

Asia Chart of the Week

Inflation, then and now

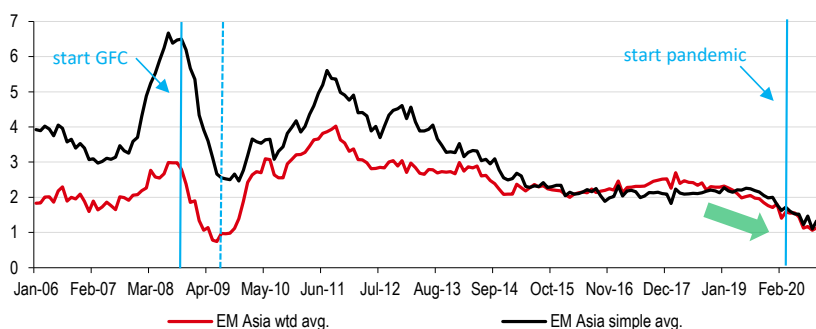
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Economics - Asia

No two crises are alike. But comparisons can still illuminate. Take inflation. With vaccines looking more promising, investors are becoming more confident about a rebound in growth. With this, the chatter turns to inflation: will it, perhaps, surge once demand snaps back? And would that cause central banks to tap the brakes far earlier than anticipated? Questions to ponder – especially in a world awash with central bank liquidity, and, well, lofty valuations. We remain fairly relaxed about inflation at the moment. But, frankly, the year ahead is decidedly uncertain: we have little experience with the response of economies, and with it inflation, to a massive roll-out of vaccines during a global pandemic. Still, it's worth looking at a global shock in the recent past, the Global Financial Crisis, to get a sense of how inflation fared in its aftermath. Inflation gauges did bounce fairly quickly at the time. In fact, it took less than a year for price pressures to return, even if not quite as prominently as before. But, there are key differences as well: underlying inflation was much weaker in the run-up to the pandemic than before the GFC, and growth remains substantially weaker. For most of Asia, inflation has likely not even troughed yet. It is much too early to fret.

*May I ask what you were hoping to see out of a Torquay bedroom window?
 Sydney Opera House perhaps? The Hanging Gardens of Babylon?
 Herds of wildebeest sweeping majestically by?*
 — Basil Fawlty

Let's cut out the noise from energy and food, and focus on core inflation. Chart 1 shows weighted and simple averages for the region over time. Start with the Global Financial Crisis (GFC): core inflation peaked in September of 2008 (first blue line). In the following months, it collapsed at a breath-taking pace. The dotted blue line shows when core CPIs troughed, which was around 8 months after the start of the GFC. Note that they then bounced back quite quickly, and continued to trend higher until 2012. The second blue line shows the start of the pandemic, and while core inflation drifted lower, it didn't

Chart 1: Core CPI inflation (% y-o-y)



Source: CEIC, HSBC

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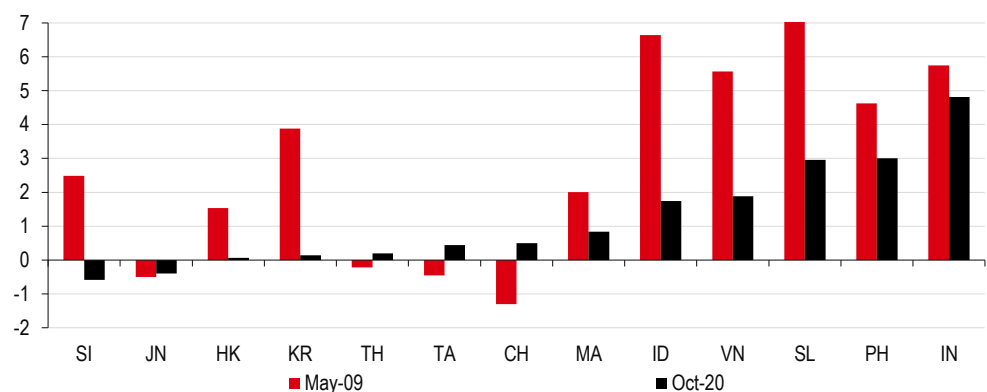
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“plunge” as it did during the GFC. Note that we are now about 8 months into the pandemic. So if the GFC time-line holds, core inflation should trough right about now (November). And with vaccines beckoning, it's not far-fetched to ask if we are about to see a bounce in core price pressures.

Perhaps. But there are a few points to make that suggest that the core inflation “snap-back” won't be as swift or severe this time around. First, notice the green arrow in Chart 1: unlike the run-up to the GFC, the last few years have seen a persistent disinflation process emerging Asia: first it was stable, at a low pace that began in 2014, then it broke even lower in 2018. This suggests that something structural is going on, and something quite persistent: the post-pandemic inflation surge, if any, would have to go counter to a multi-year trend.

Chart 2: Core CPI inflation (% y-o-y)

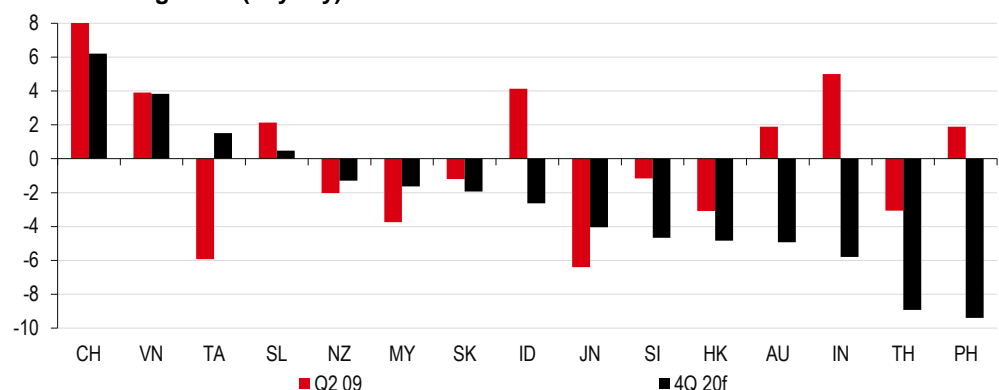


Note: CH refers to mainland China
 Source: CEIC, HSBC

The second point is that core inflation is starting out, in most cases, from a much lower pace. Chart 2 shows the core CPI changes (in annual terms) for May 2009 and October of this year, both about 8 months out from the start of the respective crises. With the exception of Japan, Thailand, Taiwan, and mainland China, core inflation is now much lower than it was at its trough after the GFC (and inflation in the former three isn't a concern in any case).

The third point relates to growth. Chart 3 shows the annual growth rate for 2Q of 2009 and HSBC's forecast for the current quarter -- both, roughly, equidistant from the start of their respective crises. In a few cases, such as Taiwan, New Zealand, Malaysia, and Japan, growth this quarter is expected to be stronger than it was in the second quarter of 2009. Elsewhere, however, annual growth is still (much) weaker. So, unless the growth trajectory dramatically changes relative to that after the GFC, we'll remain fairly relaxed about inflation.

Chart 3: GDP growth (% y-o-y)



Note: CH refers to mainland China
 Source: CEIC, HSBC

Disclosure appendix

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