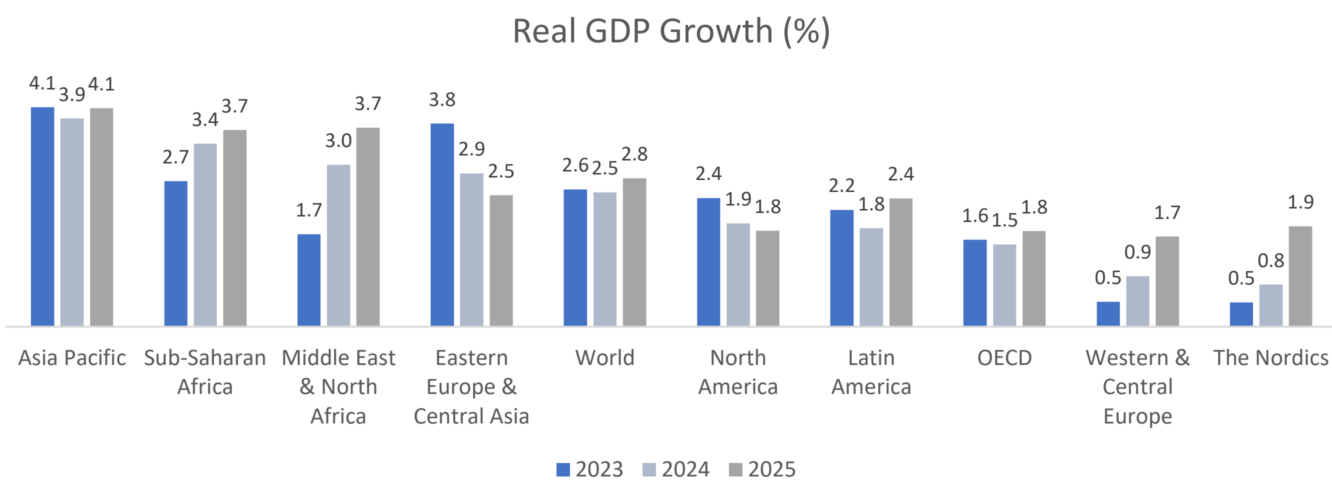
dun & bradstreet

Global Economic Outlook – June 2024

ECB cuts interest rates as global easing narrative gathers pace

"European businesses will be buoyed by the prospect that the European Central Bank (ECB) now sees a path to lowering borrowing costs, after it cut rates for the first time since 2019 at its June meeting. Although the onward course of monetary policy in Europe is not entirely clear, mainly because of mixed readings across various measures of inflation and growth, other central banks may be sufficiently encouraged by the move to consider lowering their own interest rates. The divergence in the ECB's and the U.S. Federal Reserve's monetary policies could mean that central banks globally will now face increased pressure to reconcile growth and inflation priorities. It also raises the short-term likelihood of exchange rate volatility. Although the U.S. economy appears to be set to slow, activity in Europe seems to be poised to gradually recover this year, and this situation is adding complexity to the view on global interest rates. As we enter the second half of 2024, global monetary policy will remain the key macroeconomic theme."

– Dr. Arun Singh, Global Chief Economist, Dun & Bradstreet.



Global Economic Outlook

Data for the first half of the year points to faster-than-expected growth in the global economy, though the extent of growth remains modest. Inflation has declined – albeit more slowly of late – to within a whisper of central bank targets in major developed economies. A nascent recovery appears to be taking hold in parts of the world, though strength varies by region. The Eurozone and the U.K. both rebounded in Q1, though economic activity remains lackluster, and both are moving on from short-lived and shallow recessions. In comparison, growth in the U.S. remains strong, though there are signs that economic activity is slowing down in line with the current trend. Several large emerging economies, such as the Chinese Mainland, India, Indonesia, Brazil, and Mexico, have also recorded upbeat outturns so far this year. We expect this variance in recovery prospects to continue, with generally softer outcomes in developed economies, particularly in Europe, offset by relatively stronger performances in the U.S. and emerging economies.

European businesses should receive a boost from the policy rate cut made by the European Central Bank (ECB) in early June. The central bank was circumspect about the future path of monetary policy and did not offer much guidance about the trajectory from here, which may limit the longer-term spending plans of companies searching for assurance of sustained and increasingly lower borrowing costs. The divergence in monetary policy between the U.S. and Europe (with a sharper drop in rates expected sooner in Europe) seems reasonable given the differences in growth outturns.

Alongside the ECB's move, we expect to see greater policy support in the second half of the year, when underlying conditions should be more supportive of rate cuts and central bankers will likely prioritize growth over inflation. Though high sovereign debt levels and rising debt service costs make additional substantial fiscal stimulus difficult, looser monetary policy should boost demand. Inflation in major developed economies has moderated sufficiently to improve confidence in the private sector and for central banks – such as in the U.K., Canada, Australia, and the U.S. – to consider that price pressures are moving closer to a sustainable path. Inflation appears largely under control, with long-term inflation expectations relatively well anchored. However, as growth recovers, the risk is that decelerating inflation bottoms out too soon and re-accelerates before central banks feel sufficiently justified to begin cutting interest rates.

Although risks seem to be becoming better balanced, significant downside factors continue to act as headwinds and hold back recoveries. Supply chain disruption has improved of late, but container shortages and soaring freight rates continue to threaten trade by increasing costs and causing delays to deliveries. Tension in the Middle East could upset energy prices and financial markets. On the positive side, recent elections in India, Russia, South Africa, and Mexico mean that uncertainty around governance and policymaking has cleared in those countries, giving businesses the clarity to make investments. The European Parliament elections took place at the start of June, revealing a significant showing for center-right and far-right parties, potentially making achieving EU legislative agreements more challenging; the shift in France was such that President Emmanuel Macron felt compelled to call a snap general election. There are further major elections set to take place this year that are likely to be sources of volatility – with the most significant being the U.S. presidential election in November.

Global financial conditions have tightened moderately this year: nominal bond yields have increased, reflecting the resilience of the U.S. economy and higher-than-expected inflation, meaning a more gradual path of expected Federal Reserve rate cuts this year. The risk of continued tight financial conditions – or tighter – and a stronger U.S. dollar remains a live risk for businesses, putting domestic currencies valued in dollar terms at risk of depreciation.

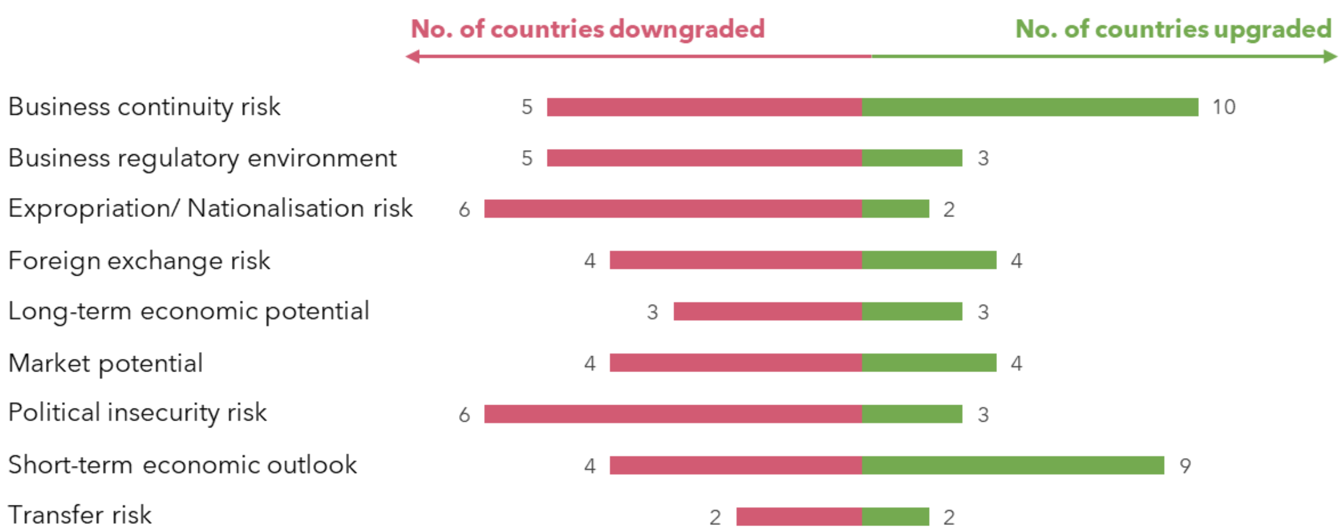
`

Movement in Country Rating & Environment Risks

Country Rating	Environment Risks			
	Credit	Market	Supply	Political
Gabon Hungary Bangladesh Germany	Canada Indonesia Norway Romania Switzerland	Ethiopia Canada Netherlands Norway	Gabon Brazil	Gabon Ethiopia

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

Movement in Risk Dimensions



Source: *Dun & Bradstreet*

Rating Changes

▲ (Upgrade)

Gabon: We have upgraded the overall country risk rating, as shocks related to the coup that took place last year are mitigating while the economy is expected to pick up this year on the back of higher commodity prices. However, political uncertainty owing to military rule is keeping risks to the business environment high.

Hungary: Hungary's overall risk rating has been upgraded, as data for Q1 suggest economic recovery is underway. Expectations of economic growth are improving as the interest rate trajectory turns downwards, but foreign businesses are wary of rising expropriation risks, especially in strategic sectors. The supply environment risk rating has been upgraded, as the country's energy security has improved due to its relationship with Russia, new agreements with Beijing, and other initiatives to improve supply chains and energy security.

▼ (Downgrade)

Brazil: Real GDP is expected to moderate to 2.0% in 2024 from 2.9% in 2023. The effects of the worst flooding in 80 years in Rio Grande do Sul, which accounts for a significant share of the country's agricultural output, include an easing in growth of volumes of agricultural exports, higher near-term inflation, and downward pressure on growth, offsetting the positive impact of disinflation earlier in the year. We have downgraded the supply environment risk rating by 25bps.

Canada: The Bank of Canada kept rates on hold at its meeting in May and kept the overnight policy rate at 5.0%; despite slowing inflation, the bank said it would be premature to cut rates. Tight financing conditions and still-high borrowing costs prompted us to downgrade the credit environment risk rating. There is concern about the market environment due to rising unemployment and slow growth in the economy.

Germany: We have downgraded Germany's overall risk rating, as the economy lacks growth stimulus; weak demand, high borrowing costs, and ongoing strikes are impeding recovery prospects. The credit environment risk rating has also been downgraded as growth is faltering and the government has limited headroom to support the economy owing to the constitutional court's strict interpretation of the debt brake policy.

Romania: We have downgraded Romania's credit environment risk rating due to a large fiscal deficit and the introduction of taxes to bring the government finances under control. Heightened tension with Russia and a charged political landscape in the run-up to local, presidential, parliamentary, and European Parliament elections this year have resulted in a downgrade to the political/insecurity risk rating.

Norway: Persistent inflationary strains and resulting pressure on the Norwegian central bank to signal that interest rate cuts may not be possible until late 2024 or even early 2025 mean financing conditions are likely to remain tight for some time. As a result, we have downgraded the credit environment risk rating. Slower growth has also made us more cautious about the market environment.

Ethiopia: Ethiopia's credit environment remains challenging following its sovereign default in December. On the geopolitical front, the country's offer to diplomatically recognize the breakaway region of Somaliland, in return for a long-term lease on land adjoining the Port of Berbera on the Gulf of Aden, is expected to create regional tensions.

Switzerland: We have downgraded Switzerland's credit environment risk rating due to a surge in inflation and the need for higher state funding to meet pension, defense, and climate commitments. The business regulatory environment risk rating has been upgraded, as the government is exploring tokenizing financial assets and introducing a central bank digital currency, which will improve payment systems.

Key Market Updates

Argentina: IMF staff have reached an agreement with Argentina on a loan program review that should unlock almost USD800m in much-needed funds for the country.

Mexico: Elections in June resulted in Claudia Sheinbaum becoming president. Trade tensions with the U.S., particularly regarding steel tariffs, add another layer of uncertainty to Mexico's economic outlook.

Sweden: The Swedish central bank's recent rate cut is likely to revive consumer spending, although the number of business closures will probably remain elevated until the effects of the cut feed through. We have upgraded Sweden's short-term economic outlook risk rating, as the construction sector is expected to benefit from May's interest rate cut.

France: Political tensions are heightened due to the upcoming European Parliament elections and violence in New Caledonia, a critical base in the Pacific and a mineral-rich region. A priority for the government is to manage credit risk.

Czech Republic: Czech household consumption has finally turned positive, with nominal wage growth exceeding inflation. Consumer confidence has risen to its highest level since September 2021 and retail sales have turned positive after a prolonged period of decline. At its May meeting, the Czech National Bank reduced interest rates to 5.25%.

Thailand: We have downgraded the short-term economic outlook due to lackluster economic growth in Q1, with a contraction in government spending, shrinking investment prospects, and negative growth in exports. The government's planned one-off digital wallet initiative has been delayed until Q4, meaning that the boost to consumption will be less than previously expected this year. The country continues to base its economic performance on the recovery of the tourism sector.

United States: U.S. inflation appears to be more stubborn than expected, pushing interest rate cut expectations further out. The Department of Labor has extended mandatory overtime pay to an estimated 4m workers earning less than around USD58,600 a year and working more than 40 hours a week; the previous salary threshold was USD35,500. The new legislation will raise business costs and potentially increase regulatory uncertainty.

United Kingdom: A general election has been called for July 4; votes will be fiercely contested, as the election comes after heavy local election defeats for the government earlier this year. Q1 real GDP expanded 0.6% q/q, confirming that the U.K. exited recession having contracted in the final two quarters of 2023.

Uganda: Uganda faces a tough credit environment as borrowing restrictions by multilateral agencies keep debt-servicing costs high. Tax amendments made to correct fiscal imbalances and the rise in interest rates in April are expected to limit consumption growth.

Venezuela: The U.S. reimposed sanctions on Venezuela's oil sector because of the government's failure to adhere to democratic principles ahead of elections in July. We expect that the Chinese Mainland will probably purchase additional cargoes.

How Dun & Bradstreet Can Help

Dun & Bradstreet's Country Insight Solutions provide forecasts and business recommendations for 132 economies, allowing businesses to monitor and respond to economic, commercial, and political risks. To learn more, visit dnb.com/country-insight.

`