Economic Adviser

Macro Research

July 2023 ♦ Date of issue: 3 July 2023

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Special: Leading indicators and the real estate market

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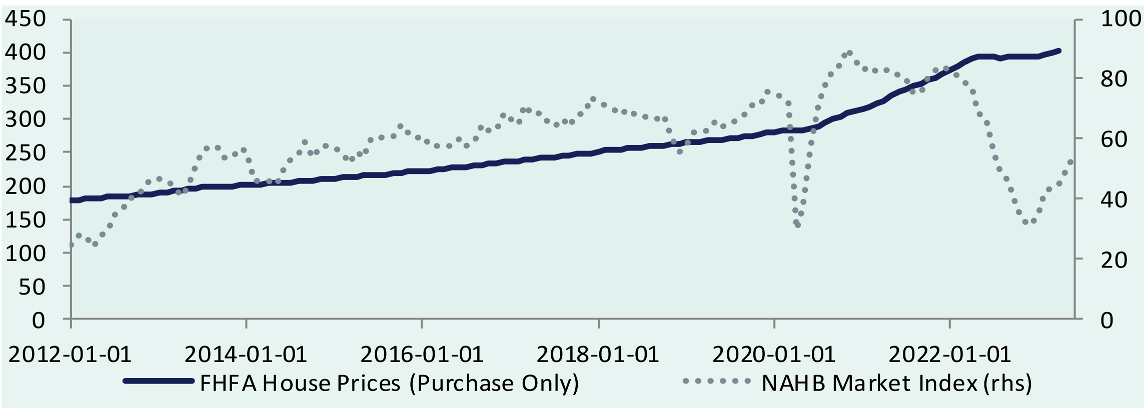
The search for information on the future

Future developments are quite clearly the focus of interest in the financial markets. In view of the importance of economic data, there can be no doubt whatsoever that leading indicators ought to be of significant relevance for investors. A central problem, however, is that the prices of financial instruments likely already reflect the expectations of market participants. Especially in liquid markets, a look at the quotations on a stock exchange, for example, ought to provide a fairly realistic picture of the probable future movements of key influencing factors on the investment object under consideration. Put in more concrete terms, the current price of a share should in general equal the appropriately discounted value of expected future dividend payouts. Since dividends are paid from corporate earnings, stock prices ought to reflect the market expectations as to the earnings situation of the companies. They are thus in some respects themselves a leading economic indicator – and it usually proves quite difficult to find leading indicators for these time series. However, the argument put forward in the relevant academic literature is that, due to the heterogeneity of the asset class real estate, it could after all be possible to find leading indicators for house prices. Sentiment indicators ought to be particularly relevant in this context.

Chart: US house prices and the NAHB Index



Sources: Macrobond, NORD/LB Macro Research

Sentiment indicators, house prices and the construction industry

Indeed, empirical studies seem to show that the results of the surveys among relevant economic agents could help in obtaining information on future developments in real estate prices. In the UK, for example, the RICS Housing Market Survey Price Balance Index can be used to make more well-founded forecasts of house prices. This indicator is based on the results of a survey among real estate surveyors. The NAHB index in the USA is similar in this respect. According to empirical research the National Association of Home Builders' sentiment indicator provides almost astonishingly good information on the future figures for the widely regarded Case-Shiller house price index and also for other US real estate price data (see chart). We are not aware of any corresponding empirical analyses in Germany, but the Deutsche Hypo real estate climate index appears to be a potential candidate as a suitable leading indicator for the developments on the real estate market of Europe's biggest economy. This time series is based on the results of a survey among 1,200 German market experts. The indicator is said to provide an accurate reading of the sentiment in Germany's real estate industry without any major delays in the publication of current figures. Besides the headline index, data on the subgroups office, trade, housing, logistics and hotel are also reported. The aim of the survey is probably first and foremost to identify turning points in the real estate market early on. Other potentially interesting indicators with similar aims also exist in a number of countries. In many cases, however, there is still no sufficiently informative empirical analysis of the leading-indicator properties of the corresponding time series for house prices or other relevant data on the activity on the real estate market of the nation in question. The United States is, once again, a major exception in this context. Besides a number of studies on the NAHB index there are, for example, also some studies that take a look at the Architecture Billings Index issued by the American Institute of Architects. Also followed to a growing extent by the international financial markets, this sentiment indicator is said to customarily have a lead time of 9 to 12 months for economic activity within the US construction industry. In our view, however, the NAHB index remains the central "early warning indicator" for the US real estate market.

A look at the US real estate market and the NAHB index

The time series surveyed by the National Association of Home Builders has recently picked up further. Indeed, the current level of 55 points signals a predominance of positive responses for June as month under review. The demand side evidently remains a problem, however, as reflected in the fact that, despite a renewed rise – to a current level of 37 points – the Prospective Buyers Traffic index stands at an extremely low level in June as well. It should, however, also be noted that this time series registered a level of just 33 points in May as month under review. As is known, May saw the headline index rise to precisely the "magical" mark of 50 points, which is regarded by many observers as expansion threshold. This was the first time since July 2022 that the level of 49 points was surpassed on the index. In this context, the National Association of Home Builders had also stressed that in the meantime more than an impressive 33 percent of the homes for sale are new builds, which can rightly be seen as a remarkably high proportion in historical comparison. Indeed, the survey for the compilation of the NAHB index thus pointed out very early on a particular degree of importance of the new builds for the US real estate market. The recently published May figures for purchases of new single-family homes also point in this direction, indicating very considerable year-on-year growth of 12.2 percent to a current level of 763,000 units. This was regarded by many observers as quite a surprise on the upside and was the strongest increase since August 2022 as month under review. Without a doubt, the low degree of available housing stock in the real estate market has triggered positive impulses in terms of the construction of new houses – and the survey conducted by the National Association of Home Builders had indeed indicated this helpful effect for the US economy very early on.

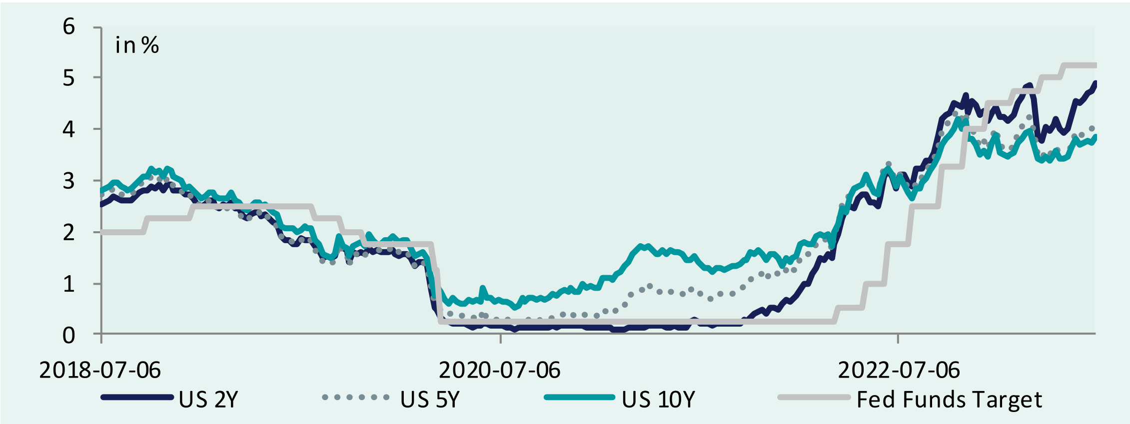
USA: Debt ceiling no longer the problem

Analysts: Tobias Basse // Bernd Krampen

Labour market still helping private consumption

The latest data on the development of retail sales in the USA show that, according to preliminary figures, there was a month-on-month increase of 0.3 percent in May as month under review. This news is certainly a (though probably only slightly) positive surprise for many observers. The control group of retail sales most recently registered growth of a pleasing 0.2 percent mom. This sub-index is known to be of key relevance for the GDP data in the United States. Basically speaking, the US consumers thus appear to be continuing to play their role as mainstay of activity in the North American economy. The unexpectedly significant upward revision of the GDP figures for Q1 – now showing a growth rate of +2.0 percent (ann.) – is also attributable to, among other things, stronger consumption. The employment situation remains highly pleasing and is quite evidently aiding the financial situation of households in the United States, which in turn ought to have a supportive effect for the entire North American economy. Nevertheless, we maintain that the US economy is facing tougher times in the near term, against which background the financial market participants probably ought to keep a closer eye on the labour market situation. Preliminary data indicate that the unemployment rate rose to 3.7 percent in May. Still, a total of 339,000 new jobs were created (excluding agriculture).

Chart: Interest rates in the USA



Sources: Macrobond, NORD/LB Macro Research

Debt ceiling no longer the problem

In the meantime, however, an agreement was reached in Washington in the dispute over raising the debt ceiling. While this news came as no surprise to us, the fact is that a major potential problem for the US economy has been eliminated, at least for now. The compromise arrived at provides for a suspension of the debt ceiling until 1 January 2025. This means that it won't be until after the next presidential election that this issue could potentially be the subject of dispute again. Excluding expenditure on defence, government spending in the US will not increase in 2024 and likely then rise by 1 percent in 2025. Provisions relating to the period beyond 2025 were not on the agenda. Defence spending in the United States can be increased by 3 percent in 2024.

The FOMC plays for time

At its most recent meeting the FOMC voted not to raise the Fed funds target rate further for the time being. This – at least for the moment – wait-and-see approach taken by the monetary policymakers in Washington came as no surprise to the majority of interested observers. However, the Federal Reserve continues to send out rather hawkish signals, the intention likely being to fortify the view among market participants that the inflation environment could well necessitate further key-rate hikes in the future. We see this as, in essence, reflecting a certain calculated pessimism. The monetary policy makers in Washington are evidently looking to stifle speculation about possible near-term key-rate cuts by the Fed. In light of the slowly – but at any rate quite steadily – clouding economic prospects and a foreseeable further easing of the headline inflation rate, the central bank's current hesitation could indeed quite well be channelled into an abandonment of further Fed funds target rate hikes. In fact, concretely speaking, the question arises as to why a central bank bides its time for now against the background of a CPI annual rate of exactly 4.0 percent, only to then at a later point take action after all with the CPI annual rate at about 3.0 percent. Given the known time lags between the implementation of monetary measures and their actual impact on the economy, such behaviour would at least call for explanations. One answer could lie in unexpectedly grim data on the development of the core rate of consumer prices, so a particularly close eye needs to be kept on this time series in the future. From a strategic point of view, however, it is clear that the FOMC will have to act a lot more cautiously in the realignment of its monetary policy in the second half of 2023.

Fundamental forecasts, USA

	2022	**2023**	**2024**
GDP	2.1	1.4	1.1
Private consumption	2.7	2.0	1.3
Govt. consumption	-0.2	0.8	0.5
Fixed investment	-0.5	2.0	2.5
Exports	7.1	2.0	3.0
Imports	8.1	4.0	3.0
Inflation	8.0	4.0	2.4
Unemployment rate[1]	3.6	3.8	4.0
Budget balance[2]	-4.2	-3.7	-3.7
Current acct. balance[2]	-3.8	-3.4	-3.4

Change vs previous year as percentage; [1] as percentage of the labour force; [2] as percentage of GDP

Sources: Feri, NORD/LB Macro Research

Quarterly forecasts, USA

	III/22	**IV/22**	**I/23**	**II/23**	**III/23**
GDP qoq ann.	7.0	2.6	2.0	0.5	0.0
GDP yoy	1.9	0.9	1.8	2.1	1.3
Inflation yoy	8.3	7.1	5.8	4.1	3.3

Change as percentage

Sources: Feri, NORD/LB Macro Research

Interest and exchange rates, USA

	29.06.	**3M**	**6M**	**12M**
Fed funds target rate	5.25	5.25	5.25	4.50
3M rate	5.25	5.10	5.00	4.30
10Y Treasuries	3.84	3.50	3.40	3.20
Spread 10Y Bund	142	90	100	80
EUR in USD	1.09	1.08	1.08	1.09

Sources: Bloomberg, NORD/LB Macro Research

Euroland: ECB signals further rate hike

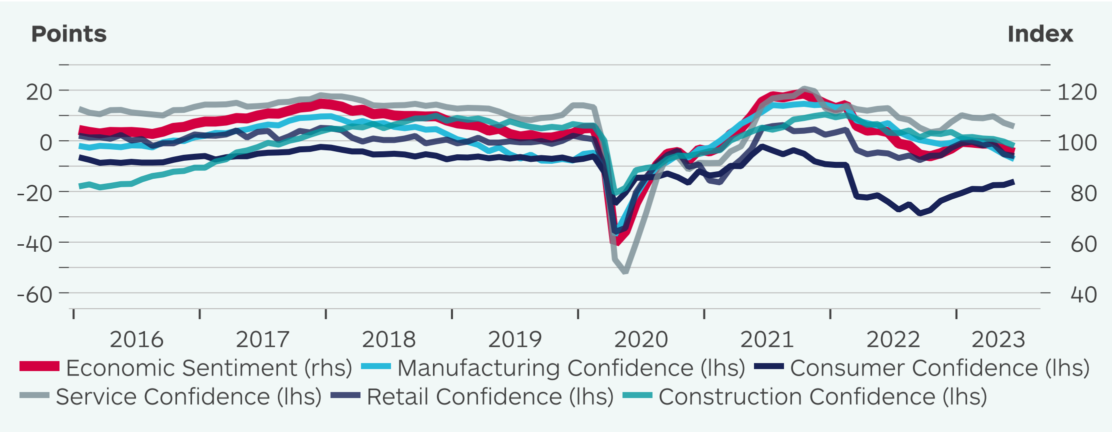
Analysts: Christian Lips, Chief Economist // Christian Reuter

Eurozone's economic activity in stagnation

Seasonally adjusted gross domestic product contracted by 0.1 percent qoq in Q1. This was due to weaker household consumer spending (-0.3 percent qoq) as well as a decline in government demand (-1.6 percent qoq). Net exports, on the other hand, supported growth. Industrial output climbed by 1.0 percent mom in April, offsetting a small portion of the previous month's decline.

The mood across the economy has deteriorated. Data from the EU Commission reveal that companies in industry and the services sector once again registered declining confidence in June (see chart). In the three major EU countries Germany, France and Italy, the purchasing managers recently reported declines in output and order intake. The momentum in the service sector is likewise slowing discernibly. Though remaining just above the expansion threshold of 50 points, the respective purchasing managers' indices for Germany and Italy registered renewed month-on-month declines in June. On the other hand the French economy is expected to already register contraction again in June. The surveyed purchasing managers in industry and services were in any case pessimistic, probably also as an after-effect of the strikes against the pension reform and fresh strikes at the start of the summer.

Chart: Deteriorating economic sentiment in the eurozone



Sources: Macrobond, NORD/LB Macro Research

Inflation declines in June – German special effect makes for core-rate increase

Inflation in the euro area declined again, year-on-year, in June. Eurostat's flash estimate indicates that the inflation rate fell to 5.5 percent yoy in June, corresponding to a month-on-month increase of 0.3 percent. In the past month, base effects again played a major role, triggered by what are in some cases dramatic drops in energy prices. The core rate excluding the volatile price components energy, food, alcohol and tobacco, on the other hand, climbed slightly again from 5.3 percent to a current level of 5.4 percent yoy. This means there are still no indications of a sustained downward momentum, even though the increase is essentially attributable to a special effect from German service prices. Concerns about second-round effects are still not off the table for the central bankers.

ECB remains stubborn on the home straight, no intention (yet) of a break in rate hikes
As expected, the European Central Bank raised its key interest rates again by 25 basis points in each case at its last policy-setting meeting in mid-June. The relevant deposit rate thus rose to 3.50 percent. Despite the recent downward trend, inflation continues to be considered too high for too long, against which background a further rate increase was a logical measure.
The rhetoric on the progression of the interest rate cycle was nevertheless remarkably hawkish. The central bank underpinned this with revised, more pessimistic forecasts of inflation developments in its periodically adjusted outlook. The Eurosystem experts raised the inflation forecast by 0.1 percentage points for each of the years in the period under consideration (2023-2025). In particular the significant upward revision of the forecasts for core inflation and the still very robust state of the labour market point to at least one further rate hike in July, whereby the risk is more on the upper side. And June's inflation data do not yet provide the necessary certainty for a significant and sustainable reduction of the core inflation rate, so the rate hike more or less announced for July now appears as good as certain. There is also a growing likelihood of a further rate hike in September as well. After that, however, a significantly lower rate of inflation will reduce the pressure from the ECB's monetary policymakers for further tightening.
On the other hand, the ECB's economic forecast may yet prove excessively optimistic, as there are now clear indications of tighter financing conditions and slowing monetary momentum. The end of reinvestments from the APP is also a contributory factor in this context. This will bolster the desired monetary tightening with maturities from the TLTROs. All the same, the ECB will counteract excessively severe transmission impairments with appropriate measures.

Fundamental forecasts, Euroland

	2022	2023	2024
GDP	3.5	0.5	1.3
Private consumption	4.5	0.1	1.3
Govt. consumption	1.4	-0.4	1.0
Fixed investment	3.8	-0.4	1.5
Net exports[1]	-0.2	0.7	0.0
Inflation	8.4	5.7	2.9
Unemployment rate[2]	6.7	6.6	6.6
Budget balance[3]	-3.6	-3.4	-2.7
Current account balance[3]	-1.0	1.6	1.5

Change vs previous year as percentage, [1] as contribution to GDP growth; [2] as percentage of the labour force; [3] as percentage of GDP

Sources: Feri, NORD/LB Macro Research

Quarterly forecasts, Euroland

	III/22	IV/22	I/23	II/23	III/23
GDP sa qoq	0.4	-0.1	-0.1	0.2	0.2
GDP sa yoy	2.5	1.8	1.0	0.4	0.2
Inflation yoy	9.3	10.0	8.0	6.2	4.9

Change as percentage

Sources: Feri, NORD/LB Macro Research

Interest rates, Euroland

	29.06.	3M	6M	12M
Repo rate ECB	4.00	4.25	4.25	4.00
3M rate	3.59	3.90	3.90	3.60
10Y Bund	2.42	2.60	2.40	2.40

Sources: Bloomberg, NORD/LB Macro Research

Germany: Industrial recession intensifies

Analysts: Christian Lips, Chief Economist // Christian Reuter

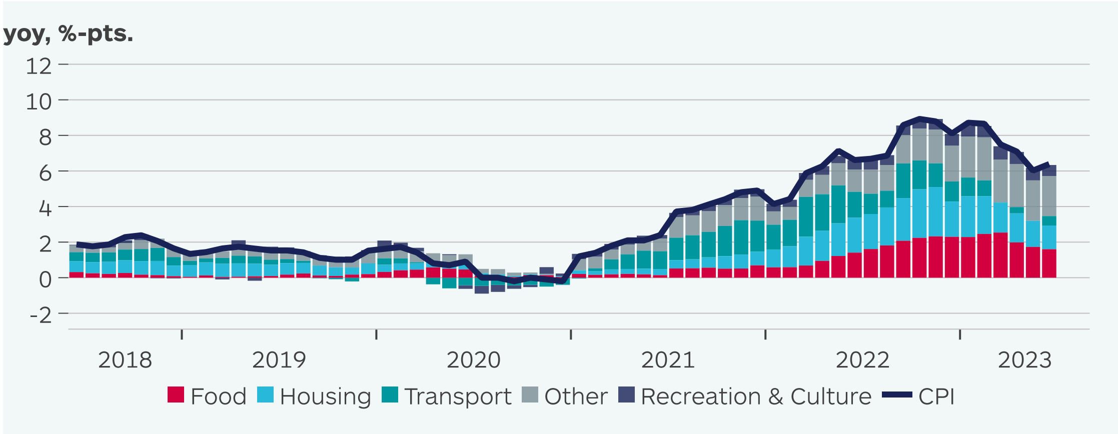
Economic Indicators signal ongoingly weak growth

A restrictive monetary policy and the decline in credit dynamics are increasingly braking the German economy. April saw order intake in the manufacturing sector contract by 0.4 percent mom, adjusted for seasonal and calendar effects and, in the less volatile three-month comparison, by no less than 2.3 percent 3m/3m. At the same time, April registered a seasonally and calendar-adjusted increase in output of 0.3 percent mom, though this was due to further expansion in construction output. Output in the manufacturing sector as good as stagnated and could therefore hardly benefit from a further easing in the supply chains. Nevertheless, the order backlog melted again and now has a calculated range of just 7.3 months. Reports from the chemical industry indicate that there is no evidence so far of the recovery hoped for in the second half of 2023 emerging.

Germany's construction industry is under pressure owing to persistently high material costs and the upsurge in interest rates. The expansion of construction investment in Q1 (+3.9 percent qoq) was primarily due to the mild weather and the associated premature, weather-related spring stimulation. That said, a counter-movement is already to be reckoned with in Q2. In the housing sector the decline in building permits continued at an accelerated pace in April, with a year-on-year decrease of around 31.9 percent – and no prospects of any near-term improvement. Moreover, cancellations in building construction have increased up to June, which continues to affect housing construction in particular with a rate of almost 20 percent.

On the other hand, real retail sales have so far developed better than expected in Q2 – despite the still very high rate of inflation. This means the possibility of a slight counter-movement in consumption after two extremely weak quarters, which would have a stabilizing effect on the overall economic trend.

Chart: Base effect keeps German inflation rate on an elevated plateau for three months



Sources: Macrobond, NORD/LB Macro Research

Special effects cause inflation to rise in June

As expected, the inflation rate in Germany rose again in June. According to flash estimate, the annual rate rose in June as month under review to 6.4 percent yoy, and the HICP indeed climbed again to 6.8 percent yoy. The German inflation rate is being influenced by a strong base effect and, against the trend in the rest of the eurozone, therefore rose significantly in June.

The annual rate for energy rose slightly to 3.0 percent yoy due to a base effect (fuel discount in June 2022), while the disinflationary trend in food prices (+13.7 percent yoy) continued. In addition, however, prices for services rose sharply (+5.3 percent yoy). The data from the federal states likewise indicate a further increase in the core rate. At the federal level, the core rate – excluding the energy and food components – returned from 5.4 percent to the high of 5.8 percent yoy registered in March and April.
The sharp upturn in the rate of inflation in services and thus also in the core inflation rate is essentially attributable to an unfavourable base effect and the modified weighting scheme. In June 2022, prices were pushed down sharply by the so-called "9-euro ticket" (which entitled holders to travel for 9 euros per month on all forms of local and regional public transport throughout Germany) for three months. The reasons for the higher core rate are therefore of a more technical nature, but from the point of view of monetary policy they still represent a displeasing development from a purely visual standpoint. We expect September to see the base effect in Germany acting in the other direction and then causing the inflation rate to fall more sharply.

Unexpectedly marked deterioration in economic expectations
Not unlike in many other European countries, the mood in the German economy has continued to deteriorate, with, for example, the widely followed Composite PMI falling from 53.9 to 50.8 points in June, indicating stagnation. The companies surveyed by the ifo Institute were likewise more pessimistic than in the previous month, with the renewed more negative assessment of the situation coming as less of a surprise than the marked deterioration in expectations. The chances that the German economy could still start to recover in the second half of the year after two quarters of negative growth are dwindling. The indicators paint a fairly consistent picture of declining dynamics in the service sector. While the service sector is, at least at present, still a source of growth, the situation in the industrial sector once again worsened quite significantly. The situations in the trade sector and construction industry remain virtually unchanged, with little there to counteract the high inflation and unfavourable interest rate environment at the moment.

Fundamental forecasts, Germany

	2022	2023	2024
GDP	1.8	-0.4	1.2
Private consumption	4.9	-1.7	1.4
Govt. consumption	1.2	-4.3	2.0
Fixed investment	0.4	0.6	1.8
Exports	3.4	0.7	3.3
Imports	6.9	-0.6	3.9
Net exports[1]	-1.3	0.6	-0.1
Inflation[2]	8.7	6.2	3.2
Unemployment rate[3]	5.3	5.7	5.6
Budget balance[4]	-2.6	-2.8	-2.3
Current account balance[4]	4.3	5.6	6.0

Change vs previous year as percentage, [1]as contribution to GDP growth; [2]HICP; [3]as percentage of the civil labour force (Federal Employment Office definition); [4] as percentage of GDP
Sources: Feri, NORD/LB Macro Research

Quarterly forecasts, Germany

	III/22	IV/22	I/23	II/23	III/23
GDP sa qoq	0.5	-0.5	-0.3	0.2	0.2
GDP nsa yoy	1.3	0.2	-0.2	-0.6	-0.9
Inflation yoy	9.4	10.8	8.7	6.9	5.6

Change as percentage
Sources: Feri, NORD/LB Macro Research

Switzerland: Receding inflation, SNB maintains restrictive stance

Analyst: Christian Lips, Chief Economist

Economy robust in Q1 –rapidly receding inflation this year
In contrast to the weakness in most developed countries, real GDP in Switzerland registered solid growth in Q1 (+0.3 percent qoq). Moreover, unemployment remains very low and production capacities across the economy remain well utilized. A recession is currently not in sight for Switzerland, though it should be said that the outlook has clouded here as well of late. The SNB's economic forecast for 2023 of 1 percent growth is more likely to be subject to downside risks, in particular that the present merely moderate degree of foreign demand could weaken further should the economic developments abroad worsen. Inflation has receded significantly in recent months, dropping to just 2.2 percent yoy in May. As in the rest of Europe, this was primarily due to favourable base effects from energy. The core rate declined as well, though at just under 2 percent yoy remaining elevated. Overall, inflationary pressures are increasingly shifting from foreign to domestic factors. For June, we expect a further significant decline in inflation, likely to below the mark of 2.0 percent yoy for the first time since early 2022.

SNB slows rate hike pace but gives hawkish outlook
The Swiss National Bank (SNB) continued its tightening strategy in June, raising its policy interest rate by 25 basis points though, as expected, slowing the pace of its rate hikes. This might well have disappointed a number of market participants who – also in light of the reduced frequency of meetings – had banked on a greater degree of tightening. Moreover, the central bankers remain prepared to actively intervene in the FX market if need be. In recent quarters, the SNB has primarily undertaken foreign-currency sales. Nevertheless, the central bank is also prepared to make fresh currency purchases should the Swiss franc come under excessive appreciation pressure.

SNB warns of second-round effects – further rate hike likely
While the last interest rate decision in March was still very much under the impact of the Credit Suisse affair, the focus was now more on Switzerland's macroeconomic development again. The conditional inflation forecast has been slightly lowered in the short term, to the effect that this year will likely see the annual rate return to the SNB's target range of below 2 percent yoy, at least for a short while. In the medium term, however, the SNB sees more persistent inflationary pressure, especially due to second-round effects, higher rents and electricity prices. Against this background, the SNB is quite consciously refraining from ruling out further rate hikes in its monetary policy assessment. The central bank will likely raise its policy rate again in September to a level of 2 percent and then hold it there until well into 2024. At the same time, we can expect to see the SNB continuing to cautiously reduce its foreign exchange holdings, though keeping the extent to which they do so dependent on CHF exchange rate.

Fundamental forecasts*, Switzerland

	2022	2023	2024
GDP	2.0	0.8	1.3
Inflation (CPI)	2.8	2.3	1.2
Unemployment rate[1]	2.2	2.0	2.0
Budget balance[2]	1.0	0.4	0.6
Current account balance[2]	10.0	9.0	8.9

Interest and exchange rates, Switzerland

	29.06.	3M	6M	12M
SNB policy rate	1.75	2.00	2.00	2.00
3M rate	1.72	2.00	2.00	2.00
10Y	0.94	1.10	1.30	1.30
Spread 10Y Bund	-148	-150	-110	-110
EUR in CHF	0.98	0.98	0.98	0.98

* Change vs previous year as percentage; [1] as percentage of the labour force, [2] as percentage of GDP

Sources: Feri, Bloomberg, NORD/LB Macro Research

Japan: Central bank's hesitation of no help to the yen

Analysts: Tobias Basse // Bernd Krampen

Bank of Japan in no great haste

At its most recent policy-setting meeting the Bank of Japan once again decided to make no modifications to its interest rate policy. The key policy rate thus remains unchanged, as is the case with the target yield band for 10-year government bonds. The monetary policy decisions of the central bank in Tokyo were again carried unanimously. In principle, the Bank of Japan's hesitant approach is no great surprise; however, some market observers had already expected quite concrete indications right now of an end to the yield curve control measures in the near term. These hopes were in vain. We are maintaining our expectation that the central bankers in Tokyo won't be looking to put away that tool until Q4/2023 at the earliest.

Waiting for new price data

Speaking at the press conference following the announcement of the Bank of Japan's recent decisions, BoJ governor Kazuo Ueda stressed that the undesirable side effects of the central bank's yield curve control measures have been more subdued of late. This assessment is undoubtedly correct; however, Ueda also said that undesirable side effects of this programme could increase at some point in the future. The current developments on the inflation front will likely necessitate action on the part of the central bank. That said, the focus in this context ought not to be on the consumer prices alone; a close eye also needs to be kept on the wage developments in the Land of the Rising Sun. On the basis of past experience, the Bank of Japan will only want to announce major adjustments to the yield curve control procedure after very clear signals in the direction of an inflation trend that stabilises sustainably near to the central Banks target level – as the proverb goes, a burnt child dreads the fire.

Central bank's hesitation of no help to the yen

Again marked by considerable caution which, given his line of action up to now, really ought not to have come as any great surprise, Kazuo Ueda's recent remarks following the announcement of the interest rate decision, caused a certain amount of pressure on the yen immediately after being made. The FX market senses that the central bank in Tokyo intends to continue playing for time, especially where conceivable adjustments to the key policy rate level are concerned. In light of the current price data, however, an early end to the yield curve control measures nevertheless remains a possibility, though we still don't expect that to happen before Q4/2023 at the earliest. Indeed, higher key policy rates, on the other hand, should only then become a likelihood after the BoJ's review of its monetary policy strategy has been completed – and thus not until 2024.

Fundamental forecasts*, Japan

	2022	2023	2024
GDP	1.0	1.2	1.1
Inflation	2.5	2.8	1.5
Unemployment rate[1]	2.6	2.5	2.4
Budget balance[2]	-5.9	-5.5	-4.0
Current account balance[2]	1.9	2.0	2.3

* Change vs previous year as percentage;

[1] as percentage of the labour force; [2] as percentage of GDP

Sources: Feri, Bloomberg, NORD/LB Macro Research

Interest and exchange rates, Japan

	29.06.	3M	6M	12M
Key rate	-0.10	-0.10	-0.10	-0.10
3M rate	0.07	0.05	0.05	0.10
10Y	0.39	0.45	0.50	0.70
Spread 10Y Bund	-202	-215	-190	-170
EUR in JPY	157	146	140	136
USD in JPY	145	135	130	125

China: Dynamic it isn‘t!

Analysts: Tobias Basse // Bernd Krampen

Fundamental data indicate a deceleration

After the stagnation in the closing quarter of 2022 and the quarter-on-quarter growth of 2.2 percent in Q1/2023, the fundamental data most recently released in Q2 delivered renewed reason for quite some disappointment. While industrial output registered an expected – but merely solid – upturn of 3.5 percent yoy, the investment volumes in the real estate sector literally plummeted, with a discouragingly weak annual rate of -7.2 percent. Though retail sales reported a visually high annual rate of 12.7 percent in May, the momentum in that area of the economy is also slowing and fell short of expectations. It very much looks as if the positive impacts of the lifting of the COVID-related constraints and the ensuing growth in demand have already fizzled out.

Sentiment surveys deliver "melodies in major and minor keys"

Having documented a downturn in optimism of late, the preliminary business surveys had already given indication of these rather sobering tendencies. The CFLP PMI, for example, fell back below the 50-points mark in April and indeed to just 49.0 points in June. The souring of sentiment in the service sector was even more marked, with the upsurge to over 58.2 points in March followed by successive declines to a current level of 53.2 points. This would indicate that there was massive pent-up demand for services after the lifting of the constraints which already appears to be levelling off again. The leading order components of both sectors fell back below the 50-point expansion threshold again. The composite CFLP Composite PMI registered a level of 52.3 points – after 57.0 points in March. The small and medium-sized companies surveyed by Caixin, on the other hand, still played a "melody in major key", with the Caixin Manufacturing PMI unexpectedly rising to 50.9 points and the Caixin Services to 57.1 points.

Fiscal and monetary policymakers continue their interventions to support the economy

The spring awakening is once again of a less pleasant nature: it turns out that the Chinese economy is unable to stand alone on one leg – the services in the form of travel and delivery services – when the other – the production sector – is lame. The fiscal policymakers can therefore be expected to undertake supportive measures, with the real estate market, the banking system and private consumption most likely in need thereof. With the CPI and PPI at 0.2 percent yoy and -4.6 percent yoy respectively, the declining price data provide justification for the monetary policymakers to continue their successive cautious interest rate cuts. Long-term braking factors for the Chinese economy (population decline, dependence on raw materials and technology, military ambitions) remain intact and, depending on the severity of the feared weakening of its main customer regions on both sides of the Atlantic, will make themselves felt in the second half of the year. The prospects for now after all conceivable US interest rate hikes will support the US dollar in the short term, indeed to above the mark of CNY 7.10.

Fundamental forecasts*, China

	2022	2023	2024
GDP	3.0	5.5	4.9
Inflation	1.9	1.5	2.3
Unemployment rate[1]	5.6	5.0	5.0
Budget balance[2]	-7.5	-4.9	-4.6
Current account balance[2]	2.2	1.5	1.1

* Change vs previous year as percentage

[1] as percentage of the labour force; [2] as percentage of GDP

Sources: Feri, Bloomberg, NORD/LB Macro Research

Interest and exchange rates, China

	29.06.	3M	6M	12M
Deposit rate	1.50	1.50	1.50	1.50
3M SHIBOR	2.17	2.20	2.20	2.20
10Y	2.66	2.70	2.60	2.50
Spread 10Y Bund	24	10	20	10
EUR in CNY	7.87	7.34	7.13	7.09
USD in CNY	7.25	6.80	6.60	6.50

Britain: Central bank shows more boldness

Analysts: Tobias Basse // Bernd Krampen

Inflation data put pressure on the Bank of England

The latest UK inflation data paint a rather disappointing picture, with the developments in the core rate of consumer prices likely to be particularly problematic for the Bank of England. The annual rate of this time series rose further in May as month under review to 7.1 percent; accordingly, the annual rate of the headline index was unable to fall any further, and remains at a current level of 8.7 percent. The upshot was that the central bank in London has been under intense pressure to take action of late. The latest price data from the services segment look particularly discouraging. The central bankers in London have quite clearly seen the danger that the inflation trend cannot be dampened fast enough to an appropriate extent with of a more cautious realignment of monetary policy in the United Kingdom. The high interest rates are already a problem for the British economy right now. Consumer watchdogs are in the meantime seeing the Bank of England's monetary policy in a highly critical light, emphasizing that the disposable income of property owners with floating-rate mortgage loans is being severely hit by the hefty key-rate hikes.

Brexit still making itself felt

Brexit likewise remains a problem for the UK economy. The current weak showing of the CIPS UK Manufacturing PMI is, for example, also attributable to the after-effects of the UK's exit from the EU. Food for thought on this topic recently came from, among other sources, the British automotive industry. Moreover, some aspects of the current very clearly discernible price upturn in some segments of the UK economy are at least partially due to Brexit. Surveys show, as a consequence, a growing degree of scepticism among the population as to whether the EU exit really was a good idea in the end.

The central bank in London had to show more boldness

At any rate, the situation on the macroeconomic price front currently constitutes a major challenge for British economic policy, against which background the Bank of England recently found itself having to announce an unexpected Bank Rate hike of 50bp. The latest data on consumer price developments have apparently forced the central bank to show more boldness in its realignment of monetary policy. The decision-makers within the BoE are undoubtedly betting on the fact that they have at last brought about a decisive turning point in terms of monetary policy. While stressing that it will be possible to make further rate hikes if need be, the central bankers are nevertheless likely hoping fervently that the further developments in the macroeconomic price data will not necessitate action in that direction.

Fundamental forecasts*, Britain

	2022	2023	2024
GDP	4.1	0.2	0.9
Inflation (CPI)	9.1	7.1	2.9
Unemployment rate[1]	3.7	4.1	4.4
Budget balance[2]	-5.2	-5.3	-3.6
Current account balance[2]	-3.8	-3.5	-3.2

* Change vs previous year as percentage

[1] as percentage of the labour force as per ILO concept;

[2] as percentage of GDP

Sources: Feri, Bloomberg, NORD/LB Macro Research

Interest and exchange rates, Britain

	29.06.	3M	6M	12M
Repo rate	5.00	5.25	5.25	5.00
3M rate	5.38	5.30	5.30	5.10
10Y	4.38	4.10	4.00	3.90
Spread 10Y Bund	197	150	160	150
EUR in GBP	0.86	0.87	0.87	0.86
GBP in USD	1.26	1.24	1.24	1.27

Australia: Central bank takes the markets by surprise

Analysts: Tobias Basse // Bernd Krampen

Central bank takes the markets by surprise

The Reserve Bank of Australia recently took the markets by surprise with an unexpected rate hike. The monetary policymakers were quite evidently concerned that it would otherwise no longer have been possible to firmly anchor the inflation expectations prevailing among the country's private economic entities. The cash rate was accordingly lifted by 25bp to 4.10 percent. Moreover, the central bank also stressed that further cash rate hikes could prove necessary, and that it continues to see greater risks to price stability Down Under. In his verbal remarks on the unexpected interest rate decision, RBA governor Philip Lowe emphasized that the central bankers' patience has limits and, given the inflation outlook, that it was necessary to react swiftly to the latest data. In this context, he pinpointed not only consumer prices but also wage growth and real estate prices as potential problem areas for the country. Moreover, Lowe noted that the inflation trend in Australia is closely linked to the developments abroad, and that he sees more than just a "noise" in the recent movements of the relevant time series. Against this background the central bank had seen itself under considerable pressure to take action.

Reserve Bank of Australia can now watch and wait

With its unexpected rate hike the Reserve Bank of Australia has gained some degree of leeway for now. The central bankers are therefore unlikely to make a renewed cash rate hike at their next meeting since that would probably also excessively impact the Australian economy. That said, there have been some extremely hawkish tones to be heard from the central bank of late. The monetary policymakers are particularly concerned about an excessively sharp upward trend in wage costs. Indeed, there is a likelihood of the cash rate level being raised somewhat in the future in order to prevent inflation expectations from rising. Should the data from the labour market remain sufficiently positive, the central bankers would very likely be inclined to take action – but not in the immediate future. The threat of higher key rates thus entailed hangs almost like a sword of Damocles over Australia's economy.

Australian currency benefited from the unexpected cash rate decision

It goes without saying that Australia's currency benefited from the RBA's unexpected rate hike. At first glance, the recent rather hawkish comments on the part of the responsible central bankers speak for the Australian dollar. However, the Reserve Bank of Australia is now increasingly in danger of overplaying its hand, which would then not only have negative consequences for the economic growth Down Under.

Fundamental forecasts*, Australia

	2022	2023	2024
GDP	3.7	1.5	1.5
Inflation	6.6	5.6	3.2
Unemployment rate[1]	3.7	3.8	4.5
Budget balance[2]	-1.8	0.0	-1.3
Current account balance[2]	1.1	1.4	0.7

*Change versus previous year as percentage;

[1] as percentage of the labour force; [2] as percentage of GDP

Sources: Feri, Bloomberg, NORD/LB Macro Research

Interest and exchange rates, Australia

	29.06.	3M	6M	12M
Cash target rate	4.10	4.45	4.50	4.15
3M rate	4.33	4.50	4.55	4.20
10Y	3.91	3.90	3.75	3.50
Spread 10Y Bund	150	130	135	110
EUR in AUD	1.64	1.59	1.57	1.54
USD in AUD	0.66	0.68	0.69	0.70

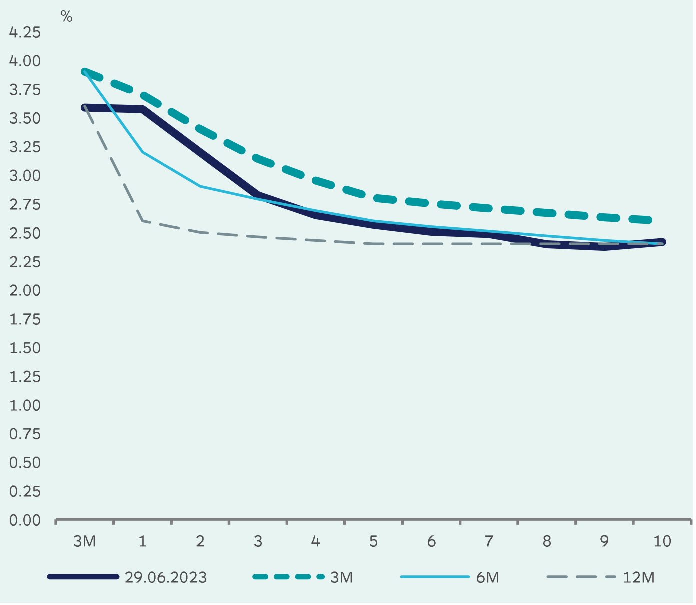
Portfolio strategies
Yield curve, Euroland

Yields and forecasts (Bunds/Swap)

Yields (in %)		NORD/LB forecasts for horizons		
	29.06.2023	**3M**	**6M**	**12M**
3M	3.59	3.90	3.90	3.60
1Y	3.57	3.70	3.20	2.60
2Y	3.20	3.40	2.90	2.50
3Y	2.82	3.14	2.79	2.46
4Y	2.65	2.95	2.69	2.43
5Y	2.57	2.80	2.60	2.40
6Y	2.51	2.75	2.55	2.40
7Y	2.49	2.71	2.51	2.40
8Y	2.40	2.67	2.47	2.40
9Y	2.37	2.63	2.43	2.40
10Y	2.42	2.60	2.40	2.40
2Y (Swap)	3.88	4.05	3.50	3.05
5Y (Swap)	3.28	3.45	3.20	2.95
10Y (Swap)	3.03	3.25	3.00	2.95

Sources: Bloomberg, NORD/LB Macro Research

Yield curve forecasts (Bunds)



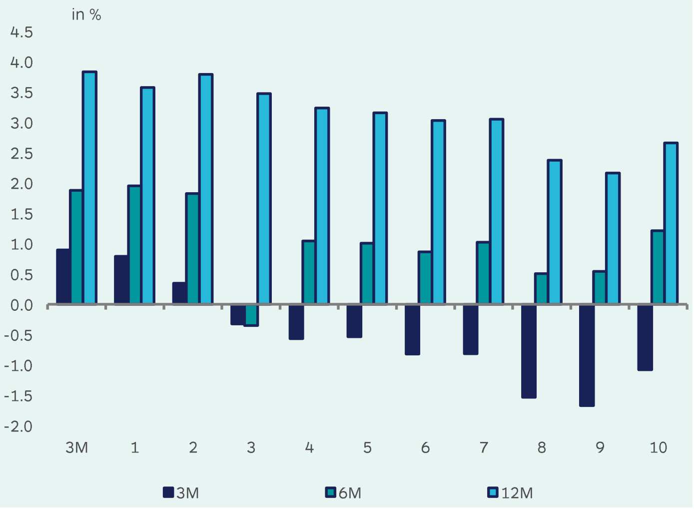
Sources: Bloomberg, NORD/LB Macro Research

Forecasts and total returns

	Total returns (in %) for horizons...		
	3M	**6M**	**12M**
3M	0.89	1.88	3.84
1Y	0.79	1.95	3.57
2Y	0.35	1.83	3.79
3Y	-0.32	-0.35	3.47
4Y	-0.57	1.04	3.24
5Y	-0.53	1.01	3.16
6Y	-0.82	0.87	3.03
7Y	-0.81	1.02	3.05
8Y	-1.53	0.50	2.38
9Y	-1.67	0.54	2.17
10Y	-1.08	1.21	2.66

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns



Sources: Bloomberg, NORD/LB Macro Research

A total return is the absolute profit from an investment in the time period under consideration, with account being taken of the pro-rata yields plus the price gains or losses to be anticipated on the basis of the forecast yield curve change.

Portfolio strategies International yield curve: 3-month & 12-month horizons

3-month horizon

Expected total returns (as percentage) in euro					
	EUR	USD	GBP	JPY	CHF
1Y	0.8	2.1	0.5	7.6	0.2
2Y	0.3	2.2	1.0	7.6	-0.3
3Y	-0.3	2.2	1.1	7.4	-0.5
4Y	-0.6	2.3	1.0	7.2	-0.7
5Y	-0.5	2.7	0.7	7.3	-0.9
6Y	-0.8	3.8	1.6	7.1	-1.1
7Y	-0.8	3.0	0.5	7.2	-1.2
8Y	-1.5	3.0	0.9	7.2	-1.2
9Y	-1.7	3.2	1.2	7.2	-1.3
10Y	-1.1	3.4	2.5	7.4	-1.2

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	GBP	JPY	CHF
1Y	1.5	1.5	-0.1	0.4
2Y	1.6	2.0	-0.3	-0.2
3Y	1.6	2.1	-0.3	-0.2
4Y	1.7	2.0	-0.5	-0.4
5Y	2.1	1.7	-0.4	-0.6
6Y	3.2	2.6	-0.6	-0.8
7Y	2.3	1.5	-0.5	-1.0
8Y	2.3	1.9	-0.5	-0.9
9Y	2.6	2.2	-0.5	-1.0
10Y	2.8	3.5	-0.3	-0.9

Sources: Bloomberg, NORD/LB Macro Research

12-month horizon

Expected total returns (as percentage) in euro					
	EUR	USD	GBP	YPY	CHF
1Y	3.6	5.0	5.5	15.5	1.3
2Y	3.8	5.3	6.0	15.4	0.6
3Y	3.5	5.7	6.7	15.4	0.4
4Y	3.2	5.9	6.9	15.2	0.0
5Y	3.2	6.2	6.7	15.2	-0.4
6Y	3.0	7.5	7.8	14.9	-0.8
7Y	3.1	6.6	6.7	14.7	-1.2
8Y	2.4	6.8	7.1	14.5	-1.4
9Y	2.2	7.0	7.2	14.1	-1.9
10Y	2.7	7.6	8.4	13.9	-1.8

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	GBP	JPY	CHF
1Y	5.3	5.3	-0.1	1.6
2Y	5.6	5.8	-0.2	0.9
3Y	6.0	6.5	-0.2	0.7
4Y	6.3	6.7	-0.4	0.3
5Y	6.5	6.5	-0.4	-0.1
6Y	7.8	7.6	-0.7	-0.5
7Y	6.9	6.6	-0.8	-0.9
8Y	7.2	6.9	-1.0	-1.1
9Y	7.4	7.0	-1.3	-1.6
10Y	8.0	8.2	-1.5	-1.5

Sources: Bloomberg, NORD/LB Macro Research

A total return is the absolute profit from an investment in the time period under consideration, with account being taken of the pro-rata yields plus the price gains or losses to be anticipated on the basis of the forecast yield curve and exchange rate change.

Portfolio strategies
Stock market strategy; 3-month, 6-month & 12-month horizon

Levels and performance

Index	Level as at 29.06.2023	Status Prev. month	Status Start of year	Performance since Prev. month	Performance since Start of year
DAX	15,946.72	15,664.02	13,923.59	1.80%	14.53%
MDAX	27,194.33	26,537.41	25,117.57	2.48%	8.27%
EuroSTOXX50	4,354.69	4,218.04	3,793.62	3.24%	14.79%
STOXX50	3,963.00	3,925.38	3,651.83	0.96%	8.52%
STOXX600	456.64	451.76	424.89	1.08%	7.47%
Dow Jones	34,122.42	32,908.27	33,147.25	2.87%	2.13%
S&P 500	4,396.44	4,179.83	3,839.50	4.71%	14.00%
Nikkei	33,234.14	33,189.04	26,094.50	0.14%	27.36%

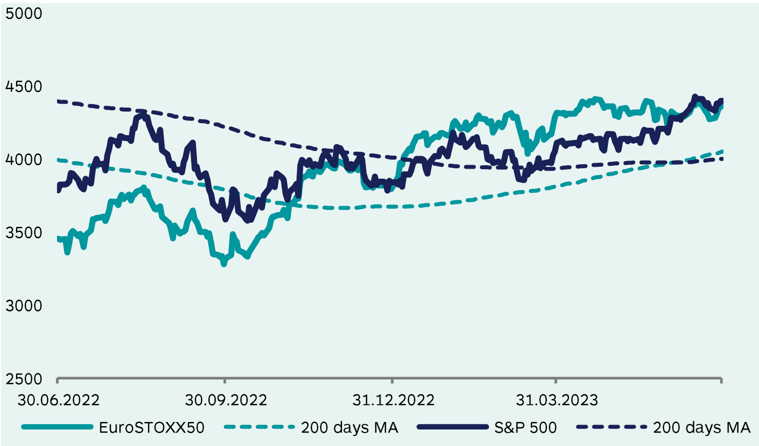
Sources: Bloomberg, NORD/LB Macro Research

Index forecasts

Index	NORD/LB forecast for horizons ... 3M	6M	12M
DAX	16,000	16,500	17,000
MDAX	27,200	28,000	28,800
EuroSTOXX50	4,400	4,550	4,700
STOXX50	4,075	4,200	4,325
STOXX600	467	480	500
Dow Jones	34,000	35,000	36,000
S&P 500	4,400	4,500	4,600
Nikkei	33,000	33,750	34,000

Sources: Bloomberg, NORD/LB Macro Research

EuroSTOXX50 and S&P500



Sources: Bloomberg, NORD/LB Macro Research

Date of going to press for data, forecasts and texts was **Friday 30 June 2023.**
The next English issue of Economic Adviser will be appearing on **28 August 2023**

Overview of forecasts

Fundamental forecasts

in %	GDP growth			Rate of inflation			Unemployment rate[1]			Budgetary balance[2]		
	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024
USA	2.1	1.4	1.1	8.0	4.0	2.4	3.6	3.8	4.0	-4.2	-3.7	-3.7
Euroland	3.5	0.5	1.3	8.4	5.7	2.9	6.7	6.6	6.6	-3.6	-3.4	-2.7
Germany	1.8	-0.4	1.2	8.7	6.2	3.2	5.3	5.7	5.6	-2.6	-2.8	-2.3
Japan	1.0	1.2	1.1	2.5	2.8	1.5	2.6	2.5	2.4	-5.9	-5.5	-4.0
Britain	4.1	0.2	0.9	9.1	7.1	2.9	3.7	4.1	4.4	-5.2	-5.3	-3.6
Switzerland	2.0	0.8	1.3	2.8	2.3	1.2	2.2	2.0	2.0	1.0	0.4	0.6
China	3.0	5.5	4.9	1.9	1.5	2.3	4.0	5.0	5.0	-7.5	-4.9	-4.6

Change vs previous year as percentage; [1] as percentage of the labour force (Germany: as per Federal Employment Office definition); [2] as percentage of GDP

Sources: Feri, NORD/LB Macro Research

Key interest rates

In %	29.06.23	3M	6M	12M
USD	5.25	5.25	5.25	4.50
EUR	4.00	4.25	4.25	4.00
JPY	-0.10	-0.10	-0.10	-0.10
GBP	5.00	5.25	5.25	5.00
CHF	1.75	2.00	2.00	2.00
CNY	1.50	1.50	1.50	1.50

Exchange rates

EUR in...	29.06.23	3M	6M	12M
USD	1.09	1.08	1.08	1.09
JPY	157	146	140	136
GBP	0.86	0.87	0.87	0.86
CHF	0.98	0.98	0.98	0.98
CNY	7.87	7.34	7.13	7.09

Sources: Bloomberg, NORD/LB Macro Research

Interest rates (government bonds)

	3M rates				Yields 2Y				Yields 5Y				Yields 10Y			
	29.06.	3M	6M	12M	29.06.	3M	6M	12M	29.06.	3M	6M	12M	29.06.	3M	6M	12M
USD	5.25	5.10	5.00	4.30	4.86	4.40	4.10	3.50	4.13	3.70	3.50	3.30	3.84	3.50	3.40	3.20
EUR	3.59	3.90	3.90	3.60	3.20	3.40	2.90	2.50	2.57	2.80	2.60	2.40	2.42	2.60	2.40	2.40
JPY	0.07	0.05	0.05	0.10	-0.08	0.00	0.00	0.00	0.06	0.17	0.19	0.26	0.39	0.45	0.50	0.70
GBP	5.38	5.30	5.30	5.10	5.23	4.80	4.80	4.30	4.62	4.54	4.50	4.15	4.38	4.10	4.00	3.90
CHF	1.72	2.00	2.00	2.00	1.20	1.40	1.50	1.40	1.00	1.20	1.30	1.30	0.94	1.10	1.30	1.30

Sources: Bloomberg, NORD/LB Macro Research

Spreads bp)

	3M EURIBOR				2Y Bunds				5Y Bunds				10Y Bunds			
	29.06.	3M	6M	12M	29.06.	3M	6M	12M	29.06.	3M	6M	12M	29.06.	3M	6M	12M
USD	166	120	110	70	166	100	120	100	156	90	90	90	142	90	100	80
JPY	-351	-385	-385	-350	-328	-340	-290	-250	-251	-263	-241	-214	-202	-215	-190	-170
GBP	180	140	140	150	203	140	190	180	206	174	190	175	197	150	160	150
CHF	-187	-190	-190	-160	-199	-200	-140	-110	-157	-160	-130	-110	-148	-150	-110	-110

Sources: Bloomberg, NORD/LB Macro Research

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Time of going to press:
Monday, 03 July 2023 3:51 PM CET

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