Global economic outlook: thriving in a new normal

Strategic insights for business leaders

Week of July 22, 2024

Parthenon

Building a better working world

Agenda

- **Thriving in a new normal**
- Global executive briefing
- Six global themes
- Exploring risks and opportunities
- Country and regional outlooks
- Meet the team and explore our resources

To succeed, business leaders must adapt to the realities of a "new normal," where supply conditions, talent, inflation, policy and geopolitical considerations play a greater role

1. **New normal for economic activity:** While demand drivers had dictated the pace of growth from the 1990s through the 2010s, a new normal has emerged where supply conditions will play an increasingly important role driving economic activity. In a "supply-fragile" world increasingly influenced by political and geopolitical factors, economic desynchronization will likely be a key feature of the outlook. Regions and sectors that previously shared common business cycles may suddenly be exposed to diverging forces, forcing business leaders to consider the broader ecosystem in which they evolve.
2. **New normal for talent:** The value (and cost) of talent has increased post-pandemic, with business leaders having struggled to hire, train and retain during a period of elevated churn and tight labor market conditions. Given the investment in labor, we foresee ongoing labor preservation efforts, with business leaders increasingly focused on how to manage costs via greater process efficiency and stronger productivity growth via the adoption of new technologies like GenAI as well as wage growth compression.
3. **New normal for inflation:** While the global disinflation process will continue into 2025, structural factors will likely lead to inflation being a few tenths higher than central banks' target over the next five years. The five D's of structurally higher inflation are demographics, debt, de-risking, decarbonization and digitalization. Aging populations requiring more private and public spending, elevated levels of public spending for domestic and industrial policy, a growing focus on de-risking and building resilience in a geopolitically fragmented world, the greening of the global economy via greater outlays to reduce carbon emissions, and capital investment to develop generative AI (GenAI) will likely push inflation structurally higher.
4. **New normal for central banks:** Easing inflation and slower economic momentum will push central banks to ease monetary policy gradually over the next couple of years. Still, given lingering fears of cyclical inflation resurgence and the reality of structural upside inflation risks, central bankers will favor a careful and measured easing of their policy stance in the coming years. Barring a pronounced economic slowdown, we anticipate policy rates will converge toward levels higher than at any time since before the Global Financial Crisis.
5. **New normal for fiscal policy**: Elevated levels of debt and pro-cyclical budget deficits are concerning, as they will lead to increasing government funding costs, orient otherwise productive government investment away from social programs, defense, climate and digitalization and toward interest payments on the debt and increase financial stability risks. We anticipate the new normal for fiscal policy will have to balance the populism-driven desires for greater social spending along with governments' industrial policy aspirations against markets pressures pushing for fiscal consolidation.
6. **New normal for geopolitics**: Geoeconomic fragmentation has grown since the onset of the US-China trade dispute in 2018. With cross-border trade and investment flows slowing, there is a growing risk of rising cost pressures, reduced productivity and slower efficiency gains. Industrial policy is likely to induce reduced competition in certain sectors while preventing gains from specialization and global economies of scale. Meanwhile, the growing influence of geopolitical swing states and smaller players seeking to challenge the status quo will likely create a more complex geopolitical multiverse.

Source: EY analysis

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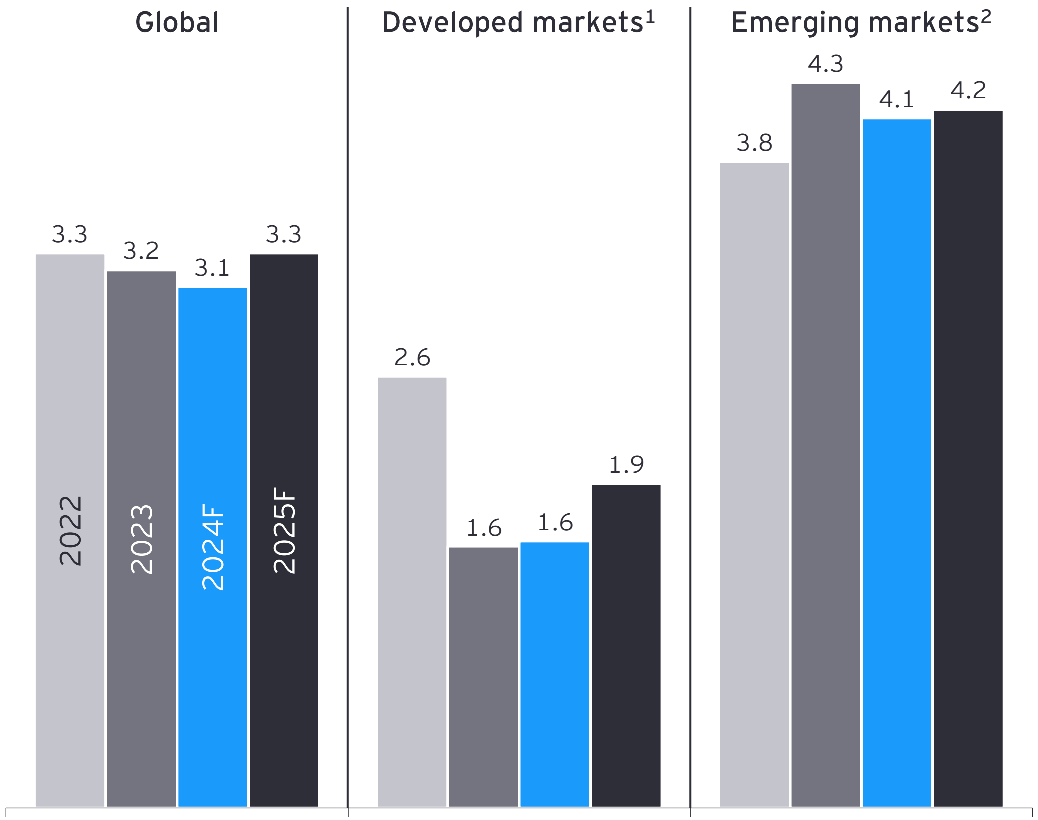
The global economy is expected to grow at a moderate pace over the coming years, with desynchronized activity and monetary policy cycles across economies

Year over year (y/y) percentage change in real GDP 2022-25F

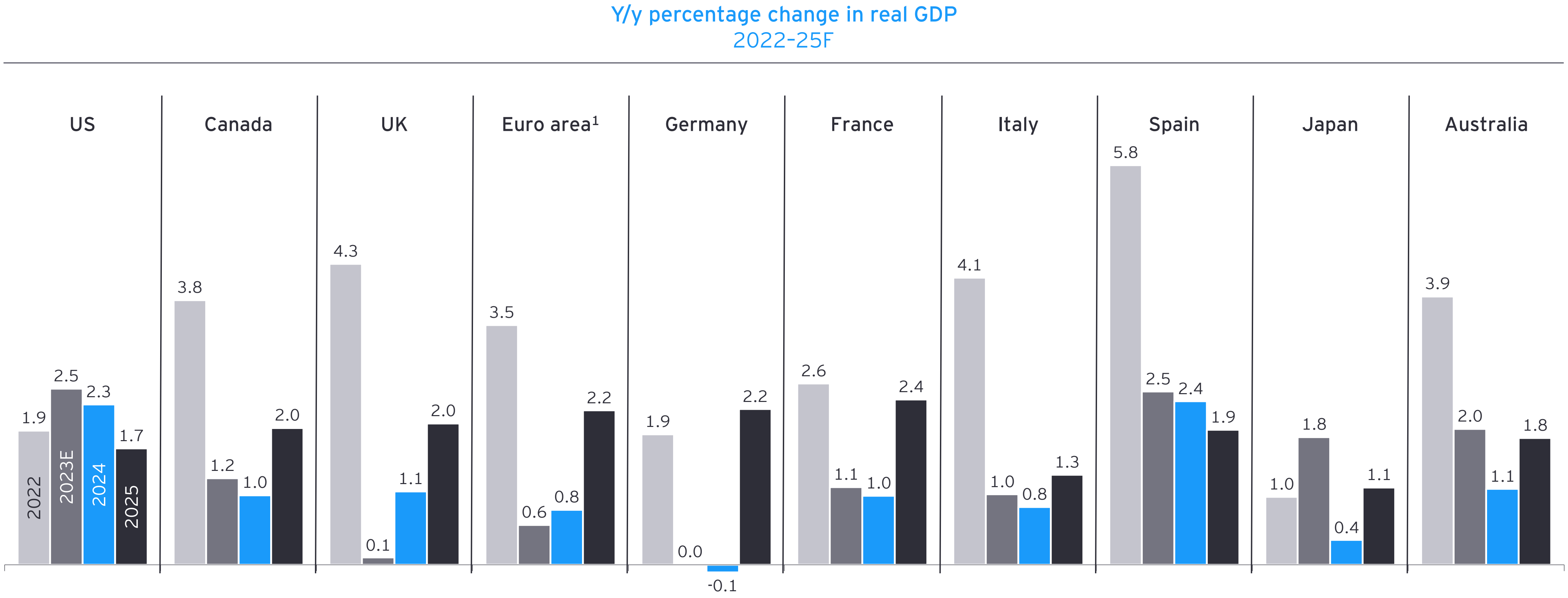


- The global economy has continued to display remarkable resilience in the face of a historic rise in interest rates. We expect global GDP growth will come in at a moderate 3.1% in 2024 and accelerate modestly to 3.3% in 2025, largely mirroring the 3.2% growth rate from 2023.
- We anticipate GDP growth across advanced economies to remain unchanged at 1.6% in 2024 relative to 2023 and accelerate towards 1.9% in 2025. Simultaneously, we expect a slight deceleration among emerging markets from 4.3% in 2023 to 4.1% in 2024 and 4.2% in 2025.
- The key growth drivers in advanced economies will be gradually looser monetary policy and rebounding inflation-adjusted income growth, especially in Europe and the UK. Across emerging markets, we anticipate the structural slowdown in mainland China to offset robust momentum in India and a slight growth acceleration across the LatAm and MENA regions into 2025.
- We expect global inflation will cool from an average pace of 6.2% in 2023 to 4.6% in 2024 and 3.5% in 2025. Inflation is expected to decline faster in advanced economies and approach central bank targets in 2025 while core inflation persistence remains a key feature of the outlook across emerging markets. Reduced labor shortages, lower energy prices, less significant supply constraints and moderating demand growth are expected to keep inflation in check, even if risks are tilted to the upside.
- Central banks are expected to ease monetary policy gradually as disinflation continues apace. Still, with risks to the inflation outlook tilted to the upside, policymakers are likely to take the "escalator on the way down," easing policy in a measured way.
- Following a high-stakes election year, we had initially anticipated a tightening of fiscal policy in many economies aimed at managing high government debt with lower government spending and potentially higher taxes. The reality may be different, with less fiscal tightening in the wake of the French and UK elections, and in Mexico where President-elect Sheinbaum could take advantage of her large electoral win to favor more fiscal largesse. In the US, averting a fiscal cliff at the end of 2025 could mean greater fiscal spending.

1. Developed markets according to definition of advanced economies from the International Monetary Fund (IMF).
2. Emerging markets is the rest of the world.

Source: EY analysis

Desynchronization will be the key theme across advanced economies, with underperforming economies accelerating and outperforming economies gently cooling



1. Euro area includes 20 countries.

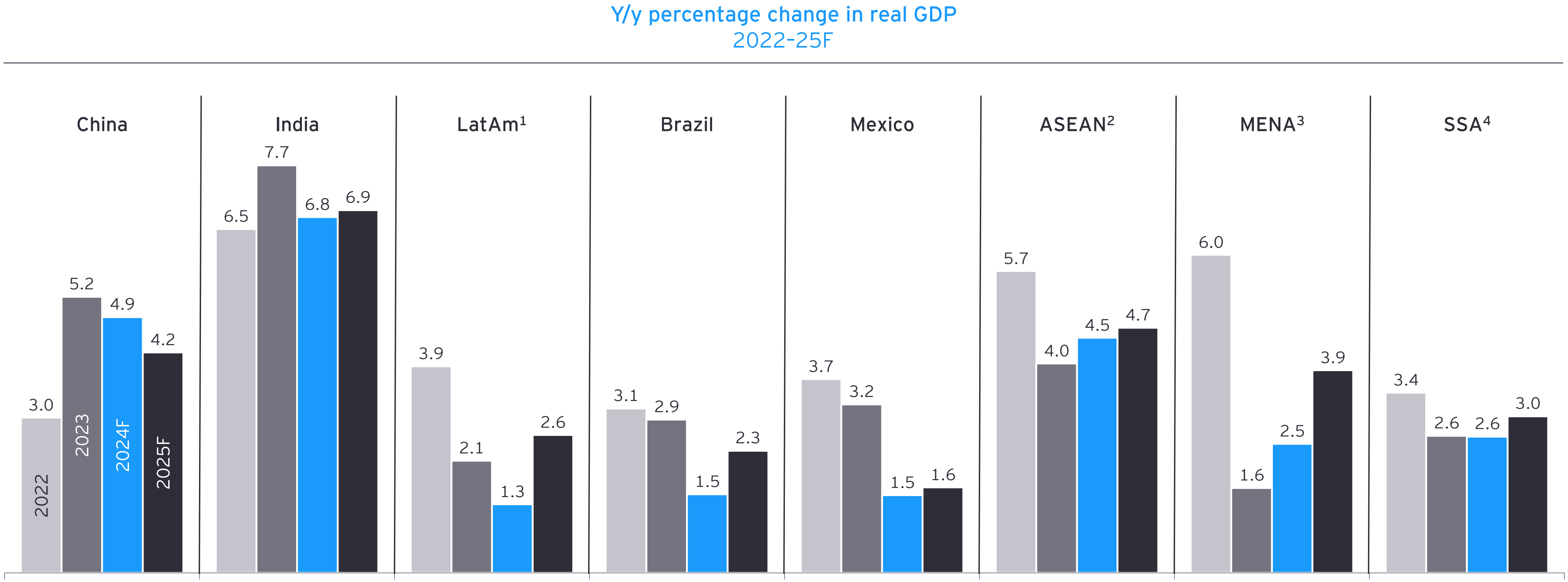
Source: EY analysis

Cooler inflation and easing monetary policy should support a growth rebound in Europe, the UK and Canada while the US economy downshifts to a more moderate pace

- **US:** We foresee a bifurcated consumer spending outlook where modest real disposable income growth forces low- and median-income households to dial back on their outlays amidst persistently elevated prices and more expensive credit. Election uncertainty will likely curb capex even as easing financial conditions remain supportive of high-return investment opportunities and deal volumes. Overall, we anticipate real GDP growth will moderate below 2% in the second half of the year on slower private sector activity even as the drag from inventories and international trade dissipate. We foresee average GDP growth around 2.3% in 2024 and 1.7% in 2025. We expect two Fed rate cuts of 25 basis points (bps) in 2024 and 125bps of easing in 2025.
- **Canada:** The Canadian economy remains sluggish, with real GDP growth at only 0.5% y/y in Q1 2024. While elevated costs and interest rates are expected to limit the upside to growth in the coming months, we foresee gradually easing inflation and a gentle easing of monetary policy by the Bank of Canada (BoC) leading to average growth of 1% in 2024 and 2.0% in 2025.
- **Euro area:** The eurozone economy is no longer in stagnation, though growth was modest in the first half of 2024. Cross-country divergence in performance persisted, with Germany lagging Southern Europe and most midsize economies beginning to recover. Inflation has stabilized slightly above the 2% target due to sticky price pressures in services. This did not prevent the European Central Bank (ECB) from initiating the easing cycle in June, with two more rate cuts expected this year. We continue to foresee that rebounding real incomes, a gradual recovery in world trade and monetary policy easing will translate into a more meaningful growth uplift from the second half of the year onwards. Thus, while real GDP will advance by only 0.8% in 2024, growth will accelerate to 2.2% in 2025.
- **UK:** Stronger economic momentum in the first half of this year has led us to revise our UK real GDP growth forecast by 0.4 percentage points (ppt) to 1.1% in 2024. We still expect GDP growth of 2% in 2025 and 2026. The boost to household spending power from lower inflation will be the main driver of stronger activity over the next few years. With Consumer Price Index (CPI) inflation back at the 2% target for the first time in nearly three years, we anticipate the Bank of England (BoE) cutting rates by 50bps in 2024 and 100bps in 2025.
- **Japan:** We anticipate real GDP growth will average 0.8% in 2024 and 0.9% in 2025 supported by rebounding automotive output and tourism activity along with moderate consumer spending growth. A gradual improvement in real incomes stemming from higher wages and lower inflation should support a measured rebound in spending into 2025, but modest global demand for Japanese exports will limit the upside to GDP growth. We anticipate the Bank of Japan (BoJ) will start reducing Japanese government bond (JGB) purchases in August to ensure long-term rates are more market oriented. The BoJ is also likely to consider a policy rate hike from the current 0.0%–0.1% range toward year-end as yen weakness persists.
- **Australia:** The Australian economy has continued to slow as monetary conditions remain restrictive. Real GDP grew just 0.1% quarter over quarter (q/q) and 1.1% y/y in Q1 2024, as households were constrained by higher mortgage repayments, taxes and inflation. After a modest 1.6% advance in 2023, real GDP will likely only increase by 1.1% in 2024 before accelerating to 1.8% in 2025. The reacceleration in CPI inflation supports our view that interest rates will need to remain at current levels at least until early 2025.

Source: EY analysis

Emerging economies are likely to experience diverging trends, with slower growth in China but mildly accelerating growth in Asia, India, Latin America and the Middle East



1. LatAm (Latin America) includes Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Mexico, Panama, Paraguay, Peru and Uruguay.
2. ASEAN (Association of Southeast Asian Nations) includes Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam.
3. MENA (Middle East, North Africa) includes Algeria, Bahrain, Egypt, Iraq, Israel, Kuwait, Morocco, Oman, Qatar, Saudi Arabia and the UAE.
4. SSA (Sub-Saharan Africa) includes Angola, Botswana, Ghana, Kenya, Mauritius, Mozambique, Namibia, Nigeria, Seychelles, South Africa, Tanzania, Uganda, Zambia and Zimbabwe.

Source: EY analysis

A structural slowdown in mainland China will partially offset robust momentum in India and growth acceleration across the Latin American and MENA regions into 2025

- **China:** Mainland China continues to face a combination of structural and cyclical headwinds that will likely limit the upside to GDP growth for years to come. Following a fiscally stimulated 5.2% real GDP advance in 2023, the economy will likely grow around 4.9% in 2024, with a further moderation to 4.2% in 2025. Authorities are expected to adopt targeted fiscal policy support measures and slightly increase the budget deficit beyond the usual 3% of GDP in 2024, with a focus on supporting the property sector and households. The People's Bank of China is likely to allow for some currency depreciation to prevent an excessive tightening of domestic financial conditions.
- **India:** Real GDP growth of 8.2% y/y in FY24 (April 2023 to March 2024) turned out to be much higher than expected, supported by strong public investment and statistical factors (including a lower deflator and higher net indirect taxes). On the expenditure side, strong exports offset slower private consumption growth and business investment momentum. From the production side, growth moderated across all sectors except agriculture. The Reserve Bank of India (RBI) has maintained the repo rate at 6.5% and its "commitment to a durable alignment of headline inflation with the target" of 4% means any policy easing cycle will be measured and shallow.
- **Latin America:** Economic growth is expected to remain subdued across the LatAm region in 2024, with Brazil and Mexico growing at below-trend pace and Argentina experiencing a deep recession. With a notable exception of Argentina, inflation has subsided, though local food price shocks and hikes in regulatory prices will temporarily amplify price pressures in some countries. Coupled with market volatility and political instability, this is likely to sway central banks to pause or slow down the pace of ongoing monetary policy easing.
- **ASEAN:** We expect real GDP growth across almost all ASEAN economies to accelerate in 2025, resulting in average GDP growth increasing from 4.5% in 2024 to 4.7% in 2025. The growth will be mainly driven by robust domestic demand, a tight labor market, a recovery in tourism, stable prices and a rebound in merchandise exports.
- **Middle East and Northern Africa:** Real GDP growth in the MENA region should accelerate from 2.5% in 2024 to 3.9% in 2025 as OPEC+ looks to unwind oil supply cuts and non-oil GDP growth in the Gulf Cooperation Council (GCC) region accelerates.
- **Sub-Saharan Africa:** The SSA outlook is promising, notwithstanding pockets of stubborn inflation, exchange rate pressures and a push for fiscal consolidation amid generally elevated debt levels. Aggregate real GDP growth across the region is forecast to reach 2.6% in 2024 and 3.0% in 2025. Abstracting from Nigeria, where inflation is set to spike in the wake of sudden FX depreciation, inflation is expected to slow from 10% in 2023 to 5%–7% in the coming years. As a result, monetary policy is expected to ease gradually.

Source: EY analysis

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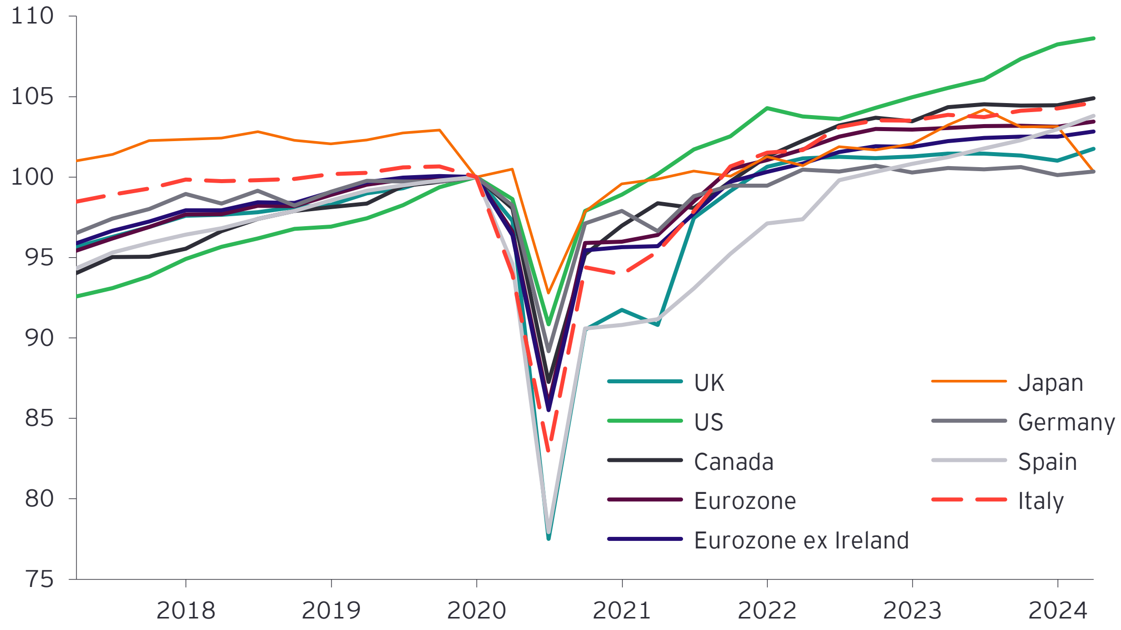
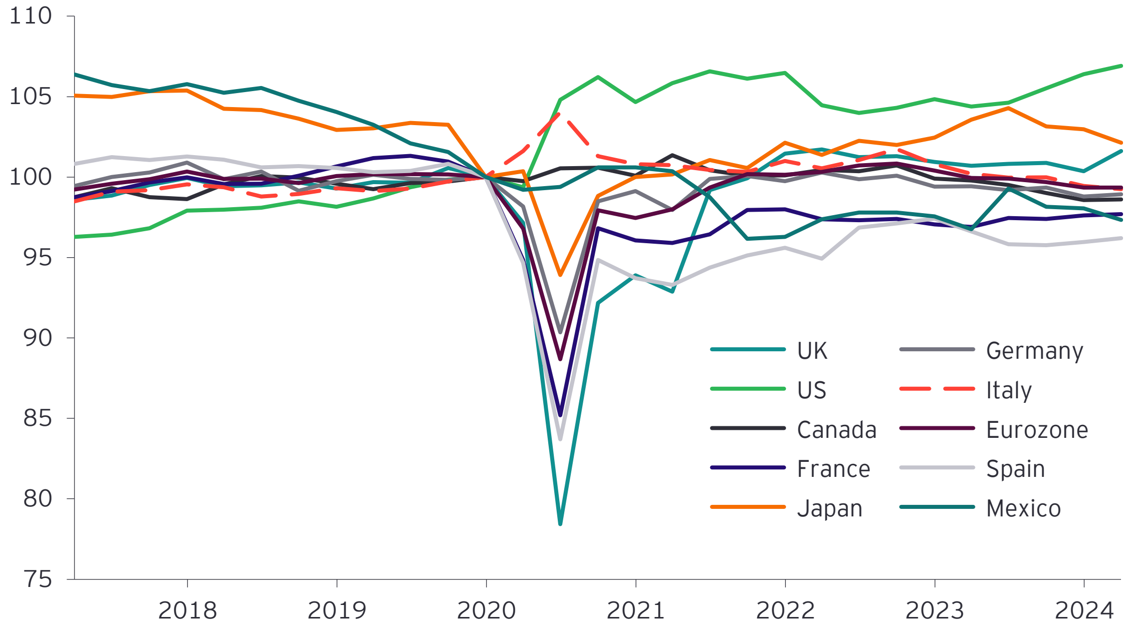
US economic outperformance is driven by labor management, long-term training and innovative technologies to improve labor productivity and efficiency

Real GDP
2019 Q4 = 100



Productivity across economies
Output per employed person (2019 Q4 = 100)

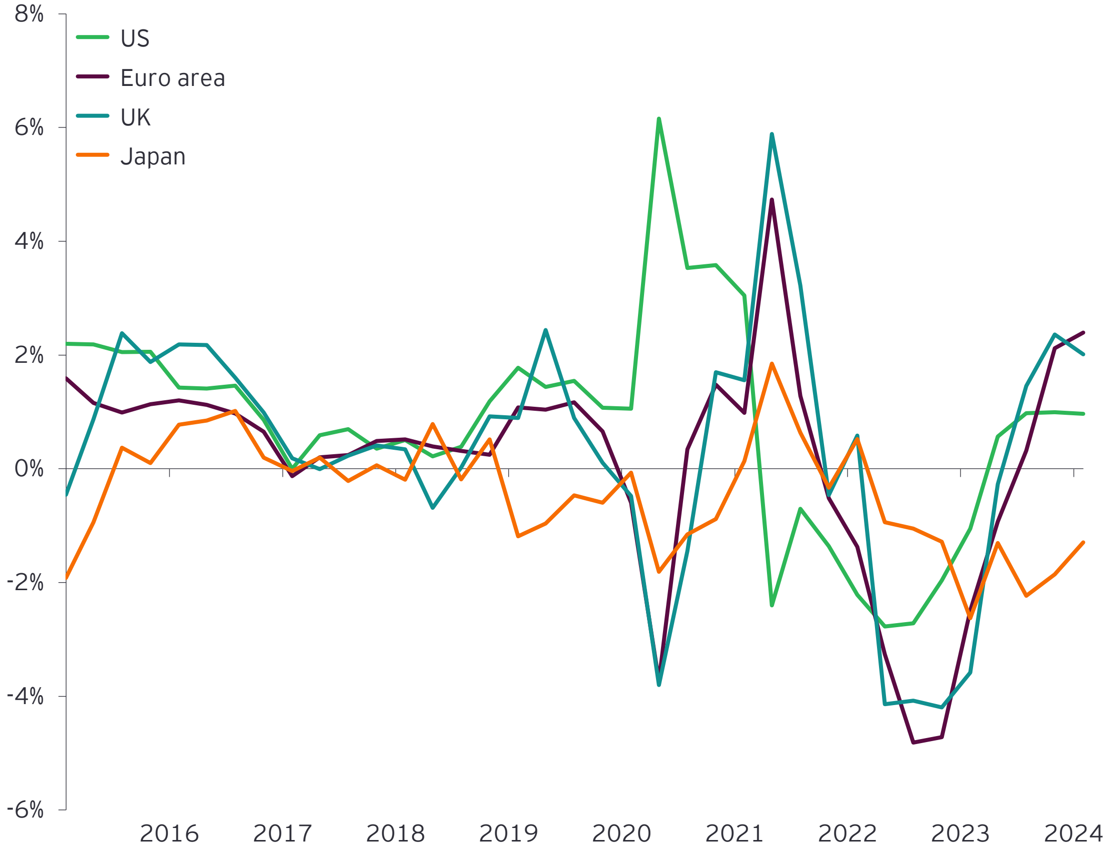


- In a high-cost environment where global demand remains prudent, business executives that focus on investments to enhance productivity will emerge successful. On the labor front, this includes talent retention efforts, long-term training, and incorporating new technologies, like GenAI, to improve labor productivity and efficiency.
- Paradoxically, higher capital costs could be leading to more efficient capital allocation. The end of cheap money means business leaders must be more discerning with investments, favoring those that enhance productivity and spur innovation.
- Government initiatives like the Infrastructure Investment and Jobs Act, CHIPS and Science Act, and Inflation Reduction Act have encouraged private sector investment in the US through subsidies and tax credits. In turn, these have helped drive stronger R&D and productivity growth.

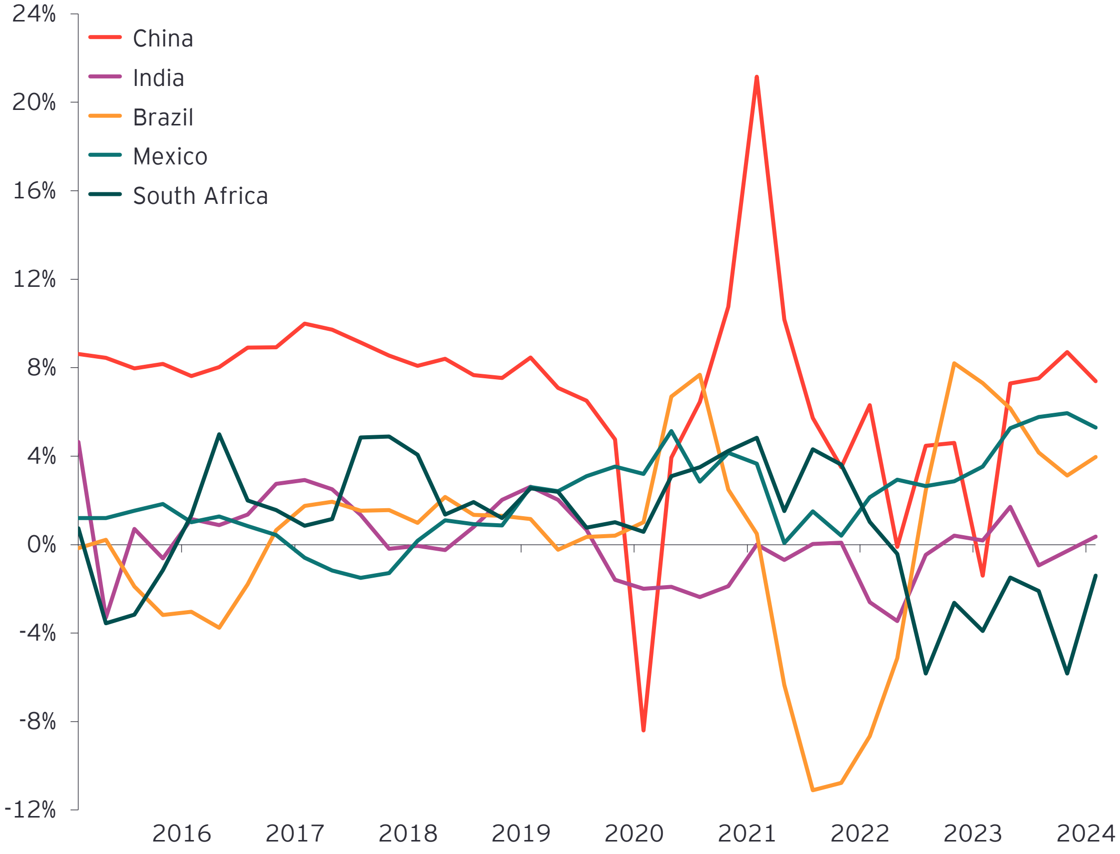
Source: Haver Analytics; EY analysis

Rebounding real wage growth should support consumer spending growth into 2025 in the eurozone, UK and most emerging markets; US real wage growth, meanwhile, is cooling

Y/y real wage growth rate, advanced economies 2015-24



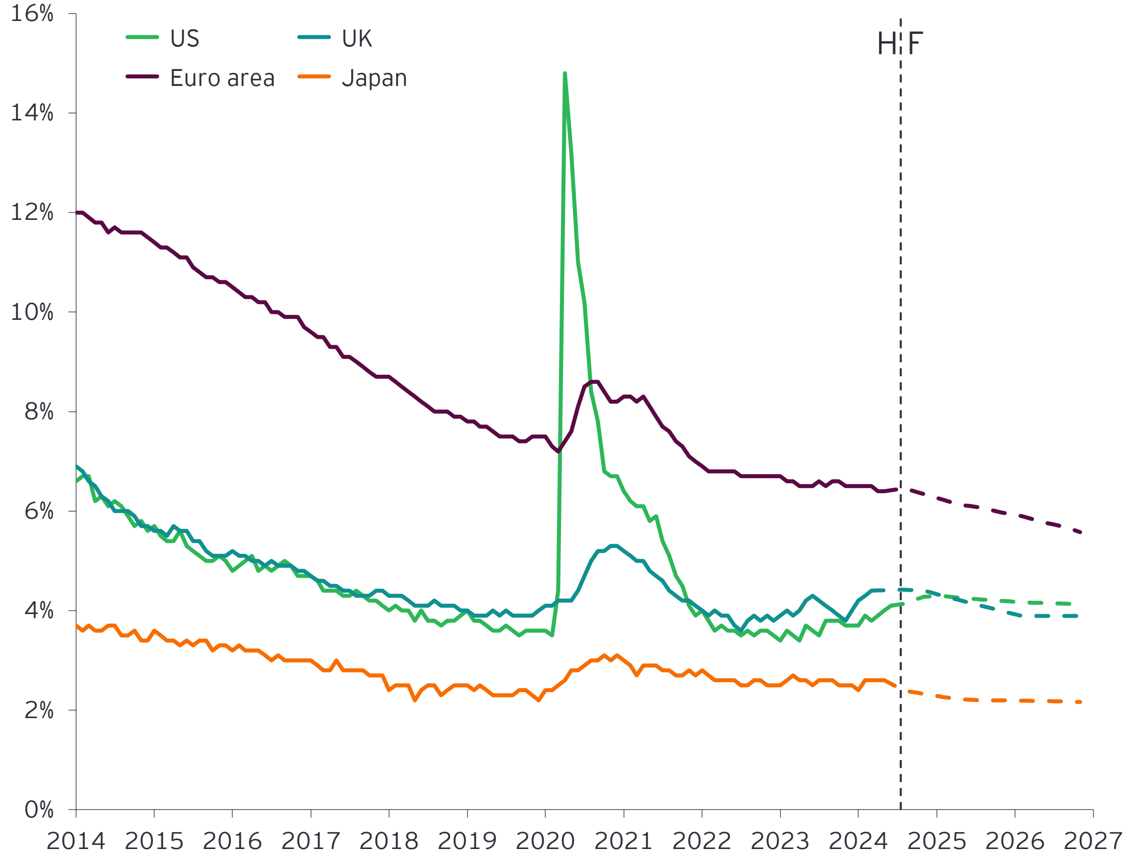
Y/y real wage growth rate, emerging markets 2015-24



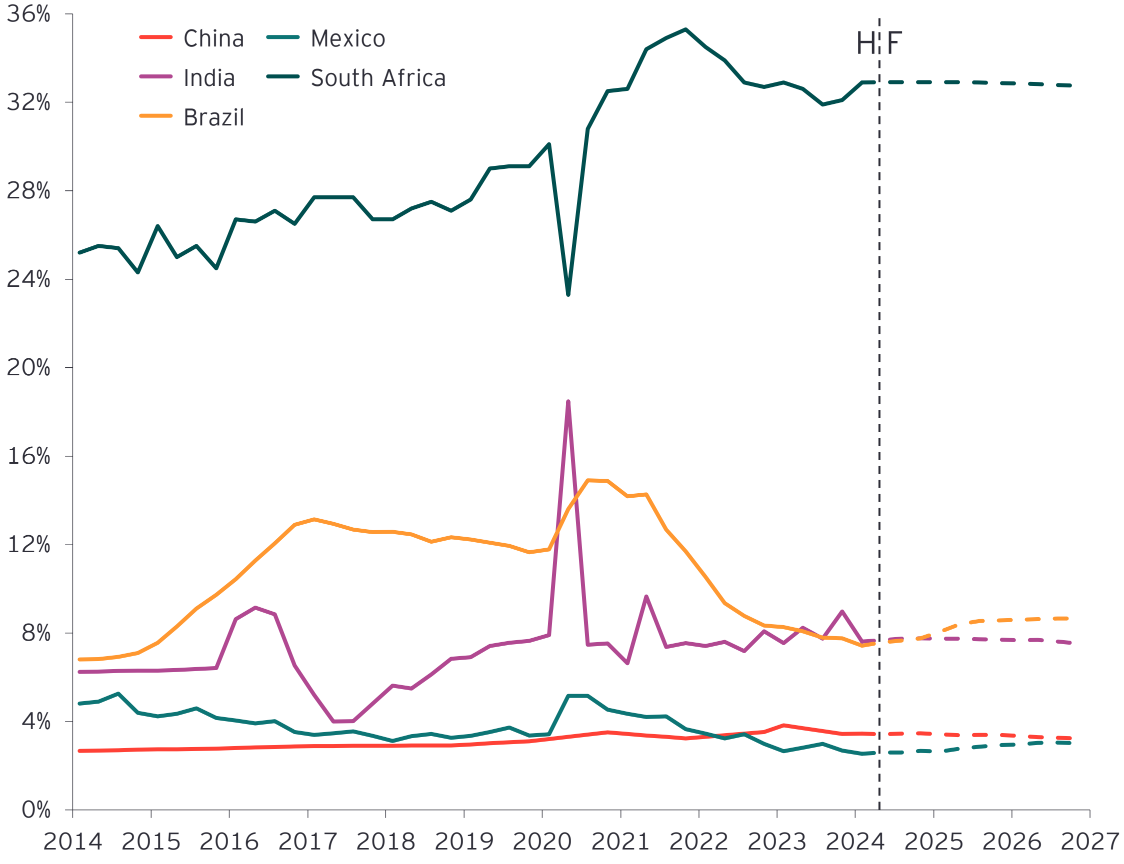
Source: National statistical agencies; EY analysis

With global labor markets having largely rebalanced, we anticipate modestly higher unemployment rates in the US and some emerging markets, and lower in the EU and UK

Unemployment rate, advanced economies
2014-26F



Unemployment rate, emerging markets
2014-26F



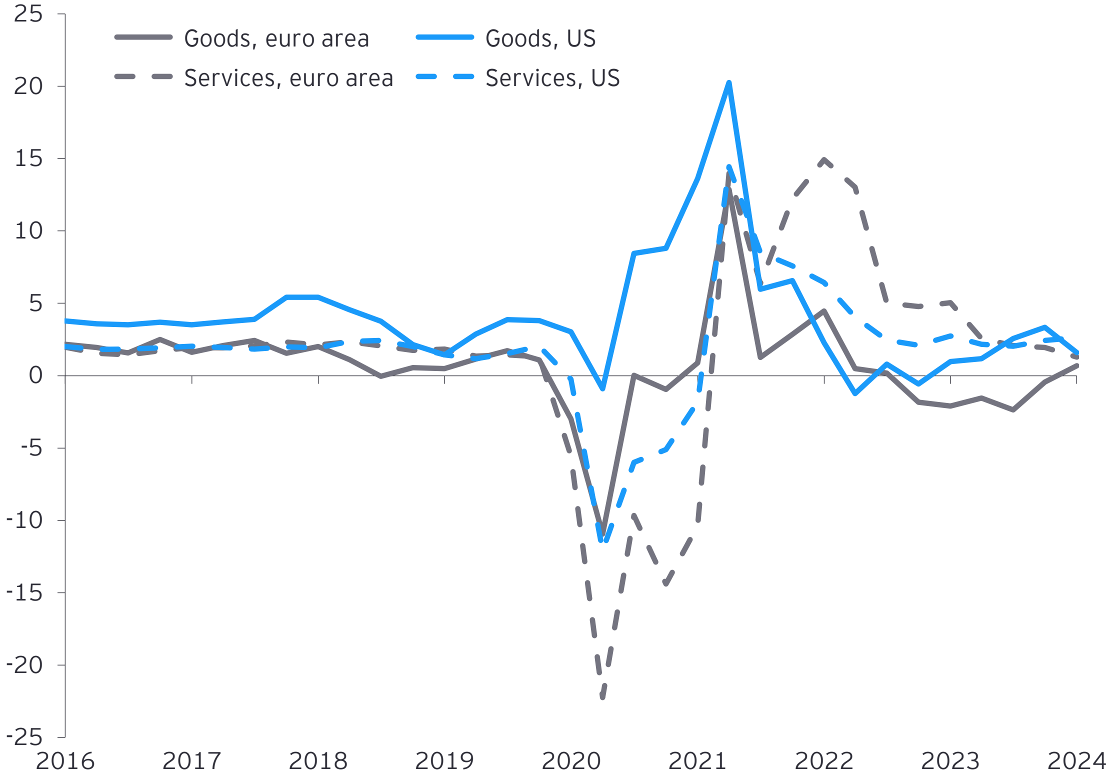
Source: Federal Reserve Economic Database (FRED); Eurostat; Office for National Statistics; Statistics Bureau of Japan; EY analysis

EY Parthenon

The services spending rebound over the past two years has led services-oriented OECD economies to outperform industry-oriented peers; we expect more balance into 2025

Economic performance[1] vs. share of tourism[2] in GDP
2022 Q1-2024 Q1

Y/y growth of real consumption of goods and services[3]
2016-24



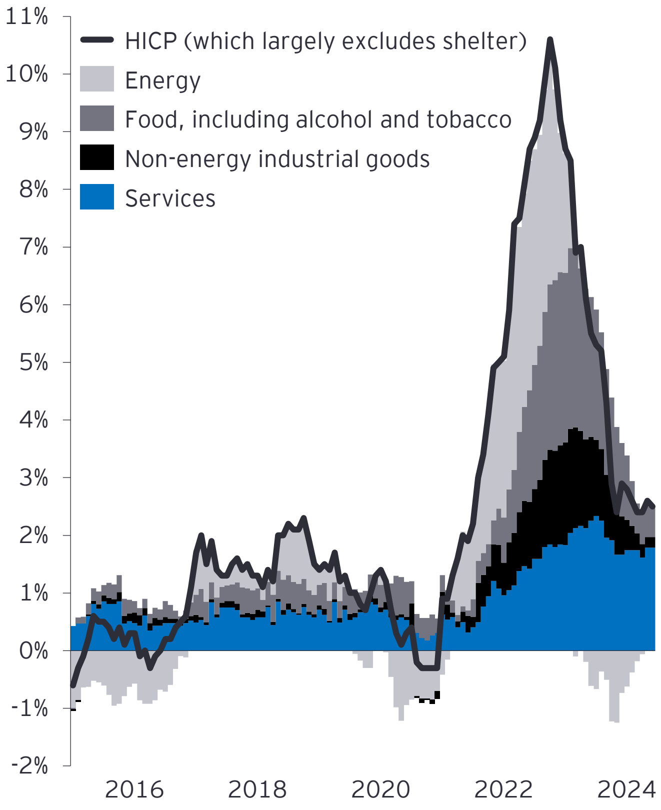
1. Economic performance represented by the deviation of average annual GDP growth rate in 2022 Q1–2024 Q1 period from the pre-pandemic average (2014 Q1-2019 Q4).
2. Tourism sector includes accommodation and food and beverage service activities.
3. Consumption in the euro area based on hard data for 14 member states and estimates for the remainder.

Source: Federal Reserve Economic Database (FRED); Eurostat; EY analysis

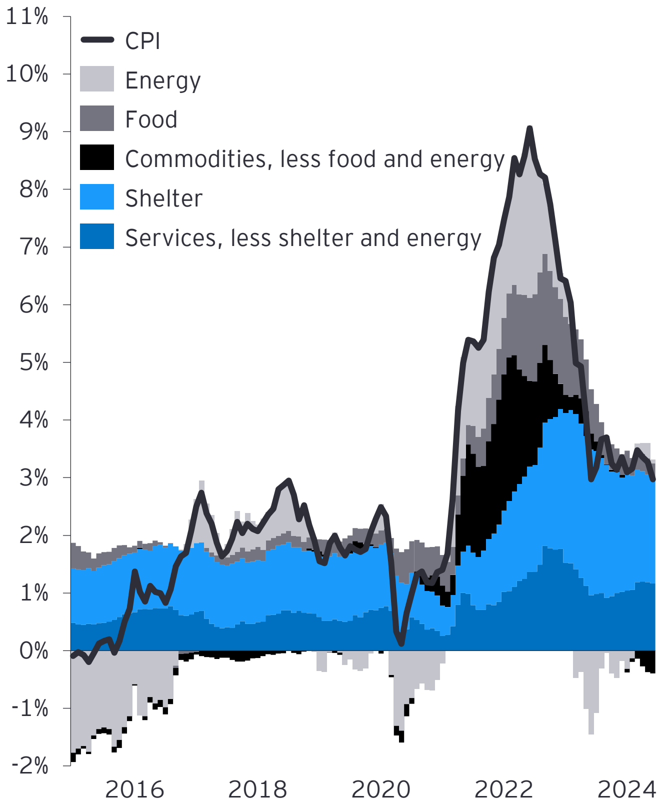
Inflation remains modestly above central banks' 2% target in major advanced economies due to persistent services inflation, which is expected to dissipate gradually through 2025

Statistical decomposition of y/y inflation
2015-24

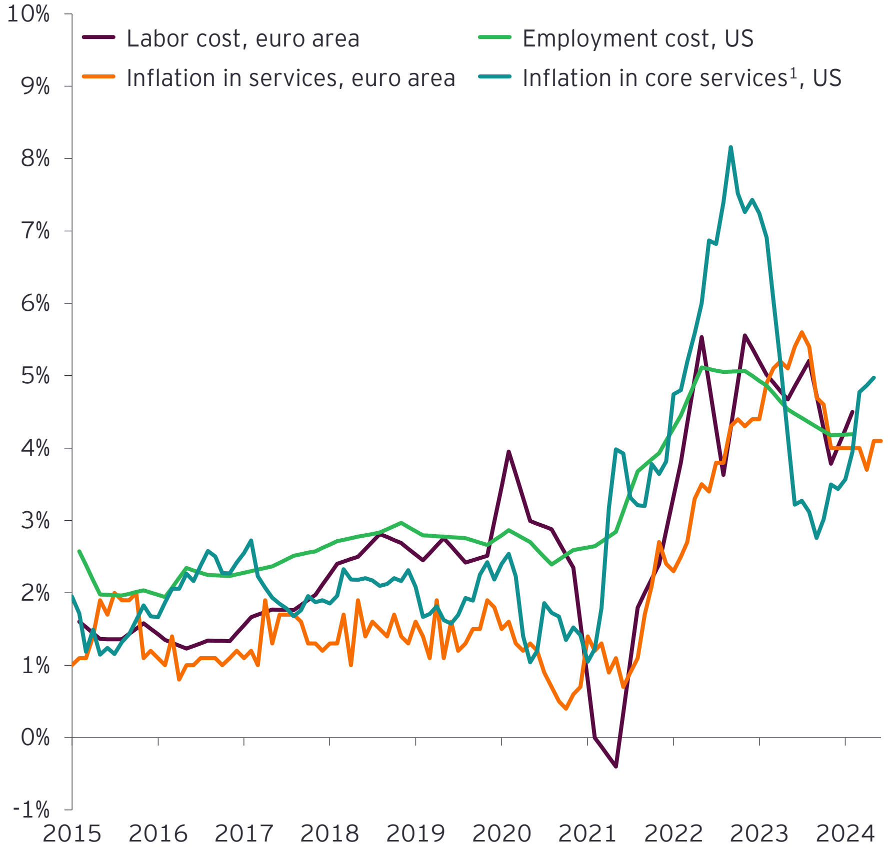
Euro area



US



Y/y labor cost index and inflation in services
2015-24



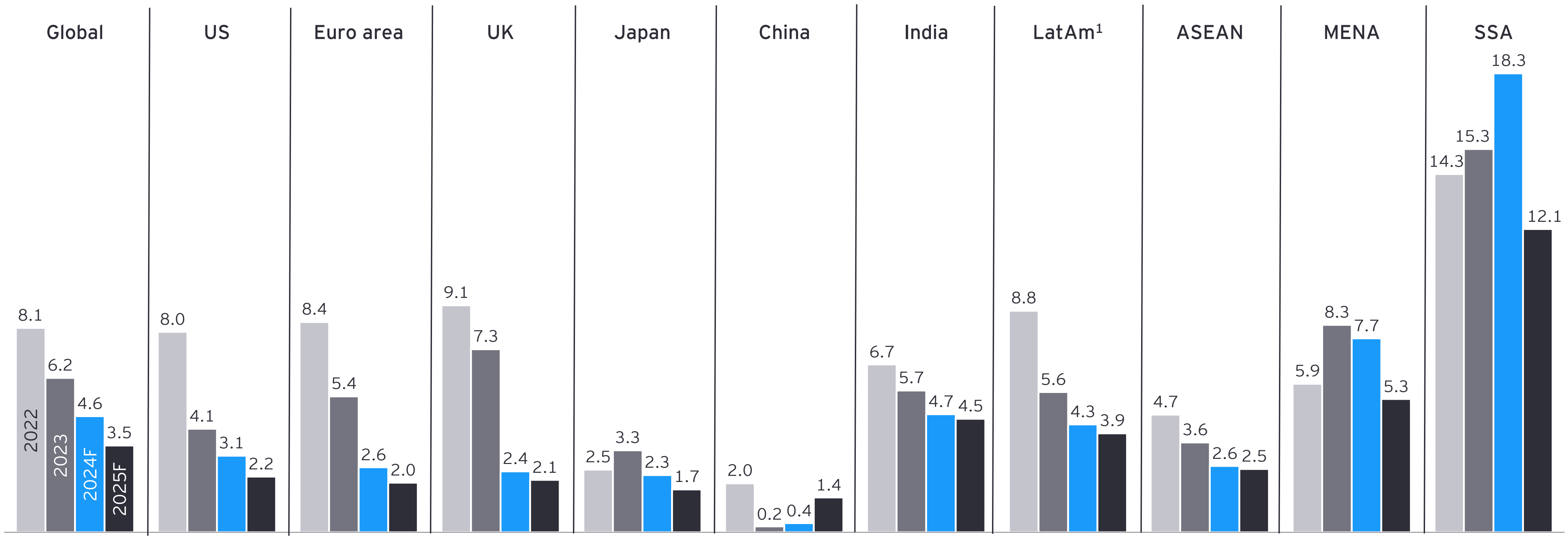
1. Services less rent of shelter.

Source: Federal Reserve Economic Database (FRED); Eurostat; EY analysis

EY Parthenon

Global inflation trends continue to cool as goods prices have stabilized in many regions, but core inflation remains elevated amid tight labor markets

Y/y percentage change in headline CPI
2022-25F

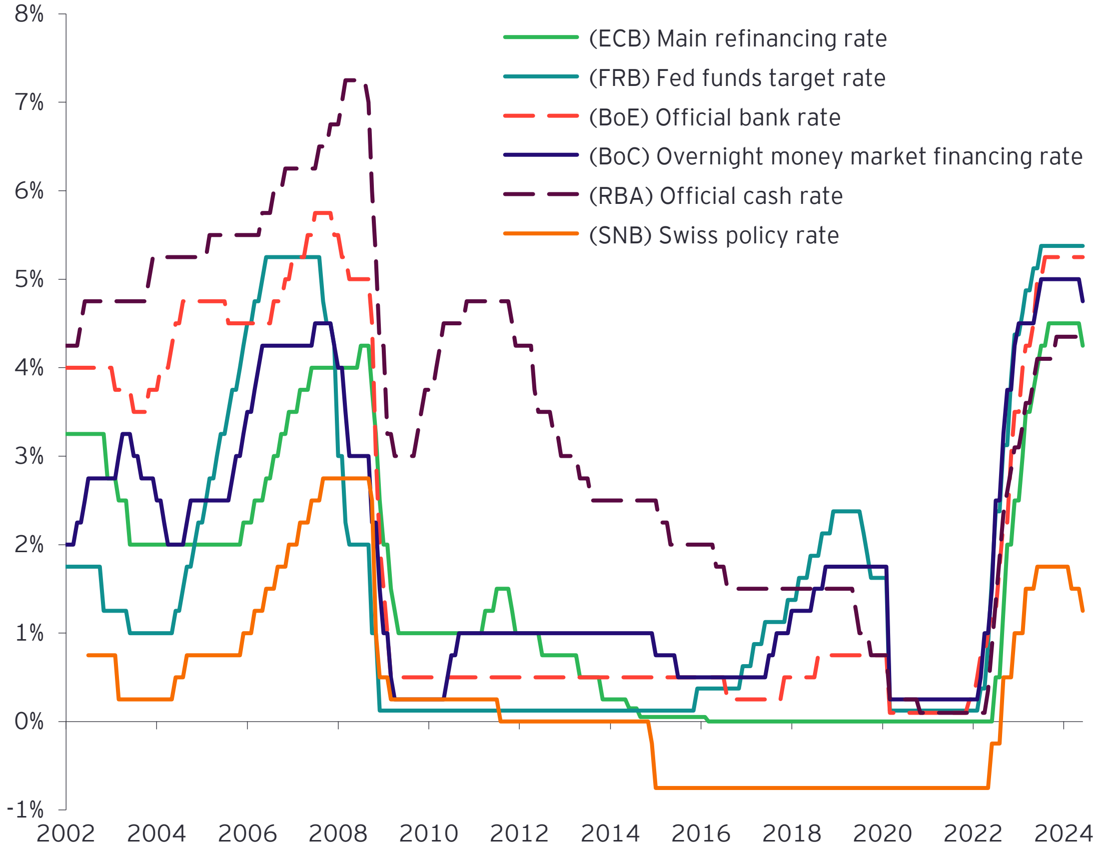


1. LatAm is a GDP-weighted average for Brazil, Bolivia, Chile, Colombia, Dominican Republic, Mexico, Panama, Paraguay, Peru and Uruguay.
Source: EY analysis

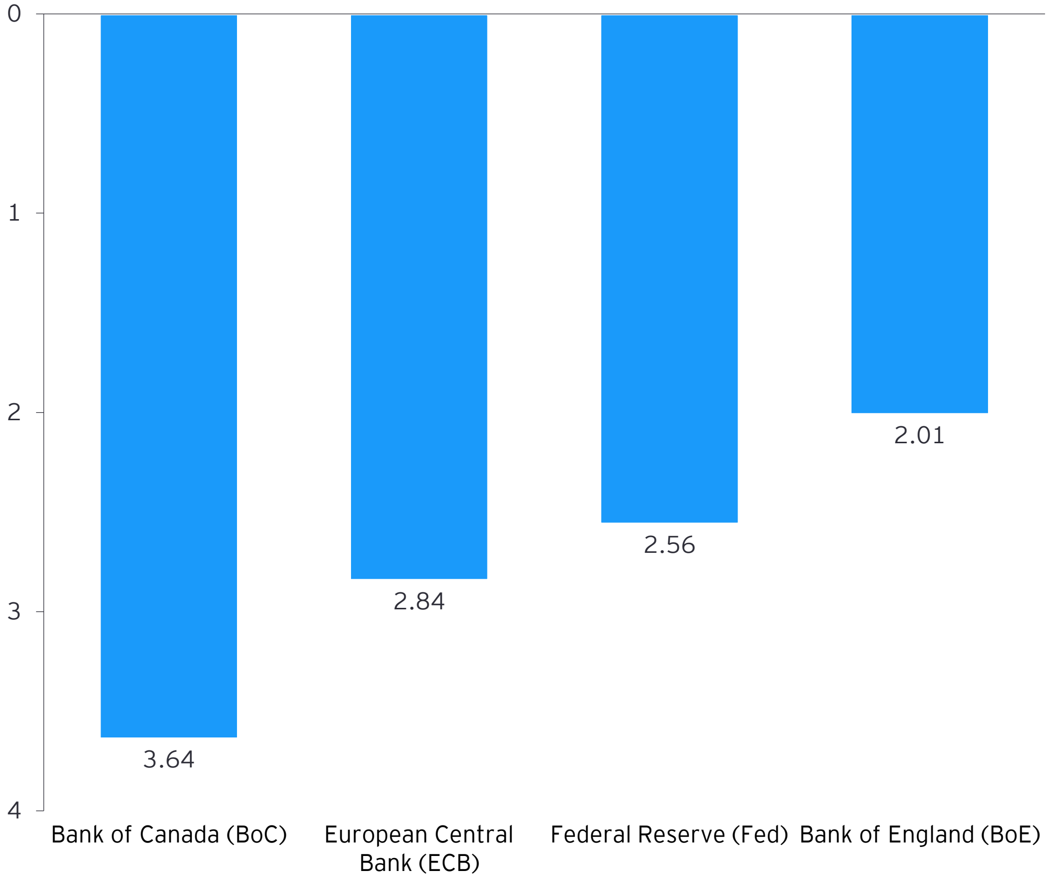
EY Parthenon

The global easing cycle is now underway across advanced economies, with the ECB and BoC leading the way ahead of a more hawkish Federal Reserve and BoE

Central bank rates
January 2002–June 2024[1]



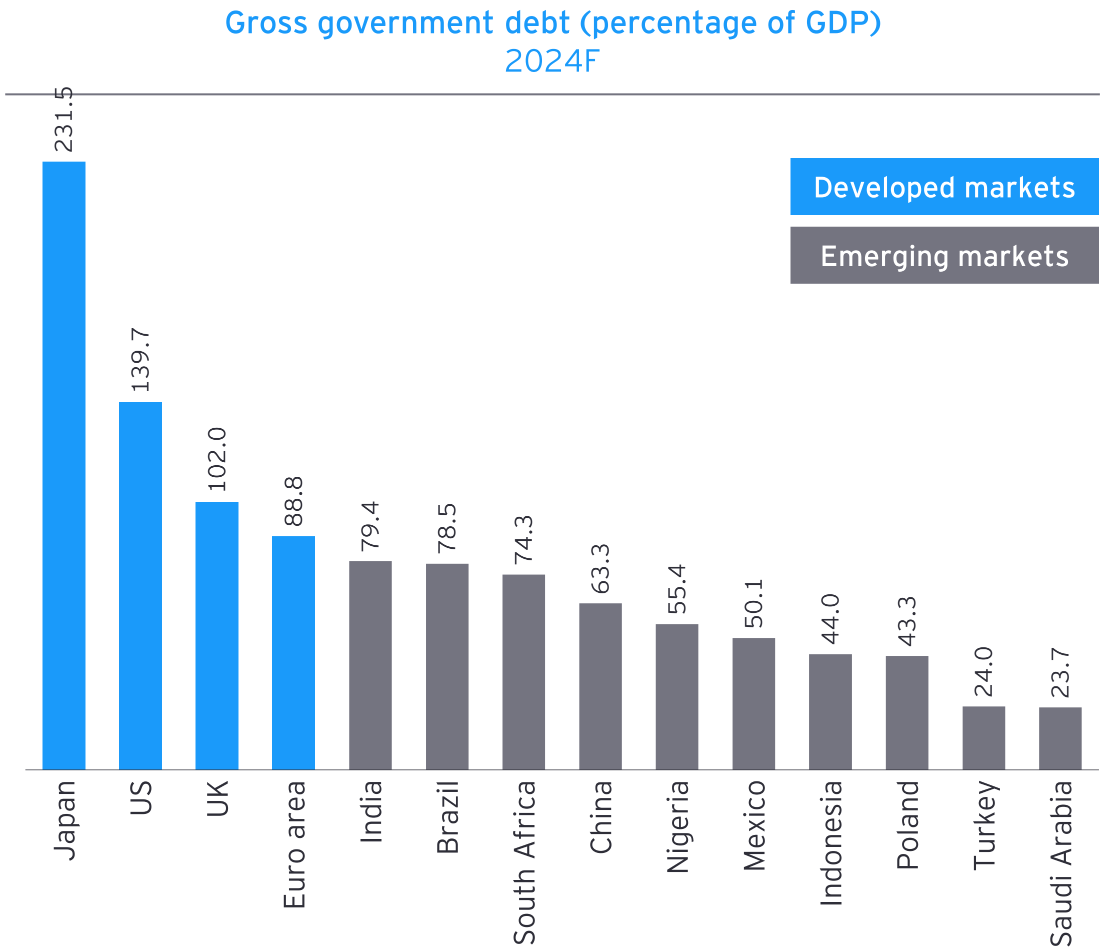
Total number of market-implied rate cuts in 2024[2]
As of July 15, 2024

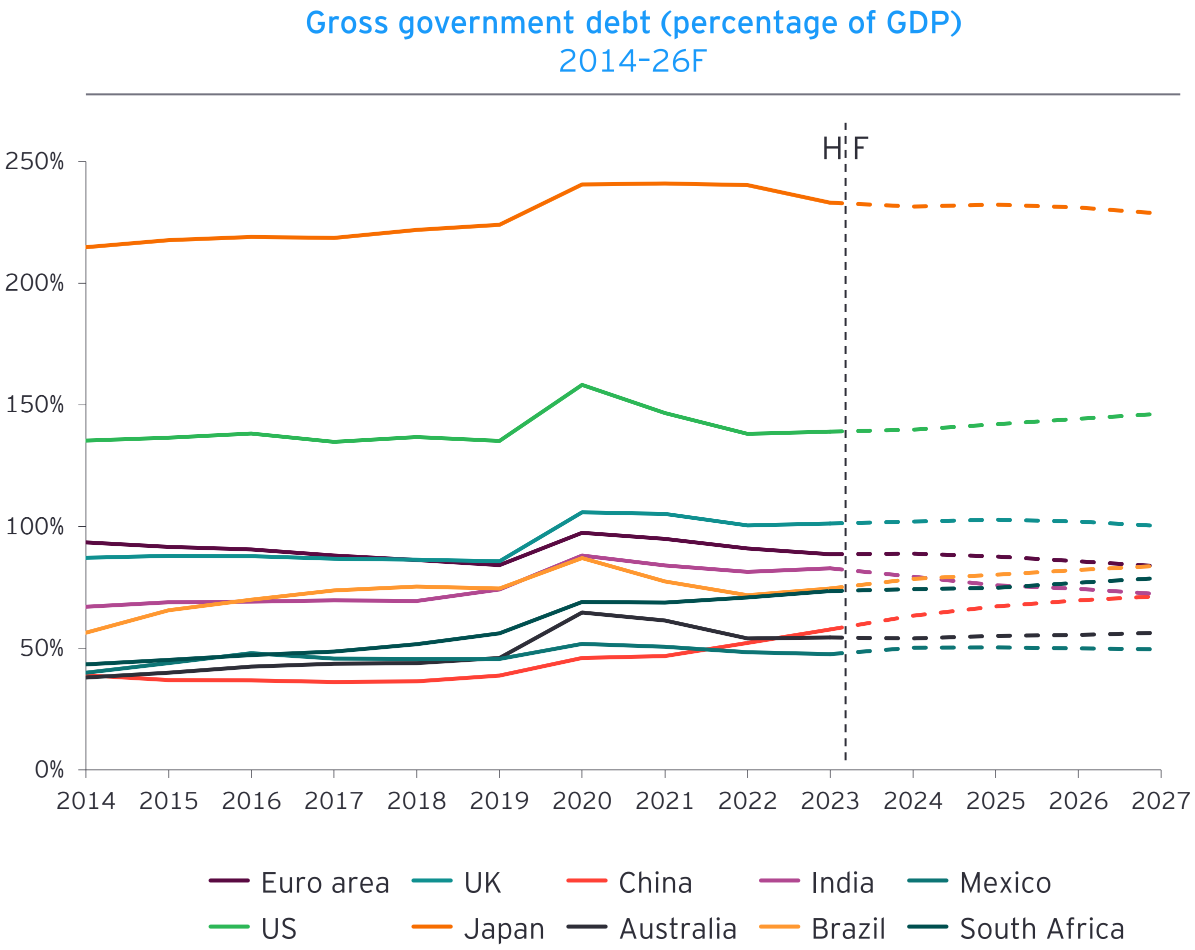


1. Most recently available data point shown for all geographies.
2. Based on Bloomberg analysis.

Source: Respective countries' central banks; Bloomberg; EY analysis

Elevated debt levels, pro-cyclical budget deficits and rising interest burdens could become a pressure point for many economies, especially where political uncertainty is high



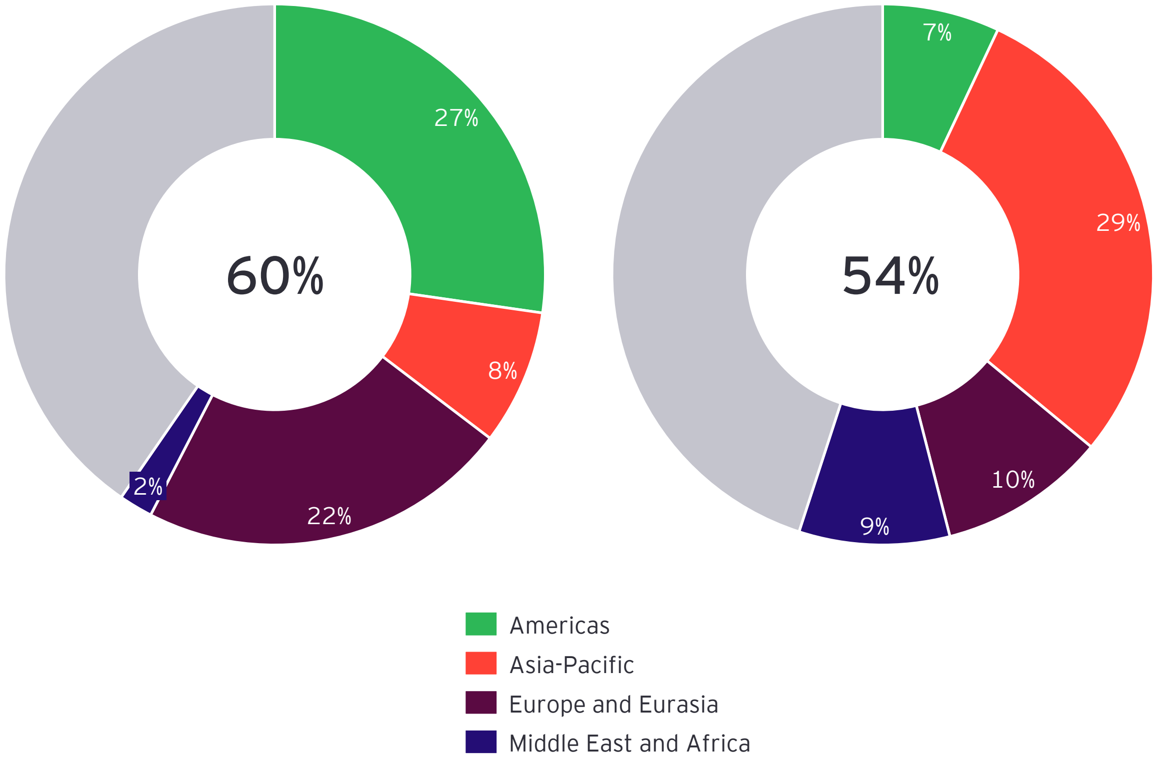


Source: EY analysis

The global elections supercycle will likely lead to policy continuity across most jurisdictions, even if new leadership could lead to pockets of policy uncertainty

Jurisdictions with elections in 2024 account for more than half of global GDP and population

Regional share of global GDP and population of jurisdictions with 2024 elections



- **South Africa's** recent election has resulted in a "government of national unity" coalition among the African National Congress (ANC), liberal Democratic Alliance (DA), the Inkatha Freedom Party (IFP) and some other parties. This is perceived to be a positive outcome from an investor perspective and will likely provide policy stability.
- **Indian** Prime Minster Narendra Modi won re-election, and his Bharatiya Janata party leads a coalition government with its political allies (mostly regional parties). Policy continuity is likely even if "Make in India" goals could be constrained by coalition partners slowing planned reforms and infrastructure investment.
- **Mexico's** election of Claudia Sheinbaum as president reflects a strong new mandate for the ruling Morena party. Continued support for nearshoring and domestic manufacturing to further develop Mexico's industrial capabilities is likely, but the reform agenda creates regulatory uncertainty in the near and medium term.
- The new **European Parliament** swung to the right, with coalition dynamics to form majorities likely to be more issue specific and volatile. Supporting domestic competitiveness in strategic sectors will remain a priority.
- The **UK's** new Labour government will likely focus on targeted public spending, reducing the budget deficit, improving industry decarbonization, and investing in renewables and the tech and AI sector. UK-EU collaboration on trade and investment may also increase.
- **France's** fragmented election result has led to a difficult coalition formation process, with the left-wing Nouveau Front Populaire (NFP) winning the most seats, followed by the centrist Ensemble alliance. The policy environment is likely to remain stable given the difficulty in agreeing new legislation.
- All eyes are now turning to the **US** election in November, which is creating uncertainty for businesses and could lead to policy and regulatory shifts that have the potential to impact companies across all sectors.

Note: These figures include jurisdictions for which elections are planned for 2024 but no date has yet been set. Numbers may not resolve due to rounding.
Source: World Bank; International Foundation for Electoral Systems; EY analysis

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Risks to the global economic outlook are slightly tilted to the downside with financial sector stress, renewed energy price pressures and geopolitical tensions as main catalysts

- Sticky services inflation, commodities price spikes, and global trade disruptions and tariffs could stoke inflationary pressures leading to a higher-for-longer stance from central banks. This could weigh on private sector activity and provoke a sudden tightening of financial conditions.
- Pro-cyclical budget deficits and rising interest burdens could become a pressure point for many economies, especially where political and policy uncertainty is high.
- Idiosyncratic risks across regions could have global ramifications such as increased difficulties in the property sector in China, commercial real estate market stress in the US or geopolitical risks in Europe.

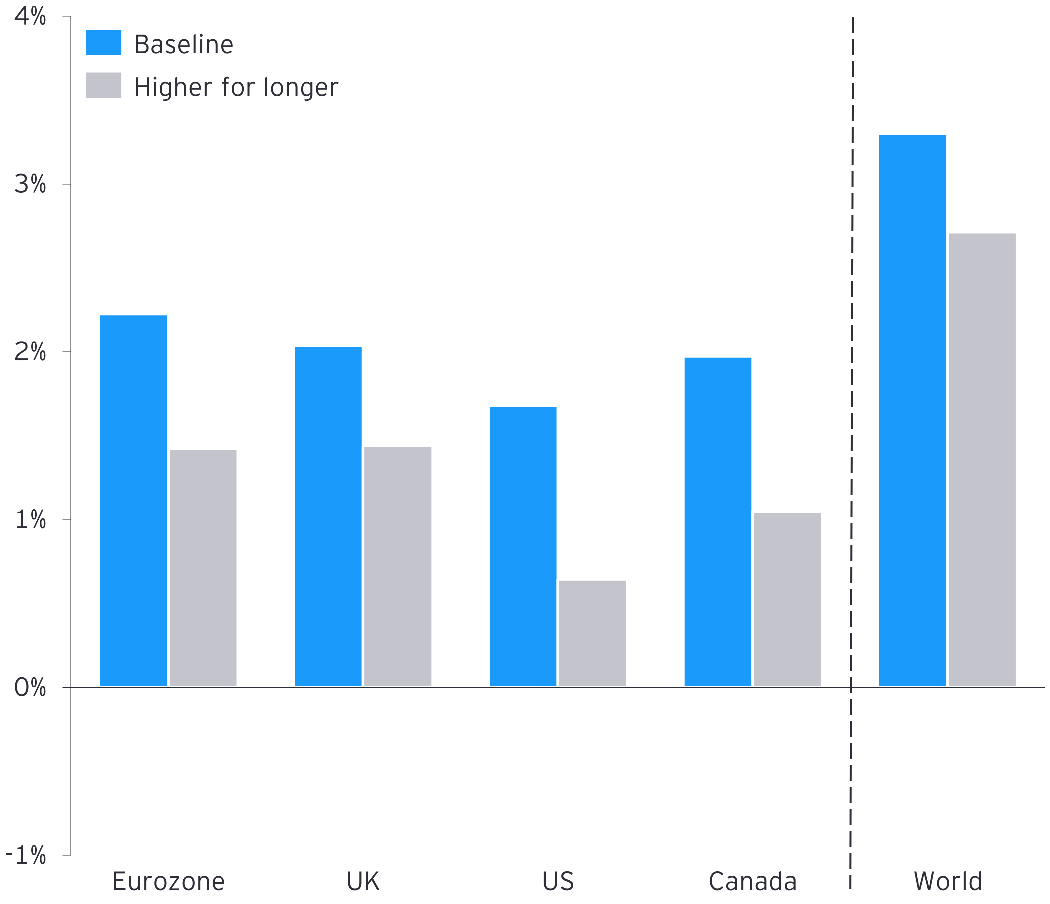
- Faster disinflation driven by a more pronounced easing of services inflation and wage growth could favor central banks to recalibrate monetary policy more rapidly and make monetary policy less restrictive.
- Productivity growth could accelerate globally, driven by a combination of firm-level efficiency gains and tech-driven innovation led by generative AI adoption.
- A stronger fiscal impulse could also spur greater economic momentum in the short term, although it could lead to reaccelerating inflation if supply conditions don't simultaneously improve.

Source: EY analysis

Downside risk 1: A "higher-for-longer" interest rate scenario with major central banks delaying rate cuts to mid-2025 could lead to a notable global growth slowdown

- Amid lingering labor market strength and concerns about core inflation stickiness in some economies, a scenario where underlying inflation remains persistently elevated is still a key downside risk to our baseline.
- Given the current backdrop of elevated geopolitical uncertainty, we assume that higher energy prices due to rising geopolitical tensions is the catalyst for a renewed inflationary impulse. In turn, slower progress toward inflation targets lead central banks to keep policy rates unchanged, resulting in a "higher for longer" interest rate environment.
- In this "higher-for-longer" scenario, the Federal Reserve, the ECB, the BoC and the BoE keep policy on hold through H1 2025, rather than lowering interest rates gradually as assumed in our baseline.
- As a result, credit conditions tighten significantly, with banks maintaining stringent lending standards to both consumers and businesses.
- Persistently high borrowing costs strain corporate and households' balance sheets, reducing their ability to service and refinance debt. Global financial market volatility increases and investors' sentiment deteriorate markedly as market participants reassess the inflation and interest rate outlook.
- Elevated interest rates and tightening financial conditions would lead to a significant slowdown in global growth, with the weakness concentrated in advanced economies. As a result, global growth is 0.6ppt lower at 2.2% in 2025, with the US and Canada falling into a mild recession amid a deeper economic slowdown. The Eurozone and the UK experience sluggish average GDP growth of around 1.4% in 2025.

Real GDP growth in selected economies
2025 annual average

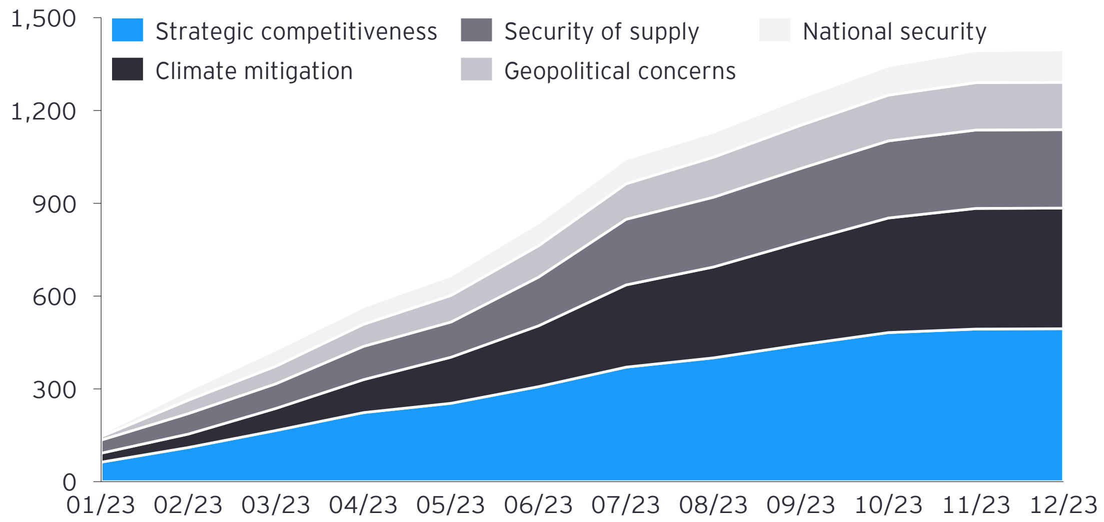


Source: EY analysis

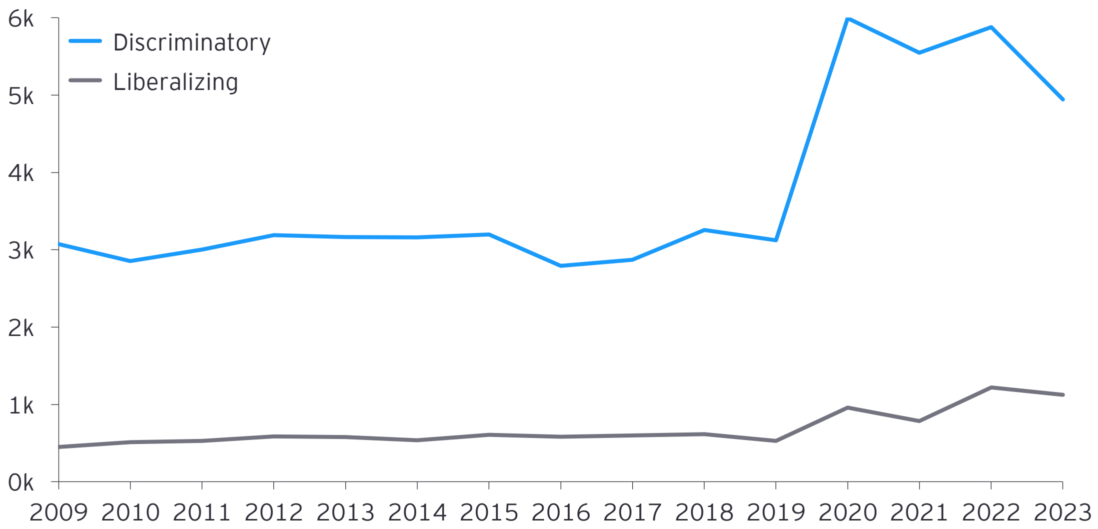
EY Parthenon

Downside risk 2: Amid rising geopolitical tensions, governments are promoting industrial and trade policies which could disrupt global trade and economic activity

Global count of new trade-distortive industrial policies by rationale in 2023



Global count of new trade policy interventions per year[1]



Industrial policy is increasingly used to achieve political goals and address raising geopolitical tensions

- While domestic subsidies are the most commonly employed policy globally, the use of export incentives are increasingly used by developed market governments. Emerging and developing country governments more frequently employ import barriers.
- The three largest economies — China, the US and the EU — accounted for nearly 48% of industrial policy activity in 2023.

Global trade policies are increasingly diverting trade to nearshoring and friendshoring patterns

- Geopolitical trends, including governments seeking to de-risk supply chains and the war in Ukraine, are influencing a shift in trade preferences toward countries with similar geopolitical stances (e.g., friendshoring.)
- The outlook for global trade growth will be dampened by geopolitical tensions and industrial policy impacts.

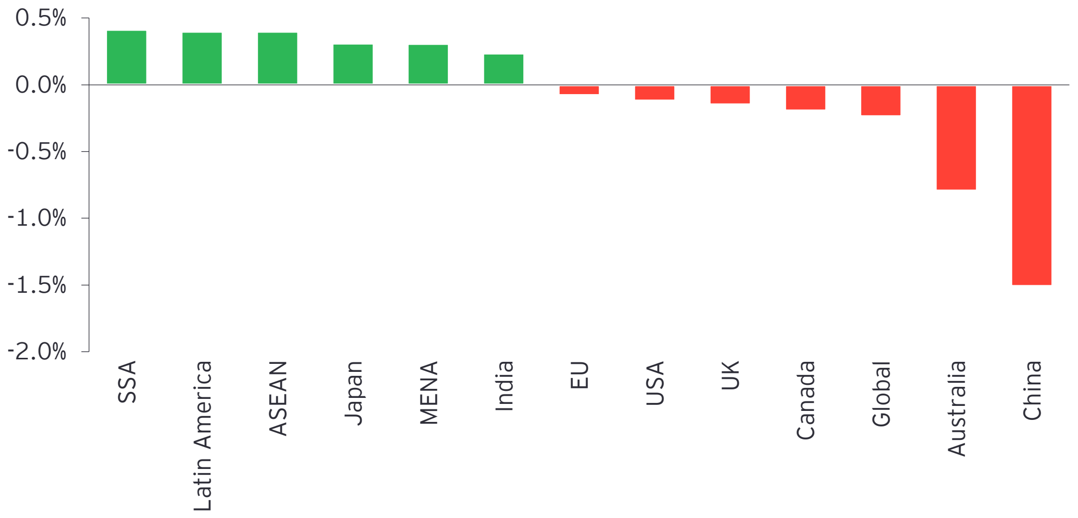
1. Category nomenclature based on Global Trade Alert source.

Source: Global Trade Alert; International Monetary Fund; EY analysis

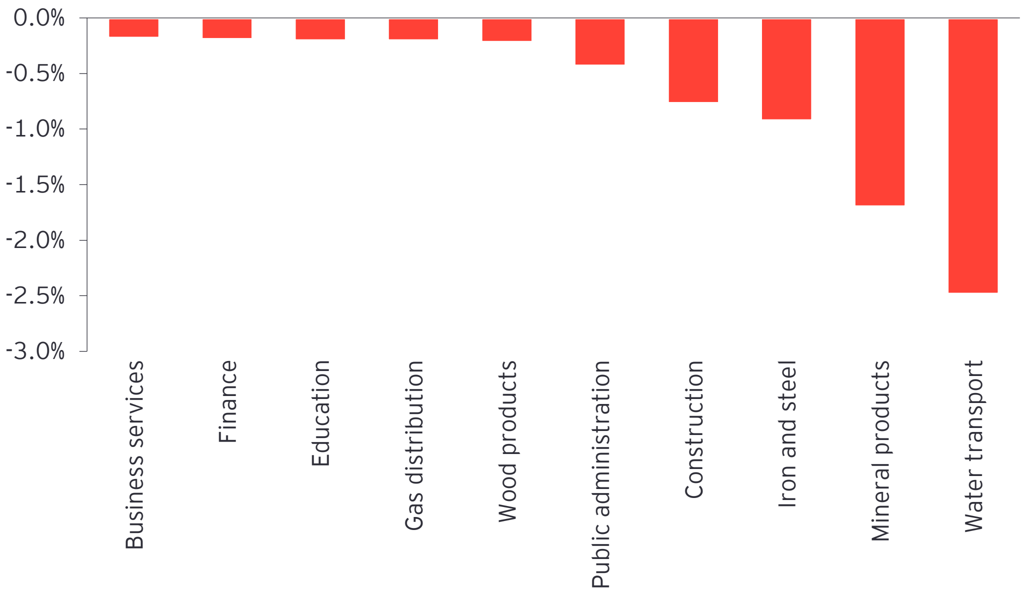
Downside risk 2: Geopolitical tensions between China and the West constitute another source of global risk that could disrupt many sectors around the world

- Using our in-house recursive-dynamic CGE (computable general equilibrium) model based on the Global Trade Analysis Project (GTAP) framework and database, we simulate a potential increase in average bilateral tariffs on trade in goods between China and the Western bloc (consisting of EU, UK, Canada, Australia and the US) by 20ppt in 2025.
- We find that the rise in tariffs will reduce global real GDP by 0.24% below the baseline level after three years, with the largest declines occurring in China (1.51%), Australia (0.80%) and Canada (0.20%). Some economies would reap modest benefits from trade flow diversion and increased competitiveness in the long run.
- The water transportation sector, mineral products, and iron and steel would see the most significant contraction in output, followed by the construction and public administration sectors.

Impact on real GDP in 2027[1]
(Percentage deviation from baseline scenario[2])



Impact on global sectoral output in 2027 – top 10 most negatively affected sectors
(Percentage deviation from baseline scenario[2])



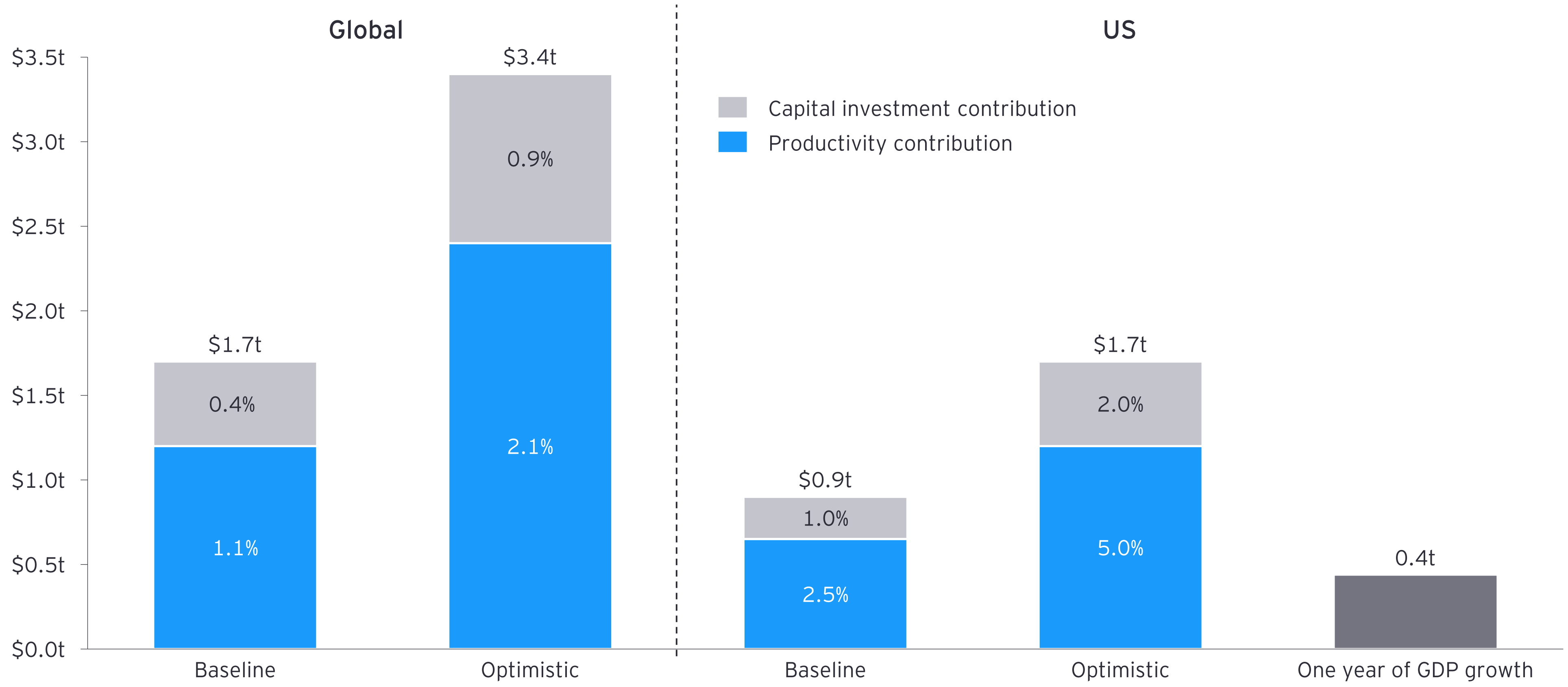
1. In the short term, the slowdown in China and the Western bloc is likely to adversely impact other regions, which may not be fully captured by the model we use.
2. Baseline scenario refers to the baseline level of a specific economic variable (e.g., real GDP) in a given year in the absence of trade war.

Source: EY simulation using the EY UPGRADE CGE model

EY Parthenon

Upside risk: GenAI revolution could represent up to two years of additional global GDP growth over the next decade – adding an economy the size of India over a decade

GenAI cumulative real GDP boost by 2033 (US$; bar totals) and percentage boost to 2033 real GDP
(Percentage of 2023 real GDP; bar segments)



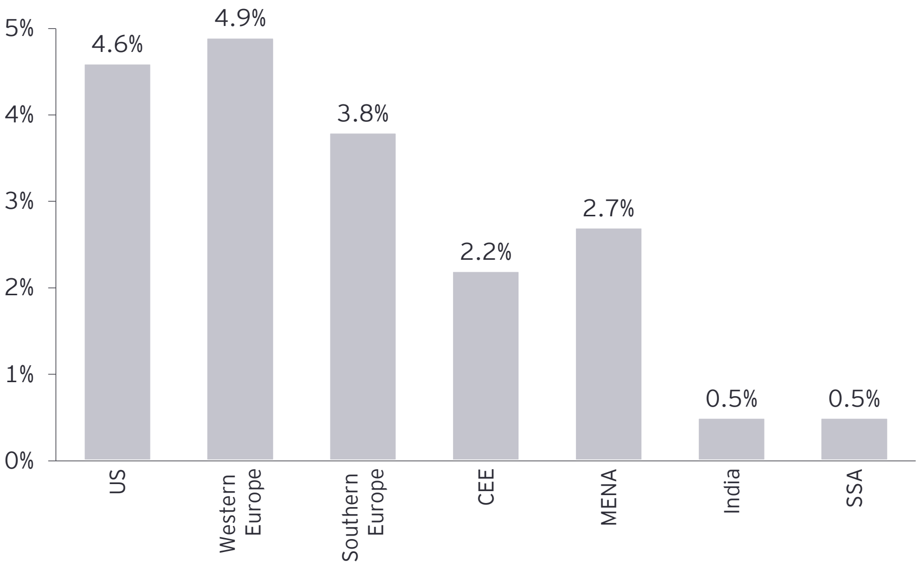
- Read our full series on the economic impact of artificial intelligence (AI) for business leaders here.

Source: EY analysis

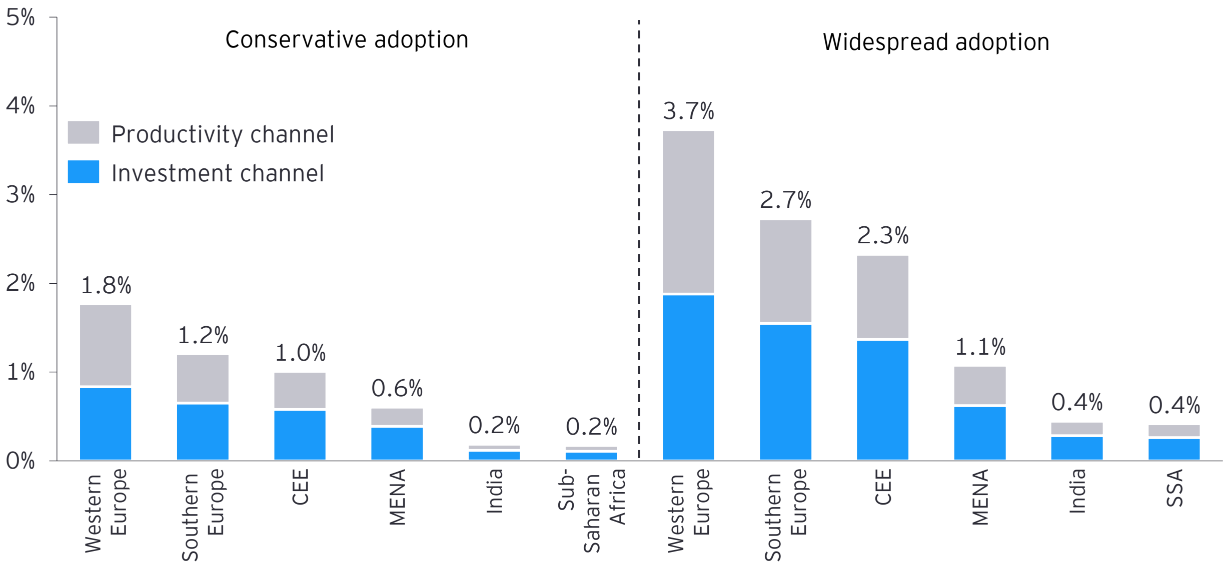
Upside risk: The GenAI revolution is set to enhance productivity, stimulate investment and propel GDP growth, but gains will vary substantially across regions

- Considering occupational exposure to AI, labor market structures and the economic benefits of automation, we find that the potential for AI to automate or augment tasks varies significantly between regions. It is almost 10 times higher in Western Europe and the US than in India and Sub-Saharan Africa.
- Building on labor market analysis and historical data on ICT investments, we project an increase in ICT investment due to GenAI under two AI adoption scenarios: conservative and widespread.[1] Additionally, we examine AI's influence on total factor productivity, taking into account labor income shares and AI's capacity to automate or enhance tasks.
- Incorporating these investment and productivity projections into a global macroeconometric model, we estimate AI's impact on GDP and inflation. Our findings suggest that GDP could increase by 1.8%–3.7% in Western Europe and by 0.2%–0.4% in India and Sub-Saharan Africa over the next decade. The effects on inflation are generally modest and vary less by region, with most not exceeding a 0.1ppt increase annually, except in Central and Eastern Europe, where a more pronounced inflation increase of up to 0.8ppt is anticipated.
- We also study the impact on interest rates, taking into account both cyclical impact on monetary policy and structural effects on natural interest rates, finding that rates are to increase moderately, with effects ranging from 0.1ppt–0.2ppt in SSA through 0.3ppt–0.8ppt in Western Europe to 0.5ppt–1.1ppt in Central and Eastern Europe (CEE), depending on AI adoption scenario.

Percentage of tasks subject to GenAI-driven automatization/augmentation by 2033



GenAI-driven GDP boost in 2033



1. Widespread AI adoption scenario assumes that AI is adopted at a similar pace as ICT (information and communications technology) during 1990s-2000s. Conservative scenario assumes 60% slower integration (based on existing relationship between AI and ICT adoptions).

Source: EY analysis

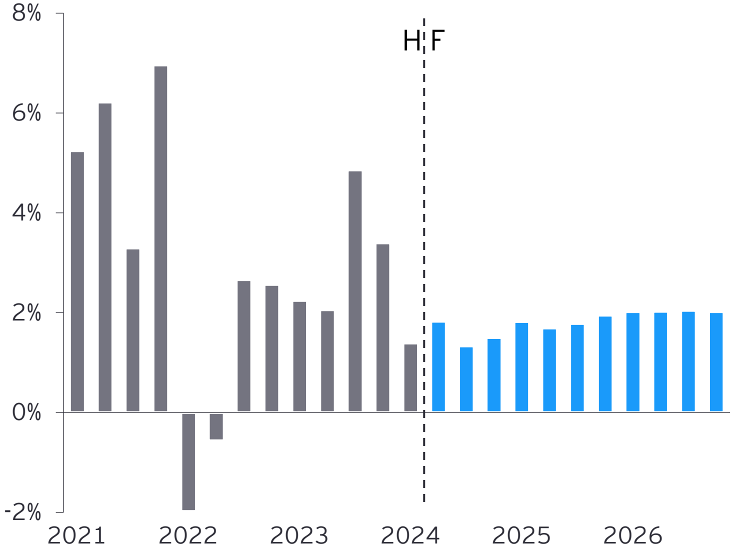
EY Parthenon

Agenda

- Thriving in a new normal
- Global executive briefing
- Six global themes
- Exploring risks and opportunities
- **Country and regional outlooks**
- Meet the team and explore our resources

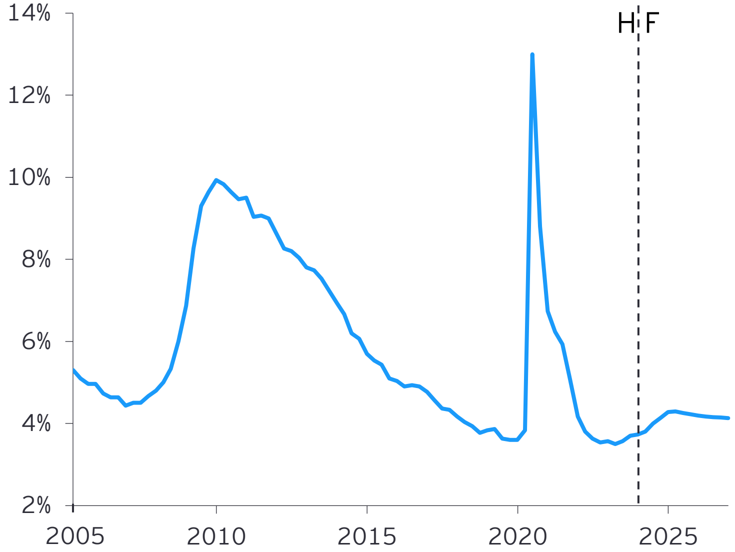
Softer US employment and consumer spending growth and gentle disinflation into 2025 should favor Fed policy easing while election uncertainty curbs capex growth

US real GDP growth (annualized q/q rate) 2021-26F



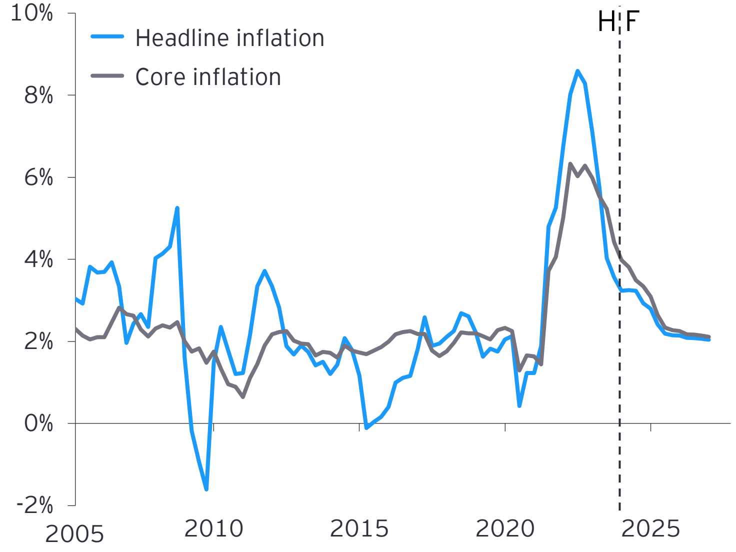
GDP growth
2023: 2.5%
2024F: 2.3%
2025F: 1.7%

US unemployment rate 2005-26F



Unemployment rate
Q4 2023: 3.7%
Q4 2024F: 4.3%
Q4 2025F: 4.2%

US y/y change in headline CPI 2005-26F



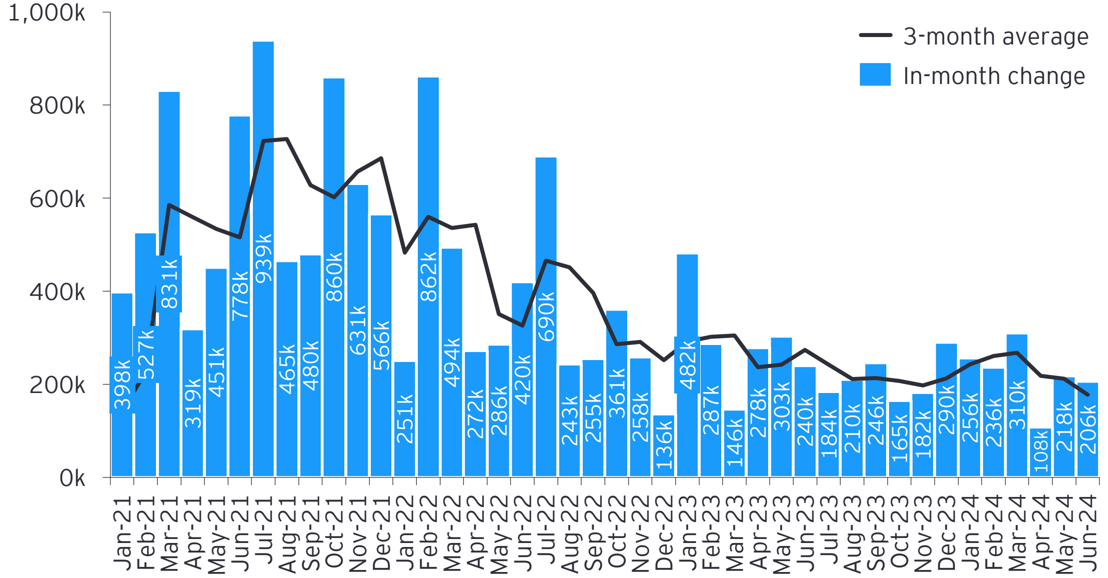
CPI inflation (y/y)
Q4 2023: 3.2%
Q4 2024F: 2.8%
Q4 2025F: 2.1%

- We foresee a bifurcated consumer spending outlook where modest real disposable income growth forces low- and median-income households to dial back on their outlays amid persistently elevated prices and more expensive credit. Rising election uncertainty will likely curb capex even as easing financial conditions remain supportive of high-return investment opportunities and deal volumes. Overall, we anticipate real GDP growth will moderate below 2% in the second half of the year on slower private sector activity even as the drag from inventories and international trade dissipate. We foresee average GDP growth around 2.3% in 2024 and 1.7% in 2025.
- We continue to believe a July onset of the easing cycle would have been optimal given easing inflation and softening labor market conditions, but a September onset is now likely given policymakers' backward-looking hawkish bias. We expect two 25bps rate cuts in 2024 and 125bps of easing in 2025.

Source: EY analysis

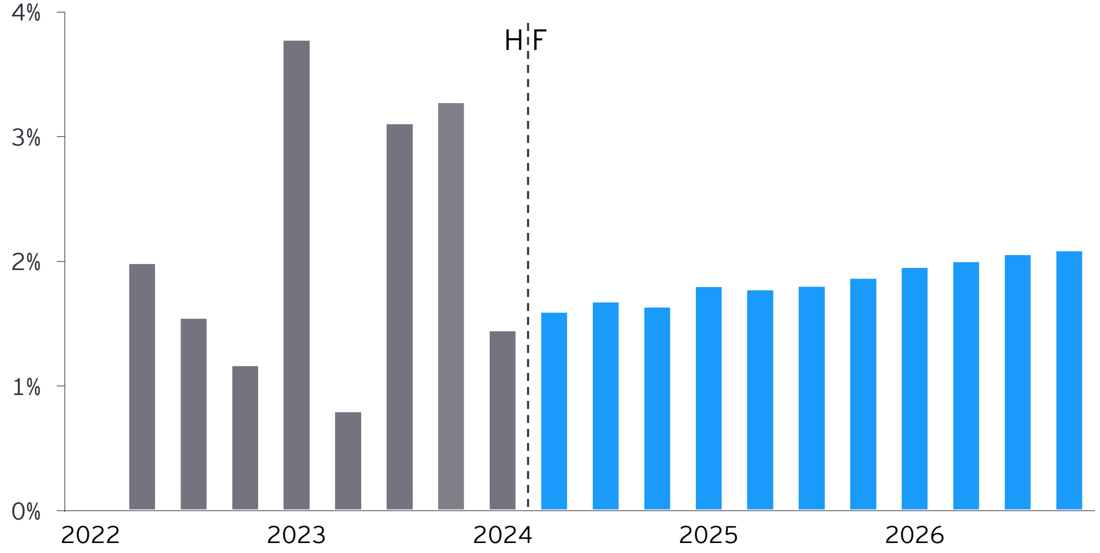
The US labor market has now rebalanced, with easing job and moderating wage growth leading to more prudent consumer outlays amid still-elevated prices and rates

US month over month (m/m) change in total nonfarm employment
January 2021–June 2024



- The June jobs report confirms that a softening of labor market conditions is underway. While the economy added 206k jobs in June, above consensus expectations, prior estimates of job growth in April and May were revised lower by a cumulative 111k jobs and the unemployment rate ticked up to 4.1%. The three-month moving average of payroll growth fell to 177k – the slowest post-pandemic pace – while wage growth also cooled to a post-pandemic low of 3.9% y/y in June.
- Looking ahead, labor demand is likely to remain under pressure as business leaders curb wage growth and proceed with strategic layoffs to contain costs. We anticipate the unemployment rate will rise further toward 4.3% while jobs growth slows below trend.

US growth in real personal consumer expenditures (q/q annualized rate)
2021 Q1–2026 Q4F



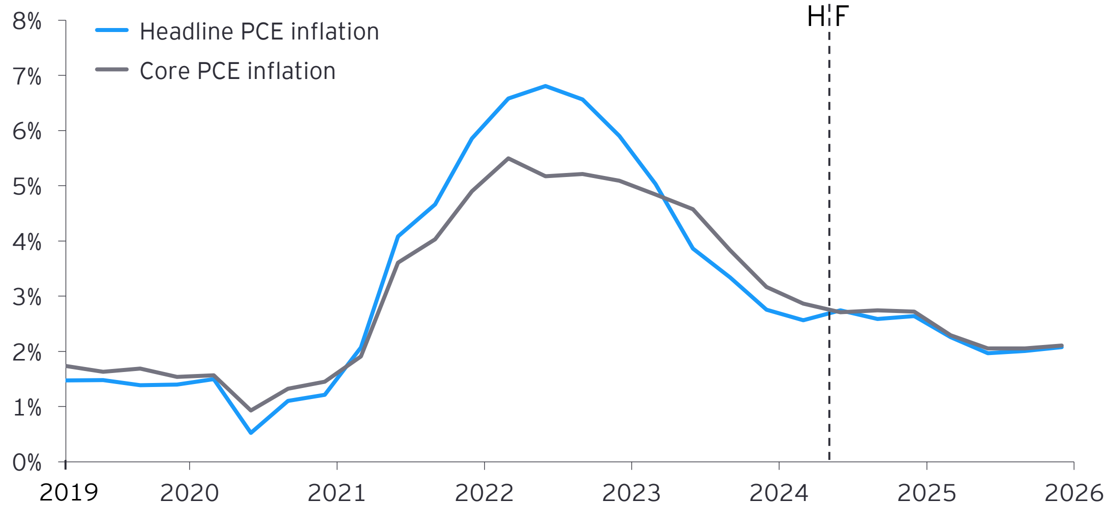
- Consumers remain willing to spend, but pricing sensitivity has increased, and savings are dwindling, leading to more prudence.
- With real disposable income growth having slowed to a tepid 1.0% y/y pace, we expect further moderation in consumer spending growth in the coming months.
- Lower-income, younger and more indebted families have been the first to exercise more prudence with their outlays, but the longer rates and costs remain elevated, the more a greater share of households will constrain their spending.
- We project that real consumer spending will grow around 2.0% this year and 1.7% in 2025.

Source: Bureau of Labor Statistics; EY analysis

EY Parthenon

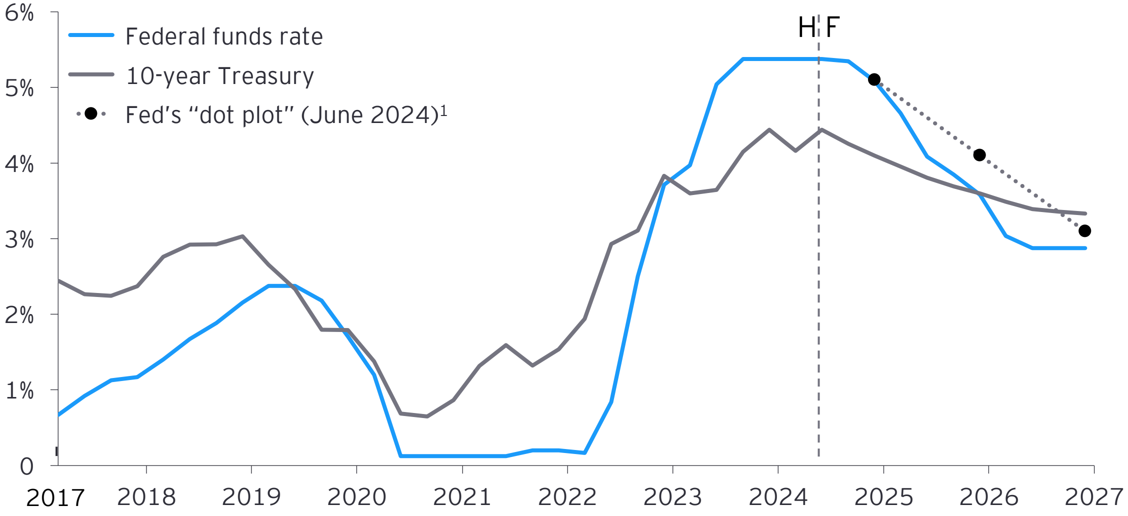
Disinflation fundamentals remain firmly in place allowing Fed policymakers to start recalibrating monetary policy to the reality of a rebalanced labor market

US y/y percentage change in PCE inflation
2019–25F



- Disinflation momentum was confirmed in June. Headline CPI fell 0.1% m/m with energy prices down 2% and food prices up 0.2%. Core CPI rose a modest 0.1%, posting its lowest advance since January 2021.
- As a result, headline CPI inflation eased 0.3ppt to 3.0% y/y – the lowest since March 2021 – while core CPI inflation eased a tick to 3.3% y/y – the lowest since April 2021.
- Looking ahead, softer consumer spending growth due to increased pricing sensitivity, moderating wage growth, declining rent inflation, reduced markups and stronger productivity growth will continue to provide a healthy disinflationary impulse.
- We foresee headline and core personal consumption expenditures (PCE) inflation – the Fed's preferred inflation gauges – ending the year around 2.5% y/y.

US interest rate forecasts, federal funds rate and 10-year Treasury yield
Q1 2017–Q4 2026F

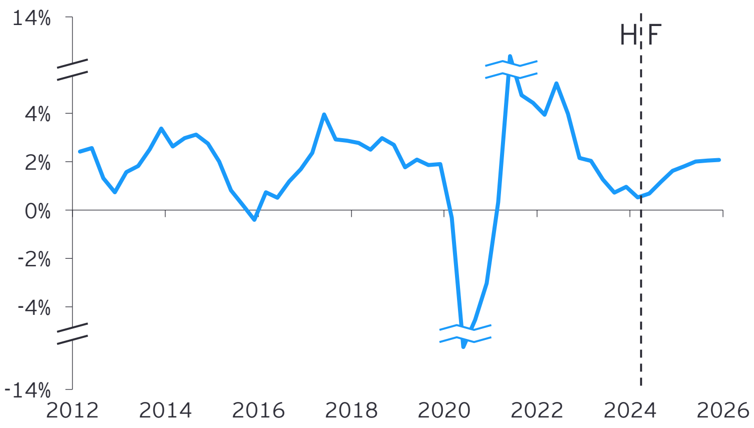


- As Fed Chair Jerome Powell recently stressed, inflation is no longer the only risk we face. Maintaining excessively restrictive monetary policy when the labor market appears to be fully back in balance could lead to an undesired weakening of employment growth and the economy.
- While it's too late for Fed policymakers to signal a late-July rate cut, this would have been optimal. We expect the July Federal Open Market Committee (FOMC) statement may signal openness to a rate cut in September.
- We continue to expect two 25bps rate cuts in 2024 and 125bps of easing in 2025, although we stress that the unusually large degree of policy uncertainty makes it unusually difficult to predict monetary policy outcomes.

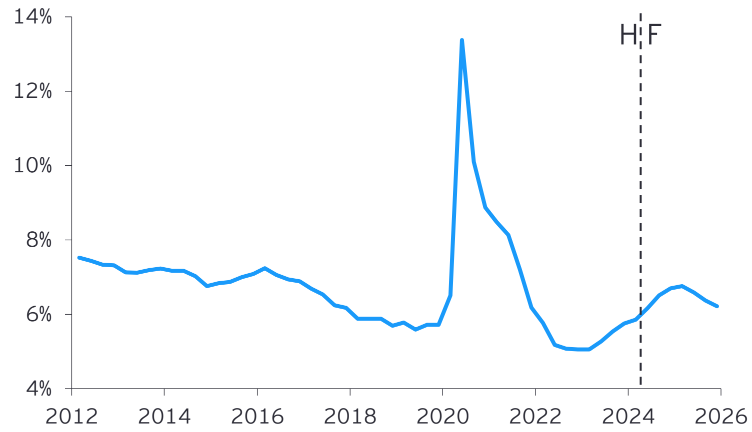
Source: Bureau of Labor Statistics; EY analysis

While high prices and interest rates are near-term upside risk to growth, easing inflation and gradual monetary policy recalibration should support a growth rebound into 2025

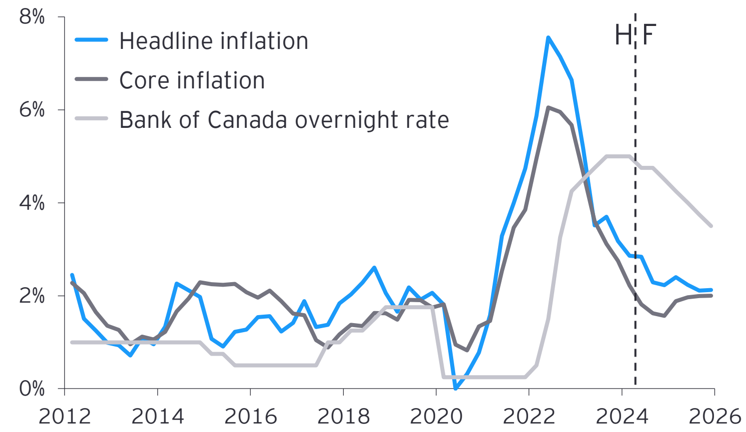
Canada y/y real GDP 2012-25F



Canada unemployment rate 2012-25F



Canada y/y percentage change in CPI 2012-25F

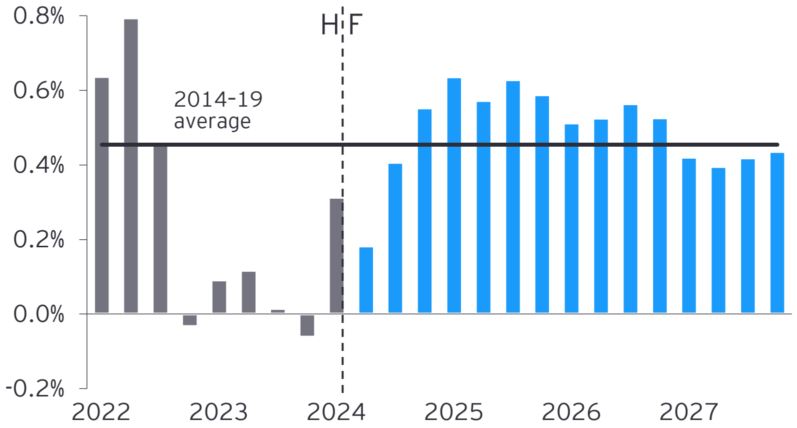


- The Canadian economy remains sluggish, with real GDP growth at only 0.5% y/y in Q1 2024. While elevated costs and interest rates are expected to limit the upside to growth in the coming months, we foresee gradually easing inflation and a gentle easing of monetary policy by the Bank of Canada leading to average growth of 1% in 2024 and 2.0% in 2025.
- On the labor market front, the labor force is expanding with average y/y growth of 2.8% in the first half of 2024, driven mainly by the government's strong immigration targets. Still, despite stronger labor supply, employment growth continues to slow, falling below 2% y/y in Q1 2024 for the first time in three years. Cooler labor demand and stronger labor supply have pushed up the unemployment rate — a trend that we anticipate will continue into 2025 with the unemployment likely to surpass 6%.
- Despite moderate growth in real incomes, household spending has remained relatively flat in recent quarters as household budgets have been constrained by elevated prices and interest rates. Still, lower inflation over the next year should provide ongoing support to income growth and in turn support a gradual acceleration in consumer spending growth . The Bank of Canada's recent interest rate cut in June 2024 was a positive market signal, improving business sentiment and consumer confidence.
- While there was considerable progress on the inflation front in the second half of 2023, the first half of 2024 was characterized by an uncomfortable inflation plateau around 2.7%–2.9%. We anticipate headline inflation will continue to tread sideways in the second half of 2024 before resuming its downward trend in 2025. Core inflation should continue to moderate as well, allowing the BoC to gradually recalibrate monetary policy.

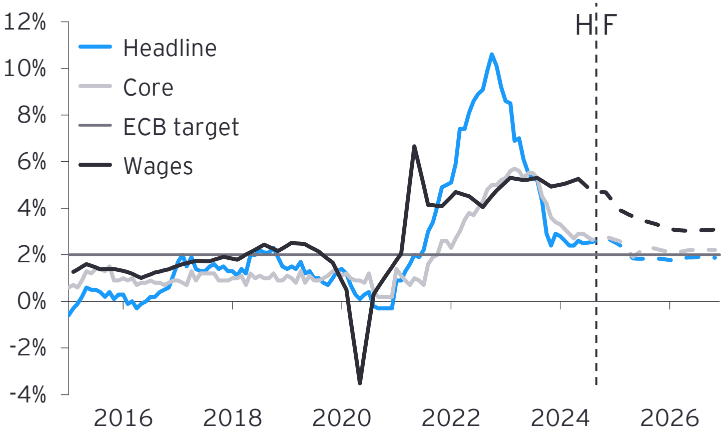
Source: Statistics Canada; Bank of Canada; EY analysis

Growth in the euro area is set to accelerate, while sticky inflation in services warrants cautious monetary policy easing by the ECB

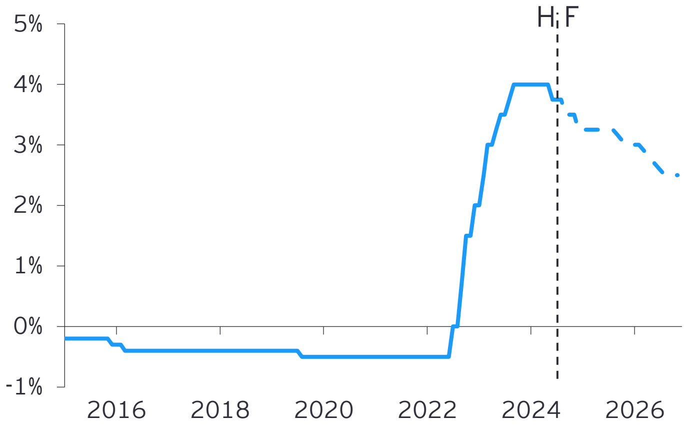
Euro area q/q real GDP growth
2022-27F



Euro area y/y inflation and wages
2015-26F



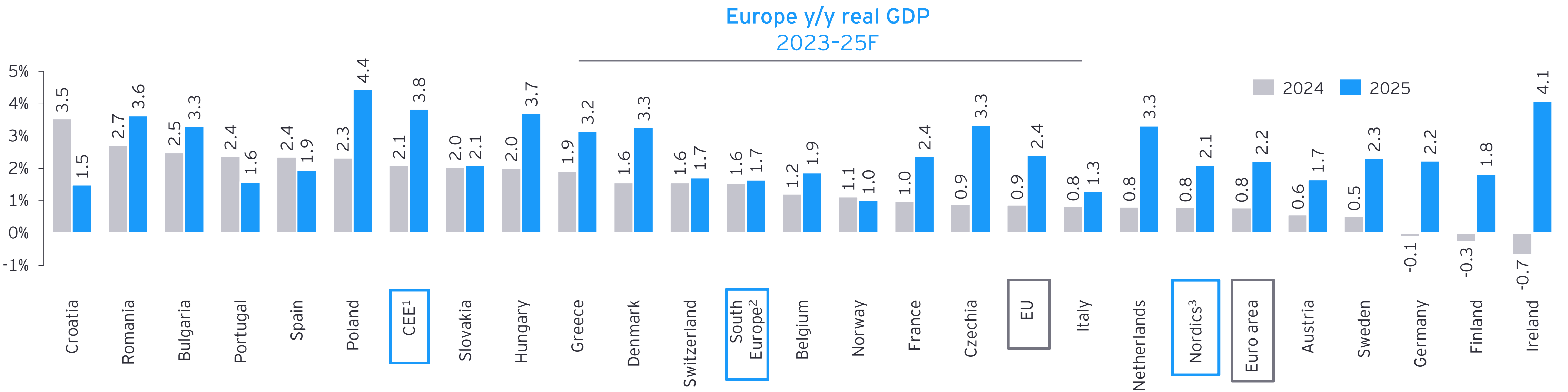
ECB deposit rate
2015-26F



- The euro area economy is no longer in stagnation, but the pace of real GDP growth in the first half of 2024 was modest at 0.2%–0.3% q/q. The rebound in real incomes has not yet translated into a meaningful uptick in consumption. Instead, consumers chose to augment their saving buffers incentivized by relatively high nominal interest rates. Tight monetary policy weighed on private business investment, and fiscal policy was less supportive than last year. The pickup in growth came mostly from exports, aided by rebounding world trade.
- We continue to expect a more meaningful acceleration of GDP growth heading into the second half of 2024 and 2025 as increasing real incomes finally translate into a step-up in consumption growth and business investment accelerates on the back of gradual monetary policy easing and stronger demand while exports continue to recover. Annual average real GDP growth will remain modest in 2024 at 0.8% but should accelerate to above-potential 2.2% in 2025.
- Inflation stabilized close to 2.5% in the first half of 2024, slightly above the ECB's 2% inflation target. Disinflation continued in the food and core goods components, but this was neutralized by a pickup in energy inflation from negative levels and sticky inflation in services, which stabilized around 4% on the back of elevated nominal wage growth. We assess that goods disinflation has largely run its course and services inflation prove persistent in the short term, keeping headline inflation close to 2.5% until 2025 Q1. In 2025, slowing nominal wage growth should lead to further services disinflation pushing core and headline inflation toward the ECB's 2% target.
- Substantially lower inflation than last year and sluggish economic activity led the ECB to initiate the policy easing cycle in June, cutting the deposit rate by 25bps to 3.75%. Looking ahead, inflation in services will likely push the ECB to err on the side of caution, so we expect only two more 25bps rate cuts this year, in September and December. The ECB may temporarily pause its easing cycle in H1 2025 awaiting the confirmation that nominal wage growth is slowing and price pressures in services are subsiding. We estimate the terminal policy rate lies at 2.25%–2.50%, much higher than before the pandemic, but this level of interest rates is likely to be reached only in 2026.

Source: Eurostat; ECB; EY analysis

While the gap in economic performance between Germany and Southern Europe persists, we anticipate gradual convergence toward 2% in the coming quarters



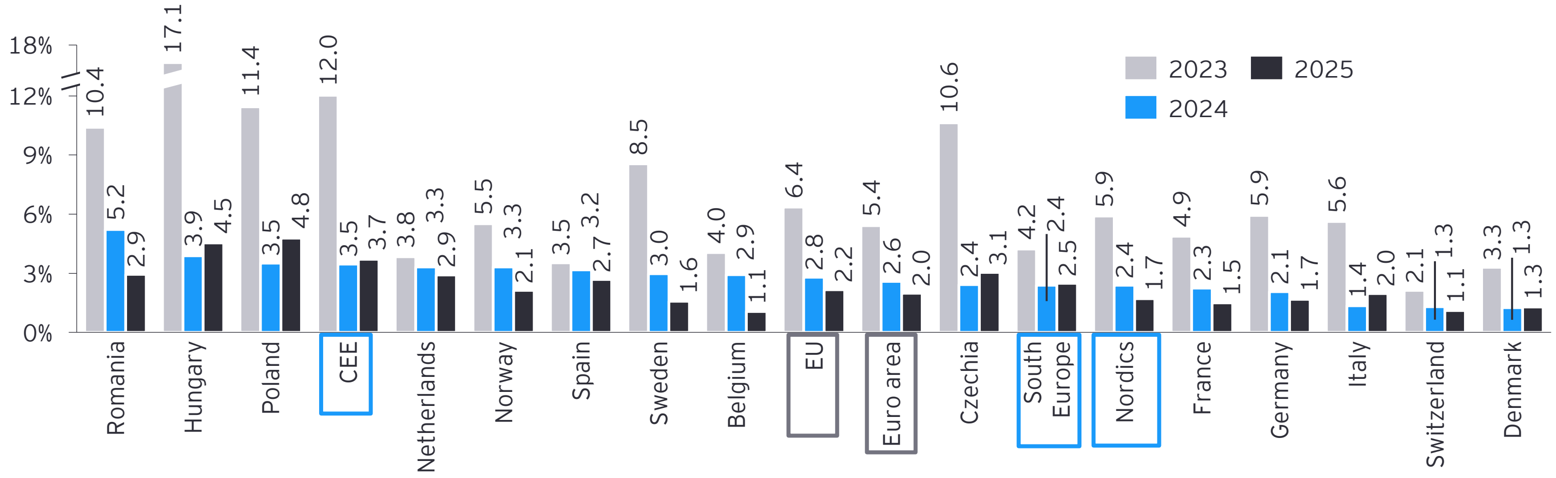
- Economic performance continues to vary strongly across countries. Southeastern Europe (Croatia, Romania, Bulgaria) exhibits the highest GDP growth rates amid very strong wage increases, expansion in tourism and EU funding supporting investment. Southern Europe (Spain, Portugal, Greece) is close behind with similar growth drivers.
- On the other side of the spectrum, Germany remains in stagnation/shallow recession as the industrial sector continues to struggle. Despite a recovery in world trade, businesses are reluctant to invest, faced with weak final demand and high capital costs, while consumers seem unwilling to spend despite increasing real incomes. Nordic economies are also stagnating, as the downturn in the housing market continues to weigh on economic activity.
- That said, fortunes are slowly turning for some economies that previously endured a stagnation or recession; for example, Austria and Switzerland posted strong growth in the first half of 2024. Meanwhile the economic recovery that started in the second half of 2023 in CEE (Poland, Czechia, Hungary) continues though at a somewhat disappointing pace as consumers chose to use a large part of increasing real incomes to extend their saving buffers, while investment slumped as EU funding from the 2014–20 multiannual financial framework ended.
- Going forward, we expect these cross-country divergences to diminish and even partially reverse. Increasing real incomes, recovering world trade and monetary policy easing should lift growth above 2% in Germany, the Nordics and the rest of Central Europe in 2025. Growth in Southern Europe is likely to stay broadly unchanged as a moderate industrial sector recovery offsets modestly slower momentum in tourism and government investment. Real GDP growth in Central, Eastern and Southeastern Europe is expected to exceed 3% in 2025 as consumption and Next Generation EU spending gather pace.

1. CEE includes Czechia, Hungary, Poland, Romania and Slovakia.
2. South Europe includes Greece, Italy, Portugal and Spain.
3. Nordics includes Denmark, Finland, Sweden and Norway.

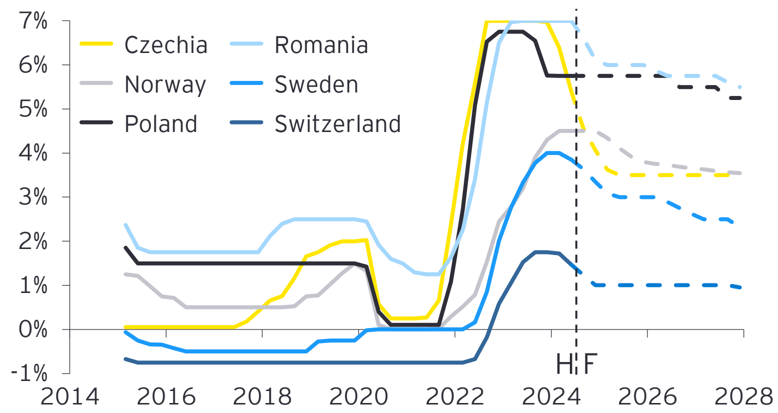
Source: EY analysis

While inflation has fallen below 5% across all of the EU, underlying price pressures remain stronger in CEE, preventing CEE central banks from cutting rates more decisively

Europe Harmonised Index of Consumer Prices (HICP) y/y inflation
2023-24F



Central bank interest rates
2015-27F

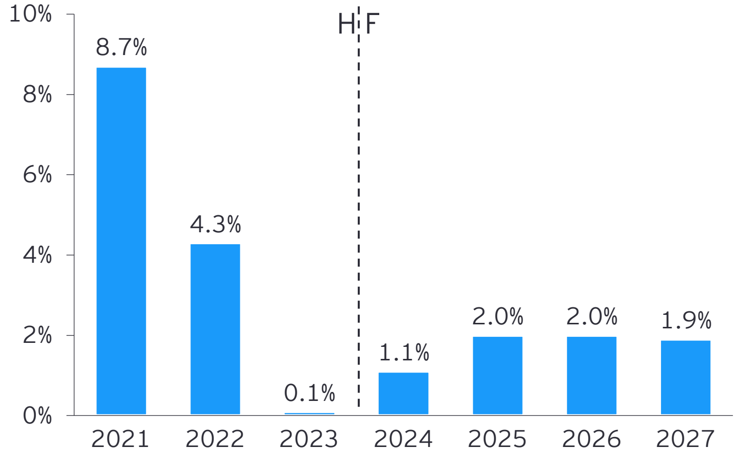


- While rapid disinflation over the course of 2023 and stabilization since the beginning of 2024 has been similar across European countries, the level of inflation and underlying price pressures continue to vary. Key drivers of divergence include domestic demand, wage growth and energy price regulation.
- Romania currently exhibits the highest rate of inflation of close to 5%, standing out as the only EU country where core goods inflation remains elevated. While this is partially due to hikes in regulated prices of medicine, it is also a reflection of strong domestic demand. On the other side of the spectrum, inflation is below 1% in Italy, Finland, Latvia and Lithuania, driven lower by negative energy price inflation. This is mainly due to the unregulated character of energy markets in these economies, with consumer prices responding more directly to energy commodity prices than elsewhere. For the same reason, energy inflation is currently elevated in Belgium and Spain, driving the headline figure above 3.5%.
- Going forward, we expect that price pressures will be strongest in CEE, keeping headline inflation above 3% in 2025 across most of the region due to persistent inflation in services, driven by high nominal wage growth. The highest inflation rates will likely be in Poland and Hungary, with regulated energy prices heavily contributing to inflation in Poland. This will likely prevent CEE central banks from cutting interest rates below 5.5%–6.0%, except for Czechia, where wage and demand pressures are weaker and, thus, we expect interest rates to reach 3.5% by early 2025.
- In most other countries, we expect headline inflation to stay in the 1.5%–3.0% range. The Netherlands and Spain will be closer to the upper bound with persistent pressures in services and food markets, respectively, keeping price growth above 2%. In contrast, in France and Germany we expect food prices to fall, driving headline inflation below 2%.
- The lowest inflation will be recorded in Denmark, Belgium and Switzerland. In Denmark, core price pressures have been particularly subdued, while in Switzerland, a strong Swiss franc and lower inflation allow the Swiss National Bank to cut interest rates once more to 1.0%.

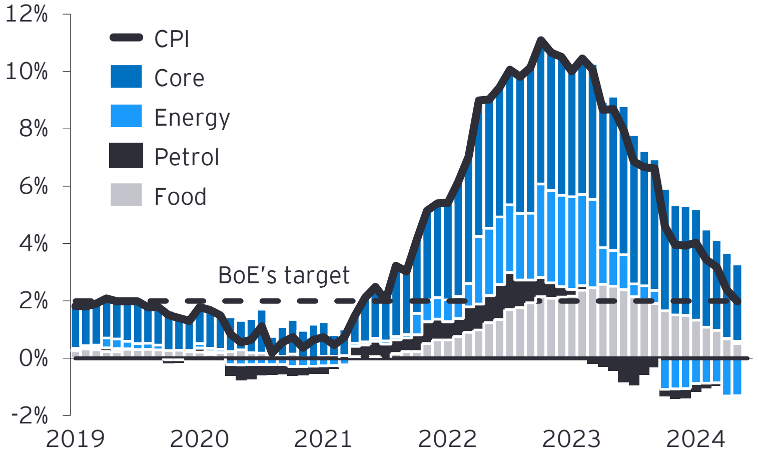
Source: EY analysis

UK growth has been revised up due to the boost in household spending power from lower inflation while a new government may provide welcome policy certainty

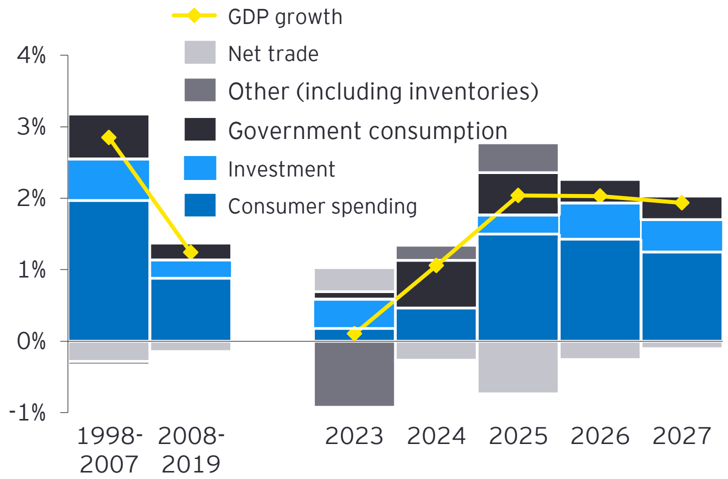
UK y/y real GDP 2021-27F



UK contributions to CPI inflation 2019-24



UK contributions to GDP growth 1998-27F

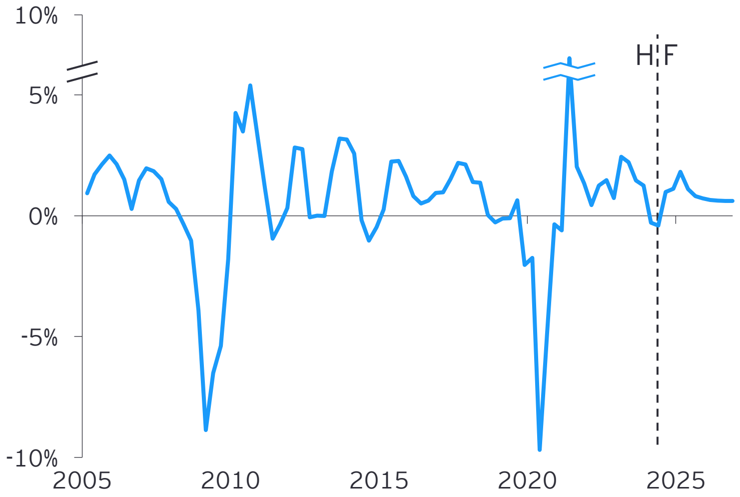


- Stronger economic momentum in the first half of this year has led us to revise our UK real GDP 0.4ppt to 1.1% in 2024. We still expect GDP growth of 2% in 2025 and 2026. The boost to household spending power from lower inflation will be the main driver of stronger activity over the next few years. Firming real disposable income growth should support stronger consumer confidence and lead to a pickup in consumer spending growth. However, the lagged impact of past monetary policy tightening and tighter fiscal policy settings will limit the pace of the recovery.
- The real GDP rebound in Q1 more than offset the small fall in output in H2 2023, with consumers playing a key role in the upturn. Business survey data for Q2 suggests that activity continued to grow at a similar pace. Still, we believe GDP growth was probably slightly softer in Q2 than Q1 for two reasons. First, the fact that Easter was earlier than normal appeared to boost the output of consumer-facing sectors in March at the expense of April. Second, four days of industrial action by junior doctors at the end of June is likely to have caused output in the health sector to dip. More broadly, though, the recovery looks to have durability, with consumers in good shape to keep the momentum going into 2025.
- In May, CPI inflation dropped back to the 2% target for the first time in nearly three years. However, this landmark was reached slightly later than anticipated, after a big upside surprise for services inflation in April. This partly reflected large increases for goods and services where prices are linked to past inflation rates, such as phone contracts and regulated prices. The stickiness of services inflation also reflected so-called second round effects with firms passing on higher wage costs.
- The Bank of England's Monetary Policy Committee (MPC) retains a hawkish bias, but we anticipate 50bps of rate cuts in 2024 and another 100bps of cuts next year.
- The outgoing administration planned tax increases and spending cuts equivalent to more than 3% of GDP over the next five years. By maintaining the existing net debt rule and presenting a fiscally neutral package of small-scale measures in its manifesto, the new UK government has implicitly committed to implementing the bulk of this tightening. Tax increases or tweaking the fiscal rules to remove the costs of Asset Purchase Facility (APF) losses are plausible methods of creating room for higher spending.

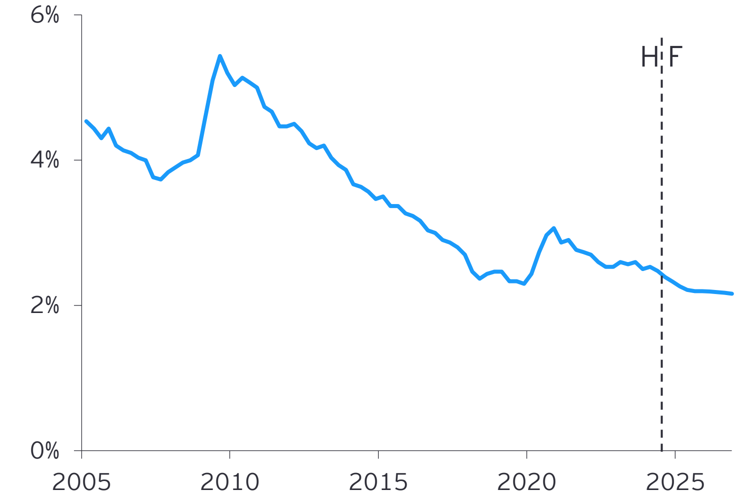
Source: Haver Analytics; Refinitiv; EY analysis

Firmer wage growth and easing inflation should support a cautious rebound in consumer spending even as exports remain subdued; a weak yen could drive tighter BoJ policy

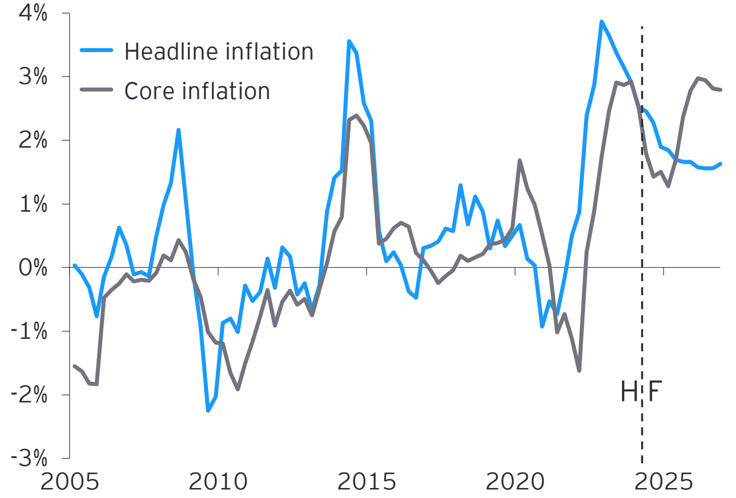
Japan y/y real GDP
2005-26F



Japan unemployment rate
2005-26F



Japan y/y CPI
2005-26F

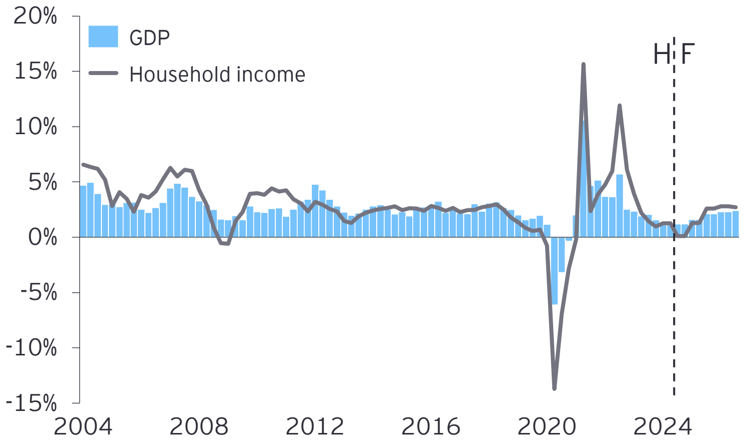


- We anticipate real GDP growth will average 0.8% in 2024 and 0.9% in 2025 supported by rebounding automotive output and tourism activity along with moderate consumer spending growth. A gradual improvement in real incomes stemming from higher wages and lower inflation should support a measured rebound in spending into 2025, but modest global demand for Japanese exports will limit the upside to GDP growth.
- The notable increase in wages during the spring negotiation reflects leading firms addressing significant labor shortages. With inflation gradually fading, we anticipate stronger real income growth will drive moderately more consumer outlays, but the pace of the recovery will be limited by reduced pent-up demand. The rapid rebound in tourism activity has been a key driver of growth in Japan benefiting the leisure, hospitality and retail sectors. We anticipate tourism activity will remain strong driven in part by a relatively cheap yen, but growth momentum is expected to moderate in the coming quarters.
- Business investment should gradually recover as the normalization of automotive production progresses. Still, given elevated material prices and ongoing labor shortage, we foresee business leaders focusing on labor enhancing investments and digitalization. This should support stronger productivity growth heading into 2025.
- Exports should slowly accelerate, supported in part by chips shipments to Asia. Automotive exports to the US are expected to slow, but broader exports should retain some momentum while exports to Europe remain sluggish.
- Inflation is expected to gradually decline from just below 3% to 2% in the coming quarters even as we anticipate some persistence due to second round effects from strong wage negotiations and a temporary rise in electricity costs. We anticipate the Bank of Japan will start reducing JGB purchases in August to ensure long-term rates are more market oriented. The BoJ is also likely to consider a policy rate hike from the current 0.0%–0.1% range toward year-end as yen weakness persists.

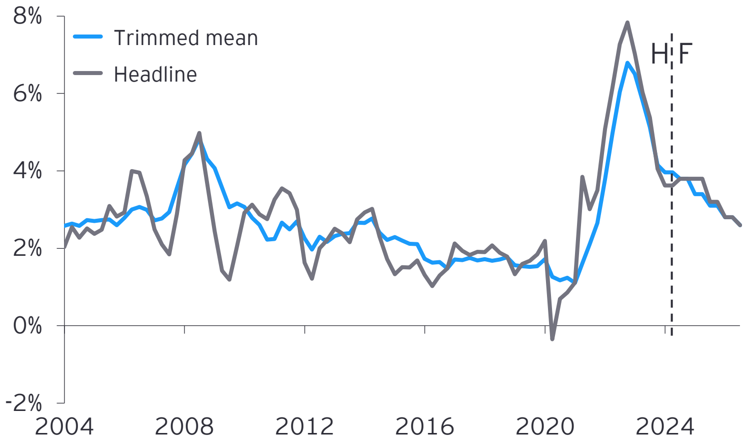
Source: EY analysis

The Australian economy continues to slow due to high interest rates and stubborn inflationary pressure; a slow rebound is expected on firmer income growth in 2025

Australia y/y real GDP and household income 2004–26F



Australia y/y consumer price index 2004–26F



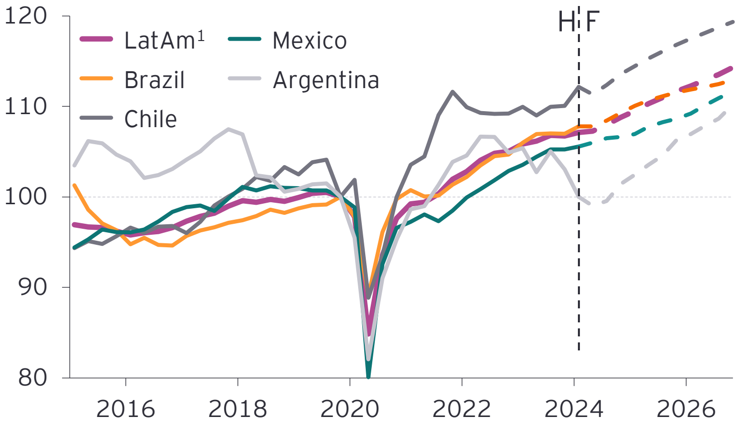
Australia unemployment rate 2004–26F

- The Australian economy has continued to slow, as monetary conditions remain restrictive. Real GDP grew just 0.1% in Q1 2024 and 1.1% y/y, as households were constrained by higher mortgage repayments, taxes and inflation. After a modest 1.6% advance in 2023, real GDP will likely only increase by 1.1% in 2024 before accelerating to 1.8% in 2025.
- There was a mild lift in annual consumption growth to 1.3% y/y in Q1, as demand for transportation, accommodation and eating out was boosted by an unusually large number of sporting and music events. To finance those outlays, consumers dipped into their savings. The saving ratio fell from 1.6% in Q4 2023 to 0.9% in Q1, well below the pre-COVID-19 average of around 6.5%. We expect household consumption to remain subdued going forward as the impact of higher interest rates continue to flow through the economy and population growth moderates. Still, tax cuts and cost of living measures from the federal and state governments, as well as a return to positive real wage growth, should provide some relief for households in the second half of 2024.
- Public consumption and investment was a major contributor to GDP growth in Q1 and for the past four years has remained elevated as a percentage of GDP. Private investment was soft in Q1, while net exports detracted from growth, as demand from Australia's major trading partners waned and weather-related disruptions impacted mining production.
- The Australian labor market has remained in good shape despite a gradual easing in demand for workers and a fall in hours worked. The unemployment rate remains low on a historical basis around 4.0% while the labor force participation rate remains close to its record high at 66.8%. We foresee the unemployment rate rising toward 4.5% by year-end.
- Both headline and trimmed mean inflation continue to moderate on an annual basis. Headline inflation accelerated 0.4ppt to 4.0% in April while core inflation eased 0.1ppt to 4.0% and trimmed-mean inflation rose to a high 4.4%. We see inflation only gradually moving toward 3.0% y/y over the next year.
- The reacceleration in CPI inflation supports our view that interest rates will need to remain at current levels at least until early 2025. Upside inflation surprises will continue to test the Reserve Bank of Australia's resolve, as it has been delaying the timeline by which it expects inflation will get back to the 2%–3% target band.

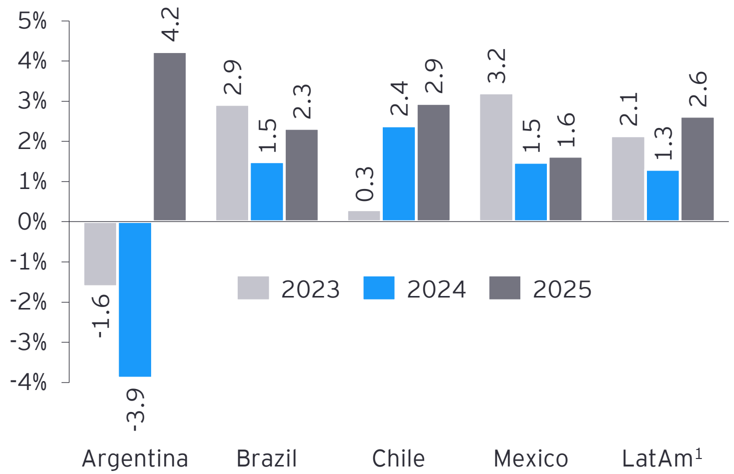
Source: EY analysis

After a year of slow growth, we expect activity in Latin American economies to pick up in the coming quarters

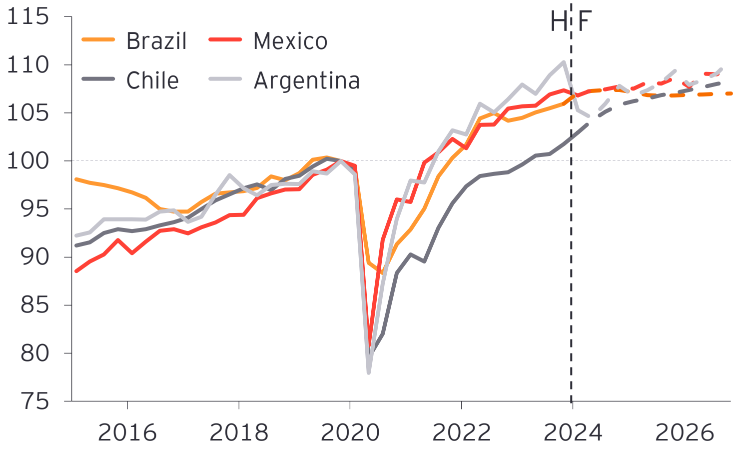
LatAm y/y real GDP
2019 Q4=100



LatAm y/y real GDP
2023-25F



LatAm employment
2019 Q4=100



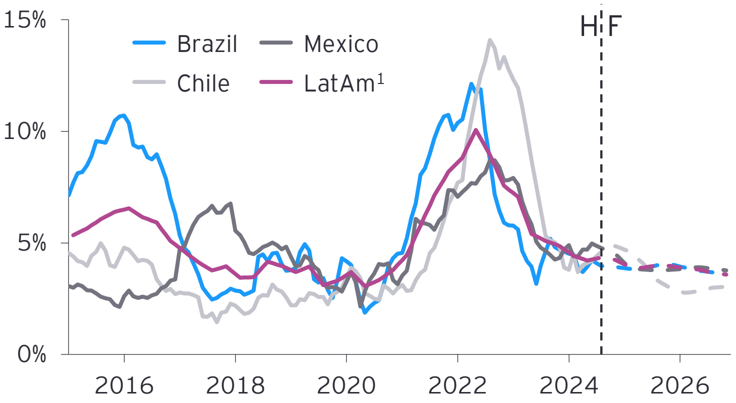
- Following a swift post-pandemic rebound, real GDP growth in Latin America has slowed reaching stall speed of approximately 0.2% q/q in H2 2023 and H1 2024. Restrictive monetary policy has constrained business investment, weak external demand has weighed on exports and the effects of El Nino have reduced agricultural output in some economies. Most notably, real growth in Mexico has slowed materially as business investment growth normalized following a strong lift from increased nearshoring of US firms. Argentina, meanwhile, has experienced a sharp contraction in economic activity as the newly elected President Milei seeks to solve the country's chronic growth issues with a shock therapy.
- Many of the growth headwinds will gradually fade over the coming quarters, as monetary policy is being gradually eased across the region, world trade has begun to recover and the effects of El Nino have largely dissipated. Activity will also be supported by increasing real incomes as wages grow faster than prices. As a result, we expect real GDP to grow near its potential across the region in H2 2024 and into 2025. Still, in annual average terms, GDP growth will slow down from 2.1% in 2023 to 1.3% in 2024 before reaccelerating to 2.6% in 2025.
- Economic performance will vary across economies, with Mexico and Brazil experiencing moderate real GDP growth of 1.5% in 2024 and Chile growing 2.4% on the back of a strong increase in mining output in 2024 Q1. In Peru and Colombia, agricultural output rebounded in early 2024 as El Nino effects dissipated and activity is supported by government investment following local elections, resulting in 1.9% and 2.7% 2024 GDP growth, respectively. Argentina's economy is expected to contract by 3.9% this year.
- In 2025, we anticipate GDP growth to accelerate across most economies, reaching 2.3% in Brazil, 2.9% in Chile, 2.3% in Colombia and 3.4% in Peru. We foresee more subdued activity in Mexico heading into 2025, with real GDP growth staying broadly unchanged at 1.6% as fiscal policy is tightened following the presidential election. Real GDP growth in Argentina is expected to rebound 4.2% in 2025, though the risks are clearly tilted to the downside.

1. Excluding Venezuela.

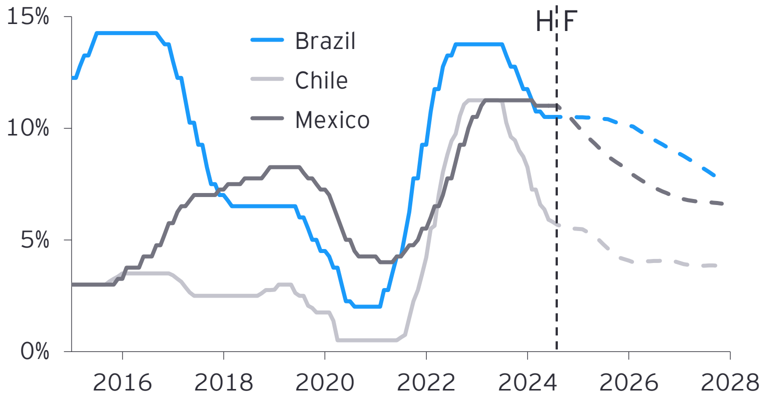
Source: EY analysis

In most LatAm economies, inflation has stabilized slightly above central bank targets; faced with a series of risks, central banks are temporarily pausing the easing cycles

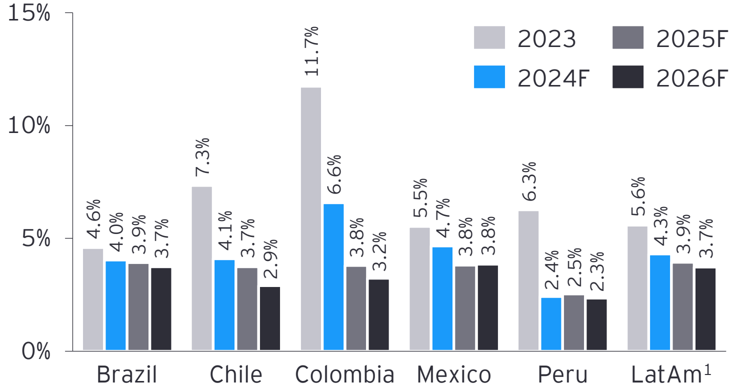
LatAm y/y CPI
2015–26F



LatAm interest rate
2015–27F



LatAm y/y CPI
2023–26F



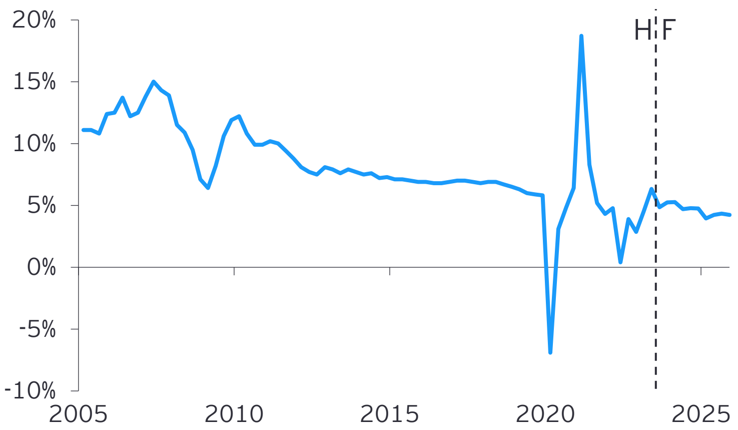
- Since H2 2023, inflation in most Latin American countries has stabilized in the 3%–5% range, slightly above central banks' targets around 3%. Limited central bank credibility and food price shocks related to El Nino are the main reasons for inflation staying above the target levels. In Brazil and Mexico, where inflation expectations hover close to 4%, political pressure on central banks is concerning. Inflation remains higher in Colombia (7.2% in June) and Argentina, where it peaked at 292% in April following sharp peso devaluations and continued monetary financing of the government deficit.
- We expect H2 2024 inflation in Brazil and Mexico to stay close to June's levels of 4.2% and 5.0%, respectively, as disinflation in core components is offset by a further acceleration in food inflation. Next year inflation is expected to hover around 4% in Brazil with a gradual convergence toward the 3% target in 2026 and 2027. In Mexico, we forecast inflation to range around 3.5%–4.0% from 2025 onwards as the food price shock dissipates and inflation aligns with the inflation target. In Chile, price growth will likely accelerate towards 4.5%–5.0% in H2 2024 on the back of a hike in regulated electricity prices. In Colombia, disinflation is expected to proceed at a gradual pace, reaching 3% only in 2027. Finally, inflation in Argentina is projected to decline steeply, reaching double digits by early 2025, though the road to price stability will be very long and bumpy.
- With inflation easing over the last 18 months, LatAm central banks have been easing monetary policy, but the magnitude of rate cuts has varied significantly from 5.5ppt in Chile to a mere 25bps in Mexico. Over the last quarter, however, the surge in food prices, US Federal Reserve's hawkishness, financial market volatility following Mexico's presidential election, and Brazil's president comments regarding monetary and fiscal policy have pushed central bankers in Mexico, Brazil and Peru to err on the side of caution by suspending rate cuts, with Chile likely to follow suit.
- We expect a total of three 25bps rate cuts in Mexico this year (in March, September and Q4) to be followed by 225bps interest rate reductions next year. The central bank of Brazil stayed put in June following 325bps of rate cuts over the previous 12 months. We anticipate this halt to last until the end of the year, with a further gradual easing of monetary policy resuming in 2025.

1. GDP-weighted average for Brazil, Bolivia, Chile, Colombia, Dominican Republic, Mexico, Panama, Paraguay, Peru and Uruguay.

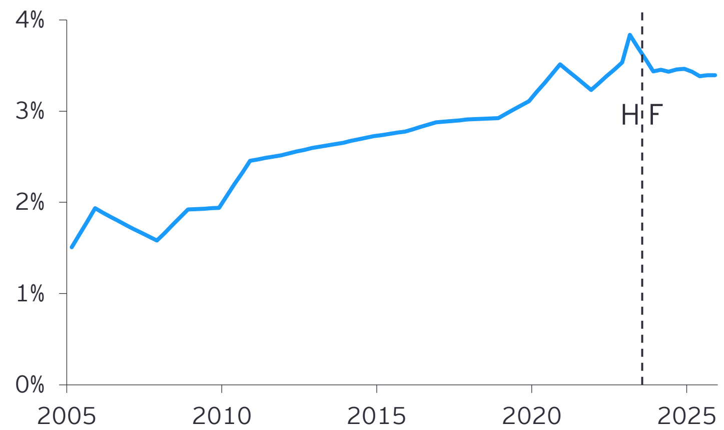
Source: EY analysis

Structurally constrained growth momentum with limited cyclical tailwinds point to a GDP growth deceleration in China amid elevated global trade uncertainty

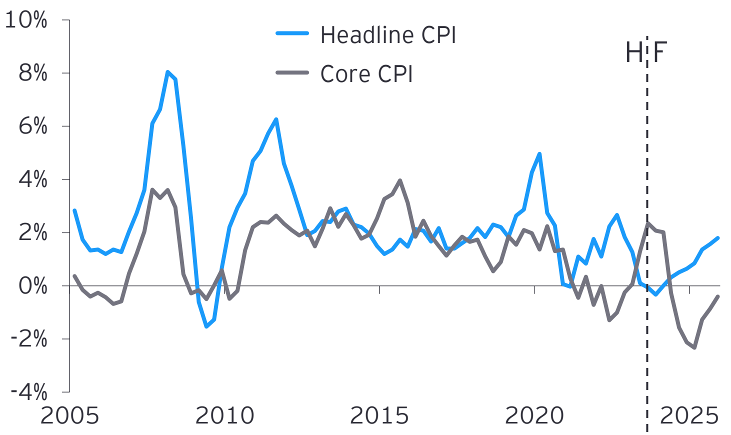
China y/y real GDP
2005–25F



China unemployment rate
2005–25F



China y/y CPI
2005–25F

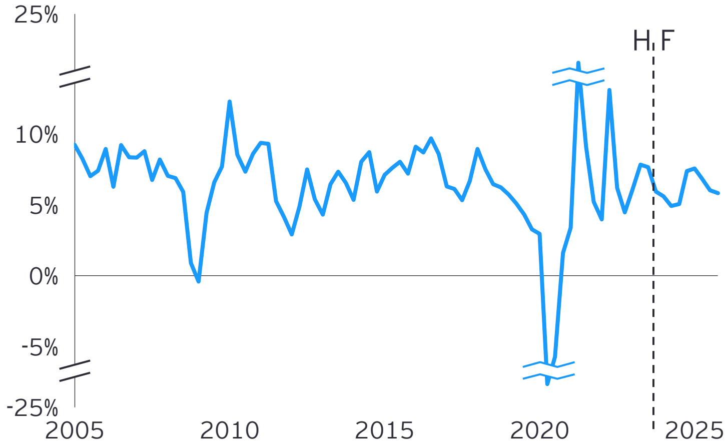


- Mainland China continues to face a combination of structural and cyclical headwinds that will likely limit the upside to GDP growth for years to come. Following a fiscally stimulated 5.2% real GDP advance in 2023, the economy will likely grow around 4.9% in 2024, with a further moderation to 4.2% in 2025.
- On the cyclical front, the economy faces challenges such as rising trade barriers, industrial overcapacity, and sluggish credit and consumer spending growth, which have cast a shadow over the initial positive performance in early 2024. Despite the implementation of fiscal stimulus, fundamental economic difficulties remain. Sequential growth deceleration appears likely in the near term, as the housing market continues to struggle despite significant support measures aimed at reducing the large inventory of unsold properties. Additionally, depressed local government finances from falling land sales revenues will translate into a limited credit cycle.
- Weaker domestic investment activity along with de-risking efforts by some governments around the world have led to negative foreign direct investment in mainland China for the first time in modern history. Meanwhile, consumer spending and demand for credit continue to be weak, complicating the economic outlook.
- On the structural front, challenges such as an aging and shrinking population, persistently high youth unemployment, and elevated household savings are limiting mainland China's GDP growth potential. Authorities are expected to adopt targeted fiscal policy support measures and slightly increase the budget deficit beyond the usual 3% of GDP in 2024, with a focus on supporting the property sector and households.
- Excess supply and subdued domestic and international demand growth have led to consumer price inflation approaching 0%, well below the People's Bank of China (PBoC) target of 3%, with producer prices declining rapidly. The PBoC is expected to favor targeted monetary policy easing through liquidity injections rather than rate cuts, aiming to relieve pressure on bank margins. Still, persistent deflationary pressures pose a significant concern, with data indicating a downward trend in inflation expectations.
- Considering the US Federal Reserve's prolonged period of higher interest rates and the increasing likelihood of more protectionist policies, the People's Bank of China is likely to allow for some currency depreciation to prevent an excessive tightening of domestic financial conditions.

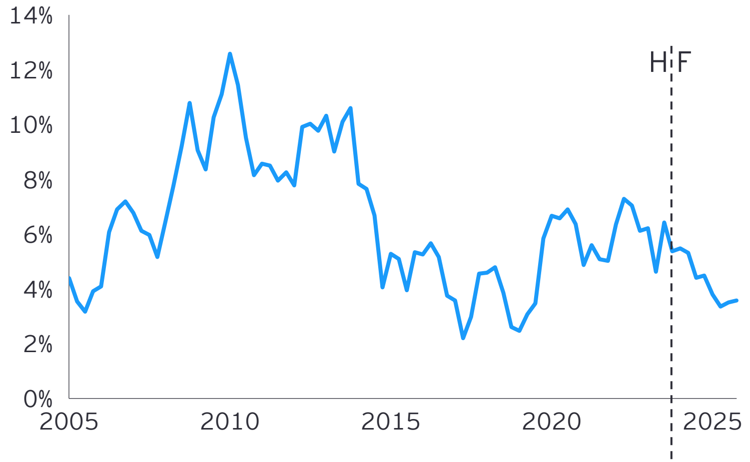
Source: China National Bureau of Statistics; EY analysis

India's economy is expected to remain strong, but mildly more moderate, momentum into 2025 with policy continuity post-election, easing inflation and steady monetary policy

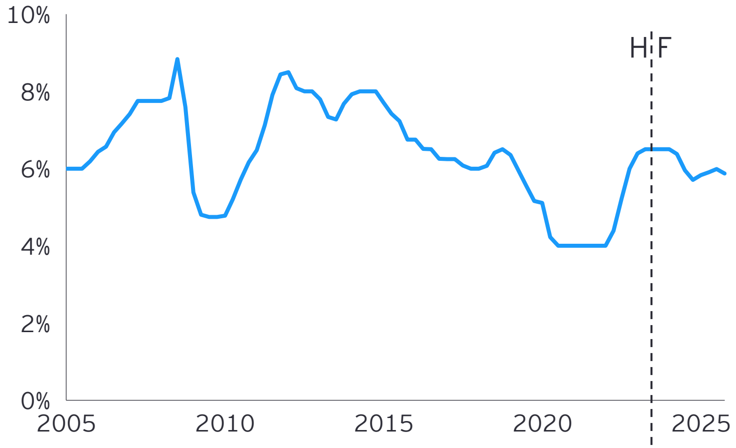
India y/y real GDP
2005-25F



India y/y CPI
2005-25F



India repurchase rate
2005-25F

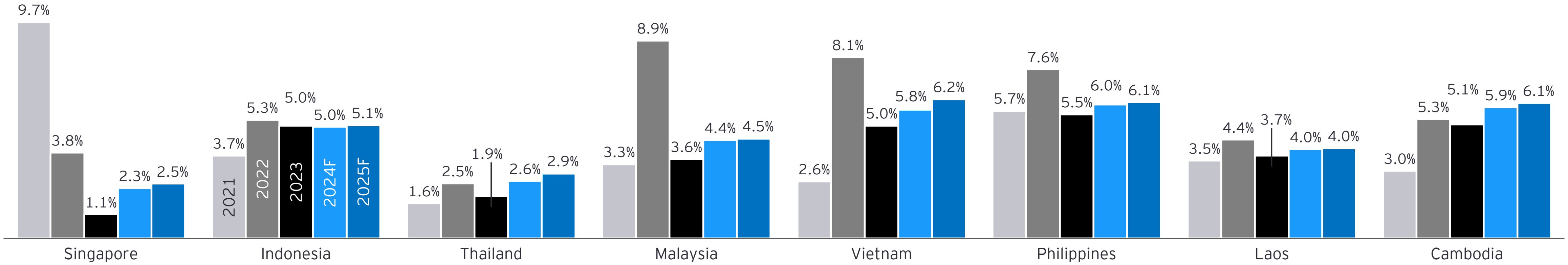


- Real GDP growth of 8.2% y/y in FY24 (April 2023 to March 2024) turned out to be much higher than expected supported by strong public investment and statistical factors (including a lower deflator and higher net indirect taxes). On the expenditure side, strong exports offset slower private consumption growth and business investment momentum. From the production side, growth moderated across all sectors except agriculture.
- In FY25, we expect the Indian economy will remain strong, with real GDP growth moderating slightly to 6.8% due to headwinds from tighter lending standards, fiscal consolidation and fading terms of trade tailwinds. Improving labor market conditions should support private consumption outlays while exports growth slowly firms.
- In the national elections held in April–June 2024, the Bharatiya Janata Party (BJP) remained the single largest party, winning 240 seats but falling short of 272 seats required for a parliamentary majority. However, it formed the government with smaller coalition partners, with Narendra Modi re-elected as PM for a third consecutive term, signaling policy continuity. While the focus on investment and reforms is likely to continue, politically difficult reforms may take a back seat and welfare spending may rise.
- Headline inflation remains above the Reserve Bank of India (RBI) target of 4% even if core inflation has fallen to 3%, the lowest in a decade. Looking ahead, lower energy prices and favorable year-over-year price comparisons should help keep inflation contained, even if poor weather conditions represent an upside risk to food prices, incomes and spending.
- Still, given the strong economic momentum and upside risks to the inflation outlook, the RBI has maintained the repo rate at 6.5%. Its "commitment to a durable alignment of headline inflation with the target" of 4% means any policy easing cycle will be measured and shallow.

Source: Reserve Bank of India; EY analysis

ASEAN growth is poised to accelerate through 2025, driven by robust domestic demand supported by a tight labor market, rising real incomes and rebounding exports

ASEAN y/y real GDP
2021-25F



- We expect real GDP growth across almost all ASEAN economies to accelerate in 2025,[1] resulting in average GDP growth increasing from 4.5% in 2024 to 4.7% in 2025. The growth will be mainly driven by robust domestic demand, a tight labor market, a recovery in tourism, stable prices and a rebound in merchandise exports.
- Last year, private consumption drove more than half of the region's economic growth and was particularly strong in the ASEAN-5 economies.[2] Domestic demand is expected to remain a significant driver of growth in the ASEAN region, as private consumption, underpinned by a tight labor market, remains robust.
- Private investment is expected to increase as financial conditions improve and previously delayed projects resume. We anticipate significant private investments in infrastructure, including Malaysia's multiyear initiatives, Indonesia's national strategic plans (including its new capital city) and the Philippines' flagship infrastructure developments. In contrast, public spending is likely to decrease in the near term as governments focus on improving fiscal positions following pandemic-era expenditures. For instance, in Thailand, private investment grew by 3.2% in 2023, while government consumption and public investment declined by 4.6%.
- We expect the region to see a full recovery in tourist arrivals to pre-pandemic levels by the end of 2025, aided by supportive government policies, such as Thailand's visa exemption initiatives. International tourist arrivals for Malaysia reached 77% of pre-pandemic levels in 2023 and saw a 32% y/y increase in Q1 of 2024.
- Despite ASEAN's lackluster export performance in 2023 (gross exports for all ASEAN economies, except Cambodia, contracted in 2023) due to weak global electronics demand and lower commodity prices, early-2024 data points to a gradual rebound. Global and Asia-Pacific semiconductor sales rose by 15.2% and 11.1% y/y, respectively, in Q1 of 2024. We expect a recovery in the global electronics cycle, boosted by increasing demand for highly advanced chips, will drive a rebound in external demand and support GDP growth.

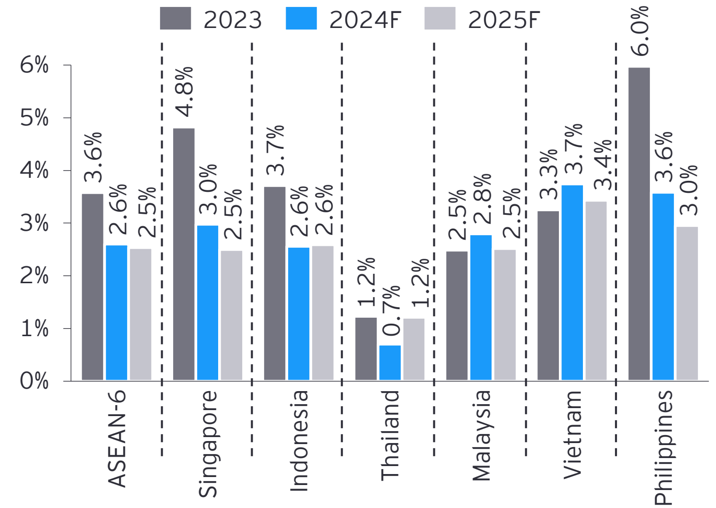
1. We expect Myanmar, whose economy has been weighed down by persistent political uncertainties and eroded investor confidence, to be the only ASEAN country whose growth does not accelerate in 2025.
2. ASEAN-5: Indonesia, Malaysia, the Philippines, Singapore and Thailand.

Source: EY analysis

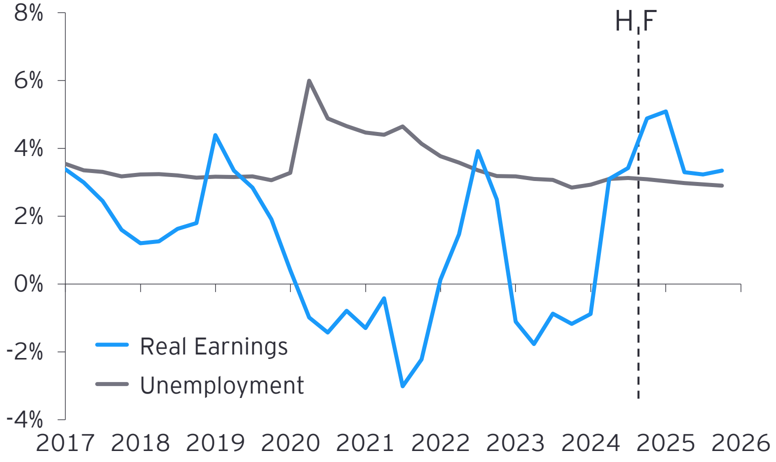
EY Parthenon

Ongoing disinflation should lead to a gradual easing of monetary policy across ASEAN, while FDI flows remain supported by growing corporate diversification efforts

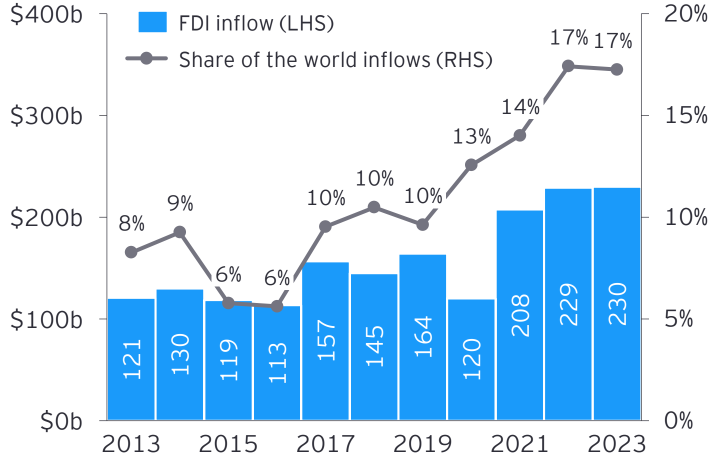
ASEAN-6 y/y CPI 2023-25F



ASEAN-6 average unemployment and real earnings growth rate 2017-25F



ASEAN FDI inflows and percentage share in world inflows 2015-23

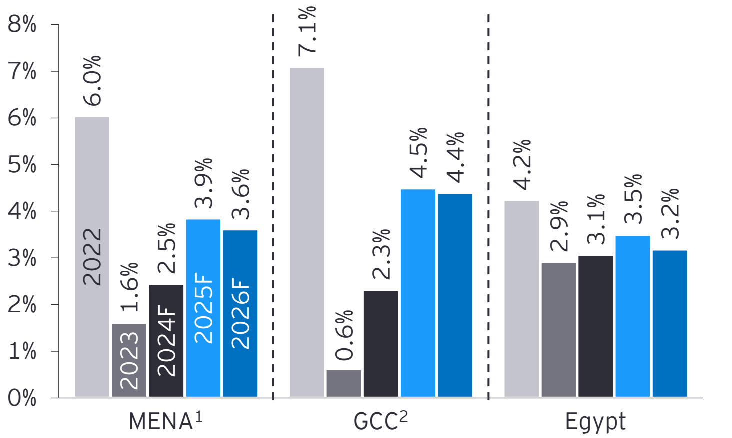


- The ASEAN labor market looks set to maintain its strength through 2025. Malaysia's labor participation is currently at a historical high of 70.3%, and Singapore's ratio of job vacancies to unemployed persons was still relatively high, at 1.6 in September 2023, compared to the pre-pandemic level of 0.9 in December 2019. A tight labor market coupled with cooling inflation is supporting a rebound in real earnings growth, buoying private consumption growth in the ASEAN region.
- We expect inflation to continue trending downward, in line with the easing of global commodity prices. As of June 2024, all ASEAN countries (other than Vietnam) had their policy interest rates equal to or higher than their pre-pandemic levels as a result of tightening cycle that began two years ago. As we expect inflation to cool in the majority of ASEAN economies in 2025, we anticipate monetary policy loosening in most ASEAN countries over the next 18 months, with Indonesia and the Philippines easing as early as Q4 2024.
- The ASEAN region has in recent years been seen as a sweet spot for supply chain destinations. ASEAN foreign direct investment (FDI) inflows rose to a record US$230b in 2023, up from an annual average of US$186b between 2020 and 2022, as companies looked to diversify their supply chains. ASEAN FDI inflows in 2022 exceeded flows to China for the third consecutive year. According to a recent poll commissioned by Eastspring Investment, Southeast Asia has risen by one place to become the fifth most important link in companies' supply chains for the next decade. Geopolitical tensions and supply chain challenges remain important influencing factors for diversification and relocation activities, with ASEAN being a major beneficiary.

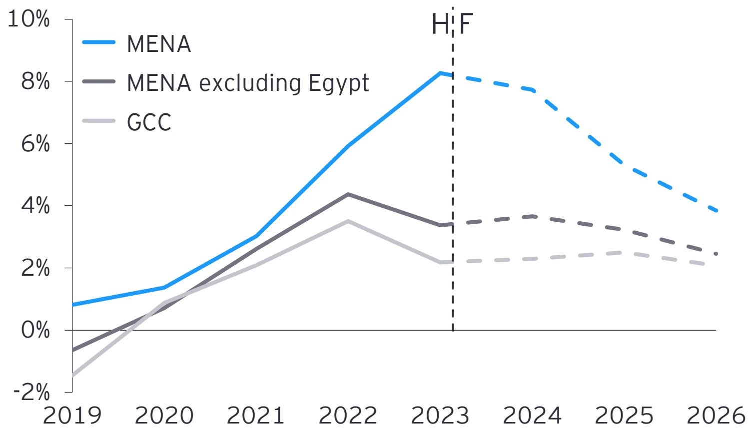
Source: EY analysis

Economic growth should gradually firm across MENA, led by GCC economies, with inflation slowly easing and central banks cautiously recalibrating

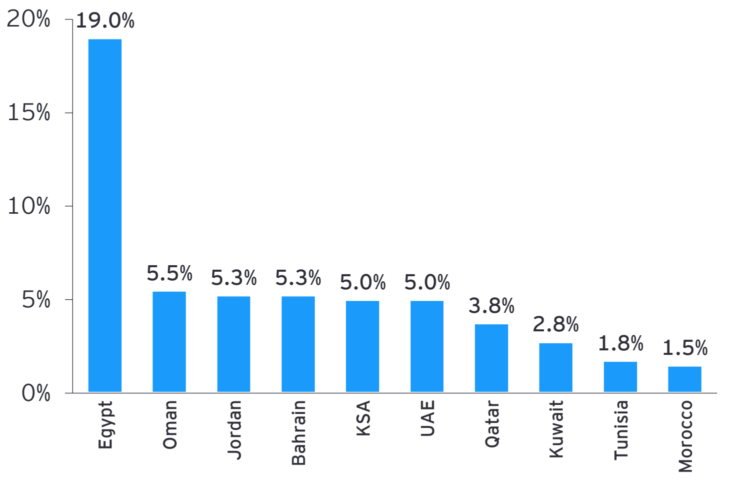
MENA y/y real GDP
2022-26F



Headline inflation rates in the MENA region
2019-26F



Interest rates policy change since 2021
Absolute change 4Q21/1Q24

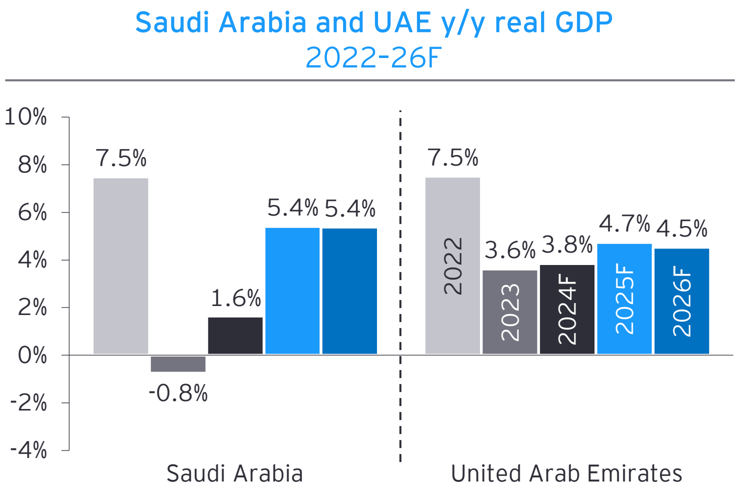


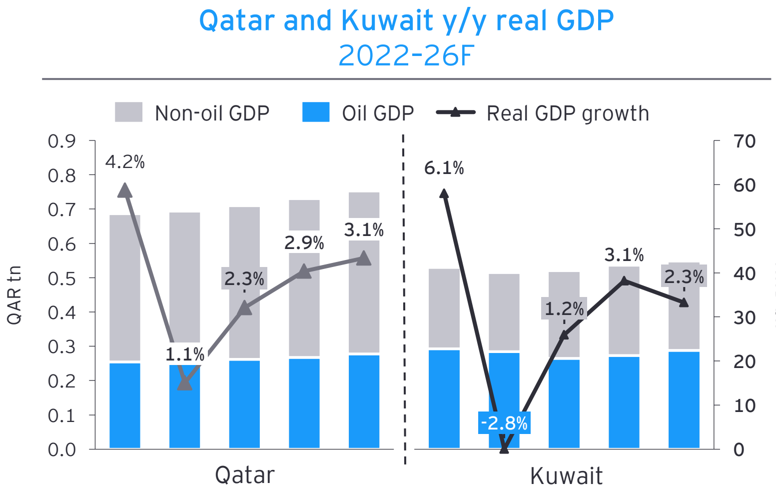
- Real GDP growth in the MENA region[1] should accelerate from 2.5% in 2024 to 3.9% in 2025 as OPEC+ looks to unwind oil supply cuts and non-oil GDP growth in the GCC region[2] accelerates.
- OPEC+ members are currently cutting oil output by a total of 5.9 million barrels per day (mbpd), or about 5.7% of global demand. Those include voluntary cuts of 2.2 mbpd by eight members that are scheduled to expire at the end of September 2024 and cuts of 3.7 mbpd that are set to expire by the end of 2025.
- Inflation is projected to continue its downward trend in MENA economies. While headline MENA inflation rose to 8.3% in 2023, this was largely influenced by high inflation in Egypt. We anticipate MENA inflation will ease toward 7.7% in 2024 and 5.3% in 2025 as tighter monetary policy takes effect across the region. Still, high inflation will persist in Egypt and Lebanon due to currency devaluations and the consequent impact on import costs.
- The MENA region has seen further interest rate hikes this year, mainly from Egypt (800bps). Importantly though, since GCC currencies are pegged to USD, central banks will likely ease policy as the Fed begins its recalibration process later this year.

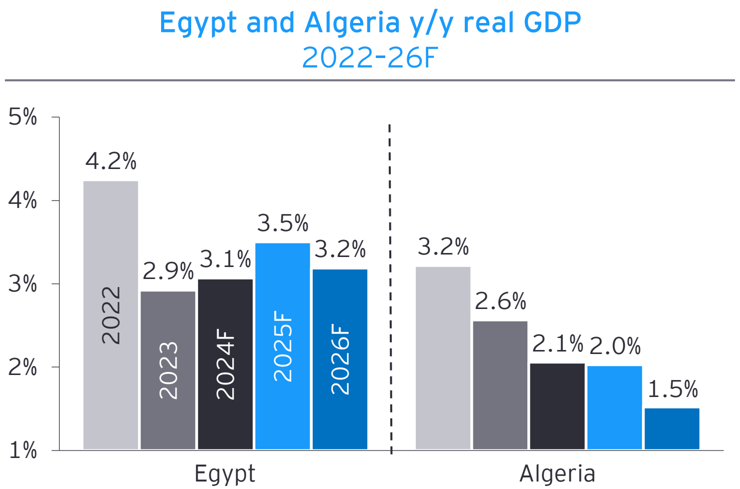
1. MENA includes Algeria, Bahrain, Egypt, Iraq, Israel, Kuwait, Morocco, Oman, Qatar, Saudi Arabia and the UAE.
2. GCC includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates.

Source: Oxford Economics; EY analysis

The UAE, Kuwait and Qatar should lead the way in terms of average GDP growth over the next couple of years followed by Saudi Arabia and a lagging Egyptian economy





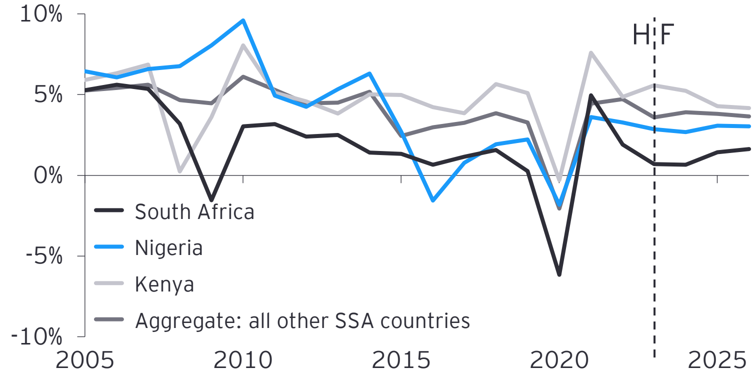


- Real GDP growth in Saudi Arabia should only rise to 1.6% in 2024 — constrained by extended OPEC+ oil supply cut — before accelerating to more than 5% in 2025. Non-oil GDP growth should remain driven by tourism and construction activity, despite the downsized or delayed giga projects. Saudi Arabia reached its target of 100 million tourists (domestic and international) in 2023 (+156% from 2019) seven years ahead of the original plan. It has set an ambitious target of 150 million tourists by 2030 and secured US$13b in private sector investments in the tourism industry over the coming two years.
- UAE's economy is projected to expand at 3.8% in 2024, accelerating to 4.7% the following year. Growth should be driven by higher oil GDP as the country has been given an additional production quota of 300k barrels a day to be phased in gradually over the first nine months of the 2025. The S&P Global United Arab Emirates non-oil Purchasing Managers' Index (PMI) fell to an eight-month low of 55.3 in April from 56.9 in March. This slowdown was largely attributed to heavy rainfall disrupting business operations and impacting sales, which also led to a sharp rise in backlogs of work.
- Qatar's real GDP growth is expected to normalize around 2.5% in 2024–25 following large swings in tourism and construction activity around the 2022 World Cup. While Qatar is no longer in OPEC+, the country's hydrocarbon sector is expected to support the medium-term outlook through the ongoing LNG (liquefied natural gas) expansion.
- Kuwait's oil GDP is expected to grow 3.0% y/y in 2025, following an estimated contraction of 6.8% in 2024 due to oil supply cuts, while non-oil GDP is projected to increase by 2.3%-3.0% in 2024–25. Tight global monetary conditions and public expenditure cuts are expected to further delay non-oil transition, currently standing at 49% of Kuwait's GDP.
- Egypt's economy is on a path to recovery. Real GDP is expected to advance a modest 3.1% in 2024 due to elevated inflation and interest rates constraining consumer spending. The Egyptian government, as a part of its state-owned assets sale program, struck a US$35b deal with the UAE to develop the Ras El-Hekma coastal city. This, along with the IMF's loan facility extension from US$3b to US$8b, should support the economy.

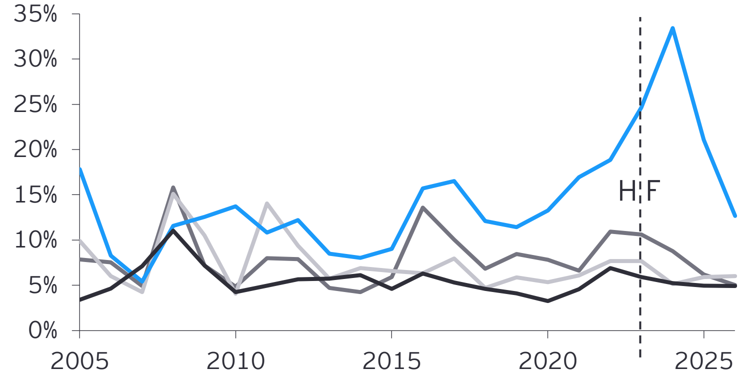
Source: Oxford Economics; EY analysis

The overarching Sub-Saharan African outlook is promising, despite sovereign debt challenges and stubborn inflationary pressures in some areas

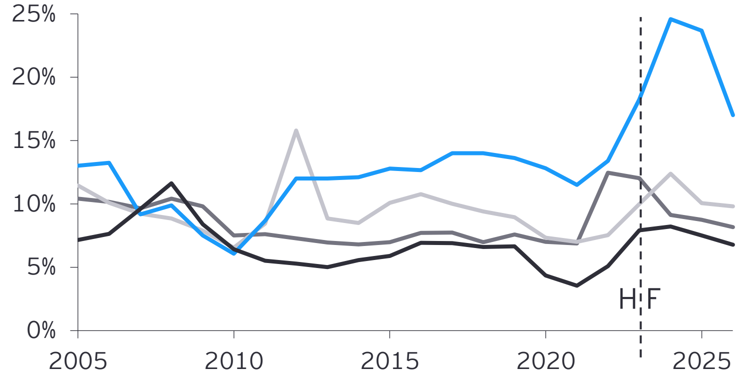
Sub-Saharan Africa y/y real GDP 2005–26F



Sub-Saharan Africa y/y inflation 2005–26F



Sub-Saharan Africa repurchase rate path 2005–26F



- The outlook for Sub-Saharan Africa is promising, notwithstanding pockets of stubborn inflation, exchange rate pressures and a push for fiscal consolidation amid generally elevated debt levels. Aggregate real GDP growth across the region is forecast to reach 2.6% in 2024 and 3.0% in 2025. Abstracting from Nigeria, where inflation is set to spike in the wake of sudden FX depreciation, inflation is expected to slow from 10% in 2023 to 5%–7% in the coming years. As a result, monetary policy is expected to ease gradually.
- South African GDP growth stands out as lackluster among its SSA peers. We expect the economy will grow less than 1% in 2024, before a moderate improvement in 2025 and 2026. Following the May 2024 elections, the establishment of a Government of National Unity (GNU) has been well received by financial markets, as evidenced by the significant appreciation of the rand. Although it is early in the political cycle, there is optimism that the new government may introduce pro-growth policies. Additionally, the inflation outlook is promising with headline inflation expected to settle around the midpoint of the central bank's 3%–6% target band. As a result, the policy rate is expected to decrease between 100bps and 150bps by the end of 2026.
- Nigeria's transition from a semi-fixed exchange rate to a floating regime in 2023 has led to significant currency depreciation and substantial inflationary pressures. Forecasts suggest an average inflation rate for 2024 of ~33%, which has led the Bank of Nigeria to implement aggressive monetary tightening. We expect the repurchase rate will rise by a cumulative 600bps between end-2023 and end-2024, severely constraining interest rate sensitive sectors and exacerbating consumer affordability constraints. Despite these challenges, the Nigerian economy is projected to grow around 2%–3% in real terms over the next three years, given better-than-anticipated oil production.
- In Kenya, economic growth has been somewhat tempered by severe flooding in 2024 and relatively high interest rates. Consequently, growth forecasts have been adjusted to approximately 5% annually through 2026, down from an earlier expectation of over 6%. Further, the Kenyan government proposed a suite of new tax measures in its latest budget to bolster fiscal consolidation efforts. These changes were met with public protests given an already high cost of living in the country. Consequently, some of these measures have been repealed, such as a new sales tax on bread and cooking oil, higher taxes on financial transactions, a 2.5% annual tax based on vehicle value, and an eco-levy targeting sanitary pads, diapers and digital products.

Source: EMIS (2024); Central Bank of Nigeria (2024); EY analysis

EY Parthenon

Agenda

- Thriving in a new normal
- Global executive briefing
- Six global themes
- Exploring risks and opportunities
- Country and regional outlooks
- **Meet the team and explore our resources**

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