

WILL HIGH INFLATION HALT THE RECOVERY?

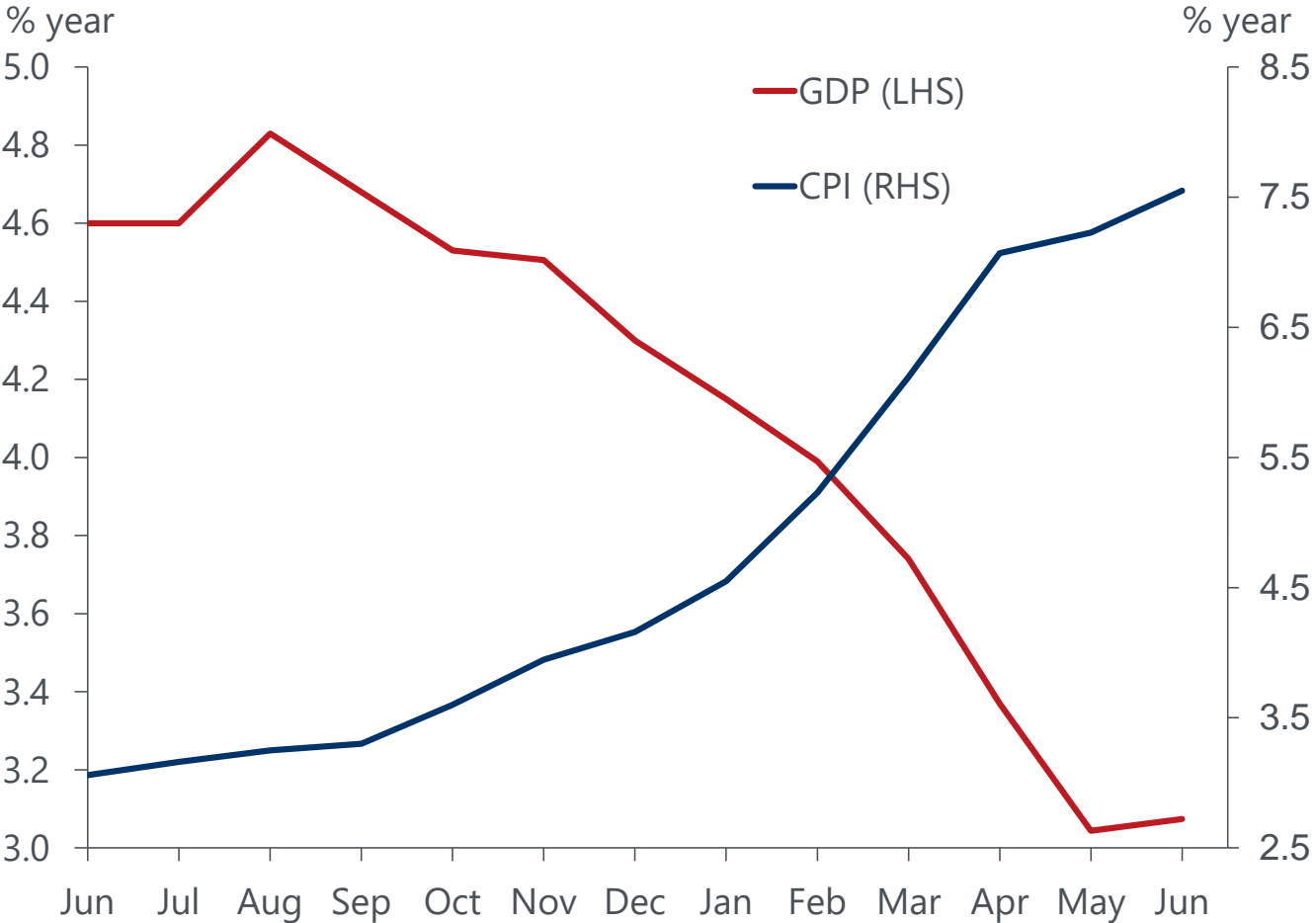
Ben May
Director of Global Macro Research

June 2022



Global forecasts for 2022 little changed in June

World: GDP and CPI revisions (2022)



Questions: Use the question panel

Source : Oxford Economics/Haver Analytics

What happens next?

Potential economic outcomes by mid 2023	
<p>Recession & high inflation - Stagflation, Fed funds peaks >3%</p> <p>FT Unhedged: ≈15%</p> <p>FT Unhedged readers: ≈33%</p> <p>John Authers: 40%</p> <p>Average ≈ 29%</p>	<p>Recession, moderate inflation, Fed funds peaks <3%</p> <p>FT Unhedged: >50%</p> <p>FT Unhedged readers: ≈33%</p> <p>John Authers: 40%</p> <p>Average ≈ 42%</p>
<p>Soft Landing: No recession & moderate inflation, Fed funds peaks <3%</p> <p>FT Unhedged: ≈15%</p> <p>FT Unhedged readers: ≈20%</p> <p>John Authers: 15%</p> <p>Average ≈ 17%</p>	<p>High inflation & no recession, Fed funds peaks >3%</p> <p>FT Unhedged: ≈15%</p> <p>FT Unhedged readers: ≈15%</p> <p>John Authers: 5%</p> <p>Average ≈ 12%</p>

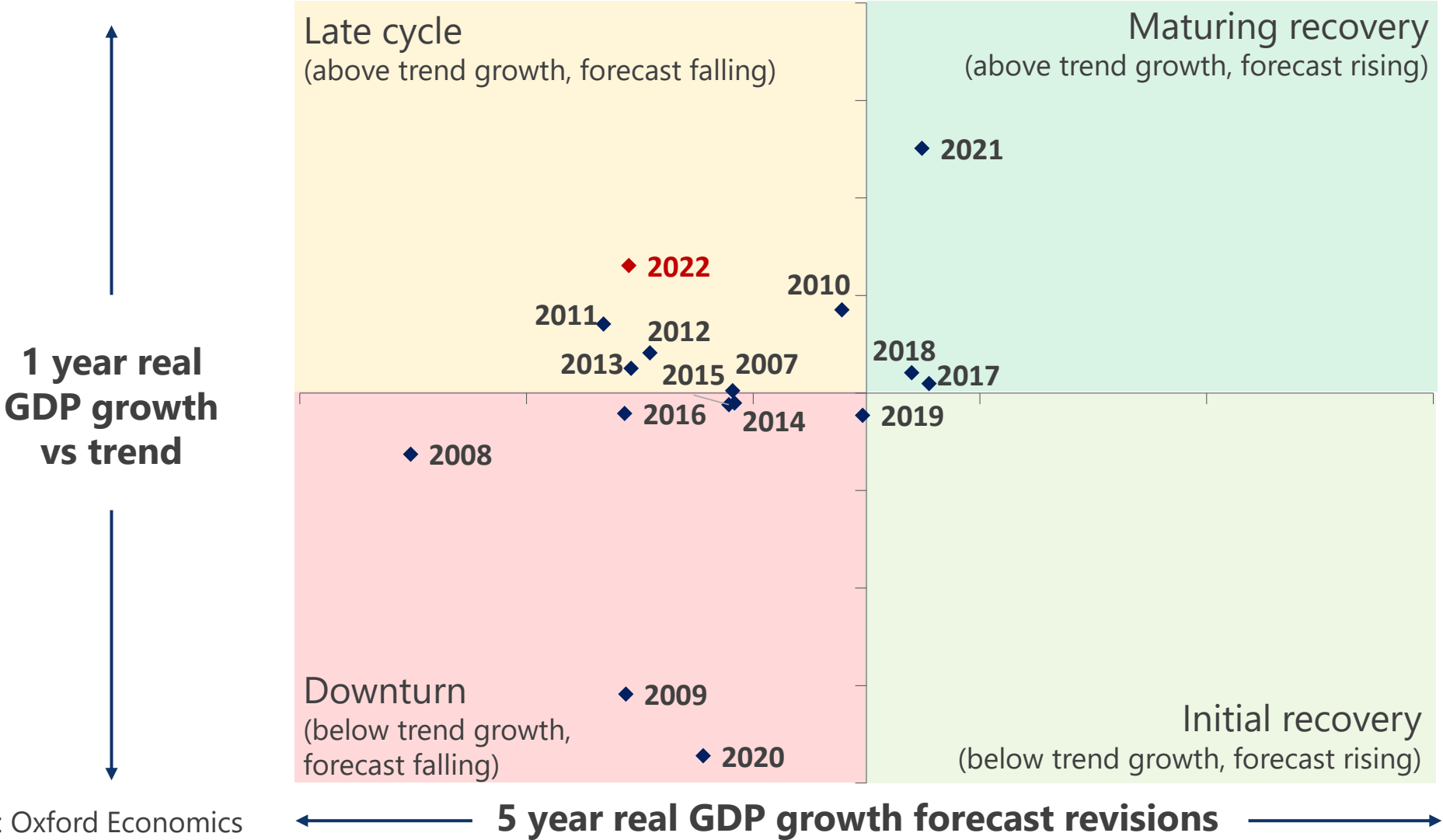
Source: [FT](#) and [John Authers](#)

A few things stand out

- Its not 100% clear if this is for the world, the US or somewhere else.
- Recession probabilities are in excess of 66%.
- Continued growth and high inflation is the least likely outcome.
- Stagflation is more likely than a soft landing.

High recession odds sit with the view that we are “late cycle”

Global: GDP growth vs trend and GDP forecast revisions



Source: Oxford Economics

The 2x2 matrix is a bit too simplistic

Potential economic outcomes				
	Recession	Weak GDP growth	Around trend growth	Above trend GDP growth
Above target inflation	Stagflation	No recession & high inflation	No recession & high inflation	No recession & high inflation
Close to target inflation	Recession moderate inflation	Softlanding	Softlanding	Softlanding
Below target inflation	Recession moderate inflation	Softlanding	Softlanding	Softlanding

Elements with which me most strongly disagree:

- At 15% to 20%, the chance of a soft-landing looks too low.
- The top yellow box looks like quite a plausible scenario, especially if further inflation shocks occur – but the probabilities seemingly attach quite a low weight to it.
- We think that the two thirds chance of being in the blue sector appears too high.

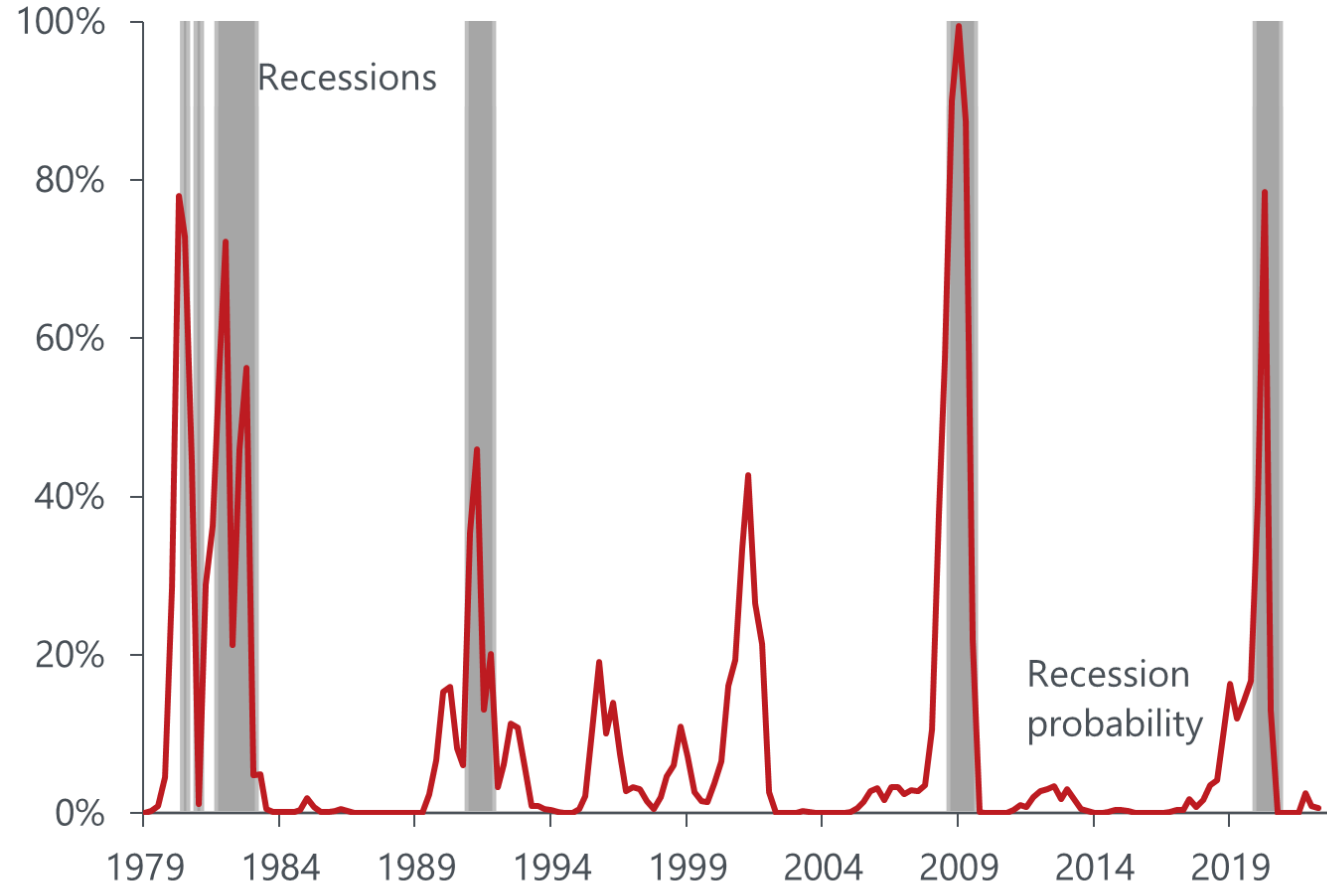
Questions: Use the question panel

Recession risk in H1 looks low

If our model is accurate then....

Global: Recession probability

Probability six months ahead

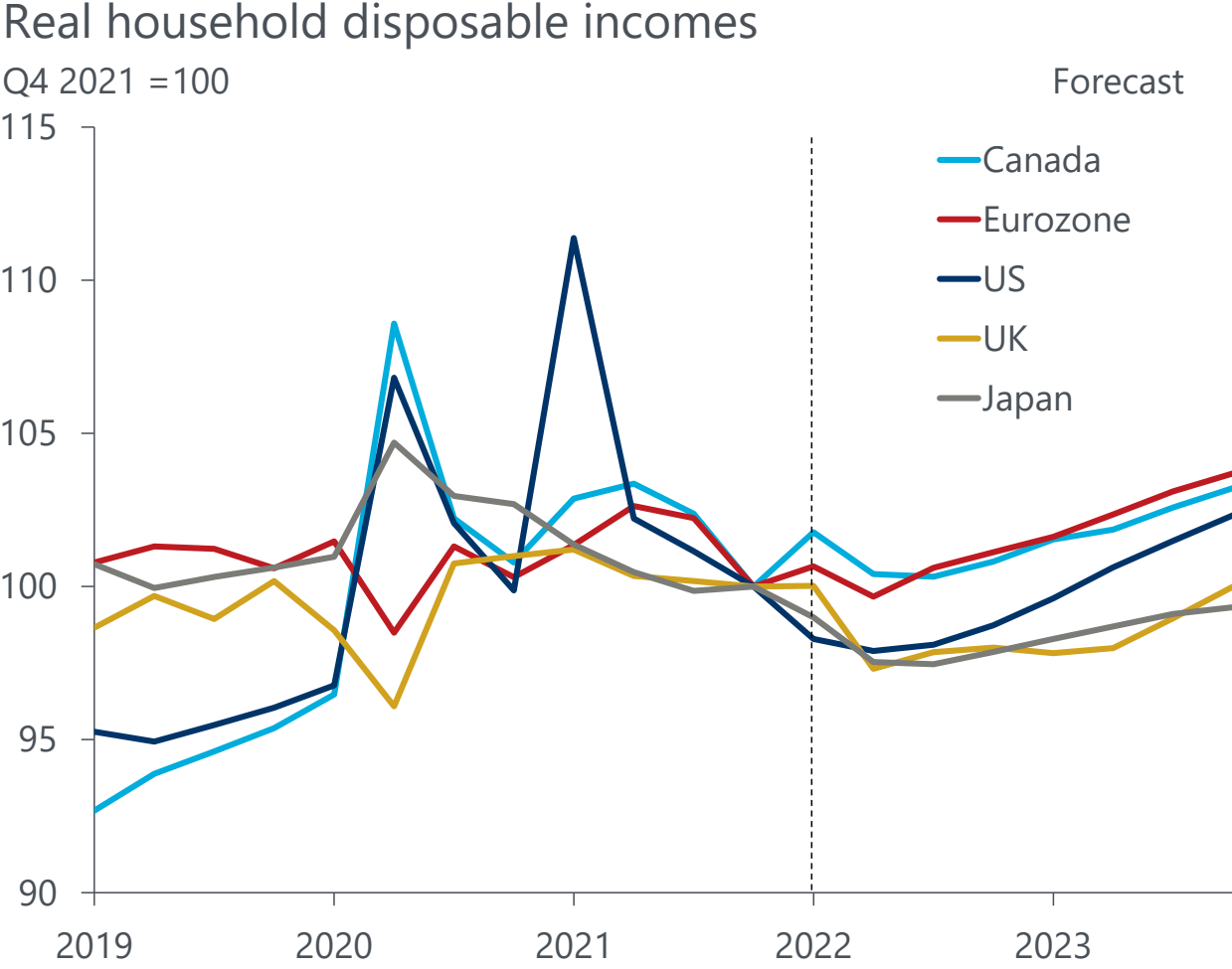


Those fearing recession over the next year must:

- Be very concerned about big risks crystallising
- Attach a very high probability of recession in H1 2023
- Be using the term recession quite loosely.

Source : Oxford Economics/Haver Analytics

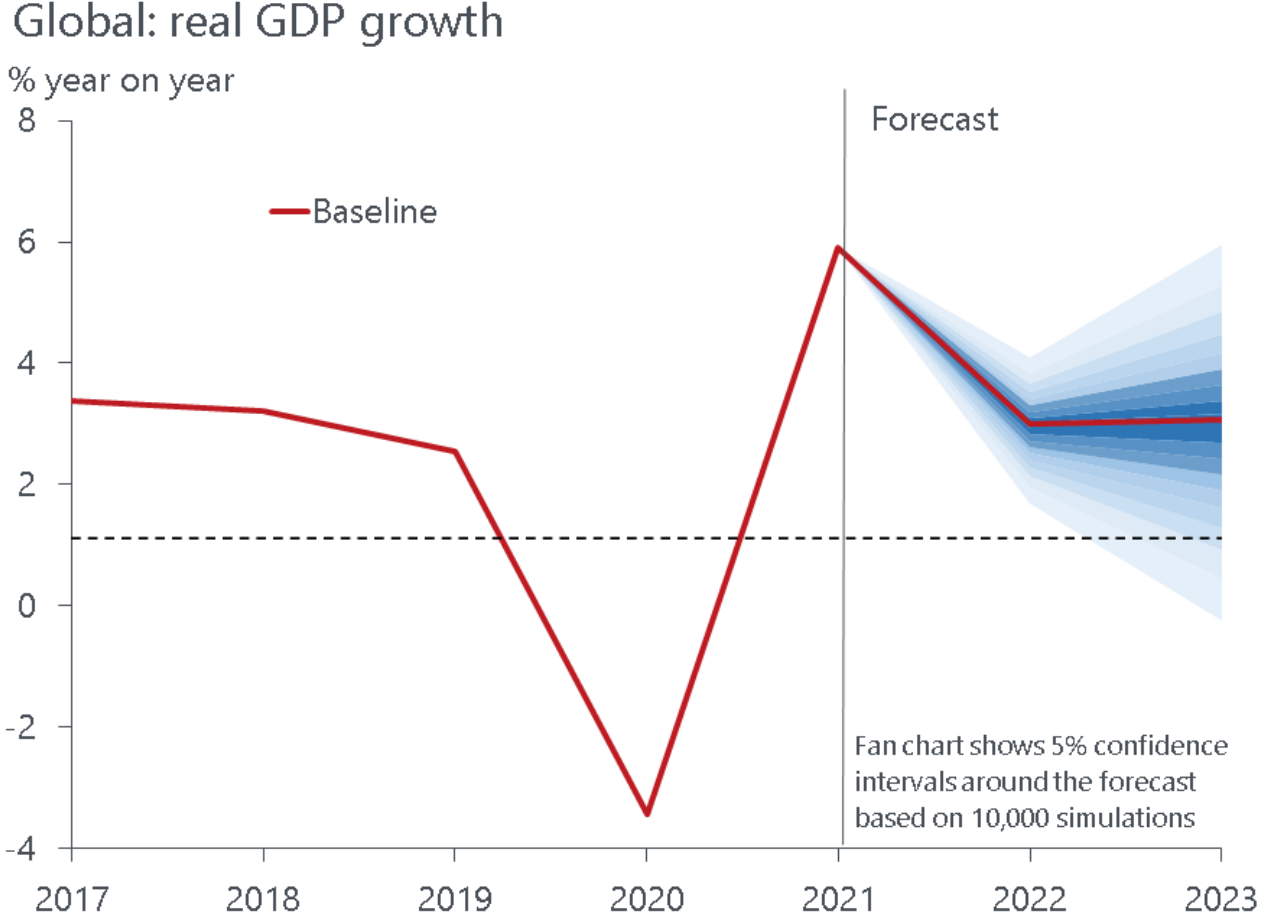
Consumer outlook may soon begin to turn



Questions: Use the question panel

Source : Oxford Economics/Haver Analytics

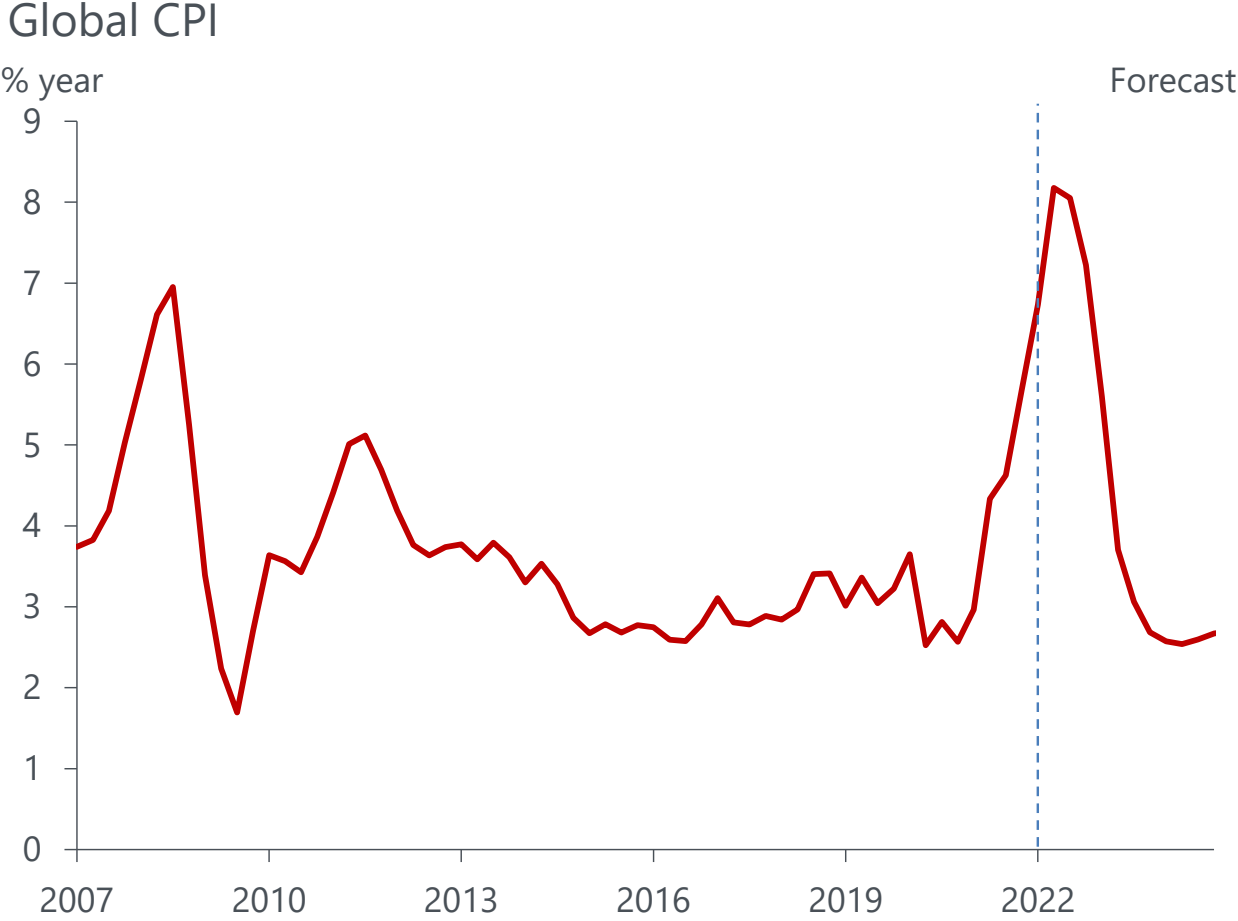
Fan charts point to a relatively small recession probability in 2023 as well



Source: Oxford Economics

Questions: Use the question panel

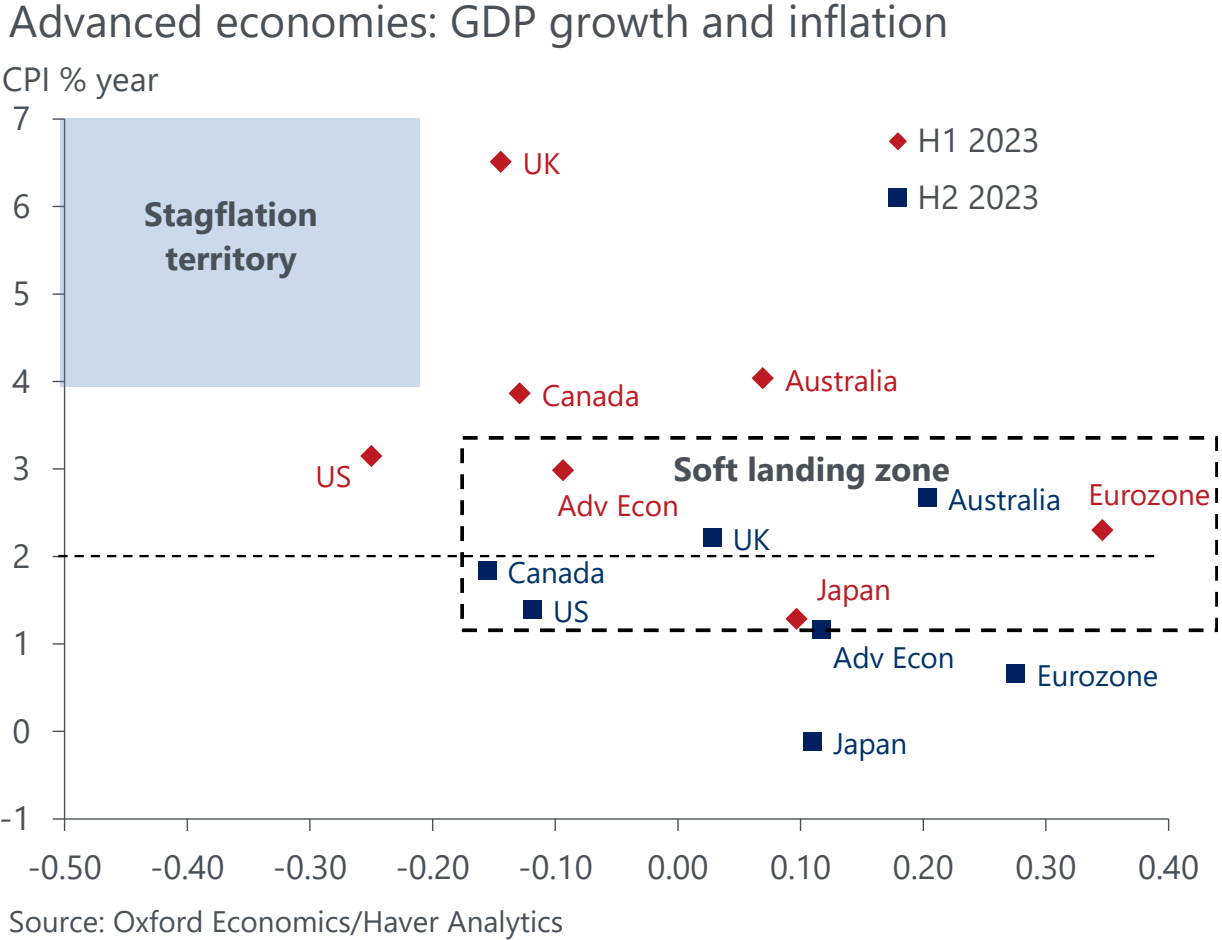
Inflation is still expected to drop back sharply



Source: Oxford Economics/Haver Analytics

Questions: Use the question panel

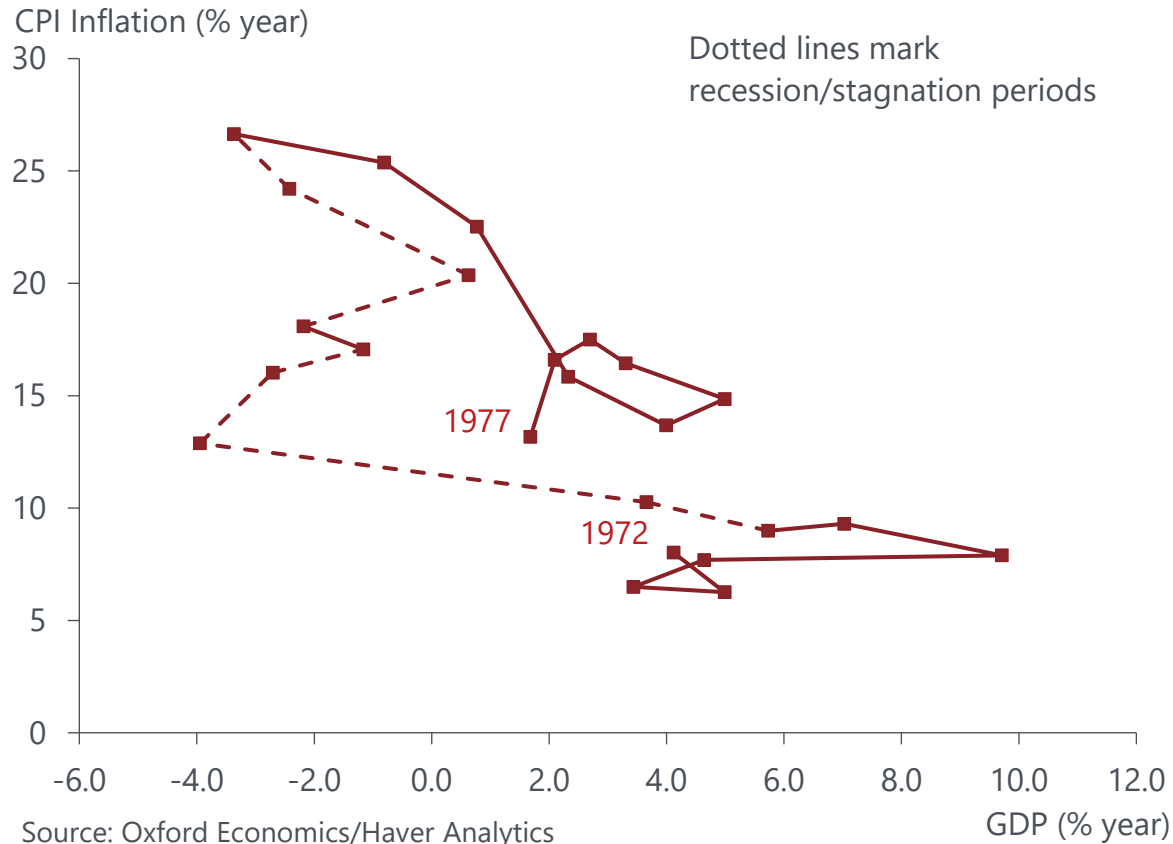
Our baseline assumes that stagflation is avoided



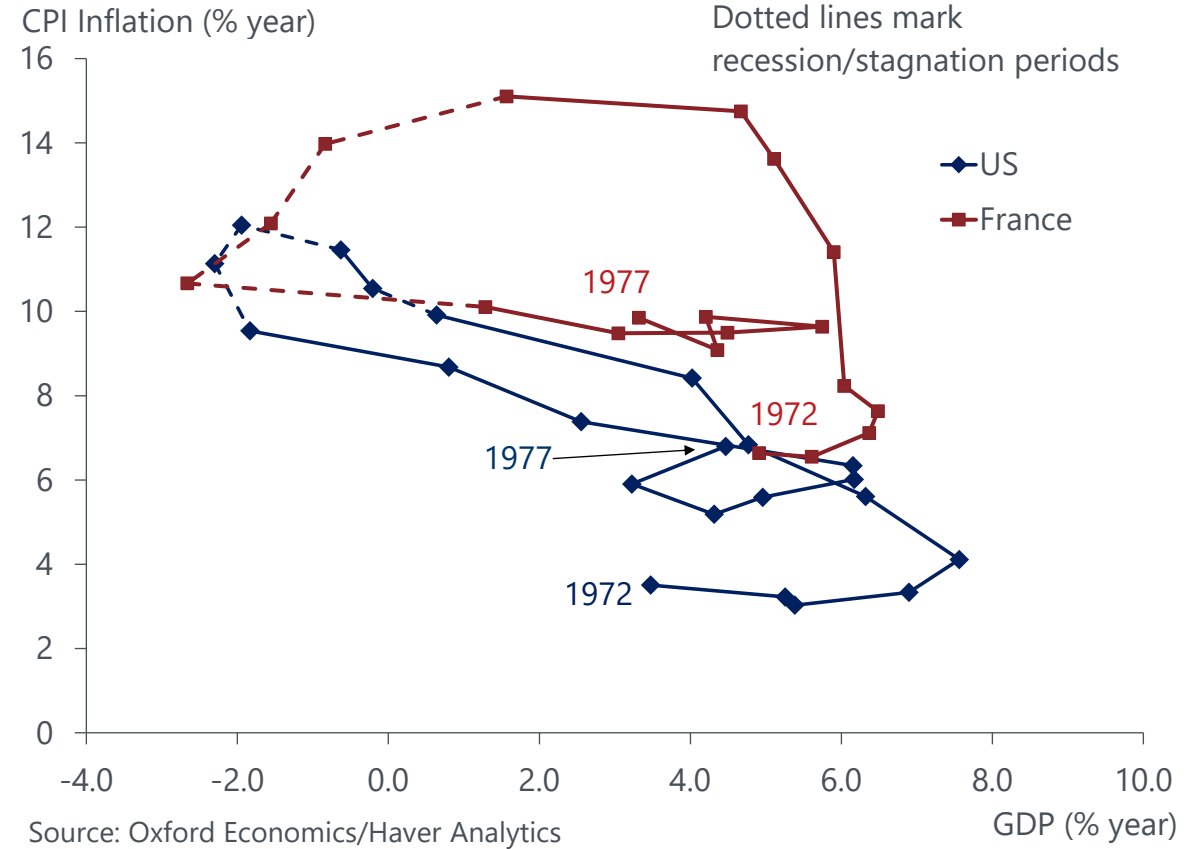
Questions: Use the question panel

Rising inflation deep into downturns is rare

UK: The early 1970s stagflation cycle



Stagflation episodes in 1973/74



Questions: Use the question panel

Key points

- **The global economy has entered late cycle.** Growth is high and coming down.
- **We are not yet talking about recession but there are sizable obstacles to growth including:**
 - Global monetary tightening
 - Russia-Ukraine
 - China slowdown
- **Inflation will slow.** Central banks won't have to engineer a recession to achieve this.

A slow down but not recession, yet

Summary of International Forecasts						
	2019	2020	2021	2022	2023	2024
Real GDP						
North America						
United States	2.3	-3.4	5.7	2.6	1.8	1.9
Canada	1.9	-5.2	4.5	3.6	1.9	2.0
Europe						
Eurozone	1.6	-6.5	5.4	2.8	2.6	2.3
Germany	1.1	-4.9	2.9	1.7	3.1	2.4
France	1.9	-7.9	6.8	2.6	2.2	2.2
Italy	0.5	-9.1	6.6	3.2	1.9	1.6
UK	1.7	-9.3	7.4	3.6	1.4	2.3
EU27	1.8	-6.0	5.3	3.0	2.5	2.4
Asia						
Japan	-0.2	-4.6	1.7	2.0	2.3	1.5
Emerging Asia, excl Japan	5.1	0.1	7.1	4.4	5.1	5.2
China	6.0	2.2	8.1	4.0	5.3	5.2
India	4.5	-6.6	8.3	6.8	5.5	6.7
World	2.6	-3.4	5.9	3.1	3.0	3.2
World 2015 PPPs	2.8	-3.2	6.0	3.2	3.3	3.7
World trade	0.3	-5.8	12.3	3.8	3.4	3.2

Contacts

EUROPE

Oxford (Headquarters)

Tel: +44 (0)1865 268 900

London

Tel: +44 (0)20 3910 8000

Belfast

Tel: + 44 2892 635400

Milan

Tel: +39 02 8295 2521

Frankfurt

Tel: +49 69 96 758 658

Paris

Tel: +33 (0)1 78 91 50 52

Stockholm

Tel: +46 (0) 8 446 887 65

AFRICA AND MIDDLE EAST

Cape Town

Tel: +27(0)21 863-6200

Dubai

Tel: +971 56 396 7998

AMERICAS

New York

Tel: +1 (646) 786 1879

Philadelphia

Tel: +1 (646) 786 1879

Mexico City

Tel: +52 155 5419-4173

Boston

Tel: +1 (617) 780 2265

Chicago

Tel: +1 (847) 993-3140

Los Angeles

Tel: +1 (424) 303 3449

Toronto

Tel: +1 (905) 361 6573

ASIA PACIFIC

Singapore

Tel: +65 6850 0110

Sydney

Tel: +61 (0)2 8458 4200

Hong Kong

Tel: +852 3974 8842

Tokyo

Tel: +81-(0)3-4588-2798