

Centre for the New Economy and Society

# Chief Economists Outlook

January 2024



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# Chief Economists Outlook

## January 2024

This quarterly briefing builds on the latest policy development research as well as consultations and surveys with leading chief economists from both the public and private sectors, organized by the World Economic Forum's Centre for the New Economy and Society.

It aims to summarize the emerging contours of the current economic environment and identify priorities for further action by policy-makers and business leaders in response to the compounding shocks to the global economy from geoeconomic and geopolitical events.

The survey featured in this briefing was conducted in November-December 2023.

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# Executive summary

The January 2024 *Chief Economists Outlook* launches amid protracted weakness in global economic conditions and widening regional divergence. Uncertainty that dominated the outlook over the last year continues to cloud near-term economic developments: 56% of chief economists expect the global economy to weaken over the next year, but another 43% foresee unchanged or stronger conditions.

While there are positive developments, such as easing inflationary pressures and advances in the field of artificial intelligence (AI), businesses and policy-makers face persistent headwinds and continued volatility as global economic activity remains slow, financial conditions remain tight and geopolitical rifts and social strains continue to grow.

Regionally, the results highlight diverging growth patterns. The most buoyant economic activity is still expected in South and East Asia. China remains an exception, with the previous combination of strong and moderate growth expectations being replaced with largely moderate (69%) expectations for 2024. In the US and the Middle East and North Africa, the outlook has weakened since the September 2023 edition of the *Chief Economists Outlook*, with about six out of ten respondents expecting moderate or stronger growth this year. In Europe, 77% expect weak or very weak growth in 2024.

Elsewhere in the world, the expectations are for broadly moderate growth.

The survey results reflect the improvement in the inflation outlook for 2024, with expectations for high inflation being pared back across all regions. The majority also expect that labour markets (77%) and financial conditions (70%) will loosen.

This edition of the outlook focuses on two key phenomena impacting the global economy – geopolitical developments and advancements in generative AI. Almost seven out of ten chief economists expect the pace of geoeconomic fragmentation to accelerate this year. The majority of respondents say it will stoke volatility in the global economy (87%) and in stock markets (80%). There appears to be equally strong consensus that recent geopolitical developments will increase localization (86%) and strengthen geoeconomic blocs (80%). Almost six out of ten (57%) also expect it to increase inequality and widen the North-South divide in the next three years.

Growing global fragmentation is closely intertwined with the resurgence in industrial policies. About two-thirds expect these policies to enable the emergence of new economic growth hotspots and vital new industries, with the majority warning of rising fiscal strains (79%) and divergence between higher- and lower-income economies (66%).

Respondents are almost unanimous in expecting these policies to remain largely uncoordinated between countries, with a different mix of defensive and enabling approaches in high- and low-income economies.

The rapid advances in the field of artificial intelligence put it on top of business and policy agendas in 2024. Respondents are notably more optimistic about AI-enabled benefits in high-income economies than in developing economies, including an increase

in the efficiency of output production (79%) and innovation (74%), with a more mixed picture regarding standards of living (57%). Chief economists are almost unanimous (94%) in expecting productivity gains to become economically significant in high-income economies in the next five years, compared to only 53% for low-income economies. The views are somewhat more divided on the likelihood of generative AI resulting in a decline in trust across high-income (56%) and low-income (44%) economies this year.

# 1. Global conditions remain subdued

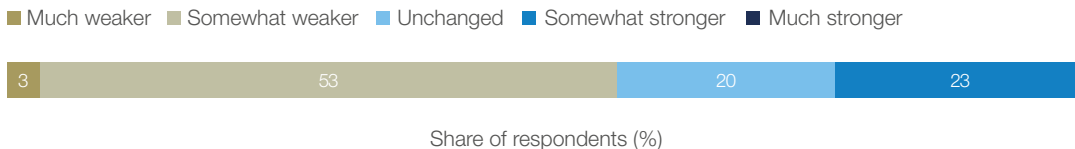
## Growth momentum is slowing across regions

Global economic prospects remain subdued and fraught with uncertainty, according to the latest survey of chief economists. Although 56% of chief economists expect the global economy

to weaken over the next year, 20% foresee unchanged conditions and nearly a quarter expect stronger conditions (see Figure 1). These somewhat divided results highlight that the ambiguity that dominated the outlook over the last year continues to cloud near-term economic developments.

**Figure 1. The global economic outlook**

Looking at the year ahead, what are your expectations for the future condition of the global economy?



**Note:** The numbers in the graphs may not add up to 100% because figures have been rounded up/down.

**Source:** Chief Economists Survey, November-December 2023

The relative resilience of the world economy in the recent years will continue to be tested entering 2024. Global economic activity is stalling with signs of slowdown in both the manufacturing and services sectors.<sup>1</sup> Tight financial conditions weigh on consumer and business sentiments,<sup>2</sup> while fiscal and monetary policy-makers are assessing trade-offs and sequencing for careful policy calibration.

The economic backdrop is marked by protracted weakness in global growth and widening divergence. The International Monetary Fund (IMF) forecasts a slight decline in global growth to 2.9% in 2024, down from 3% in 2023.<sup>3</sup> The relative resilience in global figures continues to rely on the growth performance of emerging economies, while the momentum in advanced economies is fading.

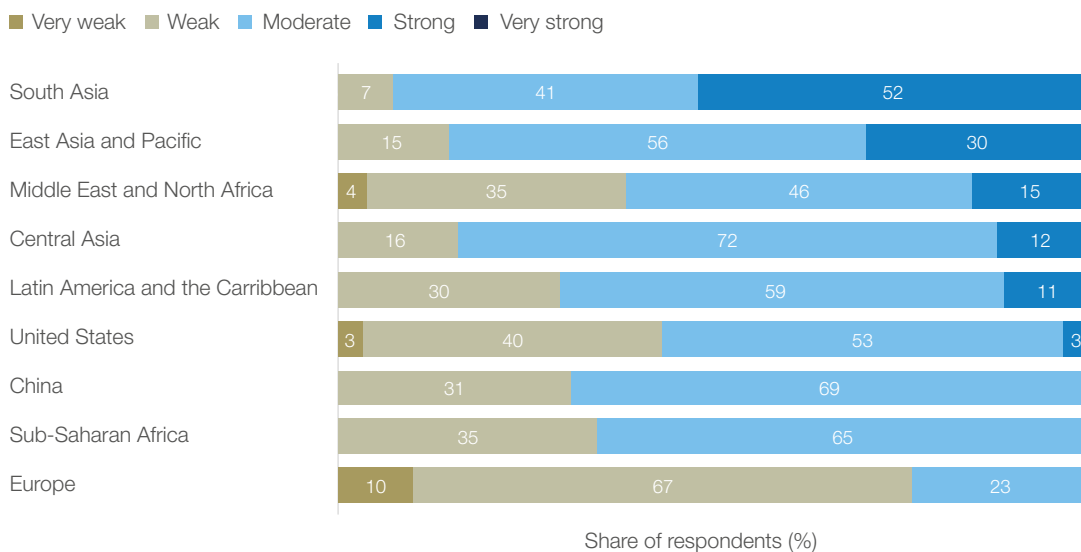
1 S&P Global, December 2023b.  
 2 Lane, April 2023.  
 3 IMF, October 2023.

However, growth forecasts remain vulnerable to an increased risk of shocks. The geopolitical rifts highlighted as a source of global economic volatility in the last survey<sup>4</sup> have since increased with new conflicts erupting or worsening in Africa, the Middle East<sup>5</sup> and Latin America.<sup>6</sup>

While economic headwinds remain contained, these escalations risk rupturing supply chains and sending shockwaves beyond the commodity markets. Further uncertainty hinges on the outcomes of election cycles in the coming year.

**Figure 2. Growth expectations**

What is your expectation for economic growth in the following geographies in 2024?



Source: Chief Economists Survey, November-December 2023

Regional performance expectations are highly varied (see Figure 2). Chief economists continue to see the most buoyant economic activity in the economies of Asia, although no region is slated for very strong growth in 2024. The outlook for South Asia and East Asia and Pacific remains positive and broadly unchanged compared to the last survey, with 93% and 86% expecting moderate or stronger growth for South Asia and East Asia

and Pacific, respectively. China is a notable exception as weak consumption, lower industrial production and distress in property markets weigh on the prospects of a stronger rebound in 2024.<sup>7</sup> The views of chief economists have also shifted, with strong (19%) and moderate (38%) expectations in the previous survey replaced with largely moderate (69%) expectations for 2024.

4 World Economic Forum, September 2023a.  
 5 Livni et al., November 2023.  
 6 Delcas, December 2023.  
 7 IMF, October 2023.



The change in the outlook for Europe is particularly stark, with the share of respondents expecting weak or very weak growth almost doubling to 77% since September. In the US, the expectations are significantly weaker too, with 56% foreseeing moderate or higher growth in 2024, compared to 78% in the previous survey. Both economies confront tight lending conditions, a slowdown in manufacturing and exposure to geopolitical rifts.

Expectations for growth have strengthened in Latin America and the Caribbean and Sub-Saharan Africa, with a slight uptick in the share of respondents expecting at least moderate growth to 70% and 65%, respectively. In Central Asia, the improvement is more pronounced with about 84% of respondents expecting at least moderate growth in 2024, up from 66% in the previous survey.

In the Middle East and North Africa, the expectations have slightly weakened reflecting broader uncertainty about the trajectory of the Israel-Hamas war and its implications for the wider region. Although 61% still foresee moderate or stronger growth in 2024, regional prospects remain clouded by weak oil demand<sup>8</sup> and a sharp contraction in tourism.<sup>9</sup>

The near-term outlook for the regions discussed arrives after a protracted

slowdown of growth momentum across all geographies. According to one estimate, average annual growth has declined from 2.0% in the early 2000s to 1.4% in the post-COVID-19 period in advanced economies and from 5.8% to 1.7% in emerging and developing economies.<sup>10</sup> The prospects of a rebound to pre-pandemic trajectory appear elusive: the IMF foresees 3.1% average annual growth over the next five years, the weakest medium-term outlook in decades. Moreover, in its latest *World Economic Outlook*, the IMF points out that rates of convergence are slowing too, with the time needed to close half the gap in income per capita between emerging and developing economies and advanced economies increasing from 80 years in 2008 to 130 years in the latest estimates.<sup>11</sup>

While technological advances may give new impetus to global productivity,<sup>12</sup> policies that enhance good-quality growth are needed to revive global momentum and balance the impact across the income groups. When asked about growth strategies available to developing economies in the current context, chief economists highlighted five in particular: laying a sound institutional framework for long-term growth, improving integration into global value chains, tapping into green transition opportunities, strengthening innovation capacity, digital infrastructure and a sound investment climate, and investing in human capital and basic services.

8 IEA, December 2023.

9 S&P Global, November 2023.

10 World Economic Forum, January 2024.

11 IMF, October 2023.

12 Pizzinelli et al., October 2023.

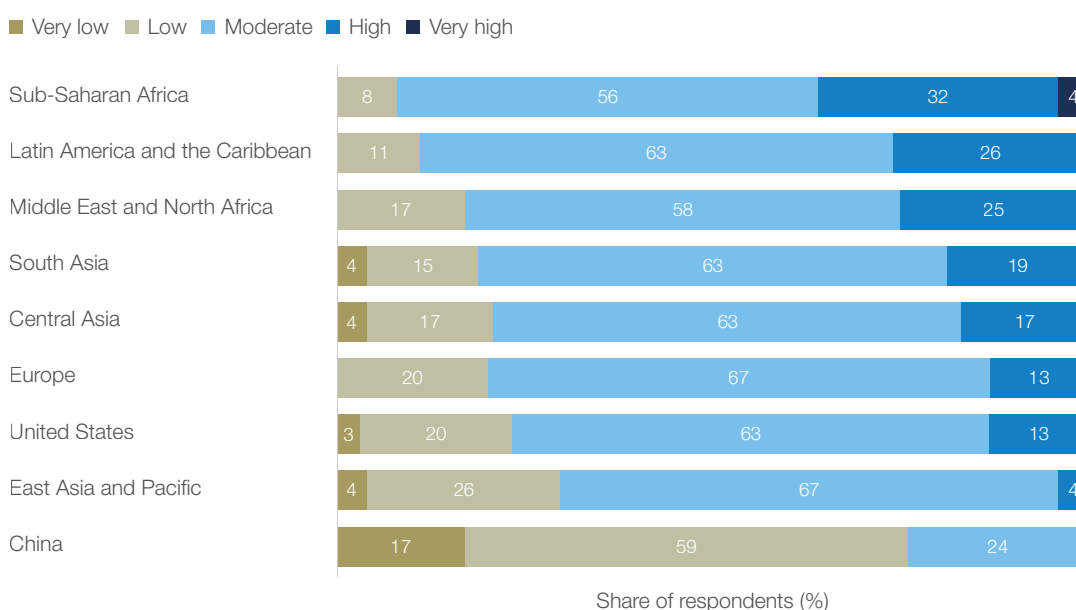
## Tightening cycle may be nearing the end

At the start of 2024, global inflation continues to ease, propping expectations of mild ebbing in interest rates this year.<sup>13</sup> The global headline rates of inflation are projected to

reach 4.8%,<sup>14</sup> a sharp decline from 5.9% in 2023 and 9.2% in 2022. Core inflation is decelerating too, albeit at a slower pace, and is expected to reach 4.5% in 2024.<sup>15</sup> The easing is reflected in the latest survey results, with expectations for high inflation being pared back across all regions.

### Figure 3. Inflation expectations

What is your expectation for inflation in the following geographies in 2024?



Source: Chief Economists Survey, November-December 2023

The improvement in expectations is particularly marked for Europe and the US (see Figure 3), with the share of respondents expecting high or very high inflation declining from, respectively, 71% and 47% in September to only 13% in the latest survey. However, two-thirds of chief economists still expect moderate inflation in Europe and the US. China remains an outlier in the other direction, with 76% of respondents still expecting low or very low inflation.

Elsewhere in the world, the expectations for lower inflation strengthened, including East Asia and Pacific (30%), Central Asia (21%), and South Asia (19%), with the majority expecting moderate inflation. Despite a significant improvement in the outlook and broadly moderate expectations, more than a quarter of respondents still expect high or very high inflation in Sub-Saharan Africa (36%), Latin America and the Caribbean (26%), Middle East and North America (25%).

<sup>13</sup> Smith, December 2023.

<sup>14</sup> IMF, October 2023.

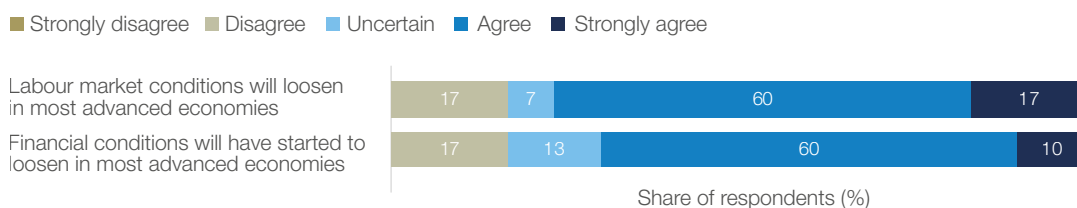
<sup>15</sup> Ibid.

In the latest survey the majority of chief economists also expect labour markets (77%) to loosen in advanced economies – a higher number than in September.

They also expect financial conditions (70%) to loosen in the advanced economies (see Figure 4).

**Figure 4. Global conditions**

Looking at the year ahead, do you agree/disagree with the following statements?



Source: Chief Economists Survey, November-December 2023

These factors are reflected in the evolving monetary policy patterns. A notably more dovish communication of the US Federal Reserve at the December 2023 meeting<sup>16</sup> signalled a possible pivot in the tightening cycle following a prolonged pause. While markets are pricing as many as six interest rate cuts by the Federal Reserve<sup>17</sup> and the European Central Bank<sup>18</sup> this year, the policy stance remains cautious on both sides of the Atlantic<sup>19</sup> as policy-makers navigate challenging domestic and global conditions. The unusually high degree of uncertainty over economic and financial developments means the timing and extent of easing will pose a dilemma for policy-makers that continue to navigate trade-offs between tightening too much and too little.

Accumulated societal strains from domestic price pressures, protracted slowdown in

economic activity and financial stability concerns will weigh on policy decisions in 2024. In the meantime, high interest rates continue testing the resilience of economies, with the number of corporate debt defaults rising above long-term averages across both advanced and emerging economies<sup>20</sup> at the end of 2023. The World Bank also points to rising risks to sovereign debt sustainability, with debt servicing costs in low-income economies projected to rise by 39% over the next two years.<sup>21</sup>

It is also worth noting that inflation remains vulnerable to shocks in commodity markets and supply chains. A prolonged disruption in the Red Sea,<sup>22</sup> escalation of regional conflicts, excessive redundancy and rising climate volatility<sup>23</sup> weigh on the outlook. For example, the arrival of El Niño alone could increase global food prices by up to 9%.<sup>24</sup>

16 Federal Reserve, December 2023.  
 17 Clarfelt et al., December 2023.  
 18 McDougall et al., December 2023.  
 19 European Central Bank, December 2023.  
 20 S&P Global, December 2023a.  
 21 World Bank, December 2023.  
 22 Eavis, December 2023.  
 23 Kuik et al., December 2023.  
 24 Adolfsen et al., September 2023.

# 2. Geopolitical rifts compound uncertainty

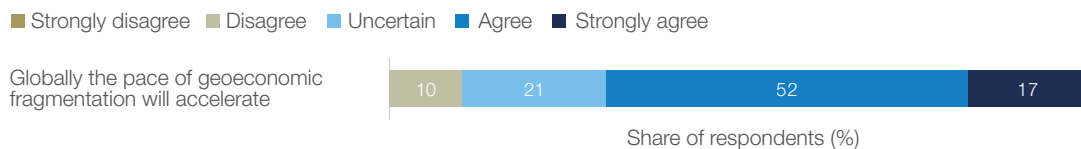
## Fragmentation clouds the outlook

Global economic developments are being profoundly shaped by deepening

fragmentation. Almost seven out of ten (69%) chief economists are expecting the pace of geoeconomic fragmentation to accelerate this year (see Figure 5).

**Figure 5. Fragmentation outlook**

Looking at the year ahead, do you agree/disagree with the following statements?



Source: Chief Economists Survey, November-December 2023

Geoeconomically driven restructuring of the global economy has been evident for some time. The recent years have been marked by greater rivalry in the US-China relationship, partial splintering of international trade flows,<sup>25</sup> and a sharp tilt towards protectionist policies.<sup>26</sup> At the start of 2024, various alliances and simmering global conflicts are buoying concerns that global economic cooperation is faltering. The gravity of the current momentum is not lost on leaders, however, with many warning of hardening cold war rhetoric and costly outcomes of fragmentation.<sup>27</sup>

When asked about the implications of recent developments (see Figure 6), chief economists continue assigning a prominent role to geopolitical factors across macroeconomic and financial developments. About 87% expect recent geopolitical developments to stoke global economic volatility in the next three years, and eight out of ten expect it to heighten volatility in stock markets.

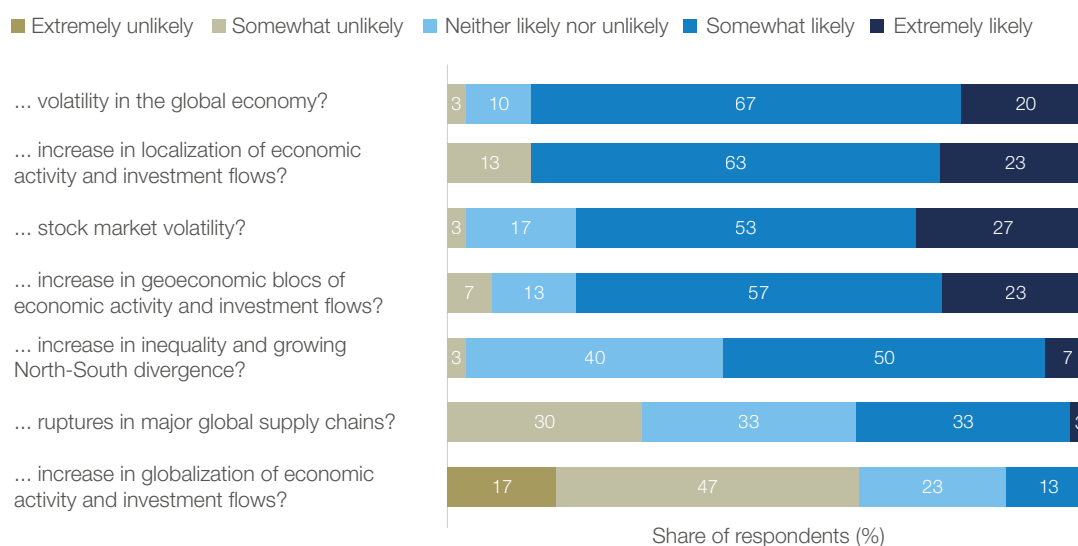
25 WTO, September 2023.

26 WTO, December 2023.

27 Gopinath, December 2023.

## Figure 6. The impact of geoeconomic fragmentation

In light of recent geopolitical developments, how likely is it that the next three years will lead to significant...



Source: Chief Economists Survey, November-December 2023

There is strong consensus that geopolitical developments will continue to impact economic activity and investment flows, with 86% expecting an increase in localization and 80% saying geoeconomic blocs will strengthen. On the flipside, two-thirds of respondents say an increase in globalization is unlikely over the next three years. This is in line with the developments in supply chain strategies in recent years, marked by a notable shift in narrative and action to reshoring, nearshoring, friendshoring, and, more recently, de-risking strategies.<sup>28</sup> The potential loss in global economic output from increased trade restrictions could reach up to 7%<sup>29</sup> according to the IMF. The signs of retreat are emerging, with global trade declining by 5%<sup>30</sup> in 2023. On the other

hand, trade within allied blocs has been gaining momentum, with 6.2%<sup>31</sup> growth in the third quarter of 2023.

The costs of fragmentation are projected to be significantly higher for low-income economies, reaching up to 4% of global domestic product (GDP),<sup>32</sup> and almost double that of advanced economies. Although even a partial retreat in globalization will result in sizeable contraction for various blocs, any third-party countries' gains are largely offset by the headwinds from the contraction in major trade partners.<sup>33</sup> Besides the direct impact through trade channels, a retreat in cooperation risks stalling, if not rolling back, decades of progress towards development targets.

28 The Economist, May 2023.

29 Bolhuis et al., March 2023.

30 UNCTAD, December 2023.

31 Ibid.

32 Bolhuis et al., March 2023.

33 Cerdeiro et al., October 2023.

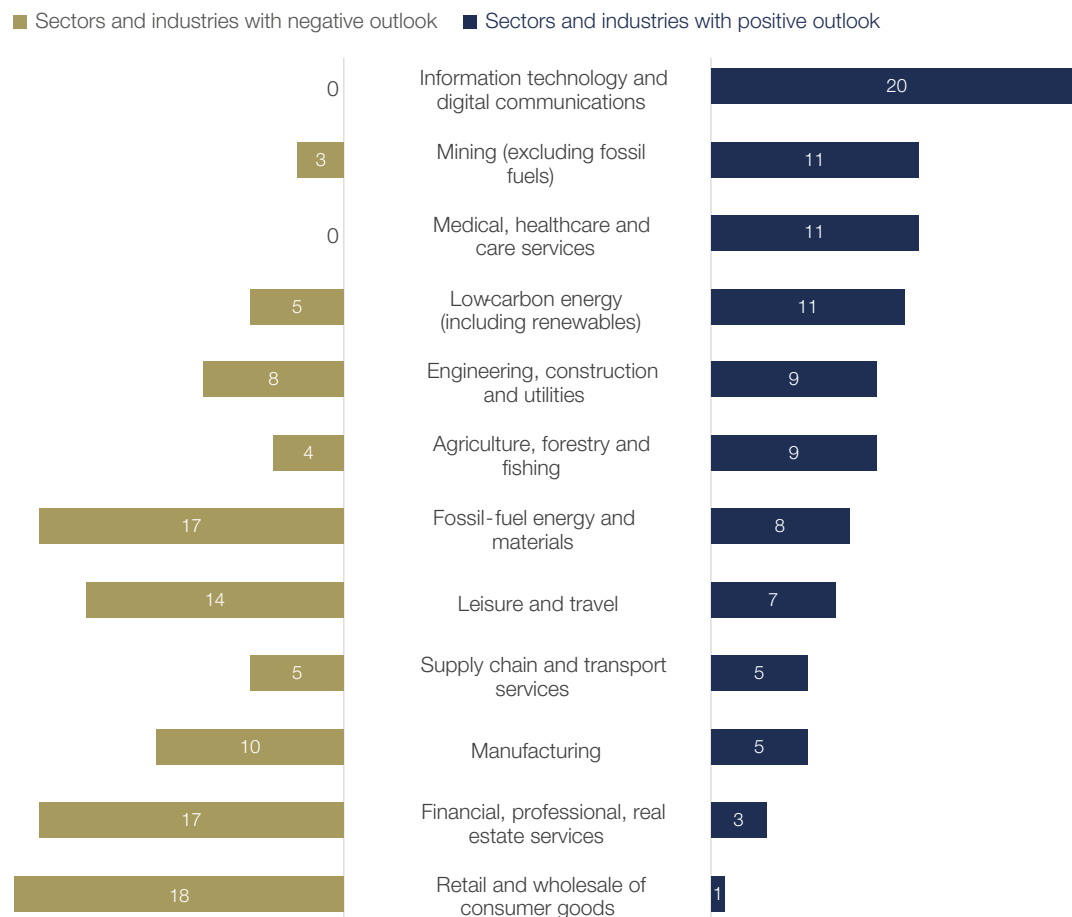
Looking at the next three years, six out of ten chief economists said geopolitical developments will increase inequality and widen North-South divide.

One notable point of disagreement among the chief economists is the likelihood that geopolitical tensions will result in a significant

rupture of global supply chains in the next three years. Only 36% of respondents think potential disruptions are likely, another third are uncertain and a third believe they are unlikely. This is likely to reflect in part the effectiveness of restructuring strategies and increased resilience of supply chains in recent years.

**Figure 7. Industry outlook**

Which sectors and industries are likely to be at an advantage or disadvantage in the geoeconomic outlook for 2024?



Source: Chief Economists Survey, November-December 2023

When asked about the sectoral impact of the geoeconomic outlook, chief economists highlighted a range of industries where they expect a more negative outlook in 2024, including retail

and wholesale of consumer goods, fossil-fuel energy and materials, financial, professional and real estate services, leisure and travel, and manufacturing.

The respondents are significantly more optimistic about the impact of recent developments on the outlook for other industries, including information technology and digital communications, mining, medical, healthcare and care services, and low-carbon energy (see Figure 7). Technology, mining and low-carbon energy, in particular, are expected to benefit from the projected 11%<sup>34</sup> increase in the global demand for renewable energy and strategic competition between the geoeconomic blocs as new industrial policies ramp up investments and demand for critical materials and components.<sup>35</sup>

The survey also asked chief economists what strategies businesses might adopt in the face of rising geoeconomic fragmentation in 2024. Three patterns feature prominently. First, diversification, rather than isolation, remains the surest way to resilience in the times of heightened volatility. Second, investments in gradual de-risking and localization could unlock new supply chain opportunities. Lastly, search for talent and agility will be at the core of strategy planning and execution, with many multinationals having to juggle and adjust strategies across the geographies.

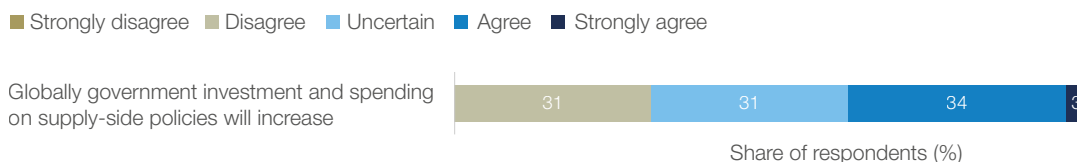
### Governments continue to turn inward

The mounting concerns of deeper global fragmentation are closely intertwined with the resurgence in industrial policies over the recent years. Technological competition and the race to secure supply chains for critical materials and other goods are blurring the lines between economic and national security objectives. This shift has been associated with a spike in the number of protectionist measures – such as export restrictions – that quadrupled to almost 35,000 over the last decade.<sup>36</sup>

After more than a year since the launch of the Inflation Reduction Act (IRA) and CHIPS Act sparked a global uptick in such large-scale initiatives, tens of billions are being funnelled into infrastructure, manufacturing, semiconductors and low-carbon solutions across geographies.<sup>37</sup> The results of the latest survey reveal uncertainty about the extent of investment and spending on supply-side policies – such as tax credits and subsidies – this year (see Figure 8), with 31% expecting no increase, 31% uncertain and only a slightly higher proportion of respondents (37%) expecting an increase.

**Figure 8. Government support for supply-side policies**

Looking at the year ahead, do you agree/disagree with the following statements?



Source: Chief Economists Survey, November-December 2023

34 Economist Intelligence Unit, October 2023.

35 IMF, October 2023.

36 The Economist, July 2023.

37 Agarwal, March 2023.

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