

Global Economic Outlook 2023

27th January 2023

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Agenda

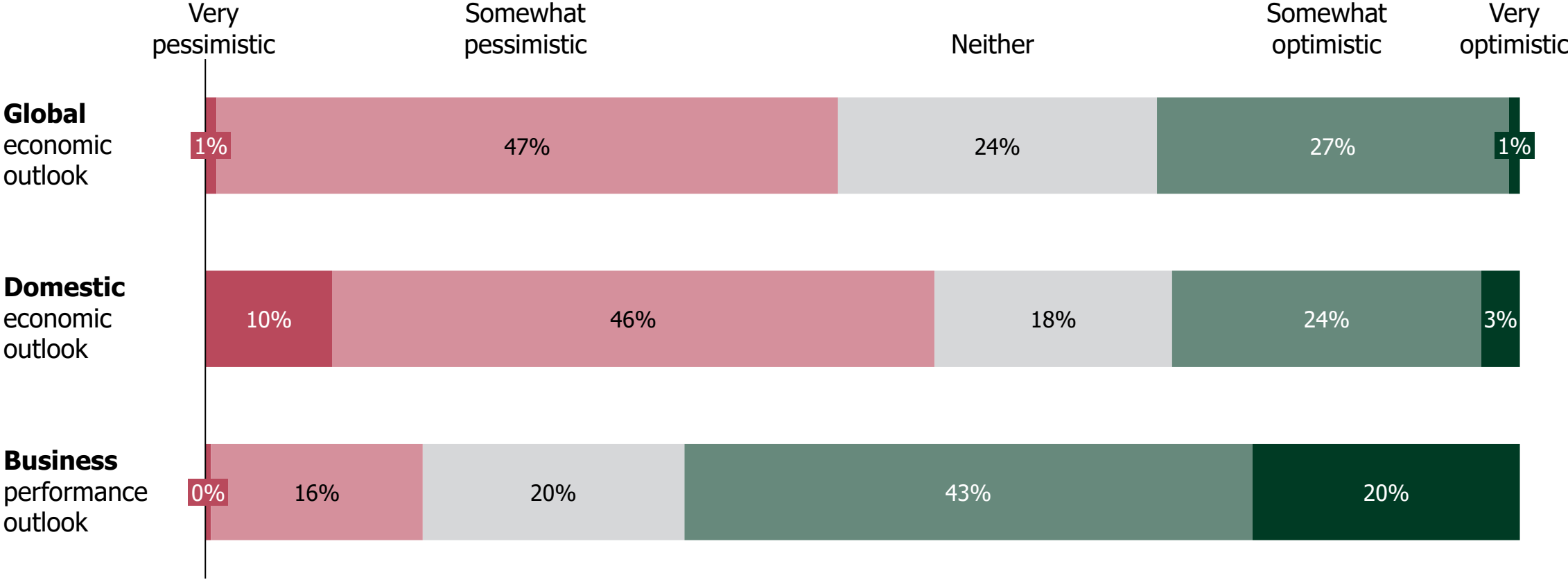
Findings: Economic/Business outlook survey

MS Perspective: Global economic outlook

Q&A

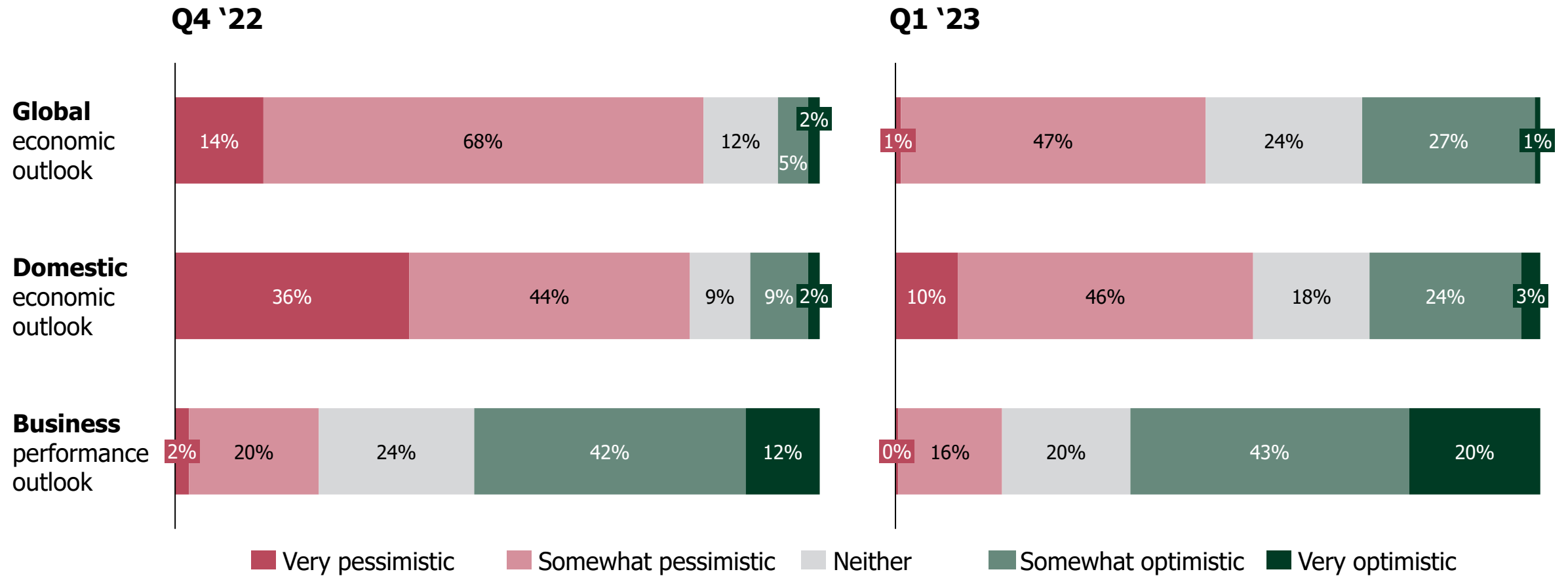


Pessimistic economic outlook vs positive business outlook - Q1 2023



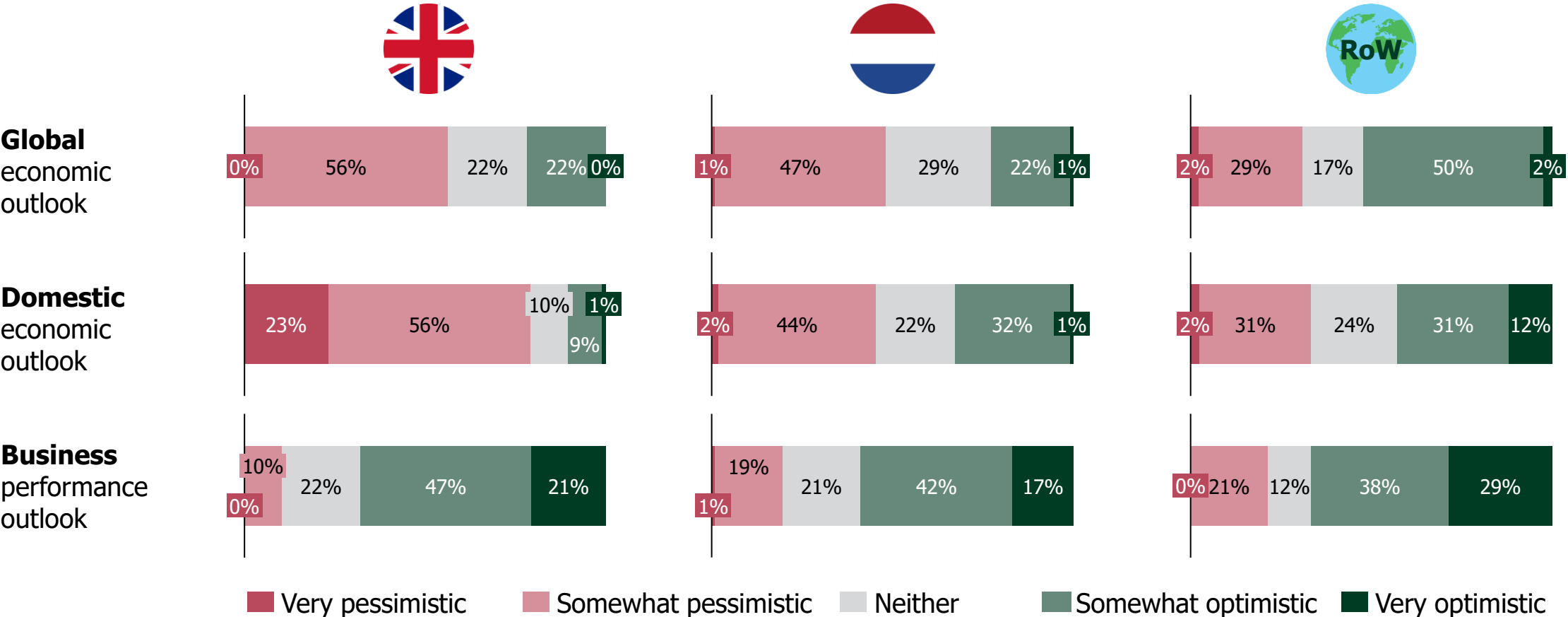
Source: Eden McCallum Business Outlook Survey January 2023

Receding economic pessimism; intensifying business optimism



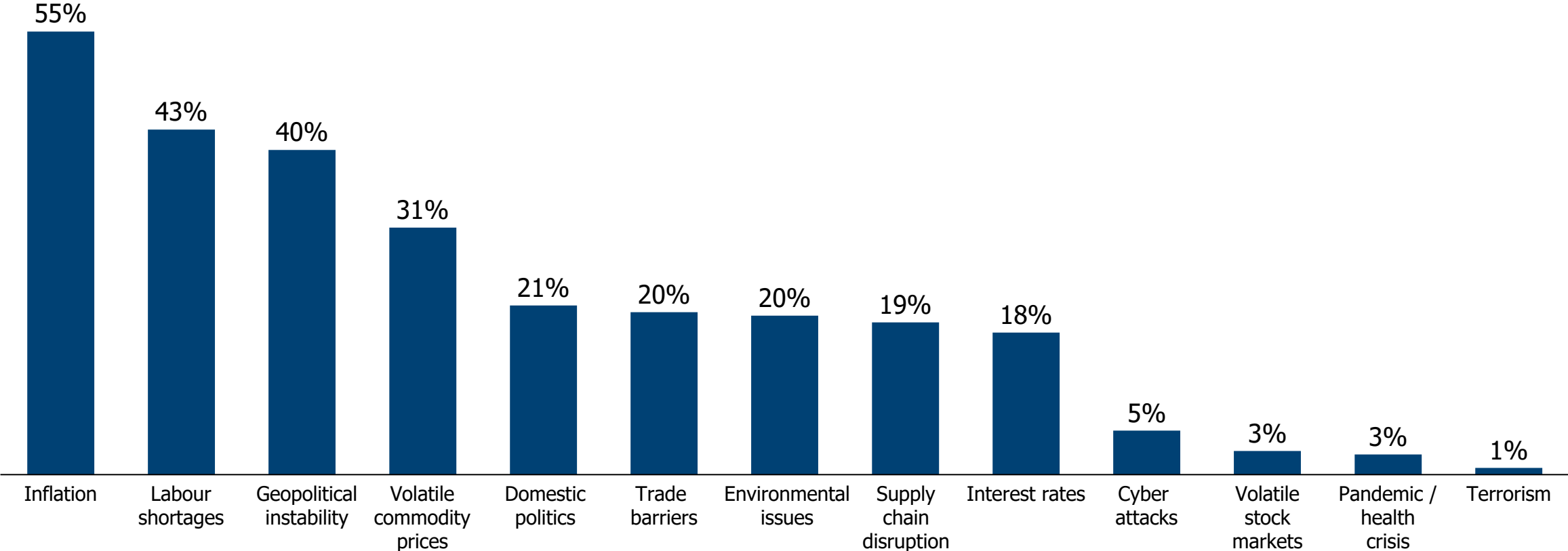
Source: Eden McCallum Business Outlook Survey January 2023

Same pattern, but UK most extreme - Q1 2023



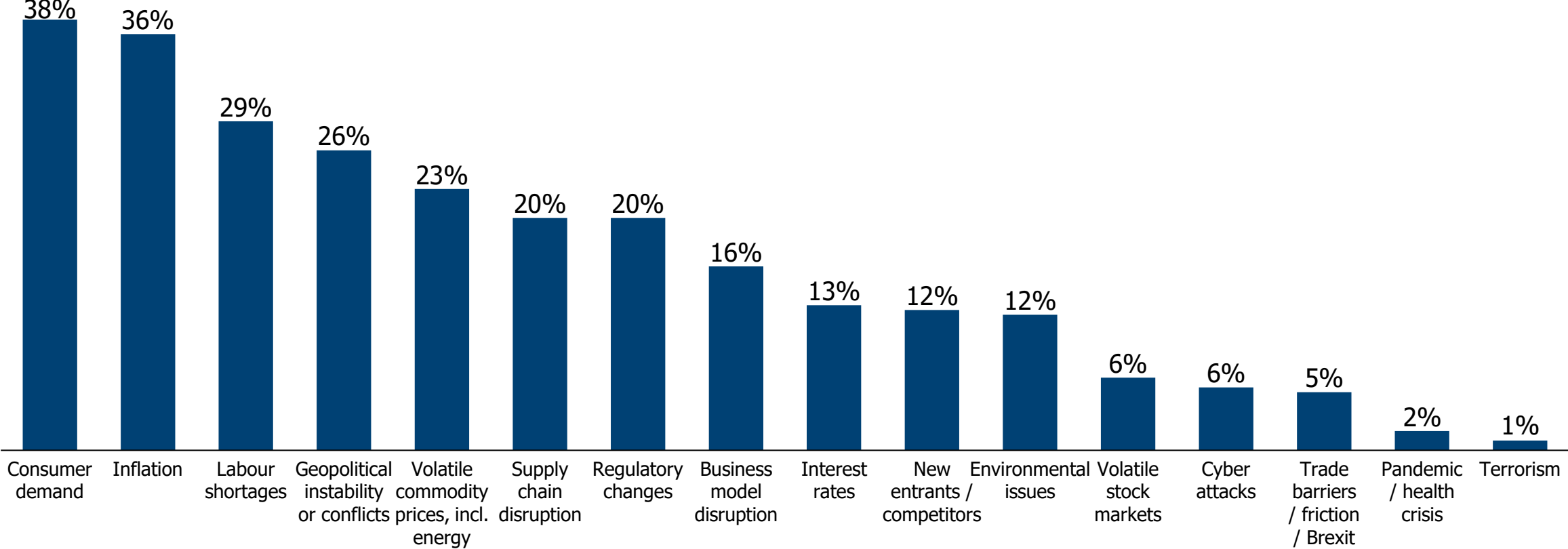
Source: Eden McCallum Business Outlook Survey January 2023

Inflation, labour shortages and geopolitical instability greatest threats to domestic economies – Q1 2023



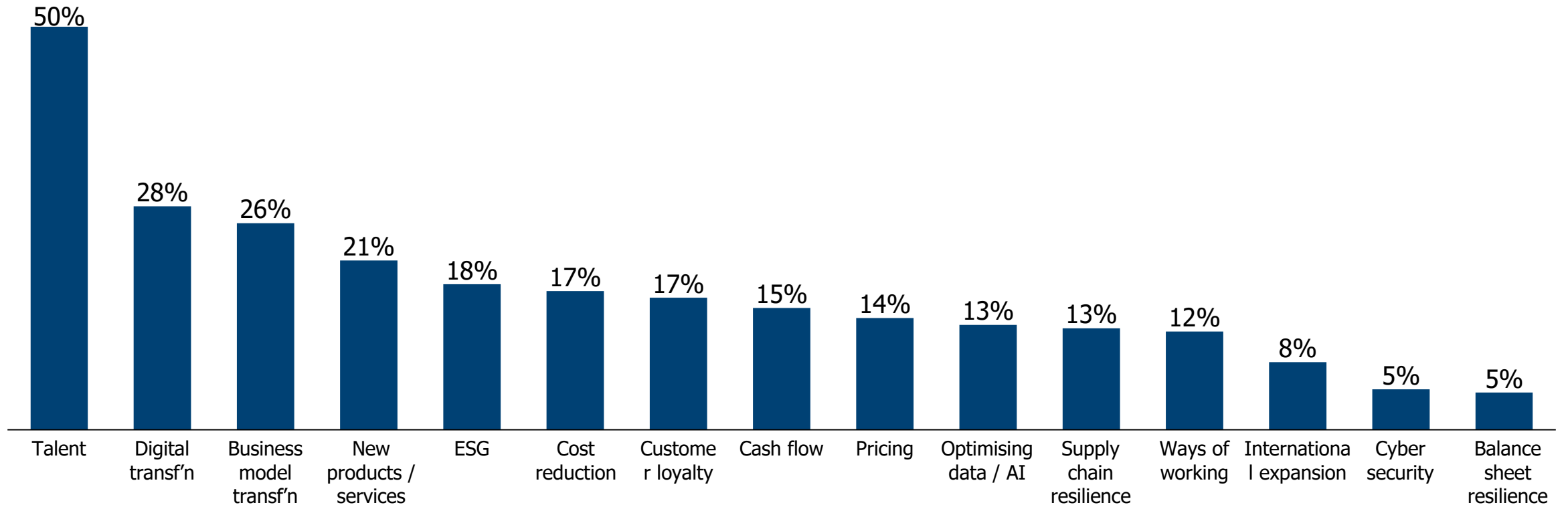
Source: Eden McCallum Business Outlook Survey January 2023

Consumer demand and inflation top 2 external factors impacting company performance – Q1 2023



Source: Eden McCallum Business Outlook Survey January 2023

Talent is the most pressing internal issue facing companies – Q1 2023



Source: Eden McCallum Business Outlook Survey January 2023

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Global Economic Outlook

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Friday, January 27th 2023

Global Growth Outlook

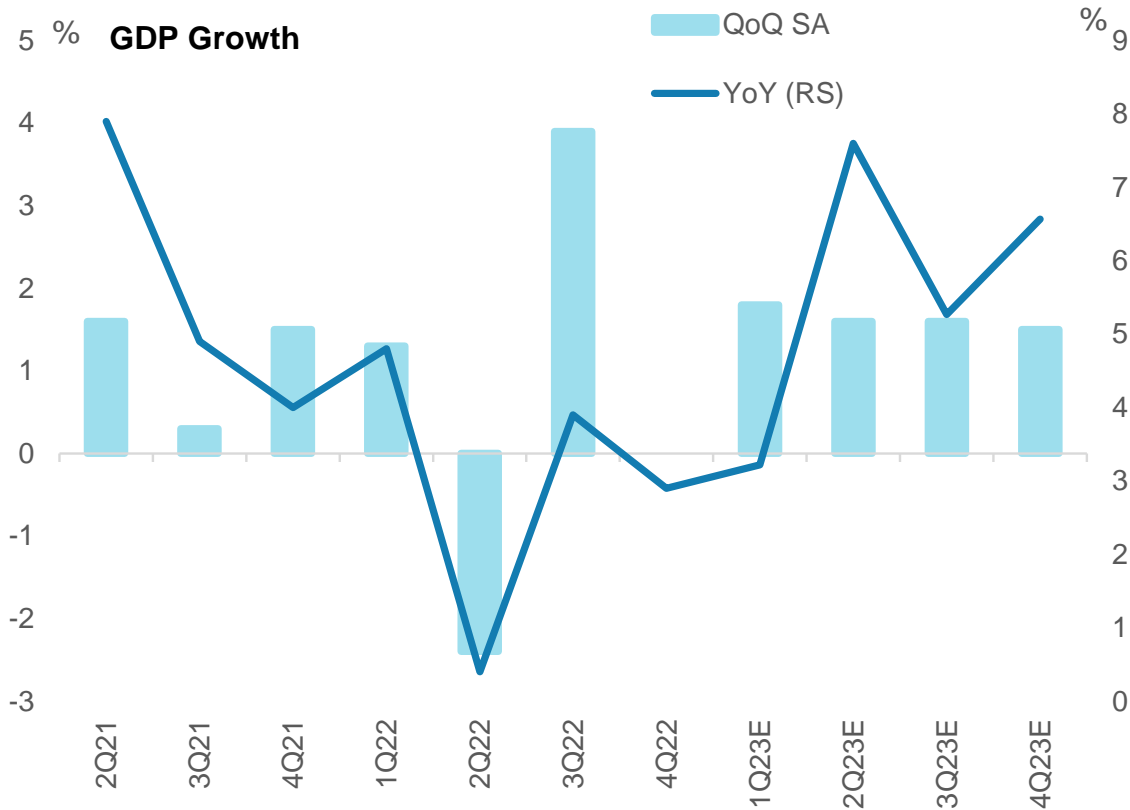
In November, we were on the cusp of a loose definition of recession, with forecast for 2023 to be even slower...

...since then, even though the global slowdown is under way, the global outlook for 2023 has improved.

Real GDP %Y	Annual			Real GDP %Y	Annual		
	2022E	2023E	2024E		2022E	2023E	2024E
Global	3.0	2.2	2.7	Global	3.0	2.6	2.9
US	1.9	0.5	0.9	US	2.1	1.1	0.9
Euro Area	3.3	-0.2	0.9	Euro Area	3.4	0.5	1.1
UK	4.4	-1.5	0.5	UK	4.1	-1.2	0.8
China	3.2	5.0	4.4	China	3.0	5.7	5.1

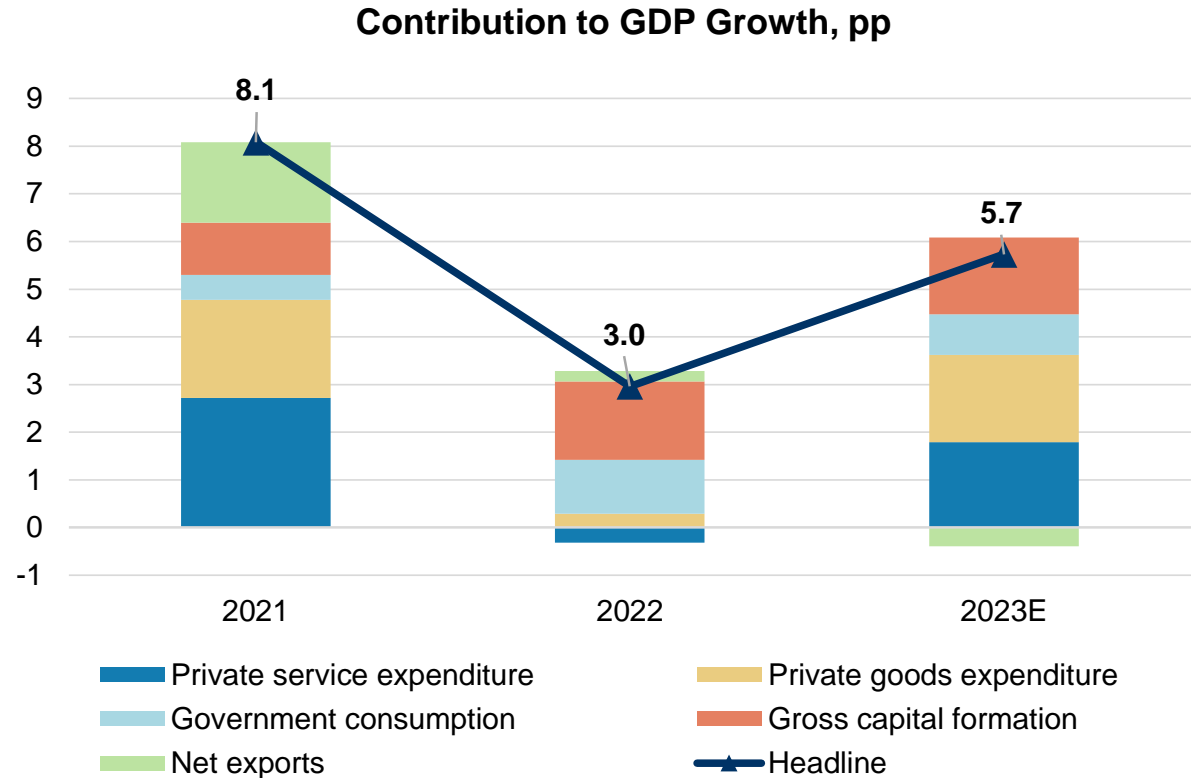
China: Strong Growth Led by Private Consumption

Full-year growth could reach an above-consensus 5.7%...



Source: NBS, Morgan Stanley Research Estimates

...driven by private consumption, particularly services.

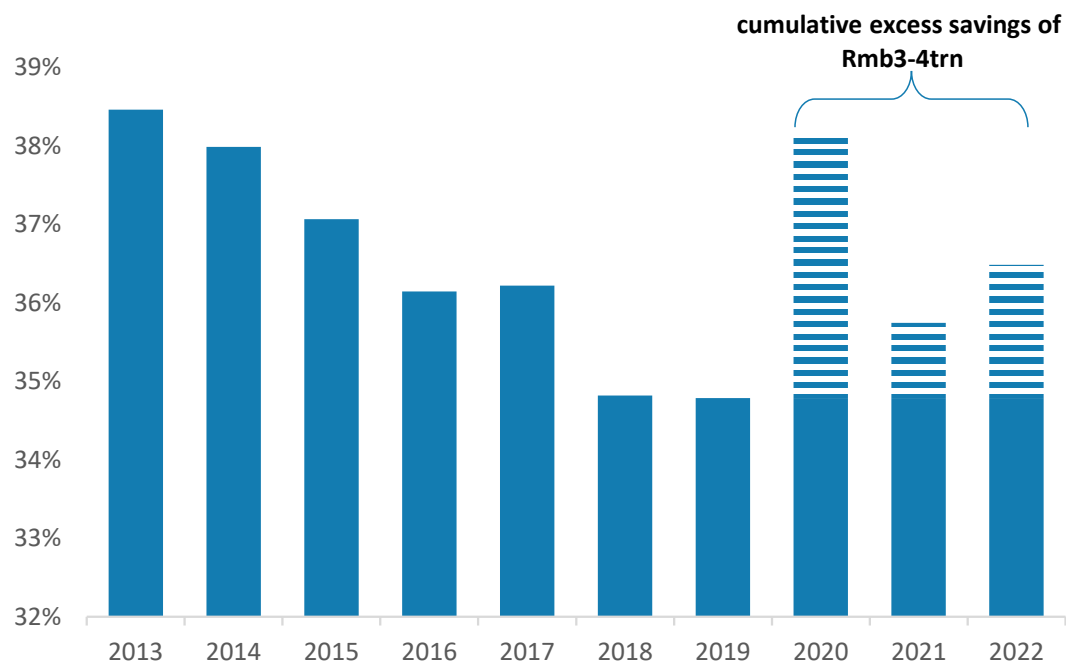


Source: NBS, Morgan Stanley Research Estimates

China: Supported by Excess Savings and Job Market Recovery...

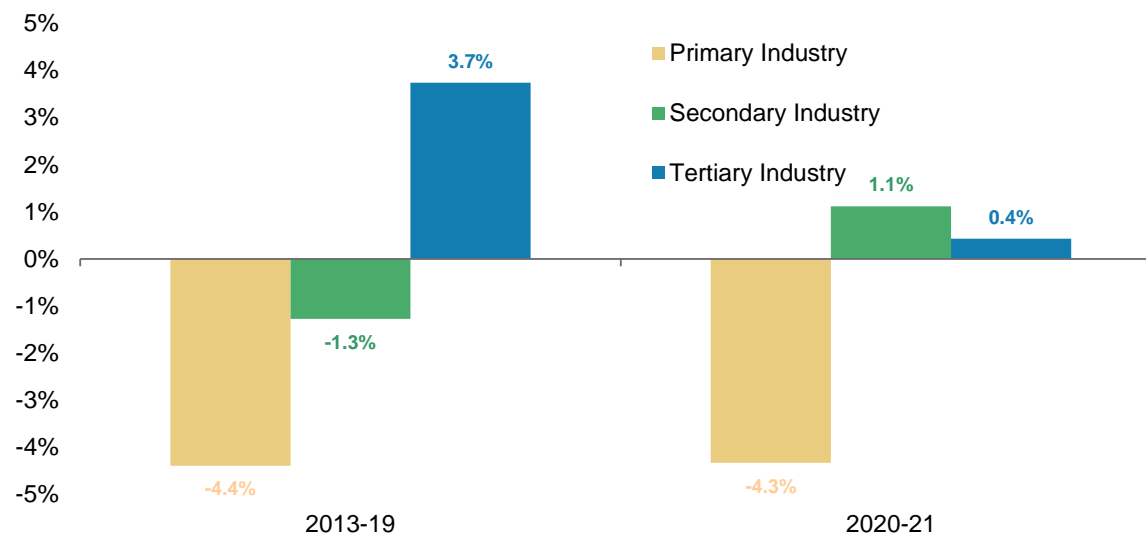
Sizeable Excess Savings since 2020

Household Saving Rate out of Disposable Income



Full reopening to revive services employment

Annual Average Employment Growth



Annual Change in Employment, Person mn

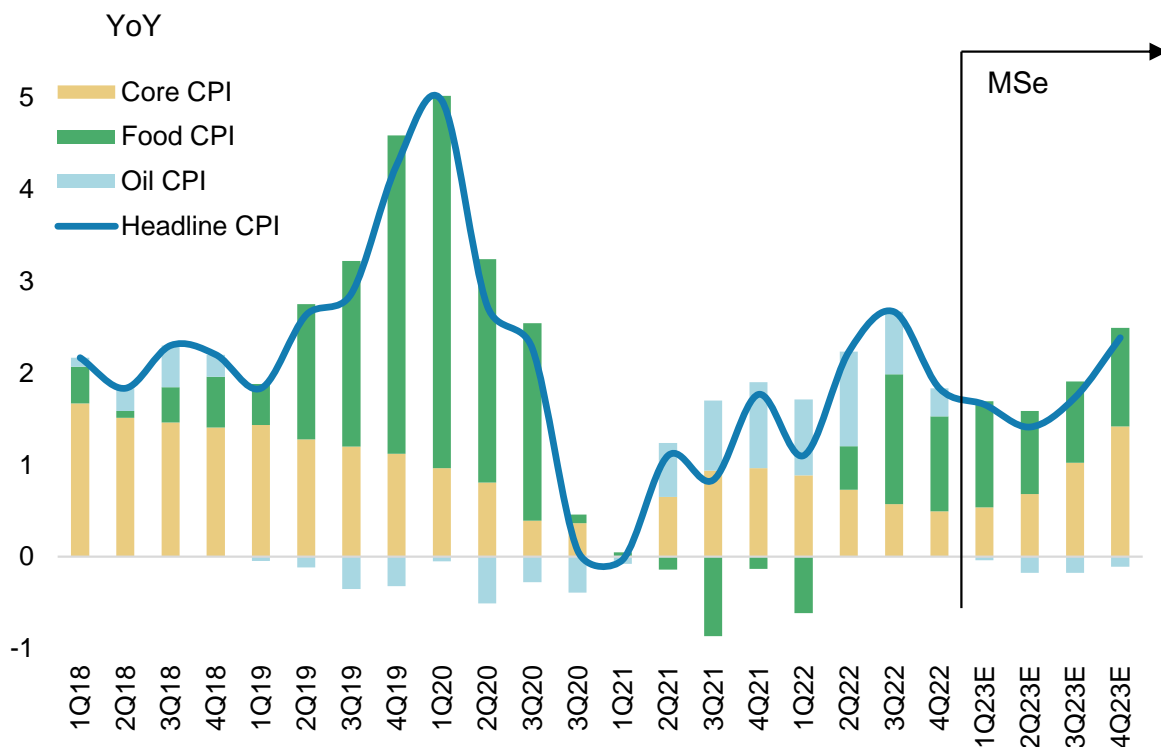
	2017	2018	2019	2020	2021
Total	-1.9	-2.8	-3.4	-3.8	-4.1
Primary Industry	-6.1	-7.8	-8.6	-9.4	-6.4
Secondary Industry	-5.3	-4.1	-1.2	3.1	1.7
Tertiary Industry	9.6	9.1	6.5	2.4	0.6

Source: CEIC, Ministry of Human Resources and Social Security, Morgan Stanley Research Estimates

China: ... But Inflation Would be Mild

Headline CPI to reach ~2% YoY in 2023...

... as reopening improves both demand and supply simultaneously



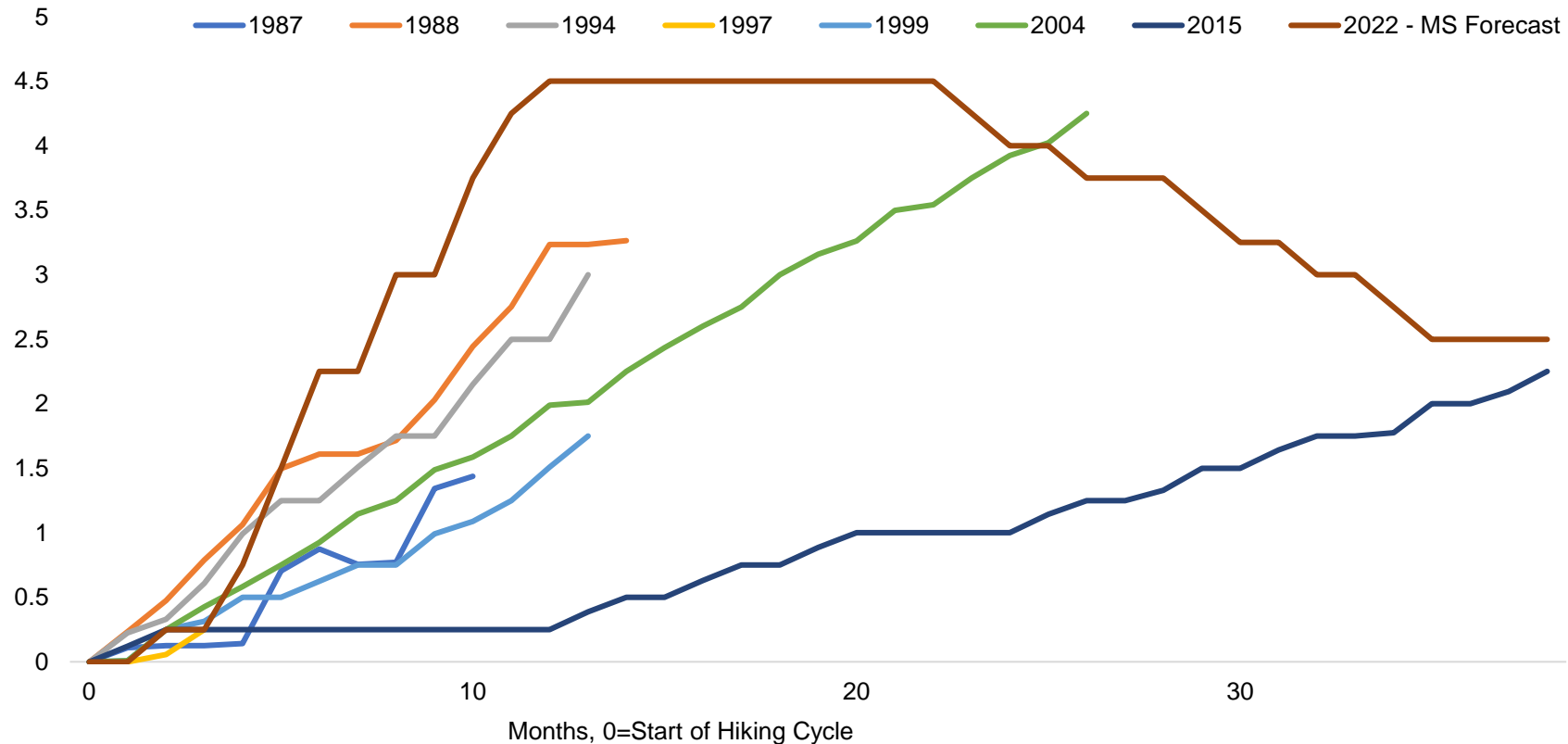
- Excess savings to be unleashed moderately, hinging in part on improving income expectations
- Labour market not distorted by excessive transfers, and at weak starting point
- Manufacturing capacity utilization declined meaningfully in 2022; gradual recovery expected against weak global backdrop

Source: NBS, Morgan Stanley Research Estimates

US: A Historic Tightening Cycle

The Fed is on track to exceed the extent of the 2005 tightening cycle – and to do so in a third of the time.

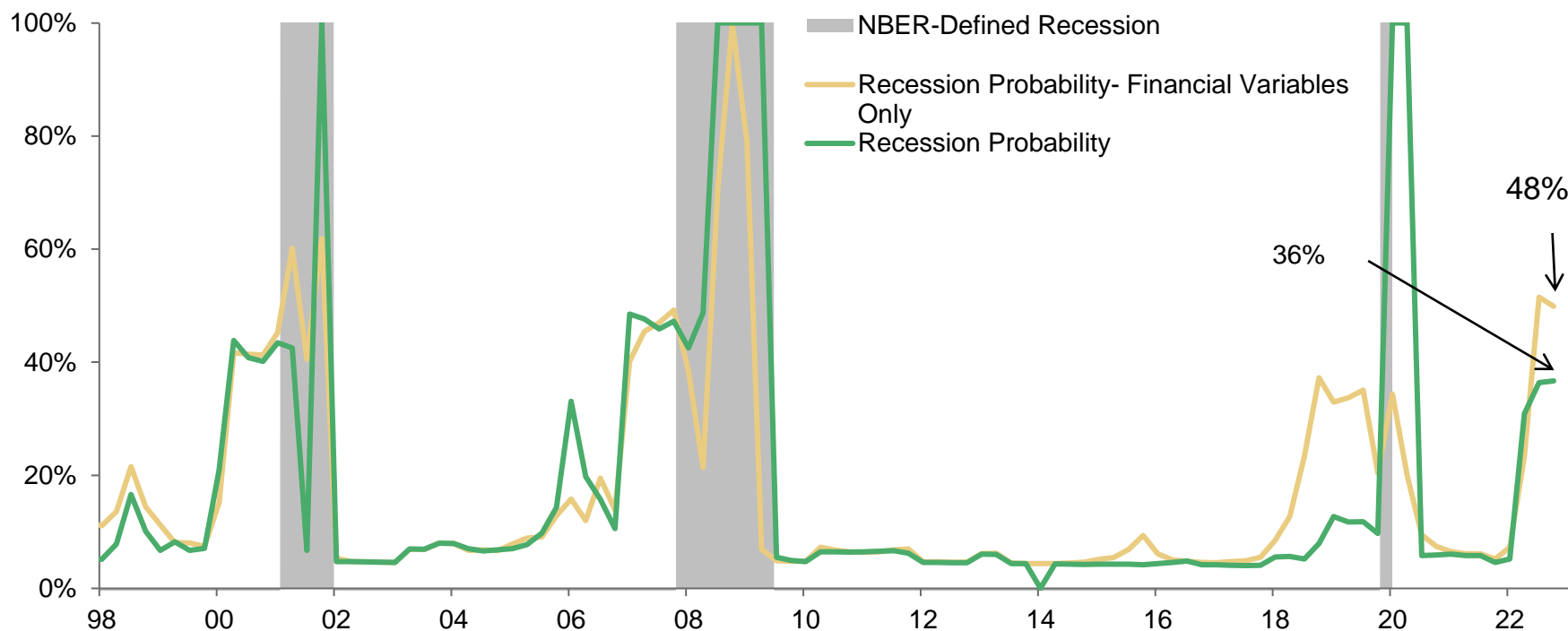
Federal Funds Rate, Cumulative Change in FFR from Start to End of Each Hiking Cycle



Source: Federal Reserve, Morgan Stanley Research forecasts

US: Recession Risk – Uncomfortably High

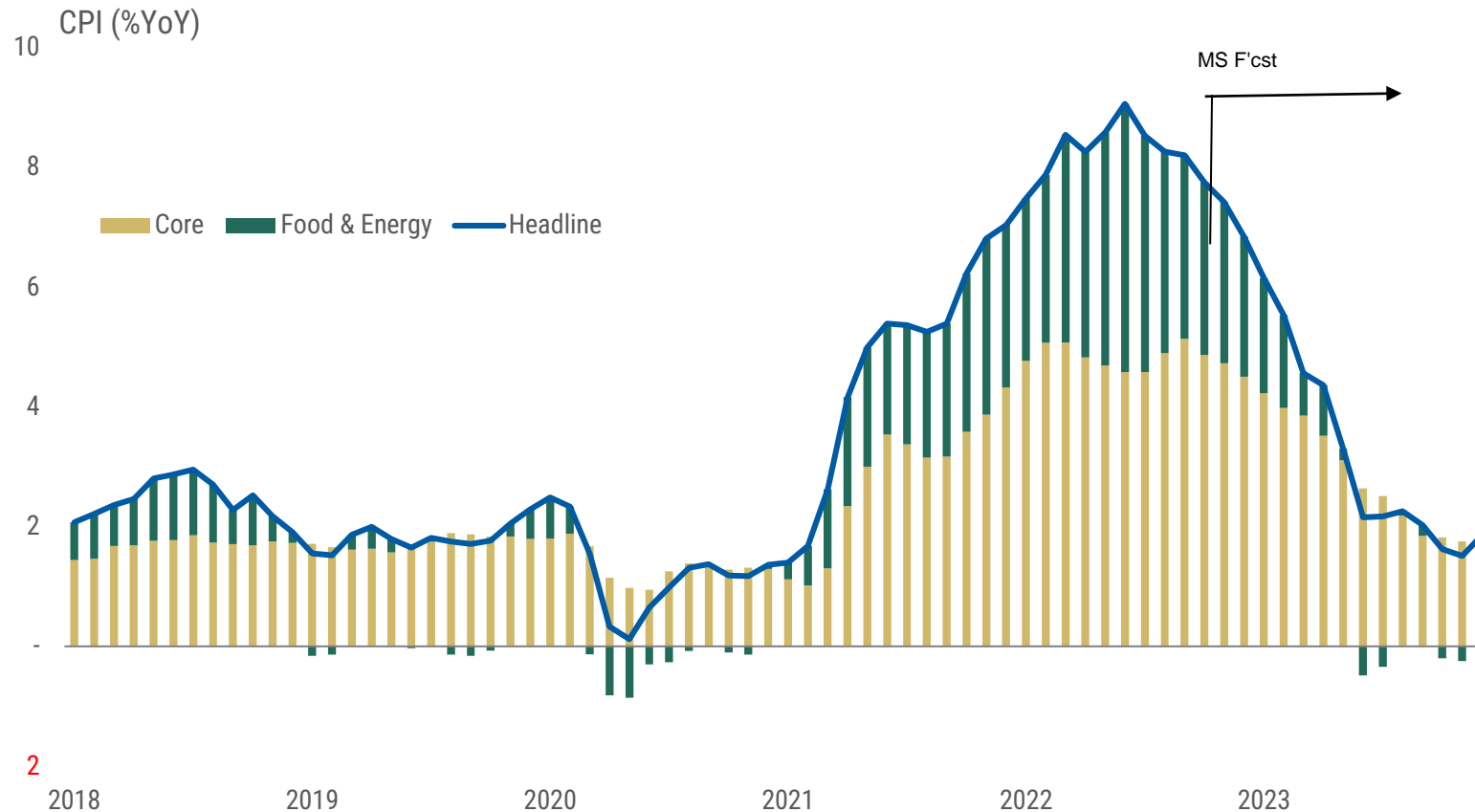
Our recession probability models have moved to uncomfortably high levels.



Note: Areas of gray shading denote periods of recession. The financial-variables-only model includes: 10Y3Y UST spread, 3-year change in the 10Y note yield, S&P 500, CRB Metals index. The full model further includes: ISM Manufacturing New Orders, Single-Family Housing Permits, Initial Jobless Claims, Unemployment Rate, PCE Inflation Acceleration, UMich Consumer Confidence, & Vehicle Sales. Our recession probability model output can be found on Bloomberg. Full model recession probability ticker MSRIREC. Financial-variables-only model ticker MSRIREFC
 Source: National Bureau of Economic Research (NBER), Morgan Stanley Research forecasts

US: Headline Inflation Has Already Turned Lower

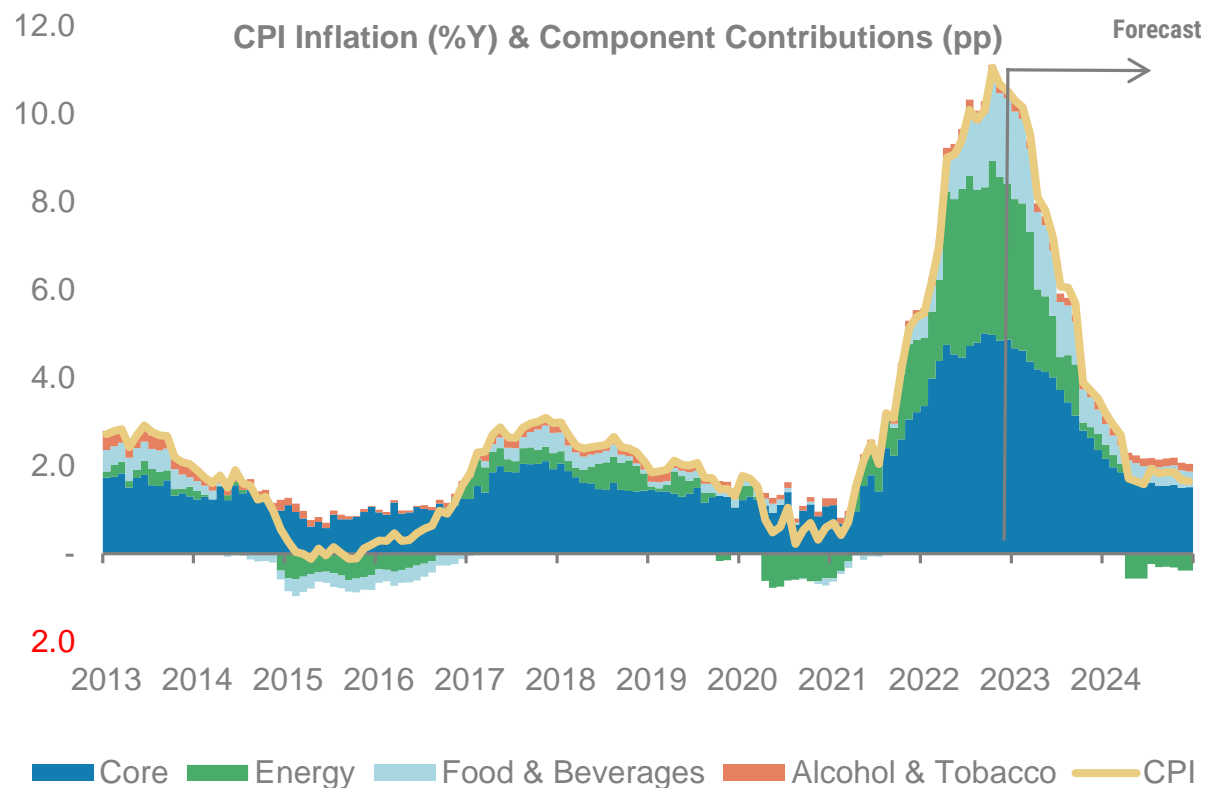
After reaching a 40-year high of 9.1%Y in June 2022, headline CPI has fallen swiftly as energy prices have reversed. We expect YoY figures to decline rapidly until the base effects from higher energy and food prices have rolled off.



Source: Bureau of Labor Statistics, Morgan Stanley Research Forecasts

UK: Inflation is a Complex Mix of Factors

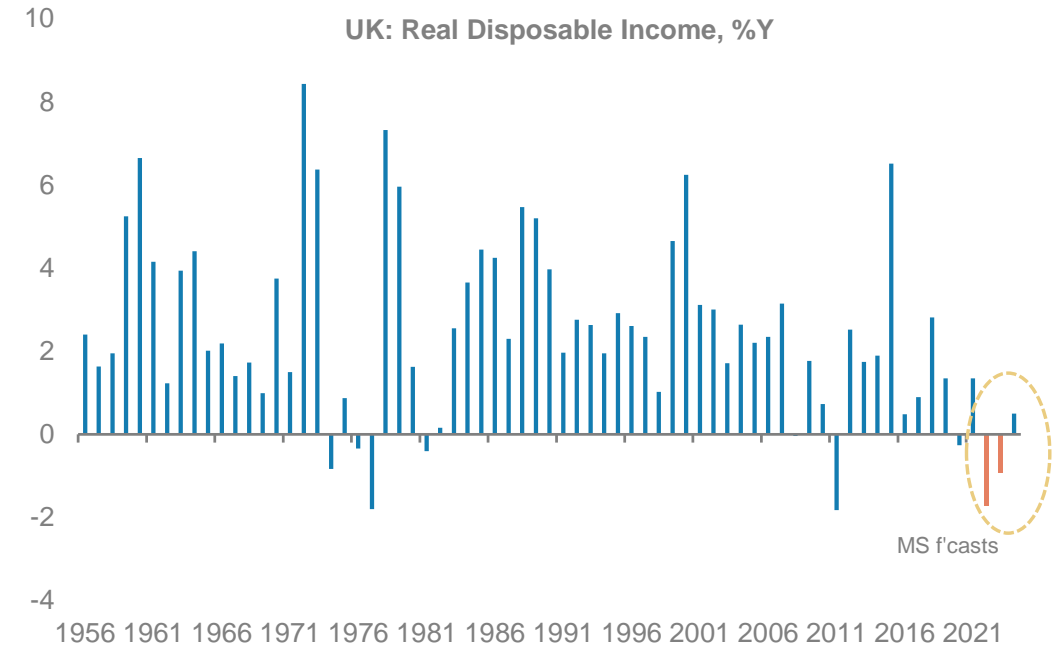
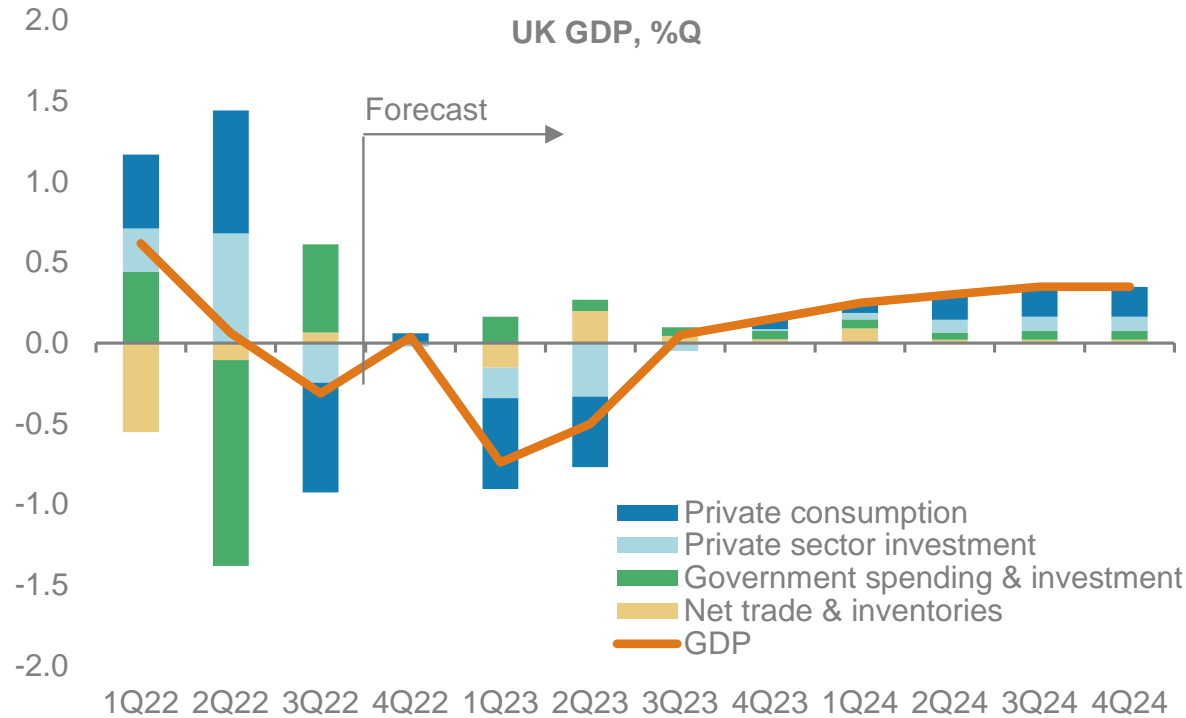
Core and headline inflation likely peaked, with energy and food prices driving headline inflation markedly lower from 2H23. Still, stickier services inflation means core will be back at target only towards the end of 2024. The risks are skewed to the upside: while we think the coming recession will soften firms' pricing power, surveys continue to show elevated pricing intentions.



Source: ONS, Morgan Stanley Research forecasts

UK: A Recession is Coming

We see a 2% peak-to-trough correction in GDP, with high energy prices, the impact of policy tightening and weak potential capping the recovery. The ongoing real disposable income hit will weigh on consumer spending, with elevated uncertainty limiting the drop in the savings rate.

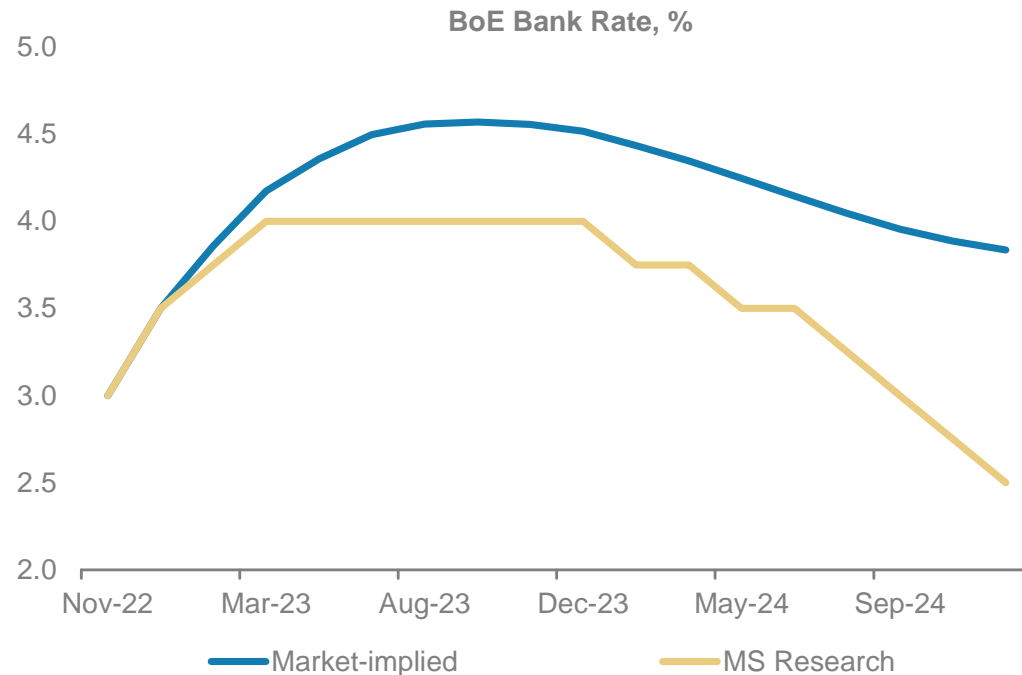


Source: ONS, Morgan Stanley Research forecasts

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UK: BoE Treading Cautiously

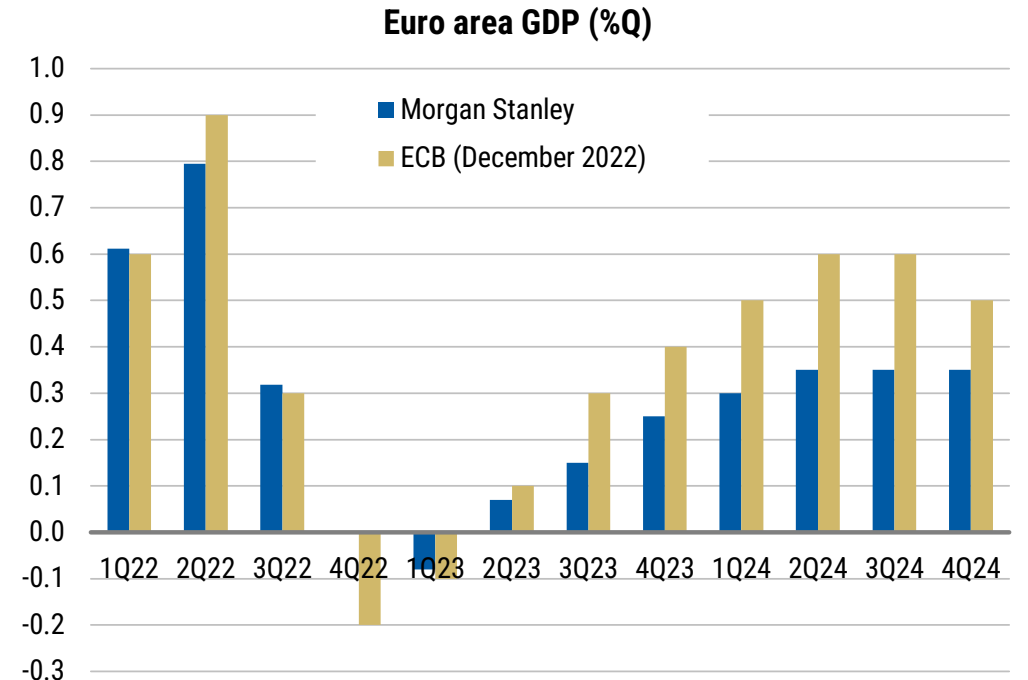
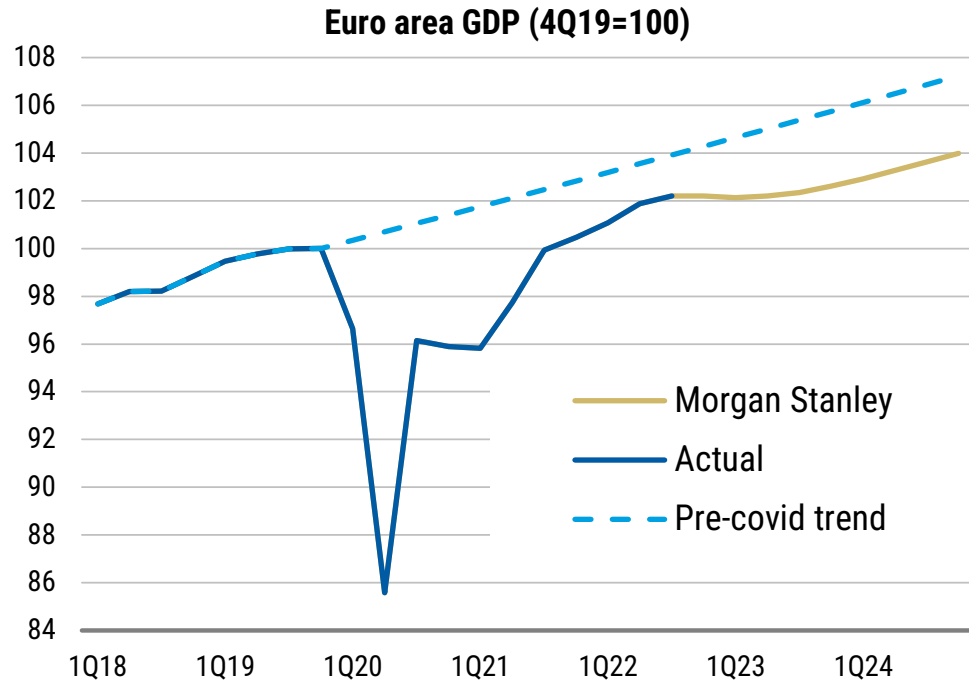
With higher certainty around reaching the 2%Y inflation target within the 2-year policy horizon, we expect the BoE to follow the Fed's lead, and stop hiking after March 2023, with the terminal rate at 4%. We see cuts only in 2024 – to 2.5% by the end of next year.



Euro area: Growth - Less contraction, yet below potential

GDP is likely to stagnate from 4Q22 until 2H23...

..., and we see a weaker rebound, with the GDP growth at 0.5%Y in 2023 and 1.1%Y in 2024.



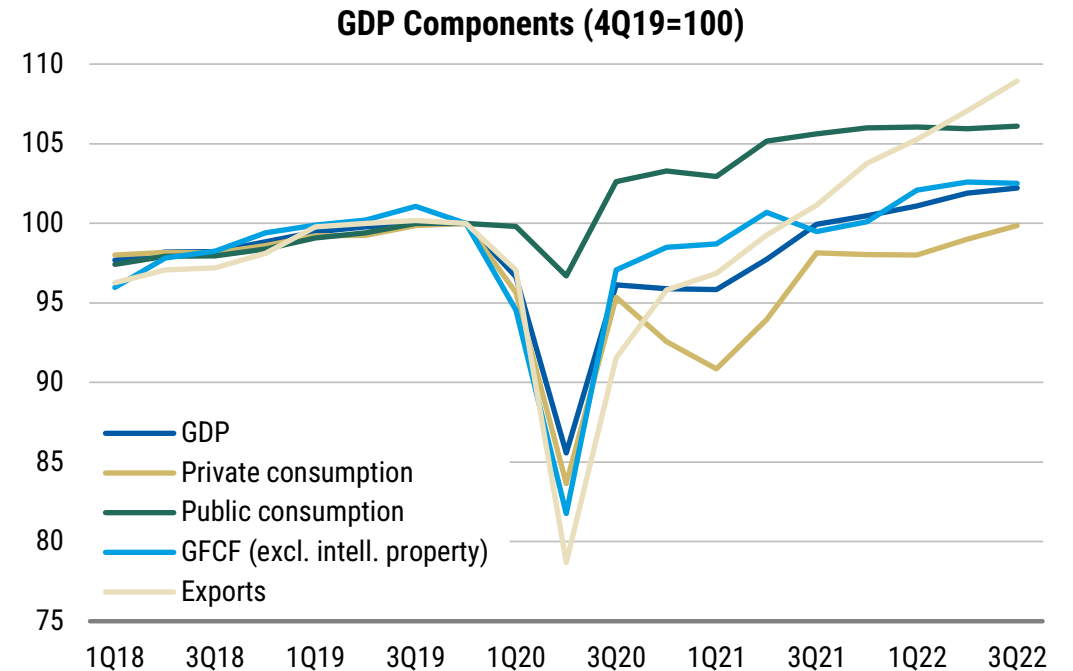
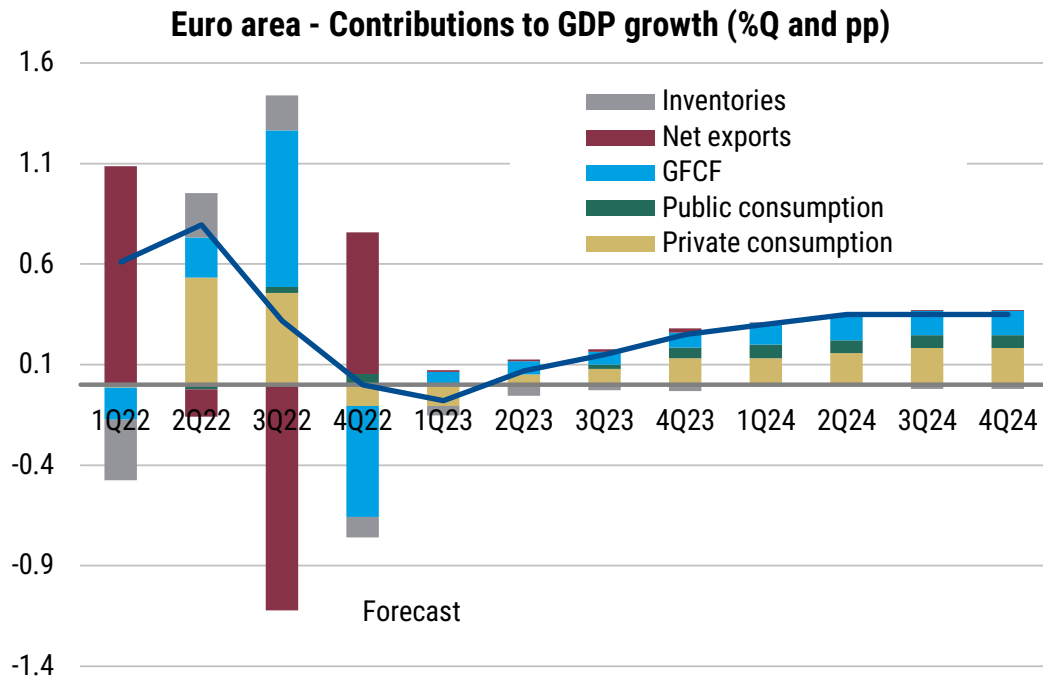
Source: Eurostat, Morgan Stanley Research forecasts

Source: ECB, Eurostat, Morgan Stanley Research forecasts

Euro area: Growth - Less contraction, yet below potential

Consumption will be driving the profile of GDP...

... with private consumption remaining well below their pre-Covid level.



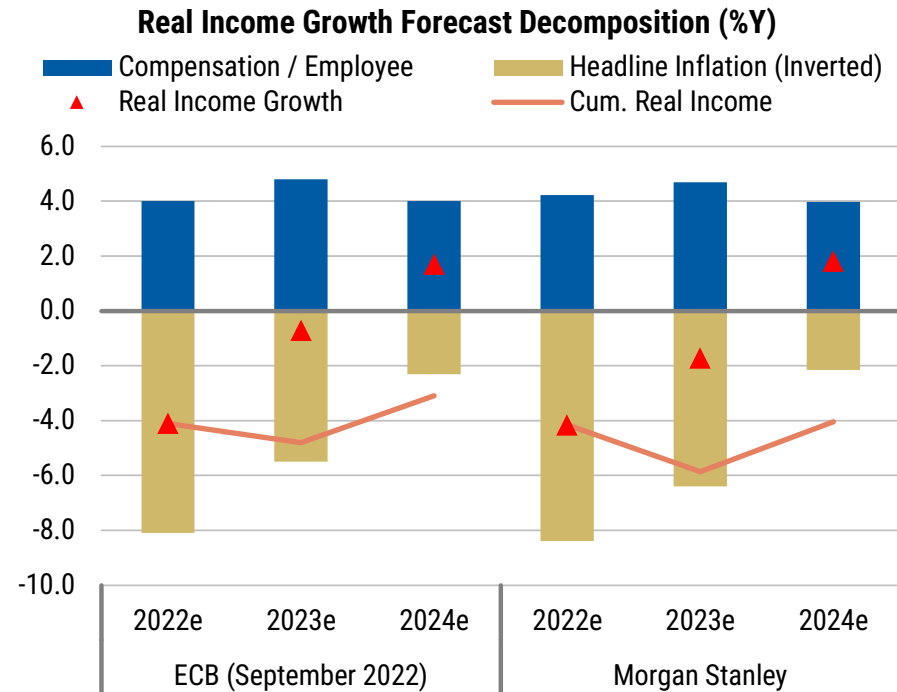
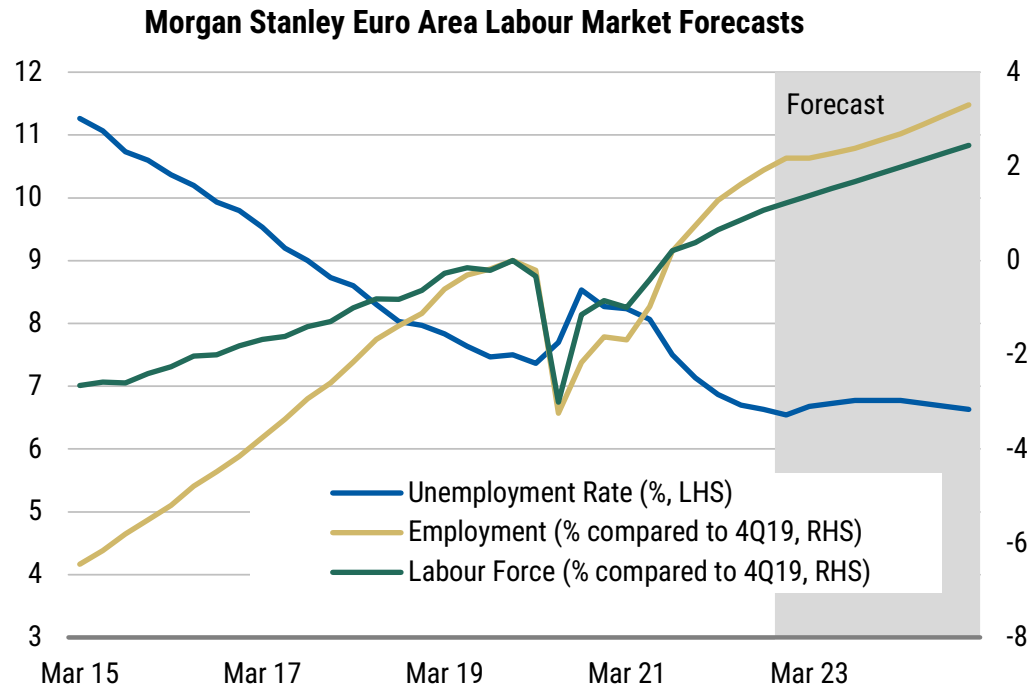
Source: Eurostat, Morgan Stanley Research forecasts

Source: ECB, Eurostat, Morgan Stanley Research forecasts

Euro area: Labour Market - Remaining Near Record Tightness

Euro area labour markets should remain robust in the downturn, with unemployment ticking up only modestly...

...with wages set to lag inflation substantially, leading to large real income losses.

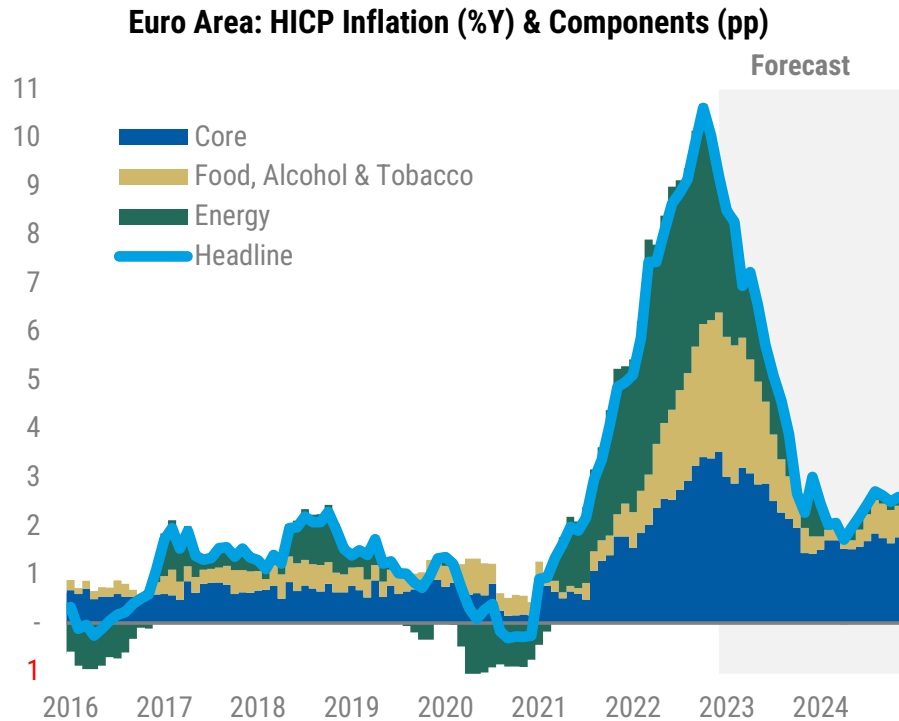


Source: Eurostat, Morgan Stanley Research forecasts

Source: ECB, Morgan Stanley Research forecasts

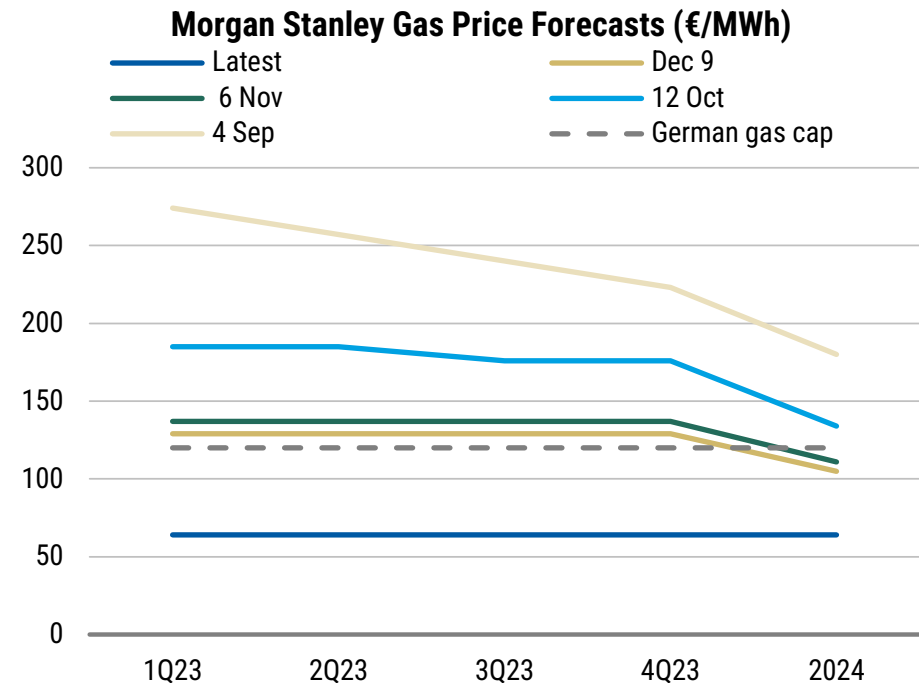
Euro area: Inflation - Headline down, sticky core

We see headline inflation falling towards 5.4%Y in 2023 and 2.3%Y in 2024, but expect underlying core dynamics to prove rather sticky.



Source: Eurostat, Morgan Stanley Research forecasts

The outlook on the gas market improved again significantly, which in turn pushes down our projection for energy prices in 2023.

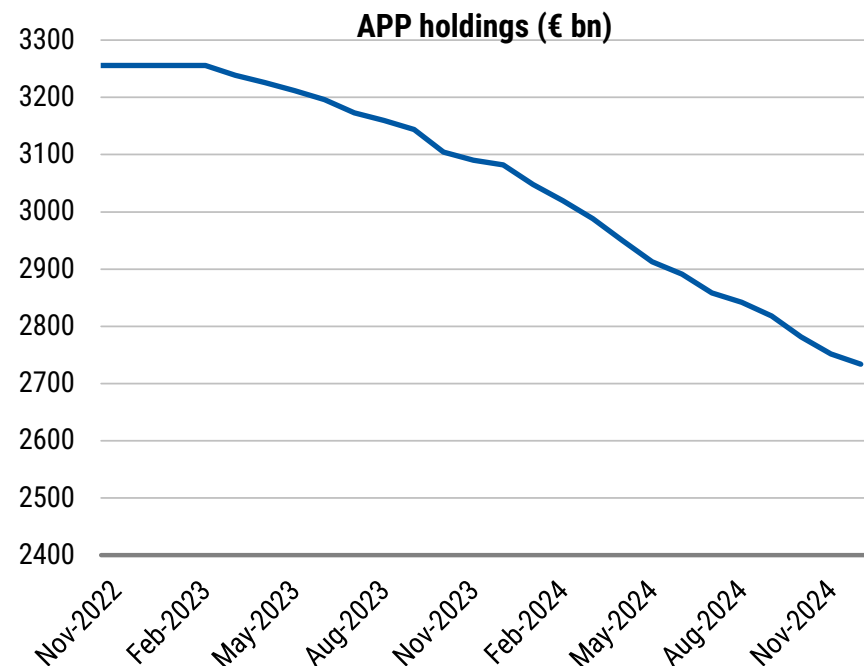
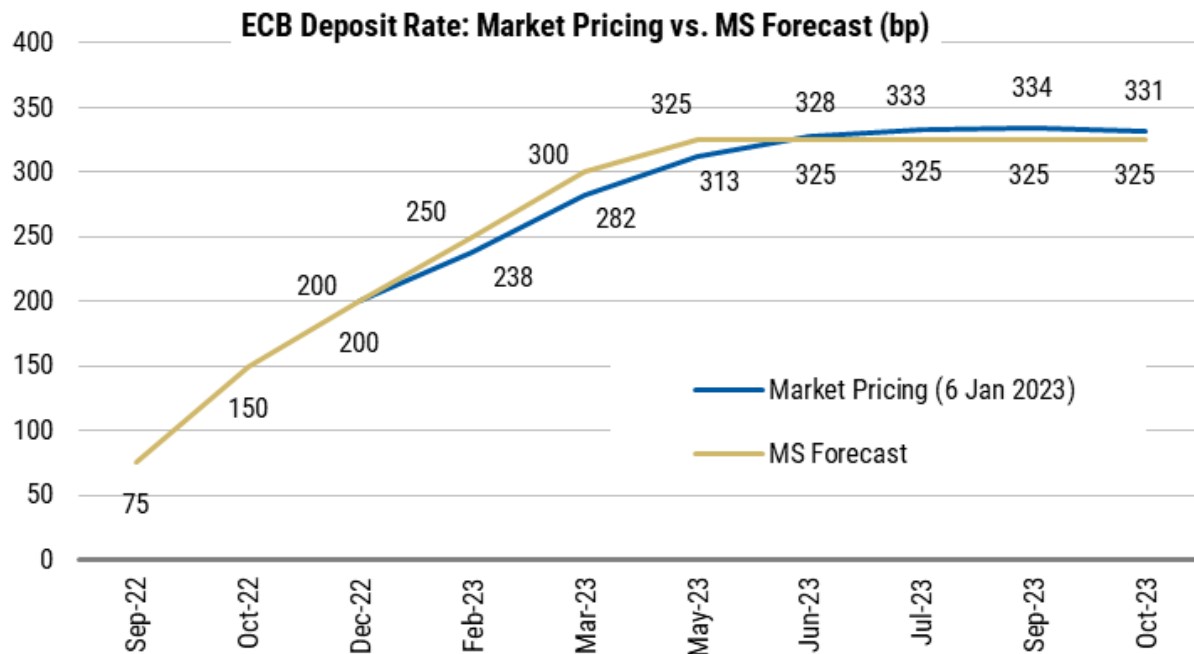


Source: ECB, BBG, Morgan Stanley Research forecasts

Euro area: Monetary Policy - ECB rate path en route to 3.25%

We expect a 50bp rate hike at the February and March meetings, followed by a 25bp hike in May.

We estimate that the APP holdings will have declined by €522bn by December 2024.



Source: ECB, BBG, Morgan Stanley Research forecasts

Source: ECB, Bloomberg, Morgan Stanley Research forecasts

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