
November 1, 2024

Commentary

Weekly Economic Perspectives

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(Weekly Highlights)

Mixed global data leave central banks to continue prior policy trajectory.

US Real GDP Growth
(Q3, q/q saar)

2.8%

Solid performance.

US Payrolls Change
(Sep)

12K

Hurricane and strike impact.

US Unemployment Rate
(Sep)

4.1%

Unchanged.

UK Manufacturing PMI
(Oct)

49.9

Activity softened.

UK Mortgage Approvals
(Sep.)

65.6K

Exceeded expectations.

UK Nationwide House
Price Index (Oct, m/m)

0.1%

Downside surprise.

JP Unemployment Rate
(Sep)

2.4%

Low.

JP Retail Sales (Sep,
m/m)

-2.3%

Decidedly soft.

JP Industrial Production
(Sep, m/m, prelim)

1.4%

Also soft; prior weakness.

US: Hot and Cold

This week's US data was a study in contrasts. Third-quarter GDP data showed solid performance while the latest jobs data showed a clear cooling in the labor market, above and beyond hurricane and strikes impact. The combination should leave the Fed on track to continue policy easing, albeit at a slower pace of 25 basis points each at the remaining two meetings of the year. Evidently, general elections held Tuesday November 5th could open the door to meaningful changes to policy approach in a number of areas. However, disinflation progress is significant enough and already in hand, while those potential policy changes remain uncertain (both in content and timing) so we do not believe they should impact the Fed trajectory near term. Impact on Fed policy—if any—should be a 2025 issue.

Real GDP grew at a 2.8% seasonally adjusted annualized rate (saar) in Q3, little changed from the 3.0% rate in Q2. Household consumption was by far the biggest driver of growth, contributing 2.5 percentage points (ppts). Within consumption, we were a little struck by the surge in goods consumption: 6.0% saar, double the prior quarter's pace. This seems excessive even in light of upwardly revised income data; it remains to be seen whether future revisions will bring this number lower. In any

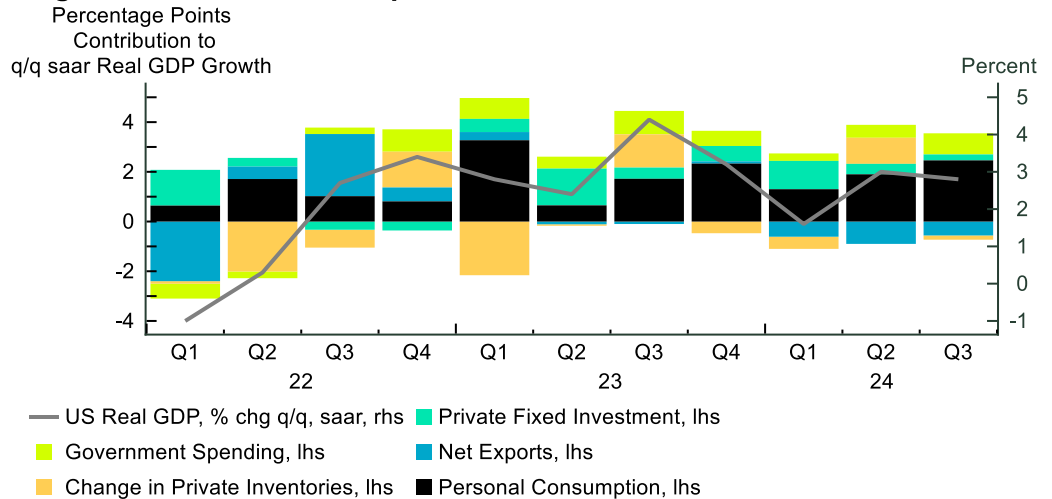
case, do not count on anything close to a repeat in Q4. Meanwhile, services consumption growth moderated to a year-low of 2.6% saar.

Private investment was mixed, adding just 0.1 ppts as a 0.24 ppt contribution from fixed investment was almost entirely offset by an inventory drag. Equipment investment was strong but was offset by flattish intellectual property investment and declines in residential investment. The latter had been well telegraphed by softer housing starts as builder seek to better manage inventory.

Government was hugely additive to growth, adding nearly 0.9 ppts, a third of it from the federal government. This, too, appears unsustainable. Offsetting that was a 0.6 ppt drag from foreign trade as imports soared well ahead of exports. Whether this was on account of firms trying to get ahead of the dockworkers' strike is unclear, but neither imports nor exports look likely to sustain the Q3 performance.

All in all, the details suggest rotation in the sources of growth in Q4 and some degree of deceleration, though it will be the monthly data flow that will help us assess the extent of moderation. Even so, 2024 US GDP growth looks set to land at 2.5-2.6%, well ahead of developed market peers. Finally, the GDP deflator dipped to 2.2% y/y, the lowest since Q4 2020.

Figure 1: Private Consumption Powers US Q3 GDP Growth



Sources: Macrobond, SSGA Economics, BEA
 Updated as of 11/3/2024

The latest **jobs report** was heavily impacted by hurricanes and strikes, so it should be interpreted with a good deal of circumspection. The economy added only 12k jobs in October compared with a downwardly revised 223k in September. The private sector reportedly lost 28k jobs. While this should not be taken as a sign of sudden collapse in labor demand, there was a 112k downward revision to the prior two months and that should be taken as clear evidence that labor demand is slowing. The revision disproportionately impacted the August data, with August payrolls revised down from 159k to 78k. Not only is the relative size of the revision jolting, but

it also opens the door wide to a further downward revision to the September data in the next report.

In addition to hurricanes, which impacted people's ability to work during the month, strike activity lowered the reported number of manufacturing jobs by about 44k. A reversal in both of these effects should deliver a big rebound in November employment numbers. There is little point therefore to dwell on the industry composition in the October data. The unemployment rate was reported unchanged at 4.1% and the participation rate declined a tenth to 62.6%. Average hourly earnings were a touch stronger than expected but we suspect this was mostly due to a compositional skew towards higher paid workers, fewer of whom were made unable to work by bad weather. This has occasionally happened in the past (during winter storms, for instance) and tends to reverse quickly. We continue to see wage inflation, which has already moderated considerably over the past year, trend very gently lower from here.

UK: The Budget's Impact on The Manufacturing Sector

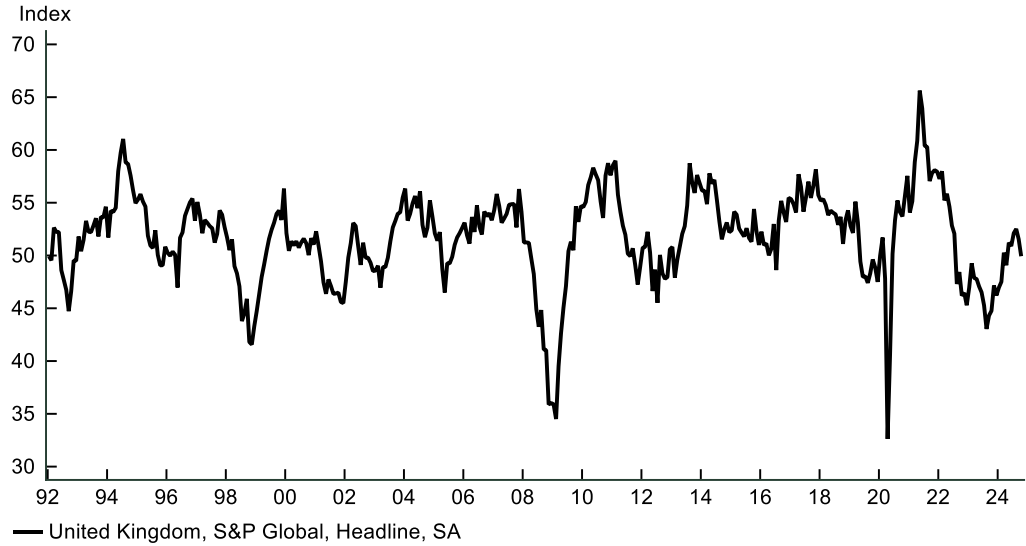
The recent Autumn Budget was the perfect moment for the new government to build on their initial proposals in the Industrial Strategy green paper to strengthen the UK's manufacturing sector and boost growth in line with decarbonization.

Undoubtedly, manufacturing sector played an important role in the UK economy. The sector accounted for 8.8% of UK total economic output (Gross value added). Official data also shows that the sector created 2.6m jobs as end Q2 2024, with average weekly earnings is 10.2% higher than the whole economy's one. However, the sector's impact on the country's economy is far more than just those numbers. Manufacturing was responsible for a large share of the country's R&D expenditure (22.3% in 2022), only second to the Professional, scientific and technical activities sector. Manufactured goods accounted for more than a third of UK goods and services exports.

The UK manufacturing sector has just recovered from its worst downturn in the past three decades. In order to thrive, it needs to ensure it is globally competitive and productive with highly skilled workers. Most of these are guaranteed to be delivered in the Budget of which investment takes center stage. However, for the sector remaining competitive, it needs to be cost-effective as well. Currently, the sector is still facing with high costs, especially those related to employees given elevated wage growth. The Chancellor decided to lift up the employers' national insurance contributions (NICs) rate by 1.2% to 15%, and lower the threshold to £5,000 from £9,100. This change will definitely add significant pressures to companies in the sector and affect the supply chain. We are expecting to see lower pay, price increases, job cuts and jobs moving overseas.

The manufacturing sector expansion has paused in October, reflecting activity softening as the economy is facing greater headwinds. The final reading of UK manufacturing PMI has slipped to below 50 (at 49.9) from 51.5 previous month, with lower order intakes and near-stalling output growth.

Figure 2: UK Manufacturing PMI Slipped Below 50



Sources: Macrobond, SSGA Economics, S&P Global
Updated as of 11/3/2024

The uncertainty around fiscal policies before the budget announced has been widely reported as one of the reasons for manufacturers delaying commitments to new contracts. In addition, weaker demand from the US, EU and China have led to lower new export orders. On the price front, things look better with input cost inflation eased to 10-month low. Selling price inflation also moderated.

Given the latest news on the Budget, we expect that the decline is just temporary, but we are also cautious about the inflation outlook.

BoJ Confident on Continued Normalization

The Bank of Japan (BoJ) did not move the policy needle and maintained their forecasts, as universally expected. This comes in the most uncertain political environment in Japan since at least 2009, which casts doubts on whether the Bank could stay the normalization course. However, sometimes not saying a much says a lot; we read this as the BoJ keeping all options open; for December and further.

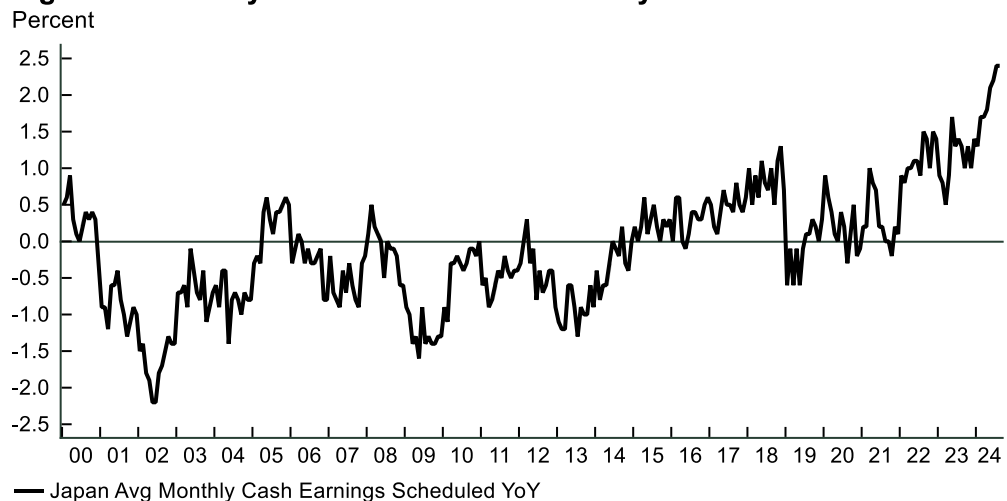
Governor Kazuo Ueda sounded confident on the realization of the Bank's forecasts, and stressed that as a critical necessity for the next hike. The BoJ's focus will be on 'whether wage growth would continue above the inflation target,' and also the Bank may consider it critical for the next year's wage growth to match this year's (5.33%) at least, as it is a 'positive development'. So, we see the Bank keeping all options open, which means a December hike is still on the table.

The ruling coalition between the Liberal Democratic Party (LDP) and Koimeto lost their majority (233 seats) for the first time since 2009, raising the possibility of a minority government, with some uncertainty. They won a total of 215 seats vs. 279 in the last election, as many Japanese citizens seemed were worried on the economy, employment and wage growth as a [Jiji poll](#) found out. This means they need the support of an external party, a likely kingmaker to form a government. The opposition parties could form a government as well, but the scenario has less probability so far.

The Diet will convene on November 11th to elect a new Prime Minister. There are two known candidates so far –the current PM Ishiba and Yoshihiko Noda, the leader of the Constitutional Democratic Party, who gained a total of 50 seats. Although PM Ishiba is likely to continue with a minority government, he is hugely unpopular and has only a small chance to fully govern the term, if he is able to form the government.

Our fundamental view is that regardless of who becomes the next PM, inaction is not in anyone's interest, and expect a government to form with a reasonable chance of stability. All parties are keen to fiscally stimulate Japan through a supplementary budget, and are highly likely to pursue higher *shunto* wage growth next year. The fiscal package may be larger than market expectations, potentially 3-5% of GDP and may even come with lower taxes (lesser probability). **All these policies are inflationary** (and tailwinds to growth). Furthermore, continued political uncertainty will raise downside risks to the yen, which is already trading at 153.0 against the US Dollar. The yen is always a key consideration to the BoJ and such weakness during these times will raise the chances of a December hike. Focus now turns to the most important even of the year: US general elections, an extremely critical event for the BoJ and Japan outlook.

Figure 3: The Key Driver Behind BoJ's Policy Normalization



Sources: Macrobond, SSGA Economics, MHLW
Updated as of 11/3/2024

The key risk is political; the Democratic People's Party, the likely kingmaker for the LDP coalition has already said that the BoJ should not raise rates for at least half a year. However, monetary policy is independent, and normalization is vital for Japan to sustain its post-Covid macroeconomic change.

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 28					
JN	Jobless Rate (Sep)	2.5%	2.4%	2.5%	Labor market is fairly tight.
Tuesday, Oct 29					
US	FHFA House Price Index (Aug, m/m)	0.1%	0.3%	0.2% (↑)	Annual gain moderated to 4.2% y/y.
US	S&P CoreLogic CS 20-City (Aug, m/m, sa)	0.20%	0.35%	0.25% (↓)	Annual gain moderated to 5.2% y/y.
US	JOLTS Job Openings (Sep, thous)	8,000	7,443	7,861 (↓)	Lowest since February 2021.
US	Conf. Board Consumer Confidence (Oct)	99.5	108.7	99.2 (↑)	Highest since January, solid details.
UK	Mortgage Approvals (Sep, thous)	64.4	65.6	65.0 (↑)	In very gentle uptrend.
GE	Gfk Consumer Confidence (Nov)	-20.5	-18.3	-21.0 (↑)	In gentle uptrend.
AU	CPI Trimmed Mean (Q3, y/y)	3.5%	3.5%	4.0% (↑)	Clear move in the right direction.
Wednesday, Oct 30					
US	GDP (Q3, annualized q/q, advance)	2.9%	2.8%	3.0%	Surprisingly strong goods consumption.
US	Pending Home Sales (Sep, m/m)	1.9%	7.4%	0.6%	Unlikely to be sustained given rebound in rates.
EC	GDP (Q3, q/q, advance)	0.2%	0.4%	0.2%	Reassuring.
GE	Unemployment Claims Rate (Oct, sa)	6.1%	6.1%	6.1% (↑)	Steady updrift.
GE	GDP (Q3, q/q, prelim)	-0.1%	0.2%	-0.3% (↓)	Mixed news.
GE	CPI (Oct, y/y, prelim)	1.8%	2.0%	1.6%	ECB can continue to ease.
FR	GDP (Q3, q/q, prelim)	0.3%	0.4%	0.2%	Welcome.
IT	GDP (Q3, WDA q/q, prelim)	0.2%	0.0%	0.2%	Is Italy's outperformance waning?
JN	Consumer Confidence Index (Oct)	36.7	36.2	36.9	Retreating from recent highs.
JN	Retail Sales (Sep, m/m)	-0.3%	-2.3%	1.0% (↑)	Soft.
JN	Industrial Production (Sep, m/m, prelim)	0.8%	1.4%	-3.3%	Also soft.
AU	Retail Sales (Sep, m/m)	0.3%	0.1%	0.7%	Also soft.
Thursday, Oct 31					
US	Employment Cost Index (Q3)	0.9%	0.8%	0.9%	Up 3.9% y/y, the least since Q3 2021.
US	Personal Income (Sep, m/m)	0.3%	0.3%	0.2%	Fine.
US	Personal Spending (Sep)	0.4%	0.5%	0.3% (↑)	Quite strong.
US	Initial Jobless Claims (26-Oct, thous)	230	216	228 (↑)	Low.
US	Continuing Claims (19-Oct, thous)	1,880	1,862	1,888 (↓)	Low.
GE	Retail Sales (Sep, m/m)	-0.6%	1.2%	1.2% (↓)	Good,
FR	CPI (Oct, y/y, prelim)	1.1%	1.2%	1.1%	ECB need not worry here.
IT	Unemployment Rate (Sep)	6.2%	6.1%	6.1% (↓)	Looks good!
IT	CPI NIC incl. tobacco (Oct, y/y, prelim)	0.8%	1.0%	0.7%	ECB need not worry here.
JN	Jibun Bank Japan PMI Mfg (Oct, final)	n/a	49.2	49.7	Fine.
Friday, Nov 1					
US	Change in Nonfarm Payrolls (Oct, thous)	101	12	223(↓)	Big downward revisions.
US	Unemployment Rate (Oct)	4.1%	4.1%	4.1%	Lower participation rate.
US	ISM Manufacturing (Oct)	47.6	46.5	47.2	Weak.
US	Wards Total Vehicle Sales (Oct, m)	15.8	16.04	15.77	First time above 16.0 mil since May 2021!
UK	Nationwide House Price (Oct, m/m)	0.3%	0.1%	0.7%	Affordability remains stretched.
UK	Manufacturing PMI (Oct, final)	50.3	49.9	51.5	Rising headwinds.

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

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* Pensions & Investments Research Center, as of December 31, 2023.

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