Key themes and outlook for 2024

In a month in which, unfortunately, geopolitical risk is once again taking centre stage, in the Dossier on the 2024 Outlook we review the key themes and forecasts for next year. The first theme is precisely how difficult it will be to recover a balance in the macroeconomy, in a world in which geopolitical instability has reached levels not seen in many decades. It is true that our baseline scenario contemplates a smooth landing for the world economy which would allow inflation in developed countries to fall from 4.6% to 2.6%, with a manageable cost in terms of both GDP growth (2.9% in 2024) and employment, as we expect economic activity to recover in the second half of the year following the stagnation seen during the first half in much of the OECD. However, after the disruptions of recent years the business cycle is highly fragile, especially given the destabilising potential of simultaneous wars in the Middle East and Ukraine through their impact on expectations and energy markets.

In this context, with interest rates at 15-year highs, one of the main assumptions of our central forecast scenario is the continuity of the disinflationary process. On the one hand, this could provide a good support for the financial markets once expectations of a shift in monetary policy are consolidated, while on the other it would continue to contribute to an improvement in economic agents' purchasing power. The problem is that determining what inflation will do next is also shrouded in uncertainty, both due to the behaviour of factors that are beyond central banks' control (such as the oil price or the tone of fiscal policy) and because of doubts surrounding the inertia of the components of the consumer price index that have greater momentum, in a context in which the risks of second-round effects have not disappeared. In this regard, the second article in this month's Dossier on the 2024 Outlook concludes that the momentum – that is, the annualised and seasonally adjusted change in the 3-month average of the CPI compared to the previous three months – of the components not sensitive to energy prices in the euro area (40% of the basket of components at present) is close to 3%. While well below the 2022 peaks, this is still a notch above the pre-pandemic level and the ECB's target. Therefore, the direct and indirect impact of the energy shock is gradually fading in Europe, although we must remain cautious given the complexity of the geopolitical scenario and the risk that some prices may have acquired greater inertia than in the past. That caution could translate into interest rates being kept at their current levels through to the second half of next year, when we would see a change of trend in the monetary cycle (anticipating the return of inflation to the target rate in 2025), albeit with financial conditions still clearly in restrictive territory.

Next year will also be full of challenges for the Spanish economy, as we discuss in the final article of the Dossier of this same report. After economic activity was supported by the strength of tourism and the fall in energy prices during the first half of 2023, since the summer we have witnessed a slowdown caused by the impact of higher interest rates, the rise in the oil price since July and particularly weak growth in the euro area, which we believe will lead to this year ending with an average growth of 2.4%. For 2024, our baseline forecast scenario contemplates GDP growth of 1.4%, as it is foreseeable that the headwinds which have weakened the Spanish economy in recent months will initially persist, taking into account the delays with which monetary policy decisions are transmitted to economic activity, the poor outlook for the main euro area economies (at least until Q2) and the effects of a somewhat more neutral fiscal policy, given the withdrawal of the fiscal measures implemented to offset the impact of the war in Ukraine. The downside risks affecting the scenario are clearly significant, given the uncertainty surrounding the behaviour of energy prices and interest rates. However, on the upside there are also mitigating factors, such as the strength of the disposable income and the savings rate of households in recent quarters and the boost to economic activity that could be provided by the European funds. It is in this delicate balance that we will find ourselves next year.

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November 2023