



Halle Institute for Economic Research  
Member of the Leibniz Association

# **AIECE General Report Spring 2023**

## **The general environment**

Ljubljana, May 2023

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“It was never going to be an easy ride”  
(Pierre-Olivier Gourinchas, IMF World Economic Outlook, this spring)

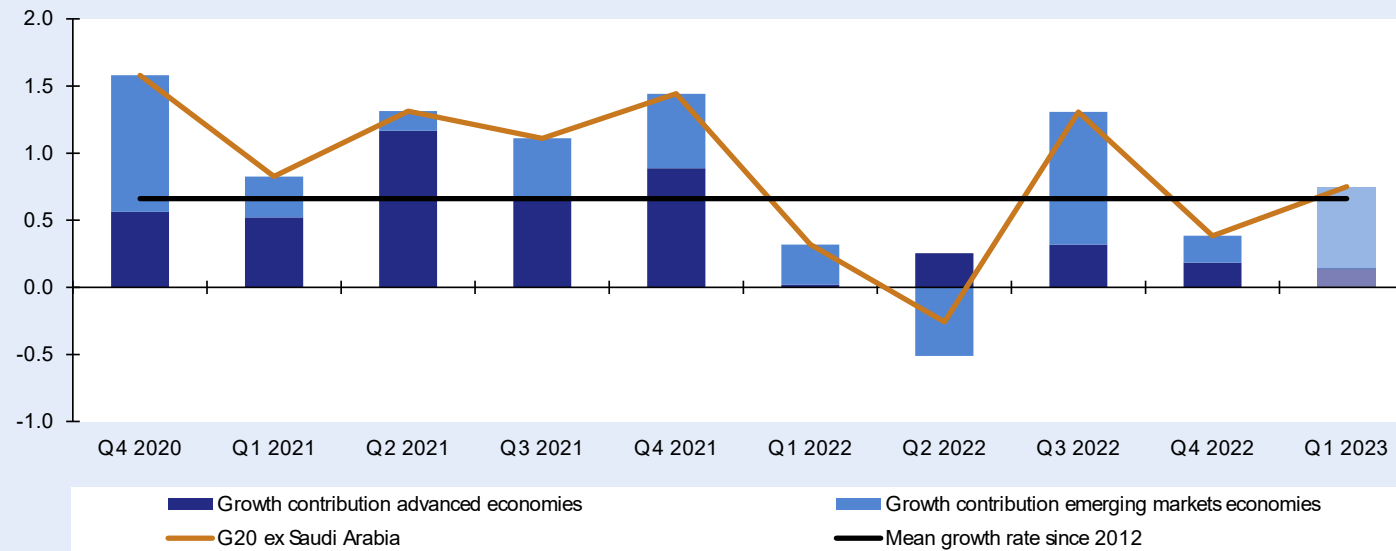
- Many adverse factors straining the world economy
- Given these factors, the present economic state appears rather robust.

Growth of the world economy in the 1st quarter 2023 was probably above trend.

Figure 1-1

G20 Economies

Quarterly Growth Rates in percent

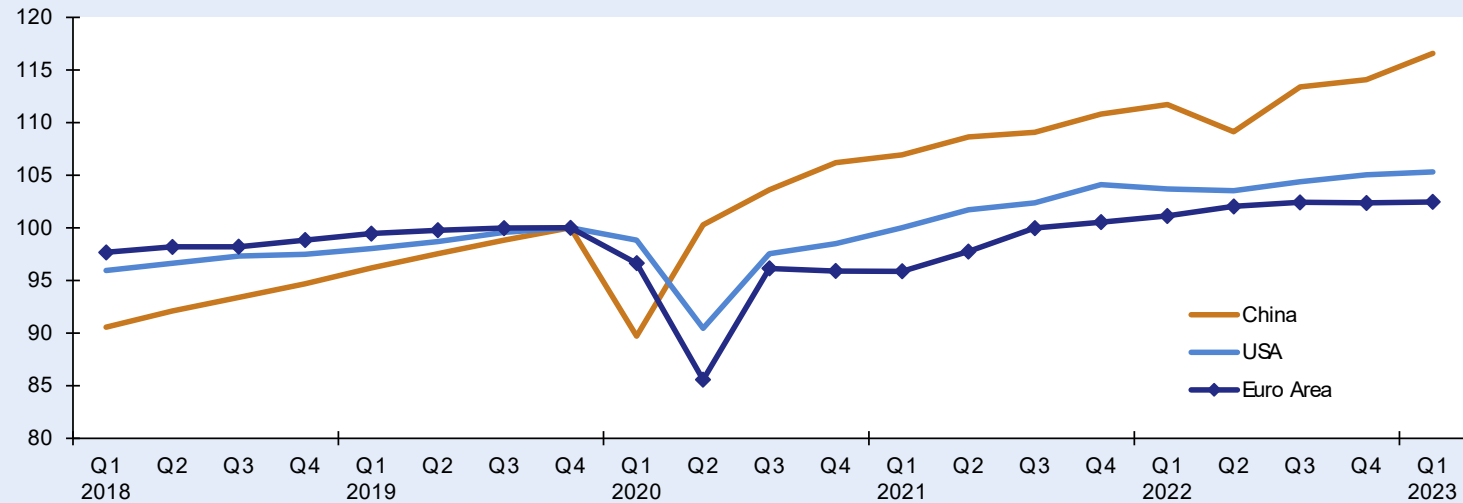


Sources: National Statistical Institutes; Illustration and nowcast by IWH.

Figure 1-2

Real GDP

Seasonally adjusted, quarterly, index Q4/2019 = 100

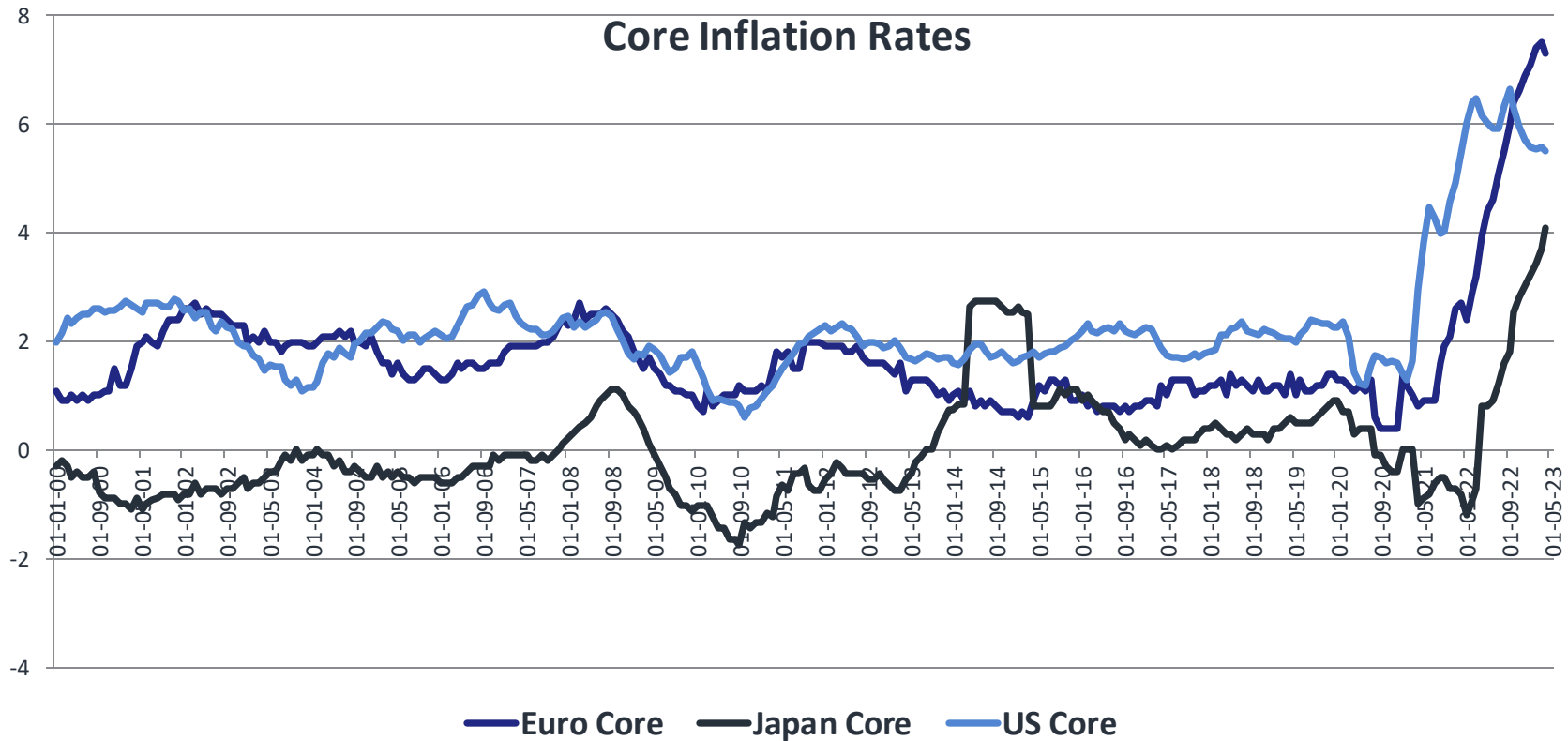


Sources: National Statistical Institutes; Calculations and presentation of the IWH.

GDP growth in percent, 1st quarter 23:  
 China 2.2, Japan 0.4, US 0.3, Euro area 0.1



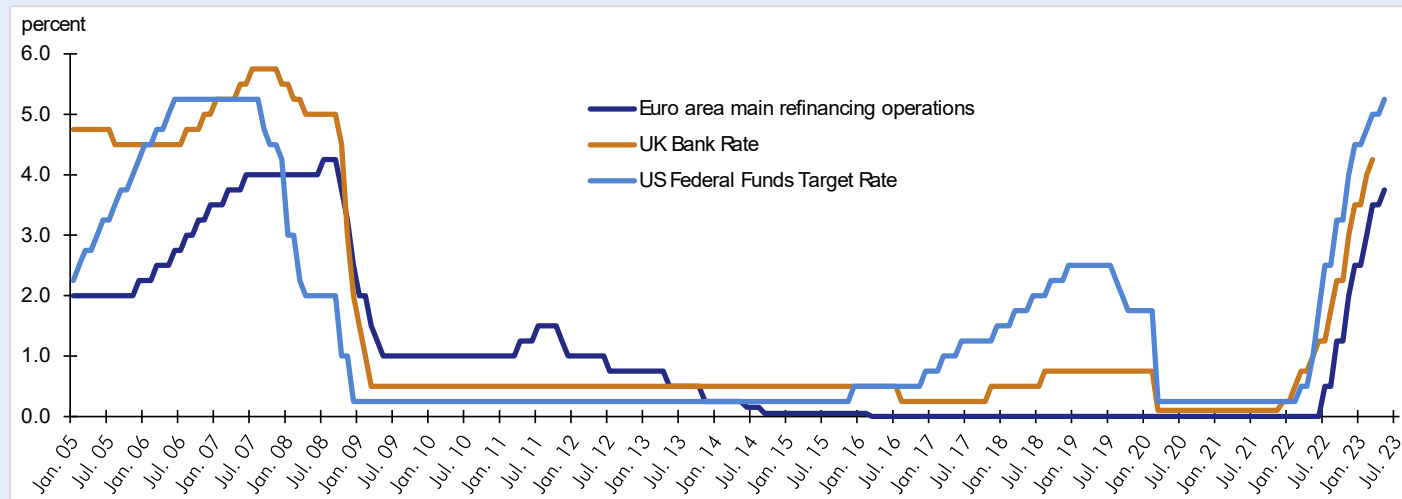
# Adverse factors: high inflation and the rapid increase of interest rates



# Adverse factors: high inflation, rapid increase of interest rates

Of all central banks the BIS reports about, only those of Japan, China, Turkey and Russia have not raised key interest rates since March 2022.

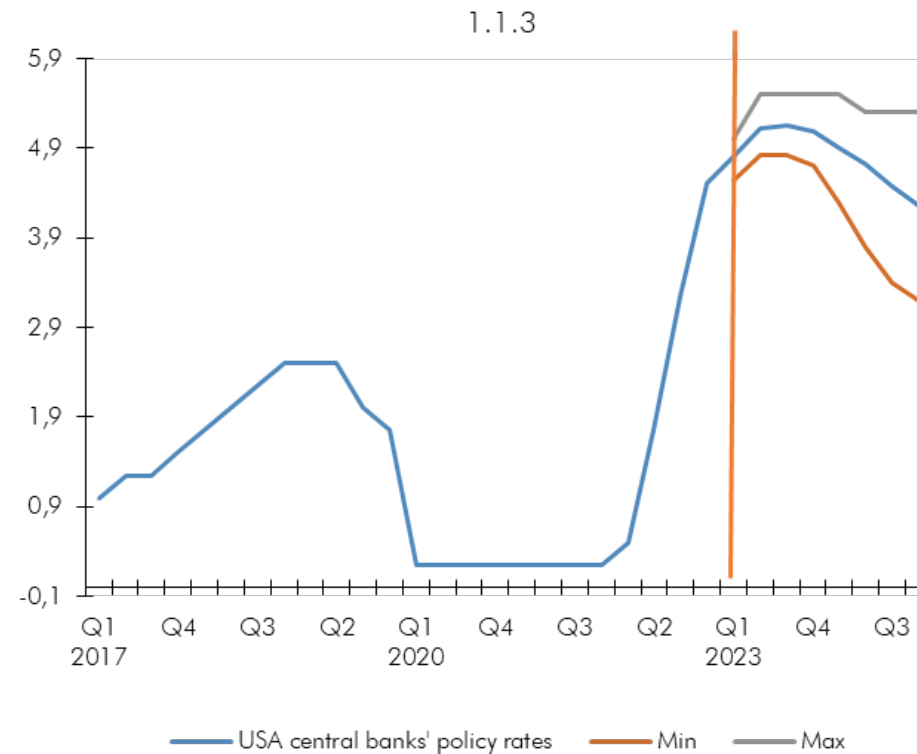
Figure 1-3  
Key interest rates



Sources: Federal Reserve Board; Bank of England; ECB; Calculations and presentation of the IWH.



Institutes forecast that the US target rate has reached its maximum in the 2<sup>nd</sup> quarter and that it will start slowly coming down late in 2023.



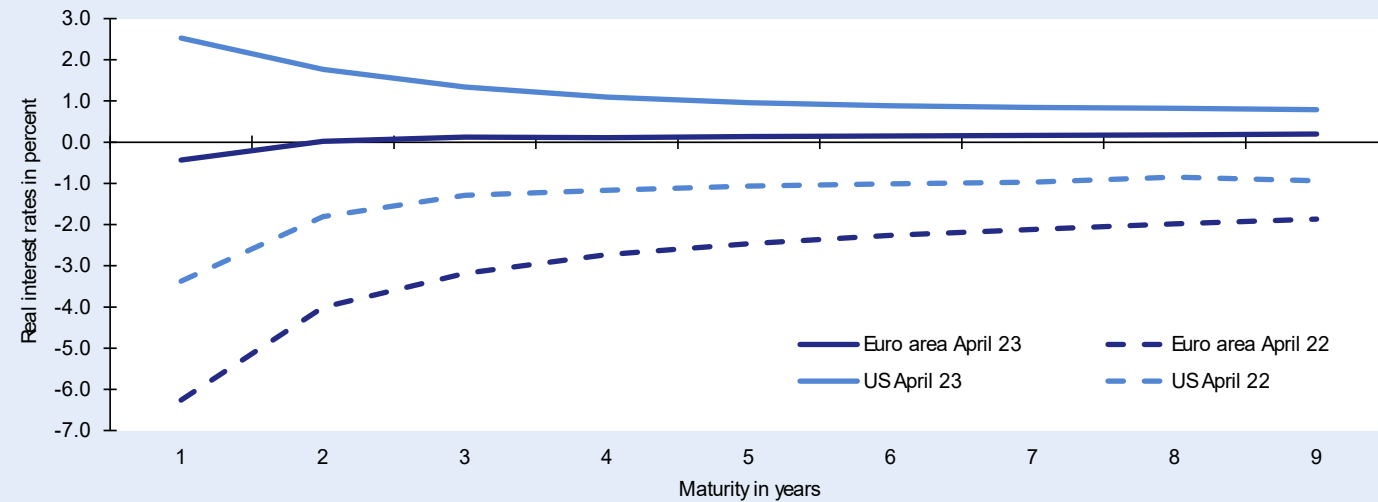
# Real interest rates..

.. not high from a historical perspective, but much higher than a year ago, since expectations for inflation have come down.

Figure 1-4

## Real interest rates for different maturities in the euro area and in the US

Based on swap rates for nominal interests and inflation



Sources: Refinitiv; Calculations and presentation of the IWH.



## Adverse effects of higher real interest rates

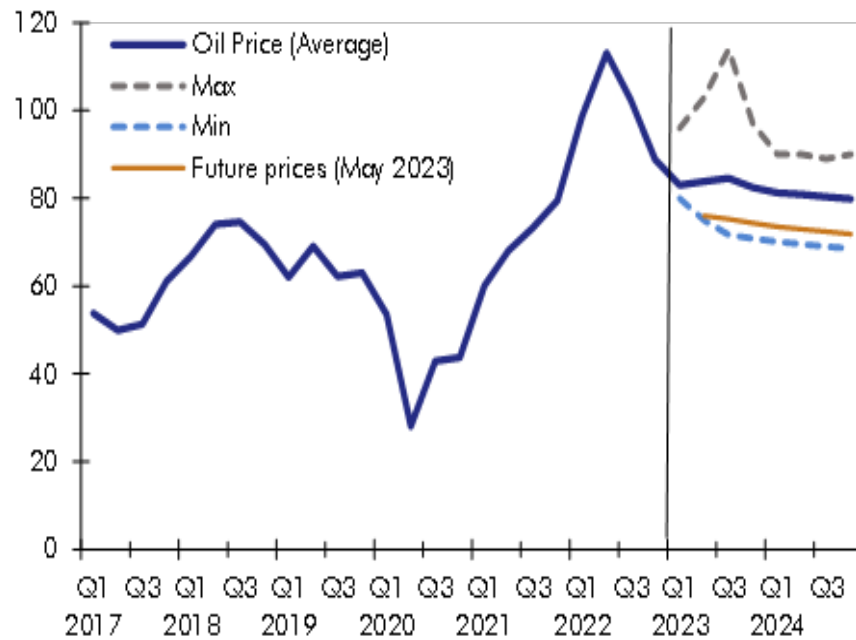
- dampening demand by higher financing costs and incentives to save more
- pressure on assets that do not pay off soon, such as housing property
  - House prices at present mostly stagnating in nominal terms, but falling e.g. in Germany and Sweden
- not intended by central banks:
  - balance sheet losses and bank runs caused by the decline in the value of bonds with longer maturities
  - failures of US banks Silicon Valley Bank, Signature Bank and First Republic
  - forced takeover of Credit Suisse by UBS



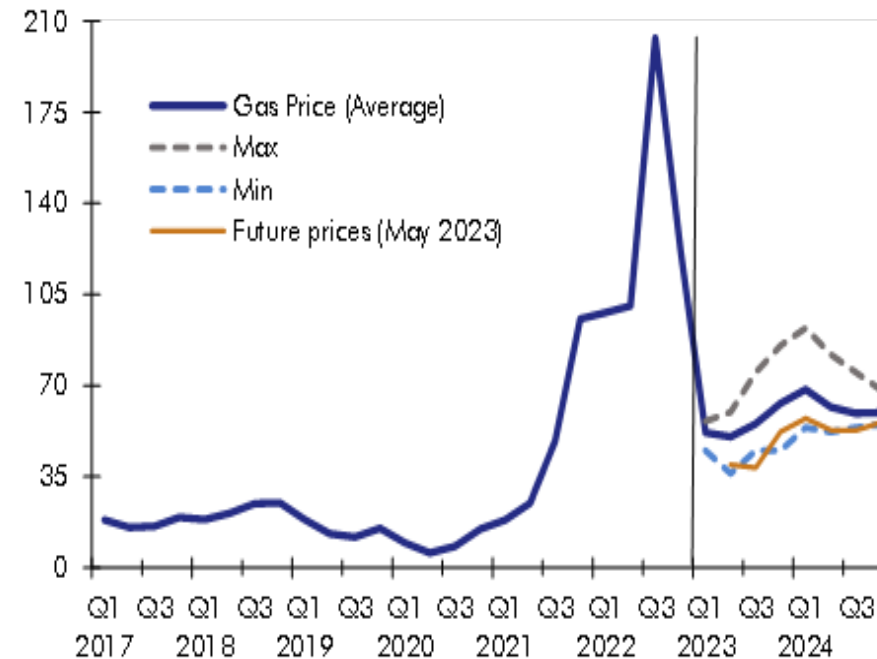
## Adverse factors: geopolitical strains

Russia's invasion of Ukraine triggered a commodity price hike. Prices have fallen since summer, but European gas prices will probably remain much higher than before the war.

Crude oil price (Brent), USD per barrel



Natural Gas (Dutch TTF, euro per MWh)



## Adverse factors: geopolitical strains

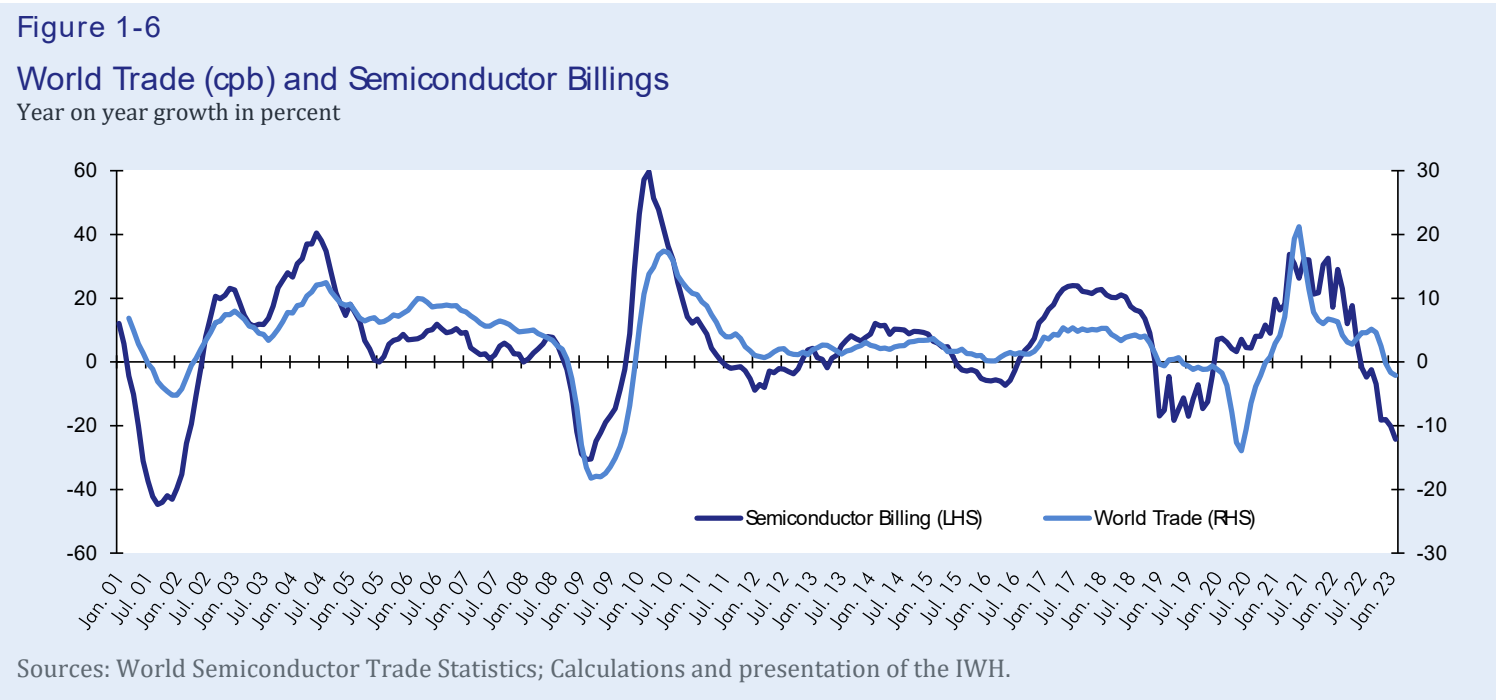
In the long run more serious than the stop of Russian energy flows to Europe:  
Prospect of a split between a western and a Chinese economic sphere

Note: share of EU exports to China in total EU exports has declined both in 2021 and in 2022, as has the Chinese share in EU imports.

# Adverse factors

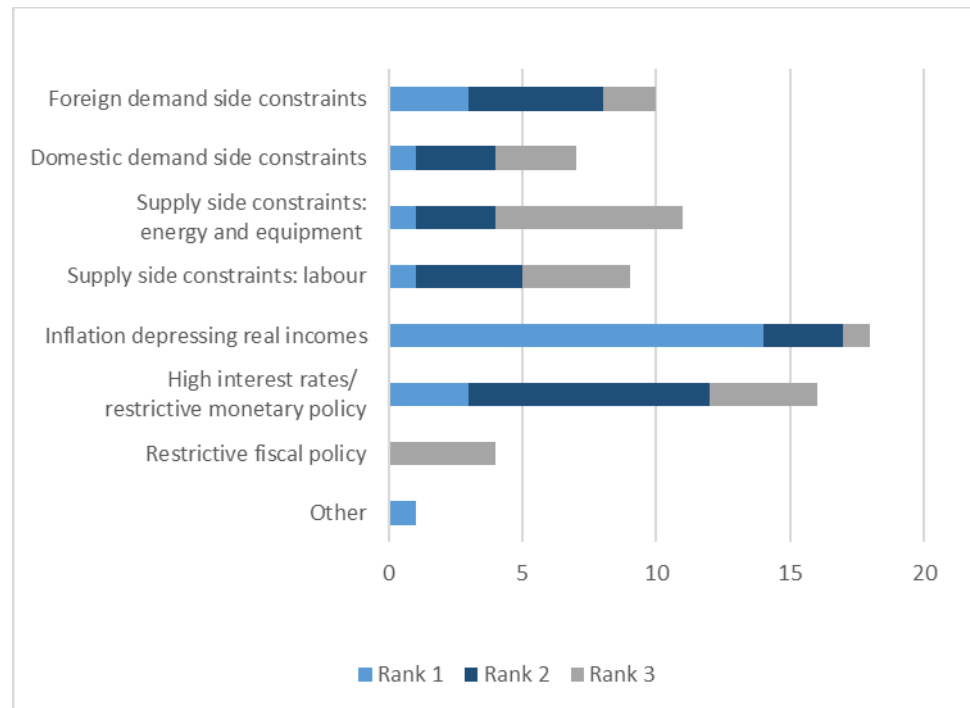
## Weakness of manufacturing after the end of the pandemic

Spending on goods no longer replaces that on services.



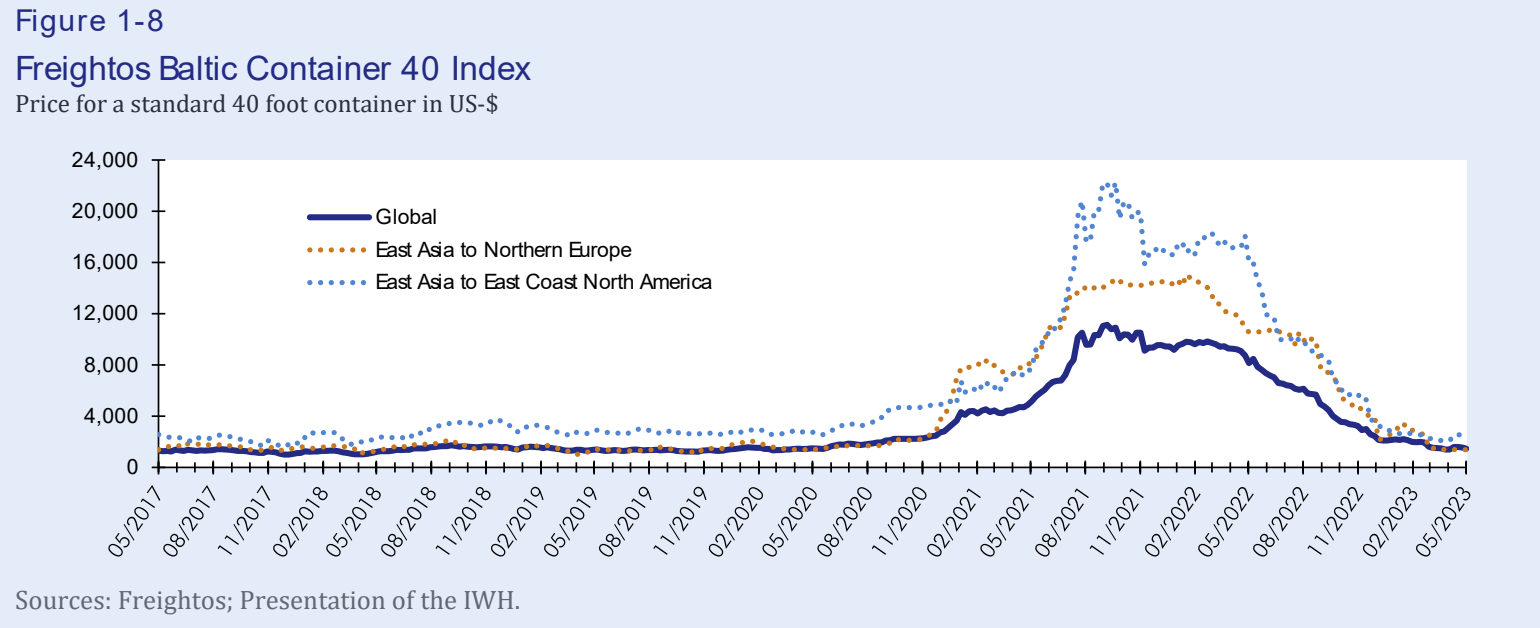
# Adverse factors

Please choose the three most important factors limiting economic growth for 2023 in your country, and rank them from 1 to 3, with 1 being the most important.



# Factors supporting the world economy

Flip side of weakening demand for industrial goods: easing of supply chain disruptions



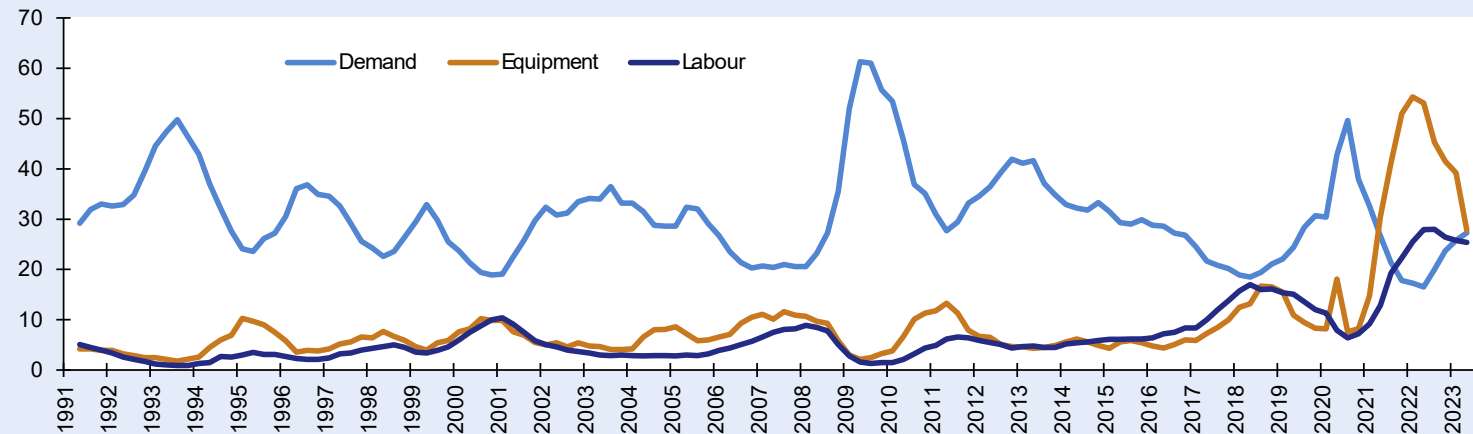
# Factors supporting the world economy

Flip side of weakening demand for industrial goods: easing of supply chain disruptions

Figure 1-9

## Factors limiting production - Manufacturing - Euro Area

In percent

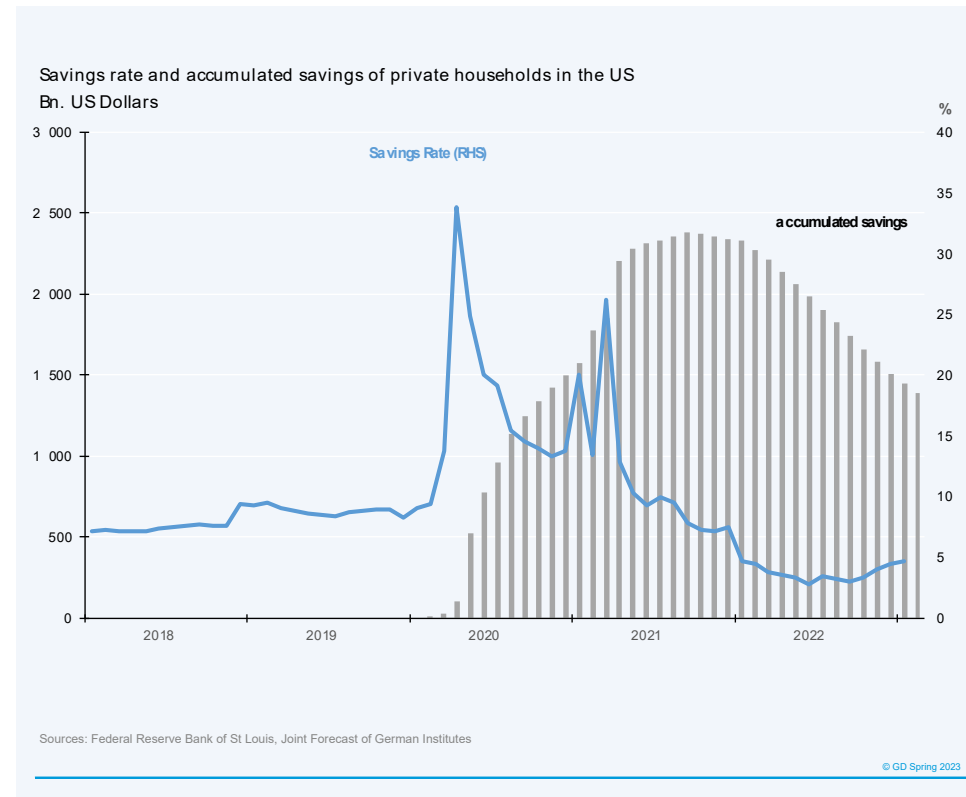


Sources: DG ECFIN; Presentation of the IWH.



# Factors supporting the world economy

Sizable savings that households accumulated when many services were not on offer while governments in the US and Europe supported private incomes.



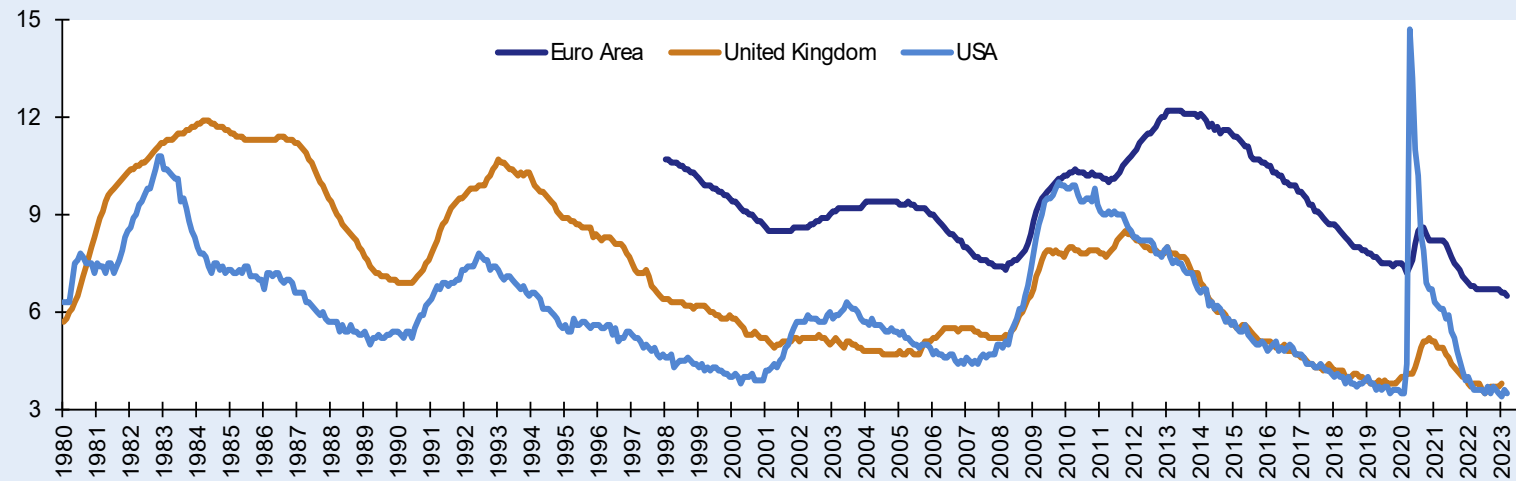


# Tight labour markets: supporting or limiting growth?

Figure 1-10

## Unemployment Rates

In percent



Sources: Bureau of Labor Statistics; ONS; Eurostat; Presentation of the IWH.

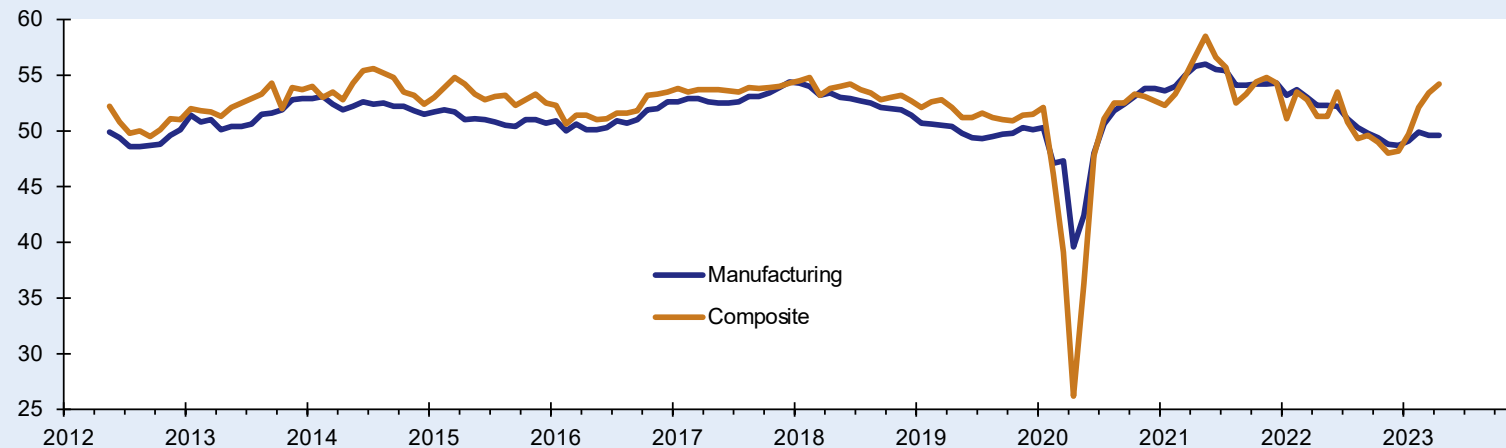
All told, conditions are mixed and prospects appear ambiguous.

The Composite PMI signals an upswing, while that for manufacturing signals stagnation.

Figure 1-11

### PMI Indices for the World Economy

Seasonally adjusted



Sources: S&P Global; Presentation of the IWH.

The mean forecast of AIECE institutes for GDP growth is rather subdued, although it has increased by 0.2 percentage points relative to that for the meeting in autumn 2022.

**Table 1-1**

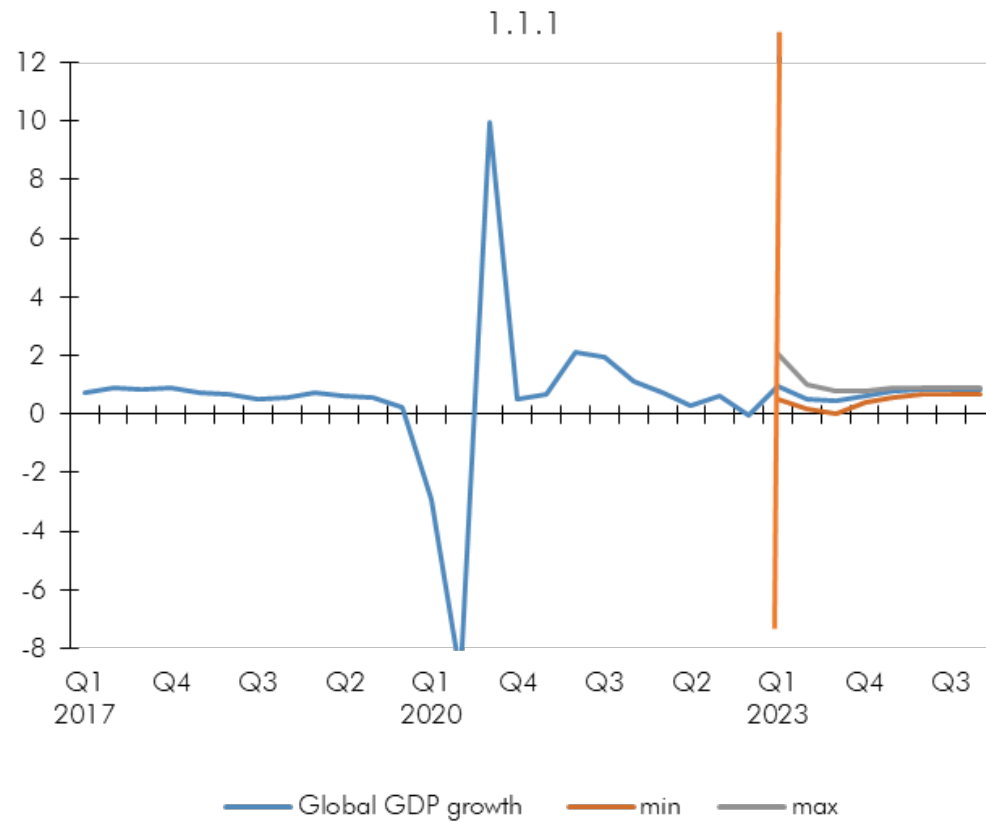
Global GDP growth according to the institutes' forecasts

Annual percentage change in percent

	2023	2024
Average	2.6	2.9
Minimum	2.0	2.5
Maximum	3.3	3.4

Sources: AIECE Institutes' forecast; calculations of the IWH.

# Quarterly growth of the world economy according to a couple of institutes' forecasts: slowing during summer 2023.



## Questions

- Real interest rates have risen a lot, but are they above their neutral levels, in particular in Europe?
- Is friendshoring already hurting the world economy?
- Will Europe benefit from a recovery in China, for example because European firms are highly competitive in the luxury sector?
- The US congress has not agreed on a higher ceiling for government borrowing. Has the risk of a US recession therefore increased a lot?
- For European firms equipment is no longer the dominant factor limiting production, but why does it have still some importance?



**Thank you!**