

GLOBAL ECONOMIC OUTLOOK

Chronicle of a recession
foretold (repeatedly)

OVERVIEW

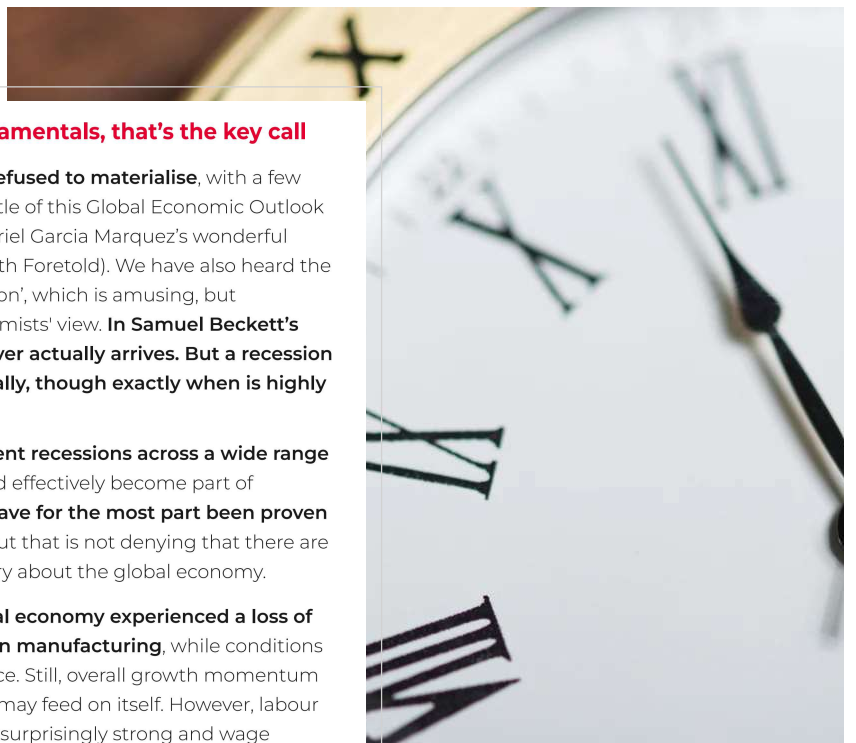
Anxiety about an imminent or soon-to-arrive recession has been raging for more than a year. Recession fears surged when Russia invaded Ukraine, triggering steep increases in energy prices worldwide, but especially in Europe where natural gas prices exploded. The war also compounded upward pressure on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

Momentum or fundamentals, that's the key call

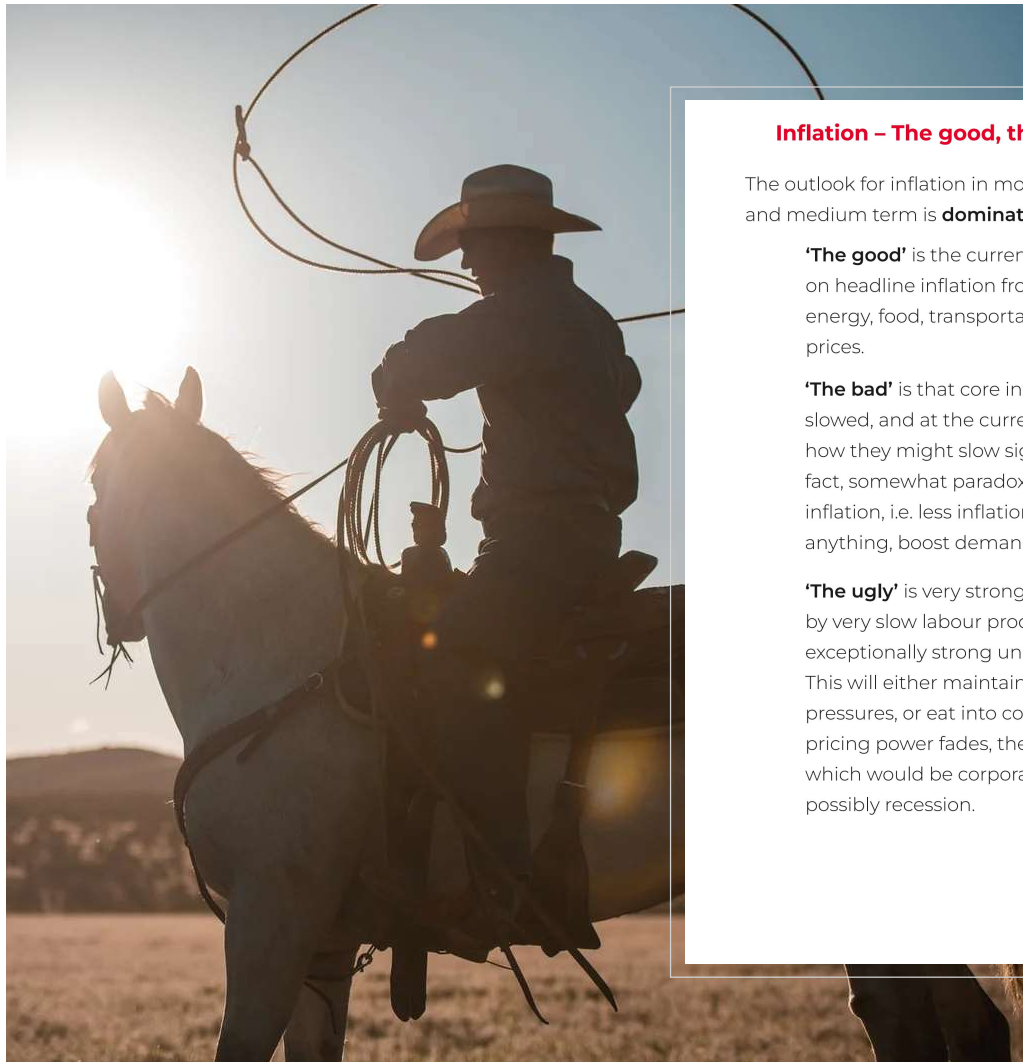
Recession stubbornly refused to materialise, with a few exceptions. Hence the title of this Global Economic Outlook (which paraphrases Gabriel Garcia Marquez's wonderful novel *Chronicle of a Death Foretold*). We have also heard the term 'the Godot Recession', which is amusing, but misleading in our 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 ugly

The outlook for inflation in most economies over the short and medium term is **dominated by three main factors**:

‘The good’ is the current intense downward pressure on headline inflation from the reversal of spikes in energy, food, transportation and other commodity prices.

‘The bad’ is that core inflation rates have hardened, and at the current juncture it is hard to see how they might slow significantly any time soon. In fact, somewhat paradoxically, lower headline inflation, i.e. less inflation in energy and food, anything, boost demand pressures on other parts of the economy.

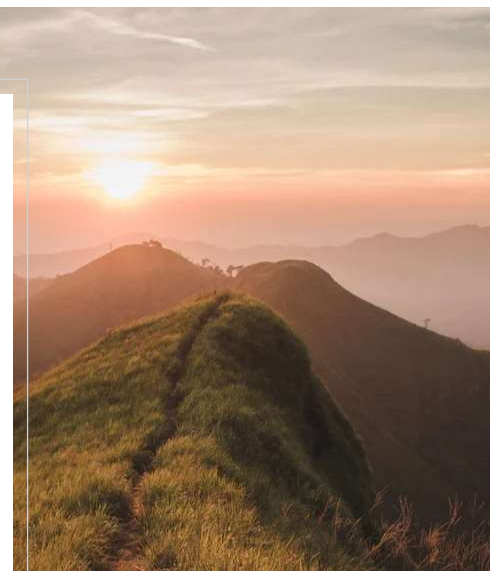
‘The ugly’ is very strong wage growth accompanied by very slow labour productivity gains, resulting in exceptionally strong unit-labour cost growth. This will either maintain high underlying price pressures, or eat into corporate profit margins. If pricing power fades, the logical consequence would be corporate retrenchment, and 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.

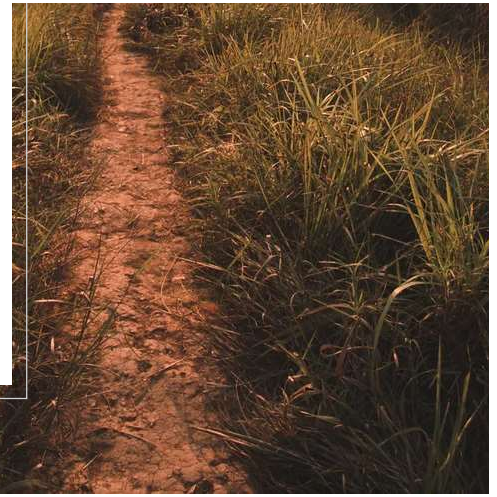
The peaks in policy rates predicted by markets may indeed turn out to be the actual peak levels in this cycle, but this is not at all certain. And it is not certain either that these levels will be terminal in the sense that they terminate the economic expansion and/or excessive inflation.

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 current cycle is likely to be the last of its kind for some time.



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.



IMPORTANT NOTICE: This website and its contents are for informational purposes only and is not a recommendation or an offer or solicitation for the purchase or sale of any security or financial instrument. SG Research is for institutional and professional clients only. Visitors to this site should not take any investment decision based on the summary material provided here, which should be read in the context of the underlying research report made available to subscribers.

Unless otherwise stated, any views or opinions expressed in the presentation are solely those of the presenter(s) and may differ from the views and opinions of others at, or other departments or divisions of, Societe Generale ("SG") and its affiliates. No part of the presenter(s) compensation was, is or will be related, directly or indirectly to the specific views expressed herein. This material is provided for information purposes only and is not intended as a recommendation or an offer or solicitation for the purchase or sale of any security or financial instrument. The information contained herein has been obtained from, and is based upon, sources believed to be reliable, but SG and its affiliates make no representation as to its accuracy and completeness. The views and opinions contained herein are those of the author of this material as of the date of this material and are subject to change without notice. Neither the presenter(s) nor SG has any obligation to update, modify or otherwise notify the recipient in the event any information contained herein, including any opinion or view, changes or becomes inaccurate. To the maximum extent possible at law, SG does not accept any liability whatsoever arising from the use of the material or information contained herein.

This presentation should not be construed as investment research as it has not been prepared in accordance with legal requirements designed to promote the independence of investment research. Therefore, even if it contains a research recommendation, it should be treated as a marketing

communication. This publication is not subject to any prohibition on dealing ahead of the dissemination of investment research. Notwithstanding the preceding sentence SG is required to have policies in place to manage the conflicts which may arise in the production of its research, including preventing dealing ahead of investment research.



SOCIETE GENERALE

100 Years

ECONOMICS

28 June 2023

| Issues |

Global Economic Outlook

Chronicle of a recession foretold (repeatedly)



Momentum or fundamentals, that's the key call
Inflation – The good, the bad and the ugly
Central banks at or near 'neutral' rates (maybe)
Focus – Do higher credit standards risk over-tightening?
Global trade momentum surprisingly weak
Focus – GHG emissions in 2030: World not ready for targets
Commodities outlook: Backwardation without perspiration

This document contains confidential information and business information. Please refer to the back matter page of this research report.