EFFICIENT GROUP

ECONOMIC COMMENTARY

- DR. FRANCOIS STOFBERG

YOUR WEEKLY ECONOMIC UPDATE

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WILL THE WORLD ENTER A GLOBAL RECESSION? PROBABLY NOT

Global markets were all over the show the past week, trying to digest the myriad of, often opposing, data that was released from all around the world. When considering the likely growth trajectory of the global economy market, observers turn towards the large economic blocks: The United States (US), Europe, and China (which is often also used as a proxy for growth in Asia). Data from the US and China stole the show last week. Jobs cuts from large corporations, a plunge in manufacturing data, and a slowdown in job creation numbers, highlighted the bumpy road ahead for the US, the world's top economy. However, optimism around inflation and the interest rate outlook improved. Meanwhile, China, the world's second largest economy, will attempt to increase its economic output after a dismal 2022.

Analysts have been warning that there are still plenty of bumps in the road ahead for the world's leading economies, with concern now turning to the effect that higher interest rates will have on corporate earnings. It was, therefore, no real surprise when Goldman Sachs, a banking titan, released weak earnings results, but they were not the only ones. Google's parent company, Alphabet, announced plans to cut about 12 000 jobs worldwide, propelling shares up by nearly 6%. The move came a day after Microsoft said that it would be reducing its staff complement by 10 000 in the coming months. Similar layoffs by Facebook owner Meta, Amazon, and Twitter have also been announced.

US nonfarm payroll numbers boosted riskier assets with slowing wage growth, helping to temper expectations about the size of the upcoming US Federal Reserve (Fed) interest rate hikes. Many expect the Fed to only increase interest rates by 0.25% at its next meeting. Although the recent job number was robust, the trend in the US job market is that of a slowdown as is evident from the layoffs at large US corporations. It is, however, worthwhile to note that the US economy added 4.5 million jobs last year, the second-best year on record, after 2021 when 6.4 million jobs were created. These large increases led to the multi-decade low unemployment rate of 3.5%. For this reason, a slowdown is probably a natural occurrence. But a persistently strong labour market also means that the Fed needs to keep interest rates higher for longer, despite the cooldown in other macro-economic variables. The reason we say this is because we believe that central banks' attitudes are changing.

The global financial crisis did not result in a new Great Depression, but central banks have become much more sensitive to the risk of deflation; for more than a decade they have reacted to every shock with overwhelming monetary easing. Similarly, the recent inflation surge will not result in hyperinflation, or even in a 1970s-style inflation spiral, but it will make central banks much more sensitive to the risk of entrenched higher inflation. Central bankers now understand that prolonged loose monetary policy contributed to the multi-year inflation overshoot that we are currently experiencing. We are, therefore, likely to see a structural change in central banks' attitudes, that is, their safety nets might be less supportive than in the past and that, in turn, will force investors to recalibrate how they price assets.

Nevertheless, hopes for China's recovery continues to provide much-needed support to the global economic outlook. Last year, when the Chinese economy grew by only 3%, the economy expanded at its slowest pace since 1976, excluding the pandemic-hit 2020. Looking forward, we expect to see a sustained economic recovery in 2023 because of the re-opening from the zero-COVID stance and policy stimulus. News is also starting to emerge that the clampdown on the internet sector is drawing to a close, offering the prospect of an end to two years of uncertainty sparked by regulatory interventions, including gaming restrictions for minors and online tuition. Overall, while attempting to see through all of the noise of the data that was released last week, we believe that the world will, most likely, not enter a recession.