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Monthly Macro Insights



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While tracking a firmer pace than feared in Q1-23 GDP, incoming reports suggest much of the strength can be attributed to China. Meanwhile, central banks have continued their tightening campaign amid stubbornly firm wage growth and sticky core inflation. Will they continue until something breaks?

Unevenly distributed growth momentum...

China's GDP expanded 2.2 per cent q/q in Q1-23 following 0.6 per cent in Q4-22, supported mainly by the strong rebound in households' consumption as the authorities abandoned their zero-Covid policy. Looking ahead, spending on services, particularly traveling, is set to remain strong, although uncertainty remains elevated on other categories as recent indicators

have provided conflicting signals about the recovery. In a sign of muted domestic demand, inflation was weak in March – core and headline inflation both at 0.7 per cent – while the urban unemployment rate remained elevated at 5.3 per cent. Business confidence fell in April, especially in the manufacturing sector (49.2), with the index falling in contraction territory for the first time this year⁽¹⁾. Correspondingly, investors are divided about whether the authorities need to roll out more stimulus to boost growth.

China – Inflation rate

In %



Sources: JP Morgan, Rothschild & Co Asset Management Europe, May 2023.

US – Investment intentions

Manufacturing, regional Fed surveys



Sources: Macrobond, Rothschild & Co Asset Management Europe, May 2023.

(1) Source: National Bureau of Statistics of China, May 2023.

In the US, economic growth disappointed as GDP expanded a mere 0.3 per cent q/q (or 1.1 per cent annualized)⁽²⁾, less than half the prior quarter's pace and below consensus expectations. That said, as it is often the case, the details are difficult to untangle. On the positive side, private domestic final sales grew briskly amid a rebound in consumption and much of the disappointment came in an abrupt slowing in inventory investment, something that is unlikely to repeat in the next quarters. However, business investment remained weak and almost all the rebound in consumption came almost exclusively from a strong reading in January.

According to the flash estimate, Eurozone GDP was up 0.1 per cent q/q last quarter, after a -0.1 per cent contraction in Q4-22⁽³⁾. Despite limited details, the small gain seems to have been driven mainly by net trade rather than domestic demand, as lower headline inflation was not strong enough yet to unleash consumer spending significantly at the start of the year. Investors remain optimistic regarding the outlook as the S&P Global business confidence index improved once again in April to a 11-month high despite the recent banking stress, suggesting that the Eurozone economic activity gained momentum in early Q2. That said, the upturn was very unevenly distributed. On the one hand, business confidence improved in the services sector, with the employment sub-index reaching its highest level since July 2007. By contrast, confidence in the manufacturing sector fell deeper in contraction territory, the lowest level in almost three years. Furthermore, despite easing somewhat, prices sub-indexes remain elevated by historical standards, especially in the services sector.

... while inflation pressures remain elevated

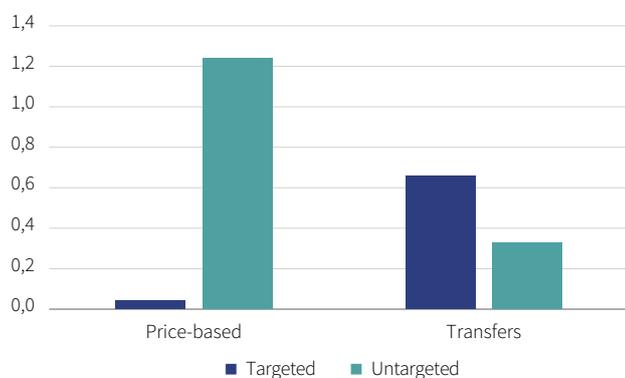
Global headline inflation has been declining since mid-2022 amid a fall in commodity prices, especially energy. To dampen demand and reduce underlying inflation, most central banks around the world have been raising interest rates since 2021, both at a faster pace and in a more synchronous manner than in the previous global monetary tightening episode just before the global financial crisis. However, core inflation remains much stickier than projected.

Indeed, although the transmission of monetary policy is generally thought to have long and variable lags, there are several factors that have contributed to more persistent underlying price pressures. The boosting impact of the Chinese reopening, combined with a warmer winter that supported the construction sector and prevented an energy crisis in Europe, have frustrated central banks' efforts to slow down the economy. What's more, several governments – especially in Europe – acted swiftly to extend support to households and firms, which helped cushion the effects on growth. However, this fiscal support was largely untargeted and such broad-based measures have undermined the impacts of monetary policy tightening.

Furthermore, in the latest global PMI survey, businesses in the services sector have reported an improvement in confidence, benefitting from a post-pandemic tailwind of spending shifting from goods to services. In turn, resurgent demand for services is reigniting inflationary pressures.

Europe – Fiscal support to households

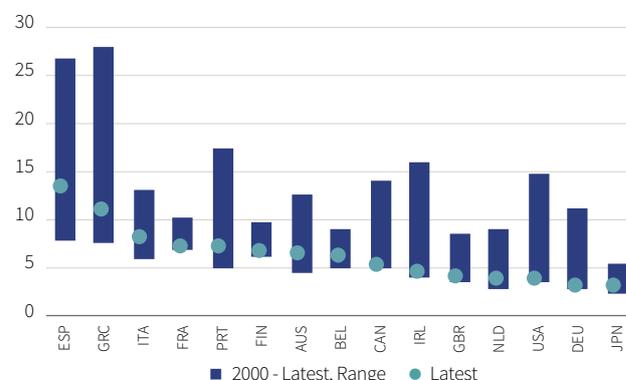
In % of GDP, 2022-23



Sources: IMF, Rothschild & Co Asset Management Europe, May 2023.

World – Unemployment rate

In %



Sources: Macrobond, Rothschild & Co Asset Management Europe, May 2023.

(2) Source: U.S. Bureau of Economic Analysis, May 2023.

(3) Source: Eurostats, May 2023.

Meanwhile, labour markets remain tight in most countries, in part because demand is robust, but also reflecting a slow post-pandemic recovery in supply, with, in particular, fewer older workers participating in the labour force. In that context, cost pressures from wages not only remain elevated in most advanced economies, but some measures are showing signs of a re-acceleration.

Accordingly, central banks are forced to stay firm in their communications about the need for a restrictive monetary policy stance, signalling that interest rates will stay higher for longer than previously expected to address sticky inflation.

With the lagged effects of monetary policy tightening still ahead, and with new headwinds on the scene from banking sector

stress and financial stability risks, the “resilience-question” remains utterly relevant, although amid higher than usual uncertainty. Central banks might have to induce a significant slowdown in the labour market in order to rein in price pressures, an adjustment that is likely to occur in an environment where economic activity decelerates much more meaningfully. Yet, as we have argued last month, there are few reasons to think that monetary policy has become inoperative, and although the lags might have lengthened, some investors might end up being caught off guard when the full impact will start to bite.

Completed writing on 4 May 2023

US – Inflation services excluding housing

In %



Sources: Bloomberg, Rothschild & Co Asset Management Europe, May 2023.

US – Wage tracker

In %, a/a, 3m ma, Atlanta Fed



Sources: Macrobond, Rothschild & Co Asset Management Europe, May 2023.

Performance of the indices and interest rate levels

	Price as of 30/04/2023	1 month % change	2023 % change
Equity markets			
CAC 40	7 492	0.7%	13.1%
Euro Stoxx 50	4 359	1.8%	13.7%
S&P 500	4 170	9.8%	7.6%
Nikkei 225	28 856	2.2%	7.5%
Currencies			
EUR/USD	1.08	2.5%	1.3%
EUR/JPY	144.09	0.1%	2.6%

Interest rates	Price as of 30/04/2023	1 month bp ⁽¹⁾	2023 bp ⁽¹⁾
3 month			
Eurozone	3.03%	23	127
United States	5.03%	34	69
10 years			
Eurozone	2.31%	2	-26
United States	3.42%	-4	-45

(1) Basis point.

Source: Bloomberg, data as of 30/04/2023. Performances in local currency.

Past performance is not a reliable indicator of future performance and is not constant over time.

Index's performance is calculated on the basis of net dividend reinvested.

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