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Written by Andy Cates

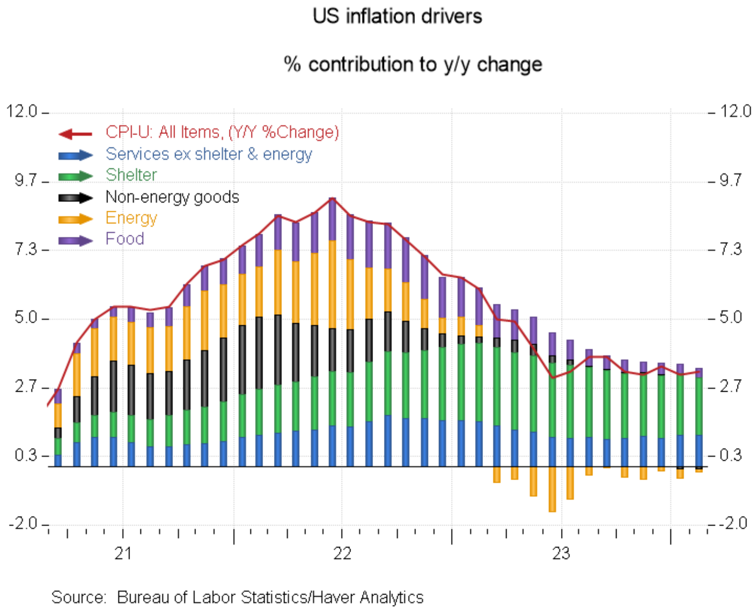
Not too shocking

With little to destabilise financial markets over the past few days, soft landing narratives have remained in vogue. While this week's US CPI report was certainly a little stronger-than-anticipated, other indicators, including the latest UK labour market report, were more benign. In our first two charts this week we look in more depth at, respectively, those US CPI and UK labour market numbers (charts 1 and 2). We then shift our focus to Asia and, in light of this week's more positive GDP report for Q4, shed some light on the contribution that productivity growth has been making to Japan's economic performance. We look next at China and specifically at its status as a leader in the production and sales of electric vehicles (chart 4). Finally we take a step back and review shifts in consensus growth and inflation forecasts for several major countries over the past few months and what those adjustments reveal about the nature of their economic and policy challenges (charts 5 and 6).

US inflation drivers

This week's US CPI report for February was not as friendly for the Fed as many US economists had anticipated. The re-acceleration in core CPI inflation over the past 3 months, thanks, in large part, to stubbornly high levels of service sector inflation will certainly be of some concern. A closer examination reveals that a significant portion of this stubborn inflation in the service sector can be traced to the shelter component. Specifically, the cost of shelter, which rose by 5.7% in the year to February, accounted for more than 60% of the 3.2% year-on-year increase in the headline CPI.

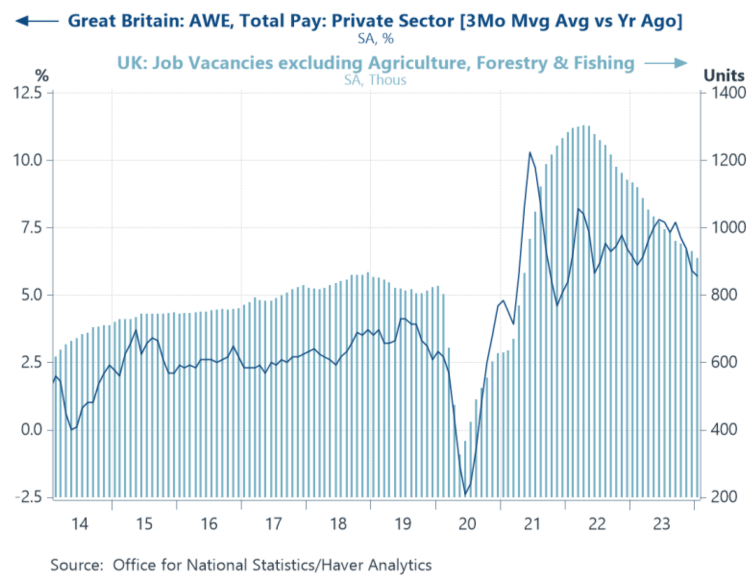
Chart 1: Contributions from major sub-components to US CPI inflation



The UK labour market

In contrast to the data for US Inflation, this week's news about the state of the UK labour market was weaker-than-expected. Underlying details revealed that employment fell a little, and that the unemployment rate climbed a little. Particularly encouraging for the BoE, however, was the evidence revealing that vacancies are falling a little faster and that wage growth has been slowing (see chart 2). Private sector regular pay specifically fell by 0.1% m/m in January. This is the second time in recent months that pay has fallen, a rare occurrence over the past few years

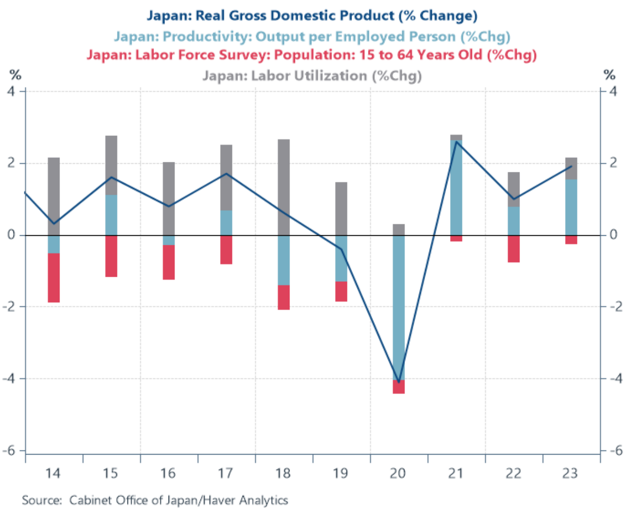
Chart 2: The UK labour market: average hourly earnings growth and job vacancies



Japan’s productivity growth

This week’s revised GDP data revealed that Japan has now managed to avoid a technical recession in H2 2023. That was previously the message from earlier estimates suggesting two consecutive contractions in output in Q3 and Q4. But subsequent data revealed a much stronger gain in capital expenditure than had previously been estimated. This development bodes well for the sustainability of Japan's economic revival in the coming months. Moreover, recent updates on the supply side contributions to Japan's GDP growth over recent years also offer some optimism. As indicated in chart 3 below, a revival in productivity growth (albeit from a weak base) has played a key role in the economy's post-COVID recovery, mitigating the negative impacts of a decelerating and ageing population.

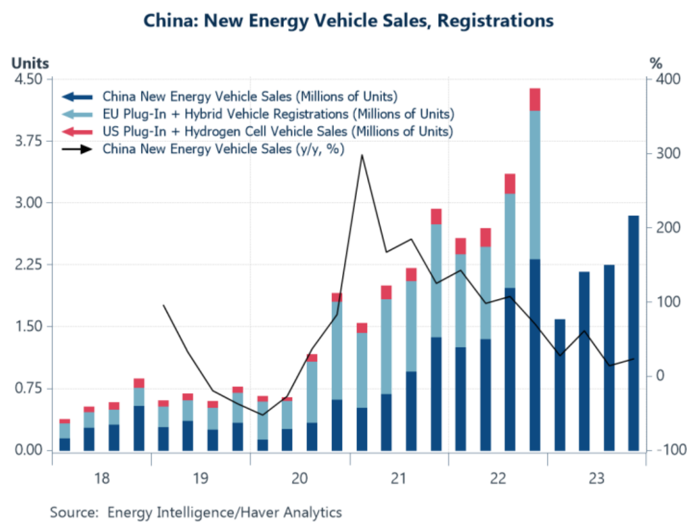
Chart 3: Japan’s GDP growth: Contributions from supply-side drivers



China’s EV penetration

China has firmly positioned itself as a leader in the global electric vehicle (EV) market, in recent years, with an impressive penetration rate relative to its peers. As the world's largest automotive market, aggressive policies to promote EV adoption, including substantial subsidies and investment in charging infrastructure, have certainly fostered a big surge in EV sales. Those sales outstripped the sum of EU registrations and US sales in 2022. And they subsequently surged in 2023, by 28.5% y/y, to 8.8 million units (see chart 4).

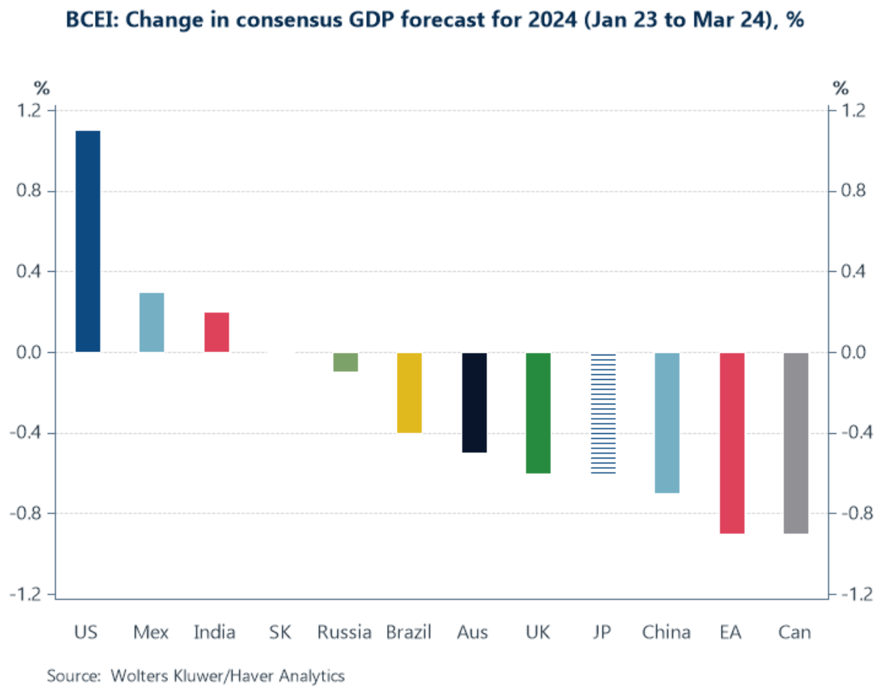
Chart 4: China’s EV sales penetration



Consensus growth forecasts

In our next exhibit this week, we examine the evolution of the Blue Chip consensus regarding the global economic outlook for 2024. We begin with an analysis of growth expectations and specifically the changes in GDP forecasts for 2024 over a 14-month period—from January 2023 to March 2024—that have unfolded for a selection of both large developed and developing economies. Chart 5 below highlights that, for the majority of these economies, growth expectations for this year have diminished over the last few months, with significant reductions observed in major economies or regions such as the euro area, China, and Japan. In contrast, growth expectations for the United States have improved significantly, while modest improvements have occurred for Mexico and India.

Chart 5: Changes to the consensus GDP outlook for 2024 - from January 2023 to March 2024

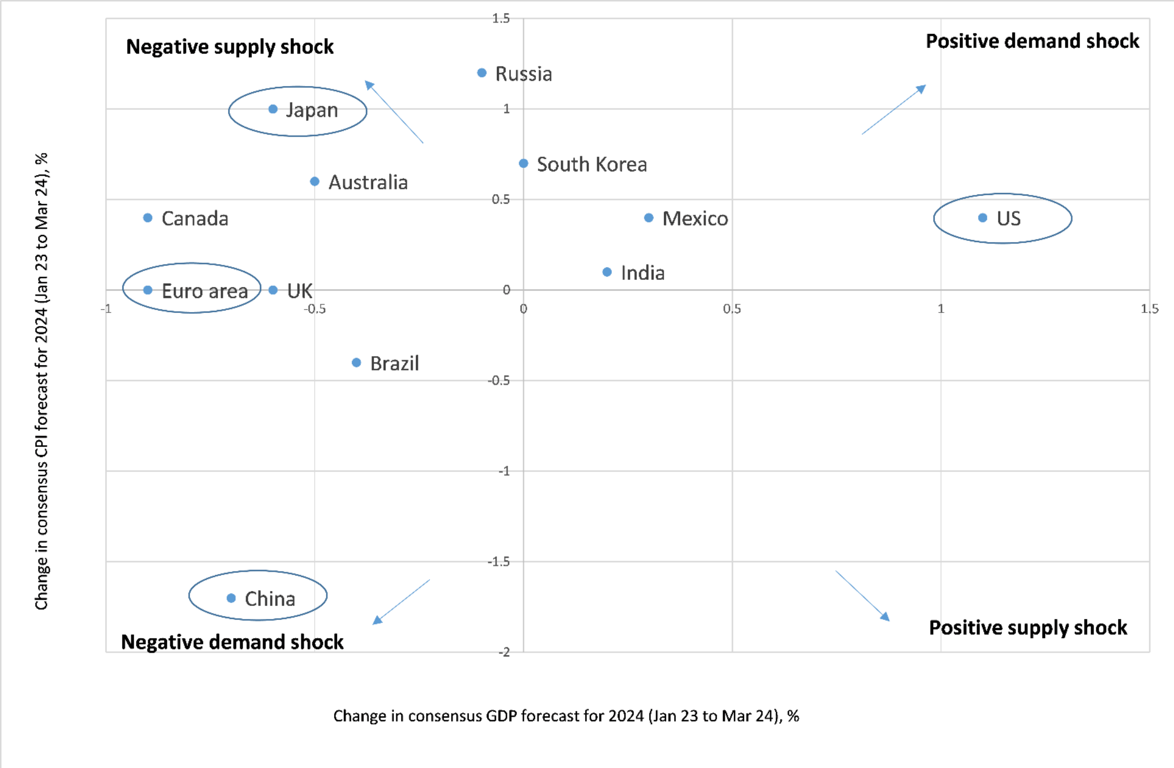


Economic shocks and their impact on consensus forecasts

In our concluding exhibit, we juxtapose the changes in growth expectations for 2024, as depicted in Chart 5 above, with corresponding shifts in inflation expectations. More precisely, Chart 6 below contrasts the 14-month change in the GDP growth consensus against the shift in inflation expectations for 2024. This comparison offers a straightforward, yet insightful, method for grasping the nature of the shocks affecting each economy. It could accordingly be a useful framework for understanding how these economies might now subsequently evolve in light of how policymakers have responded to these shocks in their calibration of monetary and fiscal policy.

Delving deeper, in the northwest corner of the exhibit, we find several economies whose prospects for growth and inflation have been downgraded in recent months. This trend aligns with the effects of a negative supply shock on an economy. Conversely, the economies located in the northeast corner of the chart, including the United States, have experienced upward revisions to their growth and inflation forecasts for this year. Such adjustments are indicative of the influence from a positive demand shock. Meanwhile, a few economies—most notably China—are situated in the southwest corner of the chart. This is where forecasts for both growth and inflation have been revised downward, suggesting the impact of a negative demand shock.

Chart 6: Changes to the growth outlook versus changes to the inflation outlook for 2024



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: Contributions from major sub-components to US CPI inflation
For details on this chart please email sales@haver.com.

Chart 2: The UK labour market: average hourly earnings growth and job vacancies
Series 1: KAC6@UK [Great Britain: AWE, Total Pay: Private Sector [3Mo Mvg Avg vs Yr Ago] (SA, %)]
Series 2: AP2Y@UK [UK: Job Vacancies excluding Agriculture, Forestry & Fishing (SA, Thous)]

Chart 3: Japan's GDP growth: Contributions from supply-side drivers
Series 1: A158NGDT@G10 [Japan: Real Gross Domestic Product (% Change)]
Series 2: A158ELPP@G10 [Japan: Productivity: Output per Employed Person (%Chg)]
Series 3: A158ELWP@G10 [Japan: Labor Force Survey: Population: 15 to 64 Years Old (%Chg)]
Series 4: A158ELZP@G10 [Japan: Labor Utilization (%Chg)]

Chart 4: China's EV sales penetration
Series 1: CNBMAM@NED [China: New Energy Vehicle Sales (Units)]
Series 2: (E1BPAQ@NED + E1BPAQ@NED)
E1BPAQ@NED [European Union: Plug-in Electric Vehicles: Registrations (Number)]
E1BPAQ@NED [European Union: Plug-in Electric Vehicles: Registrations (Number)]
Series 3: (USBTAM@NED + USBPAM@NED)
USBTAM@NED [United States: Hydrogen Fuel Cell Electric Vehicles: Sales (Units)]
USBPAM@NED [United States: Plug-in Electric Vehicles: Sales (Units)]
Series 4: yryr%(CNBMAM@NED)
CNBMAM@NED [China: New Energy Vehicle Sales (Units)]

Chart 5: Changes to the consensus GDP outlook for 2024 - from January 2023 to March 2024
Series 1: A158NGDT@G10 [Japan: Real Gross Domestic Product (% Change)]

Chart 6: Changes to the growth outlook versus changes to the inflation outlook for 2024
*Please refer to the Excel file attached in the chart pack.