The Forward View: Global November 2024

NAB Group Economics

Overview

- The election of Donald Trump as US President is likely to be consequential for the global economy. Given the high likelihood that he will significantly increase tariffs on imports into the US is, we have made an assumption for forecasting purposes that there will be a 10ppt increase in the implied US average tariff rate starting in mid-2025 and phased in over a year.

- We see tariff increases as having a negative impact on the global economy. This is not only from the direct consequences on trade but also through confidence and financial conditions channels. Rising uncertainty may mean that trade exposed businesses delay capital expenditure plans even ahead of tariff announcements. Last week we also raised our expectations for the level of the US fed funds rate – and now see the Fed easing at a slower pace. The change reflects the recent data flow and the assumed tariff increases. This may constrain the ability of other central banks, in particular emerging markets, to lower rates.

- The other policy shift underway is that the fiscal policy drag expected in 2025 across the AEs is likely to be more moderate. For the US, we maintain our assumption that fiscal policy will be neutral in coming years (but the risk is tilted to it turning stimulatory) but the UK and Japan have announced extra (net) budget spending and the German government attempted to do so (but failed for now). In contrast, while expectations have been high for China to introduce major demand side stimulus, the latest announcement failed to deliver on those hopes.

- We have lifted our growth forecasts for 2024 and 2025 from 3.1 to 3.2% – reflecting recent activity data and the UK/Japan fiscal changes – but lowered our forecast for 2026 to 3.0% from 3.2%. The latter reflects an allowance for US tariffs – while they are assumed to start impacting growth from H2 2025, in year-average terms the impact largely falls in 2026.

- With conflicts still underway in Europe and the Middle East, the possibility of China stimulus at some point, and the unknown timing and extent of US policy shifts, forecast uncertainty is even higher than normal.

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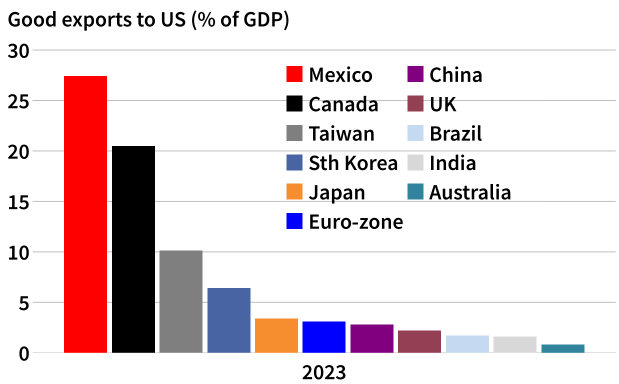
Global growth forecasts

	2022	2023	2024	2025	2026
US	2.5	2.9	2.7	2.0	1.7
Euro-zone	3.6	0.5	0.8	1.0	1.3
Japan	1.5	1.7	-0.3	1.1	0.6
UK	4.8	0.3	0.9	1.1	1.0
Canada	3.8	1.2	1.1	1.6	1.5
China	3.0	5.2	4.7	4.6	4.2
India	6.5	7.7	6.6	6.2	6.4
Latin America	4.2	2.2	1.7	2.4	2.0
Other East Asia	4.2	3.2	3.9	3.8	3.7
Australia	3.9	2.0	1.0	1.8	2.3
NZ	2.4	0.7	-0.2	1.7	3.1
Global	**3.6**	**3.3**	**3.2**	**3.2**	**3.0**

Trade exposure to US greatest for neighbouring countries and trade dependent Asian countries; for China only small share of economy exposure magnified by potential size of tariffs



Gerard Burg, Senior Economist | Antony Kelly, Senior Economist | Alan Oster, Chief Economist

Financial and commodity markets: Markets diverge as US Presidential Election signals policy shift

Trends across financial markets have diverged in recent weeks, as shifting expectations around policy measures have impacted the various markets to different degrees.

This has been particularly evident in equity markets. US markets have continued to trend higher, with a noticeable uptick in the US MSCI index to a fresh record high following the Presidential election (albeit prices subsequently retreated from their peaks). This reflects the perception that President Trump's agenda will be positive for US business prospects, with lower taxes, less regulatory burden and looser anti-trust policy when compared with the outgoing Biden Administration.

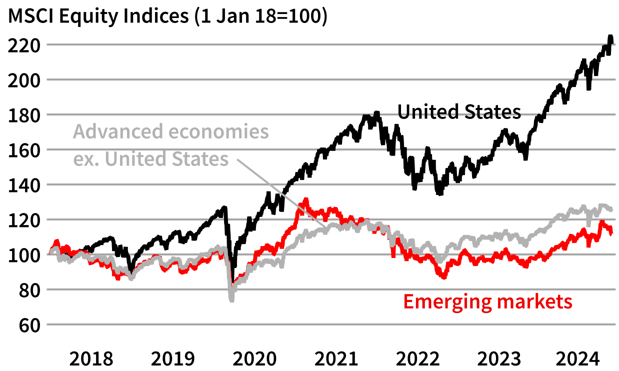
In contrast, the MSCI equity indices for other advanced economies and emerging markets have trended lower since late September and early October respectively. In the case of the latter, markets rose strongly following China's monetary stimulus in September and expectations in October of a sizeable fiscal package to provide greater support. However, the announced package coming out of the National People's Congress (NPC) in early November failed to meet market expectations (see EM page) – as this was a debt swap program that will not boost demand. That this came following the US election, which firmed the prospects of a large increase to tariffs on Chinese imports, added to the negative sentiment.

This view was also evident in a range of commodity markets. Overall, the S&P GSCI dropped around 3.3% following the NPC session, with more notable falls in commodities with a high China exposure, such as the LME base metals index which was down 5.3% – reflecting the lack of policy support for commodity demand. Iron ore – which is not included in the S&P GSCI – has also retreated closer to US$100/t.

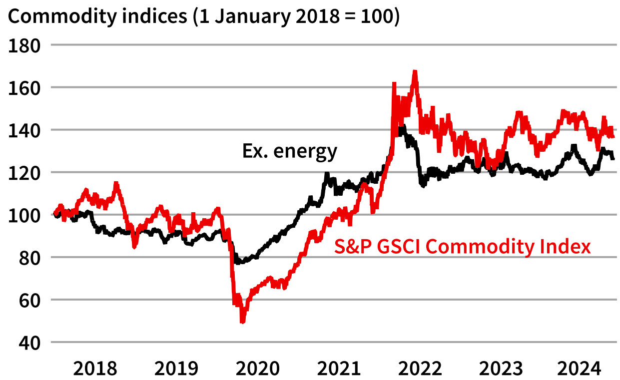
Headline inflation in advanced economies dropped significantly in September – down to 2.1% yoy (its lowest rate of increase since March 2021). However, progress in lowering core inflation has been less significant – with AE core inflation easing to 2.6% yoy in September (from 2.7% yoy in August). This serves to highlight that the path of inflation remains uncertain – particularly given the backdrop of US tariffs that could add some upward pressure.

This uncertainty was echoed by US Fed Chair Jerome Powell, who noted last week that "the economy is not sending any signals that we need to be in a hurry to lower rates". While we still expect the Fed to cut rates in December, market pricing at the time of writing sees only a 60% chance of this occurring, while anticipating fewer rate cuts over 2025 than was the case in early October. We revised our outlook for the Fed last week – reducing the cuts in 2025 to 100 bps (from 150 bps previously).

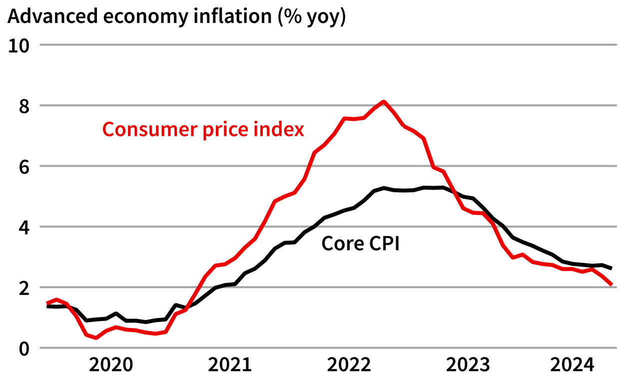
US equities rise to record highs as others retreat



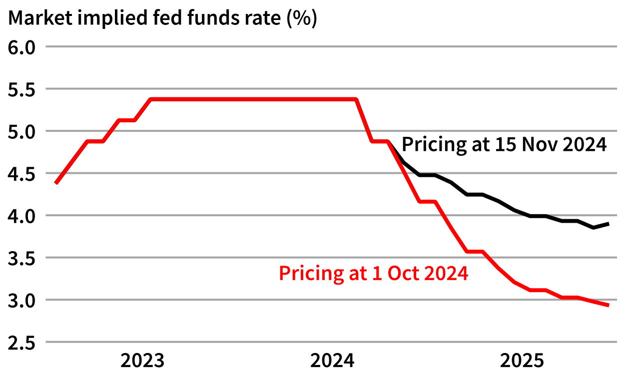
Commodities ease as China fiscal package disappointed



AE inflation dipped lower, but less progress on core



Markets expect fed funds rate to be higher post election



Advanced economies: Solid Q3 growth and smaller fiscal drag overshadowed by US tariff fears

Overall GDP growth for the major advanced economies (AEs) looks to have grown at a broadly unchanged pace in Q3 (with only Canada yet to report data for the quarter). This includes still robust growth in the US and a pick-up in the Euro-zone, while growth slowed in the UK and Japan. Aggregate AE GDP growth for the quarter was 0.5% q/q (as in Q2), the fastest growth rate in two years.

We doubt this can be sustained. It will depend on whether the US growth can remain elevated, the extent of the structural drag on the Euro-zone economy, the impact of changes in US policy post-election (particularly tariffs) and the extent of the emerging shift in fiscal policy settings.

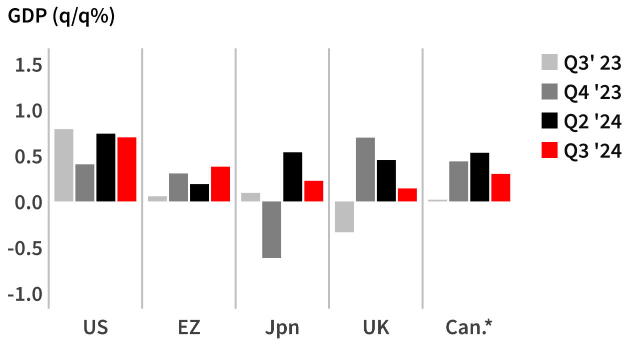
Business surveys point to an underlying weakness in the Euro-zone economy, noting Q3 GDP growth may been boosted by the Paris Olympics. Growth had been expected to lift as household incomes recovered on falling energy prices; this dynamic in terms of the consumer is underway with a recovery in retail sales since late 2023. However, manufacturing production continues to decline, pointing to a significant structural change. This is particularly evident in Germany.

We expect US growth to moderate in coming quarters, although still hold at a decent level. This month we lowered our expectations for growth from mid-2025, largely on the assumption that material US tariff increases would come into place at this time (and be phased in over a year). However, by how much, and when, the new President increases tariffs is highly uncertain.

The impact of US tariffs on other countries, including other AEs, will depend on which countries the tariffs are imposed, their export exposure to the US (or to other countries likely to be impacted, such as China) as well their own Government's response – including retaliatory tariffs or measures to offset the economic impact. Against such forecast uncertainty we have tentatively pencilled in a negative trade drag on AE growth which, in year-average growth terms, mainly shows up in 2026.

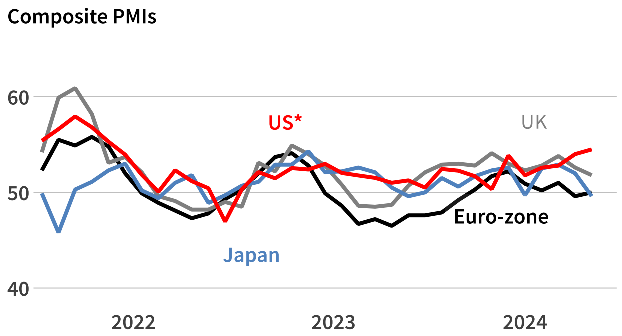
The other policy shift underway is in fiscal policy. The October UK Budget was net stimulatory and the Japanese government is planning a supplementary budget which could substantially reduce what had looked like a large fiscal drag this year. There was also an attempt to loosen German fiscal policy, but this has led to the collapse of the government, so clarity won't be achieved until following a new election. Trump's election, and Republican Congressional majorities, increase the likelihood that expiring tax provisions will be extended and so point to a neutral fiscal impulse (still our baseline) but with the possibility of it turning positive if all campaign policies are implemented. Overall, the AE fiscal impulse may still be negative in 2025 but to a lesser degree than had been looking likely, providing a boost to next year's outlook, particularly for Japan and the UK.

US growth still robust, positive, but mixed, elsewhere



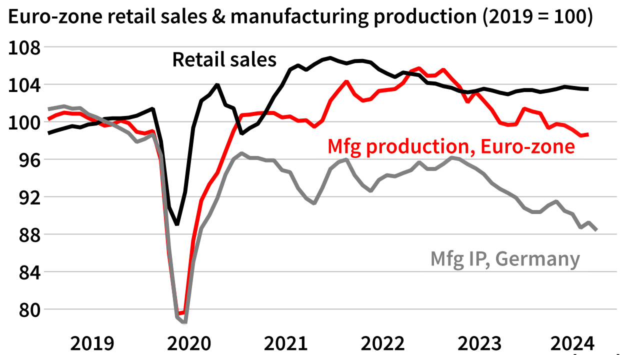
Source: Macrobond. *Q3 2024 is a NAB forecast

Business surveys point to Euro-zone struggles



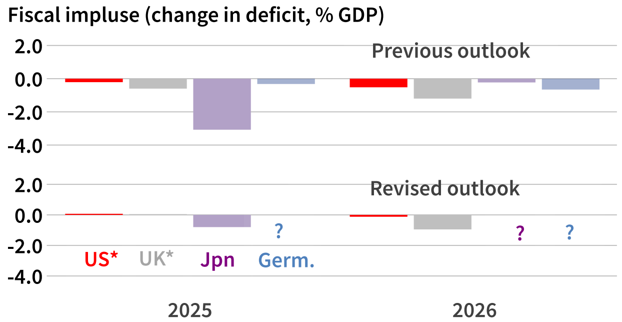
* Based on S&P Global and NAB weighted composite of US ISM PMIs

Fading income drags have boosted Euro-zone consumption but manufacturing struggling



Source: BEA, Macrobond

Fiscal drags becoming smaller?



* yr denotes end year (2025 is 2024-25 fiscal yr). US fiscal yr to September, UK to March. Cal. year for Japan & Germany

Sources: Macrobond, NAB Group Economics. Fiscal impulse based on UK Office of Budget Responsibility, US Congressional Budget Office, IMF estimates. For US, previous outlook is June forecasts, and 'revised outlook' assumes expiring tax provisions are extended.

Emerging markets: Optimism around China 'stimulus' may fade on poor delivery & Trump tariffs

Emerging market business surveys were stronger in October, with the EM composite PMI moving up to 52.5 points (from 51.1 points previously). This was the strongest reading in this measure since June.

The EM services PMI was notably stronger in October – rising to 52.9 points (from 51.7 points in September). The majority of this increase was driven by China, along with more modest contributions from India and Russia.

The EM manufacturing PMI also rose, back into positive territory at 50.6 points (from 49.8 points previously). China was the main driver, supported by India and Russia.

China's surveys indicated a considerable improvement in business confidence – possibly reflecting anticipation around fiscal stimulus to accompany the easing in monetary policy. The package coming out of the National People's Congress in early November failed to meet these expectations, while the likelihood of tariffs following the US Presidential election may also impact sentiment.

Instead of any policy proposals to materially improve domestic demand, the announced RMB 10 trillion package amounted to a debt swap for local governments – allowing them to eliminate some off-balance sheet borrowing by Local Government Financing Vehicles (LGFVs) with local government bonds. This will increase transparency and reduce interest costs but will not provide a substantial boost to their capacity to spend. It is worth noting that IMF estimates suggest LGFV debt (around 48% of GDP in 2023) is considerably larger than the "hidden debt" that authorities are targeting (12%).

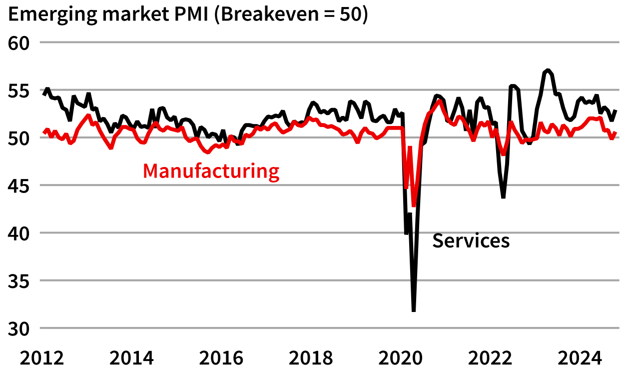
Despite rumours that there would be an extension to the consumer goods trade in and business equipment upgrade program (which is scheduled to conclude at the end of this year) and income support for low income households, such measures were not announced.

China's Ministry of Finance has suggested that further fiscal measures could be introduced in 2025, however it remains to be seen if authorities are willing to directly address demand side constraints, given their observed preference for supply side measures.

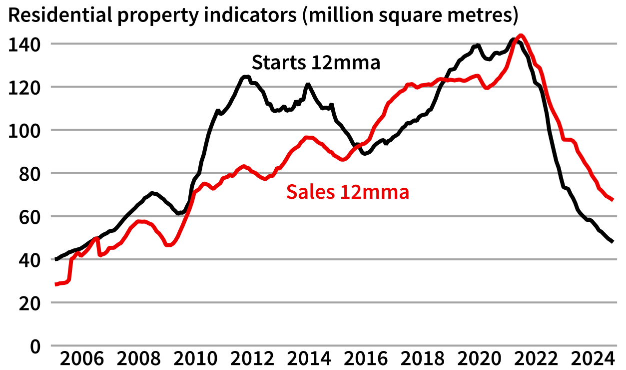
Growth in China's export volumes has remained elevated – increasing by 14.1% yoy in August (compared with a 1.4% yoy increase in export volumes from all other countries). This reflects imbalances in China's economy that were exacerbated during the pandemic – providing support for firms that boosted production capacity while there was little provided to households.

The surge in exports has driven the growth in protectionist policies in a broad range of countries – from North America to Europe and South East Asia. In the short term, the prospect of severe US tariff increases could increase US imports from China, as importers seek to beat the implementation of these measures.

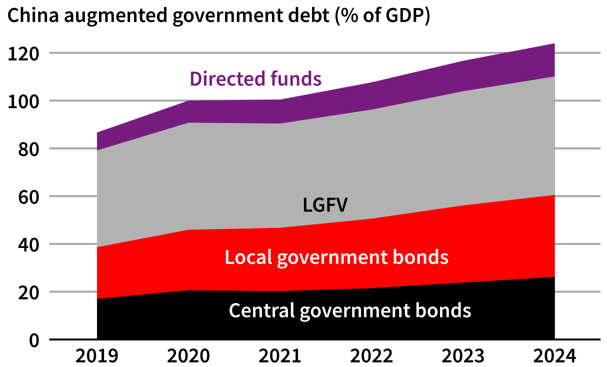
China optimism pushed PMIs higher in October



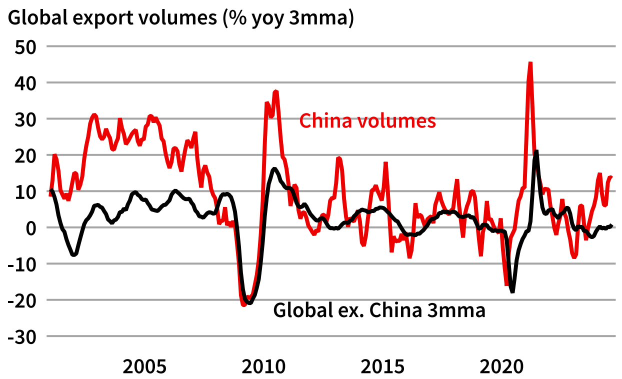
Property remains a major headwind for China's growth



Fiscal spending focused on debt swap, not stimulus



China's export volumes may remain elevated near term



Sources: Macrobond, CPB, NAB Group Economics

Global forecasts and risks: policy changes have shifted our forecast profile, with risks persisting

Backward looking data from prior the US Presidential election – such as PMI surveys – arguably do not provide as much of a signal for future direction, particularly given the sentiment shift away from China following the US election and failure of Chinese policy makers to implement meaningful fiscal stimulus.

The daily US Policy Uncertainty Index has moved higher since early November. Despite having greater clarity around the Presidency and control of the legislature, how the various campaign promises will be prioritised, and how aggressively they will be pursued, is unclear. Nevertheless, the Trump Administration is likely to implement a wide range of policy changes (beyond just trade policy) that could have a material impact on the US and global economies as compared with a more status quo policy agenda had Kamala Harris been elected.

We have made a substantial number of revisions to our forecasts this month. For 2024 and 2025, this reflects incoming data (such as stronger than expected US and Euro-zone data), and then an allowance for likely shift in US trade policy. At a high level, this shifts up global growth slightly in both 2024 and 2025 – both to 3.2% (3.1% previously), while 2026 has been revised lower – down to 3.0% (from 3.2%) – driven by slower growth in the United States, China, East Asia and Western Europe.

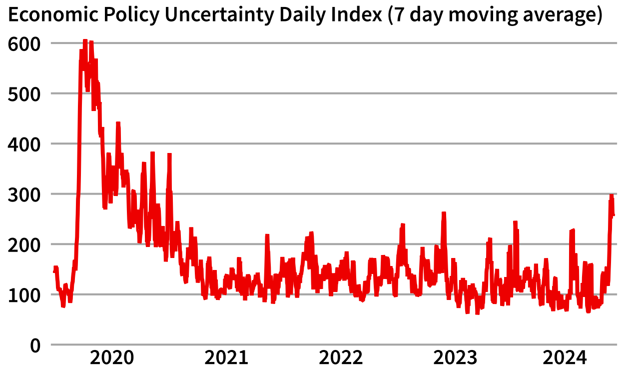
A key assumption in this outlook is both the timing and scale of US trade measures, which we pencil in to commence in mid-2025 and are smaller than those proposed during the election campaign but still substantial. Uncertainty around both of these factors presents risk to our forecasts, along with the potential for escalation should other countries retaliate to US tariffs.

China's hesitancy to implement meaningful fiscal stimulus has meant that our near term forecasts remain unchanged – 4.7% in 2024 and 4.6% in 2025 – however we have revised growth in 2026 lower, down to 4.2% (from 4.4% previously). We see risks to both the up and downside of this 2026 forecast, reflecting the uncertainty around the impact of US trade policy and tariff escalation as well as the potential for meaningful domestic reforms to support the demand side of China's economy.

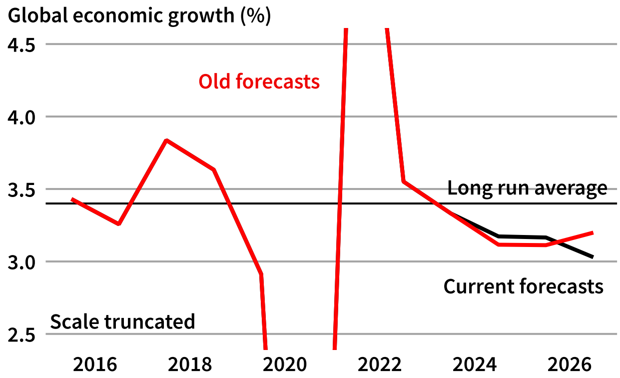
Geopolitical risks remain in place. Conflict in the Middle East has widened in recent months, while the Russia-Ukraine war approaches its third anniversary. There also remain tensions between China and its neighbours in the South China Sea. These factors have negatively impacted the supply of commodities and global trade – which could be worsened by further escalation.

The path of inflation for advanced economies – and by extension the policy rate decisions of their central banks – also remain uncertain, particularly as some AEs have started to implement fiscal policies that are either stimulatory or less contractionary than previously.

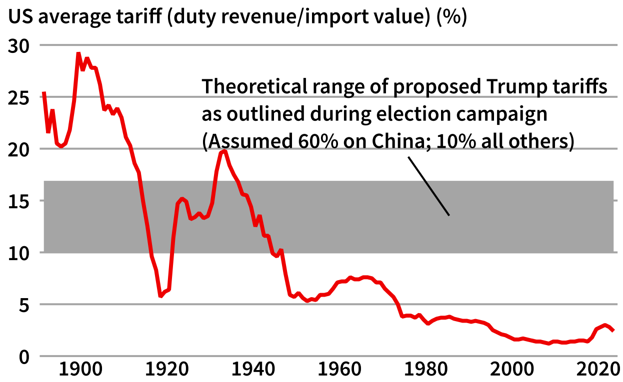
Policy uncertainty on the rise since early November



Revised forecast profile sees weaker growth in 2026



Trump tariffs could represent substantial shift in trade policy



Short term impacts of US policy proposals*

	GDP growth	CPI	Fed rates	Bond yields	USD
Trump					
Fiscal	↑	↑	↑	↑	↑
Immigration	↓	?	?	↑	?
Trade	↓	↑	?	↓	↑
Fed independence	↓	?	?	↑	↓

* Relative to baseline and limited to polices which are could materially differ from those currently in place. '?' indicates direction of change unclear or it may be unchanged. For the fiscal scenario assume can implement all promises. Immigration scenario based on lower population growth but not mass deportations.

Sources: Macrobond, Refinitiv, NAB Group Economics

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