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Charts of the Week

A HAVER ANALYTICS commentary and podcast

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ANDY CATES

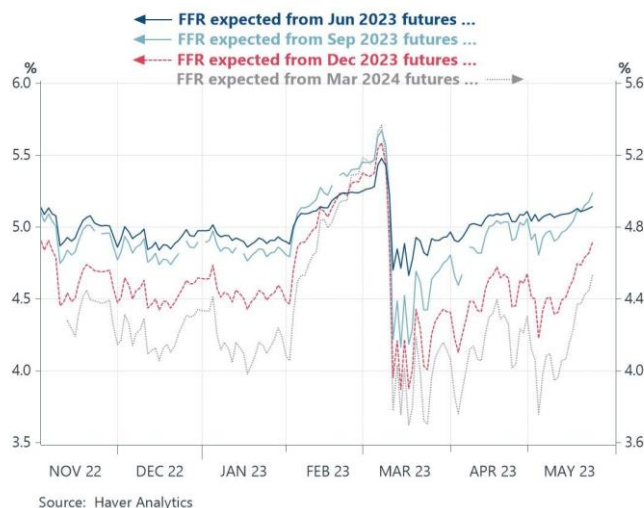
Summary

Lingering concerns about US debt ceiling negotiations have left financial markets on the back foot over the past few days. But incoming economic data this week have not helped. May's flash PMIs, for example, disappointed to the downside in Europe with the details revealing stubbornly high price pressures in the service sector. Those details found an echo in a much stronger-than-expected UK inflation print for April as well. Against this backdrop our charts this week firstly home in on market expectations for Fed policy (in chart 1). We then contrast these with the more downbeat messages for global growth that are being signalled by falling copper prices and negative global growth surprises (in chart 2). We turn next to the sobering messages from the stalling pace of GDP growth in Asia's more developed economies (in chart 3) and one reason for this (in chart 4), namely soggy world trade growth and rising inventories. Our last two charts then return to inflation issues and examine the relatively high level of energy price inflation in the UK compared with the US and to a lesser extent the euro area (in chart 5). This is then contrasted with the firming trend for core inflation in the UK and the ebbing trend in the US and euro area (in chart 6).

Market expectations for the Fed

This week's minutes from the Fed's last policy meeting revealed a divide over the future direction of interest rates. Investors, in the meantime, are now assuming there will be less scope to reduce policy rates over the next few months. A comparison of Fed funds futures contracts for June, September and December 2023, for example, suggests that a much higher probability is now being placed on a further hike in rates between now and September. And only around 35bps of easing is then discounted over the final few months of this year. That contrasts with this time last month when around 50bps of easing had been discounted between June and December (see chart 1 below). Fading fears about a US regional banking crisis are probably a key reason for these revised expectations.

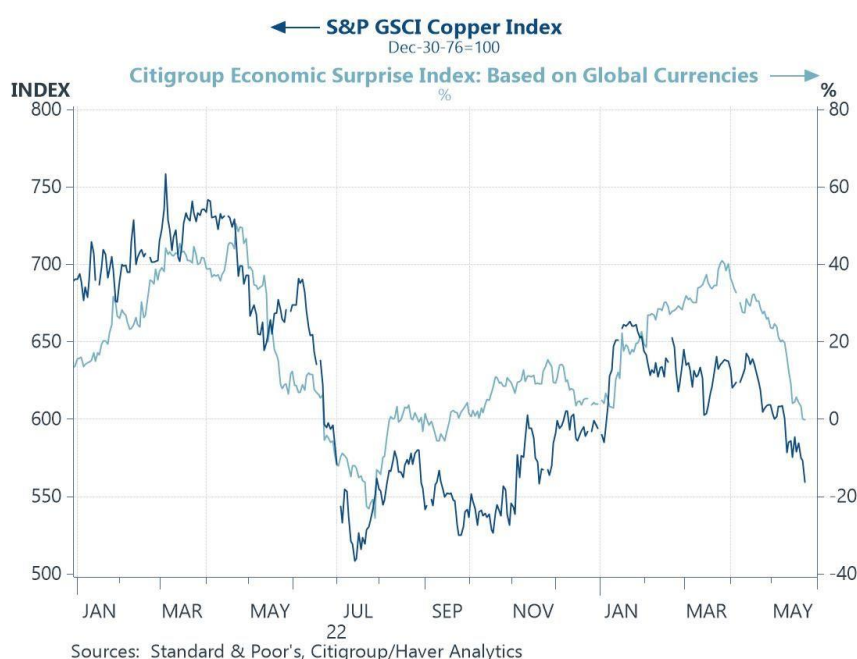
Chart 1: Fed funds futures contracts for June, Sep and Dec 2023 and for March 2024



Copper prices and global growth

As noted above, however, incoming economic data have not been too reassuring. Citigroup's global growth surprise index, for example, is now flirting with negative territory, having embarked on a downward trend since the end of March. The downward trend in that index has, perhaps unsurprisingly, coincided with falling prices for commodities that are sensitive to the economic cycle, such as copper, as well (see chart 2).

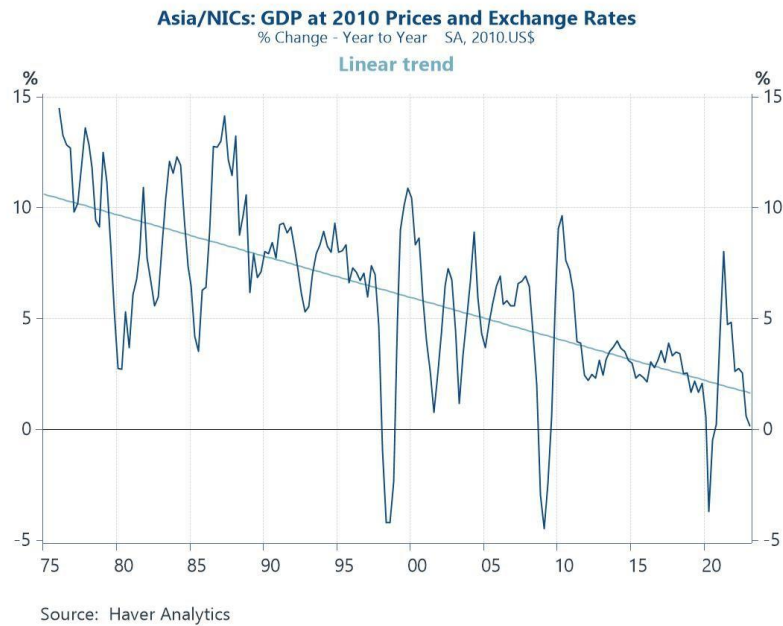
Chart 2: Copper prices versus Citigroup's global growth surprise index



Economic growth in Asia's newly industrialised economies

One reason for flagging global growth concerns Asia. China's incoming economic data have been very disappointing versus expectations over the last few weeks for example. But the dataflow from some of the smaller industrialised economies has been pretty weak as well. Haver's aggregation of GDP growth in Asia's newly industrialised economies (NICs), for example, stalled toward the end of last year, specifically edging up just 0.1% in the year to Q4 2022. While the longer-term growth trend has been downward, as the productivity-related thrust from these economies' industrialisation phase has faded, the aggregate performance more recently is nevertheless quite disappointing (see chart 3).

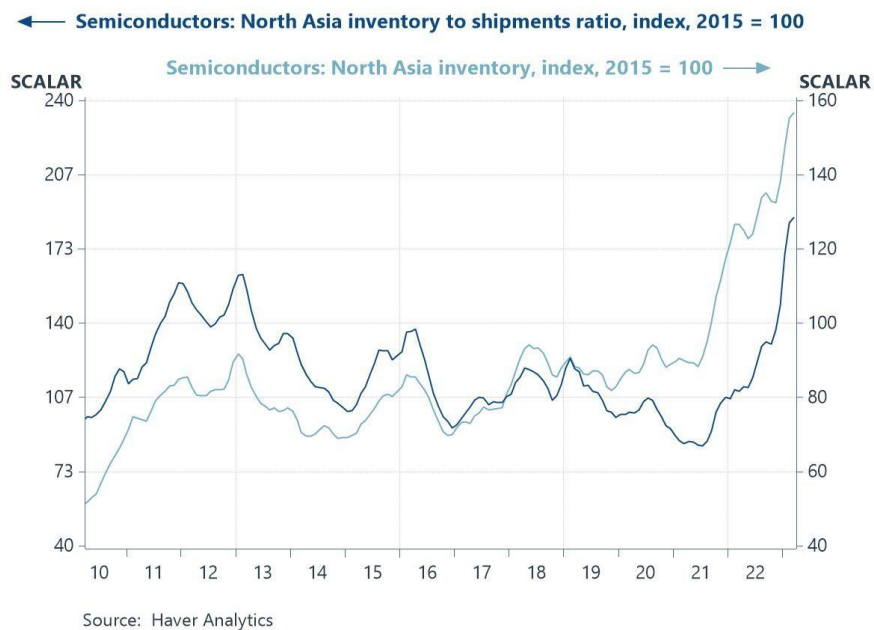
Chart 3: GDP growth in Asia's newly industrialised economies (NICs)



Semiconductor inventories

A key reason for stalling growth of late concerns the distortions to global demand patterns that were induced by the pandemic. Surging demand for electronics (e.g. semiconductors) from global lockdown phases generated a surge in activity in these economies in late 2020 and much of 2021, a surge which has now moved into reverse. A key consequence has been a sharp reversal of inventory levels, from acute shortages to acute excesses, as evidenced in chart 4 below. The payback from these swings has found an echo in these economies' GDP trends as well.

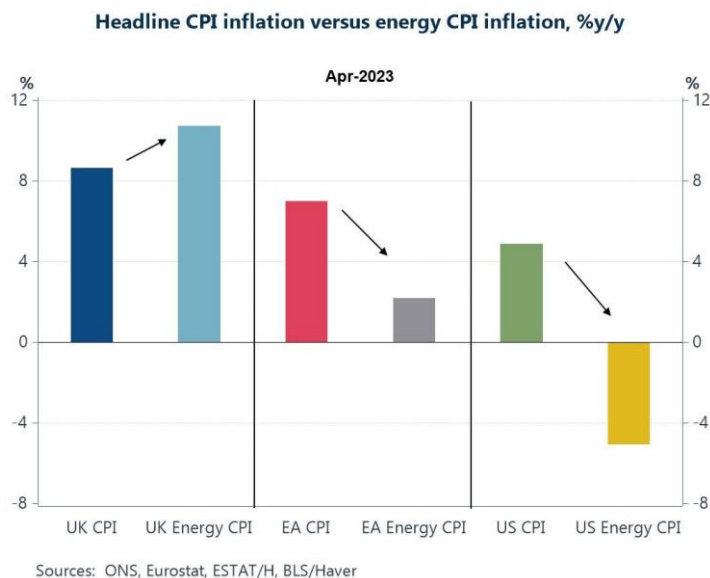
Chart 4: Semiconductor inventories in North Asian economies



Headline inflation and energy prices

Supply chain issues in the semiconductor sector were one factor that generated broader inflationary pressures in the world economy in recent years. But clearly energy prices have been a key pressure point as well. The problems that higher energy prices have induced in the UK of late are illustrated in our final two charts this week. The first illustrates the relatively high level of energy price inflation in the UK in April compared with the US and euro area. That's one reason why UK headline inflation is also relatively high. This has, in turn, been partly induced by energy price caps in the UK which hold the consumer price of electricity and gas constant for pockets of time even if the global price of energy is falling (or rising).

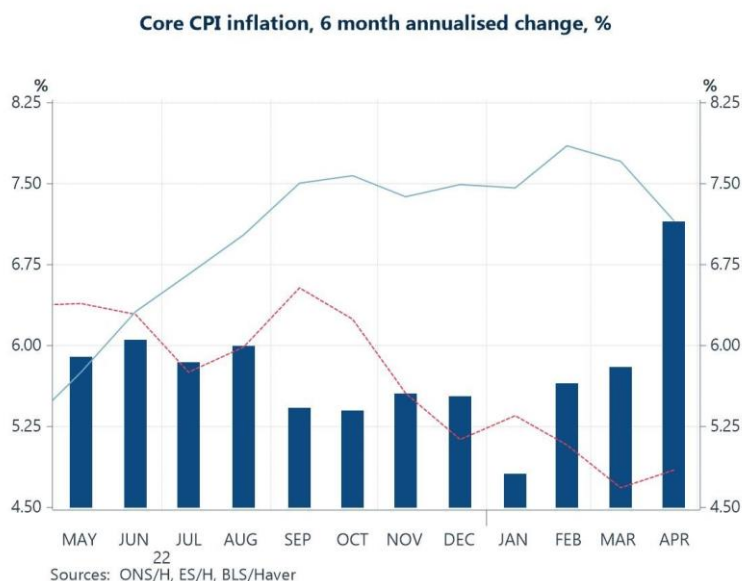
Chart 5: Headline inflation versus energy price inflation in the UK, euro area and US



Core inflation (and energy prices)

It is possible, however, given the linkages with energy prices, that this is one reason why core inflationary pressures in the UK have been stubbornly high in recent months as well. The 6-month annualised pace of core inflation in the UK was 7.1% in April. That's up sharply from 4.8% in January. The upward trend, moreover, contrasts vividly with the United States and the euro area, where 6-month growth rates are still quite high (particularly in the latter) but appear, nevertheless, to have turned a corner (see chart 6 below).

Chart 6: Core CPI inflation in the UK, euro area and US



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.

