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Weekly economics podcast: Economic Roundup November

By Perpetual Corporate Trust

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Global economic growth continues to stay relatively firm notwithstanding the lengthy government shutdown in the United States and softening growth in China. The recently ended government shutdown in the United States might even lift US consumer spending in the near-term as back-pay for government employees plus bonuses for some come through. Relatively firm global economic growth continues to support inflation and that is limiting the ability of central banks to continue cutting official interest rates. Indeed, there is the prospect of a new monetary tightening phase starting to show on the horizon from late 2026 for some. Government bond yields are rising in response.

In the United States, the end of the longest government shut-down in history came with a flurry of economic data consistent with the economy still growing at close to 4% annualised growth pace. Employment growth is firm, according to the delayed September nonfarm payrolls report, up 119,000, although growing labour force participation means the unemployment rate is a touch higher at 4.4% in September from 4.3% in October. US wage growth remains strong, up 3.8% y-o-y in both August and September, above September CPI inflation at 3.0% y-o-y.

The end of the government shut-down means that many of the affected government workers will receive back pay. Some have been promised special bonuses. This additional income is

likely to boost what appeared to be already strongly growing consumer spending. As the delayed Q3 GDP report comes through it is likely to show growth at least as strong as the 3.8% annualised growth rate reported in Q2. Q4 GDP growth is tracking even more strongly, above 4%. Strong US growth is likely to underpin US inflation pressure, even if President Trump's tariffs are forced to be wound back by legal challenge.

The Federal Reserve, after cutting the Federal Funds rate at the last two policy meetings has limited room to cut the Funds rate again at the next FOMC meeting in December, especially if the delayed October CPI report, when released eventually, shows annual inflation stuck at 3.0%, or higher.

In China, the data released in November continues mostly to point to softening economic conditions. October reports show weak international trade, exports -1.1% from +8.3% in September, and softening domestic demand too. Fixed asset investment spending deteriorated further to -1.7% y-o-y, from -0.5% in September. Growth in industrial production moderated in October to 4.9% y-o-y from 6.5% in September and retail sales came in at 2.9% y-o-y in October from 3.0% in September. House prices continue to fall, down 2.2% y-o-y in October, the same pace of fall as recorded in September. China's policy settings remain focused on driving up production in high tech goods, but provide little support for household spending. China's economic growth moved below 5% y-o-y in Q3 (4.8% y-o-y) and looks set to fall further in Q4.

European economic growth continues to show signs of slow improvement. Q3 GDP rose by 0.2% q-o-q, 1.4% y-o-y. Forward looking purchasing manager reports point towards growth continuing. The November manufacturing PMI slipped a little to 49.7 from 50.0 in October, but the services sector PMI lifted to 53.1 in November from 53.0 in October. Europe's labour market remains tight generating wage growth well above inflation. Q3 labour costs were up 3.5% y-o-y against October CPI inflation at 2.1% y-o-y (core inflation 2.4%). Europe's economic policies, notwithstanding the budgetary constraints of some, are set to prime growth, notably in Germany boosting both infrastructure and defence spending. The current ECB deposit rate sits below the inflation rate at 2.00%, providing mild monetary policy stimulus. European political instability, high government debt load for some, and the Russia/Ukraine war are all factors that could sour Europe's growth prospects, but are trumped for the time being by modest economic growth momentum combined with growth stimulating economic policy settings.

In Australia, economic releases in November show continuing improvement in household spending (growing 5.1% y-o-y in September) and tight labour market conditions. Employment rose by 42,200 in October after lifting 12,800 in September and the unemployment rate fell to 4.3% in October from 4.5% in September. Annual wage growth was 3.4% y-o-y in both Q2 and Q3 and is showing no sign of moderating.

Ahead of the November RBA policy meeting Q3 inflation came in higher than expected by the market or the RBA. The Q3 CPI was up 1.3% q-o-q lifting annual inflation to 3.2% y-o-y from 2.1% y-o-y in Q2. Underlying (trimmed mean) inflation was higher than expected too, up 1.0% q-o-q and taking the annual rate up to 3.0% y-o-y from 2.7% in Q2. Much of the increase in inflation came from the ending of State Government electricity rebates, but there were also some signs of broader-based inflation pressure in groceries, and the costs of housing, education and health.

The RBA left the cash rate unchanged at 3.60% at the November policy meeting and indicated that the cash rate may stay on hold for an extended period. The RBA produced revised economic forecasts in the quarterly Monetary Policy Statement which showed inflation stuck above 3% over the next 12 months before returning inside 2-3% target band in 2027. The RBA indicated that it would be watching data closely over coming months to determine the next policy move.

Home buying activity and household spending are rising. This cyclical lift in household demand is occurring at a time when growth in government spending is still strong and productivity remains weak. We see upward pressure on inflation continuing and that militates against any more rate cuts from the RBA, but also raises the possibility that the next cash rate change, when it eventually occurs, will probably be a rate hike aimed at suppressing too-strong demand and containing inflation.

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