

## Global Economics Wrap-Up: August 16, 2024

### Global Economics

- Former US President Donald Trump's tariff proposals raise global growth, inflation, and policy risks:
  - There is substantial uncertainty regarding the specific tariff measures Trump would enact:
    - We assign a high probability (90% odds) to sizable, targeted tariffs on US imports from China.
    - A 10pp across-the-board tariff on all US goods imports is not our base case but remains in serious consideration.
  - We analyze a scenario where the US implements a 10pp across-the-board tariff and raises the effective tariff rate on Chinese imports by 20pp:
    - Assuming full retaliation by other countries, this policy would raise prices by just over 1% and lower GDP by just over 0.5% in the US.
    - Inflation impacts would be smaller elsewhere, and we expect a smaller 0.5% uplift to global prices.
    - However, the growth hit from tariffs would likely be larger in other countries, and we expect a -0.9% hit to global GDP.
  - A tariff-driven rebound in US inflation could limit Fed policy easing in 2025.
    - In most other economies, we estimate that the smaller inflation uptick and larger growth hit will have dovish policy implications.
- Manufacturing activity in DMs has improved from 2023/2024 lows but remains below trend:
  - Three reasons for continued slow growth in global manufacturing:
    - Most DMs have reduced inventories over the past year and a half after overstocking during the pandemic, which lessens the need for new production.
    - Weak consumer spending in China has slowed DM export orders.
    - A weak recovery in goods spending (outside of the US) is weighing on domestic demand.
  - We expect these drags will keep DM manufacturing growth below trend in 2024H2.
    - However, we see reduced inventory adjustment and improved

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consumer goods spending (in non-US DMs) as reasons to expect improvement.

- A pulse check on global rate cycles:
  - On a GDP-weighted basis, 23.3% of DM central banks and 22.1% of EM central banks have cut policy rates over the past three months.
  - We forecast that global central banks will lower policy rates from 5.6% to 5.0% (on a GDP-weighted basis) by the end of 2024.
    - We expect DM and EM central banks to lower policy rates by 121bp and 170bp respectively over the next 12 months.
  - On average, our policy rate forecasts are slightly below consensus given our forecasts for more disinflation progress.
  - We also expect balance sheet normalization to continue into 2025 in most DMs.

## US Economics

- The core CPI rose 0.17% in July and 3.17% over the last year:
  - Rent jumped and owners' equivalent rent (OER) was soft, likely reflecting payback from the January drop in rent and jump in OER.
  - We expect shelter to gradually decelerate going forward, with OER outpacing rent because the single-family part of the market is still tighter.
  - Car insurance was surprisingly firm, but more of this "catch-up inflation" now should mean there is less of the gap to close going forward.
  - We estimate that the core PCE price index rose 0.13% in July, corresponding to a yoy rate of 2.64%.
- On net, we lowered our Q3 GDP tracking estimate by 0.2pp to 2.4% and left our past-quarter GDP tracking estimate for Q2 unchanged at 2.5%:
  - Retail sales rose 1.0% in July, partly reflecting a 0.3% increase in core sales and a 4.0% increase in auto dealer sales after last month's cyberattack-related decline.
    - The strong report helped cool market fears about consumer spending sparked by earnings season anecdotes.
  - Auto assemblies declined by 12.4% to 9.8mn, the lowest level since October 2023, likely reflecting shutdowns for retooling at factories in July.
- We outline 10 observations about the election:
  - Prediction markets now suggest slightly higher odds of Vice President Harris winning the election than former President Trump winning.
  - Prediction markets indicate 28% odds of a Democratic sweep and 24% odds of a Republican sweep; the highest odds (35%) are for a Harris White House but mixed government.
  - Some further Democratic gains in polling seem likely, especially following the

Democratic convention on August 19-22.

- A good deal of the shift in the polls has come from declining third-party support.
- As the race has tightened, Former President Trump has proposed new fiscal policies, and the Harris campaign has indicated it will release economic plans in coming days.
- A tighter race might lead to more expensive fiscal proposals.

## Europe Economics

- UK inflation surprises to the downside:
  - Services inflation came in at 5.17% in July, a 0.3pp downside surprise relative to our forecast and consensus expectations and 0.4pp below the BoE's August MPR projections.
  - Relative to our forecast, two-thirds of the downside surprise was driven by accommodation services prices.
  - This means that core inflation came in 0.1pp below our expectations at 3.29%, despite core goods prices coming in above our forecast.
  - Headline inflation came in at 2.23% (4bp below our expectation, 14bp lower than the BoE's MPR projection).
  - Our baseline remains that the Bank will cut at a quarterly pace, with risks around our baseline skewed towards a faster pace.
    - We view a cut in September as possible if domestic data continues to come in on the weaker side.
- UK Q2 GDP in line with expectations:
  - Monthly GDP was unchanged in June, in line with consensus expectations, reflecting weakness in the retail trade and the impact of election uncertainty and industrial action.
  - That resulted in a 0.6% qoq expansion in Q2, also in line with consensus.
  - The expenditure breakdown showed that consumption expanded by less than overall output in Q2, rising by 0.2% qoq, while business and residential investment declined.
  - But government consumption and investment expanded notably, pushing up demand.
  - Looking ahead, we continue to expect GDP to expand at a 0.35% qoq rate in Q3 and Q4.
    - Incorporating the Q2 data, our 2024 annual GDP growth forecast edges down slightly to 1.1% on rounding.
- UK labour market data comes in mixed:
  - Private sector regular pay growth came in at 5.2% on a 3-month yoy basis in June, slightly above the BoE's August MPR projection.

- The 3-month average Labour Force Survey (LFS) unemployment rate decreased by 0.2pp to 4.2% – notably below our own forecast and consensus expectations of 4.5%.
  - We currently place slightly less weight than usual on short-term fluctuations in the LFS numbers given ongoing issues with low response rates.
- On the other hand, the claimant count increased notably in July.
  - The rise may not necessarily reflect weakness in labour demand.
- Norges Bank stays on hold in August:
  - Norges Bank’s Monetary Policy Committee kept the policy rate on hold at 4.5%, in line with our and consensus expectations.
  - We continue to expect Norges Bank to begin cutting the policy rate in November, as we see inflation decelerating somewhat faster than what Norges Bank projects.
    - We then see Norges Bank cutting again in December, and proceeding with quarterly 25bp cuts thereafter to a terminal rate of 3% in 2025Q4 but see risks of less easing this year.
- We expect Riksbank to cut rates at their meeting next week:
  - Since the June meeting, core inflation has broadly printed close to the Riksbank’s June MPR forecast, while the activity picture remains subdued.
  - We therefore expect the Riksbank to deliver a 25bp cut at its meeting next week to 3.5%, in line with market expectations.
  - We still forecast three more cuts this year (August, September and November), and one additional cut in 2025Q1 to a terminal rate of 2.75%.

### Asia/EM Economics

- China’s July activity data point to weak start to second half of year:
  - July data were generally soft; fixed asset investment growth missed expectations, IP growth edged lower in July.
  - Property-related activity remained depressed, with primary market prices declining at a slightly slower pace in July.
  - RMB loans outstanding declined slightly in July, for the first time since July 2005, and PBOC Q2 survey suggests loan demand remains weak.
  - PBOC reiterated supportive stance in Q2 monetary policy report, but flagged potential risks of crowded CGB positions; CGB yields rose as PBOC reportedly increased secondary market interventions.
- Heads of government change - Japan’s PM Kishida to resign, Thai PM Srettha dismissed:
  - Japan’s PM Kishida announces he will not run for president in LDP September election amid low approval rating; our view is that this raises possibility of a new PM holding general elections as early as fall 2024.

- Thai PM Srettha Thavisin was dismissed by the constitutional court.
  - Paetongtarn Shinawatra (daughter of former PM Thaksin) has been appointed in his place as the youngest-ever (37 years old) Thai prime minister.
- These changes follow recent ouster of Sheikh Husina (who had been PM since 2009) in Bangladesh; interim government headed by Nobel Peace Prize winner Muhammad Yunus took over on August 8.
- Inflation up modestly in many Asian economies in July; RBNZ, BSP initiate easing cycles:
  - Inflation picked up modestly in July in China, the Philippines, Korea, Taiwan and Thailand (mostly driven by food/non-core factors).
  - An exception was India, where CPI inflation dropped to a 5-year low of 3.5% yoy on lower food inflation; RBI voted 4-2 to keep policy rates unchanged.
  - Monetary policy easing beginning to broaden: central banks in New Zealand and the Philippines each initiated easing cycles with 25bp rate cuts (to 5.25% and 6.25%, respectively).

### GDP Forecast Tracker: GS vs. Consensus

Real GDP Growth Percent Change yoy	2023		Annual Average				Q4/Q4
	Actual*	GS	2024		2025		2024
		GS	Consensus	GS	Consensus	GS	
<b>US</b>	2.5	2.7	2.3	2.3	1.7	2.3	
<b>Euro Area</b>	0.5	0.7	0.7	1.3	1.4	1.1	
Germany	-0.1	0.0	0.1	0.9	1.1	0.5	
France	1.1	1.3	1.1	1.1	1.2	1.2	
Italy	1.0	0.8	0.8	1.0	1.0	1.0	
Spain	2.5	2.7	2.6	1.8	2.0	2.6	
<b>Japan</b>	1.7	0.1	0.0	1.4	1.1	0.9	
<b>UK</b>	0.1	1.1	1.0	1.6	1.3	2.0	
<b>Canada</b>	1.2	1.0	1.0	1.7	1.7	1.6	
<b>Australia</b>	2.0	1.4	1.2	2.4	2.1	1.7	
<b>China</b>	5.2	4.9	4.9	4.3	4.5	4.8	
<b>India</b>	7.7	6.9	6.9	6.6	6.5	5.9	
<b>Brazil</b>	2.9	2.1	2.1	2.0	2.0	3.3	
<b>Russia</b>	3.6	3.5	3.3	1.2	1.6	1.7	
<b>World</b>	2.7	2.7	2.6	2.8	2.6	2.7	

Note: All forecasts calculated on calendar year basis except when otherwise stated. IMF forecasts used for India 2025 consensus when quarters not available in Bloomberg. Global growth aggregates use market FX country weights.  
\*2023 actual values are GS tracking estimates when Q4 official data not yet released.

Source: Bloomberg, Goldman Sachs Global Investment Research

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