

Schrödinger's recession

The key charts on the cloudy economic outlook

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Economics - Global

- ◆ While markets debate whether we're in a US recession...
- ◆ ...strong labour markets continue to prop up activity data...
- ◆ ...but risks are building, mostly in housing and industrial data

In the same way that Erwin Schrödinger's cat was both dead and alive at the same time, the global economy may be both in a recession and not – at least not yet. Over the past month, the confusing signals haven't gotten any clearer, with a second quarterly contraction in US GDP being at odds with firmer monthly data, upside surprises to GDP data in Europe and a number of releases suggesting that consumers keep spending despite their downbeat outlook. Financial markets have taken this as good news.

But challenges are growing, and some parts of the economy are faring worse: notably the housing data in many parts of the world. A cost of living squeeze, higher rates and greater uncertainty are unlikely to bode well for house prices, particularly in economies where valuations are already stretched. In mainland China, sharp falls in prices are already a concern, but we think risks are contained.

But would a global housing market downturn merely be the first domino to topple or could the economy keep ticking along? Much will depend on what happens elsewhere – will labour markets remain robust? Will a broader industrial downturn be enough to drag the rest of the global economy over the edge and into outright recession?

Fears are arguably greatest in Europe, where gas shortages are now a pressing issue ahead of the winter. Our team expects a hit to growth and higher inflation. But for now, globally, data on industrial production and trade are broadly holding up. That said, manufacturing PMIs dropped further in July and we could see an extended period of weakness in global trade and industrial data if demand for goods remains subdued. Inventories have been somewhat rebuilt, which may weigh on future production.

Uncertainty remains within the inflation data, too. Many of the underlying causes of elevated inflation, from commodities to supply chain issues have improved greatly in recent weeks. But firms may still lift prices to pass on input cost increases, and services prices continue to rise quickly. In the US, rental prices look set to move even higher.

Broadly, there's a gap opening up between hard and soft data. Surveys are pointing down but activity is still holding up, and that makes it harder than ever to assess the economic outlook over the coming months. So much hinges on the labour market data – and for now, that's hanging in there despite some tentative signs of coming off the boil.

The challenge for policymakers hasn't gotten any easier. With both the Fed and the ECB suggesting that future policy decisions will be based on the incoming data, tracking these month-to-month movements will be more important than ever to see if the global economy is in a recession and, more importantly, how soon inflation may fall back.

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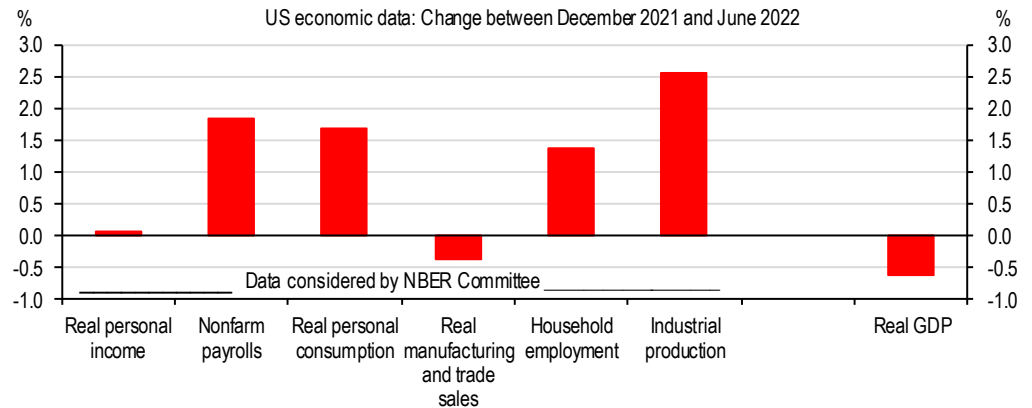
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The recession that isn't, at least not yet

Despite the drop in US real GDP, monthly data that the NBER monitor suggest things look better

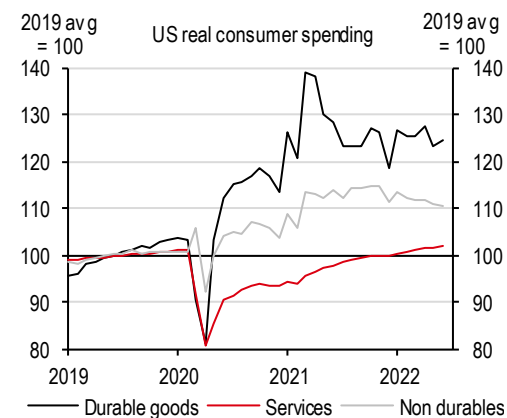
1. Is the US economy in a recession? Probably not for now



Source: Refinitiv Datastream, HSBC

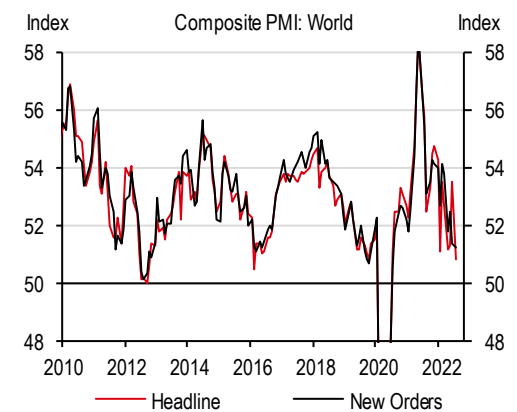
There has been some resilience in much 'hard' economic data in recent months... but survey data have fared much worse

2. Consumers keep spending in the US



Source: Refinitiv Datastream.

3. But, global PMI data suggest growth is slowing...

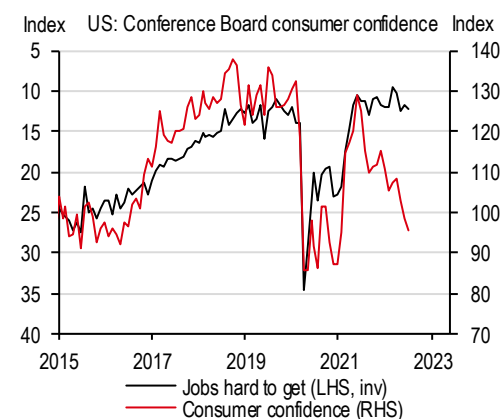


Source: Refinitiv Datastream, HSBC

Survey data – a patchy picture

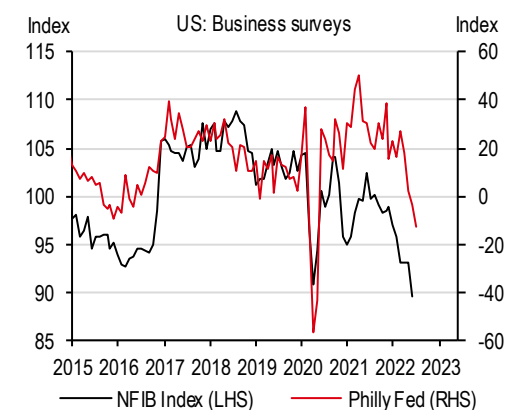
Consumer confidence and labour market optimism have lost their correlation

4. US consumers may be pessimistic but are still confident about getting jobs



Source: Refinitiv Datastream

5. Businesses are becoming more downbeat, too

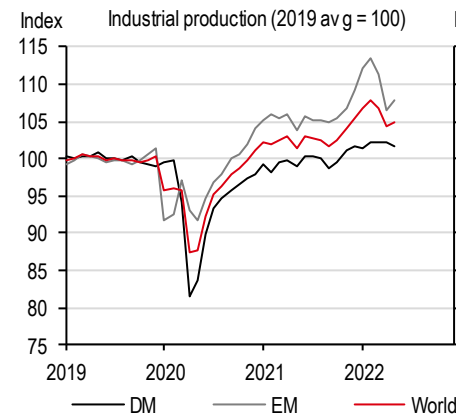


Source: Refinitiv Datastream

Industrial data look to have stopped growing, but not a collapse, yet

Industrial data have stalled, rather than collapsed for now...

6. Industrial data have held up but no longer broadly improving...



Source: Refinitiv Datastream. Note: CPB Series for comparability.

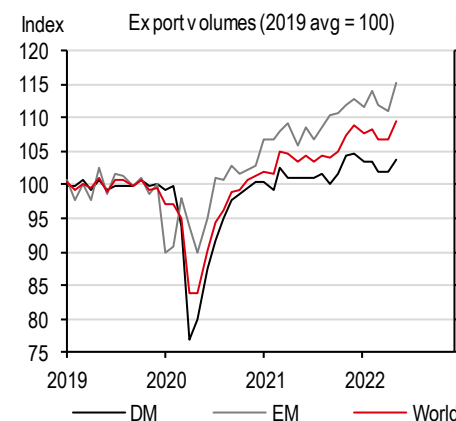
7. ...with a bit of a divergence across economies



Source: Refinitiv Datastream. Note: CPB Series for comparability.

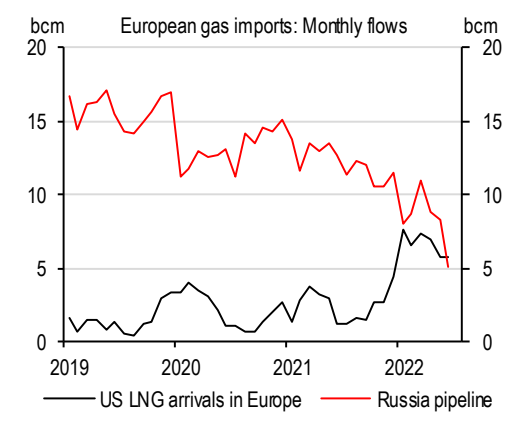
Trade data look better, but the big risk is gas shortages in Europe

8. Trade volumes are holding up for now...



Source: Refinitiv Datastream. Note: CPB Series for comparability.

9. ...but shortages of gas create big downside risks in Europe

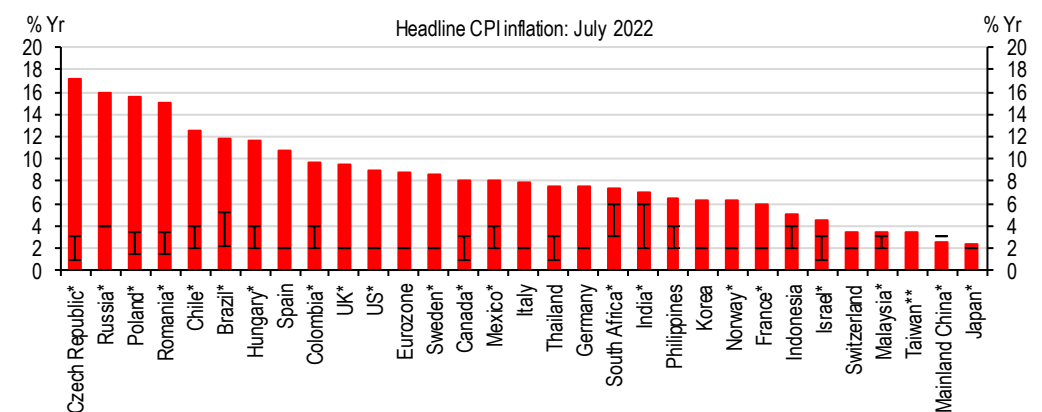


Source: Bloomberg, Refinitiv Datastream

Inflation: Still sticky

Inflation is above central banks' targets in much of the world

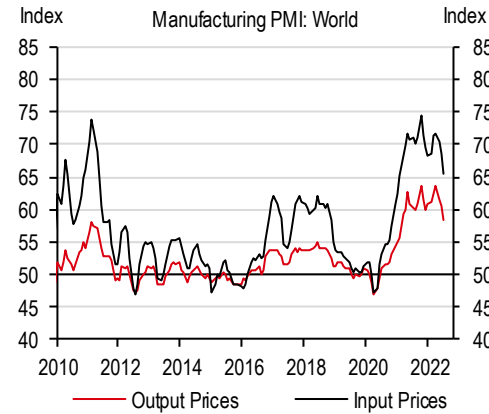
10. No let-up in global inflation for now...



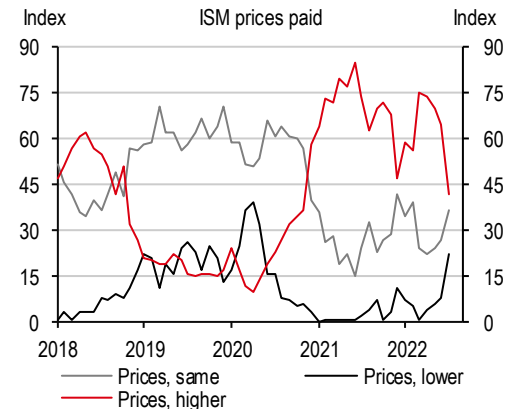
Source: Refinitiv Datastream. Note: Black bars show central bank inflation targets. ** = no inflation target

Survey data suggest that pace of price pressures may be peaking

11. PMI price indices have clearly stopped getting worse...



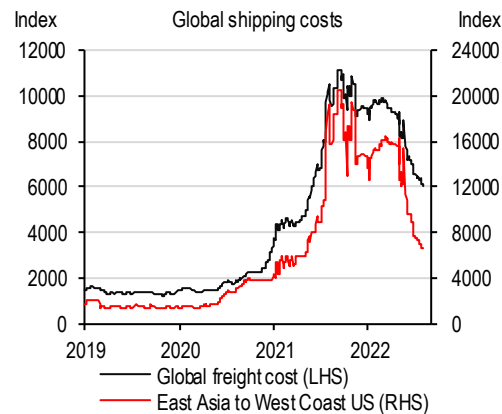
12. ...and the US data saw a big improvement in costs



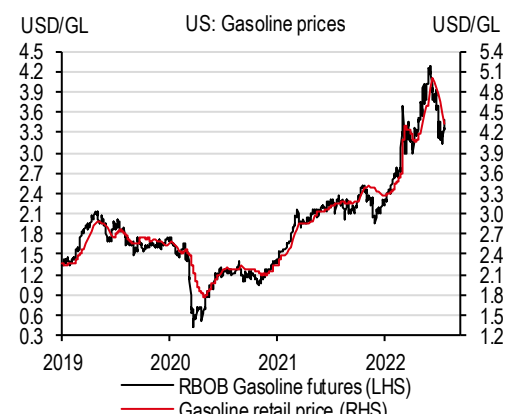
Some better underlying inflation news

The drop in shipping costs is likely to trim inflationary pressures on goods

13. Shipping costs continue to collapse, even if way above pre-pandemic level...



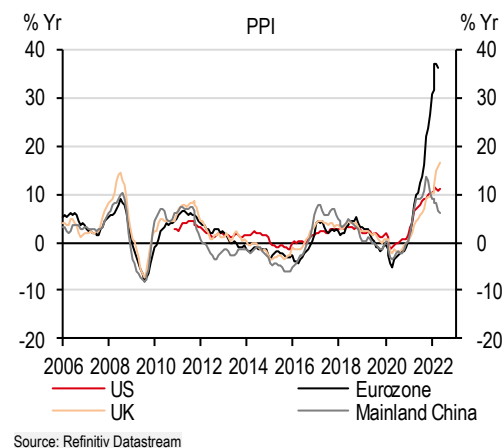
14. ...and lower gasoline prices may pull down near-term US inflation readings



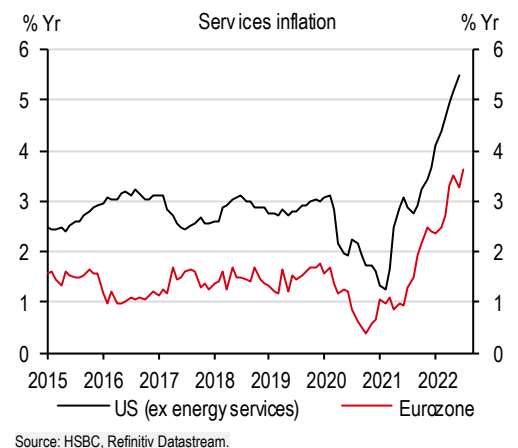
But there's still plenty of upward pressures on prices

PPI inflation remains elevated in many economies... and services inflation shows no sign of relenting

15. Input cost pressures remain intense...



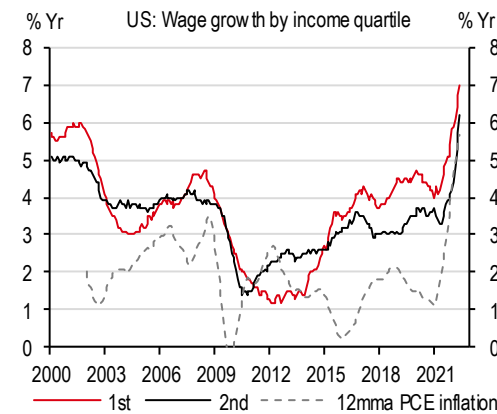
16. Services inflation keeps grinding higher...



Labour markets: No clear sign of the turn, yet

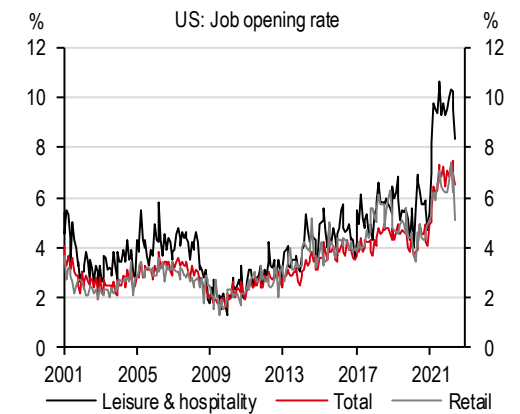
Very tight labour markets continue to support low-income wage growth... but a softening in hiring and an edge up in jobless claims are worth watching

17. Many workers are seeing above-inflation wage increases...



Source: Refinitiv Datastream

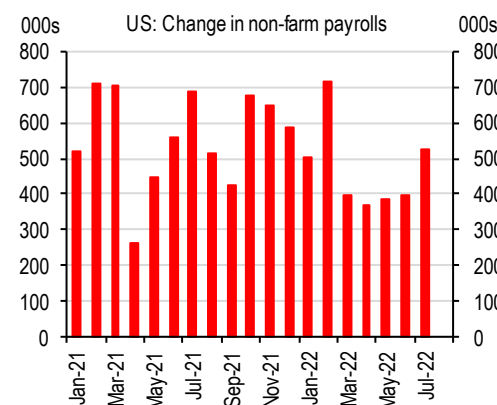
18. ...although there's some evidence of hiring demand starting to cool



Source: Refinitiv Datastream

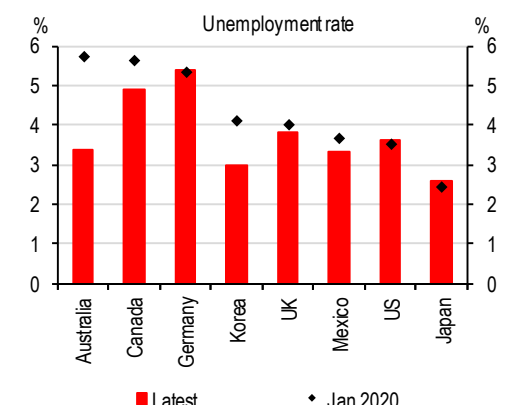
Most global labour markets are as tight as before the pandemic

19. US payrolls growth picked up in July



Source: Refinitiv Datastream

20. Many economies have unemployment rates below pre-pandemic levels

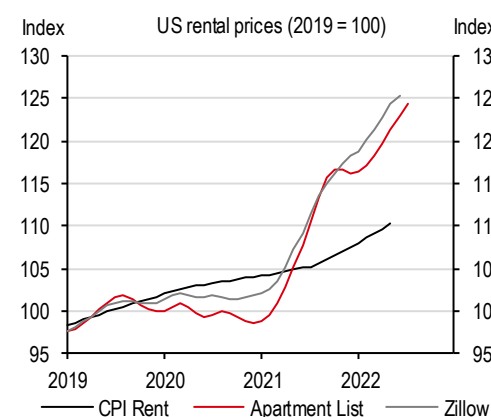


Source: Refinitiv Datastream

Housing markets: Wobbling from high levels

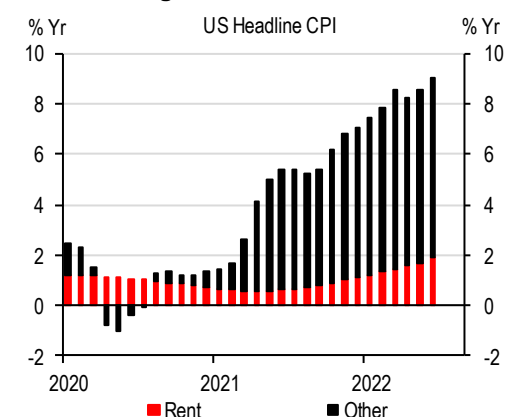
US rental inflation will be a key driver of CPI in the coming months

21. US rental prices keep surging...



Source: Refinitiv Datastream. Note: Apartment List and Zillow data are for new rentals, and so as more people renew leases, the CPI rate should move higher

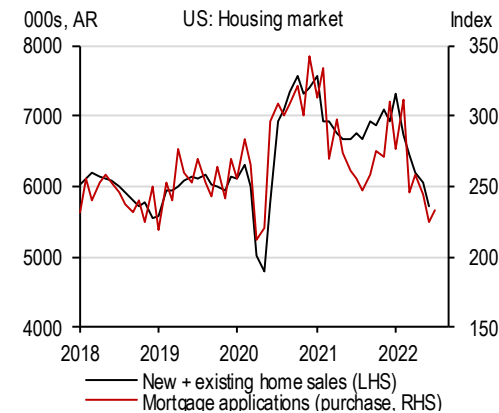
22. ...which is likely to push up rental CPI in the coming months



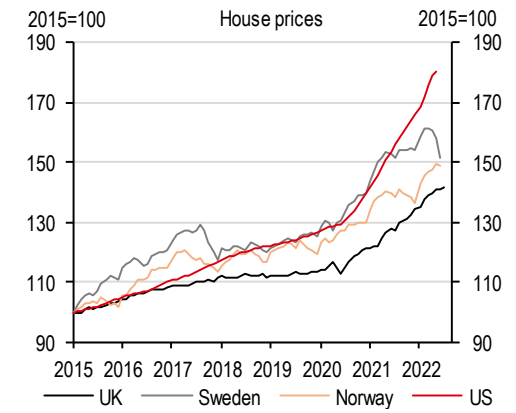
Source: Refinitiv Datastream

US housing market data have been hit by higher rates and global house prices may be peaking out

23. US housing activity has fallen in response to higher rates



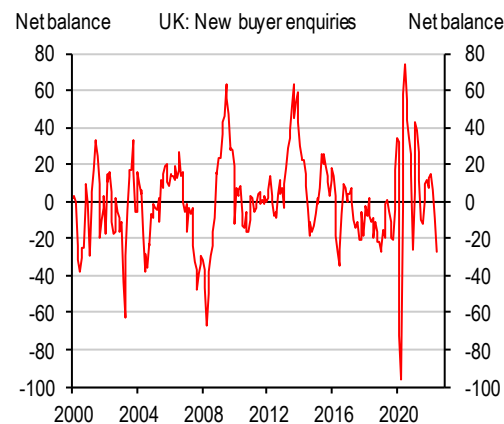
24. House prices in some economies could be faltering...



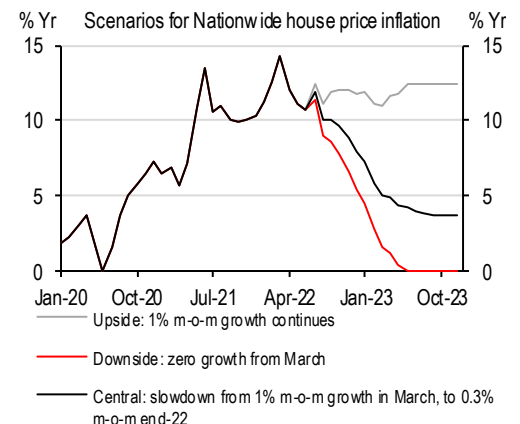
Housing: The UK shows hallmarks of the situation across the world

A highly uncertain outlook for housing markets

25. UK homebuyers were put off purchases in June



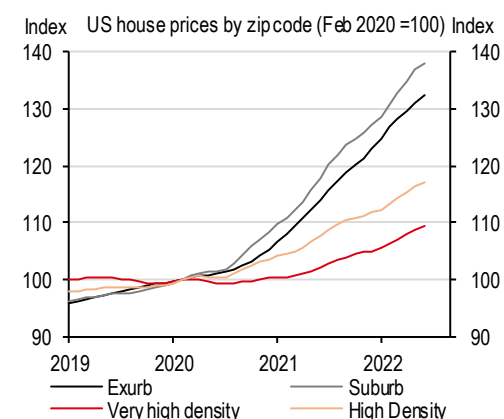
26. We expect house price growth to slow, but price levels to hold up...



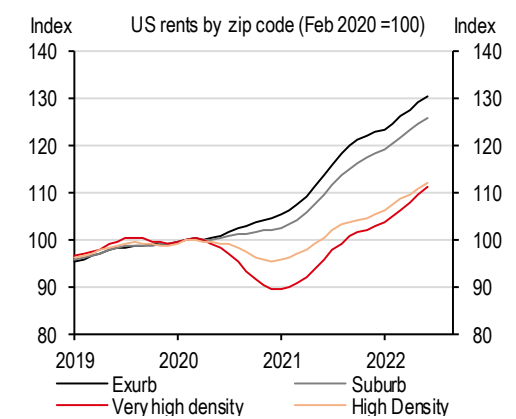
Remote work and interest rates could drive property prices

US non-urban housing continues to fare better

27. Widening geographical divide in house prices...



28. ...and rentals



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