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Monthly Macro Insights

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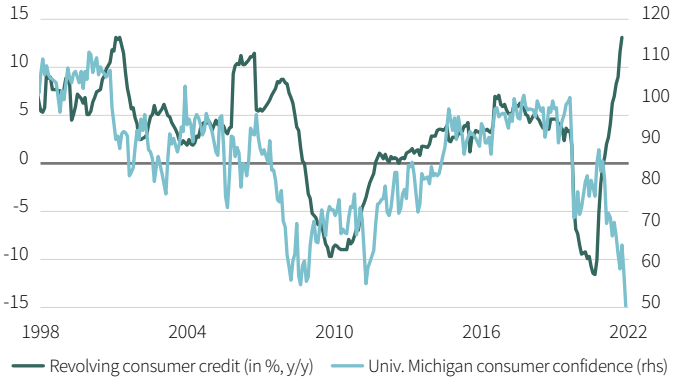
The global economy is losing momentum. In fact, stagflation risks loom large, owing to high inflation, the war in Ukraine and the impact from the pandemic. The current challenge for central banks is to restore low and stable inflation, while preserving financial stability and averting a recession. A task that looks less likely now than a few months ago.

Growth downgrades continue…

In China, a material economic rebound is underway as the spring lockdowns have been rolled back thanks to new Covid cases being brought under control. Manufacturing business confidence improved, supported by the supply chain normalisation gathering pace, while reopening industries are boosting service-sector activity. Surveyed businesses nonetheless expressed concerns about the long-lasting impacts of the pandemic on the economy amid the 'zero-Covid' policy and the 12-month outlook sub-index remaining below the series average.

China's reopening rebound has begun at the same time that drags from high inflation and tightening financial conditions are building swiftly elsewhere. In the US, the challenge of higher prices and reduced federal transfers has led households to borrow through credit cards and dip into their savings to maintain robust spending, a trend that can hardly be sustained. In fact, real consumer net spending contracted in April and May, and inflation is putting the onus on continued strong labour market performance to support spending gains. After contracting in Q1 2022, US GDP might well have fallen again in Q2, thus triggering a technical recession.

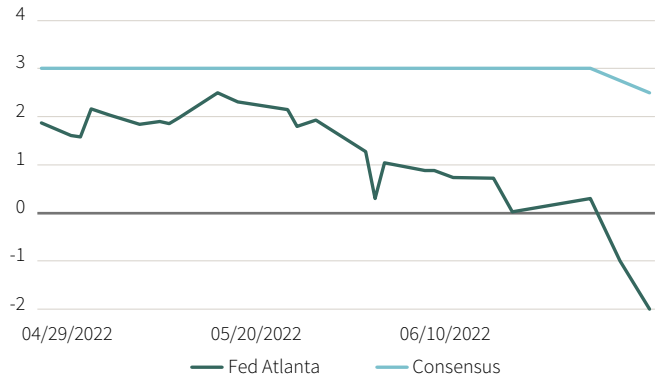
US – Consumer confidence and credit



Source: Macrobond, Rothschild & Co Asset Management Europe, July 2022.

US – Q2 2022 GDP projection

in %, q/q ann



Source: Bloomberg, Fed Atlanta, Rothschild & Co Asset Management Europe, July 2022.

Meanwhile, consumer confidence in the eurozone has plummeted, reflecting the squeeze on real incomes coming from the acceleration in inflation despite strong employment growth, as well as higher uncertainty. The latest deterioration in business confidence raises the risk of the region slipping into economic decline in Q3 2022, as the June PMI forward-looking indicators[1] such as new orders and business expectations sub-indexes pointed to falling output in coming months.

…while inflation shows few signs of abating

Central banks are unlikely to be moved by the economic slowdown as price pressures have risen to multi-decade highs.

At first, higher inflation was seen as transitory, reflecting increased relative prices for a small number of pandemic-affected products. However, it progressively broadened and by early 2022, growth in service prices, which tends to be more persistent, exceeded pre-pandemic levels in most countries.

In addition, the war in Ukraine has quashed hopes that the inflationary surge would subside quickly. The easing of pandemic lockdowns and restrictions is helping to reduce a supply-demand mismatch in maritime transport, with shipping costs down from their peaks in late-2021. However, bottlenecks in international freight remain high as the invasion of Ukraine, along with shutdowns in major cities and ports in China due to the zero-Covid policy, has generated a new set of adverse shocks.

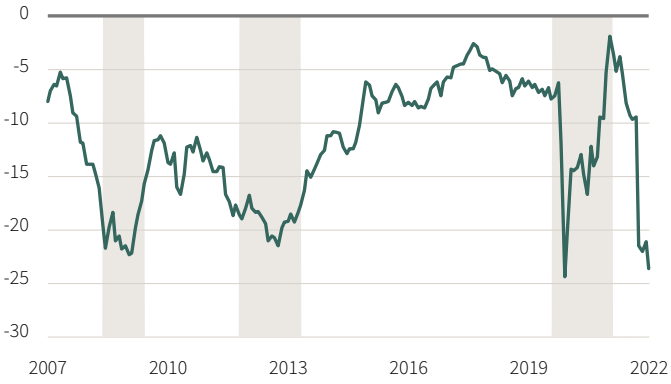
Commodity prices have risen substantially, reflecting the importance of supply from Russia and Ukraine in many markets. In a number of emerging-market economies the risks of food shortages are high given the reliance on agricultural exports from these two countries.

The cost of energy and raw materials poses a significant risk of disruption that could amplify the global economic slowdown. The EU has agreed an embargo on coal imports from Russia, to take effect in August, and an embargo on seaborne oil imports from Russia to begin in 2023[2]. In addition, Russia has halted gas exports to some EU member states. Overall, energy imports by European economies from Russia are set to fall sharply in 2023, which will bring tremendous challenges as petroleum products (including crude oil) account for over one-third of total energy use in the EU. In fact, the forthcoming embargoes are likely to push up global energy prices further over the next year, keeping headline inflation figures higher for longer. Indeed, global energy markets are tight, and while increased liquefied natural gas deliveries can help to mitigate any potential supply disruptions of pipeline gas to European markets, strong additional competition from Europe for scarce energy supplies would therefore be likely to drive up prices in global markets.

What's more, labour markets in most advanced economies are now relatively tight. The OECD-wide unemployment rate has returned to its lowest level in the past two decades. Also, nominal wage growth has picked up in the US and a few other countries to levels that are

Eurozone – Consumer confidence

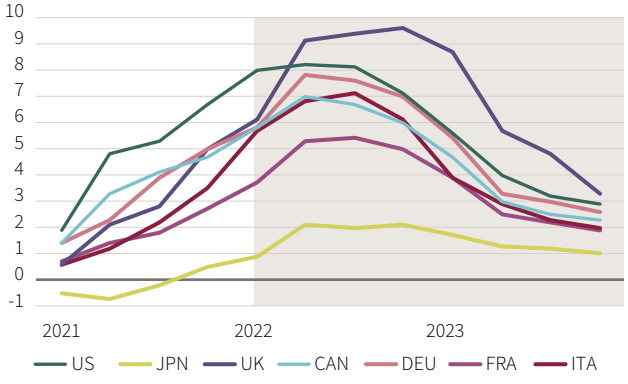
EC index



Source: Macrobond, Rothschild & Co Asset Management Europe, July 2022.

G7 – Inflation rate

in %



Source: Consensus, Rothschild & Co Asset Management Europe, July 2022.

(1) Purchasing Managers' Index, an indicator reflecting the confidence of purchasing managers in a sector of activity. Above 50, it expresses an expansion of activity, below 50, a contraction.

(2) source: 7 April 2022.

high by pre-pandemic standards. With the current surge in inflation having resulted in a sharp and unanticipated decline in real wages, attempts to recoup these losses can be expected in wage bargains, with the risk of triggering a typical wage-price spiral. In that context, central banks have decided to hike interest rates in order to preserve their credibility and prevent inflation becoming entrenched at high levels.

Correspondingly, faster and more extensive policy interest rate rises in advanced and emerging-market economies have led to a substantial tightening of global financial conditions, raising concerns about public and corporate debt sustainability. That said, healthy balance sheet limits prompted default risks, while many large corporations took advantage of low interest rates and quantitative easing during the pandemic to refinance their debt and lengthen maturity, which will delay the speed at which higher market interest rates are reflected in debt service burdens. Still, central banks are facing a significant dilemma, having to choose between growth and inflation.

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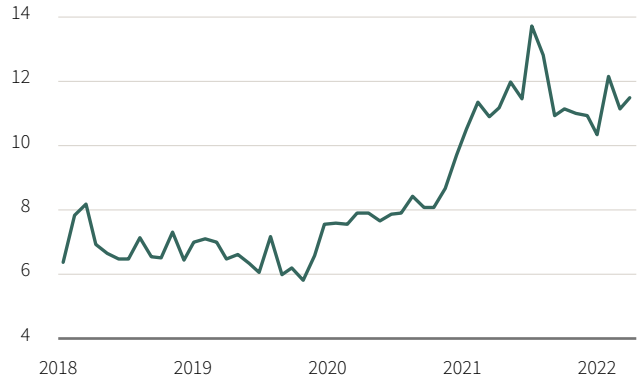
World – Goods waiting

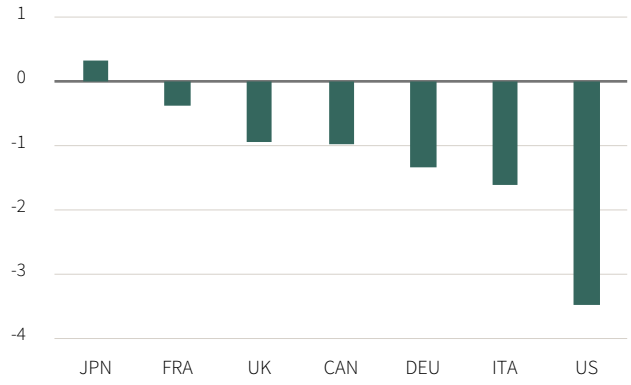
in %, on container ships



Source: OECD, Rothschild & Co Asset Management Europe, July 2022.

G7 – Projection real disposable income 2022

in %, y/y



Source: OECD, Rothschild & Co Asset Management Europe, July 2022.

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