

Charts of the Week: Beyond the Headlines

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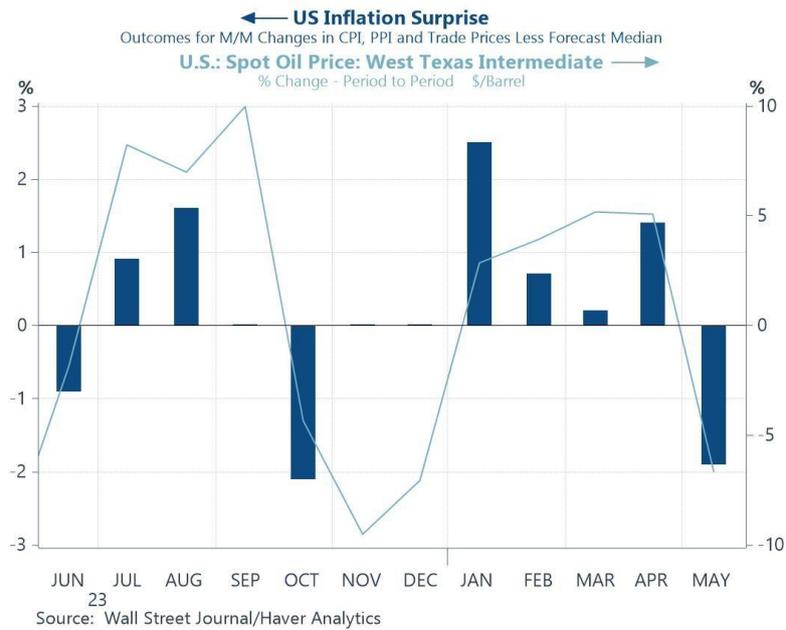
Written by [Andy Cates](#)

Soft landing narratives have remained in vogue in financial markets in recent weeks, partly due to weaker-than-expected US inflation data (see chart 1). In contrast, this week's stronger-than-expected UK service sector CPI inflation data unsettled investors and probably played a role in the Bank of England's decision to keep interest rates unchanged (chart 2). European investors have also been unsettled by the political instability in France and its broader regional implications (chart 3). Meanwhile, property market instability continues to impact China's economy, as evidenced by this week's slew of economic data (chart 4). On a more positive note, Japan's latest trade data indicated healthier economic conditions, partly due to firmer export growth (chart 5). That improvement can be attributed, in part, to sustained demand for semiconductors, which also acts as a reminder that soft landing narratives have additionally been bolstered by the productivity potential of Artificial Intelligence over the past few months (chart 6).

US inflation surprises

Incoming US inflation data for the first four months of 2024 have mostly exceeded forecasters' expectations. Chart 1 below illustrates this trend, showing a monthly gauge of US inflation surprises. Specifically, it represents the sum of the differences between actual outcomes and the consensus forecasts (from Action Economics) for monthly changes in consumer prices, producer prices, and import and export prices. As the chart further reveals, May's inflation data marked a significant shift in momentum, with every data point falling short of the consensus forecast. This marked the first time since last October that this measure of the US monthly inflation surprise was negative.

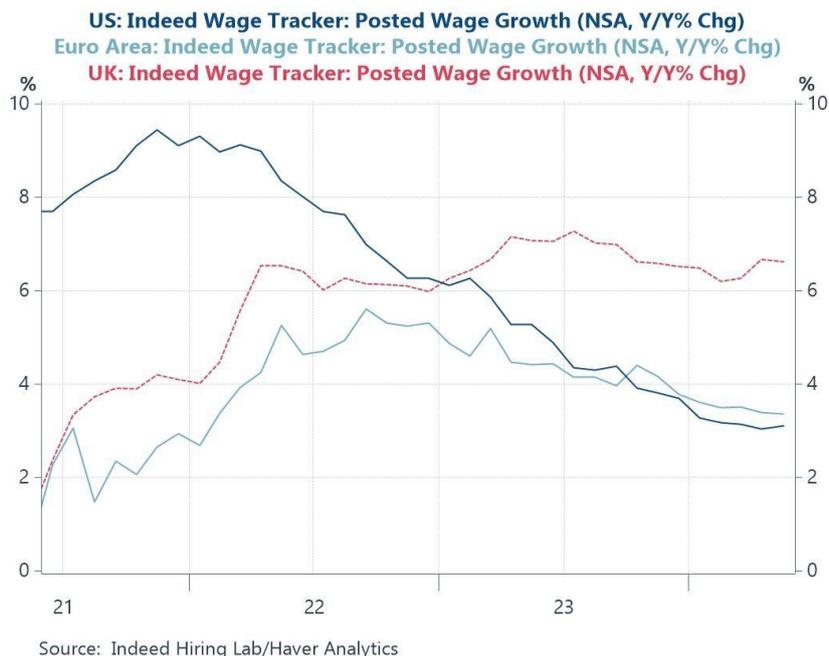
Chart 1: US inflation surprises versus oil price swings



Wage growth in the US, euro area and UK

This week’s CPI data from the UK revealed further evidence suggesting that service sector inflation remains sticky and too high for comfort for many BoE policymakers. One reason for this probably concerns sticky wage inflation. This is supported by the latest data from the Wage Tracker developed by the hiring company Indeed (see chart 2). According to this Tracker, UK wage growth was running at 6.6% y/y in May, more or less unchanged from the start of the year and only slightly down from 7.1% a year ago. That, moreover, stands in vivid contrast to the data for the US and euro area which have exhibited a far more pronounced deceleration over the past few months. At respective rates of 3.1% and 3.4% in May, the latest data are also far more friendly for their central banks’ inflation objectives.

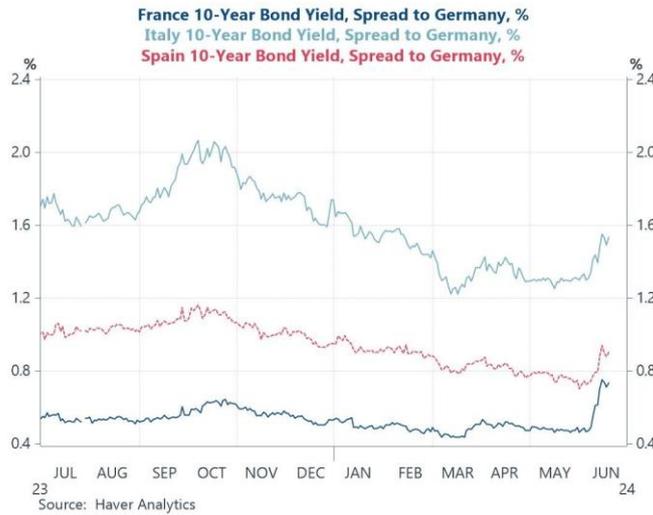
Chart 2: Indeed’s Wage Trackers for the US, euro area and UK



European bond markets

The decision by France’s President Macron to call a snap election – and the potential fiscal policy consequences of a new administration - have amplified concerns about economic and financial stability in the broader European region over the past few weeks. This can be seen via the recent widening of the 10-year government bond yield spreads against Germany in a number of European countries and most notably France (see chart 3).

Chart 3: Bond market yield spreads in France, Italy and Spain



China’s property market

Instability has been a more familiar feature of China’s real estate sector for some time now and there was little evidence this week that this might be coming to an end. House prices in China’s biggest 70 cities, for example, continued to fall, specifically by 8.2% y/y in May (chart 4). Real estate investment, in the meantime, also remained very weak in May and the real estate climate index continued to fall, albeit fractionally compared with April.

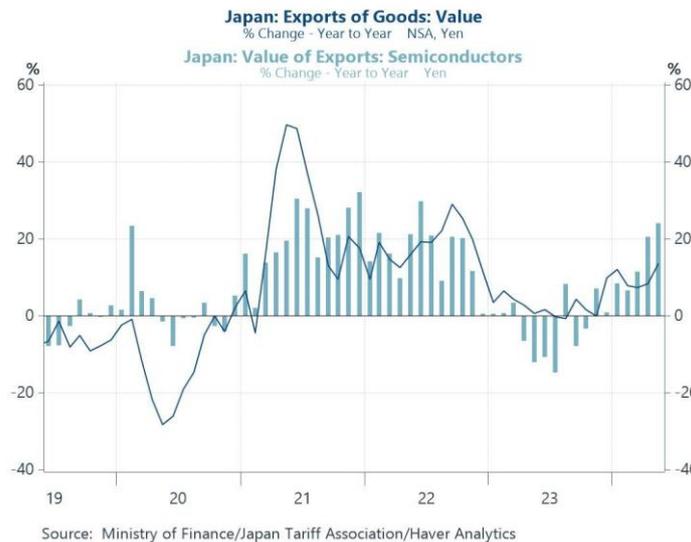
Chart 4: Real estate sentiment in China versus house price inflation



Japan's trade

In contrast to this, a brighter picture has emerged about the plight of Japan's economy from this week's trade data. For example, export values surged by 13.5% y/y in May, after 8.3% in April. This growth was much stronger than expected and driven, in part, by stronger demand for Japan's semiconductors. Indeed, as chart 5 below suggests, Japan's semiconductor exports specifically rose by 24%y/y, their fastest pace for nearly 2 years.

Chart 5: Japan's exports of semiconductors versus the total



Equity market returns by sector

Global equity markets have generally been buoyant this year. Their sector-specific performance, moreover, chimes with the notion that global growth is moderating, but not slumping. Cyclically-sensitive sectors such as basic materials and consumer goods have certainly underperformed, while defensive sectors like utilities, healthcare, and consumer services have outperformed (see chart 6 below). The biggest and most notable outperformer, however, has been the technology sector, despite its cyclical sensitivity. That, in turn, underscores the importance of that sector's secular drivers, including the advance of Artificial Intelligence.

Chart 6: Global equity sector returns



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: US inflation surprises versus oil price swings

Series 1: $(((((A111JXM@AS1REPNA + A111JMM@AS1REPNA) + A111PPCM@AS1REPNA) + A111PPM@AS1REPNA$

$A111JXM@AS1REPNA$ [US: Export Price Index, As First Reported (NSA, M/M % Chg)]

$A111JMM@AS1REPNA$ [US: Import Price Index, As First Reported (NSA, M/M % Chg)]

$A111PPCM@AS1REPNA$ [US: Core PPI, As First Reported (SA, M/M % Chg)]

$A111PPM@AS1REPNA$ [US: Producer Price Index, As First Reported (SA, M/M % Chg)]

$A111CPCM@AS1REPNA$ [US: Core CPI, As 1st Reported (SA, M/M % Chg)]

$A111CPM@AS1REPNA$ [US: Consumer Price Index, As First Reported (SA, M/M % Chg)]

$F111JXM@AS1REPNA$ [US: Export Price Index, Month/Month C

Series 2: $diff\%(N111POIL@G10)$

$N111POIL@G10$ [U.S.: Spot Oil Price: West Texas Intermediate [Prior'82=Posted Price] (\$/Barrel)]

Chart 2: Indeed's Wage Trackers for the US, euro area and UK

Series 1: $LIWTY@USECON$ [US: Indeed Wage Tracker: Posted Wage Growth (NSA, Y/Y% Chg)]

Series 2: $I025YOY@EUDATA$ [Euro Area: Indeed Wage Tracker: Posted Wage Growth (NSA, Y/Y% Chg)]

Series 3: $UKNVYY@UK$ [UK: Indeed Wage Tracker: Posted Wage Growth (NSA, Y/Y% Chg)]

Chart 3: Bond market yield spreads in France, Italy and Spain

Series 1: $(R132MA@INTDAILY - R134MA@INTDAILY)$

$R132MA@INTDAILY$ [France: 10 Year Treasury Bond Mid Yield (% p.a.)]

$R134MA@INTDAILY$ [Germany: 10 Year Treasury Bond Mid Yield (% p.a.)]

Series 2: $(R136MA@INTDAILY - R134MA@INTDAILY)$

$R136MA@INTDAILY$ [Italy: 10 Year Treasury Bond Mid Yield (% p.a.)]

$R134MA@INTDAILY$ [Germany: 10 Year Treasury Bond Mid Yield (% p.a.)]

Series 3: $(R184MA@INTDAILY - R134MA@INTDAILY)$

$R184MA@INTDAILY$ [Spain: 10 Year Treasury Bond Mid Yield (% p.a.)]

$R134MA@INTDAILY$ [Germany: 10 Year Treasury Bond Mid Yield (% p.a.)]

Chart 4: Real estate sentiment in China versus house price inflation

Series 1: $yryr\%(N924HK@EMERGEPR)$ [China: 70 Cities: Price Index of Existing Residential Buildings (NSA, 2020=100)]

Series 2: $N924HIRC@EMERGEPR$ [China: Real Estate Climate Index (SA, 2012=100)]

Chart 5: Japan's exports of semiconductors versus the total

Series 1: $yryr\%(VEATTL@JAPAN)$ [Japan: Exports of Goods: Value (NSA, Bil.Yen)]

Series 2: $yryr\%(VECTT@JAPAN)$ [Japan: Value of Exports: Semiconductors (Bil.Yen)]

Chart 6: Global equity sector returns

Series 1: $diff\%(S001TKR@INTWKLY,24)$

S001TKR@INTWKLY [FTSE All-World Technology Stock Price Index Total Return(AVG, Index)]
Series 2: diff%(S001FBR@INTWKLY,24)
S001FBR@INTWKLY [FTSE All-World Banks Stock Price Index Total Return(AVG, Index)]
Series 3: diff%(S001ULR@INTWKLY,24)
S001ULR@INTWKLY [FTSE All-World Utilities Stock Price Index Total Return(AVG, Index)]
Series 4: diff%(S001HCR@INTWKLY,24)
S001HCR@INTWKLY [FTSE All-World Healthcare Stock Price Index Total Return(AVG, Index)]
Series 5: diff%(S001VCR@INTWKLY,24)
S001VCR@INTWKLY [FTSE All-World Consumer Services Stock Price Index Total Return(AVG, Index)]
Series 6: diff%(S001IDR@INTWKLY,24)
S001IDR@INTWKLY [FTSE All-World Industrials Stock Price Index Total Return(AVG, Index)]
Series 7: diff%(S001OGR@INTWKLY,24)
S001OGR@INTWKLY [FTSE All-World Oil & Gas Stock Price Index Total Return(AVG, Index)]
Series 8: diff%(S001TER@INTWKLY,24)
S001TER@INTWKLY [FTSE All-World Telecommunications Stock Price Index Total Return(AVG, Index)]
Series 9: diff%(S001GCR@INTWKLY,24)
S001GCR@INTWKLY [FTSE All-World Consumer Goods Stock Price Index Total Return(AVG, Index)]
Series 10: diff%(S001BMR@INTWKLY,24)
S001BMR@INTWKLY [FTSE All-World Basic Materials Stock Price Index Total Return(AVG, Index)]

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

