



Global macroeconomic review

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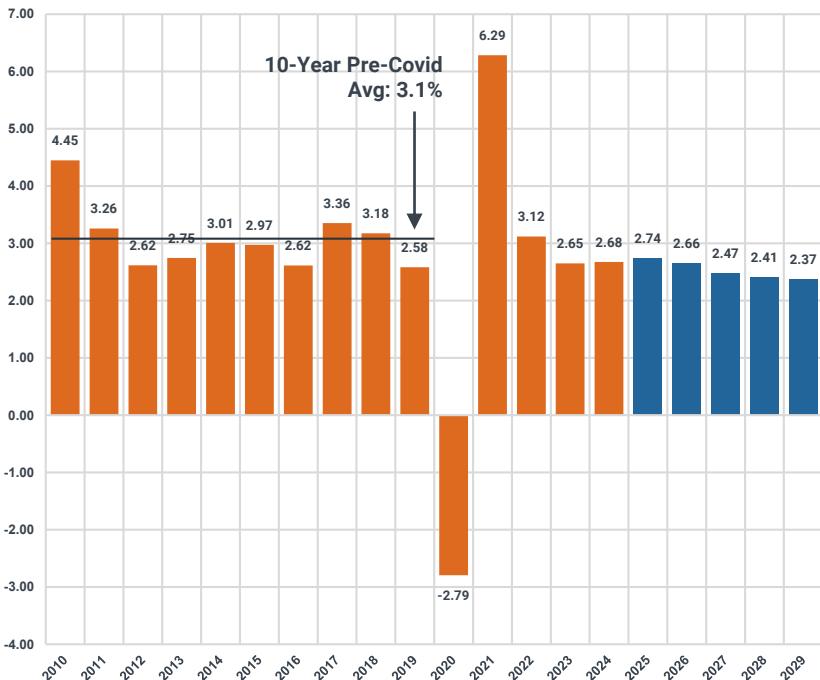


Global: Growth Outlook

Global growth is set to finish at roughly 2.7% this year

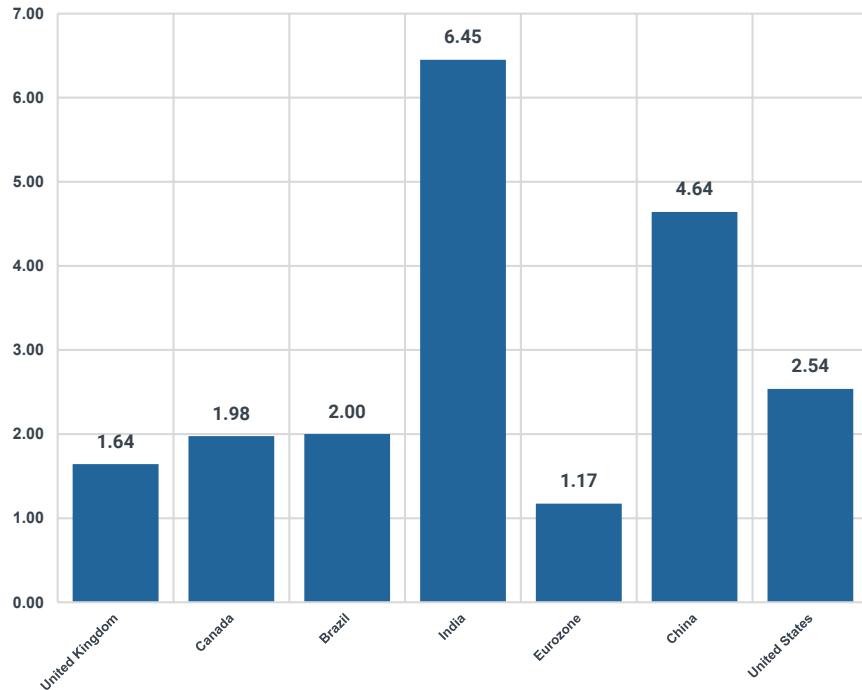
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Yearly World Real GDP Growth Forecast (%)



Source: Kpler, various international organizations

2025 GDP Growth Forecast by Region (%)



Source: Kpler, various international organizations

United States: Economic Outlook

We currently see a “no-landing” scenario where US economic growth holds at or above trend.

GDP Growth: US growth finished at 2.9% in 2024, well above 2% long-run trend. Growth will moderate to 2% in 2025. Significant slowdown in real economy unlikely this year.

- **US consumer** continues to look strong. Inflation adjusted expenditures up 10 of last 12 months, service PMI figures remain in expansion, big post election improvement in sentiment.

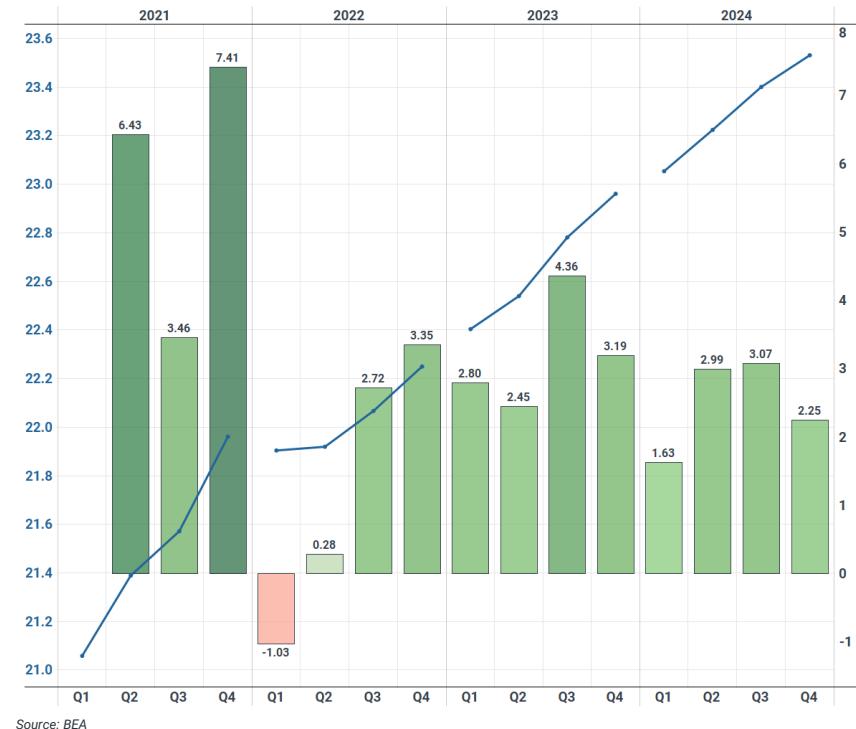
Inflation Concerns: we remain concerned about inflation. Core CPI likely to get stuck in a range between 3 – 3.5% through the course of this year.

Shifting Fed Policy: in December, the Fed reduced rate cut expectations for 2025 by 50bp amid higher GDP and inflation expectations. As expected, the Fed paused the rate cutting cycle in January. We see no more than two rate cuts this year.

Bond Selloff: 10y treasury yields have rallied 100bp since initial Fed cut in mid-September. This is due to strong US economy, reduction in rate cut expectations, and inflation concerns. A test of 5% on the 10y looks likely at some point this year.

Trump Policy: will be both largely inflationary and stimulatory. Will include tariffs, immigration restrictions, tax cuts, and Fed pressure. Will also push for deregulation.

Quarterly US Headline Real GDP (USD tn, left) and Q/Q % Annualized Delta (right)

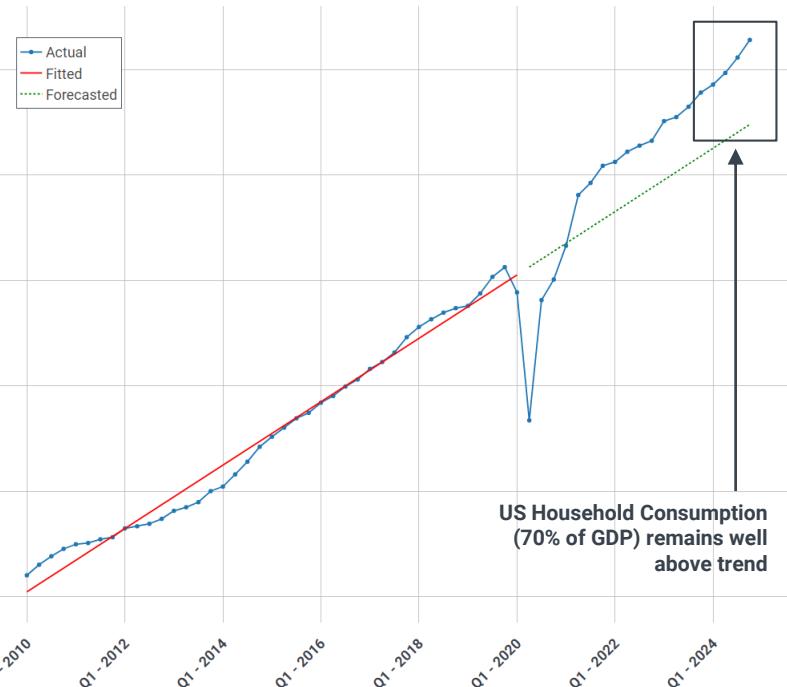


United States: Household Consumption

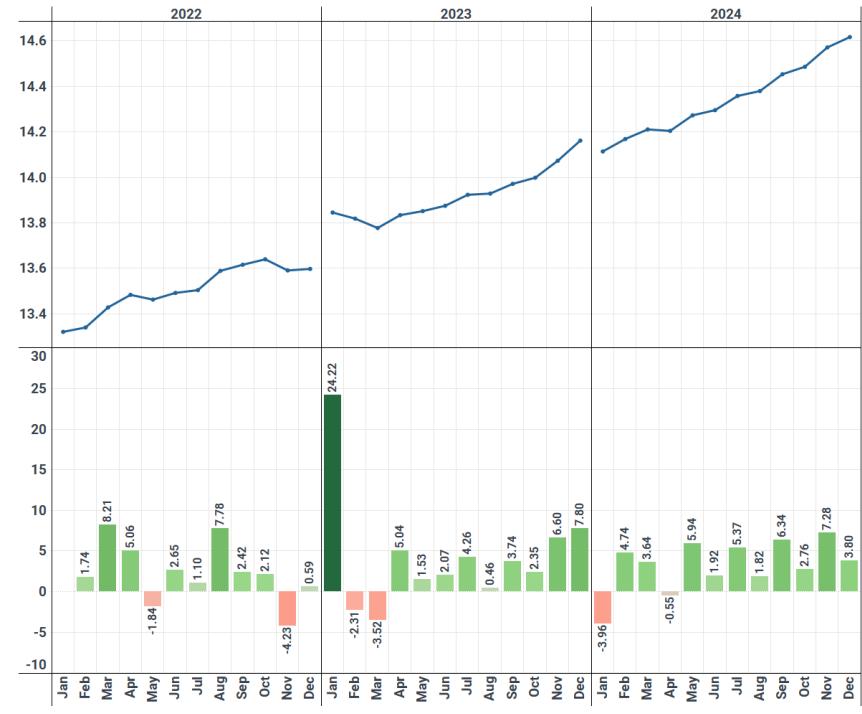
Consumption remains well above trend and real household expenditures have continued to steadily increase

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Quarterly US Household Consumption Against Pre-Pandemic Trend (USD tn)



Monthly US Real Consumption Expenditures Excluding Food and Energy (USD tn, top) and M/M % Delta (bottom)

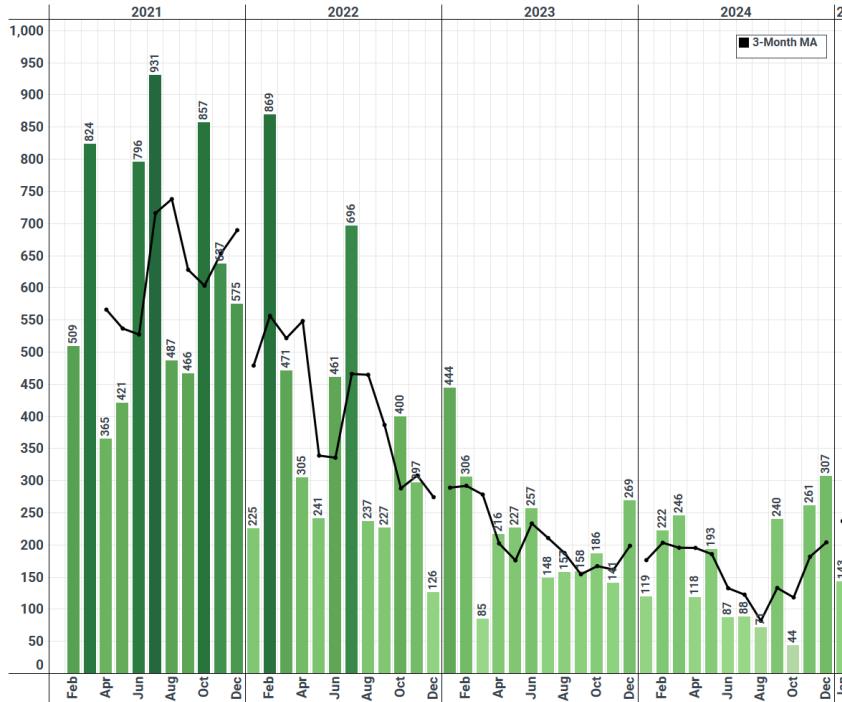


United States: Labor Market

The labor market has shown durable signs of stabilization in recent months

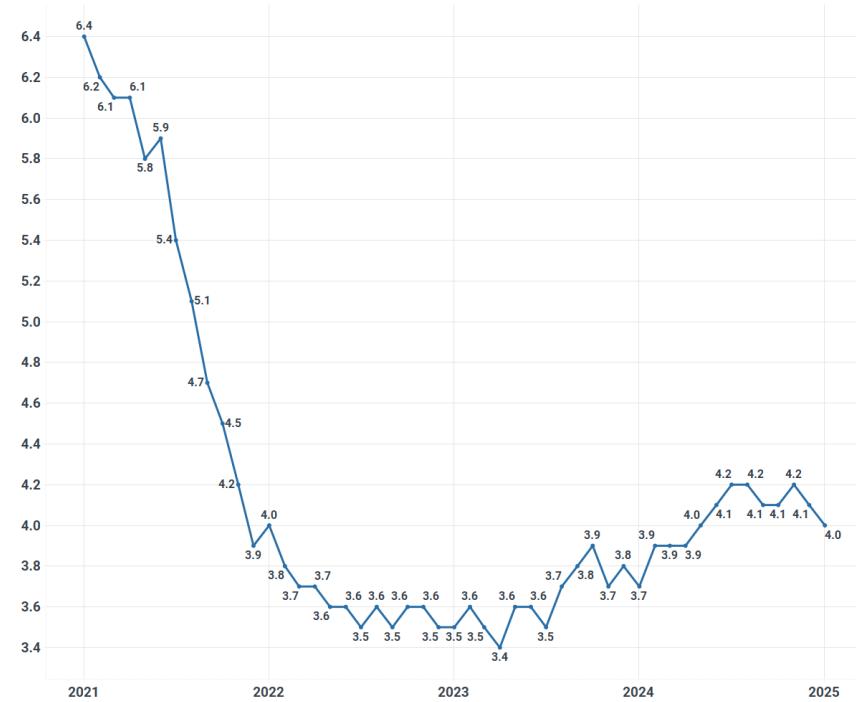
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Monthly US Nonfarm Payroll Growth (in thousands)



Source: BLS

Monthly U3 Headline Unemployment Rate (%)



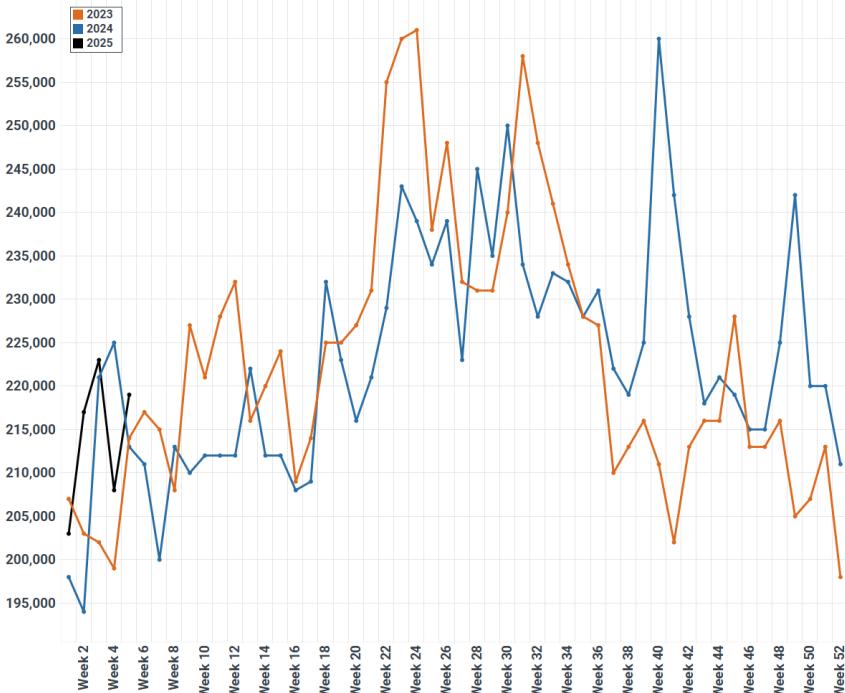
Source: BEA

United States: Labor Market

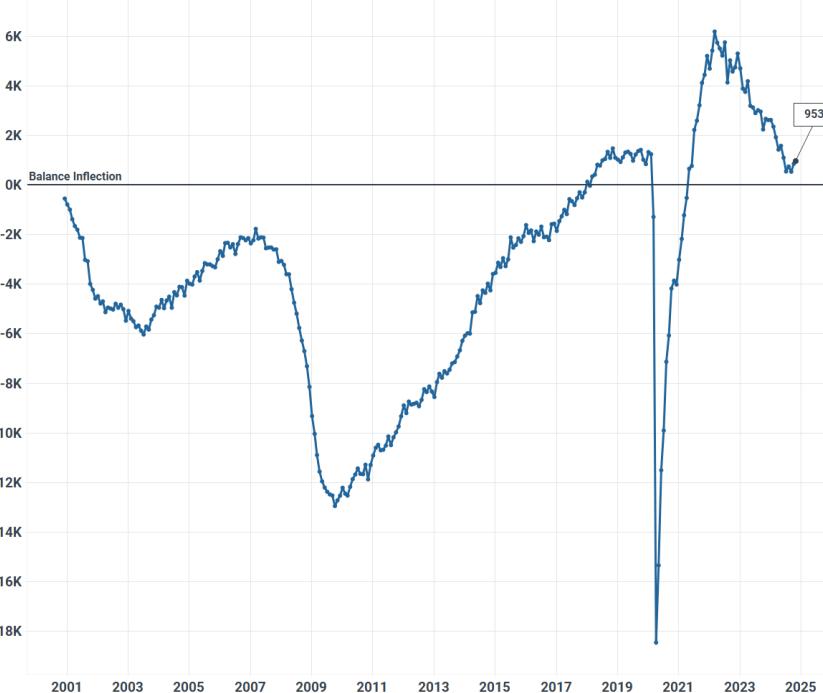
Initial jobless claims showing no signs of a clear break to the upside relative to previous years

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Weekly US Initial Jobless Claims



Monthly US Labor Balance (>0 implies shortage of workers, <0 implies excess of workers, in thousands)

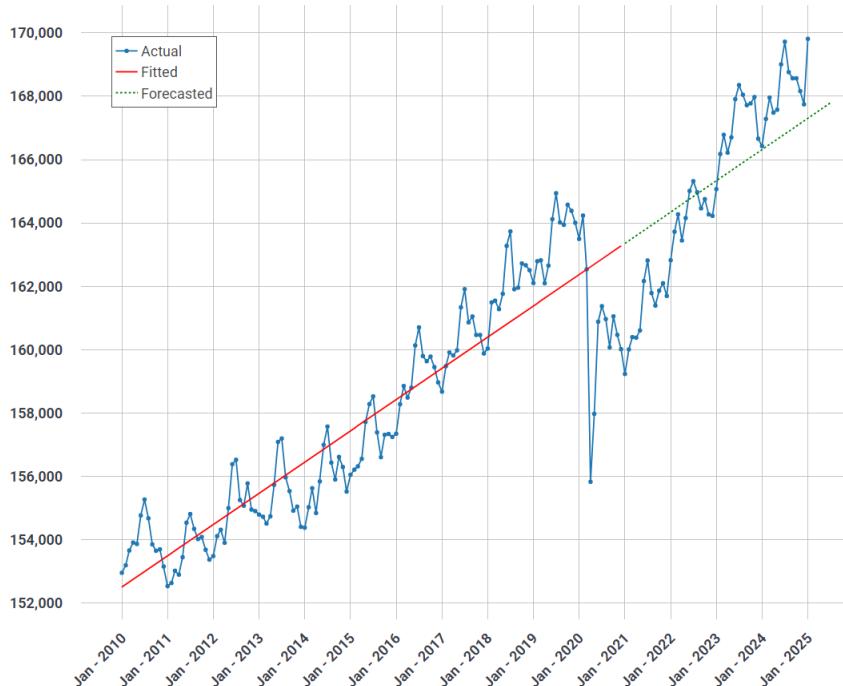


United States: Labor Market

Rapid expansion in the labor force due to immigration likely creating measurement error in population survey

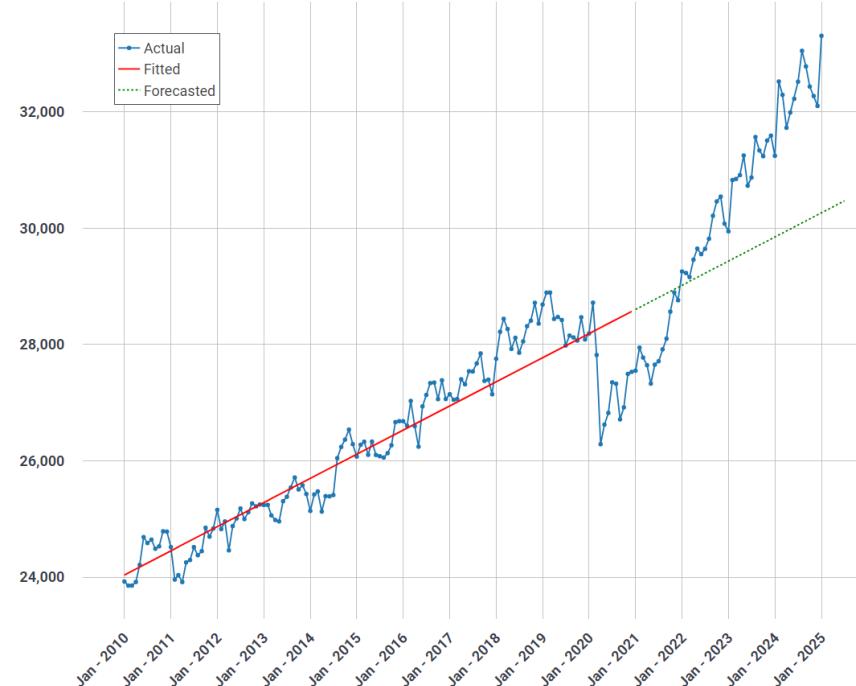
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Monthly US Civilian Labor Force Against Pre-Pandemic Trend (in thousands)



Source: BLS; data is not seasonally adjusted

Monthly US Foreign-Born Labor Force Against Pre-Pandemic Trend (in thousands)



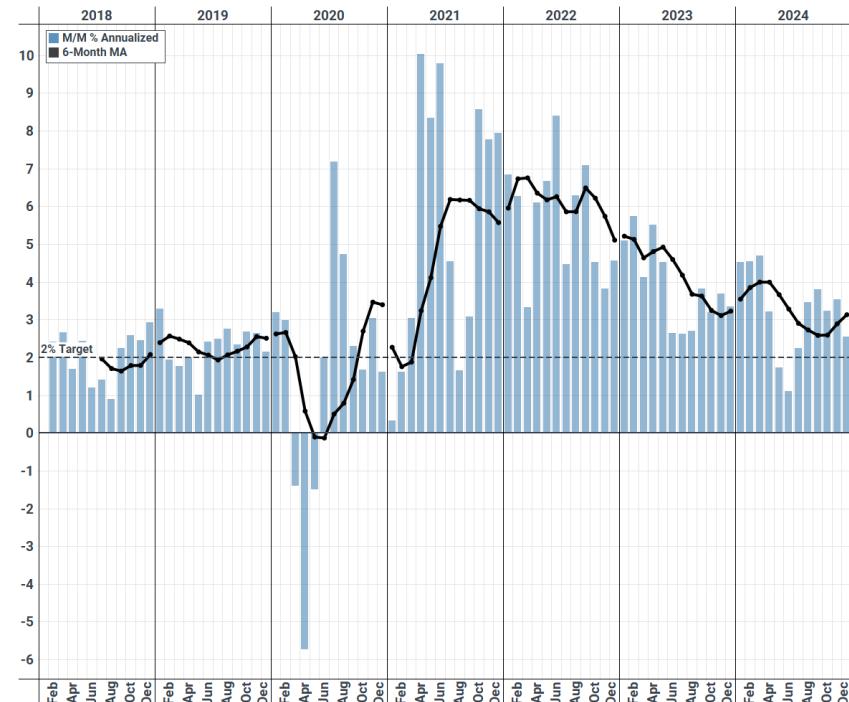
Source: BLS; data is not seasonally adjusted

United States: Inflation and Monetary Policy

Sticky inflation an increasing concern amid buoyant US growth, elevated deficit spending

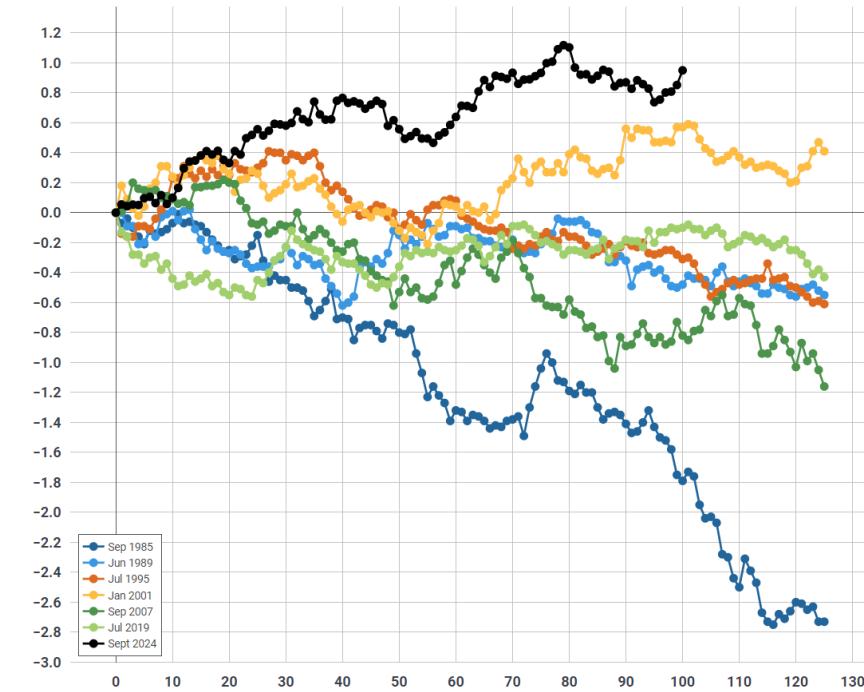
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Monthly US CPI-Based Core Inflation Over Previous Month and Previous Six Months (%, Annualized)



Source: BLS; data from CPI report

Daily 10y Yield Differential Against the Start of a Fed Rate Cutting Cycle (%)



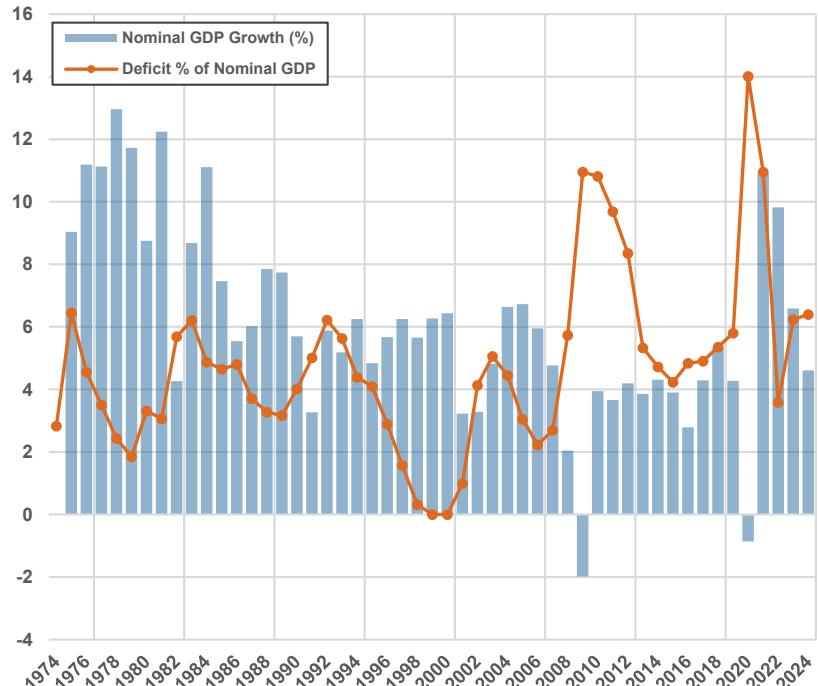
Source: FMP

United States: Government Spending

Deficit levels are supportive of US growth, but come at the cost of higher interest payments and inflation

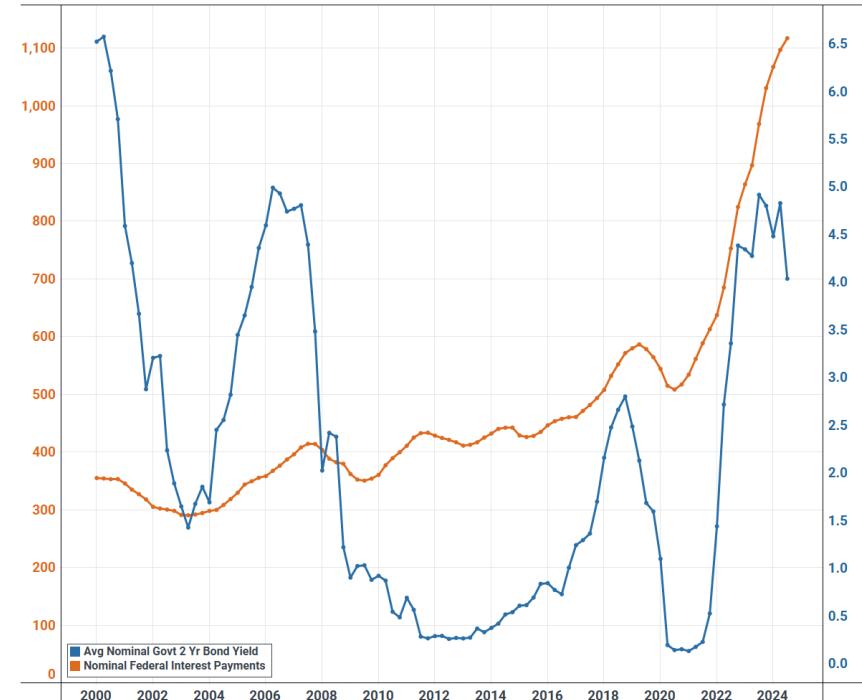
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Yearly US Deficit Spending as a % of Nominal GDP



Source: US Treasury; own calculations

Quarterly US Federal Interest Payments (mn, left) and Two-Year Govt Bond Yield (%, right)



Source: US Treasury, Fed; interest payments are in annualized terms; data through Q3 2024

United States: Considering Tariffs

Issues with Canada, Mexico to be resolved whereas tariffs could persist for quite some time on Chinese goods

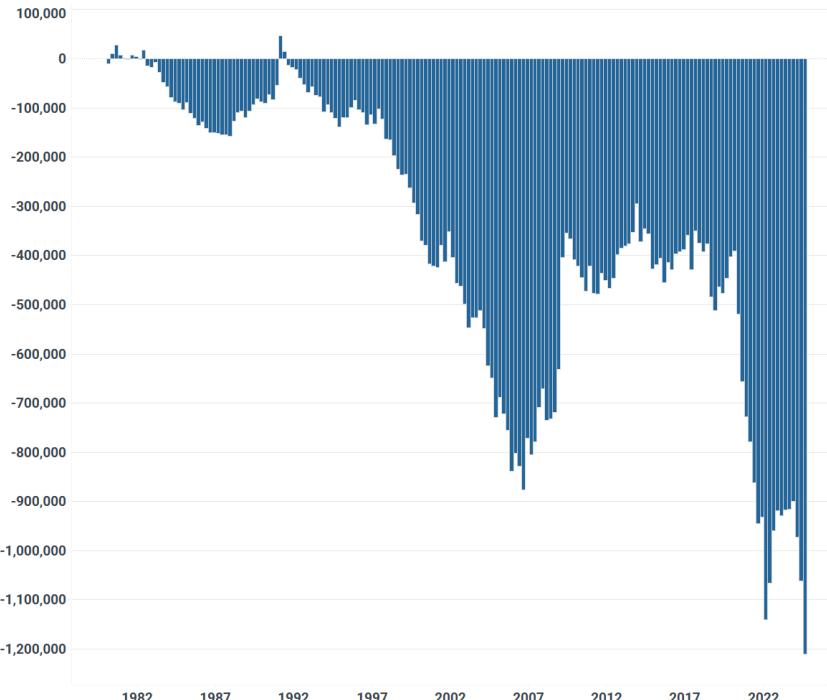
Two outcomes if broad-based tariffs remain in place for a long stretch of time (>6 months).

- **Prices rise** with some USD strength offset. Higher prices incentivize **manufacturing reshoring** that limits drag on consumption. **US grows at or above trend (2%)**, but core CPI-based **inflation sticky at 4%**. Fed continues to pause.
- **Prices rise** with some USD strength offset. Higher prices **fail to incentivize reshoring**. This exacerbates drag on household consumption. **Growth falls to 1 – 1.5%**, albeit **inflation eases back towards 2%**. Fed has optionality to cut rates.

Our baseline assumption has been that **tariffs on Canada and Mexico will be resolved quickly** (within two months). Chinese tariffs likely to intensify and remain in place for quite sometime.

- Trump's willingness to extend negotiation period with Canada and Mexico on Monday is case in point.
- Under this scenario, we see economic outlook in line with what I mentioned at the outset of this presentation. US **GDP growth set to finish at 2.5% this year**, with a relatively strong household consumer. Core CPI-based **inflation will get sticky in a range between 3 – 3.5%**.

Quarterly US Current Account Balance (USD mn annualized)



Source: BEA

China: Economic Outlook

China faces serious structural issues that will take many years to solve

Stimulus Disappointment: Chinese policymakers continue to emphasize monetary easing and increased liquidity. However, these measures do little to solve structural imbalances, that is, over-investment and under-consumption.

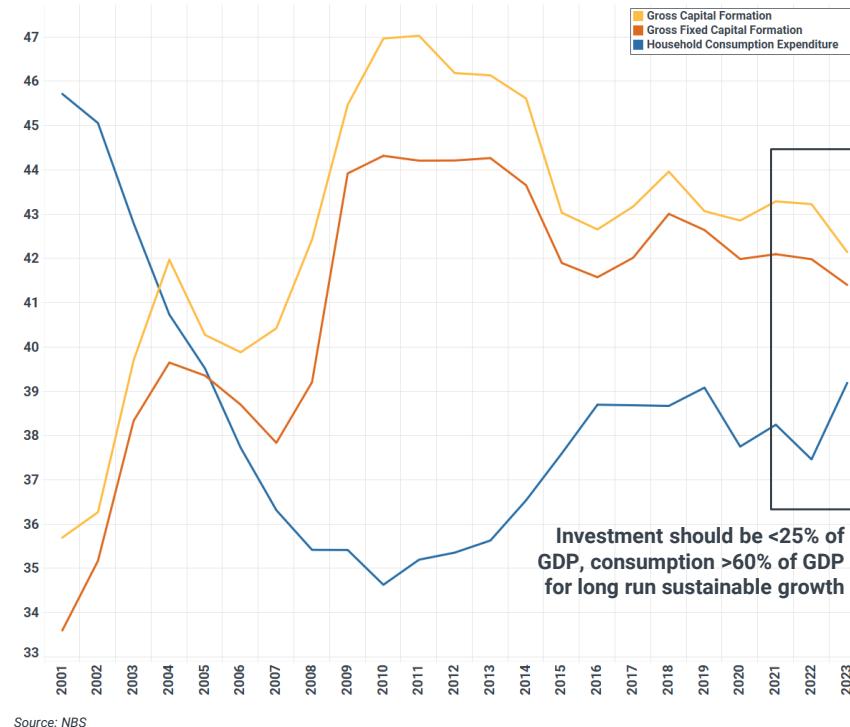
Industrial Pickup: lower interest rates and an emphasis on manufacturing capacity are helping the industrial sector, a dynamic likely to continue through Q1. However, it is unlikely this can continue over the long run given extreme trade surplus already in place and growing tariff barriers abroad.

PBOC Policy: possible PBOC targets a CNY devaluation to offset Trump tariffs, like what happened in 2018/2019. CNY has already declined in value 4% since early October.

Limited Consumer Support: Chinese fiscal stimulus to households remains limited. More support will be needed to begin dealing with economic imbalances. We expect Chinese government will stimulate households a bit more in 2025, but don't expect too much.

Long Run Outlook: expect tough years ahead for China. The transition away from an investment-based economy is always difficult. The Trump administration will add further complications. Economic stagnation, similar to Japan, likely through the 2030s.

Chinese Real Investment and Consumption as a % of GDP



China: Stimulus Policy

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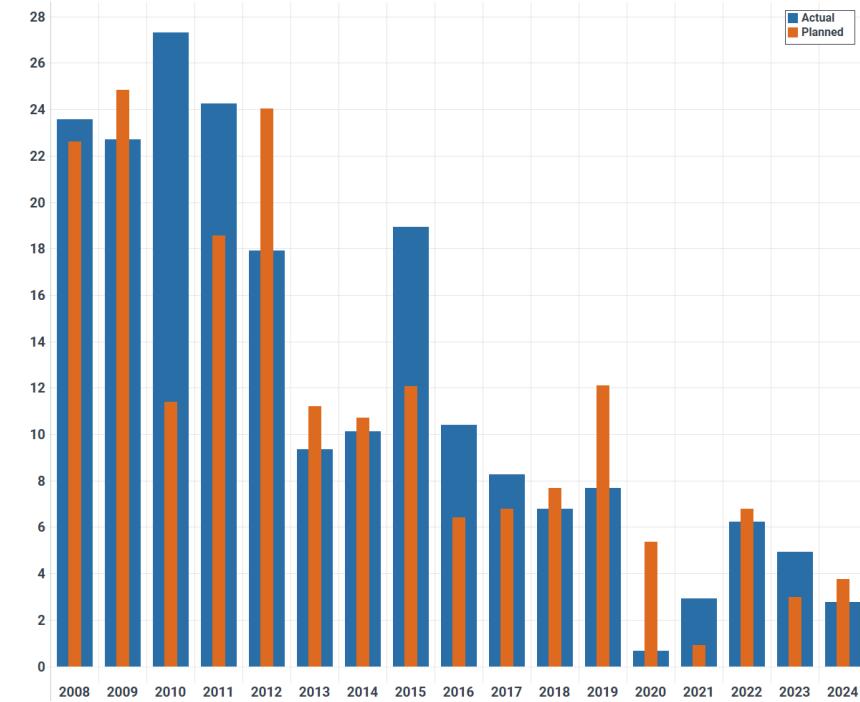
Chinese stimulus has largely focused on the monetary side of the ledger via lower interest rates and higher liquidity

Daily Chinese Government Bond Yields (%)



Source: ChinaBond

China General Public Budget Planned vs Actual Expenditure Growth (%)



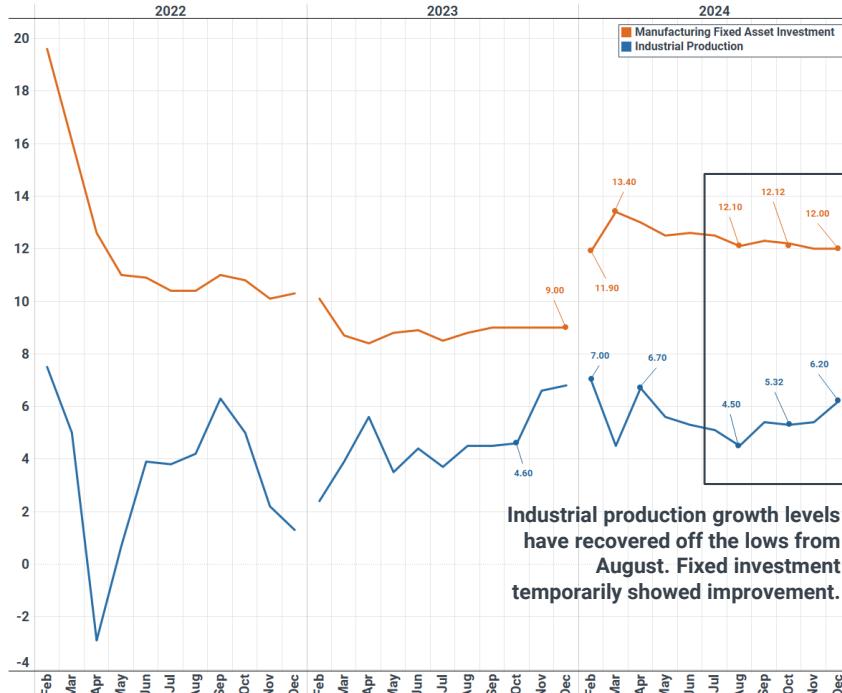
Source: Ministry of Finance; actual data through the first 11 months of the year

China: Investment

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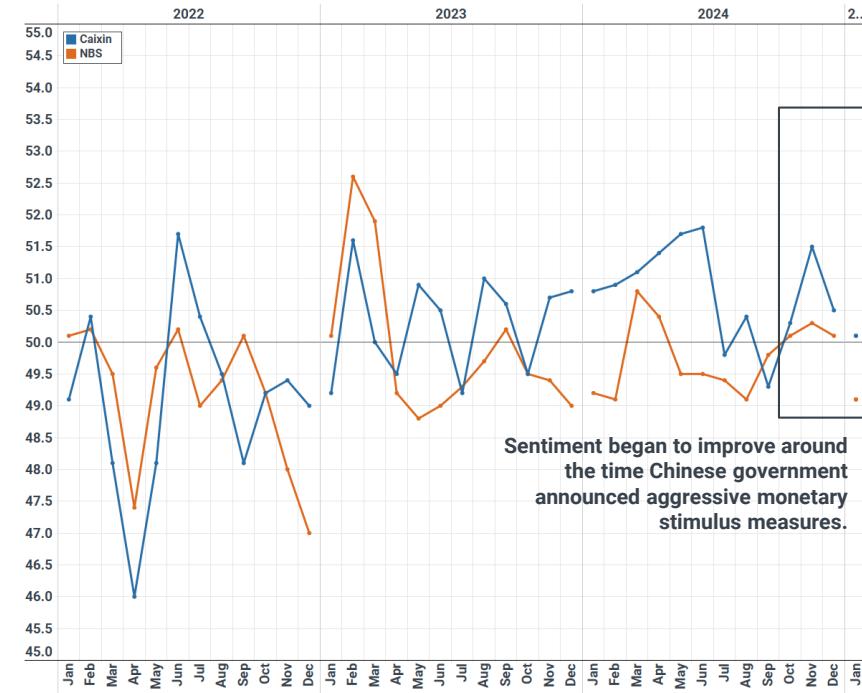
Investment has shown signs of picking up amid monetary focused stimulus

Monthly Chinese Industrial Production and Manufacturing Fixed Investment Growth (Y/Y % Delta)



Source: NBS; manufacturing production growth a year-to-date calculation published by the government

Monthly Caixin and NBS Measures of Headline Manufacturing PMI (>50 = expansion, <50 = contraction)



Sentiment began to improve around the time Chinese government announced aggressive monetary stimulus measures.

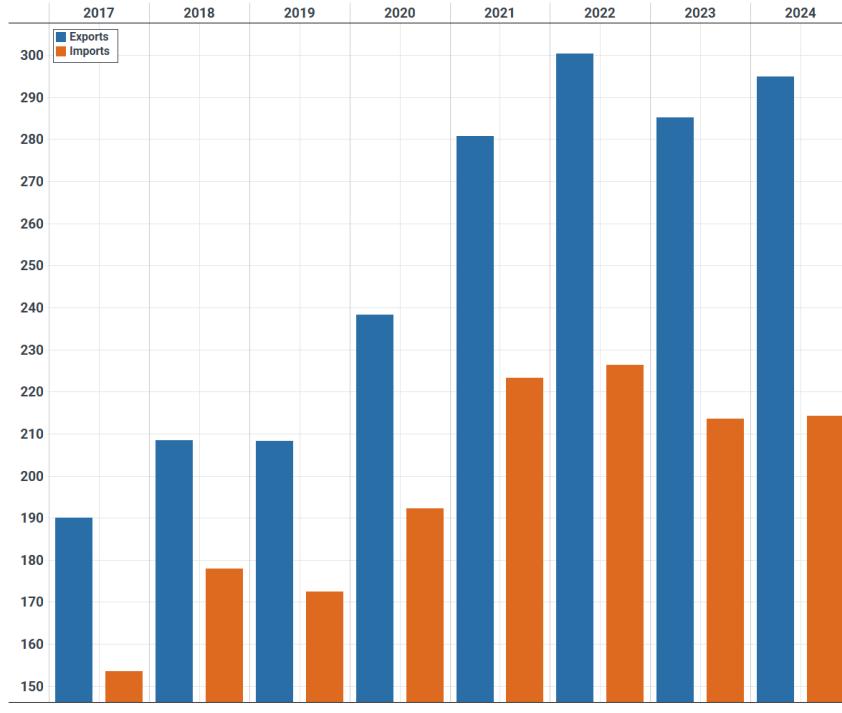
Source: NBS, S&P Global

China: Trade Balance

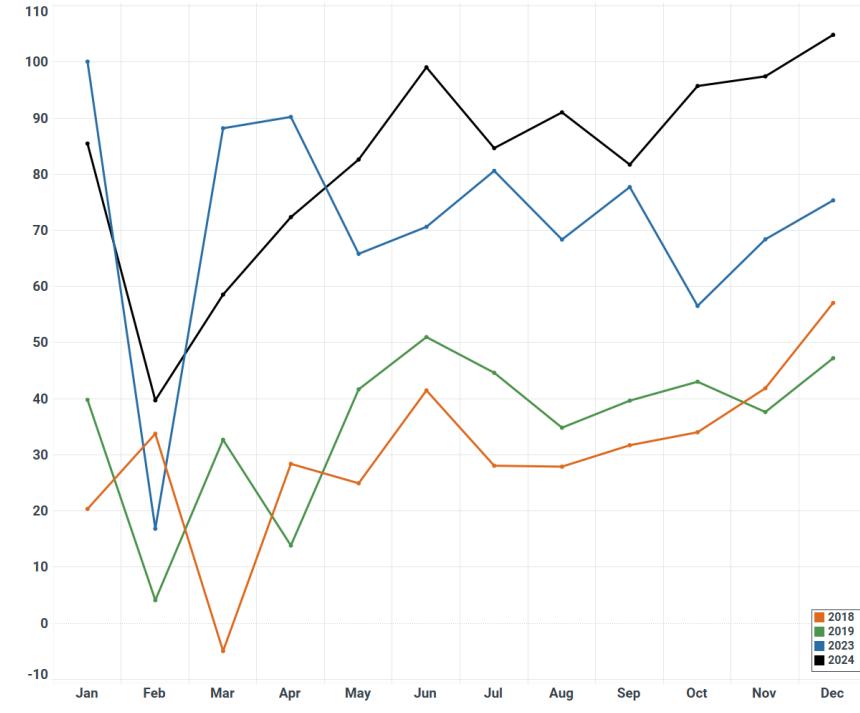
Investment over-reliance is pushing the trade balance to ever more positive levels

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Yearly Chinese Imports and Exports (USD bn)



Monthly Chinese Net Trade Balance Split by Year (USD bn)

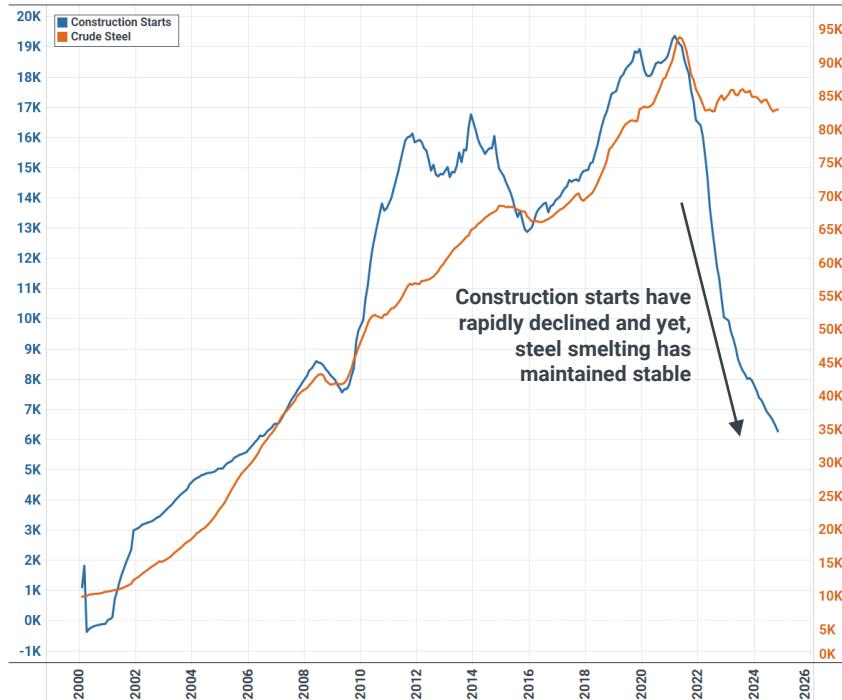


China: Steel Production and Exports

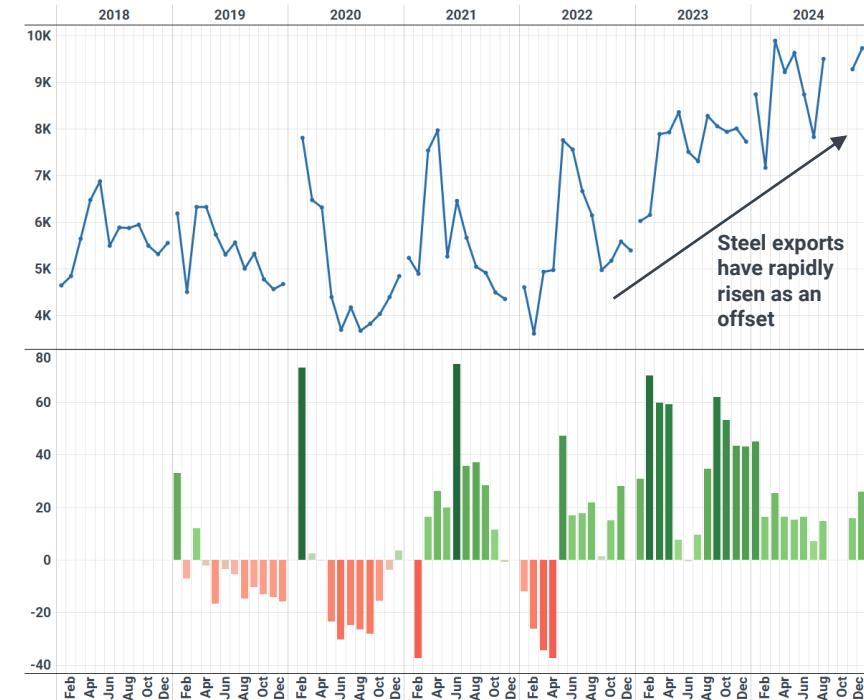
Using steel smelting and exports as a case study for the broader issue of export reliance within China

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Monthly Chinese Construction Starts (left) and Crude Steel Production (kt, right) Smoothed Over 12 Months



Monthly Chinese Iron and Steel Product Exports (kt, top) and Y/Y % Delta (bottom)

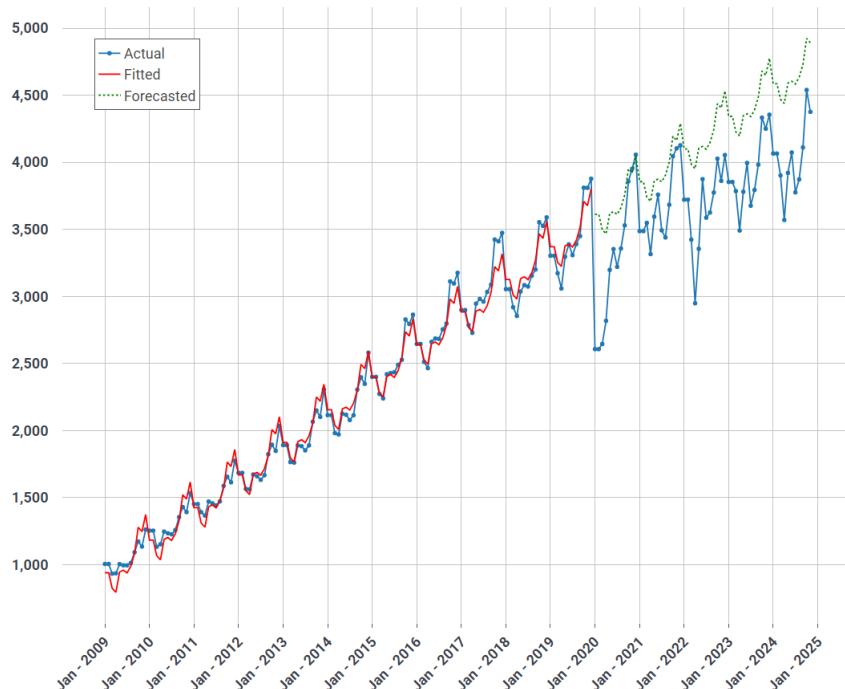


China: Household Consumption

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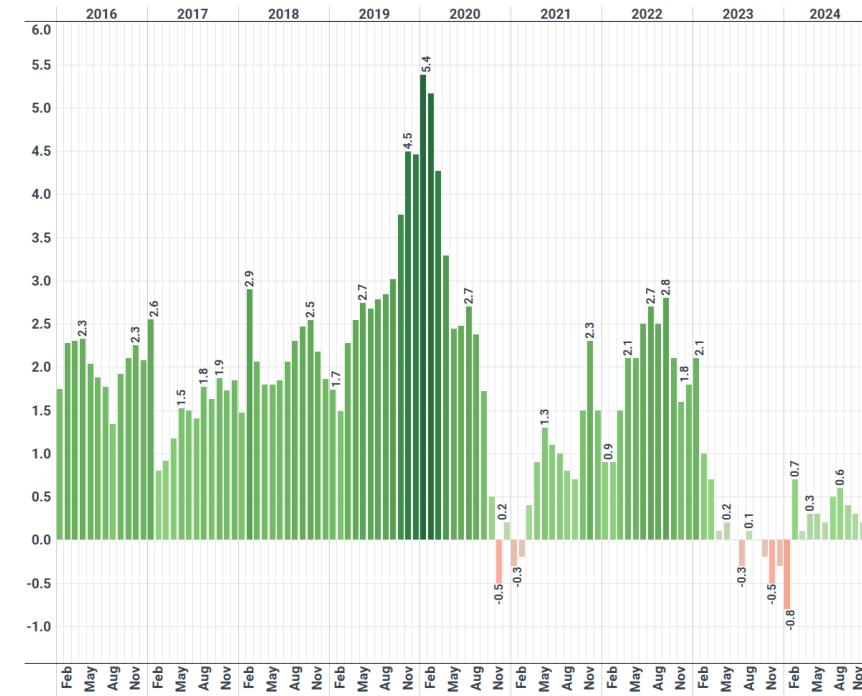
Chinese household consumption remains anemic; driving factor behind expanding trade surplus

Monthly Chinese Nominal Retail Sales Against Pre-Pandemic Trend (RMB bn)



Source: NBS; trend is seasonally adjusted

Chinese 12-Month Rate of Headline Inflation (%)



Source: PBOC

European Union: Economic Outlook

GDP growth to show signs of life in 2025 as consumption continues to improve (hopefully)

GDP Growth: Euro area aggregate output finished up just 0.8% y/y, albeit Q4 was a disappointment after signs of consumer improvement in Q3. We see Euro Area real headline GDP growth finishing at 1.2% this year.

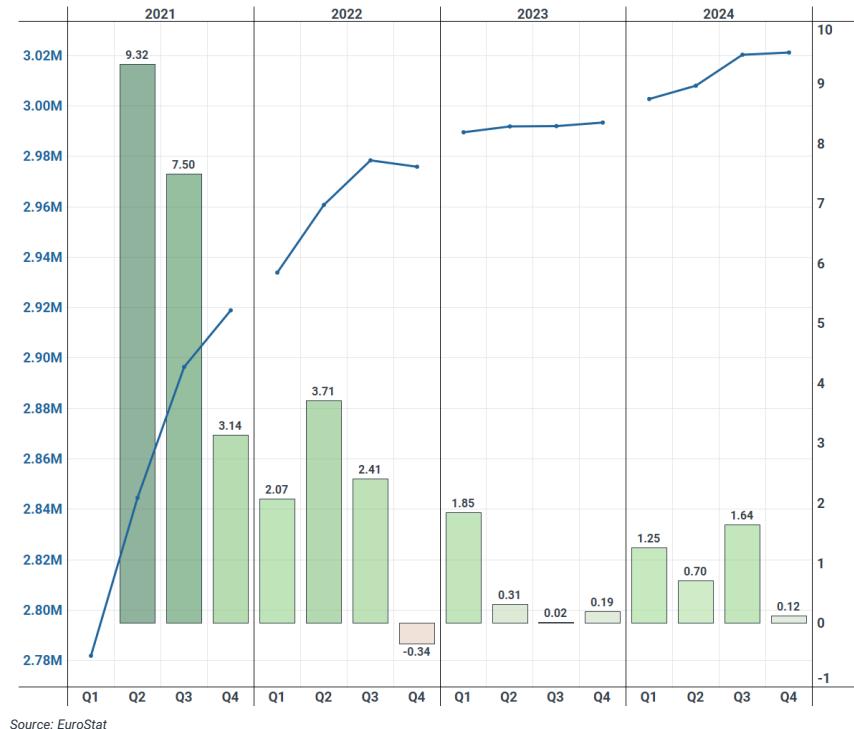
Consumer Momentum: the pickup in Q3 growth was the result of improving household consumption, an outcome we have anticipated for some time amid a strong labor market and healthy household balance sheets. However, Q4 spending flatlined, presenting risks to our GDP forecast.

Sticky Inflation Risks: core inflation continues to run above the ECB's 2% target and was surprisingly sticky last year. Core inflation likely to hold in a range between 2 – 2.5% this year.

ECB Policy Outlook: rather persistent inflation has slowed the pace of ECB easing. A rapidly weakening Euro, down 8% since September, adds further complications. We see the deposit rate at 2% by end of this year, down from 3% at present. Realistically, even more cuts are needed, but ECB will need to tread carefully.

Investment Challenges: the investment landscape remains bleak. After an abysmal H1, manufacturing production has since shown little improvement. However, lower rates supporting construction. Will need to monitor for continued trend.

Quarterly Euro Area Headline Real GDP (USD tn, left) and Q/Q % Annualized Delta (right)



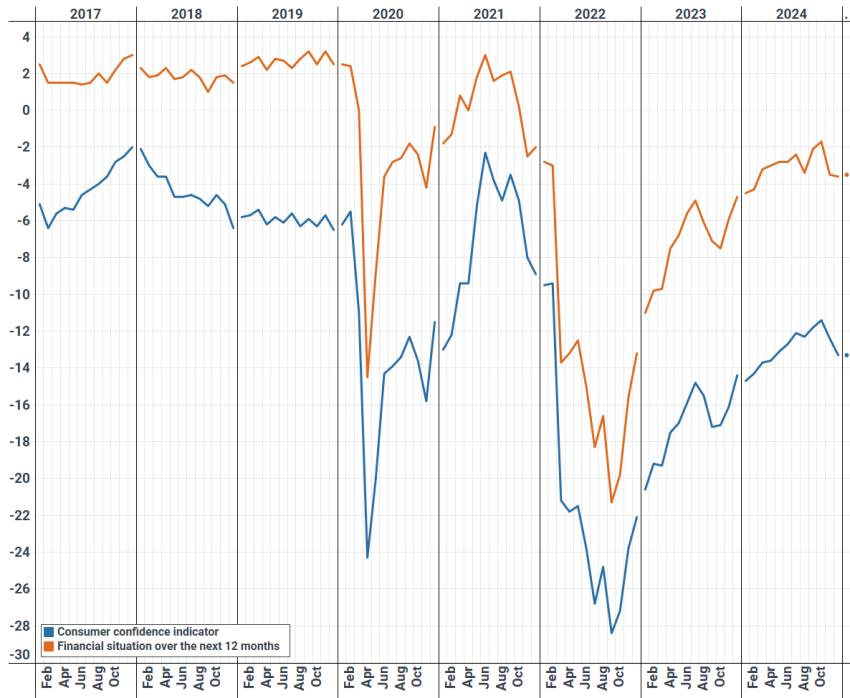
Source: EuroStat

European Union: Household Consumption

Household demand improved significantly in Q3 but failed to follow through in Q4

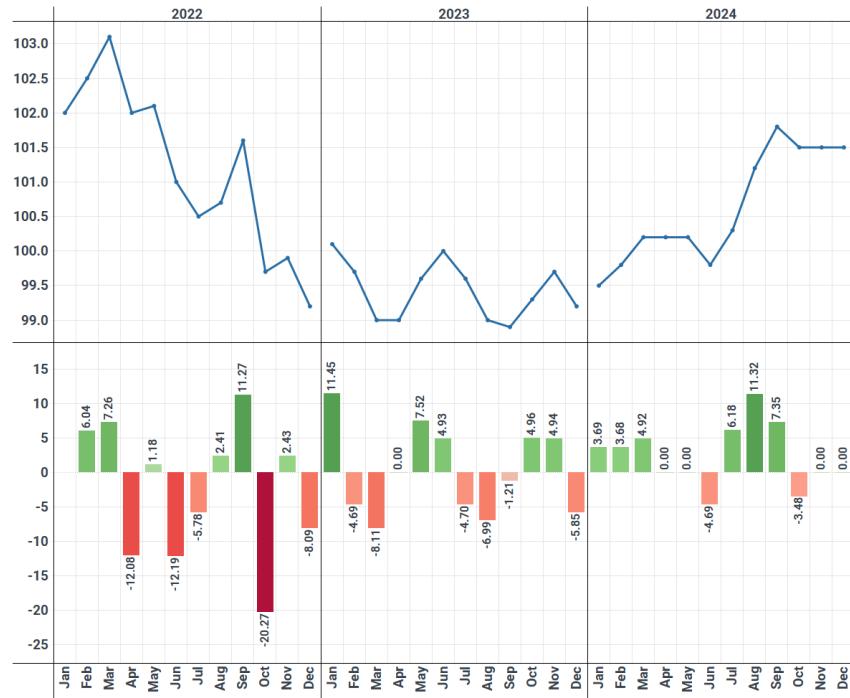
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Monthly EU 27 Consumer Confidence Index



Source: EuroStat

Monthly EU 27 Core Real Retail Sales Index (top) and M/M % Delta (bottom)



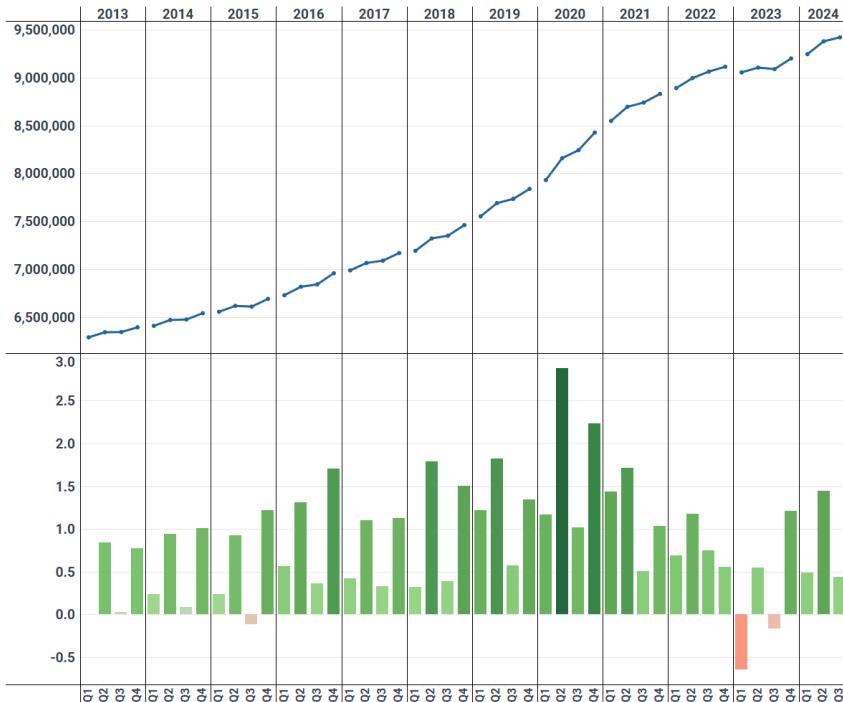
Source: EuroStat; M/M % Delta Figures are Annualized; data excludes motor vehicles and fuel

European Union: Labor Market

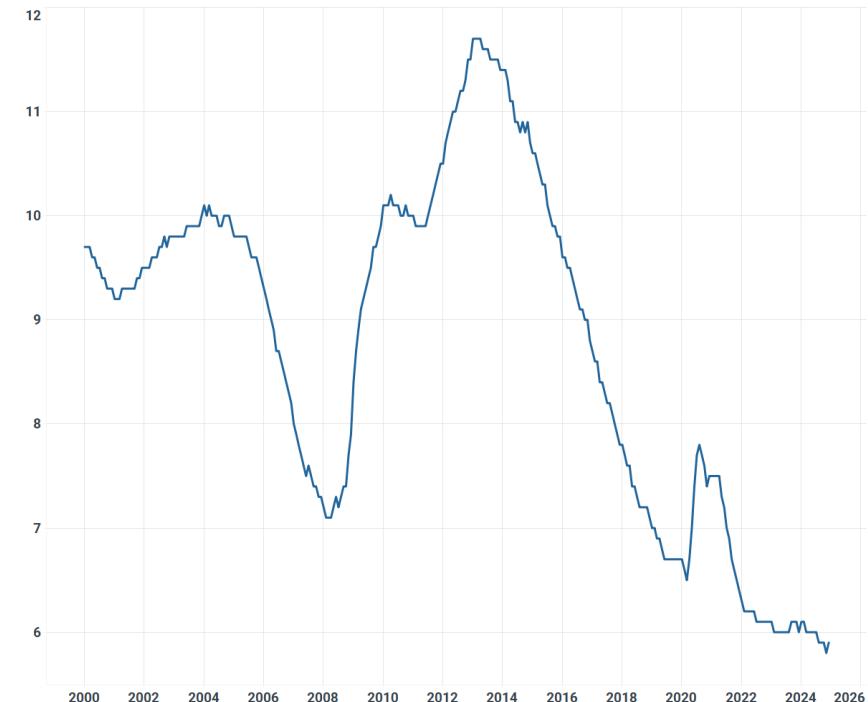
Labor market remains tight and household balance sheets are healthy

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Quarterly EU 20 Household Deposits (EUR mn)



Monthly EU 27 Unemployment Rate (%)



Source: EuroStat

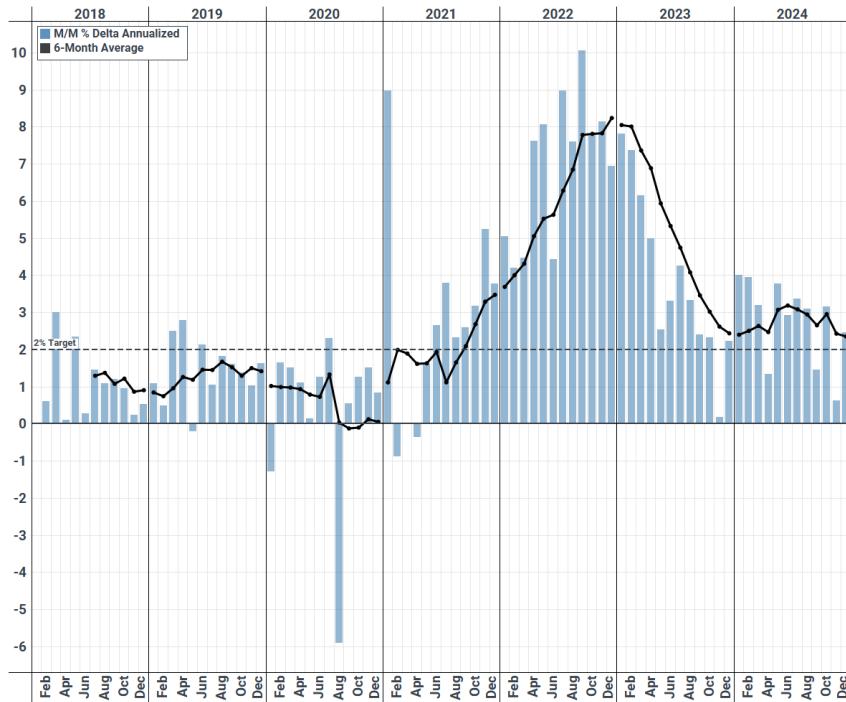
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European Union: Inflation and Monetary Policy

Core inflation was surprisingly sticky above the ECB's 2% target last year

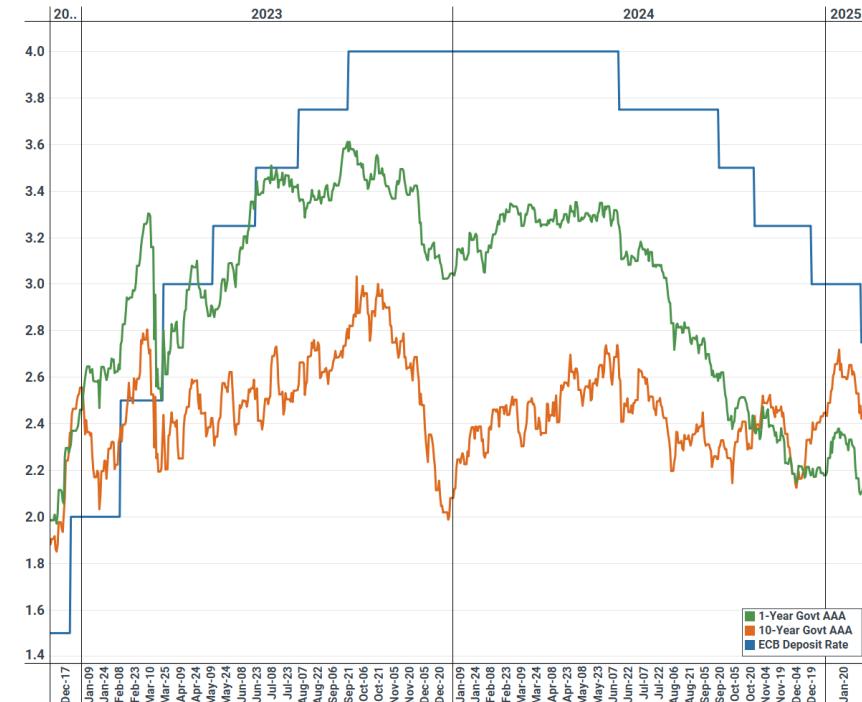
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Monthly Euro Area Core Inflation Over Previous Month and Six Months (Annualized)



Source: EuroStat; data is seasonally adjusted

Daily European Interest Rates (%)



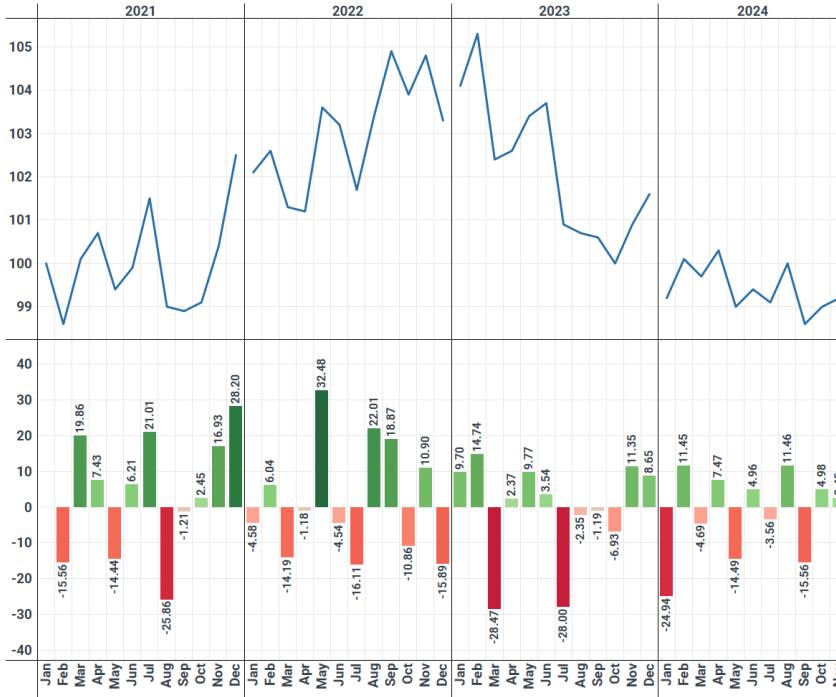
Source: EuroStat

European Union: Investment

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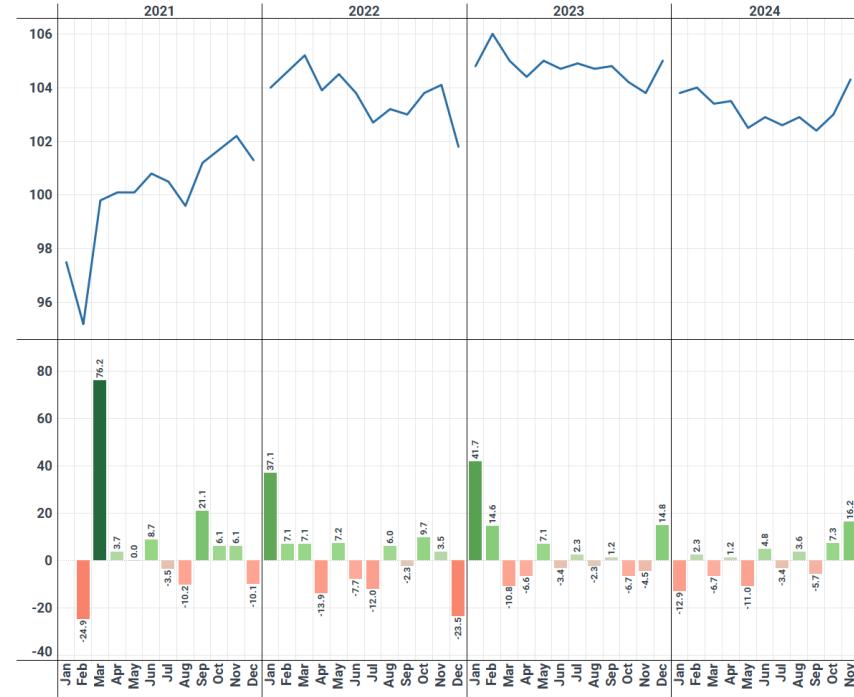
Manufacturing production remains at post-Covid lows; construction a bit more durable in recent months

Monthly EU 27 Manufacturing Production Index (top) and M/M % Delta (bottom)



Source: EuroStat; M/M % Delta Figures are Annualized

Monthly EU 27 Construction Volume Index (top) and M/M % Delta (bottom)



Source: EuroStat; M/M % Delta Figures are Annualized

India: Economic Outlook

Cracks are beginning to emerge

GDP Underperformance: Indian GDP expanded by 5.4% y/y in Q3 2024, marking the slowest pace in two years and forcing us to revise lower our 2024 forecast to 6.4%, down from 7%. We estimate growth holding steady at 6.5% in 2025.

- This is all about expectations. Many had hoped India would manage to grow at north of 7% for several years to come.

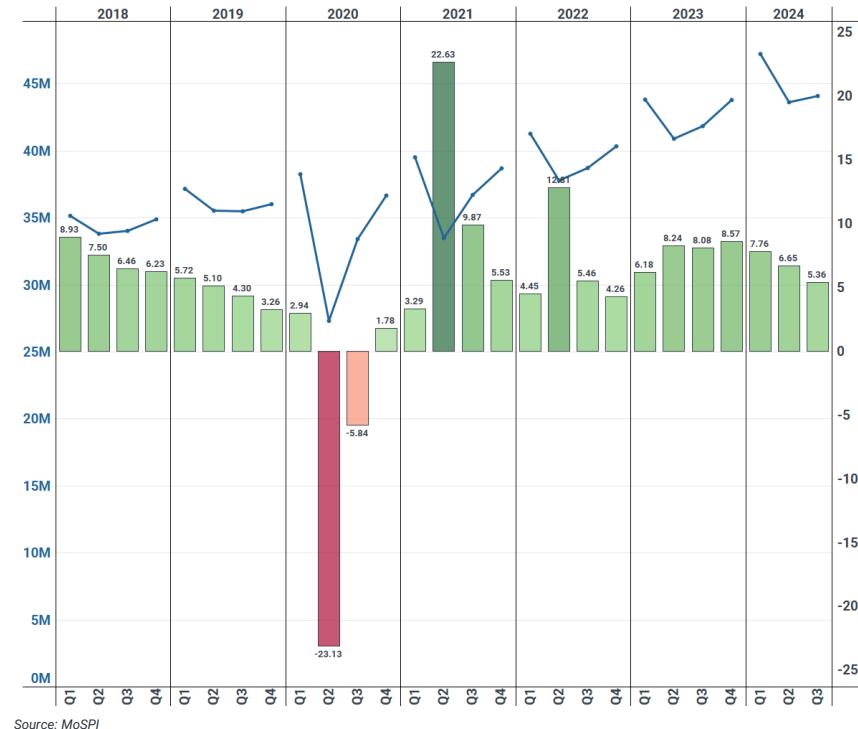
Investment Slowdown: tight monetary policy and elevated base effects are beginning to weigh on the pace of investment growth. Investment expanded just 5.4% y/y in Q3, the weakest increase since early 2023.

Consumer Uncertainty: household consumption remained a bright spot in Q3 after growth remained well above the 2023 average. Despite the near-term uptick in unemployment, we remain cautiously optimistic in our outlook for consumption in 2025.

RBI Policy: monetary policymakers are in a tough spot. While growth is weakening, headline inflation remains a problem. The RBI began rate cutting cycle this week but expect a slow pace of cuts this year (no more than .

INR Weakness: like the ECB, a rapidly depreciating currency is complicating matters for the RBI. We feel this dynamic will continue.

Quarterly Real Headline Indian GDP (INR mn, left) and Y/Y % Delta (right)

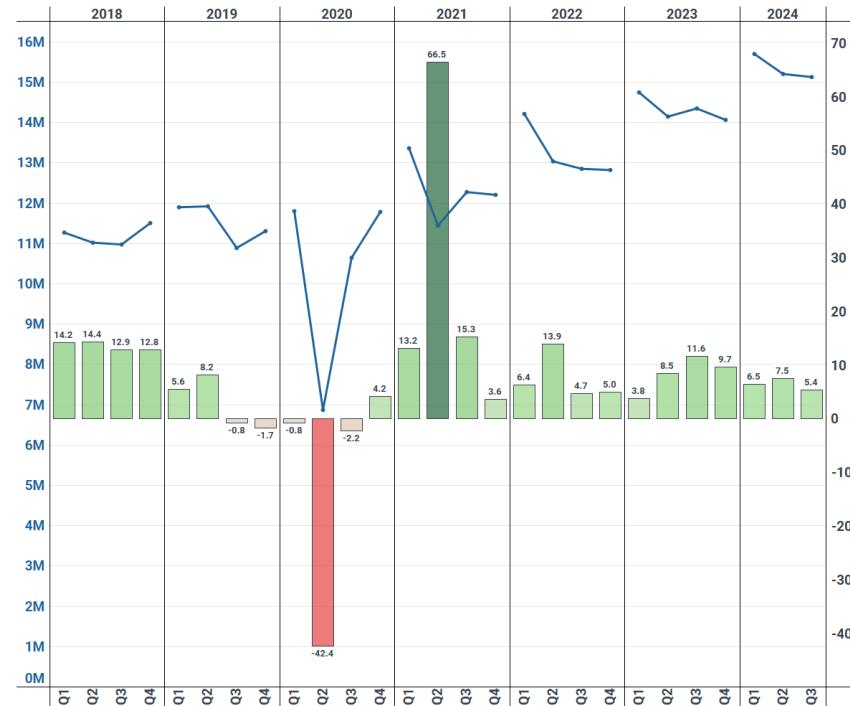


India: Investment

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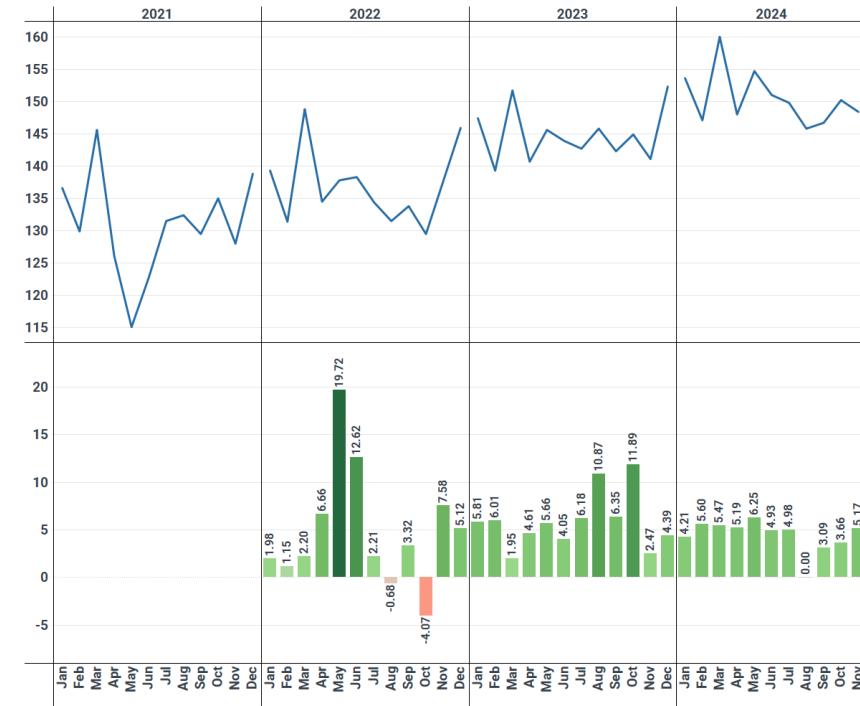
Investment was the critical growth driver last year, but there are signs that the rate of expansion is cooling

Quarterly Real Indian Investment (INR mn, left) and Y/Y % Delta (right)



Source: MoSPI

Monthly Indian Headline Industrial Production Index (top) and Y/Y % Delta (bottom)



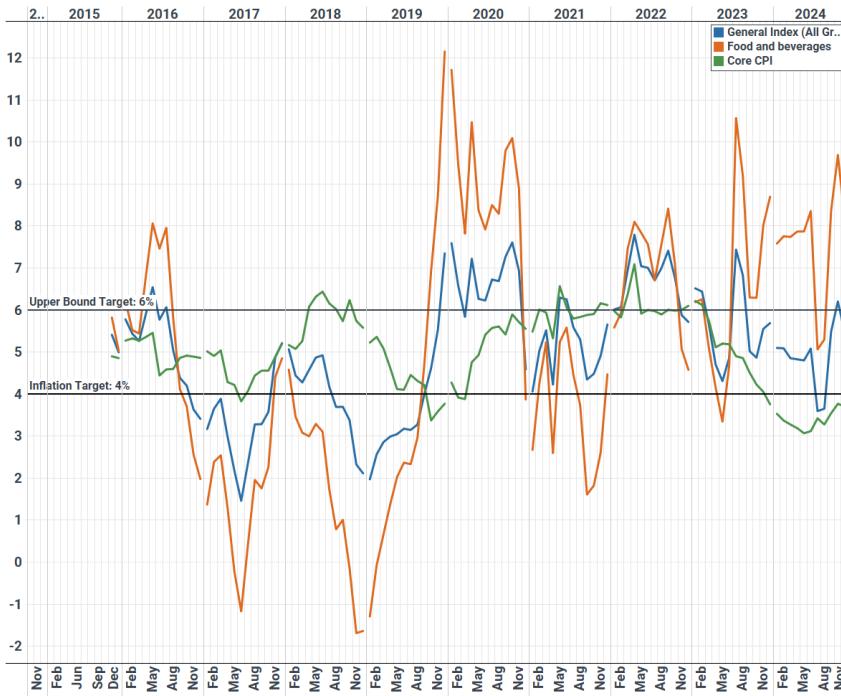
Source: Kpler

India: Inflation and Monetary Policy

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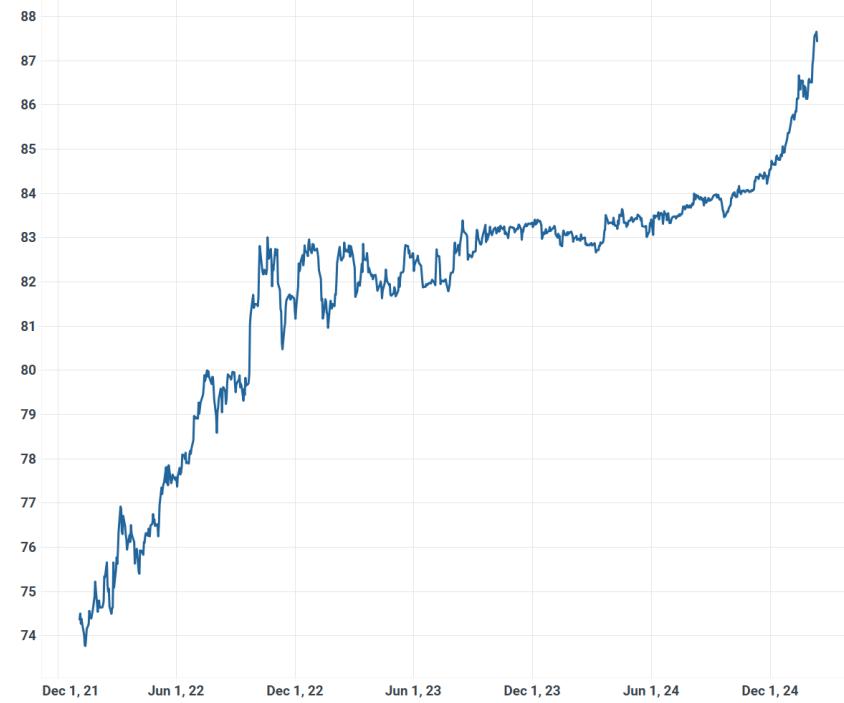
The RBI began the rate cutting cycle this week, but expect the easing cycle to be slow this year

Indian Inflation Over Previous 12 Months (%)



Source: MoSPI

Daily USD/INR Rate of Exchange (number of INR per USD)



Source: RBI

Japan: Economic Outlook

Bank of Japan will likely need to raise rates further amid accelerating inflation

GDP Growth: Japanese growth has been choppy over the past year and is on pace to finish 2024 at just 0.6%. Nonetheless, we estimate a pickup in growth to 1.3% this year, largely driven by the Japanese consumer.

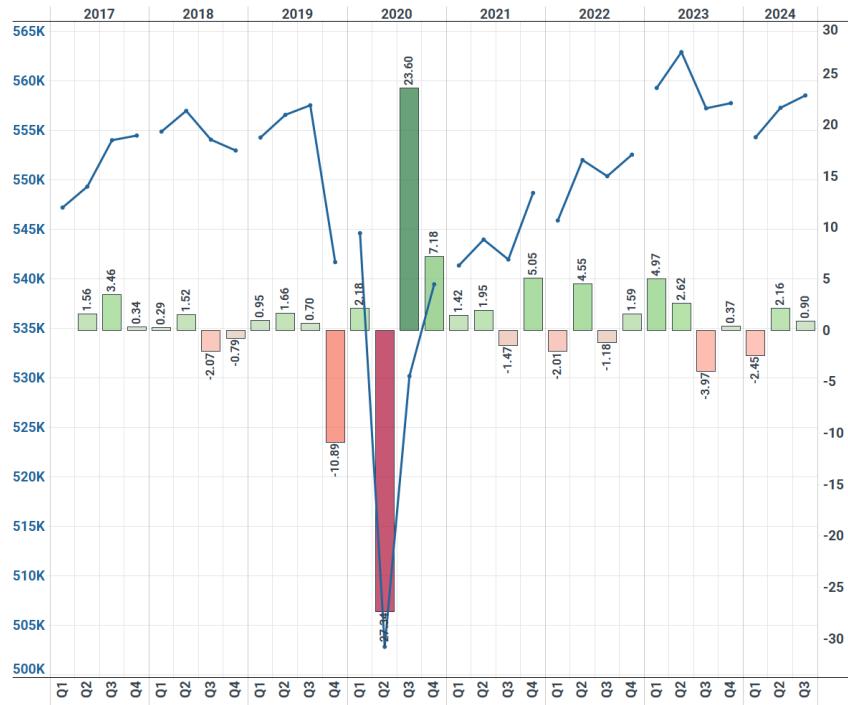
Inflation Problems: in late-2023, and early-2024, Japan appeared to have inflation under control. Nonetheless, an acceleration in wage and economic growth has put fresh pressure on core CPI which is holding at 3.4%. We anticipate inflation could remain above target through much of this year.

BoJ Policy: the BoJ paused its hiking cycle this summer following volatility around the Yen carry trade. However, the bank hiked rates again this month. Short duration bond markets have priced in small amounts of additional tightening. Pace of hikes will be slow amid fiscal sustainability and Yen carry trade concerns.

Currency Issues: BoJ hikes are also an attempt to stave off a rapidly depreciating Yen. Just since September, the Yen has fallen in value by nearly 9% against USD.

- This erodes the purchasing power of Japanese citizens, many of whom are highly reliant on imports, both directly and indirectly. Import inflation also becomes an issue with a weaker JPY.

Quarterly Japanese Headline Real GDP (USD tn, left) and Q/Q % Annualized Delta (right)



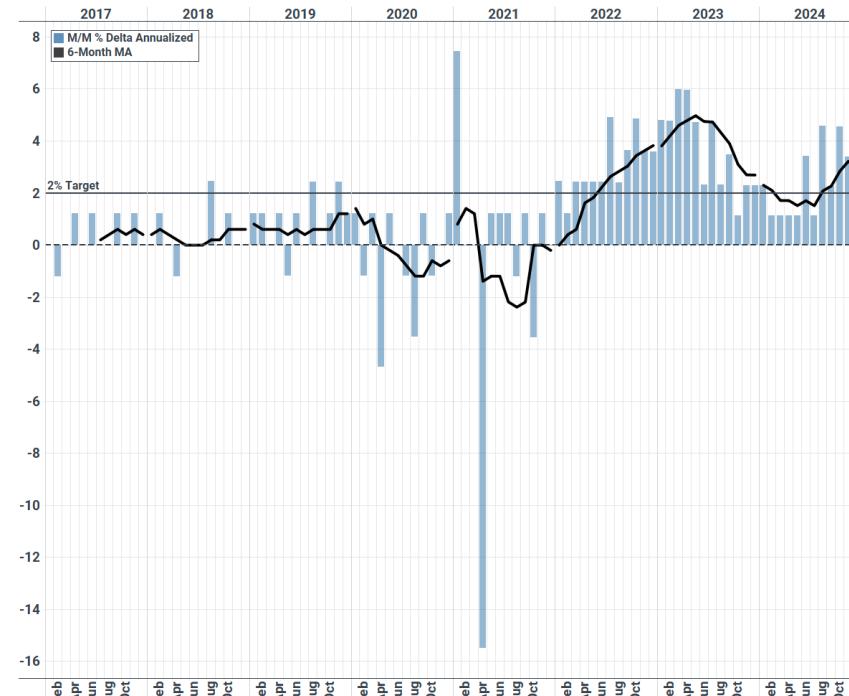
Source: eStat; data for Q4 due February 17th

Japan: Inflation and Wage Growth

Core inflation has reaccelerated, forcing the BoJ to continue hiking rates

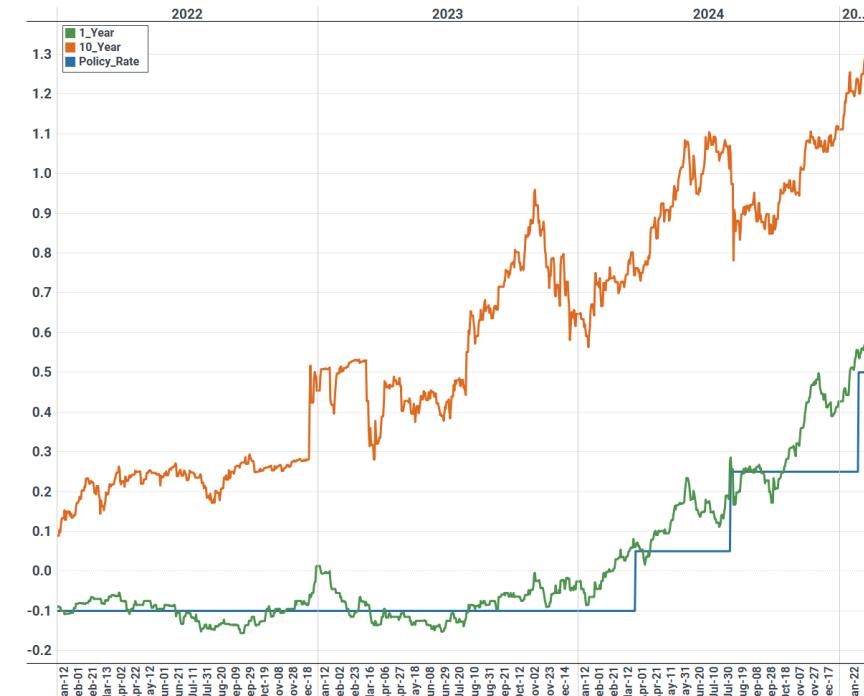
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Monthly Japanese CPI (Consumer Prices) Measure of Core Inflation (M/M % Annualized)



Source: BoJ; data excludes food and energy and is seasonally adjusted

Monthly Japanese Wage Growth Over Previous 12 Months



Source: Ministry of Health, Labor, and Welfare