The Forward View: Global December 2024

NAB Group Economics

Overview

- A feature of the global economy in 2024 has been the strength of the US economy. Early data for Q4 point to further solid growth to end the year, in contrast to disappointing November activity data for China. US strength is also evident in share markets, with US equity prices outperforming other markets.

- Western Europe, which basically treaded water over 2023, has seen growth pick up this year, and to a lesser extent, this was also true for Canada. In the case of Japan, after a fall in GDP in Q1, it has since rebounded strongly. A concern is that there has been a loss of momentum in Western Europe in recent months.

- There has been minimal easing in advanced economy core inflation since April 2024. This creates some uncertainty around the pace of policy easing, although activity concerns are also a factor in some economies.

- The EM composite PMI edged up in November, in part due to a lift in China's manufacturing PMI, driven by export demand. However, the strength of export growth is adding to trade frictions while weak domestic demand continues to constrain overall growth. India's economy has been growing strongly, but Q3 growth disappointed and we have marked down our forecasts as a result.

- We expect growth in the global economy to remain subdued out to 2026. Growth is expected to ease to 3.0% by 2026, in part due to a negative impact from expected US import tariff increases. This includes some moderation in US growth, a further weakening in China's growth rate, while growth in some countries should stabilise, assisted by looser monetary policy.

- There is considerable uncertainty around the policy changes to be implemented next year by the new US administration. Even where the policy direction is clear in some cases (higher tariffs, less migration) the timing and extent is uncertain. Last month we marked down our global forecasts to allow for an overall negative impact from higher tariffs. Tariffs threatened to come into place on Trump's first day in office are already challenging our assumptions about the scale and timing of trade restrictions.

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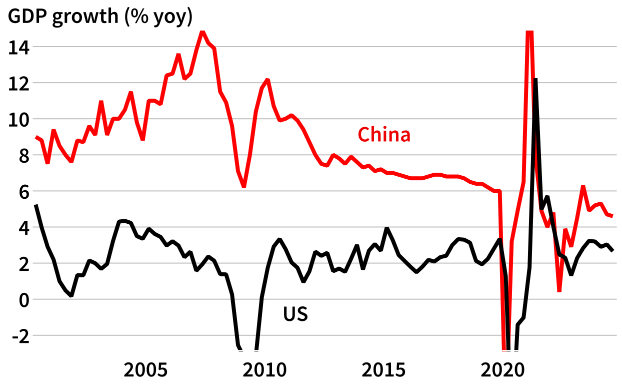
Global growth forecasts

	2022	2023	2024	2025	2026
US	2.5	2.9	2.8	2.1	1.7
Euro-zone	3.6	0.5	0.8	1.0	1.3
Japan	1.5	1.5	-0.2	1.1	0.6
UK	4.8	0.3	0.9	1.1	1.0
Canada	4.2	1.5	1.1	1.5	1.5
China	3.0	5.2	4.7	4.6	4.2
India	6.5	7.7	6.3	6.0	6.2
Latin America	4.2	2.2	1.7	2.3	1.9
Other East Asia	4.2	3.1	4.0	3.6	3.5
Australia	4.1	2.1	1.0	1.8	2.2
NZ	2.4	0.7	-0.2	1.7	3.1
Global	**3.6**	**3.3**	**3.2**	**3.1**	**3.0**

US growth on track to end 2024 on a solid note while China growth struggles (part of a longer trend)



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Financial and commodity markets: expected policy changes driving diverging market trends

The mixed trends evident in equity markets in November continued into December. US markets continued to trend higher over this period, recovering from a brief, post-election sell off to rise to another all-time high in early December. This is consistent with the view that the Trump Administration's policy agenda will be more favourable towards business – including lower taxes, less regulation and a more relaxed anti-trust approach that will allow mergers and acquisitions. In contrast, both the other advanced economy index and emerging market index trended down between early October and mid-November, before largely recovering in early December (albeit the EM index remains below its early October peak).

Trends in commodity prices have been somewhat mixed – with the S&P GSCI tracking broadly sideways since mid-October (albeit with considerable degree of volatility). This reflects a slight upward trend in some industrial metals – particularly as speculation of further Chinese stimulus has increased – while energy prices have eased.

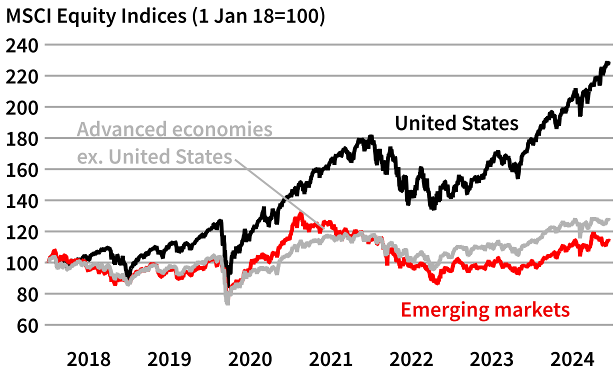
At its December meeting, OPEC+ members agreed to extend the group's oil production cuts – with its mandatory measures extended by a year to the end of 2026, while voluntary cuts by a few key members (that were scheduled to expire at the end of November) were extended to the end of March 2025. Despite this, oil prices have continued to ease – reflecting the supply gains outside the OPEC+ grouping (primarily in the United States) and the subdued global demand.

While there has been significant progress in returning advanced economy inflation back to central bank targets, there remains some uncertainty around its path forward. Headline inflation edged slightly higher again in October – moving up to 2.2% yoy (from a three-year low of 2.1% yoy in September) – with US, Canadian, European Union and United Kingdom measures all moving up.

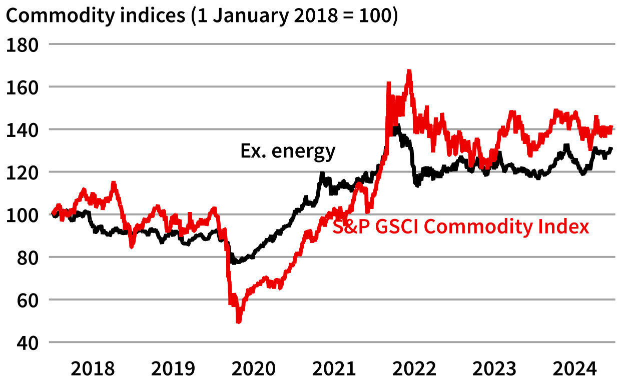
While AE headline inflation retreated between July and September, core inflation among these countries has remained relatively stable – moving back up to 2.7% yoy in October (from 2.6% yoy previously), meaning that there has been minimal easing in core inflation since April 2024.

This presents some uncertainty around the path of advanced economy central bank policy rates (ex. Japan), although activity concerns are also an increasing factor (e.g. in the Euro-zone and Canada). The European Central Bank cut rates by 25 basis points, and the Bank of Canada by 50 bps, in mid-December. The US Federal Reserve is expected to follow suit with a 25bp cut this month. Market pricing for further cuts in the US has wound back in the past three months – while a Fed cut in December is almost fully priced in (at the time of writing), only two further cuts are priced for 2025 (compared with our forecast of 100 bps of cuts for the full year).

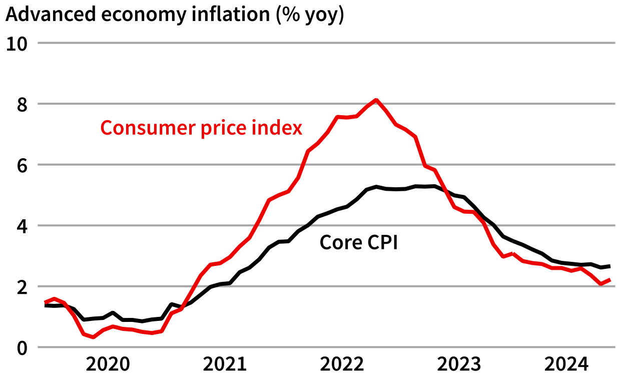
US equities hit another record high



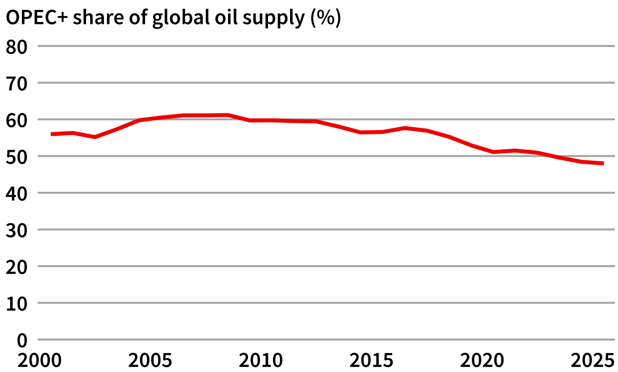
Mixed trends see commodities track sideways



AE inflation ticked higher in October



OPEC+ share of oil supply is falling, as US output grows



Sources: Macrobond, IEA, NAB Group Economics

Advanced economies: Political and policy uncertainty looms over 2025

The overarching story of this year has been the sustained strength of the US economy, even if it is likely to have slowed a little from its 2023 pace. At the same time, Western Europe, which basically treaded water over 2023, has seen growth pick up, and to a lesser extent, this was also true for Canada. In the case of Japan, after a fall in GDP in Q1, it has since rebounded strongly.

Overall, there has been some convergence between growth in the US and in the other major AEs over 2024. We expect this to also be the case over 2025, driven by an easing in US growth rather than stronger growth elsewhere. Policy uncertainty and political instability look set to be elevated, adding to risks around forecasts.

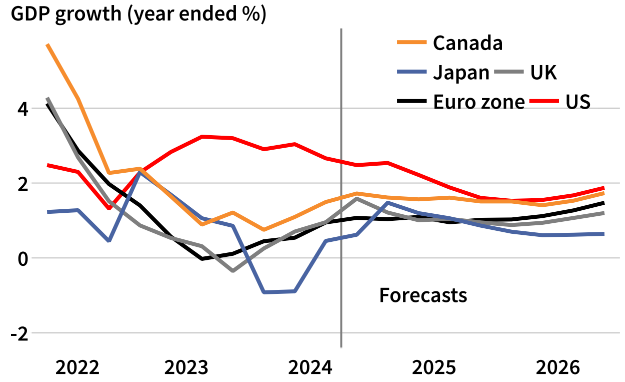
Early Q4 US activity indicators point to another quarter of solid growth, with the US consumer the key driver. Over 2025, we expect growth to ease, although still hold at a reasonable level. This view reflects still weak business sector investment indicators, some fading sectoral tailwinds and a likely softening in US population growth, while the gradual slowdown in employment growth underway will limit consumption growth. We expect to see materially higher import tariffs put in place in 2025 which will also weigh on growth. Policy risks are mixed but skew to the downside – tariff increases may be larger and earlier than we expect, population growth slower (due to a crackdown on illegal migration); a potential offset may come from more stimulatory fiscal policy.

For Western Europe, the improved growth so far this year has partly reflected a rebound in real household incomes, as inflation has fallen. In Japan, the squeeze on household incomes persisted for longer, but there has been some recent improvement. The Euro-zone, UK and Japan all saw robust consumption growth in Q3.

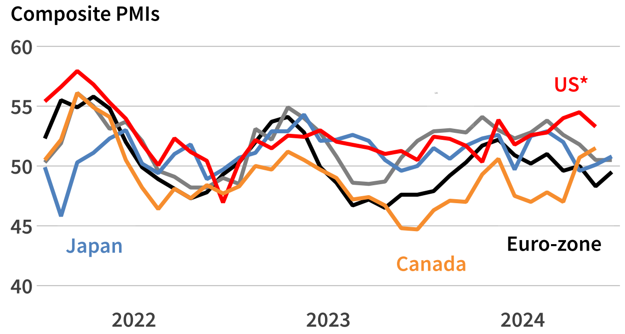
A concern is that the business surveys point to a loss of momentum in Western Europe (and possibly Japan, but while the Japanese PMIs have declined, the BoJ's Tankan business survey is more positive). While policy is responding – with some relaxation of fiscal settings (mainly the UK, but some faltering attempts in the Euro-zone), and through lower policy interest rates, headwinds are coming from the ongoing weak manufacturing sector (particularly in Germany), political instability (Germany and France) and from the prospect of US tariffs.

While both the trajectory, and level, of economic growth has varied across the major AEs, an important common story – which is supporting central bank easing outside of Japan – is the easing of labour market pressures. While trends for unemployment rates have been mixed – with a large increase in Canada, a small increase in the US, and Japan and the UK tracking sideways, a more common story has been a fall in job vacancy rates. This suggests that the labour shortages experienced in the COVID aftermath have been unwound.

An easing is US growth should see further convergence in 2025

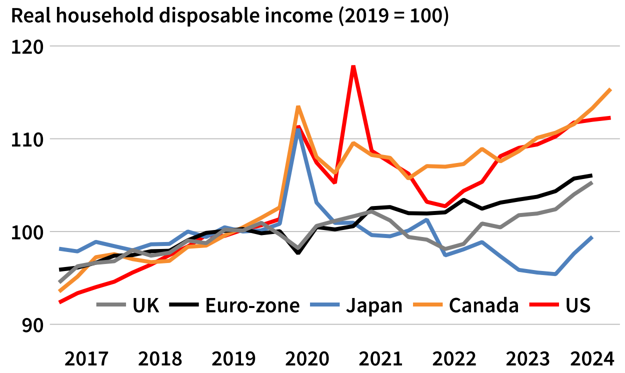


Business surveys outside US are soft

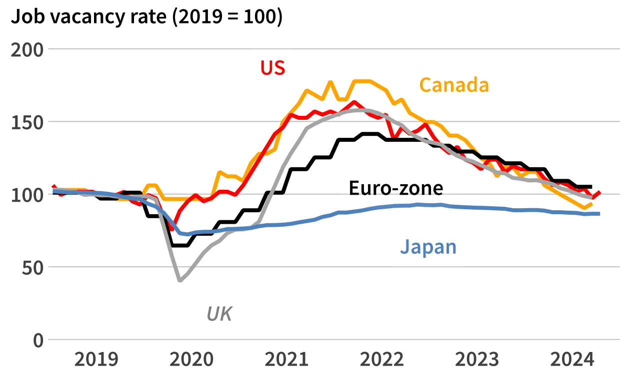


* Based on S&P Global and NAB weighted composite of US ISM PMIs

Real h'hold income has lifted as inflation has eased



Labour market normalisation well advanced



Sources: Macrobond, NAB Group Economics.

Emerging markets: frontrunning tariffs may boost near-term China exports, but drop off later

Emerging market business surveys were somewhat stronger in November – despite the negative sentiment towards the region following the US Presidential election (as evidenced by the downturn in EM equity markets). The EM composite PMI edged up to 52.8 points (from 52.5 points previously).

This uptick was driven by the EM manufacturing PMI – which rose to 51.6 points (from 50.6 points in October). This increase reflected a sizeable strengthening in China's measure (with strong new orders driven in a large part by export demand), which was partially offset by a weaker result in India. Changes to other major EMs were relatively modest.

In contrast, the EM services PMI edged down to 52.8 points in November (from 53.0 points previously). Both China and Brazil recorded weaker results in November, while Russia was stronger.

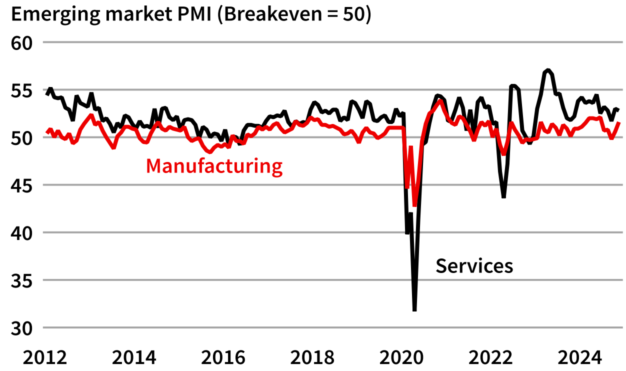
China's export volumes have increased strongly in 2024 to date, in part reflecting the imbalances between the supply and demand side of the country's economy. According to China's trade data, export volumes rose by double digit rates between May and August, slowing somewhat in September, before increasing by 17.3% yoy in October.

In the near term, Chinese manufacturers may receive a boost – as importers in the United States build inventories ahead of the imposition of tariffs by the incoming Trump Administration. However, this could lead to a sizeable drop off – either in export volumes or prices (or some combination of both) once US trade measures are implemented.

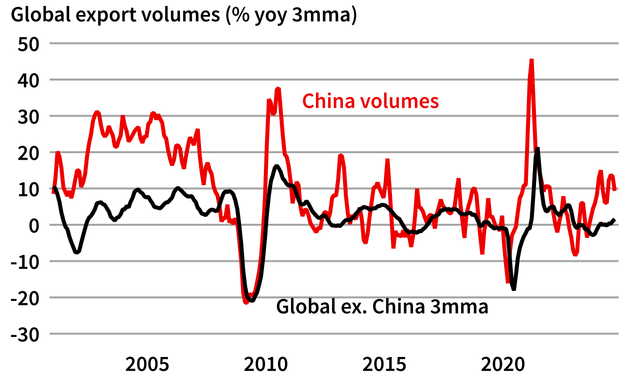
Trade tensions between China and the United States continue to increase, even ahead of the Trump Administration. In early December, the US government tightened export controls on semi-conductors and their manufacturing equipment to China, along with additional tariffs on solar panels. In response, China announced an export ban on key materials used in high tech applications, including gallium, germanium and antimony.

India's economy grew more slowly than anticipated in Q3, with year-on-year growth easing to 5.4% (down from 6.7% in Q2 and well below the above 8% growth rates recorded for much of 2023). India's GDP data has been highly distorted during the recovery from the COVID-19 pandemic – for much of 2023, India's growth was elevated by a sizeable statistical discrepancy, however this component has detracted from growth in the past two quarters. Beyond the uncertainty in the headline GDP, other indicators point to softening in India's economy, with gross value added (excluding the agriculture and public sectors) – which provides an indication of private sector activity – also slowing markedly (from 7.3% yoy in Q2 to 5.3% yoy in Q3).

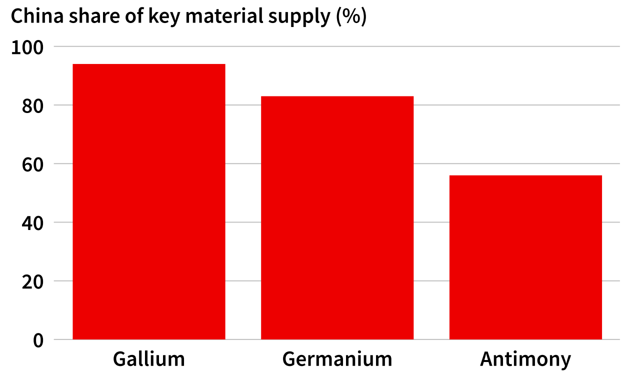
Manufacturing pushed EM composite PMI higher in Nov



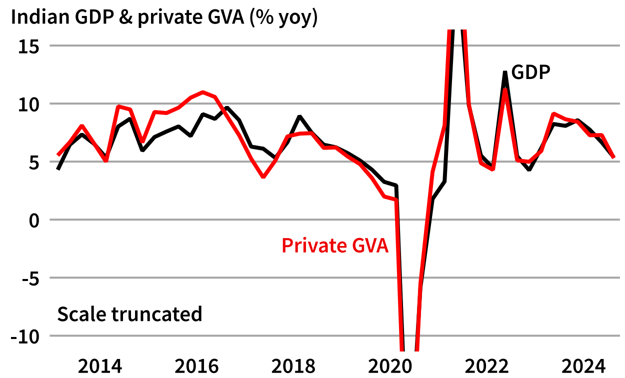
China's export volumes continue to grow



China has a dominant share of key tech inputs



India's growth slowed considerably in Q3



Global forecasts and risks: US trade policy set to slow global growth, but uncertainty on the rise

Following the changes to our global outlook last month – that reflected the policy shifts expected under the Trump Administration – we have made only minor changes this month.

The main change to our forecasts is a weaker profile for India in 2025 and 2026. In part this downgrade reflects a lower starting point for its economy (following the weaker than anticipated growth in Q3), which made our earlier forecast much harder to achieve. We now see India's economy growing by 6.0% in 2025 (down from 6.2% previously).

The updated forecast for India, combined with some adjustments to the outlook for East Asia (in part related to follow on effects from last month's changes to our China forecast) has slightly altered our global growth profile. We still expect the global economy to grow by 3.2% in 2024, however we now see growth easing to 3.1% in 2025 (previously 3.2%), before a further slowing to 3.0% in 2026 (unchanged) – reflecting the impact of US tariffs.

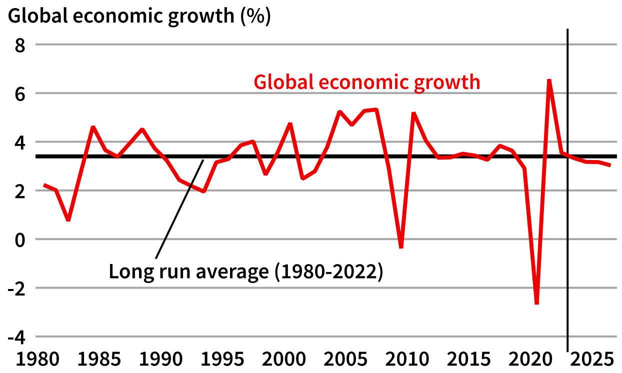
Trade policy under the incoming Trump Administration remains a key uncertainty to our global outlook – particularly with respect to the timing and scale of anticipated tariffs. Our forecasts assume that tariffs will be implemented in mid-2025 and are smaller than those flagged during the election campaign. However, the recently proposed measures on China, Canada and Mexico (potentially from as soon as 20 January) highlight the risk around these assumptions (although it is far from clear whether they will be implemented or not).

Similarly, China's policy response to tariffs and its domestic headwinds is unclear. Major fiscal stimulus has been widely anticipated to support monetary easing, however the piecemeal measures that have been announced have generally disappointed markets and observers, typically focussing on the supply side of the economy, rather than demand. Reports from December's Central Economic Work Conference suggest boosts to pensions and medical insurance – which could reduce household savings and boost consumption – however more details are necessary.

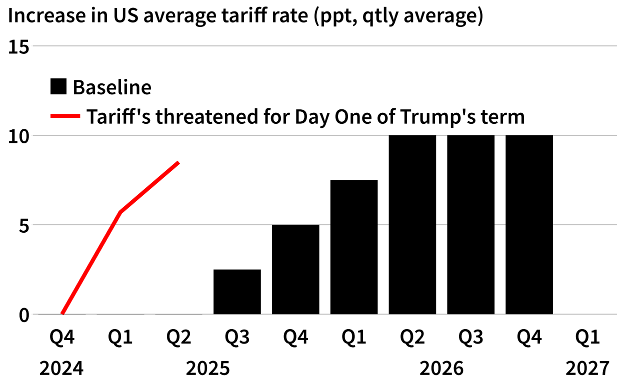
The path of inflation in advanced economies remains uncertain – as highlighted by the uptick in October, the potential for tariff related volatility and potentially a loosening of fiscal policy settings in several countries. While many major AE central banks have commenced their easing cycle, stalling progress on inflation could see central banks pause.

Geopolitical tensions in Eastern Europe, the Middle East and South East Asia persist with little signs of improvement – with these factors continuing to impact economic activity and trade. It is unclear at this time how the collapse of the Assad regime in Syria will affect the balance of power in the Middle East.

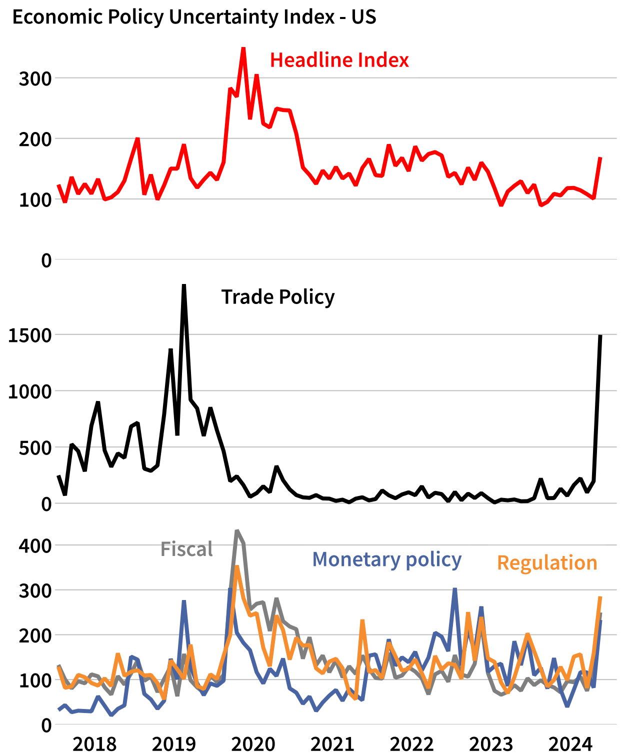
Global growth likely to be subdued



Trump's Day One threatened tariffs on Mexico/Canada/China – challenges timing and extent of our baseline assumption for tariffs



US policy uncertainty spikes – not just trade



Sources: Macrobond, NAB Group Economics. www.policyuncertainty.com

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