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Global economic outlook

Strong US economy drives global growth upgrade

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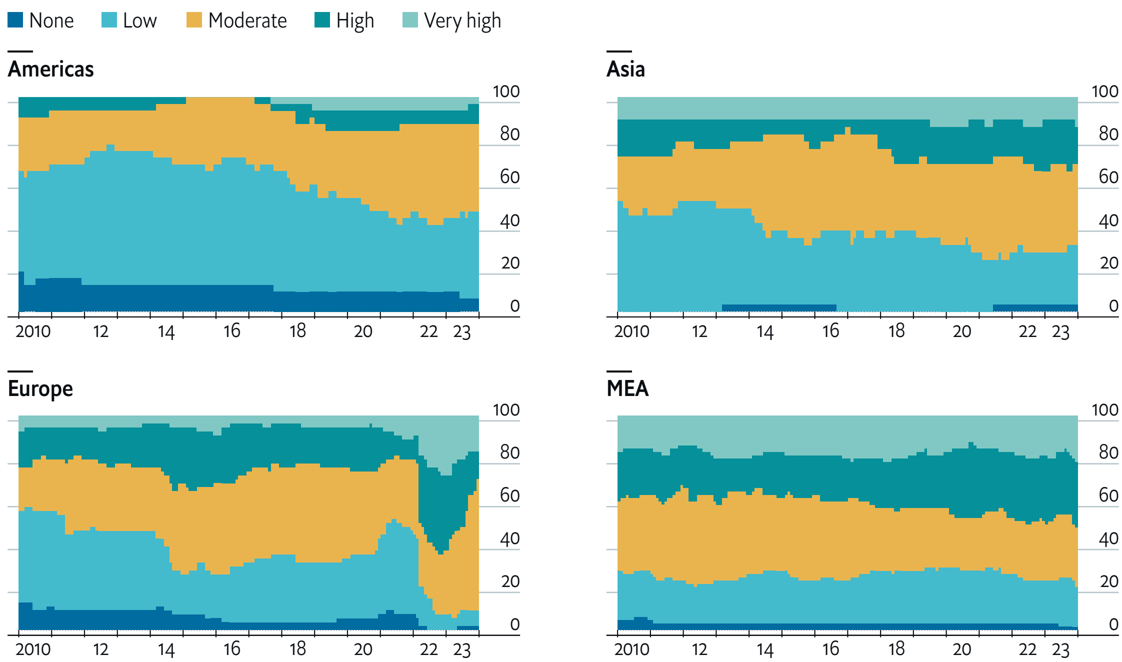
- We have raised our global real GDP growth forecast for 2024 from 2.3% to 2.4%. This means that growth in 2024 will be basically unchanged from an estimated 2.5% in 2023. Although growth remains sedate by historical standards, this stability demonstrates resilience in the global economy, given high interest rates and geopolitical tensions.
- The change in global growth follows a further upgrade to our US GDP growth forecast, which now stands at 1.8% (up from 1.3% previously), with the latest US data pointing to continued resilience. The US upgrade has more than offset a downgrade in China's growth forecast from 4.9% to 4.7%. China's downgrade reflects a dimmer outlook for consumption and for property-related activity, owing to delays in support for distressed developers.
- Our global monetary policy forecasts are largely unchanged from the previous month, but we have brought forward to the second quarter of this year the date at which the Bank of Japan (BOJ, the central bank) will exit its negative interest-rate policy. The BOJ is then expected to move to a positive, albeit only slightly, rate in early 2025. Although these are incremental changes, they will still be sufficient to encourage a reshoring of Japanese capital that will tighten borrowing conditions in other markets.

Rising geopolitical competition will weigh on growth potential

Europe has seen biggest change in geopolitical tensions, but no region has been immune
(level of threat posed by international disputes; % of total geographies, by region)



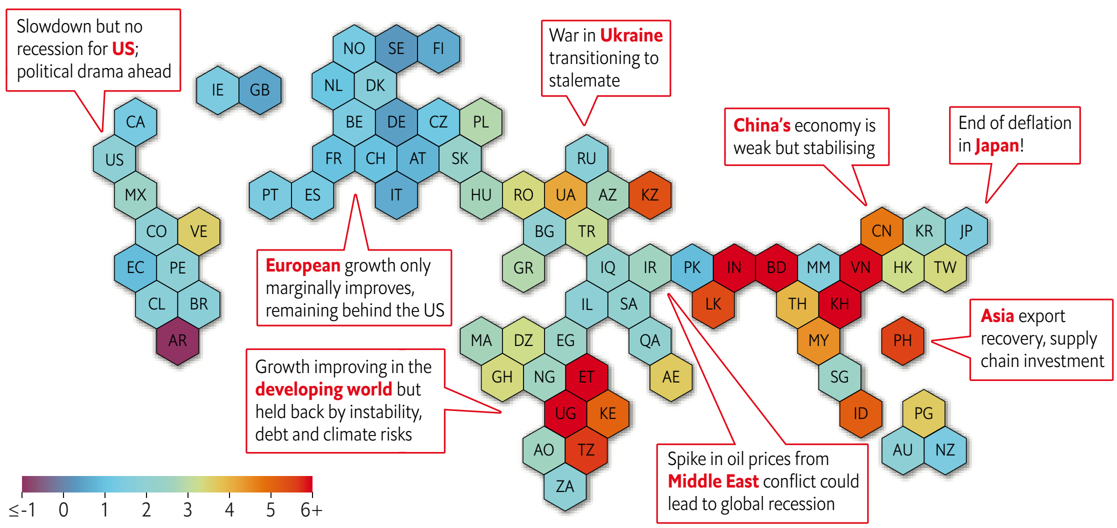
Source: EIU.

The Israel-Hamas war is adding complexity to a global geopolitical environment that is characterised by intensifying competition and more frequent conflict. Underlying these changes is the diffusion of global power and greater uncertainty over the direction of US foreign policy. We believe that geopolitical tensions, as also stoked by Russia's invasion of Ukraine and US-China rivalry, will lead to more fragmentation and regionalisation in the world economy, dragging on growth potential. Government policy, including sanctions and the provision of new industrial incentives, will push firms to adopt more inefficient supply chains and also stoke global trade tensions. The escalation of current conflicts in Asia, Europe or the Middle East would upend our global outlook.

Global growth will not be strong, but a recession will be avoided

Relatively high interest rates will constrain global economic activity, but there are no indications of systemic debt strains that could pull the world economy into recession. The impact on the US economy of monetary policy tightening has been less than we expected, helped by a strong labour market, and we have revised up our real GDP growth forecast to 1.8% in 2024 (from 1.3% previously). Momentum in Europe will remain lacklustre in 2024 but a recession will be avoided, whereas moderate stimulus in China will build some momentum in its economy. Emerging markets will generally benefit from an expected shift to looser global monetary settings in the second half of the year and a rebound in global trade. We forecast global economic growth of 2.4% in 2024 (at market exchange rates), almost unchanged from an estimated 2.5% in 2023. The outlook improves in 2025-28 (we expect annual growth to average 2.7%), aided by monetary easing and investment in technology and the energy transition, but growth will still fall short of recent standards—global growth averaged 3% a year in the 2010s.

Markets in Asia, Africa offer main pockets of global growth in 2024
(change in real GDP, 2024; %)

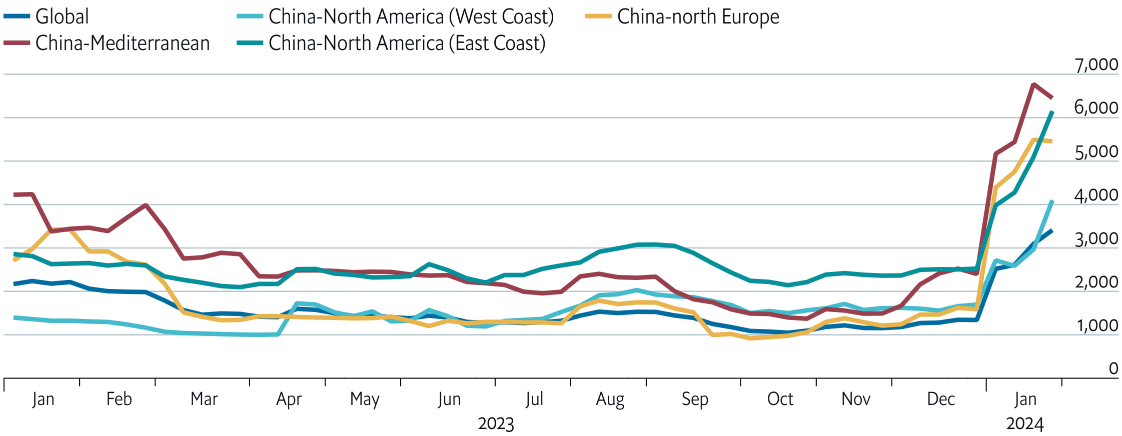


Source: EIU.

Disinflation is forecast to continue, but upside risks persist

The post-pandemic normalisation of supply, alongside softer demand growth, will drive consumer price inflation lower in most markets (we forecast that it will average 2.4% across developed economies in 2024). However, the rapid price gains of recent years will not be undone. In addition, upside risks continue to weigh on our inflation outlook. Although remaining far below the levels they reached during the pandemic, global shipping costs have risen as a result of the disruption of trade in the Red Sea; should the Israel-Hamas war begin to disrupt oil supply, the impact on hydrocarbon prices would also be significant. Stronger than expected effects from unpredictable climate conditions on agriculture output would push up food prices, especially in developing economies.

Red Sea disruptions are putting pressure on global sea freight rates
(US$/40-ft equivalent containers)

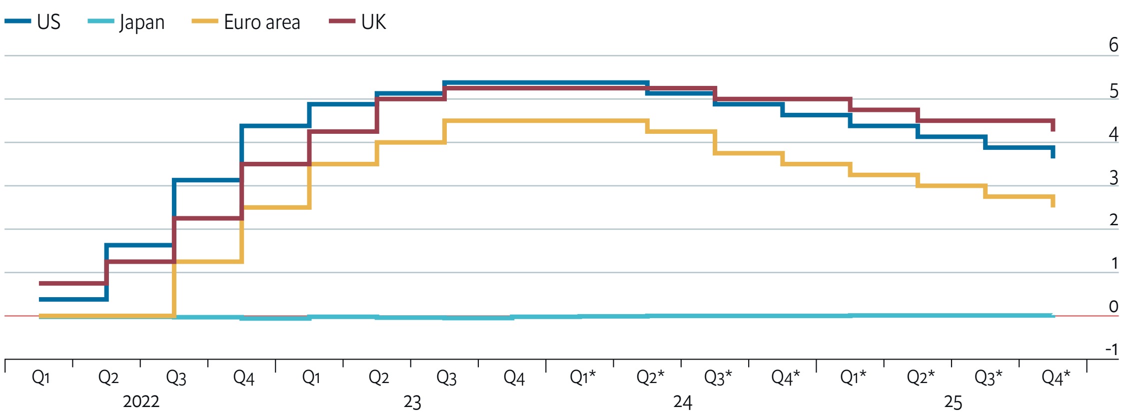


Sources: Freightos Baltic Index (FBX); EIU.

Monetary tightening is over, but there will be caution on loosening

Our forecasts assume that the Federal Reserve (Fed, the US central bank) and the European Central Bank (ECB) have concluded their policy rate increases. A desire to fully anchor inflation expectations means that both institutions are likely to move later than markets expect in terms of lowering rates; we

Monetary policy loosening looks likely from Q2 2024
(policy interest rate, %; end-period)



Source: EIU.

*Data from Q1 2024 are EIU forecasts.

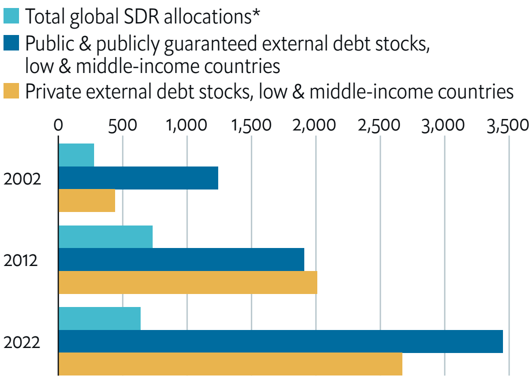
forecast that easing will begin in June, and that it will then proceed fairly gradually. Japan's gradual move away from ultra-accommodative settings will continue in 2024, with its policy rate forecast to return to zero. Some emerging markets will continue to lower rates ahead of the Fed to support growth, as the exchange-rate outlook stabilises, and China will maintain a loose stance to fend off deflation risk. We do not expect a return to the near-zero interest rates of the 2010s over the next five years, with higher trend investment and tightness in labour markets (related to population ageing and workforce changes) keeping a floor under inflation.

There will be little fiscal headroom to support growth

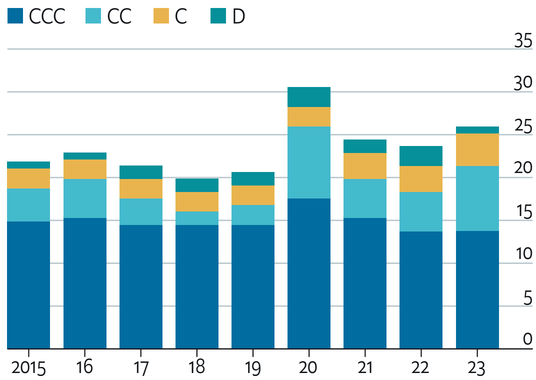
Elevated government bond yields—the benchmark US Treasury ten-year bond yield is forecast to average 4.1% in 2024, the highest since 2007—mean that there will be limited space to pursue fiscal expansion. Governments will be more reluctant to borrow, and debt-servicing costs will absorb larger portions of their budgets. In this context, some revenue-raising measures are likely, but appetite to implement spending cuts will generally be limited. Areas of public spending that are likely to prove more protected will relate to defence, healthcare and industry policy. We expect further sovereign defaults among frontier markets, and these will generally prove complex to resolve, given a diverse set of creditors and the weakening influence of global institutions such as the IMF.

Vulnerability to crisis has risen amid shrinking IMF capacity

The limits of the safety nets the IMF can provide are highlighted by the rapid growth of external public debt in the past decade (US$ bn)



The proportion of EIU-rated sovereigns that are at significant risk of default has not fallen back to pre-pandemic levels (%; year-end sovereign risk ratings by rating band†)



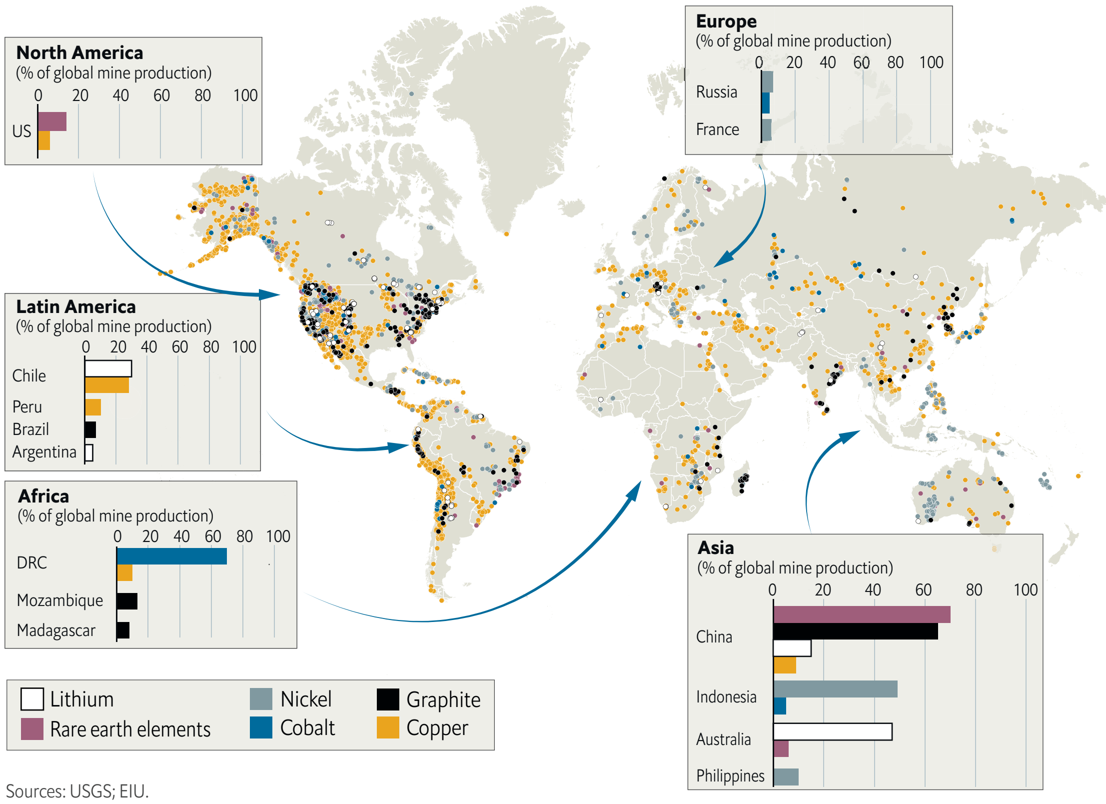
Sources: IMF; EIU.

*Annual average SDR:US$ exchange rate.
†EIU Financial Risk rating bands run from AAA (least risky) to D (most risky).

Emerging markets, AI and green industries lead growth opportunities

Even with China's economy slowing to less than 4% growth by 2028, we forecast that developing and emerging economies will contribute the bulk of global GDP growth over the next five years, helped by stronger contributions from other markets. India is forecast to expand the quickest of any major global economy in 2024-28. At the sectoral level, we see opportunities tied to supply-chain restructuring and to demand for resources that are critical to future industries and the green transition. Artificial intelligence (AI) will create cost-cutting opportunities and lead to some disruption, but overall we believe that it is more likely to augment rather than replace human capabilities, resulting in job changes

China is the largest global producer of critical minerals
(distribution of critical mineral mines, deposits and districts)



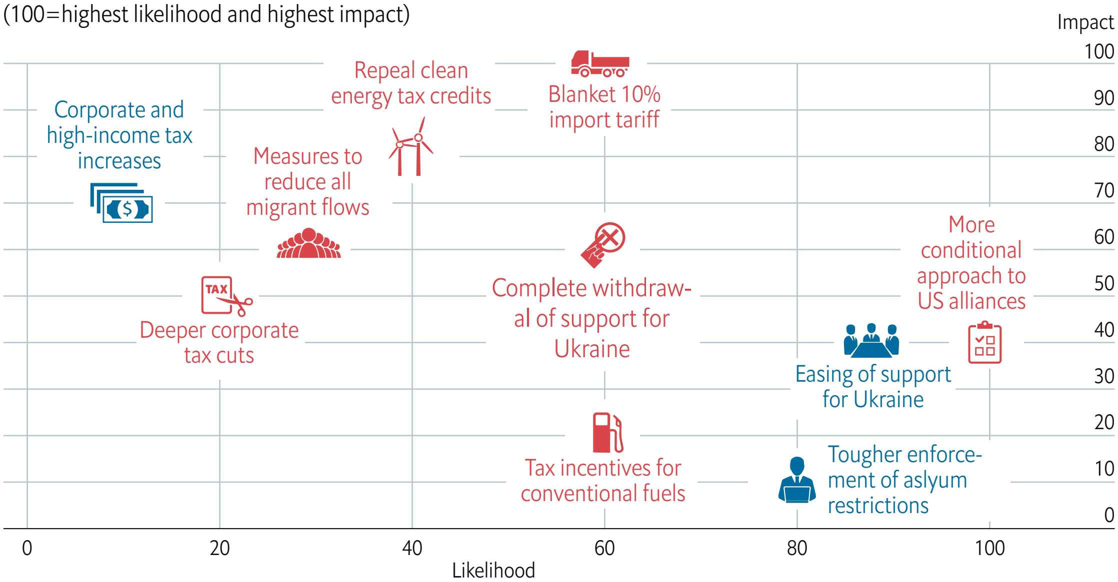
Sources: USGS; EIU.

rather than job destruction.

Fragmentation and regionalisation will define politics and policymaking

The passage of the worst of the cost-of-living crisis will ease some pressures on policymakers, but the austerity measures now required to repair public finances and insulate governments from higher borrowing costs will be unpopular. Political support for moderate, liberal policies will remain weak, and economic policymaking will generally push in a more insular direction, to the disadvantage of international co-operation on climate, technology and trade issues. The 2024 US election will highlight political and cultural division, and would prompt a sweeping set of policy changes if the former president, Donald Trump, were to win the presidency for the Republicans (this is not our baseline forecast, but the risk of it occurring is very high). In Europe, politics is moving towards the right in response to economic and migration pressures. Authoritarian regimes will face challenges of their own, and governance in many parts of the world will be challenged by threats ranging from climate change to terrorism.

Potential policy shifts under a Biden or Trump second term
(100=highest likelihood and highest impact)



Note. Policies in red indicate those likely under Donald Trump; policies in blue are likely under Joe Biden.
Sources: EIU.

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