



## Key Developments<sup>1</sup> & Chart of the week

19 March 2021

*Strong China supply-side performance. US retail sales fell back, but probably only temporarily*

	Outcome	Previous	Comment
China trade surplus (Feb)	\$38 bn	-\$62 bn	2021 surplus could approach \$1 tr
China IP (Feb, y-o-y)	+35.1%	+7.3%	Flattered by 'base effects'
China retail sales (Feb, y-o-y)	+33.8%	+4.6%	Flattered by 'base effects'
US retail sales (Feb, m-o-m)	-3.1%	+7.4%	Unwinding of 'stimulus checks' effect
US housing starts (Feb, m-o-m)	-10.3%	-5.1%	Cold weather impact (esp. in South)
US FOMC policy meeting	Again no rate change, notwithstanding forecast upgrades		

### China monthly partial indicators

- Year-on-year comparisons for January-February this year are all inflated by the stringent shutdowns enforced from late January through March last year. Even so, it is clear that China's exports are growing very strongly (at the expense of competitors), and that China is on track for a trade surplus of at least 6% of GDP in 2021, cf. an average of 3¼% over the past decade.
- Looking through 'base effects' it is clear that the 'supply side' of China's economy has rebounded much more quickly than the 'demand side', as illustrated by the contrast between the trajectories of freight and passenger traffic volumes (see chart below).

### US retail sales, IP and housing starts

- Retail sales fell back sharply in February from January's inflated stimulus-check-spending level – but can be expected to rebound in April when the latest round of stimulus payments hits.
- Meanwhile both industrial production and housing starts were affected in February by the colder-than-normal winter weather, in Texas especially.

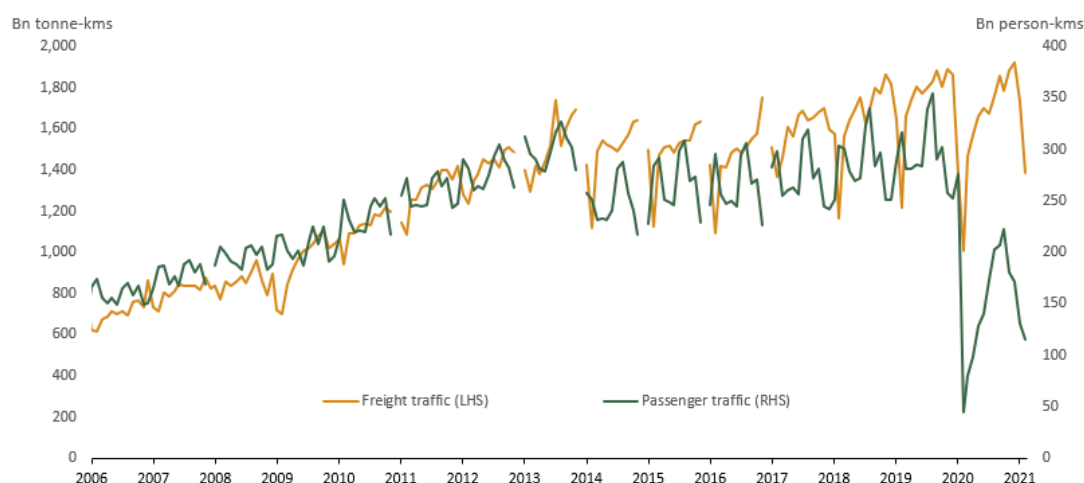
### FOMC meeting

- Wednesday's meeting kept rates on hold, but (unlike the ECB) did not foreshadow stepped-up bond purchases to counter recent rises in yields. Forecasts for GDP growth, unemployment, and inflation were substantially upgraded for 2021, but not for subsequent years.
- The decision to keep monetary policy settings unchanged underscores the Fed's determination to hold off until wage and price inflation are *sustainably* higher.

**Bottom line:** No material data challenge so far to our output<sup>2</sup> or inflation<sup>3</sup> World View.<sup>4</sup>

### Chart of the week. Freight and passenger traffic, China

- The supply side of the economy has rebounded much more quickly than the demand side.



Sources: Llewellyn Consulting and Saul Eslake<sup>5</sup> Notes: Data are to end Feb 2021.

<sup>1</sup> *Key Developments* presents what in our judgement represent the past week's most important individual data and other developments. These are selected, in an attempt to counteract the risk of Kahneman 'confirmation bias', as those best able to reveal the extent to which the key assumptions and relationships that underpin our *World View* remain valid – or not, as the case may be. Generally we feature hard data rather than forecasts or survey results; but make exceptions in important cases.

This approach is particularly important at present because the shock that has hit economies and markets is both large and novel, twin conditions that typically challenge understanding and lead to unusually large forecasting errors.

<sup>2</sup> In our *World View* we expect GDP growth to continue strongly in China; and the Biden stimulus augurs strongly also for the US. Elsewhere among OECD economies a proper recovery seems likely only once the vaccines restore a 'new normality'. Historically, re-attaining pre-recession GDP levels has taken some years, and post-recession growth is slower than its prior trend.

<sup>3</sup> While the aggregate price level in different economies may spike from time to time, capacity and labour markets are generally not strained, and it seems unlikely that such shocks as may hit the aggregate price level will turn into a price/wage spiral. Markets are fretting about future US inflation in the context of the big Biden package; but with inflation constrained almost everywhere else, international price competition stands to keep a lid on inflation globally – and perhaps even curb any incipient price pressure in the US. For more, see our *Rising US inflation concerns*, 12 February.

<sup>4</sup> Our recent *World View*, published in February, is replete with full underlying argument and supporting evidence.

<sup>5</sup> Sources consulted include: China National Bureau of Statistics; China Index Academy (CIA); China General Administration of Customs.

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