



THE WIRE: ECONOMICS

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Monday 8 August 2022

MARKETS WAIT ON US INFLATION NEWS

- Strong labour market report casts doubt on US recession narrative
- Bank of England provides a downbeat assessment of economic outlook as it hikes rates again
- US headline CPI inflation forecast to have slipped in July, but core rate expected to rise
- UK GDP likely to have fallen in July but outturn likely distorted by Jubilee effects

MARKETS STILL ON RECESSION WATCH

Markets have remained on recession watch over the past week as they look for clues on how quickly and by how much economic activity is set to slow. Following up on last week's 75 basis point interest rate hike, Federal Reserve policymakers have confirmed that lowering inflation remains their number one concern. US longer-dated bond yields have risen over the past week after touching their lowest level since early April on Tuesday but are still around 70 basis points below their June peak. Meanwhile, global equities seem set to see a third weekly advance, which would take them to a near two-month high. Today's US labour market report for July, which saw both a higher-than-expected rise in employment and a pick-up in earnings growth, is consistent with Fed policymakers' assessment that the economy is not yet in recession. Nevertheless, the market environment is likely to remain uncertain.

BOE DELIVERED A SOMBRE ECONOMIC ASSESSMENT

In the UK, the Bank of England's Monetary Policy Committee delivered a downbeat message about UK economic conditions alongside its latest interest rate hike. In contrast to Fed policymakers, who are still saying it is possible for the US economy to 'soft land' despite its aggressive monetary policy tightening, the message from the BoE is that the UK economy is likely to enter a recession later this year and last for five quarters. Meanwhile, the MPC now expects inflation to move even higher in the near term, with the CPI headline rate forecast to exceed 13% in October in response to the next energy price cap rise. Inflation is still expected to move down significantly over the next few years and is predicted to fall back to the 2% target

RECAP OF THE WEEK

- Bank of England raised interest rates by 50bp; said inflation will move above 13% and warned of likely recession
- Australian central bank also raised rates by 50bp
- All but one of China's PMI reports disappointed in July signalling ongoing growth concerns
- Revisions to July UK & Eurozone PMIs failed to change picture of slowing or faltering growth
- US ISM surveys surprised on the upside in July, but inflation signals were mixed
- US employment rose 528k in July, unemployment rate fell and earnings accelerated

Chart 1: May bounce in UK GDP unlikely to be sustained

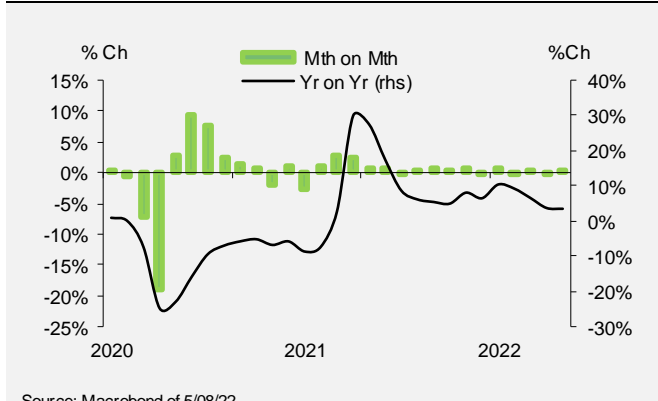
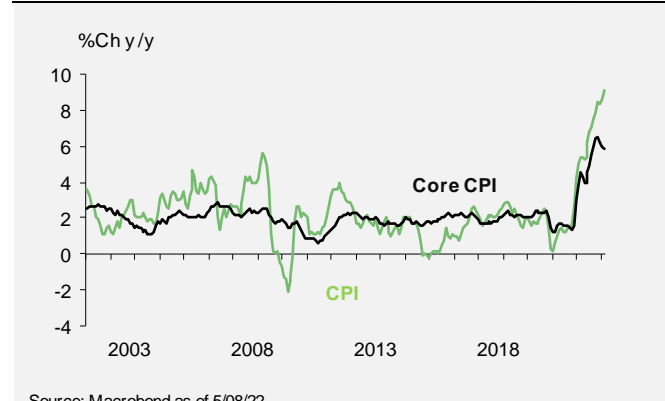


Chart 2: US CPI inflation may have dipped slightly in July



by late 2024 but the MPC warned that inflation would now “remain at very elevated levels throughout much of 2023”.

The immediate market reaction was for both UK gilt yields and sterling to fall sharply possibly due to more uncertainty whether UK interest rates will rise further. Gilt yields have subsequently rebounded but sterling is still below its pre-announcement level against both the euro and US dollar. The BoE's economic projections imply that it sees market pricing suggesting that Bank Rate could rise to 3% as excessive. Nevertheless, further hikes cannot be ruled out and our own projections see a further 50bp of Bank Rate increases in the current hiking cycle. One factor that may impact on that rate profile will be whether the new prime minister offers further significant fiscal support to households in the wake of the most recent news on energy prices.

JUBILEE EFFECTS DISTORT UK GDP DATA

The coming Friday's UK GDP report may be seen as evidence that the UK economy is already in recession as we expect it to show a monthly fall in output for June of 0.9%. However, that decline is primarily due to the impact of the Jubilee, which was marked with an extra bank holiday and the moving of the usual late May bank holiday into June. The effective removal of two working days for many industries is likely to have been enough to result in a considerable fall in monthly output. It is also forecast to result in a drop in GDP for Q2 of 0.1%. The Bank of England is anticipating a decline and also expects a corresponding rebound in Q3, which is partly why it is not forecasting the recession to start until Q4.

The expenditure breakdown of the GDP report will also have been distorted by the Jubilee but nevertheless may still provide some useful detail. Retail sales were weak in Q2 but it remains unclear whether that represents consumers cutting back in response to the cost of living 'squeeze' or switching more of their spending towards services. So the report may provide some clarification. It will also be interesting to see to what extent the fluctuation in output is explained by changes in final demand or in inventories. GDP aside, it is a relatively light week for UK data but the British Retail Consortium survey on retail sales will provide some indications for July.

US INFLATION REPORT TO PROVIDE MIXED SIGNALS

Internationally, the July US CPI report (Wed) is bound to attract a lot of attention particularly after today's strong labour market report. The fall in oil prices during July seems likely to have pushed down headline inflation and we forecast the annual rate to have slipped to 8.8% from June's 9.1%. The further fall in oil prices in early August points to more near-term inflation relief from that area, moreover the sharp rise in gas prices in Europe which is putting upward pressure on UK inflation is less of a factor for the US. Consequently, unless the oil price rebounds sharply, we may now have seen the peak in headline US inflation for 2022.

However, a less positive picture on inflation trends is likely to be provided by the 'core' rate (excluding food and energy). Recent monthly updates have shown signs of inflation broadening out to a wider range of goods and particularly services. We expect the July report to provide further evidence of this with the annual core rate of inflation rising to 6.2% from 5.9%. Fed policymakers have said that they are looking for “compelling” evidence that inflationary pressures are easing before they change course on monetary policy. However, this outcome would seemingly support the comments from officials that a further interest rate rise of at least 50bp is likely at their next policy update in September. Elsewhere the data calendar is light although China inflation and Eurozone industrial production will be of interest.

UPCOMING GLOBAL HIGHLIGHTS

China international trade (Sun)
China CPI & PPI (Wed)
Eurozone Industrial production (Fri)

UPCOMING UK HIGHLIGHTS

BRC retail sales survey (Wed)
GDP (Fri)
Business investment (Fri)
International trade (Fri)

UPCOMING US HIGHLIGHTS

Productivity & unit labour costs (Tue)
CPI (Wed)
PPI (Thu)
Univ of Michigan consumer sentiment survey (Fri)

Weekly Economic Calendar

	Time (BST)	Time (EST)	Release/Event	Period	Consensus	Forecast	Previous
SUNDAY 07 AUG							
CH	00:00	19:00*	Trade Balance (CNY)	Jul	(¥ 600bn)	--	(¥ 650bn)
CH	00:00	19:00*	Imports (CNY)	Jul	(5.7%)	--	(4.8%)
CH	00:00	19:00*	Exports (CNY)	Jul	(19.6%)	--	(22.0%)
CH	00:00	19:00*	Foreign Reserves	Jul	\$3,051bn	--	\$3,071bn
MONDAY 08 AUG							
JN	00:50	19:50*	Current Account Adjusted	Jun	-¥28bn	--	¥8bn
EZ	09:30	04:30	Sentix Investor Confidence	Aug	-29.4	--	-26.4
TUESDAY 09 AUG							
UK	00:01	19:01*	BRC Sales Like-For-Like	Jul	--	--	(-1.3%)
JN	00:50	19:50*	Money Stock M2	Jul	(3.3%)	--	(3.3%)
JN	07:00	02:00	Machine Tool Orders	Jul P	--	--	(17.1%)
US	11:00	06:00	NFIB Small Business Optimism	Jul	89.3	--	89.5
US	13:30	08:30	Unit Labour Costs	2Q P	9.80%	10.0%	12.60%
US	13:30	08:30	Nonfarm Productivity	2Q P	-4.50%	-5.0%	-7.30%
WEDNESDAY 10 AUG							
JN	00:50	19:50*	PPI	Jul	0.4% (8.5%)	--	0.7% (9.2%)
CH	02:30	21:30*	CPI	Jul	(2.9%)	--	(2.5%)
CH	02:30	21:30*	PPI	Jul	(4.9%)	--	(6.1%)
GE	07:00	02:00	CPI EU Harmonised	Jul F	0.8% (8.5%)	--	0.8% (8.5%)
GE	07:00	02:00	CPI	Jul F	0.9% (7.5%)	--	0.9% (7.5%)
IT	09:00	04:00	CPI EU Harmonised	Jul F	-- (8.4%)	--	-1.1% (8.4%)
US	13:30	08:30	Core CPI (excluding food and energy)	Jul	0.5% (6.1%)	0.6% (6.2%)	0.7% (5.9%)
US	13:30	08:30	CPI	Jul	0.2% (8.7%)	0.2% (8.8%)	1.3% (9.1%)
US	13:30	08:30	Real Average Weekly Earnings	Jul	--	--	(-4.4%)
US	16:00	11:00	Fed's Evans Discusses the Economy and Monetary Policy				
US	17:00	12:00	BoE Chief Economist Pill hosts a virtual Q&A				
US	19:00	14:00	Fed's Kashkari Discusses Inflation				
THURSDAY 11 AUG							
UK	00:01	19:01*	RICS House Price Balance	Jul	60.0%	--	64.8%
US	13:30	08:30	PPI Final Demand	Jul	0.3% (10.3%)	0.3% (10.5%)	1.1% (11.3%)
US	13:30	08:30	PPI (excluding food and energy)	Jul	0.4% (7.8%)	0.6% (7.9%)	0.4% (8.2%)
US	13:30	08:30	Initial Jobless Claims	Aug 6	263k	250k	260k
FRIDAY 12 AUG							
US	00:30	19:30*	Fed's Daly speaks in interview on Bloomberg Television				
FR	06:30	01:30	ILO Unemployment Rate	2Q	7.2%	--	7.3%
UK	07:00	02:00	Monthly GDP (3m/3m)	Jun	-1.1%	-0.9% (-0.1%)	0.5% (0.4%)
UK	07:00	02:00	Index of Services (3m/3m)	Jun	-0.9% (-0.5%)	-0.8%	0.4% (0.1%)
UK	07:00	02:00	GDP	2Q P	-0.1% (2.9%)	-0.1% (2.9%)	0.8% (8.7%)
UK	07:00	02:00	Manufacturing Production	Jun	-1.8% (0.8%)	-1.7% (0.9%)	1.4% (2.3%)
UK	07:00	02:00	Industrial Production	Jun	-1.4% (1.9%)	-1.2% (1.6%)	0.9% (1.4%)
UK	07:00	02:00	Government Spending	2Q P	-0.1%	--	-1.3%
UK	07:00	02:00	Total Business Investment	2Q P	1.2%	--	-0.6% (8.3%)
UK	07:00	02:00	Construction Output	Jun	-2.0% (3.0%)	-1.0% (4.4%)	1.5% (4.8%)
UK	07:00	02:00	Imports	2Q P	0.4%	--	10.4%
UK	07:00	02:00	Trade Balance	Jun	-£10,500mn	--	-£9,747mn

UK	07:00	02:00	Exports	2Q P	5.3%	--	-4.4%
UK	07:00	02:00	Trade Balance Non EU	Jun	--	--	-£10,367mn
UK	07:00	02:00	Gross Fixed Capital Formation	2Q P	£0.3%	--	£3.8%
UK	07:00	02:00	Visible Trade Balance	Jun	-£22,300mn	--	-£21,445mn
UK	07:00	02:00	Private Consumption	2Q P	0.00%	--	0.60%
FR	07:45	02:45	CPI EU Harmonised	Jul F	0.3% (6.8%)	--	0.3% (6.8%)
FR	07:45	02:45	Wages	2Q P	0.9%	--	1.1%
SP	08:00	03:00	CPI EU Harmonised	Jul F	-0.5% (10.8%)	--	-0.5% (10.8%)
SP	08:00	03:00	Core CPI (excluding food and energy)	Jul	--	--	0.7% (6.1%)
EZ	10:00	05:00	Industrial Production	Jun	0.1% (1.0%)	0	0.8% (1.6%)
US	13:30	08:30	Import Price Index	Jul	-0.9% --	--	0.2% (10.7%)
US	15:00	10:00	University of Michigan Sentiment	Aug P	52.0	52.0	51.5

DURING THE WEEK

CH		New Yuan Loans (CNY)	Jul	(¥ 1,160bn)	--	(¥ 2,806bn)
CH		Money Supply M2	Jul	(11.4%)	--	(11.4%)
GE		Wholesale Price Index	Jul	--	--	0.1% (21.2%)

Bold text denote those releases/events that are expected to attract most market attention.

Data in brackets denote YoY unless stated otherwise. Market consensus estimates are taken from Bloomberg on the date of publication.

* Released overnight, (r) revised, (p) preliminary, (f) final

2022 Central Bank Meetings

September		
Country	Date	Event
EZ	8	ECB Policy Announcement & Press Conference
UK	15	MPC Policy Announcement & Minutes
US	20-21	Fed Policy Announcement, Projections & Press Conference

October		
Country	Date	Event
EZ	27	ECB Policy Announcement & Press Conference

November		
Country	Date	Event
US	1-2	Fed Policy Announcement & Press Conference
UK	3	MPC Policy Announcement & MPR & Press Conference

December		
Country	Date	Event
US	13-14	Fed Policy Announcement, Projections & Press Conference
UK	15	MPC Policy Announcement & Minutes
EZ	15	ECB Policy Announcement & Press Conference

2022 Political Events

September		
Country	Date	Event
UK	5	New Prime Minister to be announced
WD	13-27	77th Session of the UN General Assembly

October		
Country	Date	Event
WD	10-16	IMF Annual Meetings, Marrakesh
G20	30-31	G20 Leaders Summit, Bali, Indonesia

November		
Country	Date	Event
US	8	US Midterm Elections

December		
Country	Date	Event

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