No magic spell for a brighter world

2024 will hopefully bring some magic into the global economy, but we're going to have to wait until well into the second half. And even then, various conjuring tricks, whether they be from central banks, governments or something or someone unexpected, are unlikely to produce a grand, crowd-pleasing 'ta-da'

Watch: Carsten on what to expect in 2024

Carsten Brzeski with his take on what to expect from the global economy next year

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We won't be seeing a strong rebound

'Not again!'.

'Can't you be a bit more upbeat?'

I've heard this a lot this year, especially when talking about Europe. To some, 2023 has been better than feared as the US economy, in particular, has shown an almost magical resilience, and Europe has at least avoided a severe energy crisis. But maybe you're in the other camp that mostly sees a stuttering Chinese economy and stagnation in Europe amid a backdrop of a new war in the Middle

East, an older one in Ukraine. High rates and higher-still inflation have marked another turbulent year with very few positive surprises.

Looking into next year, the global economy will do well to recall the wise words of Mary Poppins: a spoonful of sugar helps the medicine go down. So get your sugar cubes ready: 2024 will not be the year the global economy will see a strong rebound. In fact, it currently looks like we'll see a combination of this year’s trends in China and Europe and a clear landing, be it soft or hard, for the US economy.

Trust me when I say this isn't because we need more imagination to magic up with something startling and fresh. It's instead because of the delayed impact of the monetary policy tightening and a lack of significant fiscal stimulus. And we're going to have to look harder for the positives.

From China to the US to Europe

So what does that mean in practice? Well, in China, the lack of new fiscal stimulus suggests we'll see a further loss of growth momentum; the correction of the real estate and construction sector looks likely to continue. Derisking in the US and Europe will also put more pressure on Chinese growth. Here, the monetary policy tightening of the last couple of years will increasingly leave its marks on the real economy, bringing relief to many authors of economics textbooks who now won’t have to rewrite the chapters on the delayed impact of monetary policy on the real economy.

Consequently, the US economy will stage some kind of landing. We hope for a gentle one, but remember that the US economy has only once actually staged a soft landing. There should be a similar landing in Europe, but that's largely because the economy hasn't exactly been flying high and will glide down from a much lower altitude - it'll feel like an extension of the recent stagnation. As for inflation, that loss of growth momentum will add to what energy prices and base effects started this year and it should come down, at least for a while.

Europe looks at the fiscal woes in Germany with astonishment and amazement. It would be for the first time that a country with one of the lowest debt-to-GDP ratios in Europe puts itself in self-inflicted political and economic paralysis due to fiscal issues. It will be hard to find an easy way out. One thing is clear: the attempt to combine large fiscal support for a long list of transitions with balanced budgets has failed. The longer it fails to solve this conundrum, the higher the risk of Germany and, with it, Europe falling into recession. The last time Germany was called the ‘sick man of Europe’, the rest of the continent managed to enjoy strong growth. That's very unlikely to happen this time around as back then, the rest of Europe benefitted from so-called convergence play as a result of entering the monetary union. And we're not now.

Hoping for a brighter world

There is hope, though. More disinflation and the loss of economic momentum will give many central banks enough room to start cutting rates next year. It might not be the typical panicky large cuts but a rather more gradual release of the monetary brakes. This turnaround in monetary policy by the summer should point to lights at the end of the tunnel, improving the outlook and our mood in the second half of the year.

And, of course, don't forget the Grey Ducks. They're the opposite of Black Swans, namely the external events that could change everything for the better. How about an end to the wars in

Ukraine and Gaza? We can dream.

All in all, chances are small that the feedback I get from talking about the global economy to clients and journalists will change any time soon. It's clear no one has a magic wand to make the world brighter than it is. More's the pity.

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