# Global Economy Watch

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# Predictions for 2023: Rapid slowdown but no recession


**Barret Kupelian**
**Senior Economist**

**PwC UK**
T: +44 (0)7715 62331
E: barret.g.kupelian@pwc.com

**Jake Finney**
**Economist**

**PwC UK**
T: +44 (0)7483 440369
E: jake.a.finney@pwc.com



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As we usher in the new year, PwC's clients and the wider business community will be refreshing their business plans, updating their scenarios and adjusting their corporate strategies. To help provide some clarity, in this edition of the **Global Economy Watch**, we look at what 2023 might have in store for the global economy. We set out some key themes we think will prevail in 2023, followed by more specific predictions.

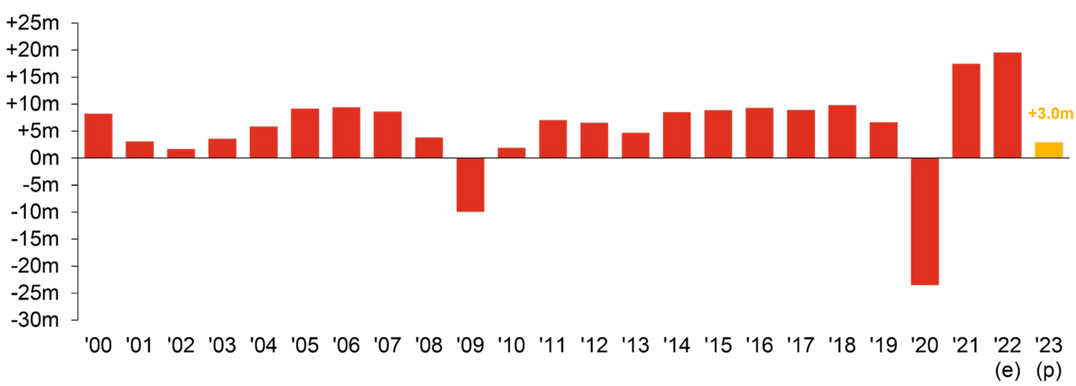
**Slow growth, no global recession:**
In our base case scenario we project global Gross Domestic Product (GDP) expands by around 1.6% in 2023, in market exchange rates, less than half its long-term average of around 3.5%. We expect US economic growth will slow to 0.2% as the world's largest economy enters a mild downturn but avoids a technical recession. While the economic outlook in the Eurozone and the UK is bleaker given the reduced supply and higher prices of natural gas.
A plausible outside scenario could however play out if recent lower natural gas prices and warmer winter weather persists. The peripheral Eurozone economies will, however, overperform their core counterparts mainly because of the impact of tourism. E7 output is expected to account for more than half of global GDP growth, their fourth highest contribution in the past 60 years. India is predicted to be the fastest growing G20 economy and Indonesia the fastest growing Southeast Asian economy. In our main scenario, Chinese GDP is likely to expand by around 4.7%, with a considerable degree of uncertainty as the country shifts away from its zero-COVID policy. This will be one of the big themes we will be monitoring in the first half of 2023.

**Economy adjusts to higher interest rates:**
Consumers, businesses and governments in most of the G20 will feel and adjust to tighter financial conditions.

- Labour markets in advanced economies will remain resilient but will cool with vacancies reducing significantly. For example, across the Organisation for Economic C-operation and Development (OECD) only around three million jobs could be created – down from 20 million the previous year (see Figure 1). Some countries could see a modest uptick in their unemployment rate.
- Businesses will feel the strain of the trio of high interest rates, energy costs and slow economic growth via eroding profit margins and a rising wave of corporate bankruptcies. Highly leveraged, interest rate and energy-sensitive sectors will be more prone to risk, including real estate and construction, as well as cyclical sectors such as discretionary consumer goods.
- Governments will shift their emphasis on policies to boost growth, to grow tax revenues in the face of rising interest expenditures on their debt, while also devising more novel ways to redistribute income to the vulnerable, particularly those bearing the scars from high inflation the year before.

**Slowbalisation in full force:**
Strategic competition between the world's largest economies, and pressure to build resilient economies will mean entering into a new phase of globalisation we call 'slowbalisation'. At a high level, this is a combination of reshoring certain sectors of the economy (e.g. semi-conductors and other sectors deemed strategic or sensitive) and friend-shoring some other sectors by gradually aligning supply chains to countries sharing similar economic, political and institutional systems. To aid this transition we expect to see more state activism supporting specific segments of the economy (e.g. via direct and indirect subsidies, relaxing of state-aid rules etc). The short-term implication of slowbalisation is for structural inflation to settle at a higher level than its 21st century average while businesses adapt to this new regime. And, in the medium to long-term we could see changes in the global financial system (e.g. with a gradual eroding of the US dollar as the main currency the world trades in).
In the next page we delve into more predictions about the global economy.

**Figure 1: Projected change in employment in the OECD economies**




**Sources**: PwC analysis, OECD.

**Notes**: E7 includes China, India, Brazil, Turkey, Russia, Mexico & Indonesia. G7 includes Canada, France, Germany, Italy, Japan, the UK & the US. G20 includes the G7, E7 & Argentina, Australia, Republic of Korea, Saudi Arabia, South Africa, & the EU.

# Predictions for 2023

**Inflation will fall sharply but remain above-target:**
The combination of tighter monetary policy, slowing global demand and the normalisation of demand patterns between goods and services should put downward pressure on goods price inflation in 2023. Services inflation may take longer to come down, as it is primarily driven by nominal wage growth and the labour market tends to lag behind the rest of the economy. Overall, inflation rates are expected to fall by at least a quarter in around half of the OECD economies. Due to its high starting position Turkey is expected to see the sharpest absolute fall in inflation, with our analysis suggesting that its headline inflation rate will fall from 73% in 2022 to around 42% in 2023. Meanwhile, China is one of the few countries that is predicted to see its inflation rate rise in 2023 - but this is because it has largely been insulated from inflationary pressures in 2022. Though inflation will fall sharply in most economies, we expect that on an annual basis inflation will remain above-target in 2023 in almost all the countries that experienced high inflation in 2022.

**House prices will fall or flatline in most advanced economies:**
Our analysis suggests that risks to the housing market – the pace of increase in mortgage interest rates, the level of household debt and the size and duration of fixed-rate mortgages – are higher in markets such as New Zealand, Sweden, Australia and Canada (see Figure 2). By contrast, risks are lower in peripheral European markets such as Ireland and Spain, where house prices took a more sizeable hit during the 2008/9 and subsequent Eurozone crisis which meant that household debt levels remain relatively low, reducing risk. How bad will it get? Some of the less exposed markets could see modest falls in house prices while the riskier markets could be set for much steeper double digit percent falls, reversing most of the gain in prices seen during the pandemic.

**Figure 2: Housing market risk indicators**

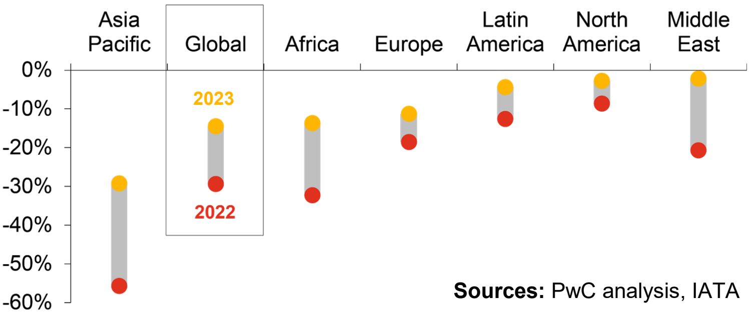
| Region (1 = most exposed) | House prices | Household finances | Borrowing costs |
|---|---|---|---|
| New Zealand (1) | | | |
| Sweden (2) | | | |
| Australia (3) | | | |
| Canada (4) | | | |
| Netherlands (5) | | | |
| Luxembourg (6) | | | |
| Portugal (7) | | | |
| Norway (8) | | | |
| Korea (9) | | | |
| UK (10) | | | |
| US (11) | | | |
| Germany (12) | | | |
| Denmark (13) | | | |
| Finland (14) | | | |
| Ireland (15) | | | |
| Spain (16) | | | |
| France (17) | | | |
| Italy (18) | | | |
| Japan (19) | | | |

Sources: PwC analysis, OECD, BIS. Notes: Shading is assigned based on standardised scores for metrics in each category, where red = high exposure relative to other markets and green = low exposure. Rankings based on a weighted average of metrics.

**Air traffic will near pre-pandemic levels in North America and the Middle East as tourism recovers:**

Most forecasters expected that tourism would return to pre-pandemic levels in 2022. However, the Russia-Ukraine war and the resulting economic turbulence put a dent in the recovery. With COVID-19 restrictions having been lifted in virtually every country we expect that 2023 will be a strong year for the sector. The International Air Transport Association (IATA) expects that the return of tourists will see passenger traffic levels return to 85% of pre-pandemic levels in 2023. North America and the Middle East are projected to make the strongest recoveries, with the latter region benefiting from high oil prices (see Figure 3). If travel restrictions and the current bout of COVID-19 dissipates in China, this could benefit all regions (pre-pandemic around one in ten tourists globally were Chinese, according to data from the United Nations World Tourism Organization).

**Figure 3: Passenger traffic (RPK), projected change from pre-pandemic levels**

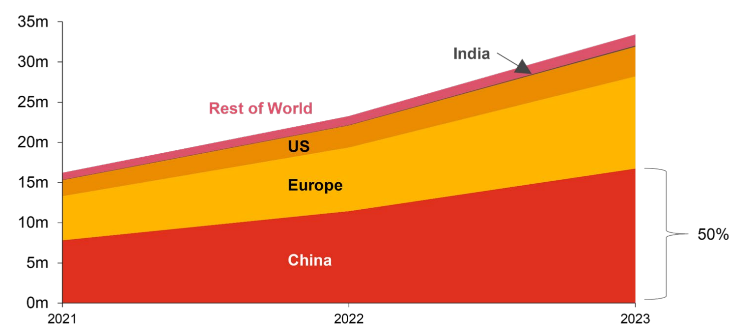



**Sources:** PwC analysis, IATA

**Crude oil prices will bottom out at around $80 bbl:**
The Russian invasion of Ukraine saw Brent crude oil prices exceed $100 bbl for the first time in a decade, but they have since fallen (according to data from Refinitiv Eikon). Our view is that oil prices will stabilise at an average level of $80 bbl for 2023, as the economic slowdown continues to put downward pressure on oil demand. However, risks to the outlook remain, with respect to how smooth the transition out of zero COVID-19 manifests in China. On the supply side, Russia has indicated that it may cut oil production in response to the G7's price cap – a significant cut-off would see prices pick-up again.

**Half of all electric vehicles (EV) on the road globally will be in China:**
EV sales have grown at a rapid pace over the past decade, with one in ten cars sold in 2021 being electric, according to data from the International Energy Agency (IEA). This has seen the total number of EVs on the road rise from around 17,000 in 2010 to more than 16 million in 2021. By 2023, our analysis of IEA data suggests that there could be 33 million EVs on the road - with China accounting for half of the overall stock for the first time ever. The rapid ascent of the EV industry in China follows more than a decade of government investment into building the necessary infrastructure for the country to become a leading 'automobile power'. Now, for many consumers in China the decision to buy an EV is made without much consideration of state subsidies. The rest of the world has a lot of catching up to do although we are seeing some tentative signs that adoption of EVs is picking up in the US, on the back of the Inflation Reduction Act.

**Figure 4: World stock of Electric Vehicles, projections from 2022**




Sources: PwC analysis, OECD. Notes: PwC analysis based on IEA STEPS projection scenario.

**The year of political predictability?**

2023 is set to be the first year this century where there is no major election in any of the G7 economies, assuming there are no snap elections. The picture is similar elsewhere – our analysis suggests there are no elections scheduled for 85% of the world's population. This is somewhat surprising, as conventional logic goes that economic turbulence leads to higher political turnover. However, our view is that in 2023 political leaders will focus on fixing their economies rather than changing governments.

**Superforecasters: Putting economists out of a job?**
Every year PwC releases this article setting out our predictions for 2023. One alternative is to consult 'superforecasters', who claim to make more accurate predictions than experts in the field, owing to their commitment to constantly refresh their predictions in light of new data. They have had some success in the past. Last year, forecasting firm Good Judgement correctly predicted the outcome of the US mid-term elections. Below we list a selection of their predictions for 2023:

- There is a 61% chance that world GDP growth will be between 1.5% and 3.0%.
- There is a 33% chance that US CPI inflation will be between 3.0% and 4.5% in mid-2023.
- There is a 13% chance that there will be a non-test nuclear detonation in 2023.

**Sources:** PwC analysis, Good Judgement, Metaculus (accessed 19 Dec 22).

# Projections: January 2023

| | Share of 2022 world GDP (e) | | Real GDP Growth | | | | Consumer Price Inflation | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | PPP | MER | 2022e | 2023p | 2024p | 2025-2027p | 2022e | 2023p | 2024p | 2025-2027p |
| **Global (Market Exchange Rate ("MER"))** | | 100.0% | 2.8 | 1.6 | 2.6 | 2.7 | 7.0 | 4.4 | 2.9 | 2.4 |
| **Global (Purchasing Power Parity ("PPP") rate)** | 100.0% | | 3.1 | 2.0 | 3.0 | 3.1 | 8.0 | 5.1 | 3.5 | 2.8 |
| **G7** | 30.5% | 42.9% | 2.1 | 0.1 | 1.3 | 1.6 | 7.3 | 4.2 | 2.2 | 1.9 |
| **E7** | 37.5% | 28.9% | 3.2 | 3.7 | 4.6 | 4.4 | 6.3 | 4.4 | 3.7 | 3.1 |
| | | | | | | | | | | |
| **United States** | 15.5% | 24.7% | 1.8 | 0.2 | 1.4 | 1.8 | 8.0 | 3.8 | 2.3 | 2.1 |
| **China** | 18.6% | 18.0% | 3.1 | 4.7 | 5.2 | 4.7 | 2.1 | 2.2 | 2.3 | 2.1 |
| **Japan** | 3.8% | 4.2% | 1.5 | 1.2 | 1.3 | 0.8 | 2.2 | 1.8 | 1.2 | 1.3 |
| **United Kingdom** | 2.3% | 3.1% | 4.1 | -0.8 | 0.6 | 1.7 | 9.0 | 6.7 | 2.0 | 1.9 |
| **Eurozone** | 10.5% | 12.0% | 3.2 | 0.0 | 1.6 | 1.7 | 7.9 | 5.4 | 2.5 | 1.9 |
| **Germany** | 3.3% | 4.0% | 1.7 | -0.5 | 1.5 | 1.7 | 8.2 | 6.2 | 3.0 | 2.0 |
| **France** | 2.3% | 2.7% | 2.5 | 0.1 | 1.3 | 1.5 | 5.5 | 4.4 | 2.3 | 1.7 |
| **Italy** | 1.9% | 2.0% | 3.5 | -0.4 | 1.2 | 1.1 | 8.5 | 6.7 | 1.7 | 1.8 |
| **Spain** | 1.4% | 1.4% | 4.6 | 0.8 | 2.2 | 2.3 | 8.6 | 3.7 | 2.0 | 1.8 |
| **Netherlands** | 0.8% | 1.0% | 4.3 | 0.1 | 1.4 | 1.6 | 11.0 | 5.2 | 3.7 | 2.1 |
| **Ireland** | 0.4% | 0.5% | 9.5 | 2.6 | 3.1 | 2.5 | 8.3 | 5.0 | 1.5 | 1.8 |
| **Portugal** | 0.3% | 0.3% | 6.5 | 0.5 | 2.3 | 2.1 | 7.8 | 5.0 | 1.9 | 1.9 |
| **Greece** | 0.2% | 0.2% | 5.7 | 0.6 | 2.3 | 1.8 | 9.4 | 4.6 | 1.5 | 1.7 |
| **Poland** | 1.0% | 0.7% | 4.4 | 0.6 | 2.9 | 3.3 | 14.1 | 13.1 | 6.2 | 2.8 |
| **Russia** | 2.9% | 2.1% | -3.5 | -3.4 | 1.4 | 1.3 | 13.8 | 6.2 | 4.8 | 4.2 |
| **Turkey** | 2.1% | 0.8% | 5.1 | 2.1 | 2.7 | 2.6 | 72.7 | 42.5 | 25.7 | 13.1 |
| **Australia** | 1.0% | 1.7% | 3.8 | 1.7 | 2.1 | 2.6 | 6.5 | 4.4 | 2.6 | 2.6 |
| **India** | 7.2% | 3.4% | 6.8 | 5.4 | 6.3 | 6.4 | 6.8 | 4.8 | 5.1 | 4.5 |
| **Indonesia** | 2.5% | 1.3% | 5.3 | 4.5 | 5.1 | 5.1 | 4.4 | 4.1 | 3.2 | 3.6 |
| **South Korea** | 1.7% | 1.7% | 2.6 | 1.4 | 2.5 | 2.3 | 5.3 | 3.2 | 2.0 | 1.9 |
| **Brazil** | 2.3% | 1.9% | 2.8 | 1.3 | 2.0 | 2.7 | 7.6 | 4.5 | 4.0 | 3.0 |
| **Canada** | 1.4% | 2.2% | 3.3 | 0.5 | 1.5 | 1.9 | 6.8 | 3.1 | 1.9 | 2.0 |
| **Mexico** | 1.8% | 1.4% | 2.5 | 1.3 | 2.0 | 2.1 | 7.9 | 5.3 | 3.5 | 3.2 |
| **South Africa** | 0.6% | 0.4% | 2.0 | 1.4 | 1.7 | 1.7 | 6.8 | 5.5 | 4.3 | 4.6 |
| **Nigeria** | 0.8% | 0.5% | 3.1 | 2.7 | 3.0 | 2.9 | 19.0 | 16.7 | 12.1 | 9.9 |
| **Saudi Arabia** | 1.3% | 1.0% | 8.7 | 3.0 | 2.8 | 2.3 | 2.6 | 2.5 | 2.2 | 1.8 |

e: Estimate, p: Projection
Sources: PwC UK and global analysis, national statistical authorities, EIKON from Refinitiv, IMF, Consensus Economics and the OECD.

Our projections are a weighted average of projections from the OECD, IMF and Consensus Economics. They also incorporate inputs from select teams across the PwC network. 'MER' refers to market exchange rates and 'PPP' is purchasing power parity. All inflation projections refer to the Consumer Price Index (CPI) unless otherwise stated. The table above form our main scenario projections and are therefore subject to considerable uncertainties. PwC recommends that our clients look at a range of alternative scenarios particularly for economies where there may be a high degree of volatility and uncertainty.

## Interest rate outlook of major economies

| | Current rate (Last change) | PwC Expectation | Next meeting |
|---|---|---|---|
| US Federal Reserve | 4.25-4.5% (14 December 2022) | Rising to between 4.5% and 5.0% | 31 January 2023 |
| European Central Bank | 2.5% (15 December 2022) | Rising to between 3.5% and 4.0% | 2 February 2023 |
| Bank of England | 3.5% (15 December 2022) | Rising to between 4.0% and 4.5% | 2 February 2023 |

## Chart of the month

China has been the world's most populated country for several centuries. But in 2023 India is expected to reach an important milestone and overtake China as the world's most populated country.

Today, China's economy is almost three times larger than India's (in PPPs) while the US is more than double its size. However, India's rapidly growing population will help it close these gaps, with India set to account for close to a quarter of the increase in the world's working age population in 2023. In 2017 we **predicted** in our World in 2050 report that India would overtake the US as the world's second largest economy over the next 30 years.

**Figure 5: India will overtake China as the world's most populated country in 2023**