2023 new world pattern global macroeconomic analysis and financial market industry chain dilemma and breaking ideas

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Abstract: In 2022, the world economic and financial situation shifted from “low growth, low inflation, low interest rates, and high debt” to “high inflation, high interest rates, high debt, and slow growth.”. The growth rate of several major economic countries in the world has seen a significant decline. Inflation is constantly refreshing historical records, continuously improving the efficiency of currency use, continuously improving the vulnerability of debt, and constantly increasing market instability and risks. Looking ahead to 2023, we believe that the main contradiction in the world economy will shift from “inflation” to “stagnation”, with increased risks of recession, uncertainty in inflation, a slowing pace of monetary policy tightening, and the possibility of a reversal in the trend of the stock market. In particular, the economy of the United States may fall into a shallow or temporary recession, the European region will continue to face the challenges of the energy crisis, the economy of Japan will fluctuate due to changes in monetary policy, the development of India and Southeast Asia will be relatively stable, and the development of Latin America and Türkiye will be greatly affected.

Keywords: economic recession; Slowing inflation; Energy shortage; Policy shift

1.Introduction

2022 is a year of profound transformation in the global economic and financial landscape: the global economic and financial situation has shifted from “low growth, low inflation, low interest rates, and high debt” to “high inflation, high interest rates, high debt, and slow growth”, and the growth differentiation of major economies has intensified.

2. Growth differentiation of major economies

2.1 Differences in slowing economic growth

Under the combined effect of multiple factors such as repeated epidemics, intensified geopolitical conflicts, policy tightening, and frequent occurrence of major disasters, the growth rate of the world economy this year has shown a significant downward trend. The IMF predicts that by 2022, the world’s GDP will grow at a rate of 3.2%, a sharp decline of 2.8 percentage points compared to 2021. There are significant differences between developing and developed countries. The GDP of developed countries has increased by about 2.4%, with a significant decrease compared to the United States, the euro area, and the United Kingdom. Emerging markets, on the other hand, are more robust, with overall growth rates (expected at 3.7%) exceeding those of developed countries, especially India and Southeast Asia.

2.2 Increasing inflation rate

The rise in energy and food prices caused by the crisis in Ukraine, the outbreak of the pandemic and the game between major countries impacting the stability of the supply chain, and the huge demand growth brought about by large-scale economic stimulus measures after the pandemic have led to a rapid rise in global inflation. According to current forecasts, by 2022, the global price index will increase by 8.8% compared to the same period last year, hitting a new high since 2000. In developed countries, the consumption level of the United States has been greatly boosted, with its consumer price index rising to a 40 year high. In terms of energy and food prices, the eurozone and the UK have suffered even greater blows. Rising commodity prices and the weakening yen have pushed Japan’s consumer price index to its second highest level in 30 years. The inflation rate of Türkiye, Argentina and other emerging economies has risen significantly, and their consumer price index is expected to rise by 60.5% and 72.4%; Inflation in some Asian countries and regions, such as China, South Korea, and ASEAN, is relatively stable and controllable.

2.3 Policy of raising interest rates

In the face of severe inflation, central banks around the world have taken austerity measures, and on this basis, a wave of "interest rate hikes" has formed, causing the rapid rise of interest rate centers around the world. In 2022, the Federal Reserve, the European Central Bank, and the Central Bank of England will all have a rapid interest rate hike process. At the end of the year, the Bank of Japan revised its interest rate curve control policy to broaden the target fluctuation range of Japan's 10-year bond interest rate to ± 0.5 percentage points. In addition, under the influence of inflation, the currency exchange rates of emerging market countries are also declining, capital outflows are also increasing, and interest rates are also rising.

3. Deficiencies in development

3.1 Increased risk of economic recession

First, the effect of policy tightening is evident. After the implementation of monetary policy, it takes 12 to 24 months for market economic activity and corresponding prices to fully respond. The simultaneous "interest rate hike" by global central banks may produce a "synthetic fallacy", and the impact on global economic growth will fully manifest in 2023. Second, the impact of inflation continues to ferment. It is difficult for inflationary pressures to quickly subside, not only eroding residents' actual income, but also raising business operating costs and suppressing consumption and investment demand. In summary, it is expected that the global economic growth rate in 2023 will be at the lowest level in nearly 20 years, possibly only higher than in 2009 and 2020. Countries that account for one-third of global GDP will face the risk of economic recession.

3.2 Inflation remains uncertain

On the one hand, the inflation index is expected to decline slightly in 2023. The decline in demand and the rising risk of global economic recession will lead to a downward trend in demand, and the inhibitory effect of monetary policy tightening on inflation will further manifest. Supply recovery, the disturbance of the epidemic to the global supply chain tends to weaken, and commodity prices, especially energy prices, may decline in volatility. High base effect: global inflation soared in 2022, and high base effect will affect inflation growth in 2023.

On the other hand, the process of falling inflation is not a smooth one. Wage rigidity. In 2022, the wage growth rate in the labor market in the United States, Europe, and the UK was significantly higher than the pre epidemic level. Due to the rigidity effect, it is difficult for wage growth to fall back. As costs rise, due to factors such as geopolitical conflicts, the layout of global industrial chains and supply chains has accelerated adjustment, driving up production and consumption costs. The combination of structural adjustment, climate change, energy transformation, and the decline in population dividends has driven up the global inflation hub in the medium to long term. Overall, the global inflationary pressure will ease somewhat in 2023, but it is still at the highest level since the subprime crisis, which is difficult to fundamentally eliminate. The global economy will continue to operate in a high cost environment.

4. Research and judgment on the situation of major economies

4.1 The US economy may experience a recession

The risk of the US economy falling into recession in 2023 is high. First, with asset repricing, the cumulative contraction effect of the Federal Reserve's aggressive interest rate hikes will be concentrated in 2023. The second is that the real estate market, which is sensitive to changes in interest rates, may continue to be under pressure. Since 2022, housing sales in the United States have declined significantly, and real estate investment has continued to shrink. It is expected that this trend will continue in 2023. Third, the pulling effect of consumption on the economy may weaken. The tightening of monetary policy will worsen the outlook for the labor market, increase the burden of household debt, and lead to a decrease in disposable income for residents. After the midterm elections, McCarthy was elected Speaker of the House of Representatives, and the Republican Party regained control of the House of Representatives. This will restrict the economic legislative process of the Biden administration, making it more difficult to introduce expansionary fiscal policies.

However, the current data on new non agricultural employment in the United States is still strong, and the balance sheets of residents, enterprises, and the financial sector have not shown significant signs of deterioration. The liquidity ratio of depository institutions is much higher than during the financial crisis. Overall, it is expected that the probability of a rapid and deep recession of the US economy in 2023 is not high.

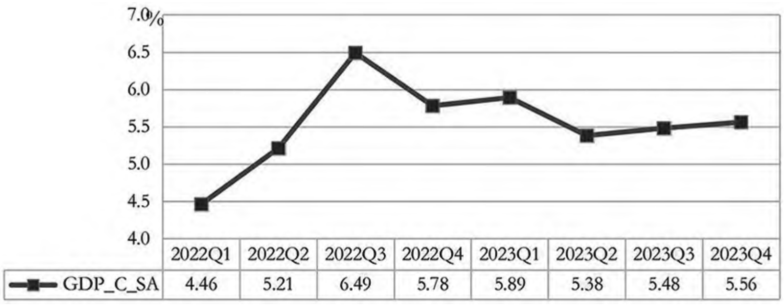

Figure 1 Prediction of quarterly year-on-year growth rate of GDP

4.2 Energy remains the biggest test facing Europe

“The bottleneck in Europe’s energy supply is difficult to eliminate in the short term, and it will still restrict demand and supply in the European region.”. It is estimated that even if natural gas consumption decreases by 11%, Europe may still face an energy gap equivalent to nearly 10% of natural gas consumption from 2023 to 2024.

On the demand side: First, energy prices drive up the price level, leading to a decrease in the real income of residents, inhibiting the scale of consumption, and squeezing other consumer spending. Second, the increase in import costs has led to a decline in the net export scale of European countries. In 2022, Germany’s trade surplus significantly declined, while France’s and Britain’s trade deficits widened.

On the supply side: First, high energy consuming industries such as chemical industry, steel, paper making, and non-metallic manufacturing have fallen, dragging down economic growth. Due to production constraints, it is estimated that high energy consuming industries will drag down the growth rate of industrial added value in the euro area by around 0.5% in 2022. The second is to accelerate the “de industrialization” of Europe and expand the scale of capacity transfer. Recently, several large multinational companies in Europe (including BASF, BMW, etc.) announced expanding overseas investment to address the shortage of domestic energy supply.

Conclusion

Despite the recent rebound in global stock, bond, and commodity prices, the author believes that the foundation for this rebound is not solid. Once the US inflation rate falls below expectations in April or May 2023, the US long-term interest rate and US dollar index may still rebound again in the short term. In other words, many financial indicators will exhibit bilateral fluctuations in the next six months, making it difficult to form a unilateral trend. Against this backdrop, world output growth is expected to decline from about 3% in 2022 to only 1.9% in 2023, which is one of the lowest growth rates in recent decades. If, as expected, some macroeconomic headwinds begin to subside next year, global growth is expected to moderate back to 2.7% in 2024. With the weakening of global economic demand, inflationary pressures are expected to gradually ease. This will allow the Federal Reserve Bank of the United States and other major central banks to slow the pace of monetary tightening and ultimately shift to a more accommodative monetary policy stance. However, due to the persistence of various economic, financial, geopolitical, and environmental risks, the near-term economic outlook remains extremely uncertain.

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