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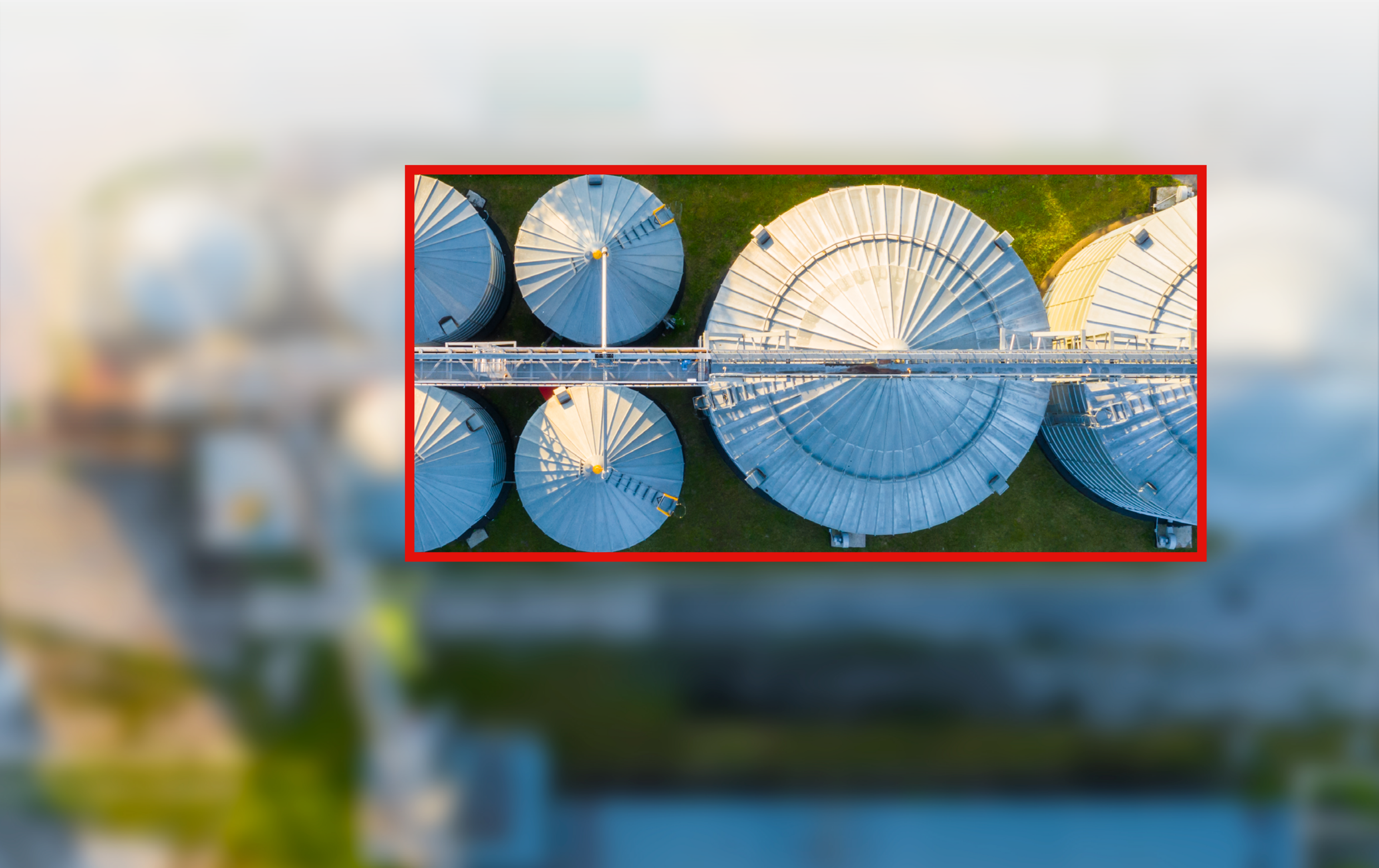
Global economic outlook 2023

Low growth amid persistent threats



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Contact us

LONDON

Economist Intelligence
The Adelphi
1-11 John Adam Street, London, WC2N 6HT
United Kingdom
Tel: +44 (0)20 7576 8000
e-mail: london@eiu.com

GURUGRAM

Economist Intelligence
TEG India Pvt Ltd
Skootr Spaces, Unit No. 1,
12th Floor, Tower B, Building No. 9
DLF Cyber City, Phase – III
Gurugram – 122002
Haryana, India
Tel: +91 124 6409486
e-mail: asia@eiu.com

NEW YORK

Economist Intelligence
900 Third Avenue
16th Floor
New York, NY 10022
United States
Tel: + 1 212 541 0500
e-mail: americas@eiu.com

DUBAI

Economist Intelligence
PO Box No - 450056, Office No - 1301A Aurora
Tower Dubai Media City Dubai,
United Arab Emirates
Tel: +971 4 4463 147
e-mail: mea@eiu.com

HONG KONG

Economist Intelligence
1301 Cityplaza Four 12 Taikoo Wan Road Taikoo
Shing, Hong Kong
Tel: + 852 2585 3888
e-mail: asia@eiu.com

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EIU Global Outlook—a summary of our latest global views

Despite strong headwinds, mostly related to the ripple effects from the war in Ukraine and high global inflation, the global economy has proven resilient so far in 2023. Europe avoided a deep recession in the winter of 2022/23, in part owing to warmer than usual temperatures and to the rapid switching to alternative energy sources following Russia's decision to turn off gas flows. US consumer spending has also held up better than EIU expected, with the labour market and consumer spending strengthening further in early 2023. Finally, China's exit from the government's zero-covid policy has also supported global activity. We therefore expect global growth to stand at a modest—but not anaemic—2.1% in 2023.

Global GDP growth will slow in 2023

Despite the brighter outlook, growth of 2.1% this year would still represent a slowdown. The full-blown war in Ukraine is affecting the global economy via higher commodity prices, supply-chain disruptions and Russia's weaponisation of energy supplies. This situation will persist throughout 2023 (and probably beyond), as we expect the war to become a protracted conflict with no clear resolution. The economic impact of the war is being felt especially strongly in Germany and central Europe, where energy-intensive industries will struggle to remain competitive. In the US, we still expect annual growth to slow sharply this year, to only 1%, as the pace of consumer spending becomes unsustainable in the face of high inflation and a steep rise in interest rates. In China, the initial rebound in consumer activity after the lifting of the government's zero-covid policy has been strong. However, China's recovery has fallen short of expectations. Despite our forecast of full-year growth of 5.5% in 2023, that performance reflects a low base of comparison. Sources of stress relate to excess capacity in the manufacturing sector; an ephemeral recovery in the housing market; the deleveraging of the household sector; elevated youth unemployment; and strains in local public public finances.

The full-blown war in Ukraine will keep a floor under commodity prices

We expect global commodity prices to continue easing from their 2022 peaks this year, but to remain well above pre-2021 levels. However, China's reversal of its zero-covid policy has put upward pressure on oil prices, which we expect to remain above US$75/barrel until 2025. An EU ban on seaborne Russian oil imports (since late 2022), China's reopening (in early 2023) and the decision by OPEC+ members in April to cut production will all exacerbate market tightness. We expect European gas prices to ease gradually in 2023-24 but to remain above 2019 levels, weighing on households and businesses. The possible tightening of Western sanctions (for instance if the G7 price cap on Russian oil exports were to be lowered) will fuel price volatility.

Global inflation will remain high in 2023

We expect global inflation to ease slightly, from 9.2% in 2022 to 7.1% in 2023. High global commodity prices, continued supply-chain disruptions stemming from the invasion in Ukraine and, in some parts of the world, the still-strong US dollar will keep annual inflation well above 2019 levels. However, we expect inflation to lose some momentum as global demand softens and commodity prices start to ease back from their 2022 peaks. We expect central banks to maintain their aggressive policy stance in an effort to bring inflation under control, even as global growth slows. Interest rates in most major economies will peak by mid-2023, and in most cases will then stay on hold until 2024.

Risks to the global economy abound

Several potential scenarios could derail our forecasts. The most impactful of these include: an escalation of the war in Ukraine (notably following the start of Ukraine's counteroffensive); social unrest arising from high inflation (especially given that high levels of public indebtedness constrain emerging countries' room for manoeuvre to mitigate the impact on households); an escalation of tensions around Taiwan (following China's frequent military manoeuvres around the island); financial contagion following the collapse since March of three US regional banks and turmoil at a Swiss banking giant, Credit Suisse; and extreme weather events, compounded by the likely resurgence later this year of the El Niño phenomenon, that further fuel global inflation. If one (or several) of these scenarios were to materialise, a global recession this year or next would be likely.

World economy: forecast summary

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Real GDP growth (%)										
World (PPP[a] exchange rates)	**3.6**	**2.8**	**-2.9**	**6.3**	**3.4**	**2.8**	**3.1**	**3.2**	**3.3**	**3.3**
World (market exchange rates)	**3.0**	**2.3**	**-3.5**	**6.0**	**3.1**	**2.1**	**2.5**	**2.7**	**2.7**	**2.7**
US	2.9	2.3	-2.8	5.9	2.1	1.0	1.0	2.2	2.2	2.0
Euro area	1.8	1.6	-6.3	5.3	3.6	0.8	1.4	1.7	1.7	1.6
Europe	2.2	1.8	-5.6	6.0	3.2	0.8	1.7	2.0	1.9	2.0
China	6.8	5.9	2.2	8.4	3.0	5.5	5.0	4.4	4.1	3.9
Asia & Australasia	4.5	3.5	-1.3	6.2	3.2	3.9	4.0	3.6	3.6	3.5
Latin America	0.8	-0.6	-6.7	6.6	3.8	1.5	2.3	2.2	2.2	2.3
Middle East	1.3	1.0	-3.9	4.1	6.1	2.4	2.8	2.9	3.1	3.5
Africa	2.9	2.7	-2.8	4.8	3.5	2.7	3.5	3.6	3.7	3.9
World inflation (%; av)[b]	**3.5**	**3.5**	**3.3**	**5.3**	**9.2**	**7.1**	**4.8**	**3.6**	**3.4**	**3.2**
World trade growth (%)	**3.9**	**0.2**	**-5.0**	**10.8**	**4.0**	**2.1**	**3.2**	**3.6**	**3.7**	**3.9**

[a] Purchasing power parity. [b] Excludes Venezuela.

Source: EIU.

Fears about global food supplies are high

Fears about global food supplies remain high amid risks to grain exports from Russia and Ukraine (together, these countries account for around one-third of global wheat trade). Concerns about a war-induced shortage of fertiliser have proven overblown; however, Russia's willingness to hold up its end of a deal that allows the passage of grains out of Ukraine remains in doubt. In addition, food prices remain high (owing to extreme weather events and high energy and transport costs), fuelling the risk of social unrest globally and of rising poverty in emerging countries.

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