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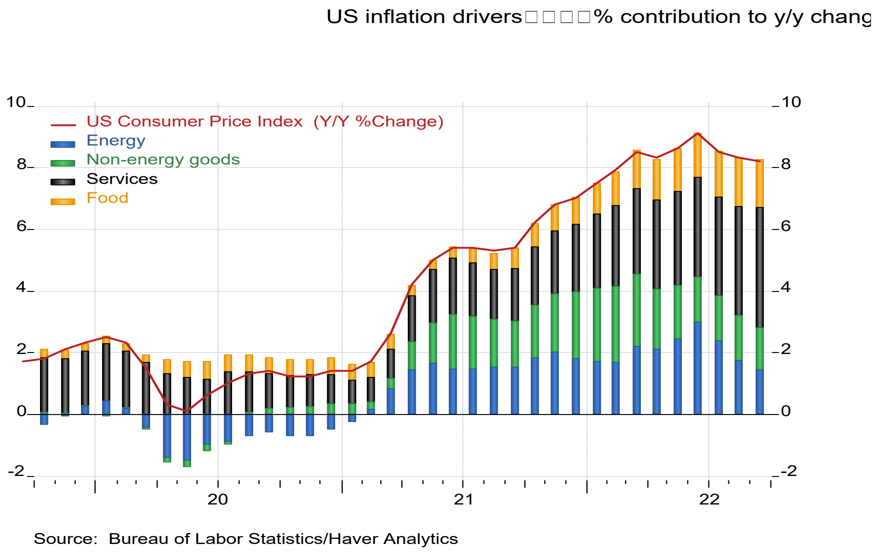
When (or indeed whether!) central banks will pivot toward more growth-friendly monetary policies remains a key question for financial markets at present. Our charts this week drill into some of the key issues with some perspectives on US CPI data (chart 1), the stance of US monetary policy (chart 2), Europe's business cycle position (chart 3) and global supply chain pressures (chart 4). There are seemingly no major inflation challenges in China at present, one reason for which is evidenced in our fifth chart this week. Finally, as policymakers meet in Egypt to discuss climate change challenges, our final chart this week offers some colour on global greenhouse gas emissions.

US inflation

This week's news on the US inflation front was certainly good for those with a dovish disposition toward the Fed. The annual pace of headline CPI inflation dropped more sharply than expected, to 7.7% in October from 8.2% in September. Ebbing goods price inflation – and particularly in energy – was a key reason for this. Service price inflation, however, also stabilised following several months of heightened pressures.

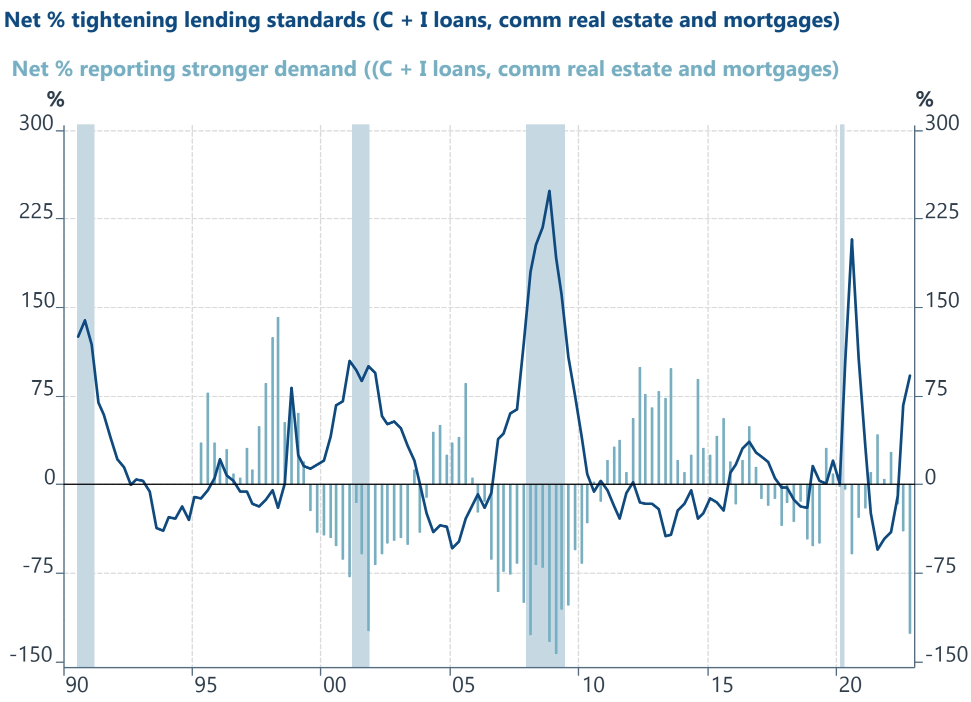
Chart 1: US inflation contributions



US bank credit

This week's Fed Senior Loan Office survey for October also suggested that tighter monetary policy may now be exerting a restraining influence on the US economy. The survey revealed a near-across-the-board tightening of lending standards in the corporate and household sectors as well as weaker credit demand (see chart 2). Mortgage demand in particular appears to have weakened sharply.

Chart 2: US Senior Loan Officer Survey – lending standards and demand

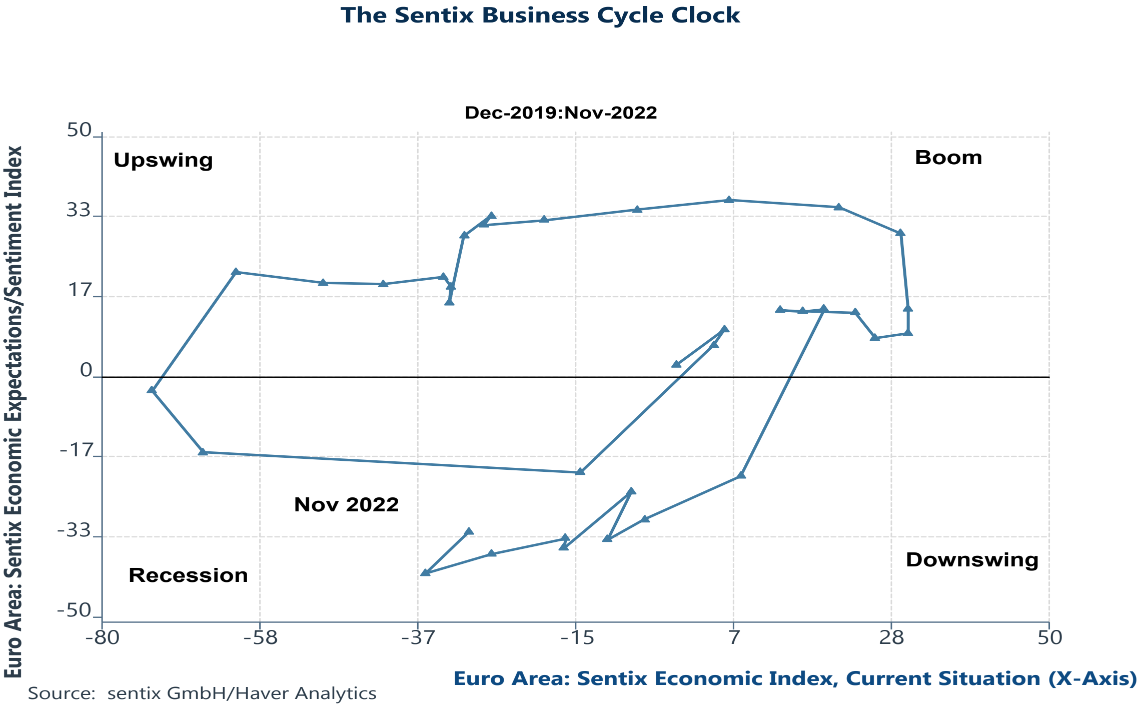


Source: Haver Analytics

The euro area business cycle

Turning to Europe where this week's incoming data were somewhat less gloomy about the economic outlook than many economists had anticipated. A good example of this was the November Sentix survey which registered a modest improvement in November, thanks to an increase in investors' assessments of both current conditions and their future expectations. Those assessments, however, still lie deep in negative territory. And as our 'business cycle clock' in chart 3 below suggests, the survey also still suggests that the euro area is facing the prospect of a recession in the coming months.

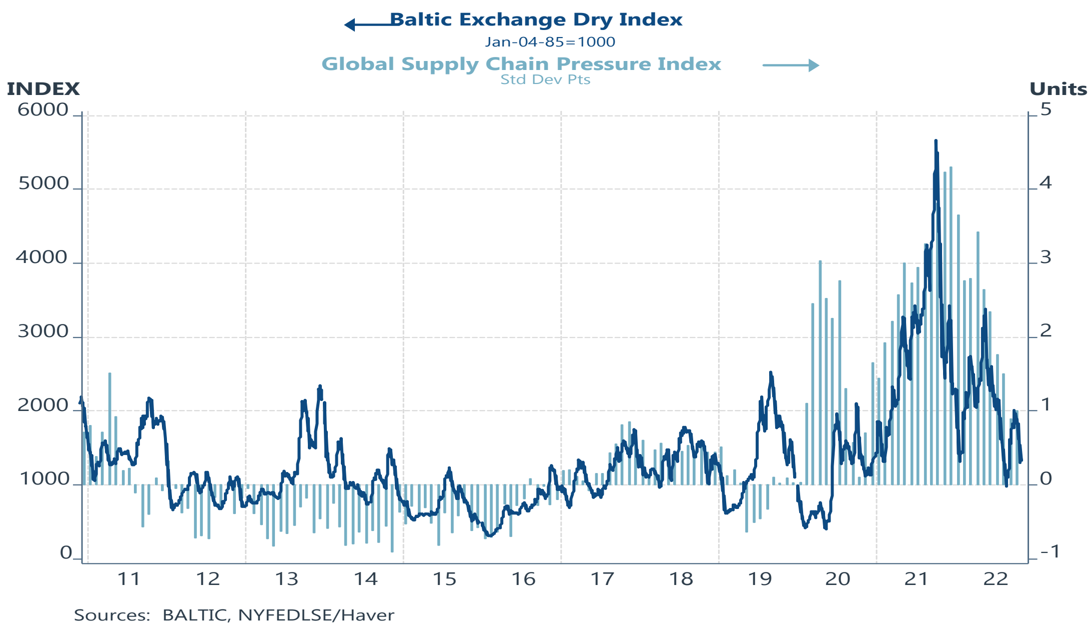
Chart 3: Euro area sentix survey and the business cycle clock



Global supply chain pressures

Returning to inflation issues, one of the key drivers of price pressures in the traded goods sector has of course been choked off supply chain channels. Incoming data, however, continue to suggest that those supply restraints have been easing. The Baltic Dry index, for example, an indicator of global shipping costs, has fallen sharply over the past four weeks and has been mostly trending lower now for the past 12 months. And that chimes with the downward trend in the New York Fed's gauge of global supply chain pressures too (see chart 4 below).

Chart 4: Baltic dry index versus the global supply chain pressure index



China's economic activity

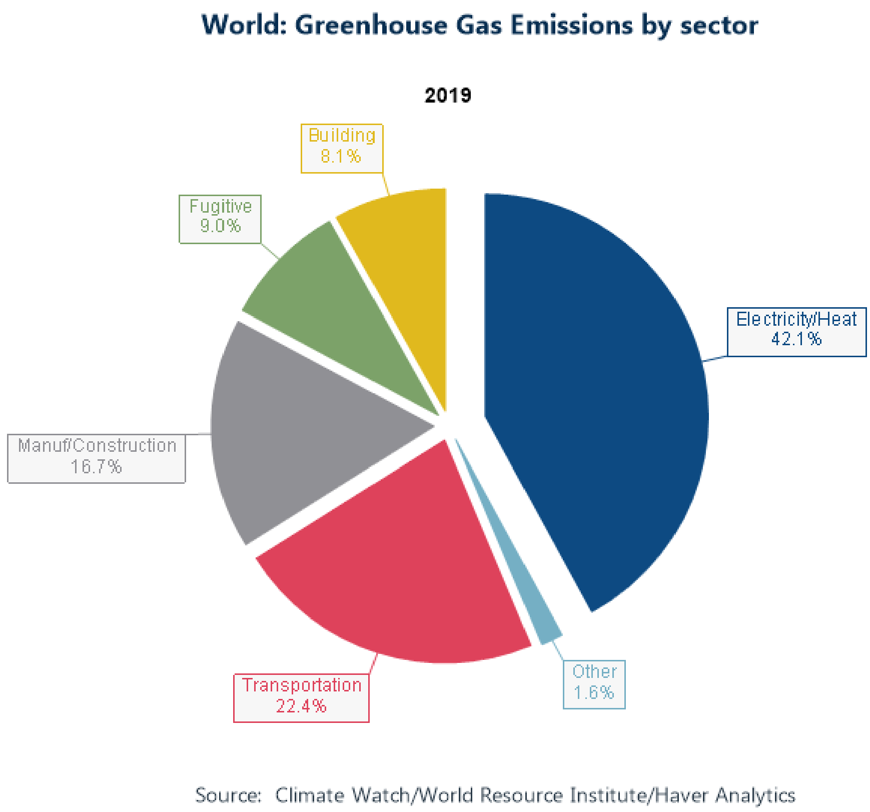
The balance of demand and supply in China's economy could be critical for those pressures in the period ahead. But right now, the see-saw of government policy toward the pandemic continues to weigh on economic growth. High frequency gauges of that activity, such as subway passenger volumes, attest to sub-par activity in major cities and particularly in those that have lately faced lockdown restrictions (see chart 5).

Chart 5: Subway passenger volumes in China

Greenhouse gas emissions

Against the backdrop this week of the UN COP27 climate change conference, chart 6 below shows that the power sector (electricity/heat) accounts for 42% of global greenhouse gas emissions. Policymakers have therefore previously agreed (in the so-called Paris Agreement) to optimize, electrify and decarbonize the energy sector. That means reducing energy use through improved efficiency, shifting energy demand from fossil fuels to electricity and to ensure this electricity is zero carbon.

Chart 6: Global greenhouse gas emissions by sector



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.
