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The global outlook for 2024

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The start of 2023 was highly challenging, with acute uncertainty about the global macroeconomic outlook haunting the markets and expectations that the sharp rise in inflation would have to be combated by synchronized monetary tightening on a global scale to engineer a significant slowdown in economic activity. On the other hand, there was concern about the financial risks of substantial interest-rate hikes, such as potential insolvency in the context of high levels of indebtedness, especially after the collapse of Silicon Valley Bank in the first half of the year, as well as fears of a recession. Contrary to forecasts, however, 2023 ended with resilient, albeit decelerating, activity and a much more benign disinflationary dynamic than the markets had anticipated.

More surprising than the significant reduction in global inflation was the propagation of disinflation from tradables to core inflation, the category that correlates most closely with business cycles and the labor market. Given the current convergence of inflation even without a sharp economic slowdown, the markets are increasingly inclined to foresee a soft landing in 2024.

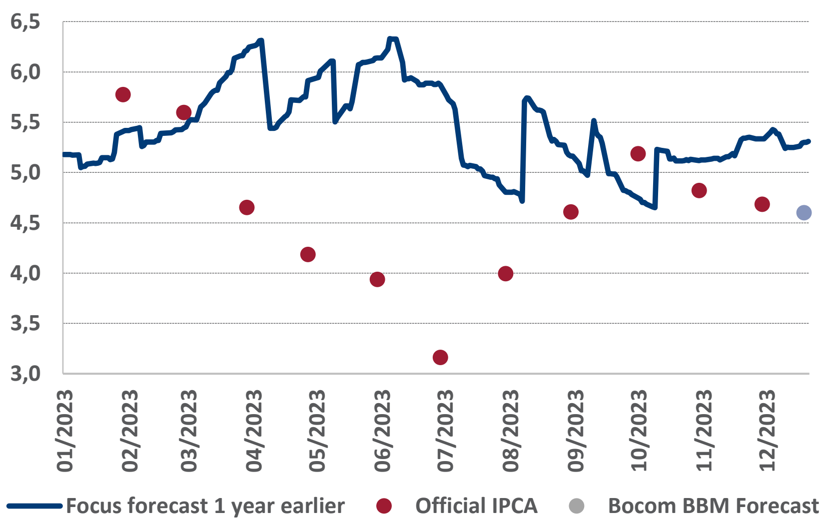
In the United States, the labor market is gradually rebalancing (Figure 1). The gap between demand for labor and supply fell to 2.3 million in October, after peaking at 6 million. At the same time, economic activity is slightly weaker: growth is estimated to have slowed roughly to potential in the fourth quarter, after reaching about 5% in annualized terms. The rebalancing of activity in conjunction with the ongoing disinflation process led the Fed to change its communication in December, signaling that the FOMC had begun discussing rate cuts and would continue to do so at forthcoming meetings. This change of attitude and consistent improvements in the data led the markets to price in cuts amounting to more than 150 bps for 2024.

In Brazil, the economic outlook is not very different. After the extraordinary growth of agriculture and strong production by the mining sector, together with better than expected resilience in more cyclical sectors of the economy, GDP will have grown about 3% for the second consecutive year in 2023. At the same time, inflation fell more than expected. At the end of 2022, the markets expected inflation to end 2023 on 5.3%, but the official rate for the year will be about 1 percentage point lower (Figure 2). This trend is the basis for the monetary easing cycle under way since August, with cuts to the policy rate (Selic) totaling 2 pp in the period. The consensus forecast for 2024, according to the Central Bank's Focus survey, is another 2.75 pp of cuts, taking the Selic to 9% p.a. by December. If the Fed also embarks on a cycle of rate cuts, expectations of monetary easing will be bolstered not just in Brazil but also in other emerging markets.

Figure 1: US: Jobs-Workers Gap (Millions)

Source: BOCOM BBM, Bureau of Labor Statistics

Figure 2: Brazil: Inflation Accum. 12 Months (Official x Focus forecast 1 year earlier)

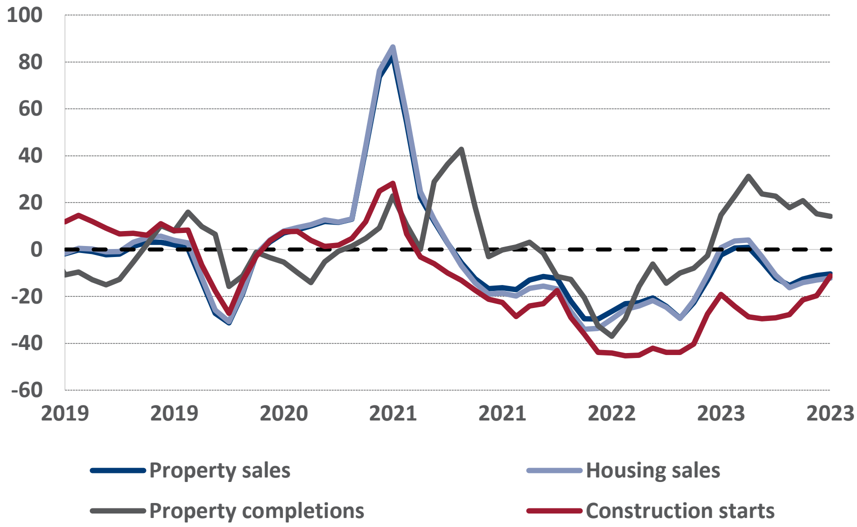


Source: BOCOM BBM, BCB, IBGE

In Europe, inflation has fallen considerably, and economic activity has displayed less dynamism. Monetary policy transmission has been fast, justifying low growth in 2023 and downside surprises in current inflation. The markets expect monetary easing to begin in the euro area in 2024, since the ECB's projections suggest inflation will converge to the target in 2025, assuming cuts of 25 bps per meeting in the key policy rate from June on, which would lower the rate from 4.00% to 2.75%.

In China, the growth outlook for 2024 looks more challenging. The economic data shows that activity did not rebound as strongly as expected in the post-Covid reopening, despite the government's efforts to boost growth. The main challenges to Chinese growth, such as blatant deceleration in the real estate sector, will persist in 2024 (Figure 3). As for consumption, which was the main driver of growth in 2023, this factor will be weaker in 2024 because the low basis for comparison in 2022 will no longer count.

Figure 3: China: Property Indicators (3MMA, % YoY)



Source: BOCOM BBM, National Bureau of Statistics

Our scenario for the Brazilian economy assumes monetary easing in the developed countries and global economic growth will decelerate moderately. On one hand, slower Chinese growth plus adverse weather will probably mean lower productivity of Brazilian grain crops in 2024. On the other, monetary easing, labor market resilience and significant disinflation promise to shore up disposable household income. Our projection of 1.3% GDP growth in 2024 gives due weight to the risks on both sides. Our macroeconomic projections are shown in the table below.

ECONOMIC FORECASTS	2020	2021	2022	2023F	2024F	2025F
GDP Growth (%)	-3.3%	4.8%	3.0%	2.9%	1.3%	2.0%
Inflation (%)	4.5%	10.1%	5.8%	4.6%	4.0%	4.0%
Unemployment Rate (eoy ,%)	14.2%	11.1%	7.9%	7.8%	8.4%	8.5%
Policy Rate (eoy, %)	2.0%	9.3%	13.75%	11.75%	9.50%	8.75%
External Accounts						
Trade Balance MDIC (US$ bn)	50	61	62	95	87	78
Trade Balance (US$ bn)	32	36	44	77	67	58
Current Account Balance (US$ bn)	-28	-46	-54	-32	-34	-43
Current Account Balance (% of GDP)	-1.9%	-2.8%	-2.8%	-1.5%	-1.5%	-1.8%
Fiscal Policy						
Central Government Primary Balance (% of GDP)	-9.8%	-0.4%	0.5%	-2.1%	-0.8%	-0.8%
Government Gross Debt (% of GDP)	86.9%	77.3%	71.7%	75.5%	78.7%	80.6%