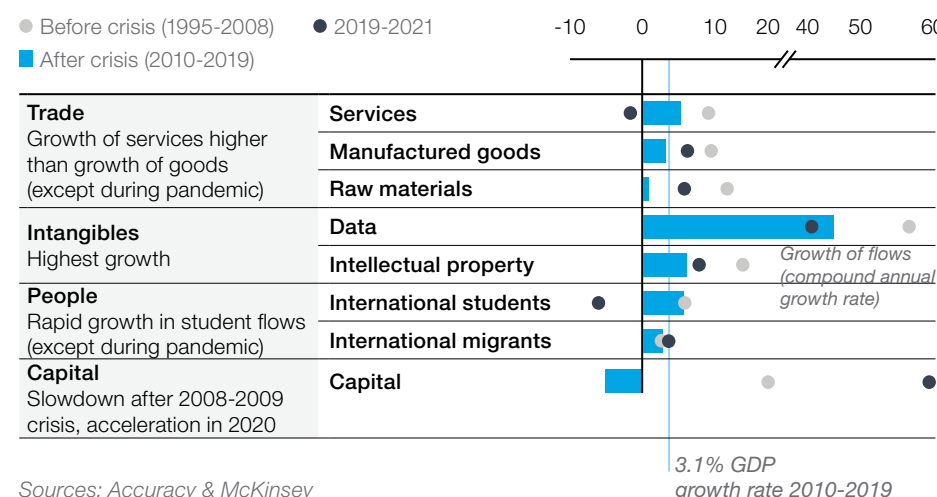


The year 2022 has been a difficult one for many, full of economic events and shocks that have not gone without leaving their mark. However, in this last edition of the Economic Brief in 2022, instead of recapitulating these main events, we will focus on three areas that have not necessarily been the centre of attention in the news: the state of globalisation today, how profits differ between the US and Europe and what the financial cycle holds next for us.

## Globalisation is now driven more by flows of intangible assets, services and students

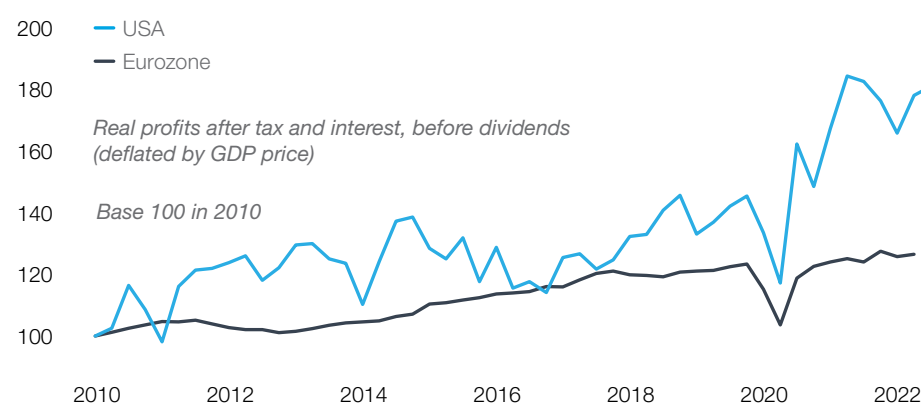


Sources: Accuracy & McKinsey

So let us start with globalisation. We can qualify the period from the 1990s up to the Great Recession of 2007–2008 as a form of hyper-globalisation, a period in which world trade soared. We see this in the chart opposite (represented by the grey dots), showing strong growth across virtually all areas. After the financial crisis, however, we observe a change (shown by the blue bars), with services and intangibles, notably data, driving globalisation much more than other areas, namely goods and raw materials, unlike in the past. It is also worth noting the striking inversion in capital flows in the periods

pre- and post-crisis. The Covid-19 pandemic appears to have shaken things up again (shown by the navy dots), with impacts in all sectors. For the time being, it is difficult to draw conclusions without further hindsight.

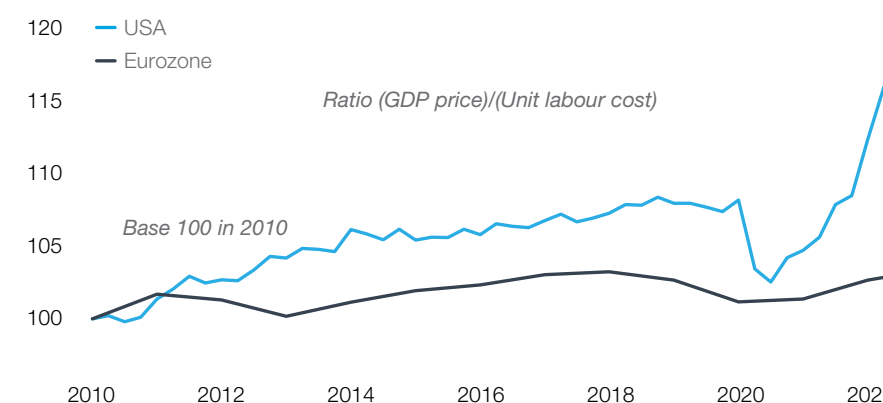
## US profits resisting shocks better than in Europe



Sources: Accuracy & Macrobond

Let us instead look to profits. The graph opposite shows us how profits have been developing over the past decade on both sides of the Atlantic. Profits generated in the US appear to be resisting shocks from Covid-19 and inflation better than their European equivalents. Indeed, with 2010 representing base 100, we can see US profits reaching around 180 in 2022, far exceeding the comparatively sluggish 125 achieved in Europe. But why might this be the case?

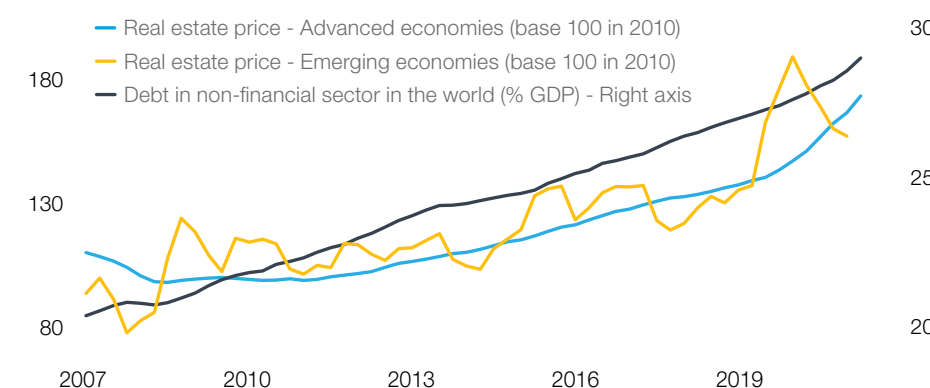
## US mark-up over costs significantly higher than in Europe



Sources: Accuracy & Macrobond

One reason relates to the mark-up on costs, as demonstrated in the graph opposite on the ratio of GDP price to unit labour costs for each region (development since 2010 – base 100). We see the US ratio soaring to heights of around 117, after the initial shock of the Covid-19 pandemic; Europe, by contrast, remains relatively low at around 103. This stark contrast reflects US market power. But it is not necessarily entirely good news – the US market may be becoming too oligopolistic in certain industries, which could end up hurting US consumers.

## A highly dynamic world financial cycle over the past 15 years



Sources: Accuracy & BIS

Let us move on to the financial cycle. It can be split into more or less four phases: boom, with a return of confidence, lighter financial constraints, greater debt and higher asset prices; euphoria, with a period of excitement and unreasonable behaviours, whether in terms of debt burdens or asset valuations; ebb, with a fall in asset prices and tighter access to debt; and pessimism, with significant financial constraints that weigh on both confidence and the economy generally, as corrections take place.

We demonstrate this cycle in the graph opposite by reviewing the development of real estate prices in advanced and emerging economies and the level of non-financial sector debt as a percentage of GDP. The level of debt is clearly trending downwards, reflecting the more difficult conditions to obtain it currently. With regard to real estate prices, although not immediately evident in the graph, general indicators now tend to show the beginning of downward pressure. It seems that the financial cycle is starting to ebb, and we should be wary of falling further into a period of pessimism.

All evidence appears to indicate that we are in a period of transition. The Covid-19 pandemic has shifted the drivers of globalisation once again. Profits in the US appear to be on the rise, but the eurozone has much to do if it does not wish to be left behind. And the financial cycle appears to be ebbing, with asset prices falling and debt becoming more difficult to obtain. As 2022 draws to a close, let us hope for a 2023 that brings fewer shocks to the system.