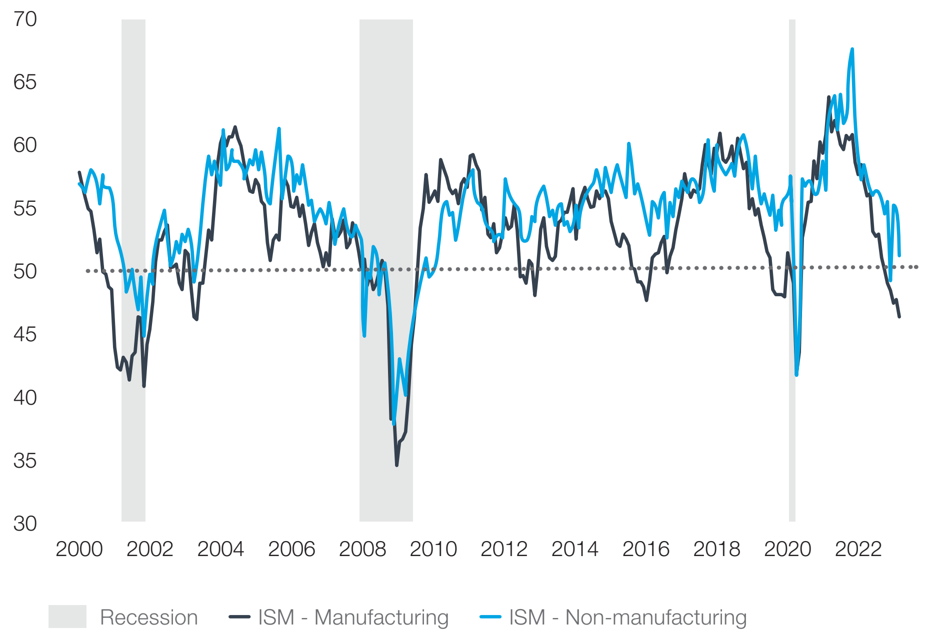
Is the global economy, or at least the situation in the West, showing some signs of normalisation, after what has been a difficult period for many? Are we soon to see the back of this period of high inflation? What is the link between these two factors? And what conclusions can we draw from the situation in the real estate sector? In this edition of the Economic Brief, we will delve into these topics to try to find some answers.

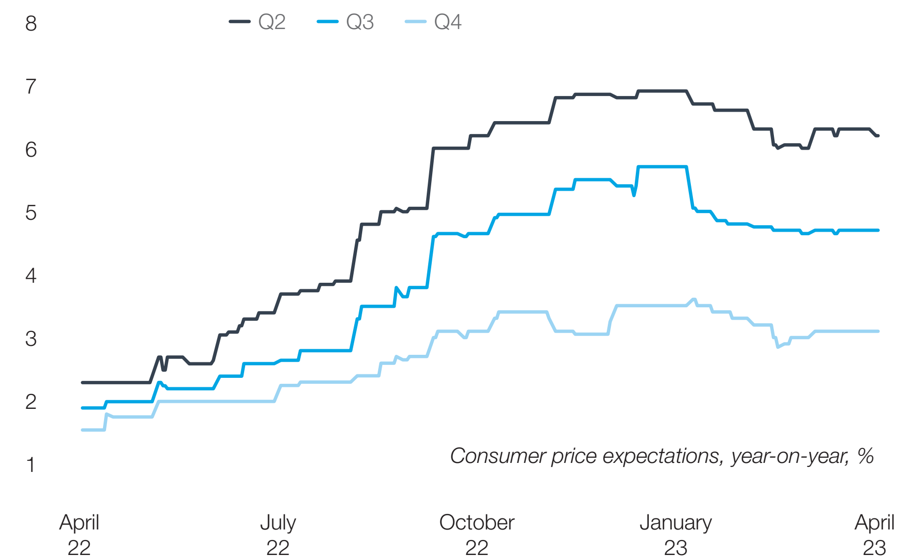
USA: a concerning ISM index level



Sources: Accuracy & Bloomberg

It would seem that the general economic situation globally is showing some signs of normalisation. For example, the labour market in the US has returned to a more typical level of monthly job creation (236k in March 2023, down from unusually high levels at the beginning of the year). However, other signs seem to indicate that this normalisation is not as strong as we would like. If we look at the ISM Manufacturing Index (see graph opposite), a key indicator of the state of the US economy, we can identify some troubling trends: the manufacturing index has been rapidly declining since late 2022 and is now below 50, the point at which growth becomes negative; the non-manufacturing index appears to be following a similar pattern, though it is not quite below 50 just yet. What does this mean for the state of the world's largest economy?

Eurozone: Bloomberg consensus view on inflation



Sources: Accuracy & Bloomberg

Notwithstanding this uncertainty, it would appear that the growth forecast for the West this year, whilst anaemic, will be maintained. Indeed, despite the potential decline in economic activity mentioned above, the slowdown in inflation forecast for the second half of the year will have the effect of boosting purchasing power, contributing to economic growth. The graph opposite shows the inflation forecasts by quarter from the Bloomberg Consensus for the eurozone. We can see that it is projected to halve by Q4 to around 3%. Similar trends can be seen in the US. Therefore, although economic growth remains weak, this projected decline in inflation will be beneficial, preventing growth from shrinking further.

Let us move on to the real estate market. As we have said in previous editions of the Economic Brief, the real estate market is a good proxy to understand the state of the economy generally. The table below, taken from the IMF, shows a study of real estate risk in 27 advanced economies. The study considers multiple factors, from household debt to property prices to interest rates, and ultimately gives a total score to each country.

As we can see, the majority of the countries studied have been given a risk level that is medium to high (orange to red). The principal factors behind the high levels of risk relate to the change in interest rates, a factor that applies to all the countries studied, the level of household debt and the proportion of households with mortgages. The difficult state of the real estate market in the West should therefore put us on our guard as to the state of the economy more generally.

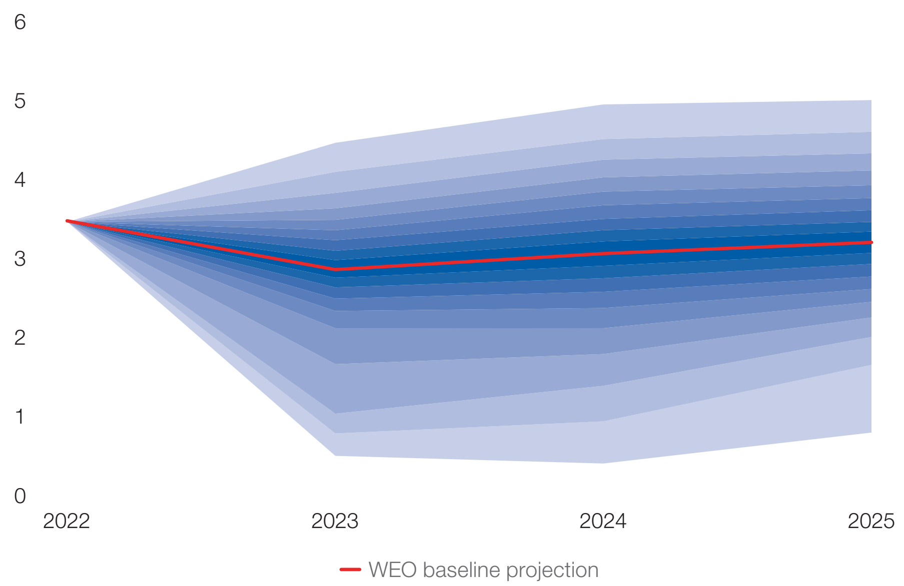
Housing market risk monitor: differentiation

	Household debt	Share of debt at variable rate	Share of households owning home with a mortgage	Rise in housing prices	Change in policy rates	Total score
Canada	3	2	4	4	4	17
Australia	4	3	3	4	3	17
Luxembourg	4	3	3	4	3	17
Norway	4	4	4	1	3	16
Sweden	4	4	4	1	3	16
Netherlands	4	1	4	4	3	16
USA	2	1	4	4	4	15
Portugal	3	3	3	2	3	14
Denmark	4	1	4	2	3	14
Finland	3	4	2	0	3	12
Estonia	1	4	2	2	3	12
UK	3	1	2	1	3	10
Czech Republic	1	0	1	4	4	10
Lithuania	0	4	0	3	3	10
Austria	1	2	1	3	3	10
Spain	2	2	2	0	3	9
Ireland	2	0	2	2	3	9
France	3	0	2	1	3	9
Belgium	2	1	3	0	3	9
Poland	0	3	1	1	4	9
Germany	2	1	1	2	3	9
Latvia	0	4	0	1	3	8
Greece	2	2	0	1	3	8
Hungary	0	0	1	3	4	8
Italy	1	3	0	0	3	7
Slovenia	0	0	0	3	3	6
Slovakia	1	0	1	0	3	5

Lowest risk **Highest risk**

Sources: Accuracy & IMF

Breakdown of increase in debt/GDP ratio from Q4 2019 to Q3 2020 *(percentage points)*



Source: IMF staff calculations

Finally, we present the IMF forecasts for GDP growth over the next two years. This graph has the particularity of showing the distribution of the uncertainty around the forecast, with each coloured band corresponding to an interval of 5%. What we see is an unsymmetrical chart: there is a greater level of downside risk – geopolitics, oil prices, banking failures, etc. – than upside benefits, and this continues into 2025 and beyond. Further, the IMF gives a probability of 25% that global economic growth will be lower than 2% this year; this is twice the normal probability, and indeed, if it were to occur, it would be only the sixth time in the past 50 years that global growth had been so low.

Once again, the outlook for the year is mixed; though there are some signs of normalisation, other signs indicate a deterioration in activity, a view that appears to be supported by the real estate market. The question of where we will find ourselves at the end of the year remains unanswered for now.