

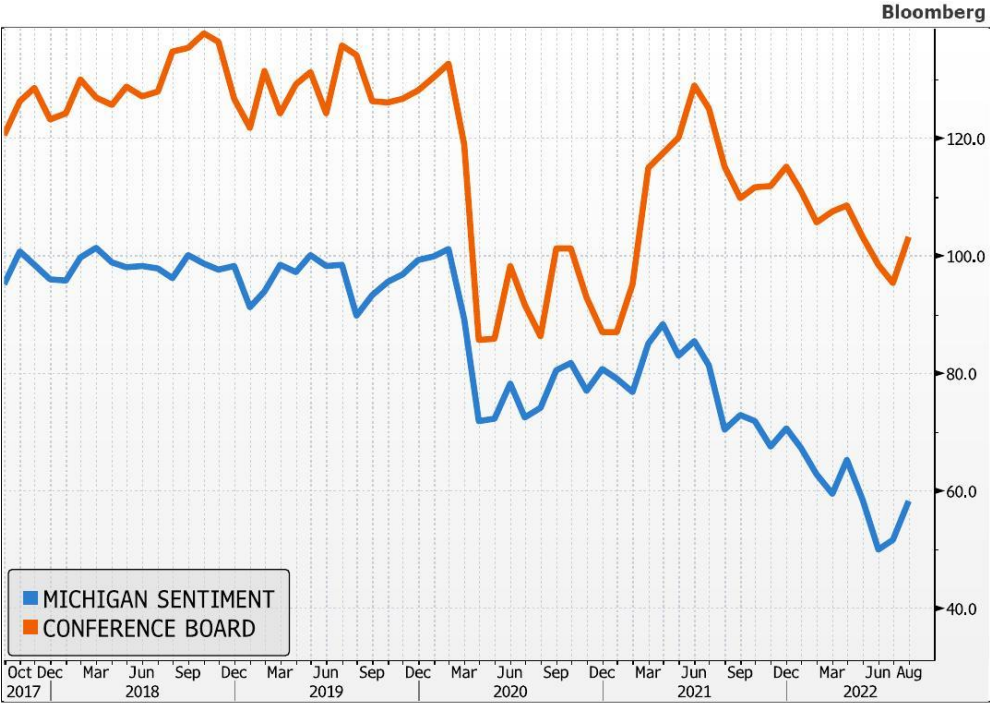
# Recession Ahead



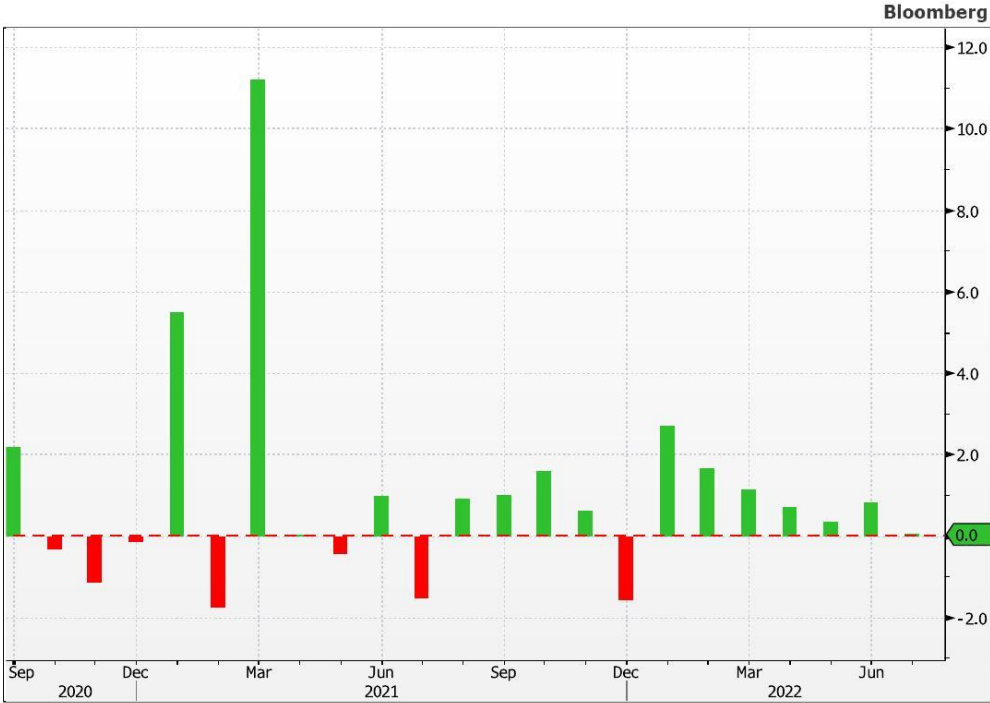
**Megan Greene**  
Global Chief Economist, Kroll

# US Retail Sales Stalling Out

Consumer confidence indices:



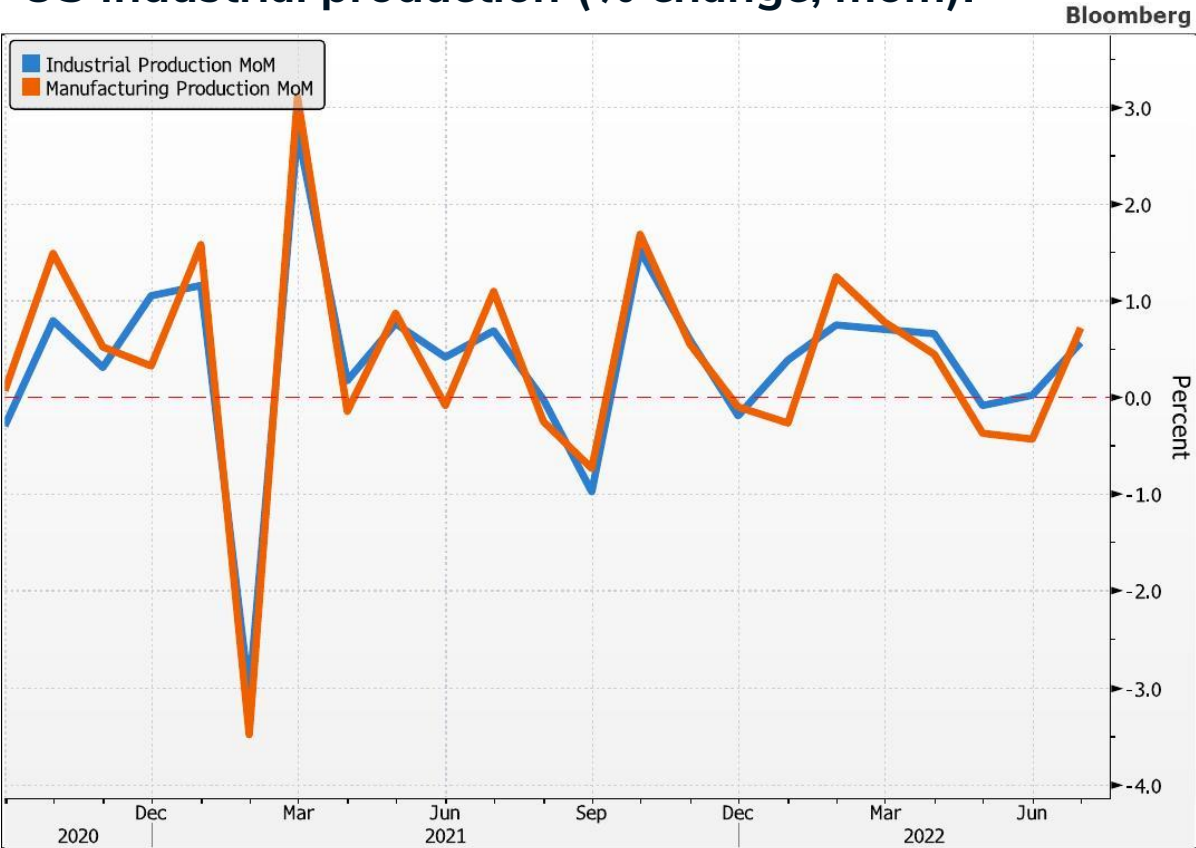
US retail sales (% change, mom):



Source: Bloomberg.

# Industrial Production Holding Up

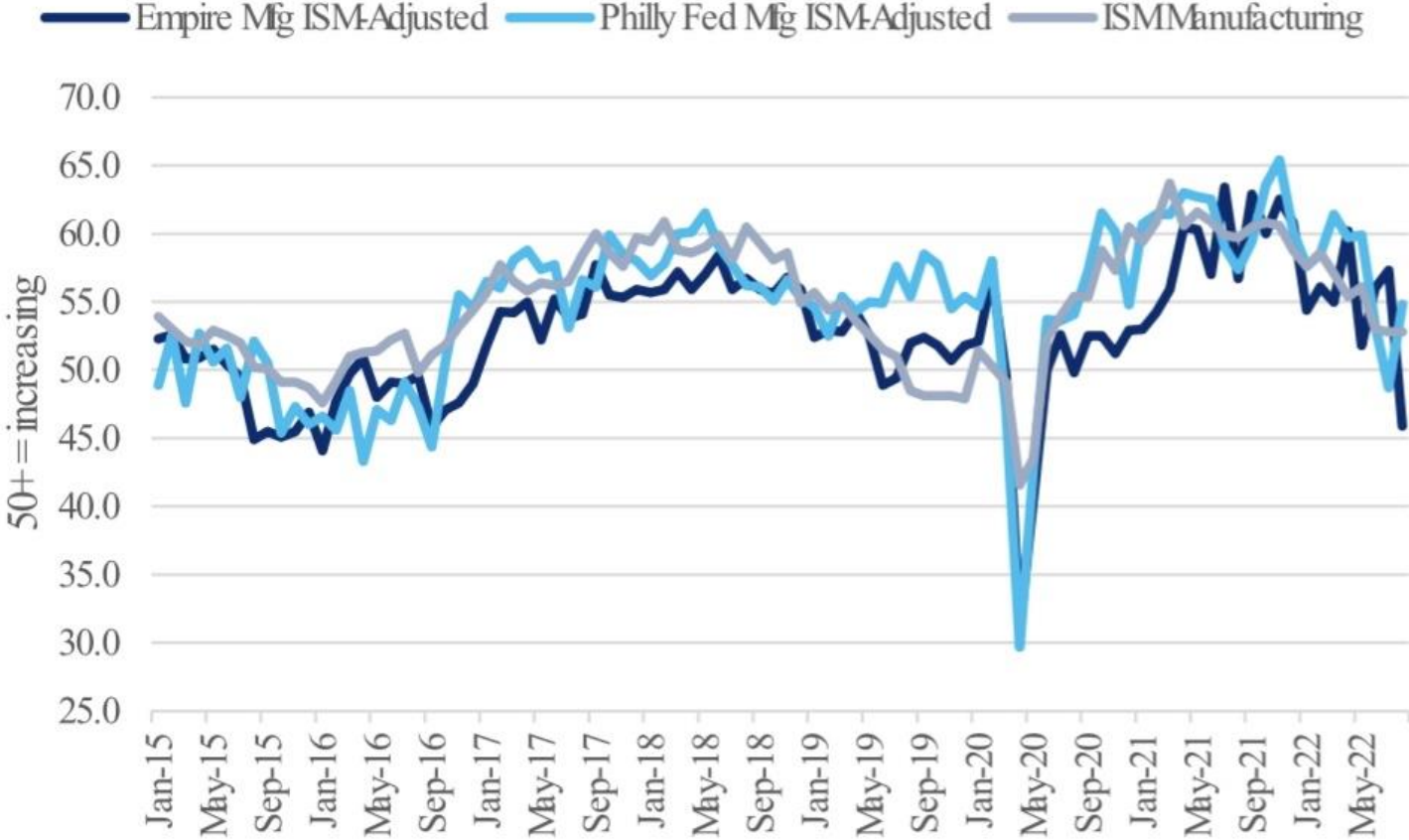
US Industrial production (% change, mom):



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Source: Bloomberg.

# US Manufacturing Slowing Down



Source: Citibank.

# US Services Outperforming

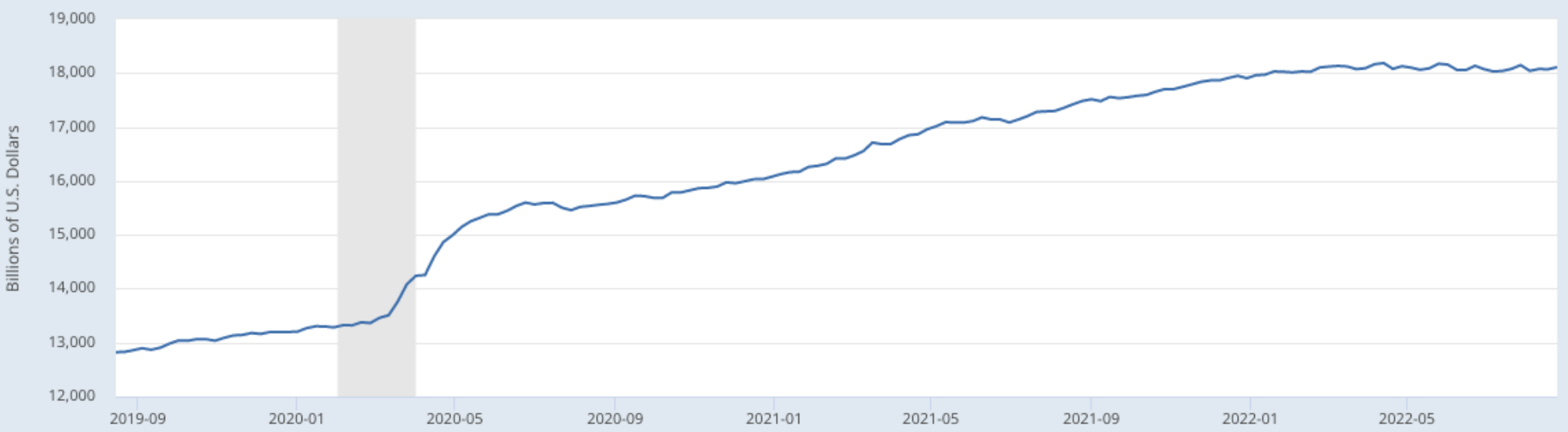
## ISM Services:



Source: Bloomberg.

# In Aggregate, Consumers Flush with Cash

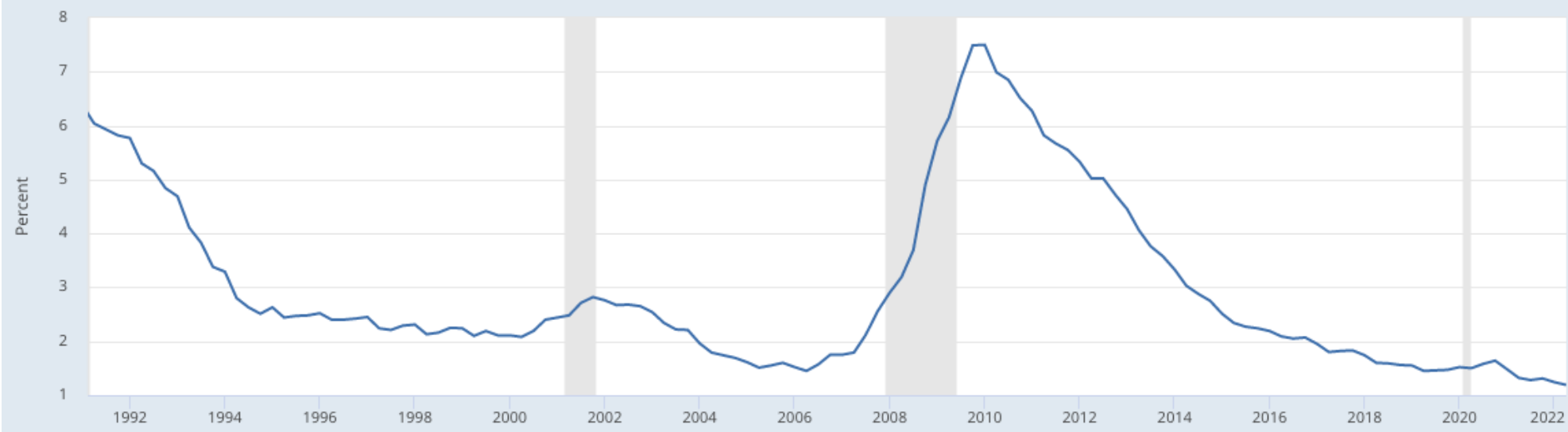
Deposits, all commercial banks:



Source: FRED.

# Loan Defaults at Historically Low Levels

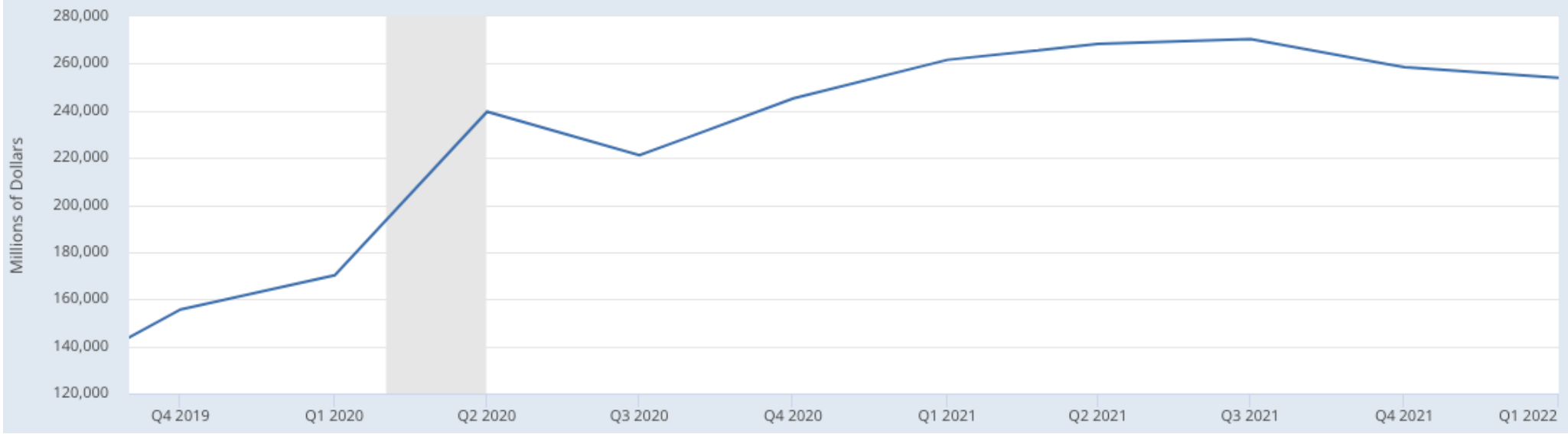
Delinquency rate on all loans, all commercial banks:



Source: FRED.

# Companies Flush with Cash Too

US Corporations, Total Cash on Hand and in US Banks:

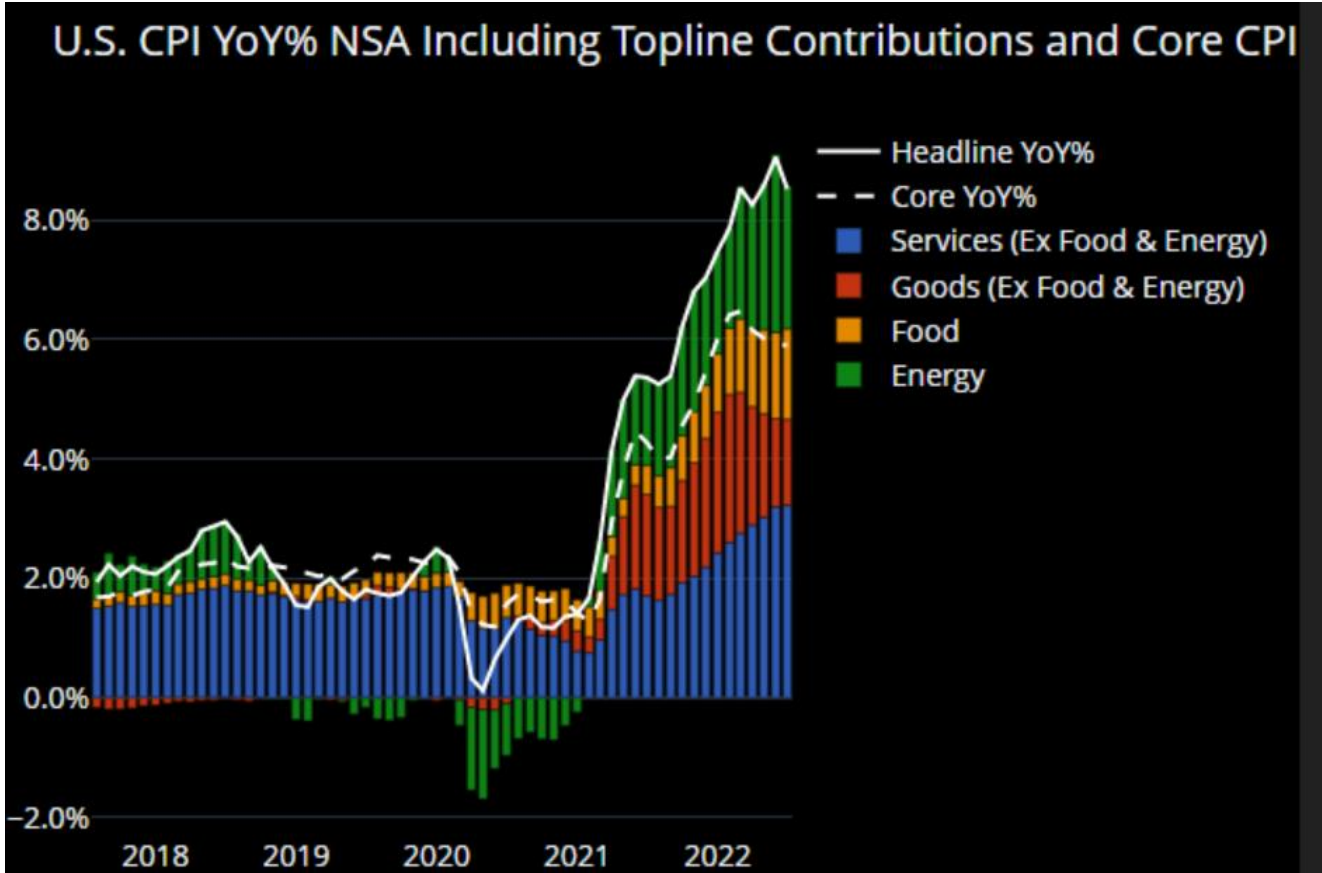


Source: FRED.



# US Inflation Demand and Supply Driven

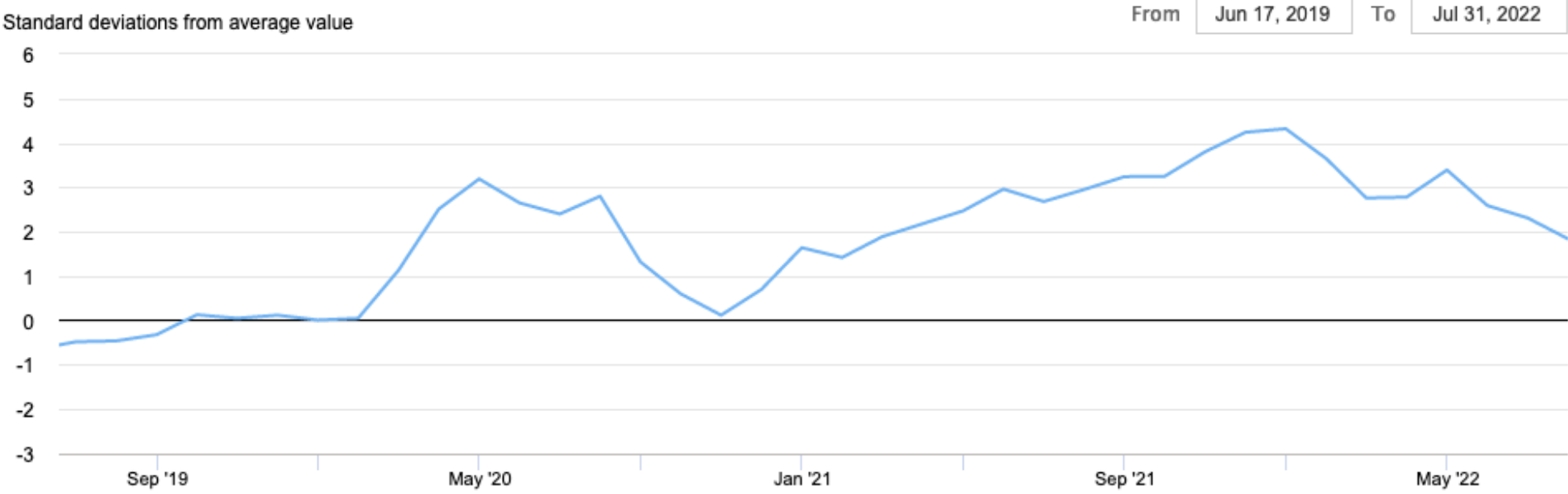
Contributions to US inflation (% change, yoy, NSA):



Source: Bloomberg.

# Supply Constraints Are Easing...but Disruptions Will Continue

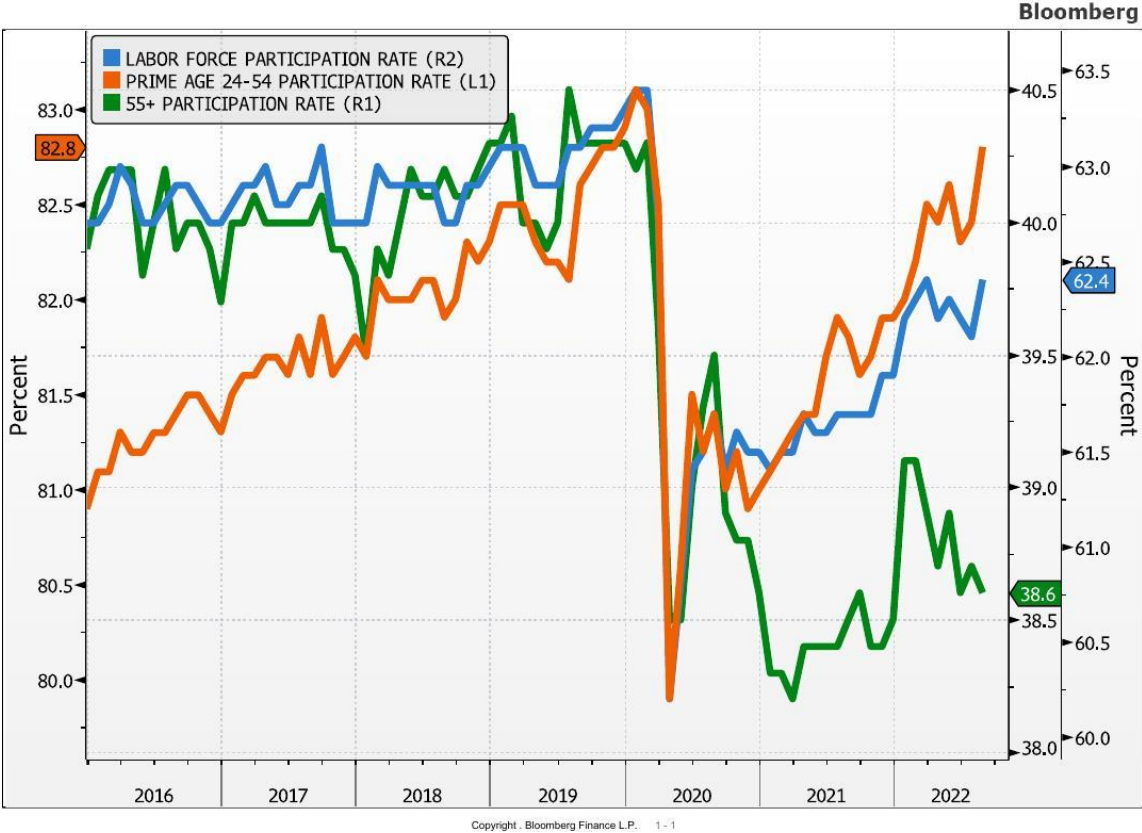
## Global Supply Chain Pressure Index:



Source: New York Federal Reserve.

# US Labor Force Still Hasn't Recovered

US labor force participation rate:



Source: Bloomberg.

# Fed To Continue Tightening

Market expectations for Fed Funds rate:

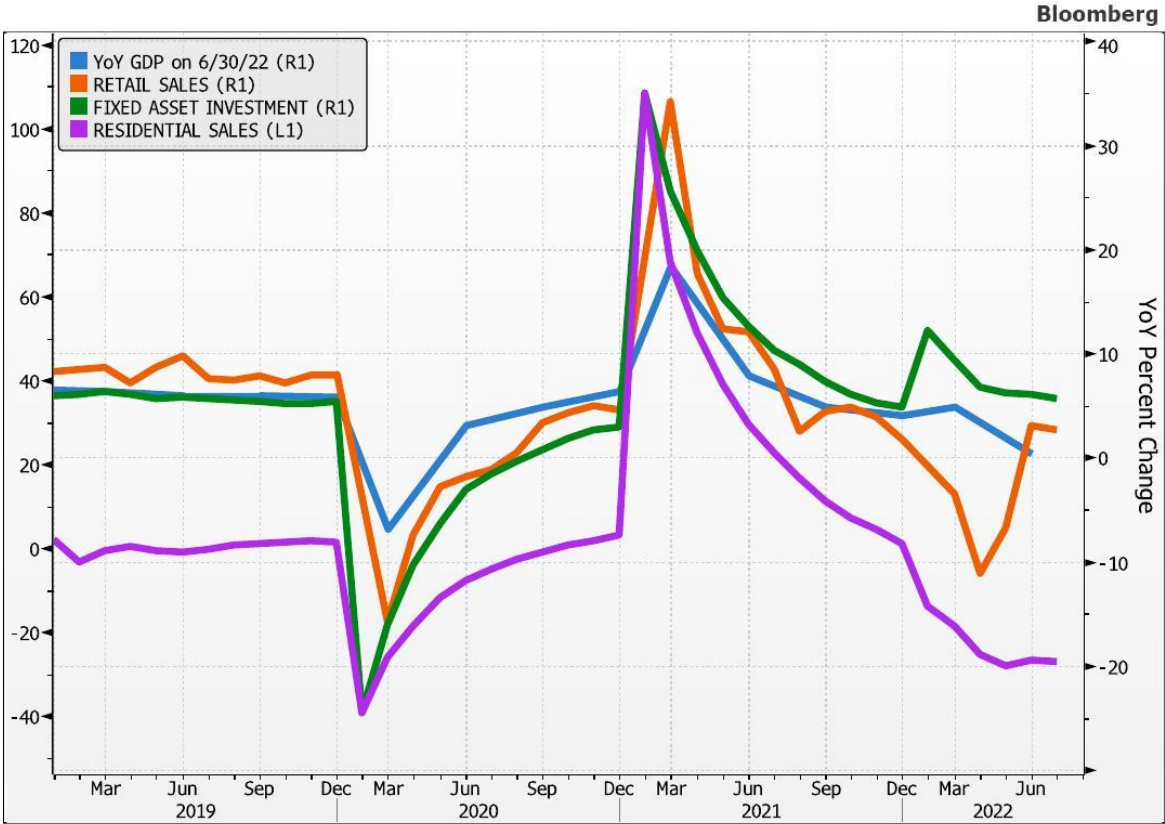


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Source: Bloomberg.

# China Growth Propelled by Infrastructure

GDP growth and various sector components (%change, yoy):



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Source: Bloomberg.

# Deep Housing Recession

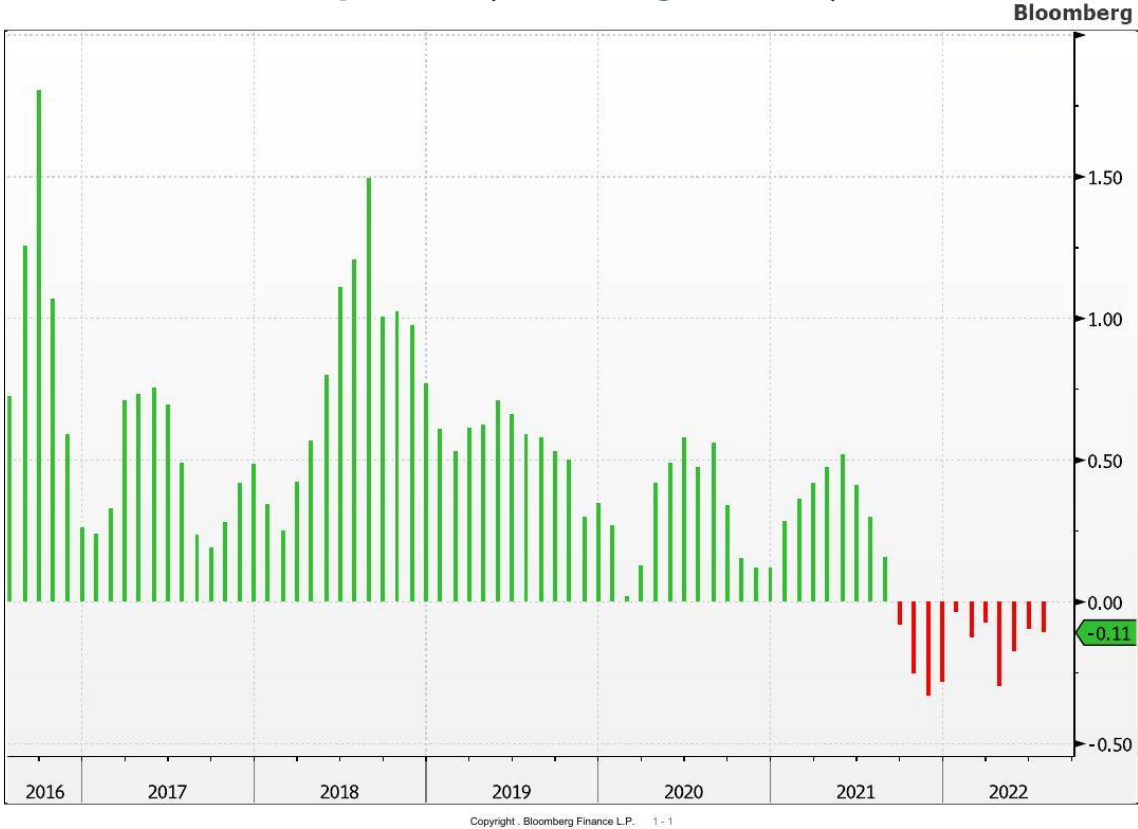
China housing business climate:



Source: Bloomberg, 100 is considered a normal business climate.

# Deep Housing Recession

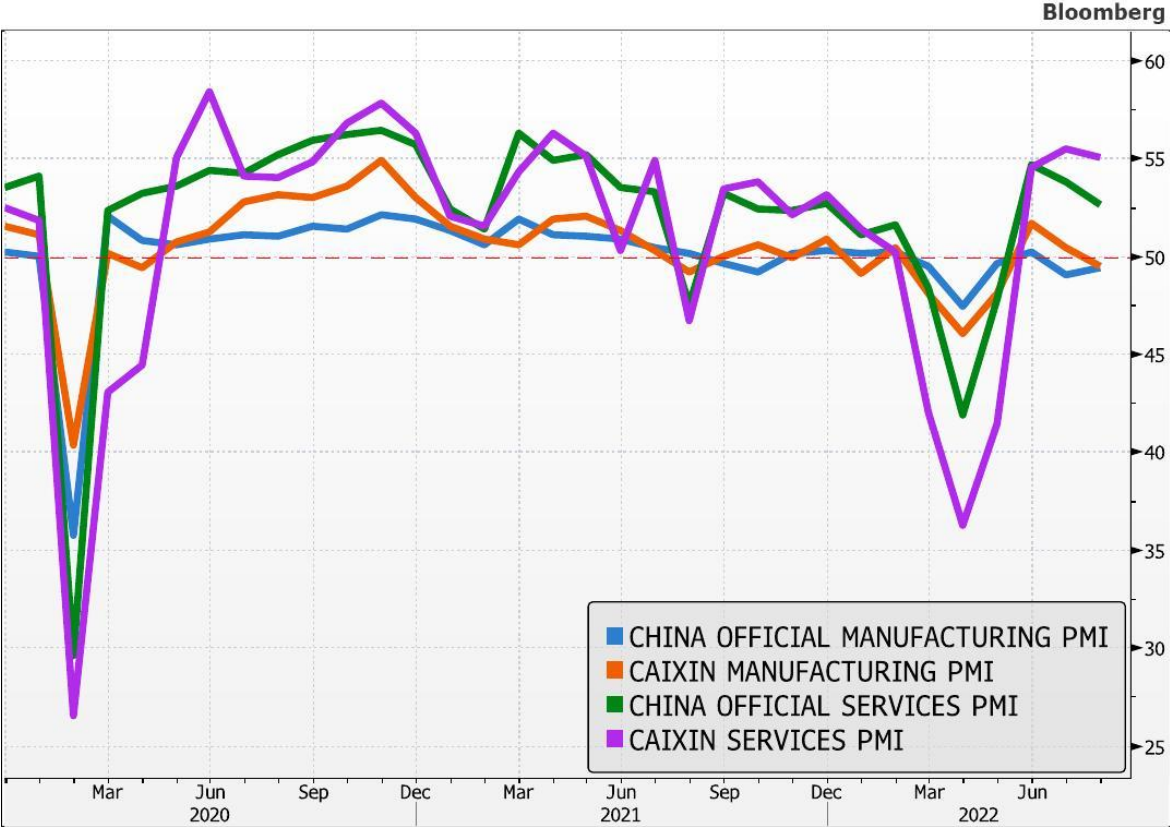
Chinese house prices (%change mom):



Source: Bloomberg.

# China Manufacturing in Contraction

PMI data, manufacturing and services:



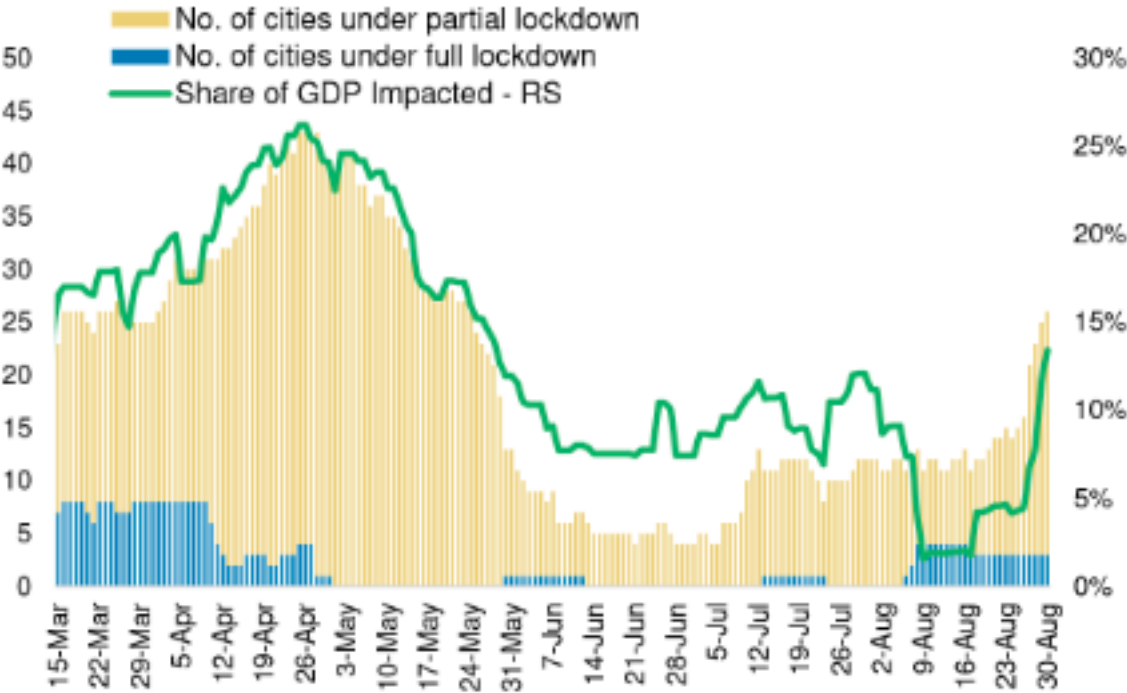
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Source: Bloomberg.



# Over 13pc of China's GDP Under Some Lockdown

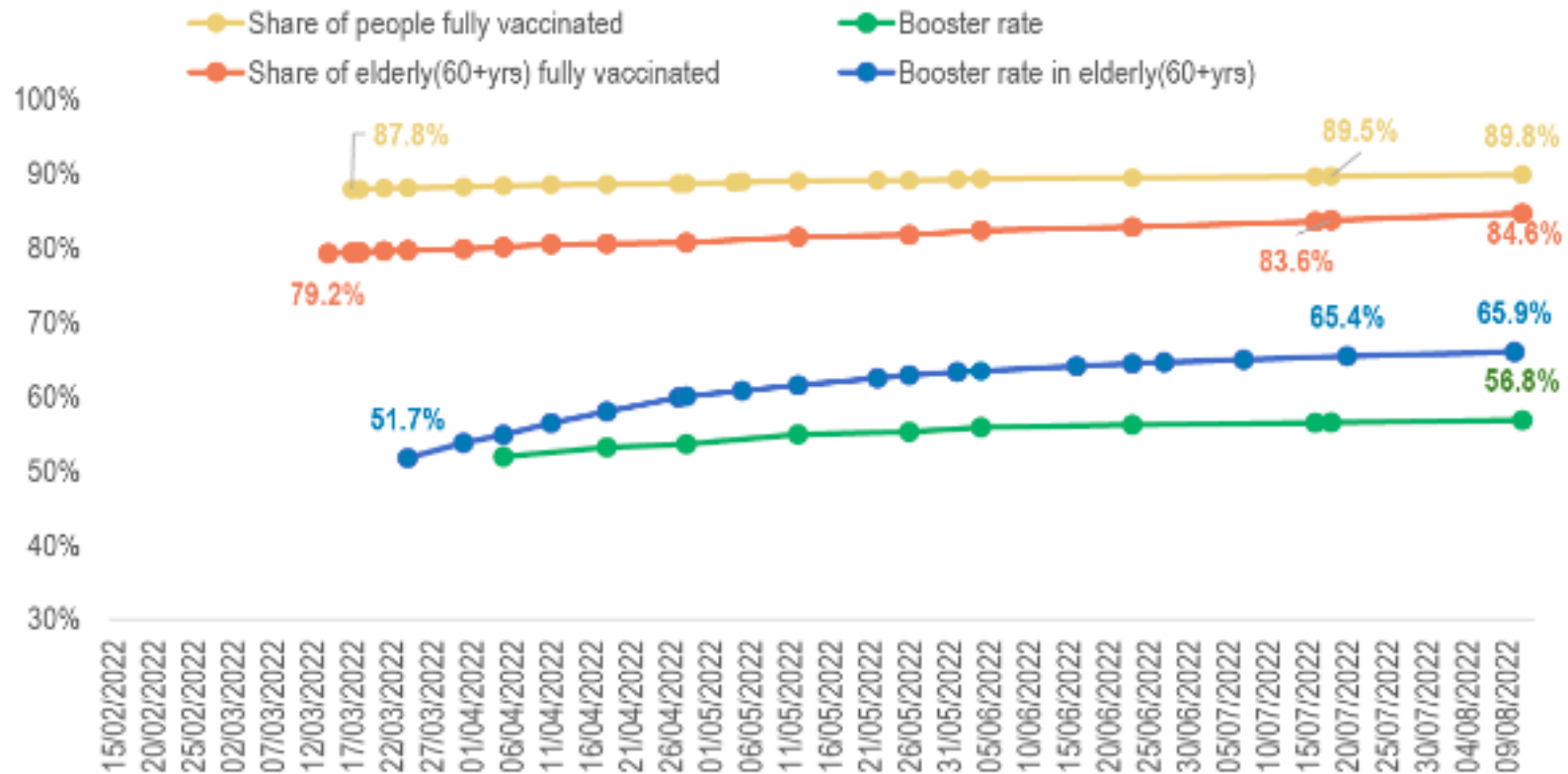
Cities and share of GDP impacted by lockdowns:



Source: Government websites, local news, Morgan Stanley.

# Learning To Live with COVID Won't Be Easy

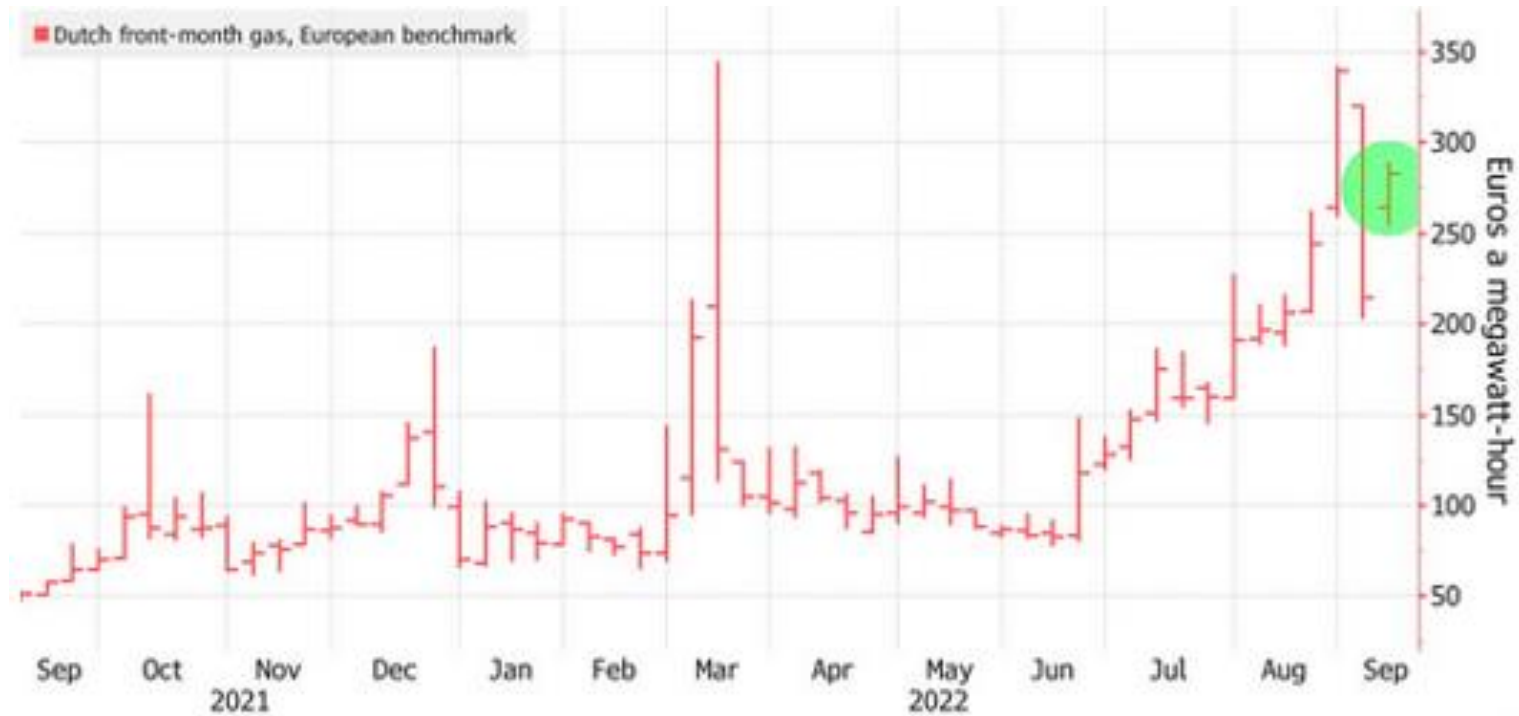
## Vaccination rates:



Source: NHC, CEIC, Morgan Stanley Research.

# European Gas Prices Soar

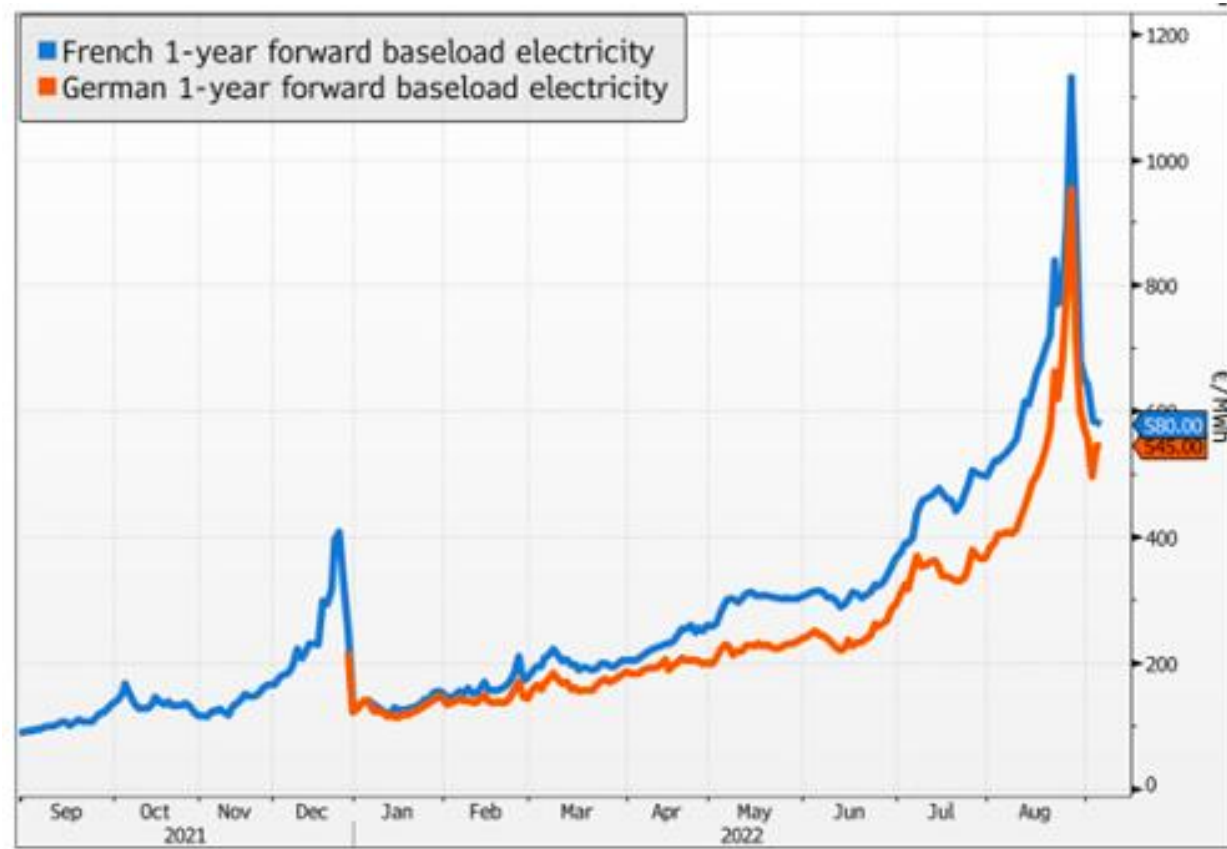
European benchmark gas prices (EUR/mWhr):



Source: ICE Index, Bloomberg.

# Baseload Electricity Prices more than Double Feb 2022

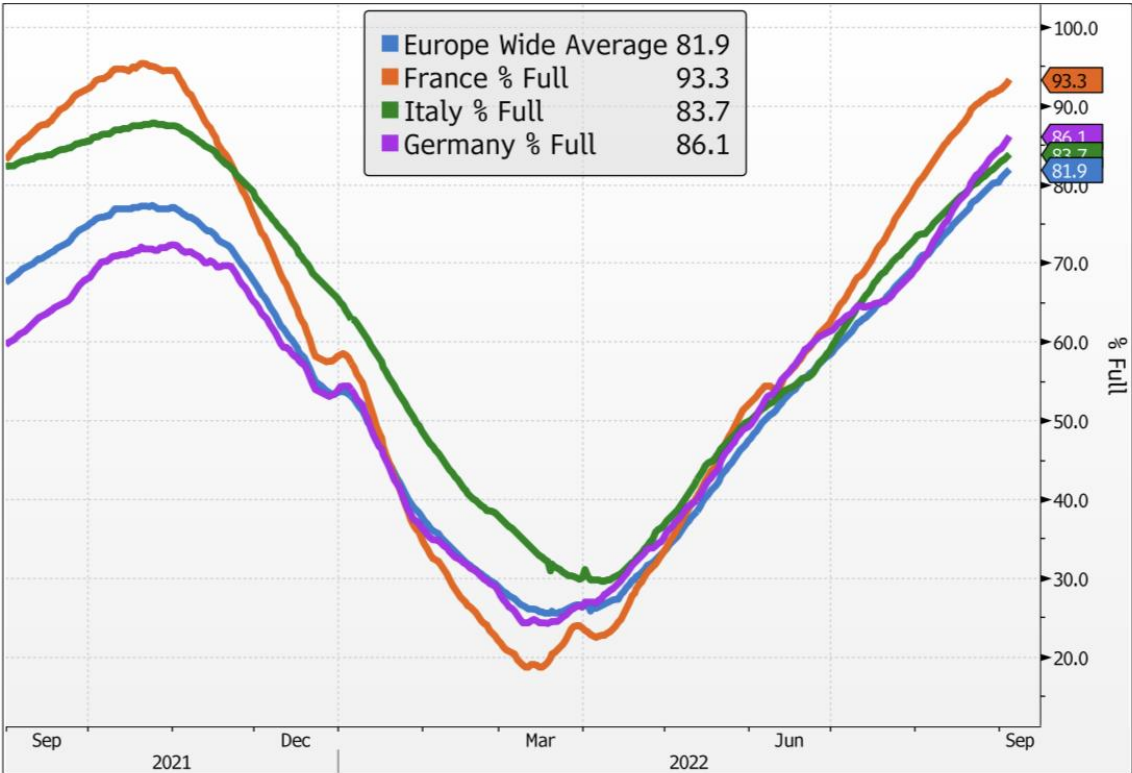
Baseload electricity prices (EUR/MWh):



Source: Bloomberg, Sep 2022. Baseload power is the minimum amount of electric power needed to be supplied to the electrical grid at any given time.

# Storage Ahead of Targets

## Storage capacity:



Source: Bloomberg.

# Will It Be Enough?

WSJ, Aug 26, 2022:

MARKETS | COMMODITIES | GAS MARKETS

## European Energy Rationing This Winter Is Looking Less Likely

Economic war with Russia is likely to keep prices high and send growth into reverse but specter of rationing is fading

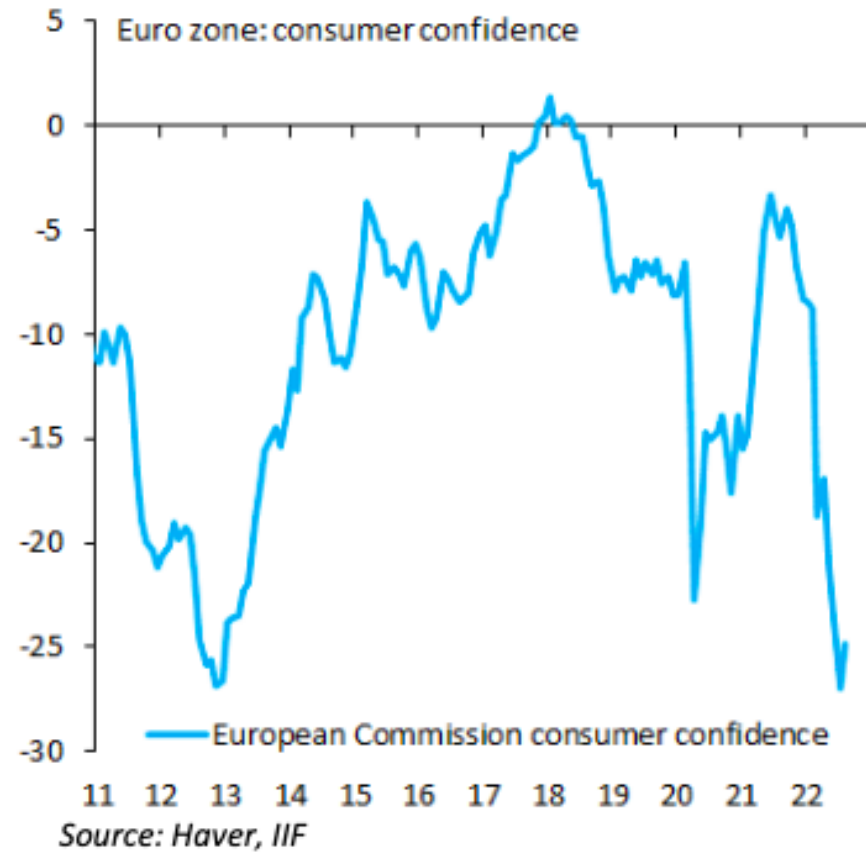
Bloomberg, Sep 4 2022:

## Europe Looks Set for Energy Rationing After Russian Gas Cut

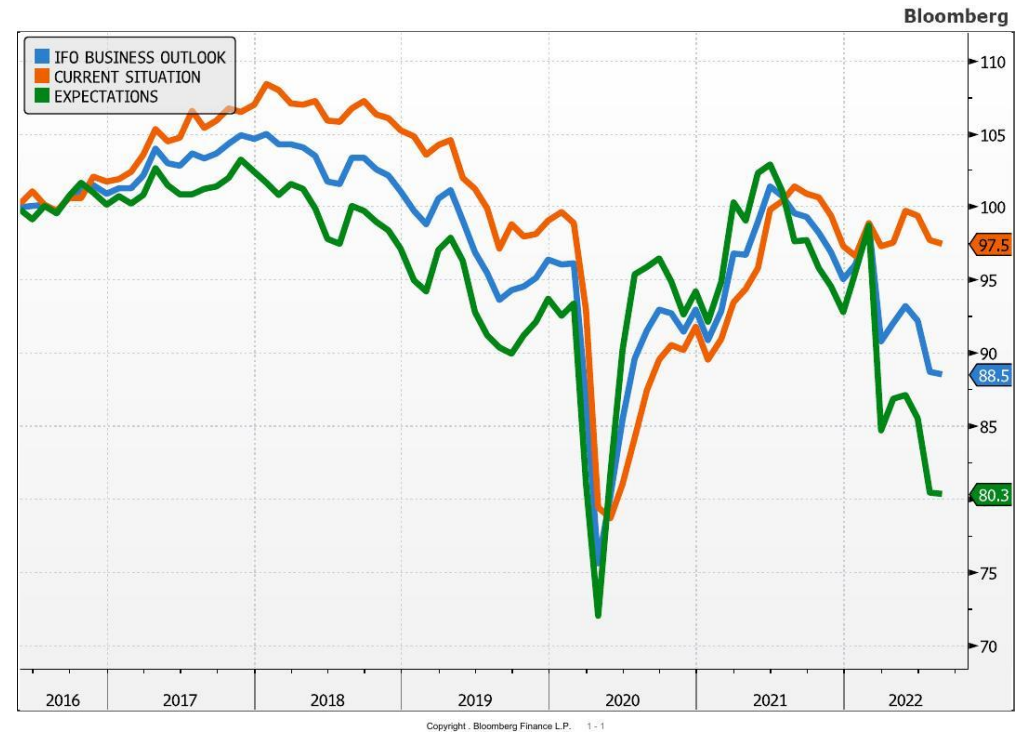
- Germany has built up storage, but it may not be enough
- Europe's ability to get through winter depends on the weather

# EZ Consumer and Business Confidence Plummet

EZ consumer confidence:



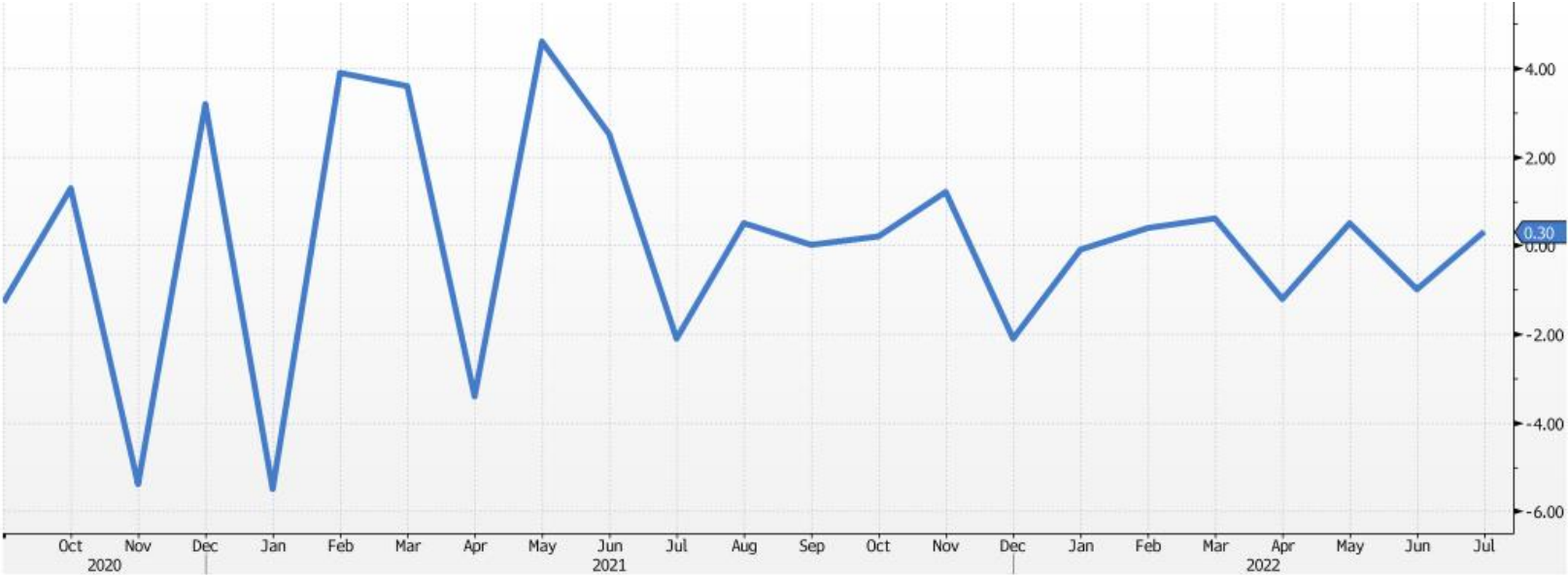
German business confidence:



Source: Bloomberg.

# EZ Retail Sales Flatlining

EZ retail sales (% change, mom):



Source: Bloomberg.



# Manufacturing and Services in Contraction

EZ PMI, manufacturing and services



Source: Bloomberg.

# German Factory Orders Falling

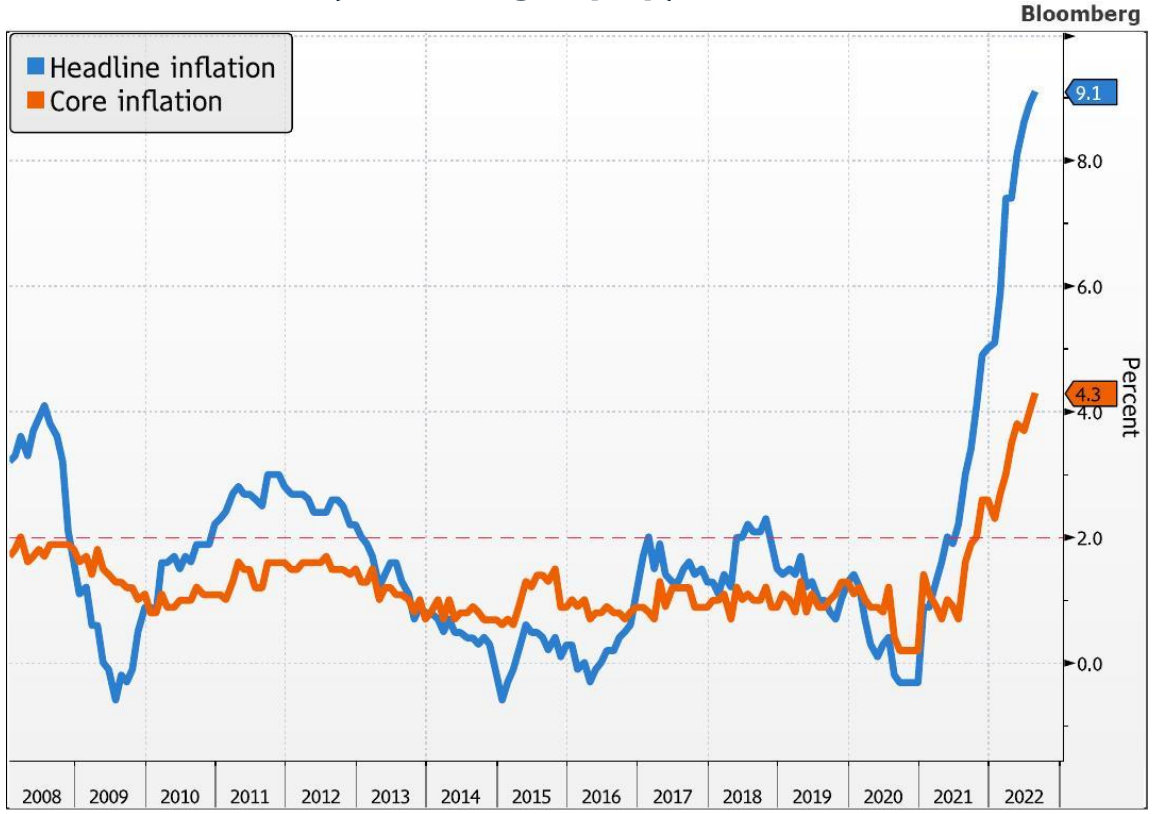
German factory orders (% change, mom):



Source: Bloomberg.

# EZ Inflation Surprised to the Upside

HICP inflation (% change, yoy):

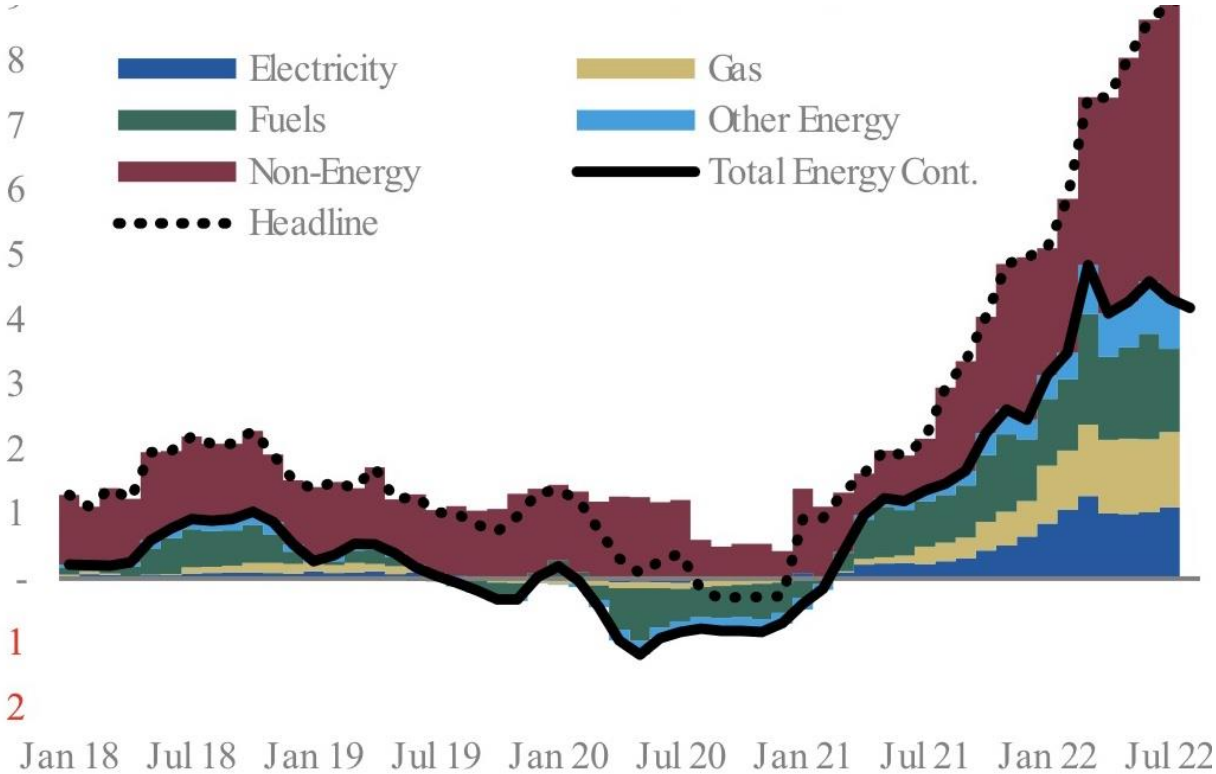


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Source: Bloomberg.

# Energy Significant Driver of Inflation

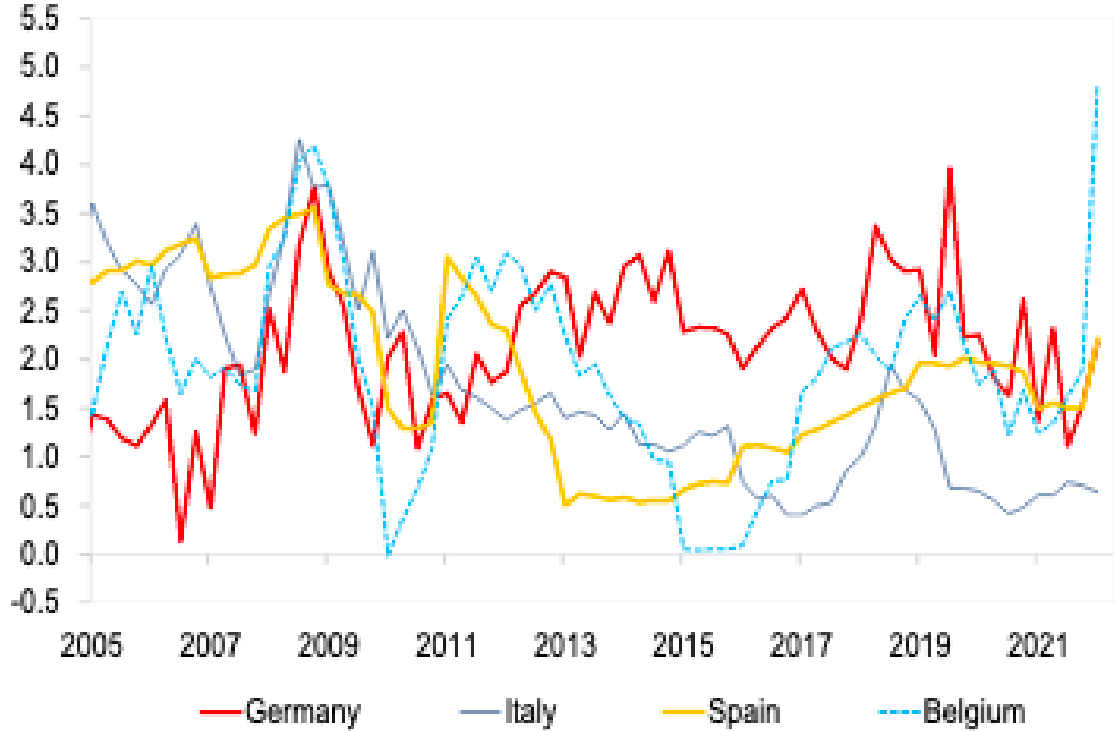
HICP contribution by component (% change, yoy):



Source: Eurostat, Morgan Stanley.

# Few Signs of Second Round Effects

Eurozone negotiated wages (% change, yoy):



Source: Haver, Citibank.

# ECB Expected To Hike into a Downturn

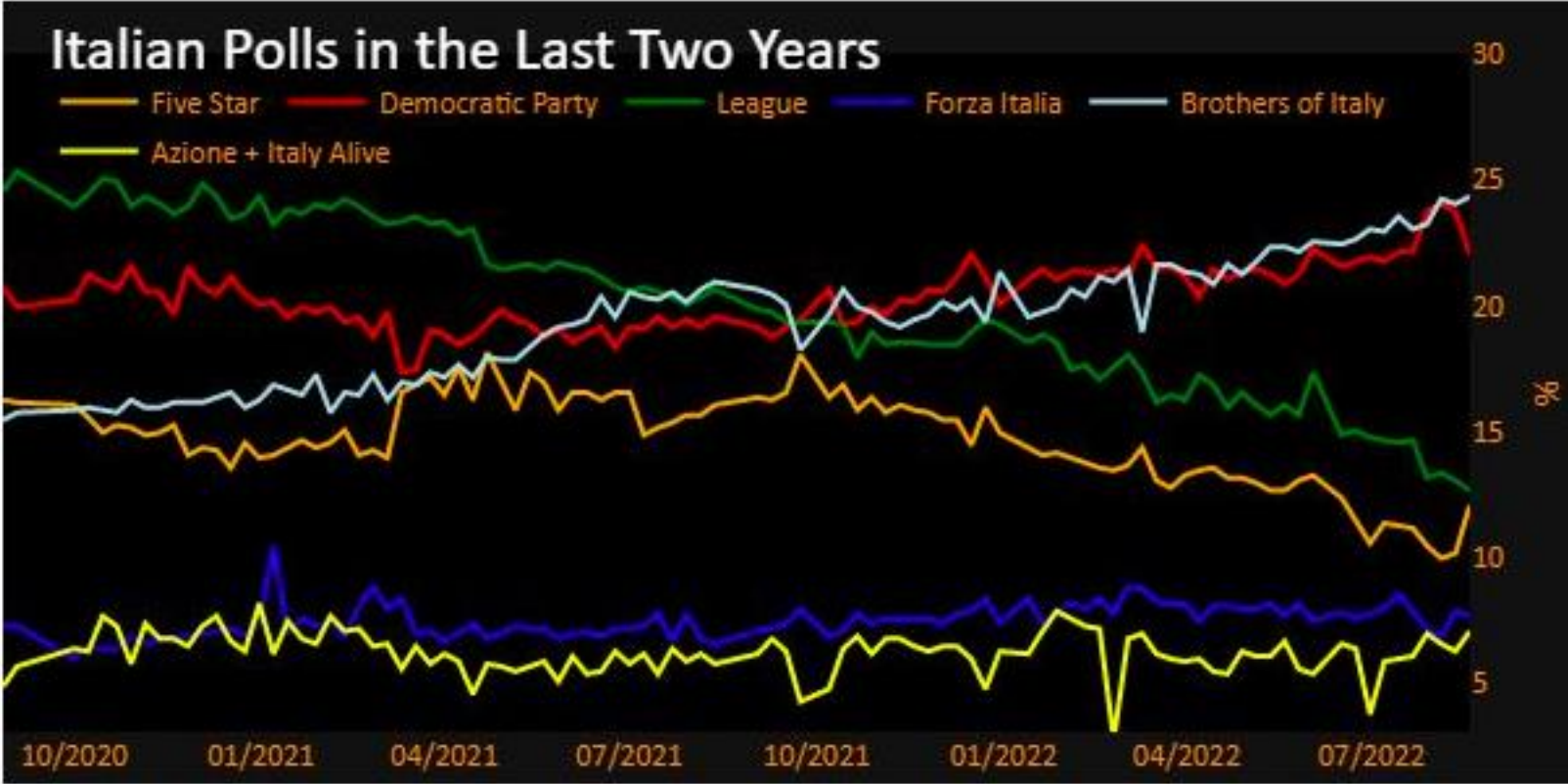
ECB market expectations of rates:



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Source: Bloomberg.

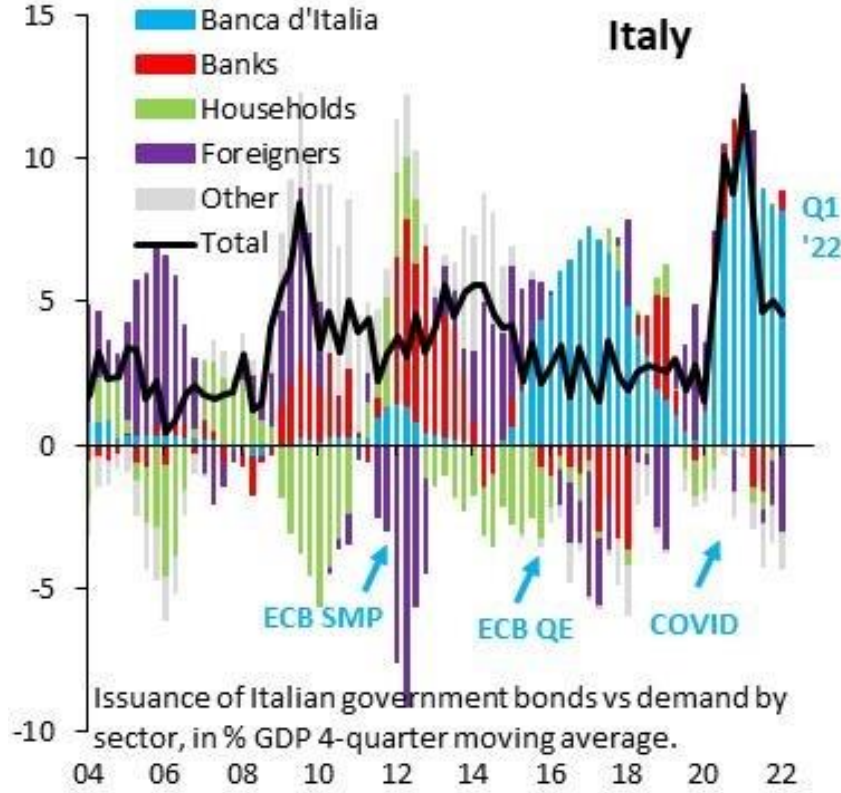
# Centre-Right Government Most Likely in Italy



Source: Bloomberg.

# ECB the only one Buying Italian Bonds

## Italy bond buying:

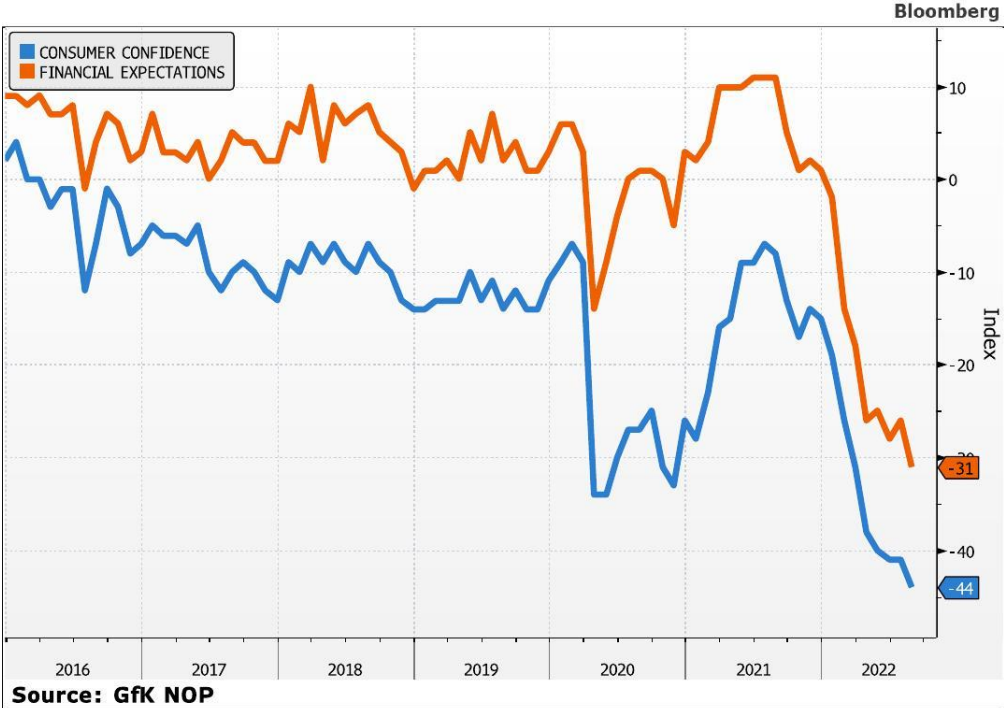


Source: IIF.



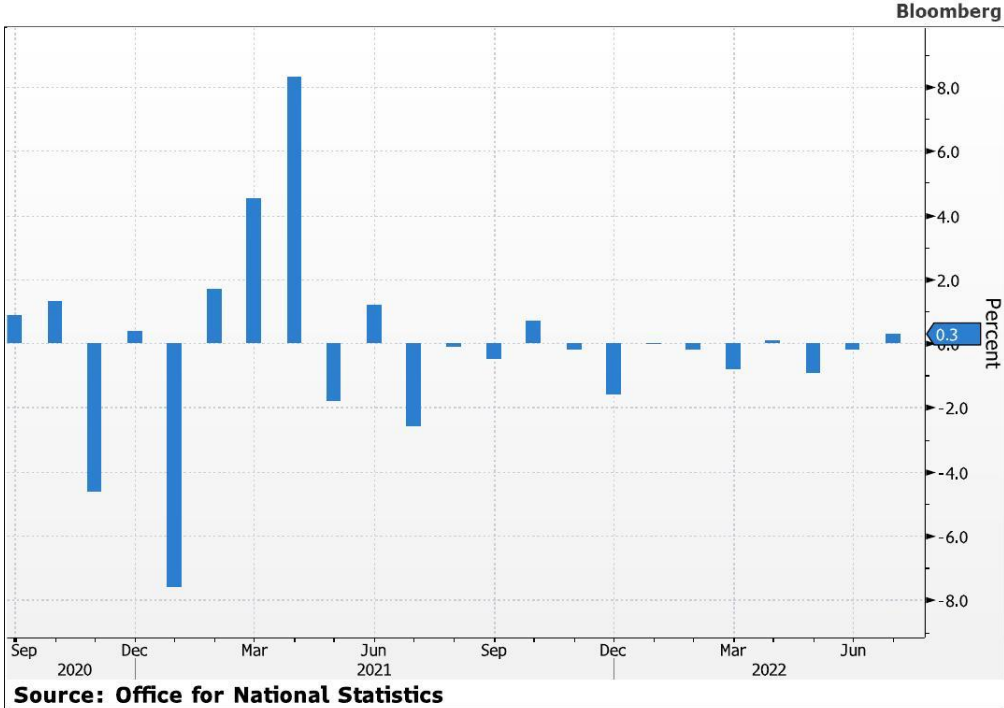
# UK Retail Sales Have Flatlined for the Past Year

Consumer confidence:



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UK retail sales (% change, mom):



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# UK Manufacturing in Contraction

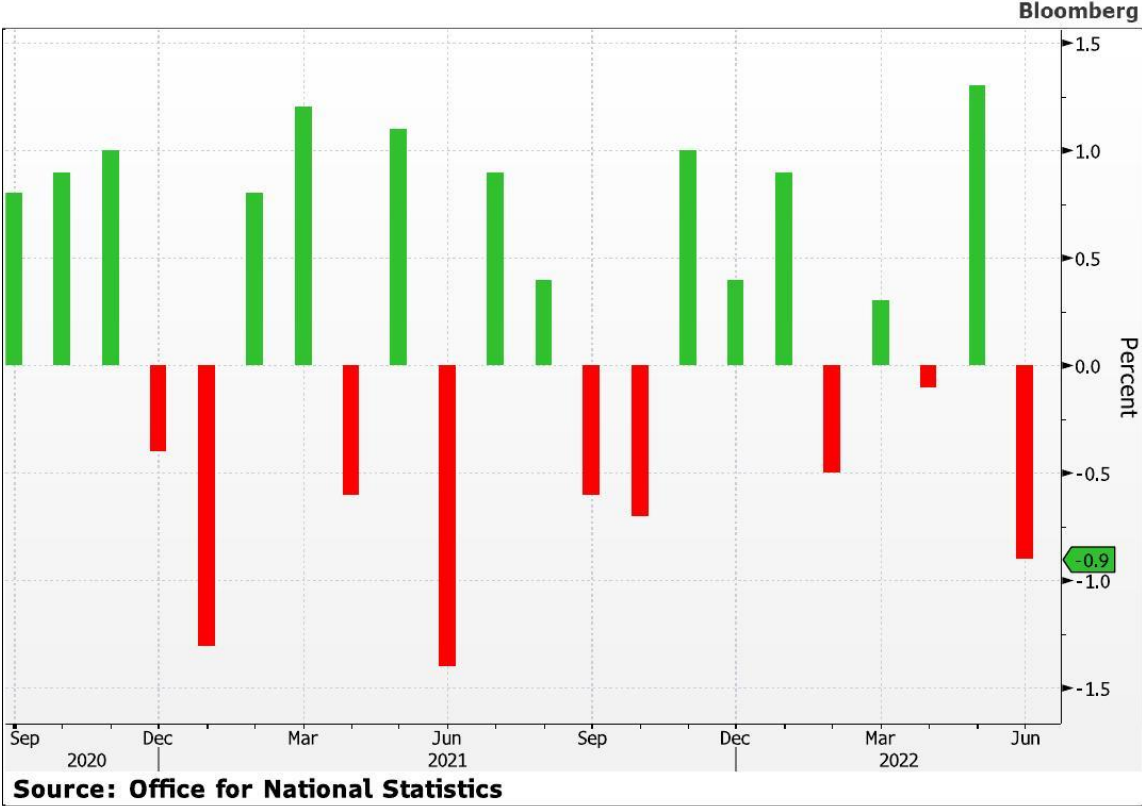
UK PMI indices:



Source: Bloomberg.

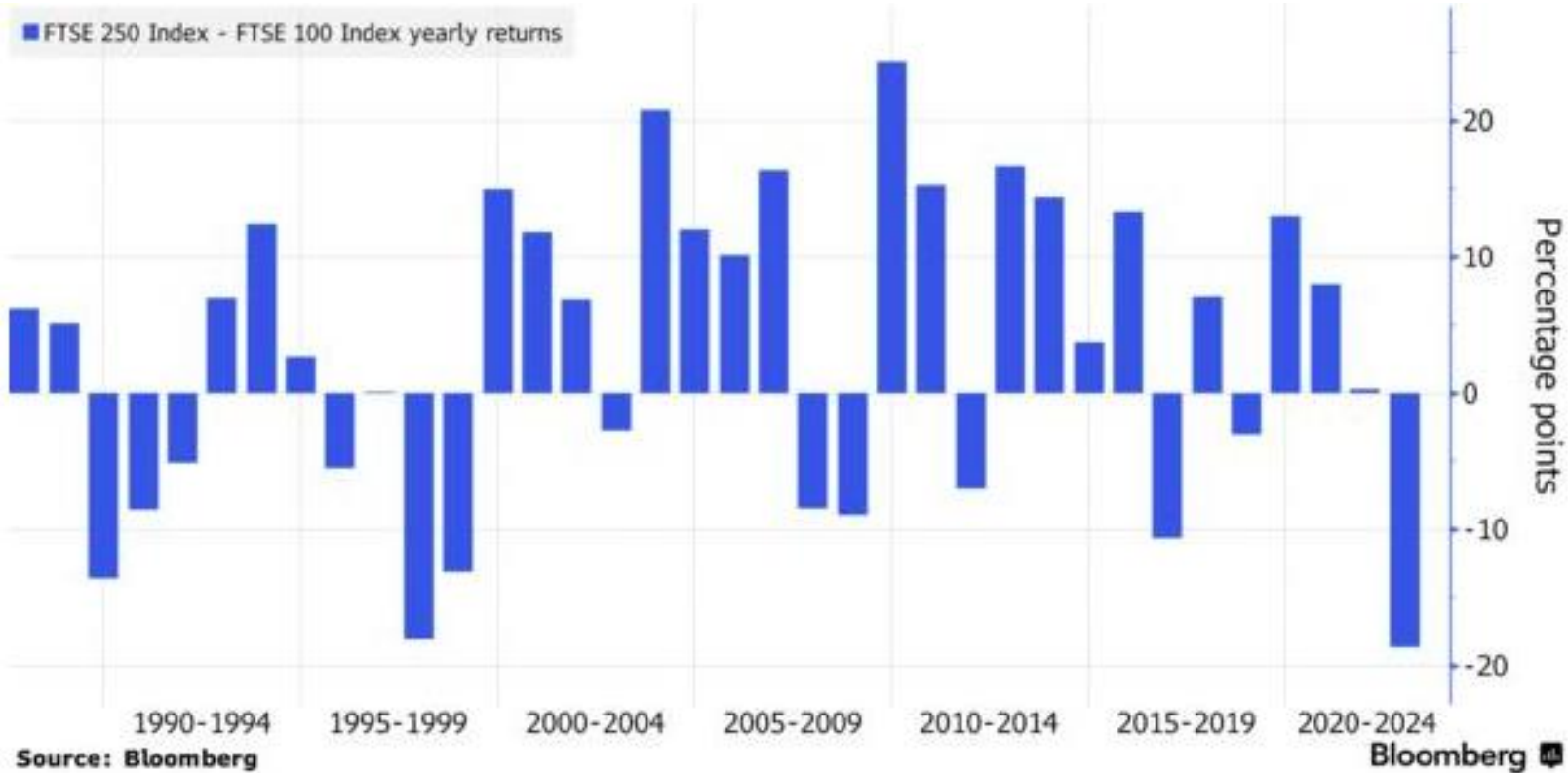
# UK Industrial Production Volatile

UK industrial production (% change, mom):

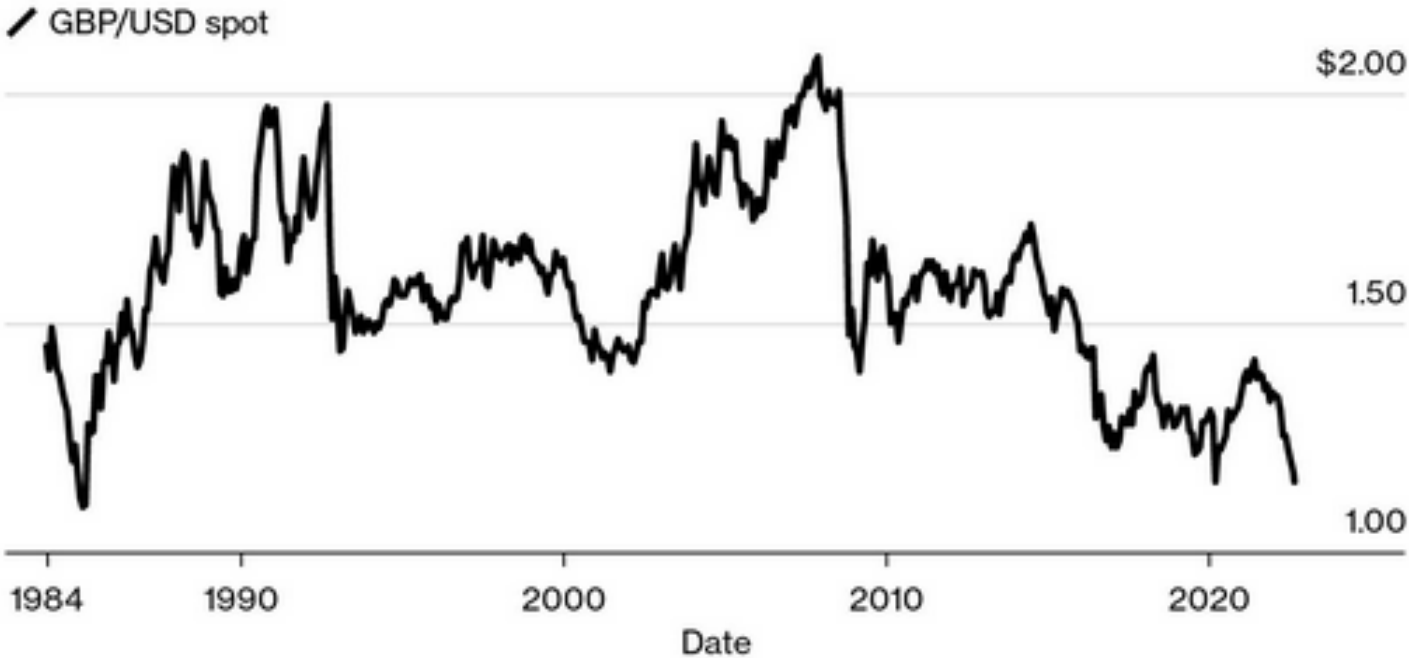


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# Domestically Exposed Stocks Massively Underperforming



# GBP/USD Weaker than Brexit



Source: Bloomberg

Bloomberg

# UK Productivity Growth a Long-Term Problem

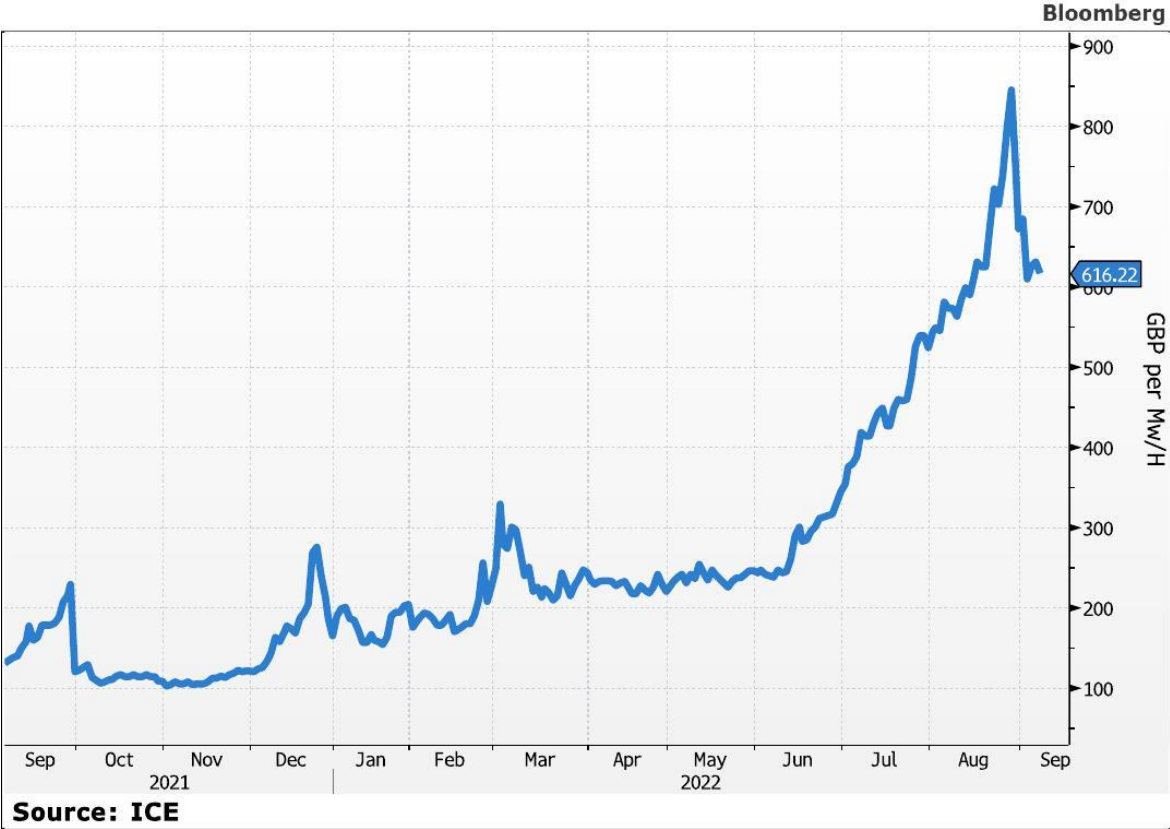
UK productivity growth (% change, yoy):



Source: Bloomberg.

# UK Electricity Prices Skyrocket

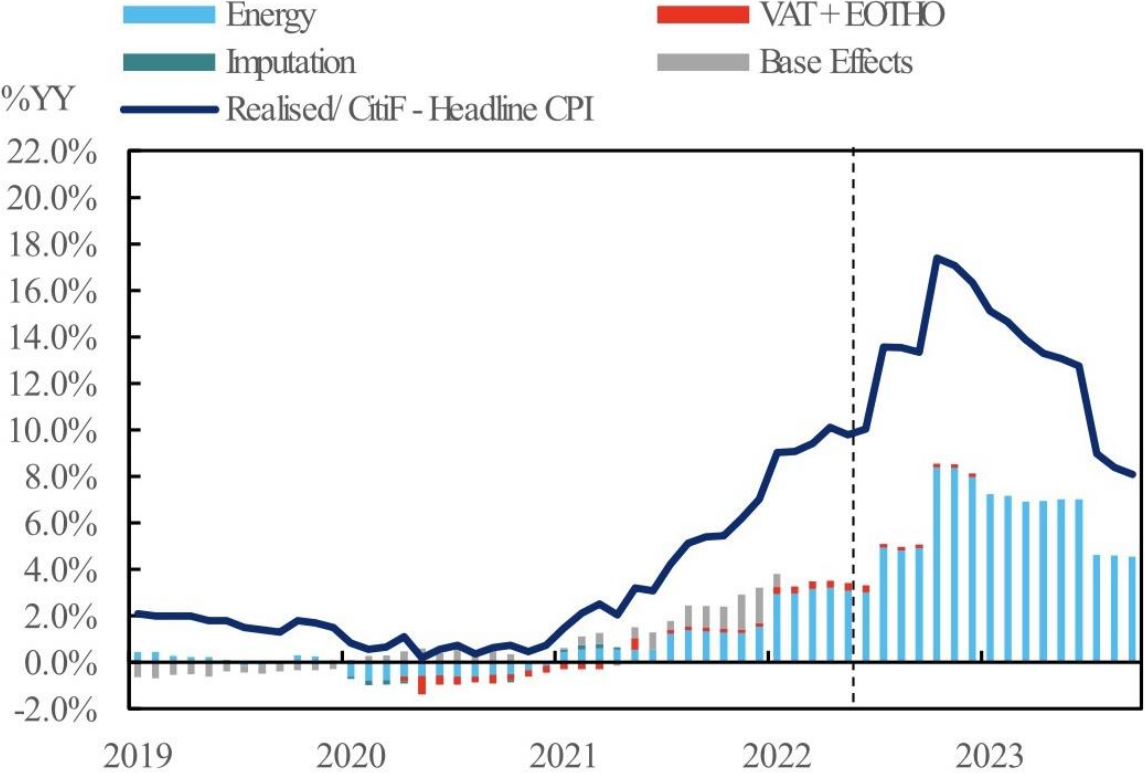
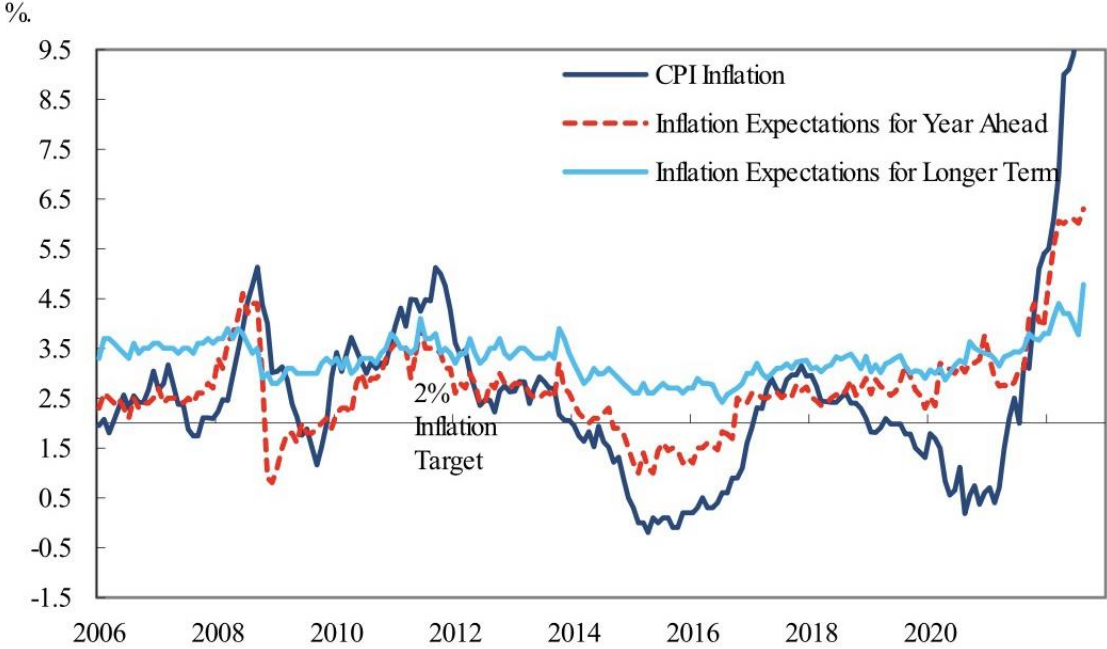
UK electricity prices (GBP per Mw/H):



Source: ICE

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# UK CPI and Expectations



Source: Global Financial Stability Report, April 2022.



# BoE To Tighten Aggressively

BoE expectations for rates:



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Source: Bloomberg.

**Thank You**



For more information, please contact:



[Megan Greene](#)

Global Chief Economist, Kroll Institute

[megan.greene@kroll.com](mailto:megan.greene@kroll.com)

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