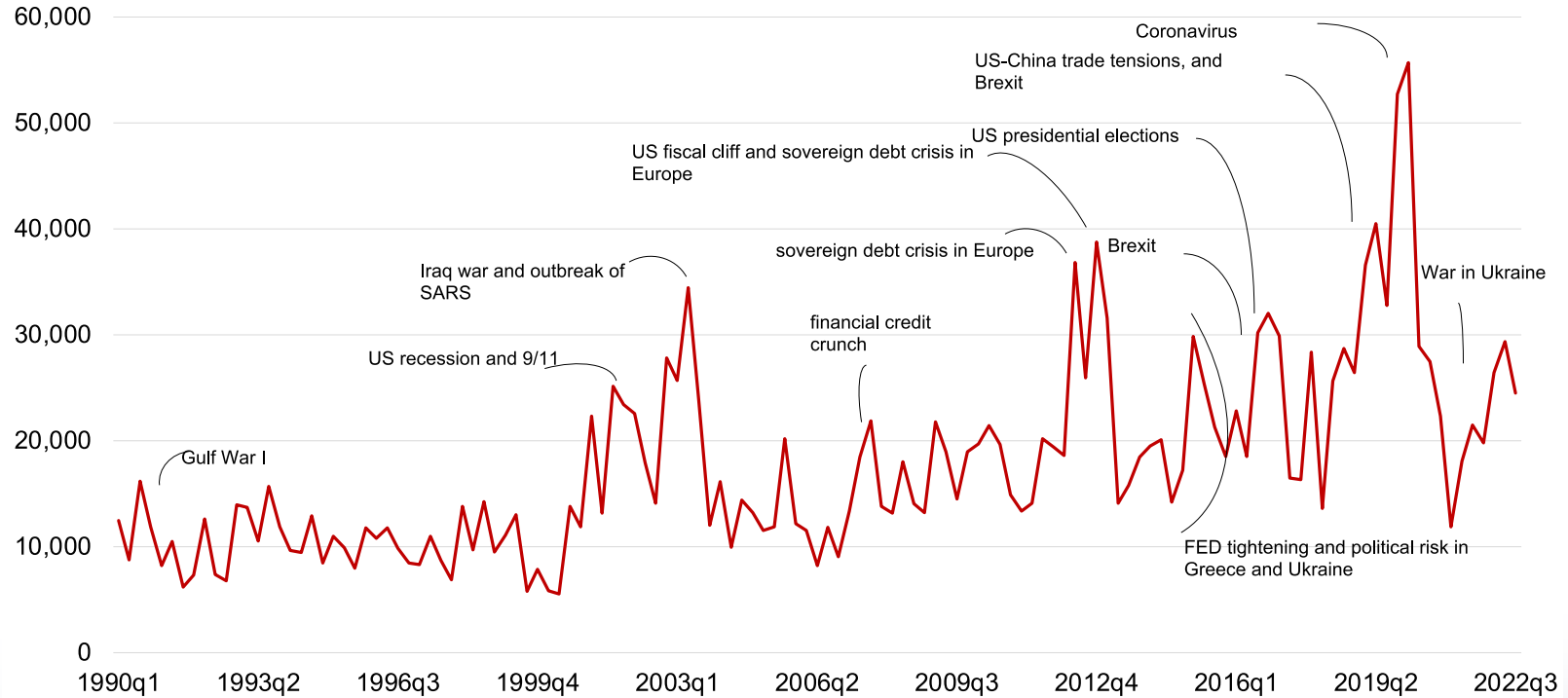


Global Economic Outlook

Trevor Williams, co founder of FXGuard, Chair of IEA Shadow Monetary Policy Committee & Economic Consultant



World uncertainty index

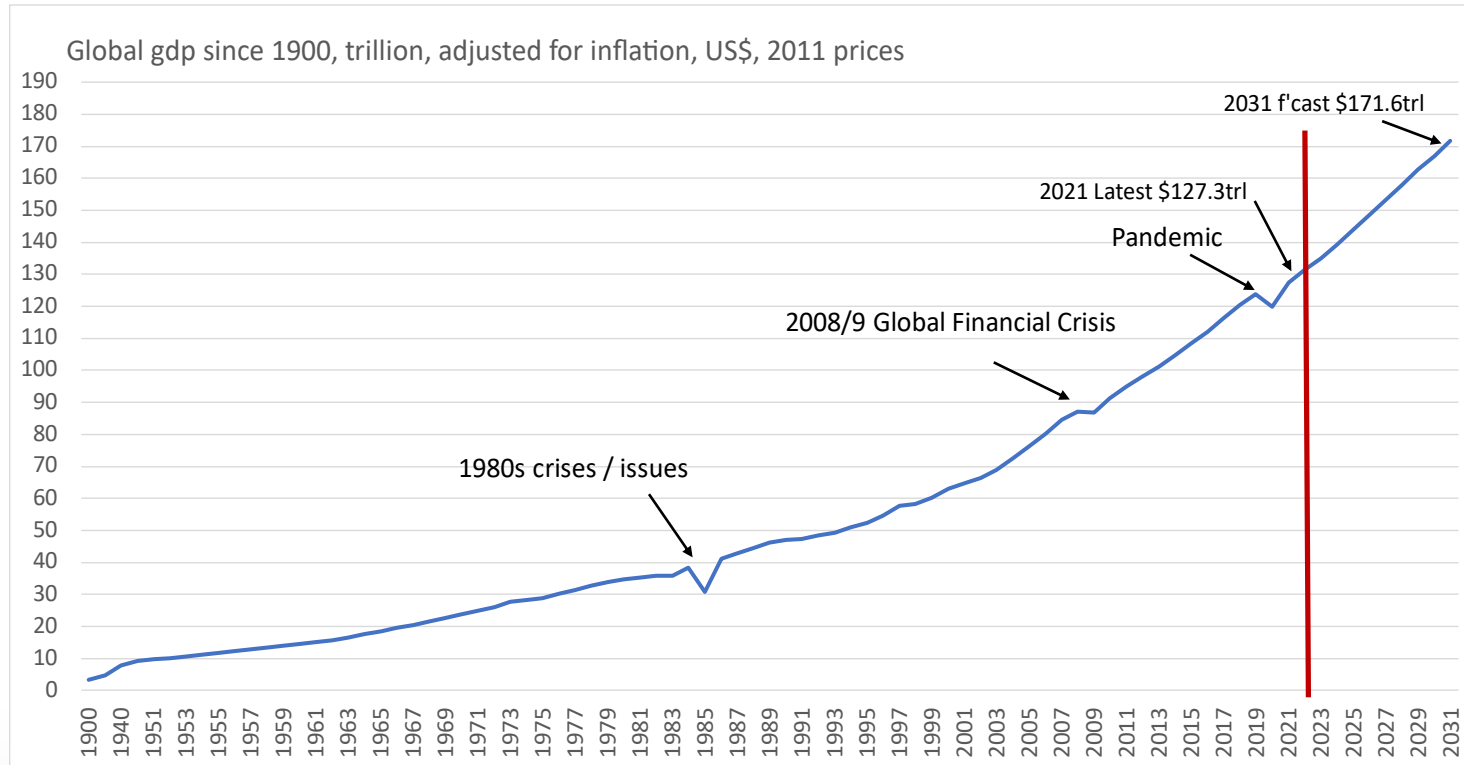


2020s are off to a rocky start

- The 2020s have seen a global health crisis, and a global energy, food and price inflation crisis, triggered by Russia's invasion of Ukraine.
- These global shocks, added to climate change and other geopolitical issues like the rise of autocrats (even in the US), are placing great strain on international institutions and the rules-based order that has unlocked so much global prosperity in the last 75 years. But we must distinguish between the long term and short term, and global mega trends.
- Technological change is accelerating, with profound economic and social implications for all sectors. But are necessary, to increase productivity and help turn climate change into an opportunity to innovate. But climate change is also becoming more pressing, across a range of metrics as we will miss the targets.
- Population changes are becoming more apparent. Worker shortages amidst tight migration policies. With the global population ageing fast, savings should rise, meaning more investable funds.
- Mega cities have not away. But over the next few decades, migration will be the sole driver of population growth in high-income countries. By contrast, for the foreseeable future, population increase in low-income and lower-middle-income countries will continue to be driven by an excess of births over deaths.
- That trend explains labour shortages, the drive for greater productivity and negative real interest rates.

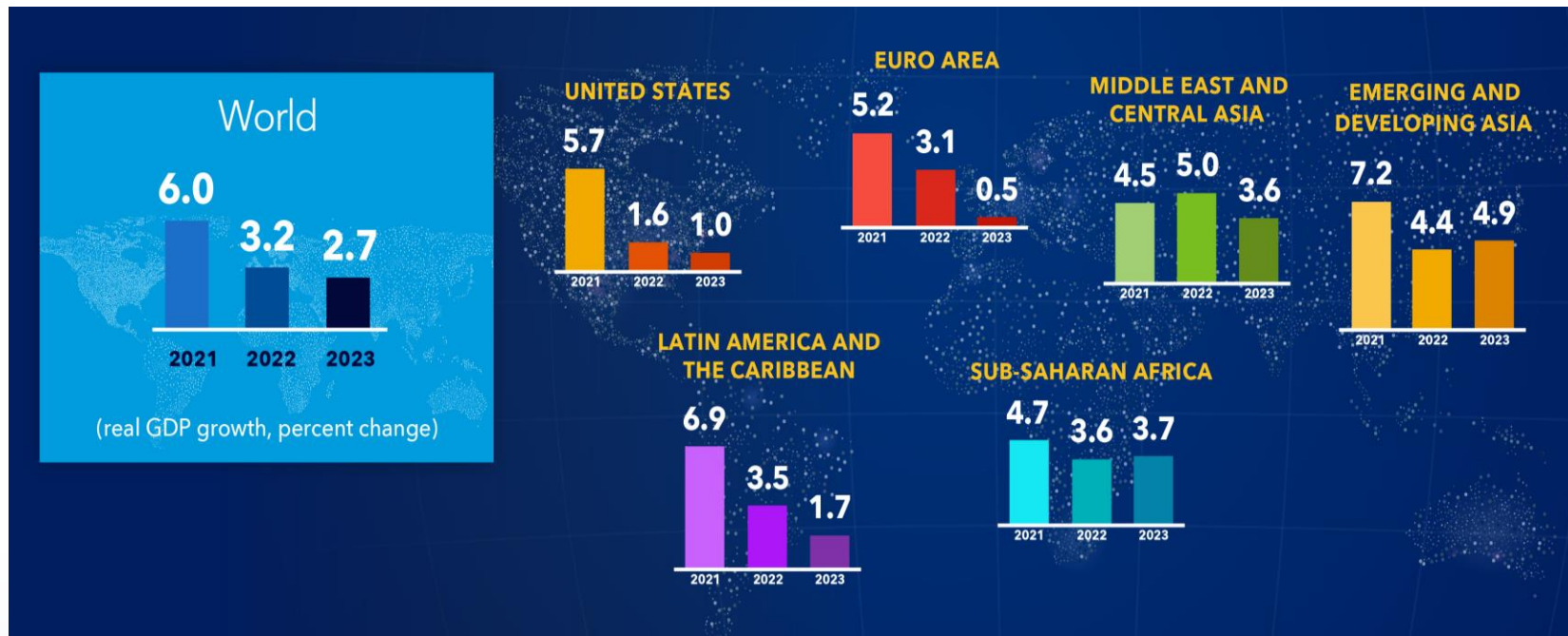


But we have been here before and the world economy always recovers

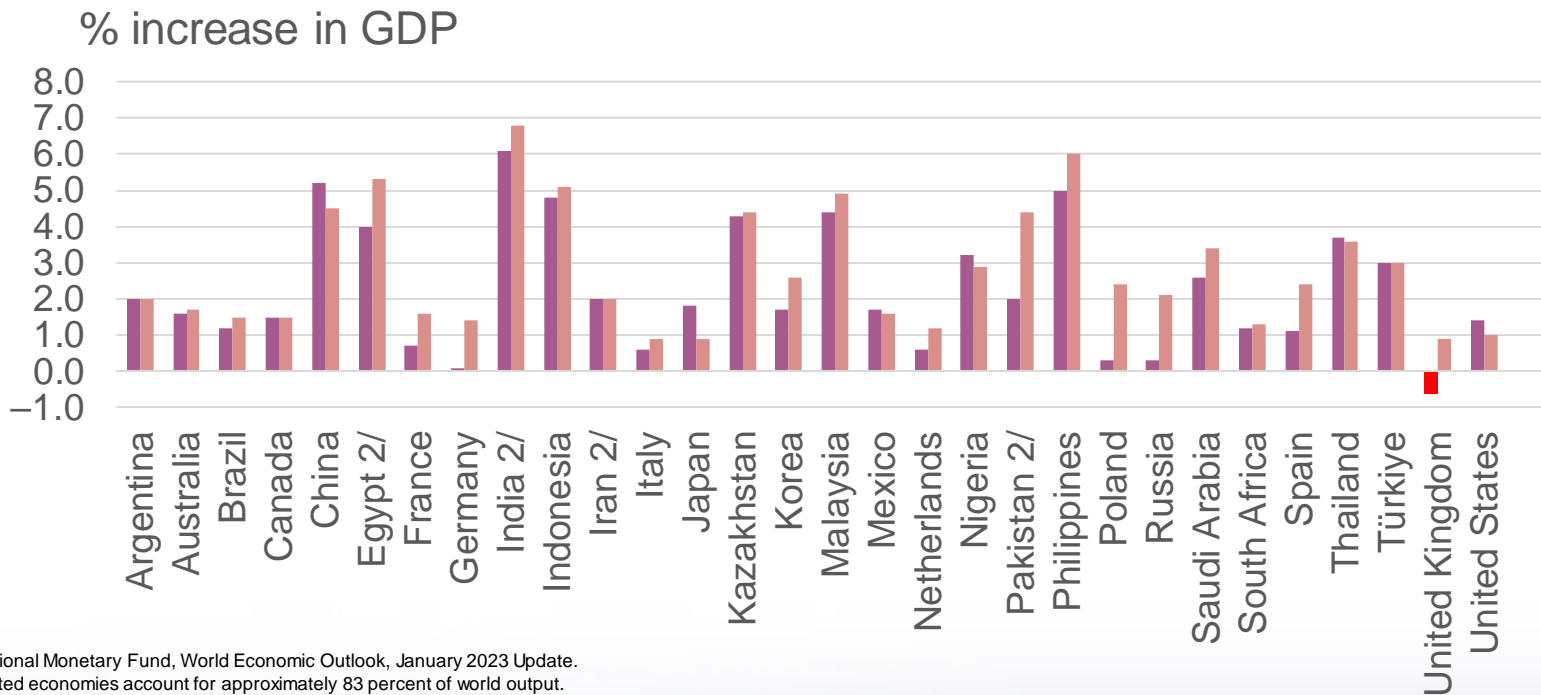


Slower growth but still positive this year...

% increase in GDP per year



In 2023, only the UK may see an outright fall in output



Source: International Monetary Fund, World Economic Outlook, January 2023 Update.

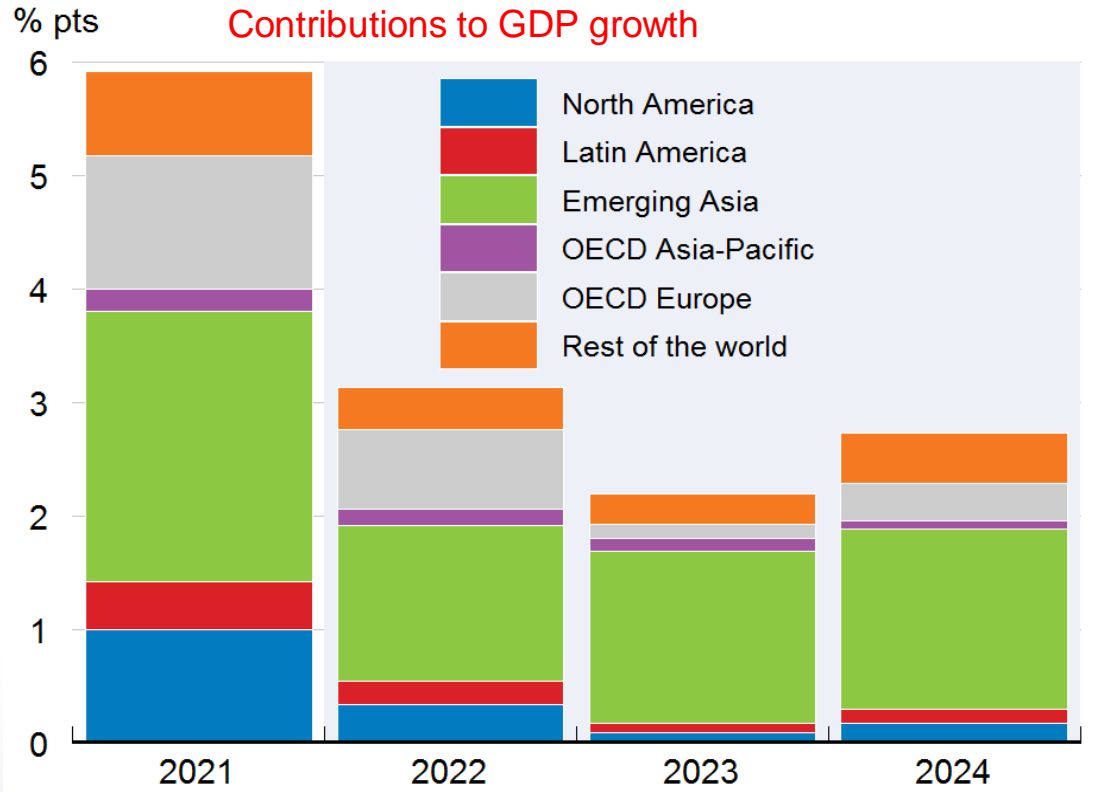
Note: The selected economies account for approximately 83 percent of world output.

1/ Difference based on rounded figures for the current and October 2022 WEO forecasts.

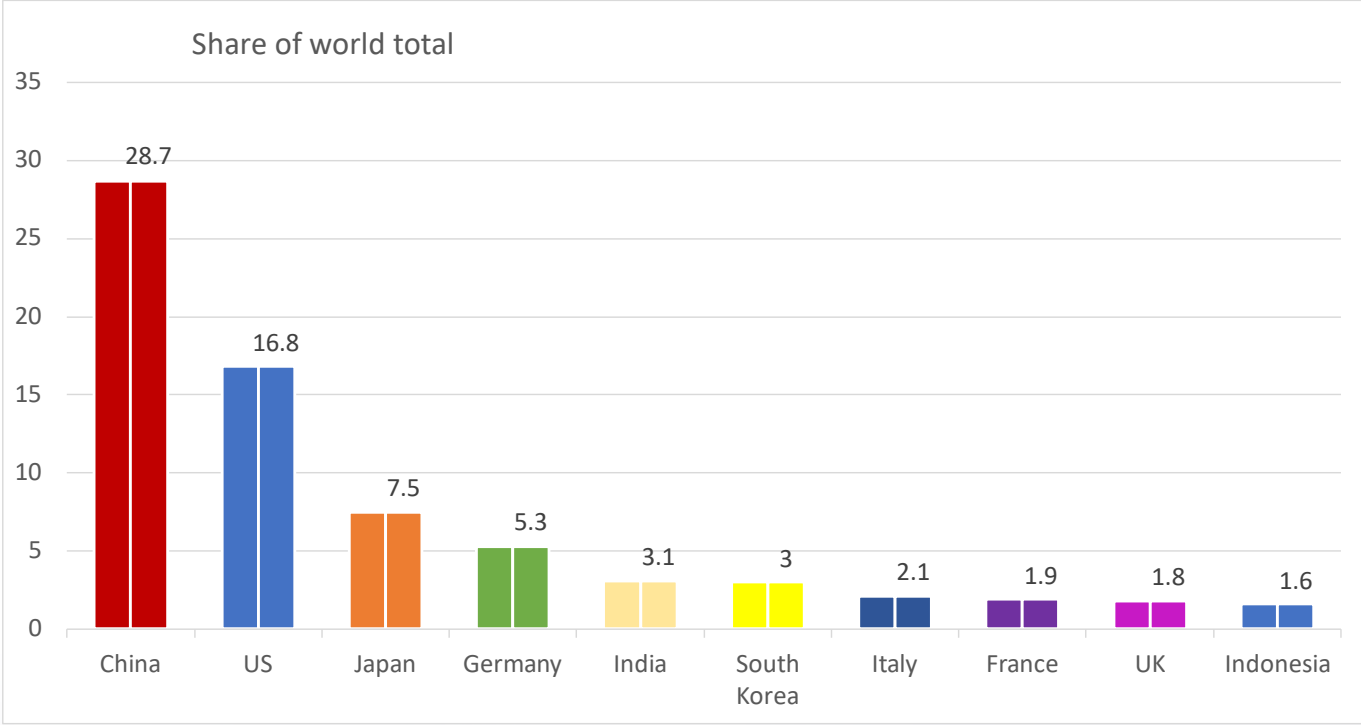
2/ Data and forecasts are presented on a fiscal year basis.

■ 2023 ■ 2024

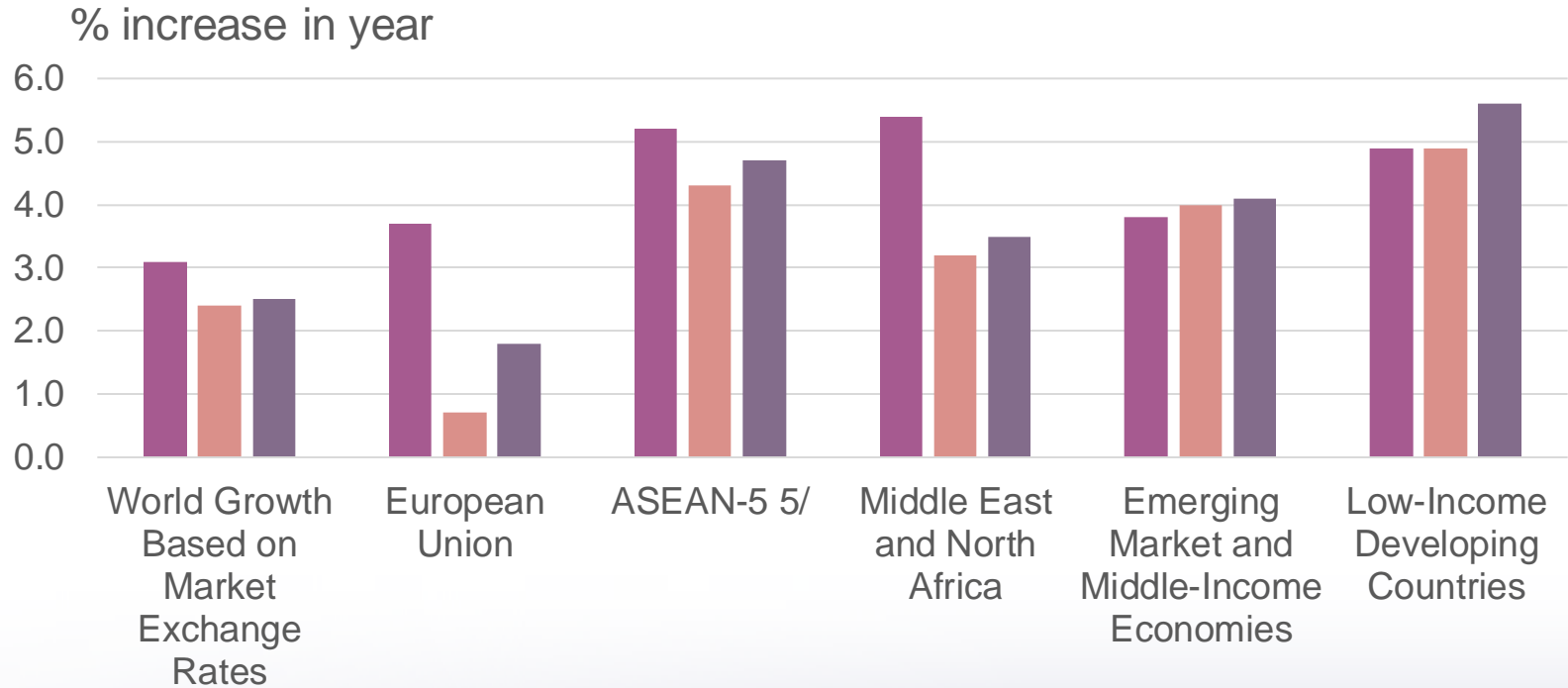
...and 2024 growth is looking even better, driven by emerging Asia



Top ten manufacturing countries in the world – Asia bias



Interestingly, low and middle-income economies outperform



■ 2022 ■ 2023 ■ 2024

Why the Inflation trend is turning

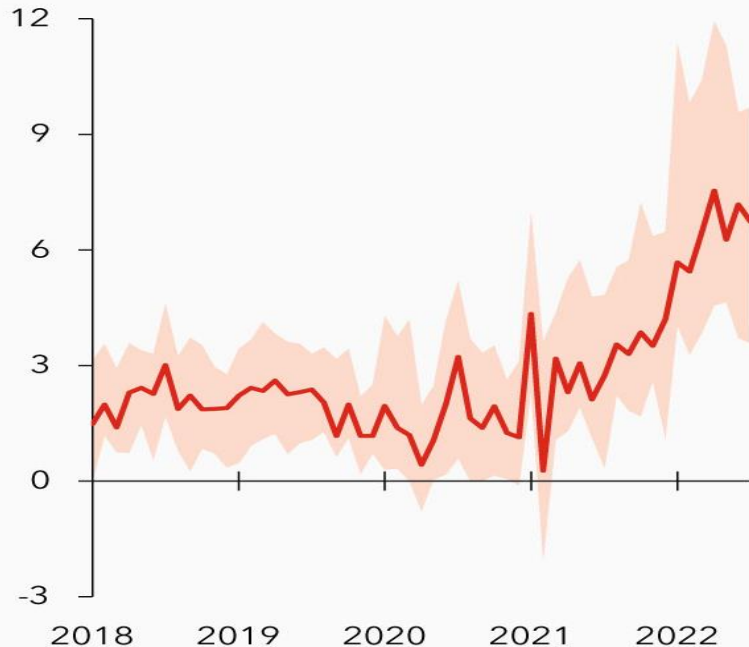


Central banks raised rates because core inflation is high...

Price inflation may have peaked

Core inflation

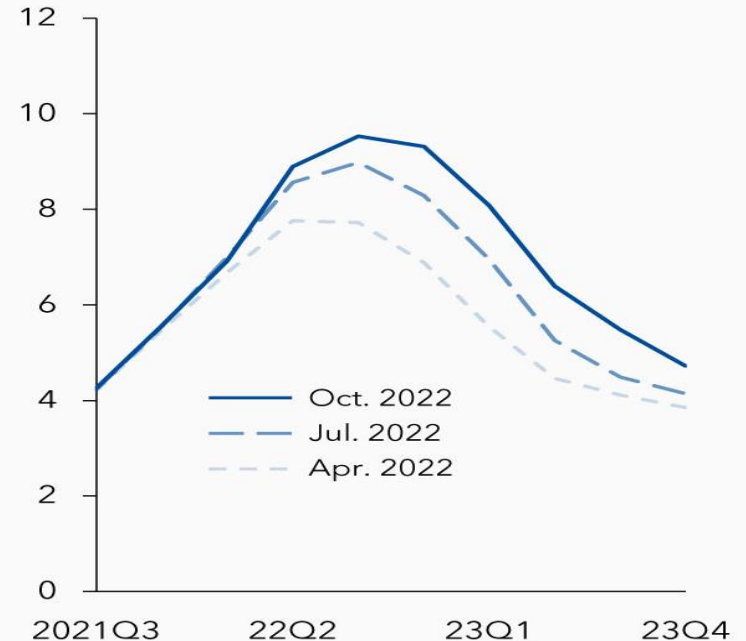
(median; percent; annualized month-over-month)



...and inflation will fall sharply in 2023/4

Projected inflation path

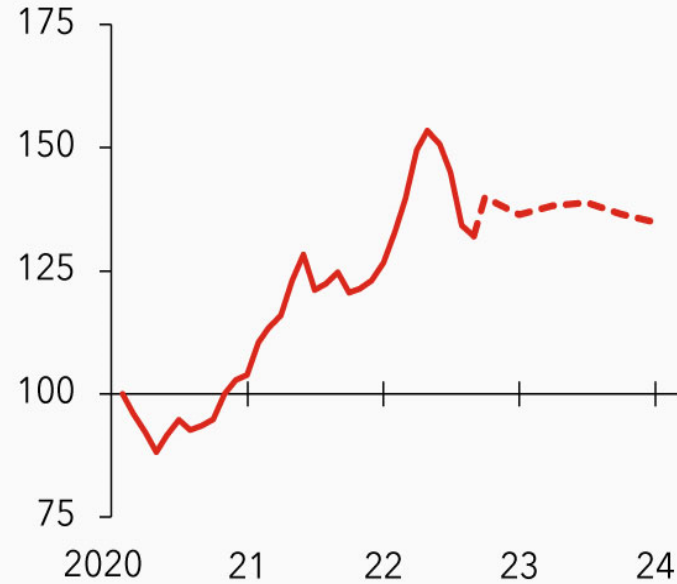
(world headline; percent; year-over-year)



...as supply shocks ease gas & energy prices now flatten...

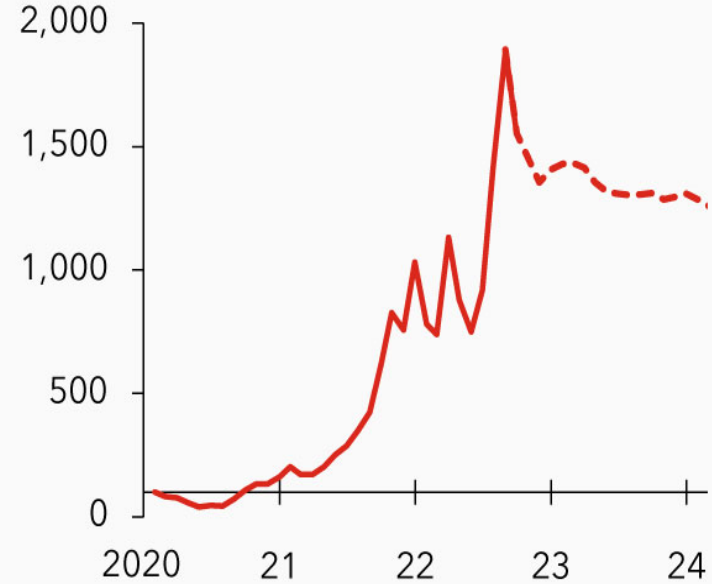
Food price index

(Jan 2020=100)

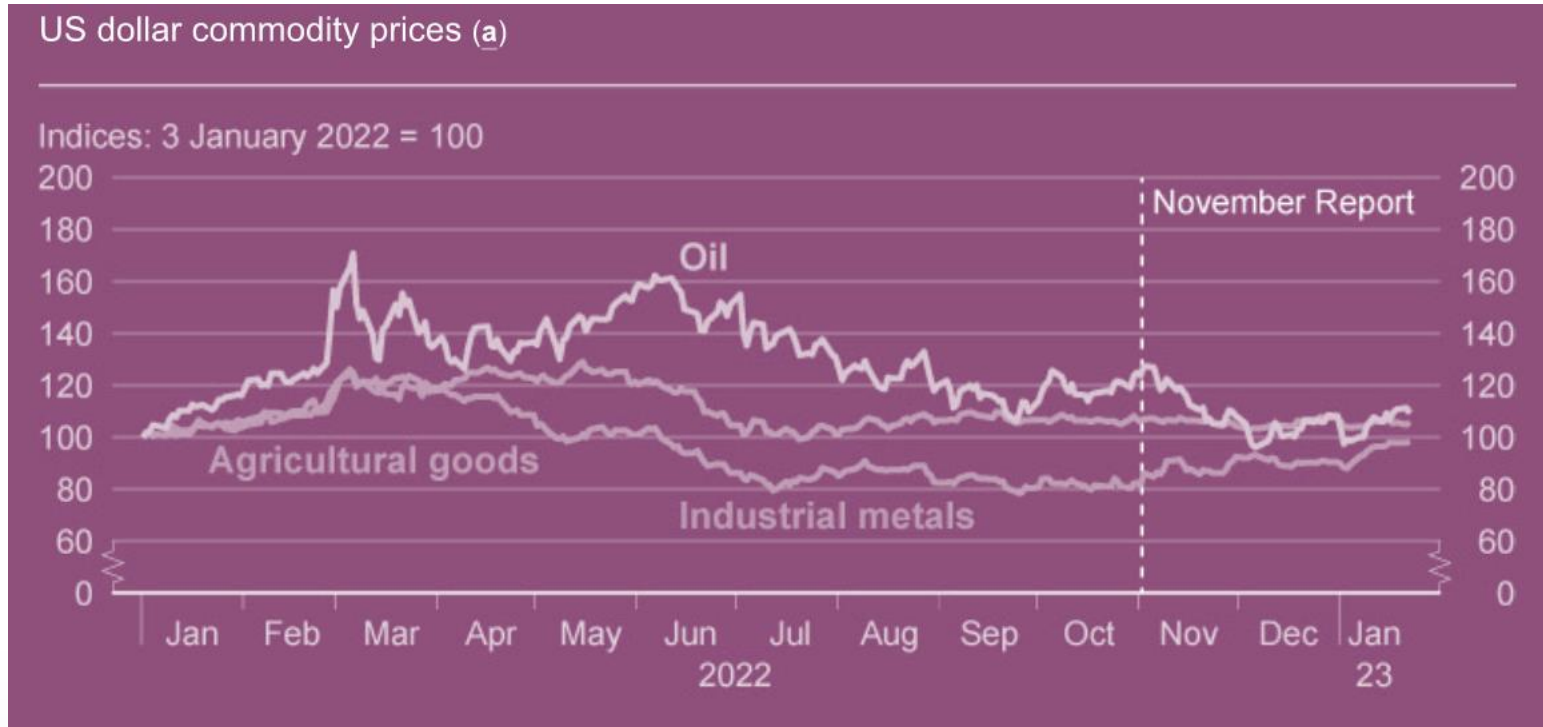


Natural gas prices

(Dutch TTF, Jan 2020=100)



Oil and industrial metals prices have fallen particularly sharply



(a) The Dutch Title Transfer Facility pricing point is used for the European price. UK prices have been converted to euros. Dotted lines refer to the 15-day average to 24 January 2023. Dashed lines refer to respective futures curves using one-month forward prices based on the seven-day average to 25 October 2022 for the UK and the 15-day average to 25 October 2022 for Europe.

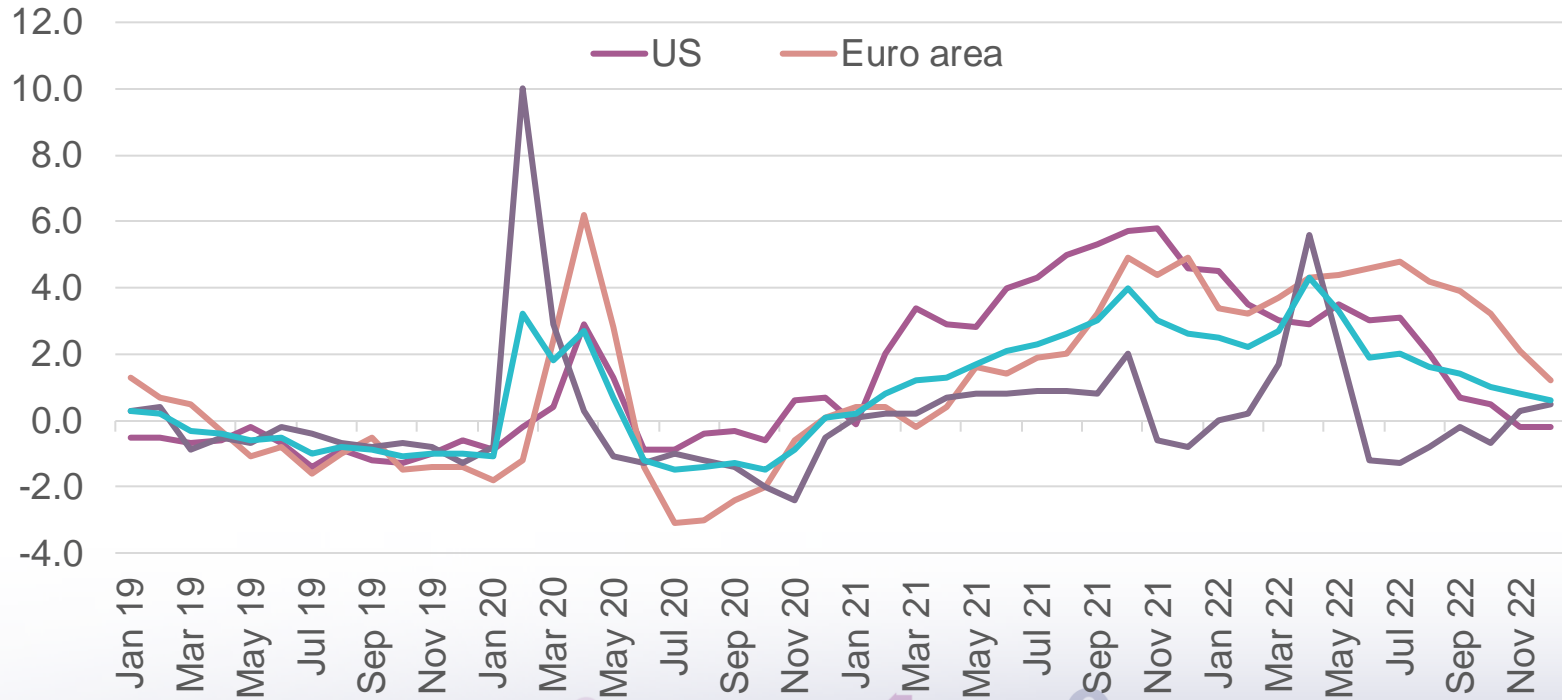
Futures prices reflects that change in trend



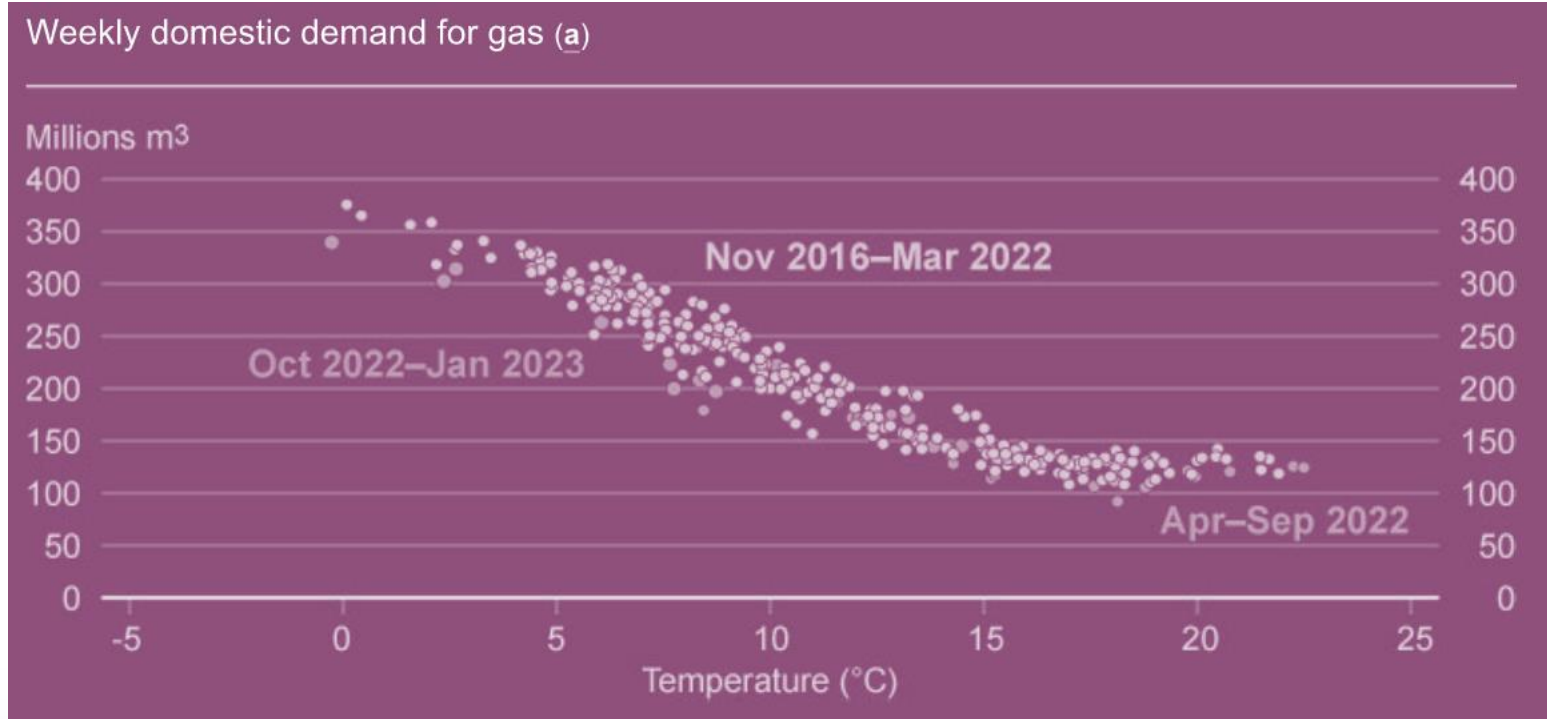
(a) The Dutch Title Transfer Facility pricing point is used for the European price. UK prices have been converted to euros. Dotted lines refer to the 15-day average to 24 January 2023. Dashed lines refer to respective futures curves using one-month forward prices based on the seven-day average to 25 October 2022 for the UK and the 15-day average to 25 October 2022 for Europe.

Global supply constraints ease – China reverses Covid lockdown

Change in index of supply constraints



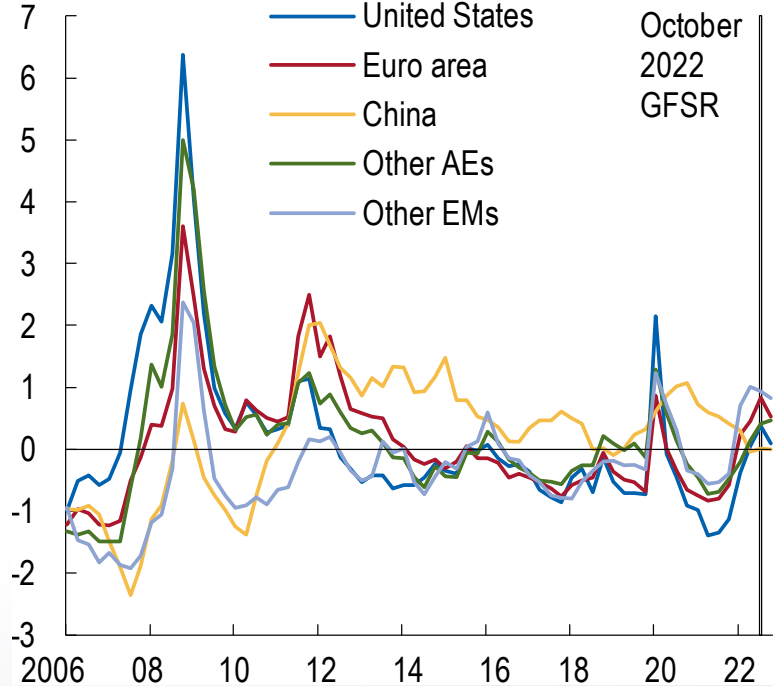
In Europe, a less severe winter has dragged gas prices lower



(a) The Dutch Title Transfer Facility pricing point is used for the European price. UK prices have been converted to euros. Dotted lines refer to the 15-day average to 24 January 2023. Dashed lines refer to respective futures curves using one-month forward prices based on the seven-day average to 25 October 2022 for the UK and the 15-day average to 25 October 2022 for Europe.

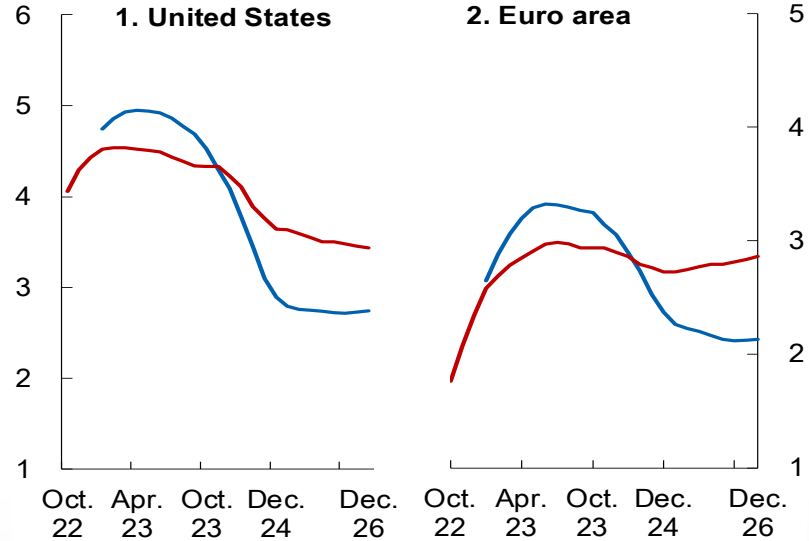
...allowing scope for global interest rates to fall in 2023/4

Financial conditions index



Policy rate expectations

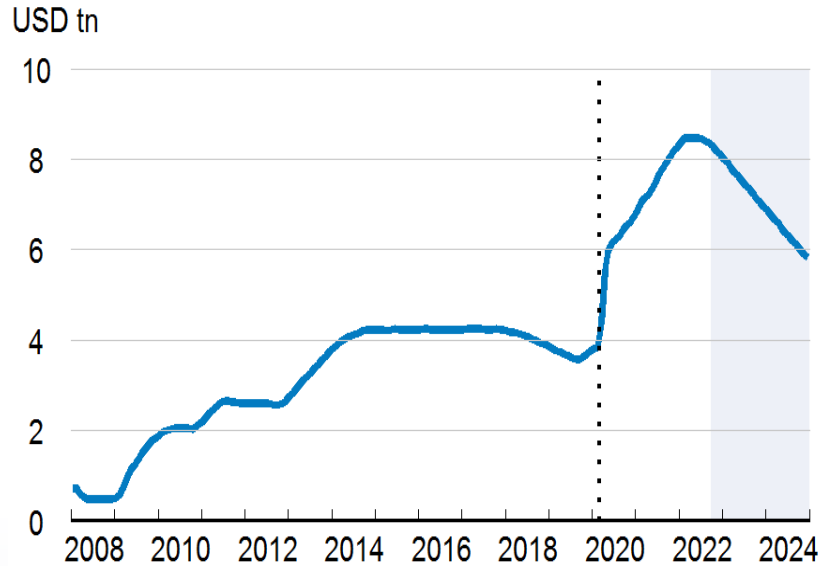
— Latest — October 2022 GFSR



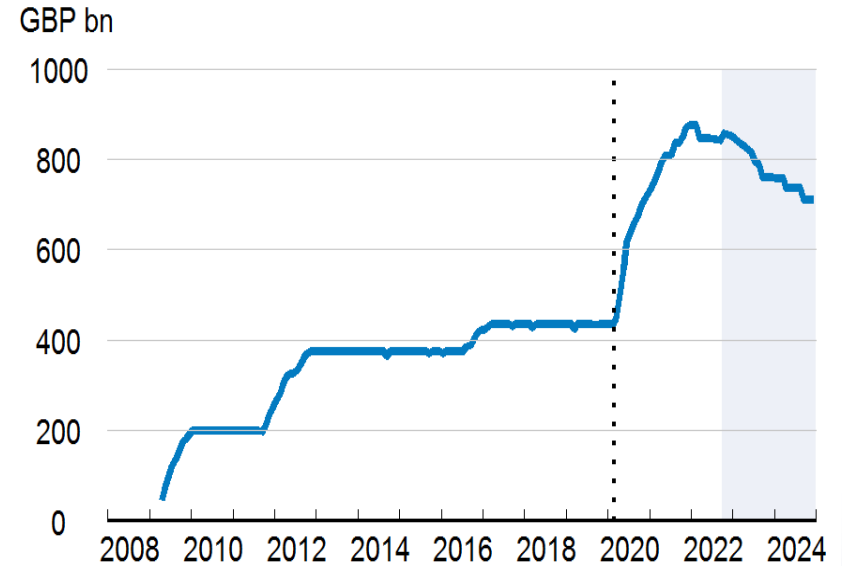
Sources: Bloomberg Finance L.P.; and IMF staff calculations.
 Note: GFSR = *Global Financial Stability Report*.

But Quantitative Tightening will continue, at least in the US and UK...

A. United States



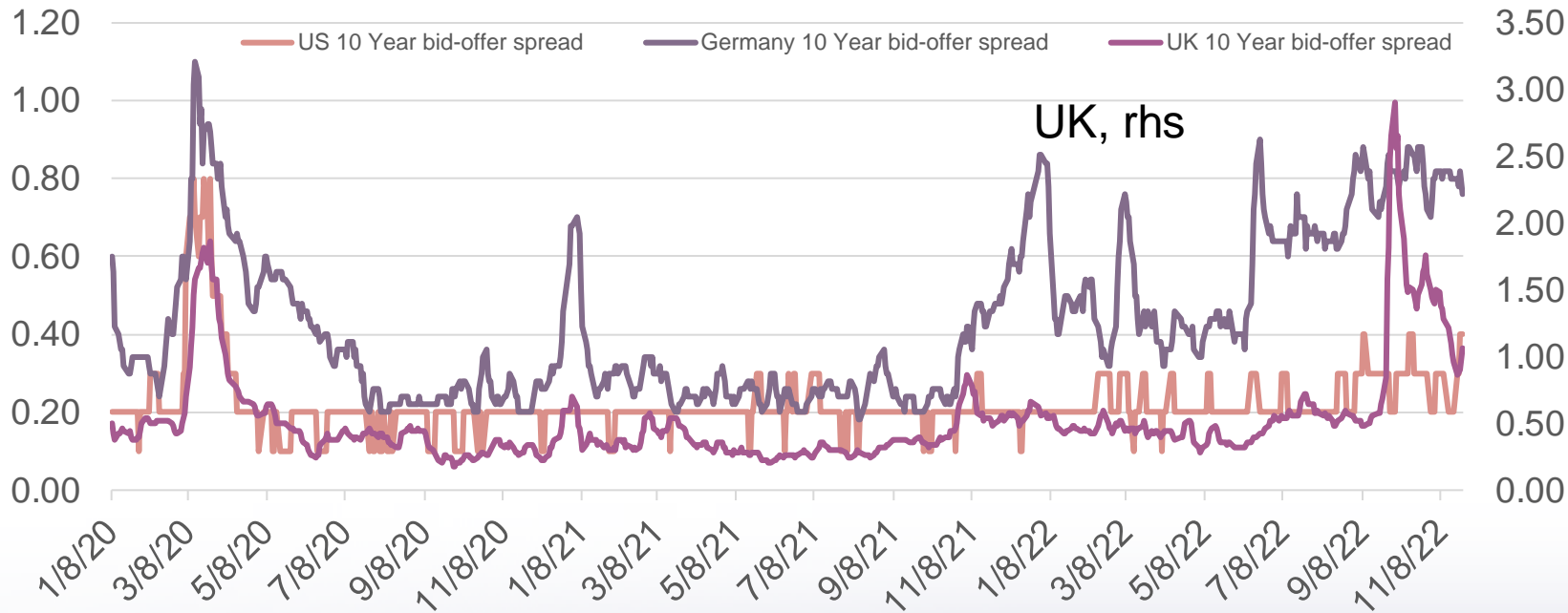
B. United Kingdom



Source: IMF financial stability report, December 2022

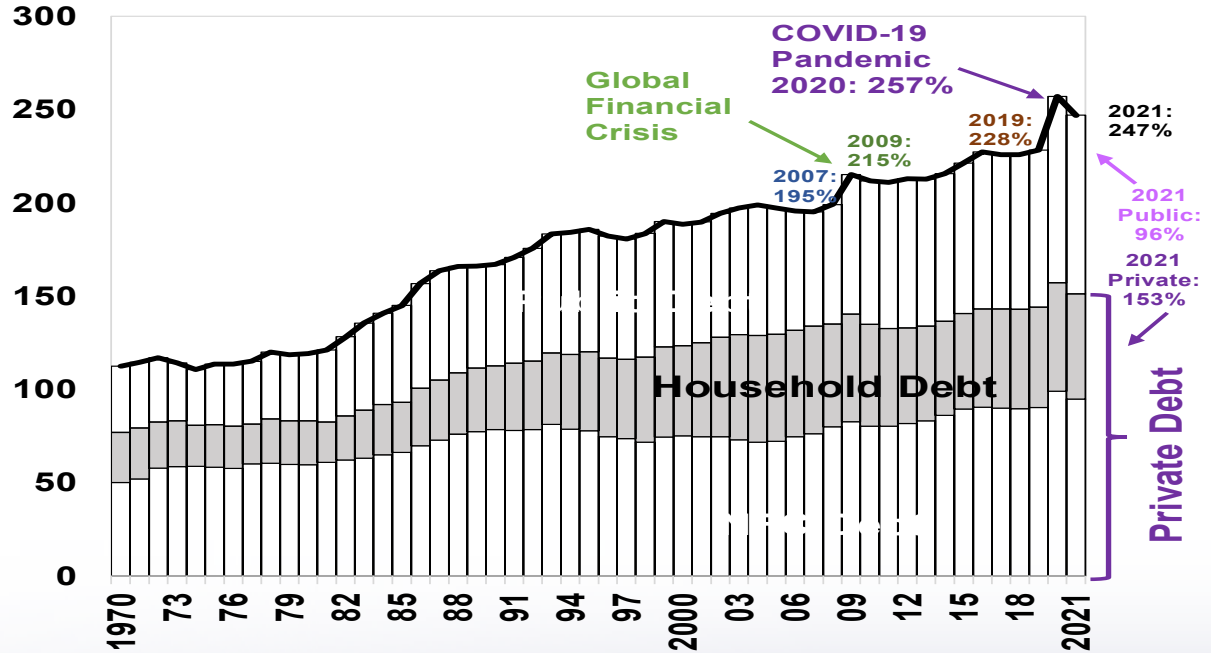
...meaning that market spreads on 10-year bonds will remain wide

Bid offer spread, basis points



Source: IMF financial stability report, December 2022

Does that make leverage a risk - public sector debt reaches all time highs...



Source: World Bank



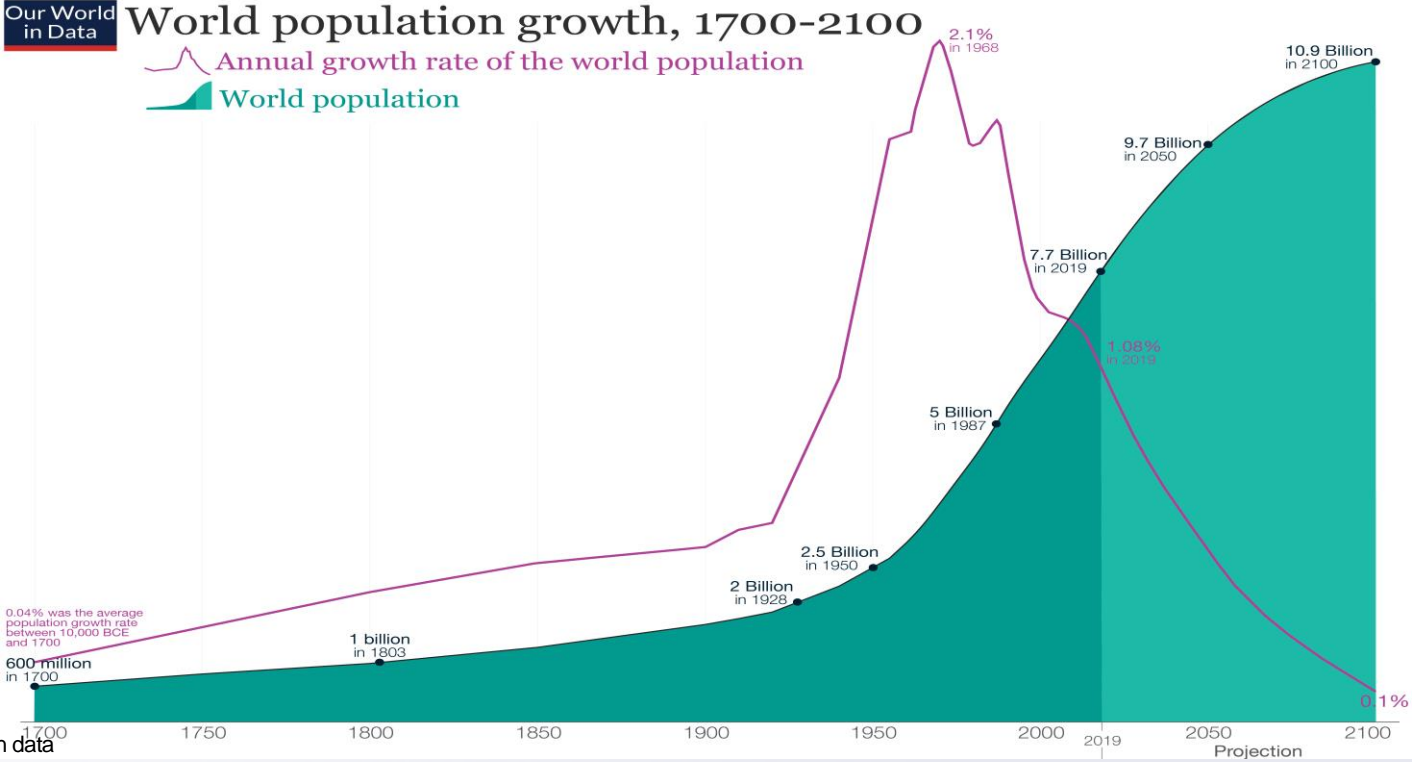
...especially in developed economies

	2007	2008	2009	2010	Average 2011-18	2019	2020	2021
World	61.2	64.1	74.8	76.9	80.9	84.1	99.8	95.7
Advanced Economies	71.8	78.5	91.8	98.2	105.2	105.3	124.6	119.5
Euro Area	66.0	69.7	80.4	86.0	92.1	85.8	99.0	97.5
Japan	172.8	180.7	198.7	205.7	229.1	236.3	259.4	262.5
United Kingdom	43.0	50.7	64.6	75.7	85.2	84.8	103.6	103.8
United States	64.6	73.4	86.6	95.1	104.7	108.8	134.5	128.1
Emerging Market Economies	35.0	32.9	38.4	37.4	43.3	54.2	64.5	64.0
China	29.2	27.2	34.6	33.9	42.6	57.2	68.1	71.5
Others	36.7	34.7	40.0	38.7	43.7	51.9	61.4	57.6
Low-Income Developing Countries	29.2	27.3	29.6	28.0	34.8	42.9	48.6	48.7

Source: World Bank

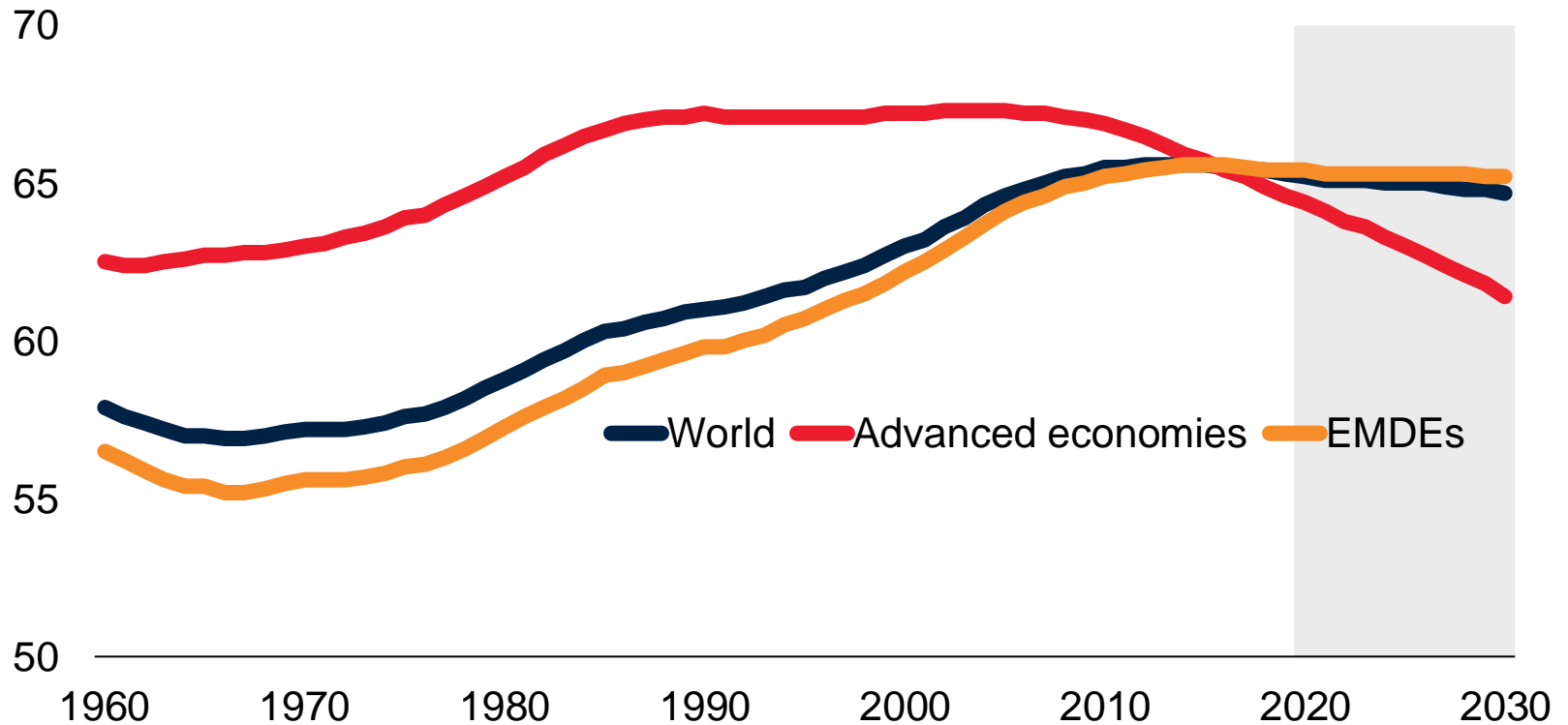


As global population growth slows, spending pressure will rise

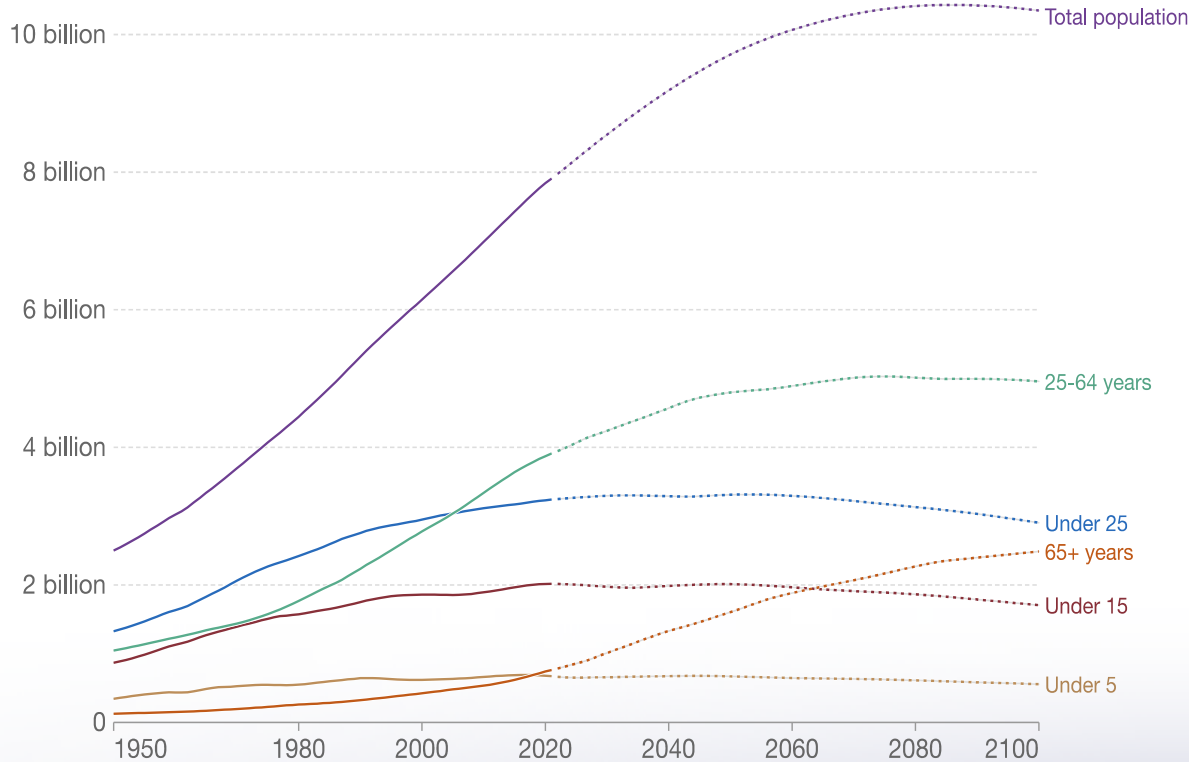


...particularly in developed economies

working age as percent of total population



...with a shrinking share of working age

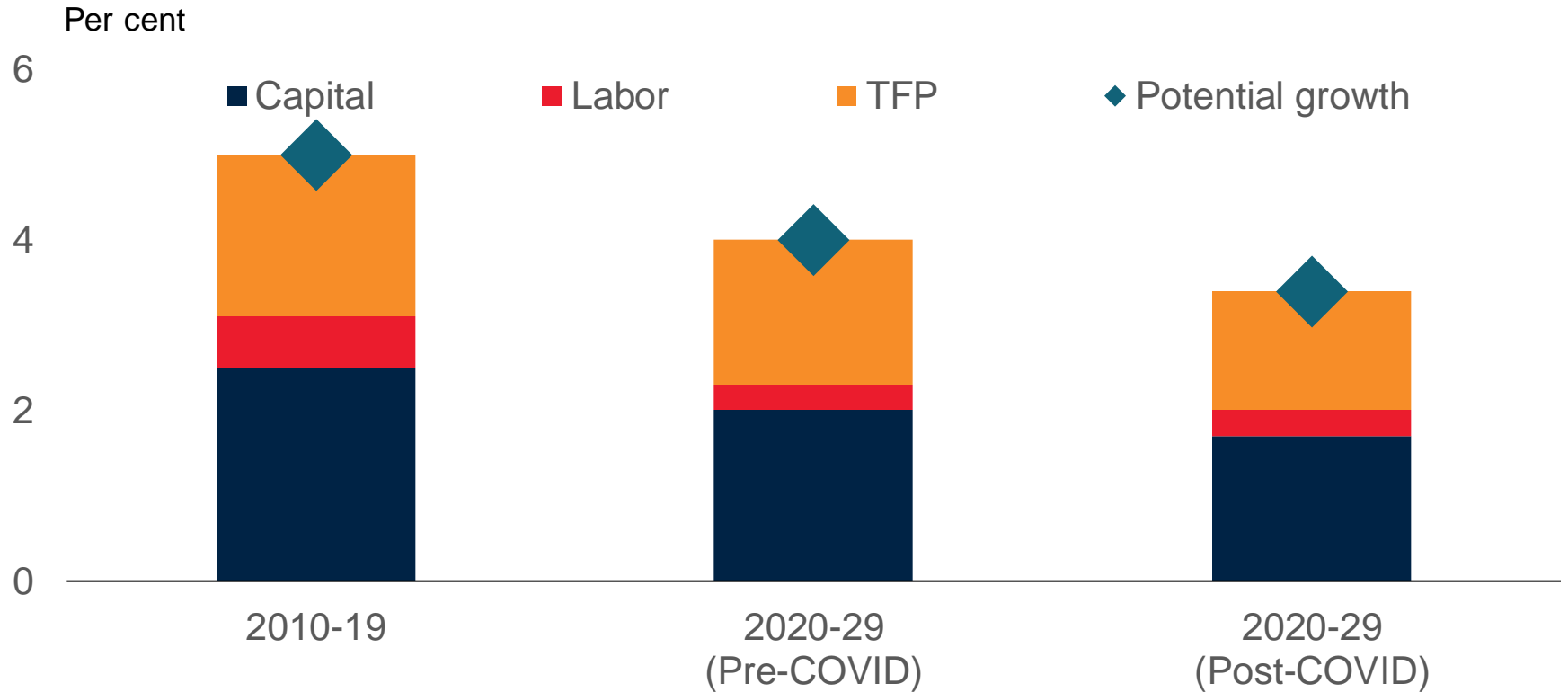


Source: Our world in data

This aging trend in advanced economies, raises savings supply and boosts the demand for labour. In the slow growth of the past year, the recession is associated with a remarkable resilient level of employment and labour demand. That's across a range of countries.

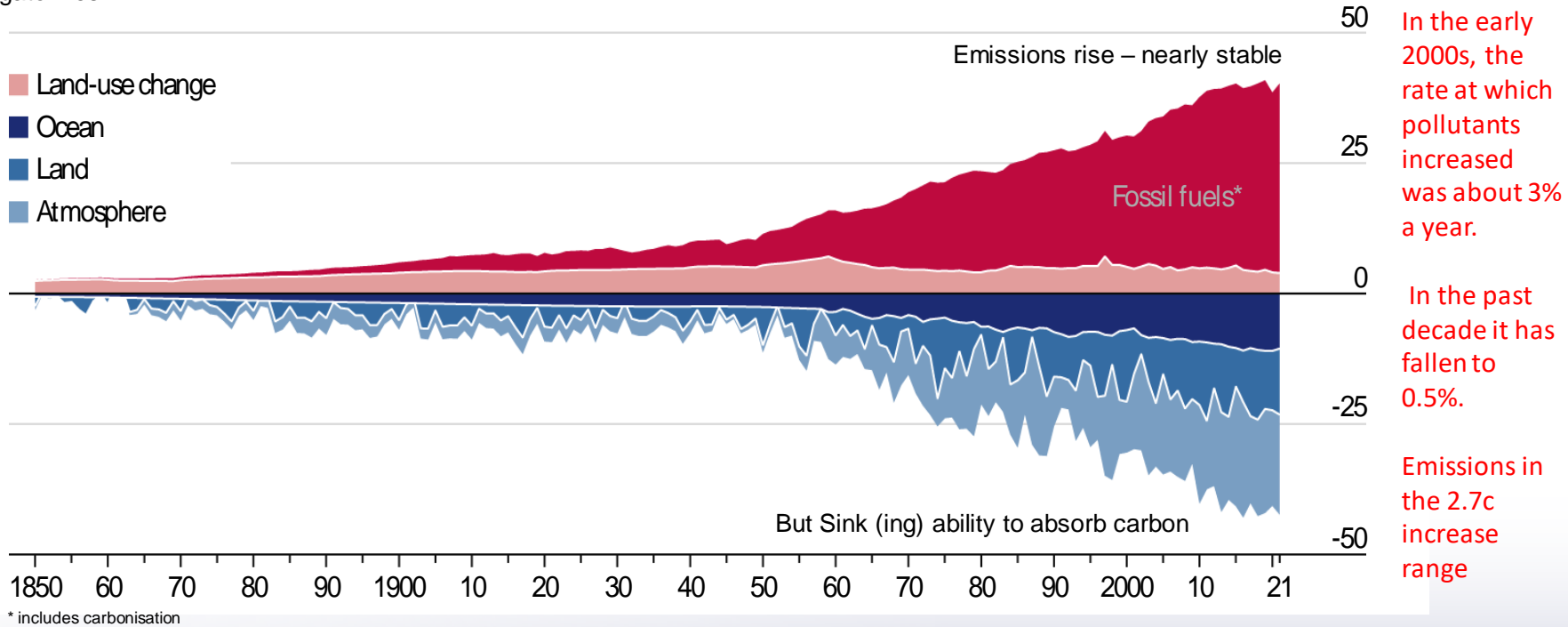
It also means negative real interest rates. If savings supply outstrips demand, the clearing price of debt must adjust lower for saving to equal investment and does not rule out negative real rates. (Money illusion perhaps plays a role).

...linked to weakening growth in productivity



Carbon emissions are slowing but 1.5c target will be missed

Global sources and sinks of CO2
Gigatonnes



COP27 takeaway – not quite enough to satisfy anyone

- Mitigation, adaptation and loss and damage are inextricably linked.
- Faster, more ambitious decarbonisation will reduce the bill for adaptation. Better mitigation and adaptation will mean that less money has to be spent rebuilding after disasters.
- Loss and damage fund created for first time but no argument on how to fund it and by how much SO....
- ...the negotiations that unfolded in Sharm el-Sheikh were proof that the world has not yet worked out how to tackle all three simultaneously.
- “Emissions peaking before 2025...Not in this text. Clear follow-through on the phase down of coal: not in this text. A clear commitment to phase out all fossil fuels: not in this text.”
- However, the opportunity for firms and people from decarbonising remains intact – look at the IRA plans in the US.



Questions?

