ECONOMIST INTELLIGENCE

Global outlook 2023-24

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September 2023

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Agenda:

- Global macro overview: growth, inflation, currencies
- Key trends for the US and EU: green subsidies, the war in Ukraine, China derisking
- Key trends for China and Latin America: demand, investment, operational risks
- Long-term growth outlook: what the world looks like in 2050

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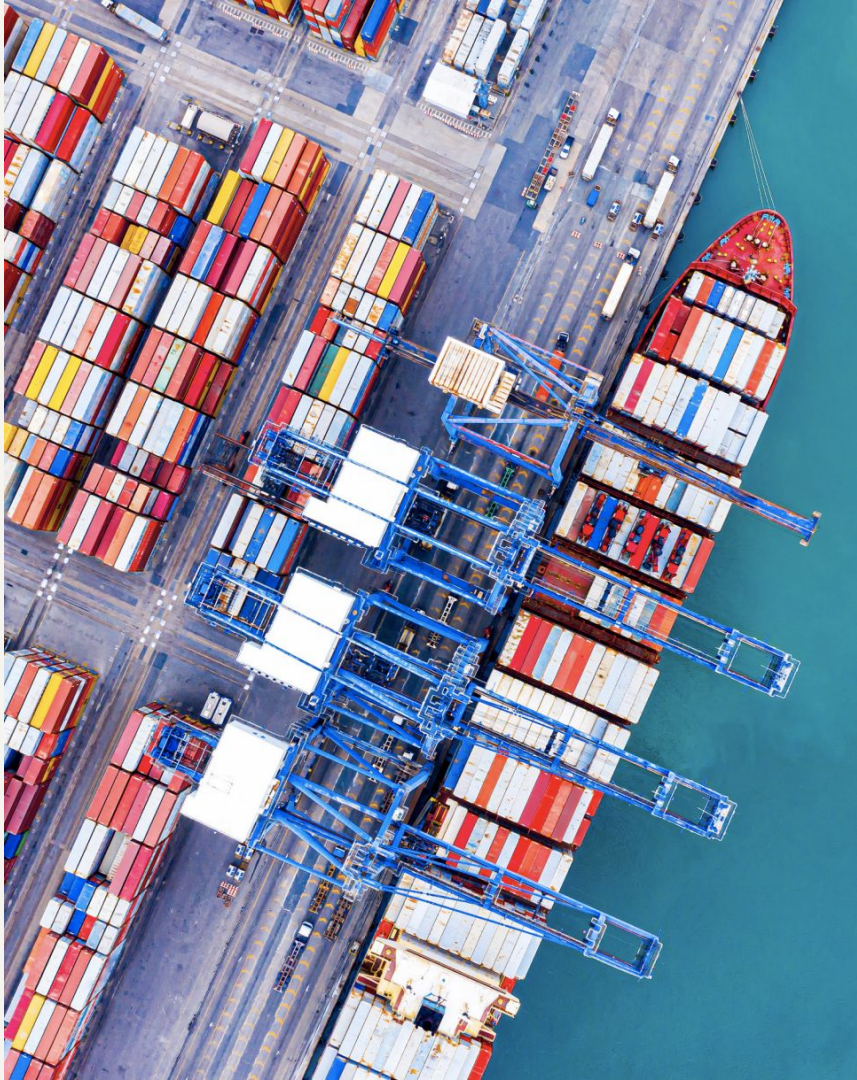
Setting the scene: A global macro overview



Economic growth has slowed, and will be unspectacular in 2024

Slow growth but no recession for the **US**; political drama

European growth remains modest given high interest rates

War in **Ukraine** transitions to stalemate

China's rebound has fizzled on weak labour and property markets

End of deflation in **Japan**!

Asia export recovery, falling interest rates, supply chain investment

Growth improving in the **developing world** but held back by instability, debt and climate risks

India buoyed by domestic demand

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Inflation has peaked, but we are not out of the woods yet

After a record high in 2022, global inflation is easing

- We forecast 7.2% in 2023 and 5% in 2024

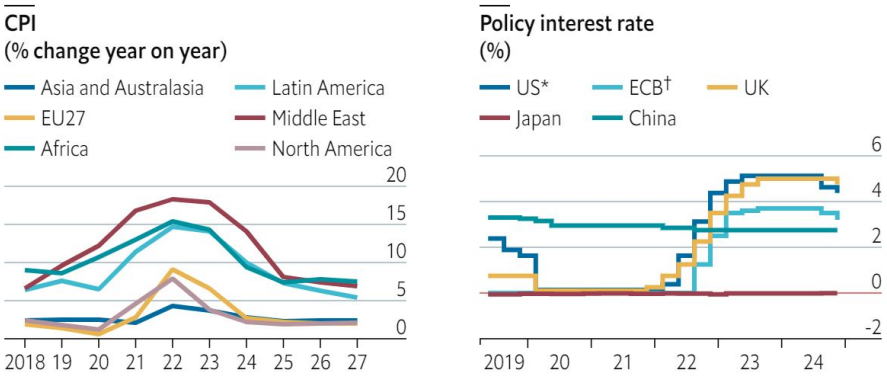
But second-round effects are making core inflation sticky

- And prices are still high, eg food prices 60% above 2019 levels

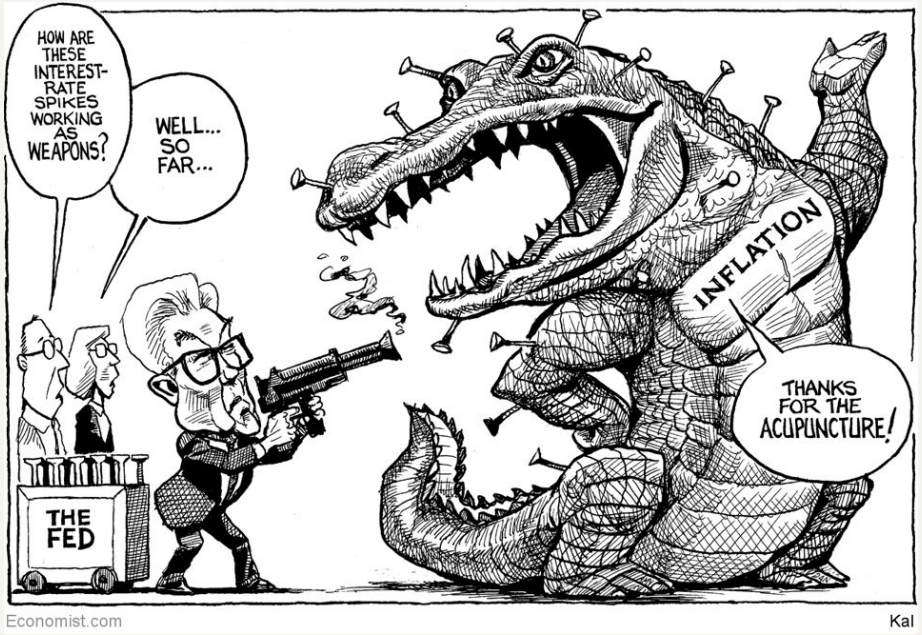
Interest rates high until mid-2024, weighing on growth

- With structural factors pushing up the medium-term US rate

No more easy money



Source: EIU. *Fed funds target †European Central Bank ‡Values for Q2 2023 onwards are EIU forecasts.



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US dollar strength set to wane amid monetary policy stabilisation

A period of stability for the dollar, then slight depreciation

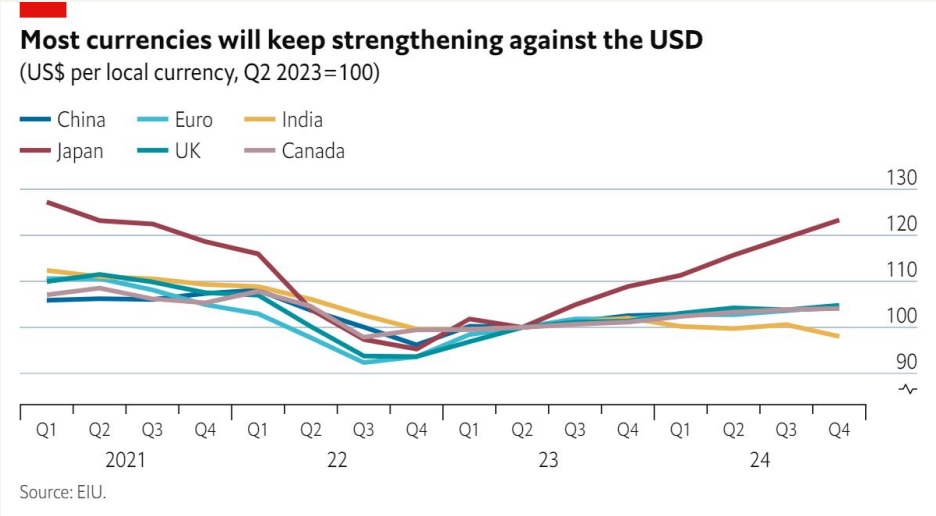
- As monetary tightening and safe haven demand effects unwind

The euro and yen will strengthen gradually in 2023-24

- Reflecting narrowing interest rate differentials

Poor investor sentiment will keep the yuan under pressure

- But some other emerging market currencies will appreciate



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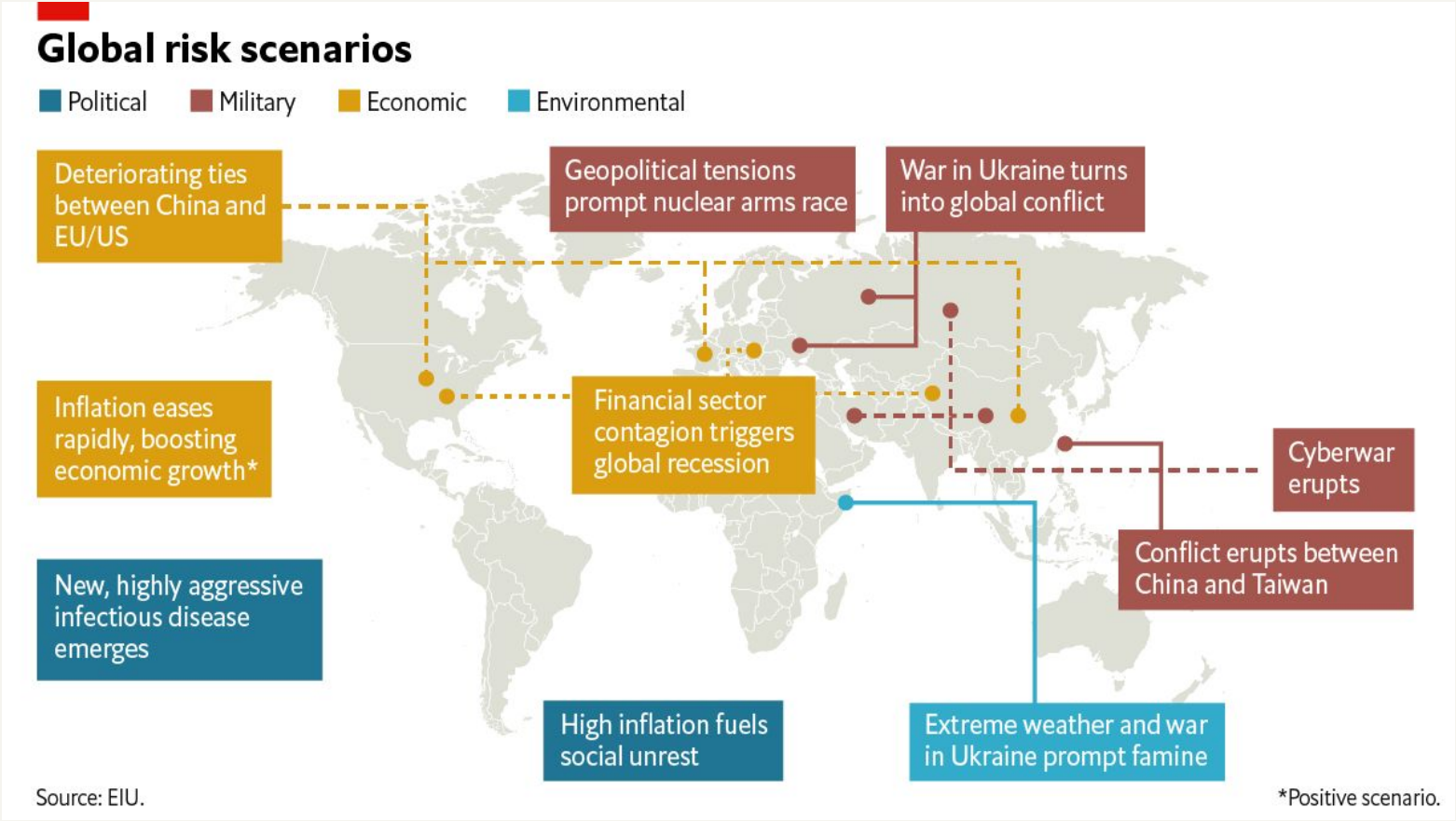
What are the top ten risks for the global economy?



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Key trends: US and EU

US growth slowdown dampened by consumer spending and IRA subsidies

We forecast 1.8% growth in 2023 and 0.9% in 2024

- This is a benign outcome after an aggressive tightening cycle

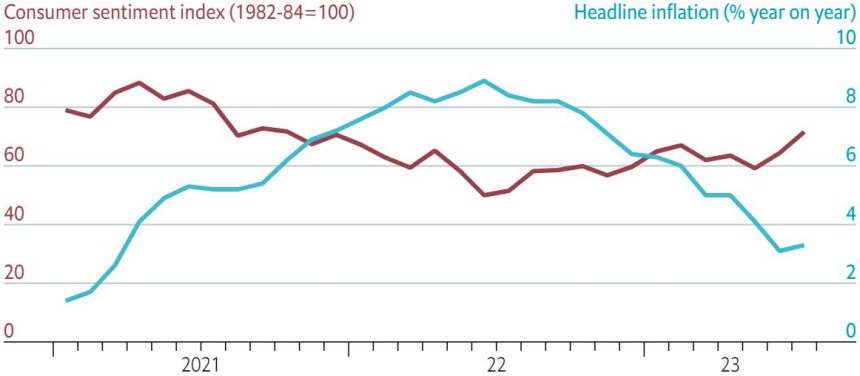
The IRA has already supported 116 projects, US$76bn

- Total figure of US$391bn could be significantly exceeded

'Buy American' requirements have sparked subsidy race

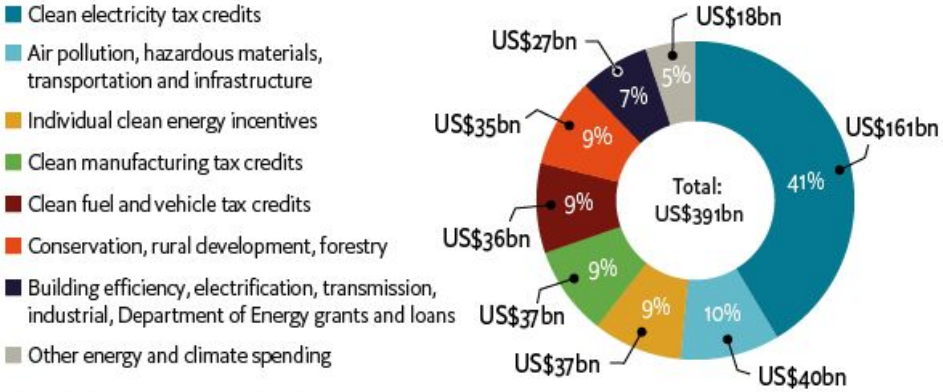
- Eg EU Green Deal Industrial Plan and new state aid rules

Consumer sentiment has been shaped by inflation in recent years



Sources: University of Michigan Index of Consumer Sentiment; Bureau of Labour Statistics; EIU.

The Inflation Reduction Act will provide billions in new spending across sectors



Sources: Congressional Budget Office; Inside Climate News; EIU.

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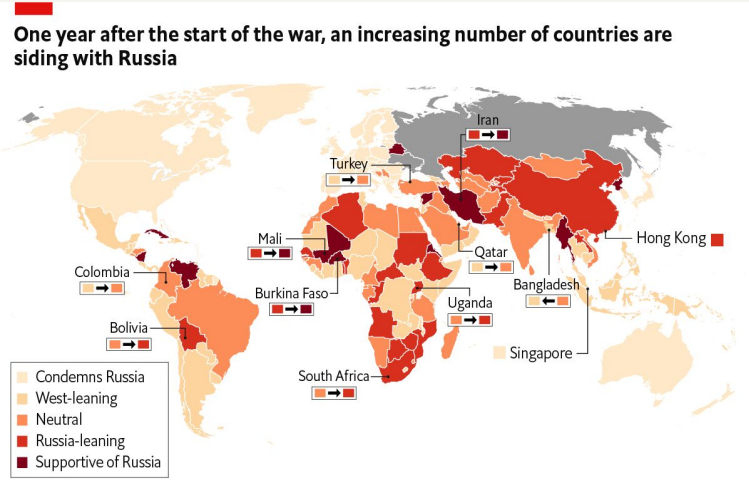
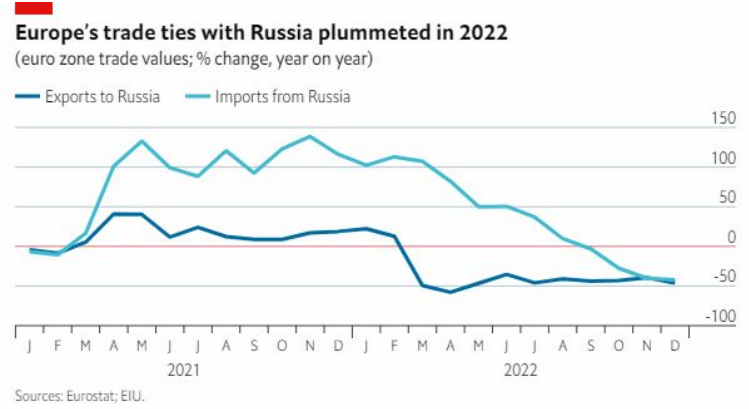
Impact of the war in Ukraine: 1) A more fragmented, multipolar world



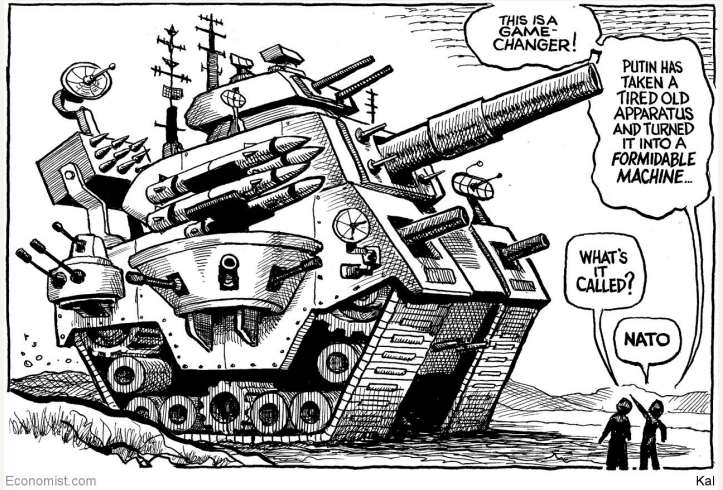


Scenario #1 (*likeliest*) - Conflict continues for many years:

- Russia remains committed to the war, which it sees as "existential". Western support to Kyiv continues
- **Tough resistance from Ukrainians, no end in sight for conflict**

Scenario #2 - Russia seizes eastern and southern Ukraine:

- Russia manages to "freeze" the conflict (cf. Georgia/Crimea) as Western support to Kyiv wanes (esp. among US Republicans)
- **Large swathe of Ukrainian territory falls under Russian control**



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Impact of the war in Ukraine: 2) Europe's energy transformation

Energy security is now a policy priority in Europe

- Rapid investment in LNG, renewables and non-Russian gas

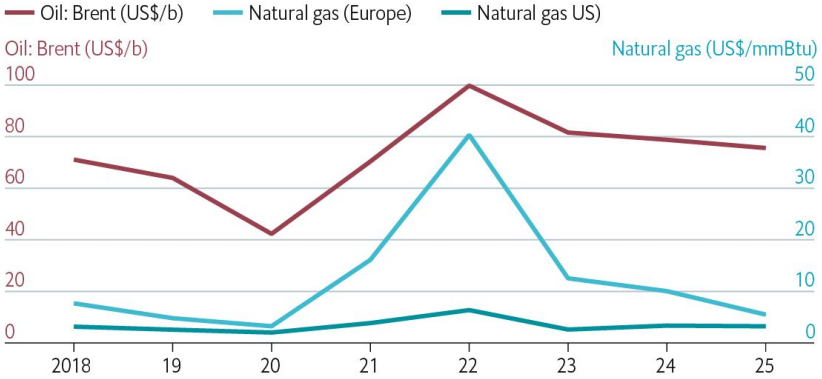
Price volatility is likely this winter but not gas shortages

- Europe is at a competitive disadvantage on energy costs

Asian demand will support oil prices in the short term

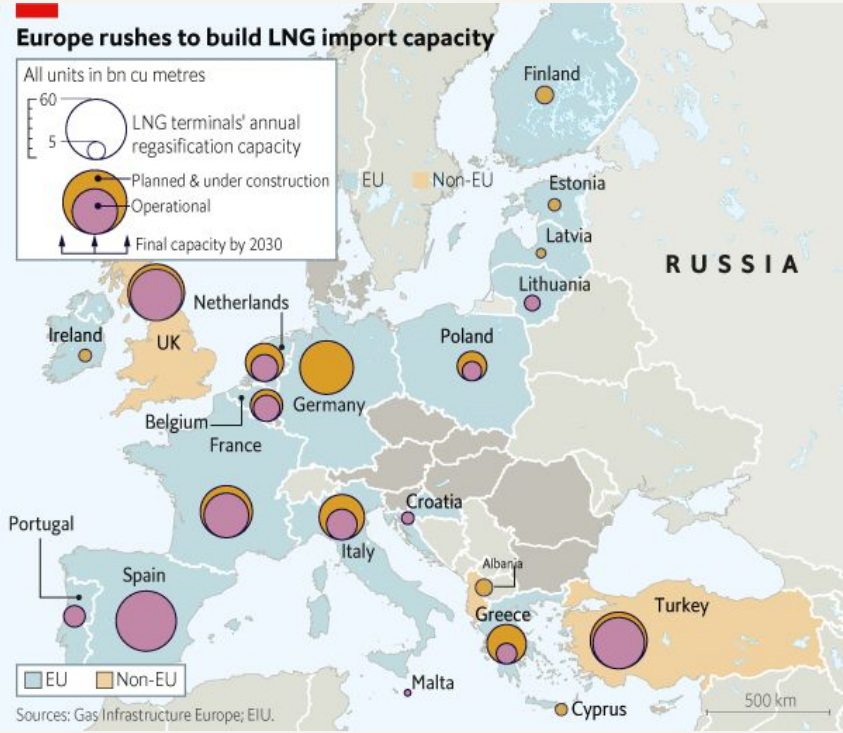
- Long-term trend is downwards as demand erodes away

European natural gas prices will ease but remain above historic levels



Sources: EIU; forecasts from 2023.

Europe rushes to build LNG import capacity



Sources: Gas Infrastructure Europe; EIU.

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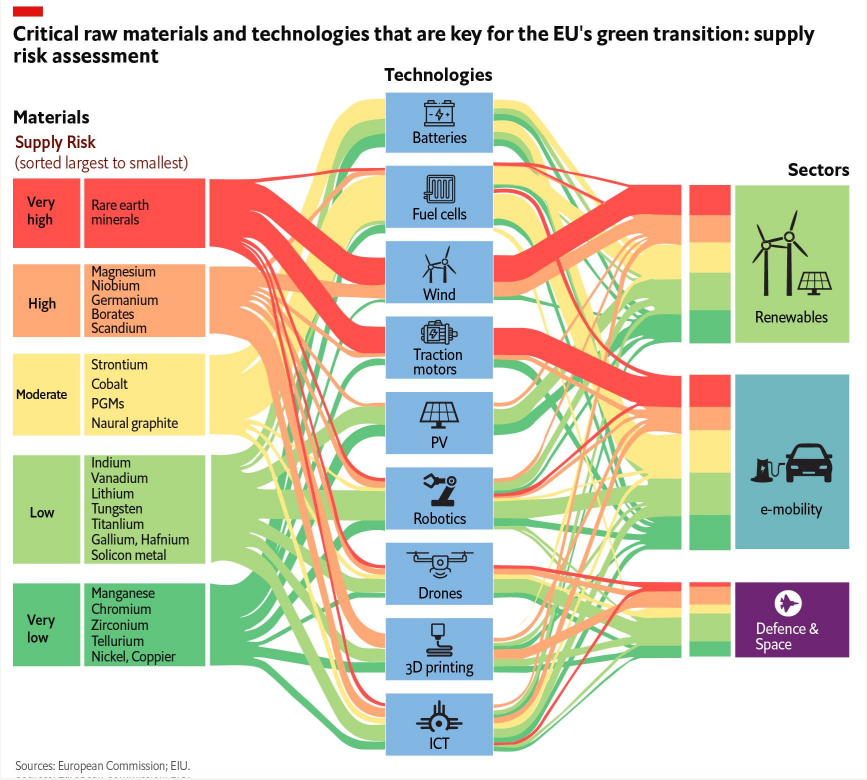
Derisking from China and the race for critical minerals



The focus of EU policy towards China is now 'derisking'

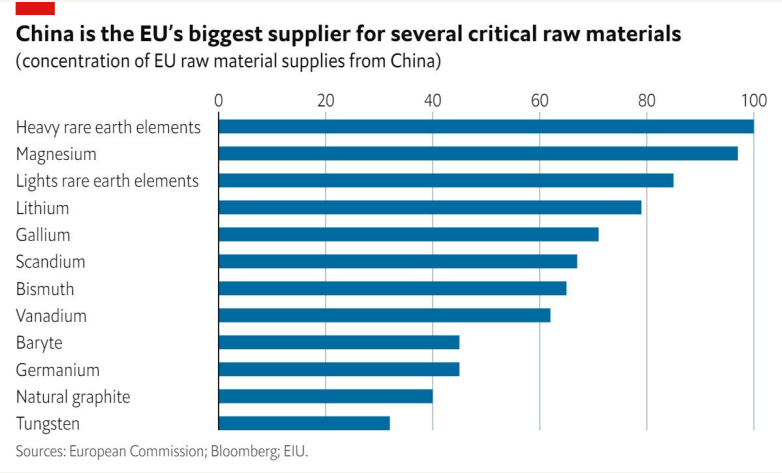
- The US's decoupling efforts have also been rebranded

Expect a diversification of supply chains for key inputs

- But EU-China trade ties are and will remain substantial

Critical minerals are a particular bottleneck

- Commodity exporters in Africa and Latin America will benefit



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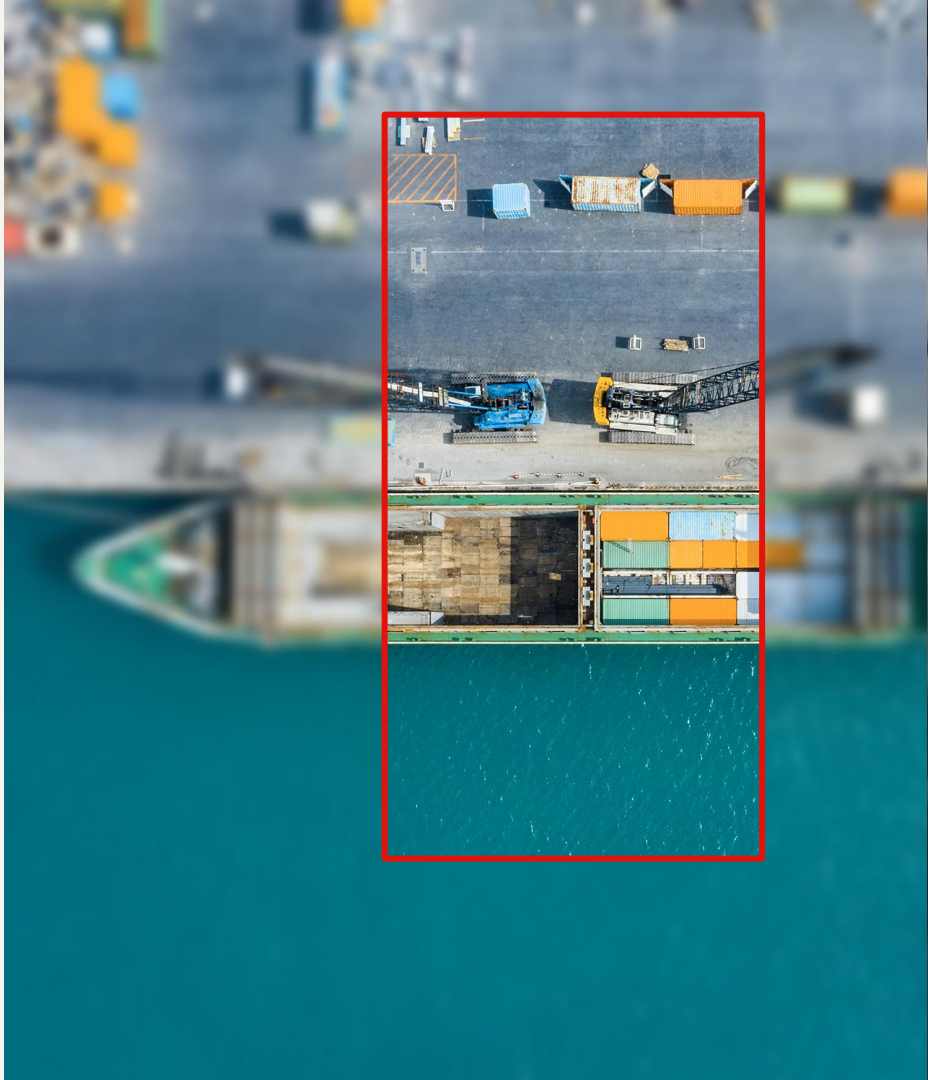
Key trends: China and Latin America



China's economic rebound fizzles

Even the government's lowball 5% growth target is at risk

- Property woes, policy missteps and poor sentiment to blame

Viral trends: "lying flat" and "special forces-style travel"

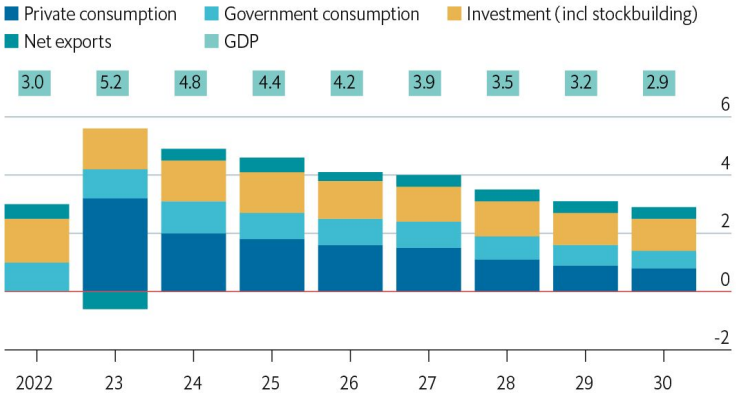
- Youth unemployment figures are no longer published

Demand for eating out, domestic travel and EVs is rising

- But the golden age of Chinese economic growth is over

China: Real GDP will grow by 5.2% in 2023, driven by a rebound in private consumption

(real GDP by components; percentage point contribution)



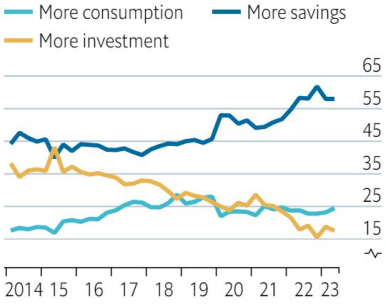
Source: EIU.

Looming uncertainties cloud China's domestic economy

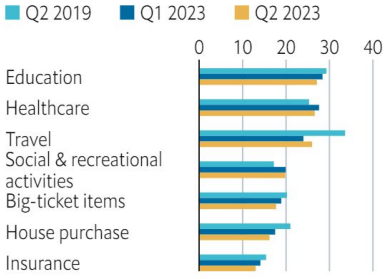
Job prospects remain quite poor (confidence index*)

Still-low share of respondents who expect housing prices to rise (%)

Willingness to consume more edges up (respondents' preferences)



Tourism sentiment improves gradually (consumption preference in the next three months)



Sources: People's Bank of China; EIU.

*An index reading above 50 indicates an expansion, while a reading below 50 is a sign of contraction.

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China's share of global real capital allocation has stopped rising

The policy stance since covid has been unpredictable

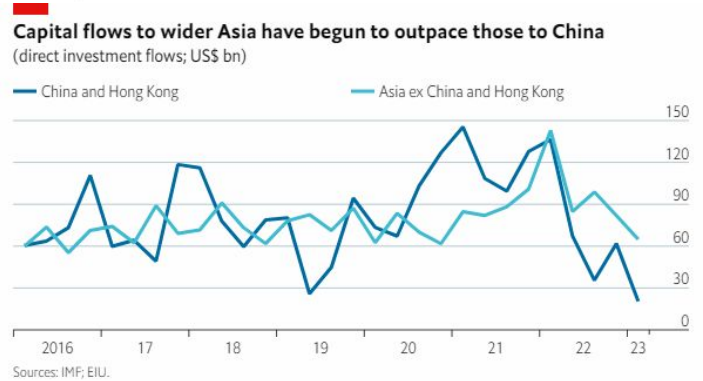
- Companies are playing "wait and see" for investments

US anxieties over trade, tech and Taiwan are offputting

- Wider Asia is benefiting from firms' China+1 strategies

China will retain around 30% of global investment

- But after two decades of growth, this share is no longer rising



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Latin America: a brighter outlook

Investment hotspots: US nearshoring, green metals

- Inflows of FDI have surged, and remain supportive

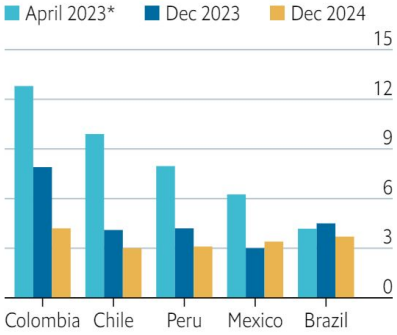
After resilient growth, a slowdown then cyclical upturn

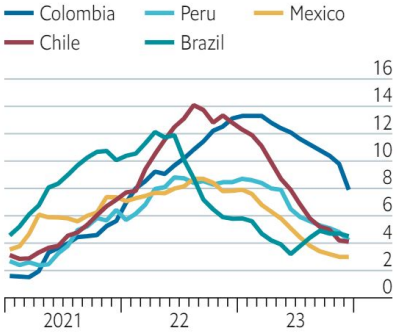
- Currencies will weaken until the Fed starts easing mid-2024

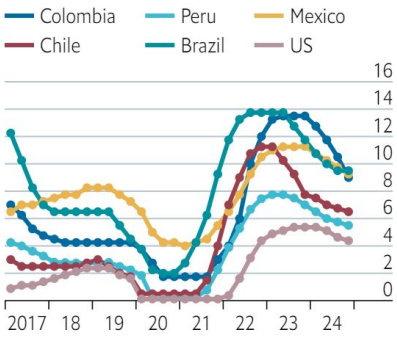
Latin America is home to some of the world's largest deposits of minerals crucial to the global energy transition
(global ranking of mining reserves)

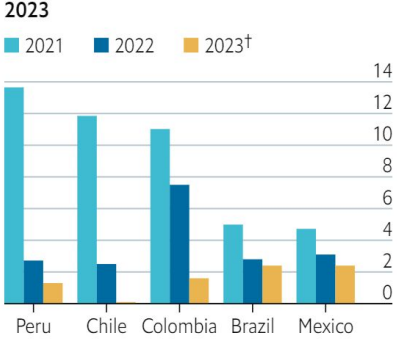
Sources: US Geological Survey; EIU.

Latin American economies are gearing up for policy rate cuts
(%)









Source: EIU.

*Note. All data beyond April 2023 are forecasts. †Forecast.

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Operational risks: politics is dysfunctional, but policy mostly stable

In Brazil, Lula will struggle to make policy progress

- But the tax simplification bill has passed, buoying confidence

Political honeymoons are short and parliaments divided

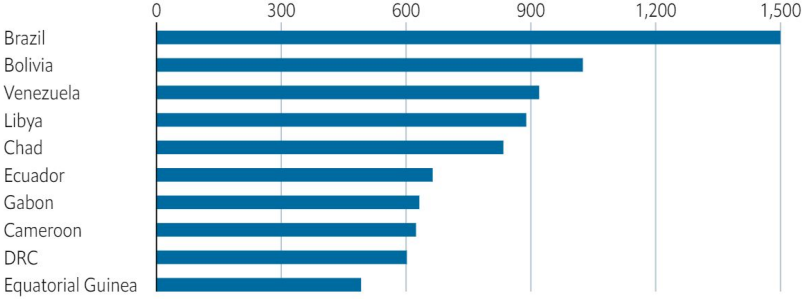
- Chile is one example. This means radical proposals go nowhere

Volatile weather patterns risk raising short-run inflation

- El Niño will make Argentina wet, but cause droughts elsewhere

Complying with tax duties takes longer in Brazil than anywhere else in the world

(average number of hours spent by firms per year on complying with tax duties)



Sources: World Bank; EIU.

Who's ready to enter supply chains? Some considerations

(score out of 10 in the Business Environment Rankings)

	Political effectiveness	FDI policy	Foreign trade & exchange controls	Labour market	Infrastructure	Technological readiness	Average
Taiwan	7.8	8.2	8.2	7.5	7.5	9.2	8.1
Chile	8.4	9.6	8.7	6.7	7.3	6.9	7.9
Malaysia	6.5	7.3	8.2	6.8	6.5	7.5	7.1
Costa Rica	6.1	7.8	8.7	7.3	4.8	6.3	6.8
Mexico	4.2	7.8	9.6	6.1	5.8	5.5	6.5
Colombia	5.2	7.3	7.3	6.3	5.3	5.8	6.2
Vietnam	4.9	6.9	7.8	6.6	4.3	6.1	6.1
Brazil	4.5	7.8	7.3	5.5	5.0	6.1	6.0
Peru	4.5	7.8	8.2	5.4	5.3	4.1	5.9
Dominican Republic	4.2	6.4	8.2	5.2	5.8	3.3	5.5
Argentina	4.5	5.1	4.2	5.6	5.5	5.8	5.1
Ecuador	4.2	6.0	6.9	5.1	5.5	3.3	5.1

Source: Economist Intelligence Unit, Business Environment Rankings.

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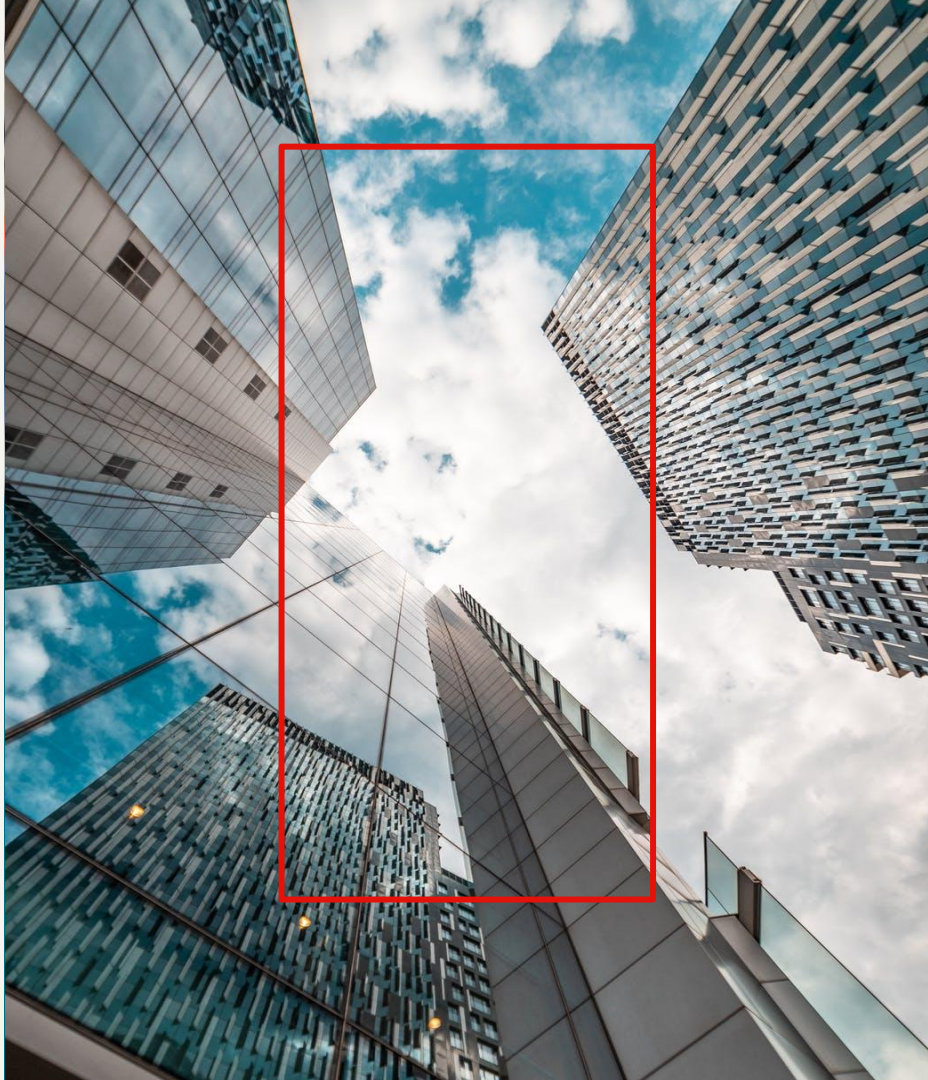
Long-term growth outlook



What does the world look like in 2050?

Fastest long-term growth rates will be in Asia

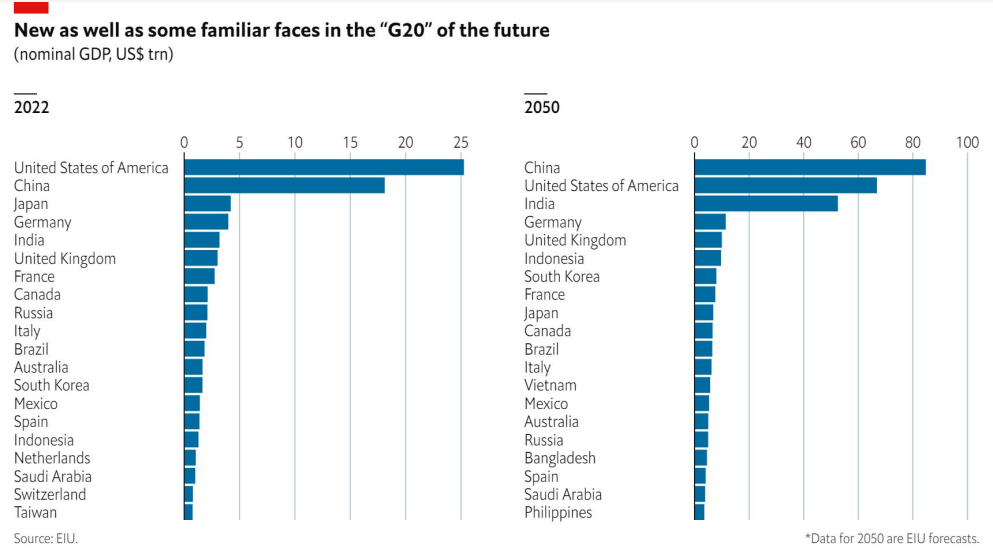
- China will become the world's biggest economy in the 2030s

Europe's developed economies will lose global share

- Mostly because of the terrible demographic outlook

India and Indonesia will score well for size and growth

- Not just for outsourcing: market opportunities will be big



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In summary...

01 Growth is slowing

Monetary conditions will be tight, interest rates high and growth lacklustre in 2023-24

02 Industrial policy is back

The US and the EU are diving into a green subsidy race, boosting cash for investment

03 Derisking policy focus

For Europe, after decoupling from Russia, derisking from China is the stated goal

04 China underwhelms

Property and labour market woes are holding back domestic demand and investor sentiment

05 LatAm opportunities

FDI inflows are booming, with US nearshoring and green metals, and a cyclical upturn coming in 2024

06 And an Asian century

By 2050 the US and China will be joined by rising Asian powers at the expense of EU countries

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Questions welcome!

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