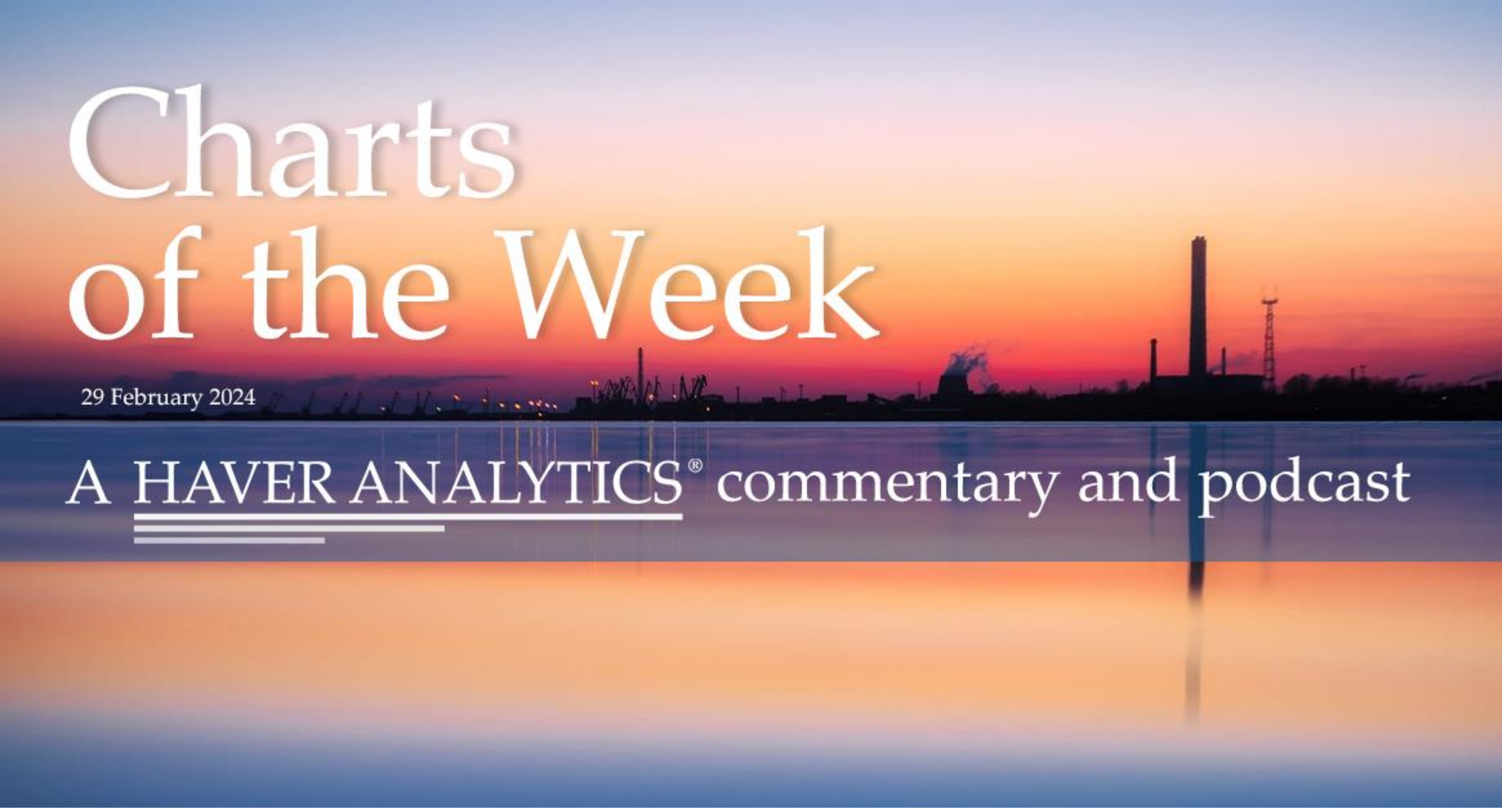

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Written by Andy Cates

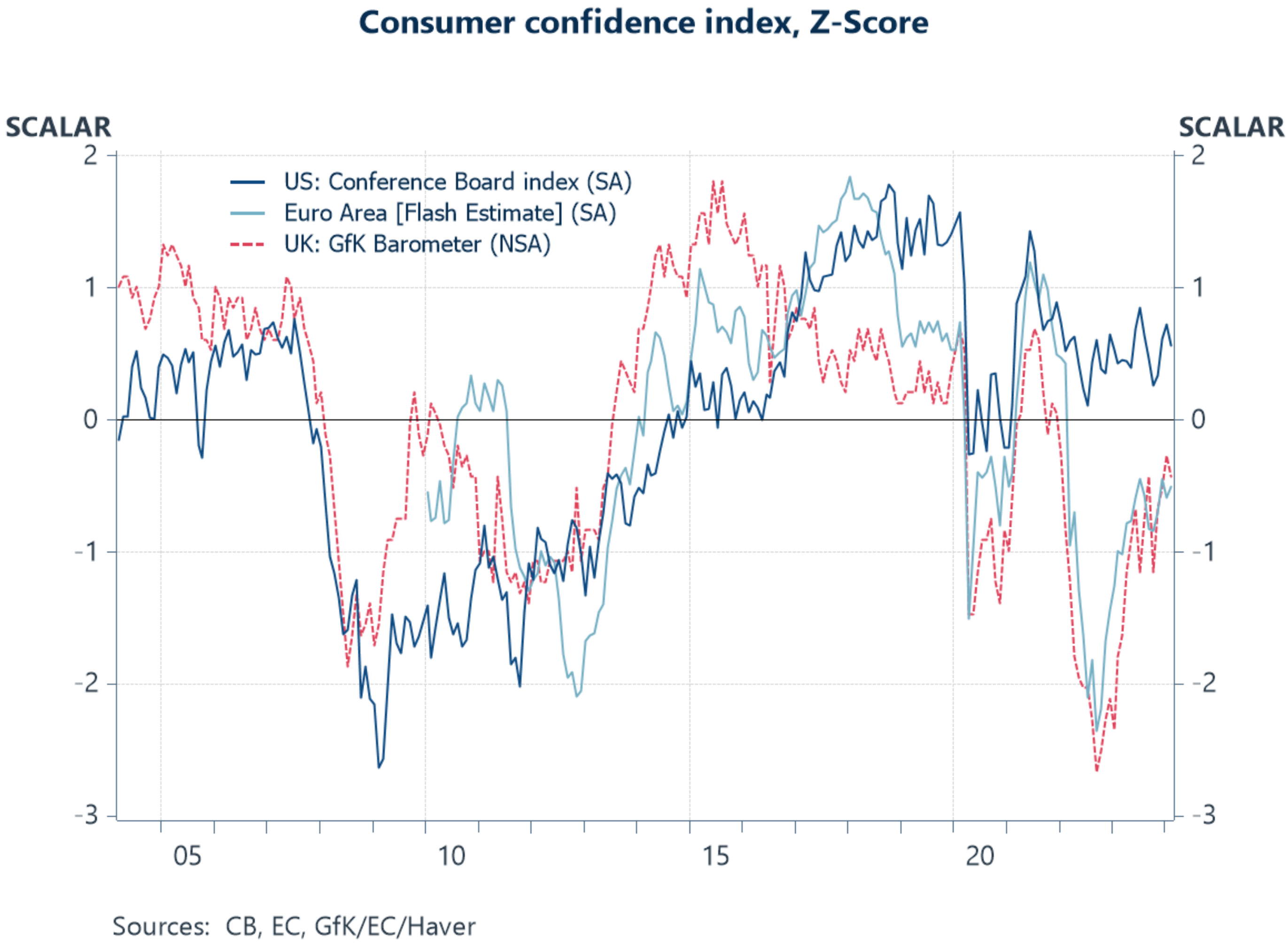
When the chips are up

Prospects for a swift pivot toward looser monetary policy in the US and Europe have been further diminished by some stronger-than-expected inflation data in recent days. Equity market sentiment in most major economies, however, has remained fairly resilient, buoyed by a positive stream of corporate earnings news. In our charts this week and following the release of this week's surveys we look at the gulf that still exists between consumer confidence in the United States compared with Europe (chart 1). Since an outperforming US economy relative to Europe could be one reason for that confidence disparity, we focus next on technology matters and specifically on the rapid growth of US investment in software over the past several years (chart 2). We then stay with technology and look at the improving demand and supply balance in the semiconductor sector that's suggested by inventory levels in several Asian economies (chart 3). Next, we turn to Europe with some perspective on the outperformance of the Italian bond market that's unfolded in recent months (chart 4). We then stay with Europe by offering some colour on the weakness of this week's money supply data from the euro area (chart 5). Then, and finally, we throw some light on post-pandemic consumer spending patterns in the UK (chart 6).

Consumer confidence

Recent confidence surveys suggest that US consumers generally feel more optimistic about the economic outlook than their European counterparts. Although some US surveys, such as the Michigan sentiment survey, depict a greater degree of consumer pessimism, the extensive national scope of the Conference Board's survey still conveys a relatively positive outlook compared to historical standards and in comparison to Europe (chart 1). This optimism can be attributed to several factors, but a key reason is arguably the superior performance of the US economy in recent months, especially when compared to the euro area and the UK.

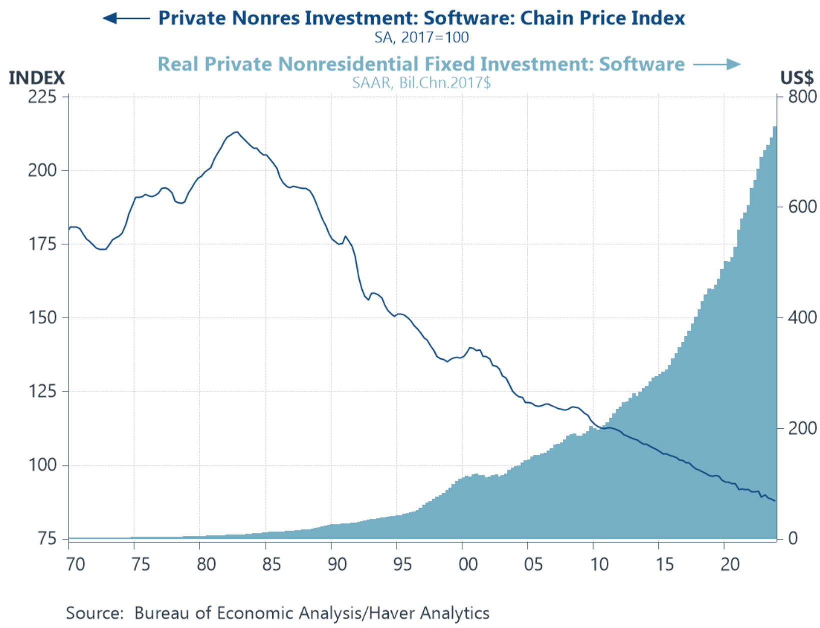
Chart 1: Consumer confidence in the US, euro area and UK



US innovation

There are several cyclical reasons for that outperformance such as relatively accommodative fiscal policy in the US over the past year. But from a much broader structural perspective, US technological innovation is arguably superior compared with most European economies. Indeed, spurred by that innovation, and accompanied by falling prices, investment in software has seen significant evolution in recent years (see chart 2). That trend has been influenced by the broader adoption and integration of information and communication technology within the US economy. And it has supported the accelerated adoption of technologies such as artificial intelligence, cloud computing, machine learning and 5G technologies.

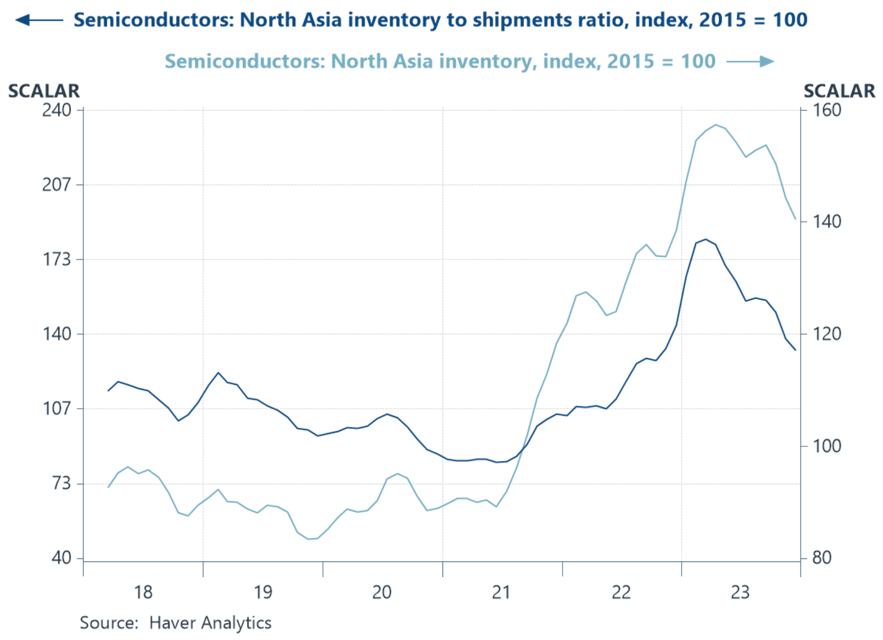
Chart 2: US software capex volume versus the software capex deflator



The semiconductor sector

Shifting focus back to technology and specifically to cyclical trends, recent data indicate that the semiconductor industry is experiencing a resurgence, fueled by increasing demand and technological innovations. Additionally, as indicated in chart 3 below, reduced inventory levels in several key Asian markets may also be playing a role in this recovery. This trend suggests a move towards a healthier balance of supply and demand within the industry as a whole.

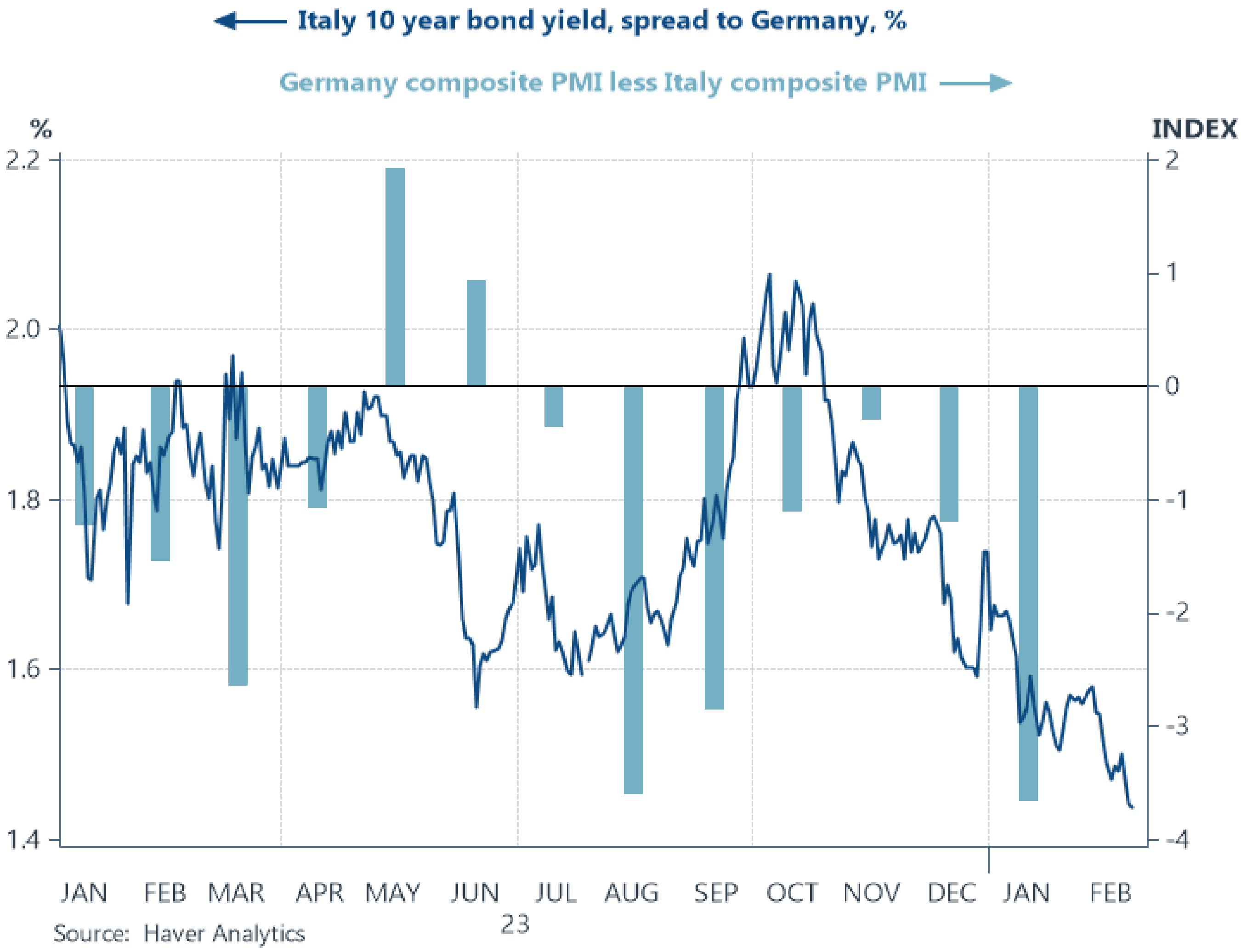
Chart 3: Inventory to shipment ratios in the semiconductor sector in North Asian economies



The Italian bond market

Turning to Europe, Italy's bond market has continued to outperform many of its European peers in recent weeks and most notably Germany. From a high of 206bps on October 19th 2023 Italy's 10-year bond yield spread has narrowed to a multi-month low of 144bps on February 28th. Despite a high debt-to-GDP ratio, one of the highest in Europe, this convergence of Italian bond yields with those of higher-rated countries signifies a growing confidence in Italy's financial stability and economic outlook. Indeed, it's probably no surprise that high frequency indicators such as purchasing managers' surveys suggest that Italy's economy has, on the whole, been outperforming Germany's over the past few months (see chart 4).

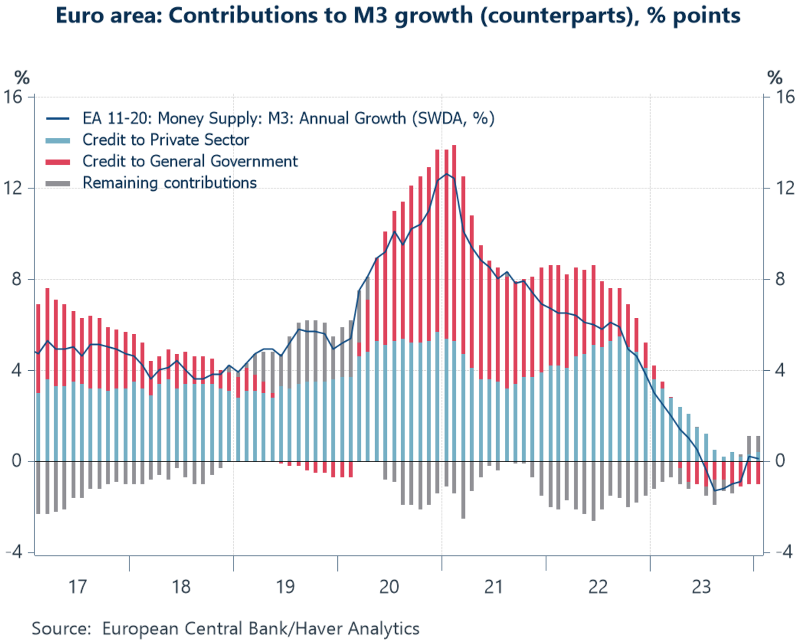
Chart 4: Italy's 10-year bond yield spread with Germany



Euro area money supply growth

Staying with Europe, this week's money supply data have left little doubt that the ECB's tightening endeavours are generating some consequences. The broad M3 measure of the money supply grew by just 0.1%y/y in January, down from 0.2% in December. However, it was the specific lending components within the details of the report that likely caused the most surprise. For instance, net lending in January experienced a drop of €26 billion, following a modest increase of only €8.4 billion in December 2023. This downturn could be observed across both households and businesses, reinforcing the perspective that the ECB's tight monetary policy is significantly influencing lending activity (chart 5).

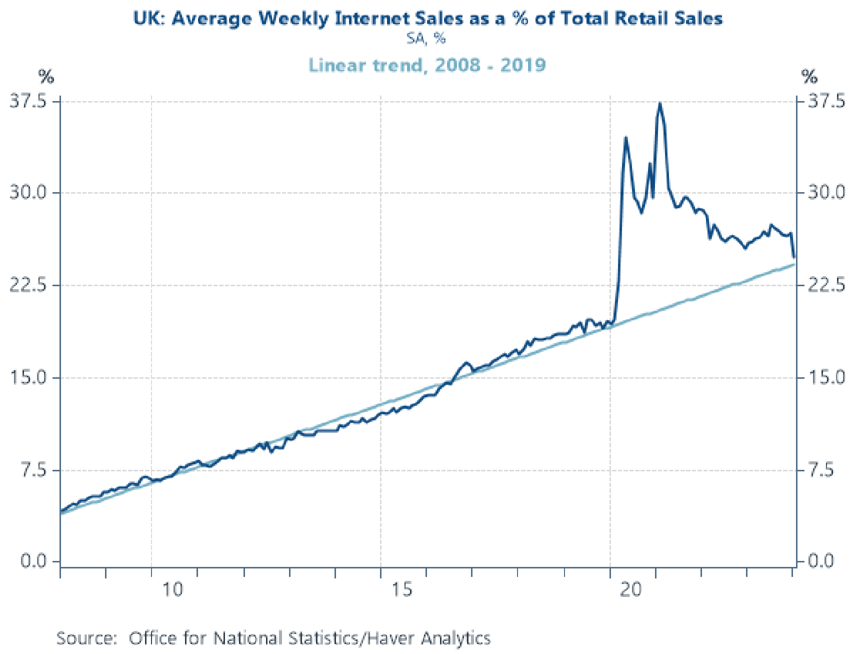
Chart 5: Euro area M3 growth and counterpart contributions



Post-pandemic consumer behaviour in the UK

Some of that weakness in bank lending growth in the euro area is payback from the underlying strength of credit growth that emerged during the early stages of the COVID pandemic. This strength was fuelled by more accommodative monetary and fiscal policies, along with a spike in consumer spending on goods (which is credit intensive) compared with services. This has, however, now moved into reverse. A clear example of this shift in spending patterns—from initially favouring goods to now increasingly favouring services—is evident in data on internet sales levels. For instance, in the UK, internet sales peaked at over 37% of total sales in February 2021, some 17%-points higher than pre-pandemic spending norms. Fast forward to the present, and the proportion of online spending has dropped to around 25% of total sales. That aligns much more closely with what would have been expected based on pre-pandemic trends (see chart 6).

Chart 6: UK internet retail sales relative to total sales



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: Consumer confidence in the US, euro area and UK
CCIN@USECON
E025CF@EUDATA
UGFCI@UK

Chart 2: US software capex volume versus the software capex deflator
JFNPS@USNA
FNPSH@USECON

Chart 3: Inventory to shipment ratios in the semiconductor sector in North Asian economies
N528TIET@EMERGEPR
N528TSET@EMERGEPR
JPSIIRIN@JAPAN
JPSIIIIN@JAPAN

Chart 4: Italy's 10-year bond yield spread with Germany
S134TG@MKTPMI
S136TG@MKTPMI
R136MA@INTDAILY
R134MA@INTDAILY

Chart 5: Euro area M3 growth and counterpart contributions
M0233FST@EUDATA
M0233PST@EUDATA
M0233GGT@EUDATA
M0233RMT@EUDATA
M0233LTT@EUDATA
M0233EXT@EUDATA

Chart 6: UK internet retail sales relative to total sales
MS6Y@UK
TRDLN@UK