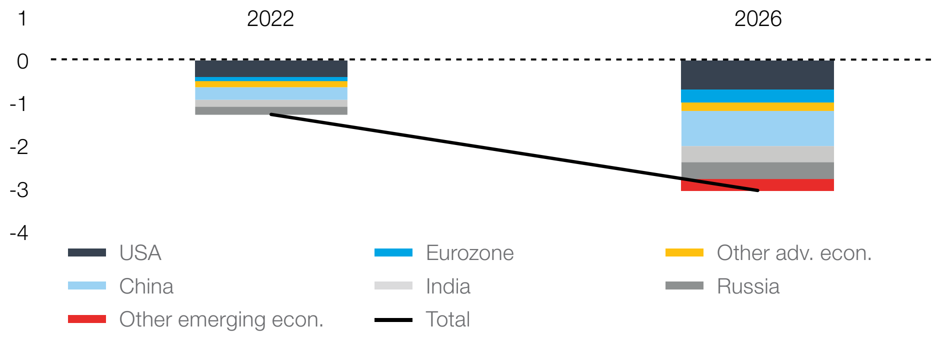
In this edition of the Economic Brief, we first look into the IMF's growth forecasts and how they have diminished significantly over the course of just this year. We then zoom in on the US to better understand one of the contributing factors to current inflation and to see what action we can expect from the Federal Reserve. Finally, we take a step back to consider the wider economic picture and the changes currently at play.

WHAT WILL GROWTH BE TOMORROW?

The long-lasting effects of the current crisis on global growth (% point deviation from pre-shock growth forecast)



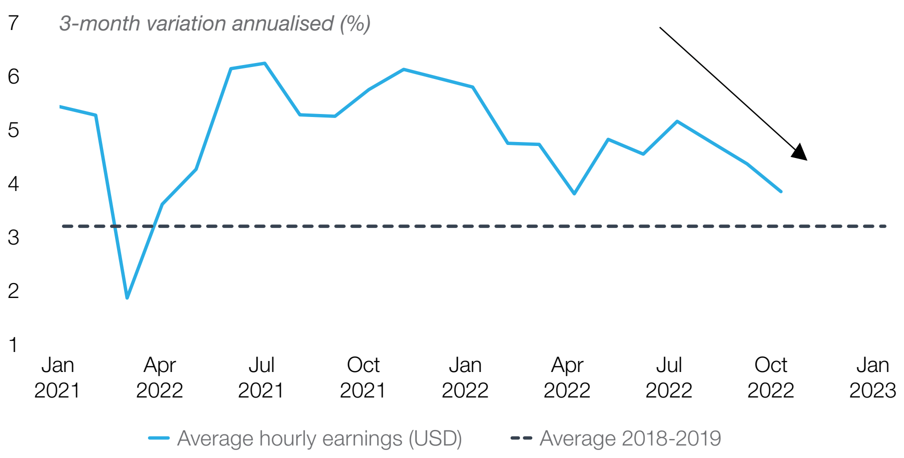
Reference value is 2021 and the gap is compared with IMF forecasts made in January 2022

Sources: OECD & Accuracy

The IMF's forecasts show a worrying effect from the current crisis on global economic growth. Although difficult circumstances are projected to ease from the second half of 2023 (inflation set to fall), the recovery looks rather fragile. Indeed, compared with forecasts made in early 2022, forecast growth for 2026 is now 3.0% behind where it was. The long-lasting effects of the current crisis, in particular supply-side difficulties and macroeconomic policy tightening, are potent factors in this downward revision.

WHERE DOES PRODUCTIVITY COME INTO THIS?

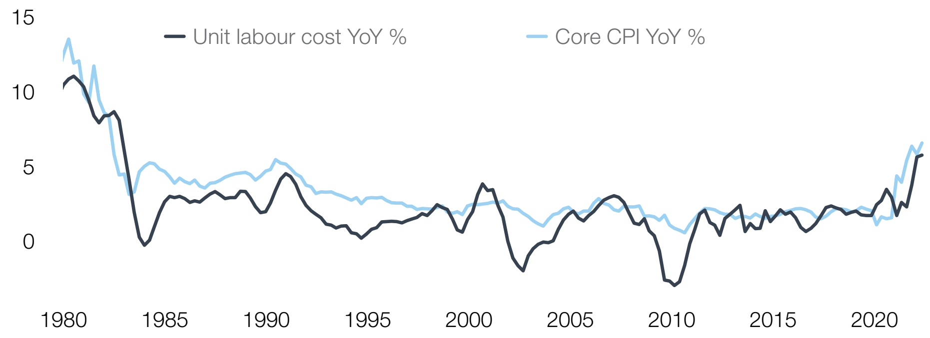
Salaries in the USA - the beginning of normalisation?



Sources: Accuracy & BLS

One fear in the current inflationary context is falling into the wage-price spiral where, in short, prices rise and wages rise to match, thereby increasing company costs, causing prices to rise further, and so on. The graph opposite shows average hourly remuneration in the US, which after a high during the COVID-19 crisis, appears to be returning to a more typical level (the same also applies for Europe, incidentally). It seems, despite the ongoing high levels of inflation, we have avoided the dreaded spiral thus far.

Unit labour costs in the US remain high - what about price formation?

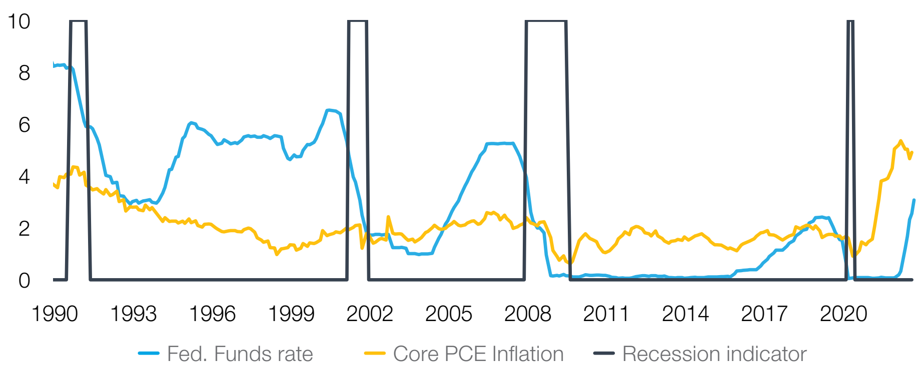


Sources: Accuracy & US Department of Labor

However, we're not yet in the clear. The graph opposite shows the relationship between consumer prices and unit labour costs, again in the US. Unit labour costs essentially boil down to total labour remuneration per hour worked divided by output per hour worked (or labour productivity). If, as we have seen above, remuneration appears to be normalising, then for inflation to be rising as it is, it would seem that productivity is declining. A very tight labour market with low unemployment might be to blame. Employers are finding themselves taking on less-qualified staff to fill their vacancies, which may well be having a negative effect on productivity overall.

WHAT CAN WE EXPECT IN TERMS OF MONETARY POLICY?

USA: a fed. funds rate higher than inflation - a necessary condition for a shift in monetary policy?



Sources: Accuracy & Bloomberg

Looking again to the US, we are all more or less aware of the Fed's current policy to curb inflation through rapid interest rate hikes. However, the virtually unprecedented speed with which rates are rising could have a significantly negative effect on the economy. When reviewing the past 30 years, we see that the Fed tends to take its foot off the pedal in three scenarios: the first is when the risk of recession is high; the second, when the stock market is particularly bearish; and the third, when the base rate is much higher than inflation. As we can see in the graph opposite, core inflation still appears higher than the base rate; an adjustment to Fed policy does not appear to be around the corner just yet.

ARE WE HEADING INTO A NEW ERA?

The answer to that question is not easy. Let's consider a few things. The COVID-19 crisis and its consequences have changed the status quo. No longer is demand king; supply has taken its place, particularly when it comes to technology and energy. International relations are becoming more complex, with a veritable multi-polarisation taking form. The generalised slowdown in economic growth will make it more difficult to take advantage of growth elsewhere in the world, which could well lead to a regionalisation effect, where once globalisation ruled. With the exception of Africa, the world is getting older and more urbanised. And, finally, inequality between countries may be diminishing, but inequality within countries is at its highest point in over a century.

All this paints a rather uncertain picture, but there is also much to look forward to. The twin digital and green transitions are significant sources of new growth, not to mention millions of new well-paid jobs. And we are perhaps on the verge of a new industrial revolution, with artificial intelligence at its heart. The opportunities connected with it will be boundless.