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# Global and U.K. Economic Outlook

David Muir, Senior Economist

**IFoA GIRO Conference 2024**

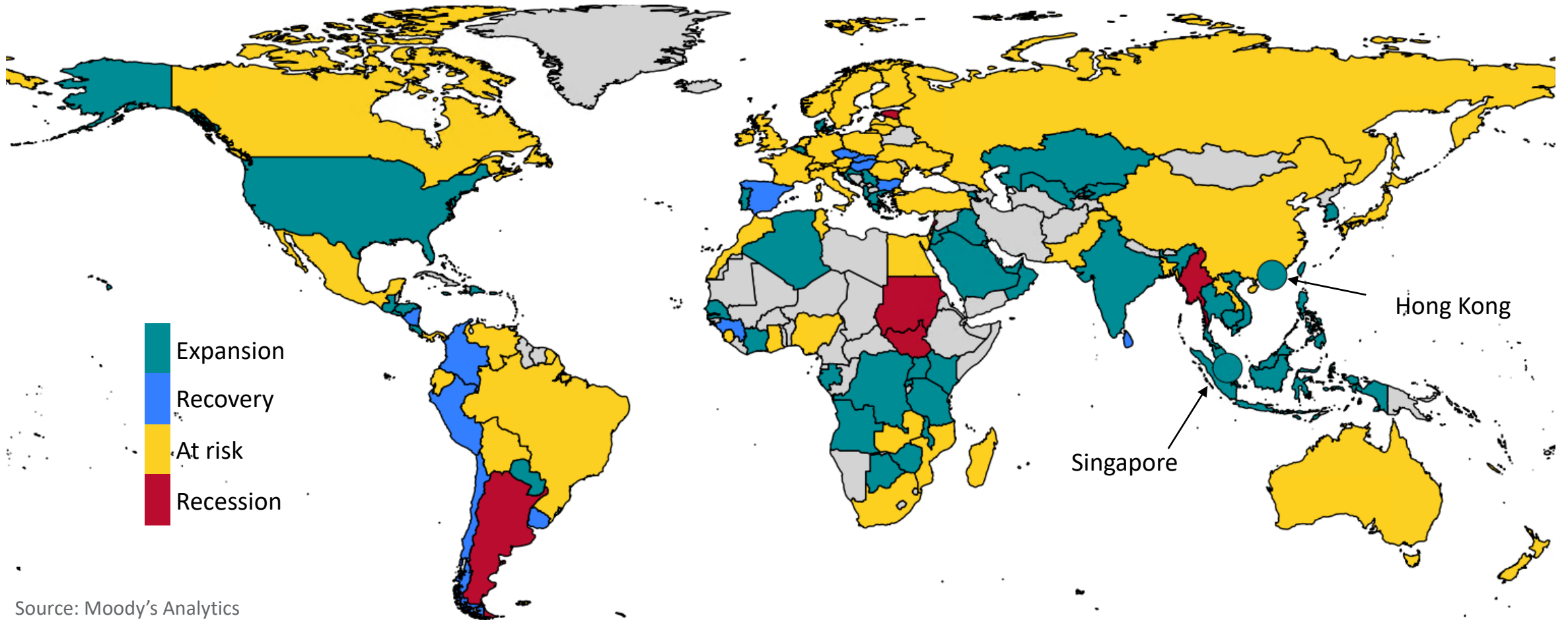
The background of the slide is a solid dark blue color. Overlaid on this are several layers of thin, light blue lines that form a complex, wavy, and somewhat chaotic pattern. These lines create a sense of depth and movement, resembling a stylized representation of data or a global network. The lines are most dense in the upper left and lower right areas, with some gaps in the middle.

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# Global Economy

# The Global Economy Finds Its Footing...But Plenty Could Go Wrong

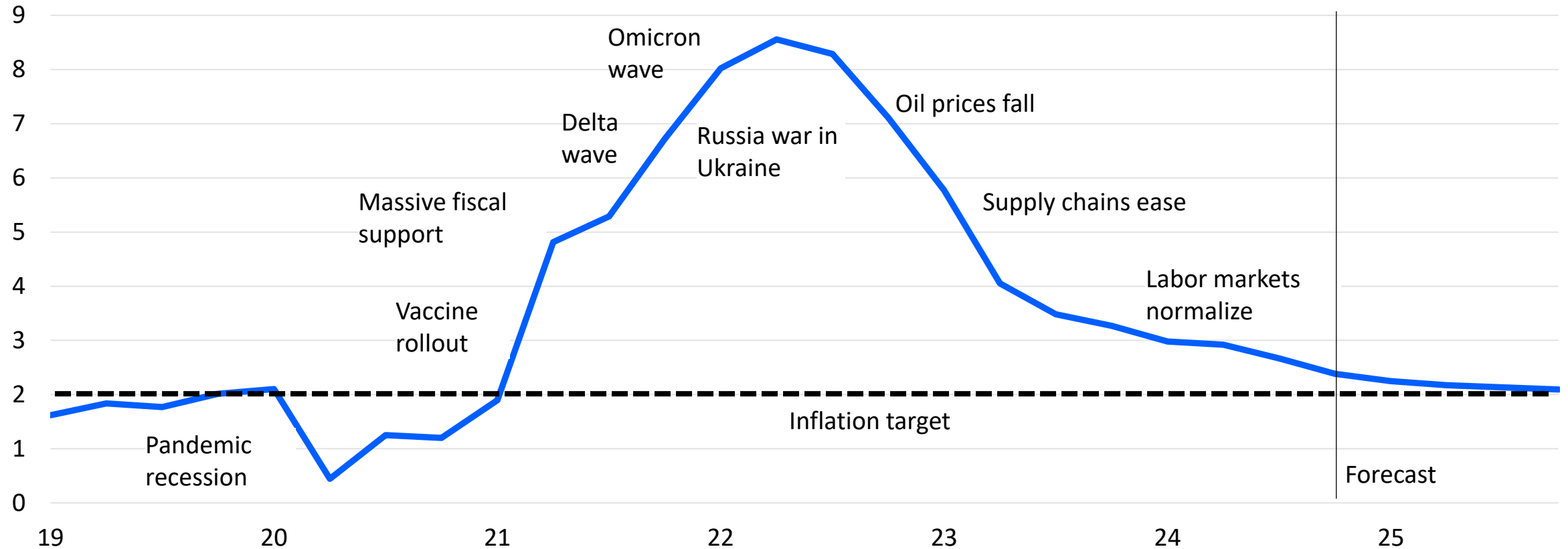
Global business cycle status, Nov 2024



Source: Moody's Analytics

# Inflation Heads Back to Central Banks' Target...

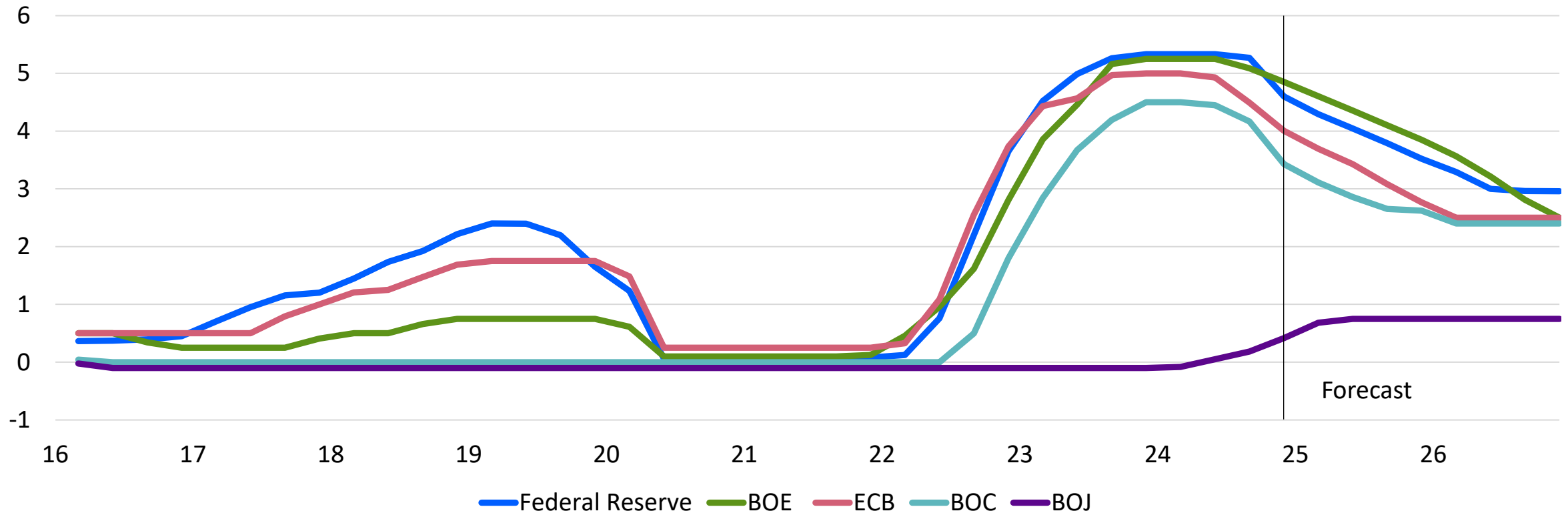
Global consumer price inflation, % change yr ago



Sources: Moody's Analytics

# ...Allowing Monetary Policy to Become Less Restrictive

Target interest rate, %

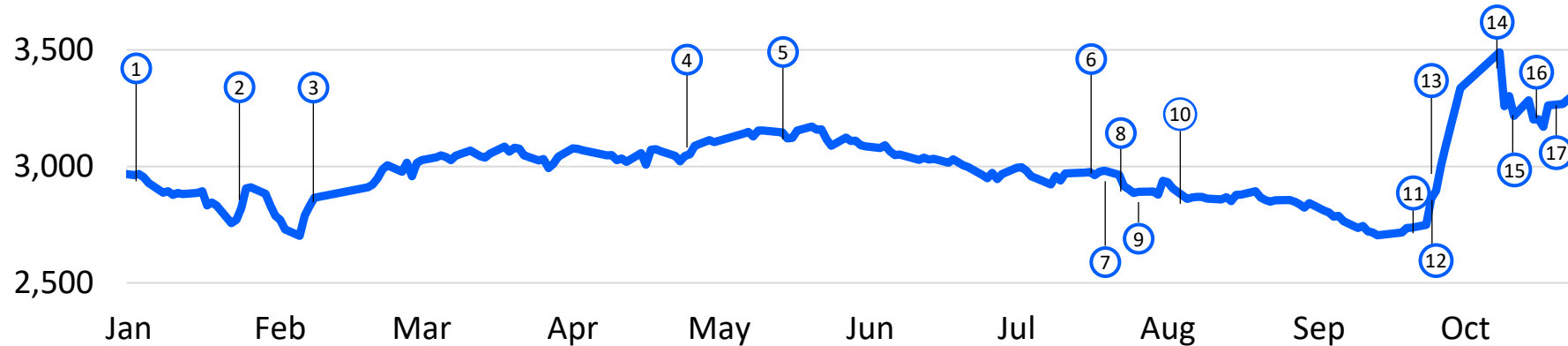


Sources: National central banks, Moody's Analytics



# China's Economy Is Receiving a Policy Lift

Shanghai composite index and key policy announcements, 2024



1	'White list' to fund unfinished housing projects.
2	50-bp cut to reserve requirement ratio.
3	25-bp cut to 5-yr loan prime rate.
4	CNY1 tril in special ultra-long-term bond announced.
5	CNY300 bil for SOEs to buy unsold housing stock. Down payment thresholds reduced for some home purchases.
6	Third plenum: Vague support for real estate, local government debt; growth target reaffirmed.
7	10-bp cut to 7-day reverse repo rate, 1-yr and 5-yr LPRs.
8	20-bp cut to 1-yr medium-term lending facility rate.
9	CNY300 bil of CNY1 tril ultra-long bonds to expand trade-in and equipment upgrades.
10	20-pt plan to boost consumption.

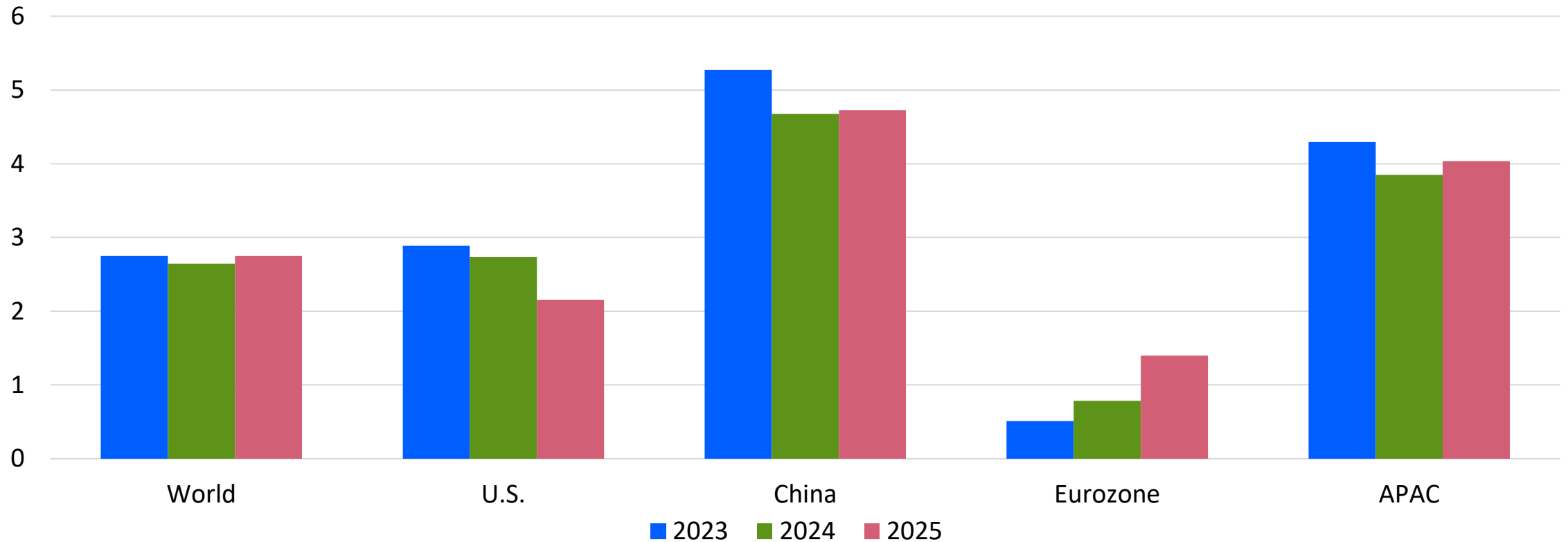
11	20-bp cut to 7-day reverse repo rate; 50-bp cut to RRR, existing mortgage rates; down payment threshold lowered on second-home purchases; liquidity supports for stock market.
12	Onetime cash payment to poorer households; State Council declares employment and job creation its top priorities, issues 24-pt guideline.
13	30-bp cut to 1-yr MLF.
14	National Development and Reform Commission brings forward CNY100 bil in investments from 2025.
15	One-off increase to debt ceiling for off-book local government debt and government bonds swap, use of special local government bonds to buy unsold housing, top-up capital for major banks, and increased student financial aid.
16	'White list' funding expanded to CNY4 tril; pledge to renovate 1 mil homes.
17	25-bp cut to 1- and 5-yr LPRs.

Sources: Government of China, Moody's Analytics

Moody's Analytics

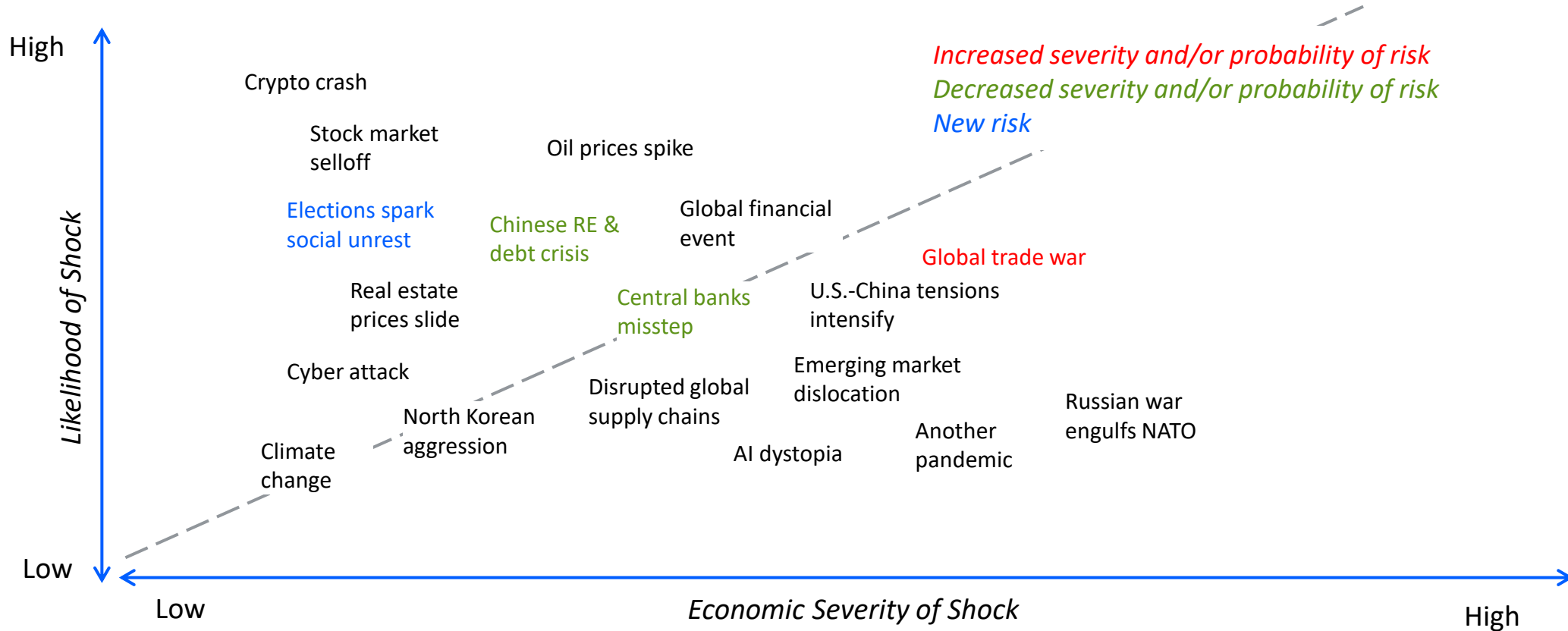
# Global Economy Seen Growing Close to Potential Rate

Real GDP growth, %



Sources: Moody's Analytics

# What Could Derail the Global Economy?



Source: Moody's Analytics



# 2

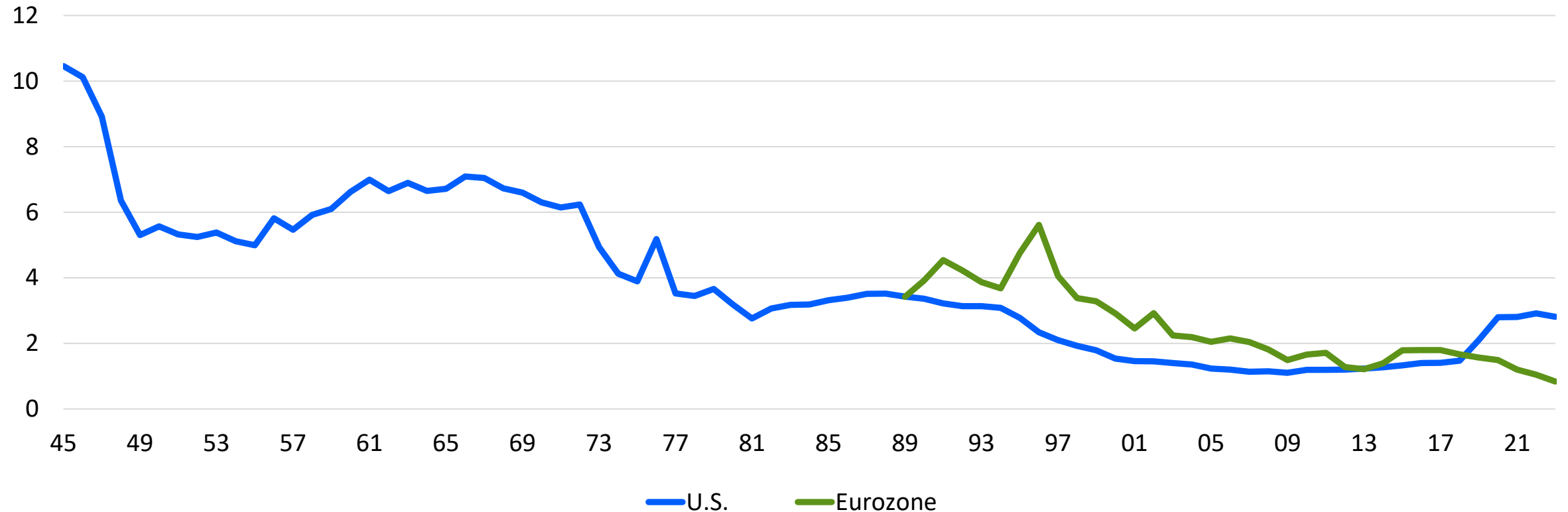
## President Trump's Policies

# Trump's Policy Priorities

- Higher tariffs across imports from most countries
- The 2017 Tax Cuts and Jobs Act preserved and lower corporate tax rates
- Deportation of unauthorized immigrants
- Rescind parts of the Inflation Reduction Act
- Influence Federal Reserve monetary policy decisions?

# Trump Tariffs Would Significantly Raise the U.S. Effective Tariff Rate

Effective tariff rate\*

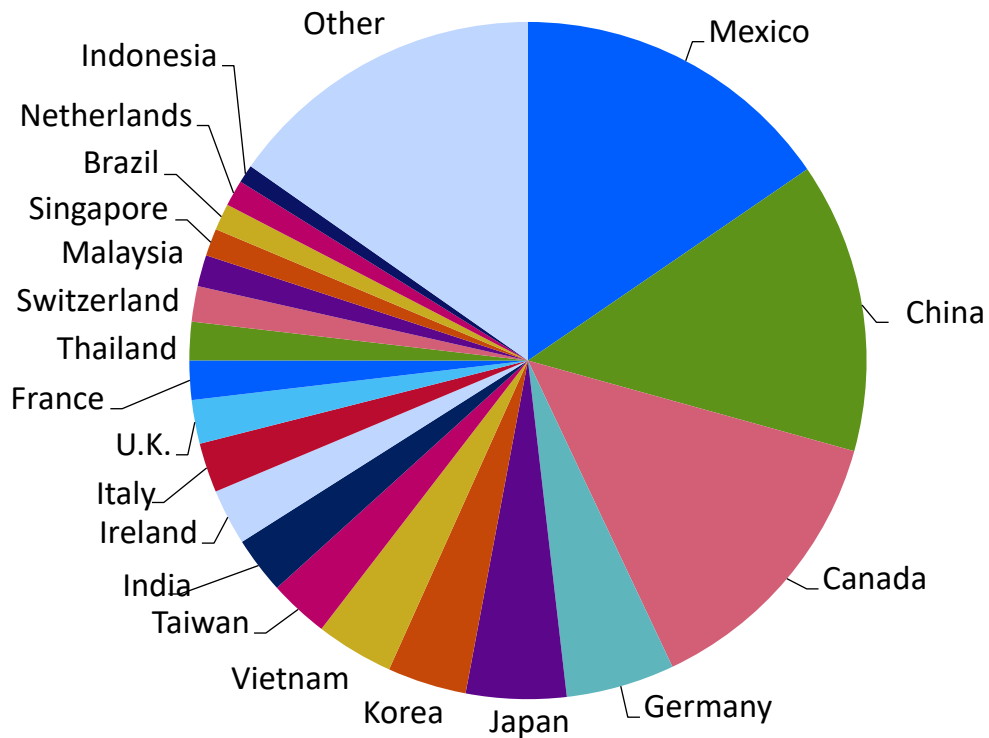


\*Import duty revenues as share of total goods imports

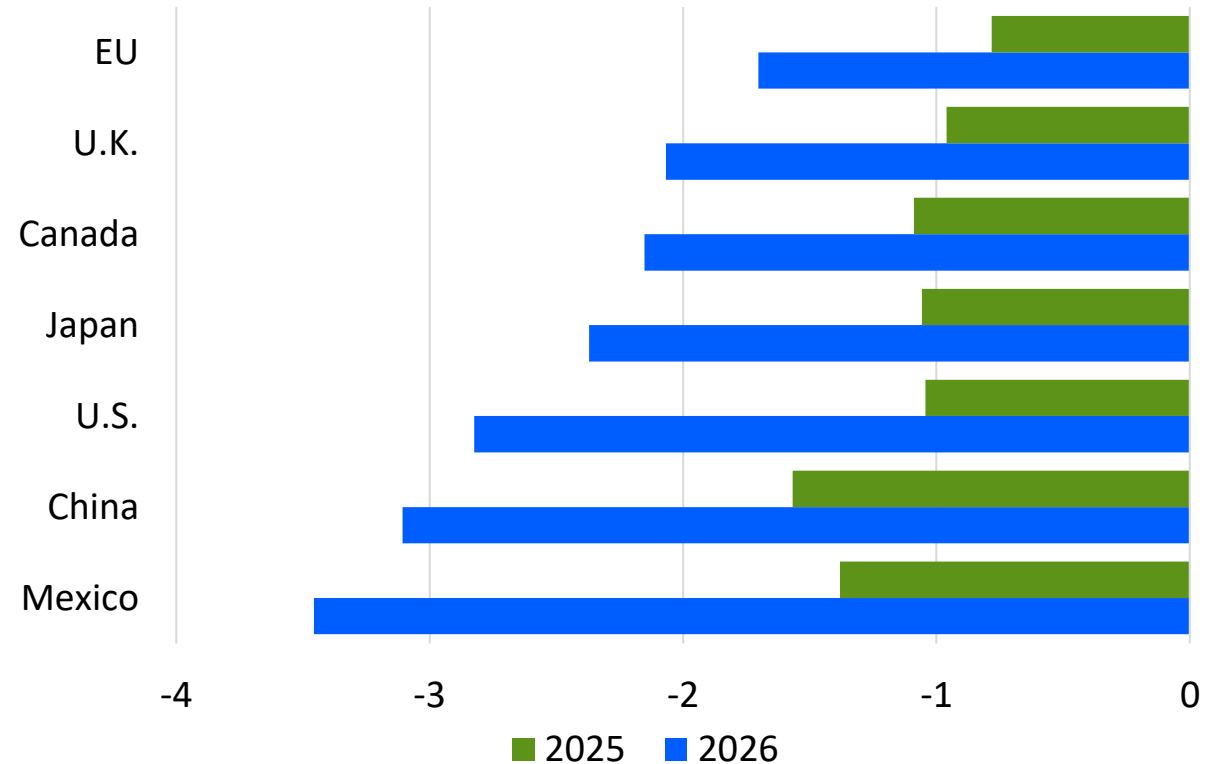
Sources: Department of Commerce, World Bank, Goldman Sachs Global Investment Research, Moody's Analytics

# ...And Hit U.S. Trading Partners Hard

Distribution of U.S. goods imports by country, 2023



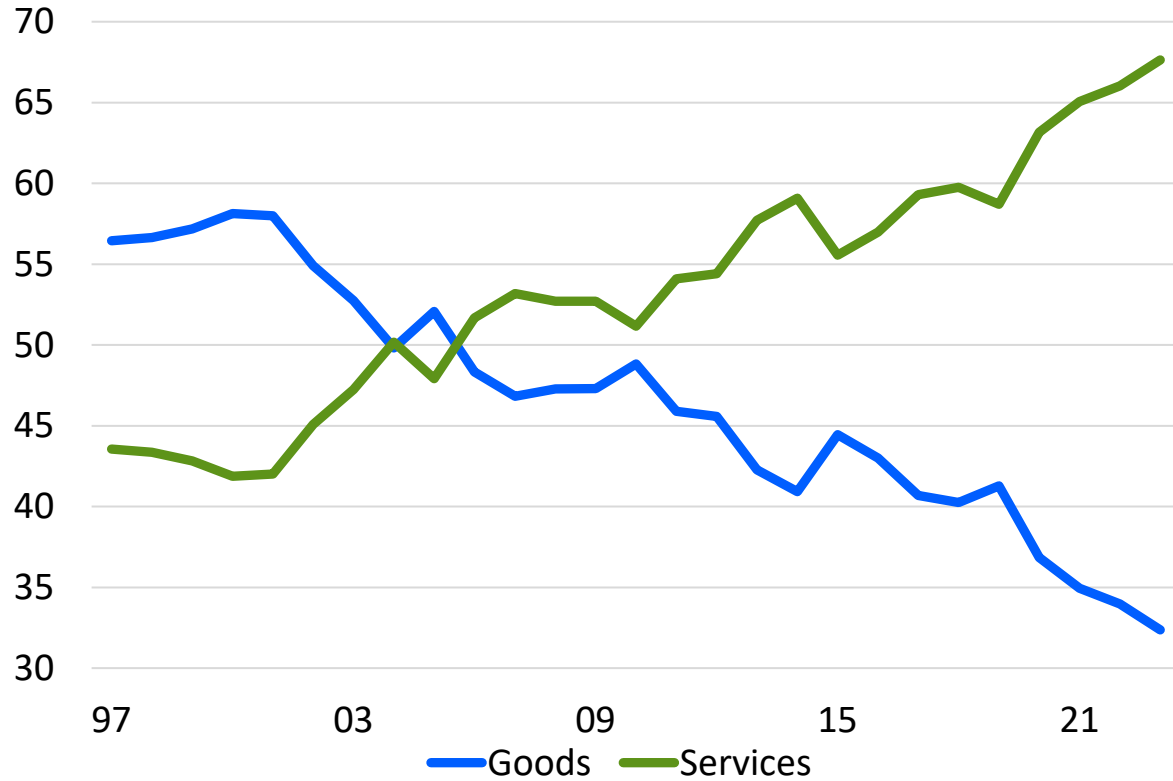
Real GDP by country, only including Trump tariff policy, deviation from baseline forecast, pts



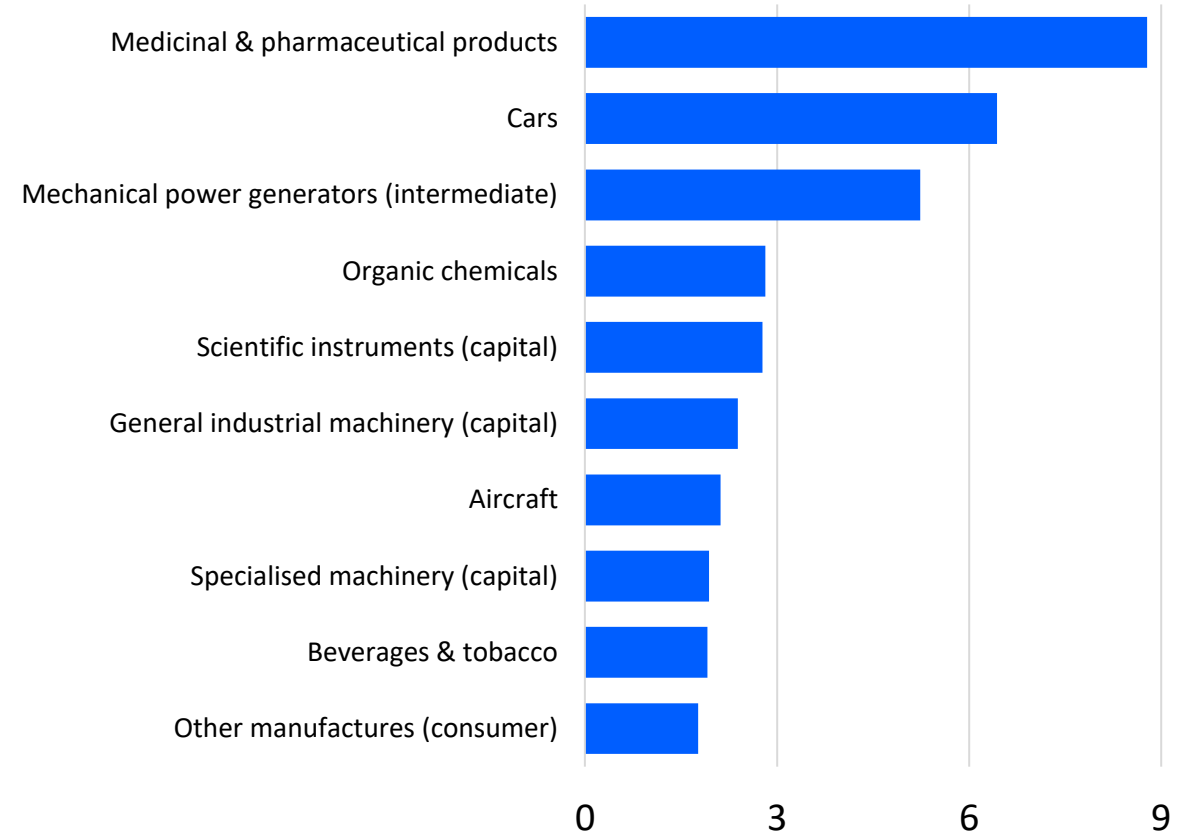
Sources: U.S. Census Bureau, Multiple national statistical agencies, Moody's Analytics

# U.K. Exports to the U.S. Are Mostly Services

U.K. exports to U.S., % of total

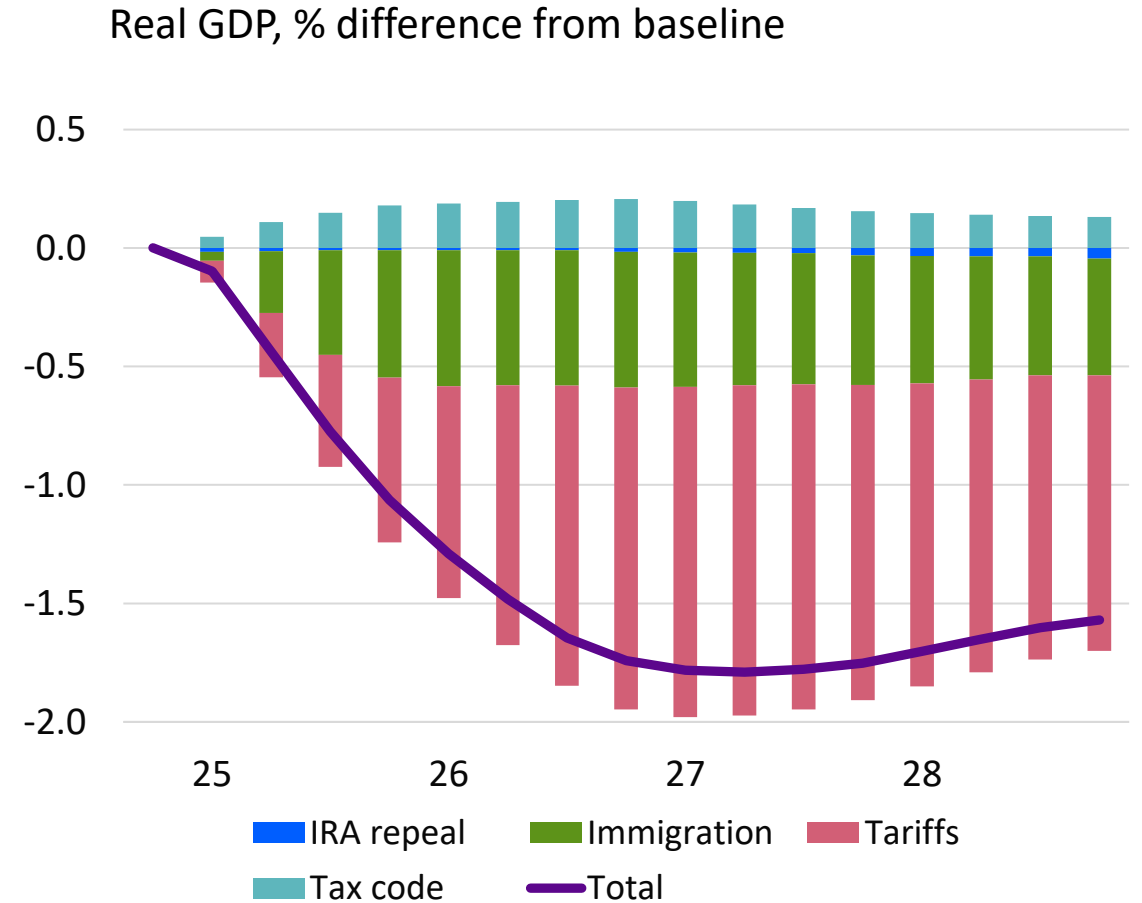
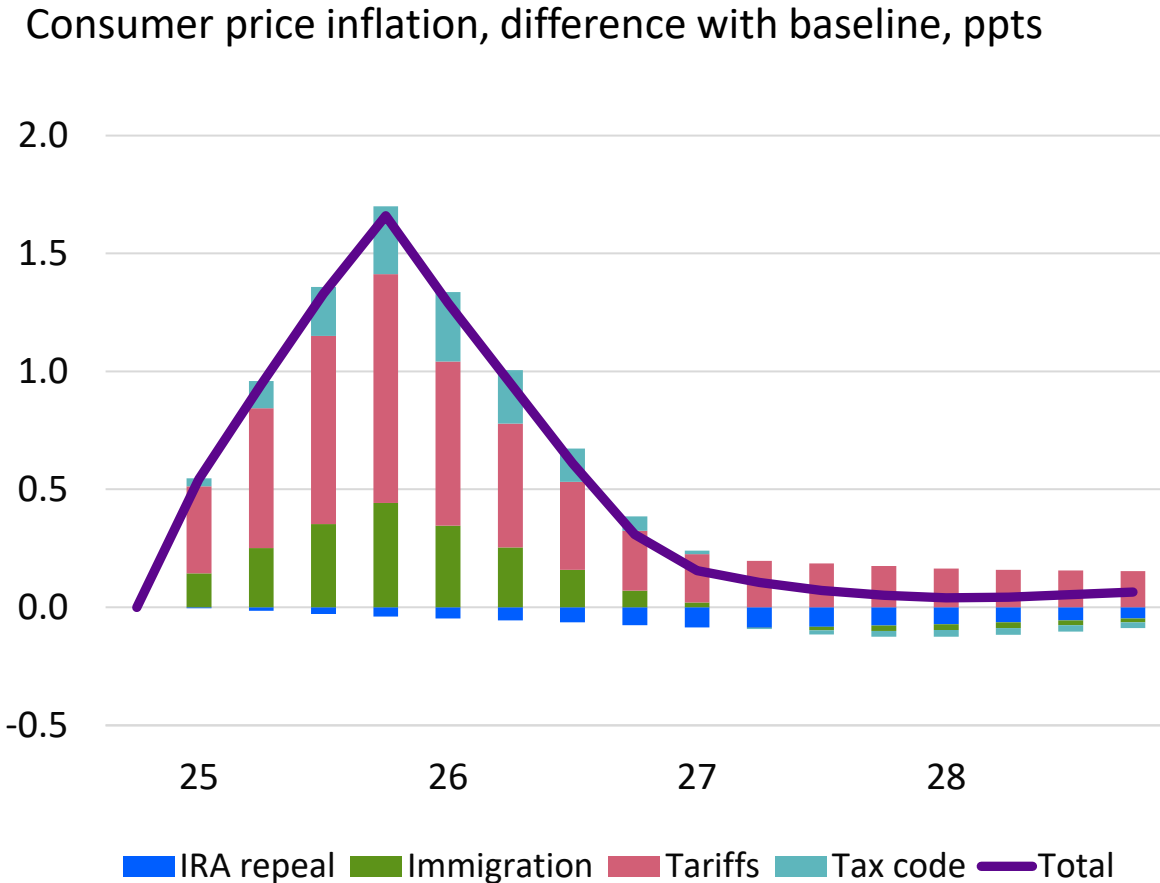


U.K. goods exports to U.S., 2023, £bn



Sources: ONS, Moody's Analytics

# U.S. Inflation Higher, GDP Growth Lower Under Trump Policies



Sources: BLS, Moody's Analytics



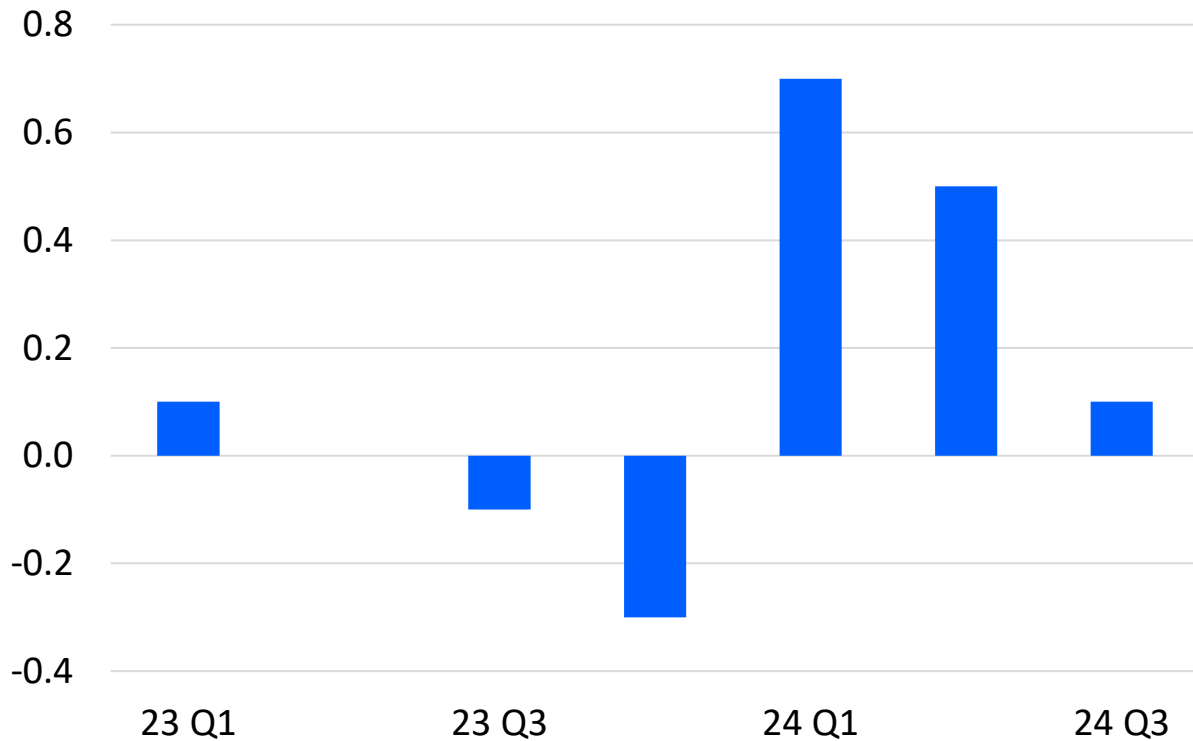
# 3

## U.K. Economic Outlook

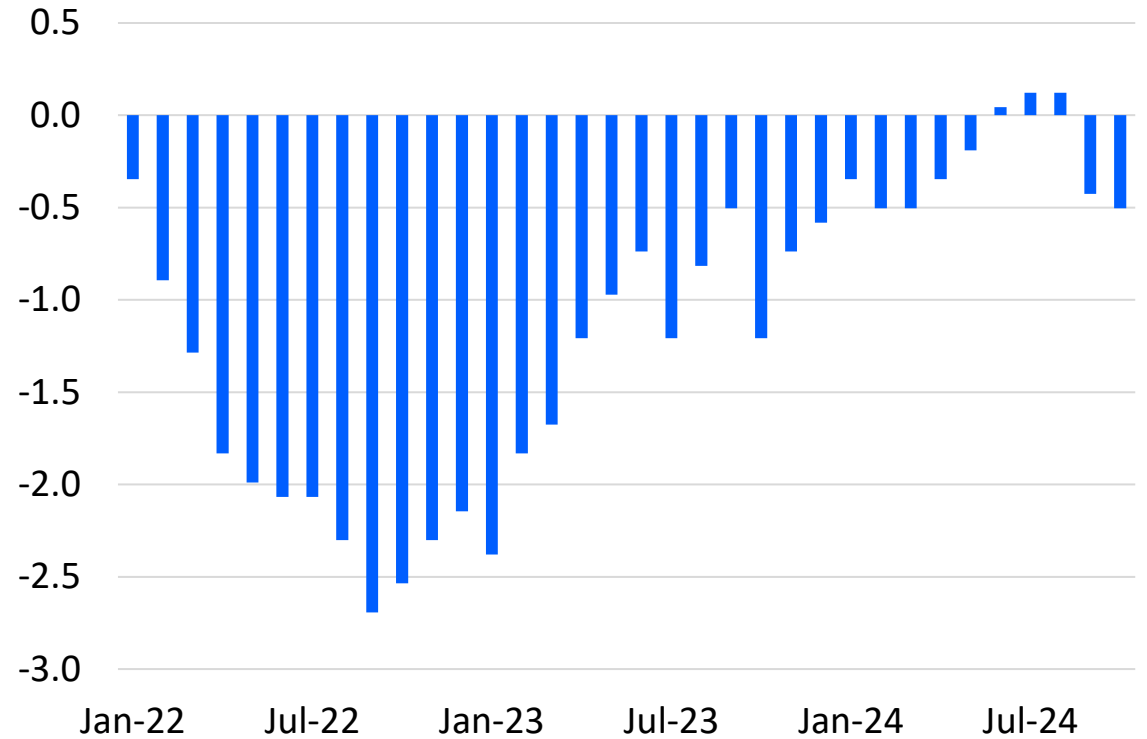


# Growth Slows After Strong H1; Budget Uncertainty Has Weighed on Confidence

GDP growth, quarter-on-quarter % chg



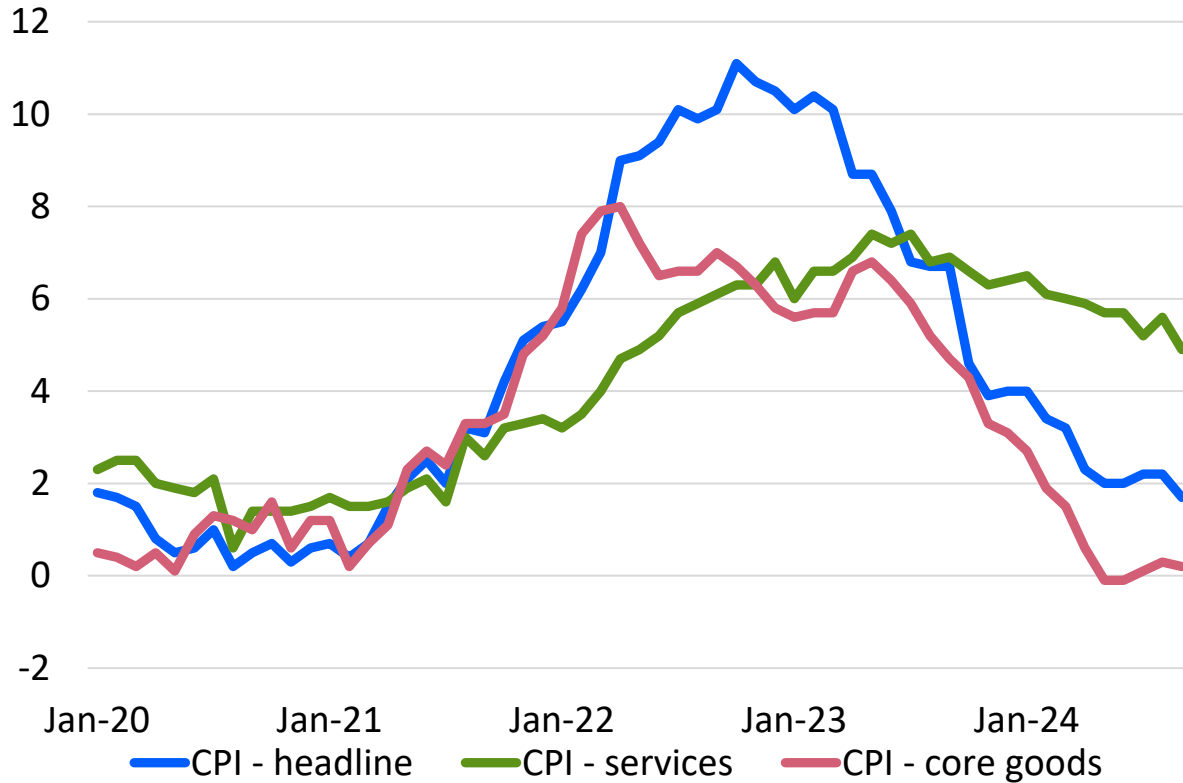
Consumer confidence index, zero=long run avg



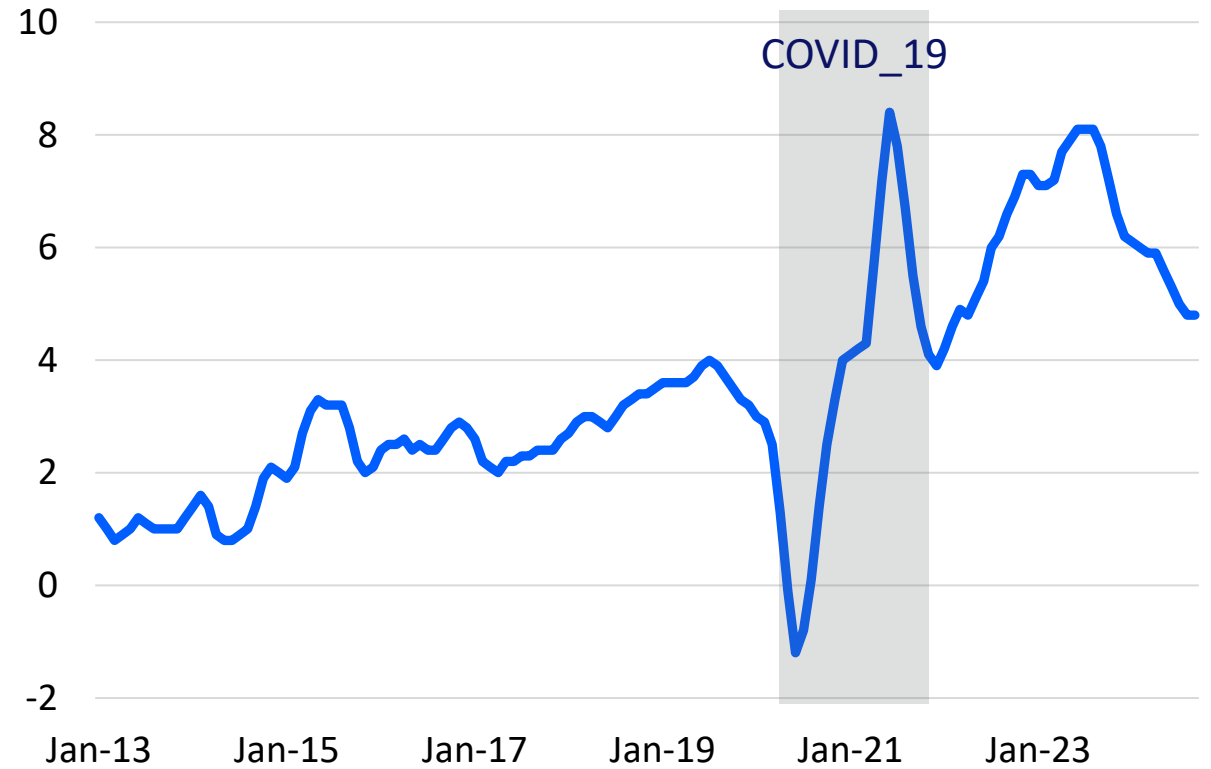
Sources: ONS, GfK, Moody's Analytics

# Headline Inflation Has Eased But Too Soon to Declare Victory

Consumer price index, % chg year-ago



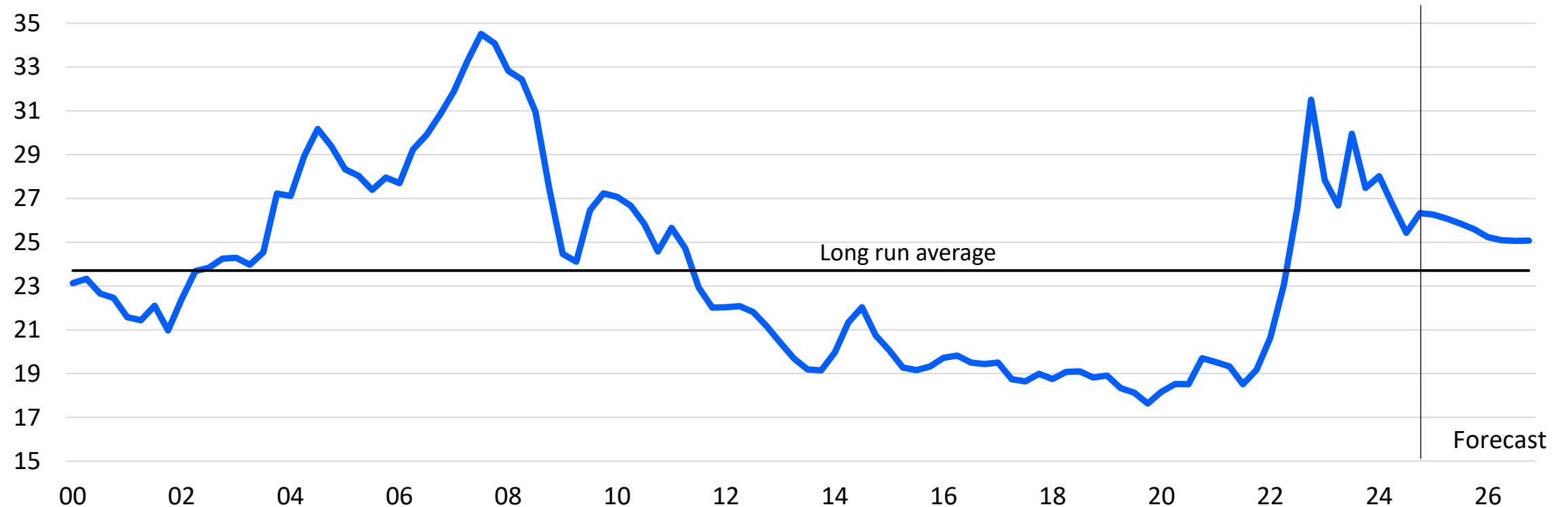
Private sector regular wage growth, 3mo avg, % chg year-ago



Sources: ONS, Moody's Analytics

# Mortgage Affordability Has Improved, Lifting Housing Market Conditions

Average new buyer mortgage payment, % of disposable income



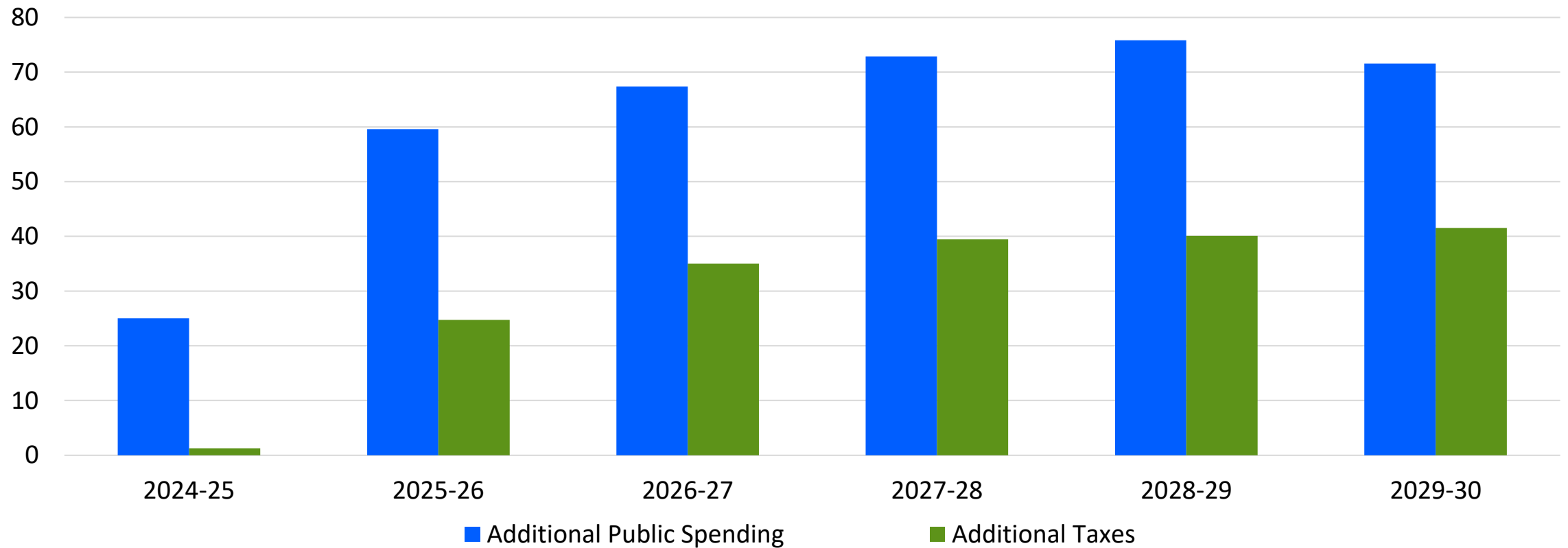
Note: mortgage payment assumes avg house price, avg income, 75% LTV 5-yr fixed rate mortgage, repayment term of 30 yrs.

Forecast assumes baseline for house prices, income growth, and mortgage rate.

Sources: Land Registry, BoE, ONS, Moody's Analytics

# U.K. Budget Brings Sizeable Fiscal Loosening

£ billion, increase vs. OBR March forecasts



Sources: Office for Budget Responsibility, Moody's Analytics

# Market Interest Rates Already Higher Than the OBR Assumed

5 year gilt yield, %

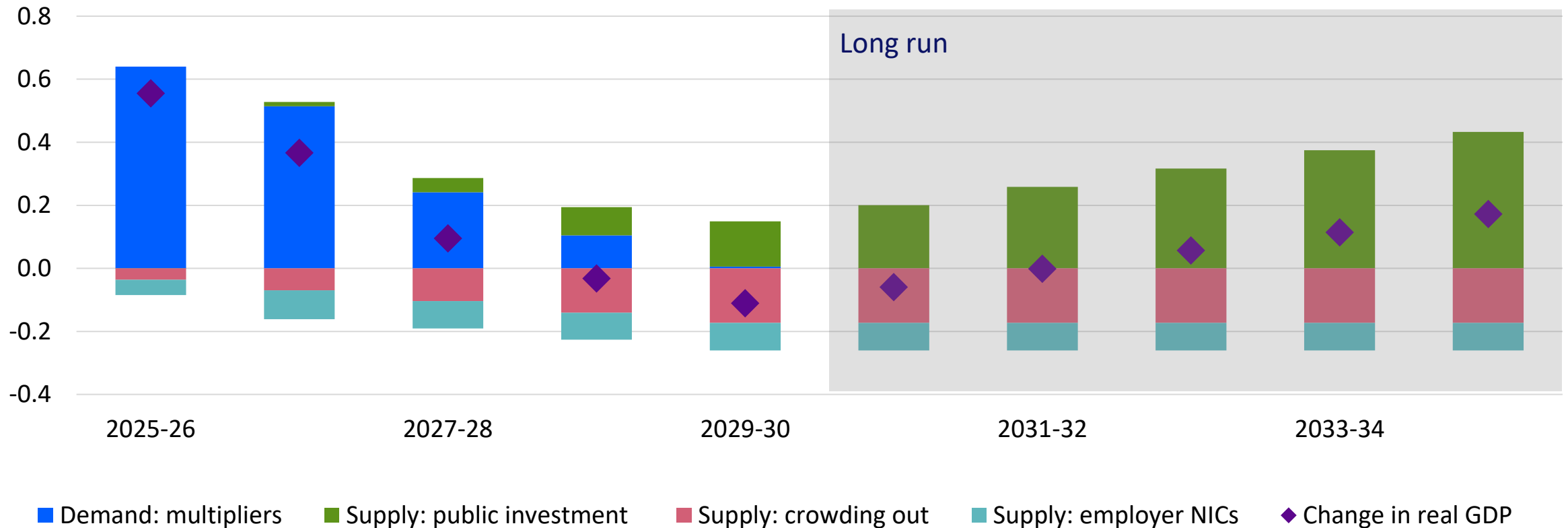


Sources: BoE, OBR, Moody's Analytics

# Budget Policies Boost Demand in the Near Term and Supply in the Longer Run

## Run

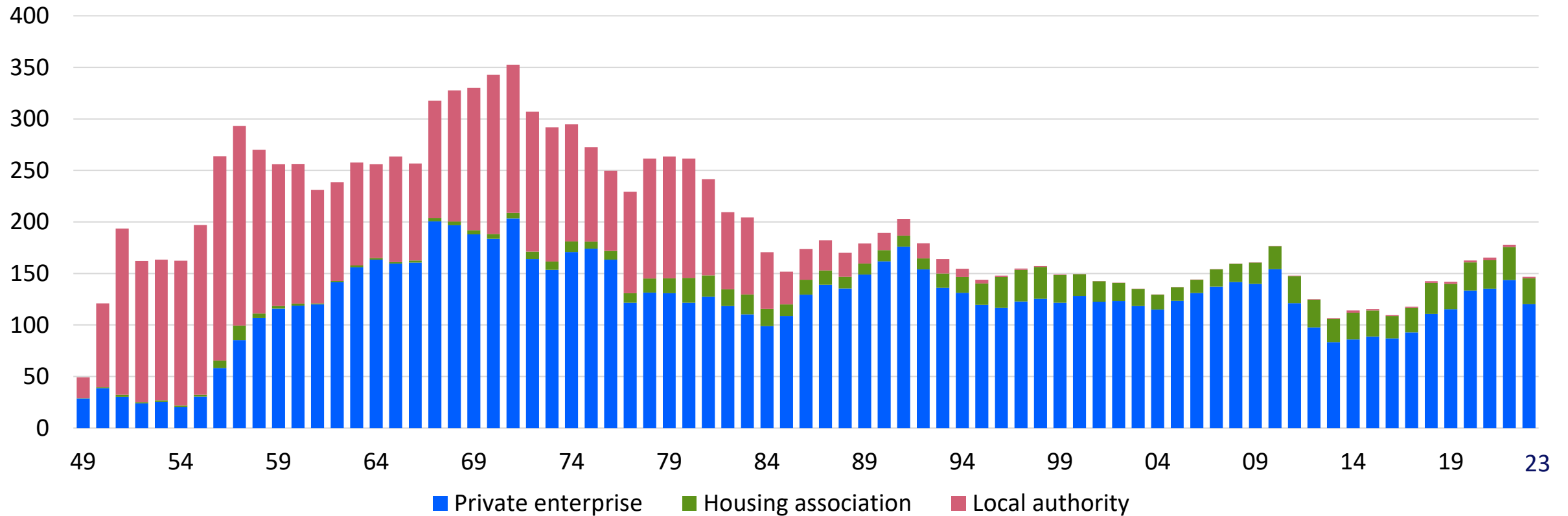
Budget policy impact on real GDP, %



Sources: Office for Budget Responsibility, Moody's Analytics

# Achieving the 370k Housing Target Looks a Challenge Without the State

Permanent dwellings completed by sector in England, thousands

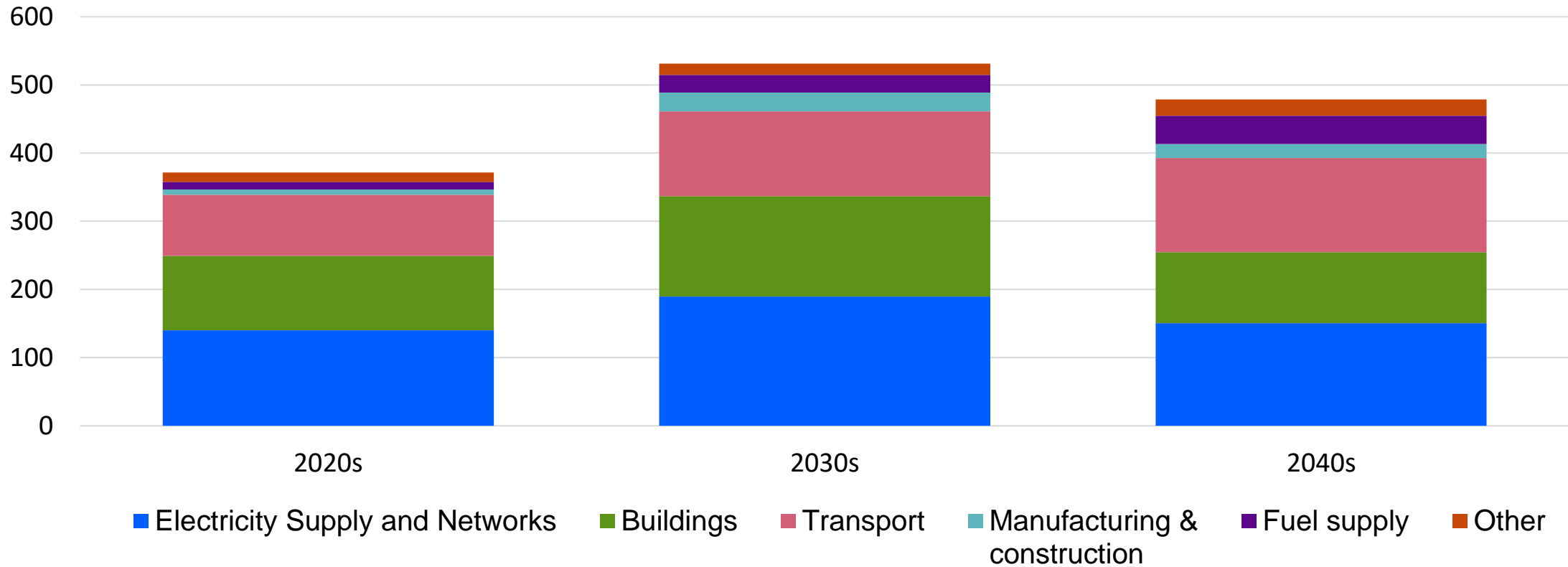


Sources: Ministry of Housing, Communities and Local Government, Moody's Analytics



# Net Zero Financing Needs

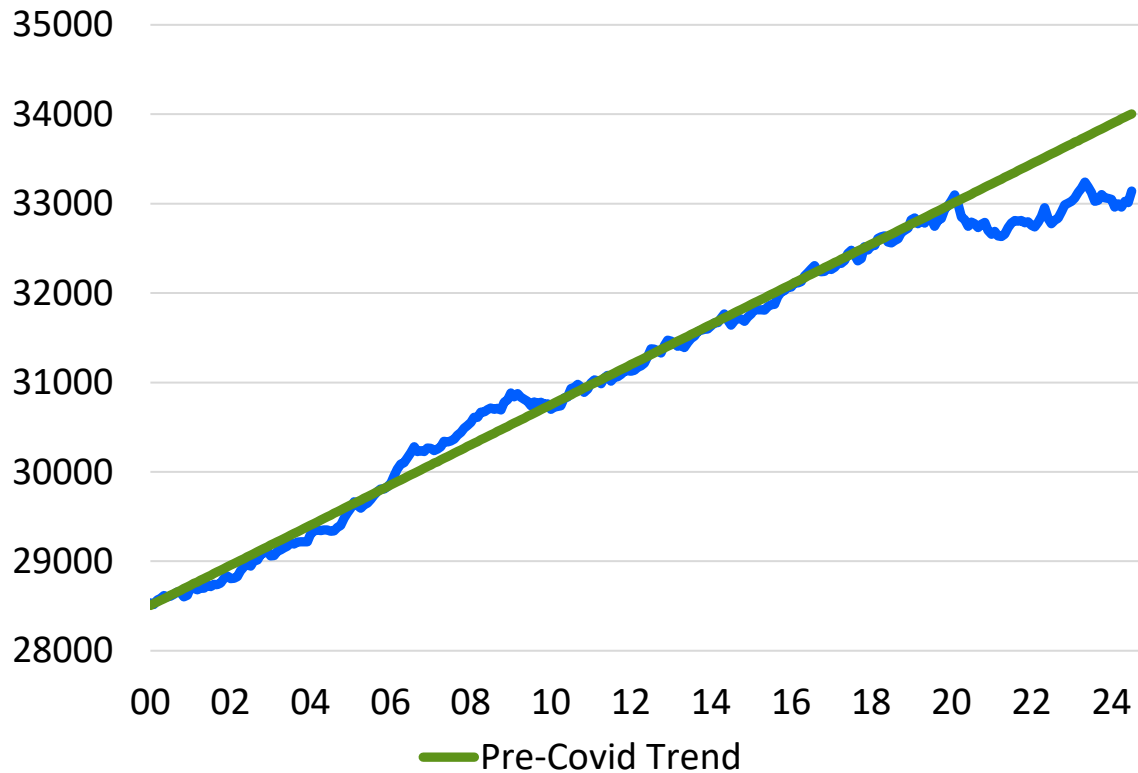
Real Investment, Balanced Pathway Scenario, GBP bil



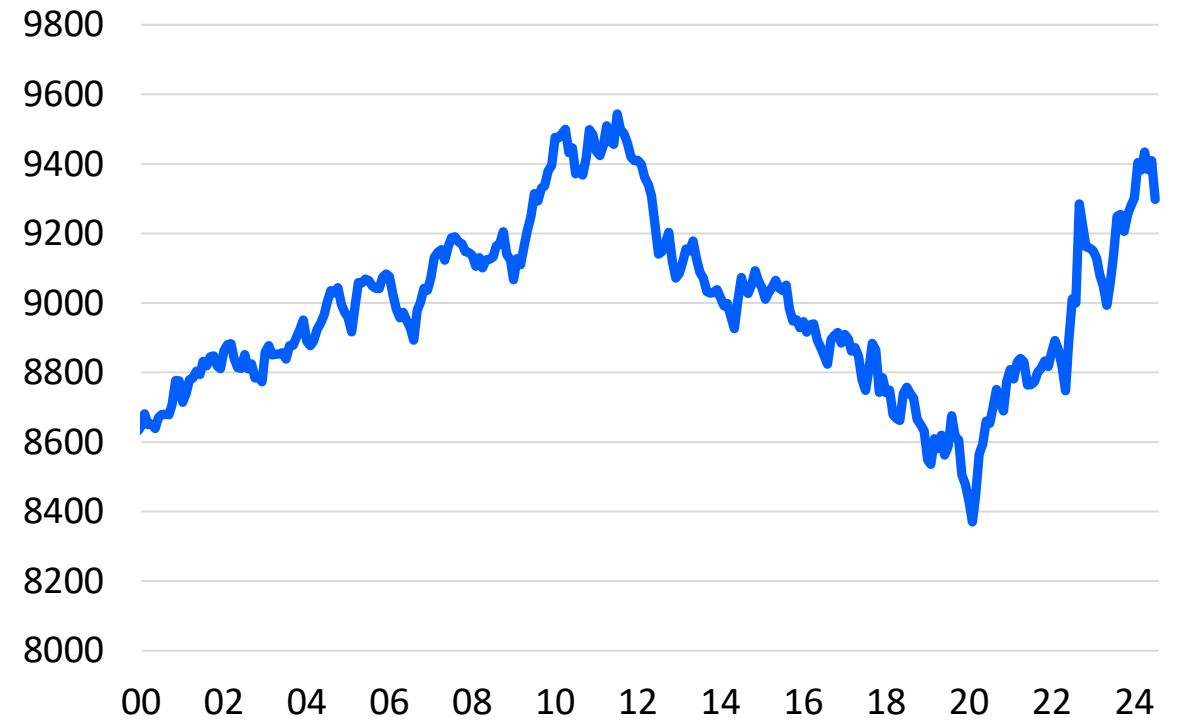
Sources: Sixth Carbon Budget, Moody's Analytics

# Labour Market Inactivity Sharply Higher Since the Pandemic

Labour force, 16-64, 000s



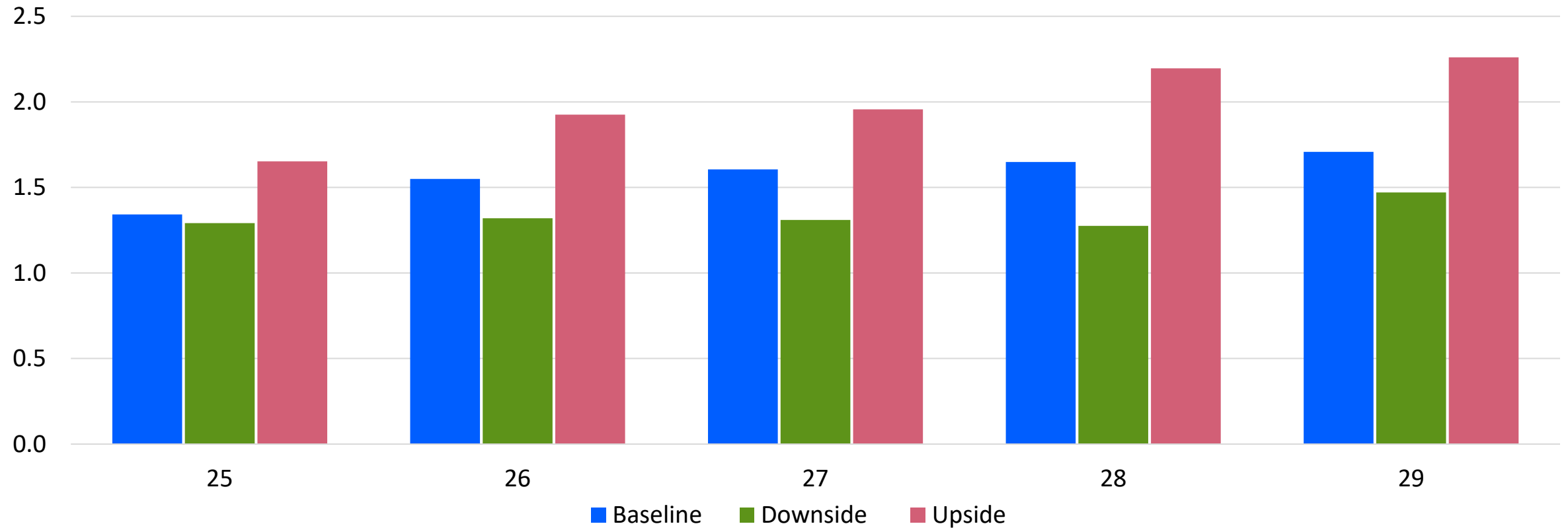
Economically inactive, 16-64, 000s



Sources: ONS, Moody's Analytics

# The U.K. is More Likely to Underperform than Overperform Our Baseline

Real GDP growth, % change



Sources: Moody's Analytics

# Questions

# Comments

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