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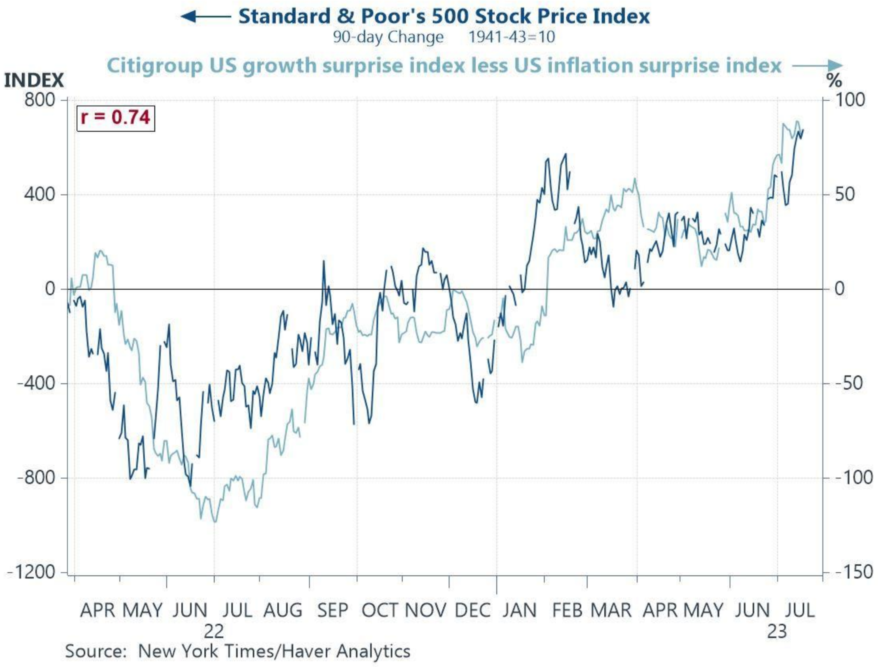
Summary
The mood in financial markets has remained upbeat over the past few days partly thanks to some stronger-than-expected US earnings reports. Last week's weaker-than-expected inflation data have also continued to lift hopes that a hard landing scenario can be avoided. As we illustrate in our charts this week, however, the incoming data from elsewhere has not been as auspicious. While US growth and inflation releases have been better-behaved (see chart 1), China's latest data have been more downbeat (chart 2). And although this week's UK inflation data were weaker-than-expected, progress toward normalisation remains painfully slow in part due to persistent price pressures in the service sector (see chart 3). Thankfully, tentative evidence has started to emerge to suggest that wage pressures in the US and Europe have begun to cool (chart 4). The sustainability of that trend in the period ahead, however, will partly hinge on competitive forces and global context, which we examine next (in chart 5). Finally this week, and via some data from the World Bank, we look at some refugee numbers in high income economies and the difficult messages these carry for political stability (in chart 6).

US data surprises and equities
Incoming US economic data have been highly influential for US equity market investors in recent months. That's the message from chart 1 below showing a tight relationship between Citigroup's US growth and inflation surprise indicators and the S&P 500 index. Recent weeks have specifically seen a greater tendency from incoming US economic data to post positive surprises relative to consensus forecasts. Incoming inflation data, in the meantime, have mostly surprised forecasters on the downside. Equity markets have, in turn, perked up off the view that this combination raises the probability of a soft-landing scenario.

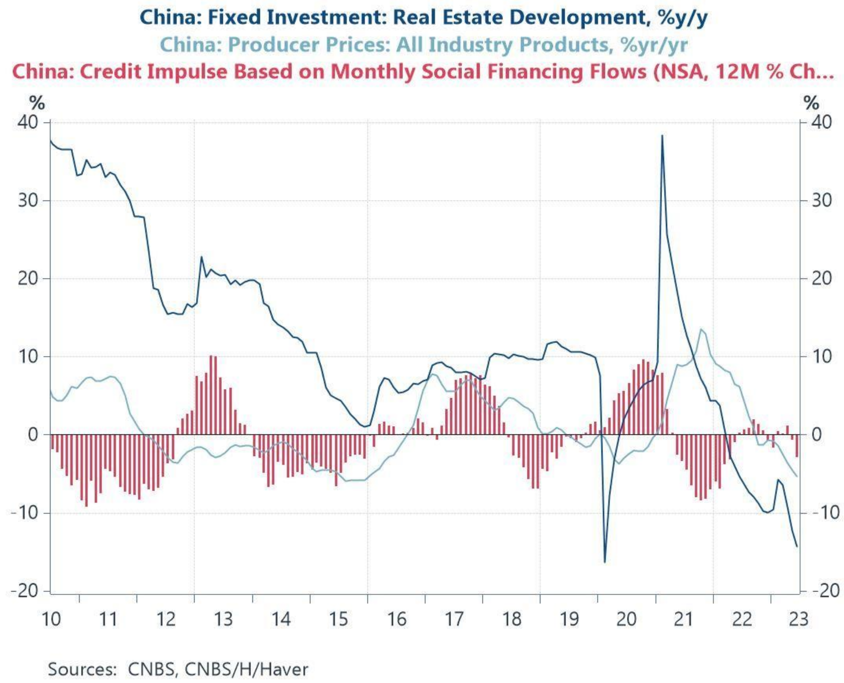
Chart 1: US growth surprise index less inflation surprise index and the US equity market



China's cyclical and structural challenges

As noted above, the incoming news concerning China's economy has not been as auspicious. GDP growth in Q2 (of 0.8% q/q) was shy of expectations with accompanying news from June's retail sales data suggesting that flagging consumer spending was a reason for this. Property sector investment, in the meantime, is still sinking, a symptom of excess capacity that's engulfing the housing market and possibly the broader economy as well. That, in turn, may be one reason why looser monetary policy is not yet generating a positive impulse to credit or indeed to China's broader inflation arithmetic (see chart 2).

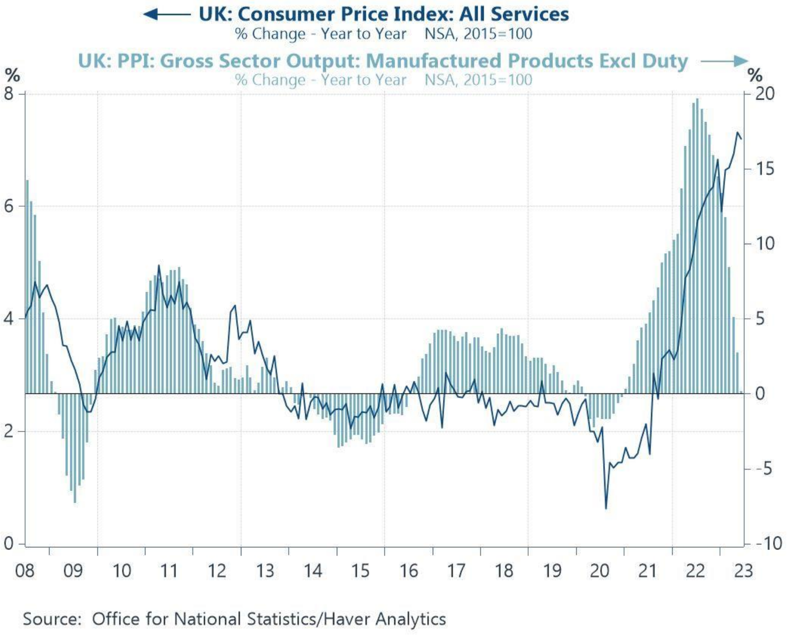
Chart 2: China's real estate investment, credit impulse and producer price inflation



UK inflation

This week's UK inflation report for June was a little weaker than expected, a welcome let-up from a trend toward stronger-than-expected price momentum in recent months. Encouragingly, the momentum in service prices – which the BoE is watching very closely– also weakened, while upstream producer price inflation also fell (see chart 3). That said, the monthly gain of 0.5% in consumer service prices was almost certainly stronger than the BoE would wish to see.

Chart 3: UK services CPI inflation and upstream goods (PPI) inflation



Wage pressures in the US and Europe

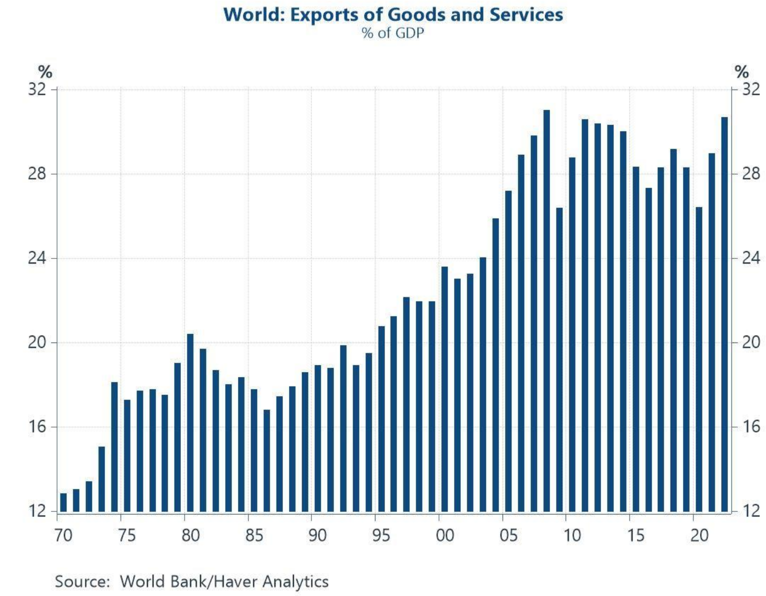
Policymakers remain concerned that tight labour markets might forestall their efforts to bring inflation back to more target-friendly levels. There is, however, some tentative evidence to suggest that these markets are now cooling off and not just from the official data. Wage tracker data from the Indeed hiring company, for example, suggests that wage inflation has started to slow in the euro area. The same data for the US in the meantime suggests that wage inflation has been slowing for several months albeit from much higher levels (see chart 4).

Chart 4: Indeed's wage trackers for the US and euro area

Globalisation or de-globalisation?

Debates about inflation tend to be preoccupied with cyclical issues that concern the economic cycle, the level of spare capacity and the stance of economic policy. But the longer-term inflation outlook will also hinge on slower-moving supply-side factors such as demographics, climate change and globalisation. A popular narrative of late on the latter has concerned the scope for price pressures to build off reduced global competition in the years ahead. Companies are reportedly now shifting their production bases onshore and turning to domestic sources of labour and new technology, and cheered on in that effort by more protectionist policymakers. The evidence for this de-globalisation narrative is, however, mixed. A widely followed statistic, for example, from the World Bank, suggests that while the share of world exports in GDP did decline in the decade leading up to 2020, the past two years have, in contrast, seen a strong recovery. Indeed, at 30.7% in 2022, the world trade share of GDP is now not that far off the peak of 31% that was chalked up in 2008.

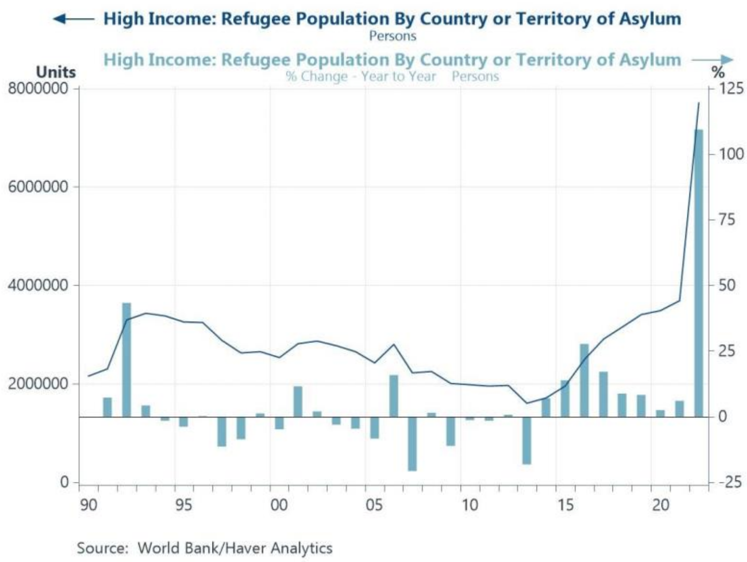
Chart 5: The share of world trade in global GDP



Refugee flows

Refugee migration flows remain a potent political issue at present and one that is unlikely to lose any potency in the immediate months ahead. Latest data from the World Bank, for example, suggests that the refugee population in high income economies more than doubled in 2022, from 3.7 million people, to 7.7 million (see chart 6). That increase has been driven by a combination of factors, including geopolitical instability in Eastern Europe, by political persecution, and by climate change among others. It is, however, additionally generating heightened strains on the economic and social fabric of these economies with attendant political consequences.

Chart 6: The refugee population in high income economies



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.