



Global Macro Research – Global Economic Outlook

Q3 2024

#Global

/

#Forecasts

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#Scenarios

Dialling down restrictiveness

Global monetary policy easing should broaden later this year if, as we expect, sequential inflation moderates again. The moderation in US growth looks consistent with a “soft landing”, although both a “no landing” and a more severe slowdown are risks. Improving European growth means some convergence with the US. There are structural headwinds to Chinese growth, but policy easing should help meet the growth target this year. A Trump victory in the US presidential election in November could represent an inflationary shock to the global economy.

We think the re-emergence of inflation pressures over the first half of 2024, in the US and elsewhere, should soon give way to a resumption of moderating sequential inflation. Core services inflation has proved particularly sticky (see Figure 1). But [leading indicators](#) such as US rental prices suggest shelter inflation should ease. An underlying loosening in the labour market is likely to help slow wage growth. Falling used car prices suggest goods disinflation will resume. And the latest decline in oil prices will put downward pressure on inflation.

That said, the sharp drop in US inflation in the second half of last year means that base effects will turn increasingly unfavourable as the year progresses. So, even if sequential inflation moderates again, year-over-year rates may not make much downward progress.

Indeed, history provides plenty of reasons to worry about the “[last mile](#)” of disinflation. Second-round effects from higher inflation expectations could mean labour-intensive services inflation remains sticky. Moreover, [geopolitics](#) might re-ignite inflation pressures in a way central banks can’t look through. And in the long run, more supply-side shocks, including from geopolitics and climate, may [structurally increase inflation volatility](#).

However, the recent moderation in US activity growth should also help inflation pressures to cool. Restrictive monetary policy, fading support from savings stocks, moderating non-residential structures investment, and a less supportive fiscal impulse are all reasons why growth is likely to cool further. Recent weak survey data highlight the downside risk that this slowdown morphs into an outright contraction. But for now, with [employment growth still solid](#) and our recession risk indicators low, we think this slowdown looks consistent with a soft landing.

Meanwhile, growth has recovered in the Eurozone and the UK amid positive real income growth and improving sentiment. We are forecasting an extended period of around-trend growth in these economies, implying a degree of convergence with the US. Headline inflation is heading back to target in both the Eurozone and UK, although better growth has contributed to stickier underlying inflation.

We are not yet changing our UK growth forecasts in light of the likely [Labour election victory](#), partly because there are fiscal and political constraints on supply-side reforms. But if Labour does achieve planning liberalisation and a closer relationship with the EU, this could boost potential growth.

We expect the global monetary policy easing cycle to gradually broaden (see Figure 2). Having started its cutting cycle in June, the [European Central Bank](#) should lower rates twice more this year. We think the [Bank of England](#) will start cutting in August and by a total of three times this year. And we are forecasting [Federal Reserve](#) (Fed) rate cuts in September and December.

In each case, rate cuts would only dial down the degree of restrictiveness. And risks are very much skewed to later and fewer cuts. The bar is low for inflation or growth surprises to delay easing, but high to precipitate a return to rate hikes.

For next year, we are forecasting a roughly once-per-quarter pace of rate cuts in the US, Eurozone, and UK. The [level of \$r^*\$](#) will help determine where rates settle in the long run. Demographics, inequality, and the relative cost of capital are still weighing on equilibrium interest rates. But AI and investment in the energy transition could push r^* higher. Either way, the term premia component of bond yields may need to rise amid large deficits and more volatile inflation.



The [Bank of Japan](#) (BoJ) will remain an exception to global easing. Strong wage growth and pressure on the yen mean the BoJ is likely to hike rates further. But with the exit from the lost decades incomplete, tightening will be modest.

We expect the [Chinese real estate](#) sector to remain in structural retrenchment. Alongside subdued consumer confidence and little prospect of the savings stock being run down, this poses a material headwind to growth. Indeed, demographics and capital misallocation mean that trend growth may slow towards 4% by the end of the decade.

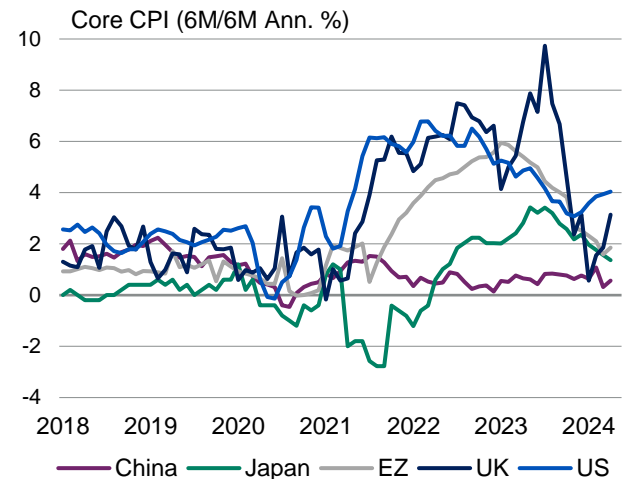
However, ongoing policy easing, including recent measures to put the property sector on firmer foundations, remains a support to growth. The GDP growth target of around 5% is likely to be met this year, and inflation has escaped negative territory. But concerns about derisking, and the need to reserve some dry powder in case of a trade war with the US, rule out 'big bang' easing.

We expect aggregate emerging market (EM) growth to retain momentum through 2024, amid resilient services and a pick-up in manufacturing and trade.

Headline inflation has returned to target in EMs, although sticky core services inflation is likely to remain a challenge, including in Emerging Europe and Mexico. We expect Asia-Pacific central banks to continue waiting for the start of Fed rate cuts before easing due to possible currency pressures. Better growth and sticky services inflation may slow the pace of rate cuts elsewhere. But we do expect the EM easing cycle to broaden out over time.

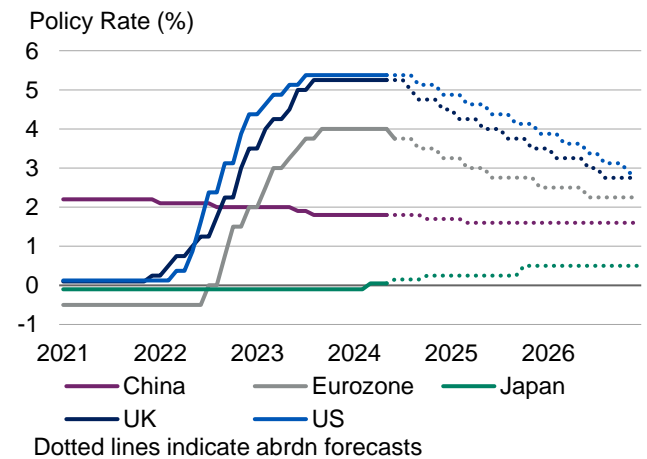
The [US election in November](#) is a key risk to the global outlook. A Biden second term, which is what we are conditioning our forecasts on at this stage, would represent broad policy continuity. However, the mix of [tariff](#), fiscal, regulatory and immigration policies that Trump may pursue in case of victory is highly uncertain and could result in a strong inflationary impulse.

Figure 1: Inflation has declined but last mile risks



Source: Haver, abrdrn (June 2024)

Figure 2: Rate cuts getting underway



Source: Haver, abrdrn (June 2024)

Figure 3: Global economic forecasts

	GDP (%)				CPI (%)				Policy Rate (% , year end)			
	2023	2024	2025	2026	2023	2024	2025	2026	2023	2024	2025	2026
US	2.5	2.3	1.7	2.0	4.1	3.3	2.4	2.1	5.375	4.875	3.875	2.875
UK	0.1	0.8	1.2	1.1	7.4	2.6	2.1	2.0	5.25	4.50	3.50	2.75
Japan	1.8	0.2	1.5	1.1	3.3	2.1	1.6	1.6	-0.10	0.25	0.50	0.50
Eurozone	0.6	0.8	1.2	1.2	5.4	2.4	2.0	1.9	4.00	3.25	2.50	2.25
Brazil	2.9	1.6	1.6	1.9	4.6	3.8	4.1	3.7	11.75	9.50	8.75	8.75
India	7.8	6.3	6.0	5.6	5.7	4.4	5.1	5.5	6.50	6.00	6.00	6.00
China	5.2	4.9	4.4	4.3	0.3	0.5	1.8	2.0	1.80	1.70	1.60	1.60
Global	3.2	3.1	3.2	3.2	6.9	5.9	4.6	3.8				

Source: abrdrn (June 2024)



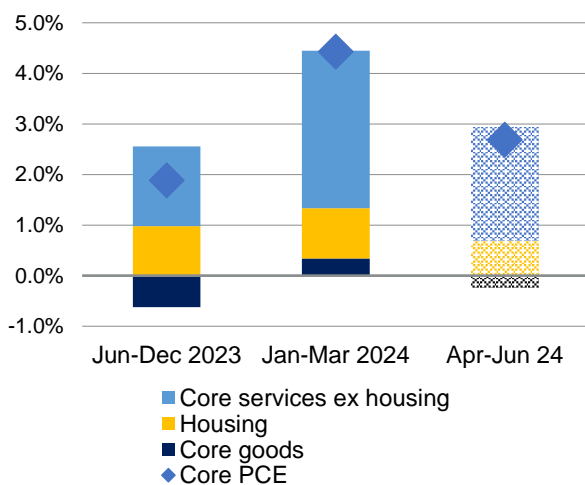
US

Activity: The pace of US growth appears to be stepping down a gear. In particular, consumer spending has slowed, last year's surprise [fiscal stimulus is fading](#), and investment remains subdued amid high interest rates. These dynamics should persist in coming quarters, and we expect growth at around 2% annualised over Q2, and between 1.5% and 2% over the rest of the year. Admittedly, we still see risks of *both* a "no-landing" scenario in which growth and inflation remain strong, *and* a more abrupt slowdown developing. However, our base case is that the economy can walk the tightrope between both.

Inflation: Following a hot start to 2024, [we expect inflation to slow over coming months](#). This will be helped by a normalisation in some components driving the gains in Q1, such as portfolio management and recreational goods prices. More fundamentally, easing housing inflation, and an [underlying loosening in the labour market despite strong headlines](#), should help take some of the heat out of core services inflation (see Figure 4). An average monthly run rate of 0.2% in core PCE through the rest of 2024 should give the Fed confidence that inflation is back on track, even if this leaves the year-over-year rate treading water between 2.5-3%.

Policy: The [Fed lamented stalled progress](#) on inflation at its May meeting and warned that rates would need to stay on hold for longer. However, despite this hawkish shift, it retained an easing bias, and we expect cuts in September and December should inflation continue to slow, albeit with a clear risk of fewer. Fed Chair Jay Powell argued that policy is restrictive, imposing a high bar to further tightening should inflation surprise to the upside. We continue to think [equilibrium rates remain low](#), which could provide more room to cut later in the cycle, but there is a risk that the rate structure has shifted persistently higher.

Figure 4: A bumpy disinflation process in the US



Source: Haver, abrdrn, June 2024

UK

Activity: After a strong start to the year, UK activity growth is set to moderate modestly to a still healthy pace over the rest of the year (see Figure 5). Real wage growth will remain strong as nominal wage growth only slowly returns to a more sustainable rate, which should continue to support consumer sentiment and spending. However, the impact of restrictive monetary policy will continue to weigh on interest-rate-sensitive sectors. The Labour Party is very likely to win the upcoming general election, but significant [shifts in fiscal or supply-side policies](#) are unlikely in the near term.

Inflation: Headline inflation should continue to moderate towards target in coming months, helped by falling energy prices and softer food inflation. However, underlying inflation pressures are stickier and are well above a rate consistent with stabilising inflation at target. As the labour market cools, wage pressure should slow, but the large increase in the national living wage may slow this process and distort the signal from incoming wage data. The Bank of England (BoE) will need to see a material slowing in services inflation before feeling comfortable that the inflation outlook is evolving in line with its forecasts.

Policy: [The near-term outlook for BoE policy is highly data dependent](#). We expect the Bank to deliver its first rate cut in August, but that is conditional on upcoming wage and labour market data pointing to a moderation in underlying inflation pressures. Recent Bank communication has sought to stress that, with policy rates likely well above the equilibrium rate, any cut in rates is better thought of as a reduction in the degree of tightening rather than outright easing. This framing should allow a number of cuts this year and next as policy returns towards a neutral stance.

Figure 5: UK PMIs consistent with solid GDP growth, with the manufacturing sector back in expansion



Source: Haver, abrdrn, June 2024



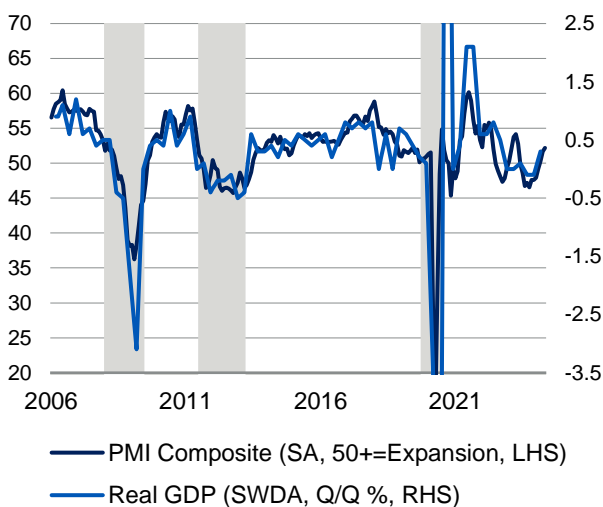
Eurozone

Activity: The Eurozone looks set to replicate Q1's healthy but moderate growth over the coming quarters (see Figure 6). Household consumption should grow solidly, with consumers benefitting from [strongly positive real earnings growth](#). Moreover, the European Central Bank (ECB)'s cutting cycle should help support growth into 2025. High-frequency activity data reflect this fairly bright outlook, with both hard and soft indicators pointing towards continued growth. However, long-term structural headwinds persist, with geopolitical, [industrial](#) and demographic changes limiting European growth potential once positive cyclical tailwinds are exhausted.

Inflation: Energy, food and core goods inflation has returned to normal levels, and should stay there. However, we expect services prices to undergo a far slower normalisation. Unit labour cost growth remains strong, as reflected by robust Q1 nominal wage data, pushing up on service price growth. And, with unemployment coming in lower than expected, the Eurozone labour market is yet to roll over. This means the headwinds to disinflation posed by the services sector could keep headline inflation above 2% throughout 2024.

Policy: In line with its recent forward guidance, the [ECB kicked off its easing cycle](#) in June. How far and fast policymakers will reduce rates is now the central question. We think the strength of domestically generated inflation and the tightness of the labour market mean the data are incompatible with a further cut in July. Forecast-update meetings in September and December are the most likely time for cuts. In total, we expect two further reductions this year, though risks of fewer moves lower are elevated. Cuts should continue into 2025 as the ECB normalises policy towards a still-suppressed equilibrium rate.

Figure 6: PMIs suggest the Eurozone is on track to record another solid quarter of growth



Source: Haver, abrdrn, June 2024

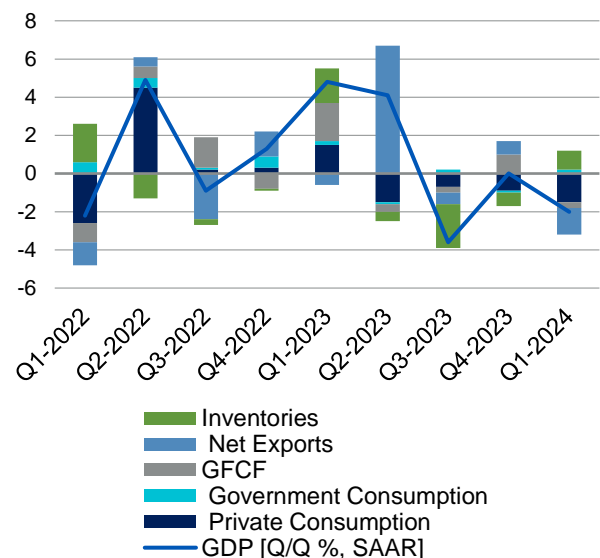
Japan

Activity: The Japanese economy contracted by 0.5% in Q1, after narrowly avoiding a technical recession in H2 2023 (see Figure 7). Weakness was broad-based, with private consumption shrinking for the fourth consecutive quarter as households remain cautious. This is unlikely to change in the near term as the anticipated increase in underlying wage growth at the start of the fiscal year did not materialise. However, the strong rise in the composite PMI suggests Q2 will be better. We expect growth to be sluggish in 2024, which may challenge expectations of an aggressive rate hiking cycle from the Bank of Japan (BoJ).

Inflation: Japanese inflation is above target but continues to slow. CPI edged down to 2.5% year over year in April, while core inflation (excluding fresh food and energy) decelerated 0.5ppts to 2.4%. Processed food prices were among the biggest drags in part due to base effects following last year's price hikes. The fifth round of the Shunto wage negotiations saw average base pay hikes at a strong 3.6% year over year. However, this will take many months to filter through to realised earnings. Consumer reticence to absorb price increases suggests that there are limits on firms' pricing power.

Policy: The BoJ kept policy settings unchanged in [April](#). Markets interpreted the decision as dovish, triggering a sharp fall in the yen. The subsequent rally in the currency suggests market intervention in holiday-thinned markets. Despite this support, the large interest rate differential between the US and Japan means that the yen outlook remains challenging. Communication from Governor Kazuo Ueda signalled that the BoJ could hike soon due to this market volatility. We expect rates to reach 0.25% by year-end, with a risk of a 10bps hike as soon as June. But overall, Japan's exit from low inflation is [only half convincing](#).

Figure 7: Japan's weak domestic demand will make it difficult to achieve sustained inflation pressure



Source: Haver, abrdrn, June 2024



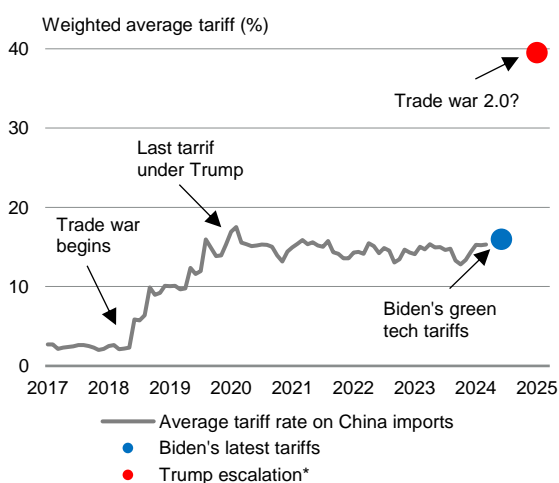
China

Activity: A strong Q1 GDP print and revisions to the back data mean that 2024's "around 5%" growth target is in sight. Consumption remains lacklustre, held back by falling house prices. But ongoing strength in industrial production, which expanded 6.7% year over year in April, beating consensus by 1.2ppts, and a better external environment, should be sufficient to offset this drag. Policy is at least continuing to ease, including recent measures attempting to put the property sector on firmer foundations. However, the incremental approach limits the chance that significantly stronger growth emerges.

Inflation: Even if activity data are reasonable, serious questions remain about the nominal environment. Headline CPI was above zero for the third month in a row in April, at 0.3% year over year. And we expect that base effects from energy and food should provide some support going forward, pushing CPI inflation gradually higher over 2024. That said, the supply-side bias to government policies means that the GDP deflator may take longer to return to positive territory. As such, fears of 'Japanification' will be slow to recede and we expect annual CPI growth to be only 0.5% this year.

Policy: Tepid inflation, falling house prices and risks of a marked rise in [US-China tensions](#) are likely to spur additional policy easing. [Recent steps to support the housing market](#), including cuts to minimum downpayments, a loosening of minimum mortgage rates and local governments buying empty properties for affordable housing, have the potential to turn around sentiment. But it is unclear how forcefully cash-strapped provinces will support the market, and the central government is unlikely to condone another property bubble. Policy makers may also be reserving dry powder in case a [trade war](#) unfolds under a second Trump presidency (see Figure 8).

Figure 8: A Trump presidency could turbo charge trade tensions with China



Source: U.S. Census Bureau, USTR, WITS, abrdrn, June 2024

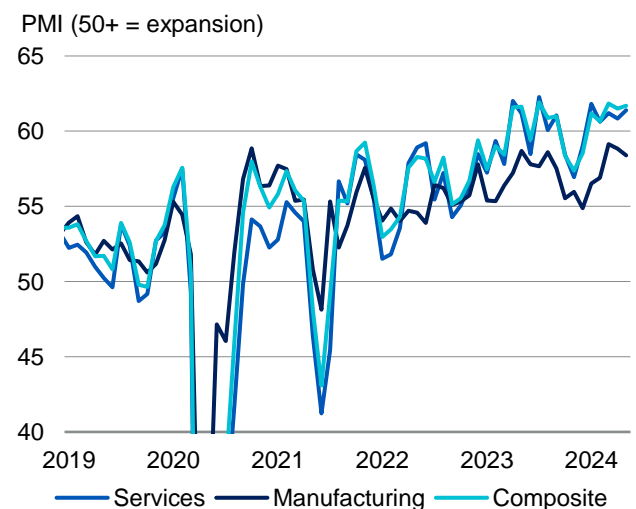
India

Activity: We think India's economy will slow in 2024 but continue to outperform its peers due to structural tailwinds (see Figure 9). The economy started the year on a strong footing, with growth once again surpassing consensus. Infrastructure spending and exports have boosted activity, and while we expect these drivers to cool, they will help keep growth buoyant over the coming quarters. [Post-election, we still expect modest fiscal consolidation](#), and, when combined with some tightening of credit, we expect growth to slow. That said, improving consumer confidence indices highlight the [upside risks to the outlook](#) with a consumption-driven "no landing" possible.

Inflation: Inflation has receded over the past year, and we expect it to cool further over the course of 2024. Core inflation has all but returned to target-consistent levels, running at sub-3% annualised. While food inflation has pushed up on headline CPI, an early start to the monsoon season could see a better harvest, easing some of the food price pressures. This should see headline inflation fall towards the Reserve Bank of India (RBI)'s 4% target by mid-year. Continued government supply-side focused policies should help to bring inflation down longer term, but fiscal slippage is an upside risk.

Policy: The moderation in underlying inflation has given the RBI some breathing room. However, the uncertainty around food prices will mean the central bank is likely to leave its policy rate at 6.5% in June. While liquidity conditions have tightened, credit growth remains strong, and the RBI has signalled its concern over unsecured consumer credit. The positive news on the monsoon season and a slowing of economic activity should spur the start of monetary easing in Q3, with two 25bps cuts by year-end and another 25bps reduction in early 2025.

Figure 9: India's economy to remain an outperformer in 2024, with risks skewed to the upside



Source: Haver, abrdrn, June 2024



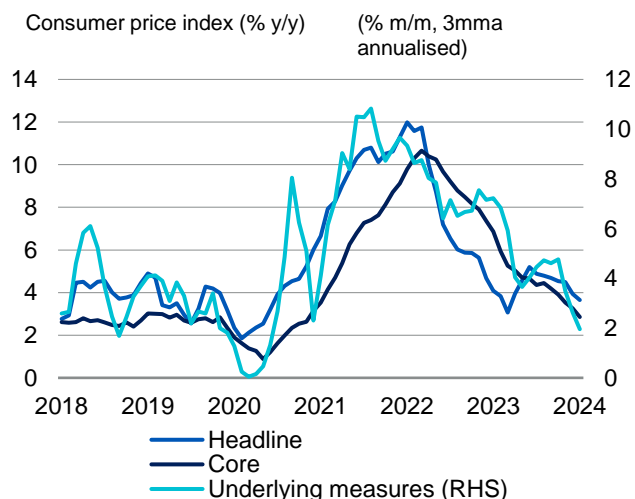
Brazil

Activity: Brazil's economy narrowly avoided a technical recession in late 2023, but momentum has picked up. The economy expanded 0.8 quarter over quarter in Q1. We expect the strength of the services sector to help keep it in expansion going forward. In May, the services PMI touched its highest level since July 2022 and continued real wage growth should buoy demand. Floods in the state of Rio Grande do Sul will weigh on activity in Q2 but the broader trajectory of the economy is one of better momentum. However, still tight monetary conditions will cap the extent of the rebound.

Inflation: Headline inflation eased further in April, falling 0.3ppts to 3.6% year over year and closer to the Banco Central do Brasil (BCB)'s target range midpoint of 3% (see Figure 10). Core and services inflation both eased further in April, and inflation expectations have fallen. A rebound in real wage growth poses some 'last mile' challenges for the BCB. However, still tight financial conditions and modest economic growth should help to keep inflationary pressures in check through the year.

Policy: We expect the BCB to continue its easing cycle, delivering a further 100bps of cuts in 2024, despite the decision to slow the pace by 25bps in May. Increased uncertainty around the Fed's policy path has led to markets pricing only one further cut from the BCB, while fiscal concerns have also reemerged. However, with underlying inflation easing further and Brazil's high ex-post real policy rate of 6.9%, we believe there is ample scope for cuts, and that markets are too hawkish, but much will depend on market expectations for the Fed.

Figure 10: Brazilian underlying inflation is easing again

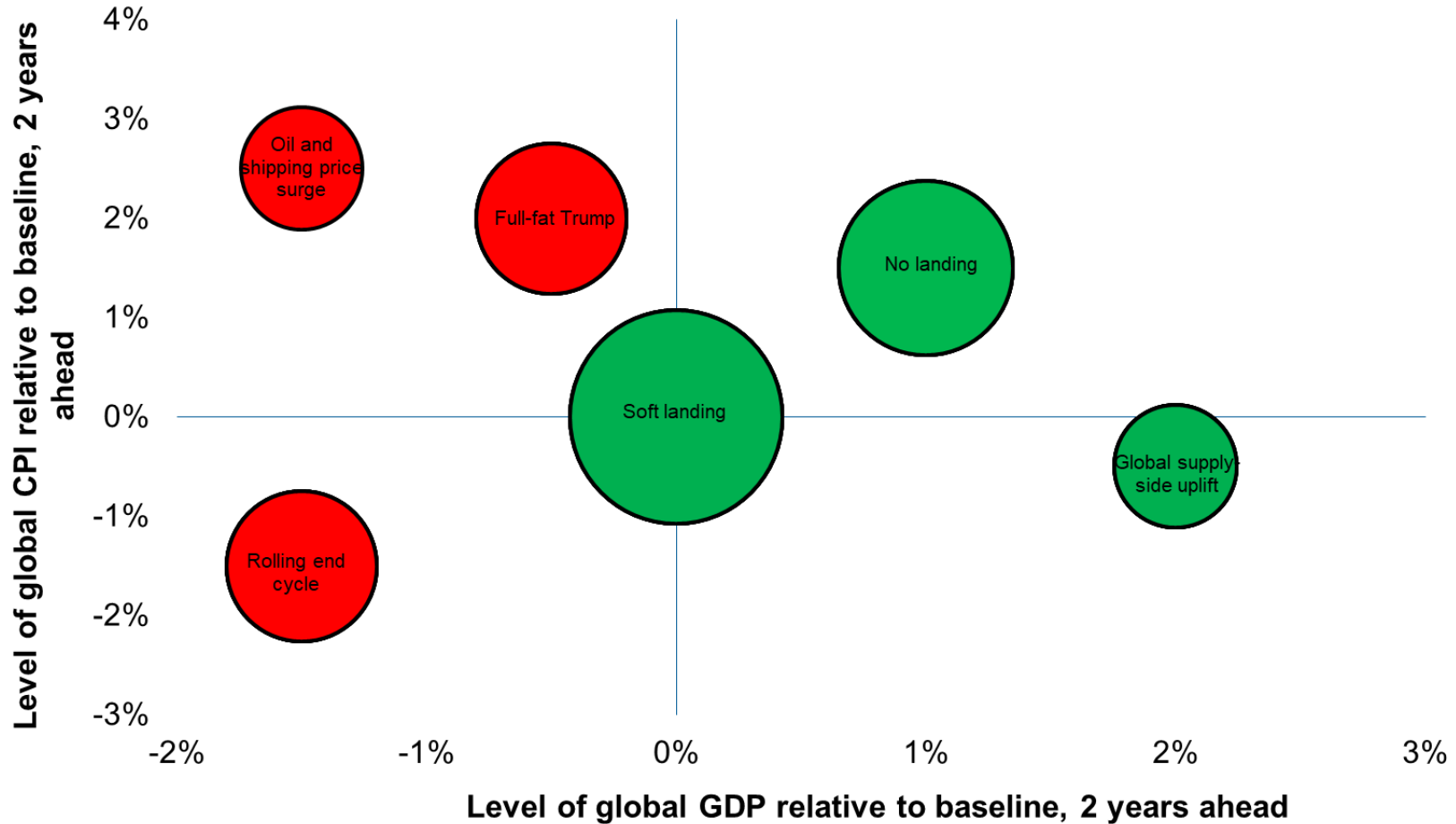


Source: Haver, abrdrn, June 2024



Scenario Overview

Figure 11: Global activity and price level in alternative scenarios, relative to baseline, 2 years ahead. Our full scenarios analysis is [here](#)



* size of bubble denotes probability

Source: abrdn, June 2024



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