Key Developments[1] & Chart of the week

30 July 2021

EU growth resumes; US growth continues but leakages into imports are strong

	Outcome	Previous	Comment
US GDP (Q2, q-o-q, ar)	+6.5%	+6.3%	Below 'consensus' of 8.5%
US goods trade deficit (June)	-$91.2bn	-$88.2bn	2nd highest ever
US employment cost index (Q2, q-o-q)	0.7%	0.9%	A slight easing
US Fed funds rate	0-0.25%	0-0.25%	They did talk about 'tapering'
Euro area GDP (Q2, q-o-q)	2.0%	-0.3%	First 3-month growth this year
Euro area CPI (Jul, y-o-y)	2.2%	1.9%	Up a bit – mainly energy, food

US GDP. Less growth than expected notwithstanding stellar household spending

- US real GDP grew 1.6% (6.5% annualised) in Q2, finally surpassing (by 0.8%) the pre-recession peak level of Q4 2019.[2] Net exports detracted from growth for the fourth quarter in a row.

US merchandise trade deficit. This is where 'excess demand' is showing up

- The merchandise trade deficit widened (on a 'customs-cleared' basis) by $2bn to $91.2bn in June, the second-largest monthly deficit ever recorded (behind only February's $91.9bn).[3]

US employment cost index. Steady modest increase

- At 0.7% q-o-q, this all-important index so far exhibits no sign whatever of acceleration.

US FOMC meeting. Taper talk, but no action yet

- The Fed left its funds rate and the rate of its asset purchases unchanged. With inflation showing little change,[4] Chair Jay Powell emphasised that any tapering would be "*data-dependent*".[5]

Euro area GDP. Growth picks up in the region

- The flash estimate suggests that GDP rose by 2.0% q-o-q, the first 3-month increase this year. Only Germany came in below expectations, at 1.5%, possibly due in part to supply bottlenecks.[6]
- Perhaps, the vaccination rate having caught up with the US,[7] sustained growth may now resume.

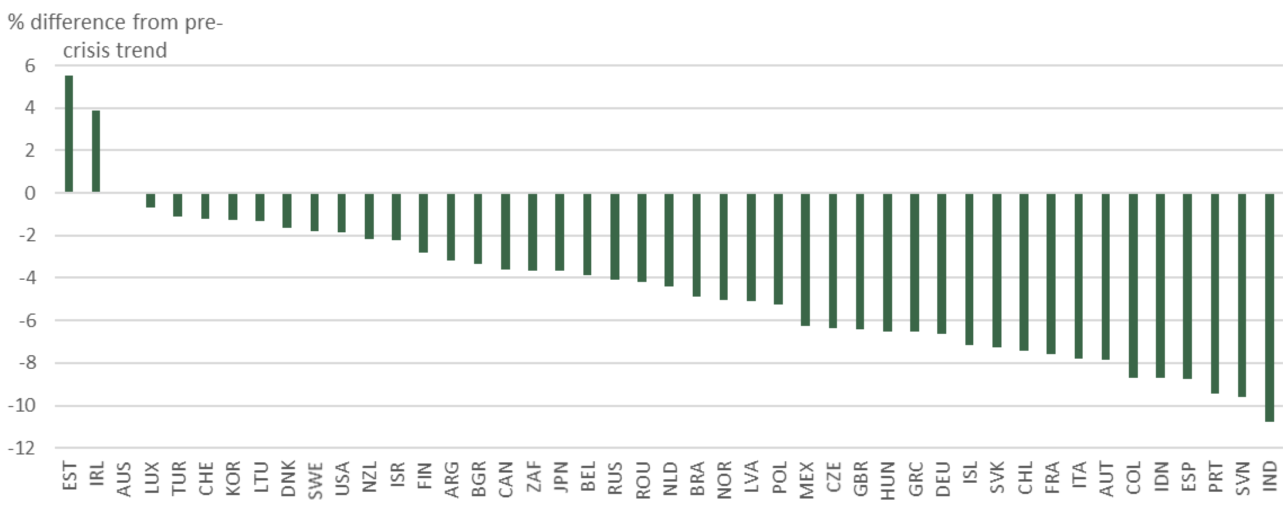
Euro area CPI. A modest but not yet disturbing increase

- While the July flash 2.2% y-o-y estimate was up from 1.9% in June,[8] the 'core'[9] remains at 0.9%

***Bottom line**: Recoveries generally continue apace. Our World View remains intact, provided wages stay well behaved – as they seem to be doing in the all-important US.*

Chart of the week. Q2 GDP is generally still way below (extrapolated) pre-Covid trend levels.

- The OECD Weekly GDP Tracker offers a real-time snapshot of economic activity for OECD and G20 countries.[10]



Source: OECD and Llewellyn Consulting

Note: The pre-crisis GDP trajectory is proxied by OECD forecasts of November 2019. For more, see Tracking GDP growth in real time - OECD

[1] ***Key Developments*** presents what in our judgement represent the past week's most important individual data, policy announcements, and any other developments that may support, or challenge, our understanding of the way in which key economies and financial markets are evolving.

These weekly judgements are cumulated and assessed in our quarterly ***World View & Risks***. When an issue warrants particular consideration, we examine it in detail in our ***Analysis*** pieces. And when in our judgement the accumulated evidence warrants it, we modify our quarterly ***World View & Risks.***

[2] Despite almost 12% (annualised) growth in household consumption spending, the overall result fell short of market expectations by 2 ppts. Housing investment fell 8% (annualised), business investment grew less than in any of the three previous quarters, and inventories were run down (again).

[3] Exports rose 0.3%, but imports rose 1.5% – probably mostly reflecting higher prices, but also strong demand.

[4] The US PCE deflator showed no change of significance in July: the y-o-y rate was unchanged at 4.0%, while the core decelerated fractionally, by 0.1 ppt m-o-m to 0.4%.

[5] Chairman Powell said that there was "*a ways [sic] to go"* before the labour market was sufficiently tight to warrant raising the fund rate, but that the FOMC had discussed how the pace of asset purchases might be *"adjusted … once economic conditions warranted a change"* – though the timing of any tapering would be "*data-dependent*".

[6] Among the Member States for which data are available for the second quarter 2021, Portugal (+4.9%) recorded the highest increase compared with the previous quarter, followed by Austria (+4.3%) and Latvia (+3.7%), while Lithuania (+0.4%) and Czechia (+0.6%) recorded the lowest increase. The y-o-y growth rates were positive for all countries.

[7] At the time of writing, both the EU and the US have recorded 103.5 cumulative vaccinations per 100 residents. Data as of 0800, Friday 30 July 2021 – see Covid-19 vaccine tracker (ft.com)

[8] Energy exhibited the highest annual rate of increase (14.1%, compared with 12.6% in June), followed by food, alcohol & tobacco (1.6%, compared with 0.5% in June), services (0.9%, compared with 0.7% in June) and non-energy industrial goods (0.7%, compared with 1.2% in June)

[9] On a Harmonised Index of Consumer Prices (HICP) basis, excluding energy and food

[10] The OECD Weekly Tracker of GDP growth Tracking GDP growth in real time - OECD *" … provides a real-time high-frequency indicator of economic activity using machine learning and Google Trends data. It has a wide country coverage of OECD and G20 countries. The Tracker is thus particularly well suited to assessing activity during the turbulent period of the current global pandemic. It applies a machine learning model to a panel of Google Trends data for 46 countries, and aggregates together information about search behaviour related to consumption, labour markets, housing, trade, industrial activity and economic uncertainty*." For more, see: Can Google Trends be used to track economic activity in real-time?[1] – ECOSCOPE (oecdecoscope.blog).

The chart below explains how the data should be interpreted: "*The Weekly Tracker is an estimate of the percent difference between weekly GDP and the pre-crisis GDP trend. The pre-crisis GDP trajectory is proxied by OECD forecasts made in November 2019. Around the anniversary of the first economic impact of the pandemic, the Weekly Tracker year-on-year became difficult to interpret because it is based on GDP growth compared to the same week a year earlier. That is why the Tracker of GDP relative to the pre-crisis trend was then introduced. It is a simple transformation of the year-on-two-year Tracker and it continues to be essentially based on recent data on Google Trends*." (For more, see: rebasing_weekly_tracker_counterfactual.pdf (oecd.org).