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Charts of the Week

A HAVER ANALYTICS commentary and podcast



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OCTOBER 13TH, 2023

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GEOPOLITICS, FORECASTS AND CHINA

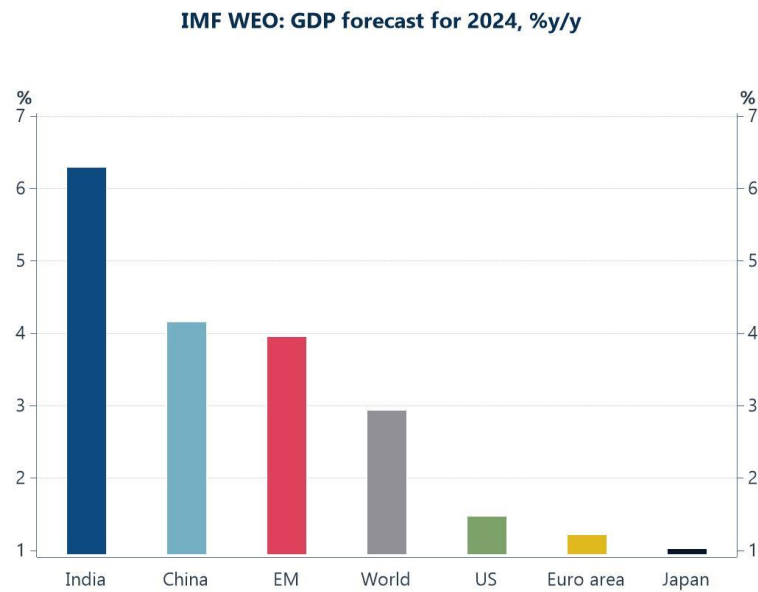
Summary

The flare up of geopolitical instability in Israel and Gaza has led investors to re-examine the outlook for the world economy over the past few days. The release of the IMF's latest World Economic Outlook publication ([IMF WEO October 2023](#)) also, however, grabbed some of the financial headlines though whether its staff additionally need to now re-examine that outlook in light of this instability remains to be seen. In our charts this week we take a look at the IMF's forecasts (chart 1) and contrast these with the October Blue Chip consensus, the forecasts from which were also released this week (chart 2). That Blue Chip survey contained twice yearly long-term projections for the US which we additionally examine (chart 3). One of the key channels via which global growth could be dislodged as a result of a war in Israel and Gaza is the oil price, which we focus on next (chart 4). We conclude this week though with some broader perspectives on global current account imbalances (chart 5) and then on how China appears to have lost its allure as a haven of foreign direct investment in recent months (chart 6).

The IMF's latest forecasts

The aggregate forecasts for global growth from the IMF's latest World Economic Outlook publication were little changed compared with its last major forecast round in April. But that aggregate figuring belied some regional and country-specific nuances. Positive revisions to the outlook for the United States, for example, were offset by downwardly revised forecasts for many European countries as well as for China. Among large emerging economies India's economy is expected to chalk up growth of 6.3% in 2024, which contrasts with 4.2% in China, and 3.9% in the emerging bloc as a whole. Among developed economies, US GDP growth is forecast to be 2.1% in 2024, which contrasts with 1.3% in the euro area, and 0.4% in Japan (chart 1).

Chart 1: The IMF's latest GDP forecasts for selected major economies in 2024

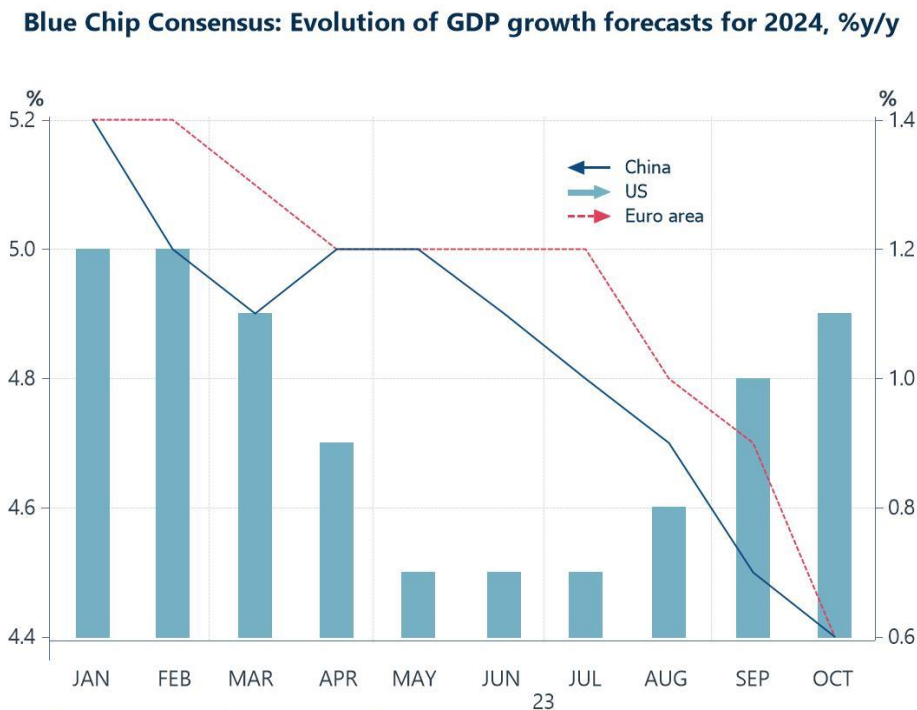


Source: International Monetary Fund/Haver Analytics

The Blue Chip consensus for 2024

Those aforementioned nuances in the IMF's global forecasts chime with the messaging from recent Blue Chip surveys of economic forecasters as well. Blue Chip panellists have made large positive revisions to their GDP forecasts for 2024 for the United States over the past 3 months, for example. That stands in vivid contrast, however, to the sharp downward revisions that have earmarked their outlook for China and the euro area (chart 2).

Chart 2: The evolution of the Blue Chip consensus for GDP growth in 2024

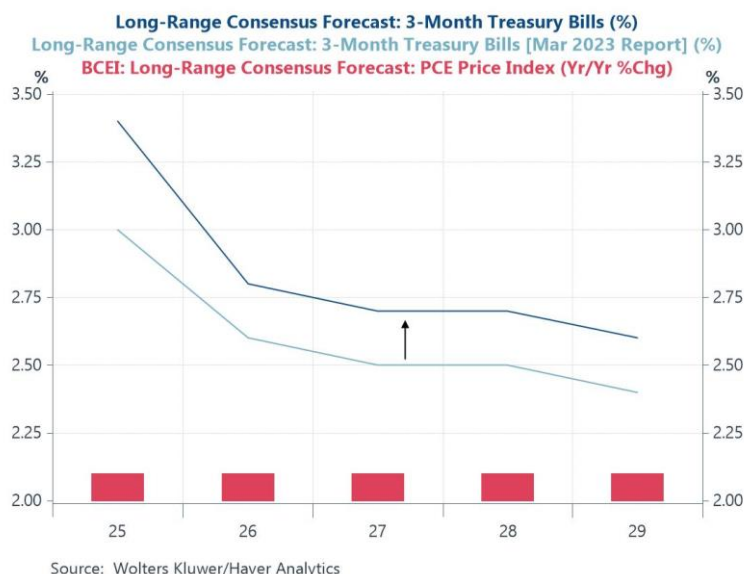


Source: Wolters Kluwer/Haver Analytics

Long-term forecasts for US inflation

Another noteworthy takeaway from this month's Blue Chip survey concerned the semi-annual longer-term forecasts for the US. As chart 3 below suggests the consensus expects the Federal Reserve to essentially achieve its 2% inflation target with the PCE inflation rate expected to average 2.1% from 2025-29. This is slightly higher than the 2.0% estimate in the March survey. But even though the economy is also expected to grow at around its potential and that inflation is expected to stabilize, these occur at markedly higher interest rate levels than in the five years prior to the pandemic and even at rates higher than the consensus envisaged in March. In other words the consensus now expected a tighter underlying monetary policy and higher real interest rates over the longer term in order for the Fed to find success with its inflation objectives.

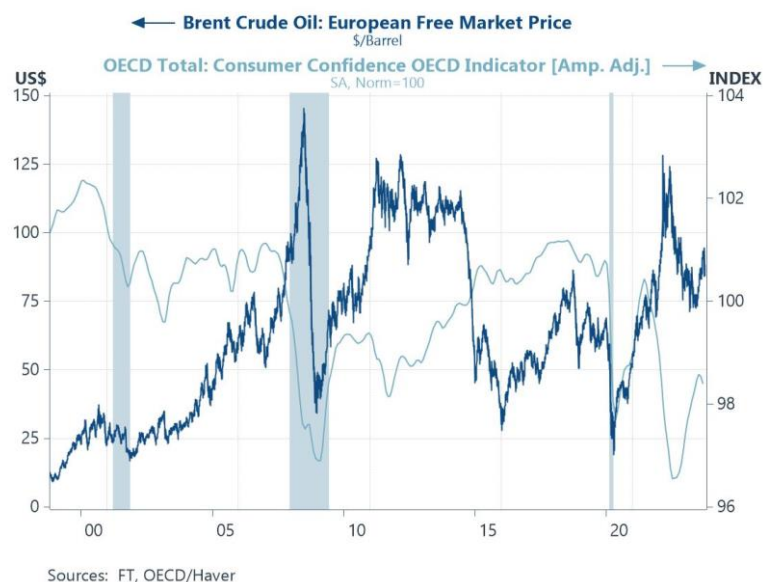
Chart 3: Long-term forecasts for US inflation and short-term rates from October's Blue Chip survey



Oil prices and consumer confidence

All eyes have clearly been on oil prices in recent days given the potential for the conflict in Israel and Gaza to magnify the market's supply-side tensions. But while prices have spiked a little higher over the past 2 to 3 days, they have yet to claw back to the highs of late-September. That said, prices are still some 20% or so higher than where they stood in mid-June. That consumer confidence has declined over the last 3 to 4 months in many major economies, as oil prices have climbed, is arguably no coincidence.

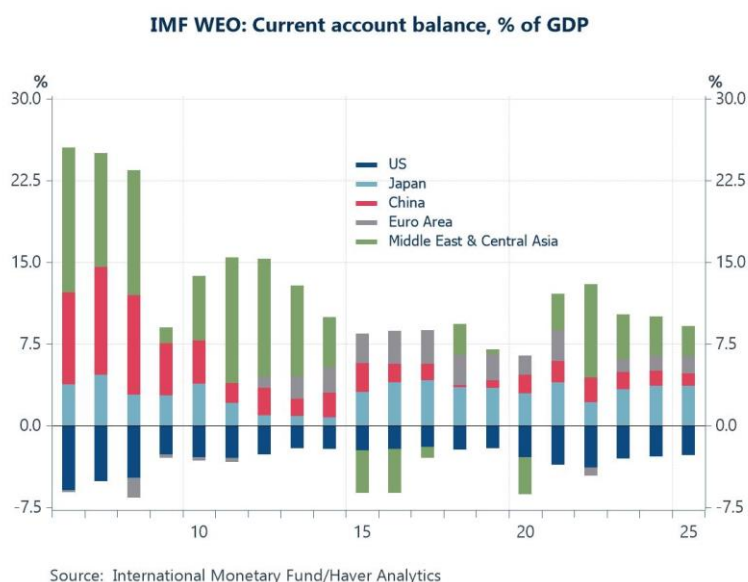
Chart 4: Real inflation-adjusted energy prices versus consumer confidence in OECD economies



Global current account imbalances

Another area to watch in light of the flare up of instability in Israel and Gaza is capital flows. As the IMF's latest forecasts suggest, China, Japan, the euro area as well as several Middle Eastern economies are running large current account surplus positions at present and are expected to continue to do so in the immediate years ahead. That contrasts with the United States which is running a large current account deficit (see chart 5 below). This position potentially paves the way for capital flight from the US and the repatriation of that capital to those countries that are running current account surpluses. If that process were to be disorderly it could potentially trigger a more severe bout of global financial instability.

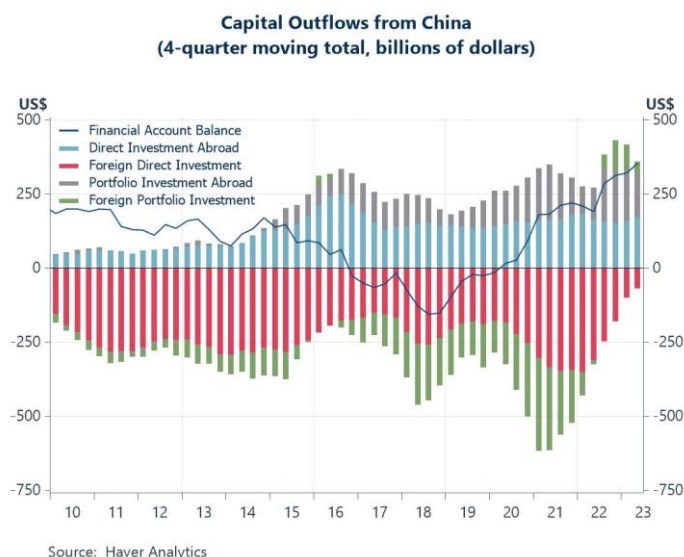
Chart 5: Current account balances in the US, Japan, China, the euro area and Middle East



China's capital flows

As our final chart this week suggests, however, China certainly seems to be some way from leading that aforementioned process. For it has, in fact, suffered from dwindling foreign direct investment (FDI) flows and persistent foreign portfolio outflows over recent months (see chart 6). Specifically, China's rolling 4-quarter net FDI inflows have shrunk by more than 80% since end-2021, while corresponding portfolio flows have logged persistent net divestments since Q3 last year. More recently, China's non-banking sector has suffered a capital flight of \$48.9 billion in August – the largest monthly outflow since December 2015 – of which \$16.8 billion were net FDI outflows and \$29.4 billion were net portfolio divestments.

Chart 6: China's foreign direct investment and portfolio flows



ABOUT THE AUTHOR

Haver Analytics is pleased to bring [Andrew Cates's](#) commentaries on the state of the global economy to its clients.

Andy Cates has more than 25 years of experience forecasting the global economic outlook and in assessing the implications for policy settings and financial markets. He has held various senior positions in London in a number of Investment Banks including as Head of Developed Markets Economics at Nomura and as Chief Eurozone Economist at RBS. These followed a spell of 21 years as Senior International Economist at UBS, 5 of which were spent in Singapore. Prior to his time in financial services Andy was a UK economist at HM Treasury in London holding positions in the domestic forecasting and macroeconomic modelling units.

He has a BA in Economics from the University of York and an MSc in Economics and Econometrics from the University of Southampton.

