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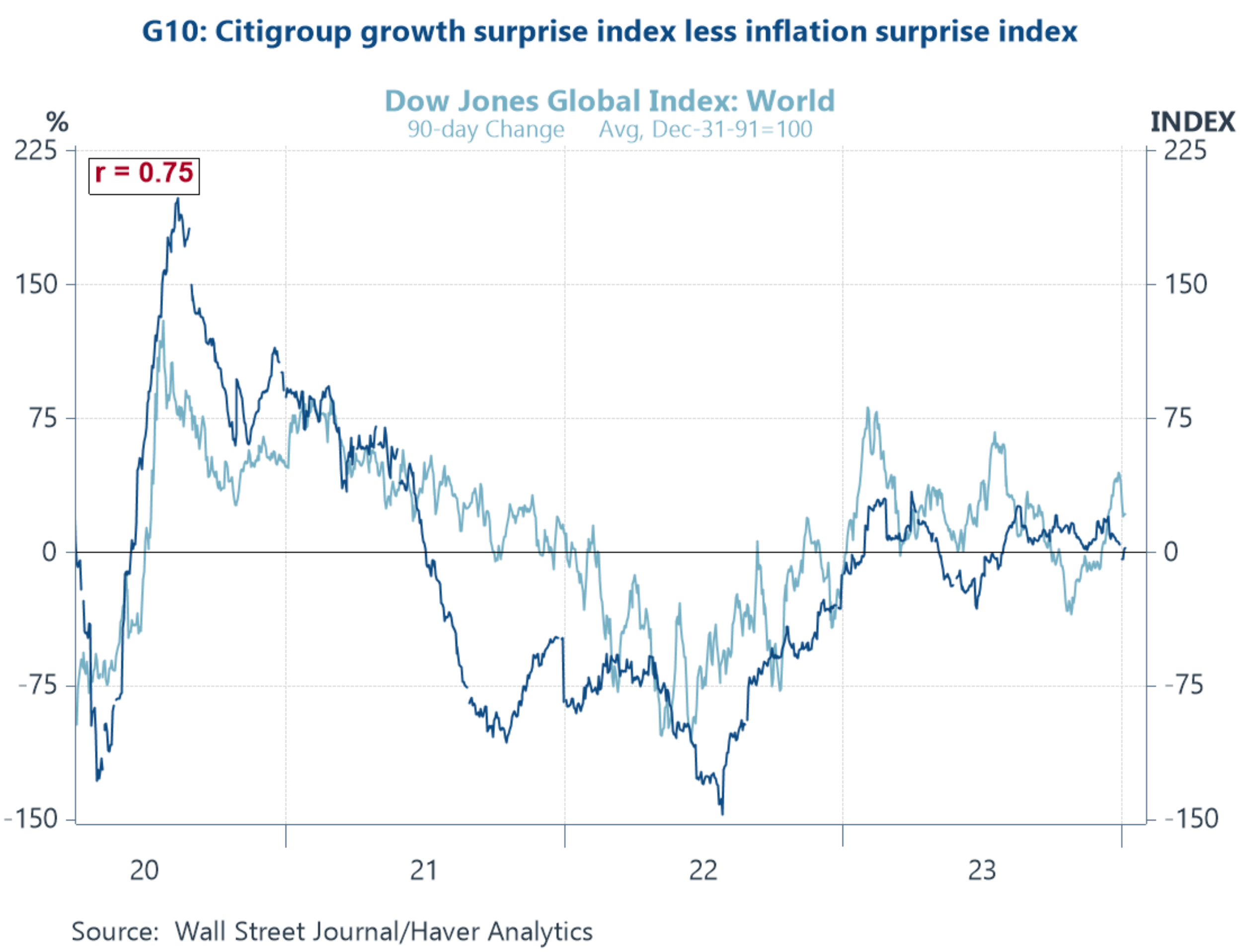
Questioning the consensus

The soft-landing consensus that emerged toward the end of last year has come under increased scrutiny in recent days. Specifically, there are now more doubts about the notion that central banks will shift towards a much more accommodative monetary policy in the coming months. Incoming data suggesting still-tight labour markets and above-target inflation have certainly reinforced those doubts. In this week's charts, we look more closely at consensus views for 2024. We illustrate, for example, how financial markets continue to be highly sensitive to economic data that deviate from the consensus (chart 1). We then inspect the evolution of aggregate growth and inflation forecasts for 2024 in some of the world's major economies (charts 2 and 3). Along the way we highlight the prevailing optimism regarding the US growth outlook but we contrast this too with more downbeat forward looking business cycle indicators, including this week's December NFIB survey (chart 4). Elsewhere, and in the other direction, recent upbeat high-frequency data are challenging the more pessimistic consensus shaping China's economic outlook (chart 5). The same might be said more generally about world trade from recent data for Asia's exports and global shipping costs (chart 6).

Equity markets and data surprises

Consensus views regarding the prospects for economic growth and inflation have been an important driver of global equity markets in recent years. That's primarily because of the implications of those views for interest rates. To elaborate, when there have been positive surprises in global growth and negative surprises in inflation, this has typically resulted in higher equity prices. Conversely, lower equity prices have followed negative growth surprises and positive inflation surprises. This is illustrated in the chart below showing a tight correlation between the spread between Citigroup's global growth and inflation surprise index and a global equity market index from Dow Jones.

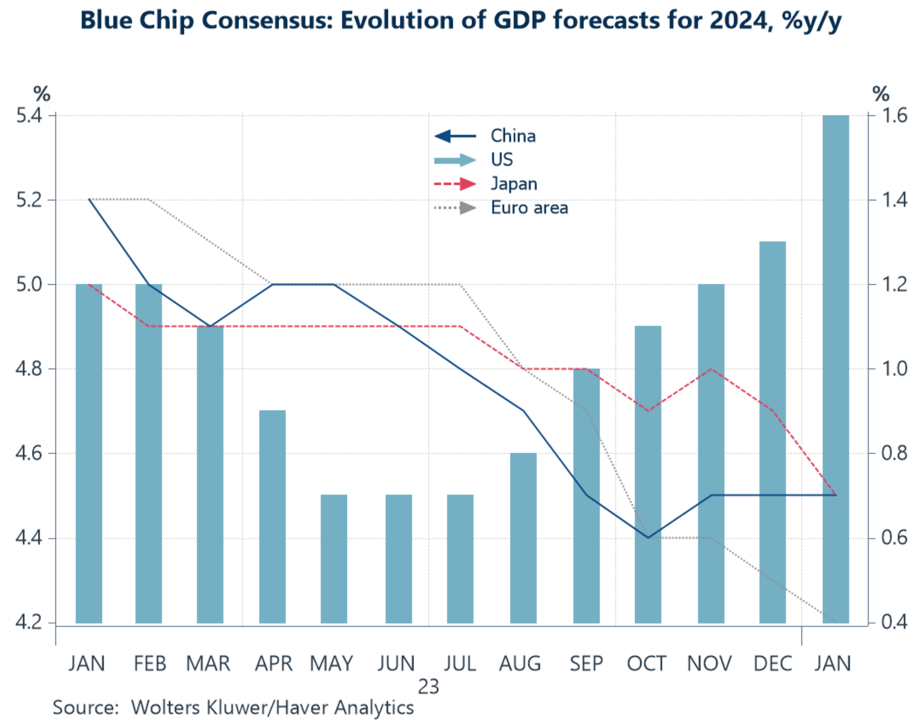
Chart 1: Citigroup's growth and inflation surprise index versus global equity markets



The growth consensus for 2024

In the latter half of last year consensus GDP forecasts revealed growing optimism about the outlook for the US economy in 2024. However, this optimism contrasted sharply with the increasing pessimism surrounding the prospects for other major economies, including China, Japan, and the euro area. The latest Blue Chip survey for January, moreover, shows little deviation from this disparity. Consensus growth forecasts for the United States have once again been revised upward, whereas the outlook for Japan and the euro area has been revised down. Interestingly, China's outlook remained unchanged for the third consecutive month but that follows a succession of downward revisions through the course of last year (chart 2).

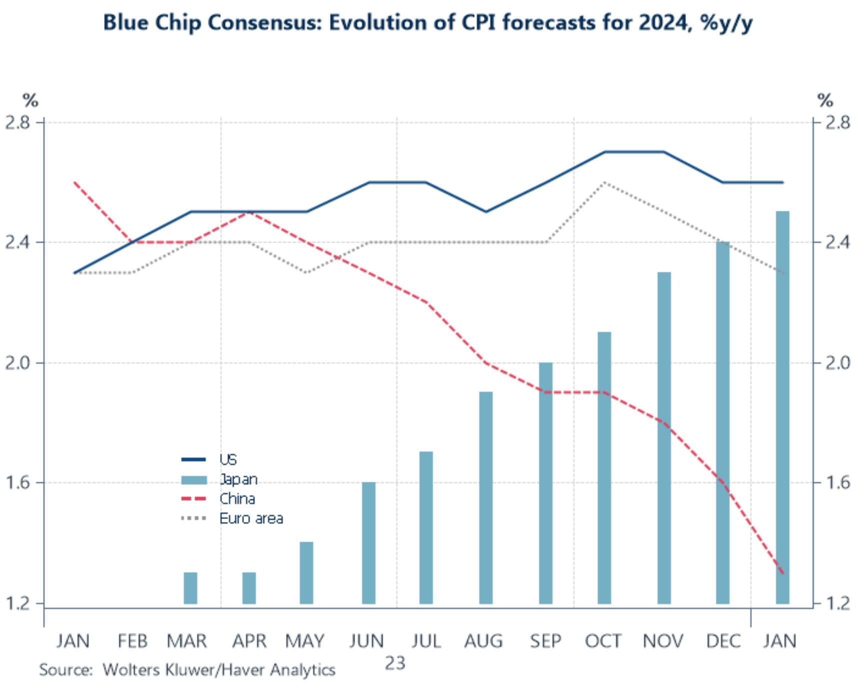
Chart 2: Blue Chip Consensus: Forecasts for GDP growth in 2024 and 2025



The inflation consensus for 2024

Looking at the evolution of the inflation consensus in those same economies also reveals some notable dichotomies. The consensus CPI forecast for 2024 has seen little change in the US and the euro area over the past six months. But that absence of change contrasts sharply with a succession of downward revisions to the inflation outlook in China and a succession of upward revisions to the inflation outlook for Japan. More specifically, at the beginning of 2023, the consensus forecast for Japan's CPI inflation was 1.2%y/y in 2024. But that forecast now stands at 2.5%. China's CPI inflation, meanwhile, was projected to be 2.6% at the start of 2023. But that forecast now stands at 1.3%.

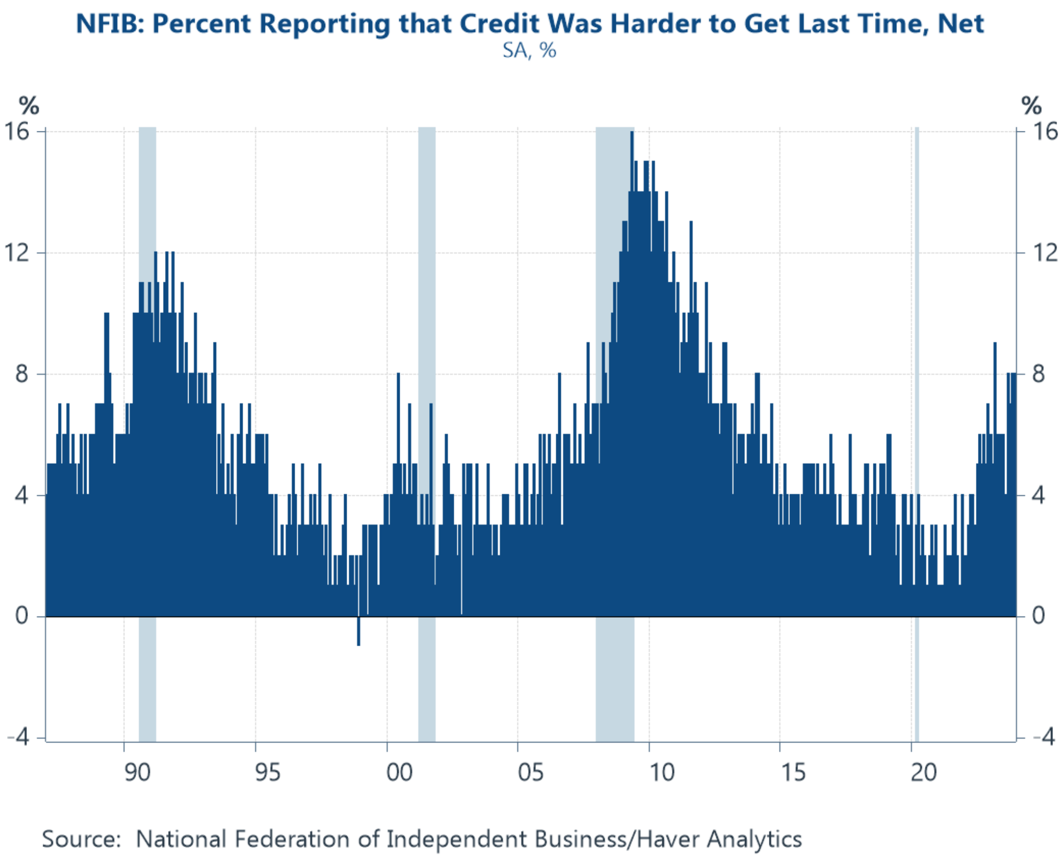
Chart 3: Blue Chip Consensus: Forecasts for CPI inflation in 2024 and 2025



The US small company sector

The recent dataflow from the US economy can be cut both ways. Lingering weakness in forward looking surveys of manufacturing, for example, contrast with lingering resilience in the US labour market. This week's US NFIB survey for December, equally, contained some encouraging messages about employment intentions. However, the overall confidence level among small companies remains subdued, and other aspects within the report are flagging downside risks. A notable example is the increased proportion of companies reporting greater difficulty in obtaining credit, which has risen significantly over the past few months (chart 4). Given that the flow of credit within the small company sector plays a key role in driving the US economy, this particular indicator is arguably a cause for concern.

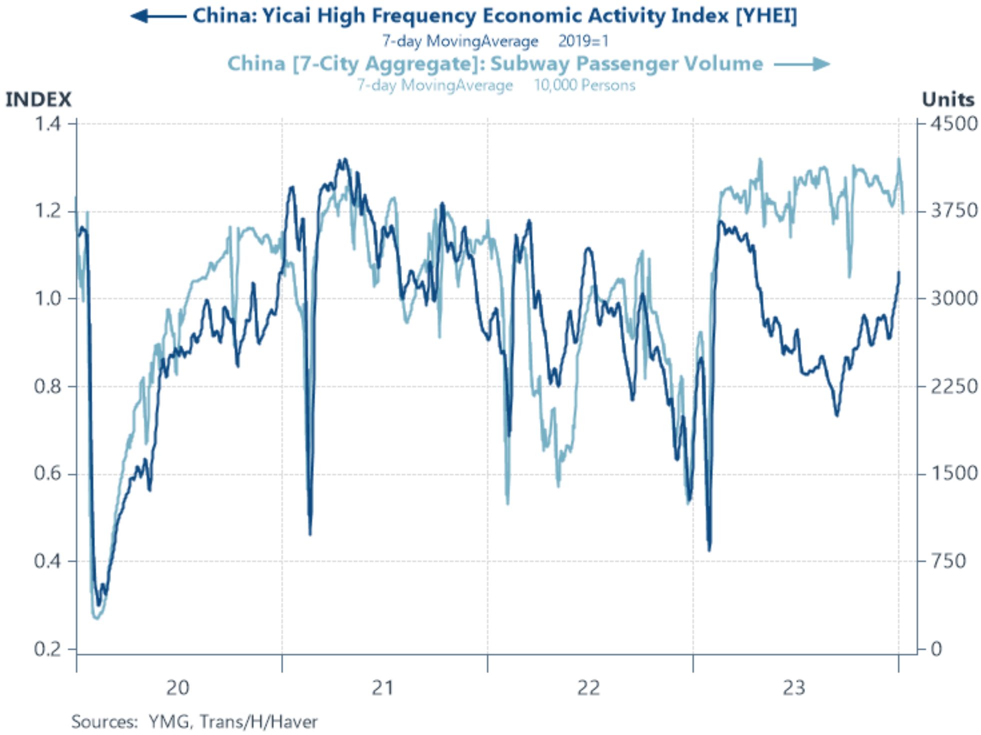
Chart 4: US NFIB Survey: Proportion of firms reporting that credit was harder to get



China's economy

Much of the high profile economic data from China has additionally been flagging downside risks over the last few months. It's worth noting, however, that higher-frequency indicators have recently shown signs of improvement. For instance, starting from a low point in mid-September, the Yicai High-Frequency Economic Activity Index has made a significant recovery, reaching a level close to a nine-month high on January 9th (chart 5). For the record, this index comprises eight sub-components, including data related to commercial housing sales, subway traffic, coal consumption, import freight volumes, and bankruptcy statistics, among others.

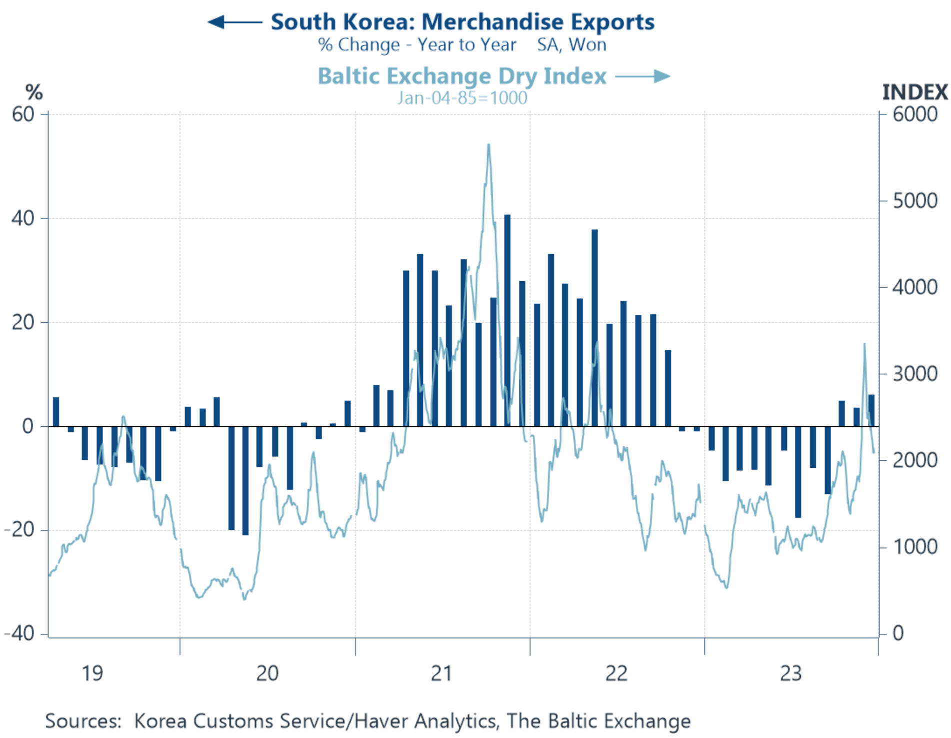
Chart 5: China high frequency economic activity index and subway passenger volume



World trade

There have been other indicators too that have lately challenged the downbeat consensus about the outlook for the world economy in 2024. For instance, South Korea's export growth, a significant barometer of global trade, accelerated in the final three months of last year. That chimed too with recent fluctuations in the Baltic Dry Index – an indicator of global shipping costs – which, until recently, also recovered some poise toward the end of last year (chart 6).

Chart 6: South Korea export growth versus the Baltic Dry Index



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.

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