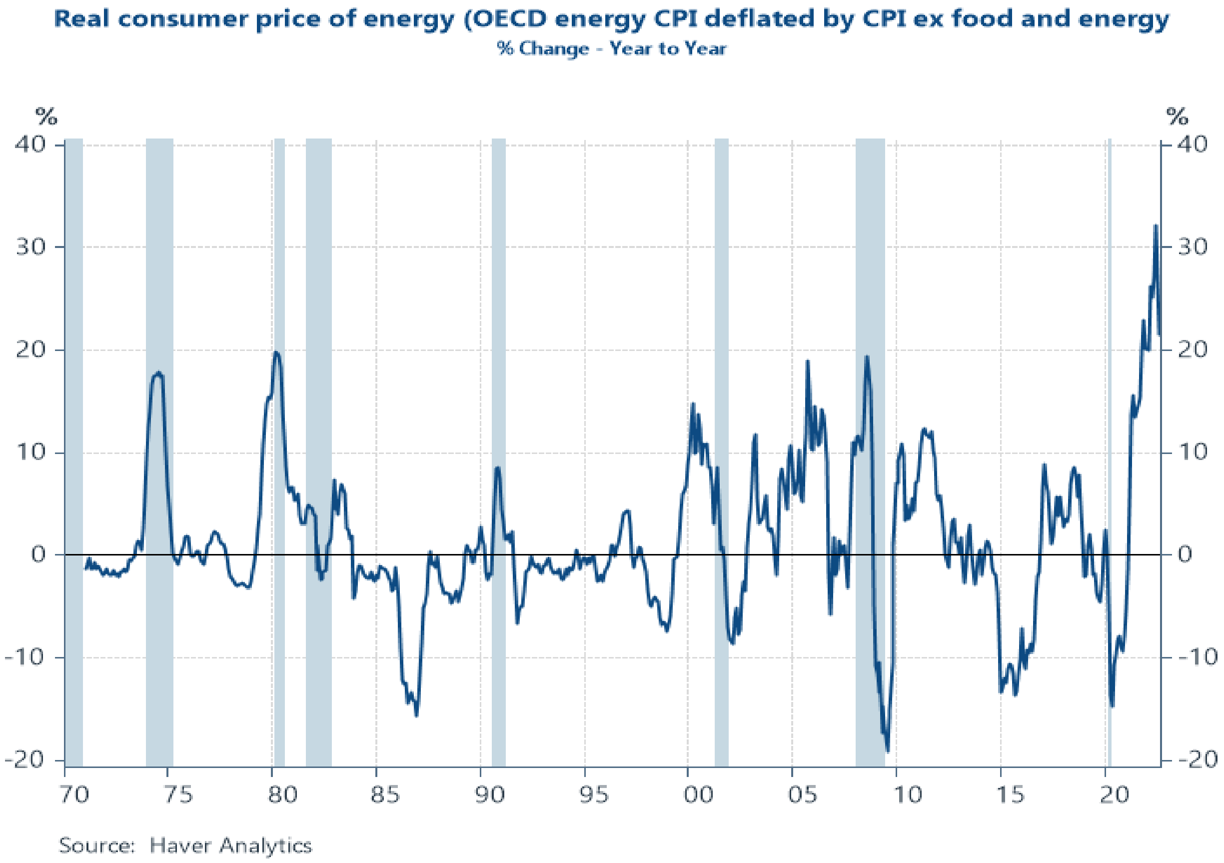
OCTOBER 21, 2022
ANDY CATES

The list of factors that are weighing on the world economy at present is obviously very long, but are there any positives? In truth, there aren't that many! Nevertheless, our first three charts this week, looking at respectively energy prices, US capex and semiconductor demand, offer a few glimmers of hope about the global economic outlook in the period ahead. Some of those trends have carried some implications for global equity flows and for UK inflation, which are our focus in charts 4 and 5. Finally, we look at longer-term shifts in female labour force participation rates during the pandemic era, and the divergence in particular between high-income and low-income countries.

Energy prices

A key - if not the key- factor that has been generating economic and financial instability in recent months is of course energy prices. It remains to be seen whether OPEC's decision on October 5th to lower oil production levels will reverse the recent trend toward lower oil prices. But that recent weakness is nevertheless welcome. Sharp increases in the real consumer price of energy in the OECD have invariably preceded recessionary phases in the world economy over the past 70 years, as evidenced in chart 1 below. While the recent retreat doesn't necessarily mean a recession can be avoided, it should - if sustained - help to lower headline inflation rates and thereby hasten the date from which a recovery phase can begin.

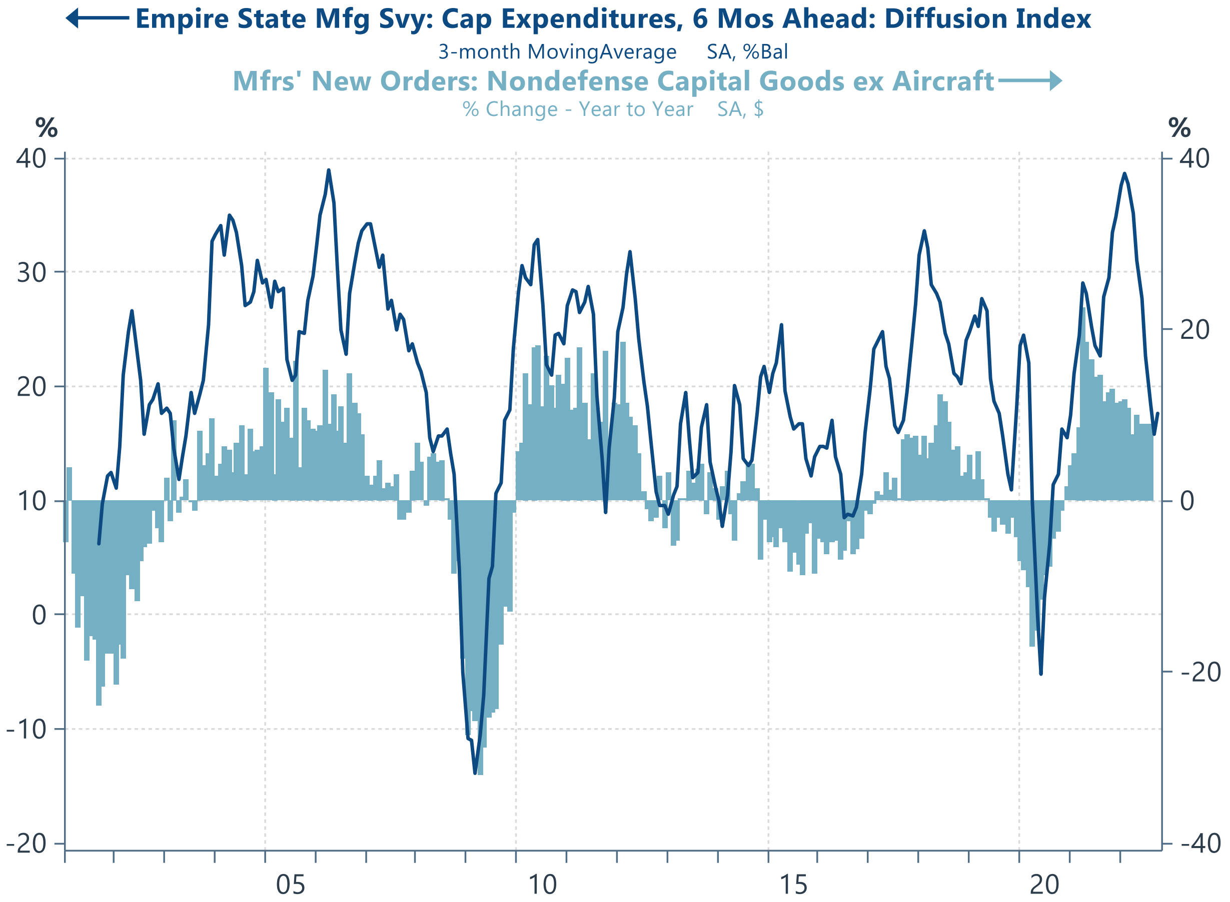
Chart 1: The real (inflation-adjusted) consumer price of energy in the OECD



US capex intentions

One piece of the US economic jigsaw that has been holding up surprisingly well in the face of high energy prices is business spending. This week's Empire State survey of manufacturing in the New York Area, for example, revealed that the 6- month ahead capex intentions index had strengthened a little in October, specifically to 17.5 from 15.7 in September. That level is not consistent with many other indicators in that survey, nor in many other surveys, that are much closer to levels that have prevailed in recent recessions. Still, it chimes with the messaging from other forward-looking gauges (e.g. durable goods orders data) which also suggest that US capex (on new equipment) is holding up quite well (see chart 2 below).

Chart 2: US Empire State survey of capex spending versus core capital goods orders

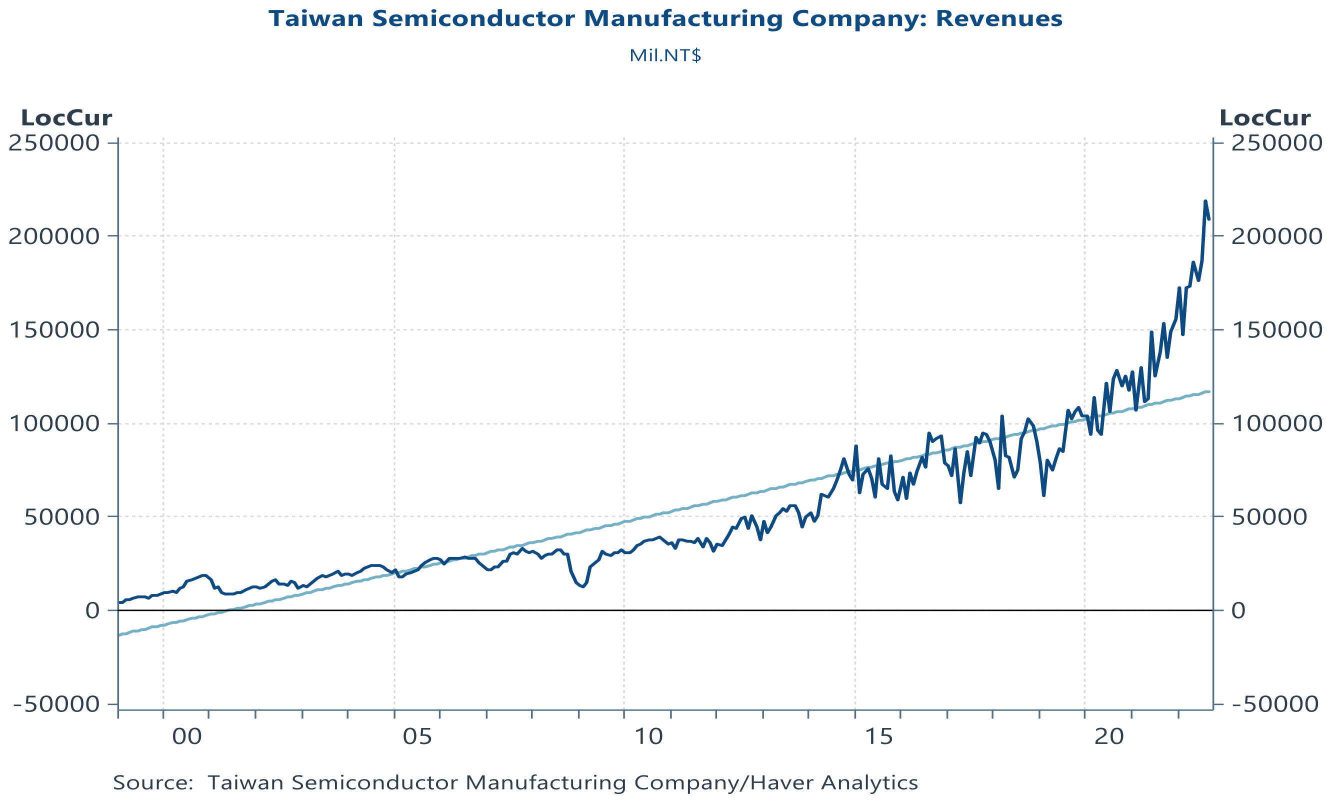


Sources: Federal Reserve Bank of New York, Census Bureau/Haver Analytics

Semiconductor demand

Are US companies stepping up investment in new technology? That certainly is the message from the underlying details of recent GDP data for Q2 which revealed that spending of information and communications technology equipment and software has been strong. This chimes too though with company-specific data from Asia and specifically TSMC (the Taiwan Semiconductor Manufacturing Company) which reveals still-sturdy revenue flows, as evidenced in chart 3. Some of this strength is a function of pandemic-related supply shortages and high prices of semiconductors. Tentative evidence has admittedly emerged of late too to suggest that *global* demand for semiconductors has ebbed in recent weeks.

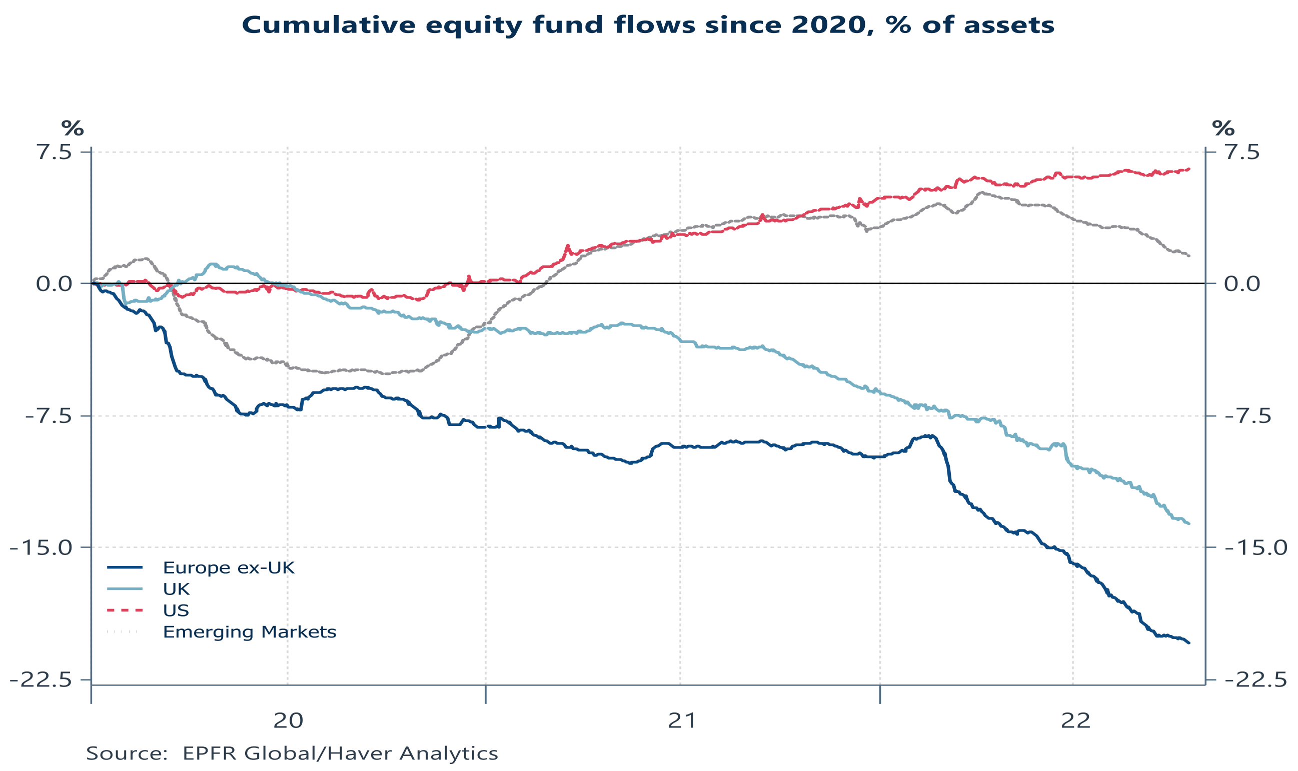
Chart 3: Taiwan's Semiconductor Manufacturing Company Revenues



Equity fund flows

The strength of the US dollar continues to grab the financial headlines not least for how it may impact emerging economies. The equity flow data from EPFR, shown in chart 4 below, offers some fresh perspective on this. Measured on a cumulative basis, and with respect to the start of 2020, European equity markets have seen a major exodus of investment capital, with geopolitical instability clearly a key reason for this. Chiming though with the dollar's strength, US equity markets have, in contrast, been a major beneficiary of capital inflows. Somewhat surprisingly (at least to this observer) emerging equity markets too saw relatively solid net inflows of capital during 2021, possibly because trade growth for many of these economies was quite firm at that time. But, this trend has now started to reverse over the past 6 months, in tandem with the strength of the dollar.

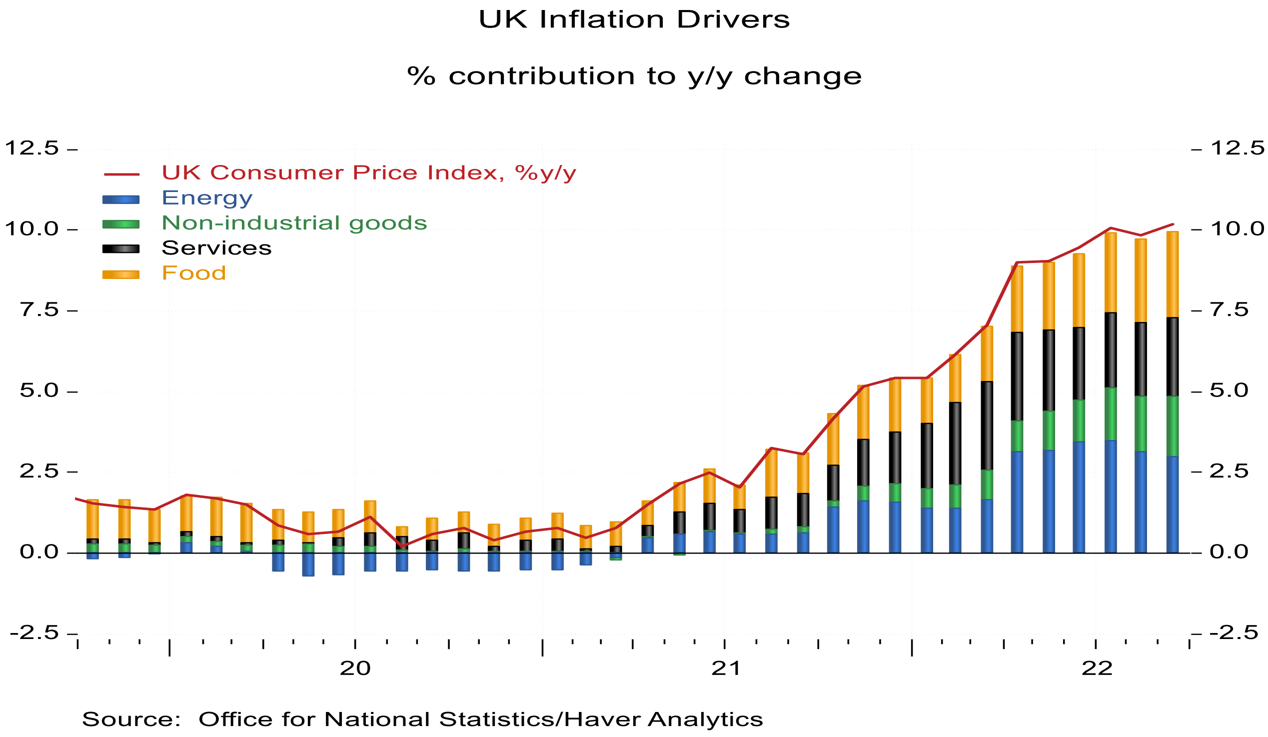
Chart 4: Cumulative equity fund flows from 2020



UK inflation

This week's news on the UK inflation front was not that auspicious. The headline CPI inflation rate climbed from 9.8% in August to 10.1% in September, a little higher than consensus expectations. The underlying details, however, reveal that energy and food prices are still dominant drivers of UK inflation, specifically accounting for around 56% of the step-up in inflation over the past 12 months. As hinted above, moreover, the contribution of energy prices has started to fade over the past 3 months. And insofar as this tends to act a s a good leading indicator of broader inflationary pressures, that's good news for how inflation might evolve in the months ahead.

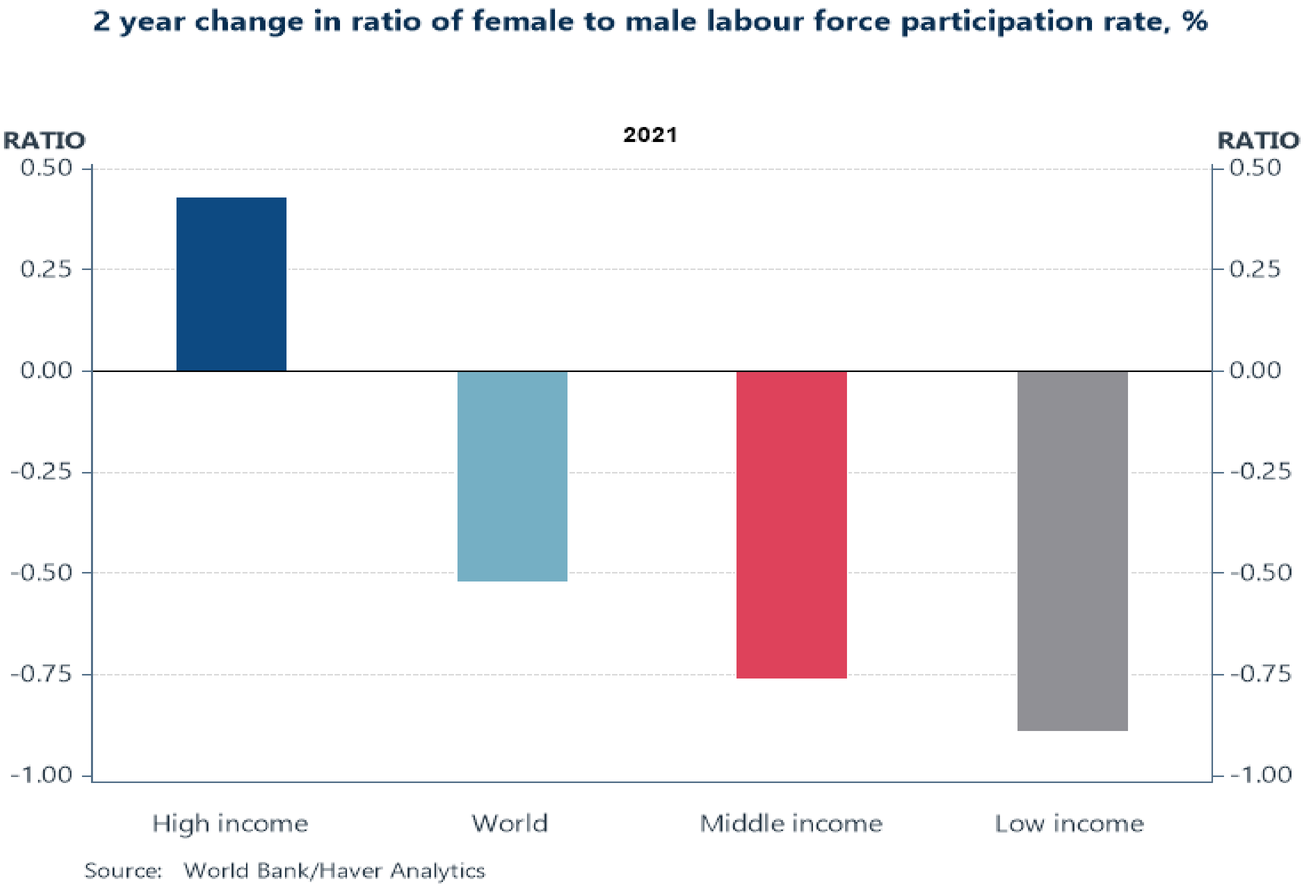
Chart 5: UK inflation drivers



Female labour force participation rates

Among the many deep-seated secular challenges confronting the world economy at present, ageing demographics, inequality and scarring from the pandemic are near the top of the list. Many policy prescriptions have been made to deal with these challenges including policies to entice a higher female participation rate in the labour force, particularly in lower income economies. As our final chart this week suggests, however, low income economies have seen disproportionately lower female participation rates (relative to males) during the pandemic period.

Chart 6: Changes in the ratio of female to male labour force participation rates during the pandemic



ABOUT THE AUTHOR

Haver Analytics is pleased to bring Andrew Cates's commentaries on the state of the global economy to its clients.

Andy Cates has more than 25 years of experience forecasting the global economic outlook and in assessing the implications for policy settings and financial markets. He has held various senior positions in London in a number of Investment Banks including as Head of Developed Markets Economics at Nomura and as Chief Eurozone Economist at RBS. These followed a spell of 21 years as Senior International Economist at UBS, 5 of which were spent in Singapore. Prior to his time in financial services Andy was a UK economist at HM Treasury in London holding positions in the domestic forecasting and macroeconomic modelling units.

He has a BA in Economics from the University of York and an MSc in Economics and Econometrics from the University of Southampton.

For more information about these data, included data codes and DLXVG3 chart files, please email sales@haver.com and mention Charts of the Week.

Alternatively, visit https://haverproducts.com/products/ to browse our databases.