PIIE PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS

Global Growth Continues (Inflation Not So Much)

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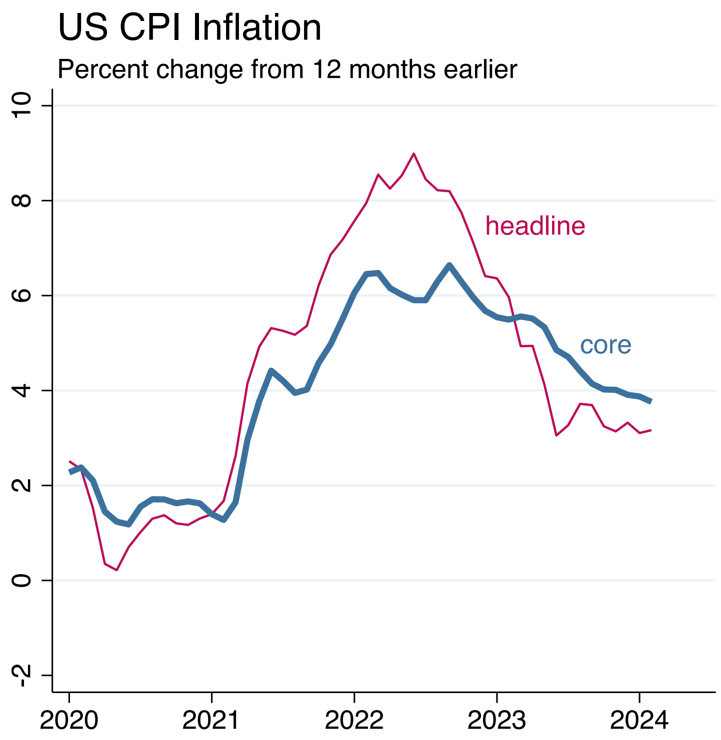
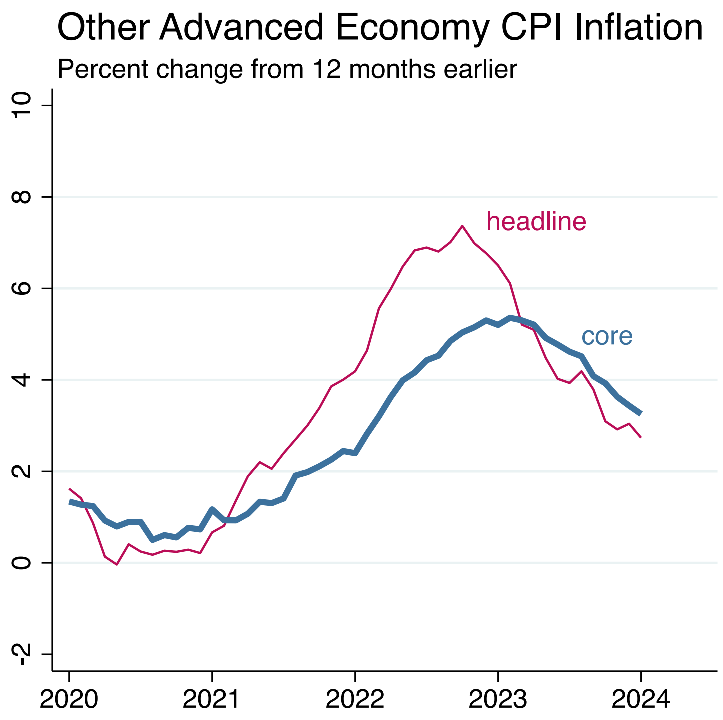
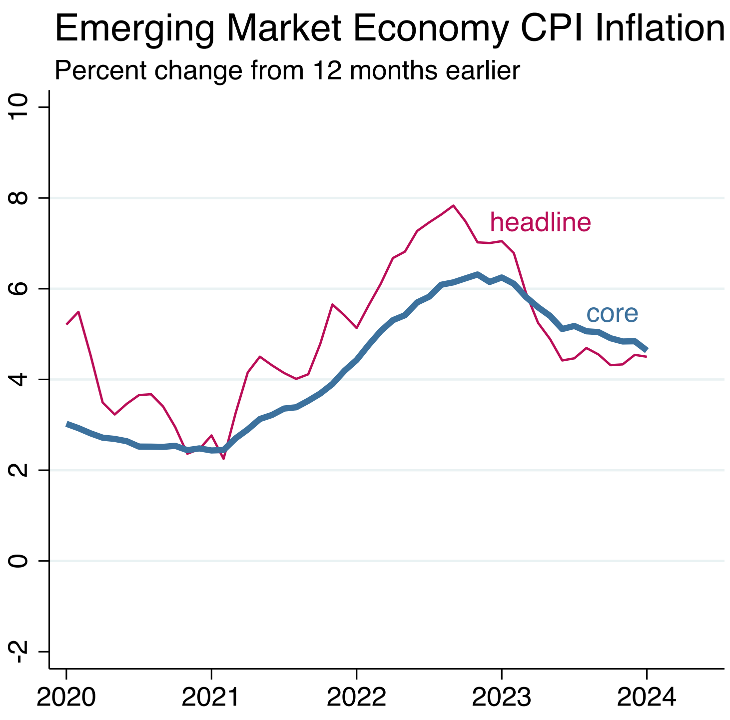
Inflation has come down but remains some distance from central banks' targets



Data source: Bureau of Labor Statistics (via FRED).
Last data point: February 2024.

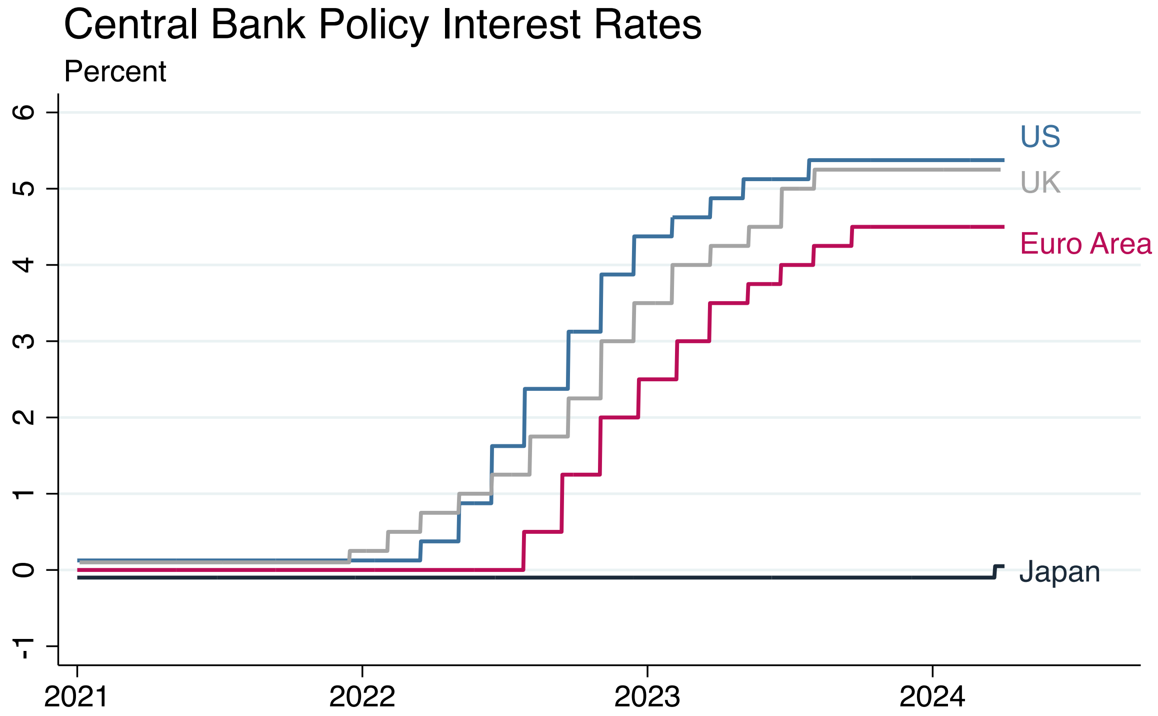


Data source: Dallas Fed. Last data point: January 2024.
Index based on a sample of 17 countries with broad coverage.
More details at https://www.dallasfed.org/research/international/dgei.

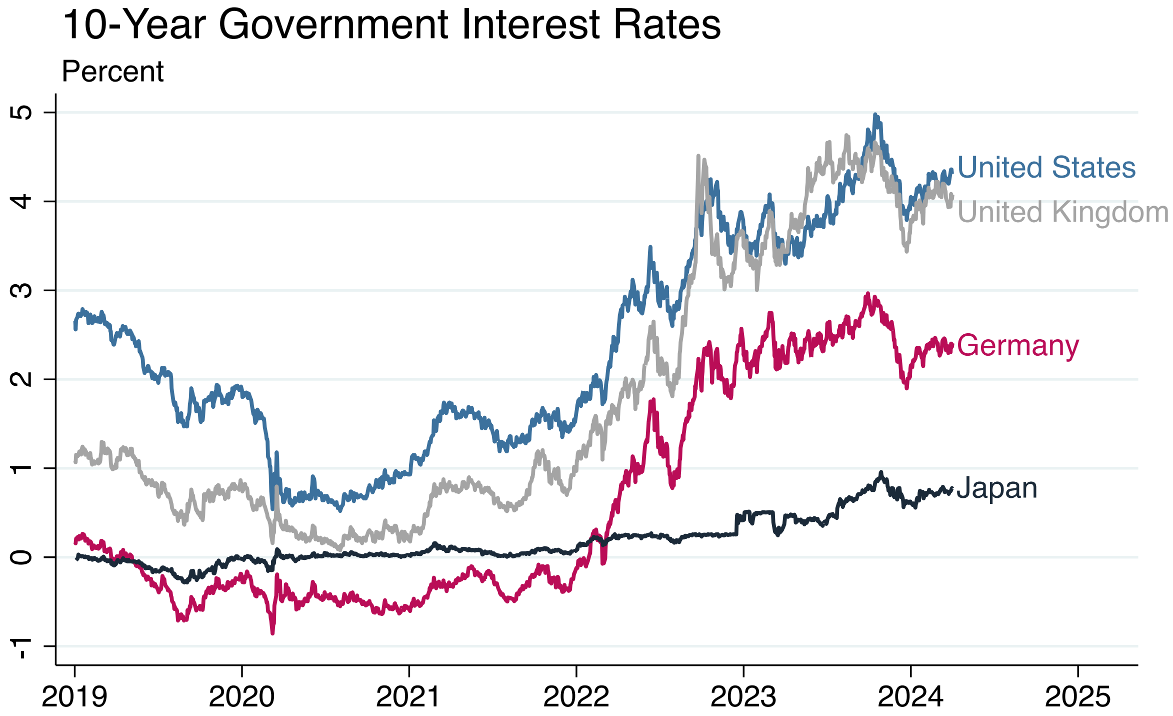


Data source: Dallas Fed. Last data point: January 2024.
Index based on a sample of 22 countries with broad coverage.
More details at https://www.dallasfed.org/research/international/dgei.

With key central banks watching and waiting, interest rates remain high



Data source: Bank for International Settlements.
Last data point: April 2, 2024.

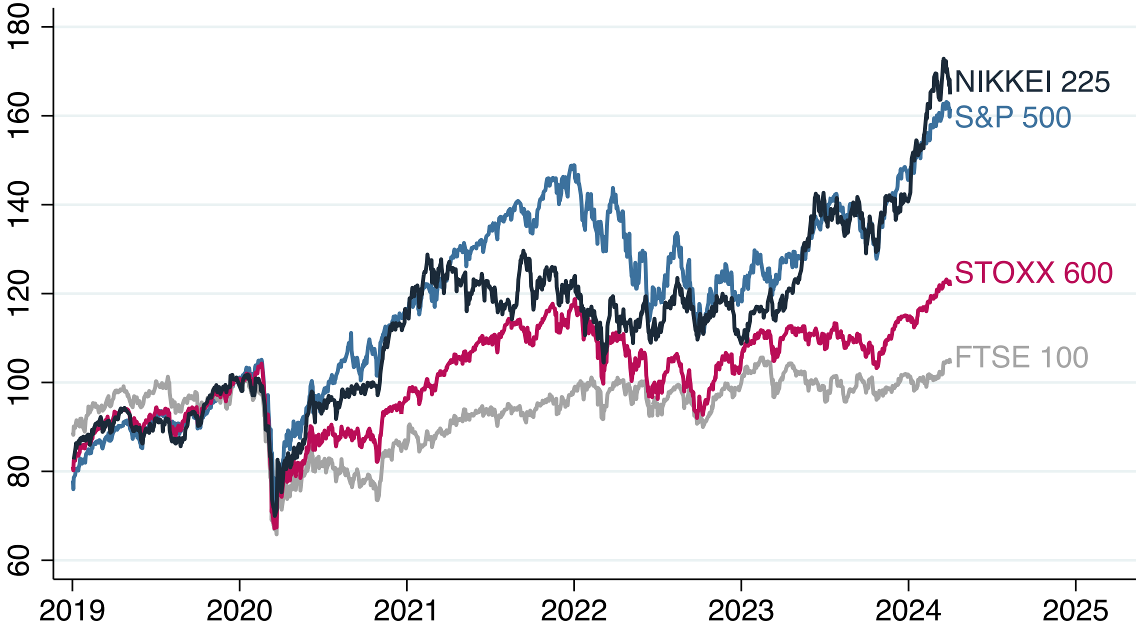


Data sources: Federal Reserve (via FRED) and Tullet Prebon (via Wall Street Journal).
Last data point: April 4, 2024.

Yet, stock prices are up, pushing overall financial conditions closer to neutral

Major Stock Price Indexes

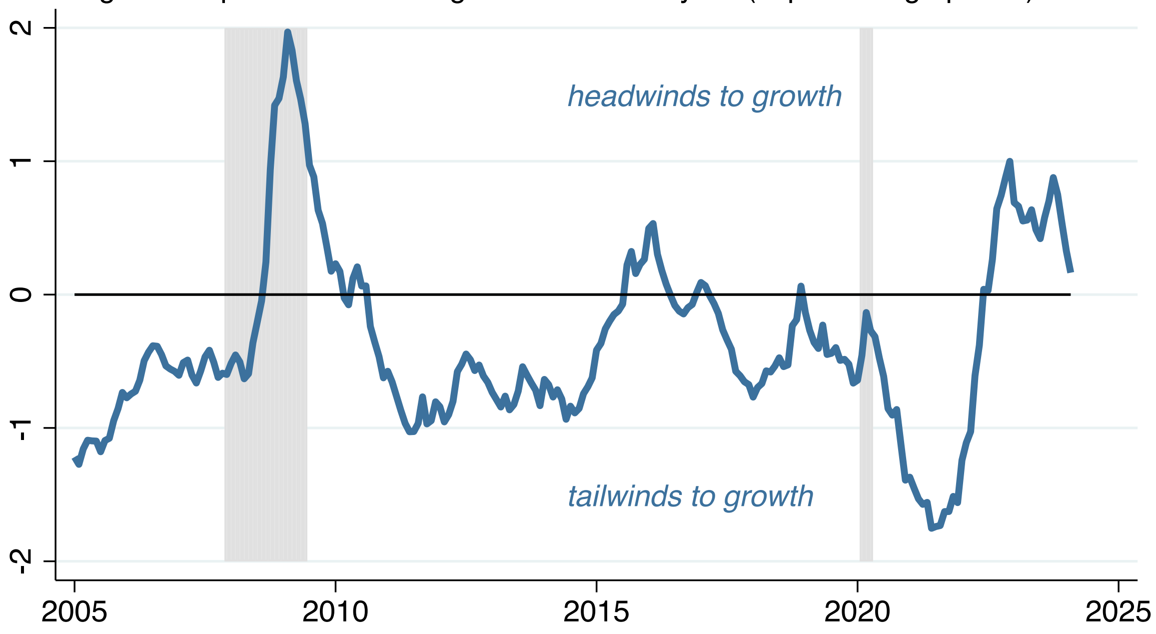
31 December 2019=100



Data sources: S&P Dow Jones (via FRED) and FactSet (via Wall Street Journal).
Last data point: April 5, 2024.

Federal Reserve Financial Conditions Impulse

Negative Impact on US GDP growth over next year (in percentage points)

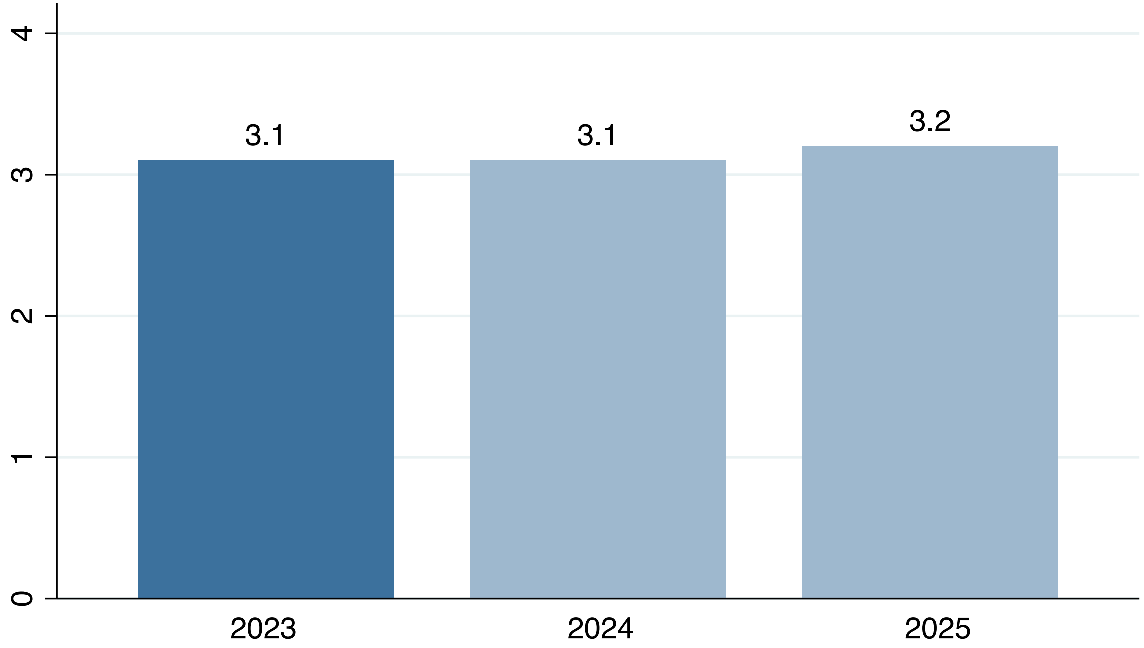


Data source: Federal Reserve Board. Shaded areas correspond to recessions.
Last data point: February 2024.

Even as inflation declines, global growth will probably hold fairly steady in 2024 and 2025

Global Real GDP Growth

Percent change from previous year



Annual-average-over-annual-average growth rates. PPP weights.
Sources: Consensus Forecasts for 2023; author's forecast for 2024-2025.

Yet, the steadiness in total global output growth masks substantial differences across countries

The projected pace of global growth is solid but not particularly strong, held back in part by slow growth in developing economies

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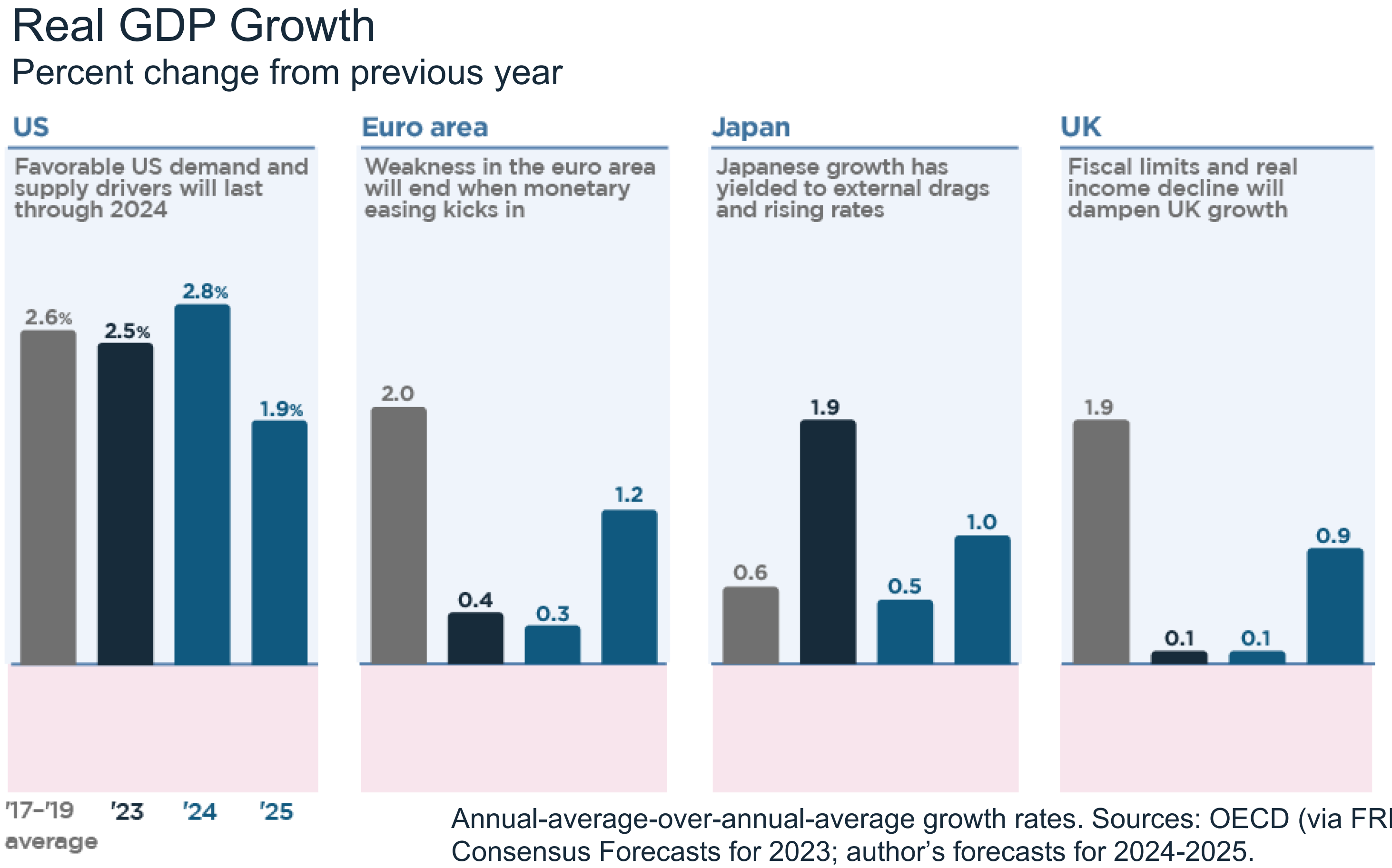
G7 economies are seeing soft-ish landings, meaning disinflation without recessions



Annual-average-over-annual-average growth rates. Sources: OECD (via FRED) for 2017-2019; Consensus Forecasts for 2023; author's forecasts for 2024-2025.

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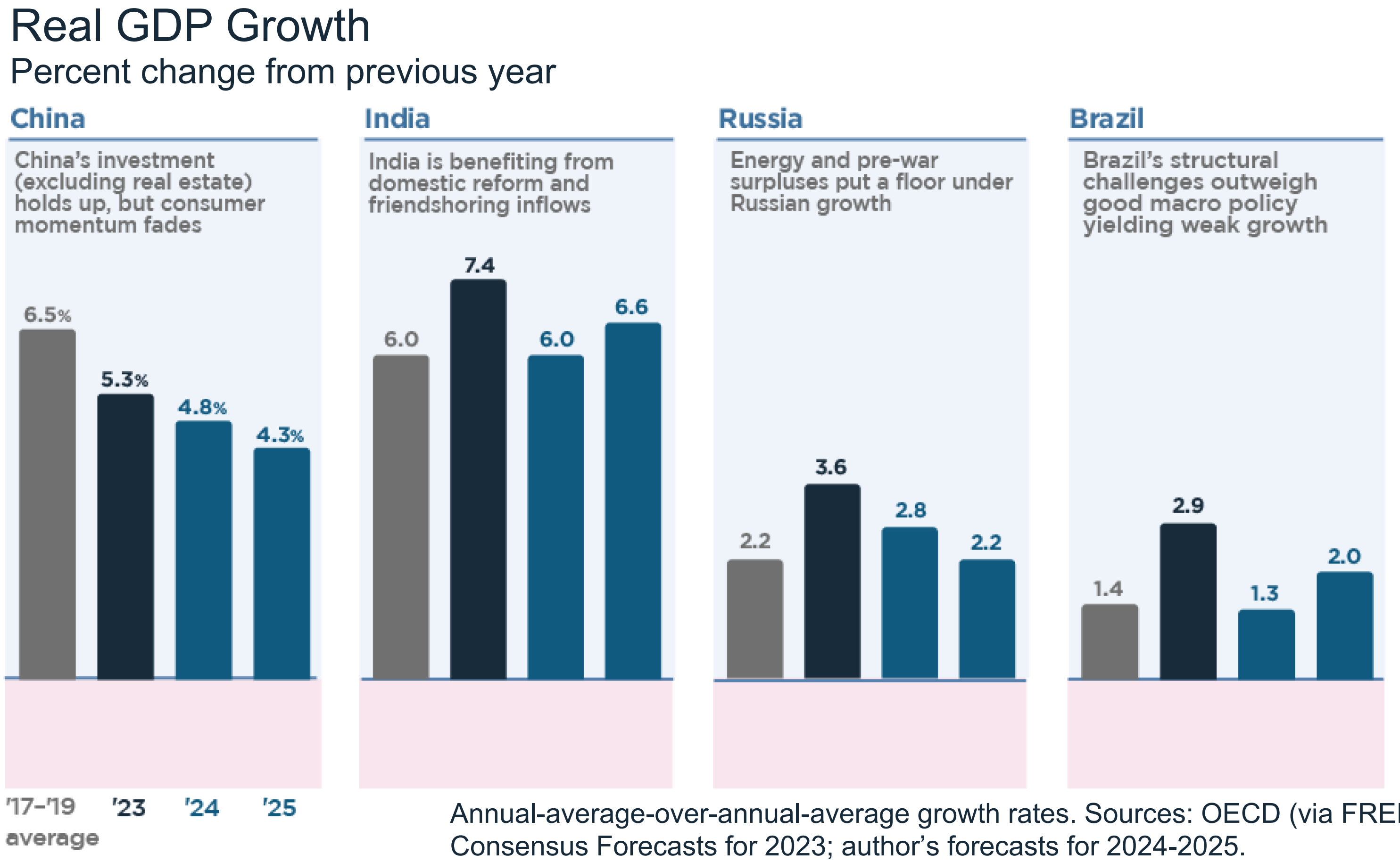
Key drivers of growth diverge across major emerging markets



Annual-average-over-annual-average growth rates. Sources: OECD (via FRED) for 2017-2019; Consensus Forecasts for 2023; author's forecasts for 2024-2025.

Summary of the outlook for large economies

Real GDP Growth (Y/Y)	2022	2023	2024	2025
Global Growth	**3.4**	**3.1**	**3.1**	**3.2**
United States	1.9	2.5	2.8	1.9
Euro Area	3.4	0.4	0.3	1.2
Japan	1.0	1.9	0.5	1.0
United Kingdom	4.3	0.1	0.1	0.9
China	3.0	5.3	4.8	4.3
India	7.0	6.0	6.0	6.6
Russia	-1.2	3.6	2.8	2.2
Brazil	3.0	2.9	1.3	2.0

Source: Consensus Forecasts for 2022-23; PIIE for 2024-2025. Annual-average-over-annual-average growth rates. PPP weights.

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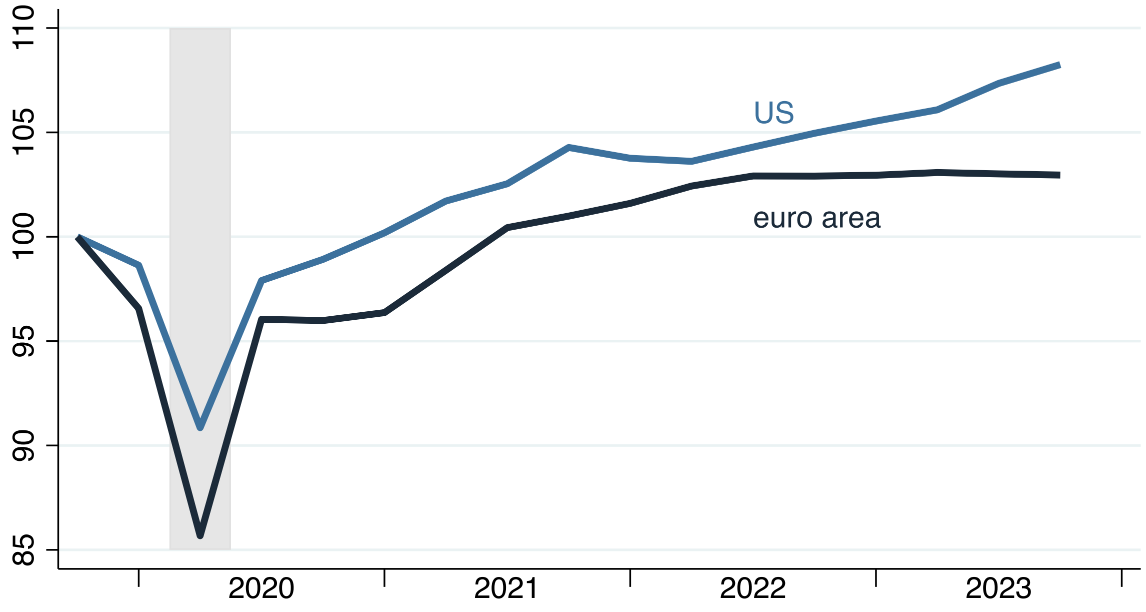
US growth has surprised to the upside

US and Euro Area Real GDP

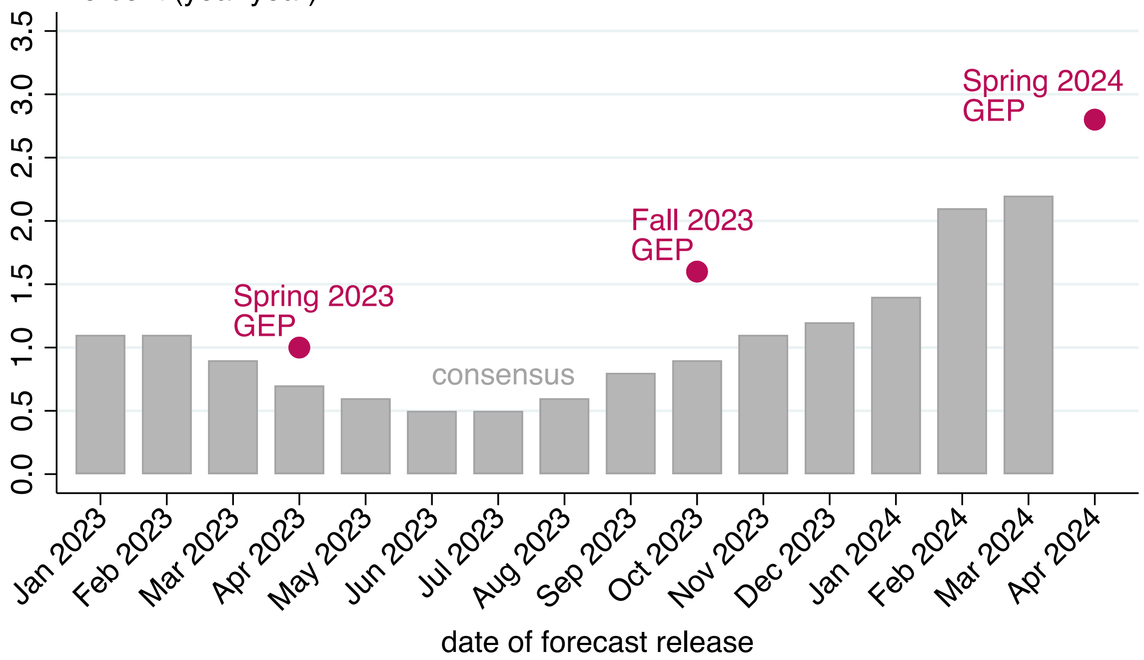
2019:Q4 = 100



Data sources: Bureau of Economic Analysis and Eurostat (via FRED).
Euro Area series is for 19 countries.
Shaded area corresponds to US recession. Last data point: 2023q4.

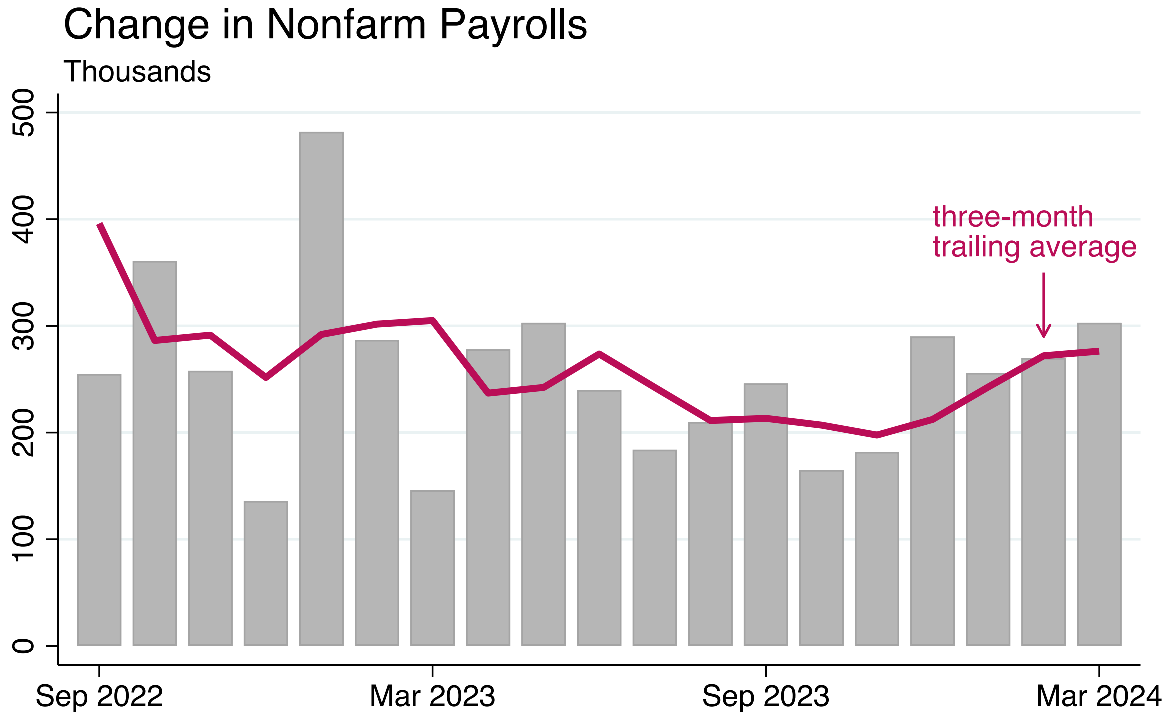
Evolution of 2024 US GDP Growth Forecasts

Percent (year/year)

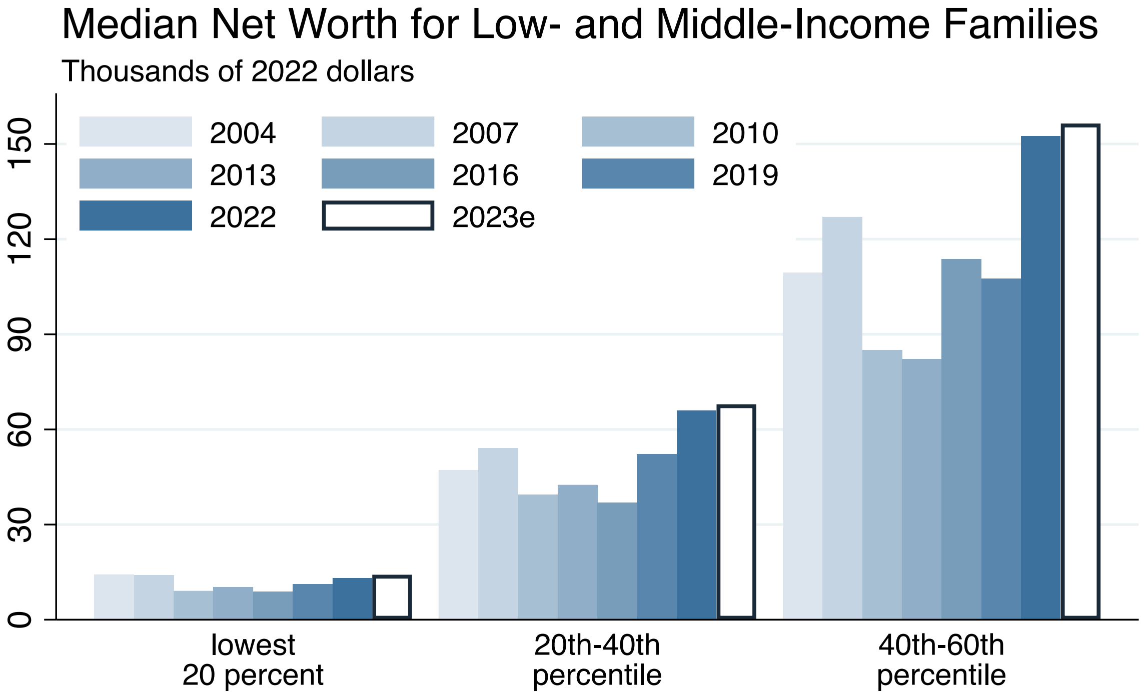


Data sources: Consensus Forecasts, author.

Demand is being supported by strong household fundamentals



Data source: Bureau of Labor Statistics (via FRED) and Federal Reserve Bank of Atlanta.
Last data point: March 2024.

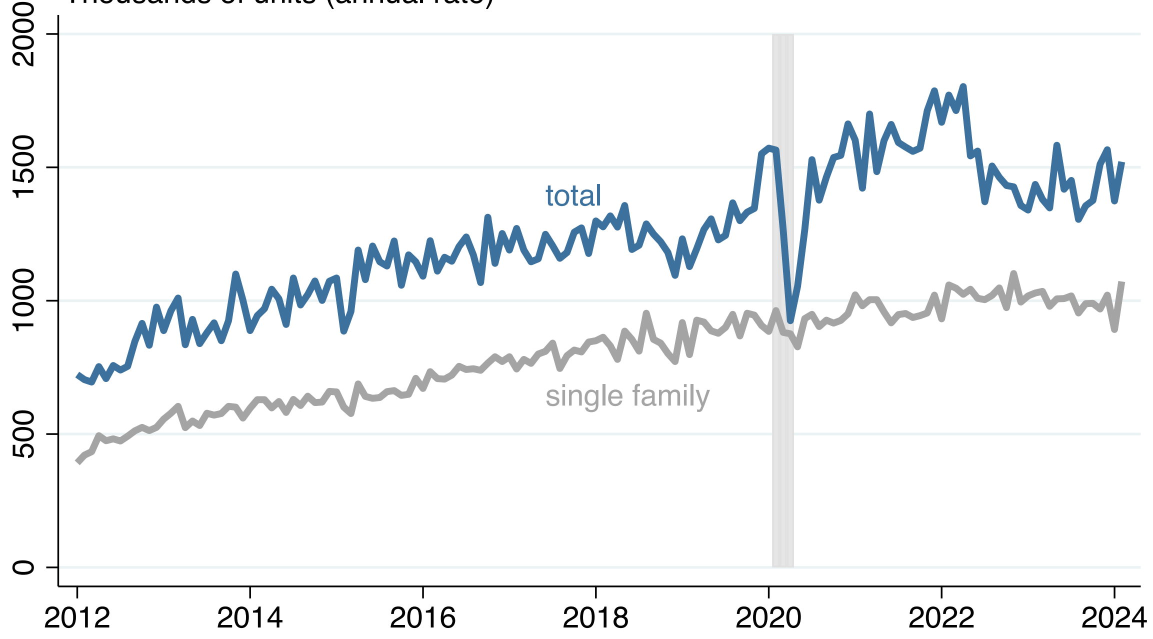


Medians from Survey of Consumer Finances through 2022. Quintiles based on "normal" income groups. Estimates for 2023 extrapolated using growth through 2023q4 in income quintile aggregates from the Federal Reserve Distributional Financial Accounts.

In addition, housing and business investment have held up despite elevated interest rates

Housing Starts

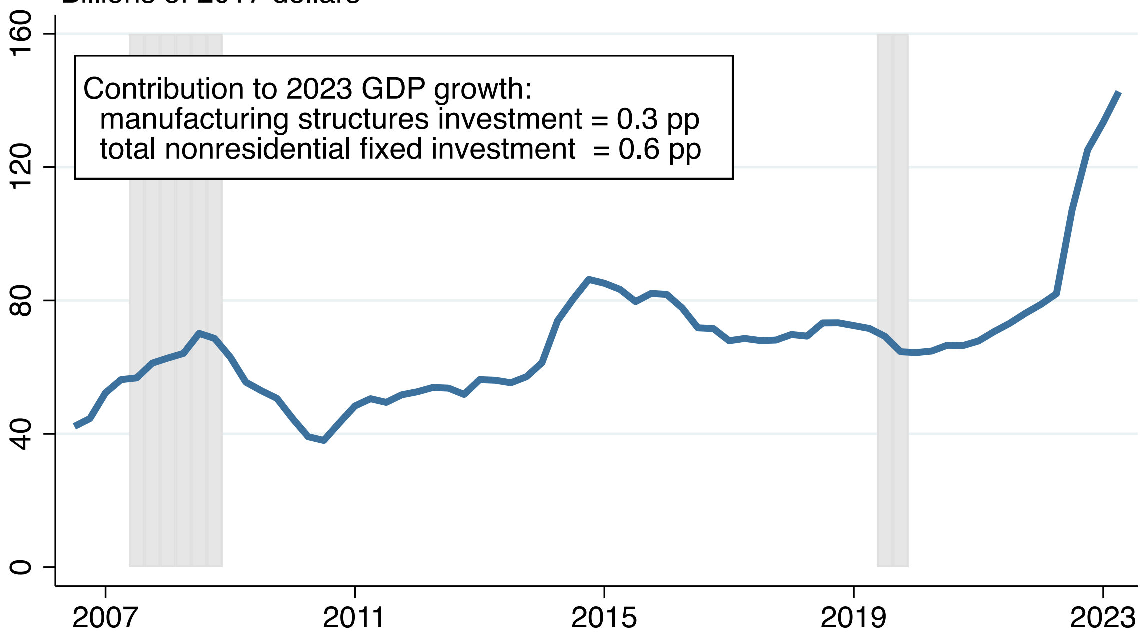
Thousands of units (annual rate)



Data source: Bureau of Economic Analysis (via FRED).
Shaded area corresponds to recession. Last data point: February 2024.

Real Investment in Manufacturing Structures

Billions of 2017 dollars



Data source: Bureau of Economic Analysis. Shaded area corresponds to recession.
Last data point: 2023q4.

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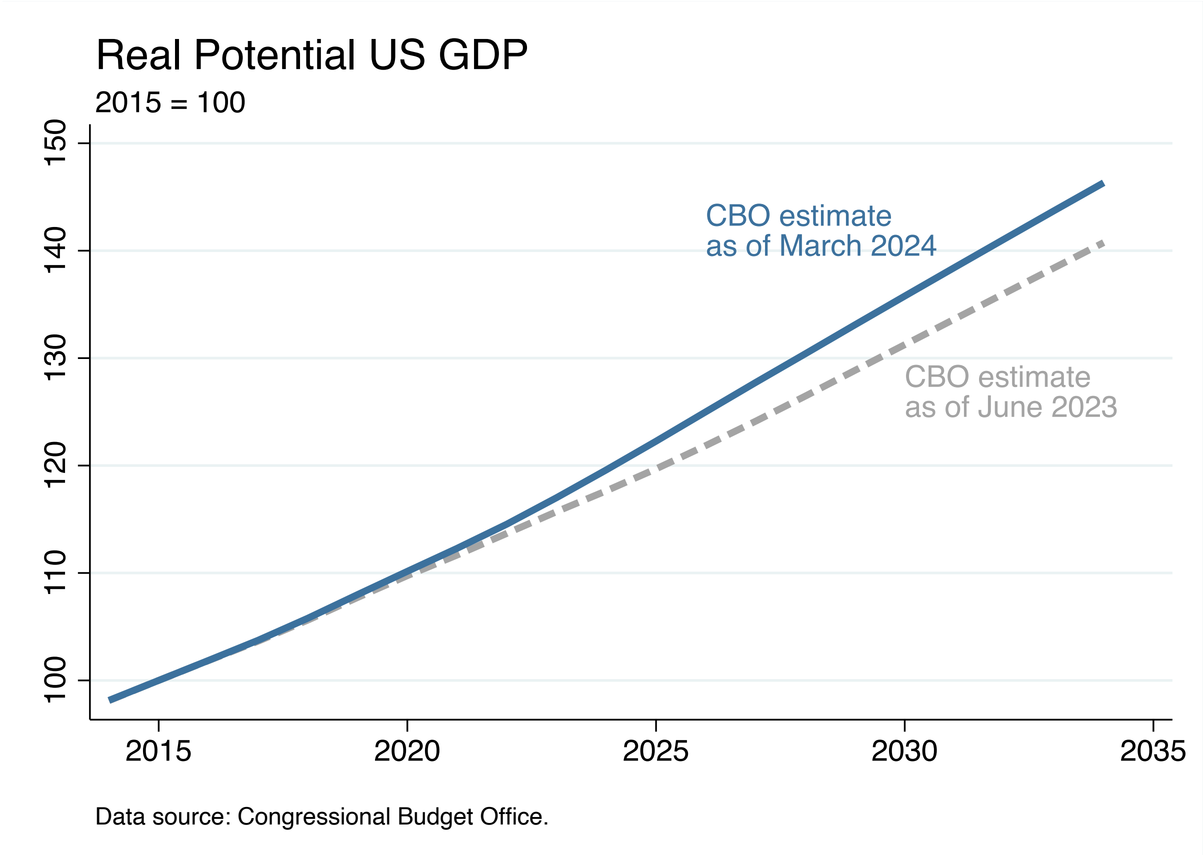
Supply developments are also important—US potential output looks to be growing briskly



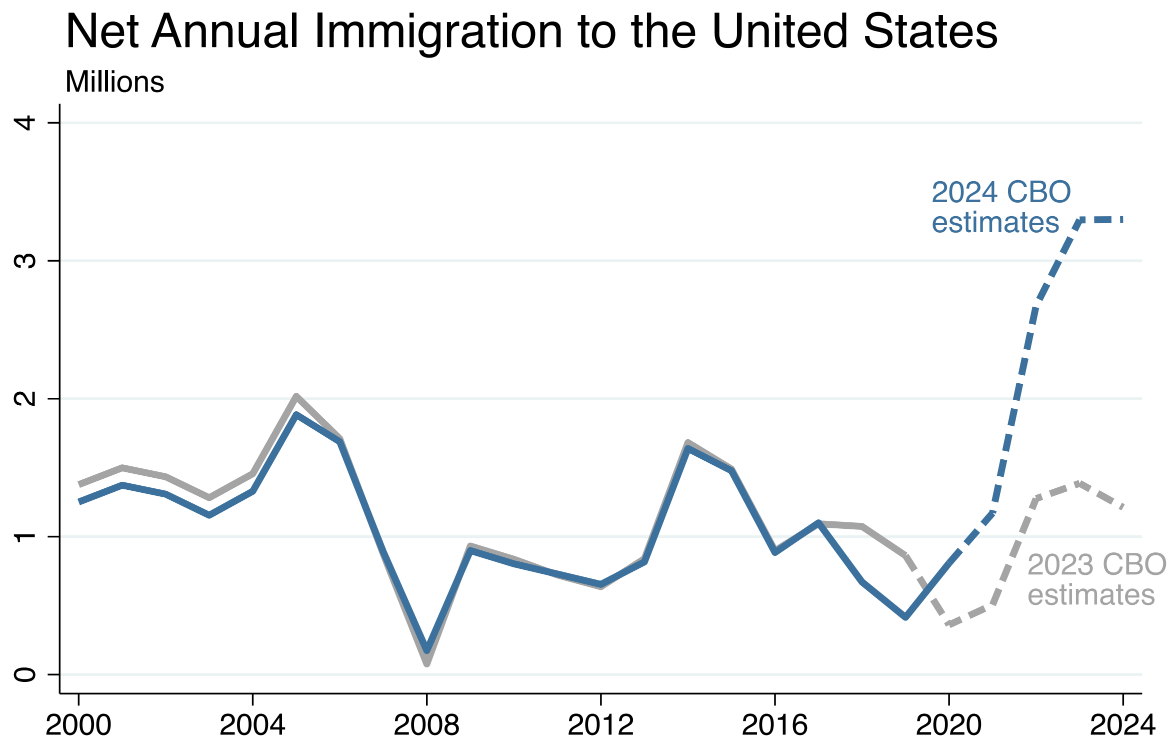
CBO, for example, has raised its projection for 2023-2024 annual average potential output growth by 0.4 percentage point—to 2.2 percent

Higher potential output growth has near-term implications for gauging appropriate monetary policy and long-term implications for fiscal sustainability

The biggest contributor to higher US potential output is a surge in immigration

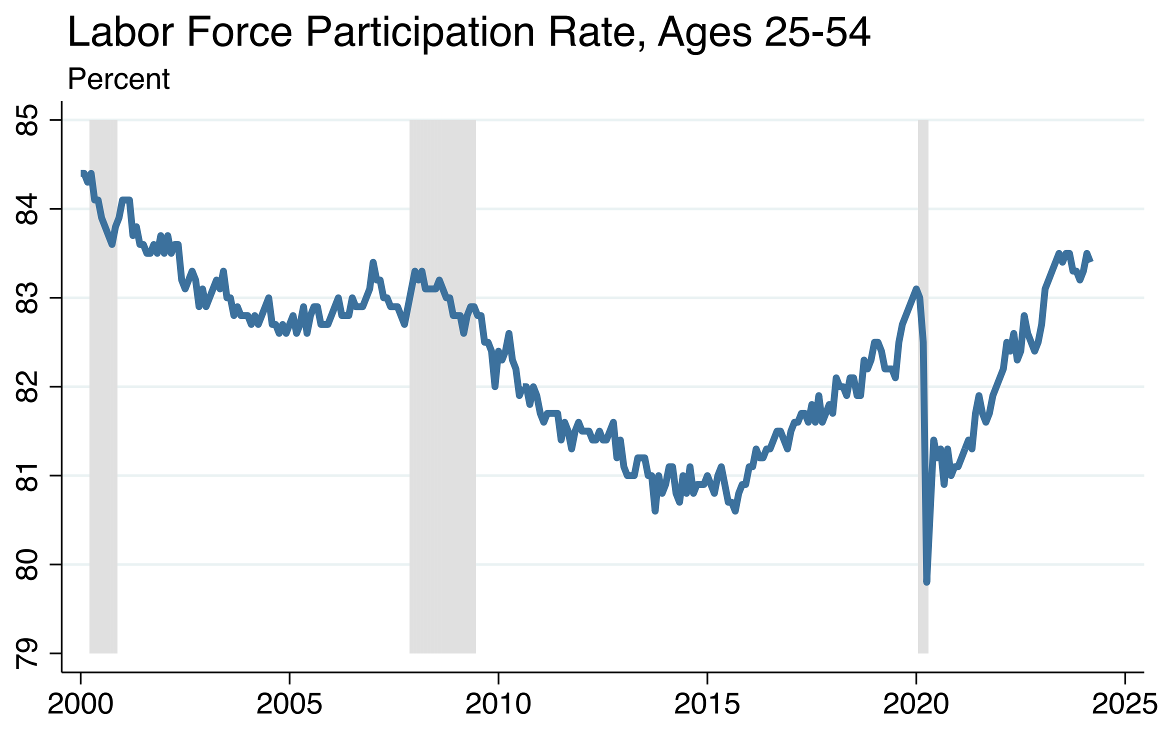
CBO has revised up its estimate of net immigration from 2021 to 2024 by 6 million people based on analysis of data from the Department of Homeland Security and the Census

Of course, we do not know how much longer immigration will run this high—it depends on changes in policy by both this Administration and next



Data source: Congressional Budget Office 2024 Demographic Outlook.

US potential output has also been bolstered by robust labor force participation



Data source: Bureau of Labor Statistics (via FRED). Shaded areas correspond to recessions.
Last data point: March 2024.

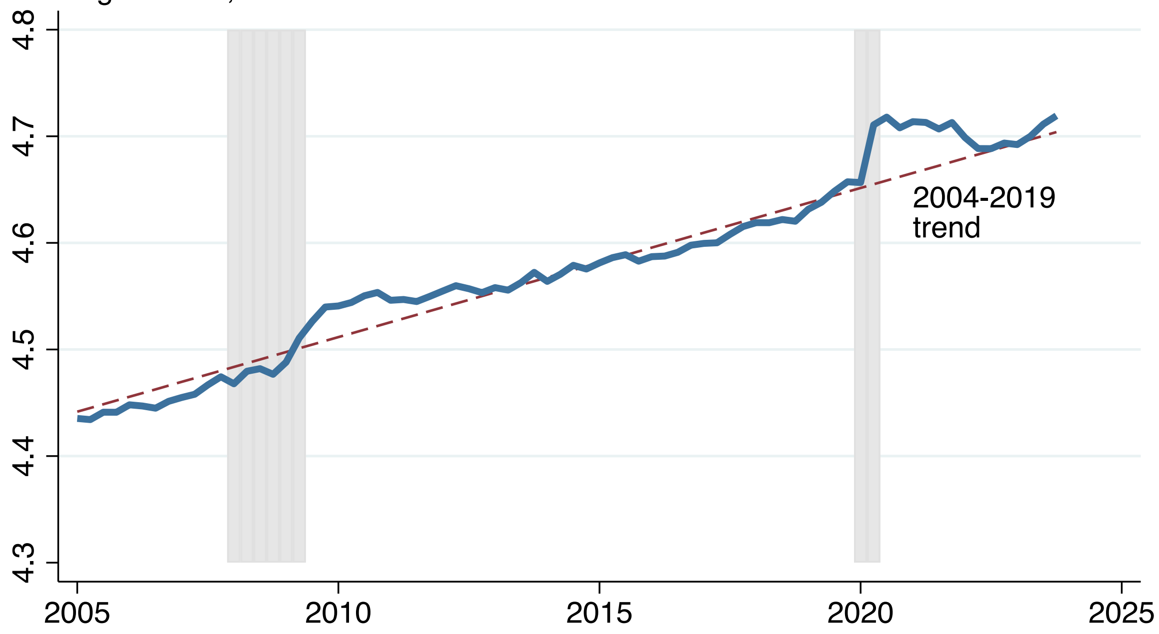
Prime-age labor force participation is now even higher than in the strong pre-COVID labor market

Overall labor force participation is nearly at its pre-COVID level—striking given the drag from population aging and long COVID

US productivity is close to trend, but recent quarters hint at a possible acceleration

Nonfarm Productivity

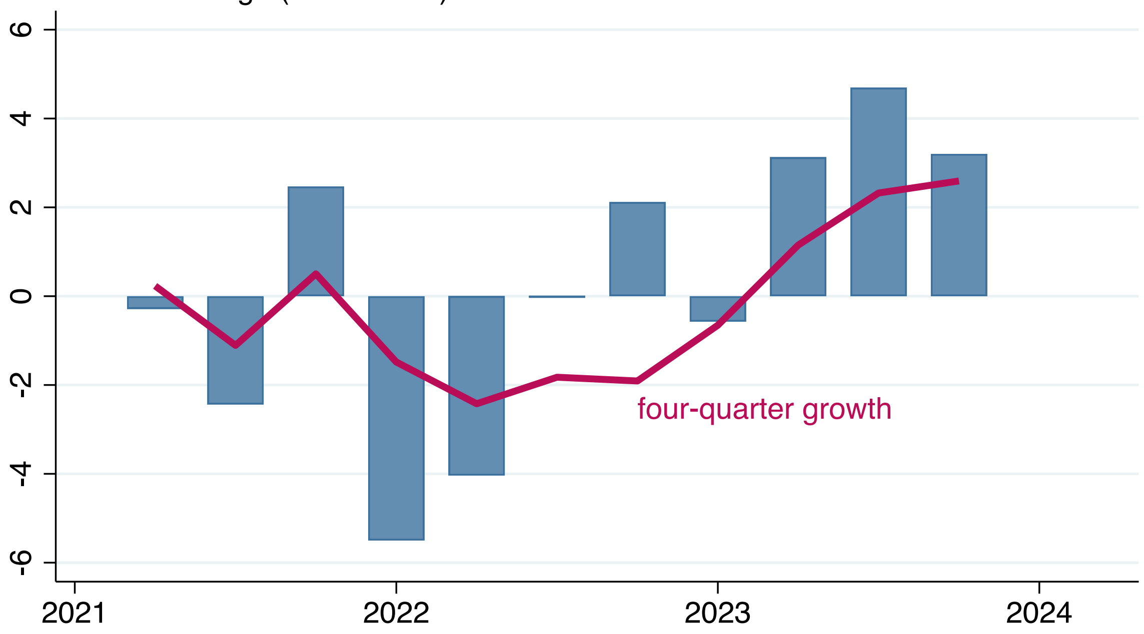
Log of index, 2017=100



Data source: Bureau of Labor Statistics. Shaded areas correspond to recessions.
Last data point: 2023q4.

Labor Productivity Growth

Percent change (annual rate)



Data source: Bureau of Labor Statistics (via FRED). Nonfarm business sector.
Last data point: 2023q4.

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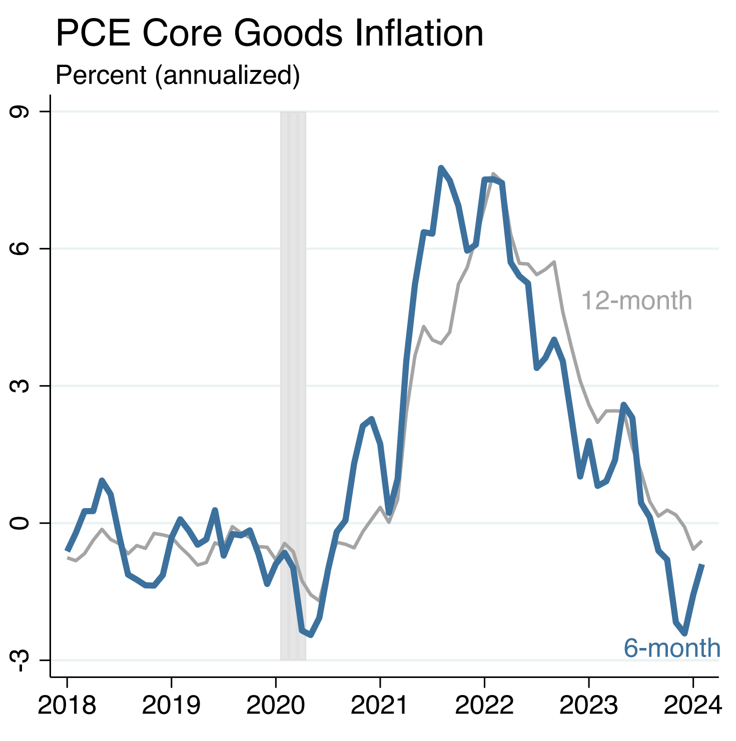
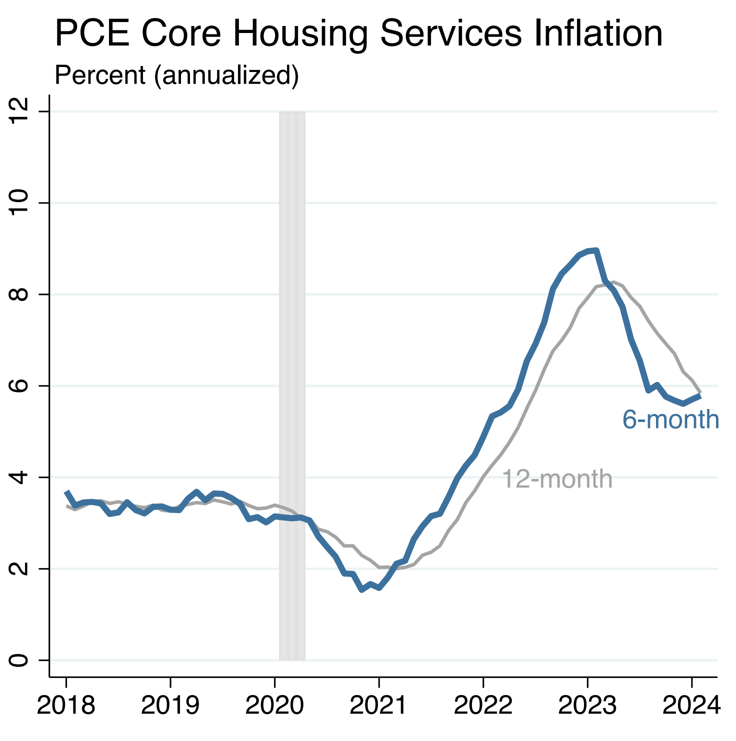
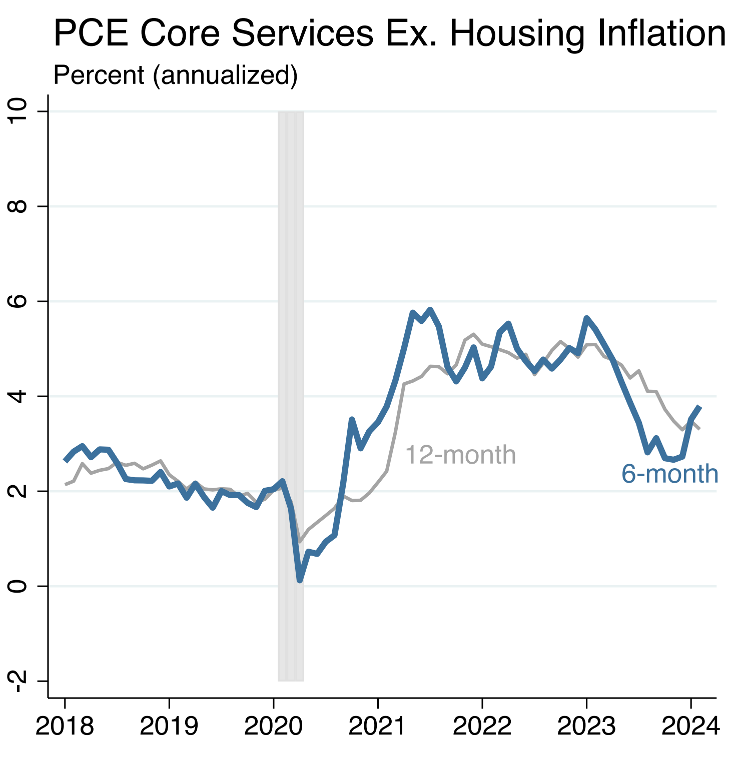
Despite stronger potential output growth, US disinflation looks to be slowing broadly



Data source: Bureau of Economic Analysis.
Shaded region corresponds to recession. Last data point: February 2024.



Data source: Bureau of Economic Analysis and author's calculation.
Shaded region corresponds to recession. Last data point: February 2024.



Data source: Bureau of Economic Analysis and author's calculation.
Shaded region corresponds to recession. Last data point: February 2024.

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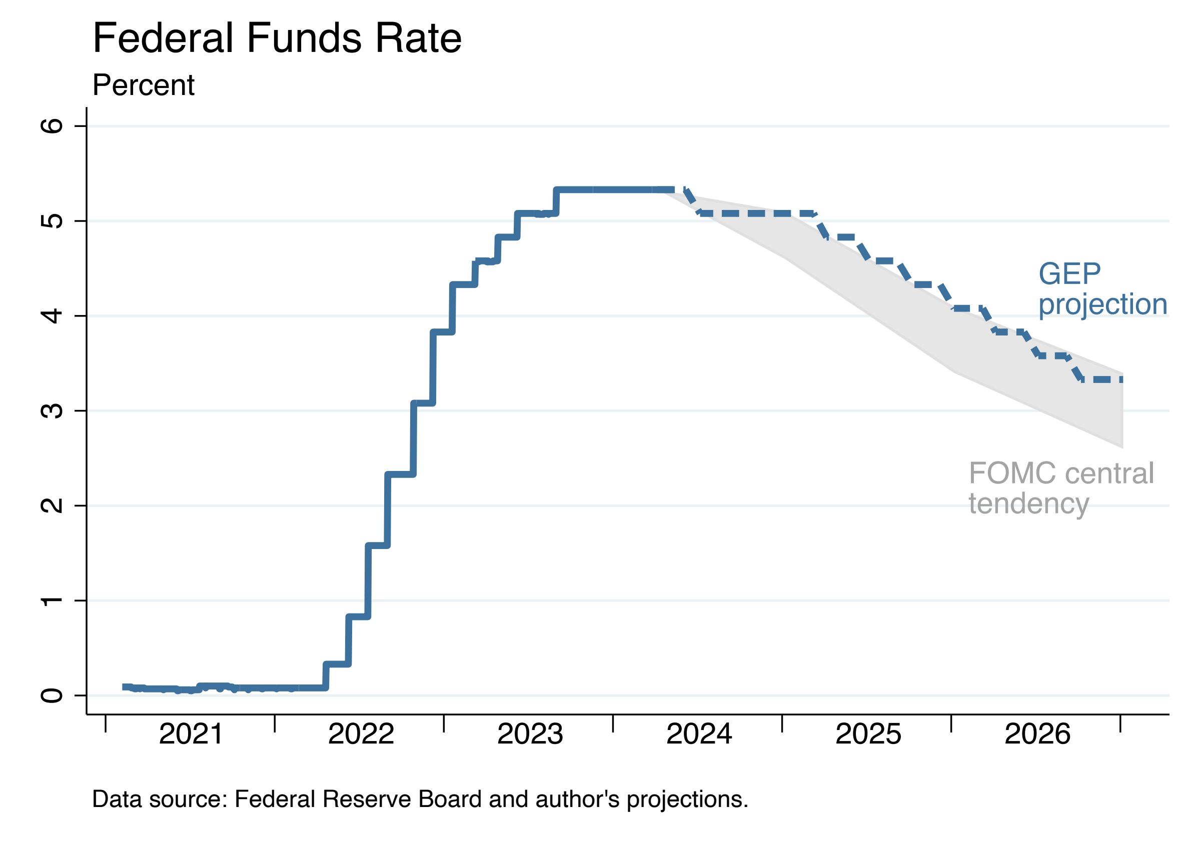
So, the Fed will lower rates only slowly



One rate cut is likely in 2024, as the Fed mostly watches and waits, and then the pace of cuts steps up in 2025

Asset prices have held up so far despite markets' repricing to slower rate cuts, but that may not be sustainable

A soft landing remains the most likely outcome for the United States

US Spring 2024 Forecast Details

	2023	2024	2025
GDP growth (year/year)	2.5	2.8	1.9
GDP growth (Q4/Q4)	3.1	2.1	1.9
PCE inflation (Q4/Q4)	2.8	2.4	2.3
Core PCE inflation (Q4/Q4)	3.2	2.5	2.3
Unemployment rate (Q4 level)	3.7	4.1	4.1

Author's forecast for 2024-2025.

However, recession risk is still somewhat elevated for the United States and other major economies—given geopolitical uncertainties, the potential for more inflationary supply shocks, and a heightened likelihood of asset price corrections as central banks ease policy more slowly than markets currently expect

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