

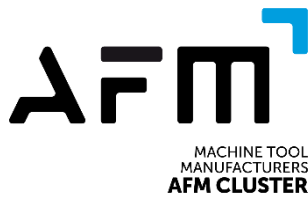
# Global Machine Tool Outlook

April 2024

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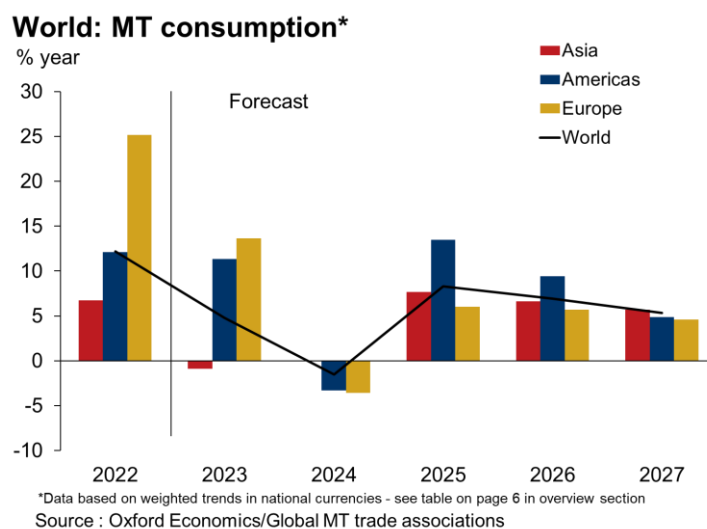


# Global Machine Tool Outlook Member Organisations



# Executive Summary

- We forecast global MT consumption will decline by 1.5% in 2024 before rebounding by 8.3% in 2025. The near-term outlook is a downgrade from our previous report. On a regional basis, weakness this year will be driven by Europe and the Americas while Asia edges lower. Next year all three regions are forecast to post strong growth.
- As 2024 progresses, global industrial activity should pick up and begin to rebuild some momentum. In the advanced economies, pass-through from lower wholesale energy prices, a move past the peak of impacts from previous rate hikes, and a trough in the de-stocking cycle should benefit manufacturing activity. Meanwhile, supply-side stimulus and continued strength in green manufacturing will see Chinese industry post another year of robust growth. We expect global growth of 2.4% in industry in 2024 and 3% in 2025.
- In Europe, although the near term will remain gloomy, there are signs of weakness bottoming out and we should see a gradual, albeit modest, recovery through 2024. De-stocking has likely run its course. Signs of a turnaround, such as improving demand expectations, are emerging and inventories have shrunk. The decline in wholesale energy prices, real income gains and looser monetary policy expected this year are important tailwinds. Subdued economic growth in Germany and Italy, the largest MT consumers in the region, combined with weak survey data and slumping domestic orders point to a drop in MT demand this year before picking up in 2025.
- In China, growth is likely to be highly asymmetric in 2024, and heavily concentrated in the energy transition-adjacent industries as well as high-tech goods like semiconductors. However, concerns over overcapacity, after decades of favourable industrial policies, could lead policymakers to constrain the degree of supply-side stimulus, which is a downside risk to our forecast for Chinese industrial production. Elsewhere in Asia, weakness in domestic orders and capital spending by MT consuming sectors will dent MT demand this year although large semiconductor-related investments will support future MT demand in South Korea and Taiwan. Meanwhile, India remains a bright spot with MT demand continuing to grow at a double-digit pace this year.
- We have upgraded our prospects for US economic and industrial growth since our previous report and no longer expect a recession. We expect US industrial production growth to gradually improve to 0.6% in 2024, up from 0.2% in 2023. Of the key MT consuming industries, aerospace, motor vehicles and electrical engineering production are forecast to grow at the strongest pace.
- The movement towards e-mobility remains a significant issue for MT producers. Countries and regions that are more focused on moving towards higher e-mobility will be impacted most. Overall, we expect the impact on MT demand to be negative, offsetting the positives to MT demand from E-motors, batteries, battery cases and the structural elements of automotives.





# Technical note:

## Real and nominal data and the forecast implications

### Economist

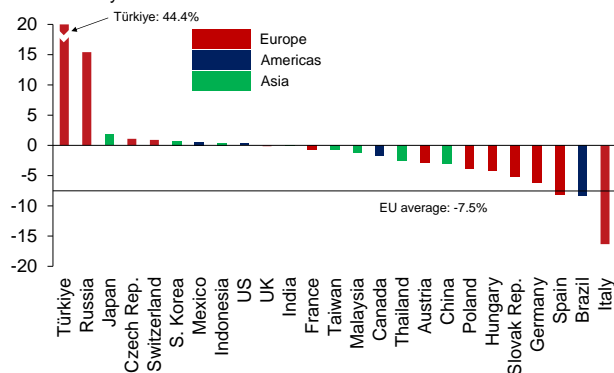
Amit Sharda  
Lead Economist  
Oxford Economics

- This technical note is to address the implications of higher inflation rates on real and nominal data values. The Global Machine Tool Outlook reports MT consumption in nominal values, potentially masking weakness that would otherwise be seen in real MT consumption given the current macroeconomic and industrial outlook.
- Definitionally, nominal data is the monetary value of all goods and services produced in a country and based on the prices of goods and services in the same year, hence, reflecting changes in both actual activity and inflation. Real data are, however, adjusted for inflation and therefore focus more on volume changes.
- The Global Machine Tool Outlook reports MT consumption data in nominal terms as this allows member firms a comparison of company sales against the total market in a particular country or region and it is more relevant in the context of company sales and financial reporting, whilst providing our expectations of total MT market demand ahead.
- Why is this important to note in this particular report? Rapidly rising inflation rates and stagnating real economic growth across a number of countries and sectors has widened the differences between nominal and real data values. Since the MT consumption data in this report is in nominal terms it potentially masks weakness that would otherwise be seen in real MT consumption.
- Inflation rates in terms of producer prices have come down in a number of countries and regions, particularly European countries (except Türkiye and Russia) that were affected last year by their exposure to Russia and Ukraine, as well as the general rise in global commodity prices.

**The latest trends in overall producer price inflation shows that inflation has decreased more significantly in European countries (except Türkiye and Russia) in H2 2023**

### Producer price indices (total industry)

H2 2023 % year



Source : Oxford Economics/Haver Analytics

This chart shows the H2 2023 year-on-year PPI growth for total industry across countries.

It is clear that producer price inflation has decreased more significantly in European countries (except Türkiye and Russia) relative to other countries in the Americas and Asia.

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The Global Machine Tool Outlook is a project exclusively for machine tool builders associations.

Current partners in the project are the AMT, CECIMO (on behalf of its member associations) and AMTIL.

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# Machine Tool Outlook

Forecasts finalised on 28<sup>th</sup> March

## Overview

*Note: MT consumption prospects cited in the text relate to the table on page 6 in local currencies, but all MT consumption data in charts, in level and growth terms, use dollar values.*

### Industry to rebuild momentum this year

As 2024 progresses, global industrial activity should pick up and begin to rebuild some momentum. Pass-through from lower wholesale energy prices, a move past the peak of impacts from past rate hikes, and a trough in the de-stocking cycle should benefit manufacturing activity in the advanced economies, while supply-side stimulus and continued strength in green manufacturing will see Chinese industry post another year of robust growth. We expect global growth of 2.4% in industry this year.

A gradual reduction in interest rates will benefit rate-sensitive sectors, but transmission lags mean the positive effects will be felt more strongly in 2025. We expect global growth in industrial activity to accelerate to 3% in 2025.

### European industry looks to have bottomed

Though the near term will remain gloomy, there are signs of weakness bottoming out and we should see a gradual, albeit modest, recovery through 2024.

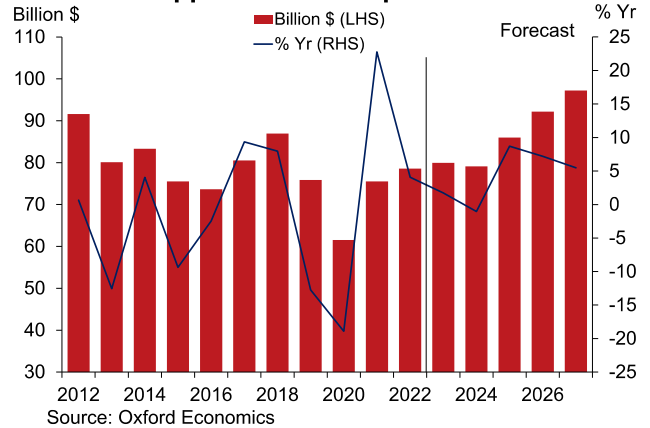
De-stocking has likely run its course. Signs of a turnaround, such as improving new orders and demand expectations, are emerging and inventories have shrunk. The turn in the inventory cycle is broad-based across all major industry groups, despite their different starting positions. We expect this to be a key, albeit temporary, driver of the cyclical upswing in industry.

Energy-intensive industries have sunk lower than all other industrial sectors and are not yet in recovery. But the decline in wholesale energy prices and better demand prospects are important tailwinds. We expect permanent output losses due to a level shift up in energy prices, but recent favourable developments improve the prospects for limiting them. A key cyclical tailwind will be consumers spending their real income gains and policy easing by the ECB and other central banks.

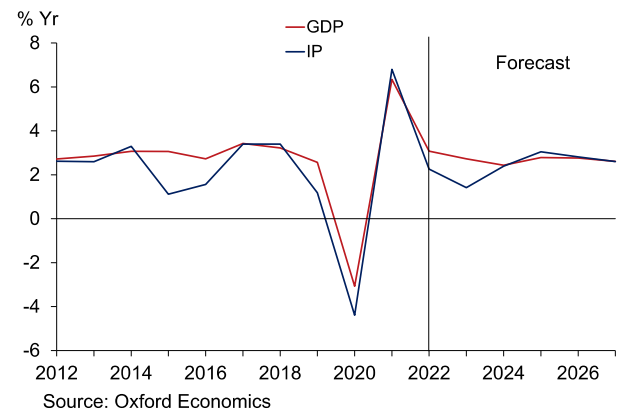
### Chinese growth to be asymmetric

In China, growth is likely to be highly asymmetric in 2024, and heavily concentrated in the energy transition-adjacent industries, such as EVs and renewable energy-related

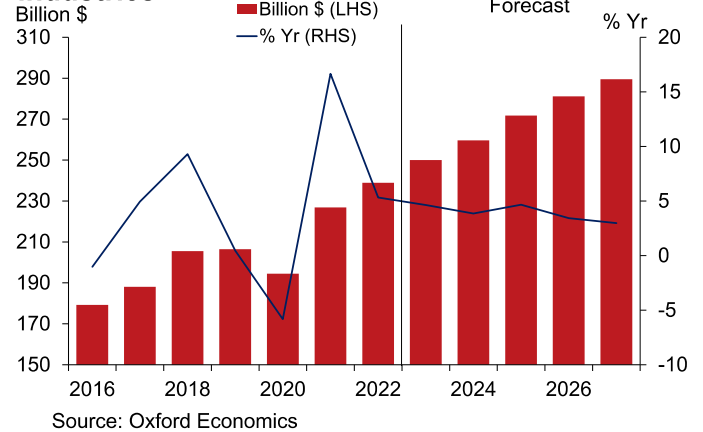
**World: MT Apparent consumption**



**World: GDP & Industrial production**



**World: Investment in machine tool purchasing industries**



Apparent consumption = total consumption of machine tools in the named market. For consumption levels in \$, please see appendix  
Total investment = spending on all assets by the nine primary machine tool purchasing industries

sectors, as well as high-tech goods like semiconductors. Indeed, growth in these sectors will be supported by authorities pivoting towards manufacturing investments and away from real estate, which will be funded by central government bond issuances and policy bank support. However, concerns about overcapacity, after decades of favourable industrial policies, could lead policymakers to constrain the degree of supply-side stimulus, which is a downside risk to our forecast for Chinese industrial production. Meanwhile, strong production growth in strategic industries, such as EVs, batteries and renewables, combined with deflationary pressures and weak domestic demand, has meant Chinese exports in certain goods categories have surged, prompting accusations of dumping among EU policymakers. Should strong exports in these sectors persist, trade tensions between China and the West could result in tariff escalation. Furthermore, the ongoing property sector slump is set to severely curtail construction, which will drag on upstream manufacturing sectors like basic metals, wood, and non-metallic minerals.

**US industrial prospects upgraded**

We expect US industrial production growth to gradually improve to 0.6% in 2024, up from 0.2% in 2023. However, much of that year-on-year growth figure arises because of an unexpectedly weak end of 2023. We expect that we will see positive sequential quarter-on-quarter growth every quarter this year.

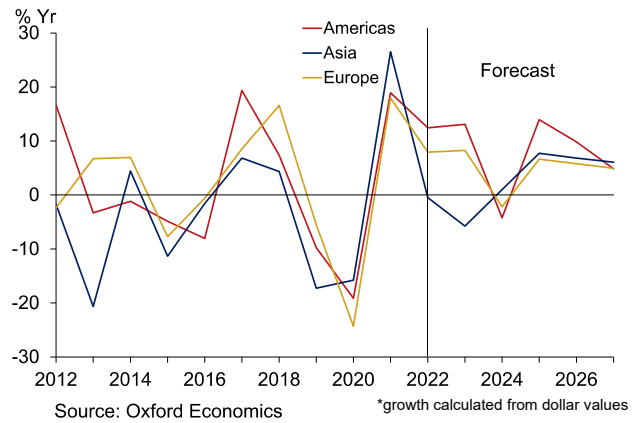
The US Federal Reserve is expected to delay its gradual interest rate cuts for later in the year. Fiscal policy is expected to tighten in 2024, further dampening growth, though there is some upside risk here if the bipartisan tax cut bill or other measures make their way through congress despite heightened election year partisanship. Of the key MT consuming industries, aerospace, motor vehicles and electrical engineering production are forecast to grow at the strongest pace.

**MT demand to edge down in 2024**

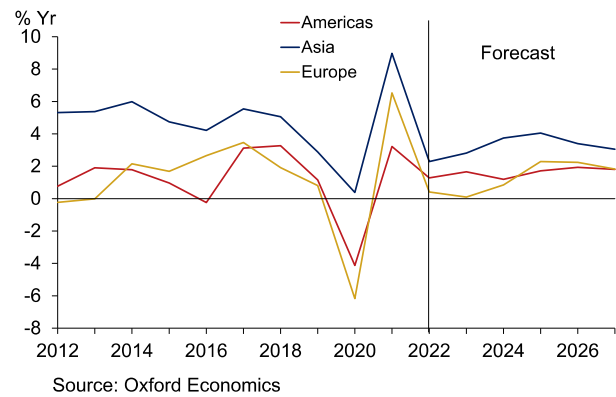
Domestic orders have weakened over recent quarters in some key MT producing countries while reduced order backlogs mean there is less support for MT-weighted production and investment growth. Furthermore, the benefits of easing monetary policy later this year will be felt in 2025. We forecast global MT consumption will fall by 1.5% in 2024 before rebounding by 8.3% in 2025. On a regional basis, weakness this year will be driven by Europe and the Americas while Asia is edges lower. Next year all three regions are forecast to post strong growth.

Apparent consumption = total consumption of machine tools in the named market. For consumption levels in \$, please see appendix  
 Total investment = spending on all assets by the nine primary machine tool purchasing industries

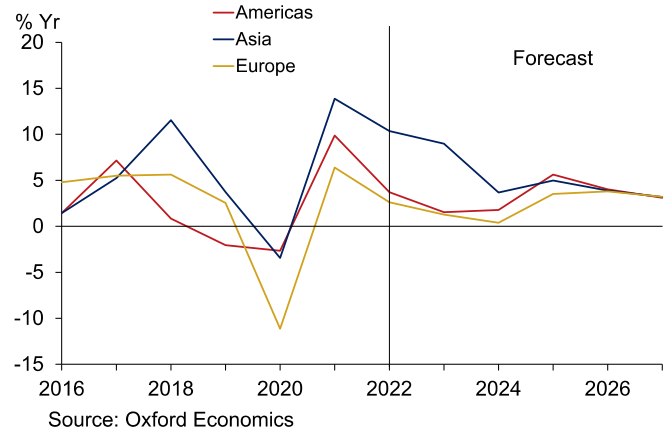
**Apparent consumption**



**Industrial production**



**Investment in machine tool purchasing industries**



## Overview of medium-term trends

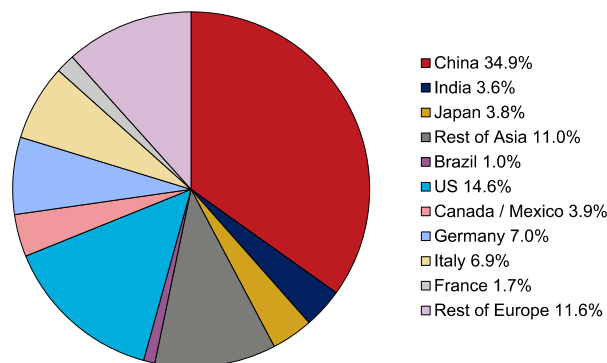
The main driver for world growth since the early 2000s was the emergence of China – both as a producing and consuming nation – and its increasing integration into world trade. Chinese real GDP growth in the ten years to 2012 averaged 10.5%pa with real fixed investment spending across all sectors of the economy increasing by just under 14%pa over the same period, accounting for a much larger share of world investment than its GDP share. Since then, Chinese GDP has decelerated considerably, with growth averaging 4.7% in 2020-2023, though this covers the pandemic period and recovery.

Both Chinese GDP and total fixed investment are set to grow more slowly as the Chinese economy rebalances away from excessive investment as the main engine for growth. GDP is expected to grow at an average annual rate of 4.3% in the 2023-2027 period and fixed investment at a rate of 3.9%pa. Weaker economy-wide investment trends suggest more moderate Chinese MT consumption growth rates for the medium term compared to those typically seen prior to 2011. Such rebalancing favours comparatively rapid consumer spending, 5.7%pa over the 2023-2027 period, and a switch in consumer demand towards more discretionary spending on manufactured goods and services as per capita incomes rise. Moreover, there remains scope for catch-up which will ensure China remains an important engine for the world MT market.

This process of catch-up is evident in many emerging countries and is a key driver of world growth in the medium term. The nine key MT buying sectors will benefit from this process. For example, both motor vehicles and high-tech consumer products are expected to be increasingly in demand in emerging countries as per capita incomes rise in the coming years. Aerospace demand should rise as air travel demand becomes more affordable. Indeed, penetration of these discretionary products into households has increased over the past decade, but there is clearly scope for more gains as the middle classes in these countries expand. Meanwhile, the announced increases in military spending in some countries is positive news for the defence portion of the aerospace industry.

The MT sector tends to be more cyclical even than overall fixed investment spending, itself one of the most cyclical parts of GDP, but these medium-term trends are expected to underpin growth in apparent machine tool consumption. China is expected to maintain its lead as its domestic demand expands, although growing trade tensions may reduce its attraction as a production base for export to the rest of the world. Furthermore, we see the ongoing erosion

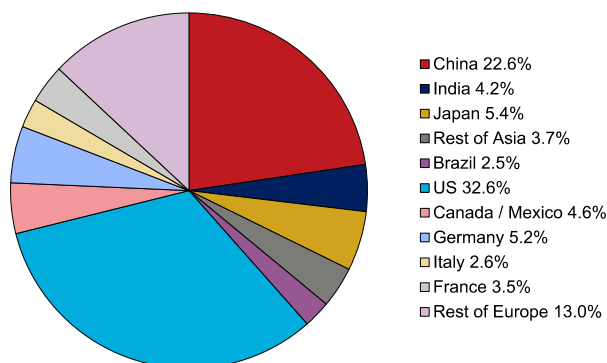
## World: Machine tool consumption in 2022



Source: Oxford Economics

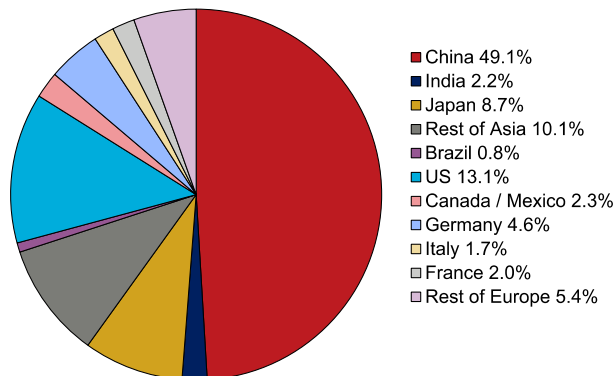
\*calculated from dollar values

## World: Nominal GDP in 2022



Source: Oxford Economics

## World: Investment in machine tool-buying industries in 2022



Source: Oxford Economics

Apparent consumption = total consumption of machine tools in the named market. For consumption levels in \$, please see appendix  
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of China's competitiveness on the back of rising wages. In addition, other countries in the regions, like India, are seeing rapid growth with its share of MT consumption and production rising considerably.

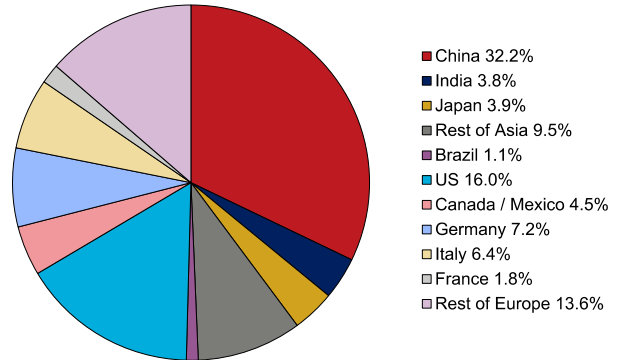
For Europe, GDP growth over the 2023-2027 period is forecast to be a more modest 1.4%pa, but this does include the period of weakness during this year.

More fundamentally, populations are generally ageing, and this trend is resulting in, at best, very slow growth in labour supply at a time when immigration has become a political issue, especially in Europe. Indeed, in some countries, labour forces are set to contract markedly in the coming years. Although unemployed workers can be re-employed in order to ease the restriction on growth from limited labour supply growth, such limits constrain potential output growth across the region. Greater capital intensity in production and improvements in artificial intelligence can sidestep the labour force constraints and favours increased MT demand, but another often more attractive solution is to shift further production into emerging countries and Eastern European countries where labour shortages are less prevalent and costs are lower.

For the key MT buying sectors, fresh demand for their products (e.g. motor vehicles) is less dynamic in Europe as penetration levels are already very high. Markets here are large, so replacement demand does provide a continual stimulus to production and hence investment spending. Greater dynamism is expected to come from emerging countries. However, e-mobility will continue to alter traditional automotive supply chains over the longer term, and this is expected to have a considerably adverse impact upon demand for machine tools, given that pure electric vehicles require fewer machined parts than conventional motor vehicles and hybrids. In the near term, however, the EV market faces a number of constraints, including the cost of battery technology and limitations in the charging infrastructure, which should soften the near-term disruptive impact as evidence of slowing EV demand grows.

Based on our current estimates of EV market penetration over the next decade, we expect the impact on machine tool demand to be negative, but not catastrophic, with countries that have made a significant push towards e-mobility impacted the most. Using EV car production shares as a proxy for e-mobility-focused automotive investment, we expect key European and Asia-Pacific countries' MT demand to be dampened the most. Chinese EV demand is forecast to rise significantly while a greener stance by President Biden' administration will boost US EV demand.

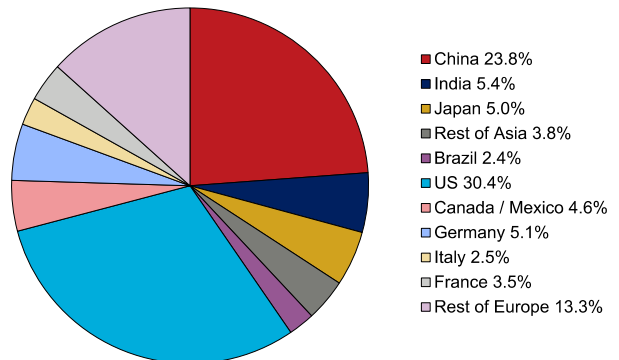
## World: Machine tool consumption in 2027



Source: Oxford Economics

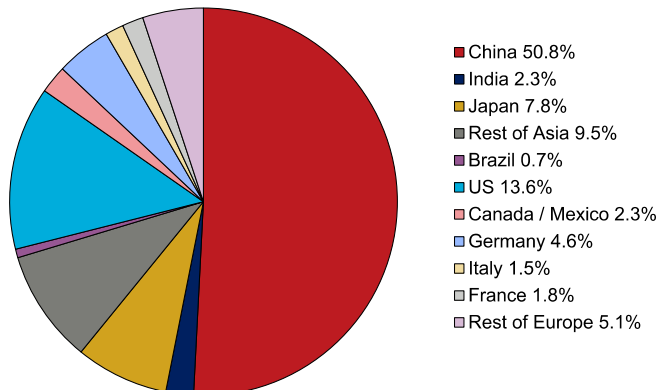
\*calculated from dollar values

## World: Nominal GDP in 2027



Source: Oxford Economics

## World: Investment in machine tool-buying industries in 2027

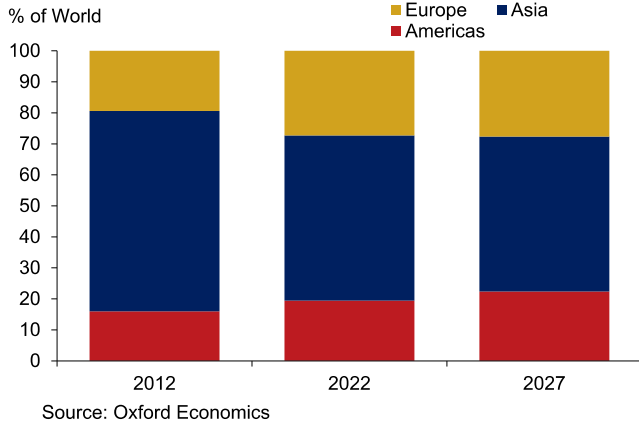


Source: Oxford Economics

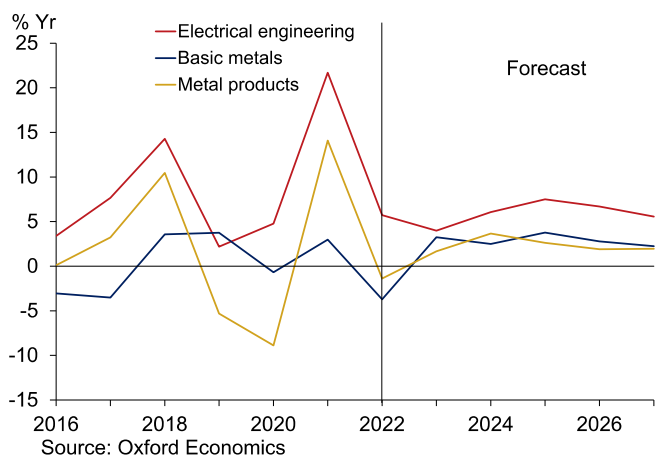
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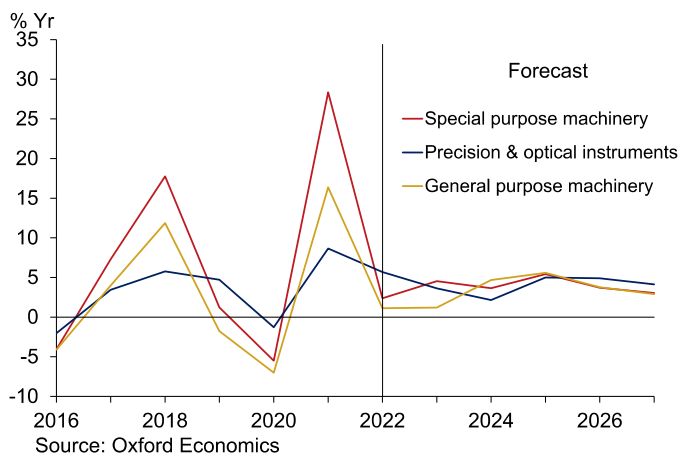
## Apparent consumption



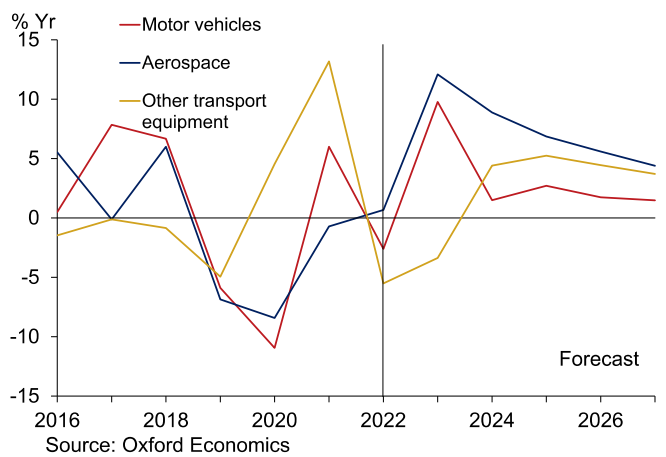
## World industries: Investment



## World industries: Investment



## World industries: Investment



Overview table						
	% change					
	2022	2023	2024	2025	2026	2027
<b>GDP</b>						
World	3.1	2.7	2.4	2.8	2.8	2.6
Americas	2.2	2.5	2.1	1.8	2.0	1.9
Asia	3.2	4.6	3.9	3.9	3.6	3.6
Europe	2.9	0.8	0.9	1.7	1.8	1.5
<b>IP</b>						
World	2.3	1.4	2.4	3.0	2.8	2.6
Americas	3.2	0.6	0.8	2.1	1.9	1.7
Asia	2.4	2.3	3.8	4.0	3.7	3.4
Europe	0.6	0.3	0.9	1.7	1.6	1.5
<b>Investment</b>						
World	8.2	6.7	2.9	4.9	3.9	3.2
Americas	3.7	1.5	1.8	5.6	4.0	3.1
Asia	10.4	9.0	3.7	5.0	3.9	3.2
Europe	2.6	1.3	0.4	3.5	3.8	3.2
<b>Apparent consumption</b>						
World	12.2	4.8	-1.5	8.3	6.9	5.3
Americas	12.1	11.3	-3.3	13.5	9.4	4.8
Asia	6.7	-0.9	-0.1	7.7	6.6	5.7
Europe	25.2	13.7	-3.6	6.0	5.7	4.6
<b>Exchange rates</b>						
\$/€	1.05	1.08	1.09	1.10	1.13	1.16
\$/Yen	131.58	140.62	143.70	130.82	123.28	118.12

GDP growth rates are calculated by summing the relevant countries, which are in constant price and dollar exchange rate terms with 2015 as the base year

Regions for industrial production weight relevant countries together using 2015 weights.

Investment and apparent consumption growth rates are weighted averages of national growth in local currency terms.

Machine tool consumption							
Local currency unit unless otherwise specified - % change							
	2022	2023	2024	2025	2026	2027	Level in 2022, US\$bn
China	2.4	-1.3	2.1	6.1	5.2	5.1	27.4
India	17.0	12.9	10.4	13.0	10.8	10.4	2.8
Indonesia	10.3	41.1	1.4	14.8	13.6	10.8	0.4
Japan	18.1	11.7	-10.6	9.0	4.6	4.1	3.0
S. Korea	5.5	-12.6	-1.4	9.3	8.3	5.1	3.4
Malaysia	9.9	-10.9	4.3	11.6	9.6	6.4	0.8
Taiwan	8.2	-18.5	-10.5	9.3	16.4	10.3	2.0
Thailand	16.8	-1.2	0.3	11.4	9.9	8.0	1.0
Vietnam	25.3	-16.0	3.3	13.9	13.6	10.8	1.1
<b>Asia</b>	<b>6.7</b>	<b>-0.9</b>	<b>-0.1</b>	<b>7.7</b>	<b>6.6</b>	<b>5.7</b>	<b>40.7</b>
Brazil	-4.1	2.3	5.4	9.8	5.7	5.6	0.8
Canada	3.3	14.6	6.9	5.0	4.9	4.9	1.3
Mexico	12.6	10.4	4.3	6.3	5.4	4.6	1.7
US	14.9	12.1	-7.5	16.9	11.5	4.8	11.4
<b>Americas</b>	<b>12.1</b>	<b>11.3</b>	<b>-3.3</b>	<b>13.5</b>	<b>9.4</b>	<b>4.8</b>	<b>15.3</b>
Austria	-9.4	-4.1	-8.2	3.1	3.6	3.6	0.8
Czech Republic	23.8	-3.0	-5.7	4.8	7.2	5.5	0.5
France	19.9	1.9	-5.5	0.3	2.3	3.2	1.4
Germany	17.4	1.0	-9.1	5.0	6.3	4.7	5.5
Hungary	20.9	33.5	-9.3	11.4	9.3	6.9	0.3
Italy	28.8	-7.7	-6.8	7.4	3.2	2.7	5.4
Poland	10.7	-8.3	-0.5	8.7	6.2	3.6	0.7
Russia	-13.4	121.2	-9.2	4.5	5.4	7.2	1.9
Slovakia	0.9	25.6	0.6	11.0	7.7	6.1	0.2
Spain	53.2	2.6	3.7	7.2	6.5	4.3	0.8
Switzerland	40.6	-8.3	1.8	6.8	5.7	2.6	1.2
Türkiye	107.7	53.0	33.8	9.6	8.4	8.1	1.9
UK	42.2	3.5	-2.0	9.8	7.7	4.0	0.8
<b>Europe</b>	<b>25.2</b>	<b>13.7</b>	<b>-3.6</b>	<b>6.0</b>	<b>5.7</b>	<b>4.6</b>	<b>21.4</b>
<b>World ex-China</b>	<b>17.7</b>	<b>8.2</b>	<b>-3.5</b>	<b>9.5</b>	<b>7.8</b>	<b>5.4</b>	<b>50.1</b>
<b>World</b>	<b>12.2</b>	<b>4.8</b>	<b>-1.5</b>	<b>8.3</b>	<b>6.9</b>	<b>5.3</b>	<b>77.5</b>

World growth rates are calculated using a weighted sum of the local currency growth rates. Each country's share of world consumption in 2015, measures in dollars, is used as its weight for the world growth calculation. Regional growth rates are calculated in a similar way. Regional growth rates are a weighted sum of the local currency growth rates of the countries within the region.

World ex-China is calculated a similar way to world.

Note: World is defined as the aggregate of the 26 countries forecast

Apparent consumption = total consumption of machine tools in the named market, for consumption levels in \$, please see appendix  
 Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms

Theme	Baseline Assumptions
War in Ukraine	The timing of the end to the war remains highly uncertain, but we expect tensions between the West and Russia, as well as sanctions, to persist long after any ceasefire. Still, our baseline anticipates that gas prices remain low and that rationing of energy in Europe will be avoided in the winter months.
Inflation	We expect CPI inflation to continue to fall back this year, but with services inflation typically slowing less sharply and wage growth remaining relatively high, there remains uncertainty over how quickly inflation will reach target. While there are good reasons to think inflation may be more volatile than in the build up to the pandemic, we expect central banks to keep inflation close to target on average in the medium to long term.
Fiscal outlook	Although budget deficits over the coming years will remain far wider than envisaged in 2019, fiscal policy is likely to be tightened only gradually. Still, the role of fiscal demand management may be expanded post-pandemic. This increases the possibility of supportive fiscal policy if growth slows sharply, particularly in advanced economies. But a downside to more reactive fiscal policy will be that it will make it harder for central banks to calibrate the optimal path for monetary policy. More detail about specific policy decisions can be found in the country economic forecasts towards the end of this report. Specific policy decisions that have become more notable are related to spending on defence as well as supporting the green transition with policies such as the Inflation Reduction Act and EU Green Deal.
Monetary policy outlook	With GDP growth set to be solid but unspectacular over the coming quarters and inflation set to slow we continue to expect central banks to cut rates this year. However, given the massive overshoot of inflation, we expect central banks to tread cautiously and the emphasis will be on bringing policy rates down slowly to less restrictive rates. We expect the Fed to cut in May and ECB to cut in June. Decisions on the timing of interest rate changes are provided in more detail in the country economic forecasts towards the end of this report.
Deglobalisation	Our baseline view is that there will be no meaningful thawing in US/China relations. We think tariffs and other non-tariff barriers to trade that have been erected over recent years will remain in place. But our forecasts don't assume any breakup of the global trading system.

Source: Oxford Economics

## Risks

The outlook for the global economy has improved since the previous report and a soft landing is in prospect. While we anticipate a period of only steady and unspectacular growth ahead, this is no mean feat after the aggressive policy rate hikes of 2022 and 2023. Risks to global growth now appear broadly balanced. Downside risks are still dominated by the potential fallout from geopolitical tensions, both in the Middle East and between China and Taiwan, and the possibility of sticky inflation and higher for longer interest rates. Upside hopes rest on more substantial monetary policy easing than expected.

### Higher for longer interest rates

In this scenario, government bond yields in the US and other major economies rise in the near term as monetary policy is tightened again. Core inflation proves stickier than expected as shipping disruption persists. At the same time, energy prices rise temporarily amid renewed concerns over a potential escalation of the Israel-Hamas war, adding to price pressures. Higher interest rates weigh on financial and housing markets, hitting business and consumer and investment demand.

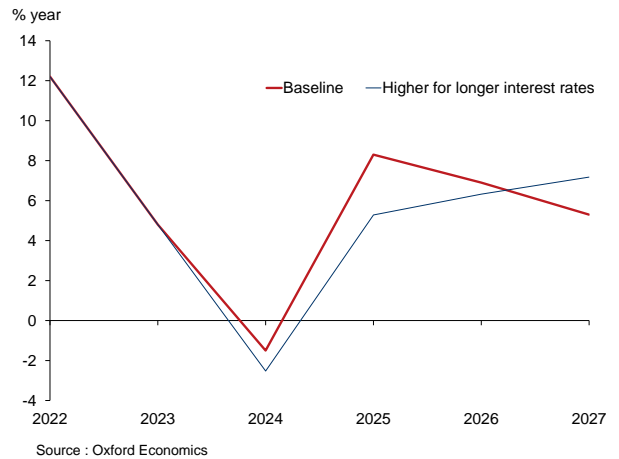
In this, scenario, we expect global MT demand to fall 2.5% in 2024 before rebounding by 5.3% in 2025.

### Central banks signal victory over inflation

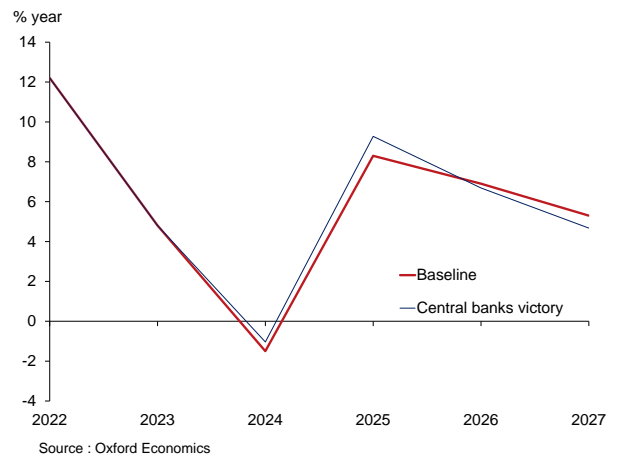
Near-term inflation prospects improve further in this upside scenario. The expected inflationary impact of shipping disruption fails to materialise as attacks in the Red Sea come to an early end, rather than lasting at least six months as assumed in our baseline forecast. With inflationary pressures continuing to ease more broadly, inflation expectations edge lower. Businesses accelerate investment plans and consumer spending picks up.

In this scenario, we would expect global MT demand to edge down by 1.0% in 2024 and post 9.3% growth in 2025.

World: Machine tool market



World: Machine tool market



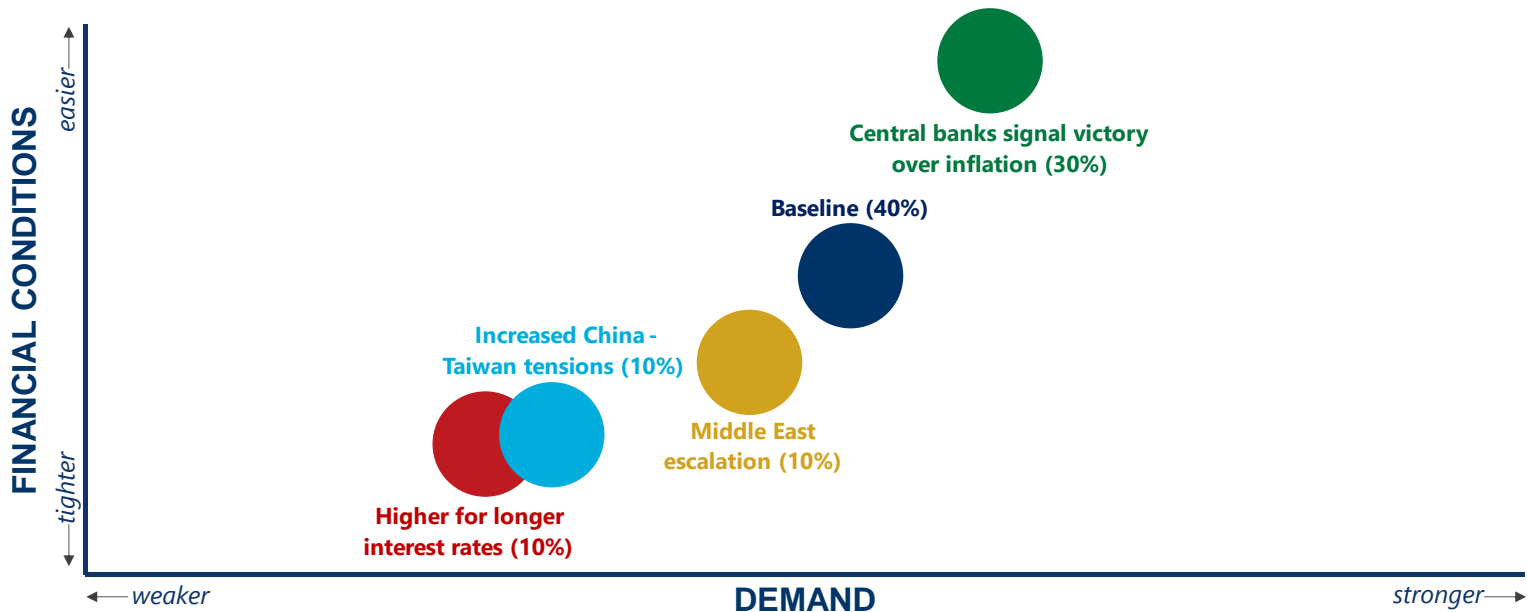
## World Machine Tool Demand: Scenarios\*

% change

	2022	2023	2024	2025	2026	2027
<b>Baseline</b>	12.2	4.8	-1.5	8.3	6.9	5.3
<b>Higher for longer interest rates</b>	12.2	4.8	-2.5	5.3	6.3	7.2
<b>Central banks victory</b>	12.2	4.8	-1.0	9.3	6.7	4.7

\*Scenarios based upon results from Oxford Economics Global Scenario Service

Apparent consumption = total consumption of machine tools in the named market. For consumption levels in \$, please see appendix  
Total investment = spending on all assets by the nine primary machine tool purchasing industries



Alternative GDP growth forecasts						
	2022	2023	2024	2025	2026	2027
<b>Oxford Baseline Forecast (40%)</b>						
US	1.9	2.5	2.4	1.7	1.9	1.7
Eurozone	3.5	0.5	0.5	1.8	1.9	1.5
China	3.0	5.2	4.7	4.1	3.8	3.7
World	3.1	2.7	2.4	2.8	2.8	2.6
<b>Central banks victory over inflation (30%)</b>						
US	1.9	2.5	2.7	2.3	1.7	1.4
Eurozone	3.5	0.5	0.8	2.2	1.8	1.3
China	3.0	5.2	4.8	4.5	3.8	3.6
World	3.1	2.7	2.7	3.2	2.8	2.4
<b>Higher for longer interest rates (10%)</b>						
US	1.9	2.5	2.0	0.1	1.5	2.3
Eurozone	3.5	0.5	-0.1	0.0	1.4	2.6
China	3.0	5.2	4.2	2.8	3.3	4.1
World	3.1	2.7	2.0	1.5	2.2	3.1
<b>Middle East escalation (10%)</b>						
US	1.9	2.5	1.9	2.0	2.2	1.7
Eurozone	3.5	0.5	-0.1	1.9	2.1	1.7
China	3.0	5.2	4.2	4.4	3.9	3.8
World	3.1	2.7	2.0	2.9	3.0	2.7
<b>Increased China-Taiwan tensions (10%)</b>						
US	1.9	2.5	1.9	0.7	2.3	2.0
Eurozone	3.5	0.5	0.3	0.8	1.8	1.9
China	3.0	5.2	4.2	2.2	2.7	4.0
World	3.1	2.7	2.1	1.7	2.6	2.9

# Brazil

## MT demand growth to remain solid in 2024

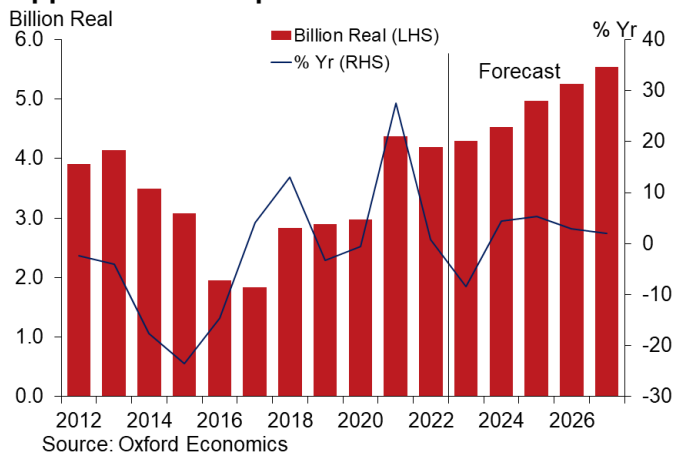
We updated our 2024 GDP growth expectation by to 0.5%, to account for a historical revision to monthly GDP volumes in Q4 2023. This reflected a significant increase in the carry-over for next year and might be just enough to keep Brazil from falling into a shallow technical recession.

Weighted output of MT consuming sectors is set to decline by 0.5% in 2024. Of the nine key MT consuming industries, six are expected to post a decline this year while basic metals will be flat. Other transport equipment on the other hand will remain solid, posting 5.4% production growth, although this is a slowdown from the previous year. After three consecutive years of decline, we expect MT-weighted output to return to growth in 2025.

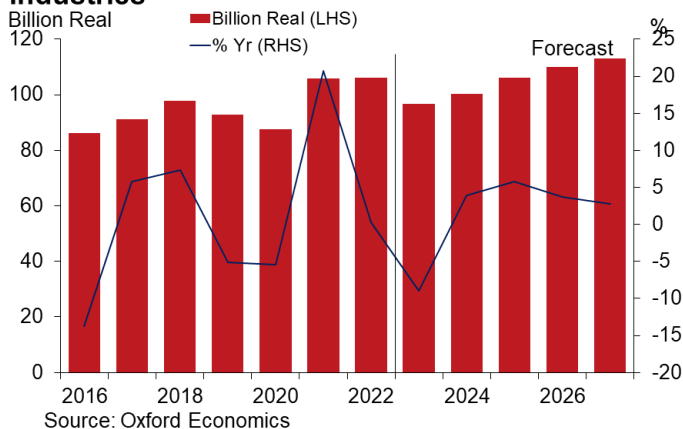
High frequency MT imports data suggest MT demand picked up significantly in the last couple months of 2023, and this will provide positive base effects for 2024. Meanwhile, weighted investment by the key MT consuming sectors is forecast to grow by 3.9% this year, partially recovering from the sharp fall last year. On balance, we forecast 5.4% growth in MT demand this year, from 2.3% in 2023, before seeing a pick-up to 9.8% in 2025.

Risks lean to the downside as the government is abandoned the 20-year spending cap with a more lenient fiscal framework that will pose a major challenge for debt sustainability in the long term. The prior spending cap resulted in a reduction of government spending as a proportion of GDP. There is a risk that leniency may cause market interest rates to run too high, which would lead to an uncontrollable rise in public debt and also weigh upon capital spending, which is key for MT demand. Higher debt also exposes Brazil to more volatility during global shocks, which would weigh on business confidence.

### Apparent consumption



### Investment in machine tool purchasing industries



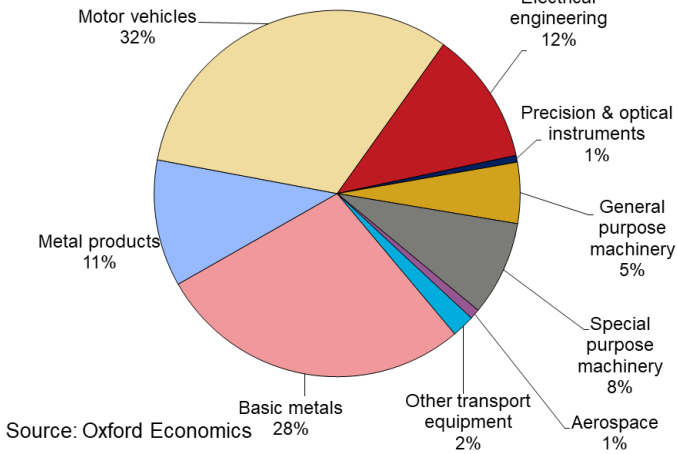
## Forecast for Brazil

	% change					
	2022	2023	2024	2025	2026	2027
<b>Apparent consumption (Real)</b>	-4.1	2.3	5.4	9.8	5.7	5.6
<b>Apparent consumption (US\$)</b>	0.3	5.7	5.4	9.8	5.7	5.6
<b>GDP</b>	3.1	2.9	0.5	2.1	2.2	2.1
<b>Industrial production</b>	-0.7	0.3	1.2	2.1	2.5	2.0
<b>Investment</b>	0.3	-9.0	3.9	5.8	3.7	2.7

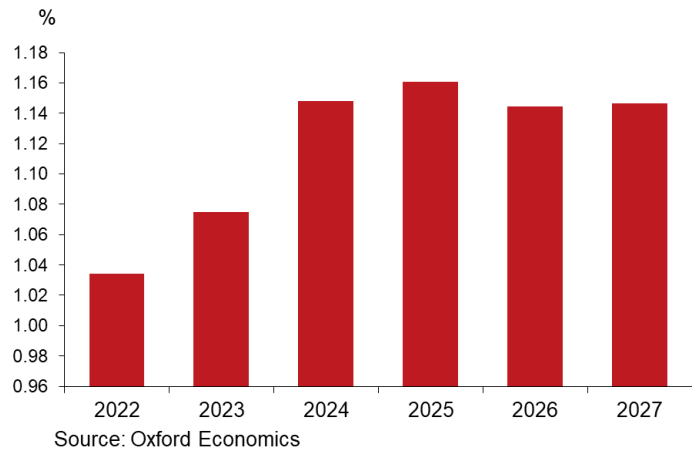
MT growth rates in local currency are in current prices. GDP and industrial production growth rates are constant price local currency terms  
 MT growth rates in US\$ are calculated using actual exchange rates to 2023 and then fixed at 2023 exchange rates beyond that date  
 2023 exchange rate per US\$ = 4.99

Apparent consumption = total consumption of machine tools in the named market  
 Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms

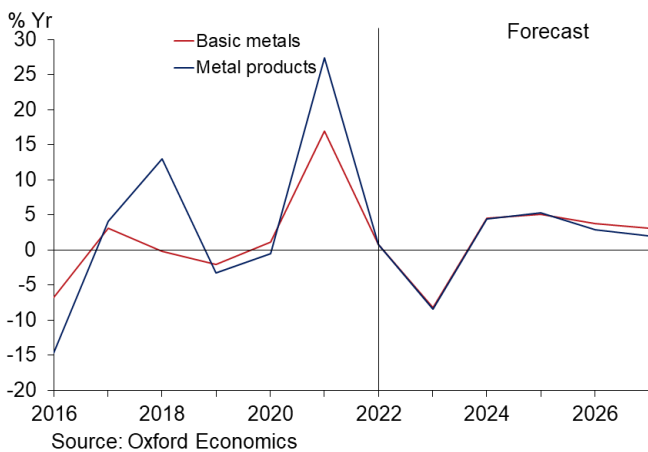
**Composition of investment - 2022**



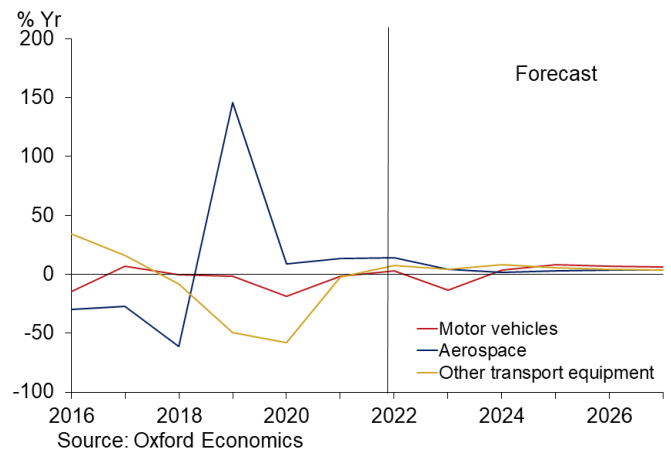
**Apparent consumption world share**



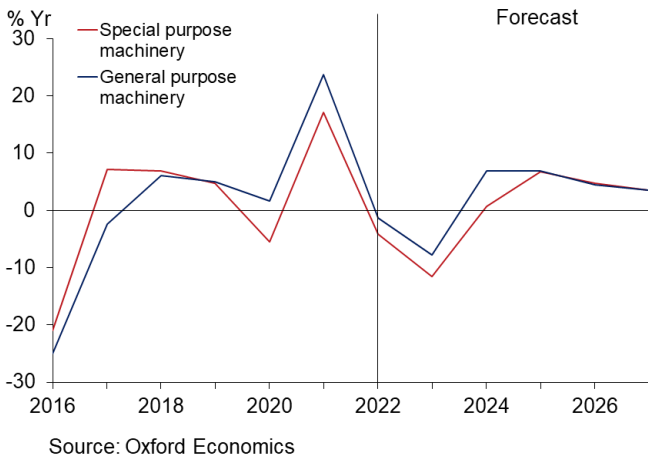
**Investment**



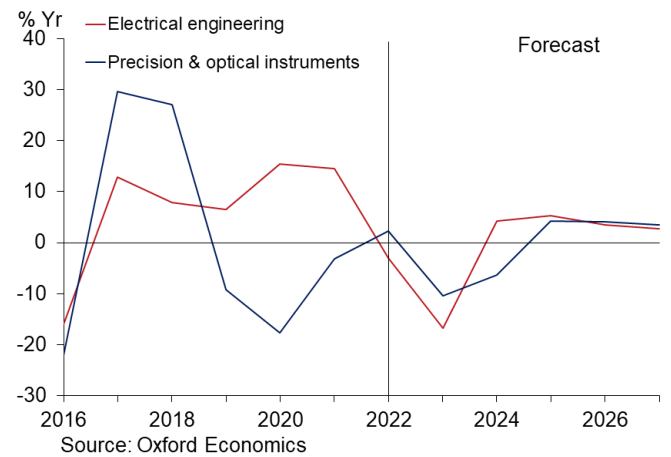
**Investment**



**Investment**



**Investment**



Apparent consumption = total consumption of machine tools in the named market  
 Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms



# China

## MT demand to recover ground this year

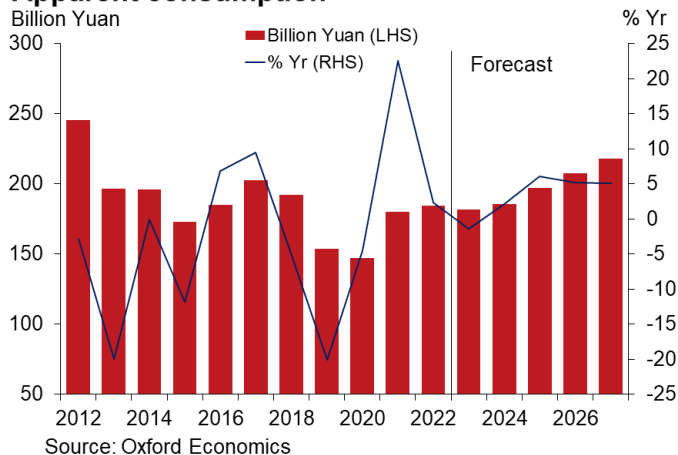
Aggressive fiscal policy efforts will allow headline sequential quarterly GDP growth to continue at around 1.2% over the next four quarters, propping up growth in industry, particularly those related to the energy transition. This will partially counter the heavier cyclical drag from property and China's multiple structural economic headwinds. Overall, we expect GDP to expand by 4.7% in 2024 after 5.2% growth in 2023.

We expect MT-weighted production growth to slow to 5.7% in 2024 from a 7.7% increase in 2023. Looking at the key customer industries, many sectors will benefit from supply-side stimulus measures, particularly those related to the energy transition while strong AI chip demand will support semiconductor production. However, the ongoing property sector slump is set to severely curtail construction, which will drag on upstream MT purchasing industries like basic metals. Automotive production growth is forecast to slow due to low consumer confidence and decelerating export momentum while increasing EV demand will weigh on MT demand.

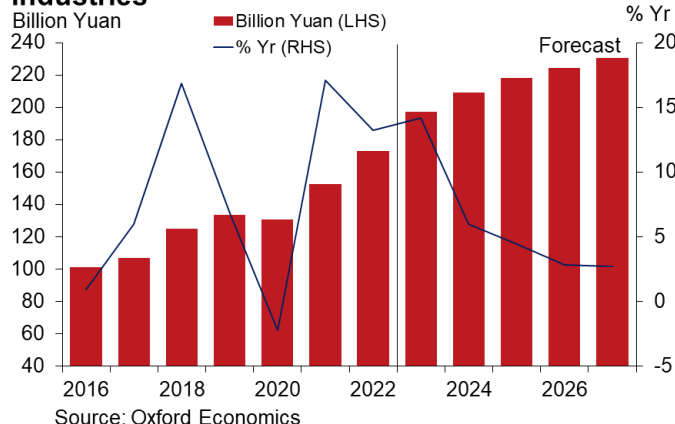
MT imports have been weak in recent months with H2 2023 imports down by 3.8% year-on-year. Orders from foreign producers were below year-ago levels during H2 2023 suggesting the outlook for near-term consumption will remain subdued. MT-weighted investment is, however, expected to rise by 6.0% in 2024, supported by targeted fiscal policy efforts, before slowing to 4.4% in 2025. On balance, we expect MT demand to increase by 2.1% in 2024 and post 6.1% growth in 2025.

Risks are clearly to the downside. Bilateral tensions between the US and China remain, although there has been some improvement in relations, however, increased tensions with Taiwan is a major downside risk which could impact semiconductor production and, hence, MT demand from the key purchasing industries.

### Apparent consumption



### Investment in machine tool purchasing industries



## Forecast for China

	% change					
	2022	2023	2024	2025	2026	2027
Apparent consumption (Yuan)	2.4	-1.3	2.1	6.1	5.2	5.1
Apparent consumption (US\$)	-1.9	-6.2	2.1	6.1	5.2	5.1
GDP	3.0	5.2	4.7	4.1	3.8	3.7
Industrial production	2.6	4.7	4.6	3.2	3.2	3.0
Investment	13.2	14.2	6.0	4.4	2.8	2.7

MT growth rates in local currency are in current prices. GDP and industrial production growth rates are constant price local currency terms

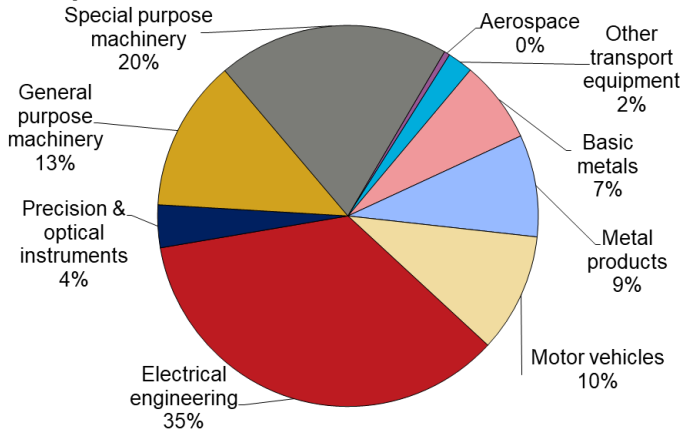
MT growth rates in US\$ are calculated using actual exchange rates to 2023 and then fixed at 2023 exchange rates beyond that date

2023 exchange rate per US\$ = 7.08

Apparent consumption = total consumption of machine tools in the named market. For consumption levels in \$, please see appendix  
 Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms

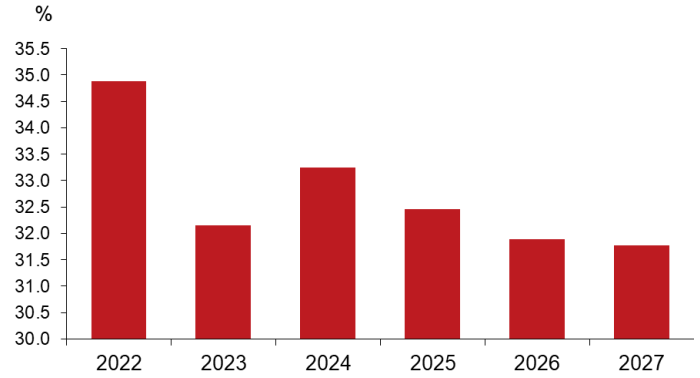


## Composition of investment - 2022



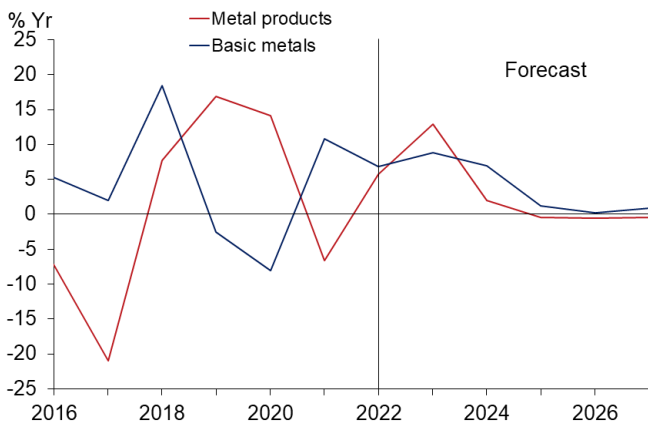
Source: Oxford Economics

## Apparent consumption world share



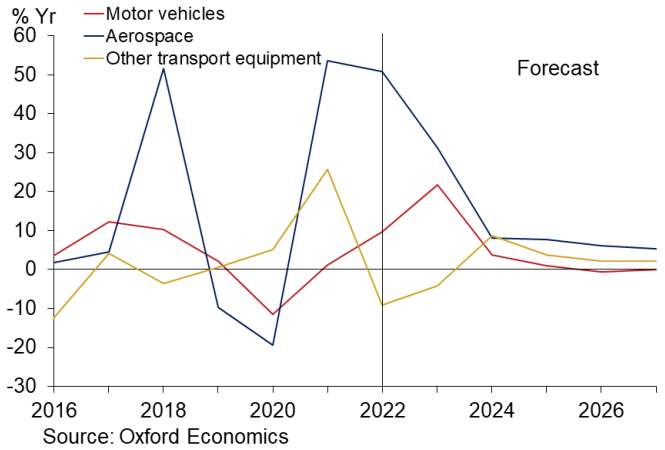
Source: Oxford Economics

## Investment



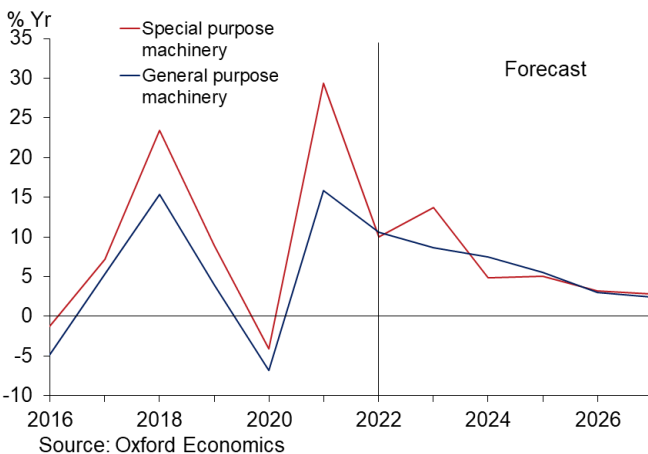
Source: Oxford Economics

## Investment



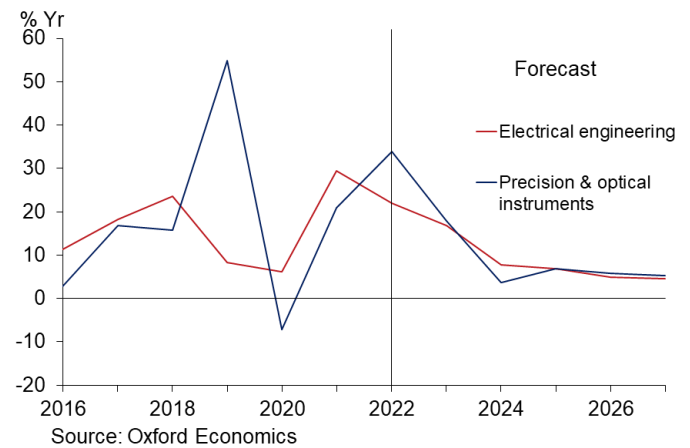
Source: Oxford Economics

## Investment



Source: Oxford Economics

## Investment



Source: Oxford Economics

Apparent consumption = total consumption of machine tools in the named market. For consumption levels in \$, please see appendix  
 Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms

# France

## MT demand to drop back in 2024

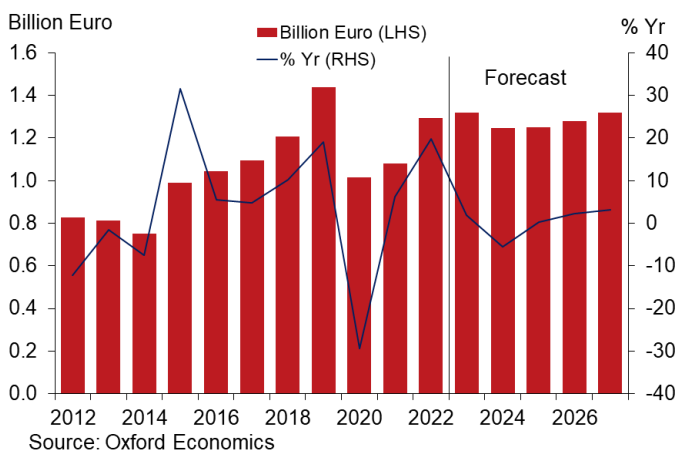
The economy stayed stagnant in Q4, meaning GDP expanded by 0.9% in 2023 overall. Last year, France exhibited substantial resilience and was the second best performing major eurozone economy after Spain. But the economy is now starting this year from a weak position and the latest survey data do not point to an imminent rebound. We expect GDP to slow down to 0.5% in 2024 before ticking up to 1.6% in 2025.

Following a solid growth of 3% in 2023, we expect weighted output of MT-consuming industries to drop back by 1.1% in 2024 with five out of nine of these industries expected to contract. Business confidence in the manufacturing sector is yet to see a meaningful recovery although there are signs of bottoming out. Low confidence is expected to weigh especially on the machinery segments. Motor vehicles production is expected to drop back as consumers remain cautious about spending on big-ticket items while underperforming model lines are offshored. The EV transition will continue, weighing on MT demand, and there is additional pressure from growing Chinese imports. Aerospace remains a brightspot.

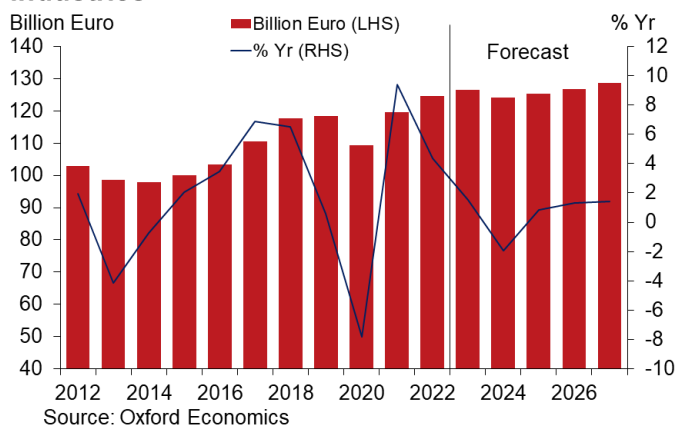
Imports growth is showing signs of cooling in H2 2023, down by 3.5% year-on-year. Furthermore, domestic orders have continued on a downward trend since Q1 2022. Meanwhile, MT-weighted investment growth is forecast to drop by 1.9% in 2024 and rise 0.8% in 2025. Overall, we expect MT demand to fall by 5.5% in 2024 and edge up by 0.3% in 2025.

Forecast risks are skewed to the downside. Persistent shipping disruptions could last for an extended period, hitting MT consuming industries. An escalation of the Israel-Hamas war could cause potentially cause a spike in oil prices and higher-for-longer interest rates in advanced economies, which would impact MT demand significantly.

### Apparent consumption



### Investment in machine tool purchasing industries



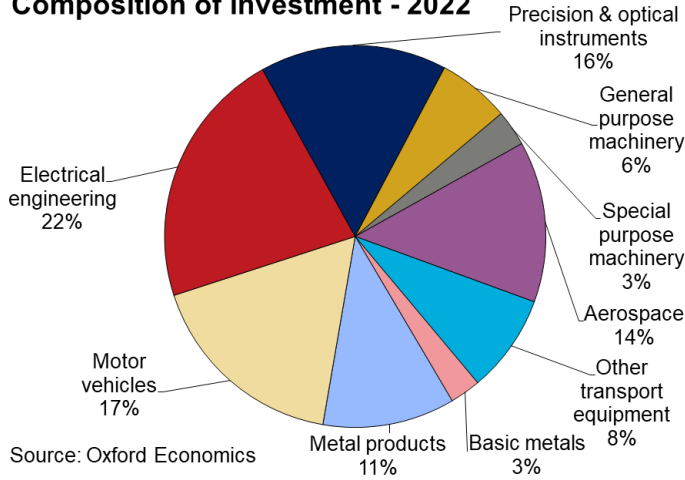
## Forecast for France

	% change					
	2022	2023	2024	2025	2026	2027
Apparent consumption (Euro)	19.9	1.9	-5.5	0.3	2.3	3.2
Apparent consumption (US\$)	6.7	4.5	-5.5	0.3	2.3	3.2
GDP	2.5	0.9	0.5	2.0	2.5	1.8
Industrial production	0.1	0.4	0.7	2.6	2.4	1.7
Investment	4.4	1.5	-1.9	0.8	1.3	1.4

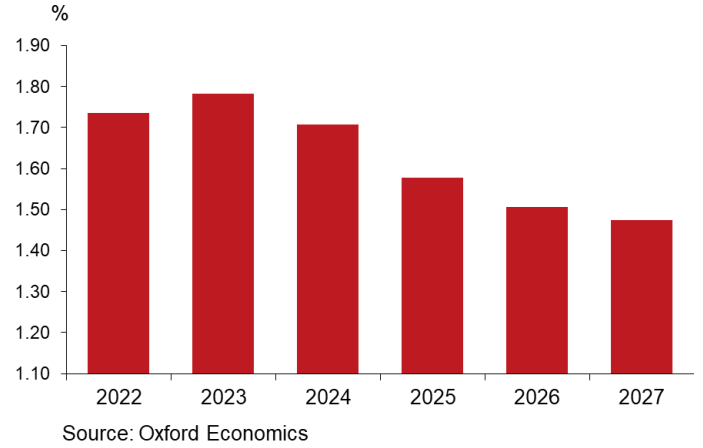
MT growth rates in local currency are in current prices. GDP and industrial production growth rates are constant price local currency terms  
 MT growth rates in US\$ are calculated using actual exchange rates to 2023 and then fixed at 2023 exchange rates beyond that date  
 2023 exchange rate per US\$ = 0.92

Apparent consumption = total consumption of machine tools in the named market  
 Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms

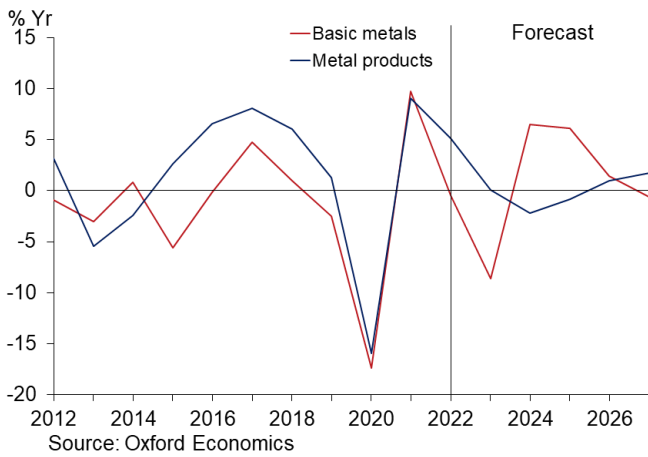
## Composition of investment - 2022



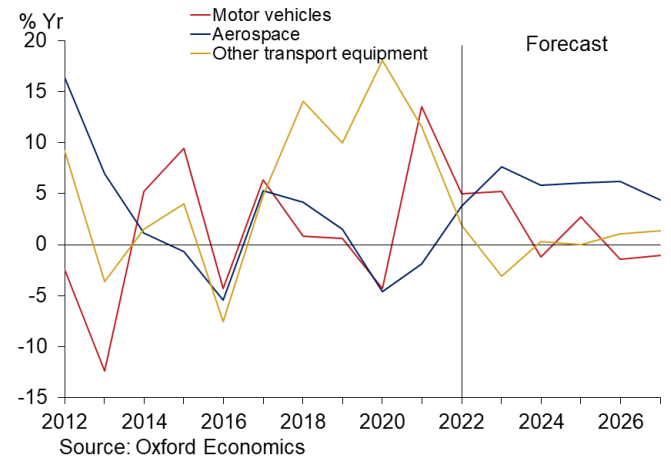
## Apparent consumption world share



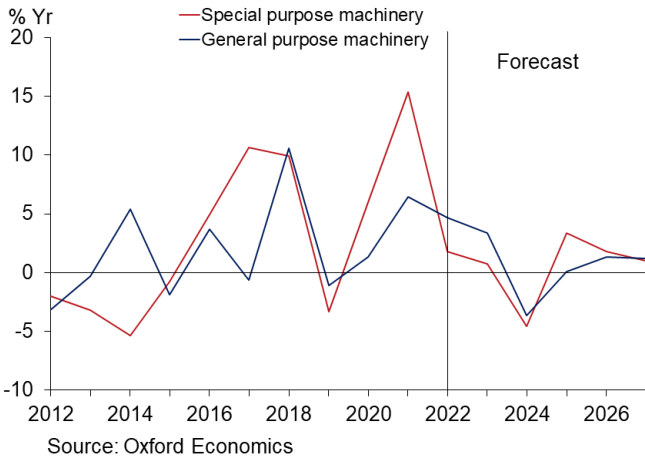
## Investment



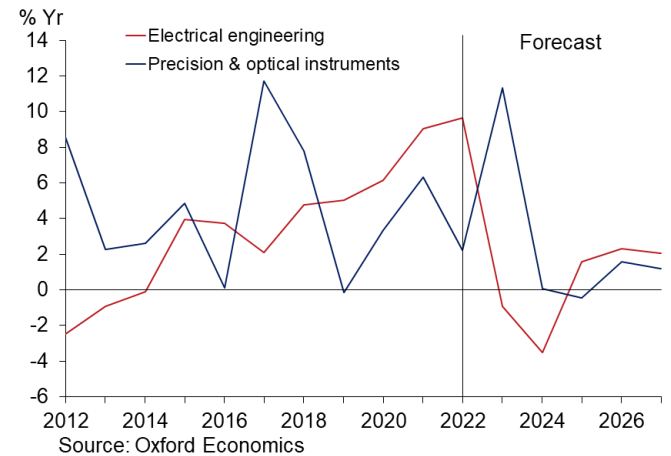
## Investment



## Investment



## Investment



Apparent consumption = total consumption of machine tools in the named market  
 Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms

# Germany

## MT demand growth to drop back in 2024

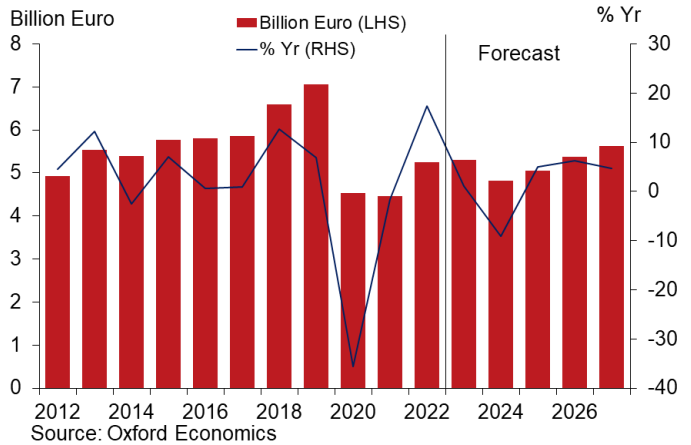
The first batch of hard data for early 2024 continues to paint a bleak picture of near-term growth prospects. Consumers remain miserly and industry is gloomy. So, the German economy is likely to contract again in Q1, albeit modestly. A weather-related bounce in construction poses upside risks in Q1. However, we still think the economy will struggle to grow in 2024. We forecast GDP will stagnate this year with a gradual improvement over the year leading to 1.4% growth in 2025.

The weakness in the economic outlook is reflected in the forecast for many MT purchasing industries, particularly the interest-rate sensitive metal products and machinery segments. Supply chain disruptions impacted motor vehicles production in Q1, although some OEMs like VW managed to avoid significant disruption, while low consumer confidence and waning order backlogs will cap production growth this year. Also, the ongoing transition to EVs will dampen MT demand over the forecast period. Aerospace production will be supported by rising air travel demand and increases in defence spending.

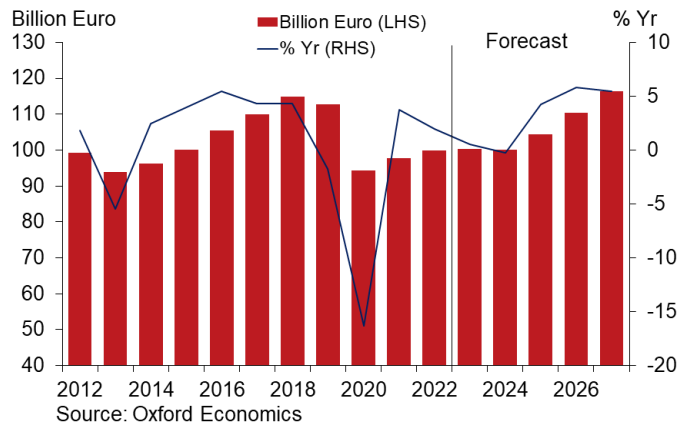
Domestic orders continued the downward trend that we have seen since the start of 2022. Ifo survey data for the machinery sector continue to point to subdued near-term growth and we do not expect a significant improvement in the macroeconomic outlook until the second half of 2024 as there are not yet any clear drivers of growth. MT-weighted investment is expected to decrease by 0.2% in 2024 and recover by 4.2% in 2025. Overall, we expect MT demand to fall by 9.1% in 2024 and rebound by 5.0% in 2025.

Forecast risks remain to the downside. Interest rates could remain higher for longer while a greater push towards electric vehicles, especially pure electric vehicles, could lower MT demand by more than we currently anticipate.

**Apparent consumption**



**Investment in machine tool purchasing industries**



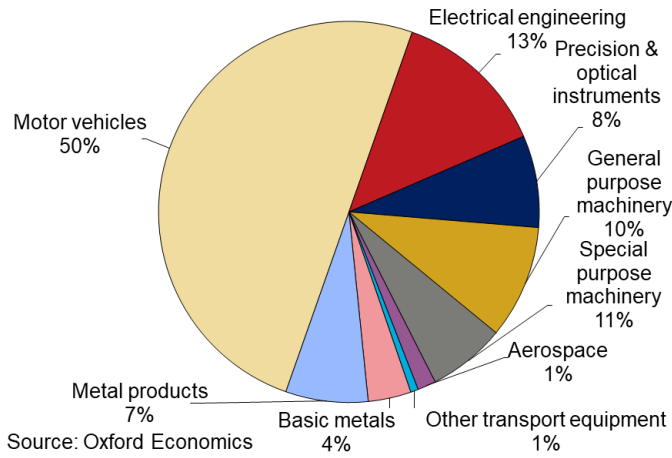
### Forecast for Germany

	% change					
	2022	2023	2024	2025	2026	2027
<b>Apparent consumption (Euro)</b>	17.4	1.0	-9.1	5.0	6.3	4.7
<b>Apparent consumption (US\$)</b>	4.6	3.7	-9.1	5.0	6.3	4.7
<b>GDP</b>	1.9	-0.1	0.0	1.4	1.9	1.7
<b>Industrial production</b>	-0.7	-1.7	-1.2	2.8	2.9	2.5
<b>Investment</b>	2.0	0.5	-0.2	4.2	5.8	5.5

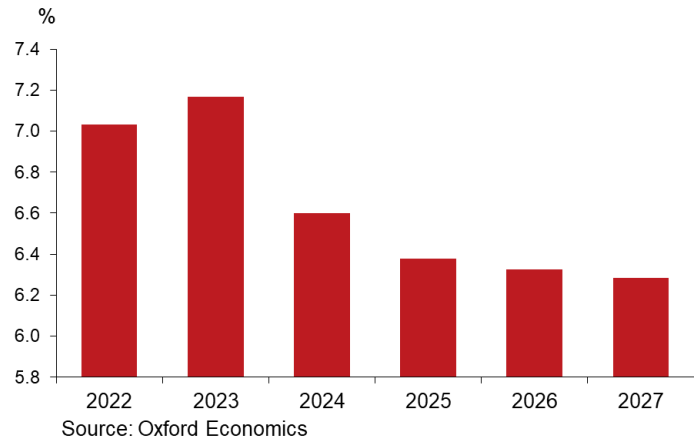
MT growth rates in local currency are in current prices. GDP and industrial production growth rates are constant price local currency terms  
 MT growth rates in US\$ are calculated using actual exchange rates to 2023 and then fixed at 2023 exchange rates beyond that date  
 2023 exchange rate per US\$ = 0.92

Apparent consumption = total consumption of machine tools in the named market. For consumption levels in \$, please see appendix  
 Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms

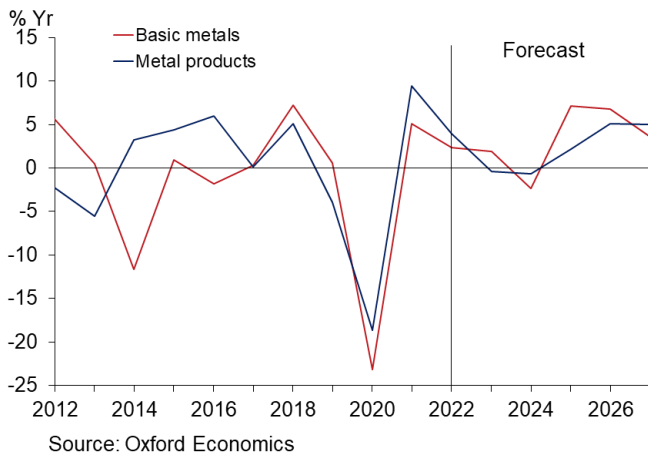
Composition of investment - 2022



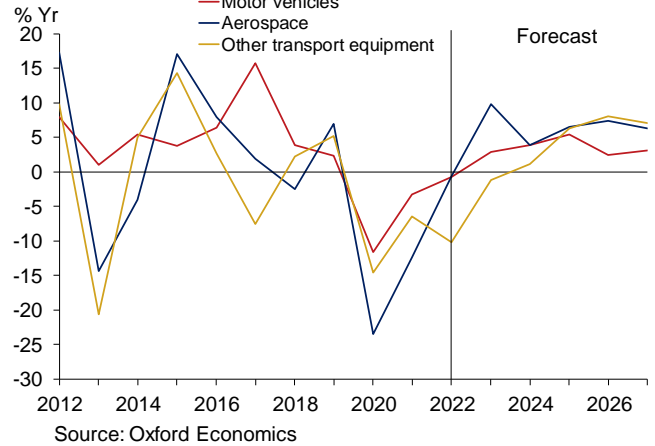
Apparent consumption world share



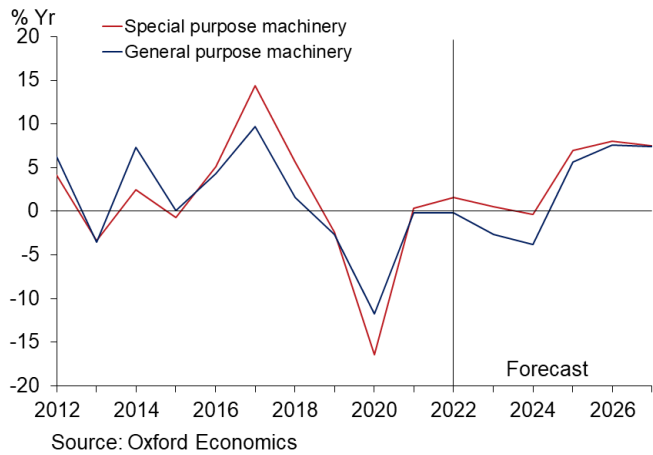
Investment



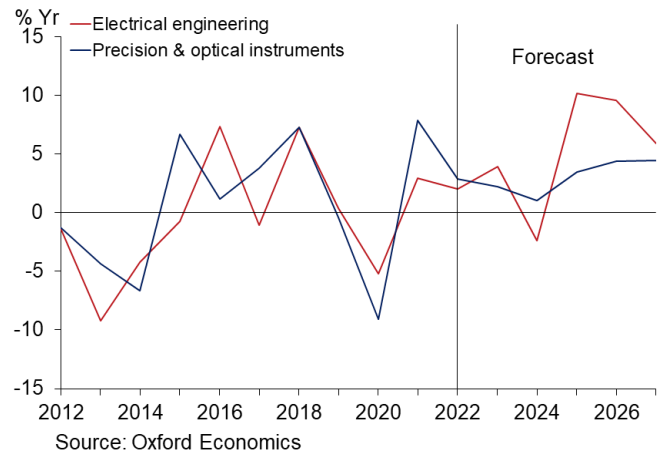
Investment



Investment



Investment



Apparent consumption = total consumption of machine tools in the named market. For consumption levels in \$, please see appendix  
 Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms

# India

## MT demand post robust growth in 2024

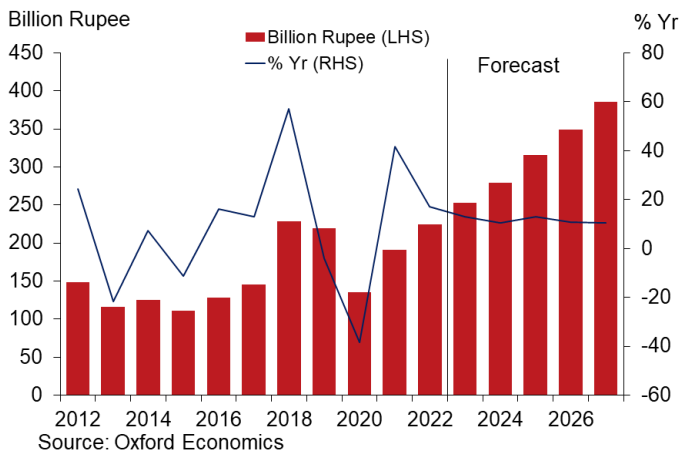
India's economy remained strong in Q4 2023, with real GDP registering 8.4% y/y growth. Some of the strong headline growth was driven by statistical discrepancies between the expenditure and production-based measures of economic activity, with the latter suggesting softening momentum. A slowdown in domestic demand will cap GDP growth and we forecast growth of 6.3% in 2024 and 7.2% in 2025.

Similarly to the wider economy, we forecast a slowdown in MT-weighted production growth in 2024 to 2.9% after robust double-digit growth in 2023. The lagged impact of monetary tightening and weaker investment trends will weigh upon many MT consuming sectors with the machinery segments especially impacted and expected to decline this year. Motor vehicles is expected to see growth slow sharply as demand moderates and order backlogs provide less support to production trends. Meanwhile aerospace production will maintain a double-digit pace in 2024 supported by solid air travel demand and positive base effects from a strong Q4 2023.

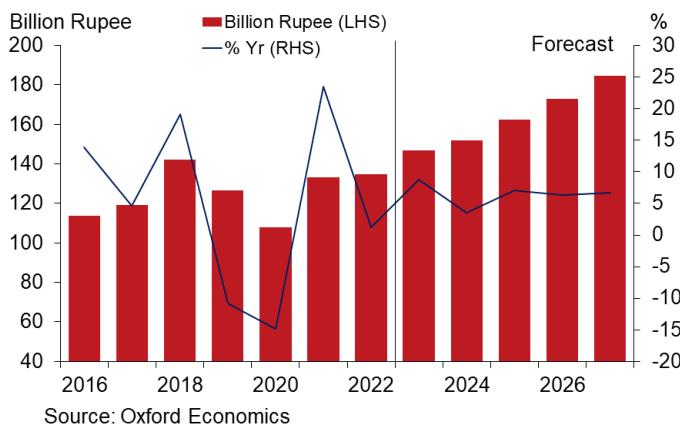
MT imports and orders placed with Japanese producers had strong momentum in H2 2023. Long-term prospects are also healthy thanks to the 'Make in India' initiative which will help to move local MT production up the value chain. However, we anticipate a slowdown in MT-weighted investment growth to 3.5% in 2024 before a recovery to 7.1% growth is seen in 2025. On balance, we forecast MT demand growth of 10.4% in 2024 and 13.0% in 2025.

Risks are skewed to the downside. Further increases to oil prices would risk widening the current account deficit further, inflationary pressures, and a weakening currency. This combined with high-for-longer interest rates would likely weigh on investment and, hence, MT consumption.

### Apparent consumption



### Investment in machine tool purchasing industries



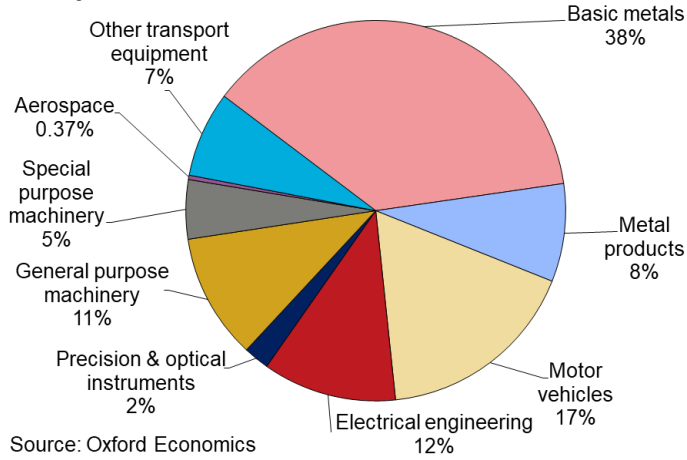
Forecast for India						
	% change					
	2022	2023	2024	2025	2026	2027
Apparent consumption (Rupee)	17.0	12.9	10.4	13.0	10.8	10.4
Apparent consumption (US\$)	10.0	7.4	10.4	13.0	10.8	10.4
GDP	6.5	7.7	6.3	7.2	6.5	6.7
Industrial production	4.6	5.7	4.0	6.9	6.3	6.5
Investment	1.2	8.8	3.5	7.1	6.3	6.7

MT growth rates in local currency are in current prices. GDP and industrial production growth rates are constant price local currency terms  
 MT growth rates in US\$ are calculated using actual exchange rates to 2023 and then fixed at 2023 exchange rates beyond that date  
 2023 exchange rate per US\$ = 82.59

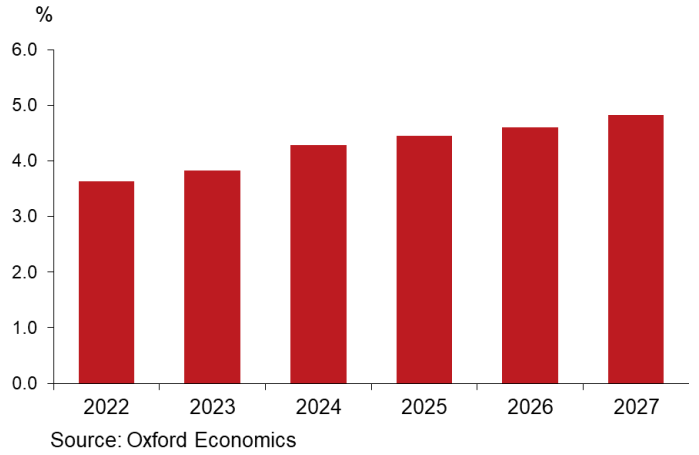
Apparent consumption = total consumption of machine tools in the named market  
 Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms



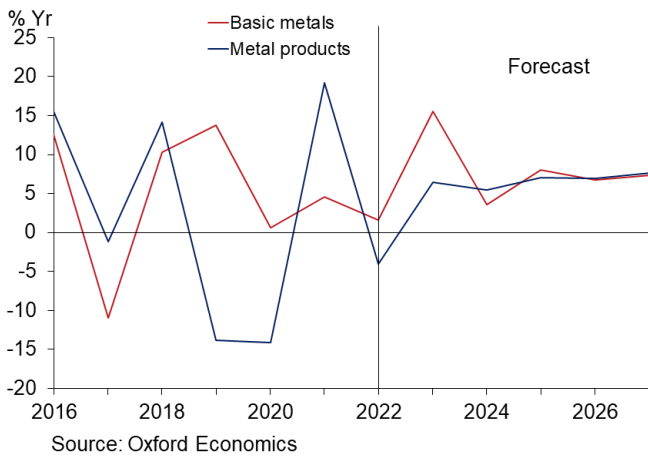
**Composition of investment - 2022**



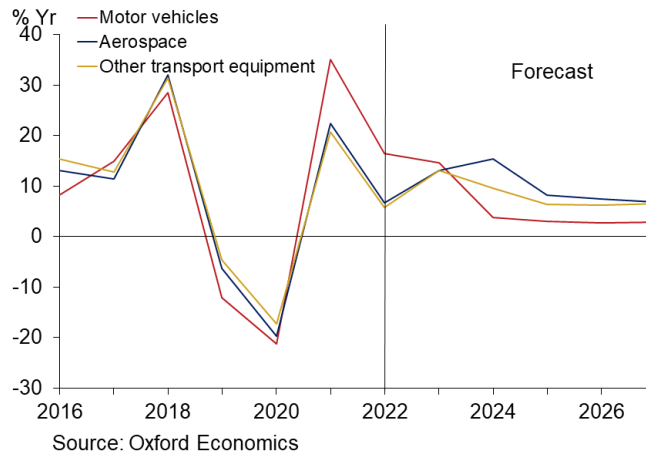
**Apparent consumption world share**



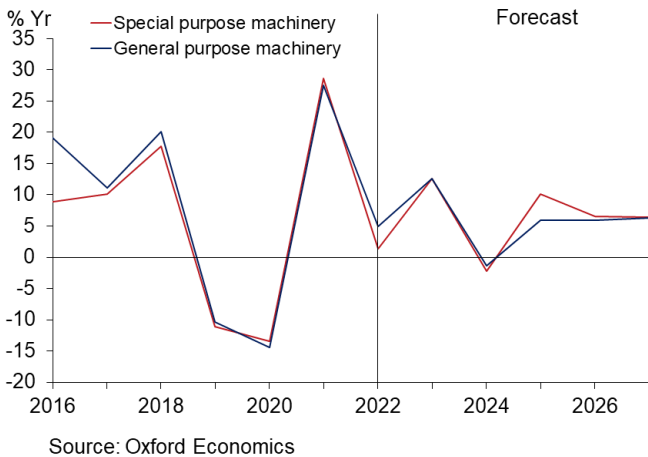
**Investment**



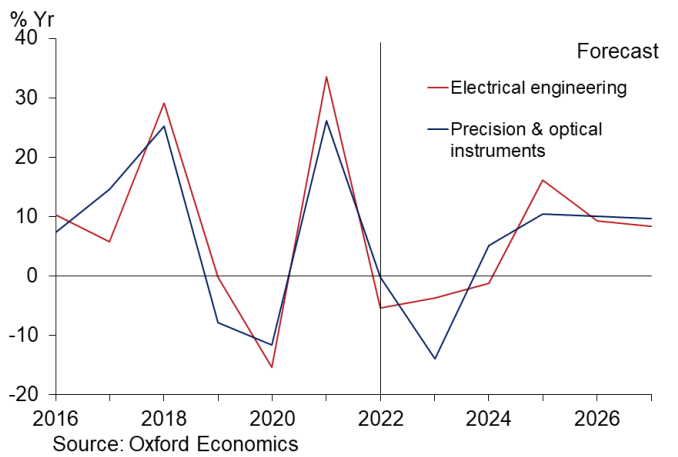
**Investment**



**Investment**



**Investment**



Apparent consumption = total consumption of machine tools in the named market  
 Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms

# Italy

## MT demand to fall for second straight year

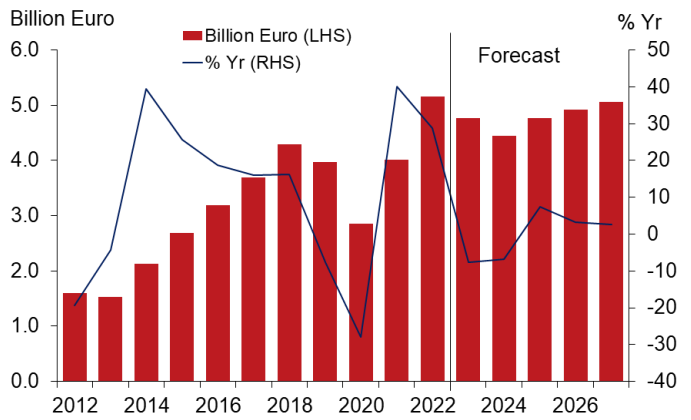
Italy's GDP surprised on the upside in Q4 with 0.2% quarterly growth. Looking ahead, an improvement in real disposable income due to a significant drop in inflation and more favourable external conditions will support growth later this year. Meanwhile, there are tentatively positive signs from survey data with the manufacturing PMI above 50 in January and February, suggesting more consistent growth ahead. Overall, we expect the economy to grow by 0.6% this year and 1.1% in 2025.

Weighted production of the key MT consuming sectors is expected to return to growth this year, up by 1.8% in 2024 and more robust growth of 5% in 2025. Survey data are showing cautiously positive signs and, as such, we expect a more consistent upturn in interest rate sensitive segments to come later in the year. The outlier is the motor vehicles segment which is expected to see production contract in 2024 and 2025 as a number of models are relocated to other countries. Meanwhile, the ongoing EV transition will weigh upon MT demand over the forecast period.

Domestic orders were down by 64% year-on-year in H2 2023 while MT imports growth has cooled notably. Furthermore, the government's 2022 budget reduced financial incentives for the Industry 4.0 scheme in 2023, although the government finalising a new incentive, 'Transition 5.0'. MT-weighted investment is forecast to increase by 3% in 2024 and 4% in 2025. On balance, we expect MT demand to drop by 6.8% in 2024 before rebounding by 7.4% in 2025.

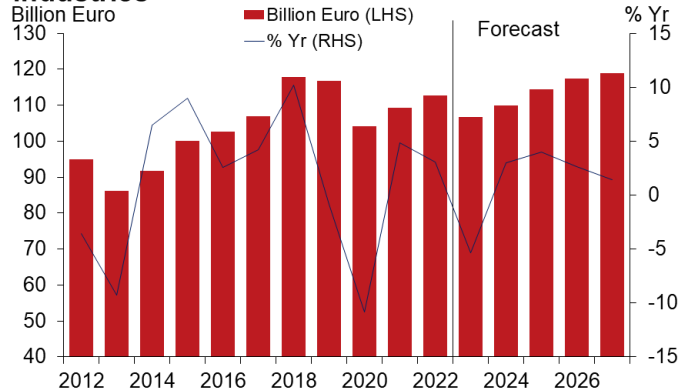
Risks are skewed to the downside. While the Next Generation EU Fund is supportive, ongoing political uncertainty could delay the disbursement of funds. This combined with a prolonged period of monetary tightening could dent capital spending and, hence, MT demand.

### Apparent consumption



Source: Oxford Economics

### Investment in machine tool purchasing industries



Source: Oxford Economics

## Forecast for Italy

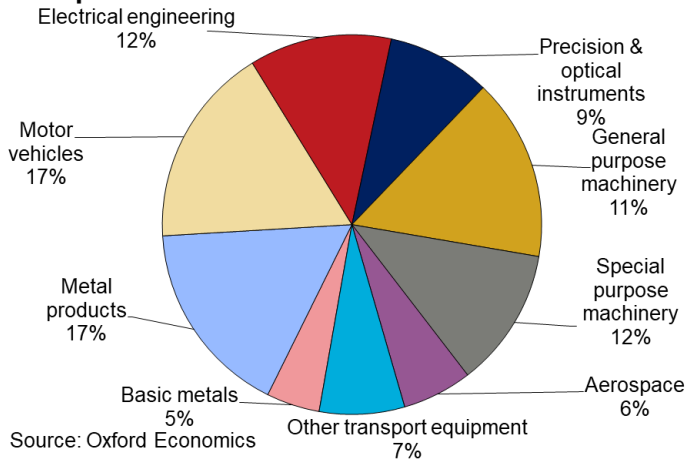
	% change					
	2022	2023	2024	2025	2026	2027
<b>Apparent consumption (Euro)</b>	28.8	-7.7	-6.8	7.4	3.2	2.7
<b>Apparent consumption (US\$)</b>	14.7	-5.2	-6.8	7.4	3.2	2.7
<b>GDP</b>	4.1	1.0	0.6	1.1	0.8	0.5
<b>Industrial production</b>	0.4	-2.5	0.3	4.0	2.8	1.7
<b>Investment</b>	3.1	-5.3	3.0	4.0	2.6	1.4

MT growth rates in local currency are in current prices. GDP and industrial production growth rates are constant price local currency terms  
 MT growth rates in US\$ are calculated using actual exchange rates to 2023 and then fixed at 2023 exchange rates beyond that date  
 2023 exchange rate per US\$ = 0.92

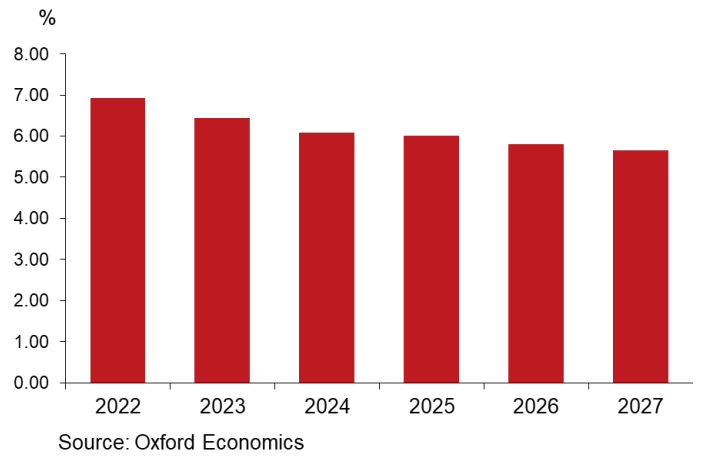
Apparent consumption = total consumption of machine tools in the named market. For consumption levels in \$, please see appendix  
 Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms



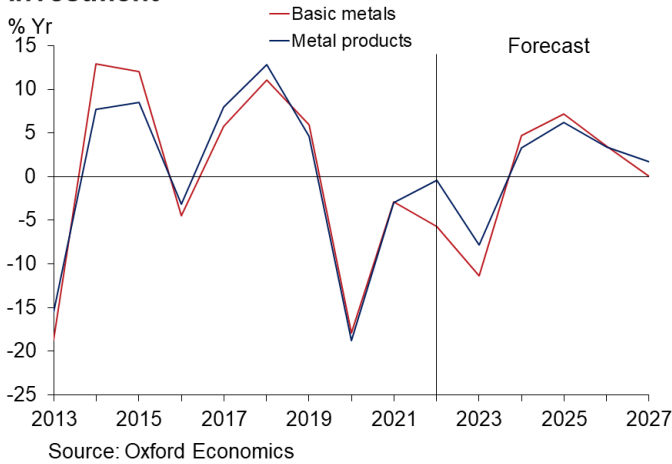
**Composition of investment - 2022**



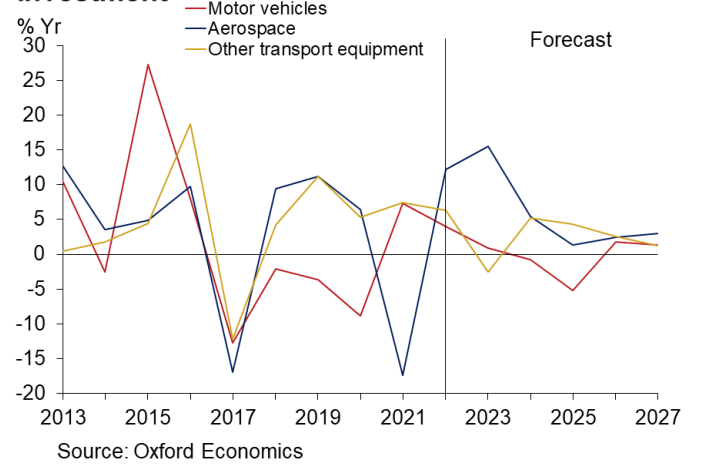
**Apparent consumption world share**



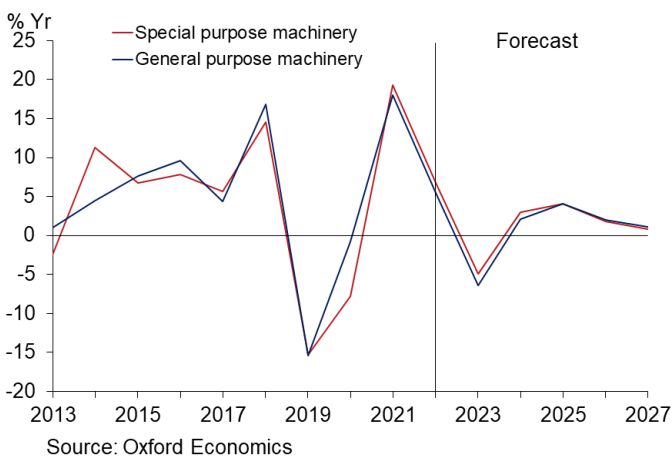
**Investment**



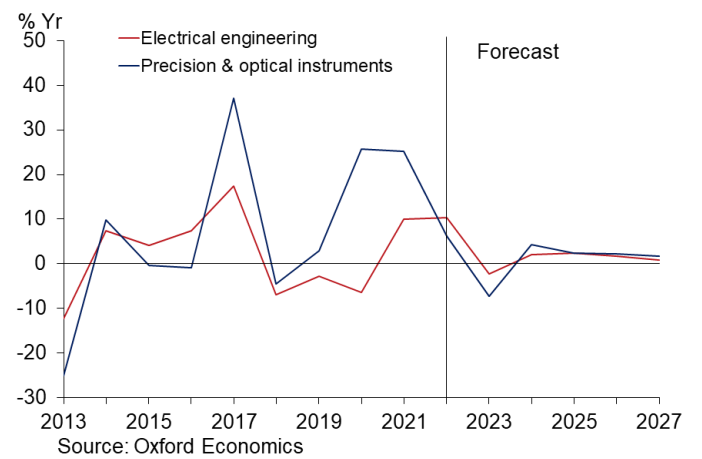
**Investment**



**Investment**



**Investment**



Apparent consumption = total consumption of machine tools in the named market. For consumption levels in \$, please see appendix  
 Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms

## Japan

### MT demand to drop sharply in 2024

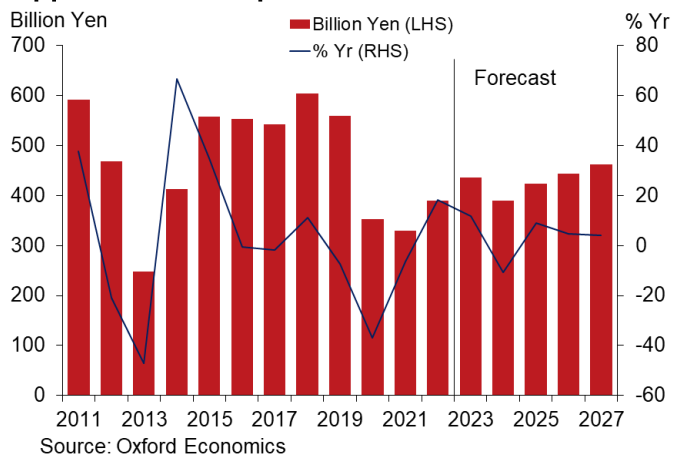
We forecast GDP growth of 0.5% in 2024, a slowdown from 2% in 2023, reflecting recent weaknesses in domestic demand, particularly in consumption. Although we think the growth momentum will improve gradually, the sluggish external environment and the end of the pent-up demand will keep constraining the recovery in the coming quarters.

The weakness in the macroeconomic outlook is reflected in our expectations of production across the key MT consuming industries. We expect MT-weighted output to fall by a further 1.3% in 2024 before recovering to 3.7% growth in 2025. Metal products and motor vehicles are driving the decline this year. The motor vehicle sector is set to decline 4.7% this year, in part due to an 18% m/m drop of in January caused by suspended production in Daihatsu Motors, which also had a knock-on effect on sectors downstream. In addition, tight policy rates in key export markets, the US and Europe, will continue to impact demand for automotives in 2024. On a positive note, the aerospace industry will post another year of double-digit growth, supported by air travel demand and increased defence spending.

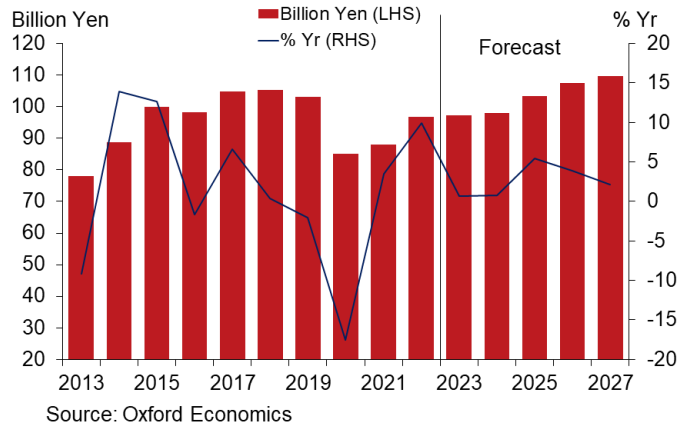
MT imports were solid during H2 2023 but began to turn lower towards the end of last year. Domestic orders have continued to trend downwards and fell back by 18.7% in H2 2023. Investment by the MT consuming sectors is expected to edge up by 0.7% in 2024 before posting 5.4% in 2025. On balance, we forecast MT demand will drop by a further 10.6% in 2024 and rebound by 9% in 2025.

Forecast risks are tilted to the downside. While business with China is vital for Japanese firms, US pressure on its allies to confront China jointly will hamper strategic investment decisions, which could dent capital spending by MT purchasing sectors and, hence, MT demand.

### Apparent consumption



### Investment in machine tool purchasing industries



### Forecast for Japan

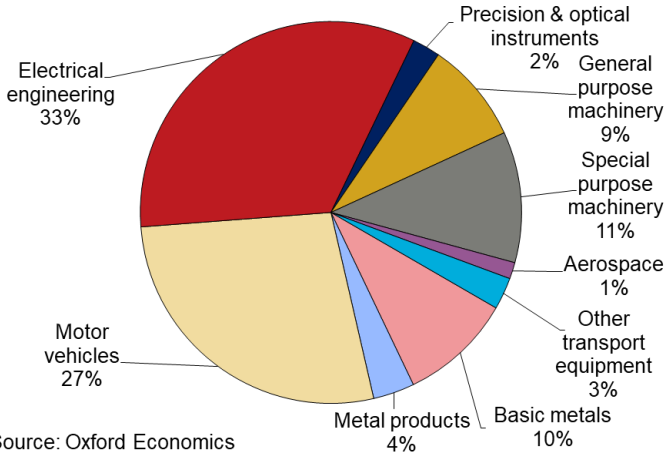
% change

	2022	2023	2024	2025	2026	2027
Apparent consumption (Yen)	18.1	11.7	-10.6	9.0	4.6	4.1
Apparent consumption (US\$)	-1.4	4.5	-10.6	9.0	4.6	4.1
GDP	0.9	2.0	0.5	0.8	0.5	0.5
Industrial production	0.0	-1.3	0.1	3.4	2.1	1.9
Investment	9.9	0.7	0.7	5.4	3.9	2.1

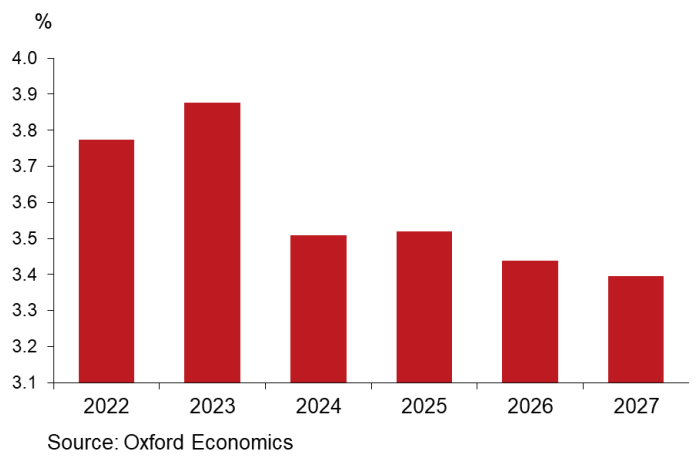
MT growth rates in local currency are in current prices. GDP and industrial production growth rates are constant price local currency terms  
 MT growth rates in US\$ are calculated using actual exchange rates to 2023 and then fixed at 2023 exchange rates beyond that date  
 2023 exchange rate per US\$ = 140.62

Apparent consumption = total consumption of machine tools in the named market. For consumption levels in \$, please see appendix  
 Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms

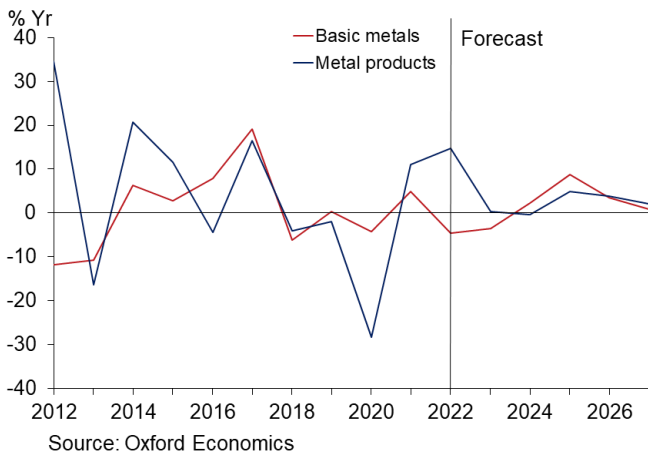
**Composition of investment - 2022**



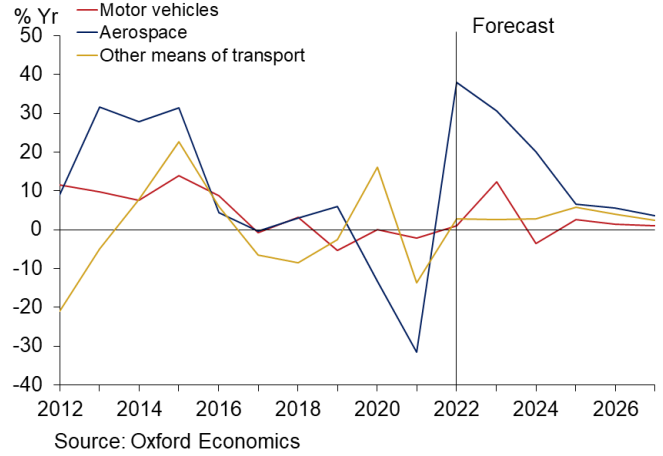
**Apparent consumption world share**



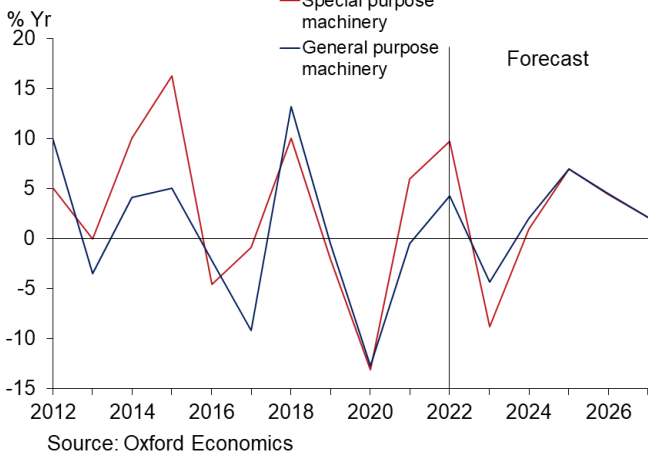
**Investment**



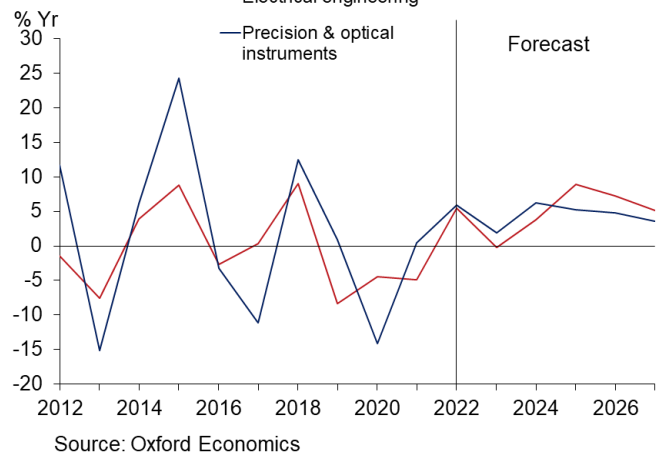
**Investment**



**Investment**



**Investment**



**Apparent consumption = total consumption of machine tools in the named market. For consumption levels in \$, please see appendix**  
**Total investment = weighted sum of investment in constant price the nine key sectors in local currency terms**

# Korea

## MT demand to decline further this year

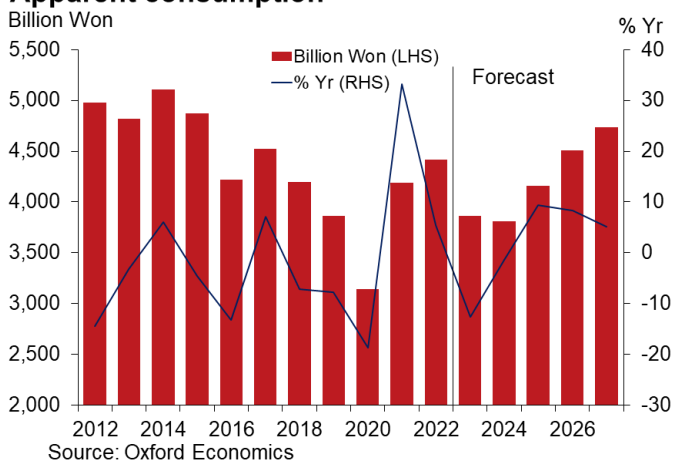
We forecast low GDP growth of 1.4% in 2024, reflecting concerns surrounding poor domestic demand. Fixed investment growth in 2024 remains low, with an imminent rate cut unlikely due to the near-term upside risk to inflation. However, we maintain our view that the Bank of Korea will cut rates in 2024, which boosts the outlook for 2025.

Weighted output of MT consuming sectors is expected to expand 1.7% in 2024 before picking up to 4.7% in 2025. Output in aerospace is expected to grow 14.6%, outpacing all other key MT-consuming sectors, however this reflects the extent of the decline seen during the pandemic. Electrical engineering is expected to see robust double-digit growth of 11.1% in 2024, supported by strong demand for semiconductors. Furthermore, South Korea's K-Semiconductor Belt Strategy aims to set up a comprehensive semiconductor supply chain ahead. On the other hand, motor vehicles, metal products and other transport equipment output will post declines this year.

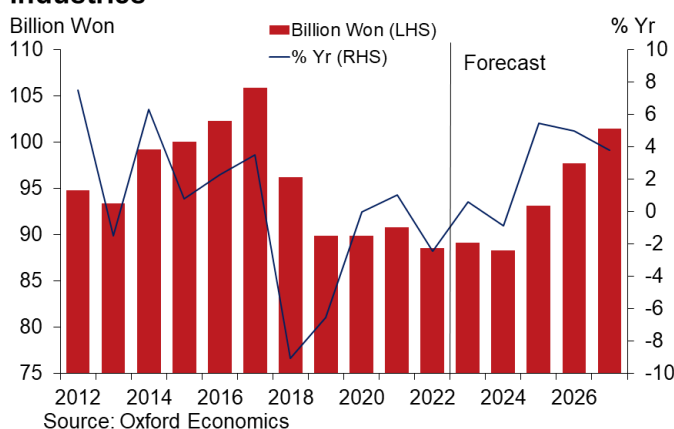
MT imports have been relatively flat during H2 2023, down by 13.8% year-on-year, with no momentum coming into 2024. Meanwhile, domestic orders dropped in Q3 2023, continuing a downward trend. Meanwhile, MT-weighted investment is expected to decrease by 0.9% in 2024 before rebounding by 5.5% in 2025. As a result, we expect MT demand to post a second straight year of decline this year, down by 1.4% before rebounding sharply by 9.3% in 2025.

Downside risks to the outlook revolve around South Korea's exposure China. An increase in tensions between the US and China, surrounding economic and technological restrictions on China, could weigh further on investment and MT demand. Higher-for-longer interest rates also poses downside risks to capital spending and, hence, MT demand.

### Apparent consumption



### Investment in machine tool purchasing industries



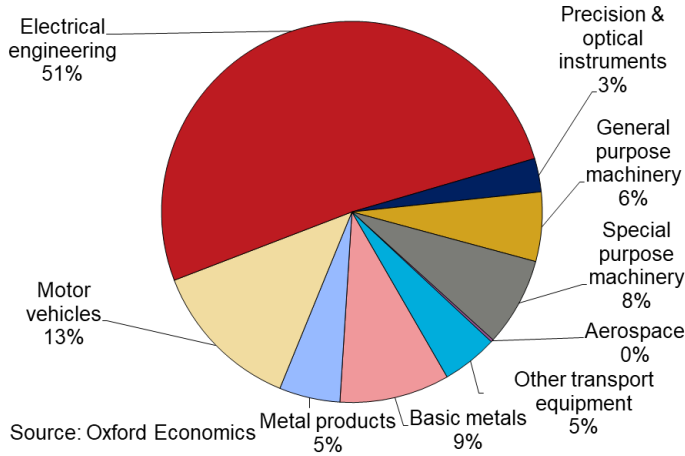
## Forecast for Korea

	% change					
	2022	2023	2024	2025	2026	2027
<b>Apparent consumption (Won)</b>	5.5	-12.6	-1.4	9.3	8.3	5.1
<b>Apparent consumption (US\$)</b>	-6.6	-13.5	-1.4	9.3	8.3	5.1
<b>GDP</b>	2.6	1.3	1.4	2.1	2.4	2.2
<b>Industrial production</b>	1.3	-4.1	3.9	5.2	4.2	3.0
<b>Investment</b>	-2.5	0.6	-0.9	5.5	5.0	3.8

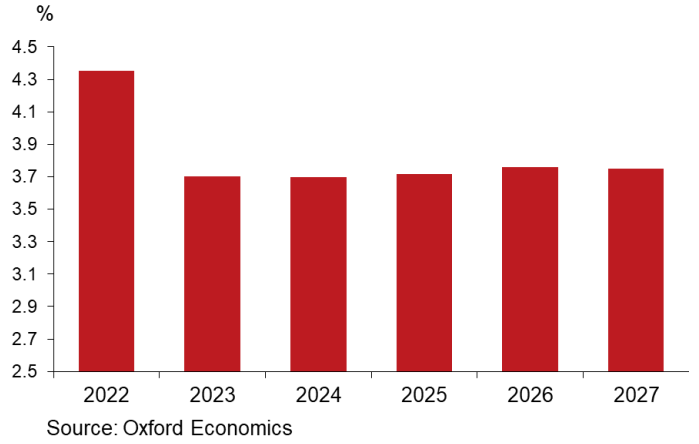
MT growth rates in local currency are in current prices. GDP and industrial production growth rates are constant price local currency terms  
 MT growth rates in US\$ are calculated using actual exchange rates to 2023 and then fixed at 2023 exchange rates beyond that date  
 2023 exchange rate per US\$ = 1,305.66

Apparent consumption = total consumption of machine tools in the named market  
 Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms

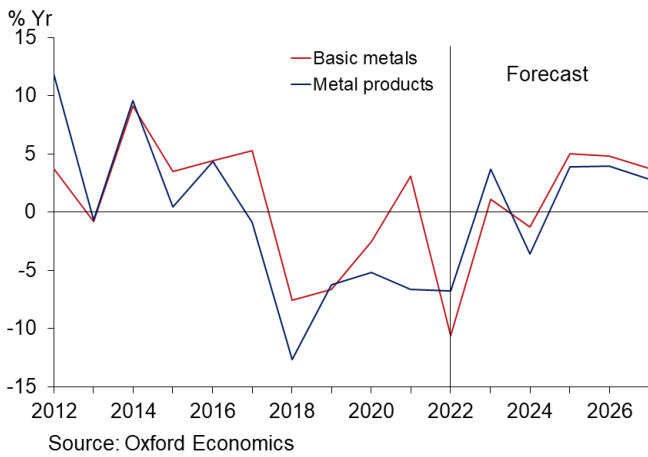
Composition of investment - 2022



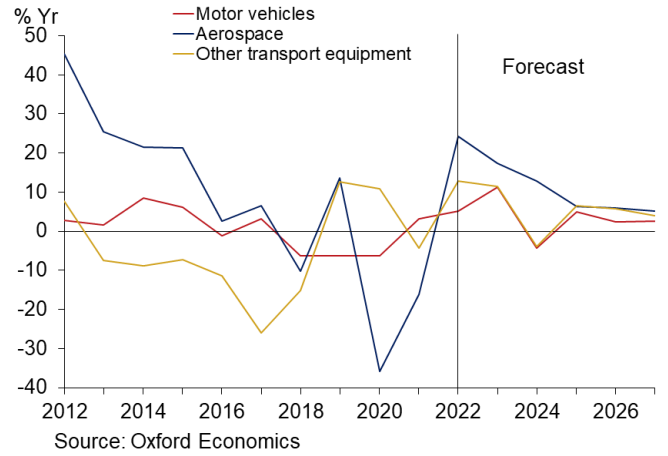
Apparent consumption world share



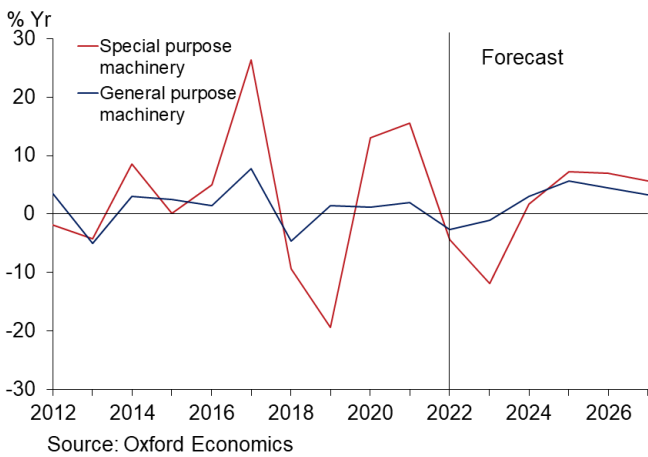
Investment



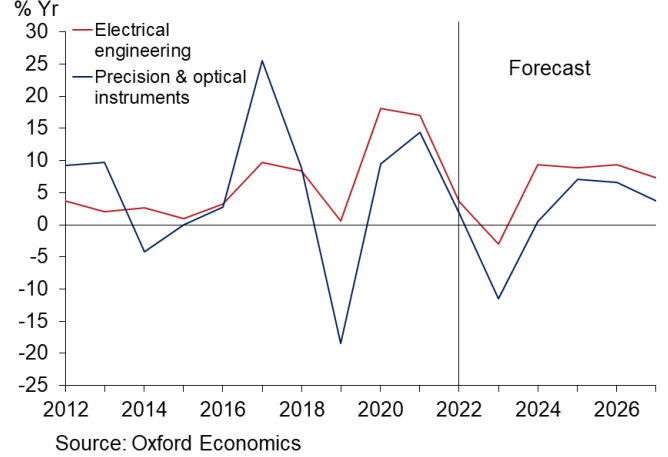
Investment



Investment



Investment



Apparent consumption = total consumption of machine tools in the named market  
 Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms

# Mexico

## MT demand growth to slow in 2024

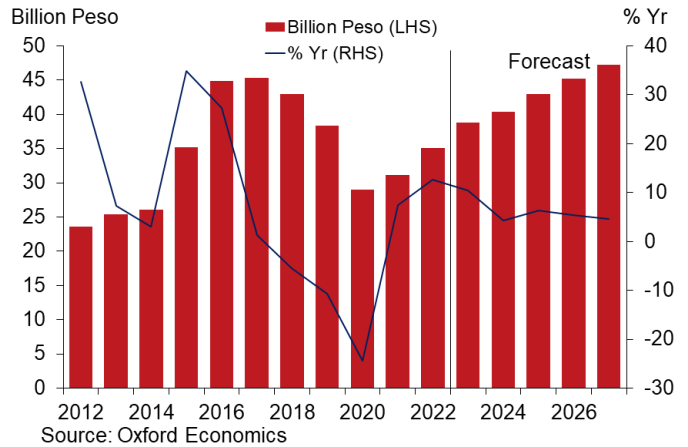
Our 2024 GDP growth forecast for Mexico is projected at 1.9% as we expect a weak start to the year following the broad-based slowdown in Q4 last year, with growth expected to rise to 2.1% in 2025. Growing consumer caution will weigh upon the near-term outlook, however, government transfers during this election year and support from nearshoring add upside risks.

Weighted growth among the key MT consuming sectors is expected to contract by 2.1% in 2024. Aerospace is forecast to be the fastest growing MT consuming sector, as we expect it to grow by 14% in 2024, thanks to an ongoing post-covid recovery and positive base effects. However, the large motor vehicles sector is expected to see a drop back in production this year, which is also reflected in upstream MT-consuming industries like metal products and machinery.

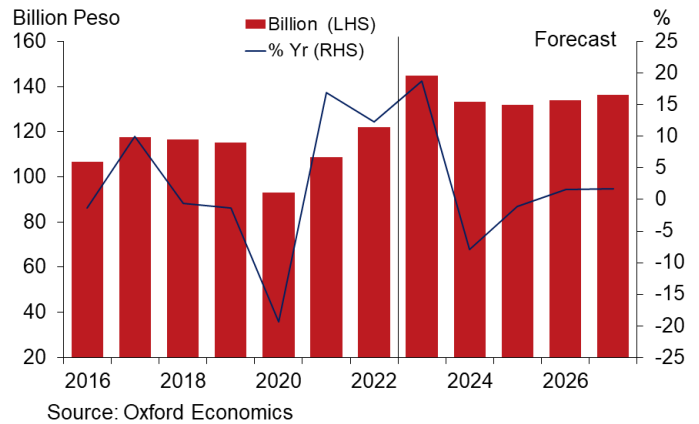
Meanwhile, we forecast MT-weighted investment drop back by 7.9% in 2024 and decline by a further 1.2% in 2025, after three consecutive years of double-digit growth. This weakness is also reflected in economy-wide investment trends. Meanwhile, MT imports have trended upwards during H2 2023, up by 4.5% year-on-year. On balance, we expect MT consumption to post 4.3% growth in 2024 and 6.3% in 2025.

Forecast risks are balanced. Mexico is the positioned well to gain from global supply-chain de-risking. The share of Mexican exports is increasing in US markets, although this has not brought a structural lift to growth above pre-2017 trend levels yet. On the other hand, a prolonged period of higher interest rates, if inflation proves to be stickier than expected, could weigh upon capital spending by MT-purchasing industries and, as a result, MT demand.

### Apparent consumption



### Investment in machine tool purchasing industries



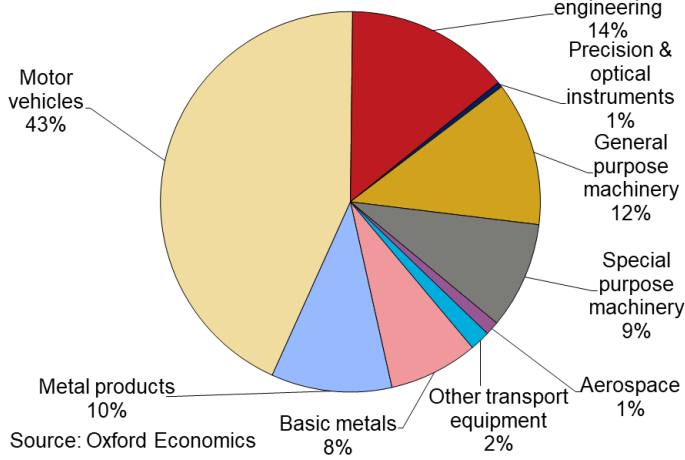
Forecast for Mexico						
	% change					
	2022	2023	2024	2025	2026	2027
Apparent consumption (Peso)	12.6	10.4	4.3	6.3	5.4	4.6
Apparent consumption (US\$)	13.6	25.2	4.3	6.3	5.4	4.6
GDP	3.9	3.2	1.9	2.1	2.3	2.1
Industrial production	5.3	3.6	1.9	2.0	2.3	2.1
Investment	12.2	18.8	-7.9	-1.2	1.6	1.7

MT growth rates in local currency are in current prices. GDP and industrial production growth rates are constant price local currency terms  
 MT growth rates in US\$ are calculated using actual exchange rates to 2023 and then fixed at 2023 exchange rates beyond that date  
 2023 exchange rate per US\$ = 17.74

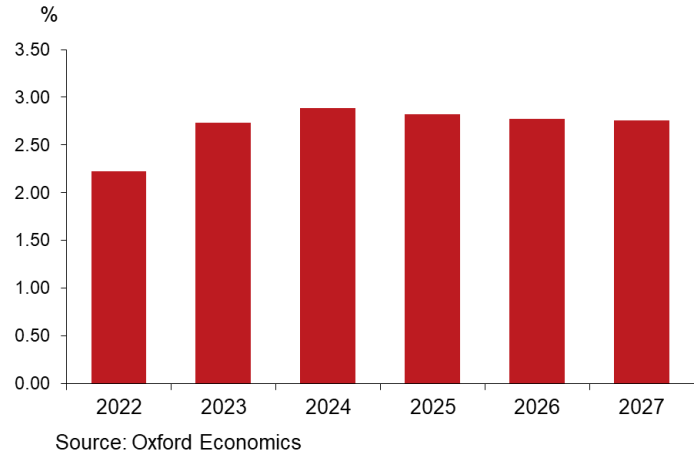
Apparent consumption = total consumption of machine tools in the named market  
 Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms



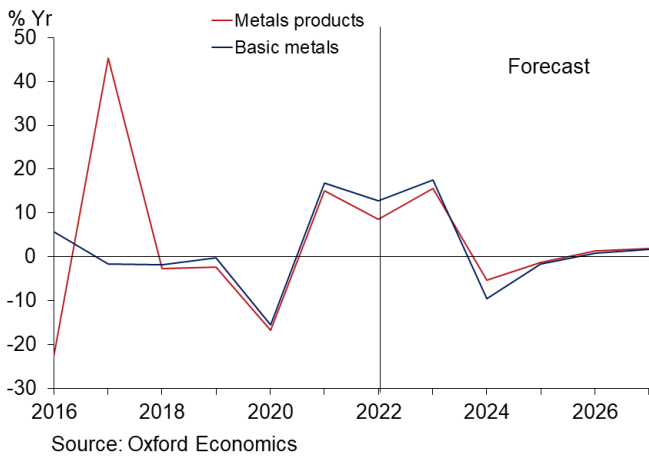
Composition of investment - 2022



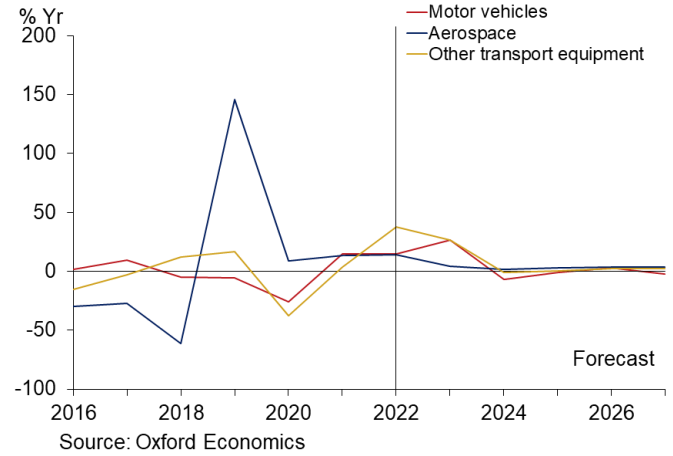
Apparent consumption world share



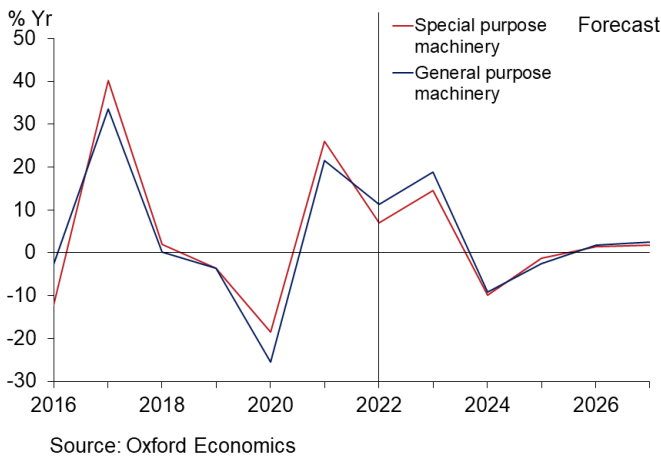
Investment



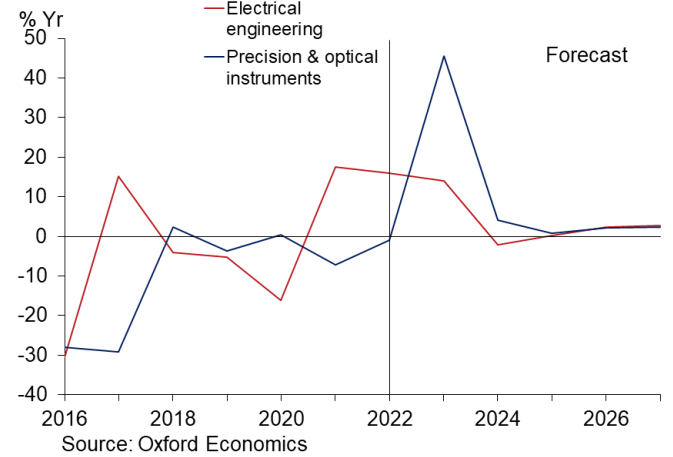
Investment



Investment



Investment



Apparent consumption = total consumption of machine tools in the named market  
 Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms

## Spain

### MT demand growth to pick up slightly in 2024

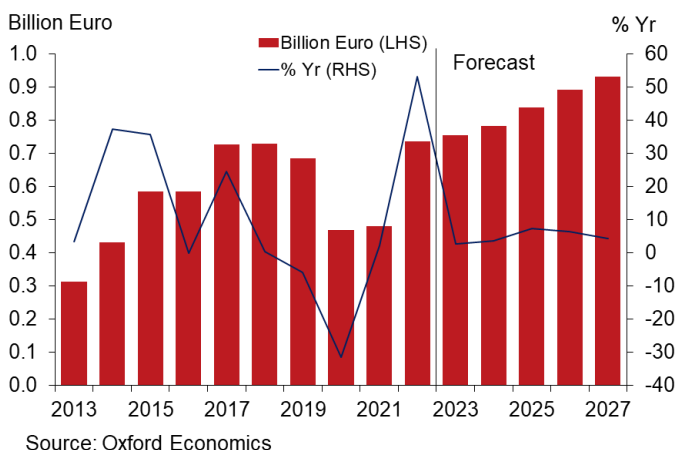
Despite facing the headwinds of high interest rates and a recessionary environment in Europe, Spain remains one of the better performers in the region. Manufacturing PMI rose to above the 50-point threshold, indicating an expansion following nearly a year of contraction. However, tight credit conditions will continue to loom over rate-sensitive sectors. GDP is forecast to rise 2.1% in 2024 and 1.7% in 2025.

Weighted production of the key MT-purchasing sectors is expected to grow by 2% this year, a slowdown from 4.3% in 2023, before picking back up to 3.2% in 2025. A closer look shows that we expect most of the MT-consuming sectors to post healthy production growth with only special purpose machinery and other transport equipment posting modest declines. The motor vehicles industry is expected to see a particularly sharp slowdown in production growth as order backlogs dwindle and past supply chain disruptions ease, meaning that output will be driven by consumer spending growth. Meanwhile, the ongoing transition to EVs will weigh upon MT demand over the forecast period.

MT imports has seen year-on-year growth deteriorate in H2 2023, down by 5.2% year-on-year. Domestic orders, however, were up by 187% in H2 2023, thanks to a strong increase in Q4 2023, but even without the Q4 jump domestic orders had been trending higher during 2023. Meanwhile, MT-weighted investment is expected to slow to 1.9% in 2024 before increasing by a 6.1% in 2025. On balance, we expect MT demand to rise by 3.7% in 2024 and 7.2% in 2025.

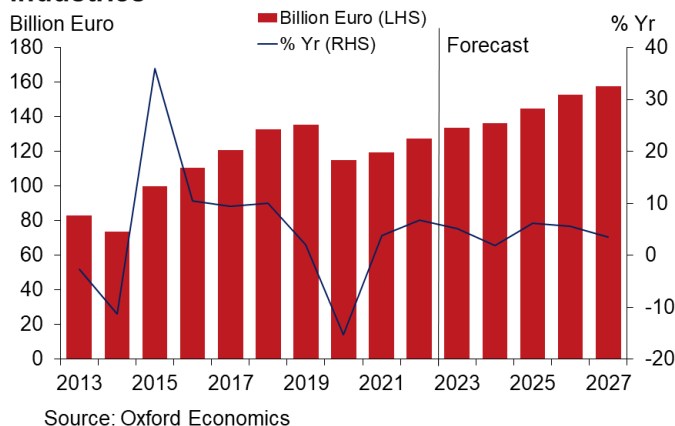
Risks to the MT outlook are skewed to the downside, due to the weaker external environment. Higher-for-longer interest rates is likely if the disinflation process remains bumpy. This will curtail investment spending by MT consuming industries, negatively impacting MT demand.

### Apparent consumption



Source: Oxford Economics

### Investment in machine tool purchasing industries



Source: Oxford Economics

### Forecast for Spain

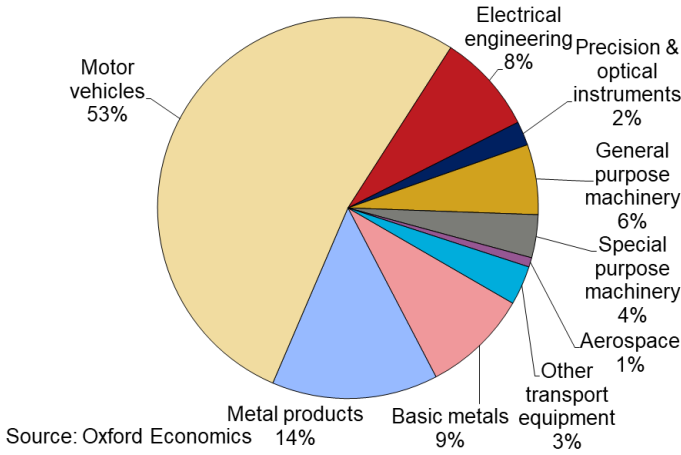
	% change					
	2022	2023	2024	2025	2026	2027
<b>Apparent consumption (Euro)</b>	53.2	2.6	3.7	7.2	6.5	4.3
<b>Apparent consumption (US\$)</b>	36.4	5.3	3.7	7.2	6.5	4.3
<b>GDP</b>	5.8	2.5	2.1	1.7	1.6	1.3
<b>Industrial production</b>	2.8	-0.7	1.1	2.1	1.6	1.4
<b>Investment</b>	6.8	5.1	1.9	6.1	5.5	3.4

MT growth rates in local currency are in current prices. GDP and industrial production growth rates are constant price local currency terms  
 MT growth rates in US\$ are calculated using actual exchange rates to 2023 and then fixed at 2023 exchange rates beyond that date  
 2023 exchange rate per US\$ = 0.92

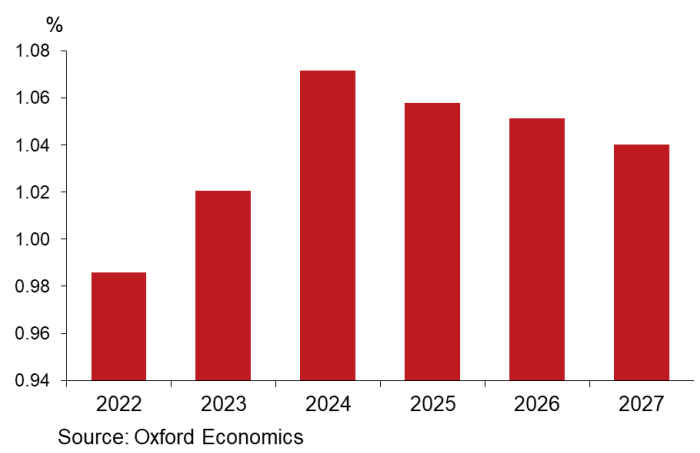
Apparent consumption = total consumption of machine tools in the named market  
 Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms



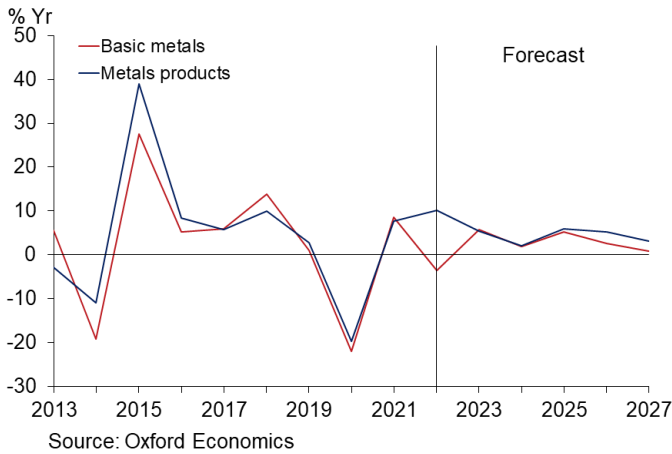
**Composition of investment - 2022**



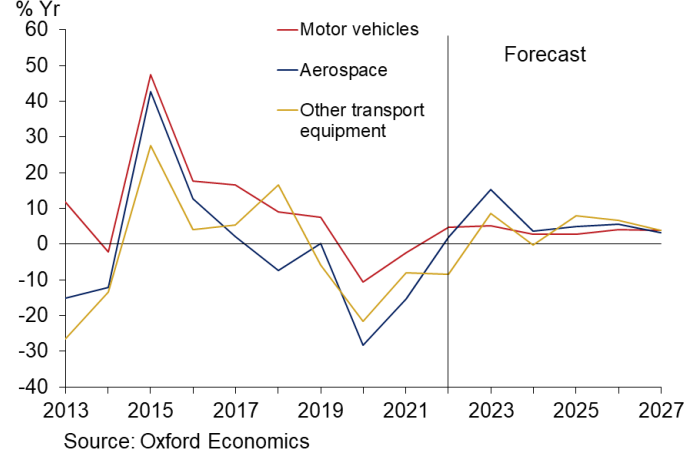
**Apparent consumption world share**



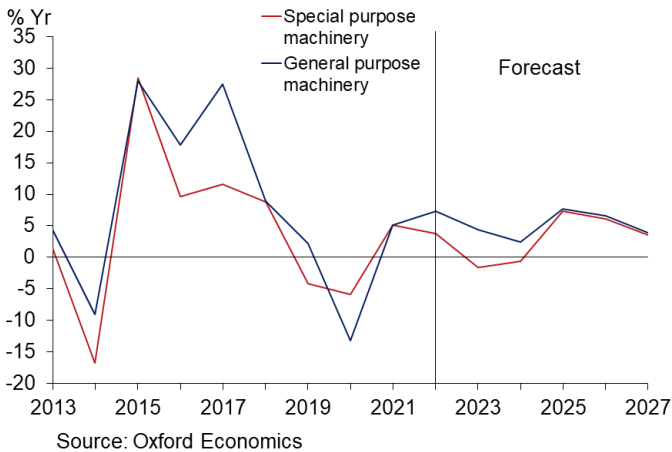
**Investment**



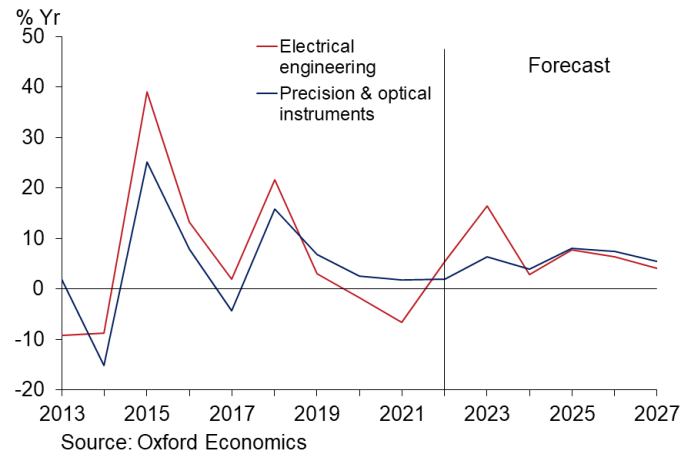
**Investment**



**Investment**



**Investment**



Apparent consumption = total consumption of machine tools in the named market  
 Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms

## Switzerland

### MT demand partially rebound in 2024

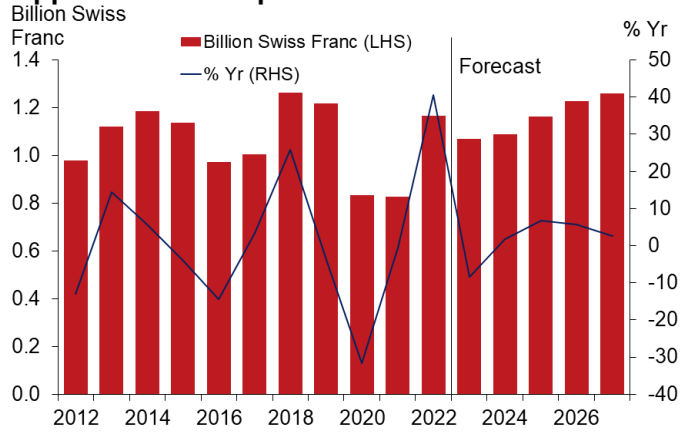
Prospects for 2024 growth are stronger than for many other European countries, mainly due to revenues from the Olympic games and the 2024 European championship as UEFA and the IOC are located in Switzerland. When we adjust for major sporting events, we forecast 2024 GDP growth at only 1.3%, with growth rising to 1.5% next year.

We forecast MT-weighted production will fall by 1.3% in 2024, the second consecutive annual decline, with a rebound of 2.7% expected in 2025. Survey data for the manufacturing industry remains weak, while an ongoing lack of foreign demand and the strong Swiss franc mean that industry will keep struggling over the next few months. Basic metals and metal products are expected to post declines, continuing weak trends from the previous year. Meanwhile, the large precision instrument industry will see a modest slowdown to 2.3% growth in 2024, before increasing by 3.7% in 2025. There are pockets of strength with aerospace and other transport equipment expected to see production growth accelerate this year.

Domestic orders dropped back during H2 2023, decreasing by 14% year-on-year in H2 2023, weighing on near-term MT demand. Meanwhile MT-weighted investment is forecast to edge up by 0.4% in 2024 before posting stronger growth of 4.2% in 2025. On balance, we forecast MT demand will partially recover by 1.8% in 2024 and post 6.8% in 2025.

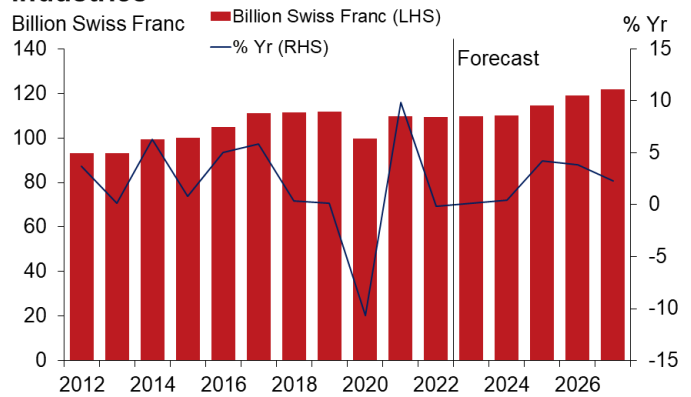
Forecast risks are to the downside. Future relations with the EU are still under discussion and a lack of agreement could impact exports and the electricity market. An additional risk is a stronger Swiss Franc that could put exports and margins under stress. These could weigh on capital spending by MT purchasing industries and, as a result, MT demand.

### Apparent consumption



Source: Oxford Economics

### Investment in machine tool purchasing industries



Source: Oxford Economics

### Forecast for Switzerland

	% change					
	2022	2023	2024	2025	2026	2027
Apparent consumption (Swiss Franc)	40.6	-8.3	1.8	6.8	5.7	2.6
Apparent consumption (US\$)	34.6	-2.6	1.8	6.8	5.7	2.6
GDP	2.7	0.8	1.3	1.5	2.1	1.8
Industrial production	7.7	0.8	1.0	3.1	3.5	2.8
Investment	-0.2	0.2	0.4	4.2	3.8	2.3

MT growth rates in local currency are in current prices. GDP and industrial production growth rates are constant price local currency terms

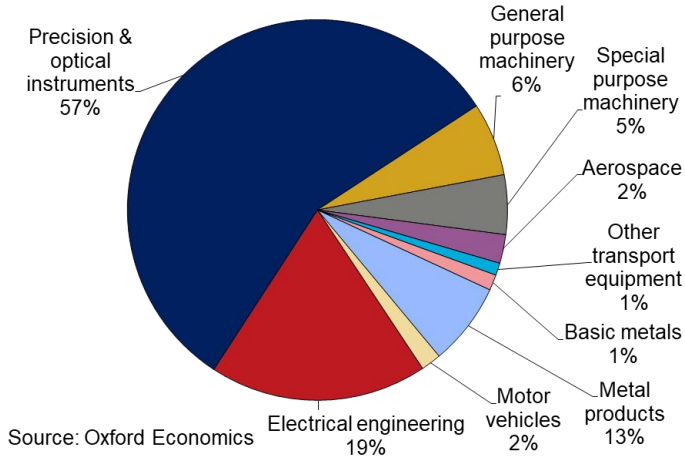
MT growth rates in US\$ are calculated using actual exchange rates to 2023 and then fixed at 2023 exchange rates beyond that date

2023 exchange rate per US\$ = 0.90

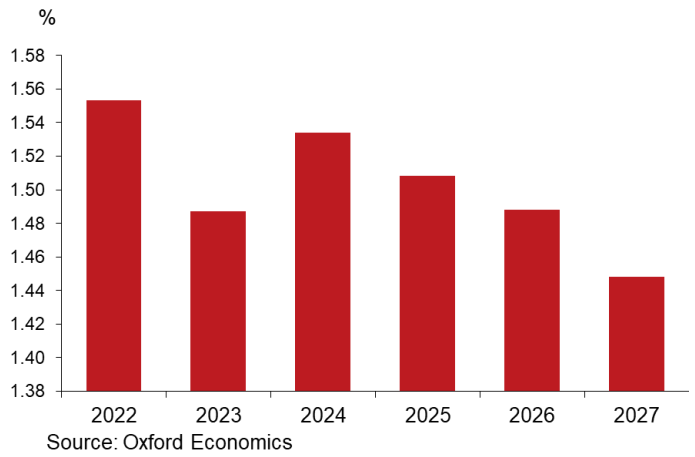
Apparent consumption = total consumption of machine tools in the named market. For consumption levels in \$, please see appendix

Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms

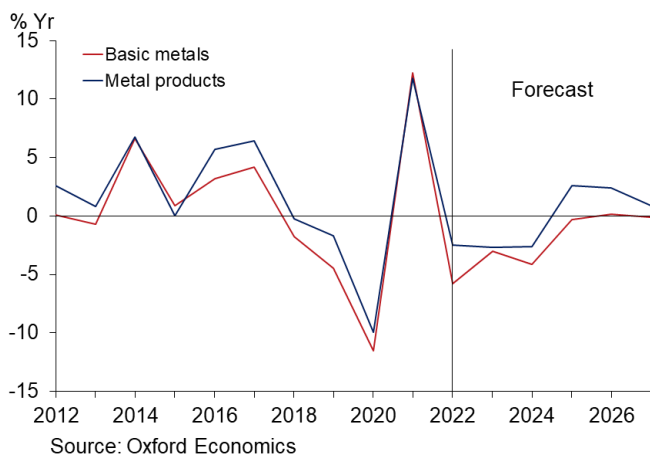
**Composition of investment - 2022**



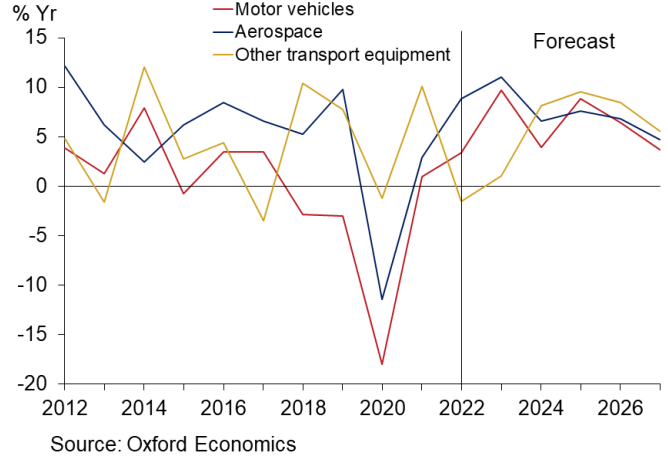
**Apparent consumption world share**



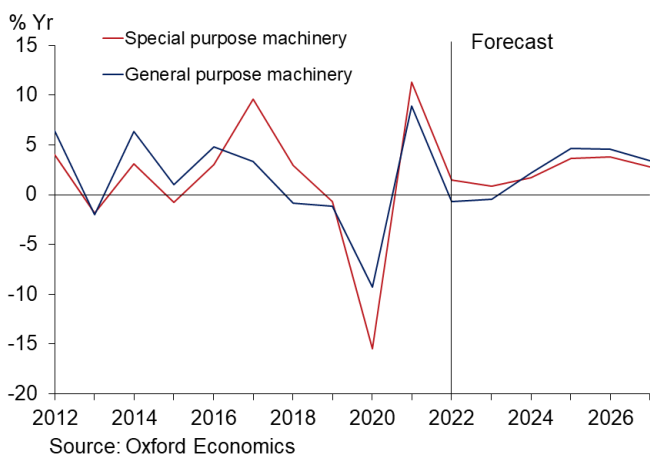
**Investment**



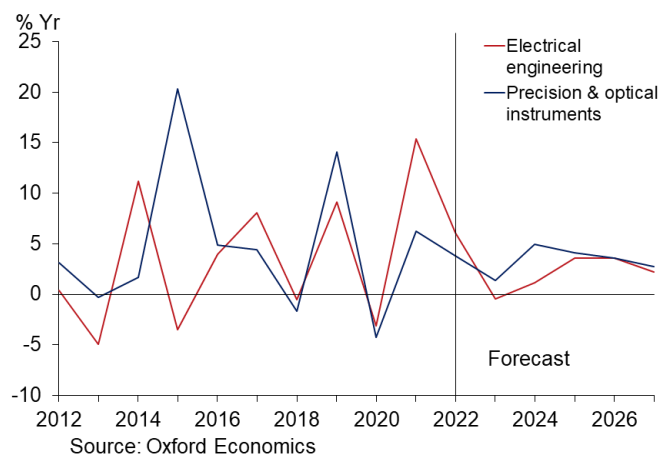
**Investment**



**Investment**



**Investment**



Apparent consumption = total consumption of machine tools in the named market. For consumption levels in \$, please see appendix  
 Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms

# Taiwan

## MT demand to see modest 2024 recovery

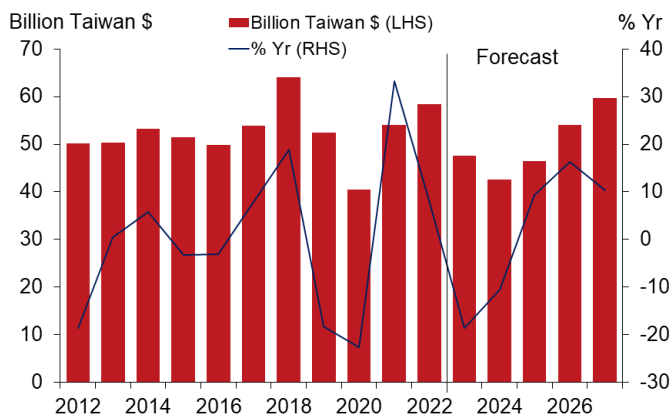
We forecast 2.8% GDP growth in Taiwan in 2024 and 2.9% in 2025. Q4 GDP growth was supported by a rebound in exports, however the gains have not fed into industrial production. Consumer sentiment has improved, but will be clouded by elevated rates, and a pullback in fiscal stimulus.

We expect weighted output of key MT-consuming sectors to partially recover by 1.7% in 2024, following the 7.2% contraction in 2023. The large electrical engineering sector will post output growth of 8.3% this year as it remains a focal point for chip production. In fact, The Taiwanese government plans to spend \$10 billion to promote semiconductor investment over the next ten years. However, declines across many other sectors, notably a strong reversal in aerospace, will limit MT-weighted production growth this year, but we expect a strong recovery to 6.6% growth in 2025.

MT imports weakened considerably in H2 2023, down by almost 34.6% year-on-year. Furthermore, domestic orders were down by 15.5% year-on-year in Q3 2023, although levels appear to be bottoming out. This is echoed by other data sources, for example, orders placed with Japanese MT producers remained firmly below year-ago levels in H2 2023. MT-weighted investment is forecast to drop by 10% in 2024 and recover by 7% in 2025. Overall, we forecast MT demand will drop 10.5% in 2024 and rebound 9.3% in 2025.

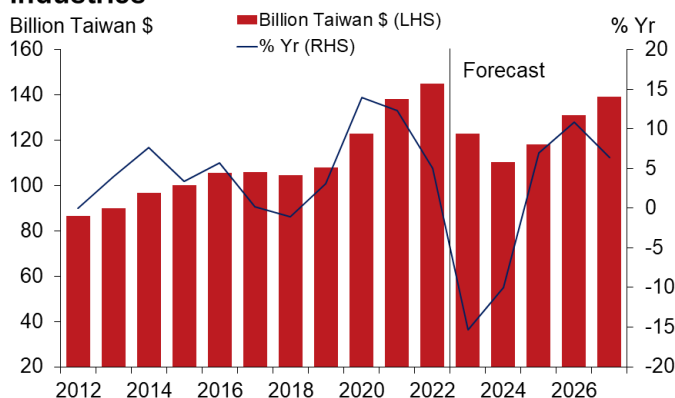
Risks for Taiwan revolve around political tensions with mainland China, and the US' economic stance regarding China. Taiwan is dependent on Chinese imports, and an escalation in tensions increase the chances of a negative spill over. Negative sentiment could weigh negatively on investment and hence MT demand.

### Apparent consumption



Source: Oxford Economics

### Investment in machine tool purchasing industries



Source: Oxford Economics

## Forecast for Taiwan

	% change					
	2022	2023	2024	2025	2026	2027
<b>Apparent consumption (Taiwan \$)</b>	8.2	-18.5	-10.5	9.3	16.4	10.3
<b>Apparent consumption (US\$)</b>	1.7	-22.0	-10.5	9.3	16.4	10.3
<b>GDP</b>	2.6	1.3	2.8	2.9	2.3	2.2
<b>Industrial production</b>	-1.8	-12.3	5.1	6.4	6.2	4.6
<b>Investment</b>	5.1	-15.4	-10.0	7.0	10.8	6.4

MT growth rates in local currency are in current prices. GDP and industrial production growth rates are constant price local currency terms

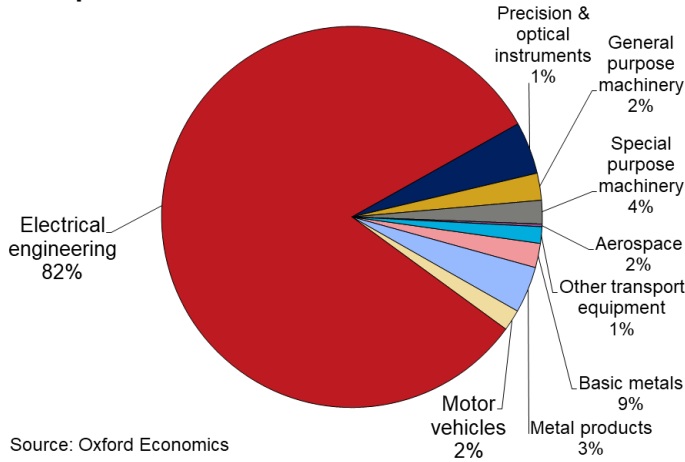
MT growth rates in US\$ are calculated using actual exchange rates to 2023 and then fixed at 2023 exchange rates beyond that date

2023 exchange rate per US\$ = 31.16

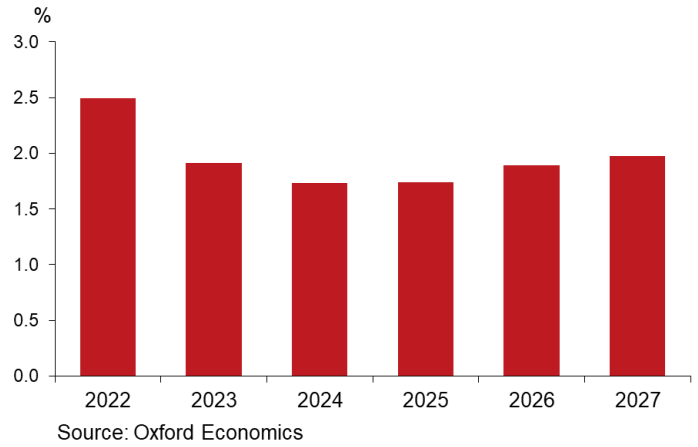
Apparent consumption = total consumption of machine tools in the named market

Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms

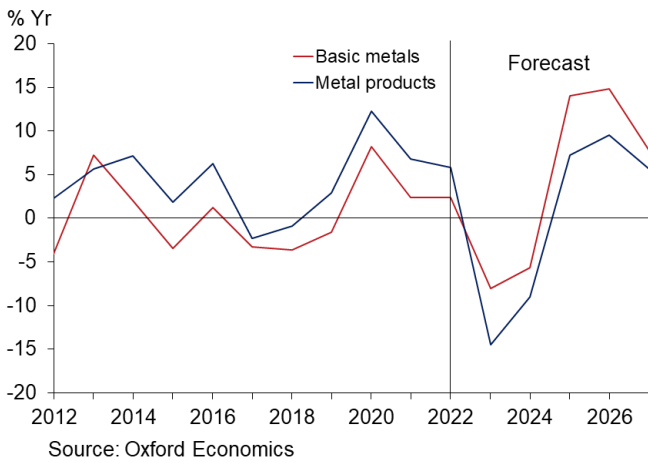
## Composition of investment - 2022



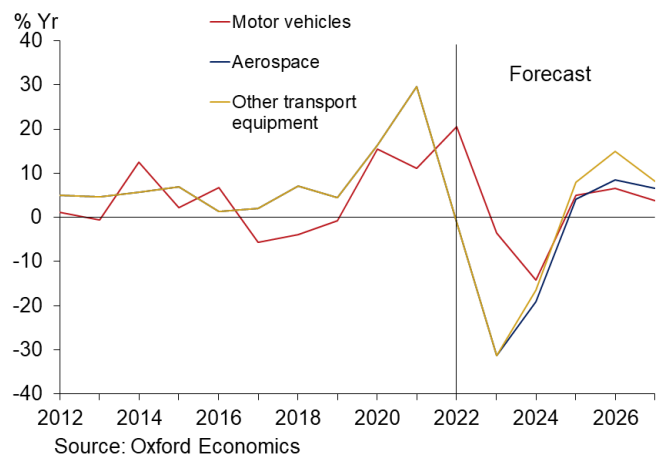
## Apparent consumption world share



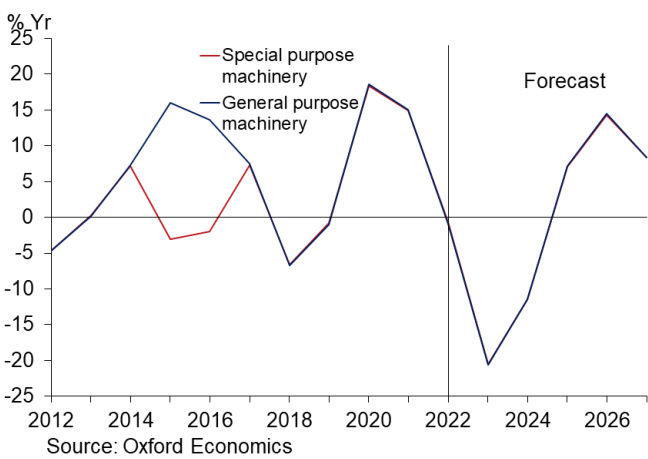
## Investment



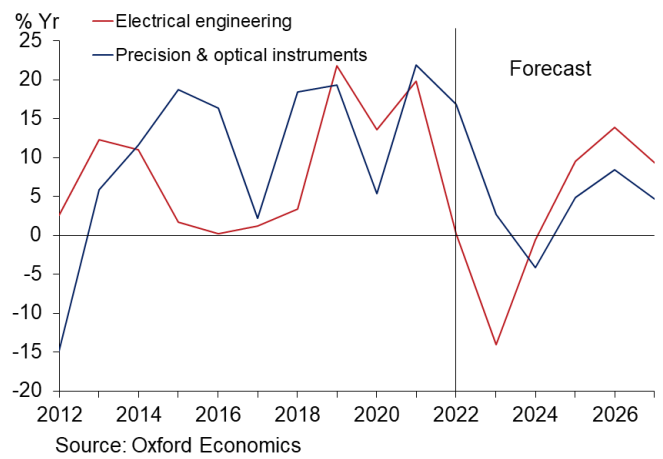
## Investment



## Investment



## Investment



Apparent consumption = total consumption of machine tools in the named market  
 Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms

# Thailand

## MT consumption to edge up in 2024

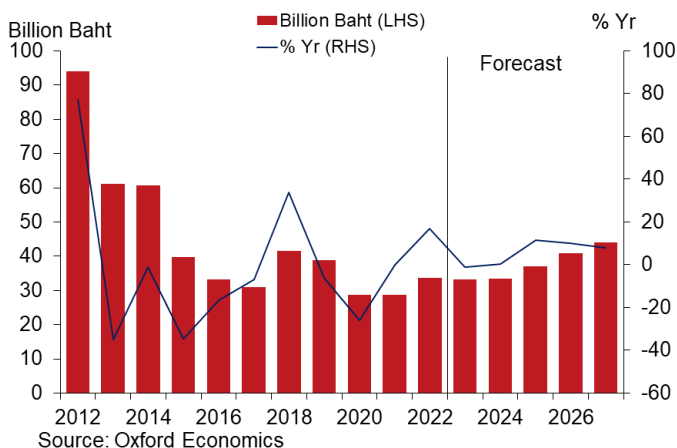
We forecast GDP to grow at 2.6% in 2024, boosted by an improved outlook for the global economy, and a rebound in tourism, with arrivals reaching its peak since the reopening of the economy post the pandemic. The cash handout plan, which has faced repeated delays, should support near term private consumption, however, faces the threat of being shelved. In this case the, the need for rate cuts become more apparent.

Our 2024 outlook for most MT-consuming sectors remains negative, with contractions forecasted in six out of the nine sectors. Of these, motor vehicles will face the largest decline of 10.9%, with aerospace not far from a double-digit contraction of 9.5%. Interest rates remain high, but pressure for rate cuts amid below target inflation and weak growth, combined with better external conditions in H2 of 2024 will contribute to the rebound in 2025. Overall, we forecast MT-weighted production to contract 5.3% in 2024, with growth rebounding to 7.8% in 2025.

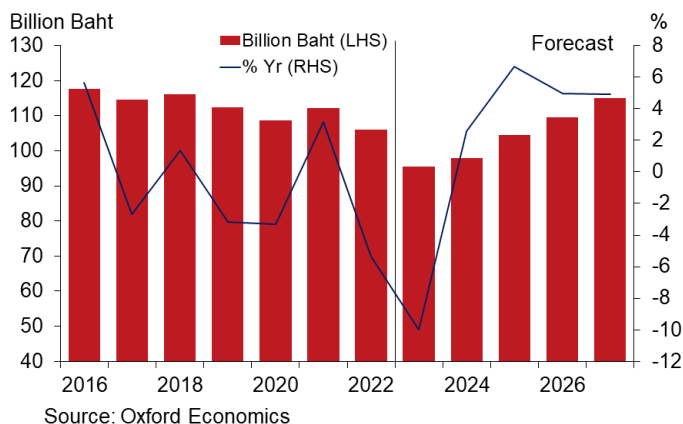
MT imports edged down by 1.8% year-on-year during the second half of 2023. Meanwhile, orders placed with Japanese producers were down by 2% year-on-year in 2023, although there was an improvement during H2 2023. Capital spending by the key MT purchasing sectors is forecast to partially recover by 2.6% in 2024 before posting a strong 6.6% in 2025. On balance, we forecast MT demand will edge up by 0.3% in 2024 before accelerating to 11.4% growth in 2025.

Forecast risks are skewed to the downside. Political uncertainty could lead to new power struggles and public protests. High household debt which has been rising over the last decade, could increase financial stress if rates remain high. This could impact consumer spending and investment, overall, reducing MT demand.

### Apparent consumption



### Investment in machine tool purchasing industries



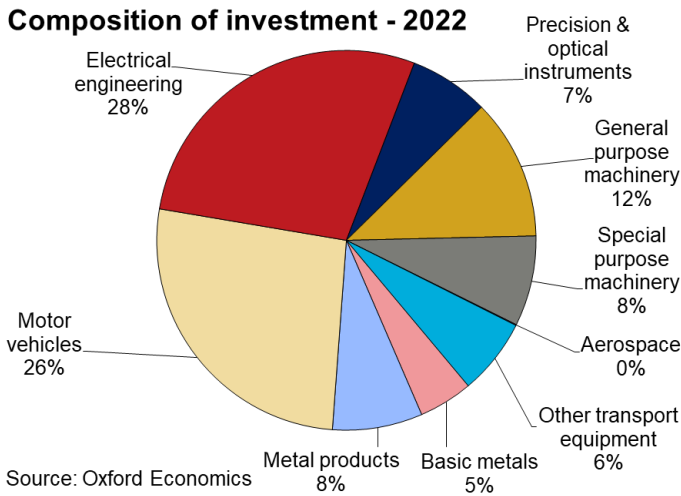
Forecast for Thailand						
	% change					
	2022	2023	2024	2025	2026	2027
<b>Apparent consumption (Baht)</b>	16.8	-1.2	0.3	11.4	9.9	8.0
<b>Apparent consumption (US\$)</b>	6.5	-0.5	0.3	11.4	9.9	8.0
<b>GDP</b>	2.5	1.9	2.6	4.2	3.8	3.8
<b>Industrial production</b>	0.6	-5.1	-1.3	4.4	4.0	3.8
<b>Investment</b>	-5.4	-10.0	2.6	6.6	4.9	4.9

MT growth rates in local currency are in current prices. GDP and industrial production growth rates are constant price local currency terms  
 MT growth rates in US\$ are calculated using actual exchange rates to 2023 and then fixed at 2023 exchange rates beyond that date  
 2023 exchange rate per US\$ = 34.80

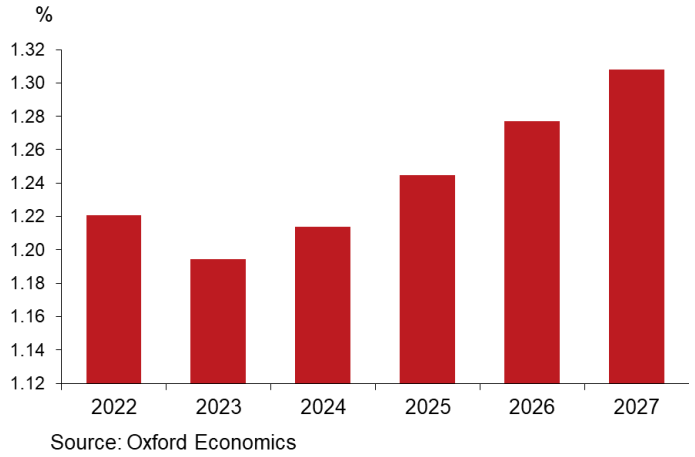
Apparent consumption = total consumption of machine tools in the named market  
 Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms



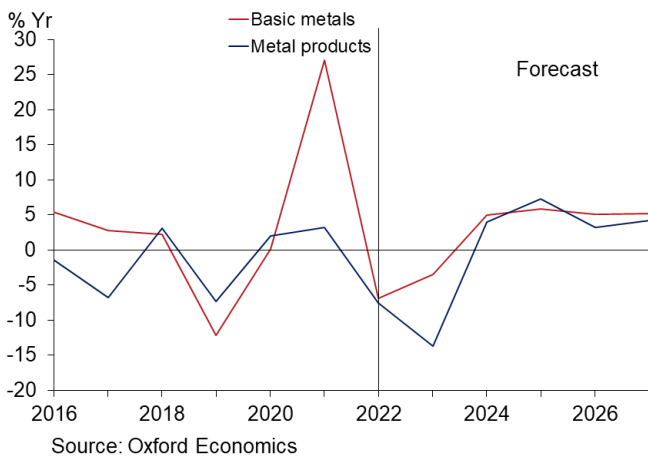
### Composition of investment - 2022



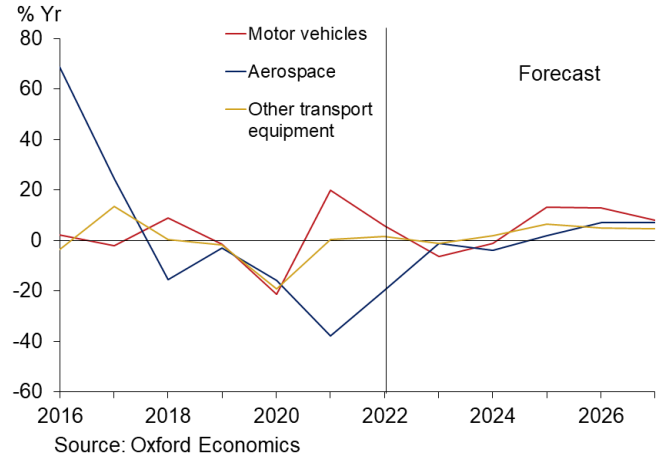
### Apparent consumption world share



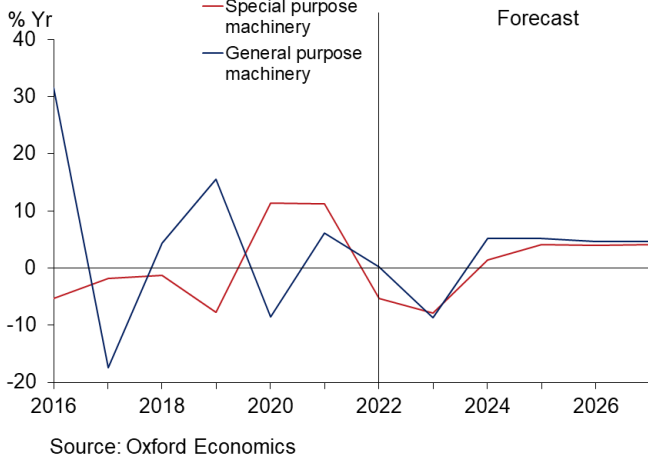
### Investment



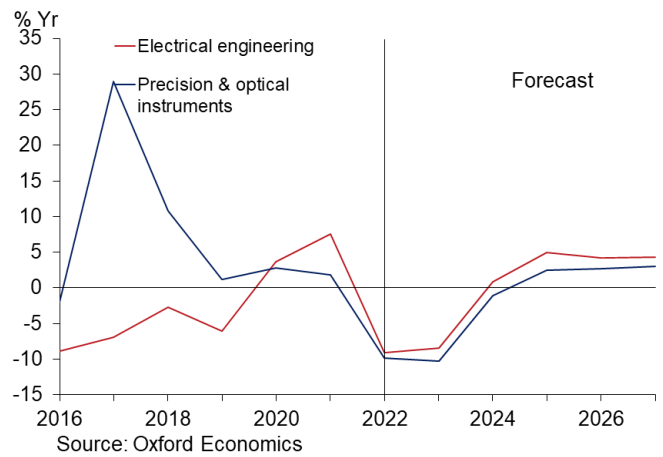
### Investment



### Investment



### Investment



Apparent consumption = total consumption of machine tools in the named market  
 Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms

## Türkiye

### Currency collapse masks MT demand growth

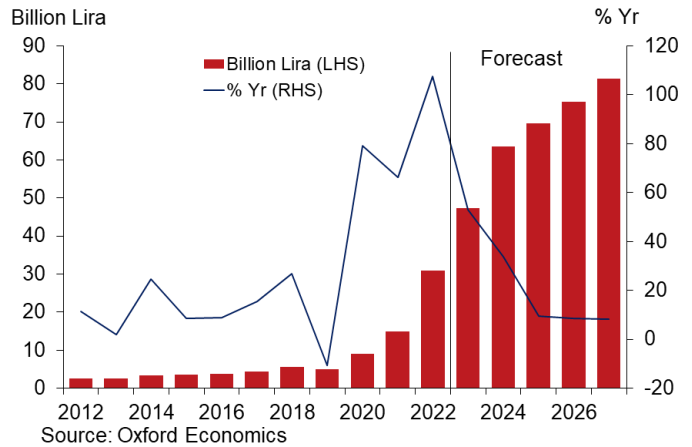
We now forecast GDP to expand 2.5% in 2024, reflecting the stronger than expected performance in 2023 Q4, which we expect will carry forward in 2024. Sticky inflation will limit the CBRT's room to cut rates below 45% this year, stalling growth in fixed investment, limiting growth prospects. Beyond this, we forecast GDP growth of 1.9% in 2025.

Weighted output of key MT-consuming sectors will stagnate in 2024, growing by only 0.5%. Most key sectors will grow in 2024, however contractions in motor vehicles and general-purpose machinery of 5.4% and 2.5%, respectively, will depress overall MT-weighted output. Aerospace and other transport equipment have grown rapidly in recent years, due to an increase in exports of rail and aircraft parts, but we expect a slowdown to more normal growth rates ahead. Following a subdued 2024, we expect MT-weighted output growth to pick up to 3.5% in 2025.

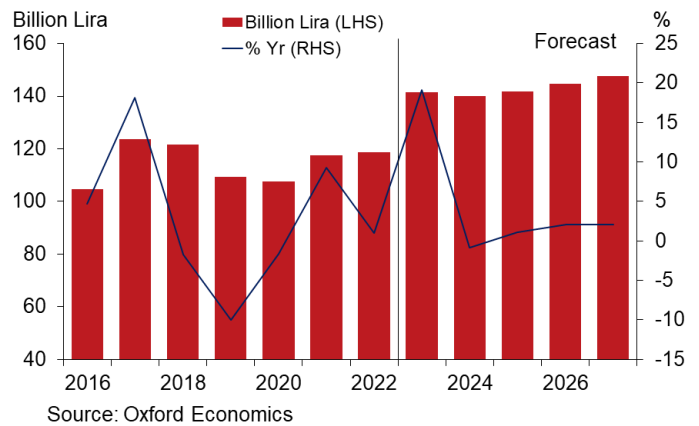
MT imports data suggest that MT demand was strong during H2 2023, and strong base effects will carry over into 2024, though this is largely because of a severe depreciation in the currency that masks underlying MT demand trends by inflating local currency values. Meanwhile, MT-weighted investment is expected to fall by 0.9% in 2024 before increasing by 1.1% in 2025. MT demand more than doubled in 2022 and posted 53% in 2023 and we forecast 33.8% growth in 2024, though this was inflated by the aforementioned currency depreciation.

Risks remain moderately high, due to the growth picture being highly volatile over the past few years. Elevated domestic and geopolitical tension, and the volatile lira will strain recovery, and increase uncertainty, which bodes poorly for investment and, as a result, MT demand.

### Apparent consumption



### Investment in machine tool purchasing industries



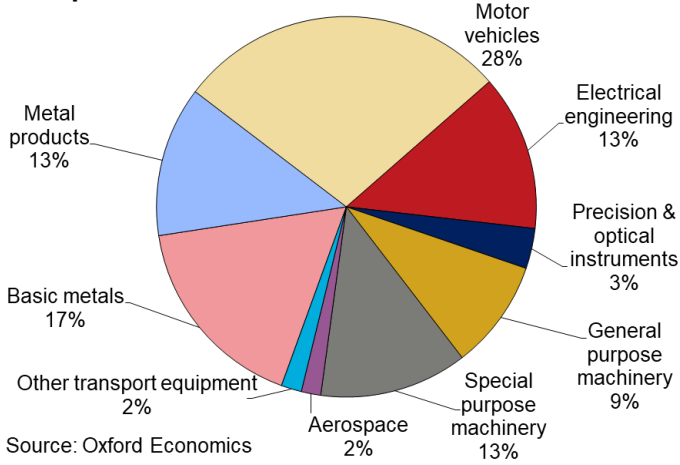
### Forecast for Türkiye

	% change					
	2022	2023	2024	2025	2026	2027
Apparent consumption (Lira)	107.7	53.0	33.8	9.6	8.4	8.1
Apparent consumption (US\$)	11.1	7.0	33.8	9.6	8.4	8.1
GDP	5.5	4.5	2.5	1.9	2.0	2.0
Industrial production	6.2	0.9	0.6	2.2	2.3	2.3
Investment	1.0	19.1	-0.9	1.1	2.1	2.0

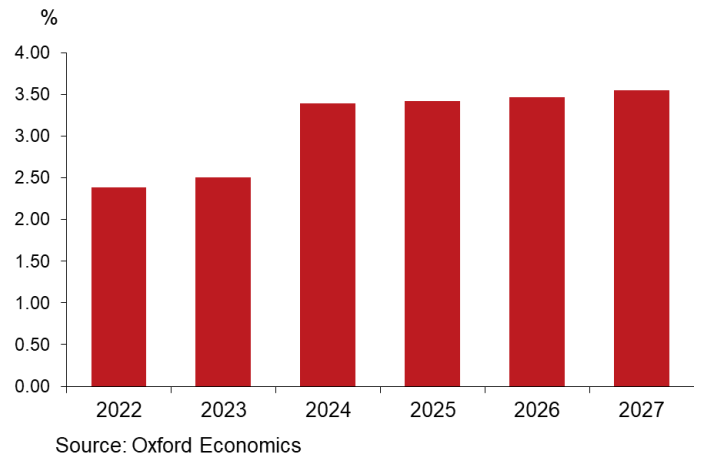
MT growth rates in local currency are in current prices. GDP and industrial production growth rates are constant price local currency terms  
 MT growth rates in US\$ are calculated using actual exchange rates to 2023 and then fixed at 2023 exchange rates beyond that date  
 2023 exchange rate per US\$ = 23.71

Apparent consumption = total consumption of machine tools in the named market  
 Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms

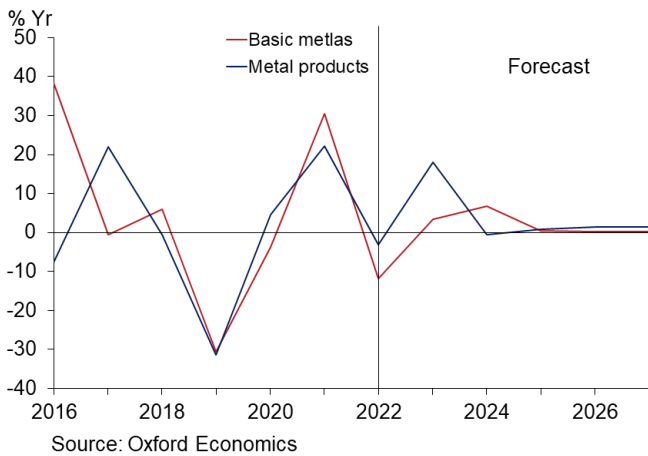
**Composition of investment - 2022**



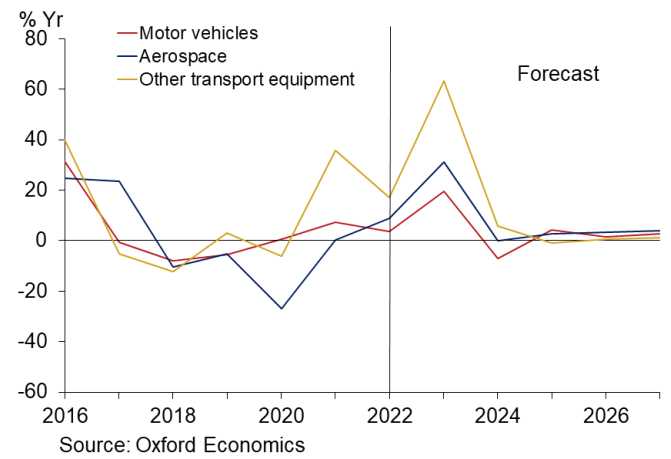
**Apparent consumption world share**



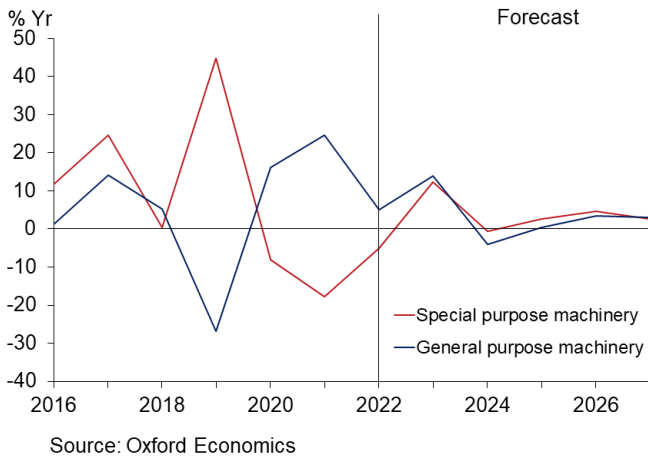
**Investment**



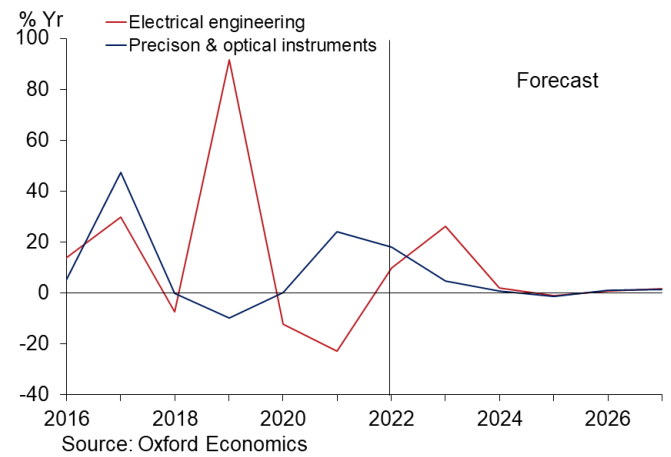
**Investment**



**Investment**



**Investment**



Apparent consumption = total consumption of machine tools in the named market  
 Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms

# United Kingdom

## MT demand to bounce back in 2025

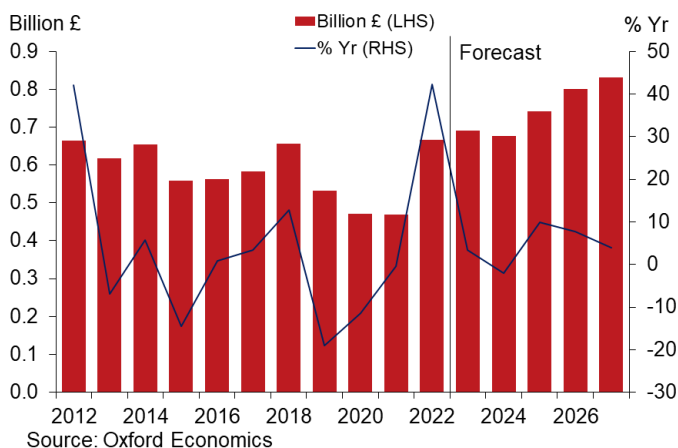
We forecast UK GDP growth in 2024 of 0.5% before an increase to 2.0% in 2025 on the back of fiscal policy loosening announced in the Budget. The housing market will enjoy a soft landing, and business survey data has strengthened of late, with the composite PMI reaching a nine-month high in February, although weaknesses from the manufacturing side will persist as the benefits of looser monetary policy are unlikely to be seen until 2025.

Output of key MT-consuming sectors is set to grow by 2.7% in 2024, after growth of 4.2% in 2023. The key MT end-use sectors of automotive, other transport equipment and metal products will see the fastest growth in output this year, although motor vehicles is benefitting from strong positive base effects with levels expected to go into reverse due to subdued demand, the relocation of some production and concerns around trade competitiveness. Meanwhile, the key machinery segments will see output decline as high borrowing costs and subdued demand have dampened investment in new capacity.

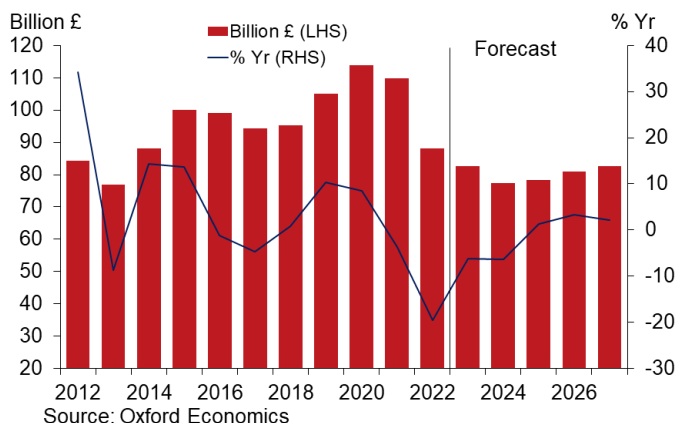
The end of 2023 has brought upward surprises to MT consumption, bringing growth for the year at 3.5%. We forecast a 2.0% decline in 2024, which is attributable to the base effect coming from the Q1 2023 distortion from the ending of the Super-Deduction scheme as well as a further decline in investment by the key MT consuming industries. In fact, beyond seasonality, we expect continuous quarterly growth this year, with annual growth of 9.8% predicted for 2025.

There are risks related to changes in fiscal approach because of political change. If the fiscal stance stays looser, monetary policy will likely remain tighter, dragging investment and, ultimately, MT consumption down.

### Apparent consumption



### Investment in machine tool purchasing industries

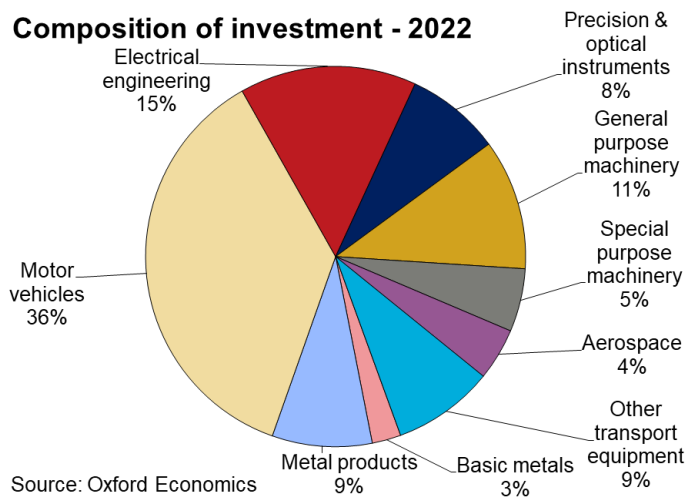


Forecast for UK						
	% change					
	2022	2023	2024	2025	2026	2027
Apparent consumption (£)	42.2	3.5	-2.0	9.8	7.7	4.0
Apparent consumption (US\$)	27.9	4.0	-2.0	9.8	7.7	4.0
GDP	4.3	0.1	0.5	2.0	2.0	1.6
Industrial production	-3.5	-0.3	0.2	0.9	1.5	1.2
Investment	-19.6	-6.3	-6.4	1.3	3.2	2.1

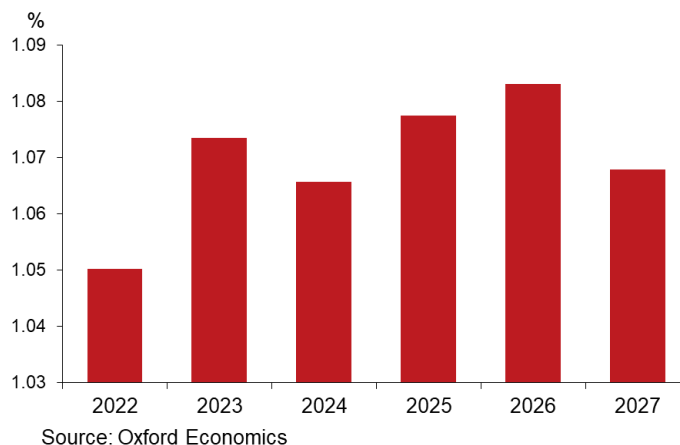
MT growth rates in local currency are in current prices. GDP and industrial production growth rates are constant price local currency terms. MT growth rates in US\$ are calculated using actual exchange rates to 2023 and then fixed at 2023 exchange rates beyond that date. 2023 exchange rate per US\$ = 1.24

Apparent consumption = total consumption of machine tools in the named market. For consumption levels in \$, please see appendix. Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms

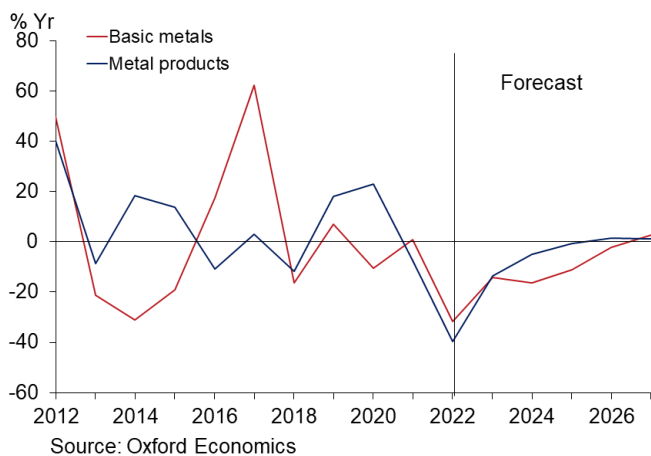
**Composition of investment - 2022**



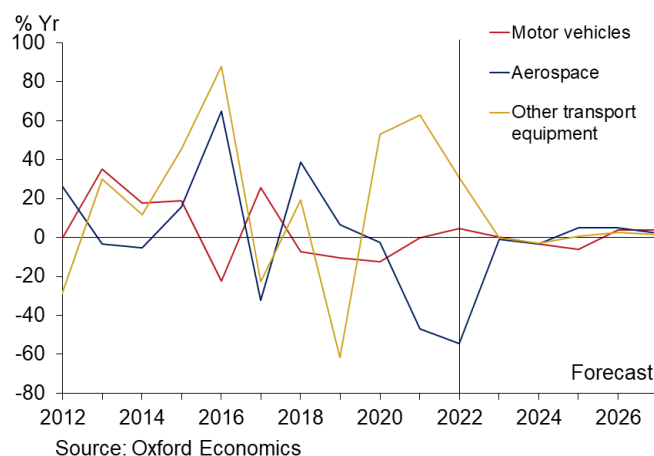
**Apparent consumption world share**



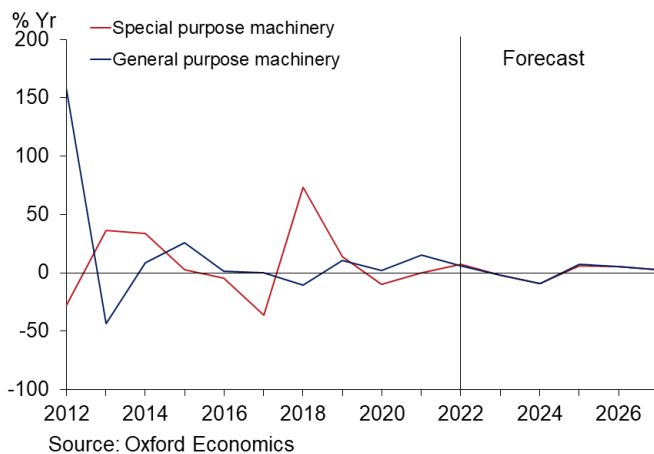
**Investment**



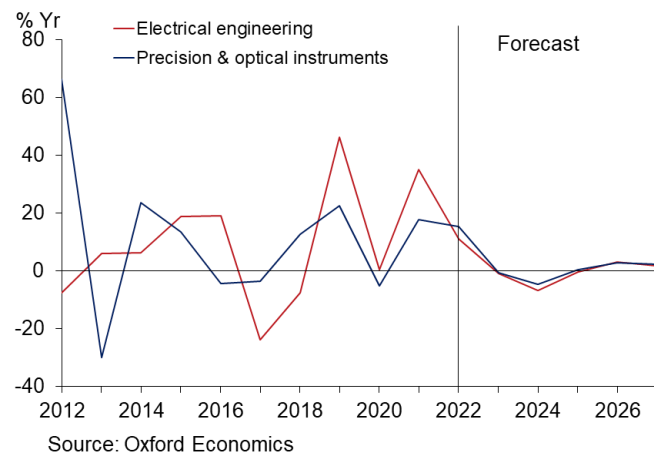
**Investment**



**Investment**



**Investment**



Apparent consumption = total consumption of machine tools in the named market. For consumption levels in \$, please see appendix  
 Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms

# United States

## MT demand to fall 7.5% in 2024

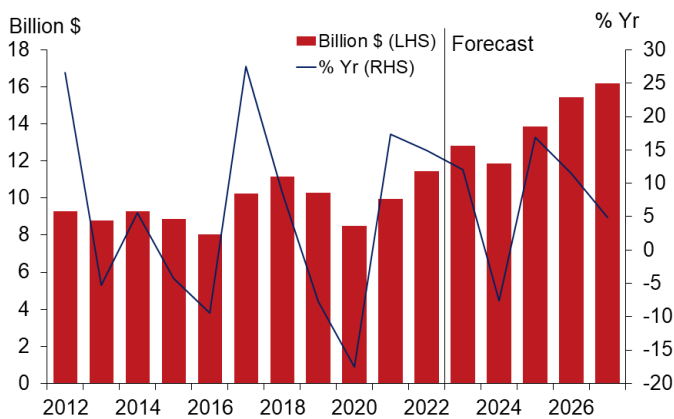
The strength of the labour market, easing financial market conditions, solid household and non-financial corporate balance sheets, and less drag from inventories all justify our GDP forecast of 2.4% in 2024, slightly slower than the 2.5% recorded in 2023, even though fiscal policy will be a modest drag on GDP growth. Beyond this year, we expect GDP growth will slow to 1.7% in 2025.

We have upgraded our prospects for US industrial growth since our previous report and no longer expect a recession, but instead a modest increase of 0.6% in 2024, after a 0.2% increase in 2023. However, much of that year-on-year growth figure arises because of an unexpectedly weak end of 2023. Of the key MT consuming industries, aerospace and electrical engineering production are forecast to grow at the strongest pace. Rising demand for air travel and increased defence spending will support aerospace production while strong demand for semiconductors will boost electrical engineering. Motor vehicles will benefit from positive base effects but growth will wane amid tight credit conditions and less of a boost from inventory rebuilding while the shift towards electric vehicles will weigh on MT demand.

US machine tool orders declined by 9.7% year-on-year in H2 2023, but are expected to rebound in 2024 and 2025. Meanwhile, MT-weighted investment is forecast to rise by 2.8% in 2024, reflecting upward revisions to our investment forecast, and 6.4% in 2025. As a result, MT consumption is expected to decrease by 7.5% in 2024 and accelerate to 16.9% in 2025 as MT demand benefits from stronger domestic orders growth.

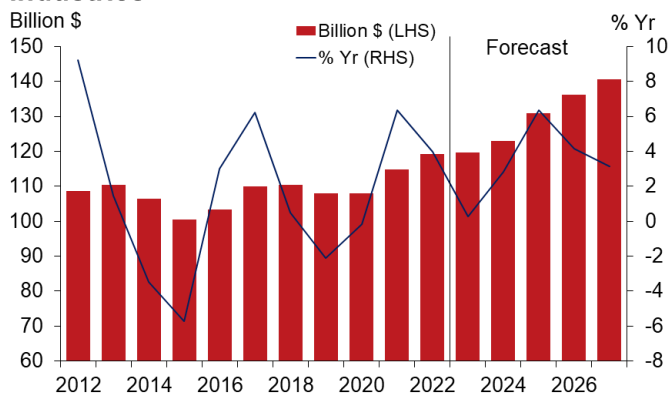
Risks to the forecast are to the downside. Stubborn inflation could potentially lead to interest rates remaining higher for longer, which would weigh upon capital spending by MT-consuming industries. Tensions with China could also escalate hitting business confidence and denting investment demand.

### Apparent consumption



Source: Oxford Economics

### Investment in machine tool purchasing industries



Source: Oxford Economics

## Forecast for US

% change

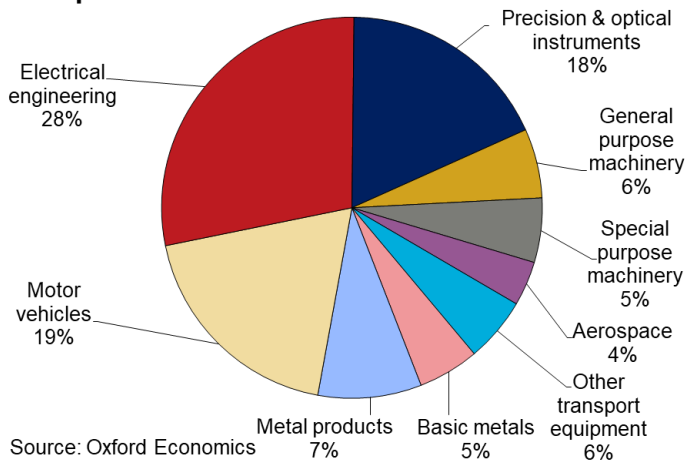
	2022	2023	2024	2025	2026	2027
<b>Apparent consumption (US\$)</b>	14.9	12.1	-7.5	16.9	11.5	4.8
<b>GDP</b>	1.9	2.5	2.4	1.7	1.9	1.7
<b>Industrial production</b>	3.4	0.2	0.6	2.1	1.6	1.5
<b>Investment</b>	4.0	0.3	2.8	6.4	4.1	3.1

MT growth rates in local currency are in current prices. GDP and industrial production growth rates are constant price local currency terms

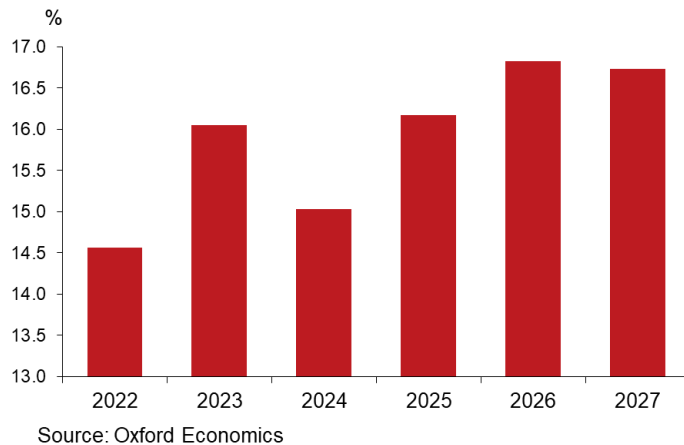
Apparent consumption = total consumption of machine tools in the named market. For consumption levels in \$, please see appendix  
 Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms



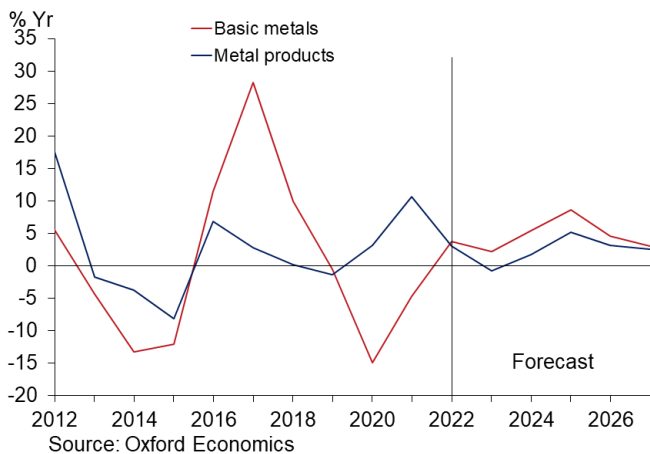
**Composition of investment - 2022**



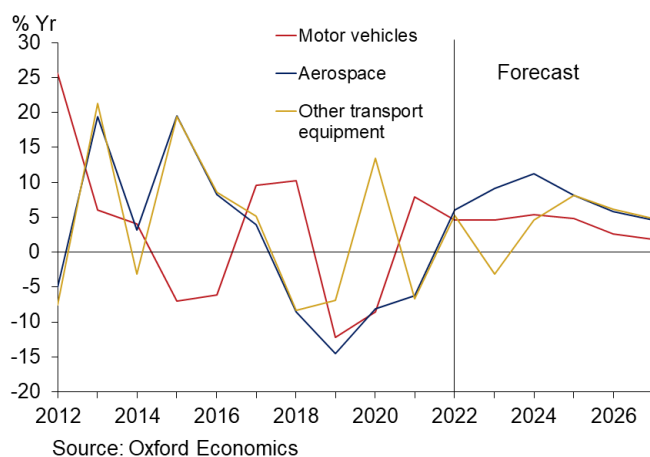
**Apparent consumption world share**



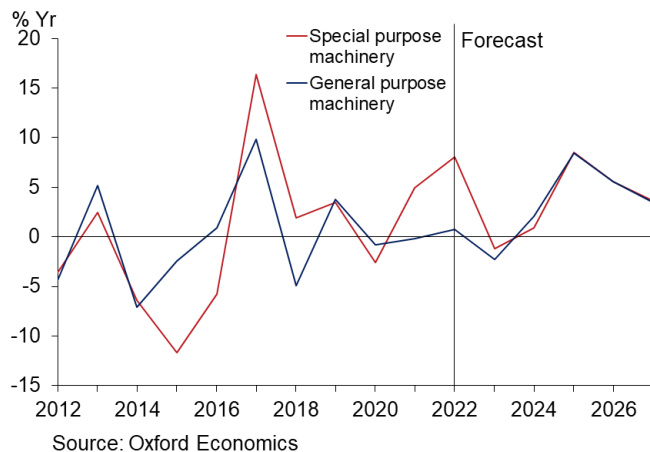
**Investment**



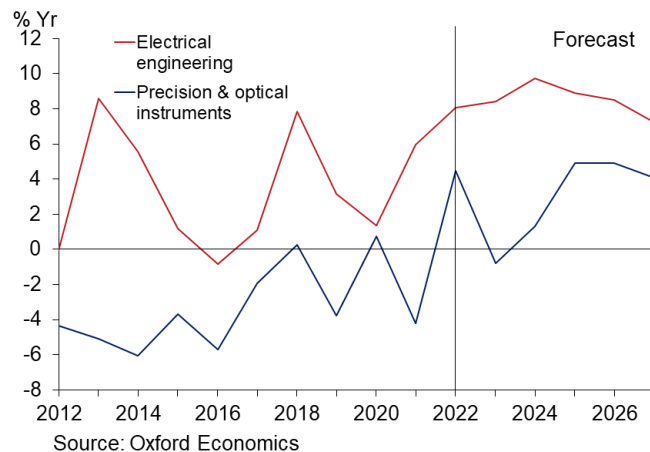
**Investment**



**Investment**



**Investment**



Apparent consumption = total consumption of machine tools in the named market. For consumption levels in \$, please see appendix  
 Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms

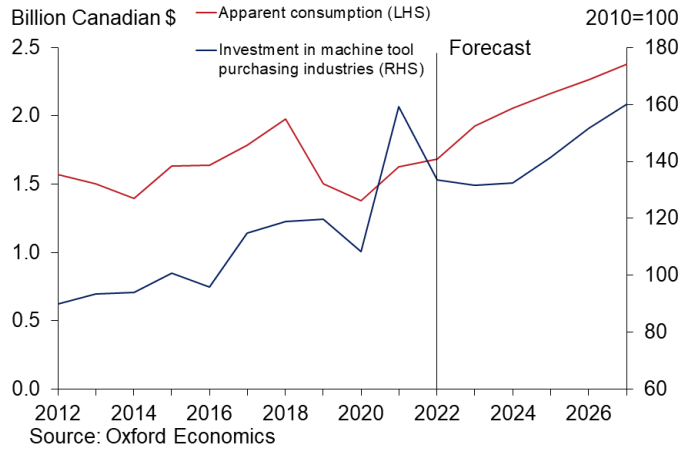
## Smaller markets

### Canada

In 2024 we forecast GDP to contract 0.3%, with high policy rates squeezing household incomes, leading to spending cuts, deepening the recession in H1. However, we expect a slow recovery will get underway once the Bank of Canada begins loosening monetary policy, likely in June.

MT demand is forecast to grow 6.9% in 2024, maintaining its double-digit pace from 2023, reflecting solid orders for metal working machinery as well as strong import growth, which was up by 5.4% in H2 2023. Although investment by the key MT consuming sectors will grow by only 0.6% in 2024 we expect it will pick up to 6.7% in 2025. This will support solid, albeit slower, growth of 5% in 2025.

### Canada

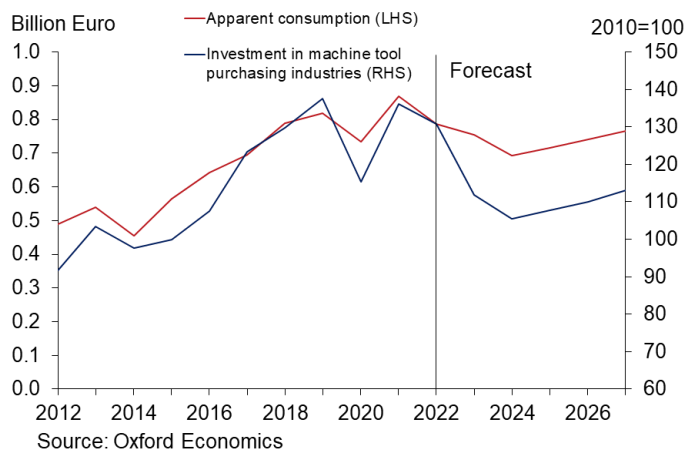


### Austria

GDP will expand by a mere 0.3% in 2024 as momentum remains weak, following flat GDP in Q4 2023. Austria's strong links to other eurozone economies, Germany in particular, clouds the short-term outlook, and will prevent a strong rebound in 2024. Inflation continues to decline, and we expect the target to be reached in H2 2024.

MT demand is forecast to contract for the third consecutive year in 2024, down by 8.2%, before partially recovering by 3.1% in 2025. Domestic orders was down by 14.6% in Q3 2023, which does not bode well for near-term consumption trends. Furthermore, MT-weighted investment of key MT consuming sectors is also expected to decline for the third straight year, down by 5.7% in 2024, before increasing by 2% in 2025.

### Austria

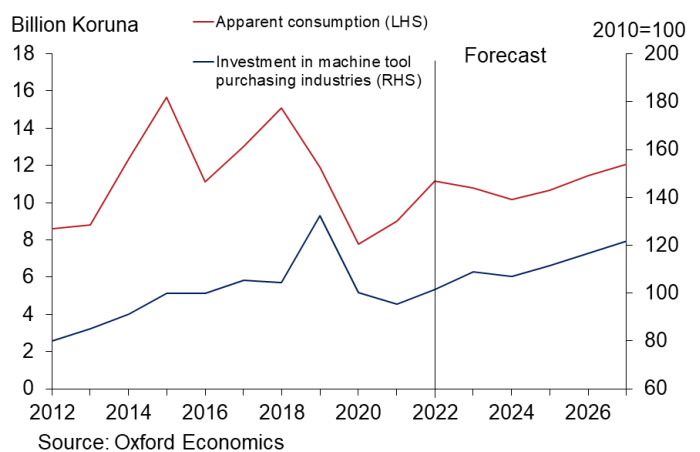


### Czech Republic

The Czech economy has passed through the worst, with momentum expected to strengthen gradually this year. GDP will grow by 1%, however will rebound more strongly in 2025 at 3.1%. Recovery is conditional on improving consumer spending, as well as easing external demand, with the latter sensitive to tight monetary policy in Europe.

We expect MT consumption to fall by a further 5.7% in 2024, before rising by 4.8% in 2025. Similarly, MT-weighted investment is forecast to decline by 1.7% in 2024 and expand by 4.2% in 2025.

### Czech



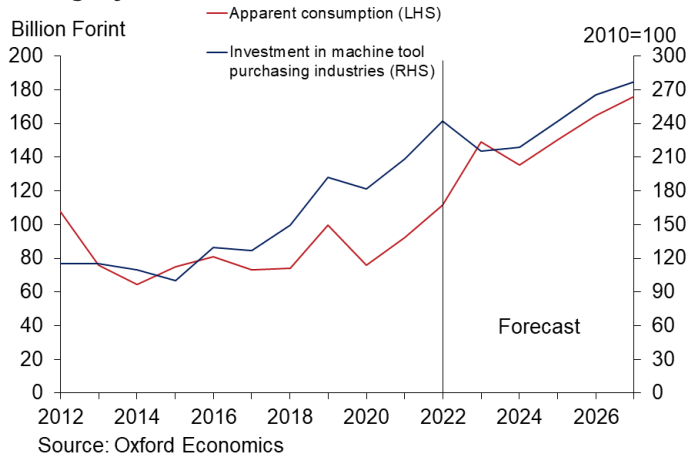
Apparent consumption = total consumption of machine tools in the named market. For consumption levels in \$, please see appendix  
 Total investment = spending on all assets by the nine primary machine tool purchasing industries

## Hungary

A recovery in consumption will drive the 2.3% rebound in GDP in 2024. However, softer external demand, given tighter credit conditions in Europe will slow the rate of recovery. Falling inflation will support the case to continue easing policy rates, however downside inflation risks will likely result in gradual hikes as opposed to more front-loaded easing.

MT-weighted investment of key MT consuming sectors is expected to rise by 1.6% in 2024 before posting a stronger increase of 10.7% in 2025. However, we expect MT consumption to drop back sharply in 2024, down by 9.3%, reflecting weaker MT import growth at the end of last year with adverse base effects spilling into 2024.

## Hungary

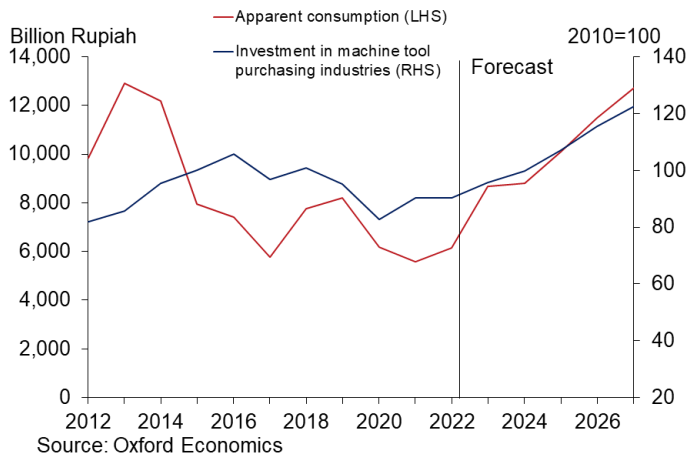


## Indonesia

GDP is forecasted to increase 4.5% in 2024, slightly lower than 2023. Household spending growth will remain modest as pent-up demand has likely run its course. Lower external demand and the lagged impact of domestic monetary tightening will continue to impact growth in coming quarters. Election related spending will contribute to the 5.9% growth in government spending in 2024, however this won't be enough to combat the slacking private sector.

MT-weighted investment is forecast to rise 4.2% this year before picking up to 7.2% in 2025. As a result, MT consumption will grow 1.4% and 14.8% in 2024 and 2025, respectively.

## Indonesia

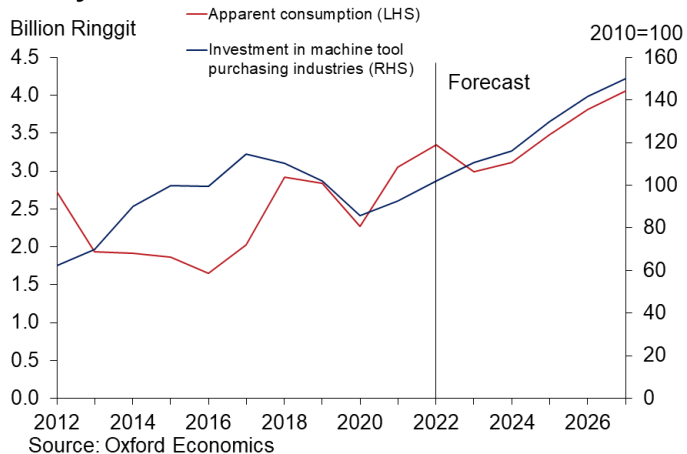


## Malaysia

We forecast GDP to grow 3% in 2024, which reflects weaker private consumption. We expect households to sacrifice current consumption to build up savings, dampening investment sentiment, which is already strained due to an unsupportive external environment. Considering these factors, we believe the BNM will begin loosening rates in Q2. However, this depends on the US Federal Reserve cutting rates, which will ease pressure off the ringgit.

MT demand will partially rebound by 4.3% in 2024, after a sharp 19.6% in 2023, before increasing by 11.6% in 2025. Similarly, MT-weighted investment will see growth slow to 4.9% in 2024 before increasing by 11.9% in 2025.

## Malaysia



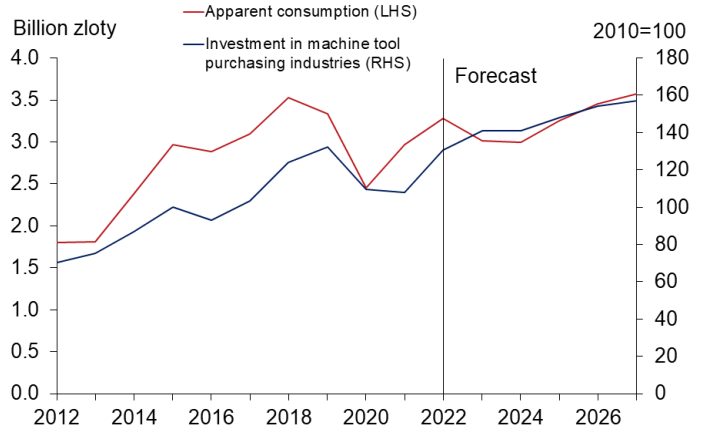
Apparent consumption = total consumption of machine tools in the named market. For consumption levels in \$, please see appendix  
 Total investment = spending on all assets by the nine primary machine tool purchasing industries

## Poland

We forecast GDP growth of 2.9% in 2024. We saw a disappointing outturn in Q4 2023 when GDP stagnated. That said, we expect rising real incomes to translate into a solid consumption rebound this year. This, along with the recent unlocking of EU funding and a gradual recovery abroad, will pave the way for GDP to reach 3.8% next year.

Weighted investment by the main MT consuming sectors is expected to grow by 0.2% this year and 5% next year. On balance, we forecast MT demand will edge down by 0.5% in 2024, after a sharp drop in 2023, before increasing by 8.7% in 2025.

### Poland



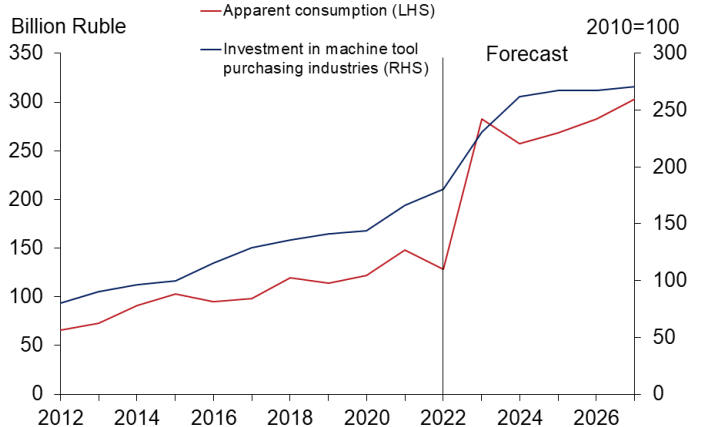
Source: Oxford Economics

## Russia

In 2024 Russia's GDP will grow by 3%, predominantly driven by government consumption and investment. The military budget has increased to 6% of GDP and will also bolster growth. The central bank's attempts to tame inflation through tighter rates will cause household demand to fall, negatively impacting growth.

MT-weighted investment is forecast to expand by 13.5% in 2024, a slower albeit still strong increase on the previous year. Meanwhile MT demand in 2023 was much stronger than we anticipated, up by 121%, reflecting a similar increase in MT imports as Russia adjusts its supply chain towards Asia and away from Europe. Looking ahead, we expect MT demand will contract by 9.2% this year, before returning to growth of 4.5% in 2025.

### Russia



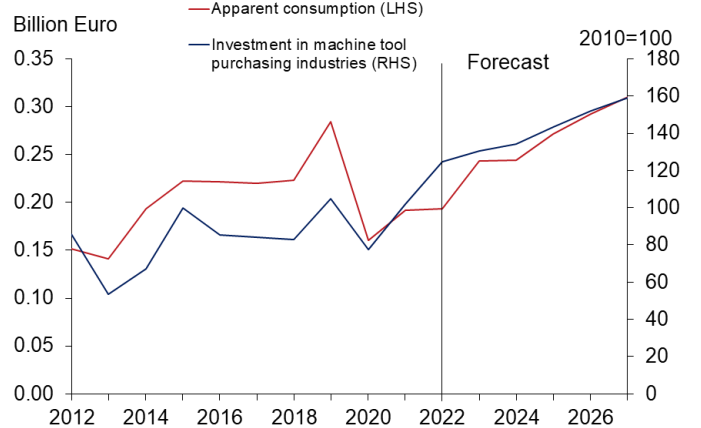
Source: Oxford Economics

## Slovakia

We expect GDP to expand 1.5% in 2024, growth gradually building through 2024, reflecting sequential improvements in external demand. However, this will have a larger impact in 2025, with GDP forecast to grow 2.8%. Private consumption will likely remain subdued in 2024 as household budgets are strained by rising debt payments.

Slovakian MT imports dropped back during H2 2023 and adverse base effects will spill over into 2024. Meanwhile, weighted investment by the main MT consuming sectors is forecast to post growth of 2.7% in 2024 and 6.9% in 2025. Overall, MT consumption is forecast to rise by 0.6% in 2024 before seeing stronger growth of 11.0% in 2025.

### Slovakia



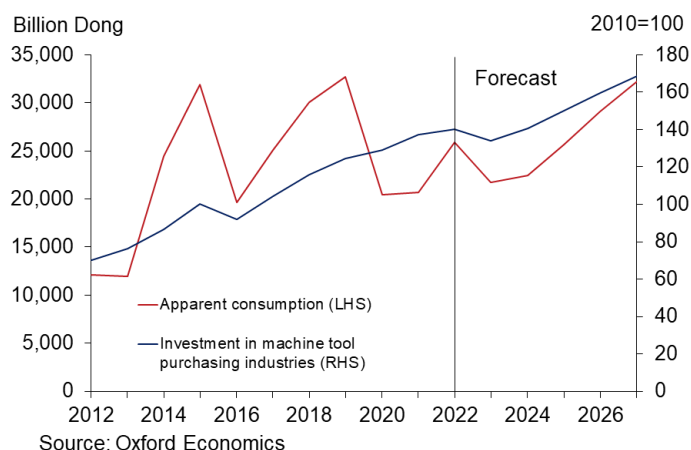
Source: Oxford Economics

## Vietnam

We forecast GDP to expand 5.2% in 2024, with the external sector adding to the positive outlook. On the domestic front, we expect an uptrend in hiring and investment decisions, which will boost consumption. Inflation doesn't seem a threat, and we expect the State Bank of Vietnam to keep policy on hold. Growth has remained resilient however it has not recovered to the pre pandemic norm of 7%.

Investment by the major MT purchasing sectors is forecast to rise by 5% in 2024 and 6.9% in 2025, after a 4.6% drop in 2023. Meanwhile, MT imports were subdued during H2 2023. Overall, MT demand is expected to return to growth of 3.3% in 2024 before increasing by 13.9% in 2025.

## Vietnam



## Apparent consumption

(% change unless specified)

	2022	2023	2024	2025	2026	2027	Level in 2022, US\$bn
Canada	3.3	14.6	6.9	5.0	4.9	4.9	1.3
Austria	-9.4	-4.1	-8.2	3.1	3.6	3.6	0.8
Czech Republic	23.8	-3.0	-5.7	4.8	7.2	5.5	0.5
Hungary	20.9	33.5	-9.3	11.4	9.3	6.9	0.3
Poland	10.7	-8.3	-0.5	8.7	6.2	3.6	0.7
Russia	-13.4	121.2	-9.2	4.5	5.4	7.2	1.9
Slovakia	0.9	25.6	0.6	11.0	7.7	6.1	0.2
Indonesia	10.3	41.1	1.4	14.8	13.6	10.8	0.4
Malaysia	9.9	-10.9	4.3	11.6	9.6	6.4	0.8
Vietnam	25.3	-16.0	3.3	13.9	13.6	10.8	1.1

MT growth rates in local currency are in current prices

# Industrial Background

Forecasts finalised on 4<sup>th</sup> March



# Aerospace

## Growth prospects healthy despite struggles to meet demand

The aerospace industry is highly concentrated in the developed world—the US, Canada, Western Europe and Japan account for around 75% of global production, with China, Brazil and Russia adding around 16% according to 2023 values. Although it is a relatively small portion of total investment by machine tool-intensive sectors at 2%, it is important to note that this mainly reflects the size of the aerospace industry in relation to the remaining eight key MT-buying sectors. In fact, the aerospace industry is an important area of MT demand.

Despite weakening economic prospects, we expect the global air travel recovery to continue. Forecast risks are to the downside though, as pent-up demand for air travel gradually dissipates. Operations of US airlines have experienced disruptions due to a malfunction on a Boeing Max 9 plane.

Rising geopolitical tensions have shifted the focus onto national security. Many countries are expected to significantly increase defence spending, especially in Europe, but also in Japan and China. This will boost the defence portion of aerospace manufacturing.

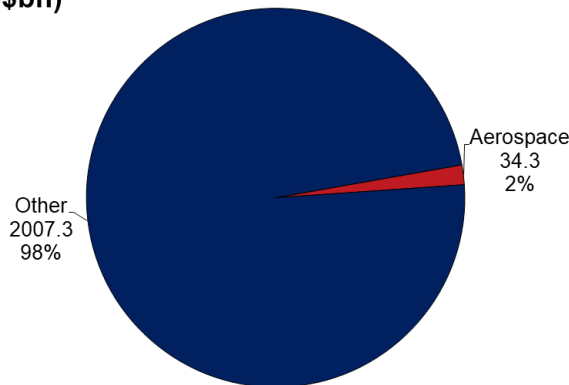
The resurgence of global travel demand has led to an increased number of orders for new aircraft, particularly from airlines in the Asia Pacific region. Airbus and Boeing are struggling to keep up with this surge. The delay in Airbus’s new aircraft deliveries is notably significant, stretching up to nine months beyond the contracted time.

Overall, we forecast output will expand 7.0% in 2024 slowing from an impressive 13.4% in 2023. Growth is generally higher in emerging markets than advanced economies, particularly for Eastern Europe, Russia, and India.

With regard to investment, global growth will remain strong over coming years, reflecting the strength in output trends. We expect global investment growth to grow by 8.9% this year. At a regional level, there are broad similarities in the profile of growth, though some will outpace others. Asian investment growth for the aerospace sector has the strongest prospects and reflects a swift recovery in Japan and strong growth in China. Investment growth in the Americas is also healthy and led by consistently strong growth in the US. Europe will not be as fast as the other regions, though robust growth is forecast for the coming years.

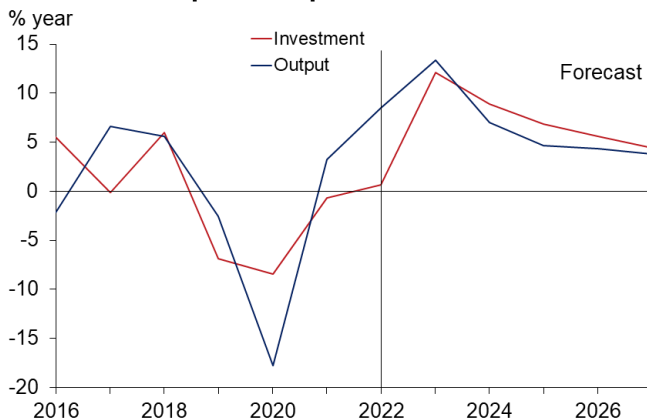
**Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms**

World: Investment by MT-buying sectors, 2022 (US\$bn)



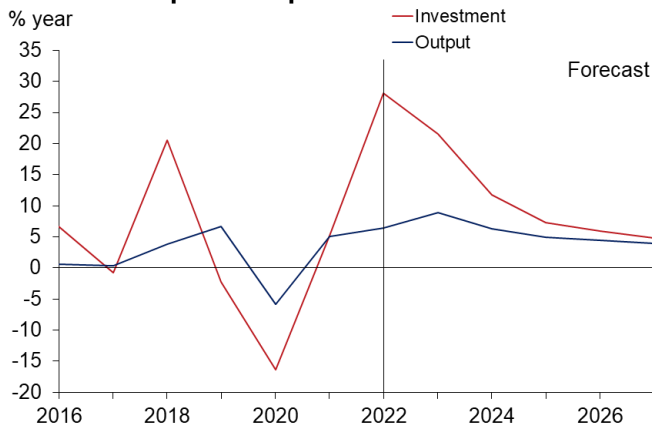
Source: Oxford Economics

World: Aerospace output & investment



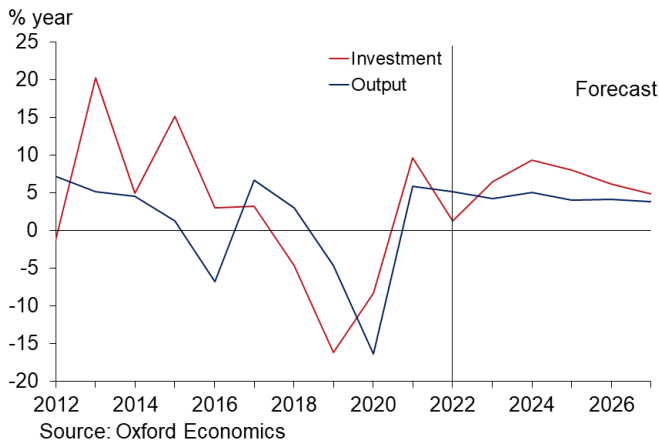
Source: Oxford Economics

Asia: Aerospace output & investment

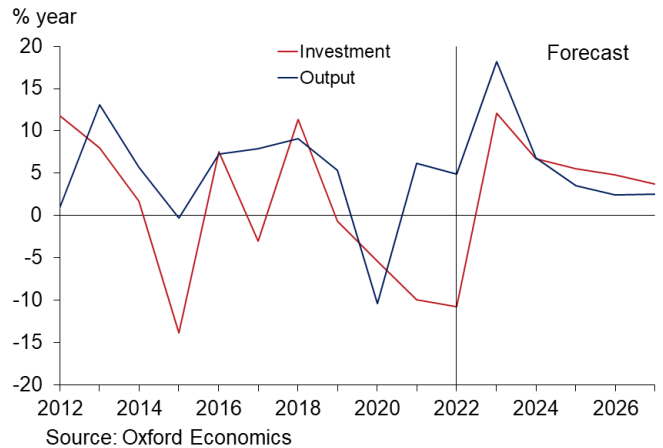


Source: Oxford Economics

## Americas: Aerospace output & investment



## Europe: Aerospace output & investment



Aerospace investment							
(% change unless specified)							
	2022	2023	2024	2025	2026	2027	Level in 2022, US\$bn
China	44.7	24.7	8.1	7.7	6.1	5.4	4.7
Indonesia	-80.2	2.5	3.7	6.0	6.7	5.5	0.0
India	0.3	7.6	15.4	8.3	7.4	6.8	0.167
Japan	15.2	22.2	20.2	6.5	5.5	3.6	2.4
Malaysia	-10.0	-13.6	2.2	13.1	11.0	7.8	0.02
S. Korea	10.1	16.1	12.8	6.3	6.0	5.2	0.2
Taiwan	-7.0	-34.3	-19.1	4.1	8.5	6.6	0.2
Thailand	-26.7	-0.2	-3.8	1.8	7.2	7.2	0.008
Vietnam	13.3	-12.6	0.2	1.7	2.5	4.1	0.0000001
<b>Asia</b>	<b>28.1</b>	<b>21.5</b>	<b>11.7</b>	<b>7.3</b>	<b>6.0</b>	<b>4.8</b>	<b>7.7</b>
Brazil	19.2	7.4	1.5	3.0	3.6	3.4	0.1
Canada	-17.8	-11.9	0.6	8.5	8.8	6.6	2.4
Mexico	26.6	50.5	7.5	3.8	4.6	4.3	0.4
US	6.0	9.2	11.2	8.2	5.8	4.6	10.1
<b>Americas</b>	<b>1.3</b>	<b>6.5</b>	<b>9.4</b>	<b>8.0</b>	<b>6.2</b>	<b>4.9</b>	<b>13.0</b>
Austria	-9.7	6.7	4.7	7.8	6.0	4.0	0.2
Czech Republic	-14.4	40.4	0.9	0.2	4.8	4.9	0.1
France	-7.6	10.5	5.8	6.0	6.2	4.4	5.7
Germany	-11.6	12.7	3.9	6.5	7.4	6.3	1.4
Hungary	-1.9	13.2	4.6	13.9	11.1	6.2	0.0
Italy	-0.1	18.5	5.4	1.4	2.4	3.0	2.2
Poland	-2.4	35.4	12.0	4.8	5.1	3.5	0.1
Russia	11.7	11.0	15.2	7.6	1.8	1.3	2.5
Slovakia	24.5	11.4	-3.3	4.5	5.7	6.8	0.012
Spain	-9.3	18.3	3.6	5.0	5.6	3.3	0.1
Switzerland	4.2	18.0	6.6	7.6	6.8	4.7	0.5
Türkiye	-41.7	-8.2	0.0	2.7	3.5	4.0	0.0
UK	-59.2	-0.3	-3.2	4.9	5.1	2.2	0.8
<b>Europe</b>	<b>-10.8</b>	<b>12.1</b>	<b>6.7</b>	<b>5.5</b>	<b>4.8</b>	<b>3.7</b>	<b>13.5</b>
<b>World</b>	<b>0.7</b>	<b>12.1</b>	<b>8.9</b>	<b>6.9</b>	<b>5.6</b>	<b>4.4</b>	<b>34.3</b>

All growth rates are calculated based on dollar values using actual exchange rates to 2023 and then fixed at 2023 exchange rates beyond that date

Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms

## Basic Metals

### Advanced economy basic metal production to start recovery.

World basic metals production grew by 6.3% in 2023 driven mostly by robust production in India and China, while output contracted in advanced economies. However, we see production easing in both China and India from last year's highs, which will see world basic metals production slow to 2.2% growth this year. That said, we are expecting basic metal production in advanced economies to slowly start recovering this year as demand and costs pressures improve.

As 2024 progresses, global industrial activity should pick up and begin to rebuild some momentum. Pass-through from lower wholesale energy prices, a move past the peak of impacts from past rate hikes, and a trough in the de-stocking cycle should benefit manufacturing activity in the advanced economies. A gradual reduction in interest rates will benefit rate-sensitive sectors, but transmission lags mean the positive effects will be felt more strongly in 2025. All these factors will be supportive of basic metals demand and production, especially in advanced economies.

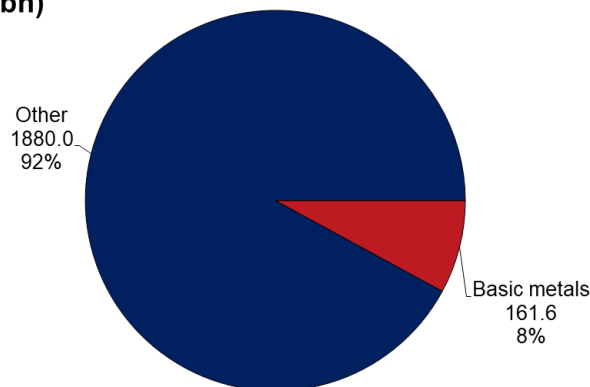
Copper and aluminium prices are forecast to slowly rise over 2024 before increasing 7% in 2025 and grow quickly thereafter as the energy transition accelerates demand, which will improve margins and support non-ferrous metals production. Overcapacity in the steel industry will see prices grow more slowly as will other bulk metals used primarily in steel alloys such as zinc.

China's basic metals production is forecast to ease in 2024 to 2% as overcapacity has built in several sectors, which has weighed on prices and squeezed margins. Strong external demand for China's steel has kept the sector from contracting but it faces headwinds as China's property sector stagnates and demographics decline. Non-ferrous metals will fare better, especially copper, as the government prioritises sectors related to the energy transition such as electric vehicles, although the move to EVs has an adverse impact on MT producers. Meanwhile, aluminium is not far off the 45 million metric ton cap the government has set.

We forecast European basic metals production to increase 2.3% in 2024. Improving industrial demand in H2 and easing cost pressures will support production. We expect US basic metals production to grow by 3.2% in 2024 as new capacity comes online and the US has lower cost pressures than in the EU.

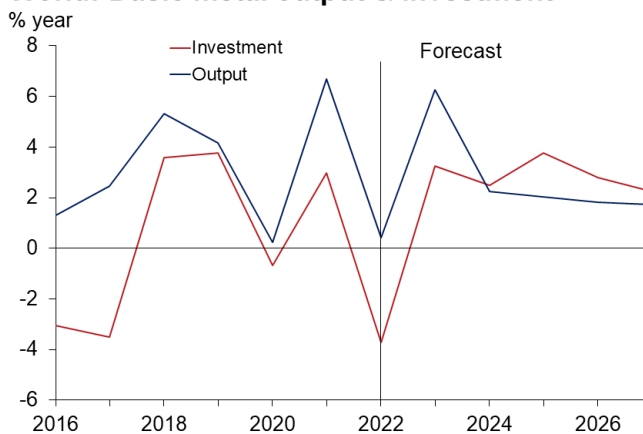
Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms

World: Investment by MT-buying sectors, 2022 (US\$bn)



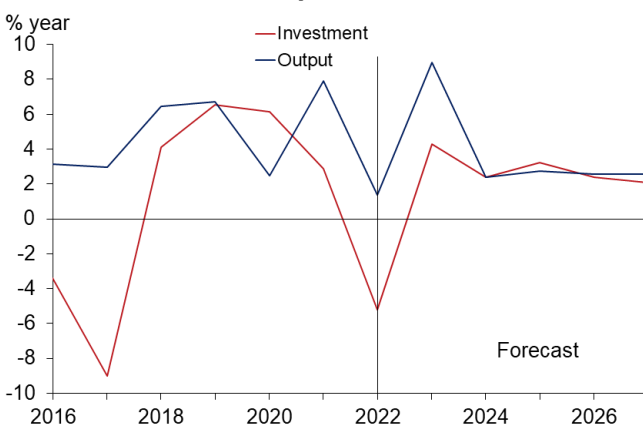
Source: Oxford Economics

World: Basic metal output & investment



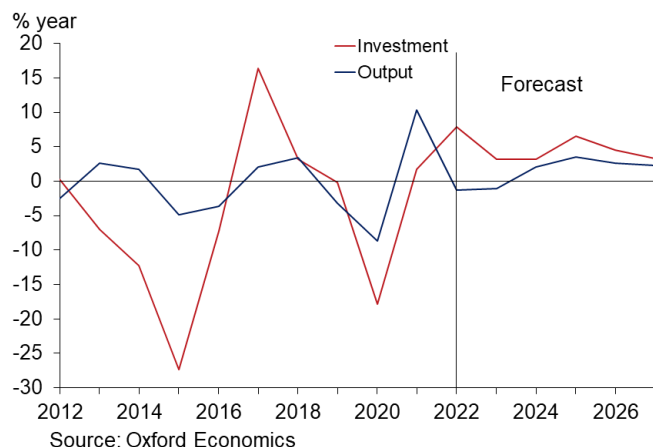
Source: Oxford Economics

Asia: Basic metal output & investment

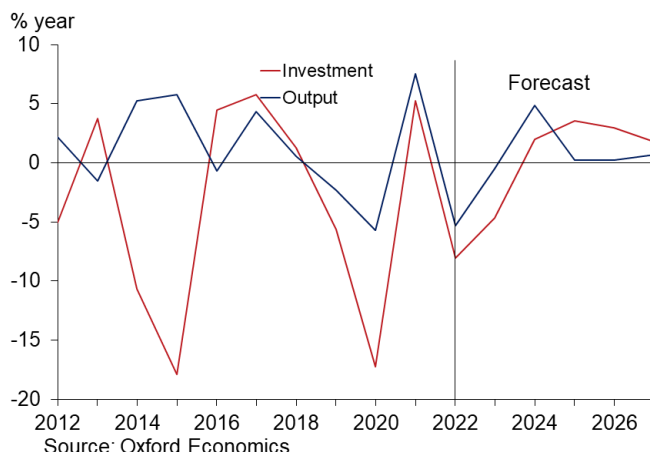


Source: Oxford Economics

## Americas: Basic metal output & investment



## Europe: Basic metal output & investment



Basic metals investment							
(% change unless specified)							
	2022	2023	2024	2025	2026	2027	Level in 2022, US\$bn
China	1.3	7.3	2.0	-0.4	-0.5	-0.4	67.9
Indonesia	9.3	8.5	10.1	10.7	9.6	7.5	4.8
India	-4.4	10.0	3.6	8.0	6.8	7.3	16.9
Japan	-20.4	-9.8	2.3	8.7	3.4	0.8	16.5
Malaysia	5.4	4.3	4.2	10.7	9.5	6.4	0.3
S. Korea	-20.8	0.0	-1.3	5.0	4.8	3.8	9.0
Taiwan	-3.7	-12.0	-5.6	14.0	14.8	7.8	1.9
Thailand	-15.1	-2.8	4.9	5.8	5.1	5.2	0.5
Vietnam	-11.4	0.5	6.5	8.2	6.3	6.2	3.2
<b>Asia</b>	<b>-5.2</b>	<b>4.3</b>	<b>2.4</b>	<b>3.2</b>	<b>2.4</b>	<b>2.1</b>	<b>121.1</b>
Brazil	5.4	-5.2	4.5	5.1	3.8	3.1	4.4
Canada	31.6	-1.0	0.4	6.2	7.3	6.0	3.5
Mexico	9.5	31.0	-5.2	-1.3	1.4	1.9	2.4
US	3.7	2.2	5.4	8.6	4.6	3.0	14.0
<b>Americas</b>	<b>7.9</b>	<b>3.2</b>	<b>3.2</b>	<b>6.5</b>	<b>4.5</b>	<b>3.3</b>	<b>24.4</b>
Austria	-5.2	2.8	-9.4	-0.1	0.9	1.2	1.0
Czech Republic	0.1	7.5	-4.3	3.1	5.7	4.9	0.3
France	-11.4	-6.2	6.5	6.1	1.4	-0.6	1.1
Germany	-8.8	4.6	-2.3	7.1	6.8	3.6	3.3
Hungary	-14.5	11.8	4.3	14.3	8.8	4.8	0.2
Italy	-16.1	-9.0	4.7	7.1	3.4	0.0	1.7
Poland	0.3	-1.7	1.2	3.2	3.1	1.3	0.7
Russia	11.3	-13.1	8.1	0.6	0.9	1.6	5.2
Slovakia	-8.6	7.1	1.8	3.9	4.3	3.8	0.4
Spain	-14.2	8.6	1.9	5.1	2.7	0.9	1.0
Switzerland	-9.8	3.0	-4.1	-0.3	0.2	-0.1	0.3
Türkiye	-52.8	-27.8	6.7	0.4	0.1	0.3	0.5
UK	-38.7	-13.7	-16.5	-11.2	-2.3	2.6	0.4
<b>Europe</b>	<b>-8.0</b>	<b>-4.7</b>	<b>2.0</b>	<b>3.5</b>	<b>3.0</b>	<b>1.8</b>	<b>16.2</b>
<b>World</b>	<b>-3.7</b>	<b>3.2</b>	<b>2.5</b>	<b>3.8</b>	<b>2.8</b>	<b>2.2</b>	<b>161.6</b>

All growth rates are calculated based on dollar values using actual exchange rates to 2023 and then fixed at 2023 exchange rates beyond that date

Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms

# Electrical/Electronic Engineering

## Solid investment growth ahead

This diverse sector accounts for around one-third of total investment by MT-buying sectors and includes a diverse array of products ranging from power generation equipment and transformers to electronics and computers to household appliances, generators, electrical wiring and fixtures.

Demand conditions in the sector improved considerably because of overall economic resilience and sector-specific strength, meaning we now expect an economic soft landing. Semiconductor sales have grown robustly since their trough in February 2023, as strong demand for AI chips has boosted activity. The sector is also set to benefit in the medium and long-term from the transition to cleaner energy and net zero targets. Globally, we expect a strong 6.1% increase in investment this year.

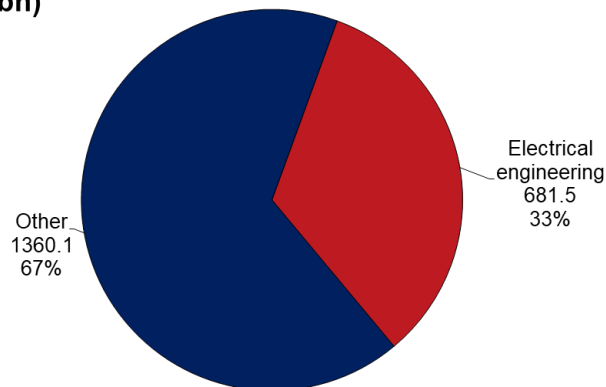
In the US, strong production of electronic components is expected to lead sector production this year. We forecast the sector will grow 5.9% in 2024, as semiconductor growth has repeatedly come in ahead of expectations. The medium-term outlook also looks robust. Following the passage of the CHIPS and Science Act in August 2022, over \$200 billion of investment in new chipmaking facilities has been announced according to the Semiconductor Industry Association. We expect investment in the sector to increase by 9.7% this year.

Eurozone industry is facing multiple headwinds from high interest rates, a weak investment outlook, and still high energy prices. Plus, chipmaking in Europe is focused around lower-tech industrial and automotive chips, rather than high-end computing chips. And automotive is expected to slow sharply this year, so we expect a contraction in electronic components, and investment to fall by 1.7% this year.

In Asia, the ongoing recovery in global semiconductors is boosting production, with China and South Korea leading the region. As is the case in the US, there are significant semiconductor investment plans across the region. Overall, we expect sectoral investment to increase by 6.3% this year.

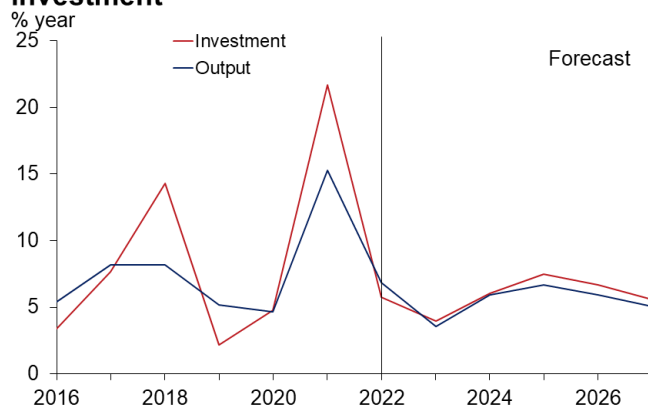
Finally, tight labour markets in many parts of the world are supporting demand for automation and the “internet of things” encouraging firms to continue investing in components and sensors. This is another reason why the longer-term outlook is generally more upbeat than for other sectors.

World: Investment by MT-buying sectors, 2022 (US\$bn)



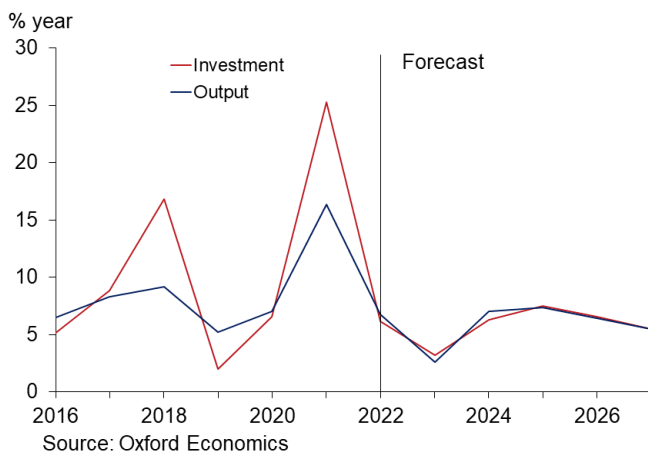
Source: Oxford Economics

World: Electrical engineering output & investment



Source: Oxford Economics

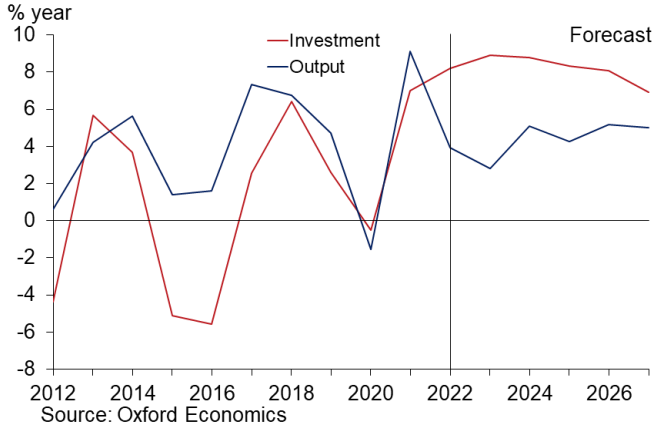
Asia: Electrical engineering output & investment



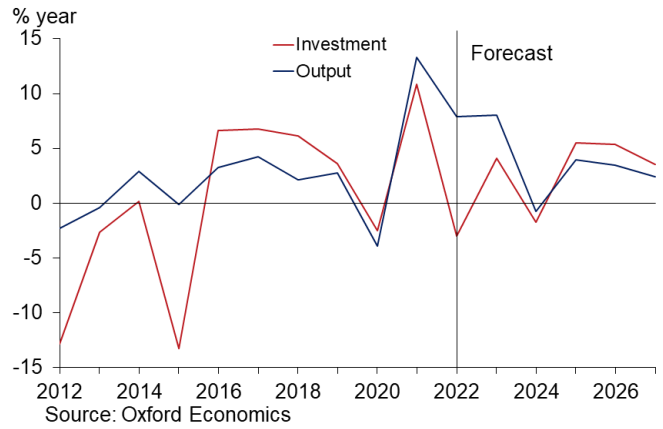
Source: Oxford Economics

Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms

## Americas: Electrical engineering output & investment



## Europe: Electrical engineering output & investment



Electrical engineering investment							
(% change unless specified)							
	2022	2023	2024	2025	2026	2027	Level in 2022, US\$bn
China	16.9	11.0	7.7	6.8	4.9	4.5	344.1
Indonesia	4.9	8.3	-0.1	3.7	9.1	8.5	6.4
India	-11.1	-8.4	-1.2	16.2	9.3	8.4	5.2
Japan	-12.0	-6.6	3.7	8.9	7.2	5.2	57.8
Malaysia	2.9	-3.8	0.5	12.8	12.5	8.1	3.1
S. Korea	-8.3	-4.1	9.4	8.9	9.4	7.3	49.5
Taiwan	-5.8	-17.8	-0.6	9.5	13.9	9.3	77.1
Thailand	-17.1	-7.7	0.8	5.0	4.2	4.4	3.1
Vietnam	2.0	-3.4	4.6	6.1	5.8	6.3	7.2
<b>Asia</b>	<b>6.1</b>	<b>3.2</b>	<b>6.3</b>	<b>7.5</b>	<b>6.6</b>	<b>5.5</b>	<b>553.4</b>
Brazil	1.4	-14.0	4.3	5.3	3.5	2.8	1.9
Canada	-4.1	-5.6	0.3	6.1	6.4	5.0	0.8
Mexico	16.9	29.4	-2.2	0.1	2.3	2.7	4.4
US	8.1	8.4	9.7	8.9	8.5	7.2	76.3
<b>Americas</b>	<b>8.2</b>	<b>8.9</b>	<b>8.8</b>	<b>8.3</b>	<b>8.1</b>	<b>6.9</b>	<b>83.4</b>
Austria	-5.3	-6.0	-9.0	1.9	1.7	1.8	3.4
Czech Republic	5.2	12.5	4.1	7.0	5.6	5.2	1.8
France	-2.4	1.7	-3.5	1.6	2.3	2.1	9.1
Germany	-9.1	6.7	-2.4	10.1	9.6	5.9	11.9
Hungary	16.8	6.6	0.1	12.2	11.1	5.1	2.3
Italy	-1.8	0.3	2.0	2.4	1.7	0.8	4.4
Poland	-16.0	13.9	-11.2	14.3	7.2	3.8	1.2
Russia	21.2	7.6	7.0	2.6	2.0	1.8	2.0
Slovakia	8.8	5.3	6.5	7.9	6.6	5.5	0.6
Spain	-6.1	19.6	2.9	7.7	6.4	4.2	1.0
Switzerland	1.6	5.8	1.2	3.6	3.6	2.2	3.8
Türkiye	-41.2	-11.8	1.9	-1.1	0.9	1.7	0.4
UK	-0.2	-0.4	-6.8	-0.3	3.1	1.8	2.7
<b>Europe</b>	<b>-3.0</b>	<b>4.1</b>	<b>-1.7</b>	<b>5.5</b>	<b>5.4</b>	<b>3.5</b>	<b>44.6</b>
<b>World</b>	<b>5.7</b>	<b>4.0</b>	<b>6.1</b>	<b>7.5</b>	<b>6.7</b>	<b>5.6</b>	<b>681.5</b>

All growth rates are calculated based on dollar values using actual exchange rates to 2023 and then fixed at 2023 exchange rates beyond that date

Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms



## General Purpose Machinery

**A monetary easing related recovery will take time to materialise in developed economies.**

This is a diverse sector incorporating the manufacture of products such as non-vehicle engines and turbines, pumps and compressors, furnaces, as well as material handling and ventilation equipment. Investment by the sector accounted globally for about 10% of investment spending by the nine-key machine tool using industries in 2022. China alone accounts for nearly 40% of global sector output.

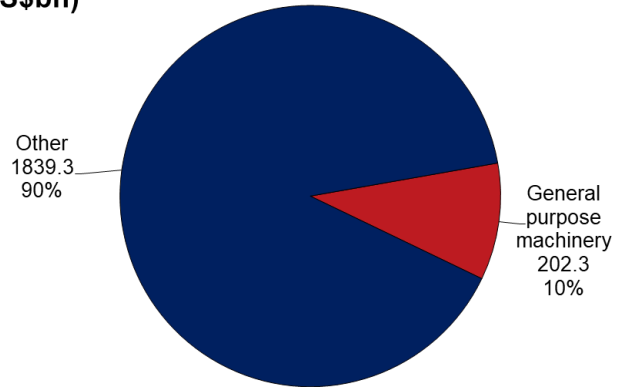
Following a year of weak investment in the sector, globally, in 2023, we anticipate an acceleration in 2024, to growth of 4.7%. A closer look reveals that this is primarily stemming from a rebound in Asia. Chinese business spending in general-purpose machinery will rebound this year as conditions improve, but this short-term growth is unlikely to be sustainable given structural challenges to the Chinese economy.

In developed economies, the rate hikes cycle has ended, and the Fed and ECB are expected to initiate cuts in summer. However, the effects of monetary easing will largely be seen in 2025; just as monetary tightening took time to affect the economy, so too will policy loosening. Investment in general-purpose machinery in Europe and the Americas is expected to decline by 1.3% and 0.5%, respectively. In line with this trend, machinery demand from manufacturing will come only from emerging markets, which constitute approximately 60% of global manufacturing.

In the Americas, investment has exceeded our expectations, given the US soft landing and Mexico's data revisions. This has mechanically raised the 2024 outlook for the region, to now stand at -0.5% with a rebound of 6.0% growth expected in 2025.

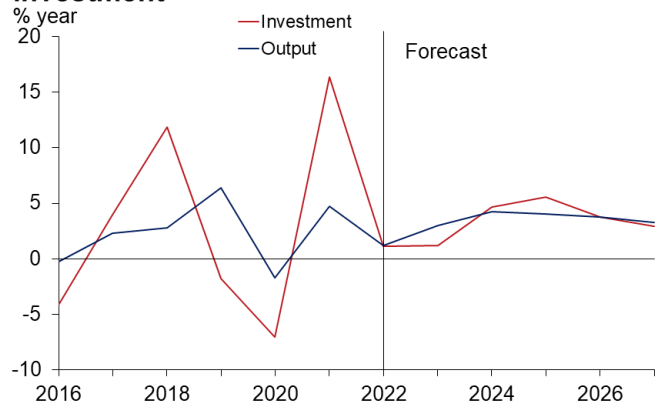
Europe is the only region where the investment outlook from downstream sectors has been downgraded for 2024. Germany's general-purpose machinery production, 35% of regional output, remains weak. Capacity utilization in key downstream sectors is below long-term averages, and new orders are at their lowest since the onset of the pandemic, with most weaknesses stemming from fluid power equipment.

**World: Investment by MT-buying sectors, 2022 (US\$bn)**



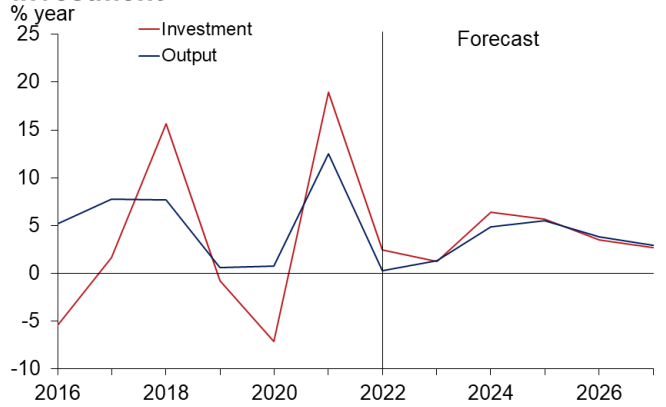
Source: Oxford Economics

**World: General purpose machinery output & investment**



Source: Oxford Economics

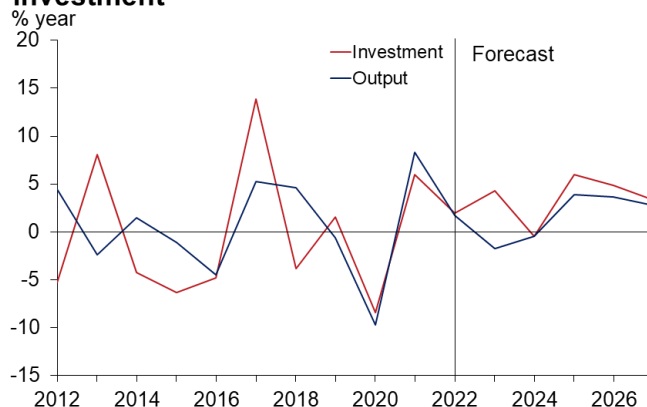
**Asia: General purpose machinery output & investment**



Source: Oxford Economics

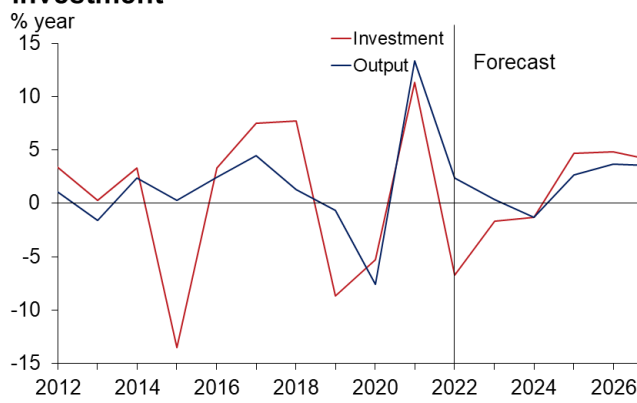
Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms

## Americas: General purpose machinery output & investment



Source: Oxford Economics

## Europe: General purpose machinery output & investment



Source: Oxford Economics

General purpose machinery investment							
(% change unless specified)							
	2022	2023	2024	2025	2026	2027	Level in 2022, US\$bn
China	6.0	3.2	7.5	5.5	3.1	2.4	124.9
Indonesia	4.7	-5.7	6.7	7.3	9.6	7.7	0.8
India	-1.3	7.1	-1.4	6.0	5.9	6.3	4.8
Japan	-13.0	-10.5	2.0	6.9	4.5	2.1	14.9
Malaysia	4.9	1.9	1.3	13.1	13.1	8.2	0.2
S. Korea	-13.7	-2.1	3.0	5.6	4.4	3.3	5.7
Taiwan	-6.8	-24.0	-11.5	7.1	14.5	8.4	2.2
Thailand	-8.7	-8.0	5.2	5.2	4.6	4.7	1.3
Vietnam	14.7	-9.8	6.6	7.0	4.4	5.5	0.4
<b>Asia</b>	<b>2.5</b>	<b>1.3</b>	<b>6.4</b>	<b>5.7</b>	<b>3.5</b>	<b>2.7</b>	<b>155.1</b>
Brazil	3.2	-4.6	6.9	6.9	4.5	3.5	0.9
Canada	-23.2	-7.6	-1.9	7.4	8.7	7.0	0.5
Mexico	12.2	34.8	-9.1	-2.5	1.8	2.5	3.9
US	0.8	-2.3	2.1	8.5	5.6	3.4	15.8
<b>Americas</b>	<b>2.0</b>	<b>4.3</b>	<b>-0.5</b>	<b>6.0</b>	<b>4.8</b>	<b>3.4</b>	<b>21.1</b>
Austria	-10.4	-4.9	-7.6	2.1	3.0	2.9	1.1
Czech Republic	7.1	9.5	-4.0	5.5	5.8	5.4	0.6
France	-6.8	6.1	-3.7	0.1	1.3	1.2	2.5
Germany	-11.1	-0.1	-3.8	5.6	7.6	7.4	8.7
Hungary	-17.1	-16.8	2.8	14.7	14.3	6.5	0.3
Italy	-6.1	-4.0	2.1	4.0	2.0	1.1	5.7
Poland	12.2	18.4	0.6	7.1	4.7	1.3	0.4
Russia	15.3	-18.5	11.4	4.1	3.1	2.6	2.3
Slovakia	-0.7	4.9	5.2	6.7	6.0	4.5	0.3
Spain	-4.4	7.2	2.4	7.6	6.6	4.0	0.7
Switzerland	-4.9	5.8	2.1	4.7	4.6	3.4	1.3
Türkiye	-43.8	-20.4	-4.1	0.4	3.5	3.0	0.3
UK	-4.7	-1.7	-9.5	7.1	5.6	2.8	2.0
<b>Europe</b>	<b>-6.7</b>	<b>-1.7</b>	<b>-1.3</b>	<b>4.7</b>	<b>4.8</b>	<b>4.0</b>	<b>26.1</b>
<b>World</b>	<b>1.1</b>	<b>1.2</b>	<b>4.7</b>	<b>5.6</b>	<b>3.8</b>	<b>2.9</b>	<b>202.3</b>

All growth rates are calculated based on dollar values using actual exchange rates to 2023 and then fixed at 2023 exchange rates beyond that date

Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms

# Metal Products

## Industrials support to foster 2024 growth

World metal products investment accelerated at the end of 2023, following robust growth in the Americas and Asia. Although investment demand grew in 2023 against a globally high interest rate environment and uncertain investment climate, we still expect that high interest rates will weigh on production in 2024, although growth in Asia will perform better than the other regions. On balance, we forecast global metal products investment growth of 3.7% in 2024, though this is led largely by China.

The outlook for metal products is determined by downstream demand from major industrial sectors like mechanical engineering, where production is forecast to grow 3.9% and 5.6% in 2024 and 2025, respectively. Growth in 2024 will be reduced by higher interest rates in advanced economies.

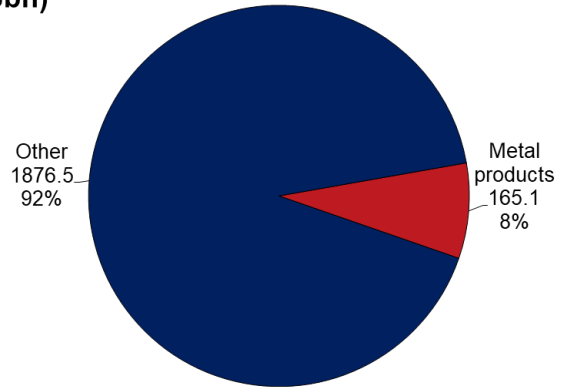
Another major industry that will support metal products is the global automotive sector. Global investment growth in motor vehicles is expected moderate to 1.5% in 2024 as inventory build slows and order backlogs wane. By the end of 2024, reduced materials and energy costs and interest rate cuts will alleviate current demand and supply pressures and facilitate stronger investment growth in 2025, providing 2.7% growth in motor vehicles investment.

The construction sector represents the final major pillar of demand for metal products. Construction output remains above forecast, growing 3.6% and 2.0% in 2024 and 2025 respectively. Emerging economies will continue to drive near-term global growth, but production will be constrained through slack in demand and financing and cost pressures in the largest economies. In advanced economies, uncertainty over office space demand will weigh on production, while the weakness in the Chinese housing market will undermine growth.

Regionally, China continues to be the most significant country producer of metal products. Chinese metal products investment grew 3.5% in 2023 as fiscal stimulus aided the industrial base and construction sector and we expect stronger growth of 7% in 2024. Meanwhile, US metal products investment is forecast to rise 1.7% in 2024, tempered by higher interest rates in H1 2024. Interest rate cuts will give way to strong investment by Q4 and the effects of monetary loosening will be felt in 2025 with annual growth of 5.2%.

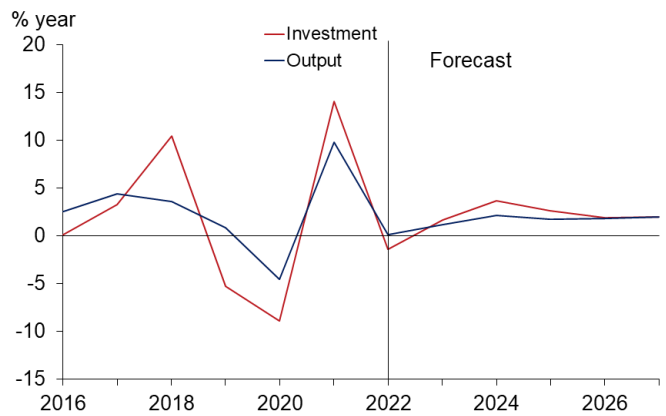
Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms

World: Investment by MT-buying sectors, 2022 (US\$bn)



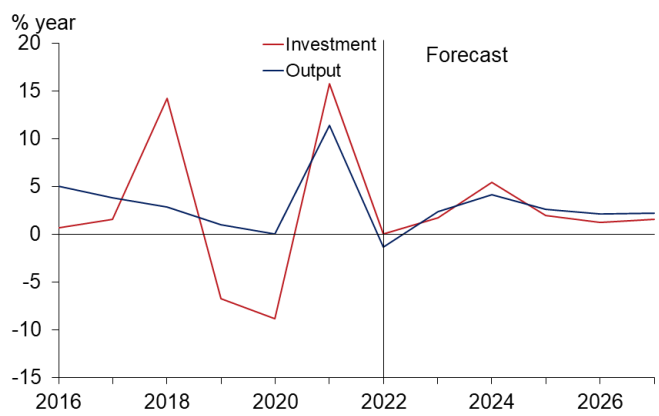
Source: Oxford Economics

World: Metal products output & investment



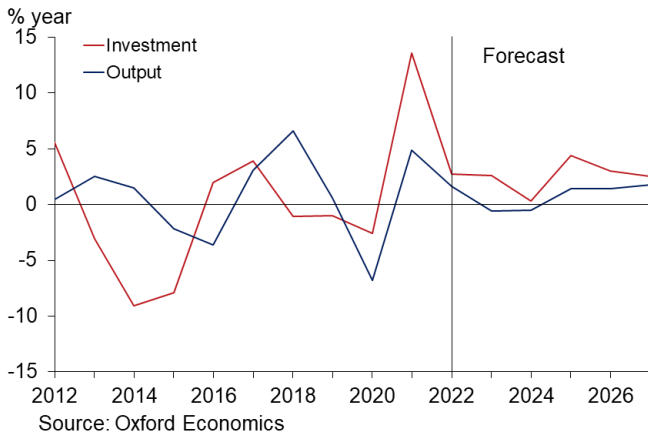
Source: Oxford Economics

Asia: Metal products output & investment

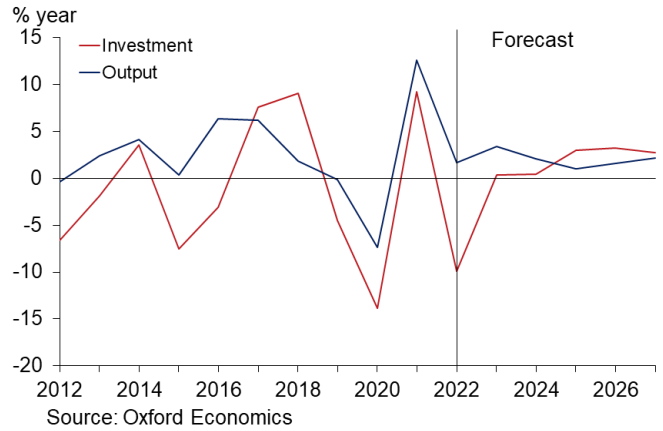


Source: Oxford Economics

**Americas: Metal products output & investment**



**Europe: Metal products output & investment**



<b>Metal products investment</b>							
<b>(% change unless specified)</b>							
	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>Level in 2022, US\$bn</b>
China	2.4	3.5	7.0	1.2	0.2	0.9	84.0
Indonesia	-12.3	8.1	3.0	7.9	7.3	5.1	0.3
India	-9.8	1.3	5.4	7.0	6.9	7.6	3.8
Japan	-4.2	-6.1	-0.4	4.9	3.9	2.0	6.1
Malaysia	11.0	9.5	5.5	9.3	6.3	4.8	0.6
S. Korea	-17.4	2.6	-3.6	3.9	4.0	2.9	5.0
Taiwan	-0.5	-18.2	-9.0	7.2	9.6	5.6	3.7
Thailand	-9.1	-16.3	1.1	5.0	3.4	4.2	0.9
Vietnam	-5.5	-5.9	3.8	7.6	6.9	5.8	1.5
<b>Asia</b>	<b>0.1</b>	<b>1.8</b>	<b>5.5</b>	<b>2.0</b>	<b>1.3</b>	<b>1.6</b>	<b>105.8</b>
Brazil	5.5	-5.3	4.4	5.3	2.9	2.0	1.8
Canada	-22.7	-2.3	3.3	6.2	5.8	4.9	1.3
Mexico	13.8	33.2	-9.5	-1.6	0.9	1.7	3.3
US	3.1	-0.7	1.7	5.2	3.2	2.6	23.7
<b>Americas</b>	<b>2.7</b>	<b>2.6</b>	<b>0.3</b>	<b>4.4</b>	<b>3.0</b>	<b>2.6</b>	<b>30.0</b>
Austria	-18.2	-18.0	-5.6	3.7	2.5	2.5	1.4
Czech Republic	0.2	13.1	-2.2	4.2	4.5	4.4	1.1
France	-6.4	2.7	-2.2	-0.8	1.0	1.8	4.7
Germany	-7.4	2.2	-0.7	2.1	5.1	5.0	6.3
Hungary	-14.7	-9.2	-2.1	10.6	8.2	3.5	0.5
Italy	-11.4	-5.4	3.3	6.2	3.4	1.7	6.1
Poland	11.6	11.3	-0.6	3.1	3.7	2.2	1.9
Russia	28.5	8.4	14.9	0.8	-2.1	0.5	1.6
Slovakia	4.0	7.1	3.8	8.1	7.2	6.2	0.7
Spain	-1.9	8.2	2.0	5.8	5.2	3.0	1.6
Switzerland	-6.7	3.4	-2.7	2.6	2.4	0.9	1.5
Türkiye	-48.2	-17.5	-0.6	0.8	1.5	1.5	0.4
UK	-45.8	-13.2	-5.0	-0.5	1.5	1.1	1.5
<b>Europe</b>	<b>-9.9</b>	<b>0.3</b>	<b>0.5</b>	<b>3.0</b>	<b>3.2</b>	<b>2.7</b>	<b>29.2</b>
<b>World</b>	<b>-1.4</b>	<b>1.7</b>	<b>3.7</b>	<b>2.6</b>	<b>1.9</b>	<b>1.9</b>	<b>165.1</b>

All growth rates are calculated based on dollar values using actual exchange rates to 2023 and then fixed at 2023 exchange rates beyond that date

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# Motor Vehicles

## Automotives production growth to come to a near standstill in 2024

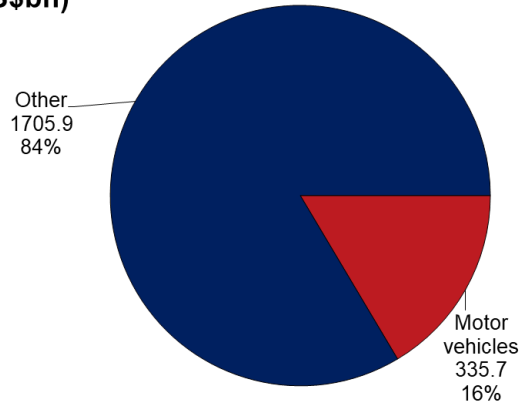
Global motor vehicle and parts production declined in Q4 2023 as the impact of strikes in the US offset increases elsewhere. Idiosyncratic factors will largely drive developments in Q1 2024 too, with most of the fall reflecting a sharp scandal-induced drop in Japanese production and the disruptions in the Red Sea. Furthermore, it is becoming increasingly evident that the lagged effect of high policy rates and less assistance from order backlogs is weighing on automotive production and demand and we expect this to continue until at least the middle of this year. Forecast risks are to the downside with an extended period of disruptions and potentially higher inflation possibly weighing further on automotive demand and production.

Momentum in US production is expected to slow as tight credit conditions continue to weigh upon automotives demand, despite an upward revision to our consumer spending outlook, and the boost from recovering inventories fades. Across the Atlantic, supply chain disruptions in the Red Sea combined with consumer caution, particularly with regard to big-ticket items, will weigh on near-term European automotive production, although a gradual recovery is expected later this year.

Chinese automotive production continued to post solid, albeit slower, quarterly growth in Q4 2023 but we expect a deceleration in automotive production growth this year as a slowdown in export demand dampens production growth, despite strong growth in the electric vehicle market. Furthermore, sluggish domestic demand and low consumer confidence levels, which have dropped back in recent months and remain at depressed levels, will weigh upon automotive demand.

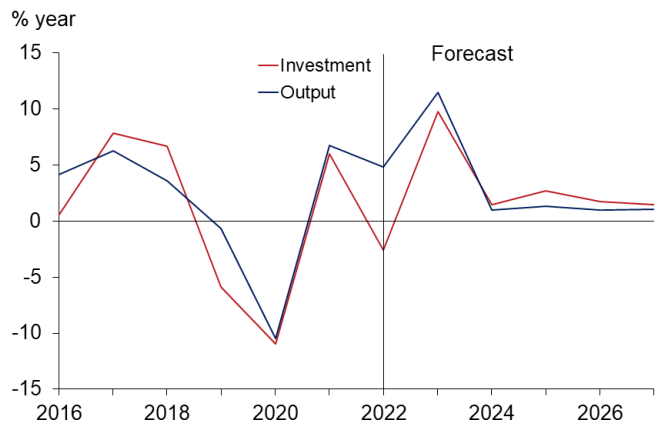
Global investment spending growth by the automotive sector is forecast to slow sharply this year following a rebound in 2023. The lagged effect of tight monetary policy will weigh on near-term capital spending. At the same time, machine tool manufacturers must exercise caution, because much of the investment is destined to support the transition to electric vehicles, for which machining requirements are much less than for conventional petrol-based powertrains. Overall, global investment in the automotive sector is forecast to grow by 1.5% in 2024 after 9.8% in 2023.

World: Investment by MT-buying sectors, 2022 (US\$bn)



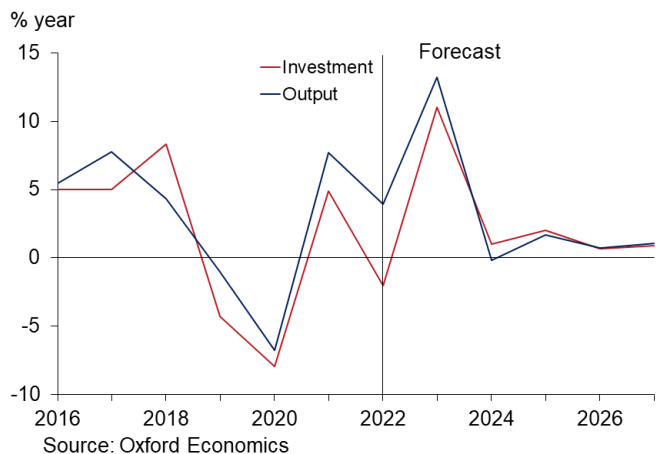
Source: Oxford Economics

World: Motor vehicle output & investment



Source: Oxford Economics

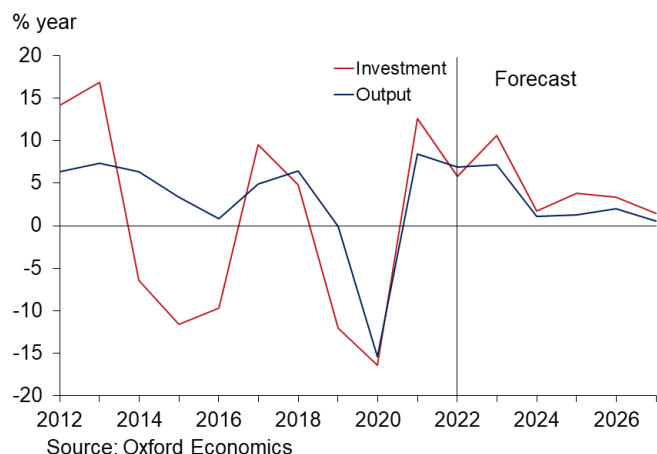
Asia: Motor vehicle output & investment



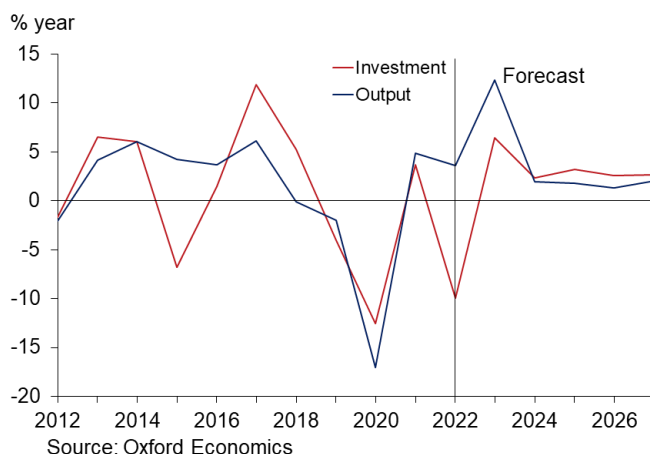
Source: Oxford Economics

Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms

## Americas: Motor vehicle output & investment



## Europe: Motor vehicle output & investment



Motor vehicle investment							
(% change unless specified)							
	2022	2023	2024	2025	2026	2027	Level in 2022, US\$bn
China	5.2	15.6	3.7	1.0	-0.7	0.1	98.1
Indonesia	8.1	2.5	2.4	3.5	4.8	3.8	5.4
India	9.5	9.2	3.9	3.0	2.7	2.9	7.8
Japan	-15.7	5.1	-3.6	2.5	1.4	1.1	47.4
Malaysia	12.2	2.6	-4.0	6.6	7.6	4.7	0.9
S. Korea	-6.8	10.0	-4.4	5.0	2.5	2.5	12.5
Taiwan	13.3	-7.8	-14.3	4.9	6.6	3.7	1.7
Thailand	-3.5	-5.7	-1.0	13.2	12.8	8.1	2.9
Vietnam	1.4	-6.9	4.1	5.5	7.9	5.0	0.6
<b>Asia</b>	<b>-2.0</b>	<b>11.0</b>	<b>1.0</b>	<b>2.0</b>	<b>0.7</b>	<b>0.9</b>	<b>177.3</b>
Brazil	7.5	-10.6	3.5	8.3	6.9	6.0	5.1
Canada	-9.8	2.1	-6.7	6.4	11.8	4.7	3.9
Mexico	15.7	43.3	-7.0	-1.0	3.1	-2.0	13.8
US	4.6	4.6	5.4	4.8	2.6	1.9	50.9
<b>Americas</b>	<b>5.8</b>	<b>10.6</b>	<b>1.7</b>	<b>3.8</b>	<b>3.4</b>	<b>1.5</b>	<b>73.6</b>
Austria	-16.3	-6.9	0.4	-1.3	1.9	9.5	1.5
Czech Republic	11.9	28.4	-3.3	2.1	2.1	1.0	3.0
France	-6.5	8.0	-1.2	2.7	-1.5	-1.1	7.2
Germany	-11.6	5.6	3.9	5.5	2.5	3.1	45.3
Hungary	-19.3	-1.8	0.9	12.1	20.3	8.2	1.1
Italy	-7.4	3.5	-0.8	-5.2	1.7	1.4	6.3
Poland	6.3	26.7	8.8	1.6	0.4	-0.1	2.9
Russia	-37.3	-4.5	25.5	7.8	5.5	5.9	1.7
Slovakia	10.7	11.4	-4.9	6.7	4.2	-1.0	2.1
Spain	-6.8	8.0	2.7	2.7	4.1	3.9	5.9
Switzerland	-1.1	16.5	3.9	8.8	6.4	3.7	0.4
Türkiye	-44.5	-16.4	-7.1	4.3	1.6	2.6	0.8
UK	-6.1	0.8	-3.3	-6.3	3.7	3.9	6.6
<b>Europe</b>	<b>-10.0</b>	<b>6.4</b>	<b>2.4</b>	<b>3.2</b>	<b>2.6</b>	<b>2.7</b>	<b>84.8</b>
<b>World</b>	<b>-2.6</b>	<b>9.8</b>	<b>1.5</b>	<b>2.7</b>	<b>1.7</b>	<b>1.5</b>	<b>335.7</b>

All growth rates are calculated based on dollar values using actual exchange rates to 2023 and then fixed at 2023 exchange rates beyond that date

Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms



# Global Machine Tools Outlook

## Latest e-mobility forecast assumptions

### Economist

Amit Sharda  
Lead Industry Economist

- In addition to the impact of high inflation and interest rates on economic activity and evidence of slowing electric vehicle (EV) demand, the movement towards e-mobility remains a significant issue for MT producers and other traditional automotive parts suppliers as automotive firms increasingly focus upon developing and producing electric vehicles.
- Our forecasting methodology accounts for the impact of rising EV and hybrid penetration rates on MT demand. We consider MT demand intensity across three different powertrains and use of production shares over the forecast horizon.

The shift to electric vehicles (EVs) has accelerated as the global EV market has rapidly expanded from a niche subsector of the automotive industry to a large-scale autonomous market. Although the automotive industry was one of the worst-impacted industrial sectors by the coronavirus pandemic, EV registrations and trade increased undeterred across the world over the last few years.

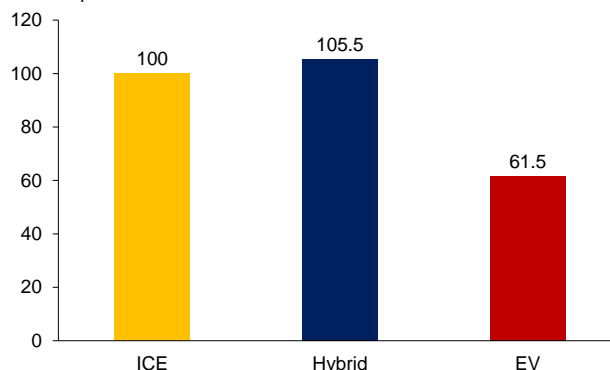
Our forecasting methodology allows for the transition to hybrids and EV production and away from traditional ICEs. MT demand intensity across three different powertrains can be estimated and the analysis shows that building hybrid vehicles requires a 5.5% increase in MT investments compared to ICE vehicles while building EV vehicles requires a 38.5% decrease in MT investments compared to ICE vehicles. Also, we use production shares given that these are a better proxy for regional trends over the forecast.

Based on our current estimates of EV market penetration over the next decade, we expect the impact on machine tool demand to be negative, but not catastrophic, with those countries that have made efforts to move towards e-mobility impacted the most.

**MT demand intensity is relatively higher for hybrid vehicles but considerably lower for EVs.**

**Change in MT demand relative to an ICE**

ICE requirements = 100



Source : Oxford Economics/CECIMO

MT demand intensity across three different powertrains is accurately accounted for and we assume that all three powertrain types need MT but to varying degrees.

Countries and regions that are more focused on moving towards higher e-mobility will be impacted most.

# E-mobility baseline forecast assumptions

## Europe to see significant shift over forecast but China to maintain lead in volumes

We expect the European automotive industry to continue accelerating towards electrification, although there is evidence of a slowdown in the near term. High electric vehicle pricing and a lack of charging infrastructure are contributing to consumer anxiety with regard to the switch to EVs. Moreover, favourable subsidies under the US Inflation Reduction Act and rising competition from Chinese EV brands are concerning for EV automakers and pressure to protect the domestic EV industry is growing with the EU currently investigating whether Chinese EV manufacturers are receiving unfair subsidies.

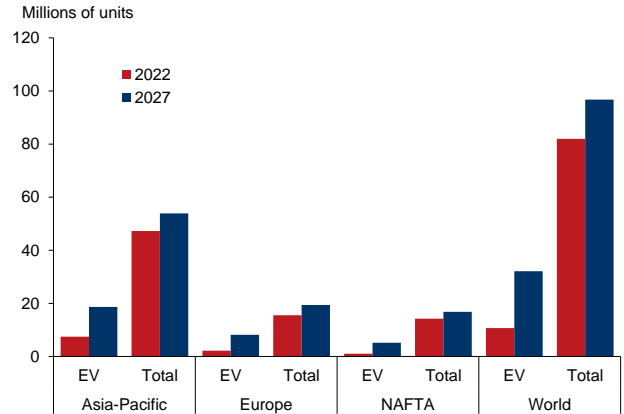
Strong growth momentum in the Chinese EV market is set to continue. With a raft of attractive new EVs in the launch pipeline and growing willingness among consumers to purchase EV models, the sector will make a significant contribution to the overall auto market in China. Supporting this trend, the current tax incentive on passenger vehicles has been extended to the end of 2027 for electric vehicles with a phased reduction in support. Furthermore, China has strong competitive advantages that have pushed it to the top of global EV export rankings.

The Inflation Reduction Act will support US EV production and sales growth over the forecast horizon as it attracts vast amounts of new investment into the industry, but the EV transition ahead is increasingly uncertain. The new rules will award credits based on the production location of the vehicles' battery components and minerals in order to reduce reliance on countries like China and encourage domestic battery investment. Also, production expectations have been lowered in light of weaker than expected EV demand while a "foreign entity of concern" rule has cut the number of EVs eligible for the Clean Vehicle Credit.

We analysed the impact of rising EV penetration across 26 countries by comparing MT consumption in our baseline against a scenario that assumes zero production of hybrids and EVs and, hence, zero impact of EVs on the MT demand. There is considerable divergence across countries. The reduction in demand for machined parts is expected to offset the positives from E-motors, battery cases and structural changes. This means that MT demand in our baseline is 2.4% below 2027 levels in which zero production of hybrids and EVs is assumed. We expect this gap to continue rising as EV penetration accelerates.

## Europe and APAC EV production shares higher than global average by 2027

### Light vehicle production: EVs\* and Total production



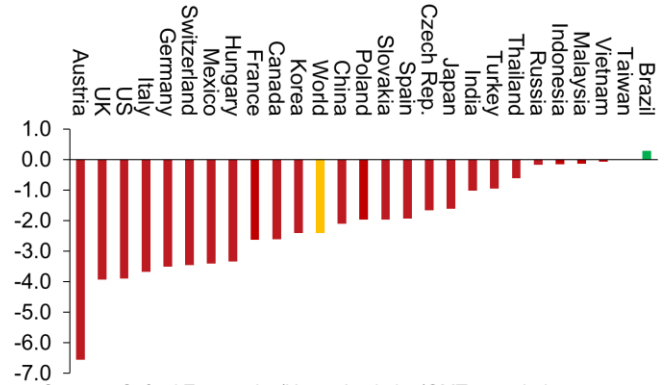
Source : Oxford Economics/Haver Analytics/GlobalData

\*Note: EV definition from Oxford Economics used in this chart differs from that used in chart below for bespoke GMT impact analysis. PHEV vehicles are counted as EVs in this chart.

## Countries with highest EV production penetration rates will see largest impacts on MT consumption

### Impact of hybrids and EVs production on MT consumption by 2027

% relative to counterfactual of zero hybrid and EV penetration



Source : Oxford Economics/Haver Analytics/GMT associations

### E-mobility definitions

Electric vehicles are defined as:

BEV: Battery Electric Vehicle

EREV: Extended Range Electric Vehicle

PFCEV: Plug-in Fuel Cell Electric Vehicle

FCEV: Fuel Cell Electric Vehicle

## Other transport equipment

### Investment to return to growth this year

The “other transport equipment” sector is a relatively small share of machine tool demand (around 2% of total investment by MT-intensive sectors) and consists primarily of shipbuilding and railroad locomotives and carriages. Globally, we expect sector investment to increase 4.4% in 2024.

The disruption to shipping activity from the Houthi attacks on Red Sea shipping routes is expected to persist until at least mid-2024. Though uncertainty is high, we think the brunt of the associated cost rises and supply-chain disruptions is likely to be concentrated in European manufacturing sectors. Shipping companies will benefit from higher freight rates, but we do not expect this to lead to additional investment in shipbuilding. Instead there is pressure to renew ageing fleets with greener vessels to help decarbonise shipping trade.

Shipbuilders in Europe (who focus nearly exclusively on pleasure craft and passenger vessels) continue to suffer from the impact of reduced consumer spending power on discretionary big-ticket purchases. We expect the pressure from high inflation and elevated interest rates to recede somewhat this year but most of the relief will be felt in 2025.

The growing importance of liquefied natural gas in the context of Russia’s cut-off of gas supplies may further increase the demand for LNG tankers, which will help support investment, especially this year as new European LNG terminals become operational.

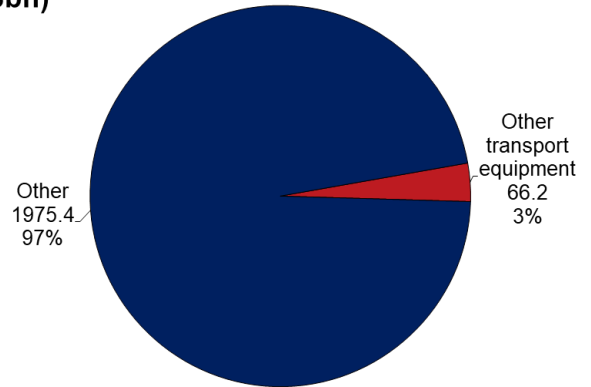
In most countries, the rail segment is dominant, and investment patterns are more reflective of factors affecting ridership of public transit and local/long distance rail travel. Government spending is also important and while fiscal sustainability concerns have come to the fore, we believe concerns are overdone and do not expect aggressive tightening measures.

In Europe, many countries are still in the process of upgrading their rolling stock and converting locomotives from diesel to electric (especially in Eastern Europe), which is helping support growth. Similar trends are true in many emerging markets in Asia, which explains the robust medium-term outlook in countries like India and Indonesia.

On balance, we expect sectoral investment to pick up by 4.4% in 2024 and 5.2% in 2025. The recovery in global investment will be led by Asia and the Americas while more modest growth is expected in Europe.

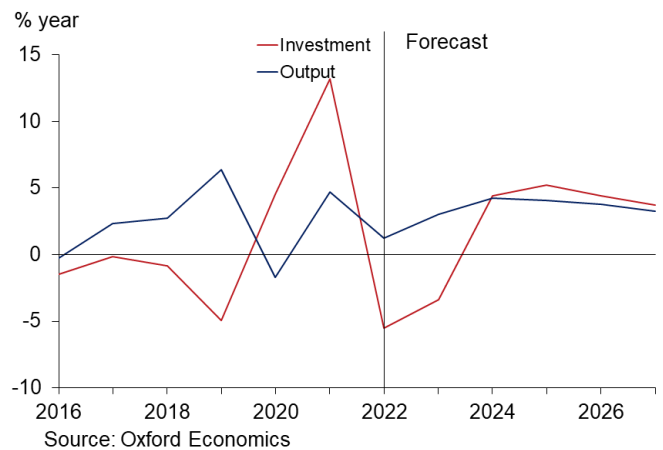
**Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms**

World: Investment by MT-buying sectors, 2022 (US\$bn)



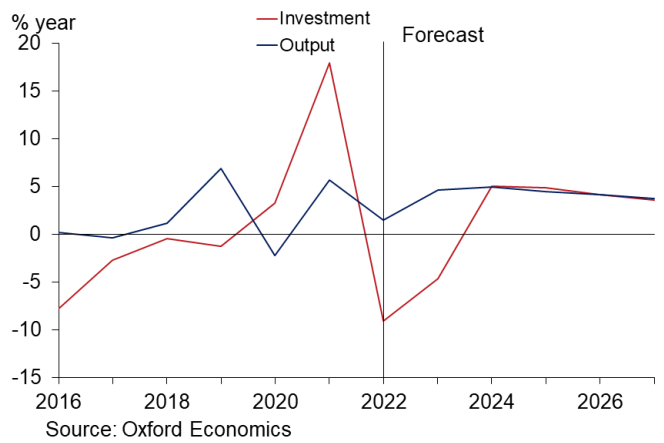
Source: Oxford Economics

World: Other transport equipment



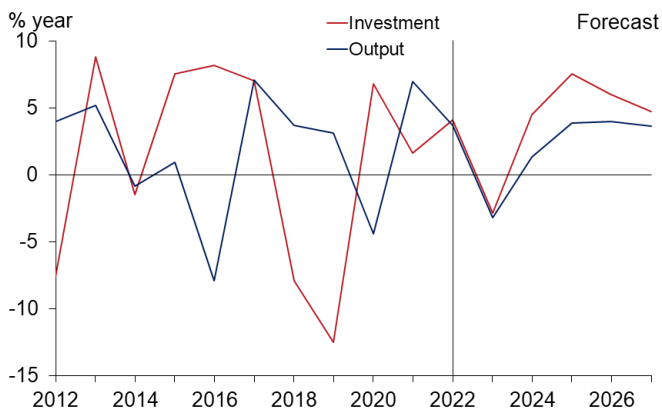
Source: Oxford Economics

Asia: Other transport equipment



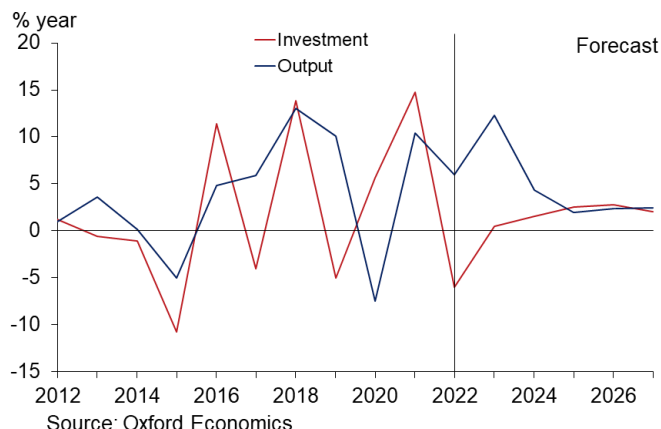
Source: Oxford Economics

## Americas: Other transport equipment



Source: Oxford Economics

## Europe: Other transport equipment



Source: Oxford Economics

Other transport equipment investment							
(% change unless specified)							
	2022	2023	2024	2025	2026	2027	Level in 2022, US\$bn
China	-13.0	-8.9	8.7	3.7	2.2	2.1	20.9
Indonesia	2.5	2.5	2.4	5.2	8.5	8.0	2.8
India	-0.6	7.6	9.6	6.4	6.2	6.6	3.3
Japan	-14.1	-4.1	2.8	5.9	4.1	2.5	4.7
Malaysia	-3.9	4.0	2.2	14.5	13.0	8.3	0.1
S. Korea	0.0	10.2	-3.8	6.6	5.7	4.0	4.6
Taiwan	-7.0	-34.3	-16.5	7.9	15.0	8.2	1.3
Thailand	-7.4	-0.2	2.0	6.5	4.9	4.8	0.7
Vietnam	13.3	-12.6	3.6	7.7	6.3	6.5	0.7
<b>Asia</b>	<b>-9.1</b>	<b>-4.6</b>	<b>5.1</b>	<b>4.9</b>	<b>4.2</b>	<b>3.6</b>	<b>39.1</b>
Brazil	12.6	7.4	7.9	5.6	4.4	3.6	0.3
Canada	-13.1	-18.0	6.7	6.1	6.4	5.3	1.6
Mexico	38.8	43.8	-0.9	0.0	2.0	2.4	0.5
US	5.3	-3.1	4.6	8.2	6.2	4.9	14.7
<b>Americas</b>	<b>4.1</b>	<b>-2.8</b>	<b>4.5</b>	<b>7.6</b>	<b>6.0</b>	<b>4.8</b>	<b>17.2</b>
Austria	-11.6	-14.9	-6.7	-2.1	-0.5	0.6	0.2
Czech Republic	-15.9	12.3	-1.2	3.3	3.4	4.3	0.2
France	-9.3	-0.5	0.3	0.0	1.1	1.4	3.5
Germany	-20.0	1.4	1.1	6.3	8.1	7.0	0.6
Hungary	-4.5	-9.3	-3.0	11.1	9.0	4.4	0.0
Italy	-5.4	0.0	5.2	4.3	2.6	1.2	2.7
Poland	-10.6	18.0	6.9	4.0	3.5	1.8	0.2
Russia	-2.0	-17.1	12.2	4.4	1.2	1.4	0.2
Slovakia	24.5	11.4	2.5	7.0	6.1	4.7	0.1
Spain	-18.4	11.5	-0.2	8.1	6.6	3.9	0.4
Switzerland	-5.8	7.3	8.1	9.6	8.4	5.6	0.2
Türkiye	-37.3	14.1	5.8	-0.9	0.6	1.3	0.1
UK	17.6	0.3	-2.8	0.5	2.6	1.4	1.6
<b>Europe</b>	<b>-6.0</b>	<b>0.5</b>	<b>1.6</b>	<b>2.5</b>	<b>2.7</b>	<b>2.0</b>	<b>9.9</b>
<b>World</b>	<b>-5.5</b>	<b>-3.4</b>	<b>4.4</b>	<b>5.2</b>	<b>4.4</b>	<b>3.7</b>	<b>66.2</b>

All growth rates are calculated based on dollar values using actual exchange rates to 2023 and then fixed at 2023 exchange rates beyond that date

Total investment = weighted sum of investment in constant price the nine key sectors in local currency terms

# Precision and Optical Instruments

## Slowdown in investment expected in 2024

The precision and optical instruments sector is comprised of two sub-sectors – medical precision instruments and watches, clocks, and optical & measuring equipment. The former is driven by trends in demographics and medical spending, while the latter tends to track trends in developed world investment.

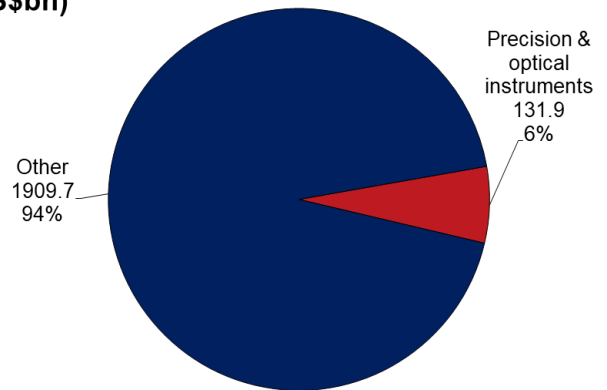
Production of medical precision instruments sector has grown solidly since the recovery from the pandemic. However, government health care budgets are tight, so we expect to see some slowdown in growth in medical capital expenditure in the near term. Global production growth is expected to fall below 2% in 2024, before rising to 3-4% in the medium term boosted by the impact of an ageing population on health care spending.

In the miscellaneous precision instruments sector, global output grew just 1% in 2023, significantly lower than investment in the same year. Interest rates remain elevated across advanced economies, and we expect only a modest easing in monetary policy through 2024. Global production is expected to grow 1.2% in 2024, a similar pace to last year. It is then expected to pick up in the second half of 2024 and to accelerate to 2.8% in 2025.

Global sector investment is expected to grow 2.2% in 2024, a slowdown from the 3.6% rise posted in 2023. We expect broadly similar rates of growth across the regions: 3.1% in Asia, 1.3% in the Americas, and 2% in Europe. A gradual easing in monetary policy through 2024 should see demand for capital goods like precision instruments improve, and we also expect that capital spending in the sector will start to pick up as producers seek to expand capacity. We expect sector investment growth to pick up to 5% in 2025, before settling around a trend of 4% growth in the medium-term.

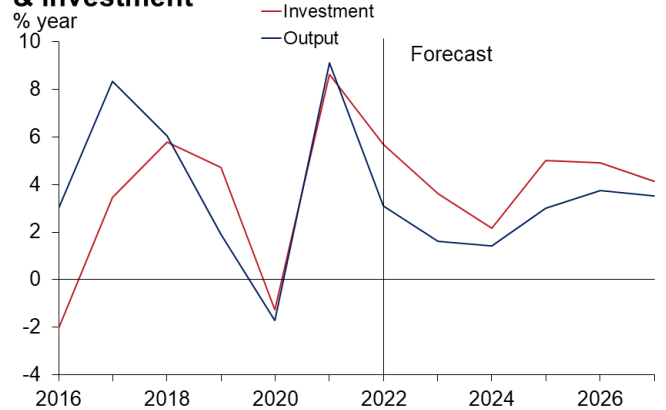
The risks surrounding our baseline forecasts are probably broadly balanced. As a capital good, the sector is exposed to risks around interest rates, both to the upside and to the downside. Geopolitical risks, for example in the form of an escalation in China-Taiwan tensions, could weigh on sector output. But precision instruments are less exposed to Asian supply chain pressures than traditional electronic goods.

World: Investment by MT-buying sectors, 2022 (US\$bn)



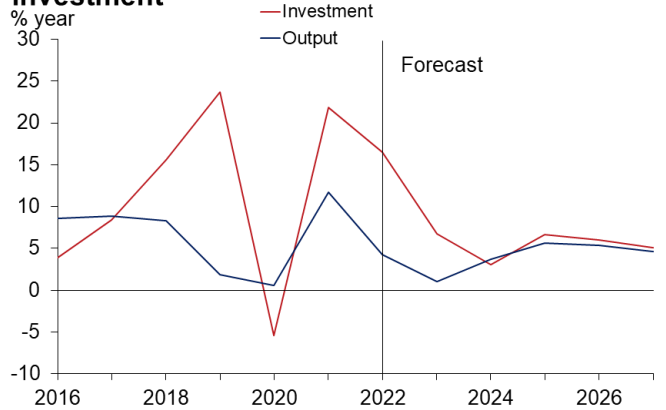
Source: Oxford Economics

World: Precision and optical instruments output & investment



Source: Oxford Economics

Asia: Precision and optical instruments output & investment

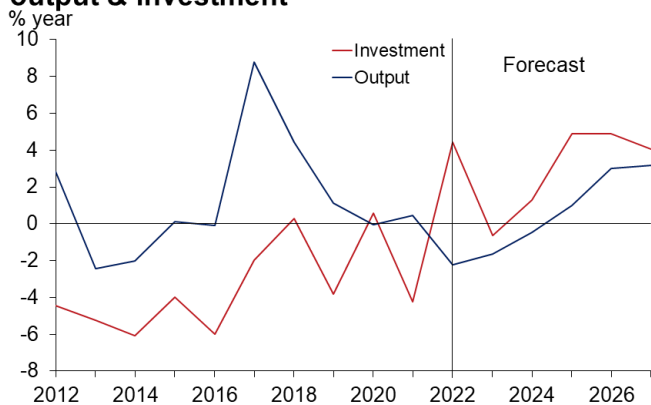


Source: Oxford Economics

Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms

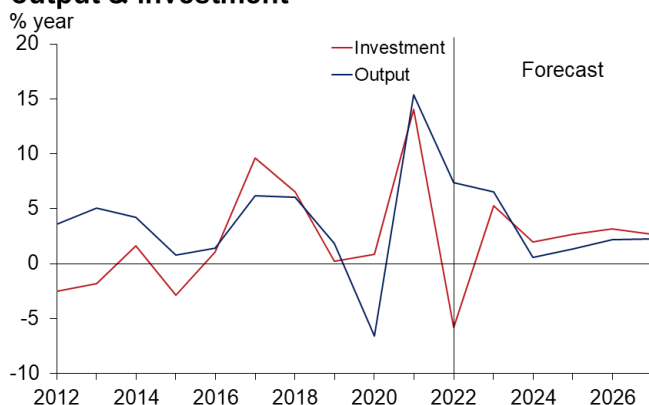


## Americas: Precision and optical instruments output & investment



Source: Oxford Economics

## Europe: Precision and optical instruments output & investment



Source: Oxford Economics

Precision and optical equipment investment							
(% change unless specified)							
	2022	2023	2024	2025	2026	2027	Level in 2022, US\$bn
China	28.4	12.0	3.7	7.0	5.8	5.3	35.1
Indonesia	-9.4	7.6	2.9	5.6	7.3	5.4	0.5
India	-6.2	-18.1	5.1	10.4	10.1	9.6	1.0
Japan	-11.6	-4.7	6.3	5.2	4.8	3.5	4.1
Malaysia	-9.6	-1.7	5.9	9.6	10.4	6.7	0.2
S. Korea	-9.8	-12.5	0.5	7.1	6.6	3.7	2.7
Taiwan	9.8	-1.7	-4.1	4.9	8.4	4.7	4.2
Thailand	-17.8	-9.6	-1.1	2.4	2.7	3.1	0.7
Vietnam	4.1	-3.8	3.0	4.9	5.1	6.2	1.1
<b>Asia</b>	<b>16.5</b>	<b>6.7</b>	<b>3.1</b>	<b>6.6</b>	<b>6.0</b>	<b>5.1</b>	<b>49.7</b>
Brazil	7.0	-7.4	-6.3	4.2	4.0	3.5	0.1
Canada	-7.8	-12.0	-1.7	6.2	7.7	6.2	0.0
Mexico	-0.1	64.9	4.2	0.8	2.2	2.4	0.1
US	4.5	-0.8	1.3	4.9	4.9	4.1	48.7
<b>Americas</b>	<b>4.5</b>	<b>-0.6</b>	<b>1.3</b>	<b>4.9</b>	<b>4.9</b>	<b>4.1</b>	<b>49.0</b>
Austria	-6.6	-4.5	-8.7	-0.1	0.7	1.4	0.9
Czech Republic	-45.0	-46.5	2.4	5.0	5.6	5.1	0.7
France	-9.0	14.3	0.1	-0.5	1.6	1.2	6.6
Germany	-8.4	4.9	1.0	3.5	4.4	4.5	7.1
Hungary	-14.4	-2.8	-1.9	17.8	15.0	7.3	0.0
Italy	-5.5	-4.9	4.2	2.4	2.3	1.7	3.2
Poland	12.4	11.0	1.6	10.9	8.5	5.2	0.2
Russia	22.6	9.0	-2.9	1.8	1.3	1.2	1.0
Slovakia	1.7	-18.0	-1.2	8.0	7.0	5.6	0.0
Spain	-9.2	9.2	3.9	8.1	7.4	5.6	0.2
Switzerland	-0.6	7.7	5.0	4.1	3.6	2.7	11.7
Türkiye	-36.8	-26.7	0.8	-1.4	1.1	1.3	0.1
UK	3.6	-0.2	-4.6	0.3	2.8	2.4	1.5
<b>Europe</b>	<b>-5.8</b>	<b>5.3</b>	<b>2.0</b>	<b>2.6</b>	<b>3.2</b>	<b>2.7</b>	<b>33.2</b>
<b>World</b>	<b>5.7</b>	<b>3.6</b>	<b>2.2</b>	<b>5.0</b>	<b>4.9</b>	<b>4.1</b>	<b>131.9</b>

All growth rates are calculated based on dollar values using actual exchange rates to 2023 and then fixed at 2023 exchange rates beyond that date

Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms



## Special Purpose Machinery Asia to drive global growth this year

Special purpose machinery covers equipment used in a wide range of industries, including mining, construction, packaging, electronics, textiles, food and agriculture as well as residential applications. This sector's share of global investment by the nine-key machine tool using industries has remained steady at 13% in 2022.

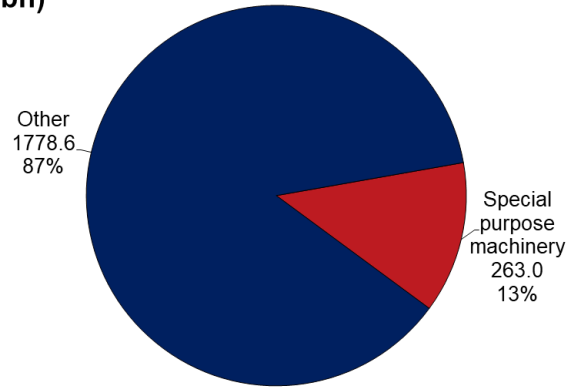
Global investment growth is projected to increase by 3.6% in 2024, marking a slowdown from the 4.5% growth seen in 2023. An acceleration is only expected in 2025. Interest rate hikes globally have had a lagged effect on activity, with most of their impacts concentrated in Europe and the US. Tight credit conditions add up to a series of demand constraints and obstacles, including lower contributions from India and China to construction output, a less supportive order backlog component for automotive demand, disruptions to supply chains, and a pessimistic, albeit slowly improving, sentiment.

European investment is forecast to grow by 0.7% in 2024. Despite manufacturing PMI readings showing an improvement in the first two months of the year, they remain in contraction territory, signaling a manufacturing sector that will not recover in a timely manner. In Germany, in particular, new orders for special-purpose machinery have been declining across the board, with agricultural machinery reaching an all-time low. Similarly, sentiment in the sector and in manufacturing as a whole remains weak, though close to a trough.

In contrast with general-purpose machinery, the Asian market is expected to witness a slowdown in investment growth to 4.3% in 2024 from 5% in 2023. Questions remain about China's ability to overcome structural medium- to long-term challenges and transform government intervention in the short term into business confidence, stronger end-user demand, and ultimately sustainable growth.

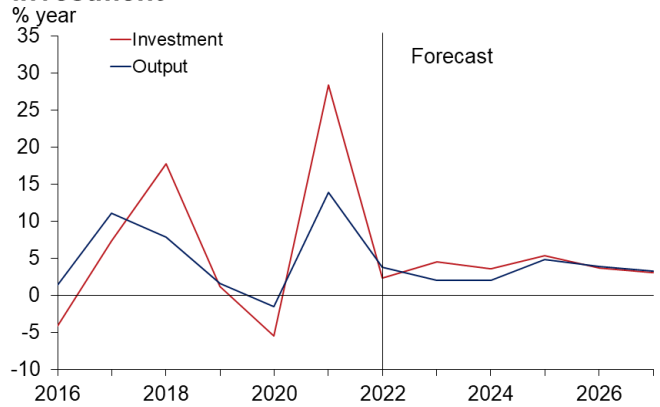
In the Americas, investment in special-purpose machinery is expected to contract by 1.2% in 2024, following growth of 2.7% in 2023. Within the region, Brazil and the US will see an increase, but growth will be offset by declines in Canada and Mexico.

World: Investment by MT-buying sectors, 2022 (US\$bn)



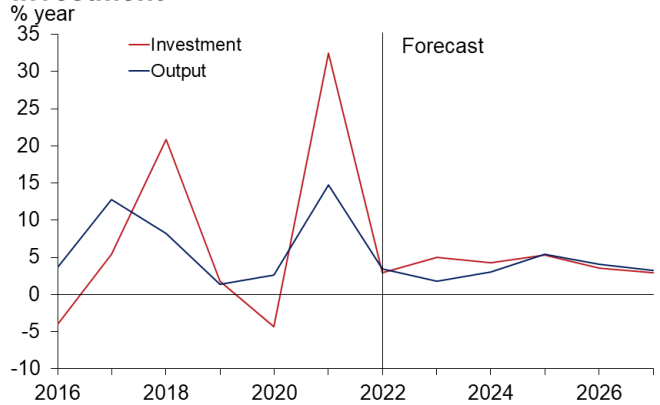
Source: Oxford Economics

World: Special purpose machinery output & investment



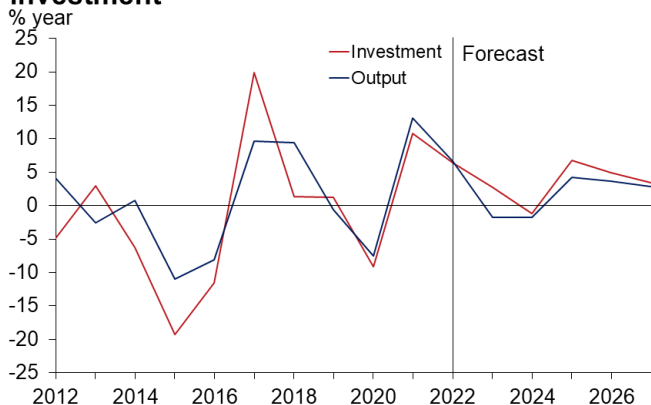
Source: Oxford Economics

Asia: Special purpose machinery output & investment



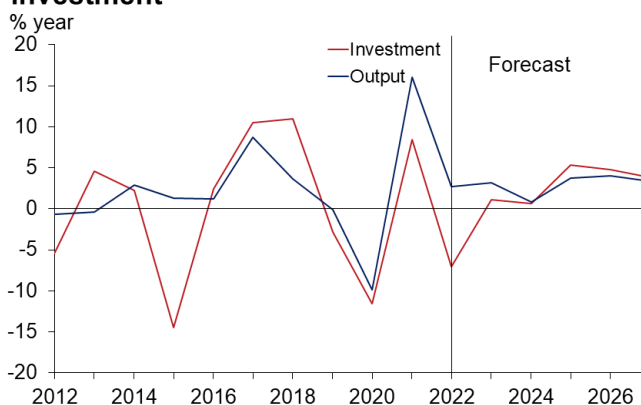
Source: Oxford Economics

## Americas: Special purpose machinery output & investment



Source: Oxford Economics

## Europe: Special purpose machinery output & investment



Source: Oxford Economics

### Special purpose machinery investment

(% change unless specified)

	2022	2023	2024	2025	2026	2027	Level in 2022, US\$bn
China	5.5	8.0	4.8	5.0	3.2	2.8	191.0
Indonesia	-2.0	0.9	7.1	9.4	8.9	6.4	1.5
India	-4.7	7.1	-2.2	10.1	6.5	6.5	2.3
Japan	-8.4	-14.7	0.9	6.9	4.4	2.1	19.2
Malaysia	-6.7	-0.4	3.4	14.1	13.6	8.0	0.2
S. Korea	-15.3	-12.9	1.7	7.2	6.9	5.6	7.3
Taiwan	-6.6	-23.9	-11.4	7.1	14.3	8.3	1.9
Thailand	-13.6	-7.3	1.4	4.1	4.0	4.2	0.8
Vietnam	11.3	-4.5	14.9	5.4	3.9	4.7	0.0
<b>Asia</b>	<b>2.9</b>	<b>5.0</b>	<b>4.3</b>	<b>5.3</b>	<b>3.5</b>	<b>3.0</b>	<b>224.1</b>
Brazil	0.3	-8.6	0.7	6.7	4.7	3.6	1.3
Canada	-19.5	-8.7	-2.5	7.4	8.7	6.9	0.6
Mexico	7.9	29.9	-9.9	-1.3	1.5	1.8	2.9
US	8.0	-1.2	0.9	8.6	5.6	3.6	14.7
<b>Americas</b>	<b>6.4</b>	<b>2.7</b>	<b>-1.2</b>	<b>6.7</b>	<b>5.0</b>	<b>3.4</b>	<b>19.5</b>
Austria	-9.8	-3.4	-4.9	2.7	3.1	2.8	1.4
Czech Republic	11.3	13.1	0.8	5.7	5.7	5.3	0.4
France	-9.4	3.4	-4.6	3.4	1.8	1.0	1.3
Germany	-9.6	3.2	-0.4	6.9	8.0	7.5	6.0
Hungary	10.5	-5.3	7.5	8.5	8.7	3.8	0.4
Italy	-5.0	-2.4	3.0	4.0	1.8	0.8	4.3
Poland	-8.8	14.4	-3.9	8.3	4.6	1.5	0.8
Russia	5.6	-3.0	12.1	4.1	2.8	2.2	1.5
Slovakia	3.0	7.9	6.0	6.1	5.2	3.9	0.6
Spain	-7.6	0.9	-0.6	7.4	6.1	3.5	0.4
Switzerland	-2.9	7.1	1.7	3.6	3.8	2.8	1.0
Türkiye	-49.2	-21.5	-0.6	2.7	4.6	2.7	0.4
UK	-3.8	-1.5	-9.0	6.1	5.1	2.7	1.0
<b>Europe</b>	<b>-7.1</b>	<b>1.1</b>	<b>0.7</b>	<b>5.3</b>	<b>4.8</b>	<b>3.8</b>	<b>19.5</b>
<b>World</b>	<b>2.4</b>	<b>4.5</b>	<b>3.6</b>	<b>5.4</b>	<b>3.7</b>	<b>3.1</b>	<b>263.0</b>

All growth rates are calculated based on dollar values using actual exchange rates to 2023 and then fixed at 2023 exchange rates beyond that date

Total investment = weighted sum of investment in the nine key sectors in constant price local currency terms

**World investment**

(% change unless specified)

	2021	2022	2023	2024	2025	2026	2027	Level in 2022, US\$bn
Basic Metals	3.0	-3.7	3.2	2.5	3.8	2.8	2.2	161.6
Electrical Engineering	21.7	5.7	4.0	6.1	7.5	6.7	5.6	681.5
General Purpose Machinery	16.4	1.1	1.2	4.7	5.6	3.8	2.9	202.3
Metal Products	14.1	-1.4	1.7	3.7	2.6	1.9	1.9	165.1
Motor Vehicles	6.0	-2.6	9.8	1.5	2.7	1.7	1.5	335.7
Aerospace	-0.7	0.7	12.1	8.9	6.9	5.6	4.4	34.3
Precision and Optical Instruments	8.6	5.7	3.6	2.2	5.0	4.9	4.1	131.9
Special Purpose Machinery	28.3	2.4	4.5	3.6	5.4	3.7	3.1	263.0
Other transport equipment	13.2	-5.5	-3.4	4.4	5.2	4.4	3.7	66.2
<b>Total</b>	<b>3.8</b>	<b>5.3</b>	<b>4.6</b>	<b>3.9</b>	<b>4.7</b>	<b>3.4</b>	<b>3.0</b>	<b>2041.6</b>

All growth rates are calculated based on dollar values using actual exchange rates to 2023 and then fixed at 2023 exchange rates beyond that date

In order to create global aggregates of investment by sector, it is necessary to convert investment by sector in each country into US\$ terms to provide a simple aggregation. This is different to the method of calculating growth rates of regional aggregates in Table 98 and the Overview table on page 5 of the report. As a result, growth in total investment and the total sum in this table will differ slightly compared to Table 98 and the Overview table on page 5 of the report.

# Economic Background

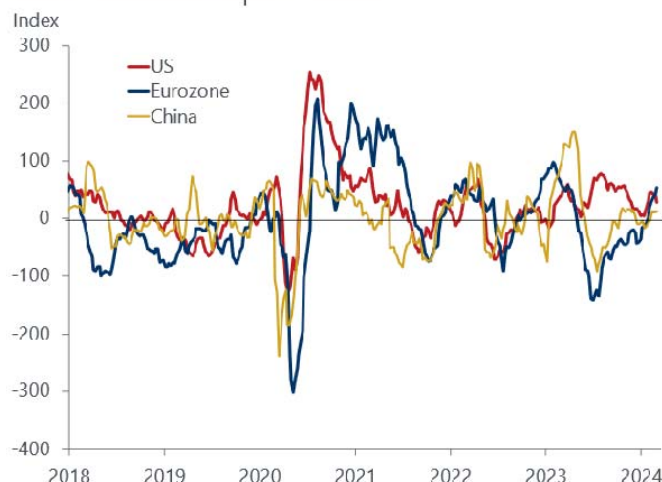
Forecasts finalised on 11th March

# World Economic Prospects

## Overview: Softer outlook brings the rate hiking cycle to a close

- Upgrades to our forecasts for the US and China have prompted us to raise our global GDP growth forecasts to 2.4% in 2024 and to 2.8% in 2025. Although the ongoing economic resilience in the US has prompted speculation that the Federal Reserve may not cut rates this year, we still expect other major central banks to loosen monetary policy in H2.
- Over the past month, recent data have supported our view that the worst point for global growth may now have passed. Activity data from the US, China, and the eurozone have recently surprised economists to the upside simultaneously for the first time in almost a year. Meanwhile, in February, the JP Morgan Global Composite PMI rose for a fourth consecutive month, reflecting a steady improvement in both the manufacturing and services components.
- We've raised our US GDP growth forecast for 2024 to 2.4%. We now expect a more moderate slowdown in 2025 and have increased our projection for growth next year to 1.7%. Meanwhile, in light of new policy stimulus measures, we've revised up our GDP growth forecasts for China to 4.7% this year and to 4.1% in 2025. But given the 2024 GDP growth target of "around 5%", there is an upside risk that more growth-boosting policy support will be provided.
- While we've nudged up our estimate of inflation at a global level slightly for this year and next, the revisions are not big enough to warrant any notable adjustment to the path for policy rates. The continued strength of US activity suggests that the Fed will not be in a hurry to lower the policy rate. But policy rates in the US and other advanced economies comfortably within restrictive territory, so we continue to expect other major central banks will gradually lower rates into less restrictive territory from the middle of this year.
- In our baseline forecast, we continue to expect three 25bps cuts by the Fed this year, one cut less than the markets are currently pricing in. We still anticipate a slightly faster pace of loosening by the ECB due to the weaker economic backdrop and the prospect of below-target headline inflation in H2. Nonetheless, we have pushed back the first rate cut by one meeting to June.

World: Economic surprise indices



Source : Oxford Economics/Haver Analytics

Summary of International Forecasts						
	2022	2023	2024	2025	2026	2027
<b>Real GDP</b>						
<b>North America</b>						
United States	1.9	2.5	2.4	1.7	1.9	1.7
Canada	3.8	1.1	-0.3	2.0	3.3	3.2
<b>Europe</b>						
Eurozone	3.5	0.5	0.5	1.8	1.9	1.5
Germany	1.9	-0.1	0.0	1.4	1.9	1.7
France	2.5	0.9	0.5	2.0	2.5	1.8
Italy	4.1	1.0	0.6	1.1	0.8	0.5
UK	4.3	0.1	0.5	2.0	2.0	1.6
EU27	3.5	0.5	0.8	2.0	2.0	1.7
<b>Asia</b>						
Japan	0.9	2.0	0.5	0.8	0.5	0.5
Emerging Asia	3.6	4.9	4.5	4.4	4.2	4.1
China	3.0	5.2	4.7	4.1	3.8	3.7
India	6.5	7.7	6.3	7.2	6.5	6.7
<b>World</b>	3.1	2.7	2.4	2.8	2.8	2.6
<b>World 2000 PPPs</b>	3.3	3.2	2.9	3.3	3.2	3.1
<b>World trade</b>	4.7	-1.2	2.4	4.1	4.1	3.6
<b>Inflation (CPI)</b>						
<b>North America</b>						
United States	8.0	4.1	2.8	2.1	2.1	2.0
Canada	6.8	3.9	2.5	2.0	2.2	2.2
<b>Europe</b>						
Eurozone	8.4	5.4	1.9	1.3	1.6	1.9
Germany	6.9	5.9	1.3	0.7	1.6	2.0
France	5.2	4.9	2.6	1.2	1.4	1.8
Italy	8.2	5.6	1.3	1.7	1.7	1.7
UK	9.1	7.3	2.2	2.1	2.3	2.2
EU27	9.2	6.4	2.1	1.6	1.7	2.0
<b>Asia</b>						
Japan	2.5	3.3	1.9	0.8	1.2	1.6
Emerging Asia	4.2	3.2	2.1	2.5	2.7	2.7
China	2.0	0.2	0.3	1.7	2.1	2.2
India	6.7	5.7	4.6	4.5	4.4	4.4
<b>World</b>	8.1	6.1	4.4	3.3	3.1	3.0
<b>Exchange Rates</b>						
US\$ Effective	115.1	115.4	114.2	110.7	106.2	103.3
\$/€	1.05	1.08	1.09	1.10	1.13	1.16
¥/\$	131.6	140.6	143.7	130.8	123.3	118.1
<b>Commodity Prices</b>						
Brent Oil (\$/bl)	100.8	82.5	79.4	76.8	77.1	77.3



# Brazil

## Highlights

- We forecast GDP growth of 0.5% in 2024 for Brazil. The January monthly activity release showed a third consecutive upside surprise driven by the services sector. Our forecast is still below that of consensus, as we have low conviction that a structural improvement in Brazil's potential growth will occur, or that the effects of contractionary fiscal and monetary policies will be limited in the short run.
  - We think inflation will reach 3.8% y/y by December this year. Inflation of 4.5% y/y in February surprised us to the upside due to a surge in transport and core prices. However, the overall short-term outlook still looks benign, as the Brazilian real has only slightly depreciated in the last few months. Commodity prices have risen but not significantly, suggesting the passthrough of imported inflation to domestic prices will be low.
  - The Brazilian central bank followed through with its forward guidance in March with a 50bps policy rate cut to 10.75%. Our baseline is consistent with further rate cuts at the current pace in every meeting until the policy rate reaches 9%, at which point we think the central bank will pause until inflation hits the 3% target.
- Twelve-month inflation expectations have fallen continuously, although very slowly and remain around the 3.5% mark, keeping the Board from normalizing interest rates any faster.
- The Brazilian real is at BRL5/USD, down 3% year to date, but in line with our expectations. We expect the currency to depreciate a bit more to BRL5.1/USD before the end of the year. This is in line with our suite of exchange rate forecasting models for emerging market currencies.
  - Brazil's fiscal accounts are a key concern this year. With a consolidated public sector primary deficit of 2.2% of GDP in 2023, Brazil is roughly 4ppts of GDP away from a debt-stabilizing primary balance. We do not forecast an adjustment this big will happen in the next five years, which means Brazil's public debt-to-GDP ratio will increase sharply until then. We estimate debt will reach 85% of GDP by 2027.

Forecast for Brazil						
(Annual percentage changes unless specified)						
	2022	2023	2024	2025	2026	2027
<b>Domestic Demand</b>	2.3	1.3	0.2	2.3	2.3	2.1
Private Consumption	4.1	3.1	-1.0	-0.4	1.2	1.6
Fixed Investment	1.0	-2.9	4.5	4.5	3.4	2.8
Stockbuilding (% of GDP)	-1.5	-2.0	-2.3	-0.8	-0.3	-0.1
Government Consumption	2.1	1.7	1.9	1.7	2.3	2.2
<b>Exports of Goods and Services</b>	6.2	9.1	-1.2	-1.7	1.3	1.7
<b>Imports of Goods and Services</b>	0.7	-1.1	-3.4	-0.7	1.8	2.0
<b>GDP</b>	3.1	2.9	0.5	2.1	2.2	2.1
Industrial Production	-0.7	0.3	1.2	2.1	2.5	2.0
Consumer Prices	9.3	4.6	3.7	3.6	3.4	3.1
<b>Government Budget (% of GDP)</b>	-4.4	-8.8	-9.0	-7.2	-5.7	-5.0
<b>Trade Balance (\$bn)</b>	44.2	80.6	52.6	45.5	42.7	47.4
<b>Current Account (\$bn)</b>	-48.25	-28.55	-46.23	-55.95	-60.99	-59.65
<b>Current Balance (% of GDP)</b>	-2.49	-1.34	-2.07	-2.47	-2.58	-2.41
<b>Short-Term Interest Rates (%)</b>	12.44	13.20	10.06	8.90	8.49	8.06
<b>Exchange Rate (Per US\$)</b>	5.16	4.99	5.00	5.16	5.24	5.31

All growth rates are calculated based on values in local currency

## Recent developments

Q4 2023 national accounts showed that the economy stalled for two consecutive quarters as the agricultural sector's jump in Q1 normalized after a bumper crop harvest last year. The services and industry sectors cushioned a sharper correction by growing 0.3% q/q and 1.7% q/q, respectively.

On the expenditure side, domestic demand momentum weakened visibly, with household consumption contracting 0.2% q/q and investment only regaining half of the losses from in Q3 with a 0.9% q/q expansion. In annual terms, domestic demand expanded 1.3% last year, meaning the remaining 1.6ppts contribution to GDP was supported by net exports alone.

## Short-term outlook

The Brazilian economy came out of the pandemic on strong footing, keeping up with the pace of global growth, excluding China, for most of the last two years. However, we don't expect this to continue for another year.

The strength is a result of sound monetary and fiscal policy management during the pandemic downturn. Due to the authorities' timely response, domestic demand remained reasonably under control. Yet, supply was left unsupported for longer due to global supply-chain disruptions, a lagging domestic labor force, and volatile input commodity prices. This supply and demand mismatch resulted in an inflation surge that warranted a sudden shift of economic policy into restrictive territory.

After inflation and real wage growth normalize, we expect the Brazilian economy to slowly regain its growth trend of around 0.4%-0.5% q/q, which will lag trend global growth.

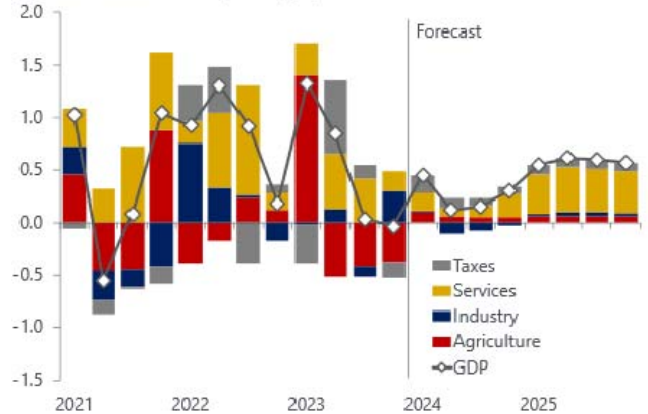
## Key drivers of our short-term forecast

**Sticky services inflation.** Inflation will likely remain very sticky in the short term, especially in the services sector given how fast real wages have regained losses from 2021 and 2022. So, we think wage disinflation is likely to be slow.

On the flipside, short-term prices are benefiting greatly from the recent food supply shock from last year's record harvest, keeping grain and meat costs low. This has dominated inflation dynamics most recently.

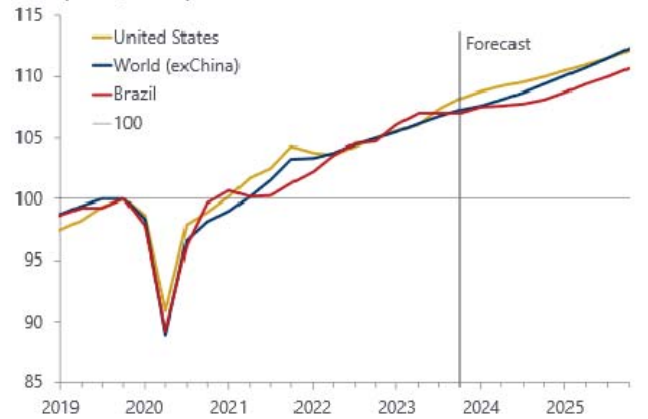
**Very gradual monetary policy normalization.** At the current Selic rate level, the central bank's policy stance is highly contractionary. This is consistent with above-target services inflation, but some recalibration of policy tightness is still warranted. We expect the central bank to cut rates gradually, ending this year with the Selic rate at 9% before pausing.

Brazil: Short run output growth ppt contributions to GDP growth, q/q



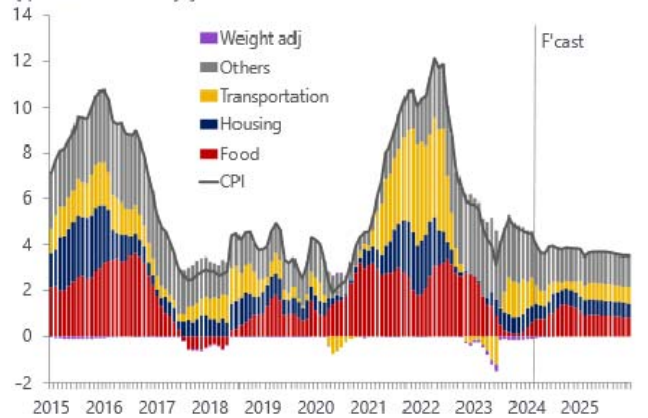
Source: Oxford Economics/ FGV/IBGE/Haver Analytics

Brazil: Post-pandemic GDP recovery Index (2019 Q4 = 100)



Source: Oxford Economics

Brazil: Inflation decomposition pp contributions to y/y inflation



Source: Oxford Economics/Haver Analytics

The central bank's Board of Governors will likely find it trickier to cut rates further to reach a neutral policy stance from 2025 onward. This is because of the recent change in the Board and political pressure from President Luiz Inacio Lula da Silva to recalibrate the inflation target midpoint up 1ppt to 4%. This has kept long-run inflation expectations above the bank's target for months and will require a prolonged period of a more cautious tone to allow market agents to reprice long-term inflation back to the original inflation target.

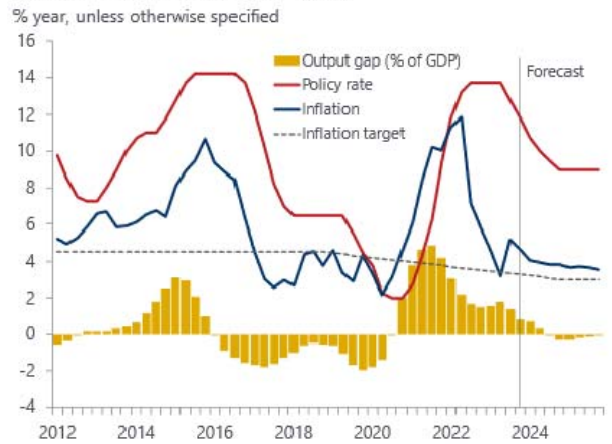
**Fiscal policy will not do enough to stabilize the debt-to-GDP ratio in the short term.** Lula da Silva won the election and started his third mandate by promoting a high-tax and high-spending left-wing policy agenda.

The recent fiscal framework proposed to overhaul the spending cap will enable the government to increase spending by up to 2.5% per year in real terms, depending on fiscal revenue growth. Under this new policy design, we do not think the sovereign will be able to meet the required 2% of GDP primary surplus needed to stabilize its debt before the end of the mandate. As a result, we anticipate that debt will increase by more than 10ppts of GDP during the next 10 years.

A gradual fiscal adjustment in an environment of prohibitively high real rates is particularly concerning. Stabilizing the debt-to-GDP ratio at a higher level is not only more costly, but also riskier, as it exposes Brazil to more volatility during global shocks and reduces the fiscal policy's ability to respond to recessions with tax cuts or targeted spending support.

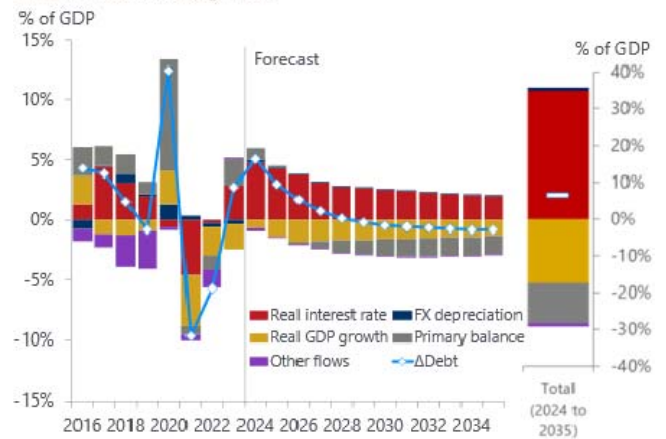
**Fading support from commodity prices.** As a small, open, commodity-exporting economy, Brazil benefits greatly from commodity price booms by increasing productivity and capital accumulation in its tradable sector. As the global economy adapts to weak demographic conditions for growth, demand will likely keep commodity prices low compared to recent levels.

Brazil: Inflation & monetary policy



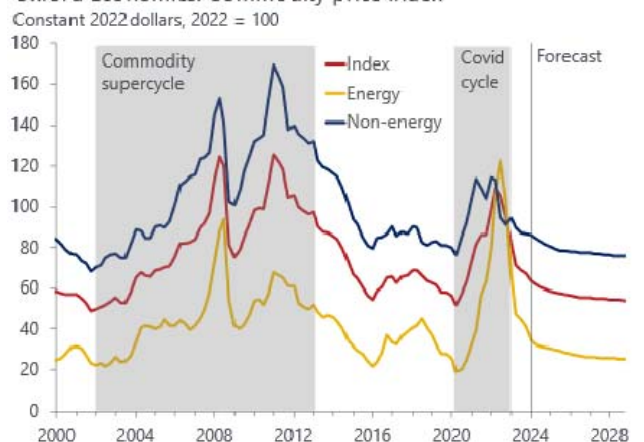
Source: Oxford Economics

Brazil: Debt creating flows



Source: Oxford Economics

Oxford Economics: Commodity price index



Source: Oxford Economics

# China

## Highlights

- We've raised our GDP growth forecasts for China by 0.3ppts to 4.7% in 2024 and by 0.1ppt to 4.1% in 2025. The upgrade to our growth forecasts reflects guidance from central authorities that stimulus will likely be more aggressive than we previously anticipated.
- More specifically, we expect that a potential "Cash for Clunkers" trade-in programme for household goods and big-ticket items could boost the economy by up to 0.2% of GDP this year. Other tax relief measures and further supply-side industry support are likely to complement more fiscal spending for both traditional and new infrastructure.
- The combination of an ambitious growth target and a smaller on-budget official fiscal deficit target in this year's Government Work Report suggests that policy stimulus will likely have to come from more unconventional quasi-fiscal tools. We expect policy will have to stay accommodative for much of this year until the growth target is secured.
- Other macro signals suggest that onshore consumption had held up relatively well over the extended Lunar New Year holidays, providing some cheer to offset the weak start to onshore markets this calendar year. Even considering the unfavourable base effects from last year's reopening boost, consumers and the services industry appear to have had a relatively decent retail period over the past month.
- On the supply side, we expect that the PMI will remain weak in the near term due to the combination of destocking pressures, weak private investor sentiment, and uncertain end-user demand.
- We expect China's economy will remain in a persistently low inflation environment given our expectations of slower demand growth and continued supply-side stimulus. As such, in contrast to previous easing cycles where onshore stimulus generated significant growth spillovers to other economies, the current easing cycle is likely to affect the rest of the world mainly through disinflationary impulses.

Forecast for China						
(Annual percentage changes unless specified)						
	2022	2023	2024	2025	2026	2027
<b>Domestic Demand</b>	2.7	5.3	4.9	4.5	3.7	3.9
<b>Private Consumption</b>	0.9	8.1	5.6	4.9	4.3	5.3
<b>Fixed Investment</b>	3.1	5.3	4.8	4.2	2.9	2.5
<b>Government Consumption</b>	5.6	4.7	2.5	4.2	3.9	3.8
<b>Exports of Goods and Services</b>	-0.5	3.9	5.1	3.2	3.1	2.9
<b>Imports of Goods and Services</b>	-5.0	6.4	6.5	4.1	3.4	3.5
<b>GDP</b>	3.0	5.2	4.7	4.1	3.8	3.7
<b>Manufacturing (value-added)</b>	2.6	4.7	4.6	3.2	3.2	3.0
<b>Consumer Prices</b>	2.0	0.2	0.3	1.7	2.1	2.2
<b>Current Balance (% of GDP)</b>	2.2	1.5	1.4	1.9	2.4	2.6
<b>Government Budget (% of GDP)</b>	-7.3	-7.7	-7.7	-6.8	-5.9	-5.4
<b>Current Account (\$bn)</b>	401.9	264.2	269.0	410.0	570.7	670.0
<b>Total Trade Balance (\$bn)</b>	576.3	378.6	385.4	505.8	636.4	706.2
<b>Short-Term Interest Rates (%)</b>	1.50	1.50	1.50	1.50	1.50	1.50
<b>Exchange Rate (Per US\$)</b>	6.73	7.08	7.13	6.79	6.47	6.34

All growth rates are calculated based on values in local currency



## Recent developments

Market attention has shifted from stimulus hopes to policy implementation amid a backdrop of cautious investor sentiment. We will get more details on the form and pace of further economic activity normalisation in the coming weeks, as we move past the National People’s Congress (NPC) and data vacuum period in January-February.

China’s annual legislative meetings, the “Two Sessions”, were held earlier this month. Authorities pledged to maintain similar economic targets as last year’s – growth at “around 5%”, a fiscal deficit target of 3% of GDP, and an inflation target (in principle a ceiling) of 3%. Details on policy execution, timing, and financing were scarce, as to be expected in these high-level meetings, but the combination of an ambitious growth target and a smaller on-budget official fiscal deficit target suggests that policy stimulus will likely have to come from more unconventional, quasi-fiscal tools. While we had expected the announcement of a RMB1trn Central Government Special Bond issuance (around 0.8% of nominal GDP) to fund stimulus efforts, this was not factored into our previous baseline forecasts. The timing of such a long-tenured issuance is logical given the current low financing environment.

As a result of announcements during the NPC sessions, we’ve raised our GDP growth forecast for 2024 by 0.3ppts to 4.7%, reflecting more aggressive fiscal and monetary stimulus than previously anticipated.

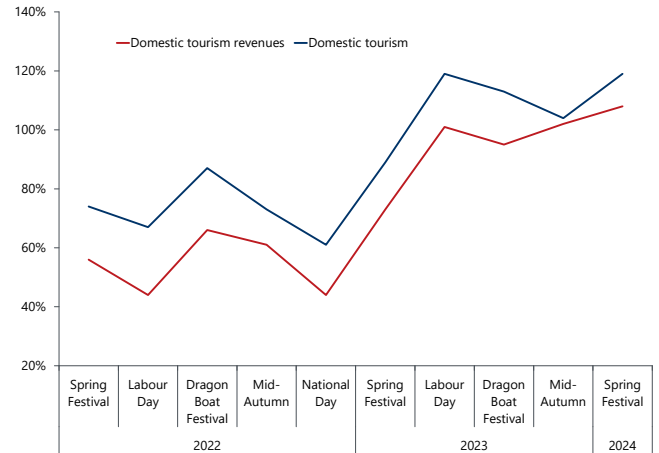
Other macro signals suggest that the Chinese economy has otherwise held up reasonably well, considering the myriad of cyclical and structural headwinds at the end of 2023. Chinese consumption was better than markets expected over the Spring Festival holidays last month. Domestic tourism, box office sales, and services industry sales all grew at a double-digit pace compared to the same time last year, when the economy enjoyed a reopening boost. Still, despite the increase in headline volumes, there was a meaningful drop in the average spending value by each consumer domestically (“spending per head”), underscoring the structural trend of slowing consumption onshore.

On the supply side, manufacturing and industry data remained weak, with PMI data for February remaining below 50 (49.1 in February vs. 49.2 in January), indicating contraction. The inventory cycle has likely not quite turned the corner as businesses continue to wait on potential stimulus support and signs of a firmer revival in demand conditions before further expanding production.

Seasonal factors, including a later Lunar New Year which pushed up pork prices in February, drove an uptick in headline inflation last month. Headline CPI gained 0.7% y/y (vs. a 0.8% y/y decline

China: Domestic tourism during holiday seasons

% of pre-pandemic (2019) levels



Source: Oxford Economics/ China’s Ministry of Culture and Tourism

in January), driven mainly by food-related segments and a steady rise in core inflation. Nonetheless, pockets of disinflationary pressures persisted, with PPI deflation deepening to -2.7% y/y in February versus -2.5% in January due to weak upstream sector prices in the off-season and soft mid-to-downstream prices. While we expect deflation to have troughed, helped by the turning of the domestic pork supply cycle, we think China will likely remain in a persistently low inflation environment given our expectations of slower demand growth and continued supply-side fiscal stimulus. Export prices have fallen the most since the global financial crisis, stoking fears of China 'exporting' its deflationary impulse.

Parallels to 'Japanification' (which, in our view, is defined as a period of lower growth, lower inflation, and lower-for-longer nominal rates) suggest that decisive policy actions play a critical role in averting a deflationary mindset. For now, Chinese policymakers appear to be taking heed, although the desire to contain financial and leverage risk will ultimately limit the scope of debt-driven policies. Earlier last month, the People's Bank of China (PBoC) cut its five-year Loan Prime Rate (LPR; an onshore mortgage reference rate) by a record 25bps to 3.95%. State banks are also reportedly stepping up their credit support for 'white-listed' property developers. Measures aimed at taming onshore equity market volatility were also put in place.

Early indications of these hasty moves to stabilize onshore sentiment appear promising. The onshore benchmark CSI-300 has pared back some losses, after falling by 45% peak-to-trough from February 2021 to early February 2024. But smaller companies – as proxied by small cap indices – continue to bear the brunt of an equity market correction. Despite headlines focusing on the weakest annual inward FDI in 2023 since the early 1990s, preliminary balance of payments data showed slower capital outflows in Q4 2023 compared to Q3. The pace of outflows through foreign direct investments (FDI) slowed to US\$26bn in Q4 versus US\$65bn of outflows in Q3. New utilised FDI also picked up in December and January.

## Short-term outlook

Ultimately, we think the combination of these policy efforts will allow headline sequential GDP growth to continue at around 1.2% over the next four quarters, partially countering the heavier cyclical drag from property and China's multiple structural economic headwinds.

By the end of 2024, owing to aggressive fiscal efforts, we expect the economy to further narrow the negative output gap to -0.1% of potential GDP, from around -0.6% at the end of last year.

## Key drivers of our short-term forecast.

**Policy is the largest variable in our 2024 forecast.** Our baseline expectations include a small uptick in the fiscal impulse in 2024, driven by centrally funded policy tools such as central government bond issuances and policy bank support. A round of a "Cash-for-Clunkers" trade-in programme for big-ticket household goods and automobiles appears forthcoming, and if the 2009/2010 experience was anything to go by, we expect a benefit of around 0.2% of GDP this year, though with significant payback effects in later years. Other tax relief measures and further supply-side industry support are likely to complement more spending for both traditional and new infrastructure on the fiscal side. Some direct consumption support for households is also possible (though is not factored into our baseline), particularly if the strength of retail spending fades materially in the coming months.

On monetary easing, given the increased roles of banks in stabilizing the property sector and the risk of reduced profitability, the PBoC will likely lean on tools other than aggressive outright benchmark rate cuts to maintain an accommodative liquidity environment, including cuts to banks' reserve requirement ratios (RRR). We anticipate a pair of 25bps cuts to the RRR in Q2 and Q3, following the 50bps cut in February.

**Moderate wage growth could provide upside to consumption.** A step-up in supply-side stimulus in H2 2023 helped stabilise China's labour markets, although pockets of structural weakness, such as youth unemployment, persist. We expect employment will continue to recover, driving improved labour incomes in 2024. Alongside lower real rates for households (assuming inflation recovers towards an average of 0.3%, as in our baseline), retail spending could grow at a respectable pace of above 5% in 2024. However, there are significant downside risks to this forecast. Our empirical analyses suggest that consumer confidence in China possesses relatively 'sticky' qualities, impacting spending decisions as far out as four quarters later. As such, it's likely that consumers will remain wary of spending this year, despite having passed the peak of property pain.



# Eurozone

## Highlights

- We forecast eurozone GDP will grow by 0.5% this year, and believe inflation will average just below 2%. GDP was nearly stagnant over the past year, with activity now reported to have been flat in Q4 2023 after a marginal drop in Q3. We don't expect a swift change in the short term, but economic activity should improve in H2 as real disposable income and financial conditions are set to improve.
- Momentum remains sluggish in Q1. Despite an improvement in the PMIs in February, alternative soft indicators show that confidence is rising very gradually. The Economic Sentiment Indicator fell in February and we don't anticipate a recovery in the near term. We expect eurozone GDP will grow by just 0.2% in Q1.
- Disinflation in the eurozone continues, as headline inflation fell to 2.6% in February. More importantly for policymakers, core inflation continued to ease as well, moderating to 3.1%. Encouragingly, the impact of the Red Sea disruption on inflation continues to be very muted. But there are also concerns about the trajectory for inflation as services prices remain high and sticky. We believe inflation will ease closer to 2% in Q2 and undershoot the ECB inflation target in H2.
- The outcome of the ECB's meeting in March was broadly in line with our expectation. The Governing Council used the meeting mostly as a stock-taking exercise ahead of the more crucial April and June meetings, when the policy normalisation process is likely to begin. The meeting outcome supports our recent decision to shift our expectation of the first rate cut to June, when additional data on wages will be available. A rate cut at the April meeting is still possible, but it would require significant downside surprises from several inflation and wage indicators to trigger an early cut. However, a significant uptick in services inflation would be needed for a delay to July.

Forecast for Eurozone (Annual percentage changes unless specified)						
	2022	2023	2024	2025	2026	2027
<b>Domestic Demand</b>	3.6	0.4	0.5	1.7	1.9	1.6
Private Consumption	4.2	0.6	1.1	2.0	2.0	1.6
Fixed Investment	2.6	1.4	0.1	3.0	2.8	2.4
Government Consumption	1.6	0.7	0.9	0.5	0.6	0.6
Net exports (% of GDP)	4.1	4.3	4.4	4.4	4.4	4.4
<b>GDP</b>	3.5	0.5	0.5	1.8	1.9	1.5
Industrial Production	2.2	-2.3	-0.1	2.9	2.6	2.0
Consumer Prices	8.4	5.4	1.9	1.3	1.6	1.9
Current Account (% of GDP)	-0.6	1.8	2.6	2.6	2.6	2.5
Government Budget (% of GDP)	-3.6	-3.1	-2.8	-2.3	-2.0	-1.8
Short-Term Interest rate (%)	0.3	3.4	3.4	1.9	1.6	1.6
Long-Term Interest Rates (%)	1.9	3.3	2.8	2.8	2.7	2.7
Exchange rate (US\$ per Euro)	1.1	1.1	1.1	1.1	1.1	1.2
Exchange rate (YEN per Euro)	138.0	152.0	157.1	144.2	139.2	137.2

All growth rates are calculated based on values in local currency

## Recent developments

The final eurozone GDP estimate confirmed the economy stagnated in Q4 2023, barely improving on the 0.1% contraction in Q3. A revision to historical data meant that eurozone GDP grew by 0.4% last year, 0.1ppt lower than previously thought. The positive contribution of government consumption and investment was countered by the drag from stock-building and worsening net exports. The uptick in private consumption had a negligible impact on total growth, although household spending should gradually become more supportive as easing inflation helps real incomes improve.

Recent data suggest the eurozone economy remains weak, with no prospect of a significant improvement in the near term. For instance, while the composite and services PMI readings for the eurozone suggest the economy has reached a low point, the Economic Sentiment Indicator fell again in February and we don't anticipate an imminent recovery.

However, there has been some divergence in the PMIs among the eurozone economies. The composite PMI swung further into expansion territory for the southern economies, driven mainly by services, whereas it sunk deeper into contraction in Germany, weighed down by the struggling manufacturing sector.

## Short-term outlook

The eurozone economy has stagnated recently, dragged down by tighter monetary policy, the impact of high inflation on consumers' real incomes, weak external demand, and an industrial recession. Our suite of nowcasting models corroborate our tepid near-term expectations and indicate Q1 growth will be slightly positive.

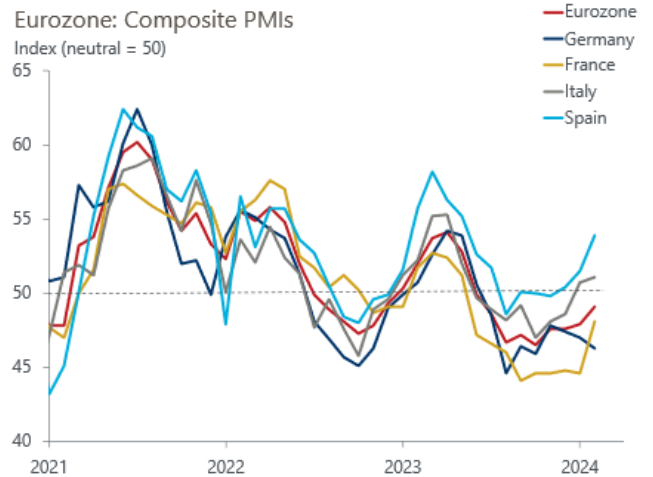
Economic activity should improve in H2 as inflation eases and financial conditions improve. We expect eurozone GDP will expand by 0.5% in 2024. Even though incoming hard data on industry is still downbeat, leading indicators suggest a turning point is near. We expect favourable cyclical and structural tailwinds will now take over and believe industry output will accelerate this year.

## Key drivers of our short-term forecast

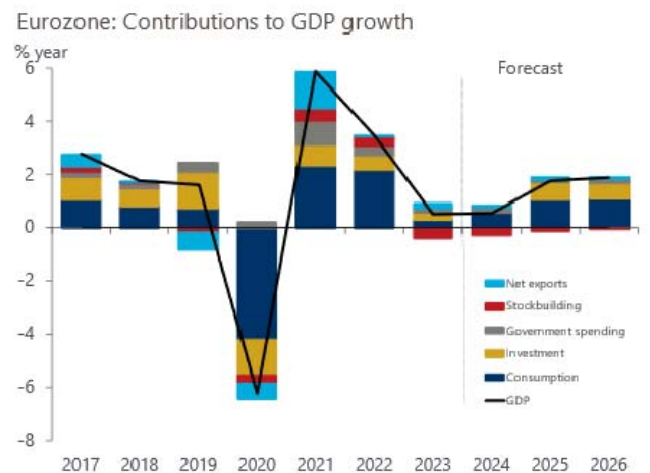
**Consumer spending will improve only gradually.** Private consumption in the eurozone will likely benefit from better real disposable income this year. However, short-term data, such as retail sales and consumer confidence, suggest that consumer spending won't recover too much in Q1. We expect real income



Source: Oxford Economics/Haver Analytics



Source: Oxford Economics/Haver Analytics/S&P Global



Source: Oxford Economics/Haver Analytics

growth will pick up more significantly over the course of this year. Our baseline case is for consumption to grow by around 1.1% this year, up from 0.6% last year, but there are downside risks to this call.

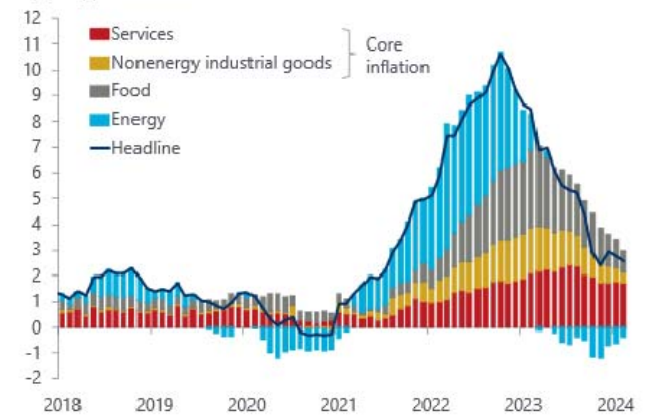
**Inflation will fall below 2% by mid-2024.** The disinflation process in the eurozone continues, with headline inflation falling to 2.6% in February. More importantly for policymakers, core inflation continues to ease as well, moderating to 3.1%. Encouragingly, the impact of the Red Sea disruption on the inflation data continues to be muted, with goods price inflation showing little signs of renewed pressures driven by higher transportation costs or input shortages owing to increased delivery times. But despite the positive signs in the inflation figures, some components, such as services, remain relatively high. We believe inflation will get closer to 2% this spring and will undershoot the ECB inflation target in H2.

**The ECB will likely cut rates in June.** The council used the March ECB meeting mostly as a stock-taking exercise ahead of the more crucial April and June meetings, when the policy normalisation process is likely to begin. The meeting outcome supports our recent decision to shift out expectation for the first rate cut to June, when additional data on wages will be available. A rate cut at the April meeting is still possible, but it would require significant downside surprises from several inflation and wage indicators to trigger an early cut. However, a significant uptick in services inflation would be needed for a delay to July.

We think interest rates will be cut by a cumulative 125bps this year and project the easing cycle will continue next year until we reach the neutral rate. However, monetary policy transmission takes time and we don't think growth will receive much of a boost from monetary loosening until 2025, though there's potential for some upside surprises.

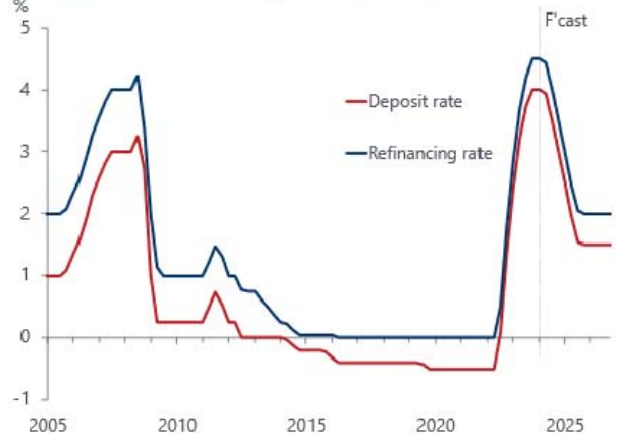
**Fiscal policy will become more restrictive.** Fiscal policy will represent an increasing drag on growth as government priorities shift from providing support to deficit reduction. Concerns about fiscal sustainability mean less room to manoeuvre, raising the chances of tensions in sovereign markets, with Italy once again the main source of risk.

Eurozone: Headline inflation breakdown  
% y/y & pp contribution



Source: Oxford Economics/Haver Analytics

Eurozone: ECB refinancing and deposit rate



Source: Oxford Economics/Haver Analytics

# France

## Highlights

- There are no clear signs of a rebound in the initial data from France at the start of the year, so we continue to expect the economy to remain broadly flat over the first quarter. Though PMIs have registered marked improvements from record lows, overall, business surveys remain in slight contractionary territory. Activity will pick up gradually later in the year, with GDP growth expected to reach 0.5% in 2024.
- The €10bn public spending cuts announced by the government for 2024 will have a negative impact on growth this year. The cost-saving measures, representing 0.4% of GDP, are an effort to meet the deficit target of 4.4% of GDP laid out in the 2024 Budget Law, but they are unlikely to be enough.
- Positively, Q4 GDP figures have been marginally revised up. The economy is now estimated to have grown by 0.1% in the last quarter of the year, up from 0%, resulting in stronger carryover growth for 2024. Detailed figures also showed that household income had been more dynamic than expected, which will translate into higher consumption in 2024.
- Inflation continues to slow, falling to 2.9% y/y in February, despite the scheduled rise in regulated electricity prices. Core goods prices are trending down, with Red Sea shipping disruptions yet to have a visible impact on inflation data. However, services inflation remains elevated and will be a key point of attention. We still expect the broader disinflationary trend to continue apace and forecast inflation to average 2.6% this year, revised up 0.3ppts due to sticky services prices.

### Forecast for France

(Annual percentage changes unless specified)

	2022	2023	2024	2025	2026	2027
<b>Domestic Demand</b>	3.1	0.4	0.7	1.4	1.7	1.4
<b>Private Consumption</b>	2.3	0.7	1.0	1.5	2.0	1.6
<b>Fixed Investment</b>	2.3	1.1	-0.9	1.2	1.7	1.6
<b>Stockbuilding (% of GDP)</b>	1.0	0.6	0.9	1.0	1.0	1.0
<b>Government Consumption</b>	2.5	0.5	0.5	1.0	1.1	0.7
<b>Exports of Goods and Services</b>	7.4	1.5	1.9	4.2	3.8	3.0
<b>Imports of Goods and Services</b>	8.8	-0.1	2.5	2.2	1.4	1.7
<b>GDP</b>	2.5	0.9	0.5	2.0	2.5	1.8
<b>Industrial Production</b>	0.1	0.4	0.7	2.6	2.4	1.7
<b>Consumer Prices</b>	5.2	4.9	2.6	1.2	1.4	1.8
<b>Current Balance (% of GDP)</b>	-2.0	-1.2	-2.2	-2.0	-1.2	-0.9
<b>Government Budget (% of GDP)</b>	-4.8	-4.5	-4.5	-4.4	-4.2	-3.7
<b>Short-Term Interest Rates (%)</b>	0.3	3.4	3.4	1.9	1.6	1.6
<b>Long-Term Interest Rates (%)</b>	1.7	3.0	2.7	2.5	2.5	2.5
<b>Exchange Rate (US\$ per Euro)</b>	1.05	1.08	1.09	1.10	1.13	1.16

All growth rates are calculated based on values in local currency



## Recent developments

According to revised Q4 GDP figures, the French economy expanded by 0.1% in Q4, an improvement compared to the stagnation suggested by the previous estimate. Private domestic demand still declined in the quarter. Residential investment fell rapidly due to tight credit conditions, while business investment took an even bigger hit than initially estimated, after showing some resilience in the previous quarters. Private consumption was flat, showing that the purchasing power gains from lower inflation have not translated into higher spending. Only government spending propped up the economy in Q4 and kept GDP from contracting. Imports fell rapidly as companies drew down their inventories and domestic demand remained weak.

February's surveys show that a meaningful economic rebound remains way off.

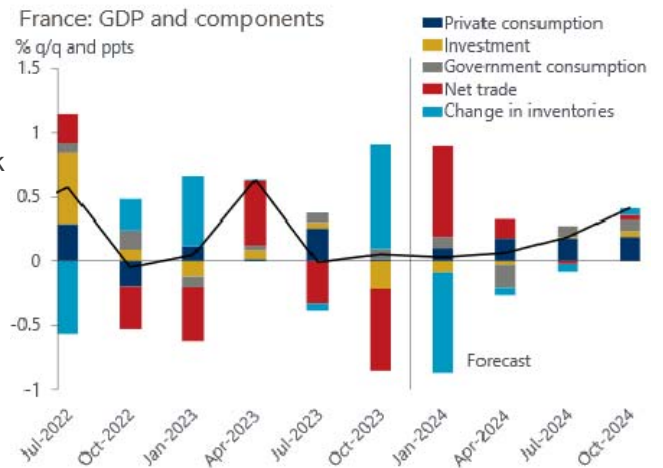
Though PMIs have improved from record lows, surveys remain slightly below their long-term average overall, suggesting activity is broadly flat.

Inflation fell to 2.9% y/y in February from 3.1% in the previous month. The decrease came despite a 10% rise in regulated electricity prices pushing up the headline index. Core goods continued their uninterrupted disinflationary trend, with little visible impact from the shipping disruption in the Red Sea yet. But as we expected, services inflation is proving stickier, with prices increasing at the same pace as January. Although we forecast continuing disinflation, services inflation is still a key point, as a resilient labour market supports wage growth, a major cost entry for services businesses.

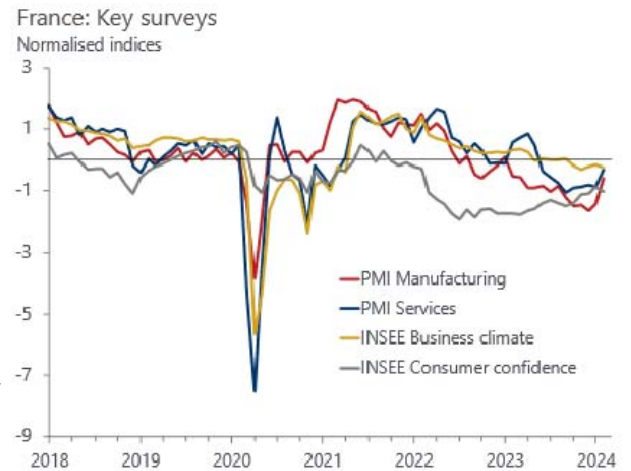
On the fiscal side, the French government announced public spending cuts for 2024, amounting to €10bn (0.4% of GDP). The ambitious cost-saving measures are an effort to meet the deficit target of 4.4% of GDP laid out in the 2024 Budget Law, a target that the economic slowdown has made increasingly harder to reach, as it was underpinned by an excessively rosy GDP growth forecast of 1.4% for 2024. Lower government consumption in 2024 will have a direct negative impact on France's annual GDP growth in the range of 0.2ppts-0.3ppts. Despite the cuts, it is far from guaranteed that France will achieve its deficit target for 2024, given the economy's lack of momentum.

## Short-term outlook

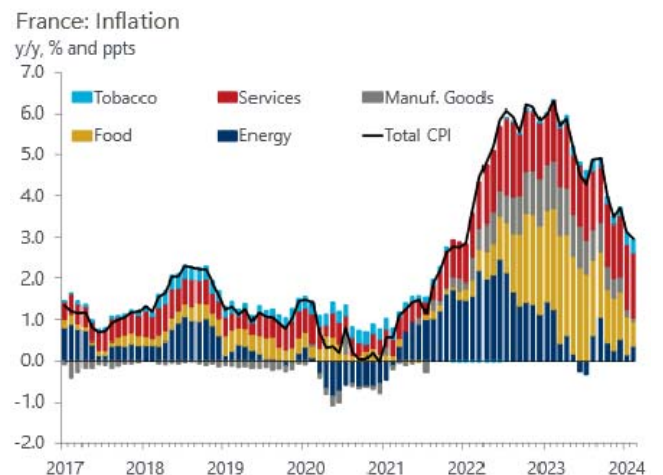
The Q4 figures confirmed that the economy is at a standstill and has not found new momentum yet. In the short term, tight monetary policy will keep heavily weighing on activity through investment, while improving real incomes will raise consumption only gradually. We left our GDP growth forecast for 2024 unchanged at 0.5%. The impact of the newly announced government spending cuts is broadly compensated by better Q4 GDP figures and by household income growing faster than expected. We anticipate a substantial rebound in growth from next year as the impact of expected



Source: Oxford Economics/Haver Analytics



Source: Oxford Economics/Haver Analytics



Source: Oxford Economics/Haver Analytics

monetary policy easing materialises.

We also raised our average inflation projections to 2.6% from 2.3% for 2024, while 2025 is left unchanged at 1.2%. Shipping disruptions due to tensions in the Red Sea will raise core goods prices, with the effect peaking in H2. The impact will likely stay contained and will not call into question the broader disinflationary outlook.

The gas reference price hikes in July will likely translate into higher energy bills for households, as a high share of consumers have an administered price offer and non-administered market prices tend to cluster around the regulated price. But the impact of this on final consumers is not comparable to the inflationary shock of the gas crisis.

### Key drivers of our short-term forecast

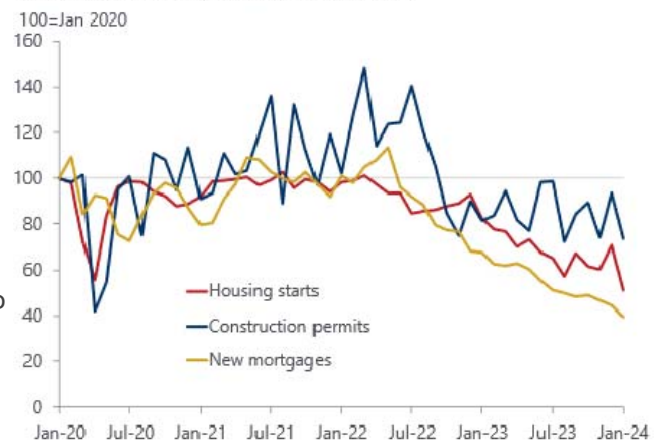
**Inflation will ease but stay elevated.** We expect consumer prices to remain above target until the beginning of next year. Higher electricity prices will be an obstacle to the fall in energy inflation but will not derail it, while food price momentum has moderated. However, core inflation will prove more stubborn, as firms will seek to not entirely pass lower costs onto final prices to protect their margins. Higher core goods prices due to the shipping disruptions are likely to make the disinflationary path a bit bumpier.

Tighter financing conditions will take a toll on the economy. The full impact of the European Central Bank's rate hiking cycle has yet to be felt as monetary policy takes time to filter through the economy. The central bank started raising rates in July last year and has hiked by a cumulative 450bps. We think the bank will maintain a restrictive policy stance in the short term and start cutting rates in June as evidence of disinflation piles up.

**Consumers are still cautious on day-to-day spending.** In categories where inflation is running hot, such as food, consumers have resorted to limiting their consumption of non-basics and switching to lower-quality items. Even though real household income is finally starting to rise, the latest surveys confirm that French consumers prefer to save rather than spend. Although wage negotiations suggest another year of strong pay rises, we expect private spending to advance too timidly to buoy growth in the short term, amid households' lack of confidence.

**Government action faces hurdles.** The government's actions are being hindered by its lack of majority in parliament. While exploiting the Article 49.3 procedure – allowing the prime minister to pass bills unilaterally – has enabled it to keep passing laws, a fragmented parliament jeopardises the implementation of structural reforms. President Emmanuel Macron appointed a new prime minister in January to get a fresh start. He may seek the support of right-wing party Les Républicains for further reforms, but given the right wing's unwillingness to support the pension reform, a backing is not guaranteed.

France: Construction sector indicators



Source: Oxford Economics/Haver Analytics

France: Consumer confidence



Source: Oxford Economics/Haver Analytics



# Germany

## Highlights

- The first batch of hard data for early 2024 continues to paint a bleak picture of near-term growth prospects. Consumers remain miserly and industry is gloomy. So, the German economy is likely to contract again in Q1, albeit modestly. A weather-related bounce in construction poses upside risks in Q1. However, we still think the economy will struggle to grow in 2024. We forecast GDP will stagnate this year with a gradual improvement over the year leading to 1.4% growth in 2025.
- At 1% m/m, industry saw the first solid production gain in a year in January. Although, part of it was due to a weather-related surge in construction, and activity remained shy of the Q4 average. Even excluding some adverse one-offs, factory orders continued to trend lower in January. High-frequency activity trackers and surveys signal that output is bottoming out though as destocking comes to an end, global demand picks up, and the drag from past monetary policy tightening eases, but the current structural challenges will dampen any recovery.
- More worrisome, retail sales fell for the third consecutive month in January, by 0.4% m/m. Even though previous months were revised up, the downtrend remained intact. Consumer confidence remained gloomy in February, and while the labour market remains steady, it does not show momentum either. More evidence that real incomes are gradually recovering is the one positive, so our view of a consumer rebound this year continues to face downside risks.
- Inflation continued to trend down in February, hitting a two and a half year low of 2.5% y/y, down from 2.9% in January. The main drag was a sharp plunge in food inflation to 0.9% from 3.8% in January, and consumer energy prices fell by 2.4%. Both factors support our below-consensus inflation view. Underlying price pressures remained robust, with core inflation steady at 3.4%. We continue to expect disinflation to progress in the months ahead, although the lagged catch-up in wages will keep services inflation at a high level.

Forecast for Germany						
(Annual percentage changes unless specified)						
	2022	2023	2024	2025	2026	2027
<b>Domestic Demand</b>	3.3	-0.7	-0.1	2.2	2.6	2.2
<b>Private Consumption</b>	3.9	-0.6	1.1	3.0	2.8	2.0
<b>Fixed Investment</b>	0.2	-0.2	0.0	4.2	5.0	4.5
<b>Stockbuilding (% of GDP)</b>	1.7	1.7	0.9	0.5	0.4	0.4
<b>Government Consumption</b>	1.6	-1.5	0.6	0.1	0.3	0.4
<b>Exports of Goods and Services</b>	3.5	-1.7	0.3	2.9	2.2	1.6
<b>Imports of Goods and Services</b>	6.8	-3.0	0.2	4.7	3.8	2.6
<b>GDP</b>	1.9	-0.1	0.0	1.4	1.9	1.7
<b>Industrial Production</b>	-0.7	-1.7	-1.2	2.8	2.9	2.5
<b>Consumer Prices</b>	6.9	5.9	1.3	0.7	1.6	2.0
<b>Current Balance (% of GDP)</b>	4.4	6.7	6.8	6.1	5.5	5.1
<b>Government Budget (% of GDP)</b>	-2.5	-2.1	-1.7	-0.8	-0.5	-0.5
<b>Short-Term Interest Rates (%)</b>	0.3	3.4	3.4	1.9	1.6	1.6
<b>Long-Term Interest Rates (%)</b>	1.2	2.5	2.2	2.1	2.1	2.1
<b>Exchange Rate (US\$ per Euro)</b>	1.05	1.08	1.09	1.10	1.13	1.16
<b>Exchange Rate (£ per Euro)</b>	1.17	1.15	1.17	1.16	1.16	1.15

All growth rates are calculated based on values in local currency

## Recent developments

The release of the Q4 2023 GDP details have broadly confirmed our views of broad-based weakness and no clear growth driver. The sharp 1.9% q/q fall in investment was even larger than expected and the most marked drop in 10 years outside the pandemic. Construction investment continued its interest-driven downtrend, although adverse weather might have amplified the fall. Meanwhile, the near-4% plunge in equipment investment was a new drag. It is a volatile series, but it could signal that the support from delayed capital goods deliveries amid easing supply bottlenecks is fading with weak demand and tight policy now weighing on it. The small gain in private consumption was welcome, but it is at odds with more downbeat monthly data, so we worry that a reversal looms in Q1 2024. Finally, external demand did not offer any support, while firms' destocking remained a drag, although less than in previous quarters.

The data pertaining to Q1 2024 were mixed. The rise in industrial output in January and the gain in February signalled by trucking activity are positive and support our view of this ailing sector bottoming out, but the 3% surge in construction that supported the gain was likely due to a mild winter and presents more of a bounce from the Q4 drop, not a trend reversal. Factory orders, too, suggested that demand remained weak at the start of the year, although the hefty 11% m/m drop overstates the weakness. Even excluding notoriously volatile big ticket orders, the news was weak with core orders falling 2% on the month, leaving them 8% below last year. Retail sales continued their downtrend, falling a cumulative 1.3% over the three months to January. More optimistically, employment edged higher for the fourth month running and was up 0.1% m/m in January. This is at odds with the on-going, though modest, rise in unemployment. We think this points to growing divergence across sectors and possibly improved integration of workers into the labour market.

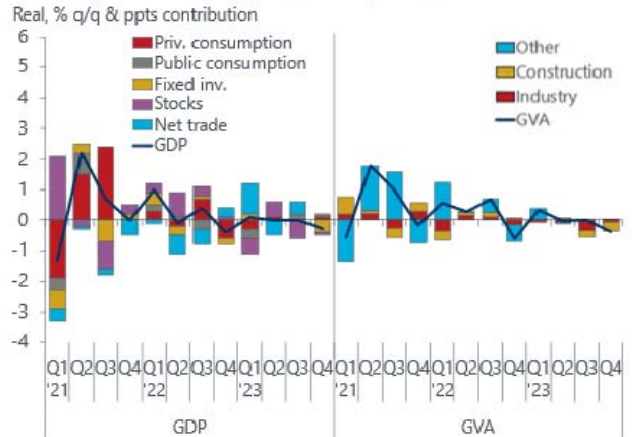
## Short-term outlook

The near-term outlook is still weak. We continue to expect GDP to tick down again in Q1, given the weak momentum at the start of the year. Surveys remain mixed in regard to prospects of a growth pick-up, but on balance, we stick to our view that the bottom is in for the German economy, even if the recovery will likely be tepid.

## Key drivers of our short-term forecast

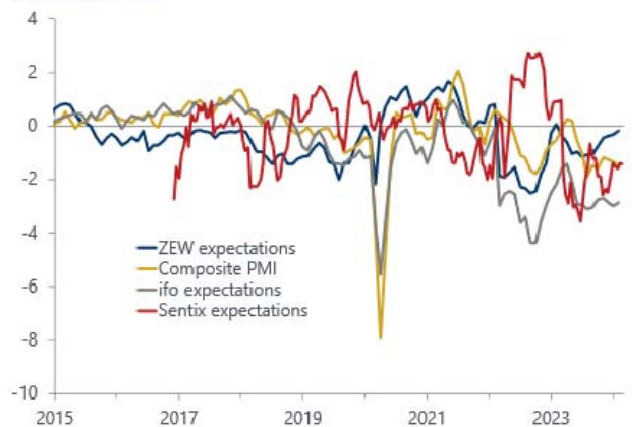
**Signs of industry bottoming out are growing.** Output dropped 1.3% q/q in Q4, following on Q3's fall of more than 2%. The evidence remains mixed, but we continue to think that the bottom for industry is in. Production rose moderately in January and

Germany: GDP & GVA growth composition



Source: Oxford Economics/Haver Analytics

Germany: Business sentiment



Source: Oxford Economics/Haver Analytics

Germany: Orders, production, backlogs & ifo



Source: Oxford Economics/Haver Analytics

high-frequency trucking data point to further gains. While factory orders fell in January, surveys suggest that they should recover gradually in the coming months, led by energy-intensive sectors, where lower energy costs and the fading inventory cycle are supportive. We still forecast output will fall by a bit more than 1% this year, given the low starting point due to the weak end to last year. A gain closer to 3% looms next year, given the building momentum.

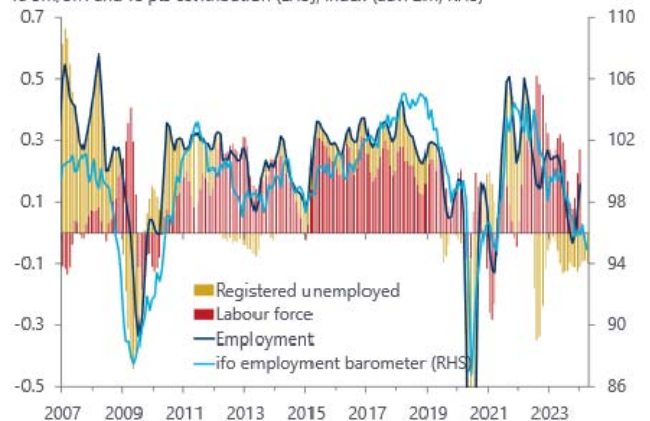
**Consumer recovery faces downside risks.** The sharp fall in inflation and resilient labour market we expect, alongside a recovery in confidence, will likely allow consumer spending to end its downtrend. Due to the weak start to this year, we only forecast 1.3% growth after -0.9% last year and think spending will recover to pre-pandemic levels only towards the end of 2024. The resilient labour market is a key support factor. Strong catch-up wage growth should help spending prospects, but gloomy sentiment could signal that precautionary savings will limit the recovery. The recent small rises in unemployment expectations could signal that workers are becoming more concerned about job security, as interest rate-sensitive sectors like construction and industry shed workers.

**Broad-based easing of inflation is underway.** Inflation continued to trend down in February, hitting a two and a half year low of 2.5% y/y. The main news was the accelerated downturn in food inflation. Alongside the continued weakness in energy inflation, this supports our below-consensus inflation view. Underlying price pressures remained robust, with core inflation steady at 3.4%, but we think it will moderate in the months ahead, although the lagged catch-up in wages will keep services inflation high.

**Investment faces more headwinds.** The near-term outlook for capex is very weak. Construction and equipment orders may have hit a low point but remain feeble by historic standards, given the low foreign demand, tight monetary policy, and elevated policy uncertainty. The sharp monetary policy tightening is weighing heavily on the construction outlook. Backlogs are supportive, but order cancellations are proliferating. The structural shifts underway in German industry are a big headwind for equipment outlays. We still expect investment to rise by 0.8% this year with building momentum later in the year.

**Fiscal tightening is on the cards.** The fiscal deficit widened to close to 2% of GDP in Q4, reversing the Q3 narrowing. This continues the recent volatility. We still expect policy to tighten this year, given the binding nature of the debt brake and the political commitment of the finance minister. So, the deficit may narrow to around 1.5% next year from close to 2% in 2023, with risks tilted to a sharper tightening, but the adverse impacts of the spending restraint continue to keep a debate over a loosening of the debt brake rules alive. A more forceful debate may start later this year after regional elections.

German: Employment composition & ifo  
% 3M/3M and %-pts contribution (LHS), Index (adv. 2M, RHS)



Source: Oxford Economics/Haver Analytics

Germany: Orders & fixed investment



Source: Oxford Economics/Haver Analytics

# India

## Highlights

- We forecast India's real GDP will grow by 6.3% in 2024, following a 7.7% expansion in 2023. However, recent growth has largely reflected statistical discrepancies, as overall momentum appears to be slowing. In fiscal year terms, we forecast a 6.6% expansion in FY2024/2025, following estimated 7.9% growth in FY2023/2024.
- India's economy remained strong in Q4 2023, with real GDP registering 8.4% y/y growth, outpacing an upwardly revised Q3 growth rate of 8.1%. Some of the strong headline growth was driven by statistical discrepancies between the expenditure and production-based measures of economic activity, with the latter suggesting softening momentum. From the production perspective, annual growth moderated across all sectors except for services.
- High frequency indicators suggest that consumption picked up some momentum at the start of this year, but labour market conditions remain weak, weighing on household incomes. Investment, the main growth driver in 2023, is set to slow down given the smaller boost from public capital expenditure, while the private investment cycle will likely only revive at a gradual pace. On the external front, we believe the outlook will strengthen gradually in 2024 thanks to a slow improvement in eurozone economic activity, the ongoing resilience of the US economy, and more fiscal stimulus supporting Chinese buyers.
- Inflation remained unchanged in February. The headline CPI index rose 5.1% y/y as higher food price inflation counteracted a broad-based softening in energy and core price pressures. Core inflation fell to 3.4%, the lowest level since October 2019, from 3.5% in January.
- Although the continued trend of falling core CPI inflation should provide reassurance to the Reserve Bank of India (RBI) that demand-side pressures remain contained, the combination of headline inflation remaining above 5% and strong Q4 GDP figures will likely leave Monetary Policy Committee members cautious about cutting rates too soon. We have therefore pushed out our expectation for the first rate cut to Q3.

Forecast for India *						
(Annual percentage changes unless specified)						
	2022	2023	2024	2025	2026	2027
<b>Domestic Demand</b>	6.0	8.9	6.0	7.2	6.2	6.7
<b>Private Consumption</b>	8.1	3.2	6.0	7.9	7.2	6.7
<b>Fixed Investment</b>	7.4	8.5	7.9	7.8	7.5	6.5
<b>Stockbuilding (% of GDP)</b>	-0.8	2.7	2.4	1.8	0.9	0.8
<b>Government Consumption</b>	6.3	6.2	2.5	6.9	6.8	6.7
<b>Exports of Goods and Services</b>	15.8	3.6	4.9	6.2	6.5	6.3
<b>Imports of Goods and Services</b>	12.7	8.8	3.9	6.3	5.4	6.0
<b>GDP</b>	6.5	7.7	6.3	7.2	6.5	6.7
<b>Industrial Production</b>	4.6	5.7	4.0	6.9	6.3	6.5
<b>Consumer Prices</b>	6.7	5.7	4.6	4.5	4.4	4.4
<b>Current Balance (% of GDP)</b>	-2.4	-0.9	-1.0	-1.4	-1.3	-1.4
<b>Government Budget (% of GDP)</b>	-6.9	-6.0	-6.0	-4.6	-4.3	-4.0
<b>Current Account (\$bn)</b>	-79.05	-31.52	-40.36	-62.75	-68.33	-82.83
<b>Trade Balance (\$bn)</b>	-273.80	-240.73	-256.81	-302.37	-335.53	-382.30
<b>Short-Term Interest Rate (%)</b>	5.26	7.17	7.01	6.13	6.12	6.10
<b>Exchange Rate (per US\$)</b>	78.61	82.59	82.84	81.63	80.44	79.81

\* Refers to Calendar year

All growth rates are calculated based on values in local currency



### Recent developments

Real GDP grew by 8.4% y/y in Q4 2023. On the expenditure side, government consumption contracted 3.2% y/y. Investment was up 10.6% y/y, only somewhat weaker than the 11.6% expansion in Q3, likely bolstered by the private sector as public capex growth slowed. External demand softened, but thanks to moderating imports, the drag from net trade declined. Meanwhile, private consumer spending growth picked up to 3.5% y/y.

From a production perspective, the picture appears somewhat less rosy, with annual growth moderating across all sectors except for services. In GVA terms, the economy expanded 6.5% y/y, down from 7.7% in Q3. Only the services sector held up by expanding 7% y/y, up from 6% growth in Q3.

What's more, an unusually low economy-wide measure for inflation applied to total activity measured in current prices drove up the headline real growth figure. The GDP deflator rose only 1.5% in 2023. However, this was driven by an outsized drop in fuel import prices, which normalised following the surge in 2022 that was caused by Russia's invasion of Ukraine, rather than broad-based softening price pressures. For comparison, the consumer price index was up 5.7% y/y.

Inflation remained unchanged in February. The headline CPI index rose 5.1% y/y as higher food price inflation counteracted a broad-based softening in energy and core prices pressures.

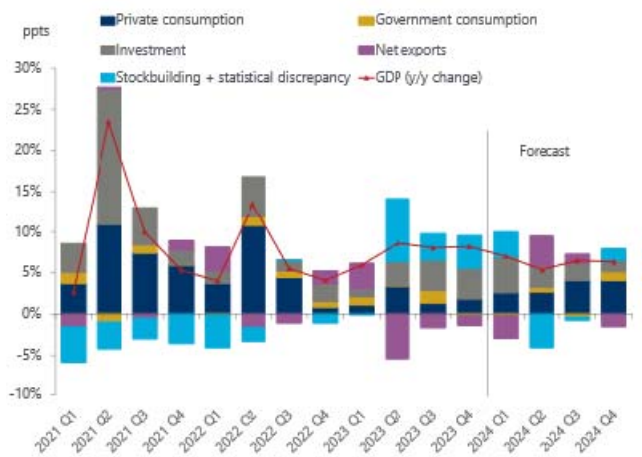
### Short-term outlook

We have raised our forecast for real GDP in 2024 to a 6.3% expansion, after registering 7.7% growth in 2023. In fiscal year terms, we forecast a 6.6% expansion in FY2024/2025, following estimated 7.9% growth in FY2023/2024. High frequency indicators suggest that consumption picked up some momentum at the start of this year, but labour market conditions remain weak, weighing on household incomes. Investment, the main growth driver in 2023, is set to slow down given the smaller boost from public capital expenditure, while the private investment cycle will likely only revive at a gradual pace.

### Key drivers of our short-term forecast

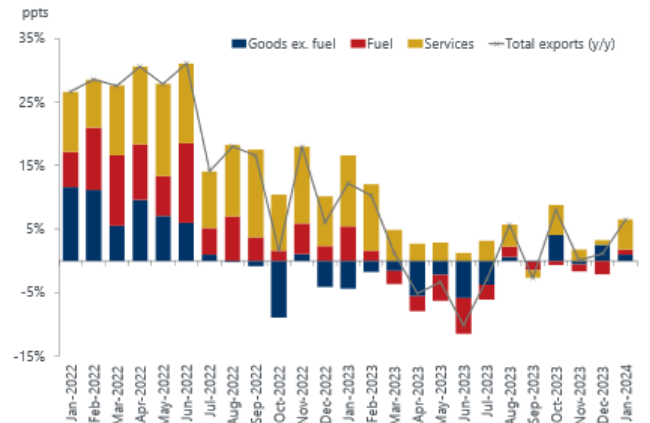
**Private consumption will likely be soft.** In Q4 2023, private consumer spending growth picked up by 1.1ppts to 3.5% y/y from 2.4% y/y in Q3. However, at 3.2%, full-year growth was still considerably weaker than the pre-pandemic level, as average annual growth was around 7% during 2012-2019. We expect growth to improve but remain below historical averages in 2024. Labour market conditions deteriorated last year and remained weak at the beginning of 2024. In seasonally adjusted terms, the all-India unemployment rate was 8% in January-

India: GDP contributions



Source: Oxford Economics/Haver Analytics

India: Exports



Source: Oxford Economics/Haver Analytics

India: Price developments and monetary policy stance



Source: Oxford Economics

February, lower than 9.1% in Q4 but high as compared to the 2019 average of 7.4%. Other high frequency indicators painted a more upbeat picture for consumers at the start of this year. Goods and services tax collections were up 12.5% y/y in February, picking up pace from the previous two months and leaving revenues above October-November levels in seasonally adjusted terms, when festival-related spending provided a boost.

**The current account buffer from services exports is still weak.** Net trade was a drag on the economy in 2023 as import growth remained strong while external demand waned. Global demand remained soft in Q4, with exports growing 3.4% y/y, 1.9ppts less than in Q3, which we estimate was driven by a weaker performance across both goods and services. But thanks to moderating imports, the drag from net trade declined in Q4 relative to Q2 and Q3. In January, both goods and services exports growth improved in annual and sequential seasonally adjusted terms. We believe exports will strengthen gradually in 2024 thanks to an improvement in eurozone economic activity, the ongoing resilience of the US economy, and more fiscal stimulus supporting Chinese buyers.

**Public sector support to investment will slow.** After a decade of falling investment as a share of GDP in the aftermath of the global financial crisis, investment growth picked up markedly post-pandemic. In Q4 2023, investment was up 10.6% y/y, only somewhat weaker than the 11.6% expansion in Q3, likely bolstered by the private sector as public capex growth slowed. The strong performance has helped the investment share in GDP rise to 33.7% in 2023, from 31.9% in 2019. Government capex spending growth is set to ease in the years ahead amid fiscal prudence pledges. Although the necessary conditions are in place for the private investment cycle to revive, we expect the uptick to be gradual as financing conditions will likely remain tight for longer and the demand outlook is uncertain. Industry performance continued to grow in January, albeit at a soft pace. In sequential seasonally adjusted terms, the sector expanded 0.3%, the same pace as in December, leaving it 0.7% above the Q4 average.

**Supply-side pressures and demand-side risks leave rate cuts further off.** Inflation remained unchanged in February. The headline CPI index rose 5.1% y/y as higher food price inflation counteracted a broad-based softening in energy and core prices pressures. Core inflation fell to 3.4%, down from 3.5% in January, leaving it at the lowest level since October 2019. Although the continued trend of falling core CPI inflation should provide reassurance to the RBI that demand-side pressures remain contained, the combination of headline inflation remaining above 5% and the strong Q4 GDP figures will likely leave Monetary Policy Committee members cautious about cutting rates too soon. We have therefore pushed out our expectation for the first rate cut to appear in Q3.

**Fiscal consolidation targets are ambitious.** In the interim budget for the upcoming fiscal year beginning in April, the government announced prudence, targeting a fiscal deficit of 5.1%. This represents a 0.7ppt reduction from the 5.8% deficit it aims to achieve in the current fiscal year (5.9% as per the initial estimate). Although infrastructure is still a key area on the expenditure side, this year's boost to capital expenditure won't be repeated. Public capex is set to expand by 17% y/y in FY2024/2025, down from the 29% estimated rise in the current fiscal year. On the revenue side, tax rates and duties are set to remain largely unchanged. Having already announced a five-year extension of the food programme, the government refrained from announcing further populist measures ahead of the elections in April-May. But the target for a 4.5% deficit by FY2025/2026 seems ambitious if the economy wanes as we expect.



# Italy

## Highlights

- We forecast Italy's GDP will grow by 0.6% in 2024. GDP surprised on the upside in Q4 with a 0.2% quarterly growth, driven by a surge in construction activity. We expect economic activity at the start of 2024 was muted, but will improve over the course of the year as real disposable incomes and financial conditions improve.
- Over the short term, our GDP nowcasting models suggest economic activity increased slightly in Q1. But the growth rate of Q1 GDP will be extremely dependent on the construction sector, which we still think will contribute positively to growth, though we still expect weaker activity in the sector will drag on GDP over the coming years.
- Initial signs have emerged that momentum has improved, albeit at a very slow pace. The February composite PMI was above the 50-mark for the second time since last spring, while the ISTAT business confidence indicators decreased during the month.
- The cost of some of the recent fiscal measures (particularly those related to the construction sector) continued to overshoot the official estimate – for instance, the deficit-to-GDP ratio in 2023 was reported at 7.2%, much higher than what the government expected only few months prior. Going forward, the impacts of these measures will negatively affect the debt dynamic, which could further limit the decline in the debt-to-GDP ratio.
- Headline inflation was 0.8% y/y in February, confirming that disinflation in the Italian economy is solidifying. Core inflation is now close to 2% and while there will be a less favourable base factor from the energy component, which should result in an increase in the headline figure, the core numbers will continue to decrease. We expect inflation to stay marginally below the European Central Bank's 2% target in 2024 and average 1.3% this year.

Forecast for Italy						
(Annual percentage changes unless specified)						
	2022	2023	2024	2025	2026	2027
<b>Domestic Demand</b>	4.8	0.8	0.7	1.0	0.6	0.3
<b>Private Consumption</b>	4.9	1.2	0.2	0.8	0.8	0.6
<b>Fixed Investment</b>	8.9	4.9	2.6	1.4	-0.5	-0.4
<b>Stockbuilding (% of GDP)</b>	0.6	-0.6	-0.5	-0.2	0.0	0.1
<b>Government Consumption</b>	1.0	1.2	-0.4	-0.5	-0.1	-0.1
<b>Exports of Goods and Services</b>	11.0	0.5	2.5	3.6	3.3	2.6
<b>Imports of Goods and Services</b>	13.5	-0.2	3.1	3.3	2.8	2.3
<b>GDP</b>	4.1	1.0	0.6	1.1	0.8	0.5
<b>Industrial Production</b>	0.4	-2.5	0.3	4.0	2.8	1.7
<b>Consumer Prices</b>	8.2	5.6	1.3	1.7	1.7	1.7
<b>Current Balance (% of GDP)</b>	-1.5	0.2	1.2	1.5	1.8	1.8
<b>Government Budget (% of GDP)</b>	-8.6	-7.2	-4.5	-3.8	-3.0	-2.5
<b>Short-Term Interest Rates (%)</b>	0.3	3.4	3.4	1.9	1.6	1.6
<b>Long-Term Interest Rates (%)</b>	3.1	4.3	3.9	4.1	4.0	4.0
<b>Exchange Rate (US\$ per Euro)</b>	1.05	1.08	1.09	1.10	1.13	1.16

All growth rates are calculated based on values in local currency

## Recent developments

The Italian economy surprised on the upside in Q4 last year with quarterly GDP growth of 0.2%, above our initial expectation of zero growth. Construction activity during the quarter was likely linked to the "superbonus" fiscal benefits. These benefits have begun to be phased out since January this year, so people very likely rushed through at the end of last year in order to complete their work.

However, we see some initial signs emerging that momentum has improved in the underlying economy, although the picture is still mixed. For instance, the February composite PMI was above the 50-mark, while the ISTAT business confidence indicators decreased during the month. Over the short term, our GDP nowcasting models point to a small increase in economic activity in Q1. But the growth rate in Q1 will be extremely dependent on the dynamic of the construction sector, which we think will contribute positively to GDP. However, we still expect weaker activity in the construction sector will drag on growth over the coming years.

The labour market remains extremely strong. The unemployment rate decreased to 7.2% in January this year, down from 8% in January 2023. Employment gains were maintained despite subdued growth – about 500,000 jobs were added last year. Along with receding inflation and despite subdued wage growth, this may mean that real incomes have troughed.

## Short-term outlook

The recovery this year is subject to an improvement in real disposable incomes, which will require a significant drop in inflation and more favourable external conditions, as well as easing financial conditions in H2.

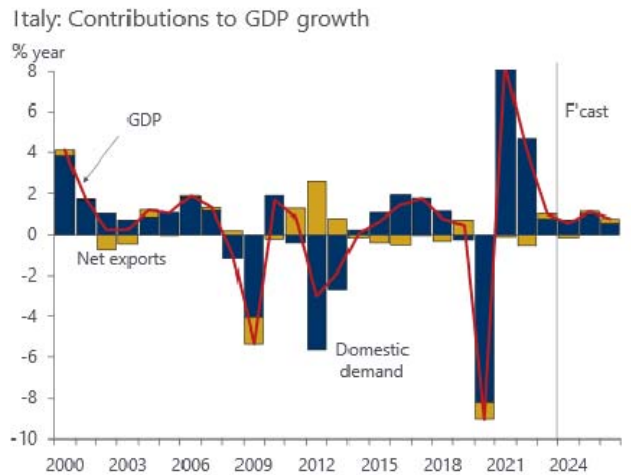
Some of these factors are already occurring, but the pace at which these events will unfold remain very uncertain. We expect the Italian economy to grow by 0.6% this year, marginally lower than the 1% expansion last year.

Consistent with the eurozone average, Italy's industrial sector is in a recession. We continue to believe that we are close to a turning point in industry and think we will probably see some further positive news in the manufacturing sector going forward, although the speed at which this will happen is uncertain.

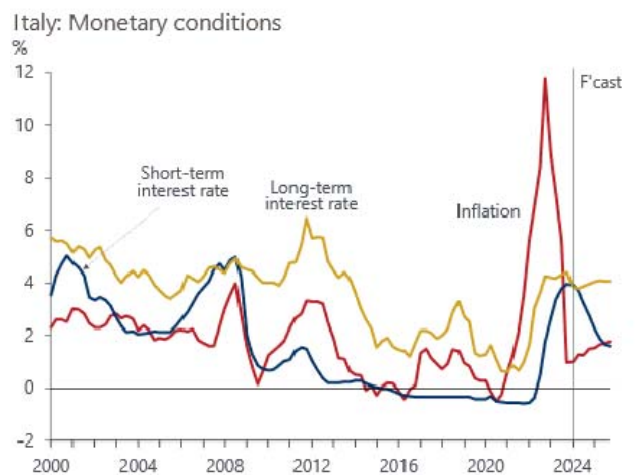
The dynamics in the construction sector are still extremely difficult to predict over the short term. But after the recent incentive-driven boom in construction, we expect weaker activity in the sector to drag on growth over the coming few months.



Source: Oxford Economics/Haver Analytics



Source: Oxford Economics/Haver Analytics



Source: Oxford Economics

## Key drivers of our short-term forecast

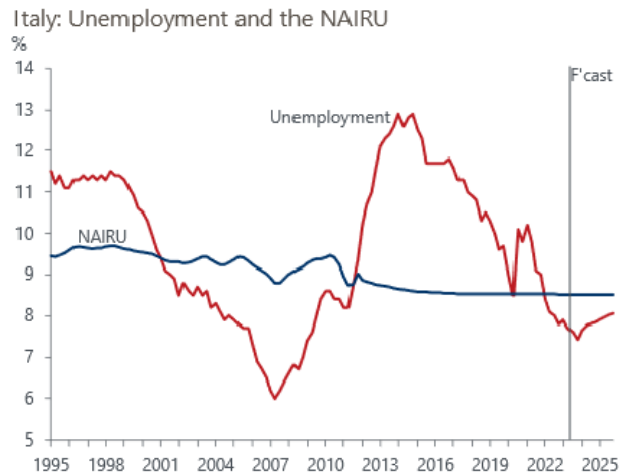
**Inflation will likely remain low.** Headline inflation was 0.8% y/y in February, confirming that disinflation in the Italian economy is ongoing. Core inflation is now close to 2% and while there will be a less favourable base factor from the energy component, which should result in an increase in the headline figure, the core numbers will continue to decrease. We expect inflation to stay marginally below the ECB's 2% target for the whole of 2024.

**Real wages will recover gradually.** Falling inflation will help real incomes recover. But as we expect an increase in the savings ratio over the coming few years, we think private consumption growth will increase at a slower pace less than real disposable income.

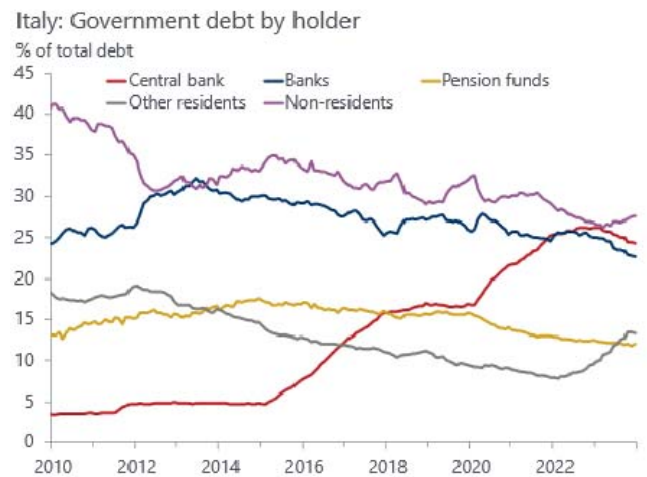
**Private investment will increase.** Private investment will be affected by two factors in Italy. After the strong incentives, the Italian construction sector emerged as the main positive outlier in Europe. These incentives have started to be scaled back since January this year, so construction in Italy will likely suffer later this year, but the extent to which this will happen is very difficult to predict at this stage. Non-residential investment is expected to improve from the middle of this year alongside an improvement in the global economy and monetary easing.

**Right-wing government.** In our baseline scenario, we don't anticipate a bond crisis in Italy. But this central scenario is subject to several risks, which have increased after Prime Minister Giorgia Meloni's government swiftly shifted its fiscal approach to a less conservative stance. However, markets have been extremely calm recently, with the BTP-bund spread at 130bps, its lowest level in around two years.

**EU recovery fund.** According to the latest official figures, the Italian government managed to spend around €50bn of its allocated funds from the Next Generation EU programme as of the end of last year. This is around 25% of the total plan. What's more, the measures with the highest ratio of expenditure appear to be those linked to incentives to companies or households. Spending directly related to the realisation of public works as well as the purchase of services and goods has been limited. There is a risk that our assumptions related to the deployment of NGEU funds are too optimistic, despite being more conservative than the official projections, which targets 2026 as the end of the programme. A delayed scenario could lead us to downgrade our outlook for Italy over the next few years, with the peak impact in 2024-2025.



Source: Oxford Economics



Source: Oxford Economics/Haver Analytics

# Japan

## Highlights

- We've cut our 2024 GDP growth forecast for Japan by 0.1ppt to 0.5%, reflecting recent weaknesses in domestic demand, particularly in consumption. Although we think growth momentum will improve gradually, the sluggish external environment and the end of pent-up demand accumulated during the pandemic will constrain the recovery in the coming quarters.
- Consumption was weak at the end of 2023 and stayed stagnant in January. We think it will recover slowly as real incomes gradually improve. However, activity will be negatively affected by fading pent-up demand.
- Exports recovered moderately in December and January. We think exports will grow gradually, supported by capital goods demand from the US and an upturn in the global chip cycle. But the pace of the recovery will continue to be held back by drags on global goods demand from past monetary policy tightening and less pent-up demand for autos, especially in H1.
- The core-core CPI (excluding energy and fresh foods) slowed down slightly to 3.5% y/y in January from 3.7% in December. We think inflation will continue to recede in the coming quarters as pressures from past supply-driven price rises abate.
- The 10-year JGB yield stayed at around 0.7% in February. We think JGB yields will gradually ease in H2 alongside lower inflation and tamed global yields.
- The yen trended lower amid declining expectations of an early pivot by the US Federal Reserve. We think the yen will stay weak before strengthening gradually from Q2 as the Fed starts to cut rates. The Nikkei 225 reached an all-time high in late February, driven by expectations of robust earnings and improvements in equity returns, particularly among foreign investors.

Forecast for Japan						
(Annual percentage changes unless specified)						
	2022	2023	2024	2025	2026	2027
<b>Domestic Demand</b>	1.5	0.9	0.6	1.2	0.7	0.4
<b>Private Consumption</b>	2.1	0.7	0.3	1.3	0.7	0.4
<b>Fixed Investment</b>	-1.4	1.8	2.1	2.8	2.3	1.5
<b>Stockbuilding (% of GDP)</b>	0.5	0.5	0.4	0.4	0.4	0.4
<b>Government Consumption</b>	1.7	0.9	0.0	-0.9	-1.3	-1.0
<b>Exports of Goods and Services</b>	5.3	3.0	1.5	0.7	1.8	2.2
<b>Imports of Goods and Services</b>	7.9	-1.4	1.7	2.8	2.6	1.8
<b>GDP</b>	0.9	2.0	0.5	0.8	0.5	0.5
<b>Industrial Production</b>	0.0	-1.3	0.1	3.4	2.1	1.9
<b>Consumer Prices</b>	2.5	3.3	1.9	0.8	1.2	1.6
<b>Current Balance (% of GDP)</b>	1.8	3.5	3.4	2.8	2.6	2.4
<b>Government Budget (% of GDP)</b>	-5.8	-5.1	-4.2	-3.2	-2.3	-1.7
<b>Short-Term Interest Rates (%)</b>	0.1	0.1	0.1	0.1	0.1	0.1
<b>Long-Term Interest Rates (%)</b>	0.2	0.6	0.7	0.7	0.6	0.6
<b>Exchange Rate (Yen per US\$)</b>	131.6	140.6	143.7	130.8	123.3	118.1
<b>Exchange Rate (Yen per Euro)</b>	138.0	152.0	157.1	144.2	139.2	137.2

All growth rates are calculated based on values in local currency



## Recent developments

According to the preliminary estimate, GDP shrank by 0.1% q/q in Q4 2023, after falling by 0.8% in Q3. Domestic demand dipped by 0.3% after a 0.8% fall in Q3, as both consumption and business investment declined for three consecutive quarters. Meanwhile, export growth improved to 2.6% from 0.9%, temporarily driven by services, whereas goods stayed stagnant.

## Short-term outlook

We've cut our 2024 GDP growth forecast for Japan slightly to 0.5% from 0.6%, reflecting recent weak domestic demand, particularly in consumption. We expect consumption to recover gradually as real incomes improve. However, near-term growth will be constrained by the sluggish external environment and the end of pent-up demand accumulated during the pandemic.

## Key drivers of our short-term forecast

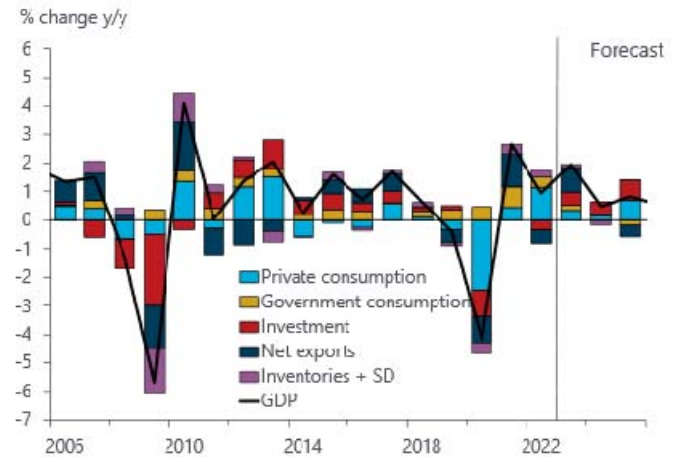
**Consumption is staying stagnant.** The consumption activity index increased by 0.3% m/m in January, after dipping by 1.5% in December. Consumption has been increasingly weak as service expenditures have slowed down, suggesting that pent-up demand has faded. But we expect consumption to recover as the strain from cost-push inflation eases, particularly after late Q2, when the spring negotiation pay rise will be reflected in income. But the pace of recovery will stay modest.

**The spring negotiations started in January.** Many unions are reportedly requesting higher pay rises than last year. Although the outcome is still uncertain, the spring negotiation is likely to settle on par with or modestly higher than last year, helped by labour shortages and robust corporate earnings. Real income was still negative at -2% y/y in December, but we expect it to recover gradually alongside the moderating CPI. The dip in real incomes will likely be resolved by the end of H1.

**Investment slipped in Q4 2023.** Business investment fell by 0.1% q/q in Q4, following a 0.6% decline in Q3. Despite robust capex plans, investment activities are increasingly constrained by high material prices and labour shortages. We expect business investment to recover, supported by labour-saving expenditures and investment in digitalization, but its pace will stay modest given the ongoing constraints is likely to stay.

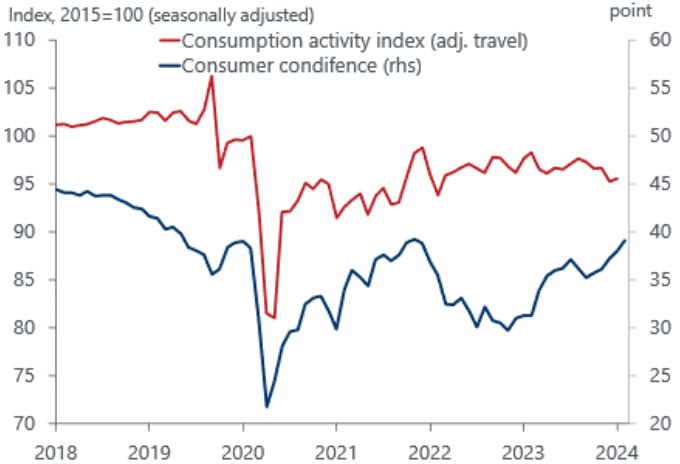
**Exports improved in January.** Goods exports increased by 11.9% y/y in January, after a 9.7% gain in December. Exports to Asia improved due to favourable support from the chip cycle. Exports to the US stayed healthy due to strong auto and capital goods exports. We think exports will continue to recover gradually, supported by capital goods demand from the US and an upturn in the chip cycle. But the pace of the recovery will be constrained by drags on global goods demand from past policy tightening and less pent-up demand for autos, especially in H1.

Japan: Contributions to GDP growth



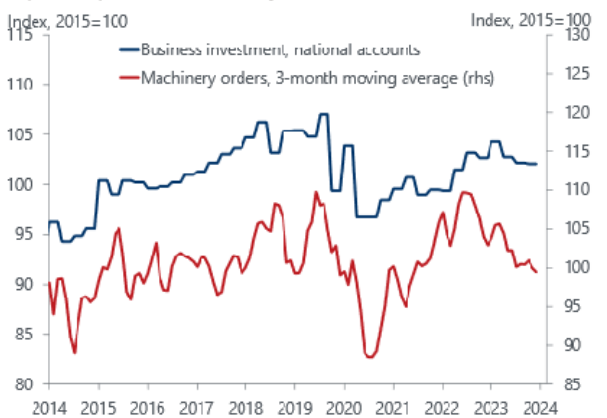
Source: Oxford Economics/Haver Analytics

Japan: Consumer activity and confidence



Source: Oxford Economics/BOJ/CAO/Haver Analytics

Japan: Capex and machinery orders



Source: Oxford Economics/CAO/Haver Analytics

**The services exports boost was a one-off.** Service exports improved by 11.3% q/q in Q4 after a 2.7% gain in Q3. Balance of payments data suggest the improvement in services exports was led by intellectual property charges in October. We think that the sudden rise in intellectual property charges was a one-off. Moreover, we anticipate that the services trade balance will stay in deficit, driven by increases in imports of digital-related services.

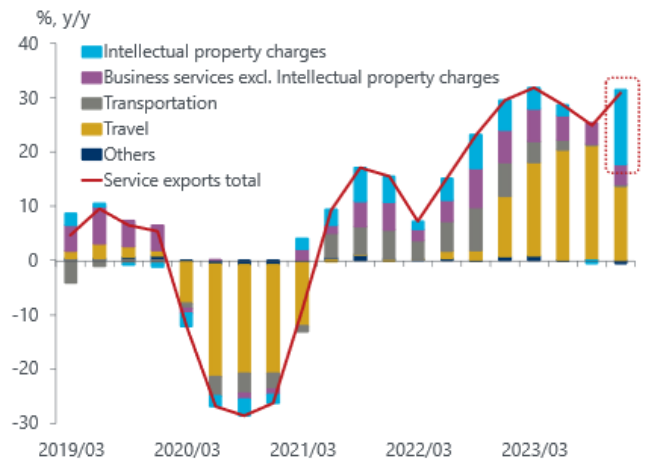
**Production dropped substantially in January.** Industrial production dipped by 7.5% m/m in January, following a 1.4% gain in December. The auto sector cut 2.5ppts from the headline rate due to a production halt in Daihatsu Motors. Weakness was broad based, with production declines in 14 out of 15 sectors, possibly reflecting a second-round effect from weak auto production and the impact of the earthquake on New Year's Day. Although production likely recovered in February, when Daihatsu Motors resumed production, we expect the recovery will only be gradual amid subdued global growth.

**The core-core CPI inflation eased.** The core-core CPI (excluding energy and fresh foods) increased by 3.5% y/y in January, after a 3.7% rise in December, despite a distortion from foreign tour prices, which added 0.2ppts to the headline. Meanwhile, food prices fell amid tamed import price trends. We think inflation will keep easing in the coming quarters as pressures from past cost increases abate. We expect the core-core CPI to slow to around 2% by the end of H1.

**Long-term yields hovered at around 0.7%.** The 10-year JGB yield stayed at around 0.7% throughout February, after rising in January. Comments from the Bank of Japan's deputy governor mitigated market expectations for continuous rate hikes. We think the yield will stay at its current level for months but remain volatile, reflecting changes in views on the central bank's policy and developments in US yields. We think JGB yields will gradually calm in H2 due to easing inflation and less pressure from global yields.

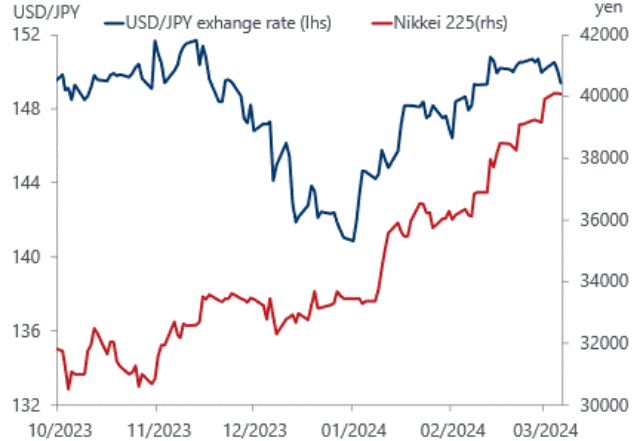
**Stock prices rose while the yen stayed weak.** The yen depreciated to JPY150/USD in February as the market's expectation for an early pivot from the US Fed receded. This followed a strong rise in the US CPI and hawkish comments in the Fed's minutes. We think the currency will stay weak in the next few months before gradually strengthening from Q2, when the Fed starts to cut rates. In the equity market, the weak yen and chip cycle upturns are supporting corporate earnings. Along with corporate governance reforms and expectations of inflows to the market under the new NISA scheme, the Nikkei 225 reached an all-time high in February.

Service exports



Source: Oxford Economics/MoF/BoJ/Haver Analytics

Japanese yen and the stock price (Nikkei 225)



Source: Oxford Economics/Haver Analytics



# Mexico

## Highlights

- Our 2024 GDP growth forecast for Mexico is unchanged, at 1.9%, well below the consensus of 2.4%, as we expect a weak start to the year following the broad-based slowdown in Q4 last year. However, government transfers during this election year and support from nearshoring add upside risks.
- March marked the start of the presidential campaigns ahead of the June 2 election. Front-runner Claudia Sheinbaum from the ruling Morena Party and opposition coalition candidate Xochitl Galvez will focus on security issues as strong post-pandemic growth reduced economic worries among voters' concerns.
- However, the continuity of President Andres Manuel Lopez Obrador's economic policies under Sheinbaum is unlikely to deliver average GDP growth of 3% over the next six-year term. A lack of productivity improvements and slowing population growth will put a lid on growth, making it closer to 2% over the medium term.
- The reversal of fresh food prices in February offset sticky services inflation and drove inflation to 4.4% y/y from 4.8% in January. The print brought a positive surprise, so we nudged our year-end forecast down by 0.1ppt to 3.6%, broadly in line with Banxico's estimates and below the consensus expectation of 4.1%. The balance of risks is tilted to the upside.
- At least three out of the five members of the central bank's board seem ready to cut the policy rate at the next March 21 meeting. Overall guidance remains hawkish with only a few cuts in 2024, but we expect Banxico to change its reaction function later this year as the economy slows and inflation falls within the target range. We still expect the policy rate to end the year at 8.25%, 125bps below consensus.
- Strong remittances and foreign direct investment inflows offset the trade deficit last year. We expect the current account to be broadly balanced this year as the trend continues. Nearshoring optimism and Banxico's hawkish stance will support the peso at least until the elections.

Forecast for Mexico						
(Annual percentage changes unless specified)						
	2022	2023	2024	2025	2026	2027
<b>Domestic Demand</b>	3.8	7.9	-1.1	1.6	2.2	2.1
Private Consumption	5.2	4.1	1.0	1.9	2.3	2.1
Fixed Investment	7.7	18.8	-3.1	0.2	2.1	2.1
Stockbuilding (% of GDP)	0.2	1.2	-0.1	0.0	0.0	0.0
Government Consumption	1.1	1.6	1.0	2.1	2.0	2.0
<b>Exports of Goods and Services</b>	8.8	-5.6	7.1	5.6	3.6	2.8
<b>Imports of Goods and Services</b>	8.3	5.5	-0.7	4.2	3.4	2.8
<b>GDP</b>	3.9	3.2	1.9	2.1	2.3	2.1
<b>Industrial Production</b>	5.3	3.6	1.9	2.0	2.3	2.1
<b>Consumer Prices</b>	7.9	5.5	4.4	3.3	3.5	3.5
<b>Current Balance (% of GDP)</b>	-1.3	-0.4	0.0	-0.2	-0.2	-0.4
<b>Government Budget (% of GDP)</b>	-3.2	-3.4	-4.3	-2.7	-2.5	-2.4
<b>Current Account (\$bn)</b>	-17.67	-5.72	-0.78	-3.49	-3.07	-8.44
<b>Trade Balance (\$bn)</b>	-27.08	-5.54	-9.16	-13.68	-13.45	-17.19
<b>Short-Term Interest Rates (%)</b>	8.19	11.46	10.56	6.91	6.23	6.19
<b>Exchange Rate (Per US\$)</b>	20.11	17.74	17.79	19.32	20.13	20.49

All growth rates are calculated based on values in local currency

## Recent developments

Polls conducted before the start of the presidential campaign on March 1 still gave Claudia Sheinbaum a substantial lead over the opposition candidate Xochitl Galvez. Polls showed that economic concerns are falling among voters as post-pandemic distortions to growth rates and nearshoring hopes lift consumer and business sentiment.

Security remains the top concern for voters. Official data point to a slight improvement in crime statistics over the last two years, but overall levels are still among the highest in the world. Sheinbaum promotes President Andres Manuel Lopez Obrador's (AMLO) policy of low intervention of security forces but aims to tackle root causes with social programs. Although, Galvez promises a heavy hand against crime.

In the economic arena, Sheinbaum's proposals are heavily tilted toward extending AMLO's welfare programs and railway megaprojects. Galvez promised not to eliminate current social programs and to increase support to small and medium-size firms to capitalize on nearshoring opportunities.

## Short-term outlook

We kept our 2024 GDP growth forecast for Mexico at 1.9% while we wait for evidence of a slow start to the year. Our forecast remains below the consensus expectation of a 2.4% expansion and Banxico's latest forecast range of 2.2%-3.4%.

We acknowledge that government transfers and US resilience pose upside risks to our outlook, but we think that growing caution among consumers could offset the impact. We expect GDP to be broadly stable in 2025 with a 2.1% expansion, above the consensus of 1.9%.

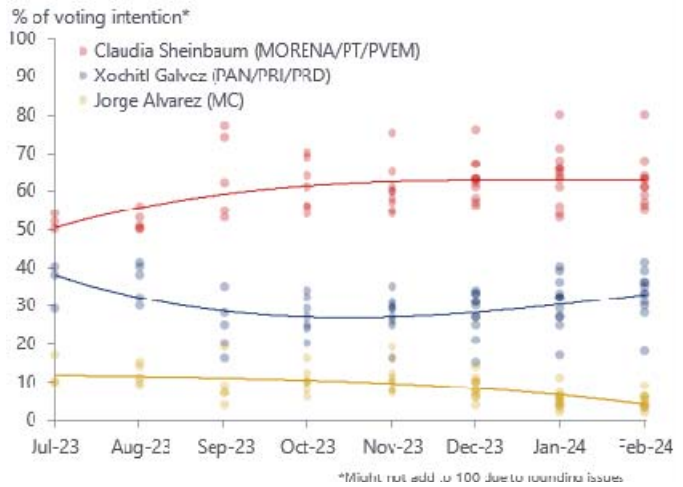
## Key drivers of our short-term forecast

**The US economy continues to display unexpected resilience.** We recently nudged our 2024 US GDP growth forecast by 0.1ppt to 2.4%, as consumption fundamentals remains strong despite record monetary tightening. Stronger momentum in H2 lifted our US GDP growth forecast for 2025 by 0.3ppts to 1.7%. The strength of the US economy adds substantial upside risk to our Mexico outlook.

**Electoral spending spree.** Fiscal policy will turn expansionary this year as President Obrador seeks to ensure popular support during the presidential election. The 2024 budget contemplates a record deficit of 1.2% in GDP. Expenditures will focus on the president's key social programs (2.2% of GDP) and final touches to his infrastructure projects (0.6% of GDP). This poses an upside risk to our growth outlook as it could fuel further consumer resilience.

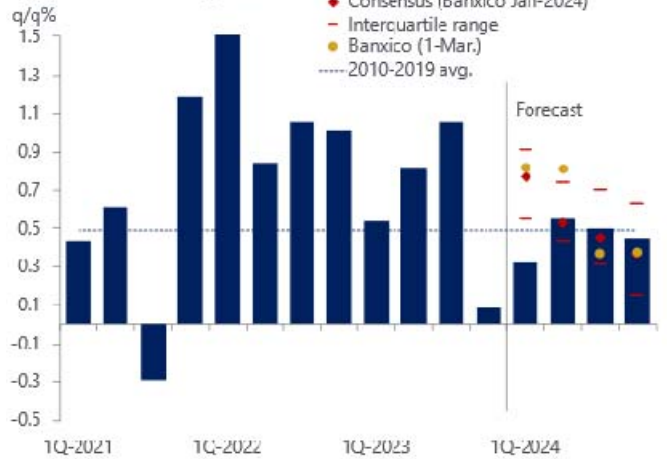
**Consumer demand is already dwindling.** The labor market

Mexico: Poll of polls on presidential election



Source: Oxford Economics/Oraculus

Mexico: Real GDP growth



Source: Oxford Economics/Haver Analytics/Banxico

Mexico: Consumption



Source: Oxford Economics/Haver Analytics

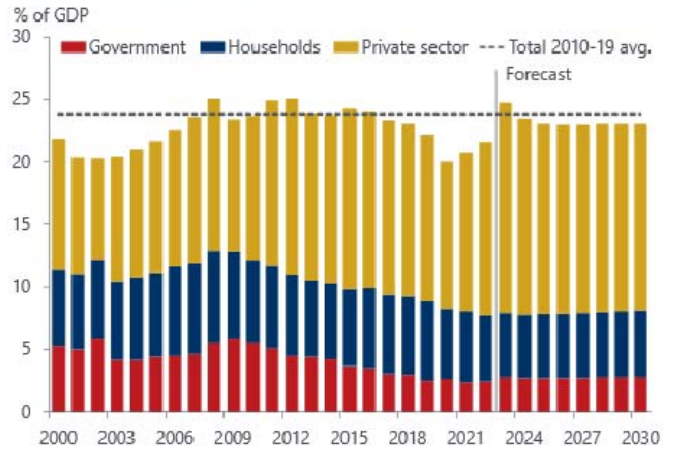
remains tight, but formal job creation slowed in January. In addition, the appreciation of the peso is eroding the support from record remittances and high interest rates are discouraging growth of consumption credit. We expect consumption to grow by 1% this year, from estimated growth of 4.1% in 2023, but increased government transfers add upside risk to the outlook.

**Nearshoring and government projects.** Real total exports did not contribute to growth in 2023 despite the surge in nominal terms. However, construction and investment surged last year, owing to government infrastructure projects and nearshoring hopes. Investment likely peaked at almost 25% of GDP last year due to a 18.8% y/y jump, but we expect total fixed investment to fall 3% in 2024 as AMLO's key projects are close to fruition and increased political uncertainty could delay foreign direct investment (FDI) plans. We forecast FDI to slightly exceed US\$40bn this year, but it would represent only 2.1% of GDP, well below the pre-pandemic average.

**Fresh food shock proved temporary.** Headline inflation fell to 4.4% y/y in February from 4.9% in January on the back of a sharp reversal of fresh food prices. Core inflation slowed, but at a slower pace, as upside pressure in services remains. The strength of the peso, fading supply disruptions, and slowing aggregate demand will help headline and core inflation slow to 3.6% y/y by year-end, below the consensus of 4%.

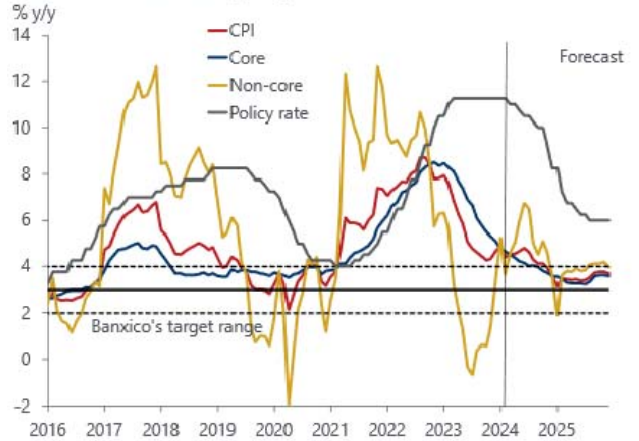
Until now, Banxico has ignored the disinflation progress and its own inflation forecast to focus on sticky market expectation and higher US rates. We believe that members will start to focus more on the current levels of inflation and change their reaction function to drive the policy rate to 8.25% by year-end, 125bps below consensus. However, our latest revision of Taylor rules suggests that the policy rate could remain as high as 10.75% by December if the board does not change its reaction function.

Mexico: Total fixed investment



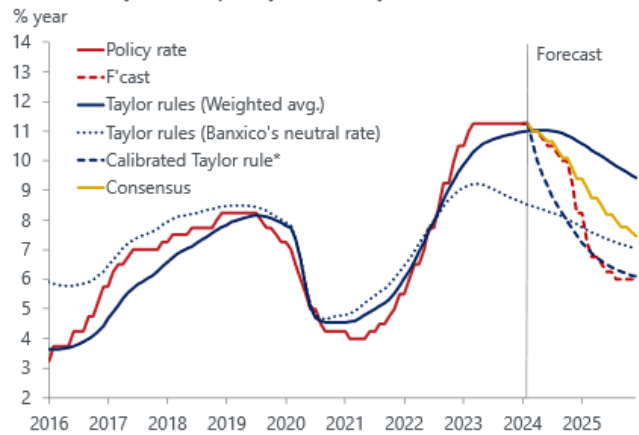
Source: Oxford Economics/Haver Analytics

Mexico: Inflation and policy rate



Source: Oxford Economics/Haver Analytics

Mexico: Taylor rule policy rate analysis



\*Note: Calibrated rule reflects changes in Banxico's reaction function

Source: Oxford Economics

# South Korea

## Highlights

- Our below-consensus forecast of 1.4% GDP growth for South Korea in 2024 reflects our concerns about the country's domestic demand. We continue to believe GDP growth will pick up to 2.1% in 2025.
- Household expectations for employment, income, and spending stayed largely unchanged or slightly weakened in February, indicating a sluggish outlook for private consumption in the near term.
- Exports growth extended the gains reported in the past few months, surging 18% y/y in January. As the data for the first two months of the year are usually distorted by the Lunar New Year, we prefer to wait until the data for February is released before reassessing our view on the country's growth outlook.
- We maintain our view that Bank of Korea will cut rates this year, although they appear to not be in a hurry to loosen policy in the near term. While the near-term upside risk to domestic inflation means an imminent rate cut is unlikely, we continue to expect the central bank will cut rates by the end of Q2, when we think headline inflation will slow down to around 2%.
- We don't anticipate a change in the government's determination to consolidate its fiscal policy after the expansion during the coronavirus pandemic. This won't benefit to the country's growth outlook in 2024.
- The South Korean won has modestly strengthened against the US dollar since mid-January. As we expect the Federal Reserve will cut rates as early as in May, we see further downside risks to the USD/KRW exchange rate towards mid-2024.

Forecast for Korea						
(Annual percentage changes unless specified)						
	2022	2023	2024	2025	2026	2027
<b>Domestic Demand</b>	2.9	1.6	0.2	2.9	2.6	2.1
<b>Private Consumption</b>	4.1	1.8	1.4	1.5	1.7	1.5
<b>Fixed Investment</b>	-0.5	1.2	0.4	4.0	4.1	3.5
<b>Stockbuilding (% of GDP)</b>	0.7	0.8	0.1	0.6	0.7	0.6
<b>Government Consumption</b>	4.0	1.3	0.8	2.2	1.7	1.7
<b>Exports of Goods and Services</b>	3.4	2.7	1.8	0.3	4.2	4.4
<b>Imports of Goods and Services</b>	3.5	3.0	1.0	1.9	5.0	4.5
<b>GDP</b>	2.6	1.3	1.4	2.1	2.4	2.2
<b>Industrial Production</b>	1.3	-4.1	3.9	5.2	4.2	3.0
<b>Consumer Prices</b>	5.1	3.6	1.3	1.4	1.8	2.0
<b>Current Balance (% of GDP)</b>	1.7	2.0	1.6	2.9	4.3	4.5
<b>Government Budget (% of GDP)</b>	-3.0	-1.5	-1.7	-0.8	0.0	0.0
<b>Current Account (\$bn)</b>	29.8	35.3	27.8	58.6	93.2	105.1
<b>Trade Balance (\$bn)</b>	15.1	31.4	36.2	72.5	107.2	118.8
<b>Short-Term Interest Rates (%)</b>	2.47	3.73	3.30	2.49	2.45	2.45
<b>Exchange Rate (Per US\$)</b>	1291	1306	1304	1238	1193	1157

All growth rates are calculated based on values in local currency



## Recent developments

The divergence between domestic demand and exports continued in the past month. According to a survey conducted by the Bank of Korea, consumer confidence improved for the third consecutive month in February, rising to 101.9pts from 101.6pts in January. However, expectations for employment, income, and spending stayed largely unchanged or even weakened during the month. Domestic car sales, a big ticket item for households, have not returned to the pre-Covid level, standing at 93% of the same period in 2019. All these point to a sluggish outlook for household spending in the near term.

Exports, however, extended gains seen in the past few months, surging 18% y/y in January. Semiconductor exports skyrocketed by 56.2% y/y and auto exports rose 24.8% y/y in the month, adding 10ppts to headline export growth in January. Other export items like petroleum and metal exports also improved, partly assisted by the low base last year.

Gains in electronics exports led to double-digit growth in industrial production in the electronics industry in recent months. However, signs of a broad recovery in the manufacturing industry remained unclear, suggested by sluggish production growth in traditional industries including chemicals and other machinery industries. The construction sector continued to contract, and industrial production was down 1.2% y/y by the end of 2023. Capital goods imports, which is an indicator of business capex, continued to decline by 3.8% y/y in January, albeit the extent narrowed from last year.

On prices, South Korea's headline inflation eased to 2.8% in January from 3.2% the prior month. Core inflation, which excludes food and energy, also moved lower to 2.5% y/y in January from 2.8% the prior month. While agricultural and food prices rose around the Lunar New Year period amid bad weather, our expectation for a gradual slowdown of inflation in 2024 remains largely unchanged. Uncertainties which may pose an upside surprise to domestic inflation include the fluid geopolitical situation and global oil price.

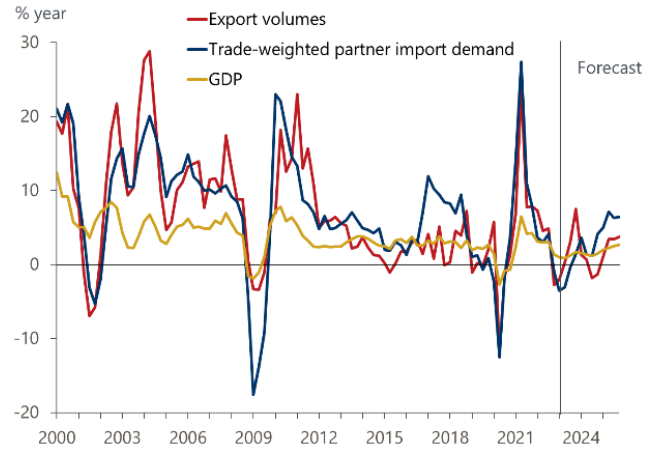
## Short-term outlook

As we highlighted before, our below-consensus 2024 GDP growth forecast is mainly due to our concerns about domestic demand, which may dwindle due to various uncertainties in the post-pandemic period. However, if exports maintain the current momentum or extend it further in the following months, then the chances that we would upgrade our growth outlook for South Korea would rise.

## Key drivers of our short-term forecast

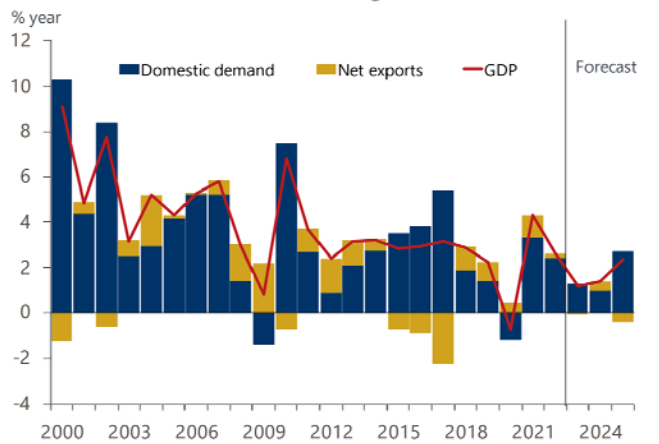
**Exports continued to improve in January, boding well for the**

South Korea: GDP, exports and world trade



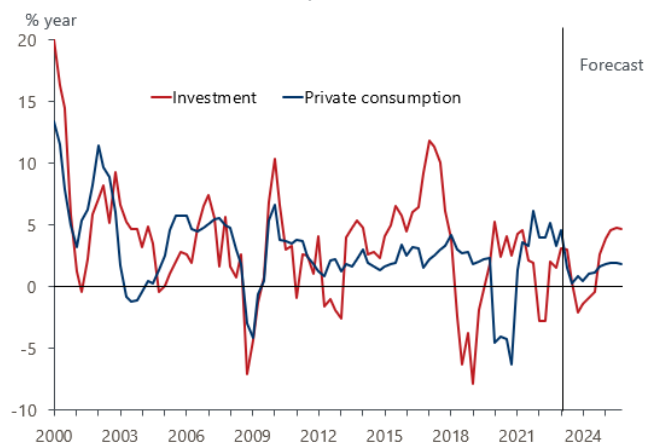
Source: Oxford Economics/Haver Analytics

South Korea: Contributions to GDP growth



Source: Oxford Economics/Haver Analytics

South Korea: Private consumption and investment



Source: Oxford Economics/Haver Analytics

**Q1 growth outlook.** South Korea's exports surged 18% y/y in January, registering the fourth consecutive month of annualised growth. As the different timings of the Lunar New Year this year and last might have distorted January and February data to some extent, we will have a clearer picture after February data release. That said, the turnaround in the global semiconductor cycle and surging interest in artificial intelligence (AI) chips will bode well for Korea's exports and offset the weakness in domestic demand.

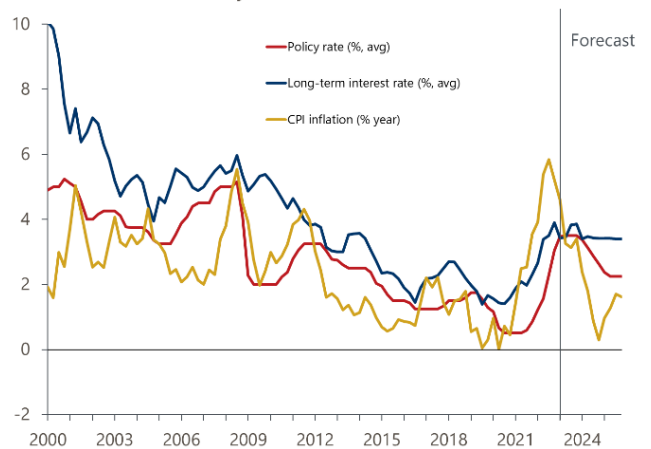
**It will take time for fixed investment to recover.** As we highlighted previously, we mainly look at two aspects to assess the recovery momentum in Korea's business sector. First, whether the global semiconductor cycle could rebound sustainably. Second, whether the manufacturing sector could have a broad-based recovery beyond the semiconductor sector. According to the information released during the latest earning season, industry leaders in Korea's semiconductor sector are optimistic about memory market and vowed to meet demand for chips in AI applications and expand into AI-enabled consumer products. We will closely follow this area which could potentially reshape the future outlook of global semiconductor industry.

**Private consumption growth is likely to remain sluggish this year.** As we stated previously, the reopening boost has faded and discretionary spending is declining. In a domestic survey done by the Federation of Korean Industries and Mono Research in November 2023, more than 50% of the local surveyed respondents indicated that they will spend less in 2024 than in 2023, citing high inflation, concerns about unemployment, and lower incomes. Housing prices continued softening across the country, which could be a headwind to both households' asset value and private consumption.

**The Bank of Korea (BoK) will probably cut rates this year.** The BoK appeared to not be in a rush to communicate any possibility of upcoming easing at its February monetary policy meeting, citing uncertainties about the economic and inflation outlooks. However, the central bank slightly revised down its core inflation forecast to 2.2% from 2.3% prior because of the slower-than-expected consumption recovery. We maintain our call that the BoK will cut in Q2, as we expect inflation will slow to around 2% by then. That said, long-term Korean treasury bond yields have risen recently, reflecting the push back of market expectations for an early policy rate cut. Uncertainties like global oil and agricultural prices may keep the central bank cautious about the inflation outlook in the near term.

**Fiscal consolidation won't support growth.** Following the parliament's approval to increase 2024 budget to KRW656.6trn, the government is on track to implement fiscal consolidation after the fiscal expansion during the pandemic. Barring unexpected external shocks, we expect the government will prioritize fiscal discipline in 2024, which would likely lend little support to growth.

South Korea: Monetary conditions



Source: Oxford Economics/Haver Analytics



# Spain

## Highlights

- High frequency indicators suggest economic growth in Spain remains strong in Q1 despite the weak external environment. As a result, we have raised our 2024 GDP growth forecast by 0.3ppts to 2.1%. The Spanish economy remains one of the best performers in the eurozone despite facing similar headwinds, including high interest rates and a recessionary environment in Europe.
- Initial data at the start of this year suggest economic activity is gaining momentum. The composite PMI rose to 53.9 in February, the highest level in nine months. The manufacturing sector returned above the 50-point threshold indicating expansion after nearly a year of contractions, while the services sector jumped to 53.9 points amid continued signs of resilient domestic demand. This underpins our view of above-average GDP growth in Q1, given the large size of the services sector.
- The strength of services also coincides with strong figures coming out of the tourism sector, with foreign arrivals setting a record high in January and spending surging 25% in annual terms. More worryingly, retail sales contracted for two consecutive months in December and January, a likely sign that high prices are still affecting consumer spending.
- Labour market data continued to surprise to the upside at the start of the year, with employment doubling its growth rate in February. Although we still expect employment growth to slow this year, we believe 2024 will be another year of strong job creation for the Spanish economy.
- Inflation fell to 2.8% in February, mainly due to lower electricity prices. However, the disinflationary impact from lower energy costs will diminish in the coming months as some temporary tax cuts are undone. Core inflation has eased gradually, a trend we expect to continue over the course of the year despite the impact from the disruption in the Red Sea. Meanwhile, food inflation remains high and will continue to be the largest source of inflation in the near term. A raise in the VAT for electricity in March, which was initially planned for 2025, means that inflation in 2024 will be higher than we previously expected. We now think inflation will average 3.2% this year.

Forecast for Spain						
(Annual percentage changes unless specified)						
	2022	2023	2024	2025	2026	2027
<b>Domestic Demand</b>	3.0	1.8	1.7	2.0	1.9	1.6
<b>Private Consumption</b>	4.7	1.7	1.8	1.7	1.8	1.8
<b>Fixed Investment</b>	2.4	0.6	1.7	5.3	4.5	2.9
<b>Stockbuilding (% of GDP)</b>	1.2	1.0	0.7	0.6	0.4	0.2
<b>Government Consumption</b>	-0.2	3.8	2.9	0.6	0.5	0.7
<b>Exports of Goods and Services</b>	15.2	2.4	2.1	2.7	2.2	2.3
<b>Imports of Goods and Services</b>	7.0	0.3	1.0	3.8	3.4	3.2
<b>GDP</b>	5.8	2.5	2.1	1.7	1.6	1.3
<b>Industrial Production</b>	2.8	-0.7	1.1	2.1	1.6	1.4
<b>Consumer Prices</b>	8.4	3.5	3.2	2.0	1.9	1.9
<b>Current Balance (% of GDP)</b>	0.6	2.5	3.7	3.8	3.5	3.2
<b>Government Budget (% of GDP)</b>	-4.7	-3.7	-3.6	-2.9	-2.6	-2.4
<b>Short-Term Interest Rates (%)</b>	0.3	3.4	3.4	1.9	1.6	1.6
<b>Long-Term Interest Rates (%)</b>	2.3	3.5	3.2	3.2	3.2	3.2
<b>Exchange Rate (US\$ per Euro)</b>	1.1	1.1	1.1	1.1	1.1	1.2

All growth rates are calculated based on values in local currency

### Recent developments

After expanding by a robust 0.6% q/q in Q4, the Spanish economy continues to show signs of sustained resilience and could be accelerating in Q1. The composite PMI index rose to 53.9 in February, the highest level in nine months. The improvement was mainly driven by a strong jump in the services PMI, which rose to 54.7, the highest level in nearly a year, amid reports of strong domestic demand boosting sales. Manufacturing activity also recovered in February and returned to positive territory after 10 consecutive months below the 50-point threshold, but the index remains substantially weaker.

Labour market figures continue to surprise to the upside. Employment rose by more than 70,000 persons in February, more than doubling the average growth rate in previous months. Although we suspect there is some residual seasonality in the employment figures, meaning that H2 will likely be weaker than H1, we expect 2024 will be another year of strong employment growth in Spain.

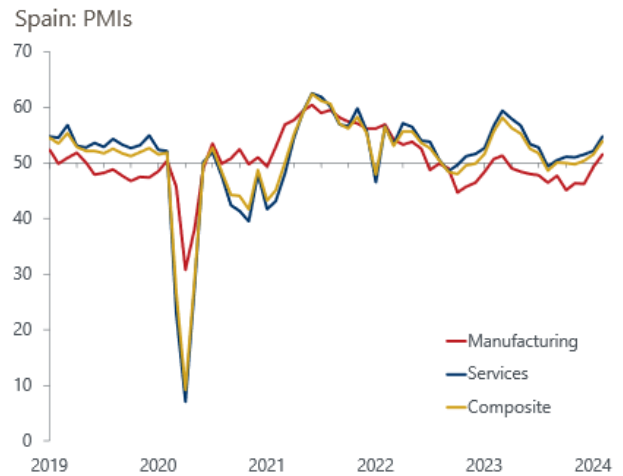
### Short-term outlook

The Spanish economy continues to outperform the eurozone average, as it benefits from the tailwinds of the stronger growth in services and robust job growth is feeding into real incomes. That said, the economy is still subject to risks given the stagnation seen in the eurozone. Inflation is now above the eurozone's average, putting renewed pressure on consumers' incomes. Meanwhile, tighter financial conditions will continue to represent a strong headwind for interest rate-sensitive sectors.

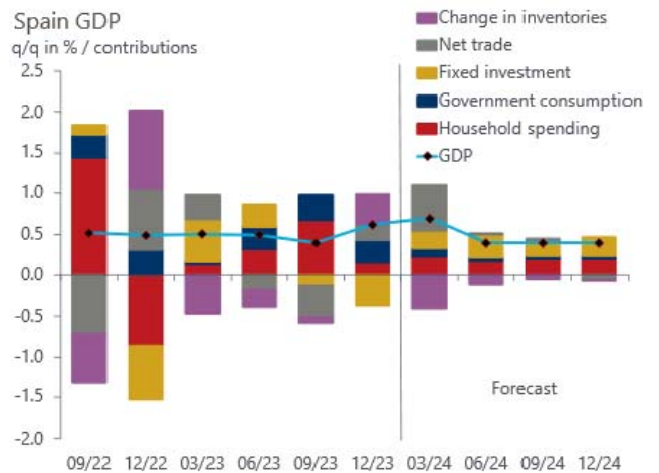
We expect GDP growth to remain very strong in Q1 and then moderate slightly in the following quarters, with growth being mainly driven by domestic demand. We have raised our 2024 GDP growth forecast to 2.1%, up by 0.3ppts from last month's forecast, to reflect the strong monthly figures at the start of this year.

### Key drivers of our short-term forecast

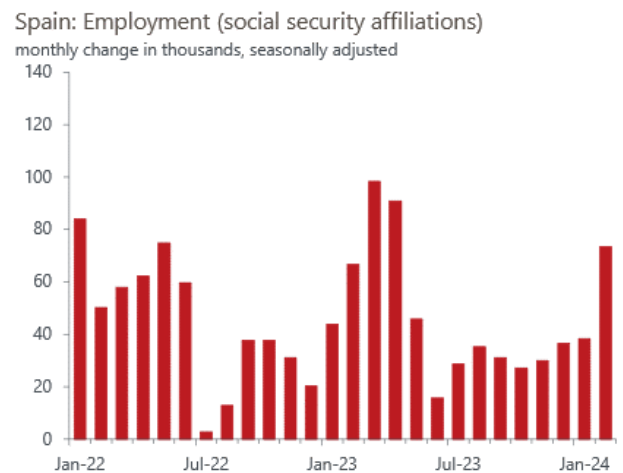
**Real incomes are supporting consumer spending.** After initially trailing the overall post-pandemic recovery, consumer spending has now expanded for four consecutive quarters, boosted by a recovery in real incomes. Strong employment growth is still the main driver of private consumption, but as employment growth moderates, income gains will have to rely more on real wage growth. Risks remain and consumer sentiment continues to be low amid elevated uncertainty and still-high inflation, with the recent decline in retail sales a warning sign that consumers are still wary of high prices. We expect consumer spending to grow by 1.8% this year and by 1.7% in 2025.



Source: Oxford Economics/S&P Global



Source: Oxford Economics/Haver Analytics



Source: Oxford Economics/Haver Analytics

**Merchandise trade is set to improve as service exports moderate.** Despite a decline in goods exports, Spain has enjoyed a solid rise in exports of services, aided by the recovery in tourism inflows. Higher prices boosted tourism revenues, which reached a record high in 2023. This is offsetting the surge in imported energy costs, allowing Spain to maintain a current account surplus despite a large trade deficit. This year, we expect a reversion of those trends, with growth in merchandise exports outpacing that of services, although the strong start of the year for foreign arrivals portends another record year for revenues in the tourism sector. We forecast exports to expand by 2.1% in 2024 and by 2.7% in 2025.

**The outlook for fixed investment is mixed.** Capital spending continues to struggle, showing the impact of tighter credit conditions, especially on interest rate-sensitive sectors such as residential investment and real estate. Credit growth has slowed down sharply, and although the corporate sector has not shown signs of stress from tighter financial conditions, investment could weaken if insolvencies rise. More positively, the deployment of European funds under the Next Generation EU programme will continue to boost public investment. We expect fixed investment to expand by 1.7% this year and by 5.3% in 2025.

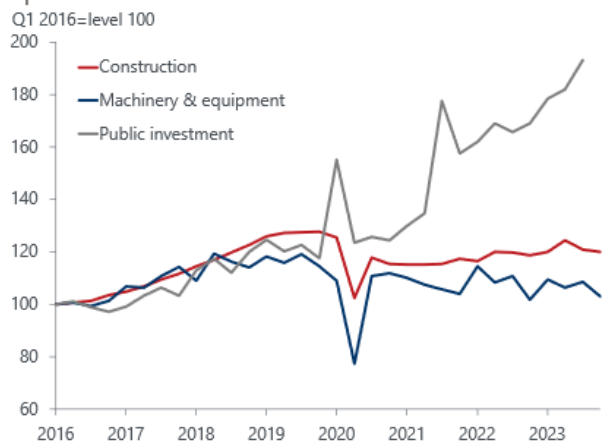
**The disinflation process will be bumpier from here.** Inflation fell to 2.8% in February, mainly as a result of a sharp drop in electricity prices. Energy prices continue to put a lid on headline inflation, but the disinflationary impact will diminish in the coming months, owing to negative base effects and the reversal of some temporary tax cuts on energy, most notably the return of VAT on electricity to 21%. This is likely to add volatility to the inflation prints over the coming months. Food inflation is still elevated, but price pressures are gradually relaxing. Core inflation continues to trend down as well, although services inflation remains stickier. We expect inflation to average 3.2% this year and 2% in 2025.

Spain: External balances



Source: Oxford Economics/Haver Analytics

Spain: Fixed investment



Source: Oxford Economics/Haver Analytics

Spain: Inflation



Source: Oxford Economics/Haver Analytics

# Switzerland

## Highlights

- We forecast 2024 GDP growth of 1.3%. The prospects for 2024 growth are stronger than for many other European countries, mainly due to revenues from the Olympic games and the 2024 European championship as UEFA and the IOC are located in Switzerland. When we adjust for major sporting events.
- Recent indicators suggest an ongoing recession in the manufacturing sector. Industrial production declined by 0.9% q/q in Q4 2023. The manufacturing PMI stayed depressed at around 43pts in January. Due to the ongoing lack of foreign demand and the strong Swiss franc, the manufacturing sector will keep struggling over the next few months. Disruption to supply chains caused by Houthi attacks on Red Sea shipping routes is an additional risk for manufacturing.
- But recent indicators from the service sector and diminishing inflation are also signalling some upside risks to our muted forecast. Consumer sentiment improved for a third consecutive month in January, though hasn't returned to the level of January 2023 yet (-41pts compared to -35pts). The services PMI fell by 2.4pts compared to December. But at 54.6, the service sector is probably still on course for growth.
- As we expected, the disinflation process seems strong. Headline inflation fell to just 1.3% p.a. in January. Even if the upward pressure on domestic prices hasn't fully fed through yet, we now assume the Swiss inflation rate will average around 1.5% in 2024. So, we now expect the first rate cut by the Swiss National bank in June rather than in September. But monetary conditions have already eased as the Swiss franc devalued from 0.93 to 0.95 compared to the euro in recent weeks. We expect the franc to stay around this slightly weaker value during H1 2024, before devaluing to around 0.97 CHF/EUR until the end of this year.

Forecast for Switzerland						
(Annual percentage changes unless specified)						
	2022	2023	2024	2025	2026	2027
<b>Domestic Demand</b>	3.4	1.7	0.3	1.8	2.3	2.2
<b>Private Consumption</b>	4.2	2.1	1.1	1.7	1.7	1.6
<b>Fixed Investment</b>	1.2	-2.0	0.1	3.7	3.5	2.9
<b>Stockbuilding (% of GDP)</b>	-0.1	0.8	0.4	0.0	0.0	0.3
<b>Government Consumption</b>	-0.8	-0.5	0.1	1.1	1.2	1.2
<b>Exports of Goods and Services</b>	4.6	4.0	3.2	3.3	3.4	2.9
<b>Imports of Goods and Services</b>	5.9	6.0	1.8	4.4	4.2	4.0
<b>GDP</b>	2.7	0.8	1.3	1.5	2.1	1.8
<b>Industrial Production</b>	7.7	0.8	1.0	3.1	3.5	2.8
<b>Consumer Prices</b>	2.8	2.1	1.5	0.9	0.8	1.1
<b>Current Balance (% of GDP)</b>	8.8	7.1	7.7	8.2	8.7	8.7
<b>Government Budget (% of GDP)</b>	0.9	0.0	0.0	0.0	0.1	-0.1
<b>Short-Term Interest Rates (%)</b>	-0.2	1.5	1.5	0.8	0.8	0.8
<b>Long-Term Interest Rates (%)</b>	0.8	1.1	1.0	1.2	1.4	1.4
<b>Exchange Rate (Per US\$)</b>	1.0	0.9	0.9	0.9	0.9	0.8
<b>Exchange Rate (Per Euro)</b>	1.0	1.0	1.0	1.0	1.0	1.0

All growth rates are calculated based on values in local currency



### Recent developments

After the buoyant start to last year with Q1 growth of 0.9% q/q when adjusted for sporting events, Swiss GDP declined slightly in Q2 and then grew moderately by 0.3% in Q3. The more cyclically-sensitive industrial sectors continued to perform poorly but the services sector was again able to provide support. Still, growth in services remained below the historical average.

### Short-term outlook

Weak exports and PMI levels that are well below the growth threshold suggest industrial activity will stay subdued. The services sector appears to have gained some momentum in recent months. Nevertheless, we still assume that private consumption will contribute significantly less to growth this year. The strong net migration into the labour market, which contributed to private consumption growth in 2022 and 2023, is likely to fade. Despite lower headline inflation, many private households will suffer from a shift in inflation drivers to essential consumer categories like rent and electricity. Overall, we think the Swiss economy will likely stagnate in Q4 2023 and Q1 2024 and only slightly gain momentum during the rest of this year, driven by strengthening but still weak global conditions.

### Key drivers of our short-term forecast

The fragile global economy is still challenging for goods and services exporters as many trading partners are suffering from the aftermath of high inflation and monetary tightening.

#### The Swiss franc has appreciated notably against the euro.

The currency has been trading below parity since the beginning of July 2022 and marked a new nominal record low of just €0.93 at the end of December.

Monetary conditions have already eased somewhat as the CHF devalued from 0.93 to 0.95 compared to the euro in recent weeks. But in real terms the Swiss currency is still at a level last seen last seen during the height of global uncertainty during the Covid pandemic in 2020. But it's still below the highs from 2011 when the Swiss National Bank introduced a minimum exchange rate. We expect the franc to average around €0.95 this year, but this will still cause ongoing stress on export demand and margins.

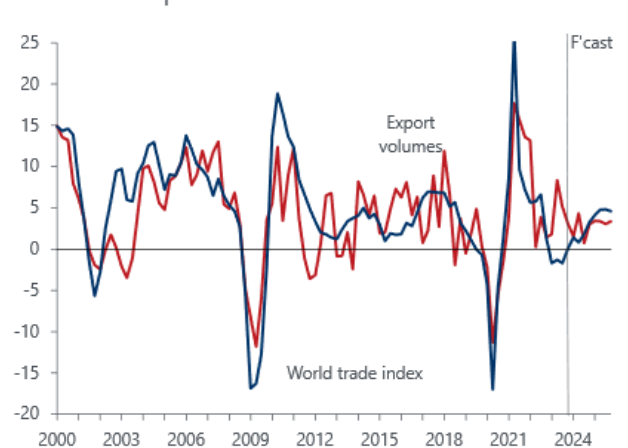
Still, the upward pressure on the franc gives the central bank the means to curb inflation, either through a reversal of past foreign exchange market interventions or via rate hikes. Inflation was at 1.3% only in January, consistent with the bank's definition of price stability. But a shift in the drivers of inflation is affecting categories that consumers cannot avoid. The price hike in rents from November 2023 will pick up this year and electricity prices will also rise sharply again by 17.8%. Although our headline inflation forecast of 1.5% for 2024 looks mild, the

Switzerland: PMI surveys



Source: Haver Analytics / procure.ch

Switzerland: Export volumes and world trade



Source: Oxford Economics

Switzerland: Exchange rates



Source: Haver Analytics



shift away from imported goods and raw materials inflation towards domestic services is a reason for caution.

In our baseline, we expect a main rate of 1.75% until the end of Q2, followed by a steady easing.

**Slight negative impacts on the labour market.** The jobless rate fell from 3.5% to 1.9% between May 2020 and February 2023. The economic weakness has led to a renewed rise in unemployment since March 2023. But the unemployment rate is currently 2.2%, still below the pre-crisis level of 2.3%. Given labour supply shortages and demographic changes, we anticipate only a modest increase in unemployment to 2.4% until the end of 2024 despite the subdued outlook.

**Manufacturing.** The manufacturing industry suffers from ongoing high energy prices and weaker demand. But the high share of pharmaceuticals and an energy mix which leaves Switzerland less dependent on gas will likely limit the negative impact on the sector. In our view, Switzerland's pharmaceuticals sector is resilient to the challenging global situation, at least when it comes to demand.

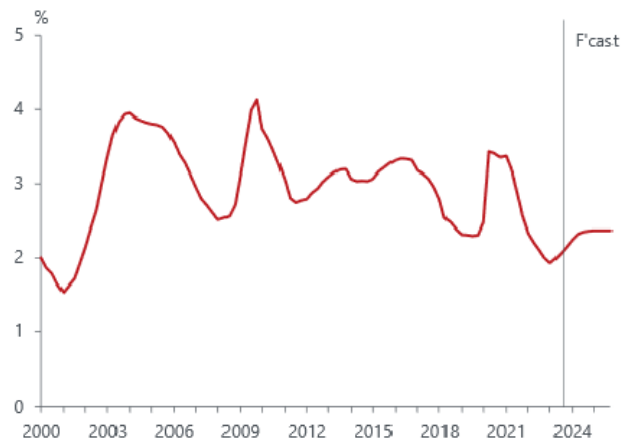
**Credit Suisse.** While the turmoil at Credit Suisse poses risks to our muted forecast, we think the direct impact on Swiss GDP will be limited to less than 0.1ppt in 2023 and 2024. We assume that the measures taken will stabilise the Swiss financial sector and prevent damage to Switzerland as a business location.

The withdrawal of foreign customer funds will harm value-added banking. But this won't likely be a significant factor, given the size of the Swiss economy. We don't expect unemployment to rise sharply either, as most of those affected are likely to find new jobs given the tight labour market.

**Impact of major sporting events.** The IOC, FIFA, and UEFA are all located in Switzerland. So, their revenues and the surge in activity and spending related to ticketing, licensing, and broadcasting for the Olympics, the World Cup, and the Euros, usually raises Swiss GDP growth by up to 0.5ppts in years with the Winter Olympics and World Cup. But this also results in a comparable drag on GDP growth in the following year. For example, the expected 2024 GDP growth of 1.2% is above the European average mainly due to revenues from the Olympic games and European championship. When we adjust for major sporting events, we project GDP growth will be only 0.8% in 2024.

Global weakness and monetary tightening will still affect growth this year. Our 2024 forecast will be shaped by the impact of weak global demand and the adverse impacts of past monetary policy tightening, with a muted GDP growth of 1.2% (or 0.8% when adjusted to cover the licence fees of major sporting events).

Switzerland: Unemployment



Source: Oxford Economics/Haver Analytics

Switzerland: Consumption and Investment



Source: Oxford Economics/Haver Analytics

# Taiwan

## Highlights

- Taiwan concluded last year on a solid note. This is because Q4 GDP growth was stronger than we expected, supported by a rebound in exports. But the gains haven't fed into industrial production and business capex. For now, we forecast 2024 GDP growth at 2.8%.
- The turnaround in global semiconductor cycle and surging demand for AI chips put Taiwan under the spotlight. Local industry leaders like TSMC have become bullish on AI demand in the latest earning season, expecting double-digit revenue growth this year. If this trend continues and translates into bold business investment, it will bode well for Taiwan's growth outlook.
- Resilient car sales and holiday-related spending suggest consumer sentiment has improved lately. But we remain cautious about private consumption this year considering elevated interest rates, a pullback in fiscal stimulus, and relatively high household debt burdens.
- Inflation may temporarily surge during the Lunar New Year, lifted by food prices. But this is unlikely to change our view that underlying price pressures will remain benign in the following months. This will pave the way for Taiwan's central bank to pivot towards easing in Q3 this year.
- In the long term, challenges include ageing demographics, the risk of wage stagnation, and the uncertainty in the cross-strait relationship following the general election may hinder Taiwan from integrating into regional trade and economic agreements.

## Forecast for Taiwan

(Annual percentage changes unless specified)

	2022	2023	2024	2025	2026	2027
<b>Domestic Demand</b>	4.2	1.3	3.6	4.1	2.9	2.4
<b>Private Consumption</b>	3.7	8.3	2.3	2.4	2.1	2.3
<b>Fixed Investment</b>	7.8	-8.7	-5.0	5.4	9.8	6.1
<b>Stockbuilding (% of GDP)</b>	0.1	-0.4	2.0	2.9	2.0	1.2
<b>Government Consumption</b>	4.8	0.9	4.2	2.1	1.6	1.5
<b>Exports of Goods and Services</b>	1.8	-4.3	4.8	5.3	4.1	2.8
<b>Imports of Goods and Services</b>	4.3	-5.7	6.2	8.1	5.6	3.3
<b>GDP</b>	2.6	1.3	2.8	2.9	2.3	2.2
<b>Industrial Production</b>	-1.8	-12.3	5.1	6.4	6.2	4.6
<b>Consumer Prices</b>	2.9	2.5	1.4	1.2	1.3	1.3
<b>Government Budget (% of GDP)</b>	0.2	-1.6	-1.3	-1.1	-1.1	-1.1
<b>Trade Balance (\$bn)</b>	68.2	95.9	110.6	109.4	113.2	117.8
<b>Current Account (\$bn)</b>	100.9	105.3	125.0	130.1	136.5	142.0
<b>Current Balance (% of GDP)</b>	13.2	13.9	15.8	14.8	14.4	14.2
<b>Short-Term Interest Rates (%)</b>	0.8	1.3	1.1	0.9	0.8	0.8
<b>Exchange Rate (Per US\$)</b>	29.8	31.2	31.1	29.3	28.1	27.5

All growth rates are calculated based on values in local currency

### Recent developments

Taiwan's exports rebounded strongly in Q4 - 2023, contributing 2.2ppts to GDP growth. This concluded four consecutive quarters of contraction since Q4 2022, owing to the turnaround in global semiconductor cycle and surging demand for AI chips. With the cutting edge of fabricating AI chips, Taiwan is one of the few Asian economies which could benefit from this trend. The momentum extended in January, with exports of information, communication and audio products surging 100.7% y/y. Exports of electronics parts rose 7.5% y/y in the month, ending 14 months of decline. They are in total composed of nearly 60% of Taiwan's exports.

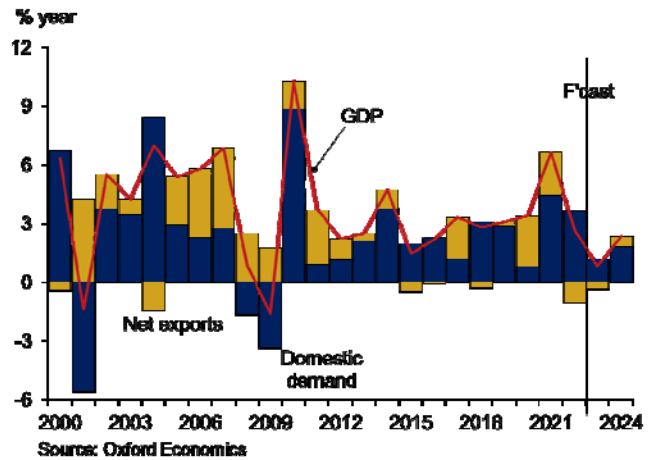
The upside in exports hasn't fully fed into production yet, partly due to the high inventory accumulated since last year. Overall industrial production contracted by 3.8% y/y in December 2023, staying in the negative territory for 19 months. Production of information and electronics industry declined by 3.5% y/y at the end of December, although the pace has narrowed dramatically from more than 20% contraction in H1-2023. Weak external demand is still weighing on traditional industries like chemical, base metal, and machinery. Capital goods imports, an indicator of business capex and investment appetite, contracted by 13.5% y/y in January, dragging down overall imports. We will examine this trend closely in the future to gauge our view on Taiwan's growth outlook.

Consumer sentiment improved modestly in February. Passenger cars and motorcycle sales rose by more than 50% y/y at the beginning of this year. Trips paid to Tainan, a popular city of Taiwan, exceeded 10 million visitors/trips during the Lunar New Year holiday period, 30% higher than the same period last year. In addition, local stock market reported historical highs in February, boding well for households' wealth and so its spending appetite at least for the near term. But we're still unsure whether the momentum will persist throughout this year, given the uncertain income outlook and household debt burden.

Taiwan's headline inflation slowed down to 1.8% y/y in January from 2.7% previously, dragged by the softening vegetable and energy prices. We may see inflation edge up in February as the Lunar New Year effect is likely to temporarily push up prices, especially in food and services. The different timings of the holiday this year and last year could amplify the impact. But this will unlikely change the general downtrend in Taiwan's inflation in the following quarters.

We don't expect Taiwan's central bank to take any action at its March monetary policy meeting. But we see a chance for the bank to pivot in H2 2024, especially after the US Fed starts its easing cycle. External headwinds including the economic slowdown in mainland China and the soft landing in the US could keep the bank's rate cut options on the table this year.

Taiwan: Contributions to GDP growth

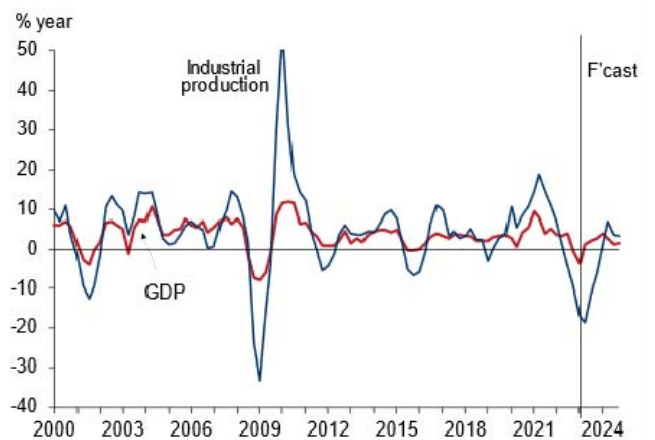


Source: Oxford Economics/DGBASY/Haver Analytics

Taiwan: Monetary conditions



Source: Oxford Economics/Haver Analytics



Source: Oxford Economics/Haver Analytics

On the political side, the incumbent Democratic Progressive Party (DPP) declared a victory at the latest general election in January with its candidate William Lai's inauguration in May. While this is the third term for the DPP, the party lost the outright majority of the votes (40.05%) during the election and failed to control the Legislative Yuan. This will raise the hurdle of any new economic initiatives in the following years.

## Short-term outlook

Stronger-than-expected Q4 GDP, boosted by the rebound in exports, concluded 2023 growth on a strong note. The turnaround in global semiconductor cycle and demand for AI chips could present an upside to Taiwan's exports in the future. If this trend sustains and translates into an expansion in industrial production and business capex, it will lend a strong support to Taiwan's growth outlook.

## Key drivers of our short-term forecast

**The rebound in exports boosted growth.** In January, exports surged by 18.1% y/y and export orders, at 1.9% y/y, registered positive growth again. As the Lunar New Year could distort trade data in the first two months of this year, we may have a clearer picture after February's data release. Regardless, Taiwan appears to be at an advantage position amid the turnaround in global semiconductor cycle. SEMI forecast global semiconductor sales to rise by 3% y/y in Q1 2024, gaining momentum from 1% previously. If this trend continues, it could further boost Taiwan's growth outlook.

**Consumption will stay below trend.** As the impact of government vouchers fades out, we maintain our cautious view on Taiwan's private consumption this year. Elevated interest rates (CBC policy rates are at their highest since 2015), a pullback in fiscal stimulus, and relatively high household debt burdens will keep consumption patterns below pre-pandemic trends this year.

**Core inflationary pressures are still well-contained.** We expect inflation to ease to an average of 1.4% this year on the back of labour market pressures, growing signs of improvements in supply bottlenecks, and the tightening of global financial conditions. Although we expect disinflation trends to continue towards 1.5% by mid-2024, increased imported inflationary pressures caused by Taiwanese dollar depreciation are still a key upside risk to our outlook.

**Taiwan's central bank will start to pivot in Q3.** Taiwan's central bank stopped hiking rates after it raised its policy rate to 1.875% in March last year. The bank expects domestic inflation to gradually fall to the 2% level later this year, with a negative output gap. In our view, this will pave the way for rate cuts in H2.

# Thailand

## Highlights

- We forecast 2024 growth of 2.6% up from 1.9% in 2023. Although momentum likely remained soft at the start of the year, signs of accelerating tourism demand and an improved outlook for the global economy should provide a boost.
- In December, tourist arrivals climbed to 83% of pre-Covid levels, the highest since the economy reopened after the pandemic. The improvement was broad-based. The better global growth outlook and weakening inflation prospects around the world should support real income growth and willingness to spend on travel.
- External and domestic demand, which monthly data suggest were both relatively robust in Q4, appear to be skewed towards services. Services production expanded by 5.9% y/y in Q4, a relatively weak pace by its own standards but a markedly better performance than in the manufacturing sector, where output dropped by 4.8% y/y.
- In January, inflation was -1.1%, 0.3ppts less than in December. Core price pressures have followed a similar, albeit shallower downward trend as the headline index since August 2023, with core inflation falling to 0.5% in January. Energy prices declined 5.5% y/y while food and beverages prices dipped 1.1% y/y, thanks to government subsidies.
- In a 5-2 split decision, the Bank of Thailand's Monetary Policy Committee voted to maintain the policy rate at 2.5% in early February. Monetary policymakers have come under political pressure in recent months to deliver rate cuts in the face of below-target inflation and weak economic growth, but the bank repeatedly highlighted the "structural impediments" to growth that short-term monetary policy stimulus is not suited to address. We believe that the BoT will remain in wait-and-see mode but expect a rate cut by the middle of the year if economic momentum remains lacklustre. If the government's cash handout plan, which faced repeated delays, gets shelved, the case for rate cuts would be even stronger.

Forecast for Thailand						
(Annual percentage changes unless specified)						
	2022	2023	2024	2025	2026	2027
<b>Domestic Demand</b>	0.8	-1.1	3.0	3.7	3.7	3.8
<b>Private Consumption</b>	6.2	7.1	3.1	3.1	3.1	3.1
<b>Fixed Investment</b>	2.3	1.2	1.2	4.6	4.7	4.4
<b>Stockbuilding (% of GDP)</b>	3.3	-1.5	-1.1	-0.9	-0.7	-0.2
<b>Government Consumption</b>	0.1	-4.6	2.8	3.7	2.4	2.4
<b>Exports of Goods and Services</b>	6.1	2.1	3.9	6.0	5.2	4.7
<b>Imports of Goods and Services</b>	3.6	-2.2	4.6	5.3	5.0	4.8
<b>GDP</b>	2.5	1.9	2.6	4.2	3.8	3.8
<b>Industrial Production</b>	0.6	-5.1	-1.3	4.4	4.0	3.8
<b>Consumer Prices</b>	6.1	1.2	0.8	2.0	1.8	1.8
<b>Government Budget (% of GDP)</b>	-2.6	-2.9	-4.1	-3.3	-3.0	-3.0
<b>Trade Balance (\$bn)</b>	13.5	17.0	20.2	22.0	23.8	25.8
<b>Current Account (\$bn)</b>	-15.7	6.6	11.8	18.8	23.0	25.7
<b>Current Balance (% of GDP)</b>	-3.23	1.26	2.14	3.10	3.52	3.68
<b>Short-Term Interest Rate (%)</b>	0.9	2.2	2.3	2.3	2.6	2.6
<b>Exchange Rate (per US\$)</b>	35	35	35	34	33	33

All growth rates are calculated based on values in local currency



### Recent developments

The tourism recovery picked up in December, with total arrivals climbing to 83% of pre-Covid levels, the highest since reopening. Meanwhile, although external demand for goods improved as compared to Q3, momentum remained weak, with goods export volumes recording the third consecutive decline in m/m seasonally adjusted terms. Indicators for domestic activity during Q4 suggest that private consumption was robust, as it was throughout 2023, but private investment demand appears to have slowed after picking up momentum in Q3. Industrial production registered a third monthly decline in sequential seasonally adjusted terms in December.

In January, inflation was -1.1%, 0.3ppts less than in December. Core price pressures fell to 0.5%. Despite below-target inflation, the Bank of Thailand left the policy rate unchanged at its meeting in early February, arguing that weak economic momentum is due to "structural impediments" to growth that short-term monetary policy stimulus is not suited to address.

### Short-term outlook

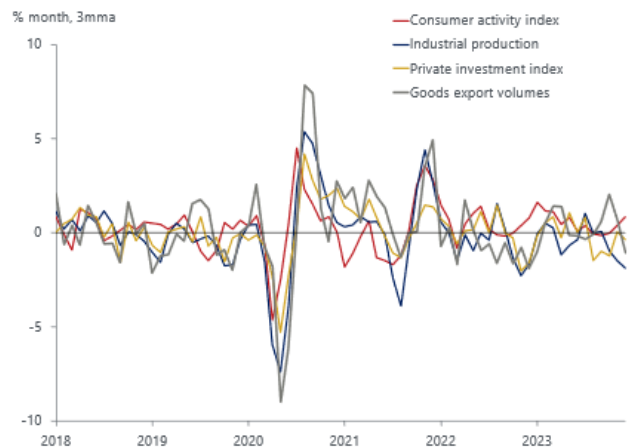
We forecast GDP growth of 2.6% in 2024, up slightly from 1.9% in 2023. Although momentum likely remained soft at the start of the year, signs of rising tourism demand and an improved outlook for the global economy should provide a boost. Domestic fiscal and monetary policy stimulus may lend more support.

The tourism recovery accelerated towards the end of last year, thanks to a broad-based improvement in tourism numbers. Our upwardly revised global growth forecast bodes well for the tourism sector and associated services exports, but much will depend on economic developments in China, which has historically accounted for the largest group of visitors. External goods demand should be past its trough, although in line with the wider region, a big boost here remains unlikely. Pent-up demand for autos will likely fade while the chips-cycle upturn is expected to be modest. Promises of cash handouts by the government may support domestic consumption demand, but the envisioned plan to distribute THB10,000 to 50mn Thais in a digital form remains controversial due to financing questions and has repeatedly been delayed. Even if it is approved, it is unlikely to come into effect before mid-2024.

### Key drivers of our short-term forecast

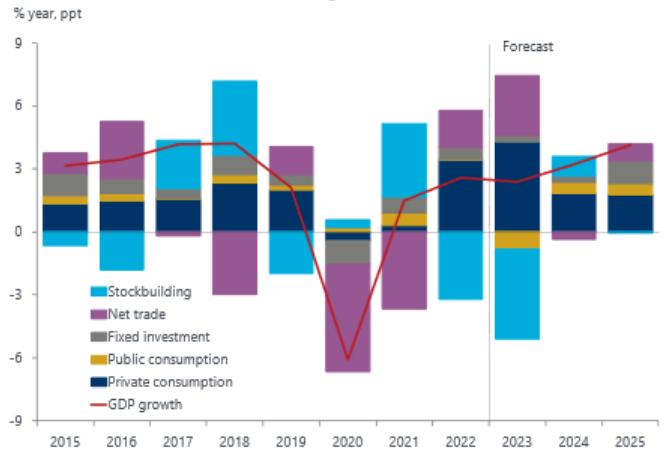
**The tourism recovery has improved.** Tourist numbers rebounded towards the end of 2023. Total arrivals climbed to 83% of pre-Covid levels by December, the highest level since reopening. The number of Chinese visitors rose to nearly half of 2019 levels, while arrivals from the rest of the world rebounded

Thailand: Monthly indicators



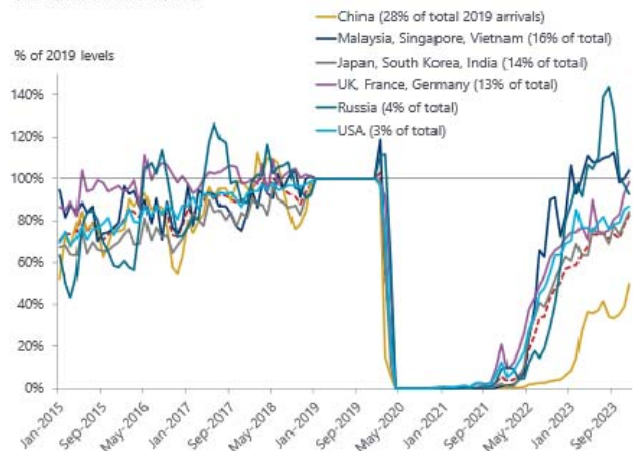
Source: Oxford Economics/Haver Analytics

Thailand: Contribution to annual GDP growth



Source: Oxford Economics/Haver Analytics

Thailand: Tourist arrivals



Source: Oxford Economics/Haver Analytics

to 92% after a temporary dip in October. Visitors from Thailand's closer neighbours have largely returned. Arrivals from many European countries and the US are still below where they were pre-pandemic, but jumped in December. The soft Chinese outlook will likely continue to weigh on tourism demand, but given our upwardly revised global growth forecast and weakening inflation prospects around the world, upside risks to demand from elsewhere have risen.

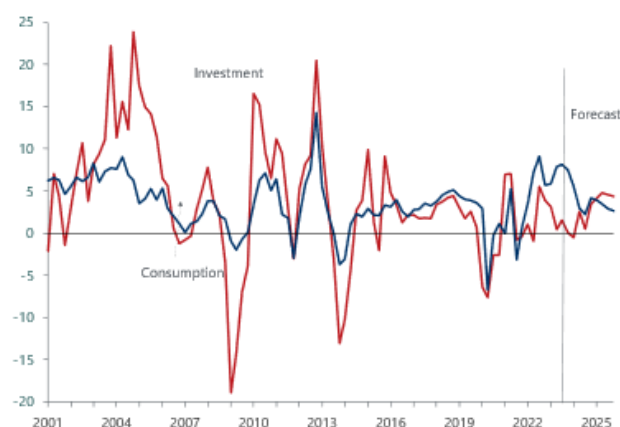
**Goods trade remains sluggish.** Goods exports were broadly flat throughout 2023 and lost some momentum towards the end of the year. December marked the third consecutive m/m decline in export volumes in seasonally adjusted terms (-1.4%). Because goods import volumes dropped 8% m/m, the goods trade balance returned to a surplus of US\$2.3bn in December, up from a US\$200mn deficit in November. The automotive sector bolstered the performance last year, but as order backlogs are filled, tailwinds have begun to fade. Meanwhile, electronics exports growth has improved.

**Private consumption may not hold up much longer.** Private consumption was a key growth driver throughout 2023, with the monthly consumption index suggesting demand continued to be robust in Q4, although momentum has slowed. In December, the private consumption index rose 0.1% m/m in seasonally adjusted terms, down from 0.7% in November. From mid-2024, demand may be bolstered by government cash handouts, but the plan is yet to be fully confirmed. High household debt levels also act as a drag.

**Investment outlook is subdued.** After a temporary uptick in November, the private investment index dropped 2.3% m/m in seasonally adjusted terms. Manufacturing production continued its declining streak; another 1% m/m seasonally adjusted dip in December means the sector contracted 5.1% in 2023. Capacity utilisation fell to just over 55% in December, from 58% in the prior month, suggesting there is limited need to invest in new equipment. Business credit contracted in December for the ninth consecutive month. We do not expect a reversal of the trend anytime soon given the weak business sentiment and rising real interest rates.

**The BoT may utilise policy space in 2024.** In a 5-2 split decision, the Bank of Thailand voted to maintain the policy rate at 2.5% in early February. The bank has repeatedly highlighted "structural impediments" to growth that short-term monetary policy stimulus is not suited to address. We believe that the BoT will remain in wait-and-see mode but expect a rate cut by the middle of the year if economic momentum remains lacklustre. If the government's cash handout plan, which has faced repeated delays, gets shelved altogether, the case for rate cuts would be even stronger.

Thailand: Consumption and investment



Source: Oxford Economics/Haver Analytics

Thailand: Monetary conditions



Source: Oxford Economics/Haver Analytics

# Türkiye

## Highlights

- We raised our 2024 GDP growth forecast to 2.5% from 1%, as a Q4 expansion of 1% q/q beat our expectations, boosting the carryover. The latest data suggest an increase rather than stagnation in sequential growth in Q1, and we expect economic activity to hold up thereafter. Our forecast is now broadly consistent with the consensus view.
- Fourth-quarter GDP data showed annual growth of 4%, bringing the 2023 expansion to 4.5%. The expenditure breakdown for Q4 showed a strong q/q rise in private consumption after a decline in Q3 2023, underpinning our forecast miss. Meanwhile, fixed investment fell by less than we expected but government consumption surprised to the downside. Net exports made another negative contribution to growth as did inventories, but both trends will reverse in the coming months.
- We raised Türkiye's inflation forecast by 3ppts to 58.4% this year. Inflation rose more than we expected in February, to 67%, marking a 15-month high. We expect inflation to peak at 73% in May, before falling to 43% through year-end, higher than the central bank's projection of 36%. Meanwhile the central bank's latest survey shows year-end inflation expectations ticked up to 42.6% from 41.9% a month earlier, underscoring the challenge in taming price pressures.
- The central bank (CBRT) kept the policy rate on hold at 45% in February, in line with our baseline. The sticky course of inflation will limit the CBRT's room to cut rates before 2025, while we previously expected the first cut to occur in Q4 this year.
- The improvement in Türkiye's policies since mid-2023 has earned it the first credit rating upgrade in more than a decade. Fitch raised its assessment to B+ from B and moved the outlook to positive. We assume the orthodox policy course is upheld and expect other credit rating agencies to follow suit.

Forecast for Türkiye						
(Annual percentage changes unless specified)						
	2022	2023	2024	2025	2026	2027
<b>Domestic Demand</b>	5.1	8.0	2.3	1.8	1.7	1.7
<b>Private Consumption</b>	18.9	12.8	-2.6	-4.8	-0.5	0.7
<b>Fixed Investment</b>	1.3	8.9	0.1	0.2	1.1	1.2
<b>Stockbuilding (% of GDP)</b>	-11.6	-15.0	-10.9	-5.5	-3.8	-3.1
<b>Government Consumption</b>	4.2	5.2	0.8	0.6	1.2	1.5
<b>Exports of Goods and Services</b>	9.9	-2.7	2.0	2.3	3.4	3.6
<b>Imports of Goods and Services</b>	8.6	12.0	1.2	2.3	1.9	2.1
<b>GDP</b>	5.5	4.5	2.5	1.9	2.0	2.0
<b>Industrial Production</b>	6.2	0.9	0.6	2.2	2.3	2.3
<b>Consumer Prices</b>	72.3	53.9	58.4	25.7	14.2	11.4
<b>Government Budget (% of GDP)</b>	-0.5	-5.1	-4.2	-2.2	-1.8	-1.6
<b>Trade Balance (\$bn)</b>	-89.6	-86.6	-65.3	-72.7	-75.6	-79.5
<b>Current Account (\$bn)</b>	-49.1	-45.2	-24.0	-31.4	-33.6	-37.5
<b>Current Balance (% of GDP)</b>	-5.77	-4.35	-1.94	-2.16	-2.08	-2.18
<b>Short-Term Interest Rates (%)</b>	15.35	24.72	46.85	35.06	23.50	16.81
<b>Exchange Rate (Per US\$)</b>	16.57	23.71	32.74	34.87	35.80	36.56

All growth rates are calculated based on values in local currency

### Recent developments

Recently released GDP figures showed a stronger Turkish economy than we expected. Output grew 1% q/q in Q4 2023 versus our expectations of a decline, leaving annual growth at 4%. Combined with upward revisions to the previous quarters, the outturn brought full-year growth to 4.5%.

High-frequency data suggests a steady rise in activity. On the demand side, consumers continue to spend with retail sales volume up 2.6% in January, supported by the minimum wage hike, though consumer confidence dipped in February. Meanwhile, consumer lending growth is normalising gradually from elevated levels.

The supply side appears to be past its trough. Industrial production stagnated in January, but output will likely expand in the months ahead. The February PMI edged up to 50.2 from 49.2 in January, marking the first print above the neutral 50 mark in eight months. Rising costs remain a key headwind to demand and business conditions, with price pressures persisting, driven by the minimum wage hike, currency depreciation, and higher material costs. Downward pressure on employment has intensified and we expect more companies will reduce staffing, pushing the unemployment rate toward 10% in the near term. The seasonally adjusted unemployment rate rose above 9% in January, the highest since September. Meanwhile, the rate of labour underutilisation rose to 26.5% in January, the highest since mid-2021.

### Short-term outlook

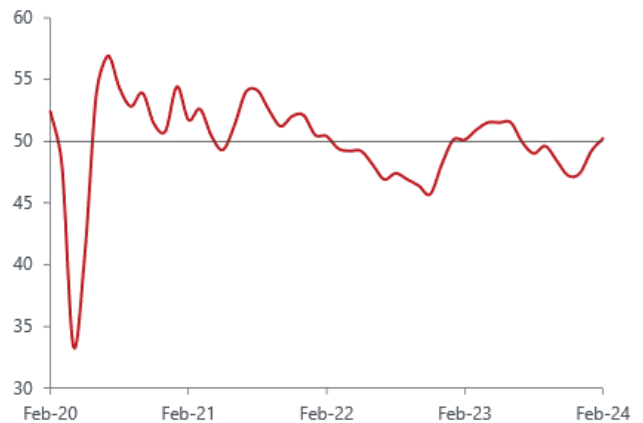
The stronger carryover from the end of last year and expectations of modest growth in the current quarter boosted our 2024 growth projection for Türkiye by 1.5ppts to 2.5%. Our forecast is now broadly in line with consensus.

### Key drivers of our short-term forecasts

**Inflation will peak above 70% in Q2 2024.** We raised our average 2024 inflation forecast by 3ppts to 58.4%. Headline inflation rose more than we expected in February, to 67% from 64.9% in January. Data show inflationary pressures remain strong – the monthly increase in prices of 4.5% in February was lower than the 6.7% rise in January, but it exceeded our forecast.

Food price inflation – food accounts for about a quarter of the consumer price index – quickened to 71.1% in February, remaining firmly above the headline rate. Annual energy inflation rose to nearly 36%, while core prices rose by 72.9% y/y, the highest print in the current series. Services prices remained a major driver of overall inflation, rising 5.7% m/m, which left annual services inflation at 94.4%, up from 89.7% in January. Rents more than doubled relative to this period last

Turkey: Manufacturing PMI



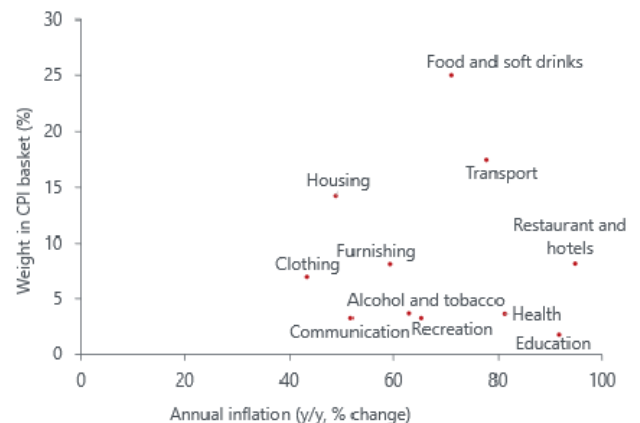
Source: Oxford Economics/S&P Global

Turkey: GDP and industrial production



Source: Oxford Economics/Haver Analytics

Turkey: Drivers of inflation (February 2024)



Source: Oxford Economics/Haver Analytics



year. We expect inflation to rise in the coming months, reinforced by wage increases and a weakening lira, to peak above 70% in Q2. We still think base effects will then contribute to a large fall in annual inflation, but it will remain above 40% through year-end, higher than we projected last month and above the CBRT's forecast of 36%.

**USD/TRY will continue to weaken through end-2024.** The lira was down by 4% in the last month, at TRY32.10/USD, more than we pencilled in, and we now expect the currency to depreciate to TRY34.30/USD by year-end.

**The central bank will maintain current policy.** In September, President Recep Erdogan offered strong support to the shift to higher interest rates, contrary to his long-held views. The CBRT subsequently tightened monetary policy via higher rates and steps aimed at dismantling the labyrinth of macroprudential measures.

The CBRT kept the policy rate at 45% in February, as we expected. The policy rate is now the highest in two decades and up from just 8.5% in mid-2023. Recent statements point to rates staying at the current level for the near future. We now think the CBRT will wait until 2025 before embarking on rate cuts and any easing will be conditional on inflation expectations moderating.

**The tourism boost is fading.** Türkiye welcomed more than 2mn foreign arrivals in January, up 2.1% y/y, but visitor growth is slowing after the increase of 10.4% y/y last year. There are downside risks in the near term, given the headwinds to travel demand from the Israel-Hamas conflict.

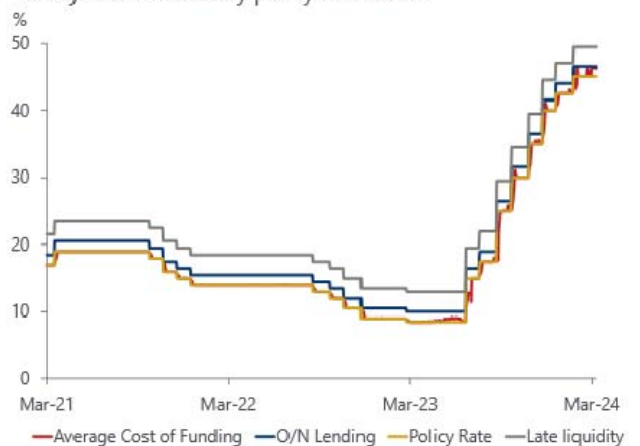
**Balance-of-payments pressures continue to ease.** We see the current account deficit narrowing to US\$24bn (1.9% of GDP) due to more conservative policies, down from US\$45.2bn last year. The monthly current account balance showed a US\$2.6bn deficit in January, shrinking the 12-month rolling deficit to US\$37.5bn, the smallest since August 2022. We assume the weaker lira and costlier credit will bear down on demand and import growth in the coming months, helping the external balance. Our 2024 oil price forecast is modestly higher at US\$79.40 per barrel.

Turkey: USDTRY



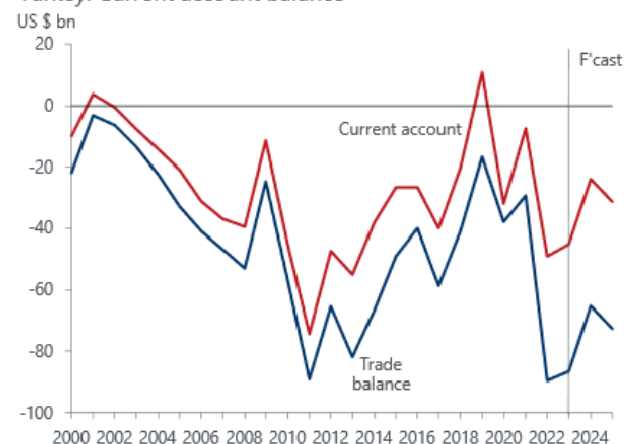
Source: Oxford Economics/Haver Analytics

Turkey: CBRT monetary policy framework



Source: Oxford Economics/Haver Analytics

Turkey: Current account balance



Source: Oxford Economics/Haver Analytics



# United Kingdom

## Highlights

- We've raised our forecast for UK GDP growth in 2024 to 0.5%, up from 0.4% last month, and in 2025 to 2.0%, up from 1.8%. This is due to the loosening of fiscal policy announced in the Budget. The cut to national insurance contributions (NICs) will offer a modest boost to household spending power, adding to the impact of a sharp fall in inflation.
- GDP rose by 0.2% m/m in January, reversing most of the fall in output seen in late-2023. Unusually volatile data for the distribution sector was a key part of the story, with retail sales having rebounded in January following December's slump. We expect this to mark the start of a sustained recovery in activity. Business survey data has strengthened of late, with the composite PMI reaching a nine-month high in February. And though further strikes in the health sector likely dampened GDP again in February, we expect momentum will build quickly.
- In the Budget, the Chancellor cut the rates of NICs for employees and the self-employed by 2p, following a similar cut in November's Autumn Statement. Alongside a sharp fall in inflation, led by falling energy prices, this will offer a short-term boost to household spending power. As a result, we've raised our forecast for quarterly GDP growth in 2024.
- Still, over the next five years the boost from successive cuts in NICs rates will only mitigate around half of the drag on household incomes from the long-running freeze on income tax and NICs allowances and thresholds. Furthermore, the Chancellor was forced to announce a series of small-scale tax hikes for 2025 and beyond to remain compliant with his fiscal rules. He also maintained the unfeasibly tight post-election assumptions for government spending. Indeed, by reducing the already-slim margin for error against the main fiscal rule to create space for tax cuts while maintaining very tight spending plans, the Chancellor has increased the challenges the next government will face.

Forecast for UK						
(Annual percentage changes unless specified)						
	2022	2023	2024	2025	2026	2027
<b>Domestic Demand</b>	4.8	0.3	1.3	2.3	2.2	1.7
<b>Private Consumption</b>	4.8	0.3	0.9	2.6	2.2	1.6
<b>Fixed Investment</b>	8.0	2.9	-3.4	1.0	2.8	2.1
<b>Stockbuilding (% of GDP)</b>	0.9	0.0	0.0	0.1	0.1	0.1
<b>Government Consumption</b>	2.3	0.6	3.9	2.3	1.5	1.5
<b>Exports of Goods and Services</b>	9.0	-1.4	-1.0	2.8	2.4	1.7
<b>Imports of Goods and Services</b>	14.6	-1.6	1.2	3.5	2.9	1.9
<b>GDP</b>	4.3	0.1	0.5	2.0	2.0	1.6
<b>Industrial Production</b>	-3.5	-0.3	0.2	0.9	1.5	1.2
<b>CPI</b>	9.1	7.3	2.2	2.1	2.3	2.2
<b>Current Balance (% of GDP)</b>	-3.1	-2.8	-2.9	-2.9	-3.0	-2.9
<b>Government Budget (% of GDP)</b>	-4.6	-6.1	-3.6	-3.2	-2.4	-1.7
<b>Short-Term Interest Rates (%)</b>	2.01	4.97	5.04	4.17	3.26	2.45
<b>Long-Term Interest Rates (%)</b>	2.38	4.02	3.92	3.66	3.24	2.89
<b>Exchange Rate (US\$ per £)</b>	1.24	1.24	1.28	1.28	1.30	1.33
<b>Exchange Rate (Euro per £)</b>	1.17	1.15	1.17	1.16	1.16	1.15

All growth rates are calculated based on values in local currency

**Recent developments**

In January, GDP rose by 0.2% m/m, reversing most of the fall seen in late-2023. The monthly data has been particularly volatile of late, particularly in the distribution sector where retail sales slumped in December then rebounded strongly in January. Meanwhile output in the health sector has continued to be affected by industrial action by junior doctors.

Further strikes in the health sector in February will have weighed on GDP that month. But otherwise, the news has been more positive for growth. In particular the CIPS/S&P Global surveys reported a strong pickup in private sector activity, with the composite PMI reaching a nine-month high in February. We forecast a solid rebound in GDP in Q1, after small falls in Q3 and Q4 2023.

**Short-term outlook**

We've raised our forecast for GDP growth in 2024 to 0.5%, up from 0.4% last month, and in 2025 to 2.0%, up from 1.8%. This reflects the impact of the NICs cut announced in the Budget, which will offer support to real household income growth.

More broadly, we expect the boost to real incomes from a sharp fall in inflation will be the key driver of stronger growth over the next two years. Notwithstanding the NICs cut, fiscal policy will exert a sizeable drag on growth over the next few years. But while the lagged impact of past interest rate rises will also weigh this year, lower interest rates should begin to offer support to growth from 2025.

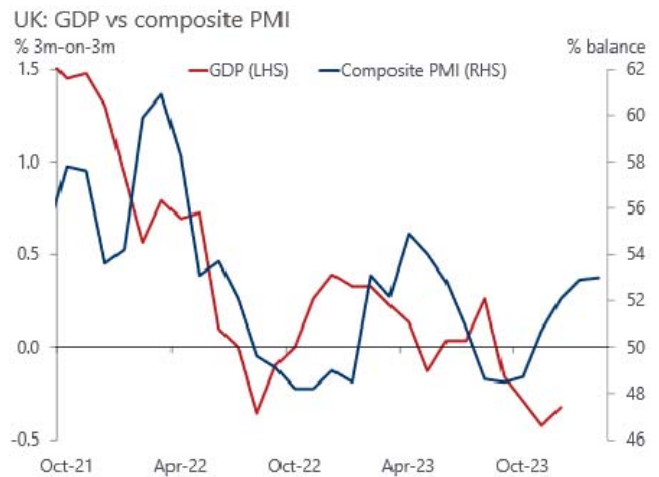
**Key drivers of our short-term forecast**

**Inflation will continue to fall sharply in the near term.** Falling energy prices will put substantial downward pressure on inflation in the next few months. Food price inflation is drifting downwards and core goods prices are also softening, so we think inflation will return to the BoE's 2% target in April.

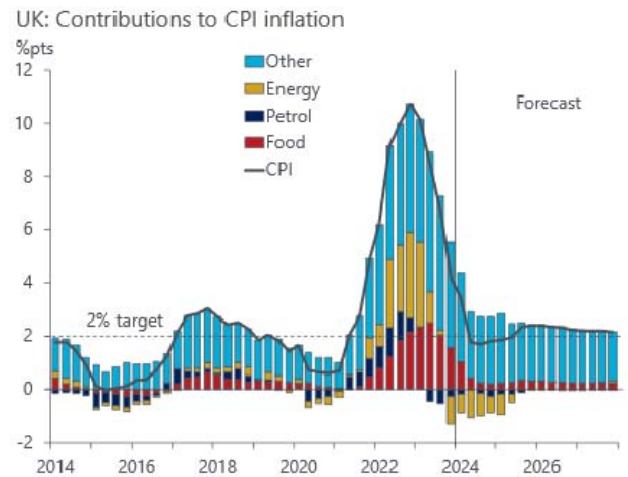
We think the Red Sea disruptions will likely last at least six months and expect the higher shipping costs to add 0.2ppts-0.3ppts to inflation over the rest of this year. Still, the drag from falling energy prices should keep inflation below target throughout H2 2024, with CPI inflation set to average 2.2% over the year as a whole.

**We expect Bank Rate will be cut by 75bps in 2024.** The MPC markedly lowered their near-term inflation forecast and dropped their bias towards further tightening at the February meeting. They also emphasised that policy would still be restrictive, even after they start to cut rates.

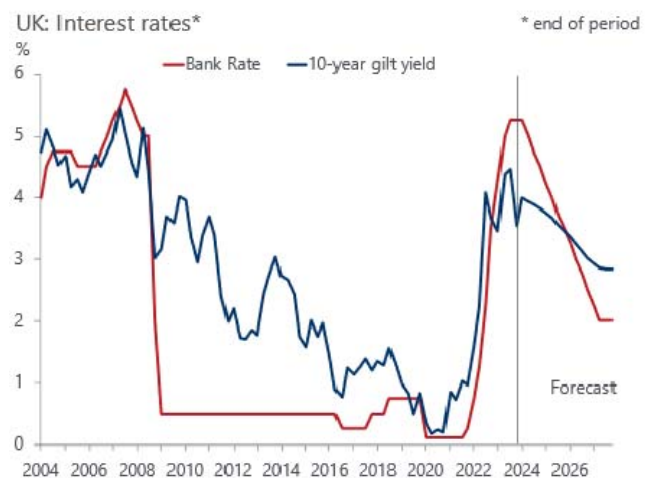
But the Committee's fear that core inflation and pay growth will prove sticky is likely to drive a cautious approach to loosening policy. We think the first cut will come in June, by which time the



Source: Oxford Economics/Haver Analytics



Source: Oxford Economics/Haver Analytics



Source: Oxford Economics/Haver Analytics

MPC will have been able to analyse data for the new year pay round and assess the impact of April's large rise in the national living wage. We expect 75bps of rate cuts this year and 100bps in 2025, but the risks are skewed towards rate cuts coming later and more slowly.

**The impact of tighter monetary policy will continue to surface.** The benefits of looser monetary policy are unlikely to be seen until 2025. This year, the impact of the 515bps worth of tightening since late-2021 will continue to feed through to the real economy. In particular, 1.5mn mortgagors have fixed-rate deals expiring before the end of 2024, and almost all those refinancing this year face moving onto much higher interest rates than their expiring deals.

We expect debt interest payments will climb to 5.7% of household income this year, more than double the 2022 level. Interest receipts are likely to fall in response to cuts to Bank Rate, so we think net interest income will turn negative this year.

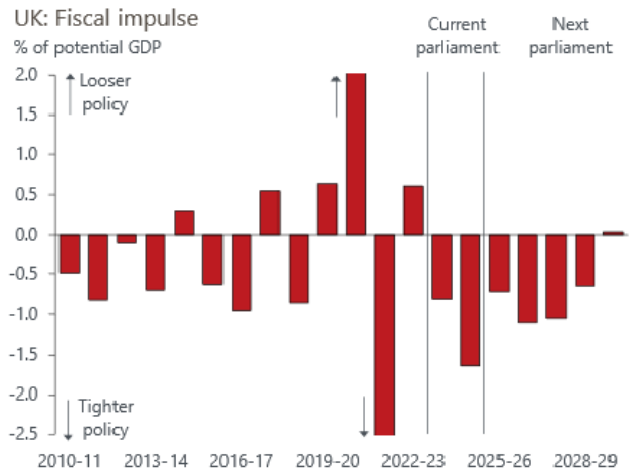
**The housing market will enjoy a soft landing.** The fall in mortgage rates since mid-2023 has made the housing market outlook less parlous. Though our New Home Buyer Affordability Index, which is based on the affordability of mortgage payments, suggests prices are 15% overvalued, this is a much better position than last summer.

Due to less stretched valuations, housing activity should pick up from last year's very low levels, although it's likely to remain some way short of historical norms. We now think prices will only fall by around 3% from peak to trough, with low unemployment and the gradual passthrough of higher interest rates likely to keep forced sales low.

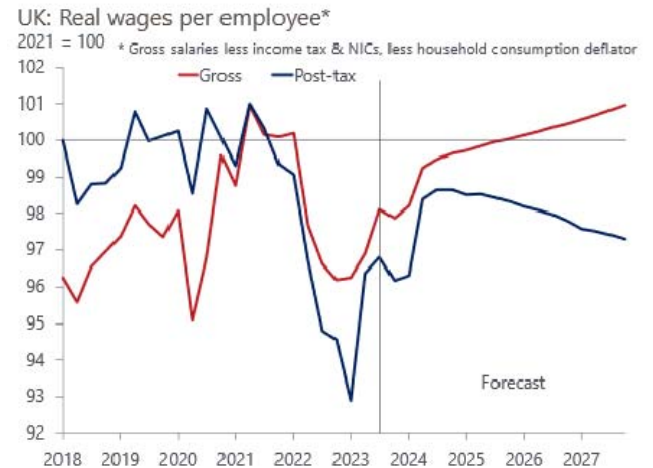
**Fiscal policy is tightening.** The fiscal stance was loosened slightly in March's Budget through a 2p cut in the main rates of NICs and a further freeze in fuel duty, But this merely mitigated the impact of tightening already in train and fiscal policy will be tightened substantially over the next five years.

A continued freeze in most tax thresholds and allowances is a key part of this plan. Though real wages per employee are expected to recover strongly in gross terms, they are forecast to continue falling on a post-tax basis from mid-2024 due to the threshold freeze.

Fiscal plans also assume deep post-election real terms spending cuts for many government departments, which will be very hard to deliver. Given Labour has committed to similarly restrictive fiscal rules, this situation seems unlikely to change after the election.



Source: Oxford Economics/Haver Analytics



Source: Oxford Economics/Haver Analytics

# United States

## Highlights

- We've raised our forecast for real GDP growth in the US to 2.4% in 2024. The strength of the labor market, easing financial market conditions, solid household and non-financial corporate balance sheets, and less drag from inventories all justified a revision to the forecast.
- Our forecast for real GDP growth this year is above the Blue-Chip consensus of 1.5%, but is a touch weaker than the consensus in 2025. One likely reason behind our deviation from the consensus this year is our assumption about fiscal policy. We expect fiscal policy will be only a modest drag on GDP growth this year and think risks are weighted to the upside because we haven't incorporated the bipartisan tax bill into the baseline since it still faces some hurdles in the Senate.
- We've raised our near-term inflation profile slightly to reflect the stronger reading in January, which likely remained firm in February. However, we still expect that core inflation will start to trend down later this year. The most recent update to our baseline forecast for the US didn't include any changes to our assumptions about the magnitude or duration of the global maritime issues, which are expected to result in slightly higher core goods prices this year.
- Our subjective odds that the Federal Reserve will cut interest rates in May, our current baseline, are declining but are not low enough to warrant a change to the forecast. There will be a lot of new data on inflation and the labor market between now and the May meeting of the Federal Open Market Committee. The February consumer price index and PCE deflator will be important for the Fed to assess whether the stronger-than-anticipated gain in inflation recently was a fluke.
- We've reduced our forecast for housing starts in the long run to better align the top-down and bottom-up projections. In the long run, equilibrium housing starts are a function of household formations, headship rates, obsolescence, and demand for second homes.

Forecast for US						
(Annual percentage changes unless specified)						
	2022	2023	2024	2025	2026	2027
<b>Domestic Demand</b>	2.3	1.9	2.3	2.1	2.0	1.8
<b>Private Consumption</b>	2.5	2.2	2.3	2.0	1.5	1.5
<b>Fixed Investment</b>	0.9	2.0	3.8	4.1	4.2	3.5
<b>Stockbuilding (% of GDP)</b>	0.6	0.2	0.2	0.0	0.1	0.0
<b>Government Consumption</b>	-0.9	2.7	1.3	0.5	0.6	0.8
<b>Exports of Goods and Services</b>	7.0	2.7	2.0	3.6	5.9	5.8
<b>Imports of Goods and Services</b>	8.6	-1.6	1.7	4.6	5.3	5.0
<b>GDP</b>	1.9	2.5	2.4	1.7	1.9	1.7
<b>Industrial Production</b>	3.4	0.2	0.6	2.1	1.6	1.5
<b>Consumer Prices</b>	8.0	4.1	2.8	2.1	2.1	2.0
<b>Current Balance (% of GDP)</b>	-3.8	-3.1	-3.3	-3.3	-3.2	-3.1
<b>Government Budget (% of GDP)</b>	-4.3	-7.7	-7.2	-7.2	-7.6	-7.7
<b>Short-Term Interest Rates (%)</b>	2.39	5.39	5.27	4.34	3.34	2.52
<b>Long-Term Interest Rates (%)</b>	2.95	3.96	3.96	3.63	3.43	3.37
<b>Exchange Rate (US\$ per Euro)</b>	1.05	1.08	1.09	1.10	1.13	1.16
<b>Exchange Rate (Yen per US\$)</b>	131.58	140.62	143.70	130.82	123.28	118.12

All growth rates are calculated based on values in local currency



### Recent developments

A shift toward more seasonably normal weather in January weighed on the economy, but this should prove temporary. The strength of the economy is visible in the labor market. Growth in nonfarm payrolls was stronger than expected in February, but we do not think the report is enough to change our call that the Federal Reserve will start cutting rates in May. Other aspects were weaker than expected, including more subdued growth in earnings, a decline in employment in the household survey, and a rise in the unemployment rate.

On the policy front, we now have a clearer idea of how the election will shape up, with former President Donald Trump now the presumptive Republican nominee and President Joe Biden using part of his State of the Union speech to outline proposals for a second term. Biden proposed raising spending on education and expanding medical care benefits, funded by raising corporation taxes and income taxes on high earners. Considering the composition of Congress and it being an election year, odds are low that much, if anything, Biden laid out in his economic agenda will be passed into law this year.

### Short-term growth outlook

We've raised our forecast for real GDP growth in H1, as consumer spending has shown signs of rebounding after unfavourable weather conditions and a hangover from the holiday shopping season depressed activity in January. Vehicle sales increased in February and tax refunds have jumped recently. The inventory drag in H1 also appears to be more modest than we had previously anticipated. We now expect real GDP to rise 2.4% at an annualized rate in Q1, followed by a 1.5% gain in Q2. We project annualized real GDP will rise 1.2% in Q3 and 1.7% in Q4. For context, the economy's short-run potential growth rate is 2%.

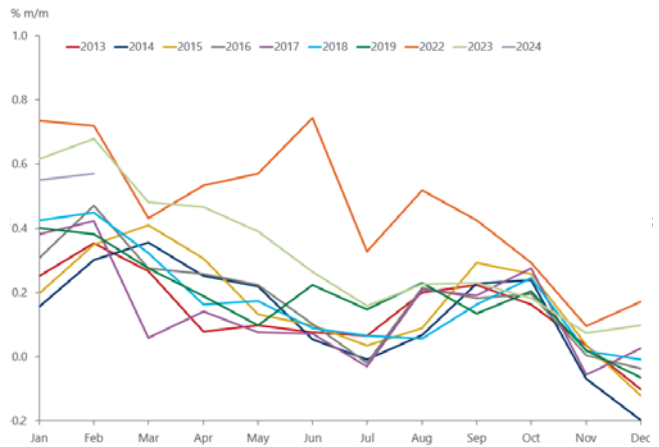
Even with GDP growth forecast to rise by less than the potential rate, the unemployment rate will remain low. This may seem at odds with Okun's Law, or the relationship between the unemployment rate and the output gap. However, Okun's Law can weaken because of short-run fluctuations in productivity and labor force growth. The unemployment rate is expected to edge higher over the next several months.

### Key drivers of our short-term forecast

**Disinflation is still in the pipeline.** Inflation was stronger than anticipated at the start of this year, but disinflation is still in the pipeline. The rebalancing between labor demand and supply is putting downward pressure on nominal wage growth. This will weigh on core services inflation excluding housing, which is sensitive to the strength of the domestic labor market.

Nominal wage growth is still running a little too hot, but there

US: Not seasonally adjusted core consumer price index



Source: Oxford Economics/Haver Analytics

US: GDP Forecast % annualized



Source: Oxford Economics/Haver Analytics

US: Job quit rate & wage growth



Source: Oxford Economics/Haver Analytics



are signs it will cool. The job quits rate, which peaked at 3% in 2021, fell to just 2.1% in January, a rate consistent with past wage growth slowing to between 3%-3.5%, a range which is comfortably within the Fed's 2% inflation target.

The supply side of the economy is still doing well. Nonfarm productivity was up 3.2% annualized in Q4 and the trend remains favorable. Also, the prime-age participation rate rose again in February, driven by increasing participation by women. Easing wage pressures together with well-anchored inflation expectations give us confidence that the downward trend in supercore services inflation will resume.

We anticipate a decline in shelter inflation as the weaker pace of new lease rents feeds through. Further declines in used vehicle prices will also have a disinflationary effect.

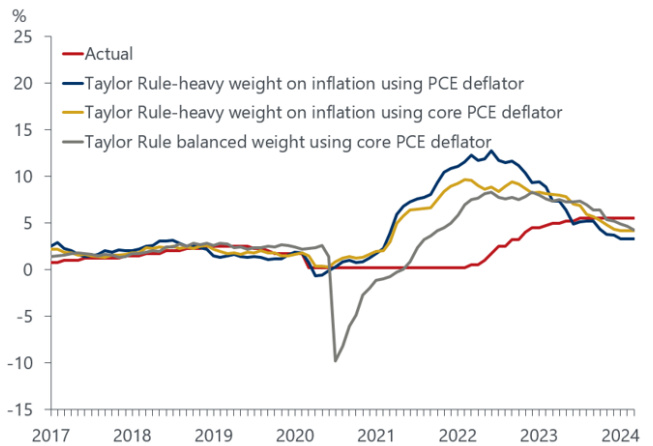
**Bipartisan tax deal still hanging in the balance.** The bipartisan tax deal isn't incorporated in our baseline because it still faces hurdles in the Senate. We put the odds of it passing at 50-50.

We identified three potential scenarios for the bipartisan tax bill in the Senate. If there is enough support in the Senate, the tax bill could go to the floor for a vote and pass without any changes as a stand-alone piece of legislation. However, this likely would not occur until after lawmakers address the fast-approaching government funding deadlines. Another potential path would be for lawmakers to slip the tax bill into the spending bills that will be necessary to avoid a partial government shutdown in March. Finally, the slowest path for the tax bill would be to undergo amendments in the Senate, which would then require it to return to the House for another vote.

**The Fed is still lacking confidence to cut interest rates.** Our subjective odds that the Fed cuts interest rates in May, as in our current baseline, are declining but are not low enough to warrant a change to the forecast. There will be a lot of new data on inflation and the labor market between now and the May meeting of the Federal Open Market Committee. The February consumer price index and PCE deflator will be important for the Fed to assess whether the stronger-than-anticipated gain in inflation recently was a fluke.

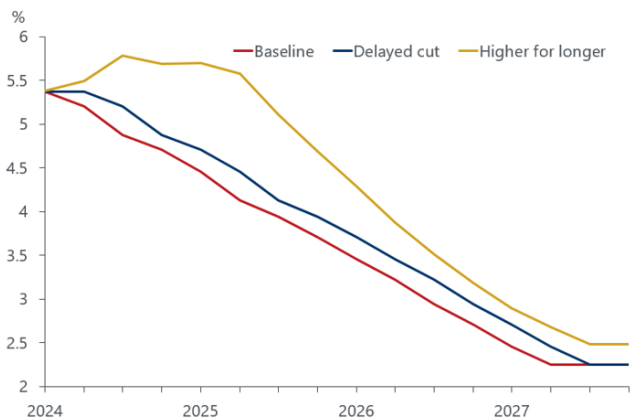
Fed Chair Jerome Powell's comments during his semi-annual testimony before Congress made clear that the Fed still plans to cut interest rates this year. His comments echoed those from other Fed officials. Powell did say that "because of the strength of the economy and the strength in the labor market and the progress we've made, we can approach that step carefully and thoughtfully".

US: Actual fed funds rate versus Taylor Rules



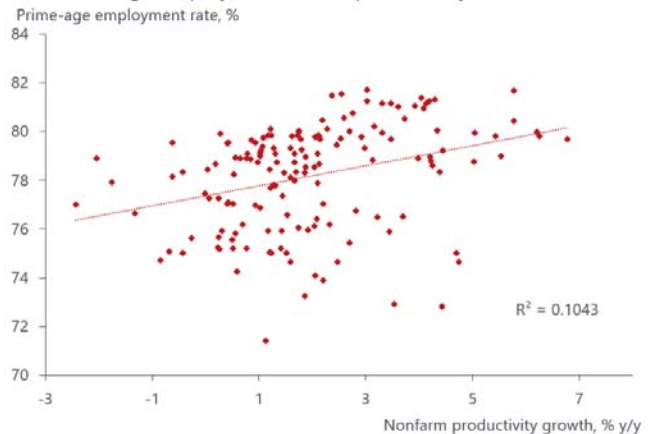
Source: Oxford Economics/Haver Analytics

US: Fed funds rate



Source: Oxford Economics/Haver Analytics

US: Prime-age employment rate vs productivity



Source: Oxford Economics/Haver Analytics

# Austria

## Highlights

- After data revisions to the flash release, Austrian GDP was flat in Q4 2023. We forecast Austria's GDP will grow by 0.3% this year as high-frequency indicators suggest momentum remains slow after a weak end to last year. Consumption contracted again in Q4 last year, shrinking by 0.2% q/q. Government consumption declined, while investments advanced by 0.9% after three consecutive quarters of contractions. Exports grew by 3.9% q/q, slightly more than the 3.5% q/q increase in imports.
- We think that private consumption has bottomed out and expect a modest recovery this year based on recent strong collective bargaining agreements supporting real incomes. We expect the pace of consumption growth will increase this year, pushing annual consumption growth to 0.4% due to negative carryover. Similarly, we think that retail sales have bottomed out and will return to growth in Q1.
- The unemployment rate was 5% in January, 0.4ppts below December after data revisions. We expect some weakness in the labour market to persist as demand for labour has slowed down markedly and the number of jobseekers has increased recently. We think an economic rebound isn't imminent and the unemployment rate will average 5.2% this year.
- Inflation was 4.3% y/y in February, down 0.2ppts from January. This confirms that the disinflationary trend has resumed after base effects led to a temporary uptick to 5.6% in December. We maintain that disinflation will persist and project inflation will fall below target in H2 2024. However, we think inflation will remain elevated in H1 and now expect headline inflation to average 2.4% this year.
- Sentiment has increased in the first months of this year on the back of improving business expectations. While sentiment regarding industry and construction remains subdued, services and retail have recovered markedly.

Forecast for Austria						
(Annual percentage changes unless specified)						
	2022	2023	2024	2025	2026	2027
<b>Domestic Demand</b>	2.7	-1.8	0.5	2.1	2.3	2.1
<b>Private Consumption</b>	5.8	-0.2	0.4	2.7	2.8	2.5
<b>Fixed Investment</b>	0.3	-2.2	0.7	2.4	2.4	2.2
<b>Stockbuilding (% of GDP)</b>	1.3	0.3	0.3	0.2	0.2	0.2
<b>Government Consumption</b>	0.1	-0.4	0.4	1.0	1.0	1.0
<b>Exports of Goods and Services</b>	11.7	0.3	2.4	2.2	2.2	2.1
<b>Imports of Goods and Services</b>	8.1	-1.4	2.8	2.2	2.3	2.1
<b>GDP</b>	4.8	-0.7	0.3	2.1	2.3	2.1
<b>Industrial Production</b>	6.9	-1.1	-1.9	1.8	1.9	1.8
<b>Consumer Prices</b>	8.5	7.8	2.4	1.0	1.8	2.0
<b>Current Balance (% of GDP)</b>	-0.3	2.3	2.0	1.9	2.0	2.2
<b>Government Budget (% of GDP)</b>	-3.5	-2.9	-2.7	-1.6	-1.2	-1.1
<b>Short-Term Interest Rates (%)</b>	0.35	3.43	3.41	1.87	1.60	1.60
<b>Long-Term Interest Rates (%)</b>	1.71	3.08	2.73	2.47	2.43	2.43
<b>Exchange Rate (US\$ per Euro)</b>	1.05	1.08	1.09	1.10	1.13	1.16

All growth rates are calculated based on values in local currency

# Canada

## Highlights

- We've raised our 2024 GDP forecast for Canada to a 0.3% contraction, following estimated growth of 1% in 2023. GDP likely fell 0.2% q/q in Q4 2023, slightly less than we expected last month, as weaker private investment and slower inventory building outweighed a pick-up in consumption. We still expect the recession will deepen in H1 as households resume cutting spending during another wave of mortgage renewals at higher interest rates. However, a slow recovery will get underway in H2 2024 as the Bank of Canada (BoC) begins lowering the policy rate in June.
- After little change for three months, employment surprisingly rebounded in January, helping to lower the unemployment rate to 5.7%. Still, the headlines mask underlying weakness, as job gains were all part-time, mostly in the public sector, and discouraged job hunters left the labour force. We continue to expect the labour market will weaken in H1 as layoffs increase during the deepening recession. Alongside strong immigration-led labour supply growth, we still think this will likely push the unemployment rate to around 7.5% later this year.
- Greater slack from the recession will help lower headline CPI inflation to the 2% target by late 2024, while weaker global oil and food prices will facilitate this slowing of inflation. On an annual basis, we forecast inflation will slow from 3.9% in 2023 to 2.5% in 2024, a tad above our forecast from last month due to slightly higher oil prices in early 2024. We are assessing events in the Red Sea and do not expect the shipping attacks will have a measurable impact on inflation in Canada.
- As widely anticipated, the BoC kept the policy rate at 5% in January. While recognizing that past rate hikes have eased inflationary pressures, the BoC believes more time is needed to restore price stability, so its deliberations will shift to when it would be appropriate to begin easing. We expect the BoC will hold the policy rate at 5% until June, when it will begin to gradually lower to 4.25% by the end of 2024. Still, the BoC has not ruled out further rate hikes. In contrast to our baseline recession forecast, our modelling of a soft-landing scenario like the BoC expects would result in higher inflation and likely prompt it to boost the policy rate to 5.5% by mid-year.

## Forecast for Canada

(Annual percentage changes unless specified)

	2022	2023	2024	2025	2026	2027
<b>Domestic Demand</b>	2.8	0.5	0.4	2.8	4.0	3.6
<b>Private Consumption</b>	5.1	1.7	0.5	2.5	3.7	3.7
<b>Fixed Investment</b>	-2.4	-3.2	0.7	5.5	6.2	5.1
<b>Stockbuilding (% of GDP)</b>	2.4	1.4	0.5	0.2	0.2	0.2
<b>Government Consumption</b>	3.2	1.5	1.0	0.8	1.0	1.0
<b>Exports of Goods and Services</b>	3.2	5.7	0.9	2.3	2.0	1.9
<b>Imports of Goods and Services</b>	7.6	1.0	0.8	3.2	3.1	2.8
<b>GDP</b>	3.8	1.1	-0.3	2.0	3.3	3.2
<b>Industrial Production</b>	3.9	-0.6	0.0	2.1	2.8	2.0
<b>Consumer Prices</b>	6.8	3.9	2.5	2.0	2.2	2.2
<b>Current Balance (% of GDP)</b>	-0.4	-0.6	-1.1	-1.6	-2.1	-2.3
<b>Government Budget (% of GDP)</b>	0.6	0.0	-2.3	-2.3	-1.7	-1.1
<b>Short-Term Interest Rates (%)</b>	2.66	5.13	4.97	4.07	3.03	2.41
<b>Long-Term Interest Rates (%)</b>	2.77	3.36	3.52	3.53	3.47	3.45
<b>Exchange Rate (Per US\$)</b>	1.30	1.35	1.34	1.27	1.20	1.18
<b>Exchange Rate (Yen per Can \$)</b>	101.08	104.20	107.33	102.61	103.16	100.51

All growth rates are calculated based on values in local currency

# Czech Republic

## Highlights

- We've kept our 2024 GDP growth forecast for the Czech Republic at 1%. The economy still carries very little momentum, and we expect growth will build only gradually throughout 2024. That said, the worst seems to be over now. Both real incomes and, in turn, consumer spending are starting to recover, though government's ongoing fiscal consolidation is pushing in the opposite direction. We don't think solid growth will return until next year, when we forecast it at 3.1%.
- There are tentative positive signs coming from consumer spending indicators. Private consumption grew in Q4 2023. Retail sales also grew last quarter and performed well in January, rising 1% m/m. Consumer confidence improved to its highest value in over two years in February, though is still some way off the pre-pandemic average. This is consistent with our assessment that recovering the ground lost in the past 18 months will be a gradual process.
- But the industrial sector, the road to recovery will be bumpy. Industrial production fell by 2.3% m/m in January, erasing almost all its December gains, as automotive production plummeted following the recent surge. Construction activity also remained in the doldrums, down 5.6% y/y in January with the sector plagued by high interest rates. Normalisation in monetary policy, both home and abroad, will likely boost the industrial sector in H2.
- Inflation produced another downside surprise in February, dropping to 2% and hitting the Czech National Bank's target ahead of the bank's projections. Although we expected faster disinflation than the markets, this remains a positive development. We still see pockets of elevated inflation, particularly in services, and think some fluctuations will play out throughout this year. That said, we don't think headline nor core inflation will move outside the bank's 2±1% target corridor.
- The central bank cut its policy rate by 50bps again at its March meeting, dragging it to 5.75%. With inflation tamed and anaemic economic activity, a faster policy rate normalisation could benefit the economy. But the bank is wary of putting too much pressure on the exchange rate before the ECB also starts its rate cutting cycle. We expect this to occur in June. Overall, we continue to expect further 175bps worth of cuts, bringing the policy rate to 4% by year-end.

Forecast for Czech Republic						
(Annual percentage changes unless specified)						
	2022	2023	2024	2025	2026	2027
<b>Domestic Demand</b>	1.5	-3.5	-0.3	4.5	3.7	3.4
<b>Private Consumption</b>	-0.6	-3.0	3.1	4.5	3.9	3.6
<b>Fixed Investment</b>	3.1	3.3	3.8	4.9	4.7	4.2
<b>Stockbuilding (% of GDP)</b>	5.9	2.4	-0.3	0.2	0.2	0.2
<b>Government Consumption</b>	0.3	3.0	0.1	1.2	1.6	1.6
<b>Exports of Goods and Services</b>	7.2	3.1	2.0	2.9	2.8	2.4
<b>Imports of Goods and Services</b>	6.3	-0.4	0.6	4.4	3.0	2.0
<b>GDP</b>	2.4	-0.4	1.0	3.1	3.4	3.7
<b>Industrial Production</b>	2.8	-0.6	1.9	3.1	3.8	3.3
<b>Consumer Prices</b>	15.1	10.6	2.4	1.7	2.0	2.0
<b>Government Budget (% of GDP)</b>	-3.2	-3.9	-2.6	-1.7	-1.4	-1.4
<b>Trade Balance (\$bn)</b>	-4.1	13.3	16.9	12.3	12.1	14.6
<b>Current Account (\$bn)</b>	-17.36	3.97	3.41	0.70	0.00	0.00
<b>Current Balance (% of GDP)</b>	-6.05	1.23	0.99	0.19	0.00	0.00
<b>Short-Term Interest Rates (%)</b>	6.29	7.12	5.41	3.42	3.00	3.00
<b>Exchange Rate (Per US\$)</b>	23.36	22.20	22.81	22.19	21.00	20.01
<b>Exchange Rate (Per Euro)</b>	24.56	24.00	24.93	24.46	23.71	23.24

All growth rates are calculated based on values in local currency

# Hungary

## Highlights

- We've cut our 2024 GDP growth forecast for Hungary by 0.4ppts to 2.3%. The revision stems from the downside surprise in Q4, when the economy stagnated, as well as poor signals sent by industry at the start of 2024. But we think activity will improve later on, so we have boosted our growth expectation for 2025 to 3.3%, up 0.4ppts on the month.
- Industrial production contracted 1.1% m/m in January, with output volumes falling to the lowest level since September 2021. Export-oriented industries, which account for close to 60% of total output, fared particularly badly as foreign sales contracted by 6% m/m in January. While we think that domestic demand will support industrial output later this year, we have cut our forecast for industrial production growth in 2024 to 0.8% y/y and project a 5.6% rebound in 2025.
- Retail sales stagnated in January after two months of solid gains. But we think that sales growth will resume as consumer sentiment remains upbeat, not least due to solid earnings growth. Indeed, real earnings surpassed their pre-energy crisis level in Q4 2023 and, despite some loosening of labour market conditions, are on track to grow by 7% this year.
- The fiscal deficit surged in February, likely on the back of weak VAT receipts and higher expenditures, with the so-called 13th pension booked in the month. This brought the year-to-date shortfall to HUF1.7trn and means that the official 2.9% of GDP government fiscal is virtually unattainable. We think this year's deficit will reach 4.3% of GDP, with growing upside risks.
- Inflation edged down to 3.7% in February, with an increase in fuel prices preventing a larger fall. Hungary's central bank geared up its easing cycle in February, cutting its policy interest rate by 100bps to 9%. But a larger cut, the ongoing standoff between PM Orban and MNB Chairman Matolcsy, and the risk of reigniting tensions with the EU have all weighed on the forint.

Forecast for Hungary						
(Annual percentage changes unless specified)						
	2022	2023	2024	2025	2026	2027
<b>Domestic Demand</b>	3.5	-5.6	2.3	5.0	5.0	3.4
<b>Private Consumption</b>	6.5	-2.2	3.0	4.0	3.3	2.8
<b>Fixed Investment</b>	0.1	-8.7	0.7	7.8	9.4	4.2
<b>Stockbuilding (% of GDP)</b>	2.6	0.1	0.2	0.6	1.0	1.4
<b>Government Consumption</b>	2.9	1.3	1.6	2.3	2.3	2.1
<b>Exports of Goods and Services</b>	12.6	-0.1	-2.1	5.4	5.9	4.5
<b>Imports of Goods and Services</b>	11.6	-5.1	-2.5	7.4	8.4	5.6
<b>GDP</b>	4.6	-0.7	2.3	3.3	2.8	2.4
<b>Industrial Production</b>	6.0	-3.8	0.8	5.6	4.4	2.7
<b>Consumer Prices</b>	14.7	17.1	4.1	4.3	3.2	3.2
<b>Current Balance (% of GDP)</b>	-8.2	-0.4	1.1	-0.1	-1.0	-1.2
<b>Government Budget (% of GDP)</b>	-6.2	-6.2	-4.3	-3.3	-2.4	-2.0
<b>Current Account (\$bn)</b>	-14.44	-0.75	2.52	-0.36	-2.61	-3.57
<b>Trade Balance (\$bn)</b>	-15.87	0.19	1.73	-1.78	-5.03	-7.11
<b>Short-Term Interest Rates (%)</b>	9.92	14.28	7.21	4.98	3.83	3.75
<b>Exchange Rate (Per Euro)</b>	391.06	381.84	392.24	394.32	398.25	402.15

All growth rates are calculated based on values in local currency



# Indonesia

## Highlights

- Indonesia's economy grew by 5% y/y in Q4 2023, bringing full-year growth to 5% as well. Private consumption and total investment growth moderated from Q3 but remained at a healthy level. We will stick to our view for a slowdown this year and expect the economy to grow by 4.5%.
- Private consumption growth moderated to 4.8% y/y from 5.1%, with broad-based declines across different spending categories. We think pent-up demand following the economic reopening has largely run its course and balance sheet adjustments will likely constrain spending this year.
- Total investment growth moderated to 5% from 5.8% as vehicle investment growth normalized after a very strong Q3. Elevated interest rates are likely weighing on firms' funding, and the lagged impact of monetary tightening means the struggle will not end when the first rate cut happens in Q2, as per our forecast.
- We do not expect the result of Indonesia's national election, held on February 14, to shift the economic outlook materially. Prabowo Subianto, the probable winner of the presidential election, is largely expected to continue Joko Widodo's legacies.
- Headline CPI slowed to 2.6% in January, from 2.8% in December. Core CPI settled at 1.7%, close to the lower band of the central bank's 1.5%-3.5% target range. We forecast continued disinflation this year as demand should slow, but further supply-side shocks, including geopolitical and weather-related events, present upside risks.
- Bank Indonesia remained on hold at the latest meeting in February, maintaining its policy rate at 6%. Inflation remains well under control, making the tug of war between the currency and economic growth a driving factor in policymaking. We stick to our conviction for rate cuts to begin in Q2, when our US team expects the first federal funds rate cut. Commencing the rate cut cycle together with the Federal Reserve should limit downward pressures on the rupiah.

## Forecast for Indonesia

(Annual percentage changes unless specified)

	2022	2023	2024	2025	2026	2027
<b>Domestic Demand</b>	4.7	4.6	4.5	5.2	5.5	5.4
<b>Private Consumption</b>	5.0	4.9	4.6	5.4	5.2	5.0
<b>Fixed Investment</b>	3.9	4.4	3.2	6.3	7.2	6.3
<b>Stockbuilding (% of GDP)</b>	3.3	3.3	3.5	3.2	2.9	3.0
<b>Government Consumption</b>	-4.5	2.9	5.9	4.3	4.3	4.2
<b>Exports of Goods and Services</b>	16.2	1.3	4.8	5.0	5.0	4.3
<b>Imports of Goods and Services</b>	15.0	-1.6	4.8	6.5	6.7	6.4
<b>GDP</b>	5.3	5.0	4.5	4.9	5.2	5.0
<b>Industrial Production</b>	4.0	0.7	4.2	4.6	4.6	4.5
<b>Consumer Prices</b>	4.1	3.7	2.5	2.6	3.1	3.3
<b>Government Budget (% of GDP)</b>	-2.2	-1.6	-1.7	-1.5	-1.6	-1.7
<b>Trade Balance (\$bn)</b>	62.7	46.3	40.9	43.8	44.9	48.9
<b>Current Account (\$bn)</b>	13.2	-1.6	-6.5	-4.9	-7.2	-6.7
<b>Current Balance (% of GDP)</b>	0.99	-0.10	-0.47	-0.34	-0.48	-0.43
<b>Short-Term Interest Rates (%)</b>	4.36	6.78	6.54	5.53	5.40	5.40
<b>Exchange Rate (Per US\$)</b>	14851.52	15238.14	15893.43	16271.83	16834.31	17334.72

All growth rates are calculated based on values in local currency

# Malaysia

## Highlights

- Due to soft private consumption and a moderate external-sector recovery, we expect Malaysia's economy to grow by 3% in 2024, down from 3.7% in 2023 and short of the government's 4%-5% target. We think this will prompt Bank Negara Malaysia (BNM) to cut rates.
- Revised Q4 data show GDP shrunk by 2.1% q/q as consumption fell. We think the softness of consumer spending is likely to persist for some time. While the labour market is still healthy, there are initial signs of weakening and we expect this trend to continue, consistent with a lagged reaction to slowing economic activity. Household balance sheets are in rough shape, and we suspect current consumption will be sacrificed to help rebuild saving buffers.
- The other elements of domestic demand are unlikely to grow much either. Government consumption will be constrained by the 2024 Budget, which plans for a nominal reduction in spending. Investment will likely be curtailed by the uncertain external environment.
- In contrast, the external sector is set to do better in 2024. The outlook for global demand continues to improve, with growing evidence of a soft landing in the US. Still, our forecast for global growth in 2024 of 2.4% is subdued by past standards. Malaysia's exports look likely to stage a recovery after contracting last year, but probably not a strong one.
- Soft demand is likely to keep underlying inflationary pressures in check, with the headline rate steady at just 1.5% in January. We do not think the rationalisation of fuel prices presents much of an upside risk, as this will likely begin only gradually later this year.
- As such, we think BNM will consider loosening policy. The main obstacle to cutting rates is the ringgit, which hit a 26-year low in February. The 25bp cut we expect from BNM in Q2 is contingent on the US Federal Reserve starting to ease and taking some pressure off the ringgit.

Forecast for Malaysia						
(Annual percentage changes unless specified)						
	2022	2023	2024	2025	2026	2027
<b>Domestic Demand</b>	9.3	4.5	2.1	6.2	6.2	4.5
<b>Private Consumption</b>	11.2	4.7	0.5	5.7	7.2	5.0
<b>Fixed Investment</b>	6.8	5.5	5.0	9.8	9.1	6.3
<b>Stockbuilding (% of GDP)</b>	1.5	1.2	1.6	1.7	1.0	0.7
<b>Government Consumption</b>	4.5	3.9	2.0	2.1	2.2	2.0
<b>Exports of Goods and Services</b>	14.5	-7.9	3.6	7.3	6.6	3.8
<b>Imports of Goods and Services</b>	15.9	-7.6	2.2	8.2	7.9	3.8
<b>GDP</b>	8.7	3.7	3.0	5.7	5.4	4.5
<b>Industrial Production</b>	6.7	0.9	3.9	5.5	4.3	3.9
<b>Consumer Prices</b>	3.4	2.5	1.6	2.4	2.3	2.2
<b>Government Budget (% of GDP)</b>	-4.1	-5.0	-4.6	-4.1	-3.9	-3.7
<b>Trade Balance (\$bn)</b>	42.2	29.2	31.9	32.5	34.1	37.4
<b>Current Account (\$bn)</b>	12.3	5.0	9.3	8.8	11.7	15.4
<b>Current Balance (% of GDP)</b>	3.01	1.27	2.26	1.87	2.13	2.53
<b>Short-Term Interest Rates (%)</b>	2.56	3.56	3.44	3.48	3.66	3.67
<b>Exchange Rate (Per US\$)</b>	4.40	4.56	4.71	4.39	4.07	3.89

All growth rates are calculated based on values in local currency

# Poland

## Highlights

- We've trimmed our 2024 GDP growth forecast for Poland to 2.9%. But we attribute our downgrade exclusively to the disappointing outturn in Q4 2023 when GDP stagnated. That said, we expect rising real incomes to translate into a solid consumption rebound this year. This, along with the recent unlocking of EU funding and a gradual recovery abroad, will pave the way for GDP to reach 3.8% next year.
- Initial high-frequency indicators for January broadly indicate activity stabilised at the start of this year. Retail sales edged up only marginally, failing to regain lost ground in December. But as real wages are forecast to grow by close to 6% in 2024 and consumer sentiment remains upbeat, we still expect a gradual pickup in household spending this year.
- Industry will suffer from weak foreign demand in the near term, as already reflected in subdued export orders. But we expect recovering domestic demand to outweigh the drag later this year, with consumer and capital goods manufacturing benefitting from stronger household and fixed investment demand, respectively.
- We think the new coalition will keep fiscal policy loose to deliver on some of its costly electoral promises. As a result, we expect the government deficit will reach 5.5% of GDP this year and will narrow gradually thereafter, setting the government debt on an upward trajectory.
- Inflation fell to 2.8% in February on the back of favourable base effects and a drop in fuel prices. As repricing early this year proved muted, we've cut our 2024 inflation forecast to 4.2%. But as electricity prices are set to be hiked and core pressures likely to reignite, inflation will pick up over H2 2024. Given the balance of inflationary risks, the National Bank of Poland kept rates unchanged in March and we expect it to stay put until Q2 2025, with two-sided risks to the call.

Forecast for Poland						
(Annual percentage changes unless specified)						
	2022	2023	2024	2025	2026	2027
<b>Domestic Demand</b>	5.5	-3.4	3.3	6.3	4.8	2.9
<b>Private Consumption</b>	5.2	-1.0	3.8	4.2	3.1	2.7
<b>Fixed Investment</b>	5.5	7.8	2.8	6.2	6.6	2.9
<b>Stockbuilding (% of GDP)</b>	4.7	0.0	-0.2	1.1	2.0	2.1
<b>Government Consumption</b>	1.0	3.0	3.6	5.2	3.5	2.5
<b>Exports of Goods and Services</b>	6.8	-2.0	4.0	3.7	4.8	3.5
<b>Imports of Goods and Services</b>	6.9	-8.3	5.0	8.4	8.4	4.9
<b>GDP</b>	5.5	0.1	2.9	3.8	2.9	2.1
<b>Industrial Production</b>	10.0	-2.0	1.4	2.7	2.4	1.9
<b>Consumer Prices</b>	14.4	11.4	4.2	4.5	3.1	2.7
<b>Government Budget (% of GDP)</b>	-3.5	-5.1	-5.5	-4.2	-3.6	-3.0
<b>Trade Balance (\$bn)</b>	-25.6	9.2	-5.5	-22.4	-32.3	-34.6
<b>Current Account (\$bn)</b>	-16.82	12.77	-7.05	-18.53	-20.38	-19.49
<b>Current Balance (% of GDP)</b>	-2.45	1.60	-0.74	-1.82	-1.86	-1.63
<b>Short-Term Interest Rates (%)</b>	5.83	6.32	5.74	4.63	3.50	3.50
<b>Exchange Rate (Zloty per Euro)</b>	4.69	4.54	4.28	4.27	4.34	4.32

All growth rates are calculated based on values in local currency

# Russia

## Highlights

- We forecast GDP growth of 3.0% in 2024 on the evidence that growth momentum has remained strong in Q1 despite the stringent monetary policy. In the absence of real competition, Vladimir Putin won the March presidential election with 87% of the votes. We see no reason to expect major changes to the country's political course or macroeconomic policies under his stewardship during the new six-year presidential term.
- The recent drone and missile attacks on Russia's Belgorod and Kursk regions from Ukraine's territory increase the likelihood of a new phase of the war in which Russia attempts to gain control over Ukraine's regions bordering Russia. President Putin has already stated that a "buffer zone" may be necessary to protect Russian territory from longer-range weapons recently acquired by Ukraine. For this plan to be realised, Russia would likely require a new wave of mobilisation which would dampen consumer and business confidence.
- Budget performance deteriorated in February owing to front-loaded spending. But the booming demand and sharp recovery in Urals have supported strong growth in both oil and non-oil revenues.
- The current account continued to improve in February as the Urals oil price bounced back to above \$70 p/b. The rouble has fluctuated in the range of 90-93 versus the US dollar in recent weeks. While net FX sales from the Welfare Fund and capital controls will prop it up this year, the ongoing tightening of sanctions aimed at hurting export revenues could cause bouts of weakness.
- We see signs that inflation pressures are abating and inflation expectations are gradually declining. But labour market tightness, loose fiscal policy, and more frequent attacks on the Russian regions producing a high share of its agricultural output constitute upward risks to inflation. Following a decision to stay on hold in March, we expect the CBR to sit on its hands again in next month. The bank will switch into easing mode in the summer at the earliest.
- Government consumption and investment will drive growth this year. Increasing inventories and military spending, which was hiked to 6% of GDP in the current year's budget from 3.9% of GDP in 2023, will bolster GDP growth. However, we do not anticipate these factors can be sustained into next year while monetary tightening will cause household demand to cool.

Forecast for Russia						
(Annual percentage changes unless specified)						
	2022	2023	2024	2025	2026	2027
<b>Domestic Demand</b>	-1.1	7.6	2.5	0.5	1.2	1.0
<b>Private Consumption</b>	-1.4	5.6	1.3	0.3	2.1	1.4
<b>Fixed Investment</b>	3.3	8.0	7.0	1.6	2.0	1.7
<b>Stockbuilding (% of GDP)</b>	3.2	4.5	4.0	3.6	2.9	2.5
<b>Government Consumption</b>	2.8	5.6	2.9	2.3	1.5	1.1
<b>Exports of Goods and Services</b>	-13.9	2.7	1.2	1.2	1.9	1.9
<b>Imports of Goods and Services</b>	-15.0	23.1	-1.6	2.8	3.9	2.8
<b>GDP</b>	-2.1	3.6	3.0	0.2	0.8	0.9
<b>Industrial Production</b>	0.8	3.7	2.6	-0.2	-0.4	0.4
<b>Consumer Prices</b>	13.7	5.9	6.9	5.2	6.0	5.4
<b>Government Budget (% of GDP)</b>	-1.1	-1.0	-2.1	-2.6	-2.3	-2.0
<b>Trade Balance (\$bn)</b>	315.6	118.3	160.9	169.5	177.5	174.6
<b>Current Account (\$bn)</b>	238.04	50.25	75.99	81.51	84.78	70.10
<b>Current Balance (% of GDP)</b>	11.10	2.54	3.47	3.53	3.53	2.85
<b>Short-Term Interest Rates (%)</b>	11.72	11.45	14.32	9.74	9.18	9.18
<b>Exchange Rate (Per US\$)</b>	68.48	85.16	90.70	90.68	93.97	97.61

All growth rates are calculated based on values in local currency

# Slovakia

## Highlights

- We have maintained our 2024 GDP growth forecast for Slovakia at 1.5%. The economy grew steadily in 2023 despite the drag from high inflation and tight monetary policy. We expect economic activity will gradually gain pace in 2024 as domestic and external demand slowly improve. We think growth should pick up more meaningfully in 2025, when we expect Slovakia's GDP to grow by 2.8% owing to a solid carryover of momentum from this year.
- Slovakia's growth performance in 2023 obscures some worrying underlying trends. Growth was flattered by net trade, itself a product of a plunge in imports due to destocking. We think the destocking cycle has now run its course, but the poor performance of industrial production, particularly in capital goods, as well as the drop in exports of goods suggest that weak external demand will remain a drag on Slovakia's export-oriented economy in early 2024.
- Domestic demand has a lot of ground to make up. Consumer spending contracted throughout 2023 as elevated inflation depleted households' budgets, despite fiscal support. We think spending will take longer to recover, even as interest rates come down, as households will have to repair weakened balance sheets. The latest data corroborate this, as retail sales fell 1% m/m in January, while sales in hospitality services dropped 4.5% in December last year.
- Disinflation has progressed significantly in Slovakia, aided by easing supply pressures, including commodity prices, and subdued demand. Still, inflation remains above target, with the headline rate at 3.4% in February, above the eurozone average of 2.6%. But it's mainly the non-core items – food and energy, with the latter still affected by government subsidies – that drive disinflation. Meanwhile, core inflation has been worryingly sticky, particularly in services prices.
- We think politics is the main risk to the outlook. After winning the September election, the Smer-SD-led governing coalition has moved ahead with personal changes in the police and judiciary. This could set a collision course with the European Commission. In addition, the fiscal policy outlook remains very loose, prompting fears of unrestrained deficit spending and rising debt.

## Forecast for Slovakia

(Annual percentage changes unless specified)

	2022	2023	2024	2025	2026	2027
<b>Domestic Demand</b>	3.0	-5.0	4.3	4.5	3.3	2.5
<b>Private Consumption</b>	5.6	-1.7	1.4	3.2	2.7	2.0
<b>Fixed Investment</b>	4.5	5.2	3.1	4.7	4.1	3.1
<b>Stockbuilding (% of GDP)</b>	2.8	-2.0	-0.1	0.5	0.5	0.5
<b>Government Consumption</b>	-4.2	-1.4	3.7	5.2	4.2	3.4
<b>Exports of Goods and Services</b>	3.1	-0.3	4.7	3.8	3.5	3.2
<b>Imports of Goods and Services</b>	4.5	-6.6	7.9	5.6	4.3	3.2
<b>GDP</b>	1.8	1.1	1.5	2.8	2.6	2.6
<b>Industrial Production</b>	-3.9	-0.2	0.6	5.0	4.7	4.1
<b>Consumer Prices</b>	12.8	10.5	2.6	1.6	2.0	2.0
<b>Government Budget (% of GDP)</b>	-2.0	-5.6	-5.4	-4.3	-3.7	-3.5
<b>Trade Balance (\$bn)</b>	-6.5	1.7	-0.3	-6.1	-9.0	-9.5
<b>Current Account (\$bn)</b>	-9.2	-2.1	-3.3	-1.2	-0.4	-0.3
<b>Current Balance (% of GDP)</b>	-7.9	-1.6	-2.4	-0.9	-0.3	-0.2
<b>Short-Term Interest Rate (%)</b>	0.3	3.4	3.4	1.9	1.6	1.6
<b>Exchange Rate (US\$ per Euro)</b>	1.05	1.08	1.09	1.10	1.13	1.16

All growth rates are calculated based on values in local currency



# Vietnam

## Highlights

- We have raised our 2024 GDP growth forecast for Vietnam by 0.2ppts to 5.2% to reflect a stronger end to 2023 than we'd expected. The external sector is likely to be key to the outlook. We assume some levelling off in export growth after a strong rebound in H2 2023.
- GDP grew by 6.7% in Q4, bringing 2023 growth to 5%, a touch higher than our 4.7% estimate. Recovery since Q2 last year has been broad based as the manufacturing sector rebounded thanks to improving goods exports, and tourism inflows helped the services sector.
- We think this boost from the external environment will ease in 2024. While a soft landing for the global economy now looks likely, world growth will still likely be subdued. Plus, the big gains to service exports from recovering tourism are likely over, as visitor numbers are back to pre-pandemic levels. Still, our analysis reveals that Vietnam continues to benefit from structural supply-chain reshuffling across the region, which could dominate cyclical factors and poses a key upside risk to our cautious export forecasts.
- On the domestic front, we expect a continued gradual uptrend as recent external improvements flow through to hiring and investment decisions. That said, headwinds are likely to remain in the form of a continued property market correction and the ongoing corruption crackdown, which will likely keep both consumers and businesses cautious.
- Overall, there are conditions for better growth this year, but likely not yet for a return to 7% growth, which was the norm prior to the pandemic. Against this backdrop, we expect the State Bank of Vietnam (SBV) will keep policy on hold at accommodative levels through 2024. Inflation shouldn't pose too much of a problem, with the headline rate likely to hover around 3.5%.

Forecast for Vietnam						
(Annual percentage changes unless specified)						
	2022	2023	2024	2025	2026	2027
<b>Domestic Demand</b>	1.7	4.2	4.6	7.3	7.1	6.2
<b>Private Consumption</b>	7.8	3.5	4.5	6.8	6.7	6.6
<b>Fixed Investment</b>	6.0	3.4	4.9	6.9	6.3	6.2
<b>Stockbuilding (% of GDP)</b>	0.5	0.6	0.6	0.9	1.4	1.2
<b>Government Consumption</b>	3.6	5.3	5.9	6.0	6.0	5.9
<b>Exports of Goods and Services</b>	7.5	-2.6	8.3	5.5	7.4	7.1
<b>Imports of Goods and Services</b>	2.4	-3.3	7.8	6.5	8.3	7.4
<b>GDP</b>	8.1	5.0	5.2	6.1	6.0	5.8
<b>Industrial Production</b>	7.8	3.0	5.1	5.4	5.7	5.3
<b>Consumer Prices</b>	3.2	3.3	3.4	3.3	3.5	3.9
<b>Government Budget (% of GDP)</b>	-2.7	-3.4	-3.3	-2.9	-2.6	-2.8
<b>Trade Balance (\$bn)</b>	26.9	38.1	39.2	40.2	42.0	44.8
<b>Current Account (\$bn)</b>	-0.7	26.1	26.5	22.7	19.3	17.5
<b>Current Balance (% of GDP)</b>	-0.30	6.13	5.75	4.48	3.34	2.81
<b>Short-Term Interest Rates (%)</b>	4.37	5.14	3.28	4.06	4.64	4.71
<b>Exchange Rate (Per US\$)</b>	23380.50	23817.50	24292.94	23948.30	23893.43	24042.14

All growth rates are calculated based on values in local currency