



## Key Developments<sup>1</sup> & Chart of the week

17 Dec 2021

*Inflation remains strong in US and UK; Bank of England and a host of other central banks raise rates*

	Outcome	Previous	Comment
<b>US producer prices (Nov, y-o-y)</b>	+9.7%	+8.8%	Highest since July 2008
<b>US industrial prod'n (Nov, m-o-m)</b>	+0.5%	+1.7%	But level still 1.8% shy of peak
<b>China industrial prod'n (Nov, y-o-y)</b>	+3.8%	+3.5%	Slight pickup
<b>UK CPI (Nov, y-o-y)</b>	5.1%	4.2%	A 10-year high reading
<b>Central banks</b>	Tightening by the UK and a swathe of other central banks		

### US inflation. 'Upstream' price inflation rises further, but a peak may just be in sight

- PPI: the 0.8% November rise took annual PPI inflation to 9.7%, its highest since July 2008. And 'core' PPI rose 7.8% over the year to November, its fastest pace since December 1981.
- That said, it is just possible that the peak is in sight: the indices of prices paid and received by manufacturers in the Philadelphia Fed's district<sup>2</sup> dropped sharply in December.<sup>3</sup>

### US economic activity. Q4 continues to look strong

- Industrial production: November's surge followed a 1.7% increase in October.<sup>4</sup> Nonetheless, IP is still 1.4% below its pre-pandemic peak, and auto output 7.9% shy of its pre-pandemic high.

### China economic activity. Slight pickup in output, but retail sales weak

- Industrial production was 3.8% higher in November than a year earlier, a slight increase from 3.5% growth in October and the low of 3.1% in September. This may reflect export strength.<sup>5</sup>

### UK inflation and wages. A decade-high CPI print

- CPI: Petrol and clothing contributed strongly, but 'core' too rose strongly, from 3.4% to 4%.<sup>6</sup>
- Employment rose in October despite the end of the furlough scheme, with vacancies reaching a record of more than 1.2m, and regular weekly earnings up by 4.3% over a year earlier.

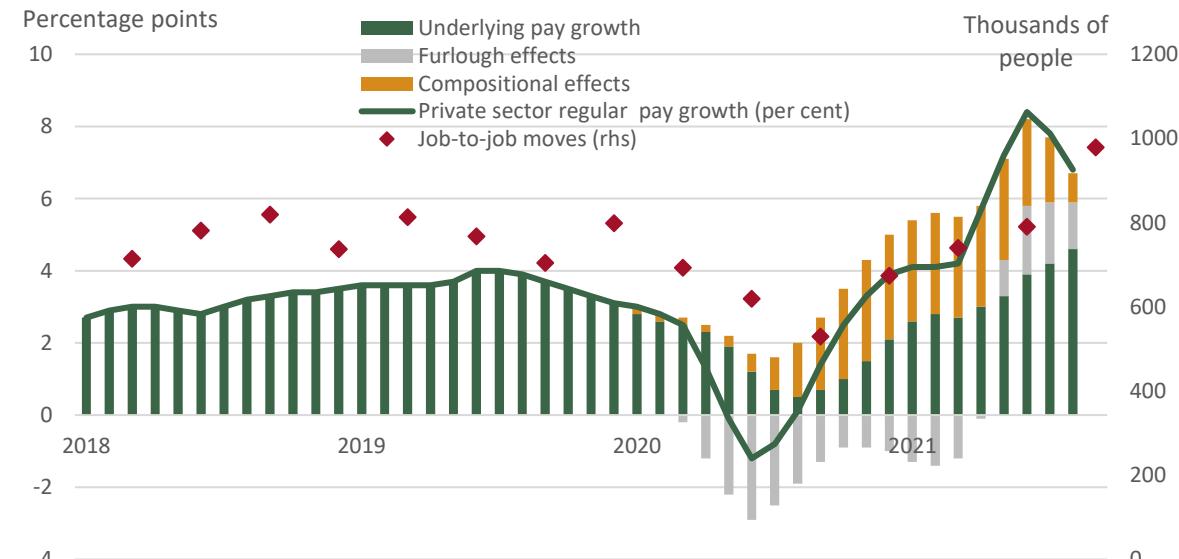
### Central banks. UK hikes, as do many others;<sup>7</sup> and the Fed, ECB and BoJ accelerate tapering

- The Bank of England became the first major OECD economy to raise rates, with a 15bp pre-emptive rate hike in its Bank Rate to 0.25%, citing the strength of inflation and of the economy.<sup>8</sup>
- The Fed<sup>9</sup> and the ECB<sup>10</sup> will end asset purchases by March; the BoJ will taper debt purchases.<sup>11</sup>

**Bottom line:** Our World View remains basically intact unless a price-wage spiral develops

### Chart of the week. Composition changes have distorted the picture:<sup>12</sup> but UK wage growth is up

- Underlying wage growth is now slightly faster than in 2019, and people are changing jobs at a rapid pace.



Source: BoE and Llewellyn Consulting Note: Data up to Aug 2021. Earnings growth is 3-month average pay relative to the same period a year ago.

<sup>1</sup> **Key Developments** presents what in our judgement represent the past week's most important individual data, policy announcements, and any other developments that may support, or challenge, our understanding of the way in which key economies and financial markets are evolving.

These weekly judgements are cumulated and assessed in our quarterly **World View & Risks**. When an issue warrants particular consideration, we examine it in detail in our **Analysis** pieces. And when in our judgement the accumulated evidence warrants it, we modify our quarterly **World View & Risks**.

<sup>2</sup> This district is generally regarded as being a representative microcosm of the broader US economy.

<sup>3</sup> The difference index for 'Prices paid' dropped to 66.1 in December from 80.0 in November; and for 'Prices received' to 50.4 from 62.9. These were their lowest levels since February and July, respectively.

<sup>4</sup> Moreover, US motor vehicle output rose 2.2%, following October's 10.1% surge. Meanwhile, housing starts rose 11.8% in November to their highest level since March, with a 3.6% rise in permit issuance (following a 4.2% rise in October) presaging further gains in December.

<sup>5</sup> One factor supporting the view that the strength in China's industrial production is attributable, at least in part, to export strength is that domestically-oriented production, and notably steel and cement, continued to decline. Meanwhile, retail sales were only 0.5% higher (in real terms) than in November last year, the weakest growth since August last year.

<sup>6</sup> See: [Consumer price inflation, UK - Office for National Statistics](#) Likewise, PPI inflation is running hot, with headline input prices growing by 14.3% y-o-y in November, compared with 13.7% a month ago. Output price inflation is running at 9.1% in November vs 8.6% in October, see: <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/producerpriceinflation/november2021>. Transport equipment and metals price rises are the key drivers for both series.

<sup>7</sup> In a swathe of interest rate hikes:

- **Norway** raised its policy rate by 25bp to 0.5%, the second increase this year, and foreshadowed a third move in March.
- **Hungary** raised its policy rate for the seventh time this year, by 30bp, to 2.40%.
- **Ukraine** raised its policy rate for the fifth time, by 50 bp, to 9.0%.
- **Russia** raised its key interest rate by 100bp, to 8.5%, the seventh consecutive rise in 2021 as the bank aims to tackle inflation at a six-year high.
- **Mexico** raised its overnight rate by 50 bp, to 5.5%, the fifth time this year.
- **Chile** raised its policy rate a fifth time, by 125bp, to 4%.
- **Pakistan** lifted its policy rate for the third time this year, by 100bp, to 9.75%.
- The 'outlier' in the central banking world, **Turkey**, cut its policy interest rate by 100bp to 14%, bringing the cumulative rate reduction since September to 500bp, despite inflation running at 21.3% over the 12 months to November. It did however indicate that it would not cut rates any further. The Turkish lira fell another 8% after the announcement, bringing the cumulative decline against the US\$ since the first rate cut to 45%.

<sup>8</sup> The Bank also cited its expectation that inflation would rise further, to around 6% by spring. The hike came against market expectations of no change on the grounds of the new Omicron variant, but the Bank commented that its impact on economic activity and inflation were "*unclear at this stage*".

<sup>9</sup> Earlier, the Fed had foreshadowed that it would conclude its asset purchases in June.

<sup>10</sup> Potentially importantly "*The [ECB] Governing Council expects net purchases to end shortly before it starts raising the key ECB interest rates*". [Monetary policy decisions \(europa.eu\)](#)

<sup>11</sup> The Bank will complete its additional purchases of commercial paper and corporate bonds at the end of March 2022. It will extend the loan scheme for smaller companies until September. See: [Amendment to "Principal Terms and Conditions of the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus \(COVID-19\)" \(boj.or.jp\)](#)

<sup>12</sup> The data in this chart are from the Bank of England's November inflation report, and the latest data were up to August. Note that the Office for National Statistics (ONS) has said this month that the exceptional composition effects have now "largely worked their way out of the latest growth rates". Hence it will probably be appropriate from now on to take the headline data at face value. See: [Average weekly earnings in Great Britain - Office for National Statistics \(ons.gov.uk\)](#)

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