

Research Institute – Interim Forecast Update

01 November 2022

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#Global

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#Monthly

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#Forecast

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From inflation complacency to inflation myopia

As underlying inflation readings continue to surprise to the upside few central bankers are patient enough to allow the long and variable lags of monetary policy.

Key takeaways

- By keeping policy settings too loose for too long, central banks have forfeited their right to be patient while tightening works its way through the system.
- With underlying inflation hitting new highs across the advanced economies, markets have further repriced rate expectations, reinforced by central bank rhetoric.
- We have revised up our own forecasts for the peak in policy rates for the US, UK and Eurozone. The largest revisions were to the UK in the wake of the government's bungled mini-budget.
- Economic indicators have not differed enough from our September forecasts to make formal changes ahead of November. Not releasing Q3 GDP data prevented us from marking the China forecasts to market.
- That said, the pace and reactivity of monetary adjustment, together with the stickiness of underlying inflation, is largely reinforcing our confidence that a global recession will arrive in 2023.
- We are also sticking with our view that as tightening gives way to recession and disinflation, there is significant scope for interest rates to decline across the term structure in the second half of 2023.

BoE to hike more aggressively despite fiscal U-turn

Forecasting is never easy, but in the UK, it is nigh on impossible. Scarcely a day has gone by since Liz Truss became prime minister without a new policy being announced, altered or reversed, with the Bank of England (BoE) slipping into the same pattern. Most of the mini-budget's tax cuts have now been thrown in the dust bin. The energy price cap is set to become less generous in April. And harsh spending cuts are also on the way.

Nevertheless, we still expect the BoE to deliver 150bp of hikes over its next two meetings, 50bp more than in September, as the Bank seeks to restore macroeconomic balance and re-establish credibility.

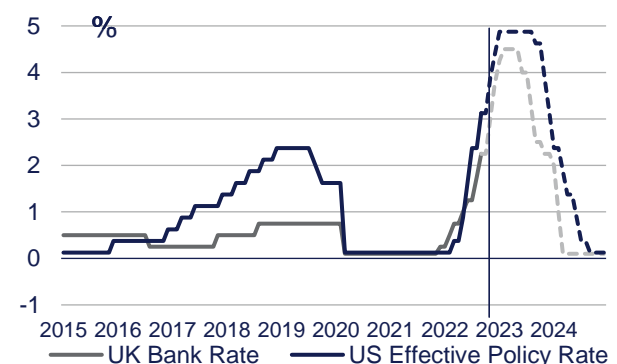
A core inflation doom loop in the US

After a soft core inflation print in July, August and September both delivered nasty surprises. And every time core inflation surprises, markets reprice the peak in the federal funds rate.

With financial conditions now very tight and weighing on activity in the most interest sensitive sectors, there is an argument for the Fed going slower and giving policy time to have its desired effects. But for now they are more intent on brandishing their inflation-fighting credentials.

The upshot is that we now think the Fed will deliver another 175bp of tightening before the recession we are forecasting halts their progress.

Figure 1: Our new expected Fed and BoE pathways



Note: dotted lines indicate our current policy rate forecasts by

Source: Haver, abrdrn, October 2022



Our latest global forecasts

	GDP (%)			CPI (%)		
	2022	2023	2024	2022	2023	2024
US	1.7	-0.4	-0.5	8.1	3.8	2.1
UK	3.6	-1.0	-0.2	8.9	4.8	1.7
Japan	1.4	0.4	-0.6	2.3	1.3	-0.5
Eurozone	2.9	-2.2	0.8	8.7	5.6	2.0
Brazil	2.9	-0.1	0.0	10.3	7.0	3.7
Russia	-3.5	-1.5	0.2	14.5	6.0	4.0
India	5.5	4.3	3.7	6.8	4.6	5.0
China	2.3	3.0	3.8	2.6	1.6	2.3

	Policy Rate (%)					
	2022	Implied Rate	2023	Implied Rate	2024	Implied Rate
US	4.38 (3.63)	4.50	3.38 (2.38)	4.55	0.13	3.82
UK	3.75 (3.25)	3.95	2.25 (2.00)	5.24	0.10	4.82
Japan	-0.10	-0.05	-0.10	0.12	-0.10	0.24
Eurozone	2.25 (2.00)	2.03	1.75 (1.50)	3.05	0.00	2.93
Brazil	14.00	13.81	11.00	11.35	4.50	10.22
Russia	7.00	7.31	6.00	7.06	5.00	6.33
India	6.15	6.26	4.65	6.50	4.00	6.44
China	2.00	2.31	1.70	2.72	1.60	2.98

Green text implies our forecast is more optimistic than consensus (growth higher than consensus, CPI lower), whilst red text implies forecast less optimistic than consensus. Where forecast changes have been made, the previous forecast is in brackets.

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GB-311022-182860-1

