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Global economic outlook 2023

Modest global growth and challenges ahead

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The global economy is proving resilient amid severe economic headwinds

- EIU expects global economic growth to slow sharply in 2023, reflecting persistent headwinds stemming from the ripple effects of the war in Ukraine, as well as high inflation and rising interest rates.
- Our forecast for global growth stands at 2% (up from 1.9% last month). This upward revision reflects an improvement to our US growth outlook, which we now forecast at 0.7% for 2023 (up from 0.3% previously).
- We forecast that the Chinese economy will grow by 5.7% in 2023. The recovery will be consumer-led as the exit from the country's zero-covid policy unleashes pent-up demand for goods and services (including outbound tourism).
- The euro zone has avoided recession in the winter of 2022/23, owing to lower than expected energy demand due to mild temperatures. However, high inflation continues to weigh on spending—we forecast GDP growth of just 0.7% in the bloc.
- We expect a moderate global recovery in 2024, with real GDP growth of 2.5%. However, growth in OECD economies will remain subdued, at a forecast 1.5%. By contrast, we forecast growth of 4.1% in non-OECD economies.
- Inflation was a major driver of our forecasts in 2022, and this will continue to be the case in 2023. We expect major central banks to end their tightening cycles by mid-year as inflation slows, but rates will remain high in 2023-24.
- Despite sky-high interest rates, global inflation will subside only gradually, from an estimated 9.3% in 2022 to 6.7% in 2023 and 4.3% in 2024. Prices will remain high in level terms, even after inflation subsides, fuelling the risk of social unrest.
- Oil prices will remain high in 2023, owing to continued disruption from the war in Ukraine and rising Chinese demand. We expect oil (dated Brent Blend) to trade above US$80/barrel until 2025.

The global economy was more resilient than we expected in late 2022

Despite strong headwinds, which are mostly related to the ripple effects from the war in Ukraine and high global inflation, the global economy has proven resilient so far in 2023. Europe appears to have avoided a recession in the winter of 2022/23, in large part owing to warmer than usual temperatures and rapid switching to alternative energy sources following Russia's decision to turn off gas flows. US consumer spending has also held up better than EIU initially expected, with the labour market and consumer spending strengthening further in January. Finally, China's exit from the zero-covid policy has also supported global economic activity. As a result of these factors, we expect global growth to stand at a modest, but not anaemic, 2% in 2023 (up from 1.9% in our previous forecasting round).

Global GDP growth will still slow sharply in 2023

Despite the brighter outlook, growth of 2% this year would still represent a slowdown amid major headwinds related to global monetary tightening and the war in Ukraine. The war is affecting the global economy via higher commodity prices, supply-chain disruptions and Russia's weaponisation of energy supplies. This situation will persist throughout 2023 (and probably beyond), as we expect the war to become a protracted conflict with no clear resolution. The economic impact of the war is felt especially strongly in Germany and central Europe, where energy-intensive industries will struggle to remain competitive. The UK economy is being disproportionately hit by the cost-of-living crisis, given its reliance on private consumption, and we expect it to be one of the few economies in the region (alongside Germany) to register a full-year contraction in 2023. In the US, we still expect annual growth to slow sharply this year, to 0.7%, as the pace of consumer spending becomes unsustainable in the face of high inflation and a steep rise in interest rates. In China, the initial rebound in consumer activity after the lifting of the government's zero-covid policy has been strong, and we expect it to pick up even further in the coming months.

The war in Ukraine will keep a floor under commodity prices

We expect global commodity prices to continue easing from their 2022 peaks this year, but to remain well above pre-war levels. However, China's reversal of its zero-covid policy will put upward pressure on oil prices in the medium term, keeping them above US$80/barrel until 2025. An EU ban on seaborne Russian oil imports (which took full effect in February), coupled with China's reopening, will exacerbate market tightness. We expect European gas prices to ease gradually in 2023-24 but to remain above 2019 levels, weighing on households and businesses. The possible tightening of Western sanctions (for instance on refined Russian oil) will continue to fuel price volatility.

Global inflation will remain high in 2023

We expect global inflation to ease slightly, from an estimated 9.3% in 2022 to 6.7% in 2023. High global commodity prices, continued supply-chain disruptions from the war in Ukraine and, in some parts of the world, the still-strong US dollar will keep annual inflation well above 2019 levels. However, we expect inflation to lose some momentum as global demand softens and commodity prices start to ease back from their 2022 peaks. We expect central banks to maintain their aggressive policy stance in an effort to bring inflation under control, even as global growth slows. Interest rates in most major economies will peak by mid-2023, and in most cases will then stay on hold until 2024.

Risks abound for the global economy

Several potential scenarios could derail our forecasts, the most impactful of which include: an escalation of the Russia-Ukraine war (there is little prospect for an end to the hot war this year); social unrest arising from high inflation (especially given that high levels of public indebtedness constrain emerging countries' room for manoeuvre to mitigate the impact on households); an escalation of tensions around Taiwan; financial contagion following the collapse in mid-March of two US regional banks and turmoil at a Swiss banking giant, Credit Suisse; the emergence of a new variant of covid-19 that is especially aggressive and escapes immunity; and extreme weather events that further fuel global inflation. If one (or several) of these scenarios were to materialise, a global recession this year or next would not be out of the question.

Fears about global food supplies are high

In addition, fears about global food supplies remain high amid continued risks to grain exports from Russia and Ukraine (together, these countries account for around one-third of global wheat trade). Fears of a war-induced shortage of fertilisers have proven overblown so far this year; however, Russia's willingness to hold up its end of a grains deal that allows the passage of food supplies out of Ukraine remains in doubt ahead of the renewal date in late March (Russia may be keen to extract some concessions in return for the renewal). This situation illustrates Russia's willingness to weaponise commodities supplies to advance its interests.

Forecast real GDP growth rates (%) in the G7, Russia and China

G7	2023	2024	Q1 2023 (quarter on quarter)	Q2 2023 (quarter on quarter)	Q3 2023 (quarter on quarter)	Q4 2023 (quarter on quarter)
Canada	0.8	1.8	0.1	0.2	0.2	0.3
France	0.5	1.3	0.0	0.1	0.2	0.1
Germany	-0.1	1.2	-0.2	0.1	0.1	0.2
Italy	0.6	1.2	0.0	0.1	0.2	0.1
Japan	1	1.2	0.2	0.4	0.3	0.1
UK	-0.3	1	-0.2	-0.3	0.2	0.3
US	0.7	1.2	0.1	-0.2	-0.3	0.1
Others						
China	5.7	4.7	1.5	1.8	1.2	1.2
Russia	-2.4	1.5	-2.1	-1.2	0.2	1.5

Source: EIU.

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