

2024: a year of improvement

2024 has kicked off with a relatively favourable outlook. It is true that several indicators suggest that the pace of growth is slowing in the major developed countries and the tone is likely to remain weak for a few more months to come. However, it looks as though the factors that are slowing down the pace of progress will dissipate over the coming quarters, and this should give way to growing economic buoyancy, both globally and within the Spanish economy. Behind this scenario, there are five key hypotheses that must be met.

Firstly, in 2024 it is expected that the inflationary cycle can be declared practically over. We have already seen an easing of inflationary pressures in recent months, and the containment of energy and commodity prices, together with limited second-round effects, allows for some optimism. In the US, inflation is expected to stand at around 2.0% by mid-year and to continue to fall during the second half, ending 2024 below the Fed's target. In the euro area, the pattern could be similar, although the moderation will likely be somewhat slower and the year is expected to end with a rate slightly above 2.0%.

The second key hypothesis of this scenario, which is closely related to the first, is that financial conditions will ease during the course of the year. The actions of the Fed and the ECB to date have been very cautious, emphasising at all times the need to curb inflation. But the improved outlook in this regard already led to a marked correction in interest rate expectations according to the financial markets at the end of 2023. In the coming months, as inflation rates converge towards the 2.0% target, the major central banks are expected to begin reducing benchmark interest rates. All this will take pressure off many businesses and households, and will make it easier for the economy to start to gain traction in the second half of the year.

Another factor that will help the economy to withstand the current bump is the strength of the labour market. This is an aspect which tends to react to changes in the economy with a certain delay. Only when the weakening of the economy persists do companies reduce their workforce. This could raise fears that the current situation, if it were to continue, would lead to some job destruction in the coming quarters. However, insofar as expectations continue to anticipate only a moderate and transient economic slowdown, and that demand will soon begin to gain traction, the labour market could remain a

supporting factor. Companies are unlikely to cut their workforce for a short period of time, given the difficulties in finding workers reported in many sectors.

One of the main risks to the global economic outlook comes from China. The majority of research houses, including CaixaBank Research, assume that the deep crisis that its real estate sector is experiencing, with sales volumes falling by over 40%, will not have an excessive impact on other sectors. To date, the measures taken by the Chinese government have been effective and the economy as a whole has continued to grow at a steady pace. This scenario is expected to continue throughout the year, but the challenge ahead is significant and any shock could have global repercussions.

Finally, the big question that will determine whether or not this global economic scenario materialises lies in geopolitics. Broadly speaking, it is assumed that there will be no further escalation in the currently active conflicts, such as the wars in Ukraine and between Israel and Hamas. This is of the utmost importance, not only because of the human drama they are causing, but also because of the repercussions it could have for the global economy, driving up commodity prices or hindering the main trade routes.

As usual in recent years, there is a great deal of uncertainty surrounding the forecast scenario, but the working hypotheses which seem the most reasonable right now allow us to be cautiously optimistic. Although the year has begun with several indicators suggesting a moderation in the pace of growth, 2024 should be a year of improvement.

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