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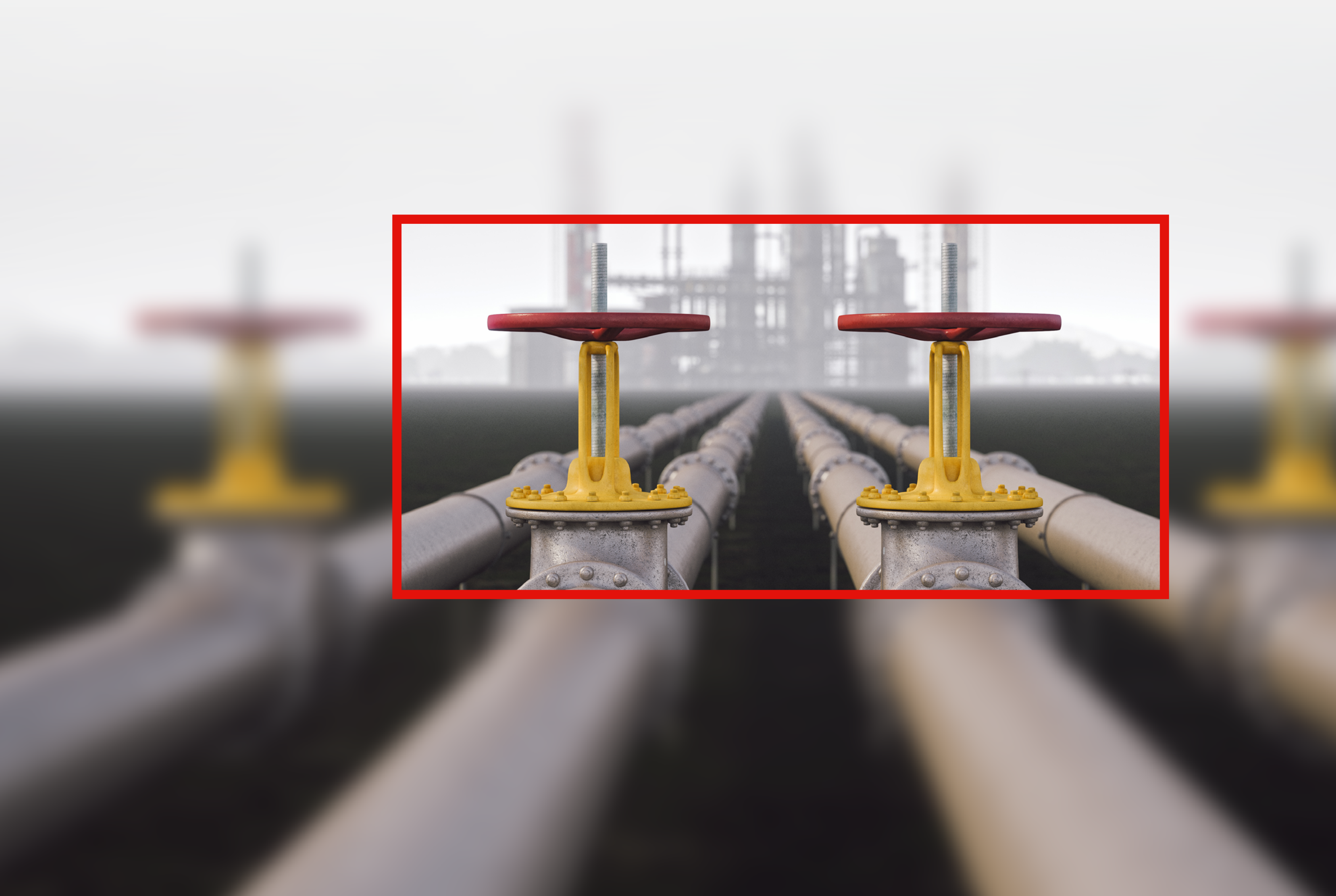
Global economic outlook 2022

Explaining the main drags on global growth



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Global economic outlook Q4 2022

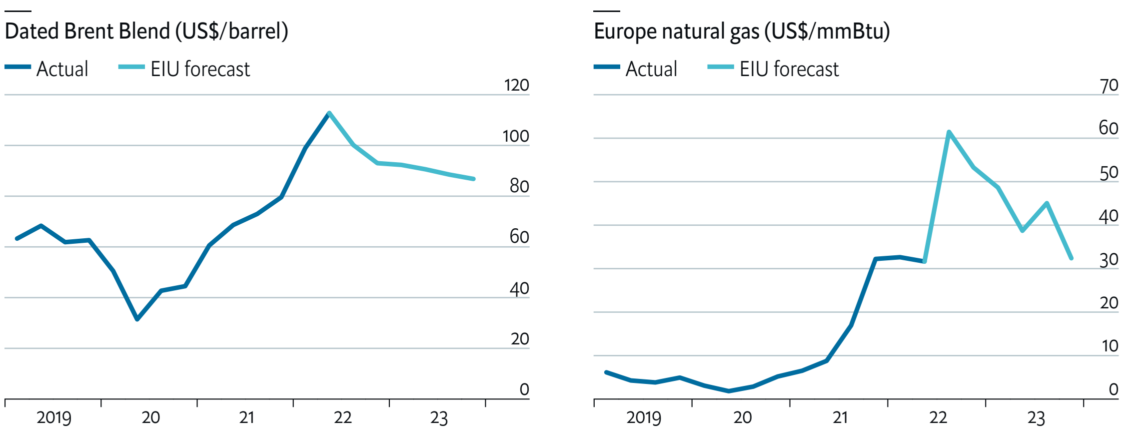
The global economy is facing severe headwinds

The fallout from Russia's invasion of Ukraine, global monetary tightening and an economic slowdown in China are weighing on the global economy. The war 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, as EIU expects the war to continue into next year and to become a protracted frontier conflict.

The war in Ukraine is fuelling higher global energy prices

In terms of higher commodity prices, we believe that oil prices will remain above US$90/barrel at least until mid-2023, and that continuing supply constraints will put a floor under the oil price of about US$85/barrel until the end of next year. The war will continue to disrupt supplies, and an EU ban on seaborne Russian oil imports (which will come into effect in December) will exacerbate market tightness. European gas prices will nearly treble this year, after a fivefold increase last year.

Energy prices are set to remain high in 2023



Sources: World Bank; EIU.

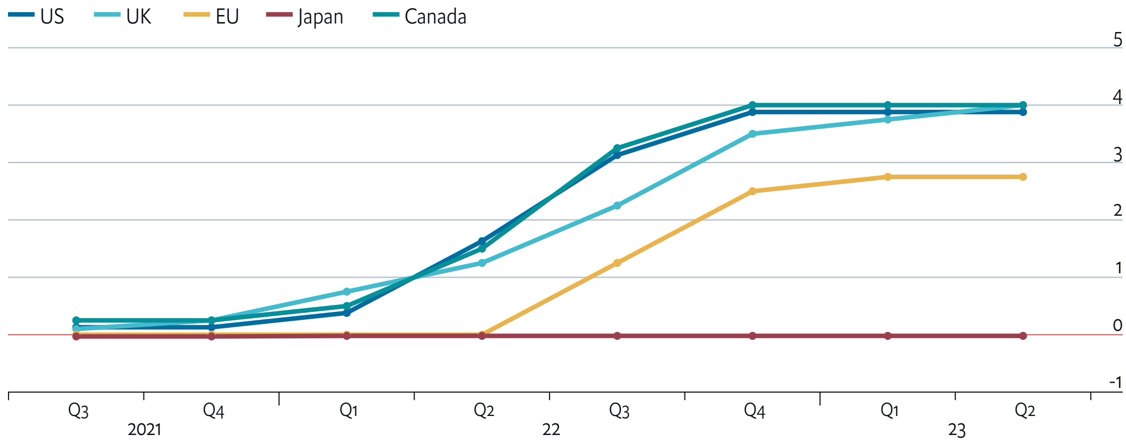
The war in Ukraine is putting further strain on supply chains

Owing to sanctions, companies are struggling to find financial channels to conduct trade with Russia. In addition, the blockade or destruction of some transport infrastructure (notably ports in Ukraine) will fuel supply-chain disruptions. These disruptions will add to supply-chain issues that arose during the covid-19 crisis, which we believe will start to normalise only after mid-2023. In the long term, and given Russia's role as a leading supplier of commodities (including oil, gas, base and precious metals, grains and gold), a reordering of global supply chains is a near certainty.

Major central banks are becoming even more aggressive with tightening

Higher commodity prices, supply-chain issues and the release of pent-up demand following the lifting of covid-related measures in rich economies are fuelling global inflation. We estimate that price rises will spike to nearly 10% in 2022—a 26-year high. Major central banks are doubling down on their efforts to control inflation. The Federal Reserve (Fed, the US central bank) will raise rates aggressively this year and proceed with balance-sheet run-off. We expect the European Central Bank to continue to raise rates even as the euro zone enters a recession, with short-term interest rates settling at 2.75% by early 2023.

The Fed will lead major central banks in monetary tightening
(main policy interest rate*; %, end of period)



Source: EIU.

*Data for Q3 2022-23 are EIU forecasts.

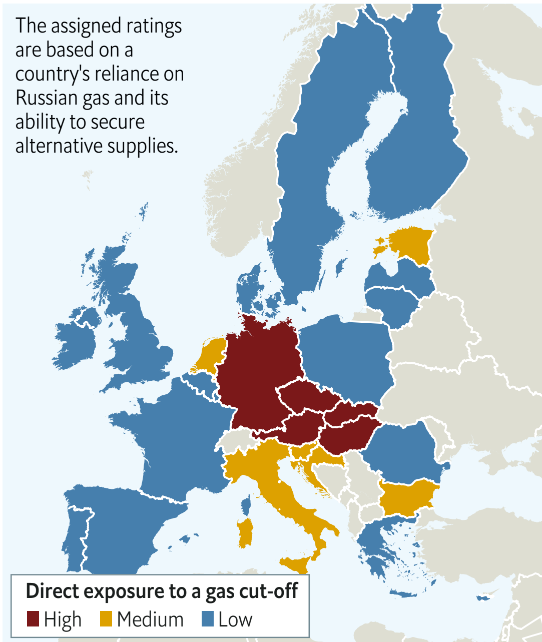
The euro zone will register a recession in 2023

We assume that Russian gas flows to Europe via the Nord Stream pipeline will remain at zero in the coming months. Gas rationing in the winter of 2022/23, combined with a further spike in electricity prices, will prompt an economic downturn across the region; we expect an economic contraction in the euro zone in 2023, with full-year recessions in Germany, France, Italy, Spain, the Netherlands and elsewhere. The UK will also enter a recession.

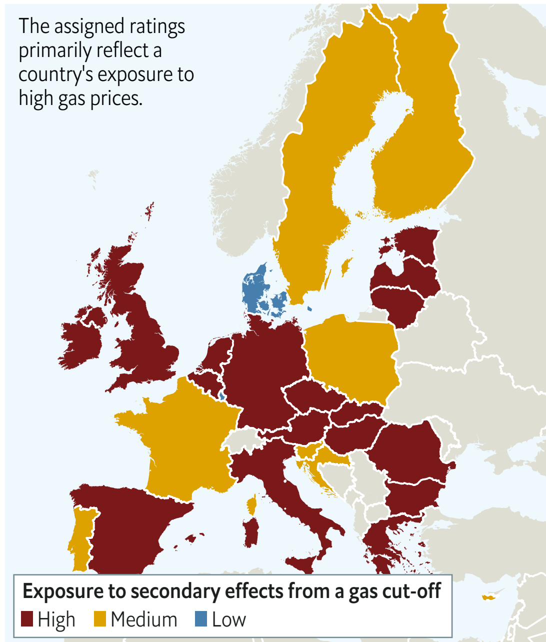
The depth of the energy crunch will depend on how low temperatures fall this winter, how well EU solidarity holds up (both around demand reduction and gas sharing), and how effectively firms move away from gas usage (turning instead to oil or electricity, or importing energy-intensive inputs). The impact will vary by country.

- Austria and Germany, which are highly dependent on Russian gas and have limited alternative supply options, will face shortages and plan to ration gas use. Italy, which relies heavily on gas, will also be severely hit.
- Landlocked central European countries, such as Slovakia and the Czech Republic, will experience a triple shock from energy shortages, high inflation and spillover effects from the recession in Germany.

About a third of European countries are likely to face shortages as a result of record-low gas inflows from Russia



The majority of Europe will suffer from medium or high exposure to the secondary effects of gas shortages



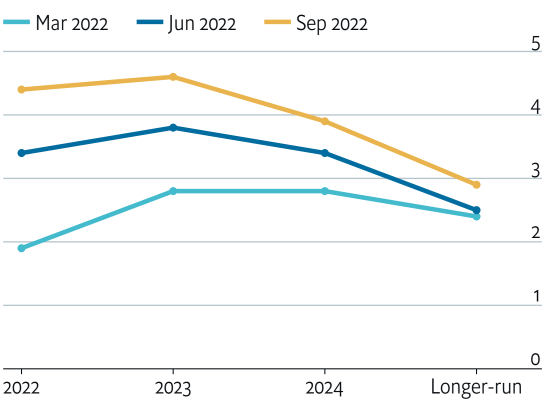
Note. EIU's Europe analysts have produced this infographic after conducting a qualitative assessment of recent trends and data.
Source: EIU.

- Elsewhere in the EU (for instance in Spain and the UK), the main impact will come through high energy prices driving inflation up further, as well as falling confidence and weak external trade.

The US economy will slow markedly in late 2022 and early 2023

The aggressive pace and scope of monetary tightening, notably from the Fed, has led us to revise our outlook for US GDP growth; we now expect the US economy to experience a mild recession in the next 12 months, with real GDP growth slipping from 1.5% in 2022 to just 0.5% in 2023 (down from our previous forecasts of 1.7% and 1.2% respectively). The main risk to our US outlook is a second wave of inflation, on top of already record-high price growth this year; this would force the Fed to tighten policy even more aggressively, pushing down household spending and business investment.

Fed interest rate projections have risen sharply since March 2022
(projected fed funds rate, year-end)



Sources: Federal Reserve; EIU.

China's zero-covid policy is another drag on global growth

China's zero-covid policy is a third major drag on global growth, and we expect it to continue well into 2023. Droughts, property sector woes and slowing external demand are also weighing on China's growth, which we estimate at 3.3% this year. China's inflexible and ideological stance on covid-19—coupled with our expectation that shutdowns of Chinese cities, production and logistics networks will be a recurring theme throughout 2023—will continue to weigh on global sentiment.

What to expect in China in 2023: "two steps forward and one step back"

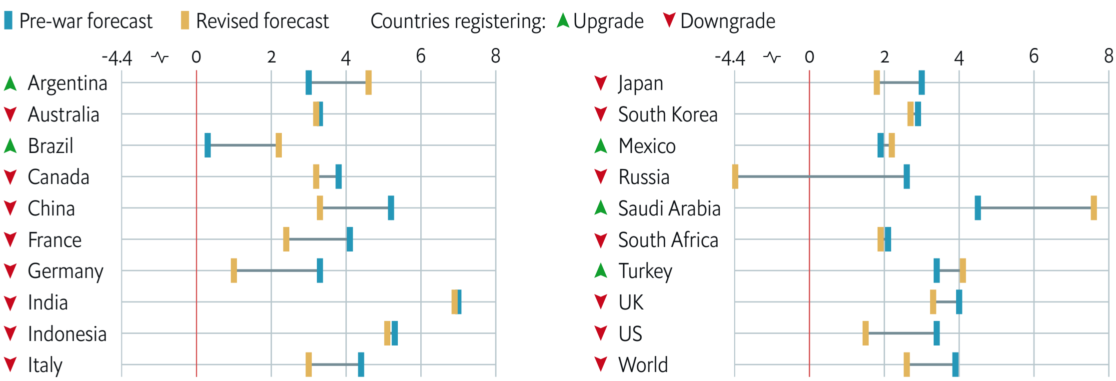
Policy tool	Potential developments
Mobility control	• Most measures, including the health code and mask mandate, will remain in place • Regularised covid-19 screening will be institutionalised • Cross-provincial travel will be made easier • Weeks-long citywide lockdowns will be less frequent Shanghai-style months-long lockdown unlikely to be repeated
Quarantine facilities and makeshift hospitals	• Continued use of makeshift hospitals and government-run quarantine facilities, alongside expansion of public health budget • Further relaxation of quarantine time for close contacts of covid-19 cases, but full lift unlikely
Border control	• Further relaxation of visa policy and reduction of paperwork required • More international flights will be made available and "circuit-breaker" policy relaxed • Further relaxation of quarantine time for inbound overseas travellers, but full lift unlikely
Vaccination milestone	• Roll-out of mRNA vaccine

Source: EIU.

The global economy will register only feeble growth next year

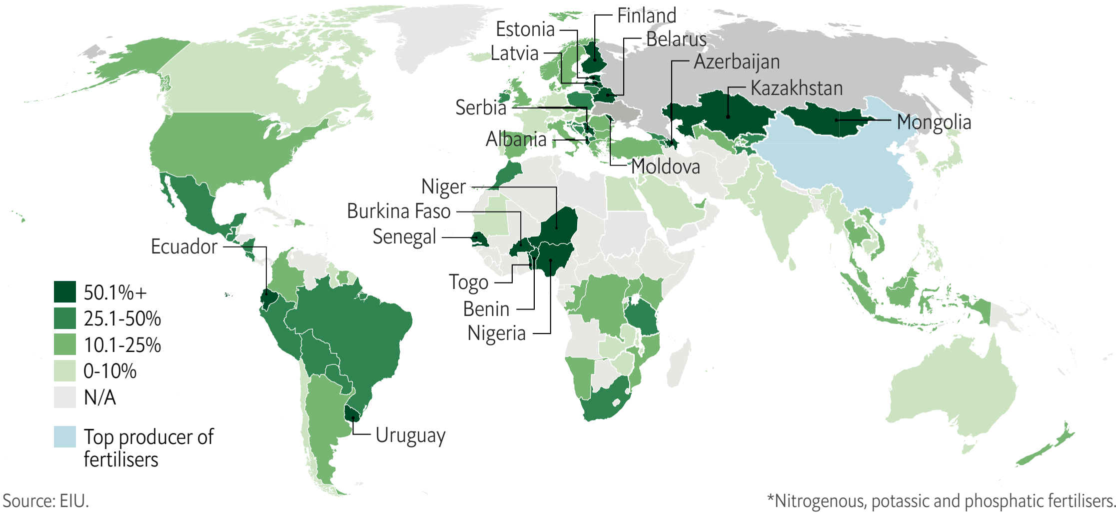
With the EU, China and the US economies all slowing markedly, we now estimate global GDP growth of 2.6% in 2022 and of only 1.7% next year.

The war in Ukraine will shave more than US$1 trn from global GDP in 2022
(estimated real GDP growth in 2022; %)



Source: EIU.

Which countries rely the most on Russian and Ukrainian supplies of fertilisers?
(%, weighted average of fertiliser imports from Russia and Ukraine, 2021)*



Source: EIU. *Nitrogenous, potassic and phosphatic fertilisers.

In addition, fears about global food supplies remain high. The fighting and the blockade of Ukrainian ports by Russia have halted grain exports, and as both countries together account for about a third of global wheat trade, this will fuel the risk of famine. (We are sceptical that a recent deal to facilitate Russian and Ukrainian grains exports will hold.)

Extreme weather events such as high temperatures and droughts in Europe are exacerbating this risk. In addition, the loss of fertiliser supplies from Russia, which is normally a major fertiliser exporter, will hit the production of agricultural commodities in 2023. This situation has heightened the risk of social unrest in developing countries, which are facing record-high inflation and must start to repay the huge debt pile-ups that they have accumulated during the coronavirus pandemic.

Forecast real GDP growth rates (%) in the G7, Russia and China

G7	2022*	2022 pre-war	2023	Q4 2022 (quarter on quarter)	Q1 2023 (quarter on quarter)
Canada	3.2	3.8	2	0.2	0.2
France	2.4	4.1	-0.3	-0.3	-0.4
Germany	1	3.3	-1	-1.3	-0.7
Italy	3	4.4	-1.3	-1.5	-1.0
Japan	1.8	3.0	0.9	0.5	-0.1
UK	3.3	4.0	-0.8	-0.4	-0.6
US	1.5	3.4	0.5	0.0	-0.1
Others					
China	3.3	5.2	4.7	1.5	0.7
Russia	-4.4	2.6	-3.3	-1.7	0.7

* EIU estimates

Source: EIU.

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