

Key Global Macroeconomic Themes For 2023



December 2022

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Key Global Macro Themes For 2023

Theme	View	Theme	View
1	Sharp Slowdown In Global Growth, But Mainland China To Buck The Trend	5	Fragmented Parliaments Will Stymie Policymaking
2	Inflation Will Ease Slowly, Leading To Still-Tight Monetary Policy	6	Tensions Between The Washington And Beijing Will Increase
3	Fiscal Policy Will Tighten	7	Global Property Markets Come Under Pressure
4	US Dollar Not A One-Way Bet Anymore	8	Unemployment Rates Increase, But Less Than In Previous Cycles

Source: Fitch Solutions

1

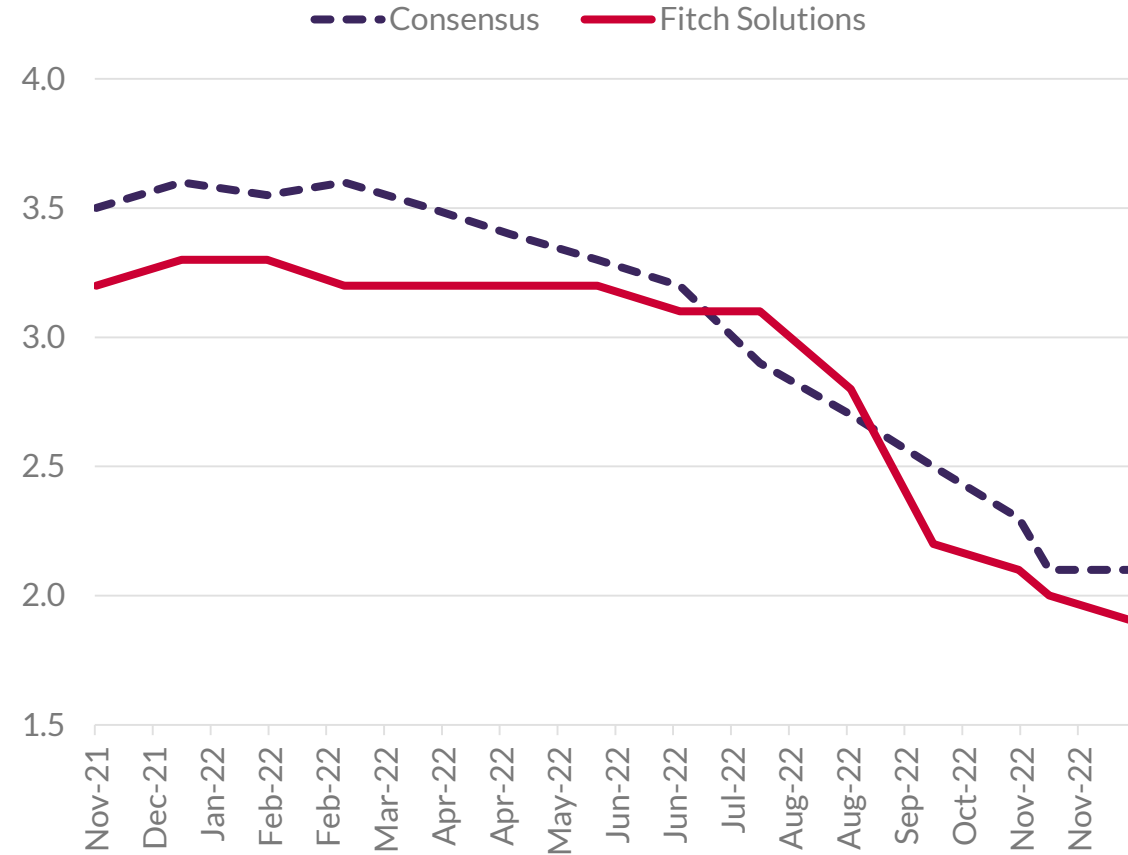
Slowdown In Global Growth, Mainland China To Buck The Trend



Sharp Slowdown In Global Growth...

Growth Takes A Hit In 2023

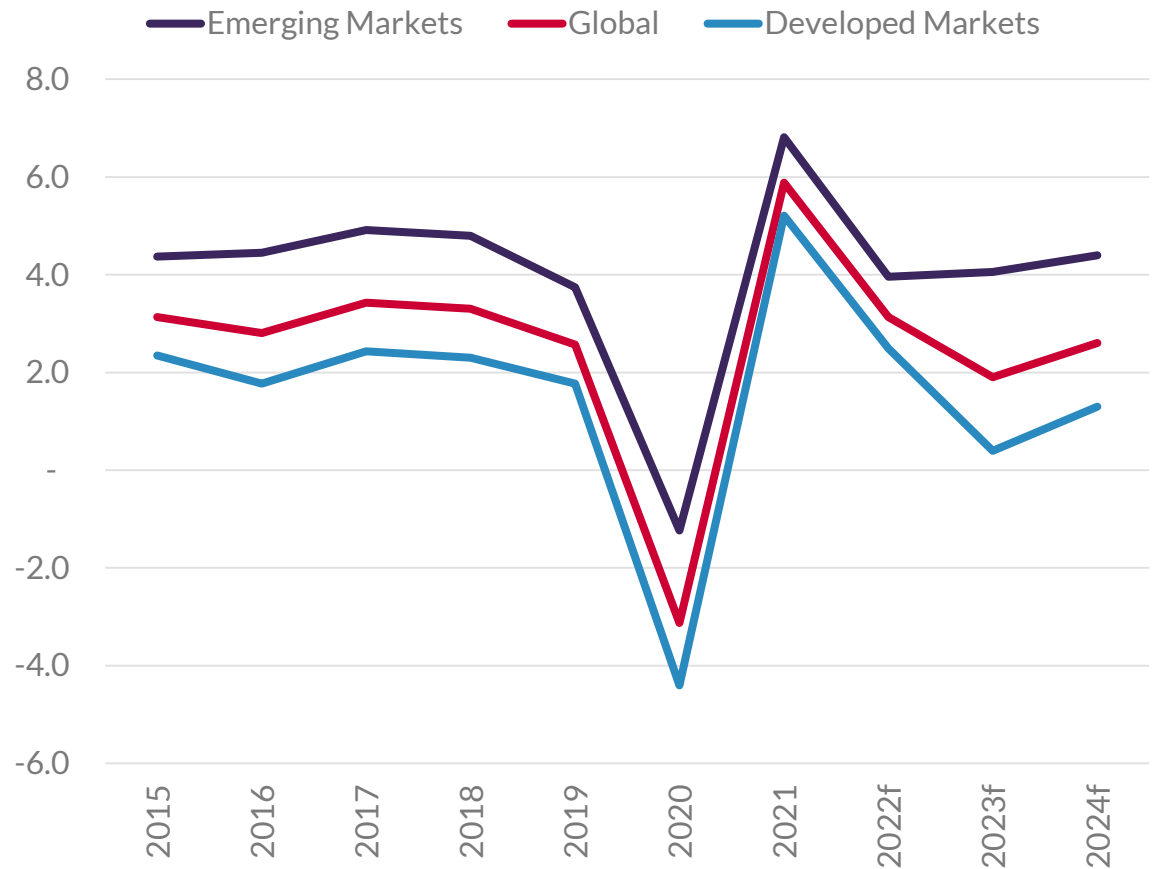
Evolution Of 2023 Real GDP Growth Forecast, %



Source: Bloomberg, Fitch Solutions

Slow Recovery In 2024

Real GDP Growth, %



f = forecast. Source: Bloomberg, Fitch Solutions

...But Significant Variation In Growth, Mainland China Bucking Trend

MENA To Outperform, Europe To Lag

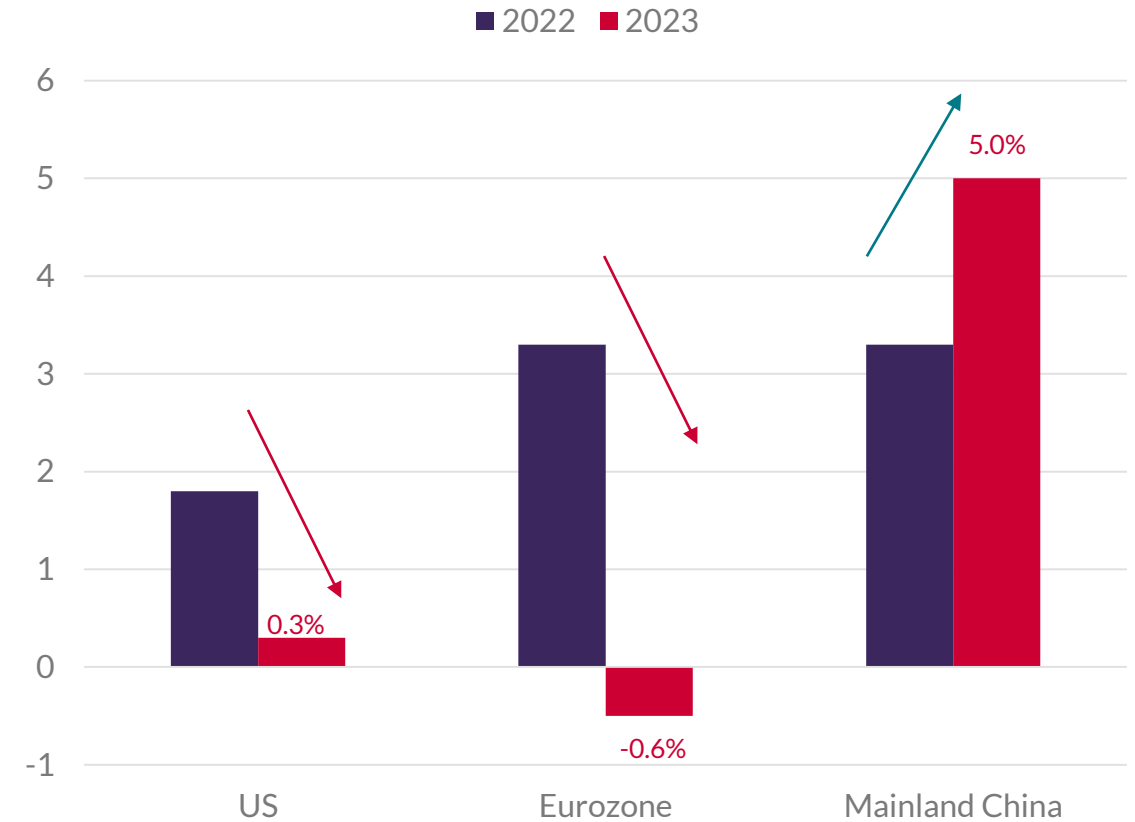
Real GDP Growth, %



*Excluding Mainland China. e/f = estimate/ forecast. Source: Fitch Solutions

Mainland China To Buck Slowing Trend

Real GDP Growth, %

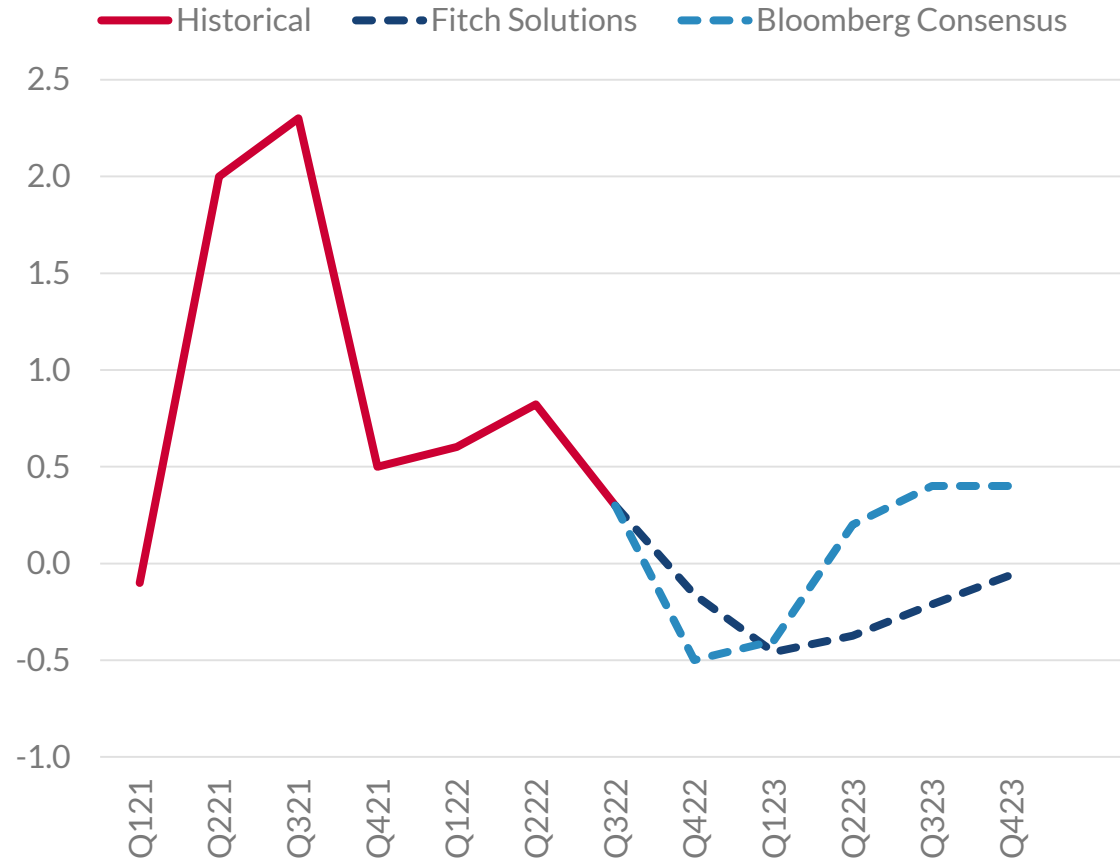


Source: Fitch Solutions

Two Major Economies To Fall Into Recession...

Eurozone Hit By Triple Whammy For 0.6% Contraction

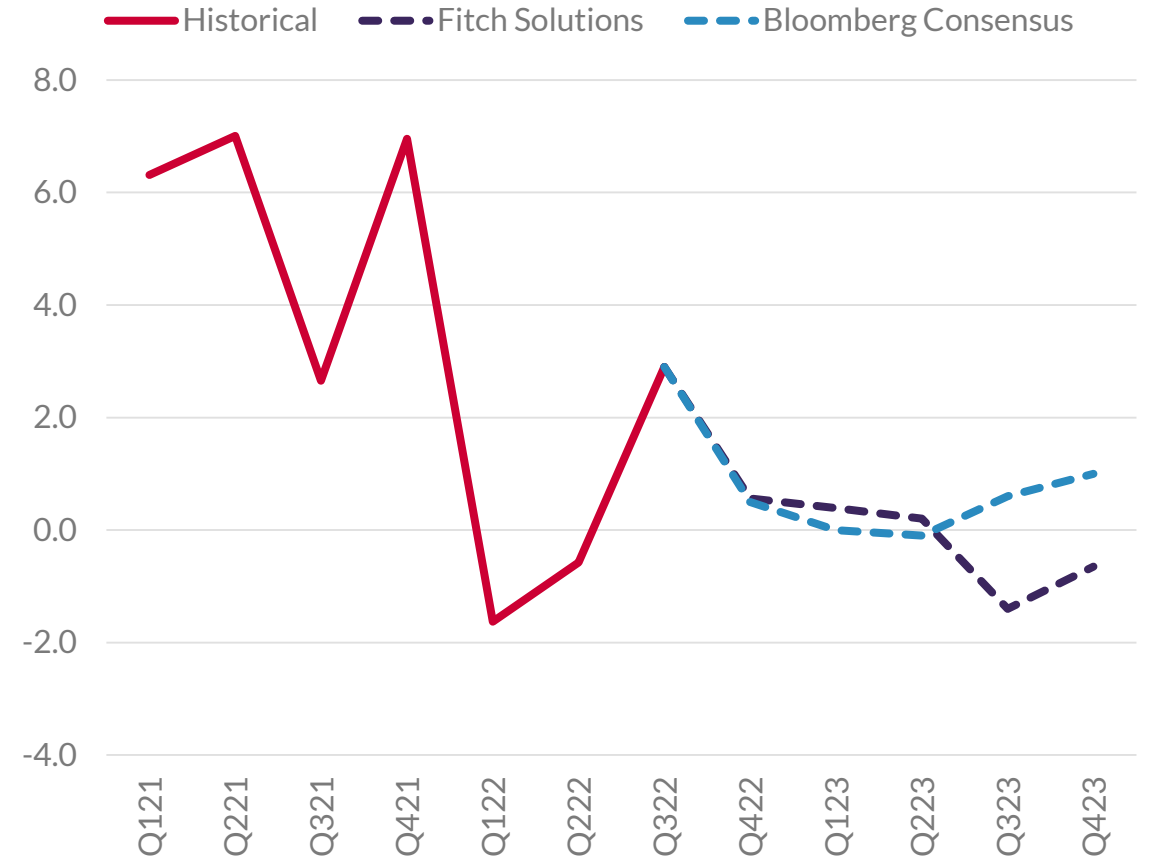
Real GDP Growth, q-o-q & Forecasts, %



Source: Bloomberg, Fitch Solutions

US To Fall Into Shallow Recession With 0.3% Growth

Real GDP Growth, q-o-q SAAR & Forecasts, %

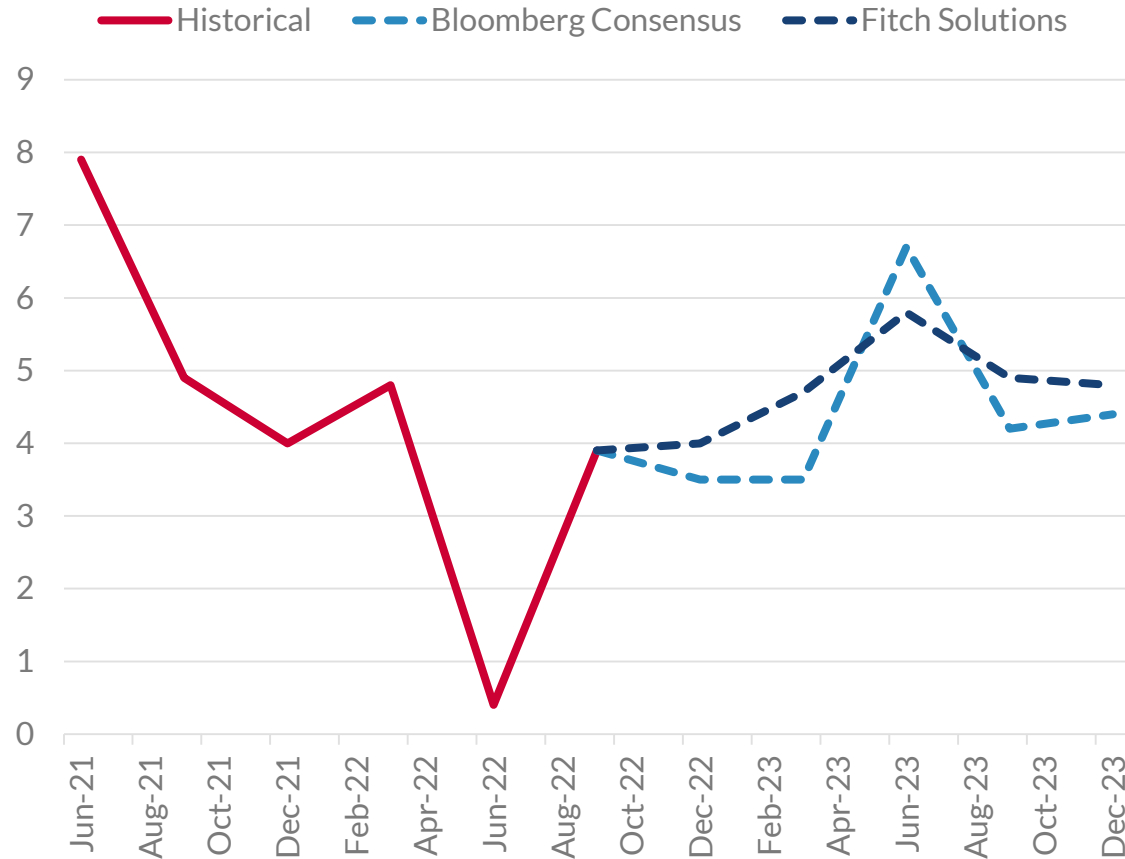


Source: Bloomberg, Fitch Solutions

...But Mainland China Will Buck The Growth Trend

Growth Will Pick Up From 3.3% To 5.0% In 2023

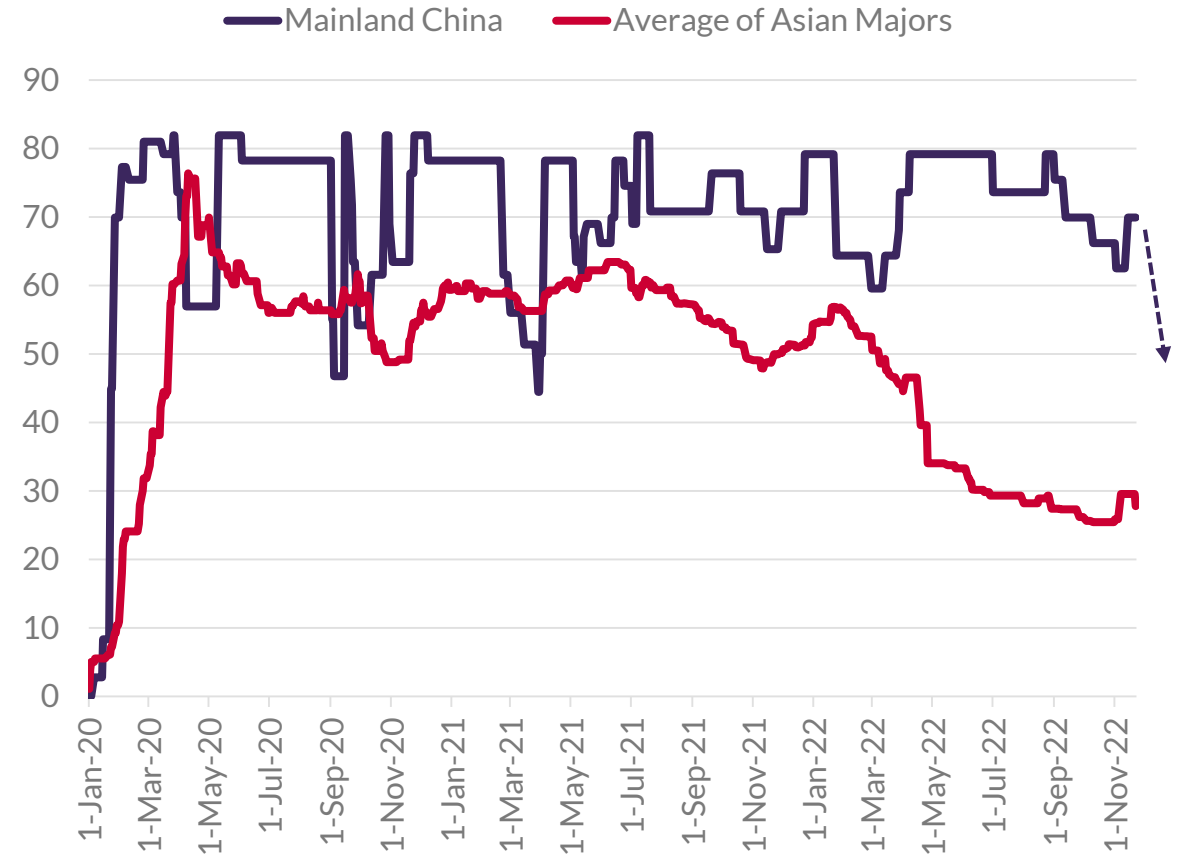
Real GDP Growth, y-o-y & Forecasts, %



Source: Bloomberg, Fitch Solutions

Mainland China Has Started Easing Restrictions, More In H123

Oxford Stringency Index

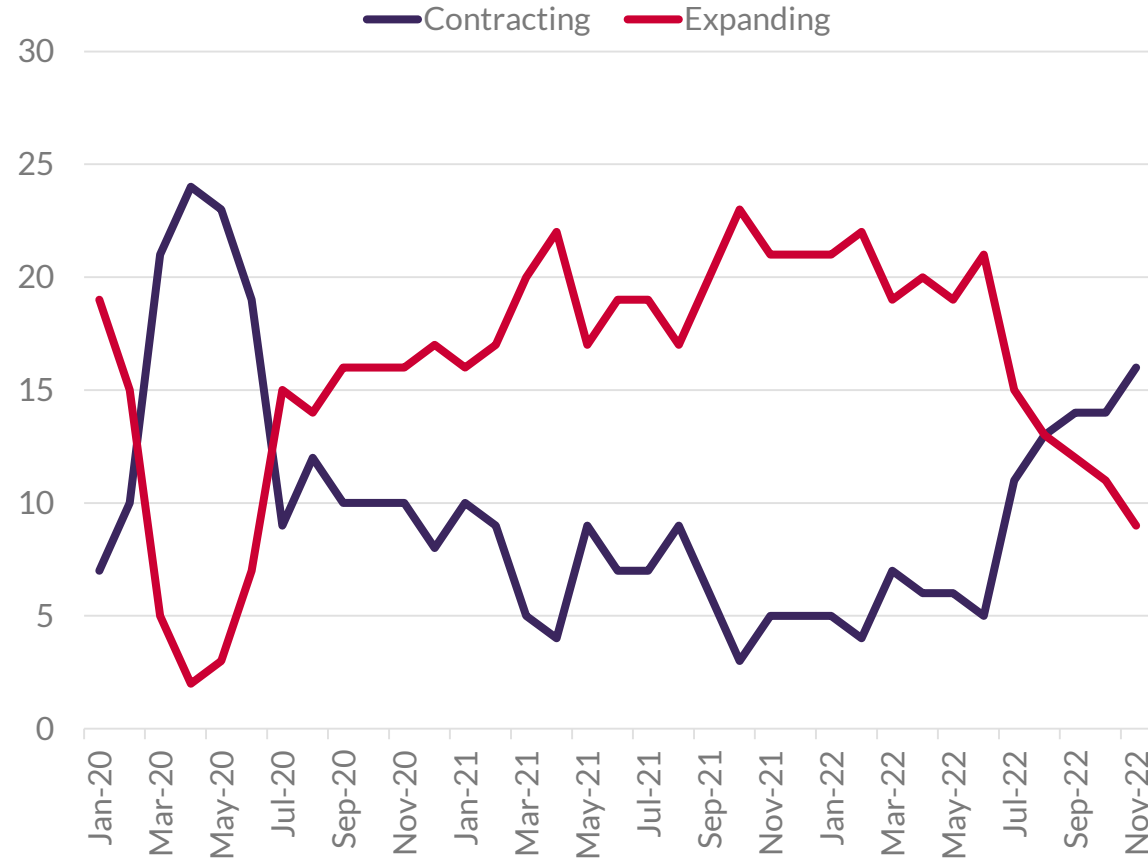


Source: Bloomberg, Fitch Solutions

More Markets Contracting Than Expanding, New Orders Sinking

More Markets In Contraction Than Before

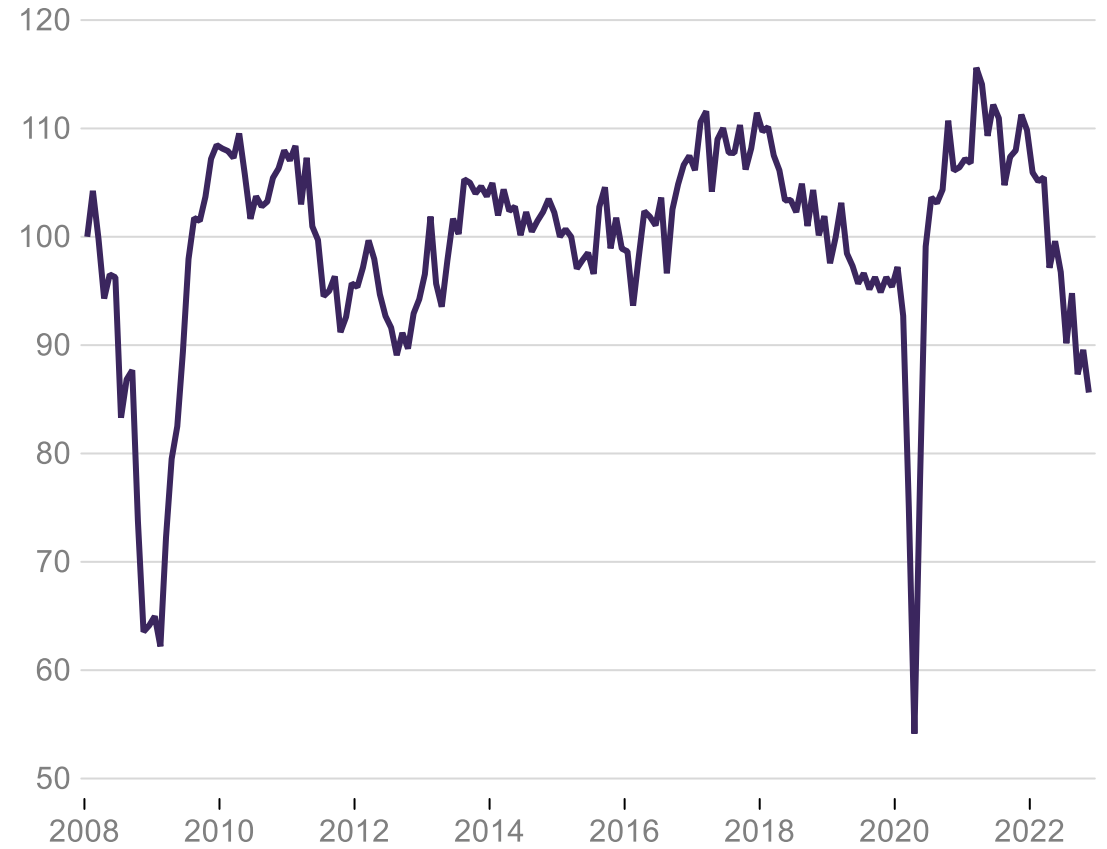
Count Of Selected Markets With PMI Above Or Below 50 Level (2019-2022)



Source: Bloomberg, Fitch Solutions

Manufacturing New Orders Coming Down Quickly

Global New Orders Index*

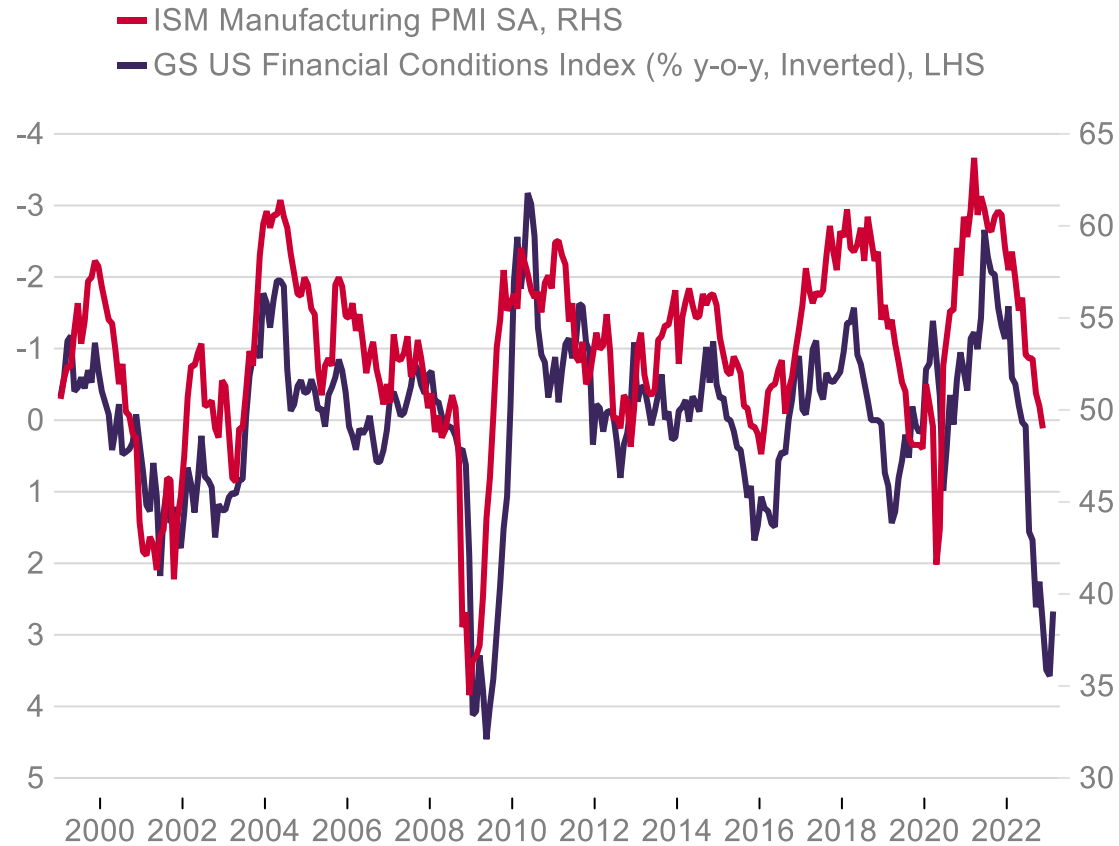


*Comprised of 12 major markets. Source: Macrobond Fitch Solutions

Tighter Policy Weighing On Growth And Sentiment

Tightening Financial Conditions Weighing On Growth

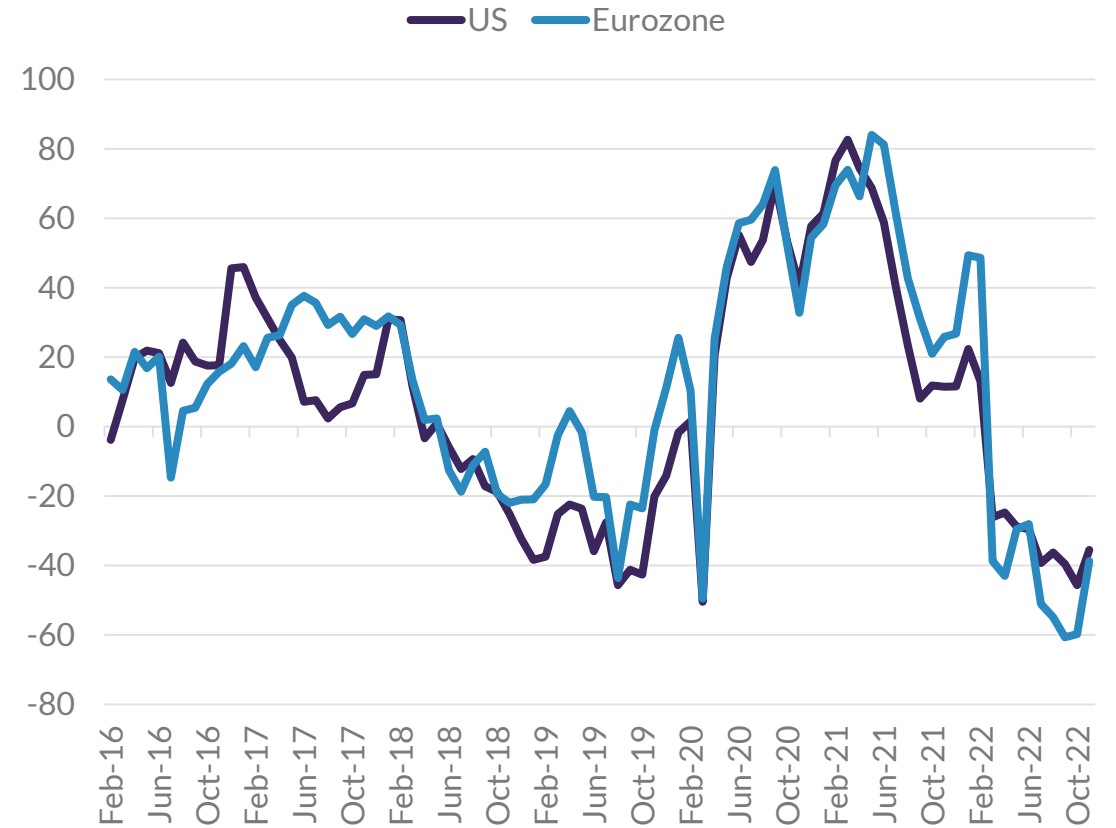
Financial Conditions, % y-o-y (inverted) vs US PMI



Source: Macrobond, Fitch Solutions

Economic Growth Expectations Remain Depressed

ZEW Growth Expectations

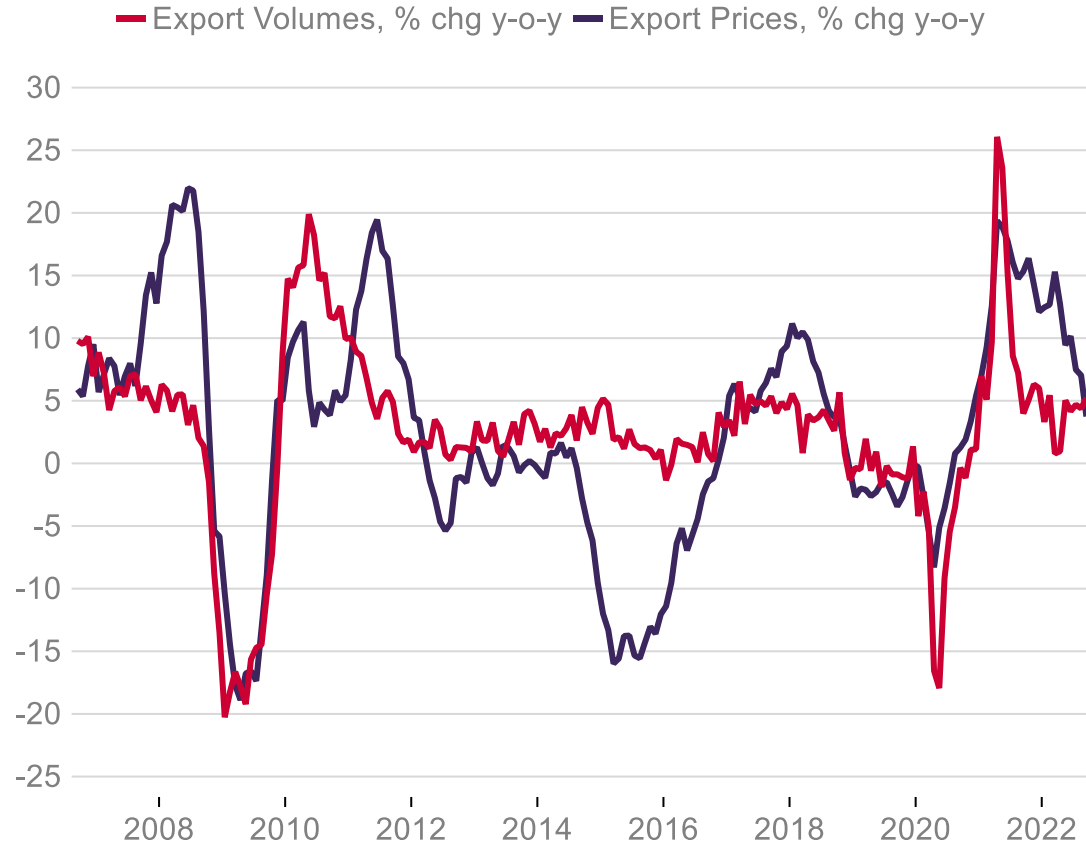


Source: Bloomberg, Fitch Solutions

Exports Weakening And Will Get Worse

Global Volumes Fell First, Prices Catching Down

Global Exports, % change y-o-y



Source: Macrobond, Fitch Solutions

Early Reporters Point To More Weakness Ahead

Exports, % change y-o-y



Source: Macrobond Fitch Solutions

2

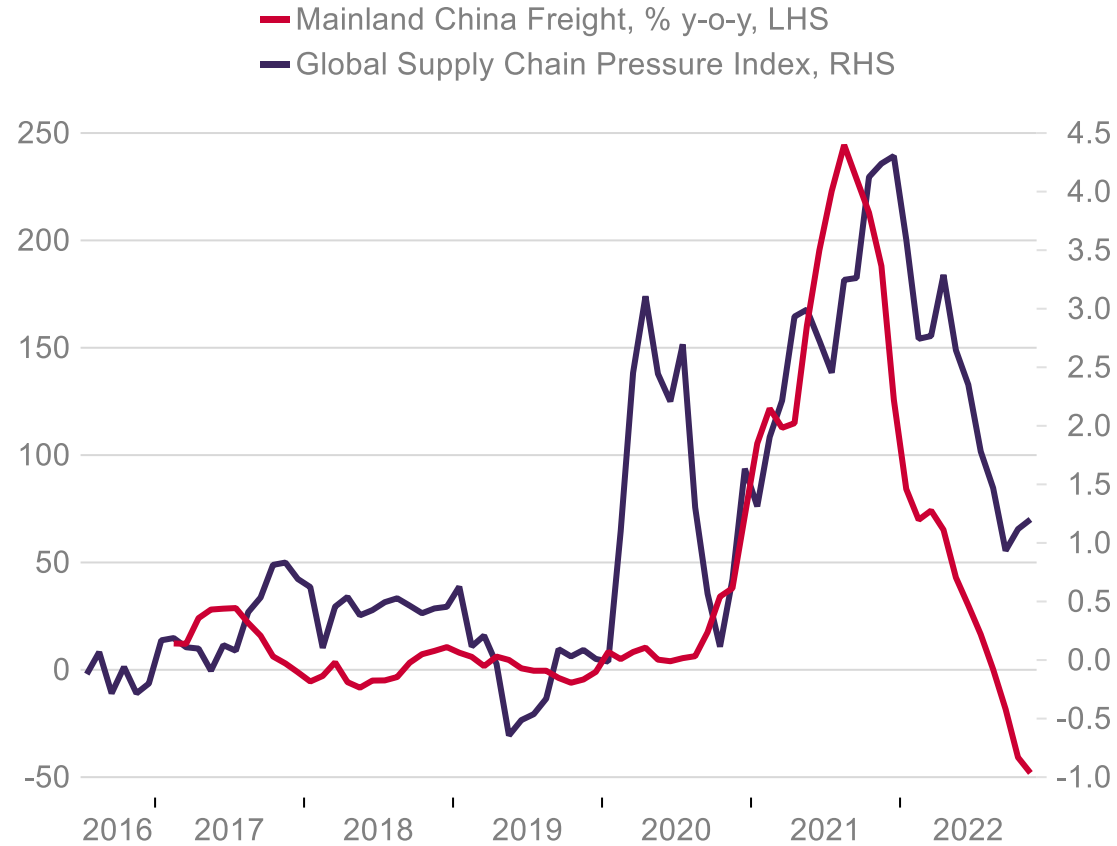
Inflation Will Ease Slowly,
Leading To Still-Tight
Monetary Policy



Inflation Will Ease Slowly, Leading To Still-Tight Monetary Policy

Supply Pressures Ease As Mainland China Reopens

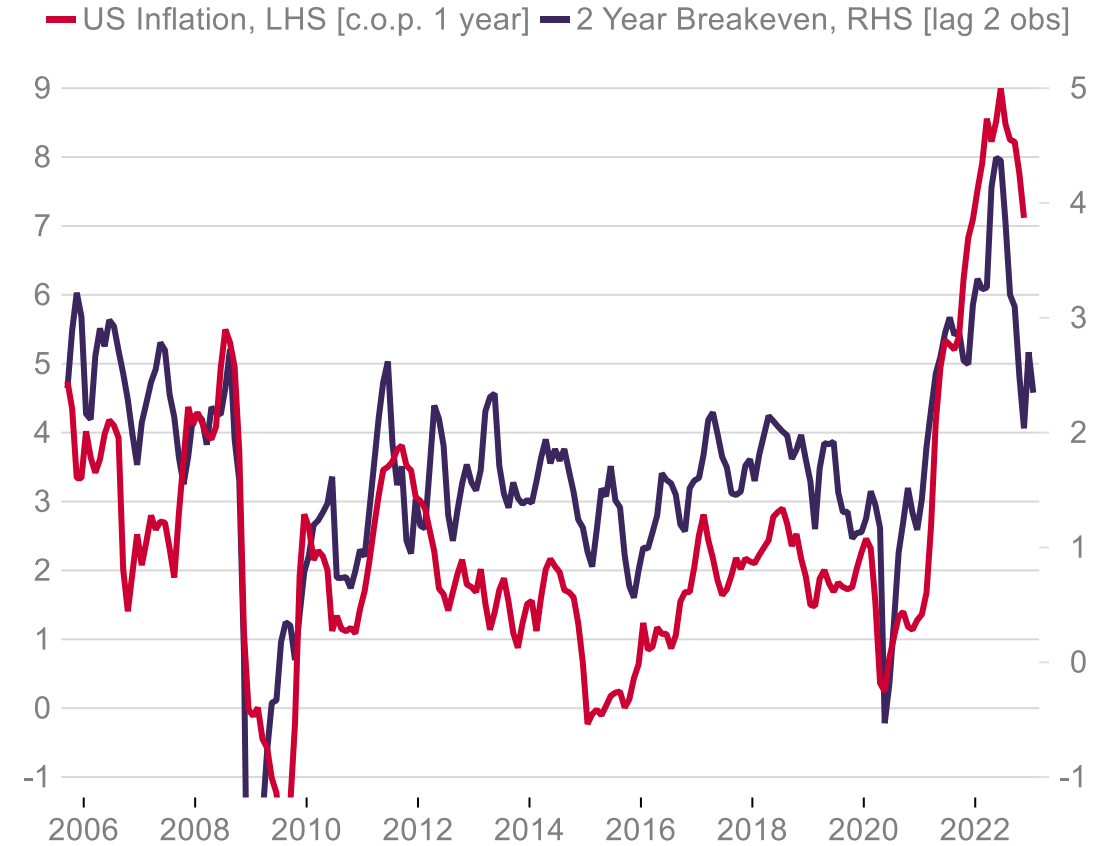
Freight Rates & Supply Chain Pressure Index



Source: Macrobond, Fitch Solutions

Market Expectations Have Come Down

US Inflation & Inflation Expectations, %

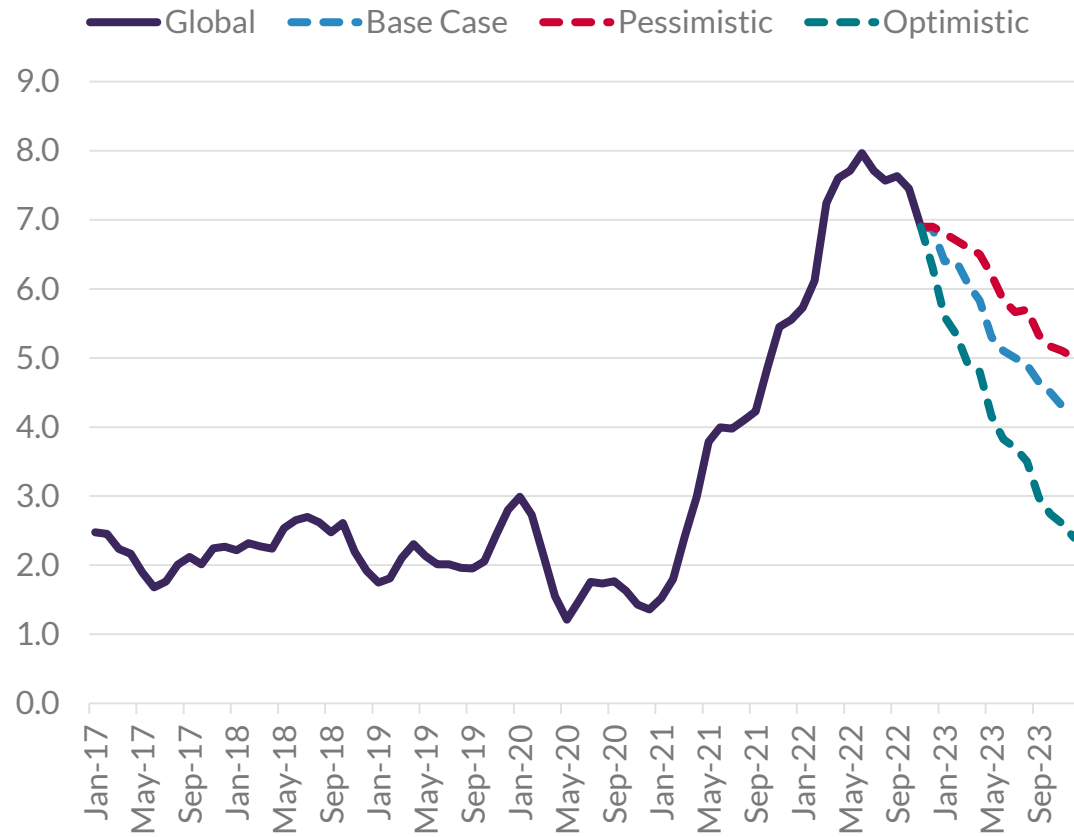


Source: Macrobond, Fitch Solutions

Inflation Will Remain Above Target

Inflation To Come Down, But Stickier Than Before

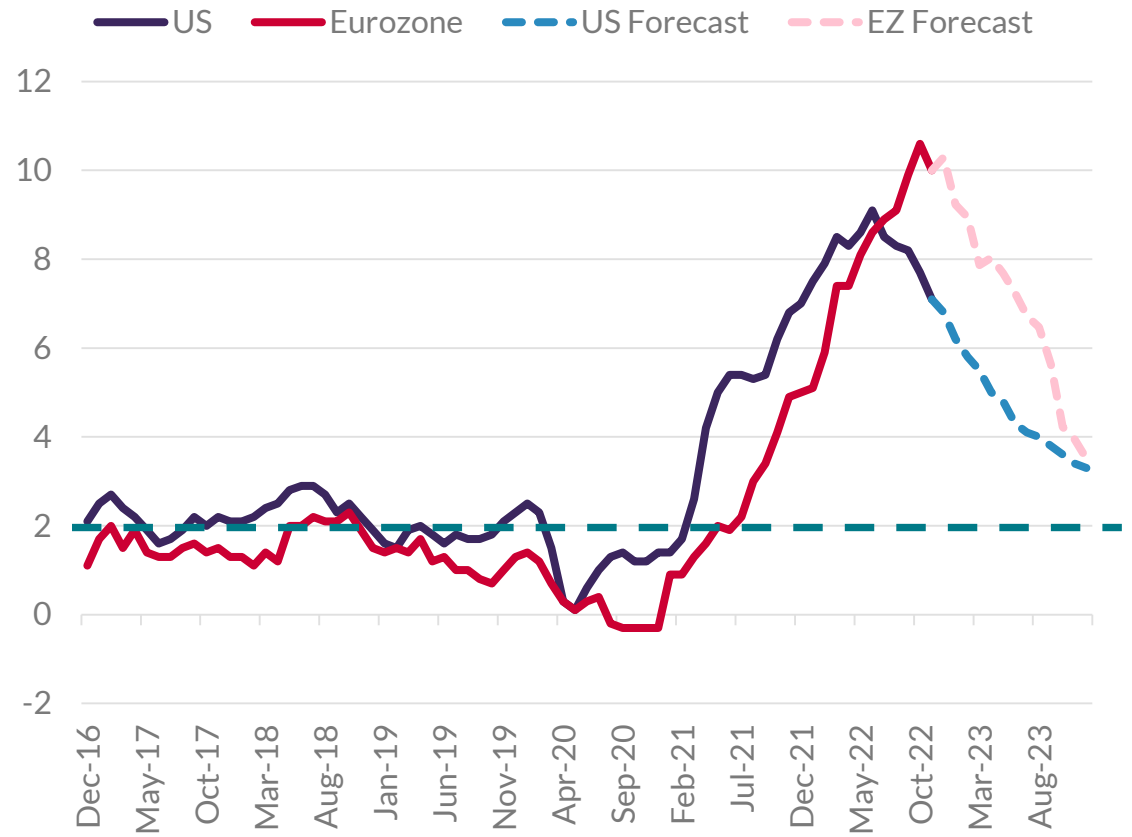
Inflation %, y-o-y



Source: Bloomberg, Fitch Solutions

Inflation To Remain Well Above Target In US And Eurozone

Inflation, % y-o-y

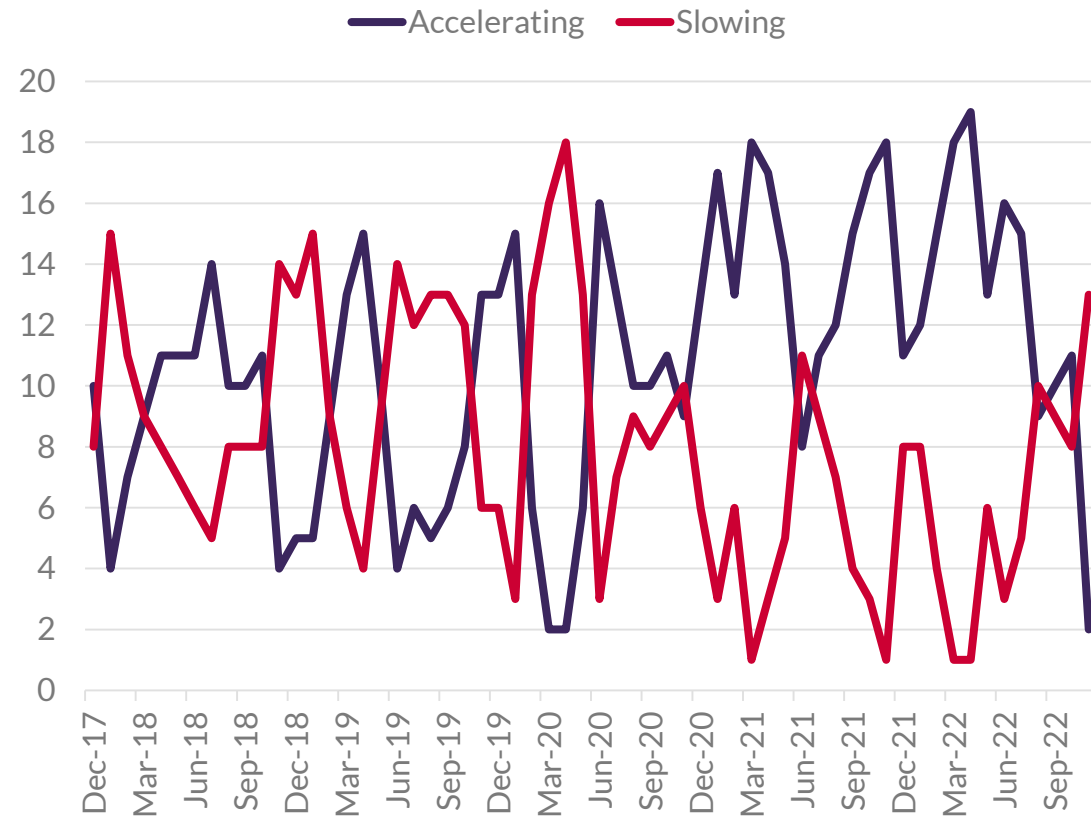


Note: EZ = eurozone. Source: Bloomberg, Fitch Solutions

Inflation Coming Down More Broadly

More Economies Seeing Lower Inflation Readings

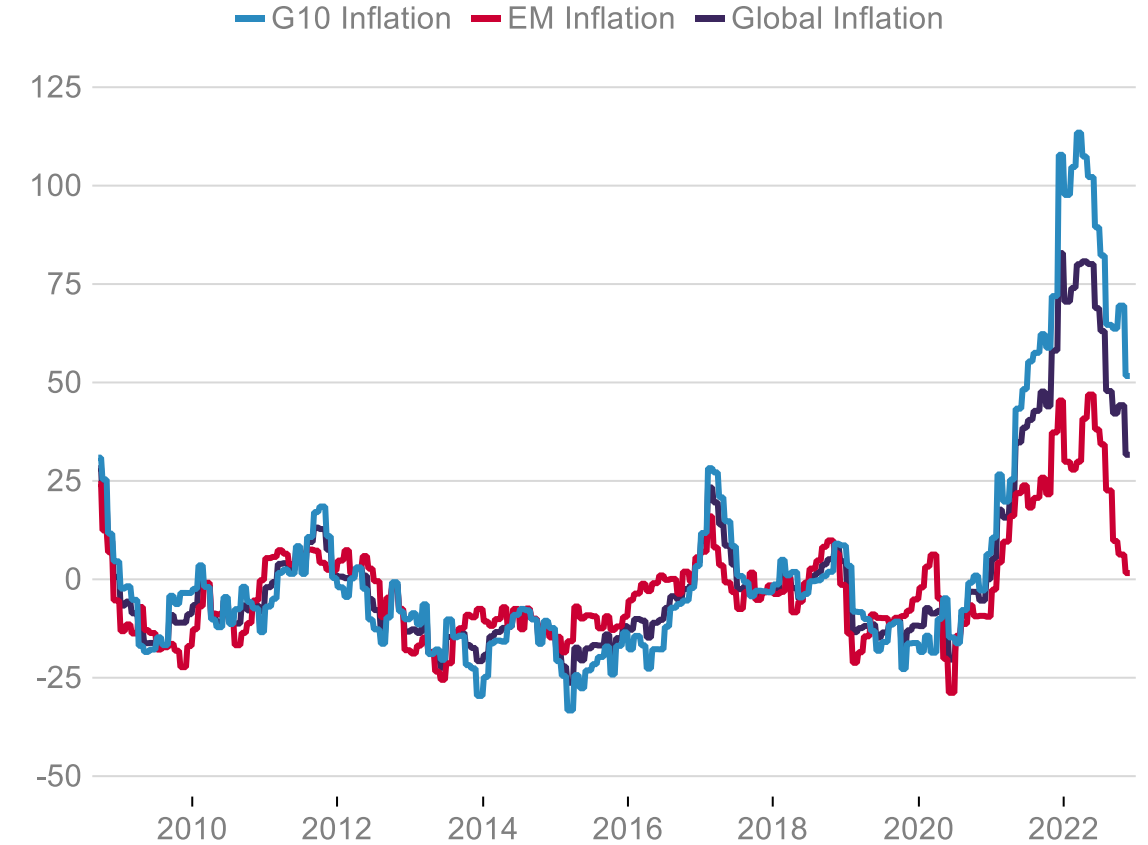
Count Of Economies With Accelerating Or Slowing Year-On-Year Inflation



Source: Macrobond, Fitch Solutions

Inflation Surprises Not Looking As Bad As Before

Citi Inflation Surprise Index

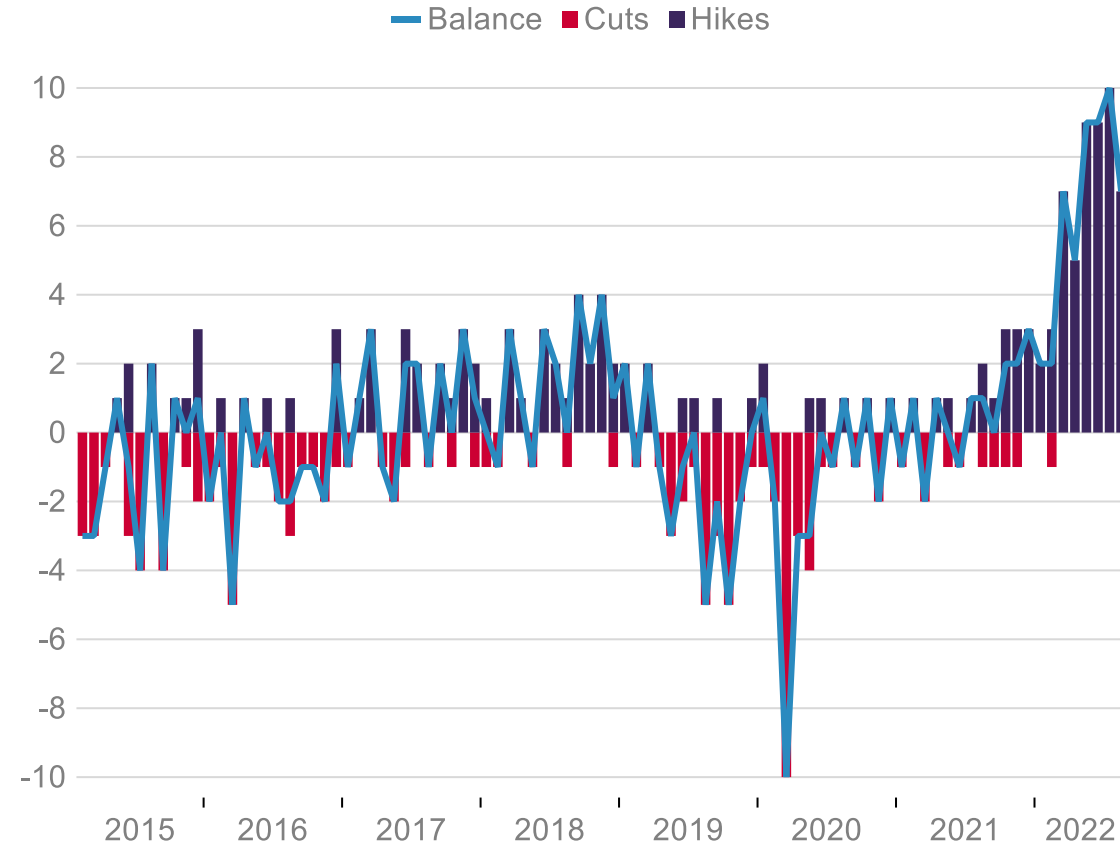


Source: Macrobond, Fitch Solutions

Central Banks Past The Peak of Tightening But Remain Hawkish

DMs Will Ease The Pace of Hikes

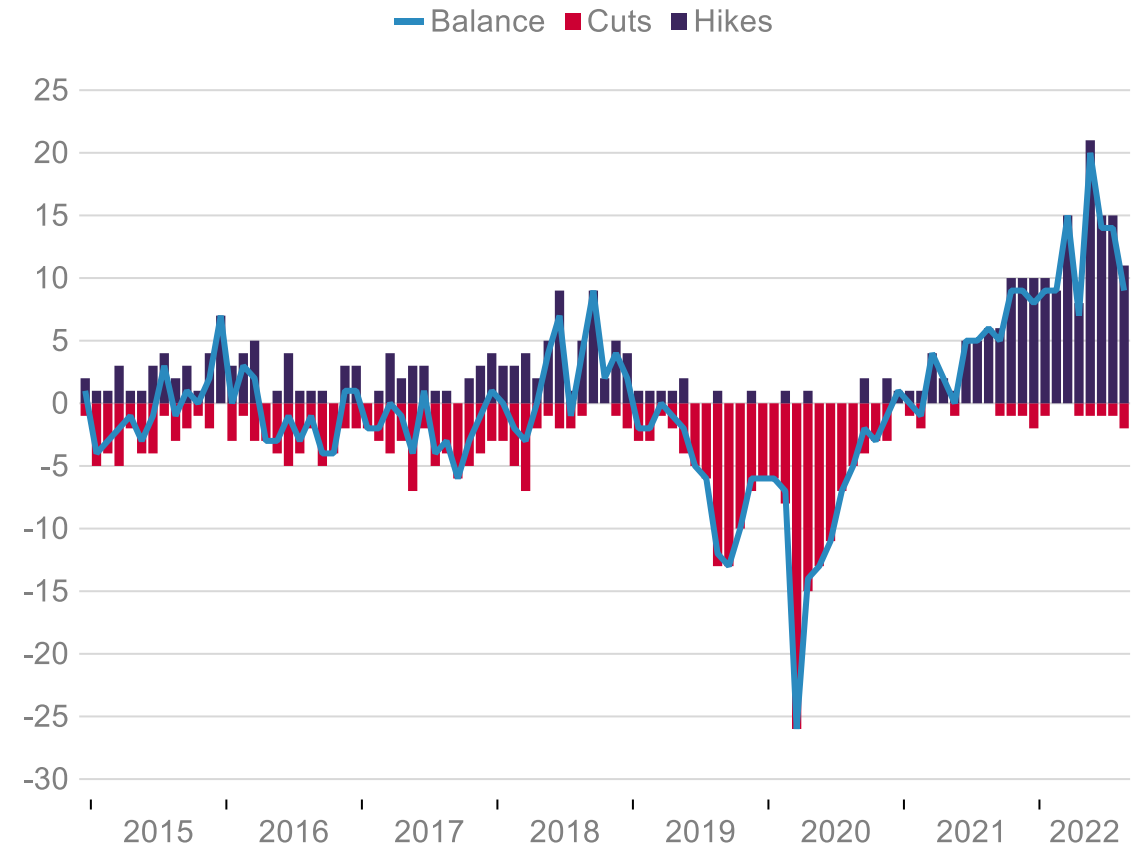
Developed Markets - Interest Rate Diffusion Index



Source: Macrobond, Fitch Solutions

Some EMs Already Cutting Rates, More To Follow

Emerging Markets - Interest Rate Diffusion Index

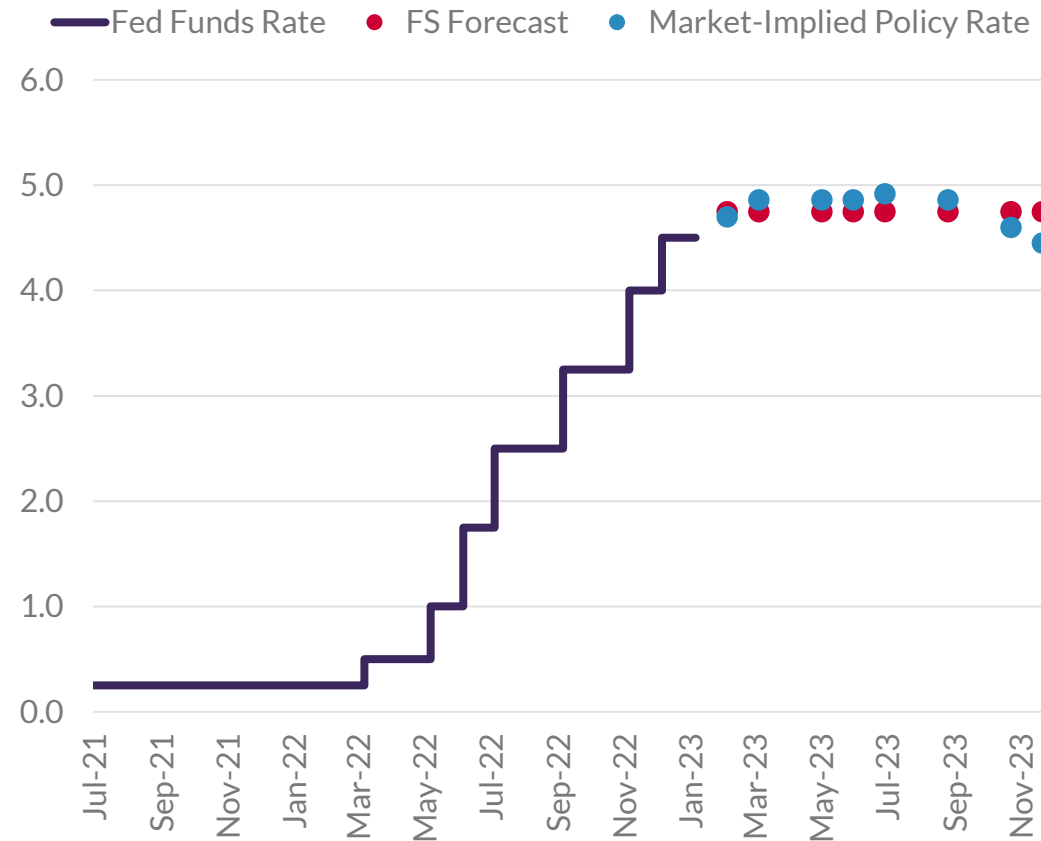


Source: Macrobond, Fitch Solutions

Central Banks Will Remain Hawkish, Especially In Europe

US Federal Reserve Nearing The End Of Hiking Cycle

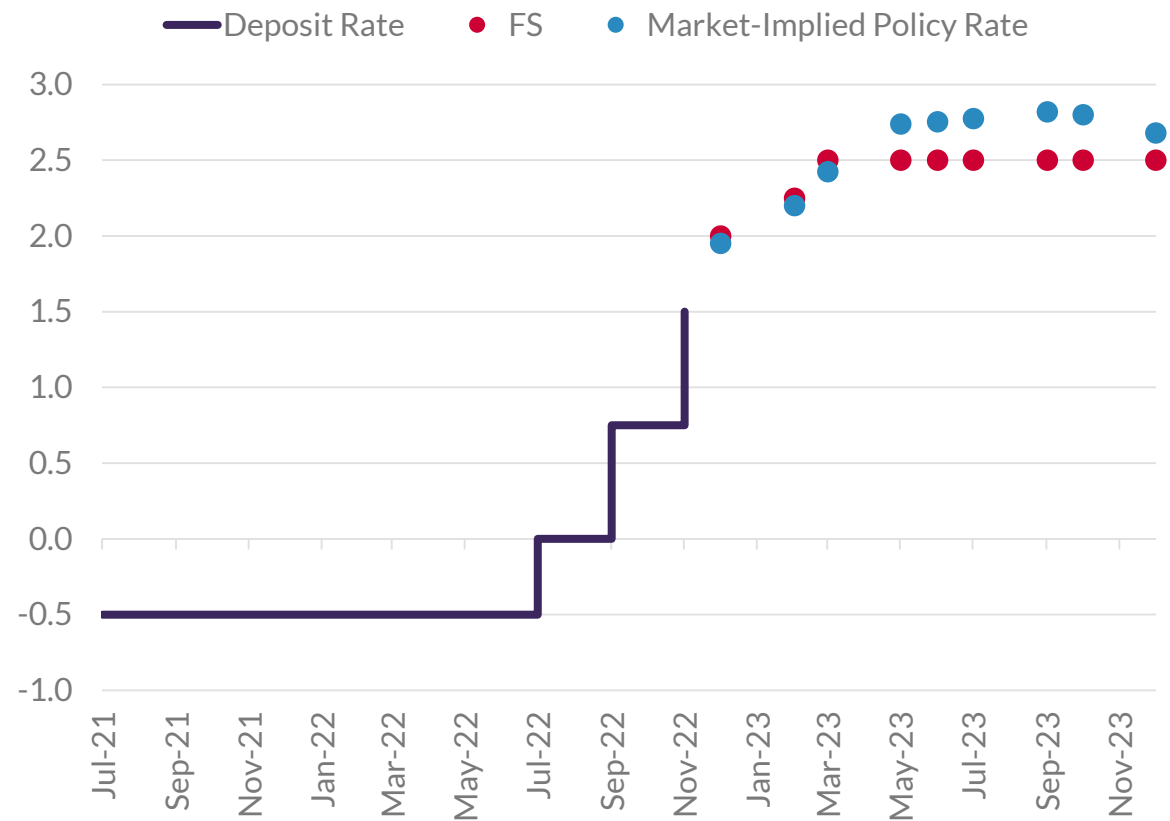
Policy Rate, %



Source: Bloomberg, Fitch Solutions

European Central Bank Has A Bit Further To Go

Policy Rate, %

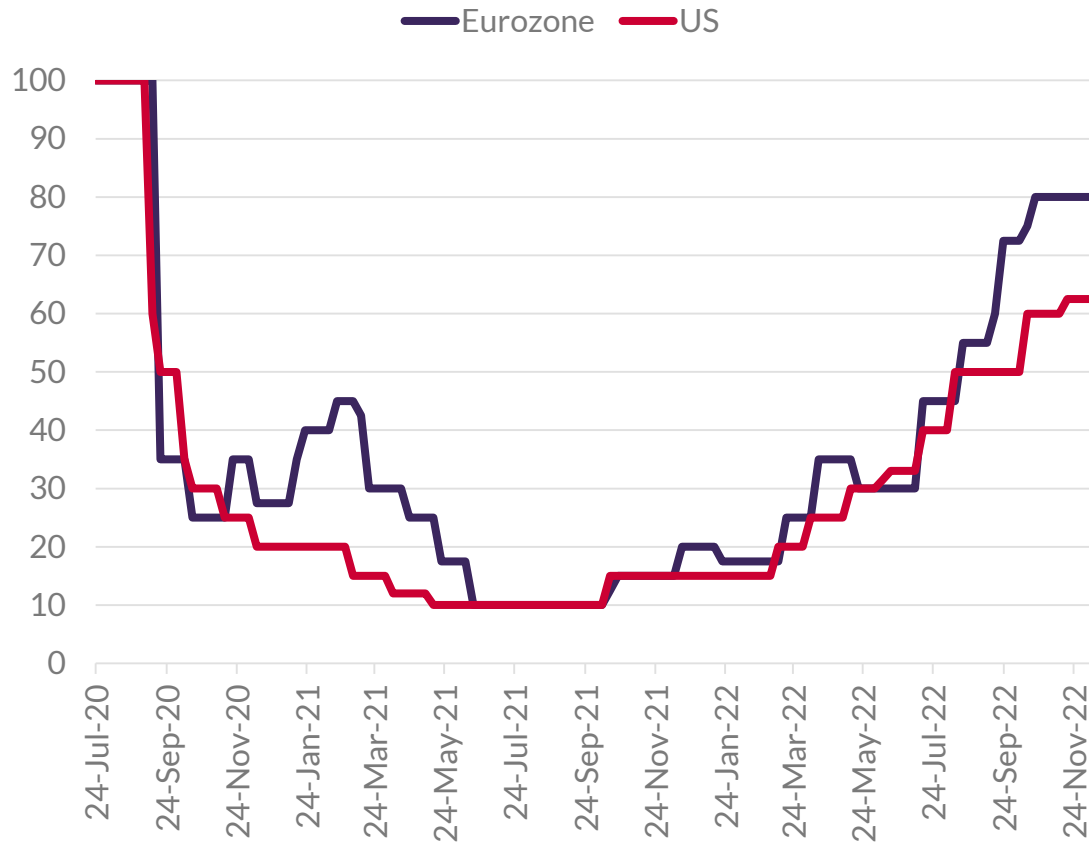


Source: Bloomberg, Fitch Solutions

Recession Is Not Being Priced In By Markets

Economists Pricing In Recession...

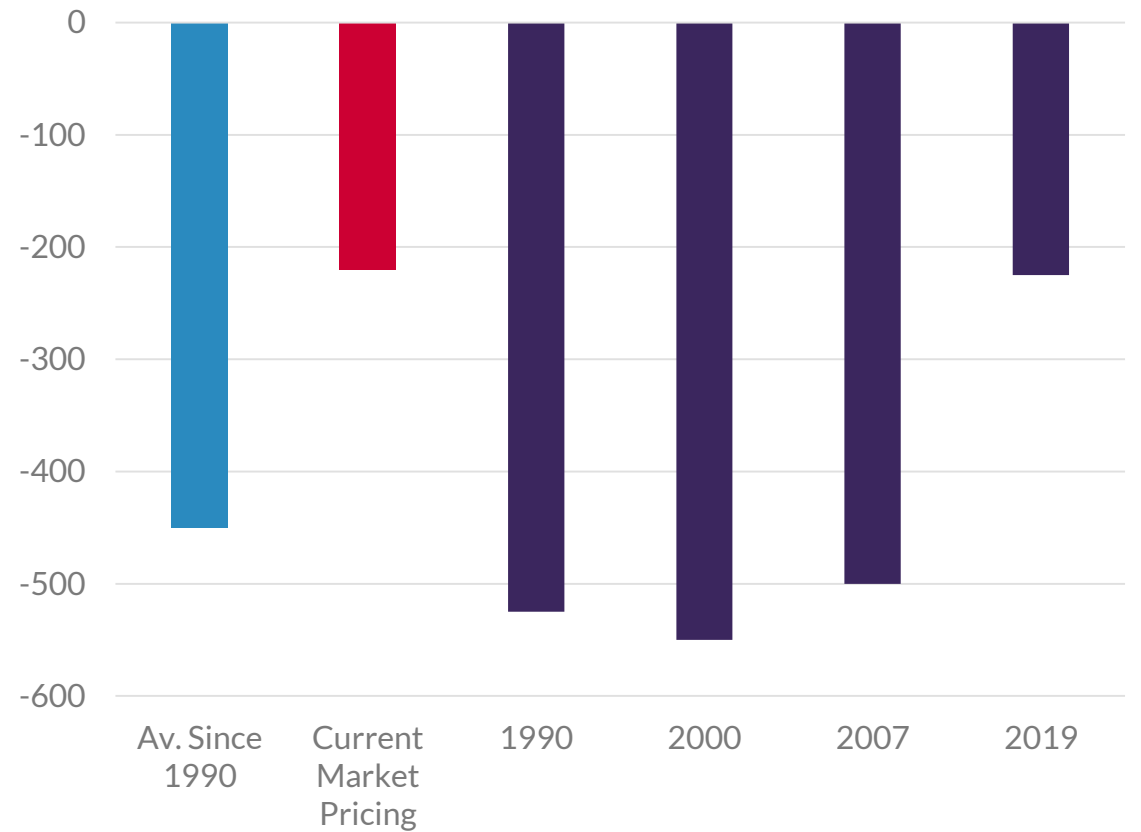
Probability of Recession In One Year, %



Source: Bloomberg, Fitch Solutions

... But Markets Only Pricing In 200bps Of Cuts

Change In Fed Funds Rate Once Cutting Cycle Starts During Recession, bps



Source: Bloomberg, Fitch Solutions

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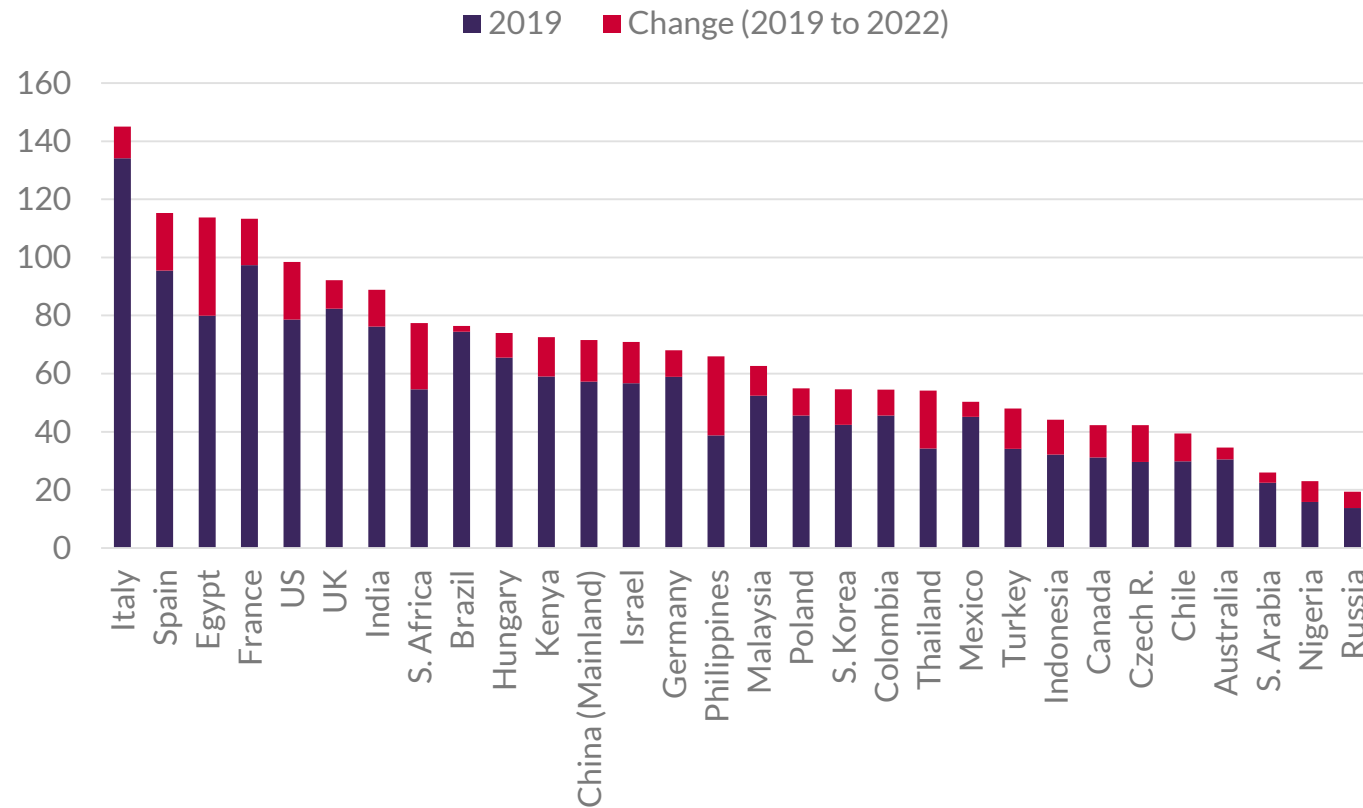
Fiscal Policy Will Tighten



Fiscal Policy Will Tighten

Government Debt Loads Have Risen Substantially Since The Crisis

Government Debt, % of GDP (2019 & 2022)



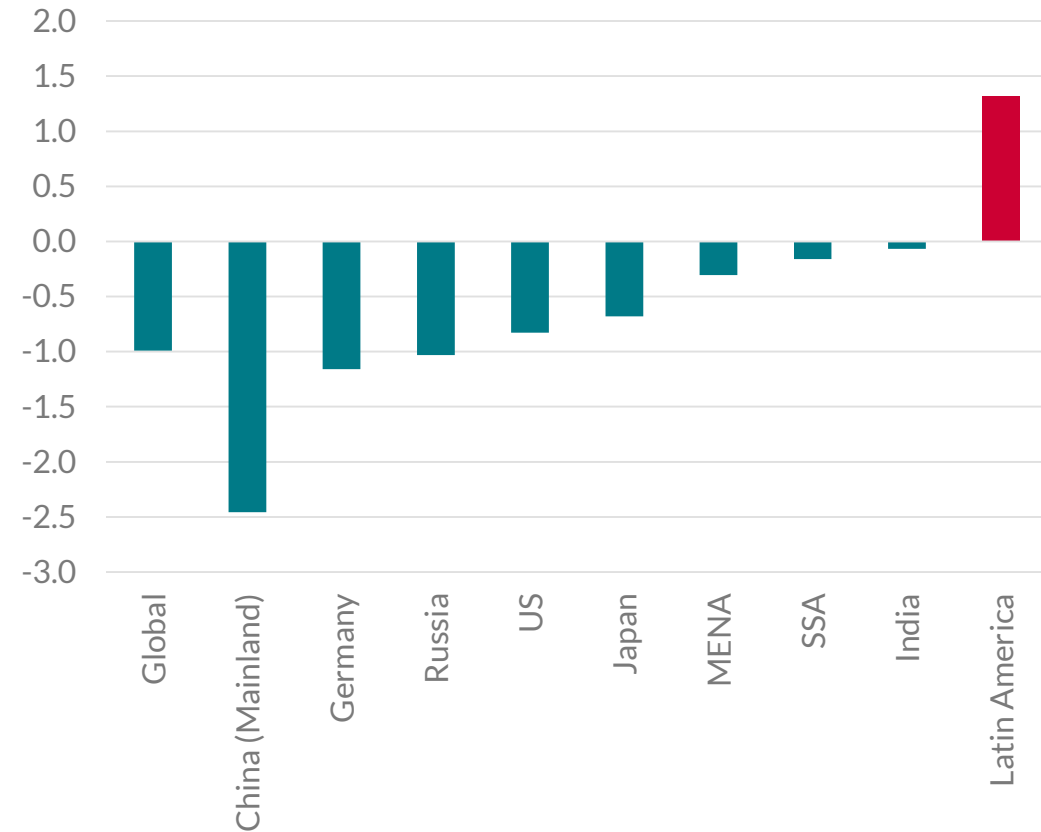
Source: Fitch Solutions

- Governments will look to focus on fiscal consolidation over the coming years given the sharp rise in debt levels since the pandemic in 2020.
- Japan is excluded as its government debt is close to 270% of GDP, but European economies are among those with the highest debt levels. Italy stands out as a case in point.
- Most major economies will tighten in 2023 due to three main reasons:
 1. Governments rolling back emergency spending plans launched in 2022.
 2. Higher bond yields and greater pressure by market forces.
 3. Greater focus on fiscal consolidation by legislators.

Greater Focus On Fiscal Consolidation

Fiscal Deficits To Narrow As Governments Tighten Belts

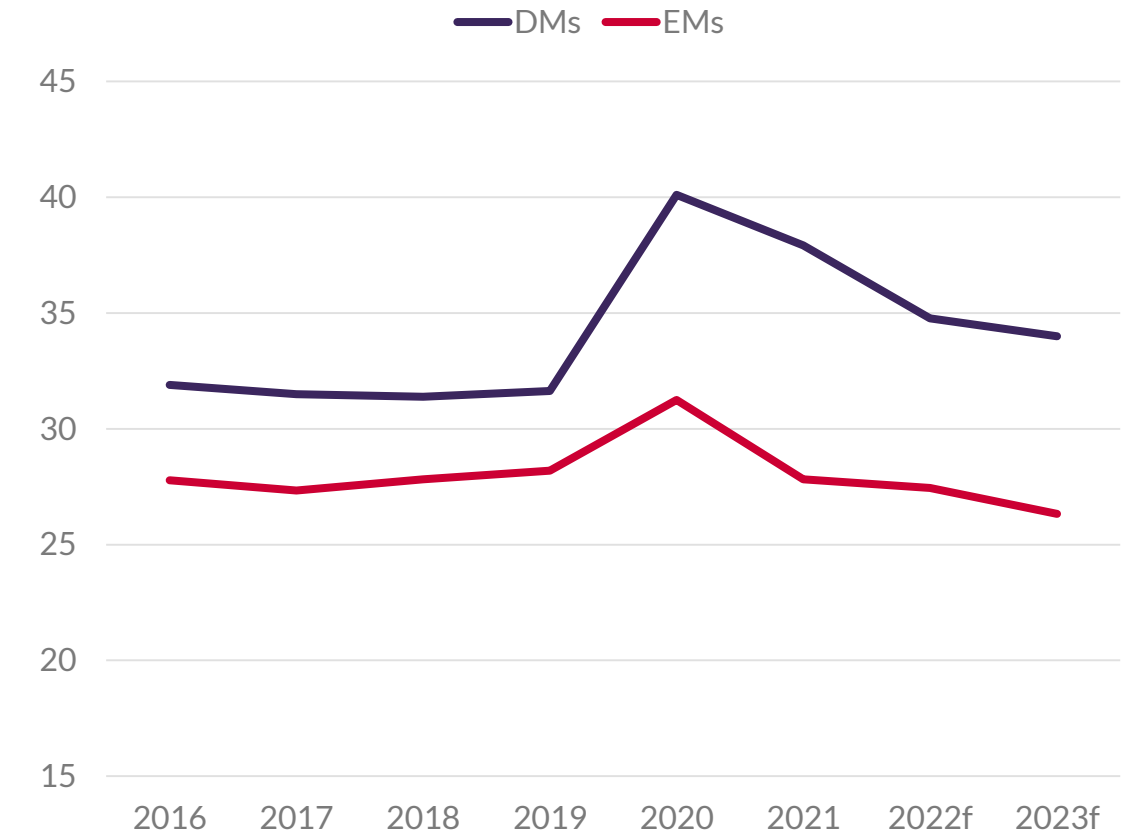
Change In Fiscal Deficit From 2022 To 2023, pp of GDP



Source: Fitch Solutions

Fiscal Spending Will Be More Limited

Fiscal Expenditure, % of GDP



Source: Fitch Solutions

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US Dollar Not A One-Way Bet Anymore



US Dollar Not A One-Way Bet

Short-Term Peak Or Long-Term Move?

US Dollar Index



Source: Bloomberg, Fitch Solutions

US Dollar At An Inflection Point?

Factors For The US Dollar

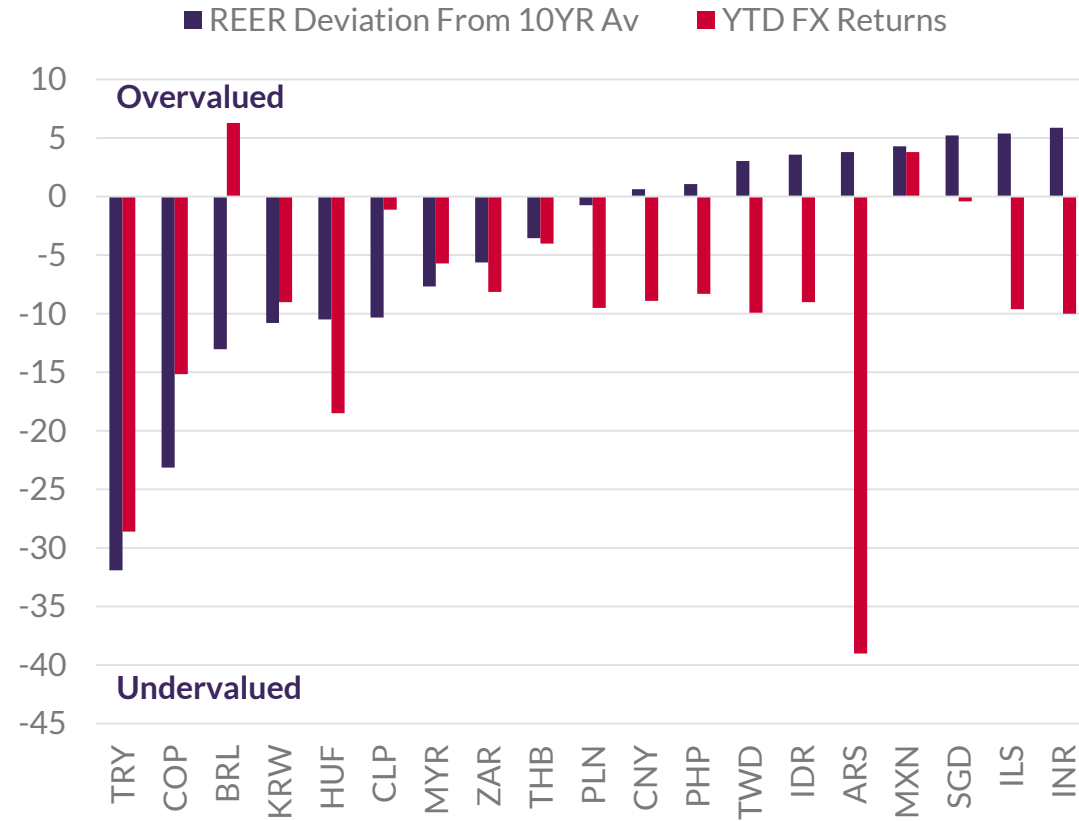
Date	Bearish	Neutral	Bullish
Technicals	X		
Positioning	X		
Valuations		X	
Policy		X	
Macro			X
External sector			X

Source: Fitch Solutions

EM FX Set To Strengthen

More Currencies Looking More Fairly Valued Now

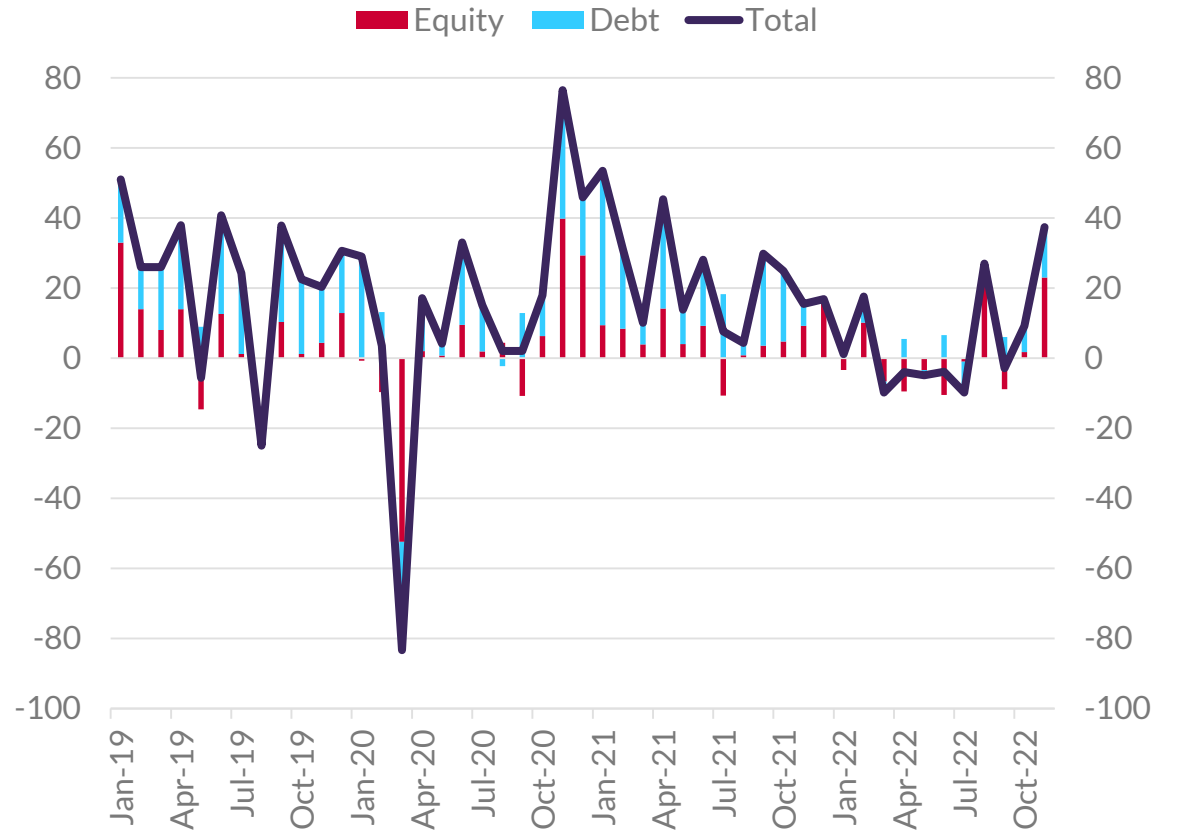
Real Effective Exchange Rate Valuation & YTD Returns vs USD, %



Source: Bloomberg, BIS, Fitch Solutions

Flows Starting To Come Back To EMs

Bond & Equity Flows To EMs, USDbn



Source: IIF, Fitch Solutions

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Fragmented Parliaments Will Stymie Policymaking



Fragmented Parliaments Will Stymie Policymaking

Key Elections To Watch In 2023

Date	Country	Expected Outcome
25 February 2023	Nigeria	Incumbent victory
7 May 2023	Thailand	Too uncertain
18 June 2023	Turkiye	Weakened incumbent victory
By July 2023	Greece	Weakened incumbent victory
By October 2023	Pakistan	Too uncertain
19 October 2023	Scotland, UK	UK government may block referendum
29 October 2023	Argentina	Too uncertain
By 11 November 2023	Poland	Weakened incumbent victory
By 11 December 2023	Spain	Opposition centre-right victory

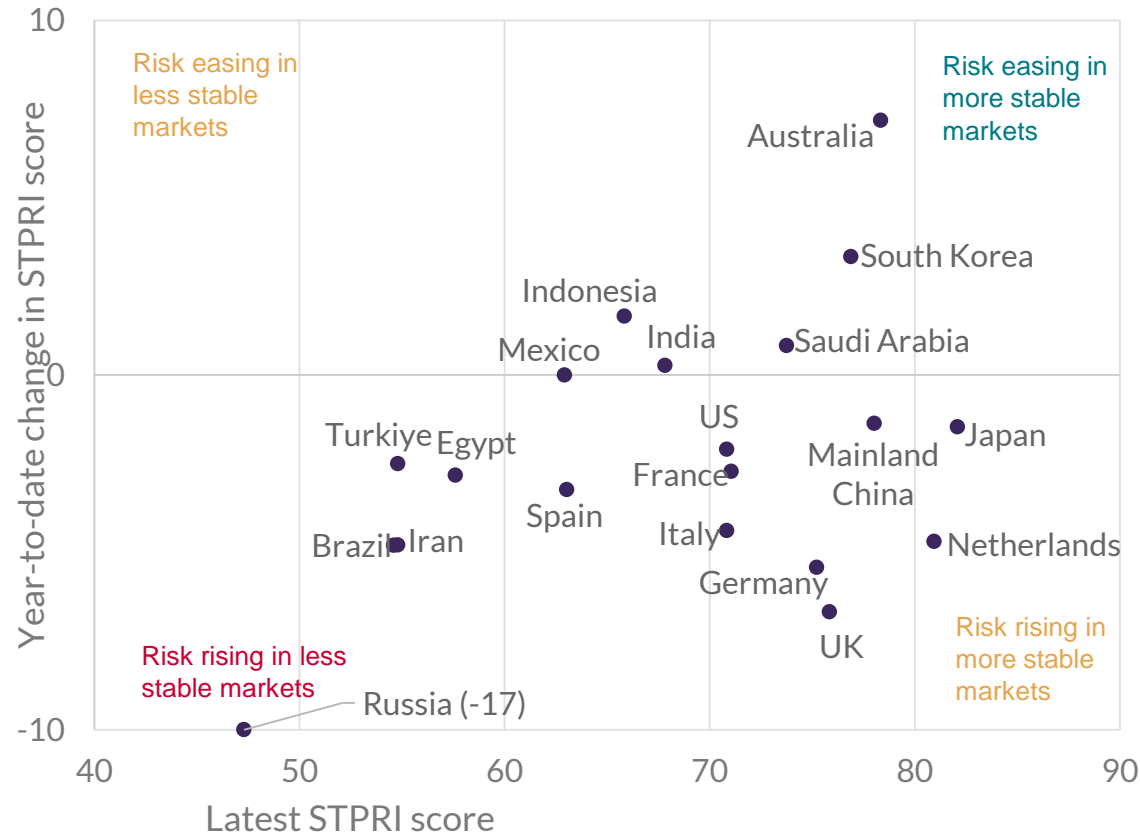
Source: Fitch Solutions

- We expect divisions over policy to grow in 2023 as inflation and slowing growth exacerbate fiscal and monetary policy dilemmas.
- We are already seeing challenges in both DMs and EMs: incoming President Luiz Inácio Lula da Silva of Brazil does not have a majority; Malaysia's election resulted in a hung parliament.
- Prospects for economic reforms are muted as incumbent or incoming governments are forced to tackle immediate issues.
- We also expect that several economies will experience tensions between the executive branch and legislature over policy direction, including the US, France and Brazil.
- Increasing risks of protests and the potential for fringe parties to gain some traction at the polls.

Weakening Risk Profiles And Falling Popularity A Challenge

Many Economies Have Seen Risks Increase

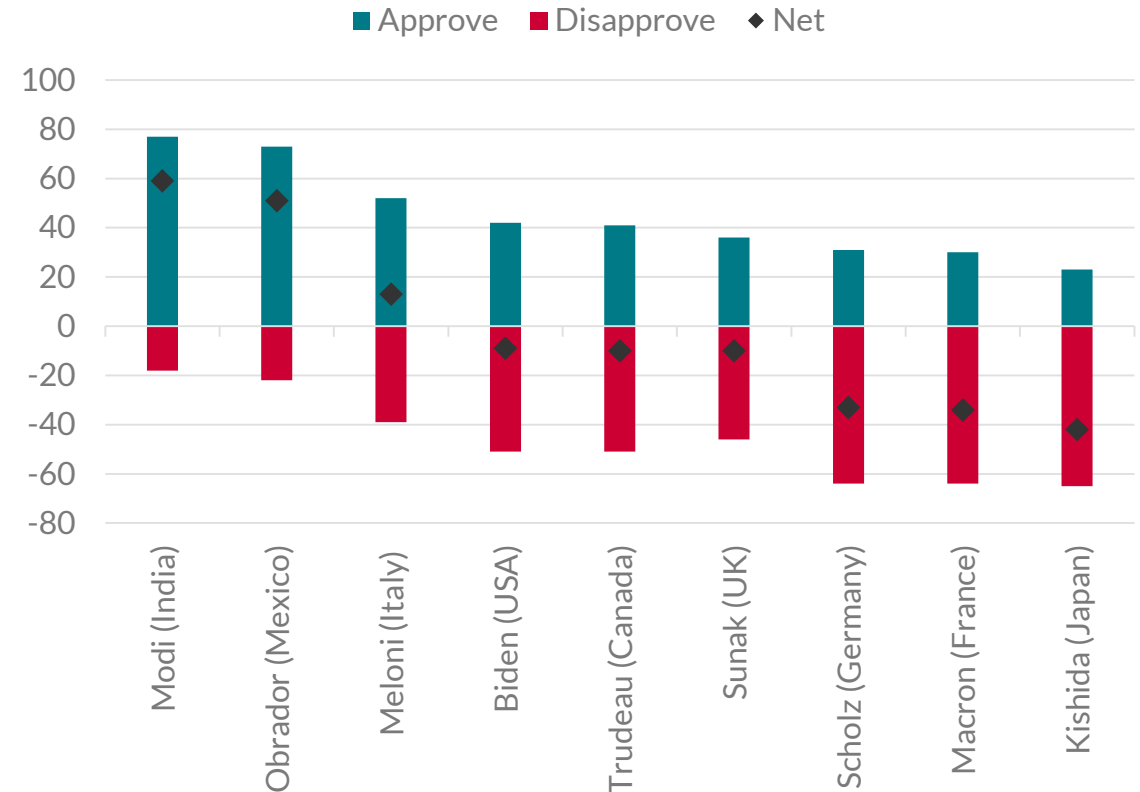
Short-Term Political Risk Index (STPRI) Scores



Note: Scores out of 100; higher score = lower risk. Source: Fitch Solutions

Most G7 Leaders Are Unpopular

Approval Ratings Of Leaders, %



Note: Latest approval ratings are based on data collected from November 30 to December 6. Approval ratings are based on a seven-day moving average of adult residents in each country, with sample sizes varying by country. Source: Morning Consult, Fitch Solutions

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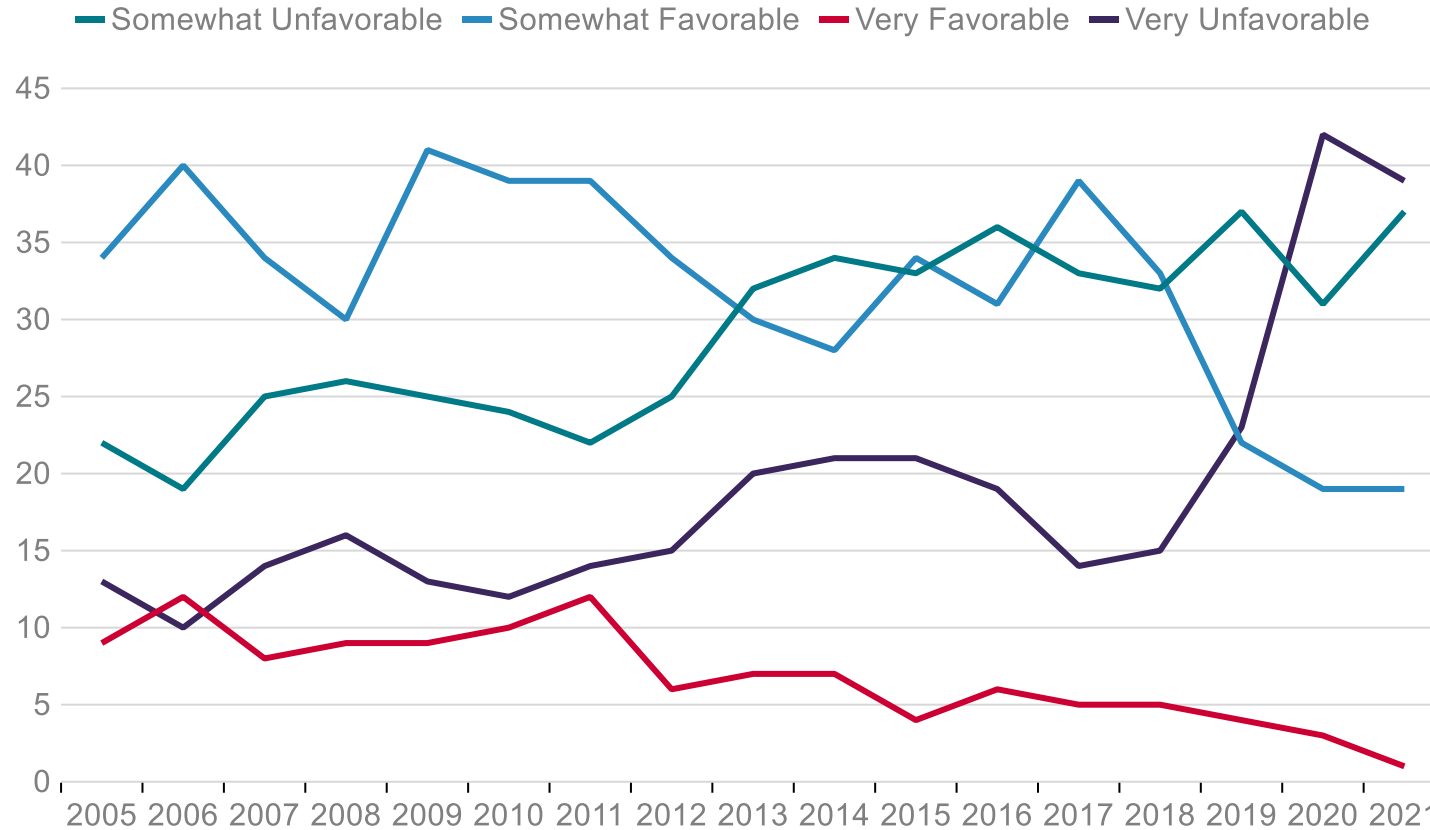
Tensions Between Washington And Beijing Will Increase



Tensions Between US And Mainland China Will Increase

Sentiment Towards Mainland China Deteriorating

Poll - US Views On Mainland China, %



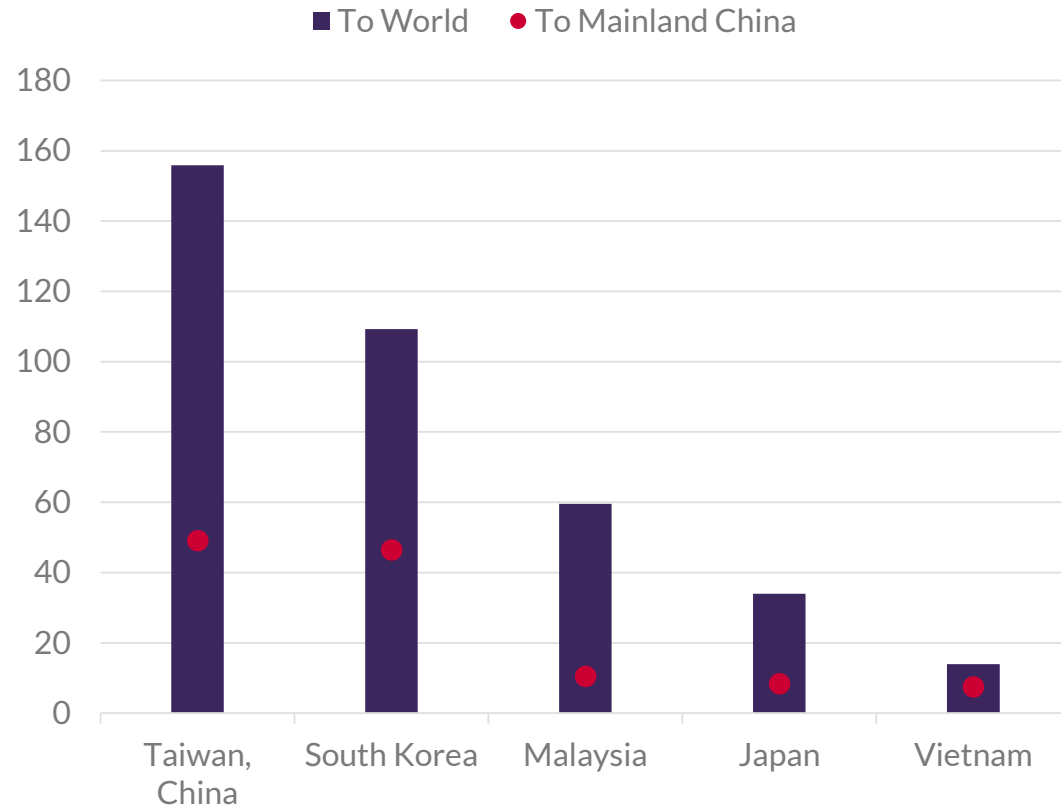
Source: Pew, Macrobond, Fitch Solutions

- We anticipate that tensions between the US and Mainland China will increase in 2023 despite the recent meeting between Presidents Xi and Biden at the G20 meeting in Indonesia.
- US sentiment towards Beijing has deteriorated on a bipartisan basis, and this has allowed Biden to maintain former president Donald Trump's strong stance.
- The newly Republican-controlled House of Representatives will likely raise pressure on the Biden administration to adopt a tougher stance on Beijing as well as provide greater economic and military support for Taipei.
- While we do not expect any 'hot conflict' to emerge, rising US-China tensions and cross-strait tensions could inject additional volatility into the global economy.

Semiconductors A Key Area of Tension

Mainland China At Risk From Tech Restrictions

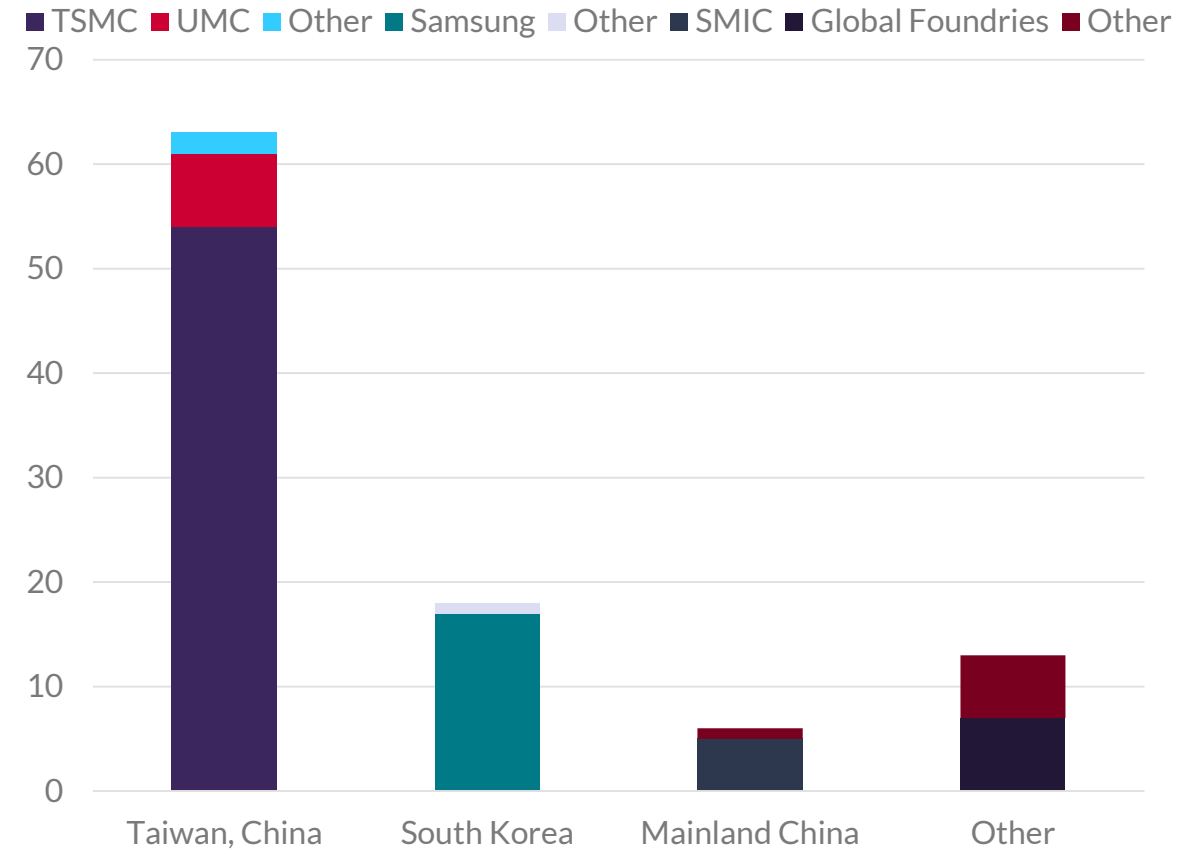
Integrated Circuit Exports By Trading Partner, USDbn (2021)



Note: May include territories, special administrative regions, provinces and autonomous regions. Source: COMTRADE, Fitch Solutions

Chips From Taiwan, China Will Continue To Dominate

Share Of Global Semiconductor Revenues, %



Source: Trendforce, Fitch Solutions

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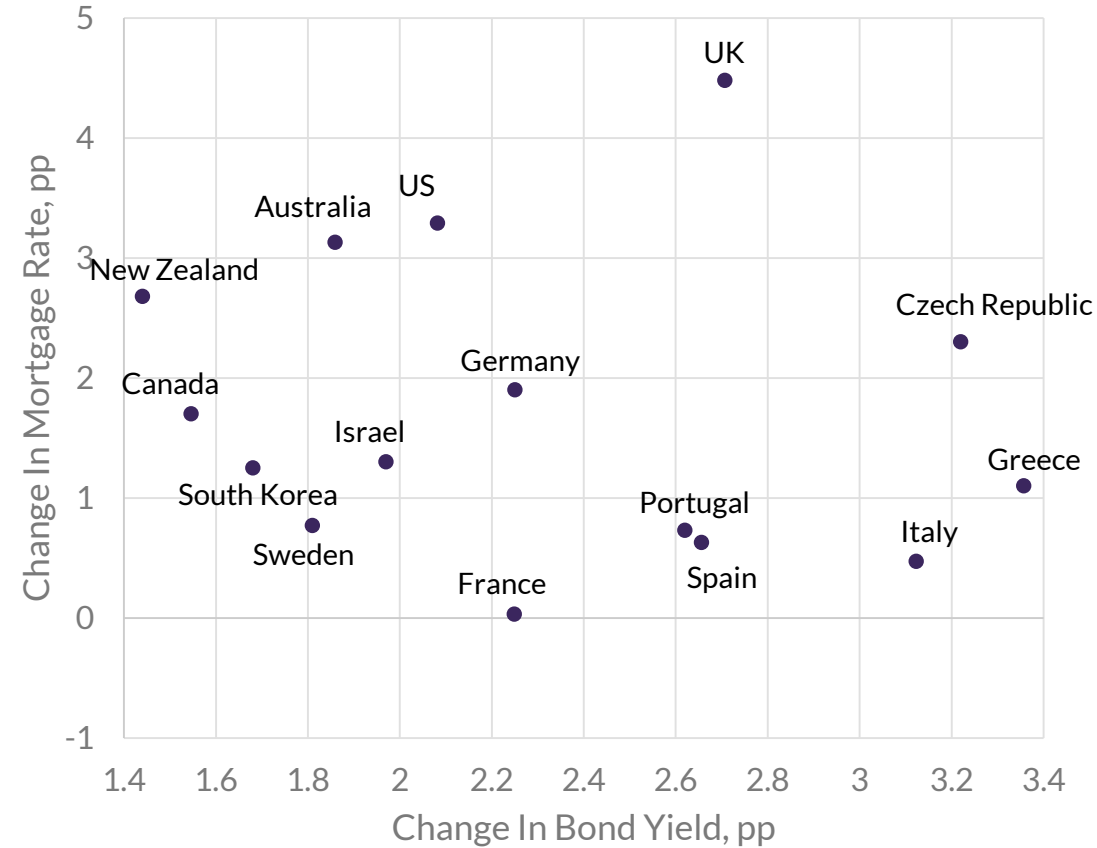
Global Property Markets Come Under Pressure



Global Property Markets To Come Under Pressure

Rising Bond Yields Create Challenges...

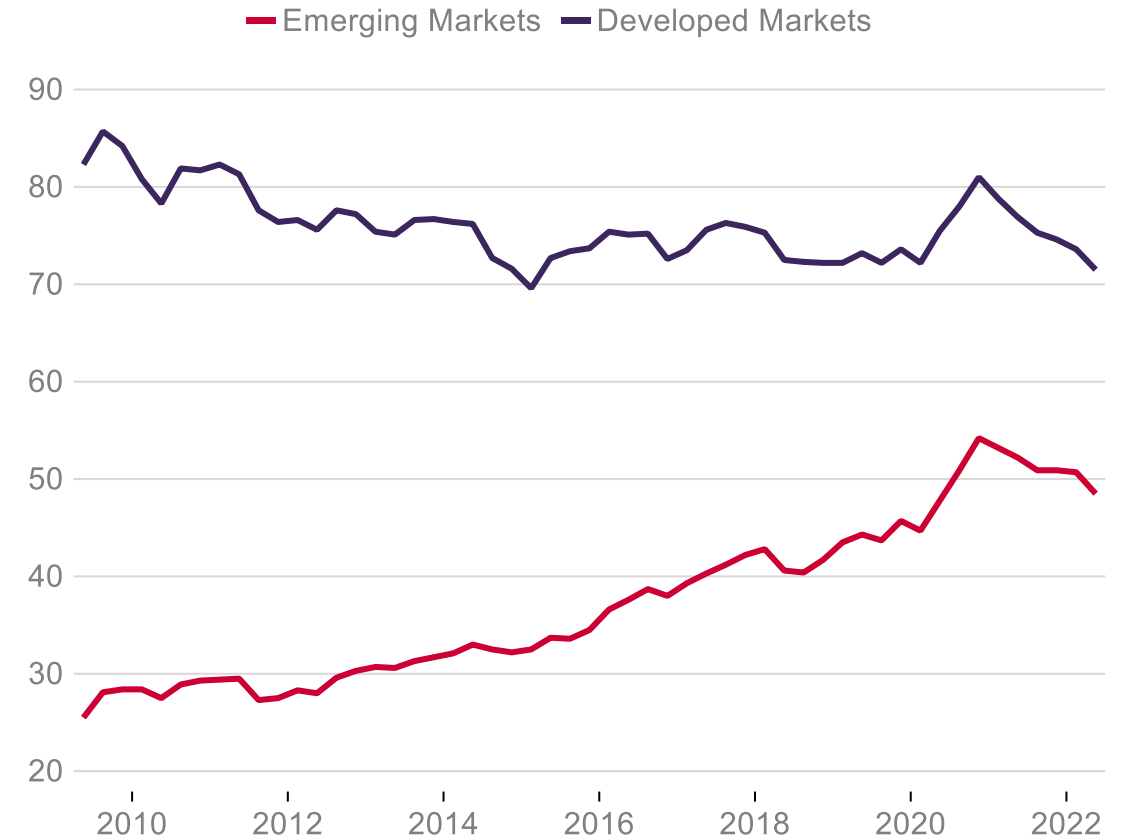
12-Month Change In 10-Year Bond Yields vs Change In Average Fixed Mortgage Rates, %



Source: Macrobond, Fitch Solutions

...At A Time When Household Debt Has Increased

Change In Household Debt, pp of GDP



Source: BIS, Macrobond, Fitch Solutions

Major Markets Already Slowing, With A Few Contracting Outright

Major Markets Already Slowing, Price Declines Next

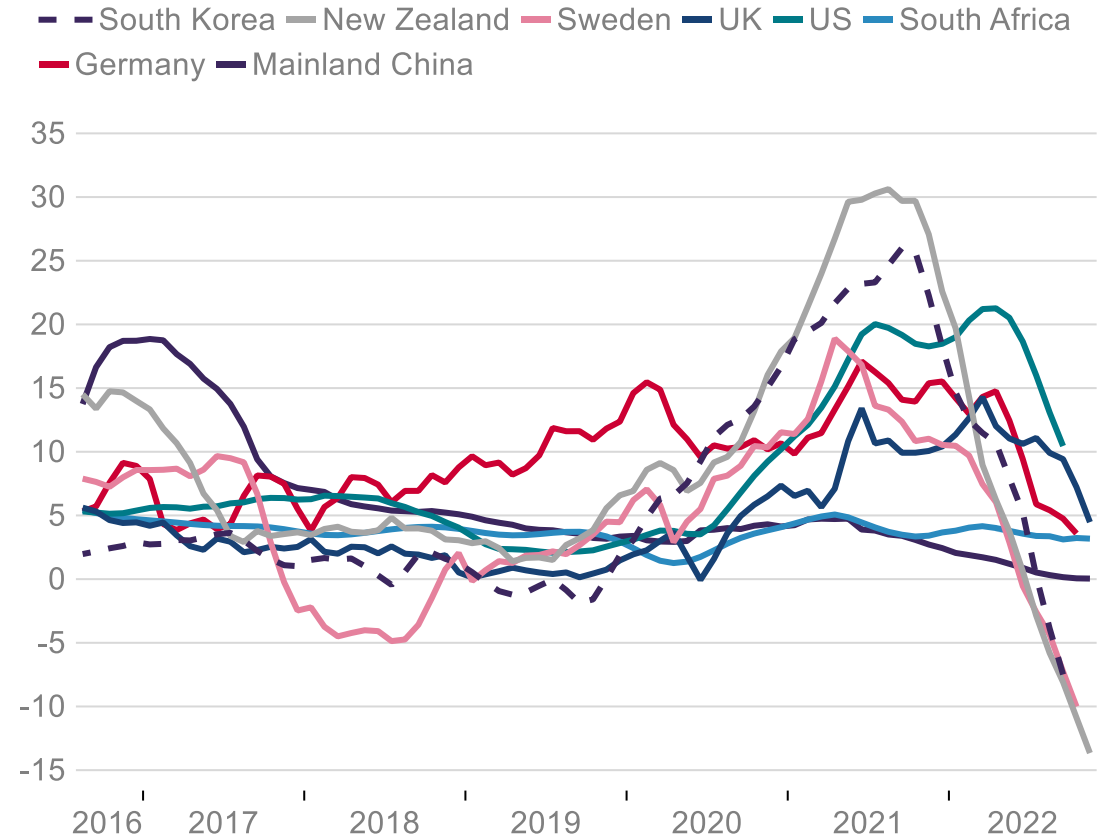
Monthly House Price Index of Major DMs & EMs, % y-o-y



Source: Macrobond, Fitch Solutions

Many Housing Markets Already Under Pressure

Monthly House Prices For Several Economies % y-o-y

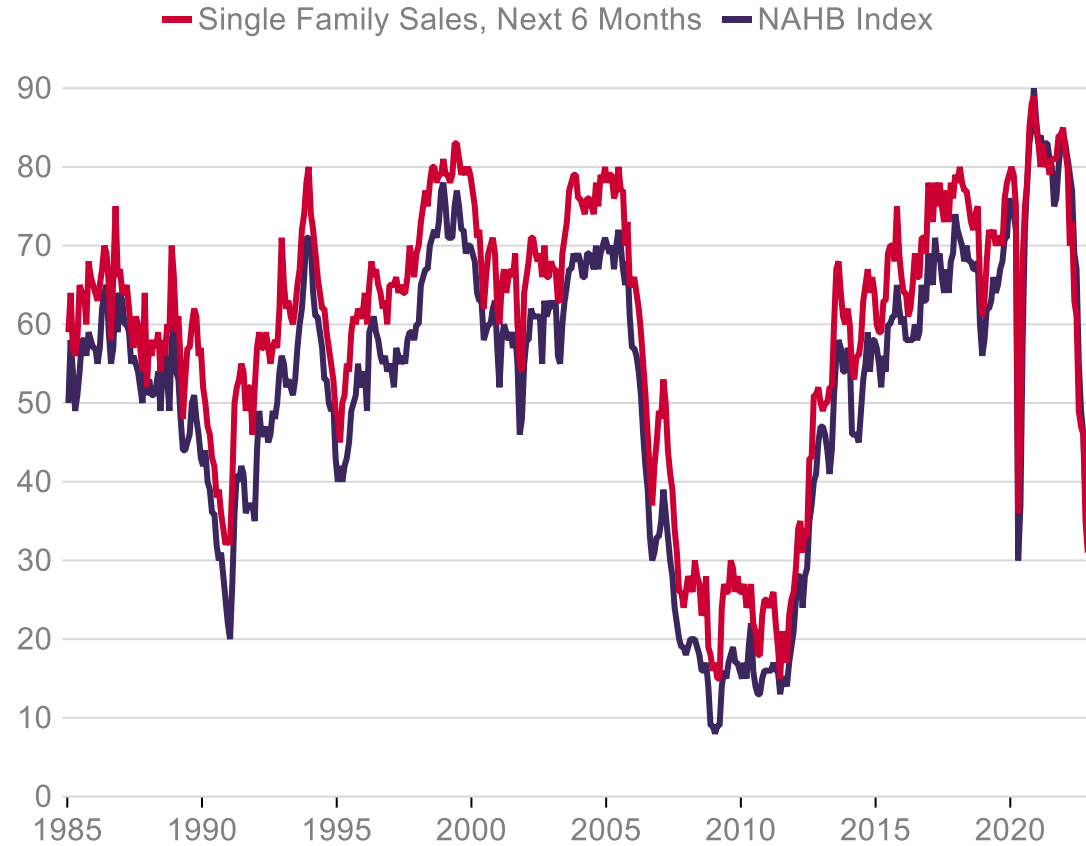


Source: Macrobond, Fitch Solutions

US Housing Market Also Weakening

Housing Market Taking A Beating

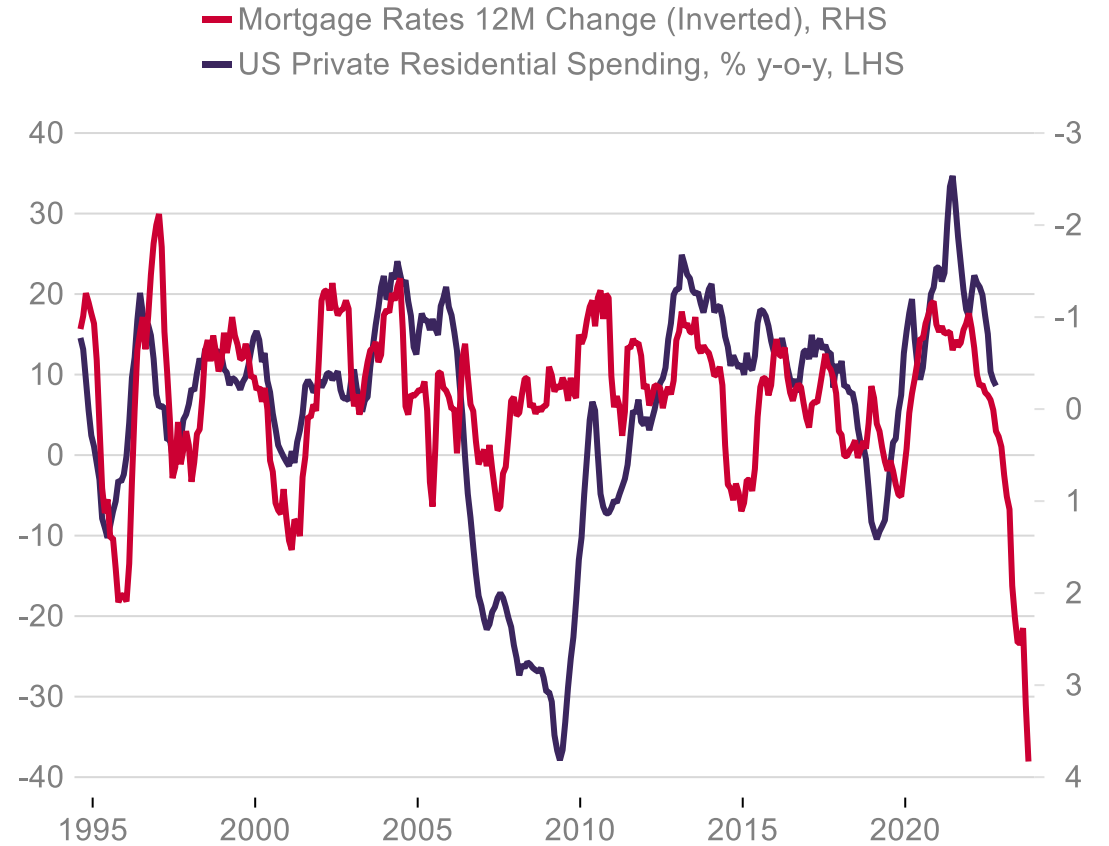
NAHB/Wells Fargo Housing Market Index



Source: Macrobond, Fitch Solutions

Rising Mortgage Rates Will Weigh On Residential Sector

Change In Mortgage Rates pp vs Private Residential Spending



Source: Macrobond, Fitch Solutions

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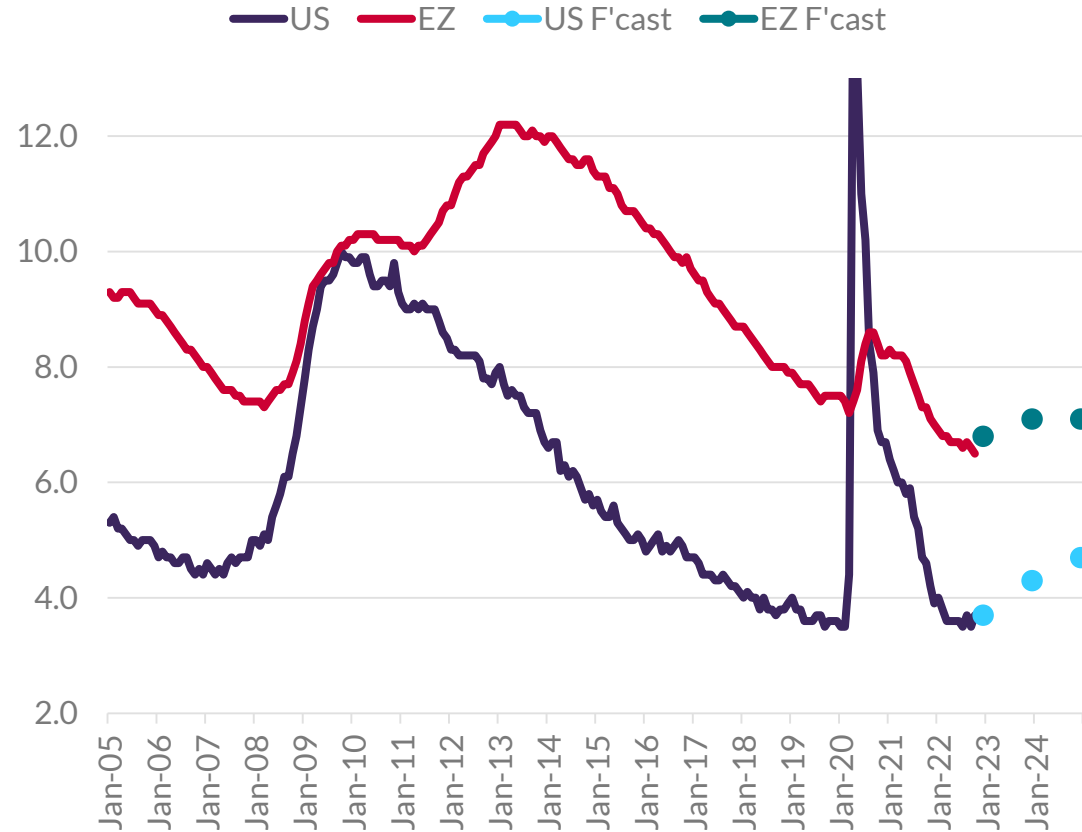
Unemployment Rates
Increase, But Less Than In
Previous Cycles



Unemployment Rates Increase, But Less Than In Previous Cycles

Unemployment To Rise From Lows...

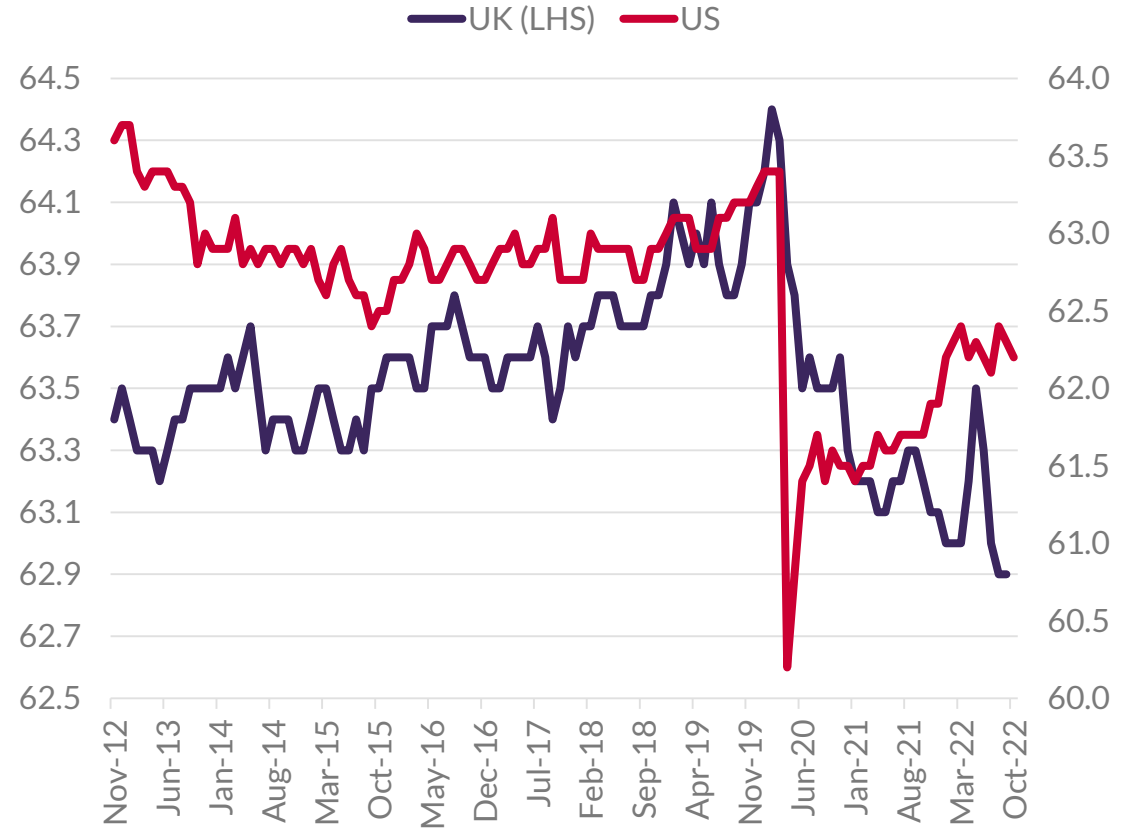
Unemployment Rate & Forecast, %



Source: Bloomberg, Fitch Solutions

...But Rise Will Be Less Pronounced As Participation Is Low

Participation Rates, %

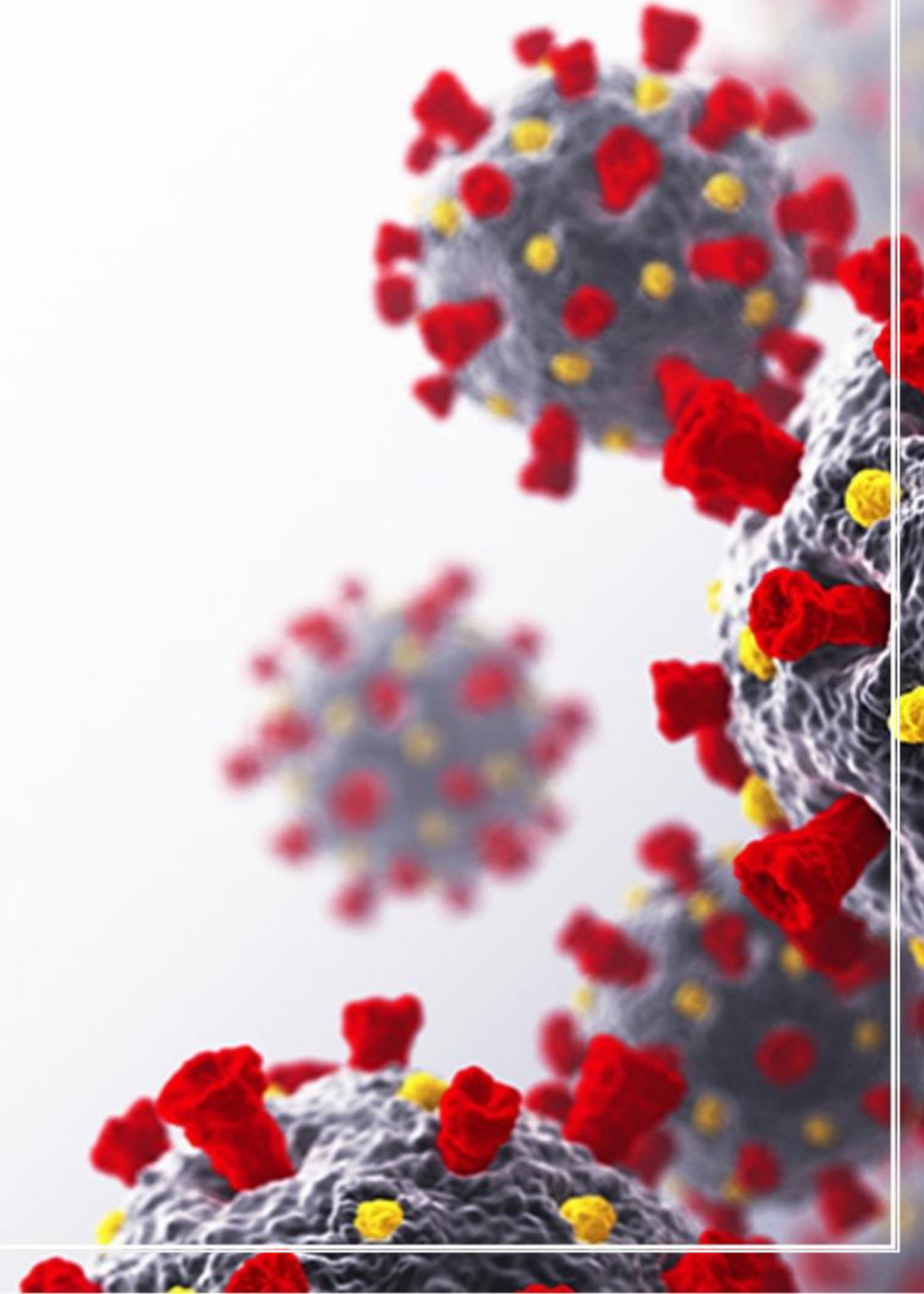


Source: Bloomberg, Fitch Solutions

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Coronavirus research from Fitch Ratings, Fitch Solutions Country Risk & Industry Research, and Fitch Solutions Leveraged Finance Intelligence is now available to all on Fitch Connect.

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