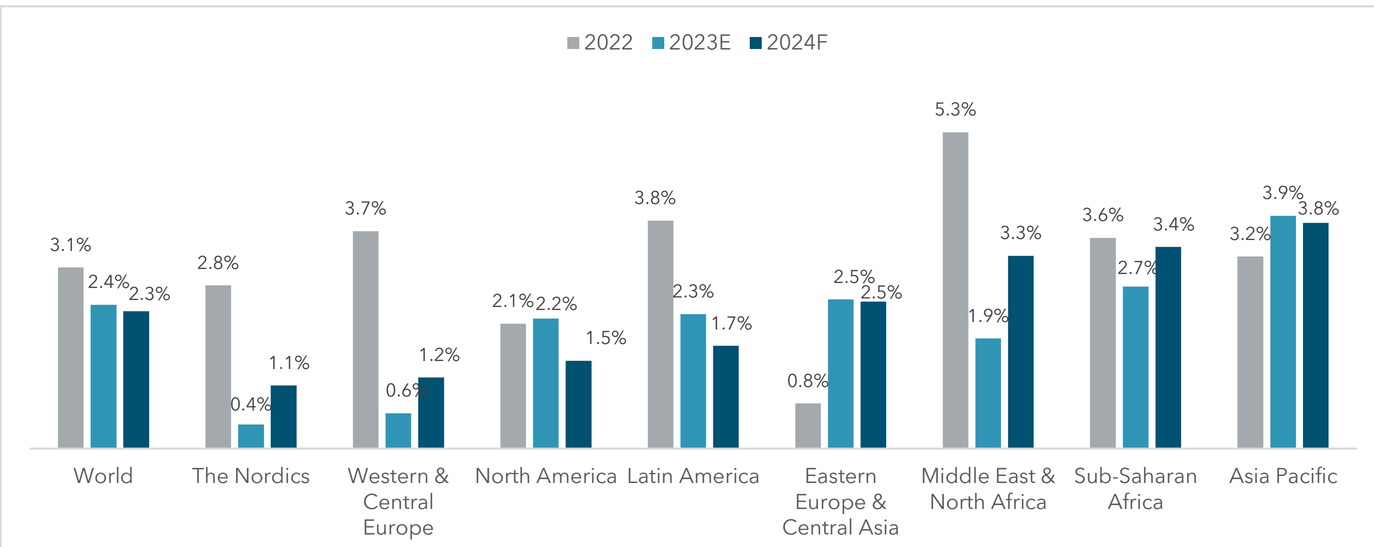
Global Economic Outlook – December 2023

2023 Recap: A World Caught Between Unexpected Conflict and Diplomatic Hope

"Undoubtedly, 2023 has been a surprising year for the global economy, especially considering the prevailing geopolitical challenges. However, telltale signs of an impending economic shift are emerging, notably seen in the resilient U.S. economy. Despite inflation showing signs of moderation, central banks are proceeding cautiously. As we step into 2024, the business landscape faces the intricate task of navigating oil prices, which are currently subdued due to an anticipated slowdown in demand. This comes despite upward pressures from ongoing geopolitical tensions and the extended supply cuts by OPEC+ members. In 2024, global elections will bring new policy challenges. Despite conflicts, recent bilateral and multilateral cooperation showcases the potential for growth through collaboration and seizing opportunities. This resilience points to progress amid significant political and economic activity." **– Dr. Arun Singh, Global Chief Economist, Dun & Bradstreet.**



Global Economic Outlook

Looking back at 2023, on the one hand, we were spared a much-feared recession, while on the other, the world experienced unexpected conflict. Following Hamas's attack on Israel in October, conflict has been raging between the two sides. After a week-long ceasefire at the end of November, the conflict resumed on December 1. The way that the fighting has resumed, there is a risk of regional spillover. At the same time, Europe is facing its second winter since the start of the Russia-Ukraine conflict with economies seemingly much better prepared on gas supplies this time around. Together with a waning Ukrainian counteroffensive, it seems that the world is ready to move on from this winner-less conflict.

Against this geopolitical backdrop, OPEC+ members have decided to extend their 'voluntary' oil production cuts into 2024, with Saudi Arabia extending its 1m barrels/day cuts until the end of Q1 2024. For now, oil prices remain subdued, giving more weight to the lack of consensus among members and softening global demand over supply cuts. Market consensus on oil prices seems appropriate considering the global economic outlook. Although U.S. Q3 growth was recently revised up to 5.2% (q/q annualized), tight credit conditions have begun to catch up. Signs of a slowdown, particularly in the previously resilient labor market and in consumer spending, have started to emerge. At the same time, Mainland China's recovery is at a nascent stage. The Eurozone economies and the U.K. will recover in 2024, but they will remain underwhelming. That leaves emerging markets in Latin America (such as Brazil and Mexico) and Asia (such as Indonesia and India) to power growth into 2024.

On the flip side, inflation remains on a downtrend. Despite a brief uptick in food and energy prices in September and a still-hawkish bias among central banks, the narrative driving financial markets has decisively turned to anticipating the timing and magnitude of rate cuts in 2024 – mostly, timelines have moved up. Overall, central banks in Europe and the U.S. Federal Reserve are pleased with the outcome of their inflation management campaigns so far but they are not yet prepared to declare victory. For the time being, these central banks will remain on hold, and monetary policy actions elsewhere could draw more attention – such as an out-of-cycle hike from the Philippines and a late hike (in November) from Australia. Elsewhere, low-income developing economies in Africa and Asia with high debt and cost-of-living burdens are experiencing currency pressures; Türkiye has just returned to monetary policy orthodoxy; Japan has not even begun raising rates; and Mainland China has stayed accommodative in the face of global liquidity tightening. All these countries could deliver interesting, market-moving outcomes through their policy choices.

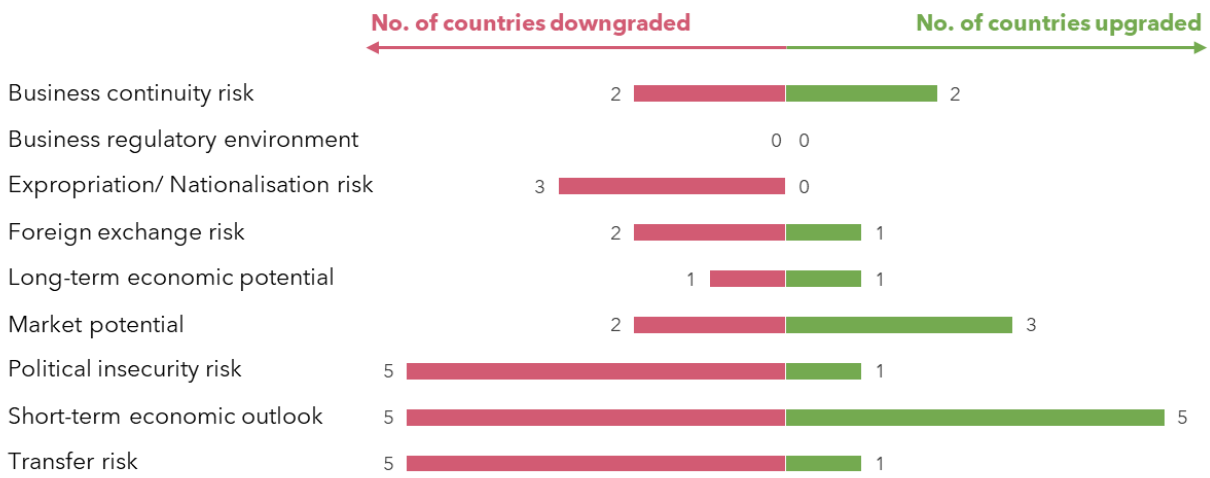
At the sidelines of the November Asia-Pacific Economic Cooperation (APEC) summit in San Francisco, Presidents Joe Biden and Xi Jinping consolidated diplomatic efforts to stabilize bilateral ties between their two countries. The U.S. won Chinese cooperation over fentanyl, addressing a key domestic political issue, and China secured the removal of an agency from the U.S. export controls blacklist. These are small steps considering the wide array of differences between the two countries, but nevertheless they are important as a symbol of possible cooperation. The AI summit in the U.K. in November secured buy-ins from key countries on risks associated with the technology, and the COP28 climate summit, taking place from November 30 to December 12 in the UAE, could also deliver more cooperation. For businesses, these events offer much-needed hope that in a world marred by conflicts, the promise of multilateral and bilateral cooperation can continue to offer growth opportunities. That's a good note to sign off 2023, before we enter a politically hectic 2024. Happy holidays!

Movement in Country Rating & Environment Risks

Country Rating	Environment Risks			
	Credit	Market	Supply	Political
Paraguay Türkiye Austria Canada Cyprus Israel	Gabon Cyprus Israel Italy	Mainland China Paraguay Türkiye Austria Estonia Israel	Canada Gabon Paraguay Bangladesh Greece Israel	Türkiye Bangladesh Cyprus Hungary Italy Mexico

Note: *Colors indicate Rating upgrade/Improvement in outlook, Rating downgrade/Deterioration in outlook*

Movement in Risk Dimensions



Source: *Dun & Bradstreet*

Rating Changes

Paraguay: President Santiago Pena's administration, in office since August, signals policy continuity, emphasizing a business-friendly, green agenda to boost the private sector and formal employment. Despite a 2022 drought, investments in pulp, green hydrogen, and biofuels are likely to continue supporting growth.

Türkiye: The overall outlook keeps improving as the country's growth and reversion to more conventional economic policy looks durable. Massively increased interest rates are attracting investors and improving medium-term prospects by addressing inflation and external imbalances.

Austria: Austria's recession continues, with a sizeable increase in bankruptcies in Q3 signaling that the squeeze on corporate liquidity caused by the pandemic and more recent elevated inflation may not yet have passed its peak; further weakness is expected in 2024.

Canada: The economy shrank in Q3, raising expectations of an end to the monetary policy tightening cycle. On the upside for business continuity, a record wildfire season has finally ended, having claimed 18.5m hectares, compared with 2.8m per year on average in the previous 10 years.

Cyprus: The Middle East conflict risks spilling into Cyprus in the form of refugees, lost trading opportunities, and suspension of planned energy projects. Consumer confidence has fallen sharply amid concerns about borrowing costs and the broader economic outlook. As the country meets 80% of its energy requirements through oil, rising oil and gas prices are damaging to its economic prospects.

Israel: The Israeli military has expanded its ground operations in southern Gaza after a short ceasefire. Sectors such as tourism, retail, construction, and high-tech manufacturing, which accounts for half of Israeli exports, are notably affected.

Estonia: Deepening contraction raises concerns of an extended downturn into H1 2024 amid geopolitical tensions impacting regional trade. Divisions between the Estonian majority and ethnic Russians (around a quarter of the population) could lead to instability against the backdrop of the Russia-Ukraine conflict.

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Key Market Updates

United States: Strong and upwardly revised Q3 GDP and an end to long-running labor strikes offer a year-end fillip to the economy as Congress buys more time to agree on a full-year budget for 2024.

Mainland China: The pick-up in retail sales and industrial output, along with data on freight traffic and passenger travel, suggests that the domestic economic recovery – supported by ongoing regulatory easing – remains on track to beat the year's growth target.

Germany: The top court's ruling striking down the government's decision to repurpose leftover Covid funds for climate projects has led to a EUR17bn gap in the 2024 budget and a freeze on new spending, elevating uncertainty for public investments.

United Kingdom: The Autumn Statement made permanent the 'full expensing' scheme that allows businesses to immediately deduct all spending on IT equipment, plant, or machinery from taxable profits, incentivizing business investments. Consumers should benefit from a reduction in the direct payment into the welfare state, which may boost incomes and ease supply side constraints in the labor market.

Portugal: The Portuguese parliament has passed the 2024 budget ahead of a snap election called due to the surprise resignation of Prime Minister Antonio Costa amid an investigation into alleged irregularities in green energy projects and a data center.

Netherlands: Far-right Geert Wilders emerged as the unexpected winner in the recent Dutch elections, leading his EU-skeptic party to a decisive triumph over mainstream rivals. Despite initial pledges, which included a binding EU exit referendum, withdrawal from climate commitments, and substantial immigration reduction, Wilders has indicated a willingness to compromise for coalition agreements, leaving policy direction uncertain.

South Africa: South Africa continues to be dogged by rolling power cuts and problems at port and freight rail terminals, which have restricted activity across industry. Inflation has reaccelerated in recent months, though the central bank kept rates unchanged at its latest meeting, reflecting as it did that logistics bottlenecks were pressing down on growth.

Argentina: Argentine president-elect Javier Milei seems to be shifting from his radical campaign promises, choosing advisers with Wall Street experience in alignment with former leader Mauricio Macri. Proposals such as dollarization and central bank closure appear to be on hold due to personnel changes. As Milei concludes key portfolios, tension is growing in local financial markets ahead of his inauguration.

Qatar: The commencement of the North Field expansion project and the establishment of long-term supply deals with Europe and Asia are crucial for Qatar, granting significant economic and political leverage. QatarGas and its partners have emerged as a key customer for South Korea's shipyards.

Bangladesh: Political turmoil and violence cast a shadow over Bangladesh's economy, even as an IMF package offers temporary relief to the country's strained balance of payments.

Norway: The Norwegian manufacturing and energy-intensive heavy industry sectors are expected to be affected after the EU carbon border adjustment mechanism (CBAM) comes into operation, starting with the transitional phase from 1 October 2023.

How Dun & Bradstreet Can Help

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