CHARTS OF THE WEEK

US wealth and imports shrink, while Europe stocks up on gas

OCTOBER 28, 2022

Julius Probst PhD, with contributions from Arnaud Lieugaut, Patrick Malm and Karl-Philip Nilsson

This week's charts cover the US from multiple angles: the pandemic-driven boom and bust in household wealth; the hot labour market and a potential mismatch between jobs and job seekers; the shrinking volume of imports through the nation's biggest port; the West Coast house-price slump; and falling rents. We also address the continued slump by Hong Kong stocks, and turn to Europe to investigate stubborn inflation and crashing natural-gas prices.

CONTENTS

US household assets boomed and busted in the recession

The pandemic had many surprising effects on the economy. For example, many American families became much richer. That wealth effect is now being unwound.

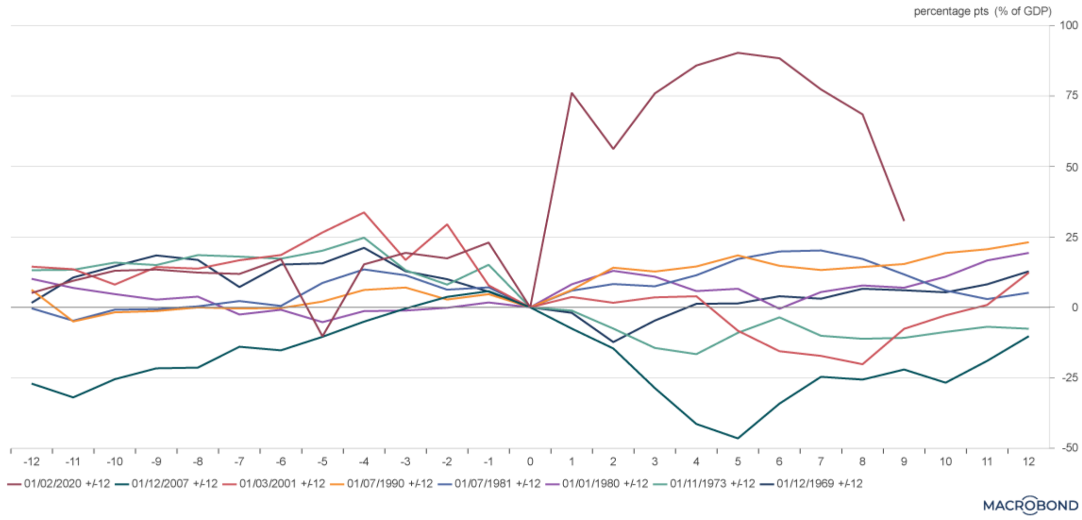
The following chart displays the evolution of US households' financial assets three years before and three years after the beginning of various recessions (that's the "0" in the middle of the x axis).

One look will tell you that the Covid-19 shock was an extreme outlier. Thanks to unprecedented fiscal and monetary stimulus, stock prices and real estate surged. Compare that to the effect of the recession that started in 2007 – the lowest line graphed on our chart.

Now, however, we are seeing a big reversal as the Federal Reserve tightens monetary policy rapidly to bring down inflation. Equities are in a bear market as a result, and the US housing market is under pressure as well.

Financial assets are still more highly priced than they were pre-pandemic. But the current plunge is probably a necessary reversion to the mean. The economics professor Ricardo Caballero argues that it was optimal to use monetary policy to boost asset prices beyond their fundamentals when the economy was in shock and US interest rates could not fall below zero; now, it's natural for asset prices to retreat while GDP catches up.

Household financial assets
0 = beginning of recessions
Source: Federal Reserve



VIEW CHART ONLINE

OPEN CHART IN MACROBOND APPLICATION

The remarkable US labour market

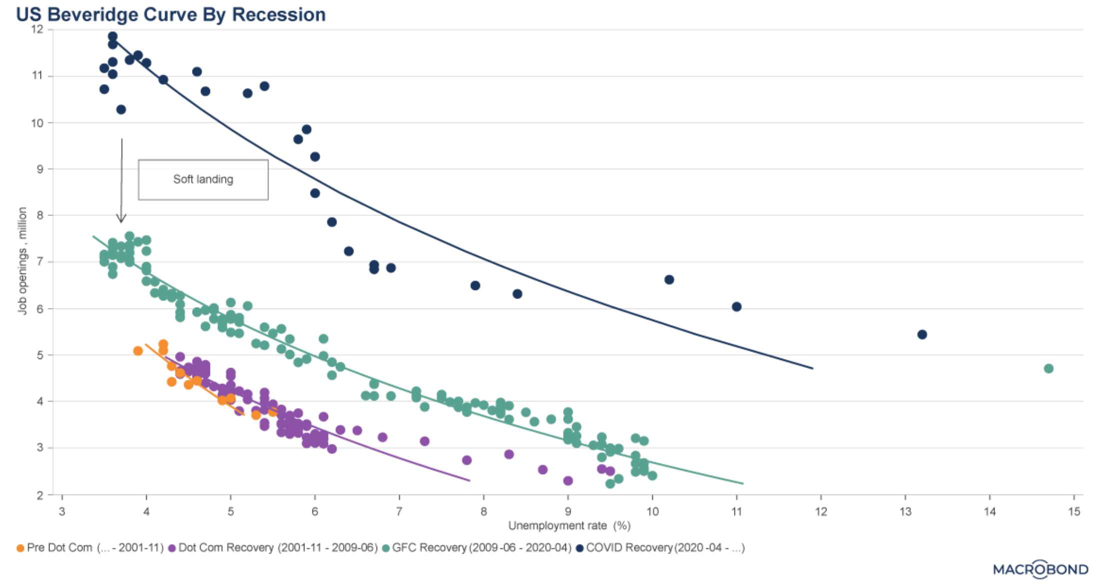
Despite various signs of weakness in the US economy, the labour market is still running quite hot.

The graph below is a Beveridge curve, which represents the relationship between unemployment and job vacancies. (It slopes downward because higher joblessness is normally combined with fewer jobs available.)

Our chart tracks the US for various time periods since 2000. The curve for the Covid-19 and post-pandemic period is remarkable for its very high peaks of both unemployment and job vacancies.

Economists are debating whether the high number of vacancies at the present time accurately reflects the state of the labour market. For a given unemployment rate, a higher level of job openings usually means more structural inefficiencies: the unemployed don't have the skills to match vacancies, or won't move geographically to fill them. Over recent decades, the Beveridge curve has shifted outwards after large recessions – potentially implying an ever-growing structural labour market mismatch.

The Fed is trying to cool the labour market to bring inflation down, but with a soft landing: reducing the number of job vacancies without creating excess unemployment.



VIEW CHART ONLINE

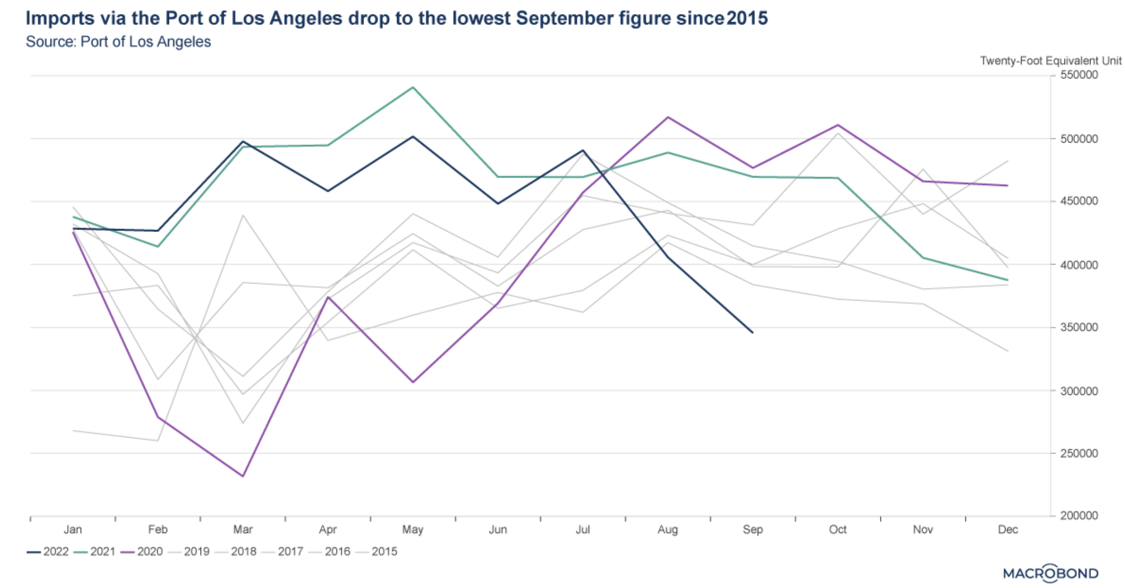
OPEN CHART IN MACROBOND APPLICATION

Fewer ships are calling at the Port of Los Angeles

Shipping and port activity is a key indicator for the strength of consumption and the wider economy. Just months ago, the Port of Los Angeles, America's busiest, was bottlenecked. Rather suddenly, that has changed.

Our chart graphs imports via this key US gateway for every year since 2015, with 2022 highlighted as the darkest line – and plunging over the past two months. Labour negotiations may be partly to blame, but this decline also suggests that the Fed's monetary tightening is having a significant effect.

The situation is in sharp contrast to import traffic throughout 2021 and the first half of 2022, which was significantly higher than the pre-pandemic norm.



VIEW CHART ONLINE OPEN CHART IN MACROBOND APPLICATION

Volatile US rental prices take a long time to filter through into CPI

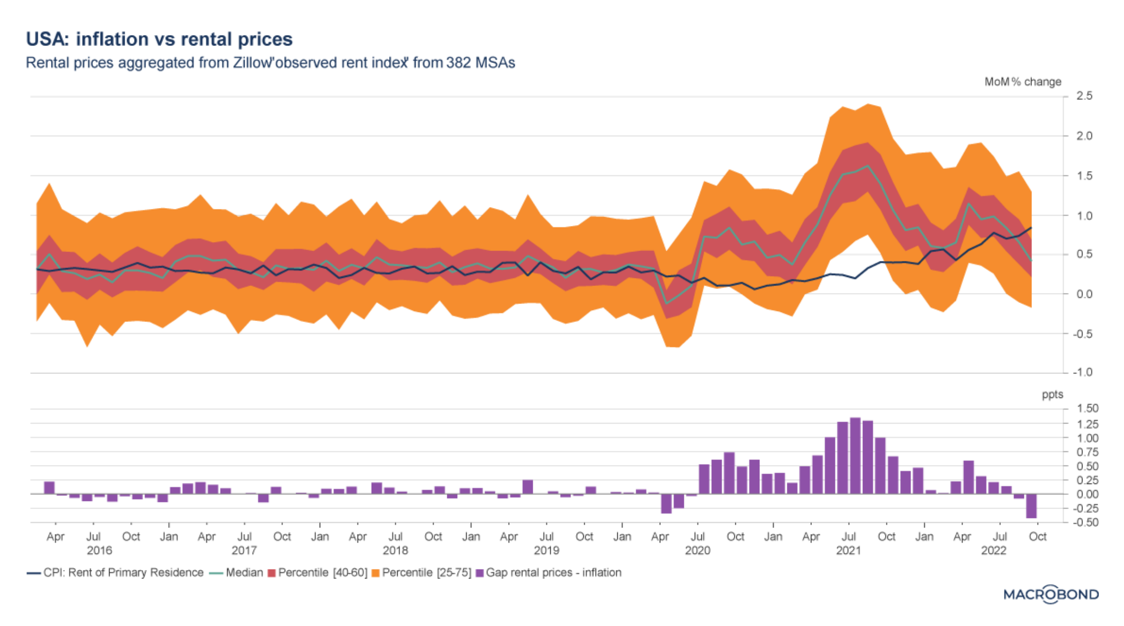
When it comes to rent increases, the official measure of inflation is saying one thing – but market prices are telling you another.

The chart below tracks month-on-month changes to US rental prices from Zillow, the real-estate website. We calculated and graphed the median value and percentile bands based on rent indices from 382 metropolitan areas. Then, we overlaid the rental component of the consumer price index.

The result? Surging market rents significantly outpace their CPI equivalent throughout 2021 and early 2022. There's little doubt that the CPI series is a lagging indicator here, understating actual price increases.

Today, we see the reverse. The US housing market is cooling, and market rents are plunging at a rapid rate. But the CPI series is still going up!

This time lag is a risk for the Fed, which runs the risk of overshooting as it tightens monetary policy.



VIEW CHART ONLINE | OPEN CHART IN MACROBOND APPLICATION

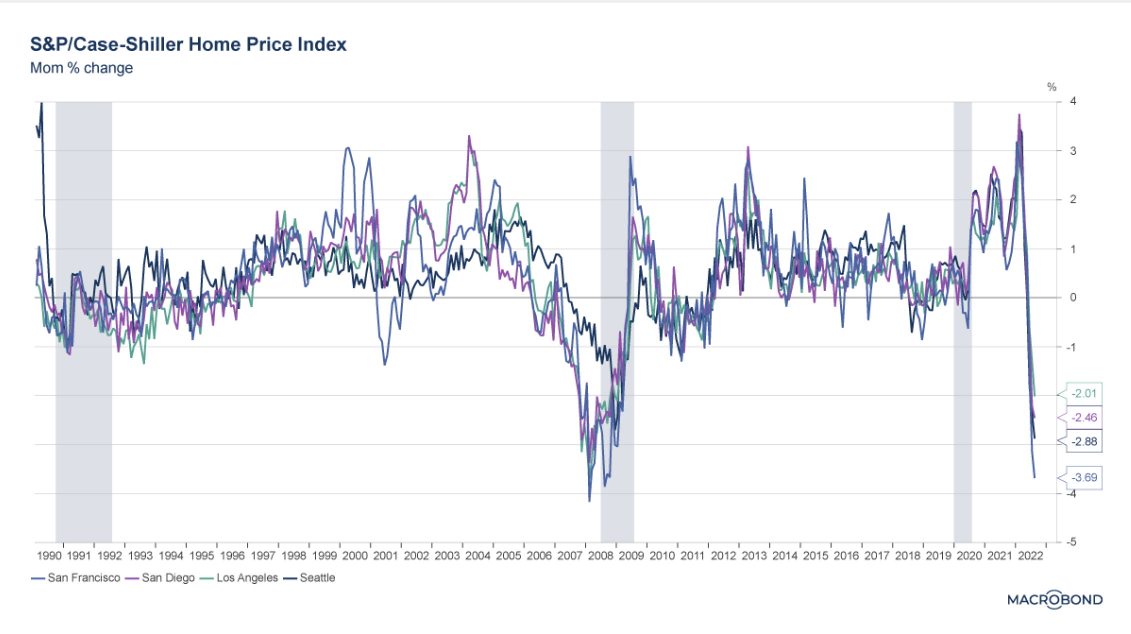
West Coast house prices plunge in unison and more viciously than in 2007

Maybe it's those high-paying tech jobs, or the natural beauty, or the weather. But the west coast of the US is known for having some of the most expensive housing in the world.

As the Fed hikes rates, cities up and down the Pacific seaboard are now seeing house prices plunge in unison. That's notable given that house prices are usually quite sticky – only declining substantially during major economic downturns, such as the 2007-2009 crash.

The following chart tracks the changes to the S&P Case-Shiller Index for San Diego, Los Angeles, San Francisco and Seattle. Even at the start of 2022, these cities were experiencing rapid price appreciation, with monthly rates of change exceeding 3 percent.

The situation has changed rapidly. Home prices are now falling at a month-on-month rate exceeding 2 percent. That's a more rapid reversal than the pre-financial crisis boom and bust.



VIEW CHART ONLINE   OPEN CHART IN MACROBOND APPLICATION

The Hang Seng Index keeps slumping

Hong Kong's stock market is historically a key destination for mainland Chinese investment flows. This year, it has been in the doldrums, wiping out more than a decade of gains.

The following chart tracks the recent performance of the city's benchmark Hang Seng stock index as well as technical indicators including the Bollinger band and moving average. After this month's plunge, we are well below the benchmark's moving average. The Hang Seng is trading at its lowest since 2009.

China's economic model is being challenged by adverse demographics and a deflating real estate bubble.

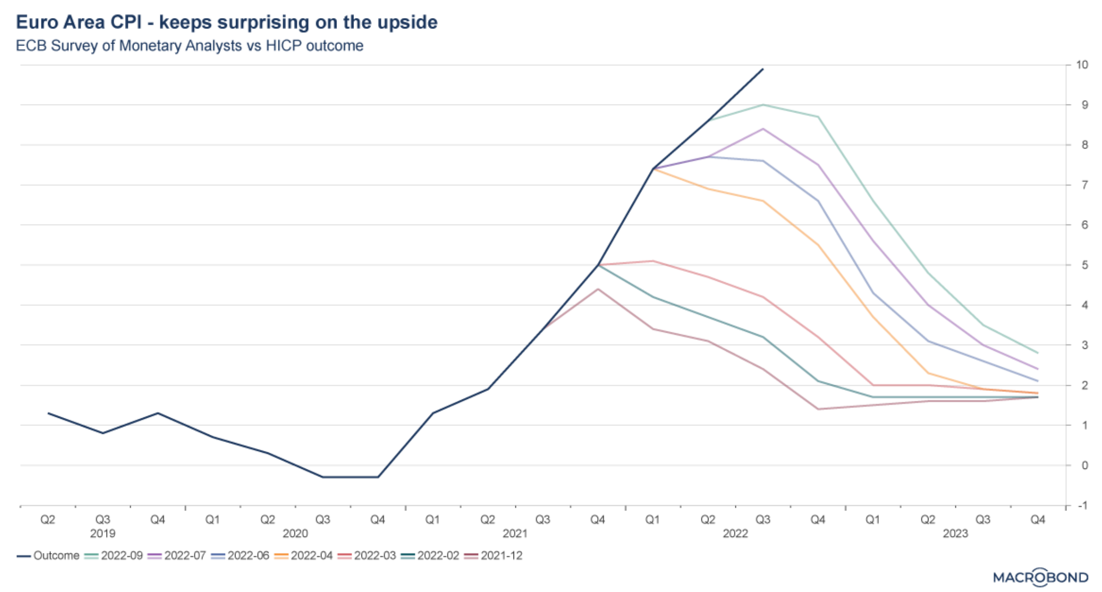
VIEW CHART ONLINE OPEN CHART IN MACROBOND APPLICATION

The lessons of repeated ECB inflation revisions

The following chart shows how the ECB kept raising its inflation outlook – only to have even that elevated forecast outpaced by reality. This year has dented confidence in central banks' ability to predict the future.

On the one hand, it should be emphasized that 2022 saw inflationary shocks that would have been hard for the ECB to anticipate: namely, Russia's war with Ukraine and China doubling down on its zero-Covid strategy. (Moreover, many private forecasters didn't do much better.)

On the other hand, the forecasting failures show that many macroeconomic models, especially the ones used by central bankers (namely, the dynamic stochastic general equilibrium model, or DSGE), are seriously flawed. They implicitly assume a strong likelihood that inflation will revert to the mean. That assumption is currently not borne out in reality.



VIEW CHART ONLINE

OPEN CHART IN MACROBOND APPLICATION

The eurozone inflation heatmap has very few chilly sectors

The following chart is a euro-area heatmap showing the total harmonized index of consumer prices (HICP) as well as many of its subcomponents.

Inflation is running lukewarm to very hot across many industries. This heatmap would have looked very different just a year ago.

This chart allows for the change region function.

Euro Area: HICP heatmap

Source: Eurostat

	Weight	10/2022	9/2022	8/2022	7/2022	6/2022	5/2022	4/2022	3/2022	2/2022	1/2022	12/2021	11/2021
All-Items	100	10.7	9.9	9.1	8.9	8.6	8.1	7.4	7.4	5.9	5.1	5	4.9
Food& Non -Alcoholic Beverages	17		13.8	12.4	11.5	10.4	8.7	7.4	5.7	4.7	3.9	3.5	2.2
Food	15		14.1	12.7	11.8	10.7	8.9	7.7	5.8	4.8	4	3.6	2.2
Non-Alcoholic Beverages	1.5		10.1	9.4	8.5	7.4	6.6	5	4.2	3.4	2.8	3.1	2.7
Alcoholic Beverages, Tobacco & Narcotics	4.3		4.1	3.8	3.5	3.2	2.7	2.2	2.3	2.2	2.2	2.2	2
Alcoholic Beverages	1.8		6	5.3	4.7	4.3	3.3	2.3	1.7	1.3	1.4	1.6	1.2
Tobacco	2.4		2.6	2.7	2.5	2.4	2.2	2.1	2.7	2.9	2.9	2.6	2.6
Clothing& Footwear	5.3		3.2	2.1	0	0.6	1.7	2	2.1	2.1	-0.2	2.8	1.4
Clothing	4.2		3.4	1.9	-0.4	0.4	1.7	2.1	2.2	2	-0.5	3	1.5
Footwear	1.1		2.7	2.5	1.6	1.3	1.9	1.5	1.6	2.5	1	2.2	1.2
Housing	18		21.1	19.7	17.7	16.9	16.3	15.9	17.2	13.4	11.9	9.7	9.1
Actual Rentals for Housing	7.1		1.9	1.8	1.8	1.6	1.5	1.3	1.2	1.2	1.2	1.1	1.1
Maintenance & Repair of the Dwelling	1.3		9.4	9.4	9.4	8.6	8.4	7.7	7.1	6.6	5.8	5.4	5.2
Water Supply & Misc. Dwelling Services	2.9		2.4	2.3	2.2	2.2	2.1	2.1	2	1.9	1.6	1.9	2
Electricity, Gas & Other Fuels	6.6		55.5	51.9	46.5	44.9	43.5	42.8	47.5	36.3	32.1	25.4	23.8
Furnishing	6.7		7.8	7.4	6.9	6.5	5.9	5	4.2	3.8	2.8	2.8	2.6
Furniture & Furnishings	2.3		8.7	8.7	8.7	8.5	7.6	6.4	6.1	5.7	4.5	4.3	4.1
Household Textiles	0.44		6.1	6	5.5	5.3	4.8	4.8	3.4	3.6	2.1	2.2	2.1
Household Appliances	1.1		7	6.1	5.5	4.9	4.5	3.5	2.4	1.9	1	1.8	1.5
Glassware , Tableware & Household Utensils	0.55		6.6	6.2	5.7	5.6	5.3	4.5	3.5	3.2	2.5	2.9	2.5
Tools & Equipment for House & Garden	0.56		4.7	4.4	4.1	3.9	4.2	3.9	3.2	2.6	1.8	2.7	2.4
Goods & Services for Routine Maintenance	1.8		8.8	8	7.2	6.2	5.6	4.8	3.8	3.3	2.2	1.8	1.5
Health	5.1		1.4	1.2	1.3	1.1	1.3	1.1	1	0.9	0.8	0.9	0.9
Medical Products , Appliances & Equipment	2.1		1.6	1.4	1.4	1.1	1	0.5	0.6	0.4	0.2	0.7	0.7
Out-Patient Services	2.2		1.2	0.9	1	1	1.4	1.5	1.2	1.1	1.1	0.9	0.9
Hospital Services	0.74		1.8	1.8	1.7	1.6	1.7	1.8	1.8	1.7	2	1.4	1.4
Transport	15		10.9	9.9	12.7	14.4	14	13	14.6	10.3	9.4	10.4	12.2
Purchase of Vehicles	3.9		8.4	8.5	8.1	7.7	7.4	6.9	6.2	5.9	5	5.1	4.7
Operation of Personal Transport Equipment	8.8		12.9	12.6	17.3	21.1	18.5	17	21.2	14.3	13.2	14.2	17
Transport Services	1.9		7.3	1.1	1.6	-2	7.1	7.9	2	2.2	2	5.1	6.3
Communications	3.1		-0.8	-0.7	-0.8	-0.3	-0.4	0.1	0	-0.4	-0.4	0.6	0.5
Postal Services	0.15		4	4.4	4.3	3.9	4	4.1	4.1	3.5	3.5	3.3	3.6
Telephone & Telefax Equipment & Services	2.9		-1	-1	-1.1	-0.5	-0.6	-0.1	-0.2	-0.6	-0.6	0.5	0.3
Recreation & Culture	7.9		4.6	4.8	4.4	4.4	3.6	3.6	3.1	3.1	2.8	2.9	4
Audio-Visual & Photographic	1.3		0	0.1	-0.3	0.2	0.2	0.1	0.7	0.5	0.5	1.4	1
Other Major Durables for Recreation & Culture	0.38		8.1	9.2	8.5	7.6	7.7	6.4	6.2	4.6	4	4.8	4.1
Other Recreational Items , Gardens & Pets	2.3		6	5.3	5.3	5.7	4.7	4.6	4	3.8	3.2	3.4	3.2
Recreational & Cultural Services	1.8		3.4	3	2.3	2.2	3	2.8	2.3	2.3	2	2	2.1
Newspapers , Books & Stationery	1.3		4.9	4.4	4.5	4.5	4	3.9	3.2	3	2.7	2.6	2.4
Package Holidays	0.7		9.2	12.4	10.7	11.5	5.3	8.8	6.7	9.2	11.6	6.9	6.4
Education	0.98		3.8	-0.8	-0.9	-1	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-1
Restaurants & Hotels	8		8.5	8.1	8.3	7.9	7.1	5.9	5.1	4.4	4.1	3.5	3.3
Catering Services	6.6		6.8	6.4	6.1	5.7	5.4	4.6	4.1	3.7	3.3	2.9	2.7
Accommodation Services	1.5		15.1	13.4	16.1	17.2	13.8	11.2	10	7.5	8.2	6.5	6.3
Miscellaneous Goods& Services	9.7		3.4	3.2	3	2.7	2.6	2.4	2.2	2.1	1.9	2.3	2.1
Personal Care	2.9		5.4	4.9	4.1	3.6	3.4	2.9	2.3	2.2	1.9	2.1	1.8
Personal Effects N .E.C.	0.88		4.5	4.4	4.1	3.8	3.9	3.6	3.1	2.7	1.5	2	1.8
Social Protection	1.8		2.7	2.3	2.1	1.9	1.9	1.8	1.8	1.8	2	3.6	3.6
Insurance	2.4		0.9	1.3	1.7	1.7	1.9	1.7	1.8	1.8	1.8	2.1	1.7
Financial Services N .E.C.	0.62		5.1	5.1	5	2.9	3	3.1	3.1	2.8	3.2	2.8	2.5
Other Services N.E.C.	1.1		2.6	2.6	2.5	2.4	2.3	2.2	2	1.8	1.6	1.6	1.5

MACROBOND

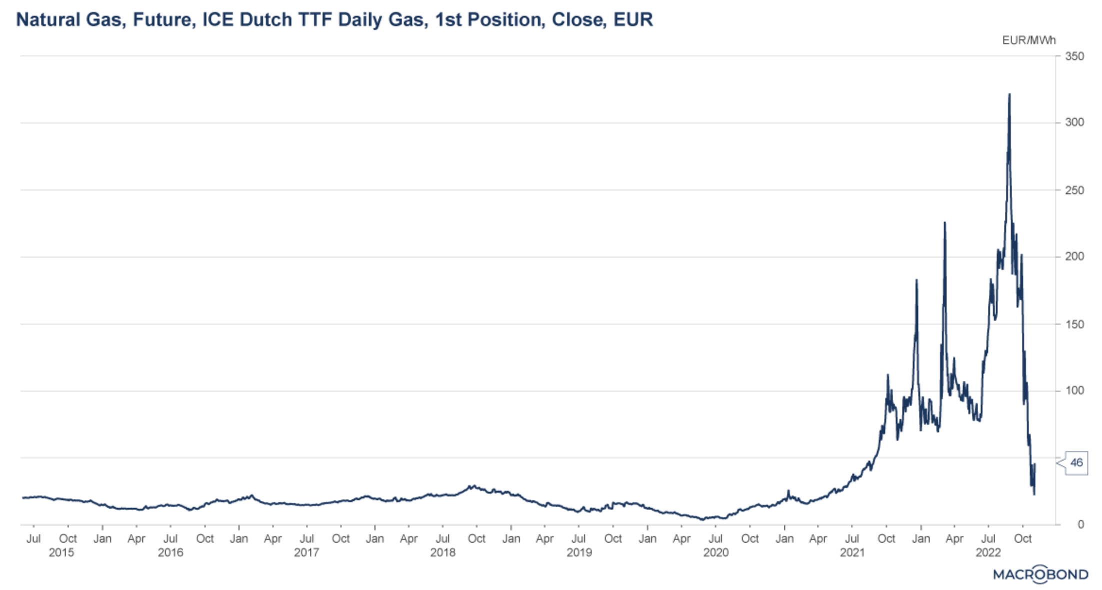
VIEW CHART ONLINE

OPEN CHART IN MACROBOND APPLICATION

The wild ride and collapse of natural gas prices

After soaring earlier this year, natural gas prices in Europe have come back down with a thud.

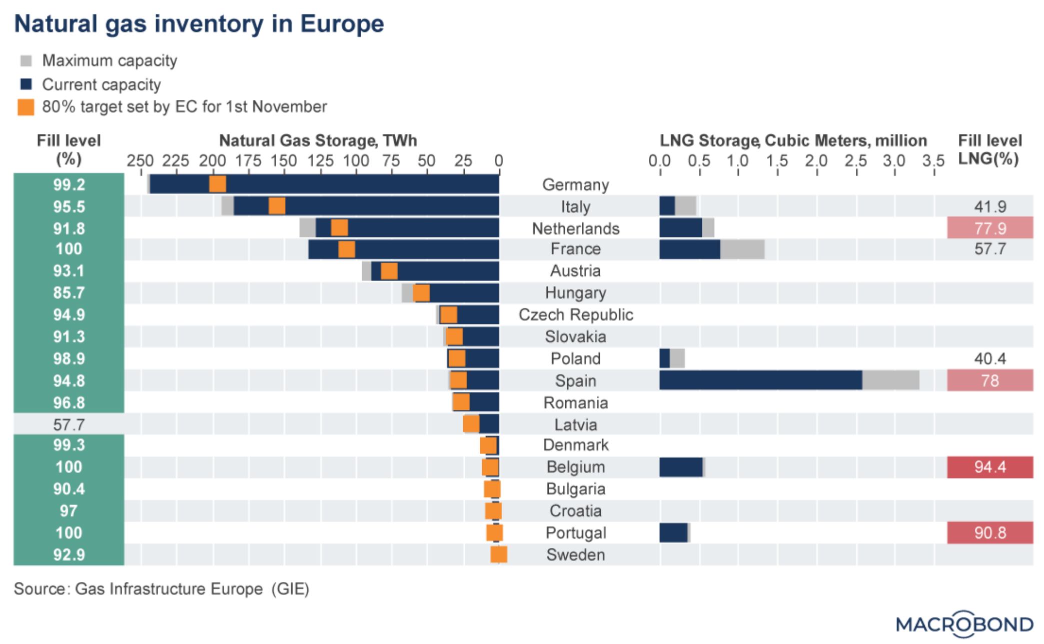
The first chart shows how Dutch gas futures are back below EUR 40 per Mwh – not that far off the pre-pandemic price. We're a long way from the summertime panic, when the war in Ukraine and supply-chain issues sparked fear about wintertime gas shortages.



VIEW CHART [ONLINE] OPEN [CHART] IN MACROBOND APPLICATION

Part of the reason for the price collapse is that Europe's autumn weather has been quite mild. Furthermore, Europe managed to fill up its gas storage sites – [despite lower imports from Russia]. As the next chart shows, most national inventory levels are above 90 percent and ahead of European targets.

Liquefied natural gas exported from the US has been crucial. As the chart also shows, LNG storage is way up in Spain (where boats are anchored offshore, waiting for prices to rise before they unload their gas) and to a lesser extent in France, the Netherlands and Italy.



VIEW CHART ONLINE

OPEN CHART IN MACROBOND APPLICATION

MACROBOND

ONE PLATFORM.
UNLIMITED INSIGHT.