
November 8, 2024

Commentary

Weekly Economic Perspectives

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Spotlight On Next Week

US inflation data likely robust. Modest Q3 growth in the UK. We expect clarity and positivity to develop in Japanese politics next week and see the risk of a reversal in Australia’s labor market.

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Weekly Highlights

The US election is finally over: President-elect Trump receives strong mandate.

Fed Funds Rate (upper)

4.75%

Widely anticipated.

ISM Services Index (Oct)

56.0

Solid but somewhat volatile.

Productivity (Q3 saar)

2.2%

Unit labor costs revised up.

Bank of England Bank Rate

4.75%

25-bp cut was expected.

UK Services PMI (Oct, final)

52.0

Hit by budget uncertainty.

Canada Unemployment Rate (Oct)

6.5%

Labor demand remains weak.

JP: Overall Cash Earnings (Sep, y/y)

2.8%

Elevated, but needs more.

JP: Household Spending (Sep, m/m)

-1.3%

Worse than expected.

AU: Composite PMI (Oct)

50.2

Treading water.

US: Elections Give Directional Clarity but Magnitude, Timing, Still Uncertain

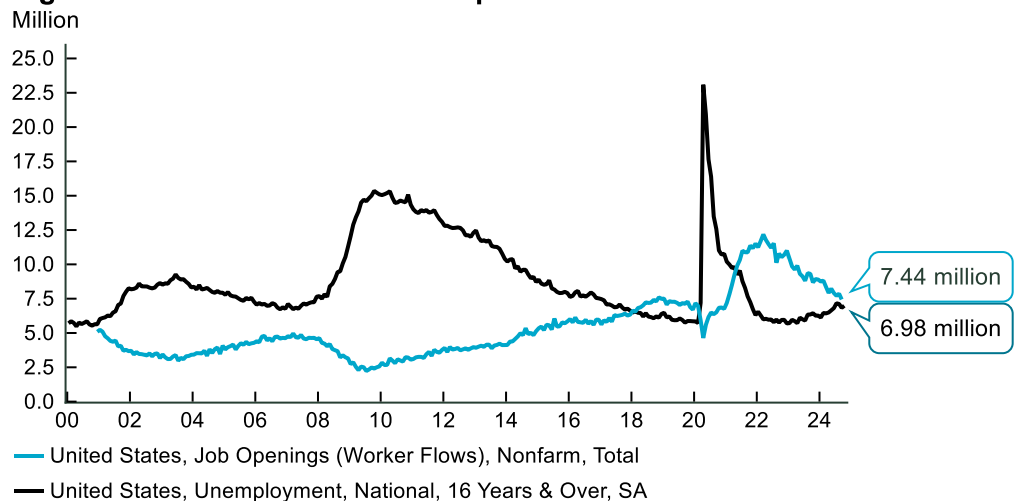
It is rare that a **Fed meeting** is not the main event during the week of its occurrence. But, when competing with **general elections**—as it did this round—there is no contest. So, the Fed’s well-anticipated 25-basis point cut had little impact on markets.

The big moves had already occurred in response to Republicans retaking the White House and the Senate and looking likely to eke out a narrow majority in the House of Representatives. Stocks soared and bond yields jumped. It is clear that the second Trump administration will come into office with a very strong mandate given wide margins of victory in both the electoral college and the popular vote. This would suggest a determined pursuit of policy changes in a whole range of areas, with investors particularly focused on trade, immigration, and fiscal policy. Campaign proposals on all these fronts are, without a doubt, **directionally** inflationary. Tariffs, deportations, and further tax cuts at a time when the budget deficit is already projected to consistently exceed 5% of GDP even on current law, all speak to the same outcome: higher inflation.

What is still very unclear is the **magnitude** of the inflationary impulse since we do not yet know exactly what policies will be a) proposed and b) approved. Timing matters: early, “all-in” action would be more inflationary, gradual with exceptions, less so.

Moreover, the very same policies can have very different effects depending on the macro context in which they are implemented. Take immigration, for example. There was a time in 2022 when the number of job openings exceeded the number of unemployed by over 6.0 million; as of September, this measure of labor market supply tightness had shrunk to just 0.5 million. Other measures such as average weekly hours and the quits rate suggest the labor market is less tight today that it was just prior to Covid, a view that Chair Powell expressed as well in the press conference. Deportations equate to a negative labor supply shock. But when they occur in a backdrop of declining labor demand, the ensuing inflationary impact may prove to be fairly contained. Furthermore, immigration is not only a labor market factor. Yes, it raises labor supply, but it also increases demand for a range of items, specifically housing. A positive demand shock here in the context of inelastic supply is inflationary, a negative one could bring some relief. In conclusion: forecasting the ultimate outcome of all these potential policies is a highly uncertain exercise.

Figure 1: Not The Same Backdrop For US Labor Market



Sources: Macrobond, SSGA Economics, BLS
Updated as of 11/8/2024

When asked about how policies changes may impact the economy and Fed policy, Chair Powell said the following: “we do not guess, we do not speculate, we do not assume” how policies may change. The Fed waits for actual proposals, then models possible scenarios, and decides afterwards if a change of course is needed. Of course, markets are by their very nature going to speculate and seek to gauge the impact of as-yet-uncertain policy shifts. A lot of that has already happened (this is not to say there isn’t more to go). But the economy does not behave that way. And so, we intentionally hold back from making any big changes to the forecast at this time. We do agree that the scope for 2025 Fed easing has narrowed, but we do not believe it to have closed. We still see a 25 bp-cut in December, and at least three more similarly sized cuts in 2025.

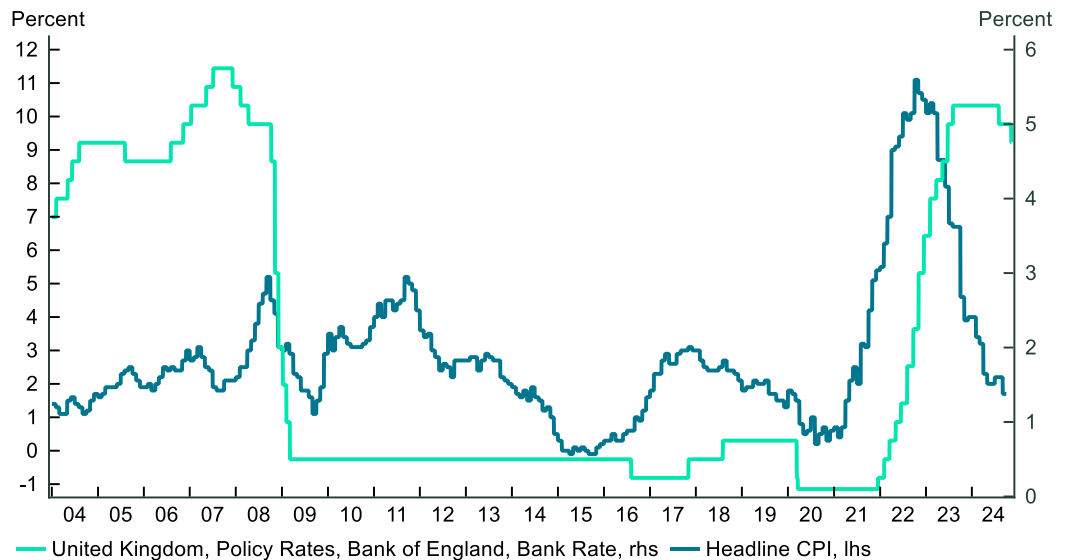
UK: Are BoE Projections Too Optimistic?

The **Bank of England (BoE)** lowered the policy rate by 25bps to 4.75% as widely expected. The MPC votes were split 8-1, compared to 5-4 vote for August’s rate cut. The bank also confirmed a “gradual approach” to rate cuts, considering the impact of the latest Budget. None of this was surprising. The November cut was widely expected, and the market already concluded that large spending and front-loaded stimulus from the Budget would limit the scope of the rate cuts.

However, in our view, what was included in the bank’s November statement and monetary report does not reflect the whole impact of the budget. Indeed, in the accompanying monetary report, the bank expected that the fiscal policy would lift GDP growth by “0.75% at their peak in a year’s time”, relative to August’s projections. CPI inflation was also boosted by “just under 0.5% at its peak” by the Budget. These estimates are based on the usual 15-day average of forward interest rates to 29 October, and completely ignore the yield spike following the Budget Announcement on 30th October. That said, the budget impact would have been more modest if the bank’s projections were based on the latest pricing.

The bank’s forecasts also included three scenarios with different degrees of inflation persistence. The central forecast was based on the second scenario, which presumes the second-round effects of inflation dissipate more slowly than they emerged. The CPI inflation is forecasted to fall back to the 2% target over the medium-term in this scenario, conditioned on market interest rate expectations that bank rate will drop by around 100bps to 3.75% by the end of next year.

Figure 2: The BoE Delivers Another 25-bp Rate Cut



Sources: Macrobond, SSGA Economics, ONS, BoE

The December rate cut which we previously expected not looks unlikely, but we would not rule it out completely. In addition, if services inflation continues to fall more meaningfully in coming months, rate cuts are still likely to accelerate early next year and reach 3.5% - 3.75% by next summer.

RBA: An Outlier

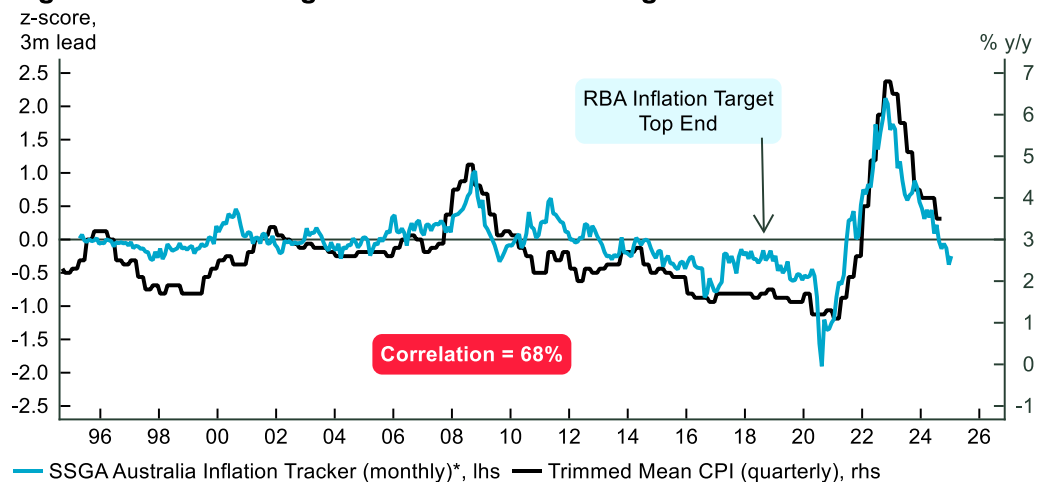
The **Reserve Bank of Australia (RBA)** maintained rates at 4.35% and sounded a few notches more hawkish this week. There were more references (4) to rates coming down “around mid-2025” than in August (2) in the Statement of Monetary Policy (SoMP). In the press conference, Governor Bullock did not hint at rate cuts saying instead that she wants to “see more progress on underlying inflation coming lower”. She said a trimmed mean CPI at 0.8% is sufficient for seeing inflation coming back into the target band.

At this point we have to concede that prospects of cuts in the foreseeable future are zero. Only a sudden and rapid deterioration in the labor market or the economy may change this outlook, if not the RBA is on track for their first rate cut “around mid-2025”; even February 2025 now looks unlikely.

October’s labor market data will be released next week. We note that employment growth has been around 50k for the last four months and see the risk of a reversal, despite our optimistic estimate of 30k. Furthermore, Q3 GDP out on December 4th will also be closely watched for the RBA outlook.

Back to November, the RBA lowered their forecasts for GDP, inflation, wages closer to ours since September, although our inflation picks are more optimistic. GDP forecasts have been reduced to 1.5% (1.7% in August) in December 2024 and 2.3% each for June and December 2025 (2.6% and 2.5%). So the Bank is clearly setting a high-bar for rates, which is quite odd for a central bank to do at the current global cycle. Trimmed mean CPI projections are also lowered to 3.4% (from 3.5%) in December 2024, 3.0% (3.1%) in June 2025 and 2.8% (2.9%) in December 2025. Our outlook is more optimistic, as highlighted by our SSGA Australia Inflation Indicator, updated after the Q3 CPI data below.

Figure 3: Our Leading Indicator Shows Easing Inflation In Australia



Sources: Macrobond, SSGA Economics, NAB, Melbourne Institute of Applied Economic & Social Research, ABS, Ai Group, ANZ-Roy Morgan, CBA, S&P Global
Updated as of 11/8/2024

*avg. of z-scores of eight high-frequency price metrics in Australia. Average of available historical data.

Week in Review

A summary of the key global data releases from the past week.

| Country | Release (Date, format) | Consensus | Actual | Last | Comments |
|-------------------------|--|-----------|--------|-----------|--|
| Monday, Nov 4 | | | | | |
| US | Factory Orders (Sep) | -0.5% | -0.5% | -0.8% (↓) | Down 1.6% y/y; non-defense down 2.7%. |
| US | Durable Goods Orders (Sep, final) | -0.8% | -0.7% | -0.8% | Down 2.1% y/y. |
| EC | Manufacturing PMI (Oct, final) | 45.9 | 46.0 | 45.0 | Soft. |
| GE | Manufacturing PMI (Oct, final) | 42.6 | 43.0 | 40.6 | Weak. |
| FR | Manufacturing PMI (Oct, final) | 44.5 | 44.5 | 44.6 | Weak. |
| IT | Manufacturing PMI (Oct) | 48.5 | 46.9 | 48.3 | Soft. |
| AU | RBA Cash Rate Target | 4.35% | 4.35% | 4.35% | We give up. No cuts in the foreseeable future. |
| Tuesday, Nov 5 | | | | | |
| FR | Industrial Production (Sep, m/m) | -0.6% | -0.9% | 1.1% (↓) | Down 0.6% y/y. |
| UK | Services PMI (Oct, final) | 51.8 | 52.0 | 52.4 | Good. |
| US | ISM Services Index (Oct) | 53.8 | 56.0 | 54.9 | Rebound in employment. |
| Wednesday, Nov 6 | | | | | |
| EC | Services PMI (Oct, final) | 51.2 | 51.6 | 51.2 | OK, we need better. |
| GE | Factory Orders (Sep, m/m) | 1.5% | 4.2% | -5.4% | Still soft, up only 1.0% y/y. |
| GE | Services PMI (Oct, final) | 51.4 | 51.6 | 51.4 | OK, we need better. |
| JN | Labor Cash Earnings (Sep, y/y) | 3.0% | 2.8% | 2.8% (↓) | Good, but more needed. |
| Thursday, Nov 7 | | | | | |
| US | Nonfarm Productivity (Q3, prelim) | 2.5% | 2.2% | 2.1% (↓) | Big upward revision to unit labor costs. |
| US | Initial Jobless Claims (02 Nov, thous) | 222 | 221 | 218 (↑) | Low and contained. |
| US | Continuing Claims (26 Oct, thous) | 1,873 | 1,892 | 1,853 (↓) | Still moderate but highest since late 2021. |
| US | FOMC Rate Decision (Upper Bound) | 4.75% | 4.75% | 5.00% | As expected. |
| US | Consumer Credit (Sep, \$ bn) | 12.1 | 6.0 | 7.6 (↓) | Modest gain, driven by non-revolving credit. |
| UK | Bank of England Bank Rate | 4.75% | 4.75% | 5.00% | In line with expectations. |
| GE | Industrial Production (Sep, m/m sa) | -1.0% | -2.5% | 2.6% (↓) | Weak. |
| Friday, Nov 8 | | | | | |
| US | U. of Mich. Sentiment (Nov, prelim) | 71.0 | 73.0 | 70.5 | Improvement driven by expectations. |
| CA | Unemployment Rate (Oct) | 6.6% | 6.5% | 6.5% | Labor demand remains weak. |
| FR | Wages (Q3, q/q, prelim) | 0.5% | 0.3% | 0.6% | Normalizing; up only 2.7% y/y vs 4.7% in mid-23. |
| IT | Industrial Production (Sep, m/m) | -0.5% | -0.4% | 0.0% (↓) | Persistently weak; down 4.0% y/y. |
| IT | Retail Sales (Sep, m/m) | -- | 1.2% | -0.3% (↑) | Soft. |

Source: for data, Bloomberg®; for commentary, SSGA Economics.

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* Pensions & Investments Research Center, as of December 31, 2023.

† This figure is presented as of June 30, 2024 and includes ETF AUM of \$1,393.92 billion USD of which approximately \$69.35 billion USD is in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated. Please note all AUM is unaudited.

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