



13 September 2024

Charts of the Week: Inflation Focus

A HAVER ANALYTICS® podcast and publication

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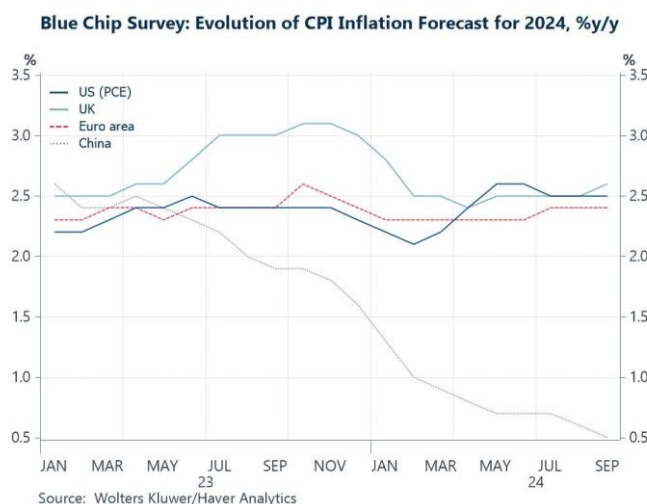
Inflation Focus

The ECB's decision to lower its key policy rates by 25 basis points this week, while widely anticipated, nevertheless underscores a shift in focus, with central banks now prioritizing economic growth and monetary stimulus. This marks a departure from the post-pandemic period when monetary policy was calibrated to curb inflation. In our charts this week we take a closer look at the global inflation scene. We highlight, for example, the growing confidence from economic forecasters in recent months that inflation would fall to target-friendly levels (chart 1). We move on to examine some of the factors that have driven inflation down to those levels, including easing supply side pressures and slower demand (chart 2). That labour market activity is now additionally beginning to weaken in some major economies, and most notably the US, has generated some pay-off too in the form of weaker wage inflation (chart 3). Where exactly inflation will now settle beyond the next few months is more nuanced and subject to a far more active debate. De-globalisation pressures and climate change, for example, might leave inflation higher for longer in the years ahead. On the other hand, other structural forces, such as the rise in remote working, might help to restrain wage and broader inflationary pressure (charts 4 and 5). Technological innovations, and particularly AI, could also play a significant role in the future by boosting productivity growth and reducing unit cost pressures. But while there is now greater certainty regarding the near-term inflation outlook, considerable uncertainty remains about the longer-term impact of these shifts on the global economy's supply side (chart 6). They could either enhance efficiency, for example, or introduce new challenges, leaving their effects on inflation and cost structures highly unpredictable beyond the immediate future.

The Blue Chip Inflation Consensus

An examination of the evolution of CPI projections for 2024 in the world's major economies over the past few months suggests much more confidence from US and European economic forecasters about the near-term inflation outlook. As shown in chart 1, inflation forecasts for the US and the euro area have remained fairly stable, within a narrow range of 2.2% to 2.6%, over recent months. This contrasts with China, where inflation projections have steadily declined—from 2.6% in January 2023 to just 0.5% in the latest September Blue Chip Survey.

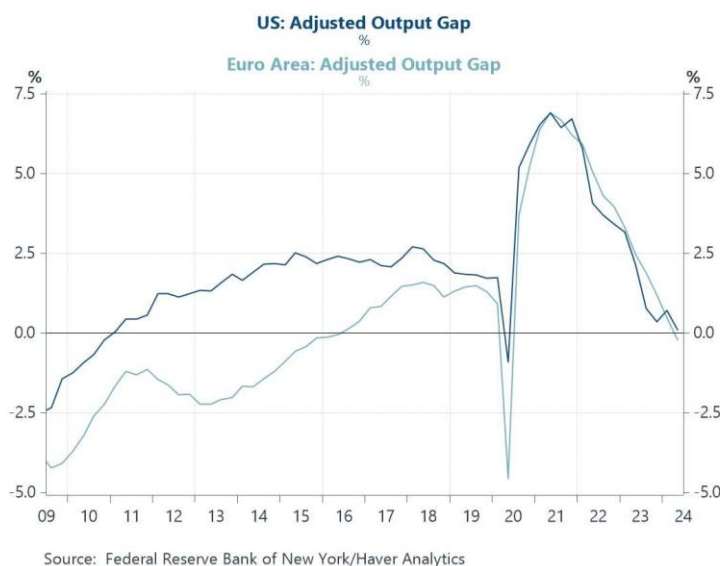
Chart 1: Blue Chip Survey: The evolution of CPI inflation forecasts for 2024



Capacity pressures

That heightened confidence from forecasters that inflation is more predictable reflects a number of factors including fading supply side tensions, lower energy prices, more restrictive policy settings and weaker demand. Against that backdrop it's certainly of note that aggregate estimates of the mismatch between demand and supply in the US and euro area – the output gap – have now moved back to more neutral territory (see chart 2).

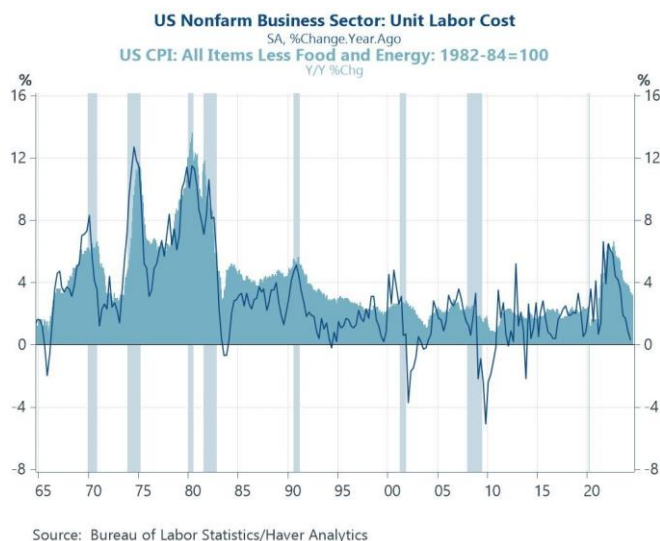
Chart 2: Output gap estimates for the US and euro area



US unit labour cost inflation

Recent data have also highlighted growing fragility in the US labour market, alongside a modest improvement in productivity growth over the past year. This combination has led to a significant decline in unit labour cost inflation (chart 3). This is arguably important, as wage pressures play a key role in shaping the outlook for service sector CPI inflation.

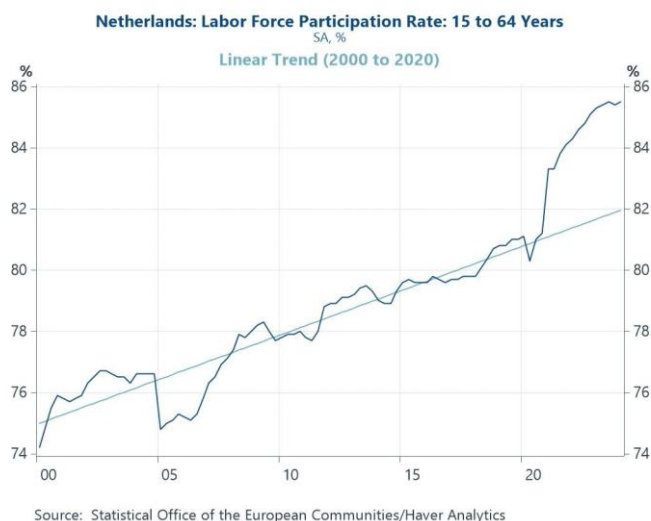
Chart 3: US unit labour cost inflation versus core CPI inflation



Labour force participation rates

One of the issues that's perplexed the forecasting community in recent years concerns the evidence suggesting that inflationary pressures have been subsiding even as labour markets have remained tight. One factor that's arguably not received as much attention in this debate as it should have, concerns the rise in remote work in the post-pandemic period. An examination of the data for the G10 economies reveals that labour force participation rates have typically risen sharply over the past 3 years (see chart 4 for an example from the Netherlands). And remote work could have been a driver by enabling greater participation, especially for those with childcare responsibilities or health issues, improving labour market flexibility and helping to alleviate potential inflationary pressures.

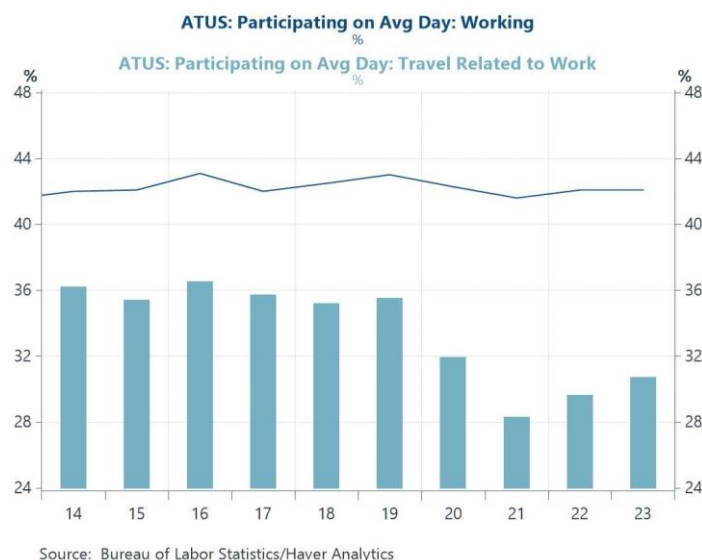
Chart 4: The labour force participation rates in the Netherlands



Working from home

Further evidence on this issue can be found from a recent IMF analysis (see Working from Home), one snippet from which concerns data from the American Time and Use Survey. As chart 5 below suggests, that latest survey shows that the American workforce now spends a much lower fraction of their working day on commuting even though the proportionate time they spend working has remained roughly the same it was in the pre-pandemic period.

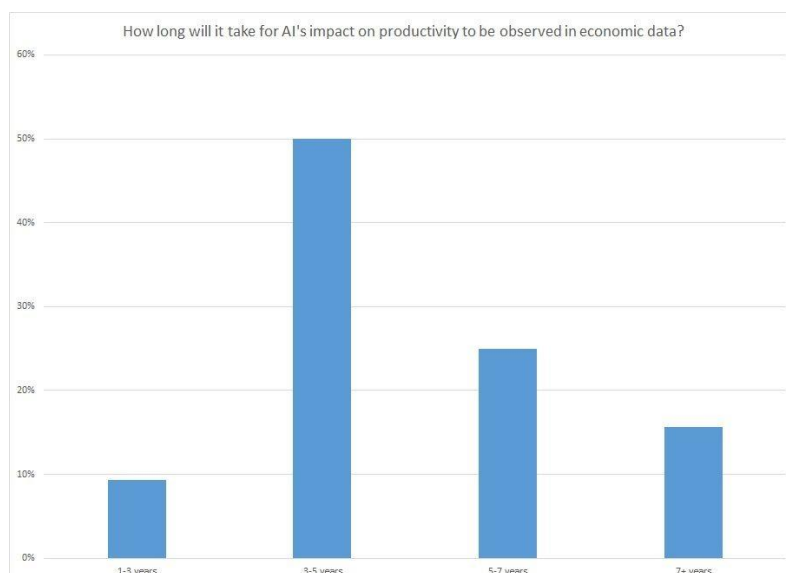
Chart 5: The American Time and Use Survey (ATUS): Working day and commuting times



Artificial Intelligence and productivity

By expanding the potential pool of labour and reducing companies' capital needs (e.g., office space), the global shift toward remote work could benefit both economic growth and inflation. Another key factor, however, that may influence the world economy's supply side fabric in the future is Artificial Intelligence (AI). The September Blue Chip Economic Indicators survey certainly revealed much optimism about AI's potential to boost productivity. However, opinions on when the productivity payoff would appear varied. While fewer than 10% expected an impact within 1 to 3 years, half of the respondents predicted it would materialize in the next 3 to 5 years (see chart 6 below).

Chart 6: Blue Chip Survey: The length of time it will take AI to impact productivity data



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: Blue Chip Survey: The evolution of CPI inflation forecasts for 2024

Series 1: [UAAD24@BLUECHIP](#)

UAAD24@BLUECHIP [Blue Chip: PCE Price Index 2024 Consensus Forecast (Year/Year %Chg)]

Series 2: [DGBD24@BLUECHIP](#)

DGBD24@BLUECHIP [BCEI: Change in Consumer Price Index: UK: Consensus: 2024 Forecast (%)]

Series 3: [DEZD24@BLUECHIP](#)

DEZD24@BLUECHIP [BCEI: Change in Consumer Price Index: Euro area: Consensus: 2024 Forecast (%)]

Series 4: [DCND24@BLUECHIP](#)

DCND24@BLUECHIP [BCEI: Change in Consumer Price Index: China: Consensus: 2024 Forecast (%)]

Chart 2: Output gap estimates for the US and euro area

Series 1: [N111VGAP@G10](#)

N111VGAP@G10 [US: Adjusted Output Gap (%)]

Series 2: [N023VGAP@G10](#)

N023VGAP@G10 [Euro Area: Adjusted Output Gap (%)]

Chart 3: US unit labour cost inflation versus core CPI inflation

Series 1: [LXNFUPY@USECON](#)

LXNFUPY@USECON [Nonfarm Business Sector: Unit Labor Cost (SA, %Change.Year.Ago)]

Series 2: [YPCUSLFE@USECON](#)

YPCUSLFE@USECON [CPI-U: All Items Less Food and Energy: 1982-84=100 (Y/Y %Chg)]

Chart 4: The labour force participation rates in the Netherlands

Series 1: [H138ELPR@G10](#)

H138ELPR@G10 [Netherlands: Labor Force Participation Rate: 15 to 64 Years (SA, %)]

Series 2: [TRDLN\(H138ELPR@G10,20001:20201,20001:20241\)](#)

H138ELPR@G10 [Netherlands: Labor Force Participation Rate: 15 to 64 Years (SA, %)]

Chart 5: The American Time and Use Survey (ATUS): Working day and commuting times

Series 1: [TU50684@ATUS](#)

TU50684@ATUS [ATUS: Participating on Avg Day: Working (%)]

Series 2: [TU53891@ATUS](#)

TU53891@ATUS [ATUS: Participating on Avg Day: Travel Related to Work (%)]

Chart 6: Blue Chip Survey: The length of time it will take AI to impact productivity data
Please see Excel file included in VG3 download.

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

