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Charts of the Week:
Growth alert

A HAVER ANALYTICS® podcast and publication

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Written by Andy Cates

Growth alert

We will not be publishing 'Charts of the Week' and our accompanying podcast next week. Financial markets have remained in much calmer waters in recent weeks following the bout of volatility that earmarked the first week of August. That's partly thanks to the release of some reassuring inflation data together with some dovish signals from several central banks. However, concerns about the global growth outlook persist. That's partly because incoming growth data have continued to surprise forecasters on the downside (charts 1, 2 and 3). Lingering uncertainty about how a further unwinding of Japan's carry trade might amplify financial instability in the period ahead could also be weighing on confidence (chart 4). In the meantime, while incoming inflation data have offered some reassurance that monetary policy will be loosened in the US and Europe in the coming months, still-sticky service sector inflation is generating some doubt about the scope and the scale (chart 5). Finally, and looking beyond these cyclical issues, there remain several structurally-rooted headwinds that could be knocking growth optimism off course, including ageing demographics (chart 6).

Copper prices and global growth

Incoming data for global growth have been frequently missing forecasters' expectations on the downside over the past few weeks. That's why Citigroup's global growth surprise index has lately declined to a near

3 year low (chart 1). Copper prices - often regarded as a good barometer of global growth conditions - have also lost some ground over the past couple of months notwithstanding some solid structural underpinning (e.g. from the global energy transition).
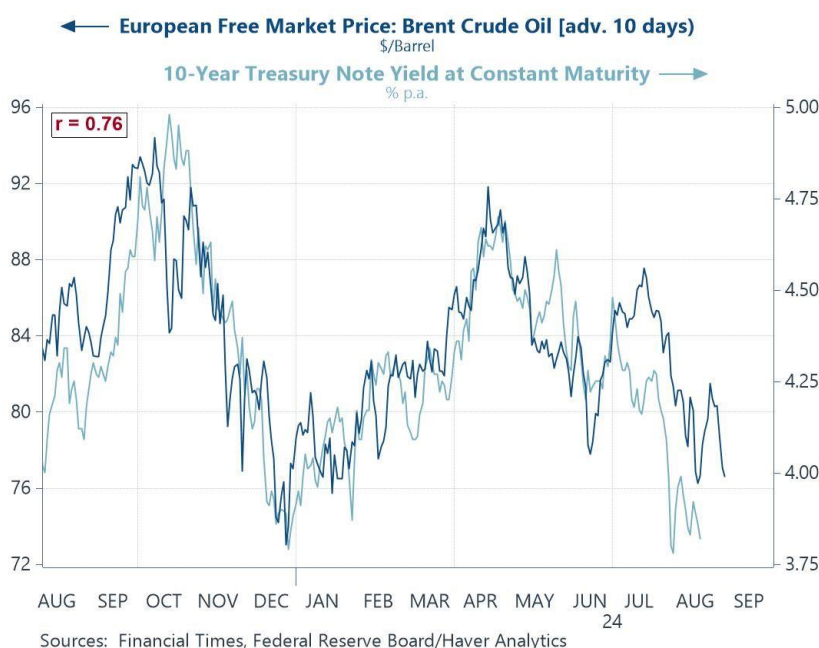
Chart 1: Citigroup global growth surprise index versus

Sources: Citigroup, Wall Street Journal/Haver Analytics

Oil prices and interest rates

Weaker-than-expected global demand may offer one explanation for why oil prices have also been softening over the past few weeks. But inasmuch as this has eased inflation fears and might leave more scope for looser monetary policy, this may have helped to drive US bond yields to lower levels as well (chart 2).

Chart 2: Oil prices versus US 10-year Treasury yields

Sources: Financial Times, Federal Reserve Board/Haver Analytics

China's property market

One of the more well-known pockets of global economic fragility concerns China's property market. Last week's data certainly suggested that a decline in house prices has continued unabated. Our nominal GDP-weighted index for China's largest 70 cities, for example, revealed a 4.7% y/y drop in new property prices in July, and an 8.5% decrease in existing prices. This ongoing decline has persisted despite efforts by authorities to boost demand and address a supply glut.
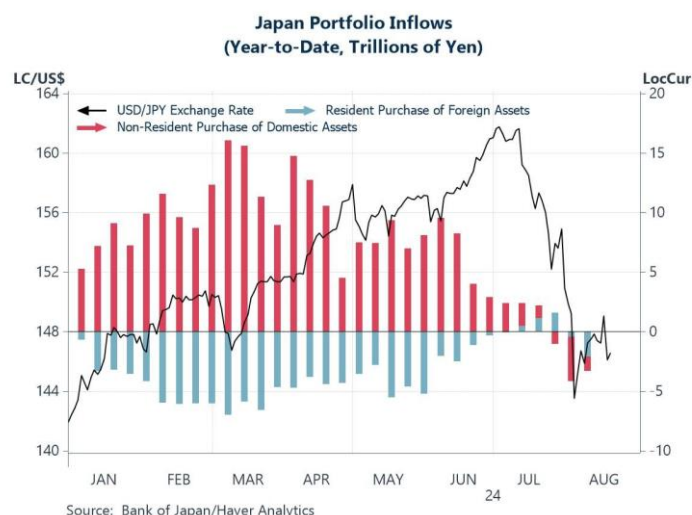
Chart 3: China: property price inflation

Source: China National Bureau of Statistics/Haver Analytics

Japan's financial flows and the carry trade

As noted, financial market conditions have stabilized in recent weeks in part because the unwinding of Japan's carry trade – a key factor that had amplified the instability in early August - has subsided. Early August data specifically show that Japanese residents' net purchases of foreign assets has picked up, while non-residents' net sales of Japanese assets have declined. Although these flows are not directly tied to carry trade activity, they provide insights into investor sentiment regarding the yen's underlying funding costs and the impact of changes in interest differentials.
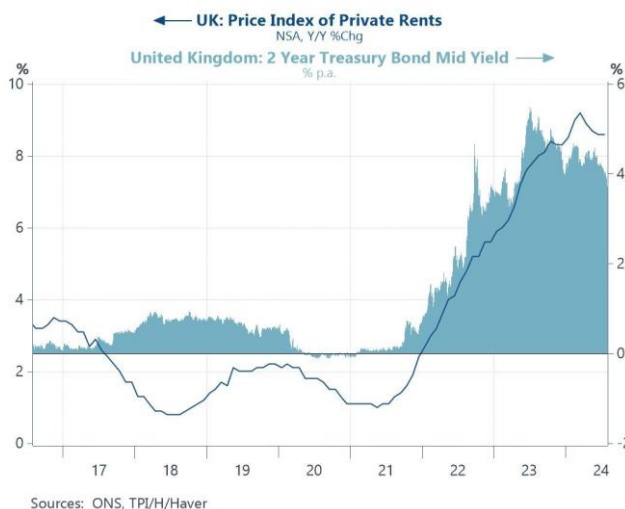
Chart 4: Japan's portfolio inflows versus the yen

Source: Bank of Japan/Haver Analytics

The UK housing market and the BoE

One of the key obstacles that has been hampering efforts to ease monetary policy in recent months is sticky service sector inflation. This has not been helped, at least in the UK, by the big feedback loops that exist between high levels of rental price inflation in the housing market, the wage demands of homeowners, landlords and tenants, and interest rates (chart 5). Still, with the Bank of England having reduced its policy rate in August and potentially now embarking on an easing cycle in the coming months, that vicious cycle between interest rates, wage inflation and services inflation could now move into reverse.
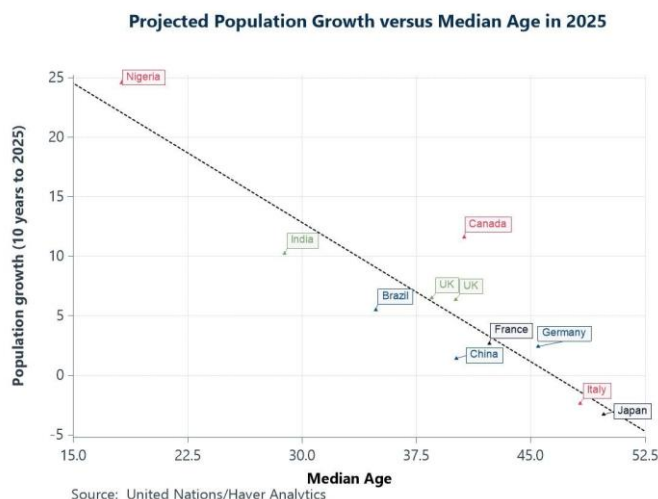
Chart 5: UK: Rental price inflation versus 2-year government bond yields

Sources: ONS, TPI/H/Haver

Demographic change

Our final chart below this week illustrates the interplay between demographic factors such as the projected median age in 2025 and population growth (in the 10 years to 2025). The implications of these trends are arguably profound, affecting everything from economic growth and labour markets to social security systems and healthcare. Countries such as Japan and Italy, located at the far right of the chart, will likely experience significant demographic challenges, with ageing populations and shrinking workforces. But on the other end of the scale, Nigeria stands out with a very low median age and extremely high projected population growth. This underscores the demographic dividend that Nigeria ought to benefit from if it can effectively harness this demographic potential.

Chart 6: Projected population growth versus the median age in 2025 in selected economies

Source: United Nations/Haver Analytics

About the author

Haver Analytics is pleased to bring <u>Andrew Cates's</u> 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: Citigroup global growth surprise index versus
Series 1: V001CSI@INTDAILY
  V001CSI@INTDAILY [Citigroup Economic Surprise Index: Based on Global Currencies (%)]
Series 2: diff%(PUSCPJ@CMDTY,180)
  PUSCPJ@CMDTY [Cash Price: Copper, High Grade: COMEX Spot Price ($/Lb)]

Chart 2: Oil prices versus US 10-year Treasury yields
Series 1: PZBRT@DAILY [-10]
  PZBRT@DAILY [European Free Market Price: Brent Crude Oil ($/Barrel)]
Series 2: FCM10@DAILY
  FCM10@DAILY [10-Year Treasury Note Yield at Constant Maturity (% p.a.)]

Chart 3: China: property price inflation
Series 1: yryr%(N924HWM@EMERGEPR)
  N924HWM@EMERGEPR [China: 70 Cities: Price of New Commercial Residential Buildings (NSA, 2020=100)]
Series 2: yryr%(N924HK@EMERGEPR)
  N924HK@EMERGEPR [China: 70 Cities: Price Index of Existing Residential Buildings (NSA, 2020=100)]

Chart 4: Japan's portfolio inflows versus the yen
Series 1: X158JBB@INTDAILY
  X158JBB@INTDAILY [Japan: Spot Yen/USD Exchange Rate: 17:00 in JST (Yen/USD)]
Series 2: ytd((-1 * ((F158OSBN@INTWKLY + F158OBN@INTWKLY) + F158OSN@INTWKLY)))
  -1
  F158OSBN@INTWKLY [Japan: Residents' Net Purch/Sales of For ST Debt Securities(100 Mil.Yen)]
  F158OBN@INTWKLY [Japan: Residents' Net Purch/Sales of For LT Debt Securities(100 Mil.Yen)]
  F158OSN@INTWKLY [Japan: Residents' Net Purch/Sales of For Eq & Inv Fund Shares(100 Mil.Yen)]
Series 3: ytd(((F158ISBN@INTWKLY + F158IBN@INTWKLY) + F158ISN@INTWKLY))
  F158ISBN@INTWKLY [Japan: Foreigners' Net Purch/Sales of Domestic ST Debt Sec (100 Mil.Yen)]
  F158IBN@INTWKLY [Japan: Foreigners' Net Purch/Sales of Domestic LT Debt Sec (100 Mil.Yen)]
  F158ISN@INTWKLY [Japan: Foreigners' Net Purch/Sales of Dom Eq & Inv Fund Shares(100 Mil.Yen)]

Chart 5: UK: Rental price inflation versus 2-year government bond yields
Series 1: UKNPIPRA@UK
  UKNPIPRA@UK [UK: Price Index of Private Rents (NSA, Y/Y %Chg)]
Series 2: R112M2Y@INTDAILY
  R112M2Y@INTDAILY [United Kingdom: 2 Year Treasury Bond Mid Yield (% p.a.)]

Chart 6: Projected population growth versus the median age in 2025 in selected economies
Series 1: C223MA@UNPOP
  C223MA@UNPOP [Brazil: Median Age (years)]
Series 2: diff%(C223TB@UNPOP,10)

C223TB@UNPOP [Brazil: Total Population (Thous)]
Series 3: C136MA@UNPOP
  C136MA@UNPOP [Italy: Median Age (years)]
Series 4: diff%(C136TB@UNPOP,10)
  C136TB@UNPOP [Italy: Total Population (Thous)]
Series 5: C112MA@UNPOP
  C112MA@UNPOP [U.K.: Median Age (years)]
Series 6: diff%(C112TB@UNPOP,10)
  C112TB@UNPOP [U.K.: Total Population (Thous)]
Series 7: C132MA@UNPOP
  C132MA@UNPOP [France: Median Age (years)]
Series 8: diff%(C132TB@UNPOP,10)
  C132TB@UNPOP [France: Total Population (Thous)]
Series 9: C134MA@UNPOP
  C134MA@UNPOP [Germany: Median Age (years)]
Series 10: diff%(C134TB@UNPOP,10)
  C134TB@UNPOP [Germany: Total Population (Thous)]
Series 11: C694MA@UNPOP
  C694MA@UNPOP [Nigeria: Median Age (years)]
Series 12: diff%(C694TB@UNPOP,10)
  C694TB@UNPOP [Nigeria: Total Population (Thous)]
Series 13: C534MA@UNPOP
  C534MA@UNPOP [India: Median Age (years)]
Series 14: diff%(C534TB@UNPOP,10)
  C534TB@UNPOP [India: Total Population (Thous)]
Series 15: C158MA@UNPOP
  C158MA@UNPOP [Japan: Median Age (years)]
Series 16: diff%(C158TB@UNPOP,10)
  C158TB@UNPOP [Japan: Total Population (Thous)]
Series 17: C924MA@UNPOP
  C924MA@UNPOP [P.R. China: Median Age (years)]
Series 18: diff%(C924TB@UNPOP,10)
  C924TB@UNPOP [P.R. China: Total Population (Thous)]
Series 19: C156MA@UNPOP
  C156MA@UNPOP [Canada: Median Age (years)]
Series 20: diff%(C156TB@UNPOP,10)
  C156TB@UNPOP [Canada: Total Population (Thous)]
Series 21: C111MA@UNPOP
  C111MA@UNPOP [U.S.: Median Age (years)]
Series 22: diff%(C111TB@UNPOP,10)
  C111TB@UNPOP [U.S.: Total Population (Thous)]

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