FitchRatings

NON-RATING ACTION COMMENTARY

World Growth to Fall Sharply in 2024 but US Recession Avoided

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Fitch Ratings-London-08 December 2023: World growth has held up well in 2023 driven by a normalisation of consumption in China and a pick-up in US growth, which have outweighed a sharp slowdown in Europe in the wake of last year's regional energy shock. But with the full impact of recent monetary tightening still to be felt, China's ongoing property slump and the eurozone economy stagnating, world growth is expected to fall sharply to 2.1% in 2024, Fitch Ratings says in its latest Global Economic Outlook (GEO) report.

Fitch has revised up its 2023 world growth forecast to 2.9% from 2.5% in the September GEO, with the US raised by 0.4pp to 2.4% and China by 0.5pp to 5.3%. We have also raised growth in emerging markets excluding China by 0.2pp to 3.6%. Eurozone growth is forecast at 0.5%, little changed from the previous forecast.

Fitch has revised up its forecast for global growth in 2024 by 0.2pp, with a 0.9pp increase in the US to 1.2% (with recession now avoided) outweighing a 0.4pp cut to eurozone growth to 0.7%.

Recent surprising US growth resilience reflects renewed fiscal easing, consumers' willingness to continue drawing on excess savings and robust private-sector finances. The impact of monetary tightening through the 'cash flow' channel of rising debt-service costs for private-sector borrowers has been limited so far. Growth will slow sharply next year as household income and profits decelerate, credit and investment weaken and real interest rates rise, but is now expected to remain positive through 2024.

Europe's economy has hardly grown this year and mild technical recessions are currently unfolding in the eurozone and the UK. The terms-of-trade shock has eased, but falling world trade is now hitting eurozone exports while credit tightening is weighing on investment, as bank lending to companies declines. Rising real wages should boost consumption next year but recovery will be shallow.

This year's re-opening boost in China will not be repeated and growth is forecast to slow to 4.6% in 2024. Policy support has been stepped up since August but this has gained little traction so far in stemming the collapse in housing sales and construction. Doubts about the efficacy of policy easing impart downside risks to growth.

Core inflation has fallen slightly faster than anticipated, particularly in the eurozone. Core goods prices have stabilised globally as supply-chain pressures have eased. Services inflation and nominal wage growth have also fallen significantly in the eurozone but less so in the US and the UK, where they remain high.

Central banks are nervous about making a premature declaration of victory in the fight against inflation and will keep rates 'restrictive' for some time.

Tight labour market conditions are making the Fed nervous about wage inflation remaining high. Against the backdrop of stronger-than-expected growth, Fitch expects one more hike in the federal funds rate rate in January 2024. The Fed is then expected to keep rates on hold until July and then to cut by 100bp by year-end to 4.75% (upper range).

The ECB is expected to start easing in April, reducing rates by 75bp by year-end, taking the main refinancing rate to 3.75%. By contrast the Bank of Japan is expected to raise its policy rate next year. This would be the first tightening since 2007.

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