

Economics

# The rocky road back to more normal times

Economic and political outlook for the advanced world

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# Mind the shocks and shifts – the ‘new normal’ is over

## Remember the ‘new normal’?

- Sluggish economic growth, low inflation and close-to-zero interest rates
- Chronic pessimism, balance sheet repair and cautious fiscal policies
- Long economic cycles, few excesses and a sense that the best is behind us

**That era is over.... The economic baseline has changed.....**

## Two major shocks – COVID-19 and Russia’s invasion of Ukraine

- Tidal wave of restructuring across international supply chains and in energy markets
- Massive fiscal interventions to support economies

## Plus longer run shifts in global demand and supply

- Supply headwinds: ageing populations and rising global trade costs and frictions
- Demand tailwinds: fiscal boost and no more balance sheet repair (new credit cycle?)

## Mind the shocks and shifts – the ‘new normal’ is over

### Remember the ‘old normal’?

- Boom-bust economic cycles, persistent inflation risks and normal interest rates
- Animal spirits, healthy credit demand and periodic fiscal expansions
- Shorter more volatile economic cycles, risk of excesses and hope for the future

### In many respects... recent performance is closer to this baseline

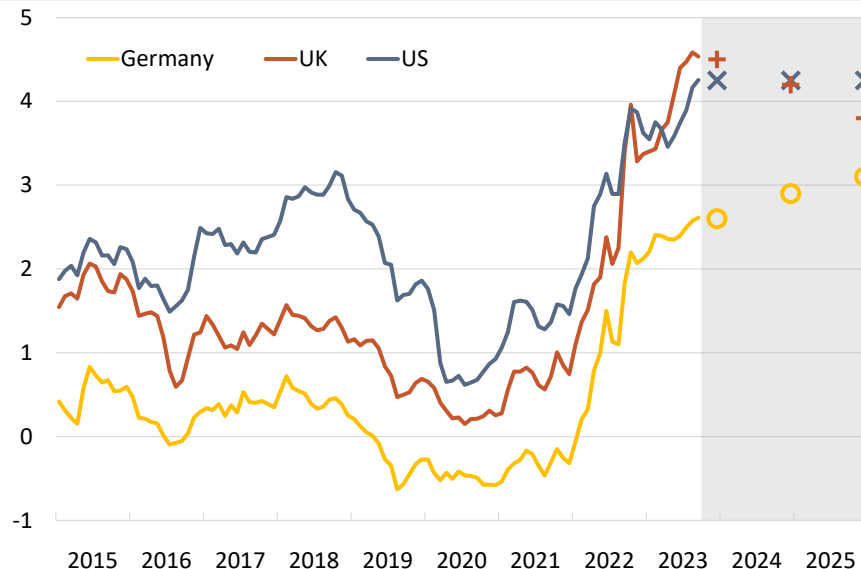
- Central banks acknowledge that inflation is longer run concern
- Households and firms are adjusting to higher/normal interest rates
- Firms and workers press their advantage in wage bargaining and price setting
- Risk markets rally even as central banks withdraw liquidity
- Optimism around the benefits (and risks) of AI and other frontier technologies

**COVID and war shocks have merely accelerated trends that were already underway**



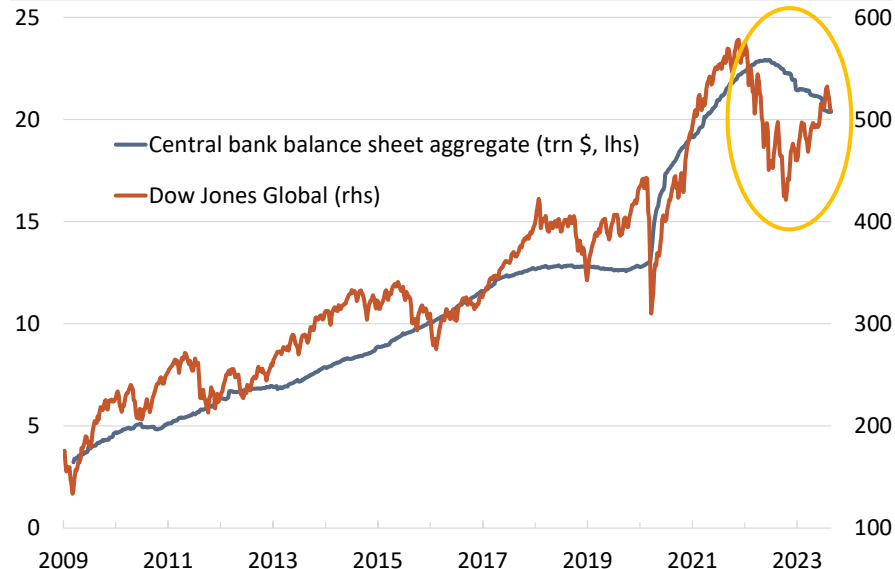
# Back to the old normal – risk markets walk without crutches

## Bond yields return to normal



10-year benchmark yields; shaded area: projections. Source: Tullett prebon information, Berenberg projections

## Central bank liquidity down, equities up

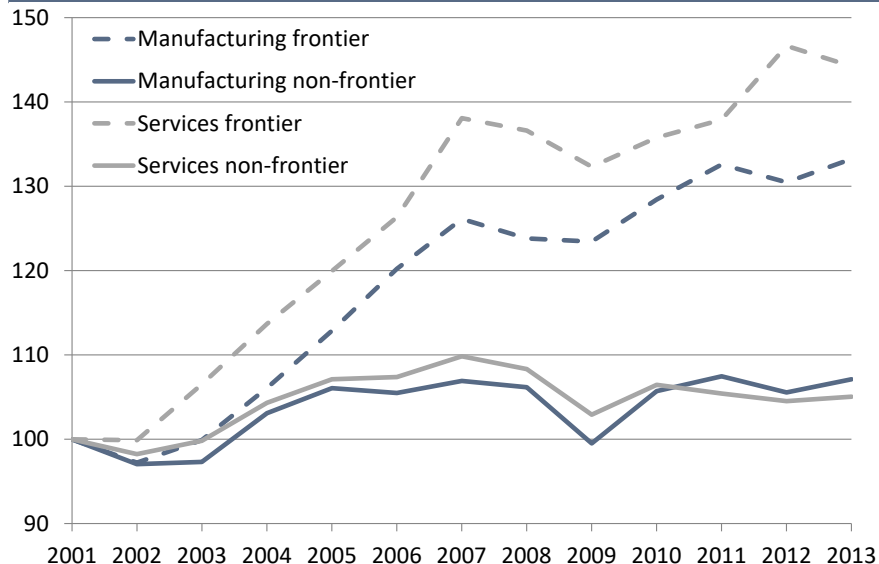


Central bank total assets (converted into USD based on average exchange rates for the period) of US Fed, Bank of Japan, Eurosystem and Bank of England (asset purchase facility only). Dow Jones Global and central bank balance sheet aggregate – 2009 = 100. Weekly data. Sources: US Fed, BoJ, ECB, BoE, Berenberg calculations, Dow Jones



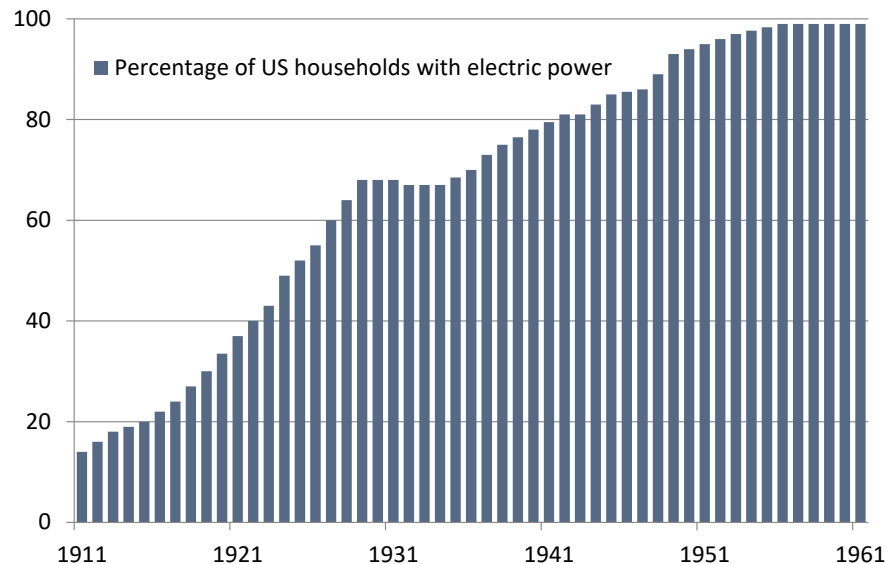
# Productivity growth: the chance for a revival

## Global labour productivity – the best and the rest



Index (2001 = 100), approximated by changes logs. Average across detailed manufacturing and non-financial business services industries using firm-level data from 24 OECD countries. The global frontier is defined as the average productivity of the 5% most productive firms within each industry, by each year using value-added and employment based labour productivity. Annual data. Source: Orbis database of Bureau van Dijk. Andrews, D., C. Criscuolo and P. Gal (2016)

## Electricity usage among US households



Annual data. Source: Ourworldindata.org

# Global summary: digesting the shocks

## US

- Soft landing with risks tilted to the downside. Return to trend growth 2H 2024
- Fed stops at 5.5%, modest cuts to start in Q2 2024

## China

- Painful real estate correction
- Subdued growth due to serious long-term problems, no more than mini-stimulus

## Eurozone

- Mild contraction late 2023, back to solid growth by mid-2024 as US downturn ends
- ECB probably done hiking. BoE: one final hike, cuts in 2024

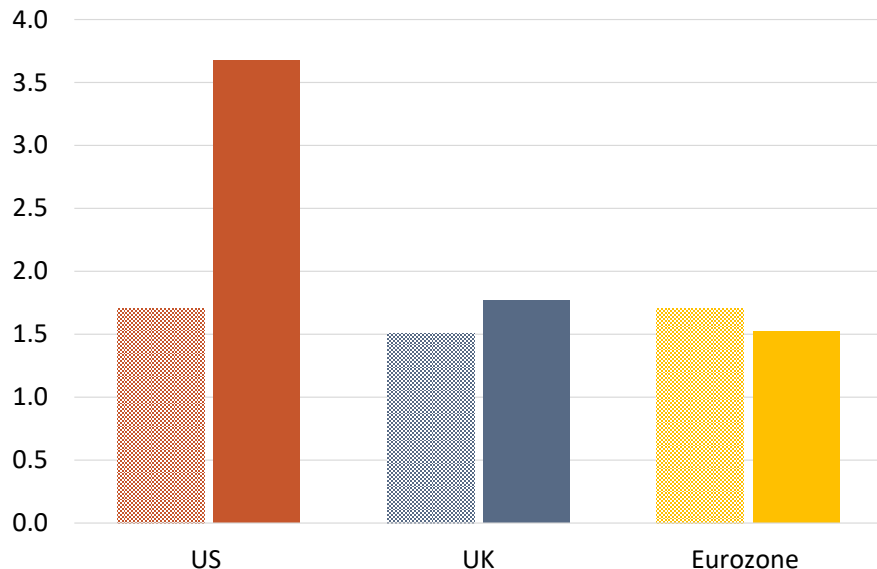
## Key risks

- Economics: central banks tighten too much
- Geopolitics: Russia goes nuclear, China attacks Taiwan



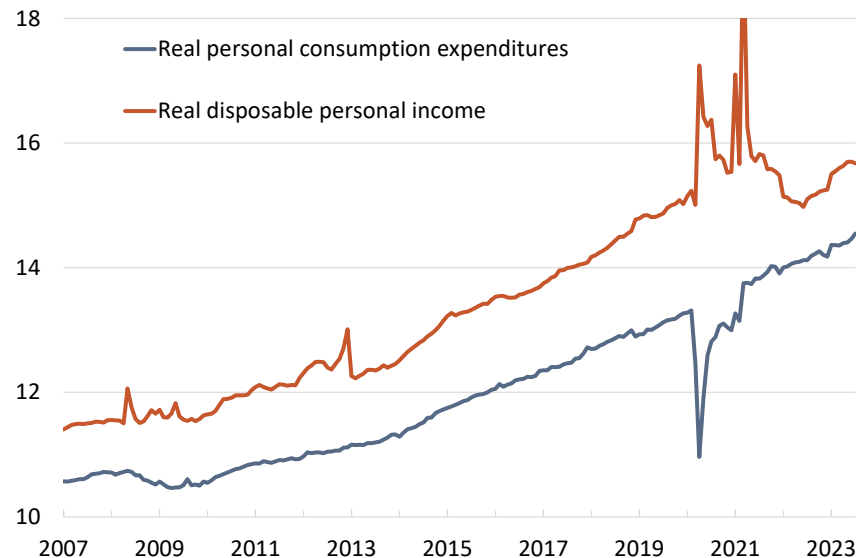
# US: heading for a soft landing

## Berenberg forecasts early 2023 vs September-2023



*Berenberg projections as of 5 January 2023 and 15 September 2023 for the cumulative change in real GDP for Q4 2022 to Q4 2024, in %. Sources: Berenberg*

## US consumer spending and disposable income

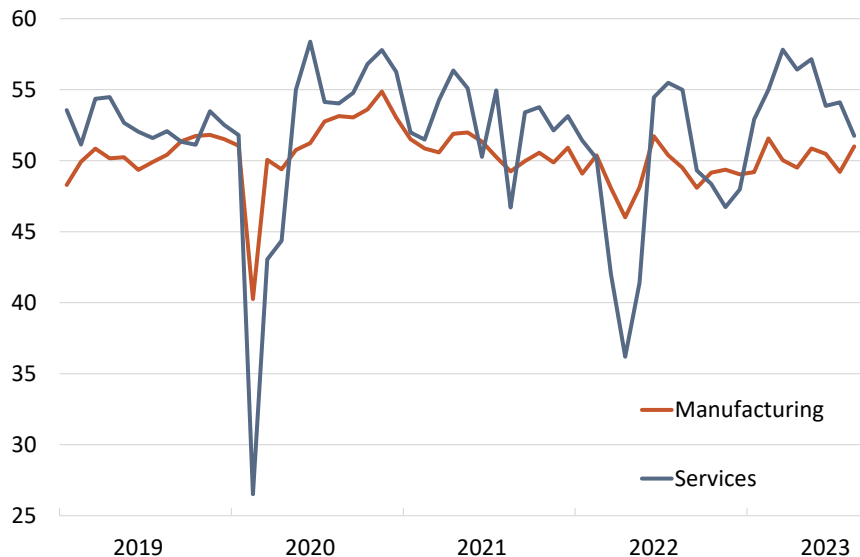


*In chained 2012 USD trn. Monthly data. Source: BEA*



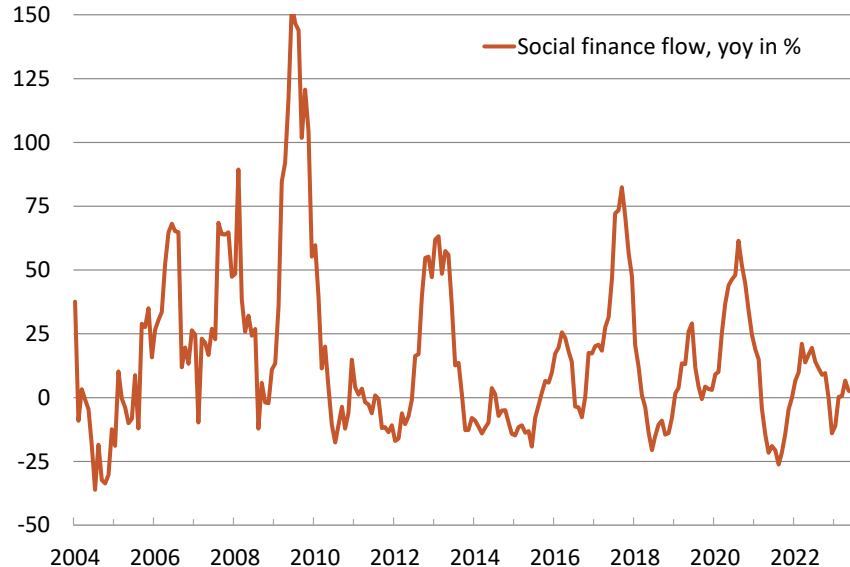
# China: serious trouble after modest reopening bounce

## China: services PMIs rolling over, manufacturing soft



PMI survey data; values above 50 indicate economic expansion. Source: Caixin, Haver Analytics

## China: fleeting rebound in credit



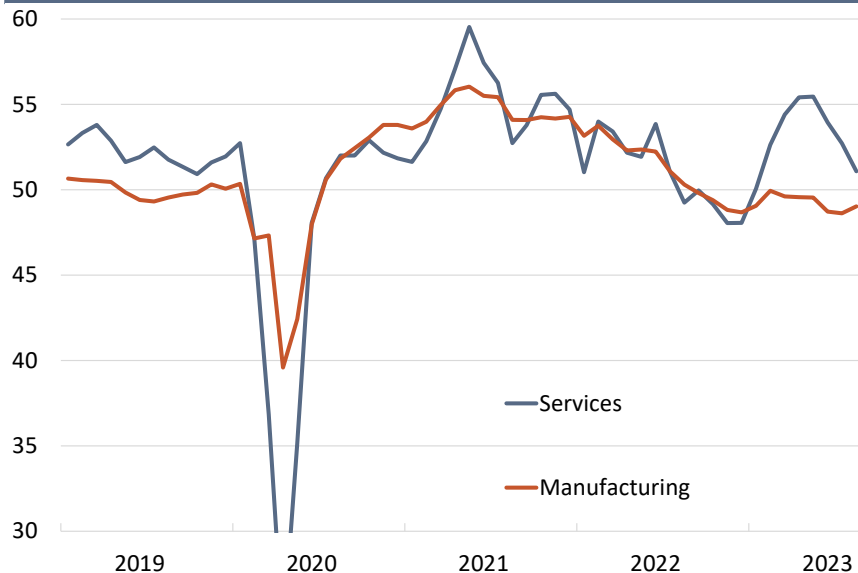
Social finance flows to the economy include finance through bank system and capital markets (bonds and equities), yoy change in six-month average, in %  
Sources: PBoC, Haver





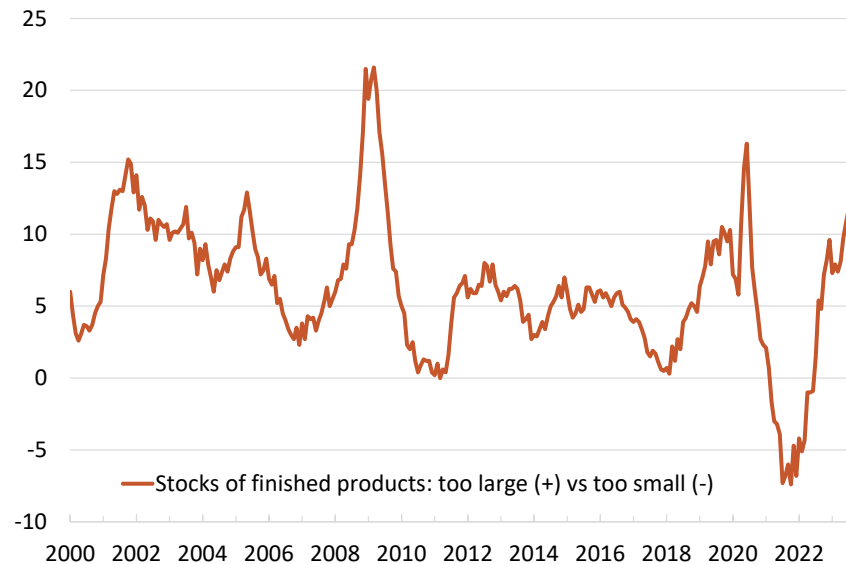
# Global manufacturing downturn hurts Europe

## Mind the gap: services vs. manufacturing



PMI survey data; values above 50 indicate economic expansion. Sources: S&P, JPM, Haver

## Inventory correction in manufacturing

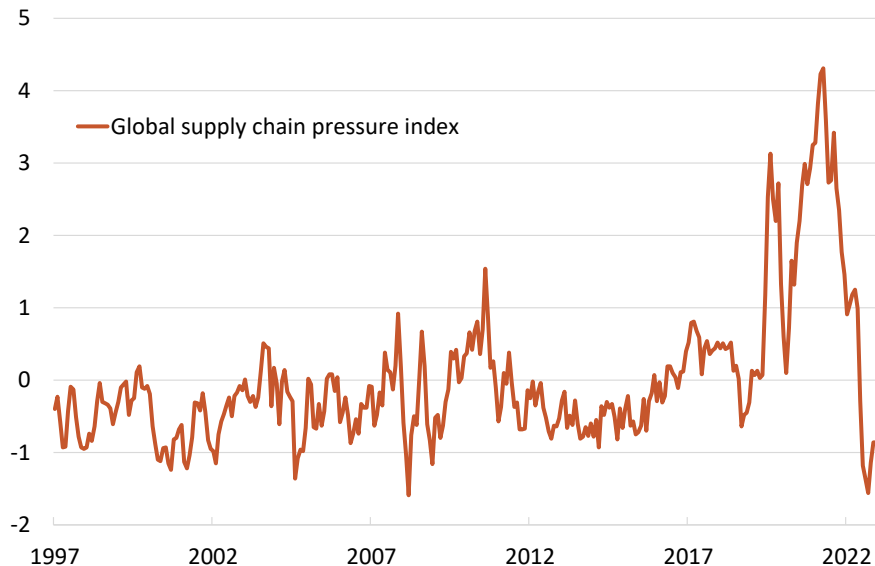


Balance of responses to question "are inventories too large or too small?"  
"Source: European Commission survey of industry"



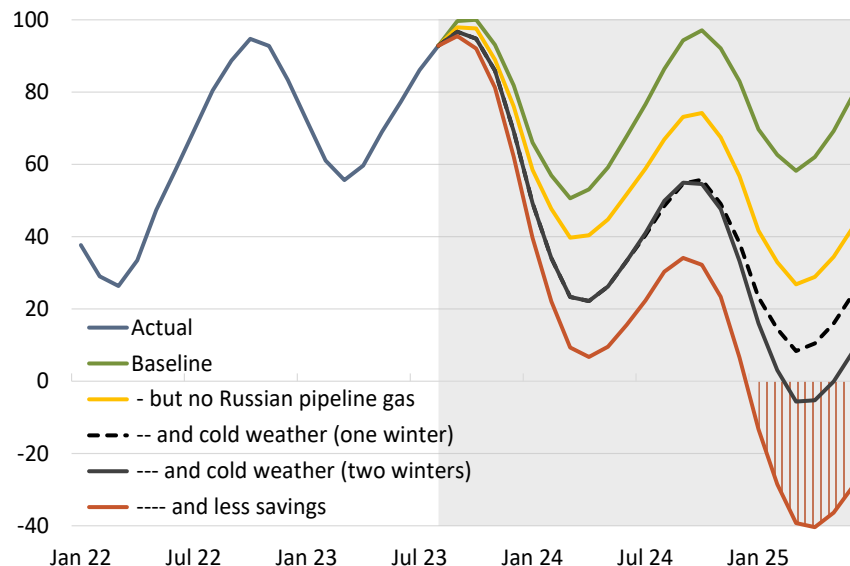
# Eurozone: The end of the big supply shocks

## New York Fed global supply chain pressures index



Standard deviations from average value; most recent month: partially imputed; monthly data. The index includes i.a. container freight rates and PMI data on delivery times. Source: NY Fed GSCPI index

## EU natural gas storage (% full)

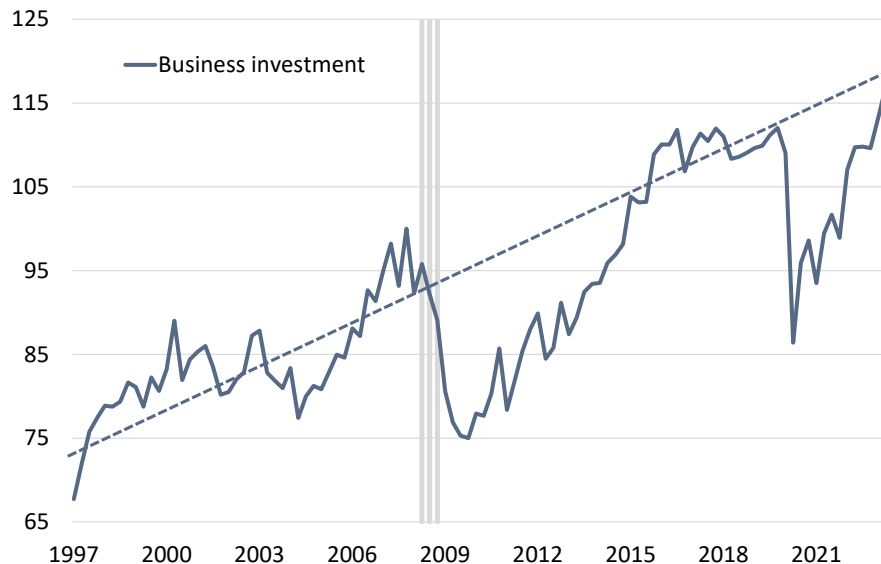


EU-27; end-of-month natural gas storage levels. Baseline (green): -15% consumption relative to 2017-21 average, rising to -20% in July 2024; constant imports; and Groningen stops producing in October 2023; yellow line: no Russian pipeline gas; black line: no Russian gas and colder weather (dashed: temperatures return to normal from July 2024 onwards, solid: temperatures stay low throughout); red line: like (solid) black line but with gas savings of only 10%, rising to 15% in July 2024; shaded red: gas shortfall. Source: Berenberg calculations based on data from AGSI, Bruegel, Eurostat



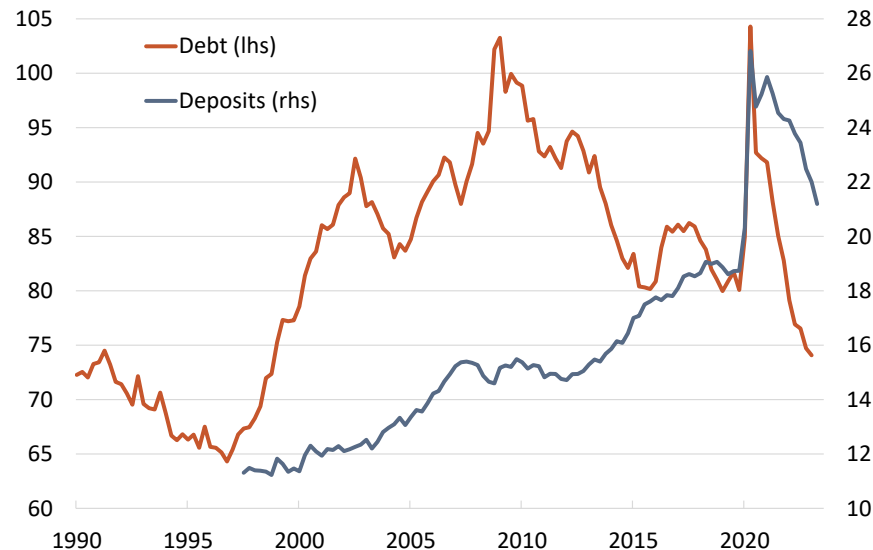
# UK: Quietly enjoying a business investment boom

## Business investment is rebounding sharply



*In real terms. Does not include expenditure on dwellings, land and existing buildings. Index, 100 = 2007 Q4. Shaded area highlights Global Financial Crisis. Quarterly data. Source: ONS*

## Good fundamentals – high cash balances, low debt

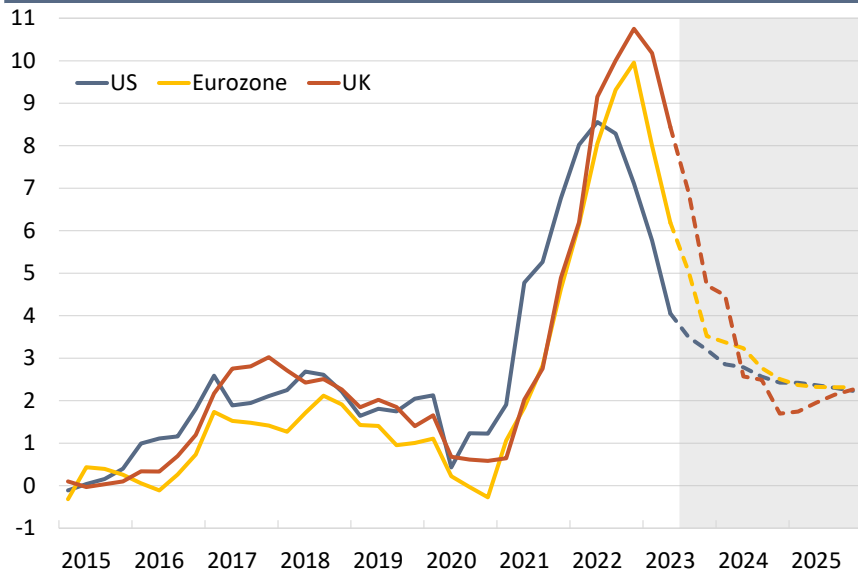


*Chart shows debt and deposits of private non-financial corporations as a % of GDP. Quarterly data. Sources: ONS, BoE*



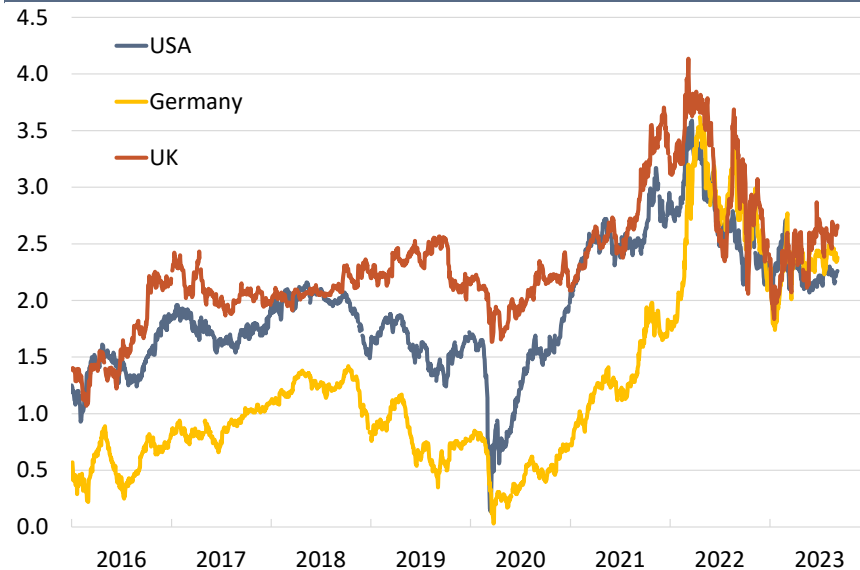
# Inflation: beyond the peak

## Inflation in the US, the Eurozone and the UK



Quarterly averages, yoy change in %. Sources: BLS, ONS Eurostat, Berenberg

## Market implied inflation expectations

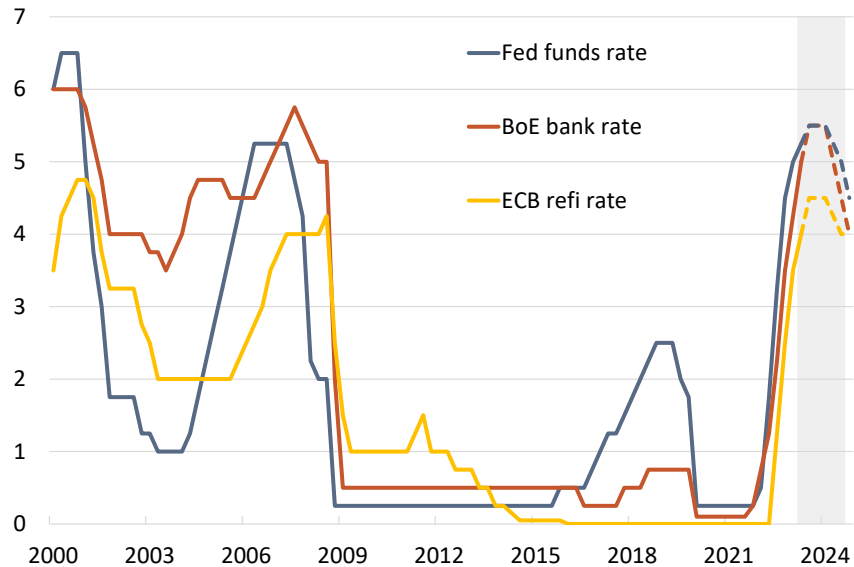


US inflation expectations based on 5-year nominal less 5-year TIPS rate in %; German inflation expectations based on 5-year breakeven inflation rate in %; UK inflation expectations based on 5 year breakeven minus 0.9ppts (average RPI % yoy minus average CPI % yoy from 2010 onwards). Source: Federal Reserve Board, Deutsche Bundesbank, BoE, Berenberg.



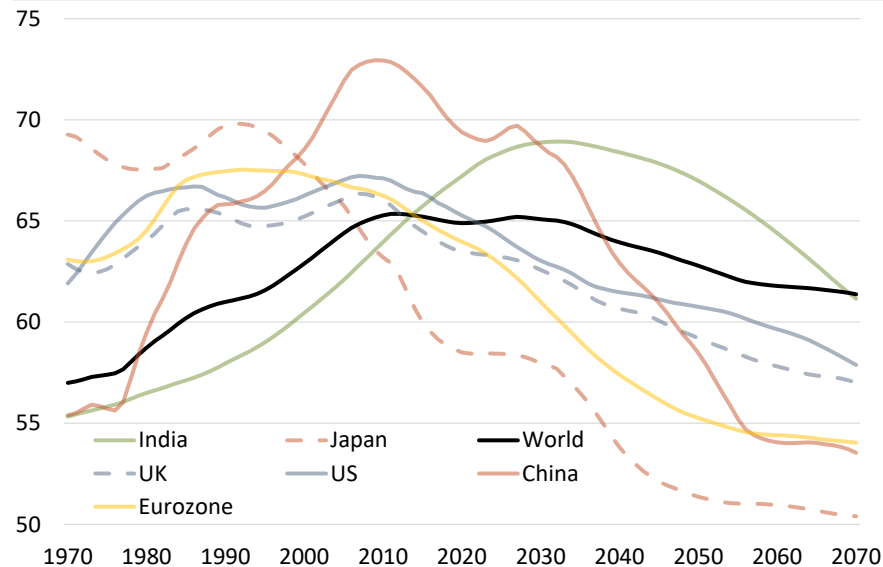
# Central bank outlook: hikes, pause, some cuts

## Key policy rates



Sources: ECB, Fed, BoE, Bundesbank, Berenberg projections

## Working age population as a % of total population



Working age population defined as 15–64-year-olds, annual data. Source: UN



# Global economic forecasts

	Weight	GDP growth				Inflation				Unemployment				Fiscal balance			
		2022	2023	2024	2025	2022	2023	2024	2025	2022	2023	2024	2025	2022	2023	2024	2025
<b>World*</b>	100.0	3.1	2.3	2.1	2.4												
<b>US</b>	24.2	2.1	2.1	1.2	1.7	8.0	4.1	2.7	2.3	3.6	3.7	4.4	4.2	-10.0	-6.8	-6.0	-5.7
<b>China</b>	18.4	3.0	4.6	3.8	3.6	2.0	0.5	2.0	2.2	5.6	5.3	5.0	4.8	-4.2	-4.0	-3.5	-2.5
<b>Japan</b>	5.2	1.0	1.6	0.7	1.1	2.5	3.1	2.0	1.5	2.6	2.6	2.4	2.3	-6.5	-5.3	-4.0	-3.0
<b>India</b>	3.3	6.8	6.0	6.5	6.0									-9.6	-8.0	-7.8	-7.5
<b>Latin America</b>	5.2	4.0	1.5	2.2	2.2									-3.9	-5.0	-4.5	4.0
<b>Europe</b>	26.4	3.0	0.5	1.0	1.6												
<b>Eurozone</b>	15.2	3.4	0.4	0.8	1.7	8.4	5.6	3.0	2.3	6.7	6.5	6.4	5.7	-3.6	-2.9	-2.1	-1.9
<b>Germany</b>	4.4	1.9	-0.5	0.6	1.6	8.7	6.2	2.8	2.2	3.1	3.0	3.0	2.6	-2.6	-2.0	-1.0	-1.1
<b>France</b>	3.1	2.5	0.7	1.1	1.7	5.9	6.0	3.7	2.5	7.3	7.4	7.2	6.4	-4.7	-4.7	-4.3	-2.9
<b>Italy</b>	2.2	3.8	0.7	0.5	1.2	8.7	6.4	2.5	2.4	8.1	7.8	7.5	6.8	-8.0	-4.0	-3.2	-2.5
<b>Spain</b>	1.5	5.5	2.2	1.4	2.1	8.3	3.6	3.1	2.7	12.9	12.0	11.1	9.9	-4.8	-4.0	-3.0	-2.2
<b>Portugal</b>	0.3	6.7	2.3	1.6	2.3	8.1	5.5	2.7	2.5	6.1	6.4	5.8	5.2	-0.4	-0.1	-0.1	-0.1
<b>Other Western Europe</b>																	
<b>UK</b>	3.2	4.1	0.3	0.8	1.7	9.1	7.5	2.8	2.0	3.7	4.3	4.4	4.0	-7.7	-4.2	-3.5	-2.8
<b>Switzerland</b>	0.8	2.1	0.7	1.2	1.4	2.8	2.4	1.5	1.3	2.2	2.3	2.2	1.8	0.2	0.1	0.5	0.5
<b>Sweden</b>	0.7	2.6	-0.5	1.2	2.0	8.1	6.7	2.3	2.3	7.5	7.9	7.5	6.8	0.7	-0.5	-0.5	0.0
<b>Eastern Europe</b>																	
<b>Russia</b>	1.9	-2.1	0.5	0.0	-0.5	13.8	8.0	7.0	6.0	3.9	3.6	4.0	4.5	-2.2	-4.0	-4.0	-4.0
<b>Turkey</b>	0.8	5.6	2.5	2.5	2.5	72.3	46.0	38.0	30.0	10.5	10.7	11.0	10.5	-1.6	-6.5	-5.0	-4.5

Unemployment rate: Harmonised definition (ILO/Eurostat); fiscal balance: general government deficit in % of GDP excluding one-off bank support. US fiscal data: federal government only.

\*At market exchange rates, not purchasing power parity. PPP estimates give more weight to fast-growing emerging markets and inflate global GDP.

Weights based on IMF World Economic Outlook 2022 GDP data for 2021. Sources: World Economic Outlook, Berenberg



# Key financial forecasts

	Current <sup>1</sup>	End-2023	End-2024	End-2025
<b>Central bank rates</b>				
US Fed	5.25-5.50%	5.25-5.50%	4.25-4.50%	3.00-3.25%
ECB refi rate*	4.50%	4.50%	4.00%	3.75%
ECB deposit rate*	4.00%	4.00%	3.50%	3.25%
BoE	5.25%	5.50%	4.00%	3.00%
BoJ	-0.10%	-0.10%	-0.10%	-0.10%
<b>10-year bond yields</b>				
US	4.31%	4.25%	4.25%	4.25%
Germany	2.64%	2.60%	2.90%	3.10%
UK	4.34%	4.50%	4.20%	3.80%
<b>Currencies</b>				
EUR-USD	1.07	1.10	1.18	1.25
EUR-GBP	0.86	0.85	0.85	0.85
GBP-USD	1.24	1.29	1.39	1.47
USD-JPY	148	145	140	135
EUR-JPY	158	160	165	169
EUR-CHF	0.95	0.97	0.98	0.98
USD-CNY	7.27	7.30	7.30	7.30

<sup>1</sup> Taken on 15 September at 09:15 UK time.

\*Expect euro money market rates close to the highlighted ECB rates – switch from deposit rate to refi rate by end-2024 as ECB reduces excess liquidity (or changes its toolkit). Currency forecasts may not add up due to rounding

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