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Charts of the Week

A HAVER ANALYTICS[®] commentary and podcast

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The Soft Landing Narrative (Again)

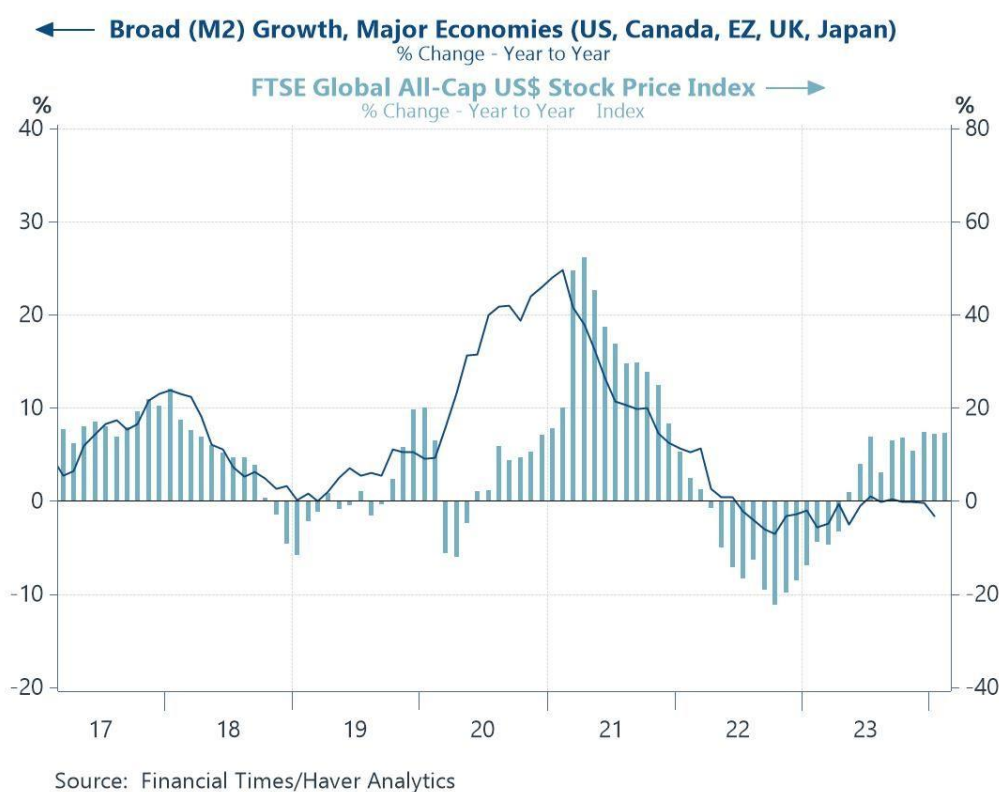
Recent weeks have seen heightened optimism in financial markets that the global economy is on course for a soft landing. This optimism is rooted in a number of factors including stronger-than-expected economic data, dovish communications from several central banks alongside tame inflation outcomes in Europe and Asia. Putting this a little differently, the supply side shocks that drove inflation sharply higher in recent years may now be unwinding more quickly than had been expected. But there could equally – although far more contentiously – be greater optimism among investors that technological innovations (e.g. in Artificial Intelligence) are ramping up productivity growth.

Some of our charts this week offer some fresh perspective on this soft landing narrative. We look, for instance, at the decoupling that's unfolded between global equity markets and broad measures of the money supply (in chart 1). We then review this week's data for US durable goods orders and the specific evidence they reveal for still-solid US capital spending activity (chart 2). Additionally, we examine a recent survey from the euro area that indicates a slight decrease in consumer inflation expectations (chart 3). We next investigate evidence from last week's flash PMI surveys, which suggests that supply chain bottlenecks in Europe might be easing. Lastly, and turning to Asia, we assess the renewed interest from overseas investors in the region's equity markets (chart 5) and consider one of the structural factors behind this interest namely the potential for catch-up growth in India's economy (chart 6).

Stocks and broad money growth

The relationship between broad money growth and equity markets is complex and influenced by various factors, including monetary policy, investor sentiment, and global economic conditions. While the two are interconnected, the impact of money supply changes on equity markets can vary depending on the broader economic context and the policy environment. Bearing these considerations in mind, it is noteworthy that a divergence has emerged between monetary growth rates in some major advanced economies and global equities in recent months (see chart 1). Although the initial post-pandemic surge and the subsequent slowdown in broad money growth mirrored fluctuations in the global equity markets, this correlation has weakened over the last 12 months. For instance, equity markets have shown remarkable strength even as growth in the broad money supply has remained tepid.

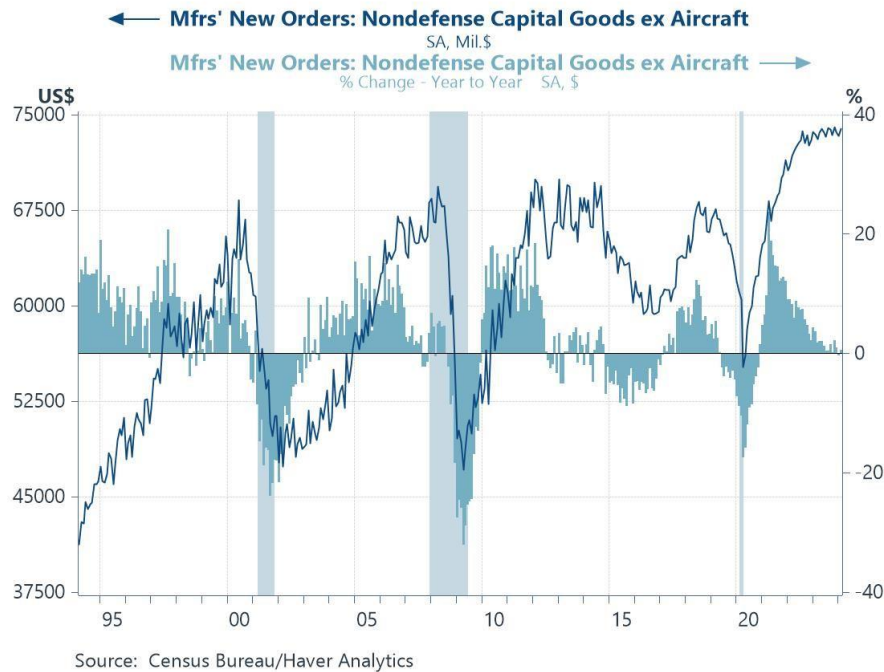
Chart 1: Broad money growth in advanced economies versus global equities



US capital spending

This week's durable goods orders data suggested ongoing – and unexpected – resilience in US capital spending. Core (ex. defence, ex. aircraft) capital goods orders, for example, rose by 0.8% m/m in February to lie 0.6% higher than last year. Their overall level, in the meantime, while admittedly supported by higher capital goods price inflation, has been arguably much stronger than might have been expected in a rising interest rate environment (see chart 2 below). There are several reasons for this including the US government's stimulus programmes, the Green Energy Transition and broader efforts to reconfigure supply chains.

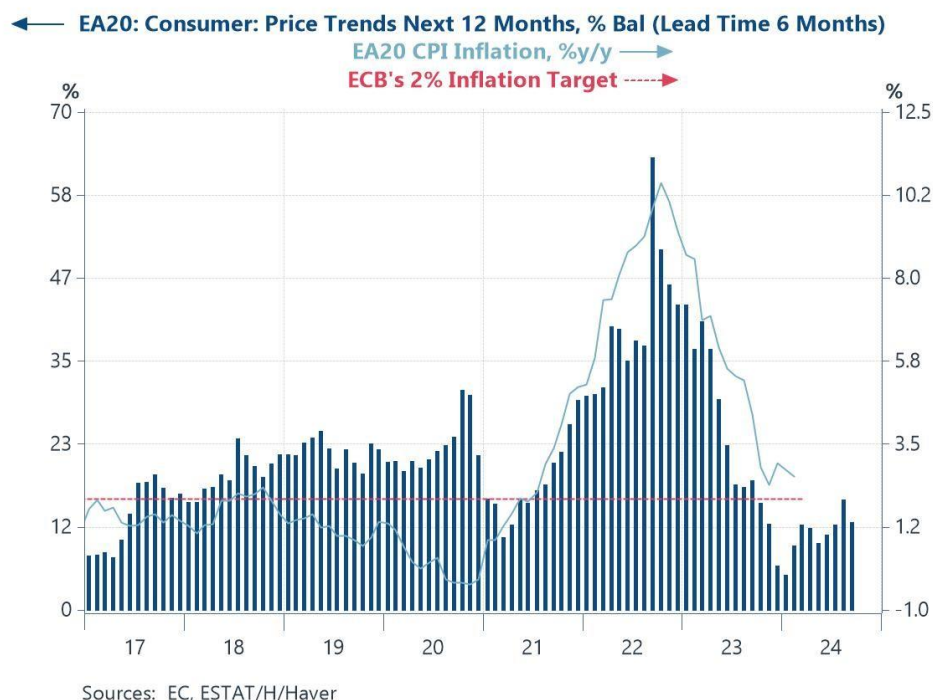
Chart 2: US core capital goods orders



Inflation expectations in the euro area

This week's European Commission survey of consumer and business confidence chimed with other regional surveys that have been released in recent days by suggesting that activity in the euro area is perking up a little. The underlying details of the consumer confidence survey were also encouraging on the inflation front. Specifically the 12 month ahead inflation expectations gauge fell back, specifically to a percentage balance of 12.3 in March from a prior 15.4, and the first monthly decline since last November (see chart 3).

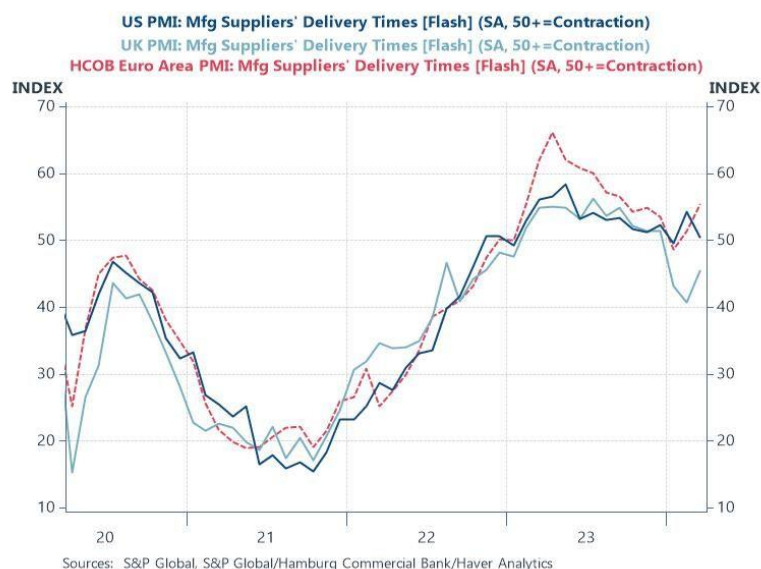
Chart 3: Euro area: 12-month ahead inflation expectations versus headline CPI inflation



Supply chain bottlenecks

The Red Sea shipping disruptions that had threatened to choke off global supply chains appear to be a little less threatening for the global economic outlook. That at least is the message from last week's flash PMI surveys of the manufacturing sector in the US and Europe. Supplier delivery times in the euro area, shortened further compared with the previous month and lengthened less acutely in the UK. The US survey also exhibited shorter lead times in March, though not as short as in the previous month (chart 4).

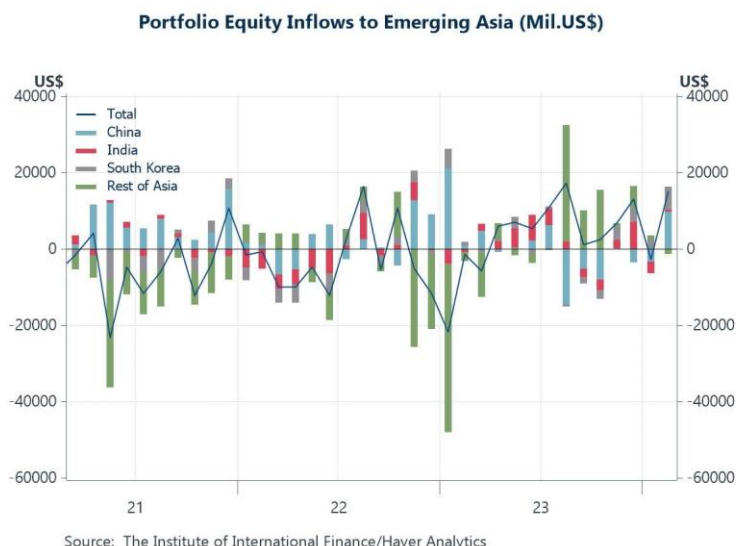
Chart 4: Flash manufacturing PMI surveys: Supplier delivery times in the US, UK and euro area



Asia's portfolio flows

Foreign investor inflows into Asian equities took a turn for the better in February, aided by net purchases of assets in Mainland China and South Korea. This followed a stalling of foreign fund flows in January but represents a return of form relative to the pace of inflows that were chalked up in 2023. With that said, and while recent semiconductor sales and exports figures in the broader Asian region have been encouraging, there remains much to watch regarding China's economic outlook.

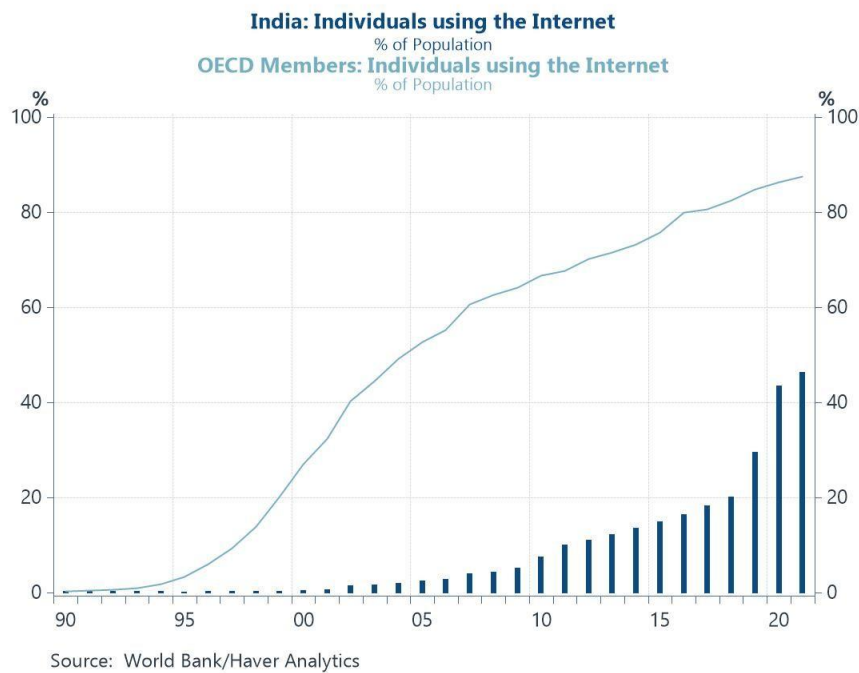
Chart 5: Portfolio equity inflows to emerging Asia including China, India and South Korea



India's catch up potential

As that previous exhibit also suggested India has – on the whole - acted as magnet for foreign equity inflows over the past few months. That's presumably, in part, because of its economic growth potential relative to other, more advanced, economies in the region. Looking at, for instance, the level of internet penetration suggests much scope for India to catch up with the technological progress that's been achieved by more advanced economies over recent years, for example (see chart 6 below).

Chart 6: Individual use of the internet in India versus the OECD



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: Broad money growth in advanced economies versus global equities

For detailed info on this chart please email sales@haver.com

Chart 2: US core capital goods orders

Series 1: NMOCNX@USECON [Mfrs' New Orders: Nondefense Capital Goods ex Aircraft (SA, Mil.\$)]

Series 2: yryr%(NMOCNX@USECON) [Mfrs' New Orders: Nondefense Capital Goods ex Aircraft (SA, Mil.\$)]

Chart 3: Euro area: 12-month ahead inflation expectations versus headline CPI inflation

Series 1: E025CPE@EUSRVYS [-6] [EA20: Consumer: Price Trends next 12 Months, Percent Bal (SA, %)]

Series 2: yryr%(H023H@EUDATA) [EA11-20: HICP: Monetary Union: Consumer Price Index(SA, 2015=100)]

Series 3: 2 Constant=2

Chart 4: Flash manufacturing PMI surveys: Supplier delivery times in the US, UK and euro area

Series 1: H111MMD@MKTPMI [US PMI: Mfg Suppliers' Delivery Times [Flash] (SA, 50 +=Contraction)]

Series 2: H112MD@MKTPMI [UK PMI: Manufacturing Suppliers' Delivery Times [Flash] (SA, 50 +=Contraction)]

Series 3: H023MD@MKTPMI [HCOB Euro Area PMI: Mfg Suppliers' Delivery Times [Flash] (SA, 50 +=Contraction)]

Chart 5: Portfolio equity inflows to emerging Asia including China, India and South Korea

For detailed info on this chart please email sales@haver.com

Chart 6: Individual use of the internet in India versus the OECD

Series 1: M534INDI@WDI [India: Individuals using the Internet (% of Population)]

Series 2: M005INDI@WDI [OECD Members: Individuals using the Internet (% of Population)]