

Round-up: from climate finance to falling growth

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Charts editor



This month Fathom's economists looked at some of the thorny questions facing the world economy, including how the cost of tackling climate change should be split among countries, as well as rising inflation uncertainty and geopolitical tremors from China's rise. Read on for a round-up of some of the economic insights Fathom sent to clients in November, with topics including:

Who should get climate aid?

Is inflation uncertainty reining in household spending?

How EU autonomy affects Sino-US tensions

Fertility and growth

Who should get climate aid? (3 November 2021)

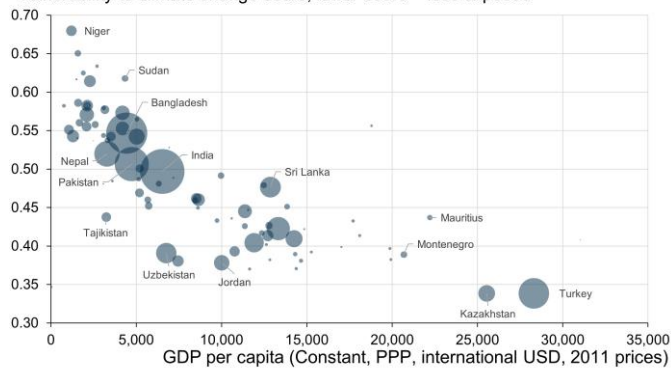
- The decarbonisation of developing countries will require significant amounts of climate finance — UN estimates suggest that they will need up to \$300 billion per year by 2030 for climate adaptation alone
- This point was reiterated at COP26, when India's prime minister asked developed countries for \$1 trillion to help developing nations to make the transition.
- If global warming exceeds 1.5°C, which is seeming increasingly likely, the physical impacts of climate change are likely to leave the poorest countries, who have contributed least to the problem, most vulnerable (see chart below)
- There is a strong moral case that climate adaptation aid should be targeted towards the poorest countries, most exposed to climate change
- Moral arguments aside, it may be in advanced economies' interest to support adaptation and avoid the risks that climate change may bring. [A recent US government report](#) outlined the national security threat posed by the physical effects of intensifying climate change





Official development assistance on climate change adaptation, 2018

Vulnerability to climate change score, lower score = less exposed



Size of bubble is scaled for amount of ODA received for climate change adaptation (USD) Source: ND-GAIN / OECD CRS / OWID / Fathom Consulting

Is inflation uncertainty reining in household spending? (10 November 2021)

- Individual households tend to expect that inflation will remain very close to what they perceive it to have been over the past year, according to the Bank of England's inflation attitudes survey
- The published median of expectations tends to rise because of an increase in the upside skew of responses, typically from respondents who expect prices to rise faster than 10% annually
- The most common response, however, is that households have 'no idea' about past or future inflation, represented by the 178 responses in the top right of the chart. In general, households have become less certain about the state of inflation as the COVID-19 pandemic has progressed
- This measure of inflation uncertainty also has a weak negative correlation with the change in UK consumer confidence, suggesting that households may hold off some expenditure until the inflation outlook is clearer

Bank of England inflation attitudes survey, 2021 Q3

Expectations one year ahead, percentage change*

No idea	0	0	0	0	0	0	0	0	0	19	4	12	14	9	12	33	2	9	1	4	17	178
More than 10	0	0	0	0	0	0	0	0	0	0	0	1	2	3	5	6	1	5	0	8	24	6
9 to 10	0	0	0	0	0	0	0	0	0	1	1	0	0	2	5	0	1	1	2	6	5	1
8 to 9	1	0	0	0	0	0	0	0	0	0	0	2	1	2	3	1	2	2	3	3	4	1
7 to 8	0	0	0	0	0	0	0	0	0	0	0	2	4	1	11	4	4	5	2	1	3	2
6 to 7	0	0	0	0	0	0	0	0	0	0	0	1	10	10	0	4	1	1	0	3	6	
5 to 6	0	0	0	0	0	0	0	0	0	0	0	1	3	15	15	11	2	3	1	5	9	10
4 to 5	0	0	0	0	0	0	0	0	0	5	3	6	28	53	63	15	8	5	1	6	10	14
3 to 4	1	0	1	0	0	0	0	0	0	4	2	21	104	81	37	16	6	6	6	6	4	16
2 to 3	0	0	0	0	0	0	0	0	0	11	12	76	123	75	24	21	4	9	6	2	3	38
1 to 2	0	0	0	0	0	0	0	0	0	11	32	103	70	14	14	13	3	4	0	2	0	24
0 to 1	0	0	0	0	0	1	0	1	0	30	85	46	18	9	3	9	2	2	0	1	0	12
No change	1	0	0	1	1	0	4	0	0	80	9	19	13	4	8	6	2	3	1	1	5	15
-1 to 0	0	0	0	0	0	0	0	0	0	2	1	1	1	1	0	1	1	0	0	0	1	1
-2 to -1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
-3 to -2	0	0	0	0	0	0	0	1	0	2	1	0	1	2	2	0	0	0	0	0	0	2
-4 to -3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1	0	0	1
-5 to -4	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	2	0	0	0	0	0	1
-6 to -5	0	0	0	0	0	0	0	0	0	1	0	0	0	0	1	0	0	0	0	0	0	1
Less than -6	0	0	0	0	0	0	0	0	0	1	1	0	0	0	0	0	0	0	0	0	0	1
	Less than -6	-6 to -5	-5 to -4	-4 to -3	-3 to -2	-2 to -1	-1 to 0	No change	0 to 1	1 to 2	2 to 3	3 to 4	4 to 5	5 to 6	6 to 7	7 to 8	8 to 9	9 to 10	More than 10	No idea		

* Values in the chart are number of respondents

Perceptions previous one year, percentage change* Source: Bank of England / Fathom Consulting



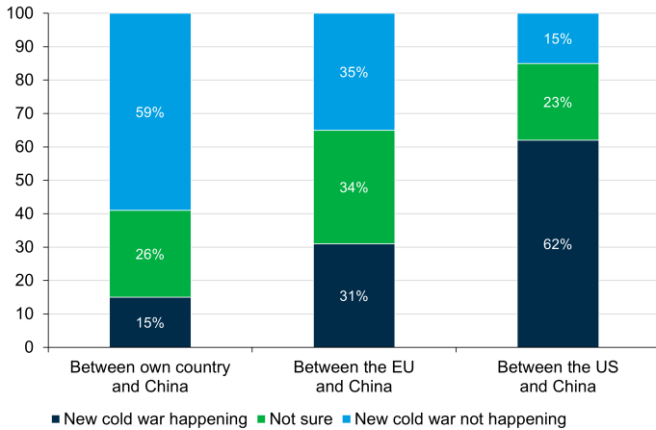


How EU autonomy affects Sino-US tensions (17 November 2021)

- A large majority of EU residents believe that the US is in a new cold war with China, but that their own country is not

Europeans' opinions on whether there is a new cold war

Per cent of respondents

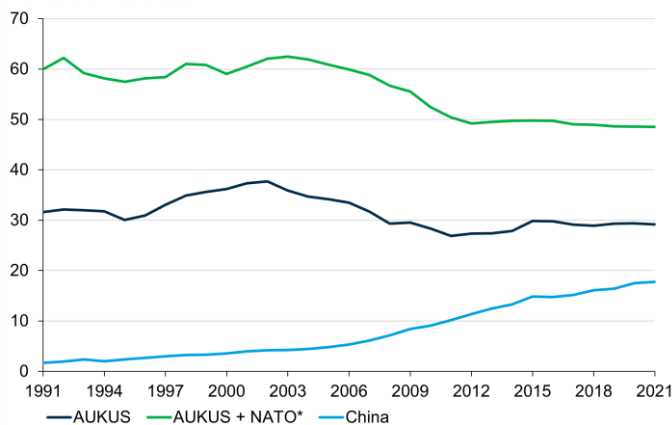


Source: ECFR / Fathom Consulting

- EU policy appears to reflect this grassroots view, with European leaders keen to preserve 'strategic autonomy' from the US in their relations with Beijing
- This degree of detachment by the EU may have played a role in the decision to supercede France in the AUKUS submarine agreement; but the AUKUS group's ability to bring economic pressure to bear is weaker than if the group had included EU NATO members

World GDP (in US dollars)

Per cent of world total



*NATO members as of 2021

Source: Refinitiv Datastream / Fathom Consulting

- The upshot of EU autonomy is thus likely to be a less aggressive US posture towards China on economic issues than might otherwise have been the case, as taking unilateral action is more costly



Fertility and growth (24 November 2021)

- Expectations of weaker per capita income growth for the coming 20 years in Japan are associated with having fewer children: in this hypothesis, we have more children when we feel optimistic about the future
- Assuming this is more than just a spurious correlation, that demographic effect will tend to amplify the impact on GDP in total — a slowdown in per capita growth plus a reduction in the labour force
- Japan's historic experience is consistent with this hypothesis: and it looks like a similar effect might now be playing out in China, potentially aggravating the growth slowdown there in years to come

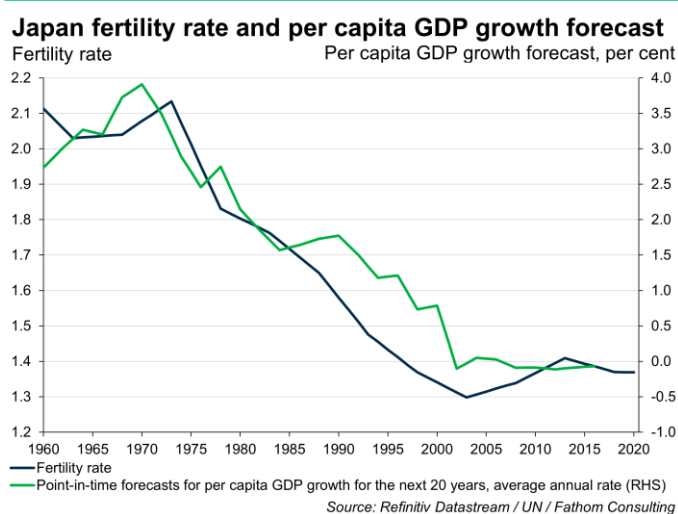


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