

# Weekly economics podcast: Economic Roundup October

By Perpetual Corporate Trust

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Global economic growth appears to be holding relatively firm according to economic reports released in October, although US economic reports have been limited by the government shutdown. It is a world where inflation is showing signs of stickiness combined with less tight labour markets. Some central banks have wiggle room to cut official interest rates further as unemployment rates drift higher. It is a difficult balancing act with inflation still not locked in within most central banks' targets.

In the United States, the government shutdown has limited and delayed many statistical releases. Apparent before the government shutdown was an economy growing above trend, at 3.8% annualised GDP growth pace in Q2, supported by renewed acceleration in consumer spending. That firm growth rate seemed to be sustained early in Q3, based on strong growth in retail sales in both July and August, +0.6% m-o-m in each month. The US labour market was showing signs of softness in August when non-farm payrolls data was last issued. But wage and income growth were still firm and continuing close to 1 percentage point above inflation.

US CPI inflation in the delayed September report just released showed headline inflation up

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rate by 25bps to 4.00%. Softer labour market conditions are the main reason for the Fed to cut the Funds rate, but a still elevated inflation rate implies little opportunity to cut the Funds much more beyond the FOMC meeting this week.

In China, the data released in October continues mostly to point to softening economic conditions. Q3 GDP was up 1.1% q-o-q, but annual growth slipped to 4.8% y-o-y, from 5.2% in Q2. China's domestic demand is running softly, and that is true especially of consumer spending. September retail sales growth faded to 3.0% y-o-y from 3.4% in August. Growth in fixed asset investment spending is very weak, -0.5% y-o-y in September from +0.5% in August. Industrial production went against the weaker trend, up 6.5% y-o-y in September from 5.2% august, but growing more than double the pace of retail sales it speaks of growing excess capacity in the Chinese economy. Another marker of that excess capacity is deflation in consumer prices, -0.3% y-o-y in September and producer prices, -2.3% y-o-y. The focus of China's economic policies continues to seem misplaced, aiming to make excess capacity worse, by oversupplying tech products including electric cars and AI, rather than on priming domestic income growth and spending.

European economic growth is showing signs of slow improvement. Forward looking purchasing manager reports are stronger with the October manufacturing PMI lifting to 50.0 from 49.8 in September and the services sector PMI lifting to 52.6 in October, a comparatively strong reading, from 51.3 in September. Q3 GDP is due this week and is likely to show a modest 0.1% q-o-q lift reducing annual GDP growth to 1.2% y-o-y from 1.5% in Q2. However, Europe's economic policies, notwithstanding the budgetary constraints of some, are set to prime growth, notably in Germany boosting both infrastructure and defence spending. Inflation appears to have reached a sticking point in Europe around the 2% mark (CPI 2.2% y-o-y in September) and that is limiting the ability of the European Central Bank (ECB) to cut interest rates further. Nevertheless, 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 October show continuing improvement in household spending (growing 5.0% y-o-y in August) but also some softening in labour market conditions (a lift in the unemployment to a 4-year high 4.5% in September). Inflation appears stickier than previously expected with the monthly CPI lifting to 3.0% y-o-y in August, from 2.8% in July and 1.9% in June.

The RBA left the cash rate unchanged at 2.60% at its policy meeting in late September and

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The worrying lift in inflation between June and August seemed to lock the RBA in for a lengthy period of policy on hold with the cash rate at 3.60%. But that assessment has been challenged by the September labour force report showing a second month of soft employment growth and the unemployment rate lifting from 4.3% in August to 4.5% in September. The unemployment rate is running higher than the RBA forecast back in August. That in turn gives the RBA some leeway to look through the lift in inflation currently occurring and likely to continue through to early 2026. The proviso is that the inflation lift must not be too great, or too broad-based.

The Q3 CPI report, out this week, will determine whether the RBA can cut the cash rate again either in November or December. If the CPI comes in above 3.0% y-o-y with underlying (trimmed mean) inflation above 2.7% y-o-y, a cash rate cut becomes problematic as it would run ahead of inflation that is likely to lift above 3.5% y-o-y over the next few months. Our view is that the inflation reports this week will fall just inside the 3.0% CPI/ 2.7% trimmed mean boundaries where a rate cut becomes difficult for the RBA. We see a 25bps cash rate cut to 3.25% either in November or December, but with little opportunity for the RBA to cut the cash rate further beyond.

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