

Signs of global growth cooling

- ◆ Global growth data is still ticking along, but there are early signs of labour markets cooling
- ◆ Inflation continues to give mixed signals across sectors and economies ...
- ◆ ... meaning that central banks are starting to diverge a bit in their thinking

As temperatures heat up in the northern hemisphere, is the economic data starting to show some signs of cooling? Although global growth still looks reasonably healthy, **momentum appears to have slowed in recent weeks** with more data points undershooting expectations and pointing to a softening in the pace of growth.

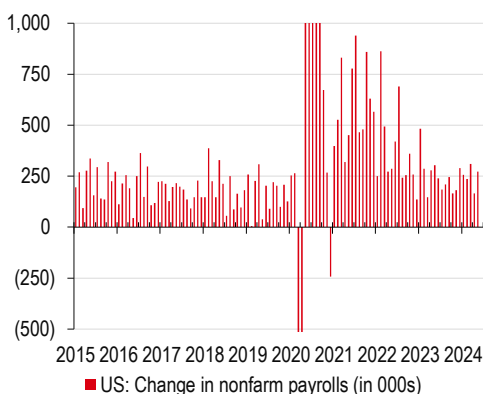
Softening labour market

Chief among these is the **labour market data, which have notably taken a leg down** in the US (chart 1) and the UK – with hiring slowing down, quits dropping, and unemployment rates edging up. Wage growth is still running above inflation, but with a slowdown in employment growth coming through, **this could weigh on consumer spending in the coming months.**

Meanwhile, **the global industrial cycle is still in recovery mode**: the global manufacturing PMI edged up in May (chart 2) and global trade data are still broadly moving in the right direction, but some of the early-year momentum may be flagging in pockets of the data.

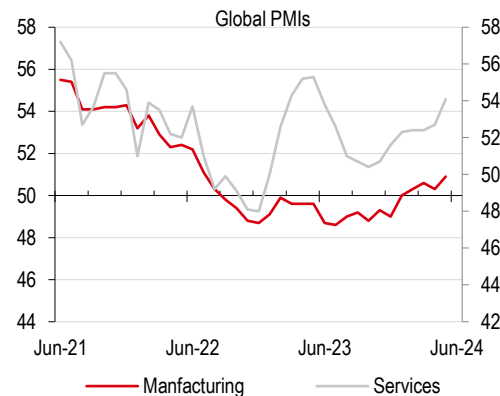
Weak labour markets could hit consumer spending

1. Payroll gains have slowed in the US



Source: Bloomberg, HSBC

2. PMI data suggest more momentum in the manufacturing sector



Source: Bloomberg, HSBC

Underlying inflation is still above target in the US

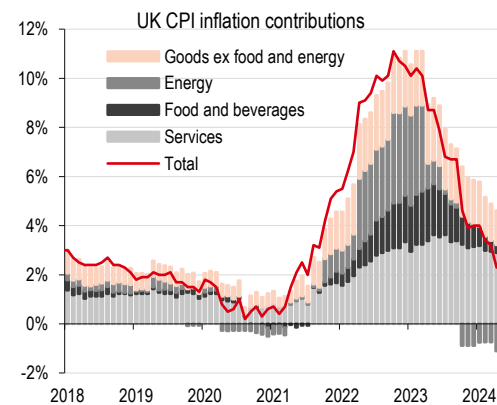
The ECB has just delivered a June cut

Inflation mixed

On the inflation front, however, data is much less clear. For the Federal Reserve, after three months of upside surprises at the start of 2024, April data showed some respite, although **underlying inflation was still running a touch above target on a monthly basis**. It is worth noting, however, that a portion of inflation is being held up by items unrelated to end demand, such as insurance, rents, and other imputed costs.

In Europe, inflation has been a mixed bag, but **the European Central Bank (ECB) has delivered a June rate cut**, following the path of the Swiss National Bank and Sweden’s Riksbank, which have cut rates already as inflation has fallen. The Bank of England is facing a more challenging inflationary environment with consumer services inflation proving much stickier (chart 3) and a recent upside surprise on wage growth. Globally, disruptions in shipping and higher commodity prices **could mean higher inflation on the goods side** in the coming months (chart 4).

3. UK inflation came in higher than expected for April



Source: Bloomberg, HSBC

4. Supply disruptions are leading to higher freight costs



Source: Bloomberg, HSBC

LatAm economies may cut at a slower pace

We see a similar story in Latin America, with growth coming off the boil but external conditions suggesting that **further rate cuts are now likely to be more gradual**. In Asia, the story is slightly different as India continues to punch the lights out with its growth rate, and post the election, we could see further room for optimism if reforms follow. Mainland China’s recovery continues although the pace has slowed in Q2.

Ticking along

Global growth is robust but may be slowing

All in all, the global economy is still ticking along, but **the pace of growth may be slowing**. And, with the recent more gradual pace of disinflation delaying and/or slowing rate cuts, it may be a while before the growth momentum moves back up a gear.

Key recent releases

Date	Market	Release	Period	Actual	Consensus expectation	Prior	Actual vs. Consensus
22 May	UK	CPI (year)	Apr	2.3%	2.1%	3.2%	↑
23 May	Eurozone	HCOB manufacturing PMI (index)	May, flash	47.4	46.1	45.7	↑
23 May	Eurozone	HCOB services PMI (index)	May, flash	53.3	53.6	53.3	↓
23 May	UK	S&P Global manufacturing PMI (index)	May, flash	51.3	49.5	49.1	↑
23 May	UK	S&P Global services PMI (index)	May, flash	52.9	54.7	55.0	↓
23 May	US	S&P Global manufacturing PMI (index)	May, flash	50.9	49.9	50.0	↑
23 May	US	S&P Global services PMI (index)	May, flash	54.8	51.2	51.3	↑
31 May	Mainland China	NBS manufacturing PMI (index)	May	49.5	50.4	50.4	↓
31 May	Eurozone	HICP (year)	May, flash	2.6%	2.5%	2.4%	↑

Source: Bloomberg, HSBC

↑ Positive surprise – actual is higher than consensus, ↓ Negative surprise – actual is lower than consensus, → Actual is in line with consensus

Key upcoming events

Date	Market	Release	Period
11 Jun	Mainland China	CPI / PPI	May
12 Jun	UK	GDP	Apr
12 Jun	US	CPI	May
12 Jun	US	FOMC interest rate announcement	-
16 Jun	Mainland China	Retail sales	May
18 Jun	US	Retail sales	May
19 Jun	UK	CPI	May
19 Jun	Mainland China	People's Bank of China interest rate announcement	-
20 Jun	UK	Bank of England interest rate announcement	-
21 Jun	UK	Retail sales	May
21 Jun	EU / UK / US	PMIs	Jun
25-30 Jun	UK	GDP	Q1
29 Jun	Mainland China	NBS Manufacturing PMI	Jun

Source: Refinitiv Eikon, HSBC

Disclosure appendix

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