



GLOBAL ECONOMIC OUTLOOK

2023 Q2 edition

Quarterly report for business executives
navigating trends in global economic landscape

convera
SMART MONEY MOVES



Executive summary

This quarterly report offers historical analysis and a 12-month forward view of the global themes and events driving trends in Australia, Canada, France, UK and the US. We hope to help SMEs and corporates uncover potential opportunities and risks to aid a more-informed strategic planning process.

2023 starts with a brightening business outlook despite a looming technical global recession and banking strain. Canada is forecasted to enter a 15-month long recession, while the impact on French economy is expected to be minimal.

In their inflation combat, most central banks are expected to peak their rates in the third quarter of 2023, with the Fed and BOC leading the pack. Despite the efforts, only Canada and UK's inflation is expected to fall below the 3% tolerance threshold in 2023.

We expect industrial production and manufacturing to be hit hardest by these souring conditions, especially in France, due to rising input prices and weak demand. Financial institutions will be impacted in the short term as they adjust to tight monetary conditions.

Monetary policy, market volatility and changes in global risk sentiment will continue to drive currency trends. As we are culminating the tightening cycle for most major banks, heightened volatility is on horizon in forex space.



Geopolitical risks are increasingly seen as a key threat to global recovery. 87% of businesses now expect a China-Taiwan conflict over the next five years.



The UK is expected to see the sharpest decline in inflation, from the current high of 10.4% to 2.9% by 2023 Q4. Canada's inflation expected to fall to 2.4% by the end of 2023 – the lowest from the five markets.



A global technical recession is expected in Q1 of 2023. Canada is likely to be the most affected economy: -1.28% q/q fall in GDP in Q2 2023 driven by a correction in the housing market.



Monetary policy rates are expected to peak in Q3 by most central banks. The Fed and BOC forecasted to lead the pack at 5.38% and 4.5% respectively, while RBA to peak their policy rate at 4.1% (quarterly averages).

Business sentiment rebounded before banking system strain

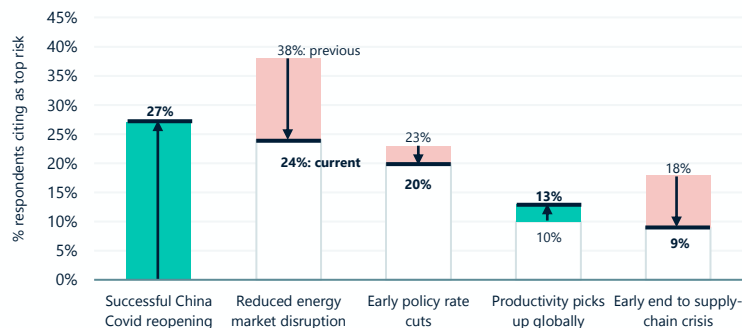
Top 'upside' global economic risks

According to an Oxford Economics risk survey, China's surprise reopening on 8th January 2023 is now seen by businesses as the single largest upside risk to global economic recovery (cited by 27% of the respondents).

Meanwhile, 24% of the respondents view reduced energy market disruptions as a key upside risk, down from 38% in the October survey.

27% of businesses see China's reopening as a key potential upside

Chart: Top five upside risks, January 2023 vs October 2022



Note: only displaying top 5 risks. Other risks include: unsuccessful China Covid reopening, climate change, trade tensions re-escalate, supply chain disruption persists

Chart sources: Oxford Economics Risk Survey. The survey was completed by 204 businesses (international institutions/businesses) between January 12-26. Questions focused on 1-2 year time horizon. Survey was conducted prior to SVB collapse.

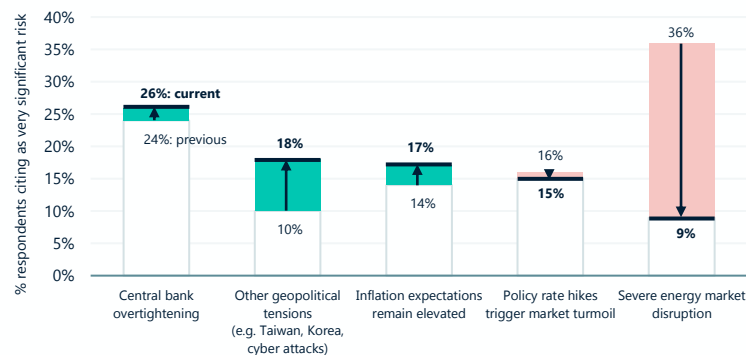
Top 'downside' global economic risks

Inflation and monetary policy-related concerns remain as key near-term risks. The top cited concern for businesses is now central bank overtightening (26% now vs 24% in October), while inflation concerns have also grown.

Geopolitical risks are increasingly seen as a key threat to the global recovery. 71% of experts and 87% of surveyed businesses expect a China-Taiwan conflict over the next five years.

26% of businesses see rapid policy tightening as the top global economic risk

Chart: Top five near-term downside risks, January 2023 vs October 2022



Global technical recession looming, risks skewed to the downside

Global economic scenarios	Baseline scenario	Asset price crash	Faster disinflation	High near-term inflation	China rebound
Scenario summary	Global activity remains subdued in the near term	Higher interest rates trigger sharp fall in stock markets and house prices	Central banks bring forward policy easing amid growing evidence of a decline in underlying inflation	Stickier inflation prompts further rate hikes and delays global recovery	Global recovery is bolstered by Chinese fiscal stimulus
OE probabilities vs perceived business probabilities*	40% vs 33%	20% vs 16%	15% vs 9%	15% vs 25%	10% vs 16%
Key assumptions behind scenarios and assigned probabilities	Inflation to fall back sharply due to weaker commodity prices, slowing growth, and easing supply chain issues. The pace of this decline will vary by country. Given the aggressive rate hikes in 2022, and with headline inflation slowing, policy rates in most economies are likely now close to peaking. In the absence of a major downturn, policy rate cuts are not expected until 2024. Lockdown induced supply chain disruptions are abating. However, relationships with China and Russia will remain strained and may trigger supply side problems and uncertainties. Under pressure of higher debt costs, fiscal policy (government) is likely to be tightened gradually. Tensions between the West and Russia persist. Energy shortage risks have reduced due to a warm winter in Europe. Energy rationing in Europe are avoided this and next winter. No meaningful ease in US-China trade tensions is expected. Tariffs and other non-tariff barriers are expected to remain in place.	Equity and property markets crash. Credit conditions tighten, amplifying the hit to demand. Recovery is sluggish, despite central bank policy rate cuts.	Commodity prices fall amid improved supply conditions. Inflation pressures ease, supporting real disposable incomes. Central banks bring forward policy easing, prompting a rebound in investor, businesses and consumer sentiment. World GDP recovers more strongly in the near term.	Sticky near-term inflation prompts more policy rate hikes. Financial and property markets weaken, delaying recovery. Under this scenario, the rapid transition from low interest rates during Covid to the fast rise in rates, should have material consequences for Financial Institutions who will have to re-calibrate their business models. Both lending and borrowing product lines are anchored by benchmark interest rates. The main risk for banks lies in a potential wave of corporate and personal defaults (especially on mortgage payments).	Chinese investment surges on the back of higher infrastructure spending. Stronger demand pushes global commodity prices higher. Higher inflation squeezes demand in the rest of the world and central banks delay policy loosening. World GDP strengthens at first, but then falters.

Note: the scenario probabilities are updated quarterly by Oxford Economics, before international businesses are surveyed and asked to judge how likely they feel the scenarios are.

Sources: Oxford Economics, Convera – March 20, 2023 | *Oxford Economics Global Risk Survey – March 2023. Responses from 162 international institutions/businesses on the perceived probabilities of OE global scenarios.

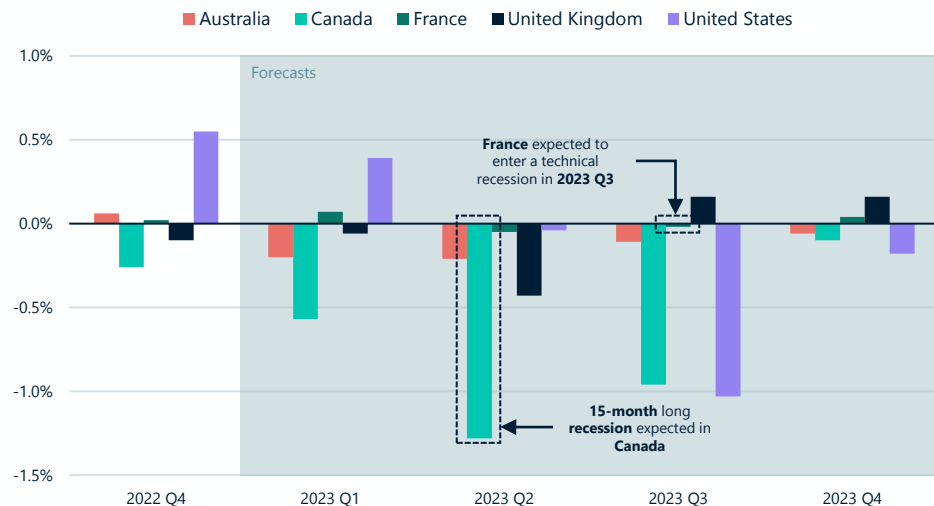
Key themes



Recession on the horizon

Recession in Canada to cut deep, minimal impact on growth expected in France

Chart: Growth forecasts by country, baseline scenario, q/q % change in real GDP per capita, \$US, constant prices



Sources: Oxford Economics, Convera – March 21, 2023. See the appendix for more details.

Australia is forecasted to submerge into a shallow yet prolonged recession during 2023. A tight labour market is expected to support income growth and thus prevent a significant collapse in GDP growth.

Canada is expected to plunge into a deep 15-month long recession with the greatest impact felt in Q2. This is driven predominantly by an ongoing correction in the housing market, weaker business investment and a slowing inventory build.

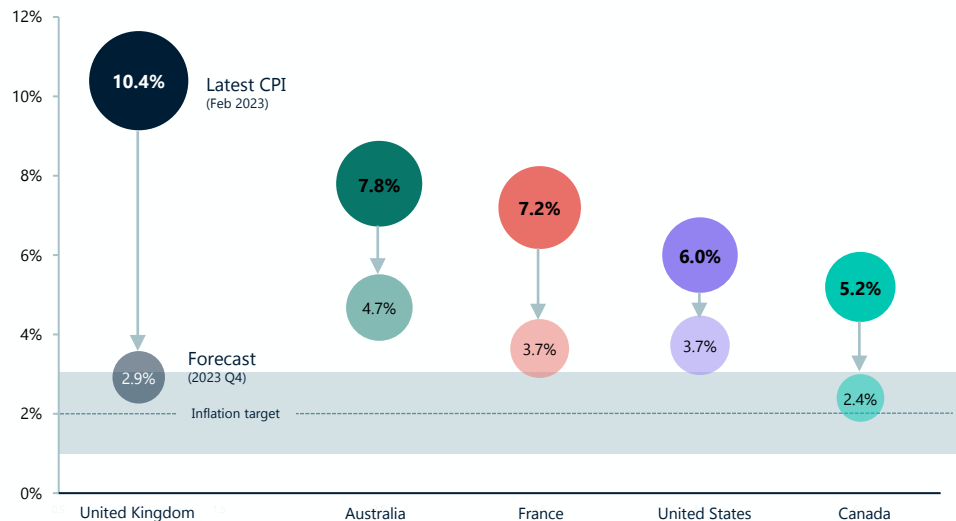
In Europe, France is expected to enter a technical recession in 2023 Q3 while UK is thought to already be in a recession, which is forecasted to last until the beginning of H2. GDP forecasts for Q4 of 2023 for both economies have been revised up due to falling gas prices but remain in a negative territory. Consumption continues to be dampened by the impact of inflation, and tighter than anticipated monetary policy will also drag on investment and growth. In addition, continuing widespread industrial action in the UK will have a negative drag on growth.

In the US, recession is expected to start in Q3 with a fall in GDP of 1.0% q/q driven by the Fed's tight monetary policy, past tightening in financial conditions and current turmoil in the banking sector. Consumers are expected to limit spending and businesses to cut back on hiring and investment.

Sticky road ahead

Canada and UK inflation expected to fall below 3% by end of 2023

Chart: Latest CPI data forecasts by country, baseline scenario, % y/y change in CPI



Note: Central banks aim to keep inflation at the 2% midpoint of an inflation-control target range of 1% to 3%. If the inflation target is missed either side, the central bank is required to notify their government why via an official letter.
Sources: Refinitiv, Oxford Economics, Convera – March 23, 2023. See the appendix for more details.

Australia's latest headline inflation rose as expected, but core inflation surprised to the upside. While inflation is forecast to fall to 4.7% y/y by end of 2023, there is considerable upside risk, driven by wage-cost pressures, and the risk of a wage-price spiral emerging.

Canada's inflation is forecasted to fall to 2.4% (Q4 average) by the end of 2023. This will be driven by declining energy prices, easing supply chains, falling house prices, contracting domestic demand, and a looser labour market.

France's inflation is likely to peak in Q2 and is expected to drop from then onwards. More persistent, and higher inflation remains an upside risk amidst resilient labour markets.

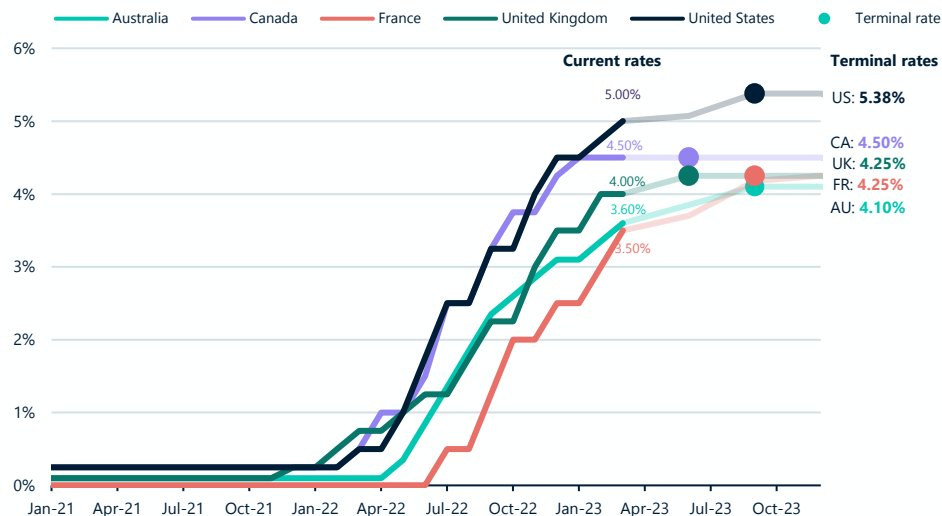
In the UK, the most recent inflation print ticking upwards to 10.4% proves that BoE is not yet out of the woods. Despite that forecasts remain optimistic with CPI is expected to fall to an average of 2.9% at Q4. The outlook remains heavily skewed to the upside with core inflation proving stickier than expected and the full impact of Sterling's 2022 depreciation yet to be seen.

The recent signs of disinflation highlight that inflation in the US is past its peak. Wage pressures, while extremely elevated, have started to peak. However, stubborn service inflation will maintain inflation rates above the desired level at the end of this year.

Peak central bank rate pricing critical for currencies

Rates to peak in 2023 Q2 led by Fed and BOC with no cuts expected this year

Chart: Key central bank policy rates and Oxford Economics forecasted terminal rates, quarterly averages



Sources: Oxford Economics, Convera – March 23, 2023.

Australia's RBA is increasingly worried about a wage price spiral that could de-anchor inflation expectations, as evidenced by a further rate hike of 25bps in March. There is a material chance that RBA continues hiking at subsequent meetings until Q3 2023, which would dampen the growth outlook.

BoC is ready to take a pause following a forceful hiking cycle. While interest-sensitive sectors are beginning to respond to rate hikes, the full impact of tighter monetary policy is still to come. We expect rates to remain at 4.5% until the end of 2023.

As expected, ECB executed a 50bps hike in March and further rates hikes are now on the table given stubborn inflation levels. We expect a further 75bps increase during subsequent meetings, but the pace will be mostly data driven going forward.

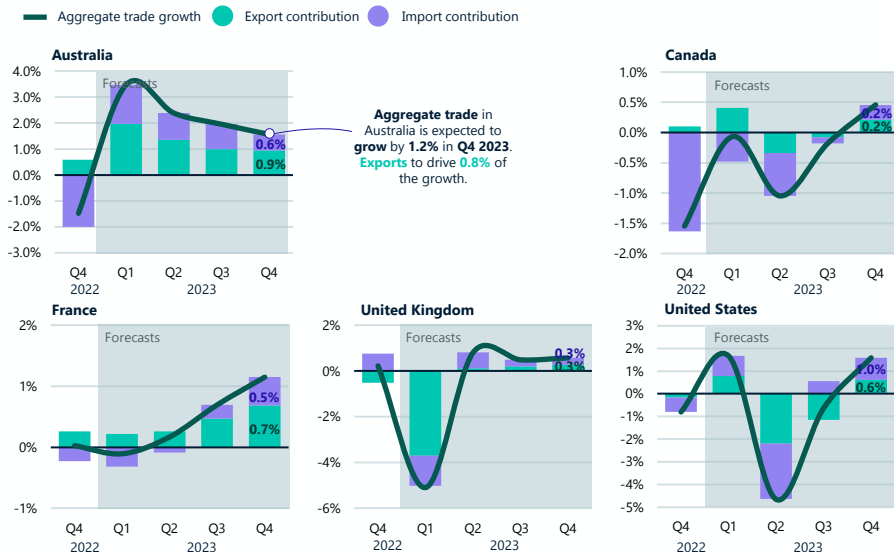
In March BoE hiked by 25bps as expected by markets, as the rates near the terminal rate. BoE remains confident that the recent collapse of five banks will not have an impact on UK banking sector, which maintains robust capital and strong liquidity positions.

In March Fed continued with the tightening cycle, raising the policy rates by the anticipated 25bps. OE forecasts a further 50bps hike by the Fed from the current level until the terminal rate is reached, followed by a long pause until the end of the year. No rate cuts are forecast in 2023.

Economic downturn to dampen trade

Trade contraction expected in near-term. A pickup in momentum on the cards in H2 2023

Chart: Aggregate trade* forecasts by country, baseline scenario, % q/q change, real terms



Sources: Oxford Economics, Convera – March 21, 2023.

Australia's trade flows are expected to remain strong throughout 2023 with an average q/q growth of 2.4%. While domestic demand growth is slowing, which will weigh on imports, earlier-than-expected return of Chinese students will make a positive contribution to exports in 2023.

A decline in Canadian imports put aggregate trade in red territory in Q4 2022 as a result of contracting domestic demand. The trend expected to continue until 2023 Q3 as Canada enters a recessionary period. A pickup in business investment is needed to support exports and boost overall trade, which we are unlikely to see amid a looming recession in 2023.

Recession will have a negative impact on aggregate trade is expected to decline in Q2 and Q3 of 2023, dragged by a decline in both imports and exports. Weakening domestic demand as a result of tight monetary conditions and falling consumption will dampen imports, while depressed global demand will weigh negatively on export potential.

The new UK and EU agreement on the Northern Ireland protocol – the 'Windsor Framework' – has eliminated key downside risks to the UK economy of a trade war. However, it is unlikely to have a substantial positive impact on the trade outlook. We still expect a contraction to the UK's aggregate trade of -5.1% q/q in 2023 Q1, predominantly driven by a contraction in exports of -7.7% q/q.

Recession to weigh on industrial production's growth momentum

Industrial production sectors to contract by over 10% in Q4 2022 in Canada

Chart: Nominal valued added output growth forecasts (in q/q %) by industry, baseline scenario

Industry	Country	Industry size In \$US Bln (2022 Q3)	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2023 Q4
Distribution, transport, storage and communication	Australia	78	-1.6%	4.2%	0.4%	0.8%	0.7%
	Canada	110	-3.6%	-2.7%	-0.1%	-0.6%	2.0%
	France	150	0.3%	6.7%	1.5%	0.9%	0.7%
	United Kingdom	169	1.4%	4.8%	1.5%	0.7%	1.3%
	United States	1,538	2.2%	0.7%	-0.4%	0.3%	1.2%
Education	Australia	18	-0.7%	3.4%	0.4%	0.9%	0.8%
	Canada	30	-3.7%	-1.8%	0.2%	-0.1%	1.4%
	France	31	0.1%	10.2%	2.2%	1.2%	0.5%
	United Kingdom	42	-0.8%	5.8%	2.4%	1.3%	1.3%
	United States	73	3.9%	0.2%	-0.3%	0.6%	1.2%
Financial and business services	Australia	129	-1.3%	5.5%	0.6%	1.3%	1.5%
	Canada	163	-2.9%	-2.3%	0.6%	0.1%	1.9%
	France	179	3.8%	6.2%	1.9%	1.2%	0.8%
	United Kingdom	233	2.2%	5.4%	1.9%	1.0%	1.1%
	United States	2,132	2.8%	-0.4%	-1.4%	0.1%	1.0%
Industrial production (excl. Construction)	Australia	62	-7.0%	3.1%	1.3%	1.0%	0.8%
	Canada	105	-10.2%	-2.7%	0.5%	-0.7%	1.4%
	France	80	13.7%	6.3%	-0.2%	-1.0%	-1.3%
	United Kingdom	98	0.4%	3.5%	0.6%	0.8%	0.9%
	United States	999	-3.4%	-0.9%	0.1%	-0.1%	0.4%
Manufacturing	Australia	24	-4.2%	6.8%	1.4%	1.3%	0.7%
	Canada	55	-4.9%	-1.8%	0.0%	-0.4%	1.8%
	France	64	4.7%	6.4%	-0.7%	-1.9%	-2.3%
	United Kingdom	65	0.7%	6.0%	0.8%	0.8%	0.6%
	United States	752	-0.4%	-0.1%	0.3%	-0.1%	-0.1%

Sources: Oxford Economics, Convera – March 19, 2023

The outlook by industry reflects expectations of a consumption-driven slowdown throughout 2023, though some sectors of the economy will fare better than others.

While some businesses (particularly in commodities sectors) will benefit from high prices, many will be hit by weak demand and high input costs, particularly for energy.

In the financial and business services sectors, weakening economic output and rising interest rates will lead to more difficult conditions for banks, insurance providers and fund managers in 2023. We expect US and Canada to be among the most impacted as the terminal monetary policy rates are the highest among the five countries.

In education, Australia is expected to experience a boost in growth aided by a sooner-than-expected return of Chinese students. While Canada is expected to see little growth, France, UK and US will enjoy moderate q/q growth during 2023.

Manufacturing is currently experiencing concerns related to inflation and economic uncertainty. The industry continues to grapple with talent challenges that may limit growth momentum. Supply chain issues including sourcing bottlenecks, global logistics backlogs, cost pressures, and cyberattacks will likely remain critical challenges in 2023.

US Dollar losing steam

GBP/USD remains over 4% below the long-term averages

Chart: Currency performance versus year-to-date, one, two, and five-year averages

5-year trend and latest spot rate	YTD average	1-year average	2-year average	5-year average
USD/AUD 	2.5% Avg.: 1459	2.6% Avg.: 1457	6.4% Avg.: 1405	6.1% Avg.: 1409
EUR/CNY 	1.8% Avg.: 7.322	4.8% Avg.: 7.307	2.2% Avg.: 7.297	-1.9% Avg.: 7.600
USD/CAD 	1.6% Avg.: 1351	4.0% Avg.: 1339	6.6% Avg.: 1286	4.9% Avg.: 1307
EUR/USD 	1.2% Avg.: 1071	4.1% Avg.: 1042	-1.6% Avg.: 1103	-3.9% Avg.: 1128
GBP/USD 	1.0% Avg.: 1213	1.5% Avg.: 1208	-4.8% Avg.: 1287	-5.2% Avg.: 1293
USD/CNY 	0.2% Avg.: 6.843	0.2% Avg.: 6.841	3.3% Avg.: 6.631	1.6% Avg.: 6.742
GBP/EUR 	-0.3% Avg.: 1131	-2.6% Avg.: 1159	-3.2% Avg.: 1166	-1.5% Avg.: 1146
USD/CHF 	-1.0% Avg.: 0.926	-4.0% Avg.: 0.955	-2.1% Avg.: 0.937	-4.0% Avg.: 0.954

Note: YTD average refers to the following time periods: 02.01.2023 - 23.03.2023; 1Y: 23.03.2022 - 23.03.2023; 2Y: 23.03.2021 - 23.03.2023; 5Y: 23.03.2018 - 23.03.2023.

Sources: Refinitiv, Convera – March 23, 2023

The recent turmoil within the banking sector, with 5 bank failures in a close succession in mid-March, has revived the appetite for USD, which remains positively positioned with its peers for the most part, relative to long-term rolling averages.

The continued persistence of Fed officials to raise rates in order to curb inflation despite the ongoing banking turmoil have led markets to downgrade expectations of where US interest rates will peak (from 5.3% to 5.1%) and consider a possibility of interest rate cuts, in contrast to OE forecasts who forecast further rate hikes are still on the table and no rate cuts for the rest of the year.

The USD advantage carried from last year is fast diminishing with narrowing of interest rate differential between US and EU, which has caused EUR/USD to rise by close to 3% from a March low.

Receding recession risks in both the UK and eurozone, evident by recent stronger-than-expected data releases, have supported the euro and pound from falling considerably lower against the dollar.

Whether the dollar's keeps its crown will depend on several factors: 1) The timing of the conclusion to Fed's tightening cycle, 2) an increase in financial market volatility, and 3) a return and rise of risks (economic, financial and/or political).

Appendix



Appendix

Growth forecasts by country, baseline scenario, q/q % change in real GDP per capita, \$US, constant prices

	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4
Australia	0.25%	0.56%	0.30%	0.06%	-0.20%	-0.21%	-0.11%	-0.06%	0.00%	0.09%	0.22%	0.32%
Canada	-0.02%	0.38%	0.19%	-0.26%	-0.57%	-1.28%	-0.96%	-0.10%	0.42%	0.72%	0.62%	0.67%
France	-0.28%	0.45%	0.11%	0.02%	0.07%	-0.05%	-0.02%	0.04%	0.15%	0.24%	0.47%	0.69%
United Kingdom	0.23%	-0.12%	-0.28%	-0.10%	-0.06%	-0.43%	0.16%	0.16%	0.30%	0.47%	0.56%	0.49%
United States	-0.50%	-0.24%	0.69%	0.55%	0.39%	-0.04%	-1.03%	-0.18%	0.35%	0.34%	0.30%	0.35%

Inflation forecasts by country, baseline scenario, % y/y change in CPI, period average

	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4
Australia	5.18%	6.14%	7.26%	7.83%	6.96%	6.48%	5.61%	4.68%	4.08%	3.38%	2.90%	2.62%
Canada	5.82%	7.58%	7.14%	6.64%	5.27%	3.50%	2.97%	2.40%	2.28%	2.31%	2.25%	2.28%
France	3.66%	5.29%	5.85%	6.07%	6.19%	5.18%	4.58%	3.65%	2.57%	1.65%	1.32%	1.24%
United Kingdom	6.20%	9.15%	10.01%	10.75%	9.86%	6.89%	4.96%	2.92%	3.10%	2.63%	3.05%	2.26%
United States	8.02%	8.56%	8.28%	7.11%	5.64%	4.33%	3.96%	3.73%	3.56%	3.06%	2.60%	2.32%

Sources: Oxford Economics, Convera – March 21, 2023

Appendix

Aggregate trade, import and export forecasts by country, baseline scenario, % q/q change, goods and services, real terms

		2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4
Australia	Aggregate trade	3.4%	3.2%	-1.5%	3.5%	2.4%	2.0%	1.6%	1.3%	1.1%	1.1%	1.0%
	Imports	1.4%	4.0%	-4.3%	3.3%	2.2%	2.1%	1.3%	1.3%	1.0%	1.0%	1.0%
	Exports	5.2%	2.5%	1.1%	3.7%	2.5%	1.8%	1.7%	1.3%	1.2%	1.2%	1.1%
Canada	Aggregate trade	4.1%	1.0%	-1.5%	-0.1%	-1.0%	-0.2%	0.5%	0.6%	0.6%	0.7%	0.7%
	Imports	6.3%	-0.4%	-3.2%	-0.9%	-1.4%	-0.2%	0.5%	0.5%	0.6%	0.7%	0.7%
	Exports	1.7%	2.6%	0.2%	0.8%	-0.7%	-0.2%	0.4%	0.6%	0.7%	0.7%	0.7%
France	Aggregate trade	0.9%	2.7%	0.0%	-0.1%	0.2%	0.7%	1.1%	1.9%	1.9%	1.5%	1.3%
	Imports	1.1%	4.2%	-0.4%	-0.6%	-0.2%	0.4%	0.9%	1.7%	1.9%	1.3%	1.1%
	Exports	0.7%	1.0%	0.6%	0.5%	0.5%	1.0%	1.4%	2.1%	2.0%	1.7%	1.6%
United Kingdom	Aggregate trade	2.5%	2.9%	0.2%	-5.1%	0.8%	0.5%	0.6%	0.7%	1.1%	1.1%	0.9%
	Imports	0.2%	-2.9%	1.5%	-2.5%	1.3%	0.6%	0.6%	0.7%	0.9%	0.9%	0.9%
	Exports	5.2%	9.4%	-1.0%	-7.7%	0.2%	0.4%	0.5%	0.7%	1.3%	1.3%	0.8%
United States	Aggregate trade	1.6%	0.2%	-0.8%	1.7%	-4.6%	-0.6%	1.6%	1.9%	1.7%	1.4%	1.3%
	Imports	0.6%	-1.9%	-1.1%	1.5%	-4.0%	0.9%	1.6%	1.7%	1.6%	1.4%	1.3%
	Exports	3.3%	3.5%	-0.4%	2.0%	-5.6%	-2.9%	1.6%	2.2%	1.7%	1.4%	1.3%

Sources: Oxford Economics, Convera – March 21, 2023

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NORTH AMERICA

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EUROPE

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