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Global Macro Outlook

A Brave New World

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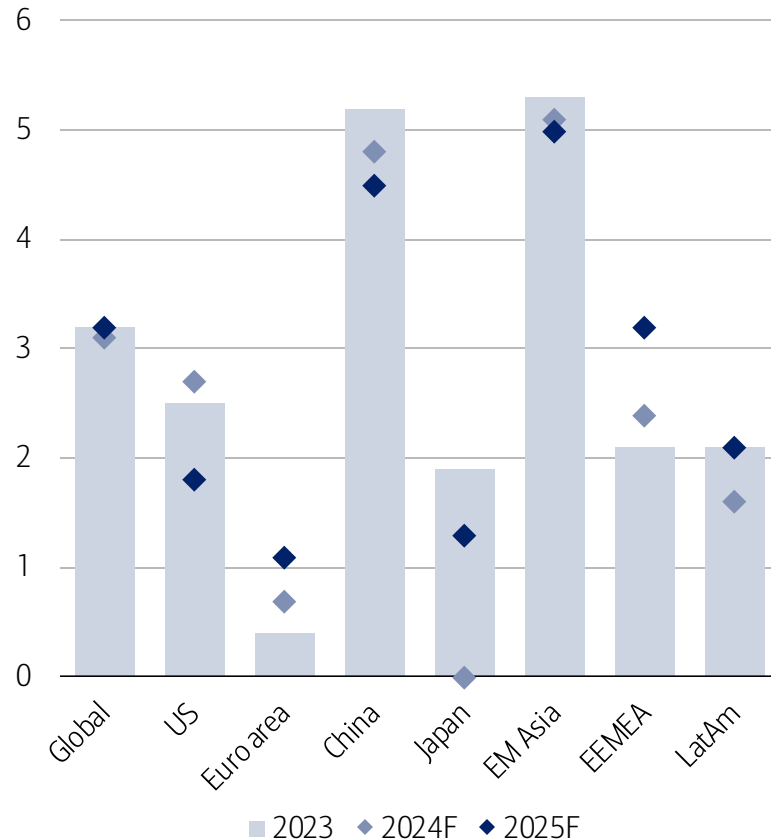
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Resilient global growth meets gradual disinflation

We expect some convergence in growth, but not levels...

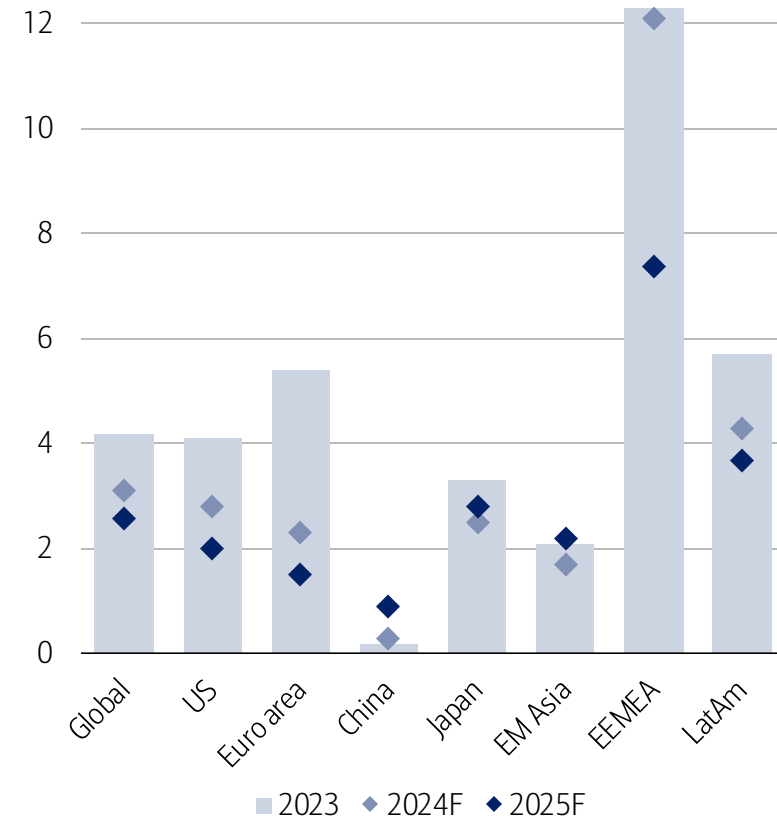
GDP growth and BofA forecasts (% qoq, saar)



Source: BofA Global Research

... and most countries to see gradual disinflation

BofA CPI inflation forecasts (% yoy, avg)



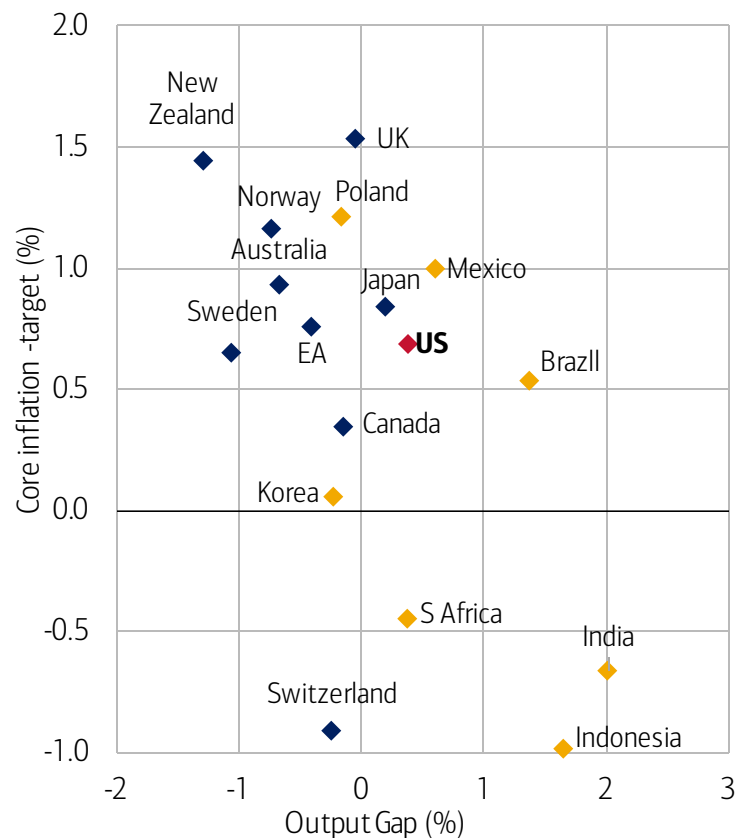
Source: BofA Global Research

Central banks beg to differ but policy convergence accelerates



Output/inflation gaps and central bank divergence

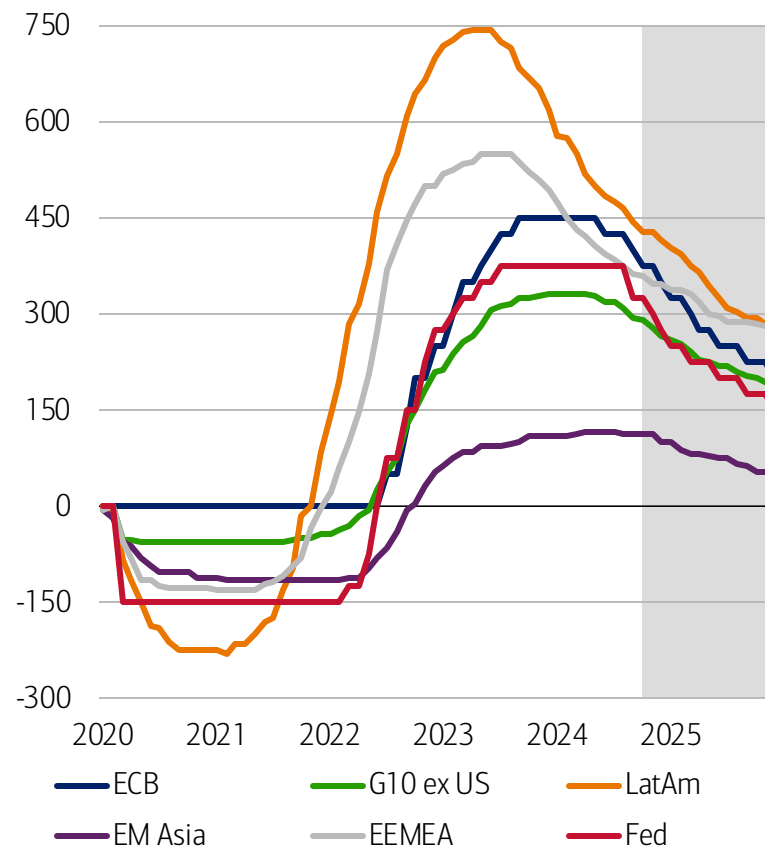
Output gap (%) vs core inflation gap (%)



Source: BofA Global Research, China Customs, CEIC

EMs hiked earlier and more, and are cutting faster

Cumulative hikes since January 2020 and BofA forecasts (bp)



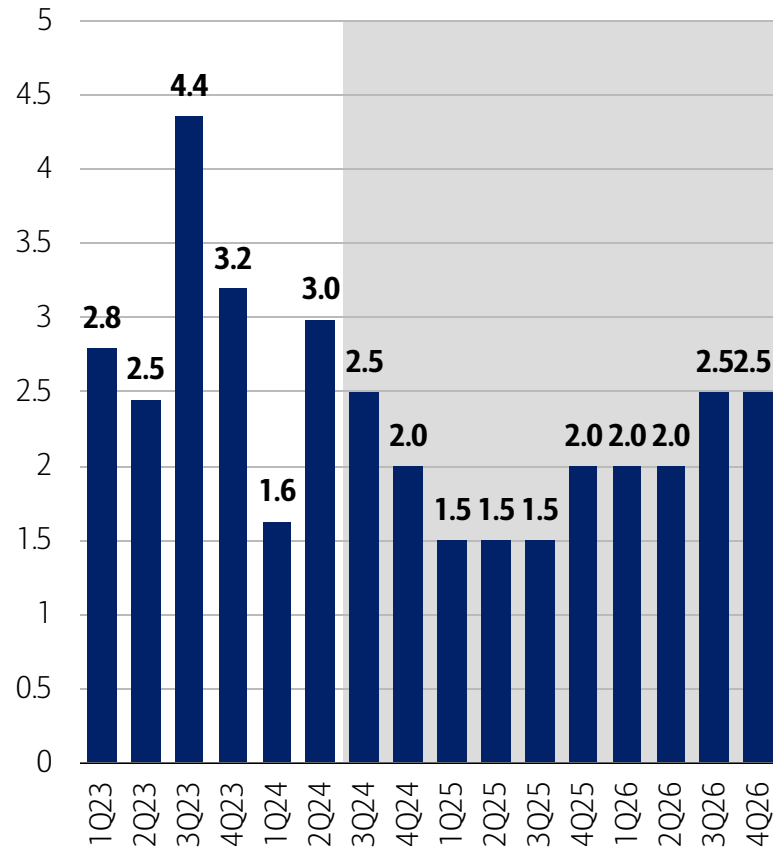
Source: BofA Global Research, NBS



Sticking the landing

We expect a soft landing in the US...

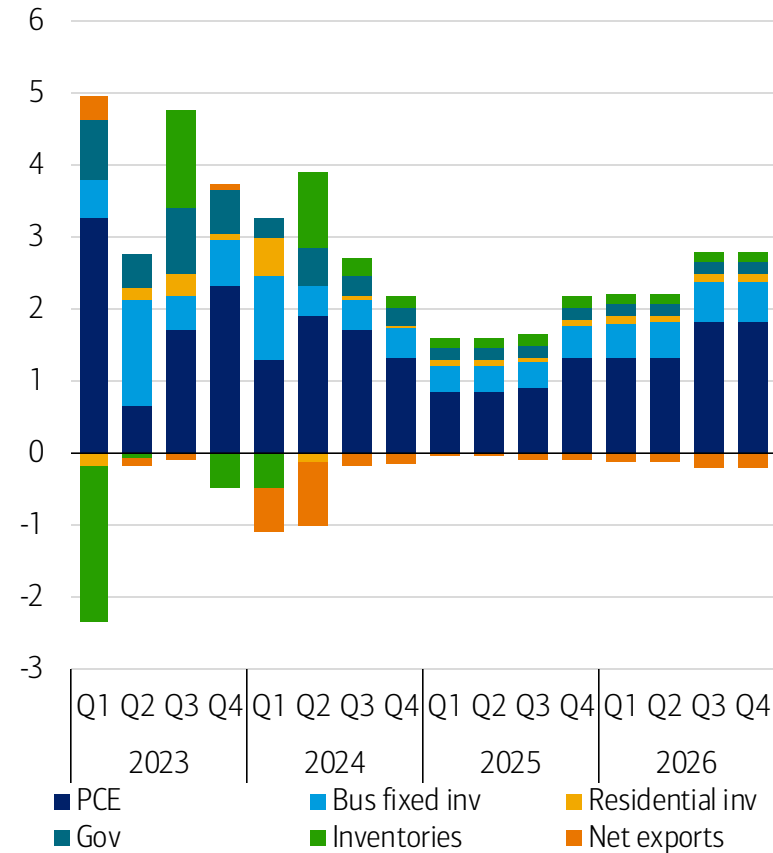
GDP growth forecasts (% qoq saar)



Source: BofA Global Research, Bureau of Economic Analysis, Haver

...and growth to be broad-based

Contributions to GDP growth (%)



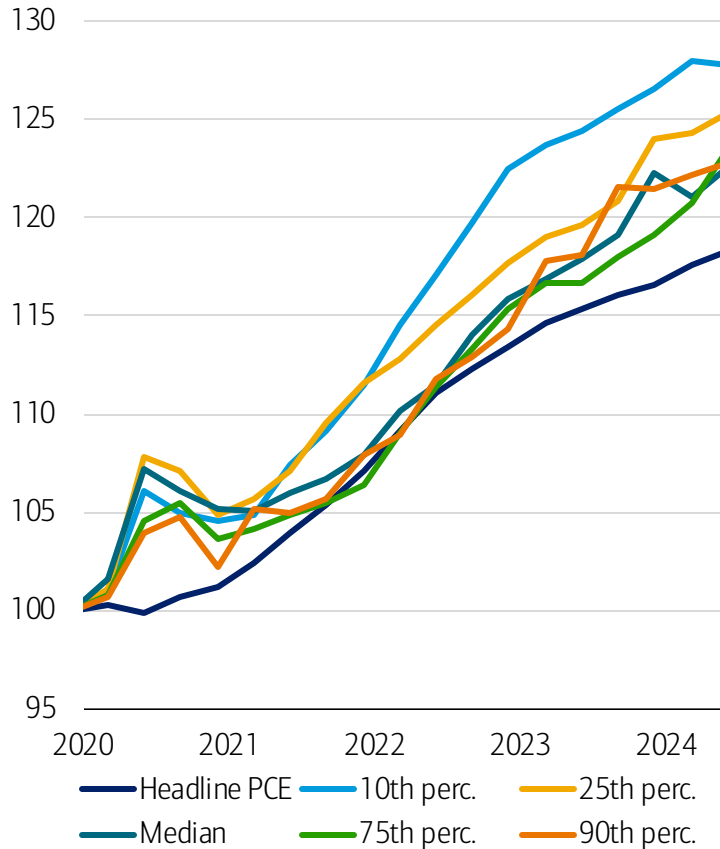
Source: BofA Global Research, NBS



Private consumption remains very resilient

Wage growth has outpaced inflation

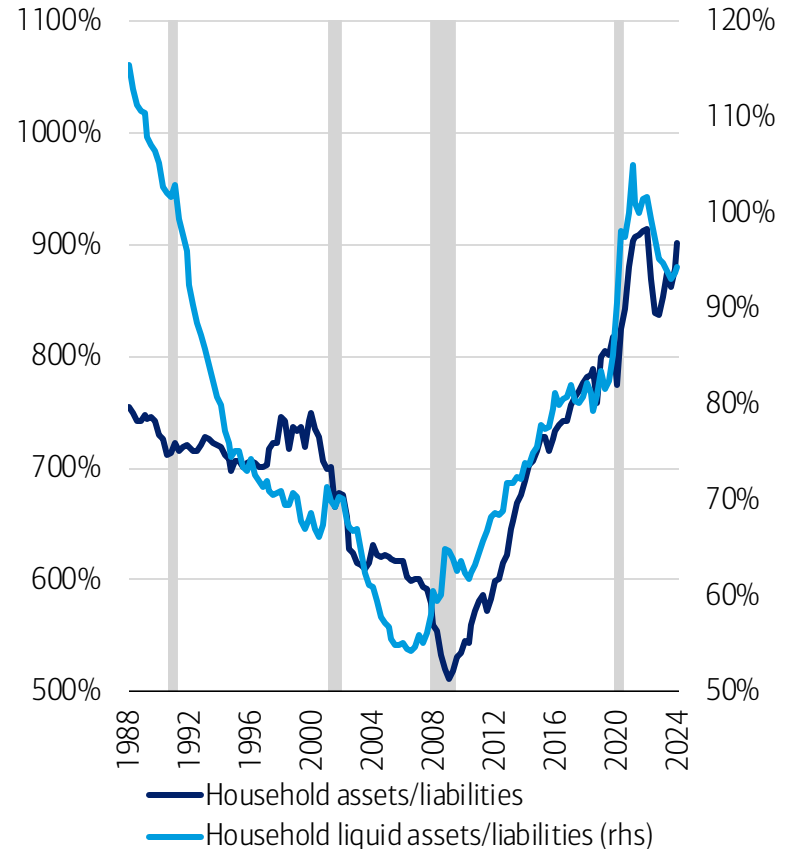
Wages vs. PCE prices (4Q 2019 = 100)



Source: BofA Global Research, Haver

Balance sheets remain stronger than pre-pandemic

Household total assets and liquid asset to liabilities ratios (%)



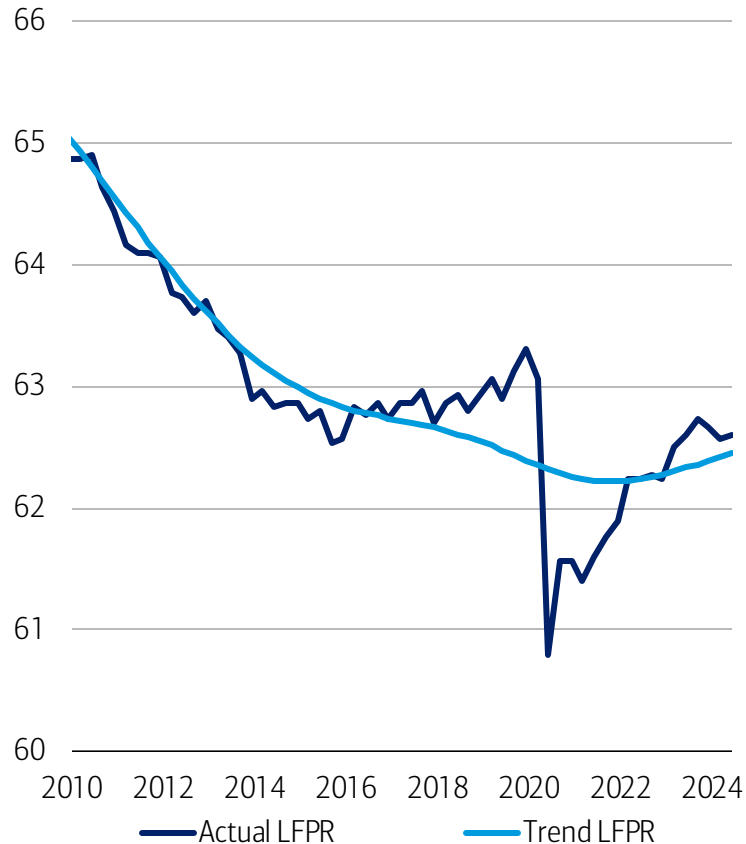
Source: BofA Global Research, Federal Reserve Board, Haver

The supply side of the economy explains the outperformance



Labor force participation overshoot the trend

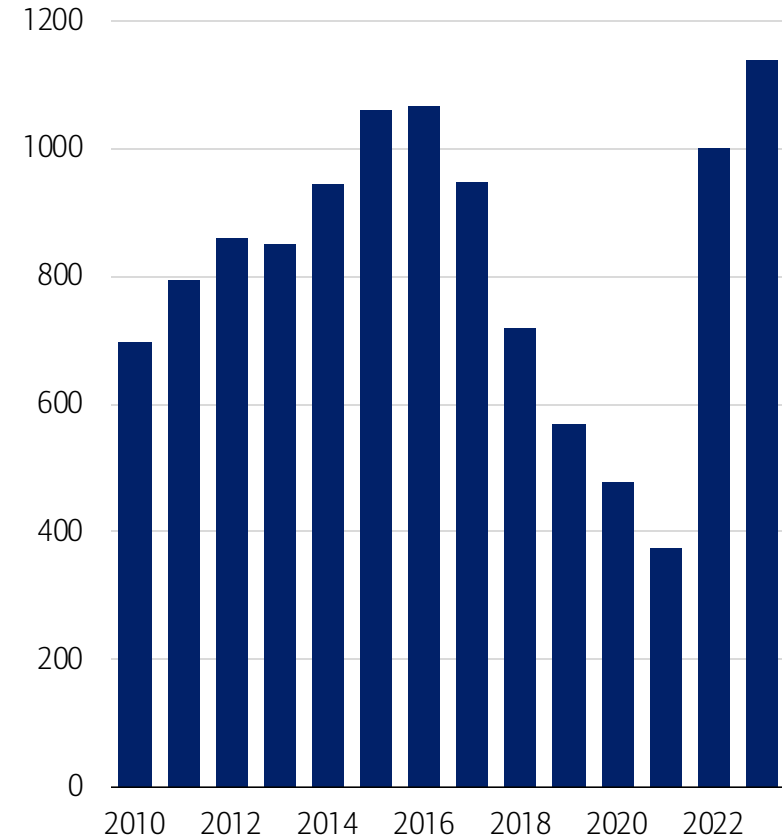
Trend labor force participation rate (LFPR) versus actual (%)



Source: BofA Global Research, BEA, Haver

International migration recovered sharply

Net international migration (thousands)



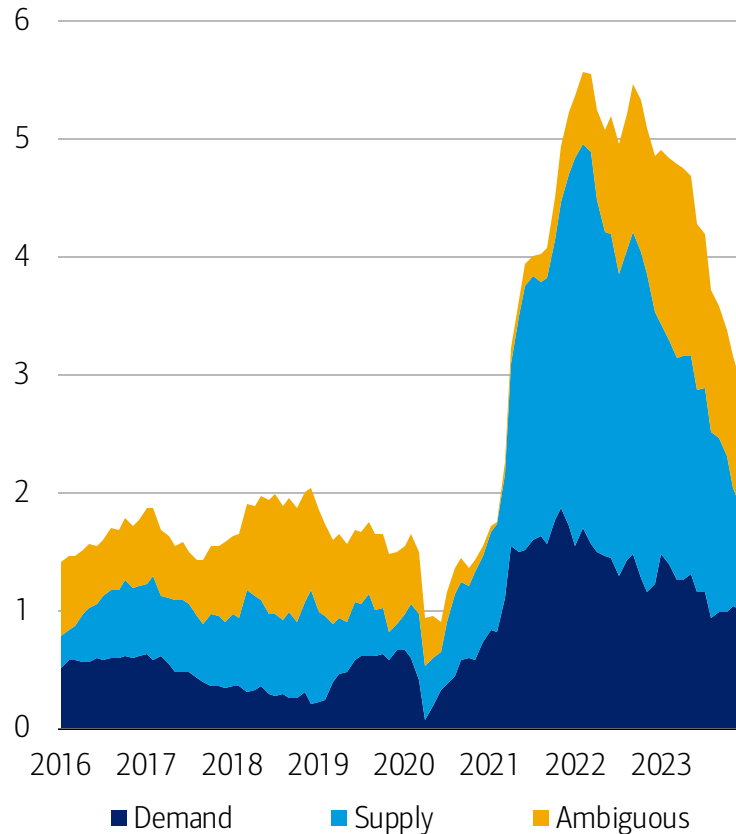
Source: BofA Global Research, Census Bureau, Bureau of Labor Statistics, Haver

Sequential inflation has been well behaved but just ticked up



Supply-side has contributed the most to disinflation...

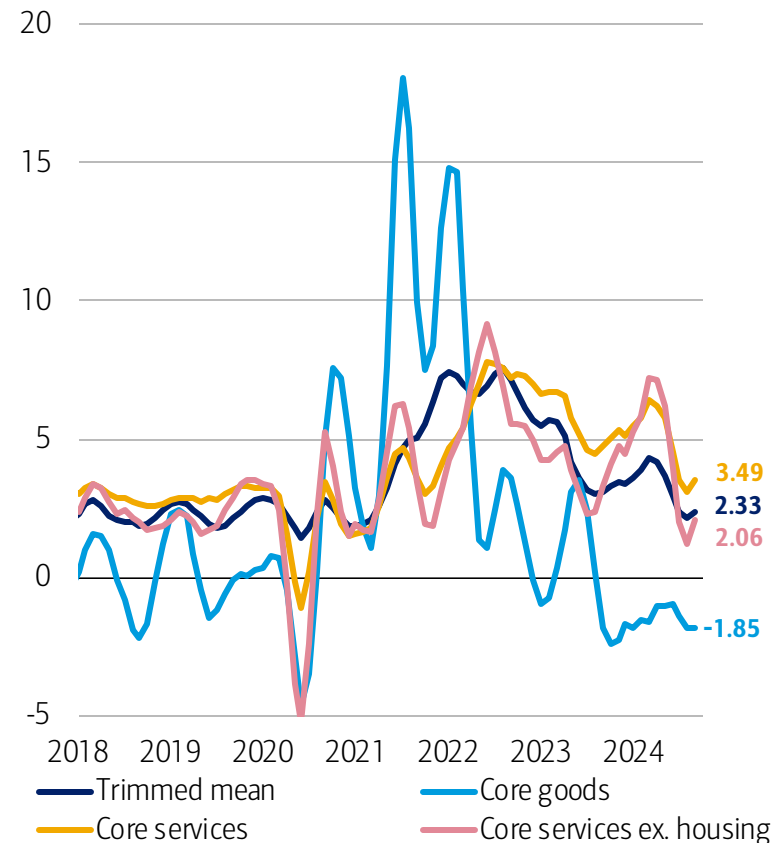
Supply/demand contributions to core PCE inflation



Source: BofA Global Research, Federal Reserve Bank of San Francisco, BEA

... but recent data paved way for monetary easing

Trimmed and core inflation measures (CPI, 3m/3m saar, %)



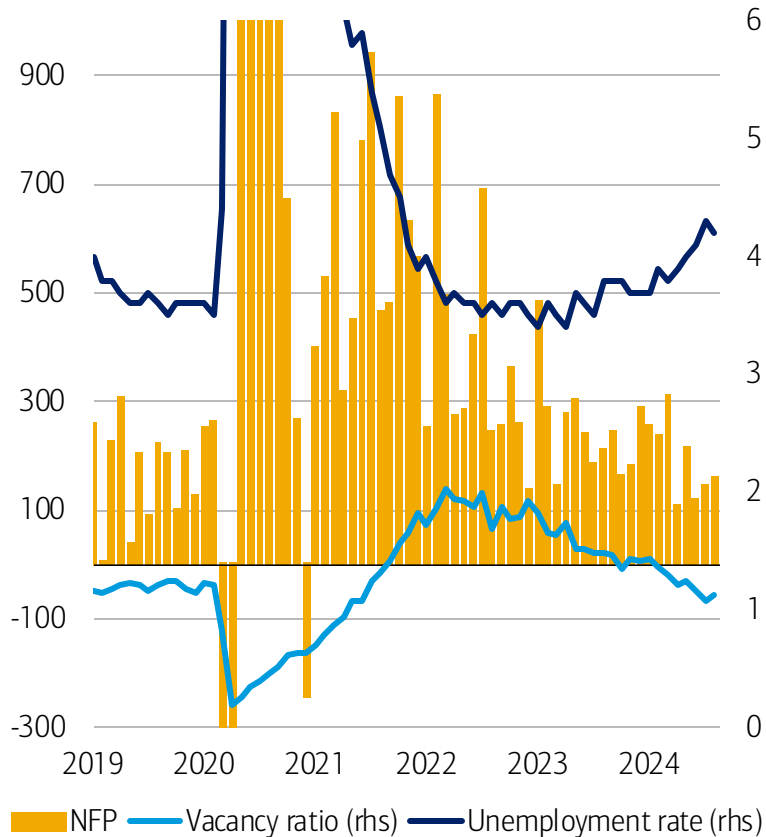
Source: BofA Global Research, Haver



Employment slowed, and the Fed started with 50bp

The labor market has softened close to 2019 levels

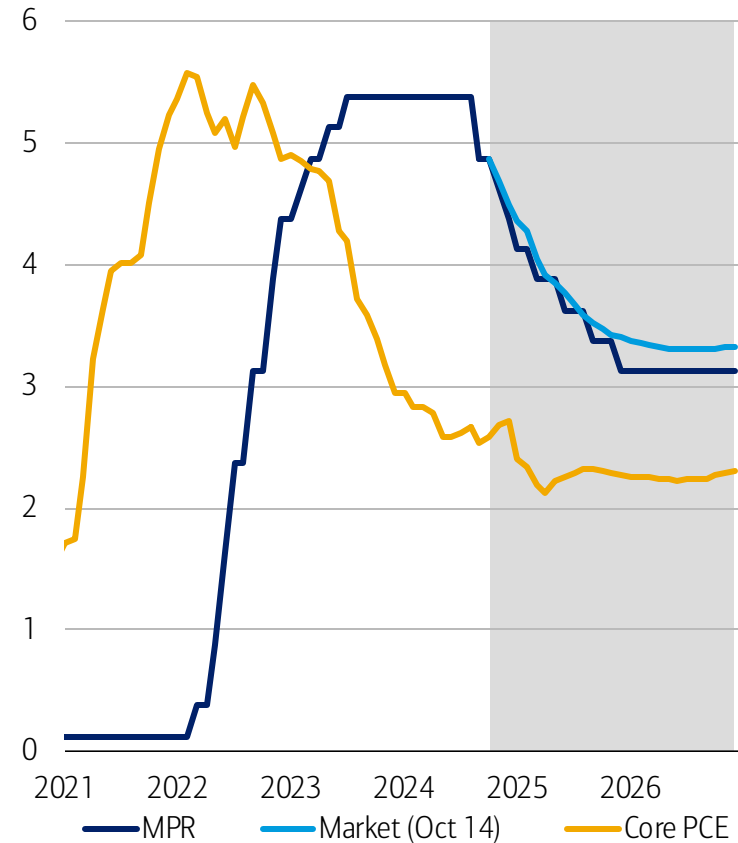
NFP (thousands), vacancy-unemployment ratio, unemployment rate



Source: BofA Global Research, Haver

A more dovish Fed may delay convergence to target

Fed Funds Rate and Core PCE inflation (%)

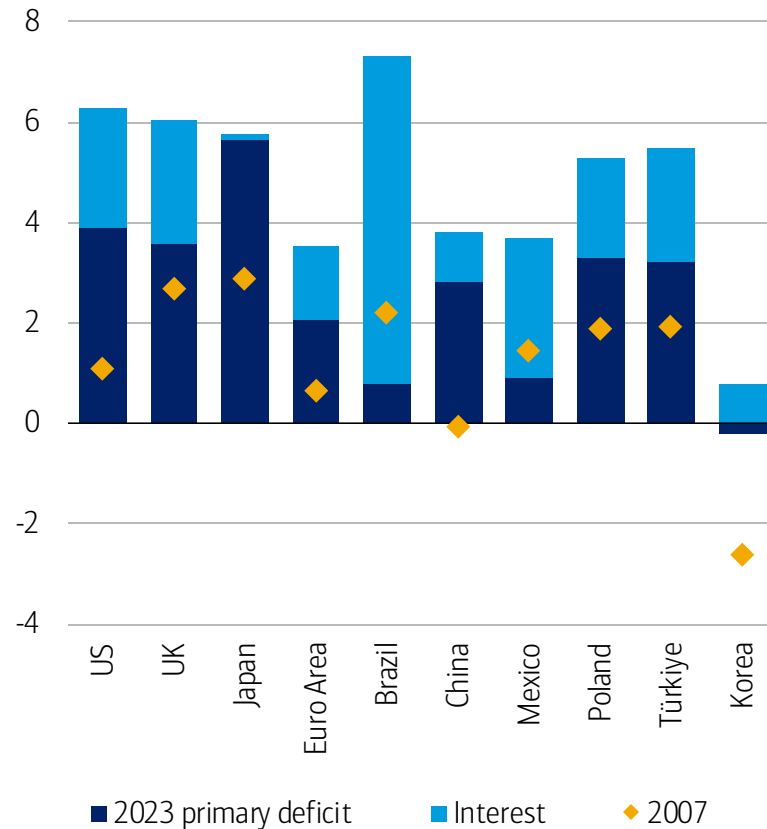


Source: BofA Global Research, Haver

Fiscal policy is losing power to fight the next recession

Government deficits are much larger than pre-GFC...

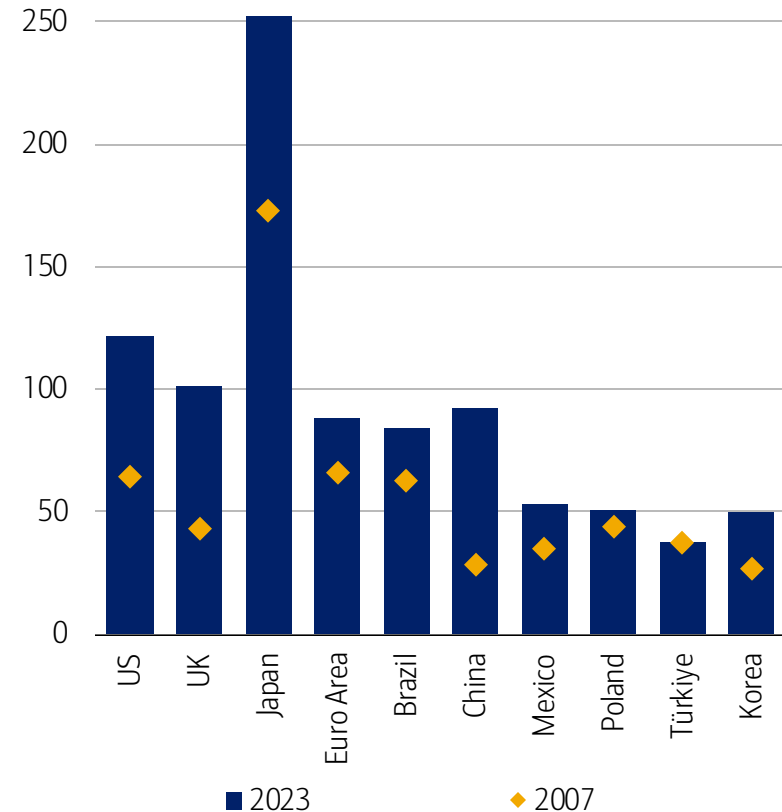
Government deficits (% of GDP)



Source: BofA Global Research, IMF WEO, Haver

... and government debt has jumped accordingly

Debt-to-GDP ratios (%)



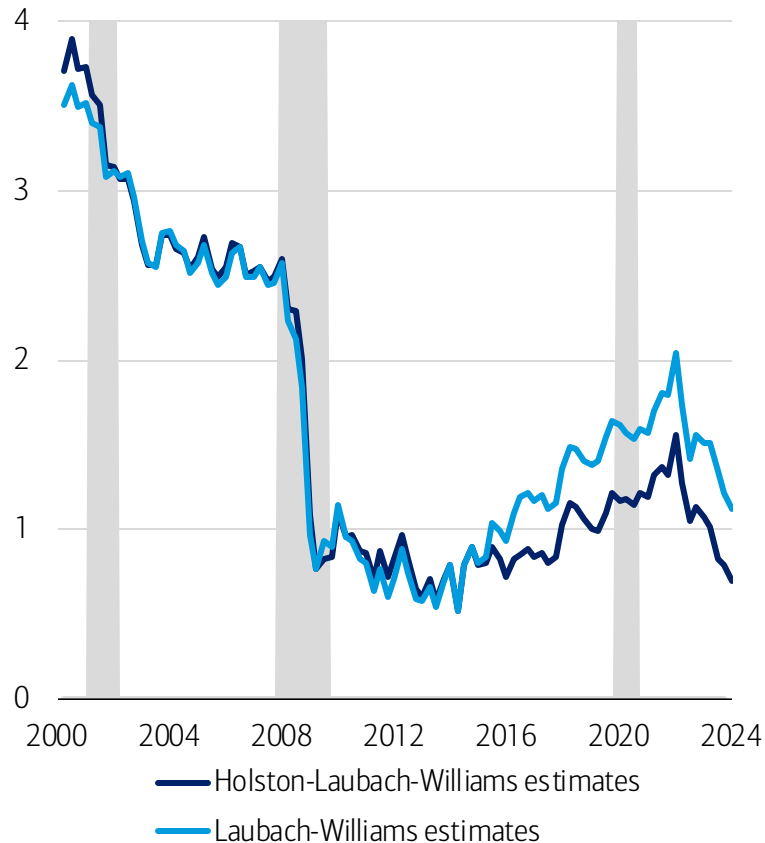
Source: BofA Global Research, IMF WEO, Haver



High real rates could be here to stay

Some estimates put r^* above 1%

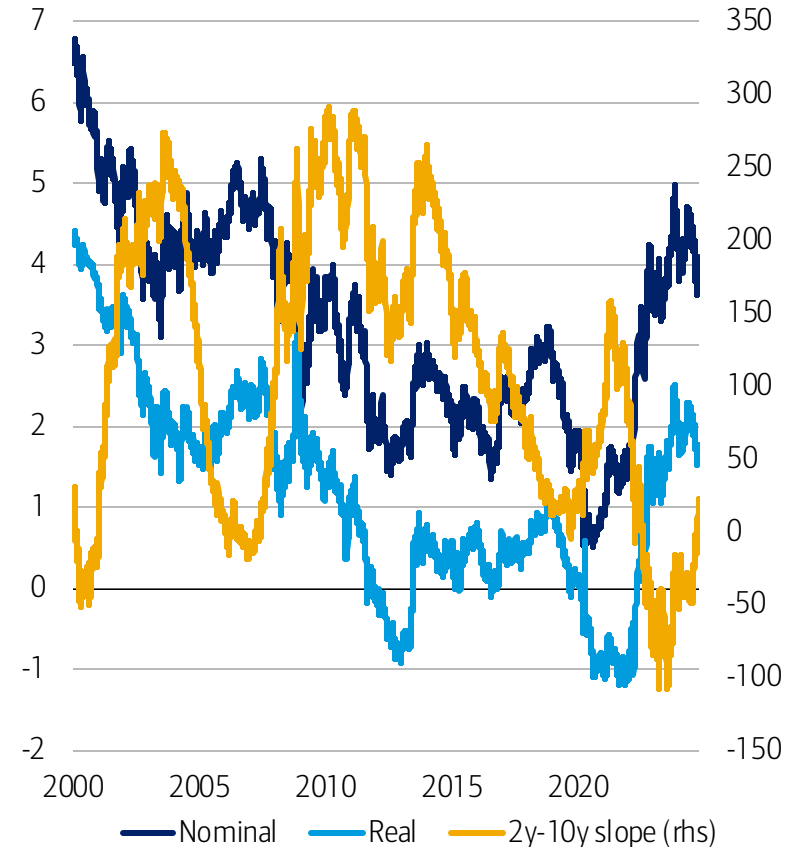
Estimates of the real neutral rate of interest for the US (%)



Source: BofA Global Research, Haver

US selloffs have been driven by real rates

Nominal and real 10y rates (%) and 2y-10y slope (bp)



Source: BofA Global Research, Bloomberg

US elections: The great debates

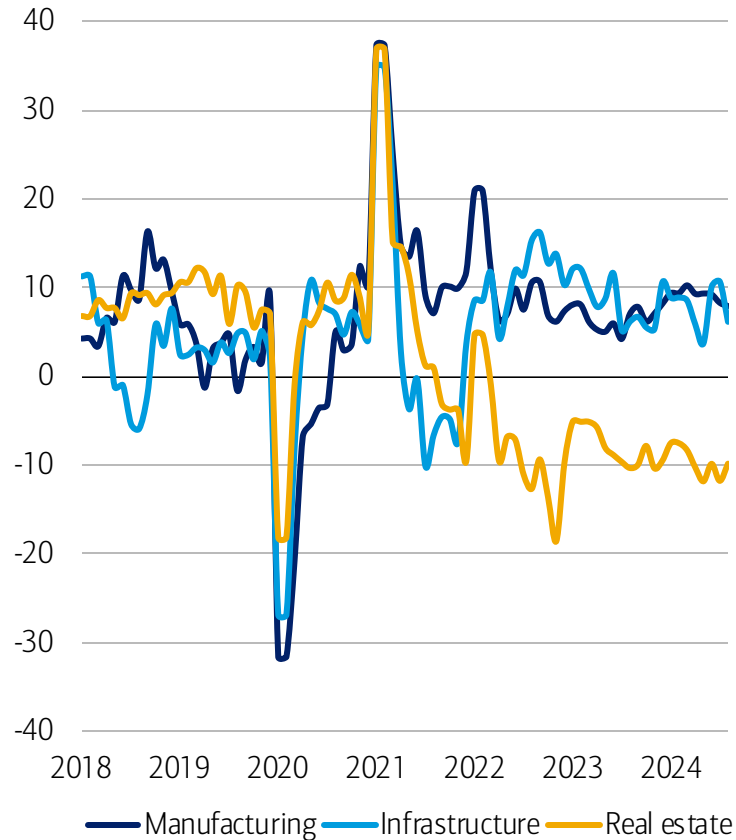


Scenarios	Democratic President	Republican President
Congressional Sweep	<p>Trade policy</p> <ul style="list-style-type: none"> • More gradual push for economic realignment • Trade policy targeted against China but slower moving • Targeted tariffs, trade restrictions on sensitive items • Emphasis on industrial policy <p>Immigration</p> <ul style="list-style-type: none"> • Modest tightening in immigration policies <p>Fiscal policy</p> <ul style="list-style-type: none"> • Personal tax cuts extended except for high earners • Higher corporate tax rates • Increased benefits spending 	<p>Trade policy</p> <ul style="list-style-type: none"> • Prioritizing re-alignment in global trade • Risk of broad-based tariffs (60% China, 10% RoW) <p>Immigration</p> <ul style="list-style-type: none"> • Larger risk of tightening in immigration policies <p>Fiscal policy</p> <ul style="list-style-type: none"> • Permanent extension of Tax Cuts and Jobs acts • Lower corporate tax rates • Tariffs provide some offset for lost revenue
Divided Congress	<p>Trade policy</p> <ul style="list-style-type: none"> • More gradual push for economic realignment • Trade policy targeted against China but slower moving • Targeted tariffs, trade restrictions on sensitive items • Emphasis on industrial policy <p>Immigration</p> <ul style="list-style-type: none"> • Modest tightening in immigration policies <p>Fiscal policy</p> <ul style="list-style-type: none"> • Personal tax cuts extended on a temporary basis 	<p>Trade policy</p> <ul style="list-style-type: none"> • Prioritizing re-alignment in global trade • Risk of broad-based tariffs (60% China, 10% RoW) <p>Immigration</p> <ul style="list-style-type: none"> • Larger risk of tightening in immigration policies <p>Fiscal policy</p> <ul style="list-style-type: none"> • Personal tax cuts extended on a temporary basis • Tariffs provide some offset for lost revenues

Is China turning the tide?

The property market continues to struggle...

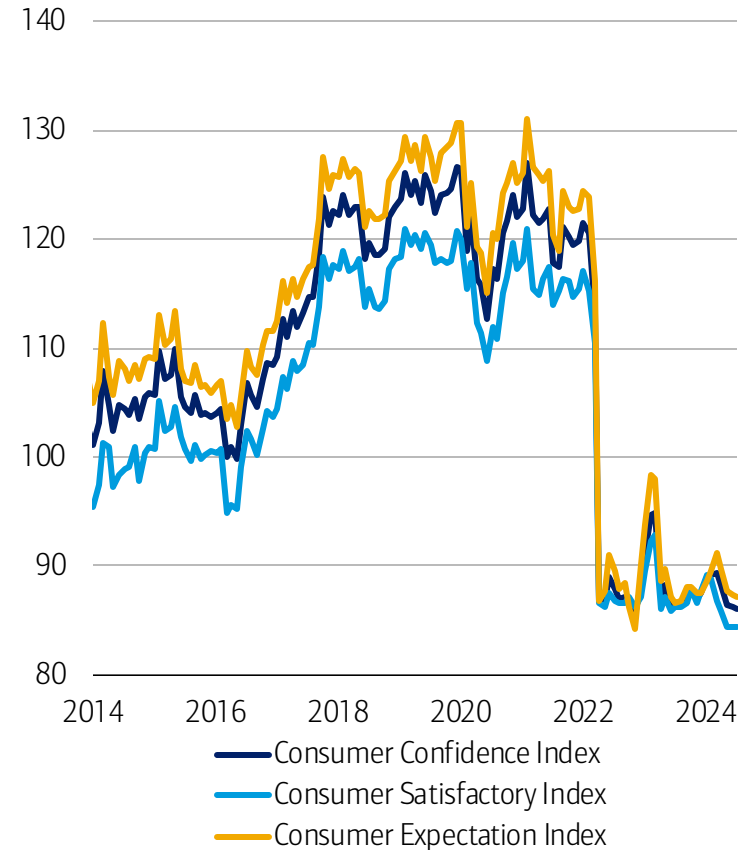
Real estate investment growth weakened further (% yoy)



Source: BofA Global Research, China Customs, CEIC

... and consumer sentiment is failing to pick up

NBS consumer sentiment indexes



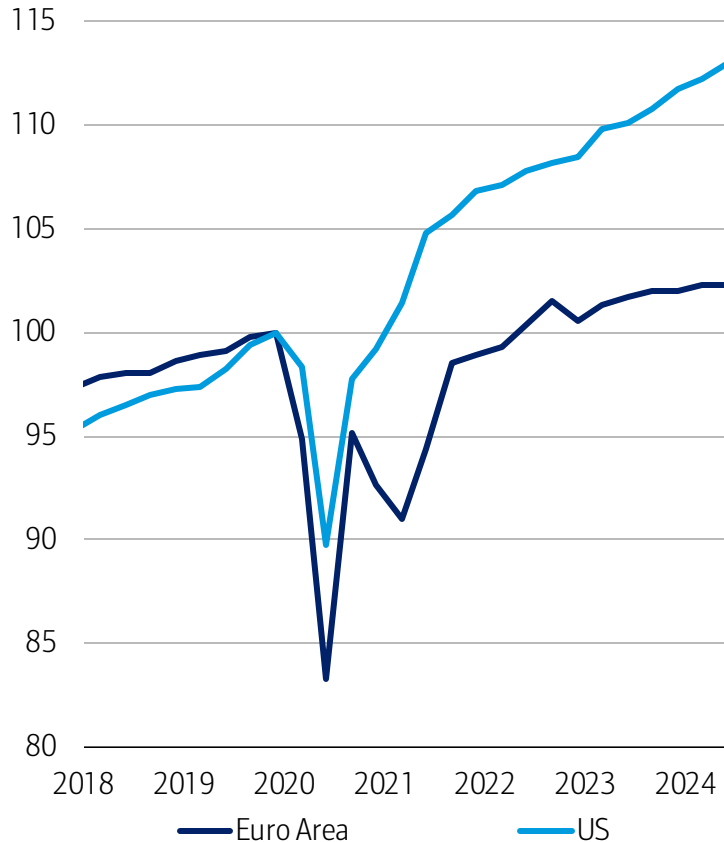
Source: BofA Global Research, NBS



The Europe vs US divergence: A tale of two shocks

Consumption in Europe lags the US recovery

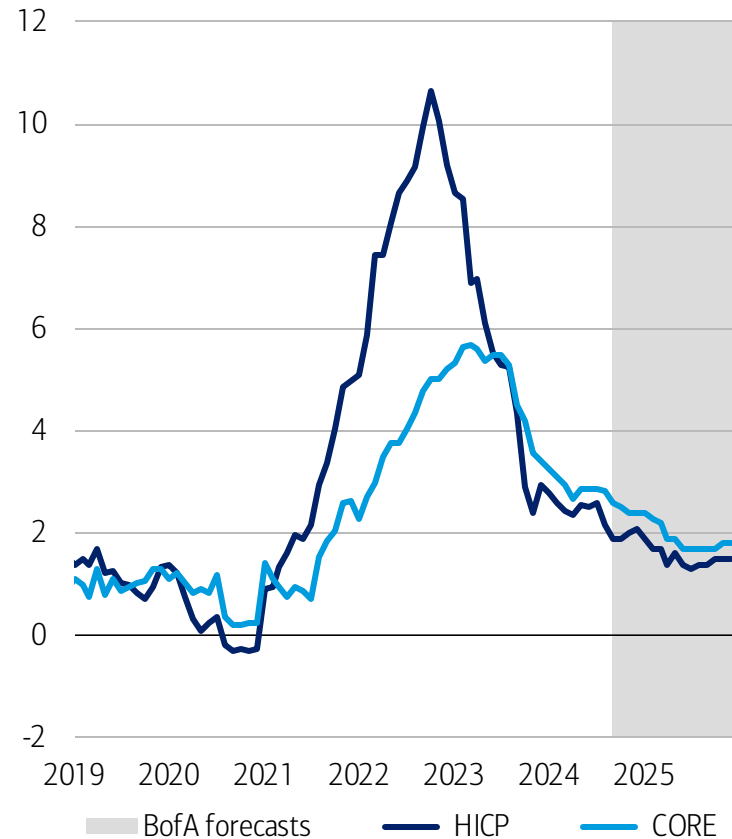
Real consumption (4Q2019=100)



Source: BofA Global Research, GDELT Project

We expect EA inflation to undershoot in 2025

Euro Area core inflation, observed and BofA forecasts (%)



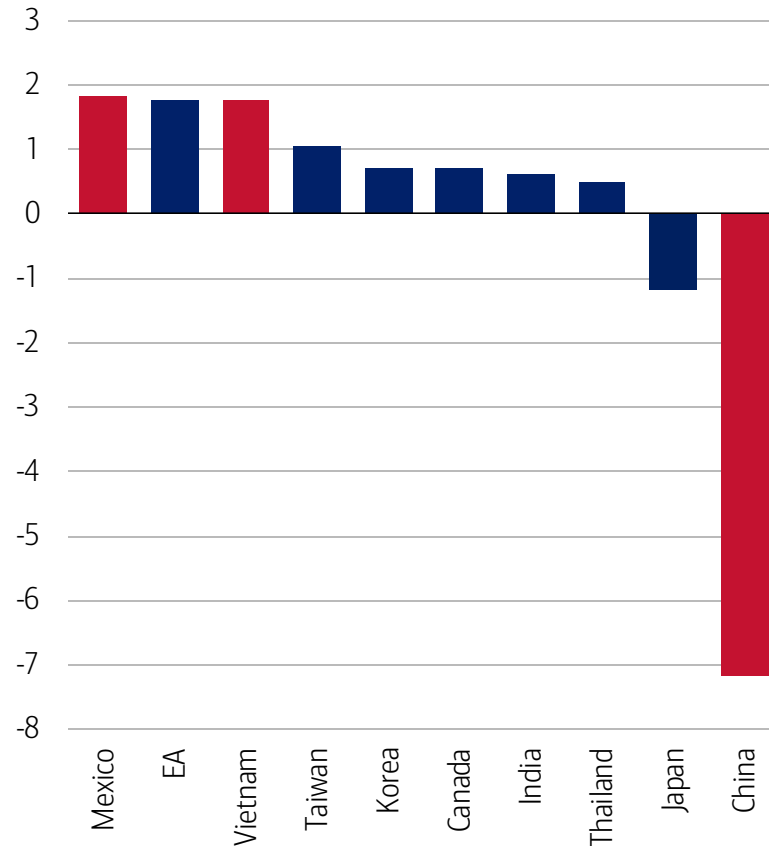
Source: BofA Global Research, Haver

Global trade and supply chains are being reshaped



Changes in market share in US imports since 2018

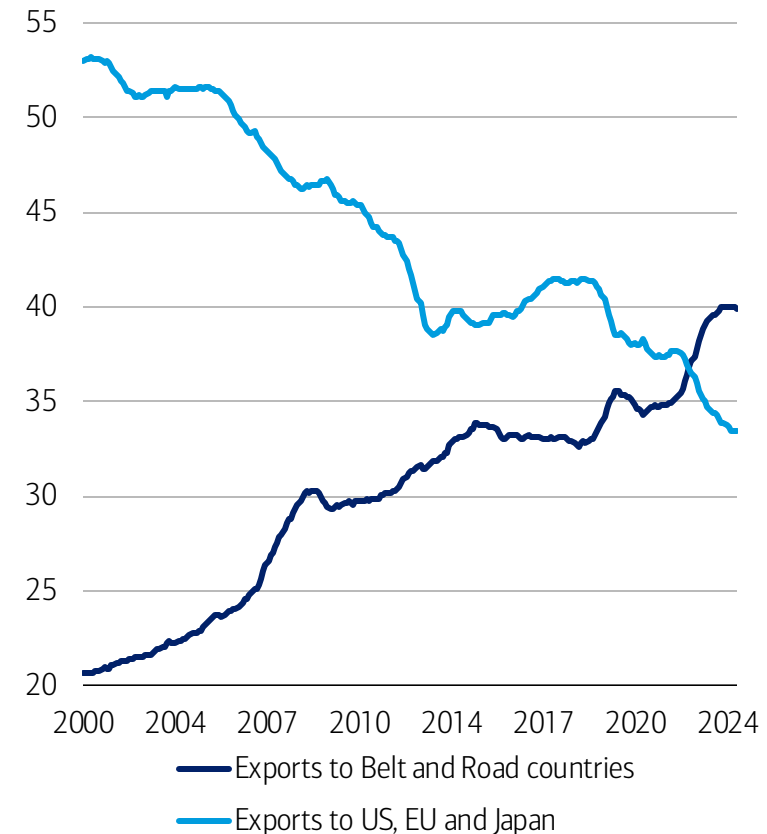
Vietnam, Mexico, Taiwan, Korea, India, Thailand gained vs China



Source: BofA Global Research, Haver

China exports are shifting away from the West

Share in China total exports, 12m sum (%)



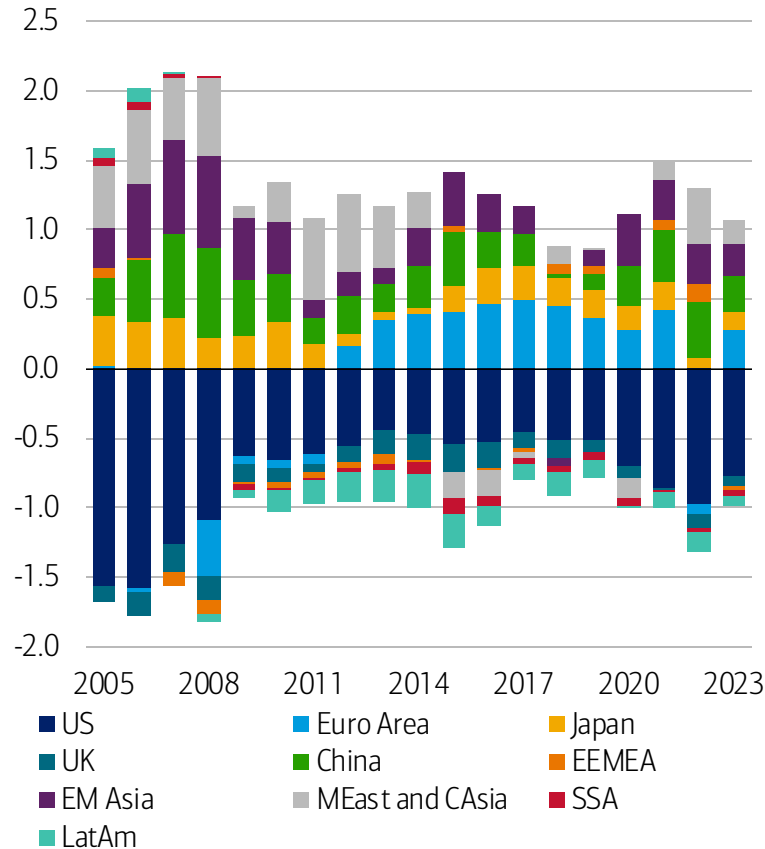
Source: BofA Global Research, Haver



The dollar remains surprisingly strong

Current accounts have widened (up or down)...

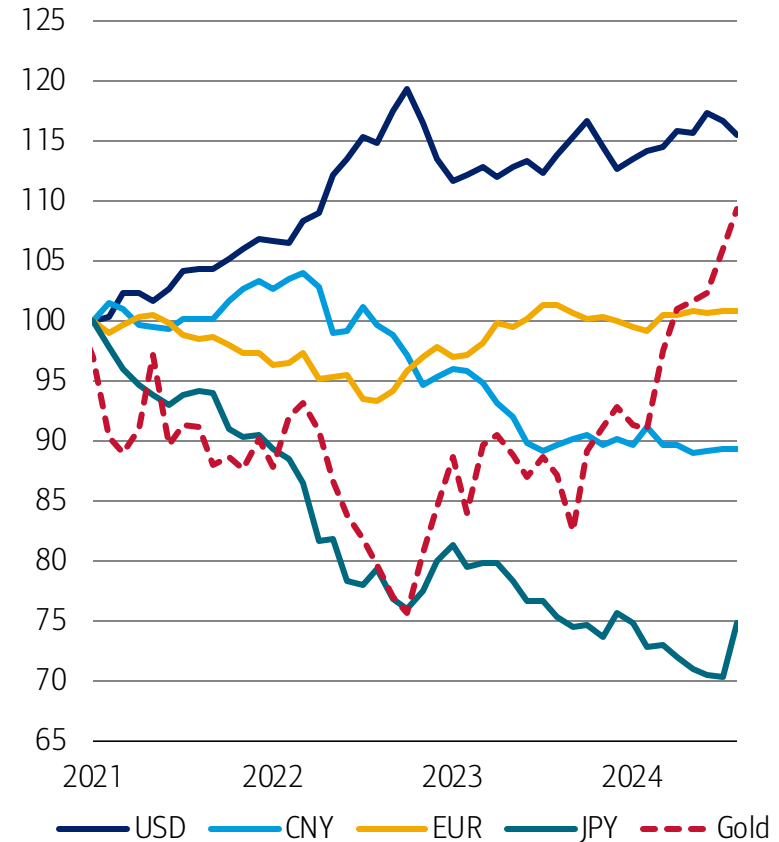
Current account balances (% of World GDP)



Source: BofA Global Research, BIS, IMFWEO Haver

... and the USD remains historically very strong

Real Broad Effective Exchange Rate (Dec-20=100) and Gold/CPI



Source: BofA Global Research, BIS, IMFWEO Haver

Appendix: Global forecasts



Global growth less synchronized than inflation



Global forecasts for main countries and regions

We expect 3.1% growth in 2024, 3.2% in 2025 and 3.3 in 2026

	GDP growth				CPI inflation			
	2023	2024F	2025F	2026F	2023	2024F	2025F	2026F
Global	3.2	3.1	3.2	3.3	4.2	3.1	2.6	2.6
Developed Markets	1.5	1.6	1.5	1.6	4.7	2.6	2.0	1.9
US	2.5	2.7	1.8	2.0	4.1	2.8	2.0	2.1
Euro area	0.4	0.7	1.1	1.3	5.4	2.3	1.5	1.7
Germany	-0.3	0.0	0.8	1.2	6.0	2.5	1.7	1.8
Japan	1.9	0.0	1.3	0.6	3.3	2.5	2.8	1.9
Emerging Markets	4.3	4.2	4.3	4.4	3.9	3.4	3.0	3.2
Emerging Asia	5.3	5.1	5.0	5.0	2.1	1.7	2.2	2.6
China	5.2	4.8	4.5	4.5	0.2	0.3	0.9	1.6
India	7.8	7.1	6.9	6.8	5.4	4.3	4.6	5.0
Emerging EMEA	2.1	2.4	3.2	3.6	12.3	12.1	7.4	6.0
Latin America	2.1	1.6	2.1	2.4	5.7	4.3	3.7	3.7
Brazil	2.9	3.0	2.0	2.2	4.6	4.1	3.4	3.7

Note: Forecasts as of October 2024

Source: BofA Global Research

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