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Global Monthly

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Calm before the storm?

- The global economy is on tenterhooks on the eve of the US presidential election, which takes place next Tuesday, 5 November. Polls continue to suggest the outcome is a coin-toss
- The stakes could hardly be higher, with a Harris win likely to see a continuation of the status quo, while a Trump win could mean significant new barriers to global trade, and downside risks to global growth
- This month, we recap our extensive coverage of the US election so far
- Spotlight: Climate disasters are becoming harder to ignore. Which countries are most impacted?
- Regional updates: The darkening growth outlook in the Eurozone is increasingly impacting ECB policy, while in the Netherlands, growth is likely to be similarly subdued, despite recent strength
- In the US, seasonal distortions are making it harder to discern a signal from recent economic data
- In China, stimulus is being gradually unveiled, but full details may come only after the US election

Global View: Next week could be the week that changes everything

October was broadly a continuation of the developments we saw in September. Flash PMIs suggested the eurozone recovery remains subdued, nudging the ECB to forge ahead with another rate cut. Indeed, for some on the Governing Council, the outlook has seemingly darkened to such an extent recently that it opens the door to a stepping up in the pace of rate cuts – with around a 40% chance of a 50bp cut now priced in for December by financial markets. Authorities in China meanwhile continued the drip-drip of stimulus measures. And US data – though muddied by seasonality distortions – continues to point to an economy that remains on a solid footing, and this has led to a partial unwind of pricing for Fed rate cuts. With inflation coming back to target, and growth expected to converge back to trend, we still see both the ECB and Fed continuing to bring interest rates back down to more normal levels over the coming year. But all of this could be upended by the US presidential election, which after months of campaigning, finally comes to a close next week Tuesday. The US election not only has significant ramifications for the US economy, but it could impact the global economy from a multitude of angles: from geopolitics, particularly the Russia-Ukraine war and NATO; to a potentially historic rise in trade barriers, which could hit Europe and China hard, just when global trade and industry is already struggling against a backdrop of high interest rates and weak demand. This month, we – one last time – look at the range of implications the US election could have on the economy. Next month, when we publish our *Global Outlook 2025*, we will finally have some clarity over what lies ahead.

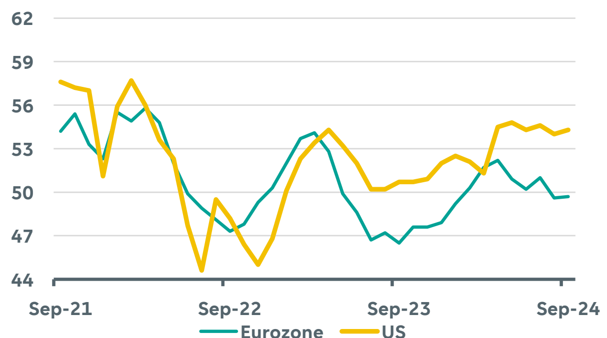
Fed & ECB market pricing has started to diverge...

Market-implied policy rates by end 2025 for Fed (lhs) and ECB (rhs)

Source: Bloomberg, ABN AMRO Group Economics

...reflecting renewed European underperformance

Composite PMI, <50 = contraction, >50 = expansion



Source: Bloomberg, ABN AMRO Group Economics

Spotlight: US elections are coming to a close

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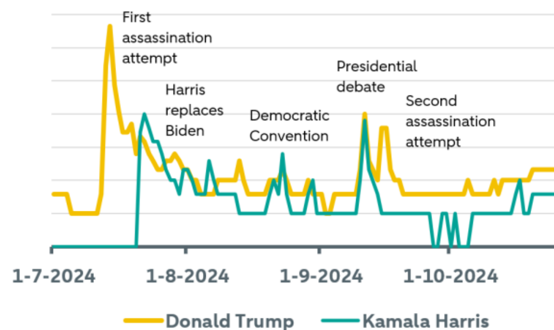
- The US elections are drawing near, and there is no clear indication who might win
- Harris' plans represent order: the impact on the world's economic trajectory is mild
- Trump's plans represent chaos: with both greater upside potential, but especially greater downside risk

We are just a week away from the US elections – the conclusion to an incredibly exciting period – and with historic implications. The story tells itself through two data series: media attention (on the left hand side below) and betting market odds on who wins the election (on the right hand side below). The world thought Trump had won the election after the first attempt on his life on July 13th. Slightly over a week later, Biden stepped down to be replaced by Kamala Harris, who quickly gained the momentum, and kept it going following the Democratic convention and a win in the only debate between these candidates. A second assassination attempt failed to raise as much interest or put a large dent in the betting odds. Since the end of September, betting markets have clearly started to favor Trump, while professional forecasters with elaborate models, the likes of the Economist and Nate Silver, describe the election as a toss-up. With probabilities hardly moving away from 50% for both candidates, a coin-flip is as likely to be right. This is largely the result of the electoral college. Whereas the popular vote will almost surely go to Kamala Harris, the presidential election ultimately depends on a couple of hundred thousand swing-voters in battleground states. In those states, the margins are too close to call, and we'll really need to wait until the final vote is counted.

Public interest in Trump and Harris

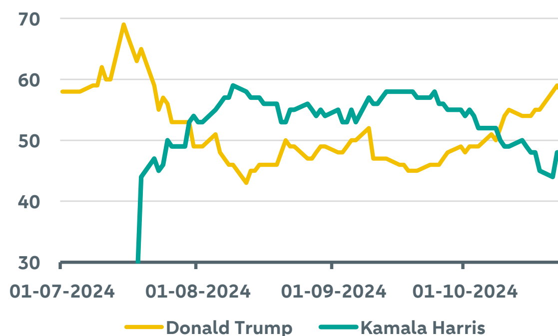
Google trends data, higher values mean searches



Source: Google Trends, ABN AMRO Group Economics

Prediction markets are betting on Trump

PredictIt presidential victory odds, %



Source: LSEG, ABN AMRO Group Economics

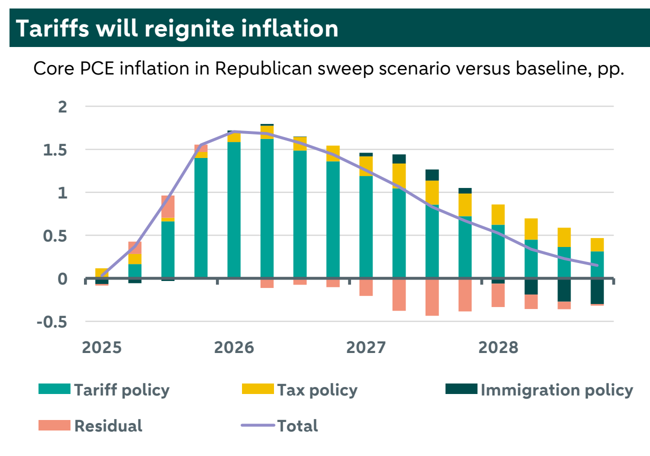
Spurred by the impact of post-pandemic inflation, the economy is once again at the forefront of voters minds, similar to its importance in the 2008 election following the Great Financial crisis. Historically, the state of the economy has had a large effect on who they vote for, with the typical American voter placing greater faith in a Republican to put the economy back on track. Who will be better for the economy this time around? Over the summer we made an inventory of the policy proposals by the candidates and modeled the impact of the major policy changes on the US economy, as well as the European and Dutch Economy. While the candidates' overall policy agenda differs greatly on almost every aspect, the two primary policy proposals affecting the (global) economy are tax- and trade policy.

Trump aims to lower corporate taxes and extend the Trump income tax cuts, while Harris wants to raise corporate and wealth taxes, and extend Trump's income tax cuts for all but the highest income households. Broadly speaking, Trump's plan to lower corporate taxes is likely to give a boost to the economy at the expense of a greater budget deficit. The US economy certainly doesn't seem to need it at this point, and there's a risk of overheating. Harris's tax rises are in contrast likely to slow the economy, but they are needed to finance a wide array of social transfers and support to lower and middle income households, which are likely to help boost aggregate consumption. Her plans to raise the minimum wage will similarly likely have a positive effect on growth in the medium term. Neither Harris' nor Trump's plans are sufficient to stop US federal debt from increasing substantially, although Trump's plans accelerate the trajectory significantly.

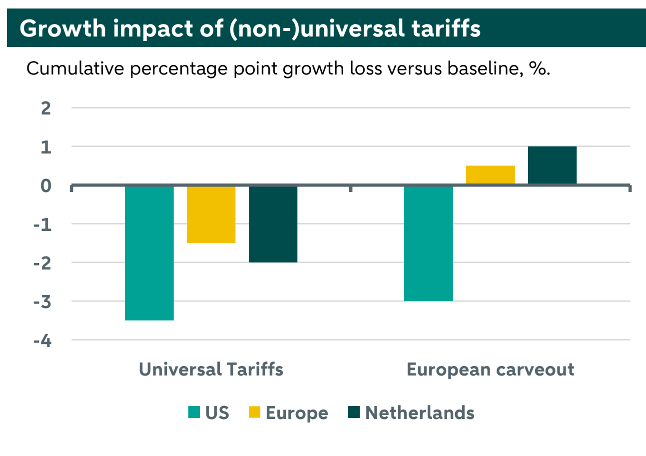
The bigger economic impact may stem from trade policy. While Harris is likely to continue the Biden administration's use of targeted tariffs to support strategic industries, Trump proposes a universal tariff on all imported goods. The tariff proposal started as a 10% tax on all goods and 60% on Chinese goods. Over the course of the campaign trail, this has evolved to a 20% baseline tariff, and tariffs of up to 2000% on select goods. This is a wildly different proposal from the tariffs implemented in his first presidency. There, we saw that a 15% average tariff led to prices of impacted goods rising by about 6%, and a decline of approximately 7% in consumption of these goods. The effect on aggregate price

levels and consumption was too small to really discern. The non-universal nature of the tariffs allowed companies to substitute goods or procure goods from elsewhere in the world, limiting the impact. For instance, significant amounts of China trade was rerouted through Vietnam. A universal tariff makes this impossible.

Trump's proposal of universal tariffs will hit the US economy hard. Our analysis, based on the initial 10% universal tariff proposal, estimates that inflation could rise by up to 1.7pp relative to a scenario without such tariffs. This resurgence of inflation would force the Fed to raise rates again, or at least keep rates higher for longer. This will slow down the economy and may well put the US in a mild recession. Overall, we estimate that the US would grow by about 3.5% less over the four years, where the brunt of this hit would be in the 1.5 years following the implementation of the tariffs.



Source: LSEG, ABN AMRO Group Economics



Source: LSEG, ABN AMRO Group Economics

US tariffs will likely face retaliation from trading partners, which has the potential to escalate to a full-blown trade-war. We estimate the European economy might lose out on 1.5% of growth over the four years, due to a reduction in exports to the US and the global slowdown in trade and activity as a result of the tariffs. The Netherlands, as a trade-oriented country, stands to lose even more – around 2.0%. This slowdown will put downward pressure on domestic demand and energy prices (which are likely already lower due to higher fossil fuel production under Trump), which results in the ECB easing faster and more than our baseline trajectory. Indeed, rates would go below neutral to stimulate the economy. Together with the sustained restrictive rates in the US, we could see a historic divergence in policy rates between the Fed and the ECB, putting downward pressure on the EUR/USD exchange rate. The distortions from trade-tariffs also offer opportunities. The European Commission will try to negotiate a European carveout from the universal tariffs. The eurozone would still initially be hit by weaker global trade, but over time, Europe's improved competitive position would drive an export boost as trade is diverted from tariff-hit countries. In such a scenario, Europe, and especially the Netherlands might grow more over the four years compared to a scenario with no additional trade tariffs at all.

The above conclusions assume that Trump and Harris would actually be able to implement their policies. Even setting aside the question of whether e.g. the tariffs are election rhetoric or a negotiation tactic, the ability of the future president to implement these measures depends on the makeup of congress. These elections are less of a toss-up. The Economist estimates the probability of a Republican Senate at 72%, and of a Democrat House at 57%. Trump will likely need full support of congress to push through a universal tariff. In his first presidency he was able to push through tariffs on China imports based on 'national security' concerns. This case is much harder to make for a universal tariff on the entire world. Control of Congress is also likely a prerequisite for changes in the tax code and other sweeping changes Trump, in particular, is planning to make. These include various changes to the functioning of government, such as a proposal to reclassify civil service workers as political appointees, which would allow the President to exert control over various federal agencies, weakening the checks and balances in the current system.

Broadly summarizing, we see a Harris victory as a continuation of the previous four years, which we judge as a benign scenario for both the US and the rest of the world. The US economy is doing well, and that is at least partially attributable to the Biden administration's policy. A Trump victory entails a partial reversal of the past four years. While some of his plans may provide at least a temporary boost to the economy, the universal tariff would reverse progress on global trade and slow global growth. His plans to withdraw from the Paris Agreement and remove funding for climate related expenses in the IRA would revert progress made towards a more sustainable economy, hurting the longer run outlook. It is clear that the downside risks are large. But they are risks rather than realities, and given policy uncertainty, they could well stay that way well beyond the elections.

Spotlight: Which EU economies will suffer the most from extreme climate disasters?

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- Climate change will result in a rising number of climate and weather-related disasters, such as temperature extremes, storms, floods, drought and wildfires. These are the acute physical risks of climate change
- These disasters can result in significant direct economic damage in the short term, such as the loss of buildings, livestock, natural resources and infrastructure, which in most instances is only partly insured
- Disasters can also have a longer term impact on economic growth via reductions in capital stock and productivity; most empirical studies find a negative impact on the level of GDP in the longer term
- Governments have spent substantial amounts on relief aid after uninsured losses due to climate and weather-related disasters; government finances can also be affected indirectly via lower potential future GDP growth (lower tax income), higher risk premia, and the crystallisation of contingent liabilities
- The risk of uninsured damage from acute physical climate disasters is highest in the Southern and Central-Eastern parts of the EU at the moment and lowest in the Northern part of the EU. In the medium-to-longer term, and in scenarios of higher global temperature rises, these risks shift towards the Atlantic countries in the Western part of the EU
- Zooming in on individual EU countries, we have ranked the EU countries/governments with a relatively high current debt ratio that will probably face the highest uninsured costs from climate and weather-related disasters in the coming years. These are Greece, Hungary, Italy, Portugal and Spain

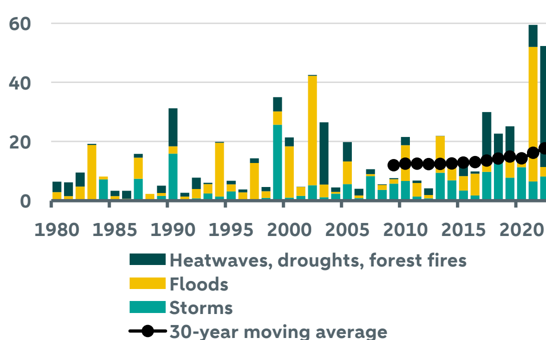
Economic costs of acute physical climate risks can no longer be ignored

Climate change and global warming is expected to result in a rising number of climate and weather-related disasters. Although annual data is volatile, the costs of these disasters related to the level of GDP seem to be on a rising trend. As the graph on the left below shows, the 30-year moving average of the annual costs has risen from around EUR 12bn in 2010, to around EUR 18bn in 2022. The total annual costs were equal to 0.3% GDP in both 2021 and 2022.

The costs of climate and weather disasters are expected to continue to increase over the coming years, even in a scenario where the targets of the Paris Agreement are met and the rise in global temperature is kept to well below 2°C above pre-industrial levels. Climate and weather-related disasters can have a significant impact on the economy and government finances, via various channels; both direct and indirect. In our research note 'Which EU countries will suffer the most from extreme climate disasters?' we focus on the economic impact of climate and weather-related disasters in the EU and how vulnerable various EU countries/government are for the risk that the costs of these disasters could derail government finances during the next decades. We first focus on the direct short-term costs of climate and weather-related disasters and end by focusing on the longer-term consequences for economic growth. See here for the full publication.

Losses from weather and climate disasters - EU

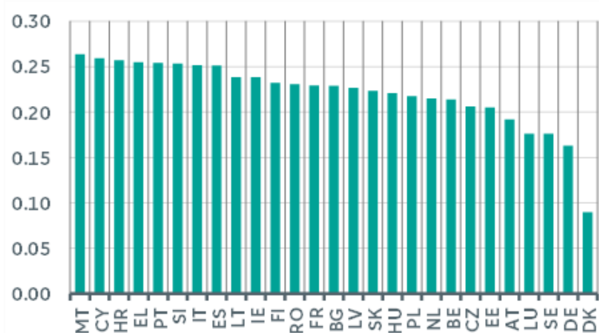
Billion EUR (2022 prices)



Source: EEA, ABN AMRO Group Economics

Estimated uninsured annual losses by 2050

% GDP



Source: EC, ABN AMRO Group Economics

Eurozone: Subdued recovery is increasingly shaping ECB policy

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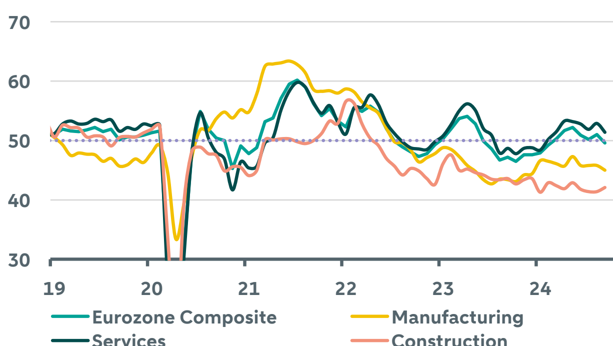
- The eurozone economic recovery is running out of steam, in part because of weak domestic demand
- Labour demand is softening, especially in Germany, while the overall labour market remains resilient
- Inflation fell sharply to 1.7% y/y in September, but elevated services remains a concern for the ECB
- While the ECB has opened the door to a 50bp cut in December, a 25bp cut remains our base case

At the start of the fourth quarter the signs of a subdued recovery for the eurozone economy are mounting. For the second month in a row the composite eurozone PMI stayed steady at levels consistent with a small decrease in business activity. Core countries Germany and France are leading the charge. Up until recently the drag on activity from the German and French manufacturing sectors was offset by expansion in the services sectors, driven in part by strong catch-up demand from consumers. But as the momentum in the services sector faded, overall activity in Germany and France is now in clearly in contractionary territory. This does not translate one to one to GDP. Since the pandemic the link between PMI's and GDP has become looser. Still, that the eurozone is set for a subdued recovery is clear. Should German Q3 GDP (out tomorrow) be negative – as the Bundesbank expects – the largest economy of the eurozone would technically be in a recession already. For now, we anticipate the eurozone aggregate to expand by 0.2% qoq in Q3, but it is clear that risks to the downside of our Q4 forecast of 0.2% qoq are building.

In the final month of the third quarter disinflation remained on track. Inflation in September fell below 2% for the first time since early 2021 to 1.7% y/y – revised down from 1.8% in the flash estimate, and down from 2.2% in August. Core inflation also fell from 2.8% y/y to 2.7%. Looking at the details we see services inflation, which remains a concern of the ECB, remaining stubbornly elevated at 3.9% y/y, in part by the pass-through of past and current high wage growth. Looking ahead, in the coming months, inflation is expected to edge higher again due to less favorable base-effects in energy. In the medium term however, we expect disinflation to continue, eventually also leading to a lower pace of price rises in the services sector, as the macro environment will reign in the ability to pass on cost rises, while lower labour demand should ease wage cost-push pressures.

Waning services momentum pushes composite PMI

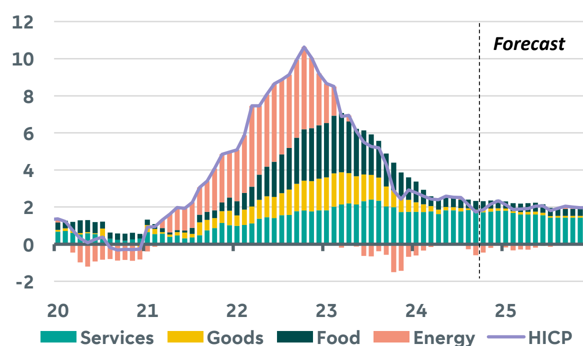
Index, PMI, 50=neutral



Source: LSEG, ABN AMRO Group Economics

Disinflation on course in the eurozone

%



Source: LSEG, ABN AMRO Group Economics

At the October meeting the ECB lowered the deposit rate by 25bp. In the policy statement and in the press conference the ECB shifted tone, explicitly mentioning that risks to inflation are geared more towards the downside as a result of the stalling economic recovery in the eurozone. Following that meeting more dovish commentary by Governing Council members followed, raising the prospect of the ECB stepping up the pace of rate cuts with a 50bp move in December instead of keeping the pace at 25bp cuts. While the backdrop of a further stalling recovery strengthens the case for less restrictive monetary policy, the data up until now has likely not yet sufficiently deteriorated to warrant such a step-up to 50bp cuts at present. Between now and the December meeting, the ECB will receive GDP & negotiated wage growth data for Q3, two more inflation reports, and another PMI report. More importantly, for the ECB to consider such a step-up, we believe a material slowdown in growth indicators and/or domestic inflation (services inflation) from current elevated levels would be needed. Given our base case sees growth holding at current subdued levels, and inflation continuing to slowly ease, we stick to our view that the ECB will cut rates by 25bp in December as well as each following meeting until the ECB reaches our estimate of neutral at 1.5%.

The Netherlands: Bleak outlook for external demand and investment

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- We expect below trend growth for H2 2024, with annual growth of 0.6% for 2024 and 1.3% in 2025
- Employment is marginally declining from its peak and unemployment is gradually increasing, but the labour market is expected to stay tight from a historical perspective
- We have raised our house price estimates to 8.5% for 2024 and to 7% for 2025

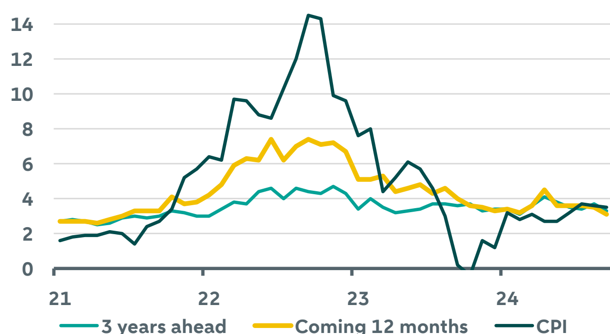
On 14 November, Dutch GDP figures for Q3 will be released. We anticipate a growth of 0.2% q/q, following the unexpectedly strong 1% growth in Q2, mainly due to rising exports and government consumption. Indeed, as noted before, we think that this one swallow in Q2 does not make a summer: moderate growth in H1 of the year will only be followed by modest growth for the remainder of the year. While real incomes are benefitting from high wage growth and declining inflation, consumers still seem hesitant to spend and favour saving and deleveraging. Consumer confidence fell again in October and remains below the long-term average. The silver lining is that inflation expectations have dropped further, with average expectations for the next 12 months at their lowest since June 2021. On balance, we expect a slow pickup in household spending for the remainder of the year, helped by the aforementioned tailwinds.

The outlook for external demand and private investments remains bleak. The German economy is underperforming, the broader eurozone is seeing downside economic surprises, and global manufacturing is slowing. As a trade-oriented country, the Netherlands is significantly affected by international developments, and trade is expected to contribute only slightly to overall GDP growth for the year as a whole. In terms of private investment, companies are cautious due to weaker growth prospects, geopolitical uncertainty, a tight labour market and the shaky first steps of the new Dutch government. We think that exports and investment will see significant growth next year, when interest rates are cut further, global demand strengthens and consumer demand increases.

The employment rate is declining from its peak, and unemployment rate is gradually increasing, as temporary factors – like the low number of bankruptcies coming out of the pandemic – are unwinding. In Q3, employment decreased by 0.3% compared to Q2, marking the first decline since 2020. The vacancy rate (no. of job vacancies / (employment + no. of job vacancies)) is still elevated at 3.9% compared to the pre-pandemic average of 2.1%, but has been declining since the peak of 4.6% in 2022. Nevertheless, the Dutch labour market remains incredibly tight, with the unemployment rate deeply below the estimated non-inflationary level of unemployment (the NAIRU), and total labour supply far above the pre-pandemic level. The unemployment rate is expected to remain low in the years to come due to strong labour demand and limited labour supply, given the greying population.

Decreasing inflation expectations

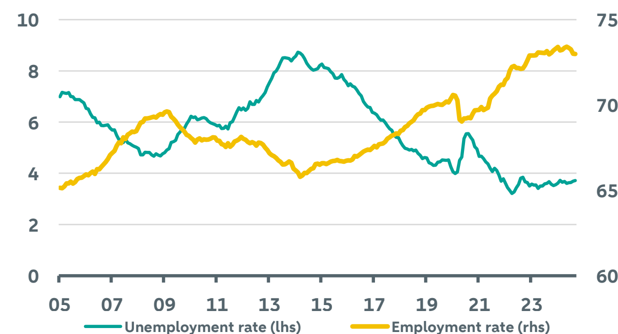
Average inflation expectations, consumer expectations survey



Source: ECB, ABN AMRO Group Economics

Employment marginally declining from peak

%



Source: LSEG, ABN AMRO Group Economics

We have raised our house price estimates to 8.5% for 2024 (was 7.5%) and to 7% for 2025 (was 5%). The main factors behind price growth on the demand side are higher wages, as well as declining mortgage rates and the widening of lending standards. Thanks to the combination of higher wages and lower mortgage rates, buyers can take out larger mortgage sums when buying a home. The constrained supply side – in terms of limited construction – adds to price pressures. The transaction estimates for 2024 were also raised on the back of higher transactions in the year to date so far, to 12% (was 10%), whereas the forecasts for 2025 remain at 2.5%.

US: ‘Tis the season to be easin’

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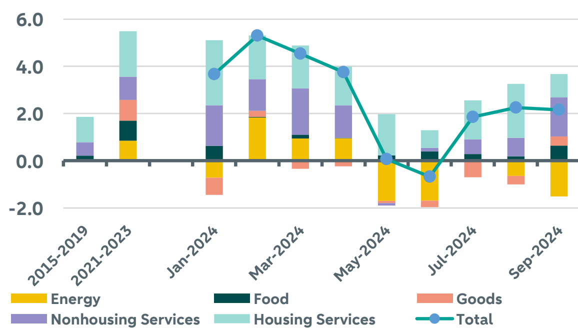
- The start of the easing cycle was immediately followed by hot inflation and strong hiring data
- September data is special due to strong seasonal effects. The month surprised similarly last year
- Looking through the volatility, 25bps cuts in each consecutive meeting remains our baseline Fed view

The Fed’s hotly anticipated easing cycle started off strong with a 50bps cut in September. In the three months preceding the decision, headline CPI inflation ran at 1.1% annualized, while core CPI was 2.1%. PCE inflation came in at 1.5 and 2.1%, respectively. Jobs growth had been weak, averaging 140k per month in the three months prior, compared to 267k in the first quarter of the year. The unemployment rate averaged 4.2%, well above the 3.8% in Q1. Further motivated by a pessimistic Beige Book, the Fed judged the downside risks to employment and upside risks to inflation to be sufficiently balanced to take a big step towards neutral by immediately cutting rates by 50bps. Since then, September labor market figures exceeded all expectations, coming in at 254k versus 150k consensus, pushing the unemployment rate back down to 4.1%. Similarly, the September CPI readings came in hotter than expected, with the monthly change in headline coming in at 2.2% annualized, while the core figure even reached 3.8% annualized. Was the Fed too soon in easing off the brake?

Inflation surprisingly hot, led by non-housing services

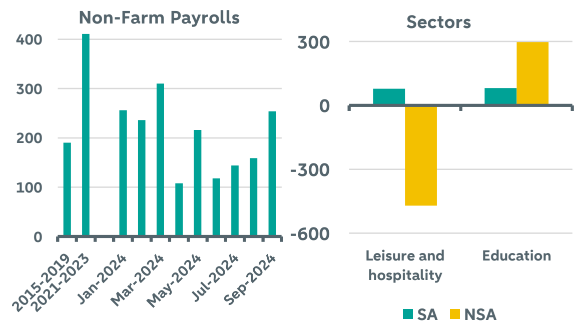
Contributions to annualized m/m inflation, pp



Source: LSEG, ABN AMRO Group Economics

Job gains surprisingly strong, led by seasonal sectors

Monthly change, thousands



Source: LSEG, ABN AMRO Group Economics

The chart on the left above shows a decomposition of CPI inflation into its major categories. Chair Powell has said that his confidence in inflation coming down hinges on a broad-based decline across all core categories: goods, housing- and non-housing services. He contrasted the Q2 inflation figures with the low inflation period in Q4 2023, which was mainly driven by goods deflation, while both categories of services inflation were still elevated. Non-housing services came back with a vengeance last month, with some notable, and *seasonal* outliers, such as college textbooks, admission for sporting events and airfares – components associated with the return to work and school after the end of summer. The estimation of seasonal effects, which are strong in September, has become much harder since the pandemic. Last year, September saw a similarly strong seasonally adjusted increase in non-housing services prices. Meanwhile, housing services inflation actually eased to pre-pandemic levels. Pressure is expected to remain subdued, as shelter CPI has now effectively caught up to third-party data, such as the Zillow observed rent index.

We see a similar story for non-farm payrolls in the chart on the right. Between June and August, a combination of new releases and downward revisions of the previous months, showed a sudden decline in job creation. September then gained 254k jobs, the third highest reading of the year. The sector decomposition shows large contributions from two highly seasonal sectors: leisure and hospitality, and education. Leisure and hospitality hiring was not driven by an actual creation of jobs, but rather just a smaller decline than is usual in September. Hiring in education was stronger this year than in previous years. Here, too, last year’s September data release mirrors this year’s. In September 2023, non-farm payroll gains came in at 336k, versus 170k consensus. The figure was ultimately revised down to 246k a month later.

In short, while these headline figures in the first instance seem to reflect poorly on the choice to cut rates by 50bps, leading markets even to price a small chance of a pause in the easing cycle, a more careful assessment leads to a less hawkish interpretation of the data. It remains important to look through the short-term variability. The upcoming labor market report is likely to be a lot weaker, but should also be read in the context of the hurricanes that hit the economy in October. Inflation is likely to moderate and remain on course to reach 2%. At the same time, Q3 growth is likely to come in strong, with the Atlanta Fed tracker putting it at 3.4% annualised. The incoming data is therefore expected to remain consistent with a soft landing scenario, and we expect the Fed to gradually reduce the policy rate with 25bps in each upcoming meeting.

China: Waiting for fiscal support numbers… and US elections

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- September macro data show the Chinese economy ended Q3 on a slightly more positive note
- Shape of fiscal support is getting clearer, but more information on scale and timing is still to come
- Stimulus shifts balance of risks to growth forecasts positively, but this may change after US elections

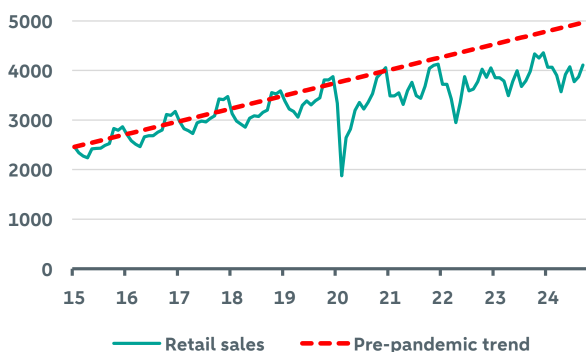
With the economy stuck in low gear, Beijing finally stepped up demand management recently. Following the PBoC's package end September, plans for fiscal stimulus are being unveiled, but the scale and timing has yet to be confirmed. All of this shifts the balance of risks to growth positively, but this balance may change again after the US elections.

The Chinese economy ended Q3 on a slightly more positive note

China's Q3-24 GDP came in more or less as expected, with annual growth sliding marginally to a six-quarter low of 4.6% yoy (Q2: 4.7% yoy), and sequential growth picking up to 0.9% qoq s.a. – partly reflecting payback from a weak Q2 (revised down to 0.5% qoq s.a.). Meanwhile, following the release of weak PMIs, 'hard' activity data for September brought a positive surprise (see our comment, *China - No surprises for Q3 GDP, September data beat expectations)*, with retail sales and industrial production accelerating in annual and monthly terms, and fixed investment stabilising. Property investment and sales remained deeply in contraction territory, but showed a tiny improvement compared to August: this could be a signal that the property sector is reaching a bottom. The surveyed jobless rate dropped back to 5.1% (August: 5.3%). All in all, the Chinese economy ended the third quarter on a slightly more positive note. However, we still think further support will be needed and forthcoming to stabilise the property sector and domestic demand (see below). This also reflects rising external risks (with export growth slowing in September), such as a broadening of trade spats with the West. These risks would rise materially should Trump win the US presidential elections next month; see our earlier coverage on this topic in the August Monthly: *China – A tale of Trump risks, tariffs and trade diversion*.

Retail sales improve a bit, still 'lagging' the trend

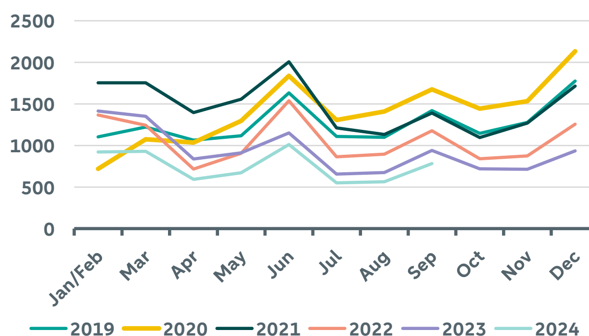
Nominal retail sales, CNY bn



Source: ABN AMRO Group Economics, Bloomberg

Home sales pick up a bit, but mind the seasonality

China residential home sales, CNY bn



Source: ABN AMRO Group Economics, Bloomberg

Fiscal support plans are being unveiled; scale and timing still to be confirmed

With the economy stuck in low gear, Beijing finally stepped up demand management recently (see our September Monthly, *China - Longer-term industrial policy vs. short-term demand management*). After the PBoC launched a package on September 24th, consisting of RRR and rate cuts and measures to stabilize property and stock markets, all eyes turned to fiscal stimulus, pre-announced on September 26th. This month, following the Golden Week national holiday, meetings of the NDRC, the Finance Minister and the Housing Minister brought more clarity over the shape of this stimulus (see our comments here and here). A common aim is to break the negative feedback loop in real estate by putting a floor under the property market, which should help restore confidence among consumers, producers, and investors, thereby stabilising domestic demand. Fiscal support will focus eg. on resolving local governments' debt problems, improving property developers' financing to enable them to finish construction projects, and solidifying the capital position of the largest state banks. Direct consumption support is limited so far (to the poorest, and to students), with Beijing assuming other measures taken will indirectly support consumption. Financing is said to be via issuance of ultra-long central-government bonds and the stepping up of special local government bond issuance. These plans imply the balance of risks to China's growth (forecasts) is shifting in a positive direction. We will review our growth forecasts (2024: 4.9%, 2025: 4.5%) next month, when more will be known about the scale/timing of fiscal stimulus (NPC Standing Committee meets on 4-8 November) and the outcome of the US presidential elections on 5 November.

Key views on a page

The US is cooling, China is still weighed by the weak property sector, and the eurozone recovery is in danger of going into reverse. Our base case remains for the global economy to converge to more trend-like growth as we move into 2025, but downside risks – particularly in the eurozone – have increased. A sharp rebound is unlikely while rates remain restrictive. More aggressive Fed & ECB rate cuts, and China stimulus measures may help, but downside risks remain from possible new trade tariffs should Trump be re-elected in November. Inflation remains well behaved, with falling oil prices helping, though wage growth and services inflation remains too high in the eurozone. The ECB and Fed have started lowering interest rates, and we expect both central banks to continue cutting rates until a more neutral level of rates is reached later next year. Still, lags in pass-through mean that it will take time for rate cuts to meaningfully lift growth.

Macro	Central Banks & Markets
Eurozone – Downside risks to growth have intensified, with October PMIs still pointing to a subdued growth outlook. We have lowered our growth forecast for Q3 to 0.2% q/q, and our annual forecast for 2025 to 1.1% from 1.5% previously. The manufacturing recovery continues to disappoint, and the services recovery is also now losing momentum. Growth is expected to remain below trend rate for the remainder of 2024, before picking up in 2025. Services inflation and wage growth remains on the high side, but this looks unsustainable given the weak growth environment.	**ECB** – We expect the ECB to continue cutting rates at the December meeting, following the October cut. Disinflation is broadly continuing, while downside risks to growth have intensified. Negotiated wage growth is expected to see a temporary rebound later this year, but this is expected by the ECB and therefore unlikely to derail further cuts. We expect the ECB to cut at each meeting until the deposit rate reaches 1.5% in Q3 25. Officials have recently opened the door to a potential 50bp cut, but we think a material deterioration in growth and/or inflation would be needed for this to materialise.
The Netherlands – Following the unexpectedly strong 1% q/q growth in Q2, we expect continued but below-trend growth for the second half of 2024, given the environment of weak demand, restrictive interest rates, and domestic constraints. Growth will average 0.6% in 2024 and 1.3% in 2025. Employment is marginally declining and unemployment increasing, but given strong labour demand and limited available labour supply, the unemployment rate is expected to remain low. Services inflation is the key driver of inflation in the coming months, given still elevated wage growth.	**Fed** – The Fed started its easing cycle with an initial 50bps cut, with the upper bound currently standing at 5.00%. We expect consecutive 25bps rate cuts at each upcoming meeting, with the balance of risks towards a near-term acceleration, and a medium-term slowing. The Fed will remain attentive to upside risks to inflation and downside risks to, in particular, the labour market. Monetary policy is expected to remain restrictive throughout 2024 and into 2025. We expect the upper bound of the fed funds rate to reach 4.50% by end-2024, and to reach the neutral 3.00% level by October 2025.
UK – The government looks set to announce a combination of tax rises to fund regular spending commitments, and additional debt to fund longer-term growth enhancing public investment. The full details will be announced on 30 October. The economy is recovering relatively solidly for now, but growth is likely to cool in the coming quarters as tax rises bite. Disinflation is continuing, but services inflation is stubbornly high, with wage growth still well above levels consistent with 2% inflation. The return to 2% inflation will take longer than elsewhere, due to historically higher inflation expectations in the UK.	**Bank of England** – The MPC paused rates at 5.25% in September, in line with our expectations. Incoming data suggests stubbornly high underlying inflationary pressure, and sticky wage growth – which poses upside risks to medium-term inflation – is likely to keep rate cuts at a more gradual pace than for the ECB and Fed, even into next year. We expect only one additional rate 25bp cut this year – at the November meeting – and four rate cuts (total 100bp) in 2025, with Bank Rate falling to 3.5% by end-2025.
US – Growth and consumption remain strong, while the labor market cools. Growth in labour demand is slowing, and is outpaced by increases in labor supply, but demand has not yet contracted. Increased policy uncertainty, and pockets of financial stress among households are likely to contribute to a slowdown in growth into 2025. Despite recent relatively hot CPI readings the disinflationary process continues with the 2% y/y target in sight in the course of 2025.	**Bond yields** – The Fed's 50bp cut in September was a well-received surprise in the market. Markets are currently pricing in around 200bp of cuts in total which aligns with our view. Consequently, we continue to anticipate US Treasury yields to move lower and the curve to steepen. A similar scenario is unfolding for European rates. Following weaker PMI data last week, the market has started to price in additional cuts. Therefore, it appears that rates are set to follow a downward trajectory in the foreseeable future.
China – The economy remains stuck in low gear, although September data on balance suggest the economy ended Q3 on a slightly more positive note. Recently, Beijing finally started shifting the pendulum back from longer-term industrial policy towards short-term demand management . Following the PBoC's package end September, fiscal stimulus plans are being unfolded, but scale and timing are yet to be confirmed . All this shifts the balance of risks to growth forecasts in a positive way. Still, this could change again after the US elections, as external risks would rise materially under a 2nd Trump presidency..	**FX** – Since the start of October the US dollar has rallied by almost 4% across the board. Nominal and real yield spreads between the US and Germany have moved in favour of the US dollar. This reflects that markets have priced in less rate cuts for the Fed this year following strong US data, but more for the ECB. As we are approaching the US elections, developments in the polls are having more impact on the US dollar. Expectations that former President Trump may win the upcoming elections has supported the dollar.

Main economic & financial market forecasts

	GDP				Inflation				Policy rate			
	2022	2023	2024	2025	2022	2023	2024	2025	2022	2023	2024	2025
Eurozone	3.6	0.5	0.7	1.1	8.4	5.5	2.4	2.1	2.00	4.00	3.00	1.50
Netherlands	5.0	0.1	0.6	1.3	11.6	4.1	3.1	2.8				
UK	4.8	0.3	0.9	1.2	9.1	7.4	2.5	2.7	3.50	5.25	4.75	3.50
US	2.5	2.9	2.5	1.7	6.6	3.8	2.6	2.1	4.50	5.50	4.50	3.00
China	3.0	5.3	4.9	4.5	1.9	0.2	0.5	1.8	3.65	3.45	3.10	2.90

Note: Annual average for GDP and inflation, end of period for the policy rate

	2023	28/10/2024	Q4 24	2024	2025	Energy	2023	28/10/2024	Q4 24	2024	2025
US Treasury	3.88	4.27	3.65	3.65	3.60						
German Bund	2.02	2.29	1.90	1.90	1.80	Brent - USD/bbl*	77.04	71.42	73	73	80
EUR/USD	1.10	1.08	1.10	1.10	1.15	WTI - USD/bbl*	71.65	67.38	68	68	75
USD/CNY	7.14	7.13	7.10	7.10	6.80	TTF Gas - EUR/MWh*	35.25	40.95	40	40	35
GBP/USD	1.27	1.30	1.32	1.32	1.40						

* Brent, WTI: active month contract; TTF: next calender year

	2023				2024				2025			
GDP (qoq)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Eurozone	0.0	0.1	0.0	0.1	0.3	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Netherlands	-0.2	-0.3	-0.4	0.2	-0.3	1.0	0.2	0.3	0.2	0.3	0.3	0.4
US (saar)	2.8	2.5	4.4	3.2	2.9	3.1	2.3	1.8	1.9	1.6	1.7	1.7
UK	0.1	0.0	-0.1	-0.3	0.7	0.5	0.2	0.3	0.3	0.3	0.3	0.4
China (yoy)	4.5	6.3	4.9	5.2	5.3	4.7	4.6	4.8	4.4	4.7	4.7	4.3
Inflation	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Eurozone	8.0	6.2	4.9	2.7	2.6	2.5	2.2	2.5	2.3	2.3	2.1	1.8
Netherlands	7.2	6.3	2.7	0.4	3.0	2.9	3.4	3.3	3.1	3.0	2.7	2.4
US (PCE)	5.0	3.9	3.3	2.8	2.6	2.7	2.3	2.5	2.2	2.1	2.0	2.0
UK	10.2	8.4	6.7	4.2	3.5	2.1	2.0	2.3	2.6	2.5	2.8	3.0
China	1.3	0.1	-0.1	-0.3	0.0	0.3	0.5	1.0	2.0	1.8	1.7	1.5
Unemployment	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Eurozone	6.6	6.5	6.6	6.5	6.5	6.4	6.5	6.6	6.7	6.8	6.8	6.7
Netherlands	3.5	3.5	3.6	3.6	3.6	3.6	3.7	3.8	3.9	3.9	3.9	3.9
US	3.5	3.6	3.7	3.8	3.8	4.0	4.3	4.3	4.3	4.3	4.3	4.3
Policy rate	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Eurozone	3.00	3.50	4.00	4.00	4.00	3.75	3.50	3.00	2.50	2.00	1.50	1.50
US	5.00	5.25	5.50	5.50	5.50	5.50	5.00	4.50	4.00	3.50	3.00	3.00
UK	4.25	5.00	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50
China	3.65	3.55	3.45	3.45	3.45	3.45	3.35	3.10	3.00	2.90	2.90	2.90

Source: LSEG, Bloomberg, ABN AMRO Group Economics

(saar = season adjusted annual rate)

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