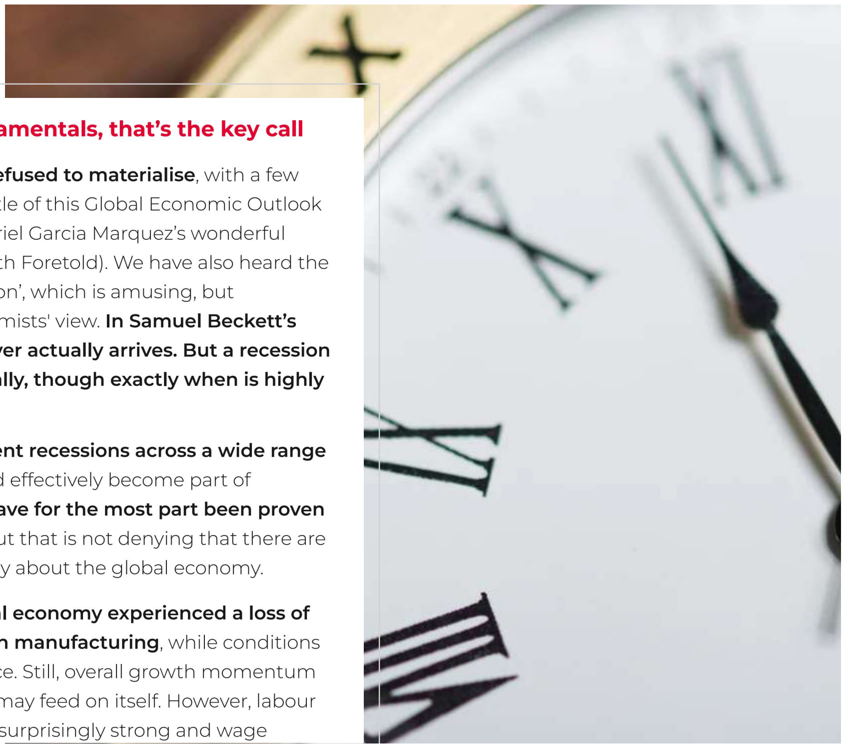
GLOBAL ECONOMIC OUTLOOK

Chronicle of a recession foretold (repeatedly)

OVERVIEW

Anxiety about an imminent or soon-to-arrive recession has been raging for more than a year. Recession fears surged wh invaded Ukraine, triggering steep increases in energy prices worldwide, but especially in Europe where natural gas pric exploded. The war also compounded upward pressure on global agricultural prices, which had already been on a steep c recession fears only grew when central banks in advanced economies fell into line with those across the emerging w abandoning ultra-easy monetary policy, and in a hurry. In short, there were very good reasons to expect recession. Hc recession stubbornly refused to materialise, with a few exceptions.

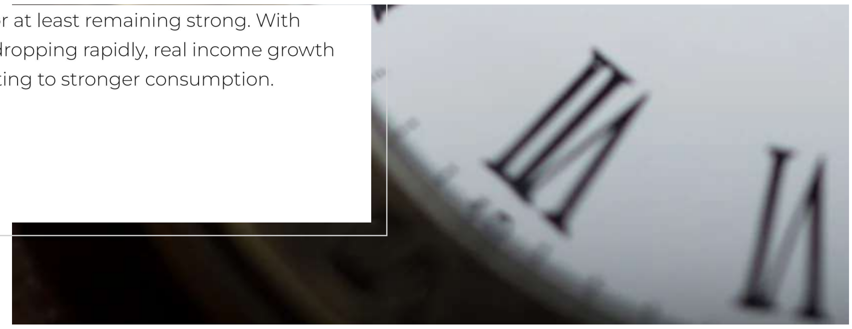


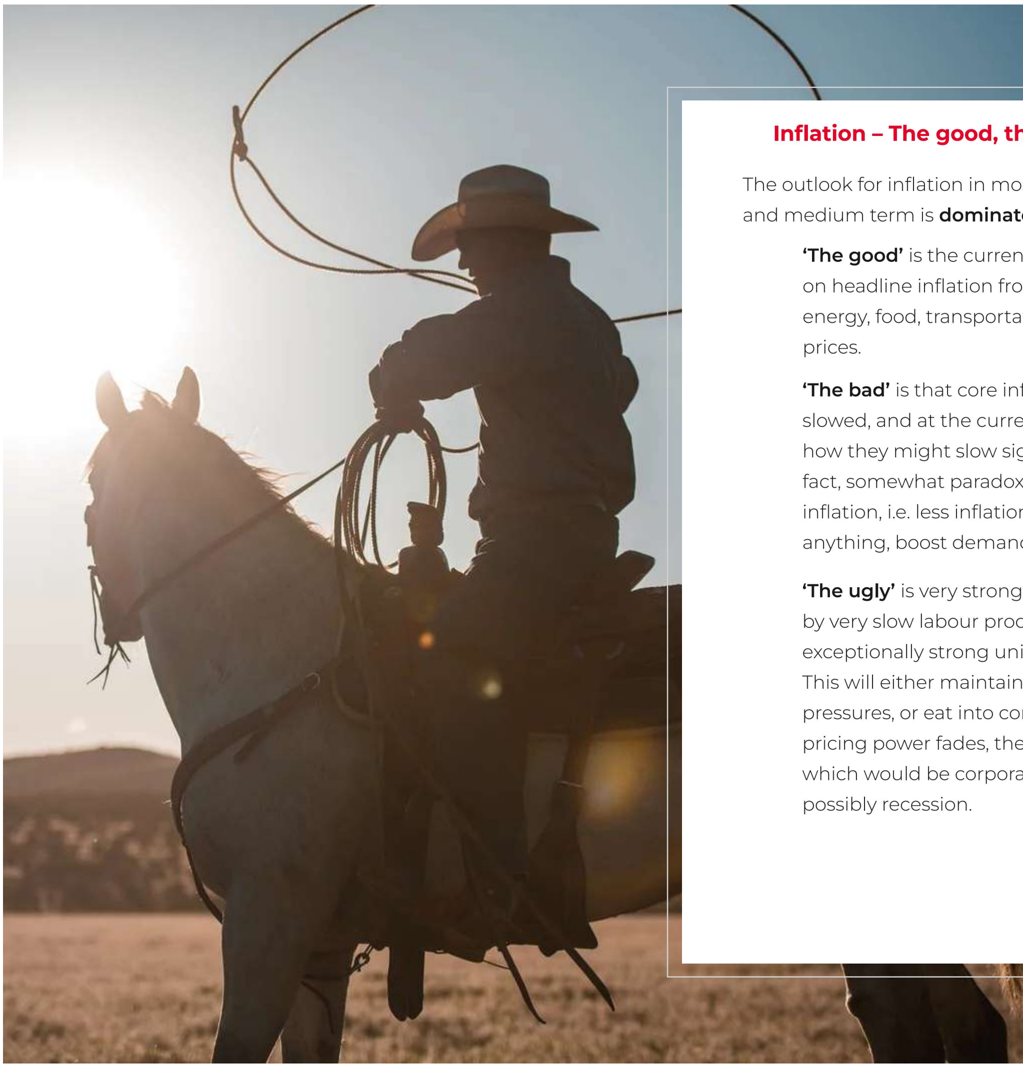
Momentum or fundamentals, that's the key call

Recession stubbornly refused to materialise, with a few exceptions. Hence the title of this Global Economic Outlook (which paraphrases Gabriel Garcia Marquez's wonderful novel Chronicle of a Death Foretold). We have also heard the term 'the Godot Recession', which is amusing, but misleading in our economists' view. **In Samuel Beckett's seminal play, Godot never actually arrives. But a recession is sure to arrive eventually, though exactly when is highly uncertain.**

Expectations of imminent recessions across a wide range of economies which had effectively become part of 'common knowledge', **have for the most part been proven wrong.** So far, at least. But that is not denying that there are plenty of reasons to worry about the global economy.

Many parts of the global economy experienced a loss of momentum, primarily in manufacturing, while conditions in services show resilience. Still, overall growth momentum has weakened, and this may feed on itself. However, labour markets have remained surprisingly strong and wage growth is accelerating or at least remaining strong. With headline inflation now dropping rapidly, real income growth is turning positive, pointing to stronger consumption.





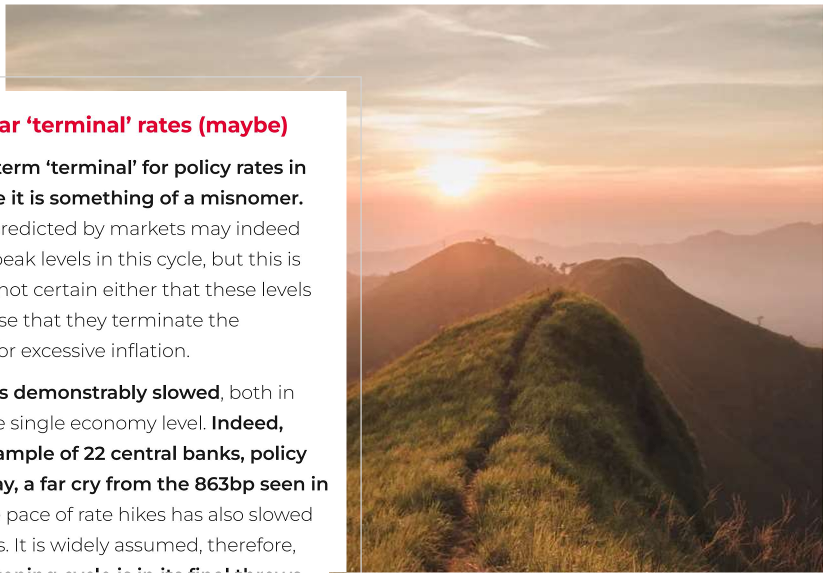
Inflation – The good, the bad and the ug

The outlook for inflation in most economies over th and medium term is **dominated by three main fo**

'The good' is the current intense downward on headline inflation from the reversal of spil energy, food, transportation and other comm prices.

'The bad' is that core inflation rates have har slowed, and at the current juncture it is hard how they might slow significantly any time s fact, somewhat paradoxically, lower headline inflation, i.e. less inflation in energy and food, anything, boost demand pressures on other

'The ugly' is very strong wage growth accom by very slow labour productivity gains, result exceptionally strong unit-labour cost growth This will either maintain high underlying pric pressures, or eat into corporate profit margir pricing power fades, the logical consequence which would be corporate retrenchment, an possibly recession.



Central banks at or near 'terminal' rates (maybe)

Our economists put the term 'terminal' for policy rates in quotation marks because it is something of a misnomer. The peaks in policy rates predicted by markets may indeed turn out to be the actual peak levels in this cycle, but this is not at all certain. And it is not certain either that these levels will be terminal in the sense that they terminate the economic expansion and/or excessive inflation.

The pace of rate hikes has demonstrably slowed, both in aggregate as well as at the single economy level. **Indeed, across our economists' sample of 22 central banks, policy rates rose by 250bp in May, a far cry from the 863bp seen in September 2022.** And the pace of rate hikes has also slowed across major central banks. It is widely assumed, therefore, that **the near-global tightening cycle is in its final throws.**

In our economists' view, the US Fed reached the peak for this cycle with the Fed funds rate at 5.00-5.25%. The same we believe is the case for several emerging market central banks. But broadly speaking, the risks are skewed to the upside. Emerging market central banks had been much timelier in their reaction to rising inflation and were therefore well ahead of advanced economies' central banks who clung to the idea that the inflation surge was just temporary. **In contrast, policy rates in Western Europe will, in our economists' view, rise further.**

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ECONOMICS

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Central banks at or near 'terminal' rates (maybe)
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Global trade momentum worryingly weak
Focus – GHG emissions in 2030: World not ready for targets
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