AXA Investment Managers

28 February 2024

Investment Institute Macroeconomics

Global Macro Monthly

Policy Rules and Monetary Tools

Key points

- US growth exceptionalism persists and despite softer retail activity in January there are few signs of the slowdown we continue to expect.
- Activity has softened elsewhere. The Eurozone saw GDP flat in Q4, just avoiding recession, but manufacturing continued to struggle. The UK entered technical recession in Q4 but should rebound in Q1. Japan also fell into recession in H2 2023.
- China weakness weighed on stock market activity but has prompted fiscal and now monetary stimulus. Despite China, broader Asian growth remains solid. This has not been the case for Central and Eastern Europe (CEE) countries.
- Inflation has fallen back globally, but we expect a stickier patch over the coming quarters in developed economies.
- We continue to forecast developed central bank rate cuts from around mid-year. Following a marked repricing, market views now broadly align with our own.

Global Macro Monthly

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Policy rules and monetary tools

Global Macro Monthly Summary February 2024

David Page
Head of Macro Research

Market re-pricing aligns with our views

Last month we warned that market policy rate expectations were too aggressive. We did not anticipate immediate change but this month saw markets reprice sharply, leaving policy expectations in line with our outlook – in most cases.

The US has dominated this repricing. A succession of stronger data (Q4 GDP growth at 3.3%, payrolls up 353k in January and CPI services ex-shelter inflation accelerating to 6.7% 3m annualised rate) and a more deliberate push-back from Federal Reserve (Fed) Chair Jerome Powell (a March cut is unlikely) has seen expectations shift from having fully priced a March cut and seven 0.25% rate cuts this year to a 75% chance of a June cut and 25% chance of four cuts this year. We forecast June as the likeliest first cut since September and we tentatively increased expectations for a fourth cut (from three) after the last Fed meeting.

UK rate expectations saw a similar adjustment. This reflected guidance from the Bank of England and - albeit questionable - labour market data, with still-elevated wage growth and services inflation. UK markets switched from pricing a 50% chance of a March cut and nearly seven fully-priced cuts in 2024 to just over a 50% chance for June and nearly three cuts for the whole year. We continue to forecast three cuts starting in August, acknowledging the risk of an earlier June start.

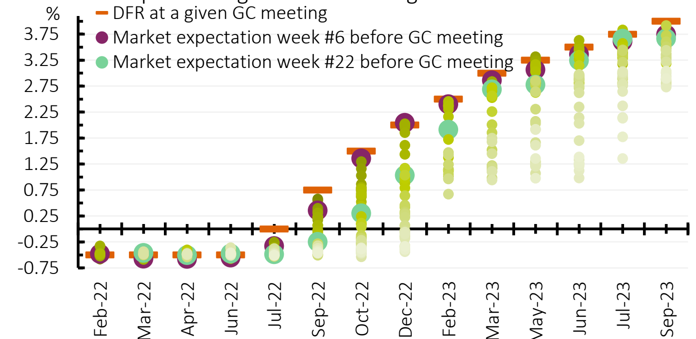
European markets have also seen a marked shift, now seeing only a 20% chance of an April cut but still a chance of five cuts overall, from a 20% chance of January (80% March) and 60% chance of eight cuts overall. Market expectations align with our own expectations of a June start, but we forecast only three cuts for the year – albeit with risks skewed downwards.

What a more structural assessment tells us

In light of these sharp swings in expectations, our *Theme of the Month* presents a more considered case for ECB policy rates (in turn summarising our more detailed research note on the subject[1]). We illustrate that as the ECB has moved from explicit guidance and adjusted policy sharply, market expectations have struggled to keep up with actual policy changes, often falling short until the prior meeting (Exhibit 1). We are sceptical of their accuracy for the forthcoming cutting cycle.

Exhibit 1: Market expectations have been poor predictors

ECB rate decision and market expectation vintages up to 52 weeks prior to a given ECB meeting



Source: Bloomberg and AXA IM Research, February 2024

We reviewed standard monetary policy rules, including the Taylor and Orphanides and Wieland (OW) rules. An assessment of the former underscores expectations for a sharp policy adjustment – and informs our own judgment around the skew of risk. However, academic research has attached more weight to the OW rule over a shorter time horizon – which suggests a later loosening. Both rules require a confident assessment of potential growth rates of the economy. The Eurozone has suffered a series of supply shocks, as well as broader supply uncertainties, that make us wary of a negative impact overall – reducing the signal for easier policy. Moreover, we highlight that the change in Eurozone fiscal rules appears likely to see more reactive policy across the Eurozone, further shifting the balance and reducing the chance of such aggressive rate cuts.

That said, we also acknowledge that such policy rules struggle to take account of balance sheet policy, without getting into the murky world of 'shadow' rate estimation. With the European Central Bank (ECB) about to embark on the less transparent unwind of its Pandemic Emergency Purchase Programme and an upcoming transition in US money markets that will see the Fed's quantitative tightening once again drive liquidity withdrawal, rather than the increase in reserves witnessed since September, balance sheet policy may increasingly need to be the focus for markets.

[1] Cabau, F., "Framing the ECB's rate cutting cycle", AXA IM Research, 26 February 2024

Investment Managers

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Global Macro Monthly – US

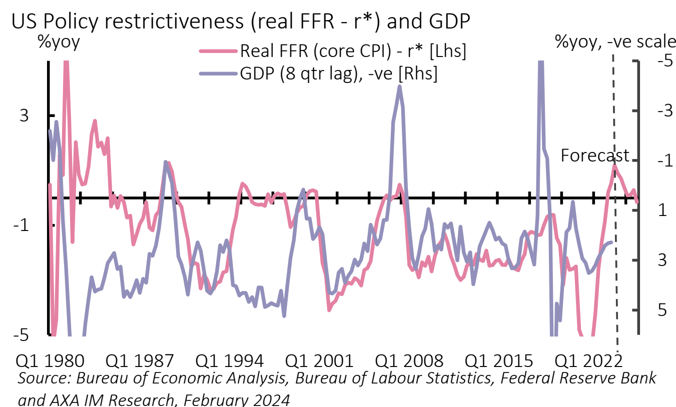
David Page
Head of Macro Research

Economic slowdown still likely

The economy closed 2023 with strong momentum. Annualised growth of 3.3% in Q4 followed an impressive 4.9% in Q3, leaving growth up 2.5% over 2023. The Atlanta GDPNow tracker currently sees Q1 growth at 2.9% – somewhat softened after January's weaker retail sales growth. But questions remain as to whether the economy will slow at all.

Several drivers should slow growth over the coming quarters. Nominal income growth should ease as both employment and wage growth have slowed. Additionally, tax revenue growth should rise as the impact on tax take following sharp inflation slows. We also continue to expect the saving rate to return to pre-pandemic rates of 6%-7% from December's 3.7%. Combined with expected slower disinflation (and upside risks from the Middle East conflicts), real disposable income growth looks set to slow and weigh on robust spending – potentially explaining January's weaker sales. Exhibit 2 illustrates the usual lagged relationship between restrictive policy (defined as the real policy rate in excess of neutral) and growth. This points to deceleration ahead, although also illustrates how the current pace of growth is already outperforming such a forecast and highlights that this is not always the case (during the 1990s).

Exhibit 2: Restrictive policy to slow growth with a lag



Source: Bureau of Economic Analysis, Bureau of Labour Statistics, Federal Reserve Bank and AXA IM Research, February 2024

Unexpected structural drivers appear to be underpinning growth. Labour supply growth has accelerated, driven by improved participation and a surge in immigration – the latter leading the Congressional Budget Office to raise annual growth estimates by 0.2ppt over the coming decade, adding around $7tn to the economy overall. Separately, productivity growth has risen and while cyclically this may soften in 2025, boosts from the post-pandemic economy, investment and artificial intelligence could see it persist. This combination of factors lifts potential growth and should have raised the neutral rate, at the same time reducing the restrictiveness of current Federal Reserve (Fed) policy. On balance, we still expect a growth slowdown, although have modestly raised our quarterly growth profile this year. Combined with a stronger H2 2023, we forecast GDP growth at 2.0% this year and 1.5% next (consensus 1.7%, 1.6%).

Annual inflation fell to 3.1% in January, far below the peak 9.1% rate in June 2022. We expect this fall to slow over coming quarters. Disinflation has been driven by energy and goods prices and this effect should soften with a risk of reverse if Middle East tensions worsen. Shelter inflation should fall sharply this year – the lagged response to a significant fall in new rents. However, services ex-shelter continue to accelerate, likely reflecting persistent labour market pressures. These factors should slow disinflation and we forecast inflation to average 3.1% and 2.6% this year and next – firmer than the consensus 2.6% and 2.3%. But a faster potential growth rate certainly helps explain how disinflation has continued despite strong economic and employment growth to date.

Fed Chair Jerome Powell explained a longer period of current inflation rates would be consistent with the Fed easing policy rates this year. We continue to envisage cuts this year and the improvement in supply conditions leads us to now expect the Fed to be able to ease policy back to policy rules-based levels more quickly than previously expected. We add 50bps of loosening to our outlook for the coming two years, for now adding one cut to our 2024 outlook (now a total of four cuts to 4.5%) and one to our 2025 outlook (now seeing three cuts to 3.75%). A material repricing in market expectations sees a slightly greater chance of four cuts this year than markets. The Fed has also added to commentary on the outlook for its quantitative tightening (QT) programme. We adjust our outlook – now seeing QT continue to mid-2025 (from end-2025), while now expecting a deceleration in the pace of QT from mid-2024.

The Presidential Election is already drawing attention despite being over eight months away. Former President Donald Trump comfortably won the South Carolina primary beating the last remaining contender Nikki Haley by 60% to 40%. Trump remains overwhelming favourite to win the Republican nomination. Meanwhile President Joe Biden is trailing in polls. While we argue that polls this far out are unreliable and an improving economy should lift his ratings by year-end, he faces more pressing near-term challenges. A politically-charged Department of Justice report branded him "an elderly man with a poor memory", an image which resonates amid successive gaffes. A recent NBS poll showed 75% of voters concerned. This is an image Biden may struggle to shake off before the election

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Global Macro Monthly – Eurozone

François Cabau,
Senior Eurozone Economist
Macro Research

Hugo Le Damany,
Eurozone Economist
Macro Research

Lack of momentum to endure

Eurozone GDP was flat in the fourth quarter (Q4) on a quarterly basis, according to an official preliminary estimate. Economic dynamism was substantially better in Spain (+0.6%), slightly better in Italy (+0.2%), neutral in France (0%) and weak in Germany (-0.3%). Germany's end-of-year contraction left GDP falling by 0.1% in 2023 as a whole (+0.5% for the Eurozone).

Yet Eurozone employment continues to defy this weak activity overall with a rise of 0.3% in Q4. This suggests productivity growth has fallen further. We are still expecting productivity to stabilise over the coming quarters as employment levels off while economic activity should gradually pick up. But this raises questions over longer-term potential growth rates.

In the meantime, high frequency data does not point to any improvement. There are some tentative signs of rebound in the manufacturing sector from the beginning of the year, proxied by German truck tolls in January (+2.3% on the month). But at the same time German industrial production has not posted a monthly gain since last April and February's manufacturing flash Purchasing Managers' Indices (PMIs) surprised on the downside, including in Germany which sank to 42.3, down 3.2 (46.1 and down 0.5 for the Eurozone as a whole). We need more to see the sector recovering from its current slump.

The services sector is doing slightly better and compensates for broad weakness across manufacturing. European Commission surveys recorded a small (0.4p) rise to 8.8 in January. February's PMIs also rose by 1.6 in February to 50.0. This should result in a slight, but gradual recovery in Q1 GDP (+0.1%) and we forecast 0.3% in 2024 overall, below a firmer consensus expectation of 0.5%.

Given the lack of economic traction at present, some countries have recently lowered their GDP forecasts for 2024 – not a major surprise as we had considered them on the optimistic side. But this has most implication for France, which now expects 1% in 2024 from 1.4%, compared with our own 0.4% outlook. Government revenues should also be expected lower, forcing it to find €10bn of savings this year. Germany has also slashed its outlook to 0.2% (from 1.3%, AXA IM: -0.1%). This better aligns with current momentum and takes into account the recent Constitutional Court decision on off-balance sheet funds. It is very likely that similar revisions also occur in Italy where the government's 2024 GDP forecast remains an optimistic 1.2%, compared to our 0.3%.

A stickier patch for ongoing disinflation

Inflation is easing with the headline reaching an annual 2.8% in January. Due to the risks associated with this print (a high turnover in price changes, the end of some tax rebates and Harmonised Index of Consumer Prices weights changes), we see January's dip as reassuring. But looking into the major components of inflation, services prices are sticky –- flat for the third successive month at 4%. Services inflation should ease in the coming months, but this will likely be gradual, providing an inertia to further headline declines. We still expect headline and core inflation to both reach 2.7% by mid-2024.

On wages, European Central Bank (ECB) Q4 data recorded an annual 4.5% rise, down 0.2 percentage points (ppt) from Q3. As expected, negotiated wages eased for the first time since Q2 2022, but remain firm. On top of that, high frequency data, such as the Indeed Wage Tracker, point to a small monthly rebound of 0.2ppt in wages in January to an annual 4.1%.

ECB to show a little more patience

Aside from GDP growth, which the ECB will likely revise lower at its upcoming forecast round next month, inflation and wage developments are broadly consistent with the central bank's December forecasts. ECB governors are likely to remain concerned by elevated wages and dynamism in services inflation. Recent comments have diverged with some policymakers already pledging early cuts while others are keen to wait for further proof of disinflation and greater confidence in reaching the target in a timely manner. We continue to expect the ECB will wait until June before starting to ease policy, forecasting three 0.25% rate cuts in 2024 and two in 2025. Risks are skewed to an earlier cut (in April) owing to persistent disappointment in growth and softer inflation.

Portugal readies for legislative elections

Portugal will hold a snap election on 10 March after António Costa resigned as Prime Minister in November amid a high-level corruption scandal. The polls show high uncertainty with the centre-left (PS) and centre-right (PSD) parties neck and neck. Several options are on the table. The PS could turn to the far left and Greens to form a government, but this may not be enough to secure a majority. If PSD comes first, its only option to rule without PS would be with far-right party Chega (currently at 18% in the polls).

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Global Macro Monthly – UK

David Page
Head of Macro Research

Recession now, cuts ahead

Fourth quarter (Q4) GDP contracted by a sharper-than-expected 0.3%. The UK is in technical recession following Q3's 0.1% drop. Q4's decline was driven by a quarterly 2.9% drop in exports, while consumer spending, which fell sharply by 0.9% in Q3, eased by 0.1% in Q4. Investment rebounded by 1.4% in Q4, following a 1.4% drop in Q3, although business investment recovered only half of its fall (+1.5% from -2.8%) and government spending fell by 0.3% following a 1.1% rise. These preliminary estimates are likely to be revised. Manufacturing output will provide momentum having risen by 0.8% on the month in the last two months of 2023. The services Purchasing Managers' Index (PMI) has risen in 2024 suggesting firmer growth, consumer confidence is rising and the RICS survey points to some improvement in housing. Q4's 0.3% fall leaves 2023 growth at 0.1% - below our 0.3% forecast. We suspect Q1 will be firmer than the 0.1% we had forecast. Q4's figures suggest downside risks to our 0.2% outlook for 2024 but for now we leave that estimate unchanged and forecast 0.6% for 2025.

Against this recessionary backdrop, the reported 0.5ppt fall in unemployment to 3.8% is strange. We are sceptical of this data. While official pay growth had converged with other measures, November saw a large upward revision and Q4's overall annual wage growth was still an elevated 5.8%. We suspect there is loosening in the labour market but official data provides little evidence. Meanwhile inflation remained at 4.0% in January (core at 5.1%). The Bank of England (BoE) expects inflation to fall temporarily to 2% in Q2 as further energy disinflation adds to a broader softening in core prices before rebounding again into year-end.

The BoE was split three ways in its decision to leave policy on hold at 5.25% in February - one member voted for a cut. Most policymakers suggested the decision was when to cut rates, not if. We concur. We believe it will want to see the scale of any further fiscal loosening in the March Budget and spring wage negotiations. Both will be known by June. The Office for National Statistics has delayed the revamp of its labour force survey until September. On balance, we think the BoE will cut in August, presenting the decision in the context of revised economic projections. Yet an earlier June move is a risk. We forecast three cuts this year and three successive cuts in early 2025, taking the Bank Rate to 3.75%. Significant market repricing now sees markets in line with our view.

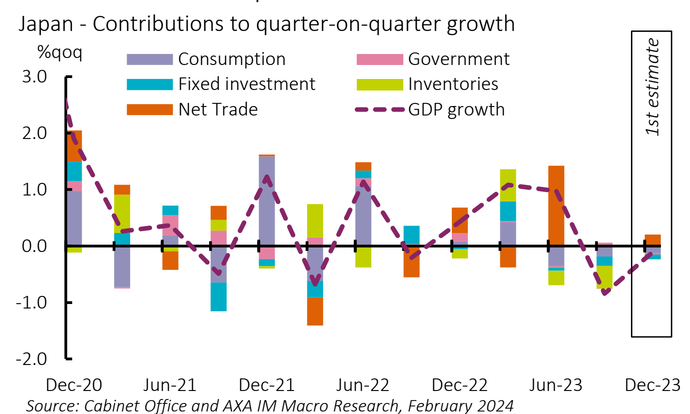
Global Macro Monthly – Japan

Hugo Le Damany,
Economist (Euro Area)
Macro Research

Better macro news postponed

Japan's economy remains in the doldrums, highlighted by another fall in GDP in Q4 at -0.1% quarter-on-quarter, after -0.8% in Q3. Almost all components contracted. Private consumption recorded -0.2%, the third successive decline (Exhibit 3). Investment was also weak, including housing (-1%), capex and public investment (-0.2%). Net exports rose but were influenced by a strong one-off surge in intellectual property, which will reverse in Q1.

Exhibit 3: A fallen hope



Source: Cabinet Office and AXA IM Macro Research, February 2024

Activity was also weak in Q1, as shown by February's flash PMI reading - manufacturing and services recorded 47.2 (-0.8) and 52.5 (-0.6) respectively. We now only expect a pick-up in GDP from Q2 when households will benefit from real purchasing power gain. Indeed, despite inflation continuing to fall in January, with Tokyo Consumer Price Index (CPI) slowing 0.8ppt on the month to 1.6% year-on-year, Japanese households still face negative real purchasing power. This will prove the key metric for the outlook, both for activity and the Bank of Japan's (BoJ) monetary policy.

Despite weak growth, BoJ Governor Kazuo Ueda said he has faith in future purchasing power gains and a virtuous cycle in inflation. The slightly dovish BoJ Deputy Governor Shinichi Uchida stated: "Even if the Bank were to terminate the negative interest rate policy, it is hard to imagine a path in which it would then keep raising the interest rate rapidly." We read both statements as endorsing a small hike, most likely in April (+10bp). The next move may wait until Q4 2024 (+10bp).

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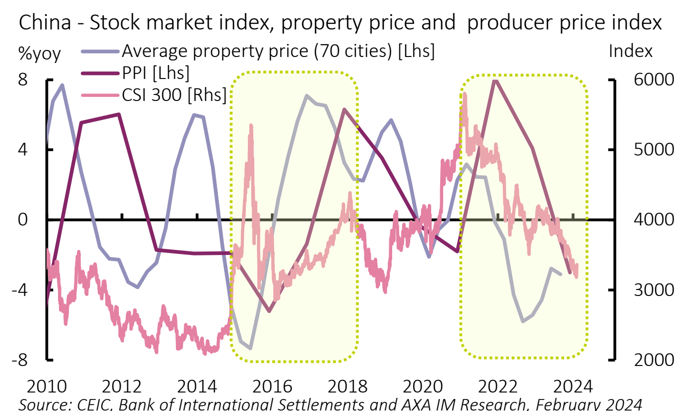
Global Macro Monthly – China

Yingrui Wang
Economist (China)
Macro Research

Stock market under spotlight before Lunar New Year

China's stock market endured some turbulence in the run up to the start of the Year of the Dragon. The blue-chip index CSI 300 closed at a five-year low on 2 February, reflecting entrenched pessimism about China's economic outlook. In response, the market regulator, the China Securities Regulatory Commission, limited short selling to stabilise the market and to try to prevent further declines. However, history suggests the rescue effort may prove challenging and protracted, as seen after China's 2015 stock market turbulence, when stability only returned in 2016, over a year after the initial meltdown. Back then, equities stabilised after the property downturn and persistent producer price index (PPI) deflation had ended. Property sales regained momentum in April 2015; and thanks to supply-side reform, PPI deflation ended in August 2016. Both contributed to stronger earnings and stock market support (Exhibit 4).

Exhibit 4: Déjà vu in China's stock market



Source: CEIC, Bank of International Settlements and AXA IM Research, February 2024

Similar challenges have resurfaced in China's current economy. PPI has remained negative since October 2021, reflecting weak industrial value-added and gloomy industrial profits in 2023. Unlike the 2015 episode, which was mainly caused by oversupply, the current cycle's persistent PPI deflation is also driven by weak domestic demand and a tightening environment overseas, exacerbating the supply-demand imbalance.

In contrast to the 2015 property sector fluctuations, the current market adjustment is of a different magnitude and driven by different factors. Demand-side adjustments driven by demographic decline and slower urbanisation progress were absent in 2015 but now significantly impact the property market. A quick rebound is unlikely, and a correction in property will likely take much longer than before. While history may seem to be repeating itself, both issues are now more deeply entrenched than in the last cycle. Therefore, a longer period of adjustment in China's stock market could be on the cards.

Policy measures fail to lift prices, but boost credit

In January, consumer price index (CPI) inflation continued its fourth consecutive month of annual contraction, marking the worst deflation in 15 years. January's weakness was partly due to the seasonality of the Lunar New Year: it fell in late January last year, but mid-February this year, distorting January prices lower. Seasonality aside though, January CPI still appeared 0.2 percentage points below the five-year average of monthly gains prior to the Lunar New Year, still suggesting a persistent and pervasive weakness. While we expect a firmer February, concerns are likely to extend beyond the single-month figure. Even as pork prices stabilise and the services sector reflates, prices are likely to remain soft for durable goods, echoing pessimistic income expectations, especially for middle to high-income groups, amidst the ongoing property market correction.

Reflecting recent policy measures, credit demand in January exceeded expectations, with a record-high total social financing flow, while outstanding annual credit growth held steady around 10%. January also witnessed the largest net issuance of corporate bonds in nearly two years, contributing to a notable increase in medium and long-term corporate loans. Since the fourth quarter of 2023, Beijing has implemented a series of supportive measures, including a substantial RMB1tn fiscal deficit funded by Central Government Bonds and RMB500bn net injection through Pledged Supplementary Lending. In addition, the 25bp cut on 5-year LPR on 20 February surprised the market, marking the biggest cut since 2019 when the rate was introduced. Although the impact on the real economy will take time to manifest, it boosted market sentiment as it may signal more proactive policy measures ahead.

Historically, China's economic data in January and February are affected by substantial seasonality caused by the Lunar New Year, the country's most important festival celebration. This also leads the statistic office to skip the monthly data release in February, leaving the market in the dark until mid-March when data for the first two months combined are released. Additionally, March brings the National People's Congress, which should provide the 2024 annual growth target. As we muddle through this data-lacking month, we maintain our forecast of policy-supported and investment-driven growth of 4.5% for 2024, with risks skewed towards the downside.

28 February 2024

Global Macro Monthly – Canada

David Page
Head of Macro Research

BoC cautious as inflation persistence risk remains

We await Q4 GDP growth estimates (due 29 February), but monthly data has been consistent with our expectation that a weaker Q3 (-1.1% annualised) will be offset by a firmer Q4, leaving 2023 growth at 1.1%. Indeed, November's monthly gain of 0.2% and December's preliminary estimate (0.3%) suggests upside risk to our 0.8% (annualised) Q4 forecast.

Quarterly volatility aside, we continue to see headwinds over coming quarters with the lagged transmission of Bank of Canada (BoC) policy tightening weighing. As such, we forecast a weaker start to 2024 – growth to average 0.5% (annualised) in Q1 and Q2. However, the economy should avoid outright contraction, buoyed by a somewhat firmer US outlook near-term, and an expectation for accelerating global activity and ongoing strong migration. We continue to forecast growth of 0.5% and 1.7% this year and next, in line with consensus, but softer than the BoC 0.8% and 2.4% forecast.

We remain more cautious in our outlook for CPI inflation. January saw the annual rate soften to 2.9% from 3.4%, despite firmer oil prices. Core measures of inflation also remain persistently sticky – both in annual and more recent 3-month annualised rates, despite the latest dip. The number of services items with inflation above 3% has grown and likely reflects ongoing elevated unit labour costs, combining still-high wage and weak productivity growth. We continue to forecast further disinflation but expect inflation to average 2.9% and 2.3% in 2024 and 2025 – above consensus (2.5% and 2.1%), but more in line with the BoC (2.8% and 2.2%).

Last month, the BoC announced a shift from assessing whether policy was sufficiently restrictive, to how long to maintain restrictive policy. This was consistent with our view the policy rate had peaked at 5.00% and would fall this year. We continue to see the BoC being cautious of easing too soon and forecast the first cut in July, lowering the policy rate to 4.25% by end-2024 and 3.50% by mid-2025. Markets continue to price an earlier easing, considering a 75% chance of a June cut. This remains a risk, but broader expectations have adjusted sharply from considering a more than 50% chance of three cuts by June, to no longer fully pricing one. Markets had also expected over six cuts in 2024 and now see three. They may adjust further if the Fed outlook changes.

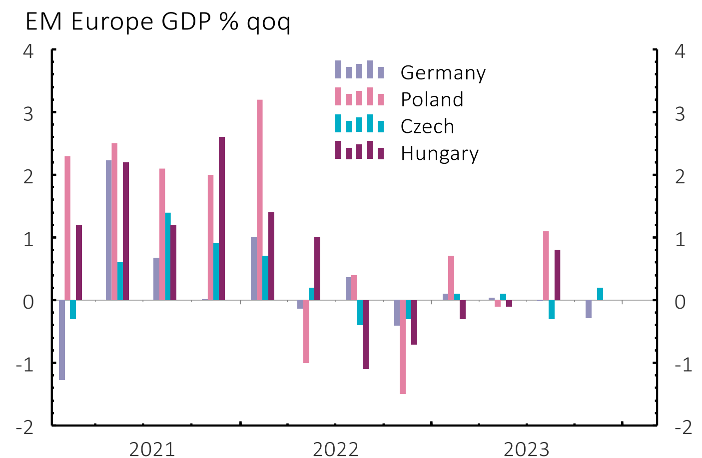
Global Macro Monthly – EM Europe

Irina Topa-Serry,
Senior Economist (Emerging Markets),
Macro Research

Ending 2023 on a weak note

Fourth quarter GDP data showed weakness across the board in Central and Eastern Europe (CEE). The best outcome was reported in the Czech Republic with GDP rising by 0.2% quarter-on-quarter, after a 0.3% contraction in the previous three months (Exhibit 5). Growth was flat in both Poland and Hungary, after 1.1% and 0.8% in Q3 respectively. On a year-on-year basis, growth stood at -0.2% in the Czech Republic, 0% in Hungary and 1% in Poland in Q4, bringing 2023's average annual growth to a meagre 0.2% in Poland, while contracting by 0.4% in the Czech Republic and 0.9% in Hungary.

Exhibit 5: 2023: Another year of weakness in CEE



Source: LSEG Datastream and AXA IM Research Q4 23

There is scarce detail behind the figures for now. In Hungary, there is mention of weakness across the construction, manufacturing and retail trade sectors. The Czech Republic saw a decrease in household expenditure, while external demand supported growth. We suspect household consumption remained depressed in Poland as well, reflected by contracting retail sales, down 0.8% during the last quarter of the year.

The carry-over into 2024 growth is weak: 0.5% for Poland, 0.4% for Hungary and -0.1% for the Czech Republic. We keep our 2024 growth projections unchanged (1.4% for the Czech Republic, 2.8% in Poland and Hungary) due to possible positive spillovers from a faster absorption of European Union funds in Poland and Hungary, while projecting a supportive backdrop for consumers on the back of positive real wage growth.

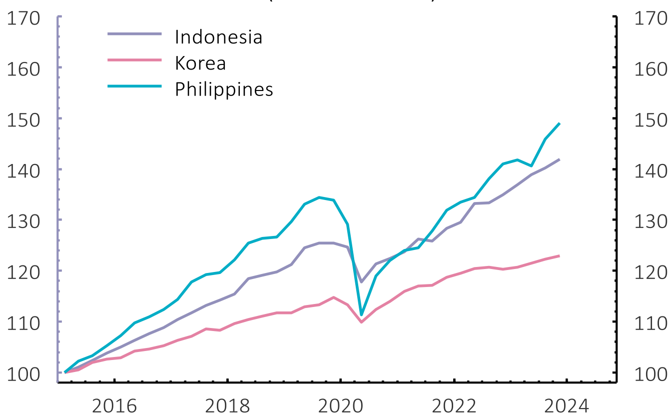
Global Macro Monthly – EM Asia

Irina Topa-Serry,
Senior Economist (Emerging Markets),
Macro Research

Asian economies roared ahead at the end of 2023

More Asian economies have now released first estimates of Q4 GDP (Exhibit 6). Korea's 0.6% quarter-on-quarter growth for a third quarter in a row disguises a robust export recovery, which is likely to continue into 2024. The manufacturing Purchasing Managers' Index (PMI) moved above the 50 expansion threshold (51.2) for the first time since July 2022. Korean GDP is expected to accelerate to 2.2% in 2024, from an average of 1.4% last year. In Taiwan, Q4 GDP growth was above expectations at 2.1% after 1.9% in Q3, driven by a surge in net exports on the back of weak domestic demand, which weighed on imports, while exports also fell back somewhat. January's PMI showed some improvement, but manufacturing activity appears still in contraction territory, highlighting the difficult environment characterising the start of 2024.

Exhibit 6: Asian economies grow in Q4 2023



Source: LSEG Datastream and AXA IM Research Q4 23

Growth momentum slowed somewhat in Indonesia and the Philippines in Q4, albeit from a strong base. On a quarterly basis, GDP progressed by 0.5% after 1.6% in Q3 in Indonesia, and by 2.1% from 3.3% in the Philippines. Activity in both countries remained supported by private consumption, particularly in Indonesia given pre-election spending. On that note, Indonesia's presidential candidate Prabowo Subianto, the current Defence Minister, appears to have won outright in the first round (according to preliminary tallies), confirming policy continuity. Growth averaged 5% in Indonesia and 5.6% in the Philippines, still at the top of the range of Asian countries - right behind India which is expected to grow by 6.5%-7%.

Global Macro Monthly – LatAm

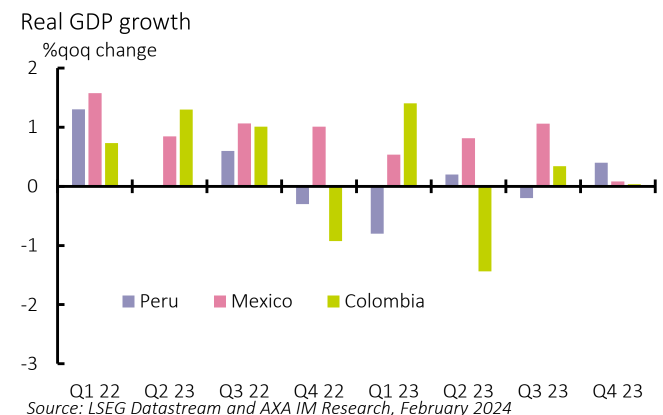
Luis Lopez Vivas,
Economist (Latin America),
Macro Research

Latin America growth tapers off in Q4

Official GDP estimates for Colombia, Mexico and Peru indicate a lacklustre end to activity in 2023 (Exhibit 7). Mexico experienced a steep slowdown in Q4, with a mere 0.1% quarter-on-quarter increase, falling short of market expectations of 0.4%. This marks the lowest growth rate since Q3 2021. The disappointing figure reflected a notable decline in primary-sector activity, stagnant industrial output, and only a marginal increase in services. The economy's weak footing and falling inflation should set the stage for the Bank of Mexico to deliver its first rate cut in March. Despite these challenges, the country managed to achieve an annual growth rate of 3.2% for 2023.

In Colombia, growth decelerated, remaining stagnant in Q4 (0.0%), albeit surpassing consensus expectations for a contraction. While consumption and exports served as primary drivers of growth, their momentum was offset by a significant downturn in investment of -4.1%. Overall, the Colombian economy expanded by a modest 0.6% last year, a stark contrast to 2022's robust 7.3% growth, primarily hampered by tight monetary policy.

Exhibit 7: Weak growth in Q4 2023



Source: LSEG Datastream and AXA IM Research, February 2024

Peru, on the other hand, paints a much grimmer picture. While GDP growth accelerated in Q4 to 0.4% from -0.2% in Q3, the country couldn't avoid a decline of 0.6% over the course of last year, marking its first annual downturn in 25 years (excluding the pandemic). Throughout 2023, the country faced numerous negative shocks, including political and social turmoil, as well as extreme weather conditions, all against a backdrop of high inflation and elevated interest rates.

Macro forecast summary

Real GDP growth (%)	2023*		2024*		2025*	
	AXA IM	*Consensus*	AXA IM	*Consensus*	AXA IM	*Consensus*
World	3.1		2.9		3.1	
Advanced economies	1.6		1.2		1.2	
US	2.5	2.4	2.0	1.4	1.5	1.8
Euro area	0.5	0.5	0.3	0.5	0.8	1.5
Germany	-0.1	-0.3	-0.1	0.3	0.7	1.5
France	0.9	0.9	0.4	0.7	0.8	1.3
Italy	0.7	0.7	0.3	0.5	0.6	1.2
Spain	2.5	2.4	1.6	1.3	1.3	1.9
Japan	1.9	1.7	1.2	0.8	1.0	1.0
UK	0.3	0.5	0.2	0.2	0.6	1.2
Switzerland	0.6	0.8	0.8	1.2	1.3	1.5
Canada	1.1	1.1	0.5	0.4	1.7	1.9
Emerging economies	3.9		3.9		4.2	
Asia	5.1		4.9	4.0	4.7	
China	5.2	5.2	4.5	4.6	4.2	4.4
South Korea	1.4	1.3	2.2	2.1	2.3	2.2
Rest of EM Asia	5.3		5.7		5.4	
LatAm	2.4		1.6		3.0	
Brazil	3.0	3.0	1.4	1.6	2.4	2.0
Mexico	3.2	3.3	2.2	2.2	2.9	2.2
EM Europe	2.6		2.5		2.6	
Russia	3.0	2.7	2.6	1.7	1.1	1.1
Poland	0.2	0.4	2.8	2.8	3.5	3.4
Turkey	4.3	3.9	2.0	2.2	3.6	3.2
Other EMs	1.9		2.8		4.6	

Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 27 February 2024
**Forecast*

CPI Inflation (%)	2023	2024*		2025*	
	AXA IM	AXA IM	*Consensus*	AXA IM	*Consensus*
Advanced economies	4.7	2.8		2.2	
US	4.1	3.0	2.6	2.5	2.3
Euro area	5.5	2.5	2.2	2.1	2.1
China	0.2	1.1	1.2	2.0	1.9
Japan	3.2	2.2	2.2	1.6	1.5
UK	7.7	3.1	2.6	1.8	2.0
Switzerland	2.2	1.6	1.6	1.3	1.3
Canada	3.6	2.9	2.5	2.3	2.0

Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 27 February 2024
**Forecast*

These projections are not necessarily reliable indicators of future results

Forecast summary

Central bank policy Meeting dates and expected changes (Rates in bp / QE in bn)						
		Current	Q1-24	Q2-24	Q3-24	Q4-24
United States - Fed	Dates	5.50	20-Mar	1 May 12 Jun	30-31 Jul 17-18 Sep	6-7 Nov 17-18 Dec
	Rates		unch (5.50)	-0.25 (5.25)	-0.25 (5.00)	-0.50 (4.50)
Euro area - ECB	Dates	4.00	7-Mar	11 Apr 6 Jun	18 Jul 12 Sep	17 Oct 12 Dec
	Rates		unch (4.00)	-0.25 (3.75)	-0.25 (3.50)	-0.25 (3.25)
Japan - BoJ	Dates	-0.10	18-19 Mar	25-26 Apr 13-14 Jun	30-31 Jul 19-20 Sep	30-31 Oct 18-19 Dec
	Rates		unch (-0.10)	+0.10 (0.00)	unch (0.00)	unch (0.00)
UK - BoE	Dates	5.25	21-Mar	9 May 20 Jun	1 Aug 19 Sep	7 Nov 19 Dec
	Rates		unch (5.25)	unch (5.25)	-0.25 (5.00)	-0.50 (4.50)
Canada - BoC	Dates	5.00	6-Mar	10 Apr 5 Jun	24 Jul 4 Sep	23 Oct 11 Dec
	Rates		unch (5.00)	unch (5.00)	-0.25 (4.75)	-0.50 (4.25)

Source: AXA IM Macro Research - As of 27 February 2024

These projections are not necessarily reliable indicators of future results

Download the full slide deck of our February Investment Strategy

28 February 2024

Our Research is available online: www.axa-im.com/investment-institute

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