MACROECONOMIC *view*

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Bruno Cavalier
Chief Economist ODDO BHF

Global economy: the glass is half... (it's up to you to decide)

Key highlights:

- For more than a year now, the threat of a recession has been looming over the global economy
- Contributing factors include rate hikes, the inflation shock and geopolitical uncertainty
- As of mid-2023, however, opposite forces are still largely at play
- With low unemployment and high profitability, the private sector is able to absorb these shocks
- Nevertheless, the balance of risks is tilted to the downside over the coming months

As we enter the second half of 2023, it is useful to take a look back at the main economic and financial developments of the last few months to assess which way the global economy is heading.

Some developments were largely anticipated, such as the central banks' continued fight against inflation. Nearly all of them continued to tighten monetary policy in the first half of the year, albeit at a slightly slower pace than last year. The ECB's key rates are now close to their all-time high of the year 2000, while the Federal Reserve's rates are at their highest since 2007. We are well and truly out of the zero or negative interest rate regime.

Other events came as a surprise, namely, the banking stress episode that led to the collapse of several regional banks in the US and one of Switzerland's banking giants. In the few weeks that followed, we wondered whether this event would weaken the entire banking system through a domino effect. Such scenario did not materialise. European banks strengthened their capital base after the 2008 financial crisis and, on the whole, have good liquidity ratios. The fact remains that there is a downward trend in deposits, which is increasing the European banks' cost of funding.

There were also disappointments, the main one being the Chinese economy losing its momentum after a promising start to the year following the abandonment of the zero-Covid policy. The lifting of restrictions was not enough to bring about a lasting return to confidence. The Chinese authorities can hardly afford to stand idly by, and measures to support SMEs and local government are more likely than not.

Finally, there have been some positive developments. Price pressures have continued to ease, particularly as regards energy. The European import bill for energy products, which had doubled last year, has returned to its historical average. Supply chain issues and world trade bottlenecks have been overcome.

At the end of the day, the picture is a mixed one, like a glass that can be described as half-empty or half-full depending on your point of view. **The "half-empty" view emphasizes the sluggishness of the economic outlook.** According to the consensus, the one-year global growth outlook is around 2.5%, up slightly since the start of the year (chart). The same is true of the IMF and the OECD, which are forecasting growth of between 2.5% and 3% in

2023, and little better in 2024. It is widely accepted that a normal trend is one point higher and that the threshold for entering a recession is one point lower. The global economy therefore remains in fragile territory. In Europe, real GDP has simply stagnated over the last two or three quarters. Germany is even doing slightly worse than average due to the morose industry and construction environment. Mediterranean countries are faring slightly better amid a recovery in tourism; France is somewhere in between. All in all, there is nothing to get excited about.

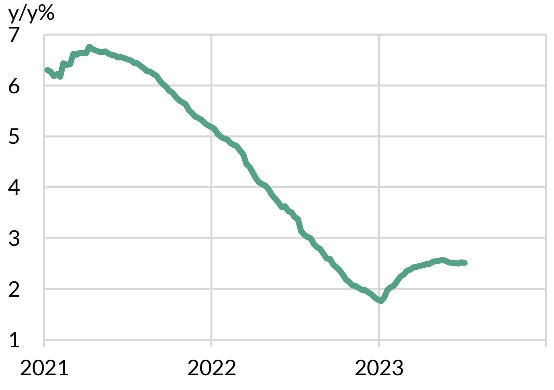
On the other hand, the "half-full" view underlines the great resilience of the economy despite the multiplicity, diversity and intensity of adverse shocks. After all, one might have feared that companies, faced with a downturn in orders, would cut back on hiring or, worse still, make mass redundancies. That's how recessions usually go. There are indeed some signs of moderation in employment conditions, but nothing dramatic. With margins high, employment is holding up longer. Household fears of unemployment have rarely been this low. As a result, consumers have been able to cope with the shock to their purchasing power while being encouraged to consume, not save.

What risks should we look out for in the coming months? First of all, the geopolitical climate remains extremely tense, due to the ongoing war between Russia and Ukraine, as well as the “cold war” between the US and China over global tech leadership. The resulting uncertainty is not conducive to trade dynamics or economic growth.

Secondly, we need to guard against the lagged effects of the rate shock. So far, the global economy has survived the sharp rise in interest rates, but caution is still called for. It always takes time for tighter financing conditions to impact household and business demand. Credit is scarcer and, above all, more expensive than in the past. The effects are being felt in the real estate sector, where we are seeing a drop in lending, demand and prices. There is concern that other segments might be affected, leading to an increase in bankruptcies, with knock-on effects on employment and consumption.

Given the signs of gloom coming out of businesses in recent weeks, the balance of risks is tilting to the downside. Looking further ahead to 2024, we can nevertheless expect the economic cycle to improve, with the help of disinflation.

FORECASTS FOR GLOBAL GDP GROWTH 1 YEAR AHEAD
(PROXY BASED ON US, CHINA, EUROPE & JAPAN)



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ODDO BHF
12, boulevard de la Madeleine - 75440 Paris Cedex 09 France - Phone: 33(0)1 44 51 85 00 - Fax: 33(0)1 44 51 85 10 –
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