



Update on the Economy

Professor Joe Nellis
Deputy Dean & Professor of Global Economy

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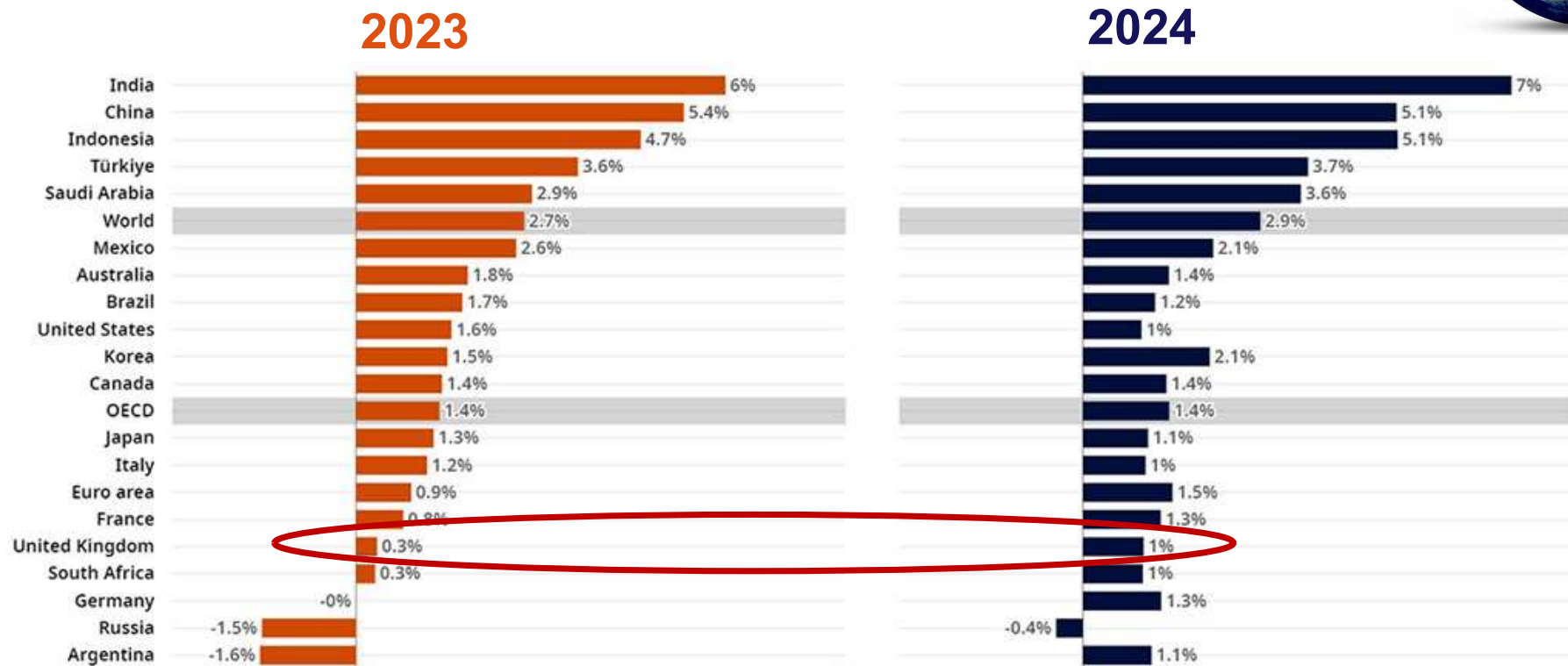
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Global Economy Update



- Global growth fell sharply in 2022 after bounce-back in 2021
- And the slowdown has continued in 2023
 - Despite strong job markets in most countries
- Global growth of 2.7% in 2023 and 2.9% in 2024
- OECD growth is expected to fall to 1.4% in 2023 and 2024
- India and China reporting strongest growth
- Around 90% of Advanced Economies are expected to see growth decline
- Higher borrowing costs have impacted growth...
 - And are expected to continue in the fight to reduce inflation

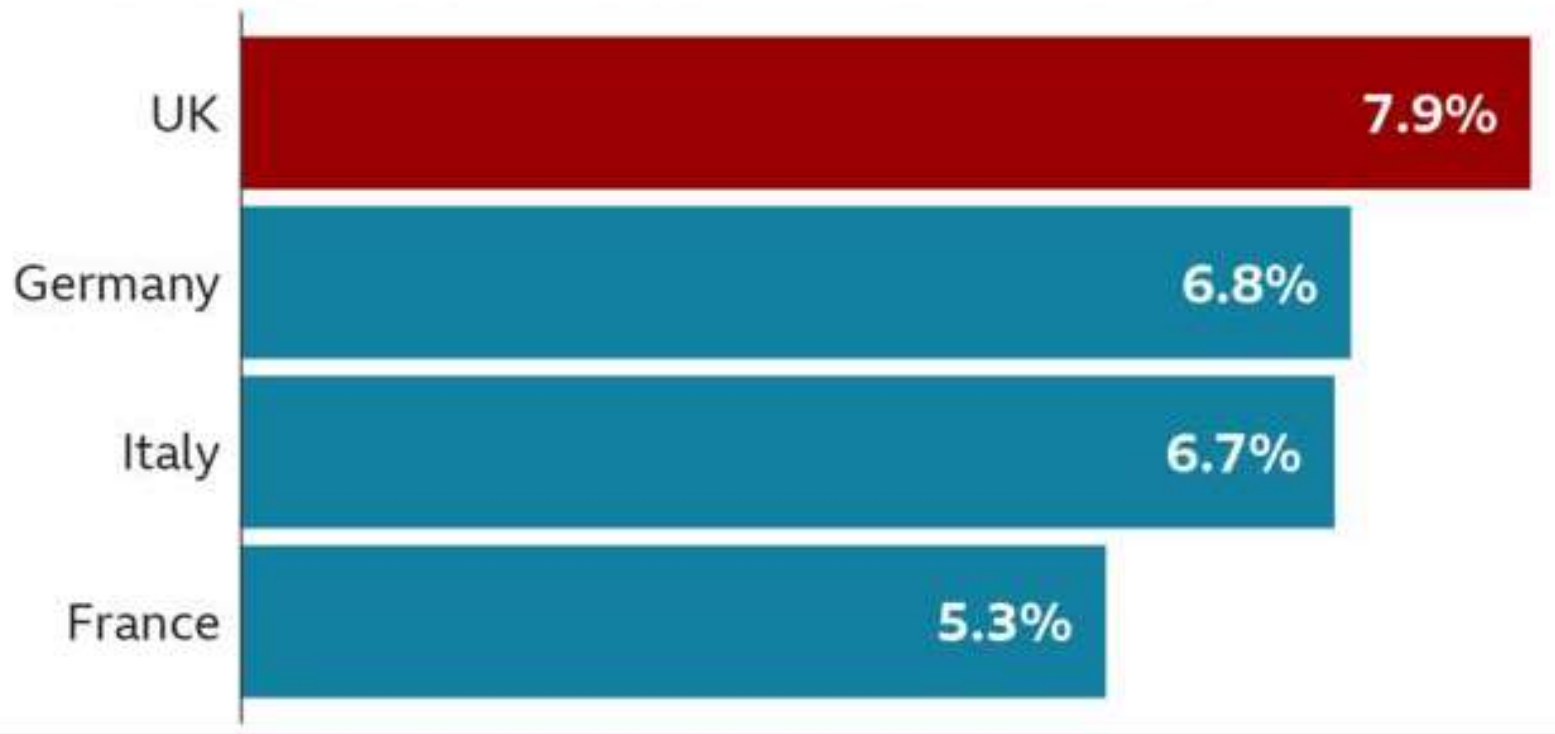
Global Growth Projections



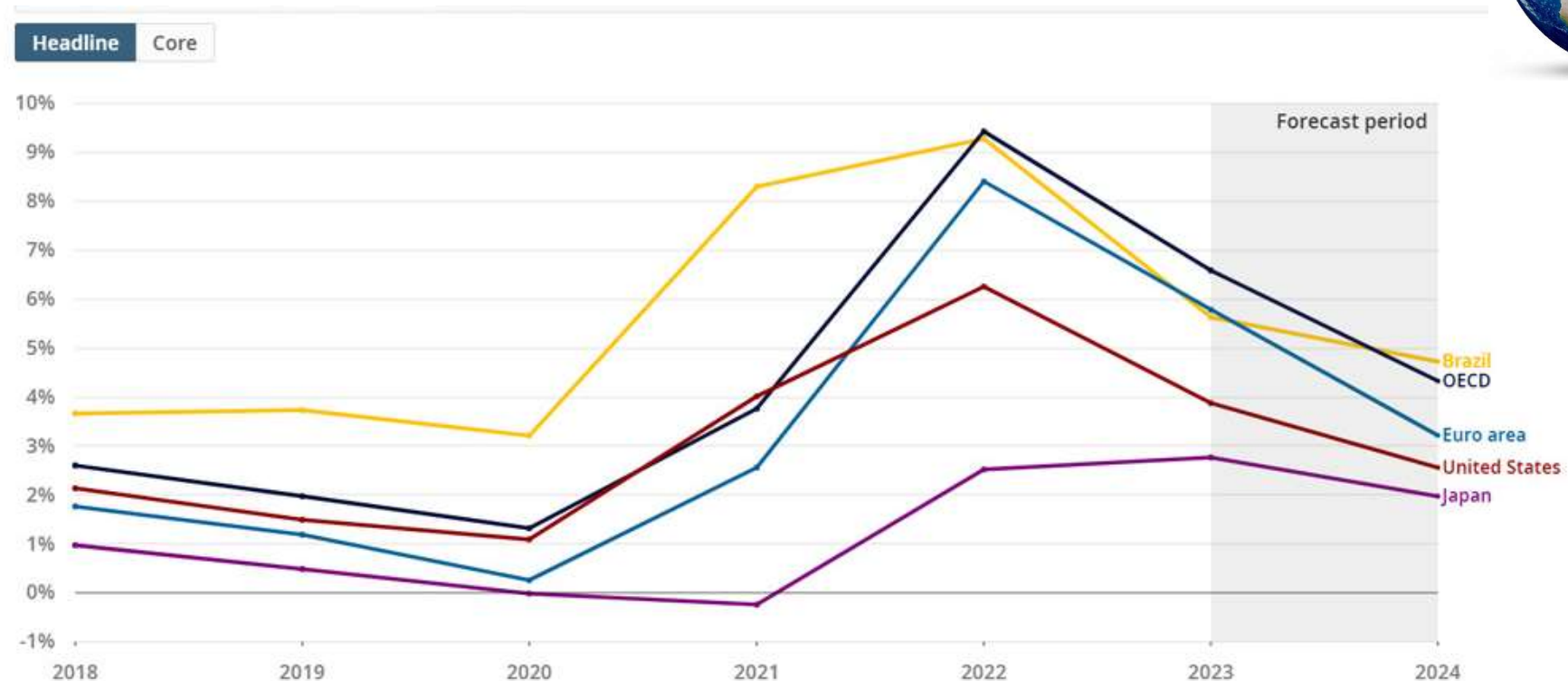
Inflation in Advanced Economies



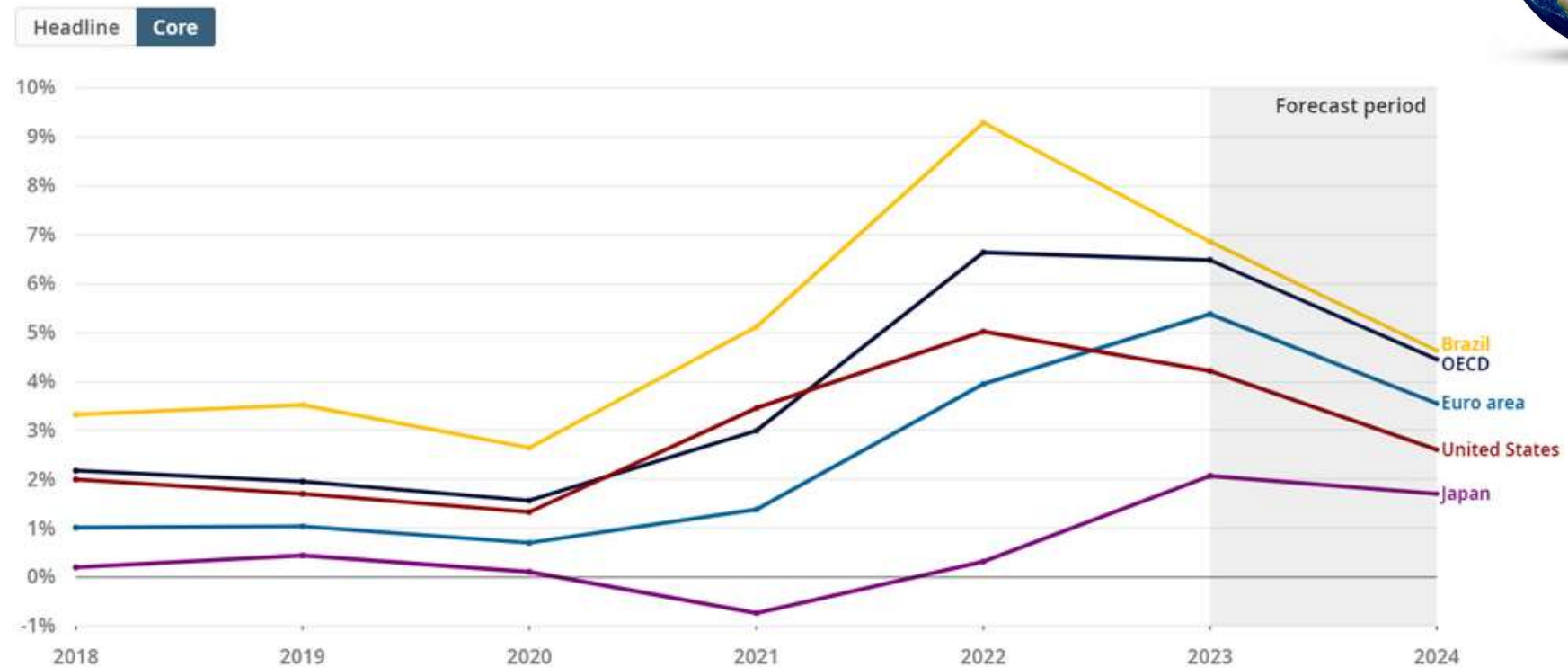
Harmonised Index of Consumer Prices in June 2023



Global Headline Inflation Falling

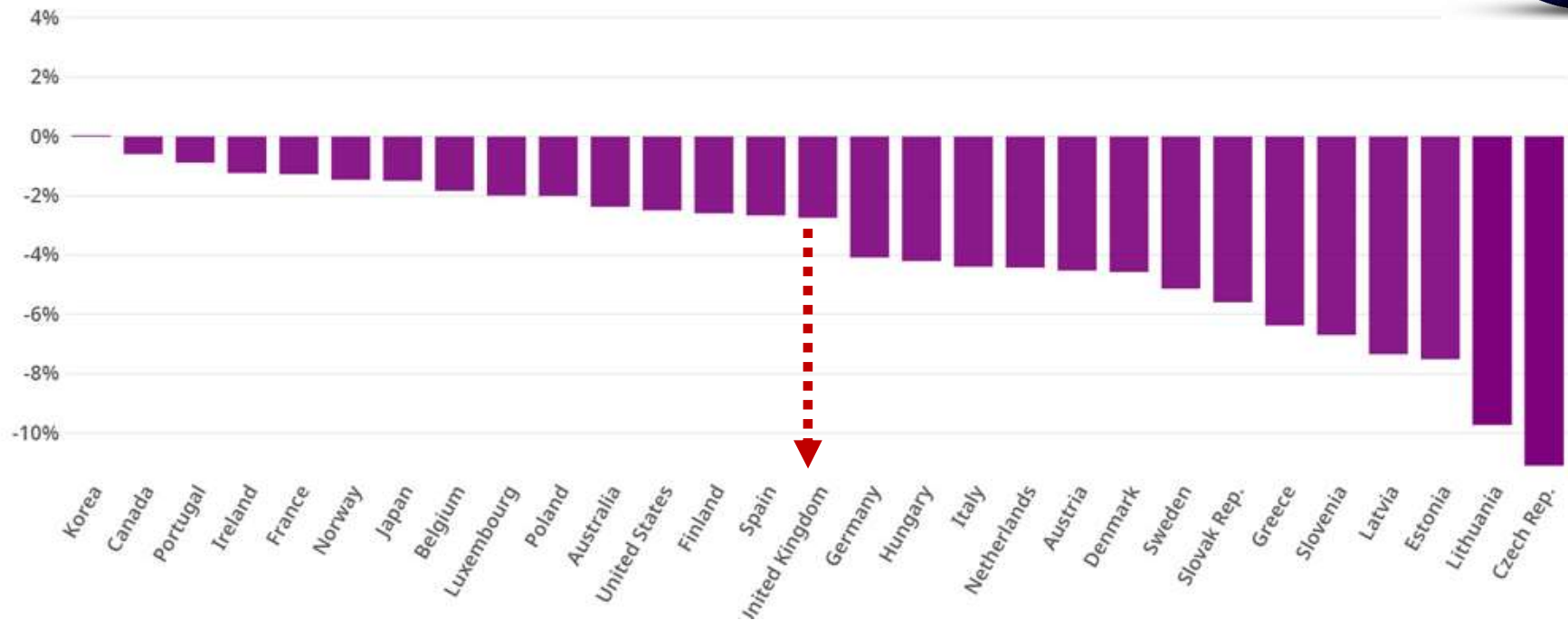


But Core Inflation Remains Persistent



Real Wages Have Fallen Globally

(%, Q4 2022 vs Q4 2021)

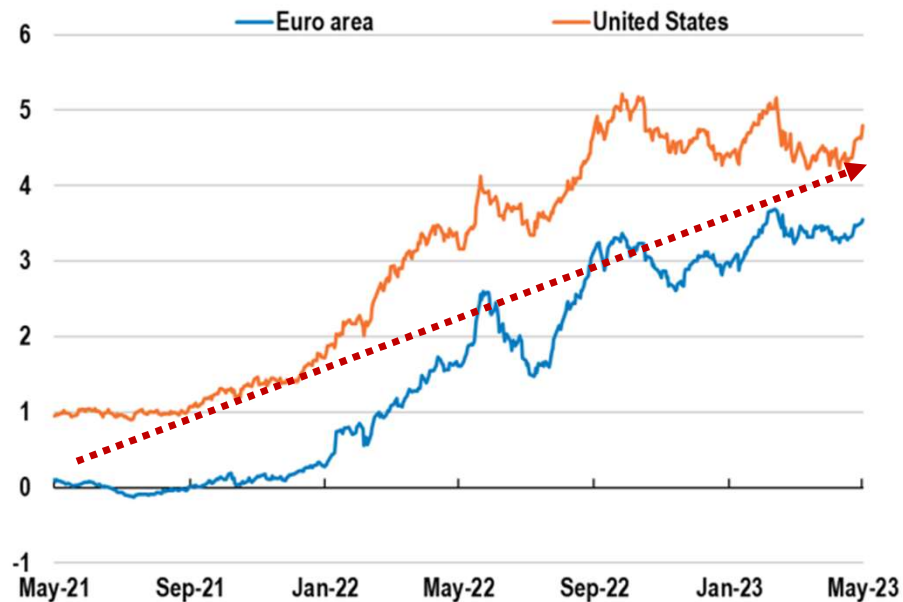


Impact of Global Monetary Policy Tightening



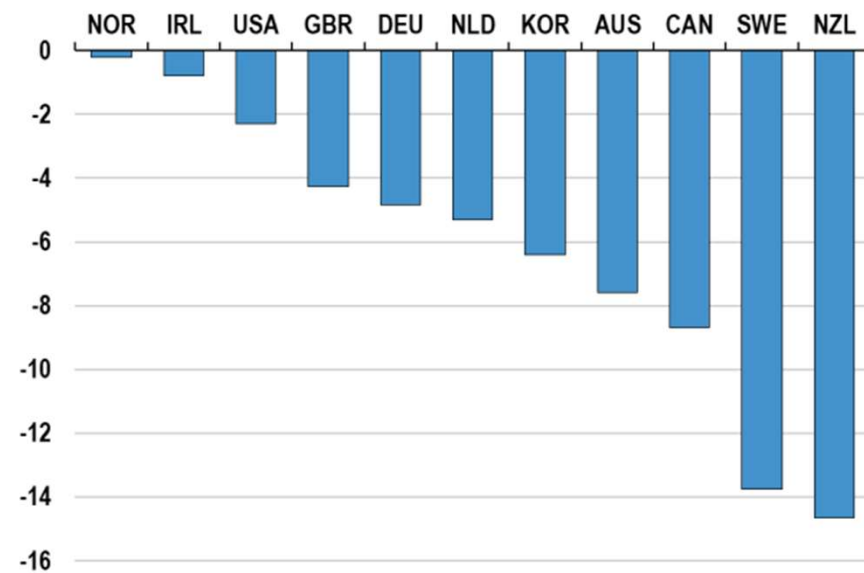
Corporate bond yields are increasing

% , based on an index of corporate bonds with high credit ratings



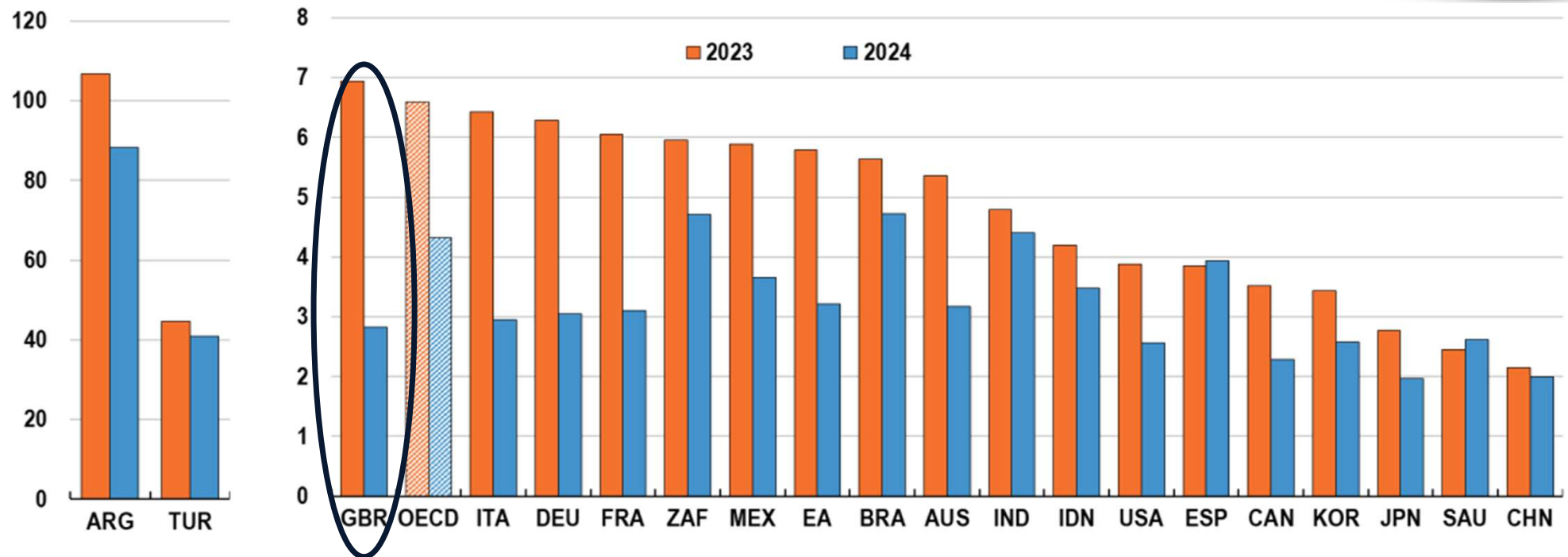
House price declines

% change in nominal house prices since most recent monthly peak



Global Inflation Projections

(G20, headline inflation, %)

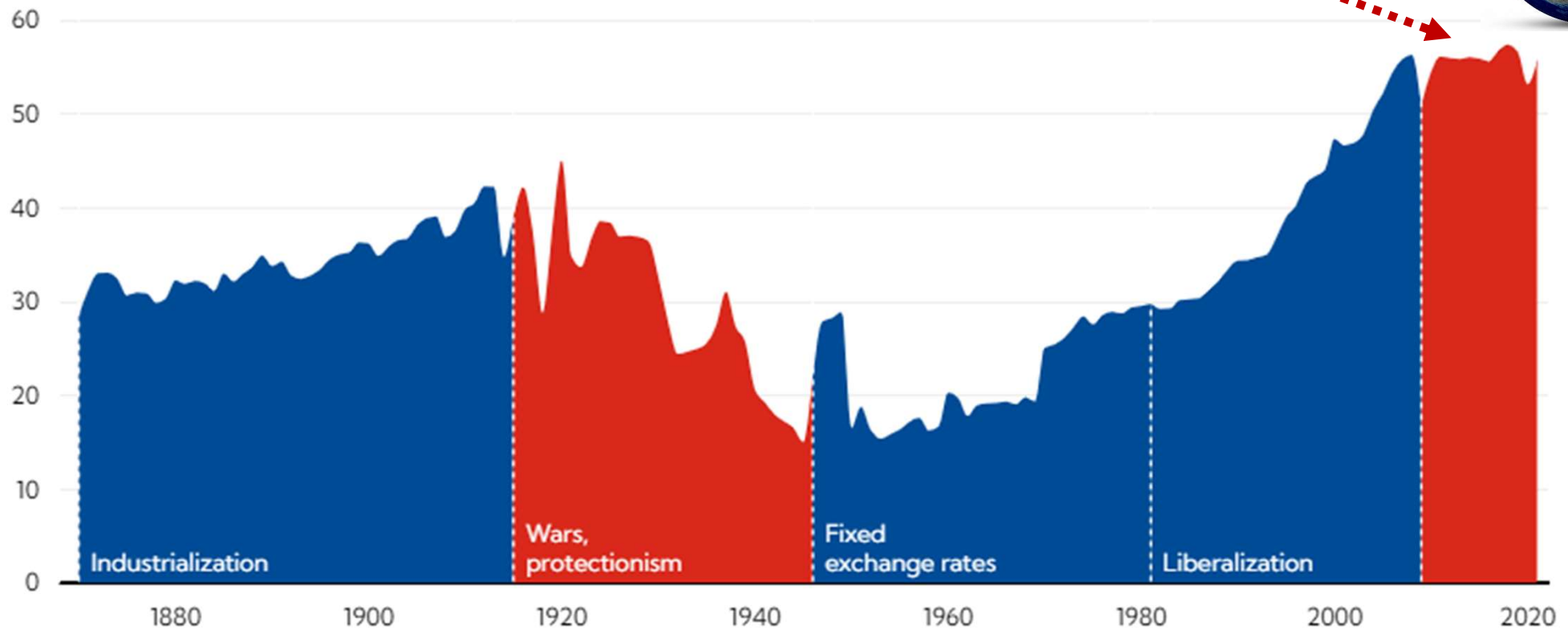


Global Economy - Longer Term Outlook



- Slow global growth over the next 5 years.
 - **Slowest pace since 1990.**
- The path ahead is 'rough and foggy' (IMF, April 2023).
- More help is especially needed for low-income countries.
 - Wave of requests for help or debt restructuring expected to assist with:
 - **Continued shocks from Covid-19 crisis**
 - **Impact of Ukraine war**
 - **Soaring cost of living crises**
- Cooperation between countries becoming more difficult....

Is Globalization in Reverse?



Source: PIIE, Jorda-Schularick-Taylor Macrohistory Database, Penn World Data (10.0), World Bank, and IMF staff calculations

A Short History of Globalization!



1. The Industrialization Era

- Global trade dominated by Argentina, Canada, Europe and the USA.
- Facilitated by the Gold Standard.
- Driven by transportation advances
 - Lowered trade costs
 - Boosted trade volumes

2. The Interwar Era

- Dramatic Reversal of globalization and the rise of protectionism.
- Trade became regionalized.
- Breakdown of the Gold Standard into currency blocs.

A Short History of Globalization!



3. The Bretton Woods Era

- Emergence of the USA as the dominant superpower.
- Dollar pegged to gold.
- Trade liberalization spurred rapid expansion in Europe, Japan and developing economies.
- Expansionary US fiscal & monetary policy made the system unsustainable.
- Gold-dollar convertibility ended in early 1970s.
- Many countries switched to floating exchange rates.

A Short History of Globalization!



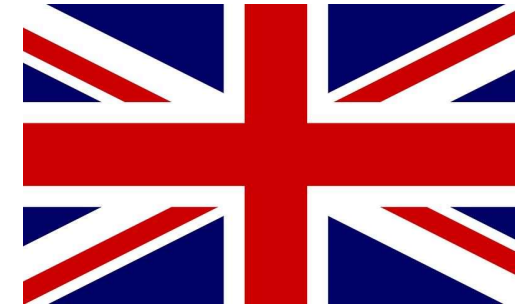
4. The Liberalization Era

- Gradual removal of trade barriers in China and other large emerging markets.
- Unprecedented international economic cooperation.
- Rapid expansion of global trade & birth of the WTO in 1995.
- Cross-border capital flows surged.
- Global economic and financial integration.

5. The 'Slowbalization' Era

- Prolonged slowdown in pace of trade reform post GFC.
- Weakening political support for open trade.
- Rising political tensions.
- Offshoring v Onshoring?

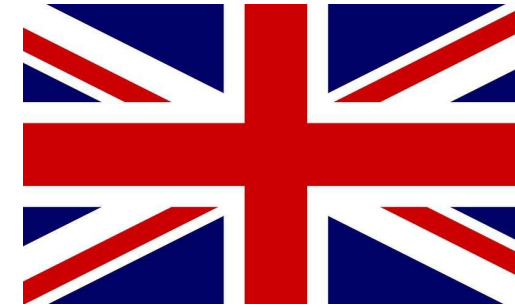
The 'Dream' Economy !



- Long-term GDP growth of 2.5% p.a.
- Inflation steady at 2% p.a.
- Wages rising at 4.5% p.a.
- Interest rate at 4 - 5%
- Government budget deficit 1- 3% of GDP
- Unemployment stable at around 4% p.a.
- Strong and sustained growth in investment spending
- Robust business and consumer confidence
- Trade deficit between 1 - 2% of GDP & stable exchange rate

UK Economy Update

– The BAD NEWS

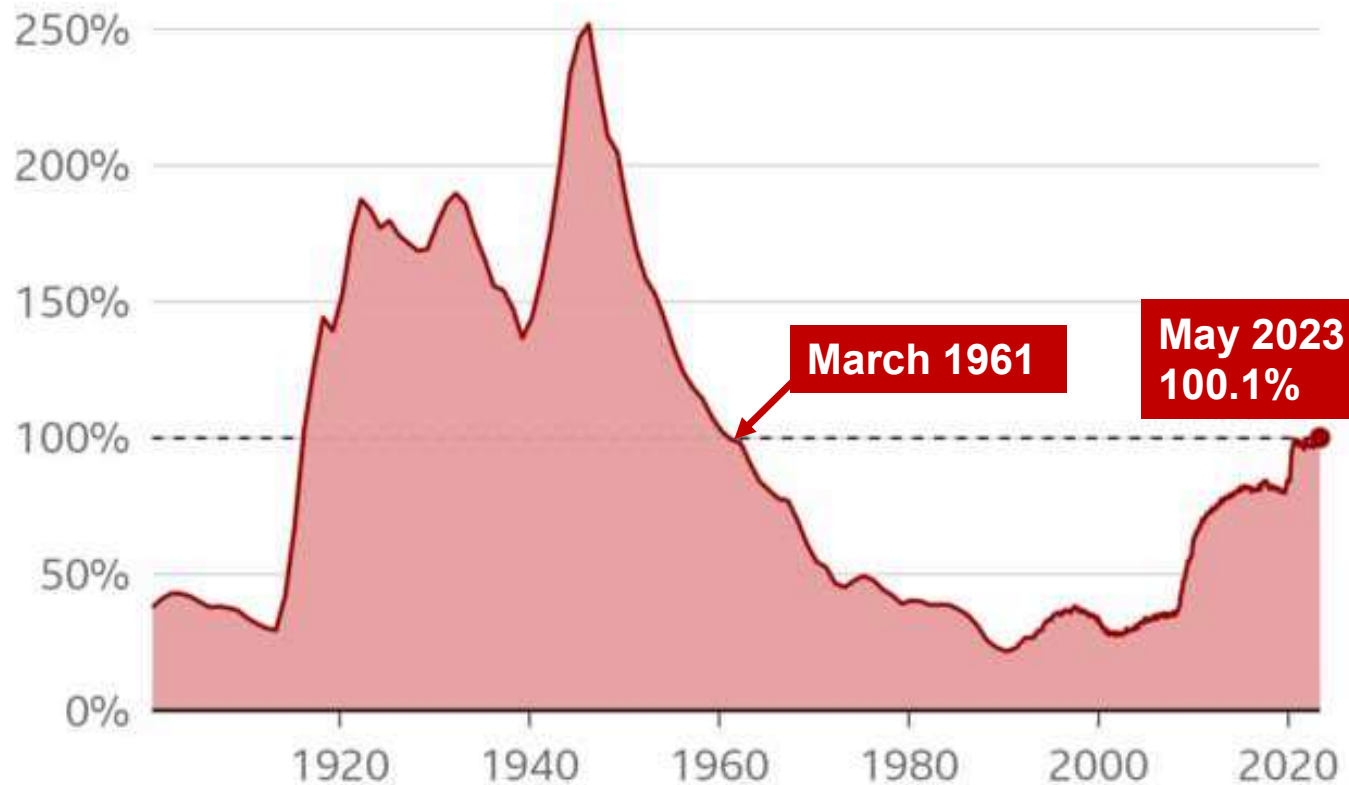


- A “growth recession” is inevitable
 - = Slower trend growth rate
- Labour shortages in many sectors
- High job vacancies - but falling
- Real wage stagnation for many
- Unemployment rising, slowly
- Low productivity & investment
 - with wide regional disparities
- Inflation remains well above target
- Stubbornly high food price inflation at over 17% (June)
- Core inflation remains high at 6.9%
- Rising national debt (100%+ of GDP) & higher bond yields
- Rising interest rates
- Cost-of-living crisis for millions
- Fragile confidence

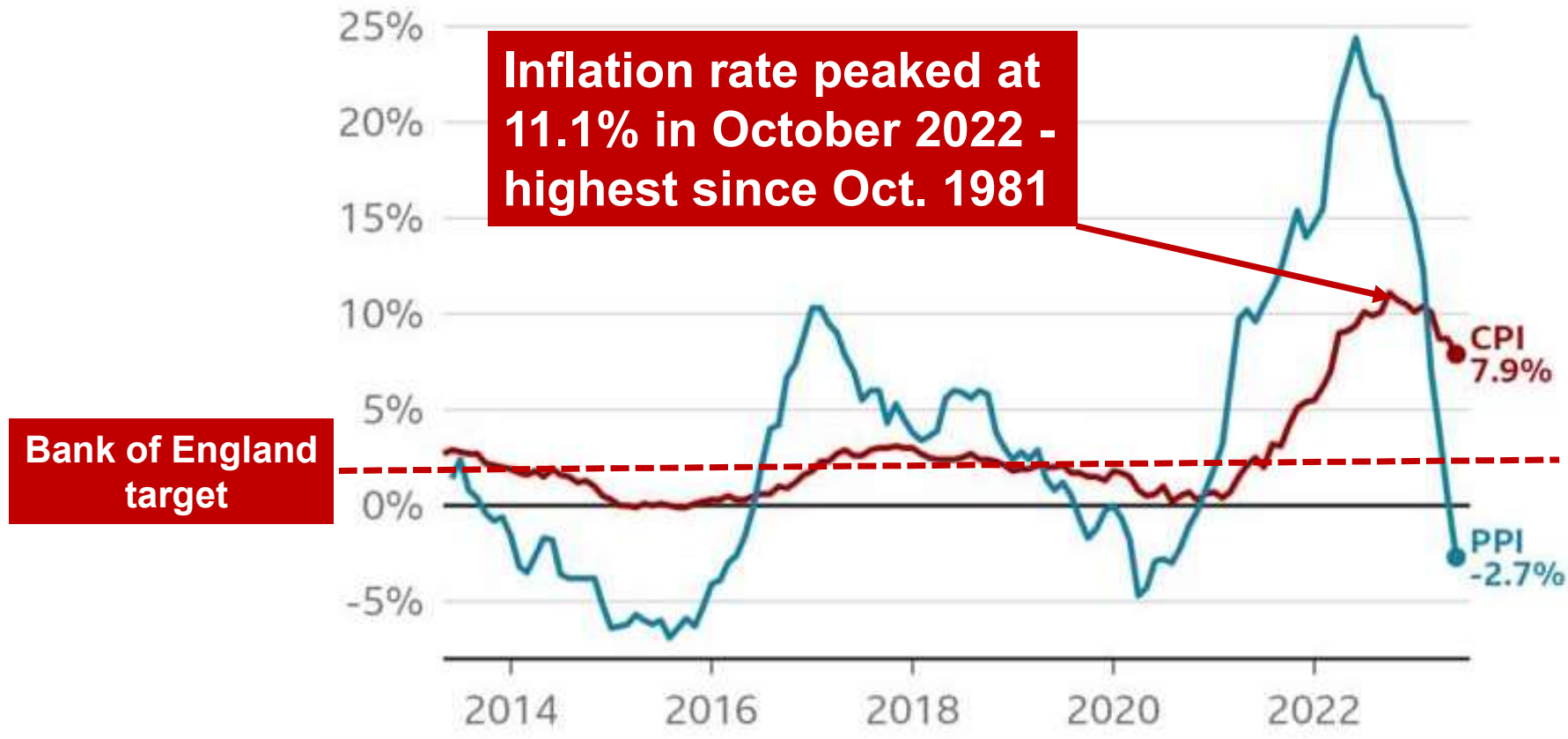
Challenging Times Ahead!

UK Government Finances

Public Sector Net Debt as % of GDP*



UK Inflation (CPI % PPI, June 2023)

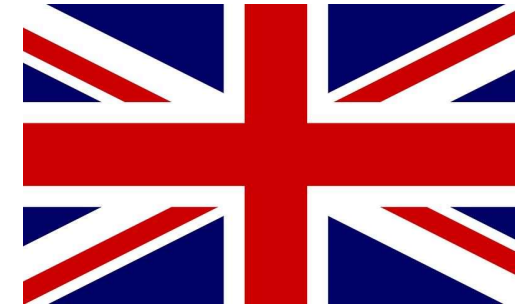


UK House Price Inflation (year-on-year % change)



The UK Economy Update

– The GOOD NEWS



- Economic outlook has improved slightly
- A full-blown recession may be avoided
- Headline inflation has started to fall
- Energy prices starting to fall
- Food price inflation falling (slowly)
- Interest rates will peak – soon!
- Bond yields have peaked (hopefully)
- Unemployment is exceptionally low
- Gap closing between wage and price inflation
- Living standards will start to improve for some
- A banking crisis is not expected
- The greatest crisis since WW2 is behind us!

A Resilient Economy!



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