



# Schroders Economics Lens

Schroders Economics Group

March 2024

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# Index

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[Summary](#) (slide 3)

[Forecast update](#) (slides 4-9)

[Global growth upgrade led by the US](#) (slides 10-15)

[US focus: GDP growth upgraded on back of falling inflation and resilient economy](#) (slides 16-20)

[Europe focus: ECB set to cut rates in first half of this year](#) (slides 21-25)

[UK focus: Macro fundamentals remain weak](#) (slides 26-28)

[Emerging markets focus: Interest rates to fall further ex EM Asia](#) (slides 29-32)

[China focus: Growth forecast nudged higher on firmer exports outlook](#) (slides 33-37)

[What to watch ahead of US elections](#) (Slides 38-41)

[Appendix: scenario explanations](#) (slide 42-43)

# Summary:

## Read more: [Economic and Strategy Viewpoint – Q1 2024](#)

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- New baseline forecast – Global GDP growth forecast revised up to 2.6% from 2.2% for 2024, and to 2.7% from 2.2% for 2025.
- An immaculate disinflation, whereby inflation moderates while economic activity continues to grow and unemployment remains low, appears to be playing out.
- The US economy has proven to be far more resilient, all whilst inflation has continued to moderate. The eurozone has avoided a technical recession, but manufacturing heavy countries such as Germany are struggling. The recession-marred UK economy is likely to see a sluggish recovery through 2024, largely owing to more sticky inflation and structural supply problems.
- China is seeing a near-term improvement in the external outlook, but underwhelming support from fiscal policy is likely to mean weak household demand will come to the fore as government spending fades.
- Falling inflation should allow the Federal Reserve (Fed) to start cutting its policy rate this summer. However, Schrodgers' baseline forecast only has 100 basis points of cuts between now and the end of 2025 – materially behind market expectations.
- As inflation continues to fall, central banks have started to change the tone of their communications. References to upside interest rate risks have largely been removed, while discussions of downside risks remain. Expectations are building that interest rates will be lowered as we progress through 2024, but there are still questions over how much easing will follow.
- Our risk scenario analysis examines the impact of potential events and risks around the underlying forecast assumptions. Overall, the balance of risks are skewed towards higher growth and inflation – the first time since the third quarter of 2020.

Source: Schrodgers Economics Group. 29 February 2024. Please see relevant disclaimers on slide 44.



## Forecast update

# 2024 and 2025 global growth forecasts revised-up

## ...primarily due to more resilient US activity

Real GDP										
y/y%	Wt (%)	2023	2024		Prev.	Consensus	2025		Prev.	Consensus
<b>World</b>	100	2.7	2.6	↑	(2.2)	2.4	2.7	↑	(2.2)	2.5
<b>Advanced*</b>	59.6	1.6	1.6	↑	(1.0)	1.3	1.8	↑	(1.1)	1.5
<b>US</b>	28.3	2.5	2.7	↑	(1.3)	2.1	1.9	↑	(0.8)	1.7
<b>Eurozone</b>	15.6	0.5	0.7		(0.7)	0.5	1.8	↑	(1.7)	1.3
<b>Germany</b>	4.5	-0.1	0.2	↓	(0.7)	0.3	1.7	↑	(1.6)	1.2
<b>UK</b>	3.4	0.1	-0.2	↓	(-0.1)	0.3	1.0	↑	(0.7)	1.1
<b>Total Emerging**</b>	40.4	4.3	4.0	↑	(3.9)	4.0	4.0	↑	(3.8)	3.9
<b>BRICs</b>	28.3	5.1	4.5	↑	(4.3)	4.4	4.3	↑	(4.2)	4.1
<b>China</b>	19.9	5.2	4.8	↑	(4.5)	4.6	4.5	↑	(4.3)	4.3

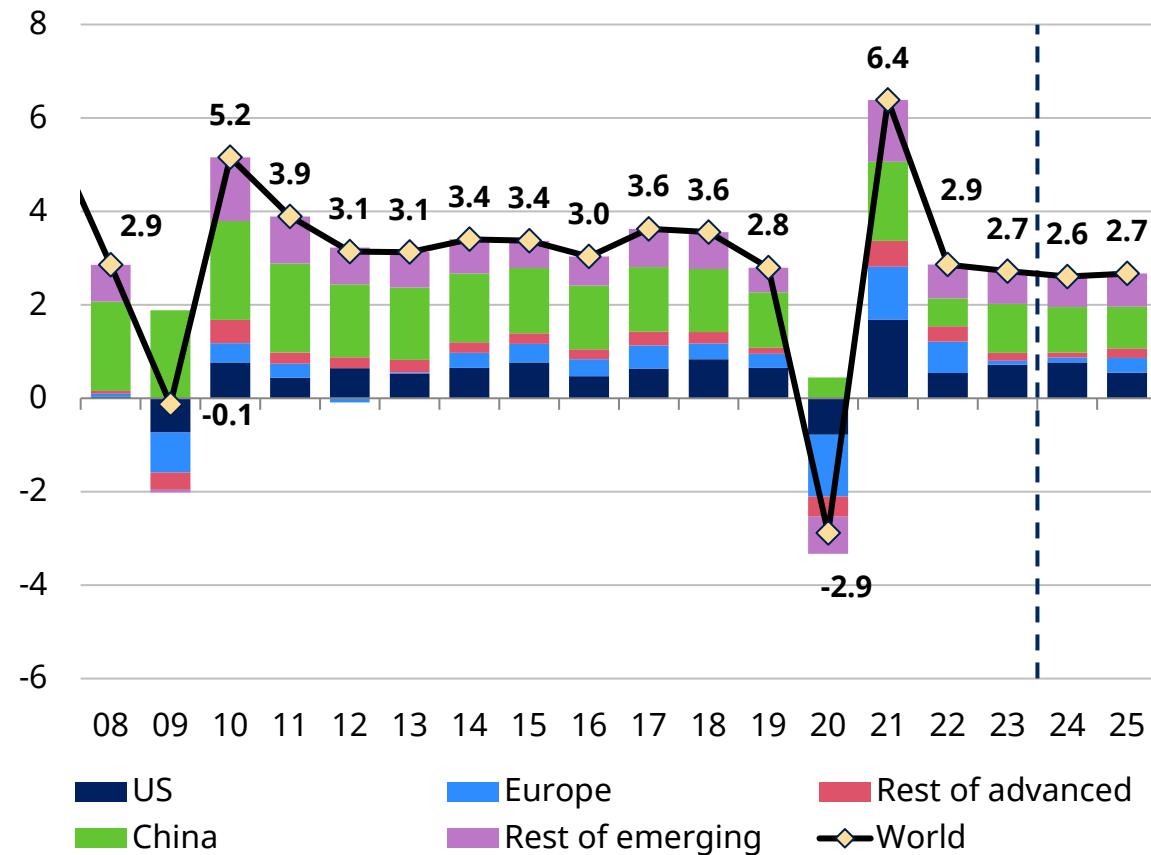
Inflation CPI										
y/y%	Wt (%)	2023	2024		Prev.	Consensus	2025		Prev.	Consensus
<b>World</b>	100	4.4	2.9		(2.9)	3.0	2.5	↓	(3.0)	2.5
<b>Advanced*</b>	59.6	4.6	2.5	↑	(2.4)	2.5	2.3	↓	(2.5)	2.1
<b>US</b>	28.3	4.1	2.7	↑	(2.3)	2.6	2.1	↓	(2.2)	2.2
<b>Eurozone</b>	15.6	5.4	2.1	↑	(2.0)	2.3	2.8	↑	(2.7)	2.0
<b>Germany</b>	4.5	6.0	2.4	↑	(2.3)	2.5	2.8	↑	(2.6)	2.1
<b>UK</b>	3.4	7.3	2.4	↓	(2.6)	2.6	2.8	↓	(3.0)	2.1
<b>Total Emerging**</b>	40.4	4.1	3.4	↓	(3.7)	3.7	2.8	↓	(3.8)	3.2
<b>BRICs</b>	28.3	1.8	1.8	↓	(2.2)	2.1	1.9	↓	(2.3)	2.4
<b>China</b>	19.9	0.2	0.2	↓	(1.0)	0.9	0.7	↓	(1.2)	1.6

Source: Schroders Economics Group, 23 February 2024. Please see relevant disclaimers on slide 44.

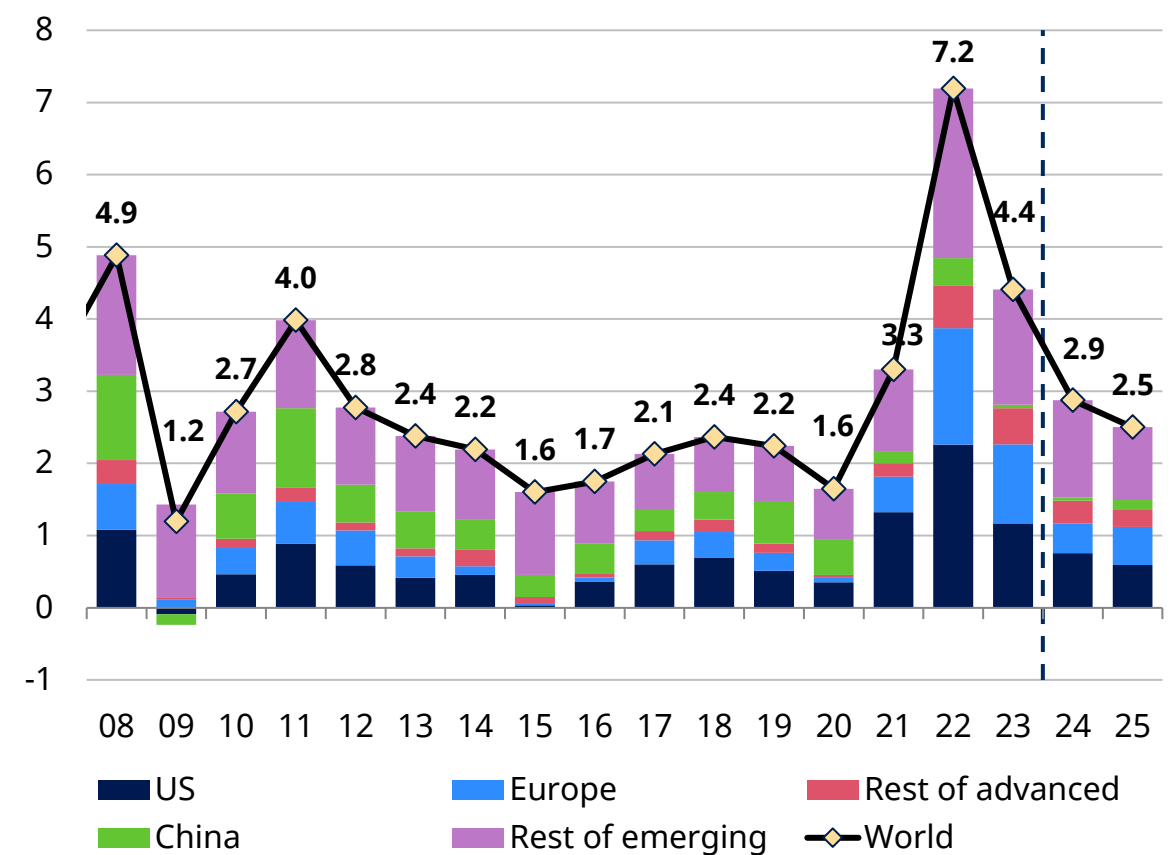
# World economy shows resilience, but hard yards to go still

## Global growth and inflation forecasts

Contributions to World GDP growth (y/y)



Contributions to World inflation (y/y)

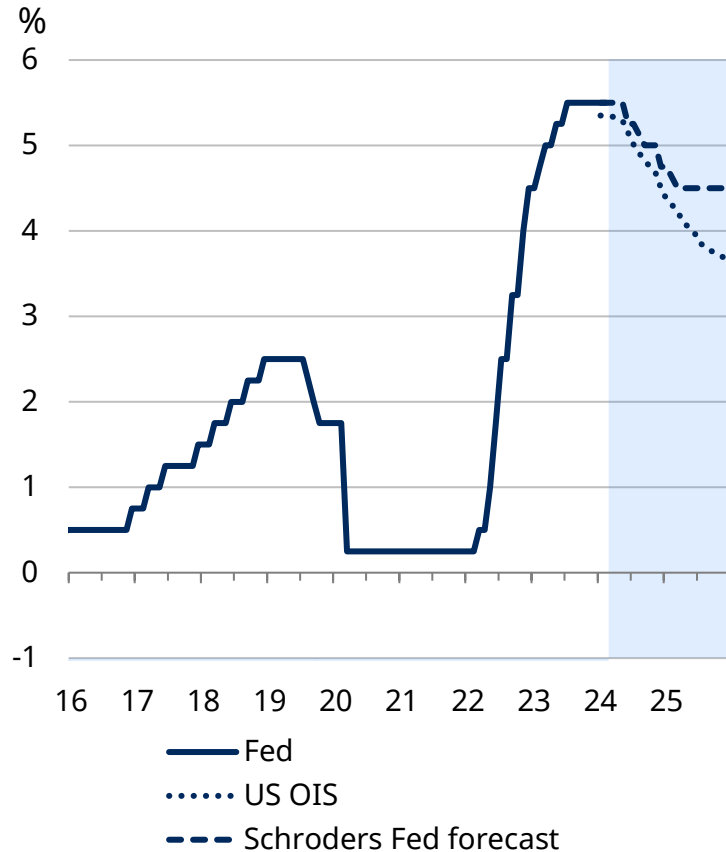


Source: Schroders Economics Group, 23 February 2024. Please see relevant disclaimers on slide 44.

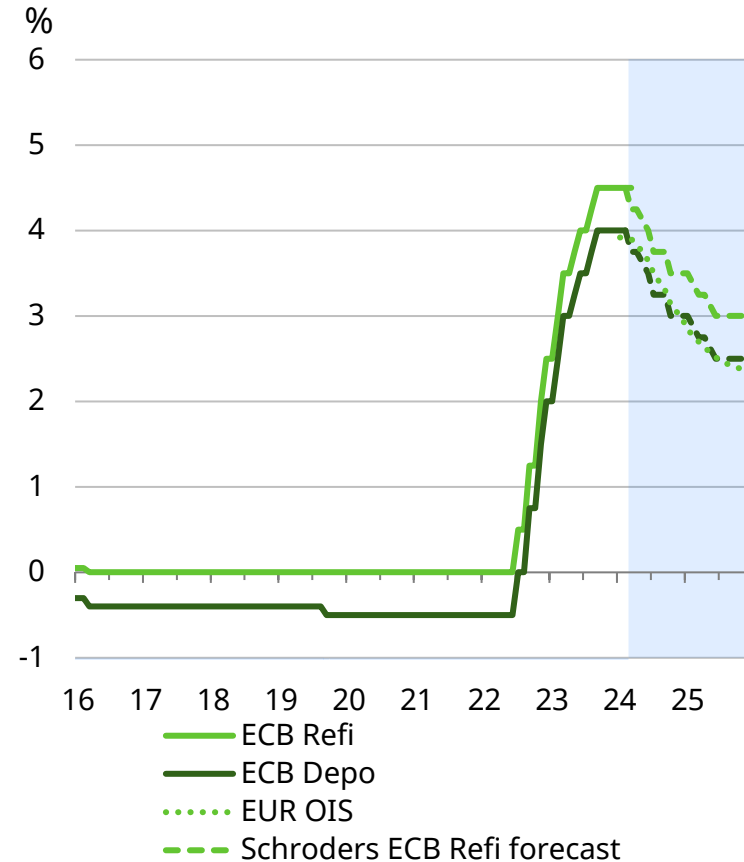
# Are market expectations for policy easing in 2025 too optimistic?

Schroders expectations for rate cuts are lower than the market consensus for 2025

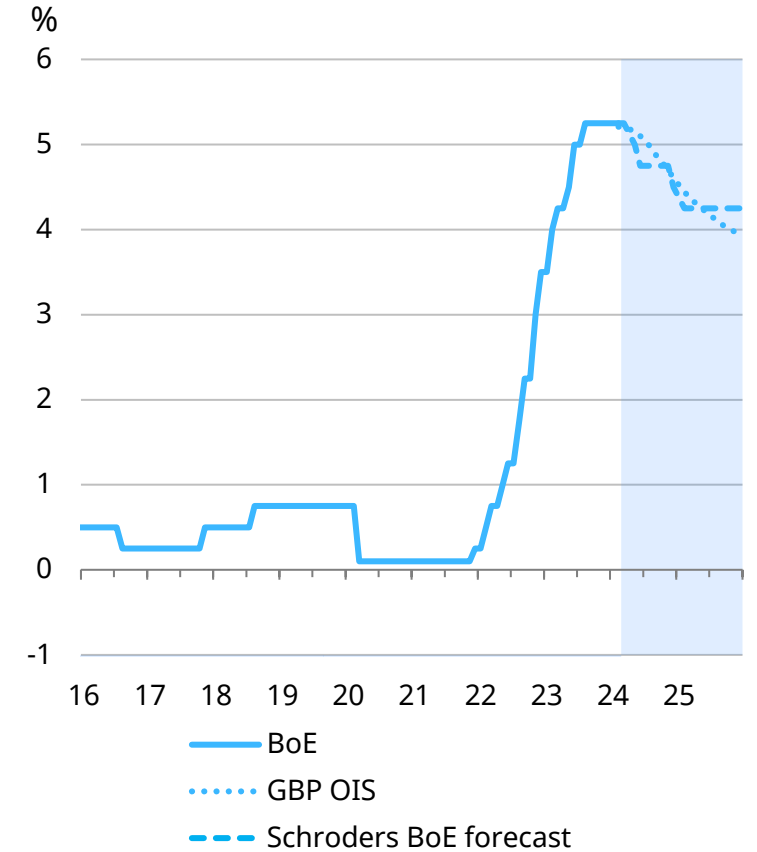
### US interest rates forecast vs market



### EZ interest rates forecast vs market



### UK interest rates forecast vs market

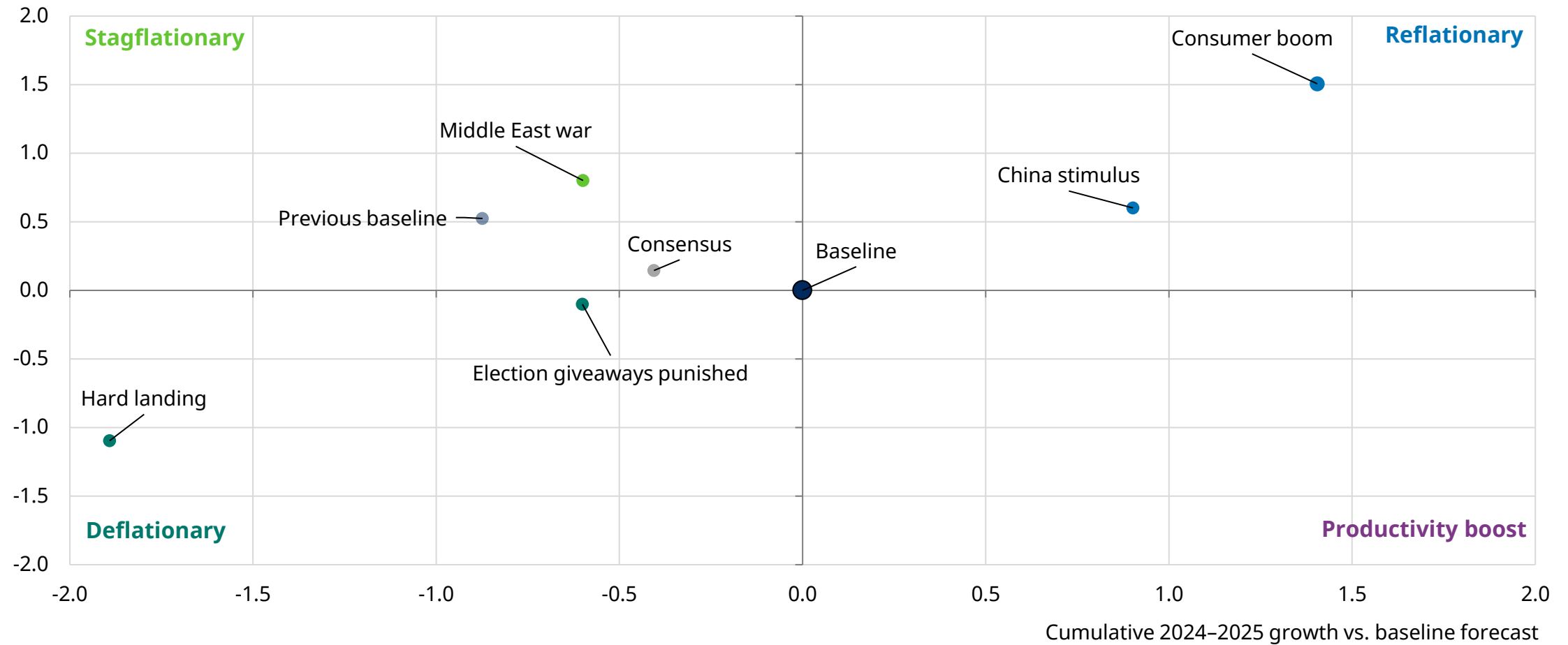


OIS = overnight index swap: a proxy for interest rate expectations in market. Source: Schroders Economics Group (23 February 2024). Goldman Sachs data for OIS (23 February 2024). Please see relevant disclaimers on slide 44.

# What are the risks around our baseline forecasts?

## Risk scenarios grid: growth and inflation deviations from baseline

Cumulative 2024–2025 inflation vs. baseline forecast



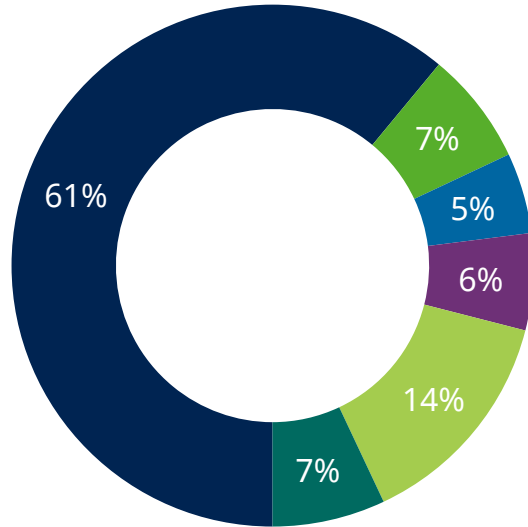
Source: Schroders Economics Group. 23 February 2024. Please see relevant disclaimers on slide 44. \*Scenario probabilities are based on mutually exclusive scenarios. Description of these alternative scenarios are provided in the Appendix



# The balance of risks is skewed in a reflationary direction

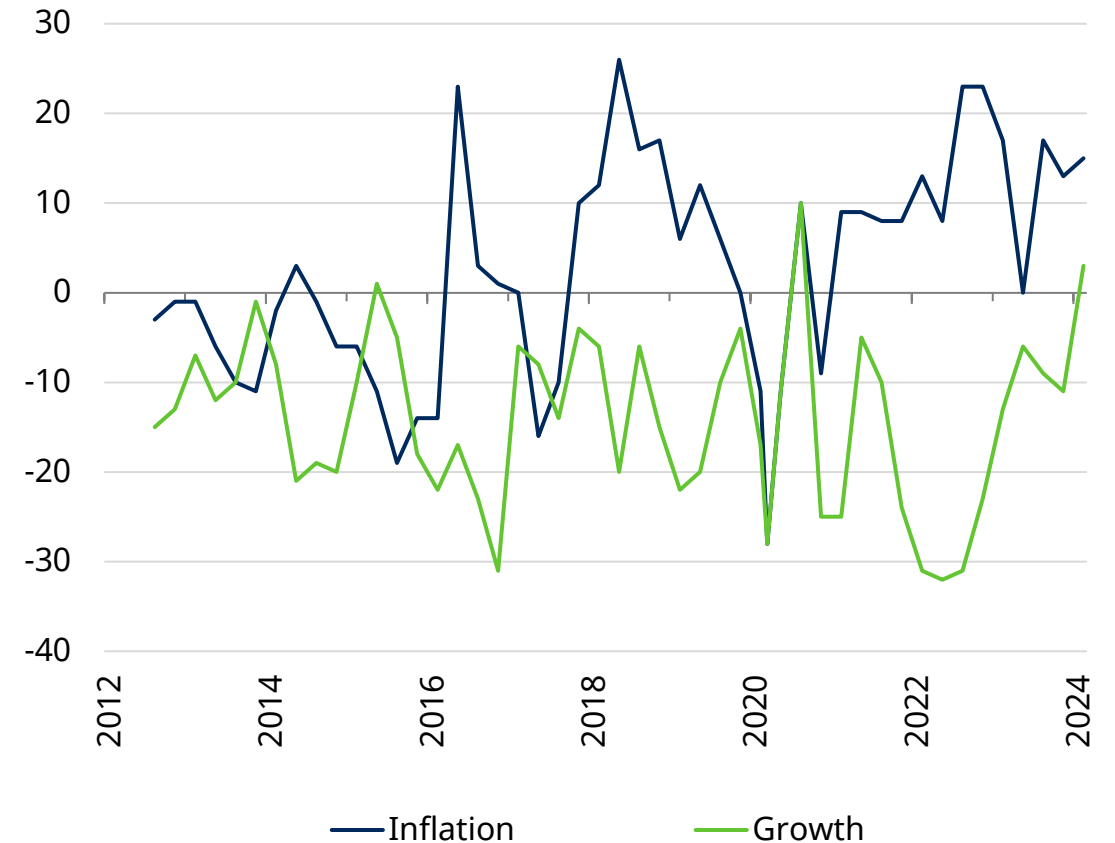
## Consumer boom is the biggest risk to the outlook

### Scenario probabilities



- Baseline
- Election giveaways punished
- Consumer boom
- Hard landing
- Middle East war
- China stimulus

### Growth and inflation: balance of probabilities



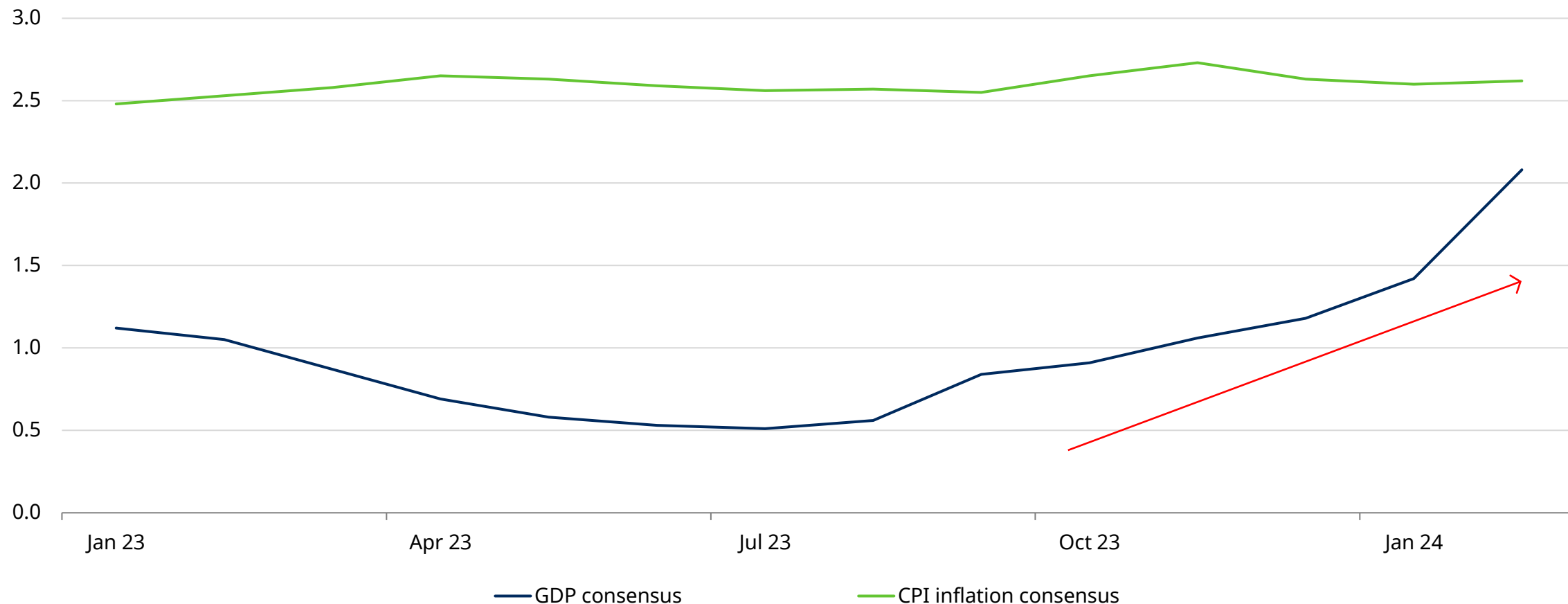
Source: Schroders Economics Group. 23 February 2024. Please see relevant disclaimers on slide 44. \*Scenario probabilities are based on mutually exclusive scenarios. Description of these alternative scenarios are provided in the Appendix



## Global growth upgrade led by the US

# Consensus has shifted from 'hard landing' to 'soft landing' in the US But should we be looking at 'no landing'?

## 2024 Consensus US GDP and inflation forecasts, year average (%)

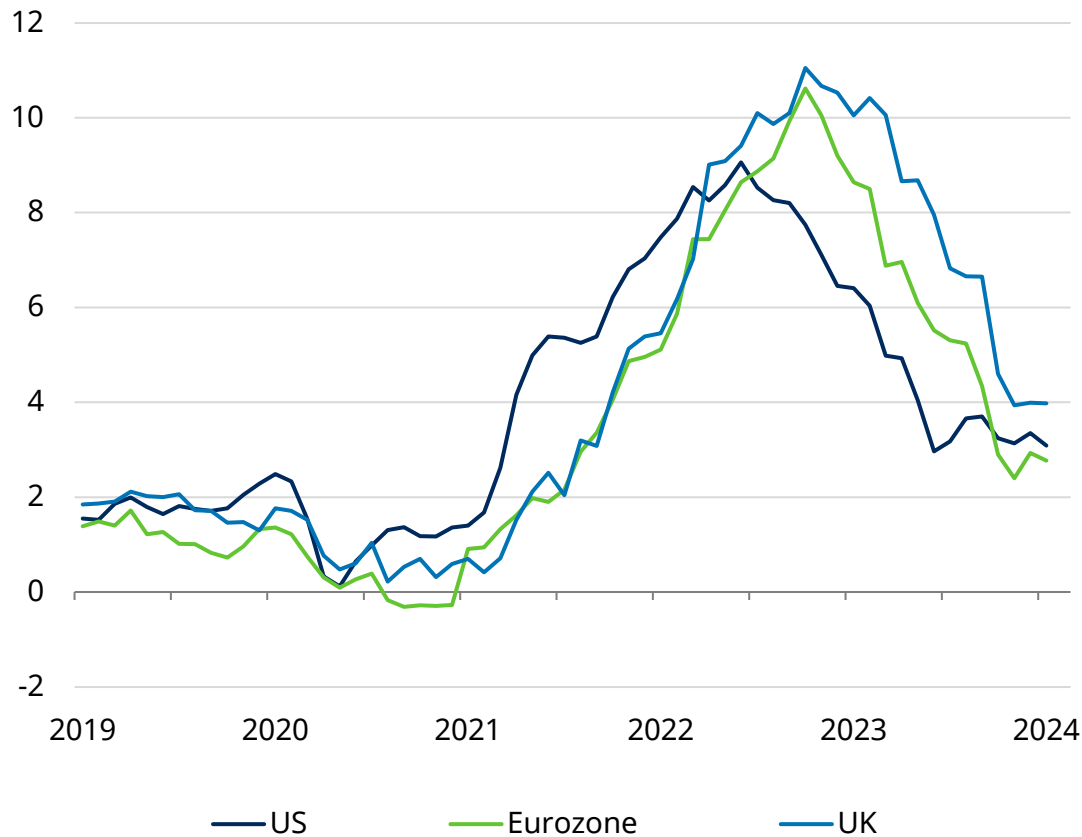


Source: LSEG Datastream, Schroders Economics Group. 21 February 2024. Please see relevant disclaimers on slide 44.

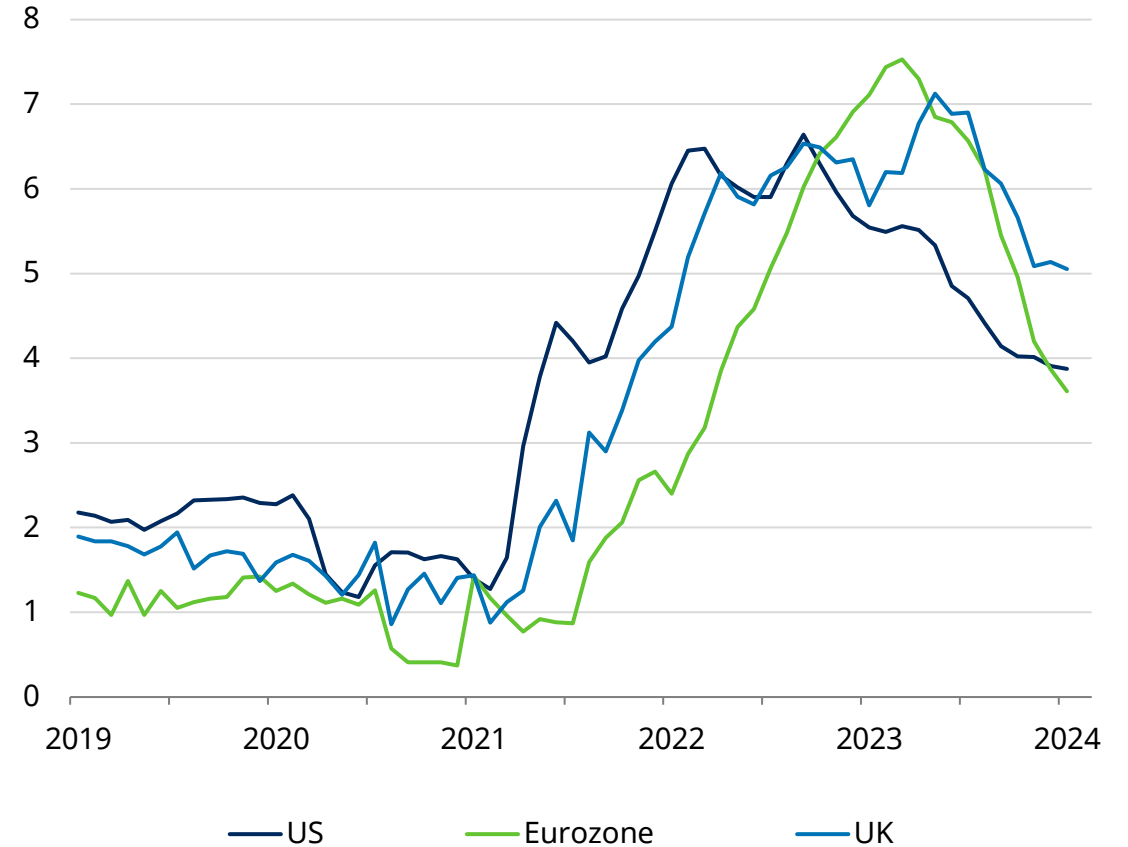
# Inflation fell sharply in 2023, but still has further to fall...

Especially core CPI which, despite some easing, remains elevated

### Headline CPI inflation (% y/y)



### Core CPI inflation (% y/y)

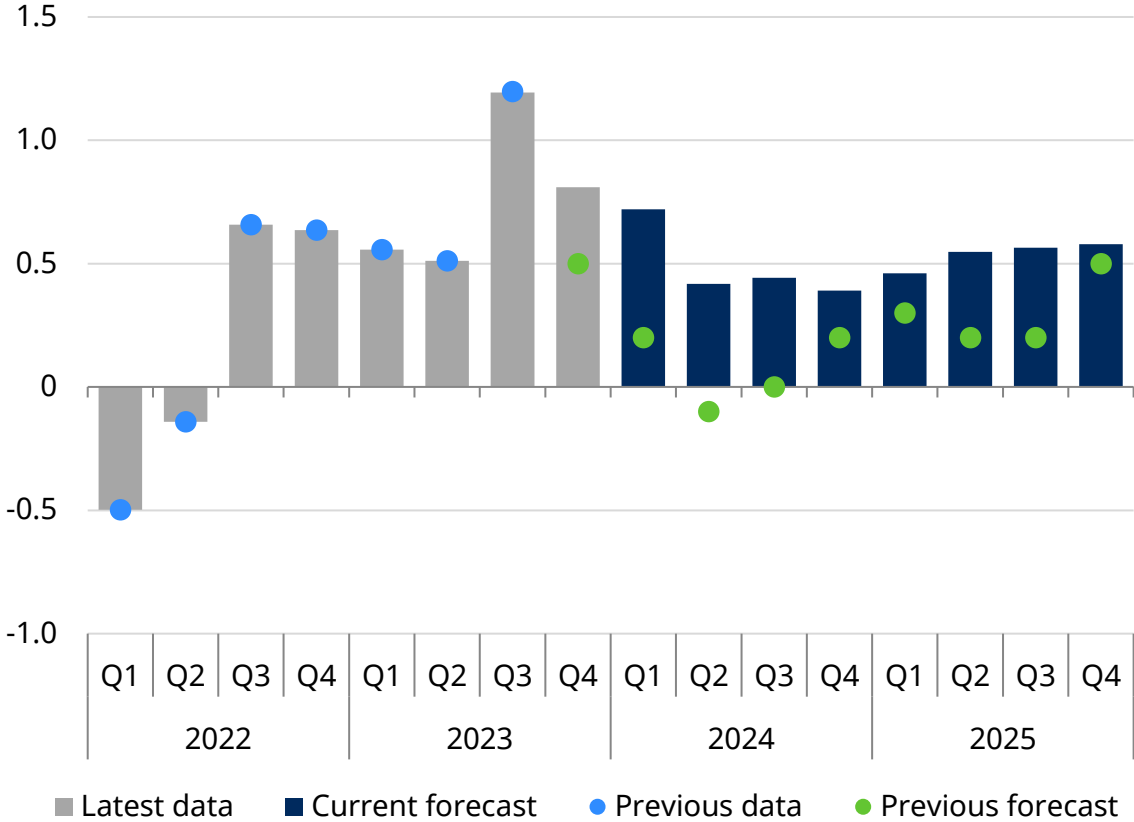


Source: LSEG Datastream, Schroders Economics Group. 23 February 2024. Please see relevant disclaimers on slide 44.

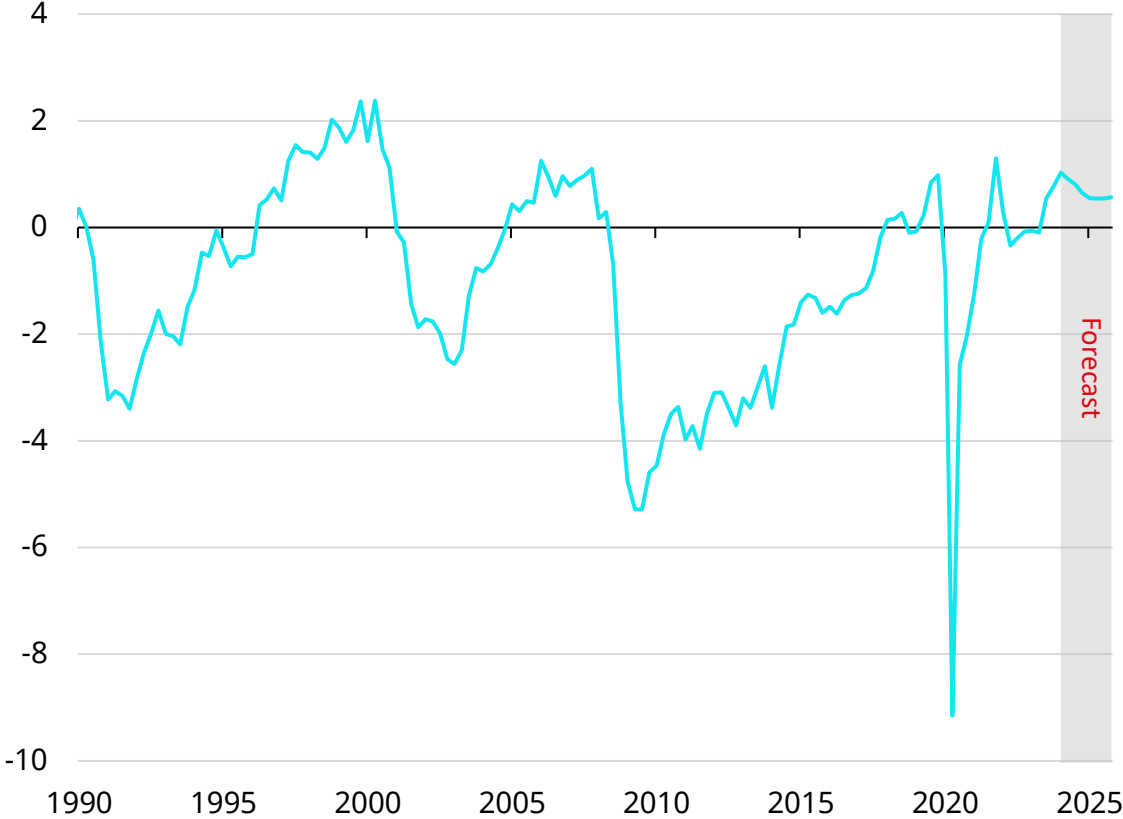
# US economy forecast to expand 2.7% this year and 1.9% next

## Strong Q4 in 2023 and Q1 in 2024 followed by four quarters of sub-trend growth

US GDP growth forecast (% q/q)



US output gap (% of GDP)

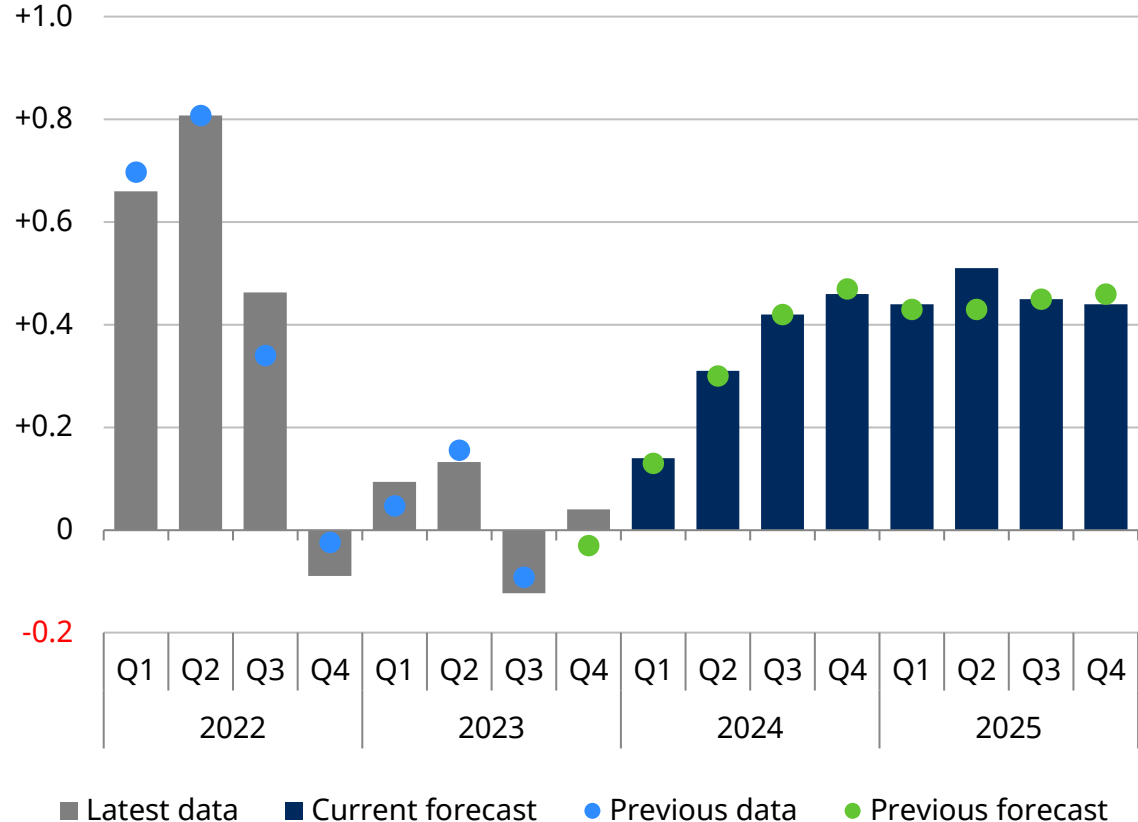


Output gap is based on the Congressional Budget Office's estimates and forecasts of the level of potential real GDP.  
 Source: Schrodgers Economics Group, Bureau of Economic Analysis, Congressional Budget Office, LSEG Datastream. 1 March 2024. Please see relevant disclaimers on slide 44.

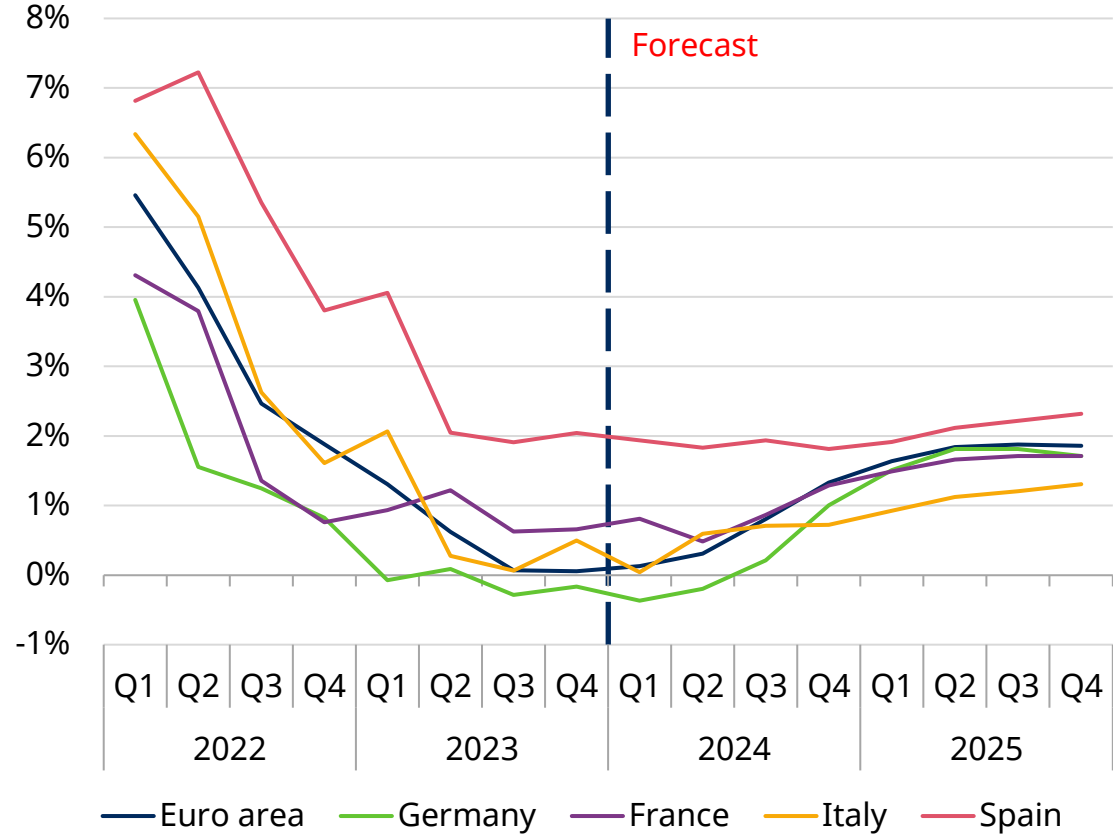
# Eurozone growth forecast at 0.7% and 1.8% for 2024/2025

Growth now past the worst, with recovery anticipated in the coming quarters

**Eurozone GDP growth forecast and revisions (% q/q)**



**GDP forecasts by member state (y/y)**

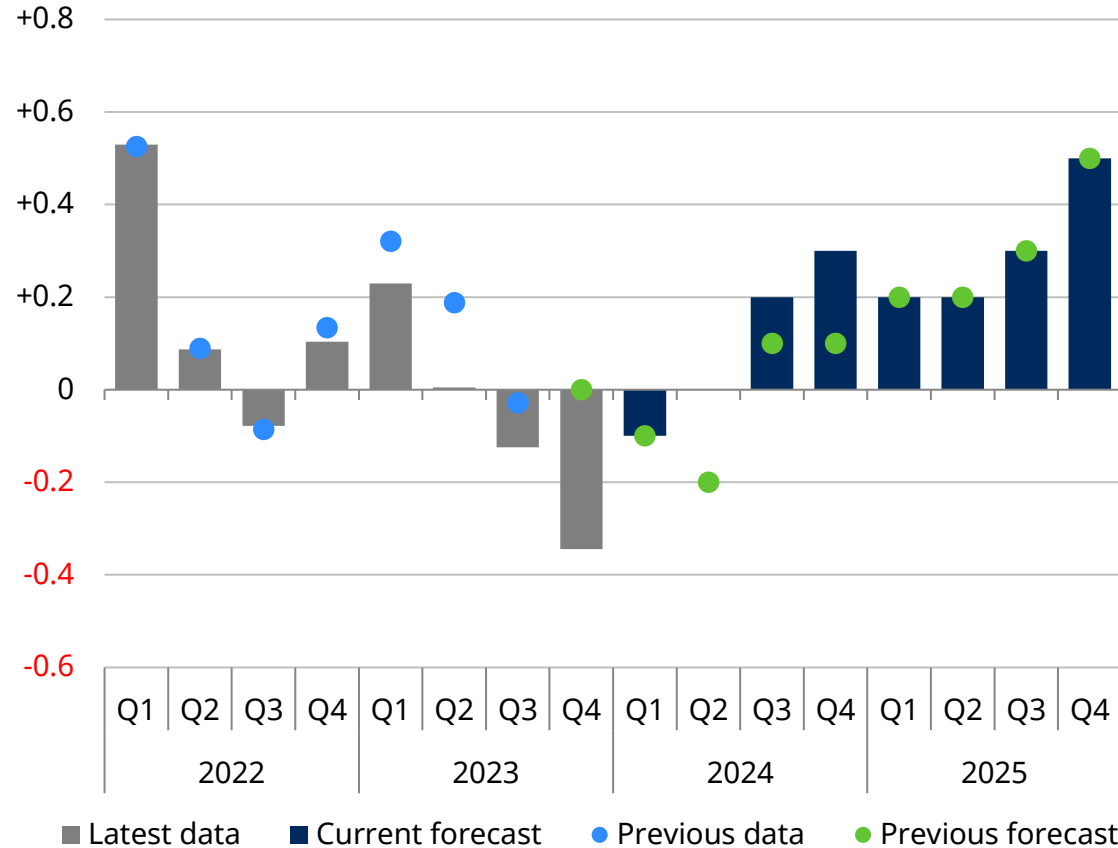


Source: Schroders Economics Group, 23 February 2024. Previous refers to November 2023. Please see relevant disclaimers on slide 44.

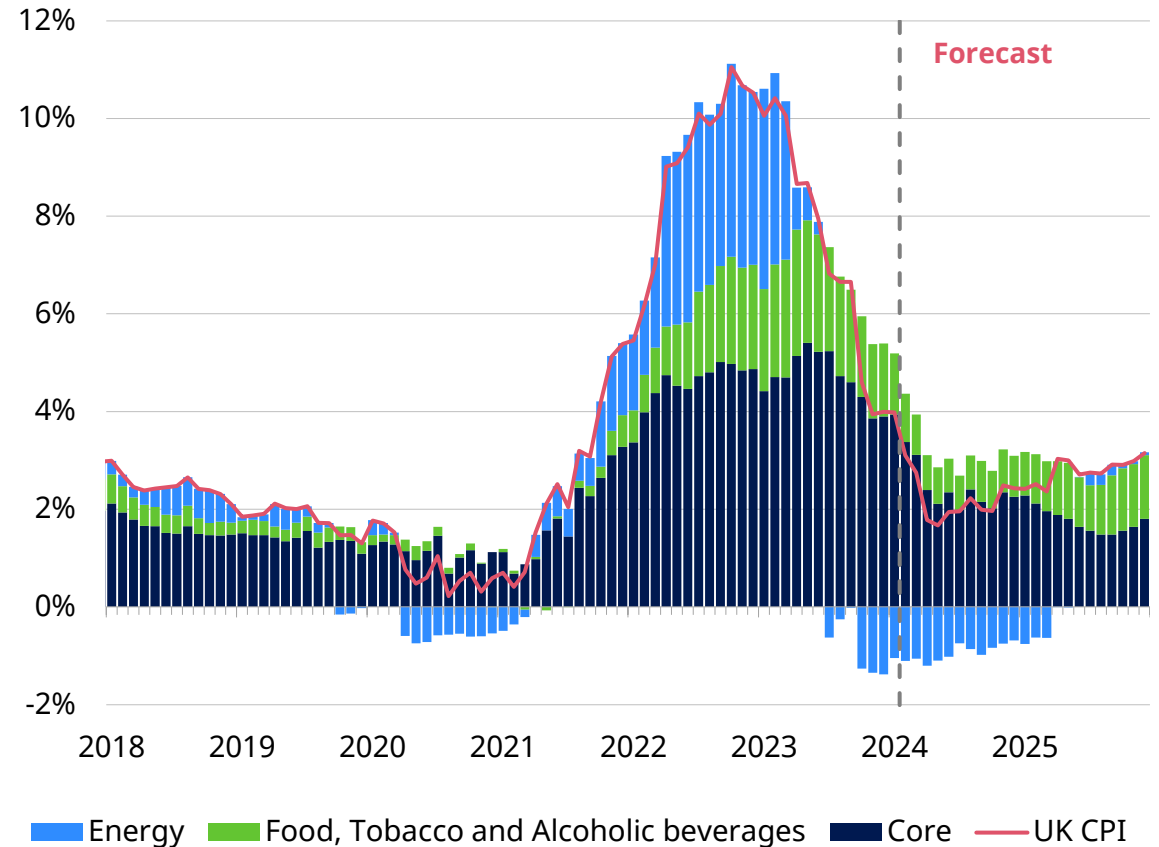
# UK growth forecast at -0.2% in 2024, and 1.0% in 2025

A sluggish recovery expected from second half of this year

### UK GDP growth forecast and revisions (% q/q)



### Contributions to UK inflation (y/y)



Source: Schroders Economics Group, 23 February 2024. Previous refers to November 2023. Please see relevant disclaimers on slide 44.



## US focus

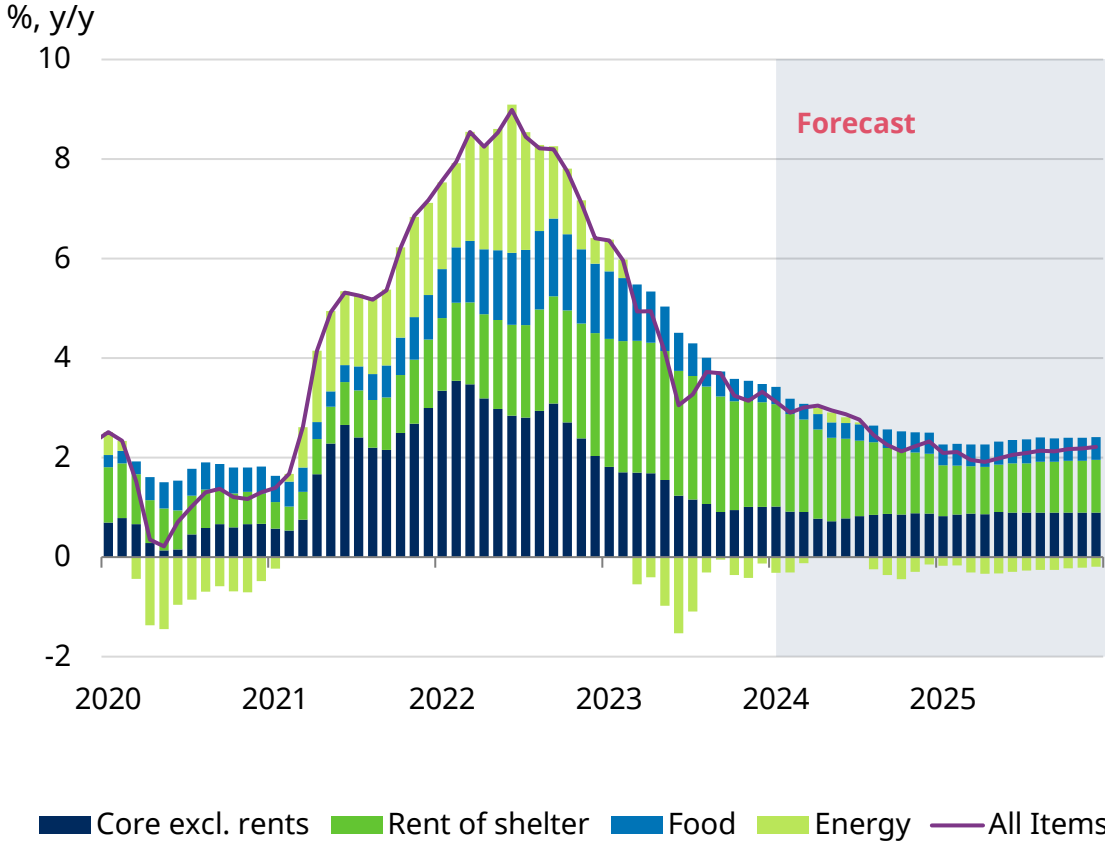
GDP growth upgraded on back of falling inflation and resilient economy



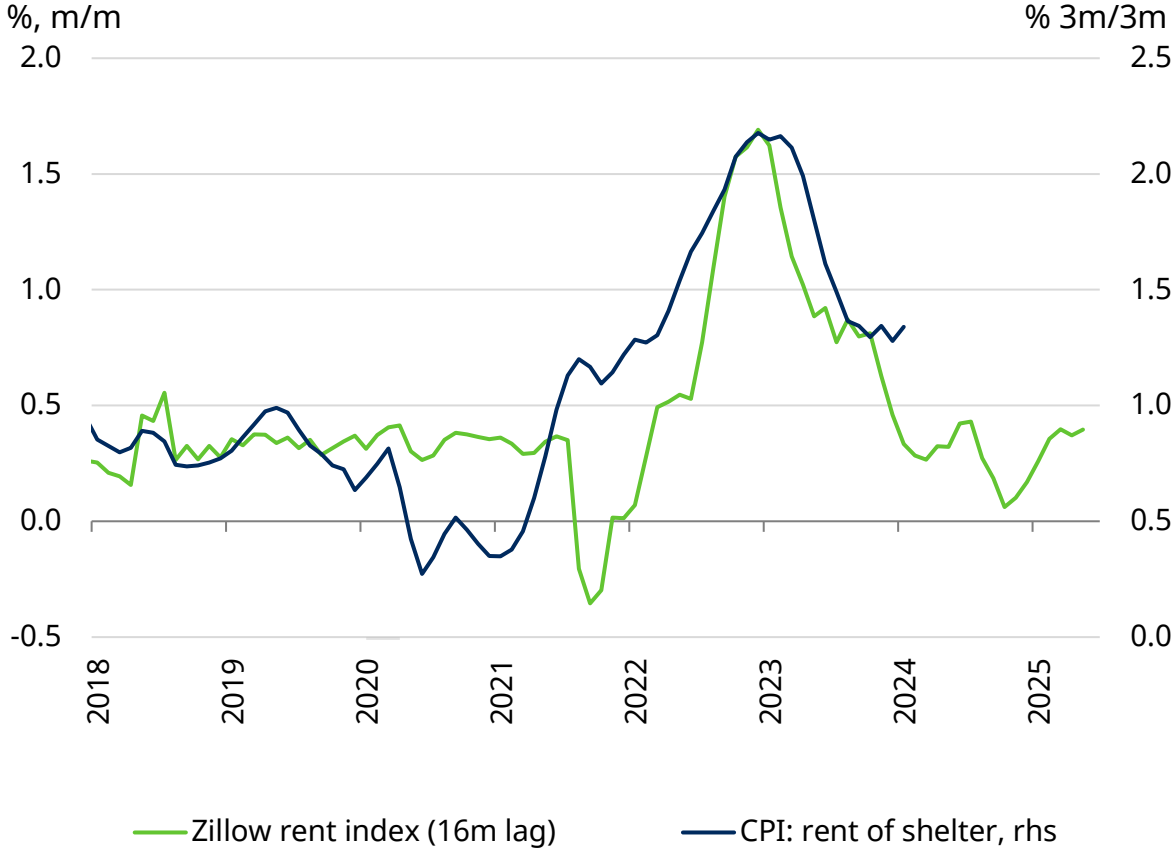
# US CPI inflation projected to slow further

Rent of shelter has been a key contributor, but survey data suggests it is subsiding

## What are the main contributors to US CPI inflation?



## Higher frequency data implies rents inflation set to fall...

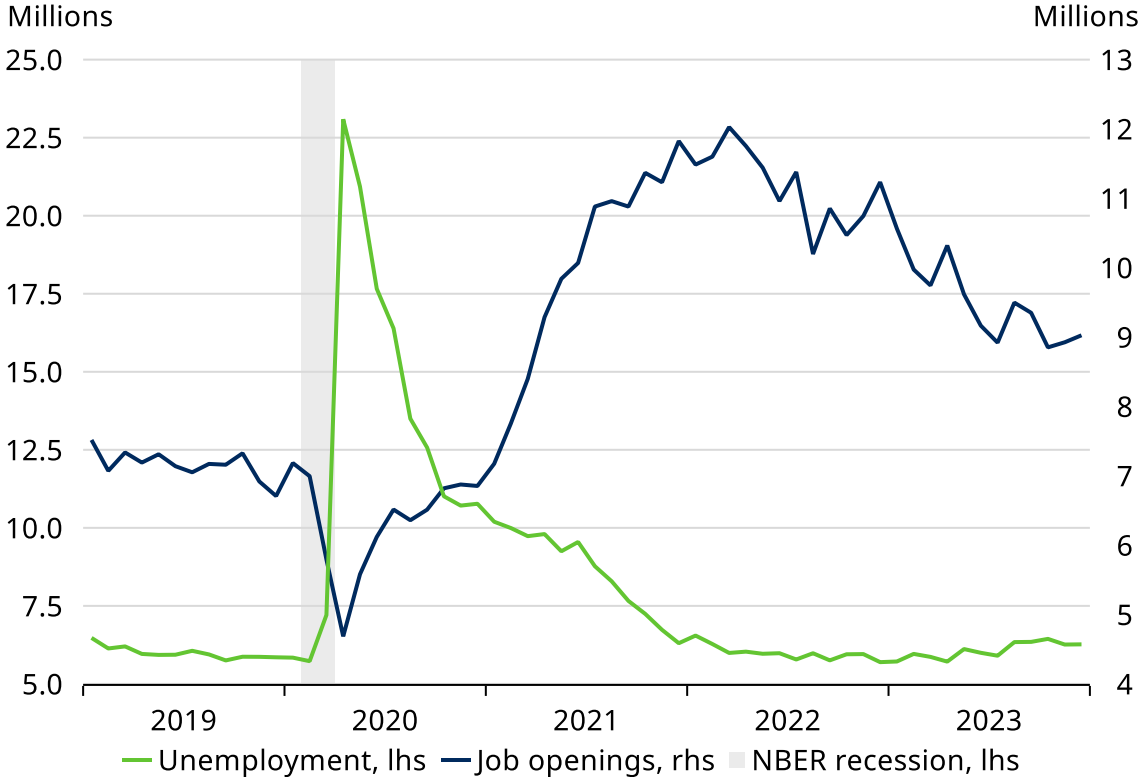


Source: Macrobond, Zillow, Schroders Economics Group. 22 February 2024. Please see relevant disclaimers on slide 44.

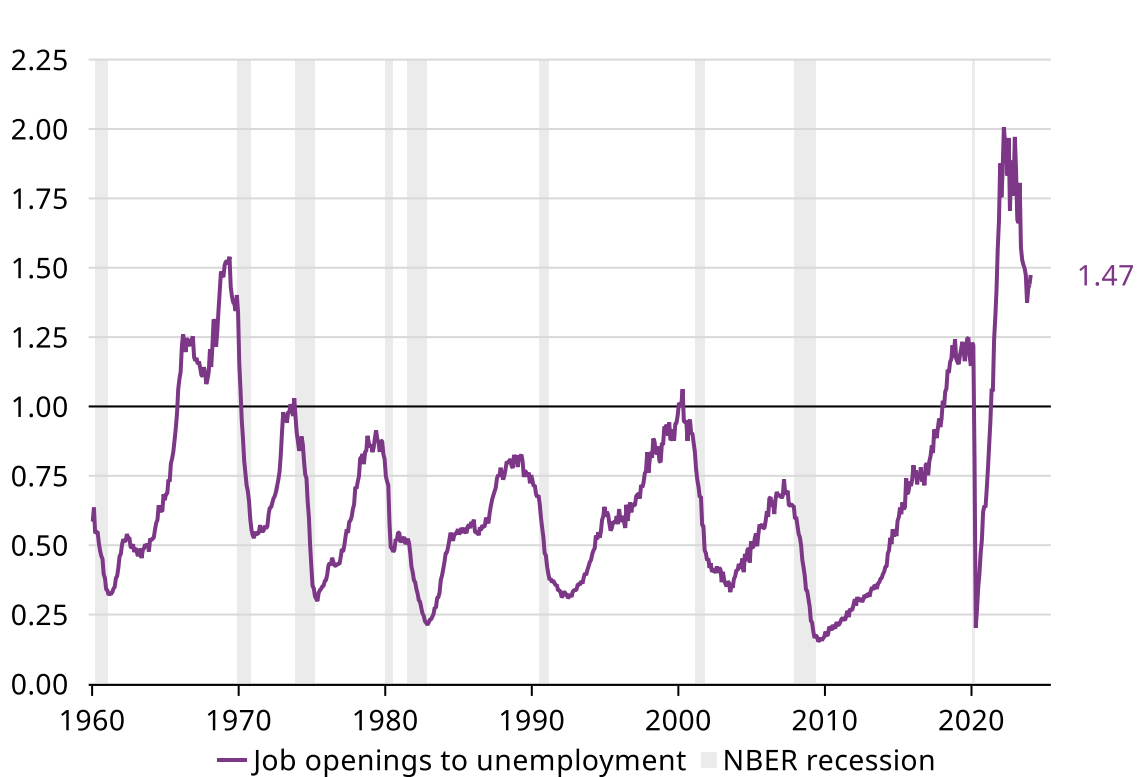
# The US labour market is cooling, but conditions remain tight

Elevated job vacancies and election uncertainty should sustain payrolls this year

## Job openings still elevated...



## Ratio of job openings to unemployment

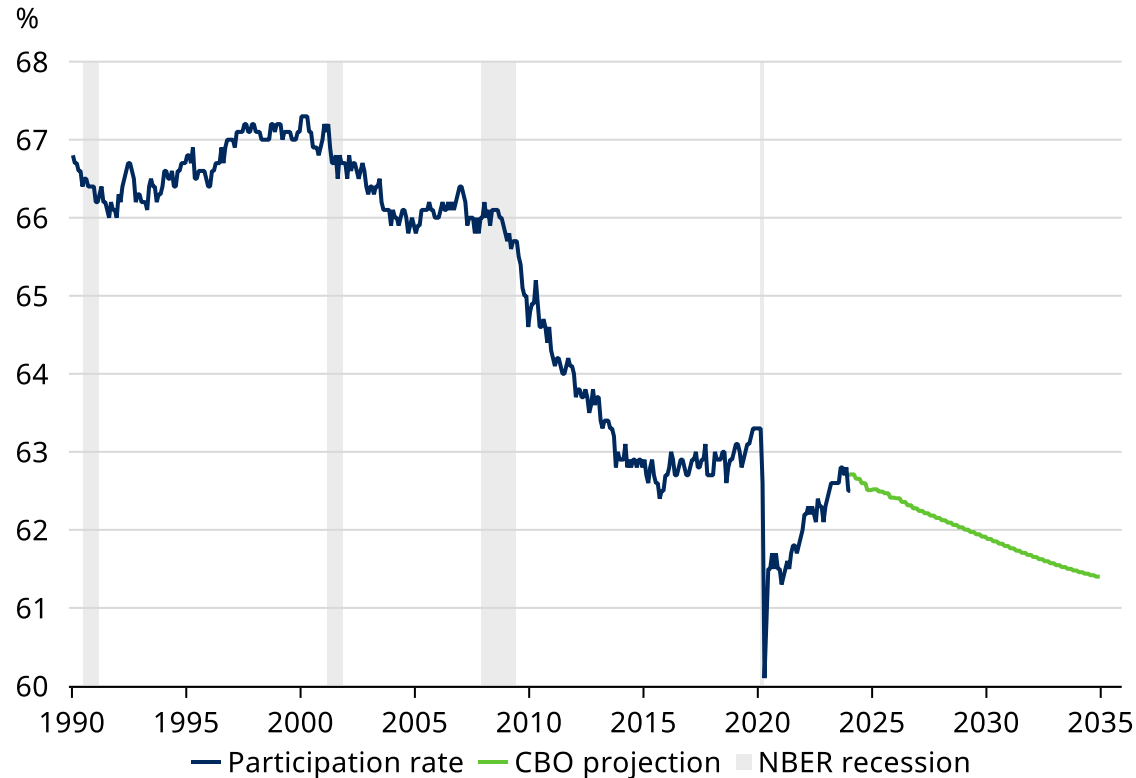


Pre-2001 job openings estimated by Federal Reserve researchers using the Conference Board's Help Wanted Index.  
 Source: Schrodgers Economics Group, Bureau of Labor Statistics, Federal Reserve, Macrobond. 1 March 2024. Please see relevant disclaimers on slide 44.

# However, a sharp rise in the unemployment rate is unlikely...

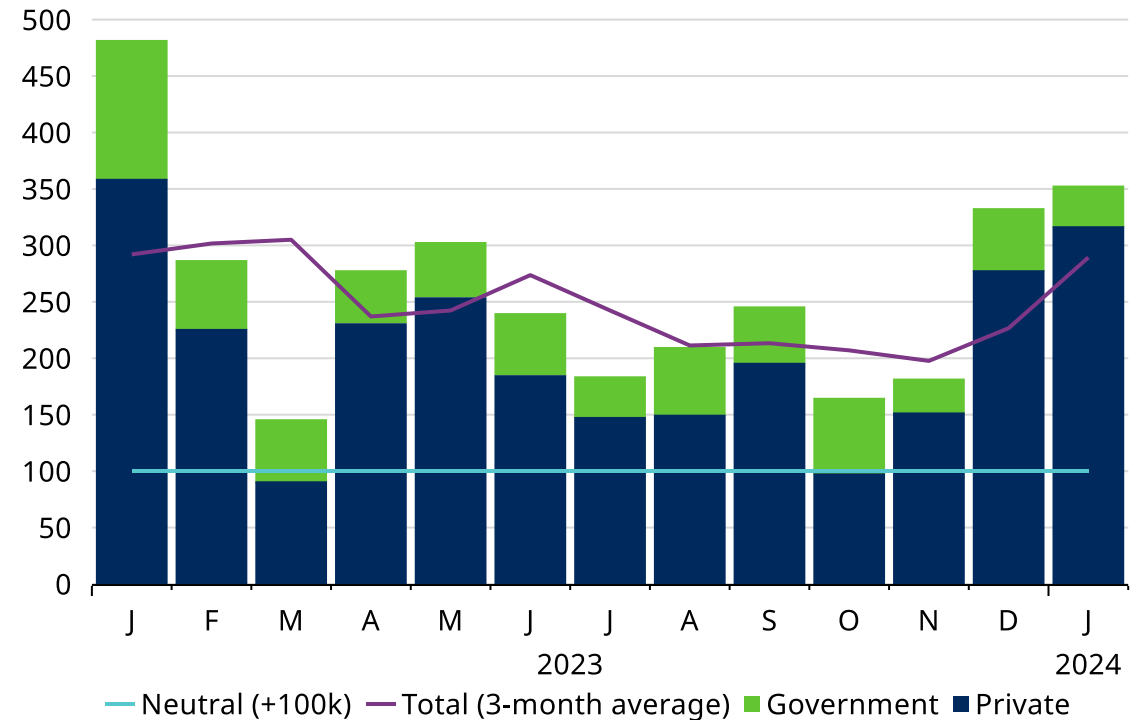
Partly because ageing population is driving a structural decline in labour participation

## The labour participation rate is projected to fall...



## Job growth also remains above neutral\*

Change in non-farm payrolls (000s)

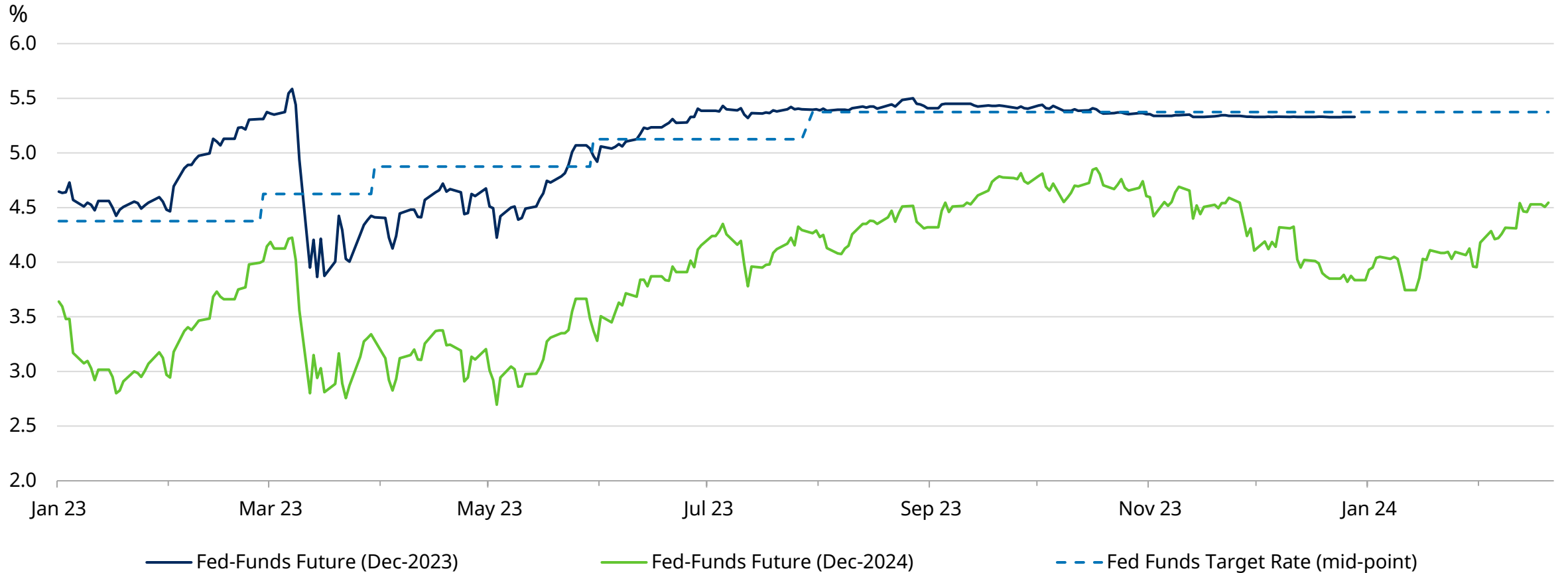


\*"But this job growth remains far in excess of the pace needed to accommodate population growth over time—about 100,000 per month by many estimates." - Jerome Powell, 30 November 2022. Source: Schroders Economics Group, Bureau of Labor Statistics, Congressional Budget Office, Macrobond, LSEG Datastream. 1 March 2024. Please see relevant disclaimers on slide 44.

# “Don’t fight the Fed!”

The Fed spent most of 2023 pushing the ‘higher for longer’ message

## Evolution of US interest rate expectations versus policy rate since Jan 2023: are markets once again too optimistic?



Source: LSEG Datastream, Schroders Economics Group. 23 February 2024. Please see relevant disclaimers on slide 44.



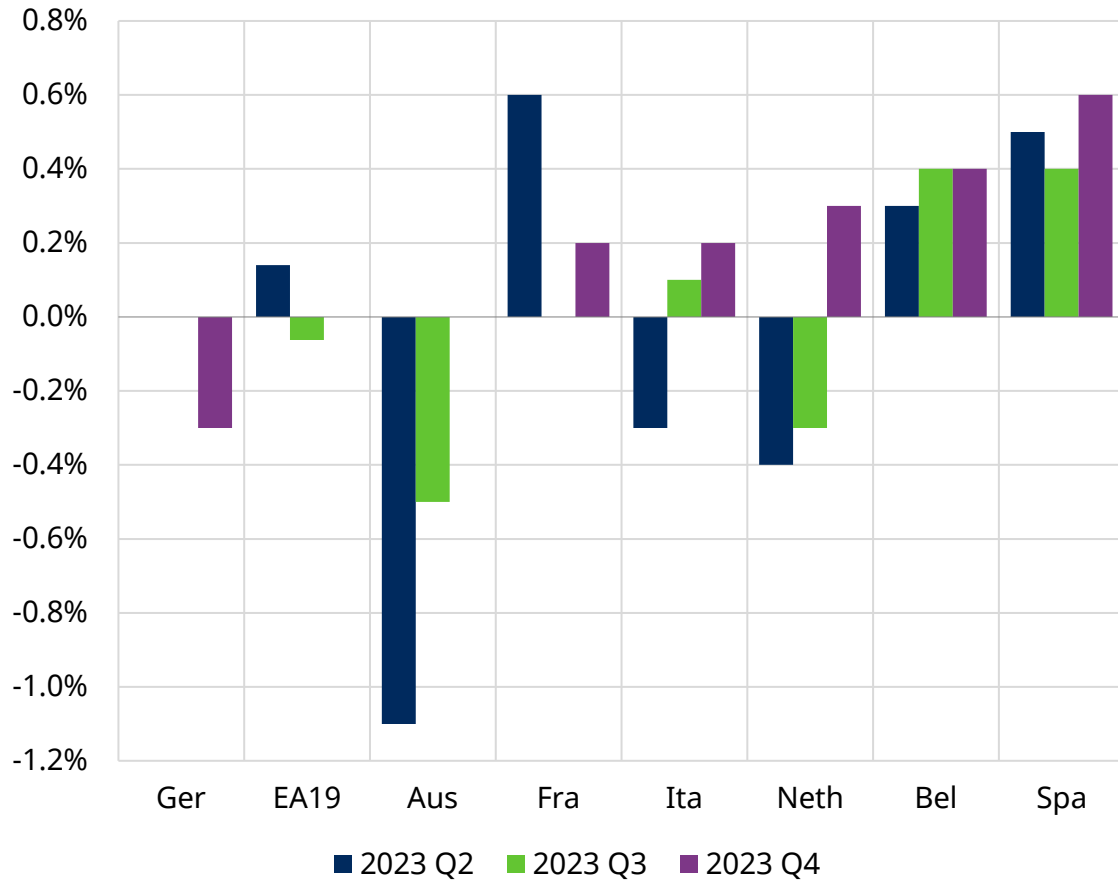
## Europe focus

ECB set to cut rates in first half of this year

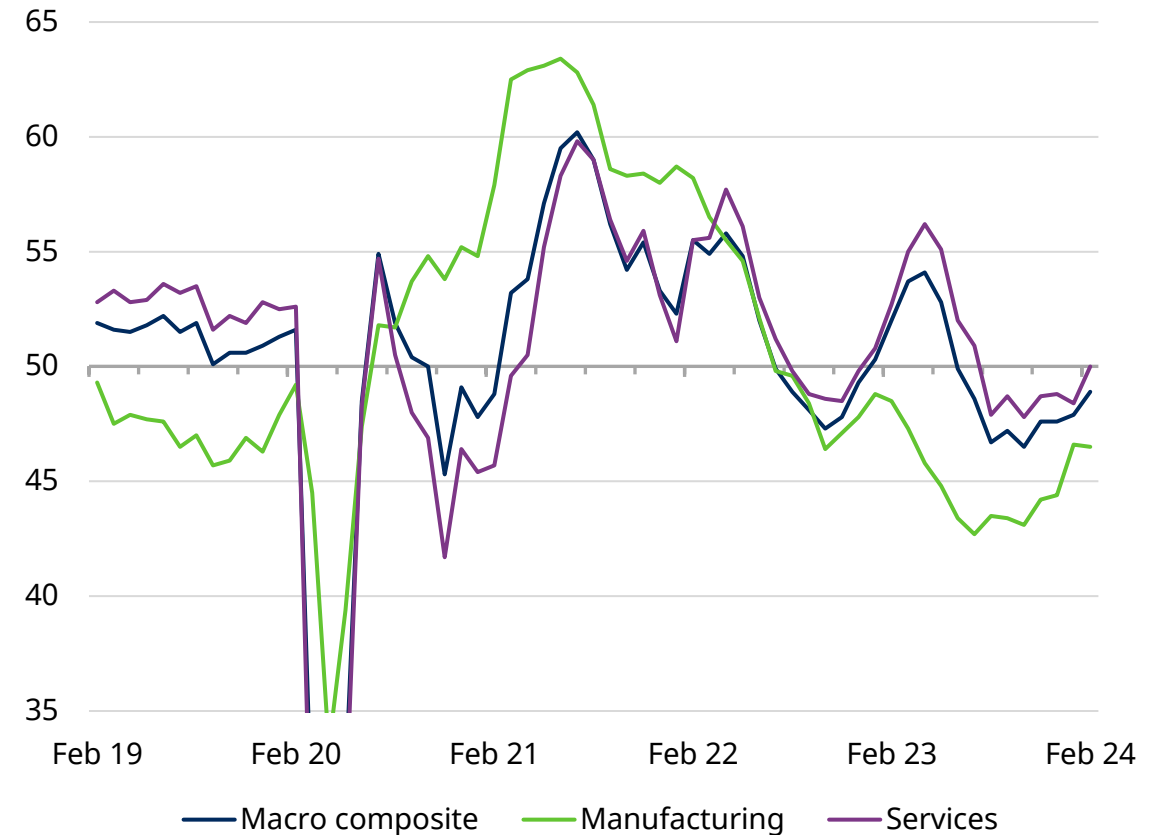
# Are PMIs turning up in the eurozone?

## All sectors still contracting, but some signs of improvement

### Real GDP growth, q/q



### Eurozone PMI data\*

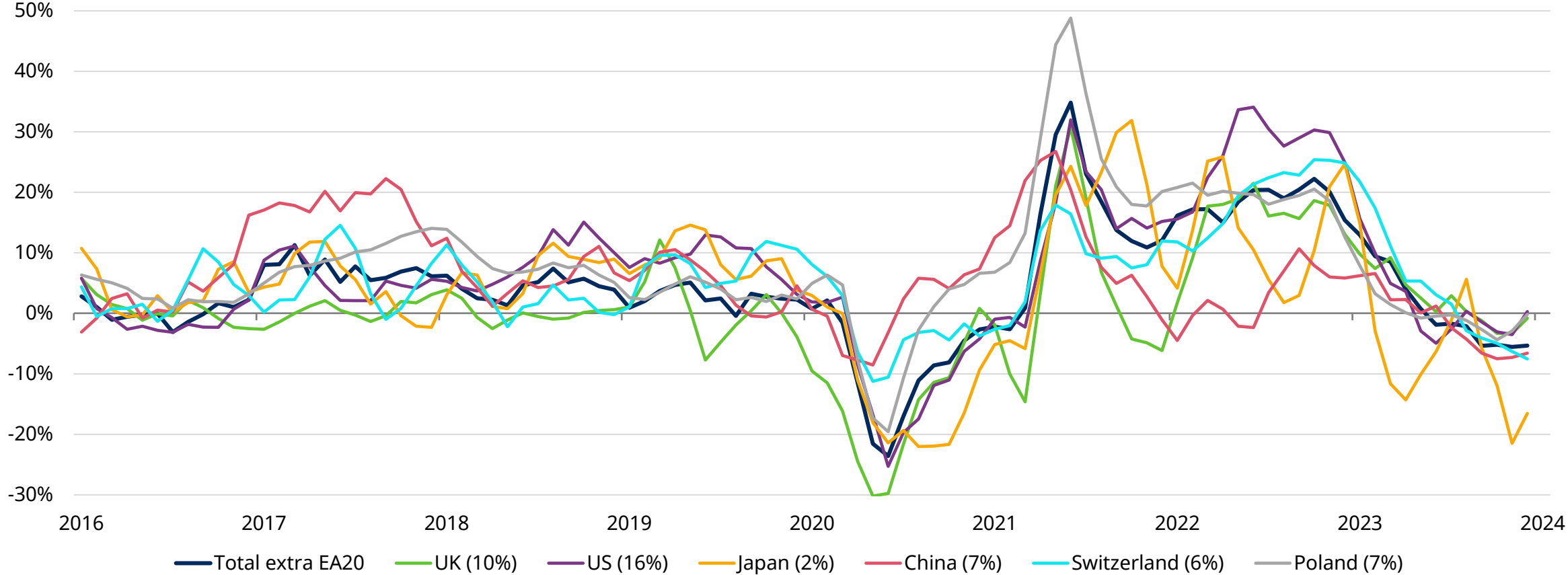


Source: Eurostat, LSEG Datastream, S&P Global, Schroders Economics Group. 4 March 2024. \*A reading below 50 indicates contraction, while above 50 signals expansion. Please see relevant disclaimers on slide 44.

# Eurozone exports have seen a synchronised downturn

But will strong US growth support a recovery in net exports?

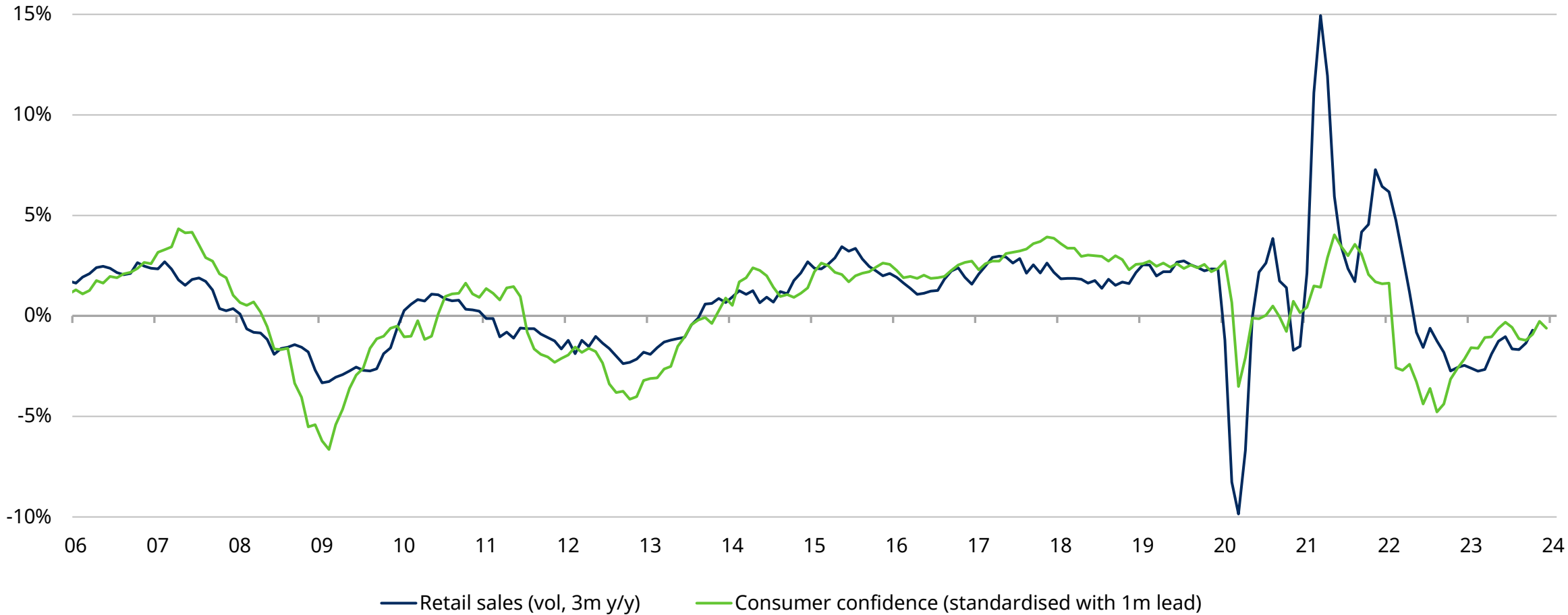
Exports growth (3m, y/y)



Source: Eurostat, LSEG Datastream, Schroders Economics Group 16 February 2024. Please see relevant disclaimers on slide 44.

# Retail sales contracting, but at a slower rate

Improvement in consumer confidence key to reviving growth



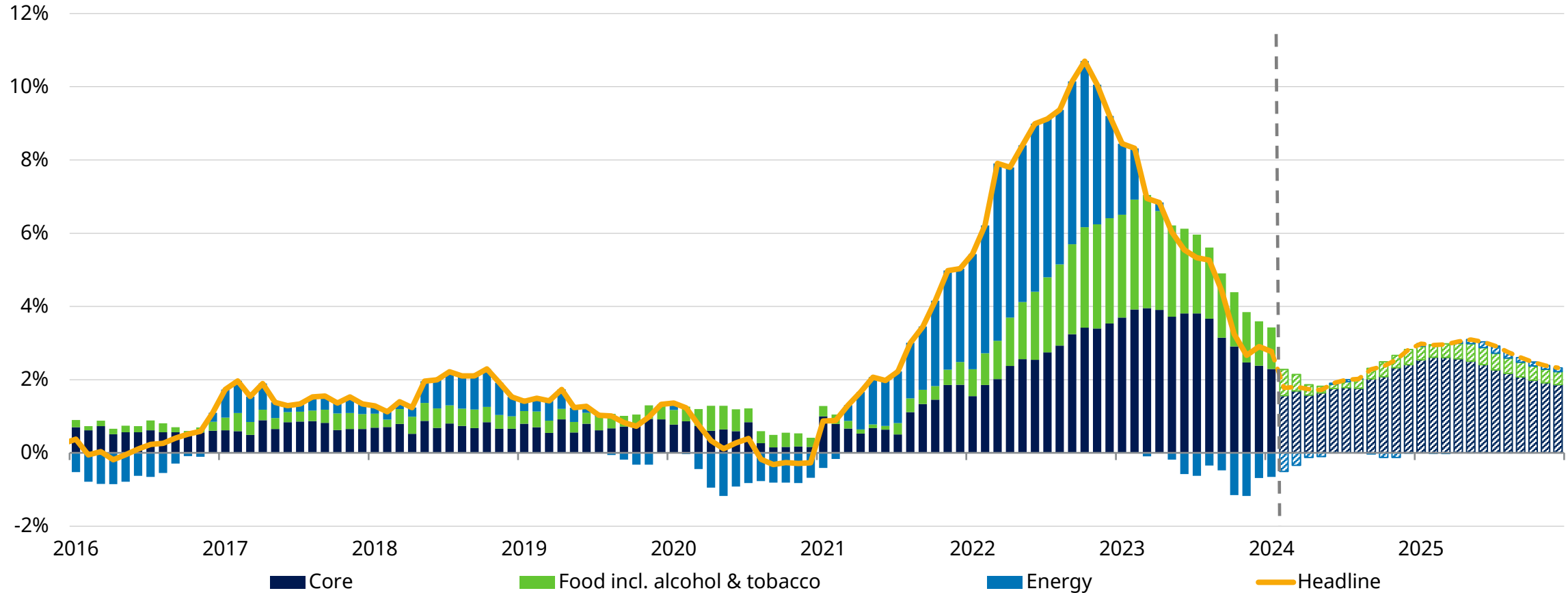
Source: Eurostat, LSEG Datastream, Schroders Economics Group 16 February 2024. Please see relevant disclaimers on slide 44.



# Inflation is forecast to fall below target within months

...enabling the ECB to begin rate cuts in the first half of this year

## Schroders eurozone inflation forecast (y/y)



Source: Schroders Economics Group. 23 February 2024. Please see relevant disclaimers on slide 44.

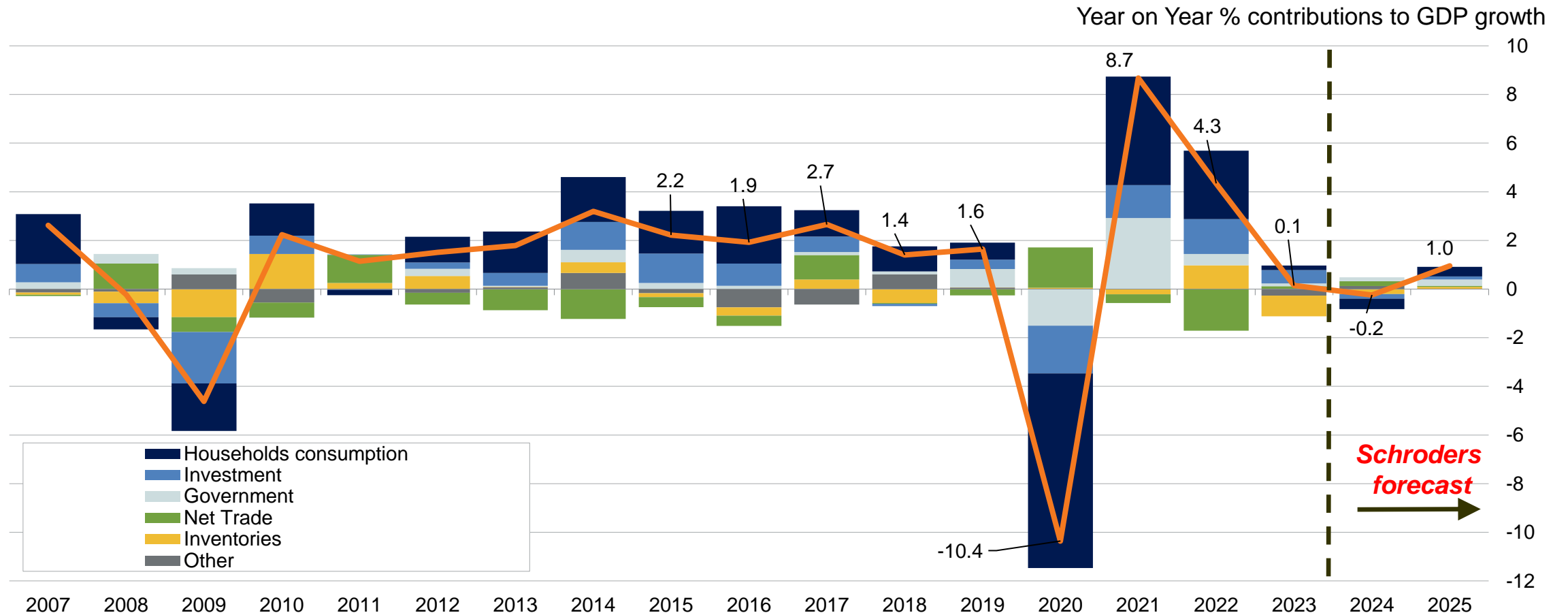


## UK focus

Macro fundamentals remain weak

# UK economy stagnates as inflation and interest rates bite

## Schroders GDP forecast expenditure breakdown

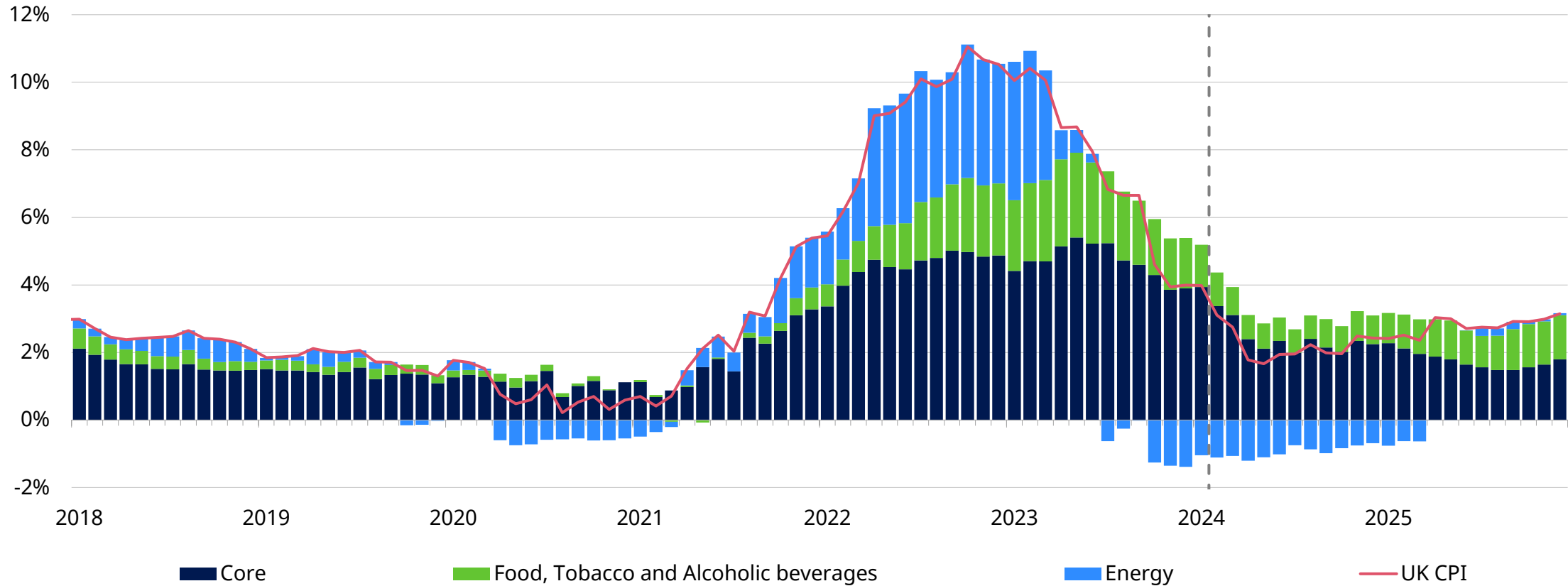


Source: Schroders Economics Group. 23 February 2024. Please see relevant disclaimers on slide 44.

# CPI expected to hit 2% target, then rise again

## BoE rate cuts expected to begin in the first half of the year

### Schroders UK inflation forecast (y/y)



Source: Schroders Economics Group. 23 February 2024. Please see relevant disclaimers on slide 44.



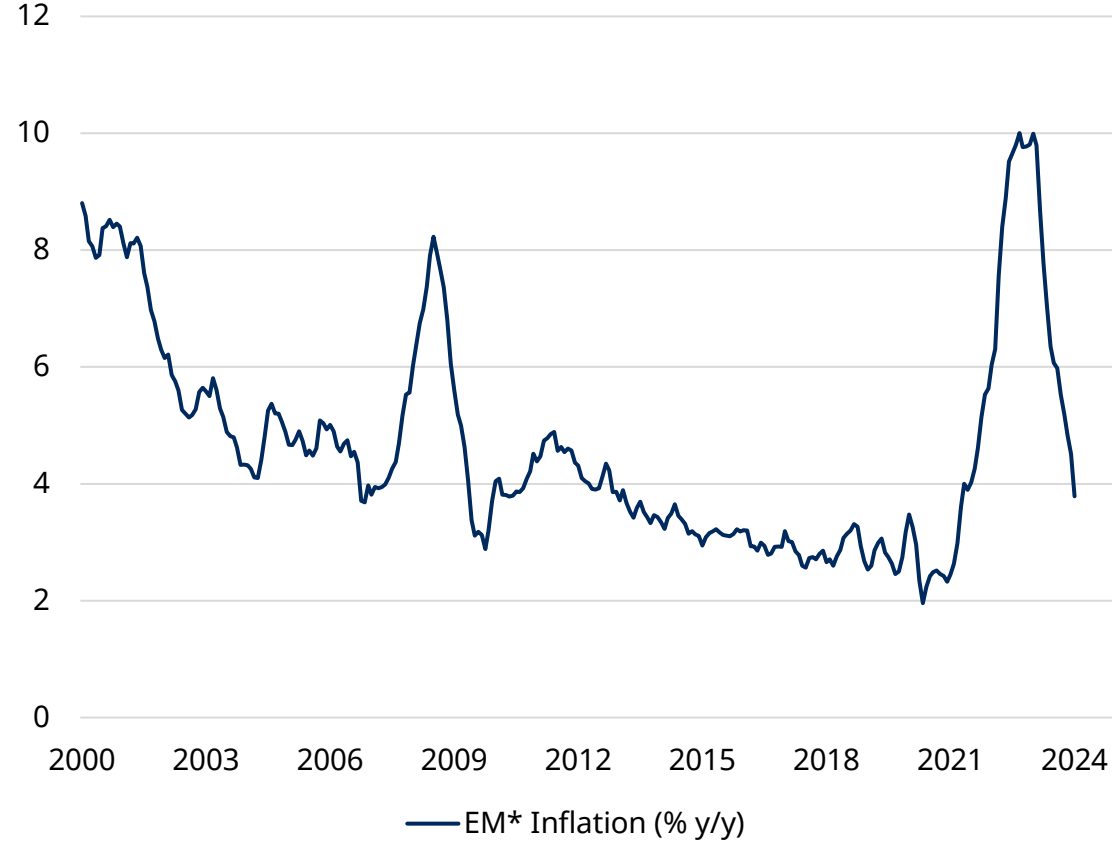
## Emerging markets focus

Interest rates to fall further ex EM Asia

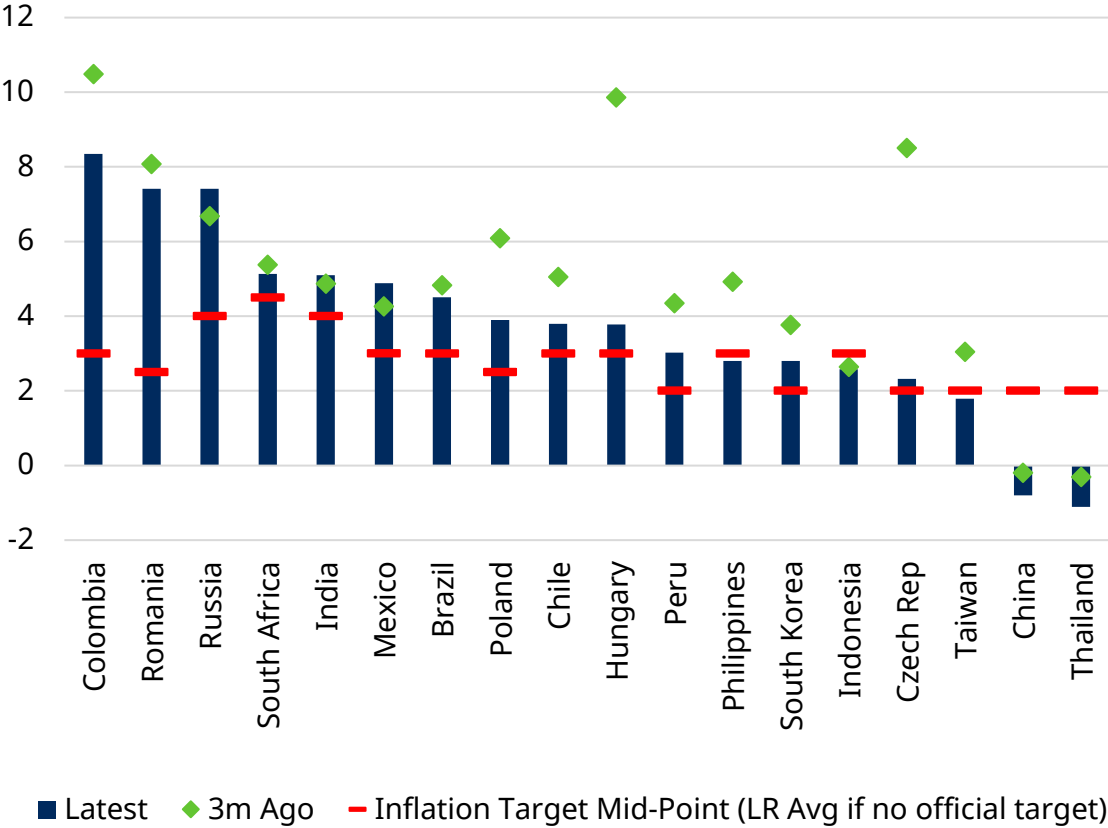
# EM inflation is back below 4% for first time since mid-2021

Inflation is at or around target in the vast majority of major EM

EM inflation (% y/y)



Inflation vs target in 18 EM economies (% y/y)

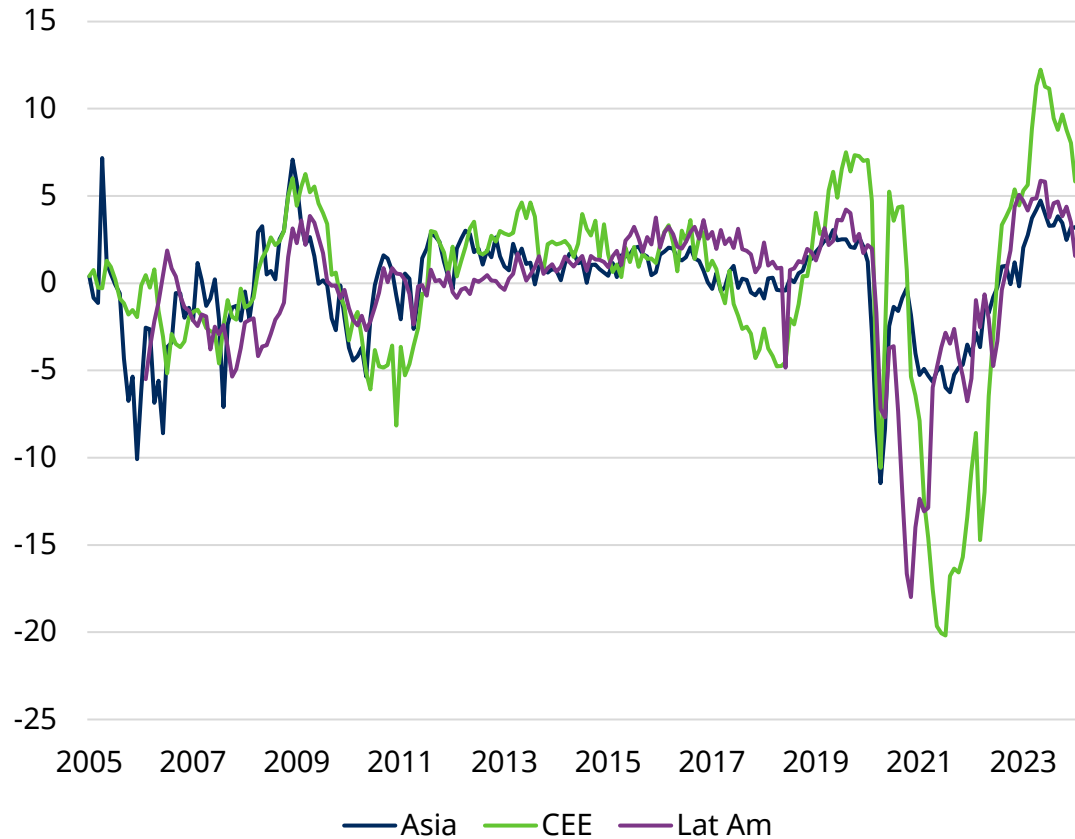


Source: LSEG Datastream, Schroders Economics Group. 7 March 2024 \*18 EM economies. Please see relevant disclaimers on slide 44.

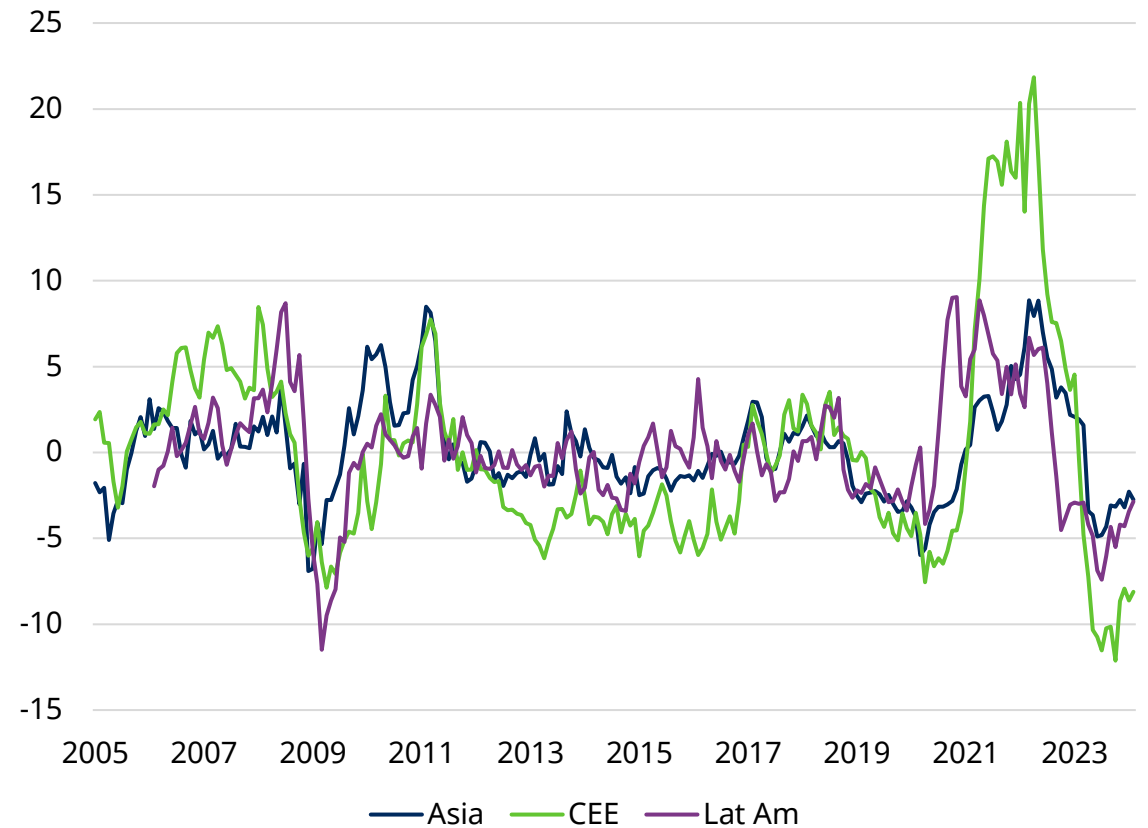
# No obvious stress in supply chains from shipping disruptions

Delivery times and output prices are generally better than long run averages

### Manufacturing delivery times (Standardised)



### Manufacturing output prices (Standardised)

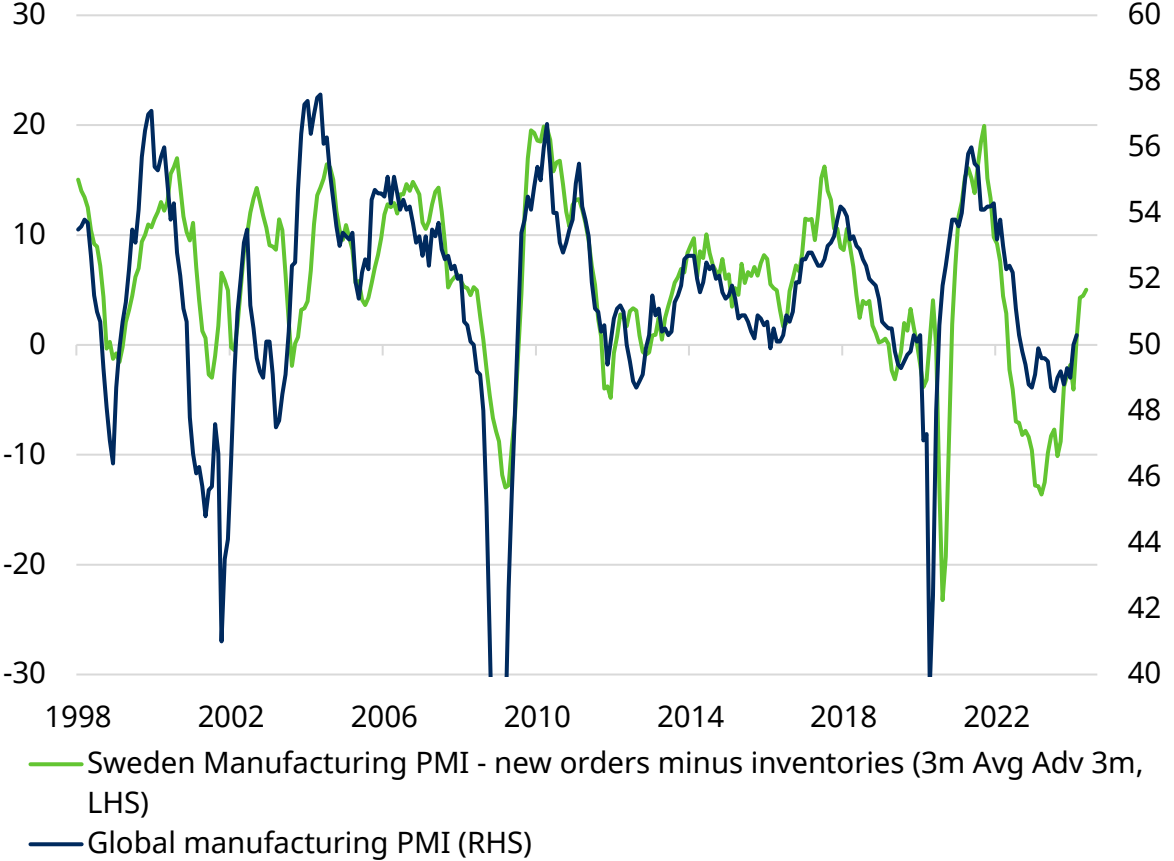


Source: Schroders Economics Group, LSEG Datastream. 1 March 2024. Please see relevant disclaimers on slide 44.

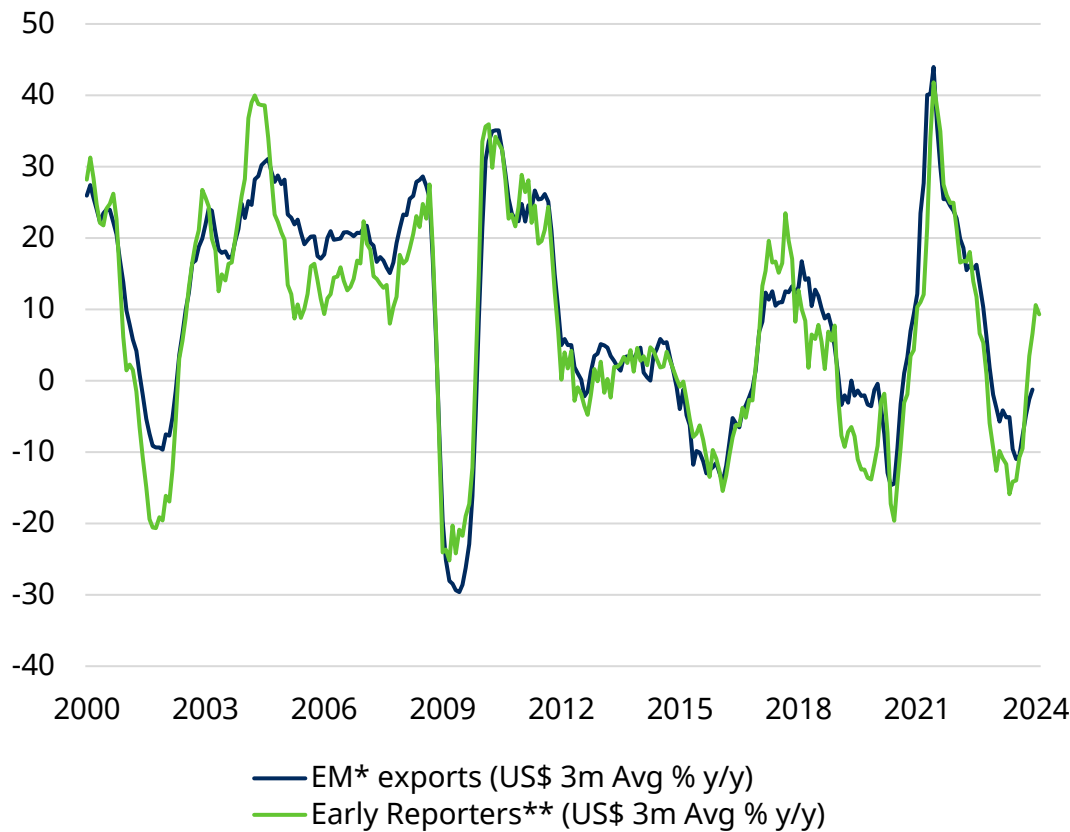
# Global manufacturing cycle picked up further in February

Leading indicators are consistent with further gains at least into mid-year

Global manufacturing PMI: leading indicators still point higher



EM exports set for further pickup?



Source: Schrodgers Economics Group, LSEG Datastream. 1 March 2024 \*28 major EMs \*\*South Korea & Vietnam (latest February). Please see relevant disclaimers on slide 44.





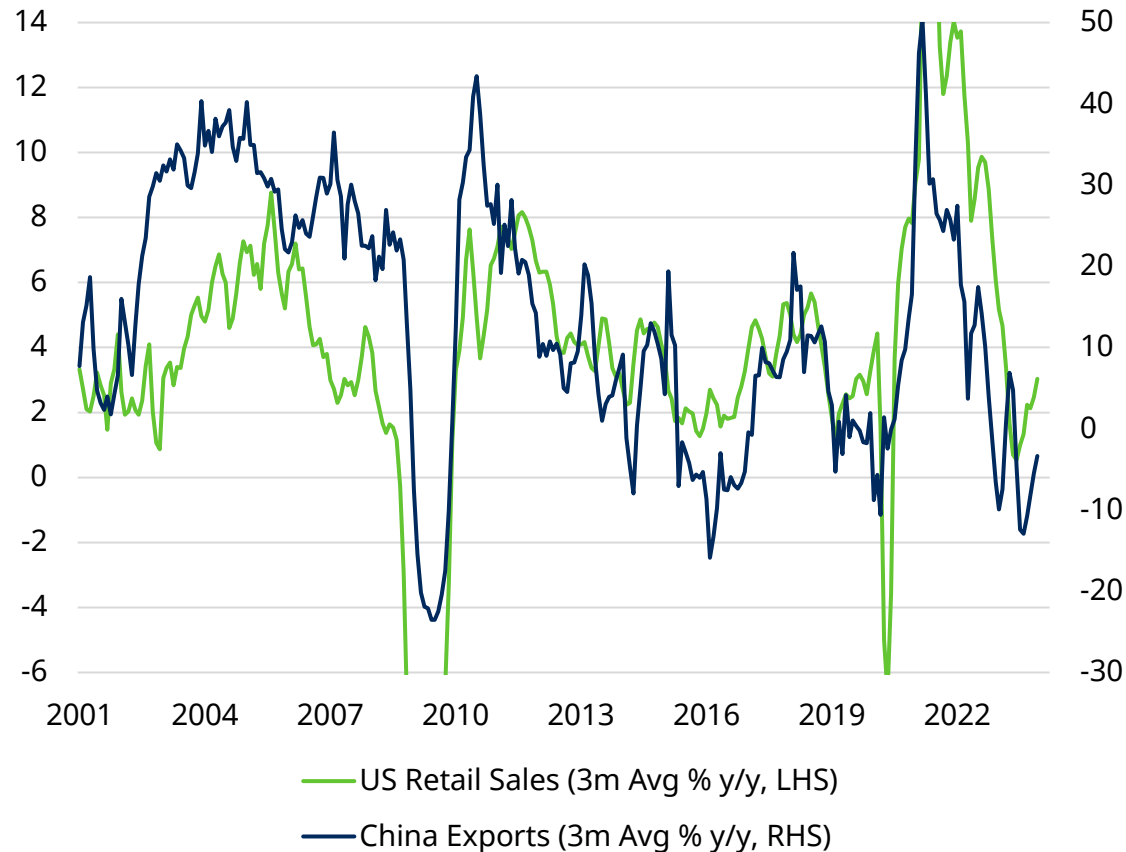
## China focus

Growth forecast nudged higher on firmer exports outlook

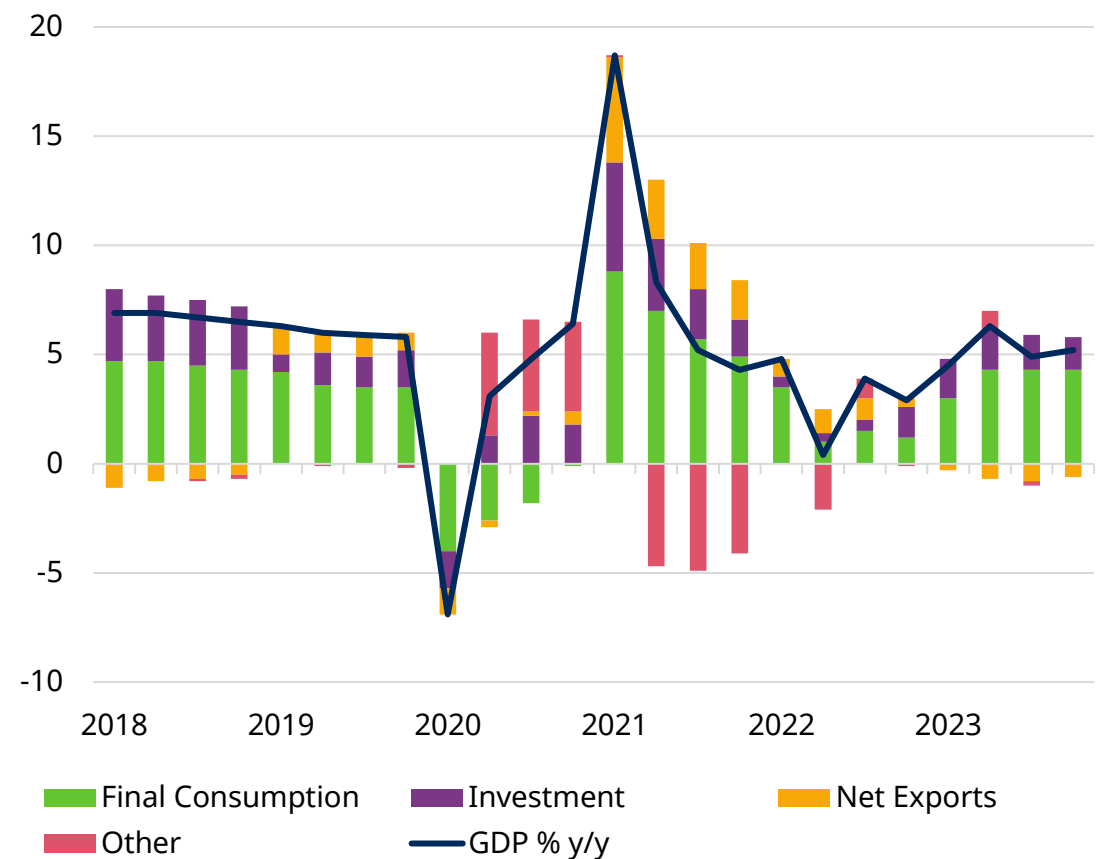
# China's exports to benefit from robust US consumption

Exports well correlated with US spending, labour market supportive of consumption

US retail sales point to further pick-up in China exports...



Net exports to start making positive contribution to growth



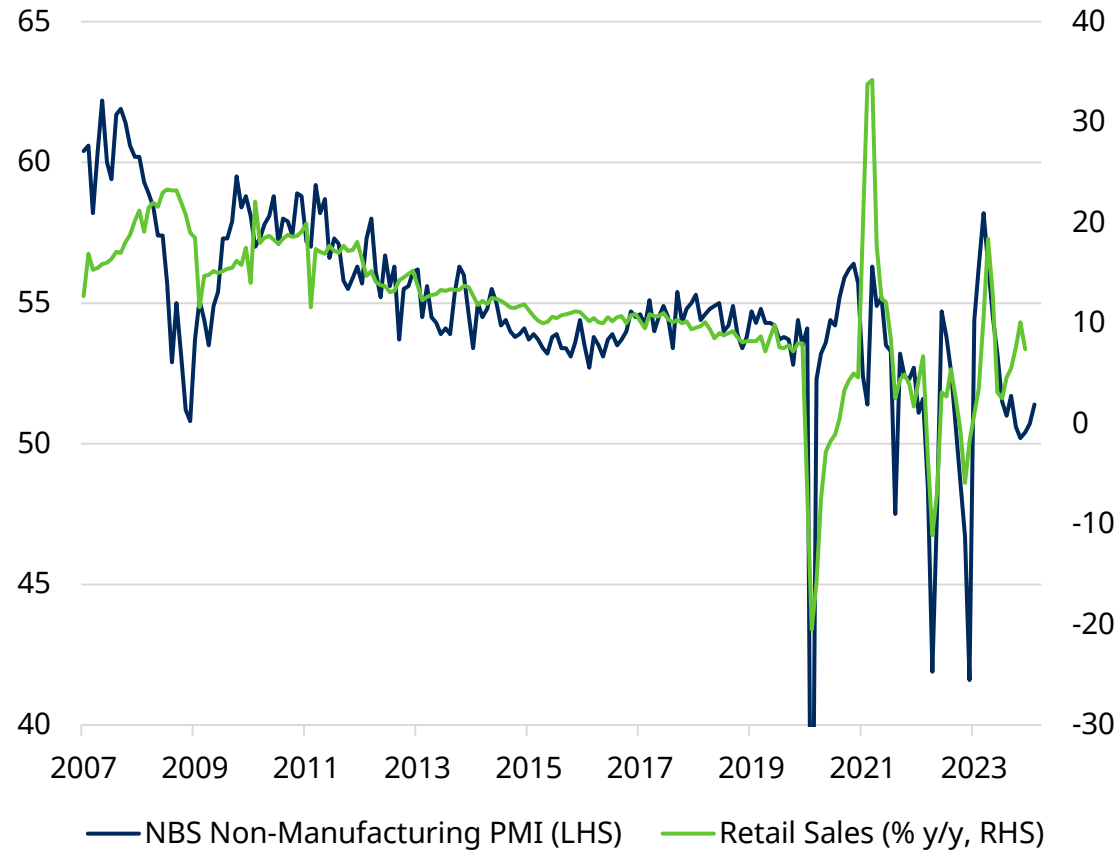
Source: LSEG Datastream, Schroders Economics Group, 2 February 2024. Please see relevant disclaimers on slide 44.

Source: LSEG Datastream, Schroders Economics Group, 2 February 2024. Contributions to Expenditure Breakdown

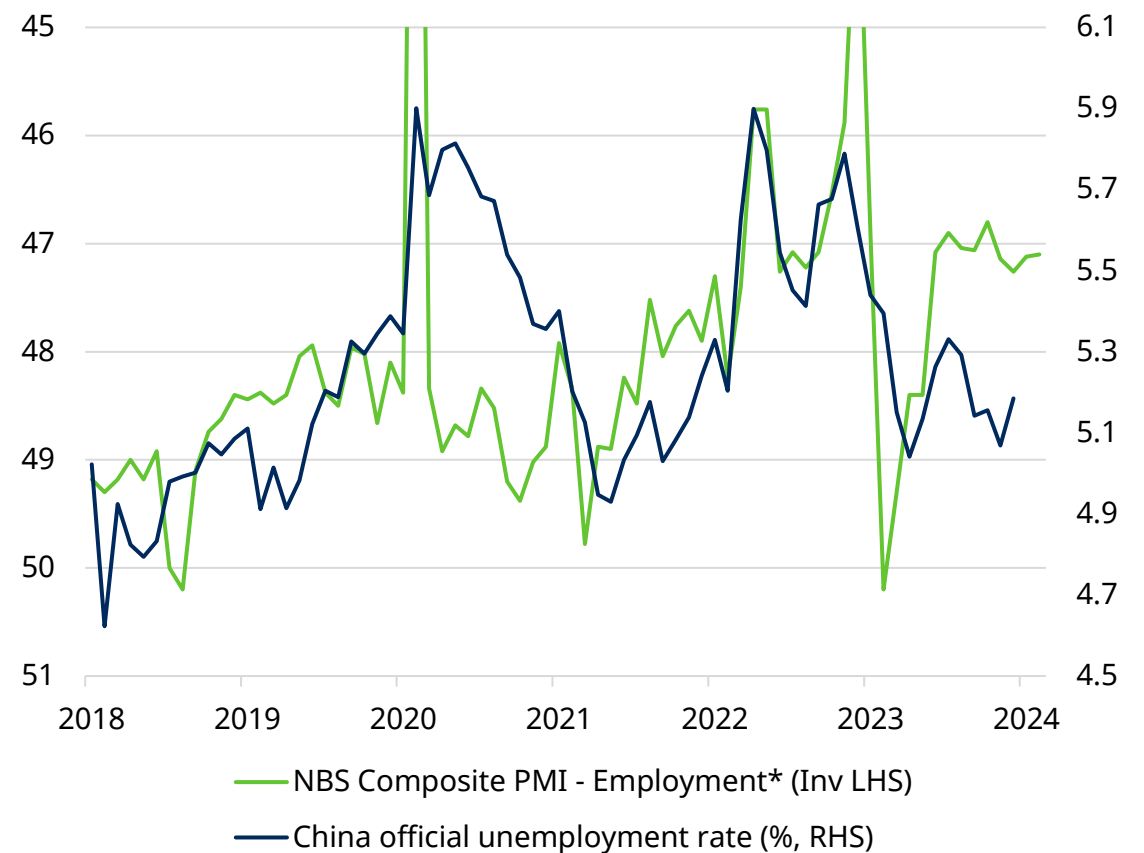
# Consumer fundamentals remain challenging

## NBS PMI consistent with slower retail sales; unemployment rate moving higher

### NBS non-manufacturing PMI\*\* points to lower retail sales



### Is unemployment rising?

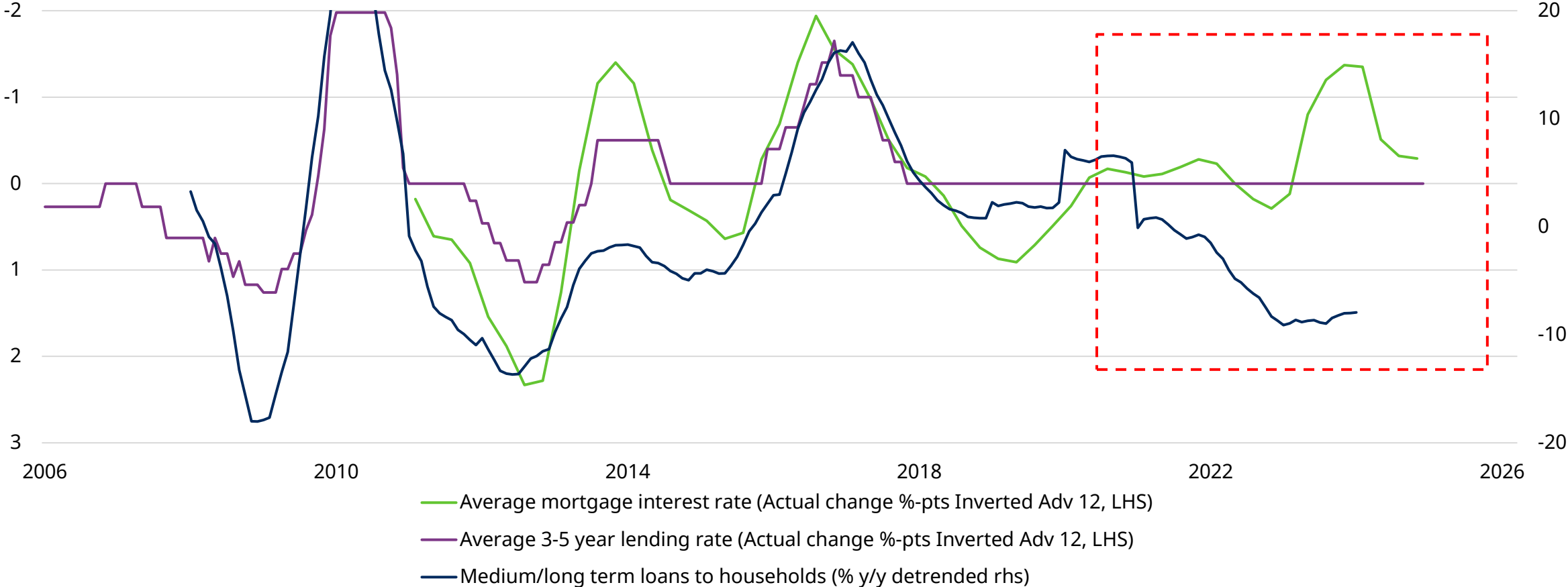


Source: LSEG Datastream, Schrodgers Economics Group, 1 March 2024. \*Estimate based on manufacturing & non-manufacturing employment components. \*\*\*A reading below 50 indicates contraction, while above 50 signals expansion. Please see relevant disclaimers on slide 44.

# Rate cut unlikely to fire-up housing market in isolation

But policy support may see housing completions surprise to the upside

## The link between interest rates and mortgages has broken

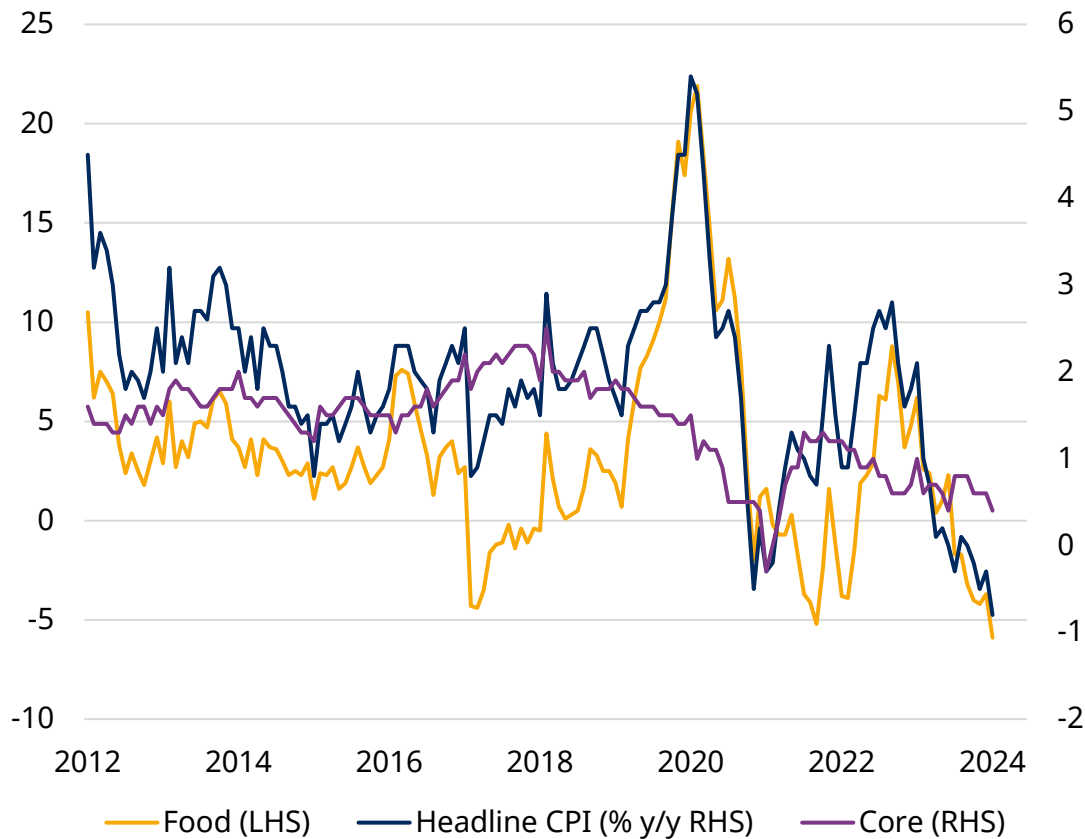


Source: LSEG Datastream, Schroders Economics Group. 23 February 2024. Please see relevant disclaimers on slide 44.

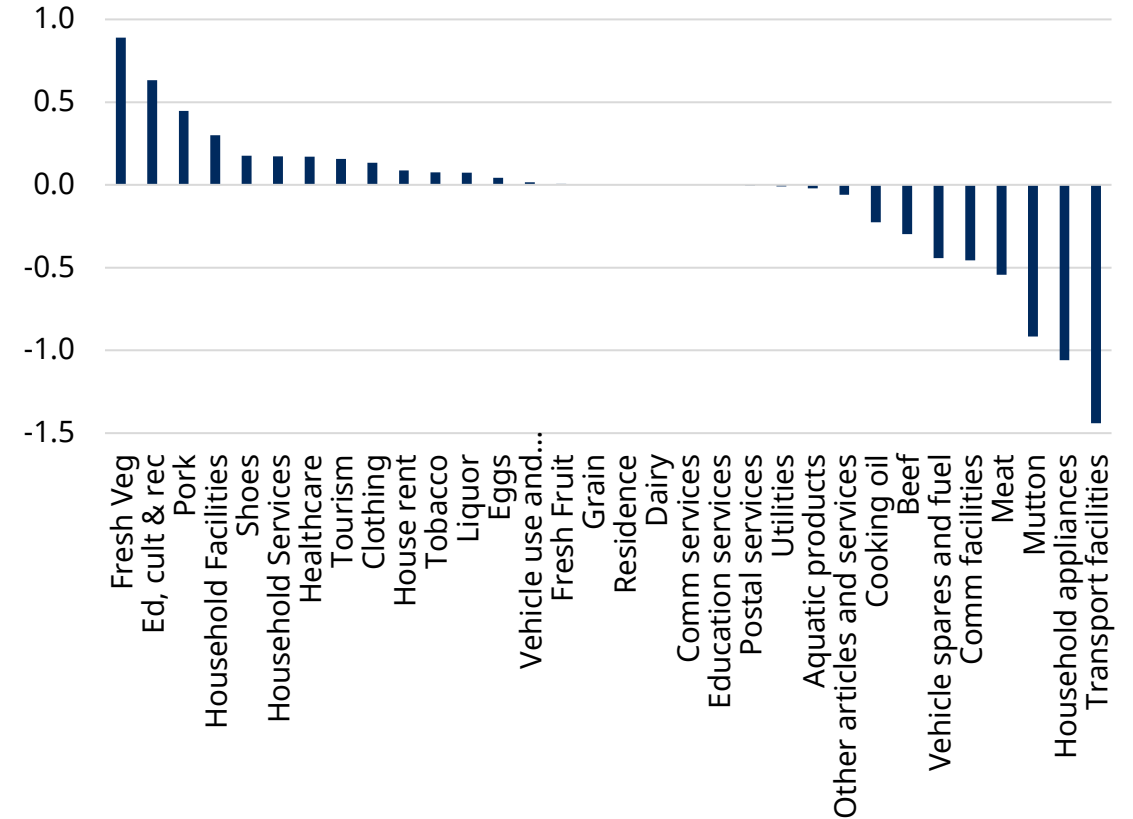
# Inflation downgraded on soft incoming data: food inflation

## Monthly data suggests that only services are preventing outright core deflation

Food inflation has continued to fall



Breakdown of China CPI, % m/m



Source: LSEG Datastream, Schroders Economics Group. 23 February 2024. LHS chart: 3 month average for January, Schroders seasonal adjustment. Please see relevant disclaimers on slide 44.



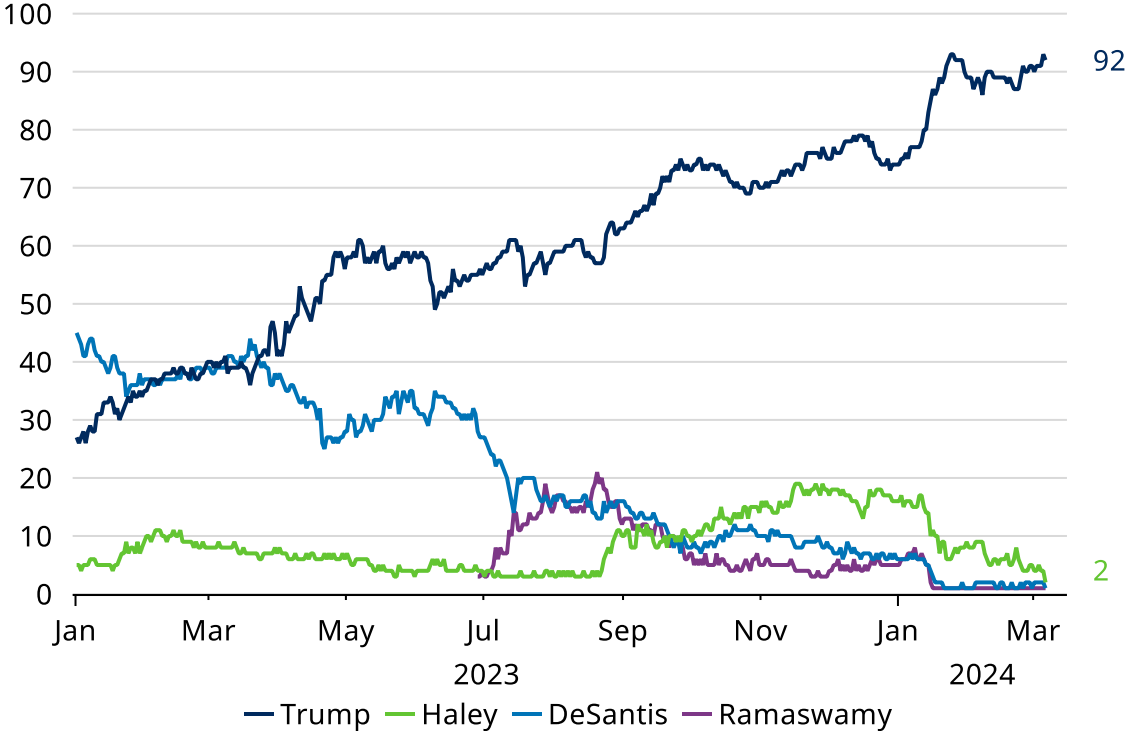
## What to watch ahead of US elections

Outcome too close to call at this point – even if the forecasts assume Biden remains in office

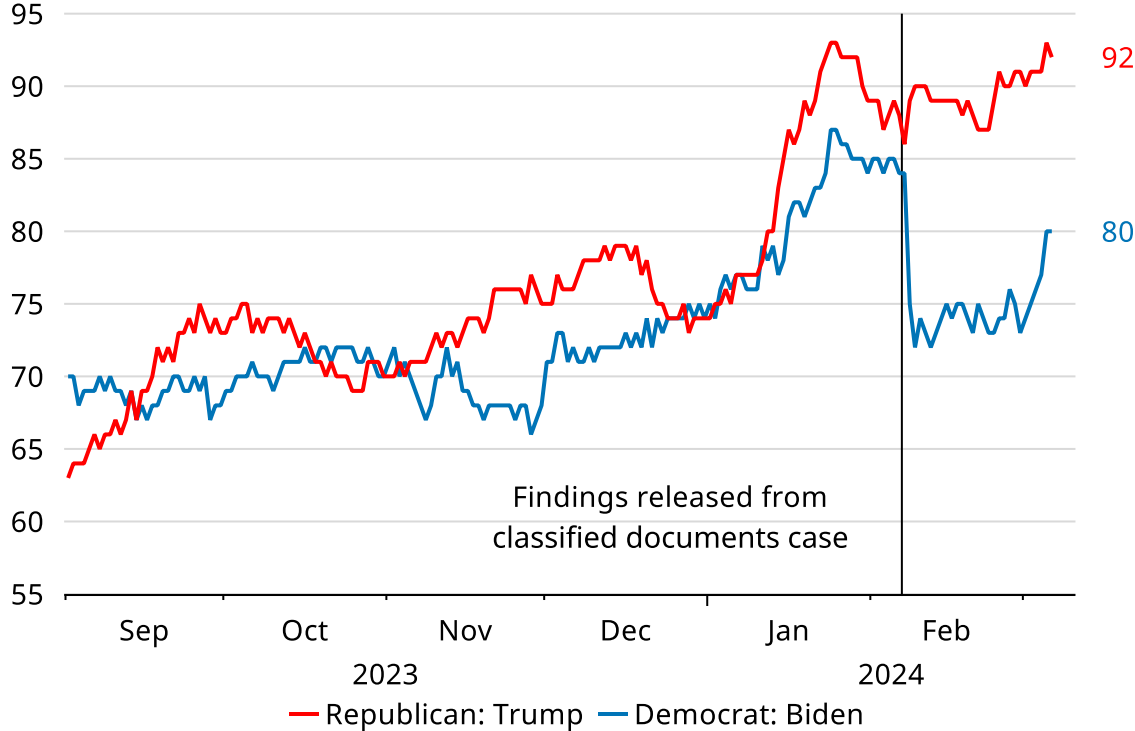
# The Republican primaries are a coronation, not a contest

With Haley withdrawal confirmed, the stage is set for a Trump and Biden rematch

PredictIt: Republican presidential nominee (% probability)



PredictIt: party presidential nominee (% probability)

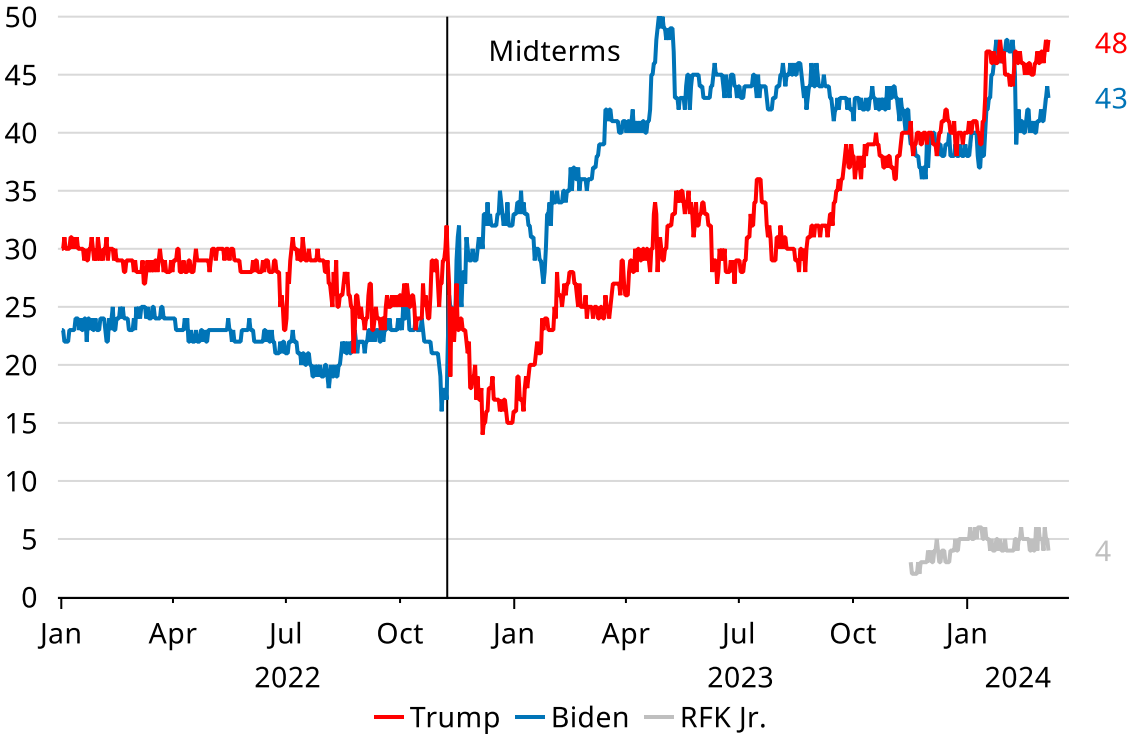


Source: Schroders Economics Group, PredictIt, Macrobond. 6 March 2024. Please see relevant disclaimers on slide 44.

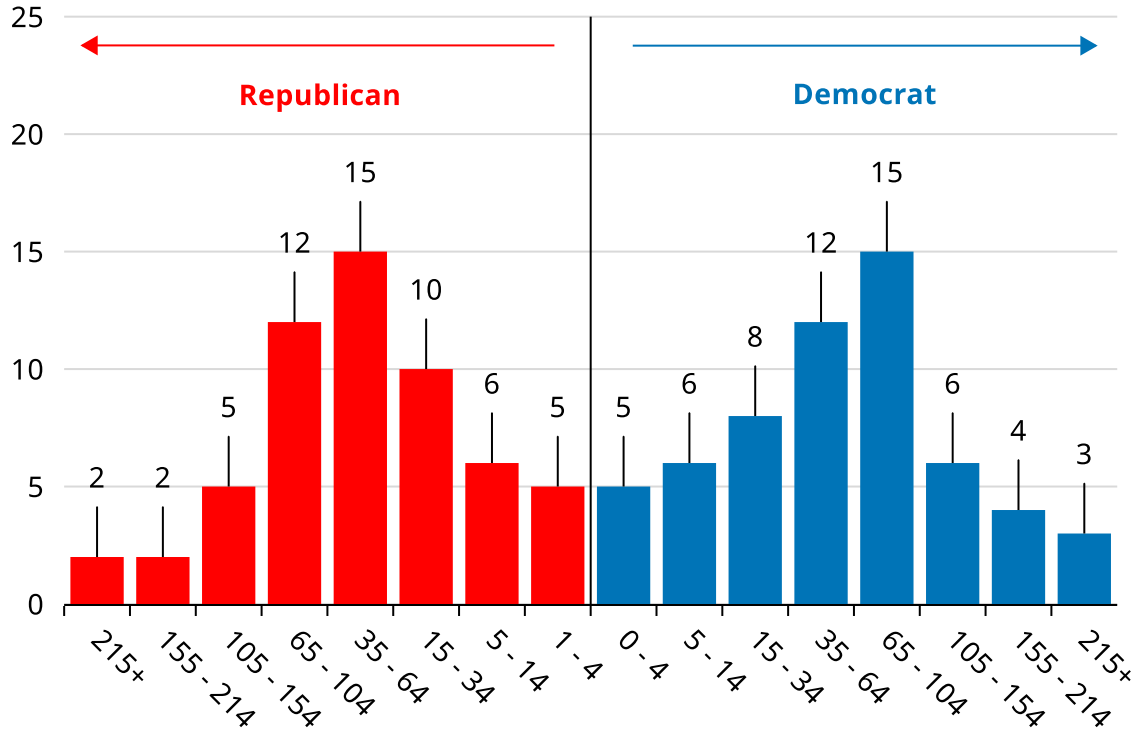
# Still too early to call the outcome of the presidential election

Four states are currently toss-ups, accounting for 60 of the 538 electoral college votes

PredictIt: US presidential election winner (% probability)



PredictIt: electoral college margin of victory (% probability)

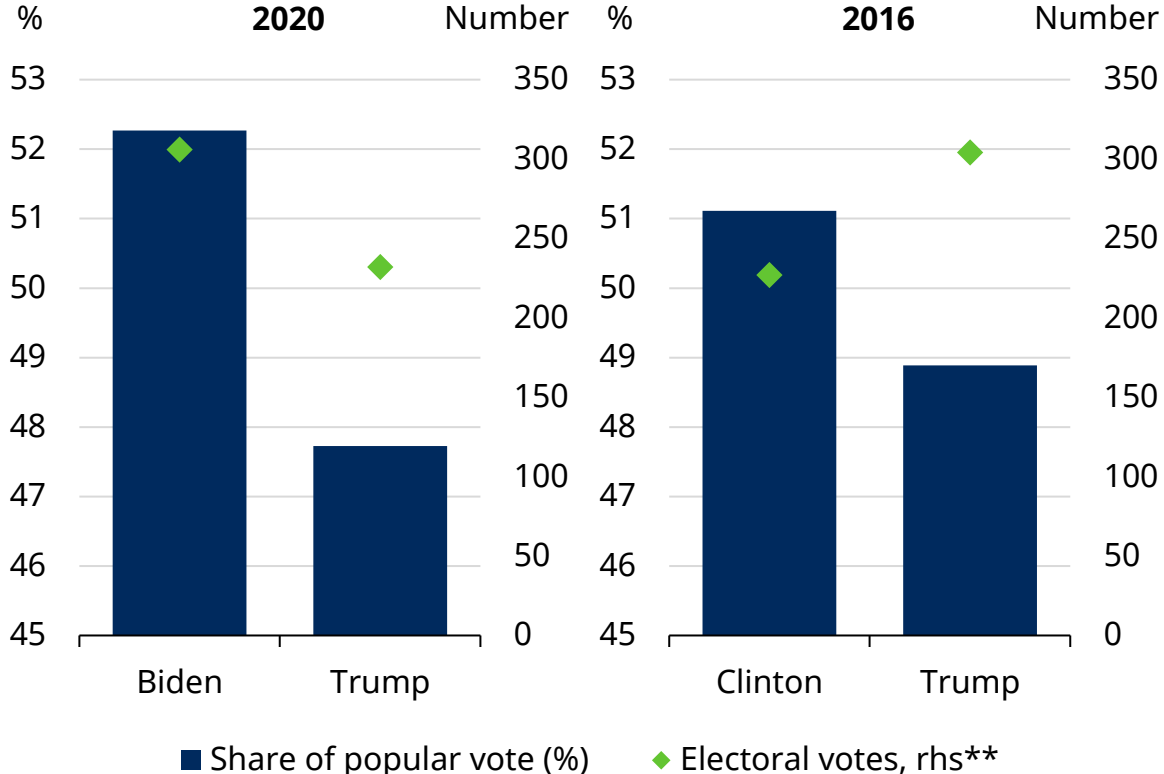
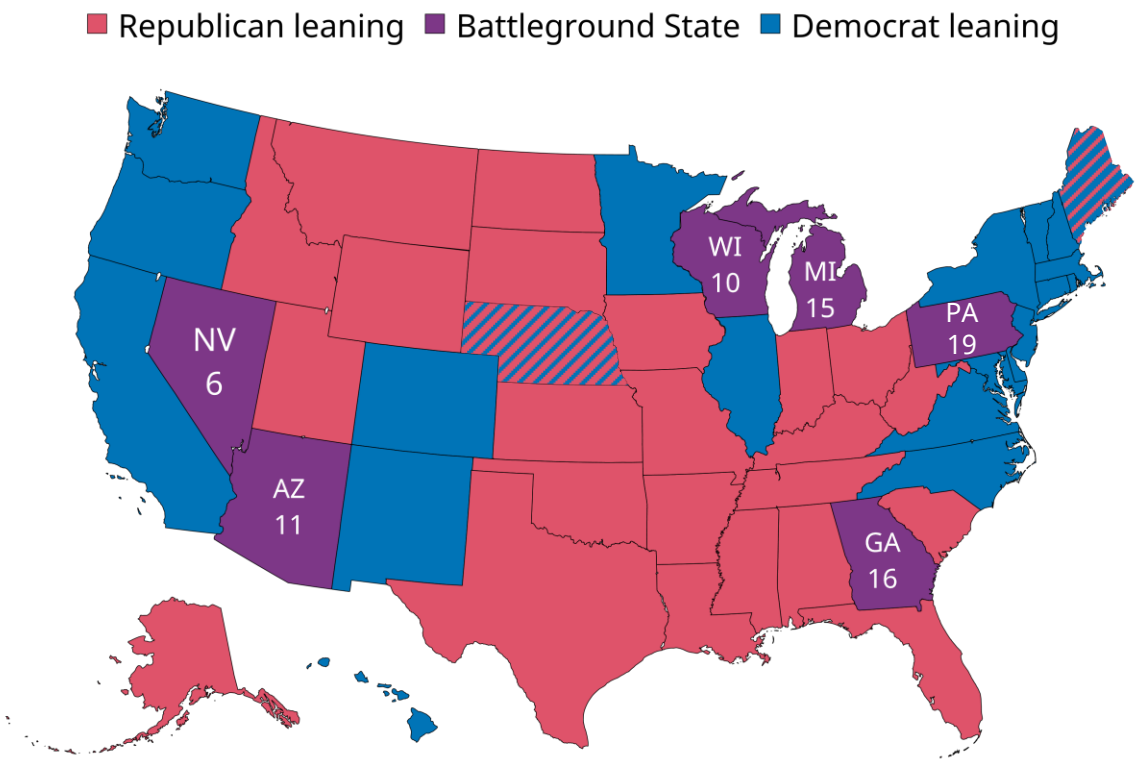


Source: Schrodgers Economics Group, RealClearPolitics, PredictIt, 270toWin, Macrobond. 6 March 2024. Please see relevant disclaimers on slide 44.



# Presidential election is not necessarily a popularity contest

2016 was one of only five elections in which the popular vote winner was defeated



\*Maine and Nebraska use the congressional-district method of awarding electoral votes. Both states allocate two electoral votes to the state popular vote winner, and then one electoral vote to the popular vote winner in each congressional district (two in Maine, three in Nebraska). This can result in a split electoral vote for both states. \*\*There were seven faithless presidential electors in 2016.

Source: Schroders Economics Group, 270toWin, Federal Election Commission. 1 March 2024. Please see relevant disclaimers on slide 44.



## Appendix: scenario descriptions

# Scenario descriptions

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- **Consumer boom:** A buoyant labour market and real income growth drive continued strong consumer spending. Meanwhile, the fading effects of the regional banking crisis clear the way for a credit cycle. Corporate profitability improves, encouraging greater capex and the passing on of costs through higher prices.
- **China stimulus:** A weak start to 2024 causes China to slip deeper into deflation, forcing authorities to change tack and deliver a substantial fiscal stimulus through large government bond issuance. Beijing also attempts to stabilise the housing market but resists the temptation to restart mass real estate construction.
- **Hard landing:** The cumulative effect of past aggressive interest rate hikes hit domestic demand hard across developed markets from Q2. Evidence of deep recessions that will alleviate labour market and price pressures see central banks quickly cut interest rates to expansionary levels.
- **Middle East war:** The outbreak of war in the Middle East escalates. This causes wholesale oil prices to spike towards \$150 per barrel in the second half of 2024 and remain above \$100 per barrel until late 2025. Disruption to shipping in the Red Sea continues. The US-dollar appreciates.
- **Election giveaways punished:** Pre-election give-aways ahead of elections in the US and UK lead to a spike in bond yields in Q3. Central banks hike rates, causing an immediate hit to growth in late-2023. Central banks are also forced to restart QE. Market pressures force newly-elected governments to deliver austere budgets in 2024, resulting in a significant decline in growth that eventually allows some rate cuts later in the year.

Source: Schroders Economics Group. 23 February 2024. Please see relevant disclaimers on slide 44.

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