



To the point!

Cross-Asset- and Strategy-Research

A postcard from Washington, D.C.

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April 19, 2024

Despite better IMF forecasts, there is little cause for optimism

Today I am writing to you once more from Washington, D.C., as a participant in the Spring Meetings of the International Monetary Fund (IMF) and the World Bank.

Global economic momentum remains subdued

As usual at the Spring Meetings, the IMF published its updated forecast for the global economy. Compared to October last year, the Fund paints a somewhat brighter picture. This year and next, the global economy will grow by a more respectable 3,2 % each year. For 2024 this is a slight upgrade from the Fund's expectations in the fall. Also, inflation continues to decline worldwide. After peaking in 2022 (8,7 %), the IMF expects it to be 5,9 % this year and to recede further to 4,5 % in 2025. Good news!

Before you pop the champagne: These are still relatively modest growth rates, never mind the growth upgrade. The chart on the right shows the unbroken long-term downward trend in global economic momentum. Particularly striking is the sharp decline in developing and emerging countries (in orange). This group is heavily influenced by China's large weight within this group. And the years when the Chinese economy grew by 7 to 10% annually now lie irrevocably in the past.

Structural headwinds

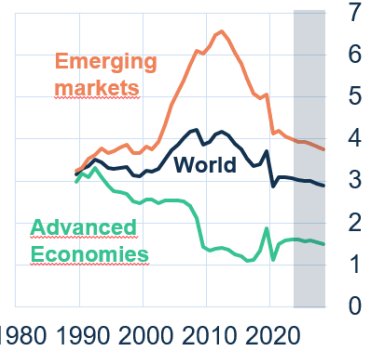
In my opinion there are three structural factors contributing to the decline in global economic growth:

- Deglobalization.** The trend towards increasing global division of labor has boosted productivity and reached new heights following China's accession to the World Trade Organization in 2001. The chart shows this impressively.



Photo: Kristina Volgenau / Unsplash.com

Global Economic Growth (10-year average) (Shaded area are forecasts)



Source: IWF WEO April 2024, LBBW Research

For over a decade now, however, global integration has been mostly stagnating. Protectionism is raising its ugly head. The tailwinds for growth have faded.

2. **Demography.** It is not just Europe that is ageing. The potential workforce is also shrinking in many emerging countries, especially China. Twenty years ago, 60% of the global population were of working age, but recently, it has dropped to 57%. And this trend will accelerate: fewer employees means less production.
3. **Debt.** An unsustainable rise in debt has also supported growth. The debt level of developed economies' governments has grown from 70% to 110% of GDP since 2000. Many emerging markets have also witnessed a rapid rise in their indebtedness. Fueling demand and thus growth through public borrowing has become unsustainable.

What will happen if he returns?

Of course, at the spring meetings, everyone is also talking about the US election in November and who will move next year into the house shown on the front page of this comment. The three aforementioned drags on the global economy will become even stronger under a second Trump presidency. A trade war would be likely. In the US, mass deportations of illegal immigrants could fuel labor shortages (and thus inflation). Unfunded tax cuts would drive up the already unsustainable US debt trajectory.

If only the convention attendees in Washington counted, the election would already be decided: Trump could enjoy his retirement golfing at Mar-A-Lago (provided he will not have to serve time for his multiple alleged crimes). Few officials are saying it openly. But Trump 2.0 would be the worst-case scenario for the global economy.

Three D's hold back growth

Trump is the elephant in the room – or the china shop

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