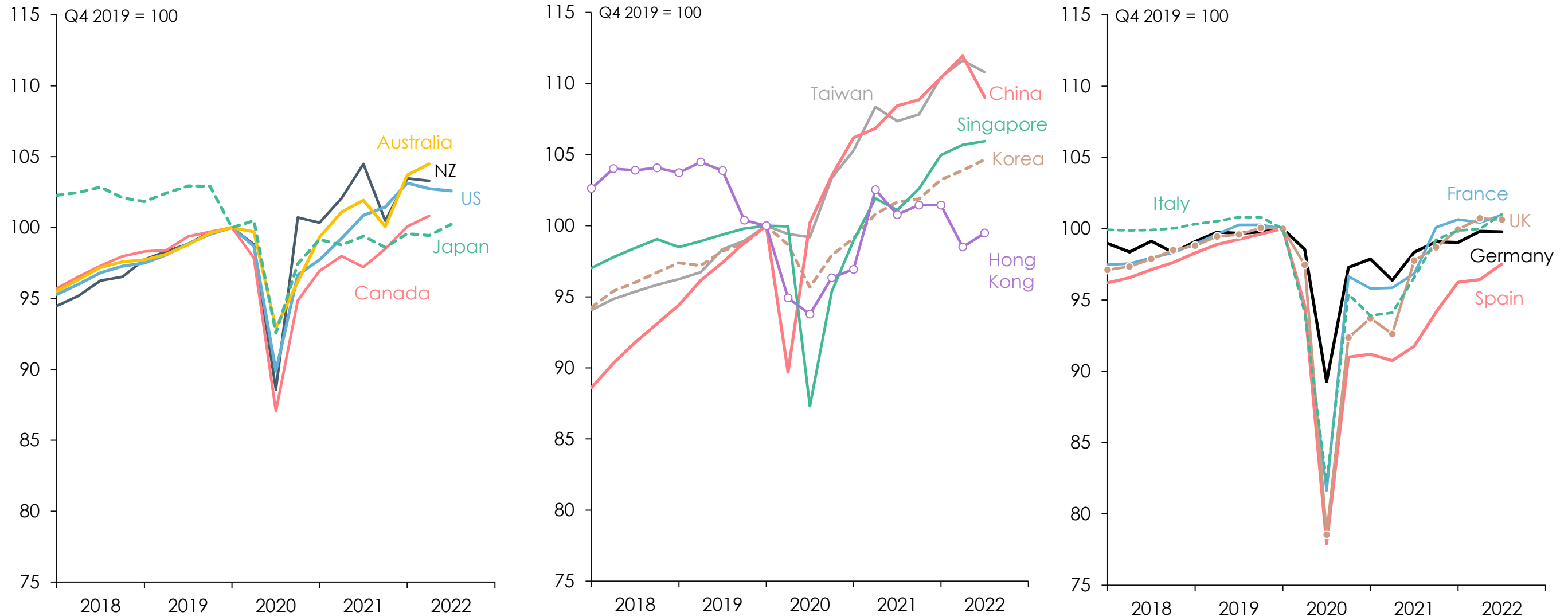


Note: Estimates of global GDP growth compiled by Corinna using data for 100 countries accounting for 94% of 2019 world GDP as measured by the IMF, weighted in accordance with each country's share of global GDP at purchasing power parities in 2019; excludes constituents of the former USSR before 1993,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

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

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

Levels of real GDP indexed to Q4 2019 = 100



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

The 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

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

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

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

IMF real GDP growth forecasts

	July forecast (%)		Revision from April (pc pts)	
	2022	2023	2022	2023
Advanced economies				
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
Emerging economies				
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
World	3.2	2.9	-0.4	-0.7

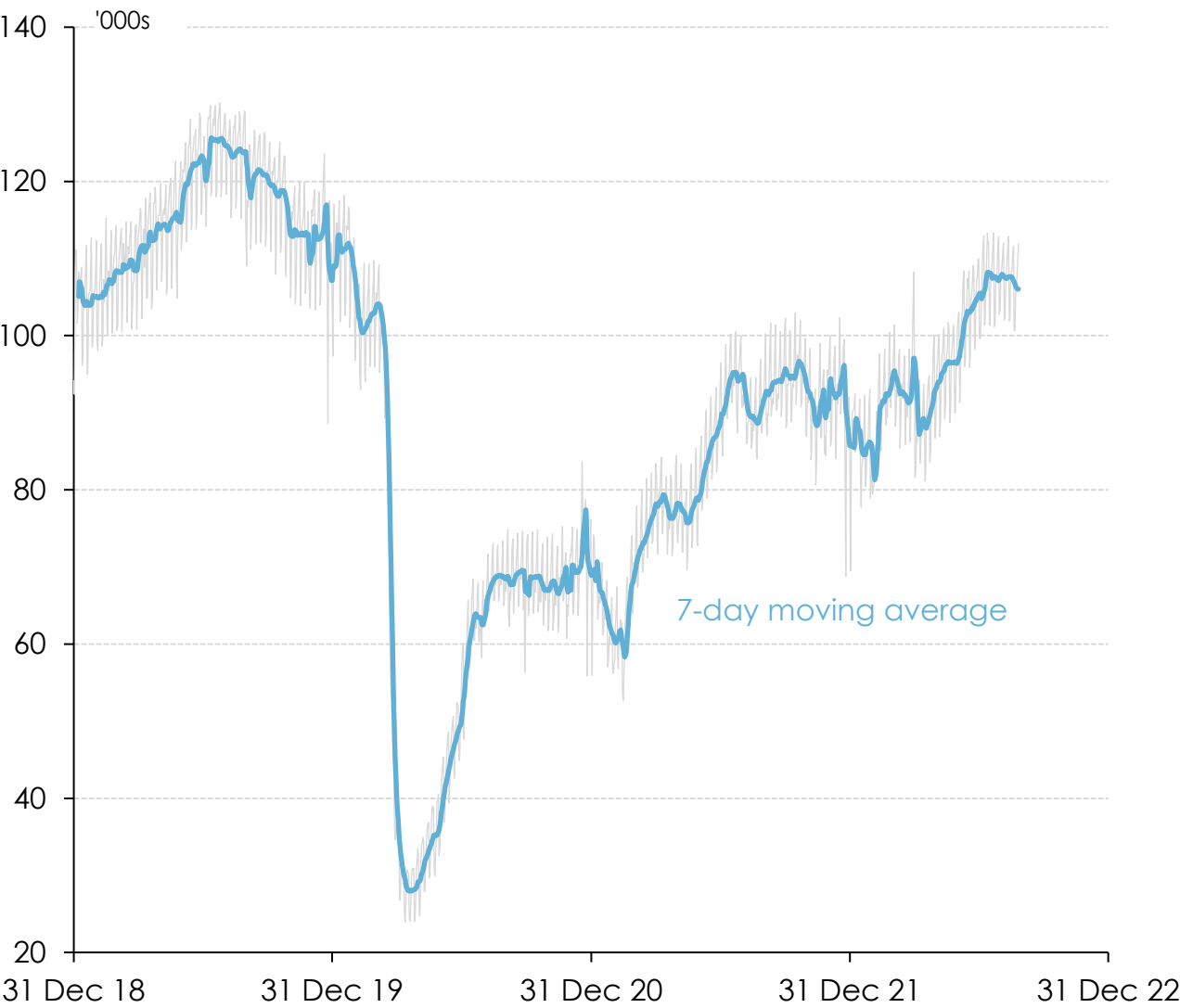
- ❑ The IMF now expects global economic growth to slow from 6.% in 2021 to 3.2% this year (a downward revision of 0.4 pc pt from its previous forecast in April) and to 2.9% in 2023 (a downward revision of 0.7 pc pt)
 - the downward revisions are particularly large (by IMF standards) for the US, the UK,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

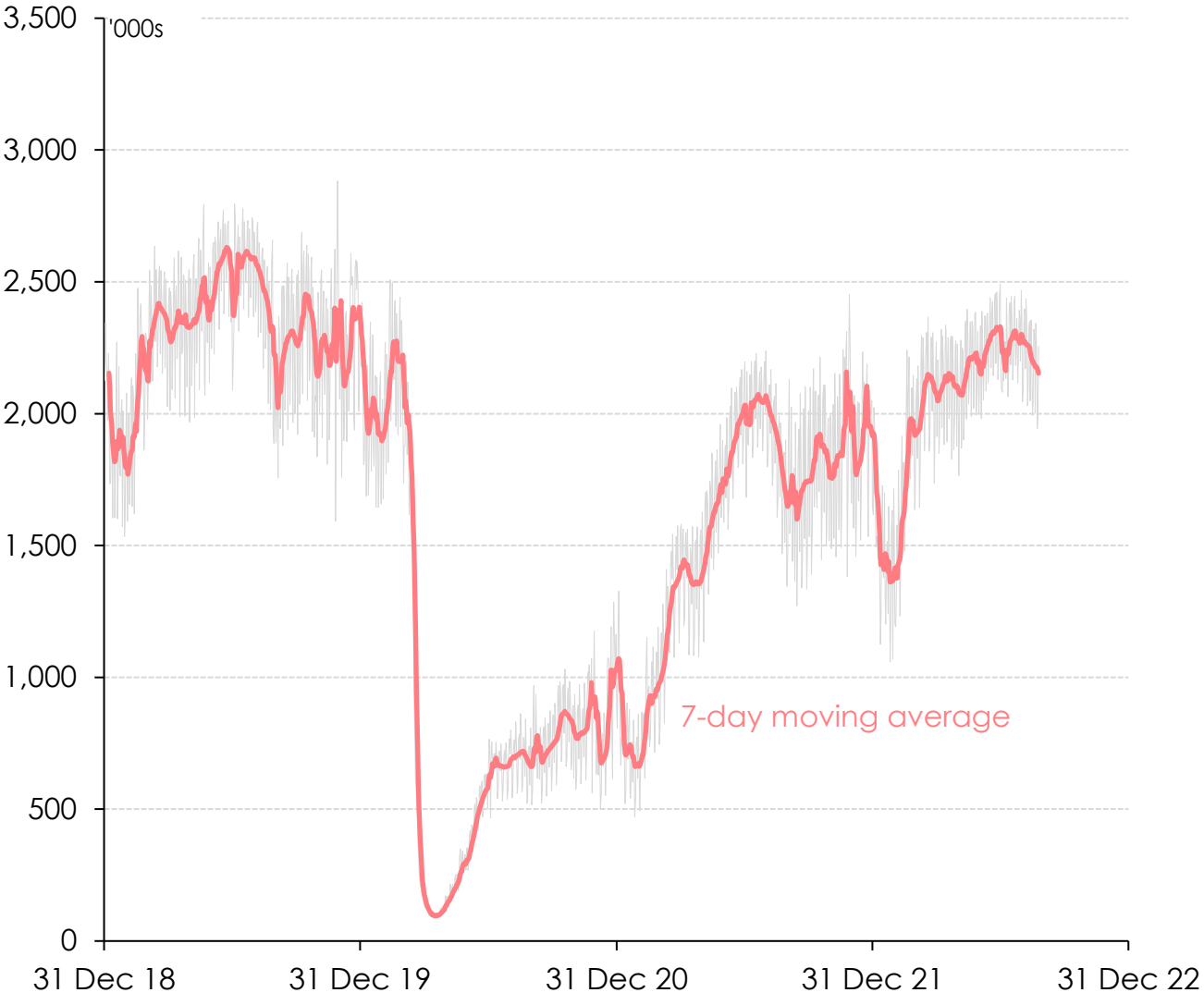
Global aviation traffic picked up significantly between March and July, but has levelled out again over the past few weeks

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

Daily commercial flights worldwide



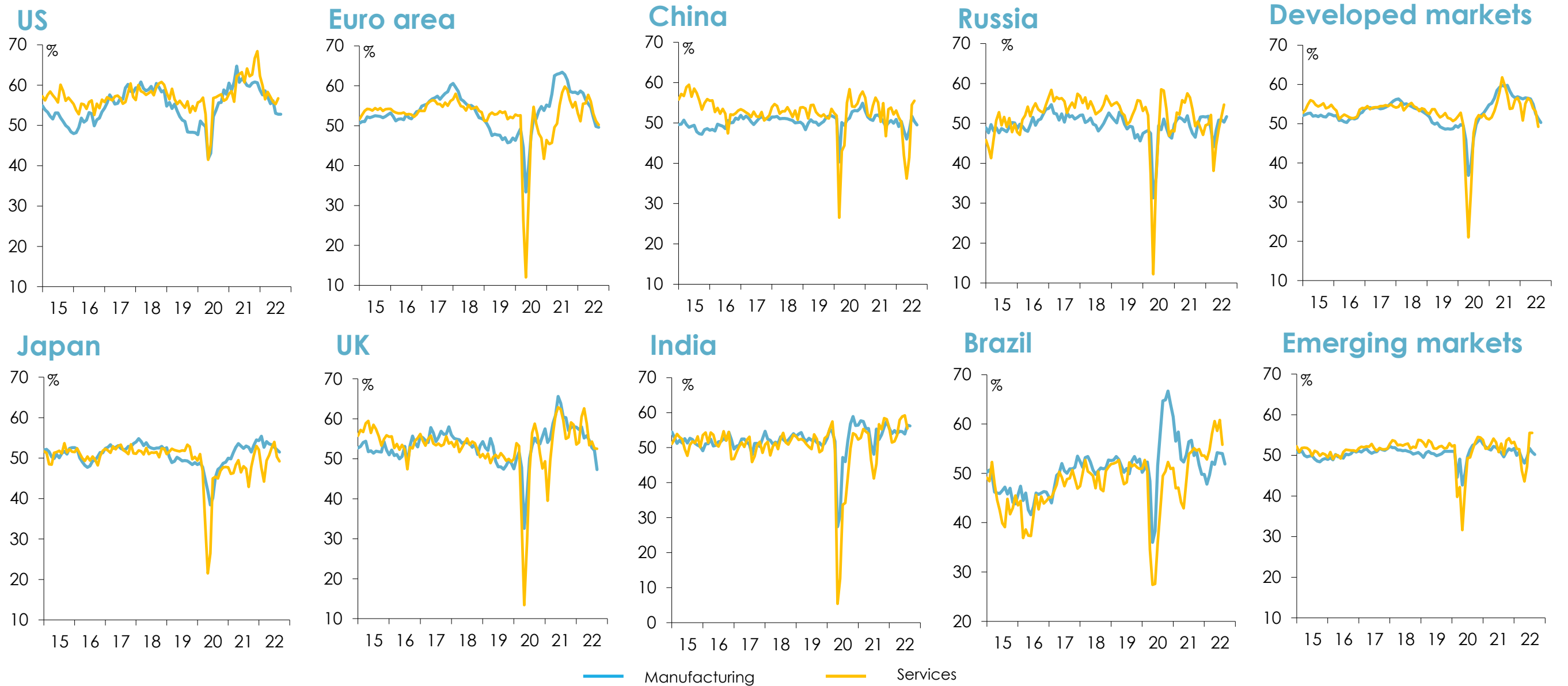
Daily US TSA 'security' checks



Note: Commercial flights include commercial passenger flights, cargo flights, charter flights, and some business jet flights. Data are up to 26th August for commercial flights and 25th August for TSA checks. Thicker coloured lines are 7-day centred moving averages of daily data plotted in thin grey lines. Sources: [Flightradar24.com](#); [US Transport Safety Administration](#) (at last, something useful – other than job creation - produced by aviation 'security'!!!). [Return to "What's New"](#).

PMIs point to a softening in manufacturing activity in most major economies in August, apart from the US

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

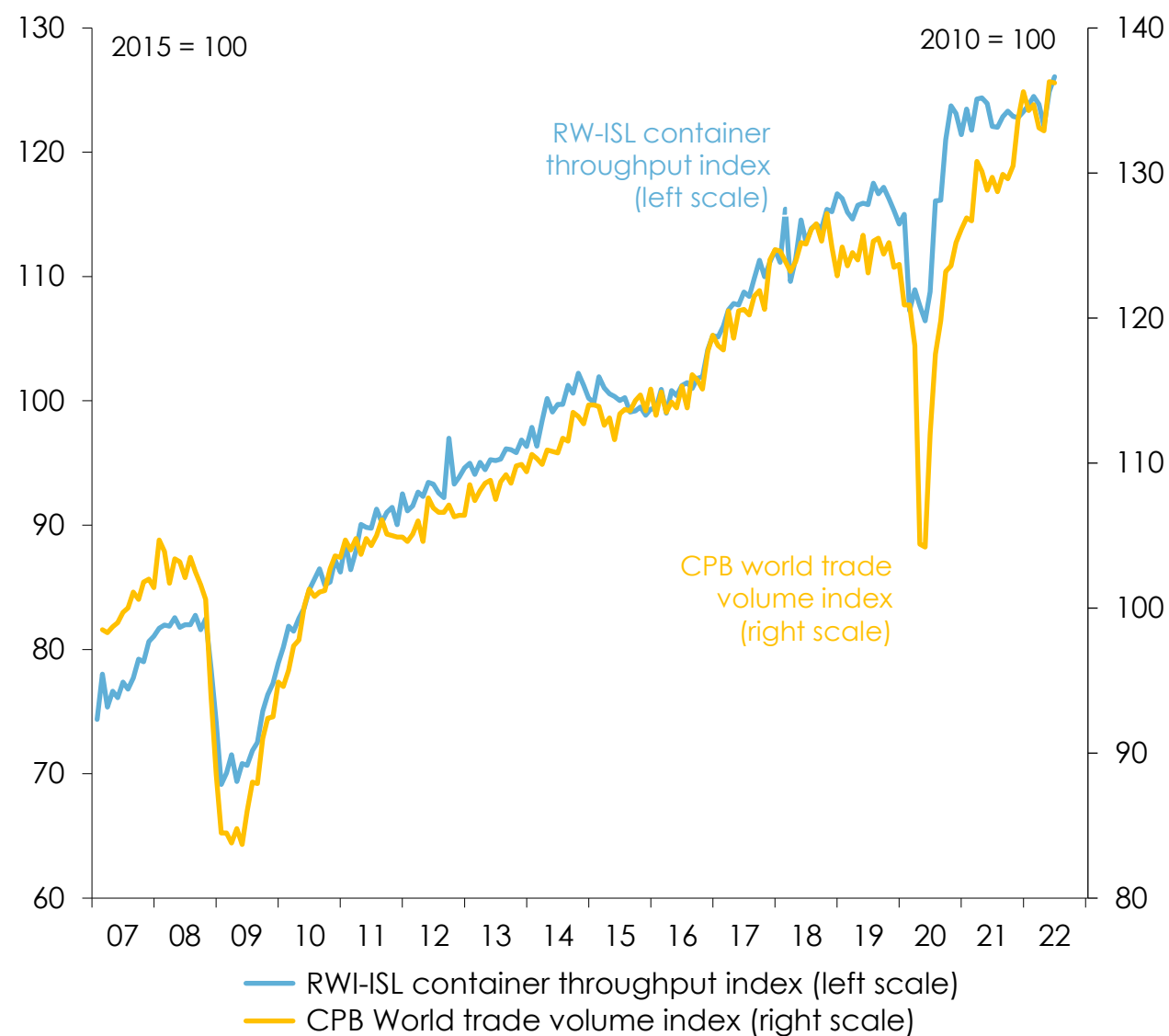


Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous month, and a reading of less than 50 indicates a decrease. See also PMIs for other Asia-Pacific economies on [slide 82](#). Sources: [US Institute for Supply Management](#); [IHS Markit](#); JP Morgan; [Caixin](#); Refinitiv Datastream. [Return to "What's New"](#).

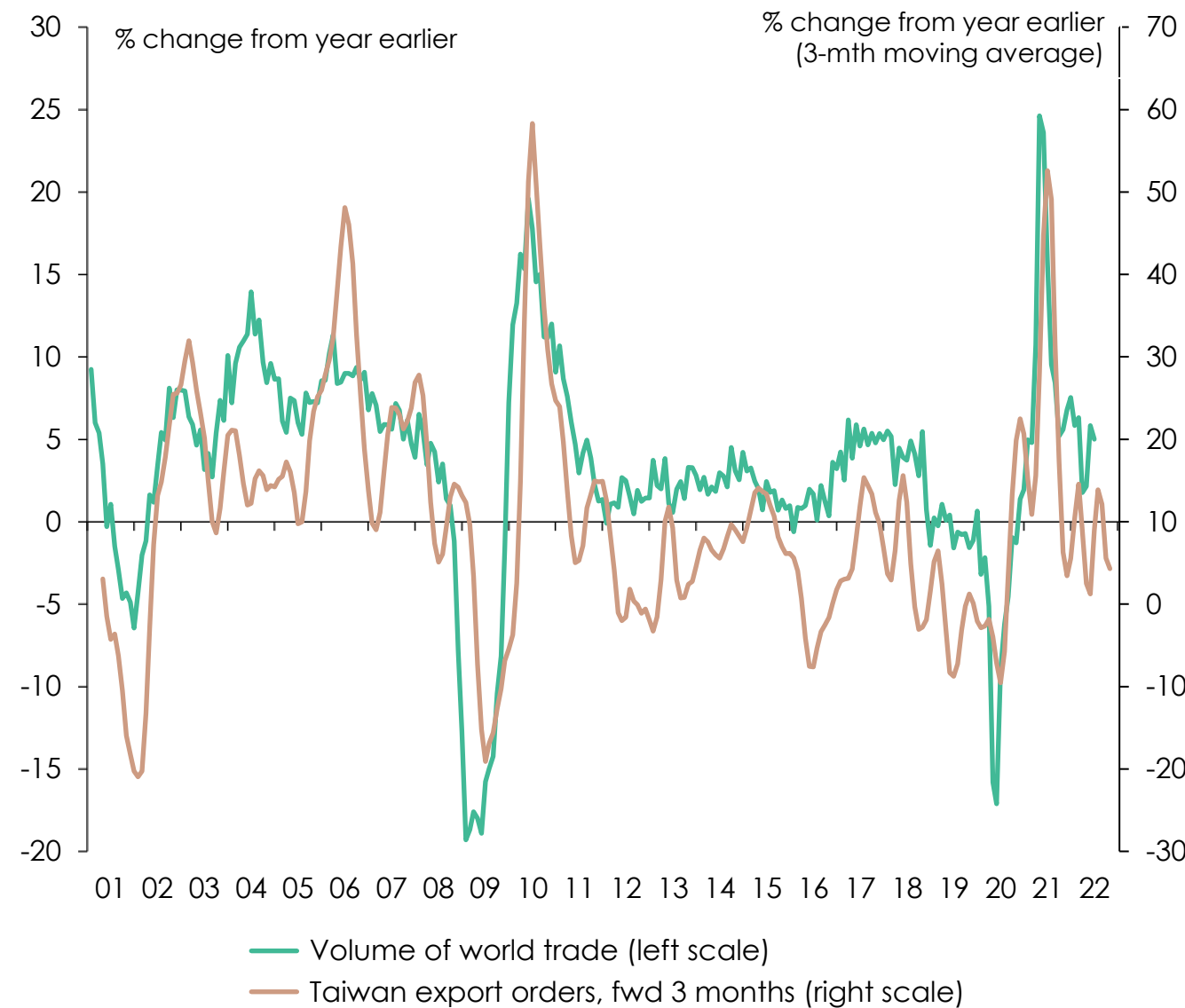
The volume of world trade fell 0.1% in June, after a strong 2.6% increase in May – and a further slowing seems in prospect

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

World trade volumes and container throughput



Taiwan export orders and world trade volumes

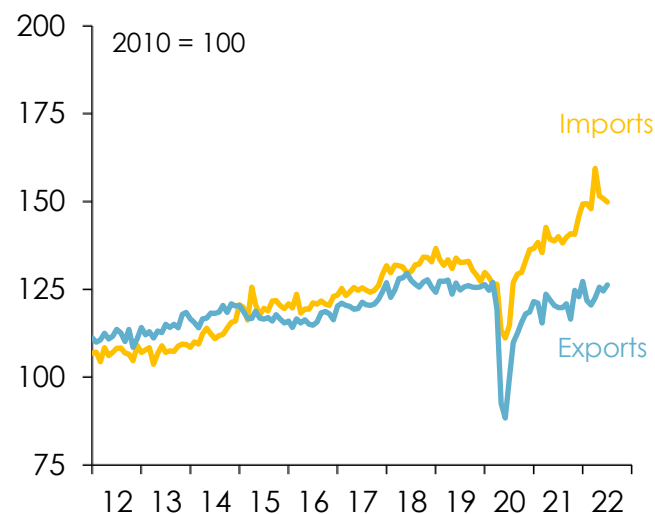


Note: The shipping container throughput index is based on reports from 91 ports around the world handling over 60% of global container shipping.
Sources: CPB Netherlands Economic Planning Bureau, [World Trade Monitor](#), June 2022 (July data to be released on 23rd September); Institute of Shipping Economics & Logistics (ISL) and RWI Leibniz-Institut für Wirtschaftsforschung (RWI) [Container Throughput Index](#), April 2022; Taiwan [Ministry of Economic Affairs](#). [Return to "What's New"](#).

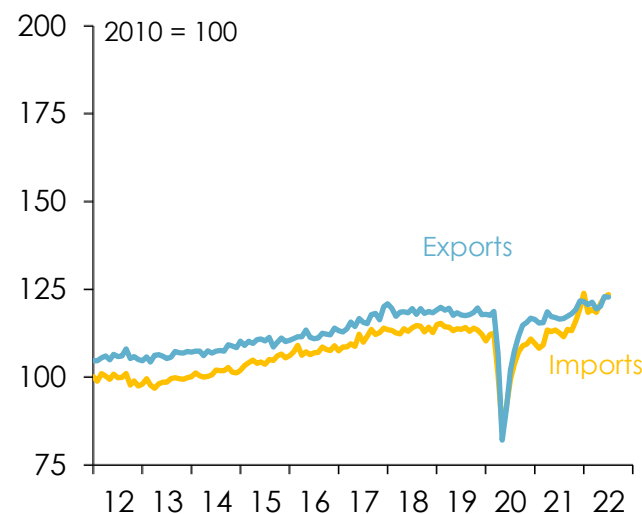
Supply-chain disruptions in China have been a major factor in the slowing in world trade this year: the UK's poor trade performance is also notable

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

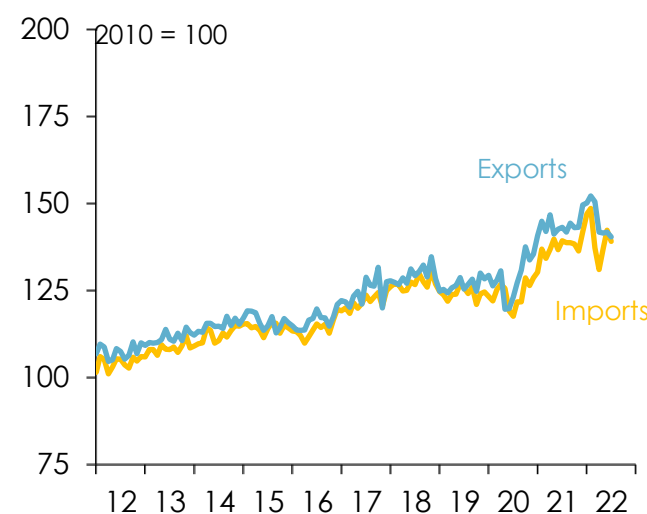
United States



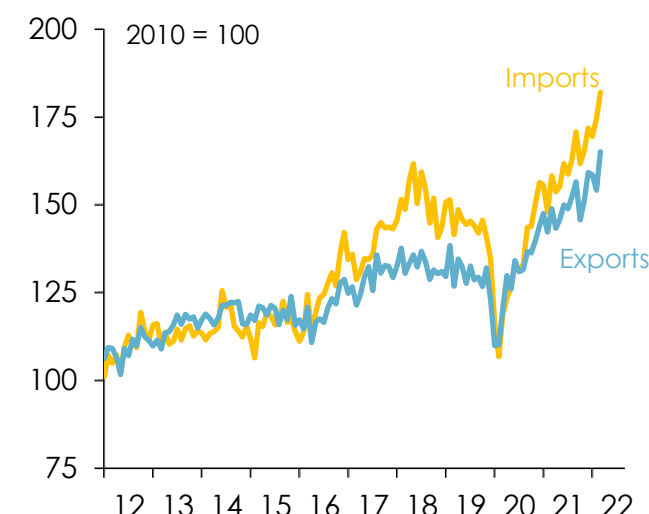
Euro area



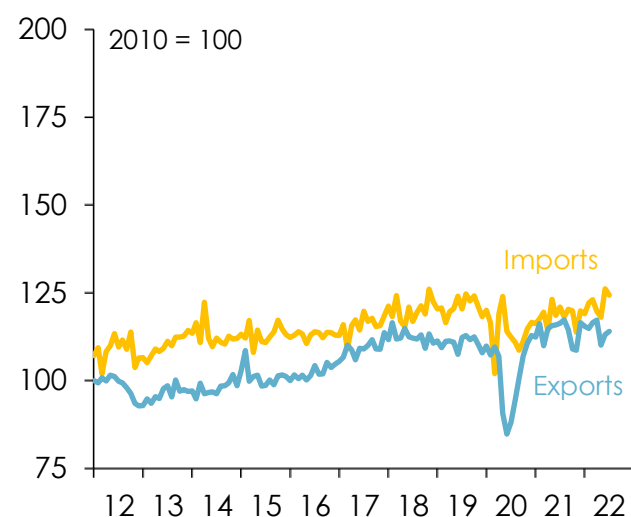
Other 'advanced' Asia



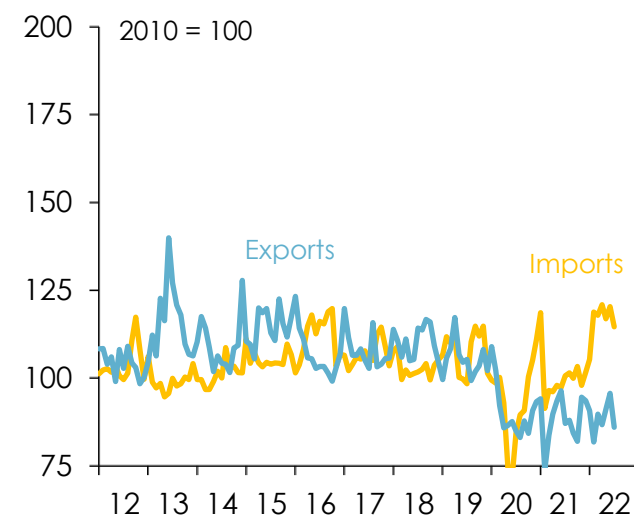
Other 'emerging' Asia



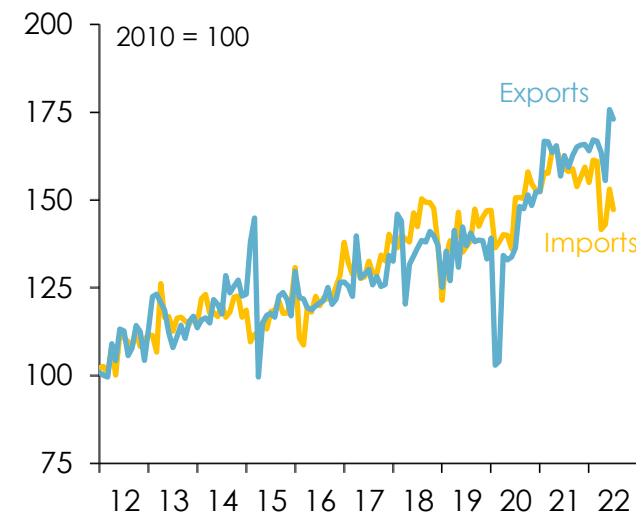
Japan



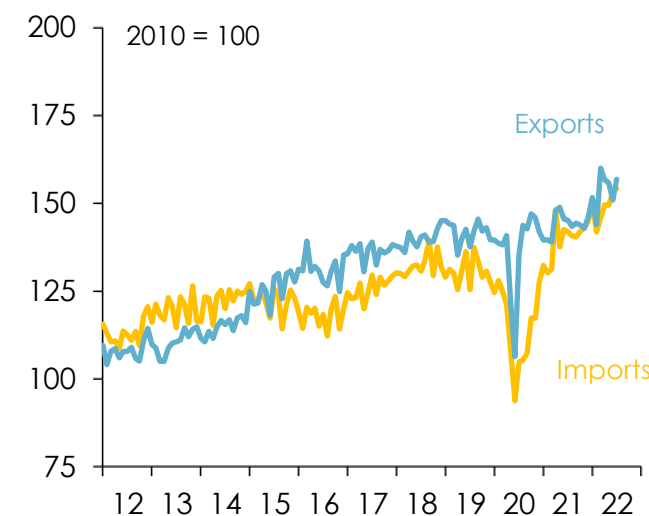
United Kingdom



China



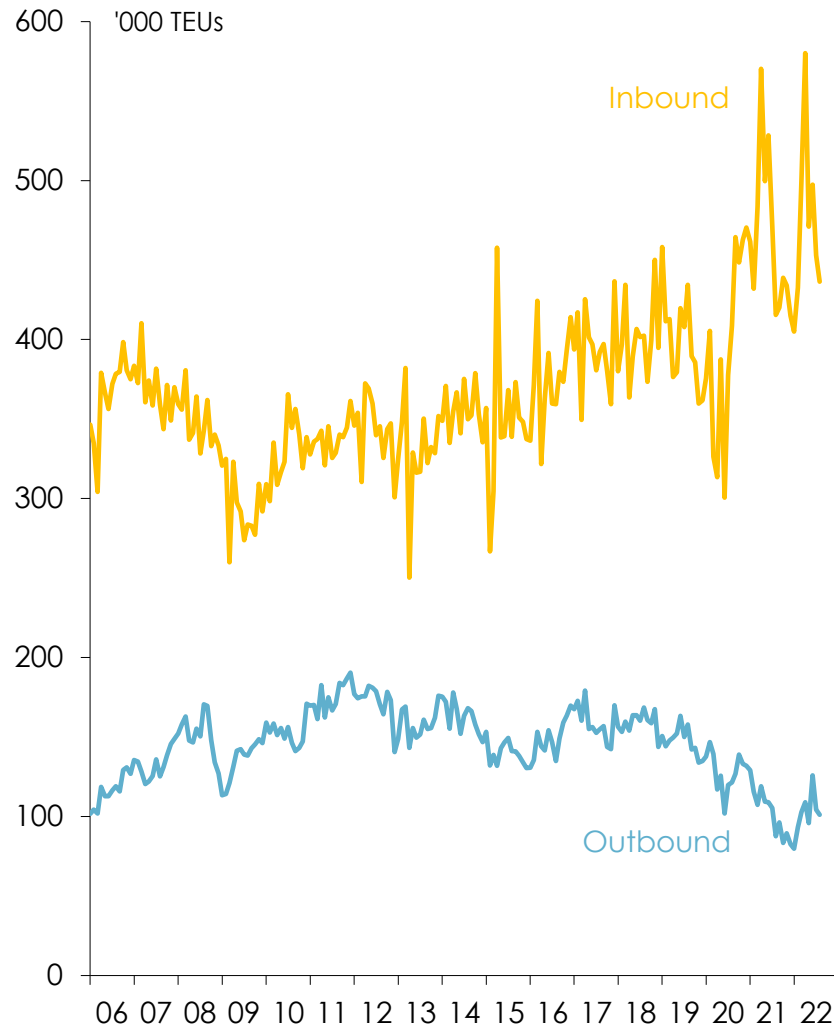
Latin America



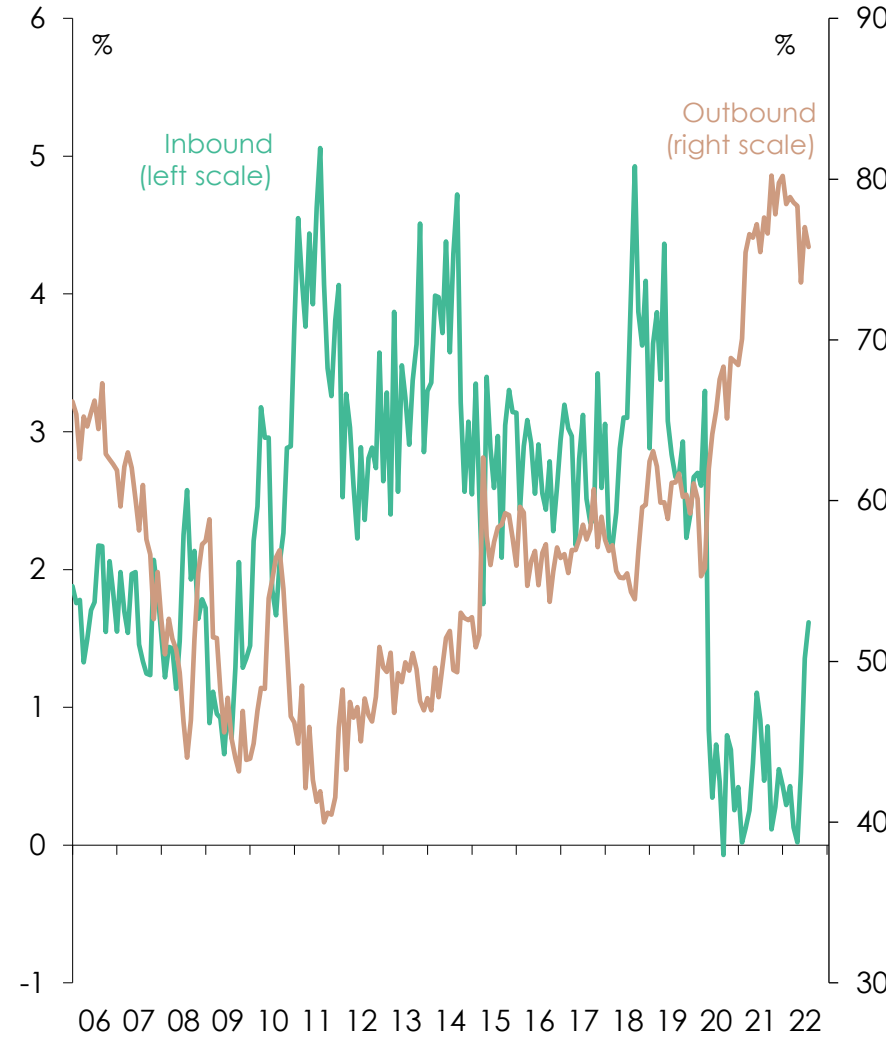
Congestion at the Port of Los Angeles (the US' largest container port) has eased significantly but trade flows remain unusually unbalanced

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

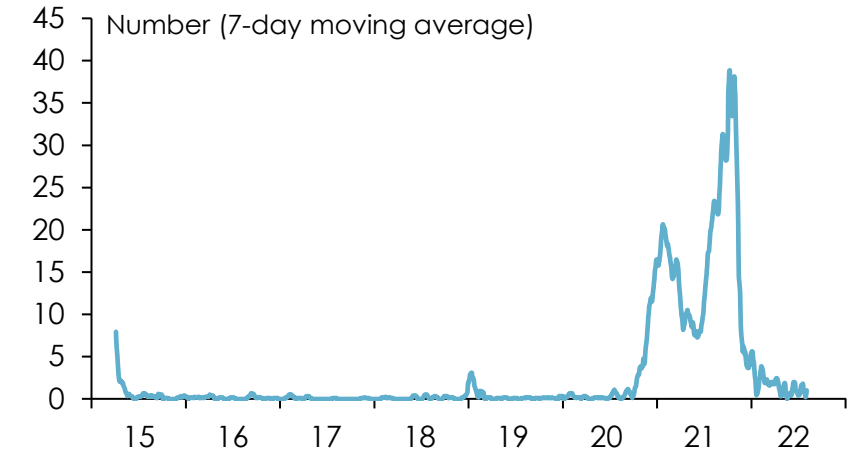
Container traffic through the Port of Los Angeles



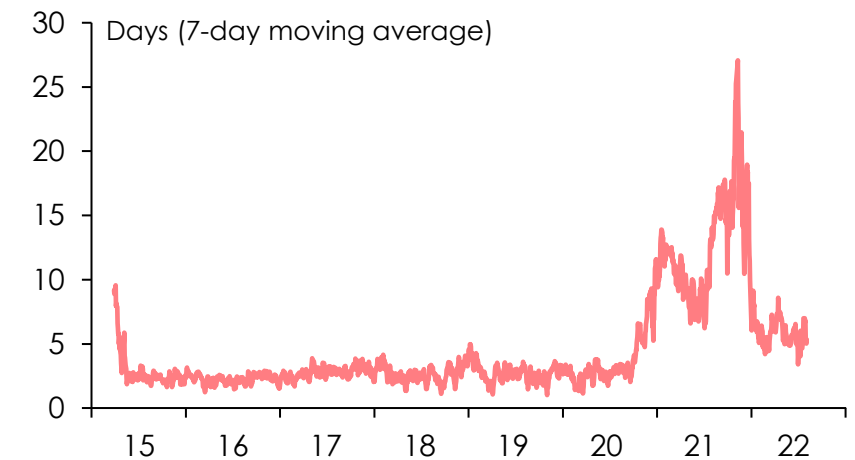
Empty containers as a pc of total passing through PoLA



Number of vessels at anchor outside PoLA



Average time at anchor and berth for ships at PoLA

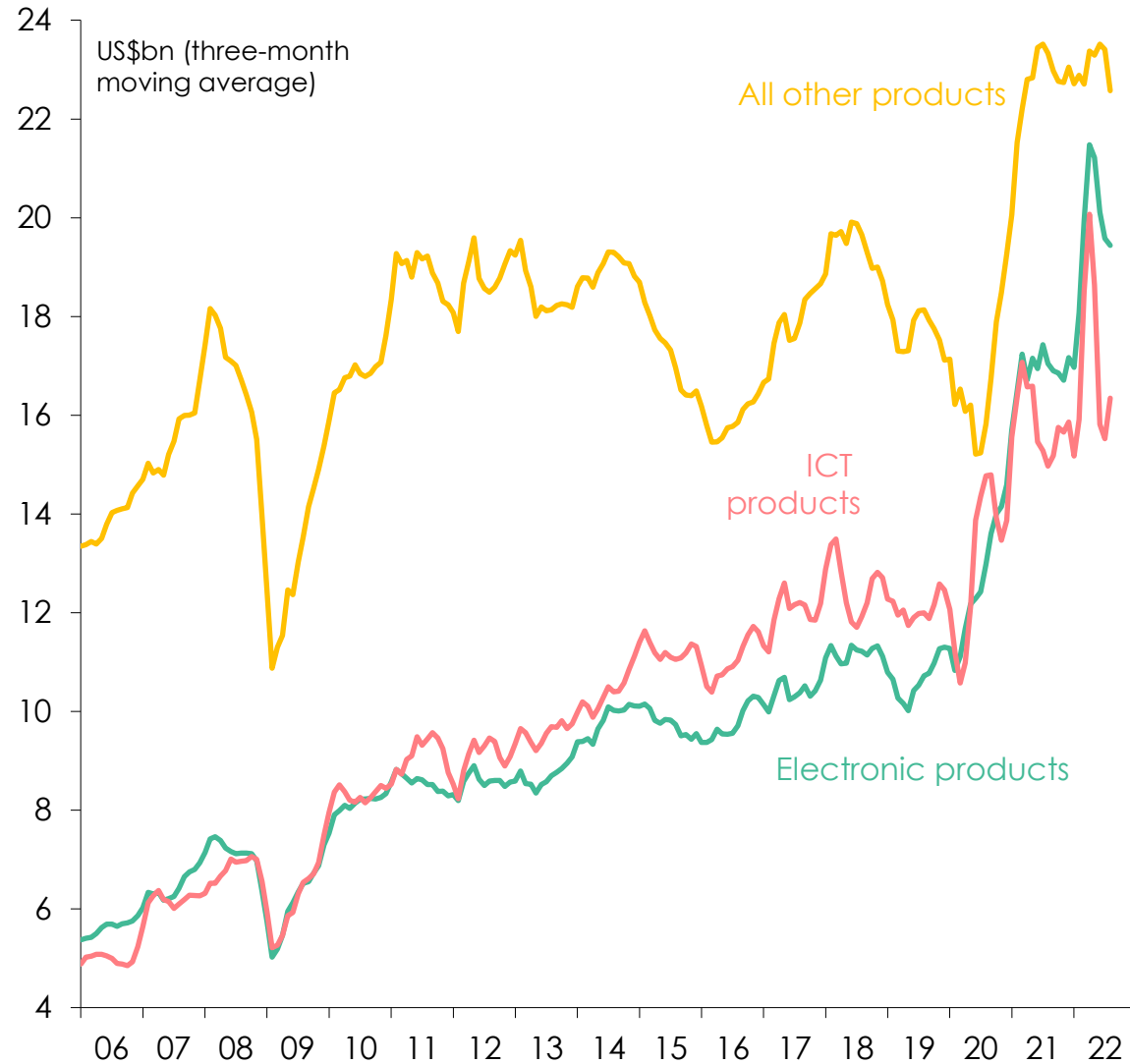


Note: TEU = 20-foot equivalent unit. Data on inbound and outbound container traffic in the first two charts (up to July) have been seasonally adjusted by Corinna using Refinitiv Datastream. Data up to 19th August. Source: The Port of Los Angeles, [Container Statistics](#) and [Container vessels in port](#). [Return to "What's New"](#).

Taiwan's output of semi-conductors and other ICT & electronic products are recovering from Covid and drought disruptions

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

Taiwan export orders, by product



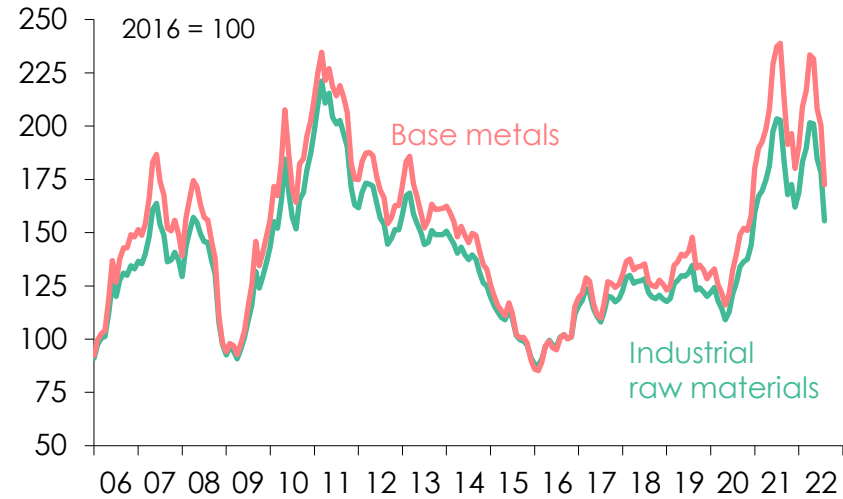
Note: Data have been seasonally adjusted by Corinna using Refinitiv Datastream. Latest data are for July. Source: Taiwan [Ministry of Economic Affairs](#). [Return to "What's New"](#).

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

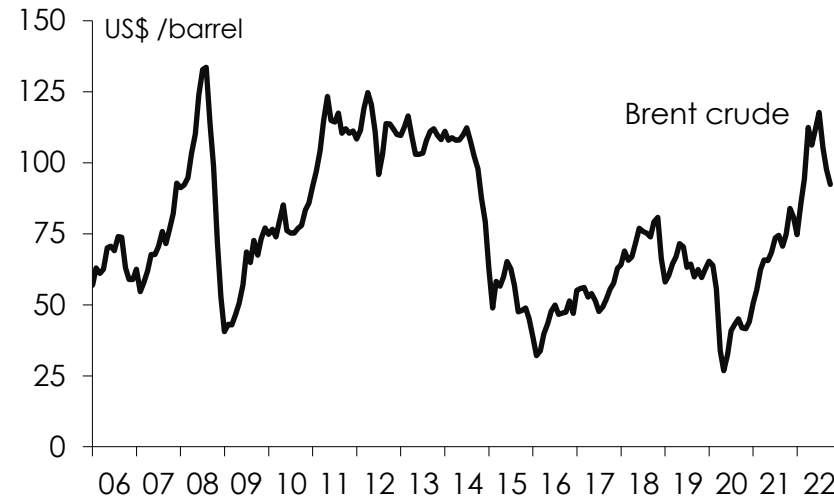
Commodity prices, apart from gas, are now falling – and supply chain pressures are easing too

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

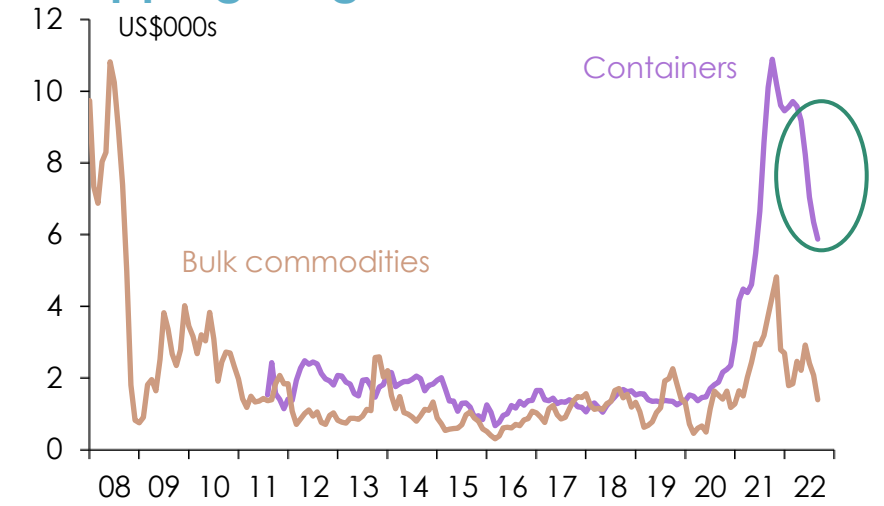
'Hard' commodity prices



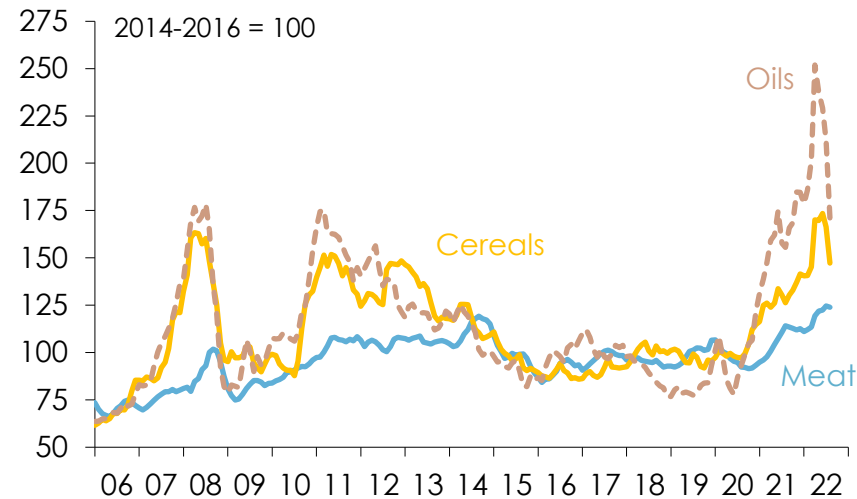
Crude oil price



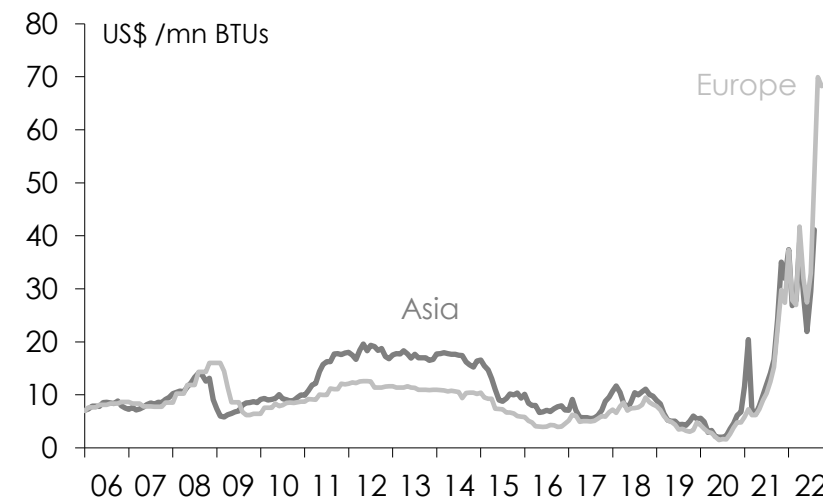
Shipping freight costs



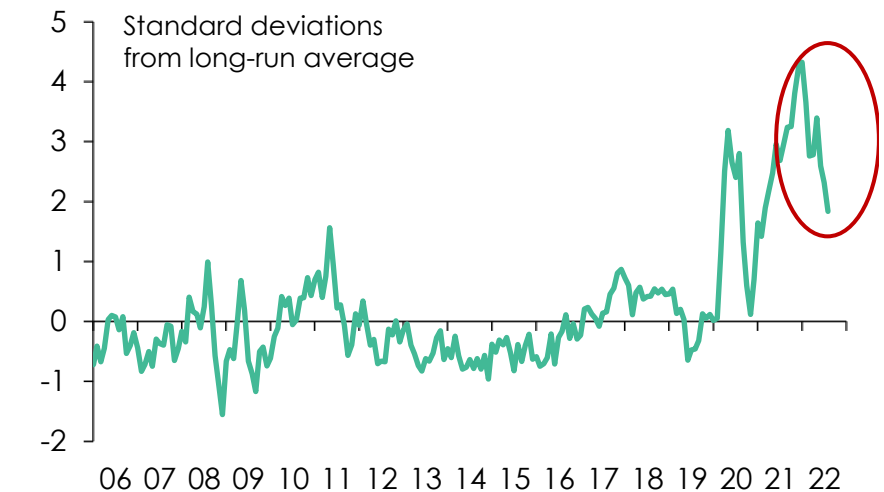
Food commodity prices



Natural gas prices



Global supply chain pressure index

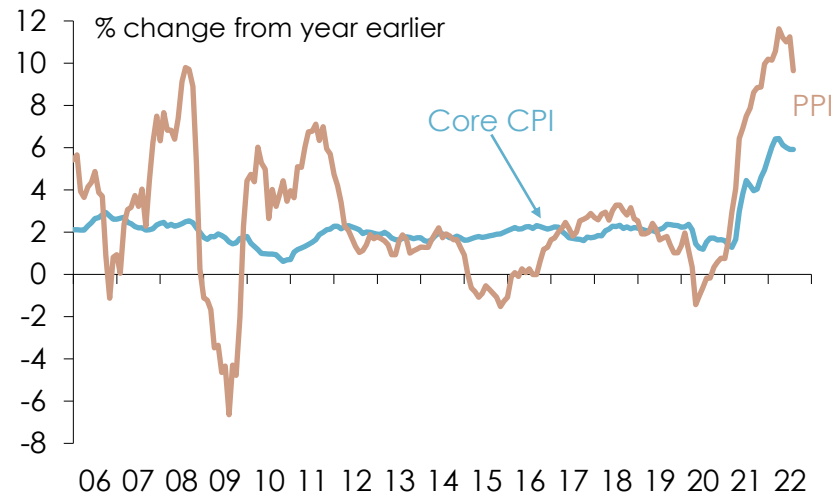


Sources: [International Monetary Fund](#); [UN Food and Agriculture Organization](#); [Freightos](#); [Drewry](#); [The Baltic Exchange](#); [Federal Reserve Bank of New York](#); Refinitiv Datastream.

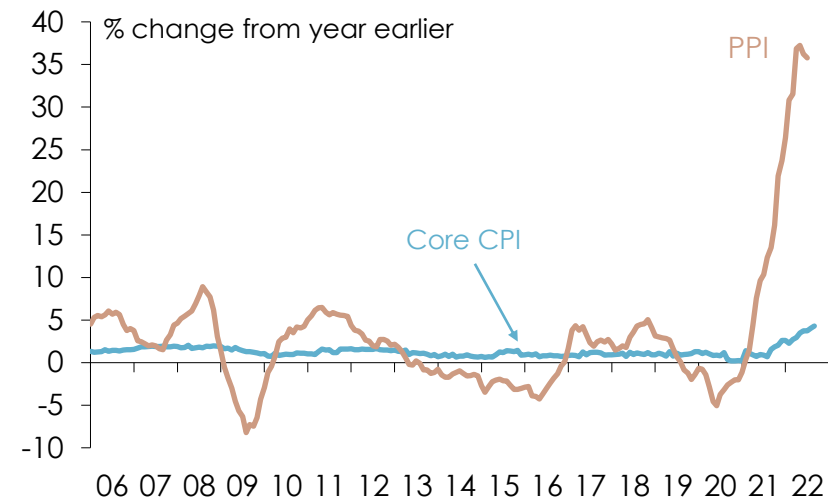
Inflation at the 'producer' level seems to have peaked in most 'advanced' economies, but not at the 'core' consumer level, except perhaps in the US

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

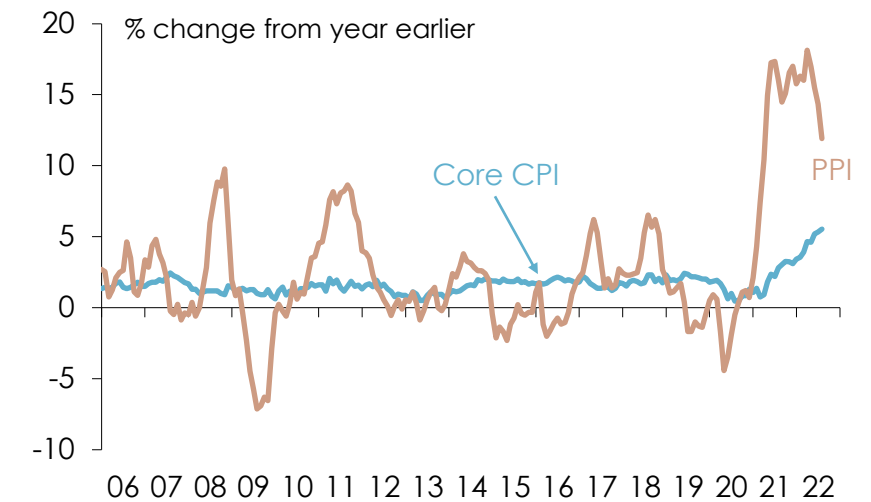
United States



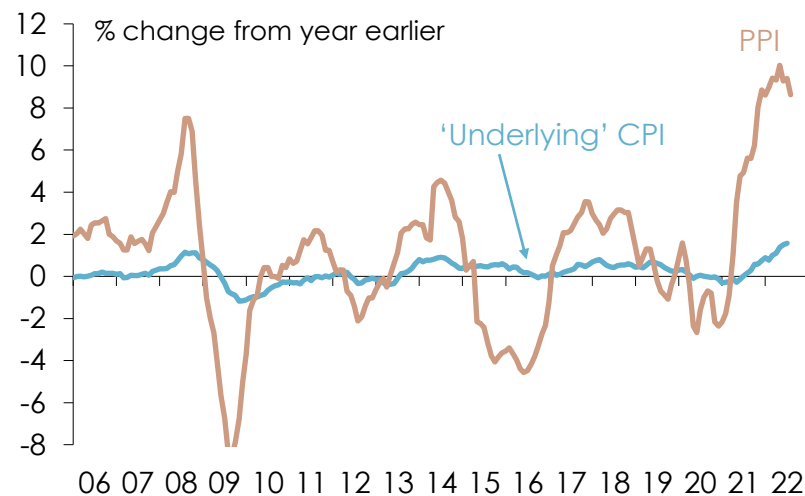
Euro area



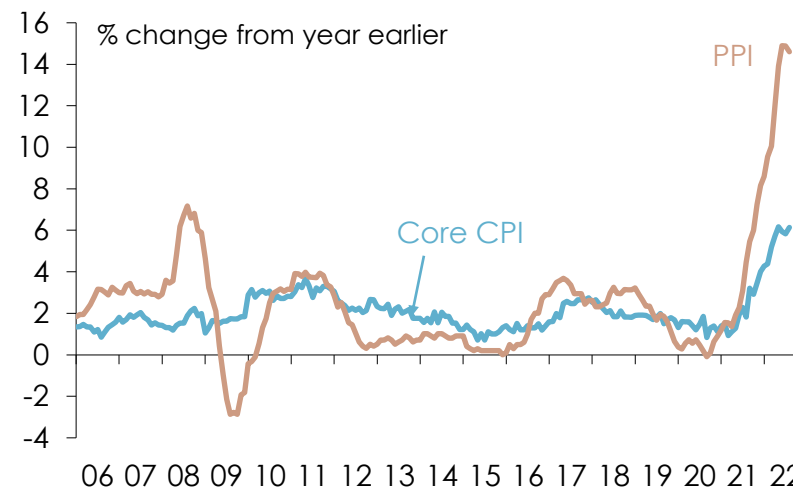
Canada



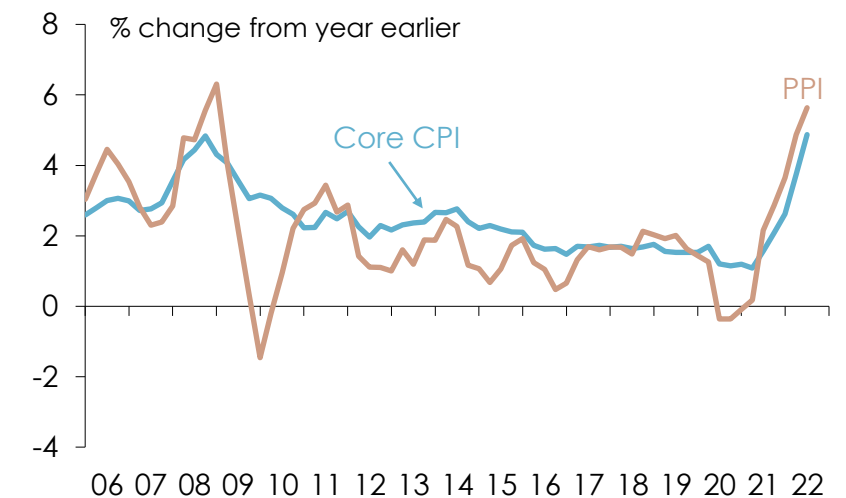
Japan



United Kingdom



Australia

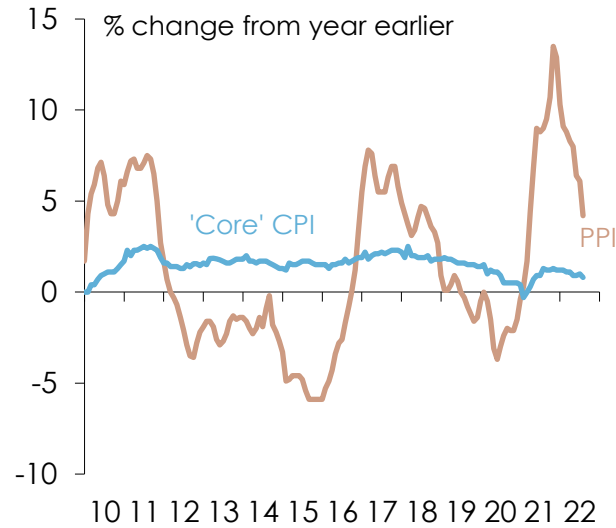


For a more detailed analysis of recent US inflation data see [slides 42-45](#). Sources: [US Bureau of Labor Statistics](#); [Statistics Bureau of Japan](#) and [Bank of Japan](#); [Eurostat](#); [UK Office for National Statistics](#); [Statistics Canada](#); [Australian Bureau of Statistics](#). [Return to "What's New"](#).

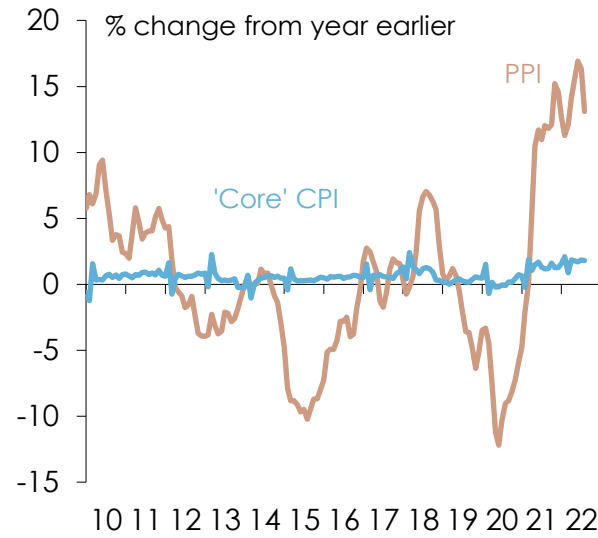
Inflation at the producer level also appears to have peaked in most Asian economies – but consumer price inflation is still rising (except in China)

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

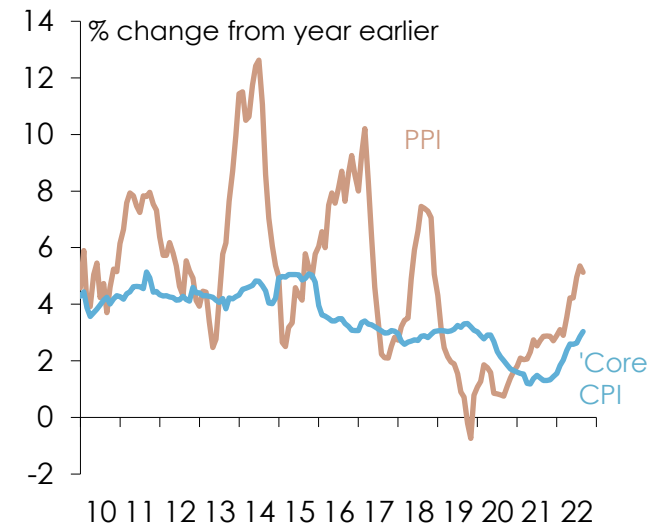
China



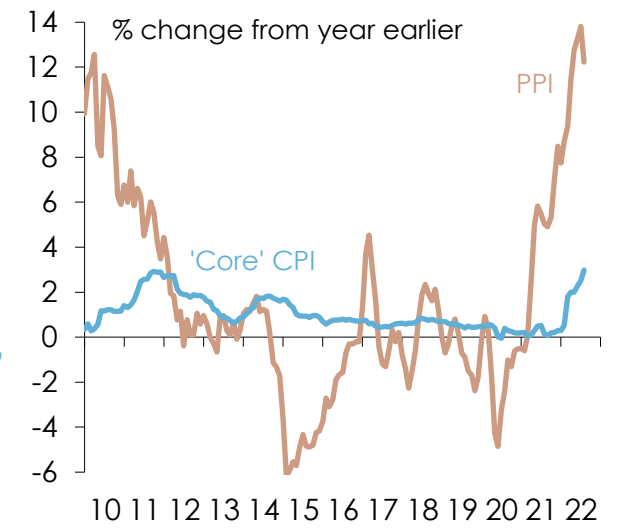
Taiwan



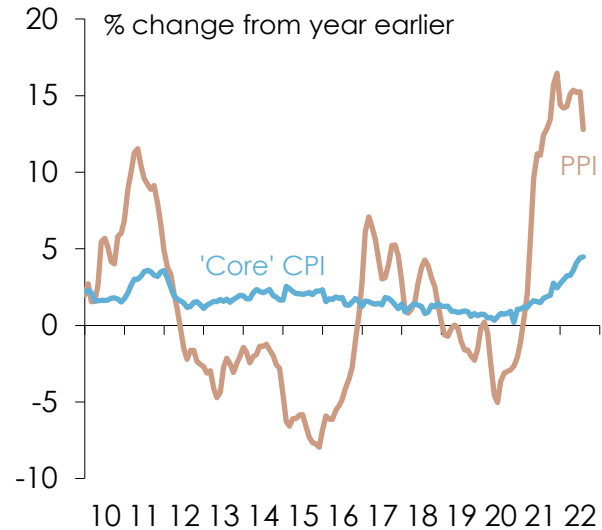
Indonesia



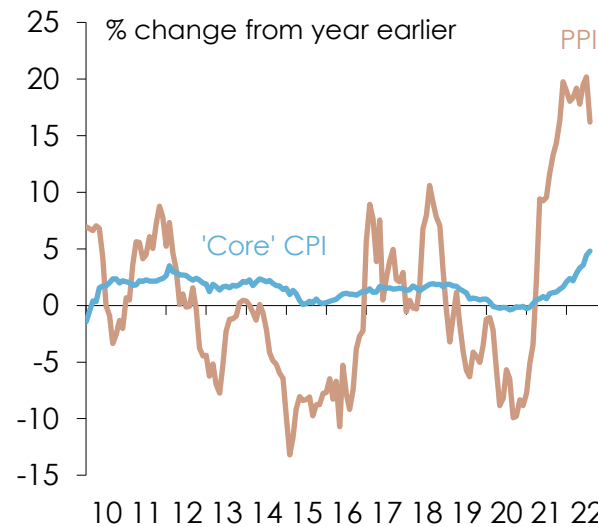
Thailand



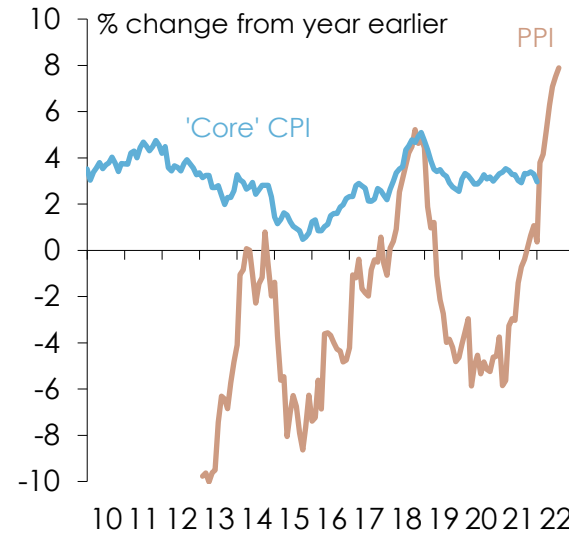
Korea



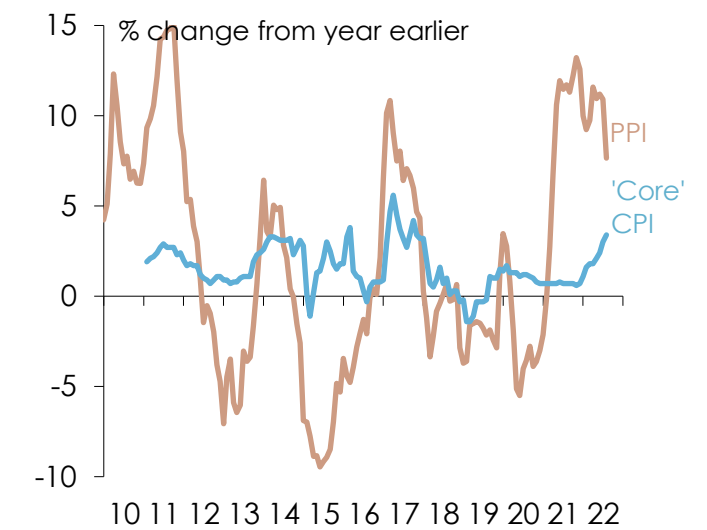
Singapore



Philippines



Malaysia

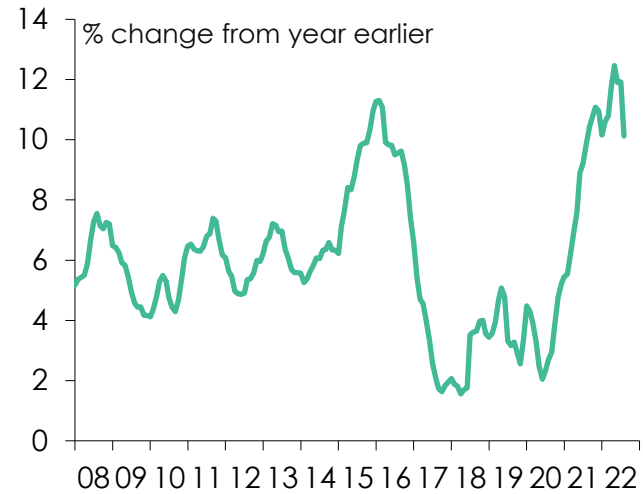


Note: 'Core' CPIs measure different things in different Asian economies – see footnotes to [slide 84](#). The Philippines hasn't published data on 'core' CPI inflation since December 2021. Sources: [China National Bureau of Statistics](#); [Statistics Korea](#); [Bank of Korea](#); [Taiwan Statistical 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"](#).

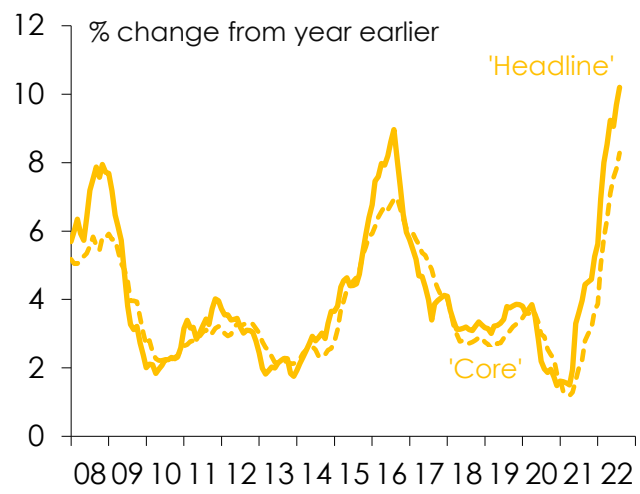
Consumer price inflation has risen sharply across Latin America – although it may perhaps have peaked in Brazil, Peru and Paraguay

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

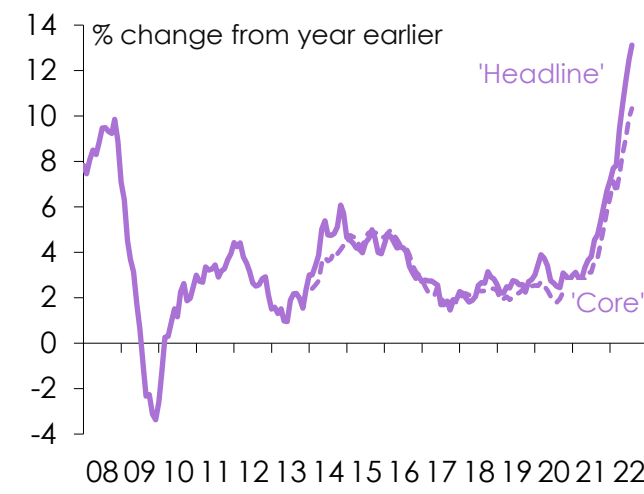
Brazil



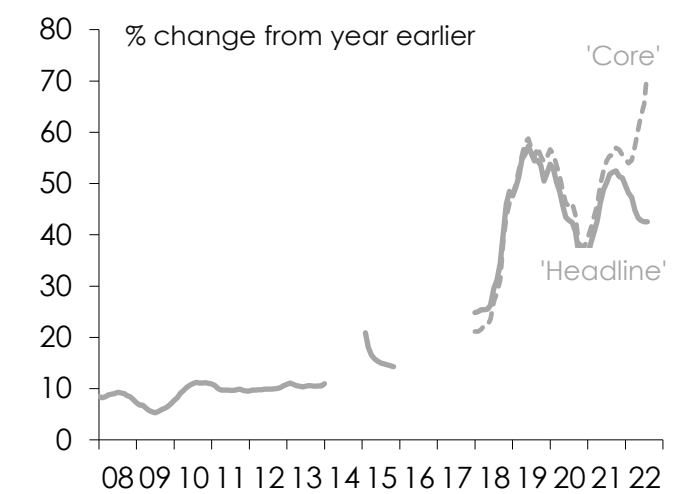
Colombia



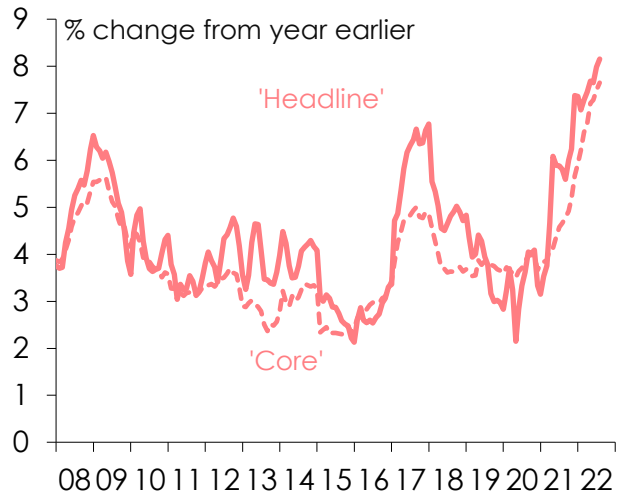
Chile



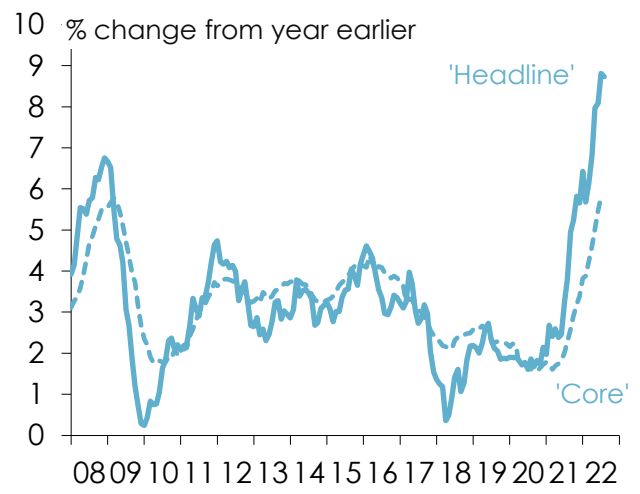
Argentina



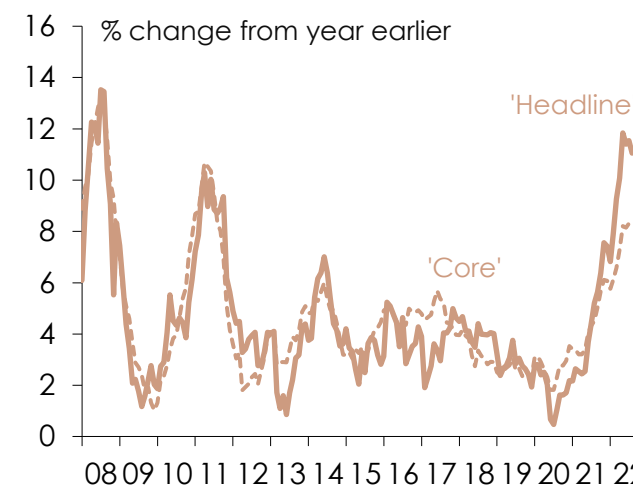
Mexico



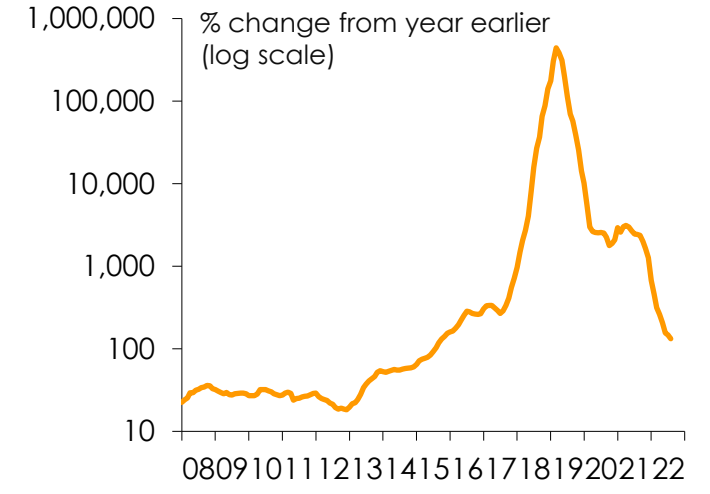
Peru



Paraguay



Venezuela

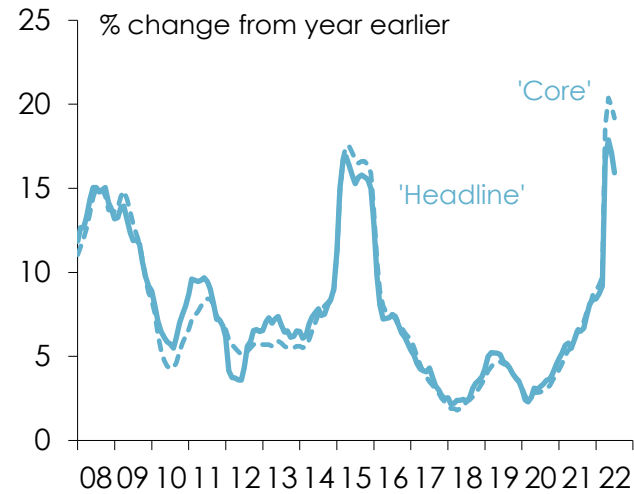


Sources: [Instituto Brasileiro de Geografia e Estatística](#); [Instituto Nacional de Estadística y Geografía](#) (Mexico); [Departamento Administrativo Nacional de Estadística](#) (Colombia); [Instituto Nacional de Estadística e Informática](#) (Peru); [Instituto Nacional de Estadísticas](#) (Chile);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

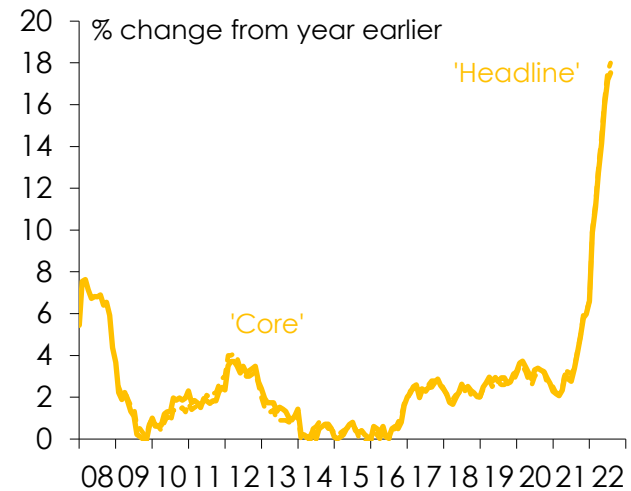
Consumer price inflation is also rising across Central and Eastern Europe, and in South Africa

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

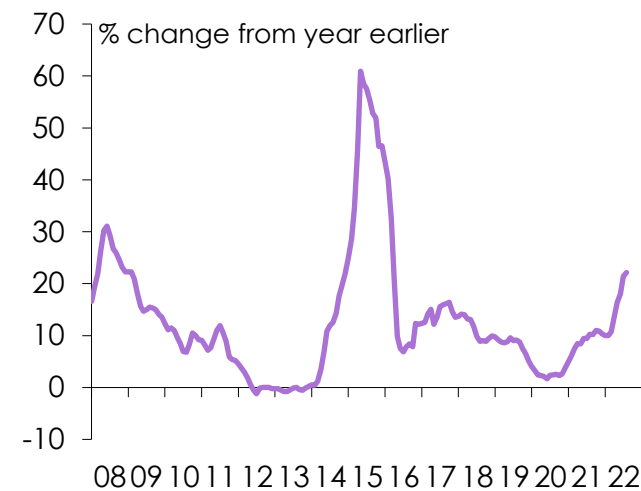
Russia



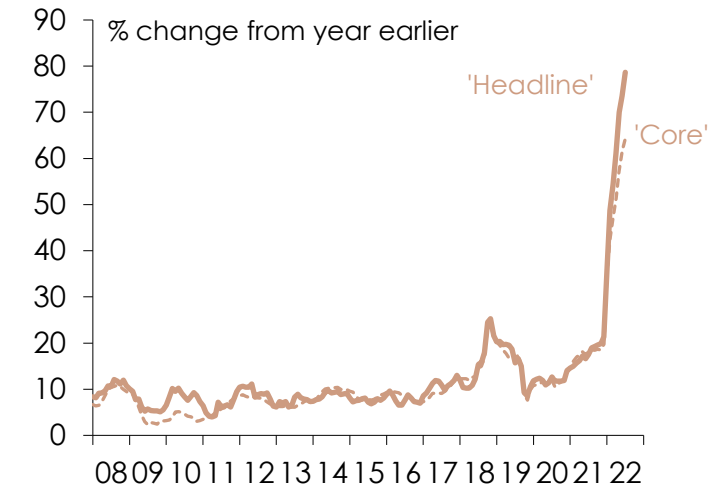
Czech Republic



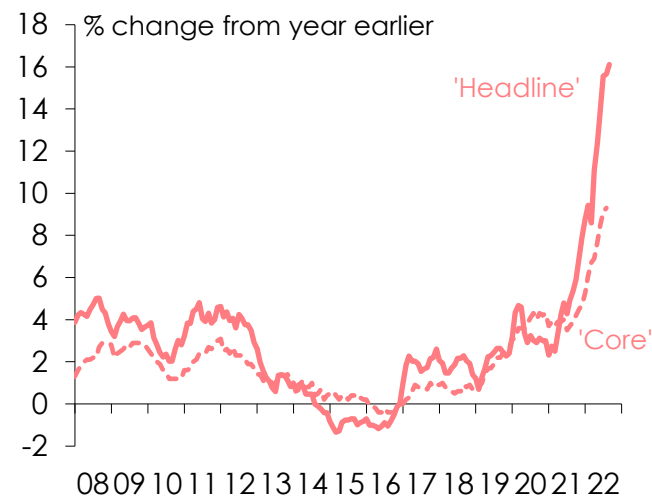
Ukraine



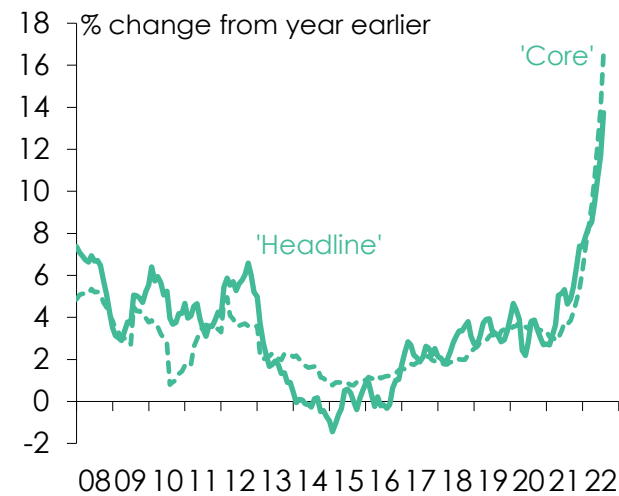
Turkey



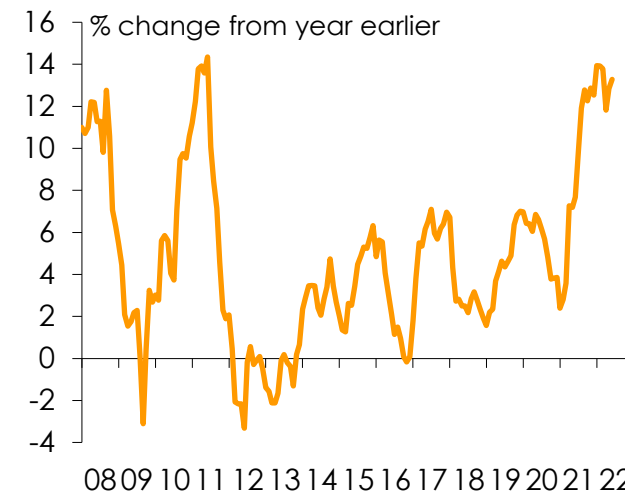
Poland



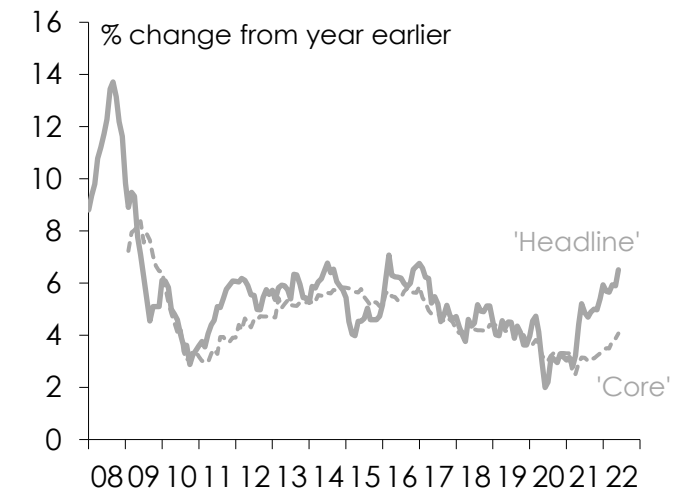
Hungary



Georgia



South Africa

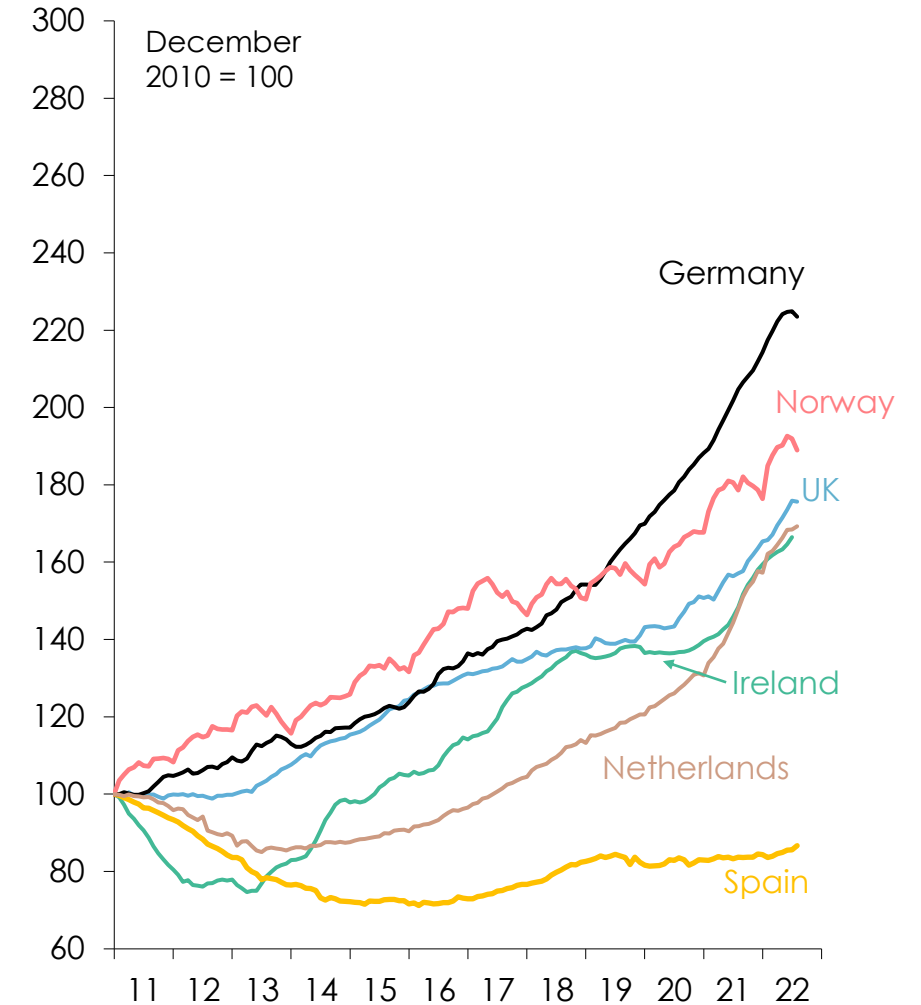
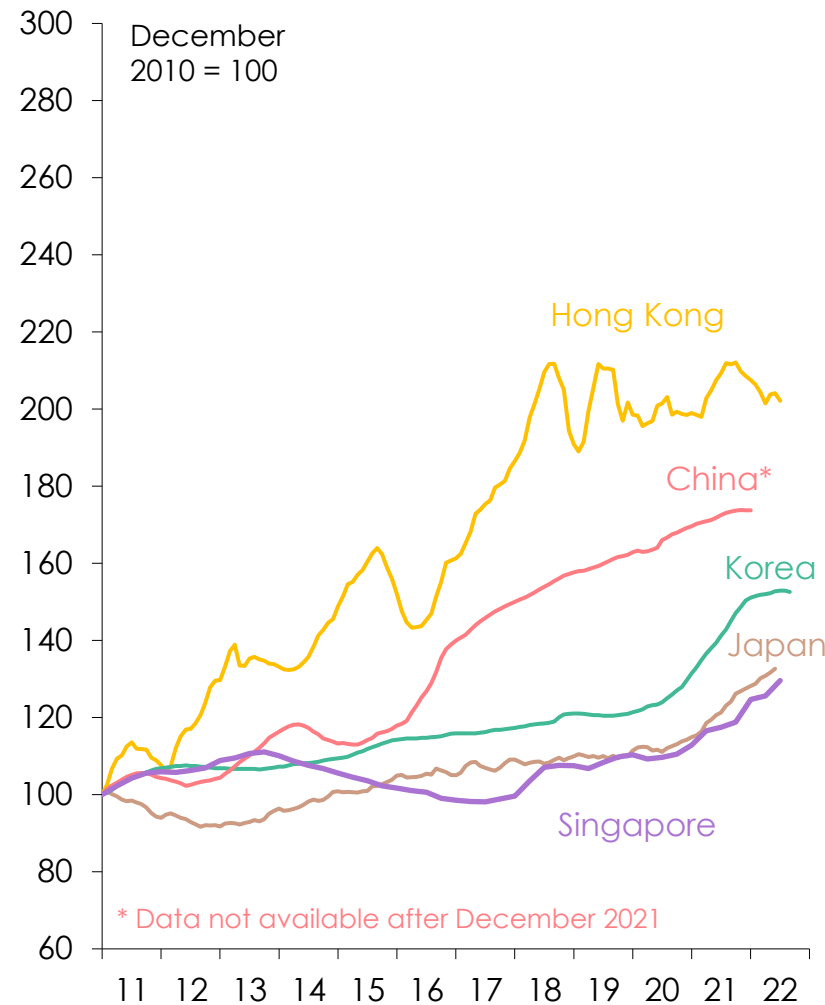
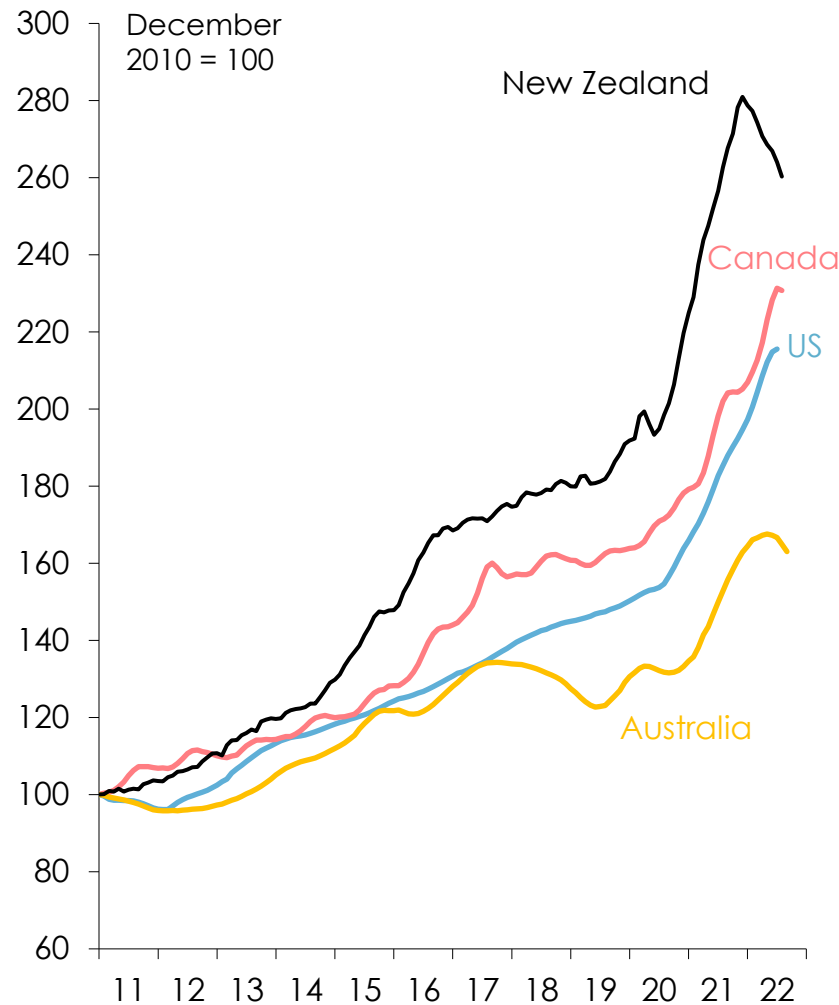


Sources: [Rosstat](#); [Główny Urząd Statystyczny](#) (Poland); [Český statistický úřad](#) (Czech Republic); [Központi Statisztikai Hivatal](#) (Hungary); [Ukrstat](#); [Sak'art'velos statistikis erovnuli samsakhuri](#) (Georgia); [Turkstat](#); [Statistics South Africa](#). [Return to "What's New"](#).

House price inflation appears to have peaked in a growing number of countries

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

House price indices

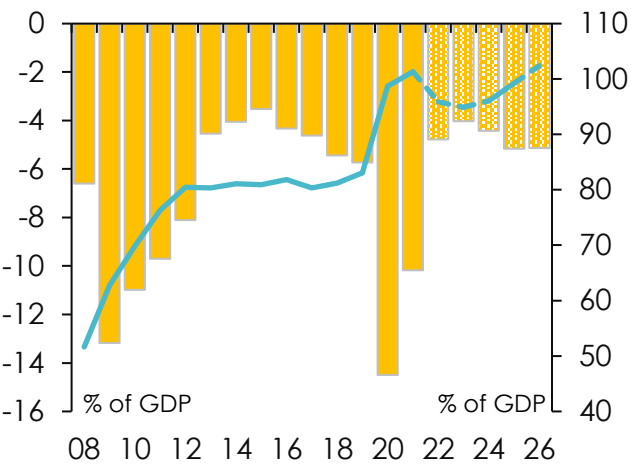


Note: House price indices shown in these charts are those published by [S&P-CoreLogic Case Shiller national](#) (United States); [Teranet-National Bank](#) (Canada); [CoreLogic](#) (Australia); [Real Estate Institute of New Zealand](#); [China Index Academy](#) (note – data not available since December 2021); [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 RPI](#) (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"](#).

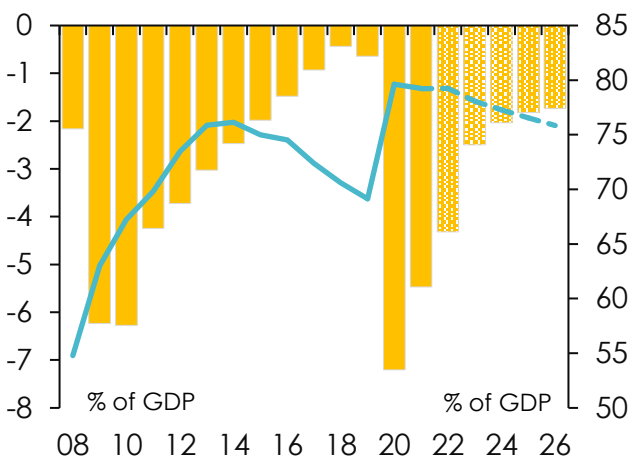
Fiscal policy is set to be tightened significantly in 2022 in most major economies except Japan, China and India

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

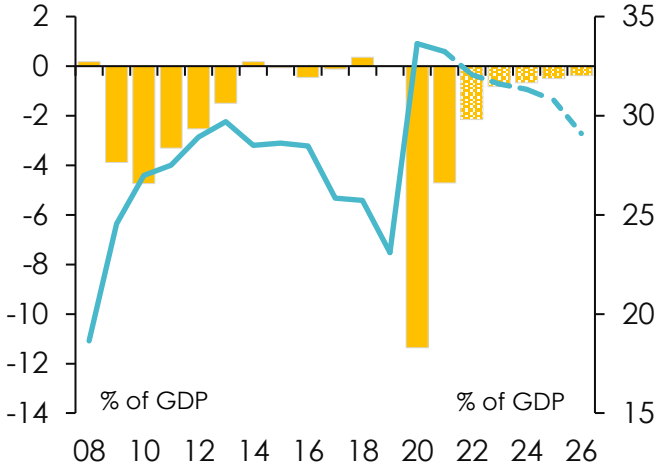
United States



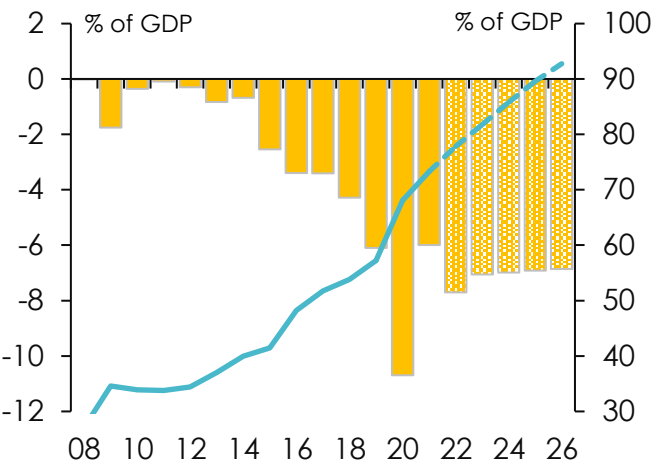
Euro area



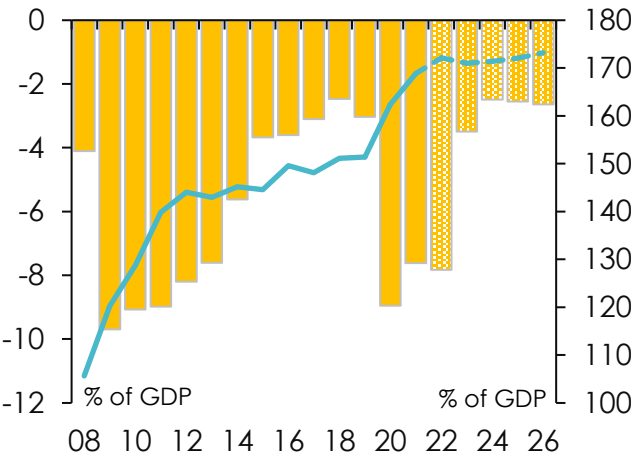
Canada



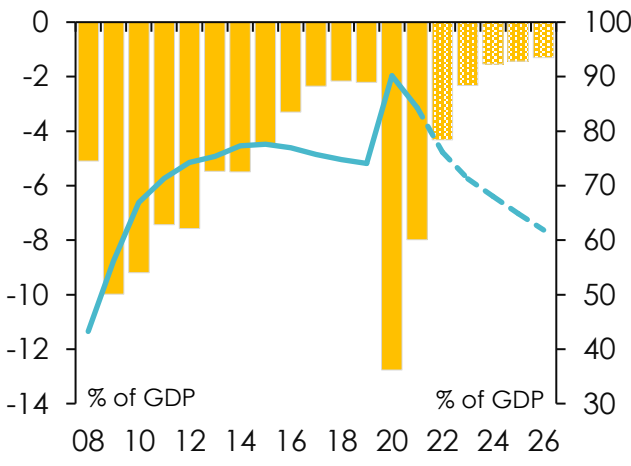
China



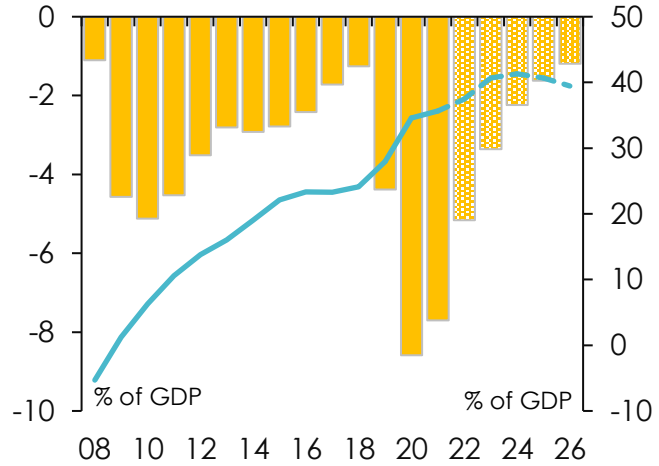
Japan



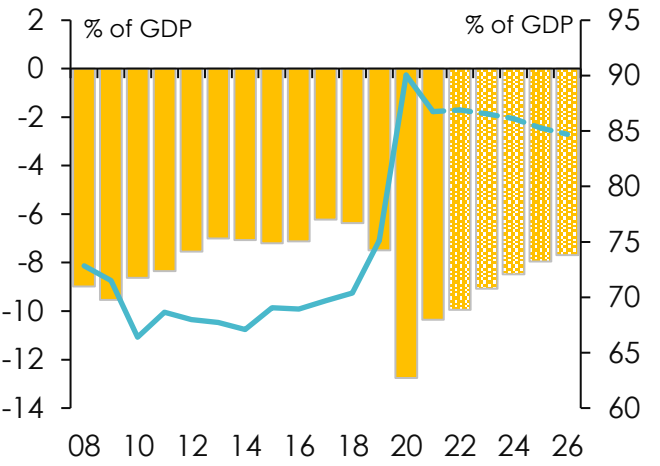
United Kingdom



Australia



India

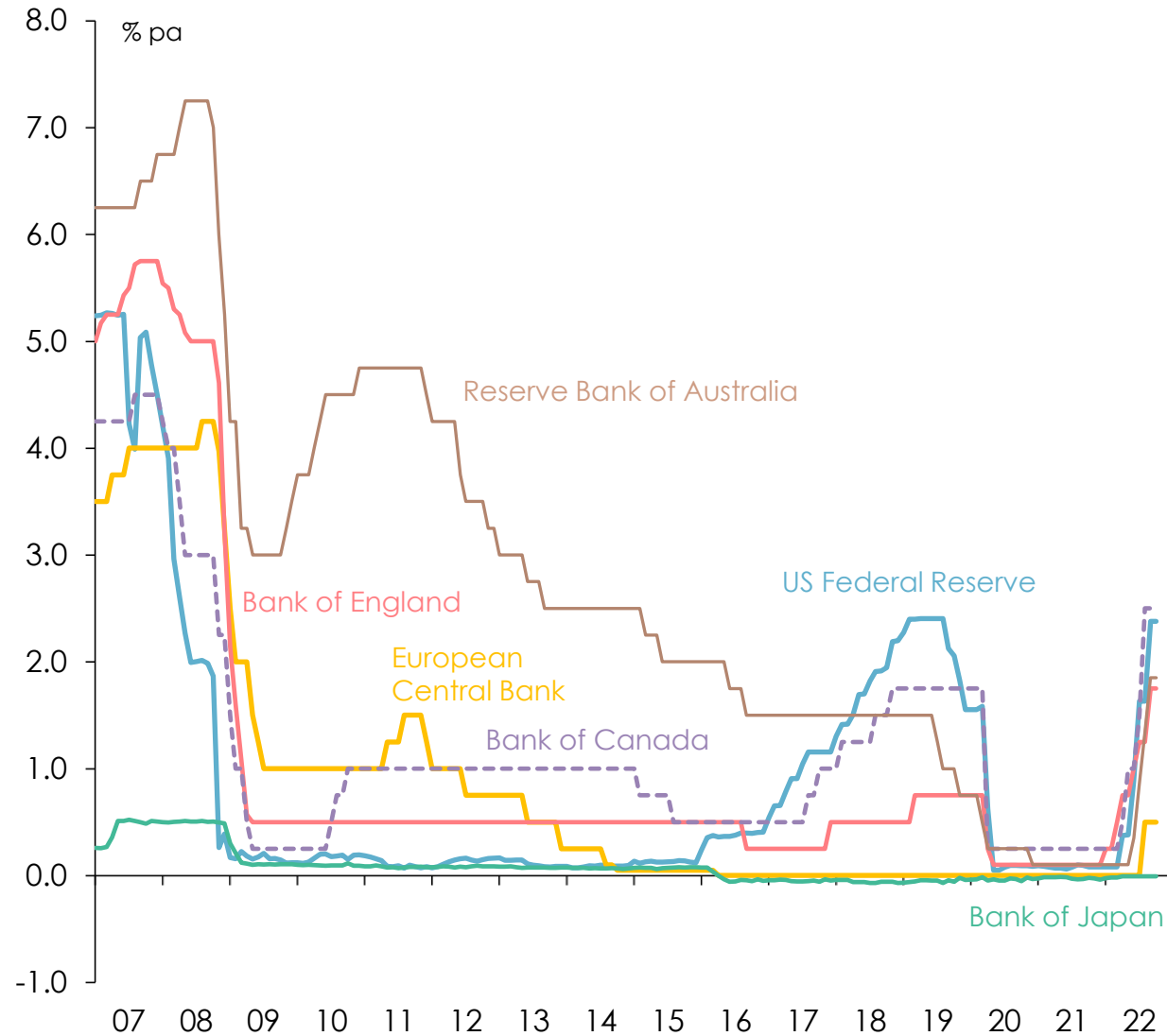


General government overall fiscal balance (left scale) General government net debt (right scale)

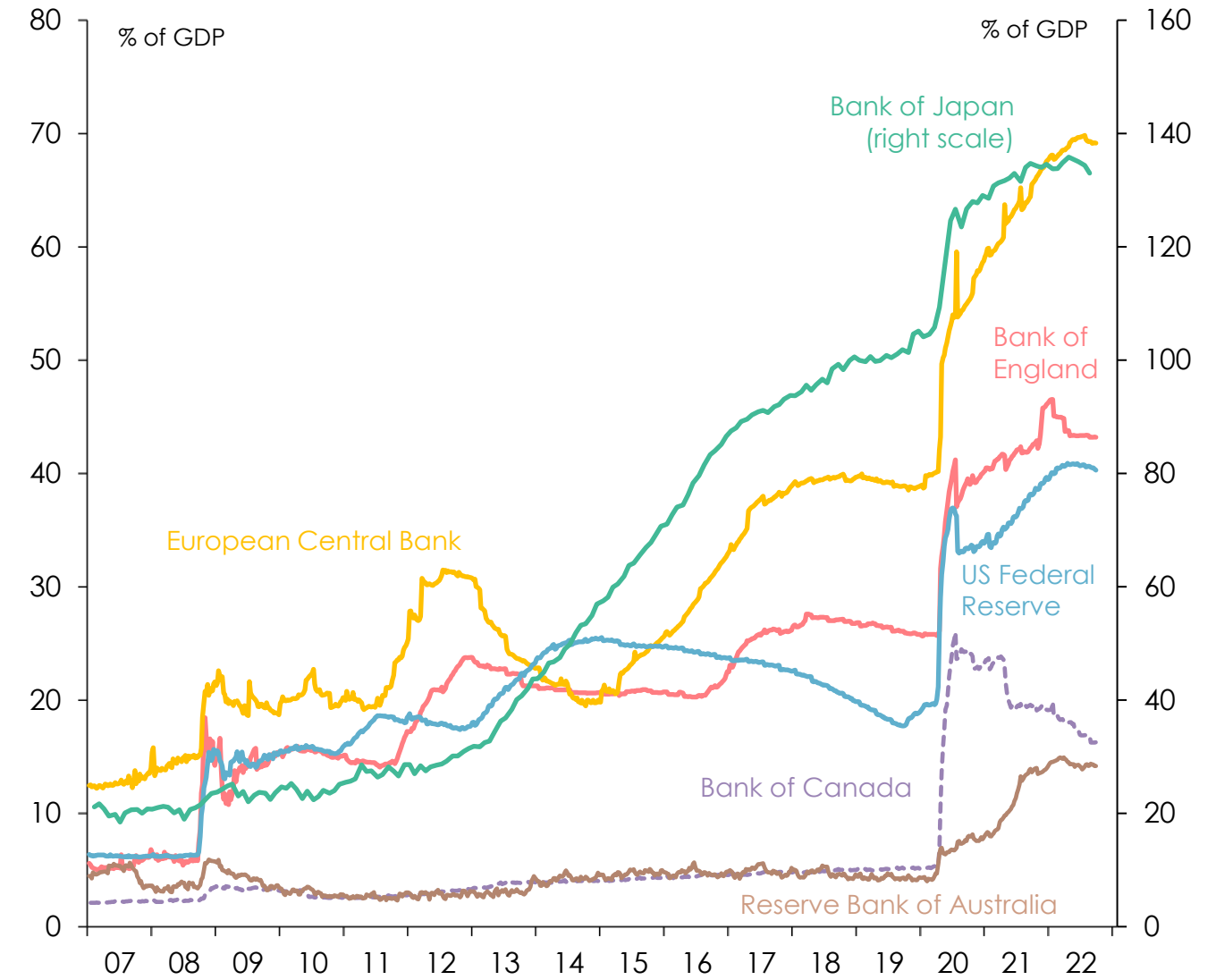
Every major 'advanced' economy central bank, apart from Japan's, is now tightening monetary policy

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

Major central bank policy interest rates



Major central bank balance sheets

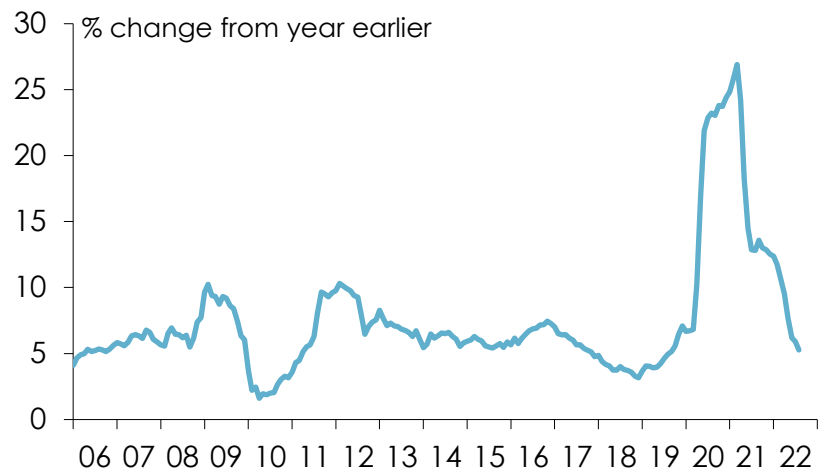


Sources: [US Federal Reserve](#); [European Central Bank](#); [Bank of Japan](#); [Bank of England](#); [Bank of Canada](#); [Reserve Bank of Australia](#); national statistical agencies; Corinna.
[Return to "What's New"](#).

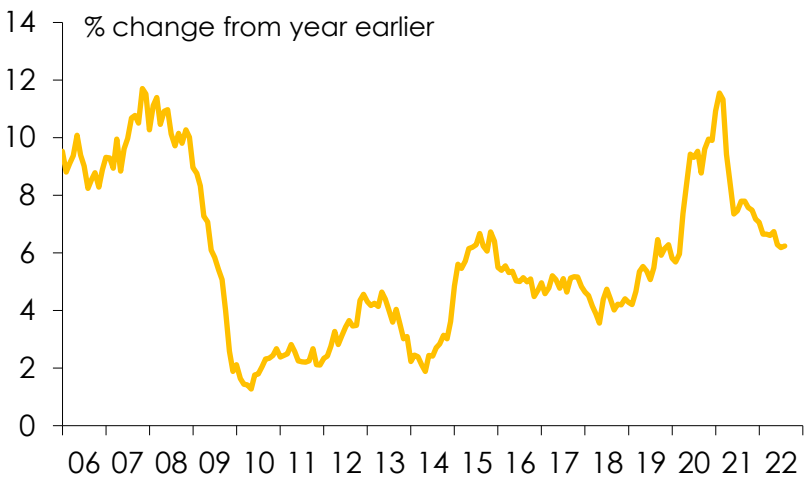
Money supply growth has slowed sharply from the peaks recorded in the first half of 2021 as large monthly increases in 2020 ‘wash out’

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

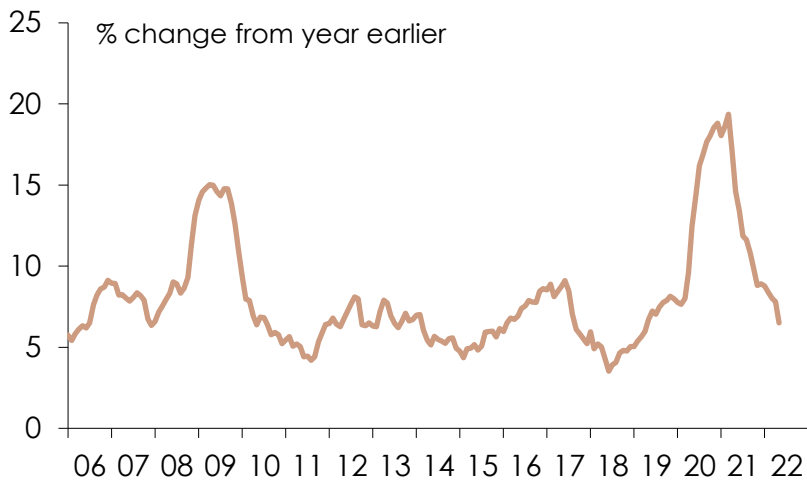
US M2



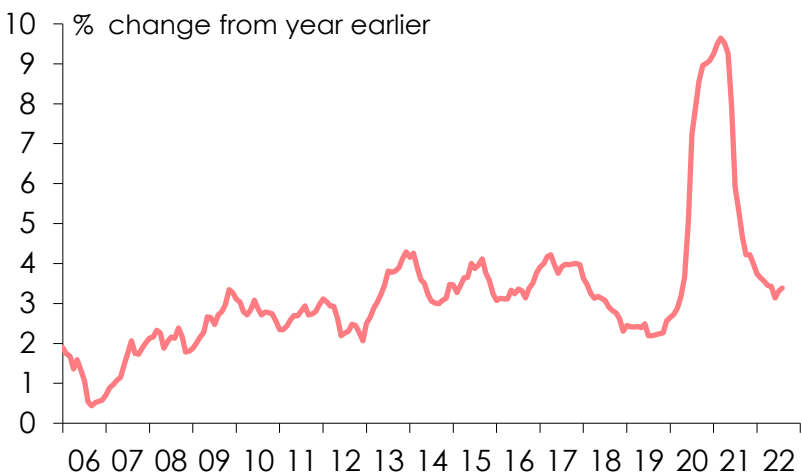
Euro area M2



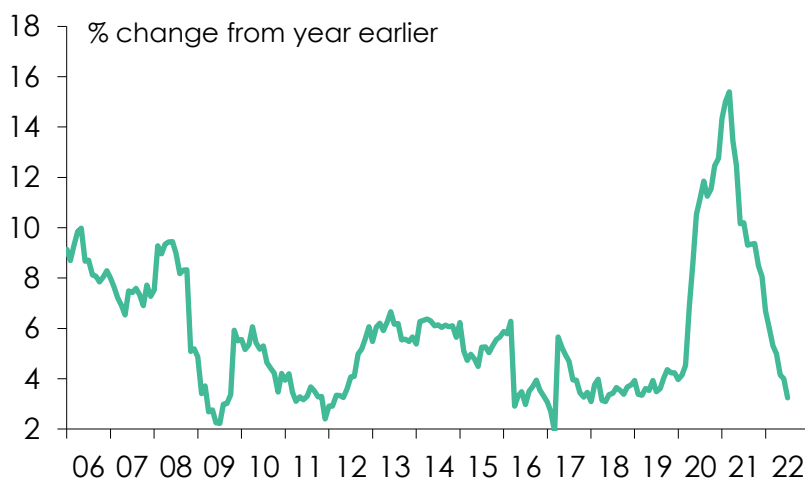
Canada M2



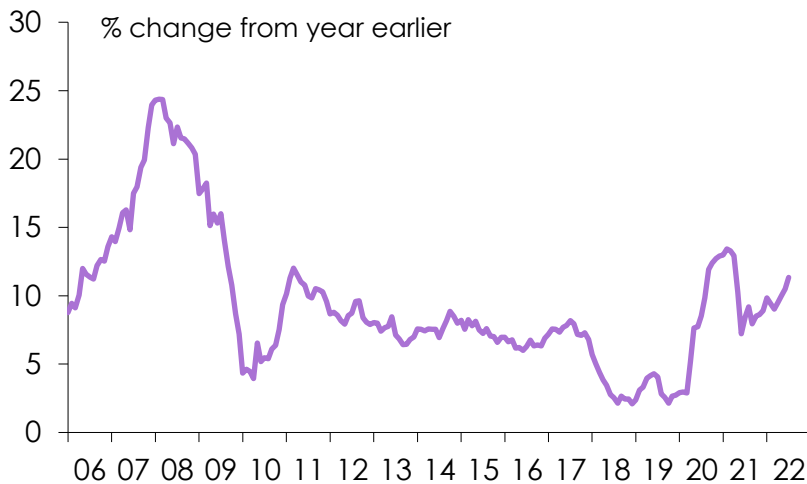
Japan M2 + CDs



UK M2



Australia M3

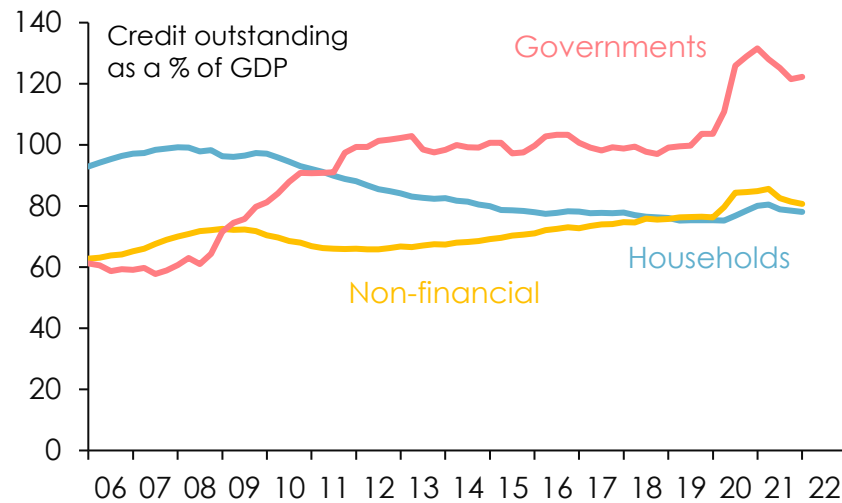


Sources: [US Federal Reserve](#); [Bank of Japan](#); [European Central Bank](#); [Bank of England](#); [Bank of Canada](#); [Reserve Bank of Australia](#).

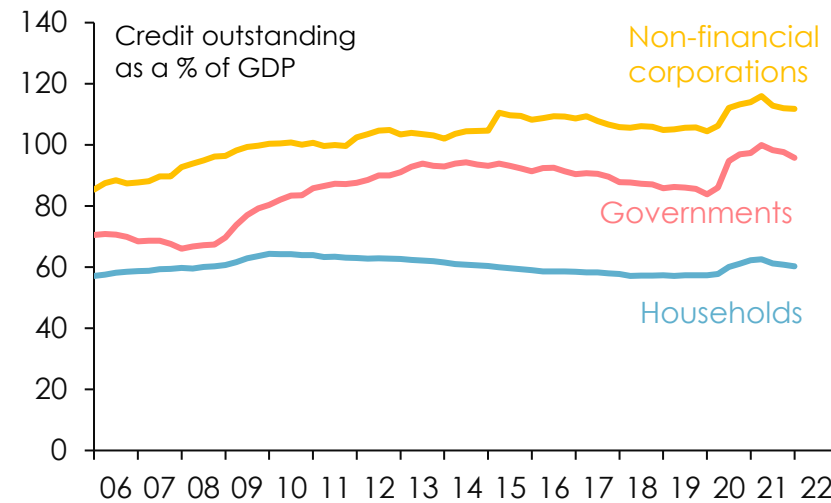
Japanese, US and UK governments, Canadian corporations and Australian households appear most exposed to increases in interest rates

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

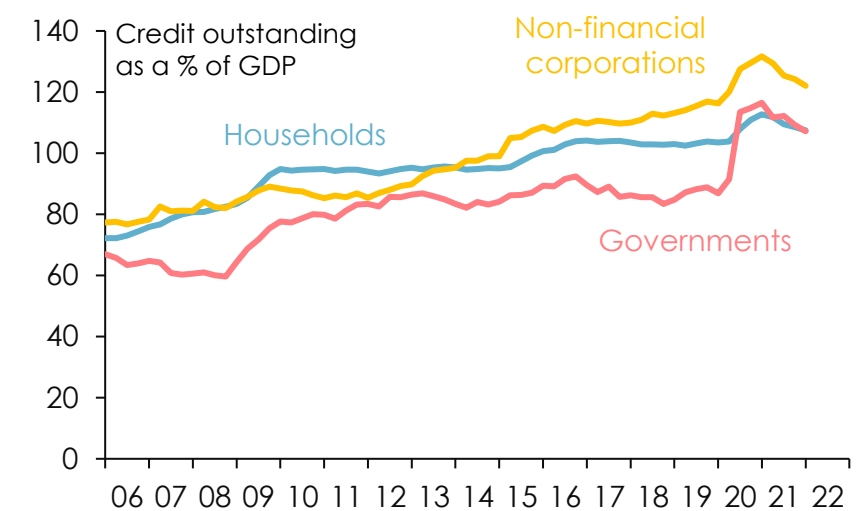
US



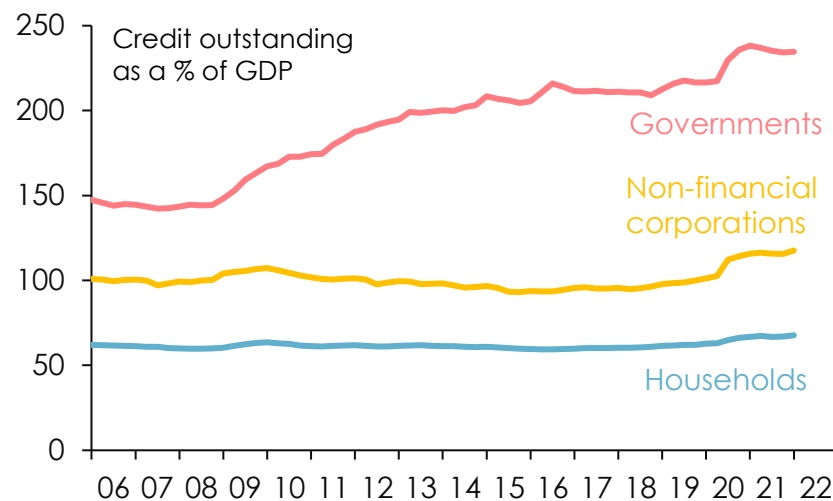
Euro area



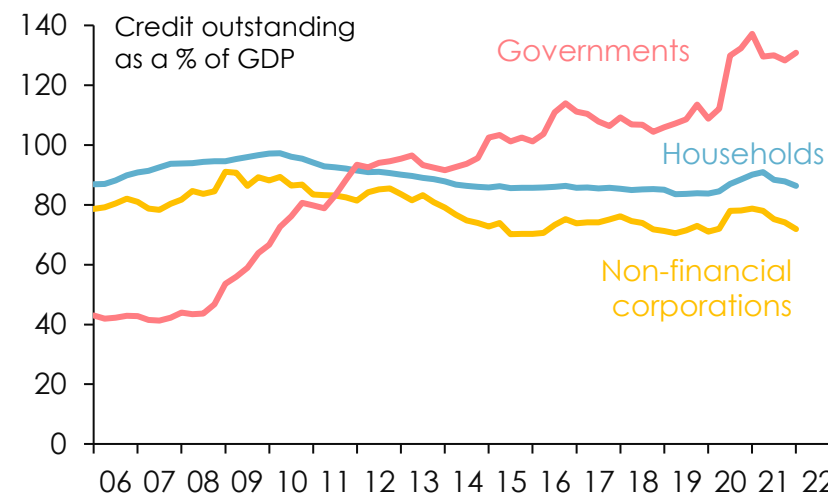
Canada



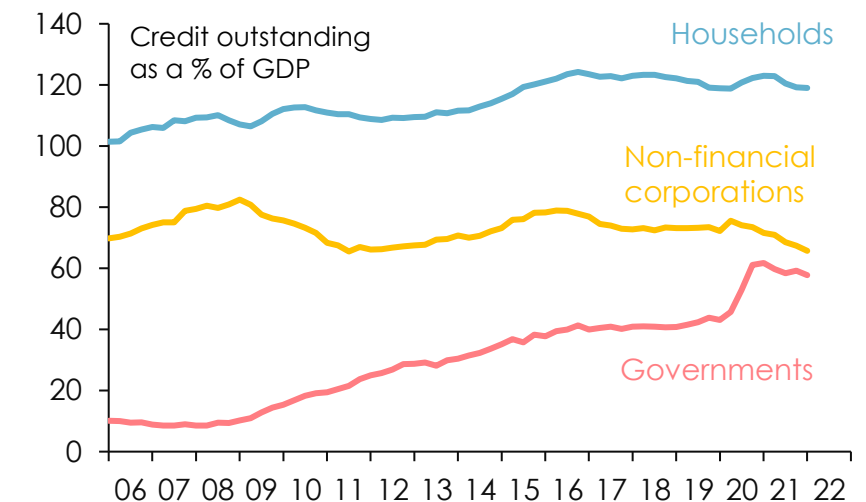
Japan



UK



Australia

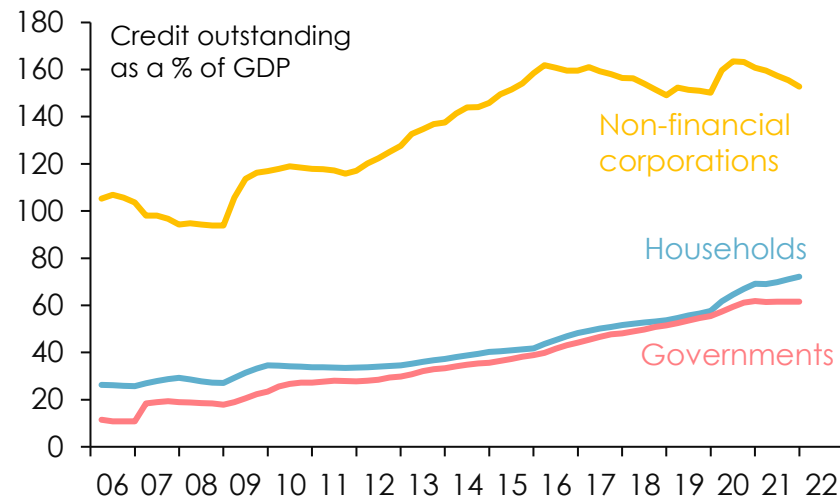


Source: Bank for International Settlements, [Credit Statistics](#); latest data are for Q4 2021, Q1 2022 data will be released on 19th September. [Return to "What's New"](#).

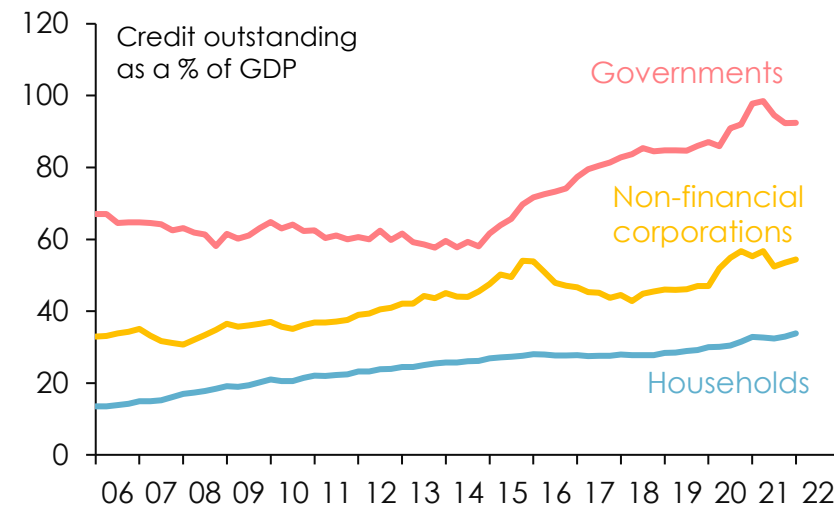
In major 'developing' economies it's usually governments that are most exposed to rising interest rates – except for China, Russia and Turkey

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

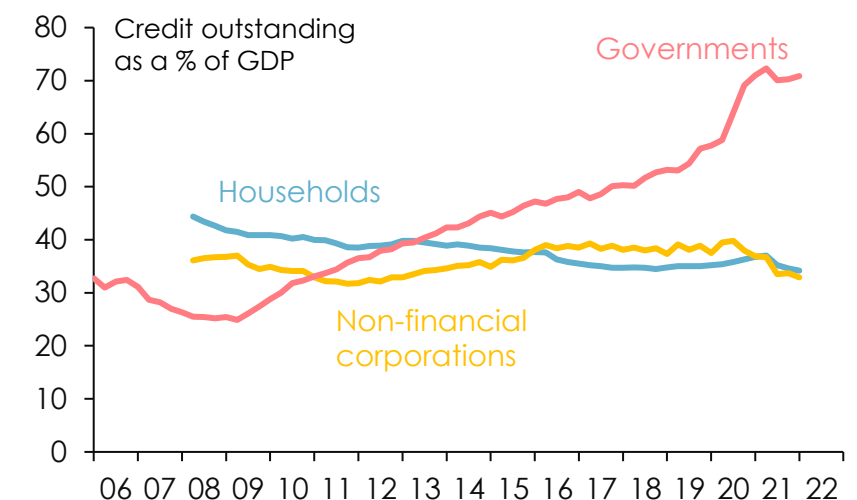
China



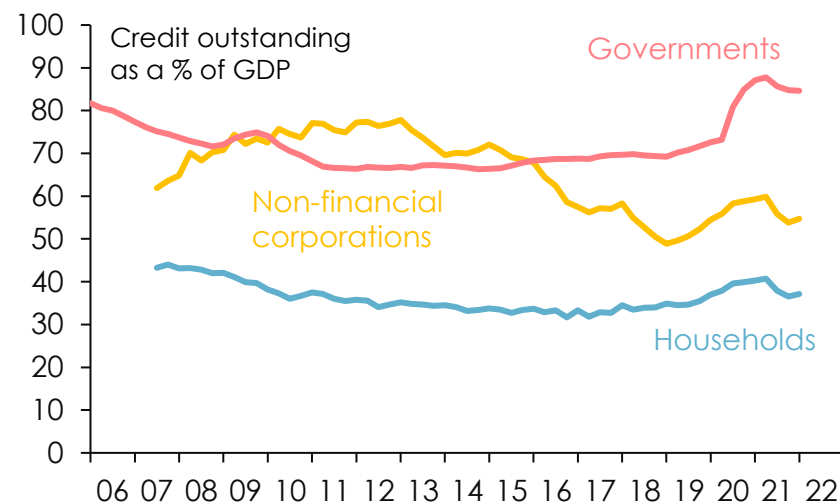
Brazil



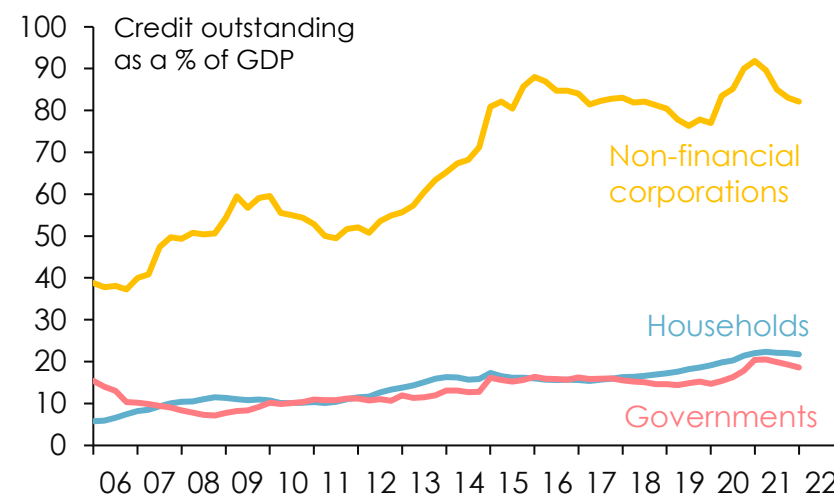
South Africa



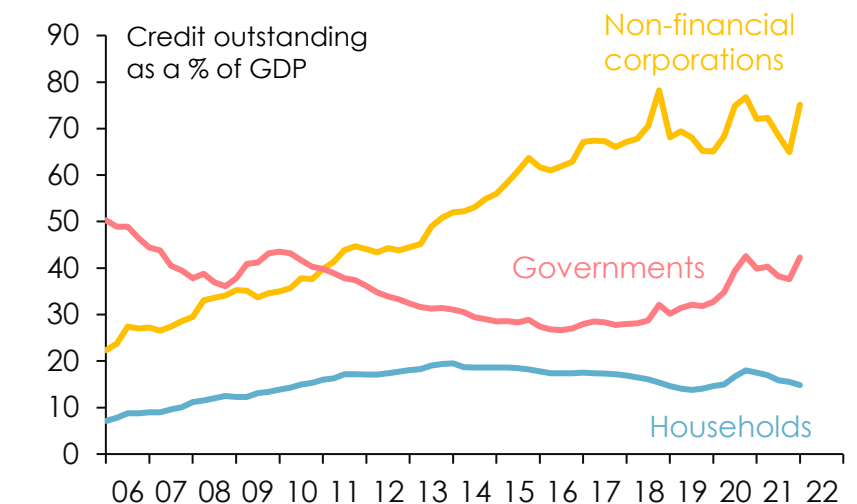
India



Russia



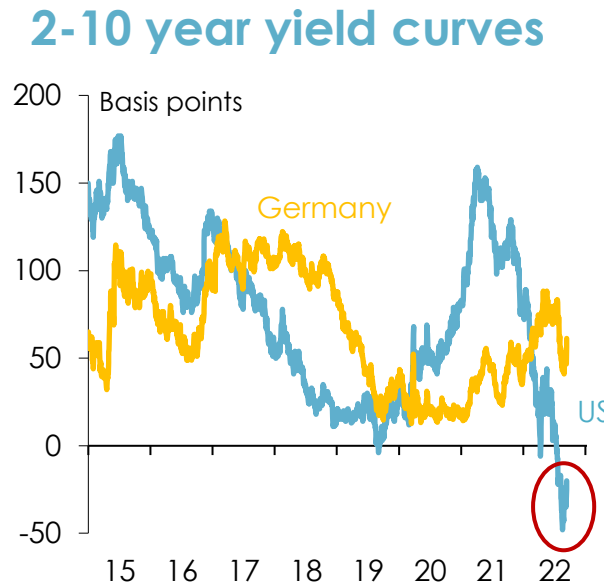
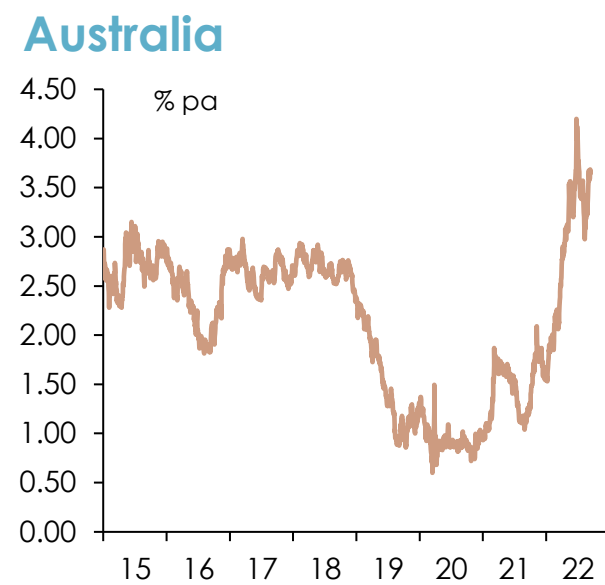
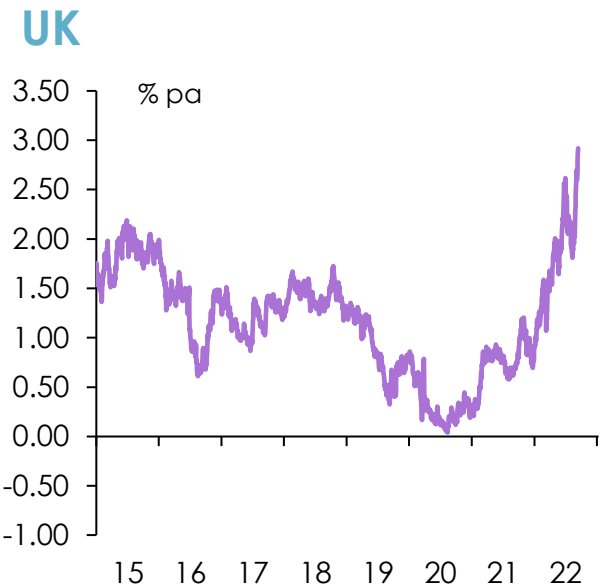
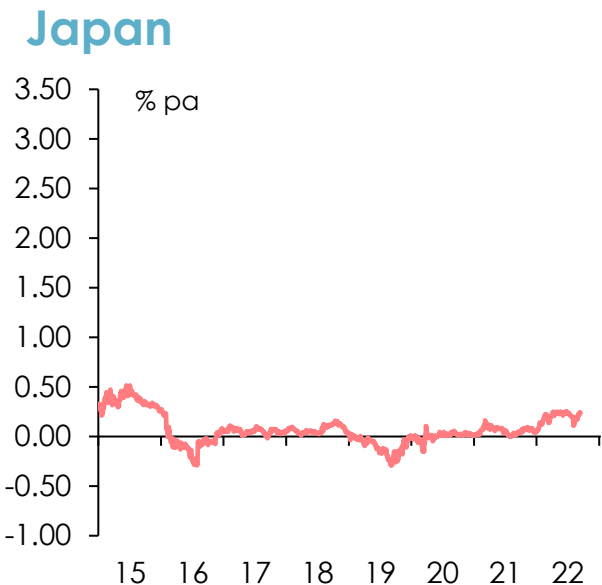
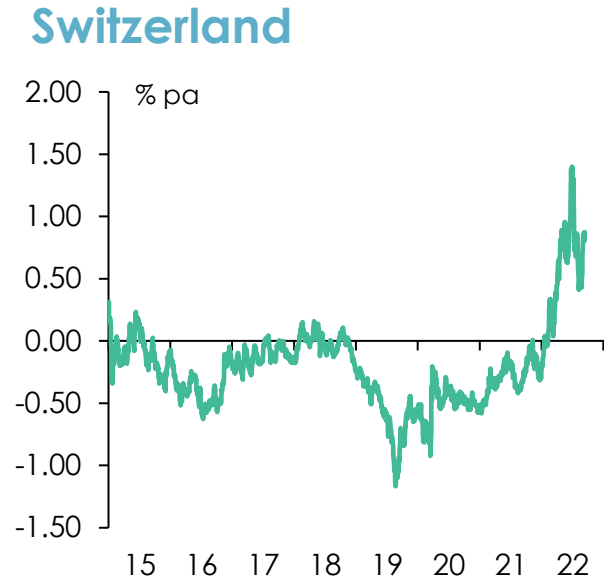
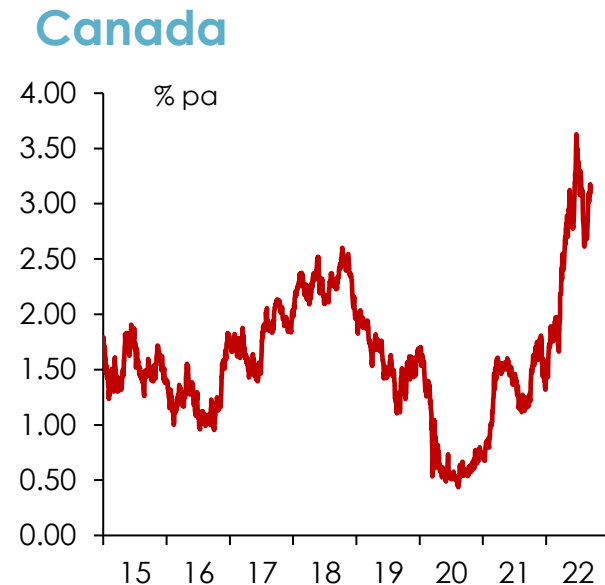
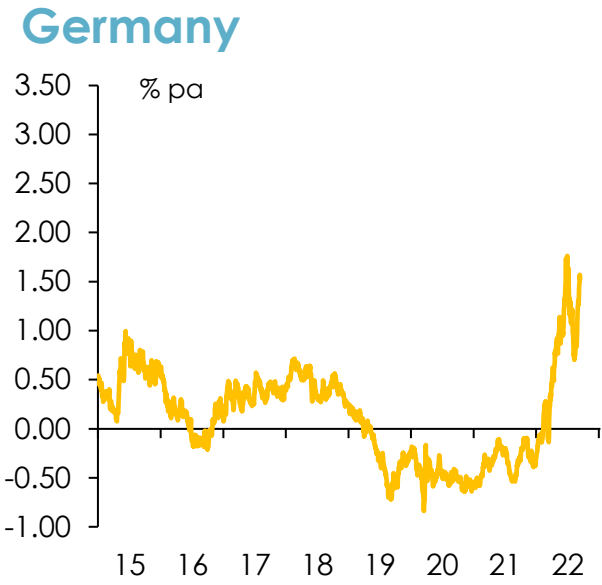
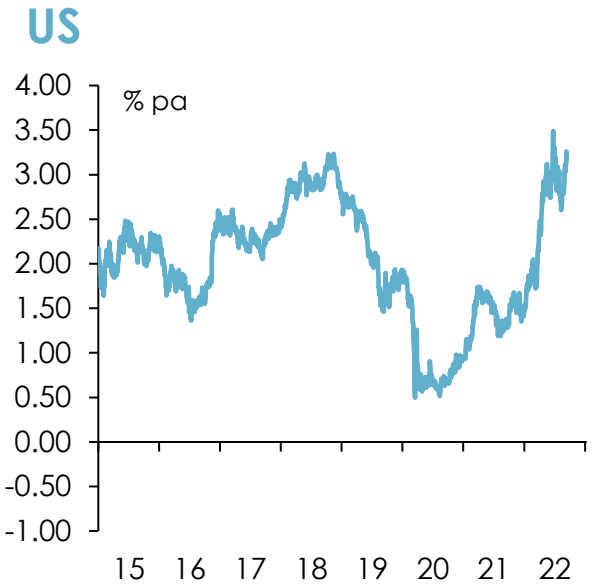
Turkey



Source: Bank for International Settlements, [Credit Statistics](#); latest data are for Q4 2021, Q1 2022 data will be released on 19th September. For data for other Asian economies see [slide 93](#). [Return to "What's New"](#).

Bond yields rose further last week after Fed Chair Powell's more hawkish tone at the Jackson Hole conference

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

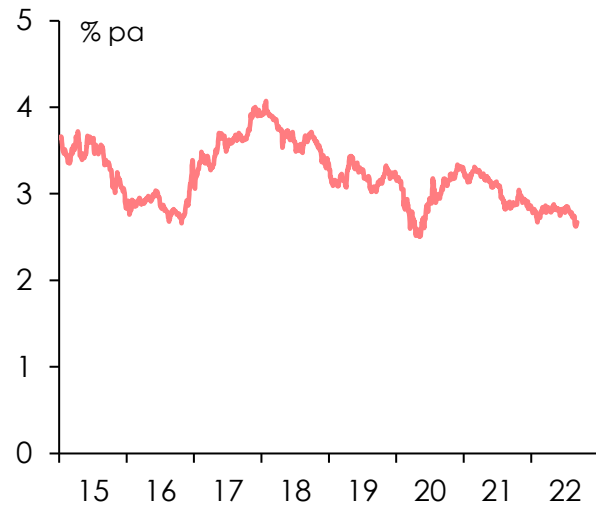


Note: Data up to 2nd September. For a summary of Powell's remarks see [slide 50](#). For bond yields in other large euro area member states see [slide 57](#), and for bond yields in Asian economies see [slide 92](#). Source: Refinitiv Datastream. [Return to "What's New"](#).

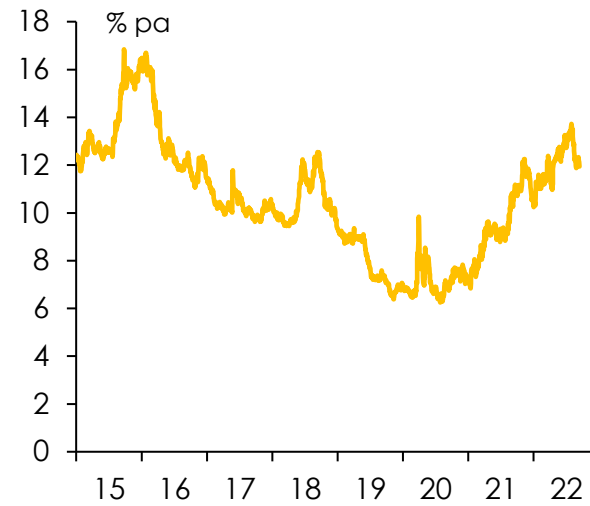
Emerging market 10-year bond yields were mixed last week, falling in China, Brazil and Turkey but rising marginally elsewhere

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

China



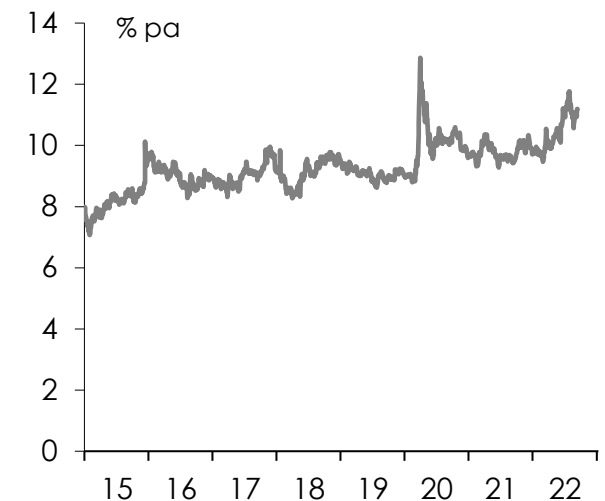
Brazil



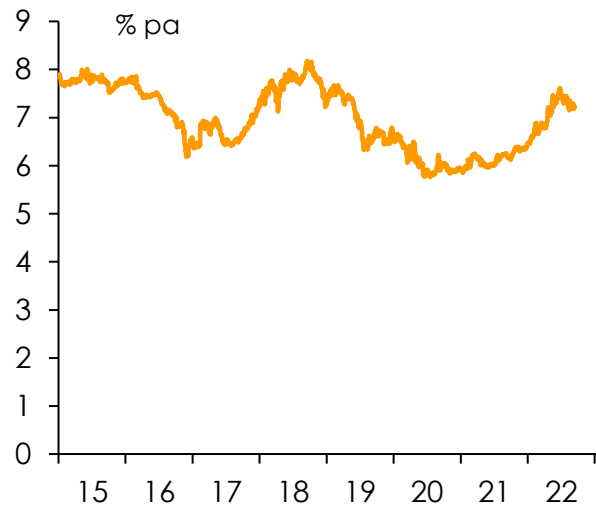
Russia



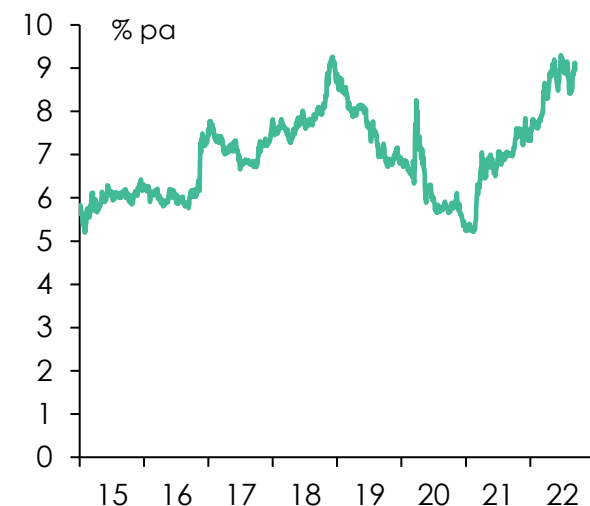
South Africa



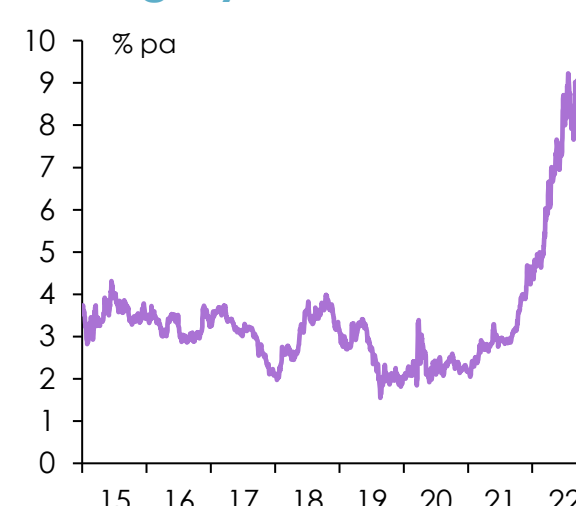
India



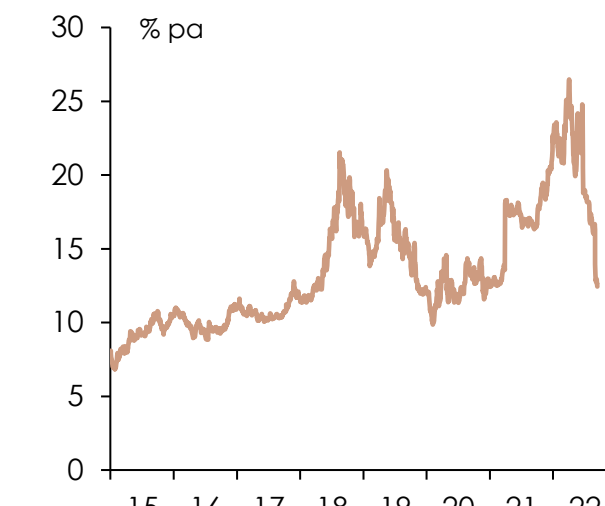
Mexico



Hungary



Turkey



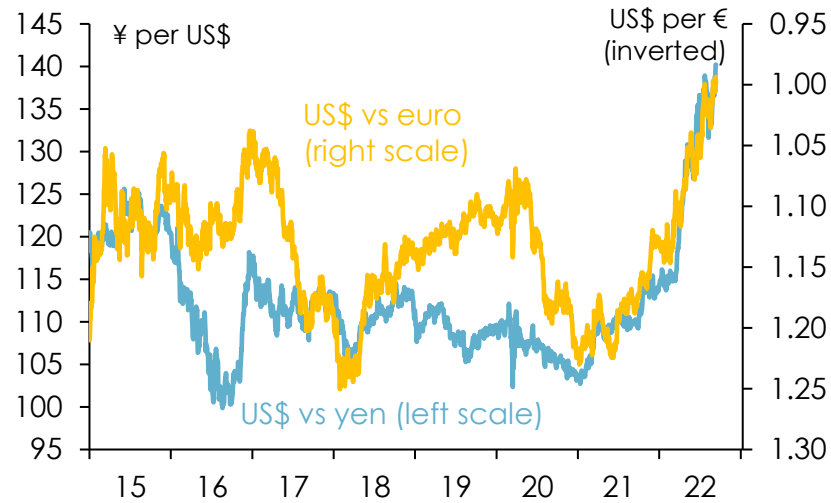
Note: Data up to 2nd September. For bond yields in other Asian economies see [slide 92](#); and for policy interest rates in other emerging markets see [slides 107-113](#).

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

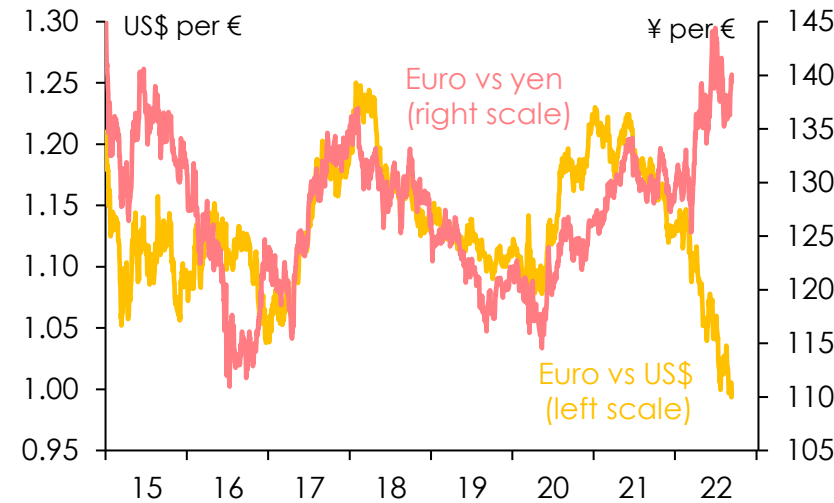
The US dollar rose further last week, especially against the yen, following Fed Chair Powell's hawkish tone

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

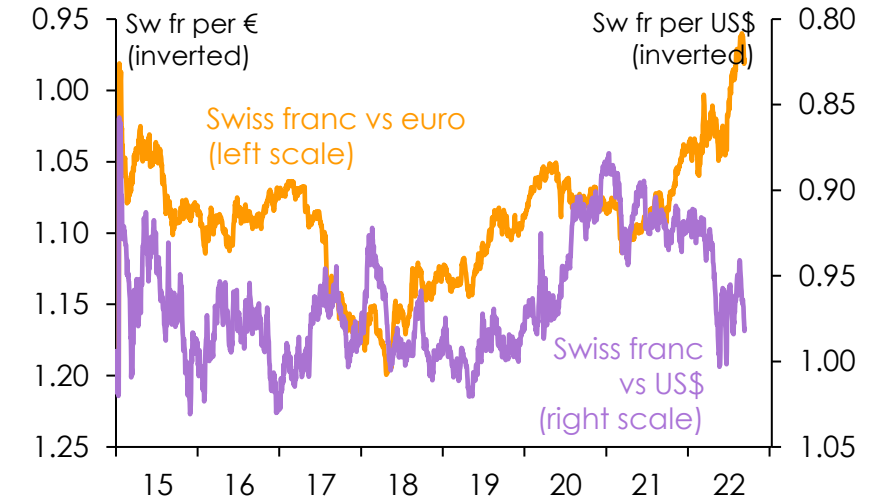
US dollar



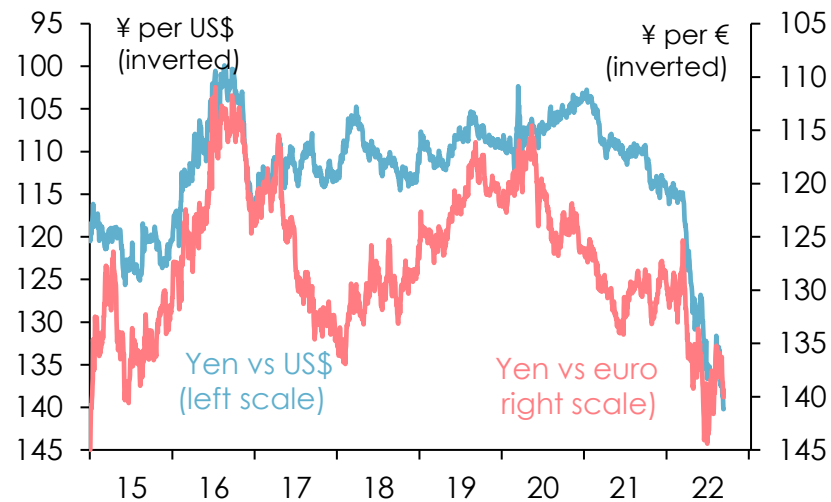
Euro



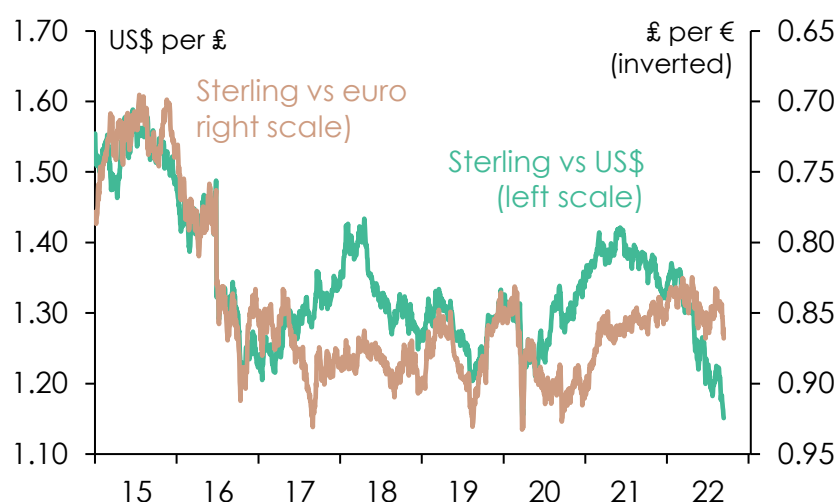
Swiss franc



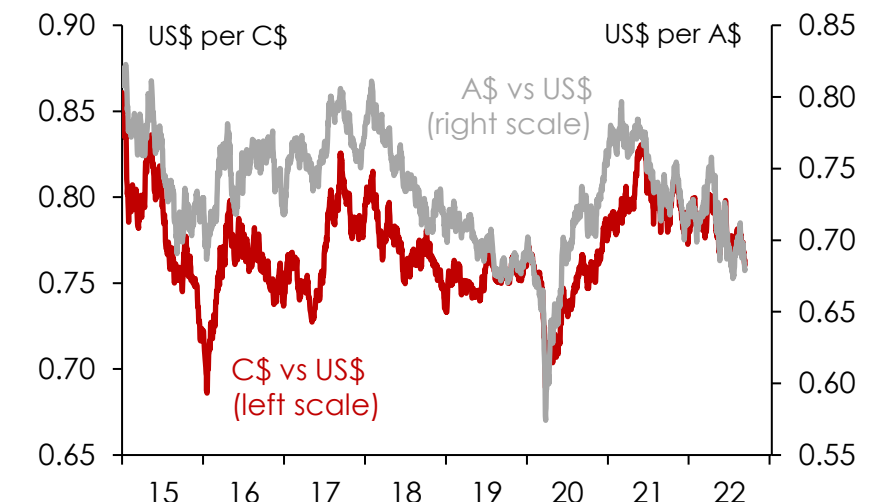
Japanese yen



Sterling



Canadian & Australian dollars

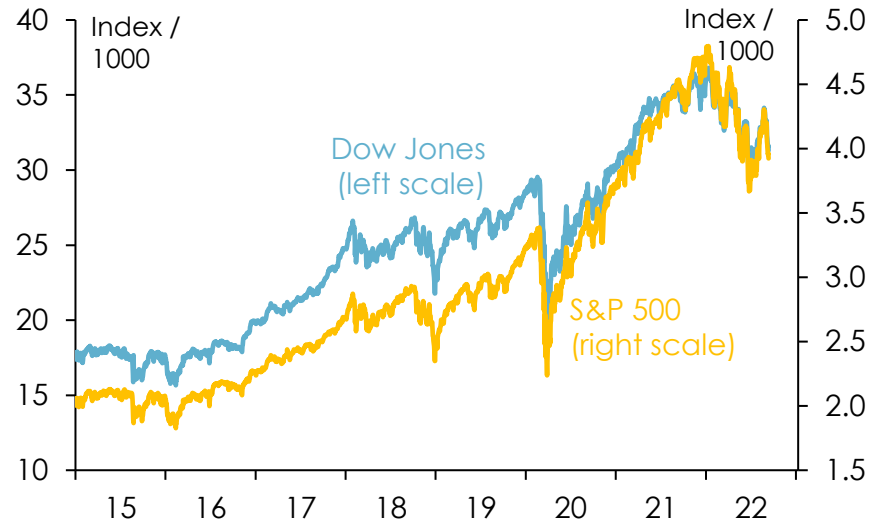


Note: Data up to 2nd September. For Asian exchange rates see [slide 94](#). Source: Refinitiv Datastream. [Return to "What's New"](#).

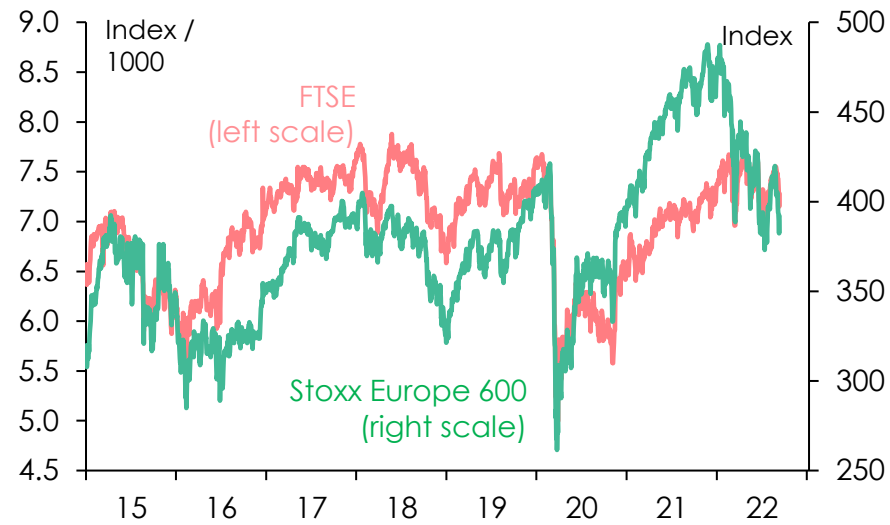
Stocks fell further, especially in the US and Europe, continuing the initial reaction to last week's hawkish remarks from Fed Chair Powell

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

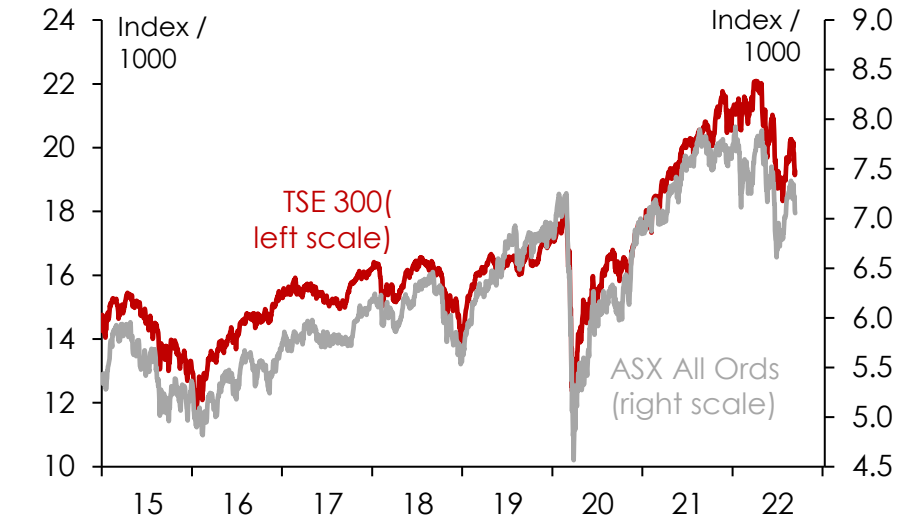
US stock market



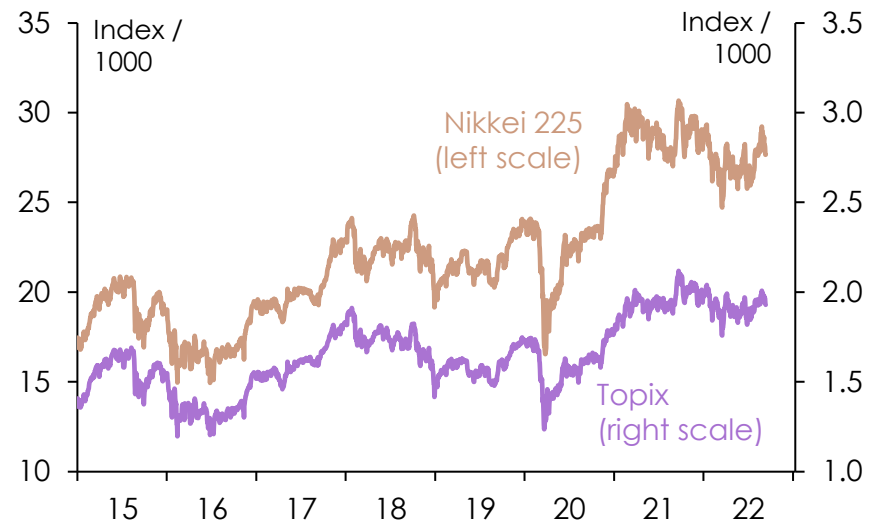
European stock markets



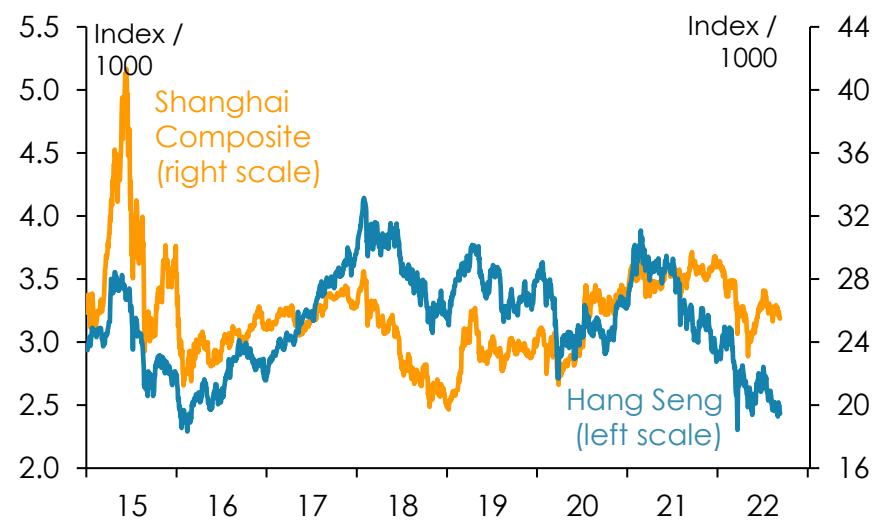
Canadian & Australian stock markets



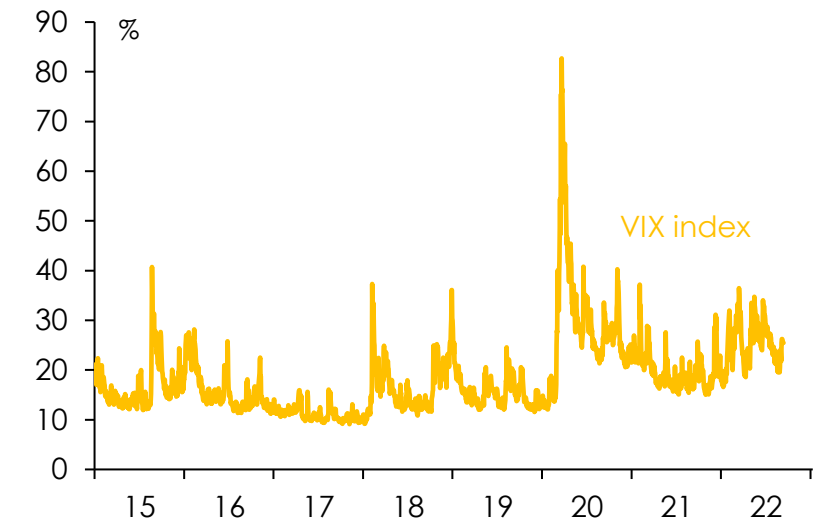
Japanese stock market



Chinese & HK stock markets



Equity market volatility

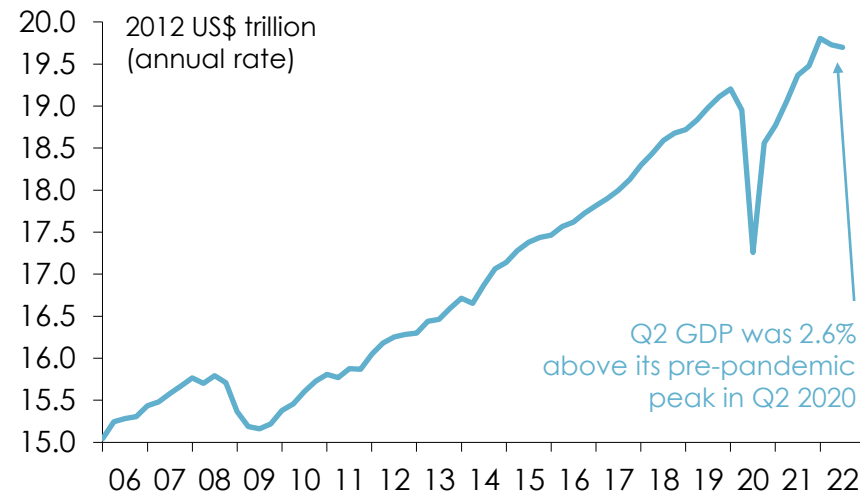


The United States

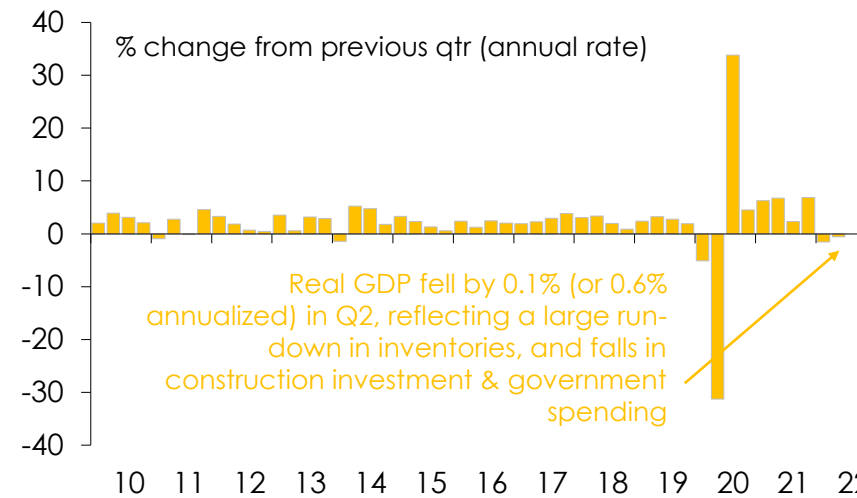
US real GDP contracted by 0.1% in Q2, the second consecutive decline – slightly less than the initial estimates

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

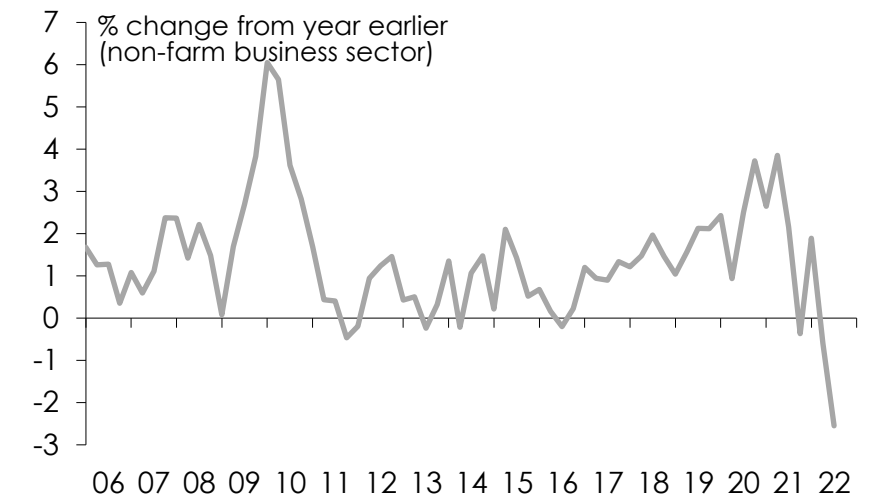
Level of real GDP



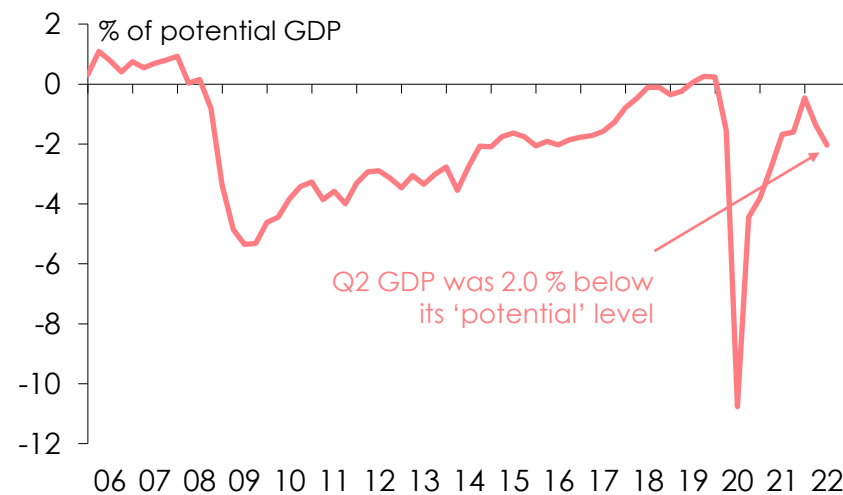
Quarterly change in real GDP



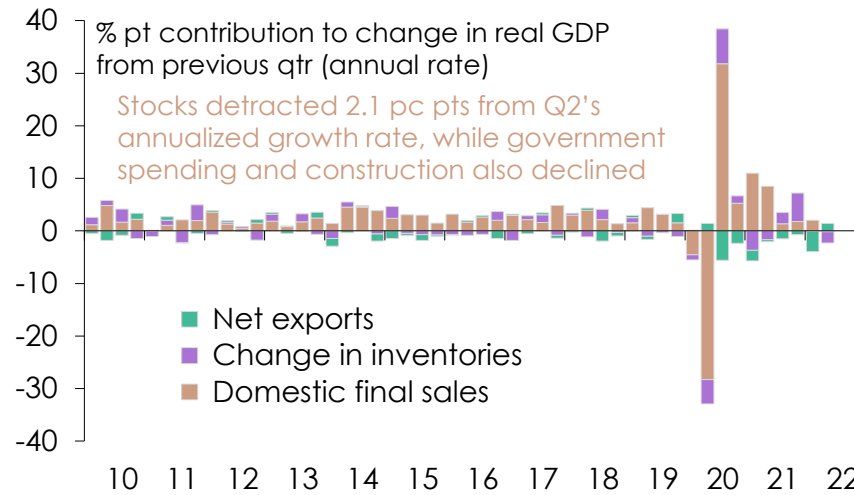
Labour productivity growth



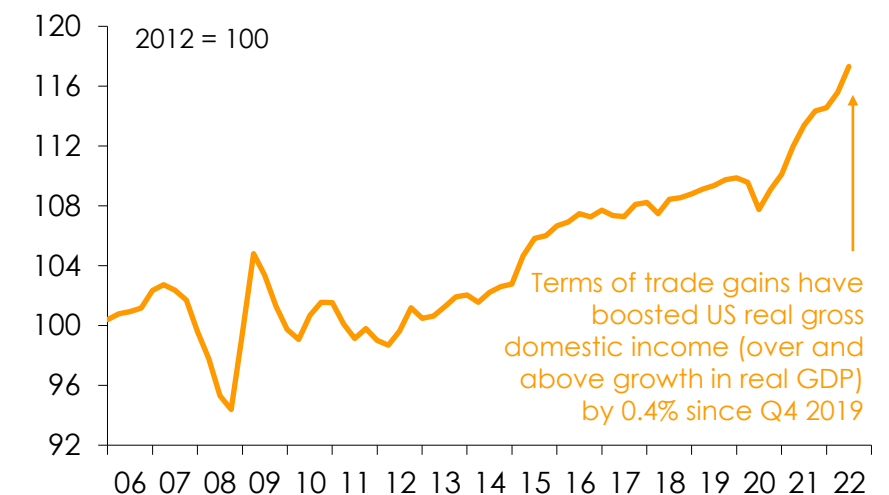
The 'output gap'



Contributions to change in real GDP



Terms of trade



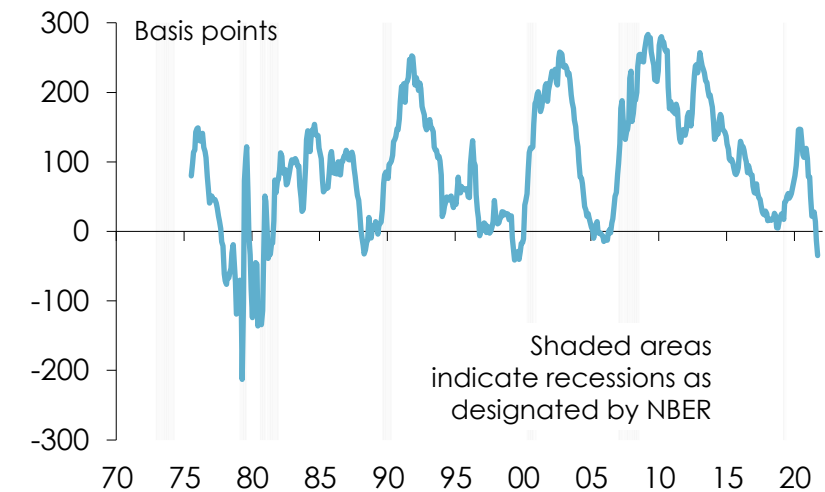
Note: the ['output gap'](#) is the difference between actual and potential GDP (the volume of goods & services that could be produced if the economy were operating at full capacity); the ['terms of trade'](#) is the ratio of the implicit price deflator of exports of goods & services to that of imports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

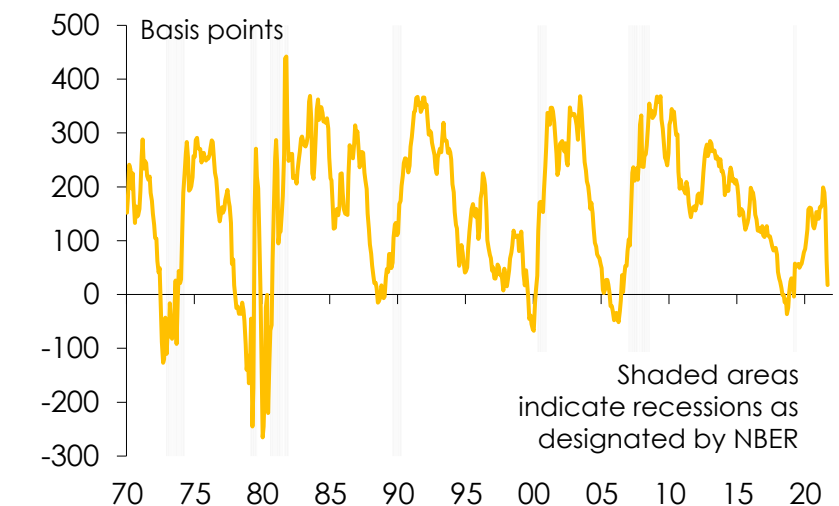
THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

- ❑ US real GDP contracted at annual rates of 1.6% in Q1 and 0.6% 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 438K (0.3%) per month between January and August, and the unemployment rate *fell* from 4.0% in January to 3.7% in August ([slide 39](#))
- ❑ 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 34](#))

10-year / 2-year yield spread



10-year / 3-month yield spread

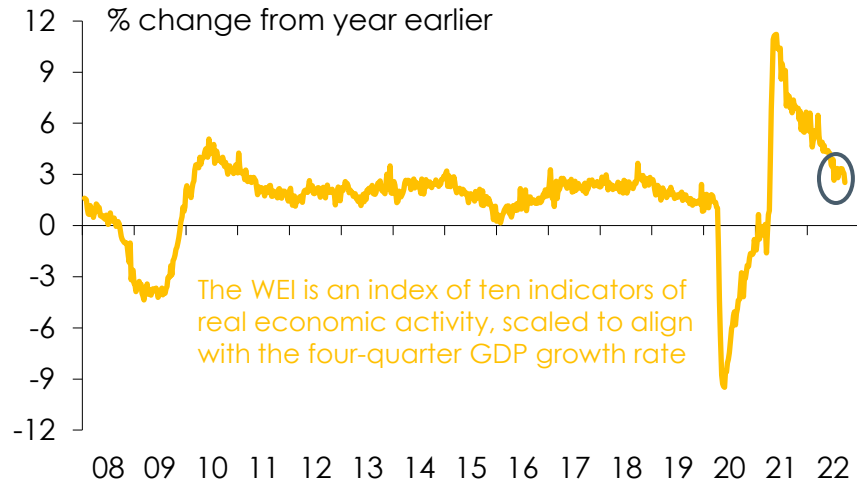


[Return to "What's New".](#)

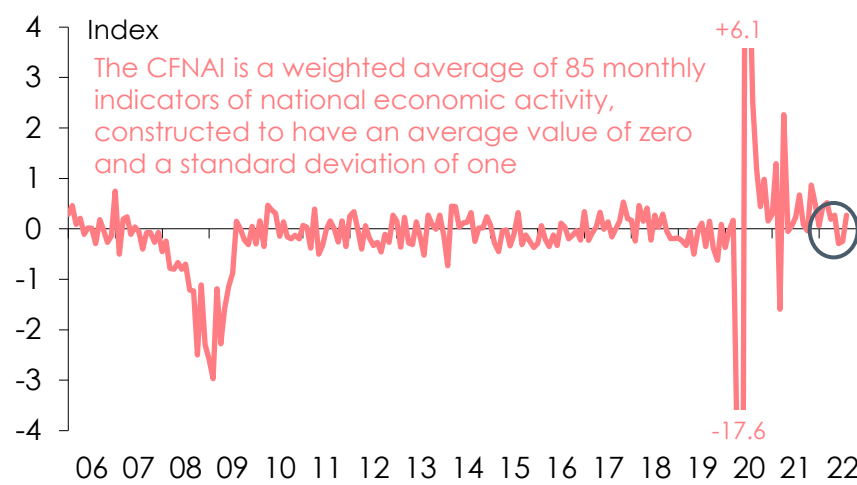
A growing number of activity surveys and leading indicators are starting to warn of a sharp slowdown or outright contraction in US economic activity

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

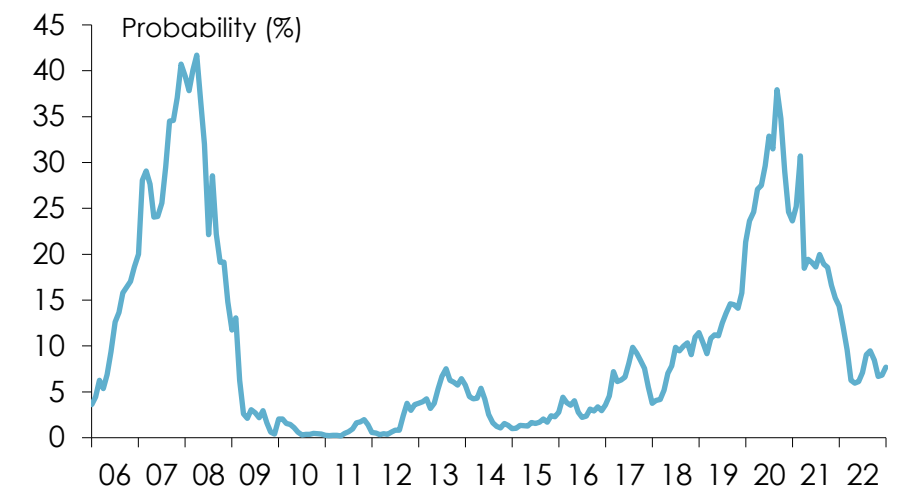
NY Fed weekly economic index



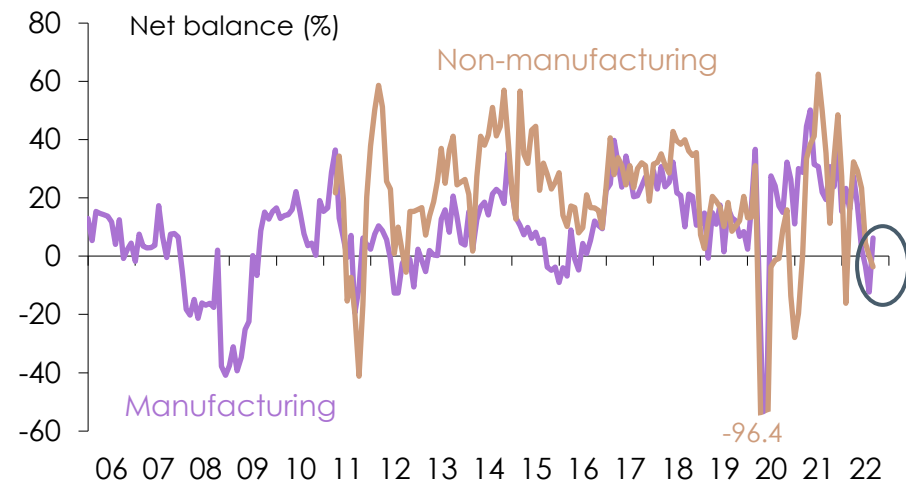
Chicago Fed national activity index



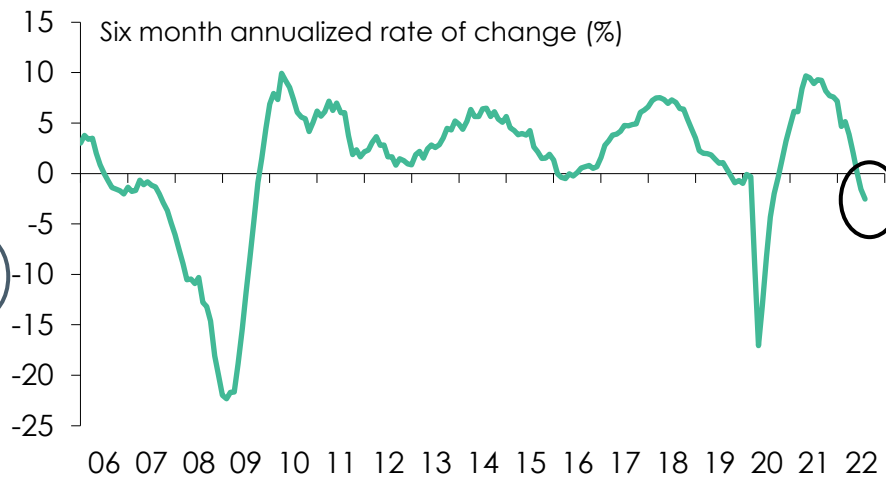
NY Fed recession probability index



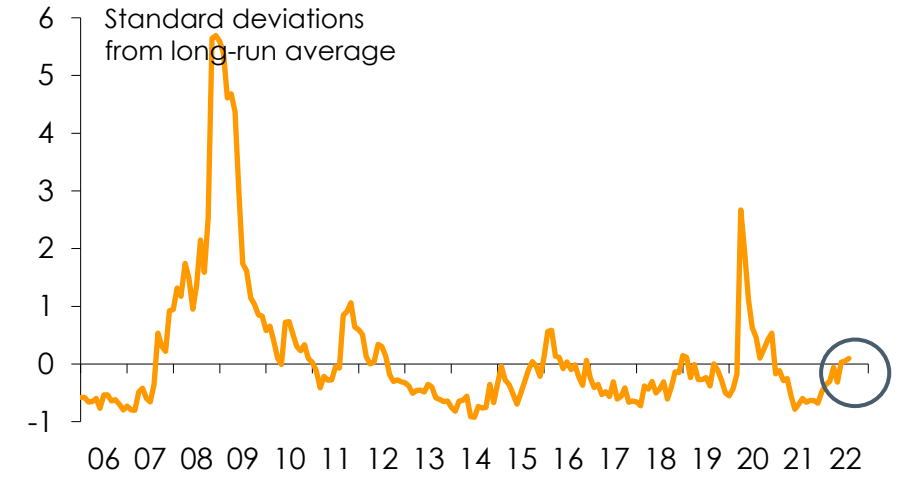
'Philly Fed' business outlook survey



Conference Board leading indicators



Kansas City Fed financial stress index

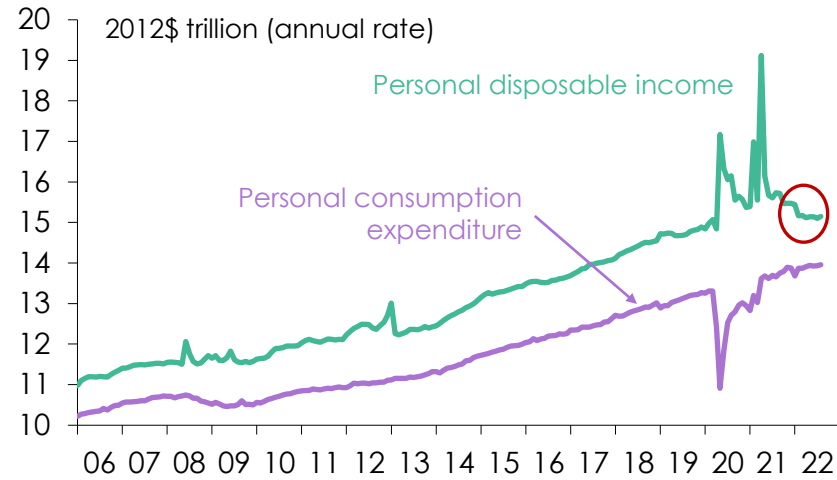


Sources: Federal Reserve Bank of New York, [Weekly Economic Index](#) and [The Yield Curve as a Leading Indicator](#); Federal Reserve Bank of Philadelphia, [Regional Economic Analysis](#), Manufacturing and Non-Manufacturing Business Outlook Surveys; Federal Reserve Bank of Chicago, [Chicago Fed National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

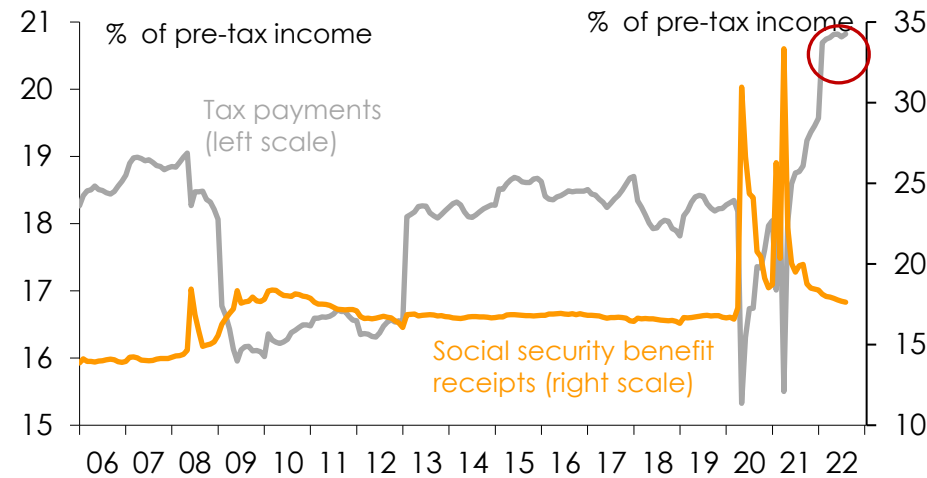
US personal disposable income has been squeezed by rising inflation & tax payments, forcing households to cut saving in order to maintain spending

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

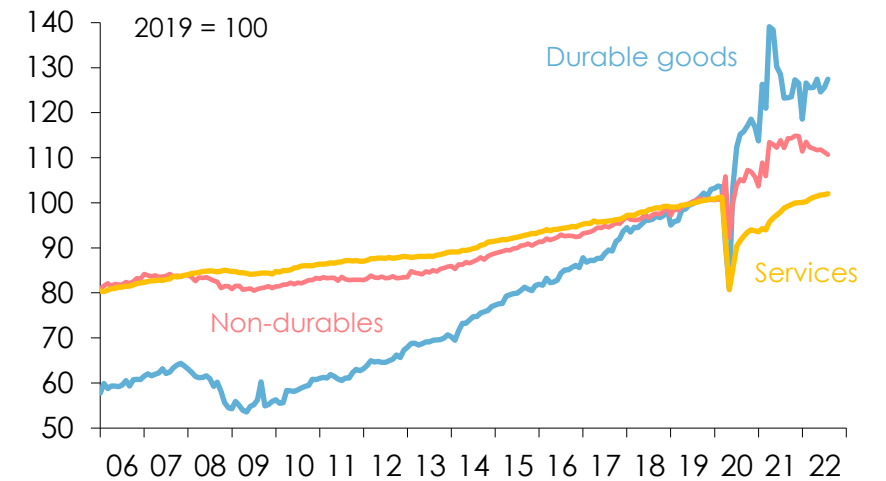
Personal income and expenditure



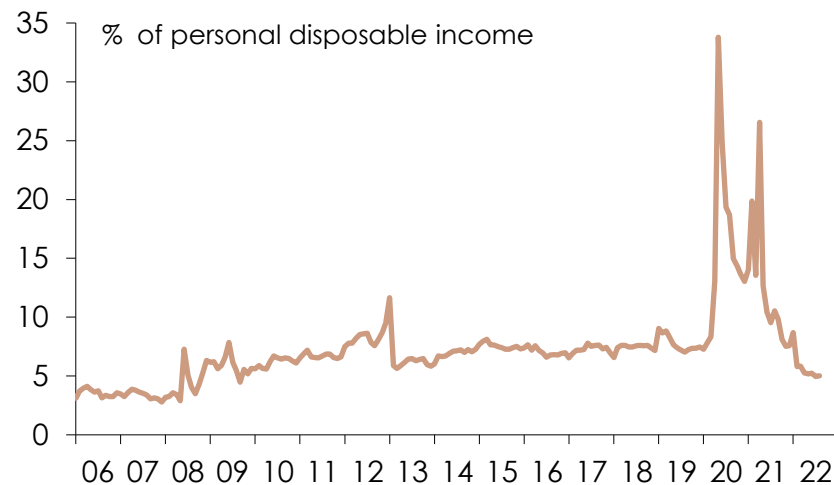
Tax and social security



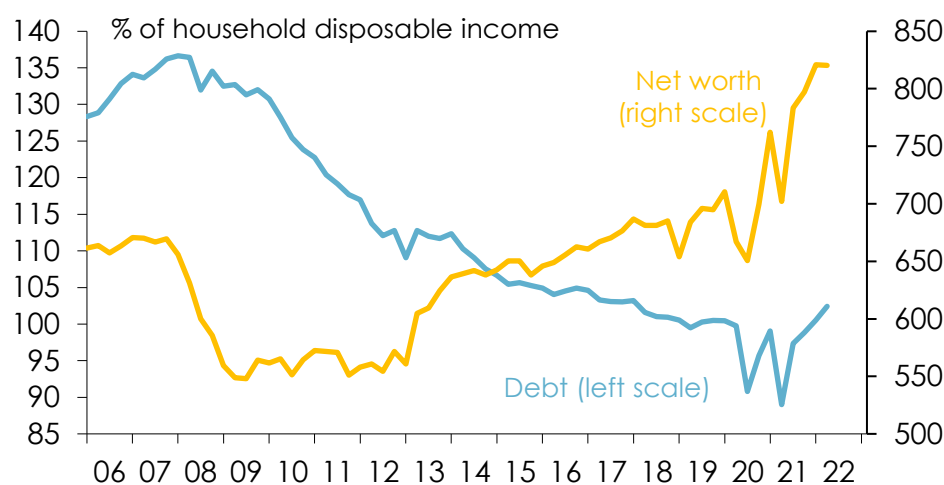
Personal consumption expenditure



Personal saving rate



Household debt and net worth



Spending on energy

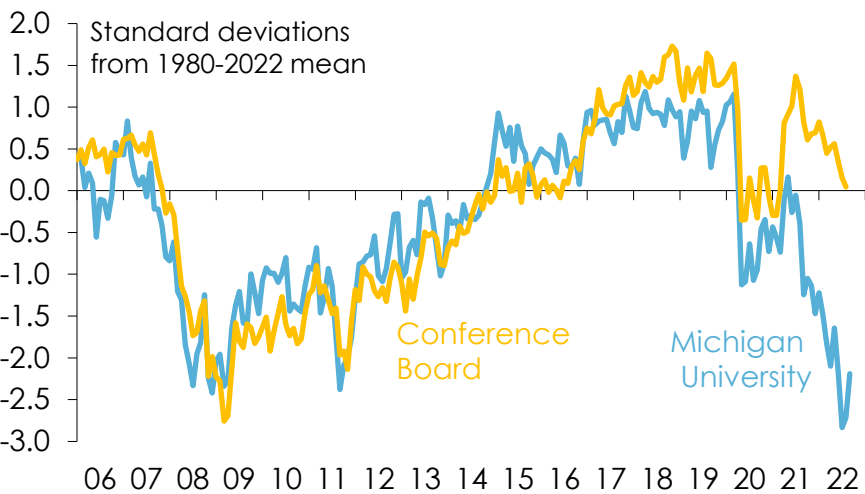


Note: data on personal income, spending and saving are monthly; data on debt and net worth are quarterly. Sources: US Bureau of Economic Analysis, [Gross Domestic Product](#), [Consumer Spending](#) and [Income and Saving](#); US Federal Reserve, [Financial Accounts of the United States - Z1](#). [Return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

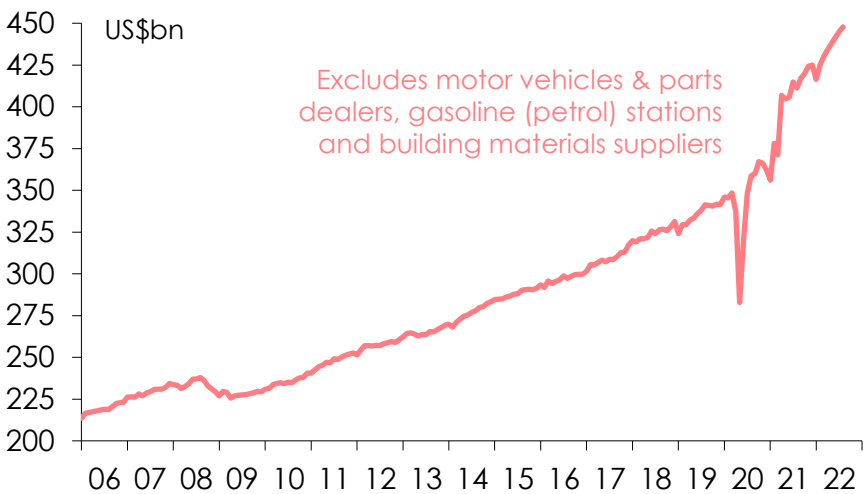
US retail sales were flat in July, due to falls in sales at vehicle dealers and gas stations – ‘core’ retail sales rose 0.7%

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

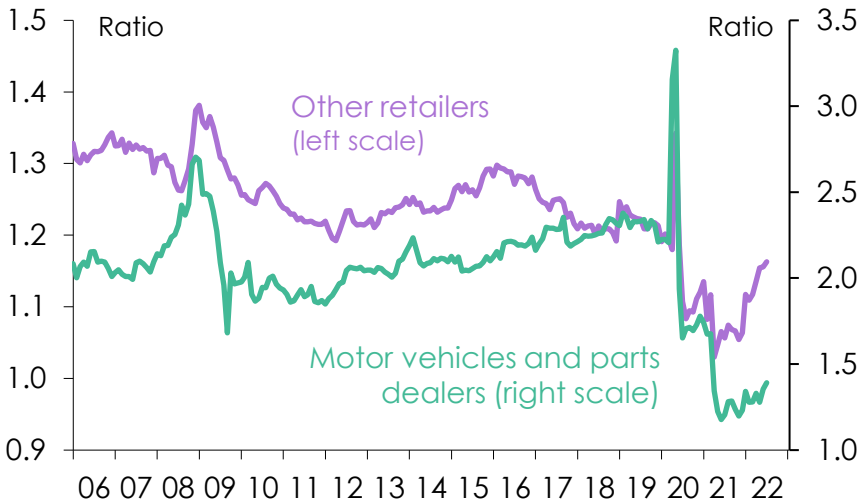
Consumer sentiment



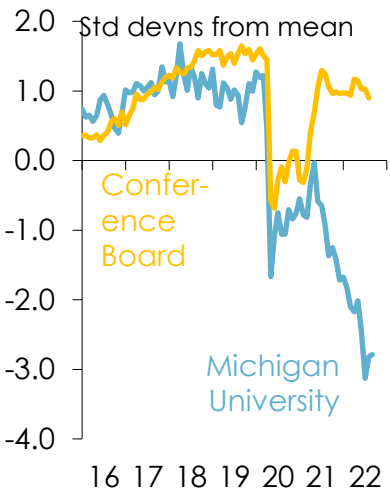
Level of ‘core’ retail sales



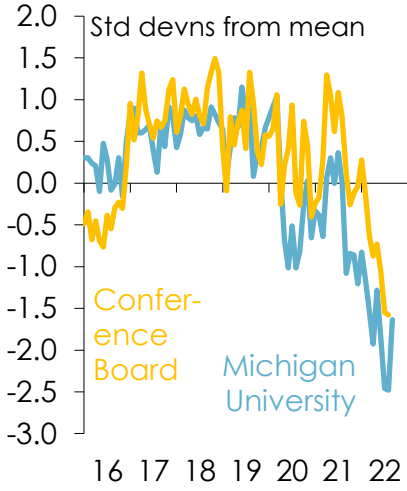
Retail inventories-sales ratios



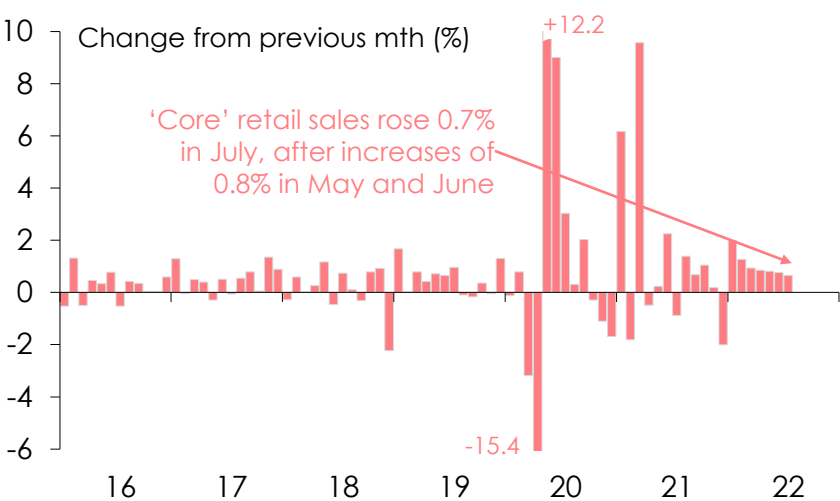
Present situation



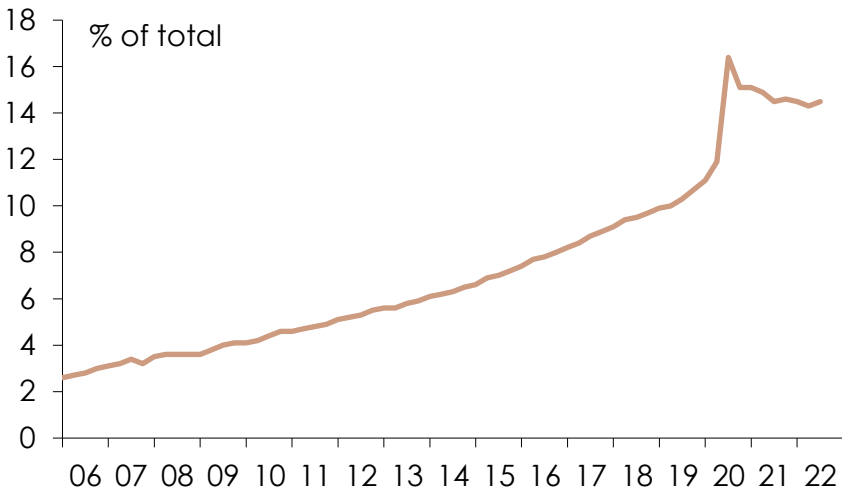
Expectations



Monthly changes in ‘core’ retail sales



On-line retail sales

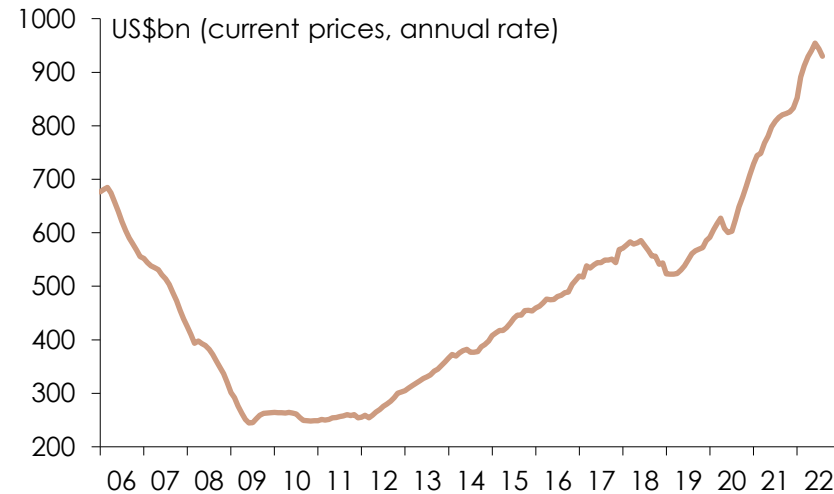


Note: The Michigan University measure of consumer sentiment gives greater weight to inflation, while the Conference Board measure gives greater weight to employment and unemployment. ‘Core’ retail sales excludes motor vehicles, petrol stations and building materials stores. Sources: Michigan University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

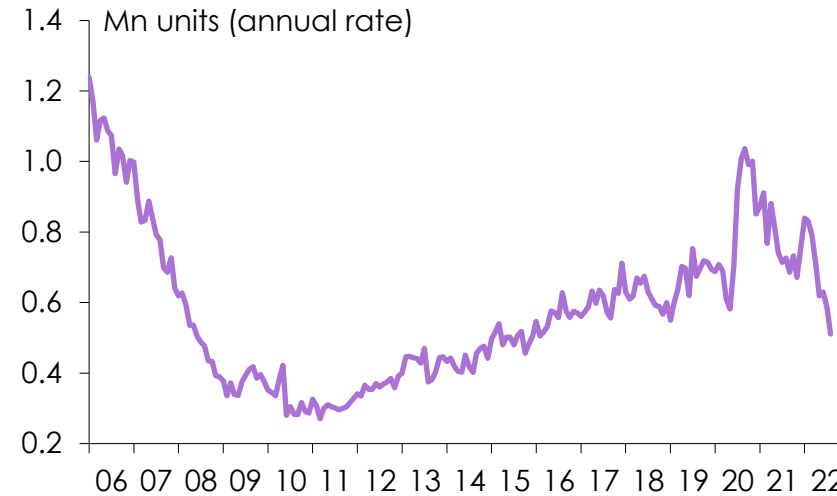
New home sales fell 12.6% in July to their lowest level since January 2016, while inventories of unsold homes were at their highest since March 2009

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

Housing construction spending



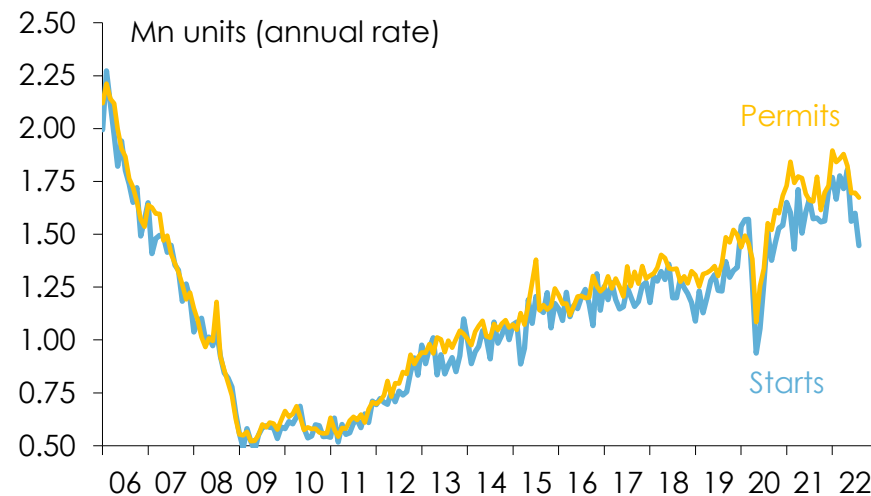
New single-family home sales



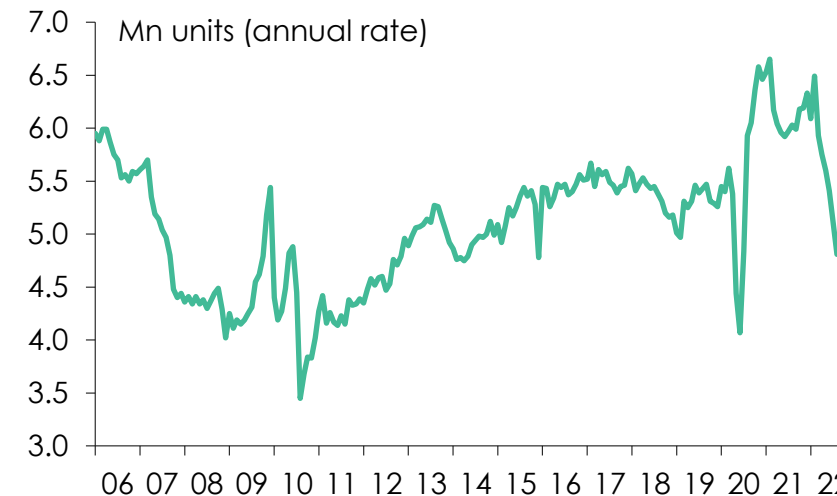
30-year fixed mortgage rates



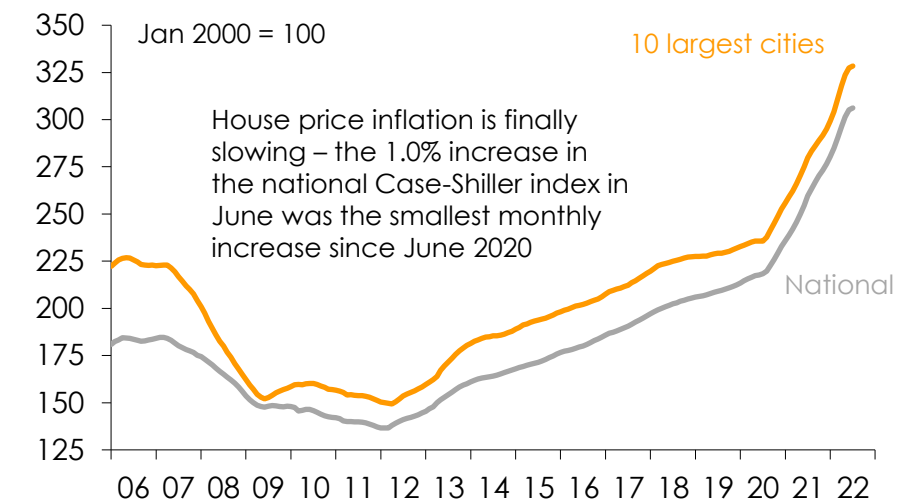
Housing starts and permits



Existing home sales



House prices

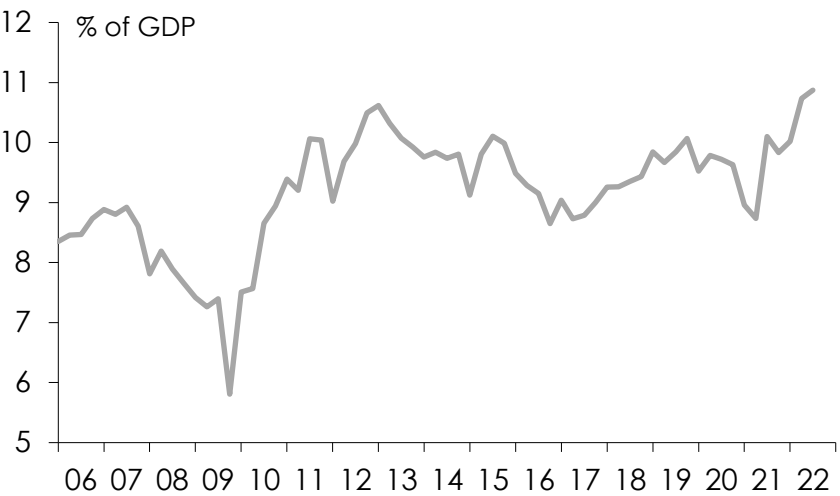


Sources: US Census Bureau, [Construction Spending](#), [New residential construction](#) and [New Residential Sales](#); US National Association of Realtors, [Existing-Home Sales](#); Mortgage Bankers' Association, [National Delinquency Survey](#); S&P Global, [S&P CoreLogic Case-Shiller Home Price Indices](#).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

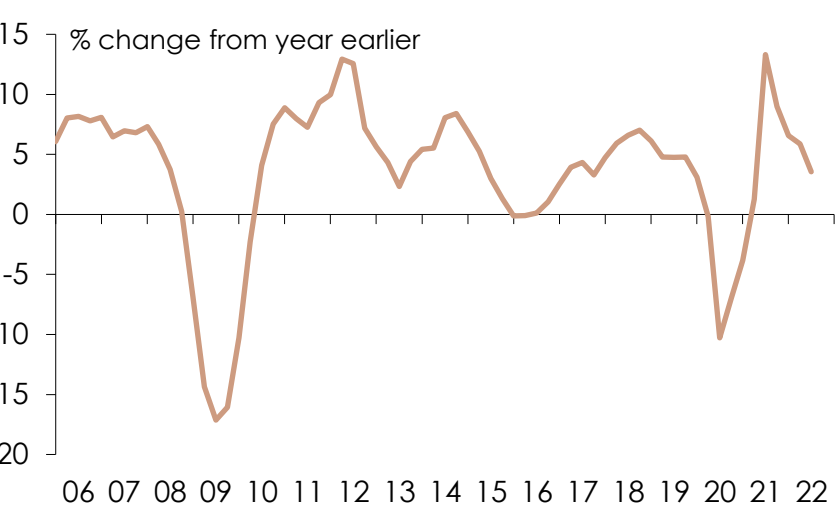
Corporate profits reached a new record high as a share of GDP in Q2, balance sheets are strong and IP & equipment investment is holding up

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

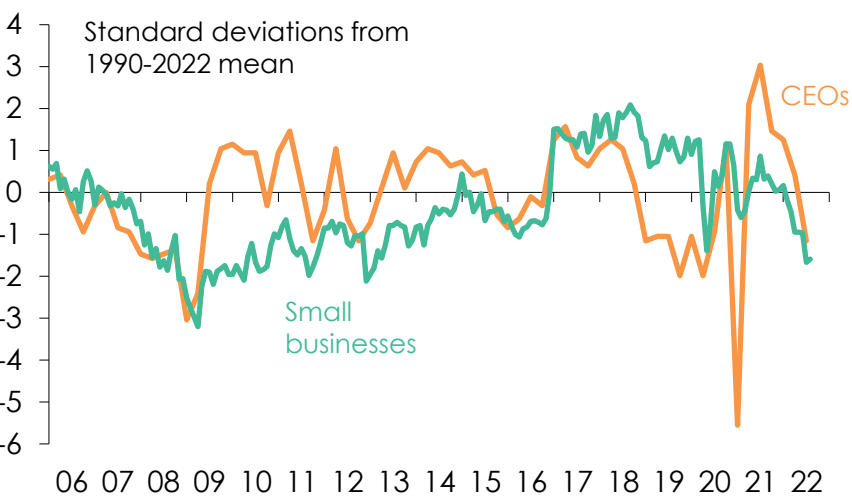
After-tax corporate profits



Business investment



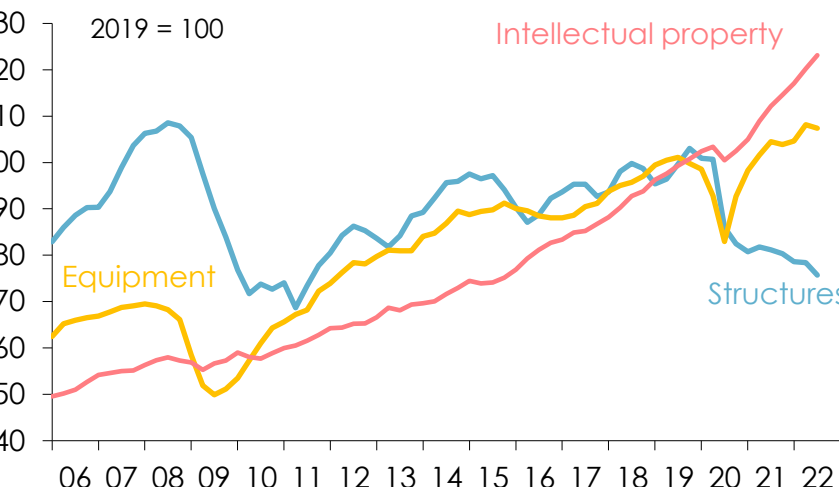
Business confidence



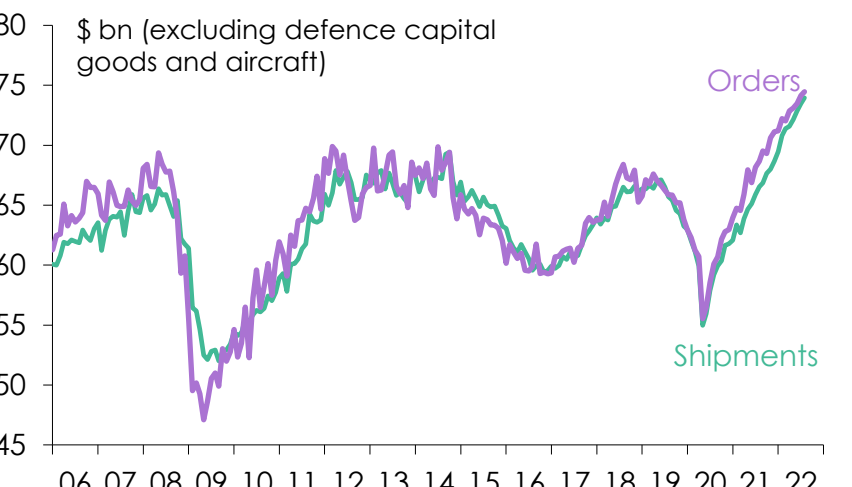
Corporate debt-equity ratio



Business investment by type



Capital goods orders & shipments

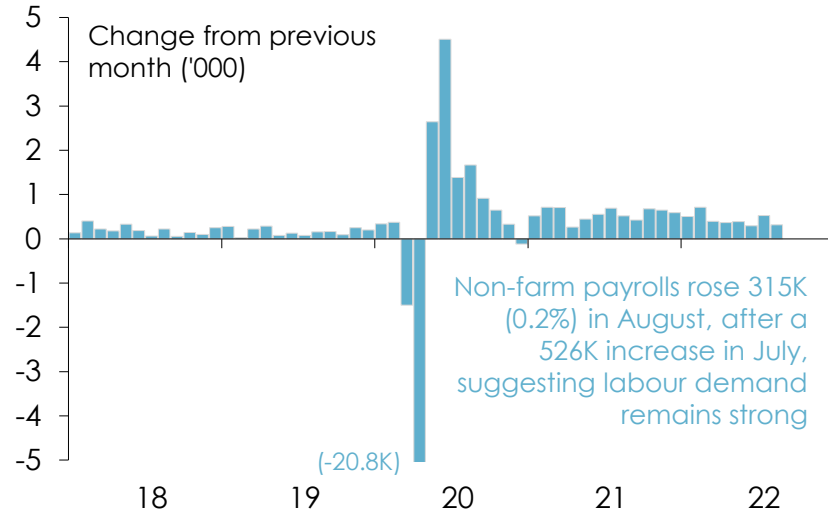


Sources: US Bureau of Economic Analysis, [Gross Domestic Product](#); US Federal Reserve, [Financial Accounts of the United States - Z1](#); The Conference Board, [US CEO Confidence](#); National Federation of Independent Business, [Small Business Economic Trends](#); US Commerce Department, [Manufacturers'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

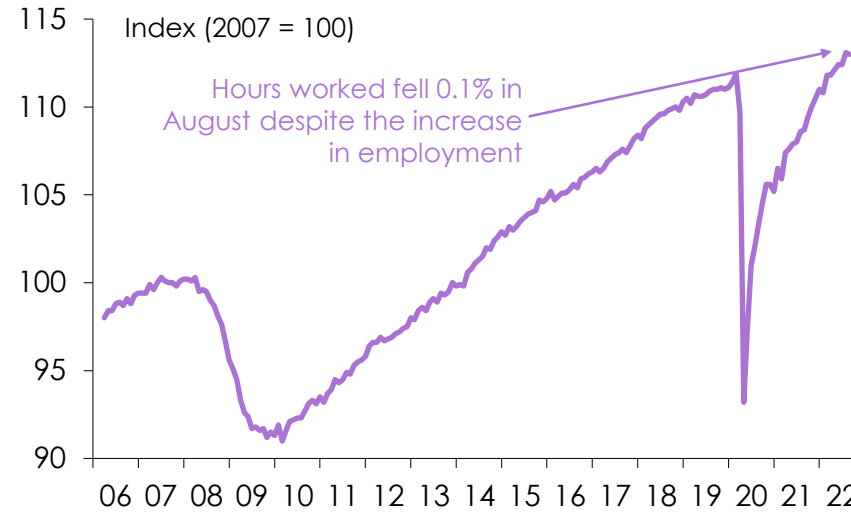
Employment continued to grow strongly in August, but more people returned to the workforce, pushing the unemployment rate up to 3.7%

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

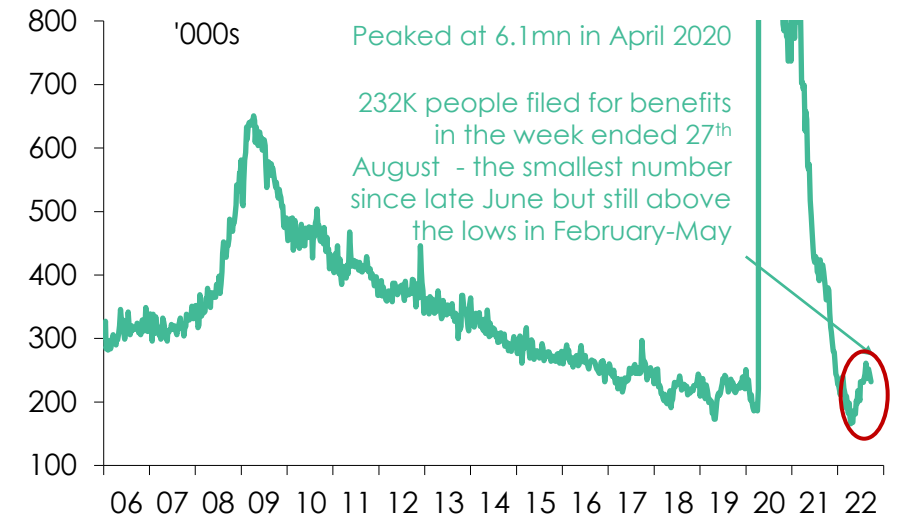
Non-farm payroll employment



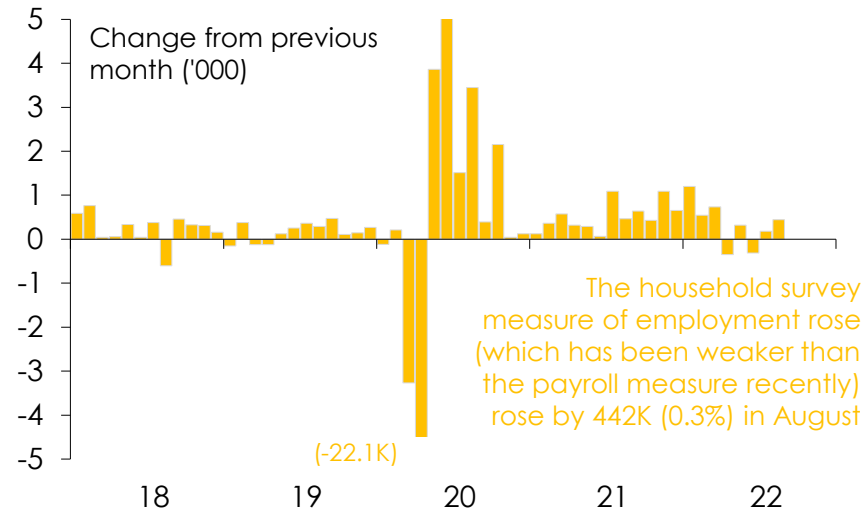
Hours worked (private sector)



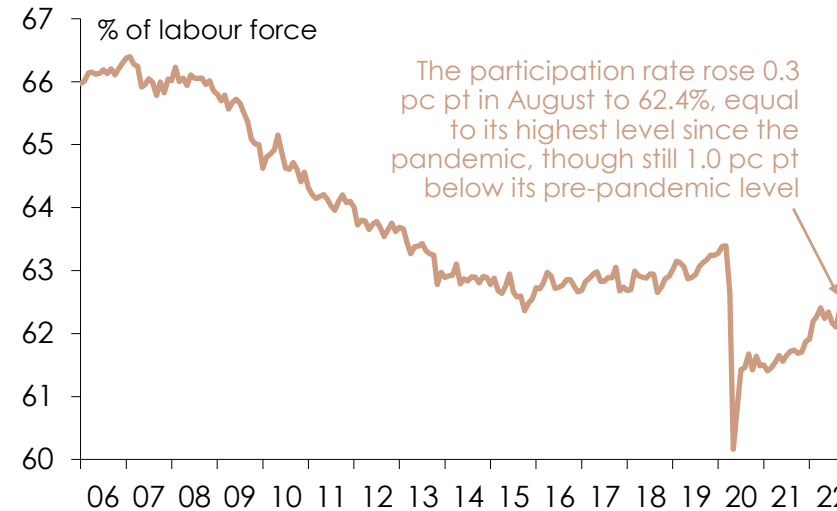
Unemployment benefit initial claims



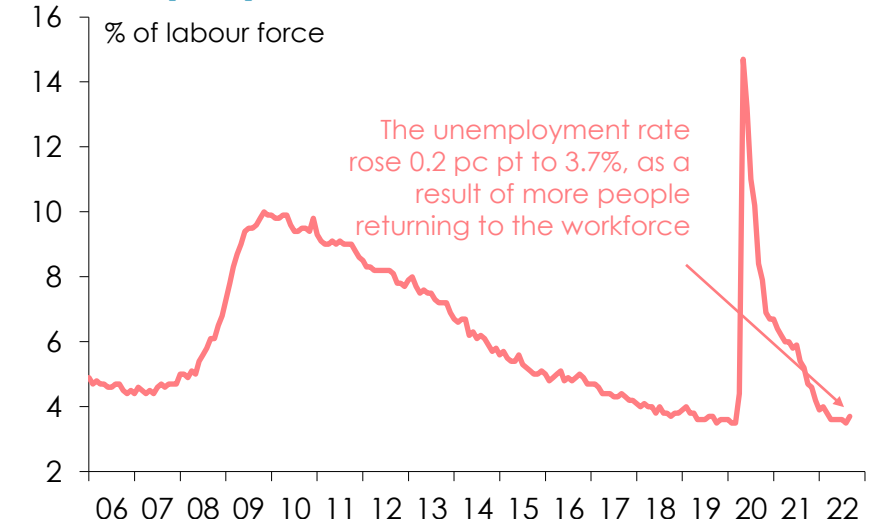
Household survey employment



Labour force participation rate



Unemployment rate

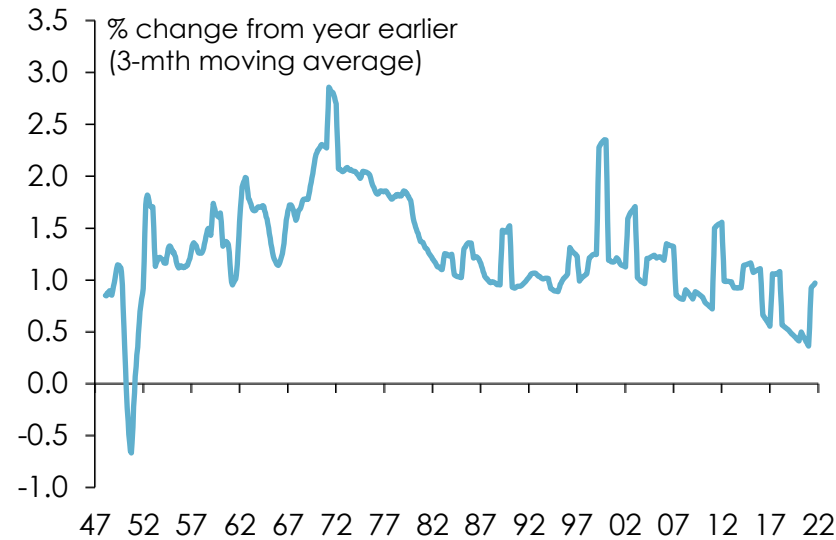


Sources: US Bureau of Labor Statistics, [Employment Situation](#); US Department of Labor, [Unemployment Insurance Weekly Claims](#). [Return to "What's New"](#).

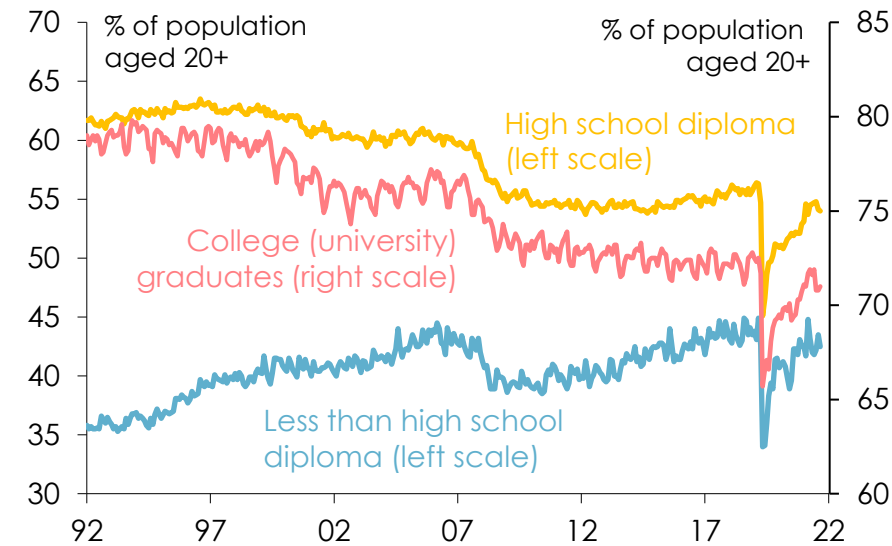
US labour market tightness is partly due to a persistent shortfall in labour force participation, especially among people aged 55 and over

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

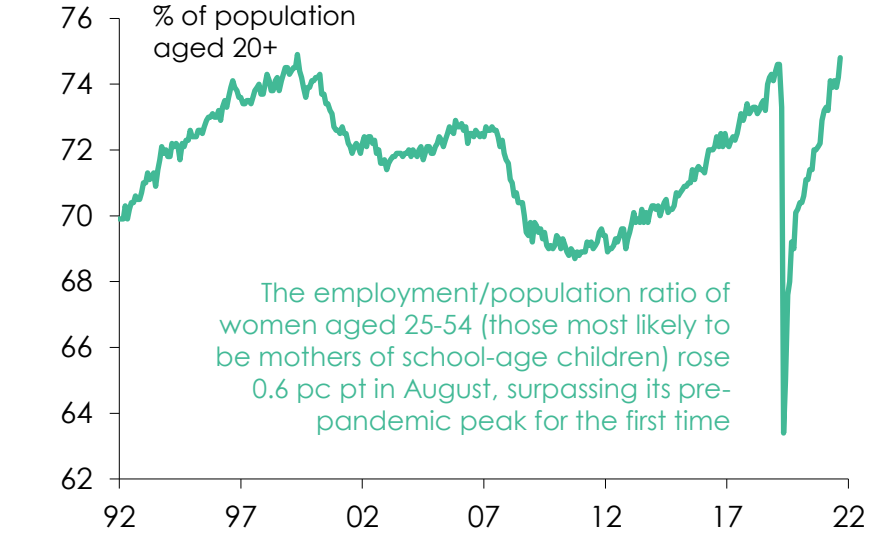
Civilian working age population



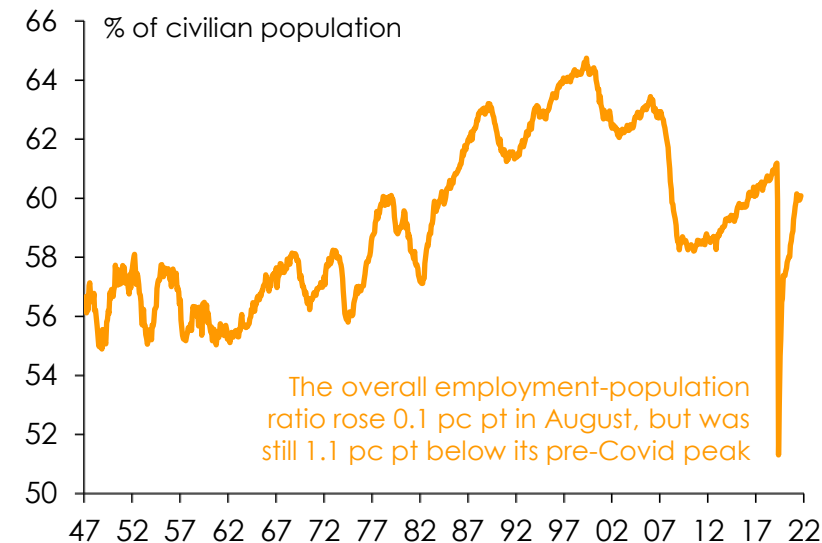
'E-pop' ratio – by education



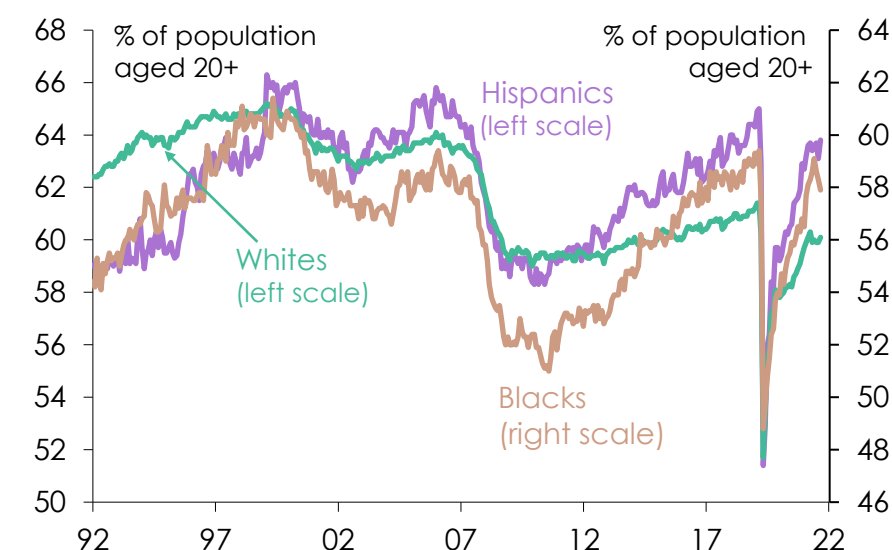
'E-pop' ratio – women 25-54



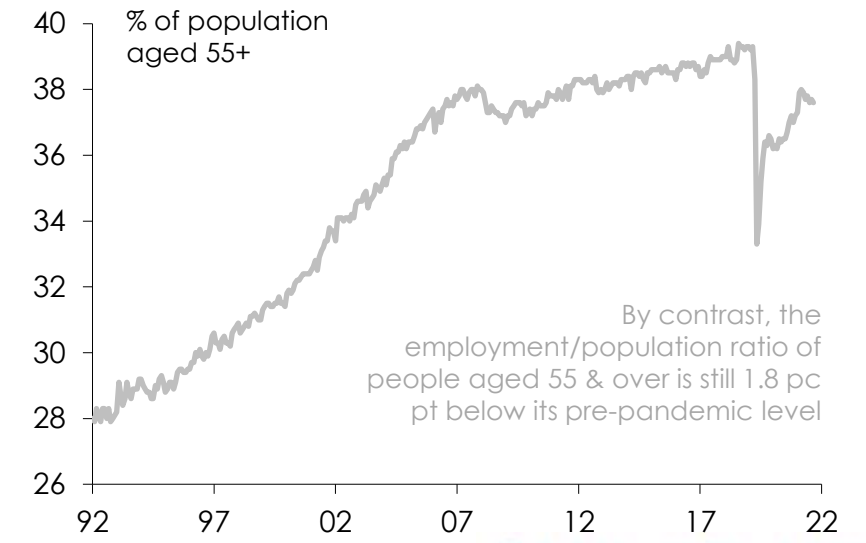
Employment-to-population ratio



'E-Pop' ratio – Blacks & Hispanics



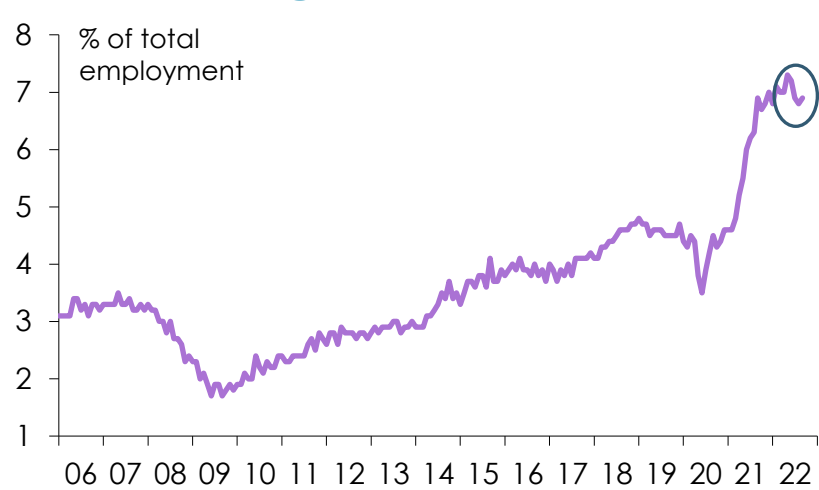
'E-pop' ratio – people 55 & over



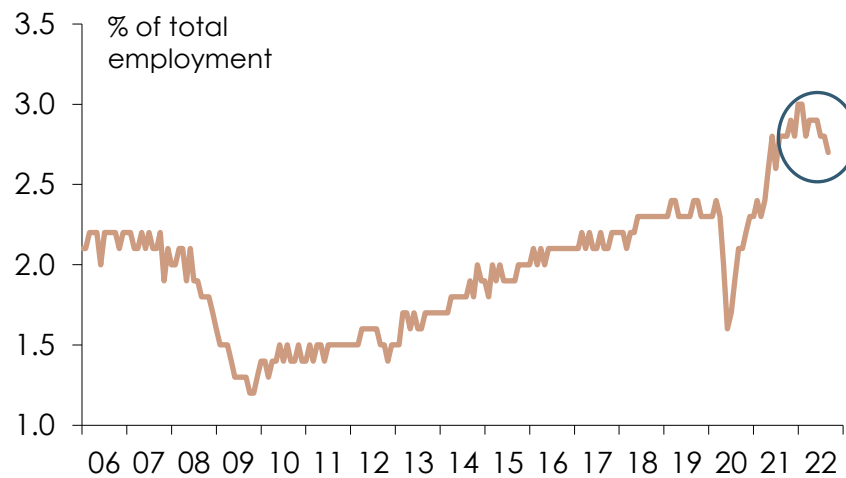
The post-pandemic surge in wages may have peaked, but measures of earnings are still growing strongly

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

Job openings

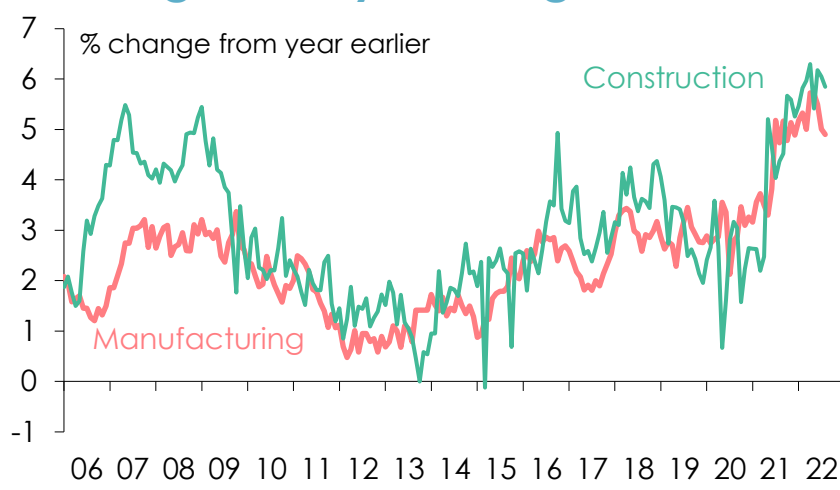


Quit rate

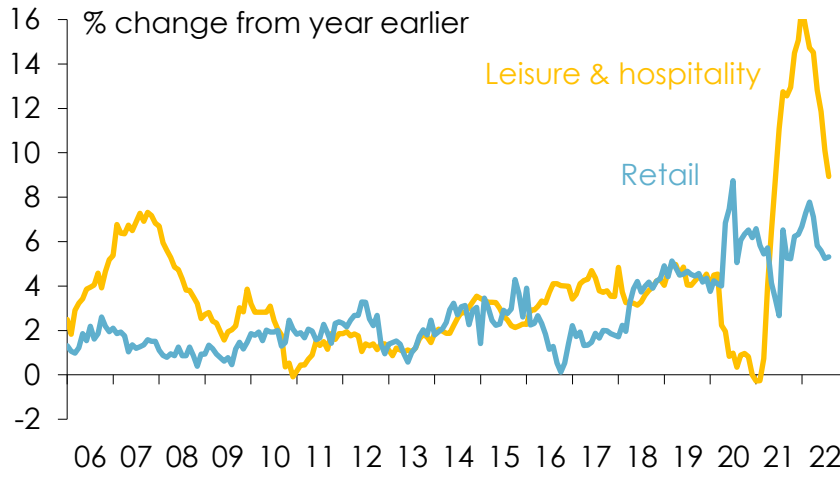


Note: Measures of average hourly earnings (especially the all-industries measures) and of average compensation per hour are affected by changes in the composition of employment (so for example they rose sharply in Q2 2020 when large numbers of low-paid workers were laid off and fell markedly when they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

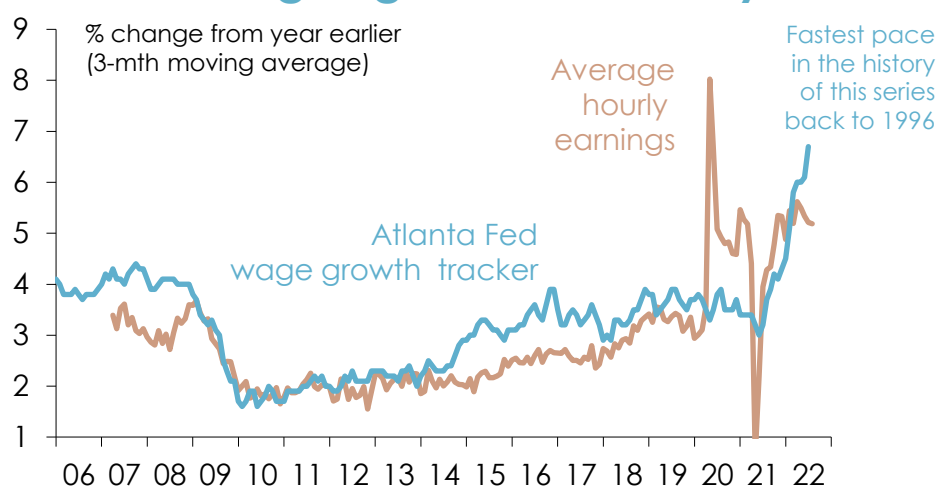
Average hourly earnings



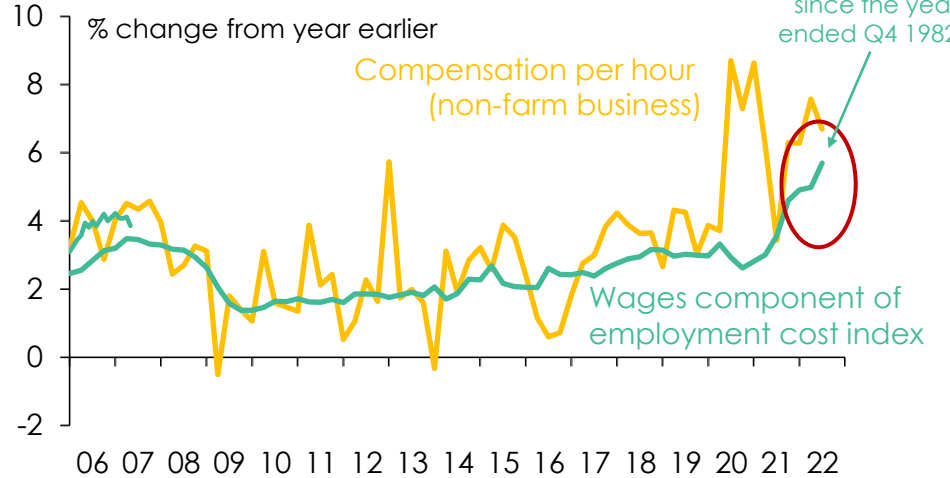
Average hourly earnings



Overall wages growth - monthly



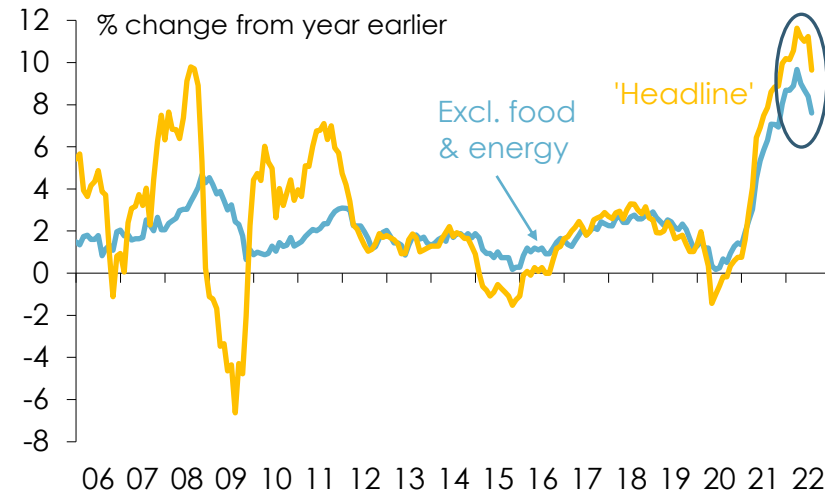
Wages growth - quarterly



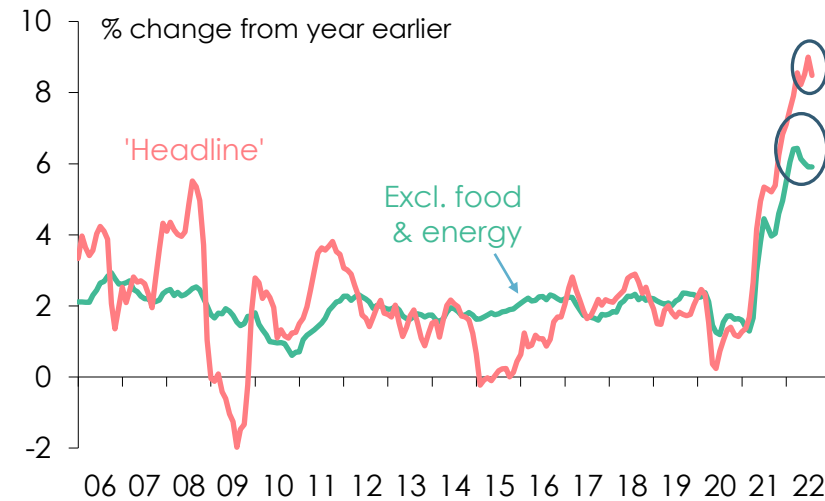
The Fed's preferred measure of 'core' inflation rose just 0.1% in July, taking the annual rate down another notch to 4.6%, from February's peak of 5.3%

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

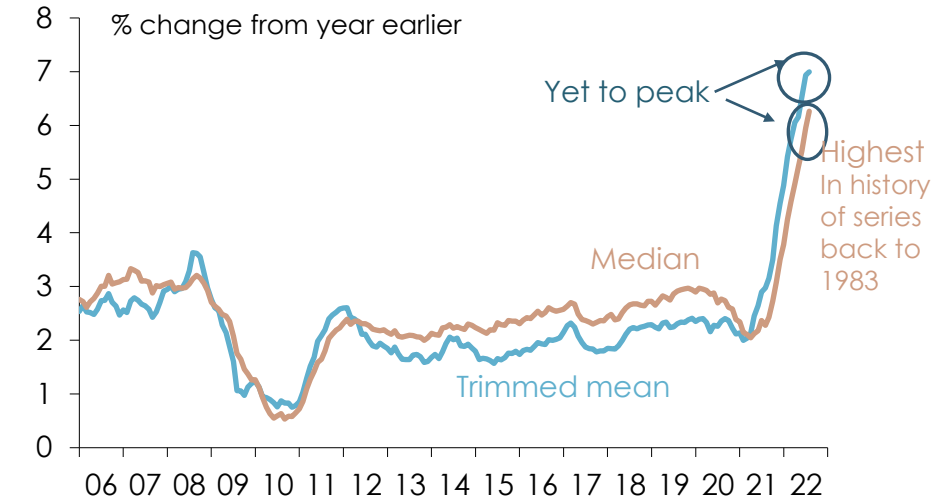
Producer price index



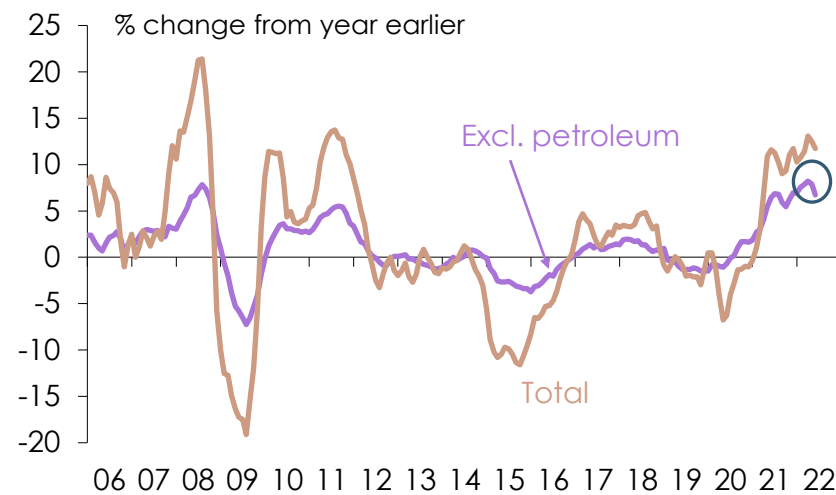
Consumer price index



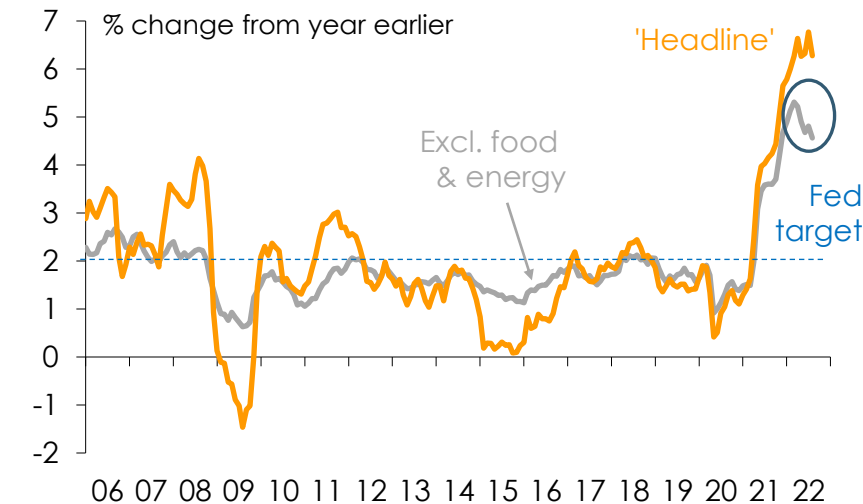
'Underlying' CPI inflation



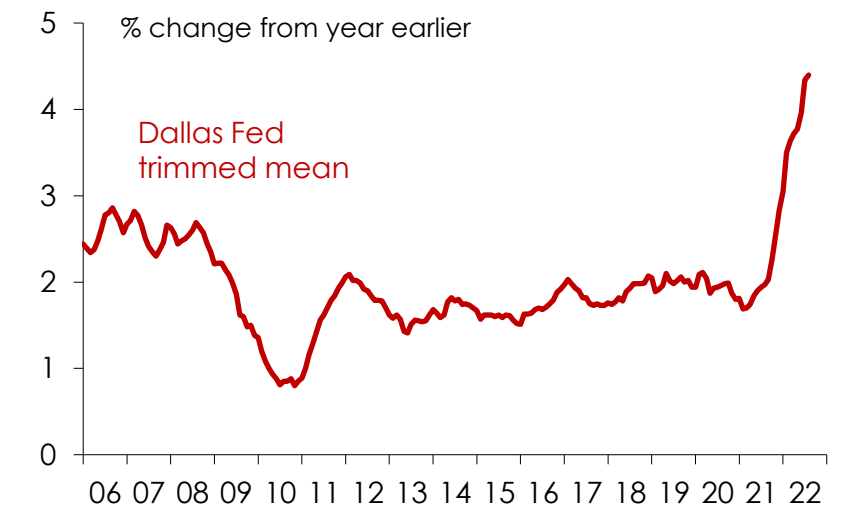
Import price index



Personal consumption deflator



'Underlying' PCE deflator inflation

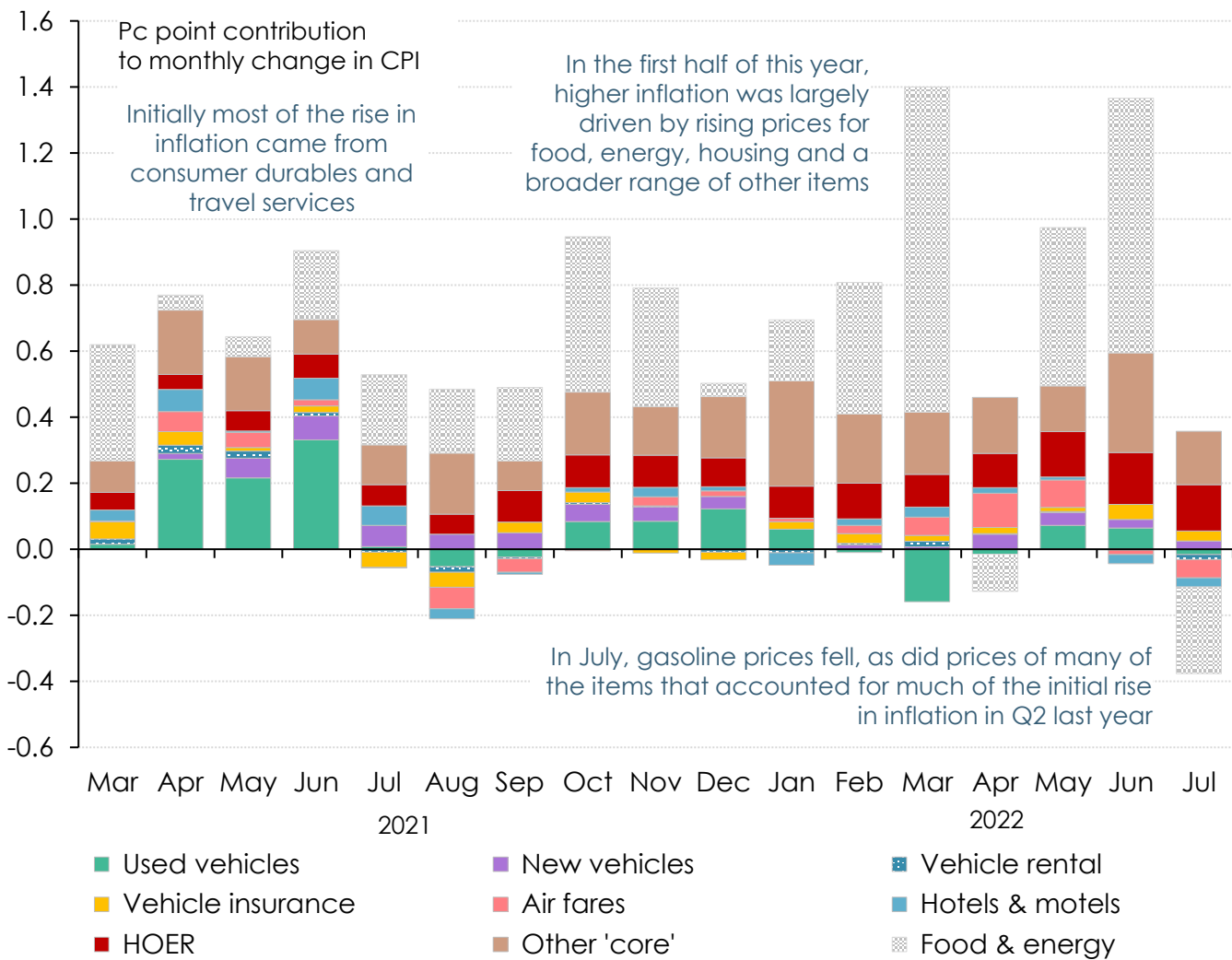


Sources: US Bureau of Labor Statistics, [Producer Price Index](#), [Import and Export Price Indexes](#) and [Consumer Price Index](#); US Bureau of Economic Analysis, [Personal Consumption Expenditures Price Index](#); Federal Reserve Bank of Cleveland, [Median CPI](#); Federal Reserve Bank of Dallas,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

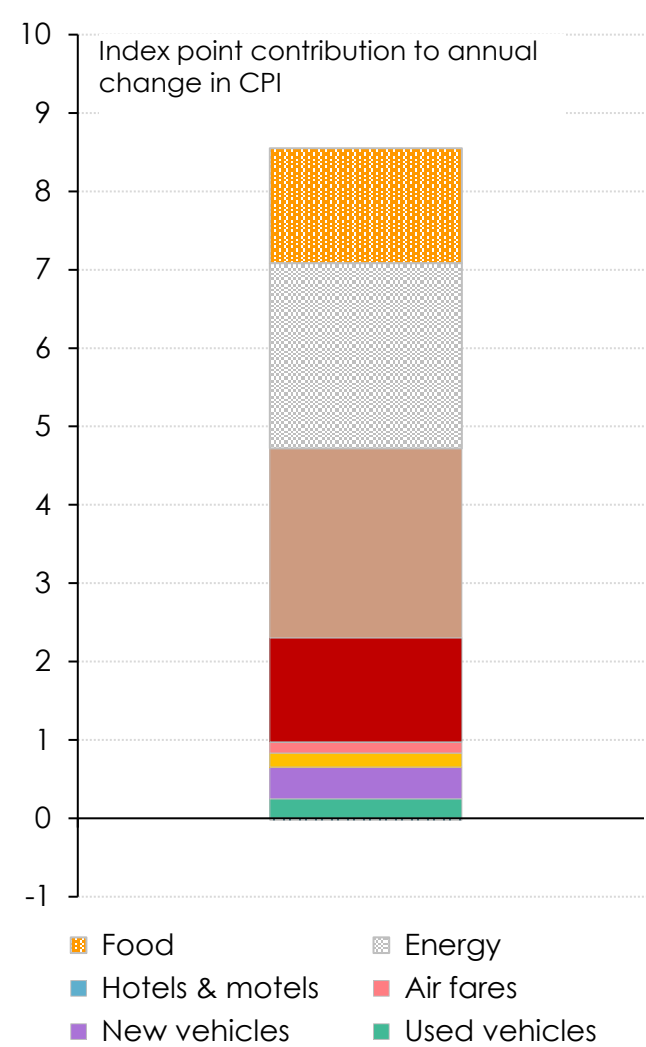
Energy prices fell in July, as did prices of many of the items that drove the original spike in inflation last year, but other prices are continuing to rise

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

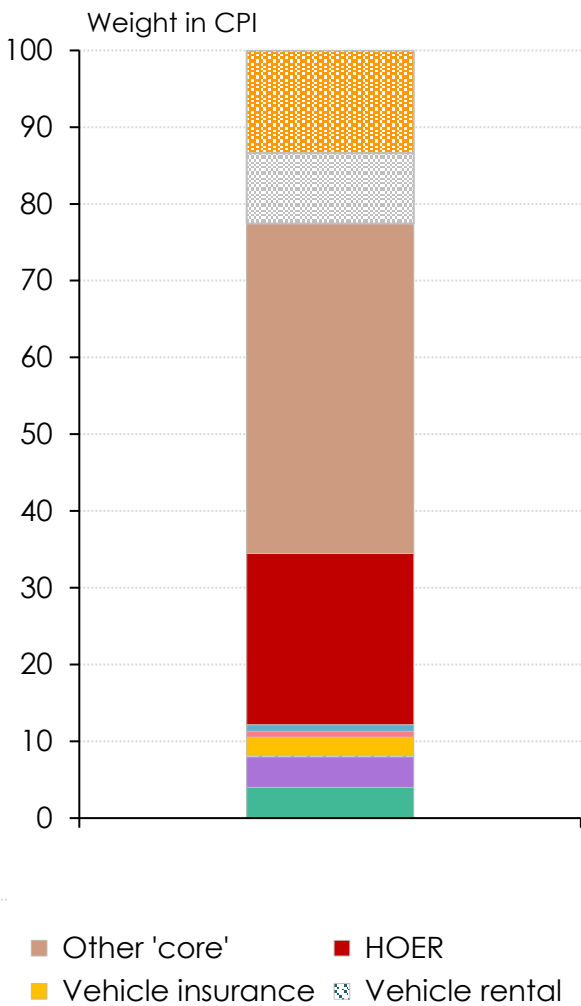
Contributions to monthly changes in the US CPI since March last year



Contributions to change in CPI over the year to July



Weights in CPI

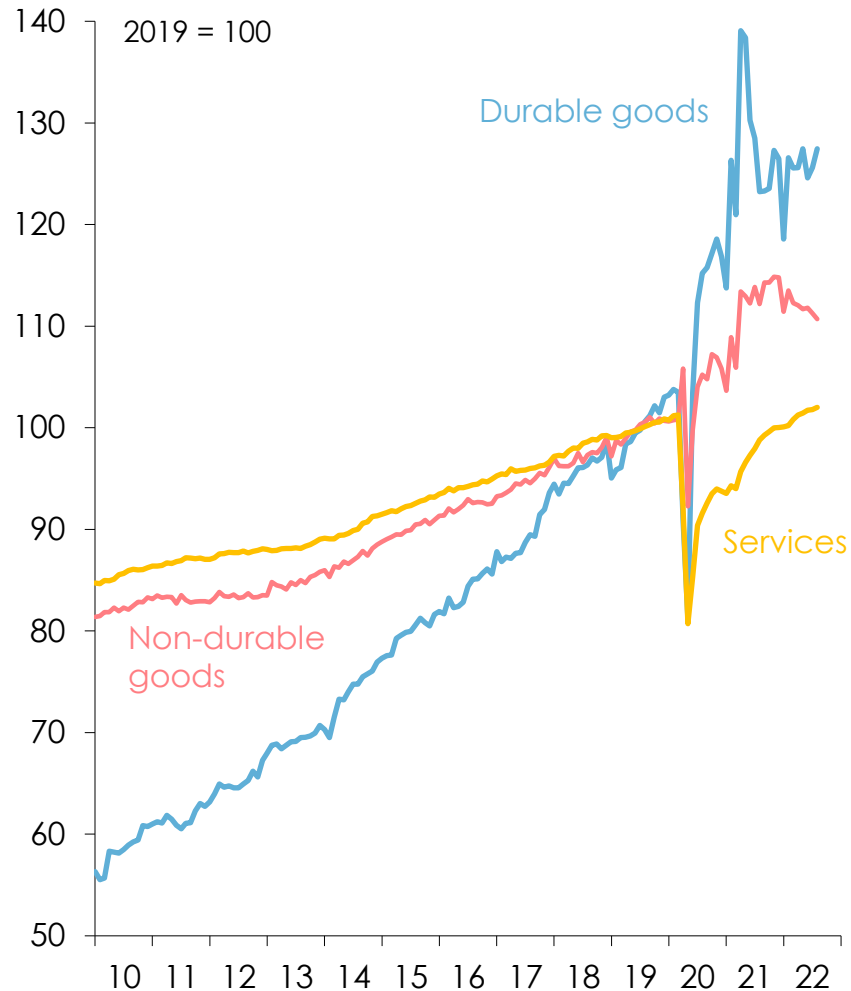


Note: 'HOER' = home-owners' equivalent rent (a measure of the 'imputed rent' notionally paid by owner-occupiers to themselves), and which accounts for (an uncommonly large, by international standards) 28½% of the CPI excluding food and energy. Source: US [Bureau of Labor Statistics](#), CPI Table 6;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

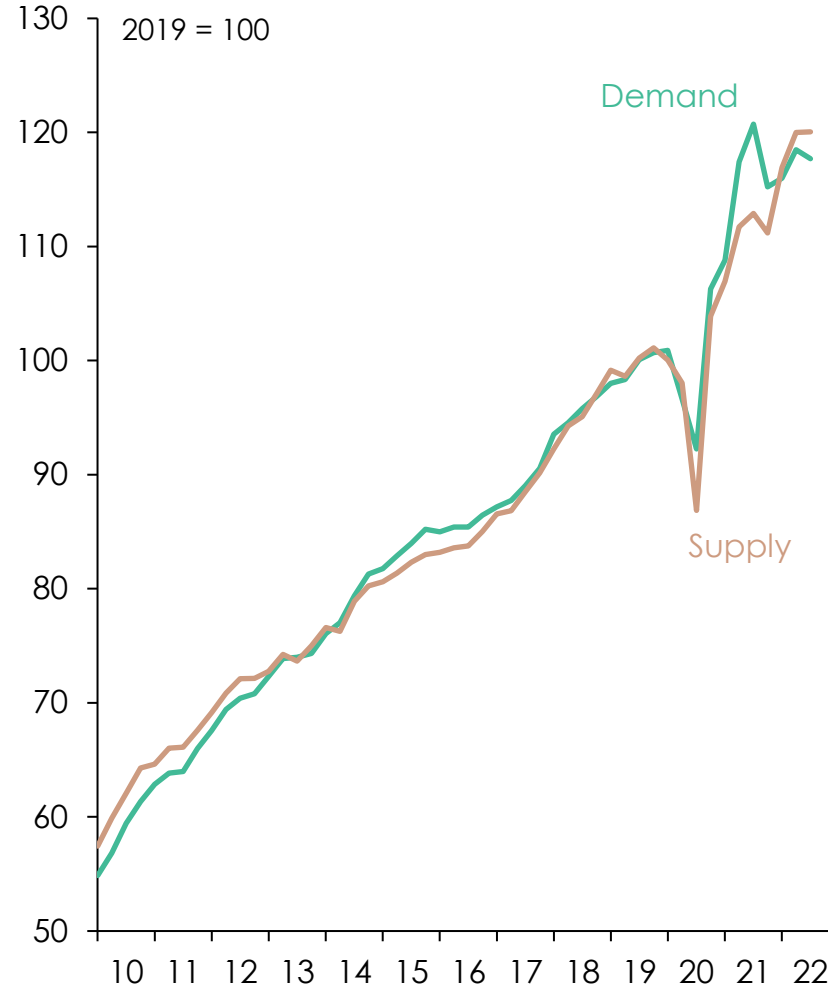
The rise in inflation has until recently been largely attributable to large imbalances between supply of and demand for durable goods

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

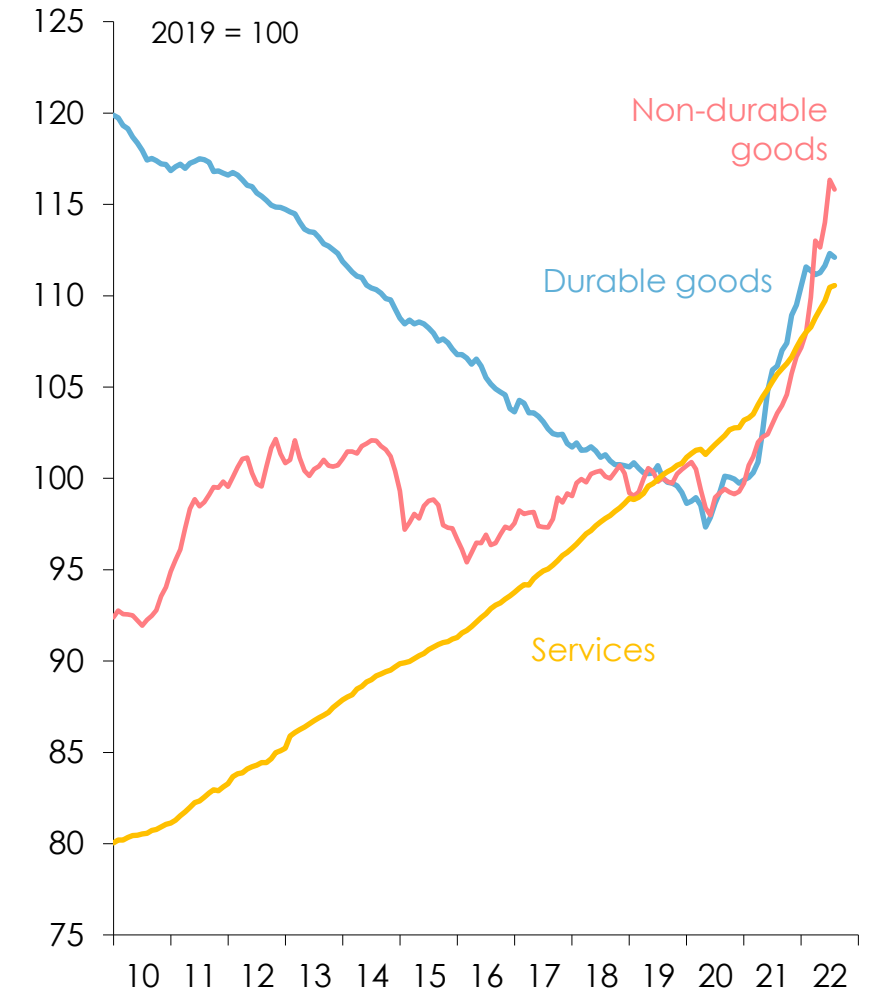
Composition of personal consumption expenditures



Aggregate demand for and supply of durable goods



Implicit price deflators of personal consumption

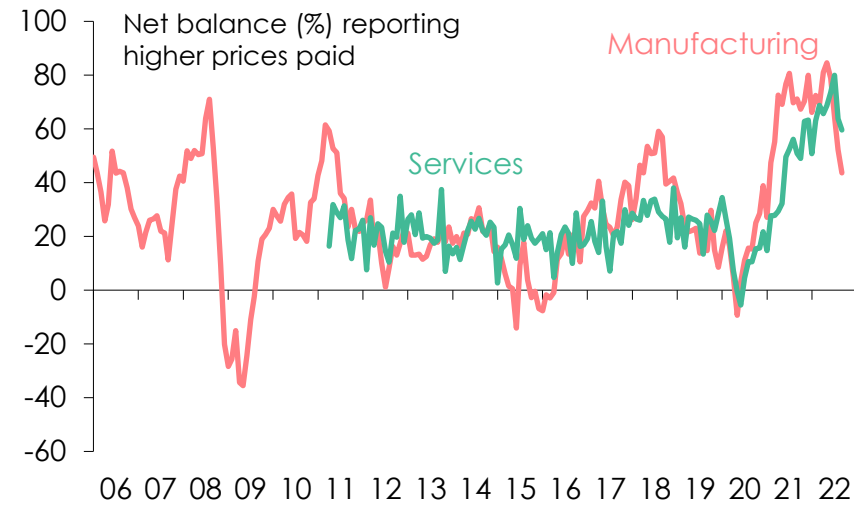


Note: 'Aggregate demand' for durable goods comprises personal consumption of durable goods plus business investment in equipment. 'Aggregate supply' of durable goods comprises gross domestic product (final sales plus change in inventories) plus net imports of durable goods. Sources: US Bureau of Economic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

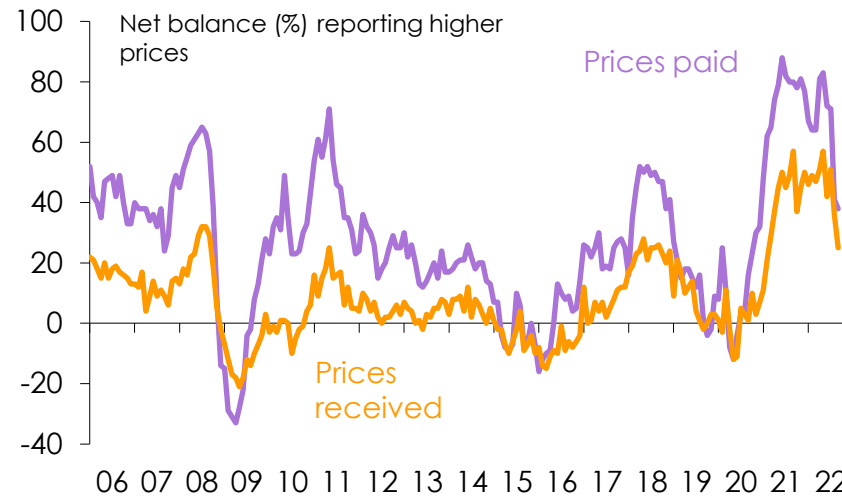
A range of US surveys are now hinting that 'upstream' inflation may have peaked – while longer-run household inflation expectations have fallen

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

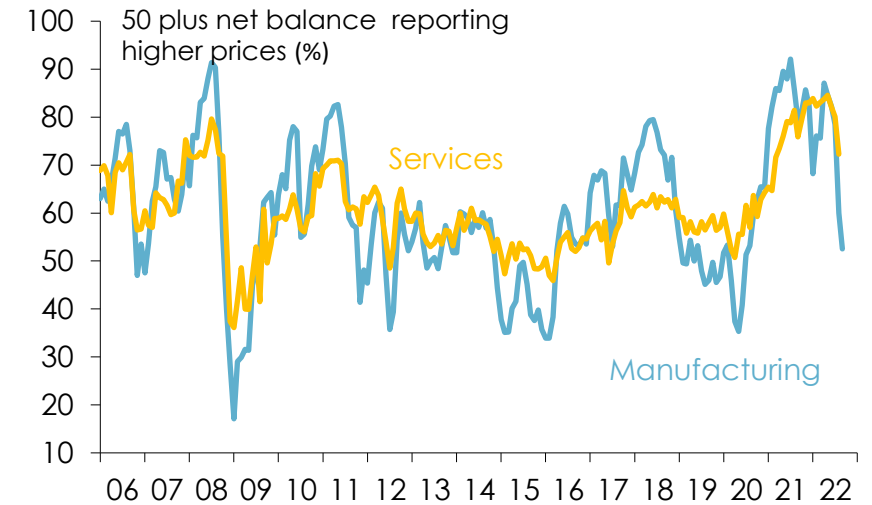
'Philly' Fed survey – prices paid



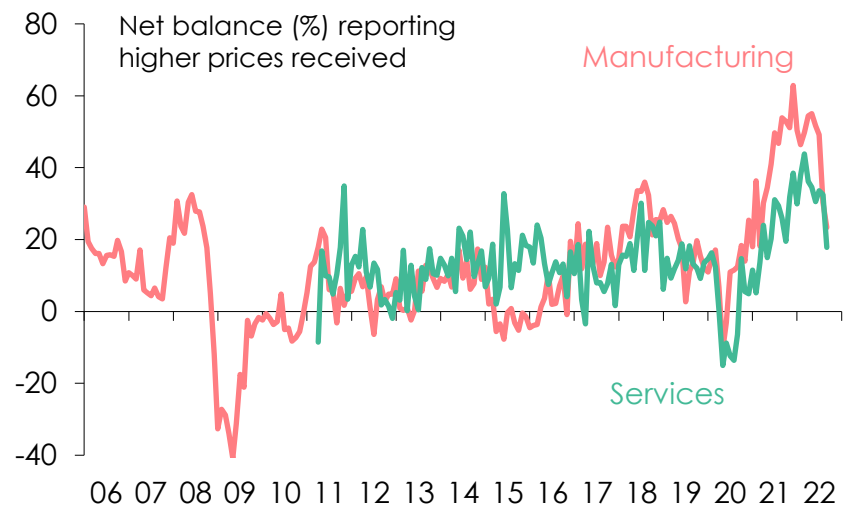
Kansas City Fed manufacturers survey



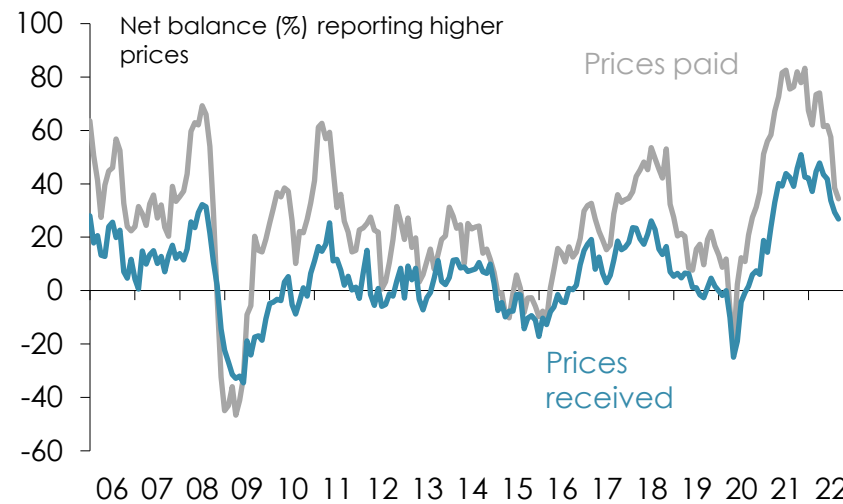
ISM survey – prices paid



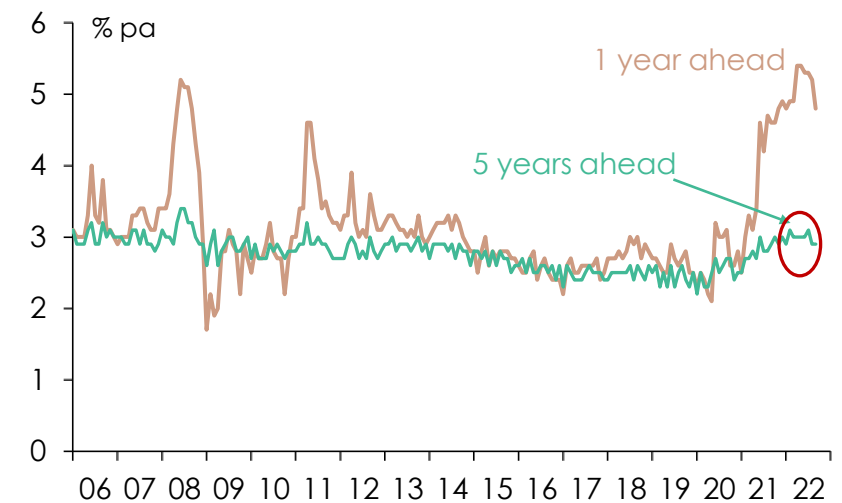
'Philly' Fed survey – prices received



Dallas Fed manufacturers survey



Household inflation expectations

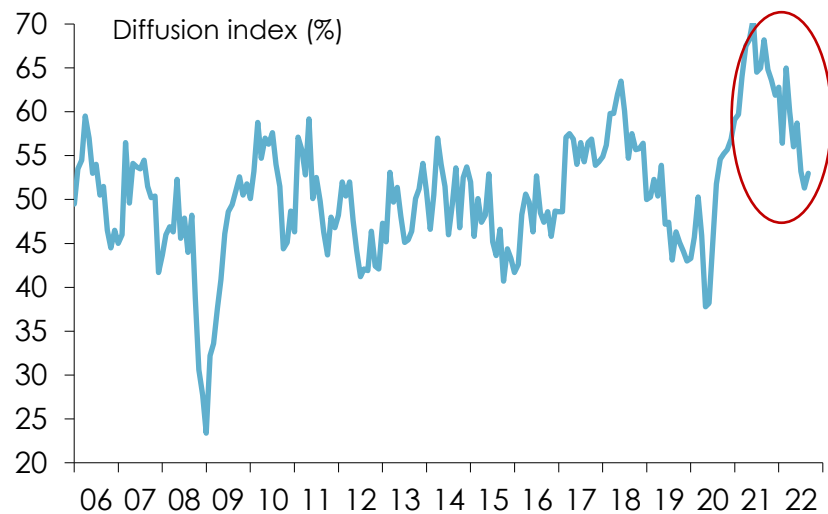


Sources: [Federal Reserve Bank of Philadelphia](#); [Federal Reserve Bank of Kansas City](#); [Federal Reserve Bank of Dallas](#); [Institute of Supply Management](#); [Michigan University Survey Research Center](#). [Return to "What's New"](#).

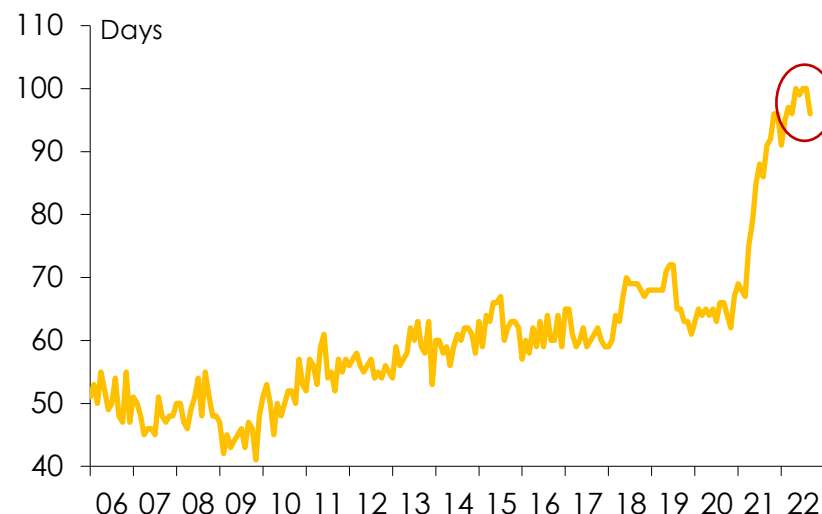
Supply-chain disruptions appear to be easing gradually, but there's still a long way to go

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

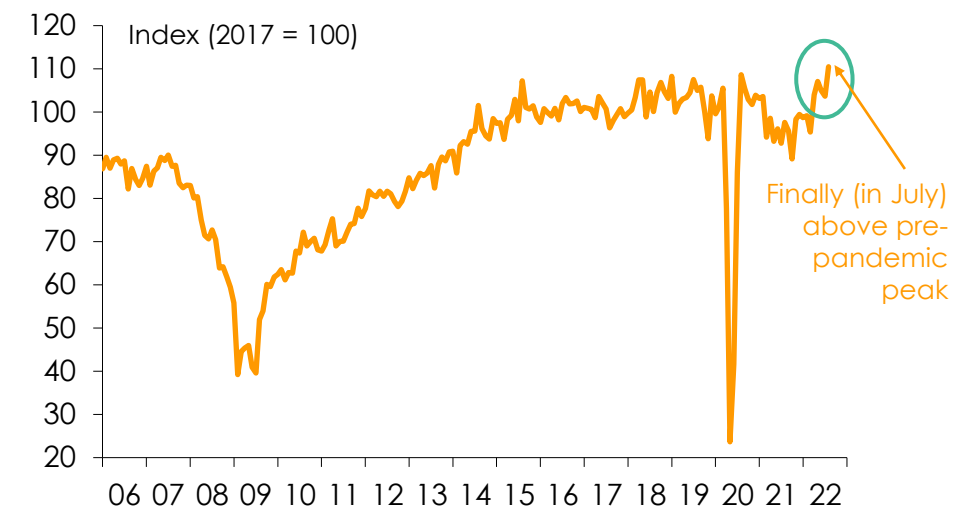
Manufacturers' order backlogs



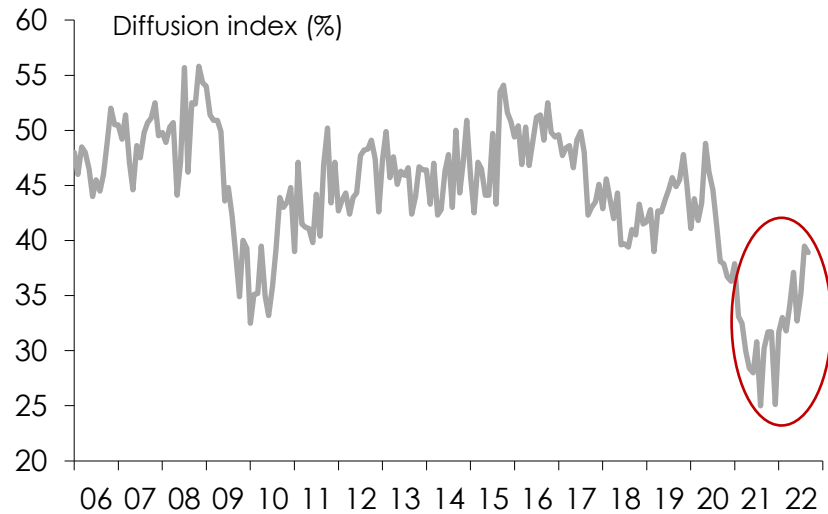
Lead-time for production materials



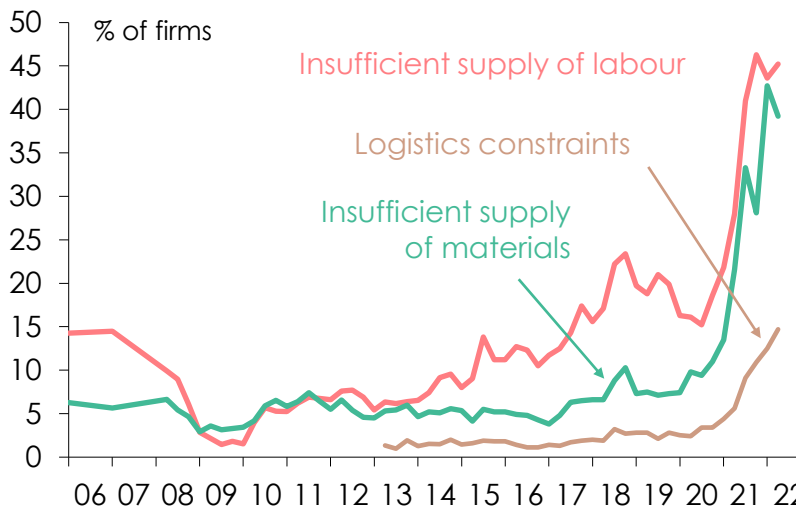
Motor vehicles & parts production



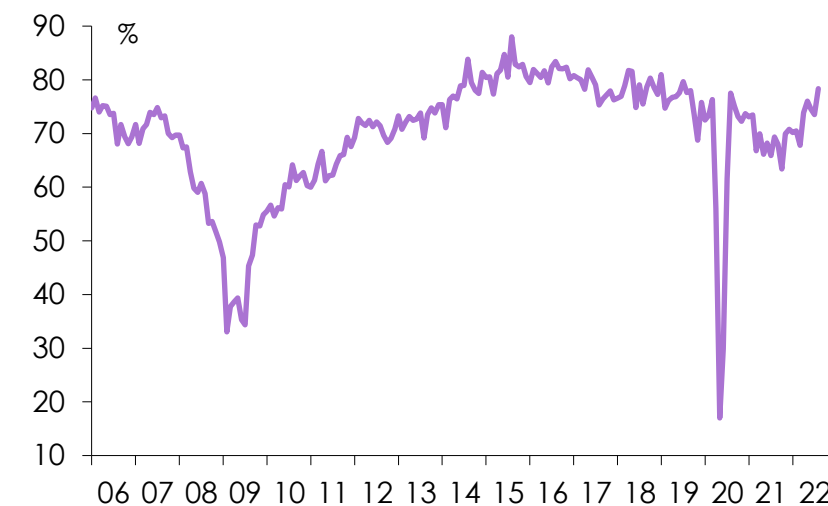
Manufacturers' customer inventories



Reasons for < full capacity



Auto industry capacity utilization

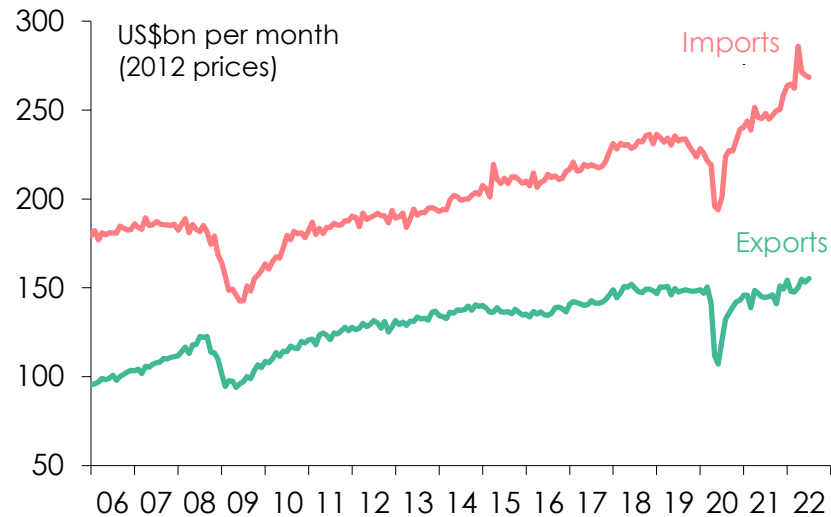


Note: The diffusion index of order backlogs is 50 plus the percentage of respondents reporting longer backlogs minus the percentage reporting shorter backlogs (and similarly for customer inventories). 'Reasons for < full capacity' means reasons for operating at less than full capacity. Sources: Institute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

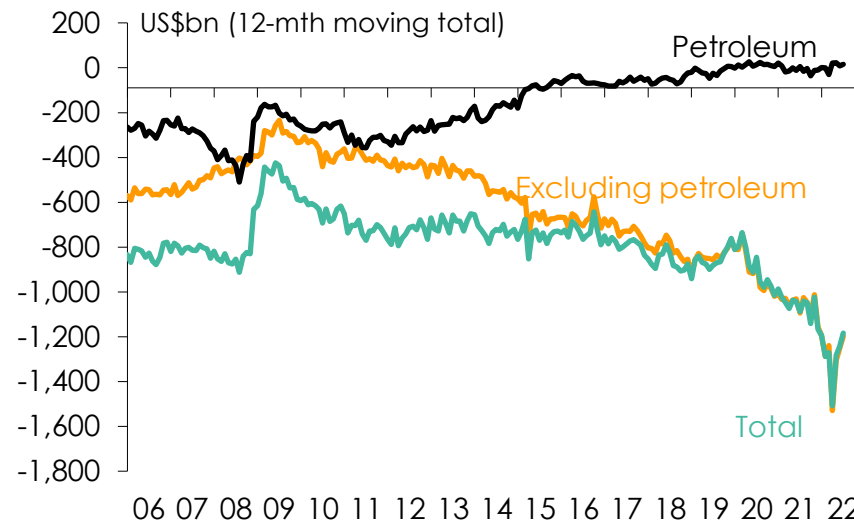
The US goods & services trade deficit narrowed by \$5.3bn to \$79.6bn in June, the smallest this year, with exports up 1.7% and imports down 0.3%

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

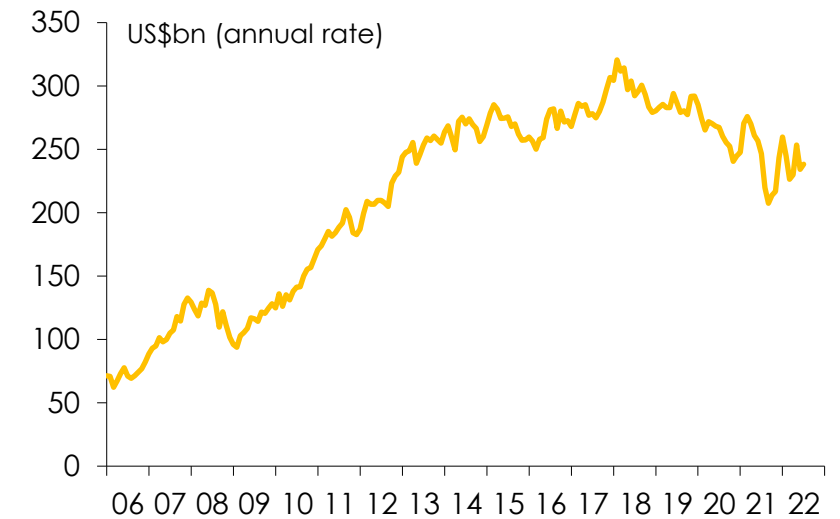
US merchandise trade volumes



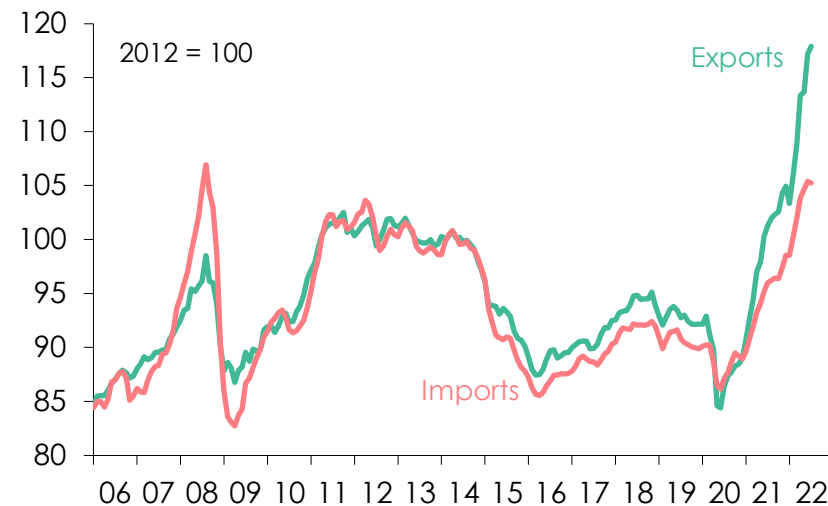
US goods trade balance



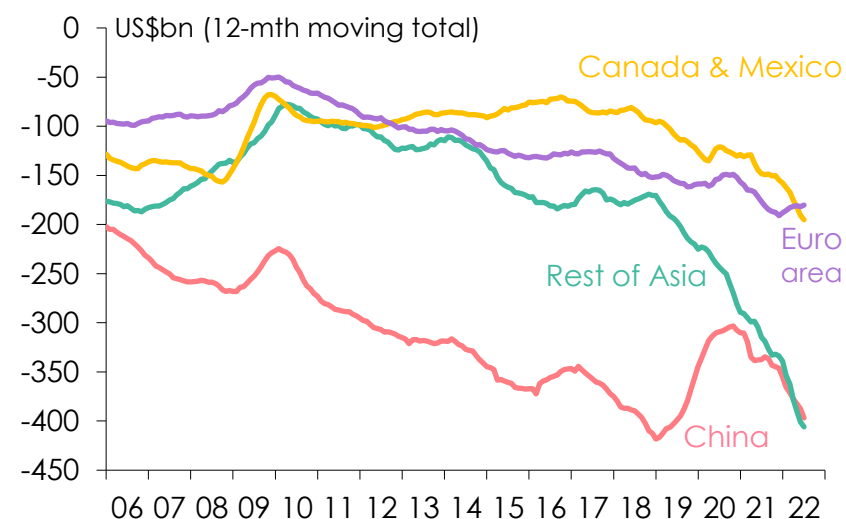
US services trade balance



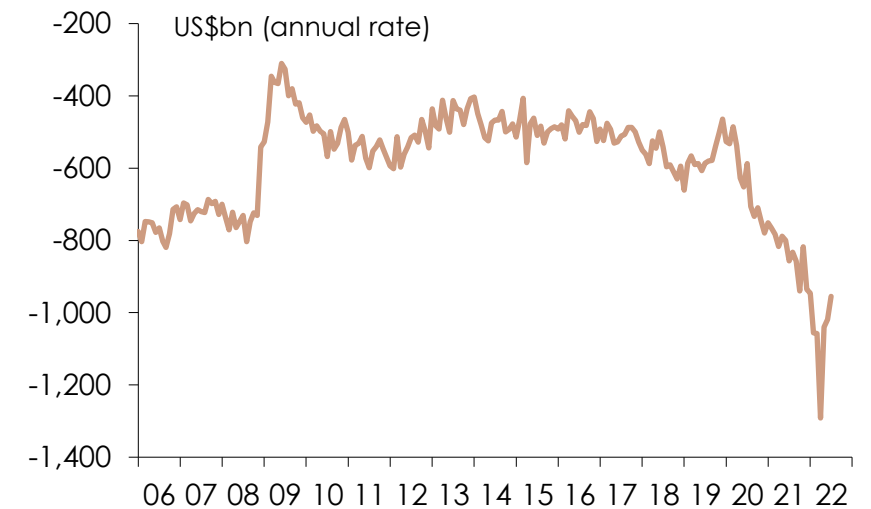
US merchandise trade prices



US bilateral goods trade balances



US goods & services trade balance

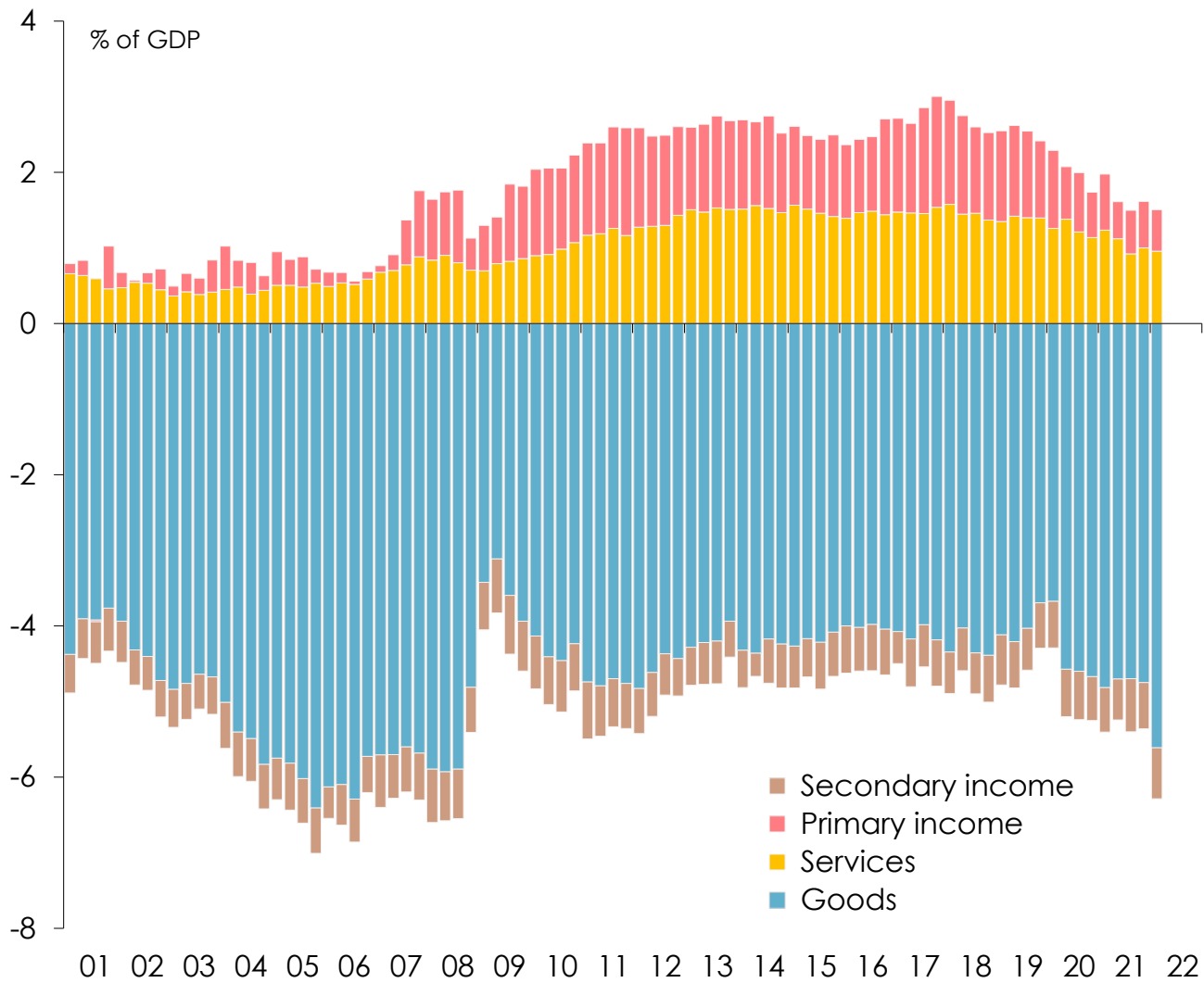


Source: US Census Bureau, [Foreign Trade](#); and US Bureau of Economic Analysis, [Advance Economic Indicators](#), and [U.S. International Trade in Goods and Services](#).
[Return to "What's New"](#).

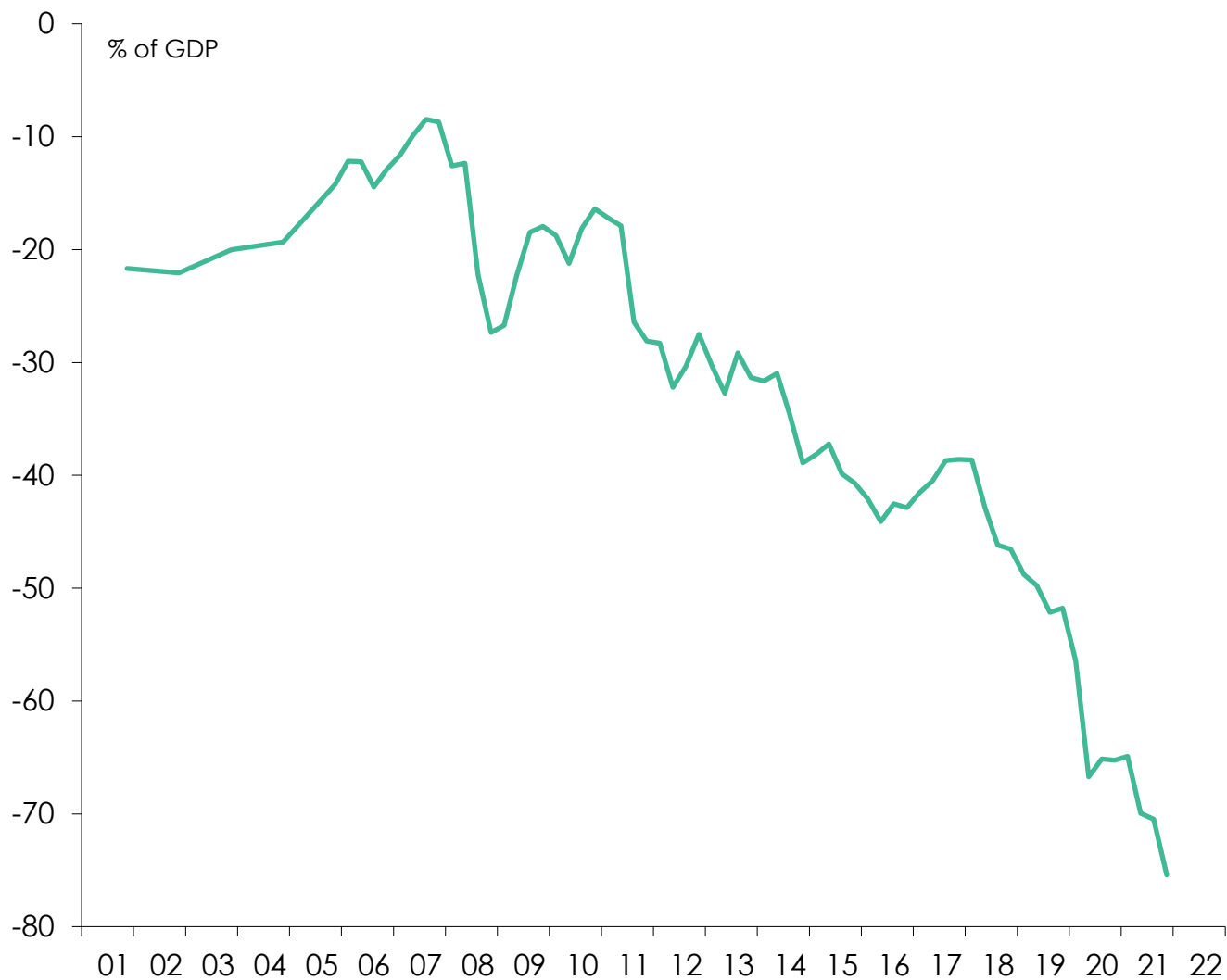
The US current account deficit widened to US\$291bn in Q1, the largest on record in dollar terms and the highest as a pc of GDP since Q3 2008

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

US current account balance



US net international investment position

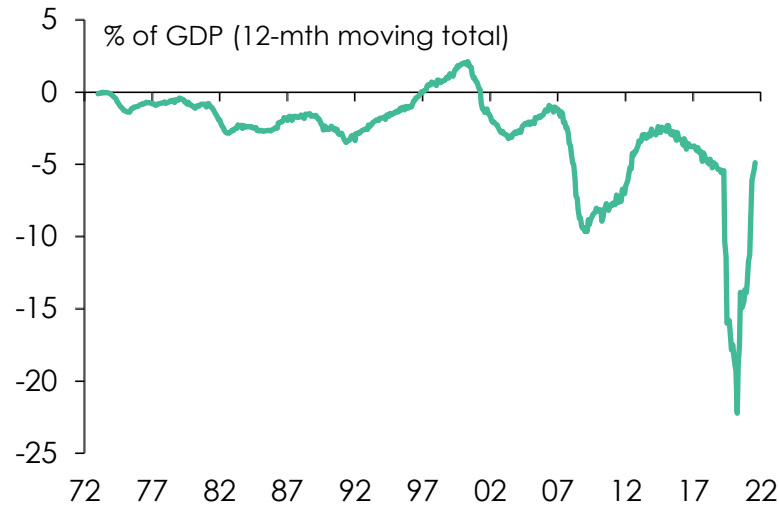


Note: 'Primary income' transactions are those involving investment income or compensation of employees. The US typically runs a surplus on investment income despite having a negative net international investment position since 1989, because US investors are able to derive much higher returns from their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

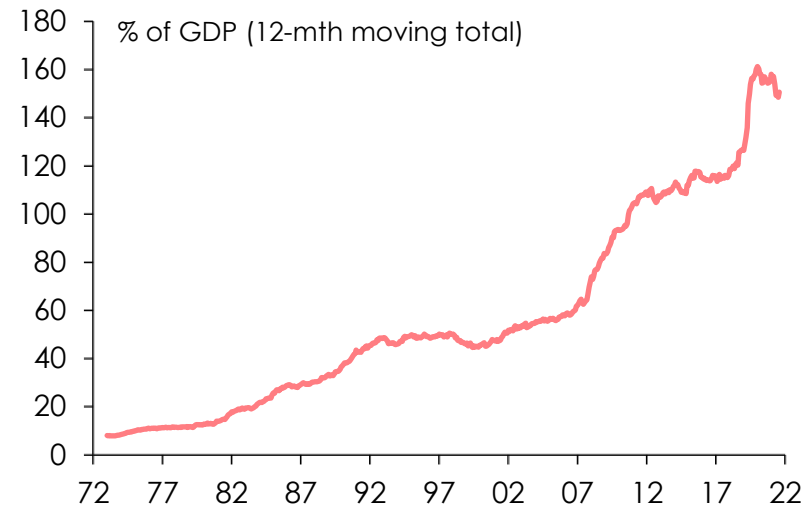
The US Federal budget deficit is continuing to decline sharply, as a result of surging tax revenues and, to a lesser extent, falling spending

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

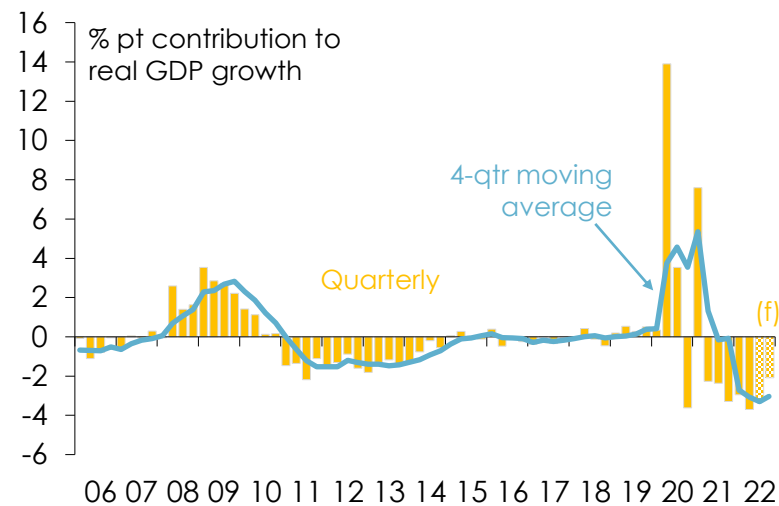
US Federal budget deficit



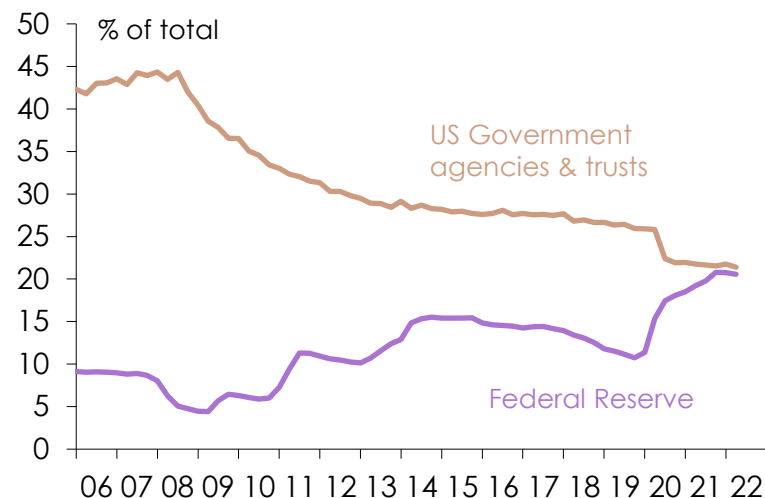
US gross Federal debt



Fiscal policy impact on GDP



Holdings of US Federal debt



- ❑ The US Federal Government recorded a budget deficit of US\$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
- ❑ Congress passed, and President Biden signed, 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 Chair Jerome Powell's speech to the Jackson Hole conference conveyed a notably hawkish tone

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

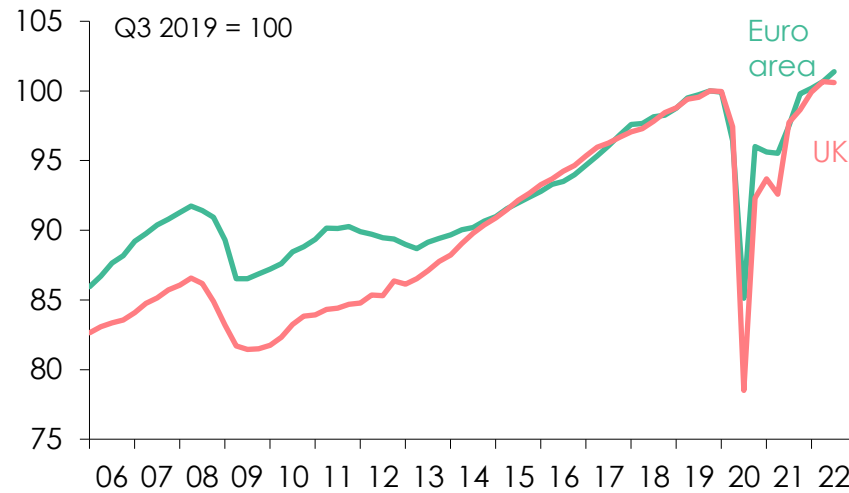
- ❑ Jerome Powell's [address](#) to the annual Kansas City Fed Jackson Hole conference represented a forceful affirmation of the Fed's determination to bring inflation back down to the Fed's target
 - he emphasized that “restoring price stability will take some time”
 - and “requires using [the Fed's] tool forcefully to bring demand and supply into better balance”,
 - which is “likely to require a sustained period of below-trend growth” and “some softening of labour market conditions”
- ❑ He explained that the Fed was “moving [its] policy stance purposefully to a level that will be sufficiently restrictive to return inflation to 2%”
 - which, he implied, meant interest rates moving above estimates of “longer-run neutral”,
 - saying that “with inflation running far above 2% and the labour market extremely tight”, neutral was “not a place to stop or pause”
 - while noting that “longer-term inflation expectations appear to remain well anchored”, that was “not grounds for complacency” and emphasizing that “the longer the current bout of inflation continues, the greater the chance that expectations of higher inflation will become entrenched
- ❑ He also sought to counter any expectations that interest rates might start coming down soon after reaching their peak
 - “restoring price stability will likely require maintaining restrictive policy stance for some time”,
 - and “the historical record cautions strongly against prematurely loosening policy”
- ❑ Financial markets interpreted Powell's remarks as indicating that a third consecutive 75 bp increase in the fed funds rate was likely at the next FOMC meeting on 20-21st September

Europe

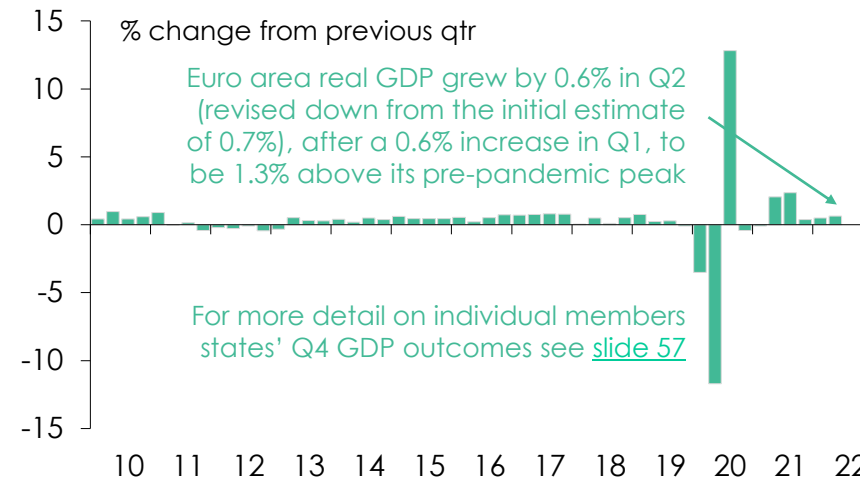
The UK's real GDP shrank 0.1% in Q2, due to falls in private and government consumption, and in public investment

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

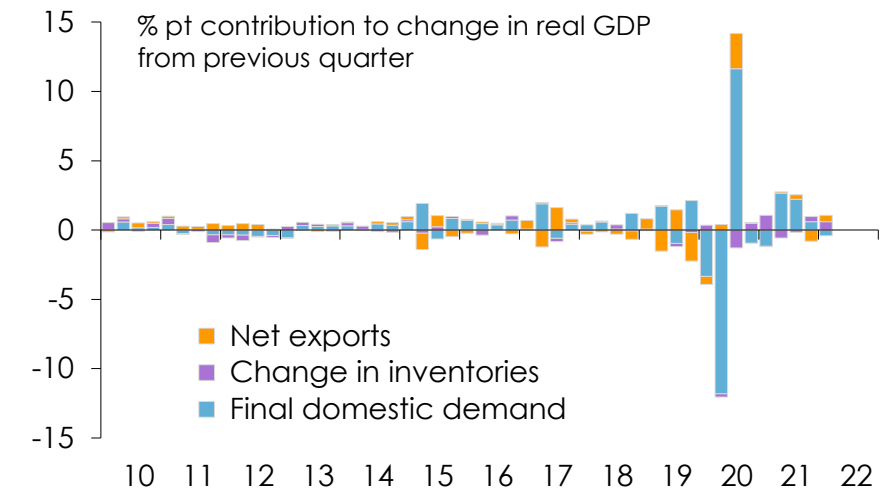
Euro area and UK real GDP



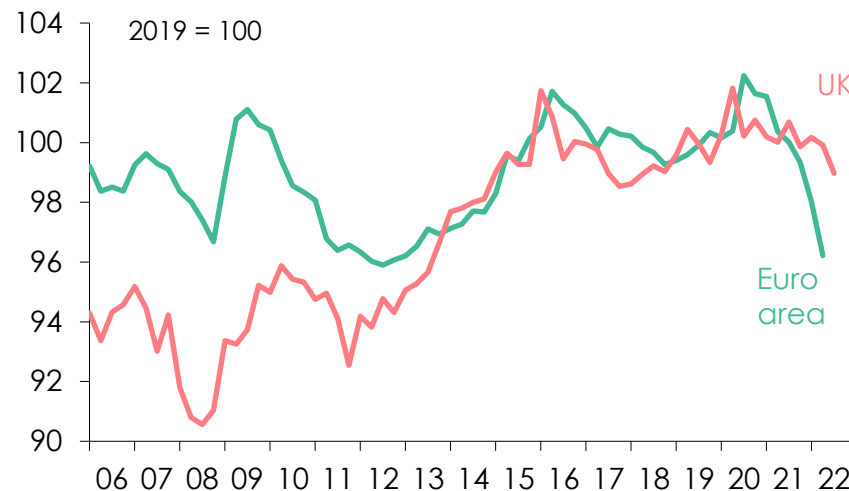
Euro area quarterly GDP growth



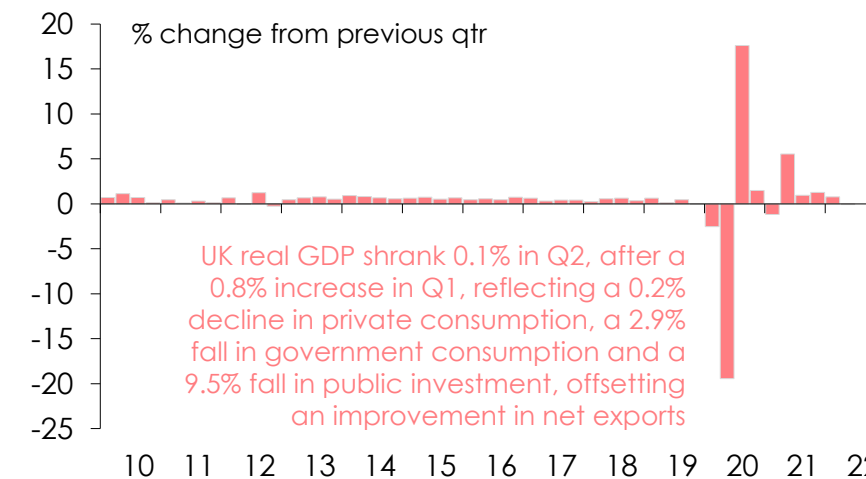
Contributions to quarterly EA GDP



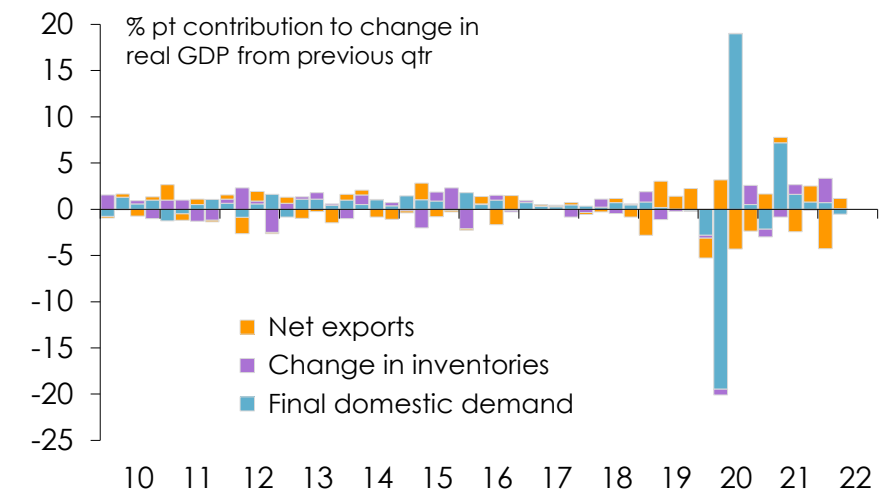
Euro area and UK terms of trade



UK quarterly GDP growth



Contributions to quarterly UK GDP

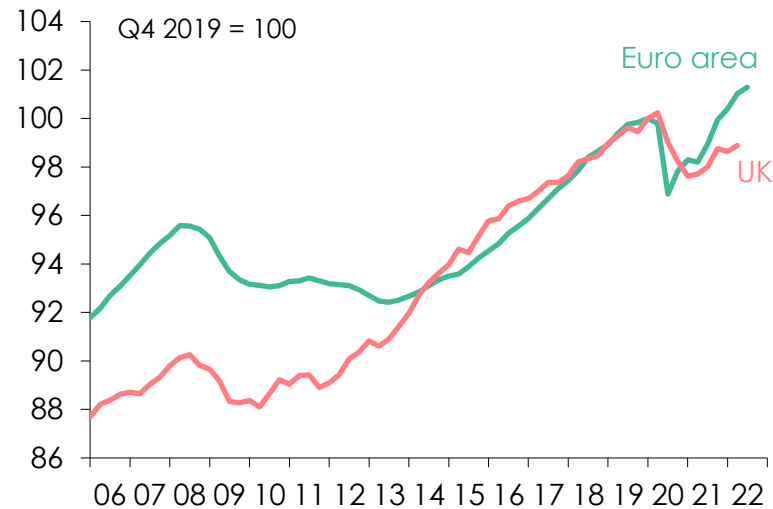


Note: the 'terms of trade' is the ratio of the implicit price deflator of exports of goods & services to that of imports of goods & services – it gives an indication of the income gains or losses arising from changes in the prices of goods and services traded with the rest of the world. Sources: Eurostat,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

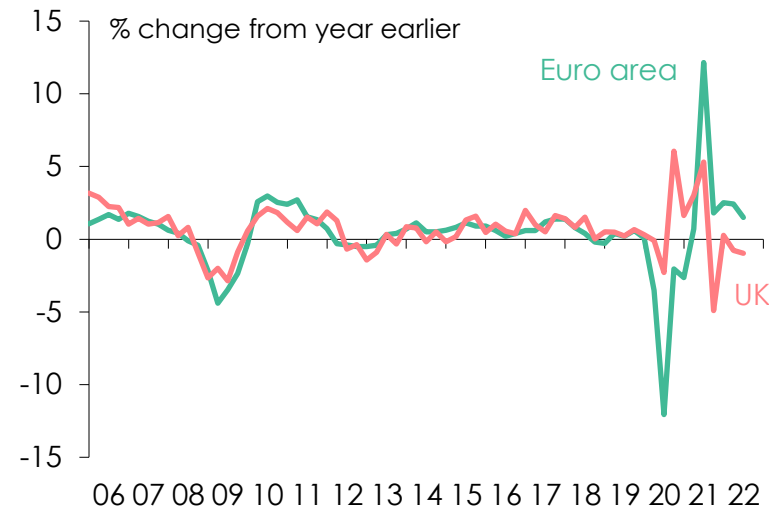
Euro area unemployment fell to a new record (since 1998) low of 6.6% in July, while the UK's unemployment rate remains at 3.8%

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

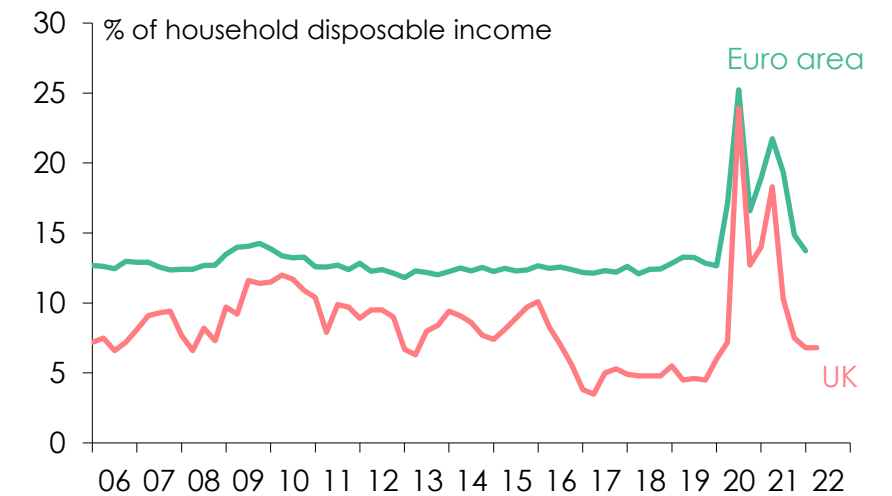
Employment



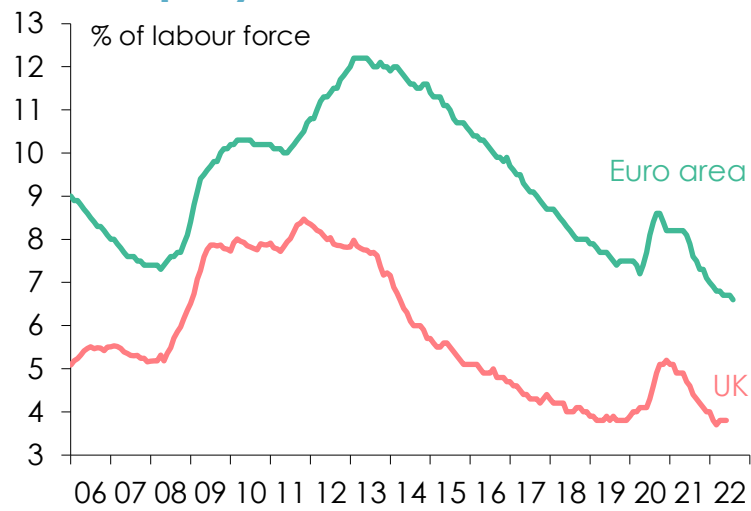
Labour productivity



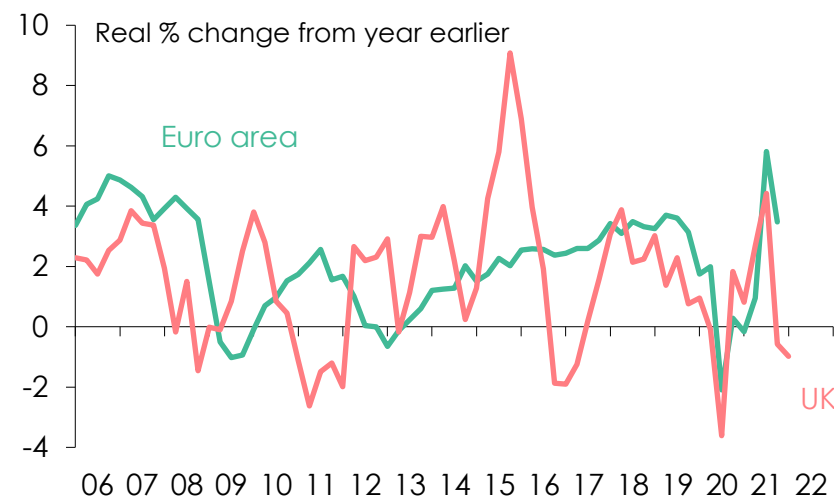
Household saving rates



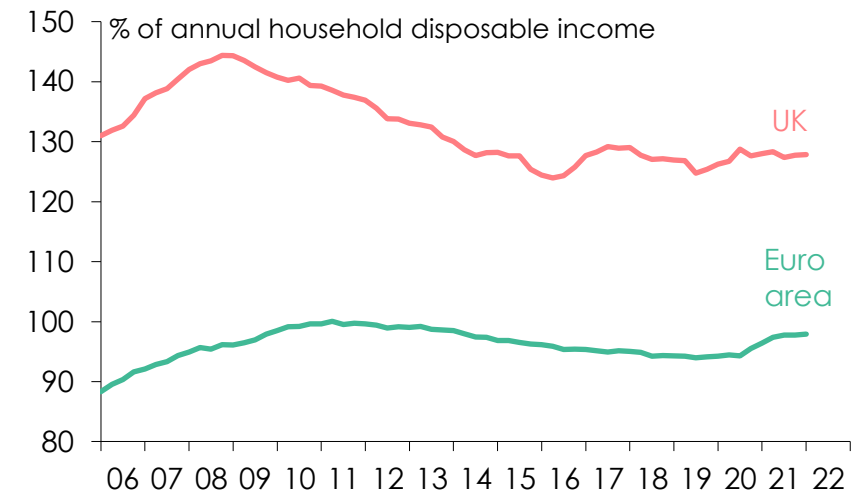
Unemployment rates



Household disposable income



Household debt

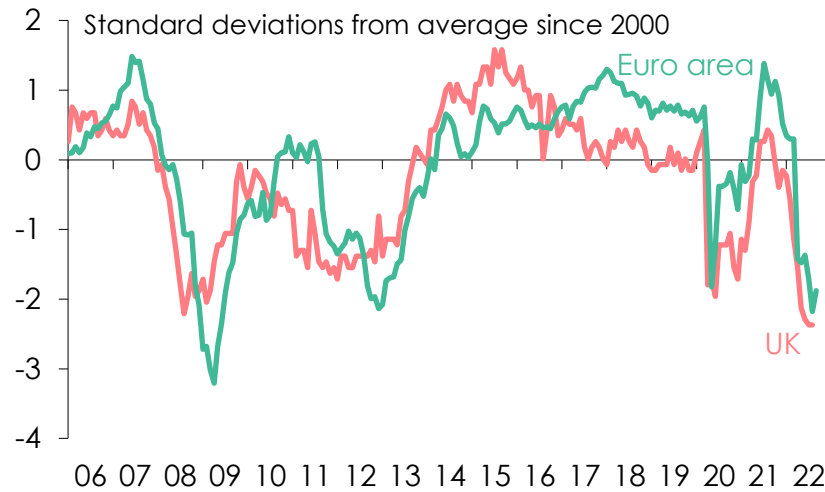


Sources: Eurostat, [Employment and unemployment \(Labour force survey\)](#), [Household saving rate](#) and [Labour productivity and unit labour costs](#); UK Office for National Statistics, [Employment in the UK](#), [Unemployment rate](#) (note, UK unemployment data are shown as a three-month moving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

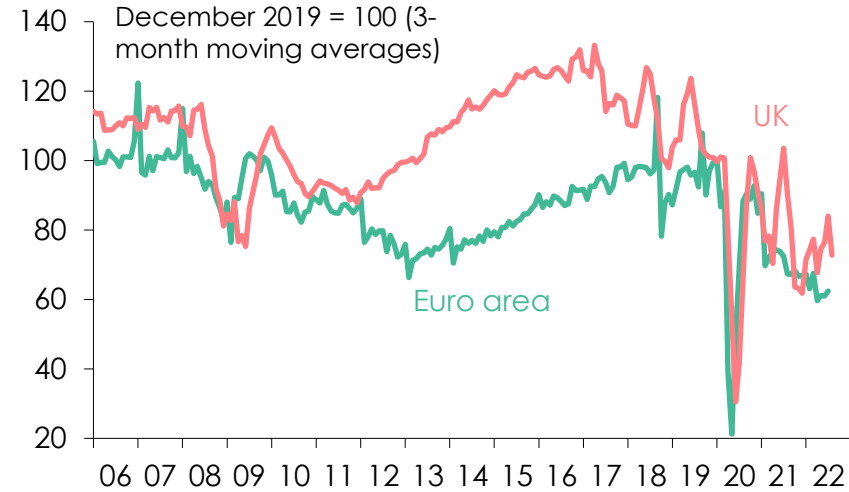
Euro area business confidence fell sharply in August, though (unlike consumer confidence) it hasn't dropped to recession levels

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

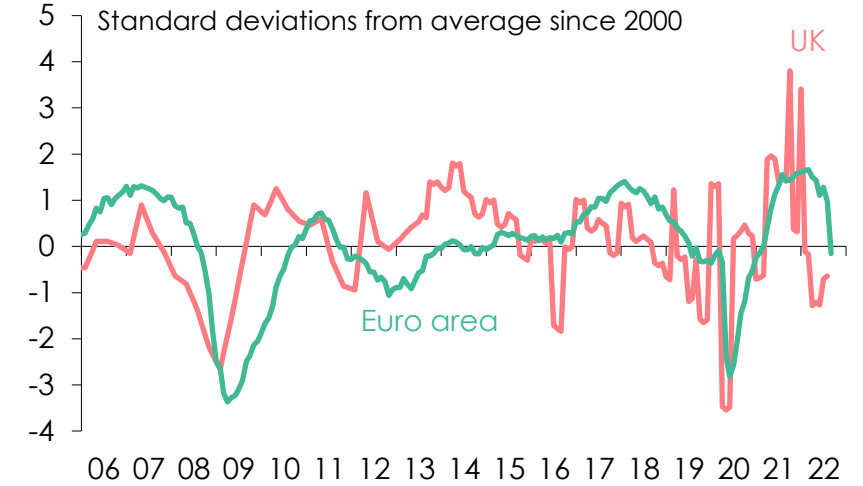
Consumer confidence



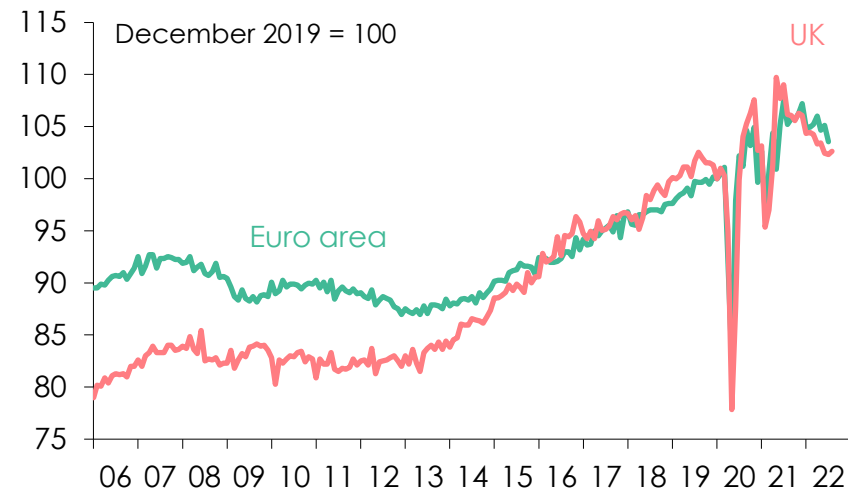
New car registrations



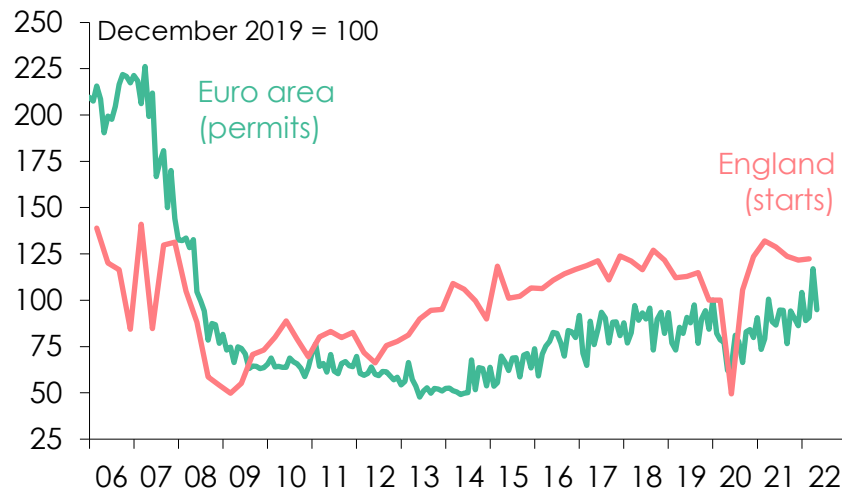
Business confidence



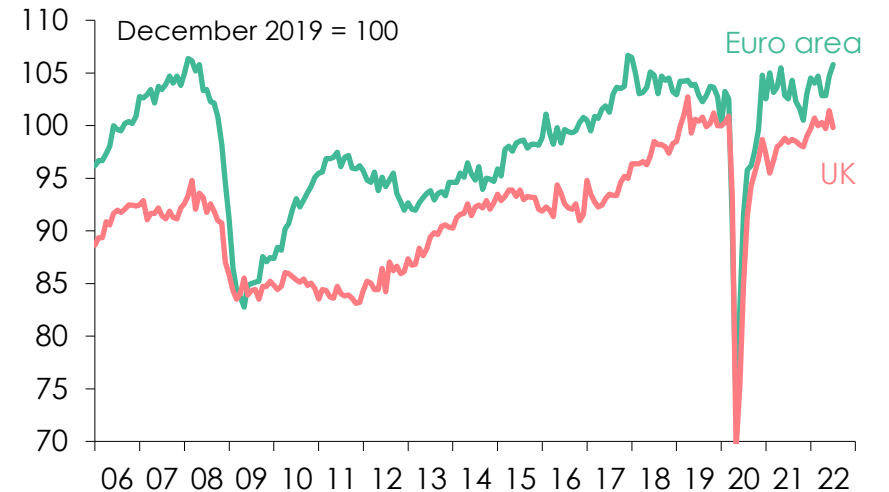
Retail sales volume



Housing activity



Manufacturing production

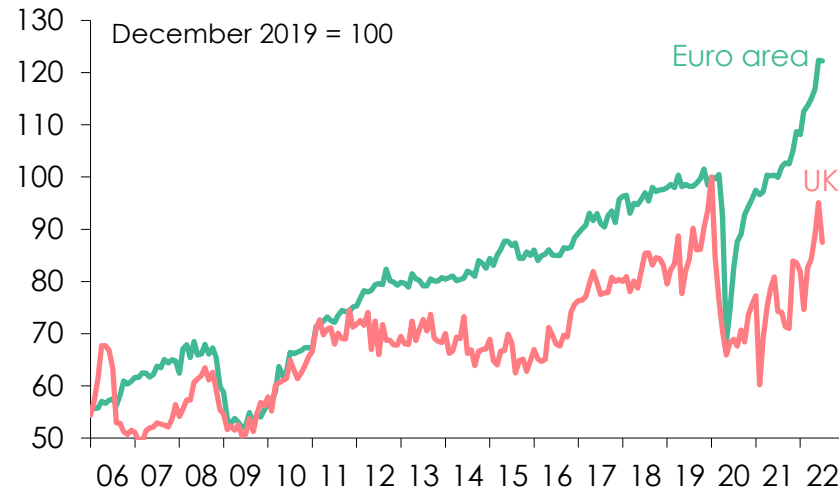


Sources: European Commission, [Business and consumer surveys](#); GfK, [Consumer confidence barometer](#); Confederation of British Industry, [Industrial Trends Survey](#); Eurostat, [Turnover and volume of sales in wholesale and retail trade](#), [New registrations of passenger cars](#), [Building permits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

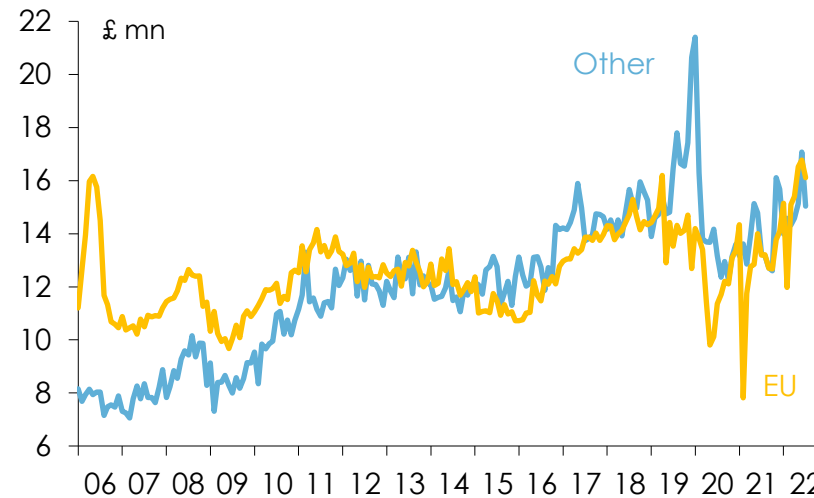
Higher prices for energy imports have caused the euro area's external balances to slip into deficit, and also widened the UK's external deficits

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

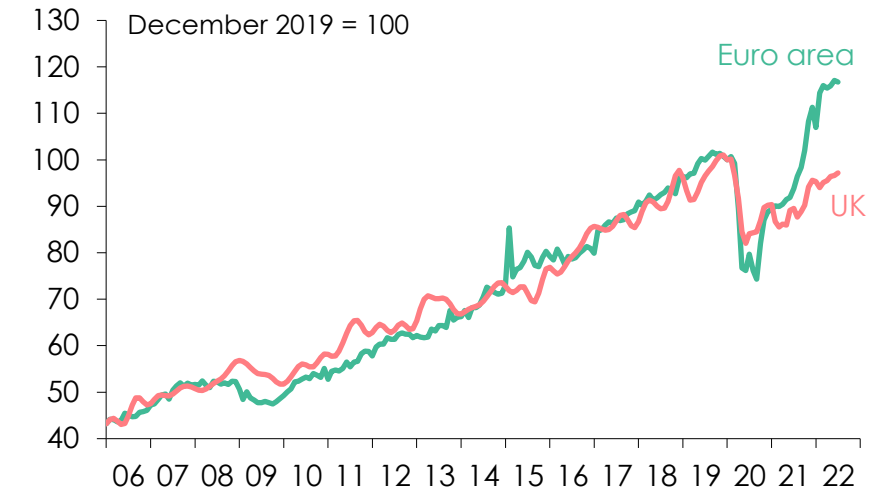
Merchandise exports



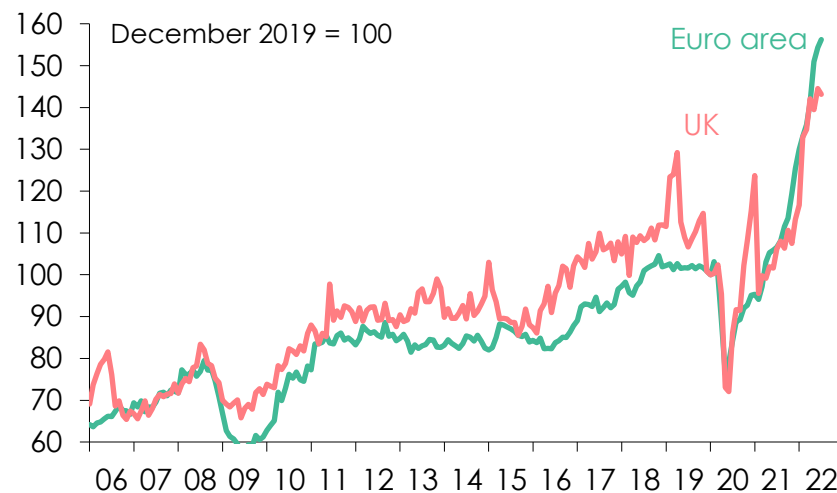
UK exports by destination



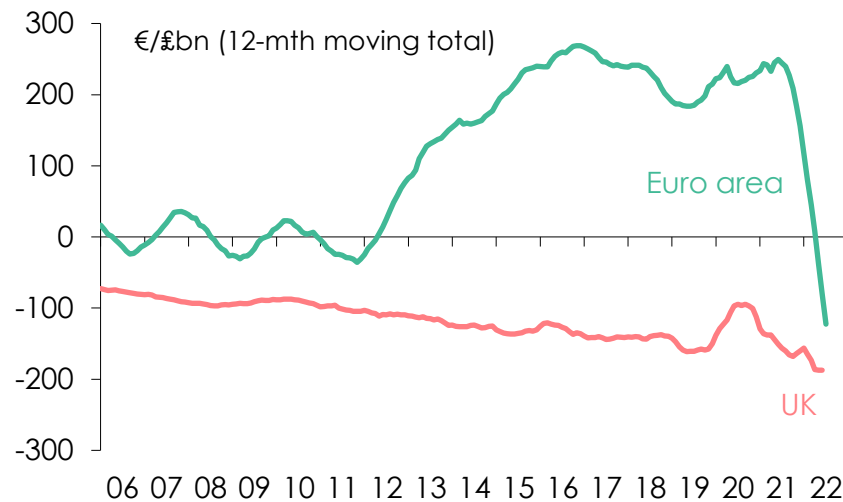
Services exports



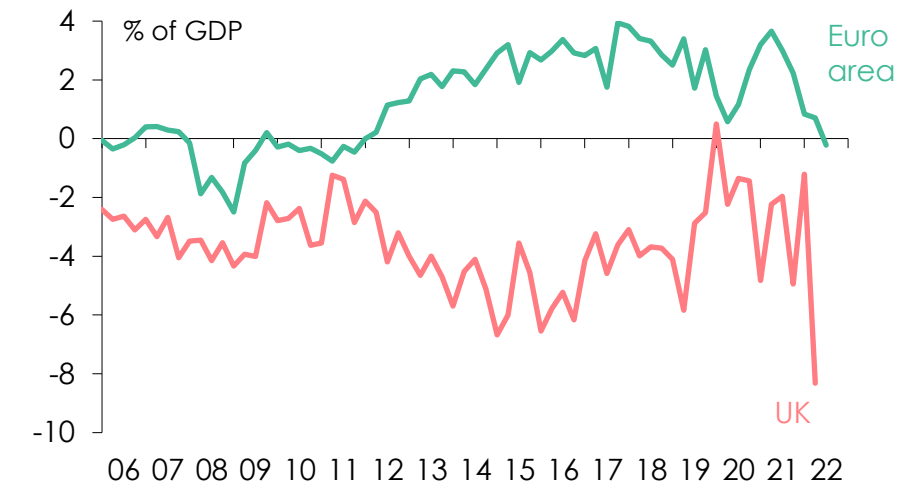
Merchandise imports



Merchandise trade balances



Current account balance

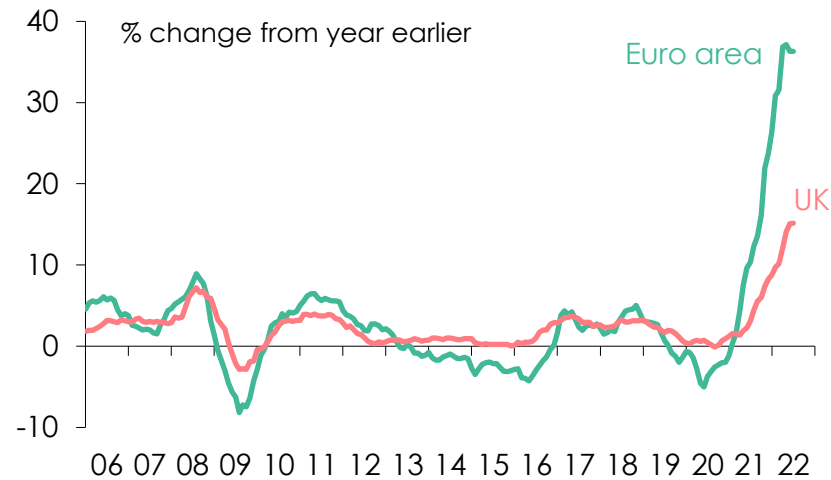


Sources: European Central Bank, Statistical Data Warehouse, [External Trade](#), [Balance of Payments and International Investment Position - Services](#), and [Balance of Payments and International Investment Position - Current Account](#); UK Office for National Statistics, [UK Trade](#) and [BoP Current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

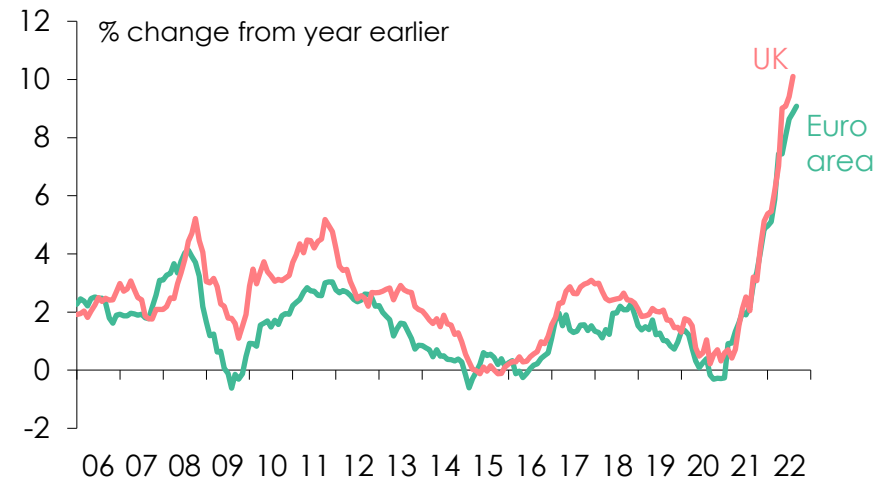
The euro area's headline inflation rate rose to 9.1% in August, and the core rate to 4.3%, both record highs

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

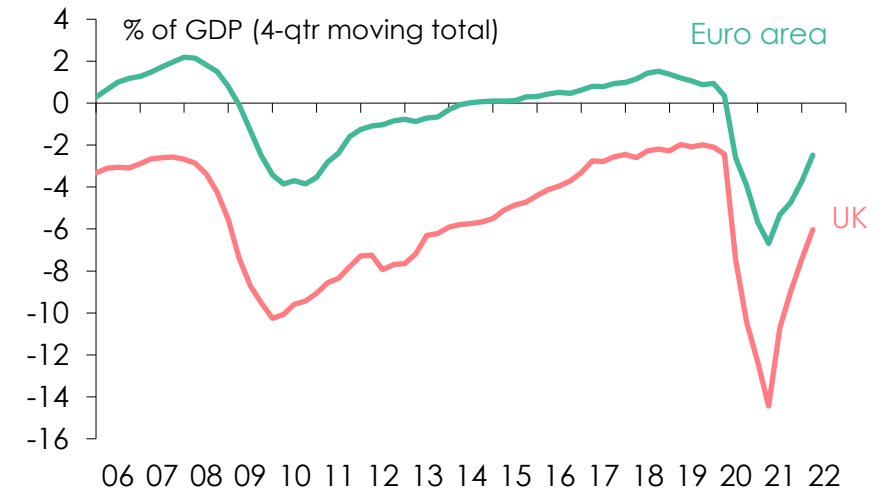
Producer prices



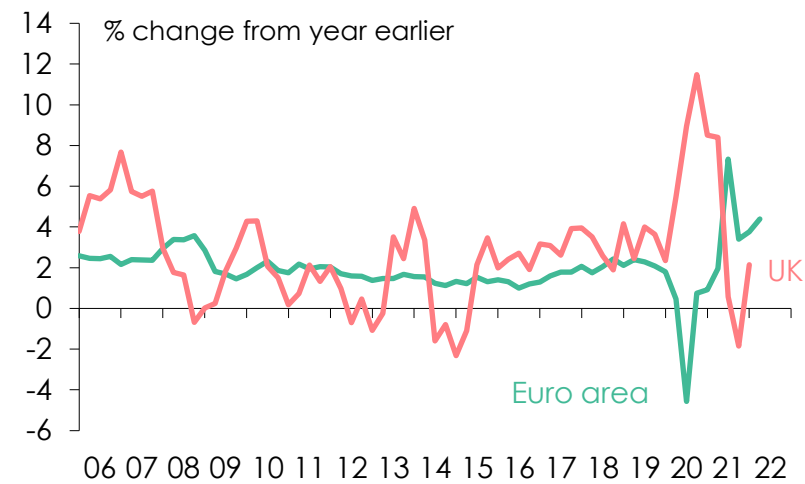
'Headline' consumer prices



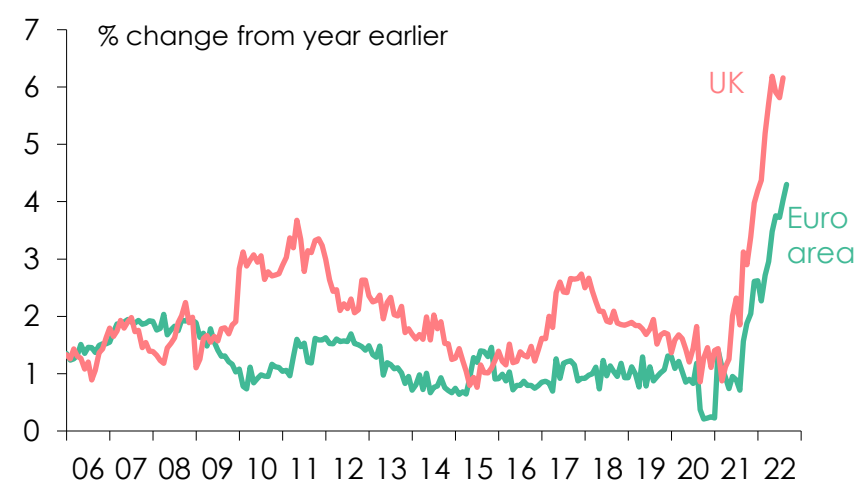
Government fiscal balance



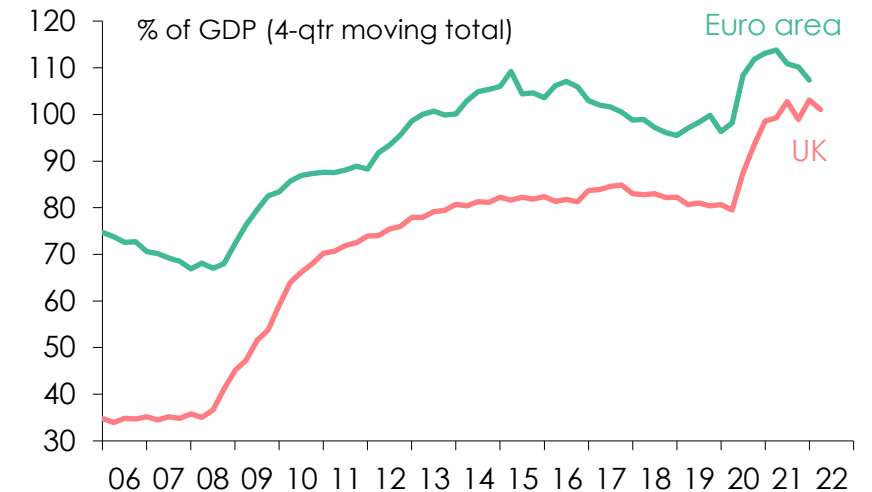
Labour costs



'Core' consumer prices



Government net debt

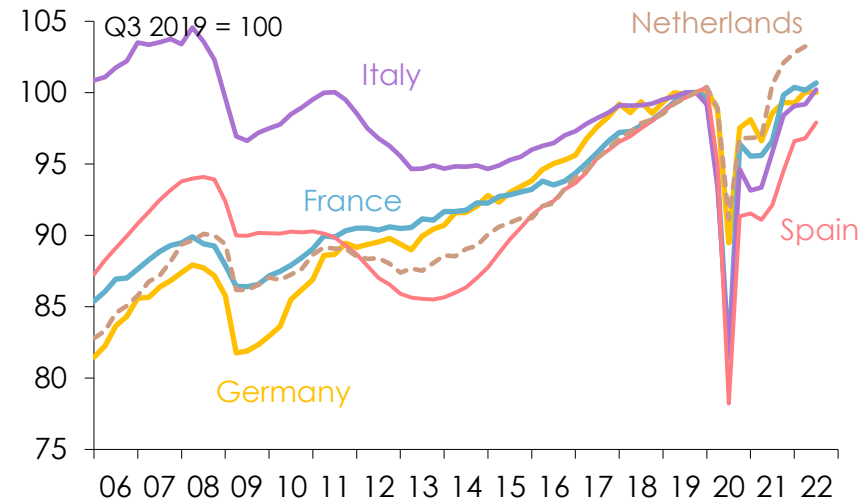


Note: Consumer price indices for the euro area and UK are 'harmonized' indices which exclude owner-occupied housing costs. Sources: Eurostat, [Producer prices in industry](#), [Compensation per employee and hours worked per employed person](#), [Consumer price index](#), and [Government finance statistics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

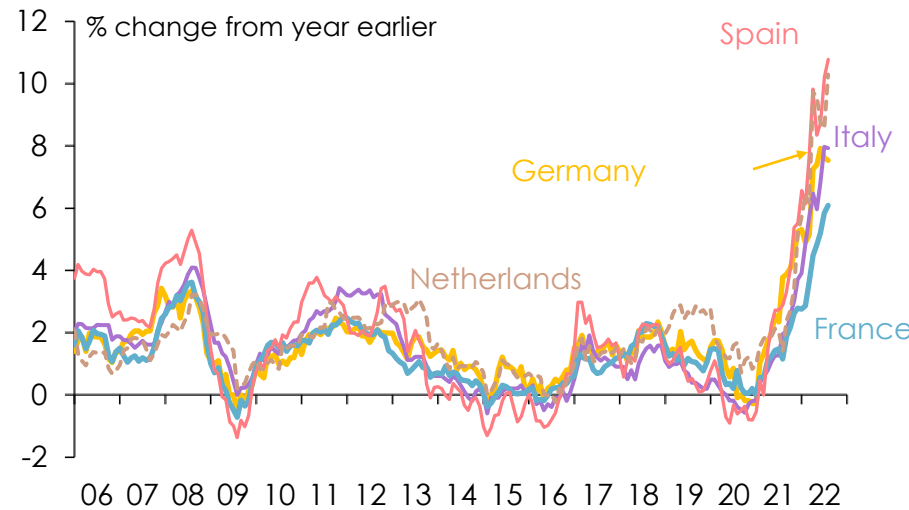
The end of ECB asset purchases has led to a significant widening in yield spreads between Spanish & especially Italian, and German bonds

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

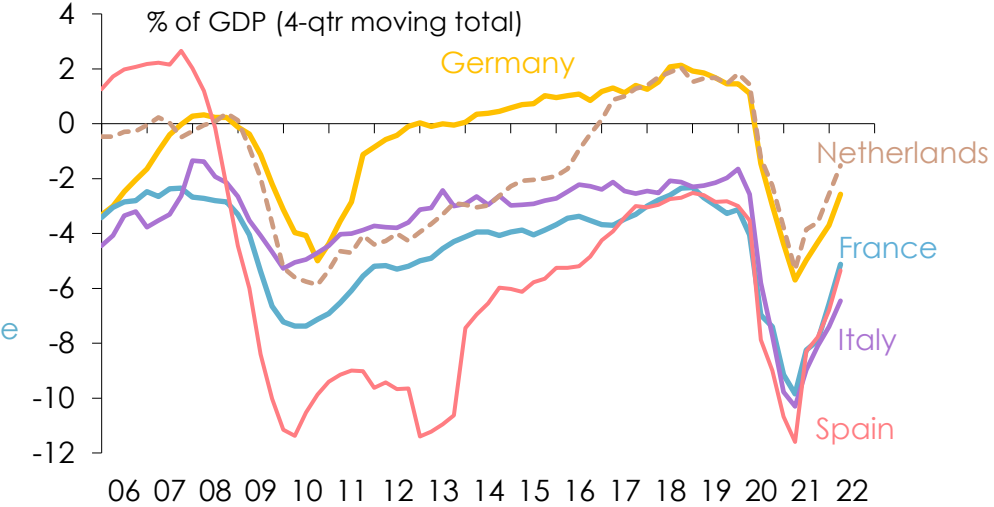
Real GDP



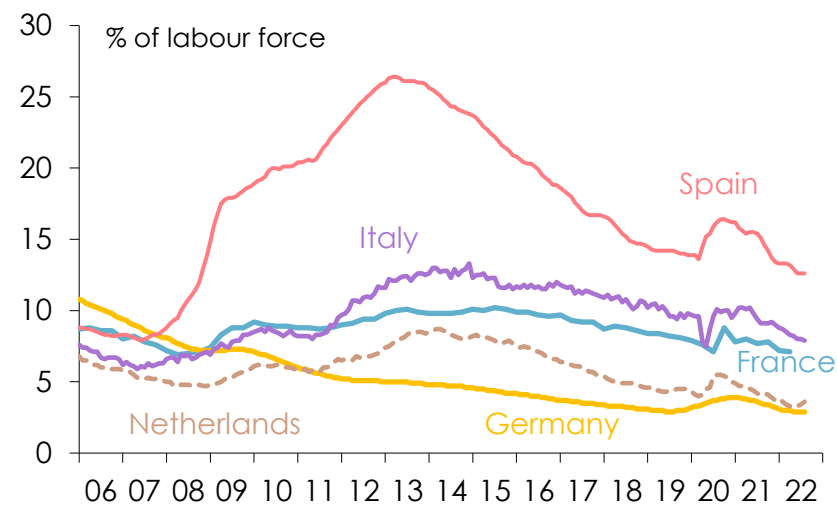
Inflation



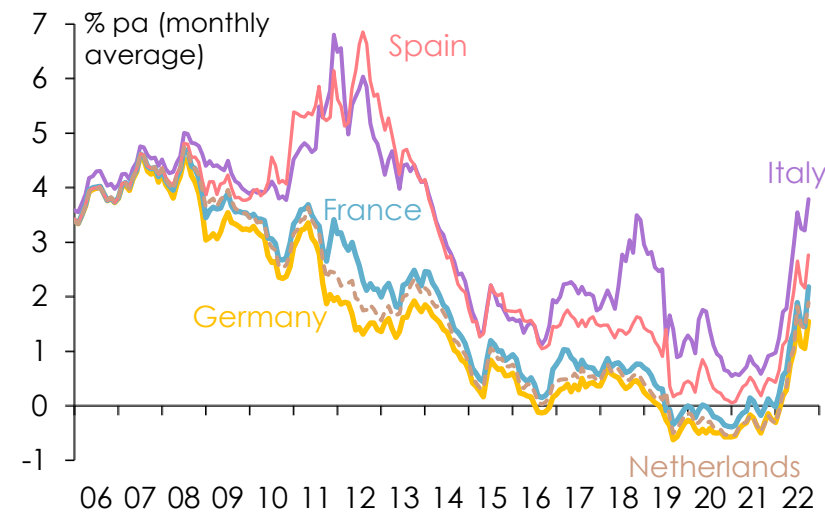
Government net lending



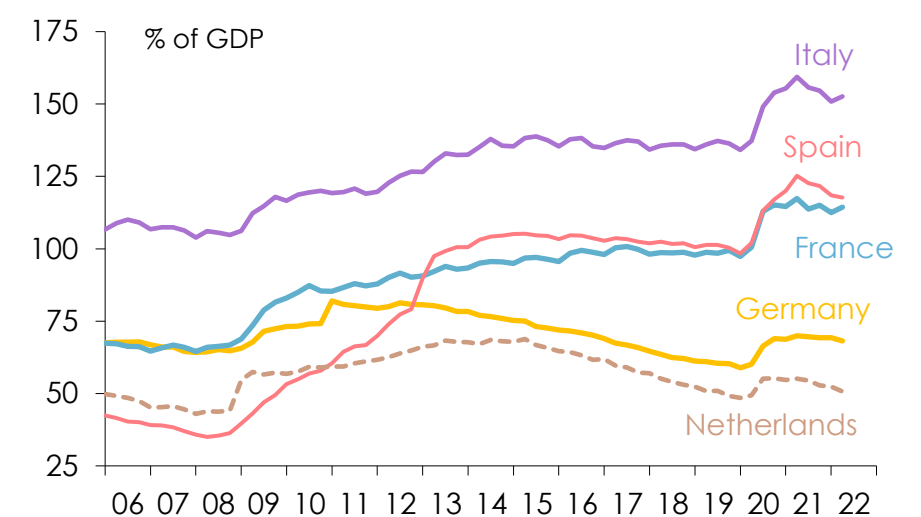
Unemployment



10-year bond yields



Government gross debt



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

The ECB Governing Council meets again this Thursday, and seems likely to raise the refi rate by 50 bp (with perhaps a chance of a 75bp hike)

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

- ❑ The [European Central Bank](#) raised its 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”
- ❑ ECB Executive Board Member Isabel Schnabel last month [said](#) that the inflation concerns the ECB had in July “have not been alleviated”, that she “would not exclude that, in the short term, inflation is going to increase further”, and that there was “an elevated risk of de-anchoring” household inflation expectations

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

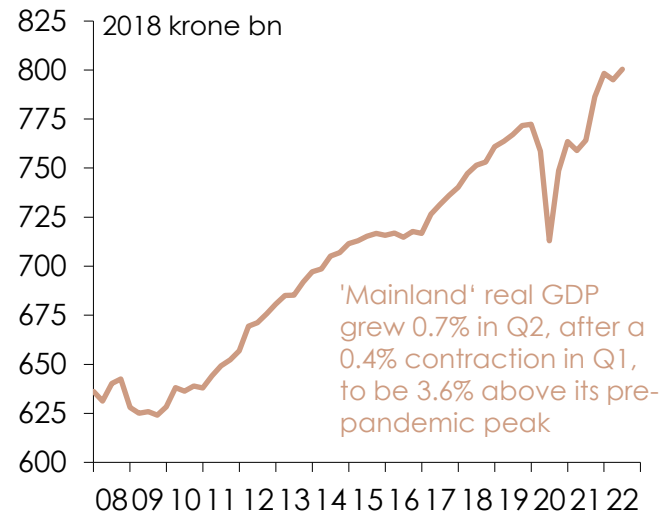
THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

- ❑ 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

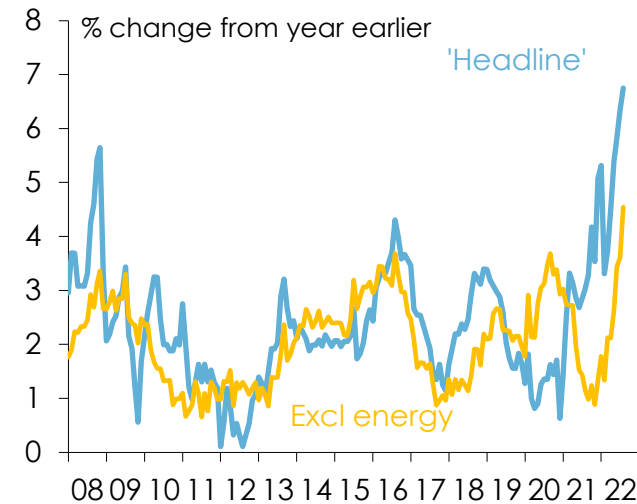
Norges Bank raised its policy rate by 50bp (the second such increase) to 1.75% this month, and foreshadowed a further increase next month

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

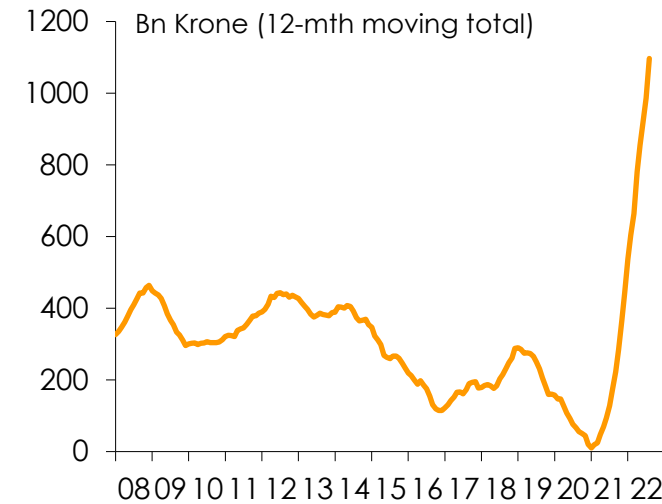
'Mainland' real GDP



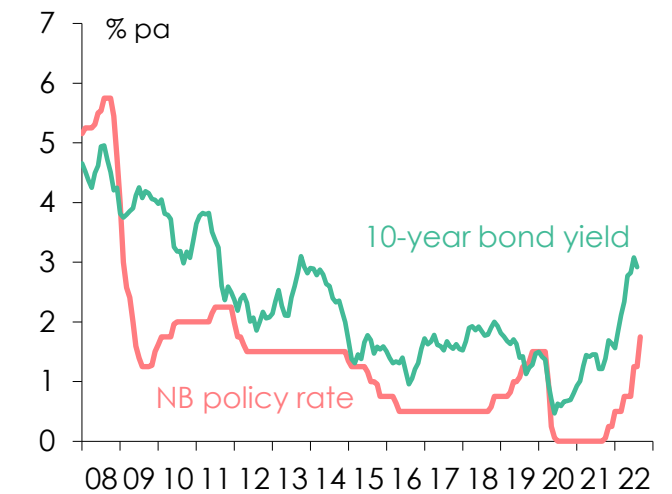
Inflation



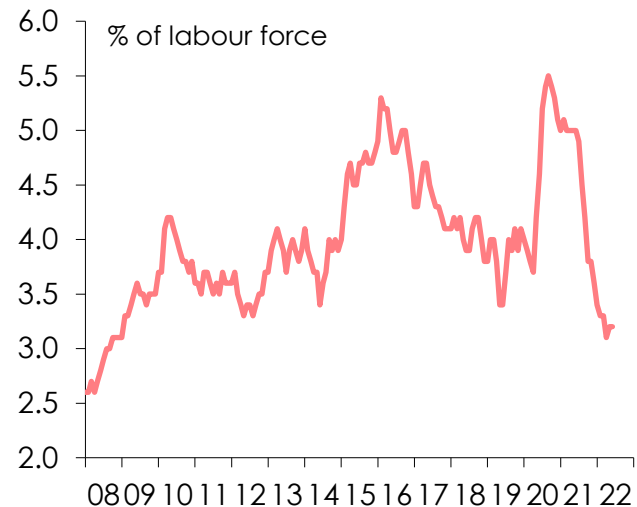
Trade balance



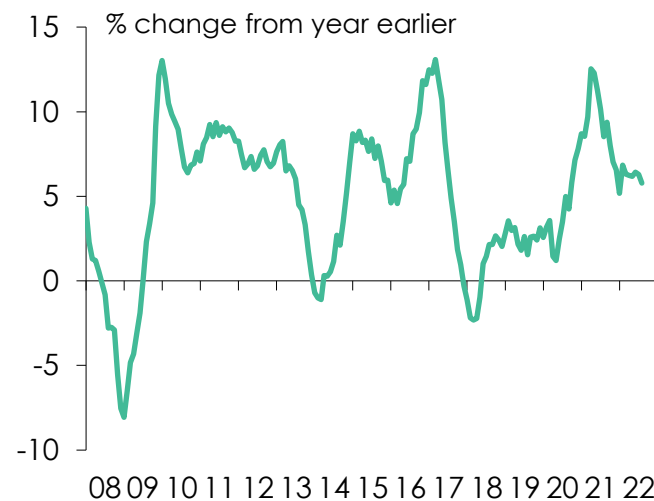
Interest rates



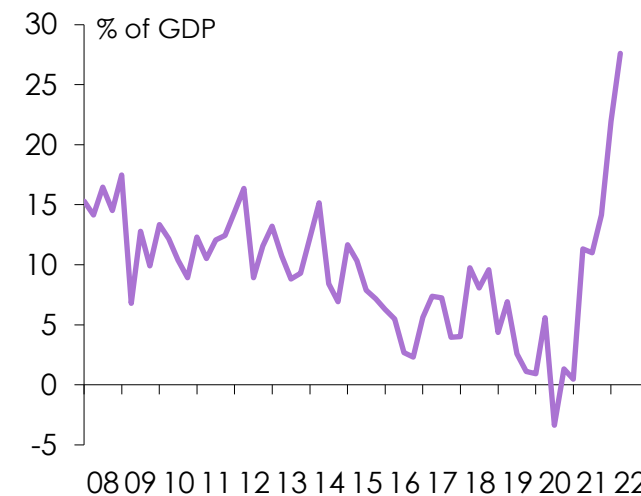
Unemployment



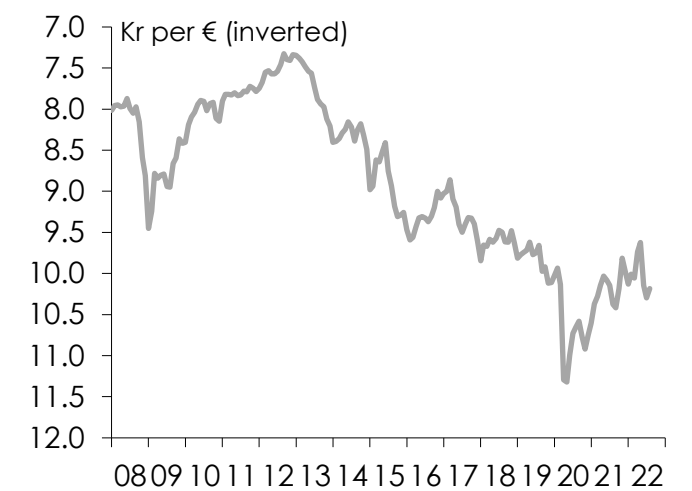
House prices



Current account balance



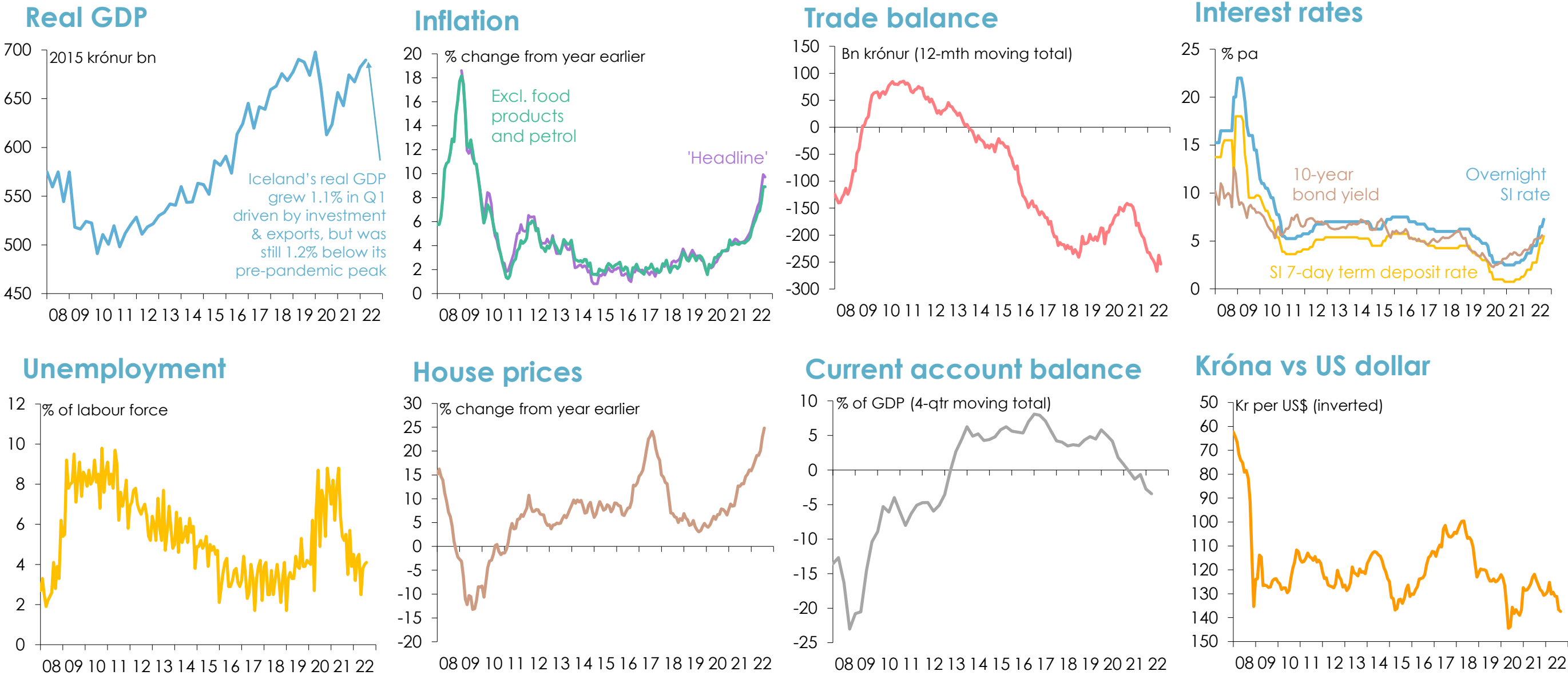
Krone vs euro



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

Iceland's headline inflation rate dropped slightly, to 9.7%, in August, and 'core' inflation was unchanged at 8.9%

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

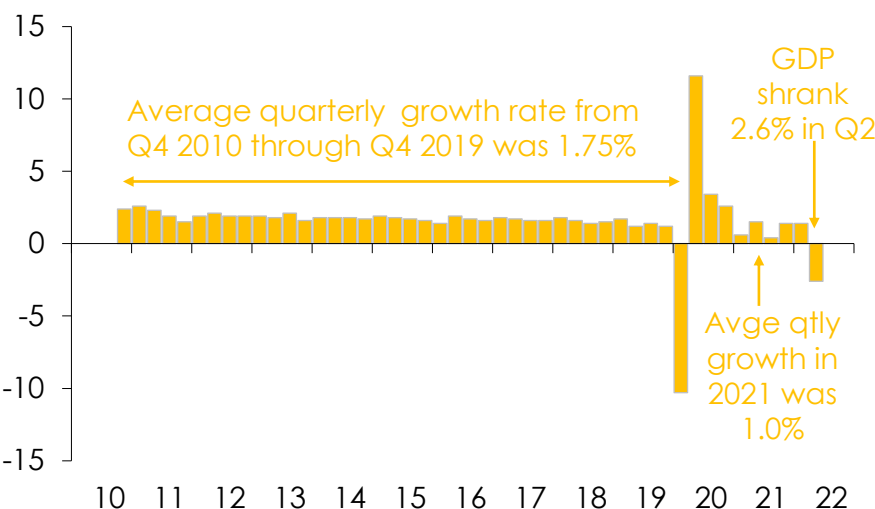


China

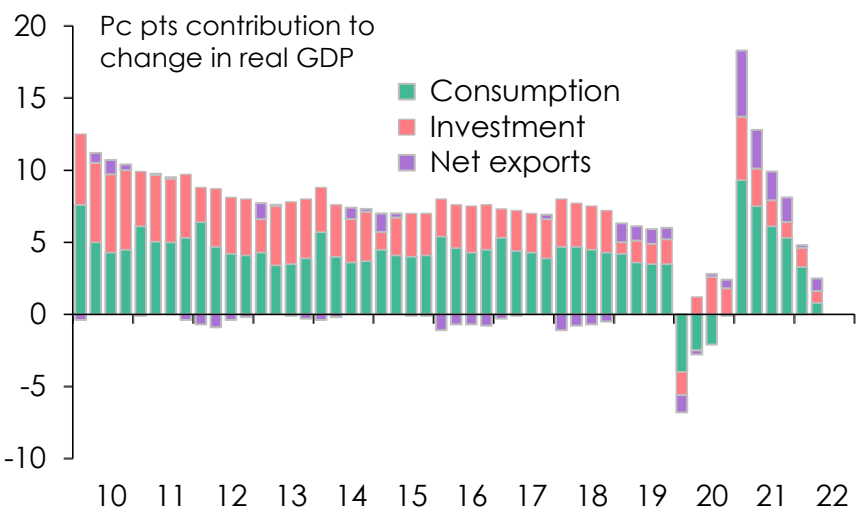
China's real GDP shrank by 2.6% in Q2, to be only 0.4% higher than a year earlier – but the unemployment rate fell 0.4 pc pt to 5.5% in June

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

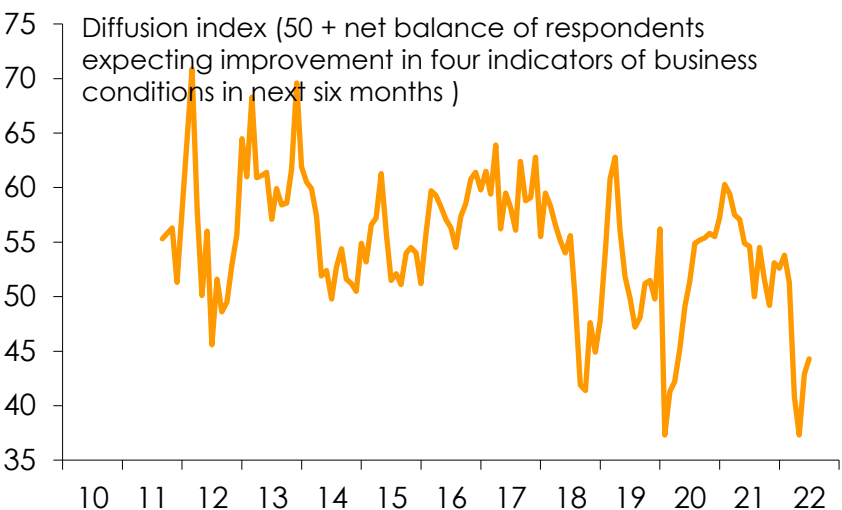
Quarterly real GDP growth



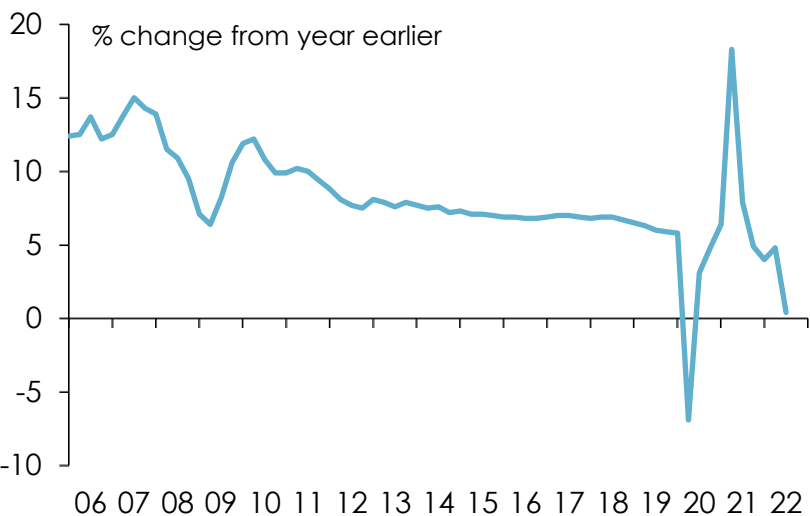
Contributions to real GDP growth



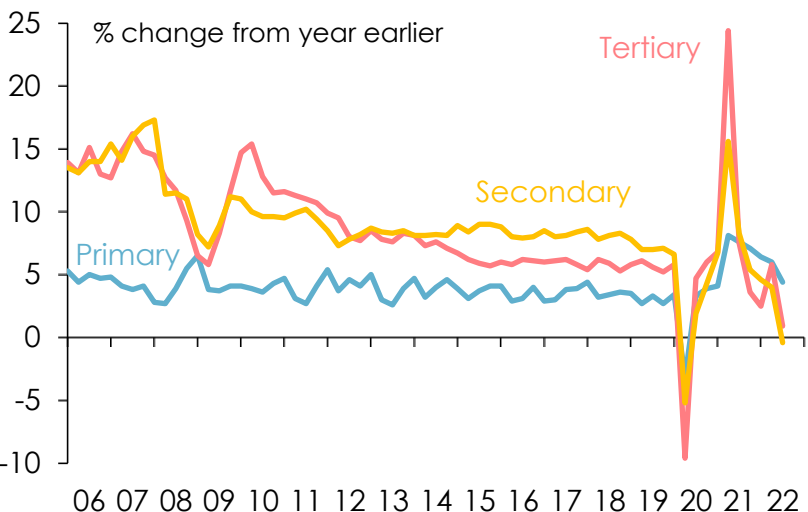
CKGSB business conditions index



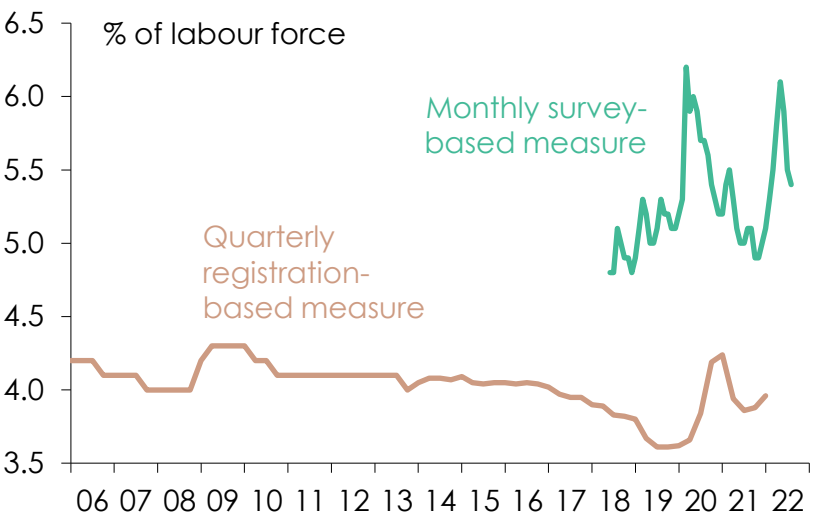
Annual real GDP growth



Annual GDP growth by industry



Urban unemployment rate

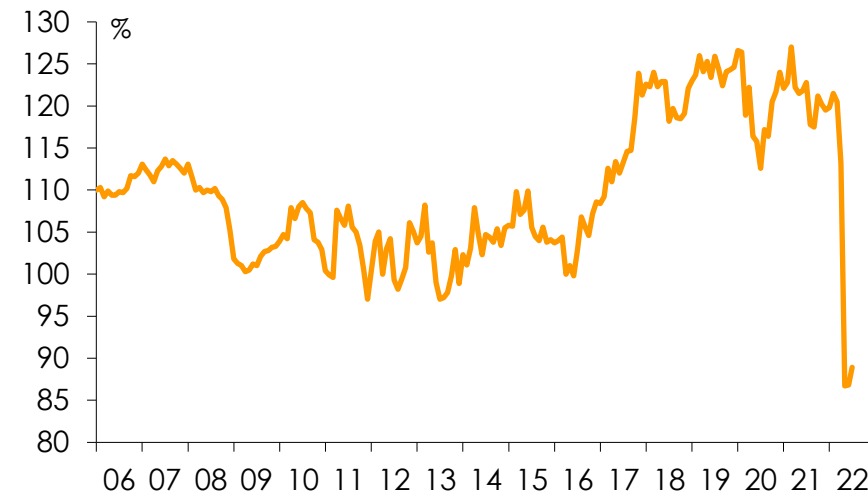


Sources: China National Bureau of Statistics, [National Data - National Accounts](#) and [The Urban Surveyed Unemployment Rate](#); Cheung Kong Graduate School of Business, [Business Conditions Index \(BCI\)](#). Before the monthly unemployment survey was introduced in 2018, the quarterly measure was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

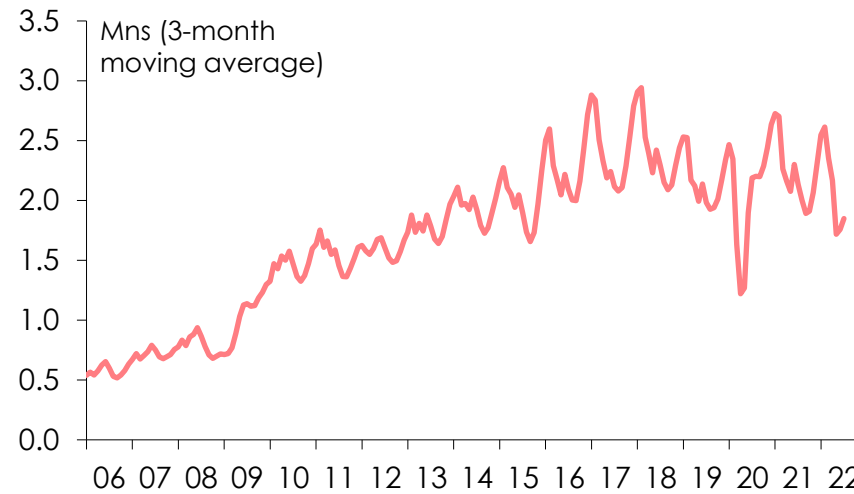
July retail sales were only 2.7% higher than a year earlier (implying a decline in real terms), while real estate activity and prices continued to fall

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

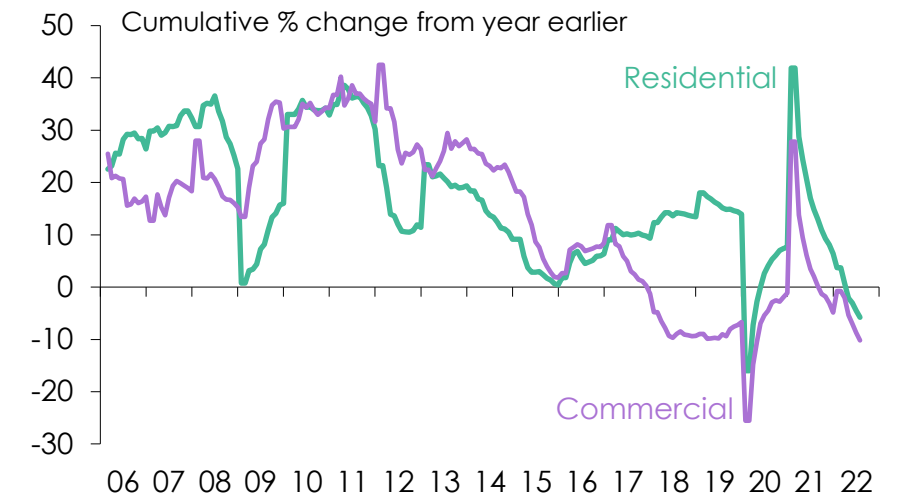
Consumer sentiment



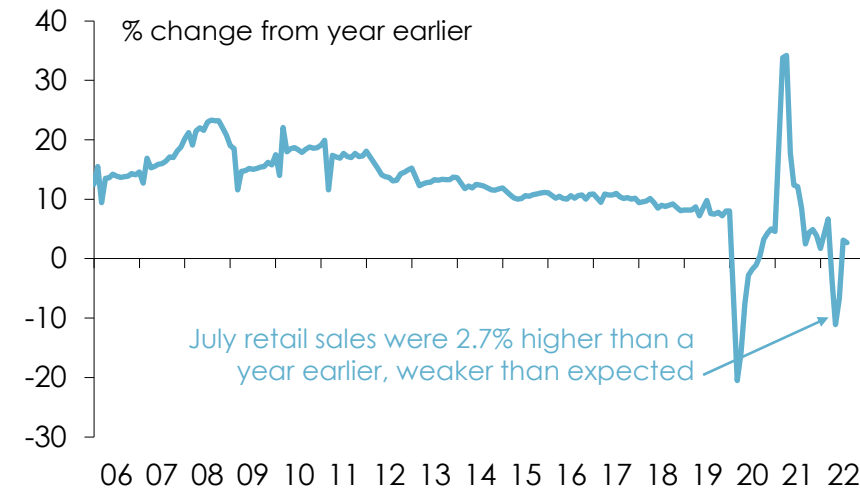
Motor vehicle sales



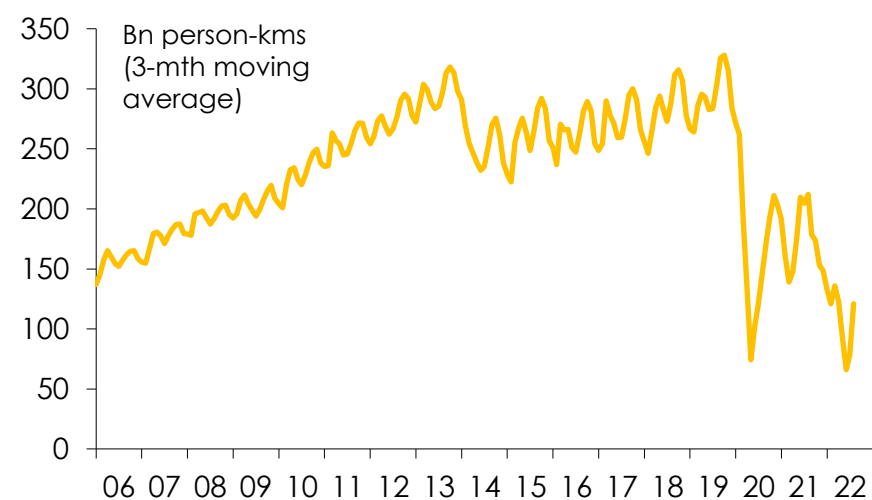
Real estate investment



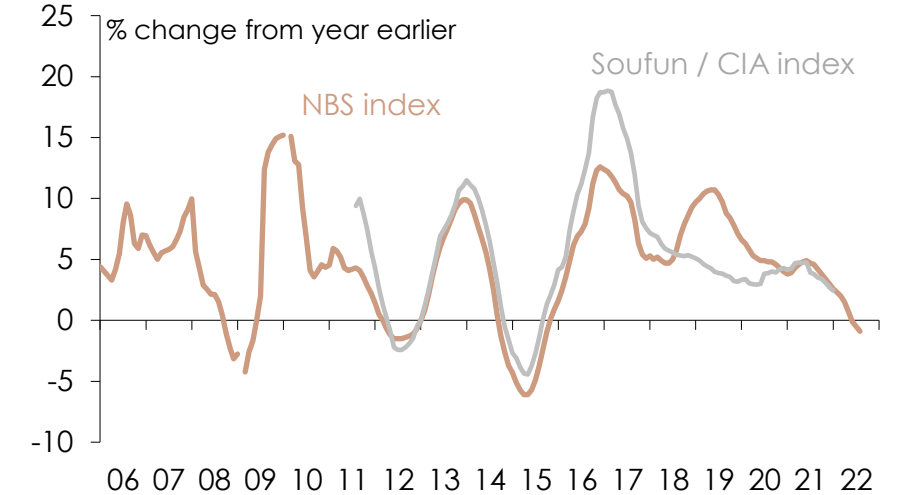
Retail sales



Passenger traffic volumes



Residential real estate prices

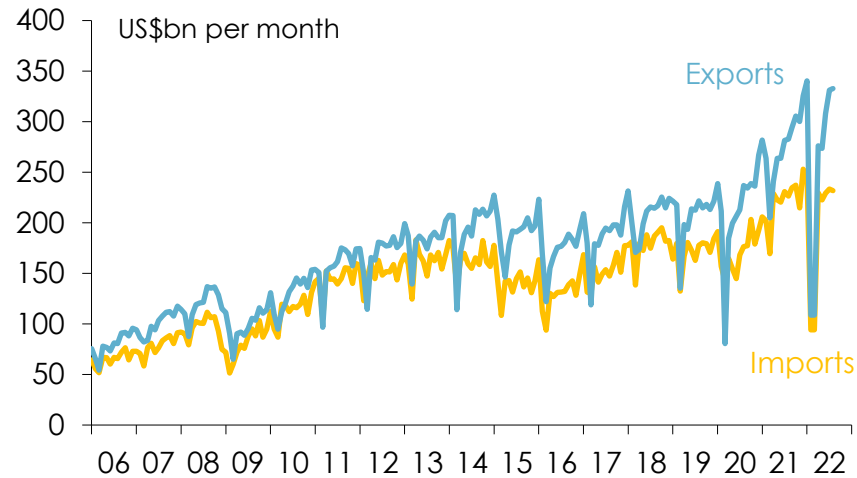


Sources: China National Bureau of Statistics, [National Data](#); China Association of Automobile Manufacturers, [Sales of Automobiles](#); China Index Academy, [CREIS China Residential HPI-100 Monthly](#) (not published since December last year). [Return to "What's New"](#).

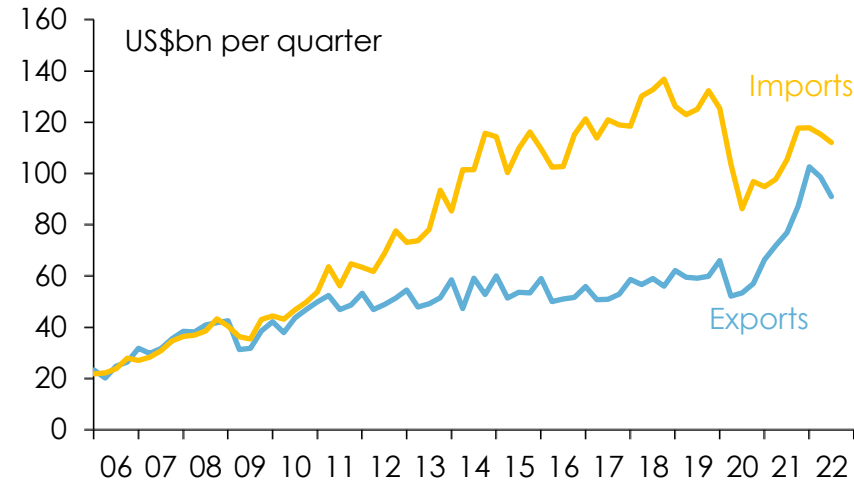
China's trade surplus widened another US\$3.3bn in July to a new record \$101.3bn, with exports up 17.8% from a year earlier but imports up only 2.3%

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

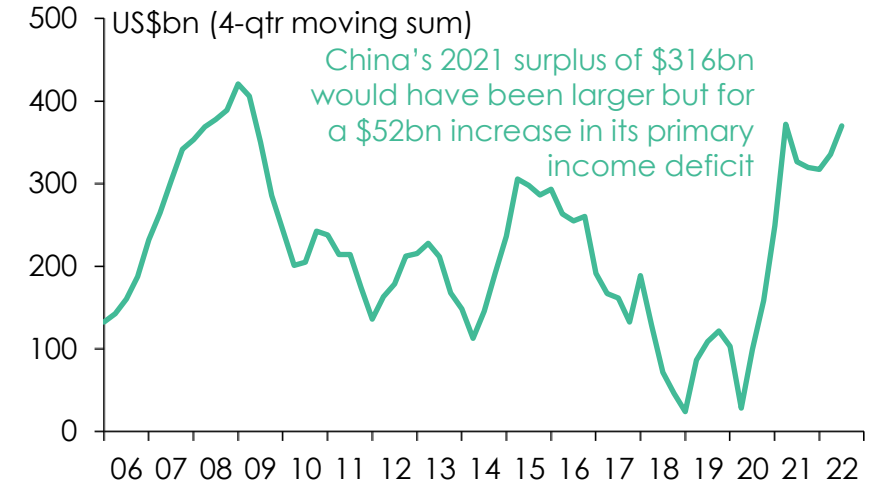
Merchandise exports and imports



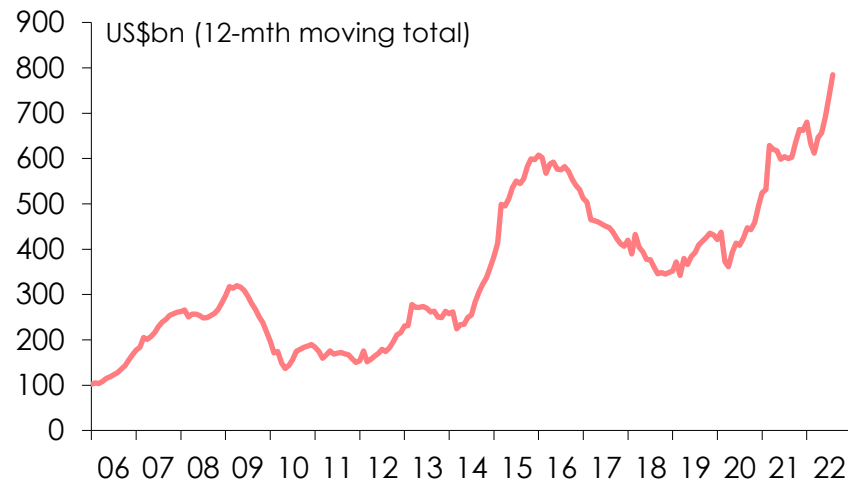
Services exports and imports



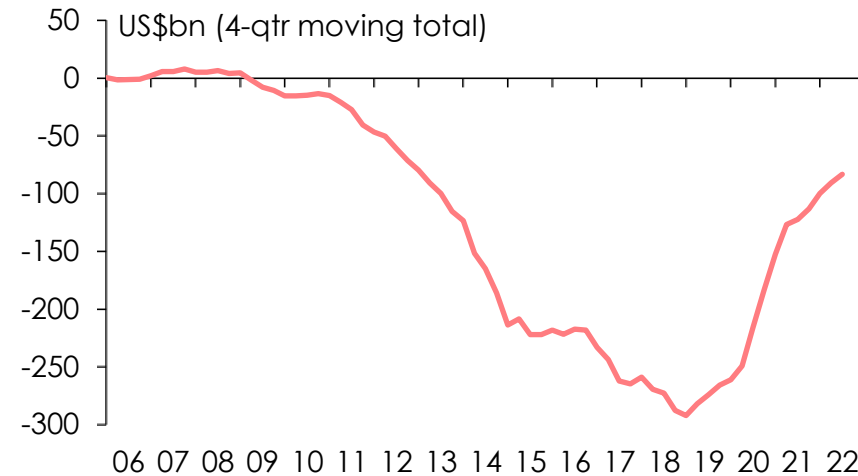
Current account balance



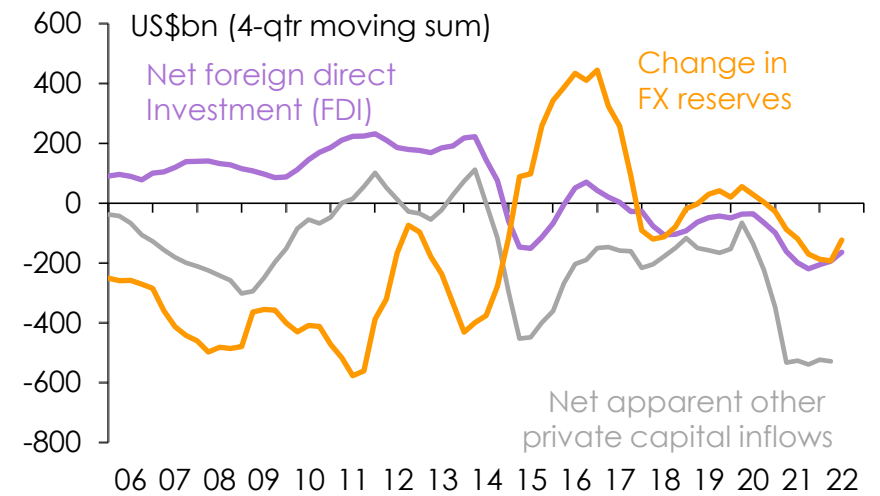
Merchandise trade balance



Services trade balance



Capital flows

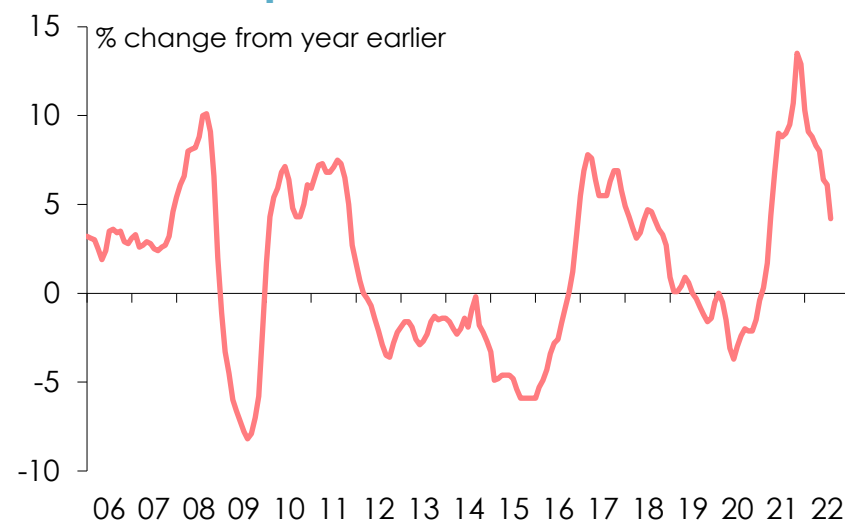


Sources: China General Administration of Customs, [Preliminary Release](#) and [Monthly Bulletin](#); State Administration of Foreign Exchange, [The time-series data of Balance of Payments of China](#). [Return to "What's New"](#).

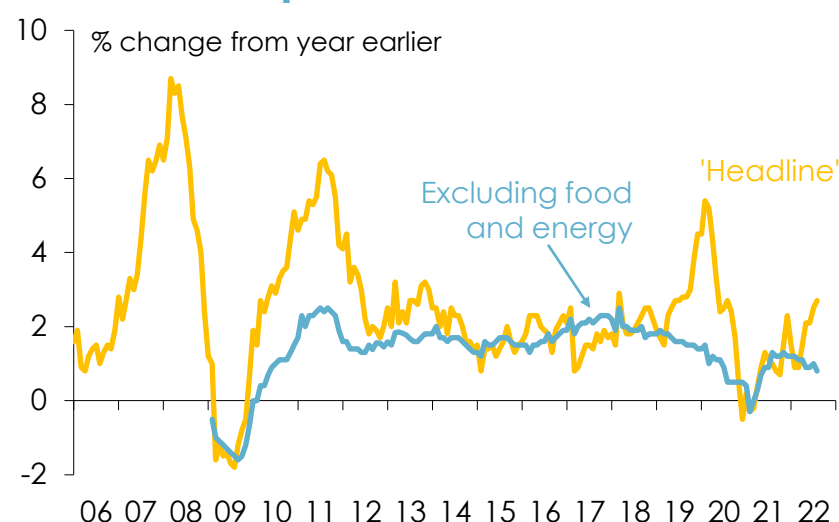
'Headline' CPI inflation rose further in July to 2.7%, the highest since July 2020, driven by food prices, though 'core' inflation was only 0.8%

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

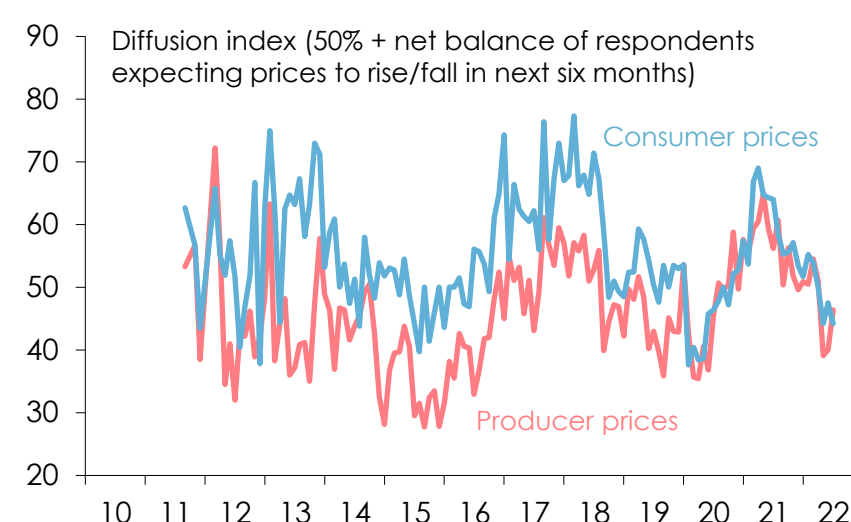
Producer prices



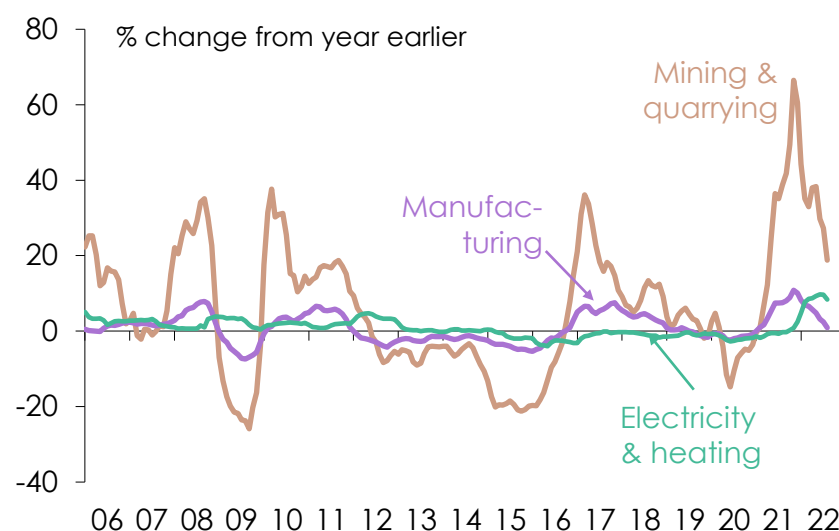
Consumer prices



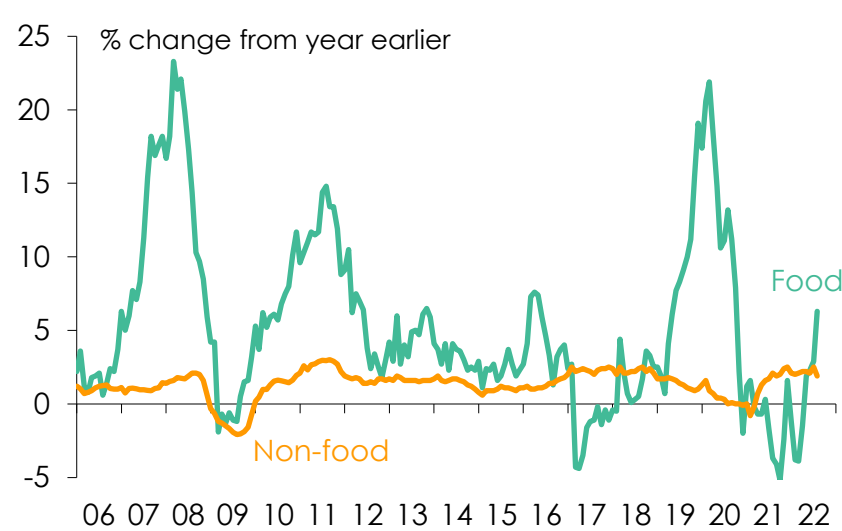
CKGSB price diffusion indexes



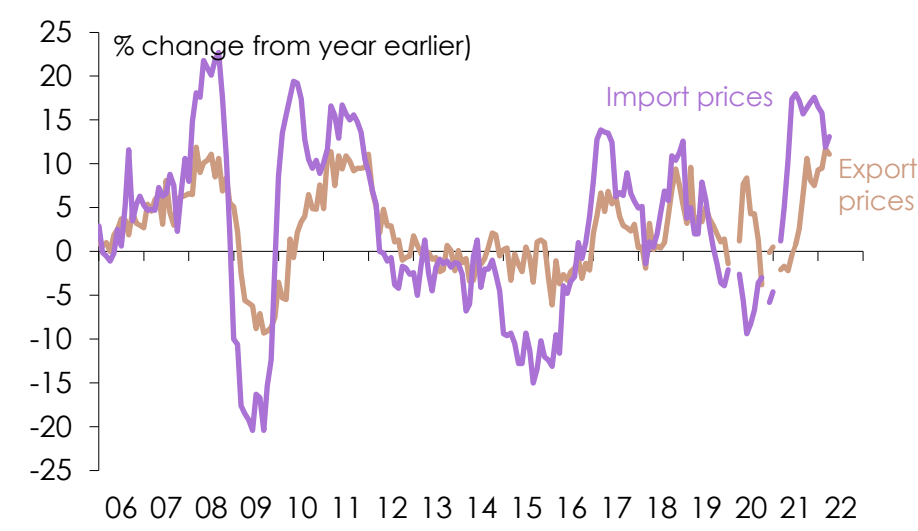
Producer prices – major categories



Consumer prices – food and other



Trade prices



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

The PBoC last month cut the 1- and 5-year loan prime rates by 5 and 15bp, and the State Council announced some more (modest) fiscal measures

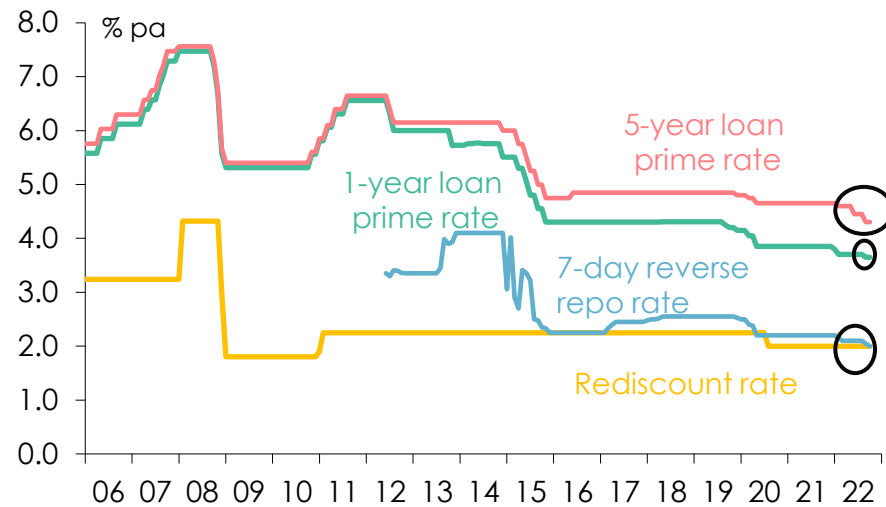
THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

- ❑ Poor economic data for July prompted responses from both fiscal and monetary policy in the second half of August
- ❑ In the last week of August, the PBoC last week cut its 1- and 5-year [loan prime rates](#) by 5bp, to 3.65%, and 15bp, to 4.3%, respectively, following on from the previous week's reductions in the 7-day reverse repo rate and 1-year medium-term lending facility rates
 - the 1-year LPR is a benchmark for corporate loans, while the 5-year LPR is a benchmark for mortgage interest rates
 - these rate cuts follow weaker-than-expected economic data releases for July ([slides 64-65](#))
- ❑ Also in the last week of August, the State Council announced 19 new policies aimed at promoting faster economic growth, including
 - an additional Yn 300bn for state banks to finance infrastructure projects (on top of the Yn 150bn provided in June)
 - local governments encouraged to issue up to Yn 500bn in 'special bonds' for infrastructure projects by end October
 - support for Yn 200bn of 'special bond' issuance by state-owned electricity generation companies
 - an additional Yn 10bn in agricultural material subsidies, and
 - a three-month delay in payments of 'administrative fees' by companies
- ❑ China's Politburo (chaired by Xi Jinping) has 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”

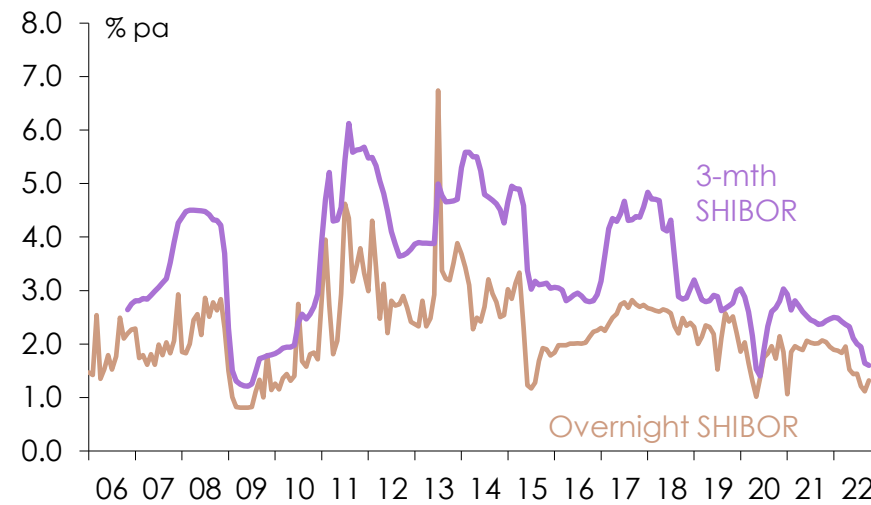
The PBoC cut its 1- and 5-year loan prime rates by 5 and 15 basis points, respectively, in the last week of August

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

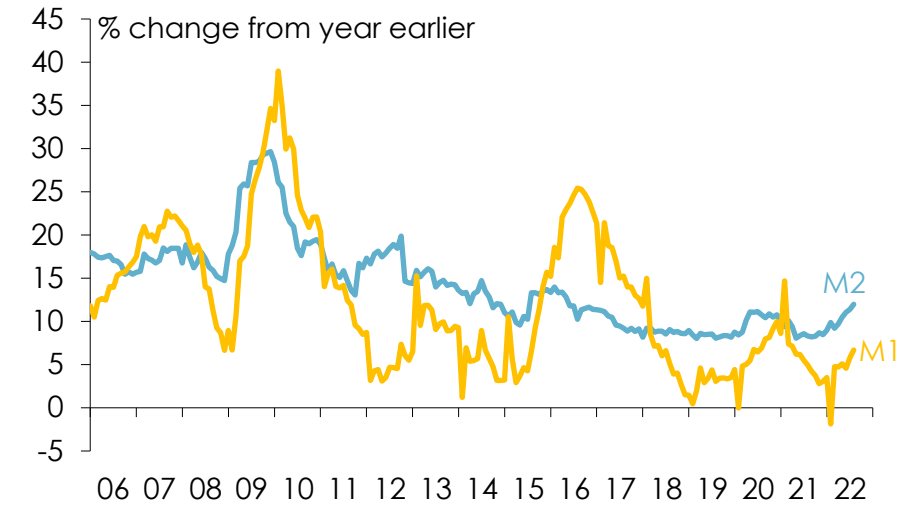
PBoC policy interest rates



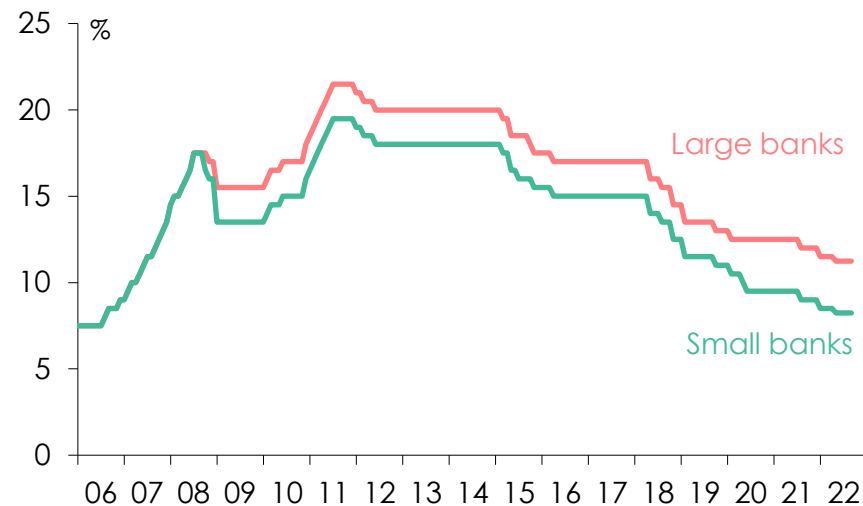
Short-term market interest rates



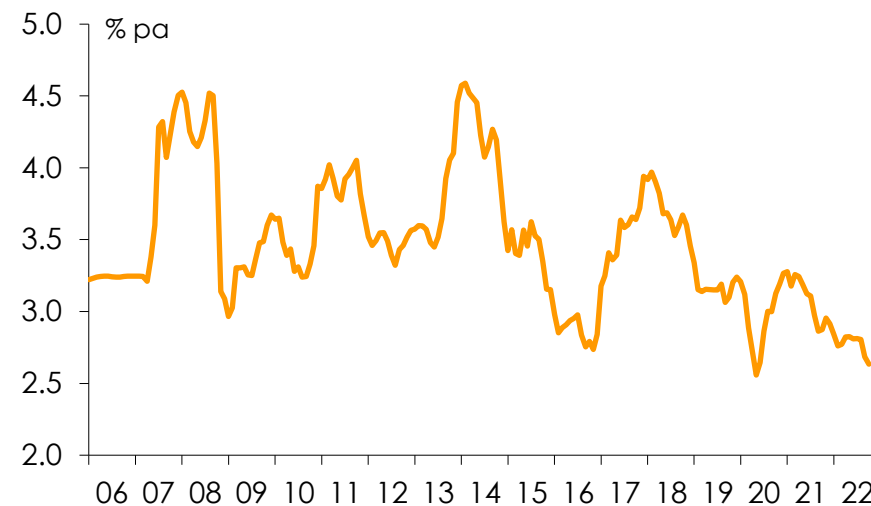
Monetary aggregates



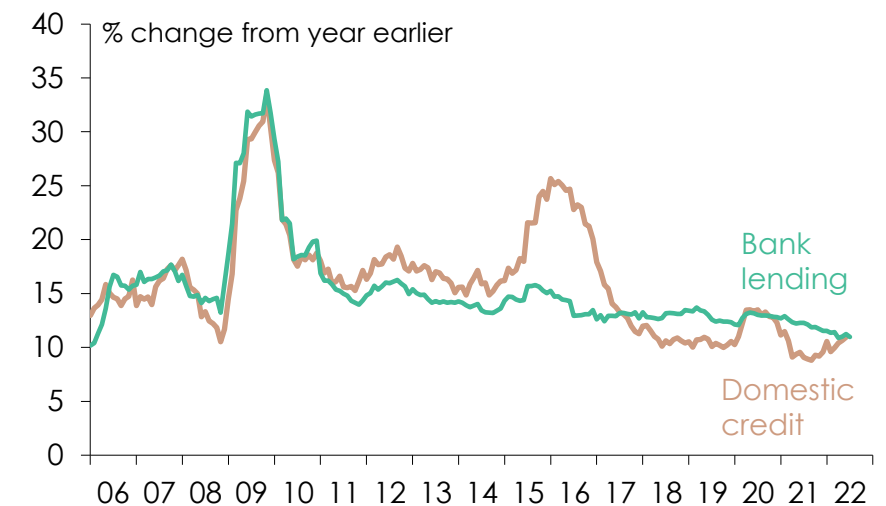
Bank reserve requirement ratios



10-year government bond yield



Credit growth

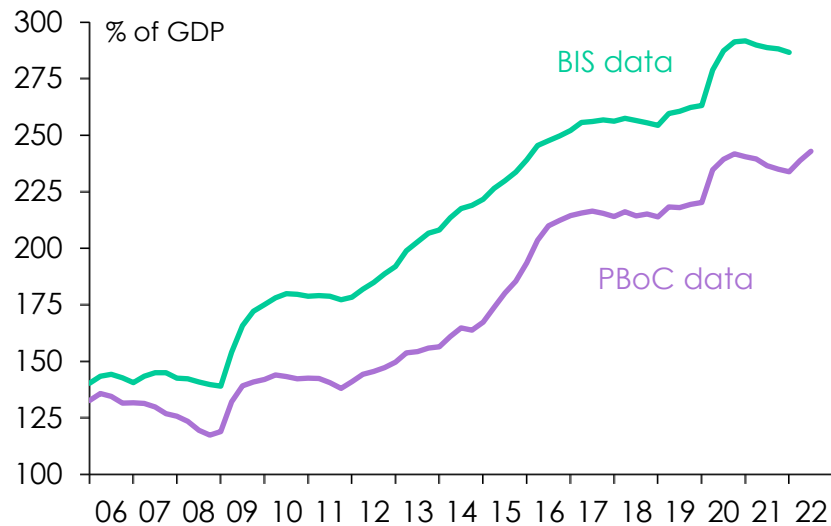


Note: 'SHIBOR' is the Shanghai Inter-Bank Offered Rate. Sources: Refintiv Datastream; People's Bank of China, [Financial Statistics Reports](#) and [Aggregate Financing Reports](#).
[Return to "What's New"](#).

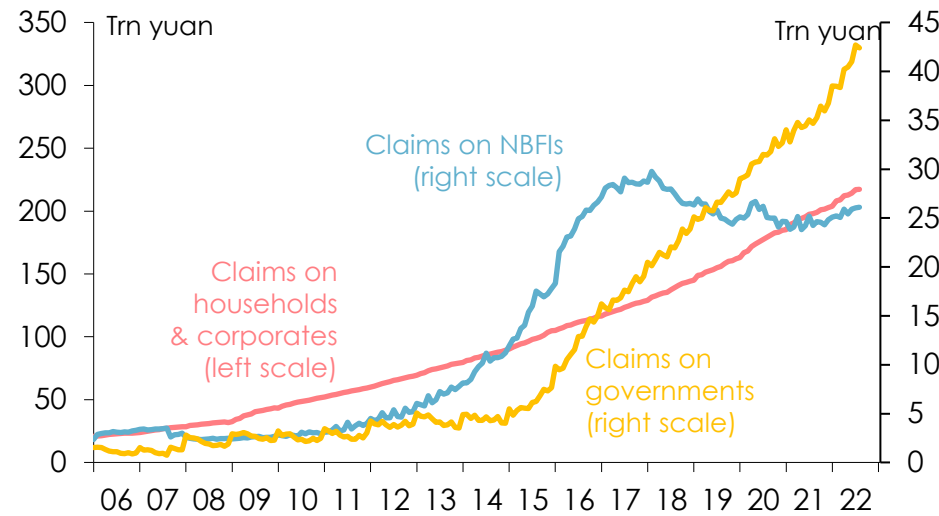
The Chinese banking system's risk profile has increased significantly over the past decade – particularly on the liabilities side of its balance sheet

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

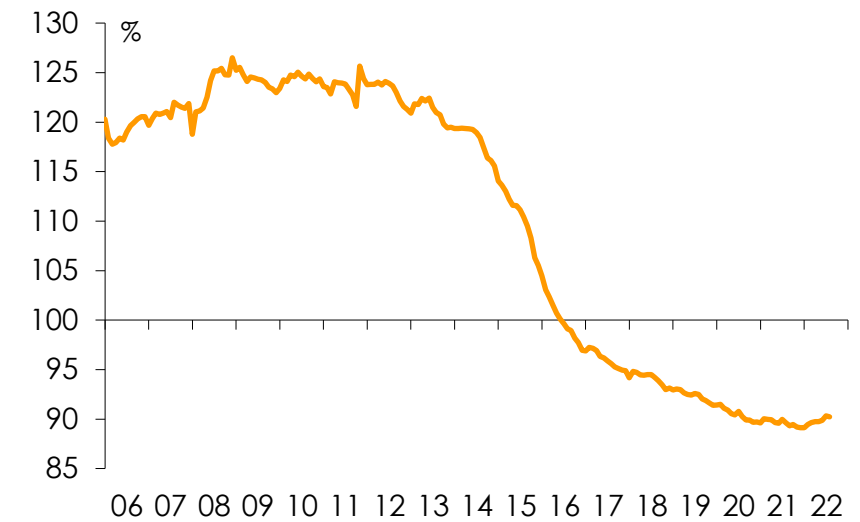
Credit outstanding as a pc of GDP



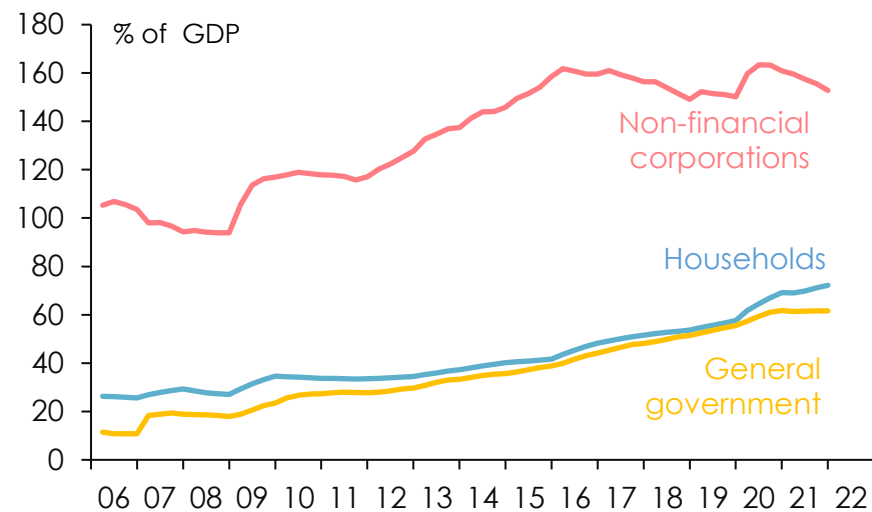
Banks' assets



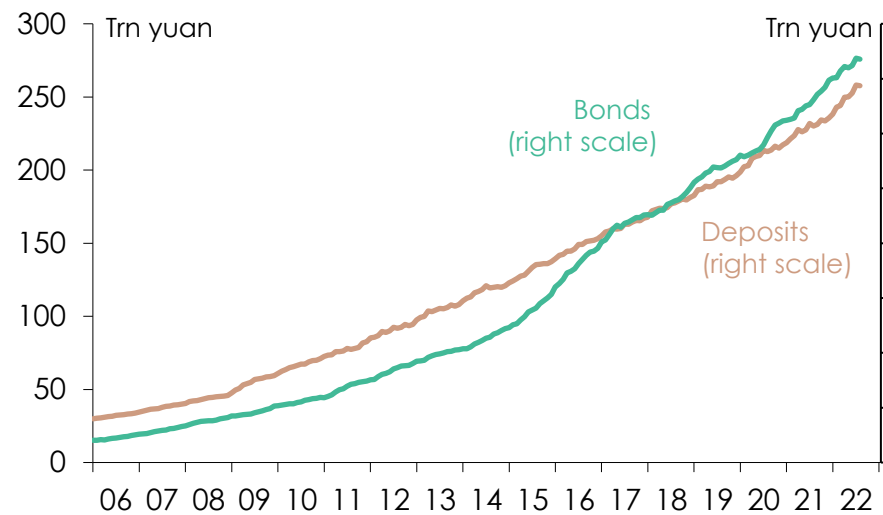
Banks' deposits-to-loans ratio



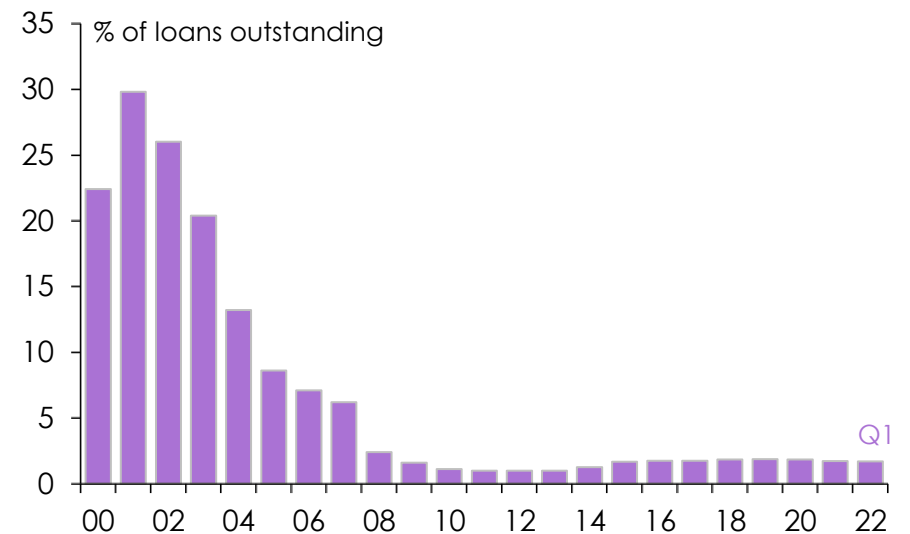
Credit outstanding by sector



Banks' liabilities



Banks NPLs – official estimates

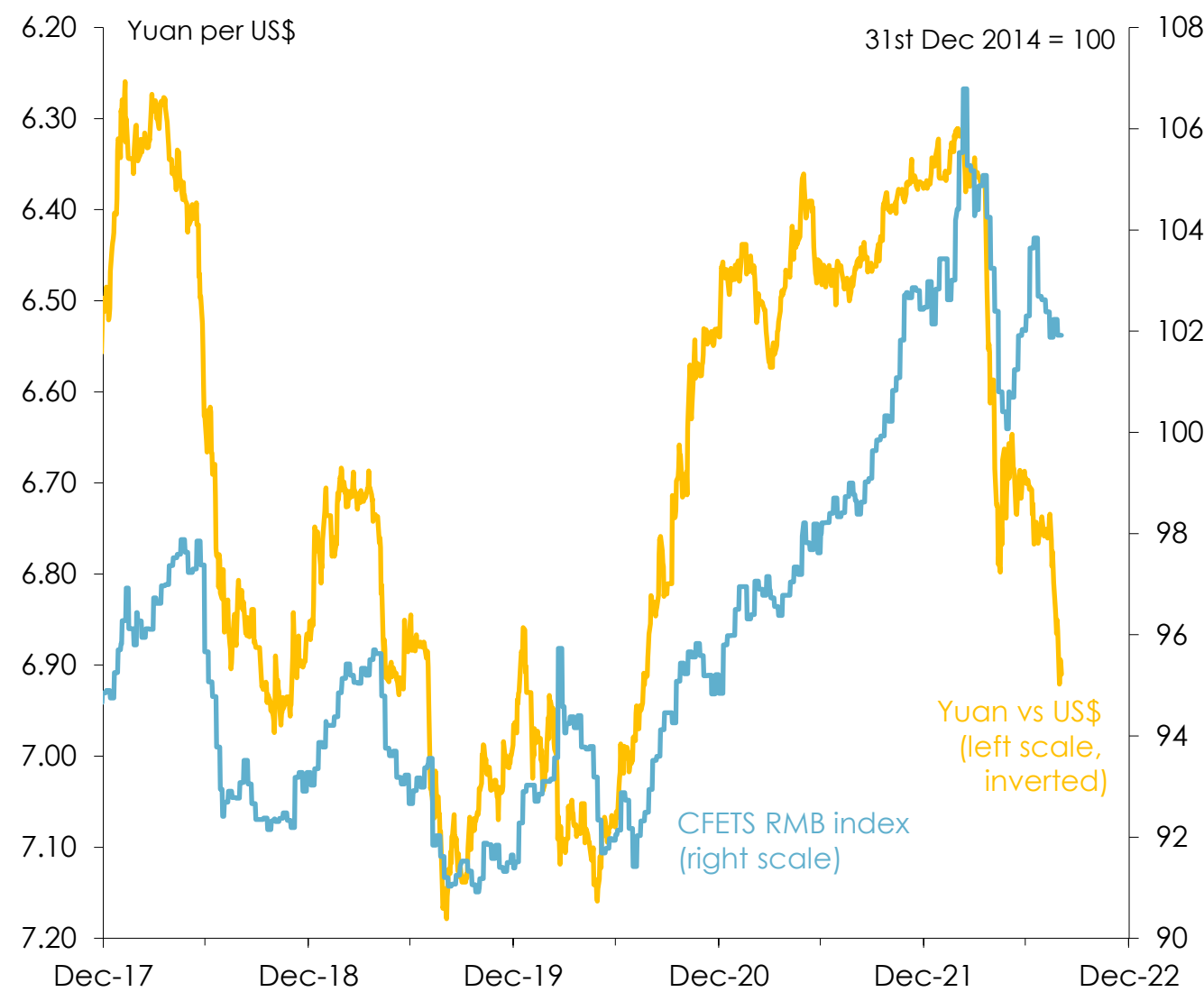


Sources: People's Bank of China, [Financial Statistics Reports](#); Bank for International Settlements, [Credit to the non-financial sector](#); China Banking and Insurance Regulatory Commission, [Supervisory Statistics of the Banking and Insurance Sectors](#). [Return to "What's New"](#).

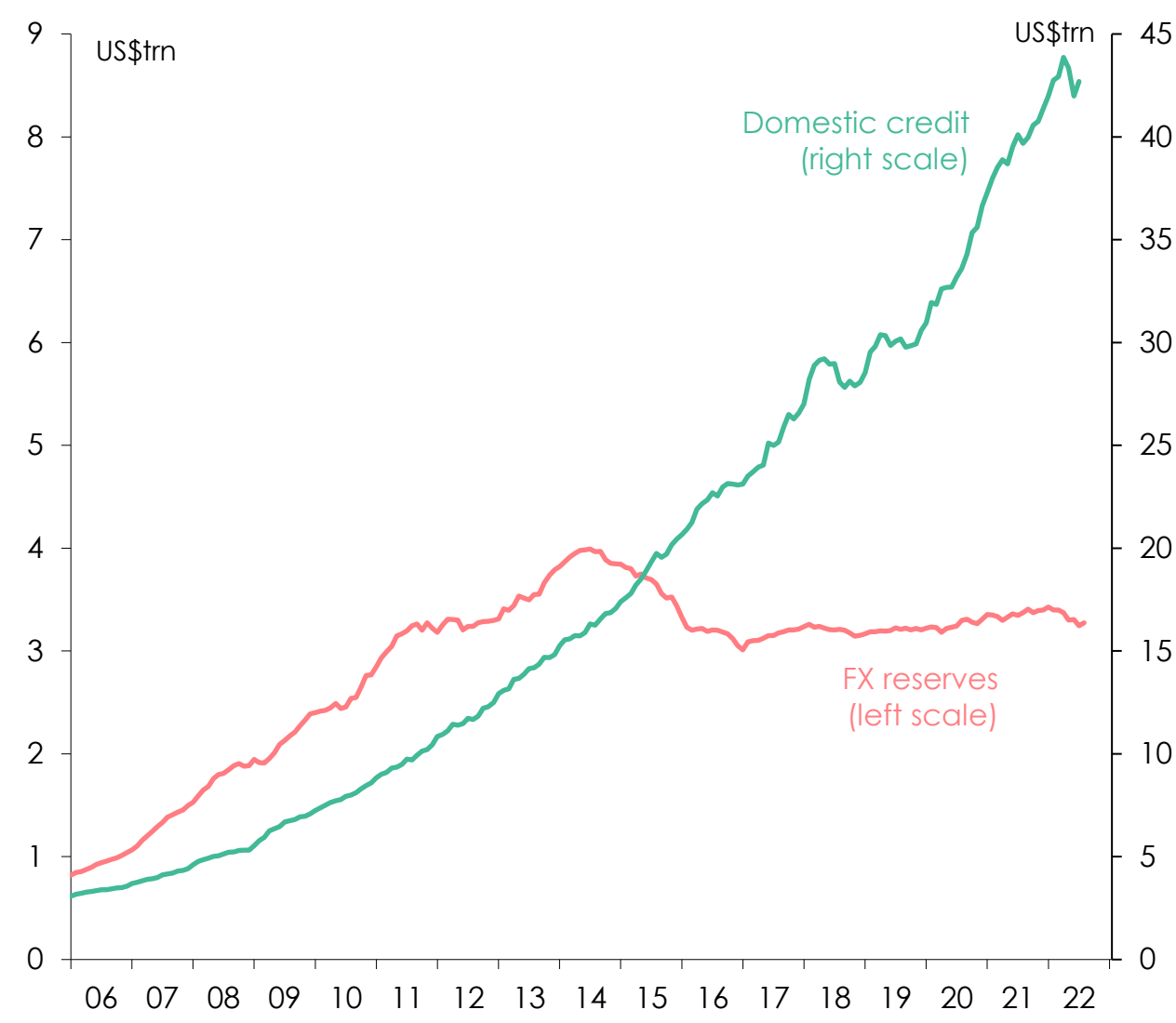
The yuan fell further against the US\$ last week, dropping below Yn6.9 for the first time since August 2020

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

Chinese renminbi vs US\$ and trade-weighted index



FX reserves and domestic credit



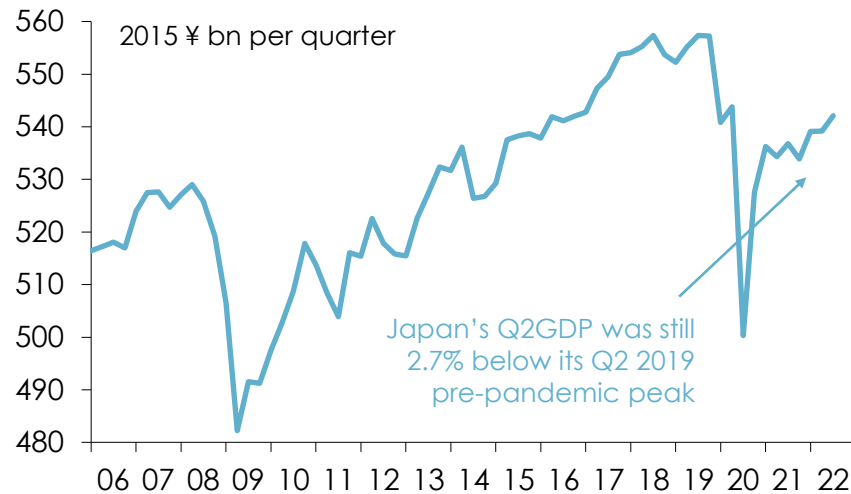
Sources: Refinitiv Datastream; [China Foreign Exchange Trading System](#); People's Bank of China. Exchange rates up to 2nd September; FX reserves and credit data up to July. [Return to "What's New"](#).

Japan

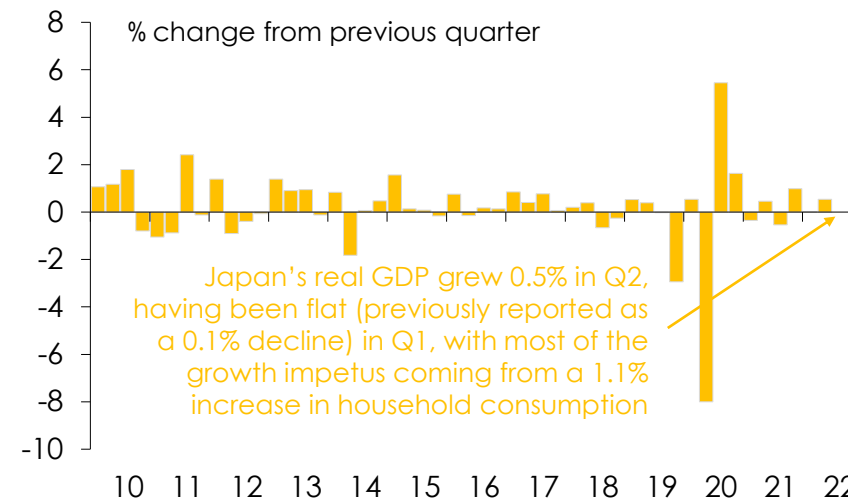
Japan's real GDP fell rose 0.5% in Q2, after a flat Q1, but was still 2.7% short of its pre-Covid peak – with further income losses from falling terms of trade

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

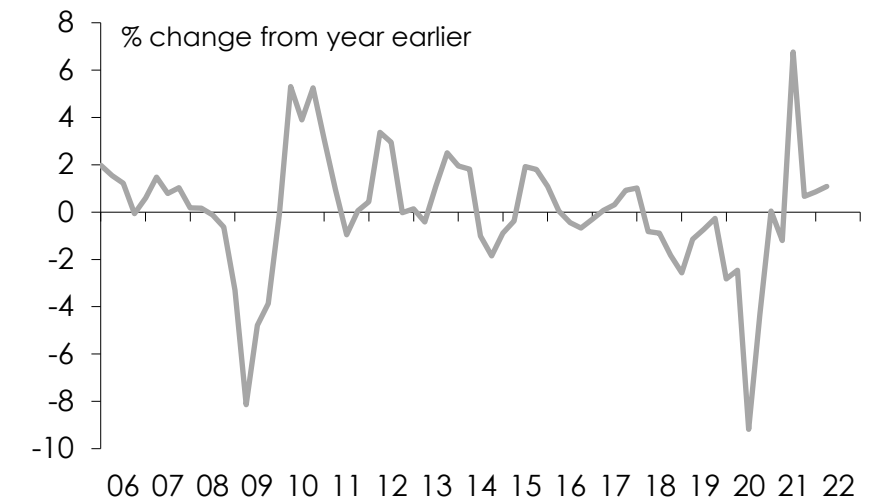
Level of real GDP



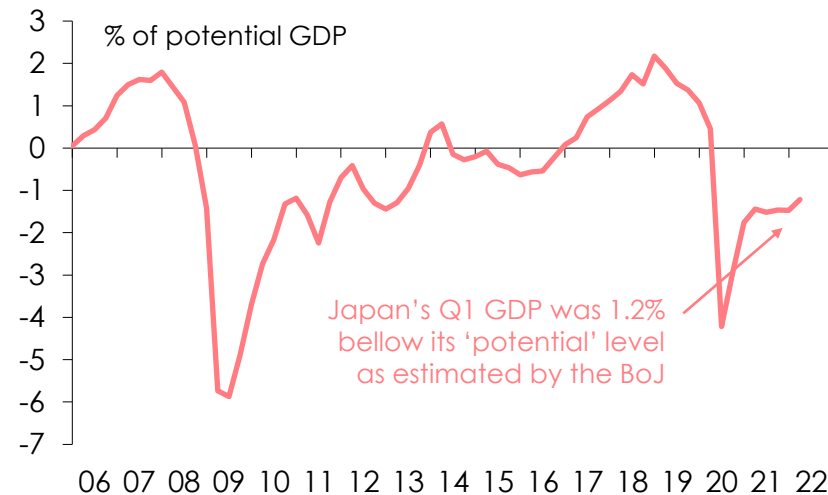
Quarterly change in real GDP



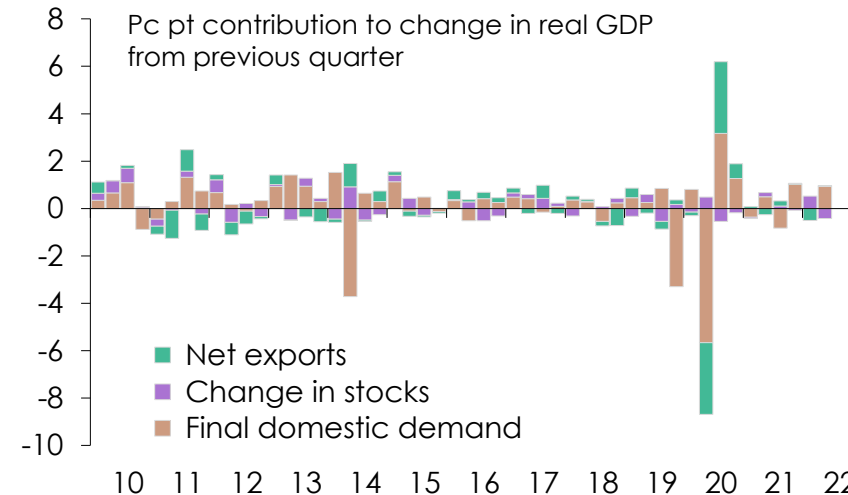
Labour productivity growth



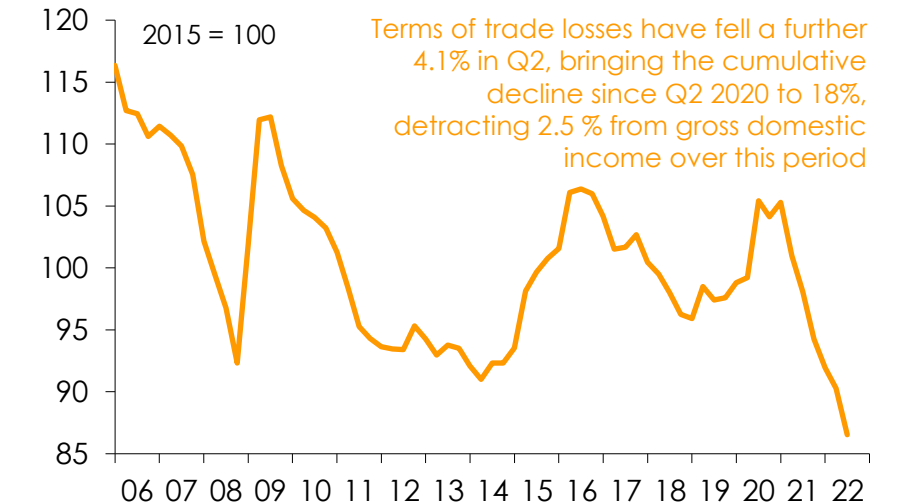
The 'output gap'



Contributions to change in real GDP



Terms of trade

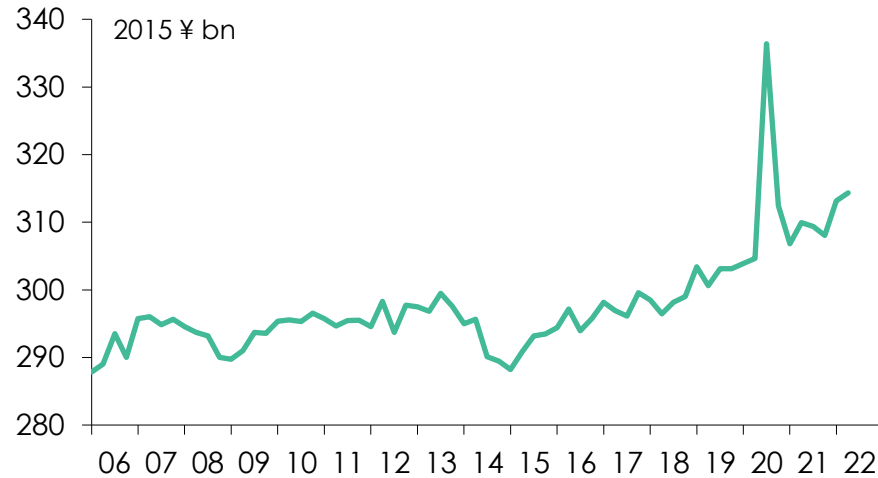


Note: the 'output gap' is the difference between actual and potential GDP (the volume of goods & services that could be produced if the economy were operating at full capacity); the 'terms of trade' is the ratio of the implicit price deflator of exports of goods & services to that of imports of goods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

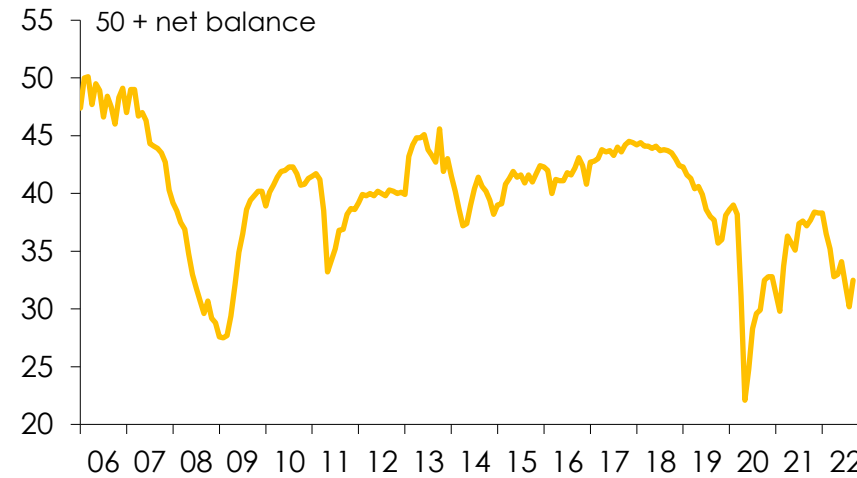
Consumer spending picked up a little during Q2, but housing activity softened, and consumer confidence fell further in July

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

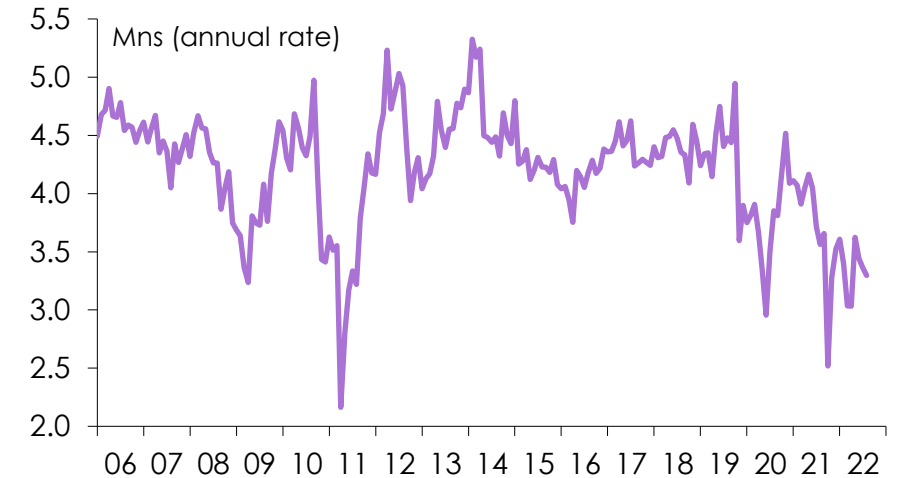
Real household disposable income



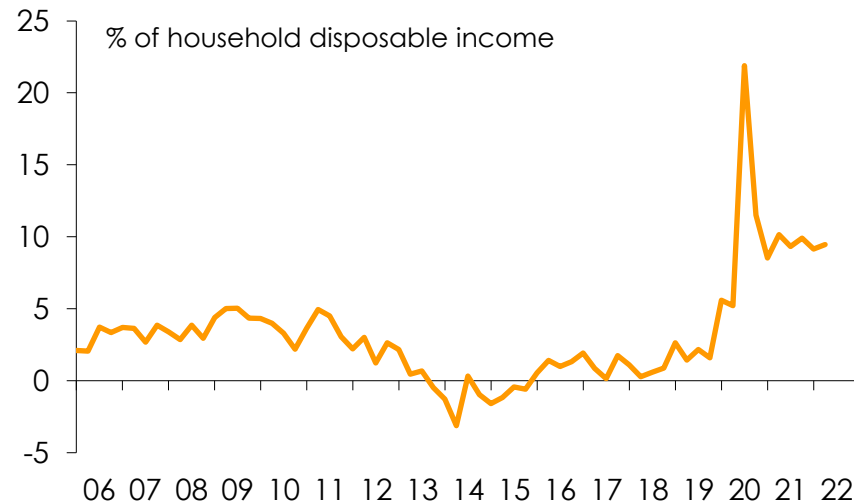
Consumer confidence



Motor vehicle sales



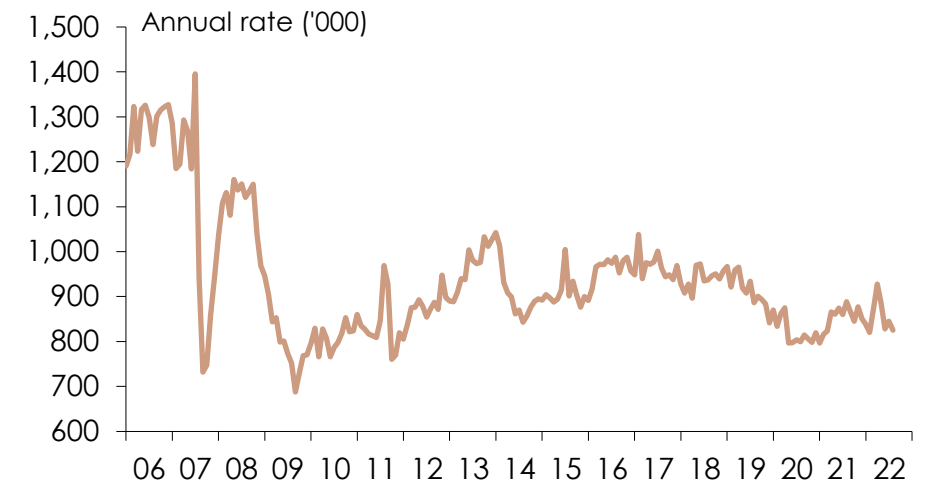
Household saving



Consumption activity index



Housing starts

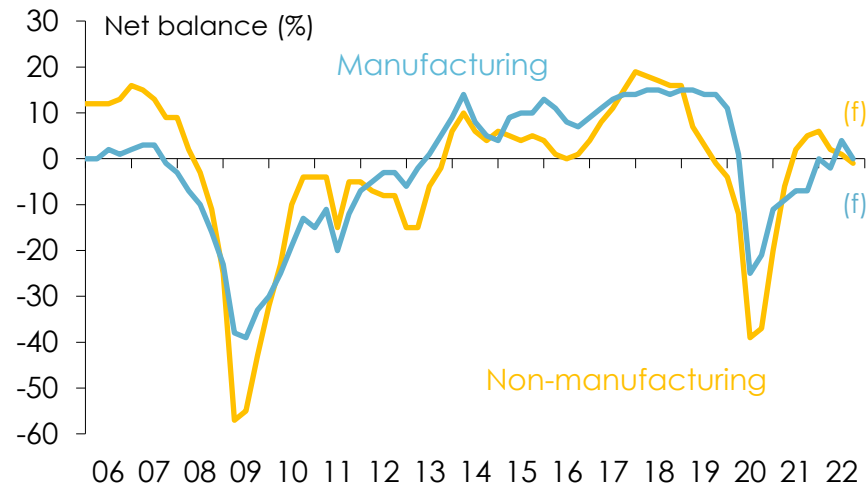


Sources: Japan Cabinet Office, [Quarterly Estimates of Household Disposable Income and Household Saving Ratio](#) and [Consumer Confidence Survey](#); Bank of Japan, [Consumption Activity Index](#); Japan Automobile Dealers Association, [Statistical Data](#); Japan e-Stat, [Building Starts](#). [Return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

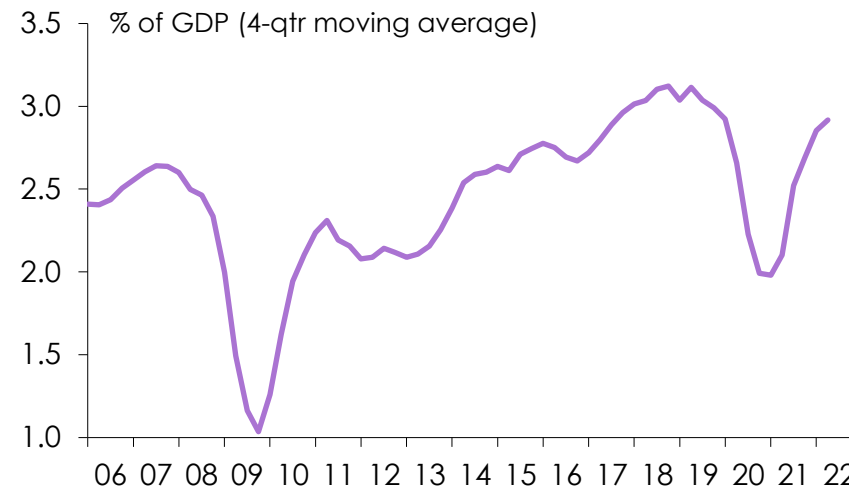
Japanese industrial production rebounded strongly in June and July after an unusually large fall in May (caused by supply-chain disruptions)

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

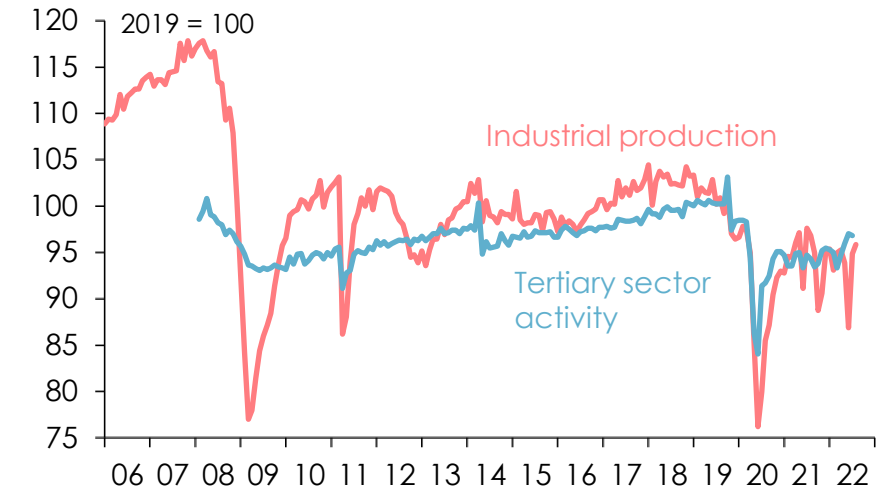
Business conditions by industry



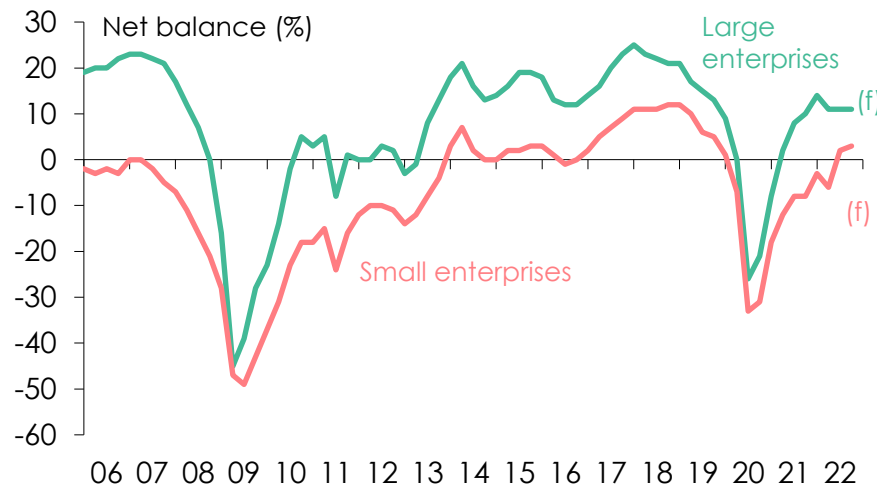
Corporate operating profits



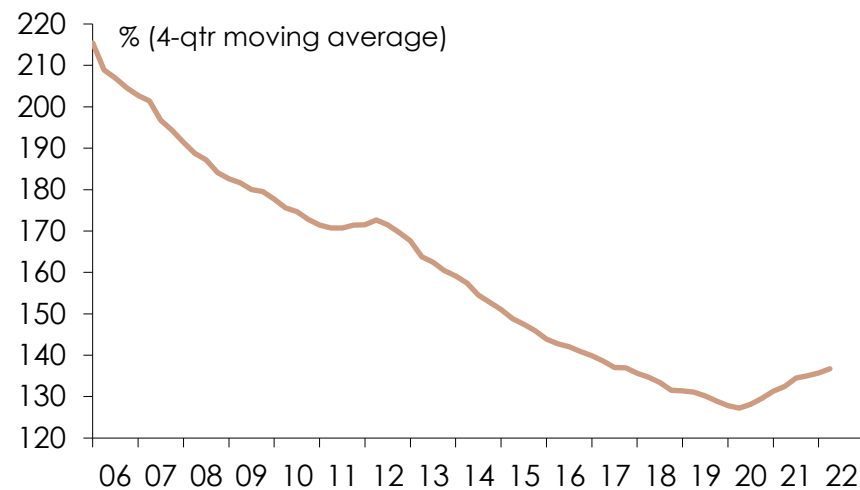
Indexes of economic activity



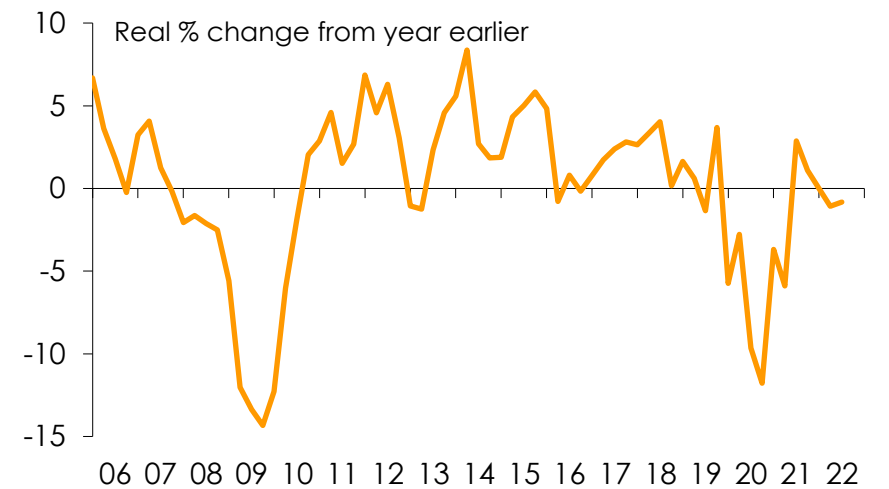
Business conditions by firm size



Corporate debt-equity ratio



Business investment

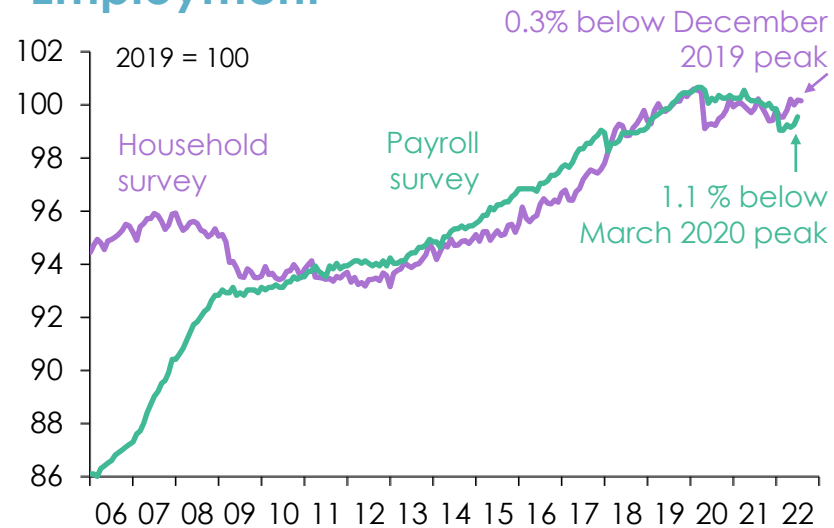


Sources: Bank of Japan, [Short-Term Economic Survey of Enterprises in Japan \('Tankan'\)](#); Policy Research Institute, Ministry of Finance, [Financial Statements Statistics of Corporations by Industry, Quarterly](#); Ministry of Economy, Trade & Industry, [Indices of Industrial Production](#) and [Indices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

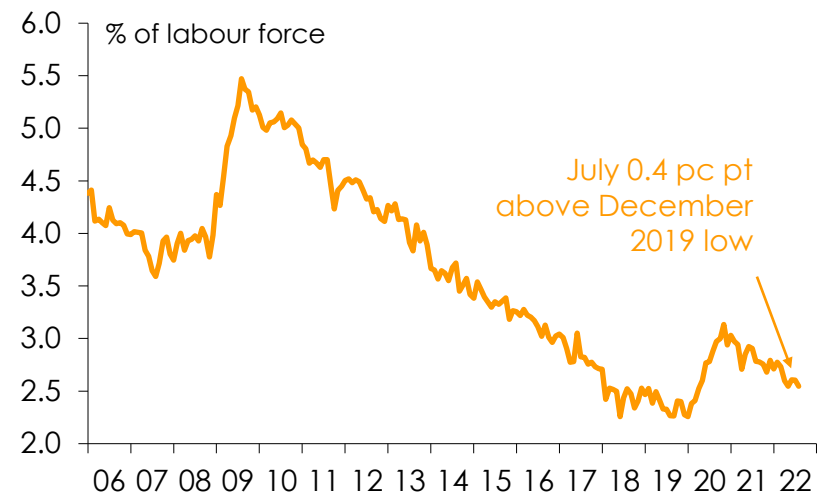
Employment in Japan in July was still 0.3% below its pre-pandemic peak, and the unemployment rate remained unchanged at 2.6%

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

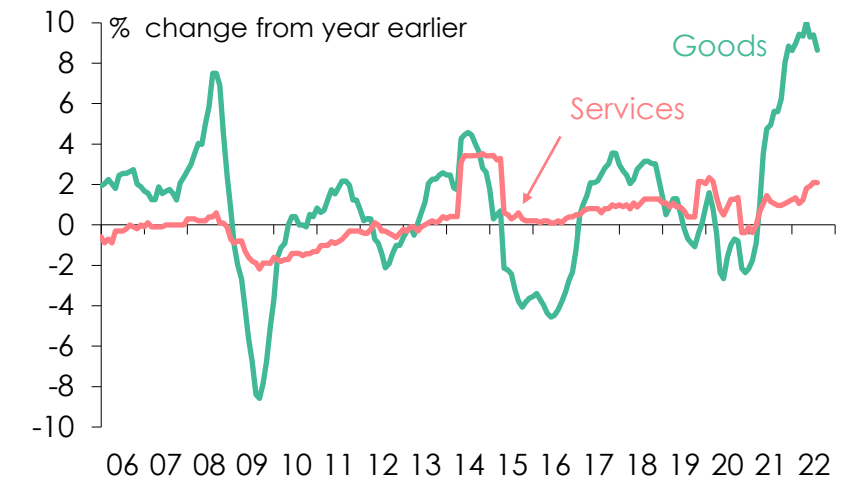
Employment



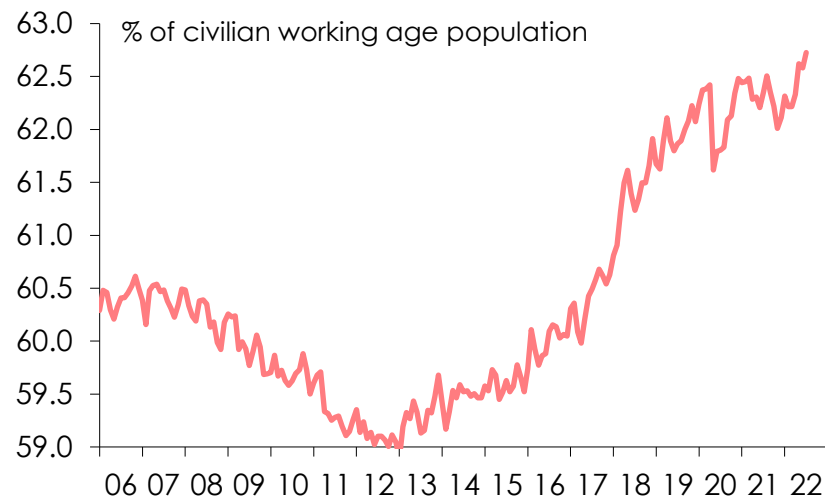
Unemployment rate



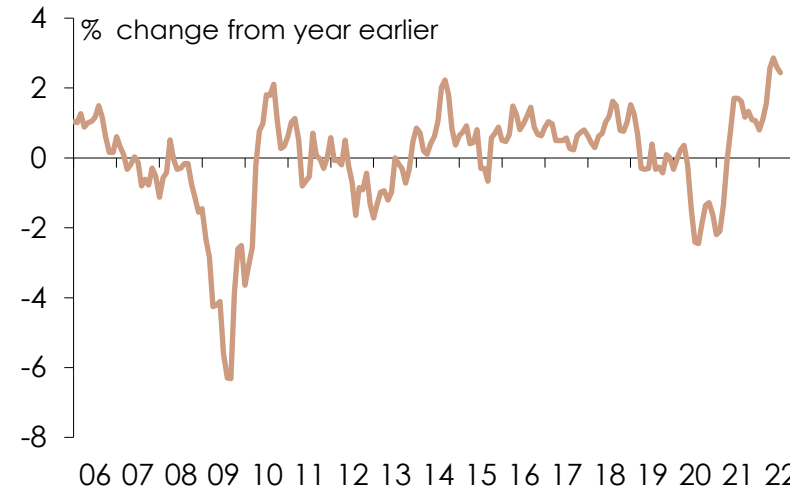
'Corporate' (producer) prices



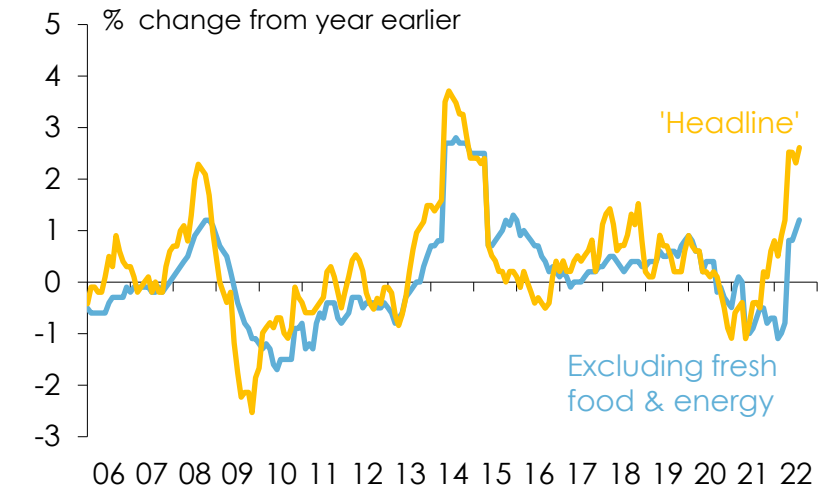
Labour force participation rate



Wages growth



Consumer prices

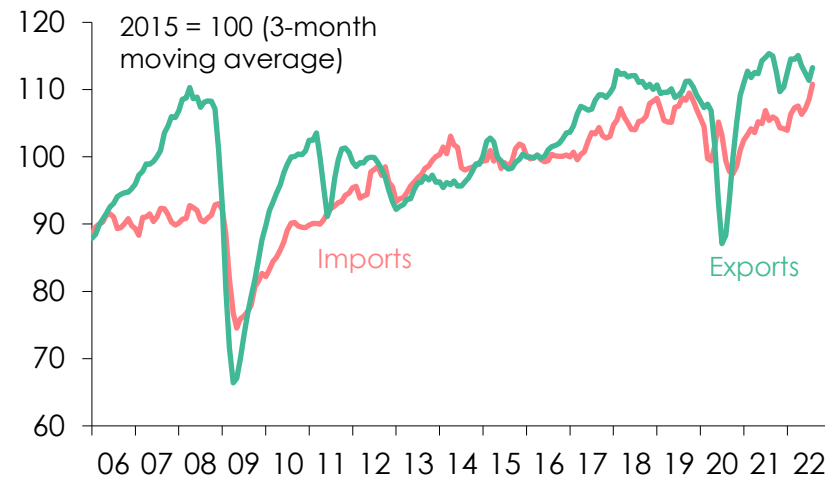


Sources: Statistics Bureau of Japan, [Labour Force Survey](#) and [Consumer Price Index](#); Ministry of Health, Labour and Welfare, [Monthly Labour Survey](#); Bank of Japan, [Prices and Measures of Underlying Inflation](#). [Return to "What's New"](#).

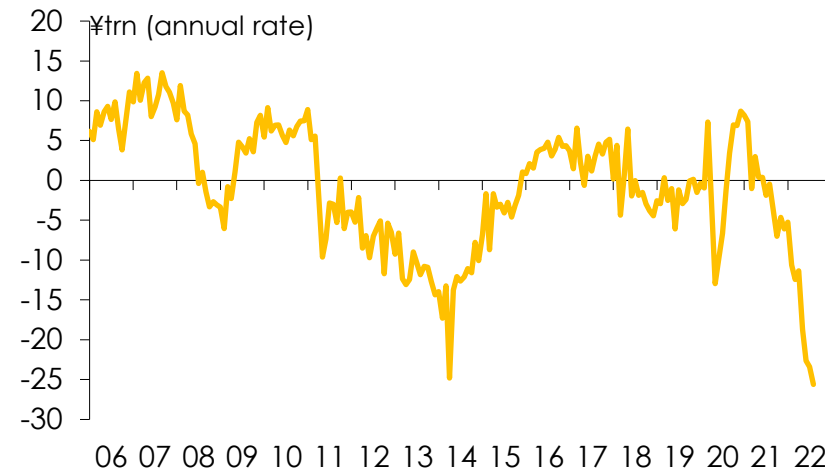
Japan is now incurring large (by its standards) external deficits as a result largely of higher prices commodity imports and loss of tourism exports

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

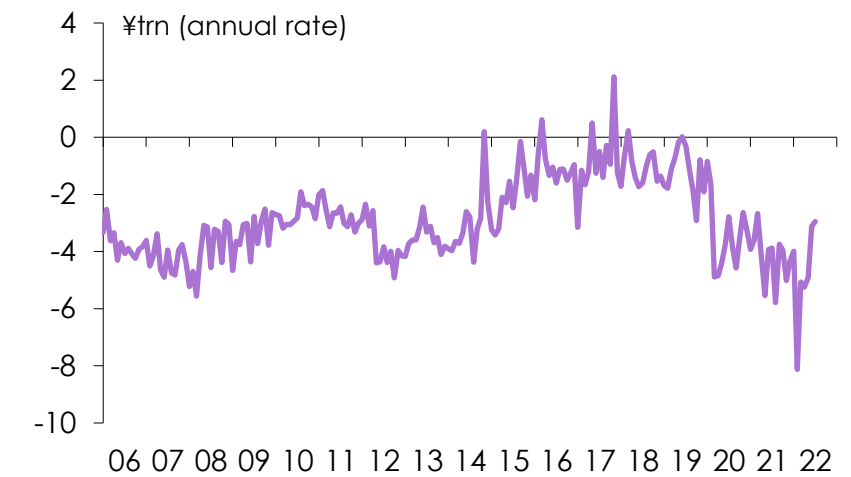
Merchandise trade volumes



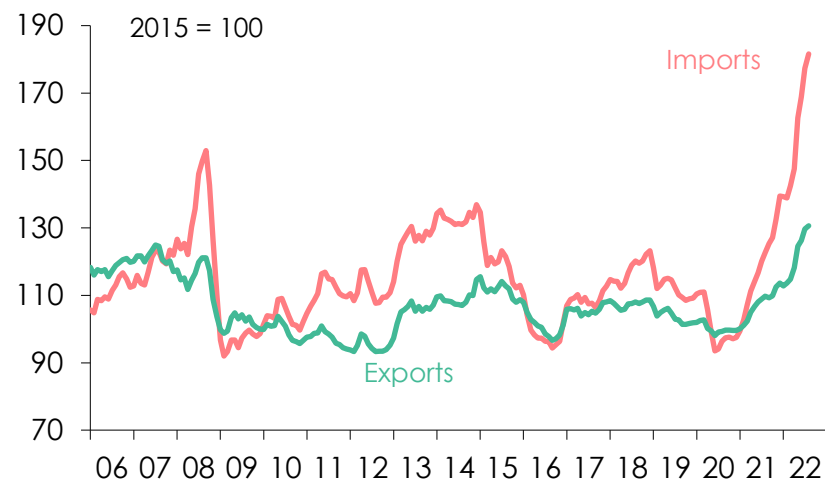
Merchandise trade balance



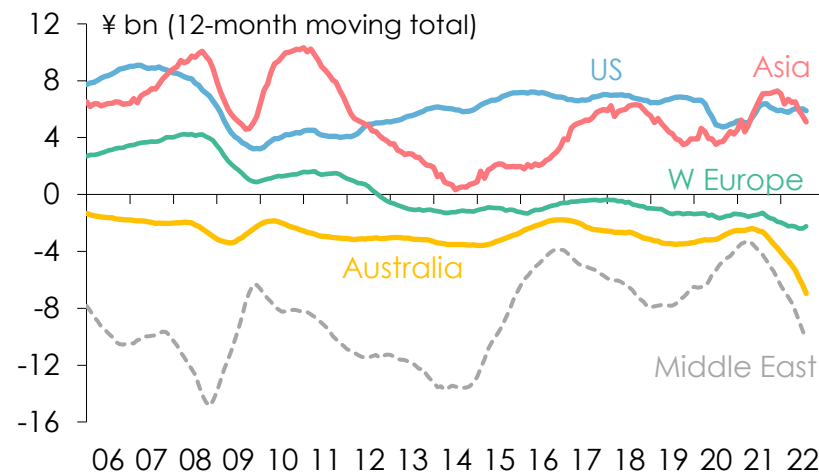
Services trade balance



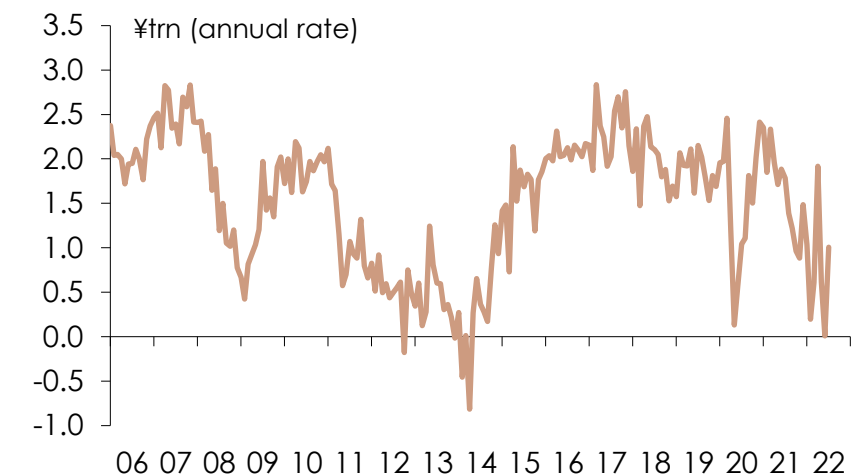
Merchandise trade prices



Bilateral goods trade balances



Current account balance



Sources: Bank of Japan, [Developments in Real Exports and Real Imports](#) and [Balance of Payments Related Statistics](#); Ministry of Finance, [Trade Statistics of Japan](#).
[Return to "What's New"](#).

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

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

- ❑ As expected, the [Bank of Japan](#) left all its monetary policy settings unchanged – including the commitment to cap 10-year JGB yields at 0.25% - at last 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 IMF and the ADB have lowered their growth forecasts for most East Asian economies (except for Indonesia) and raised its forecasts for inflation

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

IMF and Asian Development Bank forecasts for East Asian economies

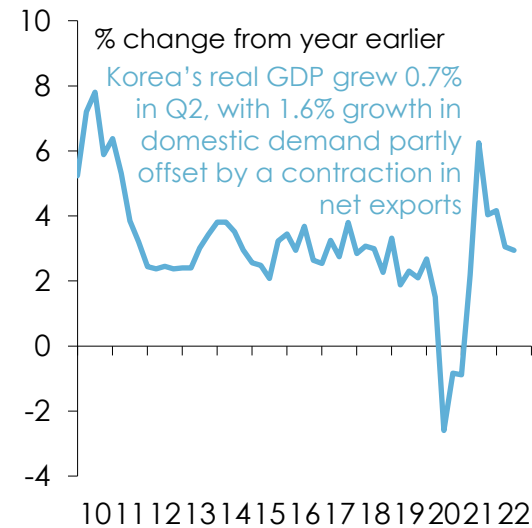
	Real GDP growth							Inflation						
	Actual		IMF			ADB		Actual		IMF			ADB	
	2010-19*	2020	2021	2022	2023	2022	2023	2010-19*	2020	2021	2022	2023	2022	2023
Korea	3.3	-0.9	4.1	2.3	2.1	2.6	2.6	1.7	0.5	2.5	4.0	2.4	4.5	3.0
Taiwan	3.6	3.1	5.9	3.2	2.9	3.8	3.0	1.0	-0.2	1.8	2.3	2.2	2.8	2.0
Hong Kong	2.8	-6.1	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: * Pc 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"](#).

Thailand's real GDP grew 0.7% in Q2, but was still 3.0% short of its pre-Covid peak in Q3 2019

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

Korea



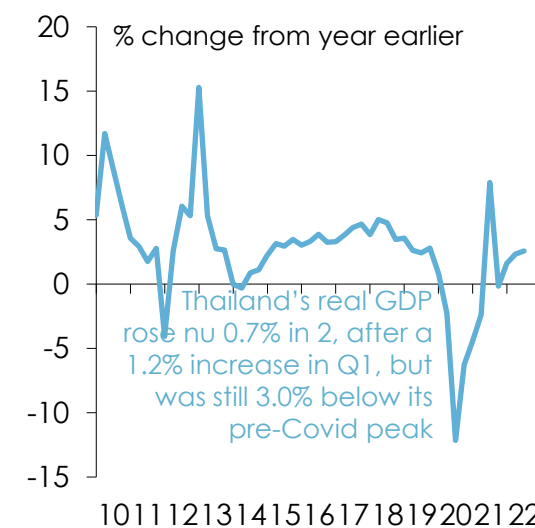
Hong Kong



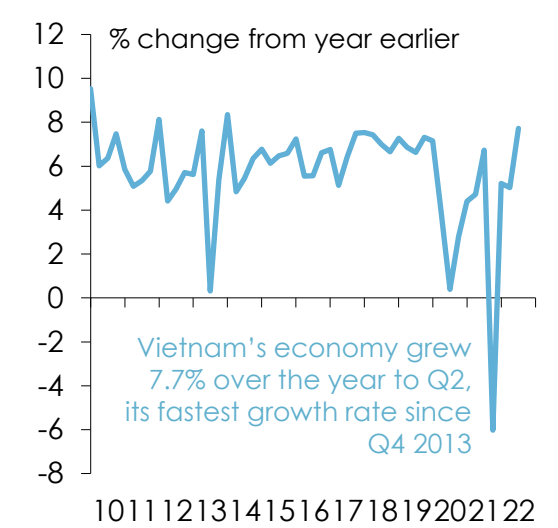
Indonesia



Thailand



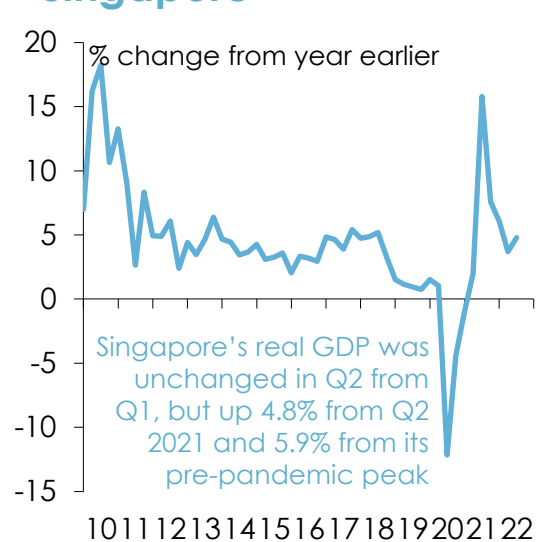
Vietnam



Taiwan



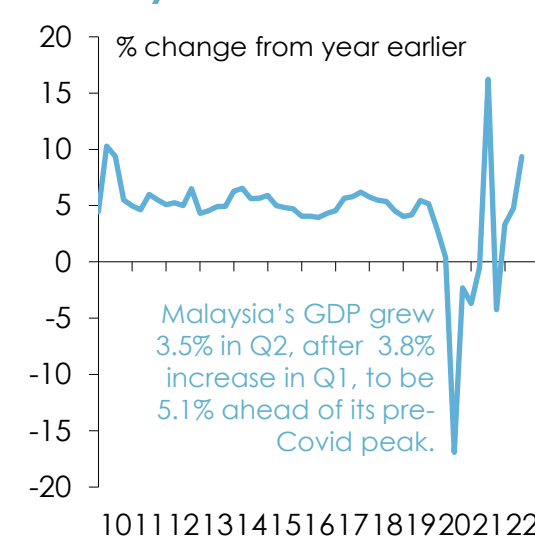
Singapore



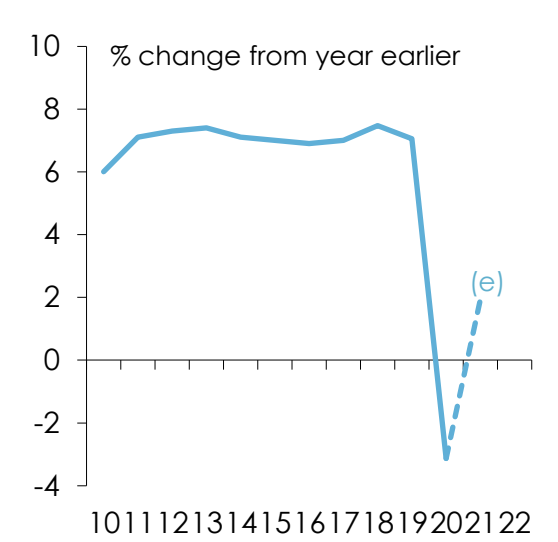
Philippines



Malaysia



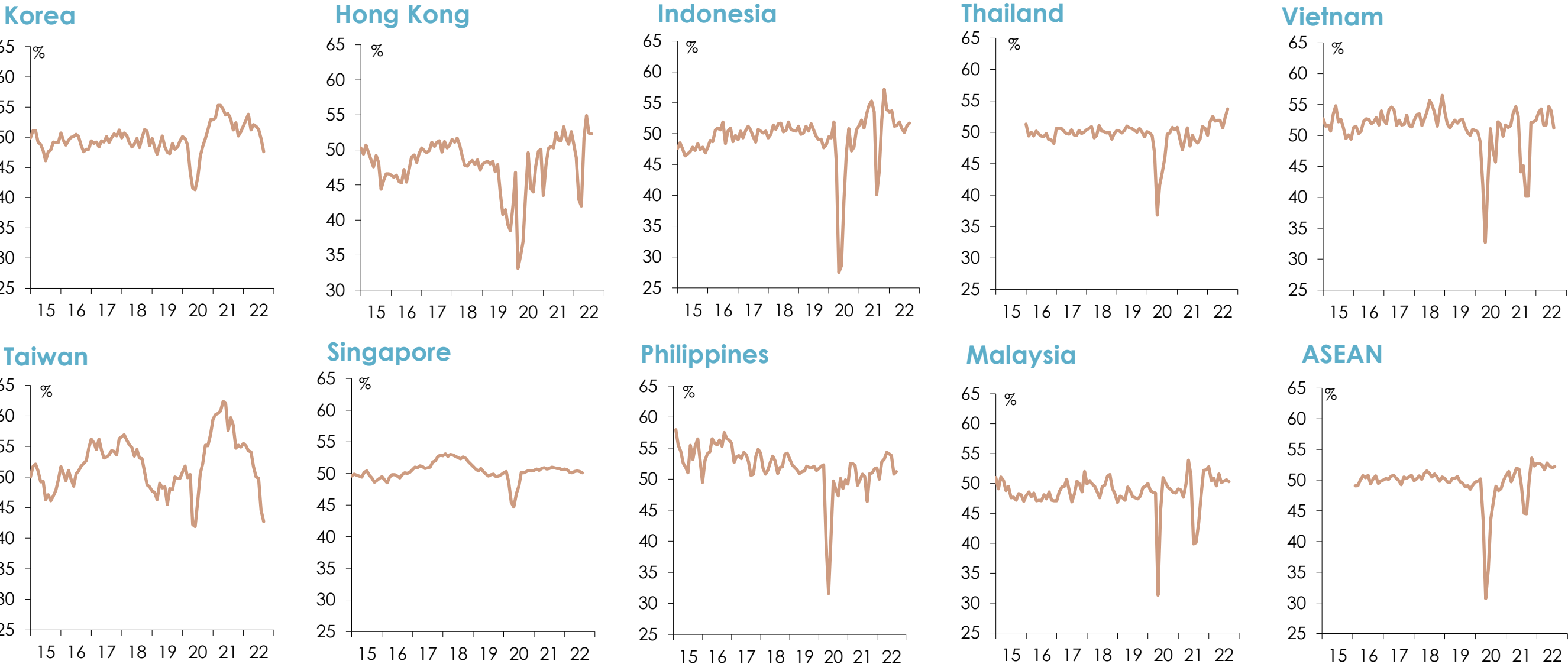
Cambodia



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

August PMIs suggest contractions in manufacturing activity in Korea and Taiwan, but continued growth in South-East Asia

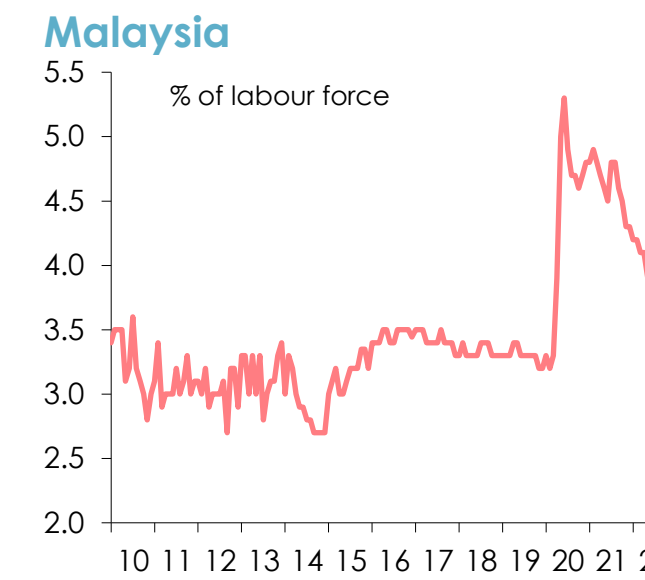
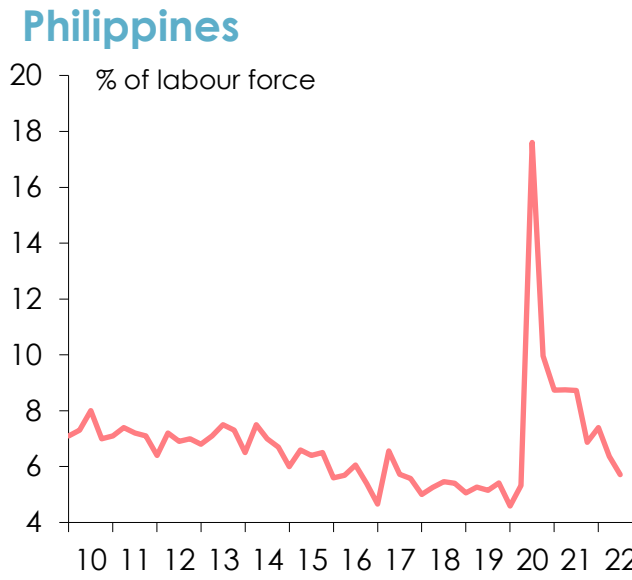
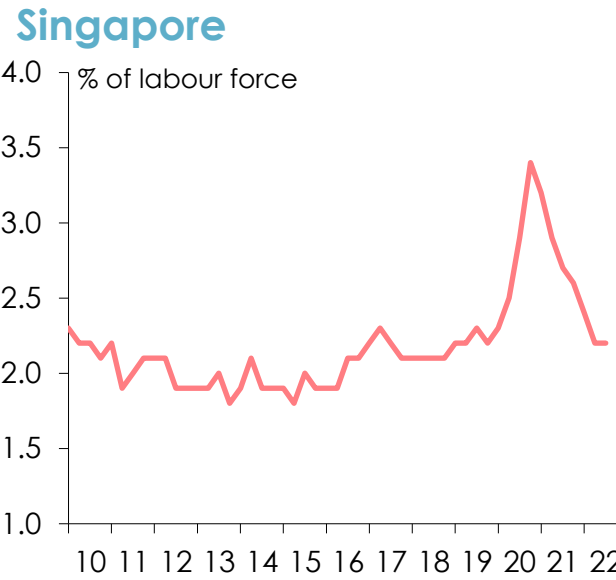
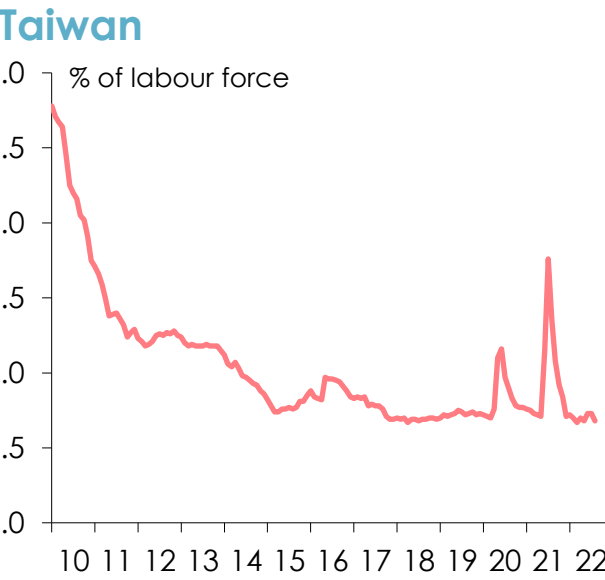
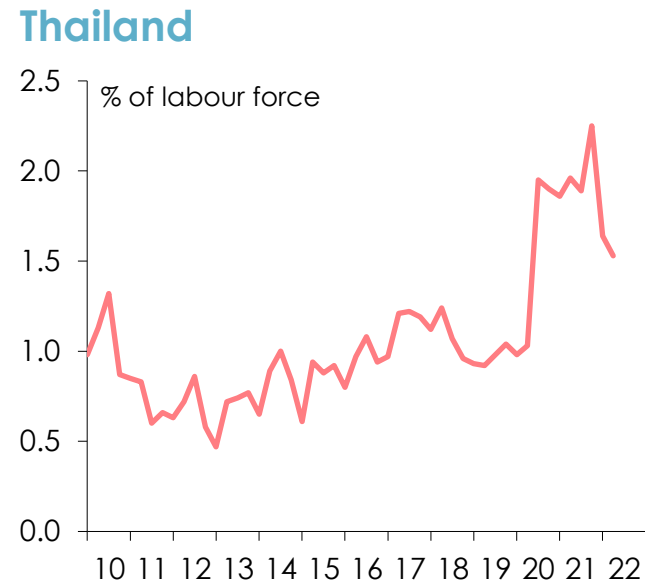
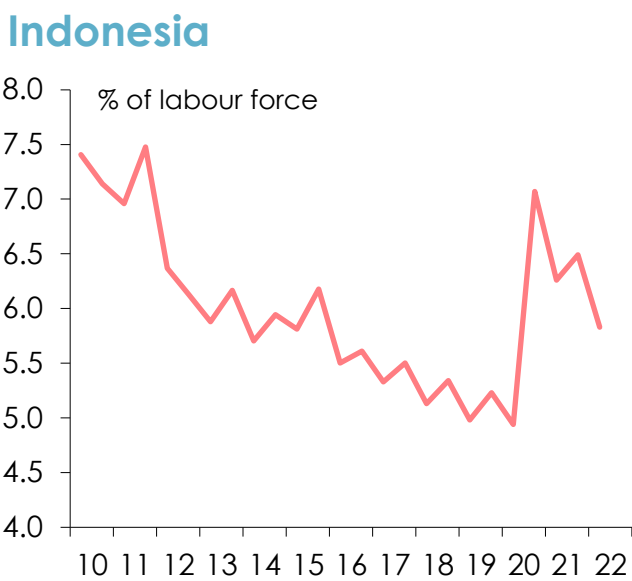
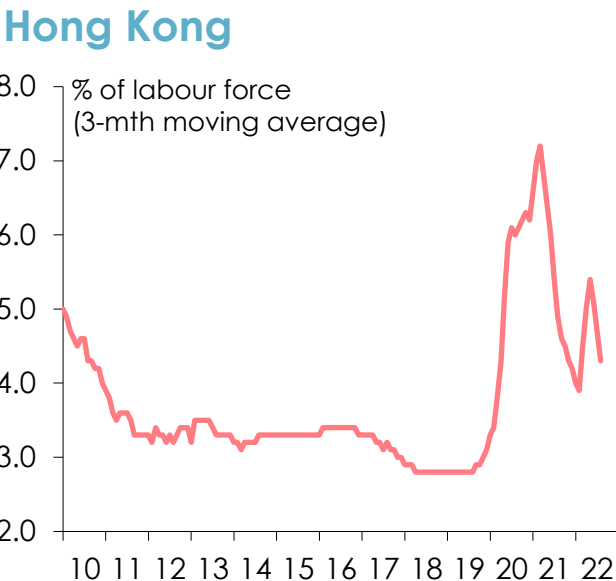
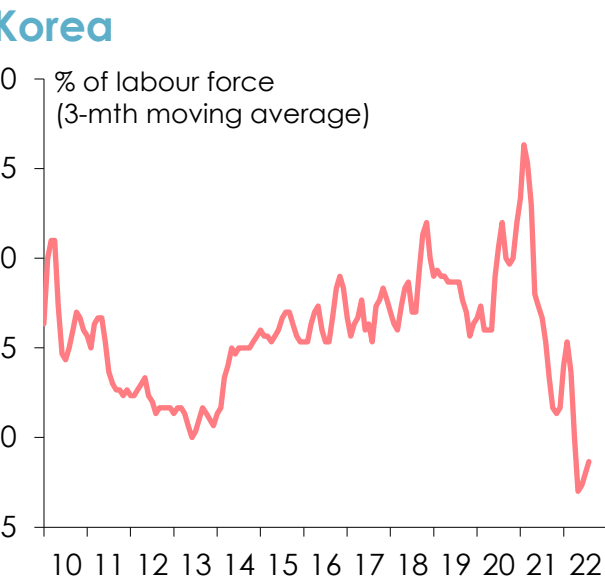
THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022



Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous month, and a reading of less than 50 indicates a decrease. Surveys are for manufacturing sector only, except for Hong Kong which is 'whole economy'. Latest data are for August, except for HK, Singapore and Vietnam which are 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

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

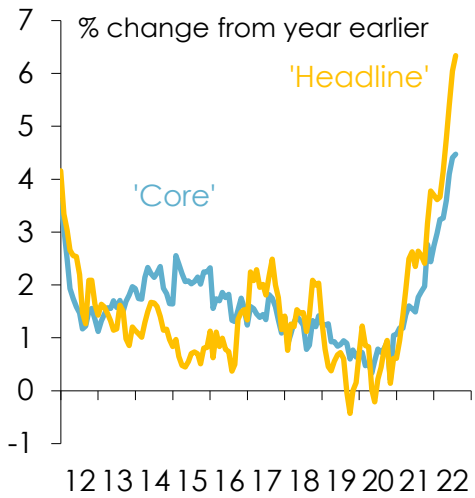


Note: Unemployment data is published monthly in Korea, Taiwan, Hong Kong, and Malaysia; quarterly in Singapore, Thailand and the Philippines; semi-annually (February and August) in Indonesia. Sources: national statistical agencies. [Return to "What's New"](#).

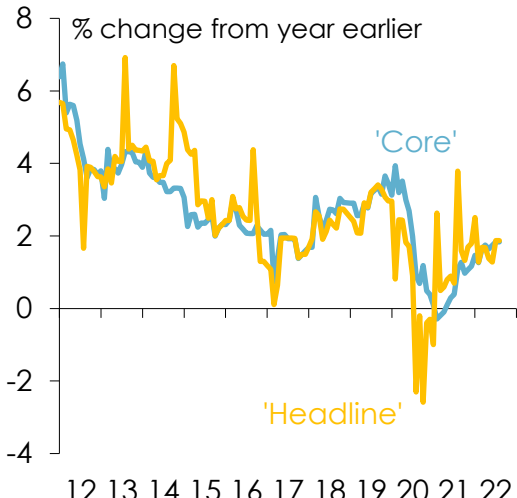
'Headline' and 'core' inflation are now rising in all East Asian economies and especially in Korea and Singapore

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

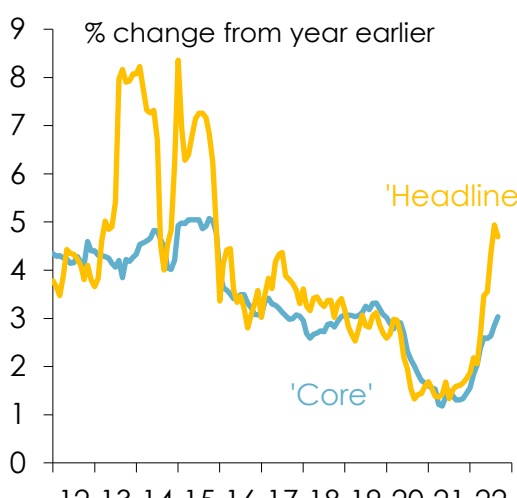
Korea



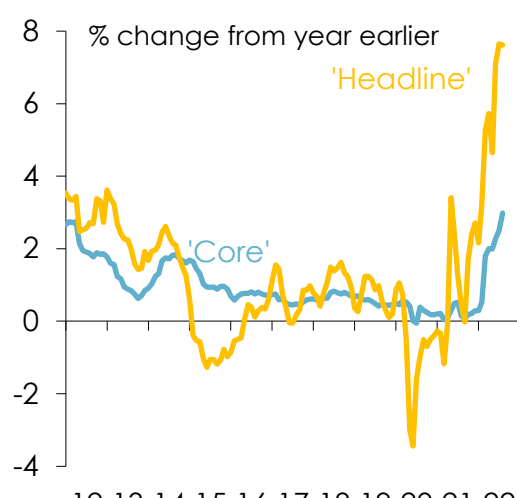
Hong Kong



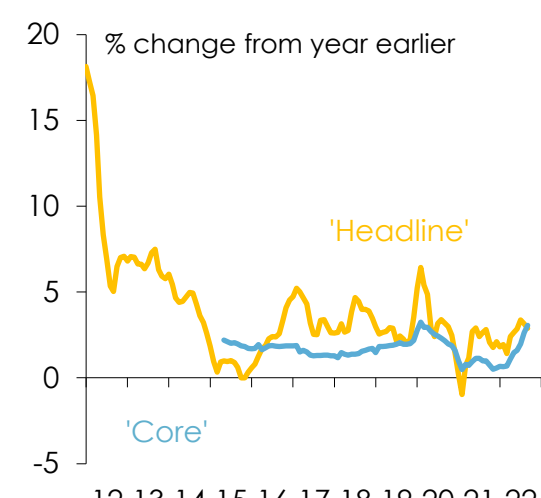
Indonesia



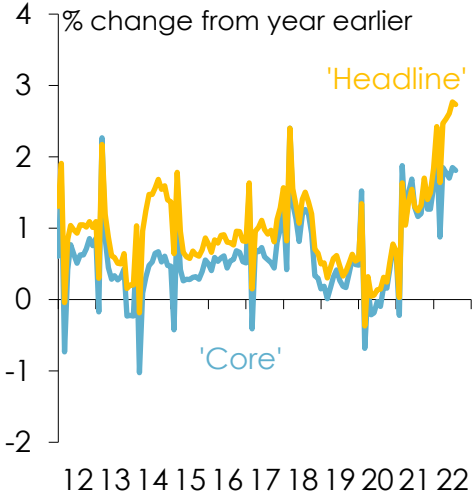
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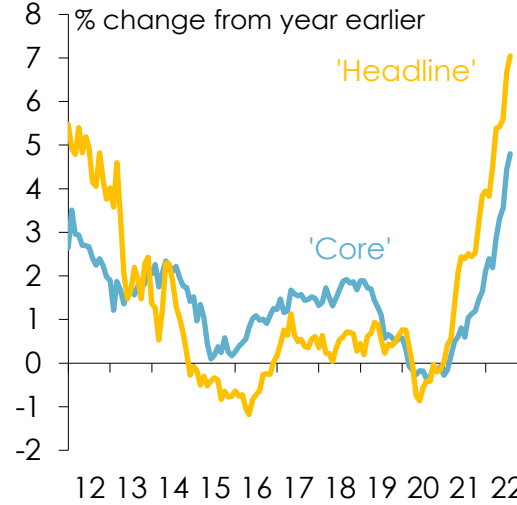
Vietnam



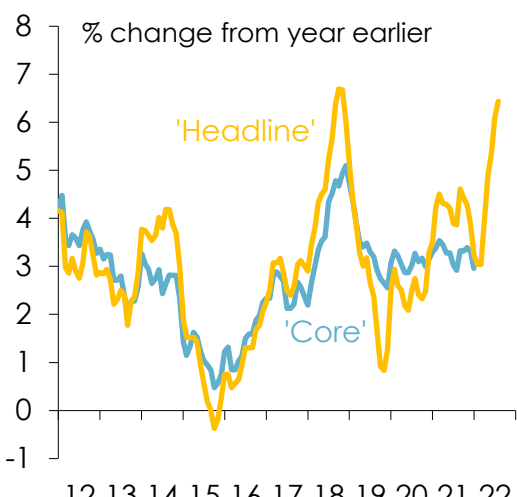
Taiwan



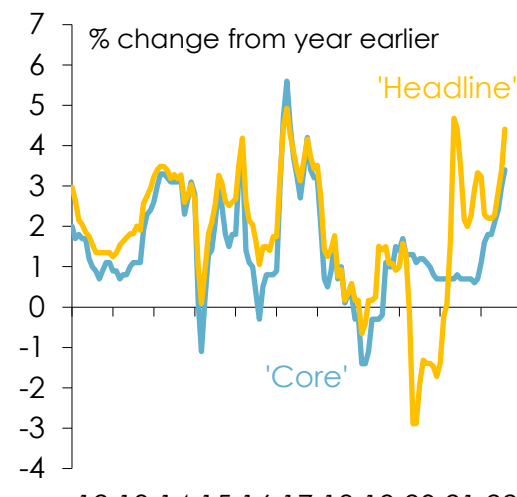
Singapore



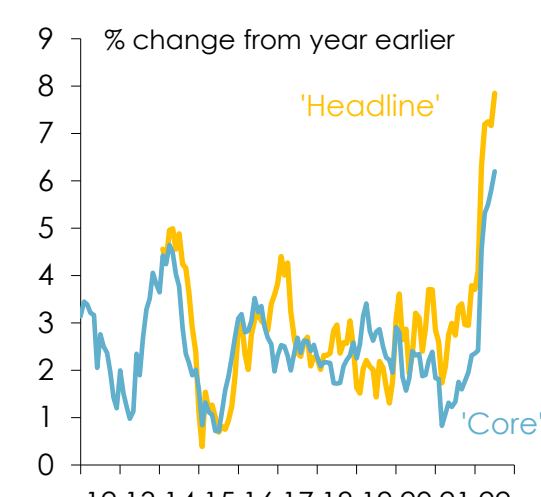
Philippines



Malaysia



Cambodia

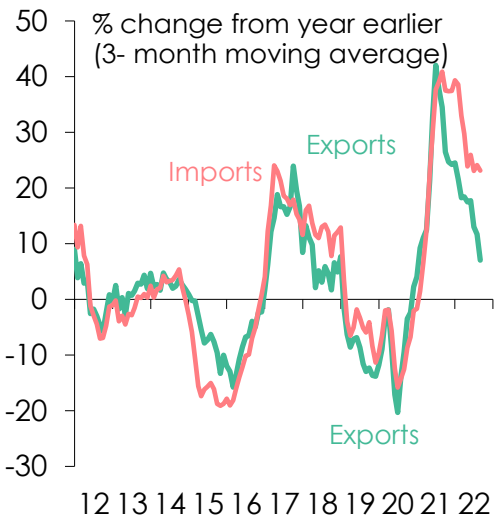


Note: 'Core' inflation in Korea excludes agricultural products & oil; in Taiwan it excludes fresh fruit, vegetables & energy; in Singapore it excludes accommodation & private transport; and in Hong Kong it excludes the effect of 'one-off government relief measures'. 'Core' inflation in Indonesia excludes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

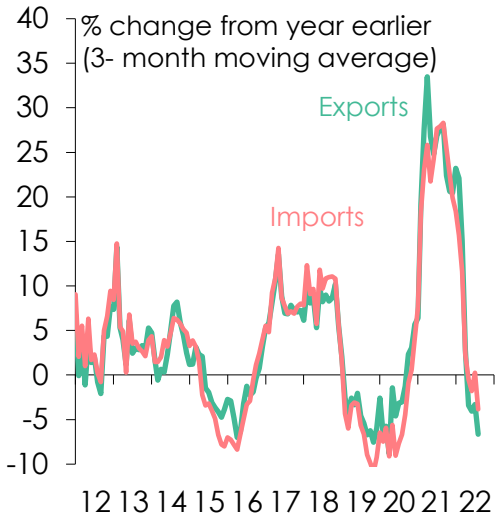
Asian exports are returning to more ‘normal’ growth rates following the ‘bump’ in 2021 inflated by comparison with 2020

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

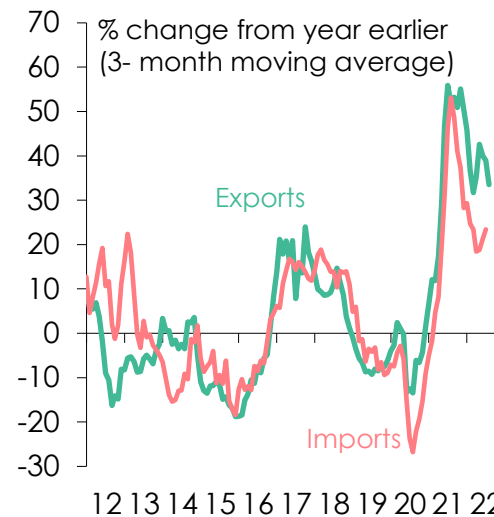
Korea



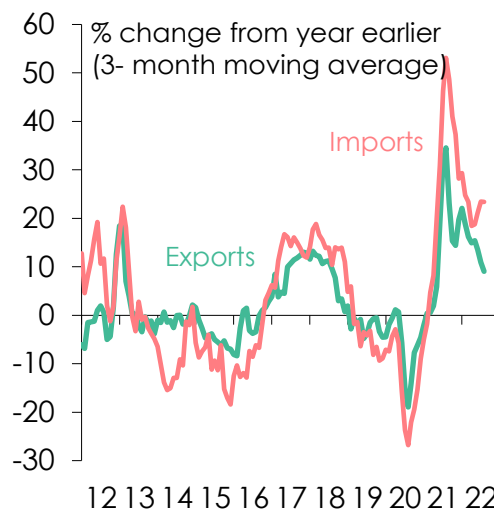
Hong Kong



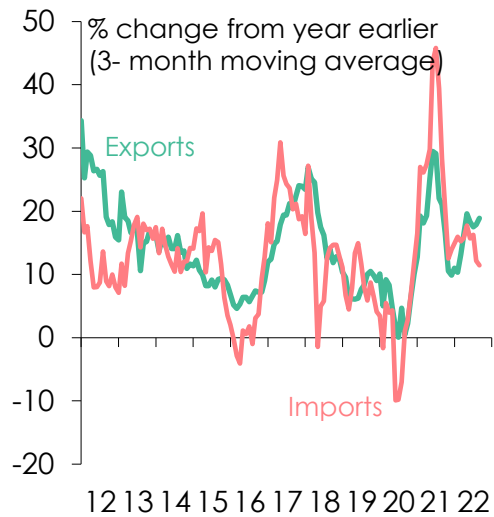
Indonesia



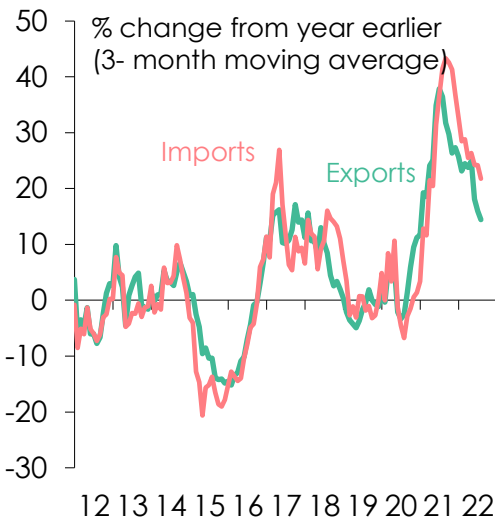
Thailand



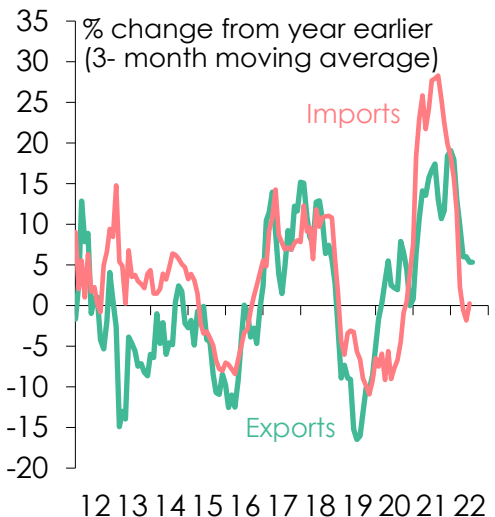
Vietnam



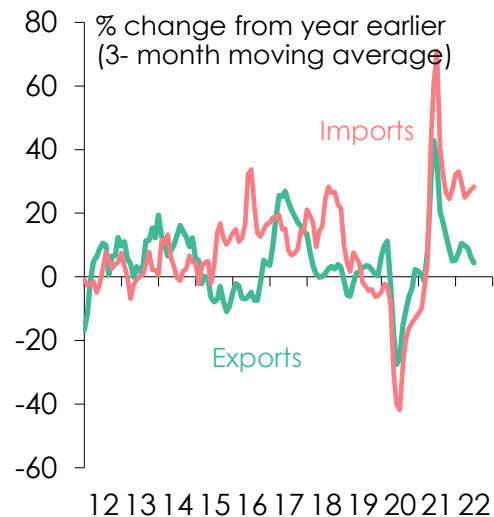
Taiwan



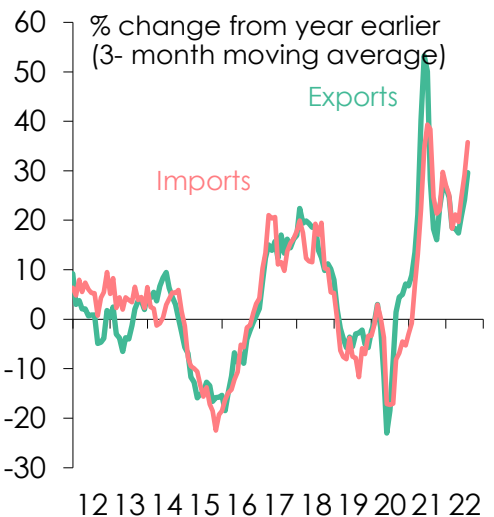
Singapore



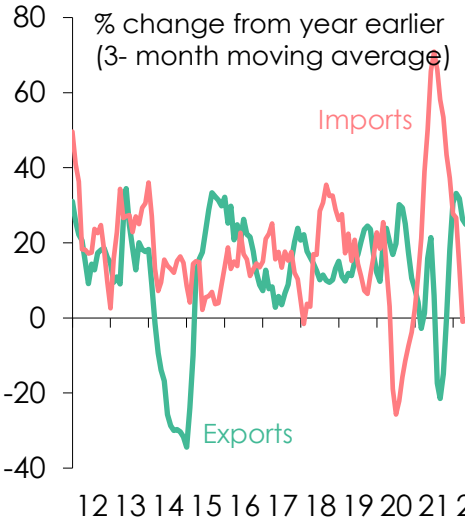
Philippines



Malaysia



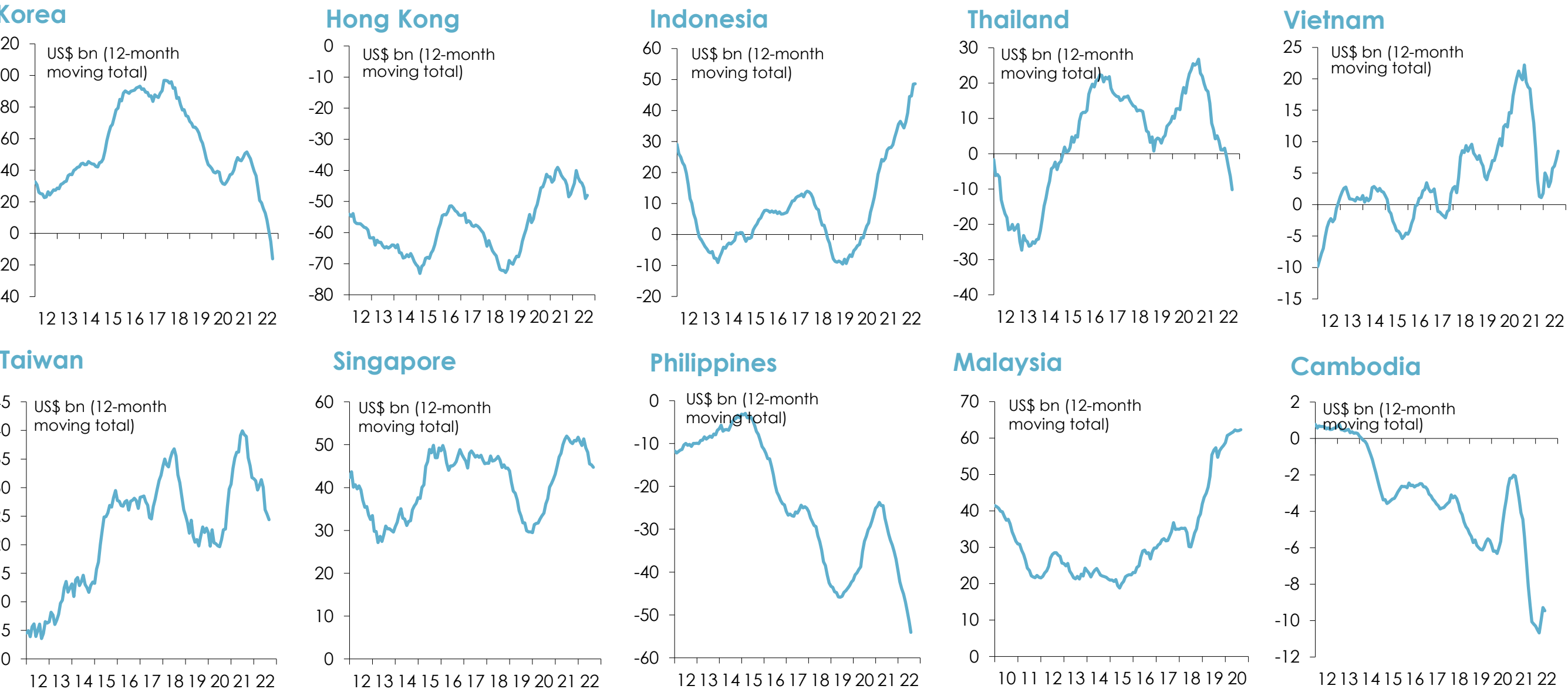
Cambodia



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

Most Asian economies – except for energy-exporting Indonesia and Malaysia – are experiencing some deterioration in their trade balances

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

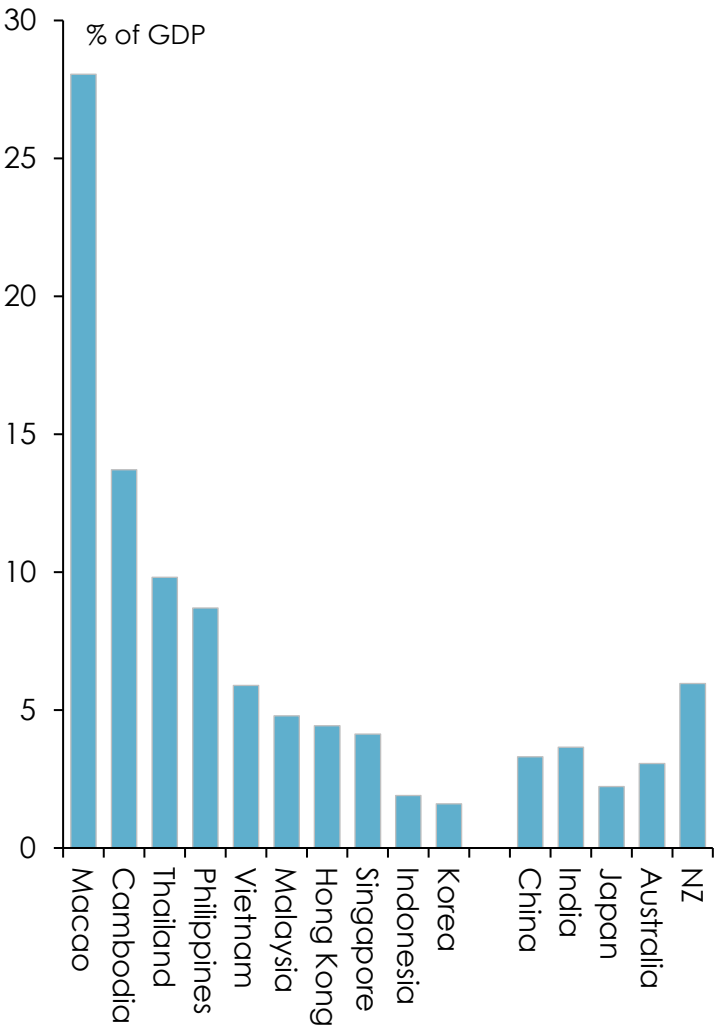


Note: Data for Hong Kong, Singapore and Malaysia are published in national currencies and converted to US dollars by Corinna using month-average exchange rates.
Sources: national statistical agencies and central banks. [Return to "What's New"](#).

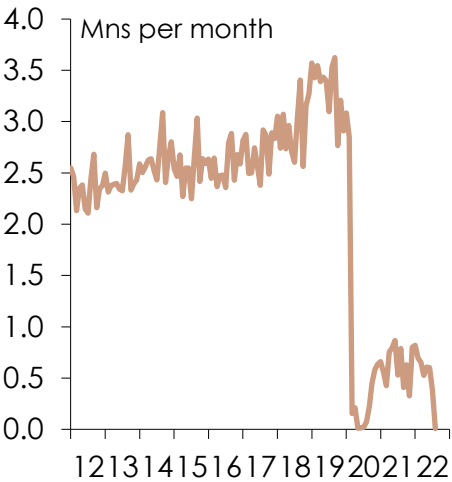
Many Asian economies, particularly Macao, Thailand, the Philippines and Hong Kong, have been hard hit by the demise of international tourism

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

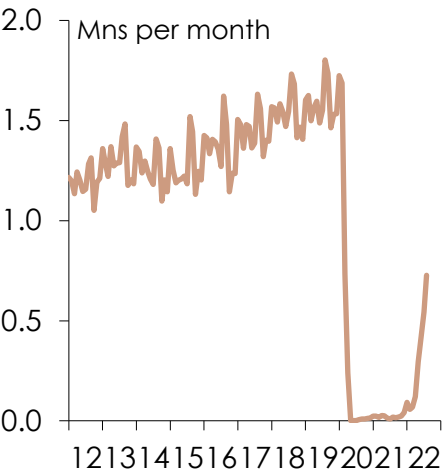
International tourism direct contribution to GDP, 2018



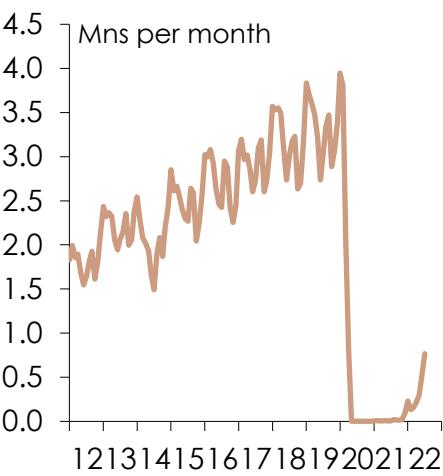
International visitor arrivals
Macao



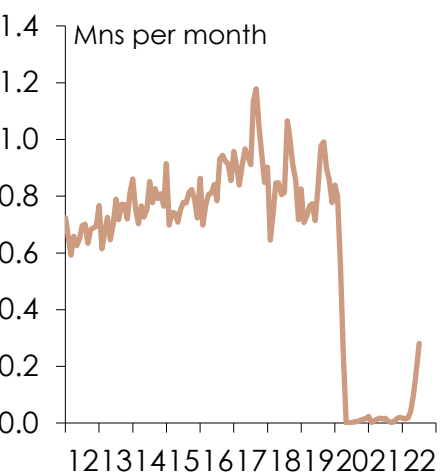
Singapore



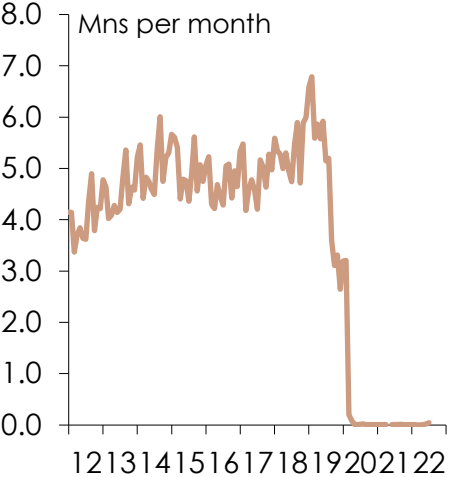
Thailand



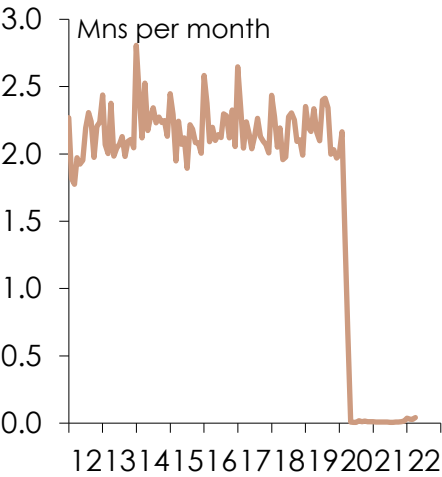
Indonesia



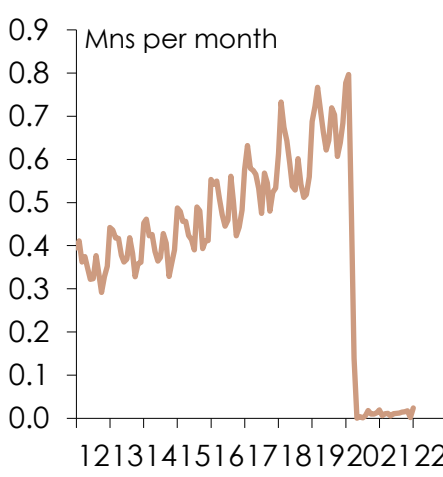
Hong Kong



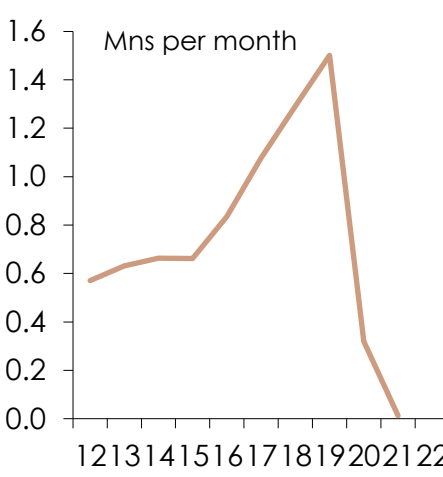
Malaysia



Philippines



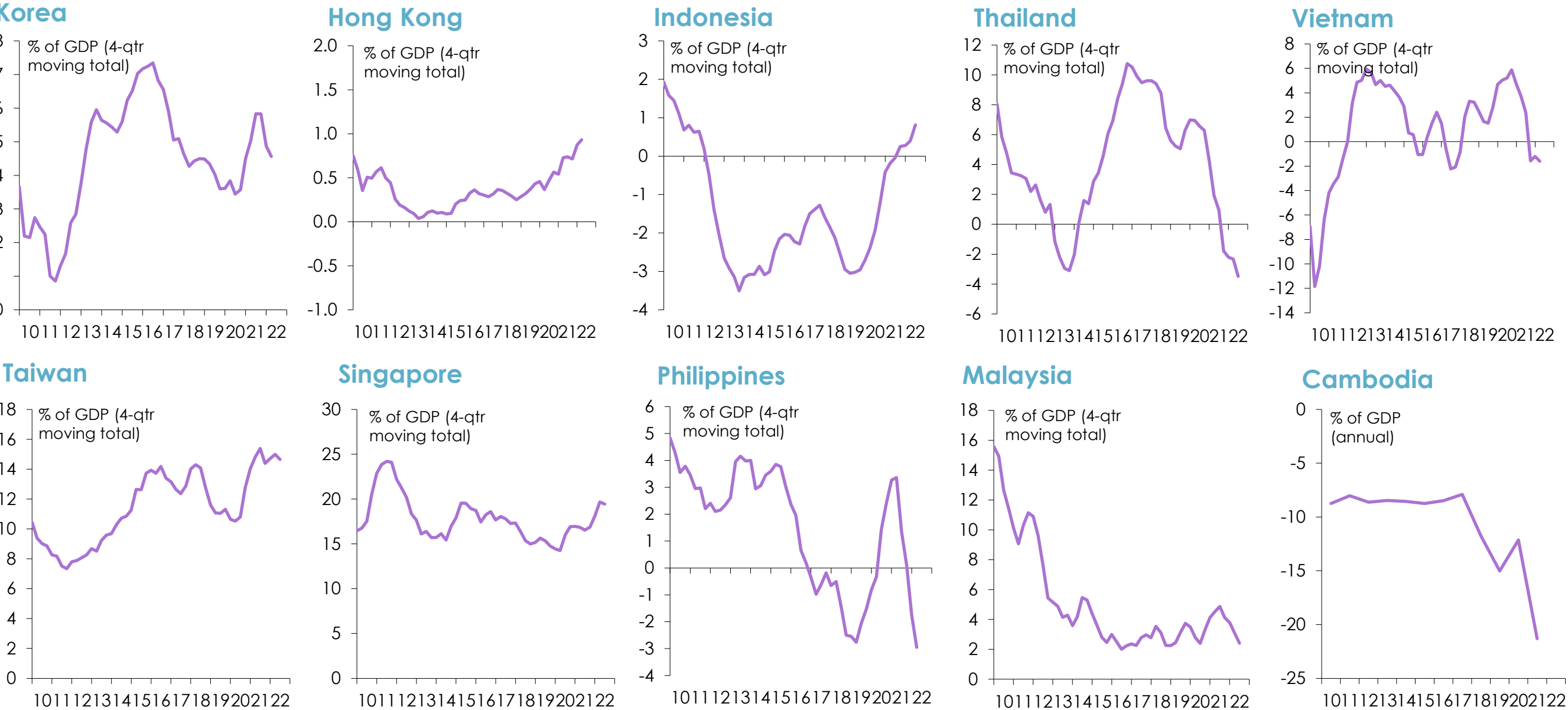
Vietnam



Note: Visitor arrivals data for Vietnam is only published annually. Malaysia and the Philippines have thus far not published data for months after December 2021.
Sources: The World Bank, [ICdata360](#); national statistical agencies. [Return to "What's New"](#).

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

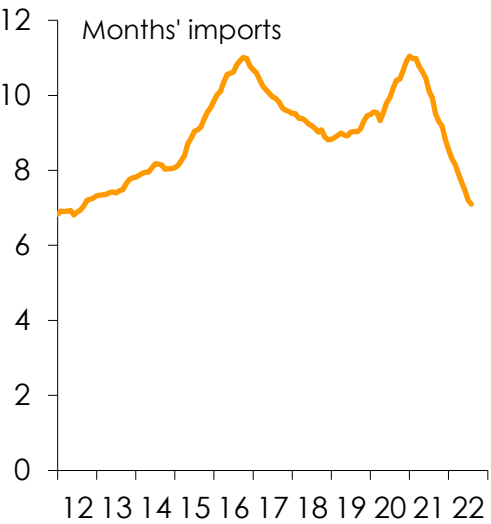
THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022



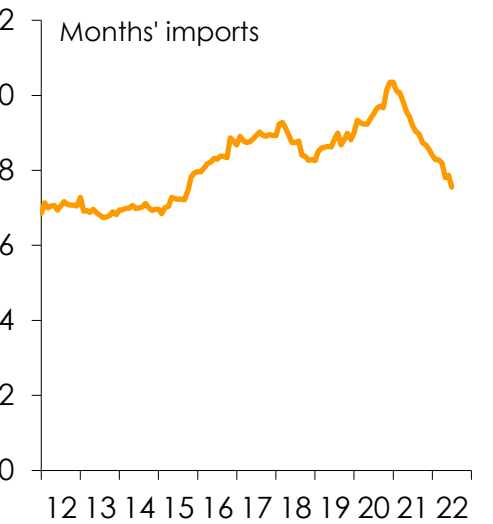
Most Asian economies have sought to maintain high levels of FX reserves since the 1997-98 crisis – although Malaysia's have deteriorated recently

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

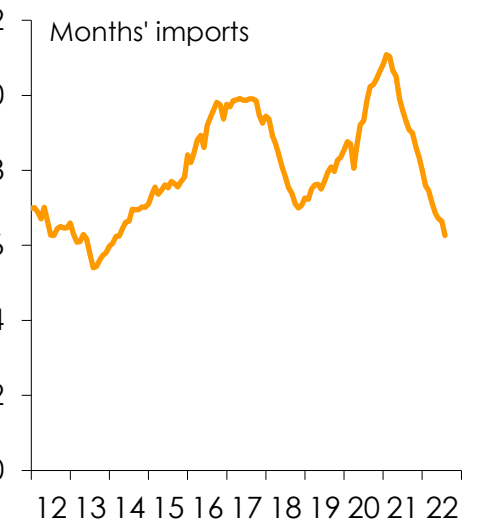
Korea



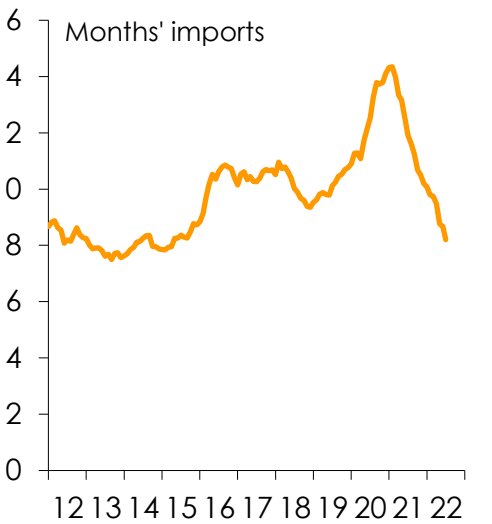
Hong Kong



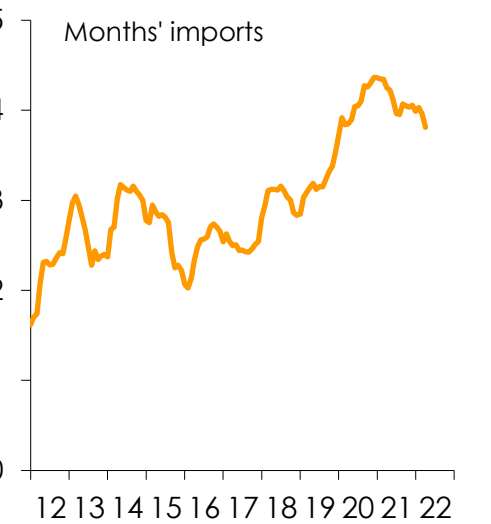
Indonesia



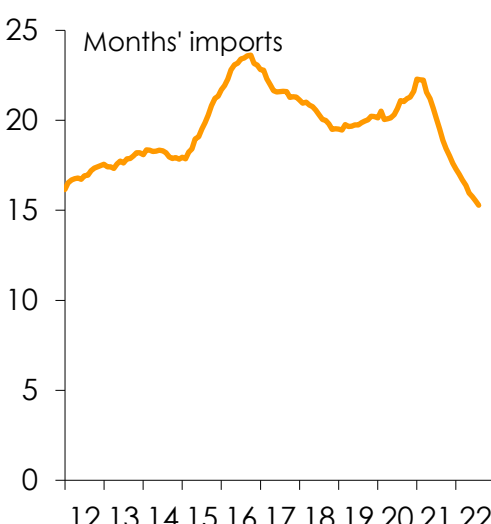
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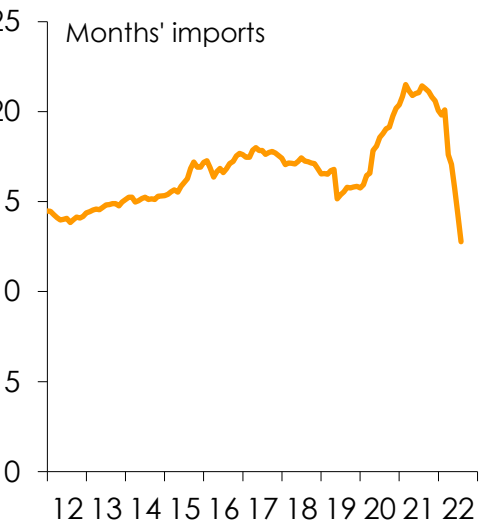
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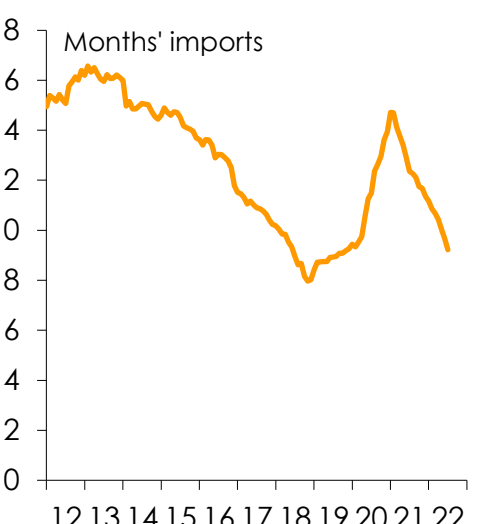
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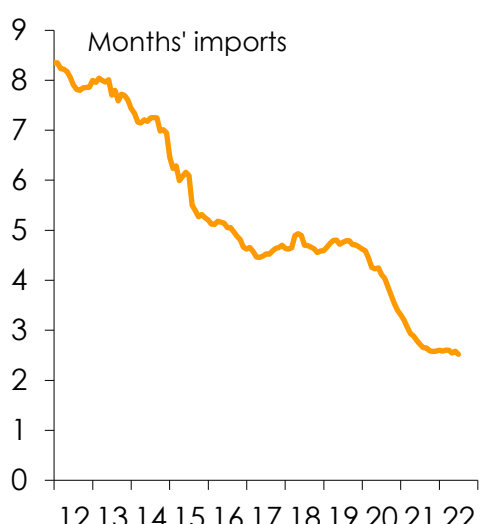
Singapore



Philippines



Malaysia



Cambodia

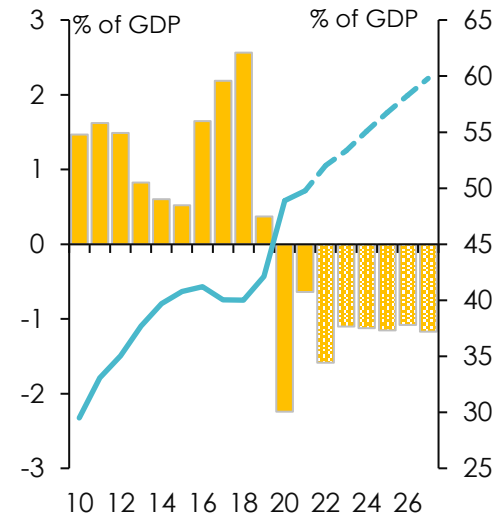


Note: Foreign exchange reserves in the above charts are shown as a multiple of average monthly imports (measured in US\$) over the preceding 12 months.
Sources: national statistical agencies and central banks; IMF; Refinitiv Datastream. [Return to "What's New"](#).

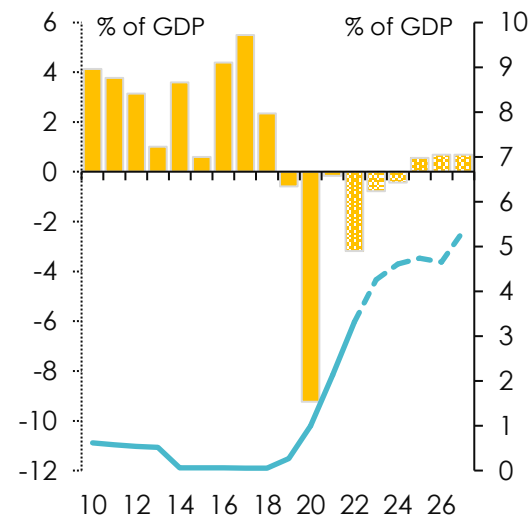
Most Asian governments, apart from Korea, Taiwan, Malaysia and Vietnam, will be tightening fiscal policy over the next few years

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

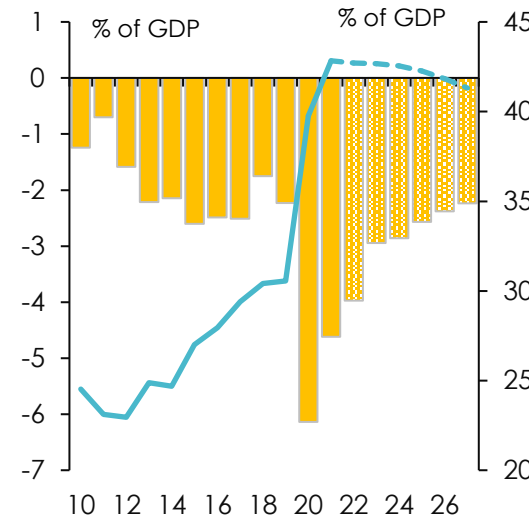
Korea



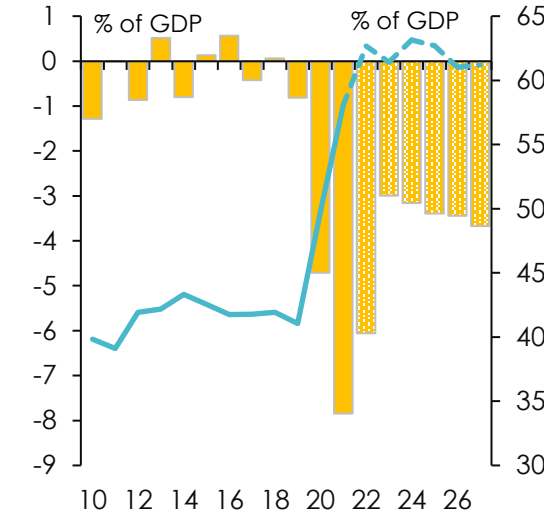
Hong Kong



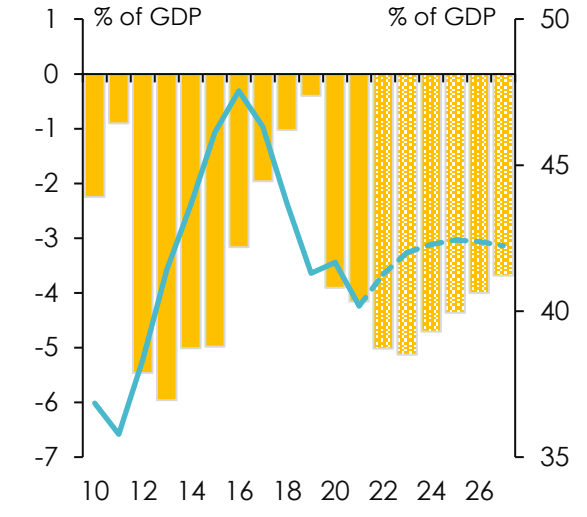
Indonesia



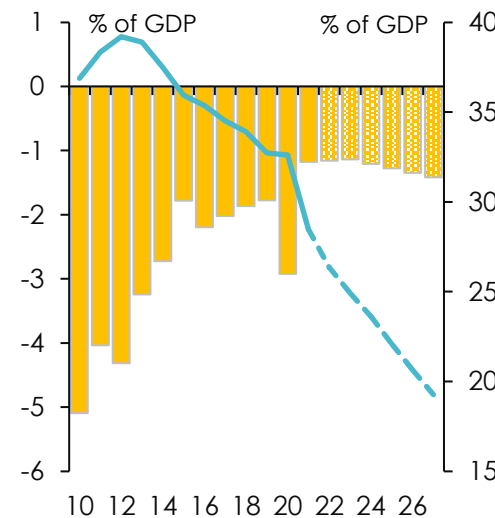
Thailand



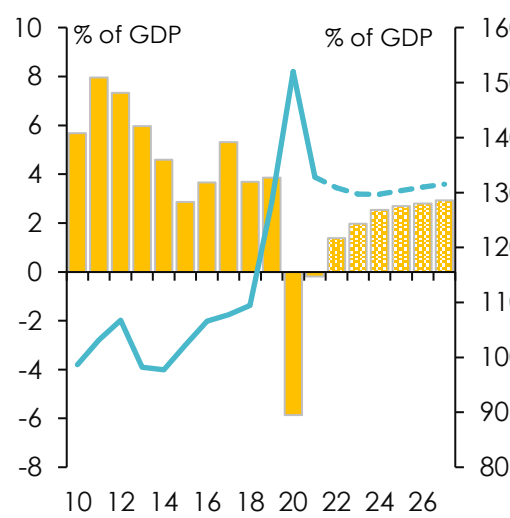
Vietnam



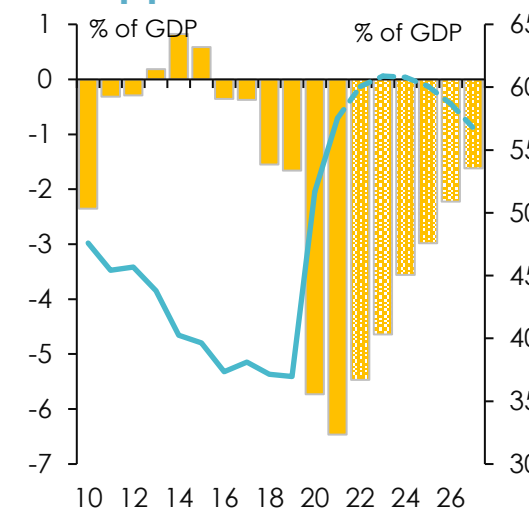
Taiwan



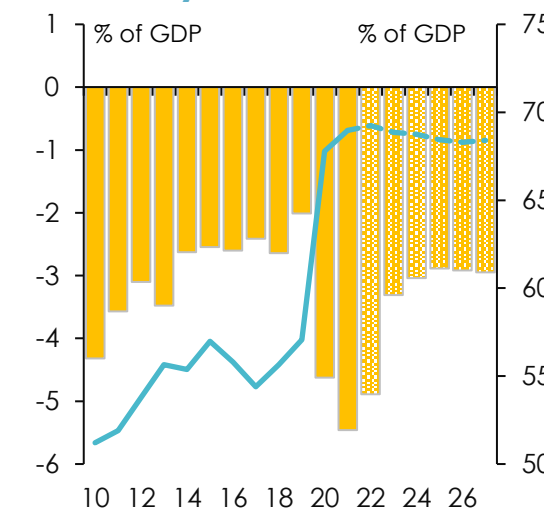
Singapore



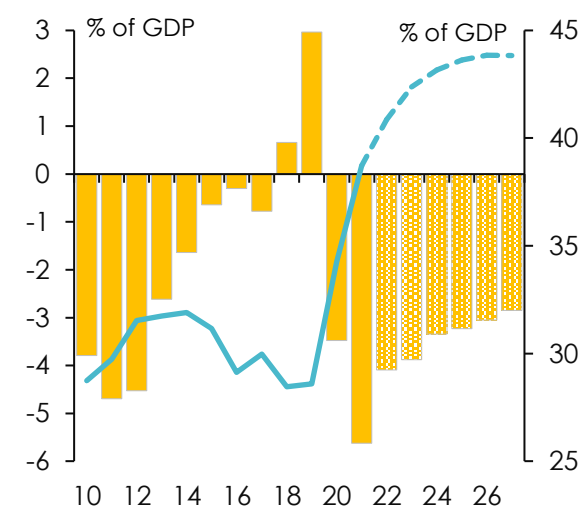
Philippines



Malaysia



Cambodia



General government overall fiscal balance (left scale)



General government gross debt (right scale)

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

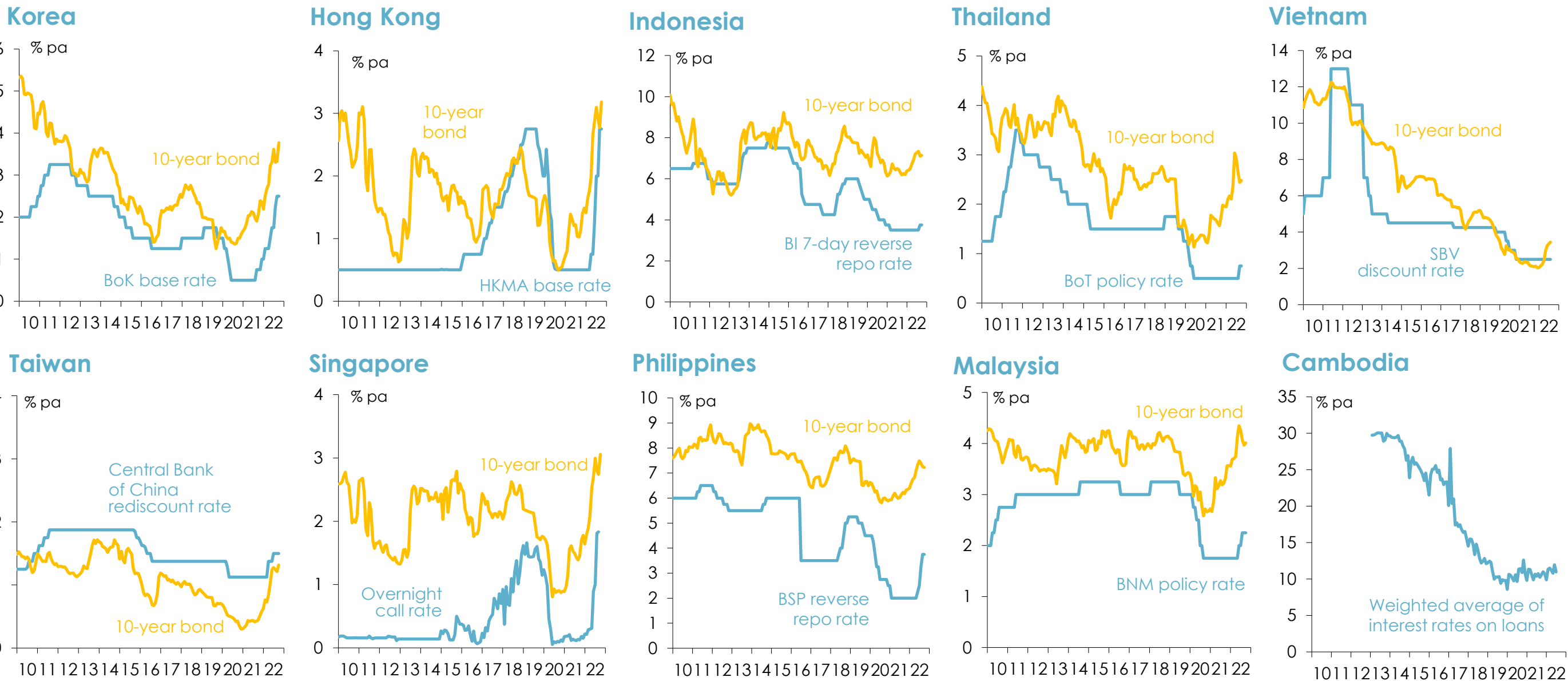
Bank Indonesia became the latest Asian central bank to begin lifting interest rates, while the Bank of Korea raised its base rate another 25 bp

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

- ❑ The **Bank of Korea** raised its base rate another 25 basis points, to 2.50%, at its Monetary Policy Board meeting on 25th August – the seventh increase (for a total of 200 bp) since August last year
 - **explaining** its decision, the Board noted that BoK forecasts for inflation in 2022 and 2023 had been revised up to 5.2% (from 4.5% in May) and 3.7%% (from 2.9%), respectively, whereas forecasts for real GDP growth had been shaded to 2.6% this year and 2.1% in 2023 (from 2.7% and 2.4%, respectively, in May)
 - it “sees continued rate hikes as warranted”, given that “inflation is expected to remain high, substantially above the target level, despite the increase in economic downside risks”
- ❑ **Bank Indonesia** raised its 7-day reverse repo rate by 25 basis points, to 3.75%, at its Board of Governors meeting on 23rd August
 - BI is the last major South-East Asian central bank (apart from Vietnam’s) to begin tightening monetary policy
 - BI **described** the rate increase as “a pre-emptive and forward-looking step to mitigate the risk of increasing core inflation and inflation expectations”, as well as “strengthening [the] rupiah exchange rate stabilization policy”
 - it attributes the increase in inflationary pressures “primarily ... to high global food and energy commodity prices”, but while noting that “core inflation remains relatively low at 2.9% yoy”, both it and inflation expectations are “predicted to increase due to “strengthening pressures on the demand side”
 - BI undertook to “continue to strengthen its policy mix response to maintain stability and strengthen the recovery” through increases in money market interest rates and by “intervening in the FX market through spot transactions” as well as through secondary market bond transactions
- ❑ Bank Negara Malaysia meets again this coming Thursday, followed by Bangko Sentral ng Pilipinas, Bank Indonesia and the Central Bank of China (Taiwan), all on 22nd September

Last month Bank Indonesia became the latest East Asian central bank to begin tightening monetary policy in response to rising inflation

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

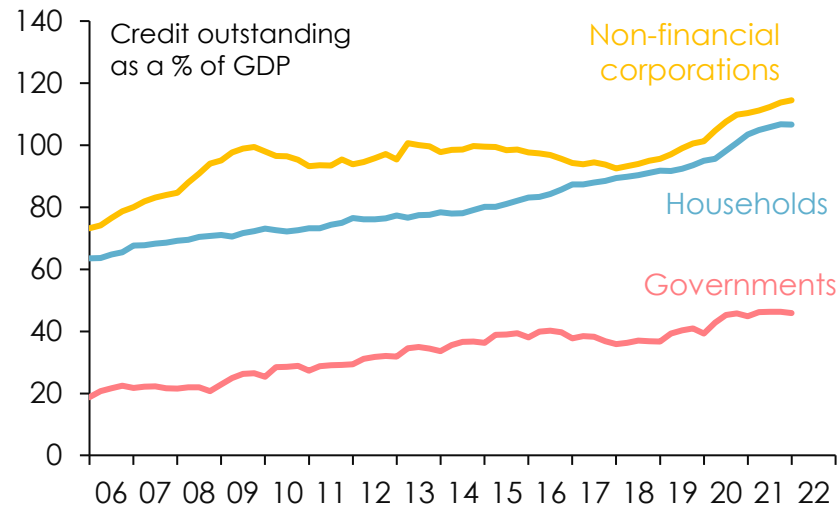


Note: Neither Hong Kong nor Singapore use a monetary policy indicator interest rate. Hong Kong has a currency board system, under which the HKMA base rate moves in line with a pre-set formula based on the US fed funds rate; the Monetary Authority of Singapore uses the (effective) exchange rate as its 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 2nd September. Sources: national central banks; Refinitiv Datastream. [Return to "What's New"](#).

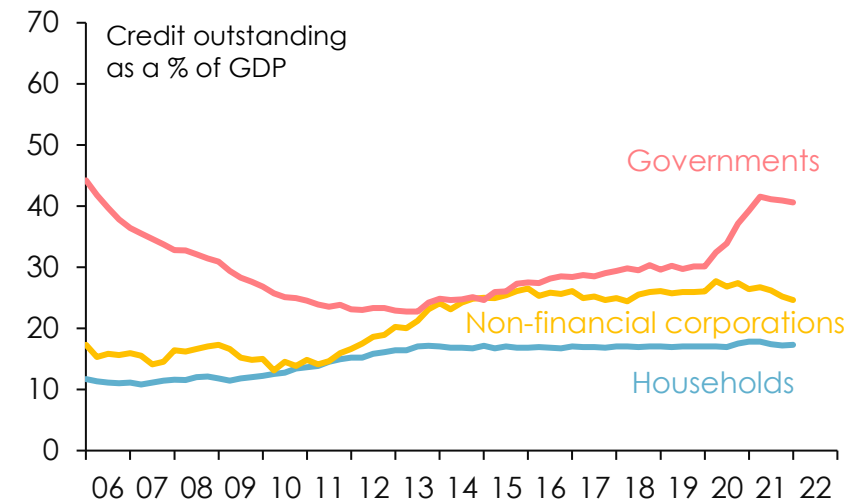
In Asia, Hong Kong, Singaporean and Korean corporates, and Korean households, have the greatest exposure to any increases in interest rates

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

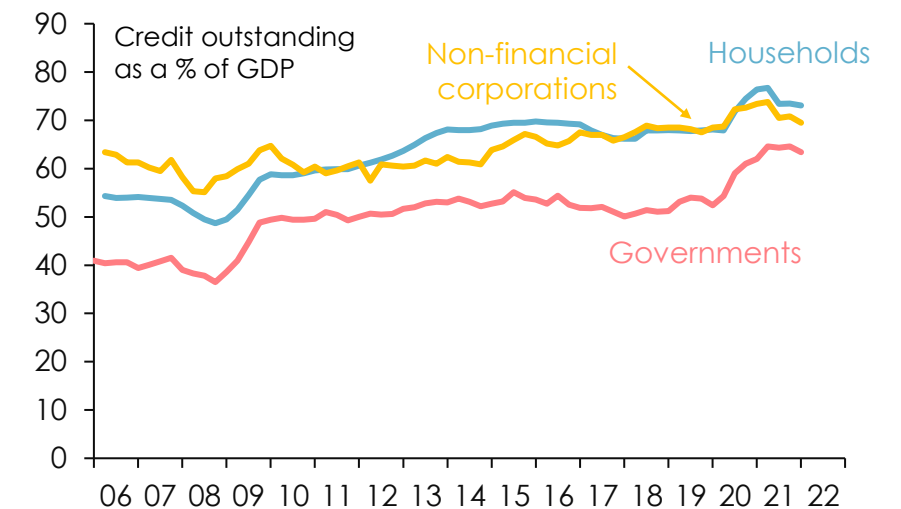
Korea



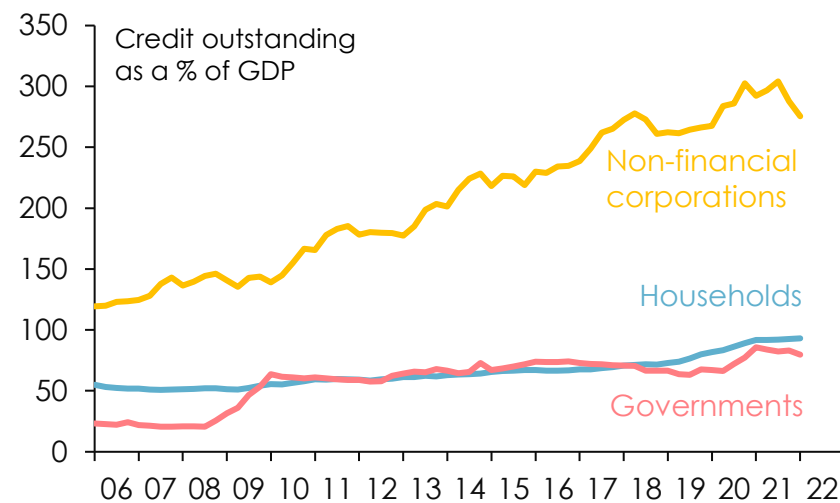
Indonesia



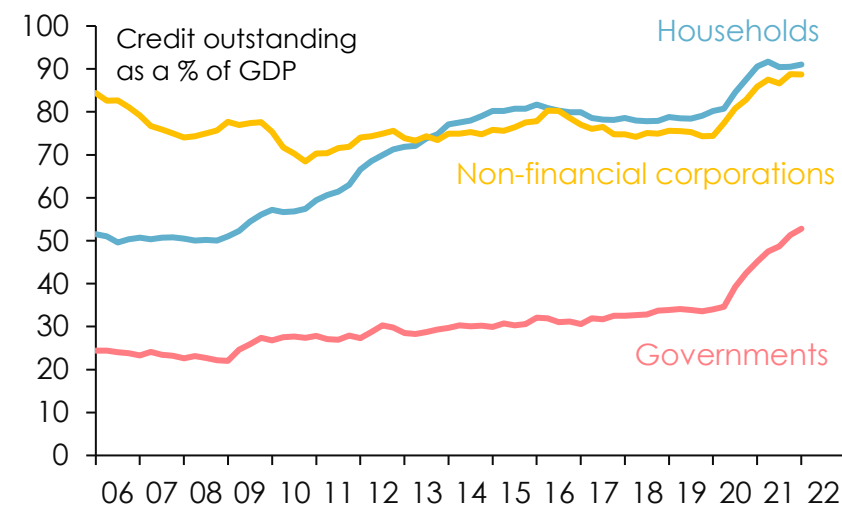
Malaysia



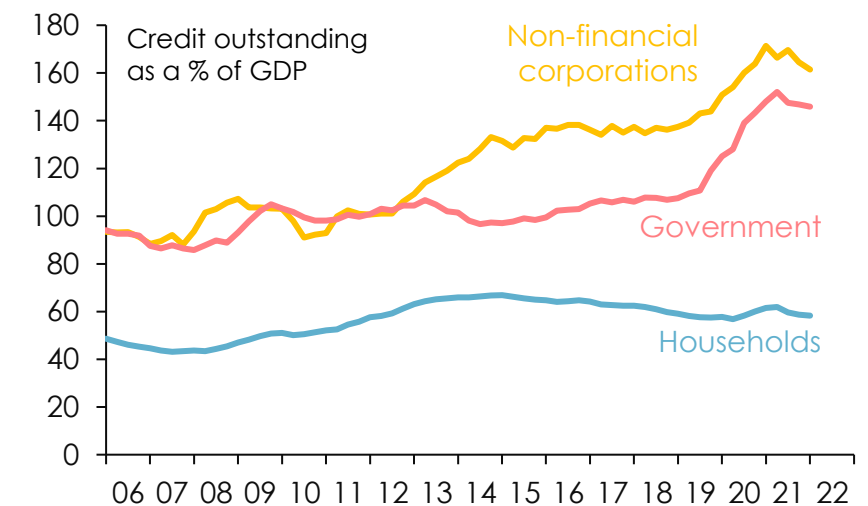
Hong Kong



Thailand



Singapore

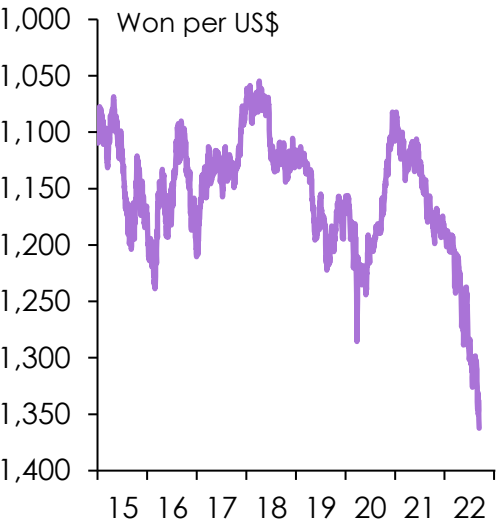


Source: Bank for International Settlements, [Credit Statistics](#); latest data are for Q4 2021, Q1 2022 data will be released on 19th September. [Return to "What's New"](#).

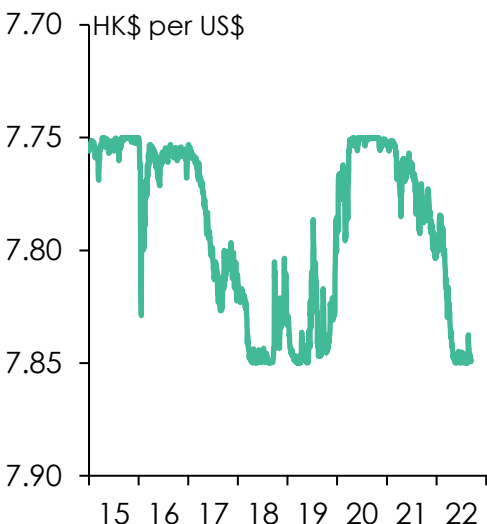
Asian currencies fell further against the strengthening US dollar last week, with the won (down 2¼%) and the baht (down 1¾%) the largest losers

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

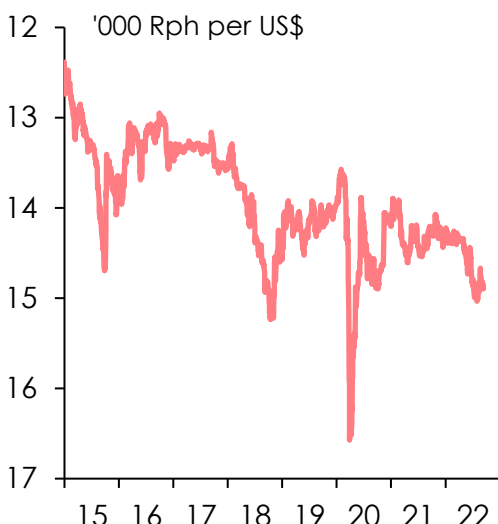
Korean won



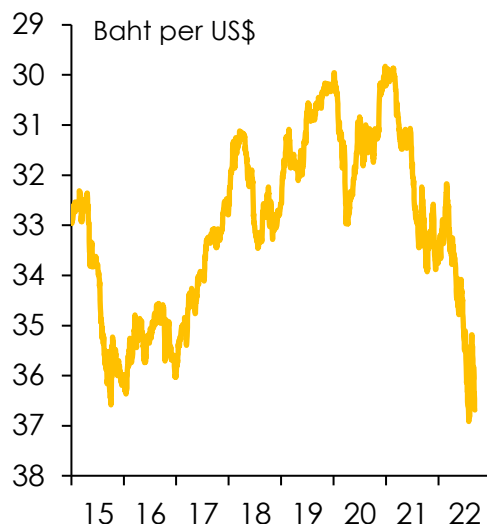
Hong Kong dollar



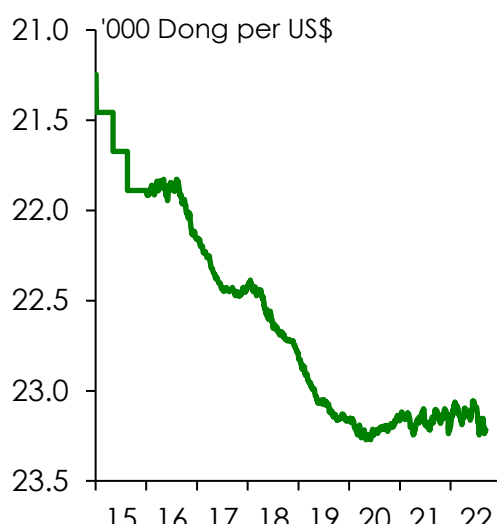
Indonesian rupiah



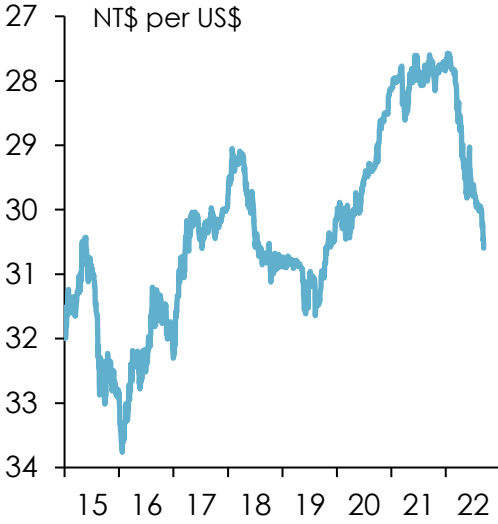
Thai baht



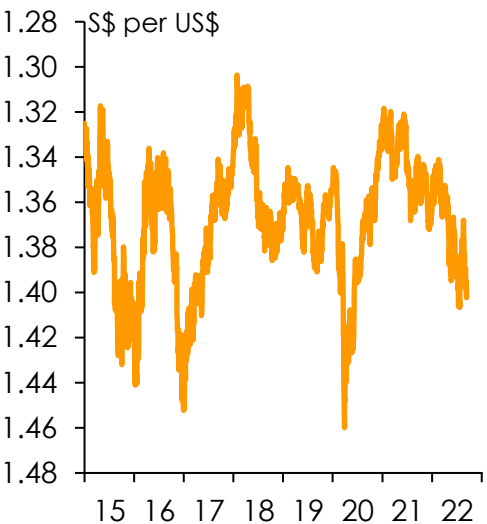
Vietnamese dong



New Taiwan dollar



Singapore dollar



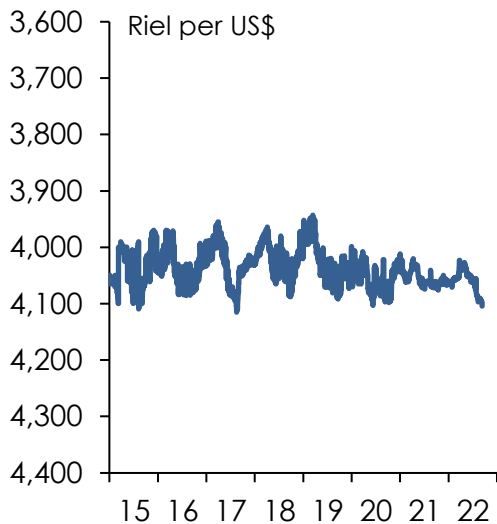
Philippine peso



Malaysian ringgit



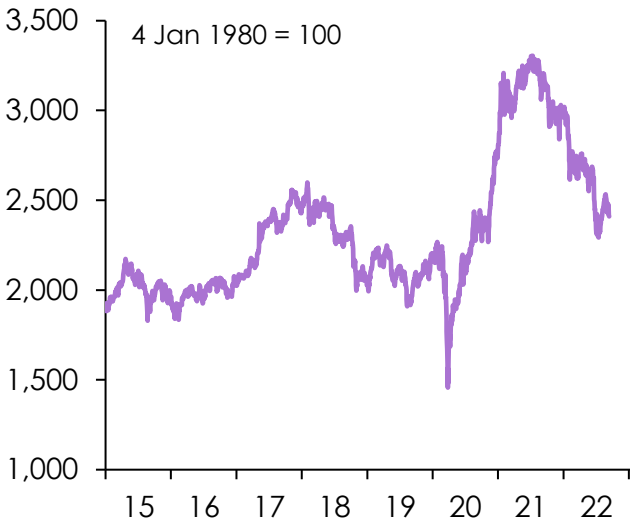
Cambodian riel



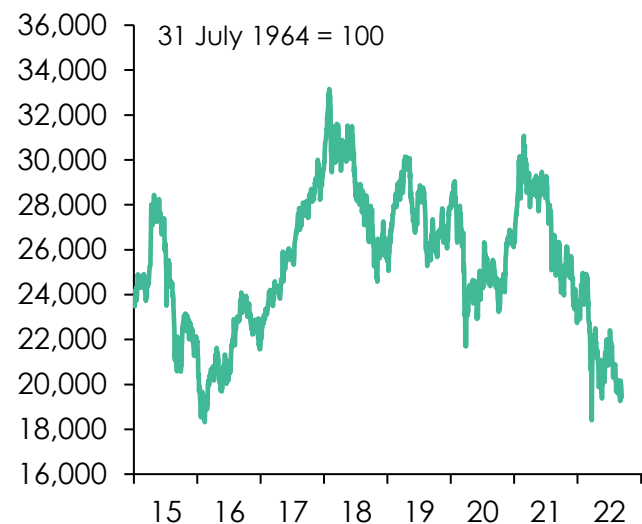
Stocks in HK and Taipei fell sharply last week following major developed markets, but others were more resilient with Jakarta recording a small gain

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

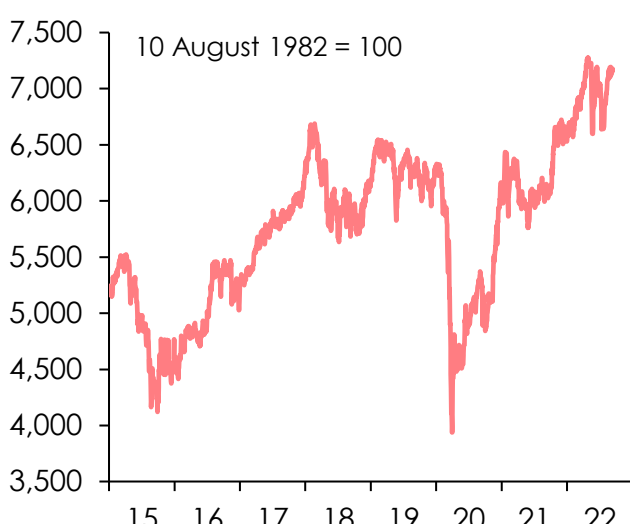
KOSPI



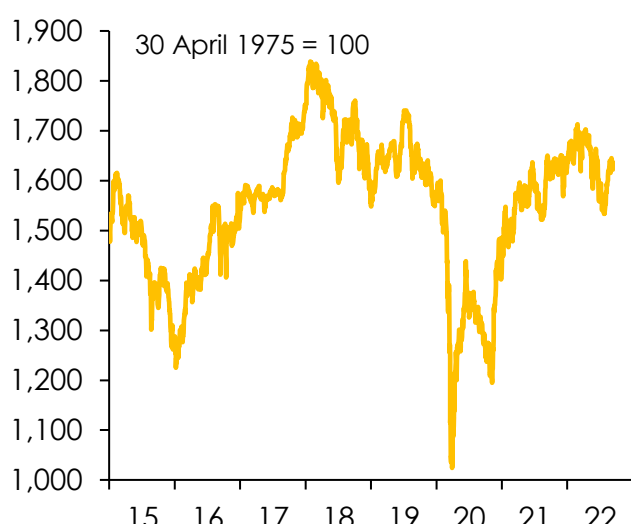
Hang Seng Index



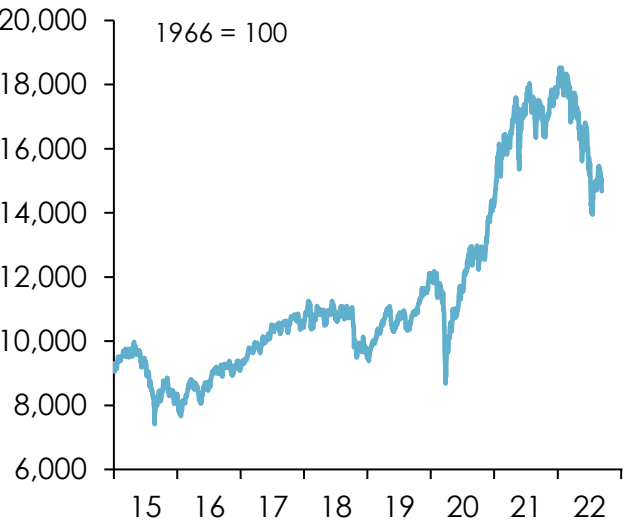
JCI



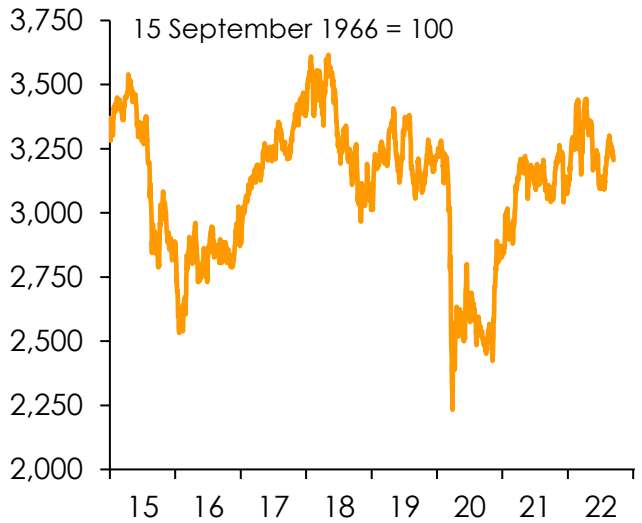
SETI



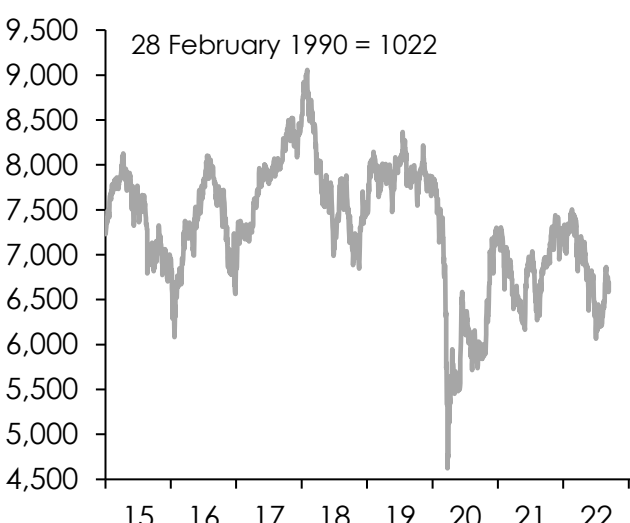
TAIEX



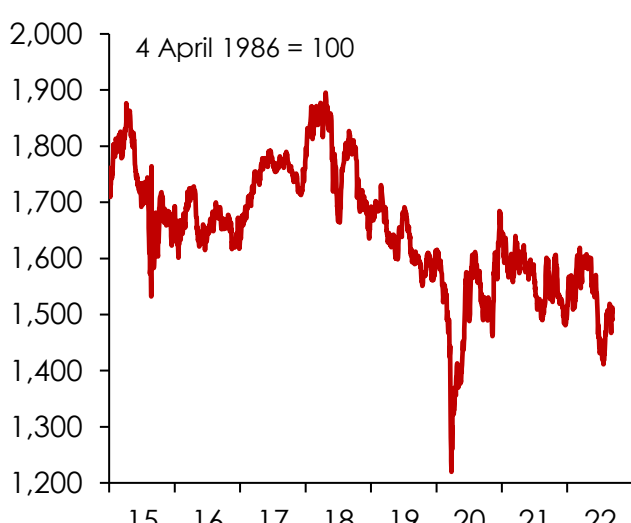
Straits Times Index



PSE i



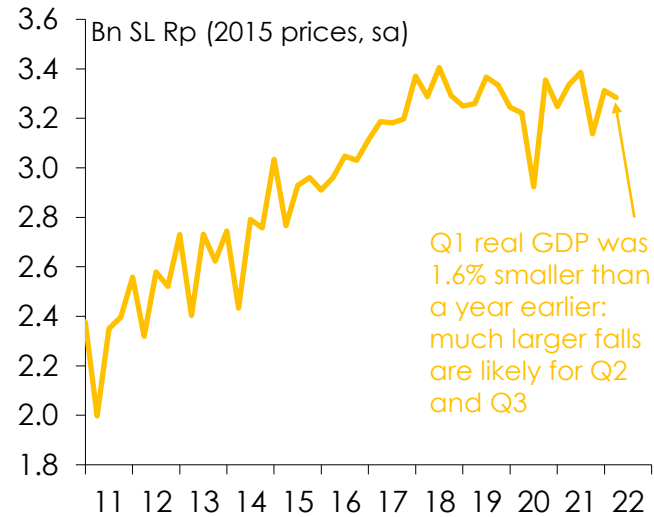
KLCI



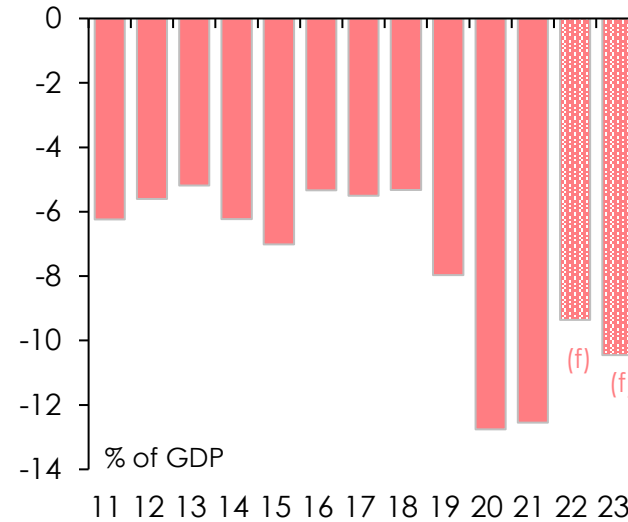
Sri Lanka and the IMF last week agreed on a US\$2.9bn bailout, subject to conditions including higher income taxes, and support from other creditors

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

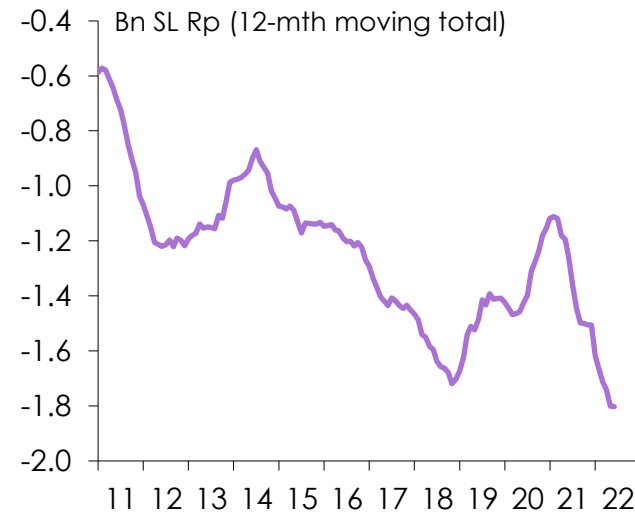
Real GDP



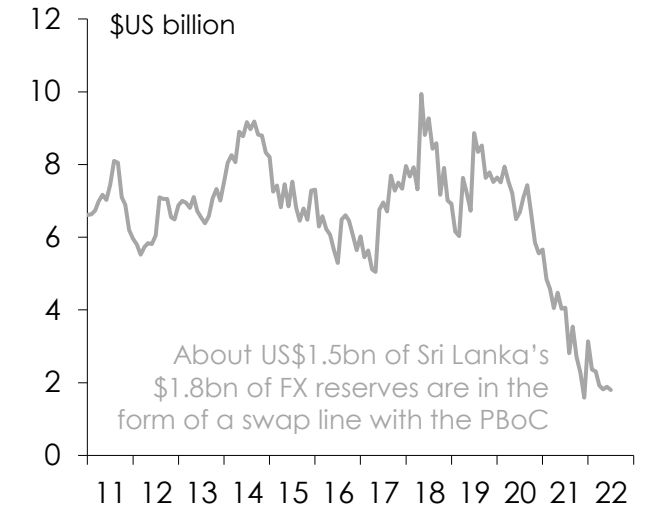
Fiscal balance



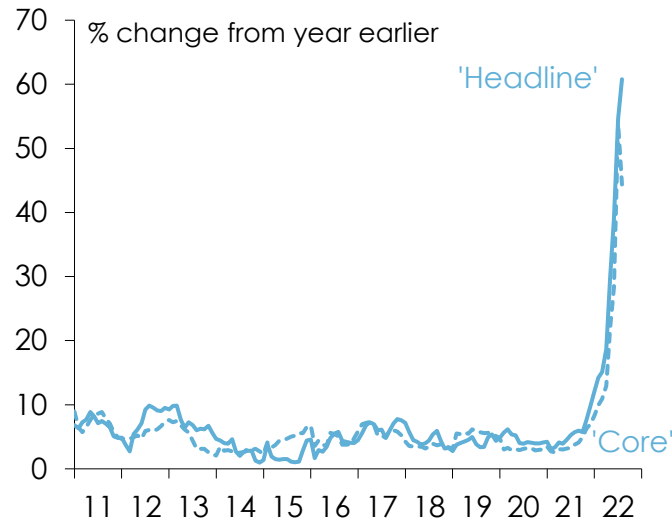
Merchandise trade balance



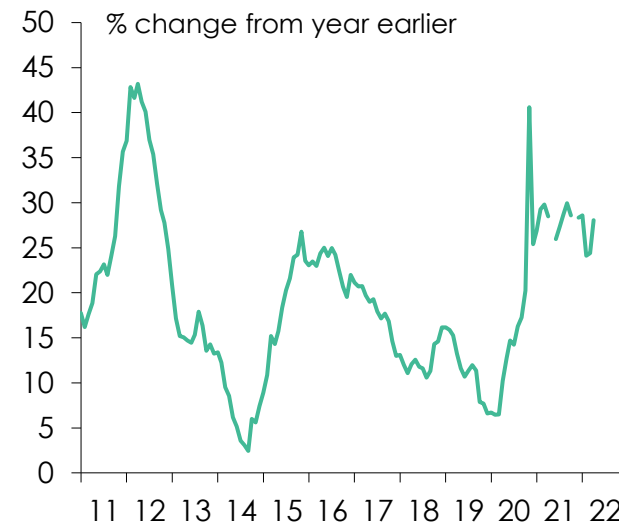
FX reserves



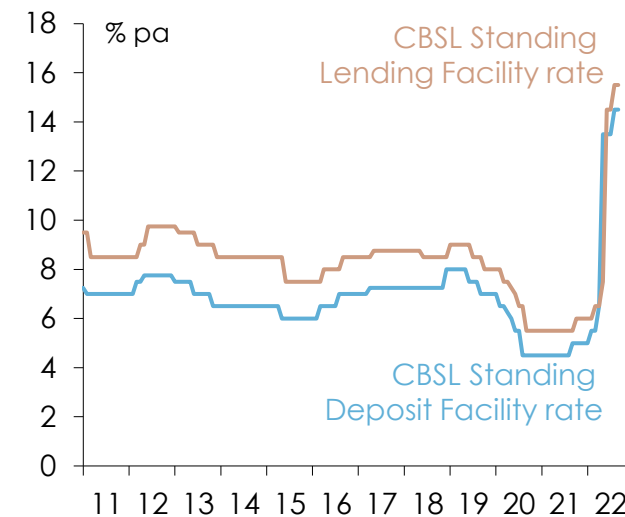
Consumer prices



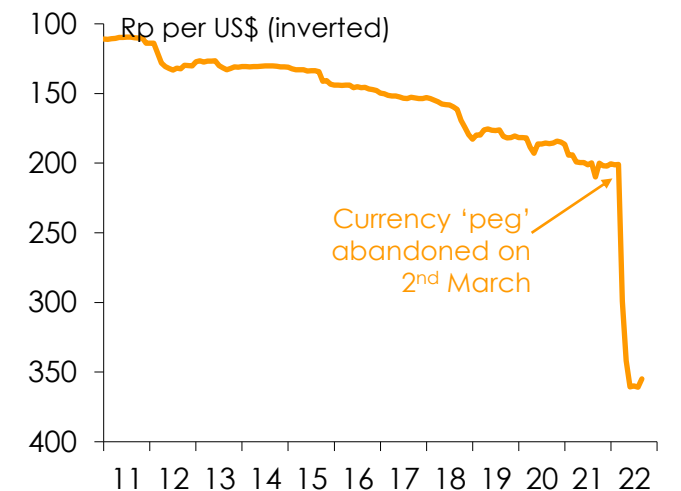
Credit growth



Interest rates



SL rupee vs US\$



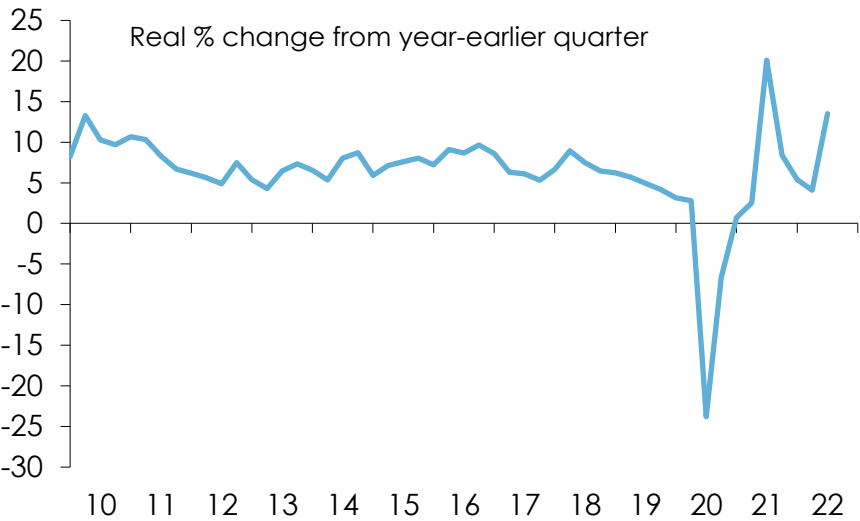
Note: GDP data seasonally adjusted using Refinitiv Datastream; CPI data are for Colombo. Sources: [Sri Lanka Department of Census and Statistics](#); [Central Bank of Sri Lanka](#); IMF, [Fiscal Monitor](#), April 2022; Refinitiv Datastream. [Return to "What's New"](#).

India

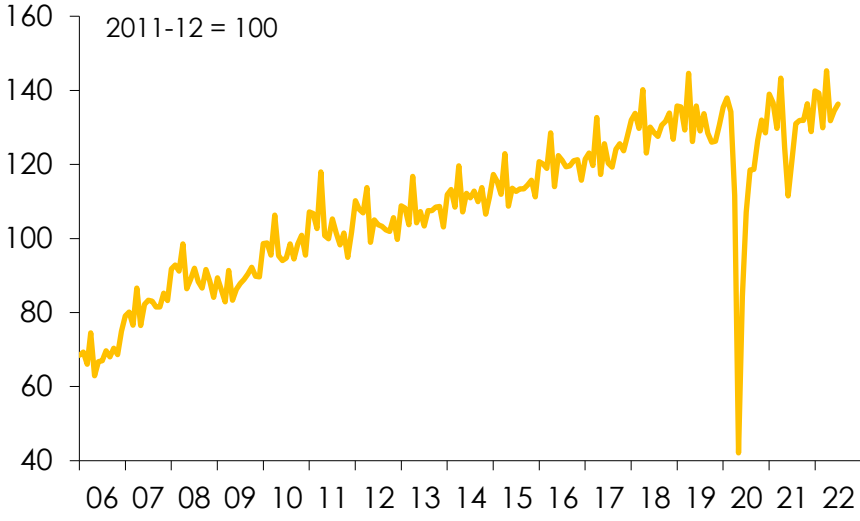
India's GDP grew by 13.5% over the year to Q2, although the comparison is flattered by the very weak Q2 2021 when India had its 'delta wave'

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

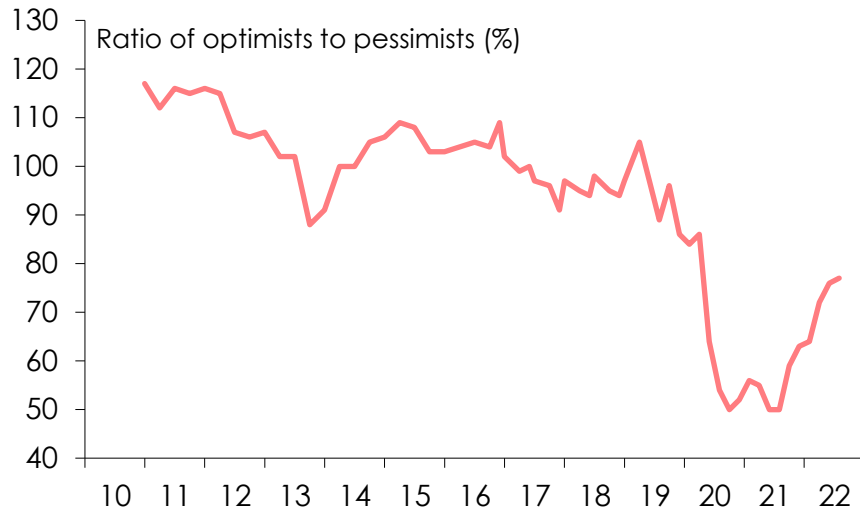
Real GDP



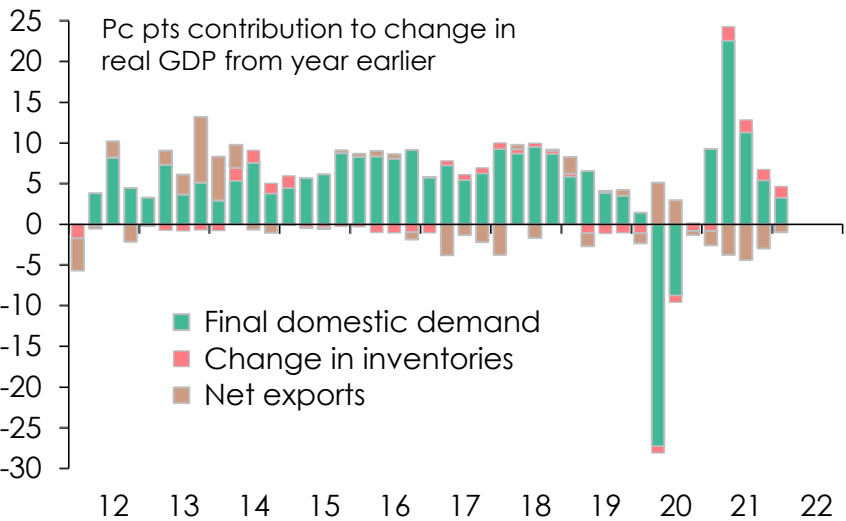
Manufacturing production



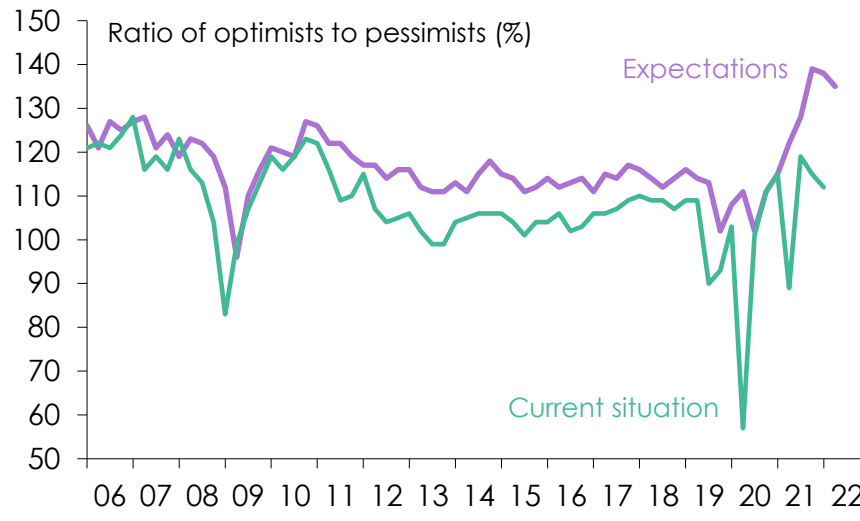
Consumer confidence



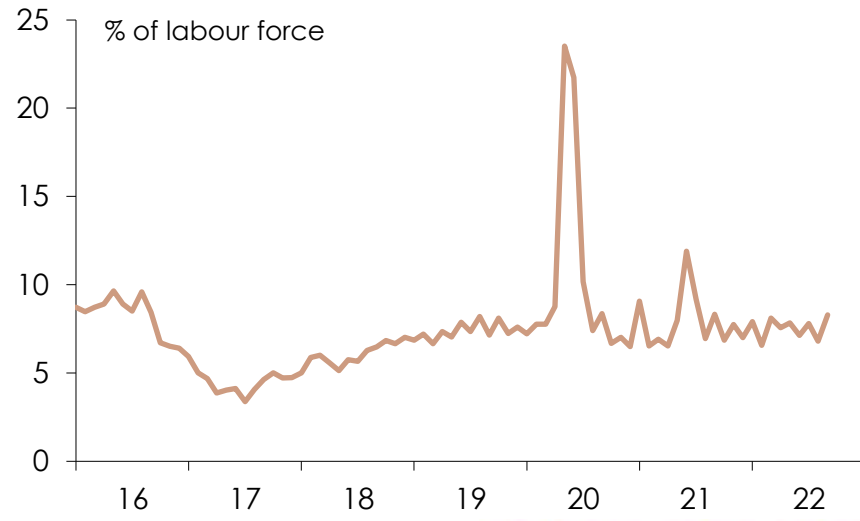
Contributions to real GDP growth



Industrial sector sentiment



Unemployment rate

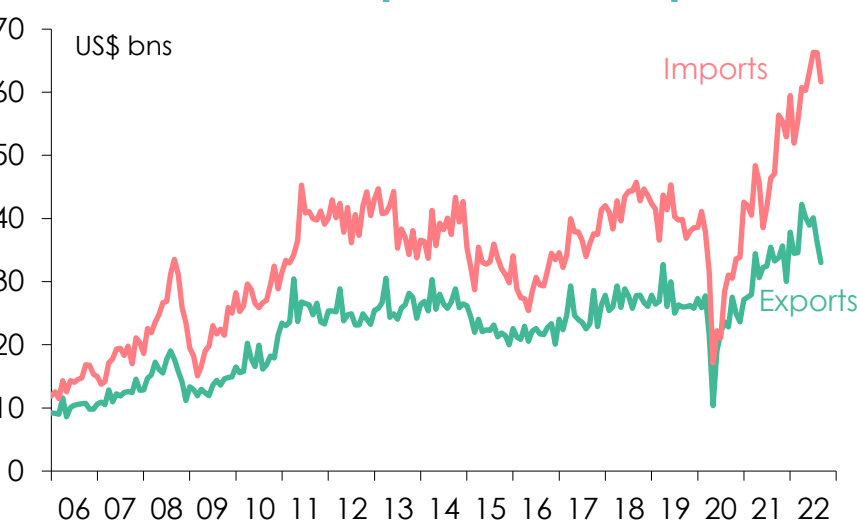


Sources: OECD, [Quarterly National Accounts dataset](#); Government of India, Ministry of Statistics and Programme Implementation, [National Accounts Data](#), and [IIP Data](#); Reserve Bank of India, [Quarterly Industrial Outlook Survey](#) and [Consumer Confidence Survey Bi-Monthly](#); Centre for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

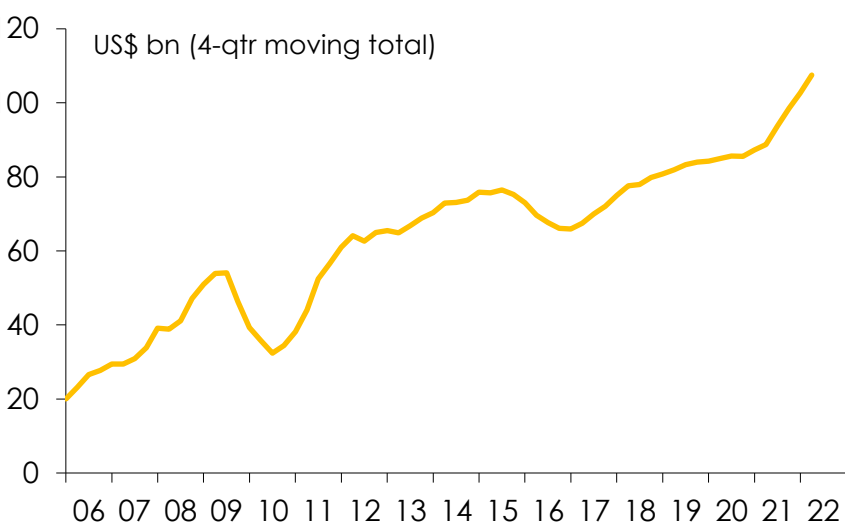
India's merchandise trade deficit has deteriorated sharply due to higher oil prices but its overall external position remains relatively stable

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

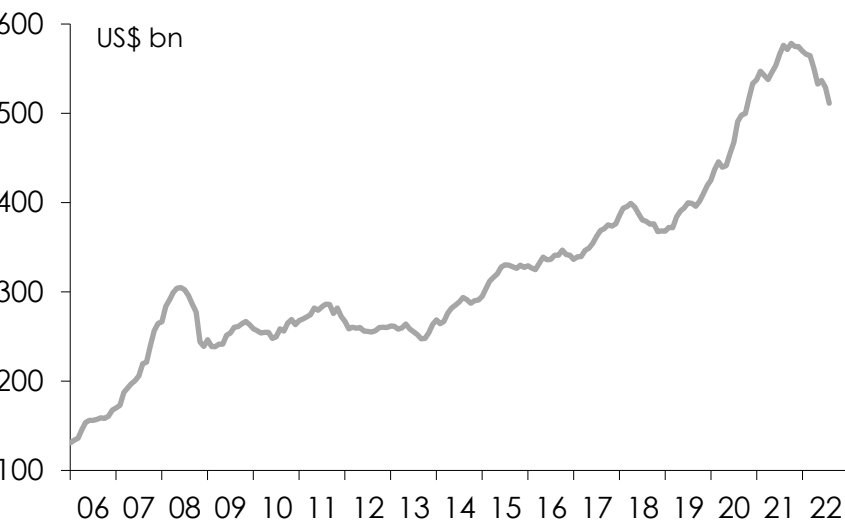
Merchandise exports and imports



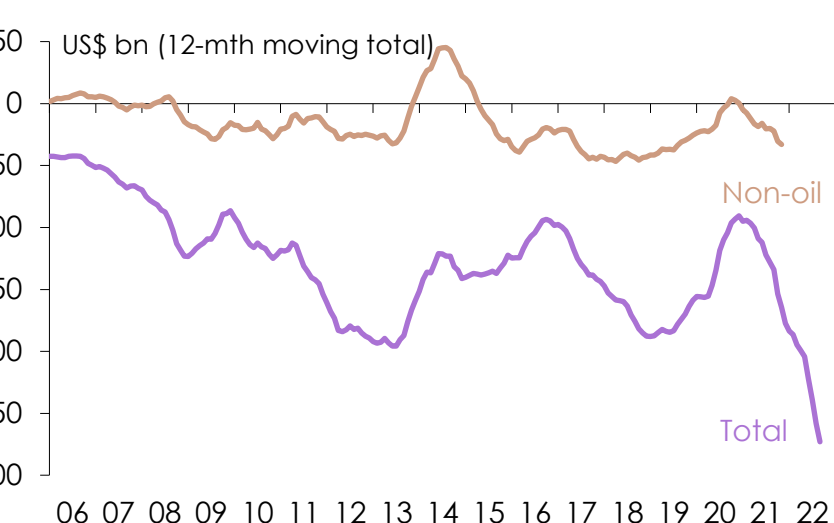
Services trade balance



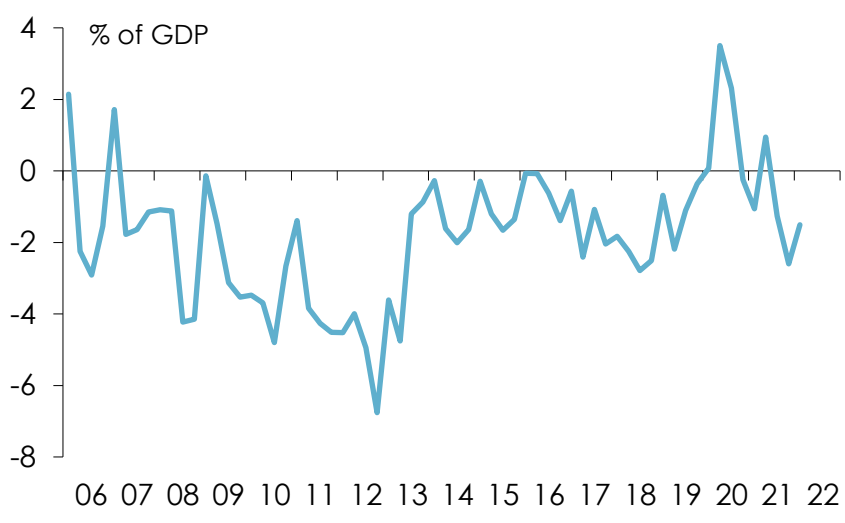
Foreign exchange reserves



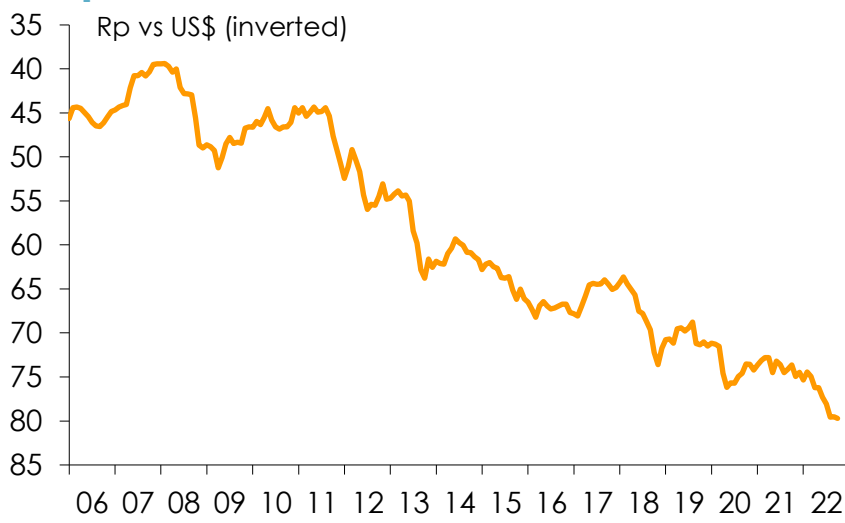
Merchandise trade balance



Current account balance



Rupee vs US dollar

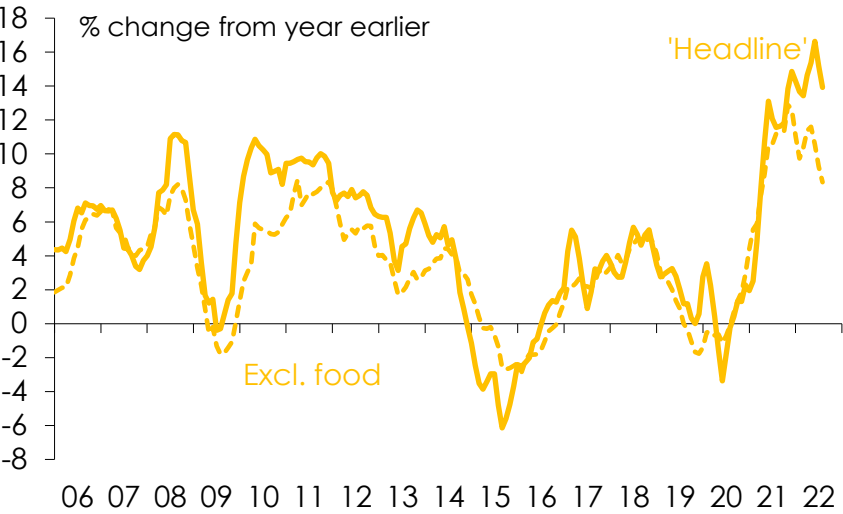


Note: data on trade in oil hasn't been published since December 2021. Sources: Government of India, Ministry of Commerce and Industry, [Trade Statistics](#); Reserve Bank of India, [Special Data Dissemination Standards - Balance of Payments](#) and [Weekly Statistical Supplement - Extract](#); Refinitiv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

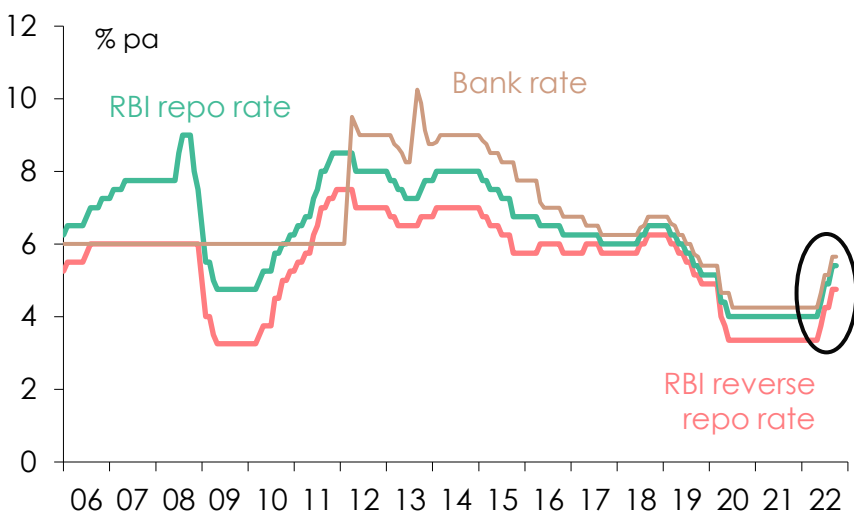
India's consumer prices rose 6.7% over the year to July, down from 7% in May & June, and the peak of 7.8% over the year to April

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

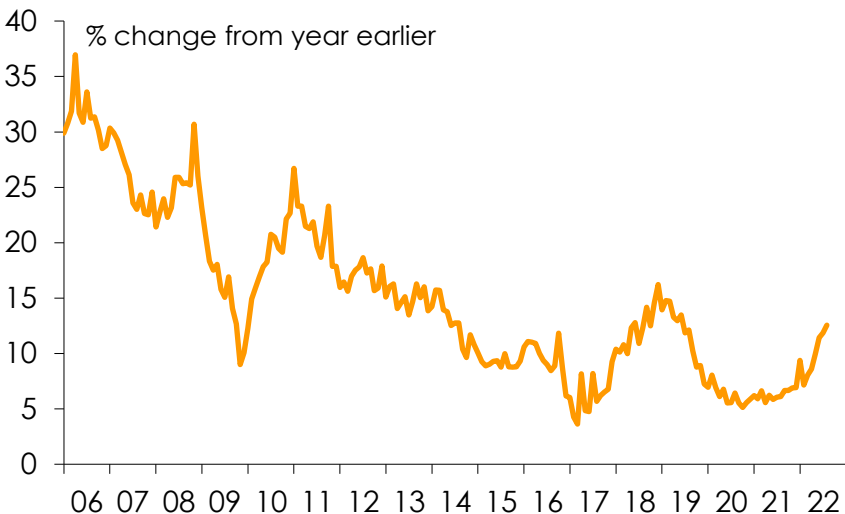
Wholesale prices



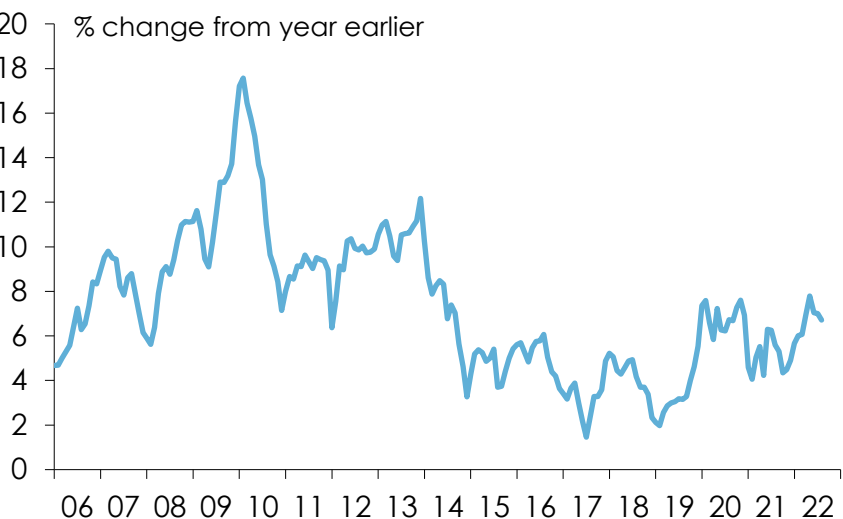
RBI policy interest rates



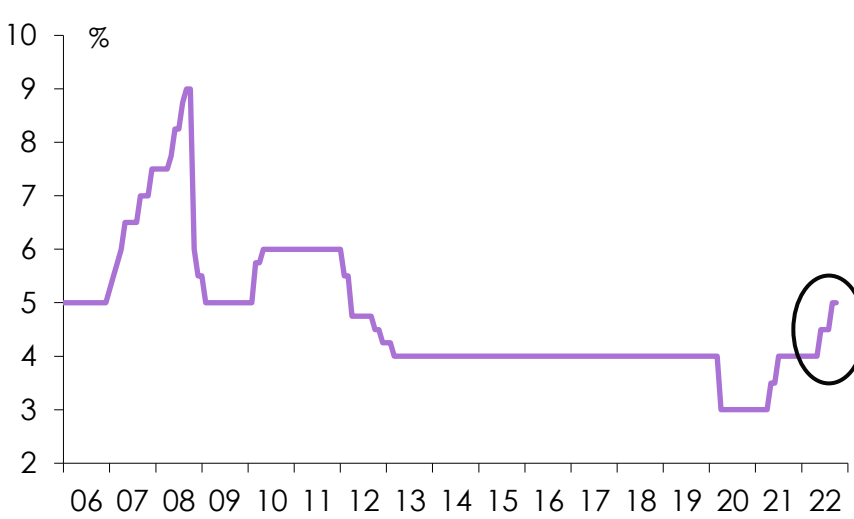
Bank lending



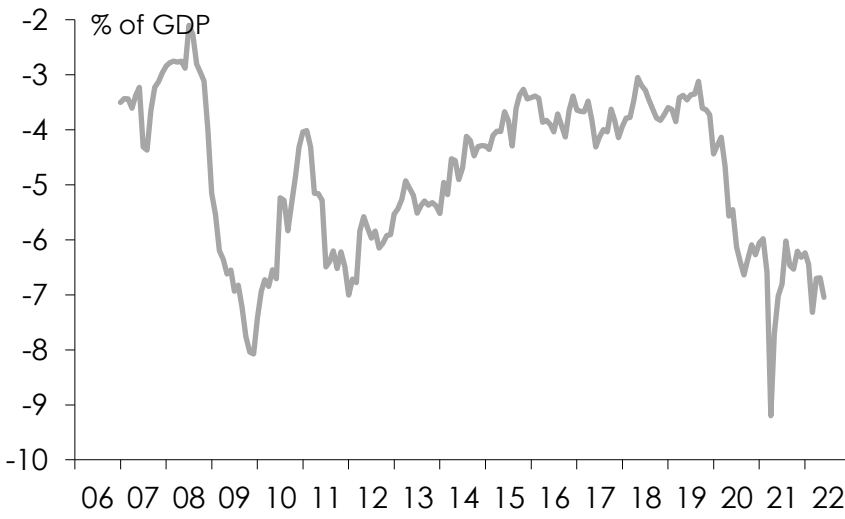
Consumer prices



RBI cash reserve ratio



Central government fiscal balance



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

Canada, Australia and New Zealand

Both the Reserve Bank of Australia and the Bank of Canada are expected to raise their policy interest rates again this week

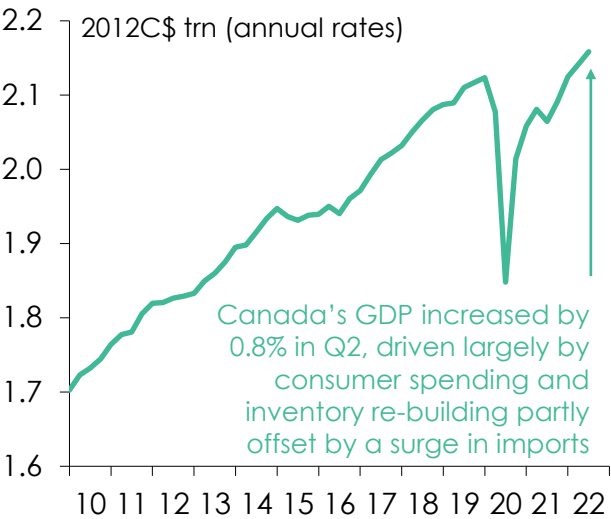
THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

- ❑ 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 104](#))
 - the RBA will likely raise the cash rate another 50 basis points at this Tuesday’s Board meeting, which will take it just below the range that Governor Lowe has indicated is consistent with ‘neutral’ (in nominal) terms
- ❑ 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 103](#))
 - [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”
 - a 75bp increase in the policy rate is likely at this Wednesday’s Governing Council meeting
- ❑ The [Reserve Bank of New Zealand](#) raised its official cash rate another 50bp, to 3.0%, at its Monetary Policy Committee meeting on 17th August – the eighth increase, for a total of 275bp, since October last year ([slide 105](#))
 - in the [Monetary Policy Statement](#) issued after the meeting, the RBNZ forecast a slower decline in ‘headline’ inflation next year (to 3.8% by Q4, up from 2.6% previously), and also lifted its projection for the peak in the OCR in the second half of next year to 4.10% (from 3.95%)
 - the Statement indicates that the MPC considered “more rapid increases” in the OCR “in order to improve the credibility of the inflation target” but concluded that “maintaining the recent pace of tightening remains the best means” of meeting the target

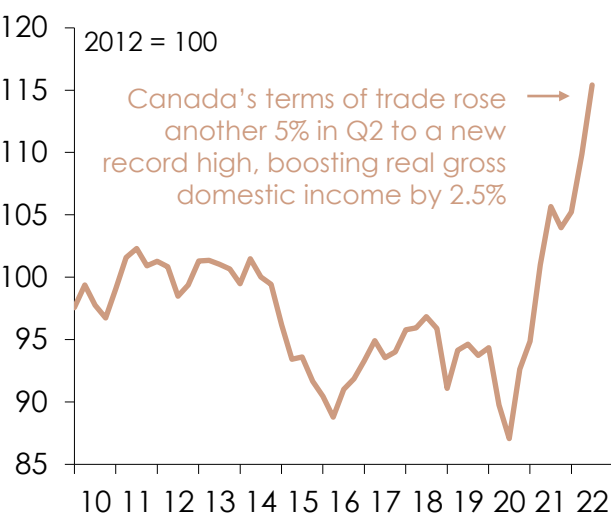
Canada's real GDP increased another 0.8% in Q2, led by strong growth in consumer spending, and income gains from rising commodity prices

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

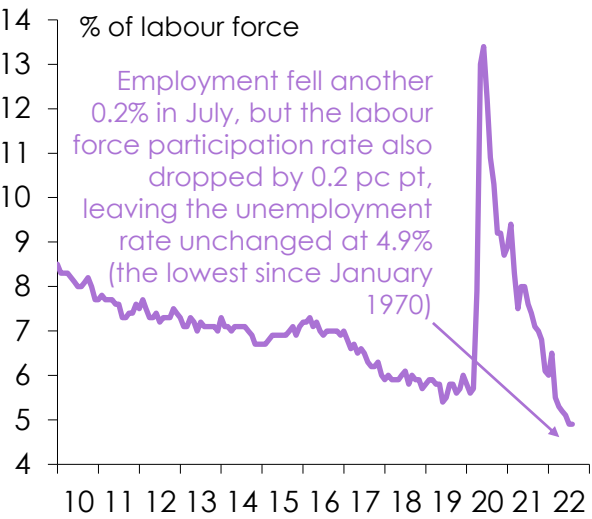
Real GDP



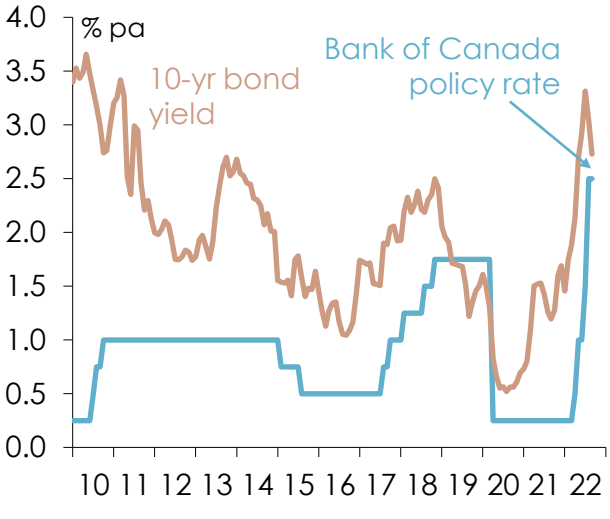
Terms of trade



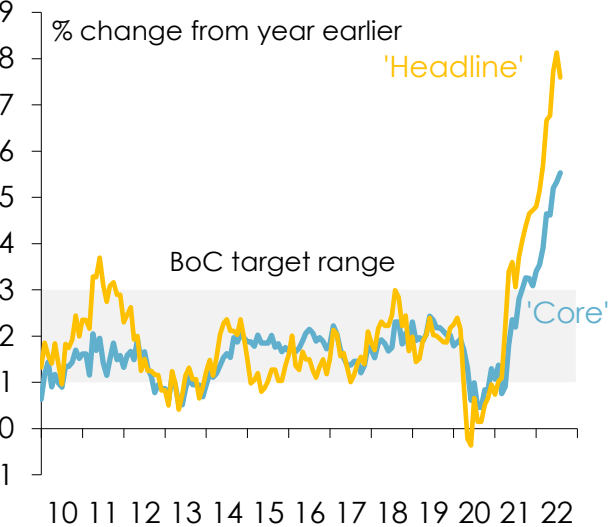
Unemployment



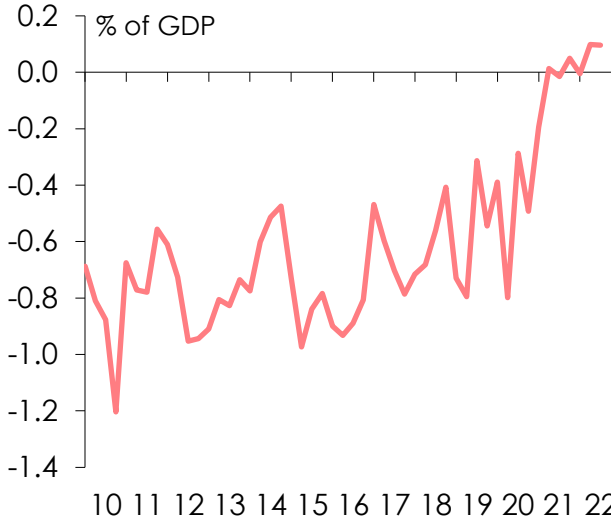
Interest rates



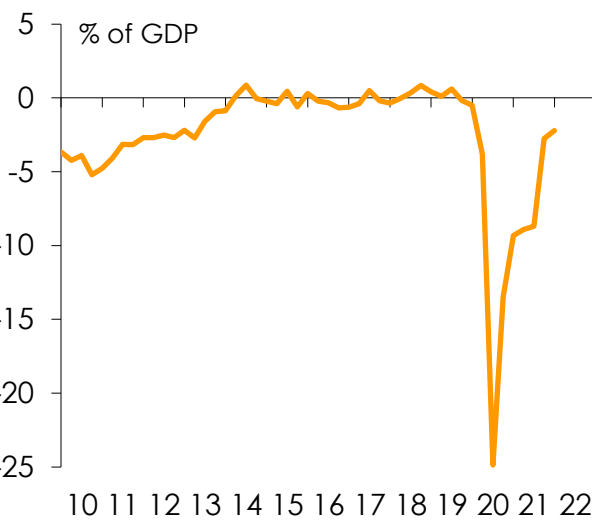
Consumer prices



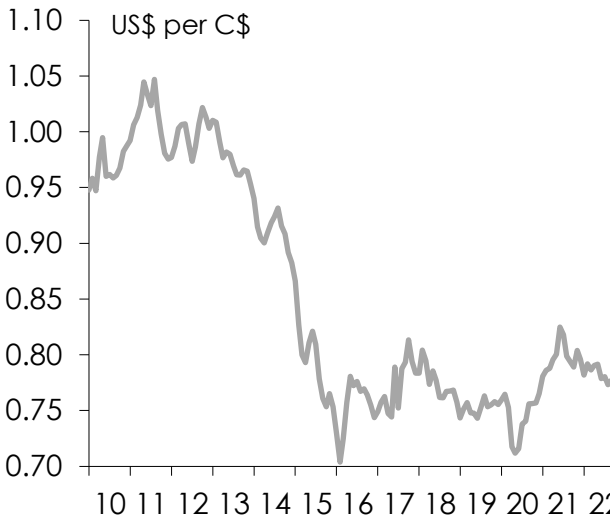
Current account balance



Government net lending



C\$ vs US\$

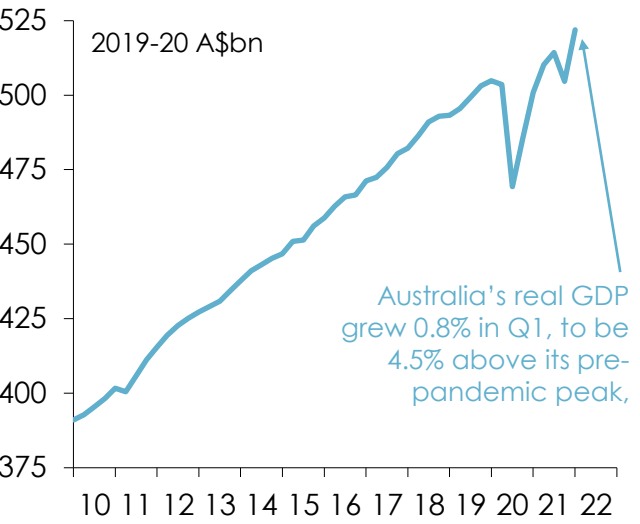


Sources: Statistics Canada, [National Gross Domestic Product \(GDP\) by Income and by Expenditure Accounts](#); [Consumer price index portal](#); [Canada's Balance of International Payments](#); [Labour Statistics](#); Bank of Canada, [Policy Interest Rate](#); Refinitiv Datastream. [Return to "What's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

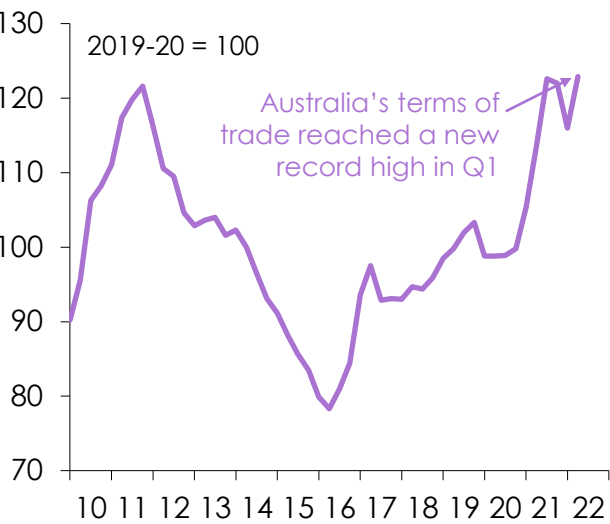
Australia's Reserve Bank is likely to raise its cash rate another 50 bp, to 2.35%, at this week's Board meeting

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

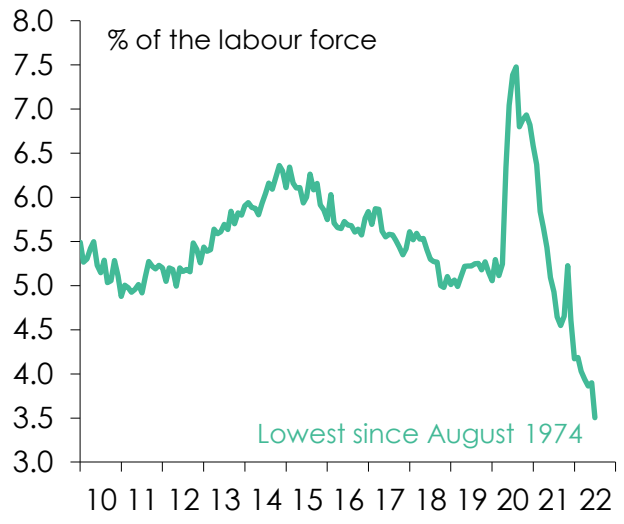
Real GDP



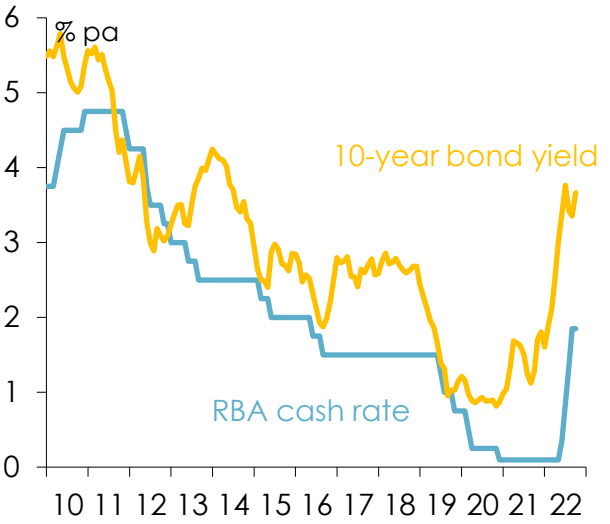
Terms of trade



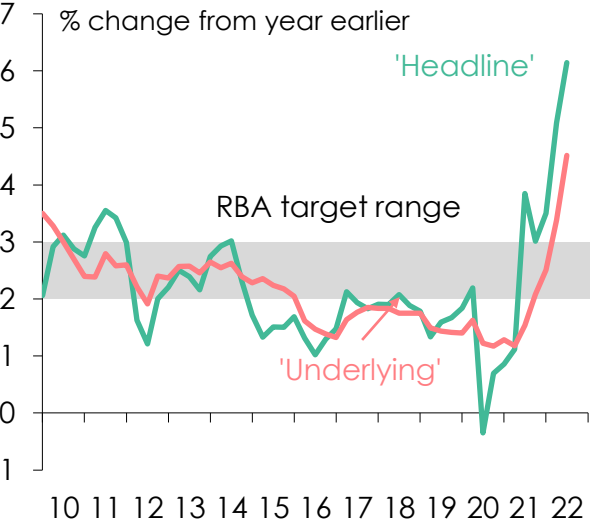
Unemployment



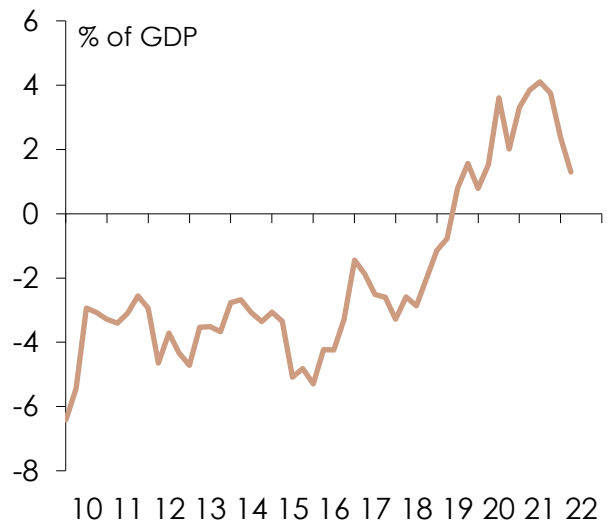
Interest rates



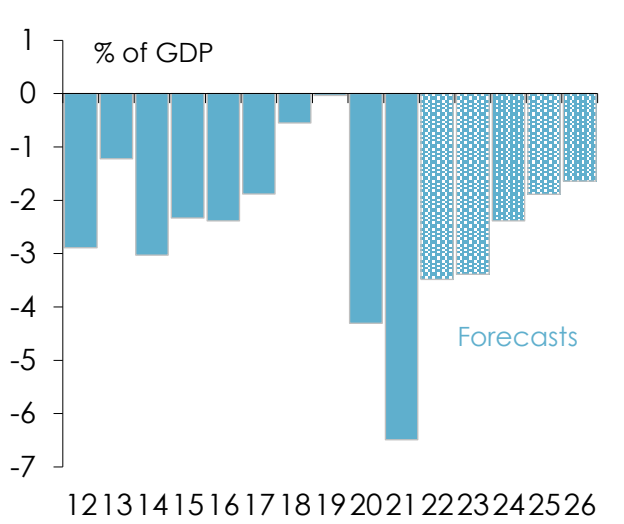
Consumer prices



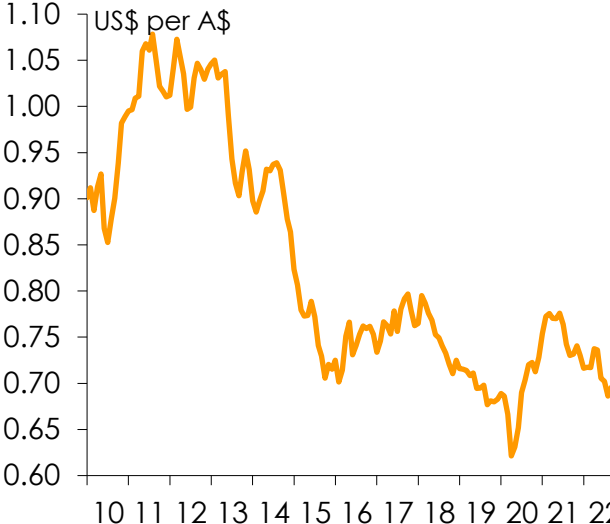
Current account balance



Government cash balance



A\$ vs US\$

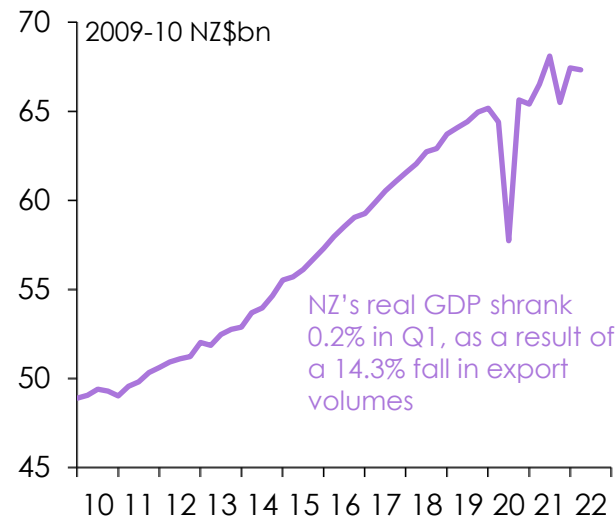


Note: The measure of 'underlying' inflation shown here is the trimmed mean. Government cash balance data are for fiscal years ended 30th June. Sources: Australian Bureau of Statistics, [Australian National Accounts: National Income, Expenditure and Product](#); [Consumer Price Index](#); [Balance of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

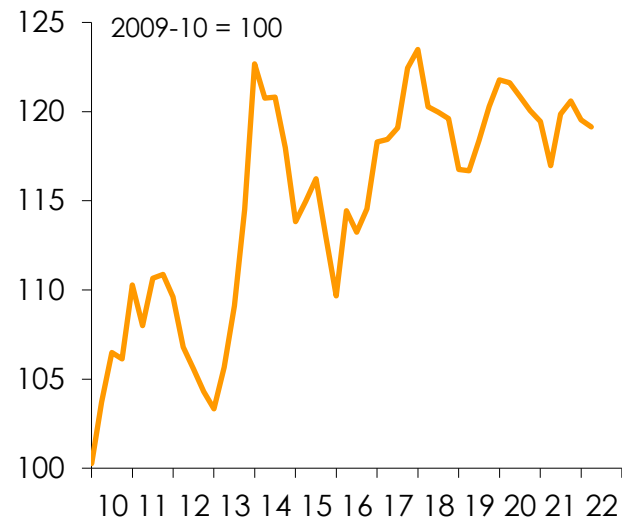
The RBNZ raised its official cash rate another 50 bp, to 3%, last month, and projected a peak of 4% in the second half of next year

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

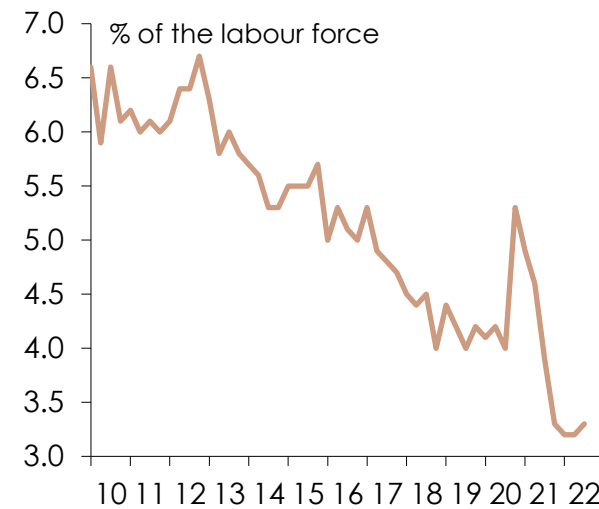
Real GDP



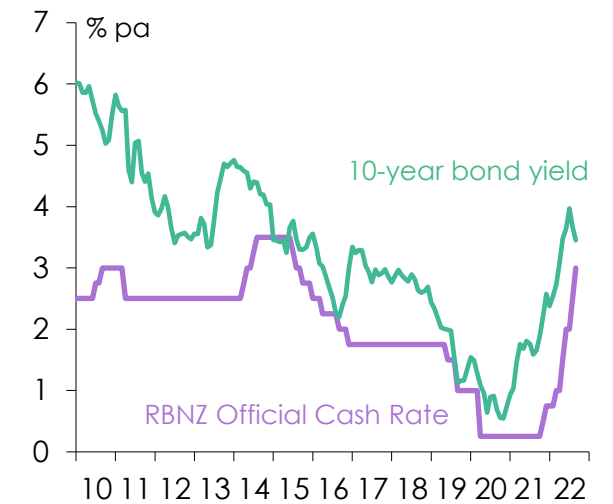
Terms of trade



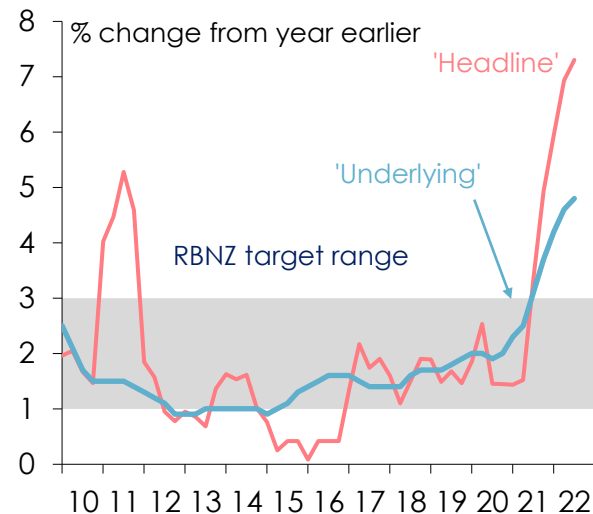
Unemployment



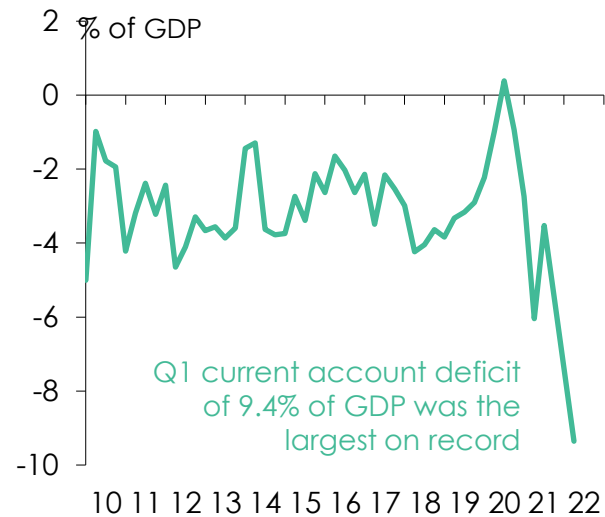
Interest rates



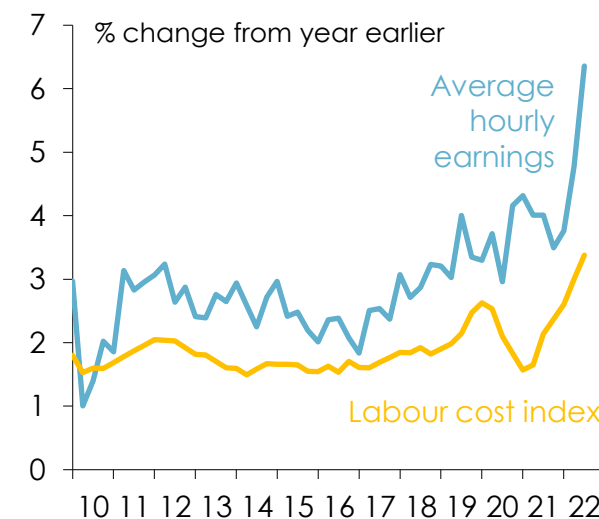
Consumer prices



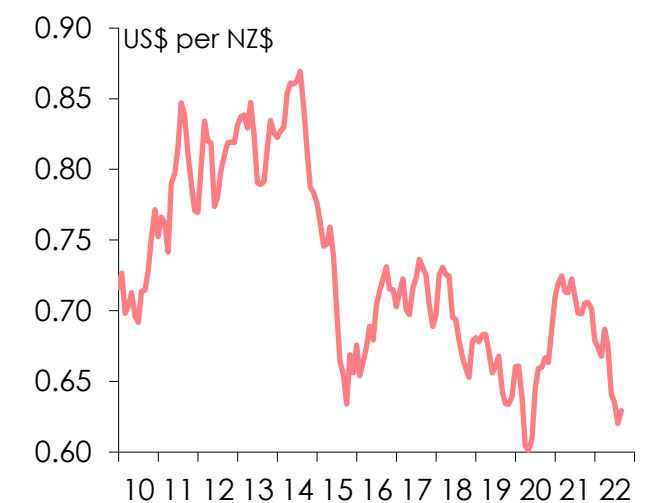
Current account balance



Wages and labour costs



NZ\$ vs US\$



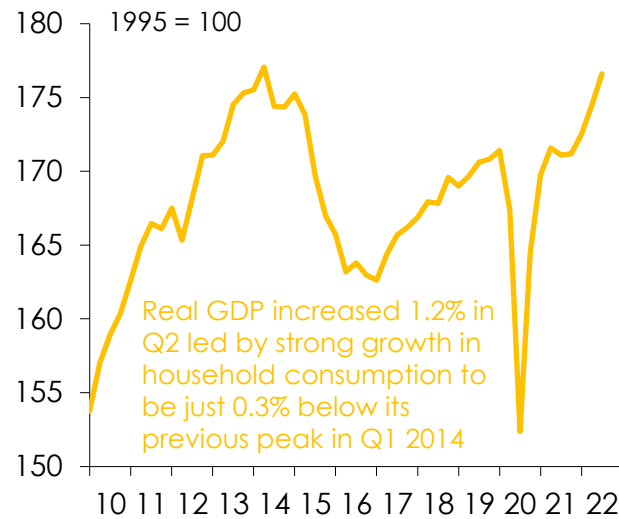
Note: The most commonly-used measure of real GDP in New Zealand is the production-based measure. The measure of 'underlying' inflation shown here is the RBNZ's [sectoral factor model](#). Sources: Statistics NZ, [Gross domestic product](#); [Consumers price index](#); [Balance of payments](#); and [Labour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

The rest of the world

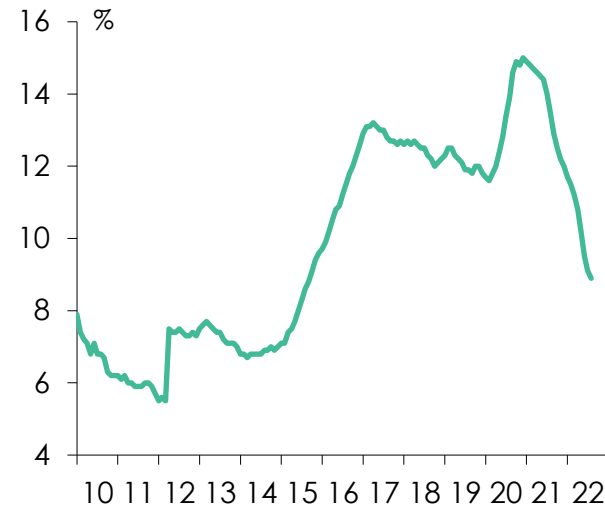
Brazil's economy grew 1.2% in Q2, to have almost completely regained the ground lost during the pandemic and the preceding deep recession

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

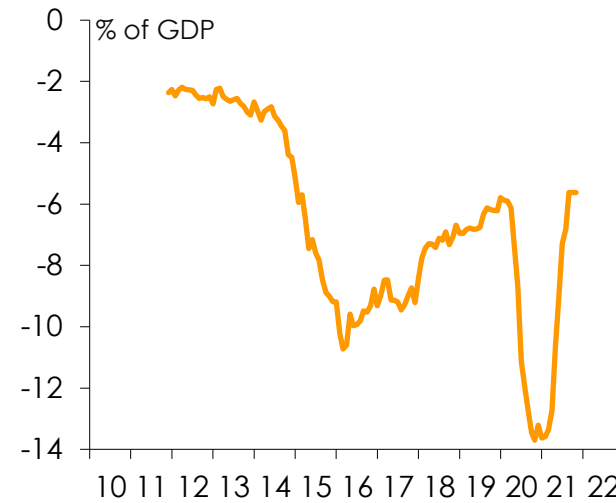
Real GDP



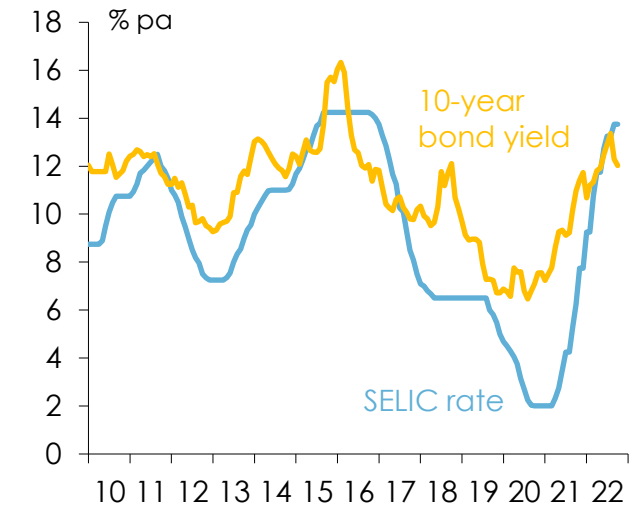
Unemployment



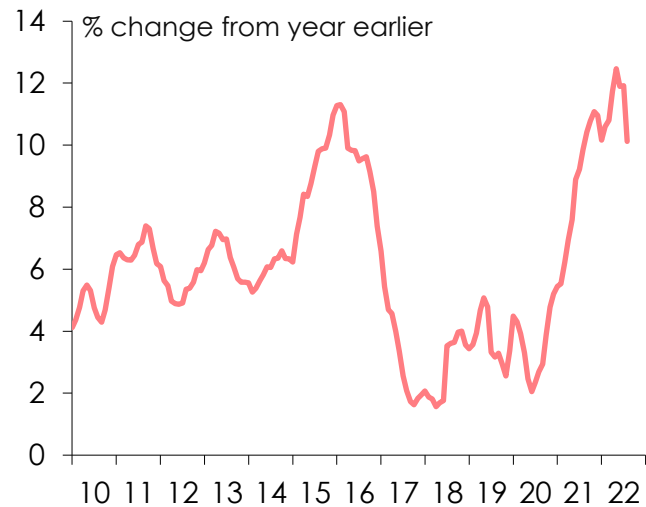
Public sector borrowing



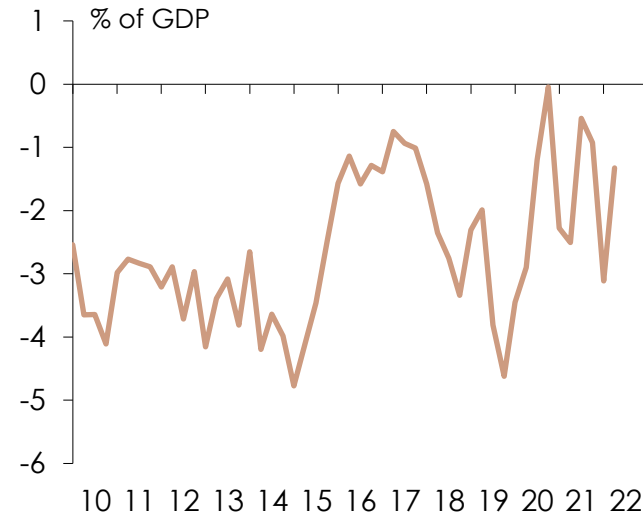
Interest rates



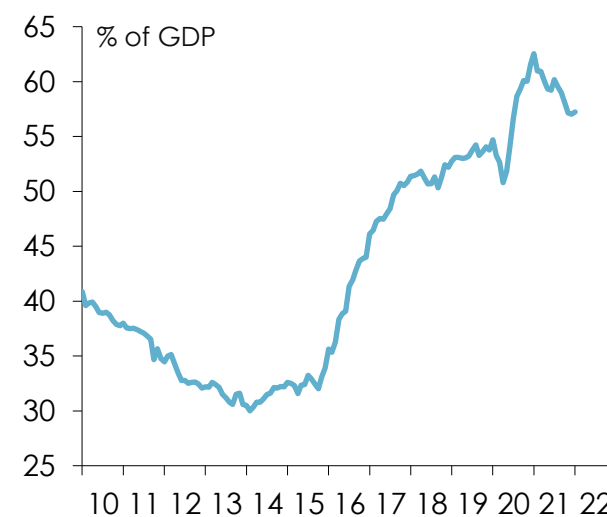
Inflation



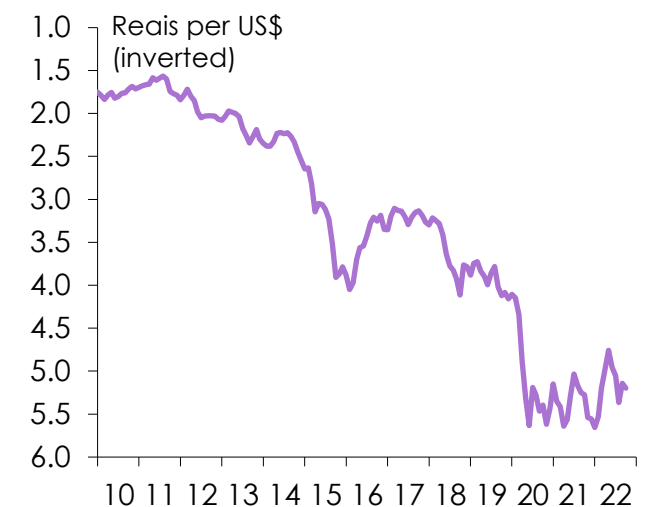
Current account balance



Public sector net debt



Brazilian real vs US\$

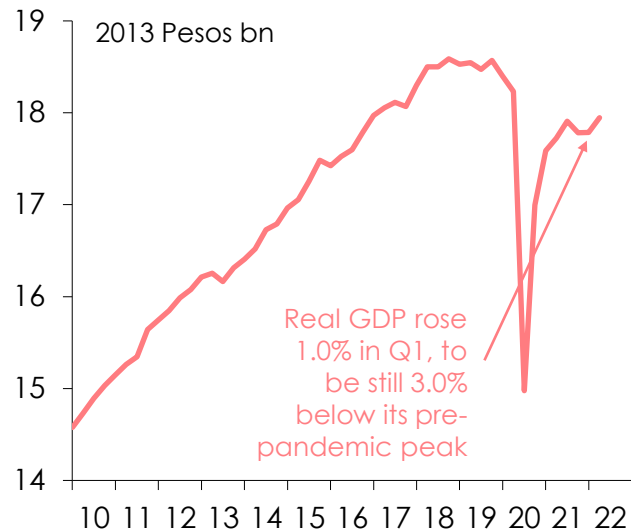


Sources: [Instituto Brasileiro de Geografia e Estatística](#) (IBGE); [Banco Central do Brasil](#); Refinitiv Datastream. [Return to "What's New"](#).

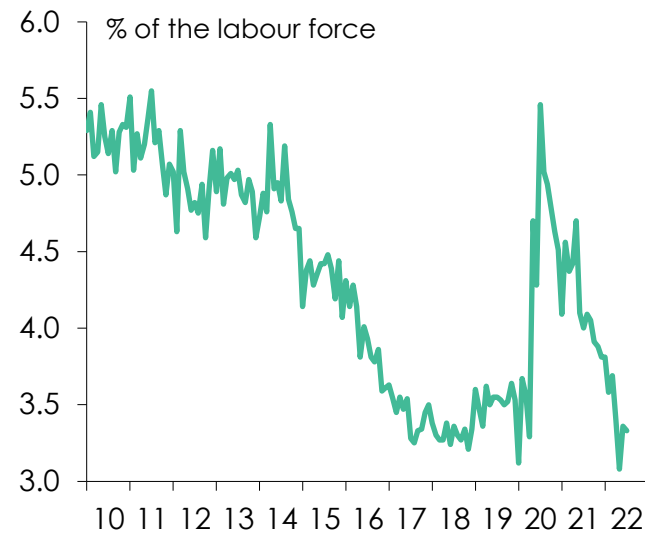
Banco de Mexico raised its overnight rate another 75bp in August to 8.5%, the highest since November 2005

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

Real GDP



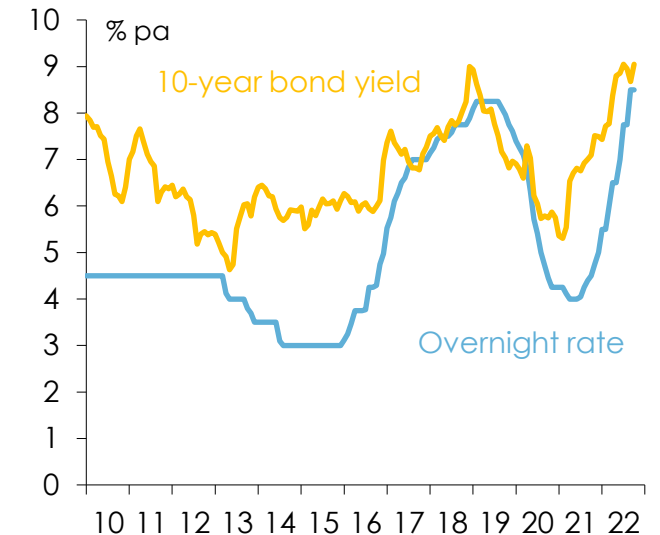
Unemployment



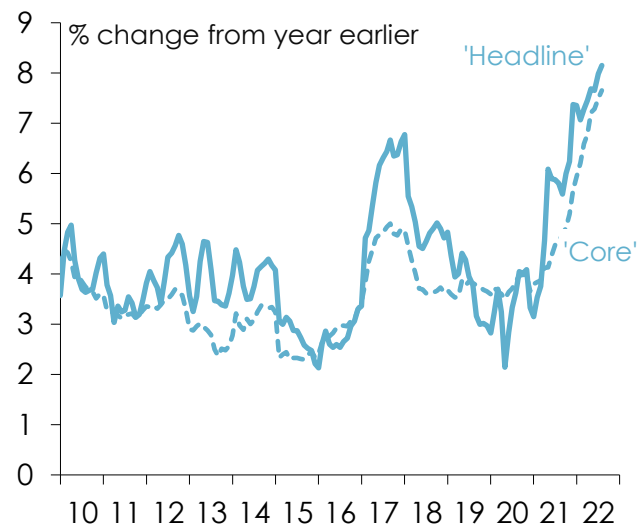
Bank lending



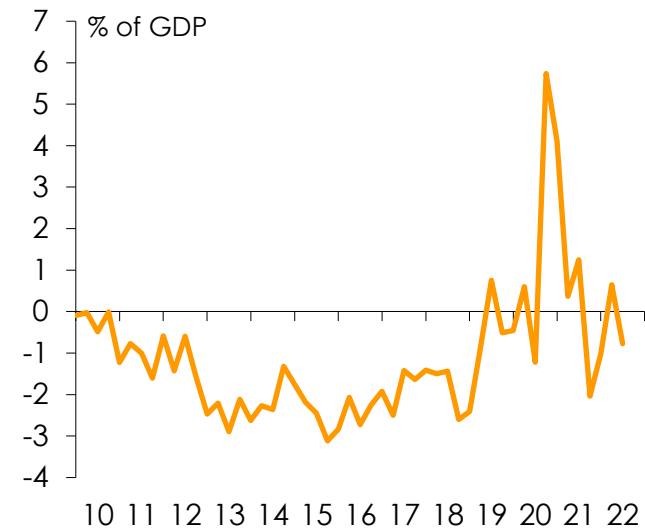
Interest rates



Inflation



Current account balance



Federal budget deficit



Mexican peso vs US\$

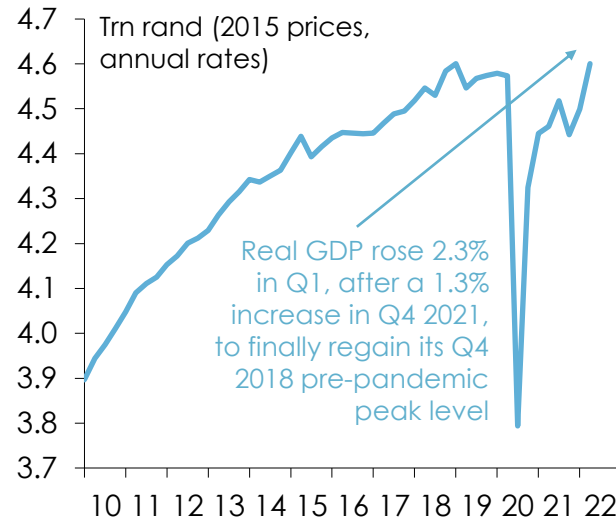


Sources [Banco de México](#); [Instituto Nacional de Estadística y Geografía \(INEGI\)](#); Refinitiv Datastream.. [Return to "What's New"](#).

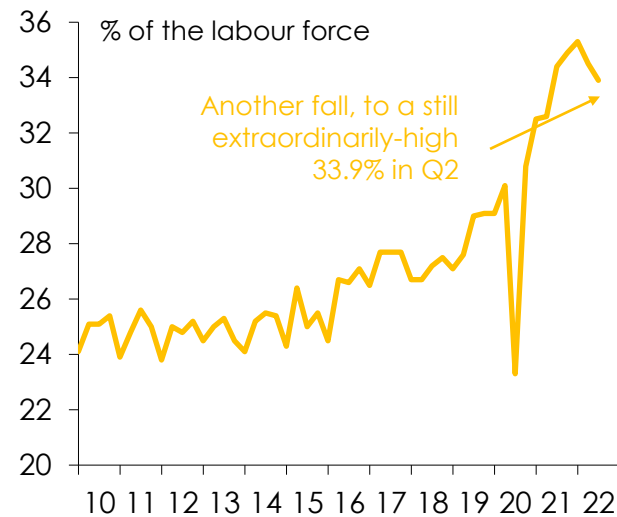
South Africa's 'headline' inflation rate rose to 7.8% in July, and 'core' inflation to 4.6%, while unemployment in Q2 was 33.9%, down 0.6 pc pt

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

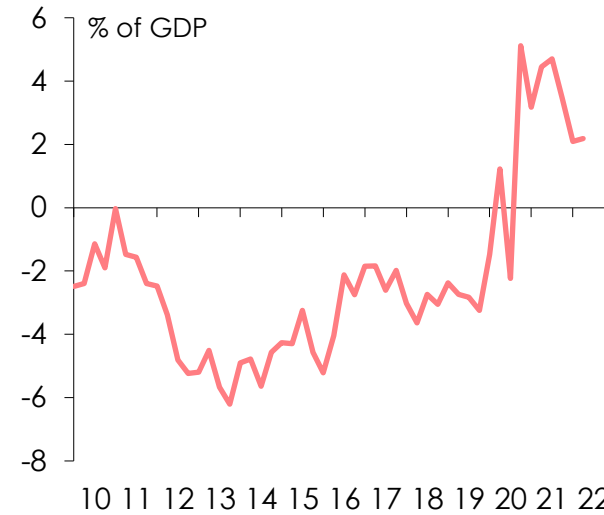
Real GDP



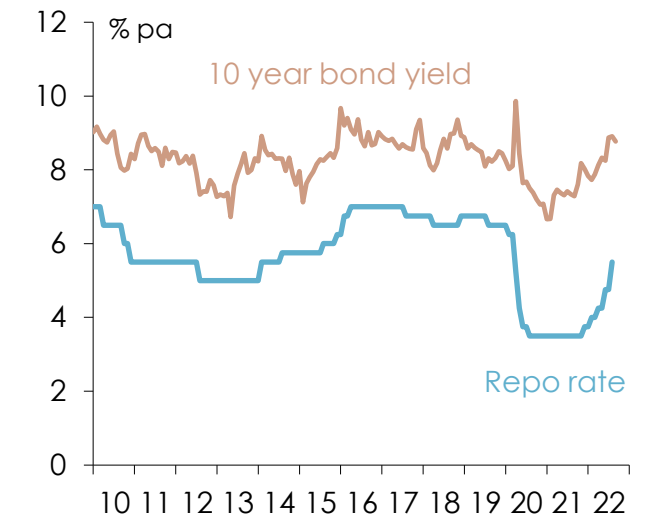
Unemployment



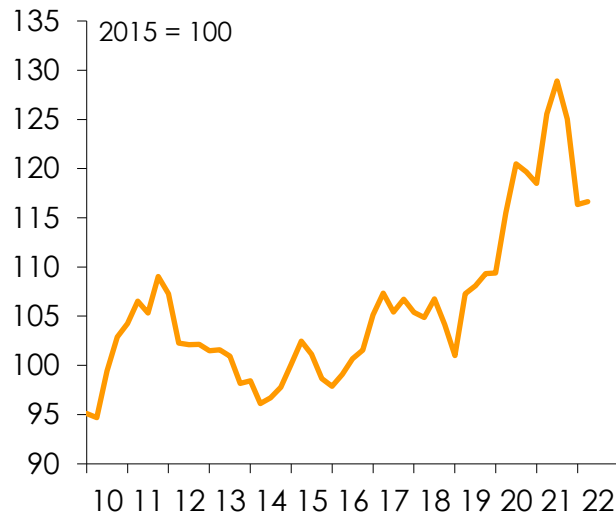
Current account balance



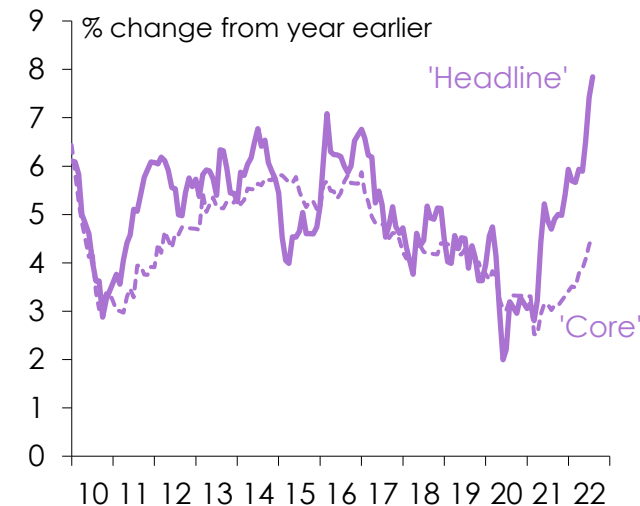
Interest rates



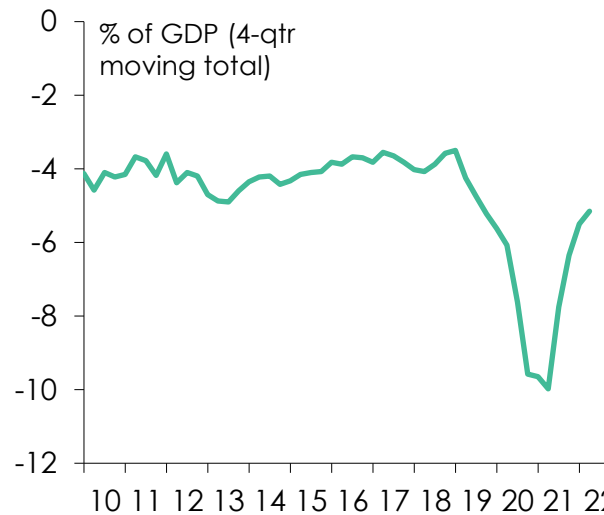
Terms of trade



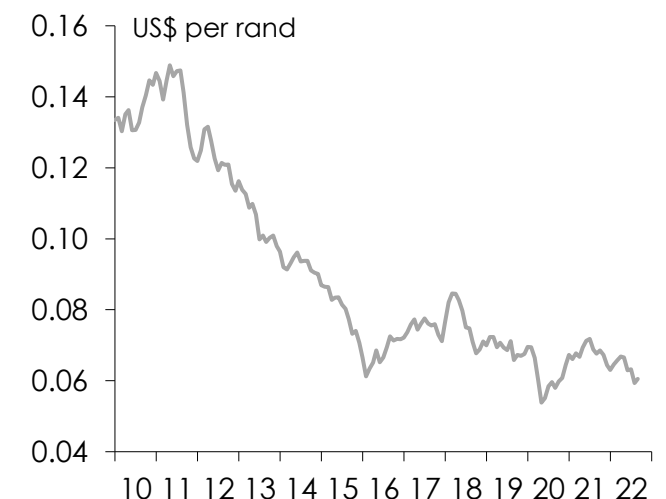
Inflation



Budget deficit



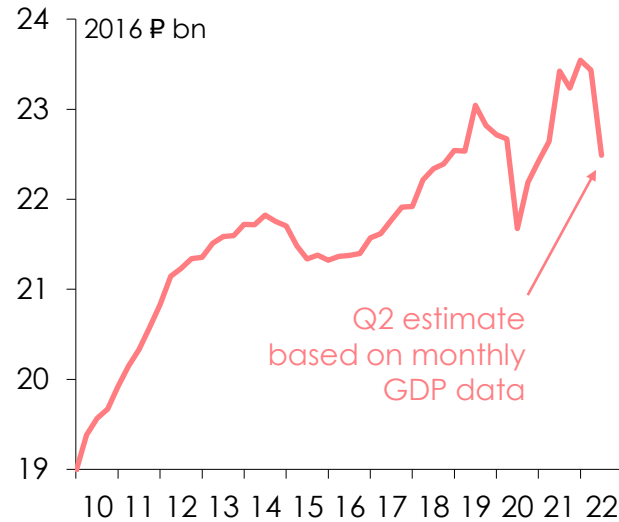
Rand vs US\$



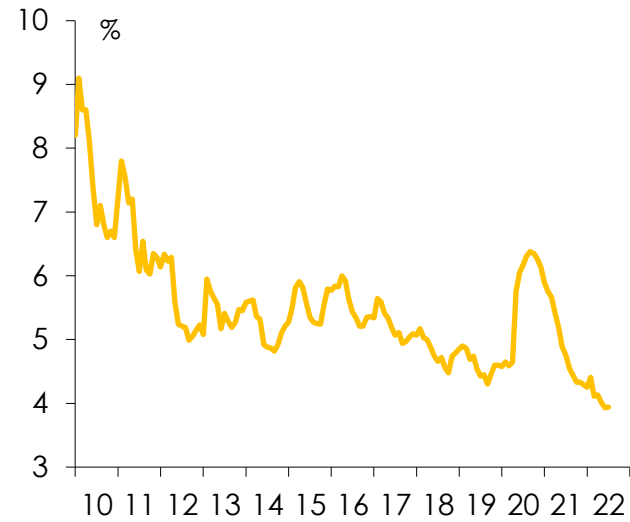
Russia's annual inflation rate fell to 15.1% in July, down from a peak of 17.9% in April

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

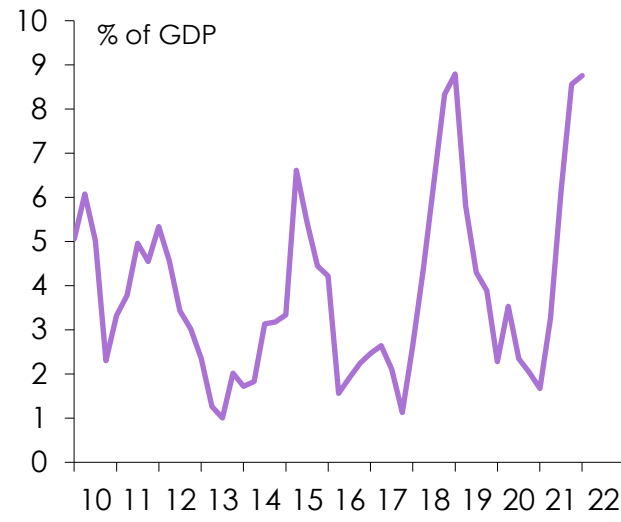
Real GDP



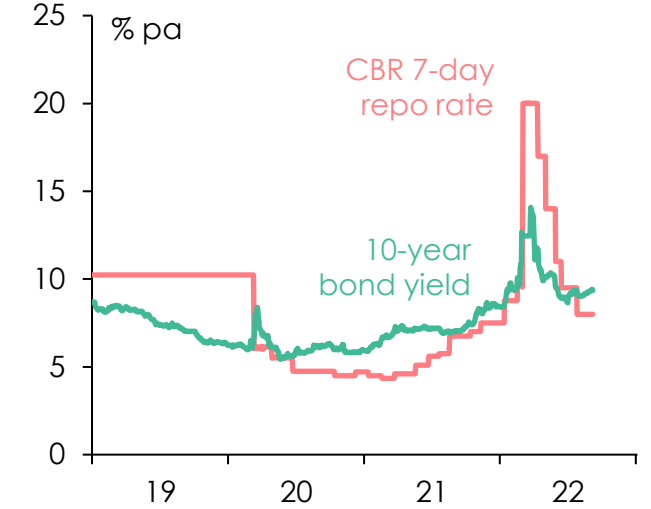
Unemployment



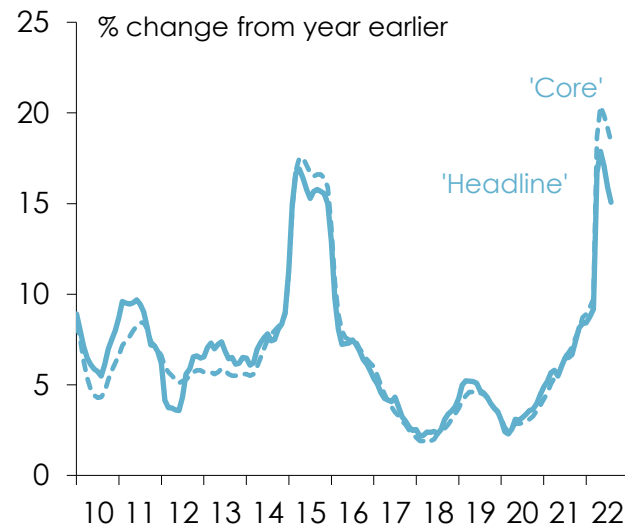
Current account balance



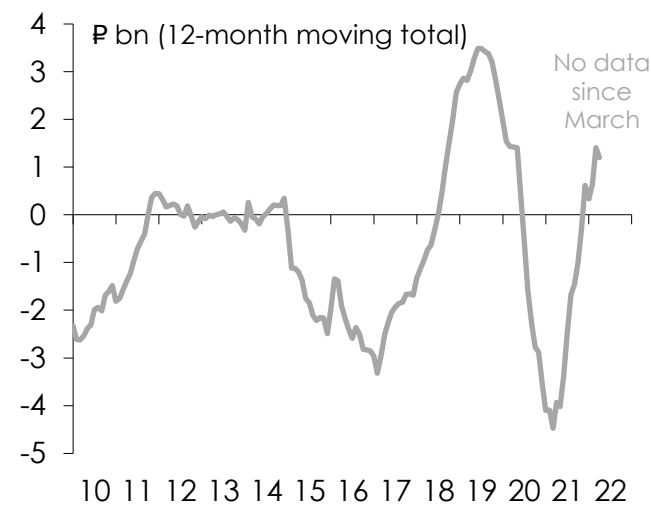
Interest rates



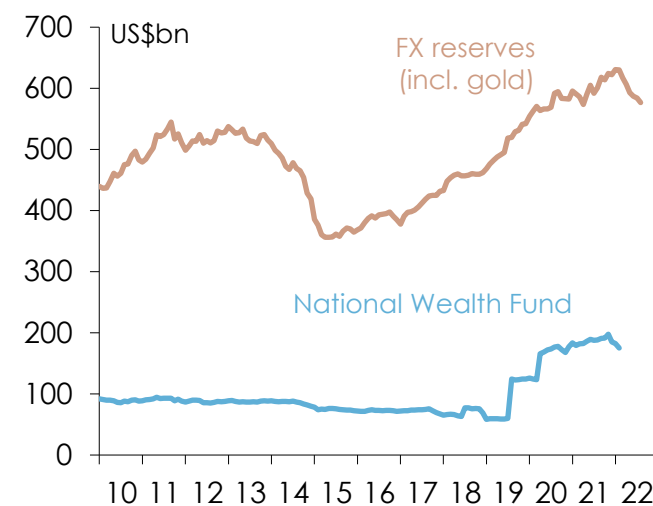
Inflation



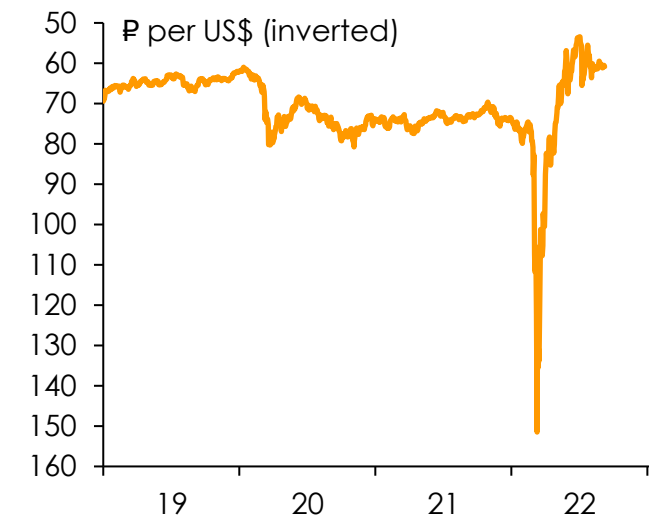
Federal budget balance



State financial assets



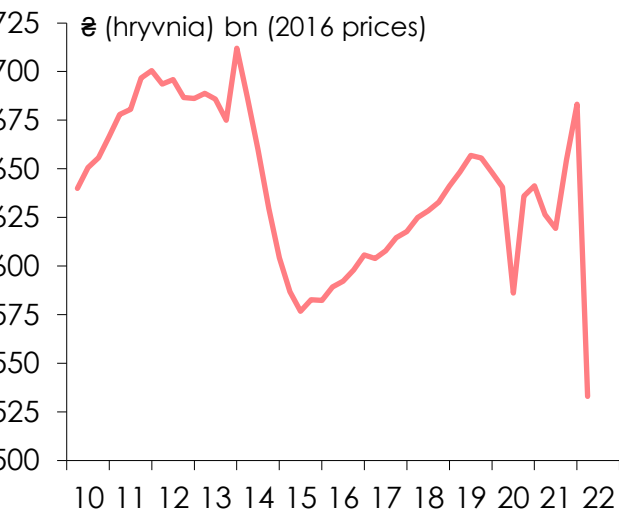
Russian ruble vs US\$



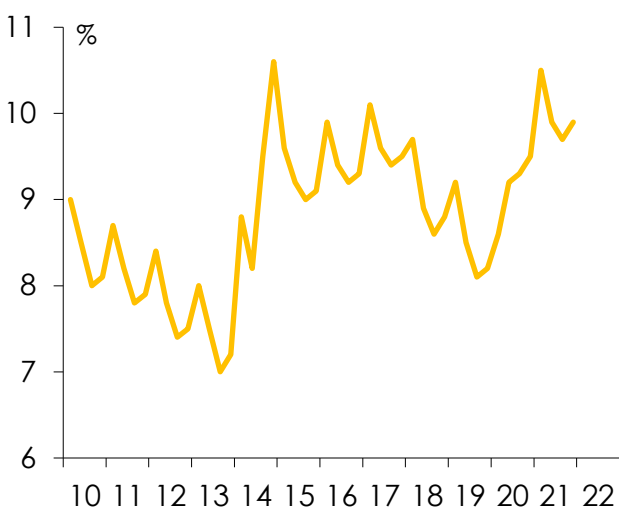
Ukraine devalued its currency by 25% against the US\$ in July in view of the “change in the fundamental characteristics of Ukraine’s economy”

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

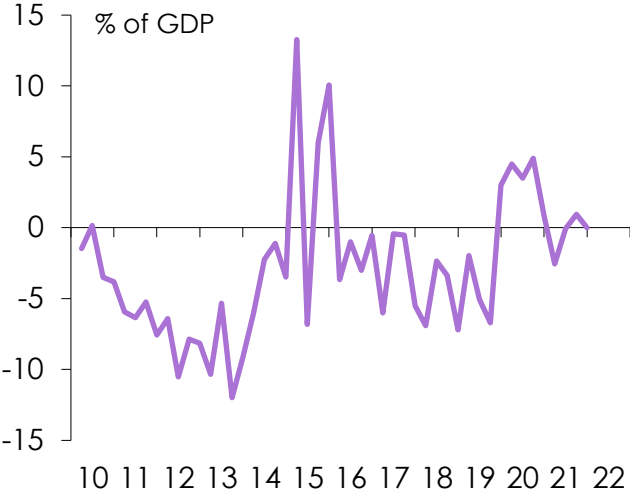
Real GDP



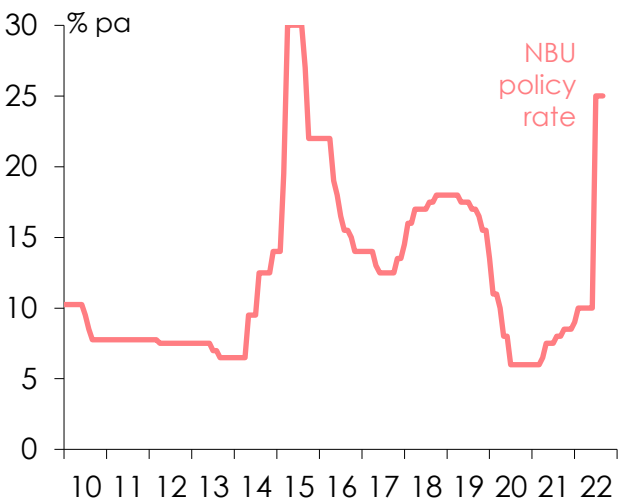
Unemployment



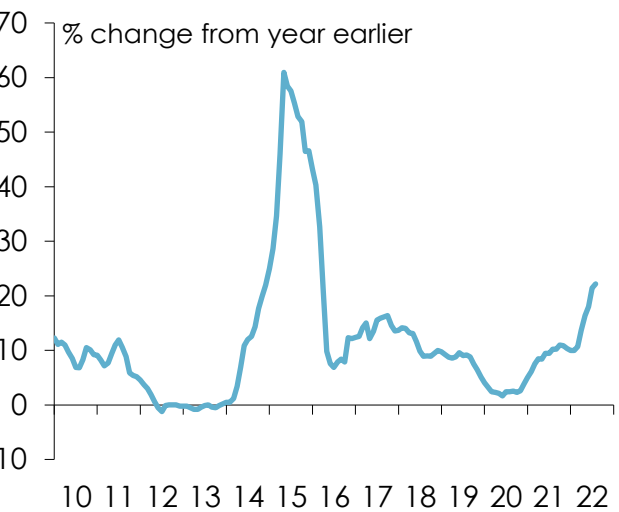
Current account balance



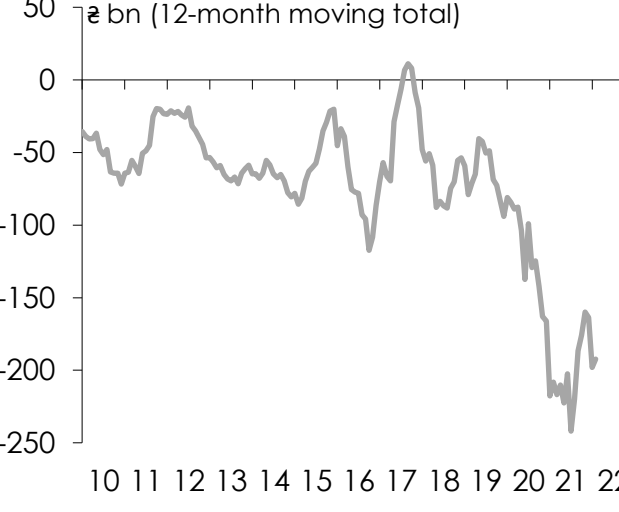
Interest rates



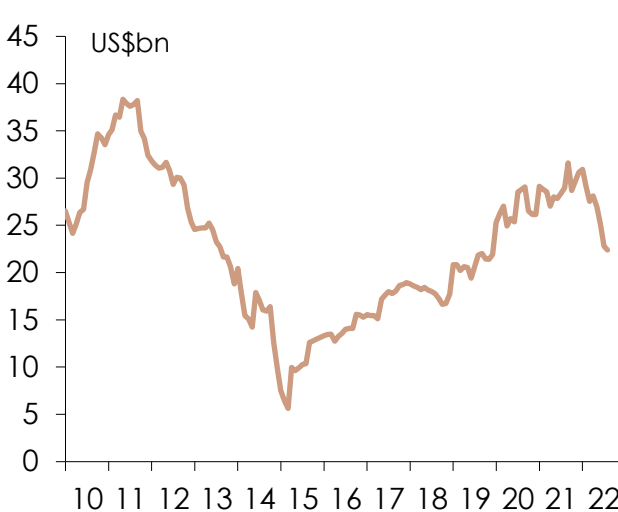
Inflation



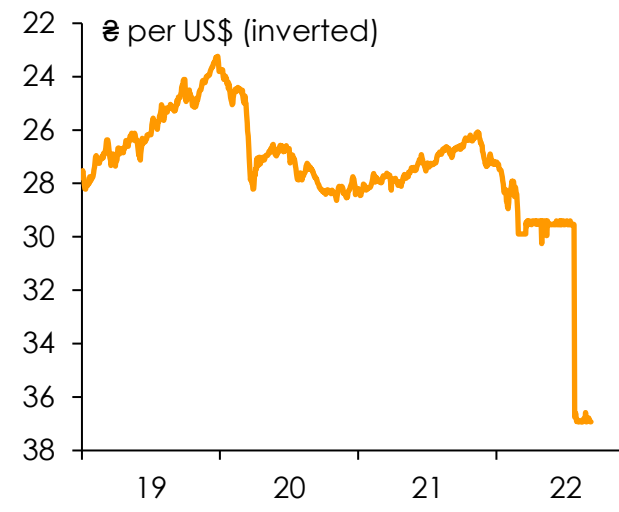
Budget deficit



FX reserves



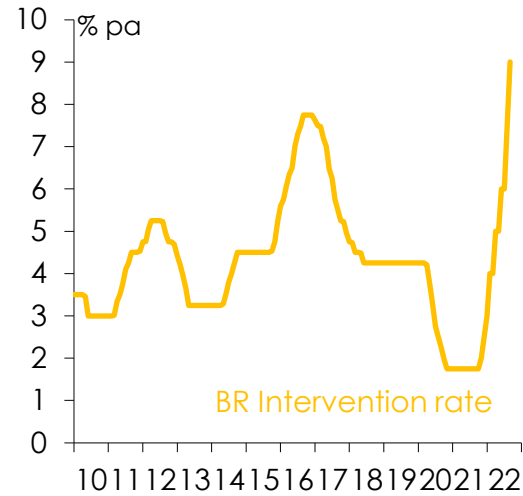
Ukrainian hryvnia vs US\$



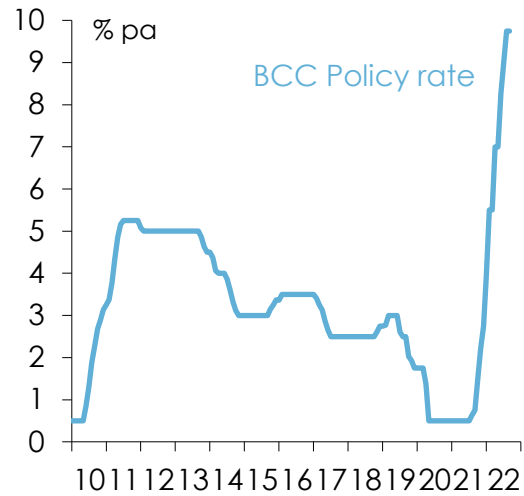
Central banks in other Latin American, Central & Eastern European, and South Asian economies have been very forceful in tightening policy

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

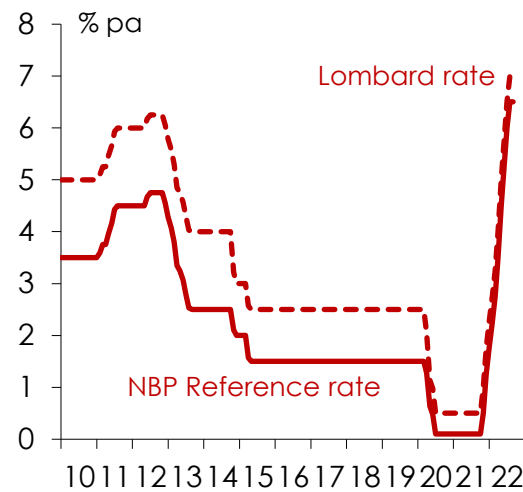
Colombia



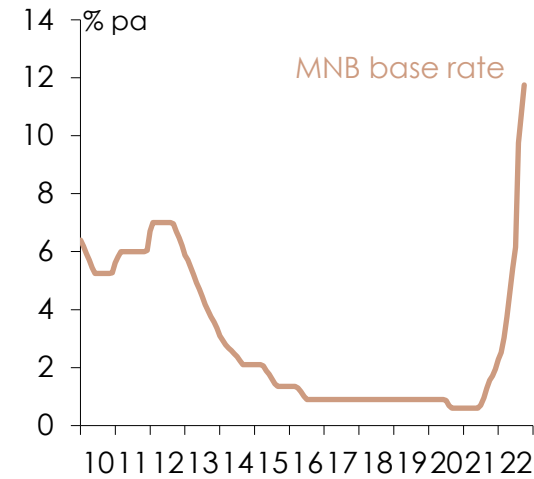
Chile



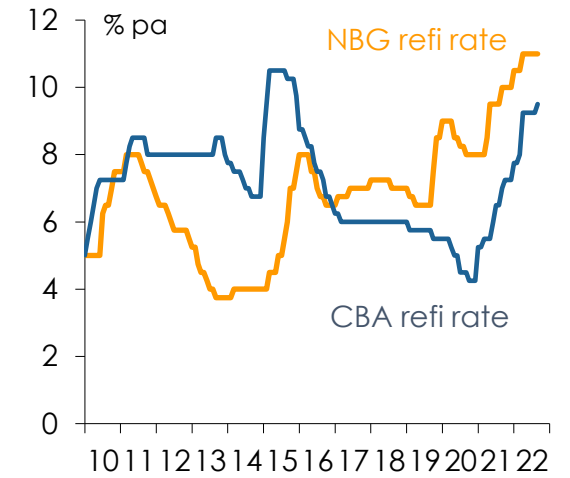
Poland



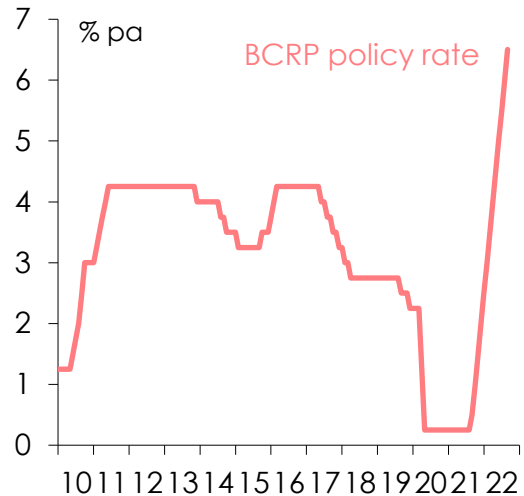
Hungary



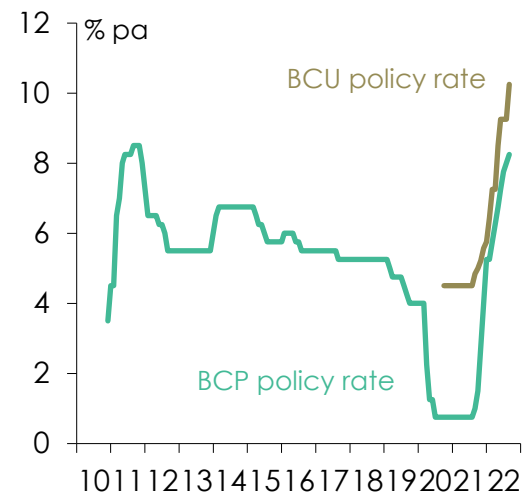
Georgia & Armenia



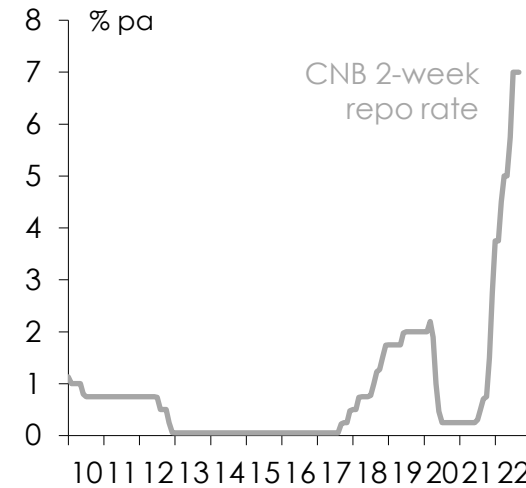
Peru



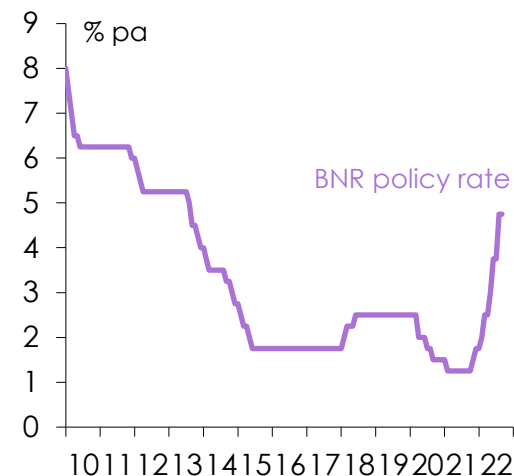
Paraguay & Uruguay



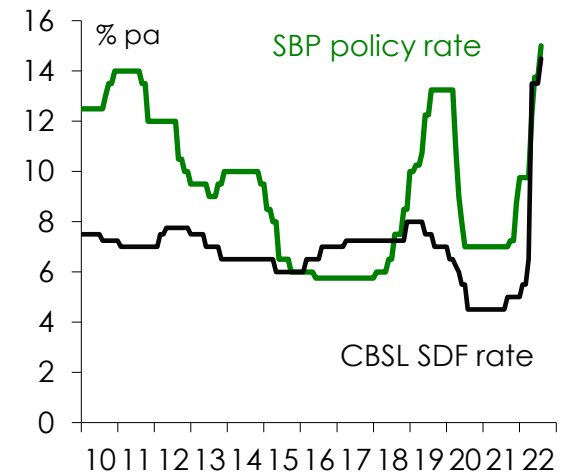
Czech Republic



Romania



Pakistan & Sri Lanka

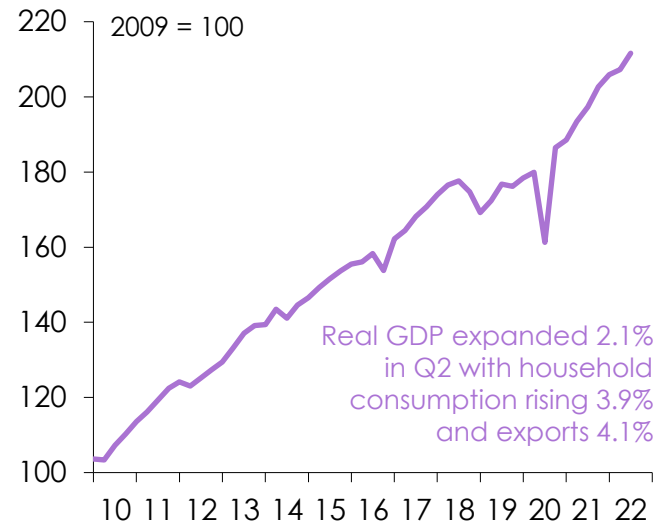


Sources: [Banco de la República Colombia](#); [Banco Central de Reserva del Perú](#); [Banco Central de Chile](#); [Banco Central del Uruguay](#); [Banco Central del Paraguay](#); [Narodowy Bank Polski](#); [Česká Národní Banka](#); [Magyar Nemzeti Bank](#); [Banca Națională a României](#); [Sakartvelos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

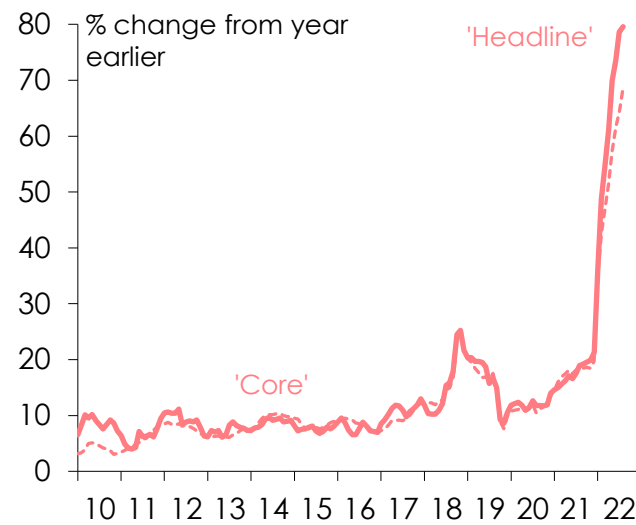
Turkey's real GDP grew 2.1% in Q2, driven by strong growth in household consumption and exports, to be 17.6% above its pre-pandemic peak

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

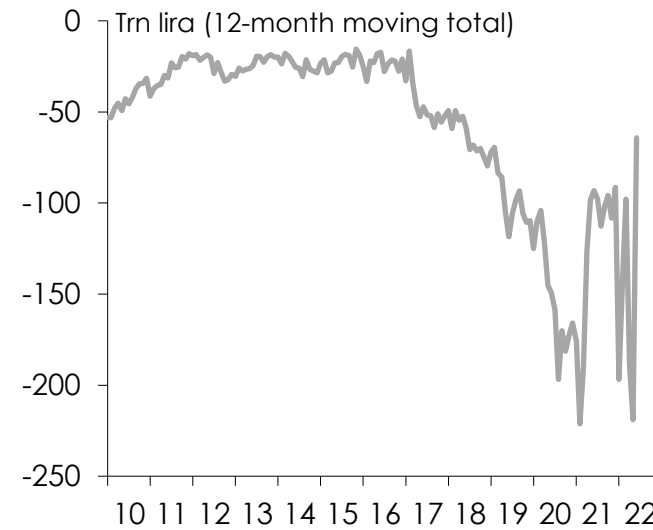
Real GDP



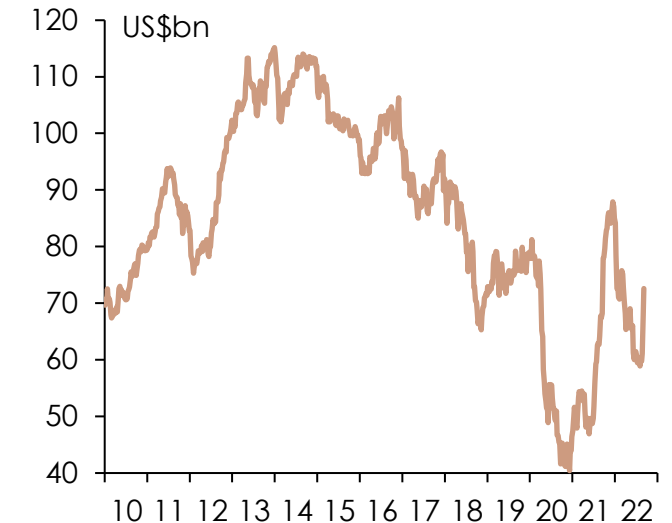
Inflation



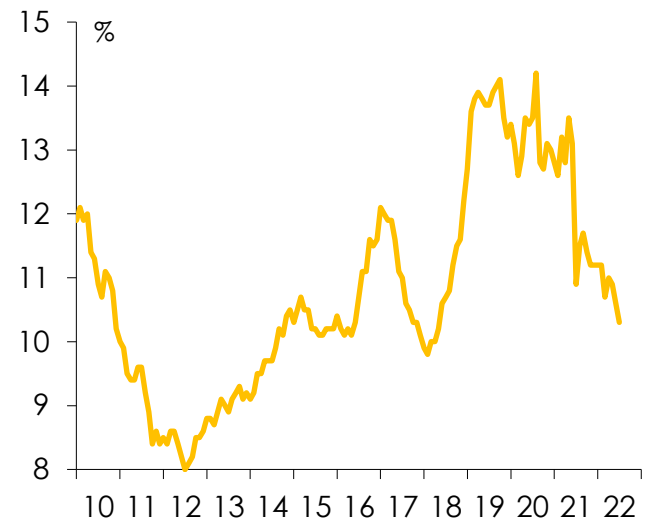
Budget balance



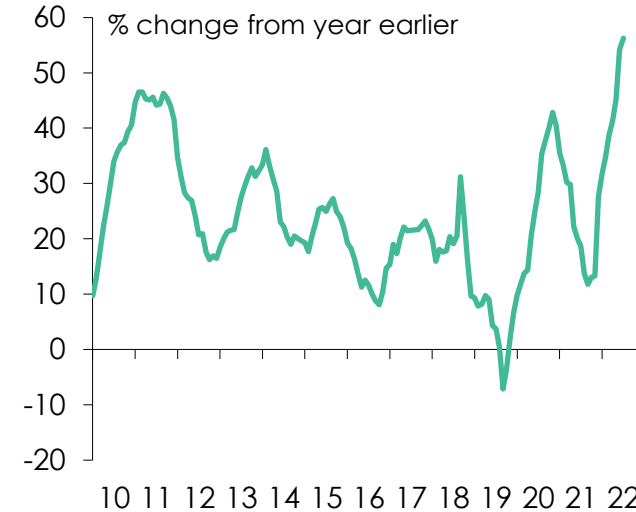
FX reserves



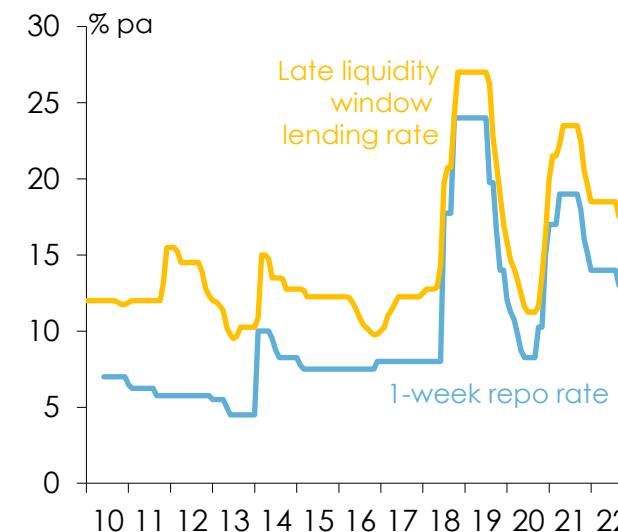
Unemployment rate



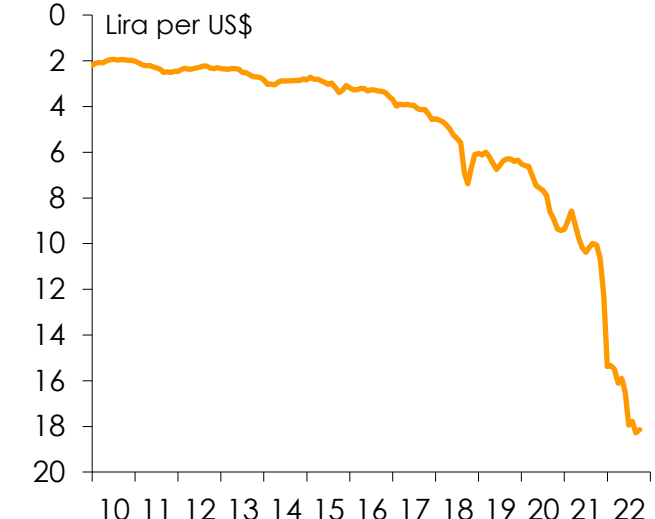
Bank lending



Interest rates



Turkish lira vs US\$



Key data and events this week

Key data and events for week ended 9th September

THE WORLD ECONOMY THIS WEEK – 5TH SEPTEMBER 2022

Monday 5 th September	Japan August services PMI; Singapore July retail sales; Thailand August CPI; China August 'unofficial' services PMI; Turkey August CPI; euro area July retail sales; Colombia August CPI
Tuesday 6 th September	Australia RBA meeting and Q2 current account balance; Taiwan August CPI; South Africa August CPI; US August services ISM index; Chile BCC meeting
Wednesday 7 th September	Australia Q2 GDP; Taiwan August trade balance; China August trade balance; Poland NBP meeting; euro area Q2 GDP (detailed estimates); Iceland August trade balance; US July goods trade balance (advance); Canada BoC meeting and July trade balance
Thursday 8 th September	Australia July goods and services trade; Japan Q2 GDP (final) and July current account balance; Malaysia BNM meeting; South Africa Q2 current account balance; euro area ECB meeting; US Fed Chair Powell speech; Peru BCRP meeting
Friday 9 th September	Philippines July trade balance; Malaysia July unemployment; Russia August CPI & Q2 GDP; Norway August CPI; Canada August employment and unemployment; Brazil August CPI

Important information

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

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