Challenging outlook for the global economy

Rampant inflation, aggressive interest rate hikes by Central Banks and elevated geopolitical tensions saw global economic growth slow notably over the course of 2022. However, looking back over the first six months of 2023, many of the key advanced economies have performed better than anticipated.

Economic data has tended to surprise to the upside of forecasts over recent months. Falling commodity and energy prices, a clear downward move in headline inflation, the re-opening of the Chinese economy, and continuing strong labour markets, have provided a supportive backdrop in the first half of the year.

Although, GDP data for the first quarter showed that growth remained weak. Meanwhile, a new risk to the economic outlook emerged over the period, with stresses in parts of the global banking system acting as an additional headwind, especially in the case of the US economy.

The OECD, in its latest assessment of the economic outlook, released in early June, noted that the global economy faces a "long road ahead" to achieve strong and sustainable growth. It also expects that the recovery will be weak compared to previous rebounds.

In broad terms, it envisages a period of subdued growth and inflation remaining elevated. The OECD states that the impact of the marked and synchronised tightening of monetary policy during 2022 is likely to take 'full effect' on output over the course of this year and early next year, which could weigh most heavily on private investment.

On the consumer side, the OECD envisages that, although household incomes remain under pressure, with lower commodity prices yet to be fully reflected in retail prices, the use of savings built up during the pandemic will help to support demand.

In terms of growth forecasts, it is projecting global growth of 2.7% this year, with a modest pick up to 2.9% in 2024. These rates of growth are well below the average rate of 3.7% per annum in the decade that preceded the COVID-19 pandemic.

Meantime, it anticipates unemployment to rise only marginally over the 2023-2024 period. On the inflation front, for OECD economies, it is projecting that headline inflation will still be above target, at 3.8% by Q4 2024. Core inflation is expected to remain sticky, averaging 6.5% this year and 4.5% in 2024. Furthermore, the OECD continues to view the balance of risks as being to the downside. Indeed, recent survey data from some of the key advanced economies are consistent with a loss of momentum as the second quarter came to a close.

Among the risks the organisation calls out, it highlights that inflation may prove to be more persistent than expected, with interest rates staying higher for longer as a result. In this regard, it was interesting

that at a panel discussion last week involving the heads of the Central Banks from the US, Eurozone and UK, all three were keen to emphasise the risk of persistent inflationary pressures.

The OECD also acknowledges the risk that tighter financial conditions could result in stress in financial markets, as well as exacerbating vulnerabilities in emerging market economies. It remains concerned too, that while the risk of a critical shortage of energy supplies has diminished, it has not disappeared.

Overall then, the global economy faces not just a long, but a potentially bumpy road ahead, as it strives to move onto a stronger growth path.

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