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INTERNATIONAL ECONOMICS

Expansion continues as inflation falls, but US election uncertainty looms

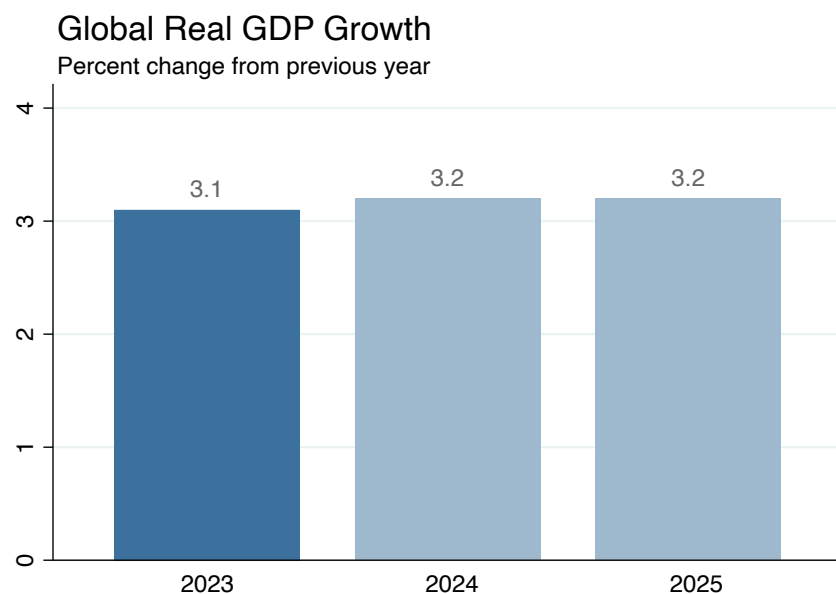
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Global growth is likely to be fairly steady through 2025



Annual-average-over-annual-average growth rates. PPP weights.
Source: Consensus Forecasts for 2023; author's forecast for 2024-2025.

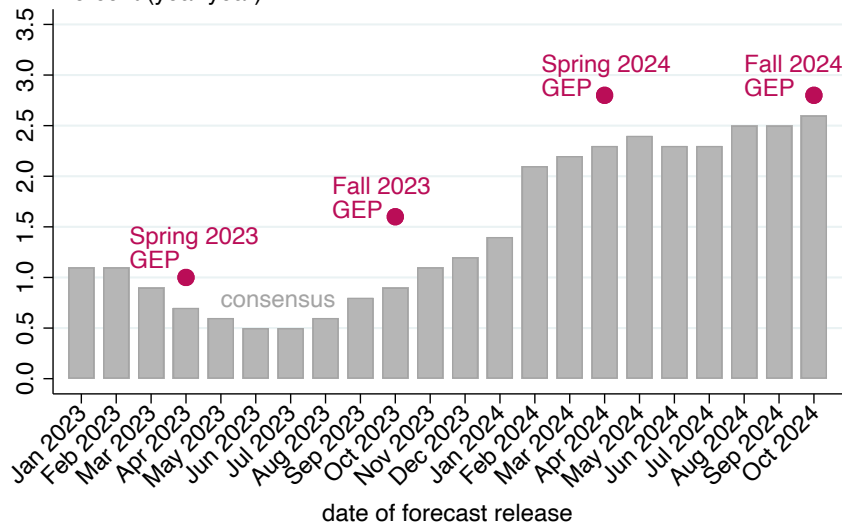
The baseline GEP forecast calls for global growth of 3.2 percent in 2024 and in 2025

This forecast assumes that current US policy prevails with only modest changes—but bigger changes may well occur, as will be discussed shortly

Incoming data have been consistent with the April GEP, so 2024 US outlook is little changed

Evolution of 2024 US GDP Growth Forecasts

Percent (year/year)



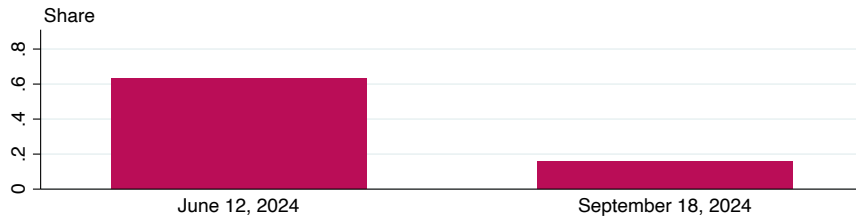
Sources: Consensus Forecasts, author.

Forecasts for 2024

	Current GEP	Apr 2024 GEP
GDP growth (Y/Y)	2.8%	2.8%
Core PCE inflation (Q4/Q4)	2.6%	2.5%
Unemployment rate (Q4)	4.2%	4.1%

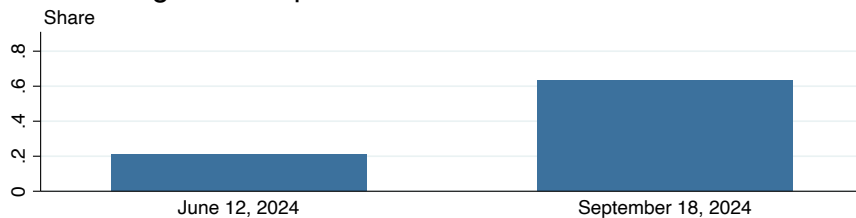
But the Fed is more concerned about unemployment, so more rate cuts seem likely

FOMC Members Reporting Risks to **Inflation**
Are Weighted to Upside



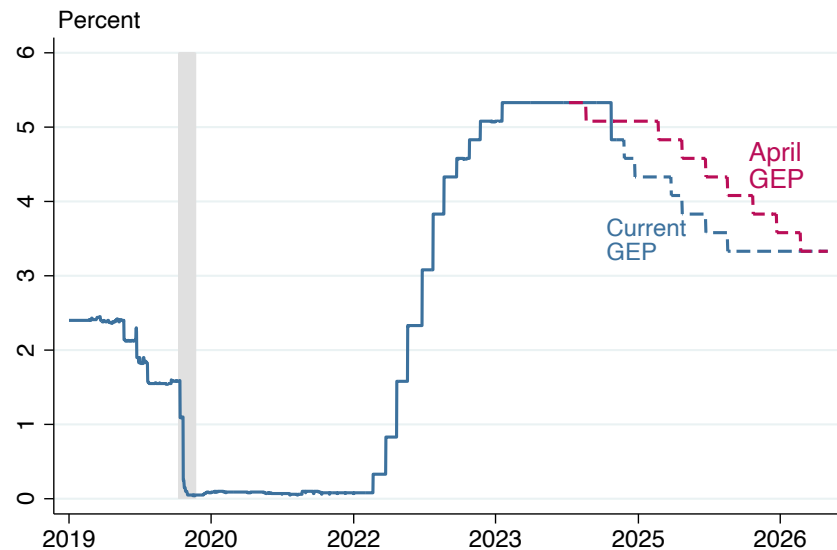
Data source: Federal Reserve Summary of Economic Projections.

FOMC Members Reporting Risks to **Unemployment**
Are Weighted to Upside



Data source: Federal Reserve Summary of Economic Projections.

Federal Funds Rate



Data source: Federal Reserve (via FRED) and author's forecasts.

US election outcome could significantly affect economic policy (1)

Policy area	Harris	Trump
Immigration	2024 enforcement remains in place	Deportations and more stringent enforcement
Tariffs	Little change	Higher tariffs
Regulation	Some more regulation	Some regulation rollback (e.g., on environment) and less enforcement (e.g., on finance)
Fed independence	Maintains hands-off approach	Leans on Fed to hold rates down

US election outcome could significantly affect economic policy (2)

Policy area	Harris	Trump
Federal budget divided government	Limited changes from current policy (which implies extension of most expiring 2017 tax cuts)	
Federal budget same party controls Congress	Higher spending, higher taxes, and larger deficits	Lower taxes, similar spending, and much larger deficits

So, US economic outcomes will vary with election results

If Harris wins ...

- ... and Rs control part of Congress, modest changes (prob. a little under $\frac{1}{2}$)

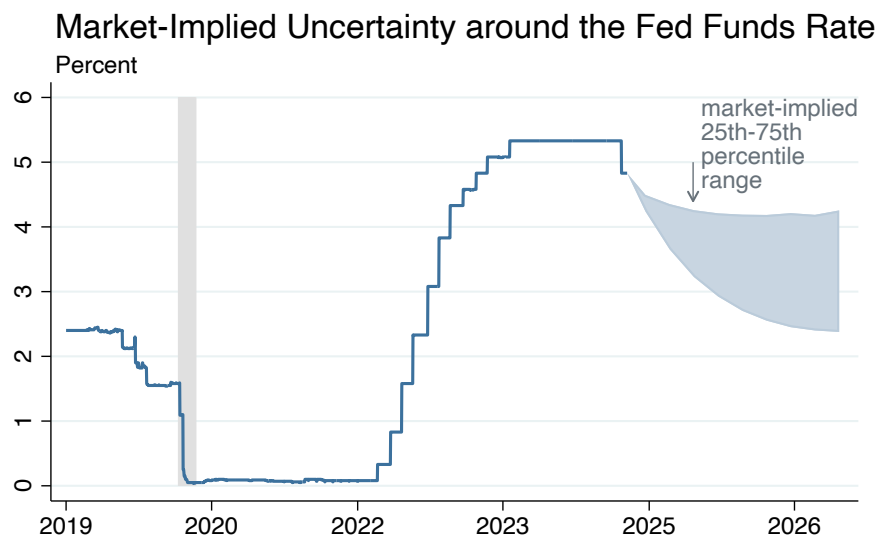
- ... and Ds control all of Congress, somewhat more expansionary fiscal policy pushes up inflation, growth, and interest rates in the short term (prob. low)

If Trump wins ...

- ... and Ds control part of Congress, tighter immigration & higher tariffs push up inflation & interest rates and push down growth in the short term (prob. about $\frac{1}{4}$)

- ... and Rs control all of Congress, tighter immigration, higher tariffs, and much more expansionary fiscal policy push up inflation & interest rates significantly in the short term (see [McKibbin, Hogan, and Noland](#); prob. about $\frac{1}{4}$)

Markets may not have absorbed the risk of higher inflation

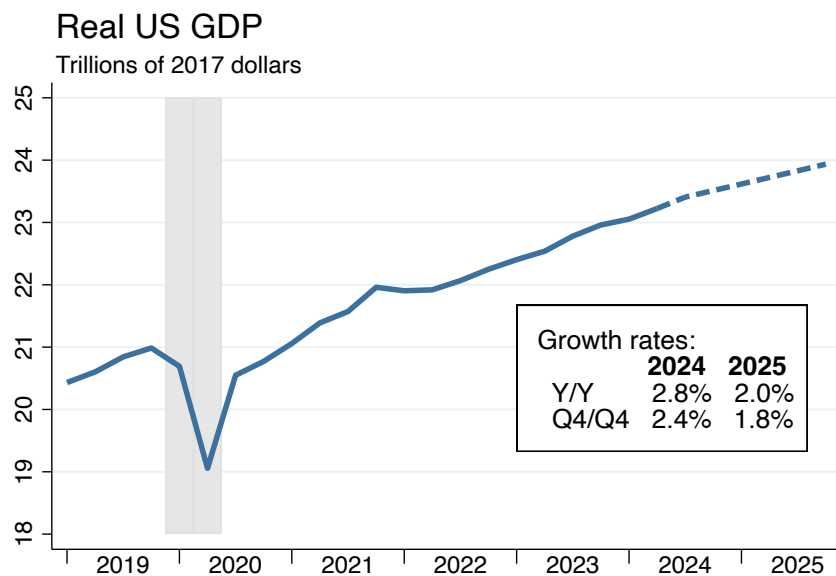


Data source: Author's projection and Federal Reserve Bank of Atlanta. Gray shaded bar indicates recession. 25th-75th percentiles based on probability distributions implied by the prices of options that reference the Secured Overnight Financing Rate (SOFR) as of October 10, 2024.

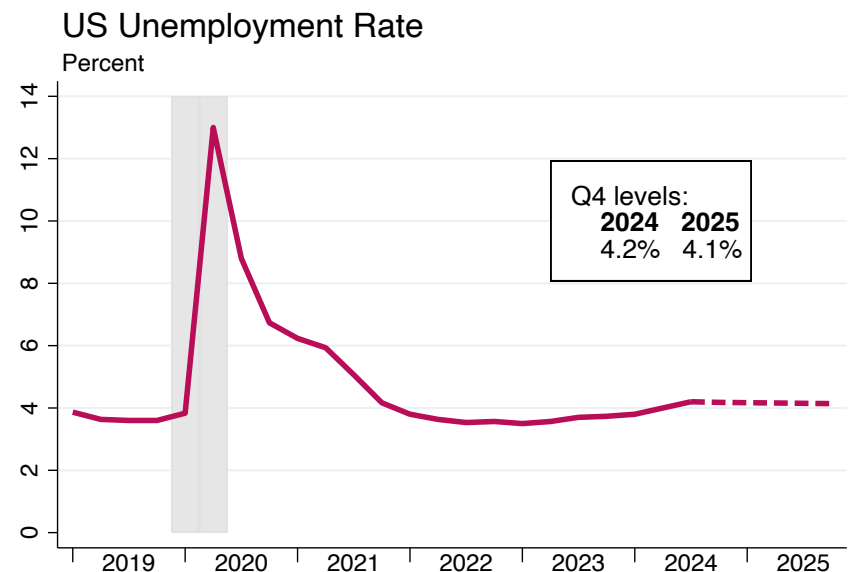
For the fed funds rate at the end of 2025, [the Atlanta Fed's estimate](#) of the interquartile range based on market pricing runs from 2.7 to 4.2 percent

But with inflation still running above the Fed's target now, policy changes that put significant upward pressure on inflation could require a funds rate above this range

Assuming current policy mostly continues, US economic activity should moderate in 2025



Source: Bureau of Economic Analysis, author's forecast.
Shaded area corresponds to recession.

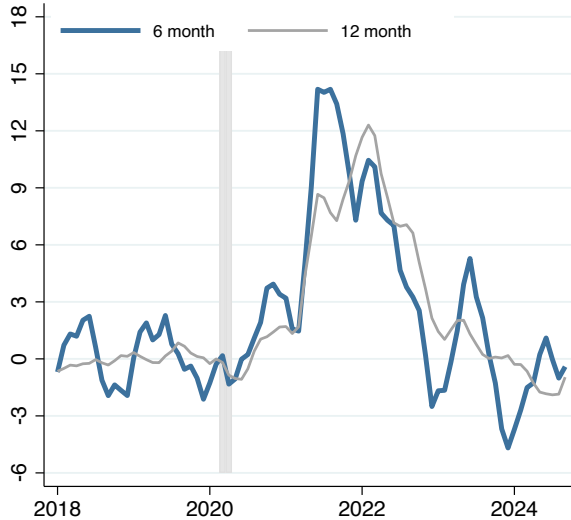


Source: Bureau of Labor Statistics, author's forecast.
Shaded area corresponds to recession.

US inflation has continued to decline

CPI Core Goods Inflation

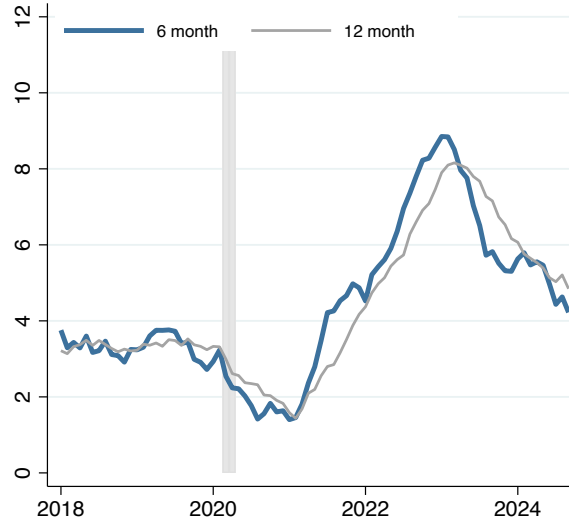
Percent (annualized)



Data source: Bureau of Labor Statistics (via FRED).
Last data point: September 2024. Shaded area corresponds to recession.

CPI Shelter Inflation

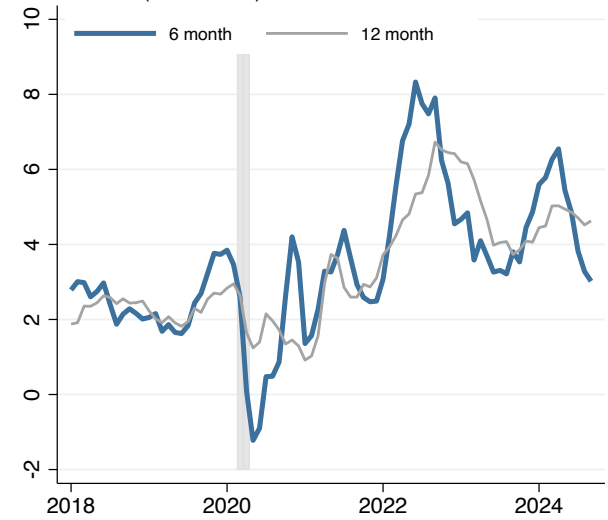
Percent (annualized)



Data source: Bureau of Labor Statistics (via FRED).
Shaded area corresponds to recession. Last data point: September 2024.

CPI Core Services Ex. Housing Inflation

Percent (annualized)

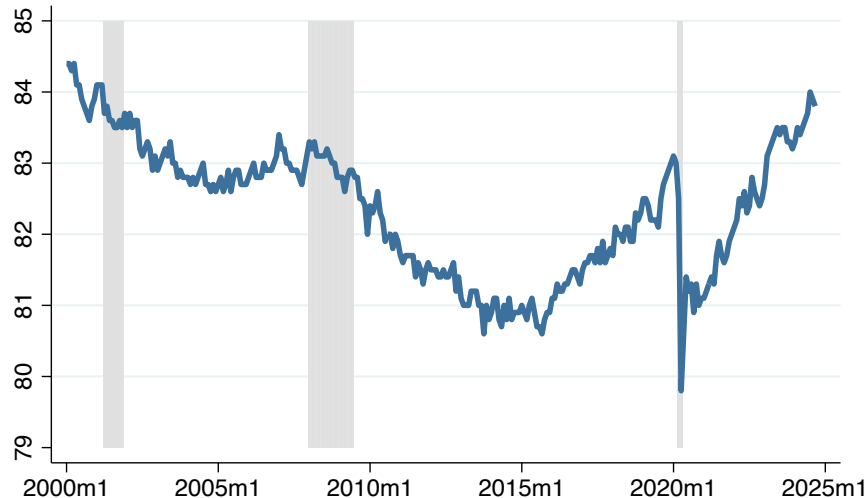


Data source: Bureau of Labor Statistics (via FRED), author's calculations.
Shaded area corresponds to recession. Last data point: September 2024.

Positive supply-side developments have helped to better align supply with demand

Labor Force Participation Rate, Ages 25-54

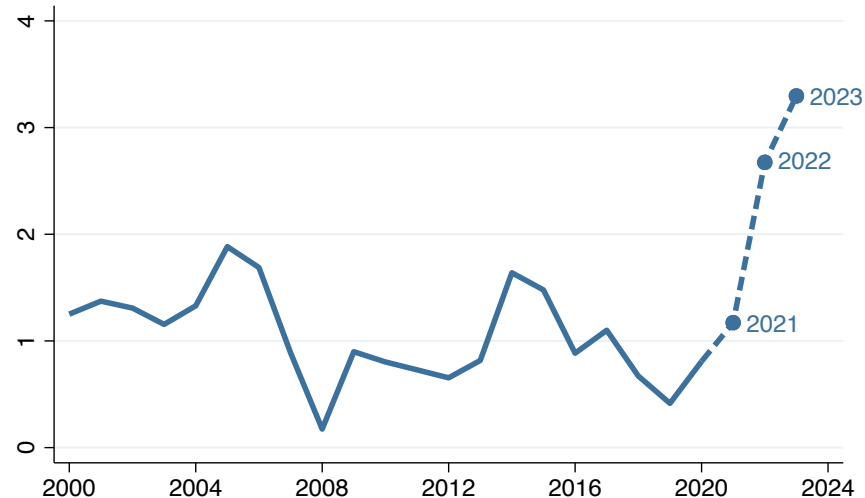
Percent



Data source: Bureau of Labor Statistics (via FRED). Last data point: September 2024.
Shaded areas correspond to recessions.

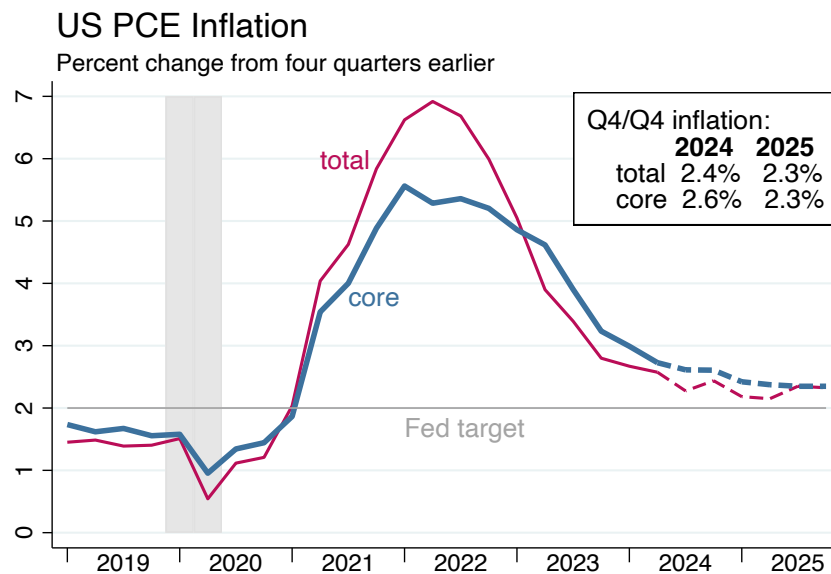
Net Annual Immigration to the United States

Millions



Data source: Congressional Budget Office 2024 Demographic Outlook.
Points on dashed lines are estimates.

Assuming current policy mostly continues, US inflation should continue to decline

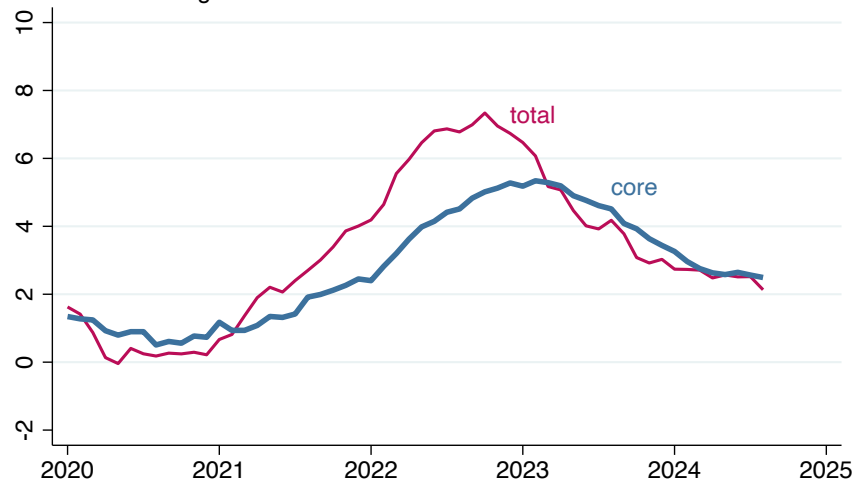


Disinflation will continue, but US inflation is not likely to get back to target by the end of 2025, as further progress in the services category will be slowed by the housing shortage and wage growth above pre-pandemic norms

Most other countries are also experiencing disinflation

Other Advanced Economy CPI Inflation

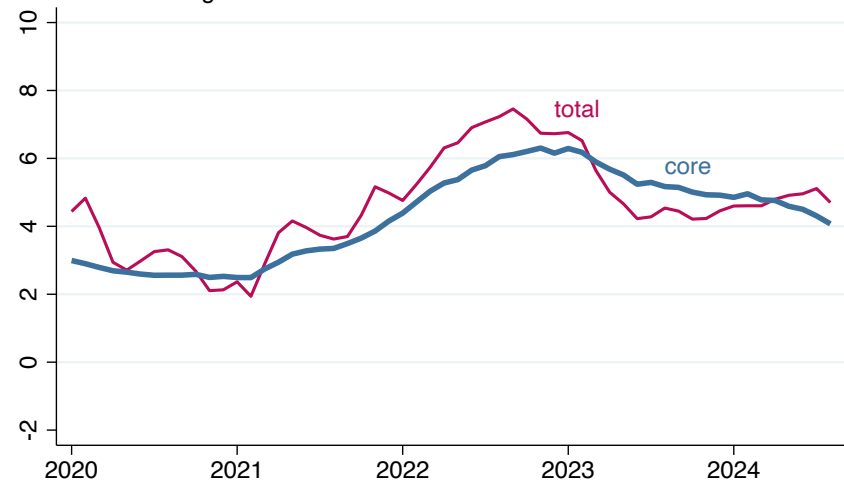
Percent change from 12 months earlier



Data source: Dallas Fed. Last data point: August 2024.
Index based on a sample of 17 countries with broad coverage.
More details at <https://www.dallasfed.org/research/international/dgei>.

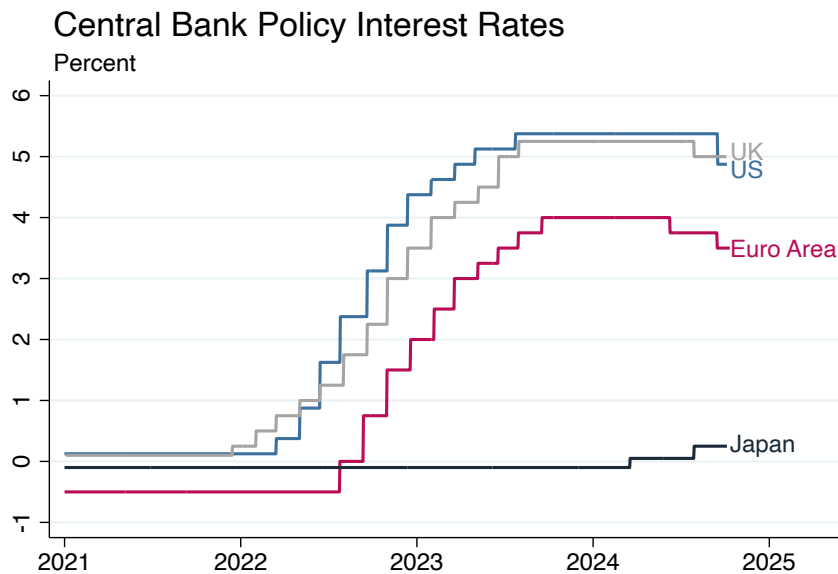
Emerging Market Economy CPI Inflation

Percent change from 12 months earlier

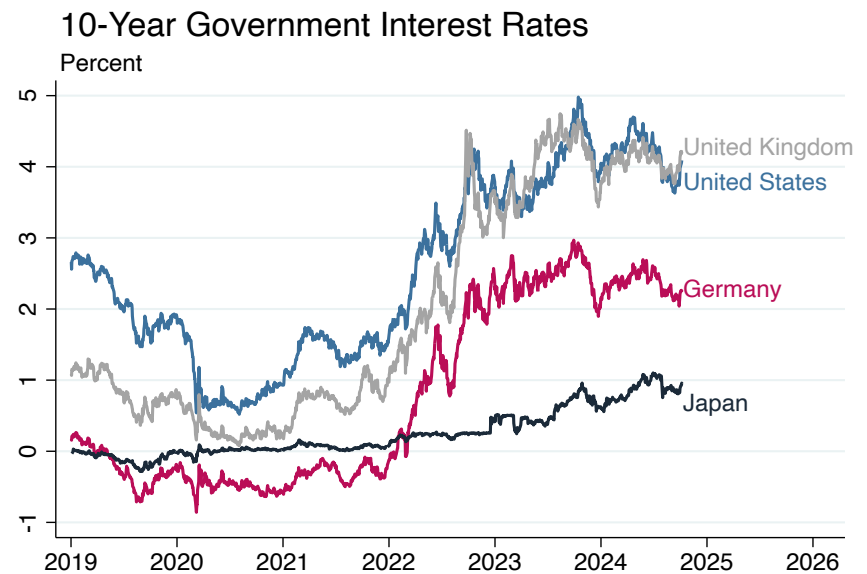


Data source: Dallas Fed. Last data point: August 2024.
Index based on a sample of 22 countries with broad coverage.
More details at <https://www.dallasfed.org/research/international/dgei>.

As in the US, many key central banks are beginning to cut rates

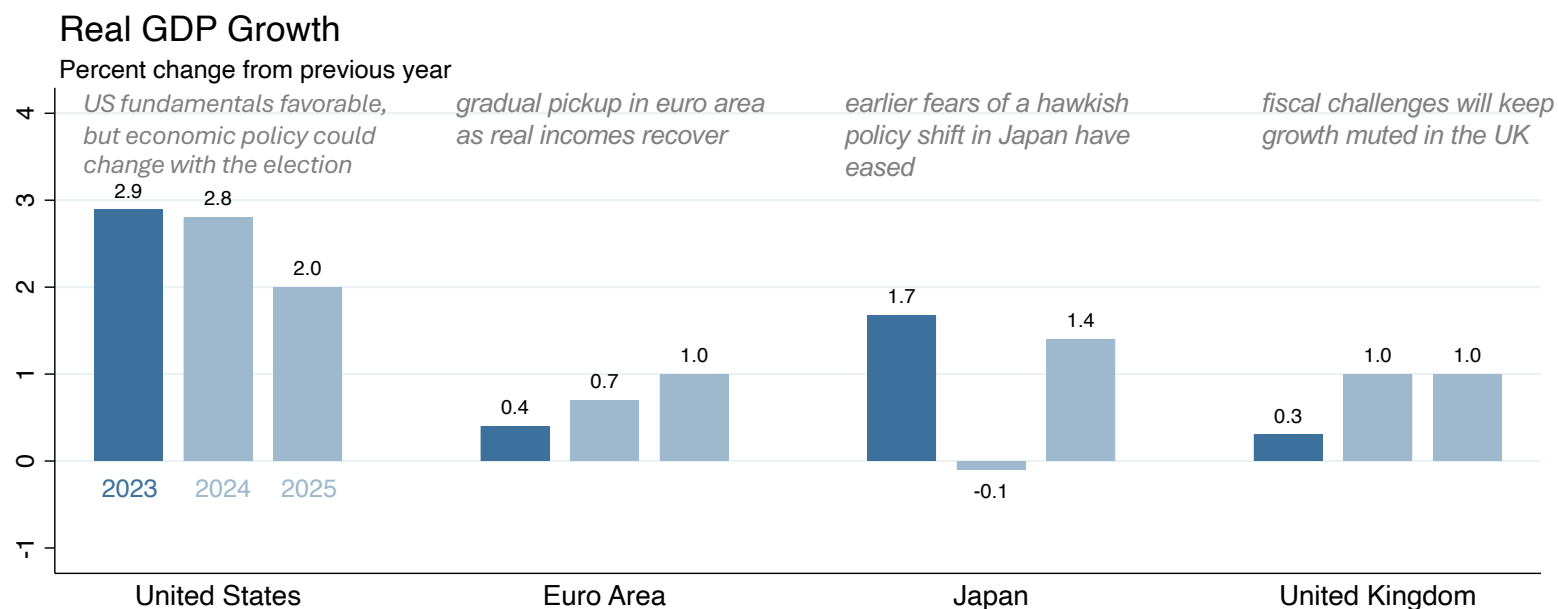


Data source: Federal Reserve, Bank of England, Bank of Japan, and European Central Bank (via Bank for International Settlements and FRED). Last data point: October 14, 2024.



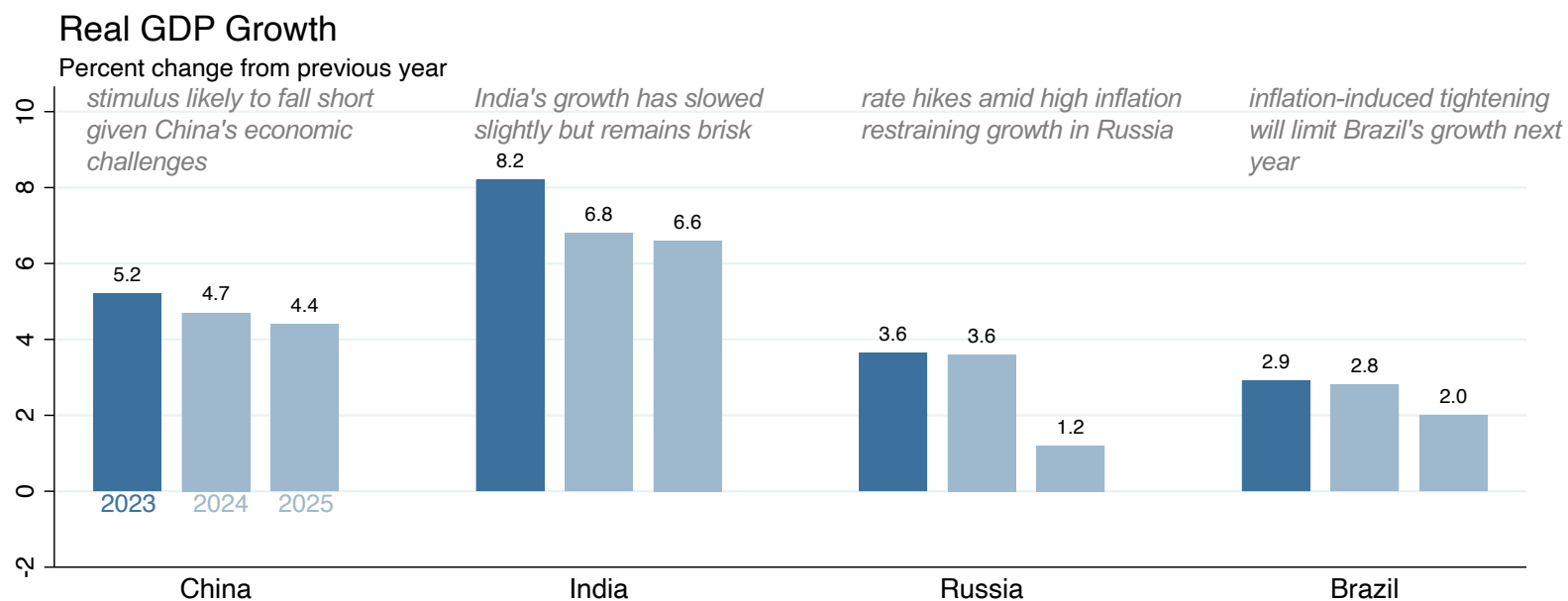
Data sources: Federal Reserve (via FRED) and Tullet Prebon (via Wall Street Journal). Last data point: October 10, 2024.

Most advanced economies other than the United States will see a pickup in growth



Annual-average-over-annual-average growth rates. PPP weights.
Sources: Consensus Forecasts for 2023; author's forecasts for 2024-2025.

India leads in growth among major emerging market countries



Annual-average-over-annual-average growth rates. PPP weights.
Sources: Consensus Forecasts for 2023; author's forecasts for 2024-2025.

Summary of the outlook for large economies

Real GDP Growth (Y/Y)	2022	2023	2024	2025
Global Growth	3.4	3.1	3.2	3.2
United States	1.9	2.5	2.8	2.0
Euro Area	3.4	0.4	0.7	1.0
Japan	1.0	1.7	-0.1	1.4
United Kingdom	4.3	0.3	1.0	1.0
China	3.0	5.2	4.7	4.4
India	7.0	8.2	6.8	6.6
Russia	-1.2	3.6	3.6	1.2
Brazil	3.0	2.9	2.8	2.0

Source: Consensus Forecasts for 2022-23; PIIE for 2024-2025. Annual-average-over-annual-average growth rates. PPP weights.

Geopolitical factors weigh on global baseline forecasts and skew risks to the downside

The different US policies discussed earlier would have global implications for growth, inflation, and interest rates

Tariff and industrial policies of the United States, China, and Europe

=> Elevated likelihood of a global trade war

Middle East fighting and Russian war in Ukraine

=> Elevated likelihood of further jump in energy prices

=> Elevated likelihood of problems with shipping and supply chains



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