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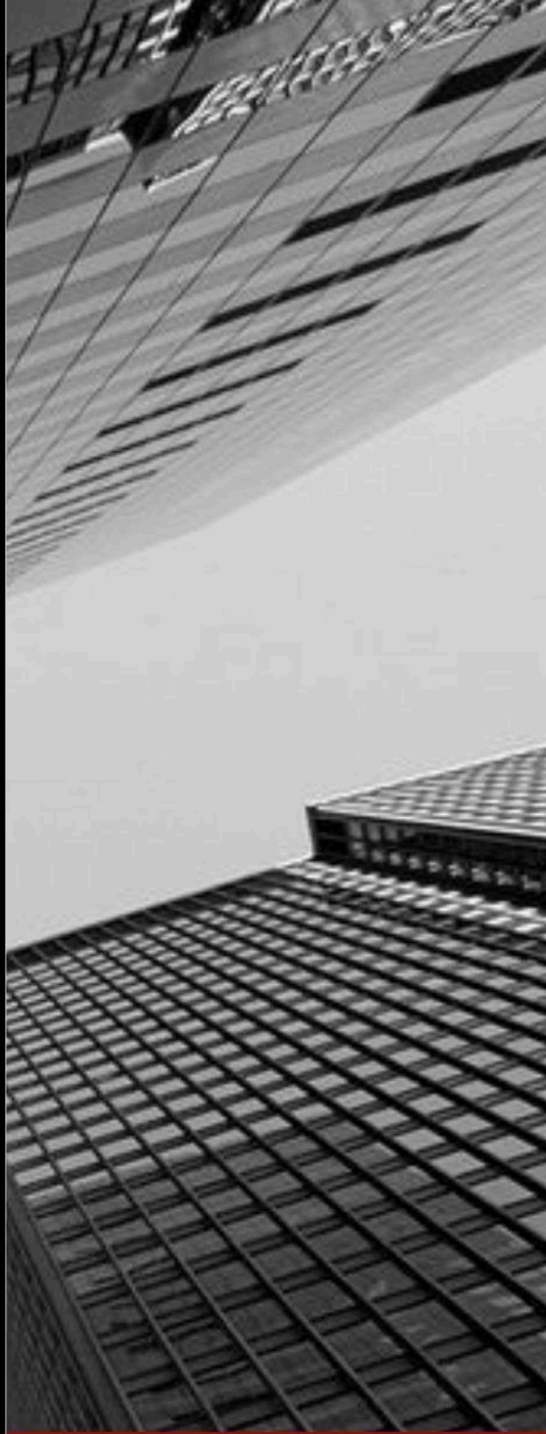


2024

ECONOMIC OUTLOOK FOR PORTUGAL AND LEADING GLOBAL NATIONS

The Macroeconomic Outlook Team

Bruno Matos

Project Manager & Supervisor

Francisco Maia

Project Manager & Supervisor

Inês Oliveira

Analyst

Alexis Dolack

Analyst

Francisco Camoez

Analyst

Olavo Pimenta

Analyst

Leonor Mendonça

Analyst

Macroeconomic Report

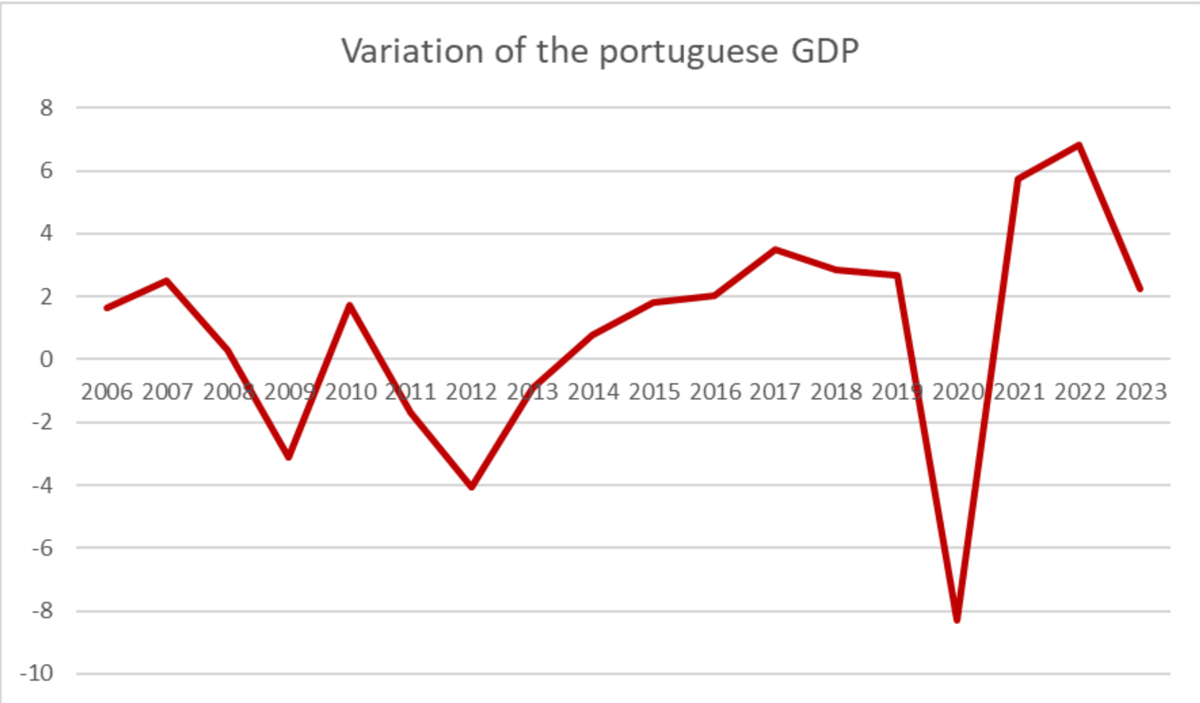
Portugal and Europe

In 2023, the Portuguese GDP grew by 2.3%, falling below the 2.5% expected for that year, and the 6.8% growth in the previous year. This growth meets the modest performance of the country in recent years. In 2022, the growth was bigger since Portugal was recovering from the COVID lockdown in the previous years that affected the GDP, especially in 2020, in which there was a reduction of 8.3%.

From 2000 to 2005, the Portuguese GDP grew very slowly, except in 2003, in which there was a decrease in the GDP. These numbers can be justified by a global recession that affected the countries in the Eurozone, a reduction in investments, and debt.

The next years were marked by the Great Recession that started in 2008 in the United States with the bankruptcy of Lehman Brothers. This recession affected mainly Portugal, Italy, Greece, and Spain, triggering a debt crisis and making it difficult for these countries to finance their debt.

This situation led to governments taking austerity measures. Portugal had to implement a series of austerity measures, cutting public spending and raising taxes, after Portugal received an economic rescue in 2011. During these years, the Portuguese GDP decreased almost every year (except in 2010), from 2008 to 2013.



Source:Pordata

During this period, the GDP of the European Union also decreased in some years, especially in 2009, when it decreased by 4.3%. To prevent a situation like the 1930s, the European Central Bank took measures to support the liquidity of the banks. The governments of the European countries took measures to support their banks, like increasing deposit insurance ceilings and providing guarantees for bank liabilities.

The biggest GDP in Europe are Russia , Italy , France , United Kingdom and Germany , being that of the 5 biggest GDPs in Europe, 3 are from the European Union . Despite the economic sanction applied to Russia , the country still has the fifth biggest GDP between the European countries and it is expected a growth of 2,8% in 2024 .

The third biggest GDP is also from a country outside Union European (United Kingdom) .In 2023 the country only grew 0,1%, while in the first quarter of 2024 there was a growth of 0,6%,confirming that UK is leaving the economic recession.

Germany remains the European country with the largest GDP. However, between 2023 and 2022, there was a reduction in GDP by 0.3%. The German government attributes these numbers to high interest rates, low demand, German exports, and a series of strikes. For 2024, a growth of 0.3% is anticipated, followed by a growth of 1.2% in the subsequent year.

The next years were marked by slow growth in the GDP of the European countries, including Portugal, until 2020. In 2020, due to the COVID crisis, the European countries took several measures to avoid the spread of the virus. These measures resulted in the closure of the economies, leading to a decrease in the GDP.

For the next years, the Bank of Portugal expects the growth of the national GDP to proceed at a slow pace. It anticipates a deceleration of growth in 2024 to 2%, followed by growth of 2.3% in 2025 and 2.2% in 2026. According to the institution, the Portuguese GDP will outpace that of the Eurozone, with expected growth of 0.6% in 2024 and 1.5% and 1.6% in the following years.

Portugal is one of the 20 countries in the Eurozone, so it uses the euro currency. This currency is used by 240 million people. It is the second-largest reserve in the world and the second in terms of trading volume. The value of the euro is influenced by the economies of the countries in the Eurozone and the policies of the European Central Bank.

In 2022, the euro reached one of the lowest values compared to the American dollar when the euro devalued below the dollar. This can be explained by the risk of a recession in Europe after the COVID crisis and high inflation in Europe.

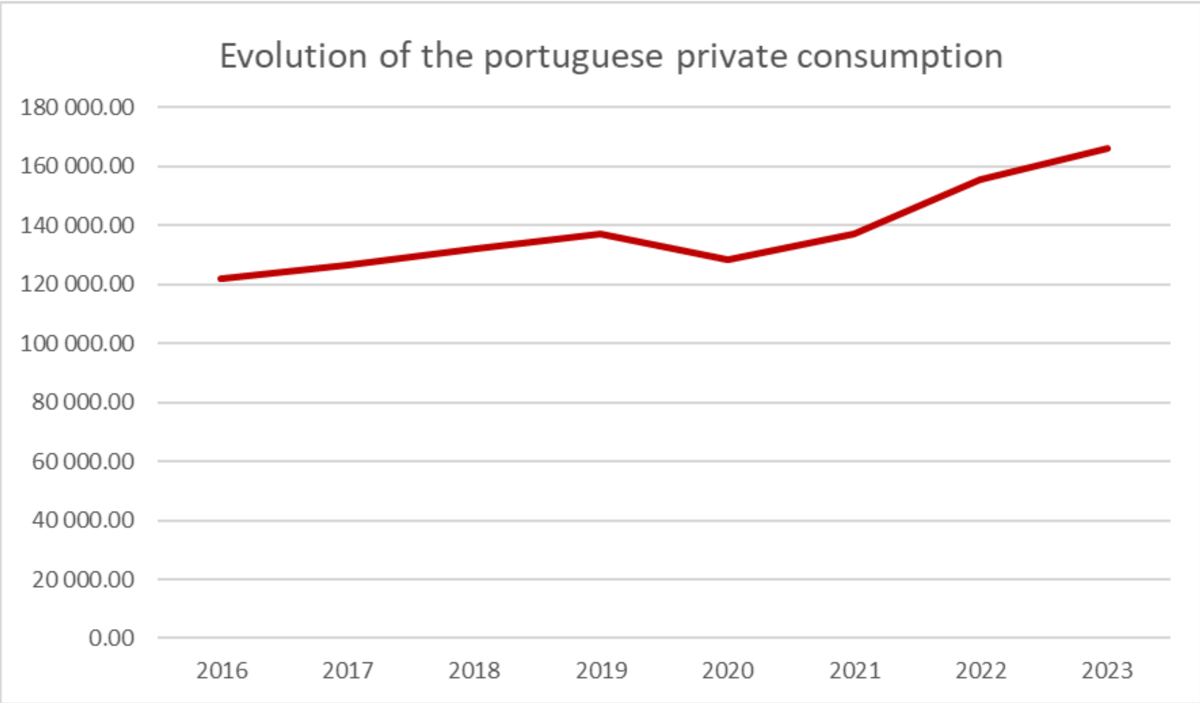
Moving to unemployment, in 2023, Portugal registered an unemployment rate of 6.5%, below the 6.7% expected. This value surpasses the 6.1% in the previous years, mainly with an increase in unemployment in the under 25 age group, since it increased from 19.1% to 20.3%. In 2023, the European Union had an unemployment rate of 6%, a value above the 6.5% among the Eurozone countries. The countries in which this rate is higher are Sweden (7.9%), Greece (9.6%), and Spain (12%). On the other hand, the countries that verified lower unemployment rates were Czechia (2.9%), Poland (2.8%), and Malta (2.5%).

For the next years is expected that the unemployment rate will stabilize at 6,5% ,while its expects a positive variation in employment. While the number of employments grew 0,9% in 2023 it is expected a grow of 0,7% in 2024, 0,6 in 2025 and 0,5% in 2026.

Since Portugal is one of the countries in the Eurozone, its interest rates are influenced by the European Central Bank, as the bank defines the reference interest rate for Europe. The Bank of Portugal can't change interest rates directly in Portugal but can take measures to influence the economic and financial conditions of Portugal. Since 2022, the ECB has increased continuously, moving the rate to 4%. This increase is a way to fight the high inflation felt in Europe. With the increase of the interest rates, the ECB tries to reach the goal of the 2% inflation rate by 2025.

The projections from the Bank of Portugal meet the ECB's goals, with an expected inflation rate of 2.4% for 2024, 2.0% for 2025, and 1.9% for the following year. These projections are consistent across Eurozone countries, as the institution anticipates inflation of 2.3% for 2024, 2.0% for 2025, and 1.9% for 2026.

In 2023, Portugal recorded private consumption of €166,156.82 million, with an expected growth of 2.1% in 2024, followed by 1.9% and 1.8% in the subsequent years. Public consumption had a positive variation of 1.2% in 2023, and a similar variation is expected for 2024, with anticipated growth rates of 0.9% for both 2025 and 2026. The Bank of Portugal estimates that both private and public consumption will decrease in relevance to the national GDP, while the savings rate is projected to remain above 8% in 2024.



Source: Bank of Portugal

USA

GDP and output gap overview

Over the last ten years, the American GDP has been increasing at an average rate of 4.89%, reaching the highest mark of all time of $27,360.94 million in 2023. The remarkable increase after the COVID-19 pandemic in 2020 has put the American GDP in a positive output gap situation, as seen in Figure 3.

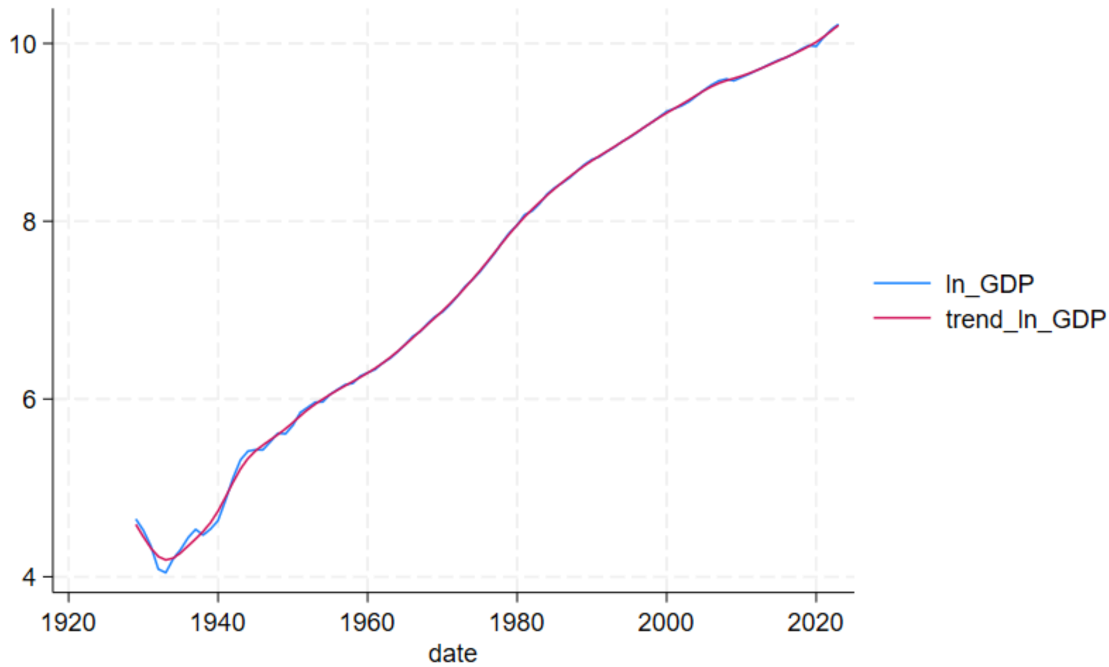


Figure 3- Logarithmic form of the American GDP and its trend

Created by: ITIC's Research team

Figure 3 represents our achieved logarithmic form for the American GDP using the Hodrick-Prescott (HP) filter, ranging from 1929–2023.

In 2023, we saw that the US economy had avoided recession scenarios and made substantial progress towards a soft landing. However, the US economy has proved more resilient than predicted due to the rise in interest rates; for instance, the GDP growth between 2022 and 2023 was 6.28%. Nonetheless, the labour market continued its rebalancing process. Concurrently, inflation rates fell, a trend that was anticipated by the discrepancy between GDP growth and the economy's potential growth, which led to a subsequent increase in interest rates and an adjustment in the inflation rate.

For 2024 we anticipate a relevant acceleration in the US economy due to the sharply diminished fiscal and monetary policy tightening, see Figure 4.

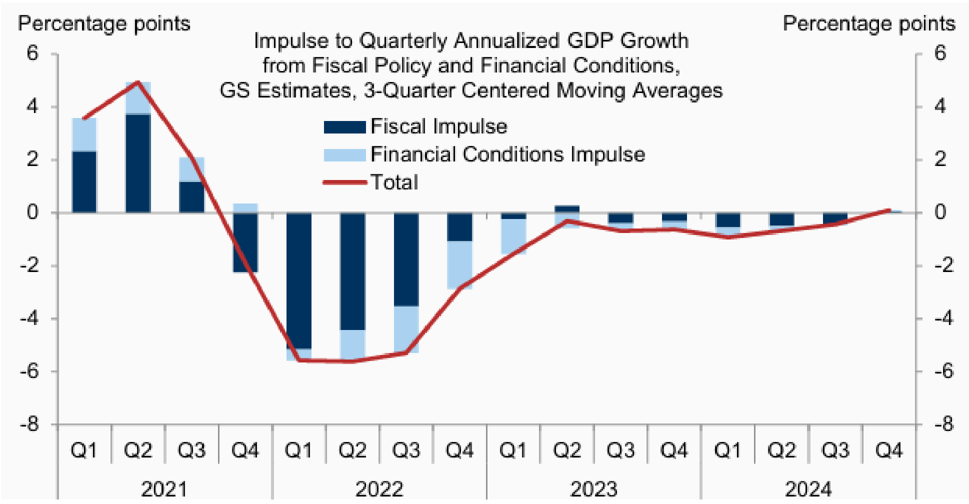


Figure 4- The drag on GDP growth from Fiscal and Monetary Policy tightening peaked in 2022, declined sharply in 2023, and should remain modest in 2024
Source: Goldman Sachs Global Investment Research

In 2024, one of the main risks for the US economy is a broader geopolitical conflict and the risk of a spike in oil prices, which could potentially set back the fight against inflation. However, the spike in oil prices alone is less likely to impact the inflation environment as it did in 2021 and 2022 because the effects of short supply are less severe this year than in previous years. Nevertheless, this risk is always present.

The other risk is a transition to higher interest rates, but most of its impact is already accounted for. Future impacts, such as corporate debt maturity, are expected to be modest. Other potential risks could be significant but manageable. If these risks affect growth, the FOMC could respond by cutting rates, providing further relief.

In the subsequent parts, the American GDP will be analysed through the lens of expenditure and the synchronization (see Figures 5 and 6) of those variables with the GDP.

	Correlation and synchronisation with the American GDP (1929–2023)		
	Delayed	**Contemporaneous**	**Advanced**
Private Consumption	0.3275	0.7698	0.3289
Private Investment	-0.1216	0.3845	0.3148
Government Consumption Expenditures and Gross Investment	0.4772	0.6345	0.2781
Exports of Goods and Services	-0.1176	0.1197	0.0687
Imports of goods and Services	0.3006	0.8103	0.377

Figure 5- Correlation of the Cyclical Component of GDP in Logarithmic Form (at t-1, t, and t+1) with Expenditure Variables for the Period 1929-2023
Created by: ITIC's Research team

	Correlation and synchronisation with the American GDP (2000-2023)		
	Delayed	Contemporaneous	Advanced
Private Consumption	0.142	0.9614	0.2188
Private Investment	0.15	0.8553	0.4136
Government Consumption Expenditures and Gross Investment	0.1533	-0.3142	-0.6548
Exports of Goods and Services	0.1371	0.9055	0.1487
Imports of goods and Services	0.0038	0.8755	0.2809

Figure 6- Correlation of the Cyclical Component of GDP in Logarithmic Form (at t-1, t, and t+1) with Expenditure Variables for the Period 2000-2023
Created by: ITIC's Research team

Private Consumption

Based on our calculations using the HP filter is possible to observe that the correlation between private consumption and GDP has become more contemporaneous over the years, moving closer to 1, and was always pro-cyclical.

Despite the strong contemporaneous correlation in both the 1929–2023 (Figure 5) and 2000–2023 (Figure 6) intervals, it is in the latter where the correlation factor is higher.

The correlation with GDP in t+1 has always been higher than in t-1, suggesting that American consumers may be more inclined to spend based on their future expectations rather than the past reality of the American economy.

From a broader perspective, as seen in Figure 7, real wages are expected to grow by 1% in 2024, driven by steady, albeit slowing, job gains. An increase in household interest income is expected to lead to nearly 3% growth in disposable income.

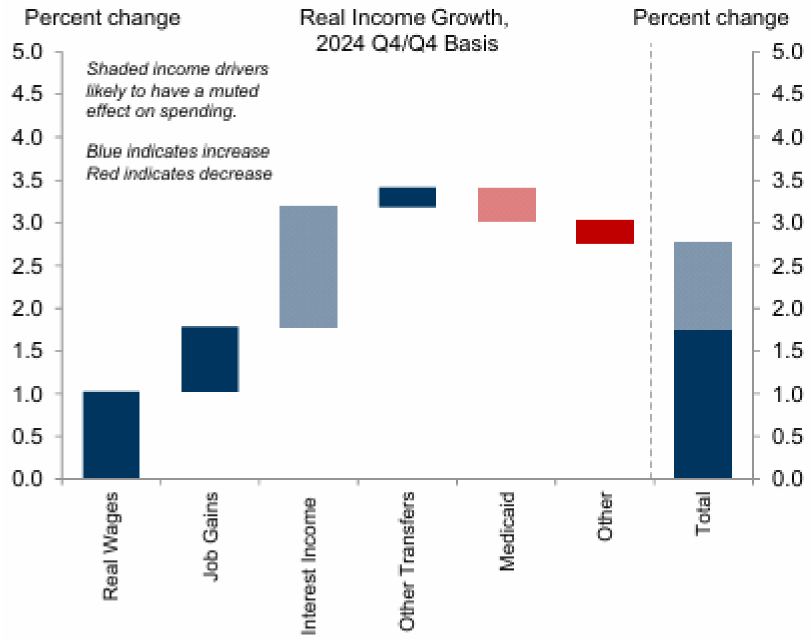


Figure 7- Outlook for 2024 for some private consumer characteristics
Source: Goldman Sachs Global Investment Research, Department of Commerce

According to Figure 8, the current low personal saving rates could potentially be attributed to both precautionary and retirement saving motives being weak. This is likely due to the current low layoff rate and the historically high wealth-to-income ratio.

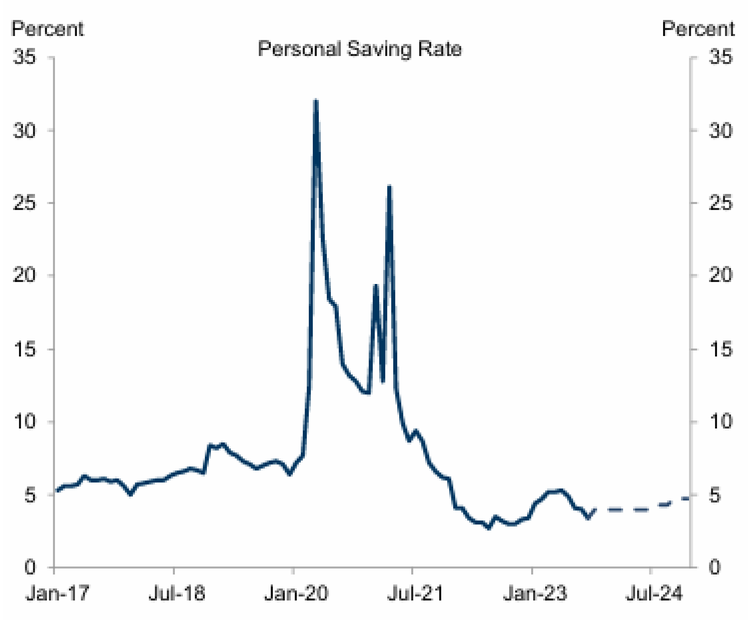


Figure 8- Personal saving rate for American consumers
Source: Goldman Sachs Global Investment Research, Department of Commerce

Despite the discrepancy between the consumption of goods and services in recent years, this gap appears to be largely closing. However, consumer spending on services remains below its pre-pandemic level, likely due to the significant increase in the proportion of people working from home.

After an average decline in 2021 and 2022, real disposable personal income steadily increased last year. Nonetheless, the increase in spending was also accompanied by households drawing down their liquid assets, such as checking accounts, and relying more heavily on credit.

Lastly, while the Michigan consumer sentiment survey has shown improvement in recent months, it remains below its pre-pandemic level. However, there has been an upward trend since 2022. A similar trend is observed in the Conference Board index, which places more weight on labour market conditions (see Figure 9). Interestingly, consumer spending since the pandemic has been more robust than what measures of consumer sentiment would suggest.

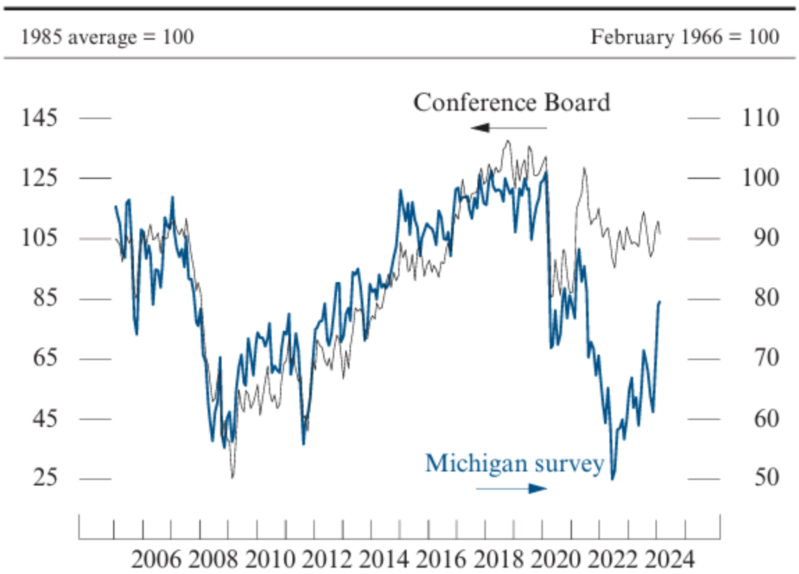


Figure 9- Indexes of consumer sentiment
Source: Federal Reserve System

Private Investment

The HP filter reveals that private investment, spanning from 1929 to 2023 (refer to Figure 5), behaves as a contemporaneous variable with a slight lead. Also, it becomes evident that private investment exhibits pro-cyclical characteristics (in t and t+1).

In the more recent period illustrated (see Figure 6), private investment appears to have become increasingly contemporaneous, as indicated by a correlation nearing 1.

When comparing the variables of private investment and private consumption, it becomes evident that the investment variable is more advanced than consumption. This is primarily because consumption is closely tied to the labour market, particularly workers' wages. These wages, in turn, influence private consumption. Any increase in salaries is typically expected in the following year. However, this change builds upon the previous year's events, as companies consider their financial conditions, workers' productivity, and other factors before deciding on wage increases.

Moreover, private investment tends to be more advanced because companies base their investment decisions on future economic expectations rather than the current economic conditions.

As depicted in Figure 10, there was a noticeable decline in equipment investment spending in the latter half of 2023. Meanwhile, investments in intellectual property products, such as software and research development, continued their deceleration, deviating from the growth trends of previous years. Nonresidential structures, which had experienced a surge due to manufacturing construction like semiconductor factories or electric vehicle battery plants, also began to slow down. The primary factors contributing to the slowdown in business investment spending growth in the second half of 2023 were tighter financial conditions and downbeat business sentiment, despite some improvement in recent months.

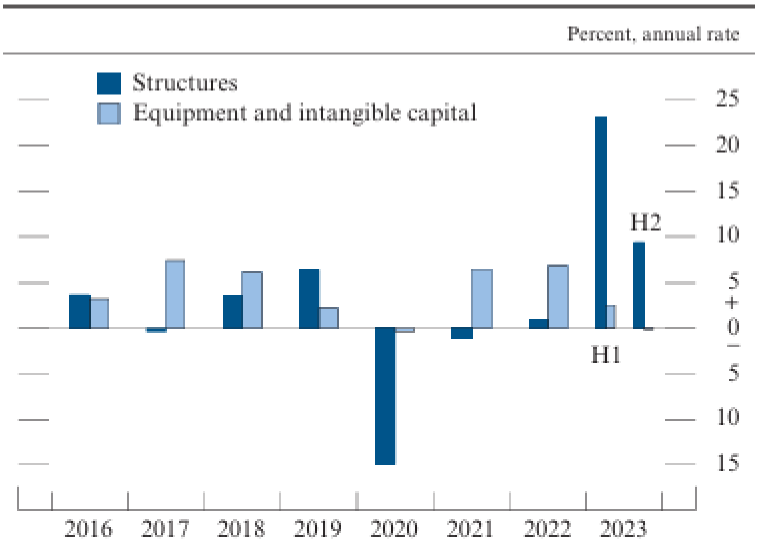


Figure 10- Change in real business fixed investment
Source: Federal Reserve System

However, some factors propelled business investment, including increased investment in AI and diminished caution as fears of a recession among business leaders receded. As illustrated in Figure 11, business investment is projected to grow by 1.75% in 2024. This growth, however, is expected to moderate as the stimulus from the CHIPS Act and Inflation Reduction Act subsidies, which previously boosted manufacturing, begins to wane.

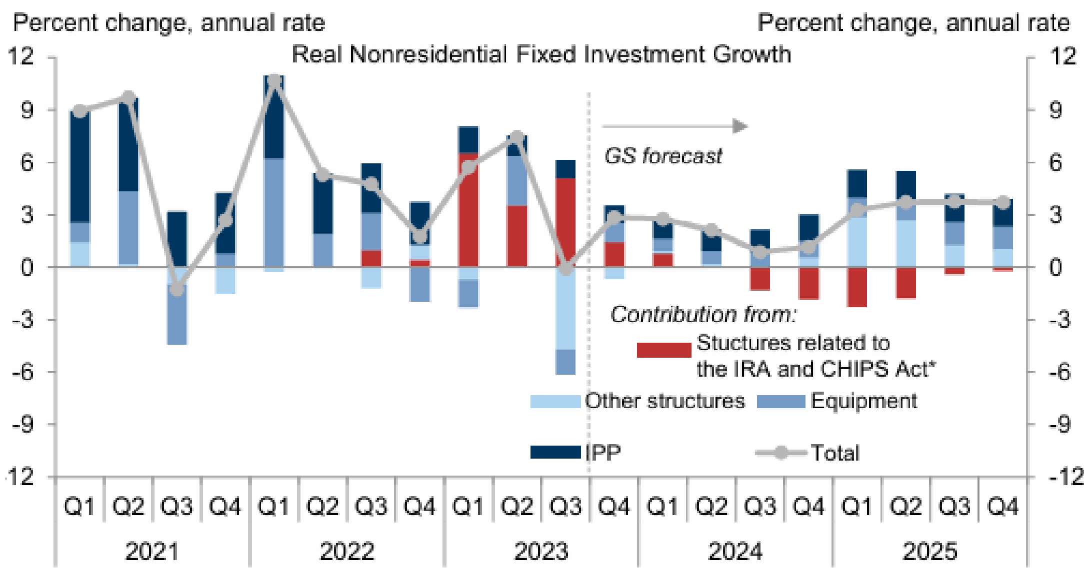


Figure 11- Real Nonresidential Fixed Investment Growth
Source: Goldman Sachs Global Investment Research, Department of Commerce

As illustrated in Figure 12, the growth in house prices experienced a rapid slowdown from its historical high due to rising interest rates. However, it has recently shown a rebound on a YOY basis.

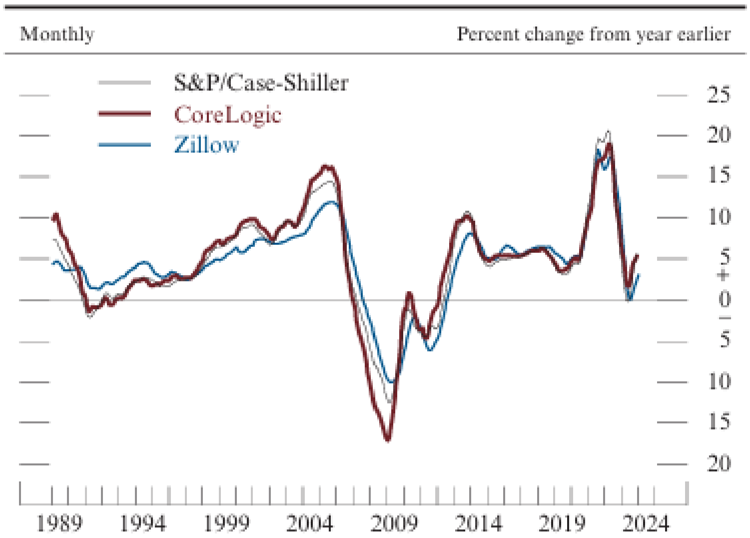


Figure 12- Growth rate in house prices
Source: Federal Reserve System

Lastly, given that numerous households bought homes or refinanced when the fixed mortgage rate was low in 2020 and 2021, most outstanding mortgages now have an interest rate below 4%, as shown in Figure 13. As a result, relocating has become more expensive in the current market, where interest rates exceed this threshold. This has led to an unusually sparse market for existing homes, characterized by a significant decrease in both sellers and bidders, as illustrated in Figure 14.

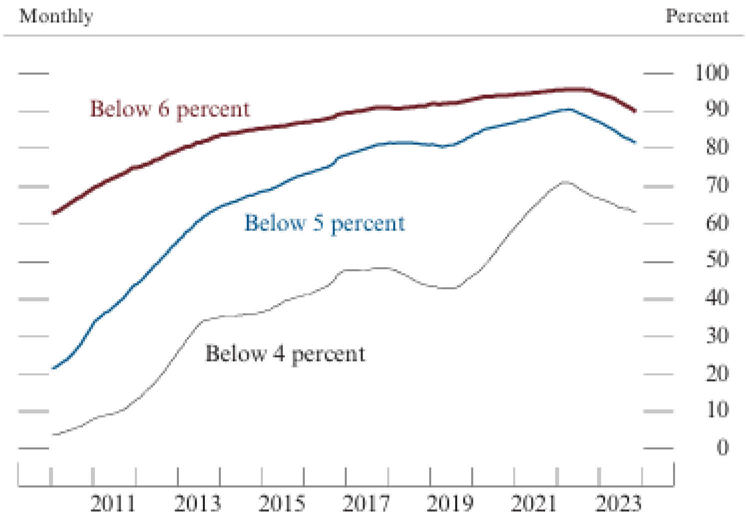


Figure 13- Distribution of interest rates on outstanding mortgages
Source: Federal Reserve System

Figure 14- New and existing home sales
Source: Federal Reserve System

Public Consumption:

Upon analysis using the HP filter, it is evident that government consumption exhibits a trend of increasing advance. Notably, from 2000 to 2023, the negative correlation between government consumption and the GDP suggests implementing a counter-cyclical policy. Such policy aims to mitigate the fluctuations of the economic cycles by adjusting government spending in opposition to the economic trend.

In FY2023, the government spent $6.13T, constituting 23% of that year's GDP, resulting in a federal deficit. Since Q32020, we have witnessed a substantial increase in interest payments which may be explained by the rise in inflation and consequential interest rate hikes. The federal deficit is anticipated to continue to increase despite the projected reduction of the federal accumulated deficit by $77B as per the Inflation Reduction Act.

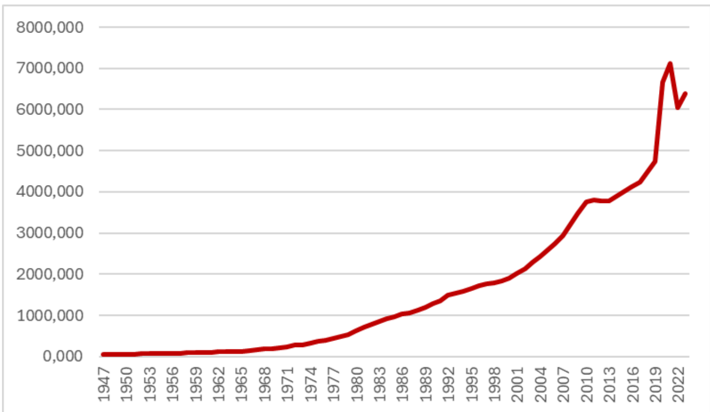


Figure 15- Federal Government: Current Expenditures, Billions of Dollars, Annual, Seasonally Adjusted Annual Rate
Source: Federal Reserve Bank of St. Louis

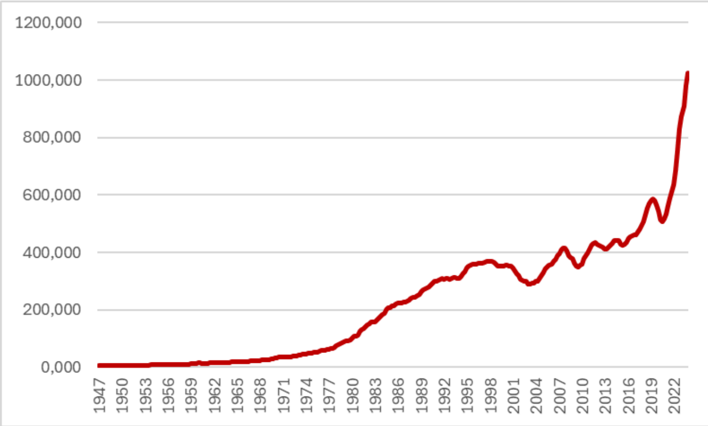


Figure 16- Federal government current expenditures: Interest payments, Billions of Dollars, Quarterly, Seasonally Adjusted Annual Rate
Source: Federal Reserve Bank of St. Louis

Moreover, the government is avoiding shutdowns by extending temporary funding bills. Even though the likelihood of a government shutdown may seem remote, the persistent threat accompanied by political disputes entails risks to the economy and investors' confidence.

Exports:

The HP filter indicates an increasing contemporaneous trend of exports of goods and services, as evidenced by the higher correlation observed during the period 2000-2023 compared to 1929-2023. Moreover, it reveals a pro-cyclical relationship with GDP. Although exports rose 1.5% in 2023, they persisted depressed compared to imports, culminating in a trade deficit of $773B. The outlook for exports remains tepid, despite the increase in February, as US main trading partners are struggling to achieve economic growth.

Furthermore, the composition of US exports is changing. Notably, there was an uptrend in petroleum exports driven by the increase in shale production in response to higher prices. While rises in oil prices may benefit US exports, they have a knock-off effect on American households and firms and can result in sticker inflation. Conversely, travel services faced a decrease in exports due to tighter visa conditions. The American economy exhibits a notable level of export diversification, in 2022, oil accounted for 16% of total US exports, followed by advanced machinery and generation at 11.5%, electronics and technology at 9.9%, vehicles at 7.6% and aerospace space industry representing 6.2% of total exports. The diverse composition of us exports underscores the fusion between technology and industry characteristics of the United States.

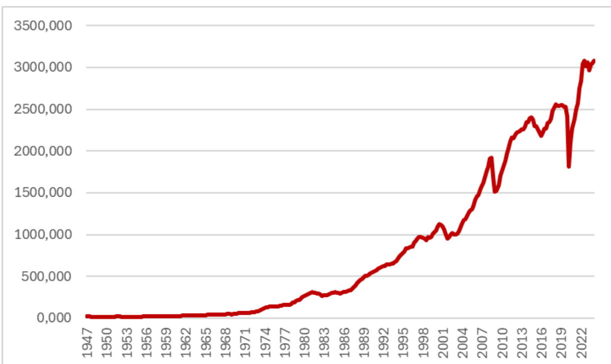


Figure 17- Exports of Goods and Services, Billions of Dollars, Quarterly, Seasonally Adjusted Annual Rate
Source: Federal Reserve Bank of St. Louis

Imports:

Analysing the HP filter, US imports are traditionally contemporaneous and pro-cyclical, as evidenced by a strong positive correlation with GDP in period t. Notably, US imports achieved a 16-month high in February 2024 amounting to $331.9 billion. This marked an increase of $7B compared to the previous month, primarily fueled by the rise in the purchase of goods of $4.7B.

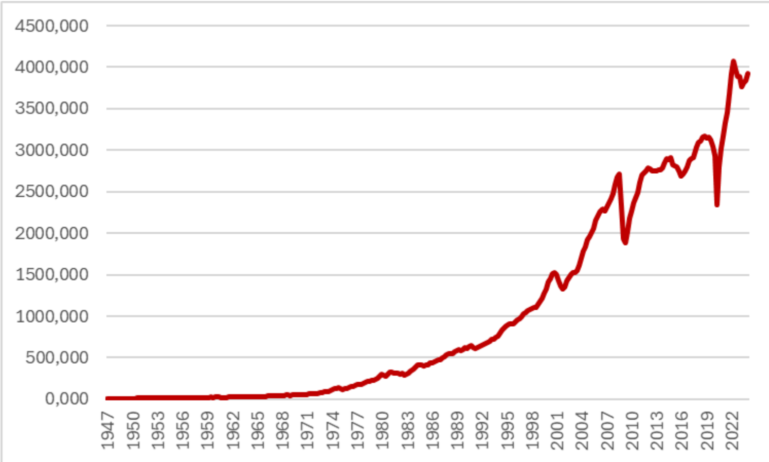


Figure 18- Imports of Goods and Services, Billions of Dollars, Annual, Seasonally Adjusted
Source: Federal Reserve Bank of St. Louis

In terms of imports' composition, in 2022, consumer goods constituted the largest share at 26% of total US imports, followed by industrial supplies (25%) and automotive vehicles, parts and engines (12%). Considering that the US imports 17% of its total imports from China, it is imperative to closely monitor the dynamics between these two economic powerhouses, amidst escalating tension.

Labour market:

The US labour market continues to exhibit significant tightness. Considering that the unemployment rate has been under 4% since 2022, the Chair of the White House Council of Economic Advisers, Jared Bernstein believes that "this is not just a tight labor market, but a reliably and persistently tight labor market". This sustained tightness poses challenges to the FED to combat inflation.

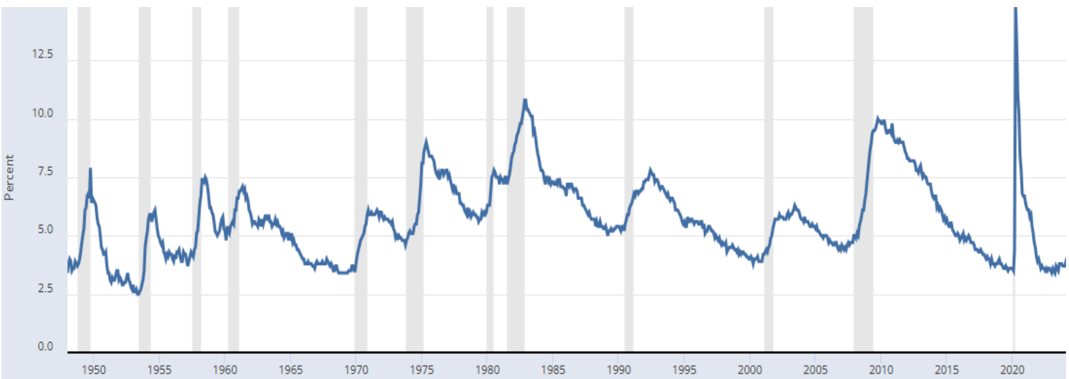


Figure 19- Unemployment Rate, Percent, Monthly, Seasonally Adjusted
Source: U.S Bureau of Labor Statistics

In March 2024, US employers added 303,000 jobs, beating Dow Jones estimates. Notably, the healthcare, government and construction experienced particularly robust growth in new job positions. If this trend persists, a feedback loop between workers quitting and employers adding new job openings may arise. Ultimately, this situation can contribute to both rapid heating and cooling down of the labour market.

Furthermore, wage growth is registering a moderation of its upward tendency. Although a significant surge in January 2024 raised concerns regarding higher inflation which could lead to additional interest rate hikes, recent data revealed a sustainable deceleration in wage growth. In February 2024, the wage gain was the lowest observed since February 2022, emphasizing this moderation trend.

The combination of an increase of 3.6% in hourly compensation and 3.2% in productivity, resulted in a surge of 0.4% in unit labor costs in the nonfarm business sector in the fourth quarter of 2023. According to the Bureau of Labor Statistics, nonfarm productivity (output/hour) surged by 3.2% driven by an increase of 3.5% in output, despite a 0.3% increase in hours worked. This uptick surpassed market expectations. Considering the ongoing trends in public and private investment, as well as in employment, productivity might continue at a good pace.

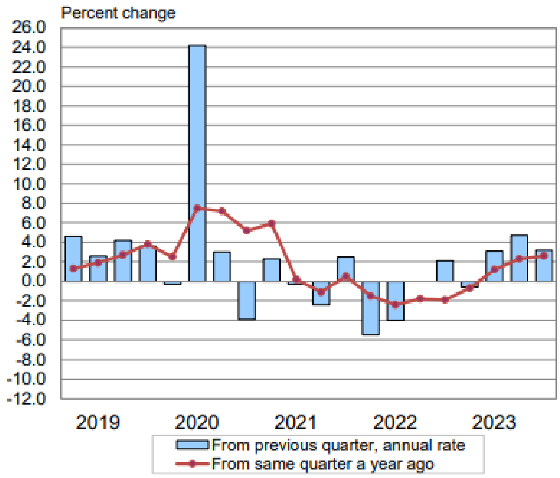


Figure 20- Labor productivity, nonfarm business, 2019Q1-2023Q3
Source: Bureau of Labor Statistics (BLS)

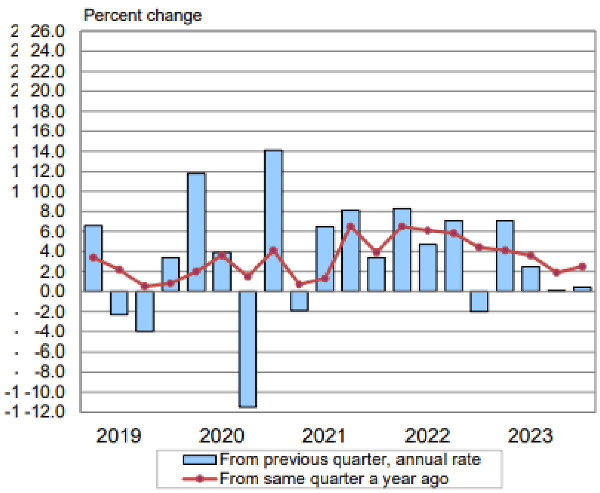


Figure 21- Unit labour costs, nonfarm, 2019Q1-2023Q3
Source: Bureau of Labor Statistics (BLS)

Inflation Rate:

Following the analysis of the primary economic indicator, the GDP, attention is now being directed towards the study of price levels, represented by the inflation rate. This indicator holds significant relevance as it heavily influences the economic behaviour of agents.

The control of inflation, far from being merely related to economic growth, is also a key objective of the United States central bank, the Federal Reserve (Fed).

Changes in key interest rates can be anticipated depending on the nature of shocks that the economy might experience, whether temporary or persistent. These changes will, in turn, influence the consumption patterns of US citizens.

As illustrated in Figure 22, the Consumer Price Index (CPI) is gradually approaching the Federal Reserve's target of 2%. However, it may take longer to reach this target as the rate of decrease has decelerated. As of January 2024, the 12-month CPI inflation stood at 3.1%, and core inflation was at 3.9%. These rates are significantly lower than the 8% inflation experienced in the first part of 2022.

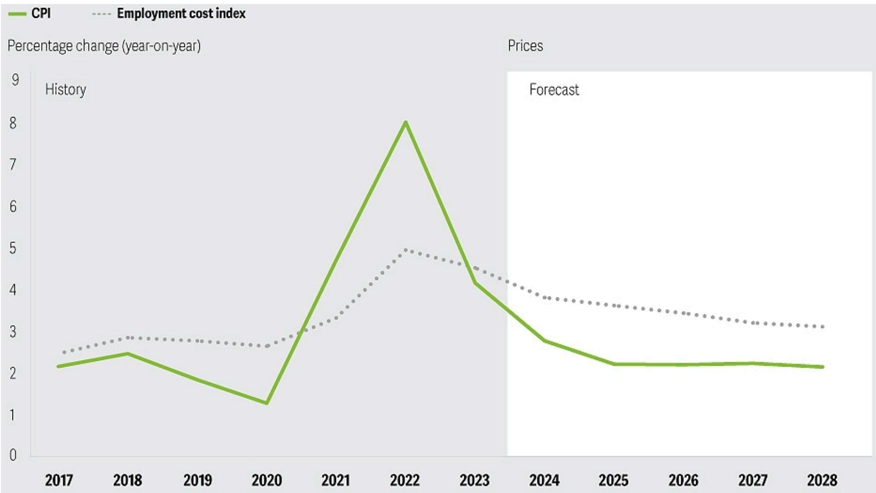


Figure 22- Prices for the US economy
Source: Deloitte analysis

As depicted in Figure 23, headline inflation is projected to hover around 3% for the first half of 2024, primarily due to temporarily high oil prices. However, it is expected to start decreasing in the latter half of the year. Conversely, core inflation is anticipated to fall within the target range starting in the second quarter of 2024. This could potentially provide the Federal Reserve with the leeway to commence rate cuts.

	History							Forecast				
% year over year unless mentioned otherwise	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Chained GDP price index	1.8	2.3	1.7	1.3	4.6	7.1	3.6	2.0	2.2	2.0	2.1	2.1
Consumer price index	2.1	2.4	1.8	1.3	4.7	8.0	4.1	2.7	2.2	2.2	2.2	2.1
Chained price index for personal consumption expenditures	1.7	2.0	1.4	1.1	4.2	6.5	3.7	2.4	2.1	2.1	2.2	2.1
Employment cost index	2.4	2.8	2.7	2.6	3.3	4.9	4.5	3.8	3.6	3.4	3.2	3.1

Figure 23- Price's forecast for the US economy
Source: Deloitte analysis

In the first half of the previous year, oil prices hovered around $80 per barrel. However, they experienced a significant increase in the late summer, albeit remaining below the levels observed in 2022, as illustrated in Figure 24. This moderation in oil prices can be attributed to the sluggish economic activity overseas.

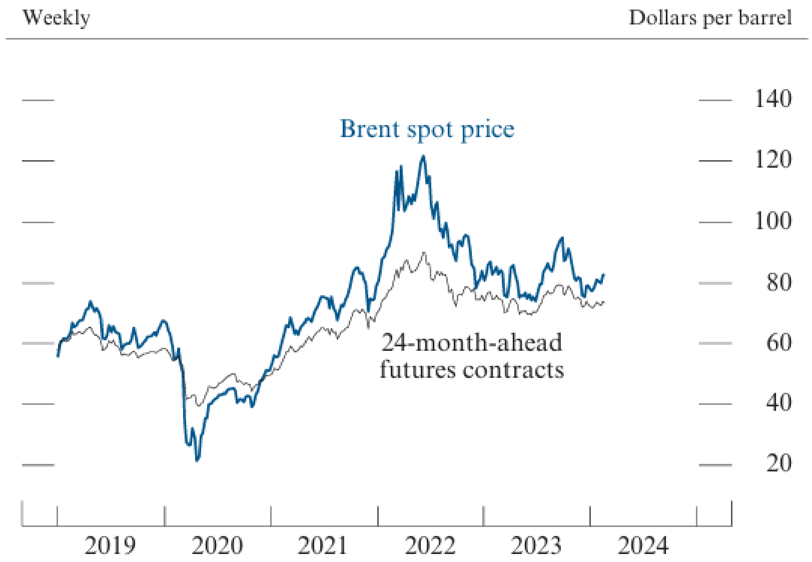


Figure 24- Spot and futures prices for crude oil
Source: Federal Reserve System

As for natural gas, its prices have stayed below the 2020 levels, as a result of robust production and elevated inventory levels. Consumer energy prices, as shown in Figure 25, declined by 4.9% in the 12 months concluding in January.

Figure 25 also reveals a 1.4% decrease in food prices over 12 months, a notable deceleration from the 11% surge in 2022. This slowdown is due to the falling prices of agricultural commodities and livestock.

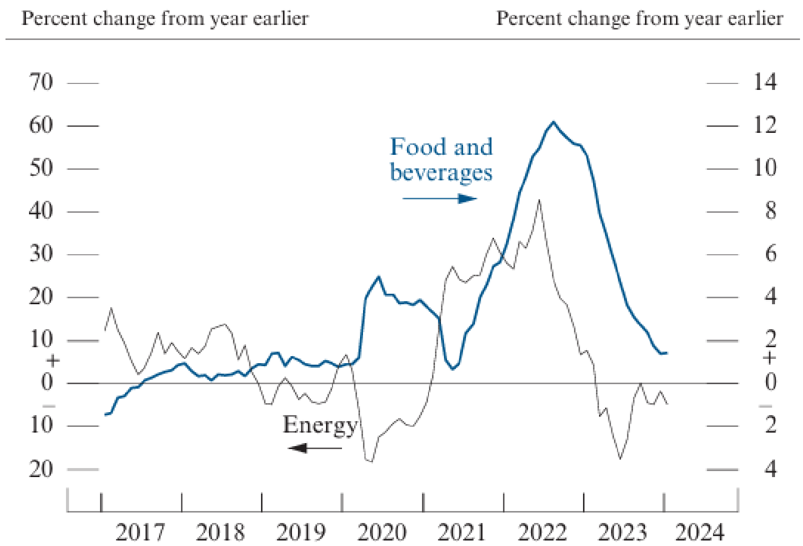


Figure 25- Food and energy
Source: Federal Reserve System

Excluding food and energy prices, there has been a widespread slowdown across the primary spending categories. For example, core goods prices saw a 0.6% decrease at the end of last year in

January. This decline can be attributed to the resolution of supply chain issues and other capacity constraints, such as suppliers' delivery times, as demonstrated in Figure 26. Furthermore, the reduction in core goods inflation was also due to the net decrease in nonfuel import prices, which was largely a reflection of falling commodity prices.

The same image also reveals a deceleration in both housing services and core services, excluding housing, over the past year. Prices for housing services dropped to 6.1%, down from a peak of 8% in 2023. This slowdown aligns with the modest increases in market rents for new leases to new tenants. The easing of market rents suggests a continued deceleration in market rent prices, given that housing services typically respond slowly to changes in rental market conditions.

Lastly, the continuous easing of labour demand, coupled with enhancements in labour supply, will contribute to a further deceleration in core service price inflation as the growth in labour costs moderates.

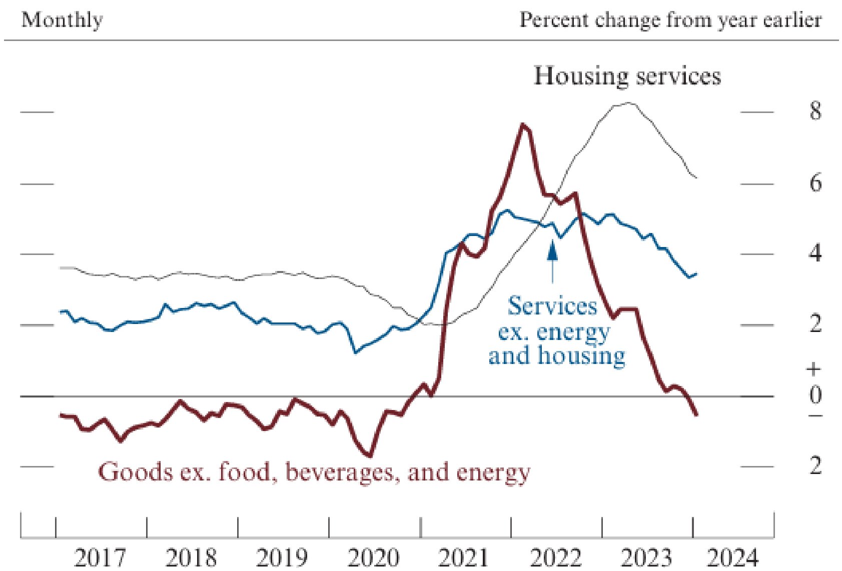


Figure 26- Components of core prices
Source: Federal Reserve System

Interests Rates:

As previously mentioned, interest rates are one of the main mechanisms used by the Federal Reserve's Monetary Policy Committee to achieve one of the central bank's objectives – price stability. Due to the disruptions in price levels experienced in 2022, which have continued to have effects since then, the Federal Reserve found it necessary to increase financing costs to control consumption levels, thereby reducing demand and consequently inflation. The following chart shows the trajectory of the Federal Reserve's key rates since the macroeconomic shock caused by the conflict between Russia and Ukraine. As seen in the chart, since September 2023, the rates have remained at 5.25% - 5.50% (Lower/Upper Bound), marking the highest level observed since 2000.

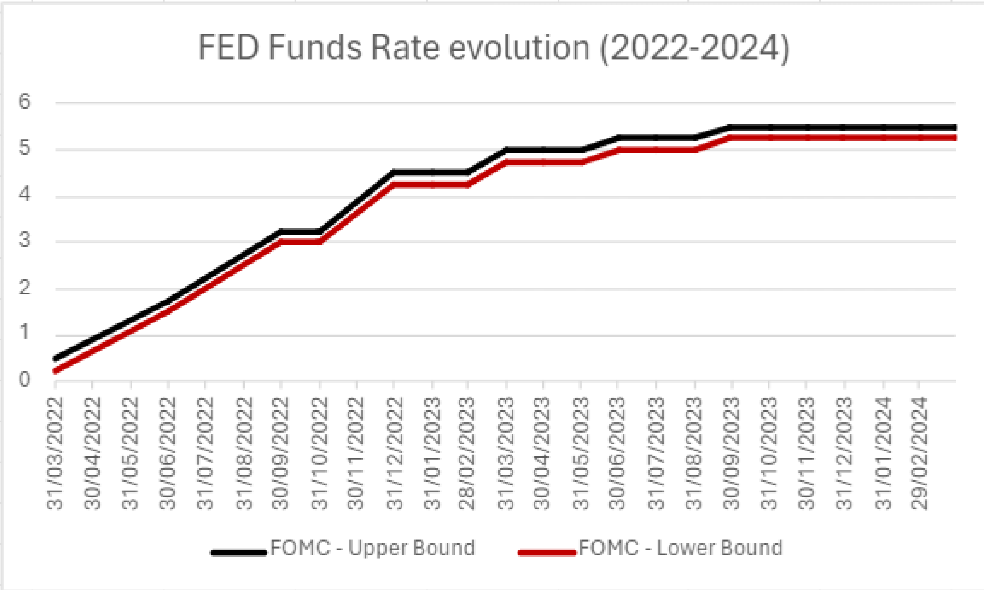


Figure 27- FED Funds Rate Evolution 2022/2024

Due to the resilience of inflation and the macroeconomic conditions in the United States, the Federal Reserve has shown some caution regarding the need to ease interest rates. Several FOMC members have supported the narrative that it is still too early to lower interest rates and that it is more likely that conditions justifying a less restrictive monetary policy will be met by September. If the situation deviates from the Fed's projections, rates may remain at current levels until early 2025.

In contrast to the United States, the Eurozone has experienced a quite different situation, with inflation levels approaching the target of 2%. In June, the ECB decided to cut interest rates by 25 basis points (the “refi” rate decreased from 4.50% to 4.25%), with at least one more cut expected in 2024. This divergence in monetary policy between these two regions impacts both interest rates and the foreign exchange market, which could consequently lead to disturbances in achieving the desired inflation rate equilibrium.

Exchange Rates:

The resilience of the US economy, underscored by robust inflation and labour market statistics, has led to a less aggressive easing of interest rates by the Federal Reserve (Fed). As a result, the dollar has reached new highs.

It is important to note that the dollar typically appreciates during periods of risk and depreciates in times of prosperity. Therefore, the ongoing improvement in global growth could moderate the dollar’s performance due to its countercyclical properties.

In the forex market, recent developments could bolster the dollar’s value. For instance, commodities have risen approximately 7% compared to February’s lows. Furthermore, Russia’s decision to reduce oil production could drive up Brent prices. Both situations will likely benefit the dollar, given its positive correlation with oil. As illustrated in Figure 28, the dollar has historically moved in tandem with oil during supply-driven constraints in the energy markets. However, a recent decrease in Brent oil prices, as shown in Figure 29, could potentially harm the dollar’s value.

Figure 28- Correlation between the dollar and oil
Source: J.P. Morgan

Figure 29- Brent oil price
Source: OilCrudePrice

Applying the Uncovered Interest Rate Parity Theory (UIRPT) to some of the primary currencies and utilising the interest rates for 10-year bonds from the countries analysed, an appreciation of the dollar against all other currencies is forecasted (see Figure 30), this is when compared with the SPOT exchange rates on April 29.

	Predicted value by UIRPT	SPOT (04/29/2024)	Difference
USD/GBP	0.799	0.796	0.33%
USD/CHF	0.946	0.910	3.98%
USD/JPY	162.073	156.264	3.72%
USD/CNY	7.393	7.231	2.23%
USD/AUD	1.522	1.520	0.14%

Figure 30- UIRPT
Created by: ITIC's Research Team

DEVELOPING ASIA

When people think of Asia, China often comes to mind first and for good reasons. As of recent data, China remains a significant global economic, boasting a vast landmass and thriving industries. However, it's important to note that Asia is not exclusively defined by China. In recent years, India has emerged as a key player in the global economy. With a growing population and a focus on innovation and technology, India is positioning itself as an emerging superpower. Its economic growth and development are closely watched by global investors and analysts. While China and India each have their unique economic landscapes and challenges, they collectively represent the diversity and dynamism of Asia's economies. As global economic dynamics continue to evolve, these countries are poised to play increasingly significant roles on the world stage.

INDIA

India is currently navigating through economic challenges with strategic foresight. As a leading global supplier of technology components and textiles, its economic trajectory is linked to international demand dynamics. Anticipated structural shifts, including variations in labor productivity, fluctuations in consumer purchasing power and changes in resource availability. India's robust economic fundamentals, reflected in its Real Gross Domestic Product (GDP), project steady growth and prosperity. India's GDP for the year 2023 stands at $3.7 trillion. Forecasts from Statista project a GDP of $4.1 trillion for 2024 and nearly $6 trillion by 2028. Other forecasts anticipate India's market capitalization to double to $10 trillion by 2030, with expectations of becoming the world's third-largest economy by 2027. Regarding the unemployment rate, in India has remained relatively constant over the years, fluctuating between 7% and 9%. In April 2020, there was a significant increase in the unemployment rate (21.9%), but it quickly subsided and returned to its average values.

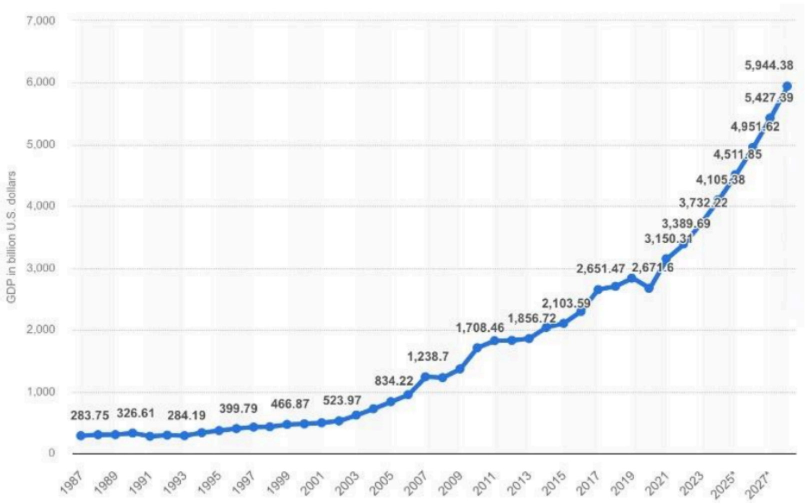


Figure 30- GDP in billion U.S dollars
Forecast by Statista

Throughout 2024, a similar trend has been observed, with fluctuations in the unemployment rate returning to its typical levels. India's stock market has surged, surpassing $4 trillion in 2023, signaling its emergence as a major player in the global economy. The MSCI India index, tracking large and medium-cap stocks, demonstrates exceptional performance since August 2021, outpacing other indices. India's rapid economic growth is fueled by strategic investments in key sectors such as infrastructure, technology, and renewable energy. The government's focus on modernizing transportation networks, expanding digital infrastructure, and promoting green initiatives has stimulated India's attractiveness to both domestic and in the global marketplace. With a growing middle class and increasing urbanization, India offers a vast consumer market ripe with opportunities for businesses across various industries. Prime Minister Narendra Modi has articulated an ambitious vision, targeting the transformation of India into a $5 trillion economy by 2025. Despite prevailing challenges, India exhibits resilient prospects for sustainable growth. Modi's emphasis on green and sustainable initiatives positions India as an attractive market for renewable energy investments.

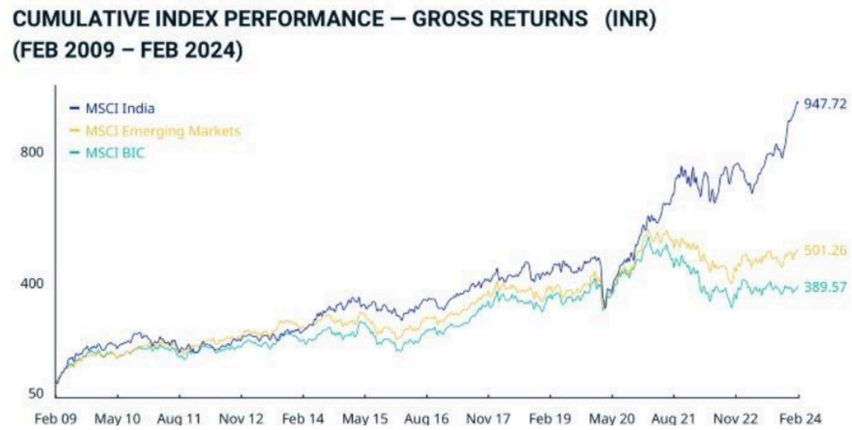


Figure 31- Cumulative Index Performance- Gross Returns (INR)

JAPAN

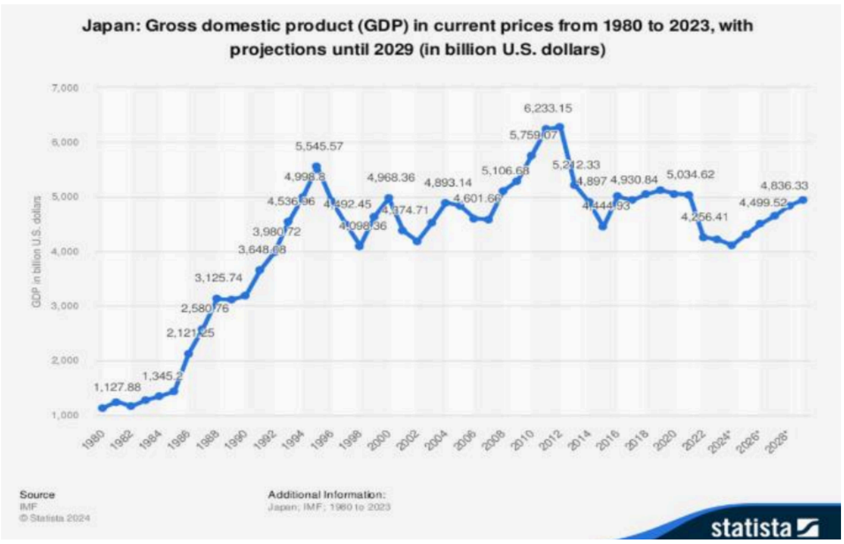


Figure 32- Japan GDP projection
By Statista

Japan, after being surpassed by Germany in 2023, mainly due to the sharp decline of the iene, became the world's fourth-largest economy. Japan's GDP has exhibited fluctuating growth over the past few decades, ranging from 3.9 trillion in 1992 to 4.21 trillion USD in 2023, across over 30 years. Since 2020, the GDP has been declining. However, according to the IMF (International Monetary Fund), an economic recovery is expected to continue in the country, but growth is expected to slow due to the "disappearance" of factors that had been supporting Japanese development, such as the increase in tourism in 2023. In 2025, a GDP of 4.31 trillion USD is expected, and by 2028, 4.83 trillion USD. Traditionally, Japan is known for its technology and automotive sectors. Companies like Toyota, Sony, and Toshiba are some of the world leaders in their respective fields. It is considered one of the most innovative countries globally, with a remarkable history of technological development, from the production of consumer electronics to advancements in robotics and artificial intelligence. The unemployment rate in Japan has shown a very positive evolution. Since 2010, Japan has been steadily reducing its unemployment rate, declining from 5.1% to 2.64% in 2022. However, Japan faces significant demographic challenges, with 2021 figures hitting historic lows since at least 1899. The Japanese government is concerned about the aging population and the alarming decline in births. In 2021, the country recorded a historic low in births, with 811,604 babies, reflecting the reduction in the birth rate during the COVID-19 pandemic. The average number of children per woman decreased to 1.3, representing a decrease of 0.03 points. Additionally, the number of marriages also reached the lowest value since the end of World War II, with 501,116 marriages in 2021, signaling concerns about the sustainability of the national pension system due to the country's demographic aging. These factors put pressure on the social security system and challenge long-term economic growth. The Bank of Japan (BoJ) has played a central role in managing the Japanese economy, using monetary policies such as quantitative easing to stimulate growth and combat deflation.

China’s Macroeconomic Outlook

With a target of around 5% GDP growth for 2023, China has successfully reached this goal with its total economy expanding by 5.2%. It is one of the largest forces contributing to the global economy, as 30% of global economic growth can be attributed to China’s participation in the market. Its annual GDP is the highest it's ever been, reaching 17.96 trillion USD, but China still has challenges to overcome before it can become a moderately developed economy.

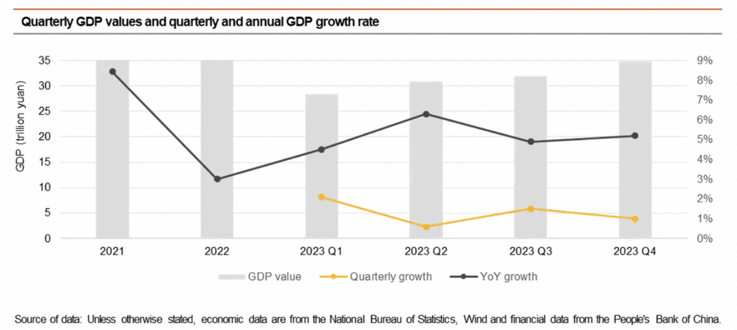


Figure 33: Quarterly GDP values and quarterly annual GDP growth rate
Source: pwc

New policies with the intention to stabilize GDP growth have led to an industrial production growth of 4.6%, total retail sales have increased by 7.2% from 2022, and exports experienced a volatile, but overall, positive growth. China’s movement up the global value chain and introducing new industries into their export commodity structure (electric vehicles, lithium batteries, and solar cells) contributed to this export growth, and will continue to contribute to its resilience in 2024.

Property investment has declined by 9.6%, but governmental policies with a goal of easing the housing demand will be put into place, such as deregulation of mortgage rules and relaxed borrowing constraints for housing developers. These policies are aimed towards reducing the negative impact the real estate market is causing on China’s economy.

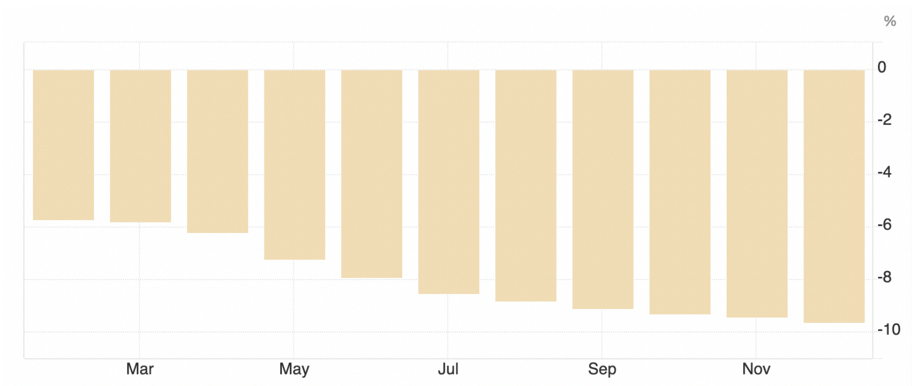


Figure 34 : Property investment rate
Source: trading economics

Debt accumulation is another large challenge to China’s economy, and the government has taken measures to prevent a mounting debt crisis. Since developers overbuilt and amassed large levels of debt over recent years, and since the default of a large development company in 2021 (Evergrande Group) that sparked a financial crisis, the Chinese government has created policies to address the debt issues in the real estate market. Local government debt is also an issue plaguing China’s economy, and the government has since implemented policies to restructure local debt and ensure sustainable trajectories for local government budgets.

Although there was an increase in total retail sales and services, there was a decline in growth of durable goods and big ticket items. The current share of household consumption in China’s GDP is a staggering 56%, 10% lower than India’s and more than 20% lower than advanced economies. With a Consumer Confidence Index (CCI) below 100, a .2% increase in Consumer Price Index (CPI), and a continuing decline in the Producer Price Index (PPI), China is facing a hesitant consumer base with deflation and high levels of debt. Deflation - creating a cycle of consequences - has reduced productivity, raising the youth unemployment rates to 21.3%, which in turn will reduce consumption. Reduced consumption further decreases productivity, continuing the cycle. Coupled with China’s debt accumulation that has limited private sector investment, there simply is simply a lack of job creation for the youth. This has led to flexible, precise, and effective monetary policy implementation to stimulate the domestic economy. With a volatile external environment, China must strategically implement these policies to ensure the domestic market will continue to contribute to China’s GDP growth.

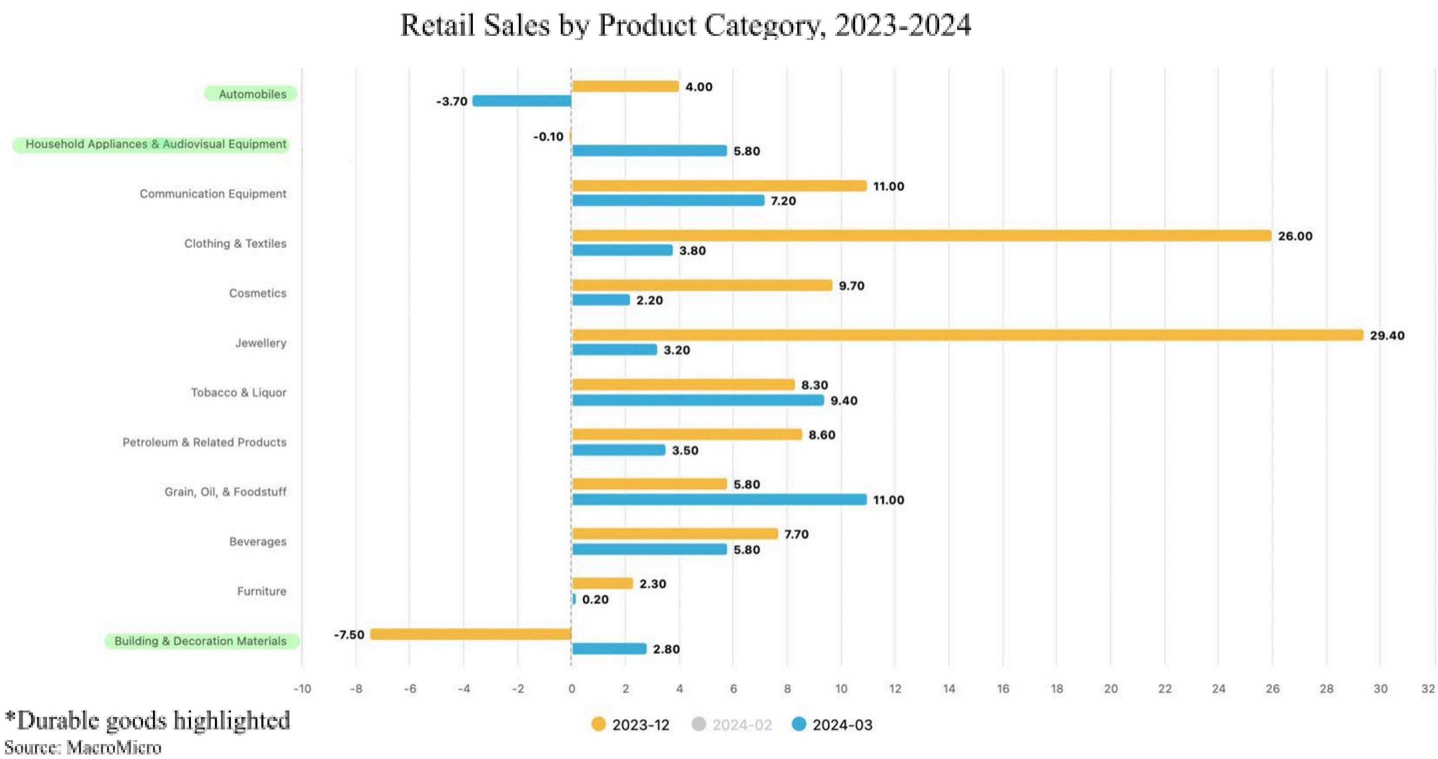


Figure 35 : Retail Sales by Product Category, 2023-2024
Source MacroMicro

Africa’s Macroeconomic Outlook

Africa is comprised of five regions, all with varying levels of economic development. East Africa is the continent’s strongest economy, with a projected growth rate of 5.1%, followed by North Africa, Central Africa, Southern Africa, and West Africa. Yet, even with differing domestic policies and approaches towards achieving growth, Africa remains as the second fastest-growing region in the world. The average real GDP has experienced a slight decline, from 4.1% in 2022 to 3.2% in 2023, and real income per capita also decreased by .9%. Due mainly in part to its vulnerable position in the world economy, external shocks and inflation have slowed the growth of this region.

Africa has still not completely recovered from the recession caused by COVID-19, and due to geopolitical tensions, political instability, and weak export demand - its recovery has remained sluggish. Sudan, South Sudan, and Equatorial Guinea are all estimated to be in a recession due to the severity of these external shocks coupled with domestic instability, and will continue to experience declines in GDP throughout 2024. However, the region as a whole is expected to witness a growth of 3.8% in 2024, a .6% increase from 2023.

High global inflation rates have been problematic for the region, as many countries struggle with high public debt. External liquidity problems have reduced investment growth-creating sectors such as agriculture and infrastructure, as well as caused a decrease in human capital development. This is concerning for the region, as it has some of the highest inequality rates in the world. Policies that are implemented must not only focus on retaining macroeconomic stability, but also ensure equitable growth for those who are affected by inequality.

To combat these challenges, the region has been diversifying their economies and focusing on creating an efficient and effective internal African trade market. Increasing investment in growth sectors, creating policies to reduce the cost of living and increase consumer consumption, and resistive monetary policy is necessary to witness the growth projected for 2024.

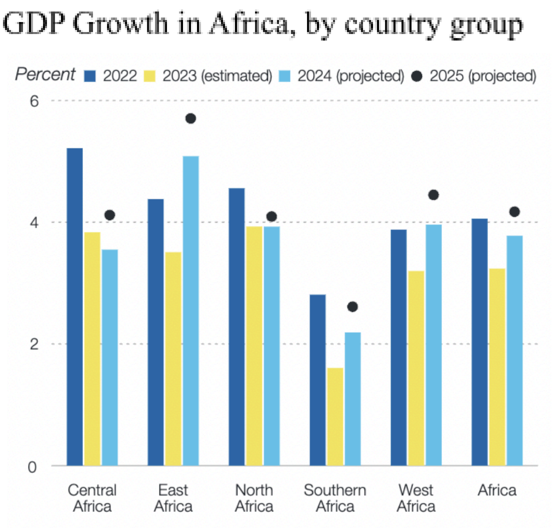


Figure 36 : GDP Growth in Africa
Source: African Development Bank Group

ASEAN-10 Region Macroeconomic Outlook

For the Association of Southeast Asian Nations, or ASEAN, their economic outlook remains positive in the face of reduced external demand. The member states of this inter-governmental organization are Brunei Darussalam, Burma, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand, and Vietnam. Created in 1976, this region has grown to become the United States' fourth-largest goods trading power - proving to be strong in the face of various global recessions. After a decrease in international demand for exports, ASEA was able to increase private consumption within their largest consumer markets - expanding their domestic demand. Their nominal GDP reached 3.6 trillion USD, making them the third largest economy in Asia. It is expected to grow by about 4.5% in 2024, particularly with the aid of multinationals wanting to diversify supply chains given the competitive advantages the ASEAN region presents. Countries such as Indonesia, Thailand, and Malaysia have low-cost manufacturing, particularly in comparison to China and India. By using monetary policy to stimulate growth, developing their tourist market, and growing their electronics sector, ASEAN will continue to see positive growth for their developing economies.

Figure 37 : ASEAN Real GDP growth
Source: World Economic Outlook (April 2024)

Latin America and the Caribbean's Macroeconomic Outlook

Latin America has a worsening economic outlook, and while geopolitical tensions remain high and the globe experiences an economic slowdown, it must generate policies to mitigate its impedening decline. Its GDP is expected to expand 1.6% in 2024, which is a .8% decrease from 2023. Brazil, Mexico, and Argentina are the main players in this region, yet all three nations are expected to experience a stall in growth. This concerning projection is due to tight monetary policies, weak external demand, and low competition within markets. Given the recent global inflation shock, central banks tightened monetary conditions to mitigate its consequences within the region. This has driven down aggregate demand, reducing the ability for investment and job growth. As the global economy also slows due to high interest and inflation, external demand for exports will also decrease, which is grounds for concern in Latin America as exports make up 27% of their GDP.

Enforcement of competition laws in Latin America is quite weak, and large companies have the ability to influence government policies, rendering competition laws all but effective. This drives up the prices of goods for consumers, as few firms have large market control. As inflation rates continue to decline in 2024, from 3.8% in 2023 to 3.2%, this perpetuates the reduction of aggregate demand. Competition policies must be strengthened and properly implemented, as it is a large obstacle to stimulating growth within Latin America. Other challenges posed to this region include the disruption of energy markets due to geopolitical tensions, and climate-related shocks that could impact supply-chain systems.

Latin America currently stands at a point where it must take immediate action to accelerate growth and development within the region, or experience a decline in the labor force and overall economic growth. To be effective, new industrial policies must be resilient to external factors and properly enforced.