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Charts of the Week

A Haver Analytics[®] commentary and podcast

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Written by Andy Cates

Flash Dance

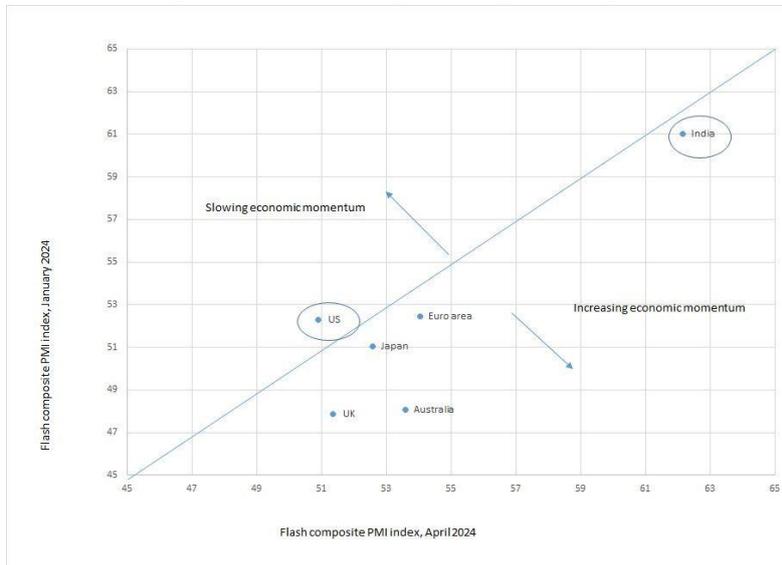
Following a week in which the risks to the global economic outlook suddenly skewed to the downside, the pendulum has swung back again over the past few days. Confidence in a soft landing for the world economy has instead now re-surfaced partly thanks to firmer-than-expected global economic data, together with some solid corporate earnings reports from the United States. Additionally - and at the root of last week's concerns - geopolitical tensions between Israel and Iran have eased, further bolstering investors' risk appetite. In our charts this week we delve into key insights from April's flash purchasing managers' (PMI) surveys (see chart 1). We also examine the recent rise in copper prices—often a reliable indicator of global economic activity—and now echoing the messages from those PMI surveys (chart 2). An additional echo (and indeed reason for) both improving global growth momentum and higher copper prices can also be found in the impressive growth in South Korea's exports of semiconductors (see chart 3). Next, we explore monetary policy issues, particularly how traditional Phillips curve models have struggled to accurately predict the relationship between inflation and unemployment in recent years (chart 4). We conclude with an analysis of financial balances in the US and euro area, which offers some reasons for those struggles (charts 5 and 6).

Global growth momentum

Global economic activity has shown some signs of improvement over the past three months according to

the latest raft of flash PMI surveys. Comparing the latest composite PMI for April with its level from January reveals that most major economies are registering both positive growth (i.e. a PMI above 50) and a quickening pace of growth compared with three months ago (i.e. an April PMI that is higher than where it stood in January). The notable exception to this is the United States, where the pace of expansion that is being signaled by these surveys has slowed. Compared with the major advanced economies, India also stands out as registering a relatively rapid pace of economic growth as well (see chart 1).

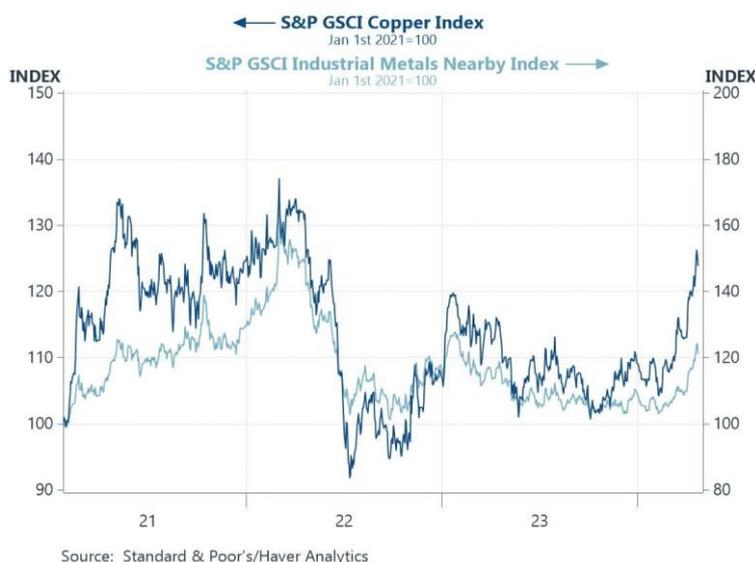
Chart 1: Flash composite PMI surveys for April compared with January



Copper prices

Copper is closely monitored as a key commodity due to its extensive use in the industrial sector and its growing importance, in particular, in renewable energy and electric vehicle production. That copper prices have risen strongly over the past few months will therefore likely be viewed as a positive signal about the underlying health of the world economy (see chart 2). To be sure, supply disruptions have also contributed to the rise in prices in recent weeks, but it is surely no coincidence that other key barometers of growth (e.g. PMI surveys) have been signaling an improving global economic environment at the same time.

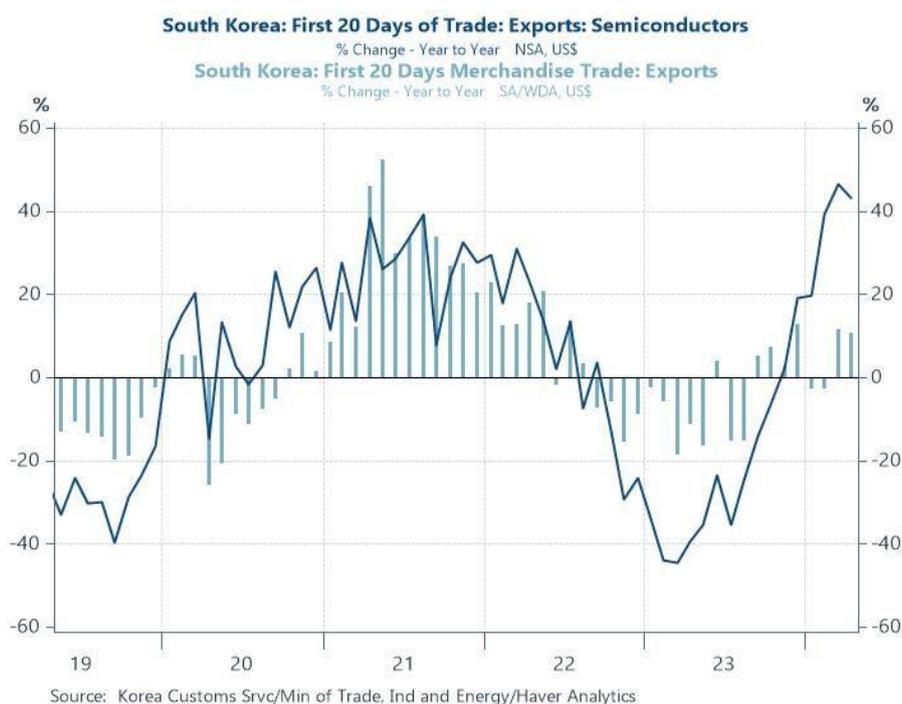
Chart 2: Copper prices versus broader industrial metal prices



Semiconductor trade

Copper is a component used in producing semiconductors, particularly in the manufacture of integrated circuits. And that's surely a key reason why the recent relative buoyancy of South Korea's semiconductor exports, evidenced in chart 3 below, also aligns with the messages from charts 1 and 2 above. Haver's calculations specifically suggest that South Korea's semiconductor exports climbed by around 43% y/y in the first 20 working days of April on a seasonally adjusted and working day adjusted basis. That's down a little from around 47% y/y in March but nonetheless still a punchy growth rate compared with longer-term trends.

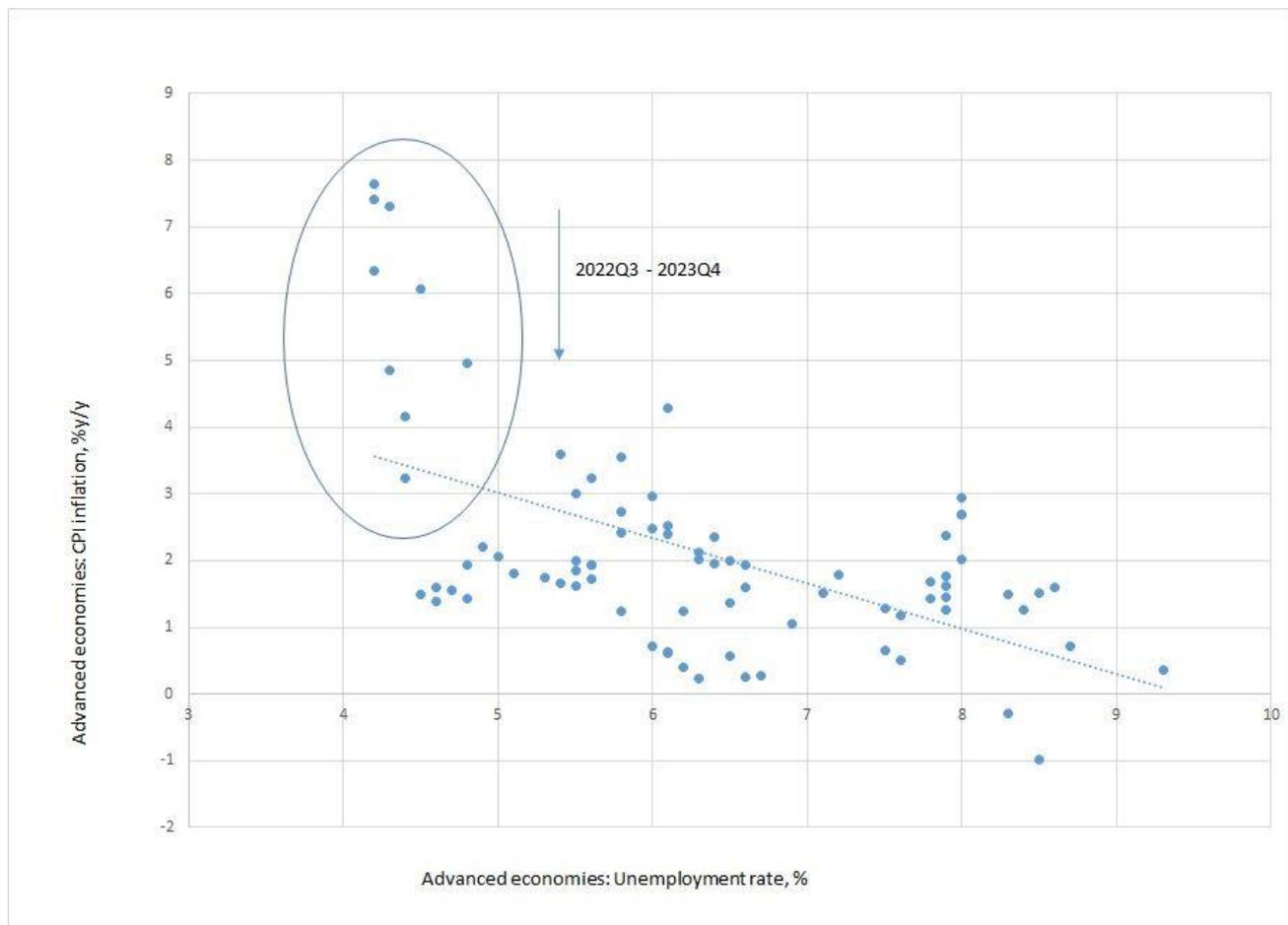
Chart 3: South Korea's exports growth in semiconductors versus the total



Monetary policy transmission

Calibrating monetary policy in recent years has been particularly challenging thanks to significant supply-side shocks to the global economy and considerable uncertainty regarding the demand-side implications. Whether or not monetary policy settings are now sufficiently restrictive in the world's major economies is now being actively debated not least given recent indications that inflationary pressures have been building again. One point of contention is the seemingly blunt impact of monetary policy in both exacerbating, and then mitigating, inflation. This effect can be indirectly observed across advanced economies through the apparent breakdown of the Phillips curve relationship, which traditionally links unemployment and inflation. Over the past 20 years, as shown in Chart 4 below, this relationship typically yielded a negative correlation, in line with textbook theory. However, the post-COVID period has witnessed a significant divergence from this, a substantial disinflationary process has unfolded even as labor markets have remained very tight over the past two years.

Chart 4: Unemployment in advanced economies versus CPI inflation

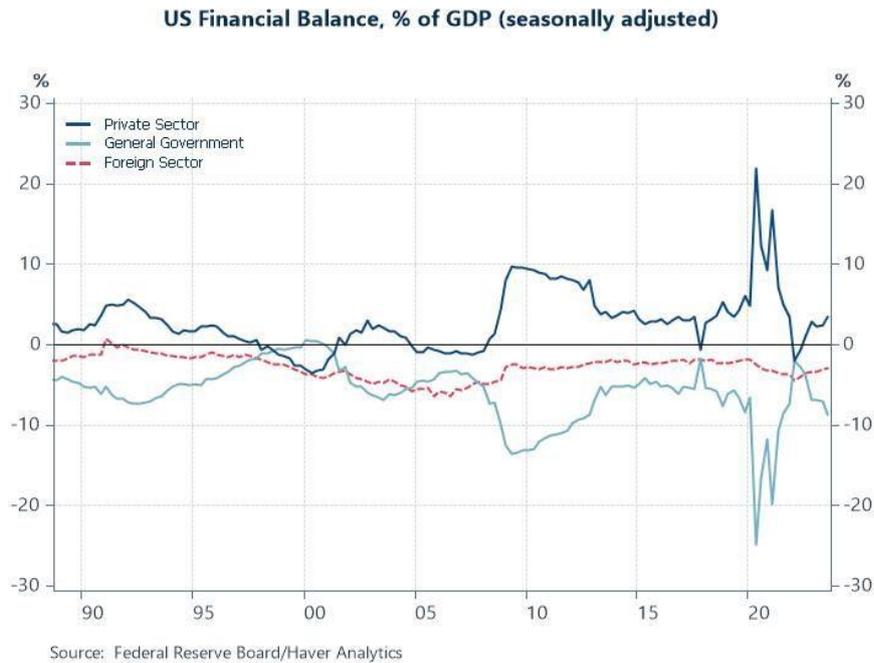


US fiscal policy support

An analysis of financial balances can be insightful in understanding these dynamics. Chart 5 below illustrates those balances for the three sectors that constitute the US economy: the private sector, the government sector, and the foreign sector. Each sector's financial balance is determined by subtracting its total expenditure from its income. A financial surplus means the sector is accumulating financial assets, whereas a deficit indicates it is depleting assets (or increasing its borrowing) to fund its activity. Because these three sectors encompass all US economic activity, both domestic and international, their combined financial balances must equal zero.

A key point to note with respect to the US is the dramatic deterioration in the government's financial balance in the post-COVID phase, initially prompted by private sector retrenchment (which subsequently reversed). Subsequently, however, COVID relief packages – which allowed the private sector to accumulate big saving reservoirs - coupled with large infrastructure investment programmes, have still left the government sector with an historically large deficit (amounting to 9.3% of GDP in Q3 2023). Against that backdrop, and partly thanks to that hefty fiscal policy support, the private sector has, on the whole, accumulated financial surpluses. These were depleted in the post-COVID recovery phase – which allowed the economy to maintain strong momentum - but were still sizeable, at around 4% of GDP, in Q3 2023. It is equally notable, however, that this private sector surplus has been climbing over the past 18 months. That could signal that monetary policy is restrictive not least as it has been accompanied by a smaller deficit on the foreign sector's account as well.

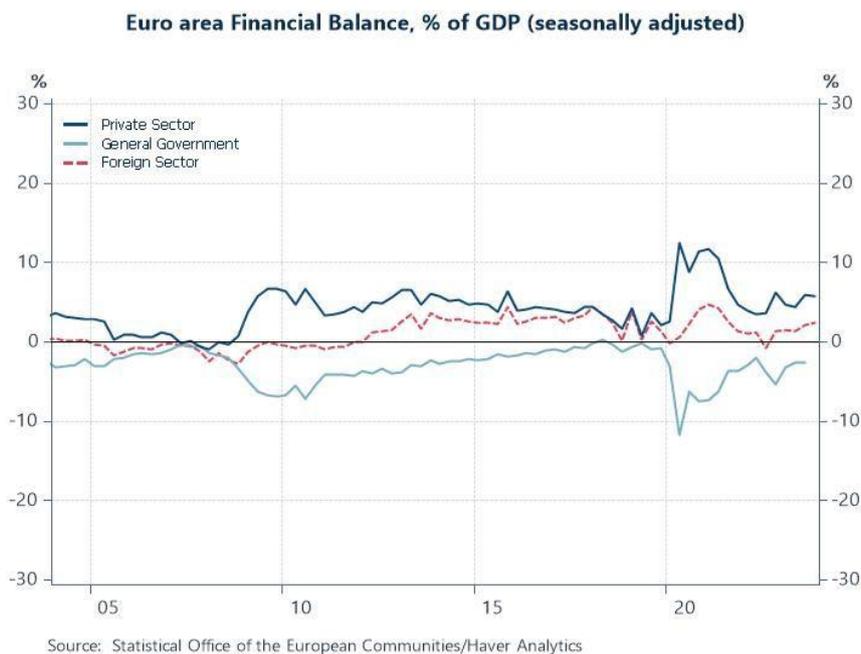
Chart 5: US financial balances



Euro area financial balances

An analysis of euro area financial balances is not as dramatic. The regional oscillations in each sector's financial position have, in particular, not been as large as in the US (see chart 6). The government sector's deficit position, for example, at 2.7% of GDP in Q3 2023, is little-changed compared with its pre-COVID level (of 3.1% of GDP) in Q1 2020. The private sector surplus, in the meantime, notwithstanding some initial post-COVID shocks, stood at 5.8% of GDP in Q4 2023, which compares with 2.5% in Q1 2020. This implies that the euro area economy as a whole has been in balance largely thanks to an offsetting increase in the foreign sector's deficit, or putting that another way, in a higher current account surplus. The bottom line is that, at least on a regional basis, fiscal policy has been much less accommodative, and through a much higher private sector surplus, monetary policy is placing a big brake on the region's economies as well.

Chart 6: Euro area financial balances



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: Flash composite PMI surveys for April compared with January

Please refer to Excel file in downloadable VG3 zip file.

Chart 2: Copper prices versus broader industrial metal prices

Series 1: `index(GSIC@CMDTY,20210101=100)`

GSIC@CMDTY [S&P GSCI Copper Index (Dec-30-76=100)]

Series 2: `index(GSIN@CMDTY,20210101=100)`

GSIN@CMDTY [S&P GSCI Industrial Metals Nearby Index (Dec-31-76=100)]

Chart 3: South Korea's exports growth in semiconductors versus the total

Series 1: `yyr%(N542IRVR@EMERGEPR)`

N542IRVR@EMERGEPR [S Korea: First 20 Days of Trade: Exports: Semiconductors (NSA, Mil.US\$)]

Series 2: `yyr%(W542IX20@EMERGEPR)`

W542IX20@EMERGEPR [South Korea: First 20 Days Merchandise Trade: Exports (SA/WDA, Mil.US\$)]

Chart 4: Unemployment in advanced economies versus CPI inflation

Please refer to Excel file in downloadable VG3 zip file.

Chart 5: US financial balances

Series 1: `sa(S111ZCPP@G10)`

S111ZCPP@G10 [US: Private Sector Capital Balance as % of GDP(%)]

Series 2: `sa(S111ZCGP@G10)`

S111ZCGP@G10 [US: General Government Capital Balance as % of GDP (%)]

Series 3: `(-1 * sa(S111ZCWP@G10))`

-1

S111ZCWP@G10 [US: Rest of the World Capital Balance as % of GDP (%)]

Chart 6: Euro area financial balances

Series 1: `sa(N025ZFPP@G10)`

N025ZFPP@G10 [EA 20: Private Sector Financial Balance as % of GDP(%)]

Series 2: `sa(N025ZFGP@G10)`

N025ZFGP@G10 [EA 20: General Government Financial Balance as % of GDP (%)]

Series 3: `(-1 * sa(N025ZFWP@G10))`

-1

N025ZFWP@G10 [Euro Area: Rest of the World Financial Balance as % of GDP (%)]