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# Charts of the Week

A HAVER ANALYTICS commentary and podcast



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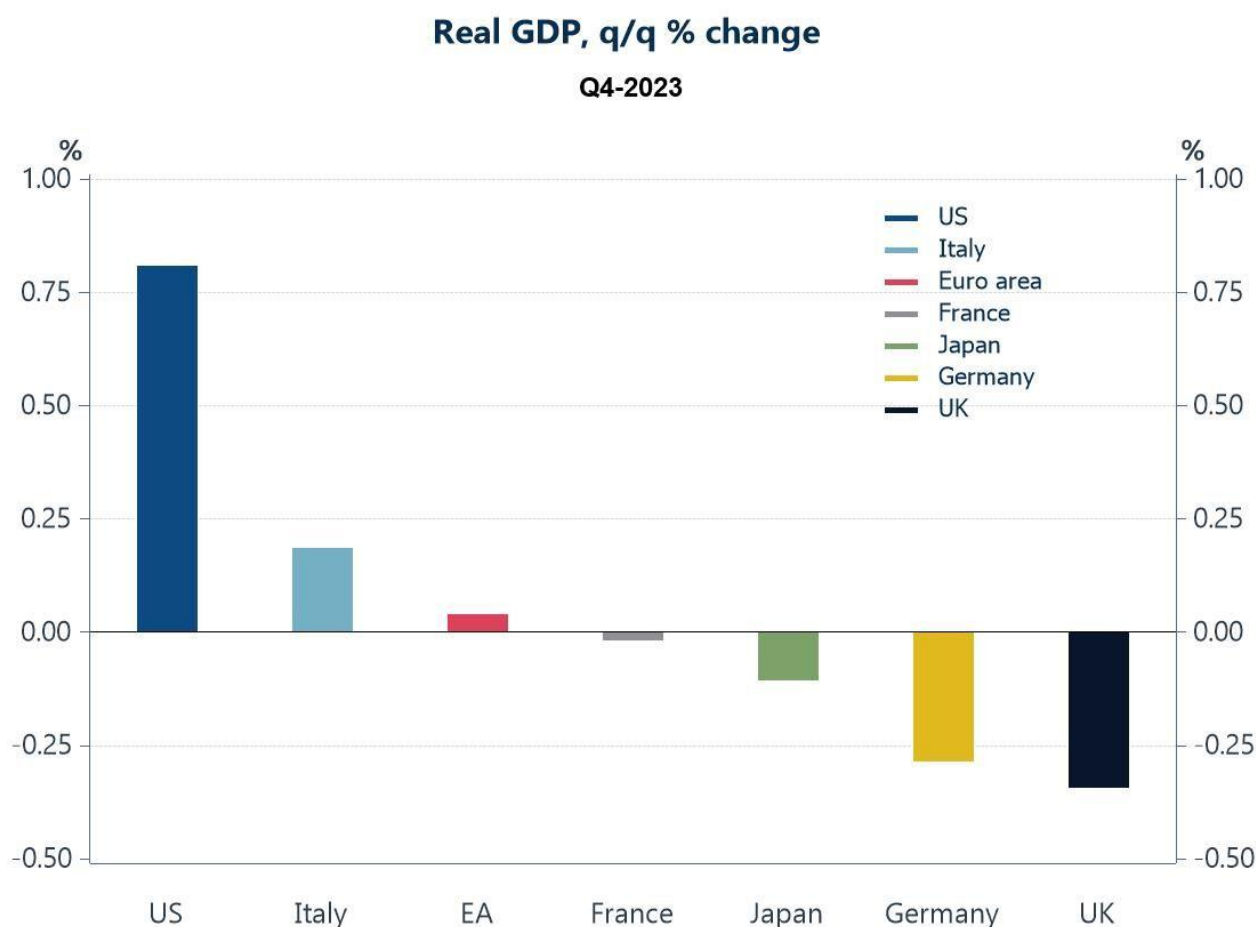
## Inflation alarm

Stronger than expected US inflation data this week has dampened hopes that the Fed might swiftly reduce interest rates in the coming months. This comes on the heels of a flurry of firmer-than-expected US economic data in recent weeks that had previously undermined the case for an early pivot toward looser monetary policy. Still, as we illustrate in several of our charts this week, evidence is accumulating to suggest that tighter monetary policy is taking a toll on the world economy. This week's data from the UK and Japan, for example, revealed a second consecutive contraction in GDP in Q4 2023. Both economies have, therefore, now joined Germany in a technical recession (chart 1). The fragility of domestic demand growth in Japan in recent months will doubtless cause concern and might further delay a normalization of the BoJ's monetary policy (chart 2). Growing structural rigidities in the labour market might, however, delay a pivot toward looser monetary policy in the UK if this keeps wage inflation uncomfortably high (chart 3). More generally, the latest Blue Chip survey of economic forecasters potentially reinforces the case for a relaxation of monetary policy in other major economies thanks to a reduced inflation consensus combining with a lower growth consensus (charts 4 and 5). But this clearly does not apply to the US where firmer growth expectations are combining with higher inflation expectations. The latter, moreover, could be subject to more upside risk following this week's January CPI report (chart 6).

# Global growth

With the notable exception of the United States, most major economies have been exhibiting more fragility in recent months. This week's data suggest that output contracted in Q4 2023 in the UK and Japan. That follows data from the euro area showing a Q4 contraction in Germany and to a lesser extent in France. Given that recessions in Europe and Asia are usually identified by two consecutive quarters of declining output, the latest GDP figures also suggest that the UK and Japan have entered a technical recession alongside Germany.

Chart 1: Real GDP growth in Q4 2023 (not annualised) in selected major economies

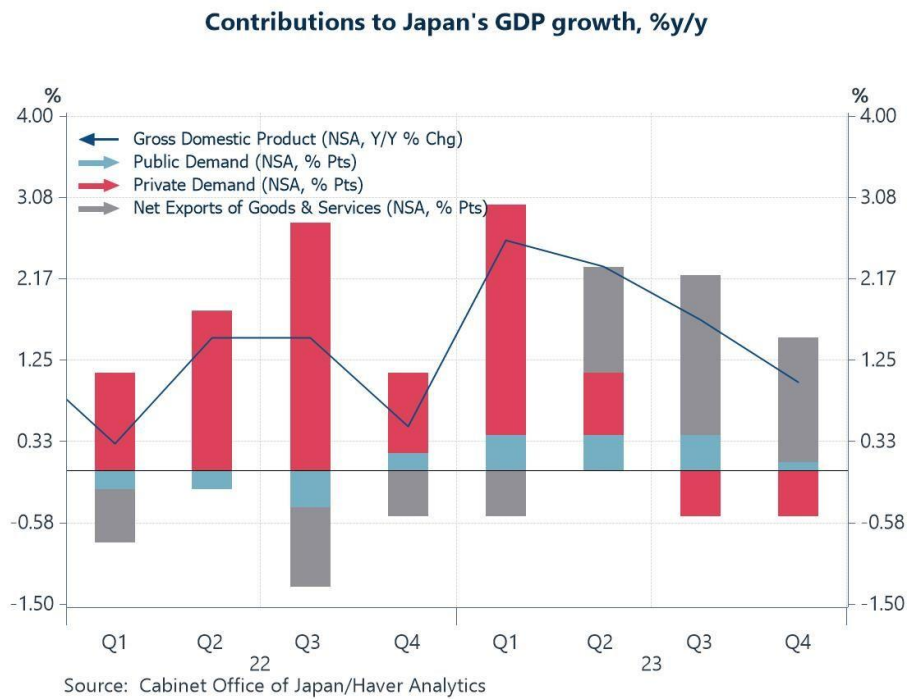


Sources: BEA, ISTAT, EUROSTAT, INSEE, CAO, Bbk, ONS/Haver

## Japan's economy

This news from Japan could further delay a normalization of monetary policy. The details for Japan's GDP data, for example, reveal that net exports were doing the heavy lifting in the economy in the latter half of last year (see chart 2). Private demand, in contrast, has been very weak. This leaves the economy vulnerable to a tightening of monetary policy given the sensitivity of private demand to higher interest rates. Moreover, if higher interest rates were to coincide with a strengthening yen, this could weaken the economic support previously afforded by net exports.

Chart 2: Contributions to Japan's GDP growth



## UK labour market dysfunction

The case for a swift pivot toward looser monetary policy from the BoE was bolstered this week by a weaker-than-expected CPI report for January. However, that followed news that the labour market is still tight and that wage inflation remains stubbornly high. That the UK labour market appears to be tight can be traced, in part, to very high levels of inactivity. And this, in turn, can largely be traced to record numbers of people claiming long-term sickness as a reason for not working (chart 3).

Chart 3: UK reasons for labour market inactivity

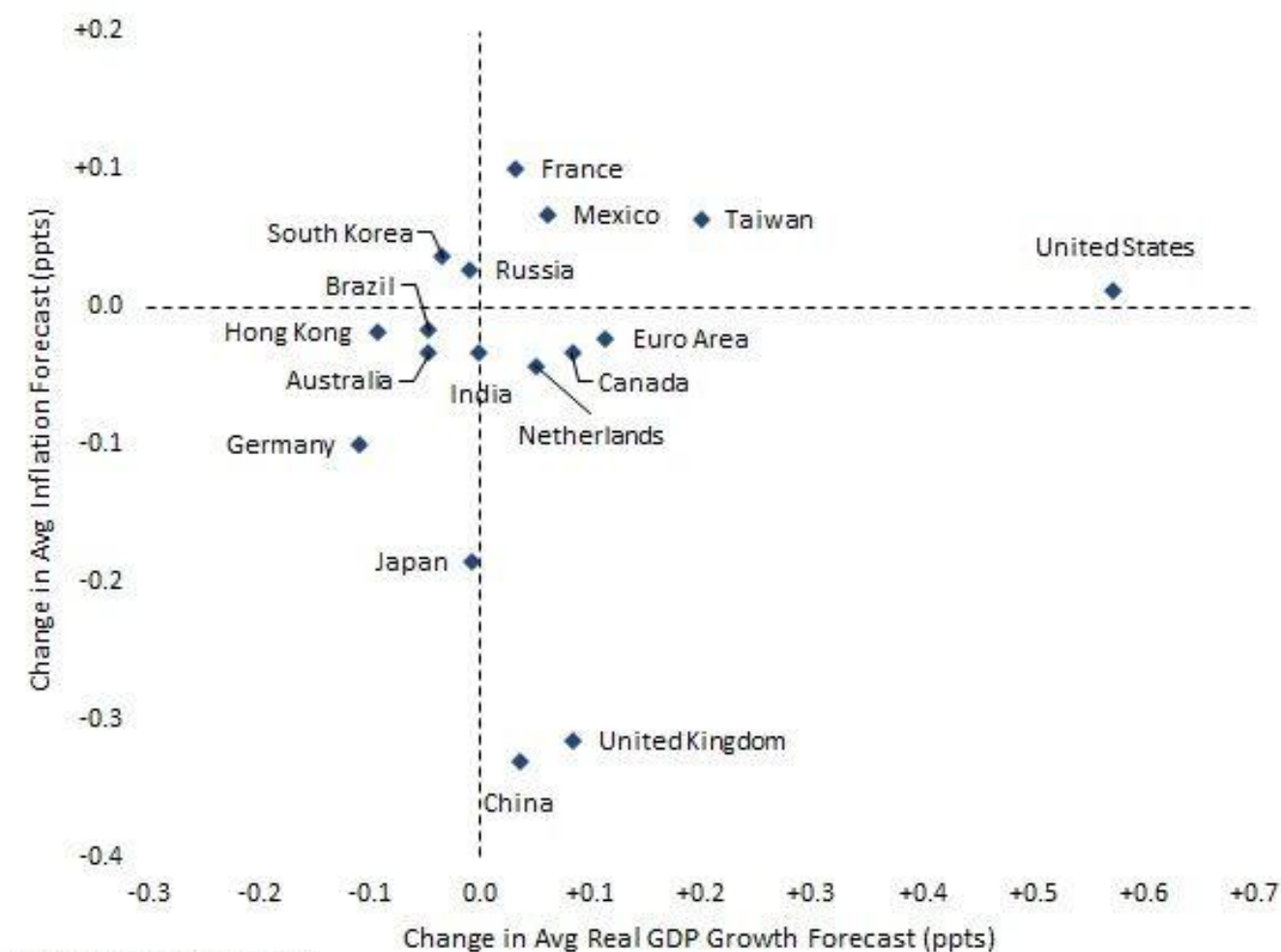




## Consensus growth and inflation forecasts

An assessment of the latest consensus data from the February Blue Chip survey of economic forecasters reveals a growing disparity between the outlook for the US economy and other major developed and emerging economies. Chart 4 below shows the 1 month change in the consensus forecast for GDP growth in 2024 plotted against the change in the forecast for CPI inflation for all of the major developed and emerging economies that fall in the scope of the Blue Chip survey. A large positive revision to the growth outlook for the US in 2024 and little change to the inflation outlook are noteworthy. And this stands in stark contrast to the more modest changes to the growth and inflation consensus for 2024 in most of the other economies.

Chart 4: 1 month change in Blue Chip consensus GDP forecast versus CPI forecast (Feb versus Jan)



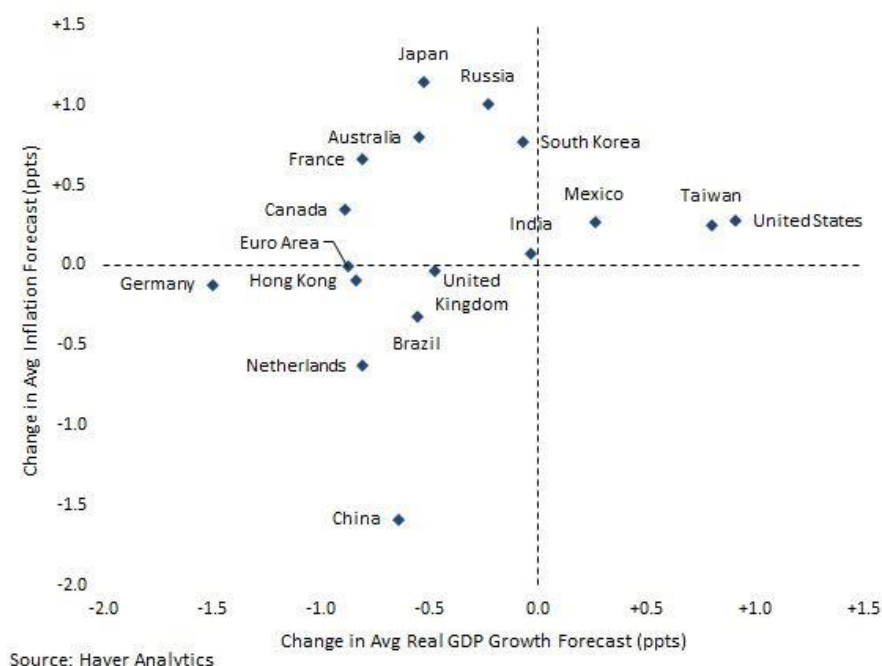
Source: Haver Analytics

## The shifting nature of consensus forecasts

Taking a further step back, however, and looking at how these forecasts have changed over a longer time horizon reinforces that point about the the outperformance of the US economy even further. Chart 5 below specifically shows the change in the Blue Chip consensus for GDP growth for 2024 from January 2023 to February 2024 against the change in the CPI consensus over the same 13 month time span. The northwest quadrant of the chart, which is densely populated, displays economies experiencing a decline in growth expectations coupled with an increase in inflation expectations. These economies are likely to have been significantly impacted by reduced output and increased cost pressures due to supply-side shortages. The southwest quadrant, also densely populated, represents economies where both growth and inflation expectations have weakened. These are economies that are likely characterized by weak domestic demand

and low pricing power, and arguably in most need of more relaxed policy measures. Meanwhile, economies in the northeast quadrant, where both growth and inflation expectations have risen, include the US, Taiwan, and Mexico. However, it's worth noting that the increase in inflation forecasts for these economies has been relatively modest.

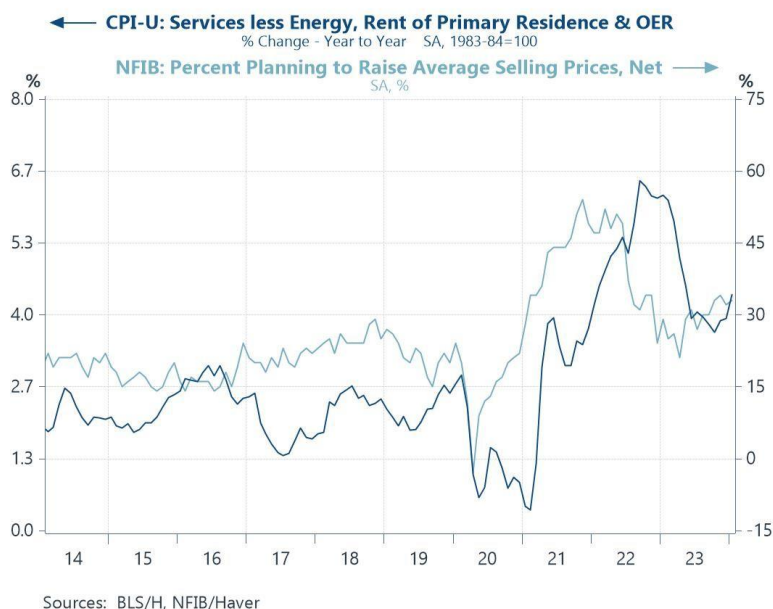
Chart 5: 13-month change in consensus GDP forecast versus CPI forecast (Feb 24 versus Jan 23)



## US inflation

Whether US forecasters will need to now lift their inflation expectations for 2024 remains to be seen. This week's CPI report for January made for uncomfortable reading not least in the details that concern service sector price pressures. That this week's NFIB survey of small US companies also revealed firming inclination to lift average selling prices in the period ahead equally suggests that the outlook for US inflation is not as one sided as previously thought.

Chart 6: US core services CPI inflation versus NFIB survey price expectations



# 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.

## Data featured in this commentary:

### Chart 1: Real GDP growth in Q4 2023 (not annualised) in selected major economies

S111NGPC@G10  
S136NGPC@G10  
S025NGPC@G10  
S132NGPC@G10  
S158NGPC@G10  
S134NGPC@G10  
S112NGPC@G10

### Chart 2: Contributions to Japan's GDP growth

JNNPGPC@JAPAN  
JNNDGCT@JAPAN  
JNNPCT@JAPAN  
JNNXNCT@JAPAN

### Chart 3: UK reasons for labour market inactivity

LF2M@UK  
LF65@UK  
LF6B@UK  
LF63@UK  
LF6D@UK  
LFL8@UK  
LF69@UK  
LF67@UK

### Chart 4: 1 month change in Blue Chip consensus GDP forecast versus CPI forecast (Feb versus Jan)

Please see Excel files attached in chart pack download.

### Chart 5: 13-month change in consensus GDP forecast versus CPI forecast (Feb 24 versus Jan 23)

Please see Excel files attached in chart pack download.

### Chart 6: US core services CPI inflation versus NFIB survey price expectations

PCUSERH@USECON  
NFIB16@SURVEYS