Link to online publication: https://haverproducts.com/charts-of-the-week/
Listen to the podcast on Spotify or Apple Music
Written by Andy Cates

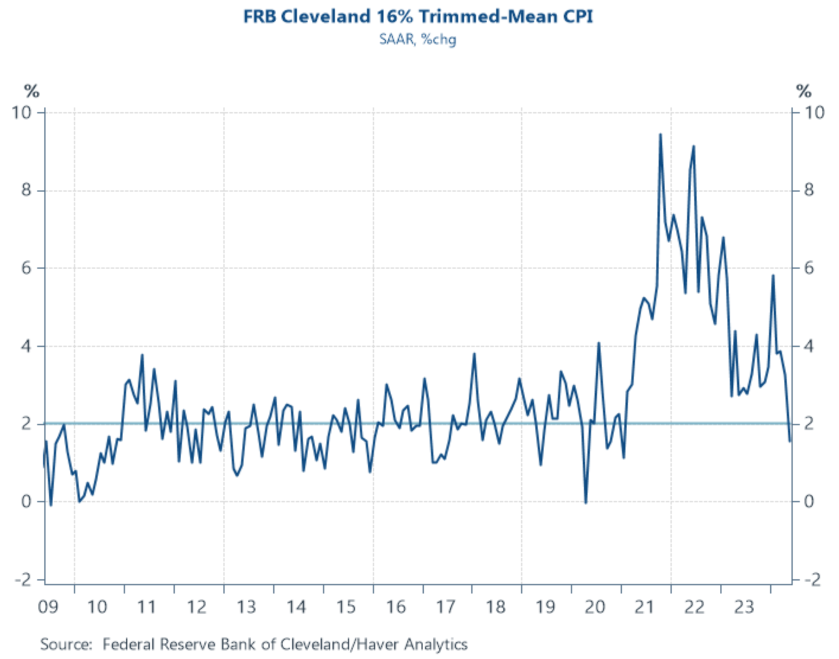
Energising the politics

A debate about the precise timing of a Fed rate cut has continued to dominate financial market sentiment in recent days. A nod from the Fed acknowledging progress in fighting inflation, coupled with weaker-than-expected CPI data, has, in particular, kept hopes of a soft landing for the US economy alive (chart 1). Elsewhere, the timing of a potential rate cut by the Bank of England has also been actively discussed, following a downbeat batch of UK economic data (chart 2). Meanwhile, politics has grabbed headlines again, particularly in France, following President Macron's decision to call a snap election (chart 3). More generally, political instability in Europe has arguably increased due to growing hostility from fringe parties regarding the economic implications of the global energy transition (chart 4). Additionally, European politicians have shown growing hostility toward China’s industrial policy, which has coincided with lacklustre trade data between both regions (see chart 5). In the background, and returning to Fed policy, the US dollar has continued to strengthen, which could have some consequences for global trade growth in the period ahead (see chart 6).

US inflation

This week’s US CPI report will have been welcomed by Fed policymakers for a number of reasons and, in particular, for the evidence suggesting a broadly-based retreat in US price pressures. A useful metric that illustrates that message is the Cleveland Fed's Trimmed-Mean CPI Index, which measures underlying inflation trends by removing extreme price changes in the most volatile components. This fell very sharply, to 1.6% m/m on a seasonally adjusted annualised basis in May, from 3.3% in April. That was the weakest monthly growth rate since October 2020 and the first sub-2% reading since January 2021.

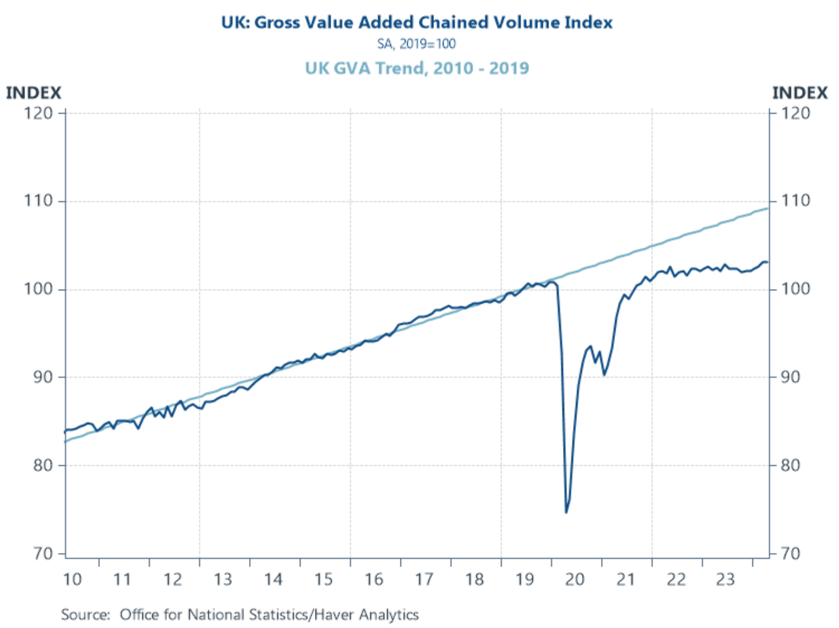
Chart 1: Cleveland Fed's Trimmed-Mean CPI inflation



The UK economy

This week's dataflow revealed some downbeat messages about the plight of the UK economy. Most gauges of labour market activity are now weakening with the unemployment rate, for example, rising to 4.4% in the three months to April, up from 4.3% in the previous three months. This aligns with the latest monthly GDP data, which showed no change in April following 0.4% growth in March. Stepping back, UK economic growth remains extremely weak relative to longer-term norms, as evidenced in chart 2 below, which compares latest GDP levels with their pre-pandemic 20-year trend.

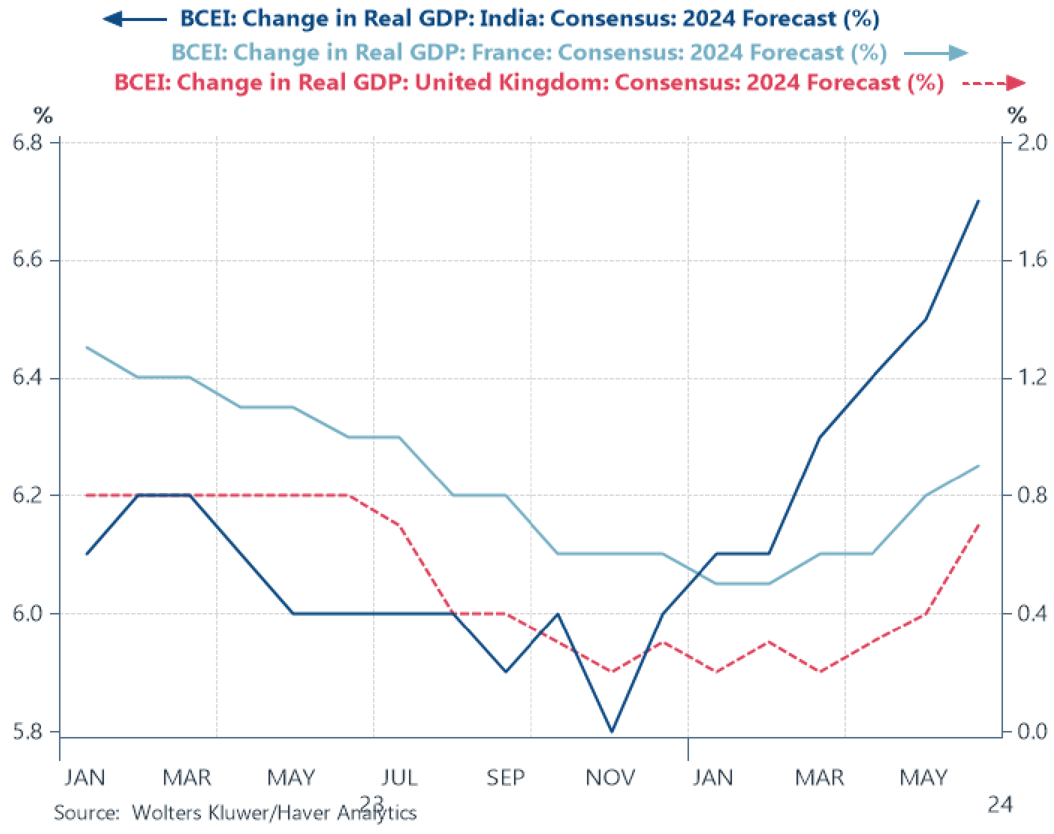
Chart 2: UK GDP level versus its pre-COVID 10-year trend



The Blue Chip consensus

The performance of the UK economy has been a key focal point in the current election campaign, just as it was in India a few weeks ago. President Macron's decision to hold a snap election will also bring France's economic performance into the spotlight in the coming weeks. It may be interesting to note, therefore, that Blue Chip economic forecasters have recently taken a more optimistic view of the growth outlook for both France and the UK in 2024 (see chart 3 below). Still, that was also true for India in the run-up to its election, although it did not generate the level of support for Prime Minister Modi that many political analysts had expected.

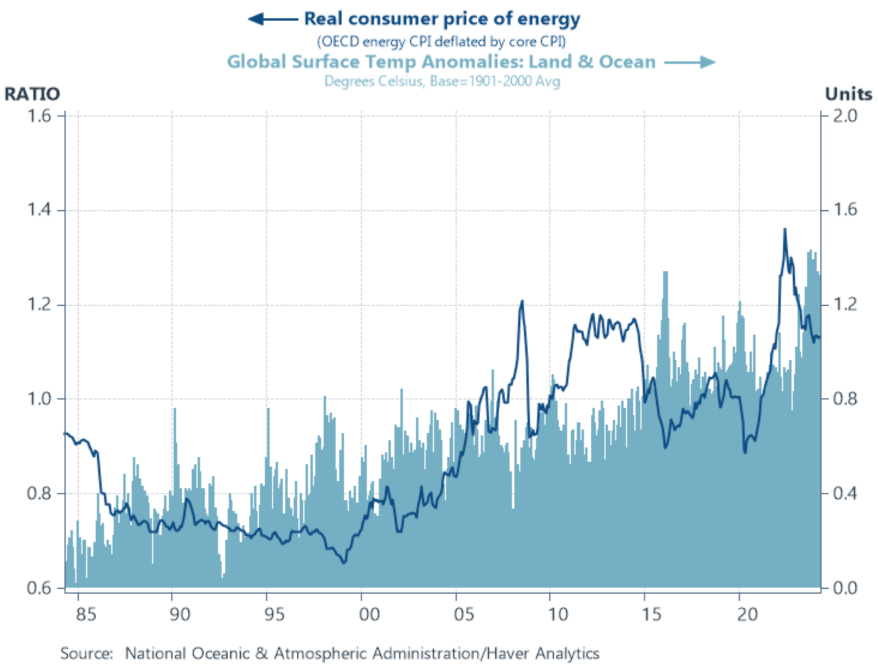
Chart 3: The evolution of consensus forecasts for GDP growth in 2024 in India, France and the UK



Energy prices

One of the issues that has attracted considerable hostility from fringe parties in Europe in recent months is the energy transition. While that transition is clearly crucial for long-term sustainability and climate goals, there is much disagreement about the policies that are being enacted to achieve those goals. It could certainly be no coincidence that as the climate has been warming, the real consumer price of energy has been rising (see chart 4). That could reflect a number of demand and supply-related factors, including investment in new infrastructure, regulatory changes that have increased the price of fossil fuels, along with geopolitical factors and energy security measures. But either way, it nevertheless highlights the challenges politicians face in transitioning their countries away from fossil fuels while maintaining economic and political stability.

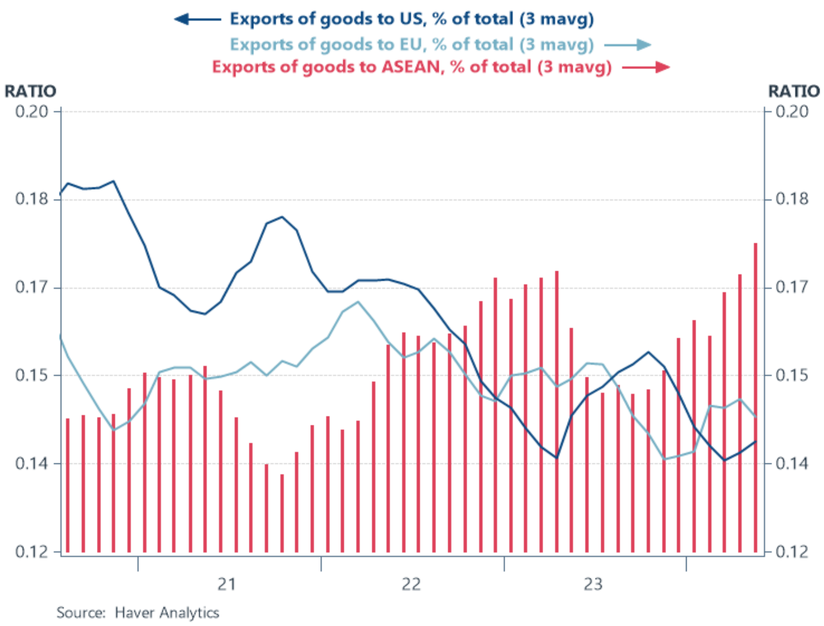
Chart 4: The real consumer price of energy versus global temperature anomalies



China’s exports with major trading partners

China revealed a robust set of trade data last week, with the US dollar value of exports rising by 7.6% y/y in May, surpassing forecasts of approximately 6% growth. However, a closer examination of the data shows a more nuanced regional picture. While exports to ASEAN countries grew strongly, trade growth with the US and Europe was much slower. This reinforces the longer-term trends observed in China’s trade patterns in recent months. Specifically, China’s export shares to the US and Europe have been declining, while trade with the ASEAN bloc has been increasing (see chart 5). This shift between the China, Europe and the US reflects several factors, including trade tensions and protectionist policies, supply chain diversification, and China's domestic economic rebalancing. Conversely, the increase in trade with ASEAN economies is likely to have been driven, in part, by regional trade agreements and enhanced supply chain integration.

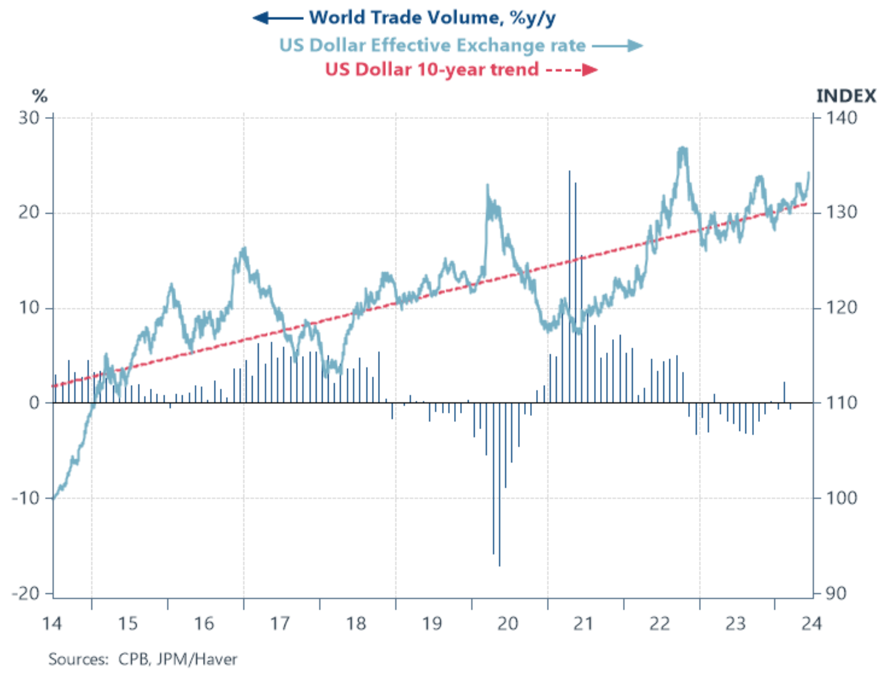
Chart 5: China’s export share with the US, EU and ASEAN economies



The US dollar

Against a global backdrop where the US economy has remained relatively resilient while European economies and China have struggled, the trade-weighted value of the US dollar has remained strong. This trend has been reinforced by the Federal Reserve's reluctance to lower interest rates, in contrast to many other major central banks, including the ECB. However, a strong dollar is not typically associated with global economic stability, partly because it often accompanies tighter US monetary policy. From a peak in March 2021, for instance, global trade volumes have generally been declining and were still approximately 3% below that peak in March 2024 (see chart 6).

Chart 6: The trade-weighted value of the US dollar versus global trade growth



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: Cleveland Fed's Trimmed-Mean CPI inflation
Series 1: CLEVCPI@USECON
CLEVCPI@USECON [FRB Cleveland 16% Trimmed-Mean CPI (SAAR, %chg)]
Series 2: 2
Constant=2

Chart 2: UK GDP level versus its pre-COVID 10-year trend
Series 1: ECY2@UK
ECY2@UK [UK: Gross Value Added Chained Volume Index (SA, 2019=100)]
Series 2: TRDLN(ECY2,201001:201912,199701:202404)
ECY2@UK [UK: Gross Value Added Chained Volume Index (SA, 2019=100)]

Chart 3: The evolution of consensus forecasts for GDP growth in 2024 in India, France and the UK
Series 1: AIND24@BLUECHIP
AIND24@BLUECHIP [BCEI: Change in Real GDP: India: Consensus: 2024 Forecast (%)]
Series 2: AFRD24@BLUECHIP
AFRD24@BLUECHIP [BCEI: Change in Real GDP: France: Consensus: 2024 Forecast (%)]
Series 3: AGBD24@BLUECHIP
AGBD24@BLUECHIP [BCEI: Change in Real GDP: United Kingdom: Consensus: 2024 Forecast (%)]

Chart 4: The real consumer price of energy versus global temperature anomalies
Series 1: (N003PCEN@OECDMEI / N003PCXG@OECDMEI)
N003PCEN@OECDMEI [OECD Total: CPI: Energy [OECD Group] (NSA, 2015=100)]
N003PCXG@OECDMEI [OECD Total: CPI: All Items excl Food and Energy [OECD Group] (NSA, 2015=100)]
Series 2: V001CAB@ESG
V001CAB@ESG [Global Surface Temp Anomalies: Land & Ocean(Degrees Celsius, Base=1901-2000 Avg)]

Chart 5: China's export share with the US, EU and ASEAN economies
Series 1: movv((N924IXUS@EMERGEPR / N924IXT@EMERGEPR),3)
N924IXUS@EMERGEPR [China: Exports to the U.S. (NSA, Mil.US$)]

N924IXT@EMERGEPR [China: Exports (NSA, Mil.US$)]
Series 2: movv((N924IXEU@EMERGEPR / N924IXT@EMERGEPR),3)
N924IXEU@EMERGEPR [China: Exports to European Union (NSA, Mil.US$)]
N924IXT@EMERGEPR [China: Exports (NSA, Mil.US$)]
Series 3: movv((N924IXO7@EMERGEPR / N924IXT@EMERGEPR),3)
N924IXO7@EMERGEPR [China: Exports to ASEAN (NSA, Mil.US$)]
N924IXT@EMERGEPR [China: Exports (NSA, Mil.US$)]

Chart 6: The trade-weighted value of the US dollar versus global trade growth
Series 1: yryr%(S001IQXM@G10)
S001IQXM@G10 [World Trade Volume (SA, 2010=100)]
Series 2: X111BUS@INTDAILY
X111BUS@INTDAILY [JP Morgan Nominal Broad Effective Exchange rate: United States (2010=100)]
Series 3: TRDLN(X111BUS,20140630:20240612)
X111BUS@INTDAILY [JP Morgan Nominal Broad Effective Exchange rate: United States (2010=100)]

For more info on our data offerings please email sales@haver.com