October 18, 2024
Commentary

Weekly Economic Perspectives

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Weekly Highlights

Incoming data still leave the RBA on the sidelines of global rate cutting cycle.

ECB Main Refinancing Rate
3.4%
All three reference rates were lowered by 25 bp as expected

ECB APP Portfolio (EUR trillion)
2.76
No reinvestments from maturing securities

ECB PEPP Portfolio (EUR trillion)
1.64
Partial reinvestments from maturing securities

UK CPI (Sep., y/y)
1.7%
Welcome downside surprise

UK Unemployment Rate (Aug, 3M)
4.0%
Downtrend continued

UK Average Weekly Earnings (Aug, 3M YoY)
3.8%
Wage growth subsided

Australia Employment (Sep, m/m, thousand)
64.1
Strong print; above expectations

Australia Unemployment Rate (Sep)
4.1%
Matching the downwardly revised print from last month

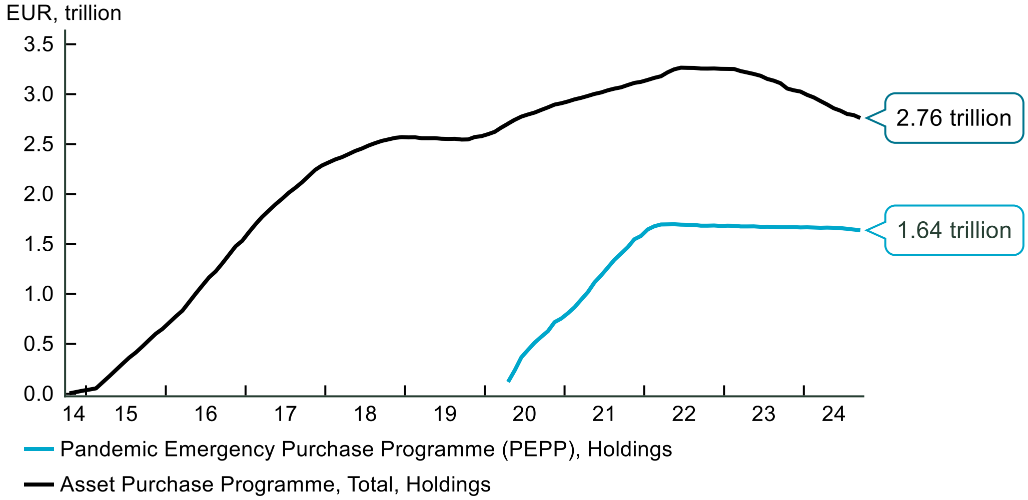
Australia Participation Rate (%, Sep)
64.2
All-time-high

ECB: Steady Rate Cuts, Slow QT

The **ECB** delivered on the widely anticipated 25-bp rate cut this week and implicitly endorsed market expectations of further cuts, which we also share. In fact, even when, several weeks ago, investors were not really looking for another rate cut until December, we argued that there was no need for the ECB to pause in October. Overall economic performance, while uneven across countries, has been soft on average in the eurozone as a whole. The latest eurozone inflation print 1.7% y/y as of September also says the ECB can ease up on rates a little further, even as it remains attentive to wage pressures. The labor market indeed remains more of an inflation threat in the Eurozone than it is in the US, at least when seen through the lens of unit labor cost growth. This remains elevated in the eurozone, while it has already decelerated sharply in the US. However, it seems only a matter of time until the eurozone data shows more meaningful progress.

The three policy rates were all lowered by 25 bp each, leaving the main refinancing activity rate at 3.40%, the deposit facility rate at 3.25%, and the marginal lending facility at 3.65%. No changes were made to balance sheet policy, but more meaningful adjustments will come at the end of 2024, when the ECB will cease all reinvestments into the PEPP (Pandemic Emergency Purchase Program). Currently, partial reinvestment of maturing securities are being made. ECB's QT will pick up some pace in early 2025.

Figure 1: ECB Balance Sheet Grinding Lower



Sources: Macrobond, SSGA Economics, ECB
Updated as of 10/17/2024

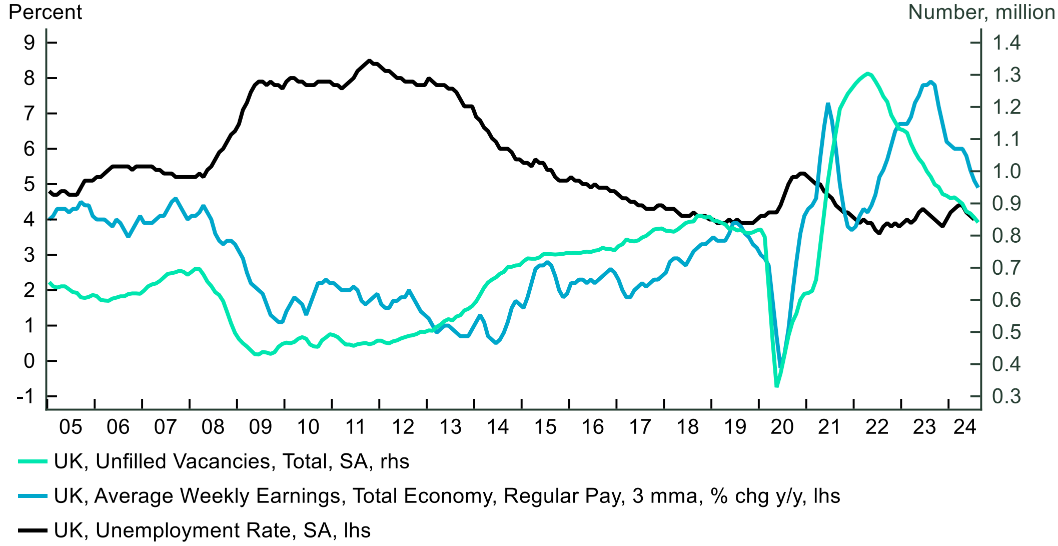
UK's Softer Labor Market

In a low growth and high rate economy, it is more challenging for the BoE to manage both growth and inflation. Indeed, after last year's mild recession, a strong first half this year was encouraging news for the whole economy, but it also added inflationary pressures via elevated wage growth.

The UK inflation has declined sharply this year, driven by lower energy and food prices. Leading indicators such as the PMIs also showed that companies are less willing to pass higher costs to consumers. Meanwhile, real wage growth has turned positive again. In fact, the main source of UK inflation now is the labor market which is still tight compared to the pre-Covid period. The BoE shares this view. In fact, the bank might worry that employment could turn out to be stronger than official data suggested, especially given the increased volatility of LFS estimates.

However, apart from the downtrend in unemployment rate which continued in the past few months, other indicators in labor market suggested further easing. The unemployment rate edged down one tenth to 4.0% for the three months to August, slightly lower than expected. But vacancies also declined and are merely 3% higher than the pre-pandemic. Regular wage growth eased to 4.9% y/y, down sharply from 7.9% y/y a year ago. Private sector wage growth also edged down by two tenths to 4.8% y/y, compared to 8.1% y/y last August.

Figure 2: Further Easing In The UK Labor Market



Sources: Macrobond, SSGA Economics, ONS
Updated as of 10/20/2024

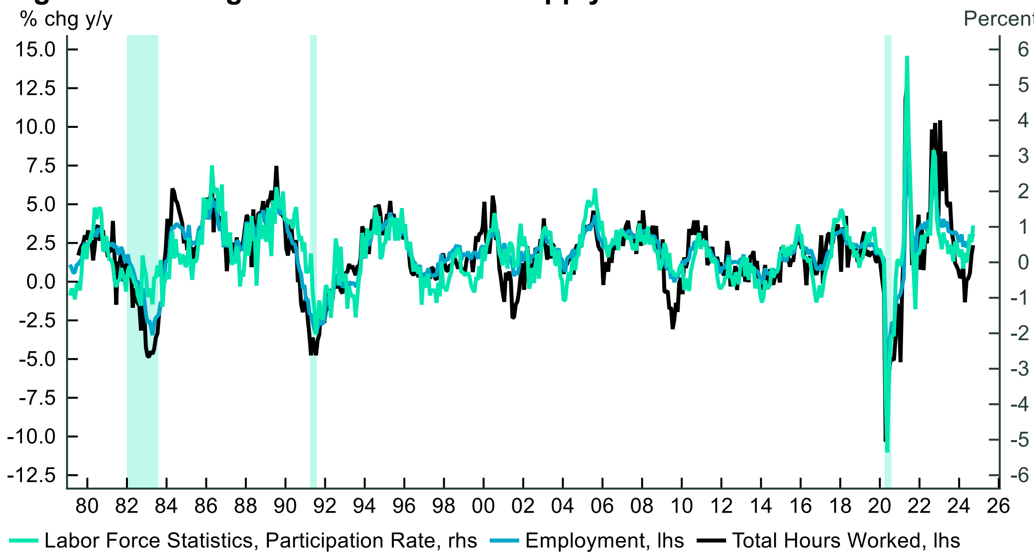
In short, for inflation to return to target, the UK labor market needs further easing. The BoE's decision is still likely highly dependent on data and the easing cycle is likely to be gradual. But recent Fed and ECB's rate cuts might affect the BoE views, especially given the latest downside surprises in September's CPI. We retain our base case of November rate cut, followed by another one in December.

Australia Employment

The labor market strengthened further in September, as it added 64.1k jobs of which 51.6k were full-time jobs. The participation rate rose a tenth to a record high of 67.2%, and the unemployment rate eased a tenth to 4.1%. This data (again) blew past expectations, implying resilient labor supply on the heels of strong demographic growth as well as acute cost of living pressures.

These headline numbers may be reflective of the skew from government sector-led job creation, as 77% of the jobs in Q2 were added in just four industries: public administration, healthcare, education, and utilities. These dynamics are similar to what is happening in the US, but the key difference is that Australia's economic growth is markedly weaker. Growth in hours worked rose to 2.4% y/y from 1.7%, implying either (continued) productivity drag or a recovering economy. Given the continued acute cost of living pressures and government sector led employment growth, we see higher odds of the former.

Figure 3: Are Higher Hours Worked Supply Driven In Australia?



Sources: Macrobond, SSGA Economics, ABS
Updated as of 10/20/2024

The data almost nullifies the chances of near-term rate cuts, which we fear will lead to persistent below trend economic growth, as we recently wrote. Although there is a good chance of soft inflation print at the end of the month, the odds of near-term rate cuts remain low, consistent with the guidance from the Reserve Bank of Australia.

Week in Review

A summary of the key global data releases from the past week.

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, Oct 14					
No Major Data Release					
Tuesday, Oct 15					
US	Empire Manufacturing (Oct)	3.6	-11.9	11.5	Very volatile, limited signal value.
CA	CPI (Sep, y/y)	1.8%	1.6%	2.0%	Heightens odds of larger rate cut.
CA	Existing Home Sales (Sep, m/m)	n/a	1.9%	1.3%	Good.
UK	ILO Unemployment Rate (Aug, 3m)	4.1%	4.0%	4.1%	Downtrend continued.
UK	Avg Weekly Earnings (Aug, 3m y/y)	3.7%	3.8%	4.1%(↑)	Ok.
EC	Industrial Production (Aug, m/m, final)	1.8%	1.8%	-0.5%(↓)	Up only 0.1% y/y.
GE	ZEW Survey Expectations (Oct)	10	13.1	3.6	Welcome rebound.
FR	CPI (Sep, y/y, final)	1.2%	1.1%	1.2%	Bottoming out?
JN	Industrial Production (Aug, m/m, final)	-3.3% (p)	-3.3%	3.1%	Very volatile.
JN	Capacity Utilization (Aug, m/m)	n/a	-5.3%	2.5%	Good chance of a recovery in September.
JN	Core Machine Orders (Aug, m/m)	0.1%	-1.9%	-0.1%	Good chance of a recovery in September.
Wednesday, Oct 16					
US	Import Price Index (Sep, y/y)	0.0%	-0.1%	0.8%	Core import prices rose 0.3% m/m.
US	Monthly Budget Statement (Sep, $bn)	60.0	64.2	-171.0	FY24 deficit totalled $1.83 trillion.
UK	CPI (Sep, y/y)	1.9%	1.7%	2.2%	Downside surprise.
CA	Housing Starts (Sep, thous)	235.0	223.8	213.0	Softer than expected.
CA	Manufacturing Sales (Aug, m/m)	-1.5%	-1.3%	1.1%	Soft.
AU	Unemployment Rate (Sep)	4.2%	4.1%	4.2% (↓)	Resilient supply ensuring lower unemployment
Thursday, Oct 17					
US	Retail Sales Advance (Sep, m/m)	0.3%	0.4%	0.1%	Up 4.0% y/y.
US	Philadelphia Fed Business Outlook (Oct)	3	10.3	1.7	Unusually volatile lately.
US	Initial Jobless Claims (12-Oct, thous)	260	241	260 (↑)	Modest.
US	Continuing Claims (05-Oct, thous)	1,870	1,867	1,858 (↓)	In mild uptrend.
US	Industrial Production MoM	-0.1%	-0.3%	0.3% (↓)	Down 0.6% y/y.
US	NAHB Housing Market Index (Oct)	42	43	41	Lower mortgage rates help, but not a lot yet.
EC	CPI (Sep, y/y, final)	1.8%	1.7%	2.2%	ECB's steady rate cuts make sense.
EC	ECB Main Refinancing Rate	3.40%	3.40%	3.65%	Looking for another cut in December.
Friday, Oct 4					
US	Housing Starts (Sep, thous)	1,350	1,354	1,361(↑)	Driven by multi-family segment.
US	Building Permits (Sep, thous)	1,460	1,428	1,470	Driven by multi-family segment.
UK	Retail Sales Inc Auto Fuel (Sep, m/m)	-0.4%	0.3%	1.0%	Up 3.9% y/y.

Source: for data, Bloomberg®; for commentary, SSGA Economics.

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