TURNING POINT
HR SOLUTIONS

FEBRUARY 2024

GLOBAL OUTLOOK 2024-2025:

CRASH OR SOFT-LANDING?

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Turning Point HR Solutions

PROFILE

Turning Point HR Solutions Ltd. are a UK based international reward consultancy, with additional offices located in Dubai, Lisbon, and Manila. Collectively, we provide strategic International HR, Learning and Development, as well as Compensation and Benefits Consultancy advice for private and public sector companies.

As a team, we have been implementing strategies for both UK and international business for over 25 years. We have a wealth of experience and, together with our chosen strategic partners, are well placed to bring our HR best practices to both local and international businesses.

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- Job Description creation, advice and training
- External Benchmarking
- Pay Framework Design
- Grade and Structure review
- Human Capital Audits
- Bonus / Incentive design
- Competency Framework Design
- Equal Pay and Gender Pay Audits
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- Total Reward Statements

Ensuring compliance with the 2010 Equality Act

SOFTWARE

Orbit Org – Organisational charting
Orbit Eval – Job Evaluation
Orbit Pro – Salary benchmarking and includes Orbit Eval
Orbit Suite – Combination of all software above

WHY WORK WITH US?

1. We do this for a living and have a wealth of expertise
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Our vision is to provide a unique 'one stop shop' for our clients challenged with recruiting, retaining and developing the very best people for their business.

CONTACT

Phone:
0203 475 2270
Website:
www.turningpointhr.com
Email:
info@turningpointhr.com

INCENTIVE PLANS

PAY FRAMEWORKS

BONUS PLANS

EXTERNAL BENCHMARKING

JOB EVALUATION

KEY TAKEAWAYS

- Global Economic Resilience: Despite facing challenges such as conflicts, inflation, and significant interest rate hikes, the global economy showed unexpected resilience last year, avoiding a substantial downturn and instead experiencing a deceleration in growth. This resilience suggests underlying strengths in the global economy that may not be fully understood yet.
- World Bank Growth Projections: The World Bank forecasts global GDP growth to slow to 2.4% this year from 2.6% in 2023, marking the weakest growth since the 2009 financial crisis, excluding the pandemic year of 2020. This trend signifies a period of slow growth that could hinder efforts to end extreme poverty by 2030.
- Economic Slowdown in Advanced Economies: The World Bank's lowered growth forecast for 2025 to 2.7% from 3.0% reflects expected slowdowns in advanced economies, further complicating global efforts to achieve Sustainable Development Goals (SDGs).
- US Economy's Performance: In 2023, the US economy grew by 2.5%, driven by robust consumer spending, outperforming World Bank's estimates. However, growth is expected to slow to 1.6% this year, impacted by restrictive monetary policies and diminishing savings.
- Concerns over China's Economic Growth: China's expected economic slowdown to 4.5% in 2024, its slowest pace in over three decades (excluding pandemic years), raises concerns due to weaker consumer spending and ongoing property sector issues.
- Emerging Markets and Developing Economies: Projected to grow at 3.9% this year, the pace of growth in these economies is insufficient to lift growing populations out of poverty, indicating a challenging economic landscape ahead.
- US Treasury Market Volatility: The current quarter sees significant fluctuations in the US Treasury market, with rising long-term treasury yields suggesting potential economic stress, though not necessarily predicting a recession.
- Geopolitical Tensions and Global Financial Vulnerabilities: Conflicts in Eastern Europe and the Middle East pose significant threats to global food and energy supplies, amplifying uncertainty and potentially impacting global economic growth and investment.
- Rising US National Debt: The US faces substantial financial challenges with a national debt exceeding $34 trillion and annual interest payments of approximately $1.7 trillion, indicating a severe fiscal imbalance.
- Potential for a "Decade of Wasted Opportunity": Weak near-term growth prospects and challenges in developing countries, including high debt levels and limited access to food, could result in the 2020s being labelled a "decade of wasted opportunity."
- State of the US Economy and Stock Market: The US economy and stock market face a complex scenario, with persistent inflation, high housing costs, and labour market challenges contrasting with positive GDP figures and historical performance metrics.

GLOBAL ECONOMIC GROWTH

In the face of significant challenges last year, including conflicts, rising inflation, and the largest increase in interest rates in forty years, the global economy displayed remarkable resilience. This resilience was unexpected, as the economic landscape managed to avoid a substantial downturn, instead experiencing a slowdown in growth. This situation suggests the global economy may be more robust than previously believed, revealing potential strengths that have yet to be fully understood. According to the World Bank's latest Global Economic Prospects report, global GDP is expected to grow by 2.4% this year, marking a slowdown from the 2.6% growth rate of 2023, and even more so from the 3% in 2022, and the significant 6.2% rebound in 2021 post-pandemic. Ayhan Kose, the Deputy Chief Economist at the World Bank, indicates that this year's growth rate, when excluding the pandemic's impact in 2020, could be the weakest since the financial crisis of 2009.

Despite the optimism derived from the global economy's resilience, caution is advised. The World Bank's projections suggest a decrease in global growth to 2.4% in 2024, with a modest recovery to 2.7% in 2025, initially predicted 3%, attributing this adjustment to anticipated slowdowns in advanced economies. In contrast to the global slowdown, the US economy showed resilience in 2023, growing by 2.5%, 1.4% higher than the World Bank's June estimate, driven by strong consumer spending. However, US growth is expected to slow to 1.6% this year, impacted by restrictive monetary policies and diminishing savings, yet this still doubles the bank's previous forecast. The eurozone faces a more pessimistic outlook, with growth projected at only 0.7% this year, affected by high energy prices and tighter credit conditions, leading to a downward revision from earlier forecasts.

Furthermore, China's economic forecast is also a cause for concern, with expectations for growth to slow to 4.5% in 2024, marking its slowest pace in more than three decades, excluding the pandemic years. This deceleration is attributed to diminished consumer spending and persistent challenges within the property sector. The outlook for 2025 is even more cautious, with growth projected to taper off further to 4.3%. This downturn in China's economic performance is reflective of deeper issues, such as demographic shifts, increasing debt levels, and reduced productivity gains. Similarly, emerging market and developing economies are expected to experience a slowdown, with growth forecasts at 3.9% this year, a slight drop from 4% in 2023, and notably below the average growth rate of the previous decade. This slower pace of growth is unlikely to significantly reduce poverty levels.

GLOBAL ECONOMIC GROWTH PROJECTIONS AND CHALLENGES

Despite a stronger-than-expected global economic performance in 2023, there are concerns over short-term risks and structural vulnerabilities that may hinder future growth. Challenges such as persistently high interest rates, the potential for escalated conflicts, sluggish international trade, and an increase in climate-related disasters are expected to create a challenging environment for global economic expansion. Additionally, prolonged tight credit conditions and high borrowing costs pose significant barriers to growth, especially considering the current high levels of global debt and the urgent need for investments in climate action and sustainable development. Global inflation is expected to decrease from an estimated 5.7% in 2023 to 3.9% in 2024. However, inflation remains high in many countries, and geopolitical conflicts could further exacerbate inflationary pressures. In about a quarter of all developing countries, inflation rates are projected to exceed 10% in 2024, undermining economic gains from the post-COVID-19 recovery. Moreover, the recovery of the global labour market post-pandemic has been uneven. While developed economies have shown resilience, many developing countries, particularly in Western Asia and Africa, have not seen pre-pandemic employment levels return.

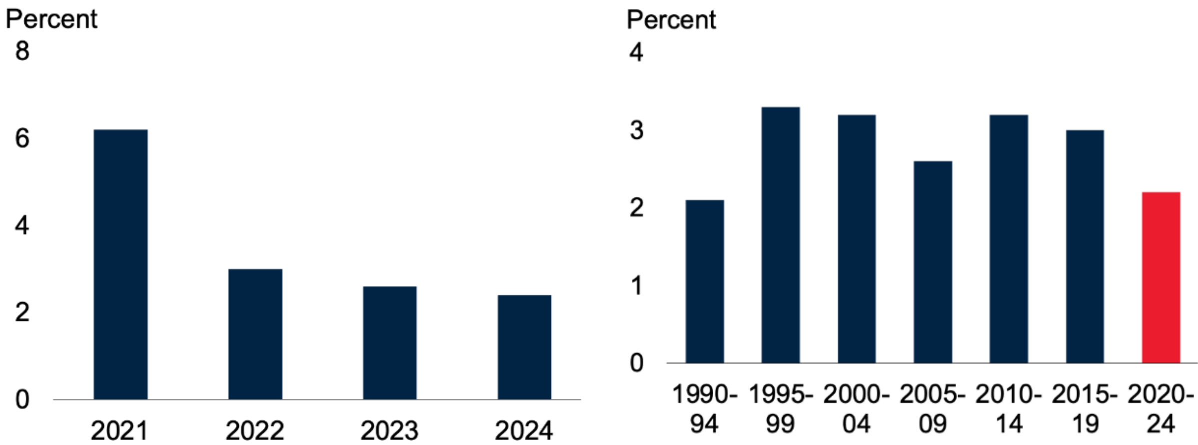
Additionally, high levels of public and private debt, alongside overvalued assets and systemic financial vulnerabilities, are identified as potential precursors to a market downturn. These risks are further compounded by geopolitical tensions and trade imbalances. A downturn in the US could diminish European export demand, increase financial market volatility, and tighten credit conditions. The possibility of contagion, where US financial instability could extend to European banks and financial institutions, underscores the need for pre-emptive measures. The call for regulatory reforms, trade imbalance corrections, and debt management enhancements highlights the importance of transatlantic cooperation in mitigating these risks. The report predicts economic slowdowns in large, developed economies, particularly the US, due to factors like high interest rates and decreasing consumer spending. Developing regions face reduced growth prospects due to financial tightening and reduced external demand. Low-income and vulnerable economies confront severe balance-of-payments and debt sustainability challenges, with small island developing states facing unique debt and climate vulnerability issues.

The economic landscape of Europe is poised to navigate a complex array of challenges as it grapples with persistent and elevated inflation, heightened interest rates, and the ongoing ramifications of geopolitical conflicts. As delineated by the European Union's projections, the Gross Domestic Product (GDP) is anticipated to witness a modest expansion of 1.2% in 2024, ascending from a mere 0.5% growth in 2023. This anticipated mild recovery is largely attributed to an expected resurgence in consumer spending, spurred by a gradual alleviation of price pressures, an increase in real wages, and the sustained robustness of labour markets. However, this optimistic outlook is tempered by the persistent tight financial conditions and the phased withdrawal of fiscal support measures, which are likely to dilute the impact of these primary growth stimuli within Europe.

Concurrently, Japan's economic growth trajectory is forecasted to decelerate, moving from a growth rate of 1.7% in 2023 to 1.2% in 2024, notwithstanding the nation's accommodative stances on monetary and fiscal policies. This anticipated slowdown is particularly noteworthy as it might signify a pivotal departure from the deflationary trend that

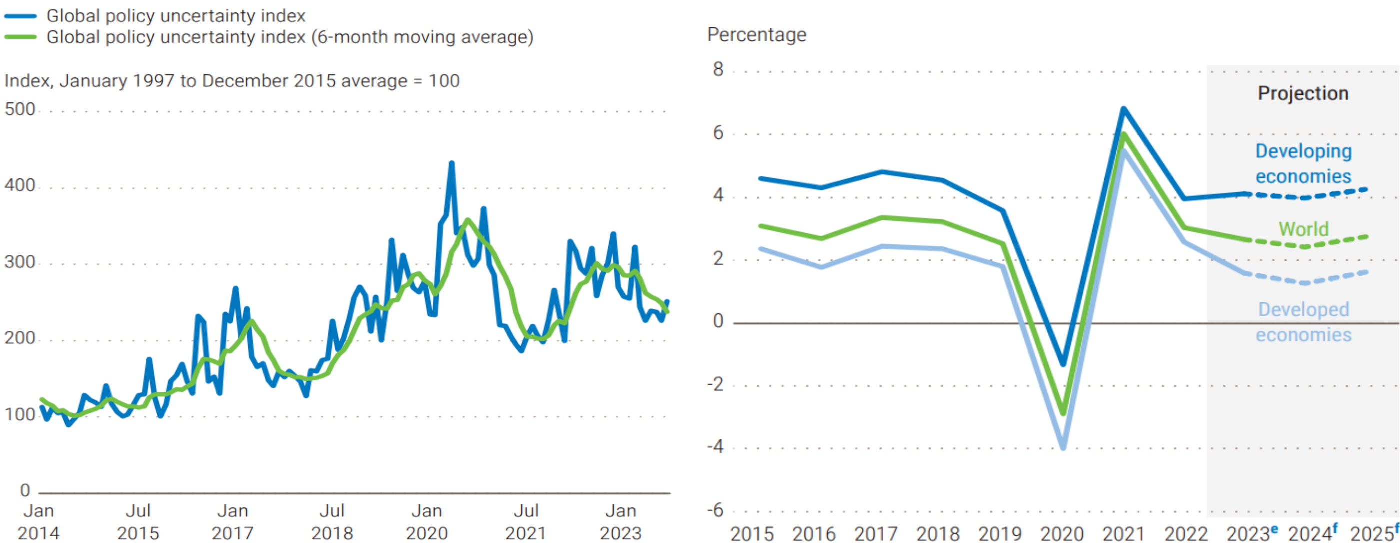
has beleaguered the nation for over two decades, with rising inflation hinting at this significant economic transition. Furthermore, the anticipated deceleration in economic growth in China and the United States—Japan's principal trading partners—presents a formidable challenge, as it is expected to exert a negative impact on Japan's export sector in 2024.

FIGURE 1. Global GDP growth (left), and global GDP growth over time. Source: Brookings, World Bank.



This year, China's economic growth is anticipated to decelerate to 4.5%, marking its slowest pace since 1990, with the exception of the periods affected by the COVID-19 pandemic. This slowdown bears significant implications for both advanced and developing economies that rely heavily on trade with China. A more pronounced deceleration could exacerbate these impacts.

FIGURE 2. Growth forecast of the global economic output and global policy uncertainty index. Source: UN DESA, World Bank.



As of the end of 2021, China was the destination for nearly 20% of all goods exports from developing economies, a figure that has increased approximately fivefold since the beginning of the century. Furthermore, China has ascended as a pivotal demand source for commodities, especially those essential for the green-energy transition, underscoring its growing influence in global trade dynamics. The projected growth for China, however, is not without its uncertainties, especially considering the ongoing stresses within the property sector. Should China's economic growth fall short by 1%age point than currently anticipated in 2024, the repercussions would likely extend globally, potentially reducing worldwide economic growth by about 0.2%age points. Such a scenario would disproportionately affect commodity-exporting developing economies, highlighting the intricate interdependencies that define the global economic landscape.

HOW THE US MARKET AFFECTS EUROPE…

The US Treasury market has seen significant volatility, with early surges in long-term treasury yields surpassing 4.75%, indicating potential economic stress. This situation, compounded by the depletion of pandemic-era savings and the impact of inflation, rent increases, and rising interest rates, places considerable strain on the financial well-being of many US workers. Such dynamics risk propelling the US economy toward a downturn with extensive implications, especially for Europe, given the interconnected nature of global economies. A downturn in the US economy could precipitate a global financial disturbance, affecting demand for the dollar and US treasuries, pushing up interest rates, and prompting a shift to alternative currencies. The potential for inflation, or even hyperinflation, as the dollar weakens globally, highlights the severe repercussions of US economic instability on the global stage, reminiscent of the Great Depression and the 2008 financial crisis.

Europe, closely intertwined with the US economically, could face significant impacts from a US recession, including harm to exports, increased financial market volatility, and stress on the banking sector due to its exposure to US financial instruments. A weaker US economy could also undermine global investor confidence, reducing investment in Europe and exacerbating challenges like inflation and labour market instability. The geopolitical and economic consequences of a US downturn could strain international relations and influence European political and economic policies, underscoring the broader implications of US economic shifts.

The US is grappling with substantial financial hurdles, including a $34 trillion debt juxtaposed with modest tax revenues of $1.1 trillion. With the federal funds rate at 5.25%, the interest payments on this debt total approximately $1.7 trillion, highlighting a critical fiscal imbalance and hinting at potential governmental insolvency. Amidst this economic backdrop, three scenarios emerge for the US economy, each with varying degrees of risk and outcomes. The most likely scenario, with a 60% probability, anticipates a "soft landing" where economic growth decelerates to a sustainable pace of 1.5% to 1.6%, and inflation falls below 3% by 2025. Despite potential challenges such as slow growth in Europe and China, higher energy prices, and a strong dollar, these factors are not expected to precipitate a recession or significantly impede US economic progress. However, certain sectors may experience downturns due to high interest

rates and market saturation, whereas investments in infrastructure like chip plants and alternative energy facilities could offer some economic resilience.

FIGURE 3. Real GDP in the United States, US $trillion. Source: Federal Reserve and Bloomberg.

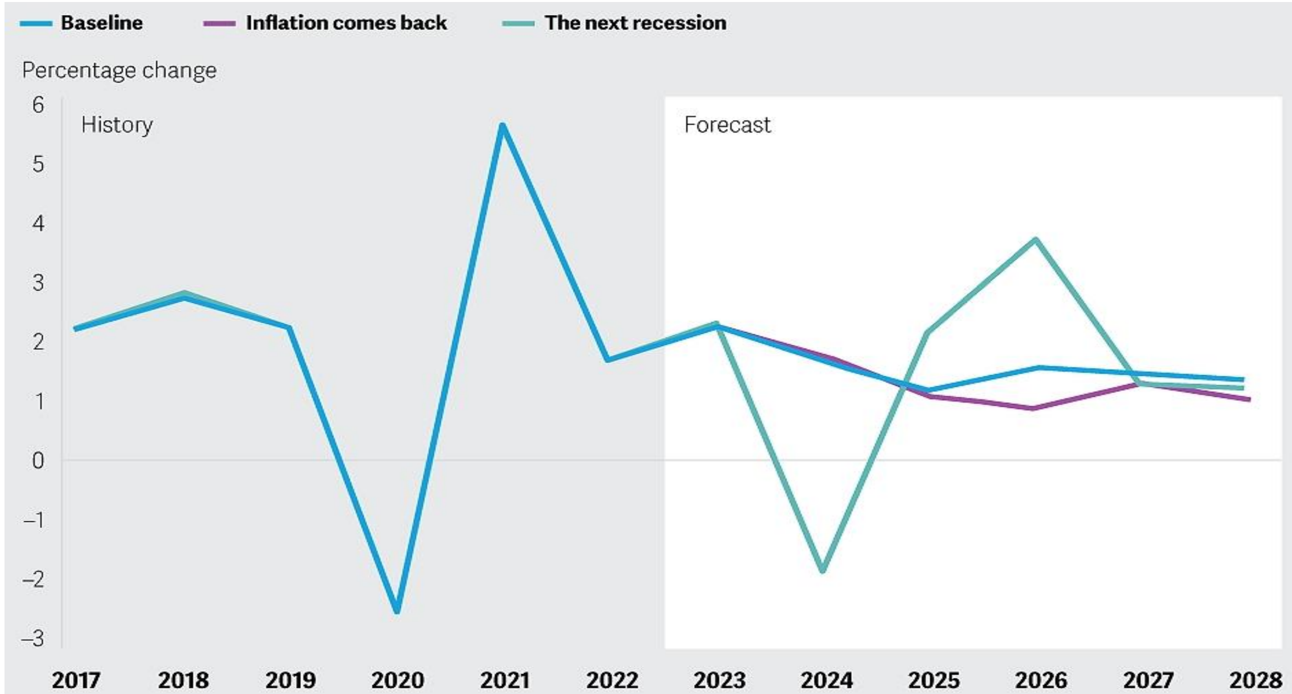
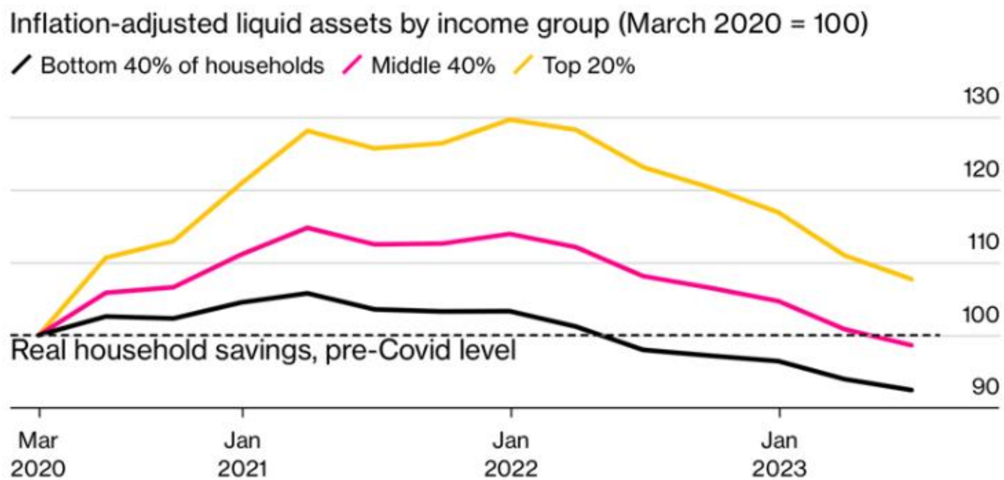


FIGURE 4. Extra savings in US households have run out. Source: Federal Reserve and Bloomberg.



A 20% chance exists for a scenario where inflation rebounds, driven by easing supply chain pressures and geopolitical uncertainties, possibly leading the Federal Reserve to hike interest rates to curb inflation. This scenario might slow economic growth but avoid a recession, stabilizing inflation around 4.5%, although unemployment could inch up over the next five years. The final scenario, also with a 20% probability, paints a grimmer picture with a potential early 2024

shutdown and financial crisis severely contracting the US economy in the first quarter. Despite a potential federal spending recovery in the subsequent quarter, the lasting impact on economic expectations could stifle growth throughout most of 2024. The Federal Reserve might reduce interest rates by year-end to foster recovery, with unemployment possibly reaching 5% before the labour market begins to rebound. Given these dynamics in the US Treasury market and the erosion of household savings, the economic forecast is precarious, with significant implications for the global economy, especially Europe.

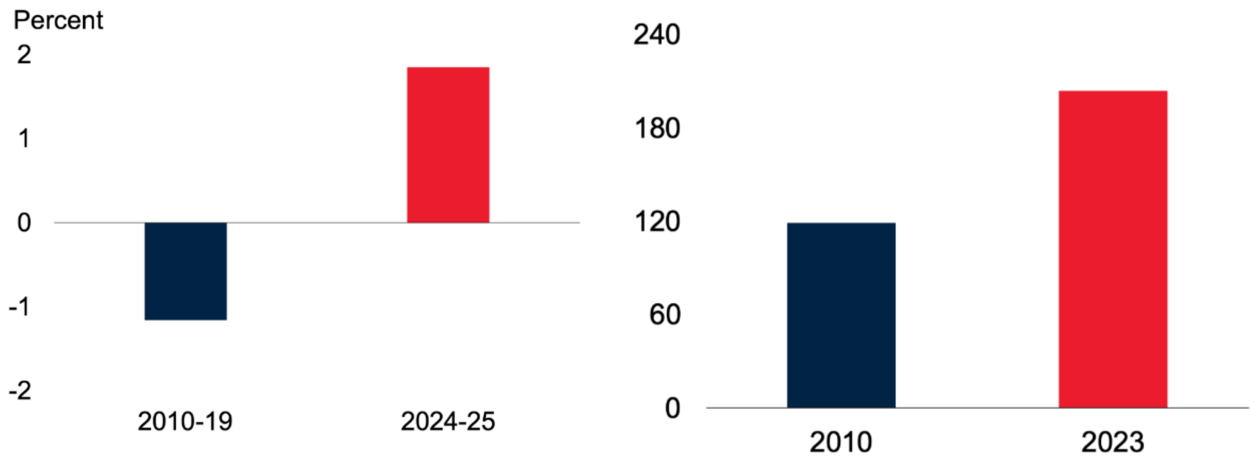
GLOBAL FINANCIAL VULNERABILITIES AND GEOPOLITICAL TENSIONS

The interplay of inherent vulnerabilities within the financial system, exacerbated by escalating geopolitical conflicts and trade imbalances, presents a stark warning of an impending market crash. This volatile mix not only amplifies the potential fallout from a downturn in the US economy but also casts a shadow over Europe, closely intertwined with the US through dense financial and trade networks. Should the US economy falter, the ripple effects could see a downturn in demand for European exports, an uptick in financial market volatility, and tighter credit conditions. The spectre of contagion looms large, with the possibility that US financial instability could spread across the Atlantic, ensnaring European banks and financial institutions in a web of economic challenges. In response, it's imperative to initiate proactive regulatory reforms targeting the financial system's frailties, alongside strategic policies to rectify trade imbalances and enhance debt management practices.

Complicating the landscape further are heightened geopolitical tensions, particularly in Eastern Europe and the Middle East, regions critical to the global economy's stability due to their significant roles in food and energy supply. The Middle East, responsible for a substantial portion of global oil production, sits at a nexus of escalating tensions, posing a direct threat to energy market stability. Additionally, disruptions in strategic locations like the Red Sea, affecting operations in the Suez Canal—a vital artery for 30% of the world's container traffic—underscore the potential for broader economic upheaval. These geopolitical dynamics, intertwined with financial system vulnerabilities, underscore the pressing need for comprehensive strategies to safeguard global economic stability.

The ripple effects of increasing geopolitical unrest extend far and wide, dampening investment and stifling economic growth through heightened uncertainty. Conflicts invariably reduce global supply capacity, ushering inflationary pressures into the worldwide economy. Although oil prices are anticipated to decline this year, an escalation in Middle Eastern tensions could precipitate a sharp increase in oil prices—potentially 30% above the current forecast of $81 a barrel for 2024. Such a hike in oil prices could not only exacerbate global inflation but might also trim global economic growth by 0.2%, highlighting the deep-seated impact of geopolitical strains on the global economy.

FIGURE 5. Global real interest rates and debt (left), and total debt in EMDEs as a percentage of GDP. Source: Brookings.



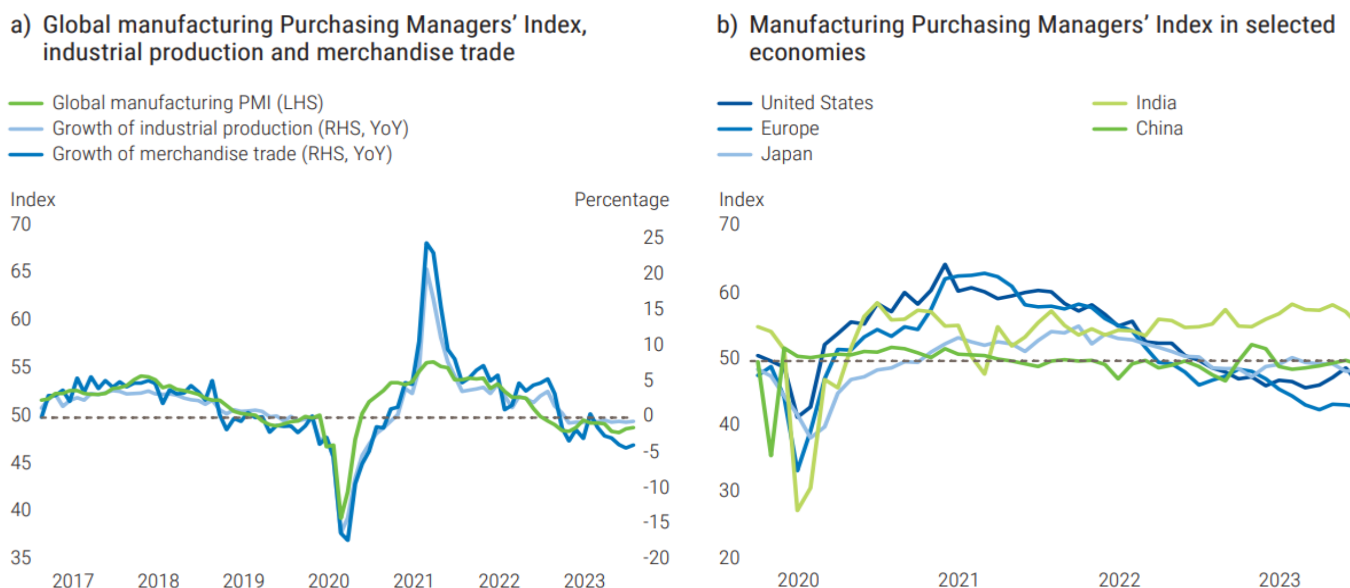
Despite facing the steepest climb in interest rates seen in the last forty years, the global economy has, thus far, managed to avert the widespread disruptions characteristic of the 1980s. While policy interest rates are expected to taper off this year, the reduction's pace may be insufficient to ease the strain on several countries. Transitioning from a prolonged period of negativity, global real interest rates—adjusted for inflation—have moved into positive territory and are expected to remain high for the foreseeable future. This poses a considerable challenge for developing economies, especially those with weaker credit ratings, in the context of a lukewarm growth forecast.

The inflation landscape, painted a complex picture that stirred unease across financial markets. Despite forecasts predicting inflation would settle around 2.9% or 3%, it registered slightly higher at 3.1%, a slight decrease from the preceding 3.3%. The gap between anticipated and actual inflation rates triggered a negative reaction in stock markets, reflecting investor concerns over the economic trajectory. By the close of 2023, the prevalence of debt distress in developing economies had climbed to its highest level since the millennium's start, exacerbated by a combination of sluggish economic growth, elevated real interest rates, and mounting debt burdens. This concoction of challenges significantly elevates the risk of debt servicing difficulties for these countries, potentially plunging more into financial turmoil. Such fiscal instability in developing regions threatens to shave off approximately 0.2% from global economic growth this year. Moreover, the growth outlook for these economies might be diminished by 0.6%, illustrating the profound consequences that escalating financial stress can have on the global economic framework.

LABOUR MARKET DYNAMICS IN THE POST-PANDEMIC RECOVERY

The global labour market's recovery trajectory post-pandemic has outstripped its resurgence after the 2008 financial crisis, with the International Labour Organization highlighting a notable reduction in unemployment rates below pre-pandemic levels in numerous countries by 2023. However, the recovery pace has underscored stark disparities, particularly between developed and developing regions, aggravated by real income declines due to wage growth lagging behind inflation rates. The forecasted economic slowdown in 2024 is expected to place further strain on global employment opportunities.

FIGURE 6. Global high frequency indicators. Source: UN DESA, JP Morgan, CPB Netherlands Bureau of Economic Policy Analysis, CEIC, and Trading Economics.

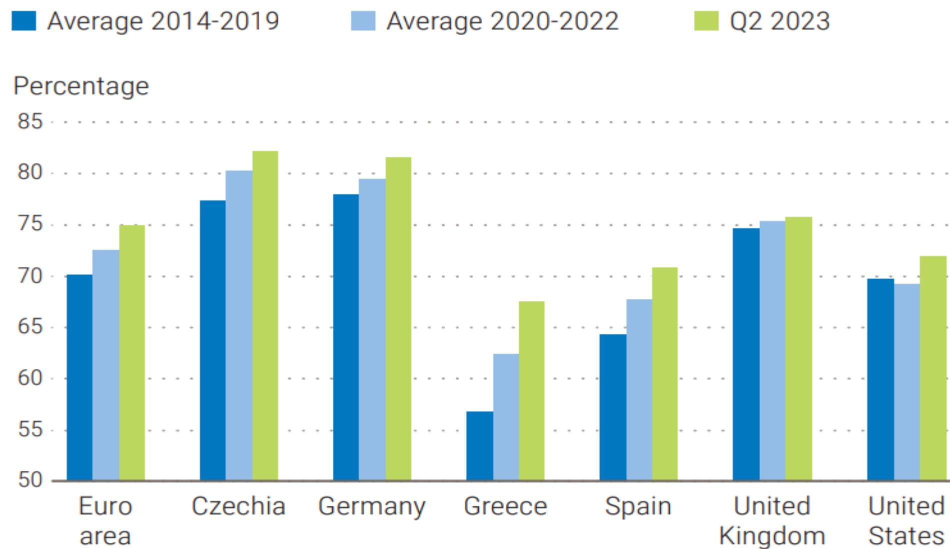


In developed regions, 2023 was marked by a robust labour market performance, even amidst monetary policies tightening to combat high inflation levels. Key features of this resilience were remarkably low unemployment rates and strong employment figures, further highlighted by diminishing yet persistent labour shortages. The Organization for Economic Cooperation and Development noted that inactivity rates in most of these countries fell below pre-pandemic benchmarks, signalling high employment rates partly due to improved working conditions crafted by firms to mitigate labour shortages.

Specifically, in the United States, the labour market maintained its strength in the third quarter of 2023, with an average unemployment rate of 3.7%, near historic lows, and total employment numbers exceeding those of 2019. The rise in wages and the depletion of pandemic-era savings played a significant role in boosting labour force participation, as individuals who were previously not seeking work re-entered the job market. Europe, too, showcased labour market robustness, with employment levels high and unemployment continuing to decrease. By October 2023, the European

Union's average unemployment rate slightly dipped to 6% from 6.1% the previous year, with notable improvements in countries like Greece, Italy, and Spain, traditionally burdened by high unemployment.

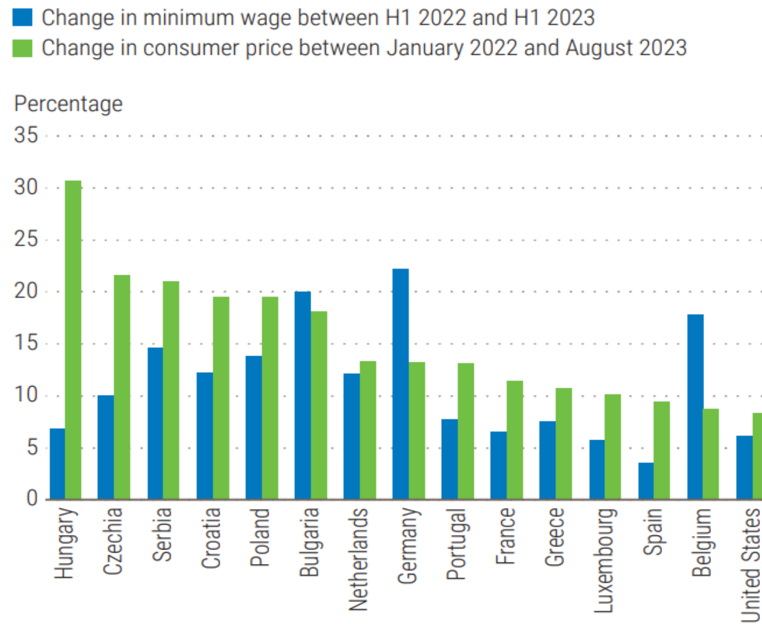
FIGURE 7. Employment rates in the selected European economies and in the United States. Source: UN DESA, and OECD.



Nonetheless, signs of cooling are emerging in developed economies' labour markets after years of high labour turnover and mismatches in labour supply and demand. The initial pandemic-driven surge in job resignations has subsided, with vacancy rates declining amidst consistently low or decreasing unemployment rates. High resignation rates persist in sectors like healthcare, hospitality, and retail trade, although labour shortages are broadly easing.

Labour shortages in developed regions have driven nominal wage increases, especially for lower-skilled workers, enhancing their bargaining power, as seen in high-contact sectors in the United States. This dynamic has contributed to a reduction in wage inequality, reversing a decades-long trend of widening disparities. However, increases in official minimum wages in several countries have not kept pace with consumer price inflation, leading to real income losses for low-wage workers. As 2024 approaches, the delayed effects of monetary policy tightening loom as potential risks to employment in developed economies. Tighter credit conditions may adversely affect jobs across various industries. The construction sector, for instance, which has shown relative stability, could face challenges if higher mortgage rates suppress housing demand and construction activity. Additionally, the growing integration of artificial intelligence and advanced automation technologies is expected to disrupt routine service-sector jobs while enhancing the productivity of high-skilled workers, reshaping the employment landscape in the medium term.

FIGURE 8. Change in minimum wage vs. change in consumer price. Source: UN DESA, World Bank, and OECD.

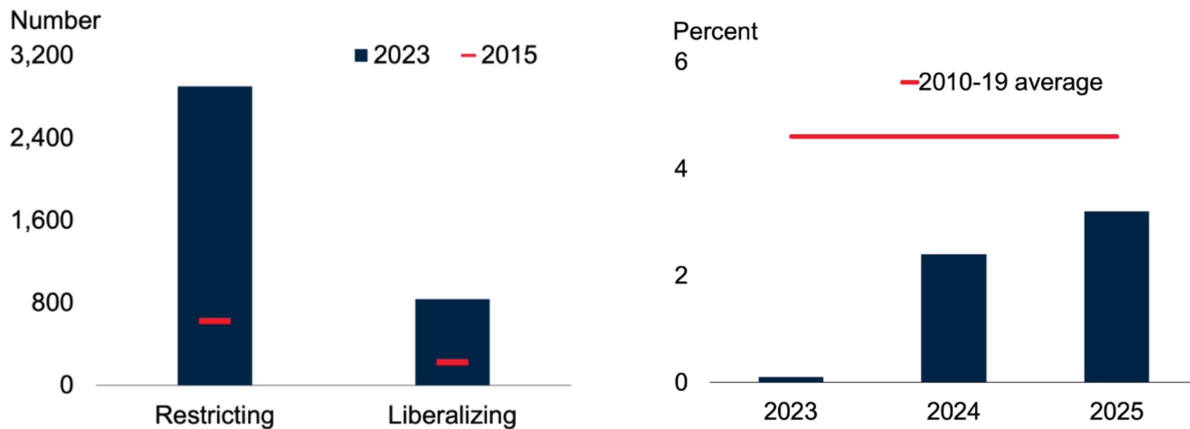


GLOBAL TRADE TRENDS

Last year witnessed a significant uptick in the implementation of trade-restrictive policies, marking a sharp departure from previous trends. Such measures, along with strategies like "friend-shoring" and "near-shoring," might initially appear as pragmatic responses to concerns over national security. However, these approaches potentially delay the much-anticipated recovery of global trade. In 2023, the growth of global trade nearly stalled, registering a mere 0.2% increase—the weakest performance observed outside of a global recessionary context in the past five decades. Although a rebound in global trade growth is projected for this year, it is expected to reach only half the average rate seen in the decade preceding the pandemic. This slowdown in global trade growth is particularly consequential for developing economies, which have historically leveraged trade as a catalyst for enhancing productivity and elevating living standards. The current trend, wherein businesses in advanced economies are increasingly withdrawing from global value chains to focus on domestic or regional supply chains, presents significant challenges. These shifts not only disrupt established trade patterns but also pose adverse implications for developing countries, potentially hindering their economic progress and efforts to improve socioeconomic conditions.

The global investment landscape is anticipated to face subdued growth due to a constellation of economic and geopolitical uncertainties, compounded by increasing borrowing costs. These factors are expected to erode business and consumer confidence, leading private firms to curtail their investment initiatives. Concurrently, public investment is being restricted by high debt levels, escalating interest expenses, and shrinking fiscal capacities. The annual growth rate of global investment, as indicated by real gross fixed capital formation, has reportedly decelerated from 3.3% in 2022 to a mere 1.9% in 2023. Although a slight uptick in investment growth is forecasted for 2024, it is projected to remain well below the average trend growth rate of 4% observed from 2011 to 2019.

FIGURE 9. Trade policy measures and global trade growth, new trade measures (left), and global trade growth. Source: Brookings.



Regional analyses for the 2023–2025 period suggest an intensification of the disparity in per capita investment that has been evident since 2015. The investment growth slowdown in 2023 is largely attributed to downturns in developed economies, particularly within the residential sector, which experienced significant declines due to the upward trajectory of interest rates and construction costs. The United States exemplified this trend, witnessing a substantial 14% drop in residential fixed investment during the first three quarters of 2023 compared to the corresponding period in 2022. In contrast, investment in intellectual property assets demonstrated resilience, maintaining stability amidst broader investment downturns. This dichotomy underscores the varying impact of current economic conditions on different investment categories and highlights the challenges and opportunities within the global investment environment.

In 2023, the global trade sector encountered several obstacles, with the expansion of international commerce in both goods and services registering a mere 0.6% increase—a significant decline from the 5.7% growth observed in 2022. Predictions for 2024 suggest a modest rebound, with trade growth expected to rise to 2.4%, primarily due to improvements in the merchandise trade sector. However, this forecasted growth still falls short of the pre-COVID-19 average annual growth rate of 3.1% recorded between 2015 and 2019. The predominant factor contributing to the subdued performance of global trade in 2023 was a marked downturn in merchandise trade, with the growth rate of goods trade languishing in negative figures for the majority of the year.

FIGURE 10. Global investment trends. Source: UN DESA, Eurostat, and CEIC.

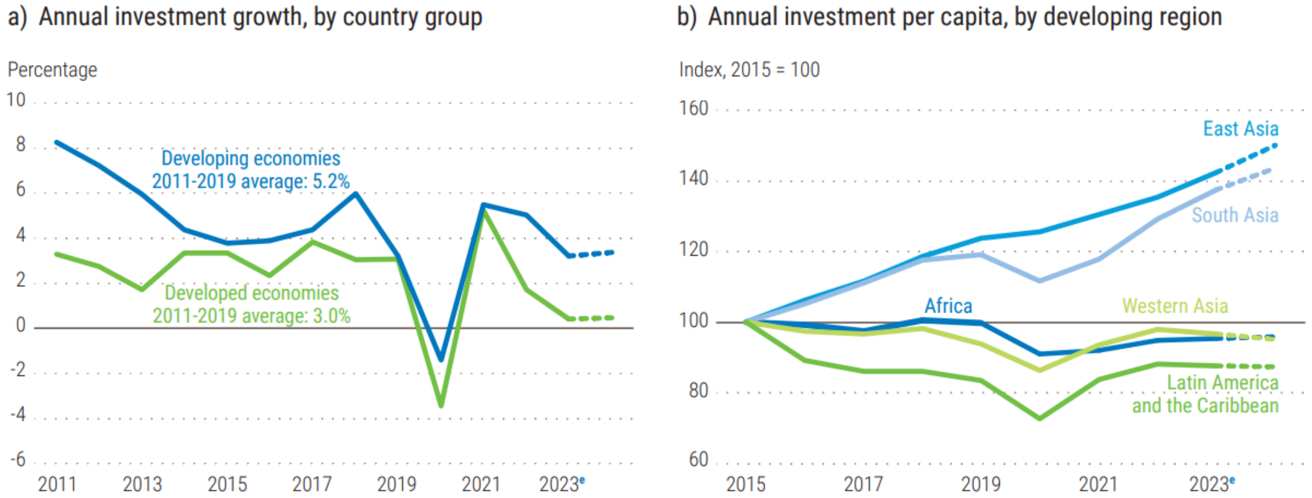


FIGURE 11. Annual investment growth in selected developed economies, by asset type. Source: UN DESA, Eurostat, and CEIC.

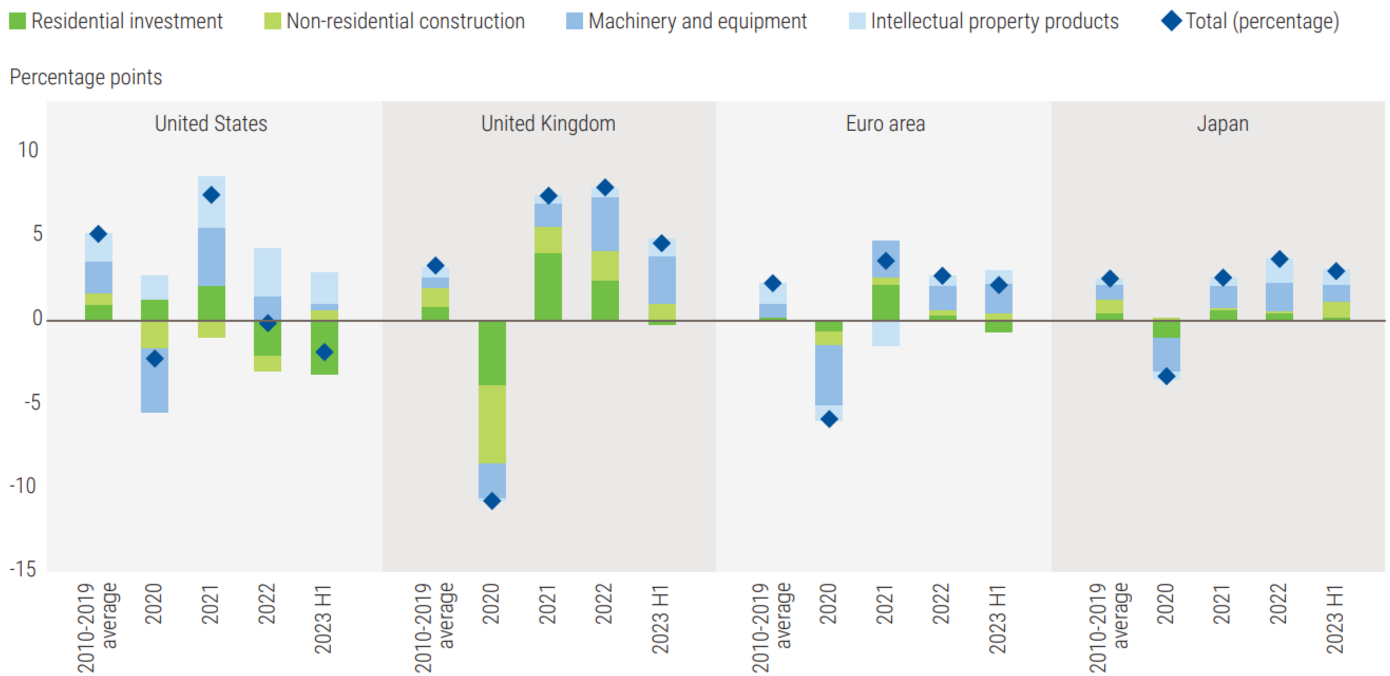
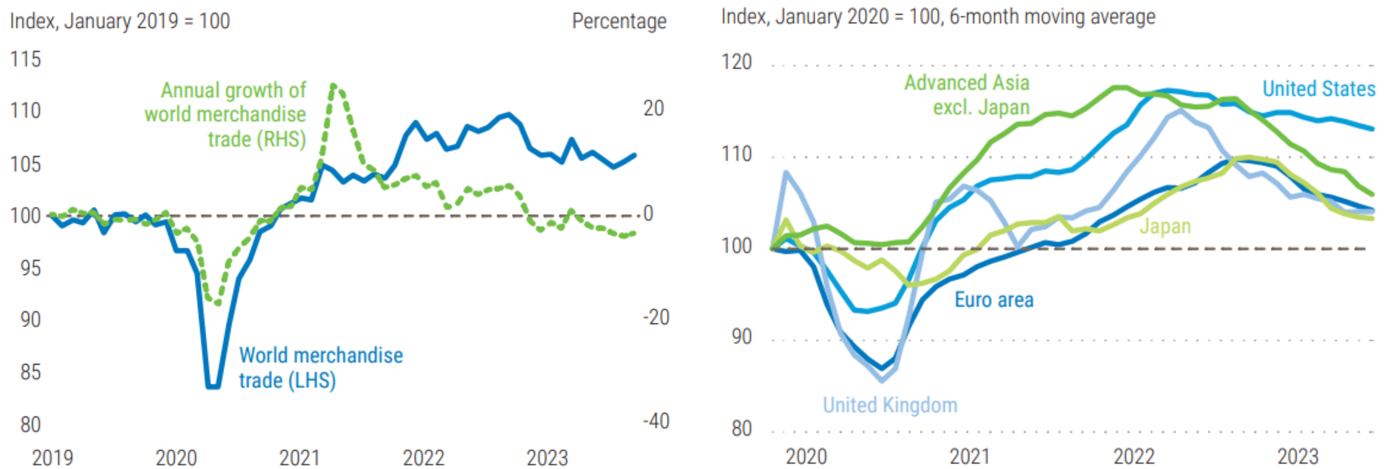


FIGURE 12. World merchandise trade in volume terms (left), and merchandise imports in advanced economies, by volume (right). Source: UN DESA, and CPB Netherlands Bureau of Economic Policy Analysis.



MACROECONOMIC POLICY OVERVIEW

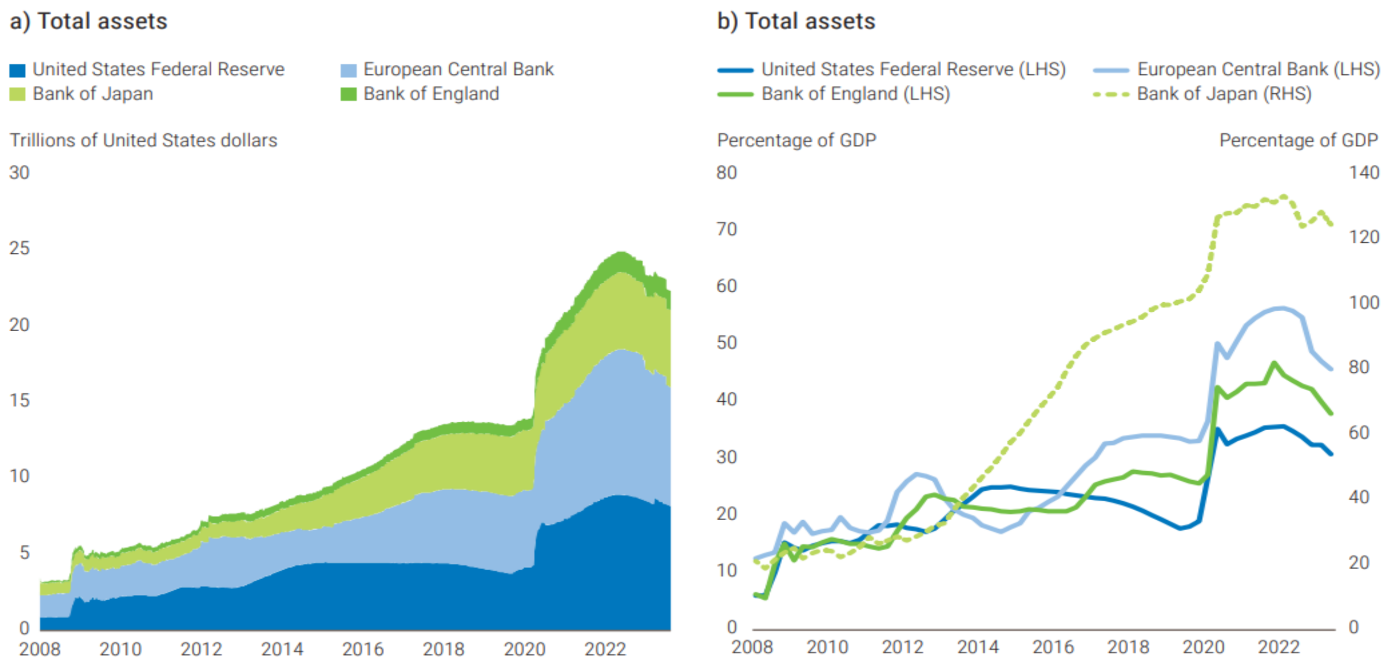
Heading into 2024, central banks worldwide are set to face a challenging and intricate situation as they aim to balance the triple objectives of reducing inflation, promoting economic growth and job creation, and ensuring the stability of the financial system. This complex task is further complicated by uncertainties in the monetary policies of two key institutions: the U.S. Federal Reserve and the European Central Bank. These uncertainties are critical, affecting both the broader economy and financial markets, with central banks in emerging markets also grappling with issues such as balance-of-payments difficulties and debt sustainability.

As the global economic landscape shifts, a trend toward monetary easing by central banks is expected to gain momentum as a means to boost overall demand. However, the policy choices of these banks are likely to be significantly shaped by the actions of the Federal Reserve and the European Central Bank. After a phase of synchronized tightening across the globe from 2022 into early 2023, we are beginning to see signs of diverging monetary policies. Initially, only a few central banks, like the People's Bank of China and the Bank of Japan, chose not to join the move towards more restrictive monetary policy. This divergence grew more evident as inflation rates started to decline in the second half of 2022, leading to a shift towards easing policies by more central banks, such as Brazil's, which began lowering interest rates in August 2023. By the end of October 2023, 28 out of 130 central banks had reduced their policy rates.

Despite these moves towards policy divergence, the global monetary policy stance remained relatively tight throughout 2023, largely influenced by the ongoing tightening measures of the Federal Reserve and the European Central Bank. While it seems these major central banks may have reached the peak of their tightening cycles, the prospect of them starting to cut interest rates in 2024 remains uncertain. Therefore, the global monetary policy outlook

is expected to remain predominantly restrictive, pending any potential rate cuts by the Federal Reserve and the European Central Bank.

FIGURE 13. Balance sheets of major developed country central banks. Source: UN DESA, Federal Reserve, European Central Bank, Bank of Japan, CEIC, and Trading Economics.



During the 2008 global financial crisis (GFC), central banks worldwide found themselves at a crossroads, needing to move beyond their traditional monetary policy tools to address the crisis effectively. Ordinarily, central banks manipulate policy interest rates to modulate aggregate demand in the economy. Yet, in the throes of systemic financial crises, where liquidity dries up and widespread default risks loom, mere adjustments to the policy rate often fall short of reviving economic activity.

A significant hurdle central banks encounter is the zero lower bound, which is the point where policy rates near zero and cannot be reduced further to stimulate economic growth. While negative interest rates are theoretically feasible and have been employed in certain cases, they tend to be unpopular with central banks for several reasons. Negative rates can compress banks' net interest margins, encourage cash hoarding, disrupt credit channels, and inhibit investment, ultimately causing more harm than good.

Faced with the zero lower bound, central banks may turn to unconventional monetary policy instruments to pump liquidity back into the system, bolster market confidence, and kickstart economic activity. Quantitative easing (QE) stands out among these tools, entailing central bank purchases of assets from the financial sector, such as asset-backed securities and government bonds. The goal is to directly infuse liquidity into the banking system, thus facilitating easier financial conditions and promoting lending and investment.

The Bank of Japan was at the forefront of adopting QE in 2001, undertaking asset purchases that included government bonds and other financial assets to reinvigorate the economy after its policy rate hit zero. This strategy was a response to an extended phase of economic stagnation and deflation, establishing a blueprint for other central banks facing severe economic downturns.

THE STATE OF THE US STOCKS AND MARKET RISKS

The recent announcement that America's gross domestic product (GDP) grew by an annual rate of 3.3% in the fourth quarter of 2023 brings a glimmer of optimism to the economic landscape, signalling a potential turnaround from previous downturns. This growth has already reflected positively on the US stock market, with the S&P 500 index seeing a 1.6% increase on a year-to-date basis. Additionally, landmark achievements such as the Dow Jones Industrial Average closing above 38,000 for the first time on January 25, and the Nasdaq Composite reaching its highest close in two years on January 29, underscore the resilience and potential recovery of the stock market.

However, the economic picture is not without its challenges. Despite these positive market trends, consumers continue to grapple with high prices at grocery stores, a concern that is only partly alleviated by the US Department of Agriculture's forecast of a potential decrease in food prices in 2024. The 2.7% rise in overall food prices from December 2022 to December 2023, with mixed trends in the prices of kitchen staples, highlights the uneven nature of this inflationary pressure.

1. High Stock Valuations

The stretched valuations of the S&P 500, currently trading at 19 times next year's earnings compared to its 55-year historical average of 16 times, suggest a market where stocks are trading at a premium. This scenario, as highlighted by Lisa Shalett, chief investment officer at Morgan Stanley Wealth Management, points to a nuanced stock market performance outlook for the remainder of 2024. The forward price-to-earnings (P/E) ratio of the S&P 500 has escalated to around 20 from about 17 the previous year, signalling an uptick in stock prices against anticipated earnings.

Shalett raises concerns over the exceptionally low equity risk premium, now at about 1%. This metric, indicating the expected returns of stocks over risk-free treasuries, reveals that the additional compensation investors receive for the higher risk of stocks is diminishing. This lower premium might deter investors, suggesting scant rewards compared to safer alternatives. Should these valuation trends continue through to the end of 2024 and into 2025, Shalett sees them as indicative of more moderate annual stock returns, around 4%, below the long-term averages of 7% to 8%. This expectation sets the stage for a potential cooling in stock market returns, influenced by the combination of extended valuations and the potential effects of interest rate changes in 2024.

2. Overdependence on Leading Stocks

In 2023, the "Magnificent 7" technology companies—Alphabet Inc. (GOOG, GOOGL), Amazon.com Inc. (AMZN), Apple Inc. (AAPL), Meta Platforms Inc. (META), Microsoft Corp. (MSFT), Nvidia Corp. (NVDA), and Tesla Inc. (TSLA)—stood out as the primary drivers of the stock market's gains. The Bloomberg Magnificent 7 Total Return Index, which measures the performance of these tech giants, witnessed an impressive surge of 107%, significantly outperforming the S&P 500's growth of 24%. The remarkable success of these companies not only reflects their strategic acumen but also their substantial influence on the broader market dynamics, given the S&P 500's market capitalization-weighted structure. The achievements of these large tech firms were pivotal in propelling the index's overall performance upward.

Nonetheless, the market's heavy dependence on the robust performance of these "Magnificent 7" poses a potential vulnerability. Such concentration of market gains implies that any downturn in the performance of these tech leaders could have a disproportionate impact on the overall market trend in 2024. Should these companies fail to sustain their exceptional performance from 2023, the broader market could face underperformance, emphasizing the critical need for diversification among investors. This situation highlights the stock market's inherent challenge: the delicate balance between seeking high returns and managing the risks associated with concentration in a few dominant stocks.

3. Wishful Thinking on Interest Rates

The current market optimism, which predicts sharper rate reductions than those hinted by the Fed, may not align with the central bank's actual policy direction. According to Shalett, while the Federal Reserve has communicated the potential for three rate cuts within the year, the futures markets have anticipated a more bullish scenario of six rate cuts. This optimism assumes the Fed will manage to curb inflation smoothly, allowing for a more lenient monetary policy approach. However, inflation, particularly in labour-intensive service sectors, may be more persistent than expected. Such inflationary pressures could hinder the Federal Reserve's capacity to implement the aggressive rate cuts anticipated by investors. This discrepancy between investor expectations and the Fed's policy trajectory highlights the challenges the Federal Reserve faces in balancing its goals of controlling inflation while supporting economic growth. It also suggests potential market volatility for investors who have pinned their hopes on substantial rate reductions in the short term.

4. Consumer Exhaustion

A recent Federal Reserve Bank of Philadelphia report highlights a concerning trend in the US: an increase in credit card delinquencies during the third quarter of 2023. Delinquency rates, encompassing debts 30, 60, and 90 days overdue, are rising, signalling a growing difficulty for many Americans in managing their credit card debt. Additionally, data from the US Bureau of Economic Analysis reveals a striking 50% year-over-year increase in consumer non-mortgage interest payments, exceeding $1 trillion in the third quarter of 2023. Investment strategists Liz Ann Sonders and Kevin Gordon from Charles Schwab have observed a significant shift in consumer behaviour, marked by greater dependence on revolving credit and a spike in severe credit card delinquencies. This issue is particularly acute among younger

borrowers, suggesting a generational challenge in financial management and debt sustainability. Although wage growth remains robust, keeping the credit card debt to compensation ratio at a relatively low historical level, there is concern that any slowdown in wage increases could worsen the debt-to-income ratio, further straining consumer finances.

These trends have broader implications for the economy and stock market. Consumer spending, a vital GDP component, makes up about 70% of the total. Thus, a decline in consumer confidence, fuelled by rising debt levels and financial insecurity, could negatively impact the economic outlook. This downturn in consumer sentiment can result in decreased corporate earnings and lower economic growth, ultimately affecting investor sentiment and stock valuations. The state of consumer finances, particularly regarding credit card debt and delinquencies, is therefore not only a personal finance issue but also a matter of significant concern for the wider economy and stock market health.

5. Stubborn Inflation

The latest data reveals that the U.S. inflation rate, as gauged by the Consumer Price Index (CPI), is currently at 3.4%. The Federal Reserve projects a decline in inflation to under 2.5% by 2024, a decrease from current levels but still above the Fed's target inflation rate of 2%. For a more accurate measure of inflation, the Federal Reserve prefers the Personal Consumption Expenditures (PCE) price index over the CPI, due to its broader scope and its capacity to more precisely capture shifts in consumer behaviour, providing a more comprehensive view of inflationary pressures.

The dynamic between worker wages and inflation is a key focus in current economic discussions. Despite expectations for inflation to moderate, wage growth remains robust, with average hourly earnings increasing by over 4%—a rate that the Federal Reserve deems higher than is preferable for controlling inflation. This creates a substantial challenge for the Fed: managing to rein in inflation without adversely affecting wage growth or employment levels.

Eric Freedman, Chief Investment Officer at US Bank Wealth Management, highlights the predicament faced by the Federal Reserve. The central bank's objective is to lower inflation to its 2% target while navigating the complex landscape of persistent wage growth. The uncertainty lies in determining the juncture at which inflation stabilizes enough for the Federal Reserve to reassess its approach to interest rate adjustments. Given these considerations, the Federal Reserve's monetary policy for the coming year is expected to closely monitor wage and inflation trends. The decisions regarding interest rates will be crucial in determining the trajectory of the U.S. economy, with the aim of carefully balancing economic expansion with price stability.

6. A Roiling 2024 Presidential Election

As the 2024 election season progresses, the political arena is shaping up with former President Donald Trump likely to be the Republican nominee and President Joe Biden poised to represent the Democratic Party once again. Despite these clear frontrunners, public enthusiasm for both candidates appears subdued, as indicated by their modest polling

figures. This lack of excitement stands in stark contrast to the typically high interest observed in major election cycles, which often carry significant consequences for the financial markets.

Election years, and particularly the years that follow, have historically had a notable impact on the stock market. Greg Sweeney, Chief Investment Officer at Bell Bank in Bloomington, Minnesota, points out a consistent trend of stock market rallies in the year subsequent to an election, a pattern that has held since 1980. This trend underscores how the market responds to political uncertainty and tends to rebound as such uncertainty subsides.

Investors often anticipate increased market volatility during election periods, driven by the unpredictability of election outcomes and the potential implications of policy changes. However, Sweeney highlights a silver lining: despite the short-term disruptions that an election year may introduce, the stock market has consistently demonstrated its ability to recover and even grow as the uncertainty surrounding election outcomes fades.

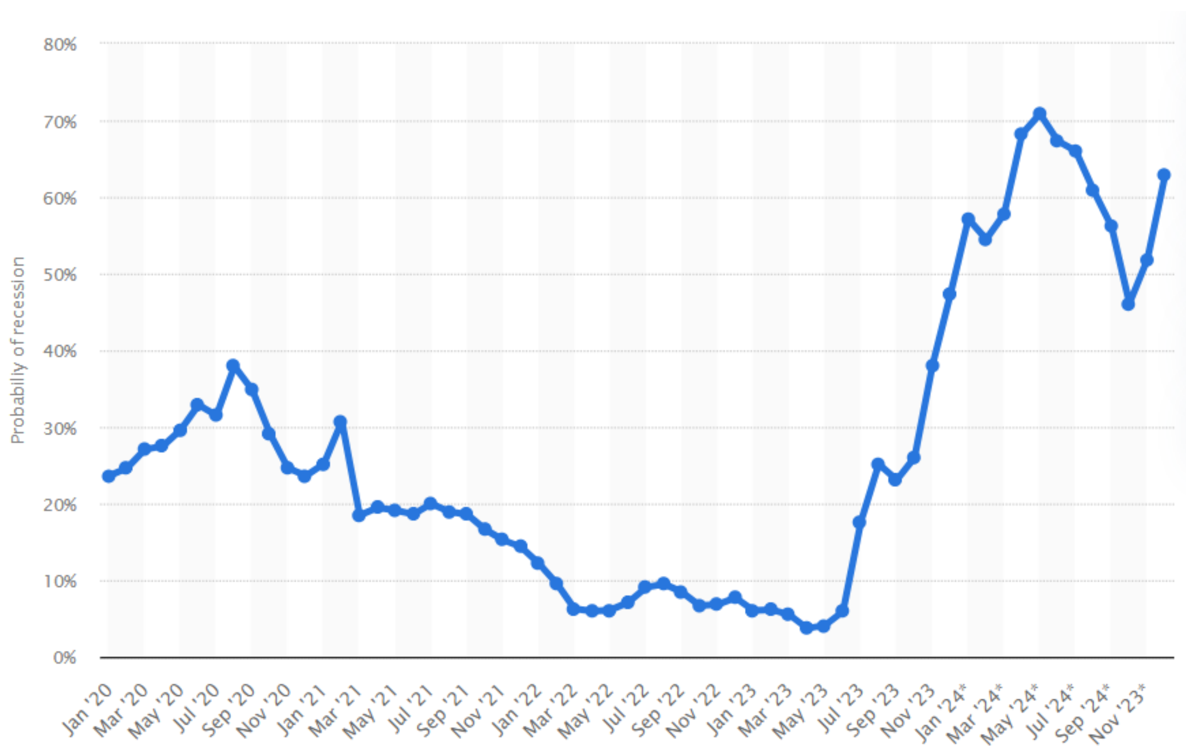
THE CONCEPT OF A "REVERSE MARKET CRASH" AND THE PROBABILITY OF RECESSION IN THE US

The discussion extends into the broader implications of economic dynamics, such as the "reverse market crash," where sudden price increases can disproportionately benefit the wealthy, exacerbating wealth disparities. This phenomenon, observed in historical instances like Germany in 1914 and more recent cases like Zimbabwe and Venezuela, highlights the critical importance of understanding nominal versus real inflation rates for effective financial planning. The volatile economic environment necessitates prudent investment strategies, focusing on long-term diversified portfolios and emphasizing the essentials of saving and strategic investment.

Investor confidence in the US economy's capacity to evade a recession in the upcoming months is on the rise, buoyed by the prospect of achieving a soft landing—a delicate balance between moderating inflation and sustained economic growth. Despite this optimism, several factors cloud this positive outlook. Inflation has been on a downward trend for several months, yet interest rates have reached their highest in two decades. Additionally, a mix of economic indicators hints that the economy may not yet be fully clear of recessionary threats. The New York Fed's recession probability model indicates a 56% chance of the US entering a recession within the next year, a decrease from 66% in August. Other signs, including inconsistent job data, an inverted yield curve, and divided expert opinions, suggest the potential for an economic downturn. The Federal Reserve has consistently cautioned that its series of rate hikes aimed at controlling inflation will inevitably slow down economic growth. Although the Fed's latest projections do not predict a recession, they imply that interest rates are expected to remain elevated for an extended period, advising a conservative approach to market investment.

On the other hand, Harry Dent, a renowned US economist, has pointed out the nature of the economic climate since 2009, spotlighting the extraordinary scale of money printing and deficits, which have reached $27 trillion over 15 years. Dent described this financial strategy as entirely artificial, signalling a precarious situation. He predicted that 2024 would mark the most significant crash in recent memory, emphasizing the need for a return to normalcy and a revaluation of central bank policies. According to Dent, the market's current state, buoyed by excessive stimulus spending and overvalued markets, cannot sustain, leading him to forecast an "everything bubble" burst in the next two years, a phenomenon not seen since the late 2020s crisis and the 2008 market crash. Dent traded the bubble's inception to late 2021, post-COVID pandemic peak, with the first signs appearing in 2022 as the Nasdaq fell by 38%. He expects the forthcoming year to bring a significant downturn, which he refers to as the "B wave" of the crash. Contrary to previous market bubbles that primarily affected specific sectors, Dent argues that the current situation is an "everything bubble," including stocks, real estate, and cryptocurrencies, and warns against relying on conventional financial advice during this period. He predicts a crash magnitude comparable to the 1929-1932 period, suggesting potential losses of 86% for the S&P, 92% for the NASDAQ, and a staggering 96% for cryptocurrencies. Furthermore, Dent forecasts a 50% plummet in real estate prices, surpassing the declines observed during the Great Depression and any other historical precedent.

FIGURE 14. Projected monthly probability of a recession in the United States. Source: Federal Reserves, and Reuters.



Dent's perspective extends to the Federal Reserve's rate trajectory, dismissing the possibility of a soft landing despite the projected rate cuts to a range of 4.4% to 4.9% from the current 5.25% to 5.50%. He anticipates that the combined effects of policy tightening and economic slowdown will lead to deflation for the first time since the 1930s, significantly impacting consumer prices, especially in the housing market. He further suggests that the impending asset bubble burst will offer unprecedented purchasing opportunities in the real estate market, effectively allowing buyers to acquire more valuable properties at significantly reduced prices.

Moreover, Dent cautions that the aftermath of the "everything bubble" burst could entail a prolonged economic slowdown lasting 12 to 14 years, exacerbating the wealth gap in the US. He predicts that while the average person may face unemployment for a temporary period, the affluent could lose a substantial portion of their net worth, leading to a significant wealth redistribution. Accordingly, the eventual recovery will be led by the millennial generation, resulting in a more balanced economic growth that favours the middle class until a predicted slowdown in 2037.

THE ESCALATING NATIONAL DEBT CRISIS IN THE US

As the calendar turned to January 8, 2024, the United States confronted a daunting fiscal reality: the national debt had surged past the $34 trillion mark. This figure isn't merely a statistic; it's a forewarning of potential economic upheaval that could disrupt the entire financial ecosystem, encompassing stocks, real estate, and beyond. For over three years, esteemed financial expert Ray Dalio has sounded the alarm on the dangers posed by the burgeoning debt, emphasizing the cascading effects it could have across various sectors. The roots of this fiscal quandary extend back to the early

1980s, laying a foundation for the current signs of distress. The exponential increase in debt has reached a critical threshold where the fiscal burden to service this debt threatens to outpace the nation's ability to manage it sustainably. The United States allocates a staggering $169 billion annually to interest expenses alone, which represents approximately 16% of the annual federal budget. Forecasts paint a stark picture, suggesting that within four years, the federal government could be spending twice as much on interest payments as it does on its entire military budget. Ray Dalio characterizes the situation as the inception of a "very classic late cycle debt crisis."

In addition to other experts, Patrick Bet-David, alongside financial analyst Jack Gambles, scrutinizes the prevailing economic indicators and forewarnings. They highlight a survey by the Association for Financial Professionals (AFP), where 86% of executives predict an impending recession. Additionally, they note the disproportionate influence of seven major stocks (Amazon, Apple, Microsoft, Alphabet, Visa, Mastercard, and PayPal) on the S&P 500, signalling potential vulnerabilities tied to consumer spending. The total debt held by households and nonprofit organizations has reached an astonishing $14.7 trillion, while the federal government's debt has soared to $23.1 trillion, magnifying the potential repercussions of an economic downturn.

THE US DEBT SUPPLY AND DEMAND CONUNDRUM

At the core of the current financial predicament is the imbalance between the oversupply of U.S. debt and the dwindling appetite among investors. This situation presents a significant challenge: selling this debt becomes more difficult without increasing interest rates to make it more attractive to potential buyers. This precarious situation is edging closer to a critical point, with the risk of evolving into a financial crisis within the next five to ten years. The U.S. government's reliance on issuing treasury securities to finance its operations is becoming increasingly untenable as buyer interest declines, possibly necessitating higher interest rates to draw in investors.

Navigating the complexities of rising federal deficits, reduced demand for debt securities, and the need to hike interest rates on these securities is vital to ward off severe economic repercussions. In the past, the U.S. has successfully navigated financial challenges by leveraging sound financial management, strategic bond offerings, judicious fiscal policies, and fostering economic growth. Currently, the U.S.'s position as a global leader and its diversified economy offer a solid foundation to tackle these financial hurdles. Yet, maintaining careful financial management, implementing responsible fiscal policies, and strategic bond sales are essential to prevent hyperinflation and ensure economic stability.

It's critical to recognize the unique advantages the United States holds, thanks to its status as the world's reserve currency and its military strength. These advantages allow it to maintain a trade deficit without facing significant currency devaluation. However, there's an increasing awareness that significant economic reforms are imperative to alter the trajectory of government spending, which has reached unsustainable levels without severe consequences. Prompt actions are necessary to curb excessive government spending and promote long-term fiscal sustainability.

SO, WHAT'S NEXT?

The global economy is currently navigating through the most significant surge in interest rates seen in the last four decades. Remarkably, this increase has not triggered the widespread turmoil that characterized the 1980s. Despite projections for a decrease in policy interest rates this year, the pace of reduction might not be rapid enough to ease the pressures faced by some nations. Global real interest rates, adjusted for inflation, have moved into positive territory after a prolonged period of negativity and are expected to remain high for the foreseeable future. This creates a particularly challenging environment for developing economies, especially those with lower credit ratings, amidst a lukewarm growth outlook.

By the end of 2023, the level of debt distress in developing economies had reached its highest since the beginning of the millennium, exacerbated by a combination of weak economic growth, high real interest rates, and increasing debt levels. These factors collectively elevate the risk of debt servicing challenges for these vulnerable nations, potentially pushing more into financial distress. This instability could dampen global economic growth by about 0.2% this year, with the growth prospects for developing economies facing a reduction of 0.6%. The surge in financial stress significantly impacts the global economic landscape, illustrating the interconnected nature of economic challenges.

The global risk landscape is fraught with escalating geopolitical conflicts, financial stress, increasing trade restrictions, and the pressing issue of climate change, weaving a complex tapestry of potential economic downturns. These risks are interconnected, with the potential for one to amplify others, such as a conflict escalation leading to a spike in oil prices, which could then precipitate a financial crisis in vulnerable countries. Amidst this uncertainty, there is room for positive economic surprises, particularly from the United States. The critical role of the U.S. economy in preventing a global recession underscores the interconnectedness of global markets and the significant impact of national economic performances globally. Should the U.S. manage to bolster global growth without reigniting inflationary pressures, it would be a much-welcomed development, offering a counterbalance to the myriad risks threatening the global economic outlook.

Investor confidence in the U.S. economy's resilience is growing, supported by the hope of achieving a soft landing. This optimism is tempered by several challenges, including a recent history of high interest rates and mixed economic indicators that suggest the U.S. economy is not entirely out of the woods regarding recession risks. The New York Fed's model points to a significant chance of a U.S. recession in the next year, while divided expert opinions and an inverted yield curve add to the uncertainty. Interest rate hikes have brought the federal funds rate to its highest in 22 years, likely impacting corporate earnings and economic growth. Historically, U.S. recessions have been short-lived, providing strong buying opportunities for long-term investors. Certain stocks have historically performed well during recessions, suggesting strategic investment opportunities even in downturns.

APPENDICES

FIGURE 15. Consumer spending in the United States, US dollars. Source: Federal Reserve and Bloomberg.

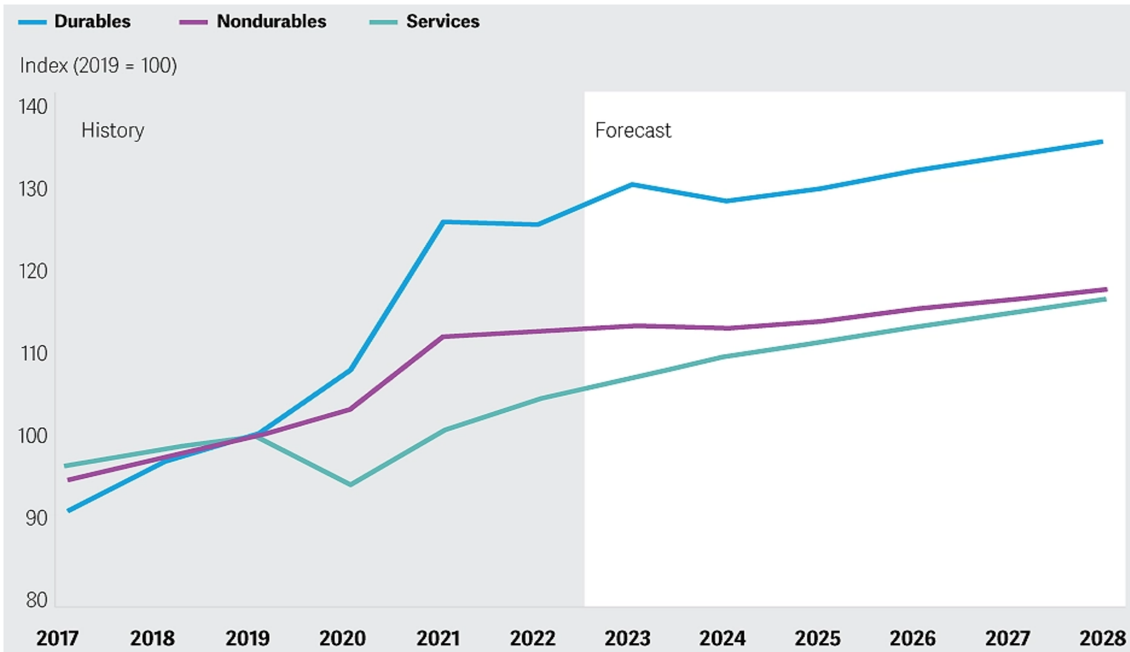


TABLE 1. Consumer spending growth in the US. Source: Federal Reserve.

	History						Forecast					
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Real consumer spending	2.6	2.7	2.0	–2.5	8.4	2.5	2.3	1.5	1.3	1.6	1.3	1.4
Durable goods	6.8	6.6	3.3	8.0	16.7	–0.3	3.9	–1.6	1.2	1.6	1.3	1.4
Nondurable goods	2.8	2.6	2.9	3.3	8.5	0.6	0.5	–0.2	0.8	1.3	1.0	1.1
Services	1.9	2.2	1.5	–5.9	6.9	3.7	2.5	2.5	1.5	1.7	1.5	1.5
Net household wealth (US$ trillion)	104	104	117	131	150.3	146	140	139	142	146	149	157
Unemployment rate (percentage)	4.4	3.9	3.7	8.1	5.4	3.6	3.7	4.1	3.6	3.6	3.7	3.8
Consumer price index	2.1	2.4	1.8	1.3	4.7	8.0	4.2	2.9	2.1	2.2	2.1	1.9

TABLE 2. Balance of payments on current accounts, by country or country group. Source: UN DESA, International Monetary Fund, World Economic Database.

Billions of United States dollars

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023[a]
Developed economies	**60.9**	**97.5**	**197.3**	**279.9**	**189.8**	**189.4**	**-77.6**	**138.0**	**-567.7**	**-270.2**
Japan	36.8	136.4	197.8	203.5	177.8	176.3	147.9	197.3	90.0	131.8
Republic of Korea	83.0	105.1	97.9	75.2	77.5	59.7	75.9	85.2	29.8	37.1
United States	-370.1	-408.5	-396.2	-361.0	-439.8	-446.0	-619.7	-846.4	-925.6	-728.8
European Union	561.4	529.5	538.7	546.4	572.5	515.2	412.7	718.9	417.9	475.9
Other Europe[b]	-47.4	-51.3	-77.6	-33.3	-35.9	-35.3	-79.3	82.6	84.4	43.1
Economies in transition	**50.6**	**46.0**	**-5.0**	**13.9**	**105.7**	**43.6**	**22.4**	**110.9**	**258.3**	**65.1**
South-Eastern Europe	-6.0	-3.8	-3.9	-5.0	-5.0	-6.4	-5.8	-5.7	-8.9	-8.7
Commonwealth of Independent States[c]	58.4	51.5	0.8	20.2	111.9	51.0	30.2	118.5	268.0	75.0
Developing economies	**346.3**	**145.8**	**155.1**	**213.2**	**77.4**	**170.9**	**402.2**	**607.8**	**681.9**	**407.5**
Net fuel exporters	187.3	-165.0	-122.1	2.2	108.4	22.1	-89.2	152.9	399.7	191.2
Net fuel importers	159.0	310.9	277.3	211.0	-30.9	148.8	491.4	455.0	282.3	216.3
Africa	**-92.5**	**-144.2**	**-113.6**	**-83.4**	**-76.3**	**-94.7**	**-86.4**	**-52.1**	**-57.1**	**-76.1**
Net fuel exporters	-25.7	-72.9	-42.9	-19.1	-10.5	-30.5	-44.2	-7.7	18.3	-0.1
Net fuel importers	-66.8	-71.3	-70.7	-64.3	-65.8	-64.3	-42.1	-44.4	-75.4	-75.9
East and South Asia	**434.7**	**543.0**	**460.0**	**408.2**	**173.3**	**274.9**	**554.1**	**588.0**	**552.5**	**431.2**
Net fuel exporters	-19.8	-10.8	-10.8	-9.2	-26.2	-26.5	-0.2	8.9	25.6	3.6
Net fuel importers	454.5	553.8	470.8	417.4	199.5	301.4	554.3	579.1	526.8	427.6
Western Asia	**202.3**	**-71.2**	**-82.3**	**-13.0**	**125.8**	**102.6**	**-51.5**	**174.0**	**327.5**	**163.6**
Net fuel exporters	243.9	-44.4	-50.5	32.7	153.3	93.2	-34.3	165.5	362.8	192.3
Net fuel importers	-41.6	-26.8	-31.9	-45.7	-27.6	9.4	-17.2	8.5	-35.2	-28.7
Latin America and the Caribbean	**-198.2**	**-181.8**	**-108.9**	**-98.6**	**-145.3**	**-111.9**	**-14.1**	**-102.0**	**-141.0**	**-111.3**
Net fuel exporters	-11.1	-37.0	-18.0	-2.1	-8.2	-14.2	-10.5	-13.7	-7.0	-4.6
Net fuel importers	-187.1	-144.8	-90.9	-96.5	-137.0	-97.7	-3.6	-88.2	-134.0	-106.7
World residual[d]	**457.8**	**289.3**	**347.4**	**507.0**	**373.0**	**403.9**	**347.0**	**856.7**	**372.5**	**202.4**

TABLE 3. Growth of world output and GDP, 2022 to 2025. Source: UN DESA, International Monetary Fund, World Economic Database.

					Change from *World Economic Situation and Prospects* as of mid-2023	
Annual percentage change	2022	2023[a]	2024[b]	2025[b]	2023	2024
World	**3.0**	**2.7**	**2.4**	**2.7**	**0.4**	**-0.1**
Developed economies	**2.6**	**1.6**	**1.3**	**1.6**	**0.6**	**0.1**
United States of America	1.9	2.5	1.4	1.7	1.4	0.4
Japan	0.9	1.7	1.2	1.1	0.5	0.2
European Union	3.4	0.5	1.2	1.6	-0.4	-0.3
Euro area	3.4	0.6	1.1	1.5	-0.3	-0.3
United Kingdom of Great Britain and Northern Ireland	4.3	0.5	0.4	1.0	0.6	-0.7
Other developed countries	3.1	1.4	1.4	1.9	0.1	0.0
Economies in transition	**-1.7**	**3.3**	**2.3**	**2.4**	**2.7**	**0.1**
South-Eastern Europe	3.2	2.2	2.9	3.1	0.2	-0.1
Commonwealth of Independent States and Georgia	-1.9	3.3	2.3	2.4	2.7	0.1
Russian Federation	-2.1	2.7	1.3	1.5	3.3	-0.1
Developing economies	**3.9**	**4.1**	**4.0**	**4.2**	**0.0**	**-0.2**
Africa[c]	3.5	3.3	3.5	4.2	-0.1	-0.1
North Africa[c]	2.9	3.4	3.2	4.2	-0.1	-0.3
East Africa	5.4	5.0	5.5	5.9	0.0	0.6
Central Africa	3.0	2.5	3.1	3.7	-1.0	-0.5
West Africa	3.9	3.6	3.8	4.1	-0.2	-0.1
Southern Africa	2.8	1.6	2.3	3.0	-0.3	0.0
East and South Asia[d]	3.7	5.0	4.7	4.7	0.3	0.1
East Asia	3.2	4.9	4.6	4.5	0.2	0.3
China	3.0	5.3	4.7	4.5	0.0	0.2
South Asia[d,e]	6.3	5.3	5.2	5.7	0.6	-0.6
India[e]	7.7	6.3	6.2	6.6	0.5	-0.5
Western Asia[f]	6.5	1.7	2.9	3.7	-1.4	-0.4
Latin America and the Caribbean	3.8	2.2	1.6	2.3	0.8	-0.8
South America	3.9	1.4	1.0	2.3	0.4	-1.2
Brazil	2.9	3.1	1.6	2.3	2.1	-0.5
Mexico and Central America	3.4	3.5	2.6	2.3	1.5	0.0
Caribbean[g]	4.7	3.3	2.4	2.7	0.2	-0.5
Least developed countries[h]	**3.4**	**4.4**	**5.0**	**5.5**	**0.0**	**-0.4**
Small island developing States	**4.5**	**2.3**	**3.1**	**3.2**	**-0.2**	**-0.6**
Landlocked developing countries[d]	**4.1**	**4.4**	**4.7**	**4.8**	**0.3**	**0.5**
Memorandum items						
World trade[i]	5.7	0.6	2.4	3.2	-1.7	-1.2
World output growth with purchasing power parity (PPP) weights[j]	3.3	3.0	2.9	3.2	0.3	-0.1

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