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MACROECONOMIC *view*

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24 things to know before entering 2024

KEY HIGHLIGHTS:

- The global economy has fared better than anticipated in the face of the interest rate shock.
- In 2023, the soft-landing scenario has prevailed over the recession scenario.
- However, the full impact of the restrictive monetary policies is still ahead of us.
- Political, geopolitical and climate risks have rarely been this pronounced.

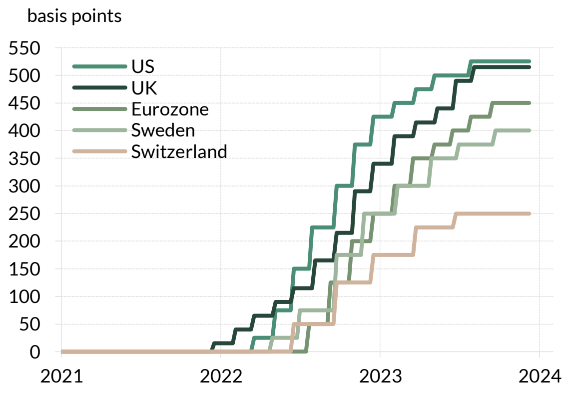
At the start of 2023, there were two possible trajectories for the economy: a soft landing or a recession. To date, the economy is clearly following the first path. It is also noteworthy that disinflation everywhere has continued to gather pace and extend to all price categories. In short, soaring unemployment has not been necessary to tame inflation. As the year draws to a close, the central banks' inflation targets are in sight in the United States and the eurozone. The phase of aggressive monetary tightening experienced over the last two years is over (chart). The next phase is a pivot towards easing. This will not be long in coming.

Below, we have listed 24 key points of 2023, which - no doubt - will also shape the outlook for 2024. The environment is fraught with risks, both economic and non-economic (US elections, geopolitical tensions, protectionism, climate disruptions). The strength of the economy will again be tested next year.

1. In 2023, the US economy completely thwarted alarmist predictions of a relapse into a recession. The history of economic cycles shows that the absence of a recession after severe monetary tightening is an exception. The most famous case to date was 1994. We must now add the year 2023 to this exclusive list.
2. On global supply chains, we have gone from shortage to overcapacity in the space of three years.
3. Amid weak demand, European companies are rapidly losing their pricing power.
4. US household consumption has been partly shielded from the inflation shock by the savings cushion. At the current rate, excess savings will be depleted in the first quarter of 2024.
5. US technology companies have invested massively in the construction of gigafactories. This spending is now levelling off, and the positive effect on GDP growth is set to slow sharply.
6. Despite a full-employment economy, the United States has a federal budget deficit in excess of 7% of GDP. This is not normal, and certainly not something sustainable. Fiscal policy is too loose.
7. The rebalancing of the US labour market is taking place gradually, without massive layoffs, which is completely atypical. This raises the question of whether this trend is sustainable.
8. For the past year, the bank credit market in the eurozone has virtually been at a standstill.
9. Germany is facing a profound transformation of its industrial "model", from automotive to chemicals. This is leading to a fall in trend growth.
10. France is going through its worst housing crisis in thirty years. This is fuelling downside risks for employment.

11. Fears of a sovereign debt crisis in Italy have - once again - been blown out of proportion. The Italy-Germany spread (BTP-Bund spread) ends the year lower than it began.
12. China's weakening economy is coupled with increasing economic and political opacity.
13. China has overtaken Germany and Japan as the world's leading car exporter.
14. With its real estate sector in long-term disarray, China has no back-up engines to maintain a growth rate well above 4%.
15. Against a backdrop of growing protectionism worldwide, China is losing its attractiveness. The net flow of foreign direct investment is plummeting.
16. The US authorities have stemmed the contagion risk following the collapse of several banks in the spring of 2023, but another accident cannot be ruled out. The banking sector is trailing heavy latent losses on its asset portfolio.
17. After an aggressive monetary tightening, the Fed should soon be able to pivot to the other direction, that of monetary easing.
18. The pace of the Fed's balance sheet normalisation will have to slow, or risk causing renewed banking stress.
19. Given the poor economic conditions in the eurozone, the ECB has tightened its monetary policy too much. Disinflation is now faster than the central bank had anticipated.
20. The record-breaking climate events of 2023 have pushed the planet into uncharted territory; decarbonising the economy is now more pressing than ever.
21. The fragmentation of global trade has increased with the pandemic and the war in Ukraine. Now that protectionism has become "trendy", there is a fear that trade restrictions will persist or intensify.
22. With the launch of ChatGPT, AI (artificial intelligence) has become a mainstream phenomenon. AI has the potential to invalidate the once popular theory of secular stagnation.
23. The geopolitical landscape has rarely been so fragmented.
24. If Donald Trump is re-elected, which is possible if not probable, he promises to be more disruptive than in 2016, especially with regards to global trade.

CUMULATIVE POLICY RATE HIKES



Source: Bloomberg, ODDO BHF

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