Morning commuters walk on Wall Street in New York's financial district on Sept. 5, 2013.
(Credit: Reuters/Brendan McDermid)

LONDON (Reuters) - If Wall Street's record high is a signpost, the U.S. economy has every chance of pulling further ahead of a stuttering Europe despite new battles to come in Washington over the government's budget and debt ceiling.

Far from sapping animal spirits, the last-gasp pact to avert an unprecedented U.S. default has raised hopes that politicians will learn from the public's hostile reaction to the standoff. The S&P 500 closed on Friday at an all-time peak of 1,744.50.

"There's probably more confidence now that next time around there won't be this kind of brinkmanship, that there won't be another shutdown and that there certainly won't be a default," said Ira Kalish, chief global economist for Deloitte, the professional services organization.

"So my expectations would be for a return of consumer confidence and of business willingness to invest and employ," he said.

The ‘next time around' is not far away. Congress has approved funding for the government until January 15 and has authorized it to keep issuing debt until February 7.

David Folkerts-Landau, group chief economist at Deutsche Bank, said the episode had inflicted deep wounds on the Republican party, which wanted changes in Democratic President Barack Obama's healthcare reforms, and on Congress.

"As a result, chances for meaningful progress in the upcoming budget negotiations have improved. Another government shutdown and debt ceiling showdown next year seem less likely," he said in a note.

FED ON HOLD FOR NOW

Folkerts-Landau said sentiment indicators were likely to rebound now that a deal in place, helped in part by expectations in financial markets that the impact of the budget standoff will cause the Federal Reserve to delay winding down its bond buying, now running at $85 billion a month.

September's employment report will be issued on Tuesday, and normally the 180,000 rise in non-farm jobs that economists expect would revive talk of an early start to Fed 'tapering'.

Instead, economists suspect the Fed will not act until December or January at the earliest because economic data for October will be clouded by the government shutdown.

Peering through the fog, Kalish said declining weekly jobless insurance claims suggested the labor market was in good shape.

He also took heart from rising output of capital goods.

"I'm cautiously optimistic that things are getting better and that the fundamentals of the U.S. economy are gradually improving," he said.

The same cannot be said with much confidence about the euro zone.

The bloc's purchasing managers' index is likely to edge up to 52.5 in October from 52.2 in September, but bank lending to the private sector is expected to shrink further.

Indeed, the Centre for Economic Policy Research in London said on Saturday that it was too soon to conclude that the 17-nation single currency area had emerged from the recession that began in the third quarter of 2011.

NO CATALYST, NO IMPETUS

Mark Cliffe, chief economist with ING Group, said he saw no obvious catalyst for a spontaneous improvement in the euro zone.

Monetary policy was on hold, fiscal policy was exerting less of a drag but was not providing a positive impetus, and many issues remained to be resolved about the future of the euro.

A two-day European Union summit will tackle some of these questions, including how to provide backstop funds to close any failing euro zone banks - a critical component of the ‘banking union' slowly being forged to underpin the currency.

No breakthrough is expected, not least because Germany has yet to form a coalition government after September's elections.

"Companies are still sitting on a lot of cash and are reluctant to invest because of the uncertainties that exist in Europe and around the world," Cliffe said.

"They're not in a hurry to hire people either, so you have a recipe for a fairly lackluster recovery at best," he added.

Any positive impetus would have to come from the global economy, Cliffe said. Here, too, the news is likely to be mixed this week.

BOOMING BRITAIN

Britain is expected to confirm continued robust growth for the third quarter, propelled by a housing recovery in southeast England that is generating something of a feel-good factor.

Economists polled by Reuters expect 0.8 percent quarterly growth after expansion of 0.7 percent in the April-June period.

Japan is likely to report that exports grew at their fastest pace in three years but that progress towards its goal of 2 percent inflation is slow despite massive monetary stimulus.

Core consumer prices, excluding fresh food but including oil, probably rose 0.7 percent in the year to September, below the near five-year high of 0.8 percent in the 12 months to August.

The HSBC/Markit purchasing managers' index for China is forecast to post only a small rise.

Anthony Chan, Asian sovereign bond strategist with AllianceBernstein in Hong Kong, said China's economy was likely to lose some momentum after inventory accumulation helped to lift the pace of GDP growth to 7.8 percent pace last quarter.

He said it was far more important to track the Communist Party's core policies rather than worry about marginal changes in the GDP growth rate or the central bank's monetary stance.

On this score, Chan said he was encouraged that Beijing had not resorted to ‘panic stimulus' earlier this year to ensure its 7 percent floor for 2013 growth was met.

"China should continue to be a source of stability in a world of still very volatile and uneven growth," he said.

(Editing by Jane Merriman)