International economy: on the rise

From the fear of stagflation to the hope of a soft landing. In an environment marked by geopolitical uncertainty, high interest rates and cooling global demand, the major advanced economies ended 2023 more resilient than had been anticipated a few quarters ago, supported by strong labour markets and certain supply-side factors (such as the delayed effects of the clearing of global bottlenecks and the definitive post-pandemic normalisation of sectors lagging behind). Coupled with a rapid decline in inflation in recent months, all this has translated into a shift in the narrative for advanced economies. The fears of stagflation which dominated 2023 have now been left behind, replaced by hopes of a soft landing in 2024 in order to definitively bring inflation under control without any further deterioration in economic activity (or even giving it a respite, through a recovery in purchasing power and the easing of financial conditions which the central banks' first rate cuts should bring). This change in narrative was well reflected in the IMF's latest world economic outlook in January, with the forecast that 2024 will bring an improvement in the euro area and a mild slowdown in the US, while the Chinese economy continues to be hampered by the ramifications of its real estate crisis and the consequent drag on consumption and investment.

No let up in the risk map. The hope of a soft landing coexists with a constellation of risks, dominated above all by the geopolitical factor. Indeed, the beginning of the year provided us with a reminder of just that. Among all the active and latent conflicts, in January tensions in the Red Sea triggered a significant rise in shipping costs (especially between Europe and Asia), while various soft indicators reflected delays in deliveries of goods. These signals cast the shadow of new bottlenecks, although for the time being it appears that the situation will have a very limited macroeconomic impact on inflation and economic activity (for example, some estimates suggest an impact of just +0.1 or +0.2 pps on core inflation in European economies).

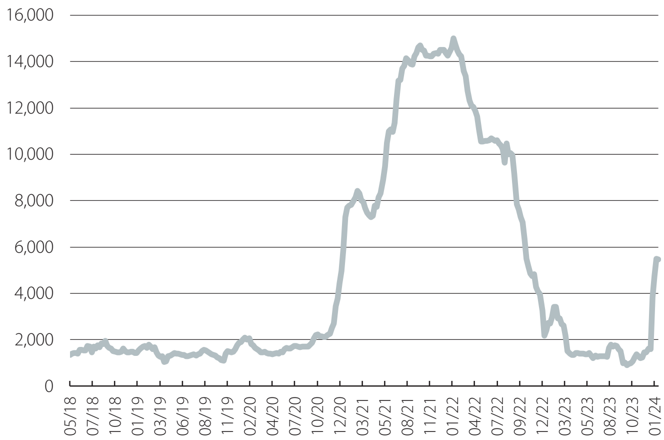
Uneven cooling of economic activity at the end of 2023... The GDP figures released in January show mixed dynamics among the major international economies at the end of 2023. On the one hand, the euro area continued to show the sluggishness of recent quarters, with stagnant GDP in Q4 (0.0% quarter-on-quarter, after –0.1% in Q3 and +0.1% in Q2). This was particularly driven by the weakness of Germany (–0.3%) and the stagnation of France (0.0%), while Italy (+0.2%) and especially Spain (+0.6%) showed a better tone. In contrast, US GDP grew a solid 0.8% quarter-on-quarter, exceeding both what the indicators had suggested and what the consensus of analysts had predicted, and with a notable boost in consumption. Thus, the US managed to record growth of 2.5% in 2023 as a whole, an impressive figure not only compared to the 1.9% recorded in 2022 but especially compared to the 0.4% predicted a year ago by the consensus of analysts. Finally, China's economy slowed to +1.0% quarter-on-quarter in Q4 (1.5% in Q3), but managed to meet the authorities' target by registering growth of 5.2% for the year as a whole.

IMF: GDP forecasts
Annual change (%)

	Estimate	Forecast		Change vs. Oct. WEO 2023	
	2023	2024	2025	2024	2025
World economy	3.1	3.1	3.2	0.2	0.0
Advanced economies	1.6	1.5	1.8	0.1	0.0
US	2.5	2.1	1.7	0.6	–0.1
Euro area	0.5	0.9	1.7	–0.3	–0.1
Germany	–0.3	0.5	1.6	–0.4	–0.4
France	0.8	1.0	1.7	–0.3	–0.1
Italy	0.7	0.7	1.1	0.0	0.1
Spain	2.4	1.5	2.1	–0.2	0.0
Emerging & developing economies	4.1	4.1	4.2	0.1	0.1
China	5.2	4.6	4.1	0.4	0.0
India	6.7	6.5	6.5	0.2	0.2
Russia	3.0	2.6	1.1	1.5	0.1
Brazil	3.1	1.7	1.9	0.2	0.0
South Africa	0.6	1	1.3	–0.8	–0.3

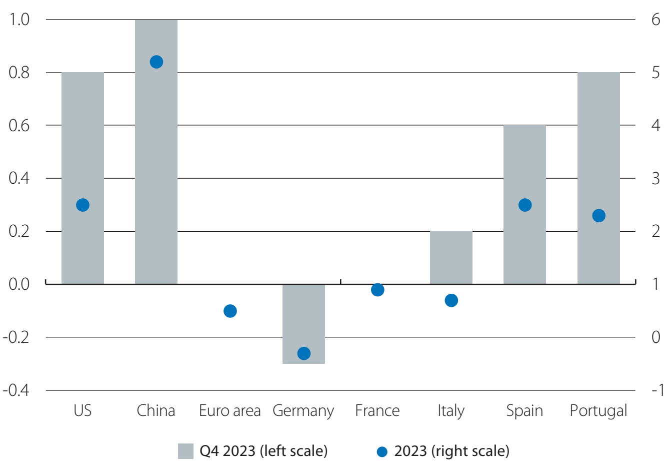
Source: *CaixaBank Research, based on data from the IMF (WEO, January 2024 update).*

Cost of shipping goods between China and Europe
(Dollars per FEU container)



Source: *CaixaBank Research, based on data from Bloomberg.*

Global: GDP
Quarter-on-quarter change (%) *Annual change (%)*



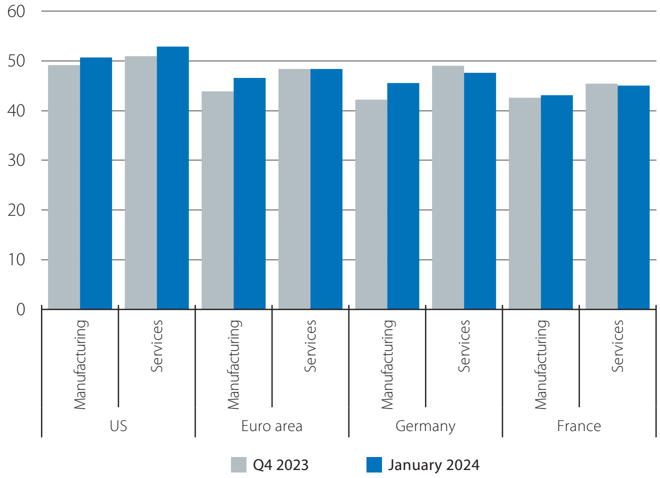
Source: *CaixaBank Research, based on data from the BEA, the National Statistics Office of China and Eurostat.*

... and 2024 kicks off with similar dynamics. The first economic activity data of the year continued to paint a picture of advanced economies moving at different speeds. The Purchasing Managers' Indices (PMIs) for the euro area remained close to but below the 50-point threshold which separates economic expansion from contraction, both in the manufacturing sector (46.6 points in January, marking the best score in the last 10 months but the 19th consecutive month in contractionary territory) and in services (48.4 points, and in contractionary territory for the sixth consecutive month). Economic sentiment also remained in the grey zone (the ESI stood at 96 points in January, slightly below the historical average). As for the labour market, despite its current strength (the unemployment rate remained at a low of 6.4% in December), some signs of a slowdown in job creation are beginning to show (the European Commission's employment expectations indicator fell to 102.5 points, still above its historical average). In contrast, on the other side of the Atlantic the US economy has remained buoyant in the opening weeks of the year, with the Atlanta and New York Federal Reserves' nowcasting models pointing to GDP growth of 0.8%-1.0% quarter-on-quarter in Q1. Moreover, the US labour market remained much stronger than expected in January, with 353,000 jobs created (and upward statistical revisions in the preceding months) and unemployment at a low of 3.7%.

The 2% inflation target comes into view, but the last mile remains. Alongside the good employment and unemployment figures, wages are showing growth of between 4% and 5% on both sides of the Atlantic, while the containment of second-round effects (driven by the interrelationship between prices, wages and profits) appears to pave the way for inflation to fall to 2% in the coming quarters. So far, the inflation figures have been moving in the right direction, driven by the end of the direct energy shock and the almost complete fading of its indirect effects. Thus, in the euro area the January data reflected headline inflation of 2.8%, with a fall of 6.3% year-on-year in energy prices and core inflation falling to 3.3% (favoured by the disinflation of non-energy industrial goods, at 2.0%, but held back by stable inflation in services at 4.0%). In the US, with a longer lag in the data, in December headline inflation according to the CPI was 3.4% year-on-year and core inflation stood at 3.9%, slowed by the still high rates in the shelter component (which responds with a lag time), while the PCE price index (the measure preferred by the Fed) stood at 2.6%.

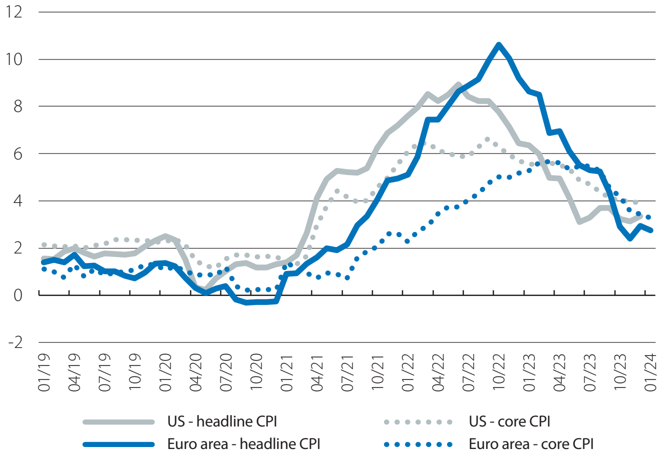
China's economic activity meets expectations but questions remain. China's GDP comfortably met the target of «around 5%» for 2023, in part thanks to statistically favourable base effects (it should be recalled that the country abandoned its zero-COVID policies just over a year ago). However, the last few months have seen a downturn in the GDP outlook for 2024 (the latest analyst consensus suggests a rate of 4.6%). Indeed, in the last month the indicators continued to offer no clear signs of improvement. In particular, the official PMI for the non-manufacturing sector rose 0.3 points in January, to 50.7, just above the 50-point threshold denoting growth, while that of the manufacturing sector remained for the fourth consecutive month at levels compatible with a contraction of activity, albeit an increasingly modest one (49.2 vs. 49.0).

Advanced economies: PMI
(Index)



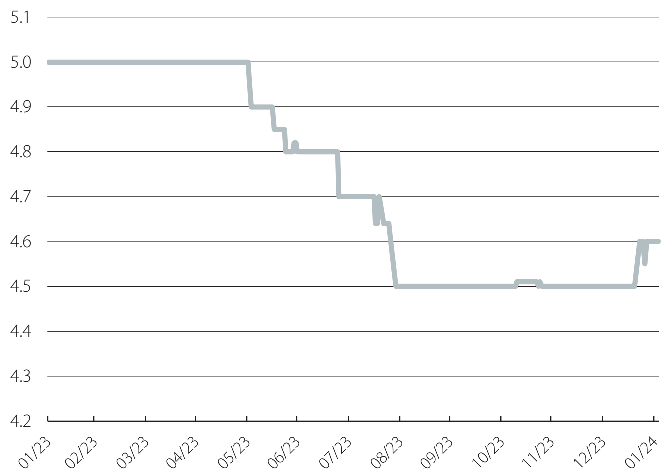
Source: *CaixaBank Research, based on data from S&P Global PMI.*

Advanced economies: CPI
Year-on-year change (%)



Note: *The core index excludes energy and all foods.*
Source: *CaixaBank Research, based on data from the Bureau of Labor Statistics and Eurostat.*

China: GDP forecast for 2024
Annual change (%)



Source: *CaixaBank Research, based on Bloomberg consensus forecasts.*