



Our macroeconomic view – August 2023

Late-cycle economic expansion continues, despite slowing growth and a monetary policy seen as restrictive. Global economic activity is holding up better than expected a few months ago. There is little or no sign of an imminent recession. The faltering recovery and growing tensions in China's real estate and financial sectors are cause for concern.

Although unemployment rates are gradually moving away from their historic lows, labor markets remain tight. Consumer confidence, which had been at an all-time low, continues to improve. Leading indicators, notably purchasing managers' indices, confirm the scenario of economic slowdown. While the service sector is decelerating rapidly, the downward trend in manufacturing seems to have temporarily paused, although the figures still point to contraction.

The end of monetary tightening is becoming increasingly apparent. Although the decline in headline inflation tends to confirm this hypothesis, underlying inflation persists, particularly in the services sector. Central banks' determination to bring inflation back down towards the 2% target should not be underestimated. Should inflation be slow to come down, or even accelerate, central banks would once again be forced to apply the monetary brake, and run the risk of a recession. For the time being, however, we believe that the two main central banks should raise their key rates at most once, if at all.

United States

With consumer spending holding up well, inflation falling and private sector investment picking up, hopes of a soft landing remain intact. The US economy accelerated in the second quarter, outperforming other advanced economies. Although the delayed impact of monetary policy and tighter lending conditions will continue to hold back growth in the months ahead, the Atlanta Fed's GDPNow forecasting model, for example, anticipates real growth of 5.6% at annual rates in the third quarter. Although this estimate is undoubtedly too high, the trend does not point to any significant weakening. The upturn in housing construction, which has been struggling until now, and in the manufacturing sector supports this view. Both the moderate fall in demand for labour and the slowdown in employment growth point to a gradual easing of the labour market. So far, the US Federal Reserve has clearly succeeded in lowering aggregate demand and curbing inflation to 3.2% without triggering a rise in unemployment. However, Chairman Jerome Powell once again made it clear at the annual Jackson Hole summit that the central bank had not yet completed its mission, and that a reacceleration in economic activity could force the Fed to raise rates further.



Euro zone

GDP figures for the second quarter indicate that the eurozone economy has overcome the technical recession it entered in the fourth quarter of 2022. However, growth continues to stagnate in the eurozone, with particularly marked weakness in Germany and Italy. Of particular concern is the fact that the service sector, which led the recovery in the first half of the year, has now entered a contraction zone. Purchasing managers' indices sank deeply into negative territory in August. While consumer confidence came off its lows, boosted by a solid job market, statistics were disappointing overall: weak foreign demand weighed on manufacturing, the real estate sector remained under pressure, while underlying inflation held steady at 5.5% despite a decline in headline inflation. Given the resulting negative real rate, the ECB is still faced with the dilemma of having to raise interest rates despite the cyclical slowdown. However, we believe that the ECB will pause after a rate hike at most to observe the evolution of macroeconomic data.

China

The Chinese economy was expected to drive global economic growth this year. But despite the authorities' determination to sustain growth, the recovery continued to falter in August. Difficulties in the property market once again had undesirable effects, in the form of a liquidity crisis in the shadow banking system and defaults by property companies. To limit the risk of the crisis spreading, China's political bureau has repeatedly stressed the need for targeted measures to restore private-sector confidence, stimulate investment and consumption, and support the property market. However, apart from the interest rates cut twice by the People's Bank of China, no major fiscal support measures have materialized. The target of GDP growth of "around 5%" by 2023 looks increasingly illusory. This mixed picture is compounded by the fact that deflation reigns in the Middle Kingdom, while most advanced economies remain plagued by excessive inflation.

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