OCTOBER 2024

GLOBAL ECONOMIC OUTLOOK

• Closing The Year Well

Financial market participants are superstitious about October, as nine of the 20 largest single-day declines in the Dow Jones Industrial Average have occurred during the month. This year, however, investors have had less cause for fear.

The optimism is supported by steady economic gains. Growth is progressing, even strengthening in places. Inflation is under control, helped by stable commodity prices and cooling labor market conditions. This has allowed western central banks to normalize monetary conditions. Looking ahead, we expect trend-like growth for the main developed markets, with a sub-par performance from other parts of the world.

The unpredictable nature of the ongoing regional conflicts, along with the outcome of the U.S. election, could lead markets into the cold November rain.

Following are our thoughts on how major economies are faring.

United States

- The U.S. economy continues to chug along. Consumers are still spending, reflected in the solid gains in retail sales. Job growth picked up in September, bucking the trend of slower hiring that had caused concern over the summer. The unemployment rate edged down to 4.1%. Average hourly earnings, a leading indicator of services inflation, stepped up to 4.0% year over year.
- A string of upbeat economic data has put expectations of aggressive rate cuts by the Fed on ice. Federal Open Market Committee (FOMC) members have been noncommittal about the path of easing ahead. We continue to expect a cadence of 25 basis point cuts at each meeting until a rate of 3.0% is reached in the middle of next year. With inflation still above target and employment tapering, risks to the outlook for monetary policy are balanced.

Canada

- Growth slowed in the third quarter, well short of the Bank of Canada's (BoC) forecast. The underlying trend in consumer goods spending remains frail as mortgage renewals at higher rates and soft hiring are curbing household budgets. A tepid economy has been slow to absorb an influx of immigrants. Falling rates should contribute to improvement in business investment and consumer spending, but the government's focus on reducing immigration will likely weigh on growth.
- The BoC has been one of the world's more dovish central banks in the current cycle. The central bank accelerated the pace of easing by lowering its policy rate by a half-point to 3.75% in October as inflation dropped below the 2% target for the first time in three years. The BoC also continues to press ahead with its balance sheet normalization plan. Given the focus on underpinning growth, we expect the central bank to implement another 50bp rate reduction in December.

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Eurozone

- Growth surprised to the upside in the third quarter, with the real GDP rising 0.4% quarter over quarter. However, signs of economic weakness have been accumulating. October's flash Purchasing Managers' Index (PMI) and sentiment indicators are sending a clear message that momentum is poor in the eurozone. Industrial activity is weak, while growth in the services economy slipped further. The labor market has still not cooled significantly; however, surveys show firms are reducing headcounts amid concerns over the economic situation. Given the focus on fiscal consolidation, government spending will prove to be a drag on growth through 2025.
- The European Central Bank (ECB) lowered its key policy rates by 25 basis points at its October meeting, the first back-to-back cut since 2011. The central bank reiterated its data-dependent and meeting-by-meeting approach. However, the Governing Council noted that the disinflationary process was "well on track" and that the outlook had been affected by weakening economic activity. Given the recent comments from ECB officials and rising concerns around the growth outlook, the central bank could pivot for a bigger 50bp reduction in December, not our base case. We expect a series of sequential 25bp reductions until overnight rates reach 2% in mid-2025.

United Kingdom

- Activity is decelerating in the U.K, though the economy still has plenty of momentum. Retail sales rose further in September, a third consecutive increase. Healthy real household income growth and improvements in consumer confidence will continue to underpin consumer spending. Business investment, which is still languishing around levels seen in 2016, is set to benefit from the rate-cutting cycle and improving profitability. Inflationary risks are dissipating, with core inflation and wage gains surprising to the downside in September. That said, wage pressures are still quite elevated and not consistent with the central bank's 2% inflation target. We expect the Bank of England to stick with the gradual pace of easing for now.
- Given the stretched position of British public finances, the Chancellor of the Exchequer tweaked self-imposed fiscal rules to boost public investment. Chancellor Reeves announced large tax increases worth £40 billion a year, the biggest in a generation. The Autumn Budget also delivered a large, sustained increase in spending and borrowing. This means that the drag from fiscal policy on growth will be somewhat lower than implied in the Spring Budget plans.

Japan

- Signs of passthrough from strong wage negotiations to consumer spending are starting to appear, as private consumption turned up for the first time in five quarters. Business investment increased, led by normalization of auto production. A modest expansion led by higher incomes and consumption is our base case for the Japanese economy. Prime Minister Ishiba's decision to call a snap election has backfired, as the ruling coalition lost its majority for the first time since 2009. A minority government led by the current coalition and some opposition parties seems likely. Therefore, the risk of major fiscal and monetary policy changes is low.
- The Bank of Japan is expected to keep the policy rate unchanged at 0.25% at the October meeting, but the uncertainty around further normalization of monetary policy is likely to stay elevated in the near-term. Given the political backdrop and the potential of financial market turbulence, we continue to think that the central bank will stay on hold for the remainder of the year, and foresee only one hike in early 2025.

China

- China's real GDP growth edged down to an annual rate of 4.6% in the third quarter, the slowest pace since early 2023. Consumption growth slowed markedly from an already soft second quarter reading. The real estate sector downturn remains at the heart of China's economic woes. A slowing economy is deepening a deflationary loop, with consumer price inflation only slightly above zero and producer prices deep into deflation. Industrial profits plunged 27.1% year over year in September, the steepest decline since March 2020, due to weak domestic demand and falling prices. Only exports remain a bright spot, but rising protectionism could worsen overcapacity problems and make deflationary pressures more acute. November 5 could become a decisive day not just for Americans, but for China's industries too.
- The disappointing news on almost all fronts has forced policymakers to turn the tap on more stimulus. However, the scale and composition of easing was still not comparable to that of 2008 or 2016. Recent policy measures included cuts to policy rates, reserve requirement ratios, mortgage rates and one-off cash handouts to the poor. While these measures were cheered by China's stock markets initially, the growth picture is unlikely brighten materially without large-scale demand-side stimulus.

Australia

- Australia's economic growth improved in the second quarter, but was still sluggish at 0.9% annualized. The economy lacks a driver of growth. Households have tightened their belts as real incomes are squeezed. The private sector is also feeling the pinch from restrictive policy settings. Public demand, a resilient labor market and strong immigration have all prevented an outright contraction in GDP, but likely at the cost of stalled progress on disinflation. Below-potential growth is our base case in the balance of the year.
- The Reserve Bank of Australia (RBA) remains committed to its higher for longer stance, awaiting clearer signals of durable disinflation. The central bank held rates steady at its September meeting, emphasizing that the Board "is not ruling anything in or out" and that "policy will need to be sufficiently restrictive until the Board is confident that inflation is moving sustainably towards the target range." We expect inflation to cool, but not enough for the RBA to pivot as other central banks have done this year. The easing cycle is likely to commence in early 2025.

Global Economic Forecast – October 2024

United States	2022	2023	2024F	2025F
Real GDP (Q4-Q4 % change)	0.7	3.1	2.2	1.7
Unemployment Rate, EOP (%)	3.6	3.7	4.3	4.2
Inflation (CPI, Q4-Q4, %)	7.1	3.2	2.8	2.4
Policy Rate (Top), EOP (%)	4.50	5.50	4.50	3.25
Canada	**2022**	**2023**	**2024F**	**2025F**
Real GDP (Q4-Q4 % change)	2.2	1.0	1.6	1.9
Unemployment Rate, EOP (%)	5.1	5.8	6.8	6.7
Inflation (CPI, Q4-Q4, %)	6.6	3.2	2.0	2.0
Policy Rate (Top), EOP (%)	4.25	5.00	3.25	2.50
Eurozone	**2022**	**2023**	**2024F**	**2025F**
Real GDP (Q4-Q4 % change)	1.9	0.2	1.0	1.2
Unemployment Rate EOP (%)	6.7	6.5	6.5	6.5
Inflation (CPI, Q4-Q4, %)	10.0	2.7	2.0	1.9
Policy Rate, EOP (%)	2.50	4.50	3.40	2.40
Deposit Rate, EOP (%)	2.00	4.00	3.00	2.00
United Kingdom	**2022**	**2023**	**2024F**	**2025F**
Real GDP (Q4-Q4 % change)	0.6	-0.2	1.8	1.5
Unemployment Rate EOP (%)	3.8	4.0	4.4	4.4
Inflation (CPI, Q4-Q4, %)	9.4	4.4	2.3	2.3
Policy Rate, EOP (%)	3.50	5.25	4.75	3.50
Japan	**2022**	**2023**	**2024F**	**2025F**
Real GDP (Q4-Q4 % change)	0.7	0.9	0.9	0.7
Unemployment Rate EOP (%)	2.5	2.5	2.4	2.3
Inflation (CPI, Q4-Q4, %)	3.9	2.9	2.3	1.9
Policy Rate, EOP (%)	-0.10	-0.10	0.25	0.50
China	**2022**	**2023**	**2024F**	**2025F**
Real GDP (Q4-Q4 % change)	2.9	5.2	4.0	3.7
Unemployment Rate EOP (%)	5.5	5.1	5.1	5.2
Inflation (CPI, Q4-Q4, %)	1.8	-0.3	0.7	1.3
7-day Reverse Repo, EOP (%)	2.00	1.80	1.40	1.30
Australia	**2022**	**2023**	**2024F**	**2025F**
Real GDP (Q4-Q4 % change)	2.5	1.6	1.5	2.1
Unemployment Rate EOP (%)	3.5	3.9	4.3	4.4
Inflation (CPI, Q4-Q4, %)	7.8	4.0	3.0	2.9
Policy Rate, EOP (%)	3.10	4.35	4.35	3.60
Exchange rates (EOP)	**Dec-2024**	**Mar-2025**	**Jun-2025**	**Sep-2025**
USD/CAD	1.39	1.40	1.36	1.34
EUR/USD	1.08	1.07	1.10	1.12
GBP/USD	1.28	1.27	1.29	1.32
USD/JPY	148.0	145.0	142.0	138.0
USD/CNY	7.12	7.15	7.05	7.00
AUD/USD	0.65	0.64	0.67	0.69