At a glance: The world right now

A snapshot of the latest developments in the global economy

2024 will not be the year the global economy sees a strong rebound, but we remain hopeful for a few positive surprises

United States – Remarkable resilience, but it is unlikely to last

Twelve months ago, recession was the solid call for the US in 2023. Instead, the economy has confounded expectations, with full-year growth set to come in around 2.5% while unemployment is still only 3.9%. The consensus opinion was that the most aggressive series of interest rate increases in 40 years would eventually take its toll while lingering concerns over the state of both the Chinese and European economies added to downside risks. The stress in the small banks sector in March and April only intensified the worries for the economy.

However, swift action from the Federal Reserve restored calm while consumers' willingness to spend was insatiable, fuelled by a glut of savings accrued during the pandemic. The Inflation Reduction Act has been more effective at driving investment than many thought likely, while the recovery in house prices stimulated construction spending. The fourth quarter looks set to post decent growth of around 2%, but with hiring slowing and inflation looking much better behaved, we think the Fed is finished hiking – and the next move will be rate cuts next year.

Eurozone – downturn stopped deepening, but recovery still some way off

Several sentiment indicators – like the PMI or the German Ifo indicator – bottomed out in

November, albeit remaining at recession levels. With the inventory correction far from completed and weakening credit demand, the winter months are likely to see growth around 0% (after -0.1% in the third quarter), with a high probability of a technical recession. From the second quarter of 2024, a gradual recovery should unfold, driven by a turning of the inventory cycle and improvements in real wages. Still, the upturn is likely to be modest on the back of the delayed effects of monetary tightening, a rising household savings ratio and significant fiscal tightening in Germany, resulting in only 0.3% GDP growth for the year.

Even though some statistical effects could temporarily push up inflation at the start of 2024, the overall trend of disinflation should remain intact throughout the next year. With wage growth likely having peaked, both headline and core inflation should end 2024 at 2.2%. Even if European Central Bank (ECB) officials still try to keep the door open for further rate hikes, we think that the central bank is done hiking and instead will be facing serious discussions about rate cuts, with a first rate cut likely to materialise in June 2024.

UK – Rate hike cycle is over, despite some modest fiscal stimulus

The news on UK inflation is getting decidedly better. Not only has headline CPI fallen below 5% on energy base effects, but services inflation is showing clearer signs of moving lower. The labour market is cooling, although issues with unemployment statistics make it hard to know just how rapidly. The days of 8%+ private sector wage growth are behind us, with inflation expectations coming lower and labour shortages having eased dramatically. Policymakers seem to be more confidently signalling that the rate hike cycle is over.

At the margin, the recent announcements from the Chancellor in his Autumn Statement may bolster the Bank of England's argument that rates need to stay at these levels for a long time. But the headline cut to personal taxes paid by employees has to be viewed in the broader context of fiscal drag (a result of freezing the income tax brackets at a time of high inflation). We still expect the first rate cut next summer.

China – Some good, some bad

China's economy continues to be weighed down by the weakness of the property market, where the news flow remains unremittingly negative, offset to some degree by slight gains in other sectors. Prices for both new and used homes are still falling and at a slightly faster pace. Construction activity is also worsening, which weighs on all the other parts of the economy that feed into or are related to the property sector (e.g., fixed asset investment and infrastructure spending). As a result, industrial production growth – while positive – is bogged down at about a 4.5% year-on-year pace.

Most of the support for the economy is coming from the household sector, where retail sales are showing some signs of resilience. Government measures are being slowly expanded to ease the drag from construction on the rest of the economy, including some slightly more helpful fiscal measures and encouragement for the banks to increase lending to property developers – although this has been tried unsuccessfully before. The general theme remains one of deleveraging and adjustment to an economy that is less reliant on property for its growth. The economy will manage to hit the government's 5% target this year but it may struggle to equal it next year.

Rest of Asia – Event risks and headwinds

Asia is staging a very modest pick-up, but it is being weighed down by a combination of a few key elements: lingering inflation keeping monetary policy tight, fiscal consolidation after the excesses of the pandemic, and a semiconductor cycle that is now turning higher but shows little signs of a strong bounce. The fact that China continues to struggle and that most of its growth is centred on low-leakage consumer spending isn't providing much of a lift to the rest of Asia either through the export channel. Ex-China export growth, and in consequence, industrial production across the region remains soft (even though it seems to have bottomed) and remains lower in many cases than a year ago. Political event risk picks up in the region in 2024, with elections in Taiwan, India, Indonesia and South Korea. The Taiwan elections on 13 January 2024 have the potential to generate the most market anxiety.

CEE – More divergence on the way

The region will continue the cutting cycle, but each country will do so in its own way. Hungary will continue with a swift cutting pace, while Poland has switched to a wait-and-see approach after two rate cuts. The Czech Republic and Romania prefer to stay on the safe side and have pushed back the start of the cutting cycle to the first and second quarters of next year. Inflation has successfully returned to single digits, but a return to central banks' targets will be complicated – and in most cases, will not happen in the next year. In addition, persistent core inflation will be a major problem, supported by a still-tight labour market. The economy should recover after a very weak year, but a number of risks remain on the table and optimism may quickly fade.

FX – Dollar déjà vu

This time last year, everyone was wondering whether the dollar had topped. That same speculation is again with us this year – this after the dollar has fallen a little over 3% from its October highs. Driving the recent drop in the dollar has been a sense of relief that the Fed tightening cycle must be over and also some position adjustment ahead of the US Thanksgiving holiday. However, it seems a little too early for the dollar to embark on its big cyclical downswing because US short-dated rates are still near 5%, and overseas growth prospects still look quite bleak. Our preference is that the dollar decline is more of a slow-burn story through the first quarter of 2024 before gaining some momentum ahead of the first Fed cut in the summer. Before then, periods of low FX volatility will encourage more interest in (yen-negative) carry-trade strategies and place an increasing burden on a Bank of Japan policy shift to send USD/JPY markedly lower.

Rates – The lure of rate cuts

Bond markets tend to get very excited when central banks gear up for rate cuts. What happens to front end rates is obvious; the 2yr yield gap lowers. The big question is what happens to longer tenor rates. The answer is they usually fall, too, right out of the curve. There is a nagging fear that the US back end might struggle to perform due to fiscal pressures. But we are of the opinion that the bond market obsession with the rate cycle should dominate, causing a bullish steepening of the curve from the front end. This all sounds just a bit too normal, though – and what makes us uncomfortable is that it all seems too balmy an outcome. We still worry about liquidity risks, the fiscal deficit in the US, and geopolitics. But none of these is stark enough to change the baseline view for lower rates and steeper curves in the US, the eurozone and beyond.

Authors

James Knightley
Chief International Economist
james.knightley@ing.com

James Smith
Developed Markets Economist
james.smith@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Robert Carnell
Regional Head of Research, Asia-Pacific
robert.carnell@asia.ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com