CRU Economics

Our top ten predictions for the world economy in 2024

The last few years have been highly eventful for the global economy – what will 2024 bring? Here we set out our views on what the most important themes will be in 2024. These include predictions on growth, commodity prices, inflation, monetary policy, EVs and world trade.

November 2023

Economics Team

Head of Economics

Alex Tuckett

+44 20 7903 2137

alex.tuckett@crugroup.com

Automotive Economist

Arthur Wang

+44 20 7903 2143

arthur.wang@crugroup.com

Senior Economist

Veronika Akhmadieva

+44 20 7903 2089

veronika.akhmadieva@crugroup.com

Economist

Ilona Khachirova

+44 20 7903 2251

ilona.khachirova@crugroup.com

European Economist

Leon Bost

+44 20 7903 2228

leon.bost@crugroup.com

Power Sector Lead

Glen Kurokawa

+44 20 7903 2065

glen.kurokawa@crugroup.com

Principal Economist

Henry Hao

+6567213149

hangwei.hao@crugroup.com

Senior Cost Analyst, Economics

Cristobal Arias

+44 20 7903 2125

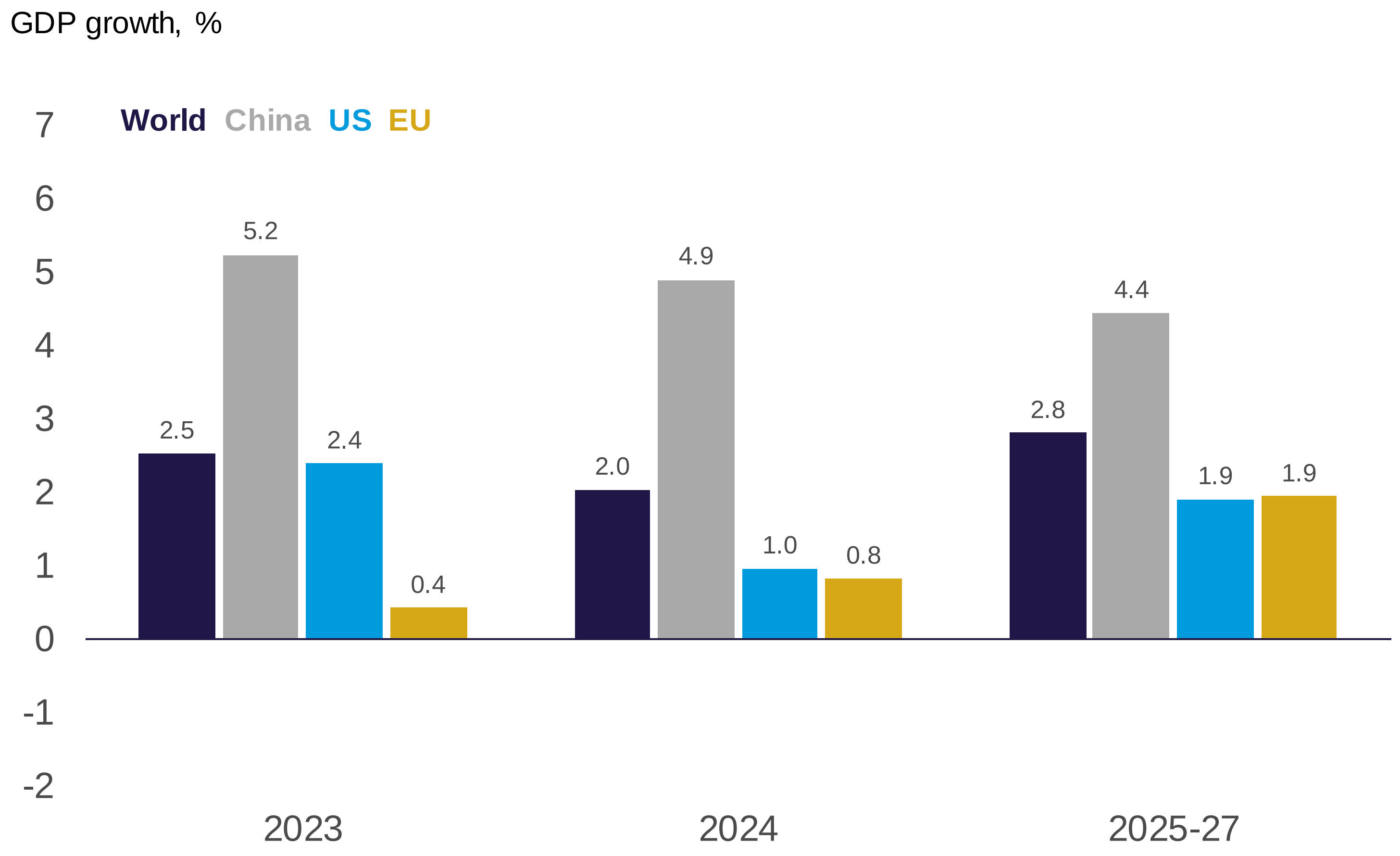
cristobal.arias@crugroup.com

Our top ten predictions for the world economy in 2024

	Global growth will remain below trend, at 2.0%		Growth will become more commodity-rich, with global IP growth accelerating to 2.7%
	Global trade will not keep pace with growth		Geopolitics will continue to be the most important driver of energy prices
	Inflation in the US and eurozone will continue to fall		The Fed and ECB will begin cutting rates in the first half of 2024
	China will avoid deflation		Construction sectors in major economies will stabilise, but not rebound sharply
	Growth in global auto production will slow, but EVs will gain further market share		The CRU basket of commodity prices will be lower in 2024

1. | Global growth will remain below trend at 2.0%

We expect global GDP growth to be slower in 2024 than in 2023



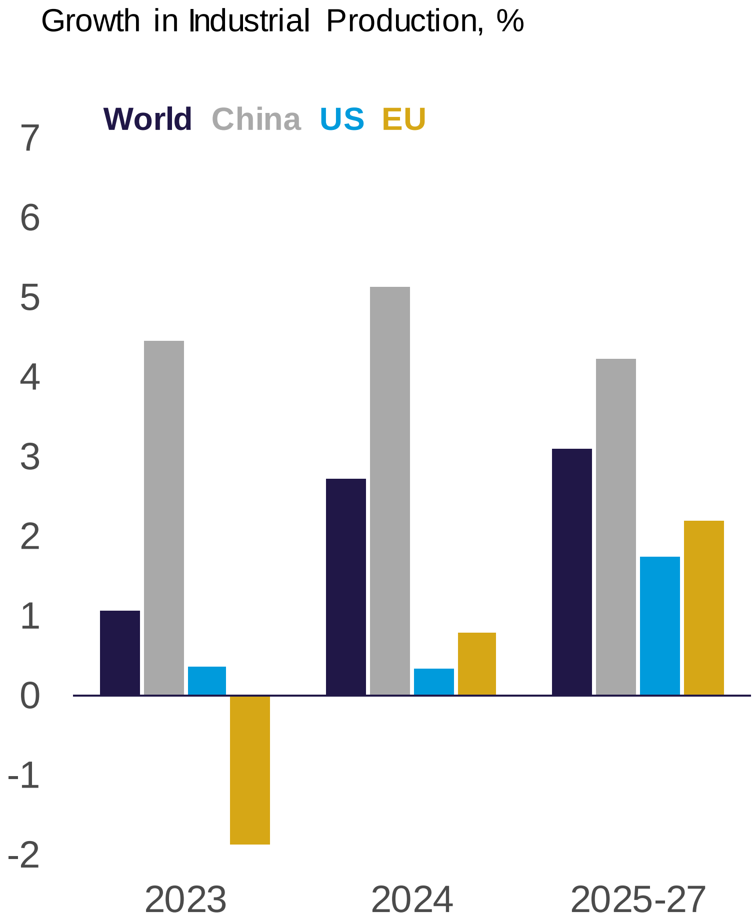
DATA: Oxford Economics, CRU. NOTE: World GDP growth is weighted by market exchange rates.

The US and China will see lower growth

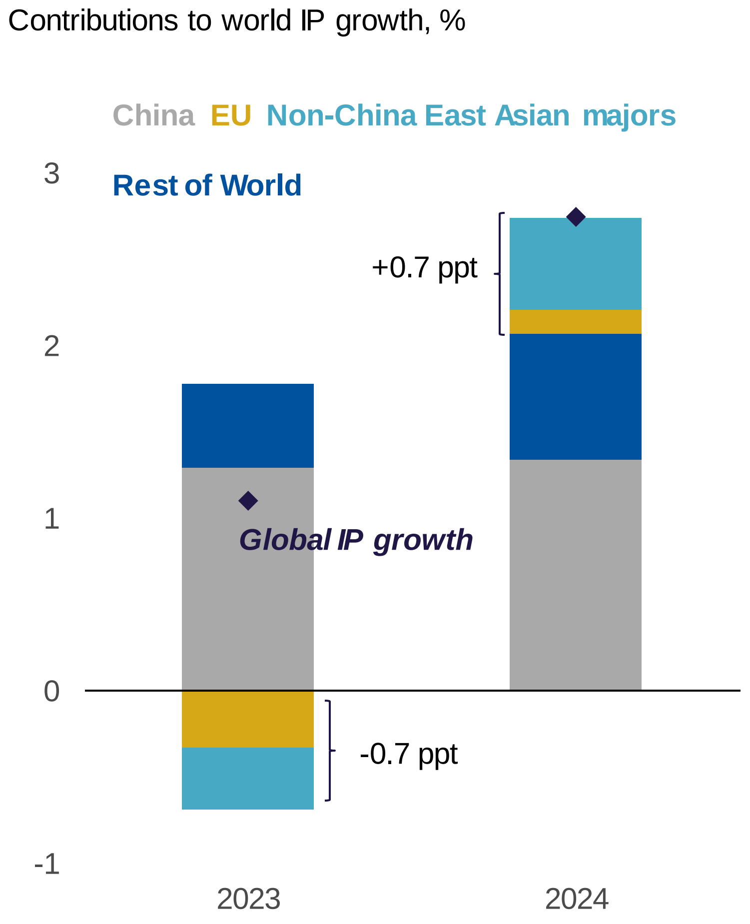
The global economy has proved to be unexpectedly resilient in 2023. Growth has been below the trend rate of around 3%, but only moderately. We expect the global economy to grow 2.5% in 2023. Much of the outperformance is due to the US, which has avoided recession, and which we expect to achieve growth of 2.4% in 2023. However, we continue to expect a slowdown in US growth as tight monetary policy bites and consumers loses momentum. We also believe China is now on a slower growth path and will decelerate further next year. Although Europe will experience a limited recovery, this will not be enough to prevent global growth slowing from 2.5% to 2.0% in 2024. From 2025 onwards, we expect growth to return close to trend.

2. | Growth will become more commodity-rich, with global IP growth accelerating to 2.7%

We expect IP growth to accelerate



Non-China Asia and Europe are key



Consumer spending and construction will be key

Although 2023 has seen resilient GDP growth, it has not been commodity-rich. We expect the mix of growth in 2024 to be much more supportive for commodity demand.

Firstly, we expect the post-Covid swing in consumer demand from goods towards services to ease, though probably not reverse. This will be particularly important for IP to return to growth in many East Asian countries highly exposed to consumer electronics.

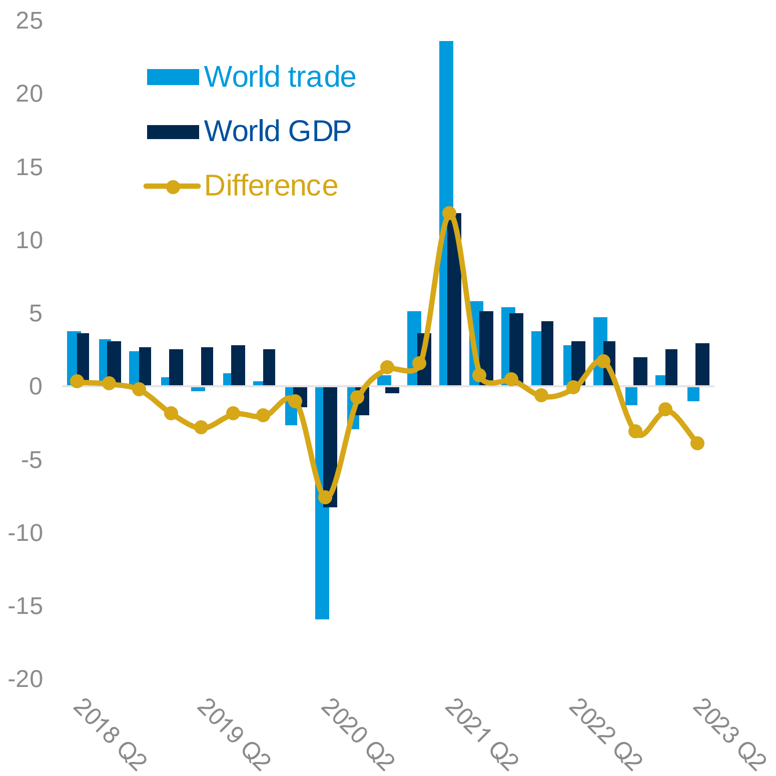
Secondly, construction sectors should stabilise, reducing the drag on demand for materials. Turnarounds in growth in Europe and East Asian countries will be particularly important.

DATA: CRU, Oxford Economics. NOTE: Non-China Asian East majors: Japan, South Korea, Singapore, Indonesia, Thailand, Malaysia, Philippines and Taiwan, China.

3. | Global trade will not keep pace with growth

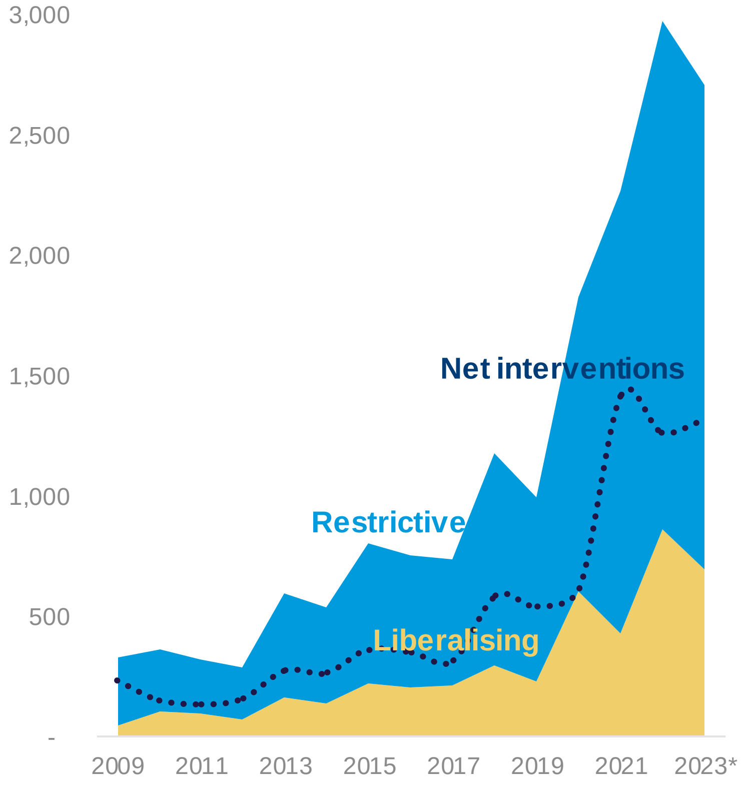
World trade is slowing down…

Merchandise exports volume, Real GDP
%, y/y



…as trade barriers are rising

Trade interventions in goods worldwide
Total number per year, Net = Restrictive minus Liberalising



DATA: CRU, World Trade Organization, Oxford Economics, Global Trade Alert.
NOTE: *2023 data adjusted for reporting lag as of 31 December.

Global trade is under pressure amid heightened tensions

After witnessing a sharp rebound in 2021 as the Covid-19 lockdown measures eased, global merchandise trade flows stabilised briefly in early 2022 but are now slowing down. Quarterly volume trade figures have dropped year-on-year twice since 2022, while the gap between world trade and real GDP growth has widened from 0.5 pps in 2022 H1 to 2.9 pps in 2023 H1.

In 2024, we expect the economy to continue outpacing trade. Protectionism remains a fundamental threat to global commerce. The war in Ukraine triggered protectionist measures across the board, and the recent conflict in the Middle East may trigger similar repercussions. But the global trade slowdown has been brewing for some time. The stock of merchandise trade agreements in force has plateaued as the signing of new treaties stalled after peaking in 2009. Moreover, the number of restrictive (vs liberalising) interventions has increased fast over the last decade, particularly since 2018.

4. | Geopolitics will continue to be the primary driver of energy prices

Markets highly responsive to shifting geopolitical environment

LHS: Brent crude daily spot price average, $/bbl ; RHS: TTF day Ahead price, EUR /MWh

DATA: CRU, CEIC, IMF provided by EMIS/CEIC

Our 2024 projections

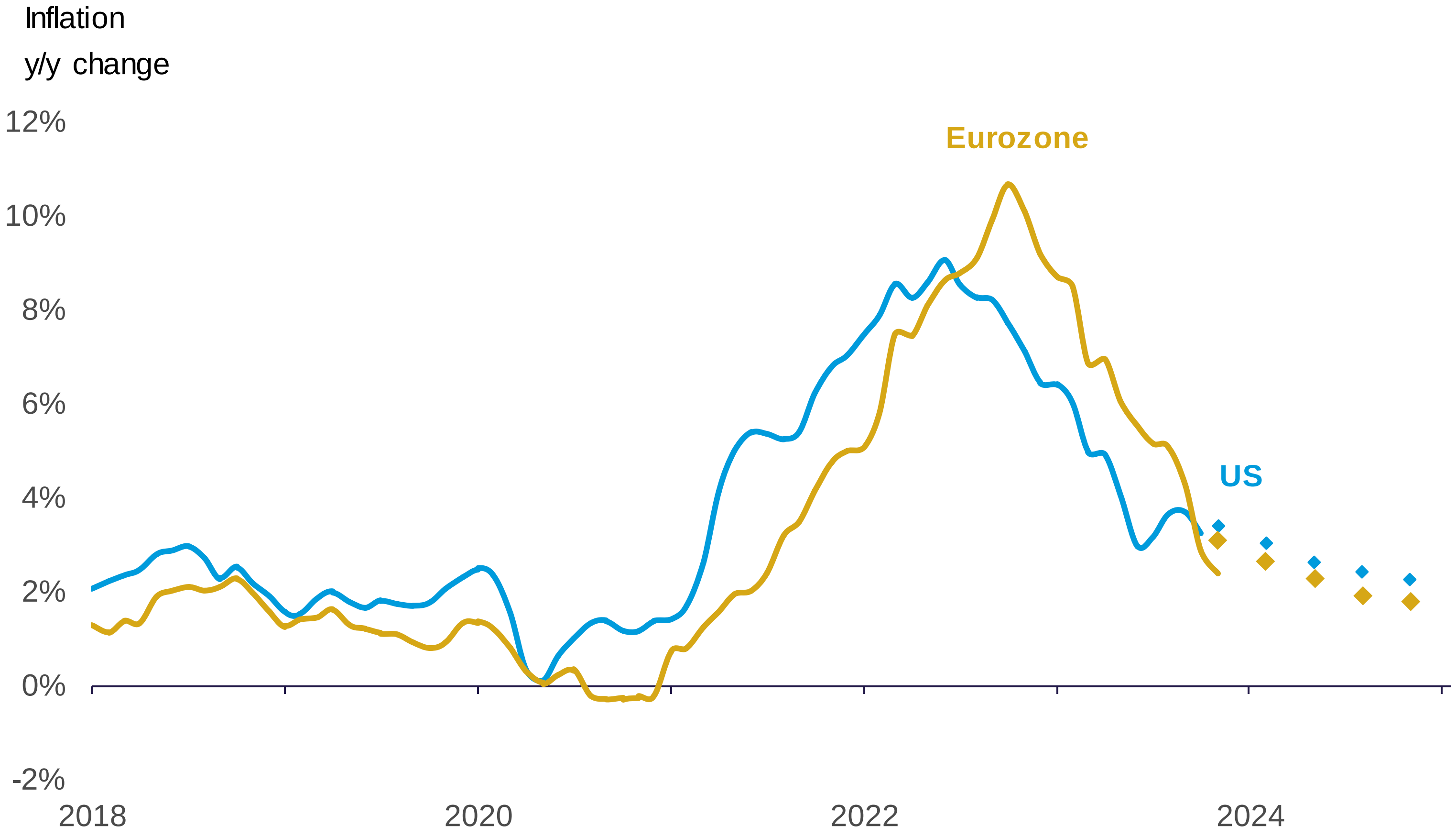
Currently, geopolitical tensions continue to influence oil and gas markets. For 2024, we anticipate the war in Ukraine will continue with consistent intensity, though it may ease due to seasonal weather effects. The Israel-Hamas war is expected to remain localised in Gaza with intermittent, low-level confrontation, leading to a gradual stabilisation over a seven-month period.

The Brent crude price is expected to average $86 /bbl. Russian oil production will be steady at 10.6 Mbbl/d, primarily serving India and China. Limited impact on the physical oil flows from the Israel-Hamas war is expected, with Iran sustaining it exports to China.

Gas prices are projected to remain high, above $15/MMBtu, due to reduced Russian supplies and lagging LNG expansion. Russian gas deliveries to Europe will average 22 bcm. Israel's Tamar gas field is back online, with expectations for uninterrupted production.

5. | Inflation will continue to fall in the US and eurozone

US inflation will remain marginally above eurozone inflation



DATA: CRU, Oxford Economics

Inflation will continue its downward trend in the US and eurozone

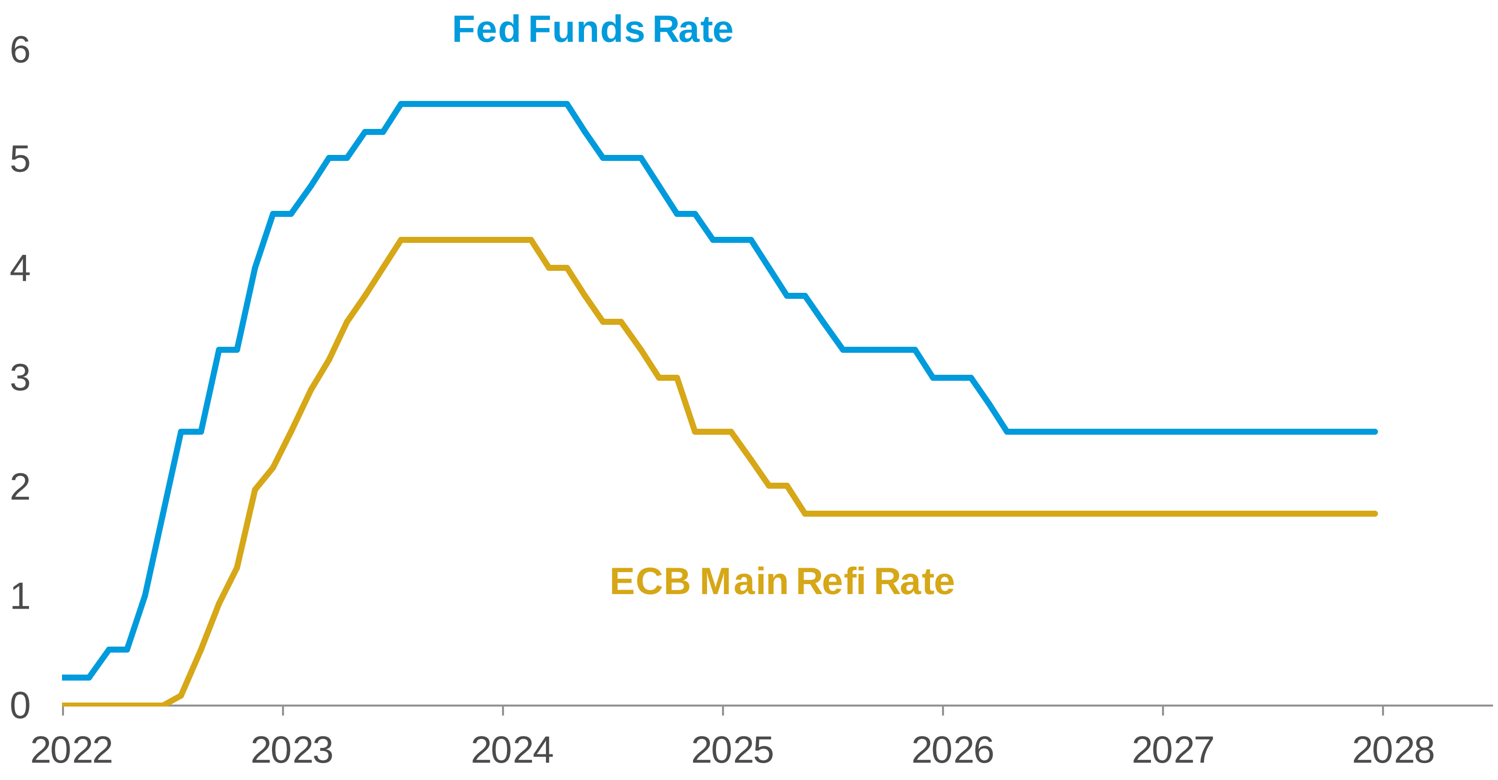
The latest data shows US inflation at 3.2% y/y in October, and Eurozone inflation at 2.4% in November, lower than we had expected. This is sharply down from the highs seen in 2022 H1. We expect inflation to continue falling in 2024, albeit at a slower pace. Eurozone CPI recently undershot US CPI, and we expect it to remain lower through 2024. Partly this is because the eurozone economy is weaker, but also due to the different drivers of inflation. While the energy crisis and a rise in food prices played the main role in the eurozone, inflation in the US was driven more by an imbalance between supply and demand for goods and labor, which led to a rise in prices and wages. While the effects of higher energy and food prices are gradually fading, the US labor market is still tight. However, the expected slowdown in the US should still be sufficient to bring inflation to 2.3% in Q4 and enable the Fed to cut interest rates in the first half of 2024.

6. | The Fed and ECB will begin cutting rates in the first half of 2024

Policy rates will be cut in 2024-26, but will not return to pre-pandemic levels

Central bank policy rates

%



DATA: CRU, Federal Reserve, ECB

Lower inflation and weaker growth will create room for looser policy

Although inflation remains above target in both the US and eurozone, we expect it to continue falling through 2024. Growth is already around zero in the eurozone, and we expect it to slow in the US. The combination of falling inflation and weak growth will lead both central banks to begin a rate-cutting cycle in 2024 H1.

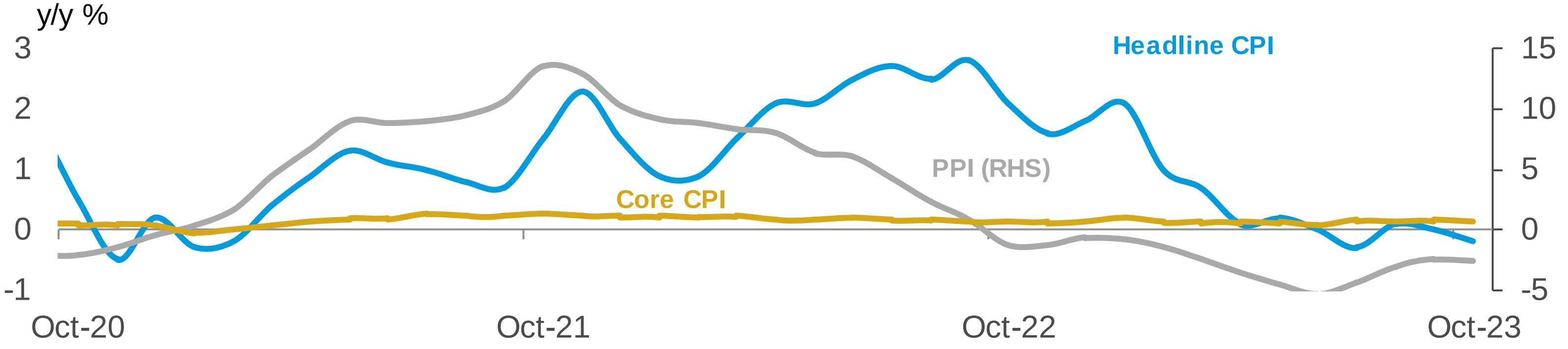
With slightly lower inflation and a weaker economy, we expect the ECB to begin cutting first in April, and to reduce rates by 150 bp by end-2024. We expect the Fed to follow with its first cut in May, reducing rates by 100 bp in total by end-2024.

We expect the easing cycle to end at a terminal rate somewhat higher than where rates where pre-Covid. From 2009–19, eurozone inflation persistently undershot the target, which we no longer expect. Persistent cost pressures from de-globalisation and the energy transition will also mean higher rates globally. Tighter fiscal policy and weaker growth fundamentals will keep eurozone rates below US rates.

7. | China will avoid deflation

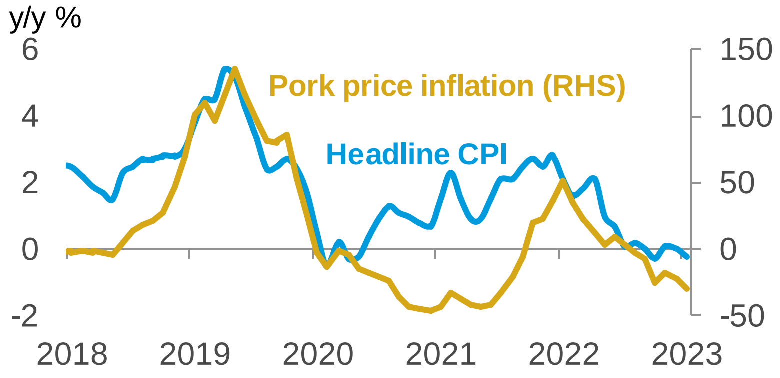
China has been flirting with deflation…

China's price indices

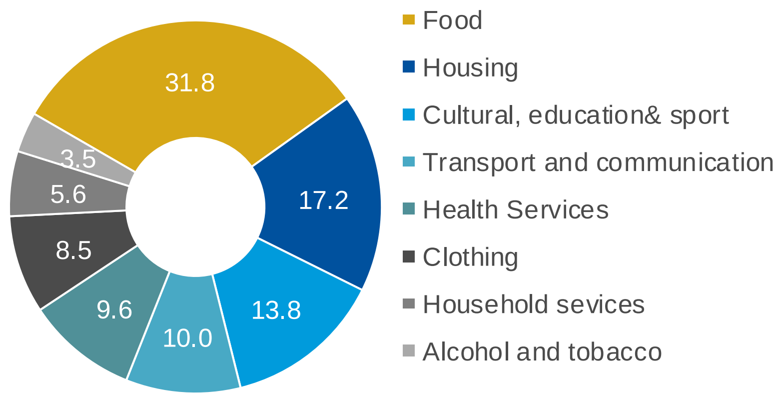


…but this largely reflects pork prices

Headline CPI and pork price inflation



as food accounts for 32% of the CPI basket*



DATA: CRU, CEIC, NBS. NOTE: * China's CPI basket is estimated based on NBS adjustment in 2021

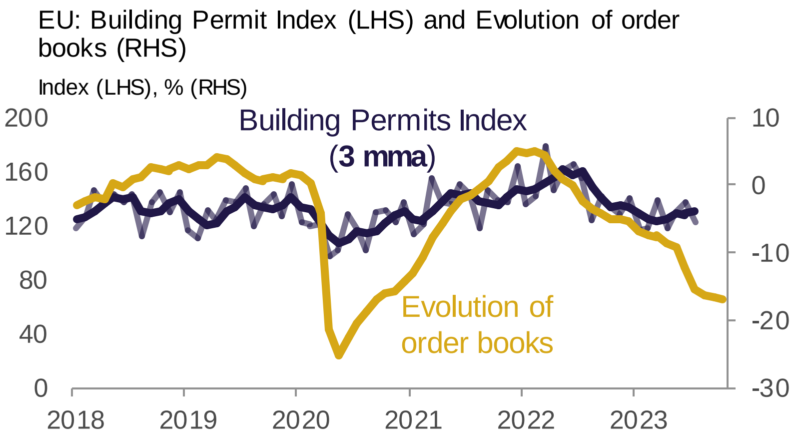
Swings in food prices play an outsize role in Chinese CPI

Chinese CPI inflation has been hovering around 0% for the last six months. PPI inflation has been negative for the past year. This has led many analysts to fear that China is going to slip into a long deflationary episode comparable to what happened to Japan from the early 1990s.

While China does face major challenges, we think these fears are overstated, and we expect inflation to recover to positive territory in 2024. Weak inflation in China since the pandemic has partly reflected weaker consumer demand than in the West. However, food prices – in particular pork prices – which can be highly volatile, have a much larger impact on inflation in China than in Western countries. Core inflation (which excludes food and energy) has been relatively stable, although low. The 30% fall in pork prices over the past year is likely to be reversed at some point, which will help to lift headline CPI back into positive territory, together with strong demand for services.

8. | Construction sectors in major economies will stabilise, but not bounce back

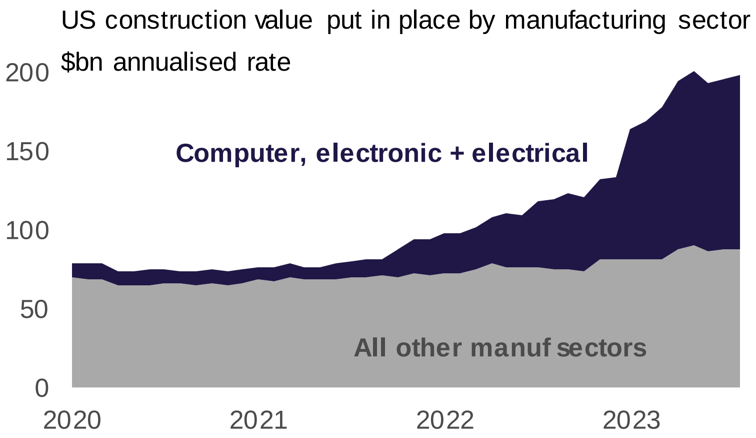
Europe is feeling the pain of higher rates



Tighter monetary policy has hit real estate markets hard in Europe. Mortgage rates are rising and mortgage lending decelerated. House prices have fallen almost 10% y/y in Germany in nominal terms in Q2, and by more than 16% y/y in real terms.

There has been some offset from public investment, but with fiscal policy set to tighten this cannot be counted on. The wider recovery in private demand we expect should bring about a stabilisation in construction.

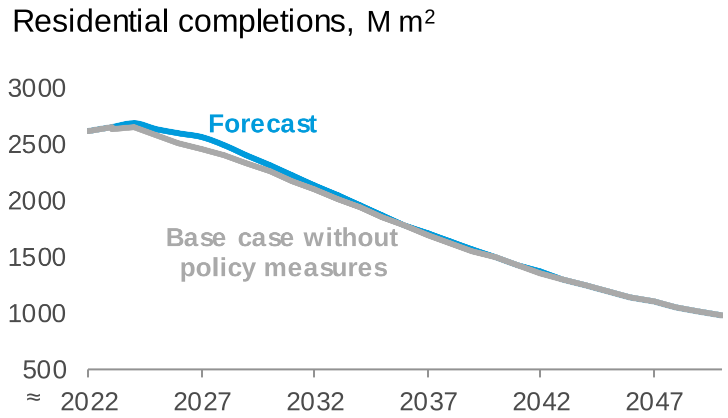
Manufacturing has cushioned US demand



Higher interest rates have also reduced demand for residential property in the US. Building permits and starts have fallen since end-2021, although they appear to have stabilised.

The construction sector in the US has been supported by very strong investment in manufacturing facilities, in particular linked to the CHIPS Act. This has partly compensated for the weakness in the residential sector.

Policy will provide a cushion, not a springboard

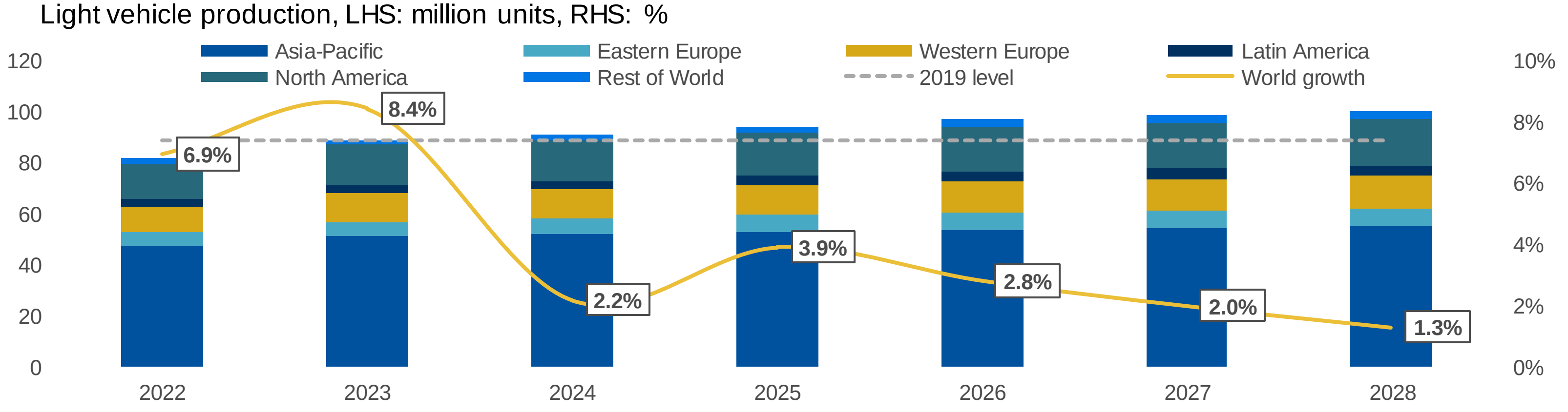


The multi-year slump in China's real estate sector has continued through 2023. With the government continuing to be concerned about public and private debt levels, as well as little prospect of liberalisation of internal migration rules, we think it is unlikely that the construction sector will ever return to being the engine of growth it was in the post-GFC period. However, we do believe the policy support put in place will help bring about a stabilisation of construction output in 2024.

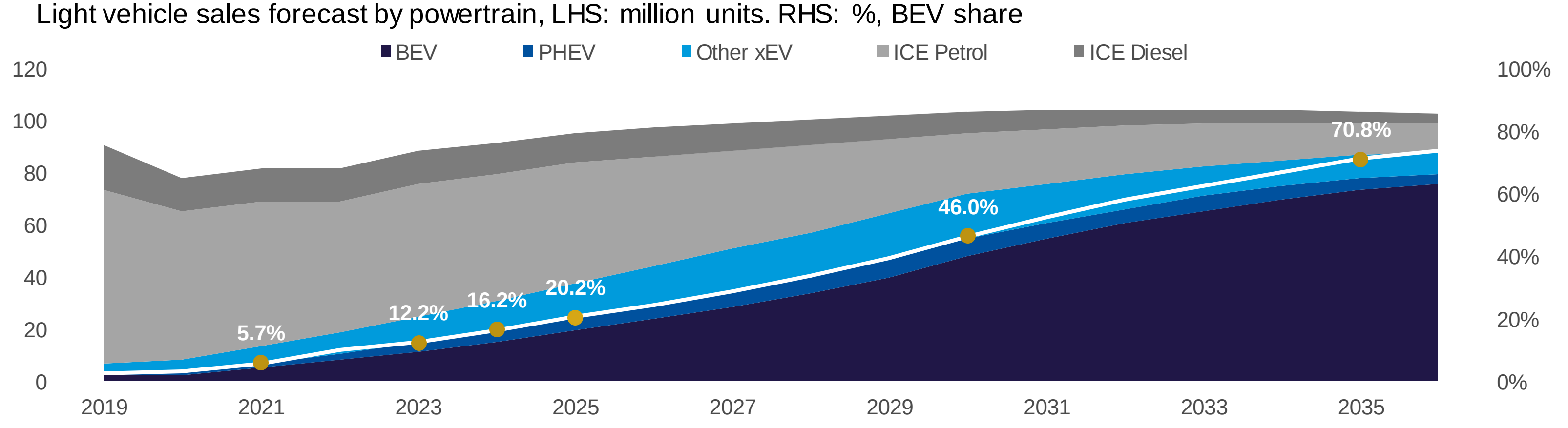
DATA: CRU

9. | Global auto production growth will slow, but EVs will gain further market share

2024 will see a sharp slowdown in automotive production growth



But EV market share will keep climbing



DATA: CRU

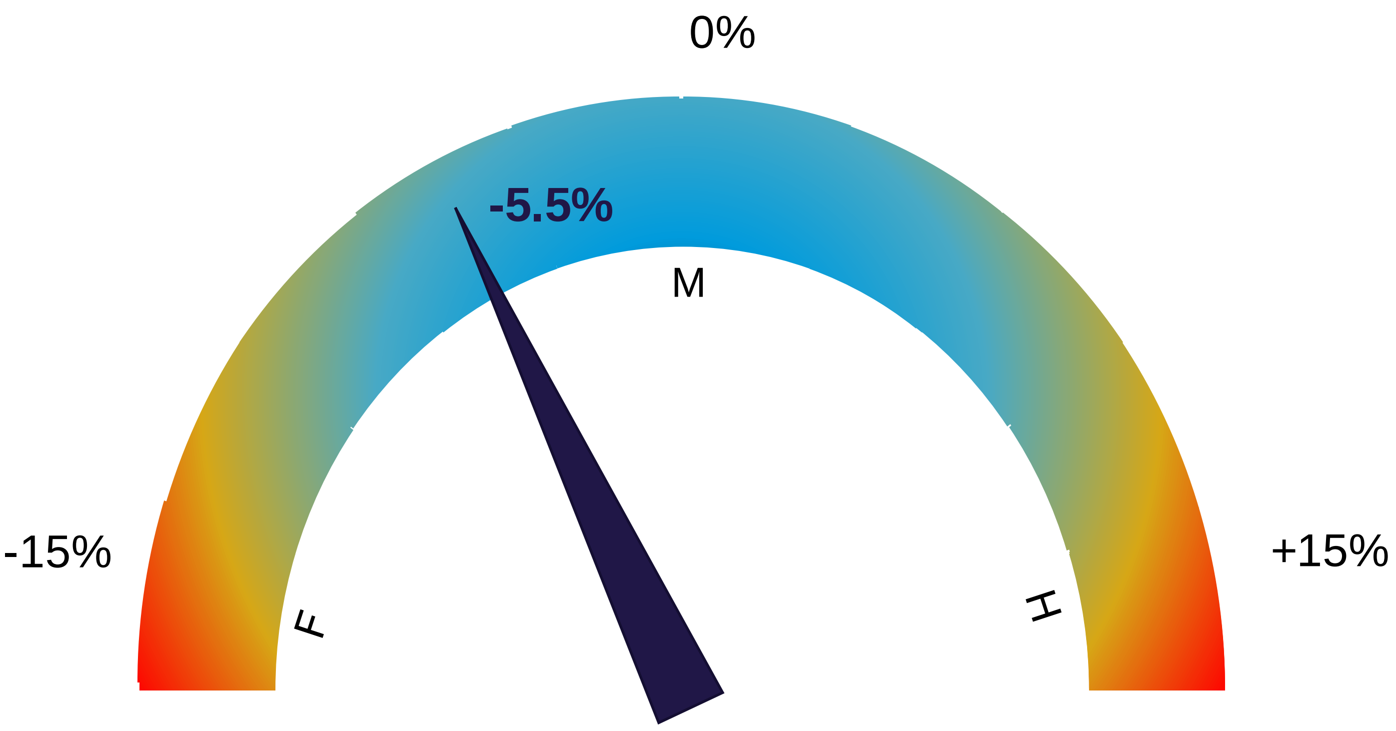
Softened demand will place more weights on LV production but not on EV market share

Moving past the chip crisis, the global auto industry has adeptly managed various challenges this year – labour disputes in North America, supply chain pressures in Europe, and shifting market dynamics in China. Despite these hurdles, most regions have seen strong growth this year. Looking ahead to 2024, amidst subdued global growth prospects, the aftermath of heightened interest rates, and the waning backlog of pandemic-era orders, we expect global light vehicle (LV) production to slow to more modest growth of 2.2% y/y.

Electric vehicle (EV) sales have shown resilience, holding steady against macroeconomic challenges across all markets. We expect this trend to persist despite the projected slowdown in LV production growth. We anticipate the global market share for EVs to continue its upward momentum, surpassing 16% of global sales in 2024.

10. | The CRU commodity basket prices will be lower in 2024

We expect our basket of commodity prices to decline by 5.5% in 2024



DATA: CRU

Commodity prices are expected to fall further

Commodity prices were subdued in 2023, with a weaker than expected Chinese reopening and soft European demand. The CRU commodity price basket is expected to fall by 5.5 % in 2024 as the global economy is expected to slow. The price basket comprises of 40 forecasts for mining, metals, energy and fertilizer prices, with prices expected to fall in all sub-categories, i.e. raw materials, metals, precious metals, technology metals and fertilizers. The sharpest price decline is expected for technology metals, including nickel, lithium and cobalt. Geopolitical conflicts continue to pose the greatest risks to commodity prices.

Looking ahead to 2024, we expect prices in most sub-categories to fall compared to the 2022 price level. Among the sub-categories, only prices for precious metals are expected to rise in the medium term due to monetary easing and an expected rise in demand.

Legal Notice

This presentation is private and confidential. It must not be disclosed in whole or in part, directly or indirectly or in any other format without the prior written permission of CRU International Limited.

CRU International Limited's responsibility is solely to its clients and its liability is limited to the amount of the fees actually paid for professional services.

Although reasonable care and diligence has been used in the preparation of this presentation, we do not guarantee the accuracy of any data, assumptions, forecasts or other forward-looking statements. We accept no liability to third parties, howsoever arising.

CRU takes information security seriously and currently holds the UK Government approved Cyber Essentials certification. This certifies that we have the appropriate security controls across our organisation and third party suppliers to protect our information assets. CRU also has a privacy policy in place which explains how we handle personal data on our customers.

Head of Economics

Alex Tuckett

+44 20 7903 2137
alex.tuckett@crugroup.com