



31 October 2024

Charts of the Week: Data, policy and politics

A HAVER ANALYTICS[®] podcast and publication

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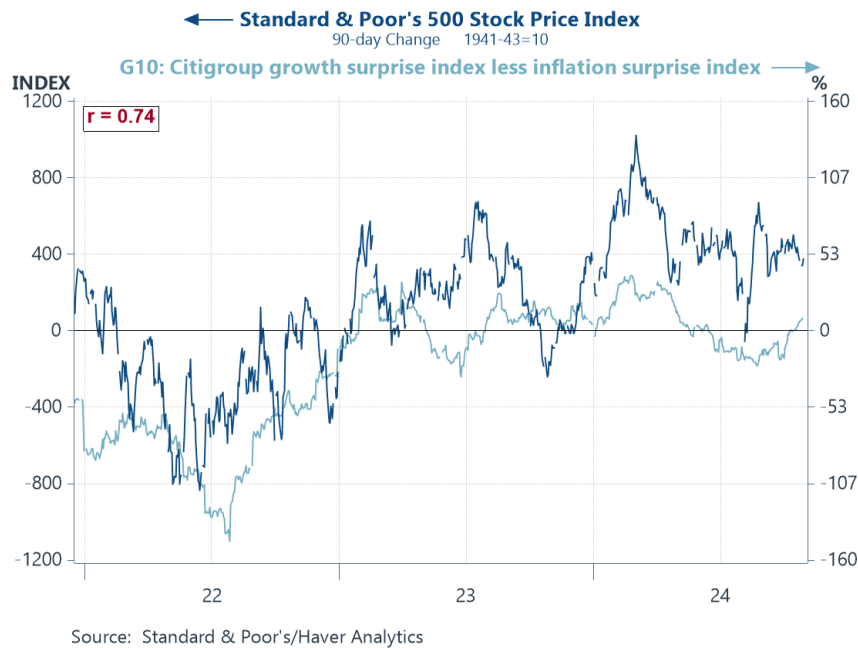
Data, policy and politics

Some unexpected resilience in the US economy and particularly in the labour market has continued to reinforce soft landing narratives over the past few days. At the broader global level, weaker-than-expected inflation data have also been reinforcing the view that most major central banks will continue to loosen monetary policy in the period ahead. In our charts this week we illustrate how this soft landing narrative continues to shape sentiment in financial markets (see charts 1 and 2). But we illustrate too, that notwithstanding US resilience, latest forward looking business surveys suggest that global growth is losing momentum. Domestic policy and politics, however, have also been important in recent days with the new UK labour government's first budget dominating the headlines (chart 4). Some uncertainty has additionally crept into Japan's political scene and generated some financial market consequences (chart 5). Finally, and looking ahead to next week, US politics has continued to dominate the global headlines and may well be a key driver of economic and financial market outcomes in the period immediately ahead (chart 6).

Markets and data

As noted, a soft landing narrative has continued to shape sentiment in financial markets in recent weeks. Incoming global growth data, most notably from the US, have been stronger than expected. And inflation outcomes have additionally been weaker-than-expected. As chart 1 below suggests that combination – stronger growth and weaker inflation – has typically been greeted positively by equity investors.

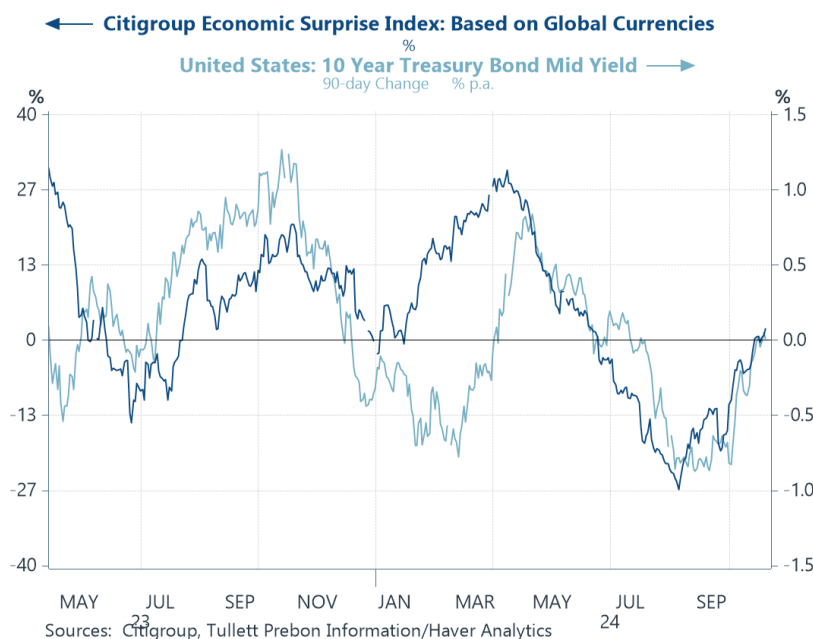
Chart 1: Global growth and inflation surprises versus the US S&P 500 index



US bond yields

That being said there has also been an active debate in markets about the potential consequences of a US election. US bond yields, for example, have been climbing possibly because of market fears about the burgeoning US federal government deficit and debt. Still, as chart 2 below suggests, the increase in yields has unfolded at the same time as the incoming US (and broader global growth) data have been outperforming expectations. Inasmuch as that trend additionally led to some re-pricing of Fed policy, economic fundamentals have arguably been the dominant driver of the US Treasury market, not fears about politics and deficits.

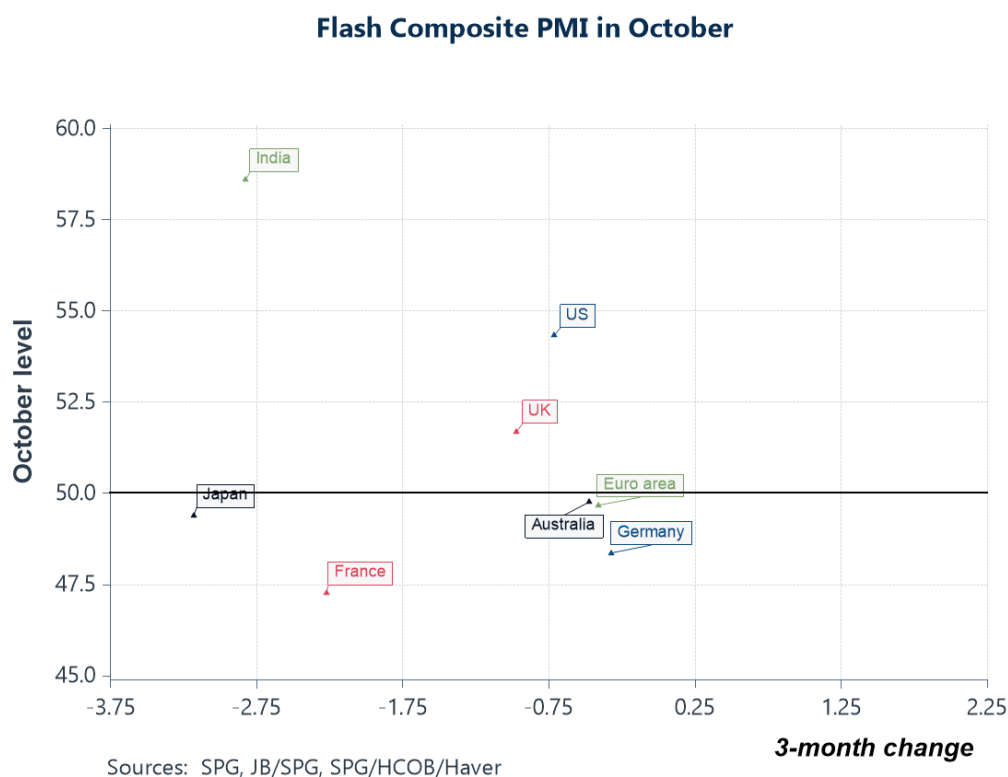
Chart 2: Change in the US 10 year Treasury yield versus global growth surprises



Global growth momentum

Still, although incoming US data have been outperforming expectations in recent weeks, latest forward looking business surveys suggest that global growth is losing momentum. October's flash PMIs, for example, revealed that business activity contracted for a second consecutive month in the euro area and Australia, and slipped into a phase of decline in Japan as well. The UK additionally saw growth weaken sharply. And although the US continued to reveal resilience, that was primarily because of ongoing growth in the service sector - the manufacturing sector, in contrast, has been contracting for four consecutive months (see chart 3).

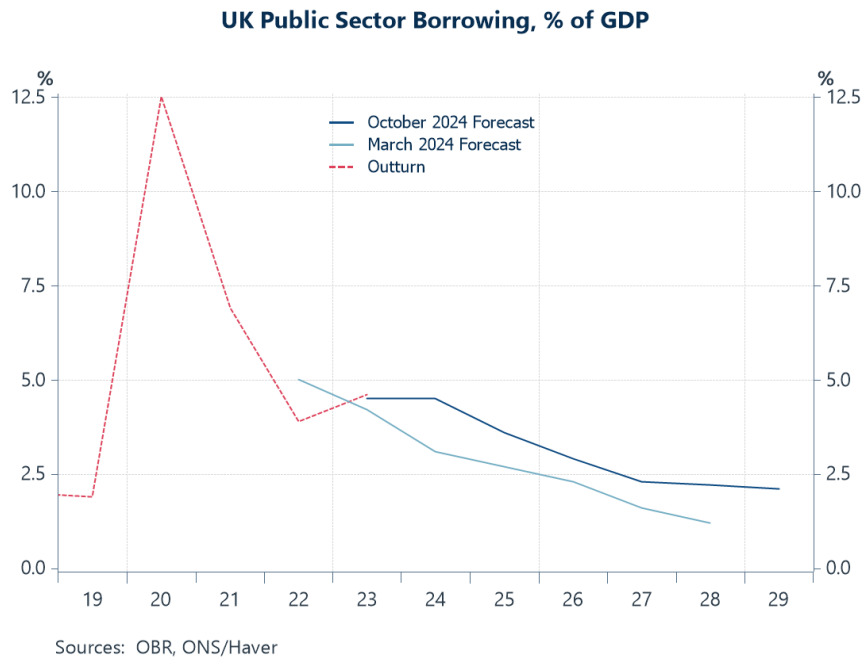
Chart 3: Flash PMI surveys, latest level versus 3 month changes



UK fiscal policy

One reason why UK businesses may have elicited weaker confidence in recent weeks concerns fears about this week's Budget. Some of the details, for example, had been widely telegraphed in the UK press. The specifics that were announced on October 30th included a large rise in public spending (amounting to over 2% of GDP per year), and with only half of that being recouped in higher taxes. About two-thirds of that higher tax burden, moreover, falls on the corporate sector. The UK's fiscal watchdog – the Office for Budget Responsibility – expects overall public sector borrowing to rise from £121.9 billion (4.5 per cent of GDP) last year to £127.5 billion this year, before falling steadily back to £70.6 billion (2.1 per cent) by 2029-30. That's about 0.9 per cent of GDP a year higher on average over the forecast horizon compared to their last projections in March (see chart 4).

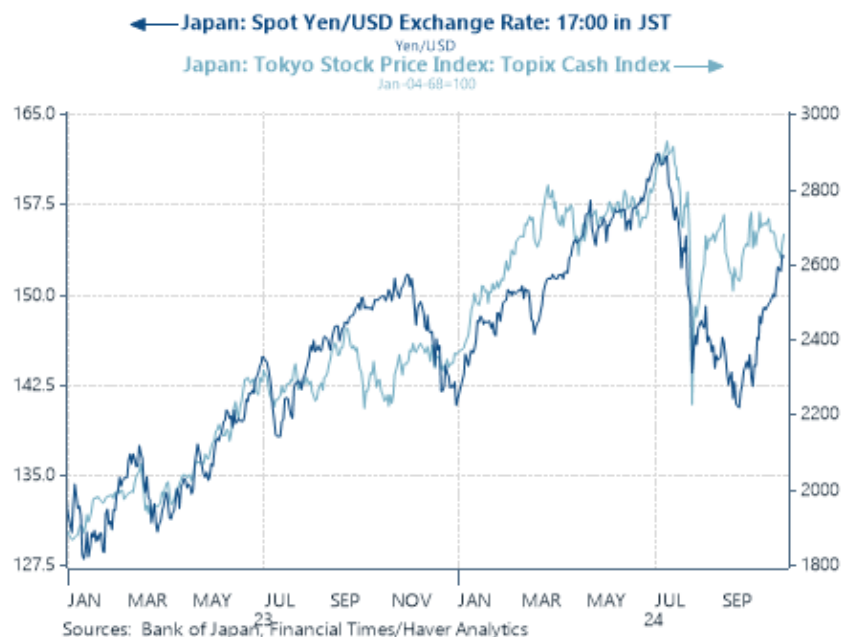
Chart 4: The OBR's forecasts for UK Public Sector Borrowing



Japan's politics

Staying with policy and politics, Japan's ruling party, the Liberal Democratic Party (LDP), faced an electoral upset over the weekend, losing its majority in the lower house of Parliament. Even with the support of its coalition partner, Komeito, the LDP is now unable to form a majority. This has put Prime Minister Ishiba's position in jeopardy, as he may need to seek support from parties outside his usual allies to advance his policy agenda, should he continue in office. In response to the news, the yen weakened further, reflecting the market's concerns, while equities experienced a slight increase.

Chart 5: Financial market performance in Japan, stocks and exchange rates



China and US politics

Ahead of next week's US Presidential Elections there remains much uncertainty about the outlook for China (and the broader Asian region). Many observers are keen to assess the potential extent and nature of future policy actions toward China by an incoming president. Key concerns include the possibility of ongoing US efforts to curb China's advancements in critical technologies, such as artificial intelligence, and trade-related restrictions aimed at addressing overcapacity in electric vehicles (EVs) and other sectors. Notably, presidential candidate and former President Trump, has proposed significantly raising tariffs on goods imported from China if elected. However, regardless of who takes office, it is likely that China will continue to face frictions with the US, as the latter has maintained a hawkish stance toward China over the past decade, irrespective of the sitting president.

Chart 6: China's trade in key products



About the author



Haver Analytics is pleased to bring [Andy Cates's](#) commentaries on the state of the global economy to its clients.

Andy has more than 25 years of experience forecasting the global economic outlook and in assessing the implications for policy settings and financial markets. He

has held various senior positions in London in a number of Investment Banks including as Head of Developed Markets Economics at Nomura and as Chief Eurozone Economist at RBS. These followed a spell of 21 years as Senior International Economist at UBS, 5 of which were spent in Singapore. Prior to his time in financial services Andy was a UK economist at HM Treasury in London holding positions in the domestic forecasting and macroeconomic modelling units.

He has a BA in Economics from the University of York and an MSc in Economics and Econometrics from the University of Southampton.

Data featured in this commentary:

Chart 1: Global growth and inflation surprises versus the US S&P 500 index

Series 1: `diff(S111SP5@INTDAILY,90)`

S111SP5@INTDAILY [Standard & Poor's 500 Stock Price Index (1941-43=10)]

Series 2: `(V110CSI@INTDAILY - V110CIS@INTDAILY)`

V110CSI@INTDAILY [Citigroup Economic Surprise Index: Based on G10 Currencies (%)]

V110CIS@INTDAILY [Citigroup Inflation Surprise Index: Based on G10 Currencies (%)]

Chart 2: Change in the US 10 year Treasury yield versus global growth surprises

Series 1: `V001CSI@INTDAILY`

V001CSI@INTDAILY [Citigroup Economic Surprise Index: Based on Global Currencies (%)]

Series 2: `diff(R111MA@INTDAILY,90)`

R111MA@INTDAILY [United States: 10 Year Treasury Bond Mid Yield (% p.a.)]

Chart 3: Flash PMI surveys, latest level versus 3 month changes

Series 1: `diff(H111MTG@MKTPMI,3)`

H111MTG@MKTPMI [US PMI: Composite Output [Flash] (SA,50+=Expansion)]

Series 2: `H111MTG@MKTPMI`

H111MTG@MKTPMI [US PMI: Composite Output [Flash] (SA,50+=Expansion)]

Series 3: `diff(H112TG@MKTPMI,3)`

H112TG@MKTPMI [UK PMI: Composite Output [Flash] (SA, 50+=Expansion)]

Series 4: `H112TG@MKTPMI`

H112TG@MKTPMI [UK PMI: Composite Output [Flash] (SA, 50+=Expansion)]

Series 5: `diff(H534TG@MKTPMI,3)`

H534TG@MKTPMI [India PMI: Composite Output [Flash] (SA, 50+=Expansion)]

Series 6: `H534TG@MKTPMI`

H534TG@MKTPMI [India PMI: Composite Output [Flash] (SA, 50+=Expansion)]

Series 7: `diff(H158TG@MKTPMI,3)`

H158TG@MKTPMI [Japan PMI: Composite Output [Flash] (SA, 50+=Expansion)]

Series 8: `H158TG@MKTPMI`

H158TG@MKTPMI [Japan PMI: Composite Output [Flash] (SA, 50+=Expansion)]

Series 9: `diff(H134TG@MKTPMI,3)`

H134TG@MKTPMI [HCOB Germany PMI: Composite Output [Flash] (SA, 50+=Expansion)]

Series 10: `H134TG@MKTPMI`

H134TG@MKTPMI [HCOB Germany PMI: Composite Output [Flash] (SA, 50+=Expansion)]

Series 11: `diff(H132TG@MKTPMI,3)`

H132TG@MKTPMI [HCOB France PMI: Composite Output [Flash] (SA, 50+=Expansion)]

Series 12: `H132TG@MKTPMI`

H132TG@MKTPMI [HCOB France PMI: Composite Output [Flash] (SA, 50+=Expansion)]
Series 13: diff(H023TG@MKTPMI,3)
H023TG@MKTPMI [HCOB Euro Area PMI: Composite Output [Flash] (SA, 50+=Expansion)]
Series 14: H023TG@MKTPMI
H023TG@MKTPMI [HCOB Euro Area PMI: Composite Output [Flash] (SA, 50+=Expansion)]
Series 15: diff(H193TG@MKTPMI,3)
H193TG@MKTPMI [Australia PMI: Composite Output [Flash] (SA, 50+=Expansion)]
Series 16: H193TG@MKTPMI
H193TG@MKTPMI [Australia PMI: Composite Output [Flash] (SA, 50+=Expansion)]

Chart 4: The OBR's forecasts for UK Public Sector Borrowing

Series 1: UKAFSNBP@UK

UKAFSNBP@UK [UK: Public Finance: Public Sector Net Borrowing (FY, % of GDP)]

Series 2: UFNBP241@UK

UFNBP241@UK [UK: Public Finance: Public Sector Net Borrowing [Mar 24] (FY, % of GDP)]

Series 3: J4DDA@UK

J4DDA@UK [UK: Public Sector Net Borrowing as % of GDP (%)]

Chart 5: Financial market performance in Japan, stocks and exchange rates

Series 1: X158JBB@INTDAILY

X158JBB@INTDAILY [Japan: Spot Yen/USD Exchange Rate: 17:00 in JST (Yen/USD)]

Series 2: S158TPX@INTDAILY

S158TPX@INTDAILY [Japan: Tokyo Stock Price Index: Topix Cash Index (Jan-04-68=100)]

Chart 6: China's trade in key products

Series 1: yryr%(movt(N924IKJ0@EMERGEPR,12))

N924IKJ0@EMERGEPR [China: Imports: Electronic Integrated Circuits (NSA, Bil.Units)]

Series 2: yryr%(movt(N924IJ8F@EMERGEPR,12))

N924IJ8F@EMERGEPR [China: Exports: Electric Cars (NSA, Thous.Metric Tons)]

For more info on our data offerings please email sales@haver.com

