



Inflation, higher-for-longer rates, and macro-financial stability

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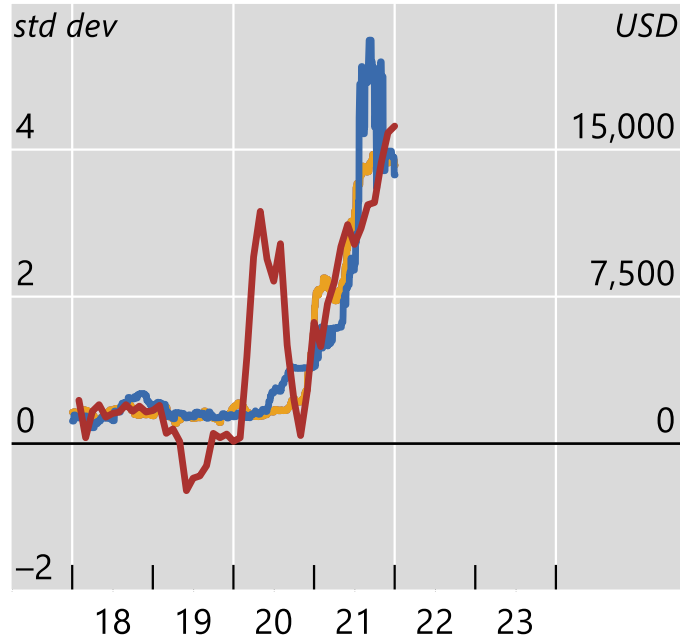
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A quick look back

Inflation makes a comeback in 2021 as supply and demand clash

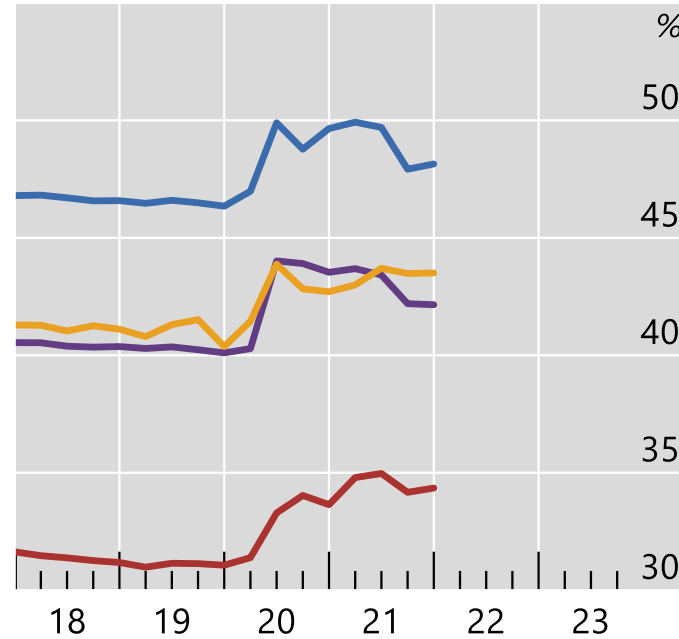
Supply chain disruptions erupt...



— Global Supply Chain Pressure Index (lhs)

Container shipping price from China to (rhs):
 — US West Coast — Europe

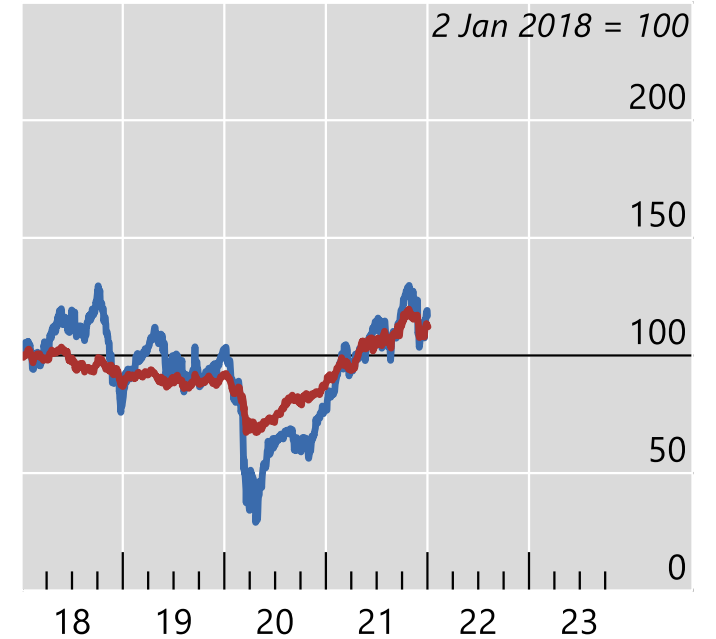
...spending rotates from services to goods...



Goods share of nominal consumption:

— US — JP
 — EA — Other AEs

...commodity prices rise from lockdown lows

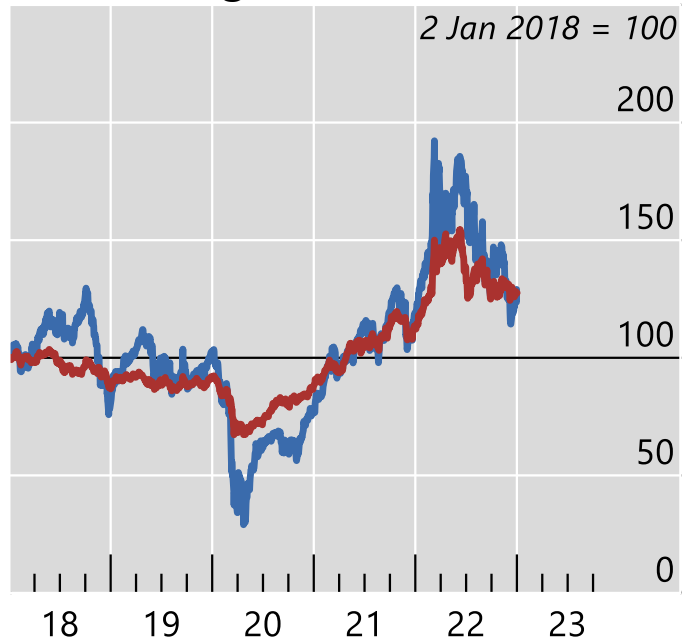


— Bloomberg Commodity Index
 — Brent oil

Source: BIS Annual Economic Report, 2023

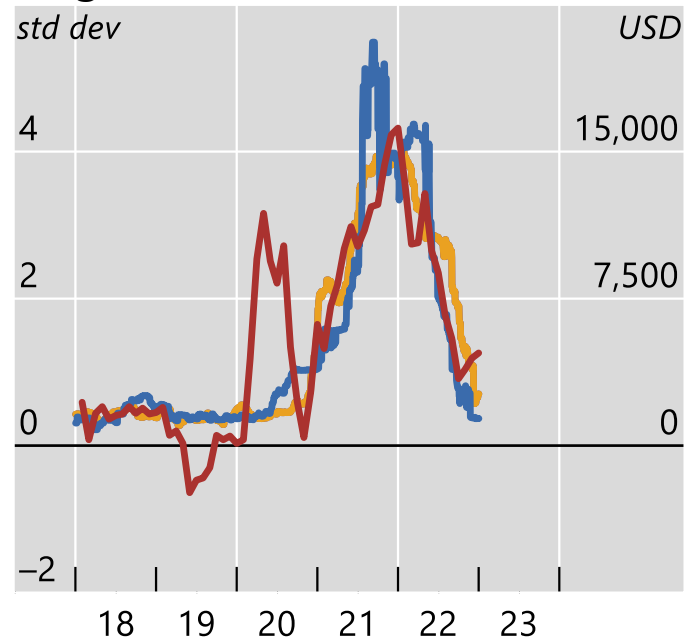
A second blow from the war in 2022

Commodity prices hit record-highs...



— Bloomberg Commodity Index
— Brent oil

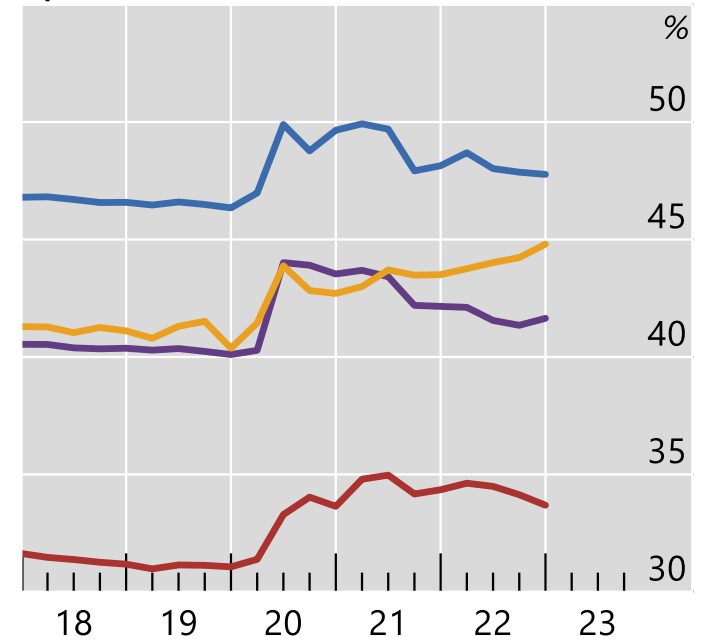
...supply chain disruptions linger...



— Global Supply Chain Pressure Index (lhs)

Container shipping price from China to (rhs):
— US West Coast — Europe

...spending rotation proves persistent

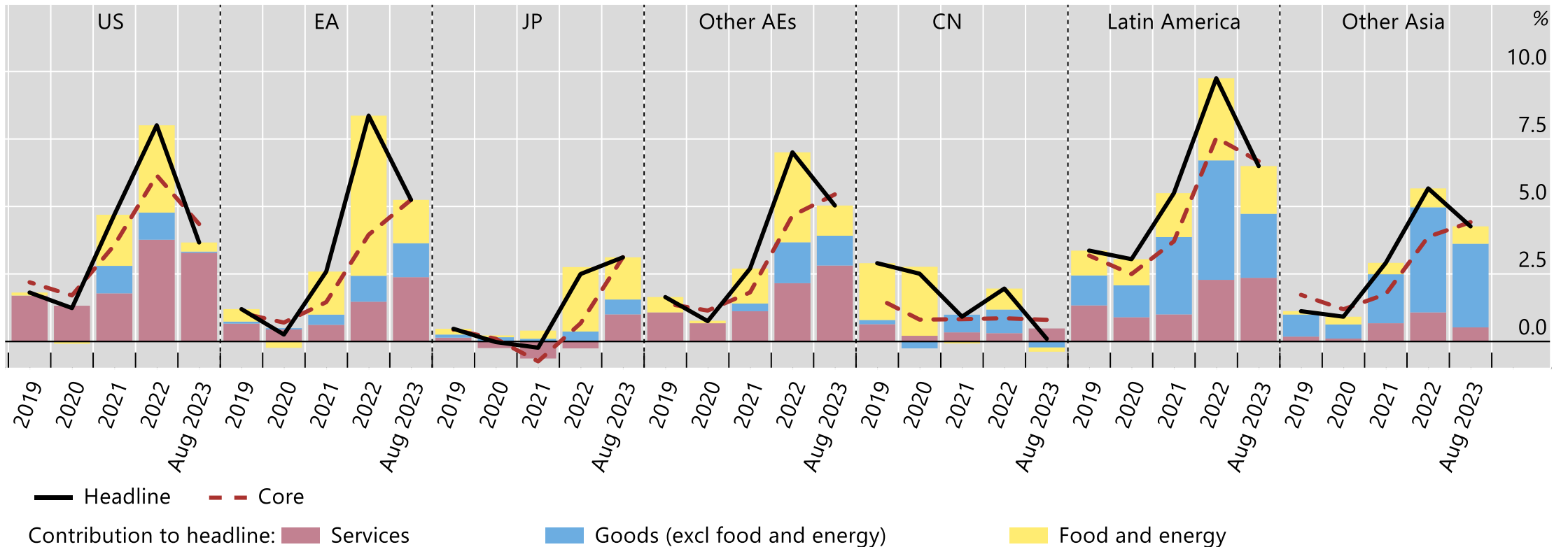


Goods share of nominal consumption:
— US — JP
— EA — Other AEs

Source: BIS Annual Economic Report, 2023

Headline inflation abates while core inflation proves sticky

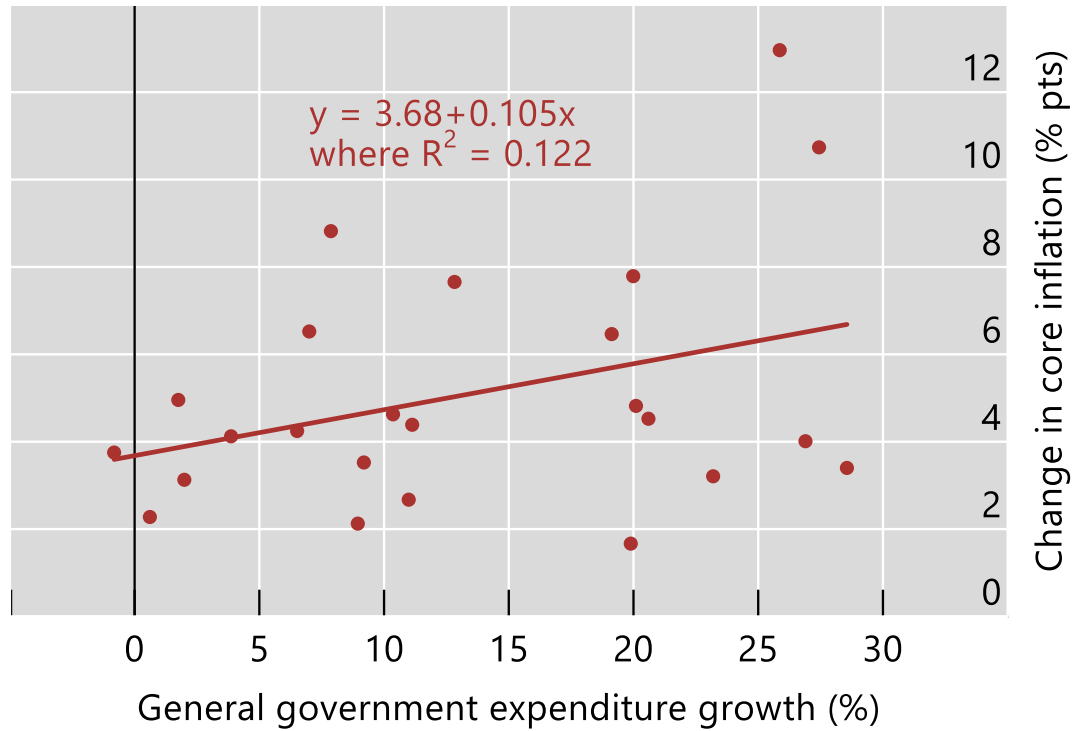
Contribution to year-on-year inflation



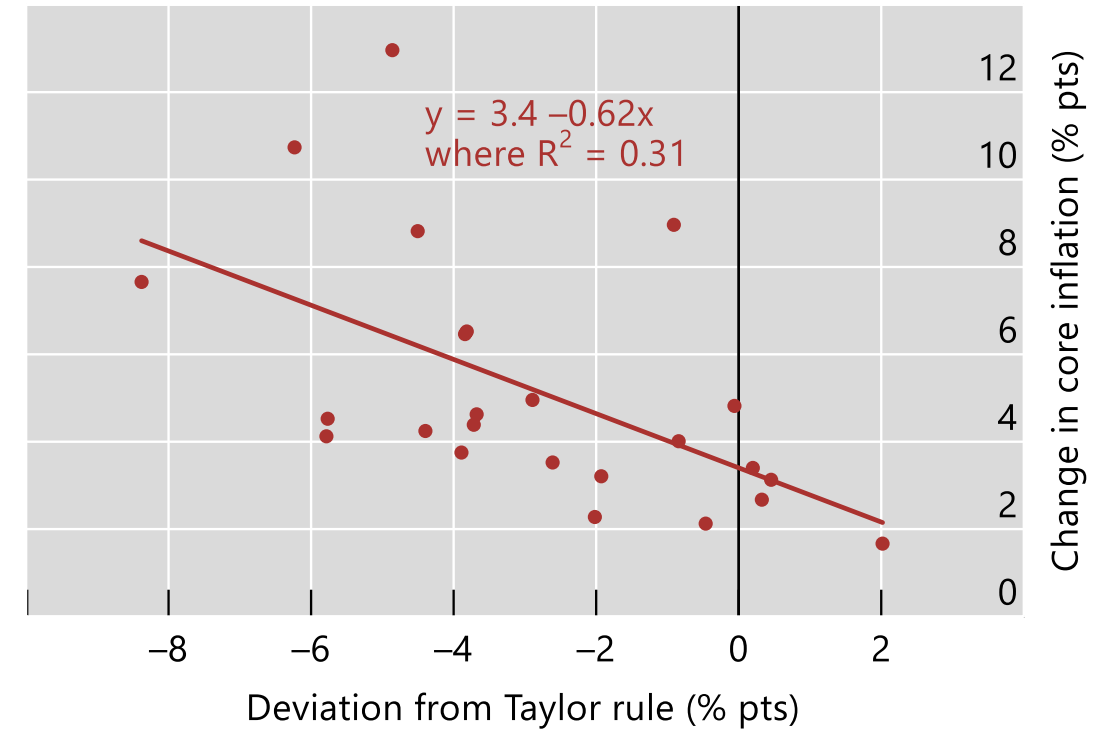
Source: BIS Annual Economic Report, 2023

More expansive policy mix has contributed to inflation surge

Fiscal policy



Monetary policy



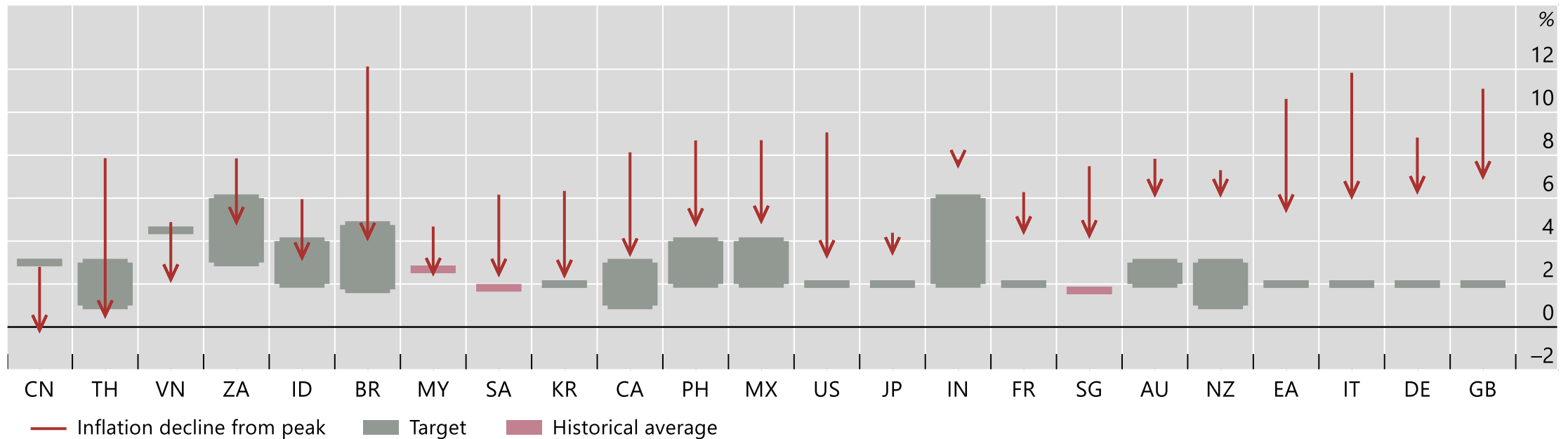
Source: BIS Annual Economic Report, 2023



A look ahead

Directionally the same, notable differences in terms of distance to target

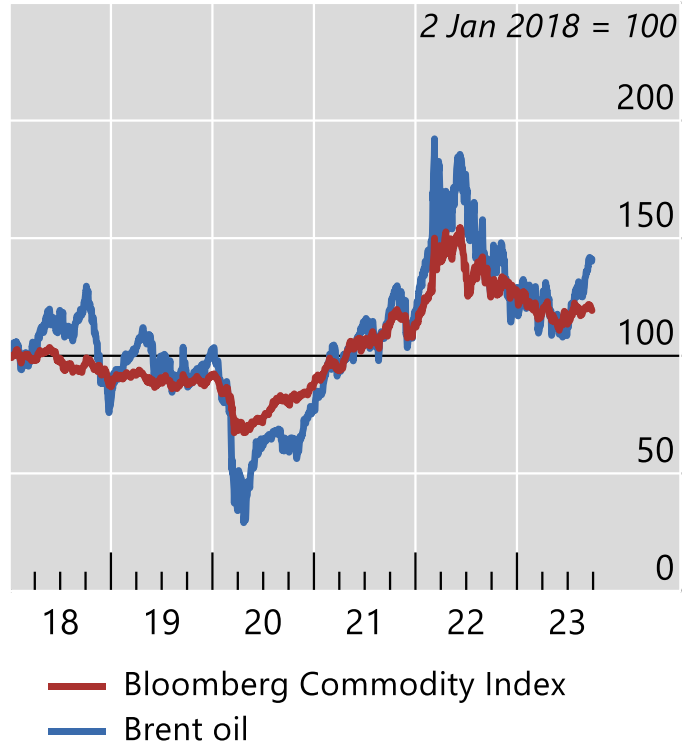
Inflation



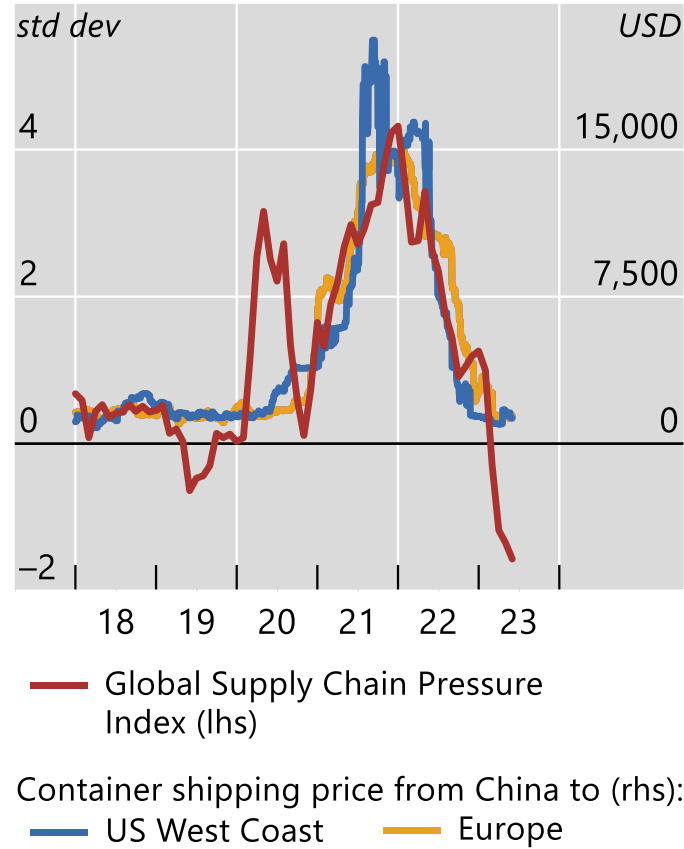
Sources: Datastream; Macrobond; national data; BIS.

Factors that triggered the initial inflation surge weaken

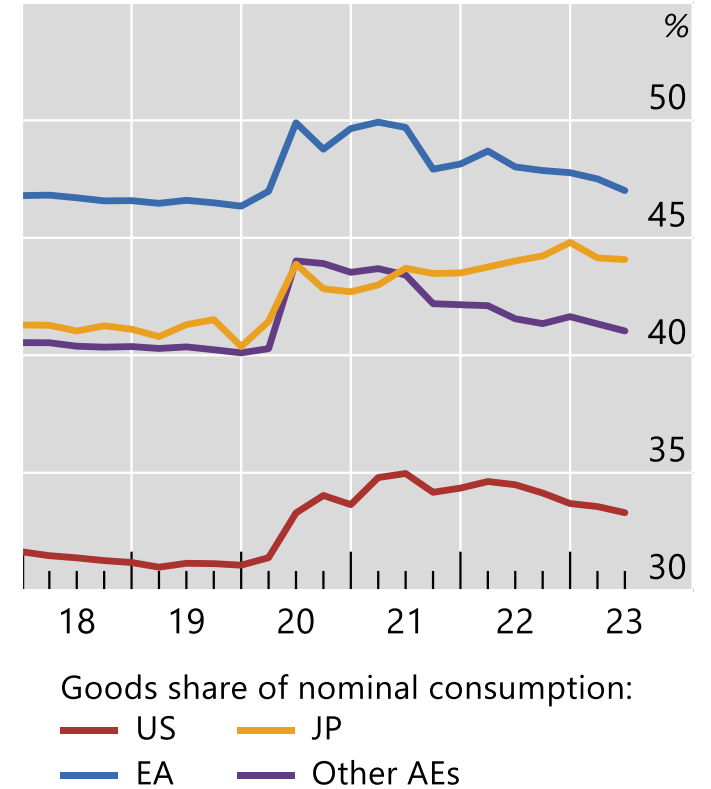
Commodity prices retreat (yet recent tick is concerning)...



...supply chain disruptions ease...



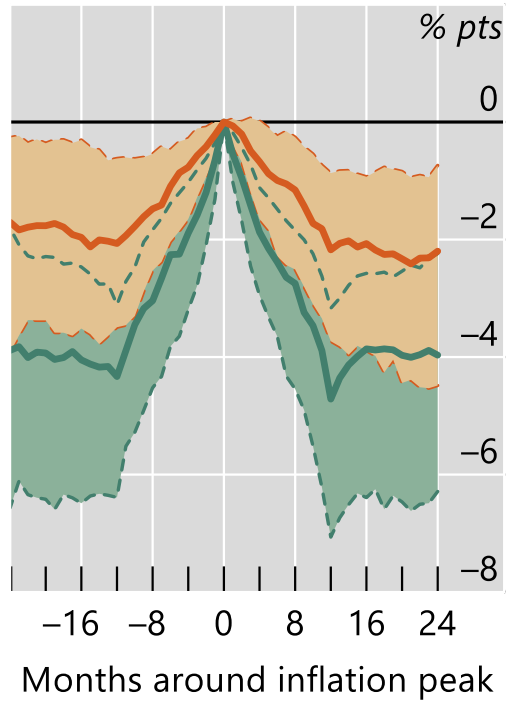
...spending rotation starts to revert



Source: BIS Annual Economic Report, 2023

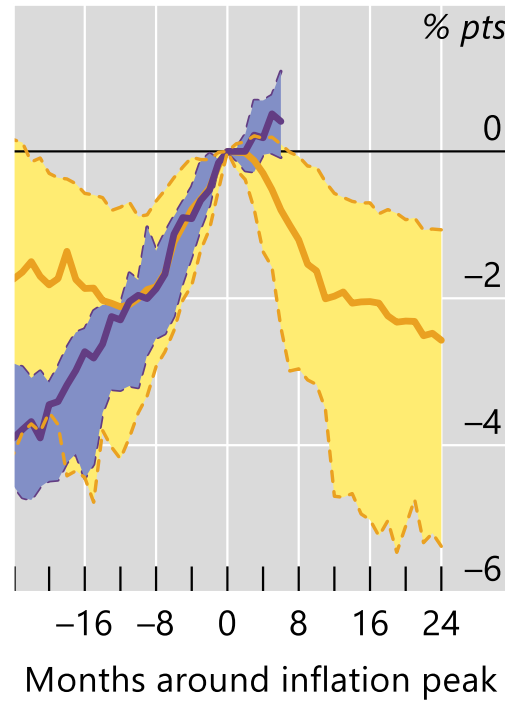
Disinflation takes time

Past disinflation episodes



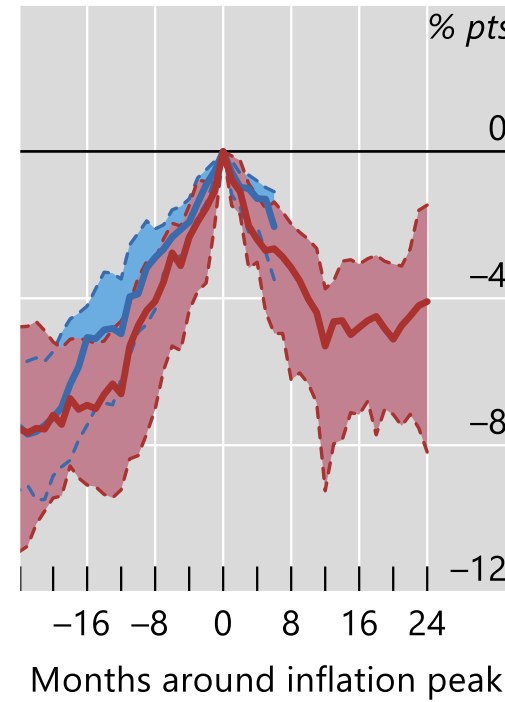
Core: Median (orange line), Interquartile range (orange shaded area)
 Headline: Median (green line), Interquartile range (green shaded area)

Services price growth



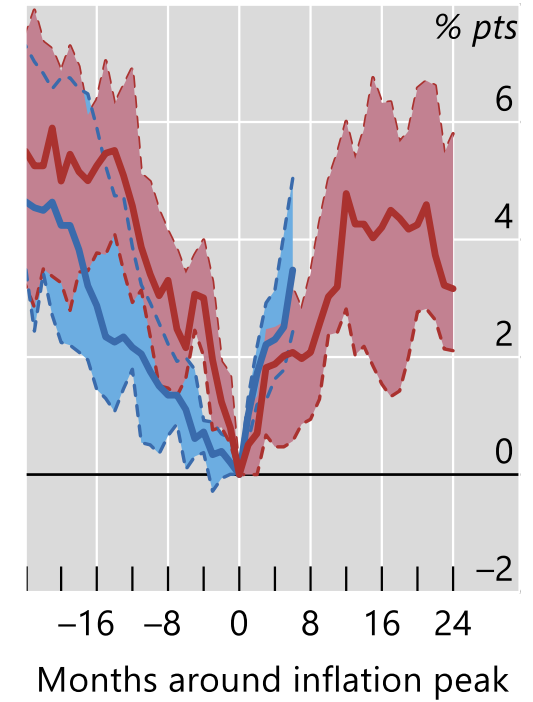
Historical: Median (yellow line), Interquartile range (yellow shaded area)
 2022-23: Median (purple line), Interquartile range (purple shaded area)

Headline inflation: 1970s vs now



1970: Median (red line), Interquartile range (red shaded area)
 2022-23: Median (blue line), Interquartile range (blue shaded area)

Real interest rate: 1970s vs now

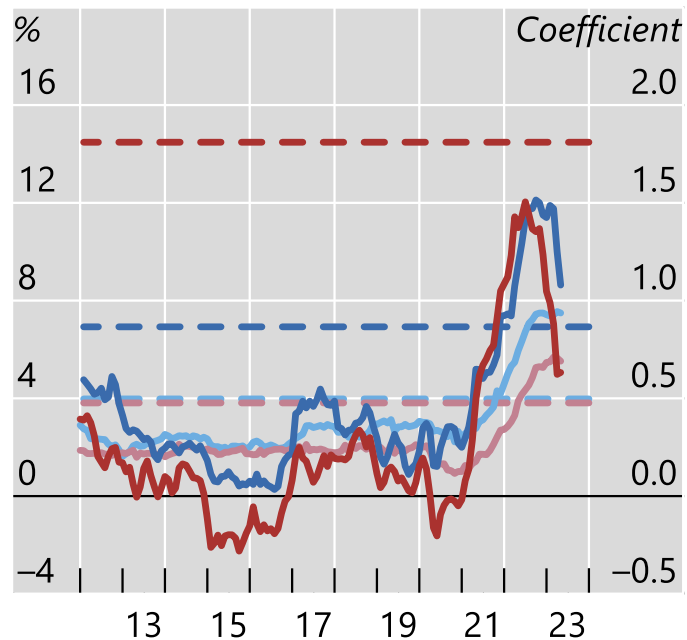


2022-23: Median (blue line), Interquartile range (blue shaded area)

Source: BIS Annual Economic Report, 2023

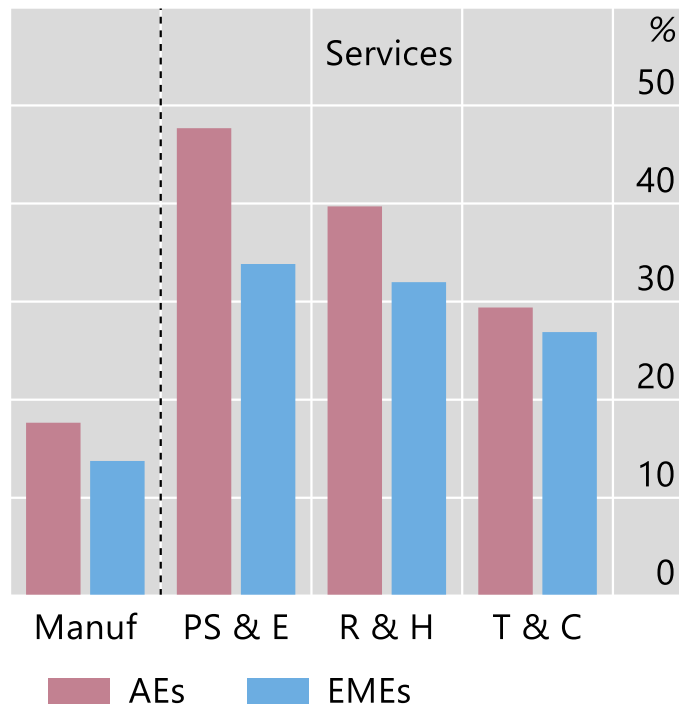
Larger contribution from services may imply more persistent inflation

Services prices continue to rise at an increasing pace

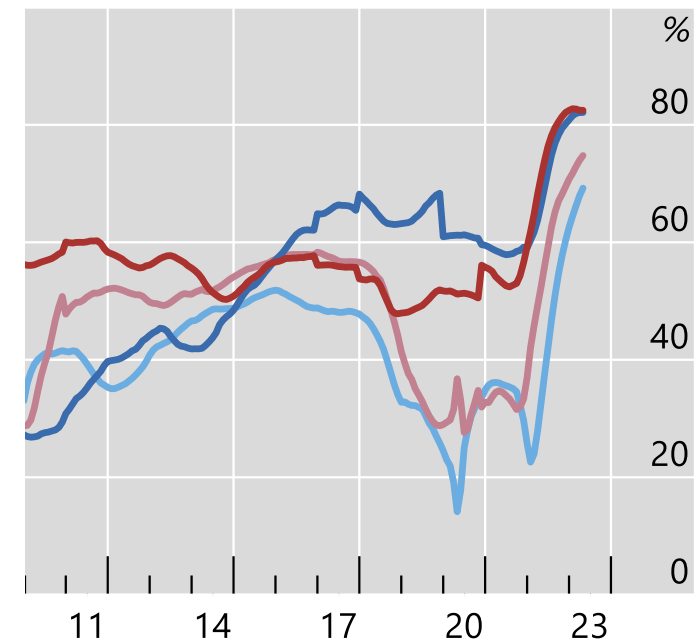


Goods: Services:
 Price, yoy change (lhs): — AEs — EMEs —
 Coefficient of variation (rhs): - - AEs - - EMEs - -

Share of labour costs is higher in services



Common global factor explains less of changes in services prices

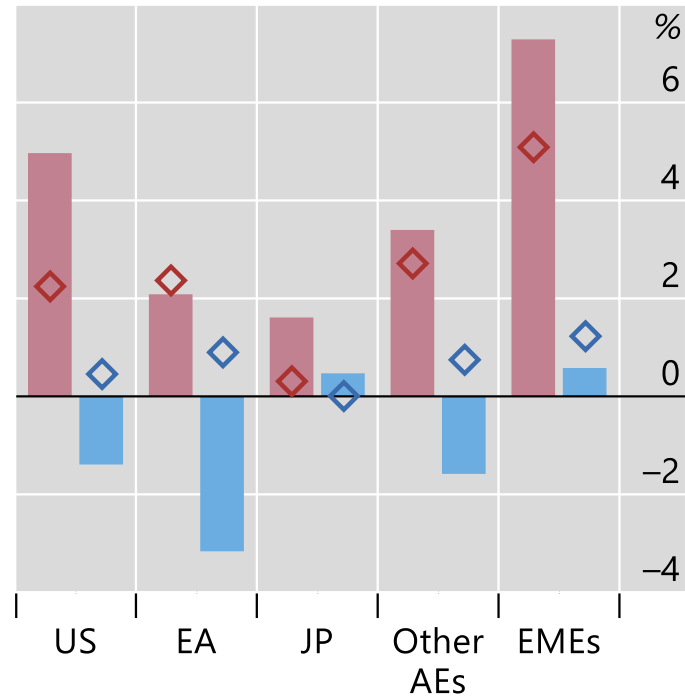


Goods: Services:
 — AEs — EMEs —
 — AEs — EMEs —

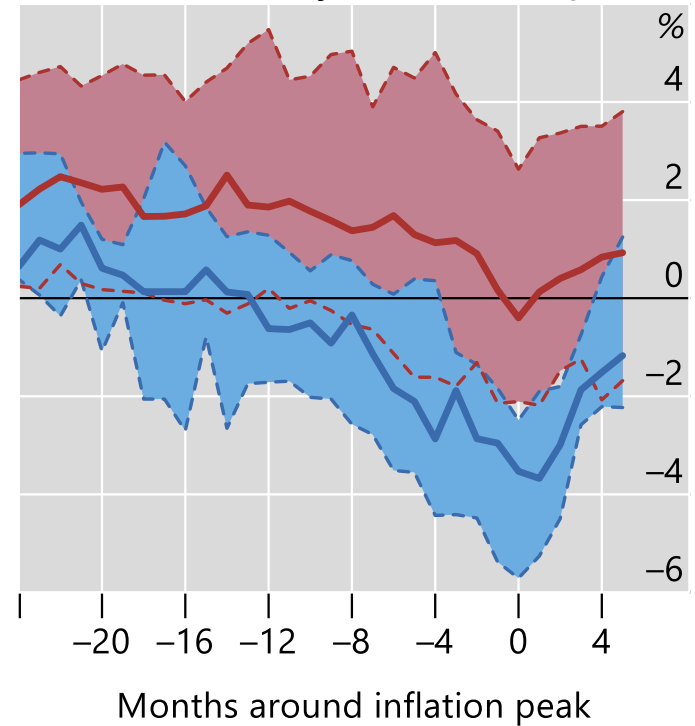
Source: BIS Annual Economic Report, 2023

Wage- and price-setting could easily change, with implications for inflation

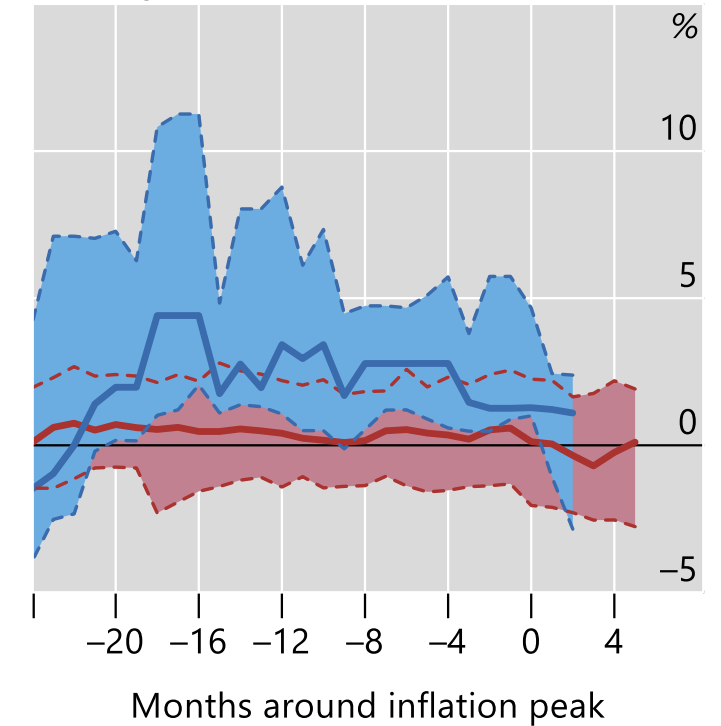
Purchasing power of households has been eroded



Real wages have fallen behind more than they did in the past



Firm profits have grown at a solid pace



Annual wage growth:

Nominal:

Real:

- 2020-22
- 2008-19

-
-

Historical:

- Median
- Interquartile range

2022-23:

-
-

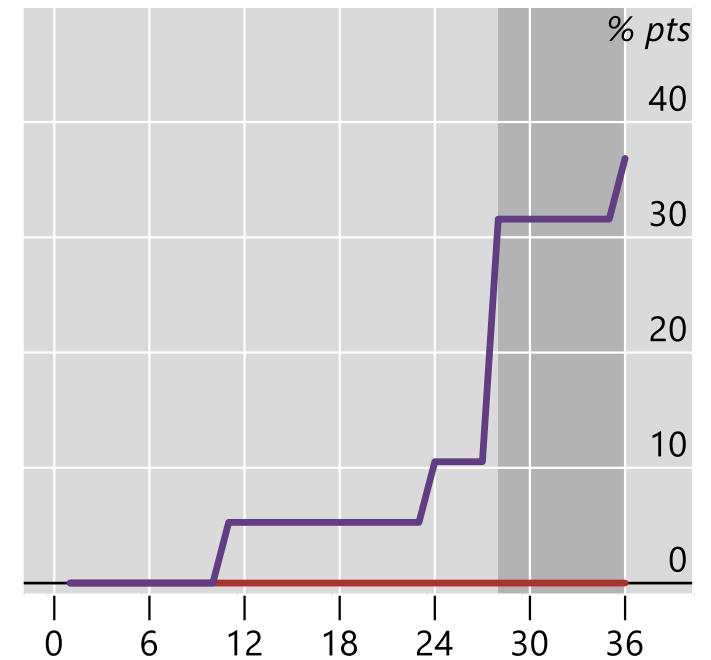
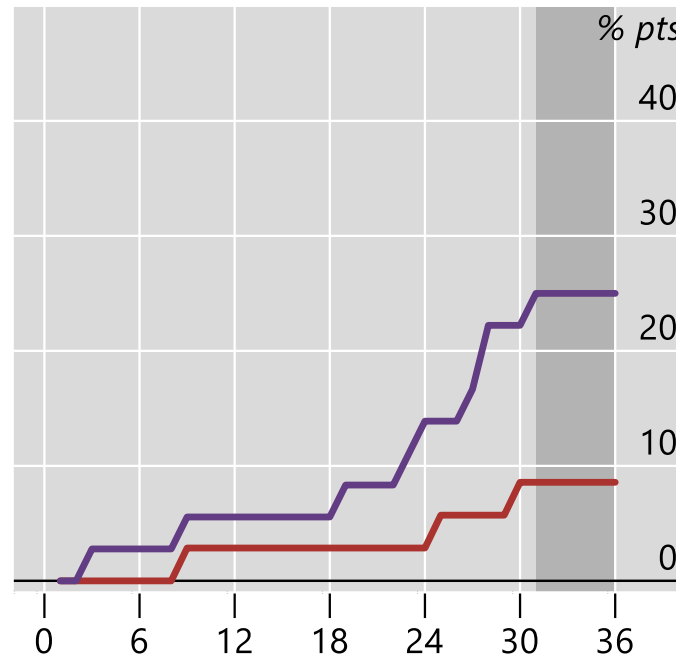
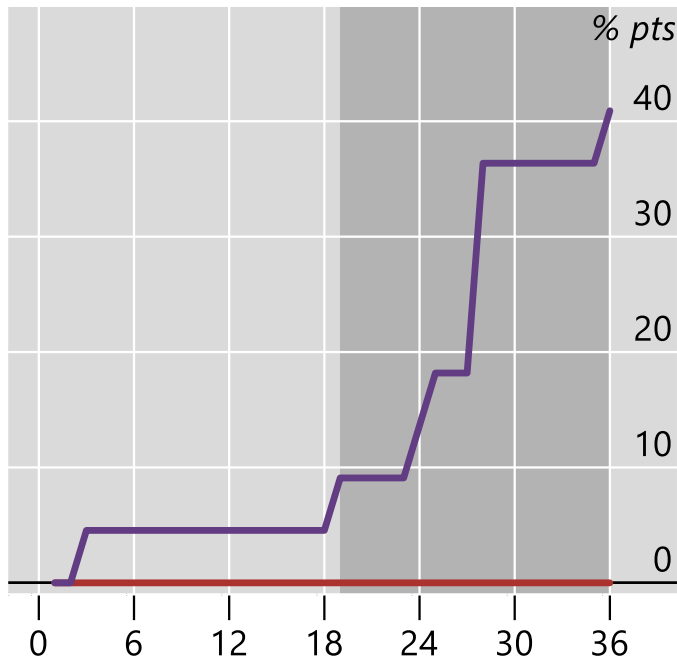
Source: BIS Annual Economic Report, 2023

Boxes are ticked for financial stress during monetary tightening

Stress more likely when private credit-to-GDP is high...

when the surge in inflation is strong...

...when house prices grow rapidly



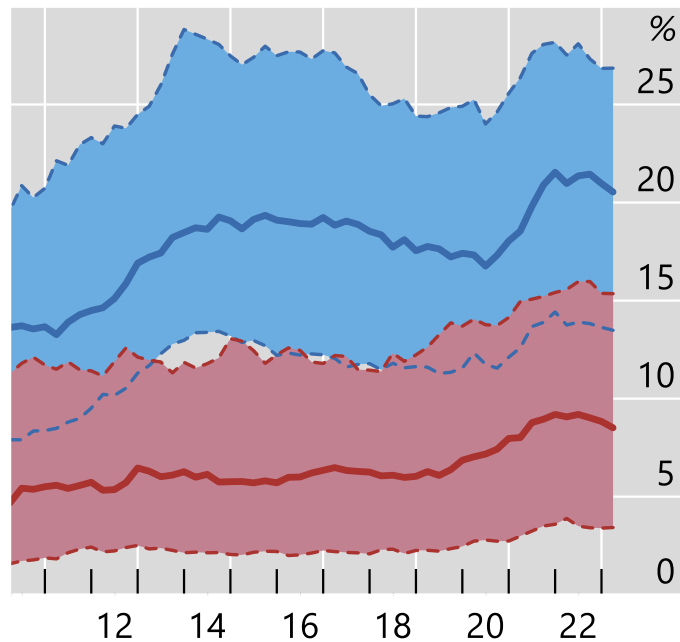
In the month of the first hike, the variable in the panel heading is in:

— First quartile — Fourth quartile

Source: BIS Annual Economic Report, 2023

The long shadow of low-for-long: duration mismatches and exposure to outflows

US banks reach for long-duration assets

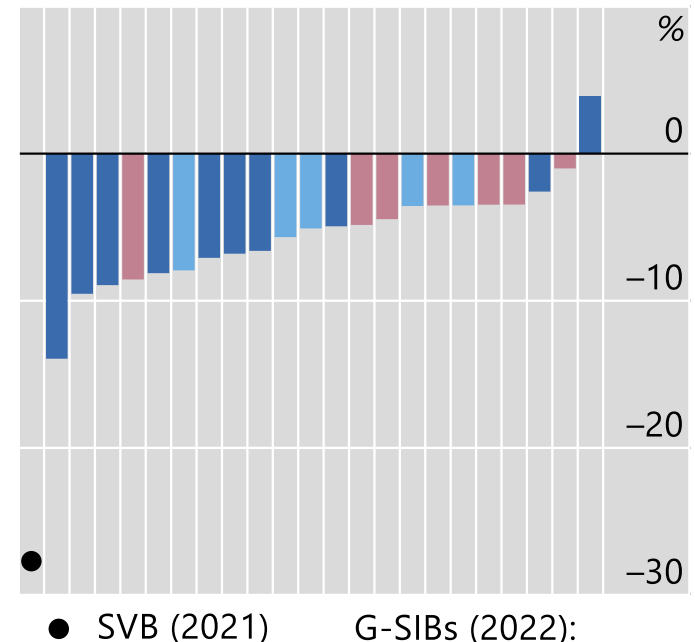


Remaining maturity or next repricing:

Median: Interquartile range:

- More than 15 years (Red)
- Five–15 years (Blue)

Projected decline in bank equity due to upward shift in yield curve

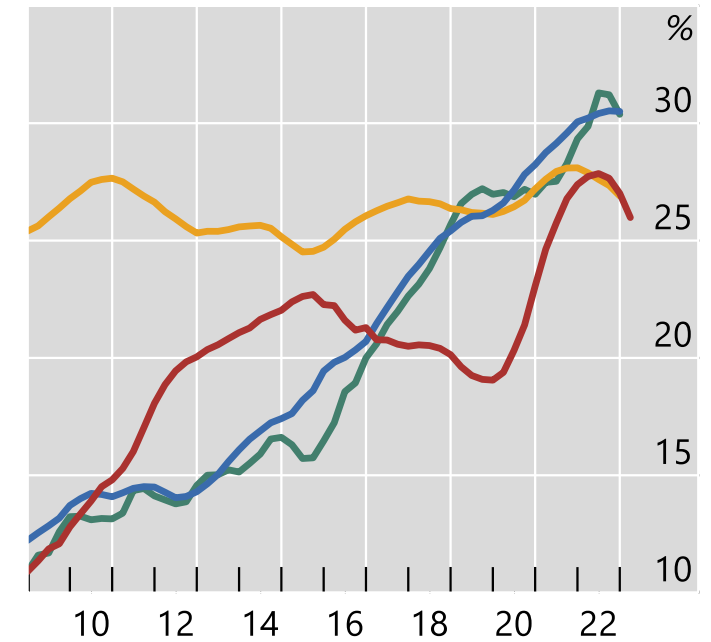


● SVB (2021)

G-SIBs (2022):

- EA
- Other Europe
- Other

Funding shifts to short-term deposits during the low-for-long



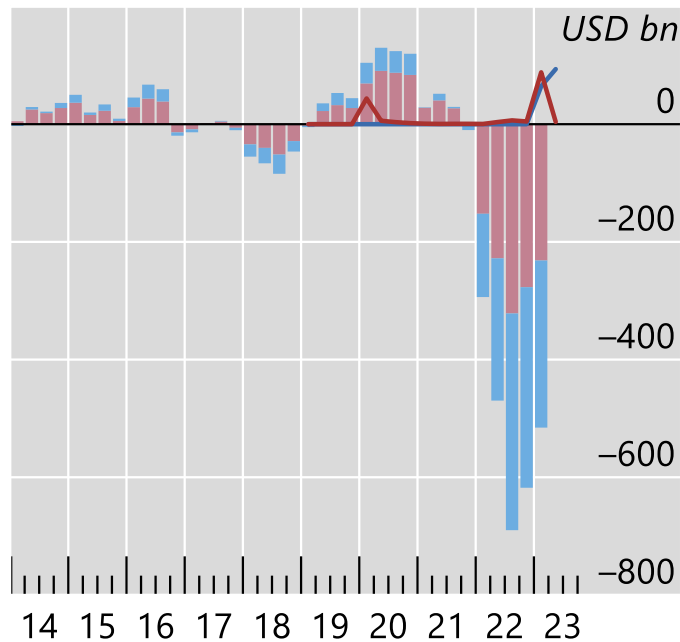
Transaction deposits as a share of total assets:

- US
- EA
- Other AEs
- EMEs

Source: BIS Annual Economic Report, 2023

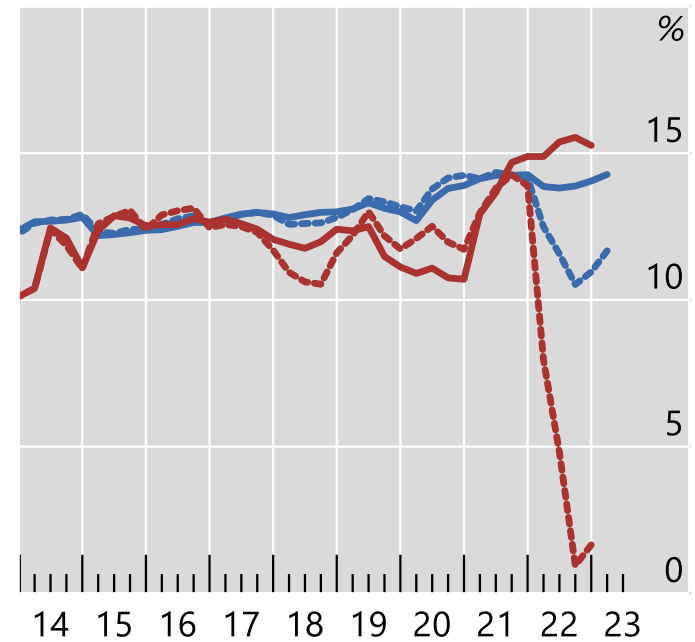
Rising interest rates test bank resilience

Losses on debt securities accumulate, authorities intervene



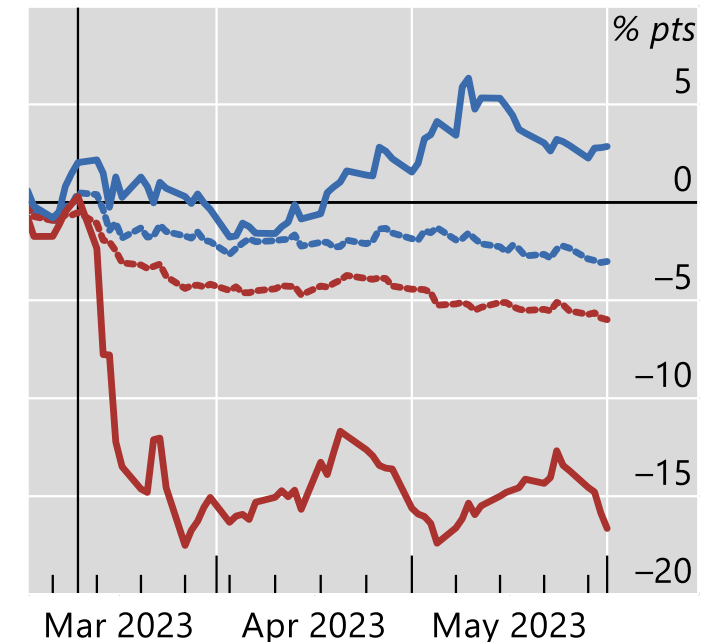
- AFS
- HTM
- Bank Term Funding Program
- Loans to domestic banks through the discount window

Recognition of unrealised losses would weigh on capital ratios



- CET1 capital ratio:
- SVB
- Other banks
- Adjusted for unrealised losses:
- - - SVB
- - - Other banks

Equity investors differentiate across banks

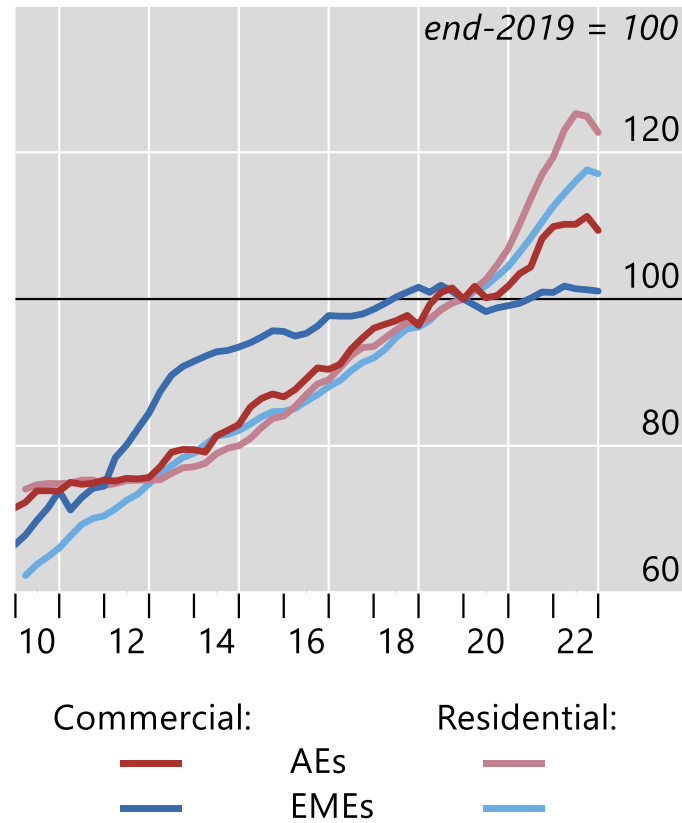


- AE banks:
- Low PBR
- - - High PBR
- EME banks:
- Low PBR
- - - High PBR

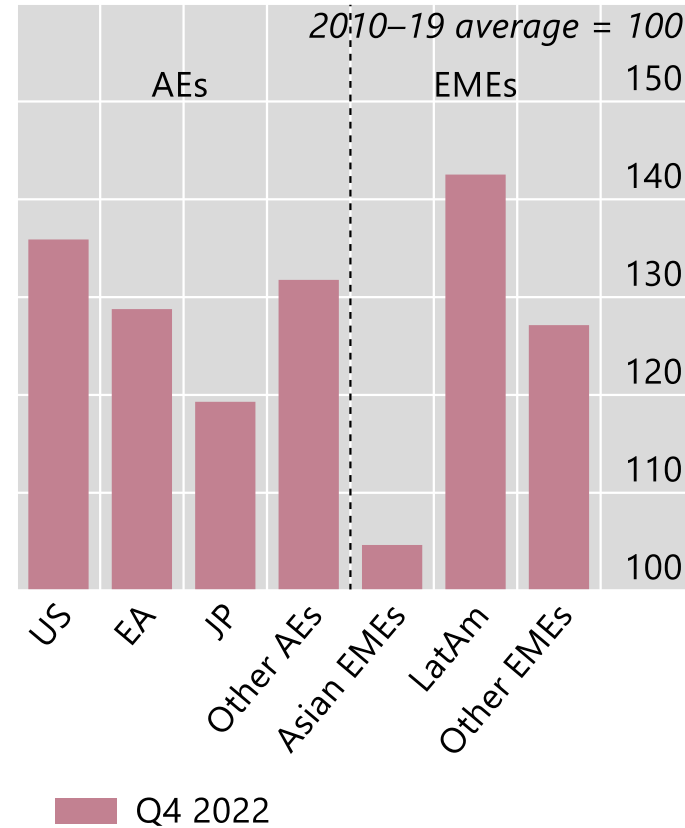
Source: BIS Annual Economic Report, 2023

Corrections in real estate markets pose downside risks, including via NBFIs

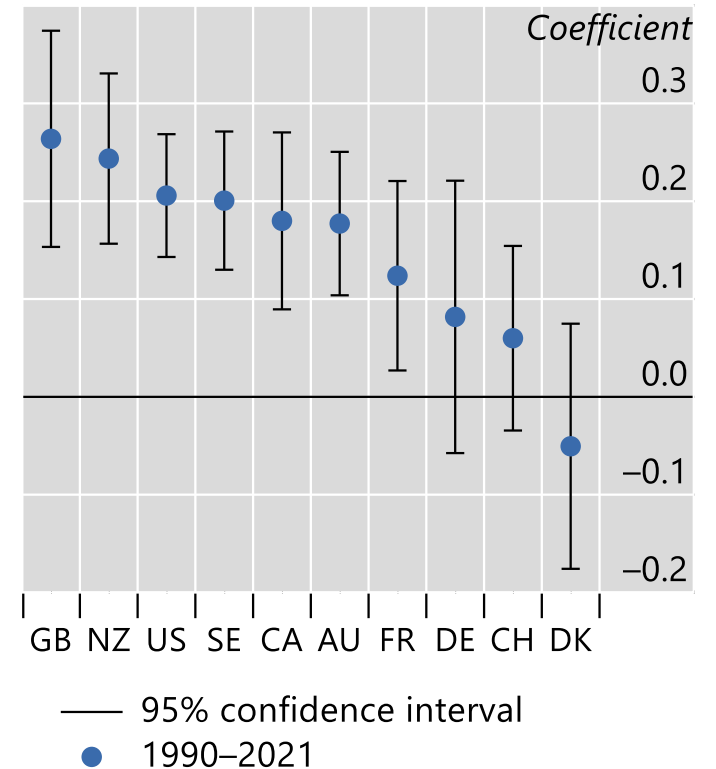
Commercial and residential property prices



House price-to-rent ratios



Effects of house price changes on consumption growth



Source: BIS Annual Economic Report, 2023

Thanks go to the team:

Pongpitch Amatyakul, Miguel Ampudia, Alessandro Barbera, John Caparusso, Gabriele Freo, Emanuel Kohlscheen, Nicolas Lemerrier, Cristina Leonte, Ulf Lewrick, Marco Lombardi, Aaron Mehrotra, Nikola Tarashev, Karamfil Todorov

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