LINK TO PODCAST: HTTPS://HAVERPRODUCTS.COM/CHARTS-OF-THE-WEEK-2023/
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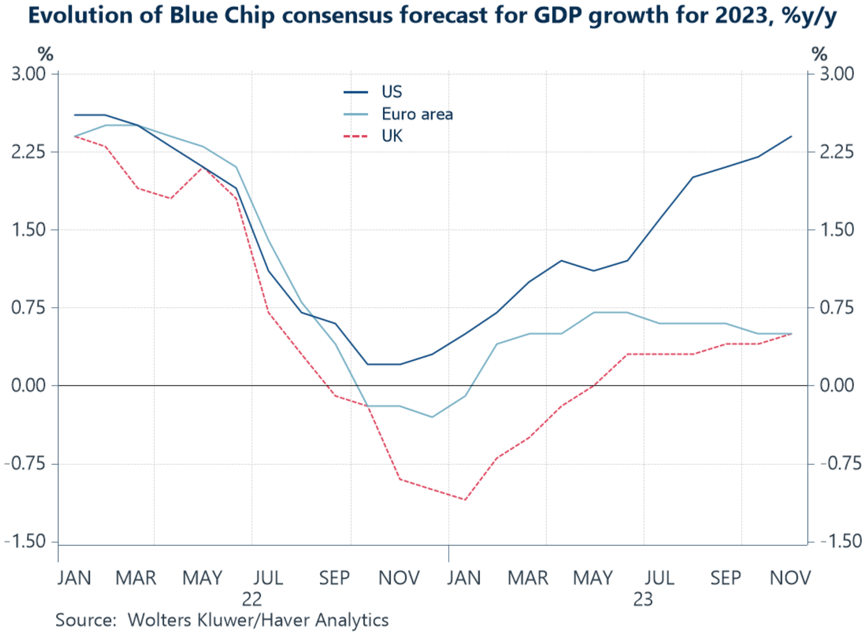
The Year in Review

A growing belief that central banks have not only concluded their tightening cycles but could even initiate an easing cycle within the next six months has continued to fuel a rally in financial markets over the past few days. In our charts this week, however, we steer away from the daily macro news cycle and highlight six charts instead that give some colour on some of the key macroeconomic trends that have unfolded during 2023. This is ahead of next week's publication, which will include some perspectives, via another batch of charts, on the outlook for 2024. Our charts this week specifically concern the outperformance of the US economy (chart 1), and the disinflationary trends that have engulfed advanced economies (chart 2). The latter has been driven in large part by falling energy prices (chart 3) and has emerged notwithstanding still-tight labour markets (chart 4). China's economy has also been key this year amidst intense concerns about its beleaguered property market and rising debt burden (chart 5). Finally, with several structural factors in contention that have impacted the supply side of the world economy this year (e.g. heightened geopolitical stress, the advance of AI) we focus in our last chart on one of the most critical, namely climate change and temperature anomalies in particular (chart 6).

US outperformance

One of the more prominent trends that unfolded in 2023 concerned the unexpected vigour of the US economy. Blue Chip consensus forecasts for US GDP growth in 2023 stood at a mere 0.5%y/y last January. However, the latest forecast, from the November survey, is 2.4%. That's a significant upward revision given the relatively tightening measures undertaken by the Fed. It stands in stark contrast, moreover, to the more pessimistic economic outlook for the euro area and UK (see chart 1 below). But, insofar as this relatively downbeat assessment toward Europe amplified the upward pressure on the US dollar, the heighted optimism regarding the US economic outlook is arguably even more surprising.

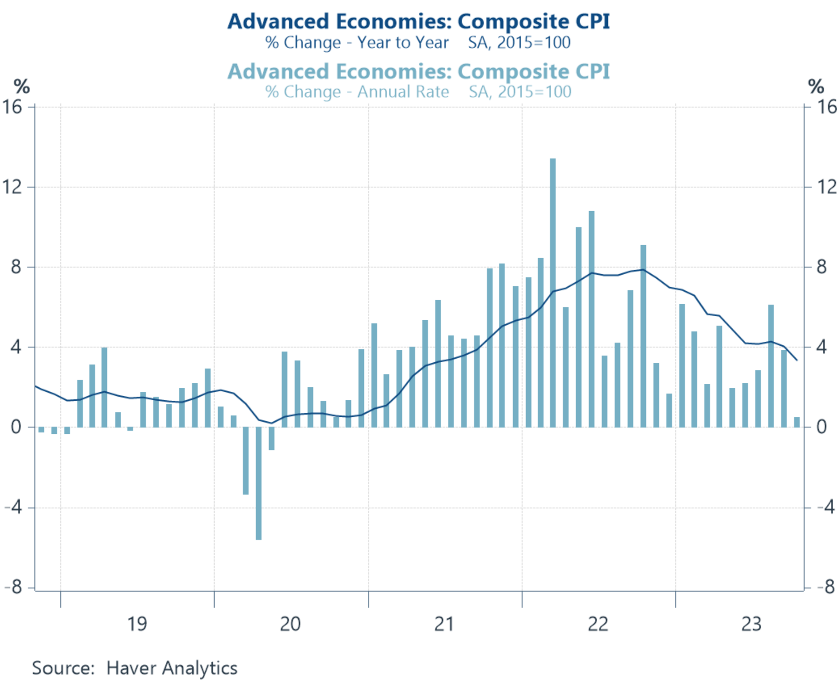
Chart 1: The evolution of the Blue Chip consensus for GDP growth in 2023



Disinflationary trends

Another noteworthy cyclical trend that emerged this year was the retreat of headline inflation. In most major developed economies, headline CPI inflation rates exceeded central bank target levels by a considerable margin. Haver's aggregation of CPI inflation for advanced economies, for example, stood at 6.9% y/y last January. Fast forward to today and the global inflation landscape is altogether less alarming. That same advanced economy aggregation, for example, stood at just 3.3% in the year to October, while the one-month annualised growth rate stood at just 0.5% (chart 2).

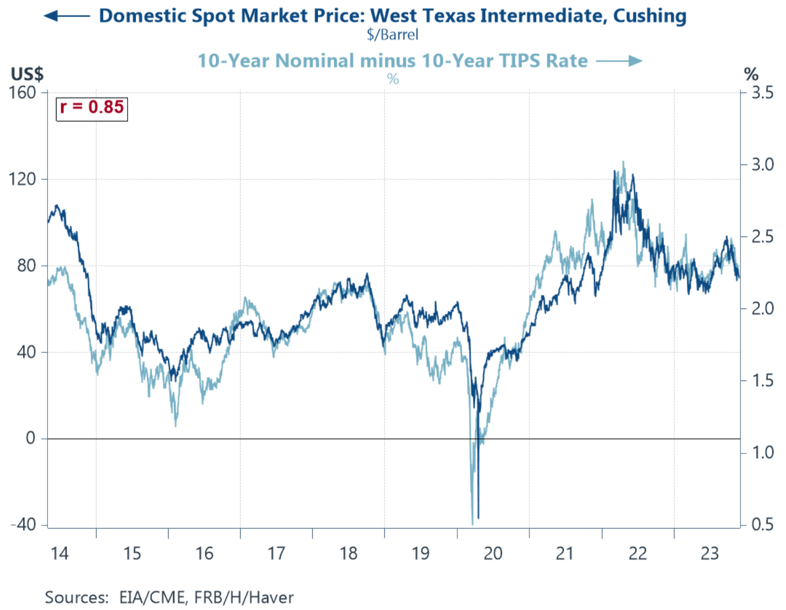
Chart 2: Headline CPI inflation in advanced economies



The importance of the oil price

The significance of the contribution made by energy prices to this diminishing inflation threat should not be underestimated. Lower energy prices over the past 18 months have directly contributed to the containment of inflation by reducing household energy bills. But they have played a vital indirect role as well, firstly by alleviating cost pressures in other sectors, and secondly by influencing and moderating inflation expectations (chart 3).

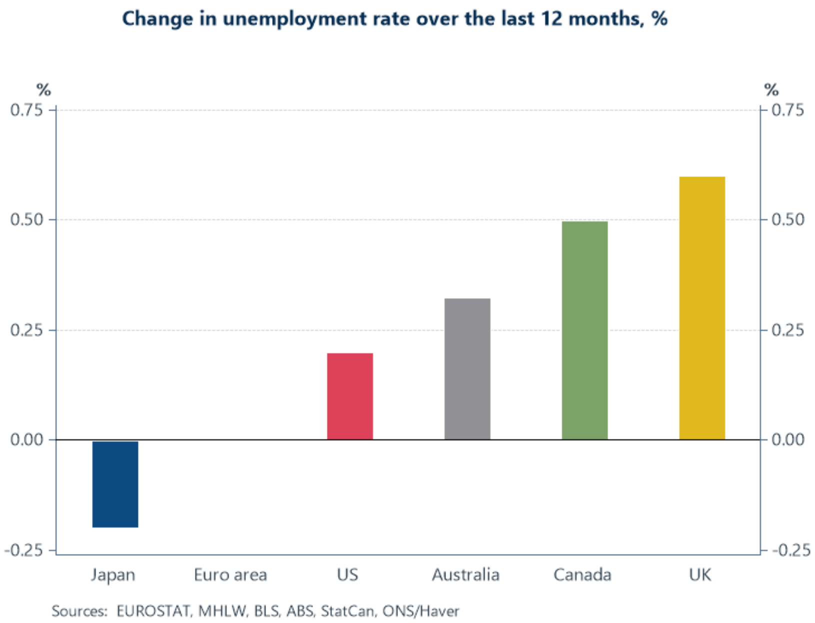
Chart 3: The oil price versus US 10-year inflation breakeven inflation rates



Still-tight labour markets

That inflationary pressures have eased even as labour market activity has remained quite strong is another noteworthy trend that has emerged in 2023. In fairness, unemployment rates have now started to climb in most major economies over the past few months (see chart 4 below). However, a comparison of current unemployment levels with other indicators of slack still indicates that labour markets are tight. This has re-activated a debate about the precise relationship between inflation and labour market slack. Nevertheless, it may continue to keep central banks vigilant regarding inflation threats in the coming months, even as the global economy potentially experiences a more pronounced slowdown.

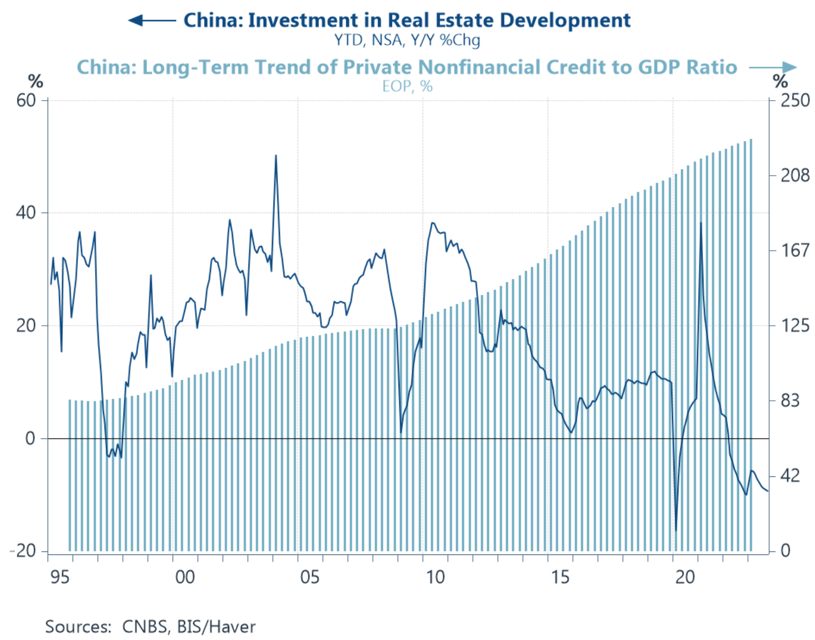
Chart 4: The 12 month change in unemployment rates in selected advanced economies



The weakness of China's property market

Heightened stress in China's property market coupled with rising levels of indebtedness is another theme that's been hard to ignore this year. China's real estate investment specifically fell by 9.3% in the year to October, as more restrictive government policies and regulatory uncertainty combined with over-supply and weak consumer demand. China's property market has also been a major driver of debt accumulation, too, as property developers had previously borrowed heavily - often via local governments - to finance construction and land purchases. This has kept (and could continue to keep) financial stability concerns elevated.

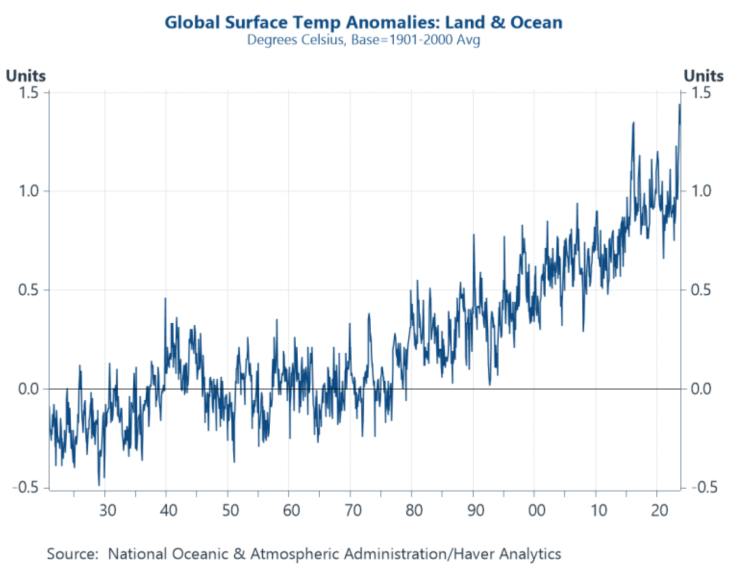
Chart 5: China's real estate investment and long-term indebtedness trends



Climate change

Finally, regarding climate change, latest data suggest the planet has recently experienced another record-breaking month in 2023, as October claimed the title of the warmest October on record. Furthermore, last month marked the fifth consecutive month of record-high global temperatures for 2023. In addition, global ocean surface temperatures have also set a record high for the seventh consecutive month. And according to the National Oceanic and Atmospheric Administration's Global Annual Temperature Outlook, there is a greater than 99% likelihood that 2023 will be recognized as the warmest year on record for the world as a whole.

Chart 6: Global surface temperature anomalies



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.