AXA Investment Managers

30 May 2024

Investment Institute Macroeconomics

Monthly Investment Strategy

Governments extend influence over outlooks

Key points

- A firmer pace of Q1 GDP growth, stickier services inflation and a more cautious easing from central banks are common themes across international economies
- The ECB remains on track to cut rates in June. Elsewhere we expect more caution, with the BoC in July, BoE in August and Fed in September. Latin American central banks have slowed the pace of easing. EM Asian central banks look set to delay starts to H2
- GDP growth is likely to soften to a more sustainable pace in several economies in Q2, reflecting tighter policy, but recovering consumer spending
- Disinflation remains on track in most economies, but services inflation taking more time to soften
- Key election developments include an early election in the UK (4 July). India, South Africa and Mexico will all see results of polls in coming weeks

Global Macro Monthly

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Investment Managers

30 May 2024

Governments extend influence over outlooks

Global Macro Monthly Summary May 2024

David Page
Head of Macro Research

Watching governments as much as economies

At the start of 2024 we highlighted that the coming 12 months would be important for elections, while the last couple of months have shown government actions consequential for economies and markets more generally. The UK government surprised markets with Prime Minister Rishi Sunak calling a general election for 4 July, earlier than the October/November expected. The opposition Labour Party currently enjoys a strong poll lead and looks likely to form a new government. But the margin of any such victory will be important in determining the degree of fiscal rectitude and political stability we expect to follow a Labour win – a wide margin could prove to be a boon for UK investors.

Globally elections continue thick and fast: India's gargantuan poll is nearing its final weeks and looks set to keep Prime Minister Narendra Modi in power. South Africa goes to the polls as we publish. Additionally, Mexico's elections are held in the coming weeks[1]. Incumbent party Morena's Presidential candidate Claudia Sheinbaum still enjoys a large lead. European Parliamentary elections are due in June and although we consider these less impactful given the division of EU economic governance, results will be closely watched. Finally, Iran has scheduled elections for 28 June after the death of President Ebrahim Raisi in a helicopter crash.

Beyond elections, other government actions have shaped market reactions. US President Joe Biden announced a sharp tariff increase on specific Chinese products. These amounted to just 4% of Chinese exports to the US and a much smaller amount of total US imports – the economic impact is likely to be slight. But this normalises the debate around tariffs going into November's election and beyond. Relatedly, we have published a paper[2] considering the impact of past policy to boost US investment. We conclude that the US's $1.5tn investment boost is supporting investment spending, namely in manufacturing structures in the IT sector, and in increased foreign direct investment, particularly from Europe. This acyclical investment has contributed to US growth over the past year.

Markets have also been watching China. Last month, we highlighted the long-term issues surrounding China's housing market[3]. In May, Beijing introduced several further measures, including reducing downpayments and incentives to lower mortgage rates. But focus fell on a People's Bank of China-backed scheme for local governments to purchase inventory from property developers. At RMB300bn, the amount falls far short of the total size of housing inventory carried by developers. It is even smaller by comparison to the amount of vacant investment property in China. But the combined support is hoped to attenuate price falls.

Central bank fine-tuning in the final mile

Elsewhere the focus was on central banks, with further fine-tuning to our forecasts as we approach the final delivery of rate cuts expected since last year. The European Central Bank (ECB) remains on track to deliver its first on 6 June. However, as stressed, the greater uncertainty falls on the path of policy thereafter, with pay growth remaining stubbornly elevated for now and a modest bounce from recession in Q1 that is likely to see non-sequential easing from the ECB.

These themes echo elsewhere. We continue to expect the Federal Reserve to cut rates only from September, after firmer services inflation in Q1, although a reversion to April's softer pace supports this view. Separately, we are growing more nervous over the labour market outlook. UK services inflation failed to soften as hoped, easing only to 5.9% and above Bank of England (BoE) expectations, despite overall inflation falling to 2.3%. We have nudged our Bank Rate forecast back to August (having moved to June two months ago).

More broadly, Mexico's Banxico eschewed back-to-back cuts, Brazil and Peru slowed the pace of cuts and broader Asian emerging market central banks also suggested a more cautious approach to easing. We continue to expect a less restrictive rate of monetary policy by year-end across the board, but these repeated themes of faster start-of-year growth and stickier services inflation are manifesting in slower delivery.

[1] Lopez-Vivas, L., "Mexico's General Elections: Continuity likely but headwinds ahead", AXA IM Research, 21 May 2024

[2] Page, D., "Will the US presidential election endanger an investment boom", AXA IM Research, 27 May 2024.

[3] Wang, Y., "Brick-by-brick: Unravelling China's property puzzle", AXA IM Research, 2 May 2024.

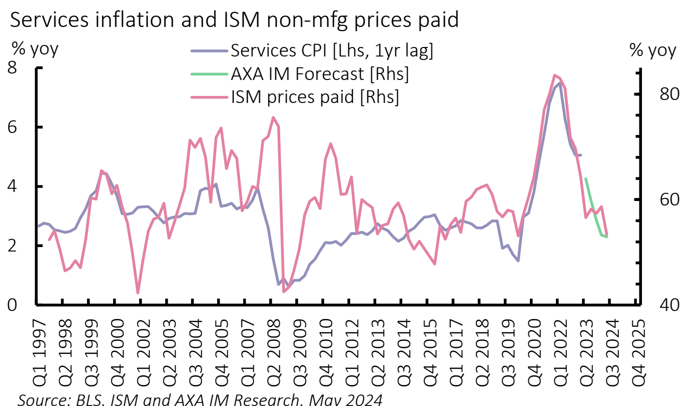
Global Macro Monthly – US

David Page
Head of Macro Research

Inflation fears abate in April

April's Consumer Price Index (CPI) inflation brought much-needed relief. Headline inflation came in a touch below expectations at an annual 3.4%, while core inflation slowed to 3.6% – a 3-year low. Most importantly, services inflation fell to a monthly increase of below 0.4% and the softest in six months. This was driven only marginally by softer shelter inflation – although the monthly rise was the softest since August – but ex-shelter services inflation slowed to a monthly 0.2% rise from 0.8% in March.

Exhibit 1: Medium-term services disinflation envisaged



Source: BLS, ISM and AXA IM Research, May 2024

One month does not make a trend and will be insufficient alone to provide the confidence that inflation is returning to target. But it curtails fears of reacceleration. Moreover, longer-term indicators suggest deceleration ahead. New rents continue to point to shelter disinflation, although this may take until H2 2024 to emerge convincingly. Slower unit labour cost growth also suggests broader disinflation. Exhibit 1 shows the long-term relationship between the ISM Non-Manufacturing Prices Paid index and services inflation, suggesting material disinflation in the pipeline. Inflation looks set to remain around 3.5% over the summer but a stable annual rate would mean the underlying pace was as subdued as last year – something the Federal Reserve (Fed) has suggested would be sufficient to begin loosening. We forecast inflation to average 3.3% this year and 2.5% next.

Economy set to drop a gear

We expect attention to increasingly shift from current price moves to the labour market. April's payrolls increased by 175k – the smallest increase in six months, but still solid. Yet unemployment has gently risen over recent quarters to 3.9% currently. Strong labour supply growth explains the discrepancy reflecting some rise in participation and strong immigration. This has seen softer wage growth, despite Q1's 1.2% Employment Cost Index gain – average earnings growth has slowed to 2.8% (3m-annualised) its softest in three years. While we expect earnings to decelerate further, the outlook for payrolls is likely to capture market attention. Some lead indicators point to a marked weakening in payroll growth over the coming months – perhaps including an outright fall. Historically, payrolls have moved from solid growth to outright contraction within months in a recession. That is not what we forecast now but markets may struggle to distinguish the path.

Softer employment growth should also contribute to weaker real disposable income growth, in turn slowing consumption growth. Again, we do not expect outright contraction, but we do foresee spending to slow from the strong pace recorded in four of the last five quarters. This should prove the final leg of deceleration for the US economy and in combination with weakening payrolls may add to contraction concerns. Since the economy has weakened in an uncoordinated manner over the last two years, we believe other economic aspects should prove more resilient – including housing and policy-boosted investment spending – and growth should continue at a more subdued pace; a soft landing. We forecast annualised growth to slow from 2.0% in Q2 to around 1.5% for the rest of this year and into next. We forecast GDP growth of 2.4% and 1.6% (consensus 2.4% and 1.7%). But we consider risks to the downside if inventory corrects more aggressively, or the saving rate rises more than we forecast.

Fed Chair Jerome Powell recently reiterated that the central bank will need more than one or two inflation reports to boost confidence that disinflation is entrenched. It will see two more inflation releases before its July meeting but on balance we think the Fed will wait until September to ease and forecast two cuts this year to 4.75-5.00%, and four cuts next year to 3.75-4.00%. Markets are not fully pricing two cuts this year but are likely to consider more than that if the risk of recession is adjudged to be rising as we anticipate over the summer.

Finally, while still just under 6 months away, markets are increasingly focused on November's presidential election. Former President Donald Trump continues to hold a small lead in polls and betting markets. Yet we distrust polls this far out. We suspect that polling will warrant more attention after the summer – plausibly earlier as the first television debate is now scheduled for 27 June. We are yet to publish a full analysis of the impact of the election. However, Trump's agenda includes tariffs, tax extensions, migration restriction and deregulation and we see some risks to growth emerging someway through a Trump second term.

Global Macro Monthly – Eurozone

Hugo Le Damany,
Eurozone Economist
Macro Research

François Cabau,
Senior Eurozone Economist
Macro Research

A positive surprise on GDP growth

The preliminary estimate for first quarter (Q1) Eurozone GDP growth came on the strong side at a quarterly 0.3%, above consensus (0.2%) and our forecast (0.1%). Once again, there was strong divergence across countries with peripheral countries such as Spain and Portugal rising by 0.7% each while Germany and France each came in at a softer 0.2%. We have only incomplete country breakdowns, but it seems that services exports (tourism spending) in peripheral countries and construction in Germany and Italy were key contributors. Domestic demand was entrenched in positive territory in France and Spain but was weaker in Germany and Italy which however posted positive net exports.

May's Purchasing Managers' Indices (PMIs) signalled another good month for services (flat at 53.3) and some improvement in the manufacturing sector to 47.4, up 1.7, although this remains in contraction territory of below 50. Despite improvements in PMIs since the beginning of Q2, we remain cautious and do not extrapolate too much from this as April European Commission surveys were poorer.

Overall, we maintain our view of slow but gradual recovery, mostly driven by recovery in private consumption and net trade. But we doubt this will be plain sailing and pencil in a deceleration in Q2 GDP growth to 0.1% and 0.2% in Q3, due to the normalisation of exceptional contributions from construction in Germany (due to mild weather) and in Italy (end of Superbonus at 110%). It is only thereafter that we expect growth to stabilise not far from potential at 0.3%.

The Q1 data improves the outlook for 2024, despite small revisions to Q4 2023 to -0.1% quarter-on-quarter (from 0.0%). We revise our forecasts to 0.6% growth in 2024 and 1.1% in 2025 (+0.3 percentage points (ppt) each).

Still no productivity gains

Employment grew again at a sustained pace of 0.3% on the quarter, matching GDP growth. That suggests productivity has probably stopped deteriorating and stabilised at around 2ppt below Q4 2019's level. At the same time, European Central Bank (ECB) data for Q1 negotiated wages came in at an annual 4.7%, above forecasts, although this is largely due to delayed wage settlements in Germany. This combination means unit labour costs remained high in Q1 (official data is out the first week of June). Relatedly, we (and the market) were surprised by the resilience of services inflation. Surprises were not substantial and unlikely to change the overall direction but will likely delay a more marked deceleration in services inflation until after the summer, rather than first signs in the spring.

For the near term, this does not impact our long-standing expectation of the ECB cutting interest rates by 25 basis points (bps) in June. All Governing Council members have confirmed they intend to reduce the policy rate. There are plenty of arguments in favour, including weak economic performances (in relative terms to a potential growth rate that we believe is around 1.25% per year), headline inflation close to the 2% target and rates still in restrictive territory.

Beyond June, the ECB outlook is less certain. Wages are decelerating (Exhibit 2), but the evolution of productivity and services inflation are likely to make the ECB rather prudent on lowering interest rates going forward. Thus, we maintain our call of 25bp cuts in September and December when the ECB updates its macroeconomic projections.

Exhibit 2: ECB wages data picked up at 4.7%, but Indeed wages tracker still points to deceleration ahead

Source: ECB, Indeed and AXA IM Research, as of May 2024

A large centrist coalition is still the baseline

As we wrote at the beginning of the year in our election preview, we do not think European elections, scheduled for 8-9 June, are a major event for financial markets. We continue to believe that economic direction and priorities are set by the Commission or the European Council. By contrast, the Parliament enacts laws and can influence the agenda. Despite a breakthrough of far-right party Identity and Democracy, it seems the European People's Party (centre-right) should be able to renew a large centrist and pro-European coalition.

Global Macro Monthly – UK

Gabriella Dickens
Economist (G7)
Macro Research

Earlier election, later rate cut

The UK bounced back from technical recession in the second half of 2023, with GDP rising by a chunky quarterly 0.6% in Q1. Net trade accounted for around two-thirds of that rise but the fall in imports looks erratic and should reverse in Q2 (or be revised lower). Nonetheless, we expect the recovery to continue this year. Household spending – which rose by 0.2% in Q1 – looks set to pick up as rising confidence spurs households to spend, rather than save, any additional cash from rising real incomes. Government spending looks set to normalise as strike action eases. We expect growth to slow to 0.2% in Q2 and then hover around 0.3% in Q3 and Q4. As a result, we have revised our 2024 forecast higher to 0.7% from 0.4%.

The Bank of England's Monetary Policy Committee (MPC), meanwhile, kept Bank Rate unchanged at 5.25% in May, as expected, but the vote split shifted further in favour of the doves (0-7-2). New Consumer Price Index (CPI) forecasts also signalled the MPC expects to cut interest rates this year, with the headline rate at 1.9% in two years' time, compared to 2.3% in the February report.

However, April's CPI inflation release took a June rate cut off the table. While the headline rate fell to 2.3% – its lowest since July 2021 – from 3.2%, that was above the MPC's expectations of 2.1%. Core inflation also ticked down; but at 3.9%, it was well above the expected 3.6%. Most worryingly, upside surprises were focused in the services sector, leaving services inflation just 0.1 percentage points (ppt) lower at 5.9%. We now expect the MPC to enact the first cut in August, allowing more time (and evidence) to persuade the three members needed for a majority that second-round effects on wages and domestic pressure are easing as they hoped. We expect a further 25 basis points cut in November.

Prime Minister Rishi Sunak also surprised markets, announcing the General Election would take place on 4 July, sooner than the Q4 we expected. Labour have held a chunky 20-point poll lead over the past 12 months, so a Labour government seems the likely outcome, despite an expected typical pre-election poll narrowing of around 7ppt. Tighter fiscal policy next year seems inevitable, given the fragility of public finances, but more fiscal rectitude could follow. Improved certainty, meanwhile, should support growth in the near term. A significant Labour majority would likely be positive for the economic outlook.

Global Macro Monthly – Canada

David Page
Head of Macro Research

Cross-currents to set when easing occurs, not if

The ebb and flow of data will determine the timing of the Bank of Canada's (BoC) first rate cut. Q1 GDP looks set to miss the BoC's annualised 2.8% forecast, with monthly data revised lower to 0.5% in January, falling short of preliminary estimates for February at 0.2% (from 0.4%) and suggested flat in March. We forecast Q1 GDP at 2.4% annualised and leave our annual GDP forecasts at 1.2% for this year and 1.7% next – shy of the BoC's 1.5% and 2.2%. This is consistent with the recent easing in business and consumer confidence that has retreated from Q1's sharp rebound.

Yet March's employment fall reversed in April, rising by 90k on the month, leaving the monthly average gain at a solid 42k (including March's dip) year-to-date pace that exceeds the average increases in 2022 and 2023. Admittedly unemployment remains at 6.1% – its highest since early 2022 and over 1ppt above 2022's consistent lows. Yet this reflects strong labour supply growth – driven by high immigration. Wage growth, having softened in February and March, returned to a strong 0.6% monthly pace in April.

Following April's meeting that recorded "progress on most indicators of underlying inflation" and removed guidance against immediate loosening, we believe the BoC is primed to begin easing policy. April's Consumer Price Index (CPI) inflation fell to 2.7% – a 3-year low – and core measures also eased further with the recent 3-month annualised trend below 2%. We acknowledge the balance of the cross-currents in economic data leaves June's BoC meeting a close call, but we continue to hold our forecast that it will reduce its policy rate by 0.25% to 4.75% only in July, with the benefit of a full set of revised forecasts.

More important than the timing of the first cut is the pace of easing thereafter. BoC Governor Tiff Macklem has stated the BoC will likely proceed at a "gradual pace". Yet we continue to forecast three cuts this year (to 4.25%) – with the BoC likely to ease again in September and October reflecting softer Canadian growth and worrisome developments in the US – before slowing the pace to a further three cuts over the whole of next year (to 3.5%). By contrast, market expectations have swung from considering seven rate cuts by end-2024 at the start of the year, to now not fully pricing in two. Markets expect cuts to below 4% by the end of 2025.

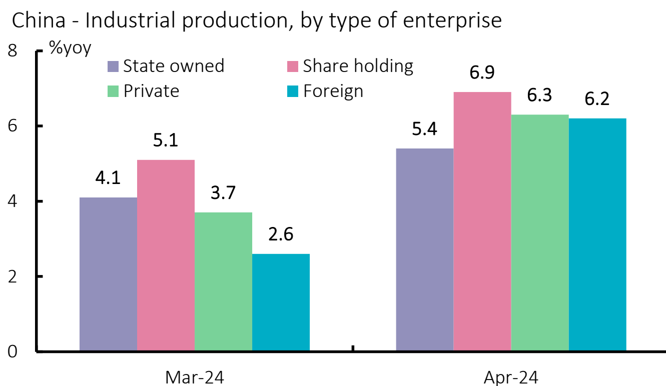
Global Macro Monthly – China

Yingrui Wang
Economist (China)
Macro Research

Unbalanced growth but industrial output excels

China's economy grew a robust 1.6% on quarterly basis in Q1, driven by substantial state investment in manufacturing capital expenditure and infrastructure projects. April’s data reflected this investment, with industrial output surpassing market expectations and growing by 6.7% year on year – accelerating from 4.5% in March. Notably, private and foreign enterprises outperformed state-owned enterprises (Exhibit 3), potentially shifting their outlook on China and encouraging investment, which has so far lagged. The solid industrial output also bodes well for the labour market, particularly migrant workers who form the primary workforce in the manufacturing sector. The unemployment rate fell to 5.0% in April.

Exhibit 3: Private and foreign enterprises output picked up



Source: CEIC and AXA IM Research, May 2024

However, April’s subdued retail sales highlighted the still-fragile momentum in the consumer sector, underscoring the lack of progress here. Consumers were severely affected during the harsh COVID-19 lockdown period – balance sheets deteriorated, and confidence reached an historic low at the end of 2022. Despite this, policy measures have continued to focus on production sectors, resulting in a rocky recovery in private consumption. On the positive side, consumer confidence has been improving, though it still remains low. Additionally, Beijing has begun to shift policy support towards consumers, announcing a time-limited trade-in programme for environmentally cleaner cars at the end of April. Although the impact was not evident in April's data, it is likely to bring forward demand over the coming months and boost overall consumption.

A private consumption recovery is crucial for long-term economic development. China’s economic growth became increasingly unbalanced during the pandemic and the recovery period. As Beijing prioritises restoring economic growth, state-led investment has again emerged as the growth engine. While this guarantees efficient policy implementation under government guidance and offers a better multiplier effect than other alternatives, it is unsustainable. It not only adds to the fragility of local government balance sheets, but it also exacerbates resource allocation issues. Moreover, state-led investment in manufacturing threatens to create overcapacity in some sectors. Not only does this leave China’s growth increasingly reliant on external demand (again), it is also adding to geopolitical tensions.

The US recently extended tariff hikes on certain Chinese imports, underscoring the importance and urgency of structural reform in China’s economy. Although the revised tariffs are seen as symbolic, affecting only 4% of Chinese goods exported to the US and 0.5% of China's total exports, they target mainly high-tech manufacturing goods, potentially jeopardising China's long-term growth strategy in this area. Additionally, the US has urged other Western allies, such as the European Union (EU), to adopt similar measures. The EU is already reviewing several Chinese exports as it is concerned about unfair state competition.

More efforts to stabilise the property market

Property market turmoil continued in April, with house prices nationwide extending their decline. Beijing has intensified efforts to stabilise the market by announcing additional support measures. These include a reduction in the minimum down payment ratio for first and second properties to an all-time low; a removal of the floor for residential mortgage rates to allow free competition between creditors; and a reduction of interest rates on housing provident fund loans – an important and affordable funding source for Chinese home buyers. Beijing has also called for direct intervention by local governments, encouraging them to purchase inventory from property developers (at a discount) to convert into affordable housing. This is significant and has the potential to meaningfully reduce supply-side pressure. However, execution could be challenging given that many local governments already have very stretched balance sheets. The People's Bank of China has announced a re-lending programme of RMB300bn to provide funding support for housing stock purchases, which could generate up to RMB1tn in bank financing, including RMB500bn of Pledged Supplementary Lending. However, this still far from covers the value of the total saleable inventory, estimated to be around RMB13tn. Given that we envisage further long-term price problems in housing, it risks creating further pressures for the government balance sheet.

30 May 2024

Global Macro Monthly – Japan

Gabriella Dickens,
G7 Economist
Macro Research

Further hikes in Q3 and Q4, but BoJ still cautious

The Bank of Japan (BoJ) kept its policy interest rate at 0%-0.1% at its April meeting. It said it would continue to purchase Japanese government bonds (JGBs), commercial paper and corporate bonds in line with the decision made at its March meeting. It did, however, remove the part of the statement pertaining to the exact amount of JGB purchases and has since scaled back purchases of bonds with five-to-10-year maturities to ¥425bn, from ¥475bn. The yield on the 10-year JGB has risen to 0.975%, a 10-year high, amid speculation the BoJ will continue to reduce purchases across different maturities.

BoJ signals have been broadly positive; the board, for instance, revised up its forecast for CPI inflation excluding fresh food by 40-basis points (bps) in fiscal year 2024, and by 10bps in fiscal year 2025, due to expectations that the output gap will improve and longer-term inflation expectations will rise as the "virtuous cycle between wages and prices continues to intensify". The board also stated that "in the second half of the projection period, it is likely to be at a level that is generally consistent with the price stability target". It has become more positive in its assessment that wage growth is rising sufficiently in recent communications.

We maintain some caution, though. First quarter (Q1) GDP data showed a renewed drop, with activity falling by 2% annualised, below the consensus of -1.5%. That partly reflected a few one-off factors, including a temporary shutdown at auto producers at the start of the year. But the weakness was, nonetheless, broad-based. A modest rebound from Q2 looks likely, as wage growth starts to outpace Consumer Price Index (CPI) inflation, supporting consumption, and as the weaker yen boosts exports. But uncertainty remains; if households choose to save the additional cash, or if rising prices caused by a weaker yen pumps the break on spending, the economy may struggle further.

We now expect two 10bp hikes this year, one in Q3 and one in Q4, and then two further 10bp hikes in 2025, leaving the short-term policy rate at 0.3% by end 2024, and 0.5% by end 2025. This is on the dovish side but we think the global backdrop will make things tougher for the BoJ in the summer once softer data starts to shift market expectations for the Federal Reserve. And firms may have a stronger position in the 2025 Shunto wage negotiations if the economic recovery is weaker than expected, leading to weaker pay growth.

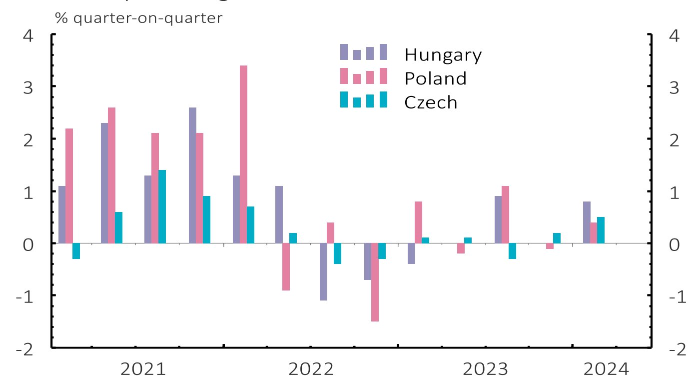
Global Macro Monthly – EM Europe

Irina Topa-Serry,
Senior Economist (Emerging Markets),
Macro Research

2024 started on the right footing

Following a very lacklustre 2023, early estimates of activity growth in Central and Eastern European (CEE) economies show a good start to the year. On a quarterly basis, Q1 GDP accelerated by 0.4% in Poland, 0.5% in the Czech Republic and 0.8% in Hungary – surprising on the upside in the latter two. Poland's growth rate, however, fell short of market expectations – we have noted extreme volatility in the quarterly growth profile since 2022 which makes forecasting quite a difficult exercise. Still, Polish GDP accelerated from -0.1% in Q4 2023 and the recent strong data releases – with industrial production up 7.9% year-on-year in April and business and consumer confidence continuing to improve in May – bode well for this momentum to continue into Q2 (Exhibit 4).

Exhibit 4: CEE activity growth accelerated in Q1 2024



Source: LSEG Datastream and AXA IM Research Q1 24

Without a detailed breakdown by component at this stage, we suspect that private consumption was the main driver behind the sequential growth acceleration, with real household incomes supported by continued disinflation. Investment is likely to have stayed rather weak and is expected to rise only gradually into 2025 as European Union funds absorption increases and the Eurozone economy accelerates. We foresee GDP weighted growth in the three aforementioned CEE countries to accelerate to 2.1% this year from -0.1% in 2023 (then to 3.4% in 2025). Disinflation progress is well advanced as supply side shocks have faded but we foresee a rather bumpy inflation profile in the second half of this year. With positive real rates, monetary policy easing is expected to continue, echoing expected easing from the European Central Bank.

30 May 2024

Global Macro Monthly – EM Asia

Danny Richards,
Economist (Asia Emerging Markets),
Macro Research

First quarter growth – "same same, but different"

A Q1 review of GDP growth across major economies suggests convergence. On a quarterly basis, Malaysia and Indonesia expanded by 1.4%, slightly ahead of Korea and the Philippines (1.3%) and Thailand (1.1%). However, an analysis of expenditure components exposes some similarities, but also marked differences in performance.

There are similarities in private consumption growth, which has stayed positive despite high interest rates, with government subsidies to a varying degree still shielding households from high food and fuel prices. Thailand's economy is among the weakest in the region but private consumption has been healthy, rising by 1.2% quarter-on-quarter in Q1. Private consumption also picked up in Malaysia, rising by 1.8%, bouncing back from a 1.0% decline in the preceding quarter. In Korea, consumption had been flat during 2023 but saw its fastest growth in six quarters in Q1, rising by 0.8%. The pace of expansion slowed in the Philippines to 0.4%.

However, there was a mixed performance on the investment front in Q1, with growth of 2.8% in Malaysia and 1.5% in South Korea but a drop of 3.1% in Thailand. The external sector has been similarly divergent, particularly when assessing the contribution to growth. In Korea, stronger exports combined with weaker imports meant that net exports contributed 0.7 percentage points (ppt) to Q1's overall 1.3% growth. Conversely, in Thailand import growth outpaced weak exports, such that net exports detracted 2.4ppt from overall growth, and a similar dynamic played out in Malaysia, with net exports making a negative contribution of 1.7ppt. The impact on overall growth was offset by a positive contribution from the change in inventories in both Thailand and Malaysia.

The clustering of quarterly GDP growth is not expected to be repeated in the coming quarters, not least because trends in consumption still hinge on the timing of interest rate cuts and the unwinding of subsidies. Nevertheless, the outlook for the region is broadly positive. Tourism is expected to continue to recover towards pre-pandemic levels, and the upturn in the technology cycle (currently centred on Korea and Taiwan's high-end semiconductors) will generate positive spillovers to other export-oriented economies in the region. This in turn could support an improvement in investment, particularly in markets benefiting from 'China+1' investment strategies.

Global Macro Monthly – LatAm

Luis Lopez Vivas,
Economist (Latin America),
Macro Research

A hawkish shift

Global financial conditions have tightened, leading regional central banks to adopt a more cautious stance in their ongoing easing cycles. Earlier this month, Mexico's central bank policymakers unanimously decided to hold the interest rate at 11%. This pause came early in the easing cycle, which began just one meeting ago in March with a 25 basis-point (bp) cut. They expressed concerns over persistent services inflation, prompting an upward revision of the bank's 2024 inflation forecast to 4.0% from 3.9%.

Similarly cautious, Brazil's central bank reduced its policy rate by 25bps to 10.50%, slowing its easing pace from the previous 50bp cuts. In a split 5-4 decision, the central bank president's vote was decisive, but the four board members appointed by President Luiz Inácio Lula da Silva favoured a larger 50bp cut. Markets reacted negatively, fearing increased dovishness as Lula appoints two more members in January. Despite the lack of explicit forward guidance, the policy statement contained hawkish comments about unanchored inflation expectations, resilient economic activity and a more adverse external environment. Consequently, inflation forecasts for 2024 and 2025 were revised upwards by 30bps and 10bps to 3.8% and 3.3% respectively, exceeding the 3.0% target.

Meanwhile, Colombia's central bank cut rates by 50bps to 11.75% but refrained from a larger 75bp reduction. It is considering whether to accelerate the pace of cuts, but tighter external financial conditions and an improved growth outlook supports a more cautious approach for now. It raised its 2024 GDP growth projection to 1.4% from 0.8%, reflecting stronger-than-expected economic activity early in the year. Going forward, the medium-term fiscal framework to be submitted in June should also play a role in the central bank's calculations.

In Peru, the central bank reduced its policy rate by 25bps to 5.75%, due to slow economic activity and lower-than-expected inflation. April's inflation was -0.05% month-on-month, bringing the year-on-year rate to 2.4%, the lowest since February 2021. Despite better-than-expected GDP growth, mostly driven by base effects, political uncertainty continues to hinder investment and growth, justifying further rate cuts.

AXA Investment Managers

30 May 2024

Macro forecast summary

Real GDP growth (%)	2023	2024*		2025*	
	AXA IM	AXA IM	*Consensus*	AXA IM	*Consensus*
World	3.2	3.2		3.2	
Advanced economies	1.7	1.5		1.4	
US	2.5	2.4	2.3	1.6	1.8
Euro area	0.5	0.6	0.5	1.1	1.5
Germany	0.0	0.0	0.1	0.9	1.5
France	0.9	0.8	0.7	1.0	1.3
Italy	1.0	0.7	0.7	0.7	1.2
Spain	2.5	2.4	1.7	2.1	1.9
Japan	1.9	1.2	0.6	1.0	1.0
UK	0.3	0.7	0.3	1.2	1.2
Switzerland	0.8	0.8	1.2	1.3	1.5
Canada	1.1	1.2	0.9	1.7	1.9
Emerging economies	4.2	4.1		4.2	
Asia	5.3	5.2	4.0	4.7	
China	5.2	5.0	4.7	4.2	4.4
South Korea	1.3	2.3	2.1	2.3	2.2
Rest of EM Asia	5.9	5.6		5.6	
LatAm	2.3	1.8		2.6	
Brazil	2.9	1.6	1.8	2.0	2.0
Mexico	3.3	2.2	2.2	2.1	2.2
EM Europe	3.0	3.0		2.9	
Russia	3.6	3.2	2.3	1.8	1.1
Poland	0.2	2.8	2.9	3.5	3.4
Turkey	4.3	3.0	2.5	3.6	3.2
Other EMs	2.2	2.9		4.2	

Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 30 May 2024
**Forecast*

CPI Inflation (%)	2023	2024*		2025*	
	AXA IM	AXA IM	*Consensus*	AXA IM	*Consensus*
Advanced economies	4.7	2.8		2.3	
US	4.1	3.3	2.9	2.5	2.3
Euro area	5.5	2.5	2.3	2.2	2.1
China	0.2	0.6	0.8	1.6	1.9
Japan	3.3	2.2	2.4	1.6	1.5
UK	7.3	2.4	2.5	1.8	2.0
Switzerland	2.1	1.6	1.3	1.3	1.3
Canada	3.9	2.6	2.5	2.6	2.0

Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 30 May 2024
**Forecast*

These projections are not necessarily reliable indicators of future results

Forecast summary

Central bank policy Meeting dates and expected changes (Rates in bp / QE in bn)		Current	Q2-24	Q3-24	Q4-24
United States - Fed	Dates	5.50	12 June	30-31 Jul 17-18 Sep	6-7 Nov 17-18 Dec
	Rates		unch (5.50)	-0.25 (5.25)	-0.25 (5.00)
Euro area - ECB	Dates	4.00	6 June	18 Jul 12 Sep	17 Oct 12 Dec
	Rates		-0.25 (3.75)	-0.25 (3.50)	-0.25 (3.25)
Japan - BoJ	Dates	0 - 0.1	13-14 June	30-31 Jul 19-20 Sep	30-31 Oct 18-19 Dec
	Rates		unch (0-0.1)	+0.10 (0.1-0.2)	+0.10 (0.2-0.3)
UK - BoE	Dates	5.25	20 June	1 Aug 19 Sep	7 Nov 19 Dec
	Rates		unch (5.25)	-0.25 (5.00)	-0.25 (4.75)
Canada - BoC	Dates	5.00	5 June	24 Jul 4 Sep	23 Oct 11 Dec
	Rates		unch (5.00)	-0.25 (4.75)	-0.50 (4.25)

Source: AXA IM Macro Research - As of 30 May 2024

These projections are not necessarily reliable indicators of future results

Download the full slide deck of our May Investment Strategy

30 May 2024

Our Research is available online: www.axa-im.com/investment-institute

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