

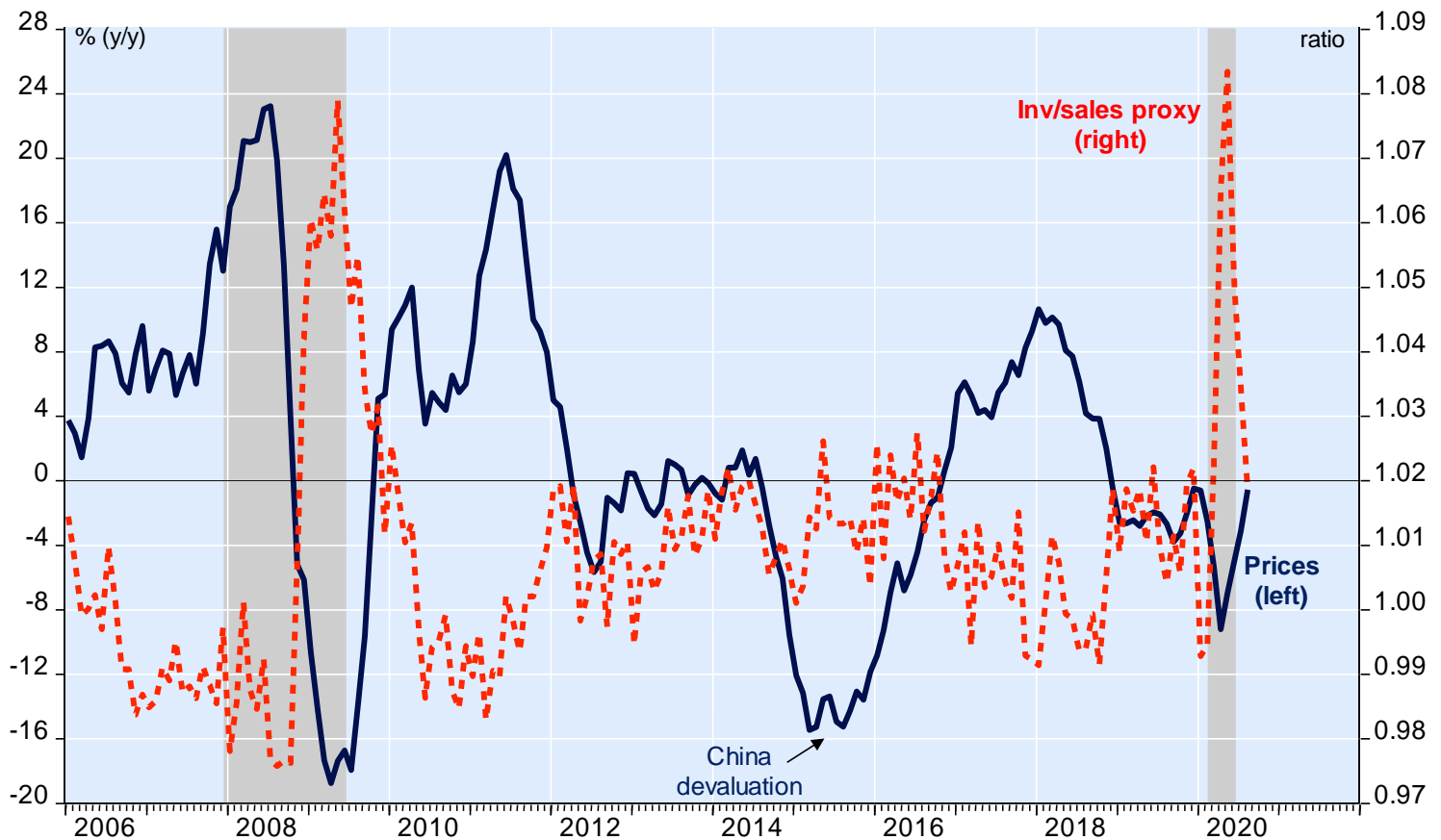
World Watch

By Stéfane Marion

According to data released last Friday by the CPB, global trade flows continue to recover at a relatively brisk pace despite the COVID-19 pandemic. Notwithstanding difficult labour market conditions, households continue to take advantage of various income assistance programs and shift their spending from services to goods. Demand is currently so strong that production is not keeping up with consumption. After surging to more than a decade high last May, the ratio of global-industrial-output-to-volume-trade-flows plummeted to 1.02 in August. As today's Hot Chart shows, a reading below this level normally heralds an increase in the price of tradeable goods. With global supply chains increasingly impaired by measures to fight a resurgence in COVID cases, we would expect our inventory/sales proxy to decline further in the coming months should another round of fiscal stimulus be deployed to support household income in most OECD economies. This sets the stage for higher goods inflation.

World: Expect higher prices for goods

Inventory/sales* proxy vs. price of traded goods



* Ratio of global industrial production to global volume trade
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