

# Shocks aplenty

## The key charts as recession fears grow

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- ◆ Downside growth risks have clearly intensified, although probably more so in Europe than the US...
- ◆ ...while higher COVID-19 case numbers in Asia add to the risks for local spending and supply chains...
- ◆ ...adding to the inflation risks that had already increased due to higher commodity prices

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High oil prices, geopolitical risks, a resurgence of COVID-19 cases in Asia, an inverted yield curve – it's all pretty ominous. The number of harbingers of recession have increased in the past few weeks, although the bounce in risk asset prices may suggest that equity markets are slightly less concerned at the moment.

The most pressing issues are on the inflation front – with March's prints surprising on the upside in Europe due to higher energy prices. The risk, although not our central case, is that elevated inflation will crush consumer spending and tip the global economy into a consumer-led recession. For now, though, plenty of data are holding up.

The US yield curve inversion is gathering a lot of market attention – with the 10-year UST yield now dipping below that of the two-year note. But while this is often seen as a signal of an impending recession, that needn't always be the case.

There may be some tentative reasons for hope – notably that in the US – where the impact of higher energy prices doesn't appear to have dulled consumer sentiment too much. That's mostly because of the still-solid labour market, but with households sat on savings and stronger wage growth for lower-income households, the income squeeze may not be as pressing as elsewhere in the world.

In Europe, the squeeze to household incomes is severe, and this is being seen in the collapses in consumer sentiment, while in Asia, where inflation had been more contained up to now, higher energy and food prices pose a risk for the nascent consumer recovery and adds an additional downside risk for growth in mainland China.

The wildcard may be what happens to supply chains. Whilst globally, improvements may have paused based on the PMI data, any softening in goods demand may mean that spare capacity could open up in supply chains. This could lead to a softening of inflationary pressures in goods markets – but overall inflation depends on what happens with commodity prices, labour markets and services prices. It's worth noting that elevated COVID-19 case numbers in the UK has led to increased numbers of worker absences, which could create an additional supply shock.

The job hasn't gotten any easier for policymakers, with clouds dotted on the horizon and uncertainty levels still extremely elevated. The outlook has shifted towards softer growth and higher inflation – a mix that central banks are already having difficulty trying to tackle.

*This is an abridged version of a report by the same title published on 11-Apr-22. Please contact your HSBC representative or email [AskResearch@hsbc.com](mailto:AskResearch@hsbc.com) for more information.*

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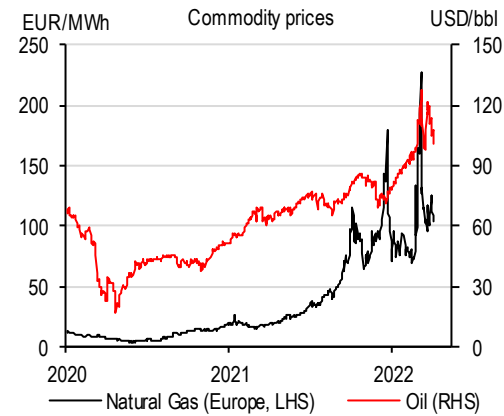
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## Many shocks from all angles

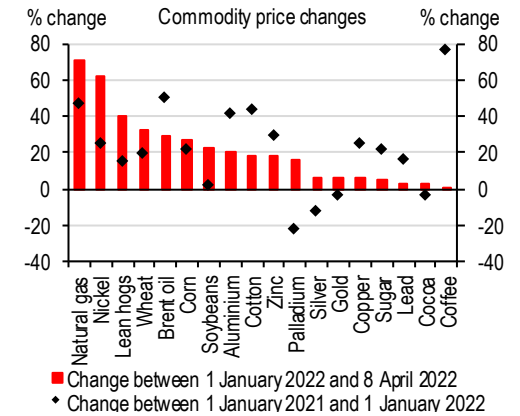
High and volatile commodity prices make the outlook highly uncertain

### 1. Energy prices have surged and remain very volatile



Source: Refinitiv Datastream

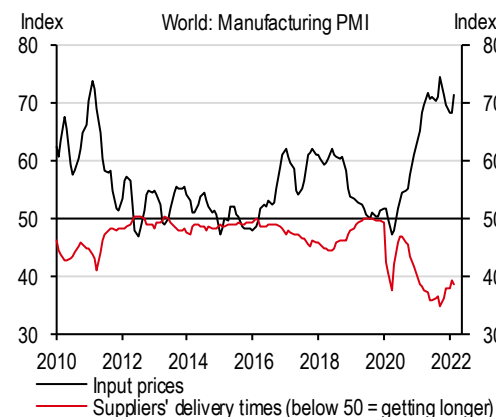
### 2. Commodity prices have risen sharply across the board



Source: Refinitiv Datastream

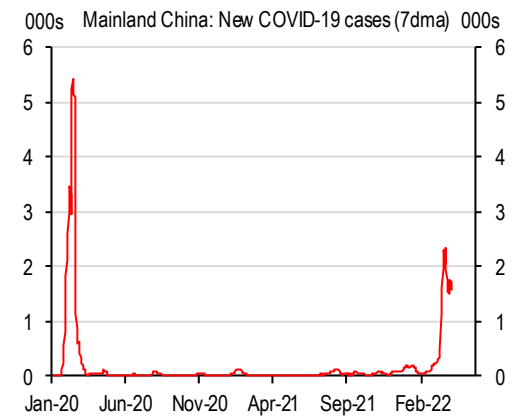
The supply outlook has been clouded by the conflict and higher case numbers in Asia

### 3. Possible risks of further supply disruptions...



Source: S&P Global

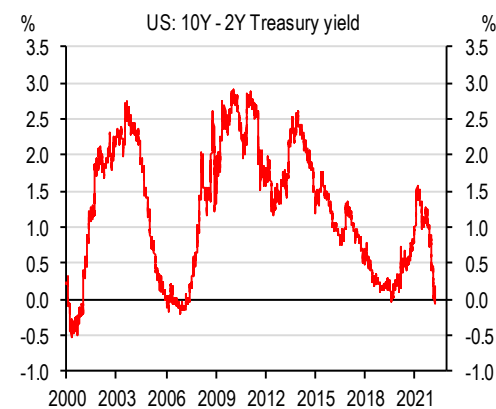
### 4. ...and the resurgence of the pandemic in Asia adds to the uncertainty



Source: Our World in Data

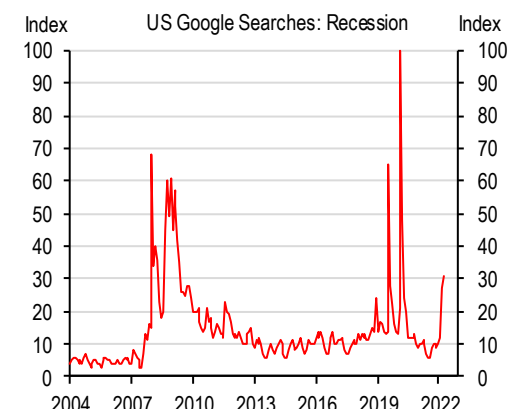
Financial markets may be starting to worry more about recession risks

### 5. The inversion of the yield curve...



Source: Refinitiv Datastream

### 6. ...has intensified recession worries

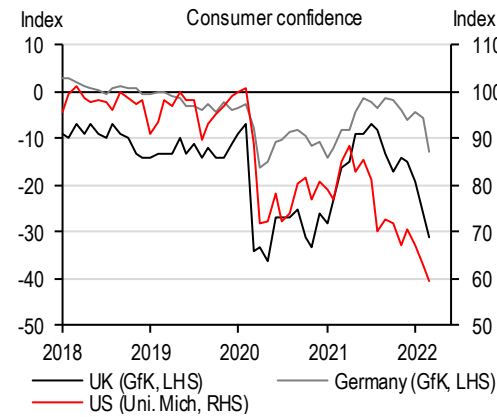


Source: Google Trends. Note: 100 indicates maximum search volumes during time period

## Surveys – the initial fallout from war

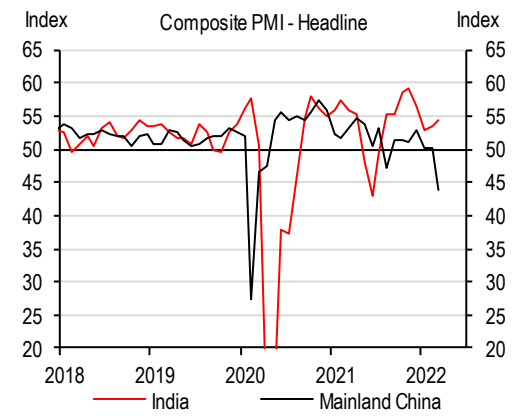
Consumer confidence has fallen sharply...

### 7. Some consumer confidence surveys have fallen sharply



Source: Refinitiv Datastream

### 8. Mainland China's PMIs fell sharply in March due to restrictions

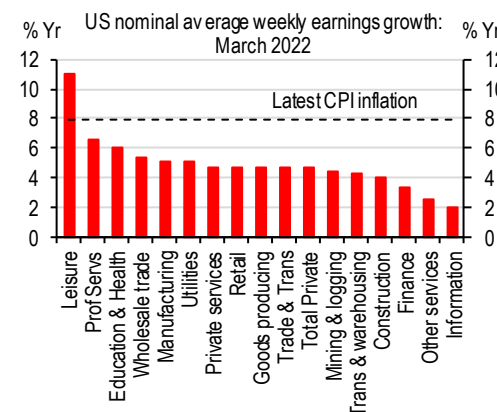


Source: S&P Global

## Labour markets are holding up

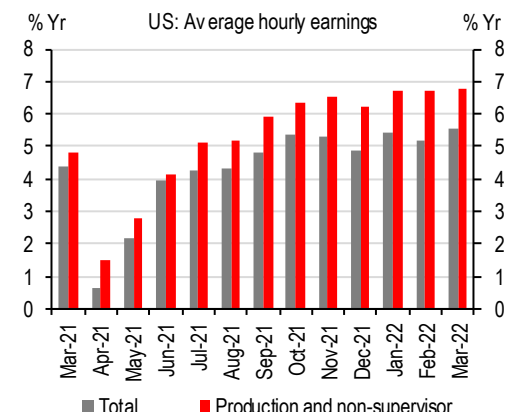
Wage gains are solid for lower-income workers...

### 9. Despite a tight labour market, US wages are struggling to keep up with inflation...



Source: Refinitiv Datastream

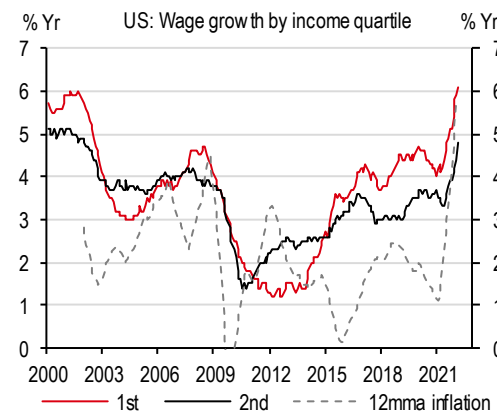
### 10. ...but wage gains are much faster for lower income production workers



Source: Refinitiv Datastream

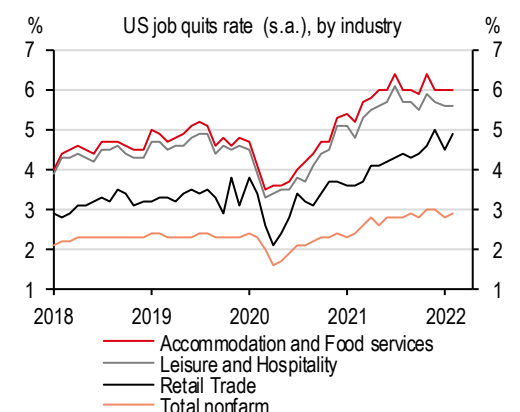
...mostly due to how tight the labour market is within certain sectors

### 11. Those on lowest incomes may even be seeing positive real wage growth...



Source: Refinitiv Datastream, Atlanta Fed. Note: Wage growth data are given as 12m moving average (12mma) so inflation is adjusted to be comparable

### 12. ...as a tight labour market pushes up wages in some sectors

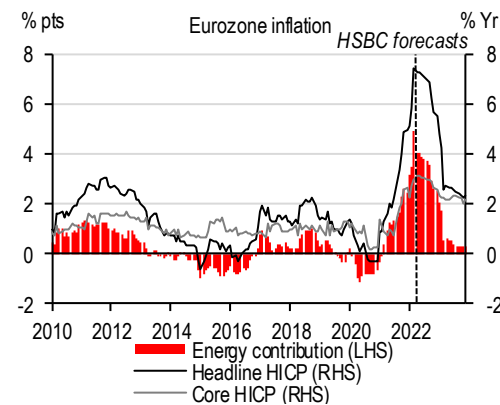


Source: Refinitiv Datastream

## Inflationary pressures keep building

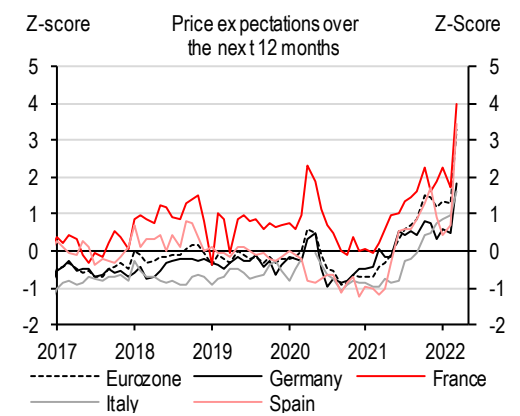
Higher energy prices have shocked the European inflation outlook

### 13. Eurozone inflation has surged on the back of higher energy prices...



Source: Refinitiv Datastream

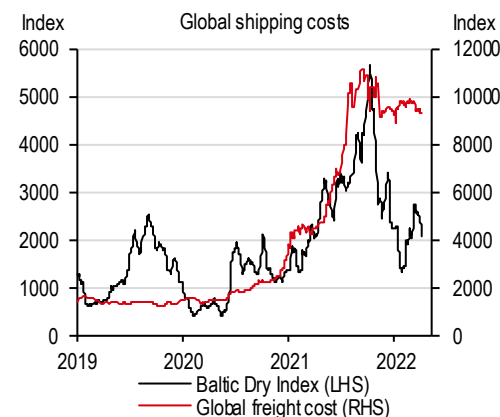
### 14. ...and inflation expectations have picked up too



Source: Refinitiv Datastream. Note: Series is from the Consumer Barometer

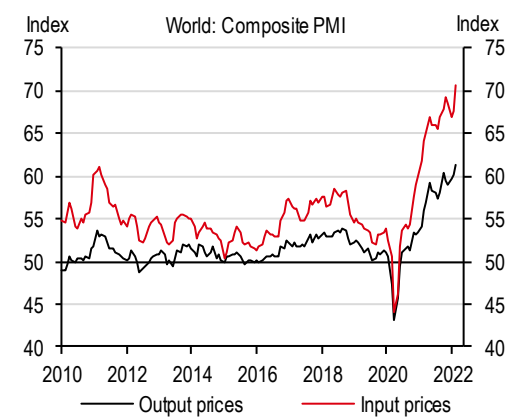
A slowdown in shipping costs may precede a rollover in goods prices

### 15. Shipping costs still haven't come down markedly...



Source: Refinitiv Datastream

### 16. ...and firms continue to face higher input costs from elsewhere

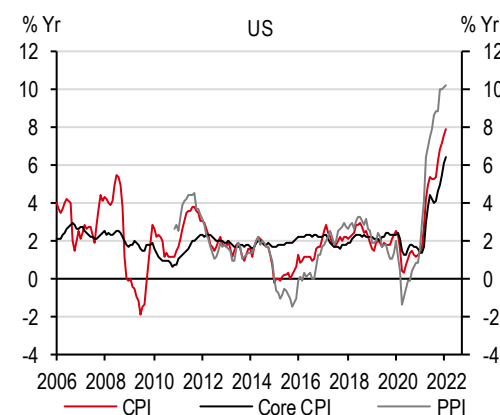


Source: Refinitiv Datastream

## Inflation shows little sign of really peaking anywhere

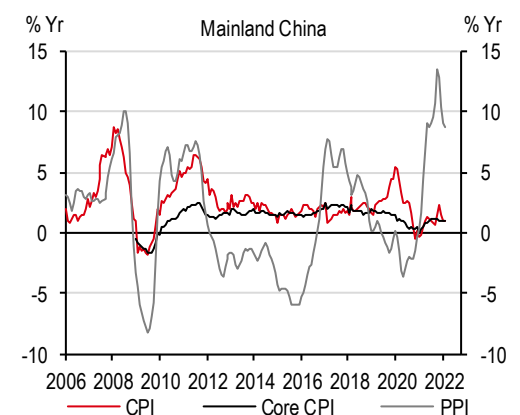
As economies re-open and demand picks up, inflationary pressures have built...

### 17. US inflation hasn't turned



Source: Refinitiv Datastream

### 18. In mainland China, input costs haven't fed into consumer prices, yet...

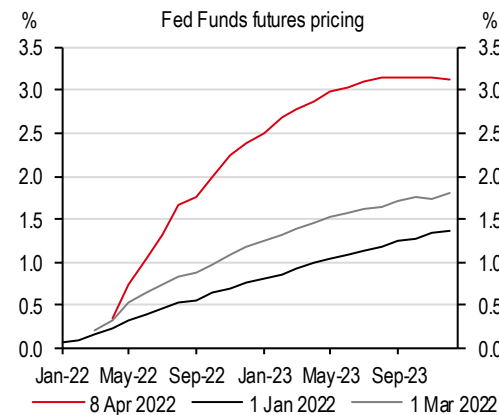


Source: Refinitiv Datastream

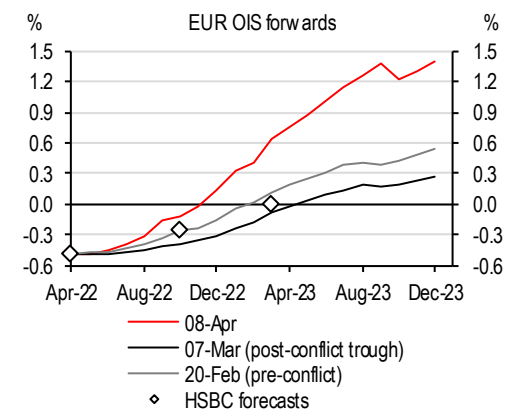
## Tightening dials up

Markets are now expecting much more central bank tightening in the coming months

### 19. Markets are pricing in a lot more near-term tightening from the Fed...

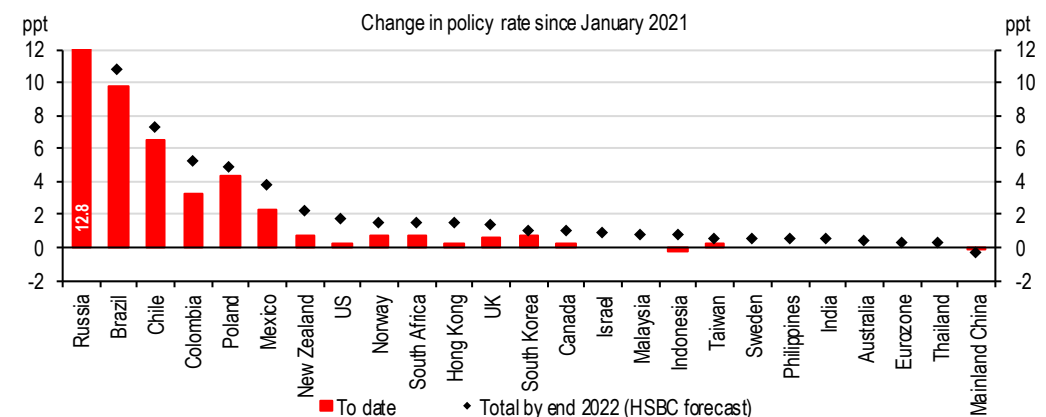


### 20. ...and from the ECB



Central banks look set to continue with tightening through 2022

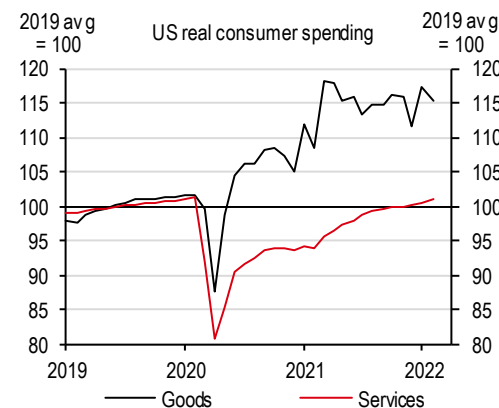
### 21. Central banks across the world are in the process of tightening to deal with inflation



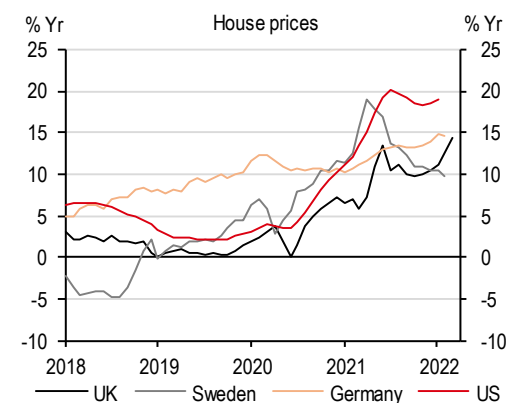
## What happens if demand softens?

Spending has held up for now, but goods spending could fade from high levels

### 22. Spending on goods may fade in 2022, particularly if services spending rises



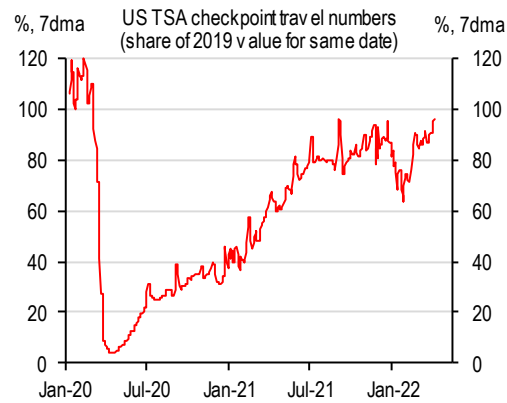
### 23. House prices show little sign of worries over higher rates



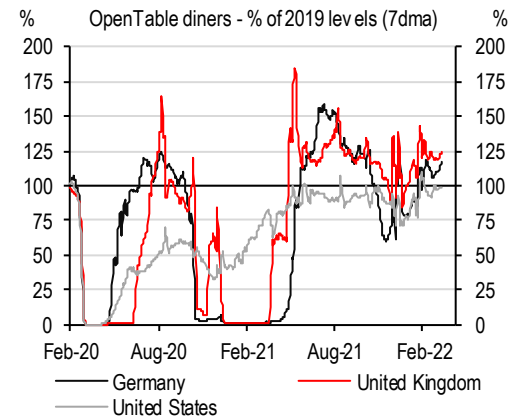
## For now, timely data have held up

Consumers don't appear  
fazed for now

### 24. US passengers are getting on planes more than at any time since the pandemic began...

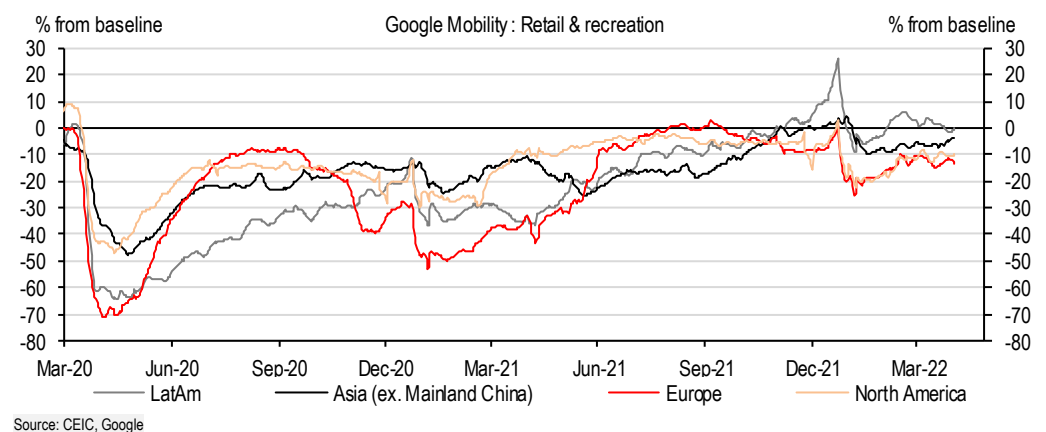


### 25. ...and diners are still visiting restaurants



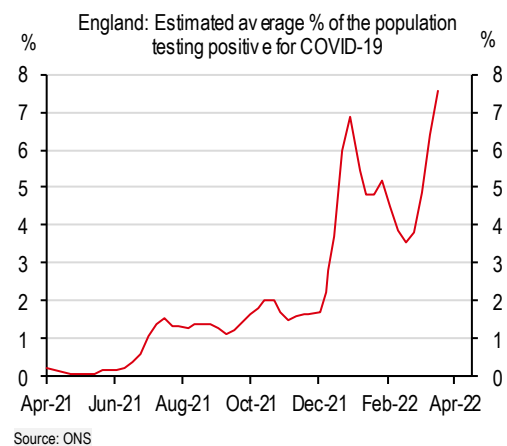
Away from mainland China,  
Asian mobility data have  
been remarkably steady

### 26. Mobility data have been largely steady since the start of 2022

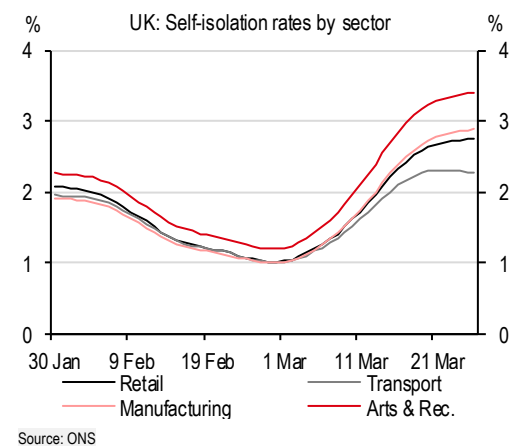


Whilst demand is holding up,  
supply issues can build from  
more people isolating

### 27. In the UK, more people are testing positive for COVID-19...



### 28. ...and this is having a supply side shock, too



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