

GLOBAL ECONOMIC OUTLOOK

• Sit Tight

Patience, we are told, is a virtue. Central bankers are guided by this old adage, as hasty policy decisions, at times, have produced bad results. While most of the current lot have signaled that the next move will be a cut, the slow retreat of underlying price pressures explains their guarded approach.

This higher-for-longer stance is testing the persistence of consumers and businesses. U.S. economic activity has continued to surprise with its resilience, but the momentum is set to soften in the coming months. On the other side of the Atlantic, European economies are struggling to advance, with outcomes diverging widely. China's economy remains challenged, while Japan's presently lacks a driver.

Geopolitics is also top of mind. Further supply disruptions cannot be ruled out, amid ongoing geopolitical tensions, especially in the Middle East. Russia-North Atlantic Treaty Organization relations are garnering more headlines. Policy uncertainty is high in a busy election year.

This month's edition offers a detailed update on the world's second-largest market.

China

- A few green shoots have been observed in the Chinese economy. January-February industrial production and fixed asset investment numbers came in above consensus expectations. Retail sales grew 5.5% year over year in the same period, despite high base effects. But we read these numbers with caution, as pent-up demand and disruptions from the timing of the Chinese new year contributed to the improvement in the numbers.
- A closer look at other indicators suggests that domestic demand remains weak. Total social financing growth has been slow, despite strong government bond issuance, pointing toward weak credit demand. Credit data for February showed further household deleveraging: consumer and mortgage loan demand remains tepid amid low consumer confidence and persistent weakness in the property sector. Loans to businesses stayed strong, but largely as a result of infrastructure and manufacturing investment amid continued policy support.
- China's fragile property market entered 2024 with slower declines in property investment and sales, amid continued government efforts to halt a protracted downturn. That said, the beleaguered sector is not out of the woods.

New home prices in 70 cities declined for the eighth straight month in February. Property investment is still contracting, declining 9.0% year over year in the first two months of the year, an improvement from the 24.0% fall in December 2023. Real estate sales are down 20% this year. The government-backed China Vanke Co., the nation's second-largest developer by sales, is staring at a default.

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- The People's Bank of China reduced its 5-year Loan Prime Rate (LPR), an onshore mortgage reference rate, by 25 basis points to 3.95% last month. But the approach to easing is targeted and moderate, as the central bank left the 1-year LPR unchanged at 3.45%. Lower mortgage rates will ease the burden for property holders, but the overall impact will be limited. A crisis of confidence (in builders' ability to deliver) is driving the pullback in demand, not affordability.
- China temporarily exited deflation as headline inflation jumped from -0.8% year over year in January to +0.7% in February, its first positive reading in four months. But the fight against deflation is far from over. The increase in inflation was largely driven by a rise in food and services prices due to seasonal demand from the Lunar New Year holiday. Deflationary pressures have become more entrenched in both the consumer and producer sides of the Chinese economy. The real estate downturn is depressing the prices of household goods, while the producer price index fell for the 17th consecutive month, to -2.7% year over year in February.
- Deflation will weigh on household incomes, company earnings, and government taxes. It will reduce nominal gross domestic product and consequently exacerbate the debt burden. Real interest rates have increased notably because of deflation, weighing on aggregate demand and annulling the impact of monetary easing.
- Exports increased at the start of the year, but the improvement is unlikely to sustain, given the weaker state of external demand. Reshoring and de-risking efforts amid rising trade tensions will weigh on the performance of its external sector. As a result, policymakers will need to look beyond exports to grow out of their current economic woes. Geopolitical tensions are also weighing on investment flows as foreign direct investment into China slumped to the lowest amount since the early 1990s.
- There was little change in the economic targets set for this year at the annual political event called the Two Sessions. The growth target of "around 5%" along with an inflation rate of 3% and budget deficit of 3% of gross domestic product were all unchanged from last year. Top policymakers reiterated their supportive policy stance, but they are hewing to incremental and targeted actions rather than large scale stimulus. This could place China at risk of following the example of Japan.
 - We expect growth to come in below the target, owing to prolonged weakness in consumption. Negative wealth effects from both property and equity markets along with the household debt overhang will depress spending. Local government debt and real estate problems will take years to resolve. The targeted policy support will only help provide a floor, not a lift-off to growth.

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Global Economic Forecast – March 2024

	2024				2025				Q4-Q4 % Change	
	24:1f	24:2f	24:3f	24:4f	25:1f	25:2f	25:3f	25:4f	2024f	2025f
U.S.										
Real GDP (% change, SAAR)	2.5	1.5	1.5	1.5	1.5	1.5	1.6	1.7	1.7	1.6
Inflation (CPI, % change, YoY)	2.9	2.8	2.5	2.4	2.3	2.2	2.1	2.0	2.4	2.0
Unemployment Rate (% average)	3.5	3.6	3.7	3.9	4.0	4.2	4.1	4.0	3.7	4.1
Policy Rate	5.38	5.13	4.88	4.38	3.88	3.38	2.88	2.38	4.38	2.38
Eurozone										
Real GDP (% change, SAAR)	0.2	0.5	0.7	0.9	1.1	1.3	1.5	1.5	0.6	1.3
Inflation (CPI, % change, YoY)	2.6	2.5	2.1	2.0	2.0	1.9	1.8	1.7	2.0	1.7
Unemployment Rate (% average)	6.5	6.6	6.6	6.6	6.5	6.5	6.5	6.5	6.6	6.5
Policy Rate	4.50	4.25	3.40	2.90	2.40	2.15	2.15	2.15	2.90	2.15
Deposit Rate	4.00	3.75	3.25	2.75	2.25	2.00	2.00	2.00	2.75	2.00
U.K.										
Real GDP (% change, SAAR)	0.6	0.7	0.8	0.9	1.1	1.2	1.4	1.5	0.7	1.3
Inflation (CPI, % change, YoY)	3.5	1.7	1.7	1.8	1.7	1.8	2.0	2.1	1.8	2.1
Unemployment Rate (% average)	3.9	4.0	4.1	4.1	4.0	4.0	3.9	3.9	4.0	4.0
Policy Rate	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	4.25	3.00
Japan										
Real GDP (% change, SAAR)	0.1	1.5	1.4	1.0	1.0	0.9	0.9	0.9	1.0	0.9
Inflation (CPI, % change, YoY)	2.7	2.8	2.6	2.4	2.2	1.9	1.7	1.5	2.4	1.5
Unemployment Rate (% average)	2.5	2.4	2.4	2.4	2.3	2.3	2.3	2.3	2.4	2.3
Policy Rate	0.00	0.00	0.10	0.25	0.25	0.25	0.25	0.25	0.3	0.3
China										
Real GDP (% change, YoY)	4.2	4.0	3.9	3.8	3.8	3.8	3.7	3.6	3.8	3.6
Inflation (CPI, % change, YoY)	0.1	0.2	0.6	1.2	1.4	1.5	1.6	1.7	1.2	1.7
Unemployment Rate (% average)*	5.1	5.1	5.1	5.1	5.0	5.0	5.0	5.0	5.1	5.0
1-Year MLF Rate**	2.50	2.40	2.40	2.30	2.30	2.30	2.30	2.30	2.30	2.30
Exchange Rates (EoP)										
	Jun-24	Sep-24	Dec-24	Mar-25						
EUR/USD	1.08	1.09	1.10	1.11						
GBP/USD	1.26	1.27	1.27	1.28						
USD/JPY	150.0	148.0	146.0	144.0						
USD/CNY	7.22	7.23	7.24	7.25						

a=actual

f=forecast

*Surveyed

**Medium-term Standing Lending Facility