This edition of the Economic Brief sees us delve into economic matters at a global level. We will review the latest World Economic Outlook projections prepared by the International Monetary Fund to review the macro impact of the war in Ukraine, and we will move on to consider price dynamics in the three major economic zones: the US, the eurozone and China.

IMF - World Economic Outlook projections - April 2022: lower growth and higher inflation

		Projections		Difference with Jan. 2022 WEO projections	
	2021	2022	2023	2022	2023
World Output	**6.1**	**3.6**	**3.6**	**(0.8)**	**(0.2)**
Advanced economies	**5.2**	**3.3**	**2.4**	**(0.6)**	**(0.2)**
United States	*5.7*	*3.7*	*2.3*	*(0.3)*	*(0.3)*
Eurozone	*5.3*	*2.8*	*2.3*	*(1.1)*	*(0.2)*
Germany	*2.8*	*2.1*	*2.7*	*(1.7)*	*0.2*
France	*7.0*	*2.9*	*1.4*	*(0.6)*	*(0.4)*
Japan	*1.6*	*2.4*	*2.3*	*(0.9)*	*0.5*
UK	*7.4*	*3.7*	*1.2*	*(1.0)*	*(1.1)*
Emerging & Developing economies	**6.8**	**3.8**	**4.4**	**(1.0)**	**(0.3)**
China	*8.1*	*4.4*	*5.1*	*(0.4)*	*(0.1)*
India	*8.9*	*8.2*	*6.9*	*(0.8)*	*(0.2)*
Russia	*4.7*	*(8.5)*	*(2.3)*	*(11.3)*	*(4.4)*

Sources: Accuracy & IMF

The International Monetary Fund (IMF) published its latest World Economic Outlook (WEO) in April 2022. In it, world output for 2022 was revised downwards by almost one full point compared with the previous outlook published in January. This is largely due to the war in Ukraine. Unsurprisingly, Russia's outlook for the year deteriorated drastically (-11.3 pts) in light of the vast economic sanctions applied to it; Germany's outlook also suffered significantly (-1.7 pts), linked to its over-reliance on Russian hydrocarbons.

IMF alternative downward scenario

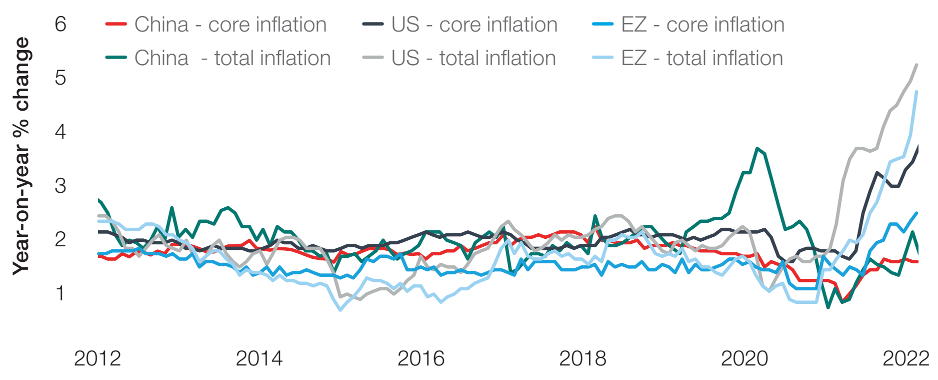
		Persistent rise in raw material prices & supply chain issues	(+) more pronounced acceleration of prices	(+) tightening of financial conditions
Real global GDP	2022	(0.6)	(0.7)	(0.8)
	2023	(1.0)	(1.7)	(2.0)
	2024	(0.8)	(1.7)	(2.0)
	2025	(0.5)	(1.3)	(1.5)
Real EU GDP	2022	(0.9)	(1.1)	(1.2)
	2023	(1.6)	(2.5)	(2.7)
	2024	(1.1)	(2.7)	(3.0)
	2025	(0.8)	(2.4)	(2.6)
Global CPI inflation	2022	1.0	1.2	1.1
	2023	0.6	1.3	1.2
	2024	(0.7)	(0.3)	(0.4)
	2025	(0.8)	(0.7)	(0.9)

Sources: Accuracy & IMF

Note: Impact measured as the difference compared with the central scenario. Cumultative impact each year from left to right.

However, a significant lack of visibility has led the IMF to prepare an alternative scenario that revises these WEO estimates downwards. The table opposite shows the potential impacts of a persistent increase in raw material prices and supply chain issues, more pronounced price acceleration and tighter financial conditions. In this more precarious scenario, global and EU GDP could be two and three points lower respectively in 2024, when compared with the WEO central scenario, and inflation could be 1.2 points higher in 2023.

Consumer price dynamics

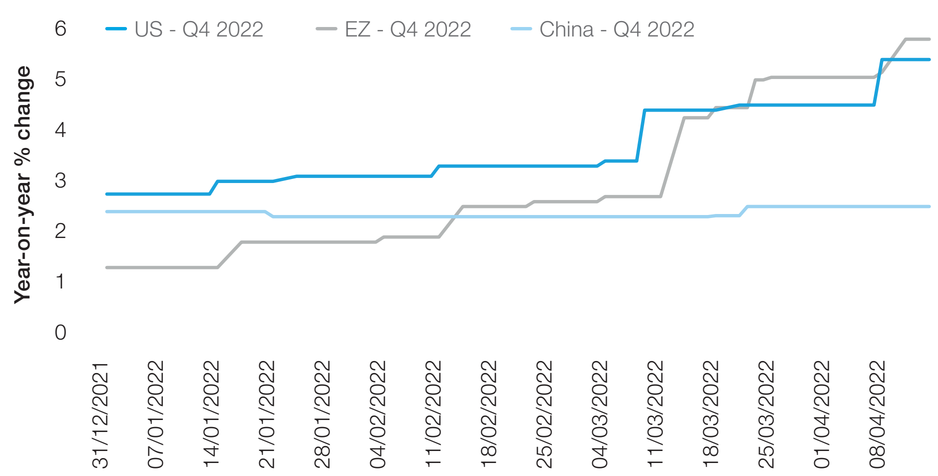


Sources: Accuracy & Bloomberg

Note: figures up to March 2022

The graph opposite shows the dynamics of consumer prices in the three major economic regions: the US, the eurozone and China. We observe that prices in China appear under control, with inflation amounting to circa 1.5% in March 2022. By contrast, when we consider the US and the eurozone, we see a more striking situation: consumer prices are accelerating sharply in both regions, at 8.5% and 7.5% respectively (March 2022 figures). However, after adjusting for food and energy to obtain the core consumer prices, we see that inflation in the eurozone appears more stable at circa 3%, suggesting that food and energy prices are driving the inflationary dynamics in the region; inflation of the core index in the US, however, amounts to 6.5%, indicating a more perilous situation.

Consumer price index - Bloomberg consensus forecast for Q4 2022



Sources: Accuracy & Bloomberg

Forecasts from the Bloomberg consensus at the beginning of the year seemed to consider that the inflationary trends mentioned above would stabilise at more manageable levels by Q4 2022. Nevertheless, the graph opposite demonstrates that as time has progressed, these Q4 consumer price index forecasts have continued to develop, rising to around 5.5% in the US and 5.8% in the eurozone. Indeed, in the US, it seems that consumers will need to wait until mid-2023 – and potentially beyond – for prices to return to more normal levels of growth.

The global economy is going through a rough patch: it would appear that inflation is waking up as output is getting tired. Though the war in Ukraine exacerbated trends in these areas, they were already in place beforehand due to supply chain issues post-Covid-19. And as these effects persist, economists are starting to raise the spectre of stagflation…