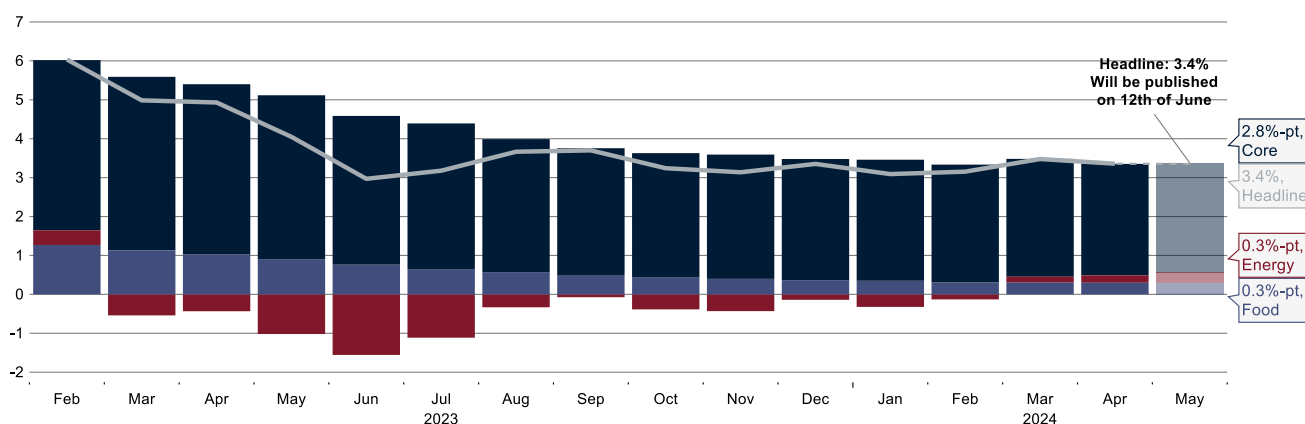


## GLOBAL GROWTH TRACKER

# US inflation remains stubborn

While the inflation rate is likely to remain virtually unchanged for at least the next two months, the US economy is continuing to cool down. This contrasts with a recovering economy in the eurozone. However, inflation remains a problem there too.

United States, Consumer Price Inflation, by contribution



Source: Macrobond, HCOB Economics, U.S. Bureau of Labor Statistics (BLS)

US consumer prices, which will be published on June 12, are likely to have risen by 3.4% year-on-year in May, unchanged from the April figure. For June, we expect a decline to 3.2%. This is mainly due to lower oil prices, which fell somewhat more sharply after the OPEC meeting at the beginning of this month. Overall, the US Federal Reserve's two percent target is still a long way off. In the eurozone, our model does not expect any really dynamic changes in the direction of the ECB's two percent target in the current month. Here, inflation is expected to fall from 2.6% to 2.5% in June (published on 02.07), which is also linked in particular to energy prices. According to the model, inflation in Germany is unlikely to have fallen in June, remaining at the 2.4% level.

The economic picture is somewhat different. While the US economy has consistently grown above expectations over the past two years, further signs of a weakening economy now appear to be spreading in the second quarter. In our model, the weak ISM Purchasing Managers' Index for the manufacturing sector and the decline in consumer spending have had a particularly noticeable impact: the model forecasts GDP growth of just 1% (annualized, QoQ) for the second quarter, with foreign trade in particular, but also private consumption, weakening. GDP should grow by 1.8% in 2024.

In the eurozone, on the other hand, further robust growth by local standards is on the horizon in the second quarter: Our

model forecasts 0.3% quarter-on-quarter growth here (annualized this corresponds to 1.3%). The past industrial production figures, as well as leading indicators such as the HCOB PMIs for May, showed an overall positive sentiment. The service sector in particular is likely to make a positive contribution to growth in the current quarter, while industry is still somewhat hesitant. New data on industrial production will not be published until the beginning of next month. We consider growth of 0.3% to be realistic here. Eurozone GDP should grow by 0.8% in 2024.

Growth momentum in China is likely to weaken in the second quarter. After 1.6% QoQ in the first quarter, the second-largest economy is likely to grow by around 1.1% QoQ in the current quarter. Stronger foreign trade data and sentiment indicators such as the NBS Purchasing Managers' Index have recently been stronger than expected by our model. We expect growth of 4.6% for the year as a whole.

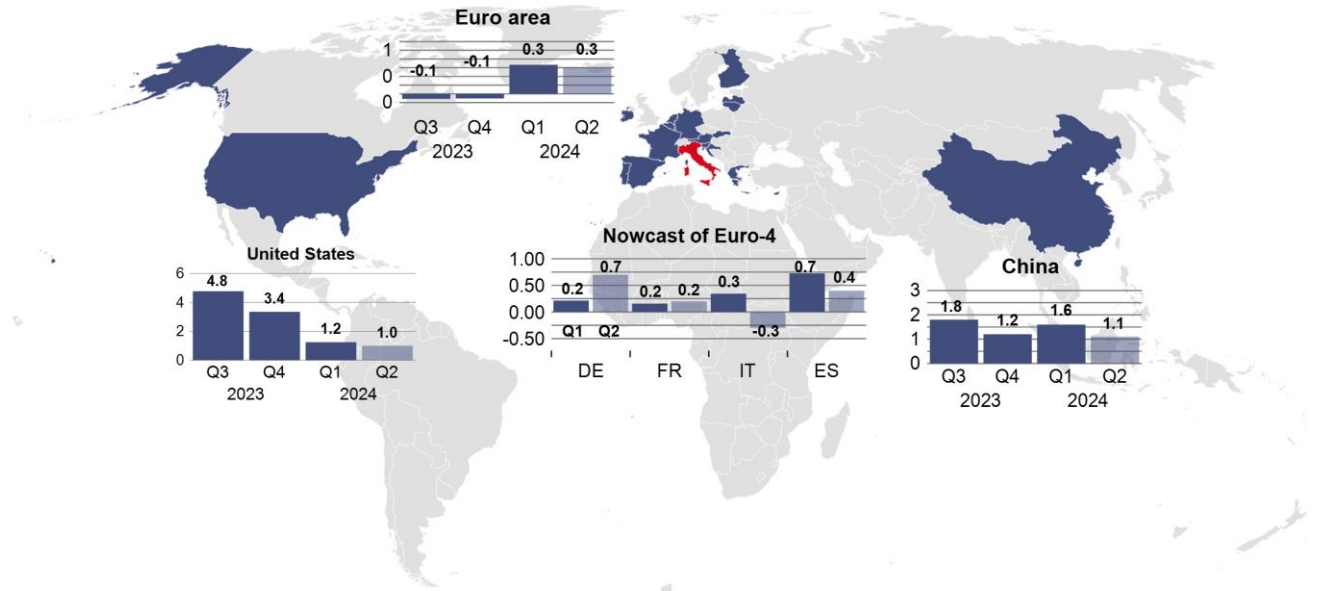
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Economist

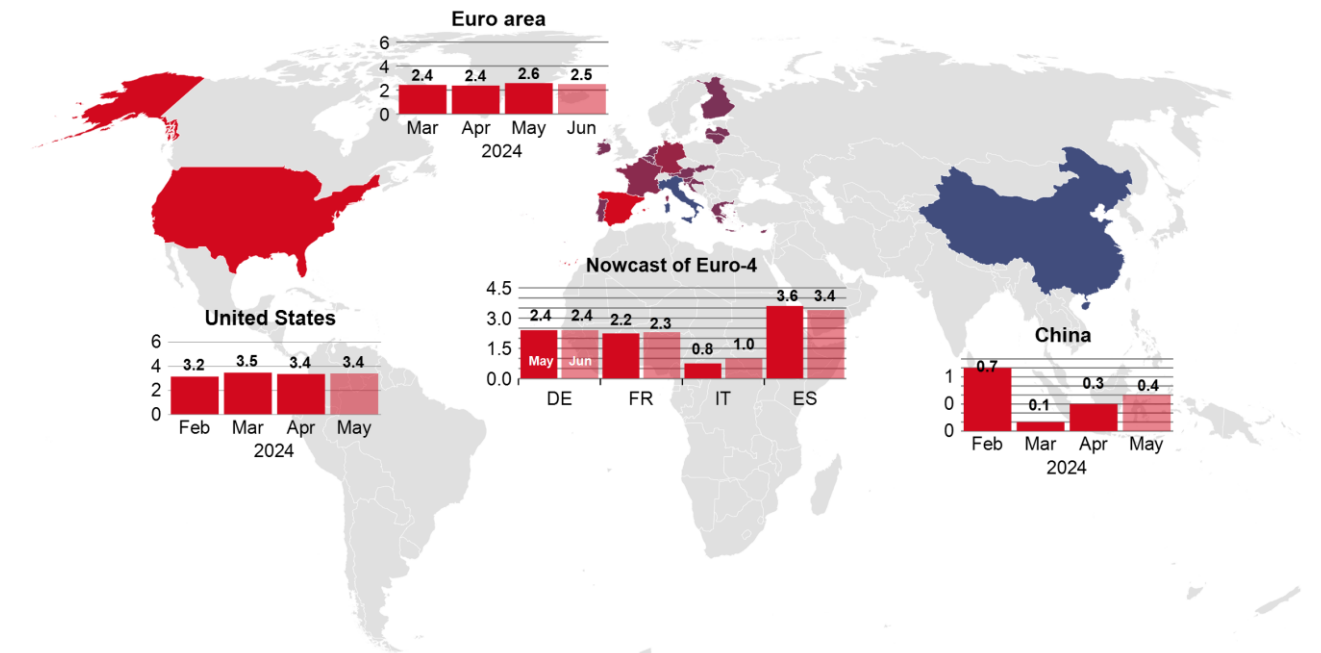
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NOWCASTS AT A GLANCE

# GDP Nowcast



# Inflation Nowcast



## TECHNICAL DOCUMENTATION

## About the publication "Global Growth Tracker"

The main purpose of the monthly publication "Global Growth Tracker" is to provide a sound quantitative classification of the data situation. The publication contains numerous models, all of which fall under the collective term "nowcasting".

### Definition Nowcasting

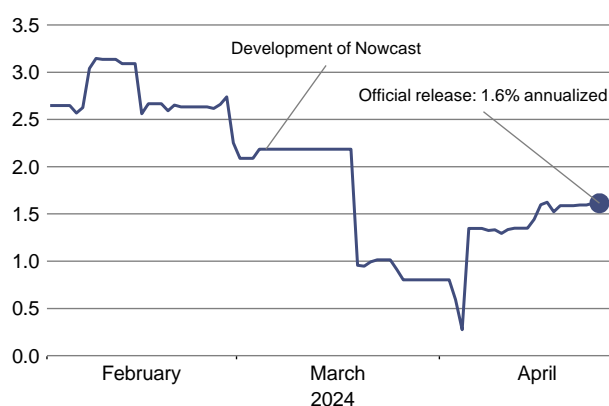
Nowcasting refers to the estimation of the near past, present and near future, taking into account data from these periods. HCOB Economics has set itself the task of estimating the current observation period using these nowcasting models. We estimate the gross domestic product (GDP) and the inflation rate for the current quarter and the current month respectively. We currently estimate these variables for the USA, China, the eurozone, Germany, France, Italy and Spain. From the last four countries, the so-called Euro 4 countries, we estimate the economic development for the eurozone, as these four countries already account for almost 75% of the gross domestic product of the entire eurozone.

### Technical process of the nowcasting models

In principle, we follow a "bottom-up" approach for all estimates, i.e. we first estimate the individual components of GDP or inflation - up to a certain level of granularity - and then combine these into an overall estimate. This approach allows us to make more detailed statements about the origin of growth drivers than would be possible with a "top-down" approach. For the USA, GDP is estimated from the expenditure side due to the richer data, while for the other countries this is done from the production side. The USA is also a small special case in the econometric estimates (see below). Individual indicators are selected for the individual components of GDP - industry, services, agriculture - depending on the level of granularity. For example, the HCOB PMI for capital goods and the industrial production index for capital goods from DESTATIS are used as estimates for the industrial component "capital goods". If the monthly data is not sufficient to estimate the complete observation period (e.g. if only the first month of the quarter is available), then an estimate is made using a previously estimated latent factor (from a dynamic factor model) and an autoregressive process. This factor augmented autoregression (FAAR) determines the optimal number of lags of the time series to be estimated and the latent factor using an information criterion (AIC, Akaike Information Criterion). These monthly estimates and actually published data are then linked to the quarterly GDP component to be estimated using bridge equations. The special case of the USA arises in that a Bayesian VAR model

(VAR, Vector Autoregression) is used to make an estimate that is independent of monthly data, which is then later combined with the estimate of the monthly data using a weighting model. This procedure is thus similar to that of the Federal Reserve Bank of Atlanta. The typical observation is that the BVAR estimate is given a higher weight early in the quarter, while the monthly estimate is usually given a higher weight later in the quarter.

### United States, Nowcast for Q1 2024 GDP, annualized



Source: Macrobond, HCOB Economics, own calculation

### Own interactive website

For those who would like to take a more detailed look at the results of our models, we provide an interactive website that is updated weekly. The accompanying text will be updated whenever the "Global Growth Tracker" publication is released. This page is expected to go live at the end of the month.

The model results in no way reflect the official forecasts of HCOB and HCOB Economics. They are a purely quantitative classification of the current data trends and are intended to improve understanding of the current economic data.

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The glossary of our publications can be found on the Hamburg Commercial Bank website at [http://www.hcob-bank.de/publikationen\\_glossar](http://www.hcob-bank.de/publikationen_glossar)

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