



CHARTS OF THE WEEK

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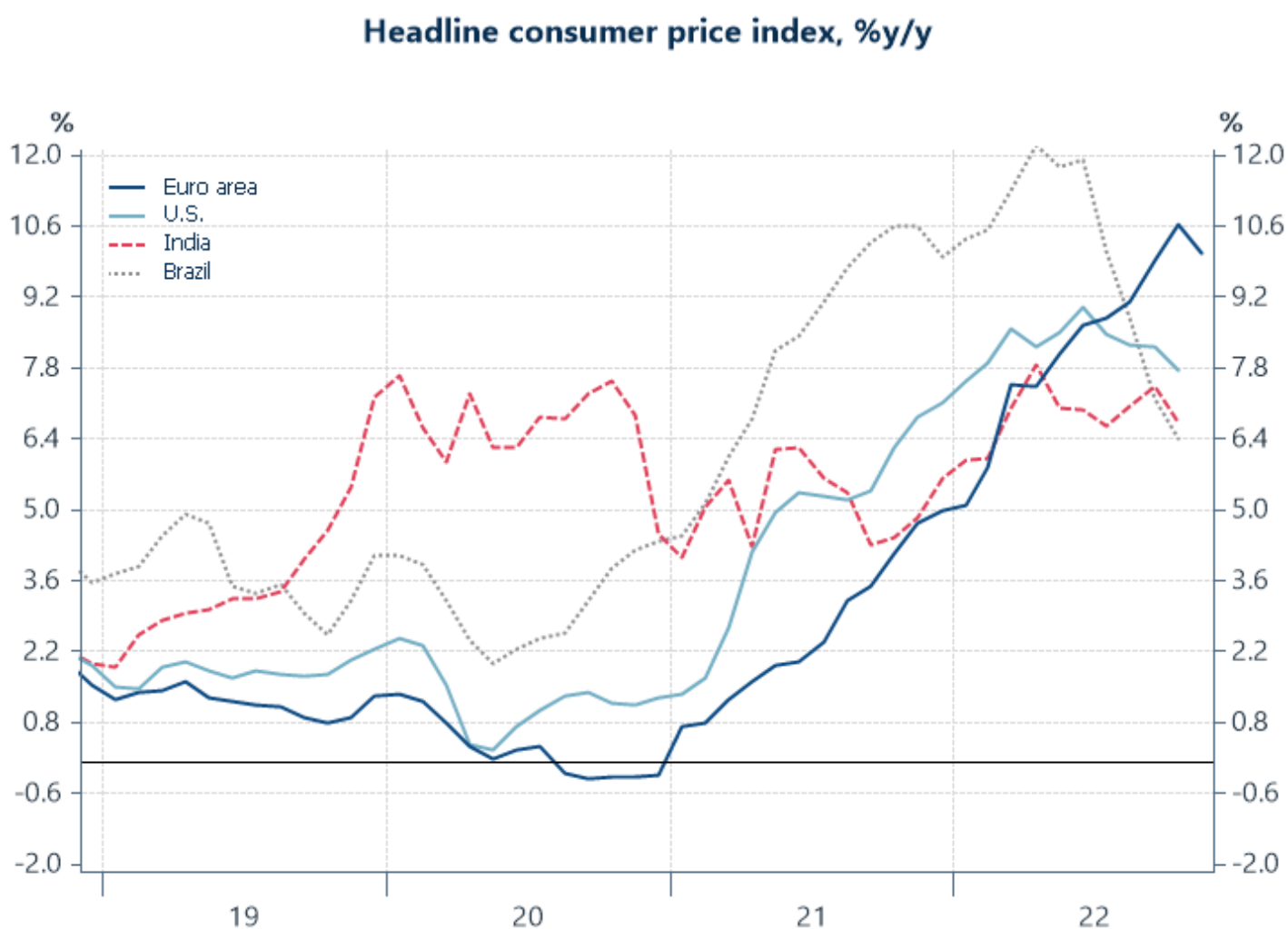
[ANDY CATES](#)

Incoming economic data have continued to paint a more settled picture of the world economy over the past few days and especially on the inflation front. Of most note were a weaker-than-expected batch of preliminary inflation data from Europe for November, which have added some thrust to the idea that the global inflation cycle has now peaked (see charts 1 and 2). Incoming survey data, however, attest to still-tight labour market conditions which ought to perhaps temper expectations about an imminent pivot toward looser monetary policy (see chart 3). In the meantime, downside risks to the outlook in China have accumulated thanks to enduring challenges with COVID and a recent flare-up of social instability (see charts 4 and 5). Finally, we note that geopolitical risks appear to have been fading of late relative to outsized levels from earlier this year (see chart 6).

The global inflation cycle

Has inflation peaked? That of course is the critical question that investors are asking at present given its importance for the calibration of monetary policy. As noted above, this week's CPI data for the Euro area were certainly encouraging. And they chime with October's data from the US (and a few major emerging economies) with the suggestion that headline inflation may have turned a corner (see chart 1).

Chart 1: Headline CPI inflation in the US, Euro area, India and Brazil

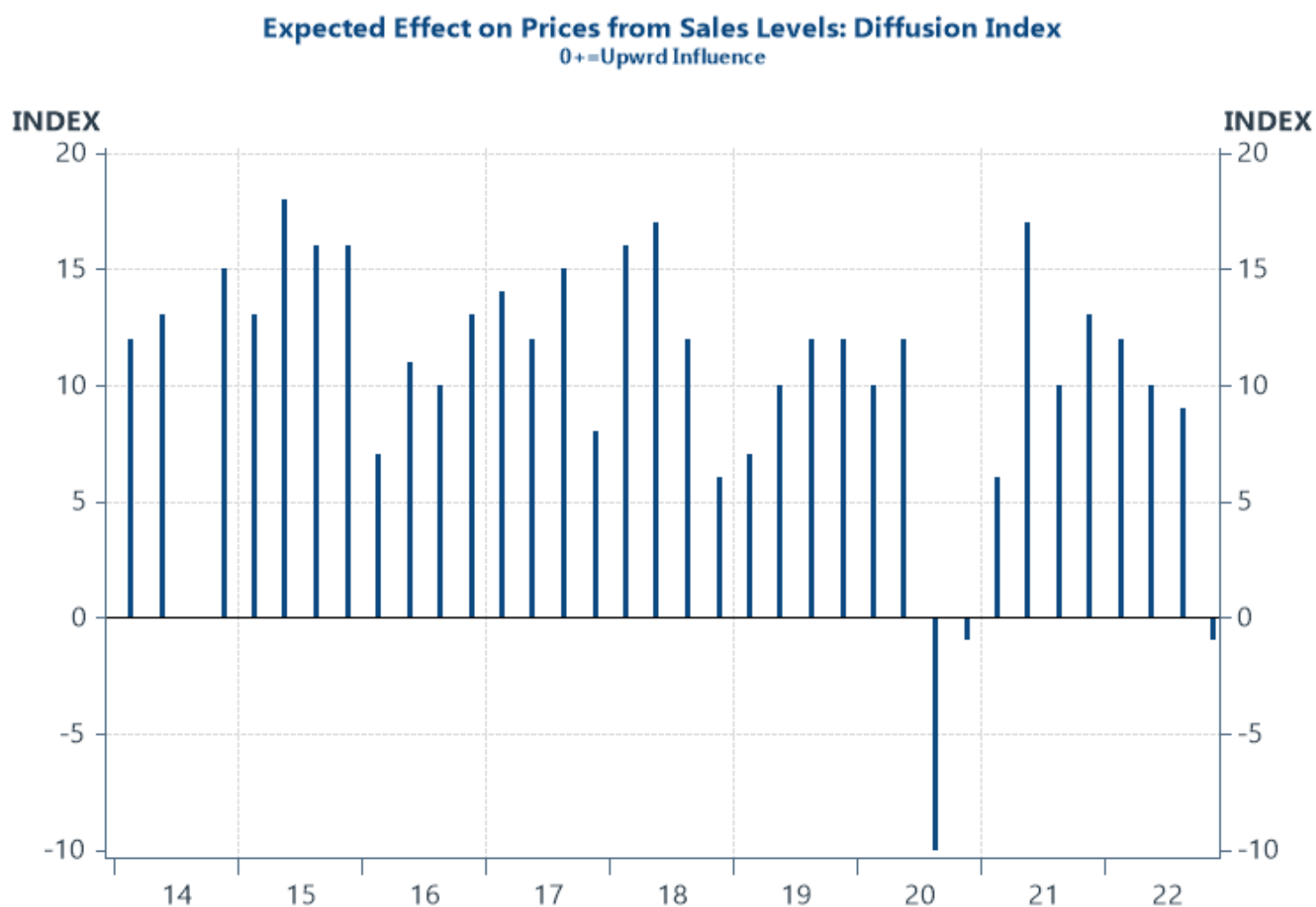


Sources: ECB, BLS, MOSPI/H, IBGE/H/Haver

Price pressures in the US economy

Encouraging evidence has emerged of late from several surveys too that suggest the US inflation cycle may have turned. For example, in the Atlanta Fed's Business Expectations Survey, there is a question that asks firms to state the influence of sales levels on prices over the next 12 months. The latest survey for November shows that expected price pressures due to sales have declined over the past 12 months. A small majority of US firms, moreover, now think that sales activity will exert a negative impulse to prices in the period ahead (chart 2).

Chart 2: US Atlanta Fed's survey of the impact of current sales levels on prices

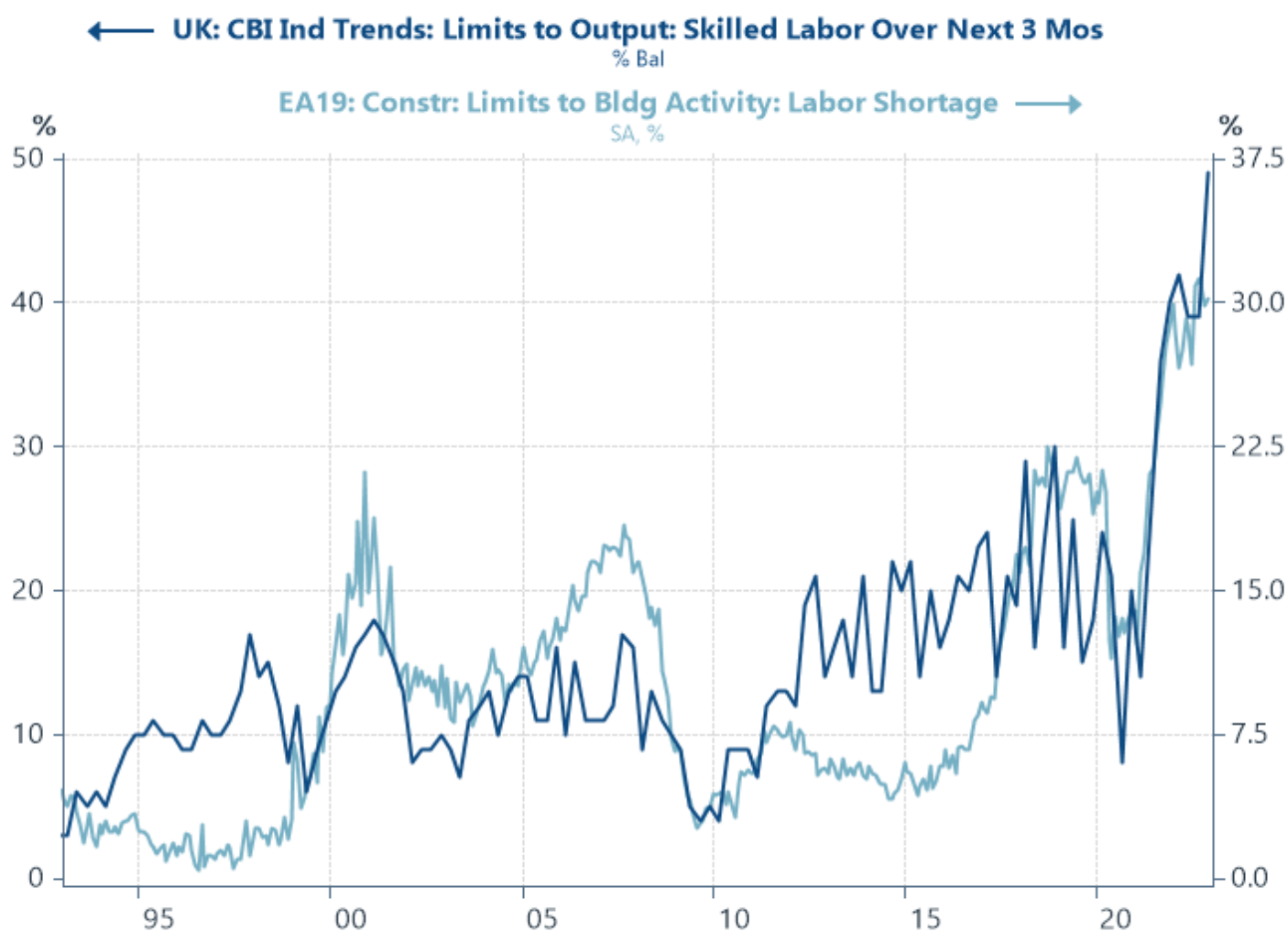


Source: Federal Reserve Bank of Atlanta/Haver Analytics

Skill shortages in Europe

Still-tight labour markets, however, remain a major obstacle to a potential pivot from central banks toward looser monetary policy. Recent survey evidence on this score suggests skill shortages remain extremely acute in the Euro area and even more so in the UK (chart 3).

Chart 3: Survey evidence on skill shortages in the Euro area and the UK

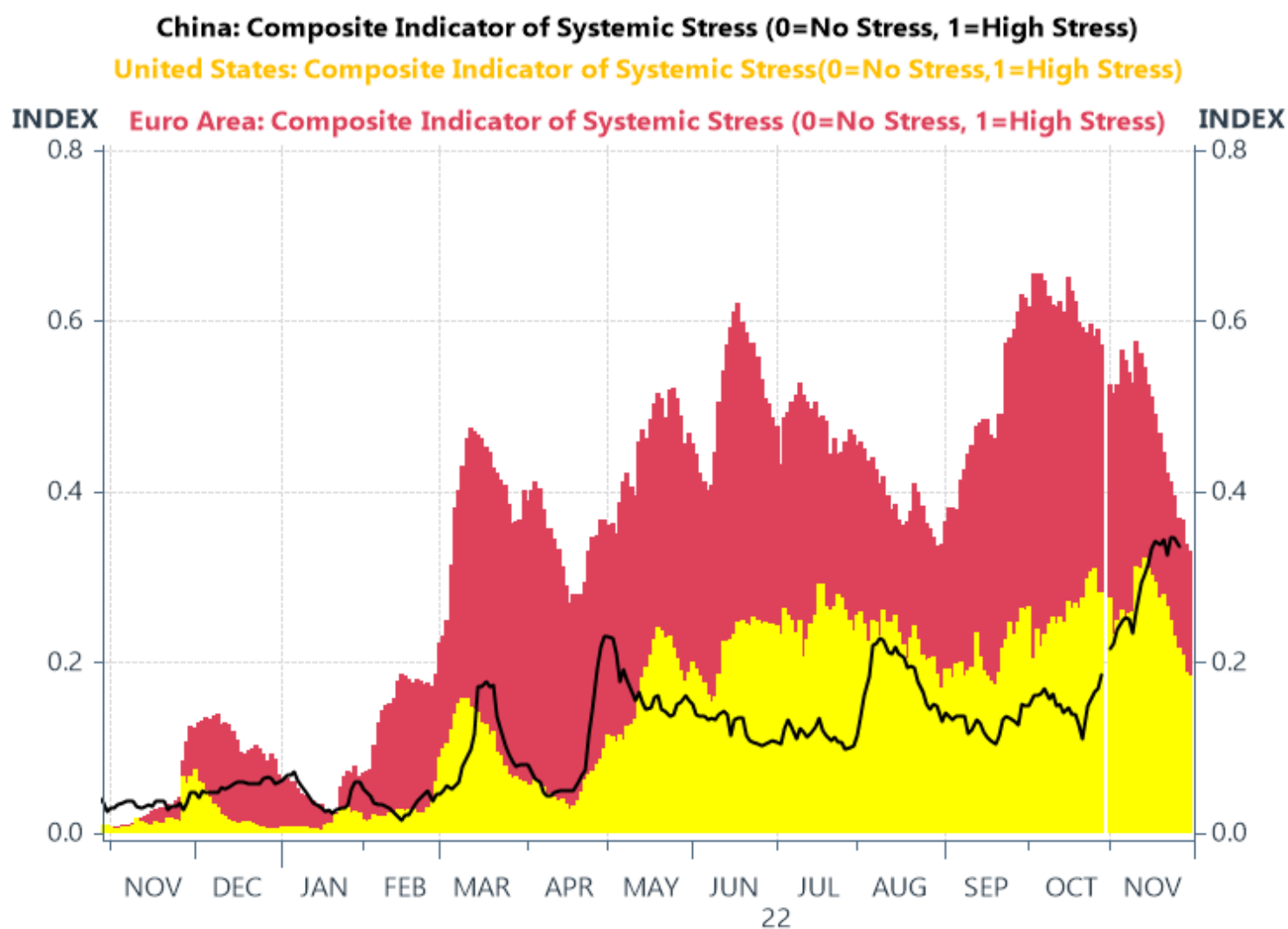


Sources: CBI, EC/Haver

Global financial stress

Encouraging news on the inflation front has nevertheless been a catalyst for an improvement in US and European financial conditions in recent weeks, as evidenced by the retreat in the ECB's composite indicators of financial stress for those regions (chart 4). Financial conditions in China, however, have deteriorated of late, a function in part of heightened uncertainty about the economic outlook that's been induced by COVID restrictions and social instability.

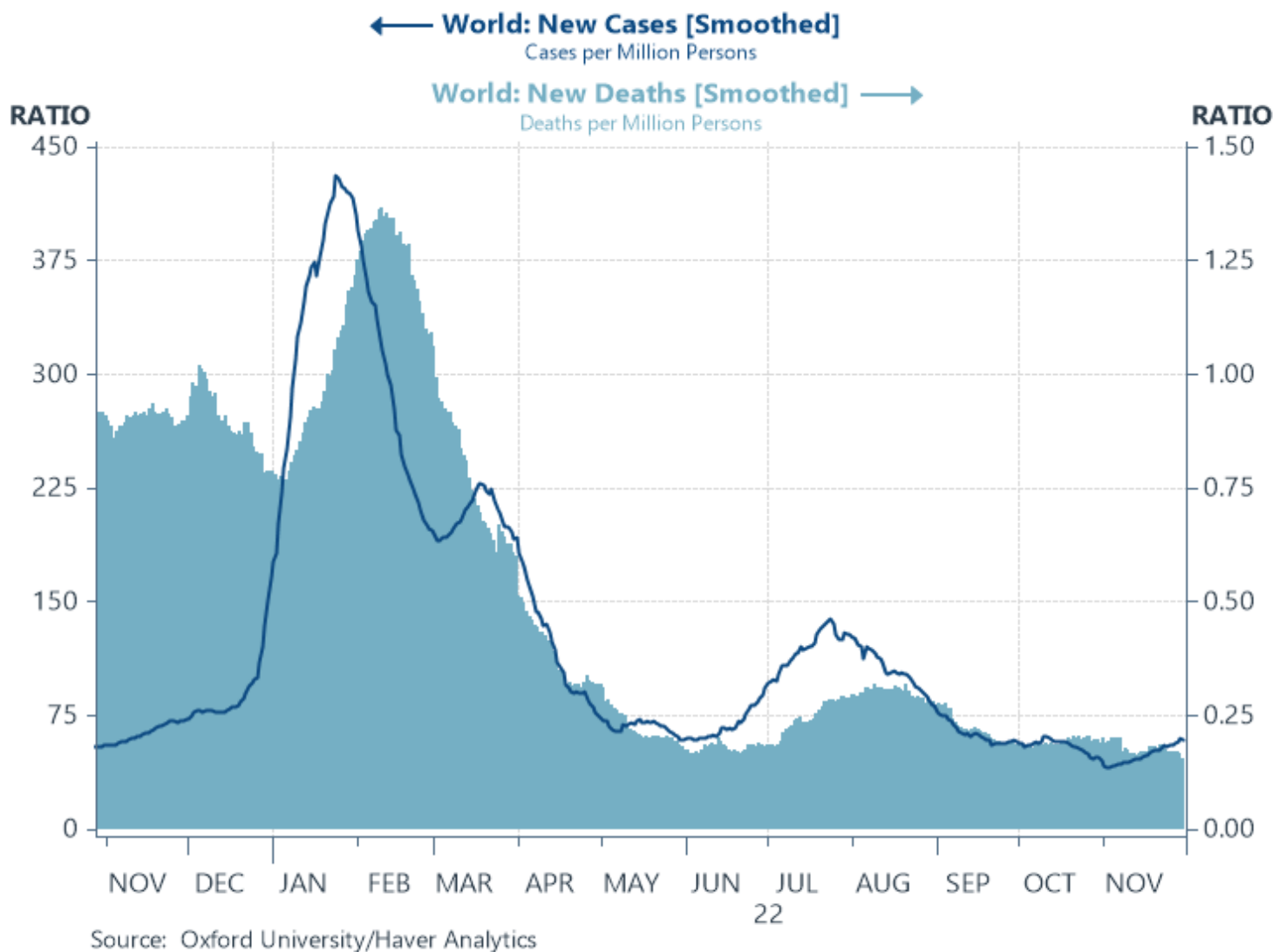
Chart 4: Composite indicators of financial stress in China, the US and the Euro area



COVID case numbers

China has been at the forefront of the trend toward higher COVID case numbers that has established itself at the global level in recent weeks (see chart 5). Still, case numbers have been climbing a little, albeit from a weak base, in some other major economies as well (e.g. France, Italy and Japan).

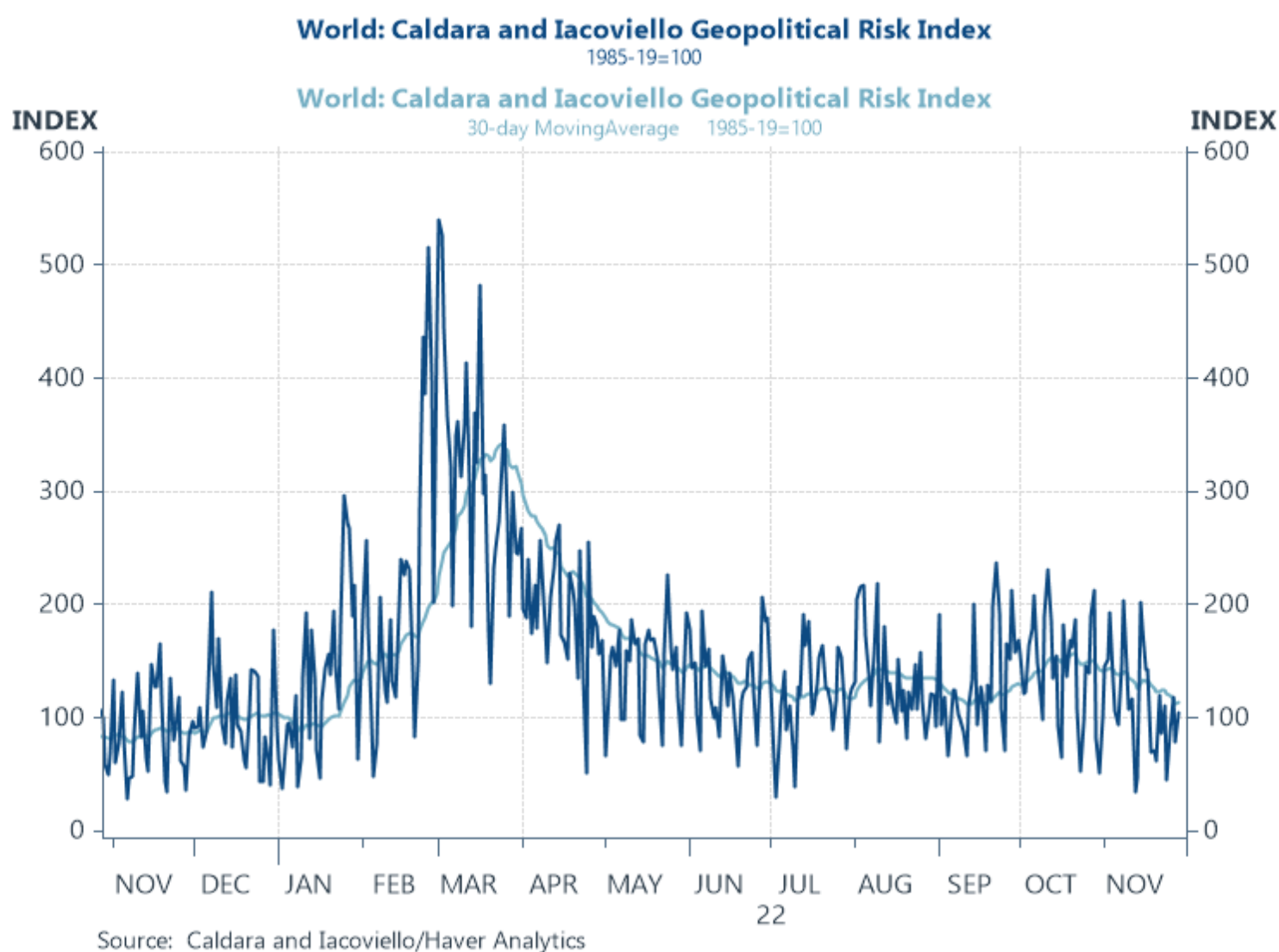
Chart 5: New cases and new fatalities from COVID



Geopolitical risk

The COVID pandemic has of course been a tremendous source of economic instability in recent years but so too has geopolitical risk, not least in Eastern Europe. Recent trends in the Caldara and Iacoviello index tentatively suggest, however, that geopolitical risk has been fading. For the record this index is a measure of adverse geopolitical events and associated risks based on a tally of newspaper articles covering geopolitical tensions. And, while volatile on a day-to-day basis, the monthly trend suggests risks have ebbed over the last two months and are now much-reduced relative to earlier this year (chart 6).

Chart 6: A geopolitical risk index



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

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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.

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