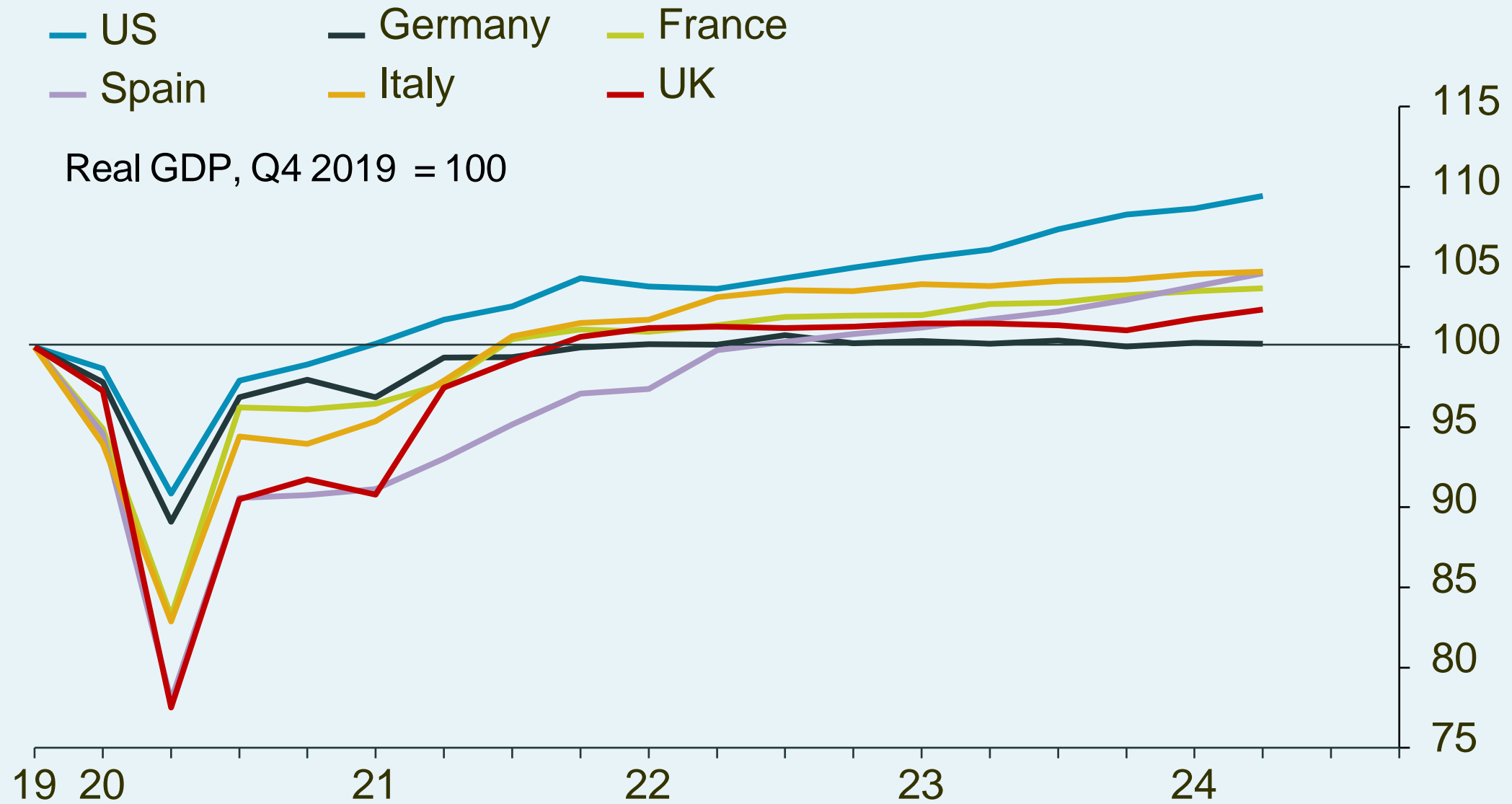




Interest rates are coming down everywhere
But don't expect economic miracles

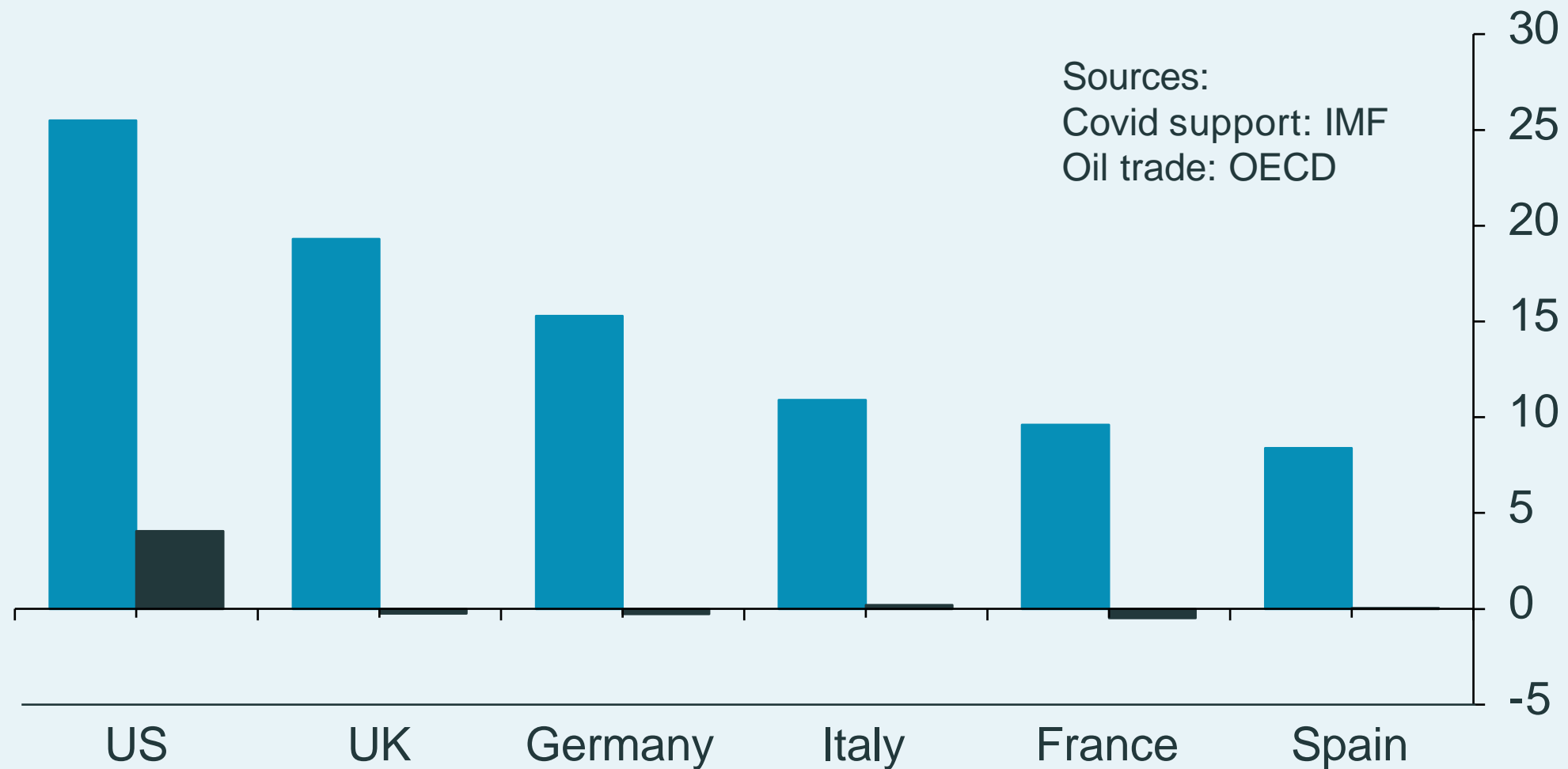
Ian Shepherdson, Chief Economist
Berlin, September 18, 2024

1. The **US** has hugely outperformed since Covid struck



2. Key **US** advantages: Huge policy support, oil trade

- Covid fiscal support: spending plus revenue foregone, % GDP
- Net trade in petroleum products, Mbpd, 2023



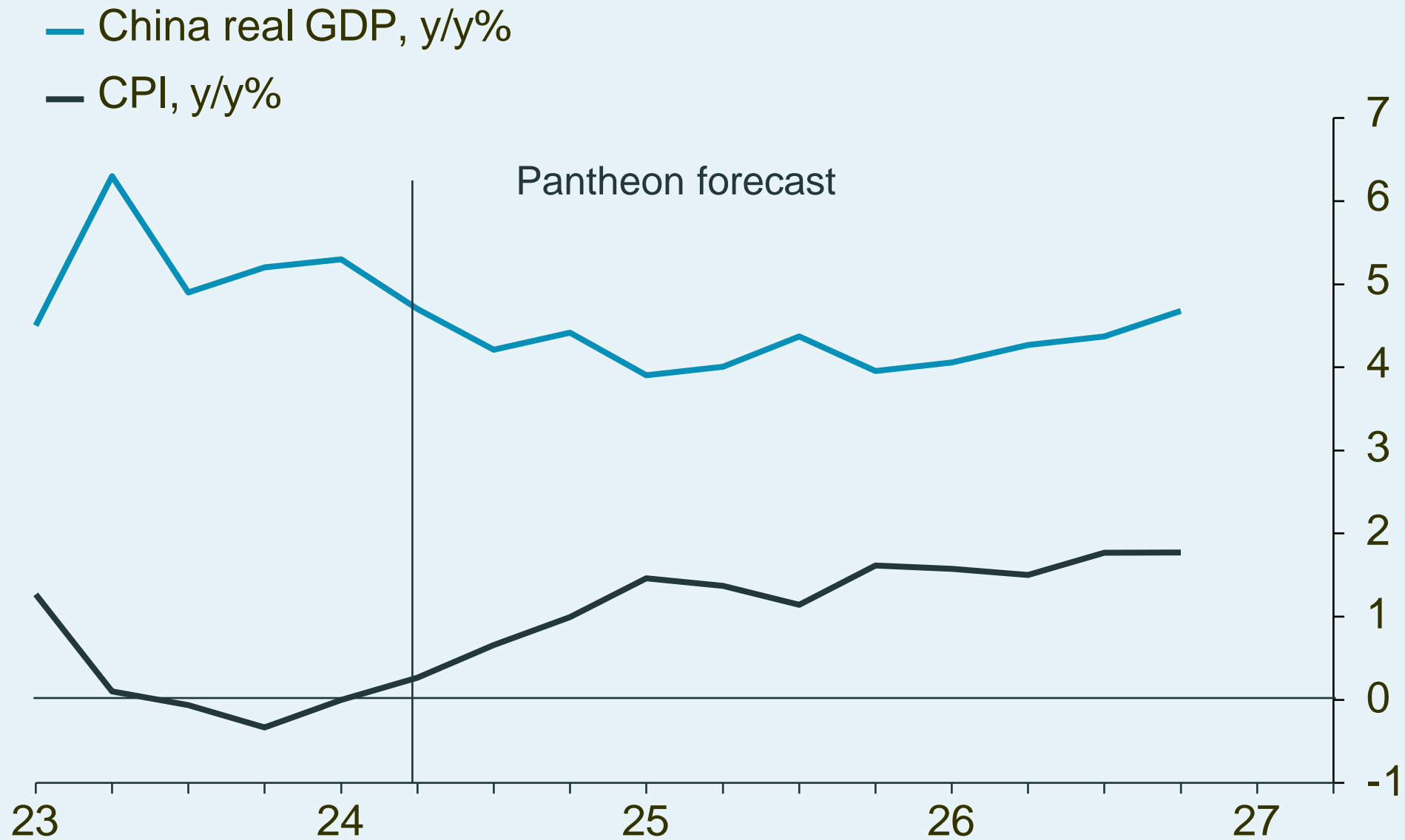
3. ...Plus, **Europe's** structural rigidities persist

Labour Market Flexibility, 2020

Source: Lithuanian Free Market Institute

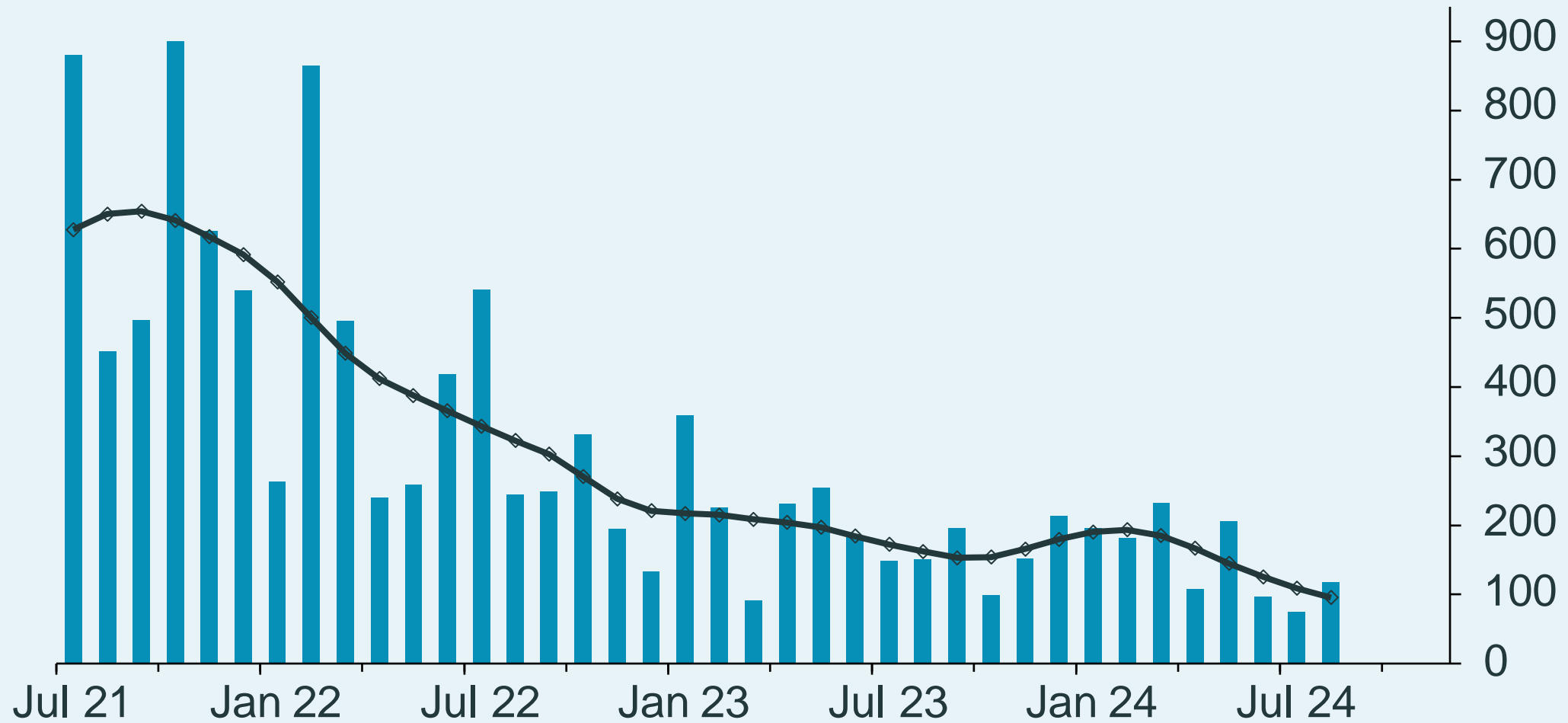
Rank	Country
1	United States
2	Japan
3	New Zealand
4	United Kingdom
5	Canada
:	
17	Italy
:	
24	Germany
:	
26	Spain
:	
41	France

4. **China**, meanwhile, stuck in low growth/inflation mode



5. The **US** economy is slowing; rate hikes have *long lags*

■ Private non-farm payrolls, K
—◇— Trend

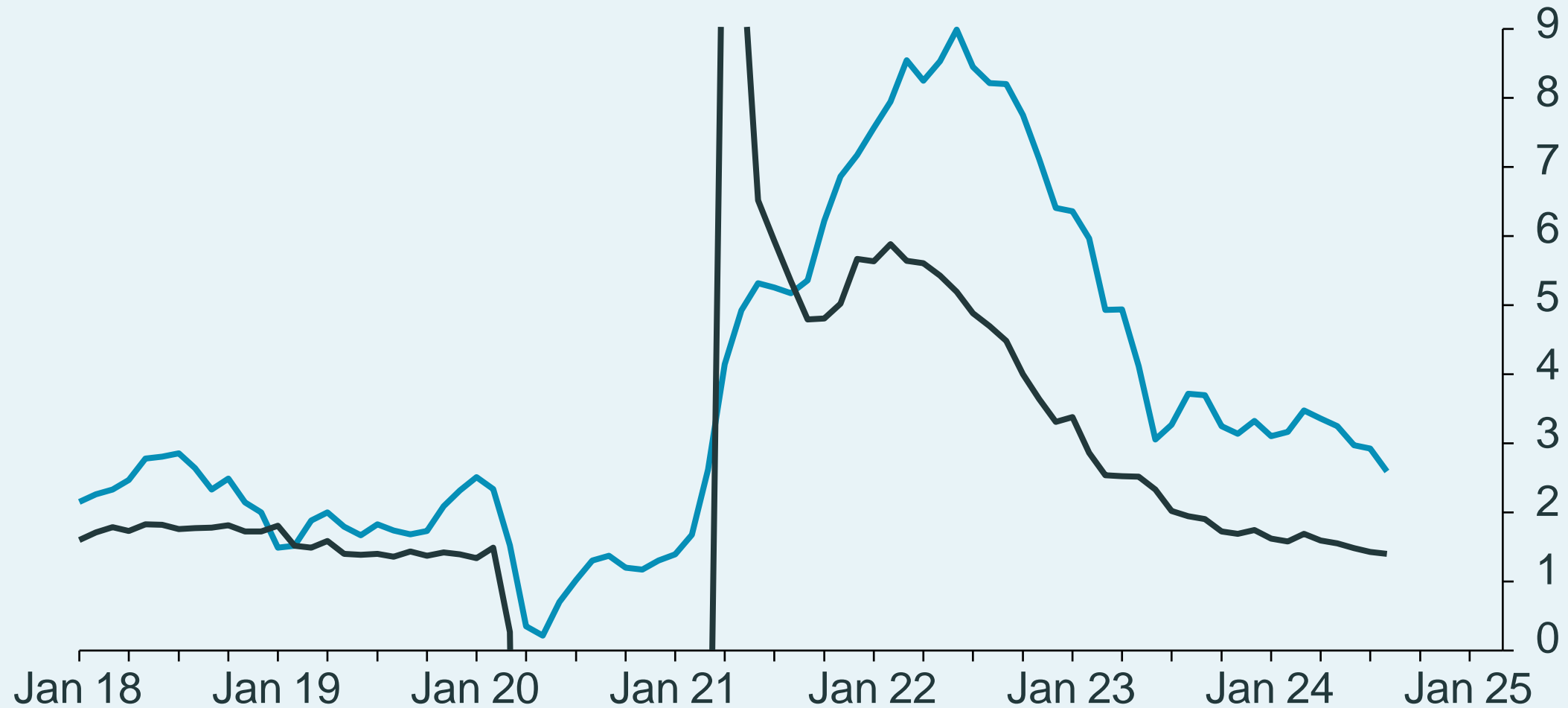


6. The Fed was very aggressive...

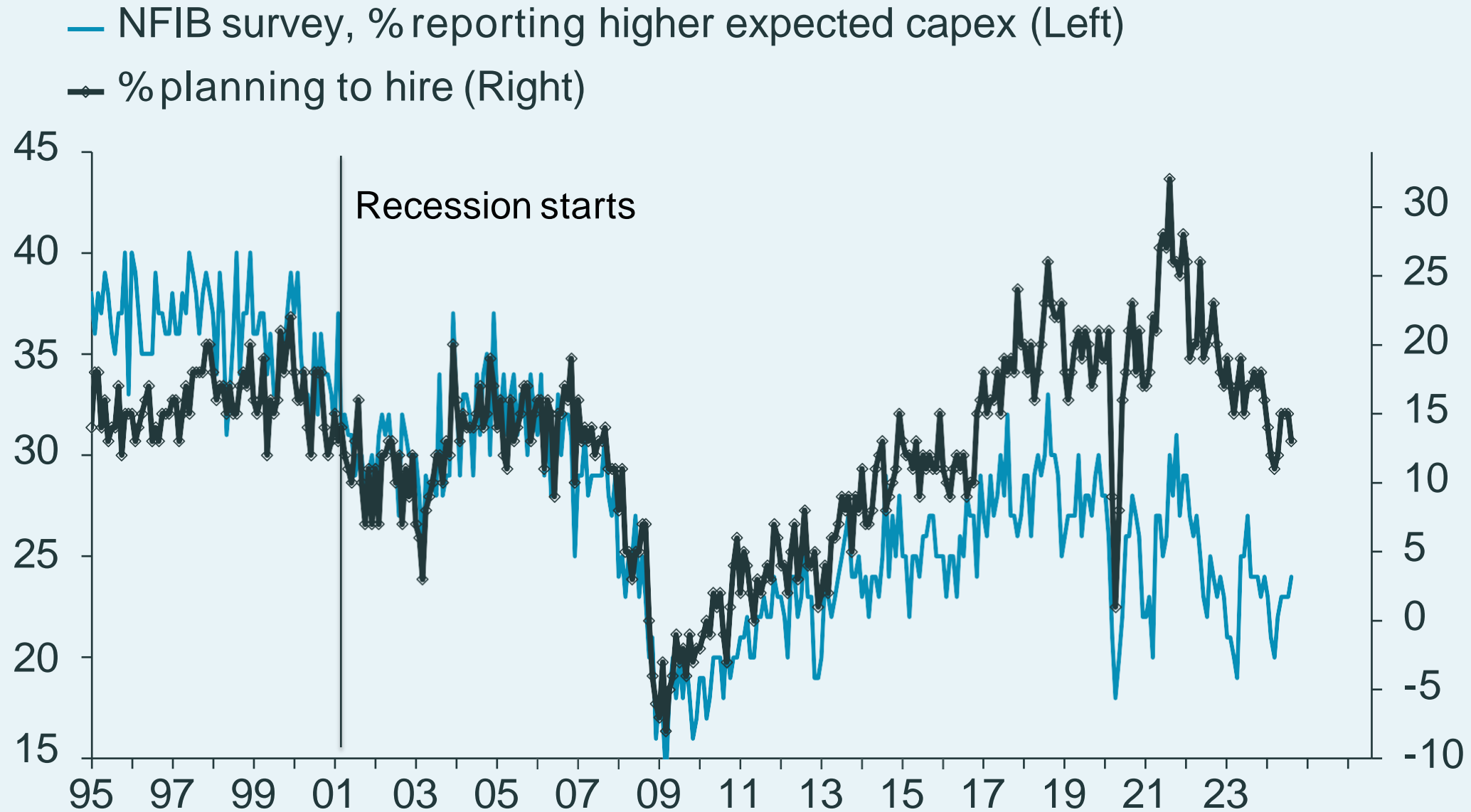


7. ...Two years later, job growth slowing; inflation down

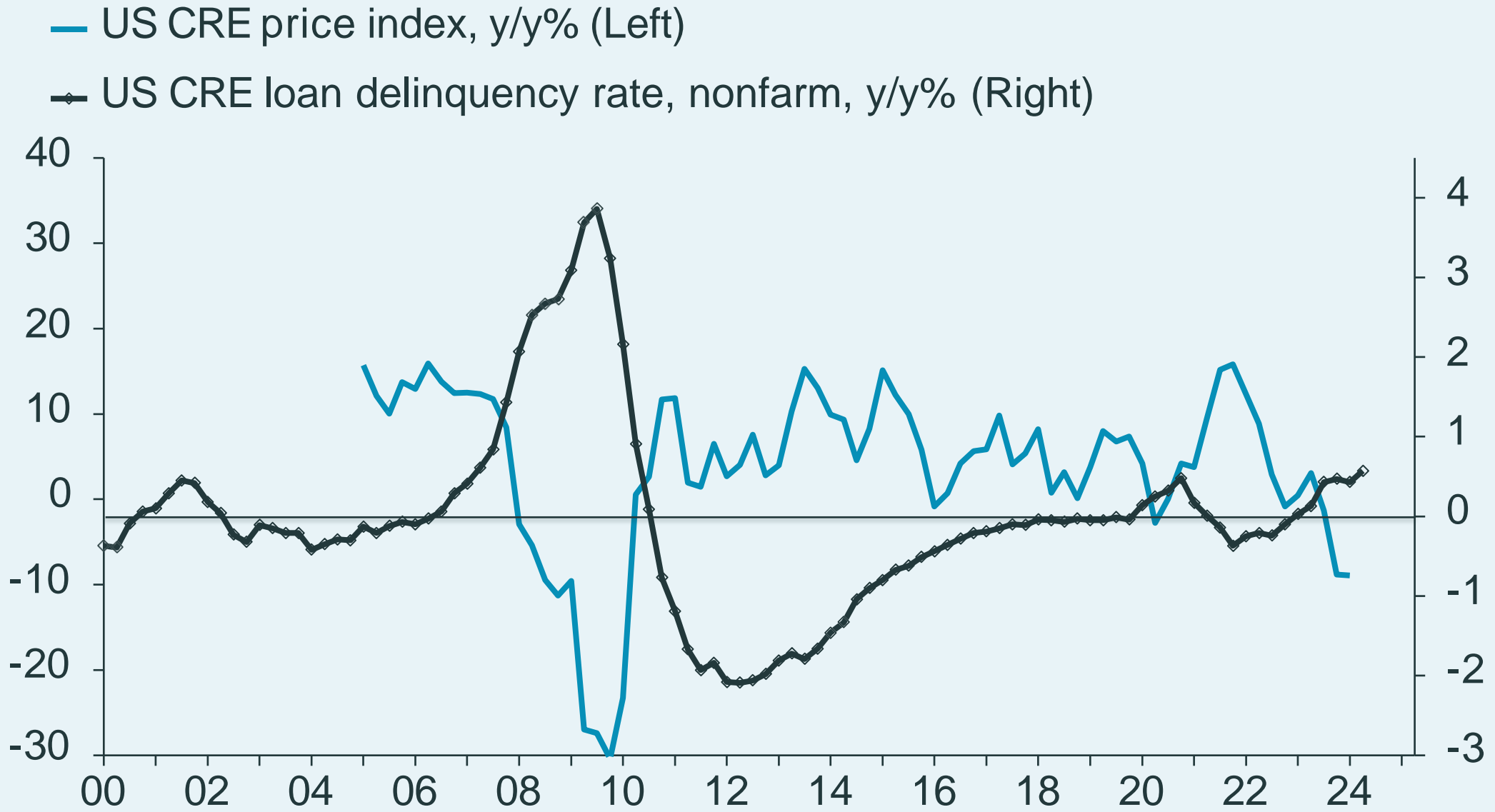
- Headline CPI, y/y% (Left)
- Private sector payrolls, y/y% (Right)



8. Small businesses are suffering; hiring, capex down

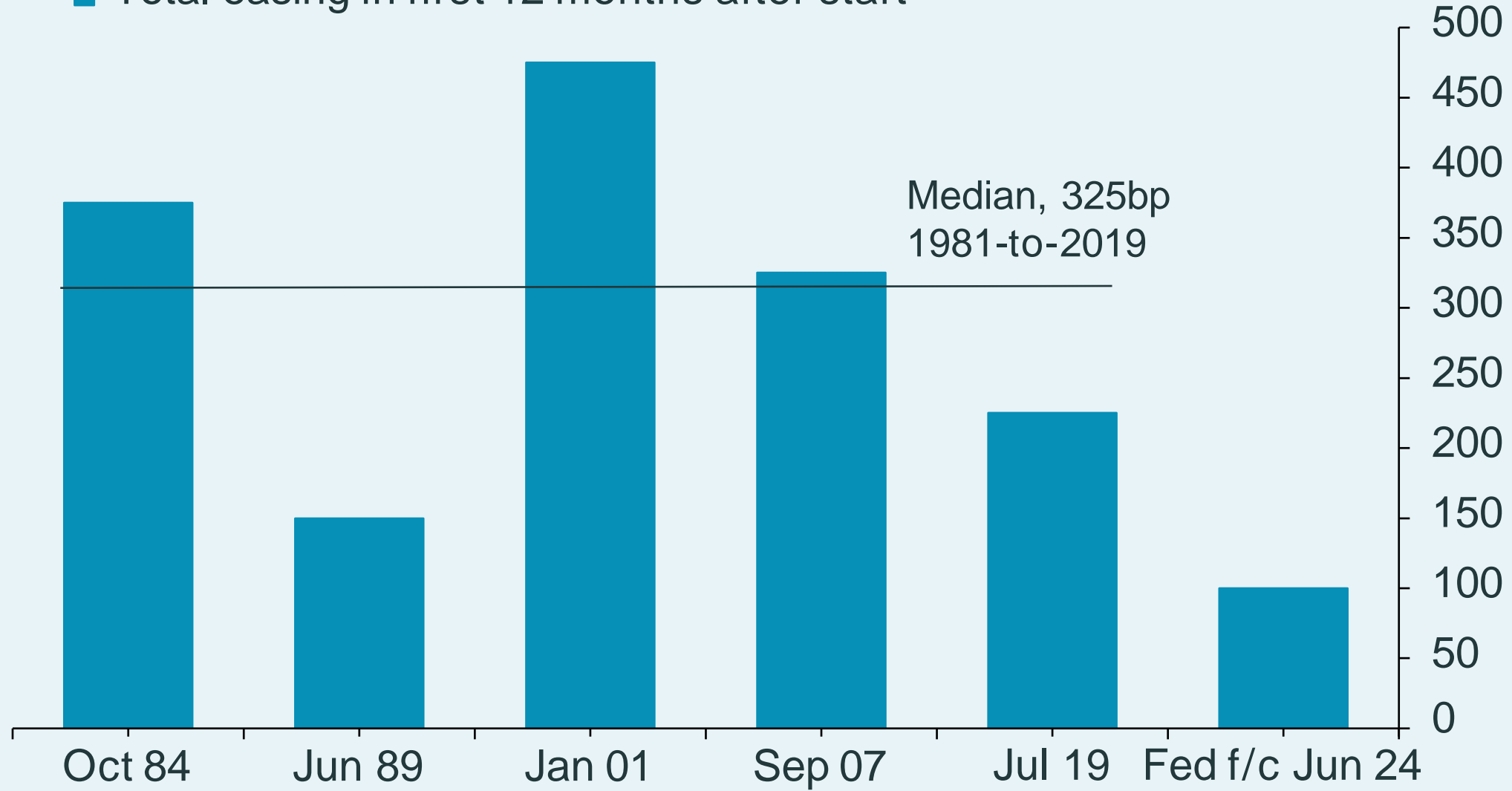


9. CRE prices falling; loan delinquencies low but rising

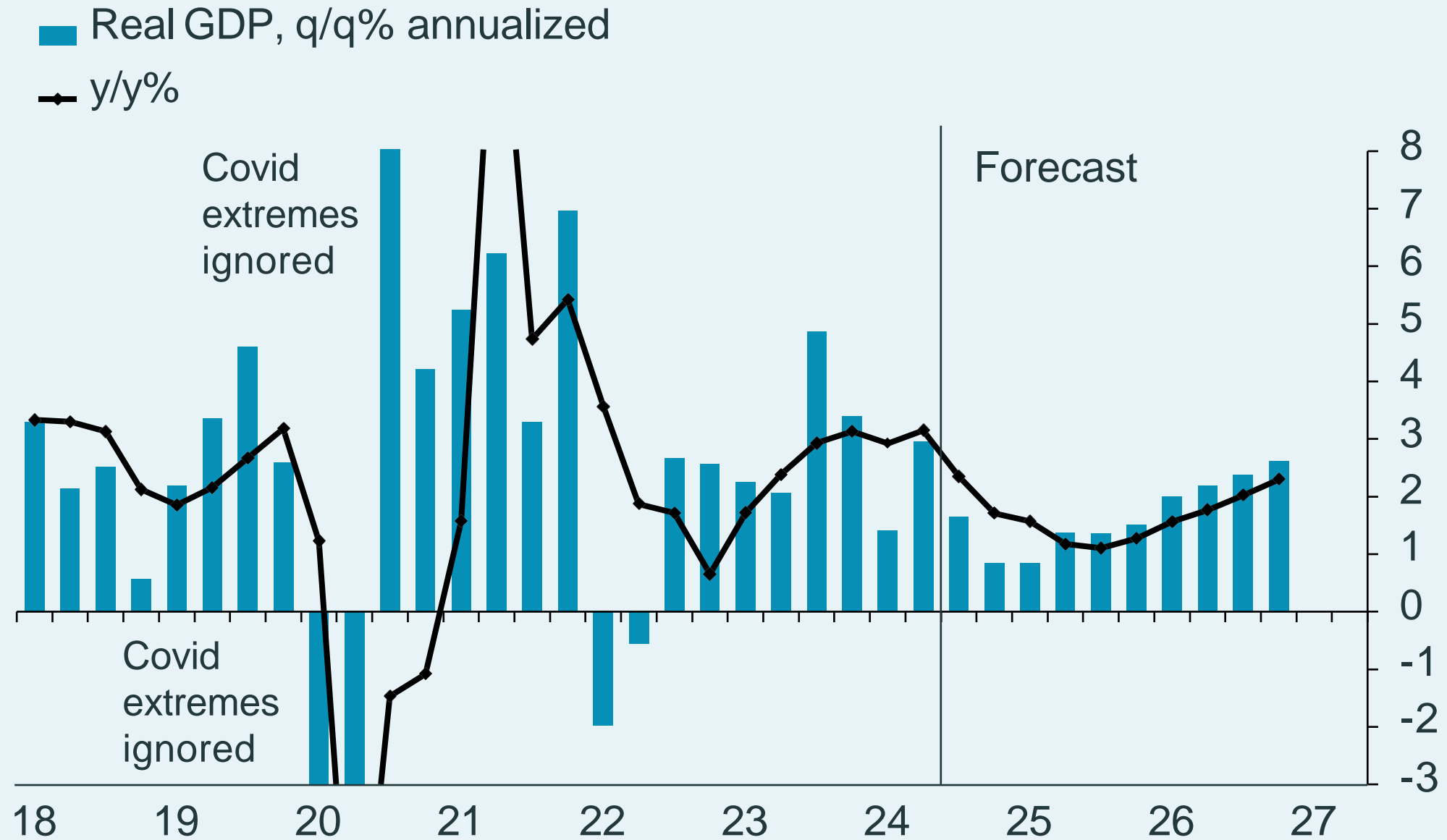


10. The Fed will cut faster than they expect, as usual

■ Total easing in first 12 months after start



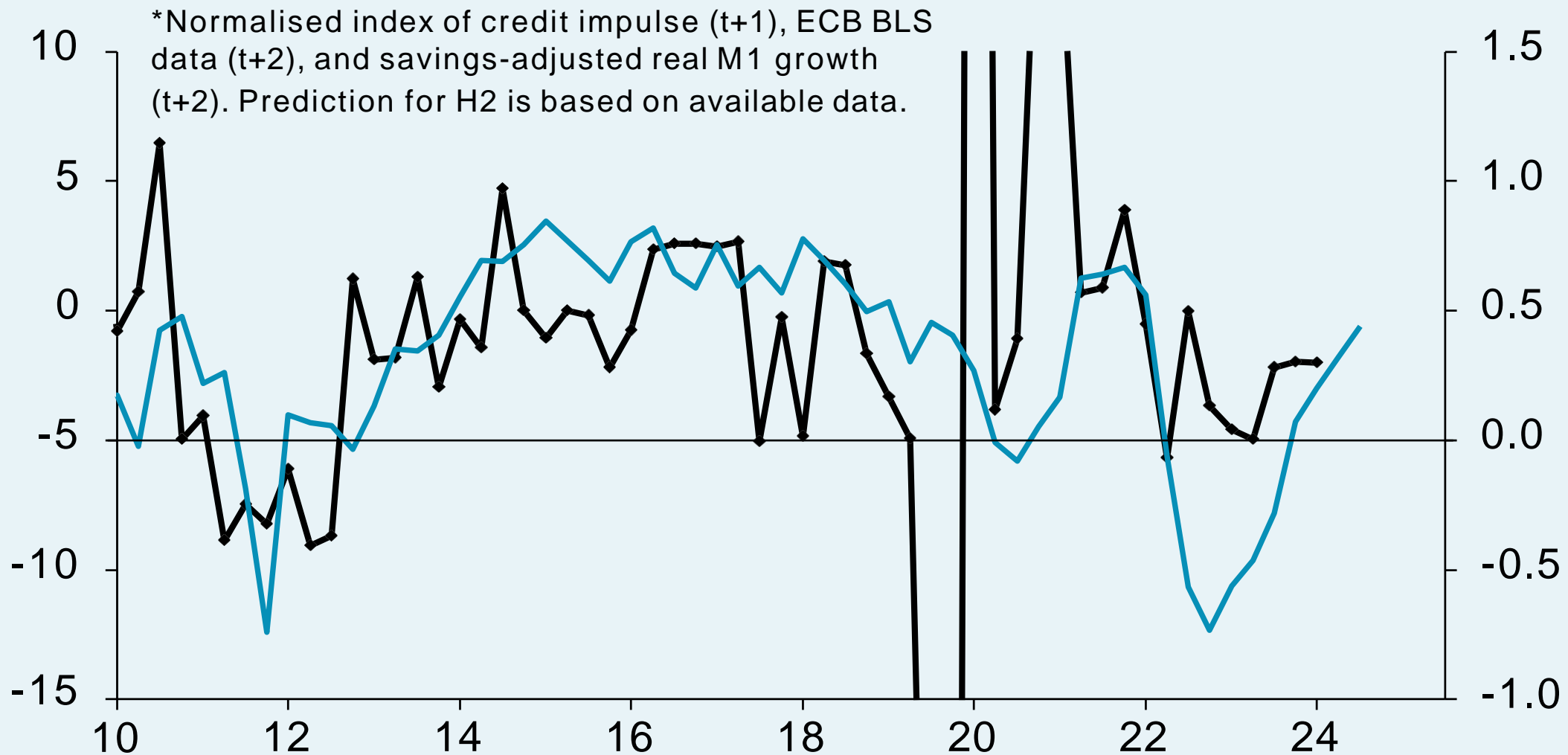
11. But lags are long on both sides; expect a slow 2025



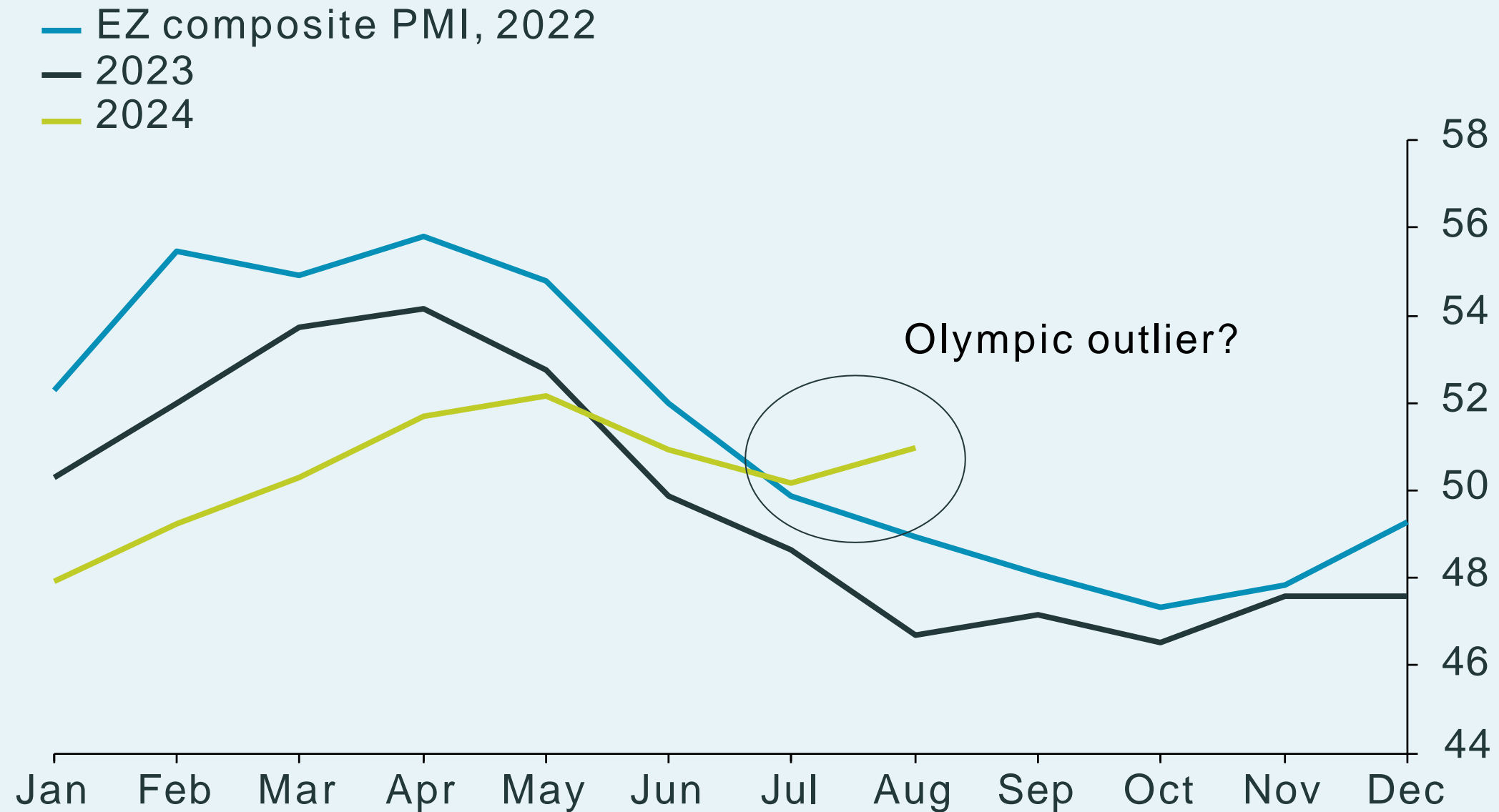
12. In **Europe**, the credit cycle is turning up, just

—•— EZ, GDP, q/q% (Right)

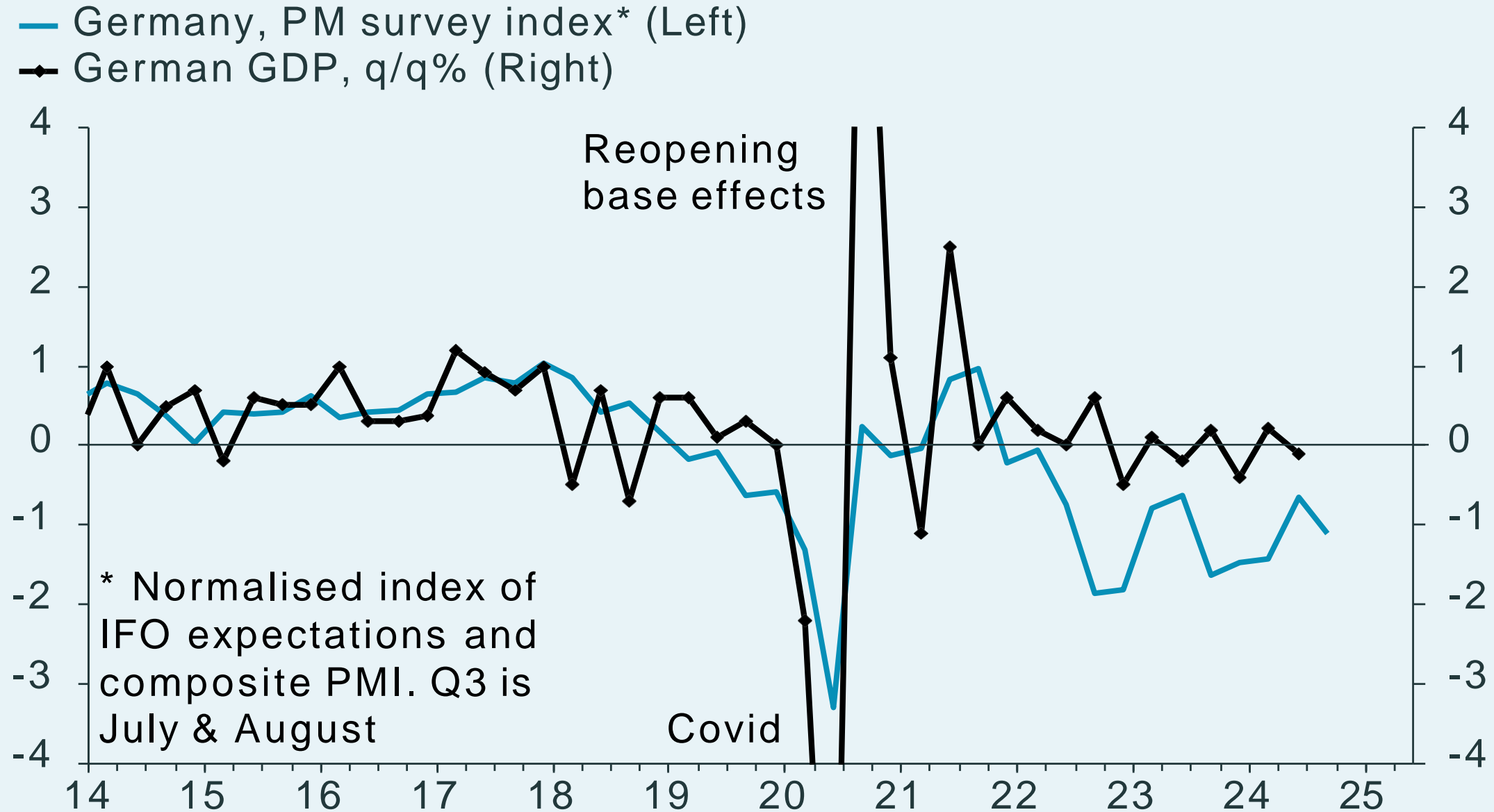
— PM money and credit cycle index, (Left)*



13. Surveys weak, but safe to ignore? Seasonals awry?



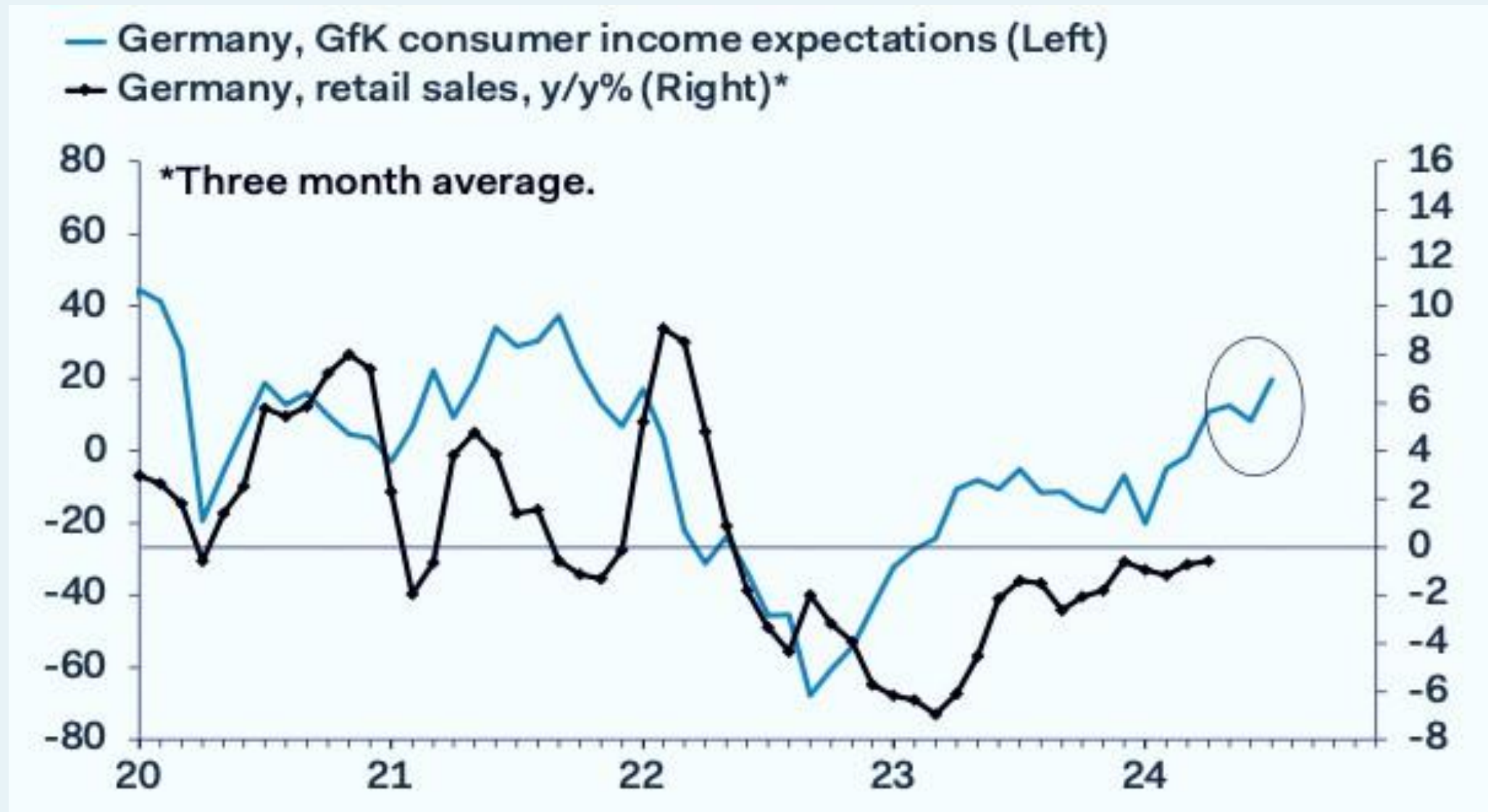
14. ...Except in **Germany**, where problems are deeper



15. ...Weak exports hurt **Germany** disproportionately

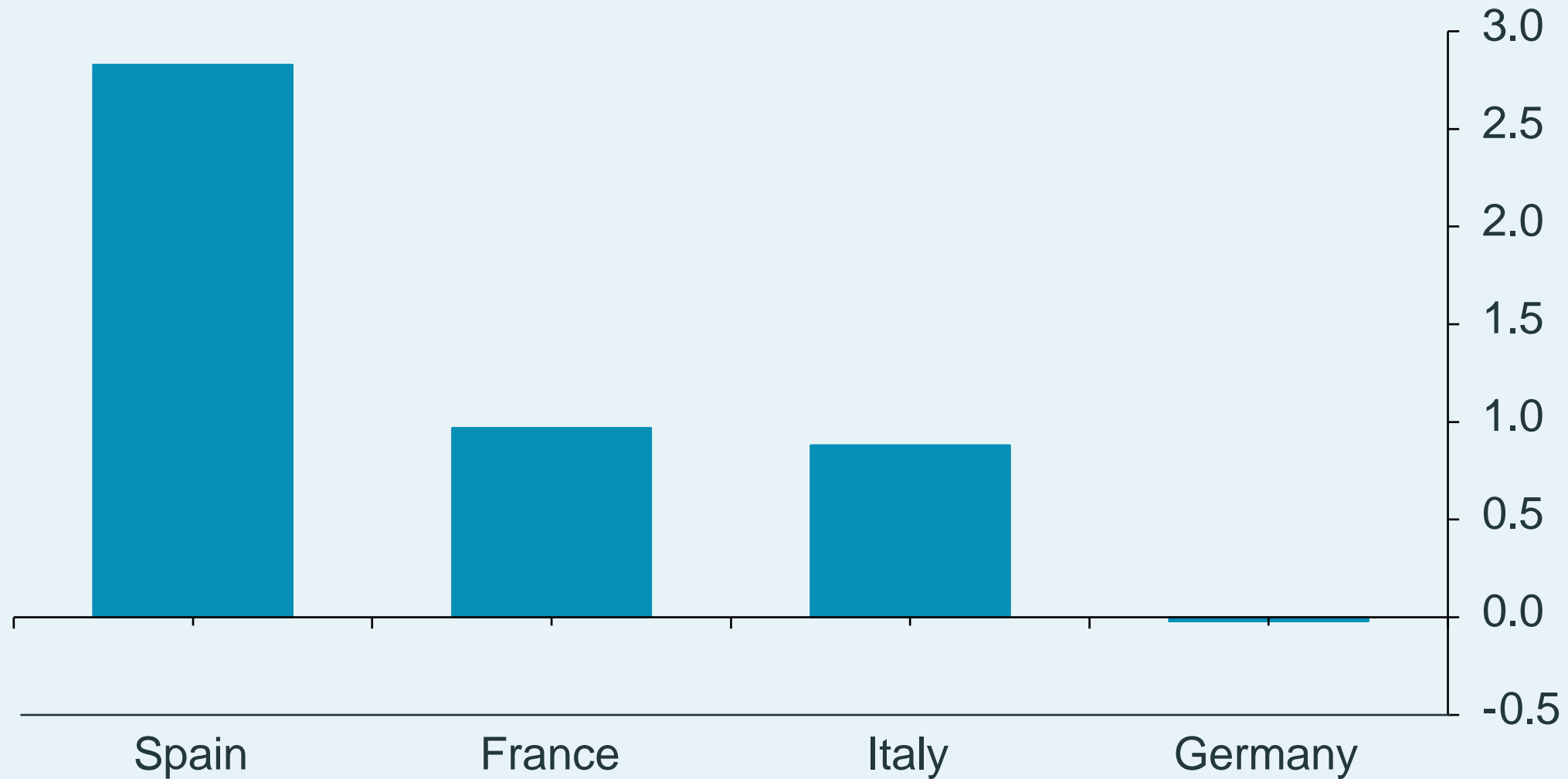


16. Consumers, however, are happier; spending to rise?



17. **Spain** is comfortably outperforming

■ GDP, year to Q2 2024



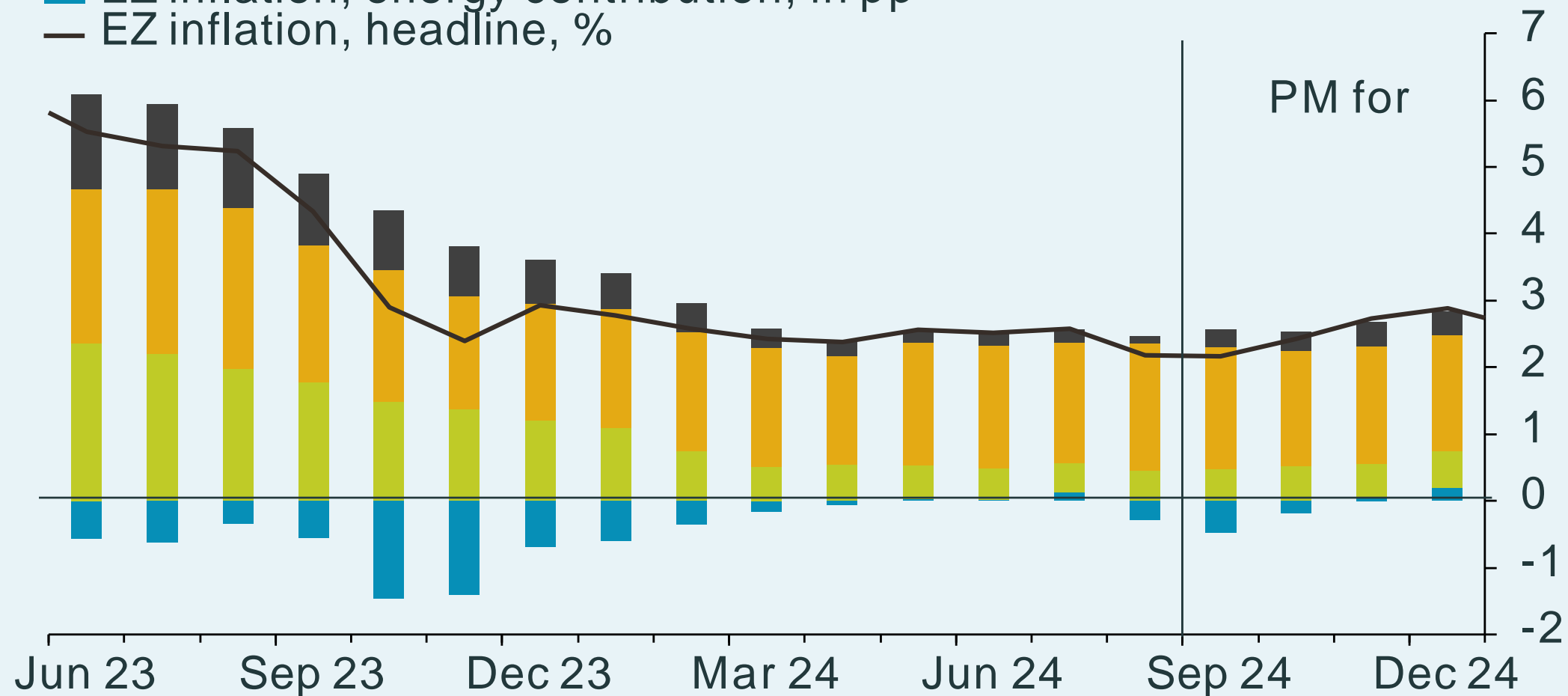
18. ...Thanks in part to the massive tourism recovery

— Spain visitor arrivals, millions 12-month average



19. **EZ** inflation is close to the target

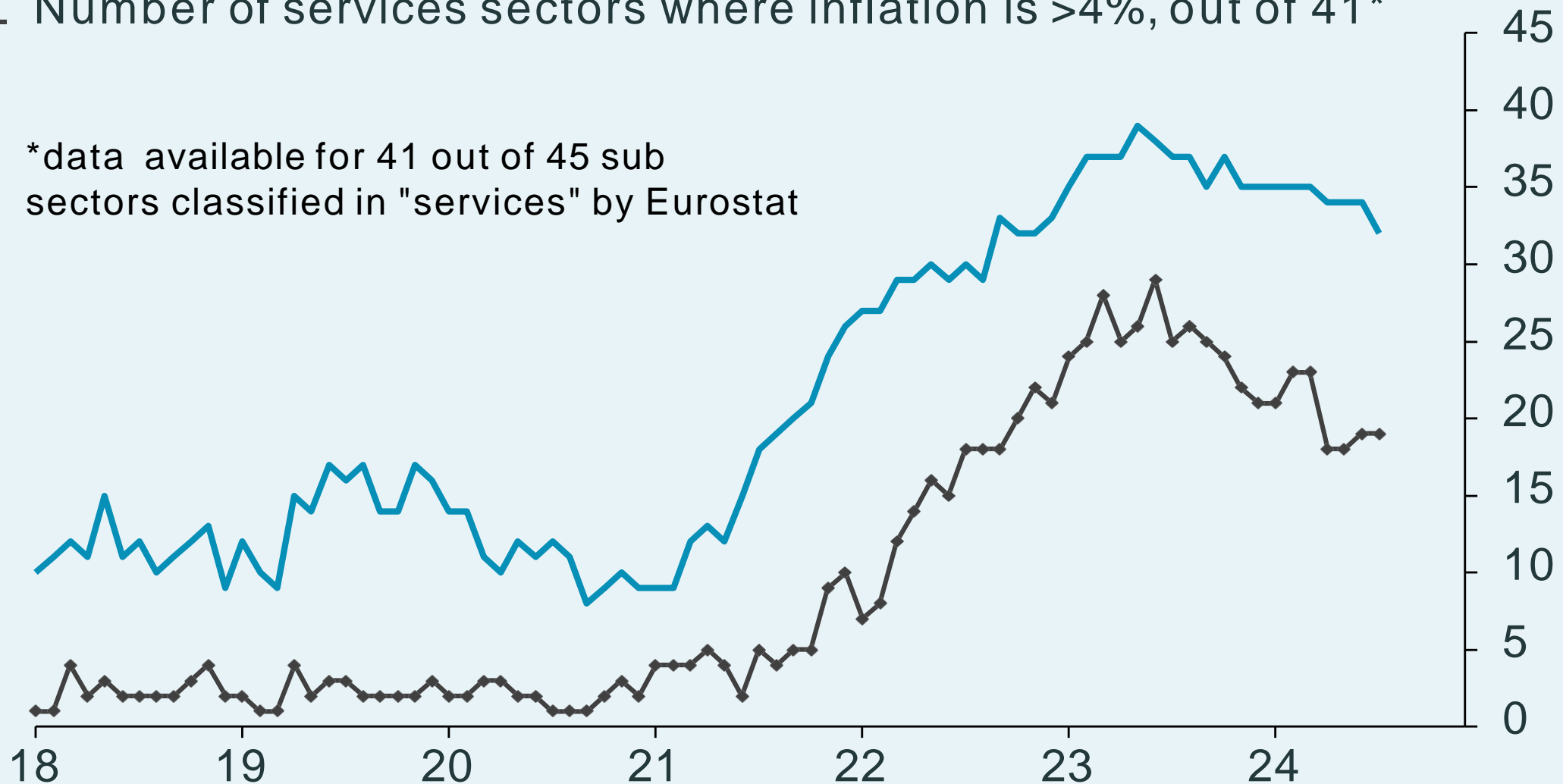
- EZ inflation, non-energy goods contribution, in pp
- EZ inflation, services contribution, in pp
- EZ inflation, food, alcohol and tobacco contribution, in pp
- EZ inflation, energy contribution, in pp
- EZ inflation, headline, %



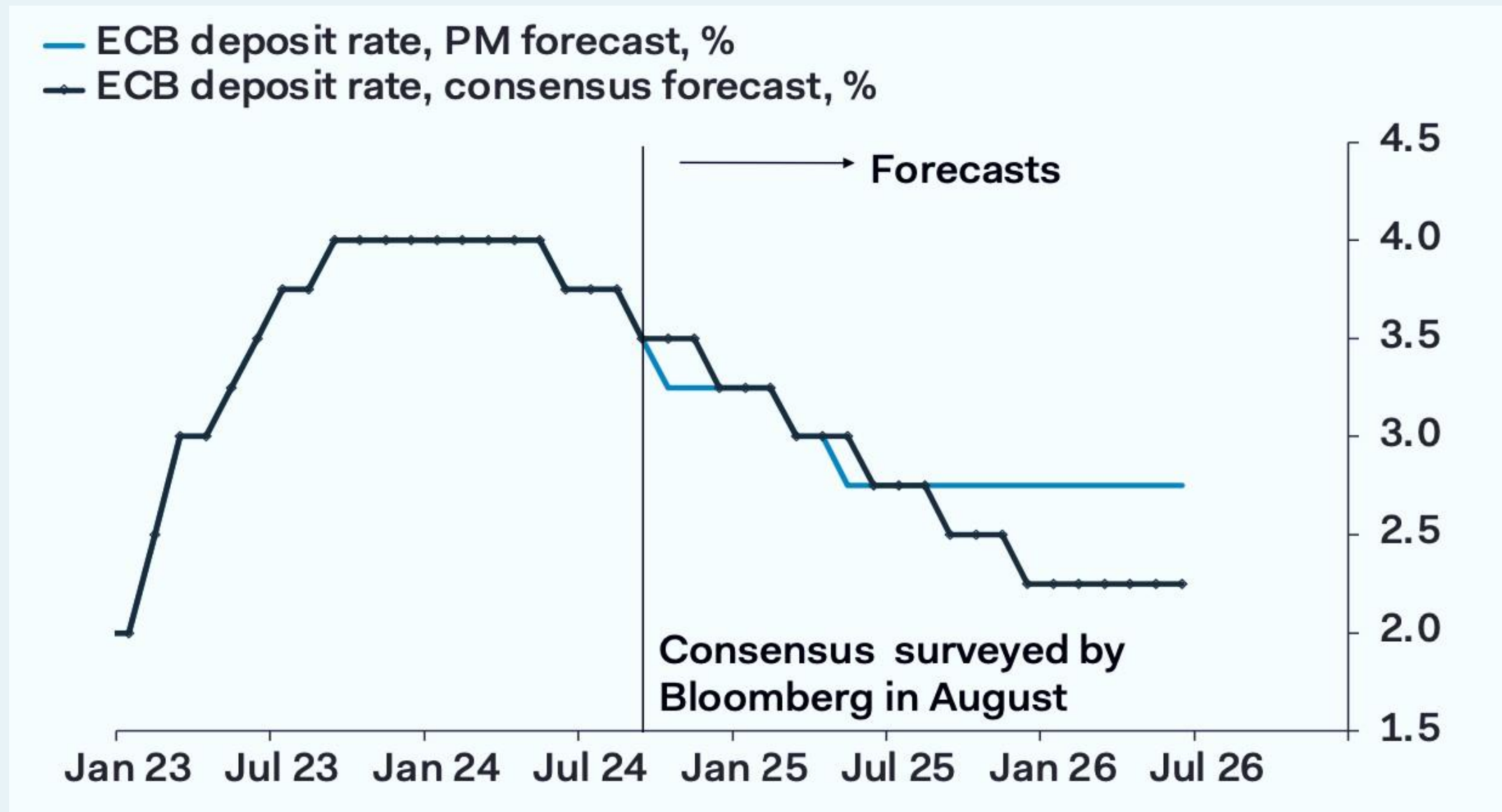
20. ...But the services sector is sticky

- Number of services sectors where inflation is >2%, out of 41*
- Number of services sectors where inflation is >4%, out of 41*

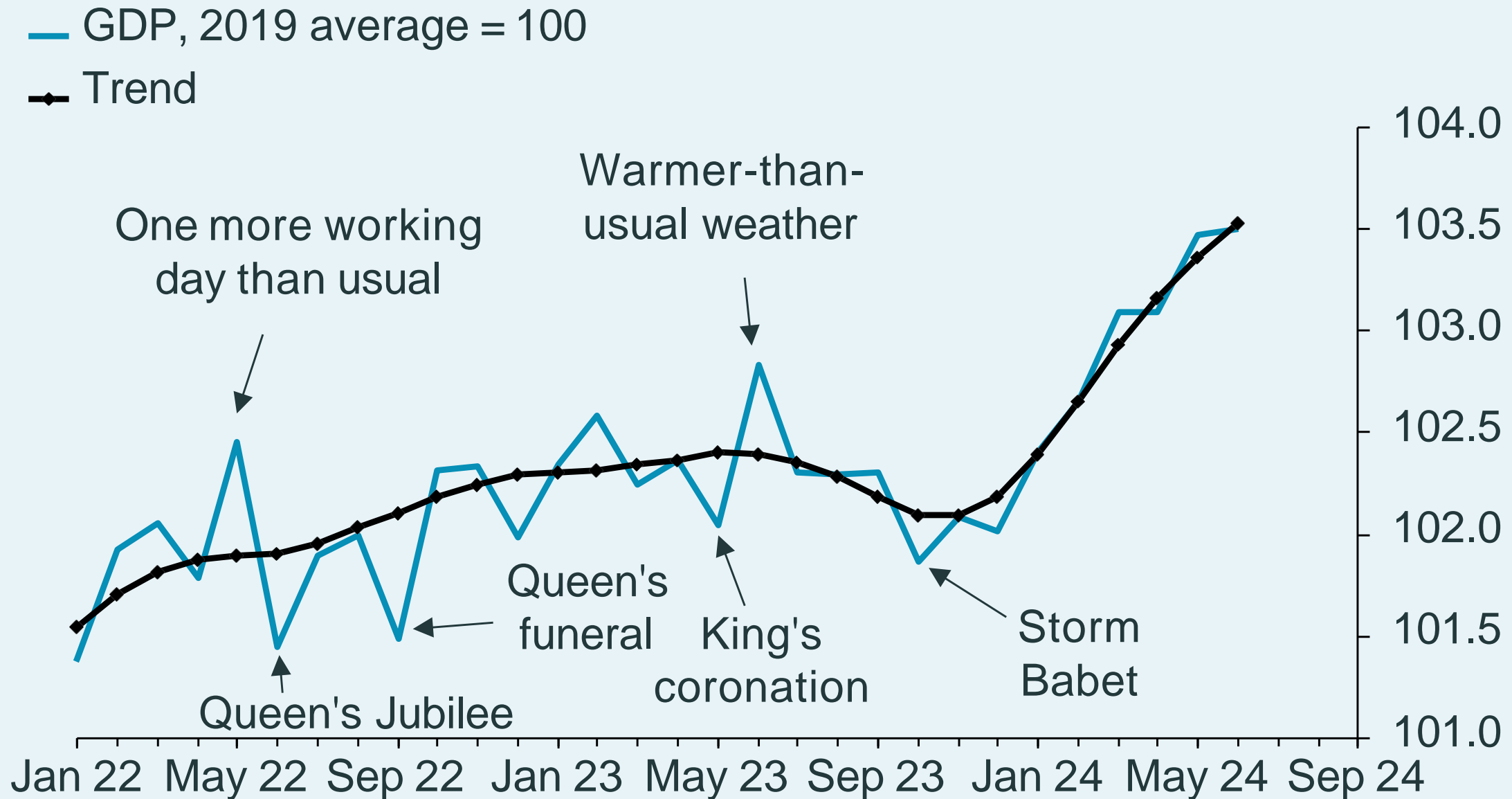
*data available for 41 out of 45 sub sectors classified in "services" by Eurostat



21. The ECB will cut rates, but less than markets expect



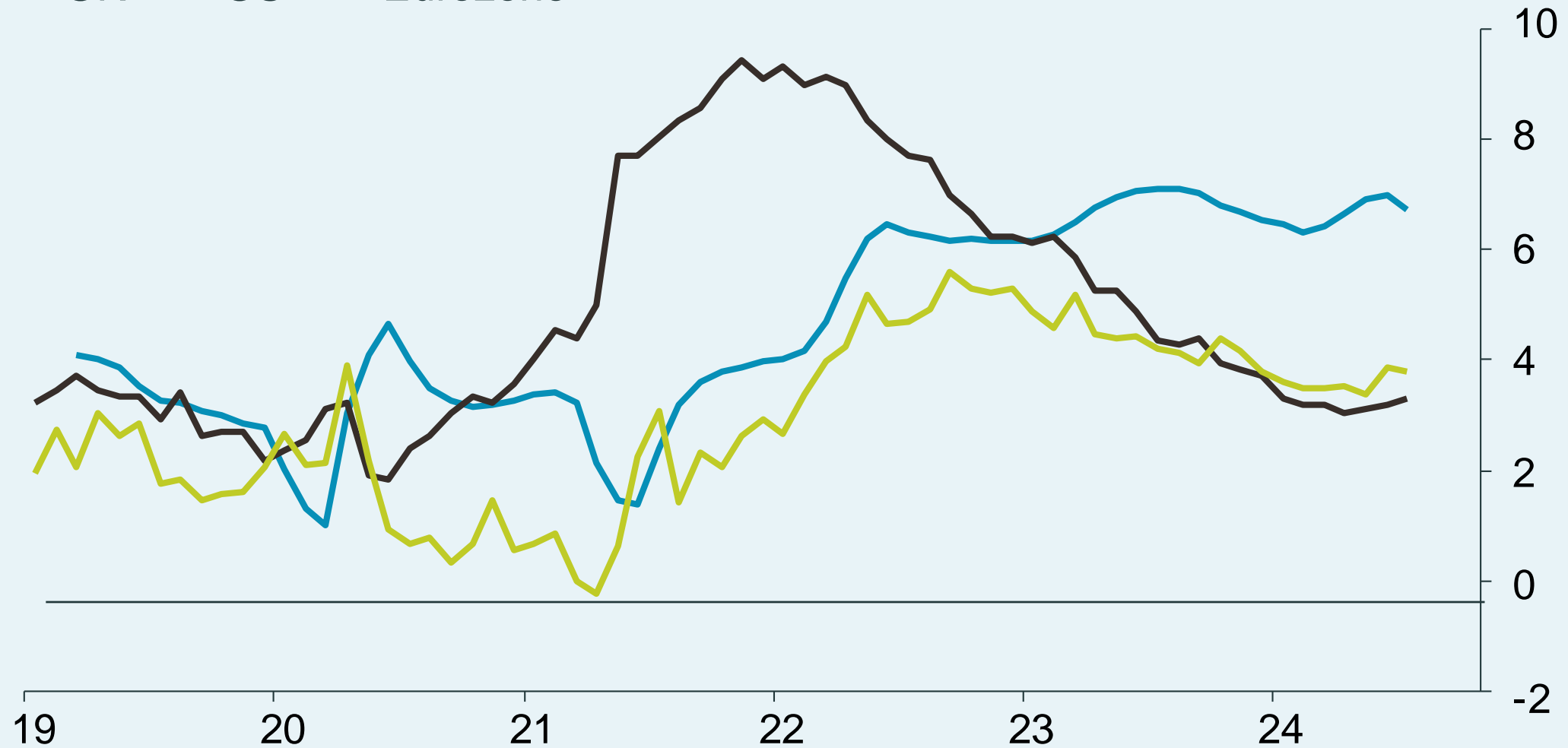
22. The **UK**, meanwhile, is growing at a 2% pace (!)



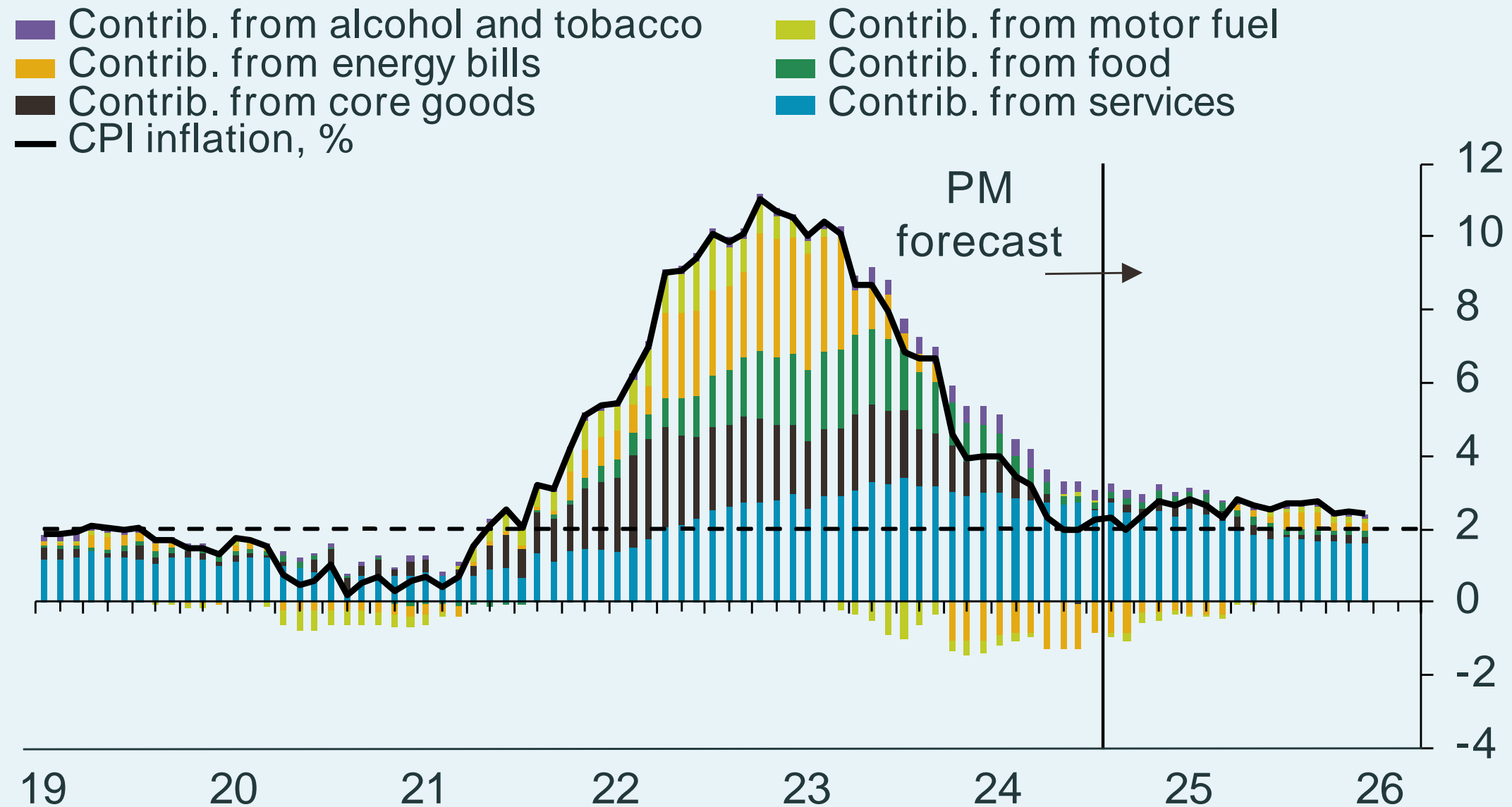
23. ...Largely because wage growth is still very strong

Indeed wage tracker, y/y%

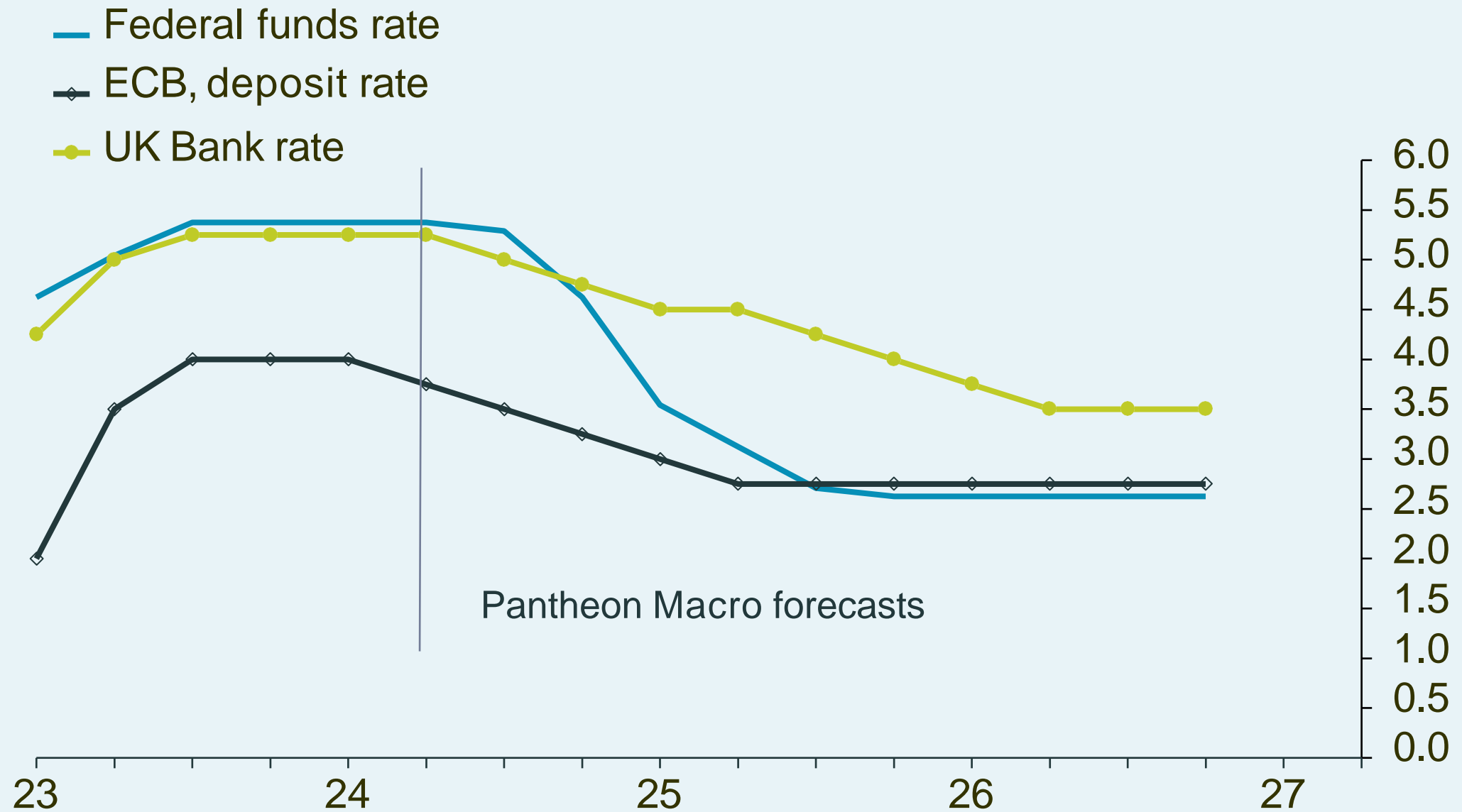
— UK — US — Eurozone



24. The catch: Rapid wage growth keeps inflation up



25. The BoE will cut rates, but much less than the Fed

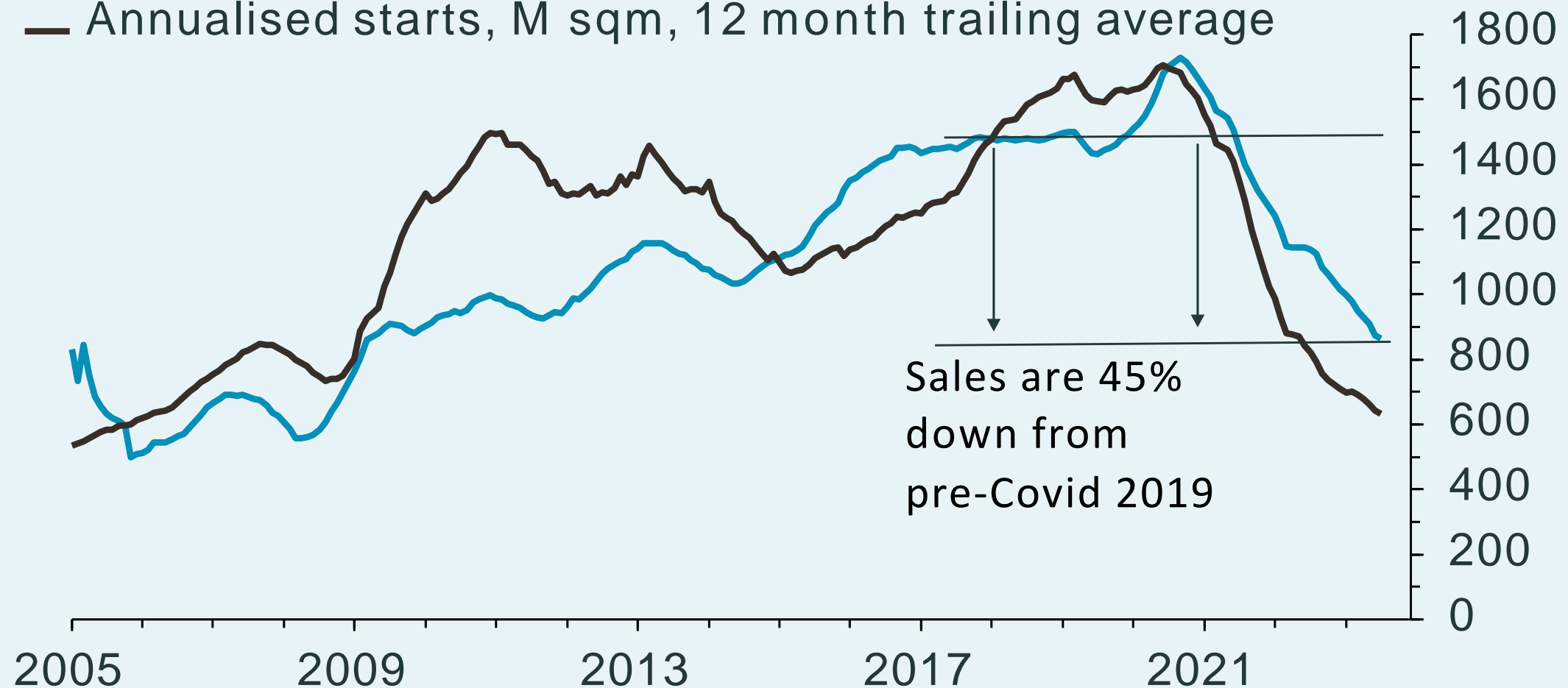


26. China's ongoing property woes are hurting

Residential property

— Annualised sales, M sqm, 12 month trailing average

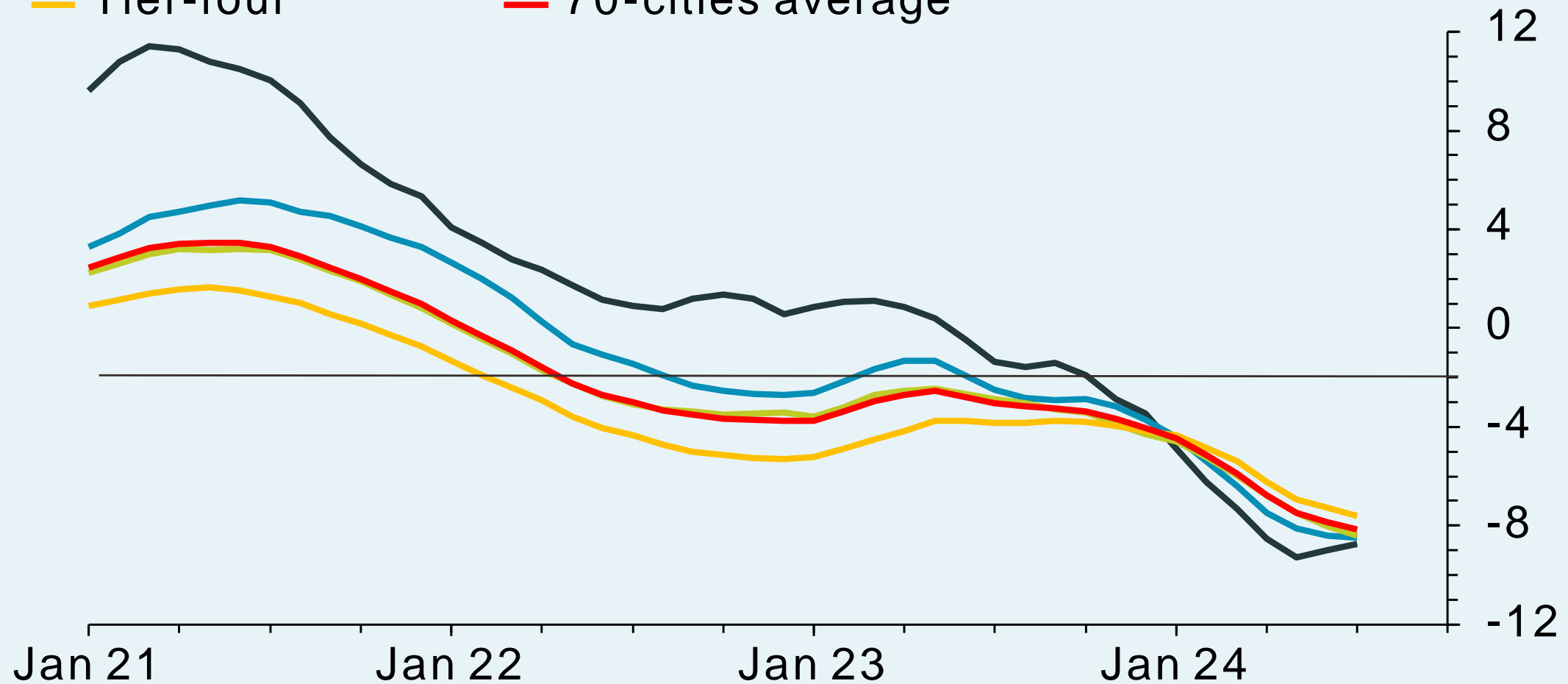
— Annualised starts, M sqm, 12 month trailing average



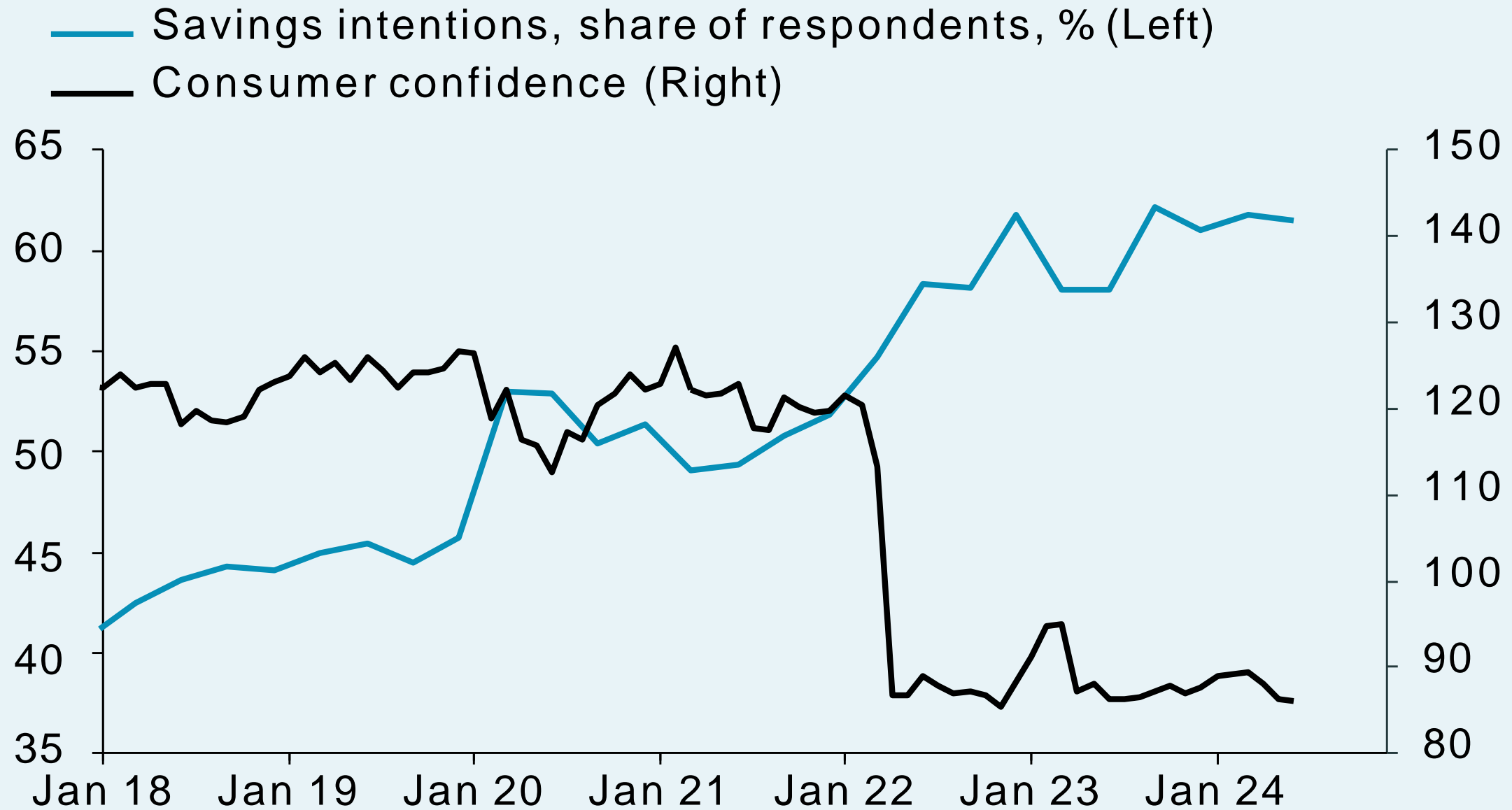
27. House prices falling fast, though pace is flattening

Pre-owned residential property prices, %y/y

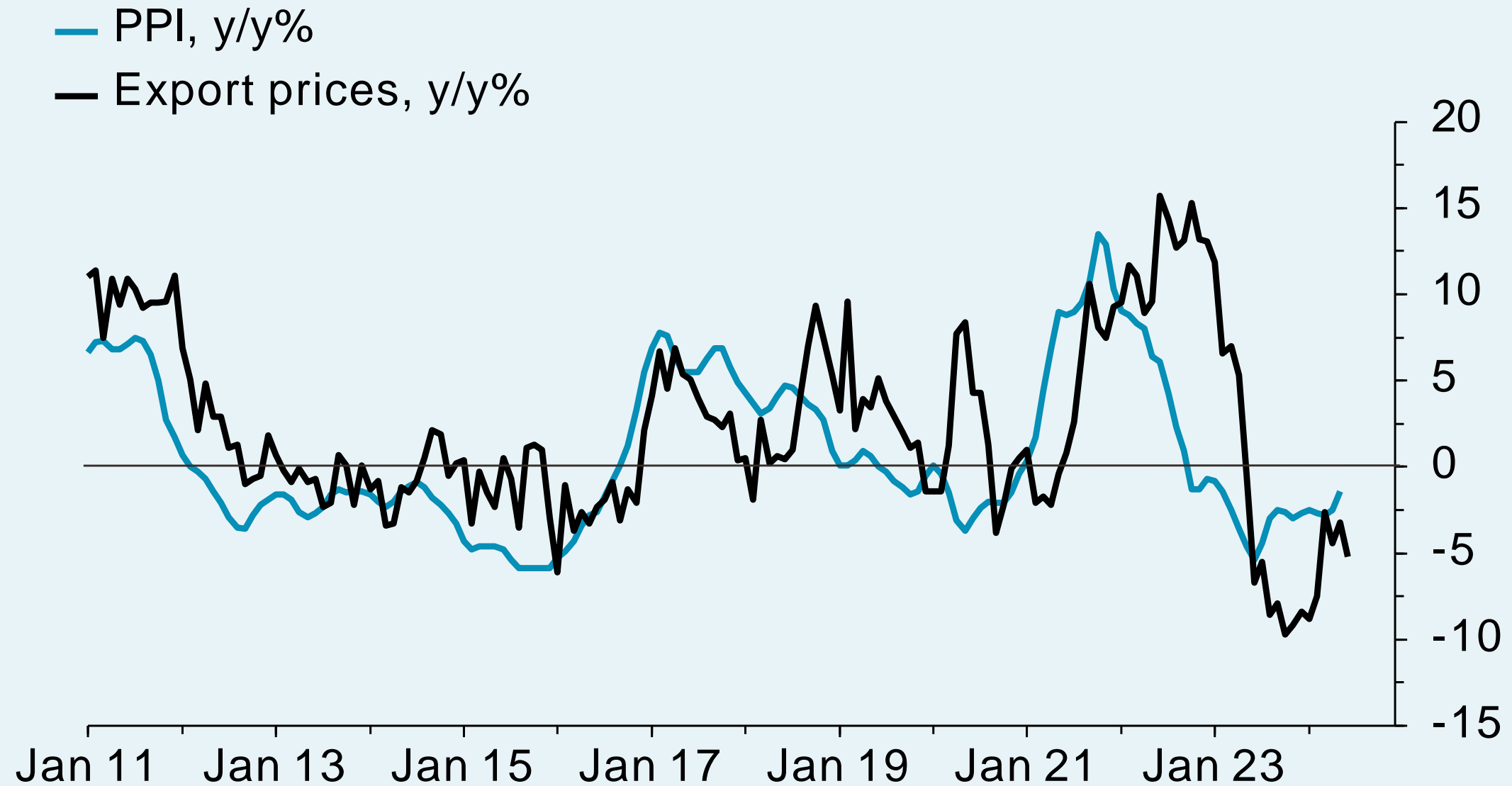
— Tier-one — Tier-two — Tier-three
— Tier-four — 70-cities average



28. Consumers are miserable and nervous



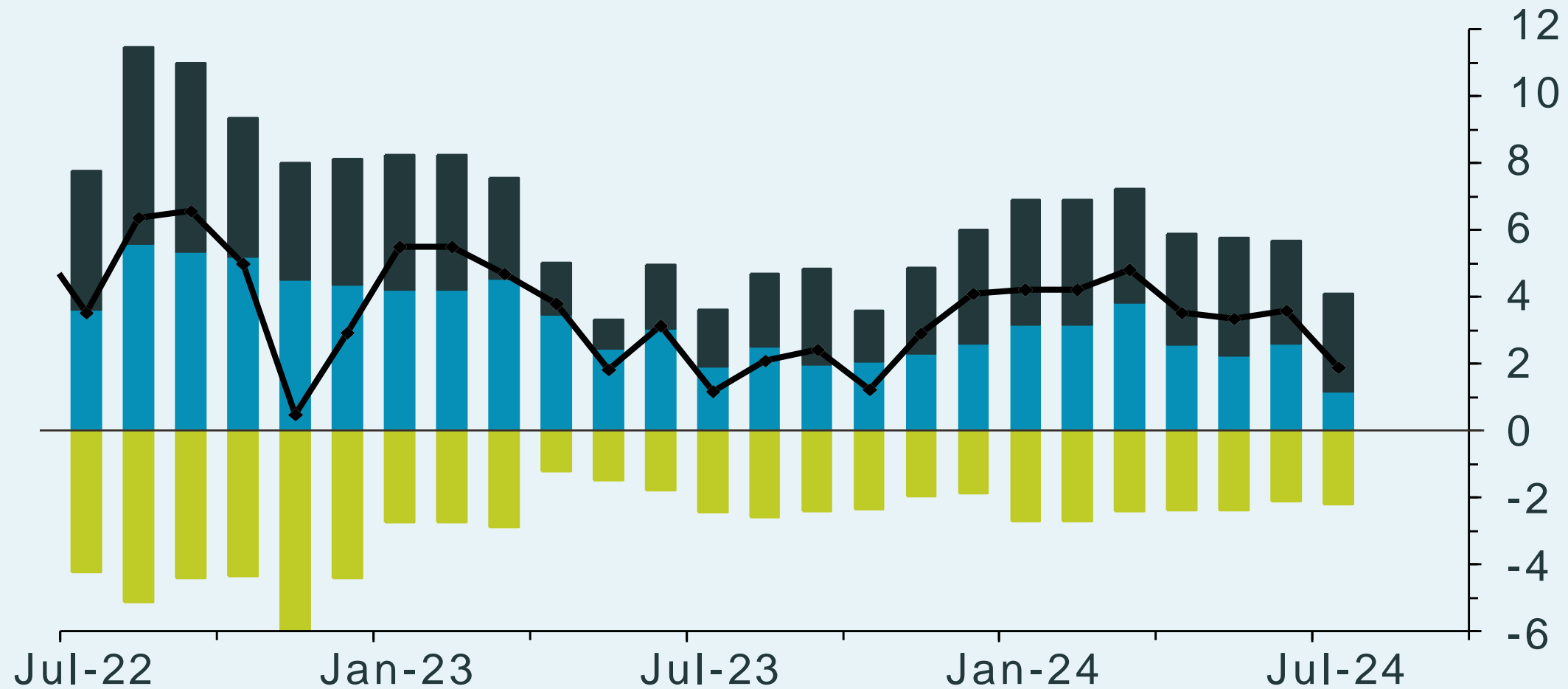
29. Industry is over-producing, so prices are falling



30. More investment stimulus is inevitable...

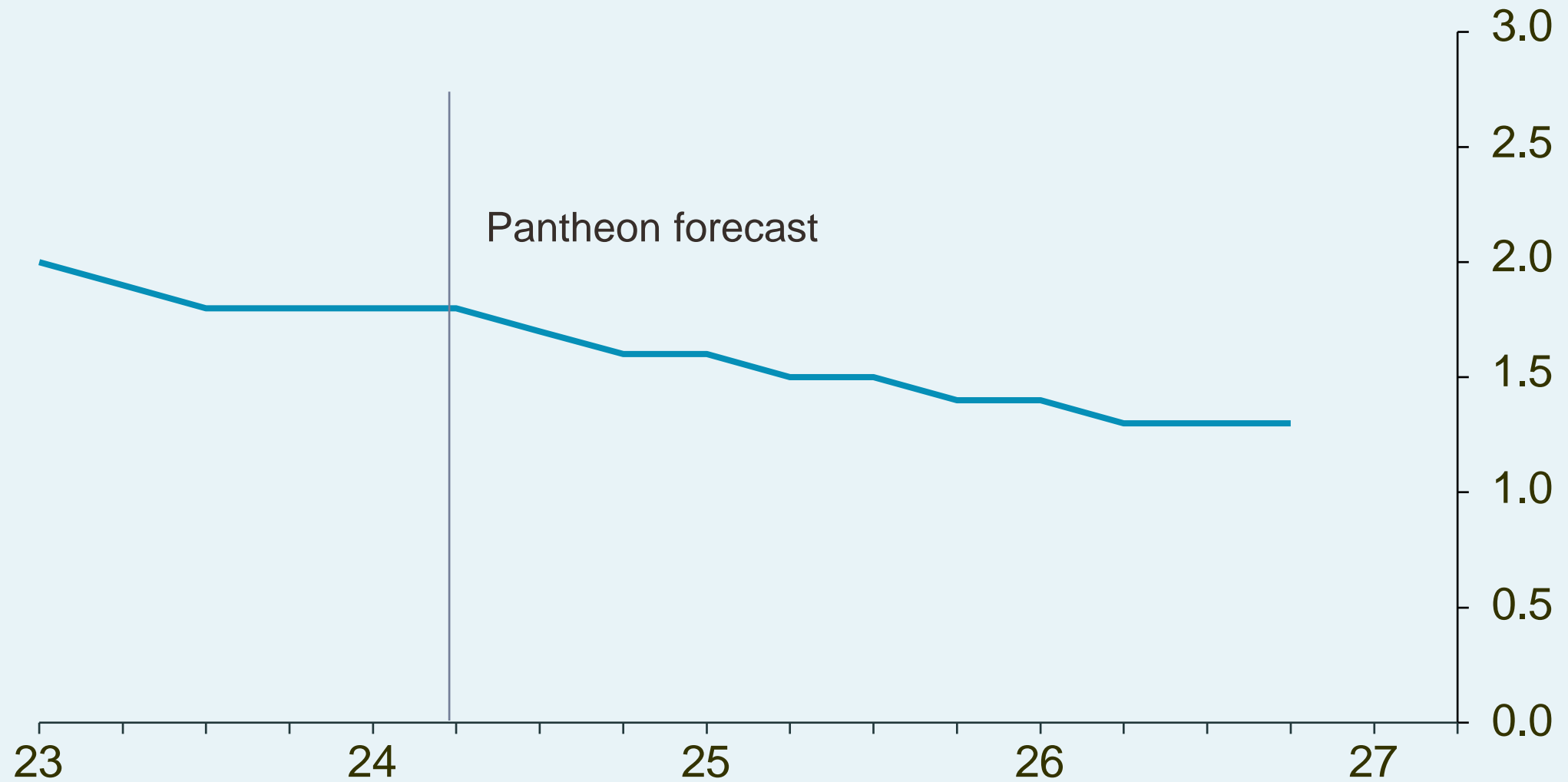
Contributions to annual FAI growth, pp

■ Property ■ Manufacturing ■ Infrastructure — Total FAI, %y/y



31. Rates will fall too, but in a liquidity trap, so what?

— China 7-day reverse repo rate%, y/y%



32. Summary

- Slow growth and inflation close to central bank targets means interest rates will fall everywhere over the next year, at least.
- The extent of monetary easing will vary; the US will cut rates most, seeking to avoid a (mild) recession. But no one is going back to zero.
- Policy lags are long; developed economies will grow next year, but probably at a sluggish pace.
- China is stuck in a doom loop of falling property prices, mountains of debt, adverse demographics, and excess manufacturing output.
- That means falling goods prices for DM consumers but weak demand for China-facing exporters.



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