Global economic outlook: finding balance in 2024

Strategic insights for business leaders

Week of January 15, 2024

EY Parthenon

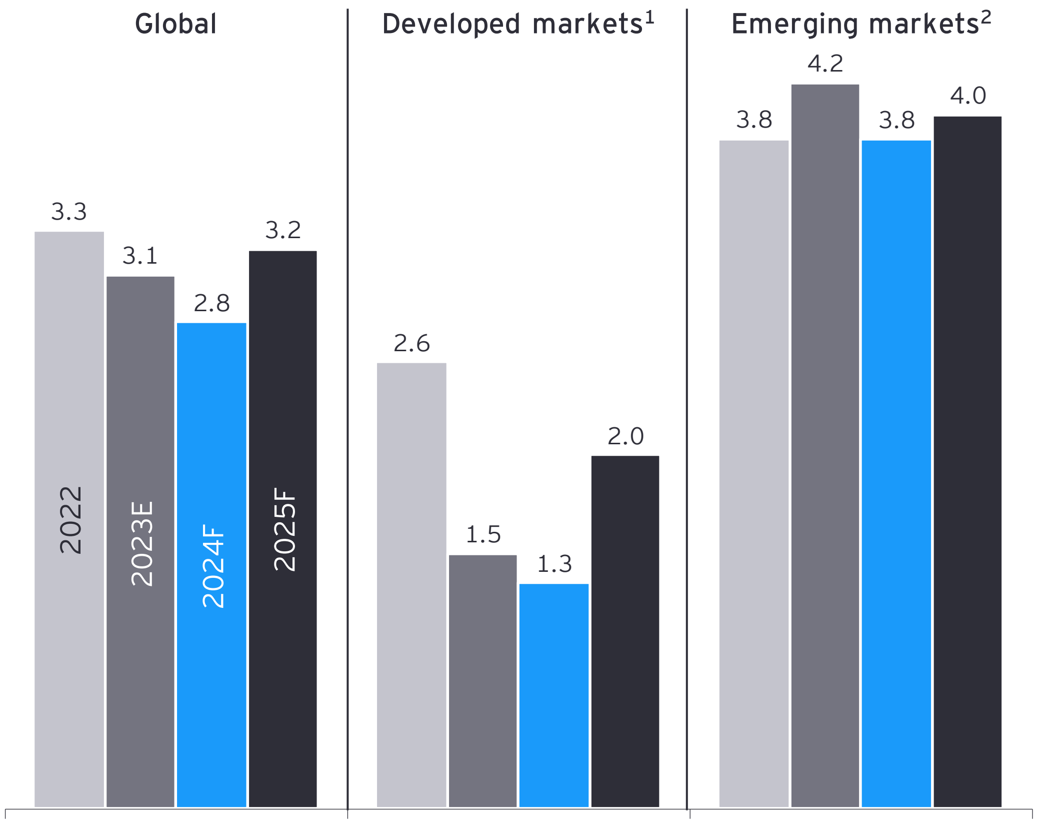
Building a better working world

Agenda

- **Global snapshot**
- Country and regional outlooks
- Meet the team and explore our resources

In 2023, the global economy proved to be more resilient than anticipated and disinflation faster than expected amid a historical monetary policy tightening cycle

Year over year (y/y) percentage change in real GDP
2022-25F



- **The global economy proved to be more resilient than anticipated, but as desynchronized as predicted, in 2023.** At 3.1%, global GDP growth surpassed consensus expectations by 1 percentage point (ppt). This outperformance was even more remarkable in that it occurred despite the fastest monetary policy tightening cycle in four decades, severe banking sector stress, wars in Ukraine and Israel, and a brief but severe tightening of financial conditions in the fall.
- **The key drivers** behind this solid global economic performance were:
  - Stronger labor market growth supporting a rebound in inflation-adjusted income growth
  - A delayed rebalancing in the growth mix driven by services
  - A much less severe drag from tighter monetary policy thanks to healthy household and corporate balance sheets
  - Support from fiscal policy in some economies
- **The economic outperformance in 2023 was accompanied by a notable decline in global inflation** driven by:
  - Easing supply constraints
  - Reduced labor shortages
  - Cooling energy prices
  - Moderating demand growth
- **But while there would appear to be much to celebrate, most measures of consumer and business morale point to a generally depressed environment.** The main reason behind this disconnect can be explained by several factors, including cost fatigue (whereby cost levels for goods, services, labor and capital are much higher than before the pandemic), the prevailing recessionary narrative through 2023, and social media amplification of negative news.

1. Developed markets according to definition of advanced economies from the International Monetary Fund (IMF).
2. Emerging markets is the rest of the world.

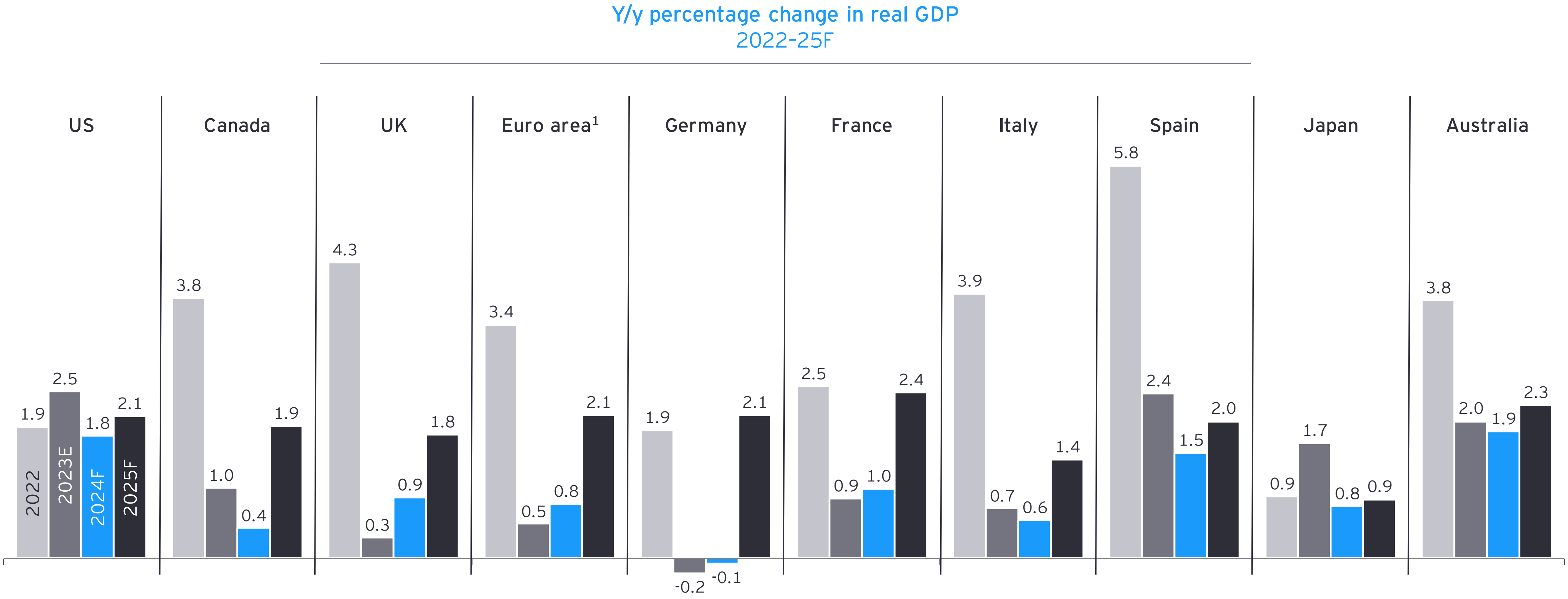
Source: EY analysis

The economic outlook for 2024 looks to be one steeped in transition; the key theme will be the search for equilibrium, marked by a collective effort to find a new normal

1. **Subtrend global growth but no recession:** In 2024, we anticipate moderate global GDP growth around 2.8% – in line with its 2019 performance – with modest growth across advanced economies, around 1.2%, and moderate momentum across emerging markets around 3.8%. We foresee the US economy advancing a moderate 1.8% in 2024 with a deceleration in the first half of the year and a reacceleration in the second half. We anticipate growth around 0.8% in Europe with Eastern European economies still benefiting from a catch-up effect while Western European economies grow at an unspectacular but positive pace. Most emerging economies are expected to grow below trend with China likely to fall short of the ambitious 5% GDP growth target despite supportive policy stimulus.
2. **Agility amid dueling headwinds and tailwinds:**
   - The notable growth headwinds in 2024 will come from weaker employment growth, persistently elevated prices and wages, high interest rates, tighter credit conditions, and fiscal consolidation across most major economies with the notable exception of China. Still, there is room for optimism in that labor markets could once again prove more resilient than anticipated, supporting stronger income growth and consumer spending. And while price levels will remain elevated, inflation will be easing and central banks will be cutting rates, providing a tailwind for households, corporations and investors.
   - With the value and cost of labor having increased significantly post-pandemic and the cost of capital likely to remain elevated, we foresee an increased strategic emphasis by business executives in driving stronger productivity growth. The urge to improve efficiency and invest in cutting-edge technologies such as generative AI (GenAI) could provide the global economy with both a cyclical and structural tailwind.
3. **Ongoing disinflation:** The combination of reduced supply constraints, modest to moderate final demand growth, rebalancing labor markets and cooling rents should lead to further global disinflation in 2024. Advanced economies should see inflation approach central bank targets around mid- to late year, while inflation in large emerging markets in Latin America (LatAm) and Asia has largely converged back to pre-pandemic levels.
4. **Central banks pivoting cautiously:**
   - Easing inflation and slow economic momentum will push central banks to pivot toward policy easing. Still, given lingering fears of inflation resurgence, we believe developed markets central banks are likely to wait until there is undeniable evidence of inflation sustainably moving toward their targets before cutting policy rates. This means rate cuts are unlikely until the spring or early summer. Importantly, once the policy recalibration cycle is complete toward the end of 2025, we foresee rates being higher than in the pre-pandemic decade.
   - The Bank of Japan (BoJ) is likely to move in the other direction by exiting its yield curve control policy. Meanwhile, across emerging markets we see most central banks in Latin America easing monetary policy ahead of the Federal Reserve and European Central Bank (ECB) while central banks in Asia largely follow in the Fed's footsteps. In China, monetary policy is likely to remain accommodative in an effort to support growth.
5. **Fiscal consolidation and geopolitically restrained trade:** Fiscal sustainability is likely to feature prominently on policymakers' agendas in 2024. We anticipate fiscal consolidation in most advanced economies resulting from a renewed focus on budget deficits in a high interest rate environment and the expiry of energy crisis support measures in Europe. Fiscal tightening is also anticipated in most emerging markets, although the adjustments may be less pronounced than in advanced economies. We expect a modest recovery in global trade flows, with services still outpacing merchandise trade. Rising geopolitical fragmentation represents a notable cyclical and structural risk to the outlook.

Source: EY analysis

Developed markets are likely to experience modest to moderate economic activity in 2024 — weighed down by cost fatigue but supported by labor market resilience



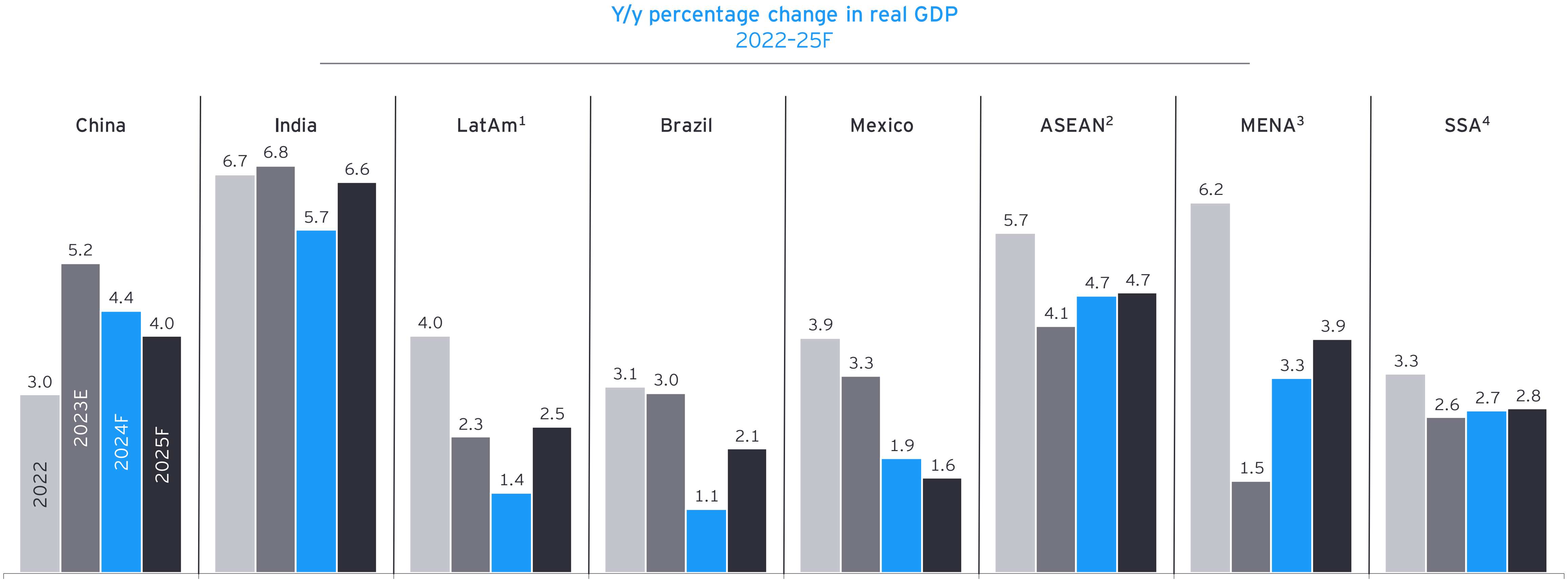
1. Euro area includes 20 countries.
Source: EY analysis

While some advanced economies are expected to stagnate in 2024, most should accelerate on cooler inflation, easing monetary policy and resilient employment growth

- **US**: The odds of the US economy entering a recession in the next 12 months are higher than usual, around 40%, but while a slowdown is nearly inevitable, a recession is by no means guaranteed. We see three key headwinds for the US economy in 2024: cost fatigue, elevated interest rates and slowing job growth. At the same time, three tailwinds will simultaneously support activity: the avoidance of a labor market retrenchment, easing inflation and labor costs compression, and the Fed cutting interest rates by at least 100 basis points (bps) in 2024. In this context, we foresee real GDP growing a moderate 1.8% in 2024 following expected growth of 2.5% in 2023.
- **Canada:** The Canadian economy is expected to experience a continued slowdown through mid-2024, constrained by elevated debt servicing costs and cost fatigue. While the Bank of Canada will be easing monetary policy in H2 2024 on account of lower inflation and recessionary conditions, we don't anticipate any broad-based fiscal stimulus measures in an election year. We see GDP growth around 0.4% in 2024, after a likely 1.0% expansion in 2023.
- **Euro area:** The Eurozone economy remains in stagnation. Economic activity is expected to gradually rebound going through 2024, supported by a decline in inflation, a gradual increase in external demand, further step-up in government investment and the diminishing effects of monetary tightening. Still, due to weak carry-over from 2023, annual average growth will remain modest in 2024 at 0.8%, following expected growth of 0.5% in 2023. Growth across the region won't be homogenous as Germany continues to lag Southern Europe. With inflation easing faster than initially anticipated and reaching 2% by 2024 Q2, the ECB is likely to cut rates by 100bps this year, starting in Q2.
- **UK**: Economic activity remains subdued in the UK, with real GDP likely to stagnate in Q4 2023, after a contraction in Q3. Fiscal consolidation along with the lagged impact of tighter monetary policy is likely to constrain real GDP growth to 0.9% in 2024, following a likely 0.3% expansion in 2023. Still, the combination of rapidly easing inflation and the Bank of England cutting rates by 100bps or more starting in the early summer will likely favor an economic rebound through 2024.
- **Japan:** Economic activity remains modest in Japan with moderate consumer spending, constrained business investment and a challenging global economic backdrop weighing on growth. Consumer spending is expected to rebound slowly, bolstered by a gradual improvement in real incomes stemming from higher wages and lower inflation. We anticipate real GDP growth around 0.8% in 2024, following a stronger expansion of 1.7% in 2023. The BoJ is likely to exit its yield curve control policy before year-end providing support to the yen.
- **Australia:** The Australian economy is experiencing a period of below-trend growth as a direct response to monetary policy tightening from the Reserve Bank of Australia (RBA). The labor market continues to look robust with the unemployment rate at 3.9% in November, but inflation is still well above the RBA's inflation 2%–3% target band suggesting more policy tightening is possible. We anticipate the Australian economy will grow 1.9% in 2024 after a likely 2.0% expansion in 2023.

Source: EY analysis

Softened BRICS in 2024 as India leads the way, China struggles with structural headwinds, Brazil flirts with a recession and South Africa grows below trend



1. LatAm includes 12 countries.
2. ASEAN includes Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam.
3. MENA include Algeria, Bahrain, Egypt, Iraq, Israel, Kuwait, Morocco, Oman, Qatar, Saudi Arabia and the UAE.
4. SSA (Sub-Saharan Africa) includes Angola, Botswana, Ghana, Kenya, Mauritius, Mozambique, Namibia, Nigeria, Seychelles, South Africa, Tanzania, Uganda, Zambia and Zimbabwe.

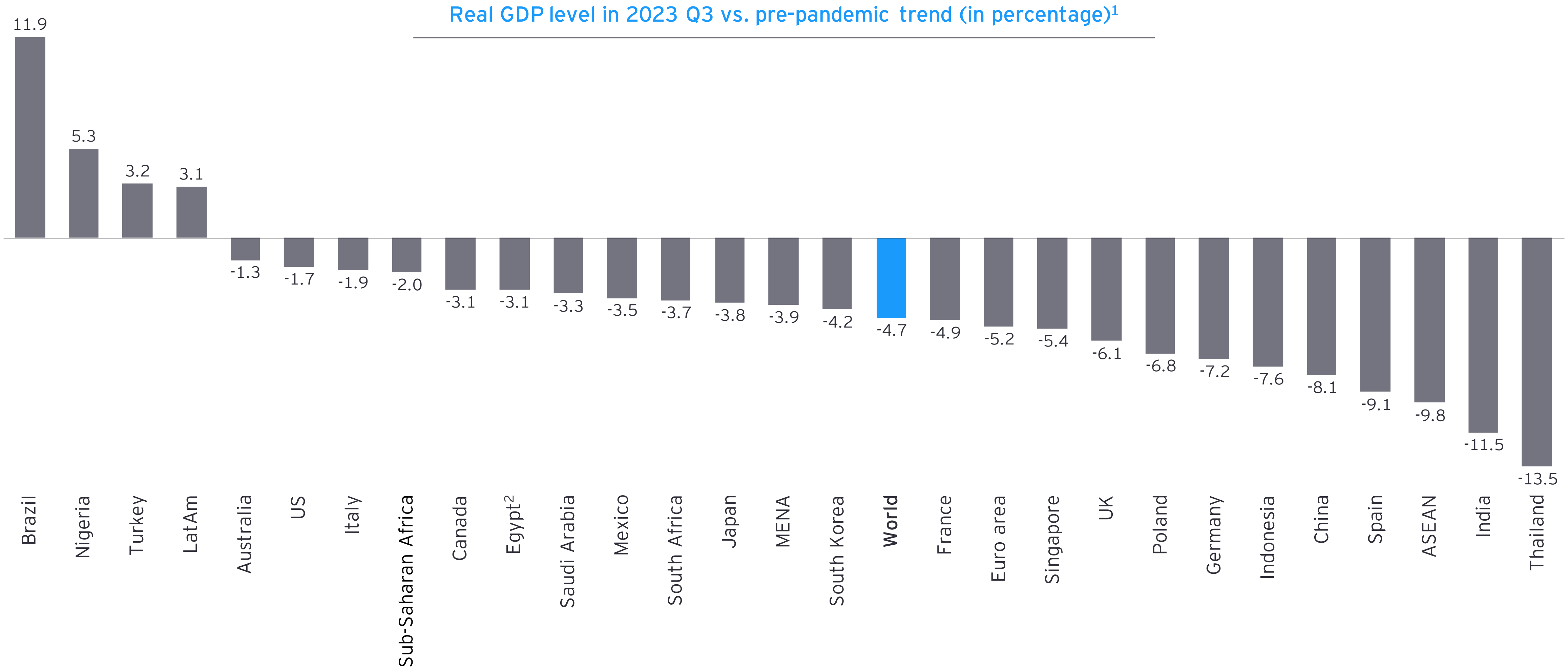
Source: EY analysis

Key dynamics to observe across these economies include resilience of domestic demand and exposure to geopolitical risks, El Niño and commodities prices

- **India:** Amid the volatile global economic environment, the Indian economy continues to exhibit resiliency thanks to strong domestic demand. The economy recorded a robust 7.7% y/y growth in the first half of fiscal year 2024 (which runs from April 2023 to March 2024) driven by investment and government consumption. We foresee growth around 6.7% for the full fiscal year and easing to 6.3% in fiscal year 2025. The Reserve Bank of India (RBI) is expected to hold off on rate cuts until June as inflation only gradually eases toward 4%.
- **China:** Economic activity remained mixed at the end of 2023, with structural and cyclical headwinds weighing on employment growth, retail spending and real estate activity. We foresee real GDP growth around 4.5% in 2024 after a 5.2% advance in 2023. Fiscal measures supporting high-tech industries, manufacturing and consumer outlays should provide impetus to growth, but despite low consumer price inflation and producer price deflation, any monetary policy easing will be limited and targeted.
- **Latin America:** Economic growth across the LatAm region is expected to slow in 2024 as slower growth in the US, still elevated interest rates and an abrupt fiscal tightening in Argentina weigh on activity, while tailwinds from fiscal expansion and strong harvest season in Brazil fade. Inflation is expected to stabilize close to 4%, except for a further spike in Argentina. Monetary easing, initiated in the latter part of 2023, will continue at a relatively fast pace. Inflation risks are tilted to the upside and growth risks to the downside because of potential geopolitical instability and the effects of El Niño.
- **ASEAN:** Economic growth is expected to accelerate modestly this year in the ASEAN economies as lower inflation supports domestic demand. Lower food and energy prices along with better supply conditions should support easing inflation in 2024 (even if El Niño represents an upside risk), allowing central banks to ease monetary policy. Monetary policy loosening should also stimulate interest rate-sensitive sectors such as housing.
- **Middle East and Northern Africa:** GDP growth in MENA should pick up in 2024, following a downturn in 2023 as global monetary tightening and oil supply cuts weighed on oil exporting economies. Tourism and government support should drive robust growth in the non-oil sector, while inflation will decline in line with the global trend.
- **Sub-Saharan Africa:** The general macro-economic outlook for Sub-Saharan Africa is relatively strong, notwithstanding some economic pressures – particularly in the larger economies. Economic activity is predicted to be bolstered moderately due to returns from large infrastructure projects (like Angola's Lobito Corridor logistics project and Nigeria's Dangote Refinery initializing in Q1 of 2024). These gains are expected to be partially offset by currency devaluations, excessive public debt levels, modest global economic growth, and high but declining inflation and interest rates.

Source: EY analysis

Four years after the onset of the pandemic, most major economies are above pre-pandemic GDP levels but below pre-pandemic GDP growth trends



1. Pre-pandemic trend based on average growth rate over 2014Q1-2019Q4.
2. 2023 Q2.

Source: EY analysis

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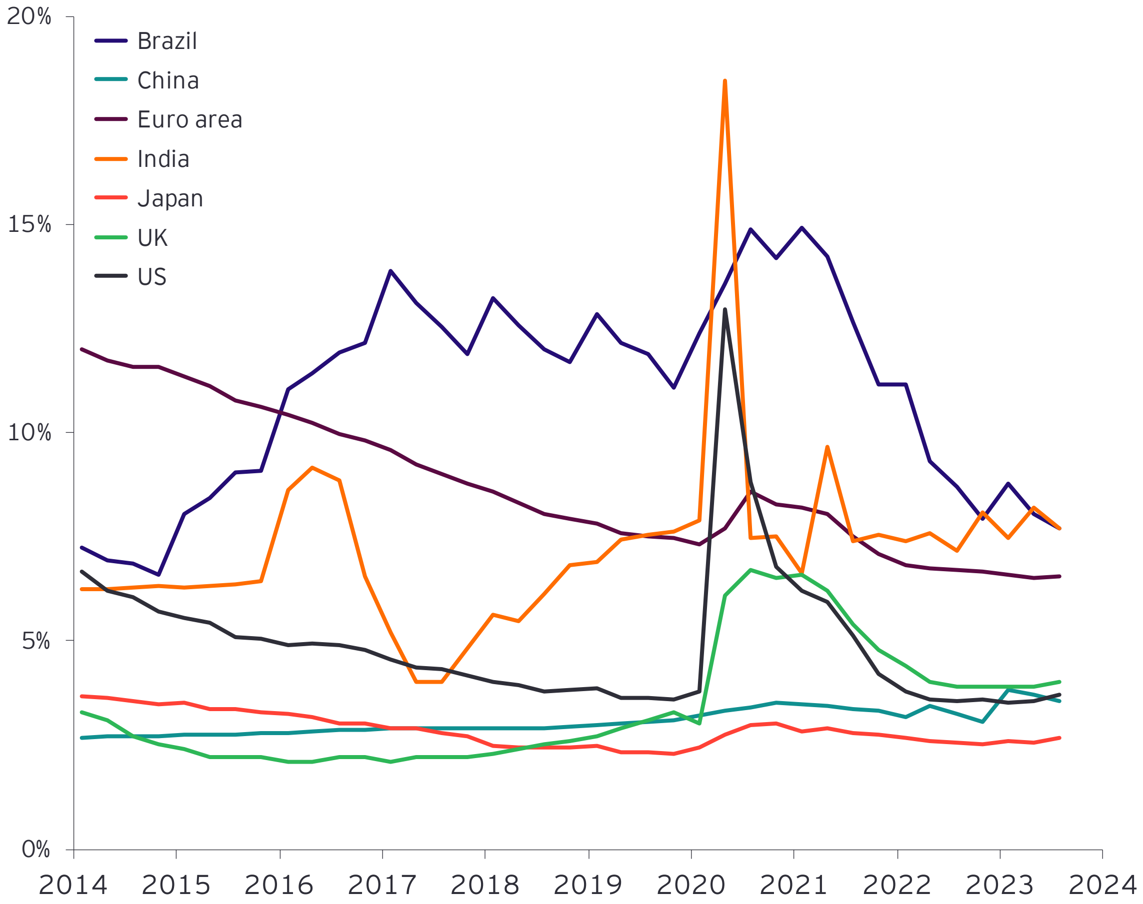
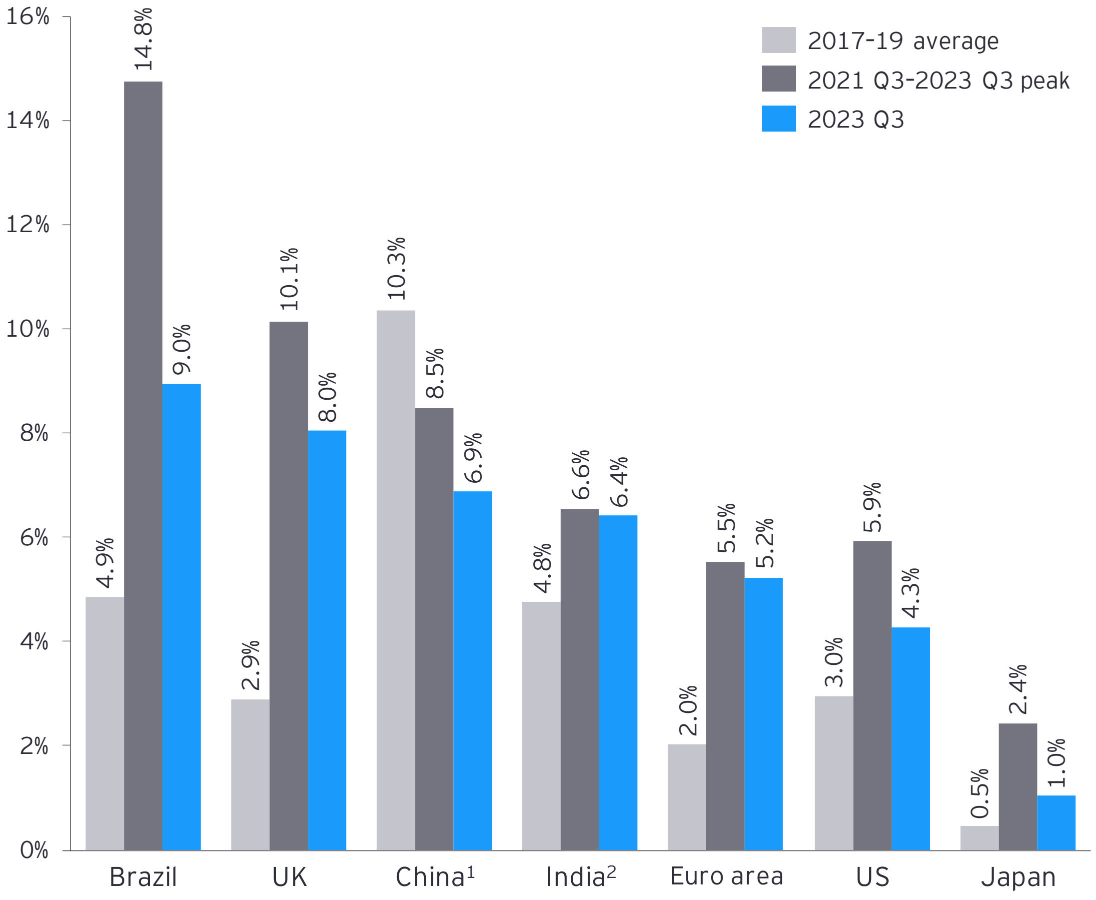
Rebalancing labor markets have led to a gradual easing of wage growth pressures, but positive inflation-adjusted wage growth continues to drive purchasing power

Unemployment rate
2014-23



Y/y nominal wage growth rate
2023 Q3 vs. 2017-19 average

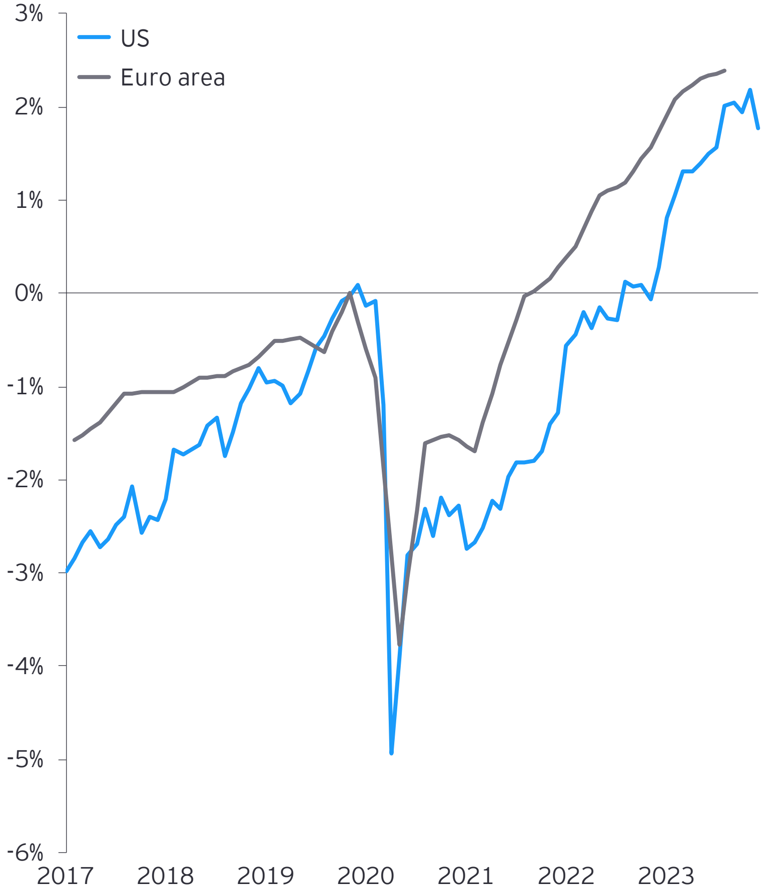


1. OE estimates.
2. 2023 Q2.

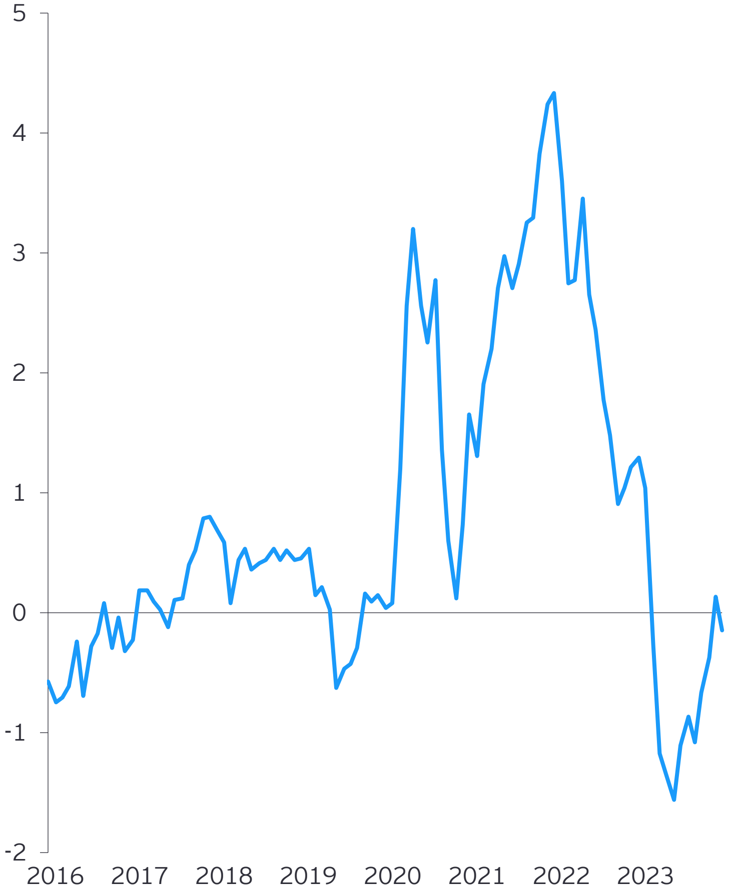
Source: Oxford Economics; Federal Reserve Economic Database (FRED); Office for National Statistics

Supply conditions will be an important driver of inflationary dynamics in 2024, and while better balance between supply and demand is expected, risks will linger

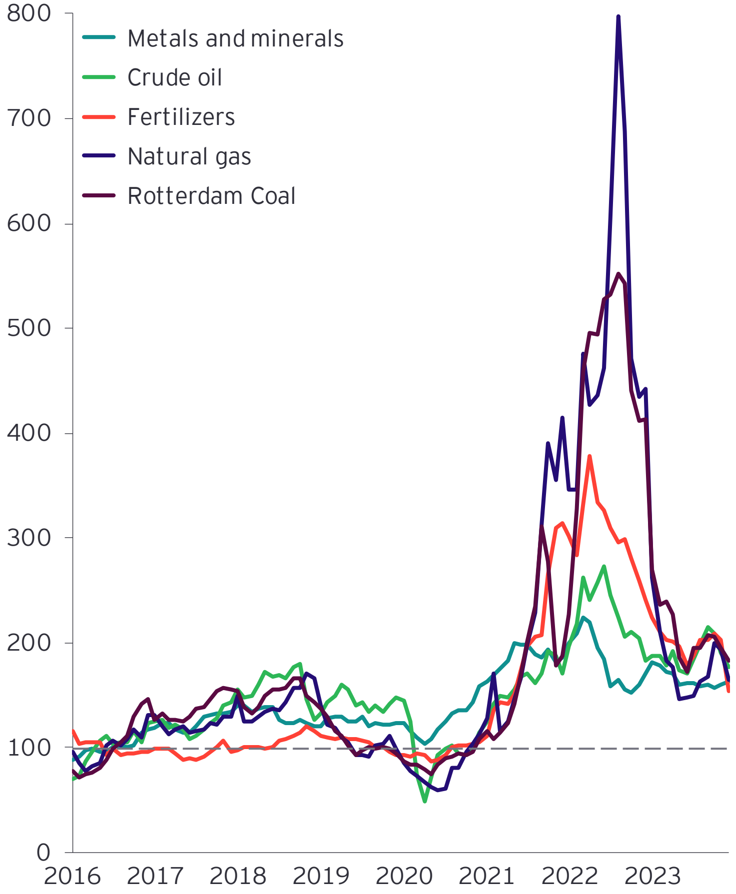
Labor supply (percentage change relative to 2019Q4)
January 2017-December 2023



Global Supply Chain Pressure Index
January 2016-December 2023



Global commodity prices
January 2016-December 2023 (2016=100)



Source: Federal Reserve Bank of New York; World Bank

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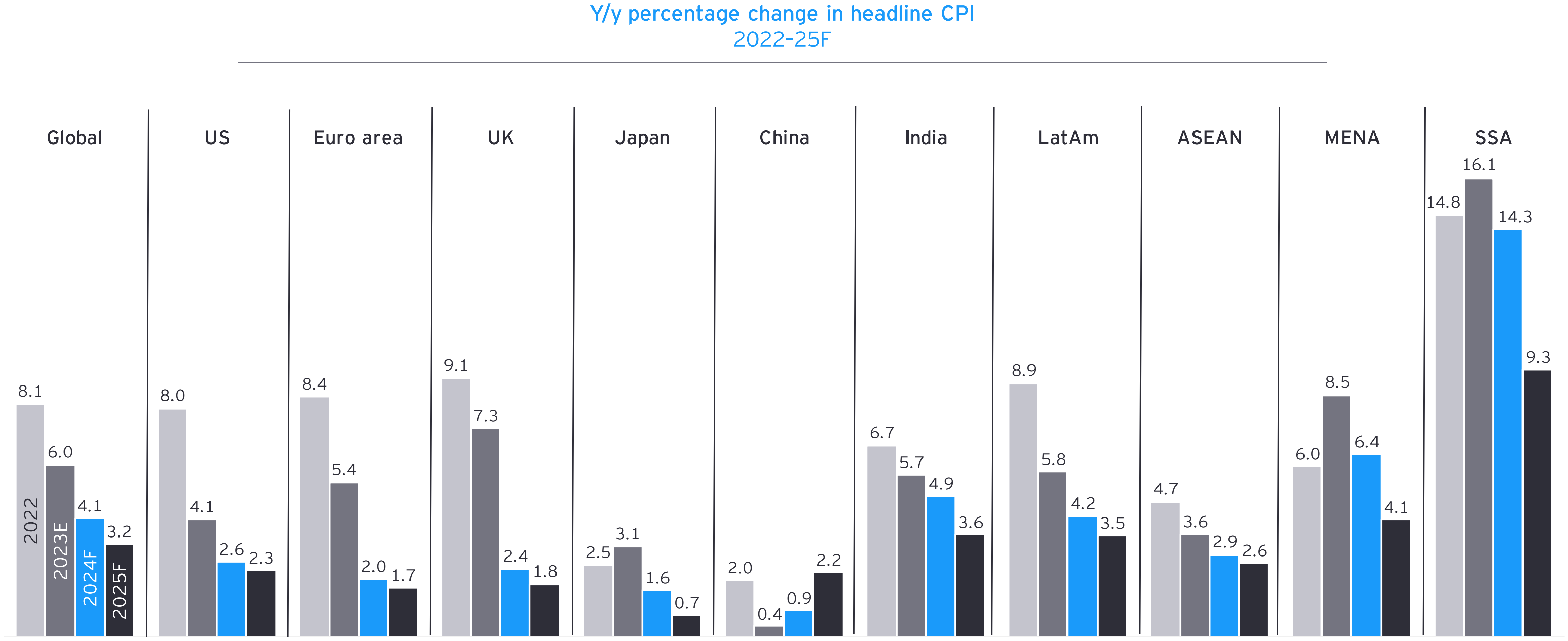
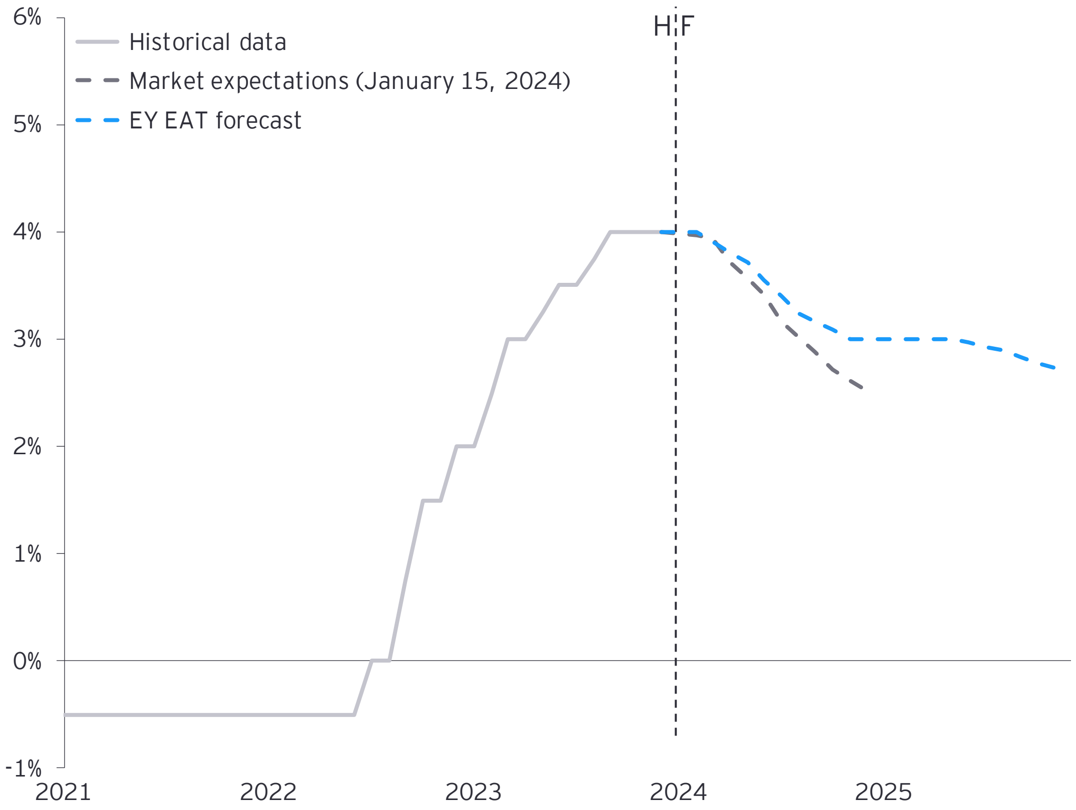
Disinflationary momentum should continue across most economies in 2024 assuming soft demand growth and rebounding to steady supply conditions



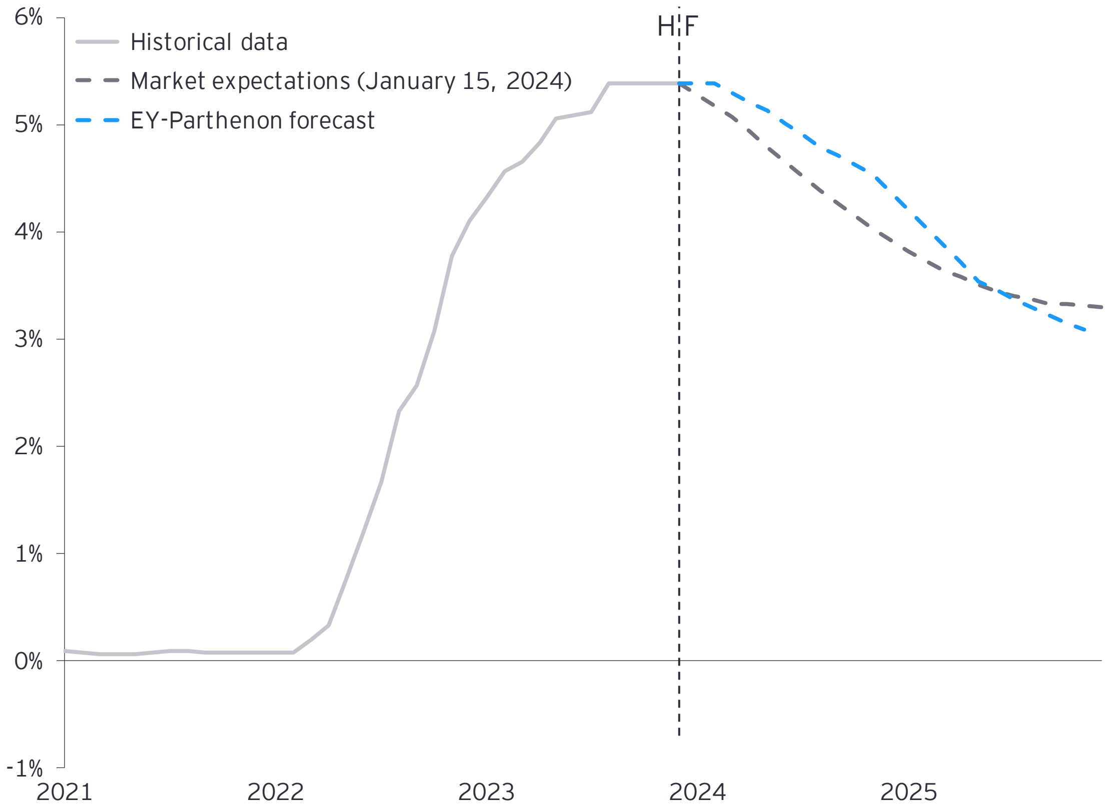
Source: EY analysis

Easing inflation and slowing economic momentum will push central banks to recalibrate policy, but lingering inflation fears will mean gradual, instead of rapid, rate cuts

Euro area central bank interest rate
2021-25F



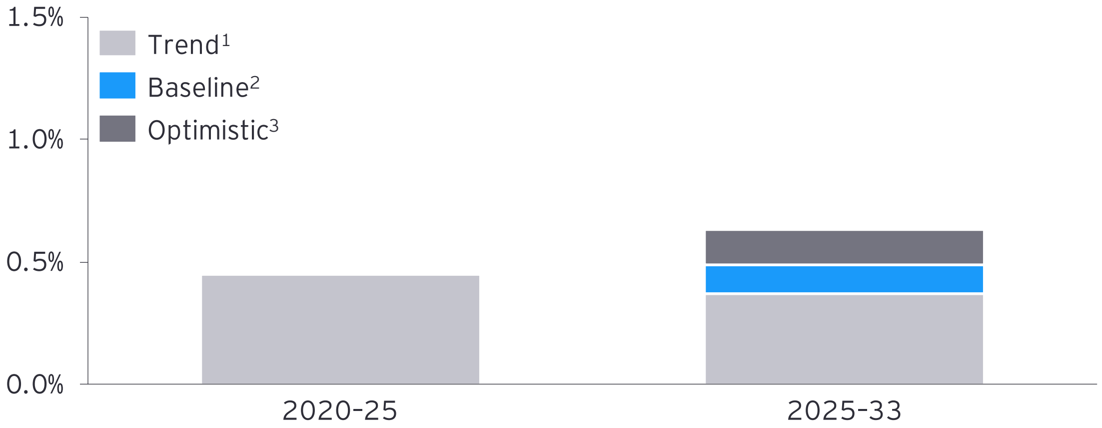
US central bank interest rate
2021-25F



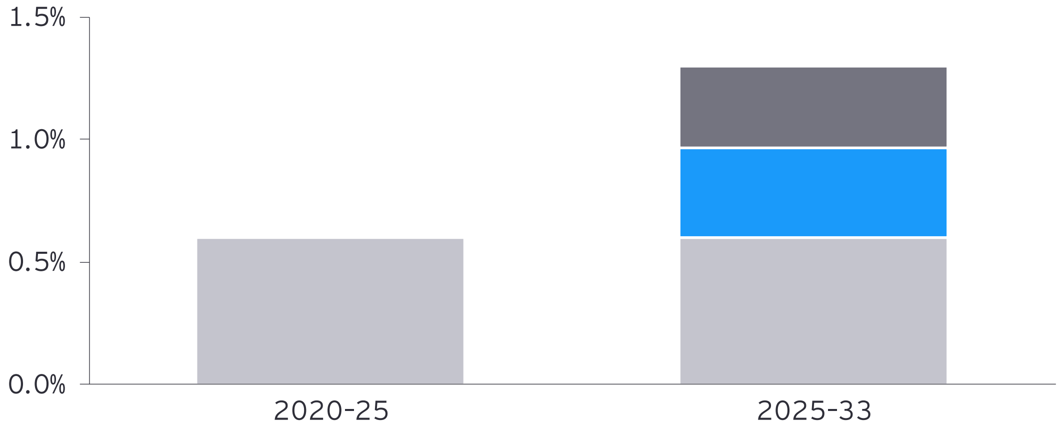
Source: ECB; Federal Reserve; Eurostat; EY Economic Analysis Team (EY EAT)

Stronger investment and productivity growth from GenAI create an opportunity for accelerated global economic growth over the next decade

Average annual capital contribution to real potential GDP growth[1,2,3]



Average annual total factor productivity contribution to real potential GDP growth[1,2,3]



- **A $900b, or 3.5%, boost to US GDP over a decade:** Business investment in categories where GenAI will be most significantly captured will likely be 25% faster trend growth (2017–22), leading to an incremental boost to growth of 0.1ppt of GDP per year, lifting real GDP by nearly 1% over the baseline by 2033, or the equivalent of a $250b boost over a decade. At the same time, AI-driven productivity is set to provide a substantial lift to the economy, likely delivering a boost worth $650b over the next decade and lifting real GDP by nearly 2.5% by 2033.
- **A $1.7t, or 7%, boost to US GDP over a decade in an optimistic scenario:** A more optimistic scenario could see 50% faster business investment growth, leading to an incremental boost to short-term growth of 0.2ppt of GDP per year. This stronger tech-driven trajectory would lift real GDP by more than 2% over the baseline by 2033, or the equivalent of a $500b boost over a decade. If productivity growth were to double relative to trend pace (akin to the acceleration in total factor productivity (TFP) growth in the late 1990s), the additional contribution to GDP growth would average 0.4ppt over the next decade. This strong productivity trajectory would represent a boost to real GDP worth $1.2t and lift real GDP by nearly 5% above the baseline by 2033.
- **Globally, a boost of $1.7t to $3.4t:** Looking across major economies, the contributions from greater GenAI investment could also be significant. While the US market is likely to remain the leader in GenAI technologies investment, China and Europe will be following closely behind. We estimate that the lift to global GDP could total between $500b and $1t over the next decade. An AI-driven productivity upswing could also make a substantial contribution to the global economy. We estimate that the lift to global GDP from stronger productivity could total between $1.2t and $2.4t over the next decade.

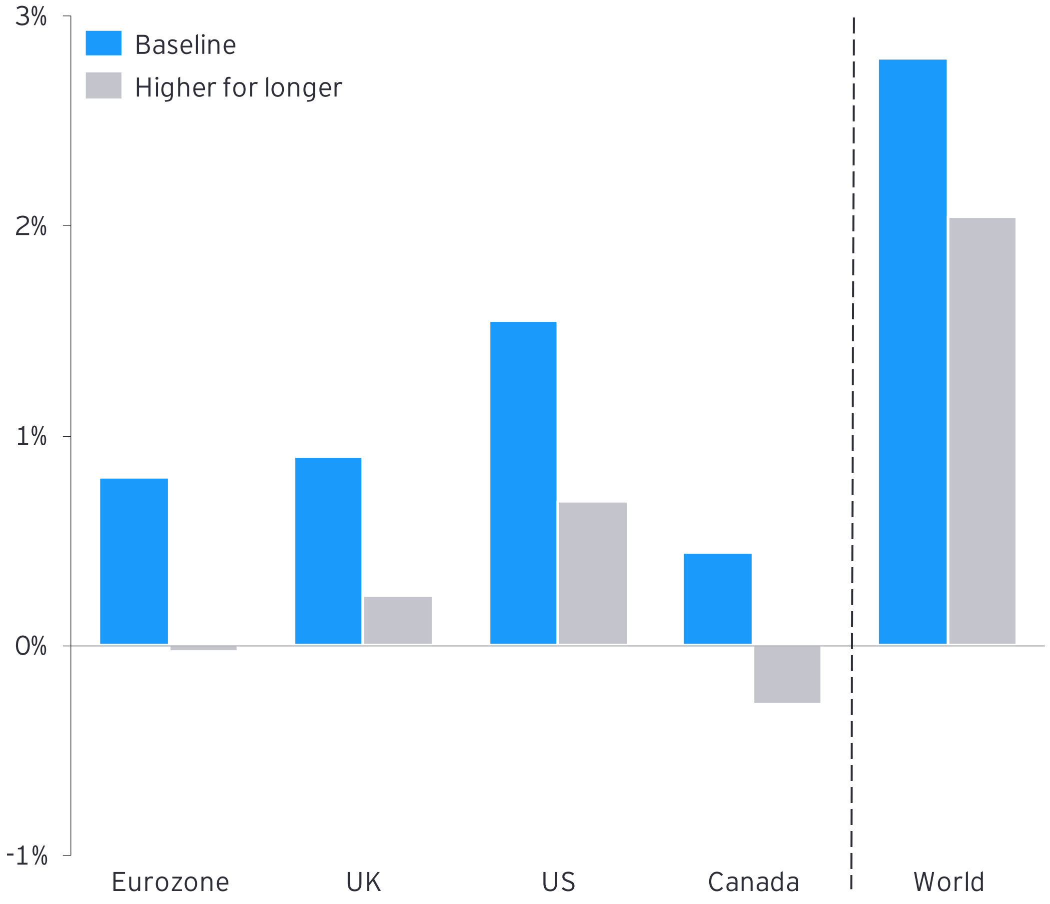
1. Trend: Investment in line with 2017-22 trend, assessing impact on long-term GDP growth in 2028-33.
2. Baseline: Investment growth 25% faster than "trend" in 2023-28, assessing the impact on long-term GDP growth in 2028-33.
3. Optimistic: Investment growth 50% faster than "trend" in 2023-28 , assessing the impact on long-term GDP growth in 2028-33.

Source: Bureau of Economic Analysis; EY-Parthenon

A "higher-for-longer" scenario: a delayed easing cycle by central banks amid sticky inflation trends could lead to recessionary conditions in key advanced economies

- Although 2023 saw a significant deceleration in inflation, a scenario where underlying inflation remains stickier and higher remains a key risk to our baseline. Slower disinflation would be the result of renewed upward pressures from energy prices due to intensifying geopolitical tensions.
- In turn, slower progress toward inflation targets would lead central banks to delay the start of their easing cycle and result in a "higher for longer" interest rate environment.
- To assess the economic impact of such a scenario, we assumed that the Fed, the ECB, the Bank of England (BoE) and the Bank of Canada (BoC) maintain a restrictive policy stance and keep policy rates steady throughout 2024, rather than starting their policy easing cycle by midyear. As a result, credit conditions tighten further, with banks maintaining stringent lending standards to both consumers and businesses.
- Financial market volatility increases and investors' sentiment deteriorate markedly as market participants reassess the inflation and interest rate outlook.
- Persistently high borrowing costs strain corporate and households' balance sheets, reducing their ability to service and refinance their debt. The vulnerability of borrowers already in precarious financial positions is amplified, leading to a rise in defaults among corporates and households. The higher cost of borrowing dampens housing market activity and puts further downward pressure on consumer demand.
- Elevated interest rates and tightening financial conditions would push the global economy into a recession, with the weakness concentrated in advanced economies. As a result, global growth is 0.8ppt lower in 2024, with the US experiencing stall-speed growth, the Eurozone contracting and the UK stagnating.

Real GDP growth in selected economies
2024 annual average

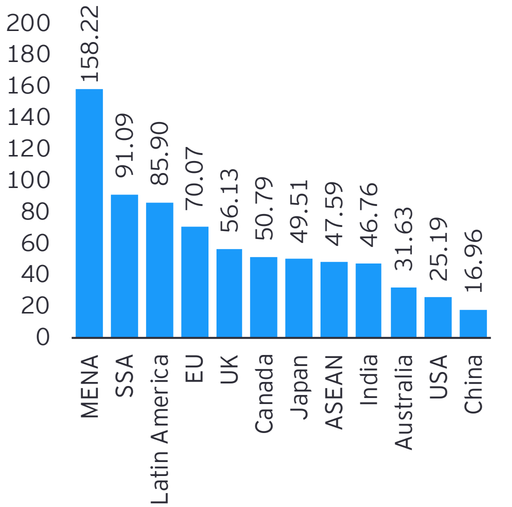


Source: EY analysis

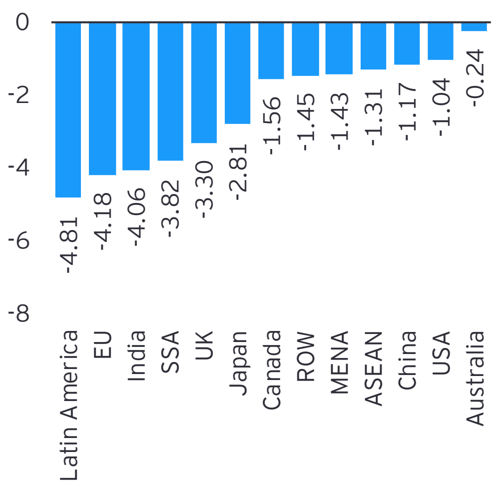
Persistently elevated energy prices in the long run would constrain the long-run potential GDP of Latin America and the EU the most

- Using our EY UPGRADE CGE model, we calculated the economic impact of a scenario[1] where energy prices in different regions remain at 2023Q4 level (relative to other prices) for a longer period vs. a baseline scenario in which they return to their pre-pandemic levels.
- Out of all regions considered in our analysis, Latin America would experience the greatest decline in long-run potential GDP, a 4.8% level drag on GDP. The EU economy would also be highly affected, with a 4.2% reduction in real GDP – a much stronger impact compared to other advanced economies. This is primarily driven by a relatively large increase in energy costs and, thus, deteriorating international competitiveness of EU producers.
- Across global industries, highly energy-intensive industries such as transport and chemicals would be the most affected by energy price increases. At the same time, however, non-ferrous metals as well as iron and steel, despite being energy intensive, would be comparatively less affected since countries with relatively lower energy prices (e.g., China) are among their key suppliers. By comparison, at the EU level, the non-ferrous metals industry would be more affected, with a near 6% decline in output.

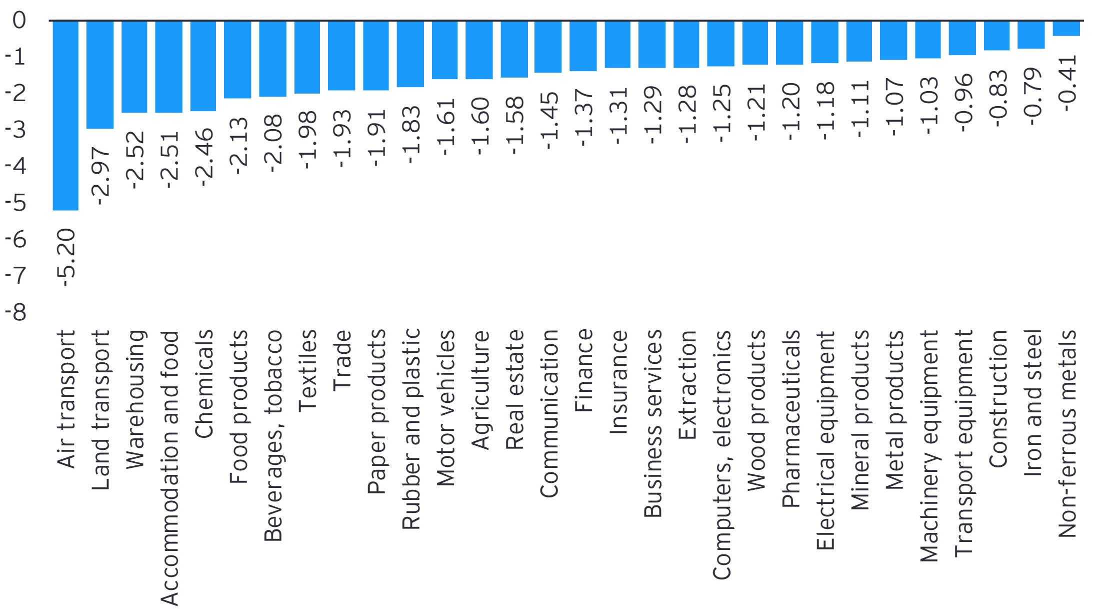
Percentage change in energy prices (vs. baseline scenario)



Percentage change in real GDP (vs. baseline scenario)



Percentage change in global sectoral real output in selected industries (vs. baseline scenario)



1. EY analysis assumes absence of policy response to counter high energy prices and mitigate macroeconomic outcomes. Moreover, we assume that the employment of unskilled labor is flexible and adjusts to changes in economy-wide production.

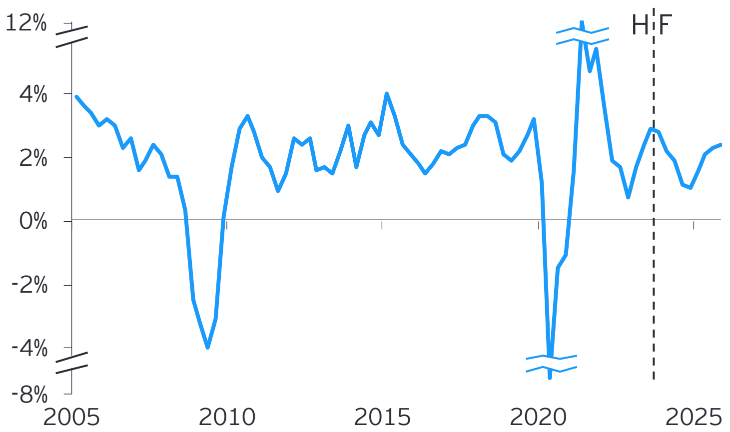
Source: EY analysis (UPGRADE CGE model); Global Trade Analysis Project; Oxford Economics

Agenda

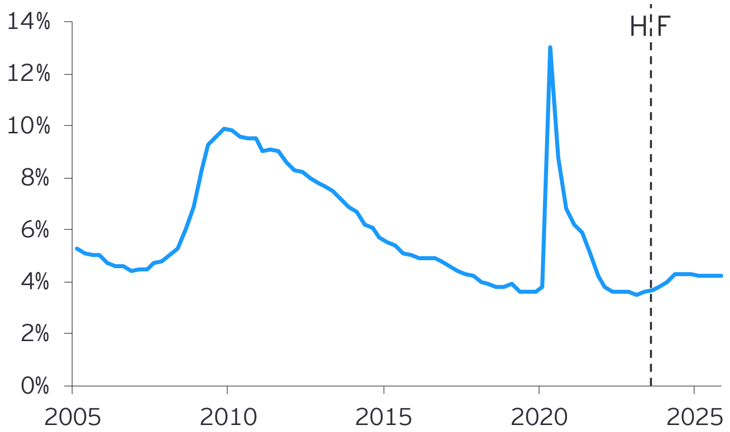
- Global snapshot
- **Country and regional outlooks**
- Meet the team and explore our resources

We foresee cooler, but still moderate, economic activity in 2024 with slower private sector activity, easing inflation and a modest rise in unemployment

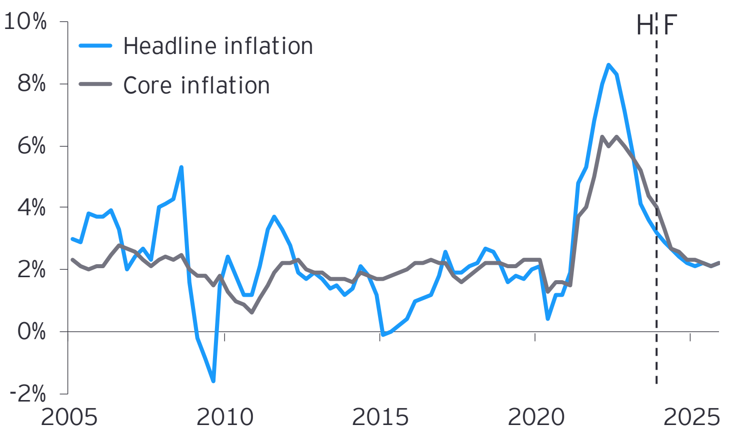
US y/y real GDP
2005-25F



US unemployment rate
2005-25F



US y/y CPI
2005-25F

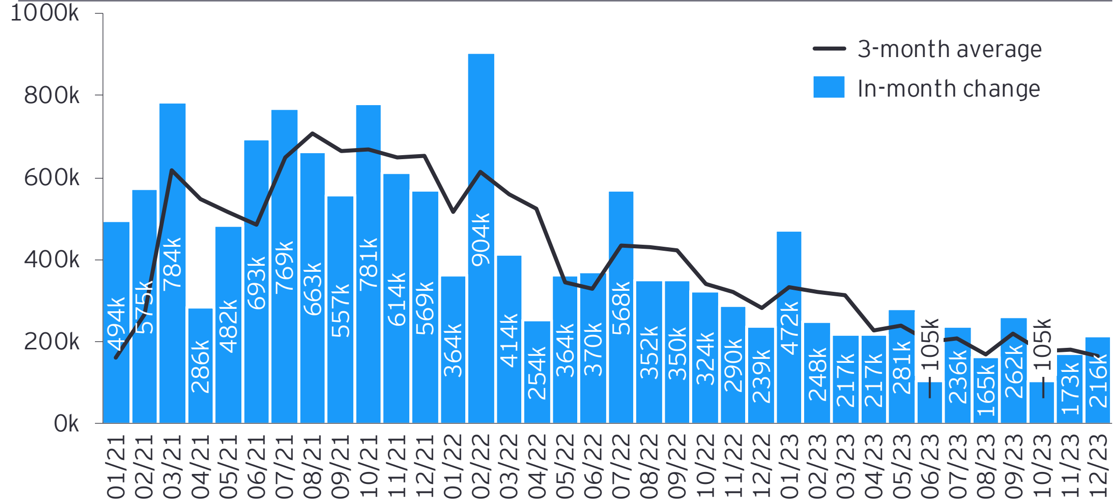


- While most private sector sentiment measures indicate elevated levels of cost fatigue — whereby the cost of goods, services, inventories and labor remains much higher than pre-pandemic — there is little evidence of a pullback in spending. Instead, business leaders and consumers are exercising more scrutiny with their purchase and investment decisions, amid an environment of still-elevated interest rates.
- The three key domestic factors to monitor in 2024 will be how significant any pullback in the labor market is; how severe debt servicing burdens and refinancing pressures are for households and firms; and whether financial conditions tighten abruptly on a repricing of Fed policy expectations or on pockets of stress in the banking, commercial real estate or Treasury market liquidity.
- At the same time, three tailwinds will simultaneously support activity. We assume that while employment growth will slow, it will still support moderate income growth adjusted for (slowing) inflation. Easing inflation and wage growth compression should provide much-needed relief for consumers and business leaders, respectively. And the Fed will be cutting rates for the first time since 2020, thereby leading to lower borrowing costs, which should ease refinancing pressures and stimulate investment and deal making activity.
- The odds of the US economy entering a recession in the next 12 months are higher than usual, around 40%, but while a slowdown is ongoing, we see a soft landing as the most likely outcome. We also foresee real GDP growing a moderate 1.8% in 2024, following expected growth of 2.5% in 2023, with a slow start to the year and gradually accelerating momentum into 2025.

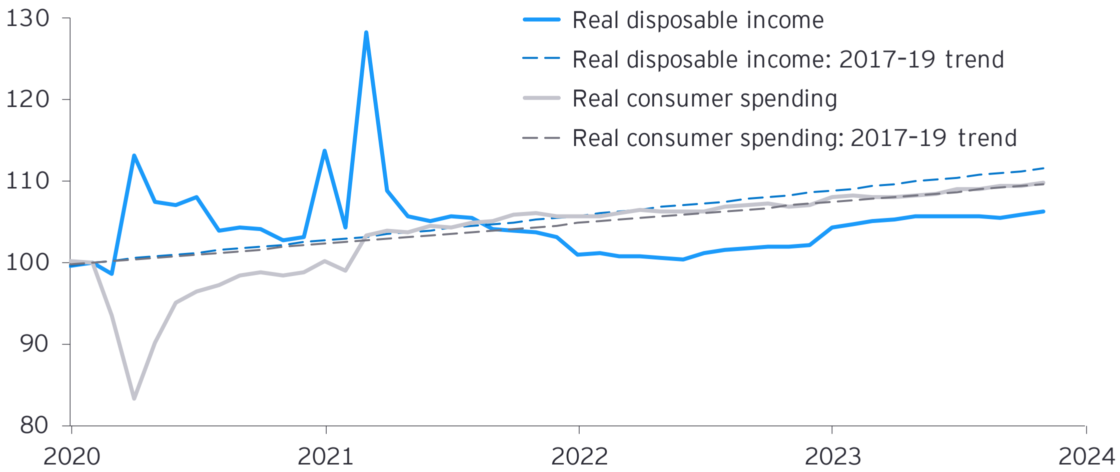
Source: EY analysis

Consumer enthusiasm will likely dim in 2024 amid softer employment, cost fatigue and elevated rates, but positive income growth should uphold spending

US month over month (m/m) change in total nonfarm employment
January 2021–December 2023



US real consumption expenditures and disposable income
January 2020–November 2023 (February 2020 = 100)

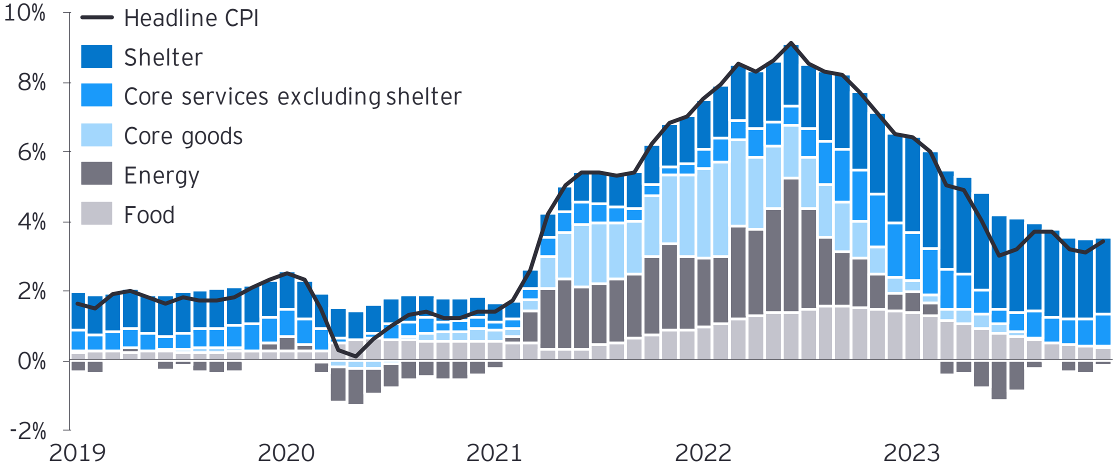


- The labor market capped 2023 on a solid note with nonfarm payrolls rising a strong 216k in December. The economy added 2.7m jobs in 2023, or the equivalent of 225k jobs per month, which represents the strongest annual job gain since 2015, outside of the pandemic disruption from 2020–22. This also represents nearly 40% stronger job growth than in 2019.
- Looking ahead, with business leaders confronted by cost fatigue and prospects of slower domestic and international demand growth, we anticipate reduced hirings, strategic resizing decisions, and wage growth compression and efforts to drive stronger productivity growth, but we don't anticipate a severe employment pullback. We foresee the unemployment rate rising towards 4.3% by mid-2024.
- With the labor market rebalancing now well underway, recent data points to a gentle moderation in hourly wage growth, which reached 4.1% y/y in December. While this remains above the Fed's comfort zone of around 3.5% , we anticipate that wage pressures will cool further as labor demand comes into better balance with a growing pool of available workers.
- Moderate wage growth and receding inflation are helping support growth in real disposable income, a key support to consumer spending. Real disposable income rose 3.9% y/y in December, supporting consumers' purchasing power.
- We anticipate real disposable income growth around 2% in 2024, supporting a 1.7% advance in consumer spending.

Source: Bureau of Labor Statistics; EY analysis

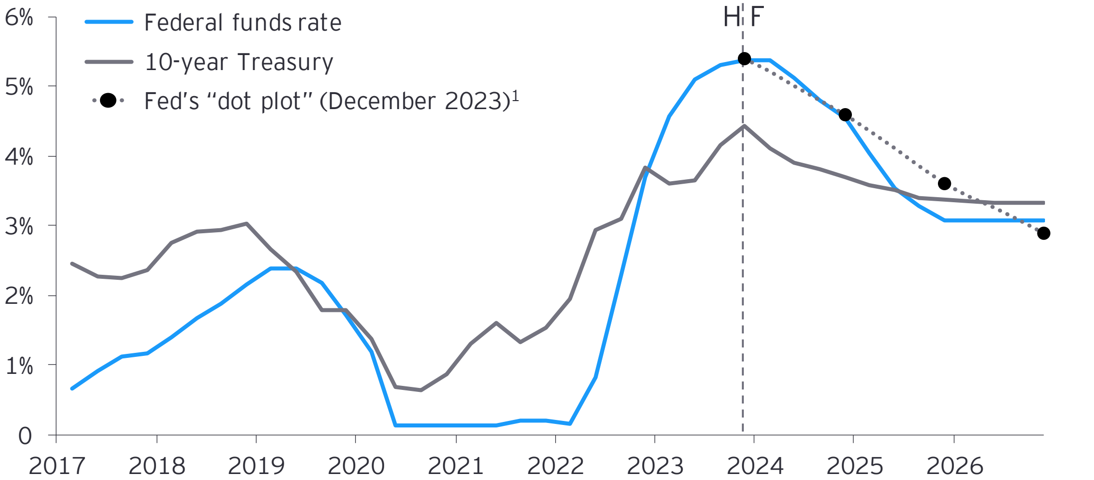
The Fed's dovish pivot amid rapid disinflation sets the stage for policy easing this year; we foresee 100bps of "policy recalibration" rate cuts in 2024, starting in May

US y/y percentage change in CPI, contributed by category
January 2019-December 2023



- The path may prove bumpy, but disinflation has more room to run in 2024. Headline inflation moved higher for the first time in three months, up 0.3ppt to 3.4% y/y in December 2023. Still, we've come a long way from the 6.5% inflation rate of a year ago and 2022's peak inflation rate of 9.1%. Encouragingly, core Consumer Price Index (CPI) inflation fell 0.1ppt to 3.9% y/y – its slowest pace since May 2021.
- Looking ahead, there's no reason to assume that the final mile of disinflation will be the most challenging. Five key elements have already materialized and will form the perfect mix for disinflation in 2024: slower consumer demand, declining rent inflation, narrower profit margins, moderating wage growth and a tight monetary policy. We expect headline and core consumer price inflation to fall closer to the Fed's 2% target by the end of the year at around 2.2% y/y in Q4 2024. We foresee headline and core PCE inflation around 2.2% y/y in Q4 2024.

US interest rate forecasts, federal funds rate and 10-year Treasury yield
Q1 2017-Q4 2026F

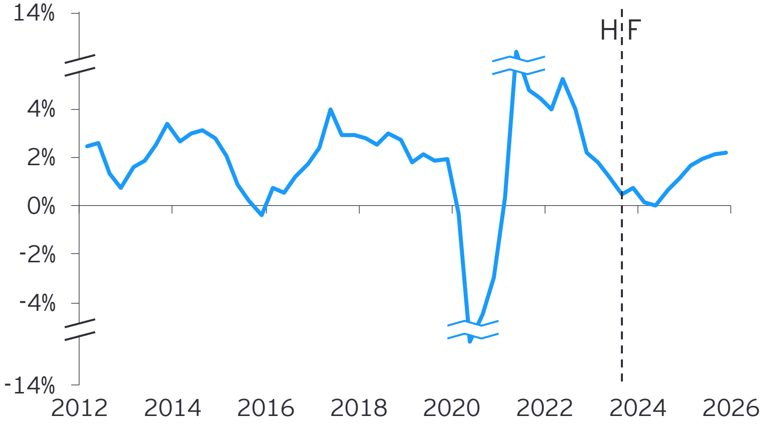


- The Fed kept the federal funds rate unchanged at 5.25%-5.50% at the December Federal Open Market Committee (FOMC) meeting while signaling peak rates and adopting a dovish posture. The Fed's median rate expectations showed 75bps of rate cuts, up from 50bps previously.
- Since disinflation bumpiness is to be expected, current market pricing of early and rapid rate cuts seems misplaced. However, with six-month annualized core personal consumption expenditures (PCE) inflation readings likely stabilizing below 2.5% in the spring, the data-dependent Fed will likely proceed with its first policy recalibration rate cut in May.
- We anticipate 100bps of rates cuts this year, coming at the May, June, September and December meetings, but faster disinflation could favor the Fed front-loading and speeding up rate cuts.

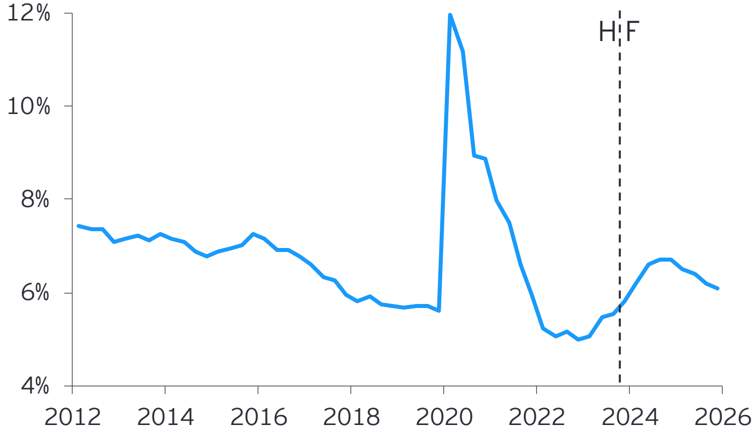
1. "Dot plot" charts the median interest rate projection from the Federal Open Market Committee. The projections for the federal funds rate are the values at the end of the specified calendar year.
Source: Bureau of Labor Statistics; Federal Reserve Board; EY analysis

The Canadian economy is expected to experience a continued slowdown through mid-2024, constrained by elevated debt servicing costs and cost fatigue

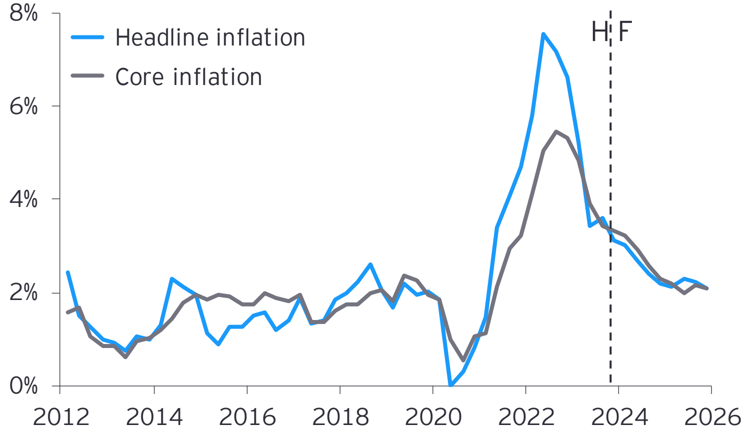
Canada y/y real GDP
2012-25F



Canada unemployment rate
2012-25F



Canada y/y CPI
2012-25F

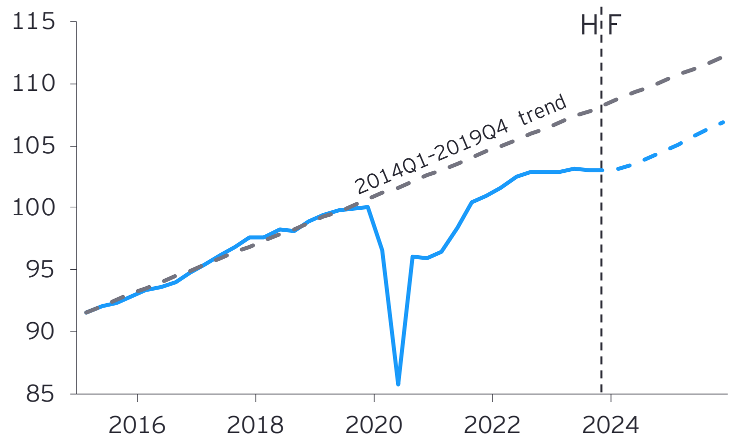


- Elevated debt servicing costs from refinanced mortgages, subdued consumption and declining business sentiment weighed on economic activity in Canada through 2023. These factors will continue to constrain economic activity in 2024 with the economy flirting with a recession through midyear.
- Labor demand is expected to continue softening, while labor supply should be supported by government policies aimed at driving stronger immigration flows. We anticipate the unemployment will rise through 2024 to nearly 7% as economic activity stagnates. A weakening job market with rising unemployment will further dampen spending on nonessential goods and services.
- While inflation is cooling, elevated prices will continue to weigh on consumer and business purchasing power, and elevated interest rates will keep pressuring business investment, consumer spending and the housing market.
- We foresee some core inflation stickiness in early 2024 but anticipate it will cool toward 2% by late 2024 as the Bank of Canada's restrictive monetary policy continues to work through the economy. We anticipate the BoC will cut the policy rate by 100bps in H2 2024 on account of recessionary conditions and lower inflation.
- Real GDP growth will be subdued in H1 2024, with notable downside risks to growth from a potential worsening of the housing correction, wildfires and political uncertainty. Any fiscal stimulus is likely to be targeted and conservative amid lingering inflation fears. Still, a gradual easing of monetary policy and rebounding labor demand should support a gradual recovery into 2025.
- We anticipate real GDP growth around 0.4% in 2024 and 2.0% in 2025, after a likely 1.0% expansion in 2023.

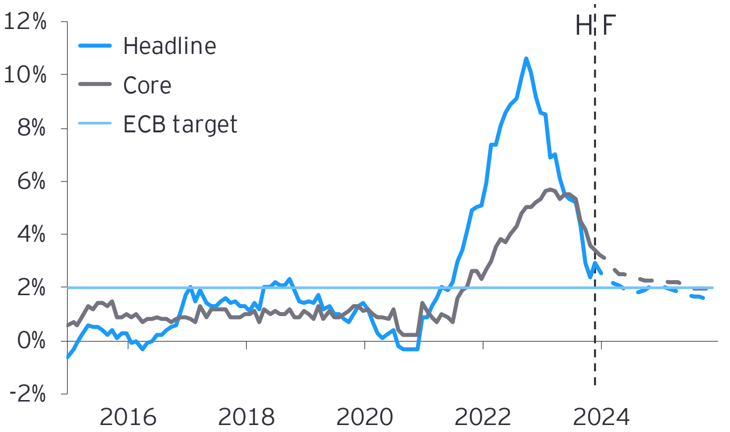
Source: Statistics Canada; EY analysis

Following stagnation, the euro area economy will see a gradual rebound in 2024 as inflation reaches the target and the ECB begins cutting rates

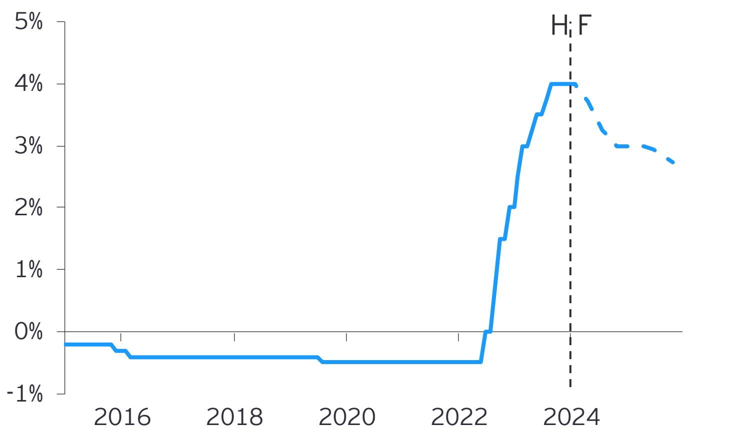
Euro area real GDP (index, 2019 Q4 = 100)
2015-25F



Euro y/y area inflation
2015-25F



ECB deposit rate
2015-25F

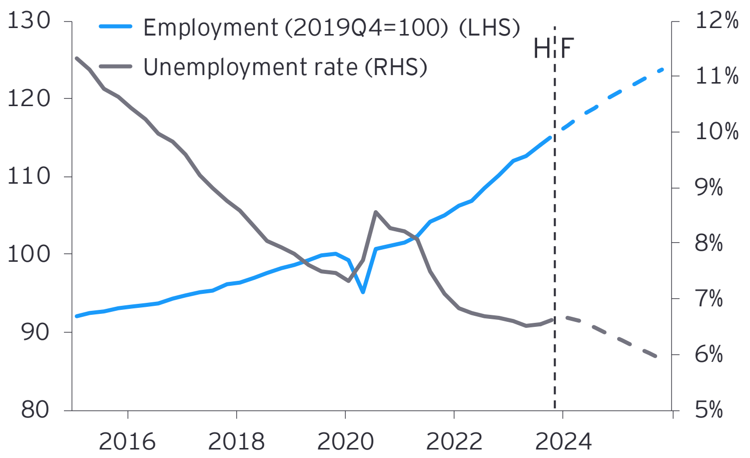


- The euro area economy has stagnated since 2022 Q3. High inflation has been biting households' incomes and consumption. Tight monetary policy has weighed on consumer spending and private business investment. Weak external demand hampers economic activity, especially given that competitiveness of European producers has been adversely impacted by a stronger-than-elsewhere increase in energy prices, which remain much higher than before the pandemic. On an annual average basis, we estimate GDP increased by 0.5% in 2023.
- Economic activity is expected to gradually rebound going through 2024, supported by a decline in inflation and recovery in real incomes, a gradual increase in external demand, a further step-up in government investment financed from the EU Recovery Fund and the diminishing effects of monetary tightening. Still, due to weak carry-over from 2023 and only a gradual recovery in quarterly GDP growth, annual average growth will remain modest in 2024 at 0.8%, well below the potential growth rate. The recovery should reach full speed in 2025, with growth accelerating to 2.1%.
- Euro area inflation has been falling rapidly throughout 2023, faster than consensus expectations, reaching 2.9% in December 2023 as past supply shocks gradually faded, commodity prices fell, supply bottlenecks receded and demand weakened. We expect headline inflation to reach the ECB target of 2% in 2024 Q2 and fall below it afterwards. Core inflation should decline to 2.5% by 2024 Q2 but may remain above 2% until mid-2025 on the back of elevated wage growth leading to persistent price pressures in services.
- The ECB has concluded the tightening cycle in September 2023 with the deposit rate reaching 4%. Despite the hawkish rhetoric, we should see the first ECB rate cut in Q2, however no sooner than in April, with a possible delay into June, when near-target inflation and sluggish economy will warrant less restrictive monetary policy. We expect four 0.25ppt cuts, with the deposit rate reaching 3%. Afterwards, the rates may stabilize for several months due to core inflation remaining above 2%.

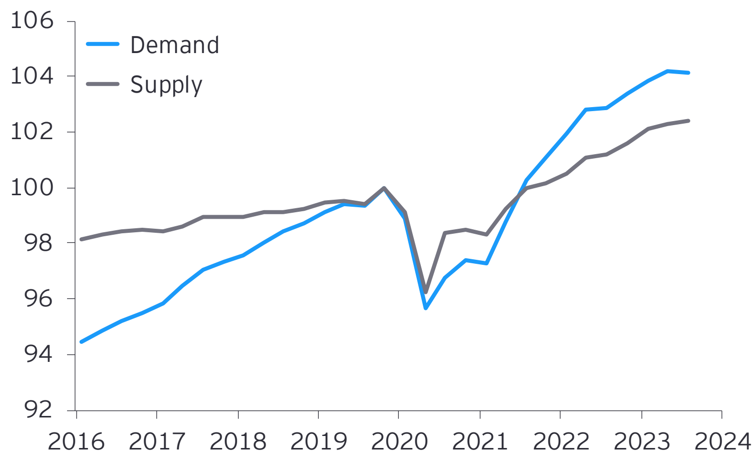
Source: Eurostat; ECB; EY analysis

The labor market has remained resilient, while gradually rebalancing, though wage growth will remain elevated on the back of indexation to past inflation

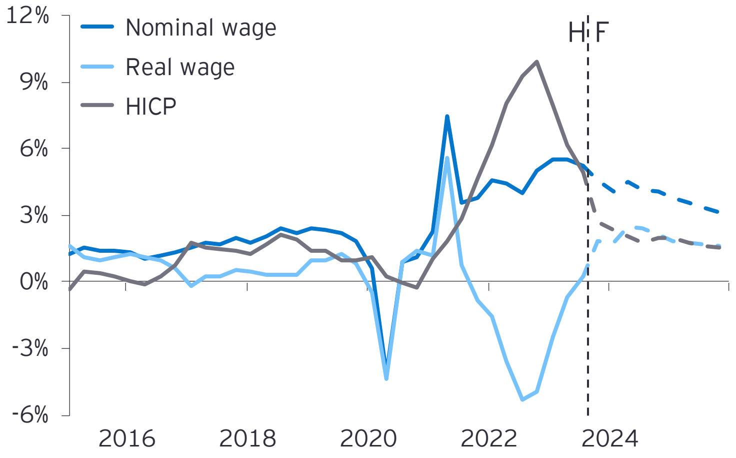
Euro area employment and unemployment rate 2015-25F



Euro area labor demand and supply[1] 2016-23 (2019 Q4 = 100)



Euro area y/y wage growth and HICP[2] 2015-25F



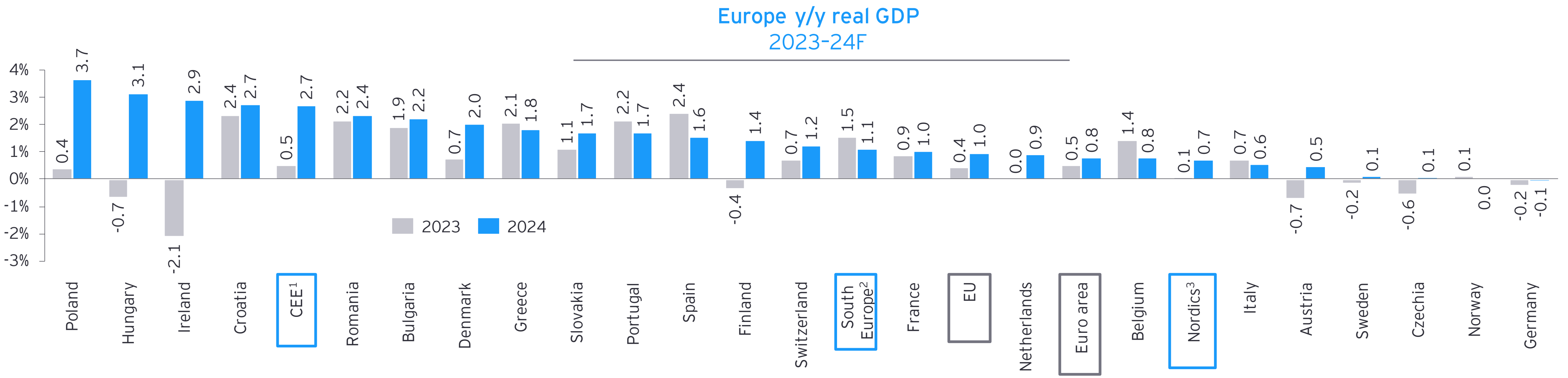
- Stagnation has not turned into a Eurozone recession largely thanks to resilient labor markets. This is partly due to structural labor shortages that have made companies hold on to their employees more than during past economic downturns. Employment has continued to grow, though at a slowing pace. Unemployment rates have generally remained at or near historical lows, with only limited increases observed in some countries (particularly Nordics), while in Southern Europe, unemployment has continued to decline.
- Labor markets have been rebalancing as slowing demand growth (slower employment growth and falling vacancies) has been met with increasing supply on the back of rising immigration and participation rates. In 2024, we expect employment growth to slow, but remain positive, as demographic pressures increasingly bite, while the unemployment rate increases only marginally.
- Nominal wage growth has stabilized close to 5% in the euro area. While some leading indicators point to slowing wage pressures in line with the observed labor market rebalancing, wage growth is likely to remain elevated due to indexation to past inflation and employees recouping lost real incomes. This is likely to keep inflation in labor-intensive services elevated, at close to 3%, delaying the return of core inflation to 2%.
- In 2024, nominal wage growth will significantly outpace inflation, resulting in real positive wage growth, acting as a key driver of consumption and, thus, GDP growth.

1. Labor demand is the sum of total employment and job vacancies. Labor supply equals persons in the labor force.
2. Harmonized Index of Consumer Prices.

Source: Eurostat; EY analysis

EY Parthenon

The gap in performance between Germany and Southern Europe will gradually close over 2024; Central and Eastern Europe will rebound strongly

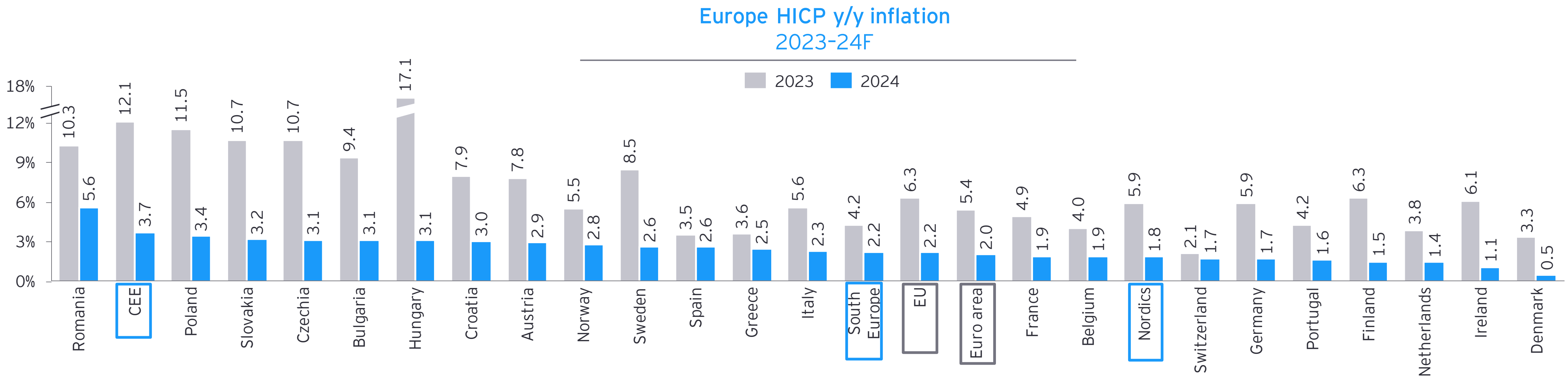


- Economic performance varied significantly across EU countries in 2023, largely due to differences in their economic structure. South European and Balkan countries (Spain, Croatia, Romania, Portugal, Greece, Bulgaria) were among the best performing economies, supported by the recovery in the tourism industry and increasing government investment financed from the EU recovery fund.
- On the other side of the spectrum, Germany, Austria, Hungary, Czechia, Finland and Sweden experienced a recession. These countries tend to be most reliant on the manufacturing sector, had strong links to Russia before the war in Ukraine, and tend to be most vulnerable to higher natural gas prices and elevated interest rates. The manufacturing sector was adversely impacted by rebalancing from goods to services, weak external demand, destocking, high interest rates and the pass-through from earlier increases in energy prices.
- In 2024, we expect manufacturing to gradually recover as external demand improves and other headwinds fade, while the tourism sector is to lose a bit of a momentum. As a result, by 2024 H2 quarterly growth should largely converge among major euro area countries. However, due to weak carry-over from 2023, annual average growth rates will stay close to 0% in 2024 in Germany, Austria, Czechia, Sweden and Norway, while most of Southern Europe and the Balkans will continue to enjoy healthy growth rates of 1.5%–2.5%. Further convergence in performance will occur in 2025.
- Poland and Hungary will be stand-out performers in 2024 with growth rates north of 3% as a rapid decline in inflation from very high levels amid still strong nominal wage growth provides a big boost to real incomes and consumption, even though investment growth will slow as EU funding from 2014–20 Multiannual Framework ends. In Poland, outlook will also be supported by loose fiscal policy, with large increases in public sector wages and transfers to families.

1. Central and Eastern Europe (CEE) includes Czechia, Hungary, Poland, Romania and Slovakia.
2. South Europe includes Greece, Italy, Portugal and Spain.
3. Nordics includes Denmark, Finland, Sweden and Norway.

Source: EY analysis

Cross-country inflation differentials will diminish in 2024, with most EU Member States seeing inflation in the 1%–3% range

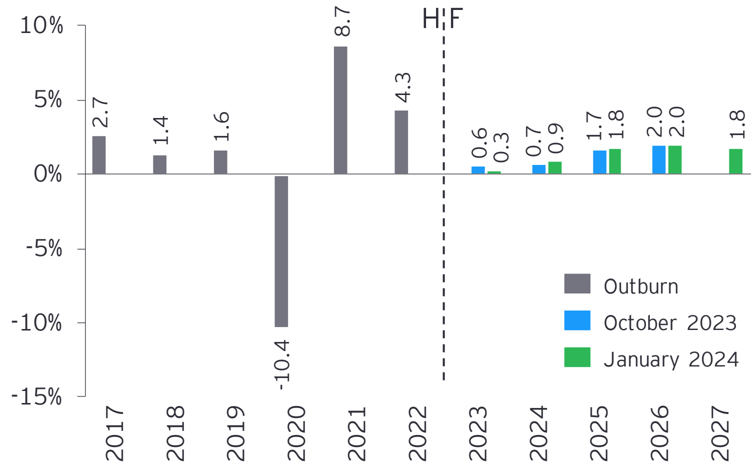


- While inflation generally moved lower in 2023, the pace of disinflation, the starting level of inflation and its endpoint varied significantly across countries. This has been due to differences in the sensitivity to commodity price shocks, labor market tightness and strength of domestic demand as well energy prices regulation and the methodology of their measurement.
- CEE countries exhibited the highest inflation rates at the start of 2023, and while they also showed the fastest pace of disinflation, price growth rates remained elevated at the end of 2023. Inflation in CEE was first driven up by high sensitivity to commodity price shocks due to fossil fuel energy mixes and higher shares of food and energy in inflation baskets, strong demand, tight labor markets as well as exchange rate depreciation. Same factors drove rapid disinflation as the effects from fading supply shocks were stronger, demand weakened and exchange rates appreciated. Going forward, inflation will drop close to 3% in 2024 in most CEE countries, but core inflation will likely remain higher as tight labor markets and strong wage growth will keep services inflation elevated. Inflation is stickiest in Romania, where domestic demand has not weakened as much as in the rest of the region, keeping core inflation broadly unchanged throughout 2023.
- On the other hand, inflation in December 2023 was lowest (below 1%) in Denmark, Netherlands, Belgium and Italy, where energy price spikes were highest and therefore price reversal is the strongest, either because energy prices have not been regulated as much as elsewhere or due to CPI measurement issues (inclusion of only new energy contracts into CPI calculations). In most of these countries, inflation should return to 2% as energy price declines drop out of calculation. Denmark is an outlier where price pressures have been particularly weak across the board, and thus, we expect inflation to run below 1% both in 2024 and 2025.
- Inflation developments in the largest euro area countries, Germany and France, are broadly aligned with the euro area average.

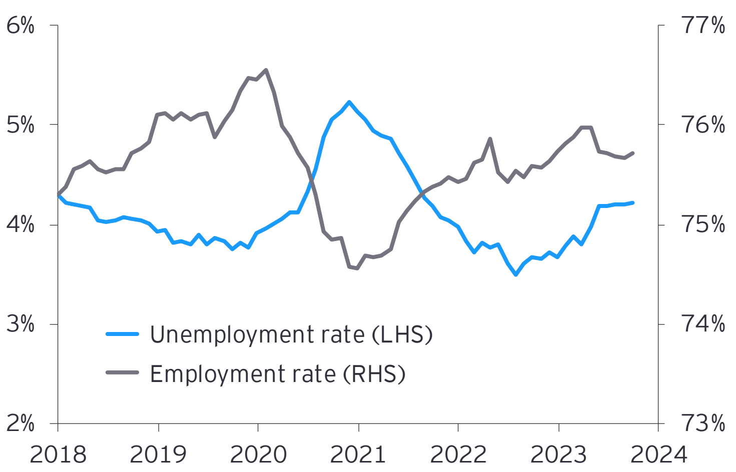
Source: EY analysis

Constrained household incomes, depressed housing activity and weak capex will limit growth in 2024, despite easing inflation and interest rate cuts

UK y/y real GDP
2017-27F



UK unemployment and employment
2018-23



UK y/y headline CPI
2004-25F

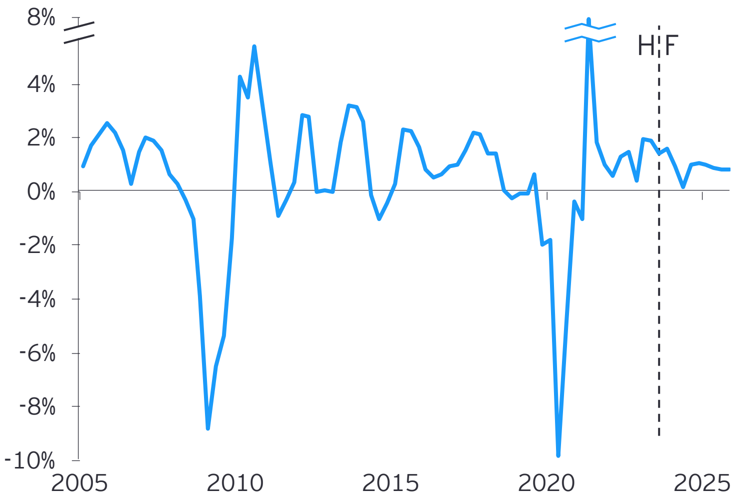
- Economic activity remains subdued in the UK, with real GDP likely to stagnate in Q4 2023, after a contraction in Q3. Fiscal consolidation along with the lagged impact of tighter monetary policy is likely to constrain real GDP growth to 0.9% in 2024, following a likely 0.3% expansion in 2023. Still, the combination of rapidly easing inflation and the Bank of England cutting rates by 100bps or more starting in the early summer will likely favor an economic rebound through 2024.
- We continue to anticipate muted household income growth despite inflation cooling faster than wage growth. In particular, while consumers will benefit from some easing in the rate of national insurance contributions, an increasingly large number of families will be subject to higher tax burdens as tax brackets remain unadjusted for inflation. Higher debt servicing costs and reduced fiscal policy support will continue to limit the upside for disposable income growth and consumer spending.
- The Chancellor of the Exchequer announced modestly less restrictive fiscal policy in the Autumn Statement, but this will be largely offset by the end of pandemic-era stimulus measures and energy assistance.
- The housing sector is expected to remain weak through 2024 despite marginally lower mortgage rates. Depressed housing affordability and elevated mortgage debt servicing costs, especially as households have to refinance at much higher rates, will weigh on housing demand and lead to declining prices – a 5%-10% drop in national prices appears likely.
- CPI inflation has continued to ease faster than consensus expectations, falling below 4% in late 2023, the lowest in over two years. While most of the free disinflationary lunch from falling energy prices is now behind us, strong disinflationary forces should remain in place through this year. We expect inflation to fall toward the Bank of England's 2% target by the early summer and end this year slightly below the target. This should favor the BoE starting to cut rates in June with around 100bps of rate cuts this year.

Source: EY analysis; EY ITEM Club; Haver Analytics; Refinitiv

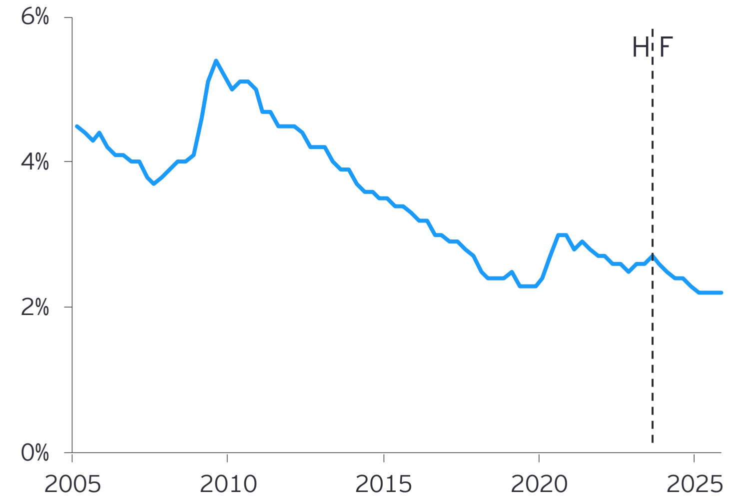
EY Parthenon

Soft consumer spending, cautious capex and weak global growth will constrain growth; still, easing inflation will support purchasing power as the BoJ exits its negative rate policy

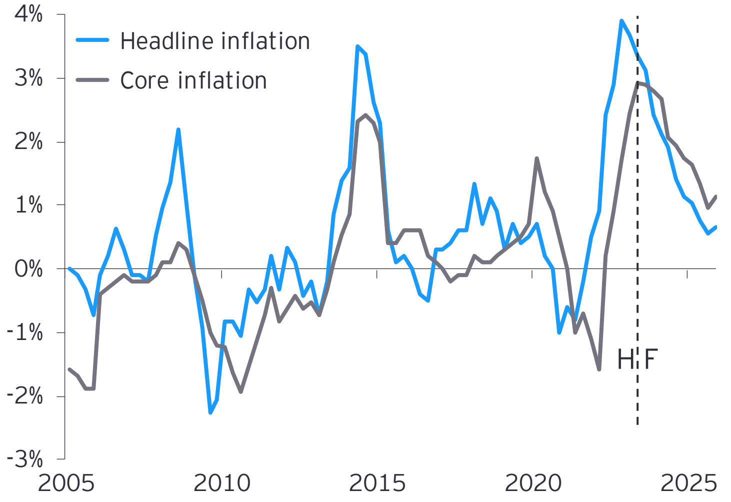
Japan y/y real GDP
2005-25F



Japan unemployment rate
2005-25F



Japan y/y CPI
2005-25F



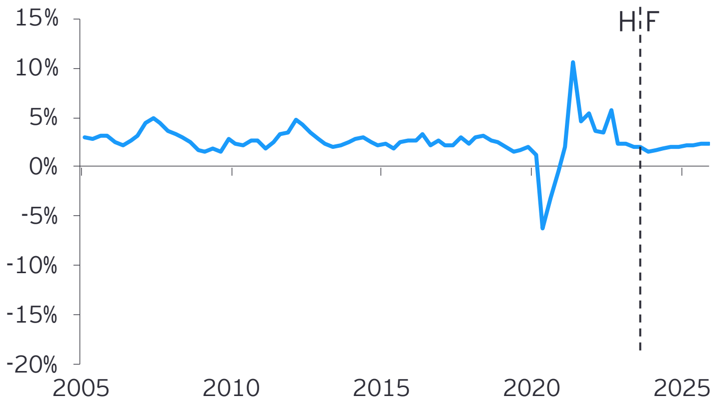
- We anticipate real GDP growth in Japan will average 0.8% in 2024, after a likely 1.7% expansion in 2023 supported by rebounding automotive output and tourism along with moderate consumer spending activity. In 2024, softer global demand for Japanese exports and constrained consumer spending will lead the slowdown. Still, we anticipate a gradual improvement in real incomes stemming from higher wages and lower inflation will support a measured rebound in spending into 2025.
- Business investment is expected to slowly accelerate through the year as business executives continue to display robust capex intentions. The two main dueling forces influencing business investment in 2024 will be soft global demand and a desire for productivity enhancement and digital transformation. The latter force will dominate by year-end.
- Importantly, real GDP growth will also be supported by supplementary budget measures aimed at protecting household purchasing power and supporting innovation.
- Inflation has cooled from its four-decade high but remains above the Bank of Japan 2% target. We believe inflation will continue to cool as import price pressures abate, but there is an upside risk from faster wage growth momentum stemming from wage negotiations in the spring. Headline and core inflation should approach 2% by Q2.
- The BoJ is still reviewing its monetary policy framework, a 12- to 18-month process that started in April 2023. We believe the BoJ may opt to exit its negative interest rate policy in Q2. At the same time, the BoJ may decide to exit the yield curve control policy allowing Japanese government bond yields to rise above 1%.

Source: EY analysis

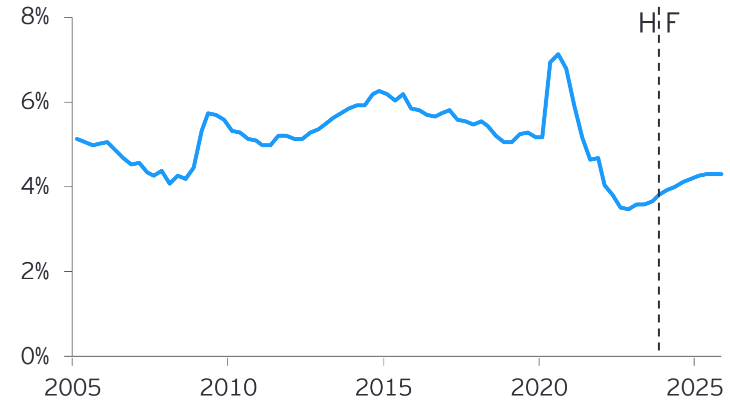
EY Parthenon

The Australian economy is to experience a period of below-trend growth and lower inflation as a direct response to the Reserve Bank's monetary policy tightening

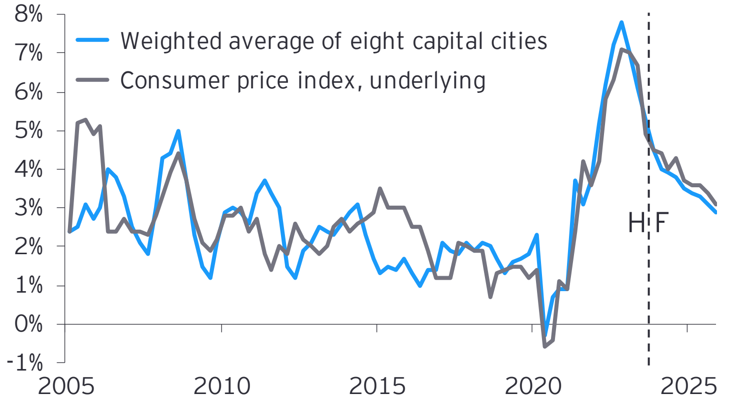
Australia y/y real GDP 2005-25F



Australia unemployment rate 2005-25F



Australia y/y CPI 2005-25F

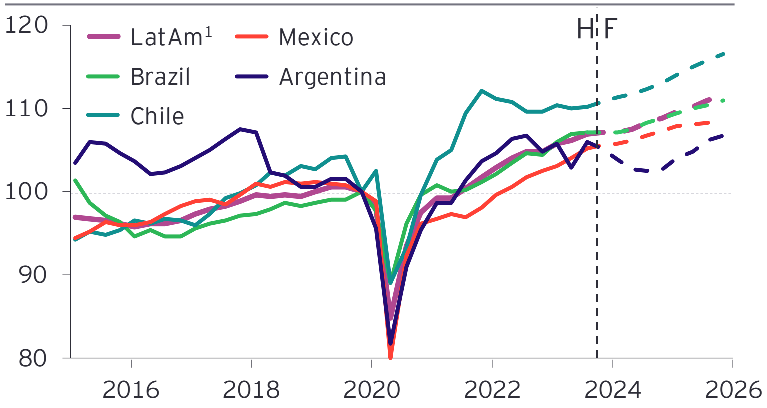


- The Australian economy is experiencing a period of below-trend growth as a direct response to the RBA's monetary policy tightening. Australia's economy grew a modest 0.2% during Q3 (or 2.1% y/y), as households were hit with higher mortgage repayments, taxes and inflation. We anticipate the Australian economy will grow 1.9% in 2024 after a likely 2.0% expansion in 2023.
- Annual growth in consumption has fallen from 11.8% y/y in Q3 2022 to 0.4% in Q3 2023, making it the lowest growth rate since the pandemic-impacted Q1 of 2021. To manage higher expenses, consumers whittled down the amount they are saving. The saving ratio fell from 2.8% in Q2 to 1.1%, the lowest rate since December 2007. We expect household consumption to remain subdued as the impact of higher interest rates continue to flow through the economy and population growth moderates.
- Public demand, both consumption and investment, was a major contributor to the growth outcome in Q3. Private investment also supported growth, while net exports detracted from growth, as demand from Australia's major trading partners waned.
- The Australian labor market continues to look robust with the unemployment rate at 3.9% in November — close to its three-decade low of 3.4% reached in October 2022. The participation rate is at a record high of 67.2%, and employment growth remains solid. However, demand for workers continued to slow as hours worked stagnated and the underemployment rate continued to rise.
- Both headline and trimmed mean inflation continue to moderate, but they remain well above the Reserve Bank of Australia target band of 2%-3% keeping the central bank on alert. Headline inflation cooled to 4.9% y/y in October (from 5.6% in September). It is unclear whether inflation is falling fast enough, suggesting more policy tightening is possible.

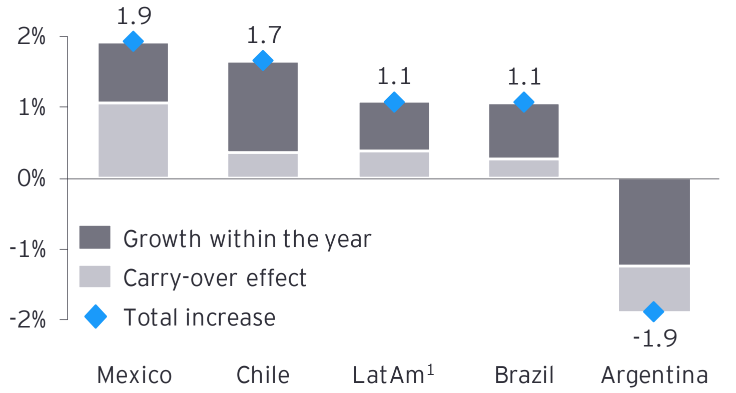
Source: EY analysis; Australian Bureau of Statistics; Macrobond

After surprisingly robust performance in 2023, most Latin American economies will slow down in 2024 due to tight monetary policy and fading temporary tailwinds

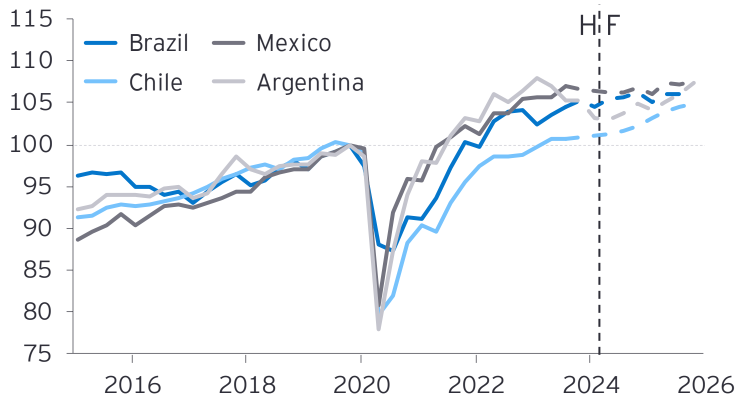
LatAm y/y real GDP (index, 2019 Q4 = 100) 2015-25F



LatAm y/y real GDP 2024F



LatAm employment (index, 2019 Q4 = 100) 2015-25F

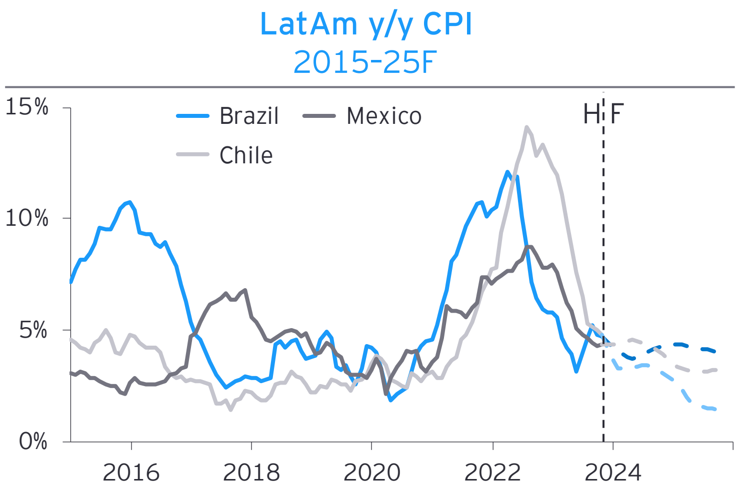


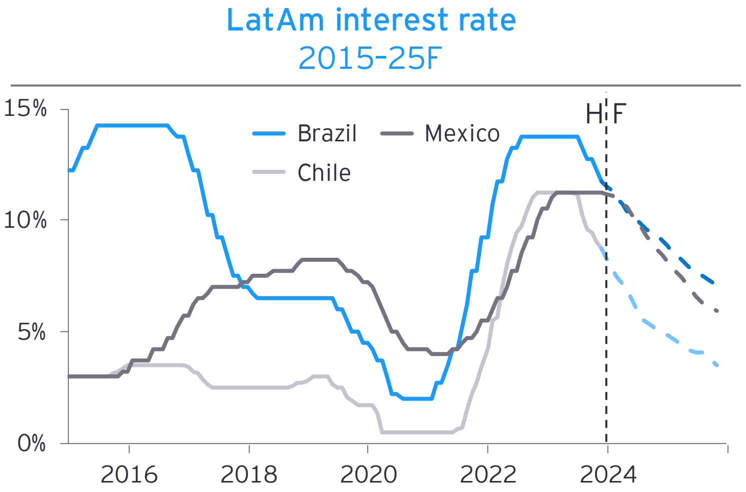
- In 2023, Latin America displayed robust growth as economic activity in the US surprised to the upside, supporting external demand. On top of that, in Brazil, favorable weather conditions boosted agricultural output, and fiscal policy was significantly loosened following the return of President Lula da Silva to power, while Mexico experienced an investment boom thanks to nearshoring by US firms and an increase in public investment.
- However, in the latter part of 2023, activity seems to have stagnated, which is likely to continue at the beginning of 2024, with high (though declining) interest rates, slowing growth in the US and worse-than-last-year harvest season weighing on activity.
- Still, we anticipate a rebound from Q2 onward as a result of resilient employment trends, monetary policy easing and improving global demand. We expect GDP growth of 1.1% across the region in 2024, but economic performance will vary across countries. Mexico and Chile should see a moderate growth of 1.9% and 1.7%, respectively, Brazil's economic activity is expected to be somewhat weaker (GDP growth of 1.1%), and Argentina will likely experience a severe recession (with GDP contracting by 1.9%).
- Activity in Mexico will be supported by expansionary fiscal policy ahead of the general election held in June, though business investment is likely to normalize somewhat following the 2023 boom. In Brazil, weak domestic demand, deteriorating terms of trade and lower-than-last-year agricultural output will hamper economic activity in 2024. Moreover, the government's ability to stimulate the economy will be limited due to tighter financial conditions.
- In Argentina, a newly elected President Milei has taken the office with a promise of solving the country's chronic issues, including runaway inflation, with a shock therapy. The economic plan that includes austerity measures, currency devaluation and deregulation of prices has led to a surge in inflation past 200% and pushed the economy deeper into a recession. While our base case assumes 1.9% contraction this year to be followed by 2.4% recovery in 2025 on the back of moderately successful structural reforms, the risks are clearly tilted to the downside, with high probability of a prolonged depression if policies fail and the country loses IMF's backing.

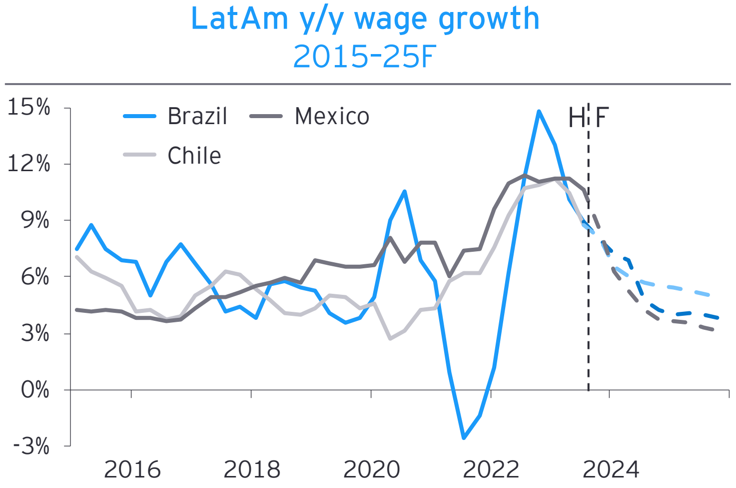
1. Excluding Venezuela.

Source: EY analysis

Inflation in many LatAm economies has dropped below 5%, allowing central banks to ease monetary policy





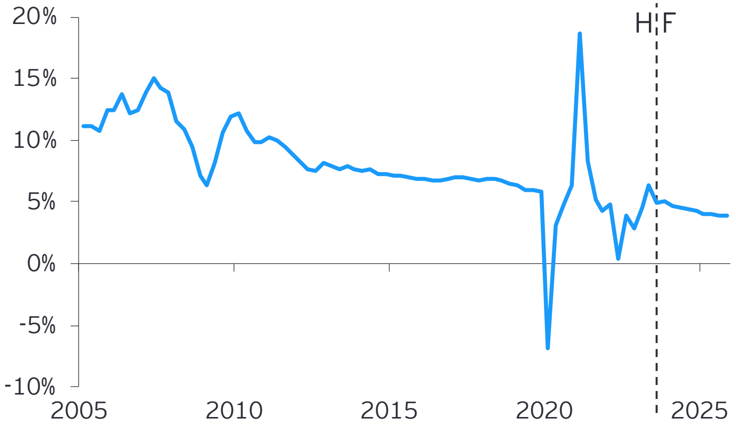


- Similarly as in advanced economies, 2023 was a year of rapid disinflation in Latin America thanks to improving supply conditions, lower commodity prices, exchange rate appreciation and weakening demand, helped by pre-emptive and relatively aggressive monetary policy tightening by central banks in the region. Inflation has dropped to 3%-5% in most countries. Two exceptions are Colombia, where inflation still remains elevated due to increases in regulated fuel prices and persistentcore inflation, and Argentina, where inflation keeps on going up (above 200%) due to the monetary financing of the budget deficit. The rise in Argentina's inflation has recently accelerated on the back of a 54% devaluation of the peso introduced by the new president.
- We expect inflation in Brazil and Mexico to stabilize in 2024 around 4%, i.e., close to the upper bound of inflation target tolerance bounds. In Brazil, food and energy inflation will turn positive as earlier declines in prices fall out of calculation, while core inflation will be supported by elevated, though declining, wage growth. In Mexico, a gradual decline in core inflation toward the 3% target will be offset by energy inflation turning positive. In Chile and Peru, inflation will be lower, close to 3%, while only a gradual disinflation process will keep inflation elevated in Colombia. In Argentina, we expect further peso devaluations, with inflation peaking at close to 400% in mid-2024.
- LatAm central banks are ahead of advanced economies this cycle – most of them have already started to cut rates and do so at a relatively fast pace, which seems warranted given highly positive real interest rates, with the notable exception of Mexico. Slower growth prospects in 2024 along with further declines in inflation should favor continued monetary policy easing across the region. We expect the Central Bank of Brazil to cut rates by 2.25ppt to 9% this year, following 2.5ppt of cuts in 2023 H2. While a relatively strong demand and core inflation well above the target have so far kept the Bank of Mexico from cutting rates, we anticipate the easing cycle to begin in February, with 3.25ppt of cuts this year and the policy rate reaching 8% in December. The Central Bank of Chile is also expected to continue its aggressive easing cycle.

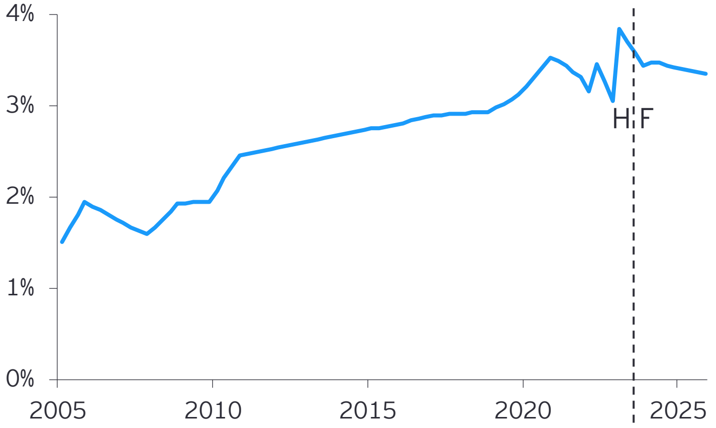
Source: EY analysis

A combination of cyclical and structural headwinds means mainland China won't be the main engine of global growth in 2024, even if some industries will outperform

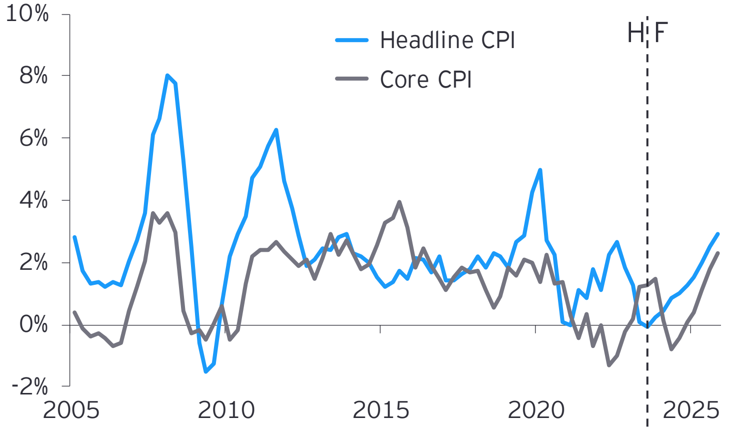
China y/y real GDP
2005-25F



China unemployment rate
2005-25F



China y/y CPI
2005-25F



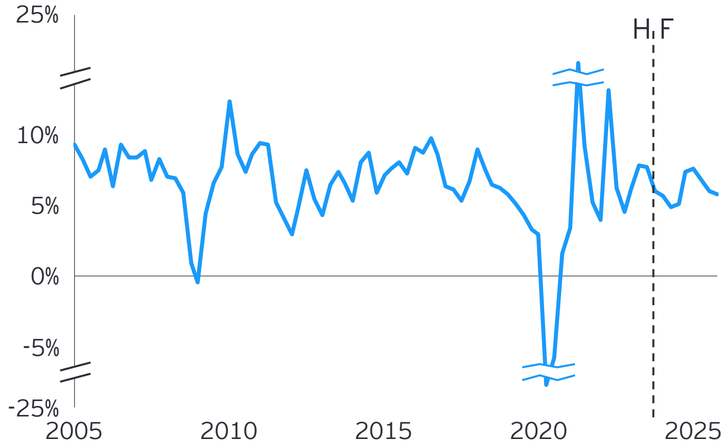
- Mainland China enters 2024 facing a combination of structural and cyclical headwinds that will likely limit the upside to growth for years to come. But while mainland China isn't likely to be the engine of global growth it once was, authorities will continue to favor a solid pace of expansion, with particular focus on driving high-tech manufacturing and the so-called "three new emerging industries": renewables, batteries and electric vehicles. We foresee that following a fiscally stimulated 5.2% real GDP advance in 2023, the 2024 economy will grow around 4.5%.
- On the cyclical front, retail spending has fallen short of expectations, with cooler outlays on travel, leisure, and household furniture and furnishings. At the same time, the real estate sector remains under significant pressure, with some large property developers and mortgage owners not paying their debts. Weak domestic investment activity and increased decoupling and de-risking efforts by some governments around the world have led to negative foreign direct investment in mainland China for the first time in modern history.
- While officials will continue to favor pro-growth policies, structurally elevated youth unemployment, lackluster demand and high household savings are constraining mainland China's GDP growth potential, especially amid a now-declining and rapidly aging population.
- Authorities are likely to favor targeted fiscal policy support measures and a slight expansion of the budget deficit beyond the 3% norm in 2024. The support will be aimed at the property sector and households. Excess supply and muted domestic and international demand growth have pushed consumer price inflation toward 0% — well below the People's Bank of China (PBoC) 3% target — and producer prices are now rapidly declining. Still, the PBoC is likely to favor targeted monetary policy easing measures, via liquidity injections, over rate cuts in an effort to ease the pressure on bank margins, avoid excessive yuan weakening and prevent renewed excessive credit growth.
- At the same time, we anticipate ongoing efforts to transform the property sector and develop a more sustainable model, focused on social housing and less dependent on credit. This will mean the ongoing risk of idiosyncratic credit events, requiring strong macro-prudential policies to avoid a housing and banking crisis in 2024.

Source: China National Bureau of Statistics; EY analysis

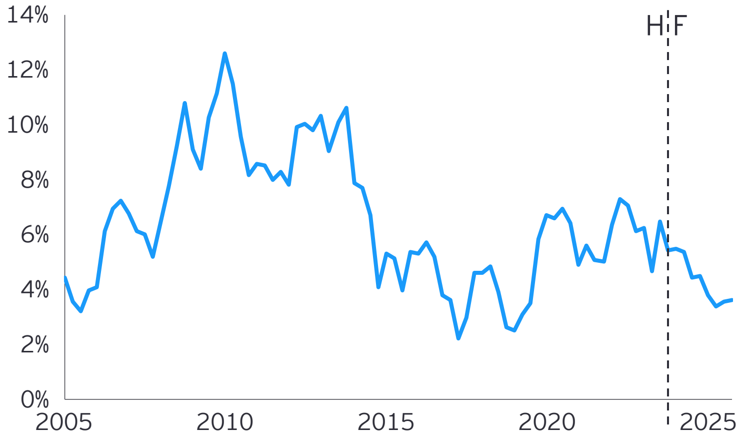
EY Parthenon

Indian economy continues to exhibit resilience supported by solid domestic demand; monetary easing likely to begin this summer after an extended pause

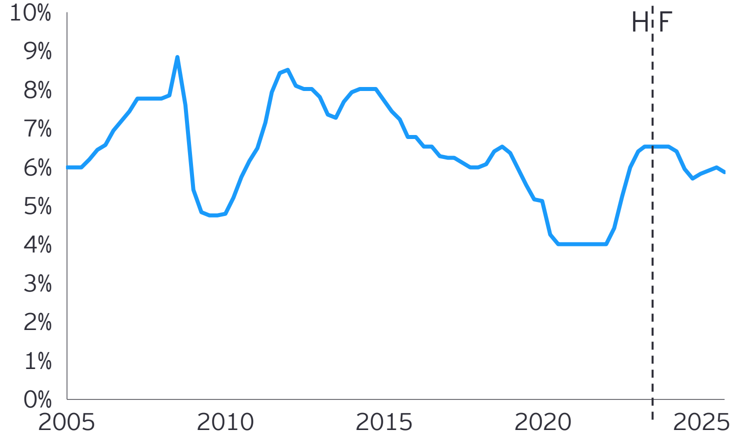
India y/y real GDP
2005–25F



India y/y CPI
2005–25F



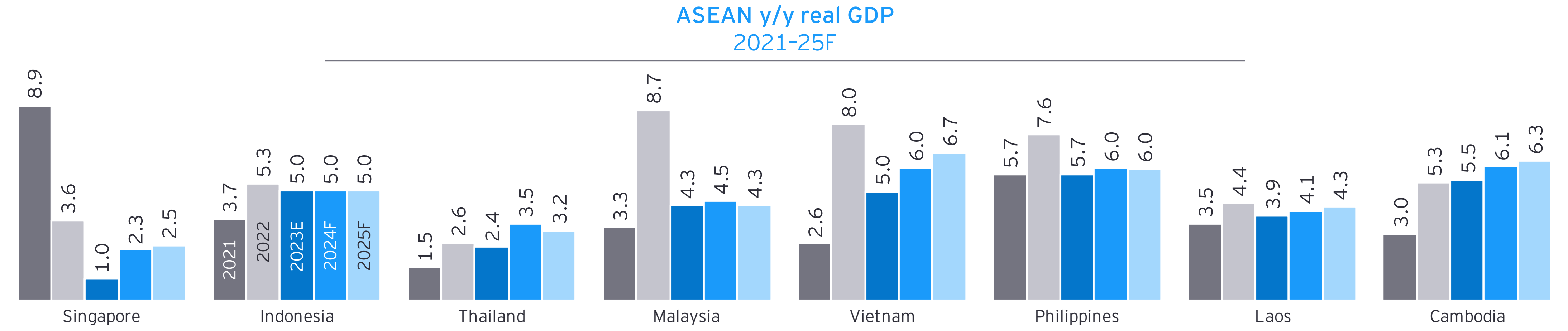
India repurchase rate
2005–25F



- Amid the volatile global economic environment, the Indian economy continues to exhibit resiliency thanks to strong domestic demand.
- The economy recorded a robust 7.7% y/y growth in the first half of fiscal year 2024 (which runs from April 2023 to March 2024) driven by investment and government consumption, and it is on a path to register 6.7% y/y growth in FY24, better than previously expected.
- In FY25, we expect policy continuity including a focus on lifting business investment as the current BJP-led government is highly likely to be re-elected in the national elections due by April–May 2024. Still, GDP growth is likely to slow to around 6.3% in FY25 given global growth concerns and possible delays in fiscal spending due to elections.
- Volatility in food inflation continues to impart pressures on headline inflation even as core inflation has slowed. The Reserve Bank of India (RBI) will remain on guard to avoid second-round effects from food and headline inflationary pressures.
- The Reserve Bank of India is expected to keep the policy rate unchanged until the summer. The RBI projects headline CPI inflation to ease to 4% in Q3 from 5.4% in FY24, which should open the space for it to deliver the first cut in the policy rate around midyear.

Source: Reserve Bank of India; Refinitiv Eikon; EY analysis

Most Southeast Asian economies ended 2023 with lower GDP growth, but domestic demand is expected to gradually firm and exports slowly rebound through 2024

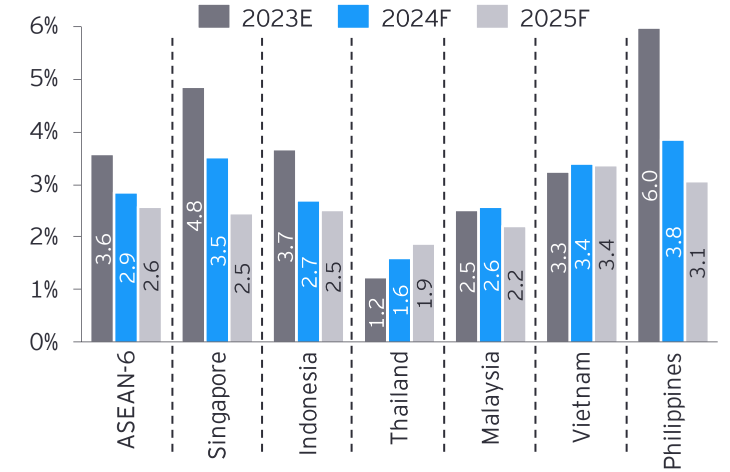


- We anticipate a gradual rebound in domestic demand across Southeast Asia in 2024. Unemployment will remain low, propelling the region's private consumption cycle, while lower inflation will support real incomes, underpinning consumer purchasing power.
- In Malaysia and Thailand, a stable inflation outlook should support real incomes, underpinning private consumption, while household spending remains robust in the Philippines and Indonesia.
- Monetary policy loosening should also stimulate interest rate-sensitive sectors like housing. Progress in multiyear projects in Malaysia and infrastructure targets in the Philippines should support the domestic economy. Meanwhile, comments from presidential hopefuls in Indonesia indicate continued support for public investment.
- Furthermore, strong tourism flows should continue to aid activity in the retail trade and food and beverage sectors. Labor markets should continue to rebalance in 2024, but they will remain tight, underpinning household income growth and domestic demand.
- Meanwhile, ASEAN's export performance has been lackluster due to weak external demand, affecting both commodity exporters (Indonesia and Malaysia) and manufacturing exporters. Still, ASEAN export growth appears to have bottomed out as growth in developed markets rebound. The bulk of this recovery is led by electronic exports in Malaysia and Singapore. By contrast, non-electronic exports are tepid, reflecting weakness in commodity markets, which will continue to impact Indonesia and Malaysia. Likewise, exports of consumer products such as textiles, garments, footwear and travel goods are also likely to slow down, impacting economies like Cambodia and Vietnam.

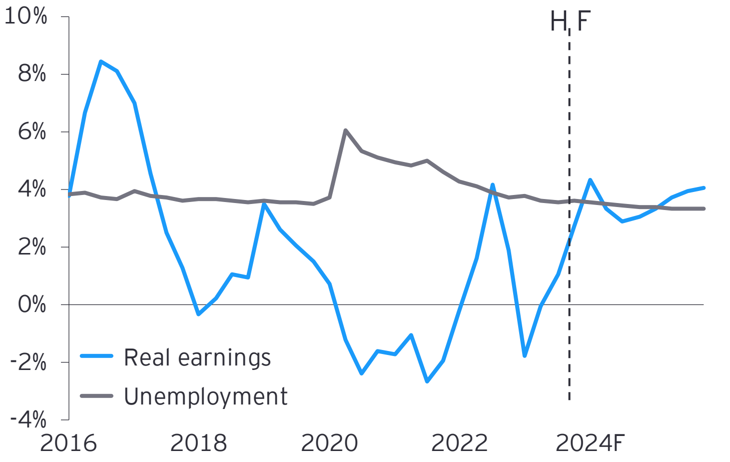
Source: EY analysis

Disinflationary forces are likely to remain in place through 2024, notwithstanding El Niño and geopolitical risks, allowing central banks to gradually ease policy

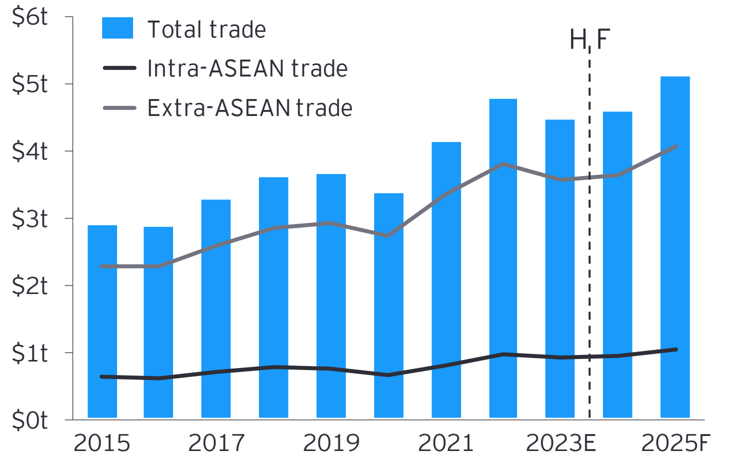
ASEAN-6 y/y CPI
2023-25F



ASEAN-6 average unemployment and real earnings growth rate
2016-25F



ASEAN total trade (goods and services)
2015-25F

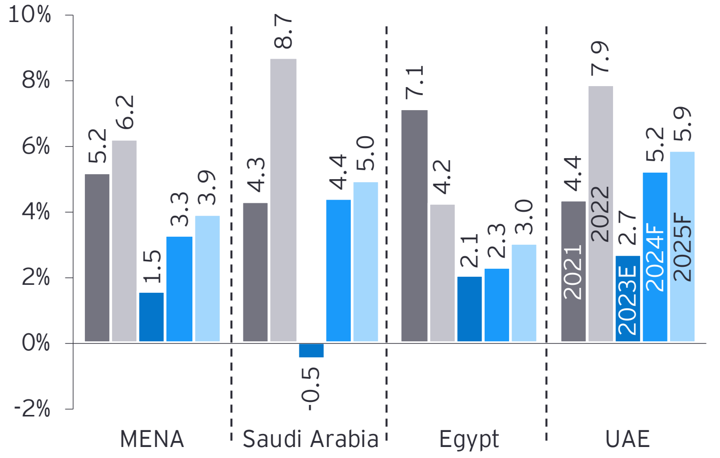


- Headline inflation has been easing across the region. Improved supply-side conditions, especially in the Philippines and Thailand, along with lower food and energy prices have been keen disinflationary factors. Core inflation has also been declining, albeit at varying rates across the region.
- Disinflationary forces are expected to remain in place through 2024, but there are upside risks from El Niño and potential geopolitical disruptions affecting supply chains or energy prices.
- With inflation remaining under control and growth still below trend, we expect central banks in the region to gradually ease policy. Once the risks from El Niño subside, the Bank of Thailand will likely start cutting rates in Q2 2024, and Malaysia will possibly ease in H2 2024 to support growth. Should core inflation move closer to 2.0% in Singapore, the central bank (Monetary Authority of Singapore) could ease policy in H2 2024.
- In view of the upside risks to inflation and improving activity in the Philippines, we do not see a case for rate cuts, while Bank Indonesia is also likely to stay on hold to stabilize the Indonesian rupiah and pre-empt potential imported inflation.

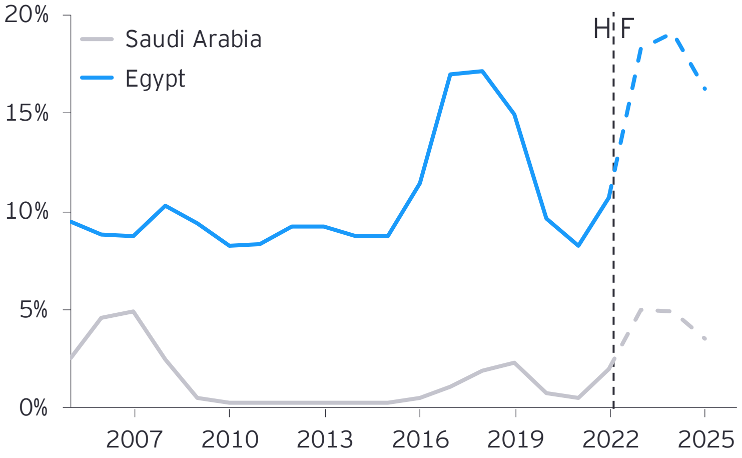
Source: IMF; Oxford Economics; ASEANstats; EY analysis

Growth in the MENA region is expected to pick up in 2024, following a dip this year, with disinflation underway

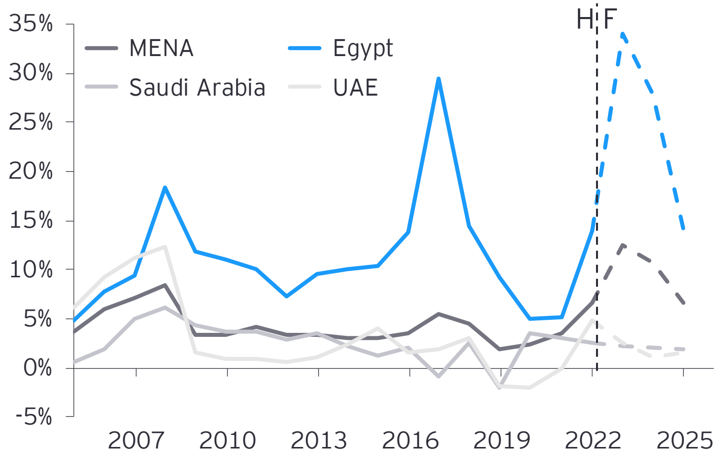
MENA, Saudi Arabia, Egypt and UAE y/y real GDP 2021-25F



Interest rates in Egypt and Saudi Arabia 2005-25F



MENA, Saudi Arabia, Egypt and UAE y/y CPI 2005-25F



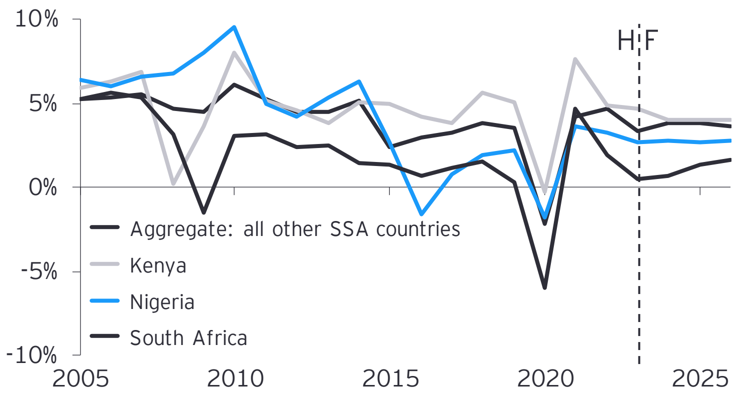
- GDP growth in the Middle East and Northern Africa (MENA[1]) should pick up in 2024, following a downturn in 2023 as global monetary tightening and oil supply cuts weighed on oil exporting economies.
- The Egyptian Pound is still under pressure, and transition to a flexible exchange rate is delayed, with talks underway for more funding from the IMF. This, along with higher external financing requirement in FY24 (around USD7.2b, compared to USD4.3b in FY23), is posing as the most prominent downside risk on Egypt's economic growth. Headline inflation rate registered a record high of 38% in September, driven by higher food inflation, but has since softened. The government announced in October 2023 an agreement with private producers and retailers to cut prices on staple foods by 15%-25% and exempt them from customs duties for six months.
- Saudi Arabia's oil GDP (30% of Saudi Arabia's GDP) is estimated to have contracted 7.1% in 2023, leading to a 0.5% contraction in overall GDP. We anticipate a GDP growth rebound to 4.4% in 2024. Signs of robust consumer spending and buoyed tourist spending should support non-oil sector expansion in the coming year. Inflation is easing, in line with the global trend, and is expected to average 2% in 2024, with some upside risks from geopolitical tensions.
- Rebounding tourism in Dubai should support growth, while government support policies should drive non-oil growth in UAE. Construction, manufacturing and financial services are the fastest growing sectors in Abu Dhabi. Growth in the non-oil sector will likely stay robust in 2024.

1. MENA includes Algeria, Bahrain, Egypt, Iraq, Israel, Kuwait, Morocco, Oman, Qatar, Saudi Arabia and United Arab Emirates. For CPI, GDP weighted average.
Source: EY analysis

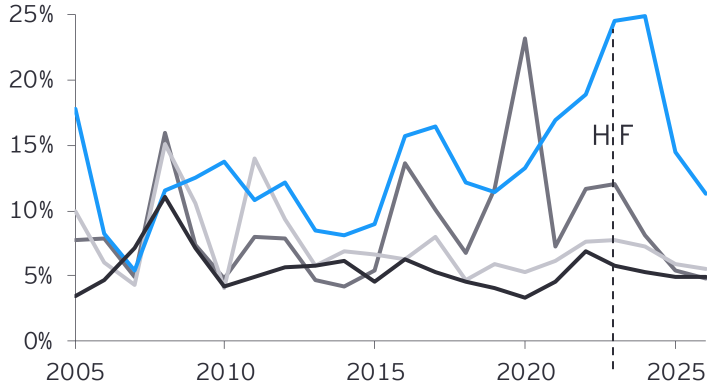
EY Parthenon

Barring some large lagging economies, real economic activity is set to remain relatively strong across Africa, with inflation and interest rates set to decline from 2024

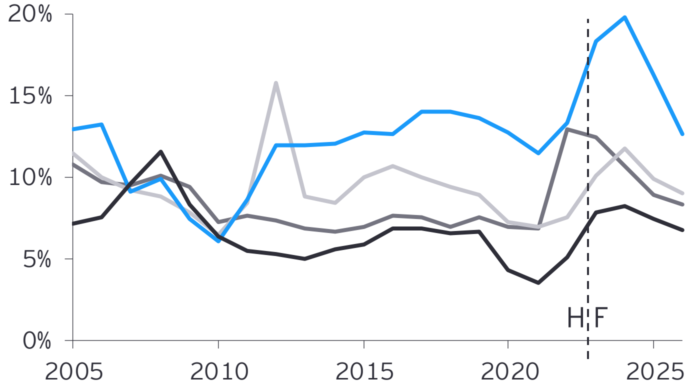
Sub-Saharan Africa y/y real GDP 2005-26F



Sub-Saharan Africa y/y inflation 2005-26F



Sub-Saharan Africa repurchase rate path 2005-26F



- The general macroeconomic outlook for Sub-Saharan Africa is relatively strong, notwithstanding some economic pressures – particularly in the larger economies. Economic activity is predicted to be bolstered moderately due to returns from large infrastructure projects (like Angola's Lobito Corridor logistics project and Nigeria's Dangote Refinery initializing in Q1 of 2024). These gains are expected to be partially offset by currency devaluations, excessive public debt levels, modest global economic growth, and high but declining inflation and interest rates.
- South Africa's economic growth has been and will continue to be sluggish due to operational failures of major state-owned enterprises (SOEs). Eskom, the national electricity service provider, increased the intensity and frequency of planned power outages, disrupting business operations. Transnet, responsible for national railways and ports, has been criticized for a lack of efficient, operational freight services, coupled with port congestion, which have hampered South African logistical operations. Additionally, with national elections scheduled this year, the current ruling party, ANC (African National Congress), is expected to see a dip in voter support. This could lead to the rise of coalition governments, potentially increasing political instability.
- Over the year, mounting inflation pressure, policy uncertainty and moderate oil production are predicted to hinder economic activity relative to Nigerian potential output. The introduction of the floating exchange rate in Nigeria in 2023 has had large inflationary impacts, which are, however, set to soften over the forecast period.
- While Kenya has traditionally shown resilient growth, recent events, such as a widespread drought (set to be exacerbated as hot, dry El Niño conditions are expected to occur post-March 2024), increased interest rates and the fallout from the war in Ukraine, have negatively impacted the economy. As these domestic challenges persist into 2024, the forecast for GDP growth is strong relative to other African countries, but weighed down nevertheless.

Source: EY Analysis

EY Parthenon

Agenda

- Global snapshot
- Country and regional outlooks
- **Meet the team and explore our resources**

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