QUARTERLY ECONOMIC OUTLOOK | FIRST QUARTER 2024

Global economic growth and near-term prospects: A mixed track record.

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SEI recently released its first-quarter Economic Outlook, published in two installments. Here is a summary of our key perspectives from the first installment, focusing on global economic growth and near-term prospects for selected countries.

- The U.S. keeps rolling along, posting solid gains that have mostly surprised to the upside. Most other major advanced economies seem to be stuck on a siding, hoping to at least hitch themselves to the mighty U.S locomotive. The previous big engine in the world—China—still runs faster than the U.S., but is not the bullet train that it once was.
- While China continues to gain share of world gross domestic product (GDP), it still lags the U.S. and the eurozone. The U.S. has recorded an increasing share of world GDP volumes in recent years, reversing the trend in place from 2003 to 2019. Meanwhile, the U.K., the eurozone, and Japan have seen their economies lose ground against the rest of the world, though the U.K.'s decline following Brexit has been mostly recovered, and Canada has exhibited remarkable steadiness in its share of world GDP.
- The U.S. economy got off to a fast start in January 2024, as the economy accelerated well above its long-term average growth potential. In the fourth quarter of 2023, the U.S. reported a GDP gain of 3.1% from a year earlier, outpacing most other major advanced economies. Economic growth in the U.S. will likely slow, but there is little sign that a recession is looming. Until there is more substantial weakness in employment trends, it is probably a mistake to get too bearish on the U.S. consumer.
- Historically, Canada has been joined at the hip to the U.S., exporting more to the U.S. than any other country. However, Canada lost its #1 position to China in 2009, and fell into third place behind Mexico in 2022. Chinese exports to the U.S. have declined sharply due to trade frictions, while Mexico continues to gain export share. It will likely continue to benefit from nearshoring, given the competitive advantages bestowed upon it by the United States-Mexico-Canada Agreement on free trade.
- For the first time since the early 1990s, Germany's economy appears to be in a multi-year morass. Germany's heavy exposure to manufacturing has become a liability after COVID-19's disruption to supply chains and a spike in natural gas prices due to Russia's invasion of Ukraine. Germany's manufacturing, construction, and services sectors are seeing contractionary conditions.
- While China's leading indicators suggest improvement, it will take a while to show up broadly and sustainably in the country's industrial activity as recent data suggest continued contraction in the manufacturing sector. Consumer and business confidence also remain depressed. The government's modest efforts to support the economy—through lower interest rates, reductions in banks' required reserve ratios, tax cuts, infrastructure spending, and measures to bolster the housing market—have yet to pay off. While China's problems are not an exact replay of the Global Financial Crisis, there are similarities because it will take time for households, businesses, and local governments to deleverage and repair their balance sheets. Even if the Chinese central government becomes more aggressive in its rescue efforts, it could take several more years for the economy to adjust.
- Japan's Nikkei 225 Index recently broke into record territory for the first time since December 31, 1989, after a long period of economic decline, deflation, and an 80% tumble in the broad stock market. The turnaround in equity prices began around 2013 with aggressive fiscal expansion, "easy money," and structural reforms. At long last, Japan has shaken off its deflationary tendencies. Although headline consumer prices have fallen sharply over the past year, the recent rebound in petroleum prices suggests that overall inflation is unlikely to decline much further and, more importantly, core prices are still quite elevated.
- In summary, the global economic outlook still looks quite mixed, but there are scattered signs of modest improvement. The U.S. is still leading the way, but other countries could pick up steam in the months ahead. China's outlook remains uncertain—the cyclical outlook should improve, but the structural challenges are immense. If government policy becomes more aggressively stimulative, it could provide an important boost to global growth.

A full-length paper is available if you wish to learn more about these timely topics.

Glossary

Brexit is a combination of "Britain" and "exit," referring to the United Kingdom's withdrawal from the European Union on January 31, 2020.

The **Global Financial Crisis (GFC)** refers to the period of extreme stress in global financial markets and banking systems between mid-2007 and early 2009.

Gross domestic product (GDP) is the total monetary or market value of all the goods and services produced in a country during a certain period.

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