AXA Investment Managers

27 September 2023

Investment Institute Macroeconomics

Where we are in the cycle – and the supercycle

Key points

- The summer has seen further reevaluation of where key economies are in the current economic cycle.
- The US has seen ongoing resilience and we no longer expect recession, but a slowdown threatens Q4. The Fed has likely peaked at 5.50%, but markets are unsure.
- The Eurozone economy appears to be slowing more quickly and we expect a drop in Q3 GDP, although no recession. The ECB has likely peaked at 4.00%.
- China may be past its nadir, with output data rising in August and the authorities enacting a range of stimuli. But broader uncertainty over housing and banks continues to weigh over the medium-term outlook.
- We also consider the supercycle, considering the emergence of generative AI as a contender to form the next technological wave of development. We consider the outlook in the context of historical technology waves.

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Investment Managers

27 September 2023

Where we are in the cycle – and the supercycle

Global Macro Monthly Summary September 2023

David Page
Head of Macro Research
Macro Research – Core Investments

Reappraising the cyclical outlook

The post-COVID period has revealed structural adjustments and imbalances that have made judging cyclical variations in major economies difficult. This is an ongoing issue and there was a further shift in expectations this summer for many major economies and a reappraisal of the relevant phase in the economic cycle.

The US is at the forefront of this – before the summer markets were judging whether a soft landing or recession was most likely (we had forecast the latter). However, a further period of economic resilience – charged by persistent strong consumer spending – has changed the debate to that of a soft, or indeed, no landing. We contest the no landing scenario. Consumer real income gains will be slower in H2; excess savings should be exhausted, requiring a rise from current low saving rates; and the economy faces several additional headwinds before year-end, including the prospect of a government shutdown. All this is likely to slow the economy and we see the likelihood of Q4 contraction. Yet we recognise greater economic resilience and now no longer forecast recession, despite risks persisting in that regard. Moreover, we believe the Federal Reserve (Fed) requires a period of soft growth and a looser labour market to achieve its inflation mandate. The question is not a soft or no landing, but how high the Fed has to take rates to ensure touchdown.

The Eurozone is also undergoing reappraisal. Considered to be lagging the US rate cycle before the summer, continued deterioration in soft and hard data warns of contraction and even recession in H2 2023 (not our central scenario). This has led markets to conclude that the ECB has reached peak rates before it is confident of such an assessment for the Fed. We agree on the ECB outlook, but the path ahead is unclear. Inflation remains elevated, particularly core. Moreover, while we consider a sluggish (though positive) growth outlook, we are not as convinced about the inflationary implications. Much of the headwind to Eurozone activity reflects supply constraints, not just weaker demand. As such, almost stagnant activity can remain consistent with inflation that remains over target.

China perhaps provides the biggest uncertainties. A buoyant post-pandemic start to the year deteriorated from the spring and activity data weakened further into July, while the authorities appeared to flounder in terms of how to counter such developments. August was more positive: output data firmed and the authorities announced a raft of measures – some more likely to be impactful than others – to try and underpin activity and meet this year's "around 5%" growth target. Yet this job does not look complete. The reduction in mortgage rates will provide a relief for households, but perhaps increases stress on the banking system. Moreover, expedited local government issuance will support growth this year, but at the expense of activity early next year. More stimulus is likely necessary to secure a stable growth outlook consistent with avoiding growing deflationary concerns. Yet China also faces large structural imbalances, including in its property and banking systems, that threaten cyclical dynamics – this will require deft navigation by the monetary and fiscal authorities.

Against this backdrop oil prices have risen; historically a sign of strengthening activity. Indeed, the fading of US recession fears has lifted demand expectations, underpinning prices. However, supply has played a role here too. Output cuts by Russia and Saudi Arabia have pushed markets into deficit and driven prices higher. Intriguingly, within this we monitor the turnaround in Dubai-Brent oil spreads. Traditionally these have been a gauge of Asian oil demand and continued increases here may indicate a quickening in activity in this part of the world.

From cycle to supercycle: The advent of AI

Our Theme of the Month summarises our longer-term consideration of the impact artificial intelligence (AI) poses for the global economy[1]. Generative AI's emergence offers the prospect of a general-purpose tech that could echo the five previous great waves of technological revolution we have seen over the past three centuries. We introduce the debates to be considered around AI's impact on productivity and the economy – which we characterise as positive, but still with risks – the labour market, where we envisage disruption, and inflation – which remains uncertain for now. We also set the AI revolution in the context of previous technological revolutions, concluding that if AI follows previous patterns, investment should soar over the coming decade – presenting a marked potential opportunity.

[1] Page, D., "The macro impact of Generative AI : Learning from previous tech revolutions", AXA IM Research, 25 September 2023

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Global Macro Monthly – US

David Page
Head of Macro Research
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A resilient consumer Summer

Before the summer, markets debated whether the US was facing a soft landing or a recession; we were forecasting the latter. After firmer-than-expected Q2 GDP, activity over the summer accelerated with consumer spending rising sharply by 0.8% in July. The current Atlanta Fed GDPNow tracker suggests growth of 4.9% in Q3. The debate now appears to be focused on whether the US faces a soft landing or no landing.

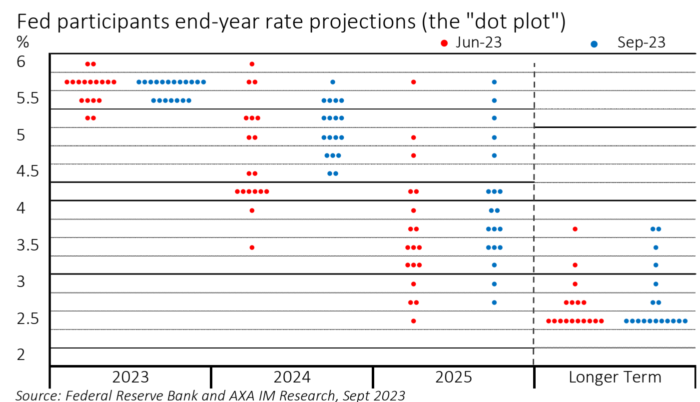
Following strong average consumer spending in the first seven months of the year, we expect a deceleration for the rest of 2023. Nominal income growth should soften as employment growth has slowed relative to H1 and wage growth decelerates. Real incomes should slow further as the disinflationary tailwind fades and could even reverse as higher oil prices raise gasoline costs. Excess savings helped fuel July's spending, taking the saving rate to 3.5%, but by our calculations should be all but exhausted. We expect the saving rate to rise towards 5% next year, further reducing purchasing power. The resumption of student debt repayments this month should further crimp incomes. In all we expect consumption growth to slow and forecast an outright contraction in Q4.

Combined with a further modest unwind in inventory and slower net trade, this fall in consumer spending could prompt an outright contraction in GDP in Q4, a risk exacerbated by a number of one-off factors including government shutdown, the auto-workers strike and higher energy prices. However, other areas of the economy appear to be bottoming out or even strengthening. We forecast residential investment to deliver an only modest headwind over the coming quarters, inventory correction to be complete by year-end and we raise our investment outlook, believing there is evidence of a quicker structural improvement in investment from the CHIPS and Inflation Reduction Acts stimuli than we expected. This suggests GDP growth is likely to start 2024 weak, but positive. This is consistent with our risk scenario of a desynchronised slowdown, and we no longer forecast recession. We have raised our near-term growth forecast to 1.9% for 2023 and 1.2% for 2024 (consensus 2.0% and 0.9%). However, recession risks have not disappeared; yield: Yield curve inversion, tight credit conditions and the expected labour market loosening all still suggest recession. We see growth risks as two-sided.

Fed retains optionality in dot plot

Headline inflation rose to 3.7% in August from 3.0% in June. July's rise was partly due to adverse base effects, but August's reflected higher gasoline costs. We had forecast headline inflation to remain around 3% over H2 2023 – and much of 2024. With oil now firmer, it looks set to end the year closer to 4%. However, core inflation has softened – to 4.3% from a 6.6% peak 10-months earlier. We expect core disinflation to spread over H2 and into 2024, perhaps more so if gasoline increases impact spending. Inflation expectation surveys have slowed to 1-year (5-10 years) and 2½ year (1-year) lows.

Exhibit 1: Fed revises rate outlook



Source: Federal Reserve Bank and AXA IM Research, Sept 2023

The Federal Reserve (Fed) left the Fed Funds Rate (FFR) at 5.25-5.50% in September, in line with our expectations. We believe the Fed has reached its peak rate and will now hope to manage policy restrictiveness via expectations of how long it will leave rates at these levels. However, the Fed has not said this, instead showing a median expectation for one further rate hike this year (Exhibit 1). We believe this retains the optionality of a further rate hike, but not necessarily the desire. However, the Fed also raised its outlook for end-2024 and end-2025 rates by 50bps for each, while those considering a higher long-run FFR also increased. These moves in expectations of term rates have helped drive US Treasury yields higher, with 10-year yields setting a new 16-year high in recent days.

A final consideration is the risk of a government shutdown on 1 October. At the time of writing, the outlook for this is highly uncertain. While moderate Republicans are keen to avoid being blamed for a shutdown ahead of next year's election, an ultra-conservative faction in the House of Representatives is relishing this prospect. This has made House speaker Kevin McCarthy's already weak position trickier and as yet he has been unable to pass a Republican-backed bill to avert a shutdown, let alone something that is likely to meet Senate approval. A government shutdown is estimated to shave 0.2ppt (annualised) from growth for each week it persists.

27 September 2023

Global Macro Monthly – Eurozone

François Cabau,
Senior Eurozone Economist
Macro Research – Core Investments

Hugo Le Damany,
Eurozone Economist
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Growth: On a (supply constrained) tightrope

Eurozone Q2 GDP growth was revised down by 0.2 percentage points (ppt) to 0.1% on a quarterly basis in line with our initial forecast, confirming our stagflation scenario. Business surveys have dipped since April, consistent with muted growth (at best). Early hard data suggests Eurozone activity is likely to contract in Q3 in line with our updated growth projections. Although not our baseline, we cannot rule out a recession in the second half of this year. For the rest of the forecasting horizon (2023-2024), we continue to project anaemic quarterly growth. We have made minor revisions to our outlook, projecting the Eurozone economy to grow by 0.5% this year and 0.3% next (from 0.4% and 0.5%); significantly below the 0.8% consensus for 2024 (Exhibit 2).

The source of the growth headwind still very much matters. High inflation, tightening monetary policy and gradual removal of energy-related fiscal measures are all significant demand-dampening factors. However, supply factors including energy prices, supply chain disruption, hiring difficulties and low productivity growth should not be overlooked. Survey data suggest these remain the main factors limiting firms' output. An economy constrained by supply could see a combination of mediocre growth performance and price pressures still above the European Central Bank's (ECB) target.

Inflation: Gradually easing

Eurozone headline and core inflation edged lower by 0.1ppt and 0.2ppt to an annual 5.2% and 5.3% in August respectively – the latter back to a rate last seen in May. Core inflation has yet to show evidence of persistent disinflation – that should become more apparent in the next few months. We project both headline and core inflation to fall broadly in sync reaching 3.5% and 4.0% in Q4 2023, and 2.3% and 2.6% in Q4 2024 respectively. Annual average forecasts are broadly unchanged at 5.7% (unch.) in 2023 and 2.9% (+0.2pp) in 2024.

Risks to our outlook are broadly balanced, with a recent upside skew owing to the rally in commodities, particularly oil, since late July. At this juncture, we see few ramifications of these developments to core inflation dynamics.

ECB: Being and staying in the zone

The ECB hiked its deposit rate by 25 basis points to 4.0% in September, in line with our view but above market expectations. It sounded increasingly comfortable with underlying inflation dynamics, suggesting that maintaining rates at this level should be enough to achieve its inflation target. However, with inflation still high, President Christine Lagarde refrained from sounding too dovish and kept options open for a further hike – though this is not our baseline.

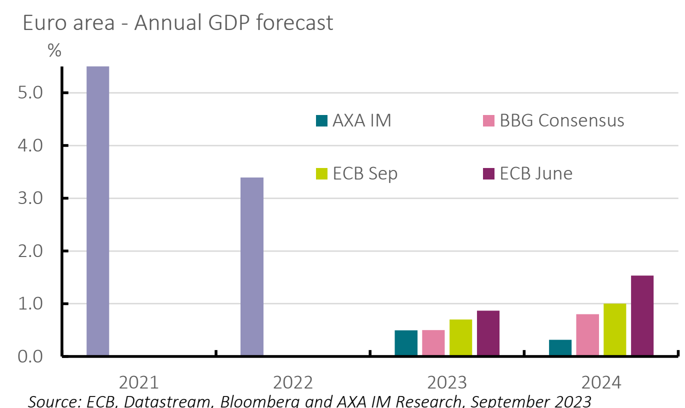
We foresee no more changes to ECB policy rates before summer 2024 (June at the earliest) when we envisage that cuts are likely. In the meantime, we think the policy discussion is going to shift to the ECB's balance sheet, and most likely to the Pandemic Emergency Purchase Programme reinvestment policy. Decisions are likely only at the December meeting at the earliest. Dwindling Eurozone growth is likely to complicate these discussions, while further complications may also arise from final agreements on the future fiscal rules.

Fiscal: Tough times ahead

Short and medium-term fiscal outlooks will come to the fore with the presentation of 2024 budgets across the Eurozone over the coming weeks. We conclude in our in-depth research that debt ratios should edge down over the next two years. After that, risks are skewed to the upside. Countries should take advantage and act during this short-term window.

Meanwhile, caretaker governments in Spain and the Netherlands do not bode well for swift agreements on future Eurozone fiscal rules. This implies a return of 'old' rules. The market is likely to be sensitive to enforcement procedures, but more importantly to the precise features and credibility of the new rules and their impact on countries' fiscal trajectories.

Exhibit 2: We keep our below consensus growth forecasts



Source: ECB, Datastream, Bloomberg and AXA IM Research, September 2023

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Global Macro Monthly – UK

Modupe Adegbembo
Junior Economist (G7)
Macro Research – Core Investments

BoE surprise hold at 5.25% marks uncertain peak

The Bank of England (BoE) held interest rates at 5.25% in a finely balanced five-to-four decision this month. This was below expectations of a 25-basis-point (bp) hike. The fall in August's services inflation, BoE Agents' intelligence, and advanced services Purchasing Managers' Indices (PMI) showing economic activity slowing, and a dismissal of official wage figures all shifted sentiment from August's upside inflation concerns. On balance, we think the Bank Rate has peaked, but the risk of a further hike persists, if the latest data prove volatile and reverse.

August's CPI inflation, which came a day before the BoE decision, made this decision closer than expected. It showed an unexpected easing in headline inflation to 6.8% from 6.9% in July, despite expectations for a slight rise due to fuel prices and alcohol duty. These impacts were outweighed by a slowing in core CPI inflation, to 6.2% from 6.8%, with services inflation easing, particularly driven by hotel and air fare prices.

The labour market has continued to show signs of loosening, but wages remain elevated. Unemployment stood at 4.3% in the three months to July, up from August 2022's low of 3.5% – a level the BoE had expected only in the second half of 2024. Employment fell by 207k on the quarter, although almost entirely driven by a drop in self-employment. Indicators of hiring remain weak, leading us to continue to expect further falls in employment over the coming quarters. However, private sector annual regular pay rose to 8.1% - though the monthly rise was only 0.2%, perhaps suggesting a turning point.

Growth indicators have weakened considerably. September's composite Purchasing Managers Index (PMI) fell to 46.8, contracting further and its lowest since January 2021. July GDP growth fell sharply by 0.5%. Some factors such as wet weather and industrial action that affected July could recover in the coming months. We forecast growth of 0.2% in Q3 with risks skewed to the downside.

The BoE next meets on 2 November. The rate decision will come alongside updated economic projections. We forecast the BoE to keep rates on hold, with risks skewed to an additional hike. But the threat of weaker growth next year persists, as lagged impacts of monetary tightening emerge. We continue to expect the BoE to cut rates in the second half of 2024, pencilling in two 25bp cuts to 4.75% by end-2024.

Global Macro Monthly – Canada

David Page
Head of Macro Research
Macro Research – Core Investments

BoC reacts to more resilient economy

Resilient activity led the Bank of Canada (BoC) to raise its forecast for 2023 GDP growth to 1.8% in July. We warned this looked excessive and Q2 contracted by 0.2% (annualised) – likely impacted by strikes and devastating wildfires. A Q3 rebound is likely but slower household spending, softer residential investment and an unwind of a favourable Q2 business investment boost should see Q3 fall short of the BoC's 1.5% forecast. Statistics Canada suggested July's output was flat. This likely motivated the BoC's latest assessment that the economy had entered "a period of weaker growth". We have lowered our growth forecasts for 2023 to 1.3% (from 1.6%) and kept 2024's at 0.9% (consensus 1.4% and 0.8%).

Weaker activity has helped slow employment growth to an average 20k/month over the past four months. Unemployment rose to 5.5%, a 19-month high, from the near-historic low of 5.0% in April to 5.5% even as participation eased, suggesting increasing slack. Yet wage growth has re-accelerated after signs of softening into the summer; the 3m annualised rate is now at 4.7%, its fastest pace this year. With weak productivity growth, unit labour costs remain elevated at 5.5% in Q2.

This is troubling for the CPI outlook. Headline inflation rose to 4.0% in August from 3.3% in July – a rise exacerbated by base effects – but also up 0.4% in monthly terms as rising oil prices impacted gasoline. Core inflation measures also rose, the annual median and trim measures rising to 4.1% (up 0.2ppt) and 3.9% (0.3ppt) respectively with the 3m annualised median rate now at 4.4%. We have raised our headline inflation forecast to average 4.2% and 3.0% in 2023 and 2024 (consensus 3.8% and 2.4%).

The BoC faces a trade-off: Balancing signs that policy is restrictive enough to slow economic activity and loosen the labour market but not yet having a clear impact on wage growth, nor core inflation. The BoC "remains concerned about the persistence of underlying inflationary pressures and is prepared to increase the policy interest rate further if needed". However, it also noted the "lagged effects of monetary policy". On balance, with wage, unit labour costs and inflation all picking up again, we now expect the BoC to raise rates one more time to 5.25% in October – a Monetary Policy Report meeting. Beyond that we expect it to keep policy at this restrictive pace until the middle of next year, but then forecast cuts in the second half to 4.75% by end-2024.

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Global Macro Monthly – China

Yingrui Wang
Economist (China)
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Silver lining emerges

China's economic performance has been soft since Q2, raising concerns about more persistent growth headwinds. August's data brought some reassurance on that front. Good news also emerged on the policy front, with multiple rate cuts, several tax and stamp duty cuts and expedited issuance of Local Government Special Bonds (LGSB). Most importantly, much-needed property easing measures were announced on 31 August. Such policy responses have made the "around 5%" annual growth target for 2023 more achievable. However, to avoid the economic softness carrying into 2024, further policy support will likely be necessary.

August's monthly output data surprised on the upside with faster growth in industrial production, fixed asset investment and retail sales. In Q2, Beijing's slow and incremental policy reaction failed to spur consumer and investor behaviour, but more decisive action over the month appears to have changed market sentiment. However, the gloomy picture in the housing sector remained.

For the coming months, the expedited issuance and spending of LGSB should further boost investment. Typically, previous stimulus has helped drive investment in infrastructure spending and 'urban village' renovation projects and we expect similar this time. In turn this should help the construction industry compensate for losses from the property sector.

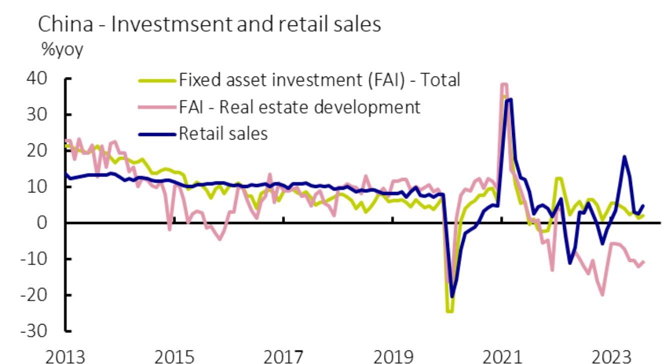
August also saw an acceleration in monthly retail sales growth to 4.6% year-on-year from 2.5% in July. Yet the rise masked divergence between consumption in services and goods. Spending in the restaurant and catering sector remained resilient. However, while some progress was recorded in big ticket item sales, such as household appliances and cars, consumer goods sales overall were generally more muted than services. The upcoming holiday sales and tourism spending for the mid-autumn festival national holiday week (29 September to 6 October) will prove an important test: recent policy stimulus should underpin consumer sentiment and we expect to see further rises in consumer goods and headline retail sales in the coming months. Yet the authorities will worry if spending remains lacklustre.

The real estate sector remains a concern (Exhibit 3). Recent policy targeted here has had some successes: Weekly data showed significant acceleration in top-tier city sales after the policy announcements, but this was not enough to address the nationwide downturn. More time is needed to see whether the policy supports will be sufficient.

Indeed, the latest round of policy measures should support the property market and consumption alike. The People's Bank of China (PBoC) has lowered bank borrowing rates and called on banks to reduce mortgage spreads, allowing existing mortgage holders to re-negotiate rates – a boost to household disposable incomes. We estimate the cuts could release over RMB400bn from households, around 1% of total consumption and 0.4% of China's nominal GDP, although how much of this will be spent will depend on consumers' marginal propensity to consume.

More broadly, housing demand in China has long been unbalanced. The regions which had seen the strongest demand had faced the harshest purchasing restrictions – aiming to control skyrocketing housing prices. The recent lift of purchasing restrictions should see demand rebound, particularly in big cities which should stabilise now falling national house prices, but it risks reigniting previous inequalities. The reduction in mortgage spreads may also take a toll on the profitability of commercial banks, already under stress from the pandemic. So far, it seems Beijing is prioritising short-term growth – aiming for its 5% target – over longer-term imbalances. From a longer-term perspective, though China is likely to continue to reduce the real estate sector's importance for GDP growth, part of its "economy rebalancing" agenda. Before that goal can be achieved there are likely to be some painful moments for the economy, but we expect the real estate sector to stabilise at a low level over the coming months.

Exhibit 3: Real estate lags investment and consumption



Source: LSEG Datastream, AXA IM Research, September 2023

In July, China's headline CPI inflation fell into negative territory (-0.3% year-on-year) – making the deflationary headwinds real. Due to price corrections in fuel and food, August's CPI returned to positive, though just +0.1%. From January to the end of August, headline CPI has averaged +0.5% and there is not much of 2023 left to see it rise far from here. Looking into 2024, we expect inflation to remain weak, but positive.

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Global Macro Monthly – Japan

Modupe Adegbembo
Junior Economist (G7),
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BoJ remains on hold, resisting calls to shift guidance

In its September meeting, the Bank of Japan (BoJ) left all policy tools – including its yield curve control (YCC) – unchanged, in line with our expectations. The short-term policy interest rate remains at -0.1% and the long-term interest rate target of 0% yields on 10-year Japan Government bonds was maintained with a tolerance band of +/-50 basis points and a strict ceiling of 1%.

There had been some risks that the BoJ would adjust its dovish guidance following a step up in hawkish communications from BoJ officials. Notably Governor Kazuo Ueda indicated in a recent interview that YCC could be removed before next year's spring wage negotiations. However, the BoJ chose to maintain its forward guidance which states that the BoJ "will patiently continue with monetary easing" and "will not hesitate to take additional easing measures if necessary".

A tweak by year-end still appears unlikely and we see Ueda's comments in the context of currency management, with the yen currently around last year's lows. Further evidence of wage growth is likely necessary for the BoJ to hike rates confidently without concerns of stifling a nascent, sustainable recovery in inflation. We forecast an end to negative interest rates and YCC in spring 2024 in our base case but monitor rising risks of an earlier move.

Japan's GDP recovery continues, though it appears that high inflation is weighing on consumption. Second quarter GDP rose by a strong 1.2% quarter on quarter but consumption was weak, falling by 0.6%. The overall strength of GDP was driven by an improvement in Japan's net trade position with exports picking up and imports falling, contributing 1.9 percentage points to GDP. The increase in exports was driven by a pick-up in autos exports and inbound tourism-supporting services exports.

Risks of a snap election of Japan's lower house have also risen. Prime Minister Fumio Kishida reshuffled his Cabinet and LDP party leadership and is planning to introduce new fiscal stimulus. Whilst such reshuffles are common, many are seeing the move as an attempt to increase approval ratings ahead of a snap election. Lower house elections are not due until 2025, but Kishida faces internal LDP leadership elections in September 2024 and may want to shore up domestic support ahead of this. This could come as soon as 22 October, as by-elections are already scheduled for this date. If Kishida's approval ratings fail to rise, December could be the next opportunity for a snap election.

Global Macro Monthly – EM

Irina Topa-Serry,
Senior Economist (Emerging Markets),
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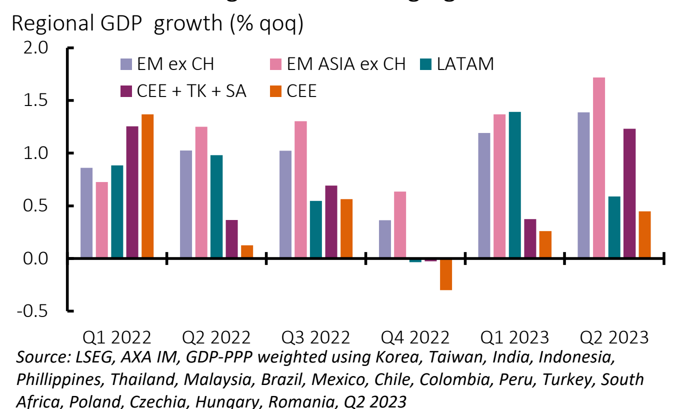
Resilience

Despite multiple challenges – China's slowing economy; the Ukraine war; the subsequent surge in energy and food prices; rising interest rates and a stronger US dollar – emerging economies have remained surprisingly resilient. In Q2, Brazil once again recorded strong GDP expansion as the services sector kept up the momentum, after a record-high grain harvest in Q1. The services sector also remained a robust support to India's Q2 GDP. Turkey's economy has been stimulated by pre-election spending and South Africa's by a rebound in private sector investments, while Mexico enjoyed rather broad-based growth momentum. Less positively, in Thailand, election-related uncertainty spilled over into weaker investment. Central Europe has also remained weak overall but with more mixed readings. Latin America was also hurt by GDP contracting in Chile, Colombia and Peru during Q2. Yet domestic demand in Chile expanded after five consecutive quarters of falls, Peru was hit by heavy rainfalls and Colombia's GDP contraction came after strong Q1 expansion (Exhibit 4).

Exhibit 4: Resilient growth in emerging markets



Source: LSEG, AXA IM, GDP-PPP weighted using Korea, Taiwan, India, Indonesia, Phillippines, Thailand, Malaysia, Brazil, Mexico, Chile, Colombia, Peru, Turkey, South Africa, Poland, Czechia, Hungary, Romania, Q2 2023

Moving towards year-end, we see growth momentum shifting gears between the different regions. We expect softer growth in Latin America as monetary tightening filters through the economy. Meanwhile, private consumption in Central Europe is expected to pick up on the back of improving real disposable income as disinflation progresses. Asian economies will be sensitive to China. All in all, 2023's strong first half leads to mechanical upgrades of full-year 2023 average GDP growth estimates in many emerging market countries and regions.

Global Macro Monthly – Poland

Irina Topa-Serry,
Senior Economist (Emerging Markets),
Macro Research – Core Investments

Poland's election: Delayed fiscal consolidation no matter the outcome

On 15 October, Poland will elect members of Parliament for a four-year term: 460 deputies of the Sejm lower house (party/coalition proportional voting) and 100 members of the Senate (first-past-the-post voting). The leader of the party or coalition obtaining the most votes in the Sejm will become Prime Minister and need to form a government.

Poland's political environment remains polarised by the two major parties, the right-wing national conservative Law and Justice (PiS) party, in power since 2015, and the centre-right liberals Civic Platform (PO) which was in power during the previous eight years. As polls stand, neither the PiS-led coalition, nor the three opposition coalitions taken together would garner enough votes to have an outright majority. There is a distinct possibility the PiS brings far-right party, the Confederation (more than 10% of voting intentions in polls), into a majority-led government coalition. However, such an alliance appears less likely for the opposition.

In the run-up to elections, the incumbent PiS has increased the introduction of expansionary policies with measures such as higher child benefits into 2024 along with another sizeable increase in the minimum wage. Following these policies, the general government deficit projections of 4.7% of GDP in 2023 and 3.4% in 2024 submitted by the Polish government in the Convergence Programme to the European Commission in April 2023 needs to be revised up by some one percentage point (ppt) for each year. Coupled with a premature monetary policy easing, as per the 75-basis-point interest rate cut delivered by the central bank, there is a non-negligible risk of slower disinflation while the PiS remains in power.

An opposition government would have higher chances of unlocking European Union (EU) funds which have been frozen since the rule-of-law conflict: €34bn from the Recovery and Resilience Facility (another €23bn of loans requested in September) as well as the €77bn allocated under the EU's 2021-2027 Multi-annual Financial Framework, i.e. a total of 3% of GDP inflow per year during the seven years covered by the budget. But overall, we would not count on a much faster fiscal consolidation under an opposition-led government given their "100 ideas for first 100 days of governing" which also lean towards more spending at the beginning of a new mandate.

Global Macro Monthly – Argentina

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Macro Research – Core Investments

A political shift in Argentina?

Argentina is currently facing several economic challenges - high inflation, balance of payments pressures, and the burden of an ongoing International Monetary Fund (IMF) programme. The country is set to hold general elections on 22 October with several candidates vying for the coveted presidential position.

One prominent candidate is Patricia Bullrich, representing the Juntos por el Cambio party, the political faction founded by former President Mauricio Macri. The incumbent government candidate is Sergio Massa, while Javier Milei, a libertarian right-wing candidate, has garnered significant attention. Argentina's economic fragility, coupled with its IMF programme, means the elections are a critical turning point.

The IMF recently completed its fifth and sixth reviews of Argentina's Extended Fund Facility programme, releasing approximately US$7.5bn in disbursements of the $44bn programme to support the nation's economy. However, Argentina has faced challenges in meeting targets due to a historic drought and policy setbacks, necessitating waivers of non-observance.

Milei's surprising performance in August's primaries (known locally as PASO), where he secured roughly 30% of the votes, has shaken up the political landscape. Milei's unconventional style, blending libertarian economic views with conservative social stances, has made it difficult to label him definitively. He emphasises challenging the status quo and has outlined a comprehensive economic plan, including eliminating currency controls, dollarising the economy, privatising state-owned enterprises, reducing public spending, and streamlining the government.

Despite Milei's popularity, his policy proposals raise questions about feasibility and their potential economic impact. Furthermore, the elections remain highly uncertain, with Milei currently favoured in the first-round vote. His victory could signal a desire among Argentines for a fresh approach to the country's economic woes but the path forward remains complex, given the country's deep-seated economic challenges. As Argentina approaches its political elections, economic stability, IMF cooperation, and the direction of its future leadership will be key in determining the nation's economic trajectory.

Macro forecast summary

Real GDP growth (%)	2022		2023*		2024*	
	AXA IM	*Consensus*	AXA IM	*Consensus*	AXA IM	*Consensus*
World	3.5		2.9		2.7	
Advanced economies	2.7		1.4		0.8	
US	2.1	2.1	1.9	1.9	1.1	0.6
Euro area	3.6	3.2	0.5	0.6	0.3	0.8
Germany	1.8	1.8	-0.3	-0.3	0.3	0.9
France	2.5	2.5	0.7	0.7	0.3	0.9
Italy	3.7	3.7	0.7	1.0	0.1	0.7
Spain	5.5	5.5	2.2	2.1	0.6	1.4
Japan	1.0	1.0	1.9	1.4	0.9	1.0
UK	4.1	4.1	0.5	0.2	0.2	0.4
Switzerland	2.1	2.1	0.7	0.7	1.0	1.4
Canada	3.4	3.4	1.4	1.5	0.9	0.8
Emerging economies	4.0		3.9		3.8	
Asia	4.4		5.0		4.4	4.0
China	3.0	3.0	5.0	5.3	4.5	4.7
South Korea	2.6	2.6	1.4	1.2	2.4	2.1
Rest of EM Asia	6.3		5.4		4.4	
LatAm	3.9		2.2		2.3	
Brazil	2.9	2.9	2.9	2.2	1.1	1.5
Mexico	3.0	3.0	2.5	2.7	1.9	1.7
EM Europe	0.9		1.3		2.4	
Russia	-2.1		1.5		1.3	1.2
Poland	5.1	4.9	0.0	0.9	3.5	2.7
Turkey	5.6	5.6	2.1	2.6	3.1	2.0
Other EMs	4.8		2.8		3.8	

Source: Datastream, IMF and AXA IM Macro Research – As of 26 September 2023
**Forecast*

CPI Inflation (%)	2022		2023*		2024*	
	AXA IM	*Consensus*	AXA IM	*Consensus*	AXA IM	*Consensus*
Advanced economies	7.4		4.8		2.8	
US	8.0	8.0	4.3	4.1	3.0	2.6
Euro area	8.4	8.5	5.7	5.5	2.9	2.5
China	1.9	2.0	1.0	0.8	2.0	2.0
Japan	2.5	2.5	3.0	3.0	1.5	1.7
UK	9.1	9.1	7.5	7.3	2.8	3.0
Switzerland	2.8	2.8	2.4	2.3	1.5	1.5
Canada	6.8	6.8	4.2	3.6	3.0	2.3

Source: Datastream, IMF and AXA IM Macro Research – As of 26 September 2023
**Forecast*

These projections are not necessarily reliable indicators of future results

Forecast summary

Central bank policy Meeting dates and expected changes (Rates in bp / QE in bn)		Current	Q4-23	Q1-24
United States - Fed	Dates	5.50	31-1 Oct/Nov 12-13 Dec	30-31 Jan 19-20 Mar
	Rates		unch (5.50)	unch (5.50)
Euro area - ECB	Dates	4.00	26 Oct 14 Dec	25 Jan 7 Mar
	Rates		unch (4.00)	unch (4.00)
Japan - BoJ	Dates	-0.10	30-31 Oct 18-19 Dec	22-23 Jan 18-19 Mar
	Rates		unch (-0.10)	unch (-0.10)
UK - BoE	Dates	5.25	2 Nov 14 Dec	1 Feb 21 Mar
	Rates		unch (5.25)	unch (5.25)
Canada - BoC	Dates	5.00	25 Oct 6 Dec	24 Jan 6 Mar
	Rates		0.25 (5.25)	unch (5.25)

Source: AXA IM Macro Research - As of 26 September 2023

These projections are not necessarily reliable indicators of future results

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27 September 2023

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