

Macro Monthly

Economics
GLOBAL

Central banks eyeing rate cuts

- ◆ Federal Reserve rate cuts move closer and US election uncertainty rises
- ◆ The bulk of global macro data are holding up better than many might think...
- ◆ ...but there are still plenty of risks and weak spots out there

Summer 2024 was an eventful one. While many people were on their holidays we had a combination of big market moves, worries about recessions, geopolitical uncertainty, and shifting prospects for the US presidential election race.

But, beneath the headlines, the global macro data have, largely, ticked along. Worries are aplenty about the state of the US labour market, but after the August data, which were more sanguine than in July, **those concerns may fade slightly**.

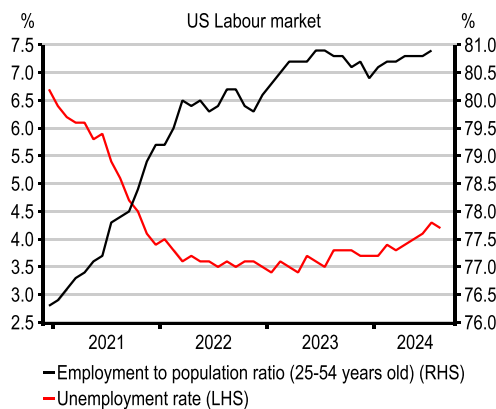
US labour market concerns have eased...

Divergent data

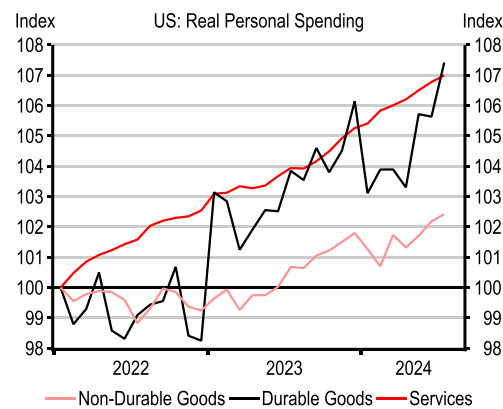
The broader suite of US labour market data is less alarming than the rise in the unemployment rate, in any event. Employment growth has slowed but layoffs are low (Chart 1), the spike in initial jobless claims appears to have been seasonal and consumers have kept spending on a range of products. Confidence may be a little subdued, but **the world's largest economy keeps growing steadily** (Chart 2).

... while the economy keeps ticking along

1. The US labour market is showing early signs of softening despite the tick down in the unemployment rate in August



2. Spending on services has been resilient...



Real wage growth is helping consumer spending in the EU

The same can't be said everywhere. Chinese growth data continue to disappoint, particularly on the consumption side, and more policy support is likely to be needed to achieve the 2024 growth target.

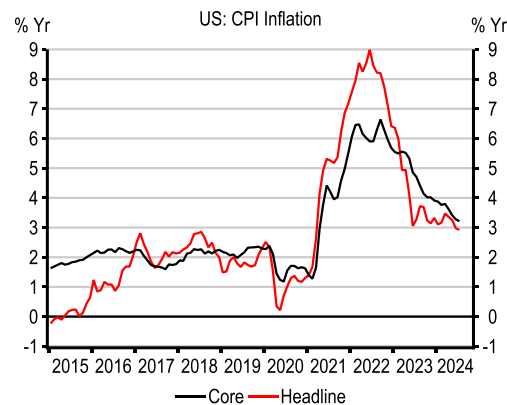
In Europe, growth remains a problem in Germany (but not in Spain) with the industrial data, in particular, posing a challenge. Labour markets are still tight, though, and **real wage growth should continue to prop up consumer spending**.

Falling inflation

Inflation has fallen to levels that may allow rate cuts...

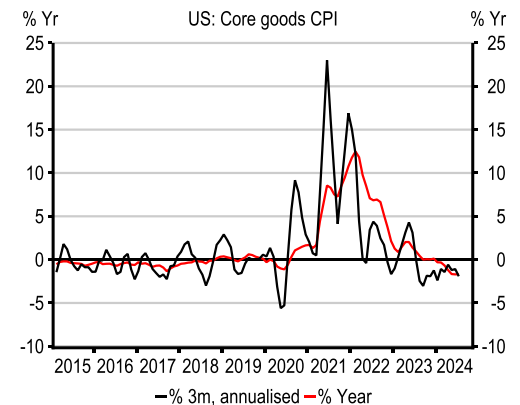
The global inflation picture is mixed, but broadly improving. The US has seen a notable drop in inflation over the past three months (Charts 3 and 4), and although we haven't seen the same moves across the board, **many central banks have now seen enough to start, or continue, their easing cycles**. For the Federal Reserve, the question is now about the pace of easing – with labour market data set to take on an even greater focus in the coming months.

3. US inflation keeps dropping...



Source: Macrobond

4. ...as core goods inflation remains very negative



Source: Macrobond

Poised to cut

...with the focus now on the speed of easing

For most central banks the question is **how quickly they will cut rates**, which depends on the data. In some economies, like Canada and Sweden, policymakers have already turned much more dovish given lower inflation and weaker growth data. In contrast though there has been a clear warning sign from Brazil, where currency weakness and fiscal concerns have prompted a change in tune, and the next move for rates is likely to be up.

And now, the US Presidential election comes into focus. With two months to go until 5 November, the polls suggest a very close race for both the presidency and control of Congress. The outcome of the vote will have an impact on **growth and inflation scenarios going into 2025**.

Key recent releases

Date	Market	Release	Period	Actual	Consensus expectation	Prior	Actual vs. Consensus
14 Aug	UK	CPI (year)	Jul	2.2%	2.3%	2.0%	↓
15 Aug	Mainland China	Retail sales (year)	Jul	2.7%	2.6%	2.0%	↑
16 Aug	UK	Retail sales (month/year)	Jul	1.4%	1.4%	-0.3%	→
30 Aug	Eurozone	HICP (year)	Aug, flash	2.2%	2.2%	2.6%	→
30 Aug	US	Core PCE price index (year)	Jul	2.6%	2.7%	2.6%	↓
3 Sep	US	ISM manufacturing (Index)	Aug	47.2	47.5	46.8	↑
5 Sep	US	ISM services (Index)	Aug	51.5	51.4	51.4	↑
6 Sep	US	Nonfarm payrolls, monthly change (000s)	Aug	142	165	89	↓

Source: Bloomberg, HSBC

↑ Positive surprise – actual is higher than consensus, ↓ Negative surprise – actual is lower than consensus, → Actual is in line with consensus

Key upcoming events

Date	Market	Release	Period
14 Sep	Mainland China	Retail Sales	Aug
17 Sep	US	Retail Sales	Aug
18 Sep	UK	CPI	Aug
19 Sep	US	Federal Reserve interest rate announcement	-
19 Sep	UK	Bank of England interest rate	-
23 Sep	EU/UK/US	PMIs	Sep
30 Sep	Mainland China	NBS Manufacturing PMI / Caixin Services PMI	Sep
30 Sep	UK	GDP	Q2
1 Oct	Eurozone	HICP Flash	Sep
4 Oct	US	Non-Farm Payrolls	Sep

Source: LSEG Eikon, HSBC

Disclosure appendix

Additional disclosures

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- 2 All market data included in this report are dated as at close 09 September 2024, unless a different date and/or a specific time of day is indicated in the report.
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