



# Global Macro Research – Global Economic Outlook

Q2 2024

#Global

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#Forecasts

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#Scenarios

## The last mile

The recent pick-up in inflation has revived concerns about a difficult last mile and will stay the hand of central banks for now. That said, even accounting for bumps, inflation should continue to slow towards target, allowing monetary policy to ease from mid-year. The US is heading for a soft landing, but we still expect growth to slow. We forecast sluggish recoveries in Europe, and below-target growth in China. Upside risks come from further supply-side improvements, or less benignly a “no landing”, while on the downside, risks to US and Chinese growth are still elevated.

Following a rapid deceleration in 2023, sequential inflation nudged up again at the start of 2024 in many economies (see Figure 1). This increase in part reflects seasonal distortions and methodological issues. But the strength of wage growth and core services inflation, alongside the sharp rise in maritime freight rates, mean many key central banks are not ready to cut interest rates just yet.

However, year-over-year rates of inflation should fall close to target by mid-year in many economies. Although core services inflation is strong, shelter price growth should soon moderate in the US, while wage growth is coming down gradually and inflation expectations remain well anchored in almost all developed market (DM) economies.

Bumpy disinflation is broadly continuing across emerging markets (EM) as well, helped by restrictive monetary policy. But there are also clear last-mile risks here too, including from El Niño and geopolitical volatility pushing up food prices.

We think the US economy is heading for a soft landing. The strength of households and firms suggests the peak impact of monetary policy tightening has passed. Meanwhile, progress on lowering inflation means a recession is not “necessary” to cool price pressures.

Nonetheless, many drivers of US exceptionalism such as household savings, fiscal support, rising participation rates, and a rebound in productivity should fade somewhat during 2024. So, we expect the pace of US growth to slow this year.

Meanwhile, the UK and Eurozone should slowly emerge from recession-like conditions in 2024, helped by positive real wage growth. But Germany will continue to struggle from cyclical and structural headwinds to its growth model.

Against this backdrop, we expect major DM central banks to begin interest rate cuts around the middle of this year. We forecast the Federal Reserve (Fed), European Central Bank (ECB) and Bank of England (BoE) will each make an initial move in June. We expect a cumulative 100 basis points (bps) of fed funds rate cuts this year, and 125 bps in 2025. Our assessment of equilibrium rates means 2-3% will be the eventual endpoint of cutting cycles (see Figure 2).

The Bank of Japan (BoJ) will be a notable outlier. Admittedly, the data paint a mixed picture about the sustainability of Japan’s emergence from low inflation and growth remains weak. However, a decent Shunto wage round should be enough for the BoJ to exit negative interest rates and yield curve control by July.

Across EMs, cooling inflation and the high starting point for real rates make room for rate cuts this year. Easing is well underway in Latin America, although cuts in Mexico may wait until after the Fed. Asian central banks didn’t hike as aggressively and growth is holding up better in much of the region, but rates are still likely to be lowered later this year.

Chinese policy continues to ease, with recent intervention aimed at shoring up equity markets. However, real estate activity and prices show a continued slide, and the desire to hold the line on de-risking means these headwinds may continue to outweigh stimulus. We forecast 2024 GDP growth to be below target. That said, ‘Japanification’ concerns are overdone, with underlying inflation dynamics less concerning than the deflationary headline numbers.

By contrast, although Indian growth will slow from 2023’s heady rate, it will still be a global outperformer thanks to favourable structural tailwinds. Reform momentum and



avoiding protectionism after Narendra Modi's almost certain re-election are key to further boosting the economy.

Politically, our global forecast incorporates broadly unchanged US government policy. However, the election is a source of significant macro uncertainty. Trump's proposed 10% across-the-board tariff and 60% tariff on China would hit global trade and sentiment, push upwards on US inflation, and downwards on growth. Potential fiscal easing could support growth, but also put upwards pressure on interest rates and term premia.

In terms of other important macro scenarios, the probability of a "hard landing" in the US is still more elevated than in a typical year of the business cycle, especially as the tailwinds from high savings and strong supply-side growth fade.

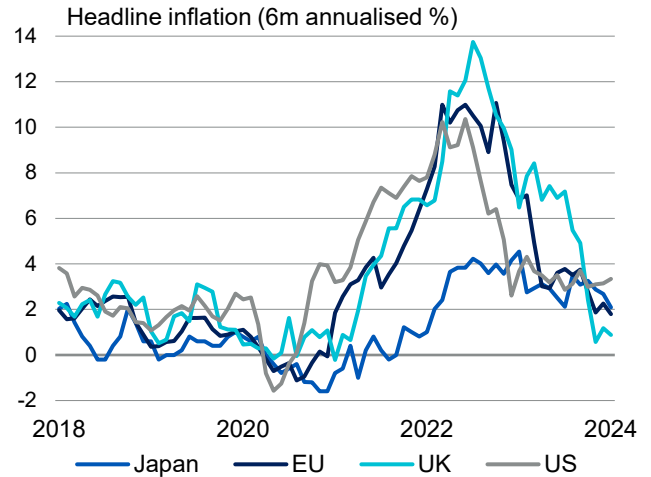
Conversely, the recent strength of US activity may point to a global "no landing", in which growth remains well above trend and inflation reaccelerates. Monetary policy would have to remain tighter for longer, and the next move in policy interest rates could be upwards. This tightening could cause a more pronounced downturn further in the future, although in the near-term it would be priced as reflation.

A more unambiguously upside scenario would be a global supply-side uplift, in which trend growth moves higher. This may be driven by realising more of the productivity gains from AI earlier than we expect. It would allow strong growth to continue, without a commensurate increase in inflation. Monetary policy would still ease this year, however long-term equilibrium interest rates would move up.

China continues to pose material downside risks to the global economy. A Chinese balance sheet recession could occur as the result of a more abrupt correction in real estate alongside insufficient policy offsets.

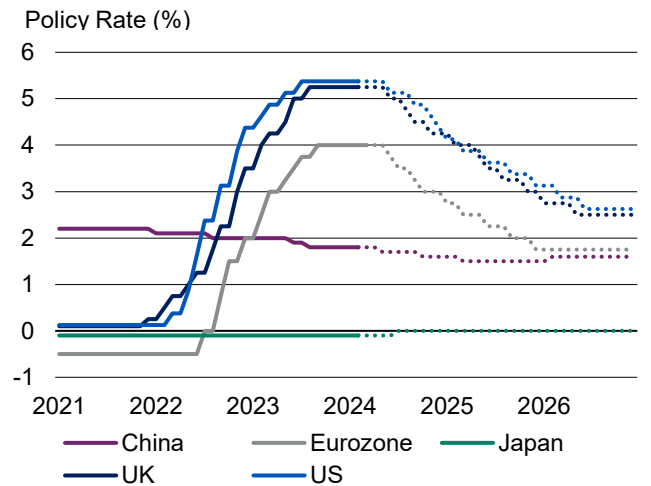
Finally, an escalation of the conflict in the Middle East that causes a further increase in shipping rates alongside higher oil prices could generate a big inflation shock. This also means the next move in interest rates would be upwards.

**Figure 1: Inflation has declined but last mile risks**



Source: Haver, abrdrn (March 2024)

**Figure 2: Rate cuts delayed but eventually to 2-3%**



Source: Haver, abrdrn (March 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	2.2	1.4	2.1	4.1	2.9	2.2	2.2	5.375	4.375	3.125	2.625
UK	0.1	0.4	1.4	1.2	7.4	2.4	1.9	2.0	5.25	4.25	3.00	2.50
Japan	1.9	0.7	1.0	1.1	3.3	2.0	1.6	1.6	-0.1	0.0	0.0	0.0
Eurozone	0.5	0.5	1.3	1.2	5.5	2.3	1.7	1.8	4.00	3.00	1.75	1.75
Brazil	2.9	1.4	1.7	1.9	4.6	3.8	4.1	3.7	11.75	9.50	8.75	8.75
India	7.7	6.2	5.7	5.4	5.7	4.4	5.1	5.5	6.50	5.75	5.75	6.00
China	5.2	4.5	4.3	4.2	0.3	0.8	2.1	2.4	1.8	1.6	1.5	1.6
<b>Global</b>	<b>3.2</b>	<b>2.8</b>	<b>3.0</b>	<b>3.2</b>	<b>6.9</b>	<b>5.5</b>	<b>4.6</b>	<b>4.4</b>	-	-	-	-

Source: abrdrn (March 2024)



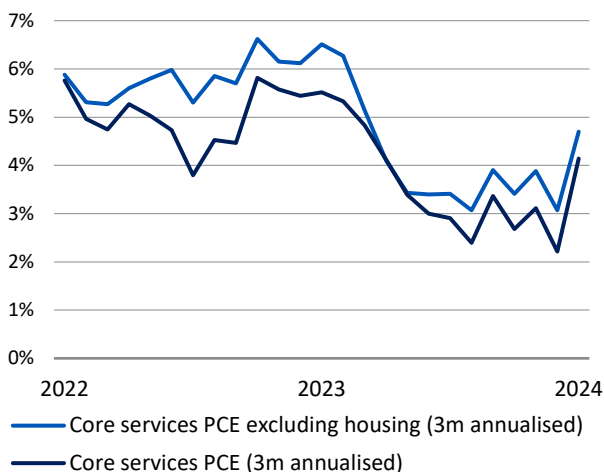
## US

**Activity:** The US economy now looks likely to avoid recession. Activity has been remarkably resilient in the face of high interest rates, helped by strong consumer and corporate balance sheets, positive supply shocks and looser fiscal policy. These tailwinds are likely to fade in 2024, so we think growth will moderate to a below trend 1.1% annualised for much of this year. But easing financial conditions should prevent a more disruptive drop-off and set the scene for a reacceleration in sequential activity through 2025 towards trend-like growth.

**Inflation:** PCE and CPI inflation came in hot in January (see Figure 4), raising fears that the last mile of the inflation fight may still prove difficult. In part this reflected seasonal distortions and methodological issues, but services inflation does look to be running hot. Falling goods prices should continue to partly mask this stickiness, and services inflation should slow on the back of weaker shelter price growth and moderating wages. We forecast core PCE to fall to 2.3% year over year by the summer, but progress might stall through the rest of the year as base effects prove less helpful.

**Policy:** The Fed has signalled that it wants to see further evidence that inflation is returning to target before easing. The lack of clear signs of economic stress are encouraging this caution. We expect the first rate cut in June, with three further cuts to leave rates at 4.25-4.5% by the end of the year. This slow easing cycle should continue through 2025 (-125bps) and into 2026 (-50bps), taking the fed funds target range down to a trough of 2.5-2.75%. This is around 100bps below market expectations, reflecting our view that equilibrium interest rates remain low.

Figure 4: US inflation shows signs of a difficult last mile



Source: Haver, abrtn, March 2024

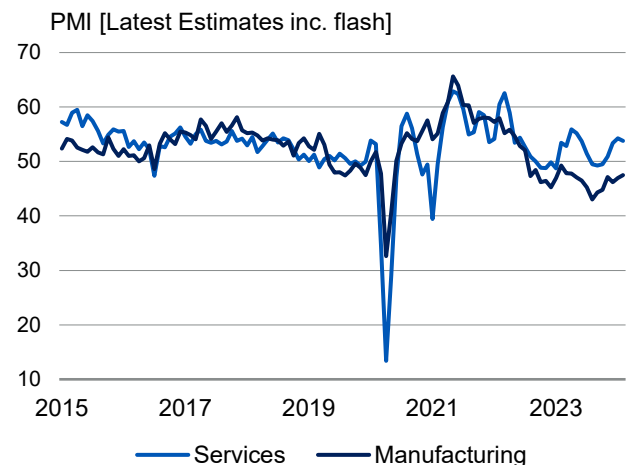
## UK

**Activity:** The economy fell into a mild recession in 2023 but is set to recover modestly this year. Survey data have been improving for some months (see Figure 5), and housing activity is starting to recover. This suggests the return of positive real income growth – which should remain strong this year – has helped boost sentiment and spending. Fiscal policy will also be supportive, with the measures announced in the budget likely to boost GDP growth by around 0.3ppt through improved labour supply. However, the impact of past tightening will continue to be felt and supply growth is likely to remain weak.

**Inflation:** Headline inflation should fall below 2% by the second quarter of 2024, boosted by favourable base effects and lower energy prices. However, underlying inflation pressures are likely to remain somewhat stickier. While core inflation is moderating, wage growth remains well in excess of a target-consistent rate given poor productivity growth. Moreover, the large increase in the national living wage and other indexed prices in April risks causing another round of price pressures. This is likely to result in inflation picking up again as the year progresses, before a cooling labour market allows it to eventually stabilise around target.

**Policy:** We think the Bank of England will start to ease policy in June this year. The Bank is currently waiting on evidence that the forthcoming drop in inflation will be sustained, and that underlying pressure is fading. As such, policy rhetoric is likely to point to the need to keep policy restrictive for now. However, once easing begins, we expect a material cutting cycle. Very poor supply growth means that the UK's equilibrium rate is probably low, and so the current stance of policy is quite restrictive. Over time, policy rates are likely to be pulled lower by this dynamic.

Figure 5: The UK services sector has recovered and is expanding again, but manufacturing remains weak



Source: Haver, abrtn, March 2024



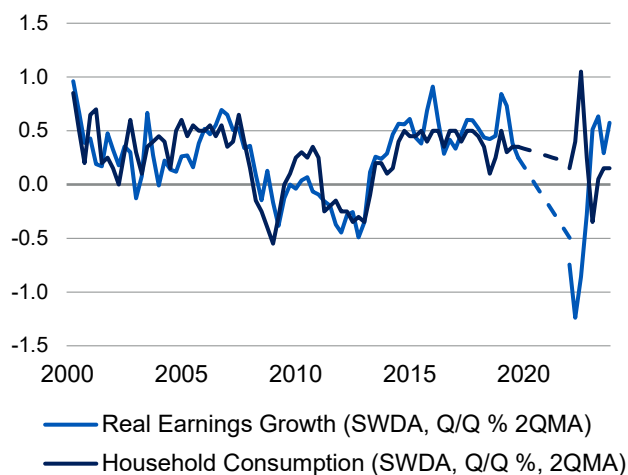
## Eurozone

**Activity:** After avoiding a technical recession in 2023 by the thinnest of margins, the Eurozone should return to positive, albeit modest, growth this year. Household consumption will lead the recovery, with consumers benefitting from the recent period of strongly positive real earnings growth (see Figure 6). However, a negative fiscal impulse will pose a headwind. High frequency activity data remain soft for now, indicating a slow start to 2024. We expect the return to growth to accelerate as the year unfolds and the lagged impact of rate hikes fully unwinds. Growth should normalise over 2025-26, with GDP climbing over 1%.

**Inflation:** The Eurozone's disinflationary process is well advanced, but still has further to go. Forward-looking indicators of goods inflation suggest price growth in that component could slow even further. However, the 'last mile' of inflation will be made more difficult by sticky services inflation. Upward pressure on services prices from elevated unit labour cost growth remains strong. Indeed, short-term run rates of services inflation have actually been climbing. However, below-trend growth should eventually prompt the labour market to loosen, causing these pressures to unwind. Overall, we expect inflation to at least temporarily drop below 2% before the year's end.

**Policy:** In response to faster-than expected disinflation, the European Central Bank (ECB) is gearing up for a cutting cycle. However, concerns about second round effects from elevated wage growth mean that the Governing Council will likely wait until Q1 wage data have been released before loosening monetary settings. We expect the first cut to come in June, and for the ECB to lower rates four times this year. However, without a pressing need for cuts from the activity side, the crystallisation of 'last mile' risks to the disinflationary process could prompt the ECB to punctuate its cutting cycle with pauses.

**Figure 6: Eurozone consumption will benefit from strong real earnings growth**



Pandemic era data overwritten with interpolated lines [dotted]

Source: Haver, abrdrn, March 2024

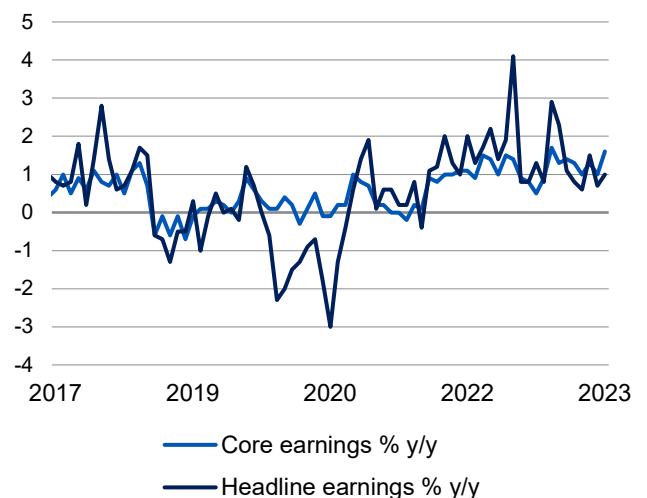
## Japan

**Activity:** Strong growth in private capital expenditure helped to revise away a technical recession for H2 in Japan. Nevertheless, the revisions show that weakness remains in the household sector. The outlook for coming quarters is stable but soft. Indicators of household consumption remain subdued, however a pickup in wage negotiations could help boost consumer sentiment and in turn spending. We forecast growth to be positive but weak in 2024, before picking up in 2025. The activity data challenge market expectations of a decisive shift in policy from the Bank of Japan (BoJ).

**Inflation:** Japanese inflation continues to slow from the earlier overshoot. Imported price inflation will decline further, while muted household spending and consumer reticence to absorb past price increases suggest that firms still have constrained pricing power. But services inflation is stickier, and inflation expectations have held up. A strong Shunto wage round is crucial for a sustained re-anchoring of inflation at 2%, and early indications suggest Japan's largest unions are aiming for pay gains above 6%. But, with core earnings growth at just 1.4% year over year, Japan's exit from the low-inflation paradigm is only half convincing (see Figure 7).

**Policy:** BoJ communication continues to signal an exit from negative interest rate policy this year. The specific timing of a move is uncertain, with the BoJ monitoring a broad range of indicators to make its decision. Announcements from large unions have been very positive so far with initial wage demands well in excess last year. The March and April meetings are both live, but on balance we expect the shift to come at the meeting on 30-31 July. We are less convinced than markets of a sustained hiking cycle thereafter, especially as other major central banks will be in rate-cutting mode.

**Figure 7: Wage momentum is key for the Bank of Japan**



Source: Haver, abrdrn, March 2024



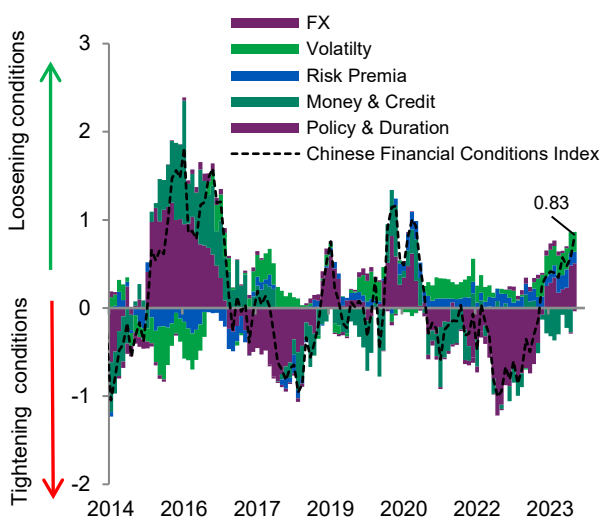
## China

**Activity:** GDP growth of 5.2% in 2023 exceeded the government's 5% growth target. But that was a relatively low bar given that lockdowns severely depressed output in 2022. We agree with Premier Li Qiang that the 5% target for 2024 will "not be easy". Policy has been easing – and will get further support from the RMB 1 trillion ultra-long bond issuance – but the real estate adjustment will still weigh on growth. "Japanification" fears are overblown, but we think growth will fall short this year (4.5%), even as we expect an improvement in sequential momentum.

**Inflation:** Headline consumer prices in China dropped further into deflationary territory in January, falling 0.8% year over year. The National Bureau of Statistics noted that the shifting timing of Lunar New Year played a large role in January's decline. Indeed, seasonally adjusted core inflation has firmed recently, and we expect deflation to end soon. Headline inflation will however only conclusively return to positive territory in Q2, and we forecast growth of only 0.9% for the year. Ongoing 'lowflation' should spur further policy easing.

**Policy:** The most recent policy easing includes a 50bps cut to banks' reserve requirement ratios and a 25bps cut to the 5-year loan prime rate. These steps, plus additional fiscal and monetary easing, should keep our China Financial Conditions Index in accommodative territory (see Figure 8). That said, national security, self-reliance and de-risking policy priorities are likely to keep stimulus incremental, as indicated by the recent National People's Congress. Household savings provide a route to an upside surprise, but fears of what a Trump presidency means for China may keep markets cautious as the US election approaches.

**Figure 8: Chinese policy easing continues, but growth will likely fall short of the government's 2024 target**



Source: Refinitiv, Bloomberg, Haver, abrdrn, March 2024

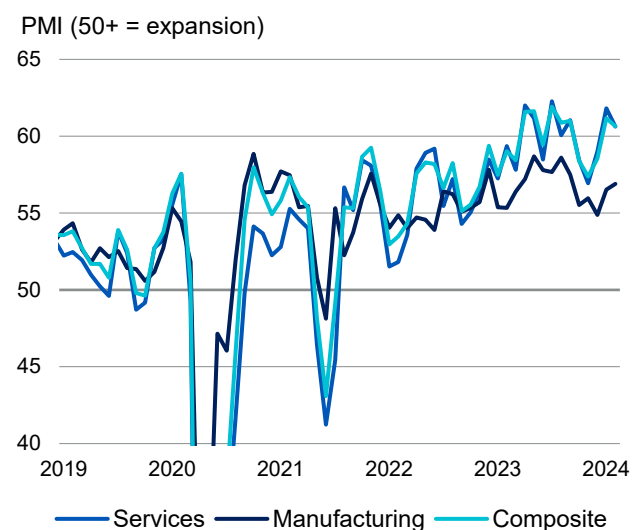
## India

**Activity:** India's economy will slow in 2024 but continue to outperform its peers thanks to favourable structural tailwinds. A ramp-up in public infrastructure spending and a strong services sector will support activity in early 2024 (see Figure 9). Credit conditions have also proved supportive, and surveys indicate a willingness among lenders to continue the credit boom. However, with fiscal consolidation planned and signs of employment demand cooling, we think growth will take a bit of a step down from last year's heady rates. Nevertheless, risks are skewed to the upside and there is scope for a consumer demand driven 'no landing'.

**Inflation:** Despite the strength of economic activity, 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. However, food inflation has pushed up on headline CPI, and uncertainty over the path for food prices will linger until the monsoon season in June to September. Nevertheless, with underlying inflation contained, our base case is for inflation to remain around the Reserve Bank of India (RBI)'s 4% target midpoint in 2024.

**Policy:** The moderation in underlying inflation has given the central bank some breathing room. However, the uncertainty around food prices and the path for inflation expectations will mean the RBI is likely to leave its policy rate at 6.5% until mid-2024. That said, fiscal consolidation this year will put more onus on the private sector to keep investment spending high. This should prompt the RBI to ease monetary conditions in the second half of the year, lowering the policy rate to 5.75%, albeit with caution around enabling activity growth to overheat.

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



Source: Haver, abrdrn, March 2024





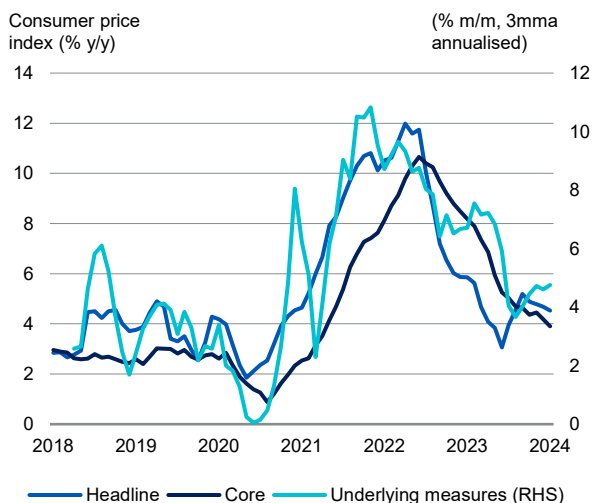
## Brazil

**Activity:** Brazil's economy narrowly avoided a technical recession in late 2023, but there are signs activity is picking up again. A rebound in PMIs and still tight labour market conditions indicate the economy will return to expansion in 2024. We also expect the drag from agricultural output to ease over the coming quarters. That said, activity is being weighed down by tight monetary conditions, even after the start of monetary easing in 2023. As such, we expect growth of 1.4% in 2024, before a modest pick-up to 1.7% in 2025.

**Inflation:** Headline and core inflation eased further through 2023 and moved into the Banco Central do Brasil (BCB)'s target range (albeit nearer the upper bound). However, high frequency moves in core inflation have risen to 4.8% annualised, which highlights the risk of inflation rising above target again (see Figure 10). Services inflation remains sticky and tight labour market conditions pose a challenge to the BCB maintaining inflation within target. Still tight financial conditions should help to gradually ease inflation through 2024, but risks are clearly tilted to the upside.

**Policy:** The significant moderation in inflation since the 2022 peaks and Brazil's high ex-post real policy rate of 6.7% still leave scope for further rate cuts, even if core inflation dynamics have become slightly less favourable. The prospect of a rebound in growth and upside risks to underlying inflation lead us to pare back our expectations for further rate cuts from 325bps to 175bps in the remainder of 2024. However, the Fed easing cycle should enable the BCB to continue its monetary easing into 2025, when we see the SELIC rate settling at 8.75% – below market pricing and consensus expectations.

**Figure 10: Brazilian inflation eased in 2023, but high frequency core measures signal 'last mile' challenges**

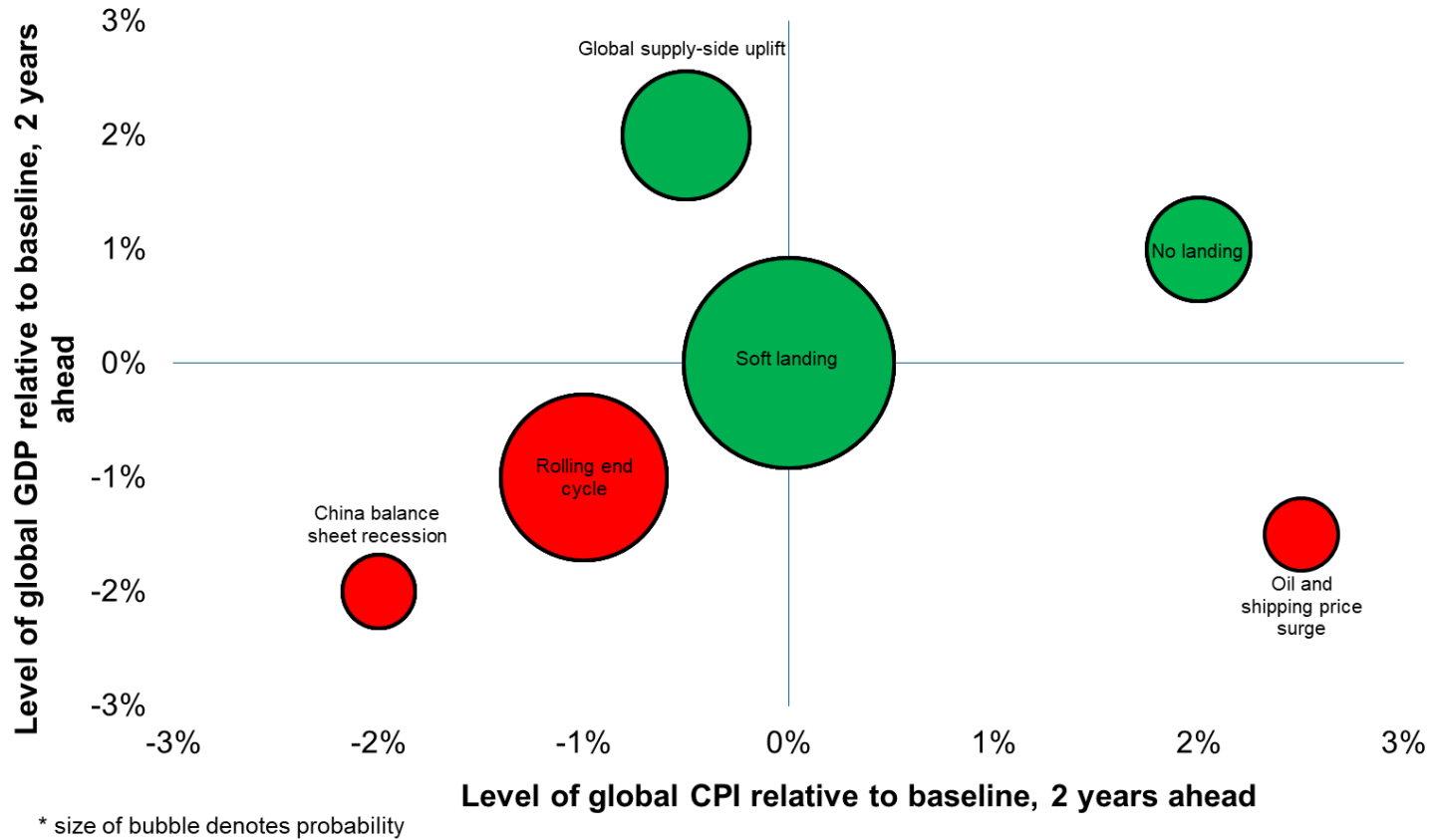


Source: Haver, abrdrn, March 2024



## Scenario Overview

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



Source: abrdn, March 2024



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