

Mounting issues

The key charts on the economic outlook

Free to View
Economics - Global

- ◆ Higher inflation, rates and uncertainty are weighing on the outlook for economic activity...
- ◆ ...while the impact of lockdowns in mainland China could persist via further supply chain headaches...
- ◆ ...which could keep inflation elevated and central banks with a hawkish bias

James Pomeroy
Economist
HSBC Bank plc

The bad news keeps coming for the global economic outlook. Mainland China's growth is stumbling, global inflation is proving sticky and interest rates are rising faster, adding to the cocktail of higher commodity prices, stretched supply chains and geopolitical uncertainty.

Weaker Chinese activity data – both in terms of domestic consumption and imports – may be a clear drag on global demand, and renewed supply chain bottlenecks due to ongoing COVID-19 restrictions could weigh on activity and push up inflation across the world. The recovery in supply chain data since the autumn looks to have stalled.

Even though commodity prices have edged lower in recent weeks, the impact on headline inflation is yet to be seen in the data. On top of this, inflationary pressures are broadening out – with services inflation picking up strongly in the US and Europe as firms pass on more of their higher costs from commodities and wages to households.

For now, the impact on end consumer demand in the west hasn't been quite as bad as many feared. The global PMIs softened in April, but they still point to a reasonably good pace of growth outside of mainland China. European labour market data continue to hold up and in the US, consumers look to be saving less in order to keep spending – more so on services than goods – in recent months. The continued impact of the re-opening of economies continues to lift services data and employment data on both sides of the Atlantic.

The risk here is clearly that at some point the squeeze to real incomes hits consumer demand much harder. High frequency data, in the US in particular, show limited sign of that yet, but with confidence plunging, consumers may pull back in the coming months. The downside risks are clearly growing.

Central banks across the world are reacting to these challenges in largely the same way – with rate rises brought forward and more central banks opting to tighten. Although the balancing act between softening growth and higher inflation had been viewed in different ways in recent months, now more central banks are converging on the same path – with a more hawkish backdrop for global monetary policy, and the odd outlier such as the Bank of England, which is striking a more dovish tone.

This is a Free to View version of a report with the same title published on 10-May-22. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

Disclosures & Disclaimer

This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it.

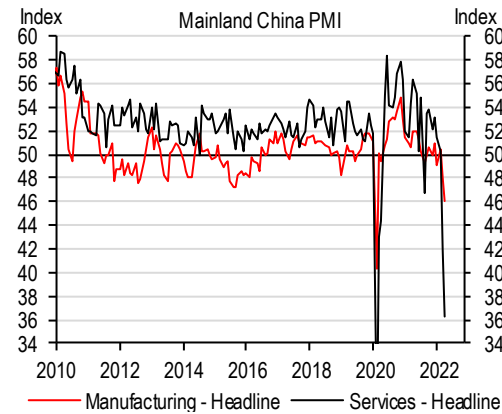
Issuer of report: HSBC Bank plc

View HSBC Global Research at:
<https://www.research.hsbc.com>

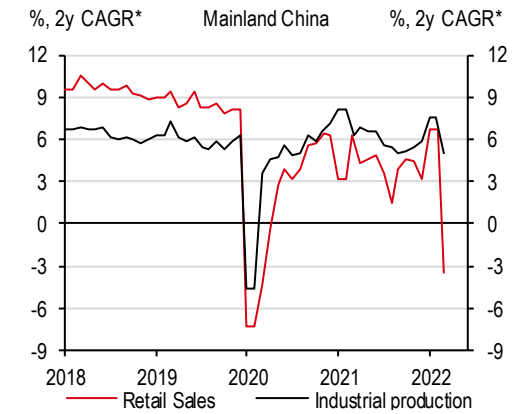
Growing concerns in the data

Sharp falls in data from mainland China are raising concerns...

1. Chinese data have fallen sharply...

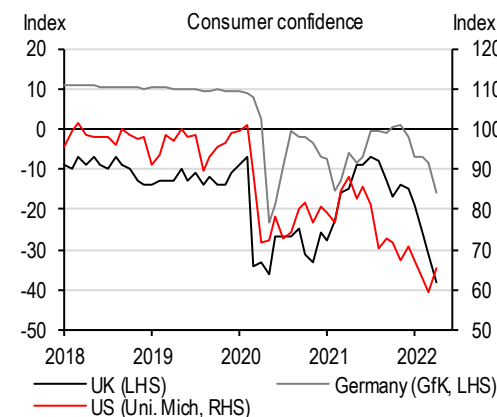


2. ...in surveys and hard data

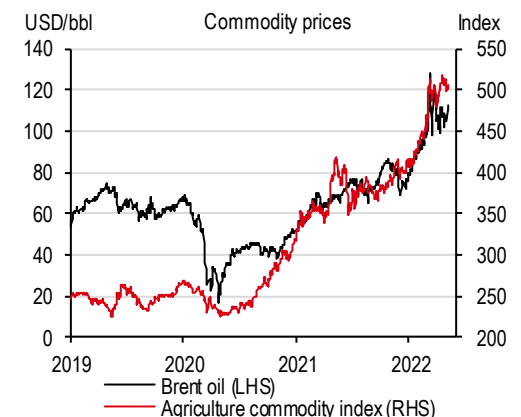


...as is the squeeze to incomes being seen in the west as inflation soars

3. Consumer confidence has fallen in the west...

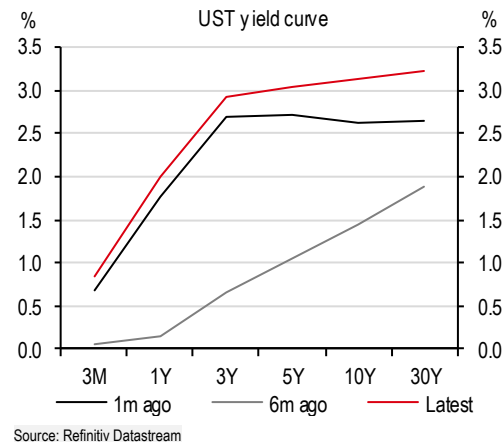


4. ...amid surging cost of living

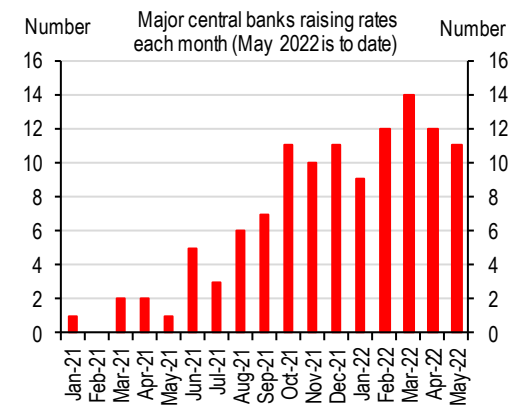


Central banks are getting much more hawkish, with some re-thinking their stance

5. Market rates keep soaring...



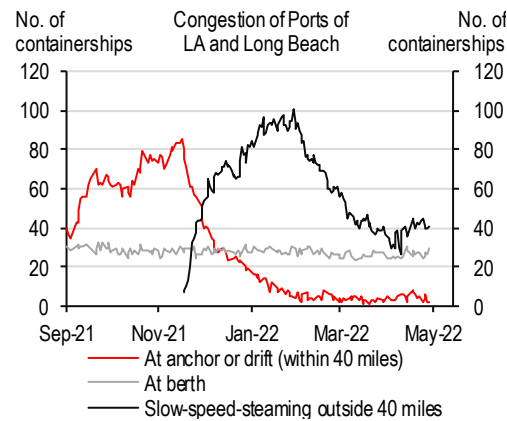
6. ...as more central banks get more hawkish



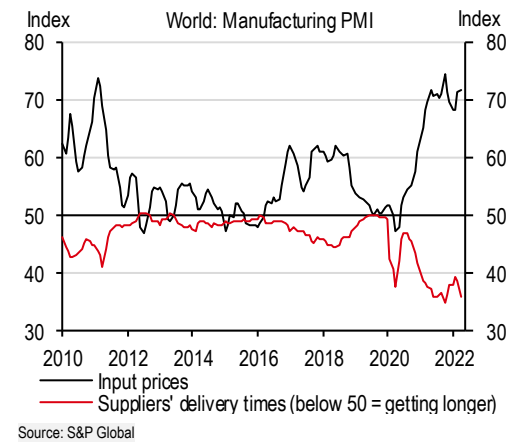
Supply chains bottlenecks could reassert themselves

...with bottlenecks looking like they're reappearing...

7. Port congestion in the US may have stopped improving...



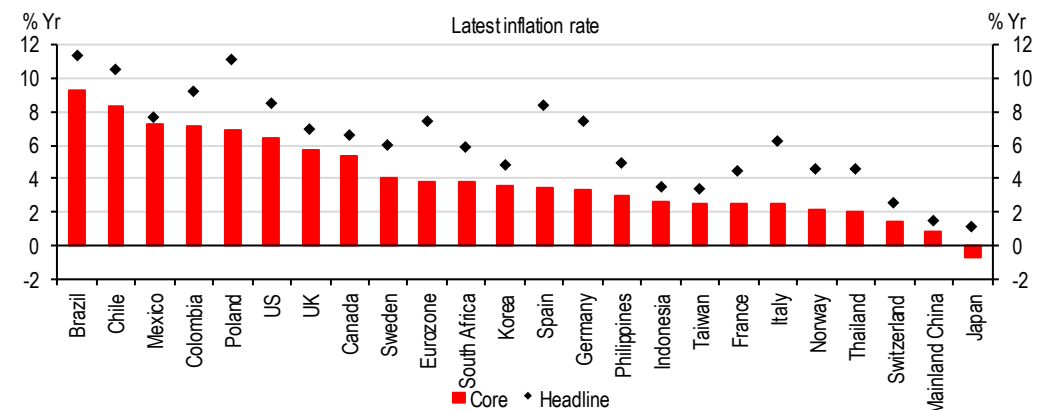
8. ...and longer supplier deliveries...



Inflationary pressures remain intense

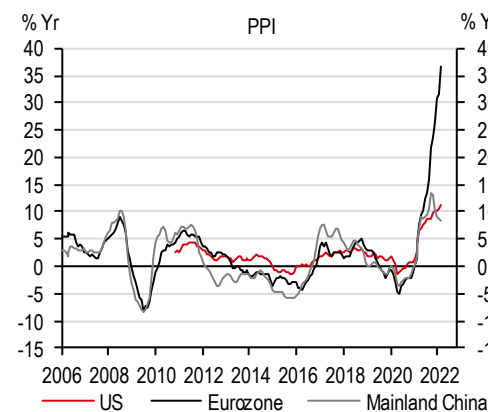
Inflation remains high, but the composition varies across the world...

9. The risks are arguably greater in Europe where energy and food inflation is more notable...

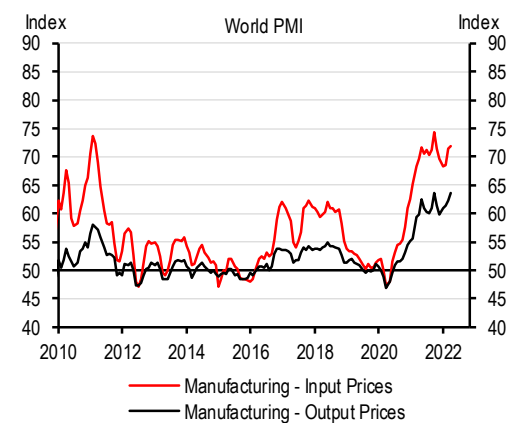


...and firms may be passing on more cost rises as inflation broadens out...

10. ...and input price inflation is most extreme...

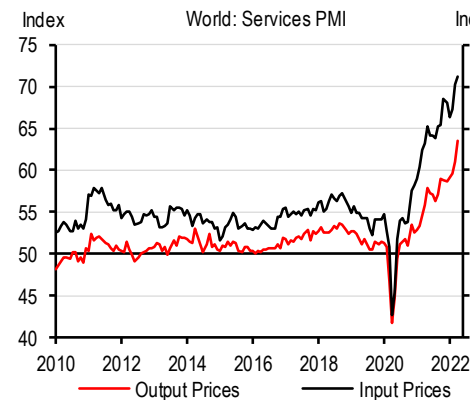


11. ...so firms may try to pass more of it on



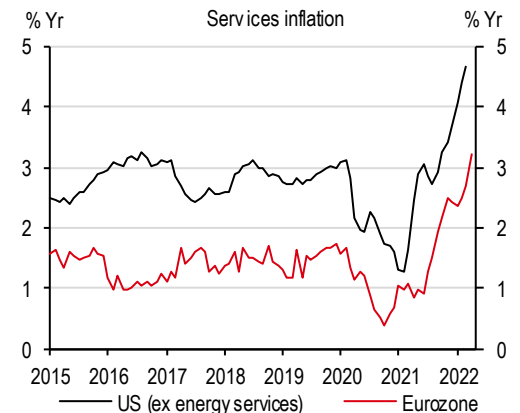
...with services inflation the next leg of the story

12. Service sector price pressures are building...



Source: Refinitiv Datastream

13. ...which could be the next leg of higher inflation in much of the world

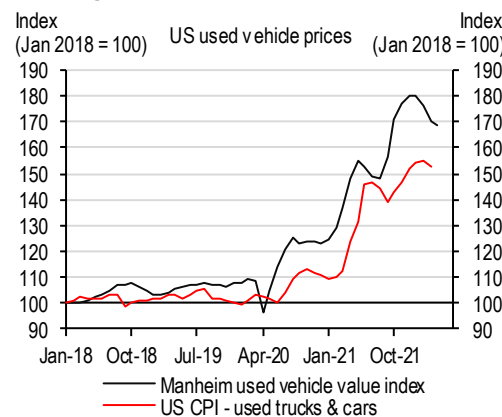


Source: Refinitiv Datastream

Some big-ticket inflation items may be softening in the US

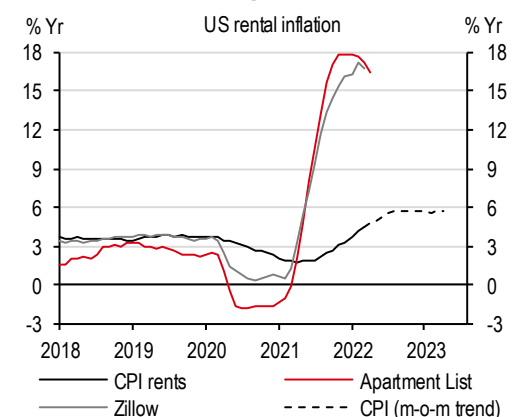
Car prices will play a role in CPI in the coming months... and rental inflation will too, but with upward pressure for now

14. Car prices look like they may be peaking for now...



Source: Refinitiv Datastream, Manheim

15. Rental inflation may still be a few months from peaking in the US

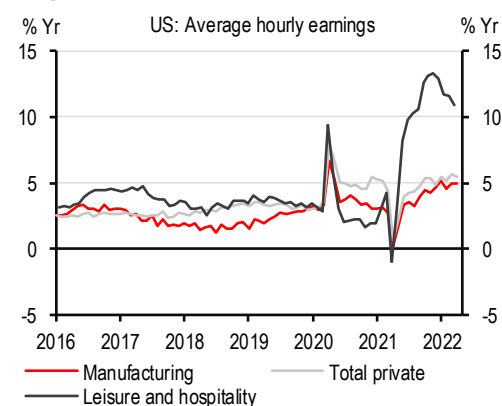


Source: Refinitiv Datastream, ApartmentList, Zillow. Note: Dotted line shows annual CPI rental inflation if current m-o-m changes persist

Labour markets show little sign of weakness

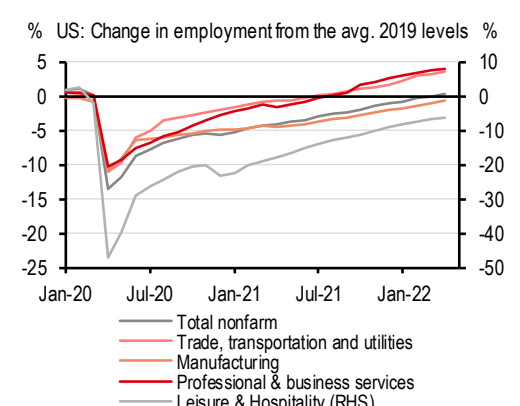
The US labour market remains robust, with strong wage growth in some sectors

16. US labour market shows early signs of wage moderation



Source: Refinitiv Datastream

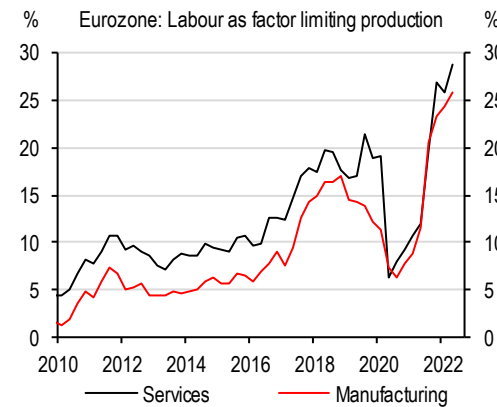
17. Nonfarm payroll data continue to improve



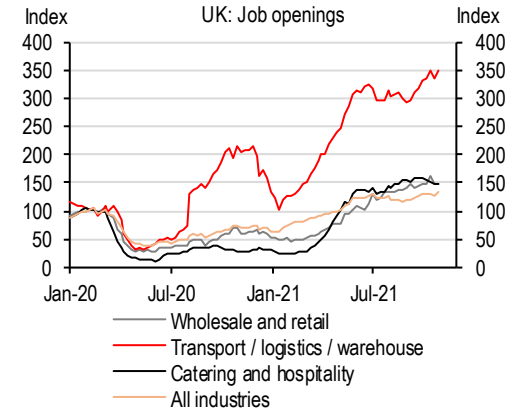
Source: Refinitiv Datastream

In Europe, labour markets have remained robust...

18. European labour markets continue to tighten, too...

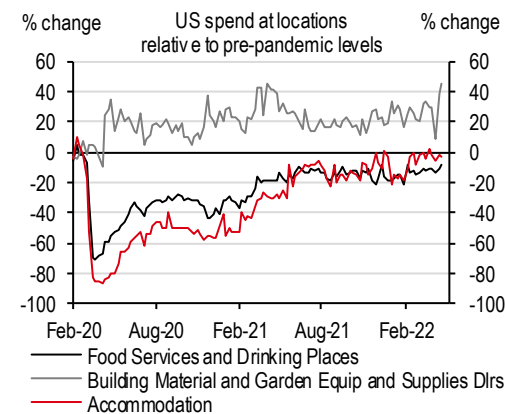


19. ...especially in the UK

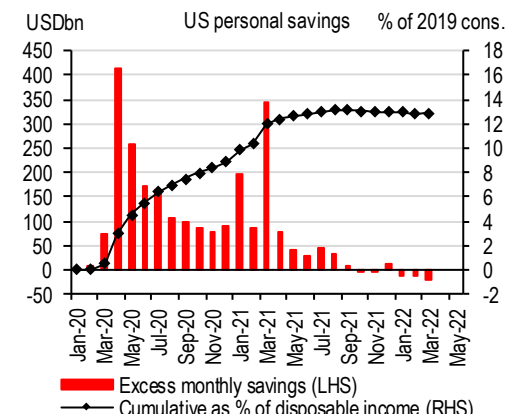


US data are faring better than most of the world as households run down savings to keep spending

20. US high-frequency data are holding up better...



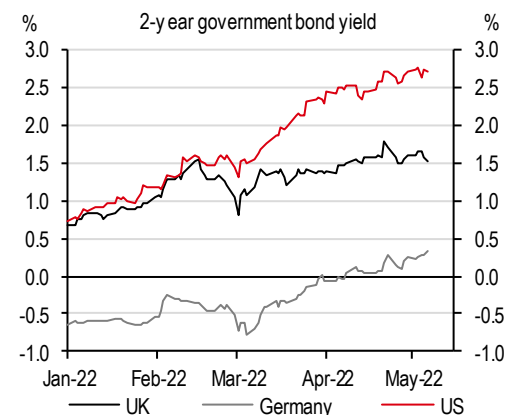
21. ...and households keep saving less



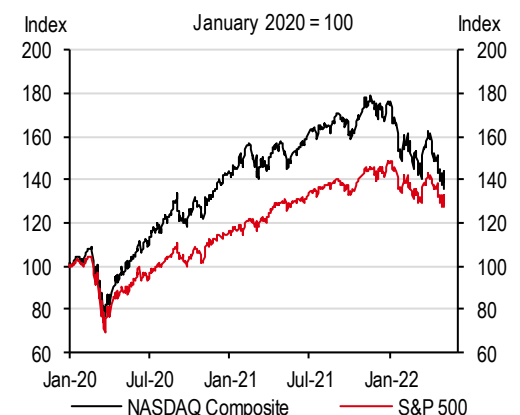
Markets are reacting

Financial markets have responded with higher rates and lower price of risk assets

22. Bond yields have responded to more hawkish central banks...

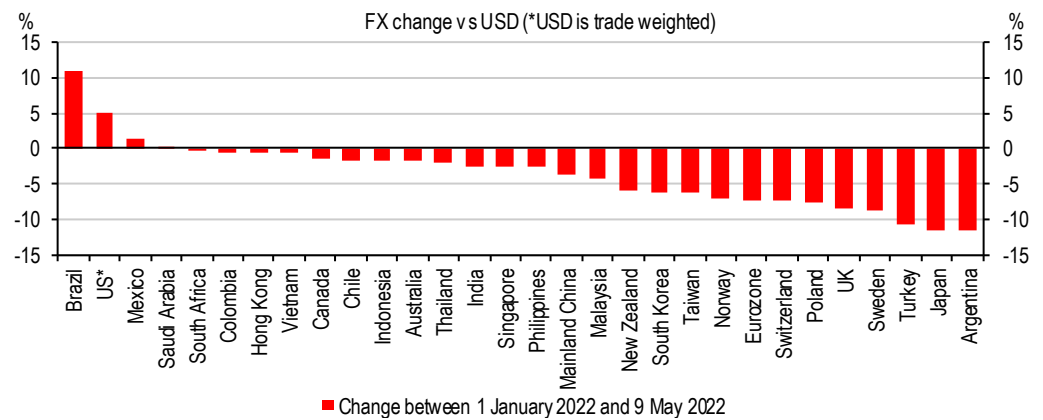


23. ...and equity markets have continued selling off



Currency markets have seen much more volatility

24. ...and currency markets have seen some large adjustments

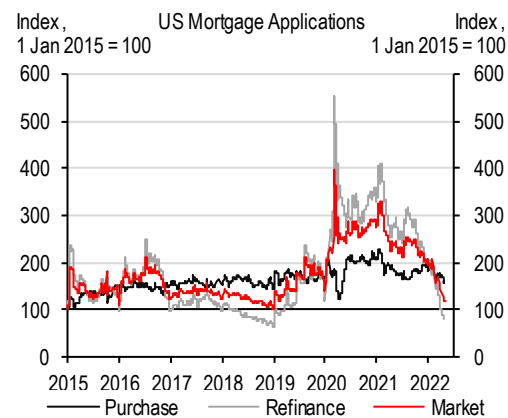


Source: Refinitiv Datastream.

Some bigger picture impacts

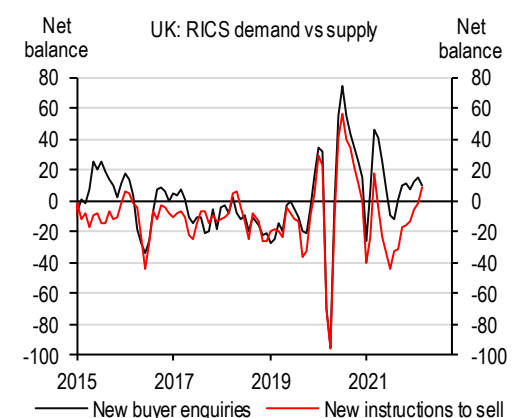
Housing markets could be vulnerable due to higher rates

25. Mortgage applications have softened...



Source: Refinitiv Datastream, Mortgage Banker Association

26. ...but in many places housing demand still outpaces supply...



Source: RICS, Refinitiv Datastream

Disclaimer

The following analyst(s), who is(are) primarily responsible for this document, certifies(y) that the opinion(s), views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: James Pomeroy

This document has been issued by HSBC Bank plc, which has based this document on information obtained from sources it believes to be reliable but which it has not independently verified. Neither HSBC Bank plc nor any member of its group companies ("HSBC") make any guarantee, representation or warranty nor accept any responsibility or liability as to the accuracy or completeness of this document and is not responsible for errors of transmission of factual or analytical data, nor is HSBC liable for damages arising out of any person's reliance on this information. The information and opinions contained within the report are based upon publicly available information at the time of publication, represent the present judgment of HSBC and are subject to change without notice.

This document is not and should not be construed as an offer to sell or solicitation of an offer to purchase or subscribe for any investment or other investment products mentioned in it and/or to participate in any trading strategy. It does not constitute a prospectus or other offering document. Information in this document is general and should not be construed as personal advice, given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on it, consider the appropriateness of the information, having regard to their objectives, financial situation and needs. If necessary, seek professional investment and tax advice.

The decision and responsibility on whether or not to purchase, subscribe or sell (as applicable) must be taken by the investor. In no event will any member of the HSBC group be liable to the recipient for any direct or indirect or any other damages of any kind arising from or in connection with reliance on any information and materials herein.

Past performance is not necessarily a guide to future performance. The value of any investment or income may go down as well as up and you may not get back the full amount invested. Where an investment is denominated in a currency other than the local currency of the recipient of the research report, changes in the exchange rates may have an adverse effect on the value, price or income of that investment. In case of investments for which there is no recognised market it may be difficult for investors to sell their investments or to obtain reliable information about its value or the extent of the risk to which it is exposed. Some of the statements contained in this document may be considered forward looking statements which provide current expectations or forecasts of future events. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors.

This document is for information purposes only and may not be redistributed or passed on, directly or indirectly, to any other person, in whole or in part, for any purpose. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. By accepting this report, you agree to be bound by the foregoing instructions. If this report is received by a customer of an affiliate of HSBC, its provision to the recipient is subject to the terms of business in place between the recipient and such affiliate. The document is intended to be distributed in its entirety. Unless governing law permits otherwise, you must contact a HSBC Group member in your home jurisdiction if you wish to use HSBC Group services in effecting a transaction in any investment mentioned in this document.

Certain investment products mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors. Investors should consult with their HSBC representative regarding the suitability of the investment products mentioned in this document.

HSBC and/or its officers, directors and employees may have positions in any securities in companies mentioned in this document. HSBC may act as market maker or may have assumed an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell or buy securities and may also perform or seek to perform investment banking

or underwriting services for or relating to those companies and may also be represented on the supervisory board or any other committee of those companies.

HSBC will from time to time sell to and buy from customers the securities/instruments (including derivatives) of companies covered in HSBC Research on a principal or agency basis.

From time to time research analysts conduct site visits of covered issuers. HSBC policies prohibit research analysts from accepting payment or reimbursement for travel expenses from the issuer for such visits.

Analysts, economists, and strategists are paid in part by reference to the profitability of HSBC which includes investment banking, sales & trading, and principal trading revenues.

Whether, or in what time frame, an update of this analysis will be published is not determined in advance.

For disclosures in respect of any company mentioned in this report, please see the most recently published report on that company available at www.hsbcnet.com/research.

HSBC Bank plc is registered in England No 14259, is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is a member of the London Stock Exchange. (070905)

Additional disclosures

- 1 This report is dated as at 10 May 2022.
- 2 All market data included in this report are dated as at close 09 May 2022, unless a different date and/or a specific time of day is indicated in the report.
- 3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking, Principal Trading, and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.
- 4 You are not permitted to use, for reference, any data in this document for the purpose of (i) determining the interest payable, or other sums due, under loan agreements or under other financial contracts or instruments, (ii) determining the price at which a financial instrument may be bought or sold or traded or redeemed, or the value of a financial instrument, and/or (iii) measuring the performance of a financial instrument or of an investment fund.

© Copyright 2022, HSBC Bank plc, ALL RIGHTS RESERVED. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of insert issuing entity name. MCI (P) 037/01/2022, MCI (P) 017/10/2021

[1192433]