Deteriorating expectations for the global economy

The world economy will slow in the closing stages of the year. There are several factors that justify this hypothesis. China's revival following its reopening has been weaker than expected and the problems in its real estate sector are affecting its financial system. Global interest rates remain in contractionary territory (although some emerging economies have begun to cut rates), and the central banks of the major developed economies have already stated that rates will remain high for longer. In addition, after several years of highly expansionary fiscal policies, especially in Europe and the US, a certain correction is anticipated for 2024. Specifically, the deterioration in the public accounts gave the ratings agency Fitch justification to downgrade the credit rating of the United States (to AA+, from AAA).

The US is beginning to show signs of exhaustion. GDP grew by 0.5% quarter-on-quarter in Q2 (0.5% in Q1), thanks to the revival of non-residential investment (1.5% vs. 0.2%) and the restraint of public spending (0.8% vs. 1.2%). Despite the encouraging figure, some evidence of the impact of the accumulated rise in interest rates since the beginning of 2022 is beginning to become apparent. Household consumption slowed to 0.4% (1.0% previously) in the face of a practical stagnation in spending on durable goods, while residential investment recorded its ninth consecutive quarter in decline (–0.9% vs. –1.0%). Several indicators improved in July (retail sales grew by 0.7% on a monthly basis and industrial production increased by 1.0%, after falling for two months), but a cooling is expected in the coming months. In fact, the composite PMI fell in August for the third consecutive month and stood at 50.4, hinting at a stagnation in economic activity. On the other hand, the labour market remains very robust, but there are certain signs of normalisation: some 170,000 new jobs were created monthly on average in July and August, down from the 200,000 average of the previous three months (substantially revised downwards) and the ratio of job vacancies per unemployed person continues to fall from its 2022 highs. On balance, we can expect a certain moderation in the pace of growth, especially in the closing months of the year, although the resilience shown by the economy has reduced the likelihood of a recession in the coming months (even the Fed has removed this option from the scenarios considered at its last meeting).

Inflationary pressures in the US remain high but are moderating. Nominal wages show little correction: on average in July and August they maintained a year-on-year increase of 4.4%, similar to the average growth in the rest of the year. This wage performance could limit the intensity of the correction shown by underlying price measures: in July, core inflation fell 0.2 pps to 4.7%, while headline inflation rose 0.2 pps to 3.2%. As for inflation in services excluding housing (a key indicator for the Fed), it has been falling since the end of last year and in July it remained practically unchanged (4.0% vs. 3.9%).

Global: PMI
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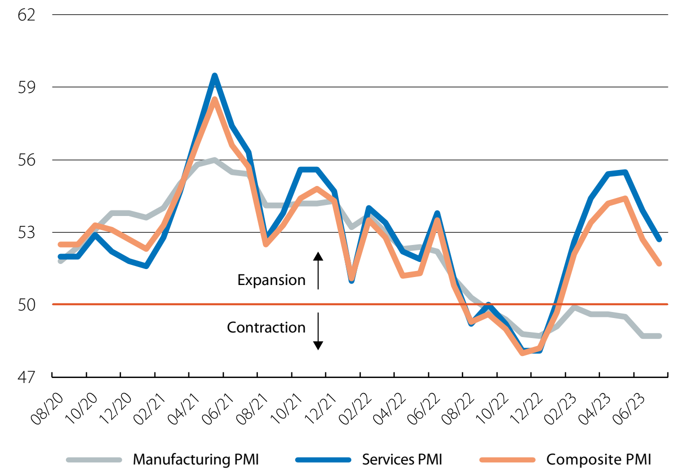
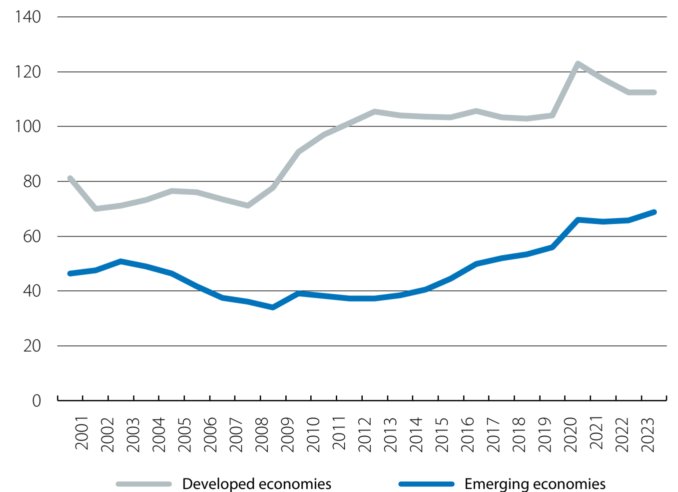


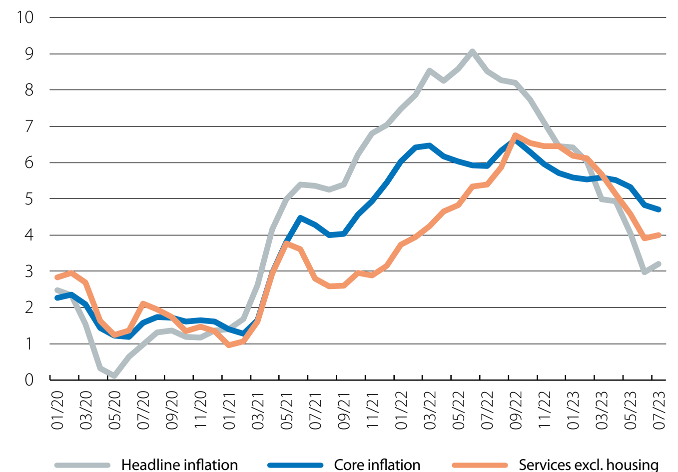
Source: *CaixaBank Research, based on data from S&P Global, via Refinitiv.*

Global: public debt
(% of GDP)



Source: *CaixaBank Research, based on data from the IMF.*

US: CPI
Year-on-year change (%)



Source: *CaixaBank Research, based on data from the Bureau of Labor Statistics.*

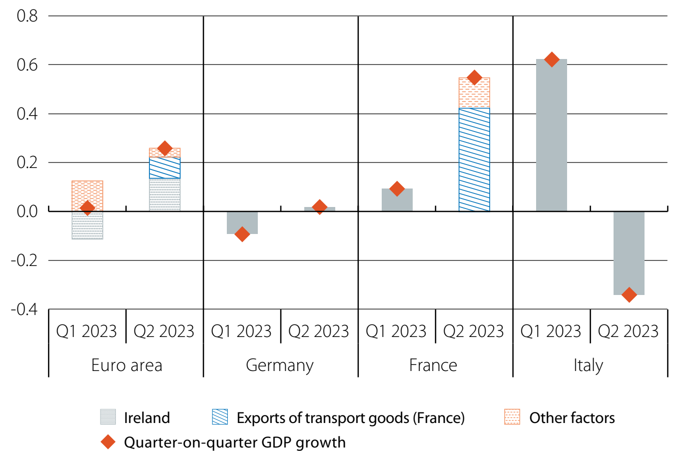
The euro area's resilience falters in Q2 2023. The euro area grew 0.3% quarter-on-quarter in Q2, after stagnating in Q1. However, most of this growth is explained by exceptional factors: France's strong growth (0.5% vs. 0.1% in Q1) was the result of the delivery of a cruise ship, while Ireland's growth remains characterised by its volatility (+3.3% vs. –2.8%). Excluding both of these elements, the euro area barely grew at all, as Italy shrank by 0.3% (+0.6% previously) and Germany stagnated, following two quarters of decline. These figures reveal the weakness of the euro area, which stands in contrast with the buoyancy of the labour market: employment in the euro area in the first half of 2023 grew by 0.8% compared to the first half of 2022, while the unemployment rate in June remained at a low of 6.4%. Moreover, the job vacancy rate in Q2 remains close to its high point (3.1%) and 25% of manufacturing firms and 33% of those in services acknowledge being affected by the labour shortage. This tightening of the labour market is largely determining wage growth: in nominal terms, wages negotiated in collective agreements grew in Q2 at a year-on-year rate of 4.3% (4.4% previously). This is close to the 30-year high, although still significantly below inflation, which is nevertheless falling (in July and August, headline inflation stood at 5.3%, 0.2 pps less than in June, while the core indicator remained at 5.3% in August, still supported by base effects).

Uncertainty in the euro area remains very high. The PMI fell again in August (composite indicator at 46.7 vs. 48.6 in July), affected by declining activity in the services sector (47.9 vs. 50.9), while the weakness of manufacturing persists (43.5 vs. 42.7). Furthermore, the revival of the fiscal rules within the Stability and Growth Pact in 2024 is likely to result in weaker tailwinds going forward. Germany, despite the weakness of its economy, has already cut spending by 6.4% for 2024 (only defence spending increases). On the other hand, the impact of the rate hikes (425 bps since June 2022) has not yet been fully transferred to economic activity and, in fact, Lagarde's statements suggest that monetary conditions will remain tense for some time to come. Consequently, further downward revisions to our forecast scenario cannot be ruled out, especially for 2024 (0.7% in 2023 and 1.0% in 2024, currently).

China continues to disappoint. GDP grew in Q2 2023 by just 0.8% quarter-on-quarter, after 2.2% growth in Q1 2023, due to the problems of its real estate sector, among other factors. In fact, over the summer those real estate problems triggered new episodes of financial stress. Country Garden, the biggest private developer in the country, was unable to pay interest on two international bonds; while the Chinese asset management giant, Zhongzhi Enterprise Group, announced that its high exposure to the real estate sector had forced it to suspend payments on its savings products and to restructure its debt. Further evidence of the economy's weakness can be found in prices: in July, inflation stood at –0.3% year-on-year, with production prices registering negative year-on-year change (–4.4%) for the tenth consecutive month. In this context, the fiscal and monetary policy response has been rather gradual.

Euro area: GDP *

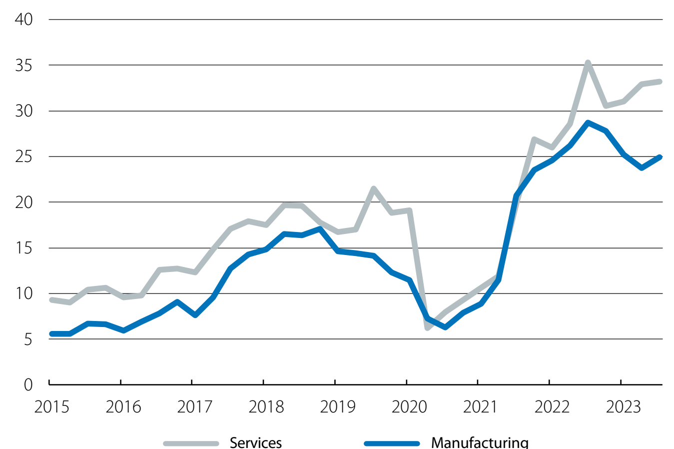
Contribution to growth of exceptional factors (pps)



Note: ** Quarter-on-quarter growth.*
Source: *CaixaBank Research, based on data from S&P Global, via Refinitiv.*

Euro area: companies struggling to find labour

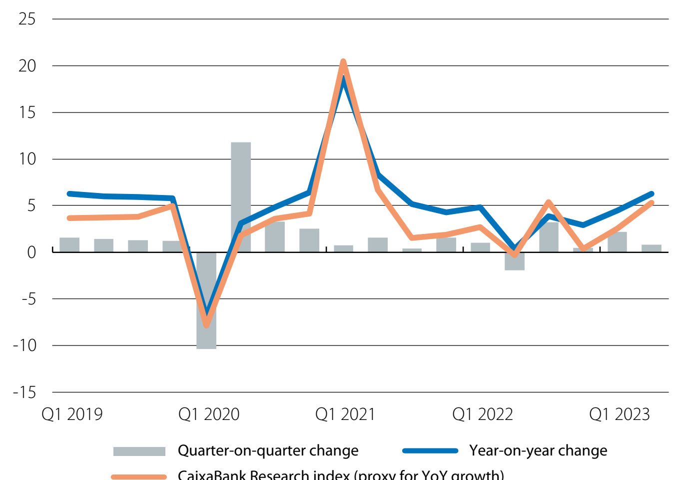
(% of respondents)



Source: *CaixaBank Research, based on data from S&P Global, via Refinitiv.*

China: GDP

Changes (%)



Source: *CaixaBank Research, based on data from the National Statistics Office of China, via Refinitiv.*