

29 September 2023

# Charts of the Week

A HAVER ANALYTICS<sup>®</sup> commentary and podcast



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22<sup>ND</sup> SEPTEMBER, 2023

## TRADING PLACES

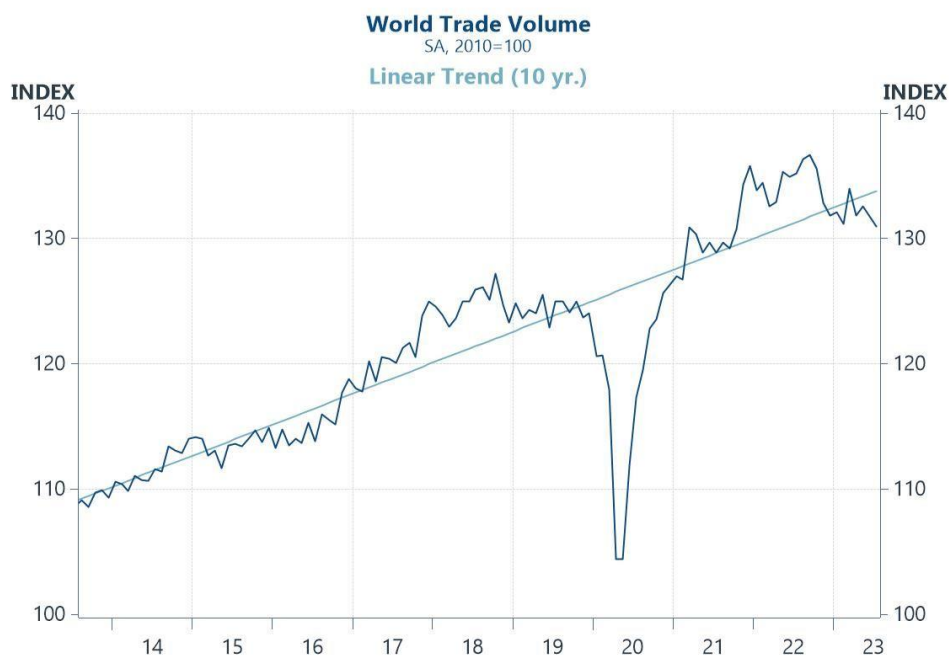
### Summary

Financial markets have been roiled over the past few weeks largely thanks to a “tighter for longer” narrative from the Fed and a related - and steep - climb in US Treasury yields. That narrative has been amplified by recent comments from Fed officials, by a batch of stronger-than-expected US growth data, as well as by heightened concern that firmer oil prices could re-ignite inflationary pressures. Against that backdrop our charts this week focus on the more downbeat messages that have emerged of late from the global economic dataflow (charts 1, 2 and 3). As noted, the relative resilience of the US economy, nevertheless, has continued to surprise forecasters, and some potential reasons for this are subsequently highlighted (in charts 4 and 5). Away from these near-term cyclical matters we look at another more structurally-rooted reason for global growth concern, namely still-low levels of female labour force participation in the world economy, and in India in particular (in chart 6).

### World trade

This week’s data from the monthly CPB World Trade Monitor suggest the outlook for the world economy is darkening. World trade volumes specifically fell by 0.6% m/m in July to lie 3.2% lower than last year. This monthly decline was driven to a large extent by a fall in China’s trade volumes but activity in other parts of Asia (e.g. Japan) was also quite weak.

Chart 1: World trade volume relative to trend

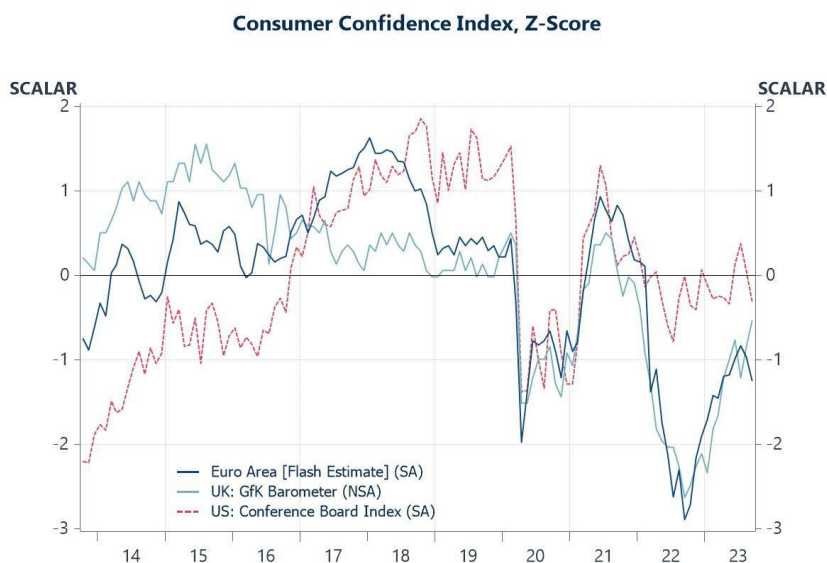


Source: Netherlands Bureau for Economic Policy Analysis/Haver Analytics

## Consumer confidence

This week's data additionally revealed that the upward momentum seen in consumer confidence in the US and euro area over the last months has been checked over the last few weeks. The Conference Board gauge of US consumer confidence and the EC's gauge of euro area confidence slipped back in September (and August). That stands in contrast to the UK where consumer confidence has continued to climb. Energy price gyrations have arguably been a key driver of these global trends.

Chart 2: Consumer confidence in the US, euro area and UK

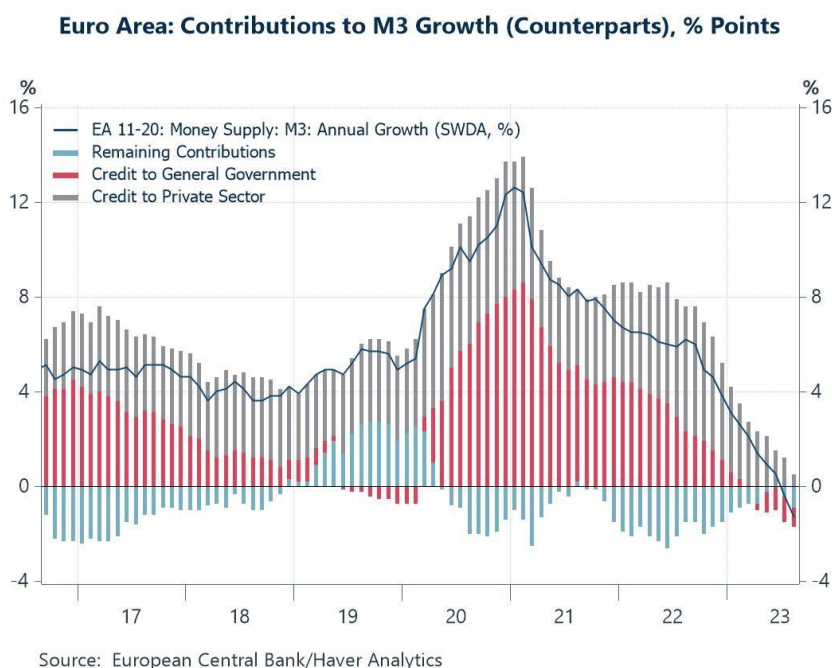


Sources: EC, GfK/EC, CB/Haver

## Broad money supply growth in the euro area

That the euro area economy is now feeling great strain from tighter monetary policy was another message from this week's data for the broad money supply. Euro area M3 is now contracting by 1.3%/y/y in August after -0.4% y/y-July. This is the weakest performance on record. Underlying details revealed that these contractions were driven by weaker credit to both the private and government sectors. In short, the wheels of credit are moving into reverse, largely thanks to higher interest rates and weaker demand.

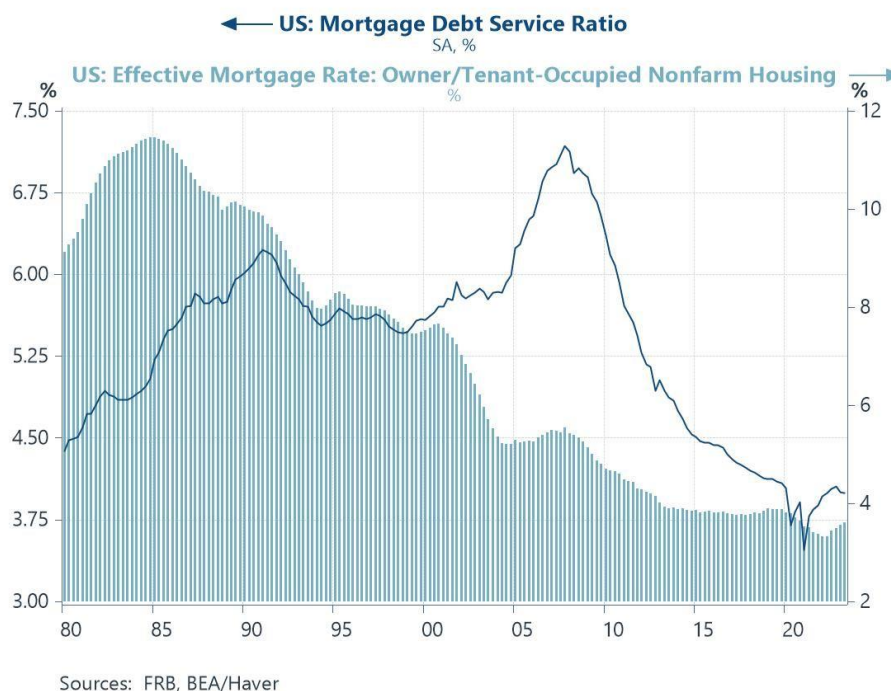
Chart 3: Euro area M3 growth and its counterparts



## The burden of higher interest rates on US households

The US economy does not yet appear to be facing the same burden from tighter monetary policy as the euro area. The relatively easy stance of fiscal policy (compared with Europe) is arguably one reason for this. But another concerns the structure of household and corporate balance sheets and differing methods of debt finance. In the US, for example, a relatively high proportion of US homeowners hold long-maturity 30 year fixed rate mortgages. That's a key reason for why the US mortgage debt service ratio and the effective interest rate on US mortgage debt has barely risen in recent months notwithstanding the Fed's relatively aggressive hikes in policy-controlled interest rates.

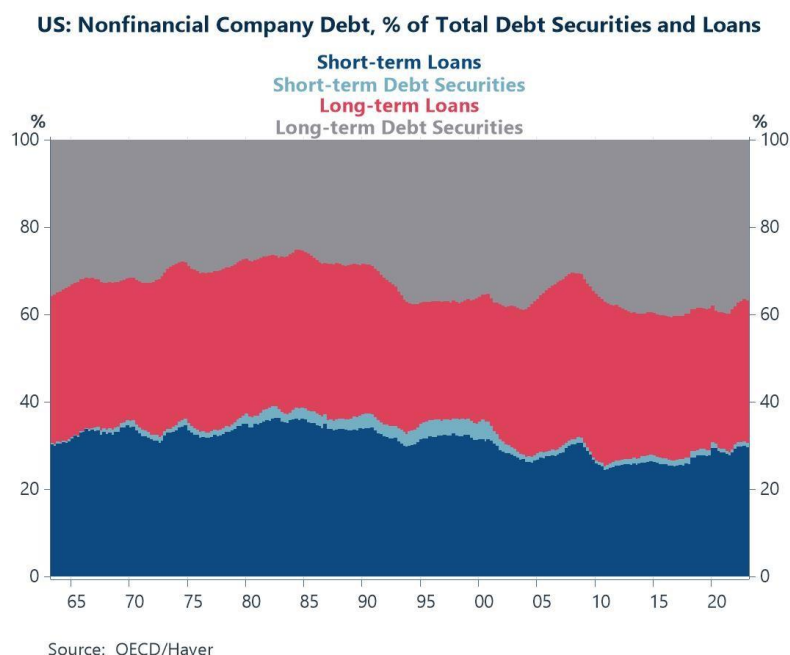
Chart 4: US households: The mortgage debt service ratio and effective mortgage interest rate



## US corporate debt – long-term and short-term debt burdens

Equally the proportion of company debt that is long-maturity is relatively high in the US as well. The proportion of long-term bank loans and long-term debt securities compared with short-term lending and debt has typically been quite high, as evidenced in chart 5 below. But relative to, say, the 1980s and 1990s it is higher than it used to be, and particularly the proportion of long-term debt financing.

Chart 5: US: Corporate debt, short and long-term loans and debt securities

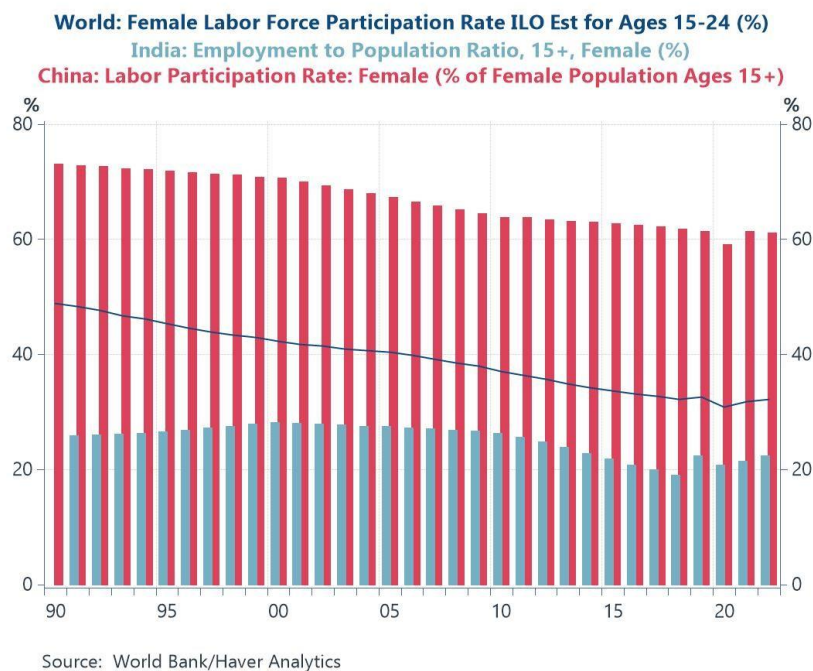




## Female labour force participation in the world economy

According to recent updates for 2022 from the World Bank only 45 percent of women are active in the world's labour market markets at present. That compares with 68 percent of men. The IMF has recently noted that unfair laws, unequal access to services, discriminatory attitudes and other barriers that prevent women from working are to blame. This is a big brake on many countries' potential growth rates. In Asia's big economies, however, this is not a big problem for China. It is, however, a problem in India.

Chart 6: Female labour force participation rates: China, India and the World



### 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.

