April 2023

Slowing Slowly

MACRO DASHBOARD

BARINGS

23-2838682

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- Growth and the labor market are resilient but slowing, while core inflation proves sticky. Contrary to current market pricing, the Fed has more work to do before it can claim victory in its fight against inflation, and tightening credit conditions will lend it some support. Given the strong starting point, the path to lower inflation will be slow. The recent banking sector turmoil led us to downgrade growth in 2024 and increase the risks of our downside scenario.

Europe Overview..13-15

- Growth and inflation continue to show more resilience than expected. While base effects have started to push headline inflation down, core remains stubbornly high. It usually follows headline with a lag. If this is not the case, the ECB may be forced to bring its policy rate above the 3.5% currently priced in by markets.

Asia Pacific Overview...16-18

- China's domestic consumption recovery should pick up steadily and be a dominant driver of growth this year. This will be led by a rebound in the services sector, fueled by pent-up demand. However, savings preferences and physical bottlenecks could limit the upside from here. Returning migrants may also have difficulty finding jobs while global spillovers are likely to be smaller and different. Japan is set to pivot away from ultra-accommodative policy.

April Outlook—Slowly Slowing

One year since the inception of our Stagflation Shock scenario, the global economy continues to face elevated inflation and falling growth. Both are slowing, but they are slowing -- slowly. And the descent has not been smooth. China's property sector crackdown cooled a key engine of growth, the Ukraine war threatened Europe's recovery from the pandemic, and most recently, banking sector turmoil shocked U.S. markets. But recession forecasts continue to be postponed, even as an extremely aggressive global rate hiking cycle keeps investors on edge for what may break next.

Despite the turbulence, there are several atypical factors keeping the economy on course. Both U.S. and euro area households are supported by savings buffers built up during lockdowns. Labor markets, while starting to cool, remain strong, supporting nominal wage growth and spending. Companies were able to take advantage of low interest rates and successfully pass on higher prices to consumers. Also, order book backlogs remain a driver of industrial production. China's current re-opening provides promise to its domestic economy and hope for international tourism destinations. Moreover, while PMIs have been cooling, the declines are overstated by easing supply chain delivery times which are a drag on headline indices.

The **U.S.** economy should slow substantially in the second half of the year, driven by the depletion of savings buffers, the tightening of credit conditions, the cooling of consumption, and firms' margin pressures. Inflation will trend down, but the path will be bumpy, requiring additional Fed rate hikes this spring. Firms will respond to slower growth and higher funding costs by some increase in layoffs. Yet, a shortage of workers exacerbated by an ageing population points to a limited rise in unemployment. Many firms did not find enough workers to meet demand in the last three years. Any recession -- this year or next -- should be short and shallow.

In the **euro area**, growth and inflation have proved more robust than expected. A solid banking sector allowed the region to avoid severe contagion from stress across the Atlantic. Base effects should now help cool inflation, aided by a few more ECB rate hikes. Risks skew toward more, rather than fewer, hikes if the downward trend in inflation proves more elusive than expected.

In **China**, lockdowns plagued the economy for much longer than the rest of the world. Delayed re-opening will make it the only major economy to experience faster growth this year than last. However, the rebound will mostly rely on domestic consumption. The rest of the world will benefit from less uncertainty and more tourism.

We have upgraded our **Stagflation Haze** scenario from 60% to 70% as slowing growth and above-target inflation continue to define the outlook. The recent tightening in U.S. financial conditions has led us to downgrade our **Boiling Over** scenario, in which growth and inflation continue to come in hot and force central banks to deliver many more rate hikes, with odds down from 30% to 10%. Similar reasons have led us to boost the odds of our **Steeper Slide** scenario from 10% to 20%, in which the economy is not strong enough to withstand the aggressive tightening and slips into a more traditional recession this year.

While fears of a recession have been elevated over the past year, economies have shown resilience thus far. The path ahead is surely lower, but unless another exogenous event blows the global economy off course, the journey to lower inflation, via elevated policy rates and slowing growth, will still take time.

--Kathryn Asher, Associate Director, Economist,
Barings Investment Institute

United States: Scenarios

	Stagflation Haze *(70%)*		***Steeper Slide*** *(20%)*		***Boiling Over*** *(10%)*	
In percent	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**
Growth	1	1*	-0.5	1	2.5	-1
End-Year Inflation	3.5	2.5	2	2	5	2
Unemployment	4	4.5	5	6	3.5	5
End-Year Policy Rate	5.5	4.5	5	2	6.5	3
End-Year 10y Rate	4	3.5	3	3	4.5	4
Summary	**A robust economy** requires more policy tightening to cool down. This is not just a problem of long policy transmission lags. China's reopening supports global activity. Inflation trends down but only slowly and returns to a level just above target at the end of the horizon. The rise in unemployment and credible disinflation mean **the Fed can cut in mid-2024**. This boosts growth next year. The curve stays inverted as real rates remain restrictive, but recession is avoided.		The economy is **not strong enough** after all to absorb this many hikes. Traditional recession comes this year and secular stagnation returns in 2024. The Fed starts cutting in 2024. The yield curve inverts further in 2023.		**Disinflation slows down** due to robust demand from strong labor markets, savings and bank lending. Firms can pass through higher costs to retail prices. The Fed must raise the ante and a recession becomes unavoidable. **Yet, firms continue to hoard labor and absorb the higher cost of capital with margins compression**. Lower funding rates from curve inversion help them. 2024 sees a recession without a commensurate rise in unemployment, as corporate balance sheets absorb the shocks.	

The above represent the views of the Barings Investment Institute as of April 6, 2023 and is subject to change at any time. These predictions may not come to fruition.
* Asterisks indicate updated estimates from last dashboard.

Euro Area: Scenarios

	Stagflation Haze _(70%)_		**_Steeper Slide_** _(20%)_		**_Boiling Over_** _(10%)_	
In percent	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**
Growth	0.5	1.5	-0.5	0.5	1.5	0.5
End-Year Inflation	3	2	2	1	4	2
Unemployment	6.5	6	7.5	8	6	7
End-Year Policy Rate (Depo)	3.75*	3.25	2.75	1	4.25*	2.5*
End-Year 10y Rate (Bund)	2.75	3*	1.5	2	3*	2.25
Summary	Europe overcame risks of energy shortages and **growth will be positive this year**, driven by strong labor markets, high savings, and China's pent-up demand. However, core inflation remains high, and the ECB needs to tighten policy further to guide inflation expectations down. By the summer, the ECB will take stock of the transmission of policy tightening on consumer spending and investment.		Europe **cannot avoid a recession**. The impact of war, elevated energy prices and ECB tightening is stronger than expected on the economy. Confidence weakens, hurting spending and investment. The ECB starts cutting in the second half of 2023 as growth grinds to a halt.		**Wage growth may take off**, keeping inflation high. An escalation of the war could also raise commodity prices again. Tighter Fed policy keeps pressure on the ECB to do more. Stronger U.S. demand benefits growth in 2023. The extreme policy tightening causes the yield curve to invert a lot. The curve steepens slightly when it is clear the ECB needs to cut in 2024.	

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Asia: Scenarios

In percent		Stagflation Haze 2023	Stagflation Haze 2024	Steeper Slide 2023	Steeper Slide 2024	Boiling Over 2023	Boiling Over 2024
China	Growth	5	5.5	4.5	5	6	4.5
	End-Year Inflation	3	2	2.5	2	3.5	2.5
	Surveyed Unemployment	5	5	5.5	5	5	5.5
	End-Year Policy Rate (MLF)	2.75	2.75	2.65	2.65	2.85	2.95
	End-Year 10y Rate (CGB)	3	3.25	2.75	3	3.25	3.25
	Summary	Re-opening returns **consumption to trend** by 2024. Weak exports growth and property sector challenges weigh on investment. The **gradual recovery** helps limit inflation pressures.		Consumption takes longer to return to trend as **households remain cautious** about the outlook. The impact of weak exports in 2023 as global growth declines keeps growth below potential.		**Pent-up demand** and savings drawdown lead to a robust consumption recovery in 2023. This, together with lingering supply constraints, raises inflation and modest rate hikes. Global growth is a tailwind in 2023.	
Japan	Growth	1	1.5	0.5	1	1.5	0
	End-Year Inflation	2	2	2.5	1	1	1.5
	Unemployment	2.5	2.5	2.5	3	3	2.5
	End-Year Policy Rate	-0.1	-0.1	-0.1	-0.1	0	-0.1
	End-Year 10y Rate (JGB)	0.75	1	0.5	0.75	1	0.5
	Summary	**Continued domestic recovery** with yield curve control gradually abandoned in 2023. Yields drift only gradually higher until the Bank of Japan (BOJ) finds inflation more sustainable, possibly toward the end of 2024.		**Negative trade spillovers** in 2023 before a broader recovery takes hold in 2024. Yield curve control is abandoned but yields are anchored by weak growth and ebbing inflation.		**Trade tailwinds** lift 2023 growth before receding in 2024. Inflation becomes sustainable and paves the way for BOJ hikes, only to return to cuts by 2024 due to weak global demand.	

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Scenarios: Market Implications and Risks

	Stagflation Haze *(70%)*	***Steeper Slide*** *(20%)*	***Boiling Over*** *(10%)*
Market Implications	**Mild risk off** as markets price higher policy rates for longer. 2024 will see a better risk environment as enough evidence of falling inflation will have emerged for central banks to switch toward a more accommodative stance. **Bonds** sell off on the repricing of Fed cuts and slow downward trend in core inflation. Short duration for carry. Bullish **USD** in that period, both on risk off and the pricing out of early Fed cuts. Then the USD weakens as inflation comes down. **Stocks** face a bumpy ride as rates adjust up and get little support from earnings moderating, before stabilizing in 2024.	**Risk off** given recession but rate cuts will support interest-rate sensitive sectors. Supportive **duration** as in a classic recession. **FX** strength will depend on where recession is the strongest and the central bank cuts first. During synchronized slowdowns, the **USD** tends to outperform.	**Initially bullish risk assets** with higher equity prices and tighter spreads. It turns risk off when it becomes clear **central banks will hike much more than expected**. Preference for **short duration** as markets reprice higher rates in 2023. Duration will benefit next year as the recession bites. Firms' profits suffer, hurting equity markets even as the Fed cuts in 2024. Bullish **USD** as the Fed hikes more than priced in. Less clear next year depending on the extent and pace of rate cuts across regions.

What will change the odds?	Faster depletion of savings, credit tightening, and fiscal contraction may lead to a sudden drop in spending. Supply chain easing may allow inflation to drop much faster than expected. China's reopening or escalation in Ukraine could accelerate global inflation.	Resilient consumer demand Strong corporate balance sheets reducing firms' demand for credit.	Weakness in the labor market and demand, rapid exhaustion of savings, faster re-entry of workers to the labor force. China's difficulties with its recovery could dampen global demand and prices.
Data to watch	Demand indicators (retail sales, wages) U.S. participation rate Corporate margins Services ex. energy and shelter inflation	Retail sales PMIs Industrial production Chinese consumption	Labor market indicators (vacancies, participation, unemployment, wages) Corporate margins Commodities prices

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What Changed Since February

WHAT'S NEW

- **Banking sector stress**, as depositors seek remuneration and many U.S. banks hold large bond books with unrealized losses.
- **Upside surprise in EA economic strength,** signaling growth in Q1.
- **Strong rebound in Chinese consumer spending.**
- **New BoJ governor Kazuo Ueda** faces a daunting communication challenge as markets gauge his reaction function.

WHAT WE LEARNED

- **U.S. recession risks have increased** amid the banking crisis despite growth remaining strong.
- **Euro area banking sector** can withstand shocks to confidence.
- Though not yet outright pivoting, **the PBOC** is front-loading monetary policy support to help maintain the re-opening momentum.

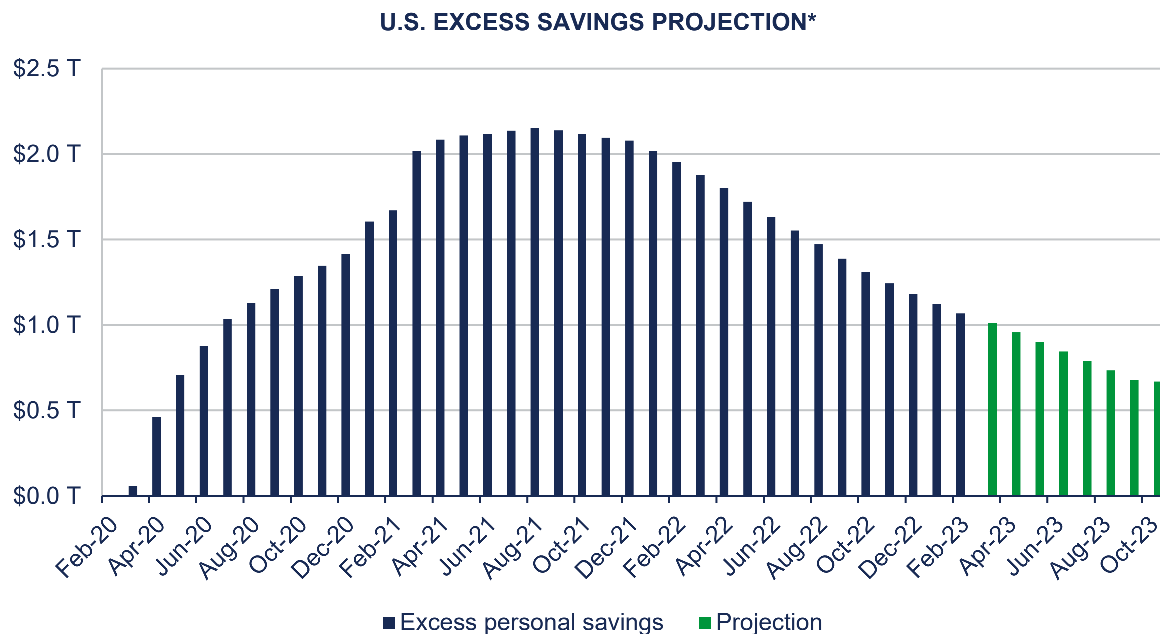
WHAT WE ARE HEARING FROM OUR TEAMS

- Much less issuance in HY and IG.
- The structural tightness in the commodity complex is being overshadowed by fears of recession weighing on prices.
- Stronger earnings season than feared, but focus remains on margin pressures ahead.
- Bullish EM because central banks have inflation under control and corporates appear resilient to rate hikes.

WHAT WE ARE WATCHING

- Uptake at the Fed liquidity windows
- Credit conditions
- U.S. layoffs beyond tech and transportation/warehousing
- Resilience in services demand in the U.S., Europe and China
- U.S. debt ceiling negotiations
- China's demand for services
- Geopolitical tensions

Monthly Spotlight: How Long Will U.S. Savings Buffers Last?



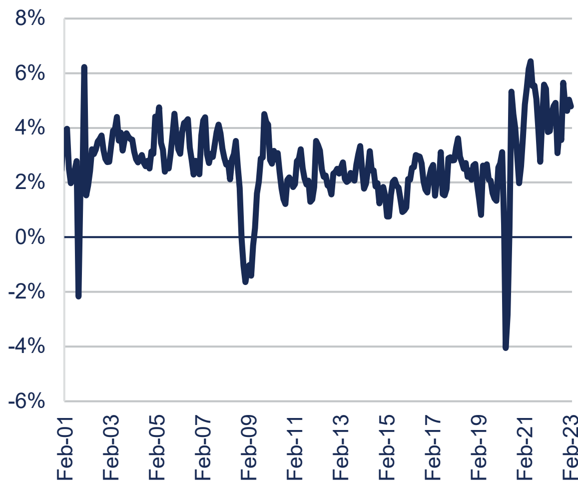
- Households have $1.1 trillion in excess savings in data to February, which continue to support spending—particularly for services—growth and elevated inflation.
- **A key question is how long these savings will last.**
- When accounting for (1) the distribution of savings across income groups; and (2) each income group's marginal propensity to consume (MPC), and assuming savings continue to be drawn down at the same pace, **excess savings would be depleted by October 2023**.
- We adjust the pace of spending for various MPCs because lower-income cohorts spend a greater share of liquid assets, while higher-income households spend a smaller share. Meanwhile, savings buffers are currently skewed toward higher income households.
- This suggests that while growth is certainly slowing, excess savings can continue to **provide a buffer to growth and keep the downward trend in inflation sticky in the near-term**.
- **The back half of the year should see a greater economic slowdown, driven by both the end of excess savings and the pass-through of policy tightening to lending standards**.
- The path of savings buffers could differ from the one estimated here if consumer spending unexpectedly re-accelerates or, on the contrary, if sentiment sharply deteriorates, raising households' preference for precautionary savings. The latter would be in line with our Steeper Slide scenario, where growth weakens fast.

*Excess savings compared with pre-pandemic savings rate. As of April 5, 2023.
Source: Haver, Federal Reserve, Carroll, Slacalek, Tokuoka, and White, and Barings calculations.

United States

INFLATION is sticky and well-above the Fed's average 2% target

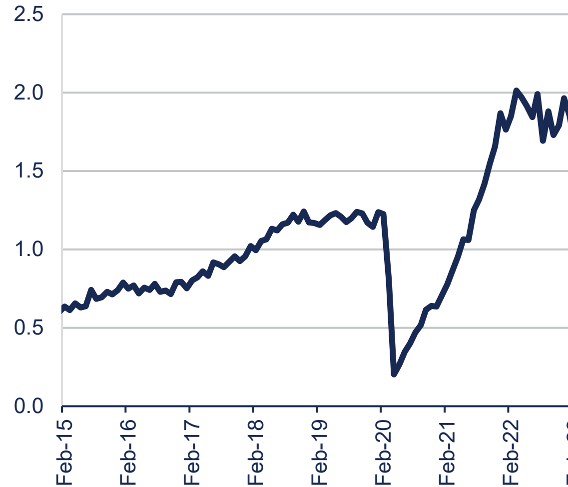
PCE: CORE SERVICES EXCL. HOUSING (3-MO MA ANNUALIZED %)



- Stabilization in energy prices and cooling in used car prices have driven headline inflation down. However, core inflation, particularly in services, remains very sticky and far above the Fed's target.
- The FOMC is keeping a close eye on core services excluding housing PCE inflation, which has continued to trend higher.
- While inflation is expected to continue to decelerate, this will keep its descent slow and bumpy.

The LABOR MARKET remains very tight, but has passed its peak

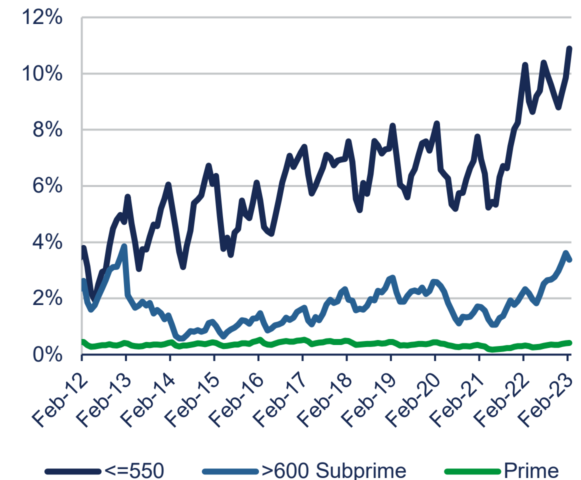
JOB OPENINGS PER PERSON UNEMPLOYED



- Labor demand has begun to cool from very strong levels but continues to outpace supply by a wide margin. There are 1.7 open positions per person unemployed as of February, well-above pre-pandemic levels.
- Layoffs have ticked slightly higher, but remain low on aggregate and concentrated, for now.
- The cooling but tight labor market provides cover for the FOMC to continue hiking rates to bring inflation under control.

CONSUMER BALANCE SHEETS are strong on aggregate, though there is bifurcation between sub-prime and prime borrowers

SUBPRIME AUTO ABS 60+ DAYS DELINQUENCY RATE BY ORIGINATION FICO

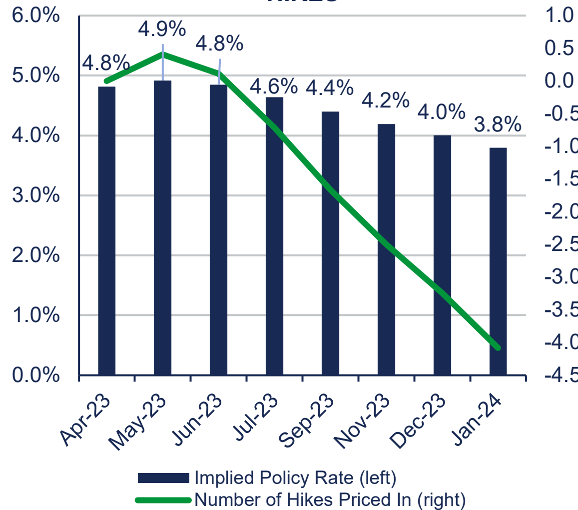


- Consumers are in good health on aggregate, supported by savings buffers (see Spotlight).
- Delinquencies remain low historically, especially among prime FICO score borrowers. For subprime borrowers, particularly in the auto ABS space, delinquencies are moving higher. The pressure is greatest on the deep sub-prime cohort (FICO <=550).
- Higher-income consumers account for a larger share of total spending, but lower-income consumers are feeling rising pressures.

Source: Haver, Morgan Stanley, and Barings calculations. As of April 5, 2023.

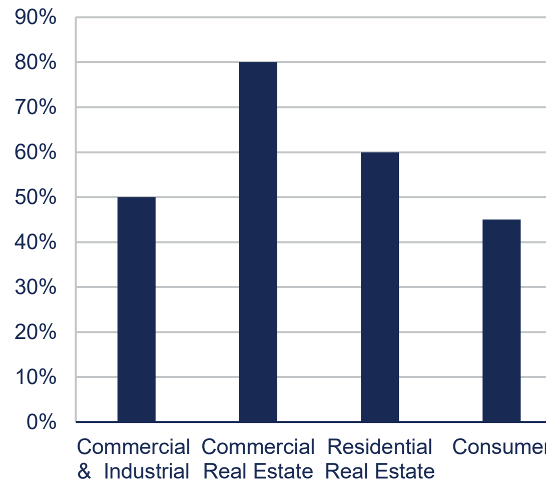
United States

The FOMC will likely hike more than markets expect and pause this year



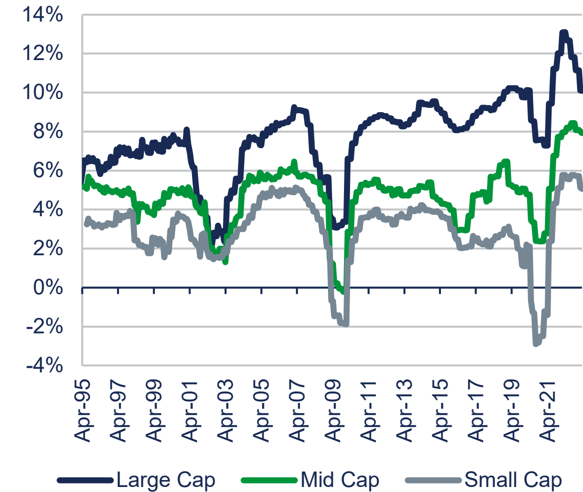
- With elevated inflation, a tight labor market, and stabilization in the banking sector, the Fed still has more work to do.
- We expect the FOMC to deliver about two more 25bps hikes and then hold through the beginning of 2024.
- This is contrary to the 100bps of cuts markets are currently pricing in, suggesting more volatility as data show sticky price pressures.

BANKING SECTOR TURMOIL weighs on growth and raises downside risks



- The recent banking sector turmoil is likely to lead to marginally tighter credit conditions, which should slow growth with a lag.
- This will play into the hands of the Fed to slow the economy and cool inflation. It leads us to lower our outlook for 2024 growth.
- Risks have risen somewhat in favor of our downside scenario, particularly if banking sector stress re-emerges or credit conditions tighten more than expected.

Companies are facing the slowdown from a strong position but will likely see MARGIN COMPRESSION as growth slows



- Companies' ability to pass on higher prices to consumers have helped boost margins.
- With rising funding costs and wages, combined with slowing growth ahead, firms are expected to compress margins.
- Given the persistence of labor shortages, we believe companies will hold on to a greater share of workers compared to history. However, risks are skewed to the downside as tighter policy transmits into the real economy with a lag.

*Banks with less than $250 billion in assets

Source: Bloomberg, FDIC, and Goldman Sachs. As of April 5, 2023.

CONSENSUS FORECAST

- Our central scenario is largely in-line with consensus for growth this year and next.
- The consensus outlook for inflation has moved higher since February, closer to our long-held central outlook for inflation to trend lower only slowly this year and next. Similarly, the consensus outlook for the unemployment rate has moved lower since February, now in-line with our view of just a modest move higher in the unemployment rate given labor shortages in many sectors.

Economic Growth	4/6/2023	12/31/2020	12/31/2021	12/31/2022	2023 (E)	2024 (E)
Real GDP (Y/Y %)	0.9	-2.8	5.9	2.1	1.0 ▲	1.0 ▼
Inflation						
CPI (Y/Y %)	6.0	1.2	4.7	8.0	4.3 ▲	2.6 ▲
Core PCE (Y/Y %)	4.6	1.3	3.5	5.0	4.0 ▲	2.5 --
Labor Market						
Unemployment (%)	3.6	8.1	5.4	3.6	3.9 ▼	4.6 --
Rates						
Fed Funds	4.88	0.13	0.13	4.38	5.05 --	3.55 ▲
2Y Treasury	3.82	0.12	0.73	4.43	3.90 ▲	3.07 ▲
10Y Treasury	3.30	0.92	1.51	3.88	3.47 ▼	3.24 ▲

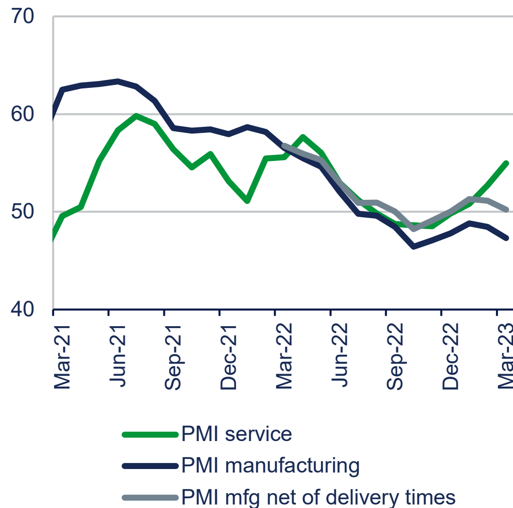
Arrows indicate consensus estimate change compared to one month ago

Note: Unemployment figures are annual averages. Figures with arrows indicate Bloomberg private market consensus estimates.
Source: Bloomberg. As of April 6, 2023.

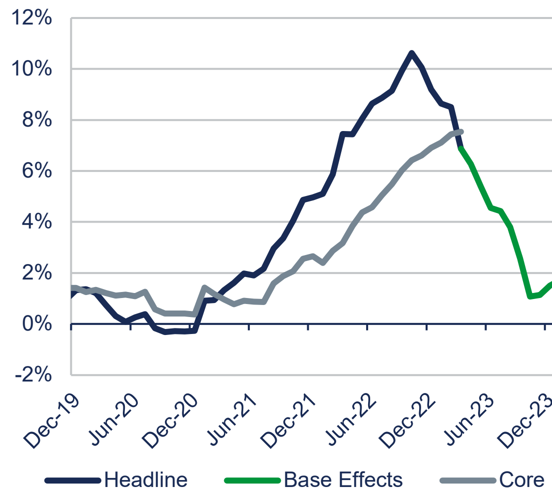
PURCHASING MANAGERS INDICES—without distortions—point to Q1 growth rather than recession

Powerful BASE EFFECTS should continue to push inflation down

The euro area BANKING SYSTEM shows no apparent weakness



- The Manufacturing PMI is distorted by delivery times, which are lowered artificially as supply chain distortions disappear.
- Netting out this effect roughly raises manufacturing PMIs just above 50, painting a slightly expansionary picture.
- This, together with services PMIs in solid expansionary territory, is more consistent with other soft and hard data that point toward a 0.2-0.4% Q/Q growth in Q1.



- Strong energy base effects start from March to push the headline index in the direction of the ECB's 2% target.
- However, core inflation has not yet peaked. This could force the ECB to hike more than expected, should growth continue to surprise to the upside.
- Markets have been revising up their inflation, growth and rate expectations for months, only temporarily interrupted by the banking turmoil.

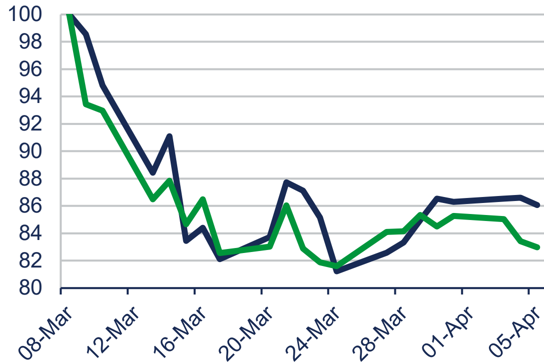
Capital and liquidity levels (%)	
CET1 ratio	14.8
NPL ratio	2.3
CET1 hit from unrealised losses	0.6
Liquidity coverage ratio	132 - 1,034

- After 15 years of balance sheet repair and a tightening of regulation and supervision, the euro area banking sector entered the recent market turmoil on a strong footing.
- Major and mid-level banking groups all have liquidity and capital levels well above regulatory requirements. They have no concentration in commercial real estate loans.
- While pockets of weakness cannot be ruled out, the system appears able to withstand shocks.

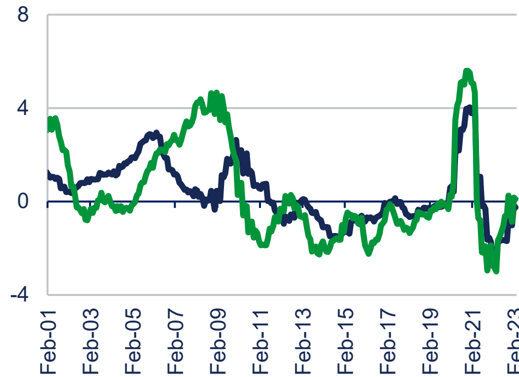
Source: Haver and Bloomberg. As of April 6, 2023.

Europe

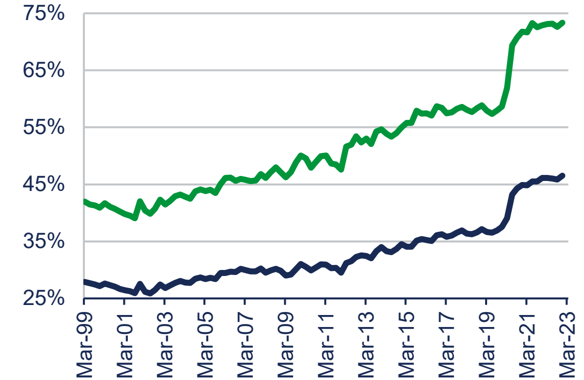
MARKET CONTAGION is however always a risk	**CREDIT TIGHTENING** has not and should not hinder growth excessively…	…thanks to high **LIQUIDITY BUFFERS**



- Last month's bank stress was a useful reminder that contagion can spread quickly across markets, even without apparent links.
- The EU banking index moved in tandem with its U.S. counterpart, even though the shock was arguably all external (SVB and Credit Suisse) and the system remained strong.
- A major banking crisis or failure outside of Europe could still have major impact and derail the recovery.



- The banking turmoil is expected to lead to a tightening in credit supply, impacting demand and growth. Banks may want to strengthen further capital ratios.
- This is unlikely to play a big role: credit has been falling for the last 18 months, without a visible impact on demand and growth.
- The credit impulse, i.e., the growth of credit relative to that of GDP, is now neutral, neither contributing to nor detracting from growth.



- The atypical lack of sensitivity of demand to prices, interest rate hikes, and credit tightening can be partly explained by the huge liquidity buffers accumulated by households and firms.
- Unusual high liquidity ratios at firms reduce their need for credit, thus making their P&L less sensitive to rising rates.
- This resilience introduces another source of uncertainty as regards the amount of ECB tightening needed to tame inflation.

Source: Haver and Bloomberg. As of April 6, 2023.

CONSENSUS FORECAST

- Growth and inflation continue to show more resilience than expected. While base effects have started to push headline inflation down, core remains stubbornly high. It usually follows headline with a lag and has become the ECB's focus. If this is not the case, the ECB may be forced to bring its policy rate above the 3.5% currently priced in by markets.
- The U.K. economy appears to be on a slightly divergent path from the euro area, with weaker growth and stronger inflation due to lingering structural shocks. The Bank of England may be forced to hike even in a slowing economy.

Economic Growth	4/6/2023	12/31/2020	12/31/2021	12/31/2022	2023 (E)	2024 (E)
EZ Real GDP (Y/Y %)	1.8	-6.1	5.3	3.5	0.5 ▲	1.2 --
U.K. Real GDP (Y/Y %)	0.6	-11.0	8.5	4.3	-0.4 ▲	0.8 ▼
Inflation						
EZ CPI (Y/Y %)	6.9	0.3	2.6	8.4	5.6 ▲	2.4 --
U.K. CPI (Y/Y %)	10.4	0.9	2.6	9.1	6.5 ▼	2.4 --
Labor Market						
EZ Unemployment (%)	6.6	8.0	7.7	6.7	6.9 --	6.9 ▼
U.K. Unemployment (%)	3.7	4.5	4.6	3.7	4.3 --	4.6 ▼
Rates						
EZ Central Bank	3.50	0.00	0.00	2.50	4.0 ▲	3.25 ▲
EZ 2Y Note	2.55	-0.72	-0.64	2.74	2.50 ▲	1.80 ▲
EZ 10Y Bond	2.18	-0.57	-0.18	2.57	2.30 ▲	2.00 ▲
U.K. Central Bank	4.25	0.10	0.25	3.50	4.30 ▲	3.40 ▲
U.K. 2Y Gilts	3.35	-0.17	0.66	3.53	3.20 ▲	2.6 ▼
U.K. 10Y Gilts	3.43	0.19	0.97	3.66	3.15 ▲	2.90 ▼
Currencies						
EUR/USD	1.09	1.22	1.14	1.07	1.12 ▲	1.14 --
GBP/USD	1.24	1.37	1.35	1.21	1.26 ▲	1.28 ▼

Arrows indicate consensus estimate change compared to one month ago

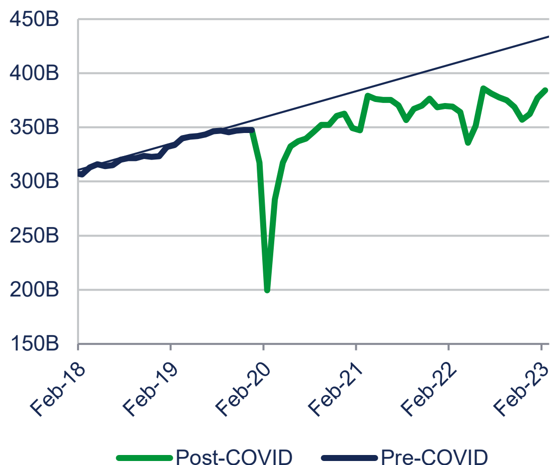
Note: Unemployment figures are annual averages. Figures with arrows indicate Bloomberg private market consensus estimates.
Source: Bloomberg. As of April 11, 2022.

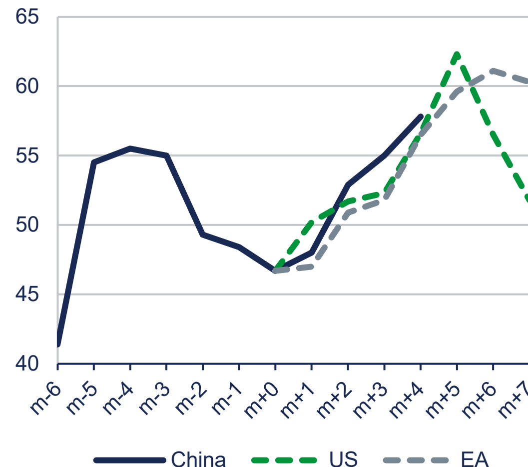
Barings-Corporate

China's DOMESTIC CONSUMPTION is below trend but steadily picking up and should prop up growth

This will be led by SERVICES, if the U.S. and European experiences are any guide

But SAVINGS PREFERENCES and physical bottlenecks could limit upside





- As implied by PMI and mobility data, private consumption is picking up strongly amid the re-opening and is likely to continue through the rest of the year.
- This will be helped by the recent front-loading of monetary policy stimulus.
- Consumption should provide an above-average contribution to growth this year, as investment and exports likely take a backseat.

- The services rebound is largely consistent with the U.S.' re-opening experience from December 2020 and that in the euro area from February 2021.
- Local tourism should see a big boost, especially as it accelerates into the summer vacation period with domestic travel capacity back to normal.
- The tailwinds from an unleashing of pent-up demand could peak by May, then employment and wage growth should play a larger role.

- There is so far no evidence of a change in longer-term preferences for savings. The experience from other economies outside the U.S. suggests consumers may hold on to their accumulated savings.
- Consumer confidence, which is still clouded by weakness in the property sector, is likely to be another headwind on the unwind in savings.
- A gradual recovery in international flight capacity and visa bottlenecks may limit tourism benefits for regional neighbors.

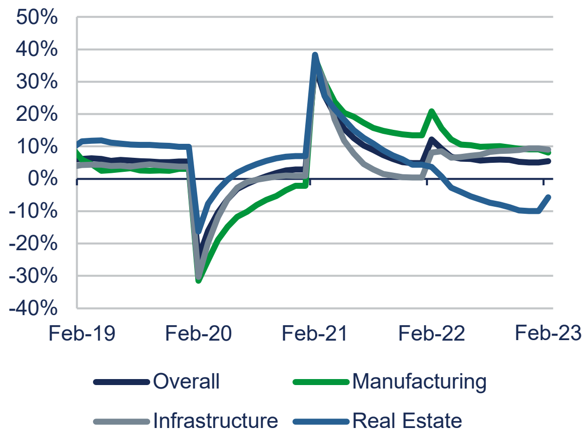
Source: Haver and Bloomberg. As of April 6, 2023.

RETURNING RURAL WORKERS may find it difficult to get their jobs back

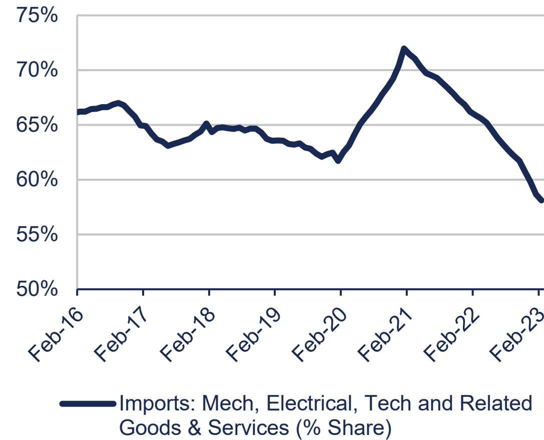
The GLOBAL SPILLOVERS will be smaller and different

Japan's inflation dynamics are changing, though the sustainability of INFLATION remains a question.

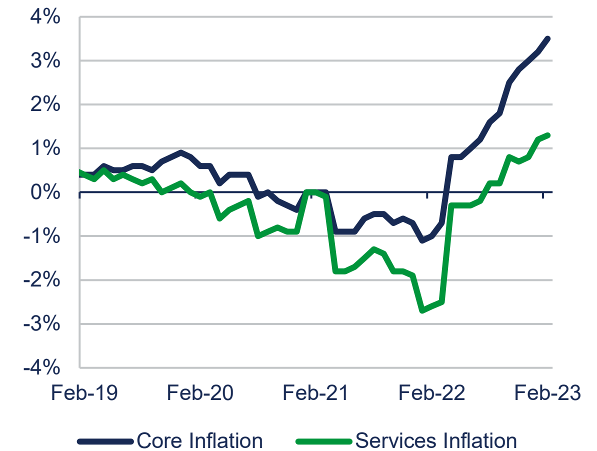
CHINA FIXED ASSET INVESTMENT (Y/Y GROWTH)



CHINA TECH RELATED IMPORTS AS A (% OF TOTAL)



JAPAN INFLATION (Y/Y)



- Rural migrants, typically low income and poorly educated workers, are returning to the cities to find work. They make up 20% of domestic consumption.
- With 60% of them working in either manufacturing or construction, they may face difficulties in easily finding work.
- Hiring in manufacturing will likely be dependent on external demand, while hiring in construction will likely be dependent on the outlook for infrastructure and property.

- China's growth rebound will likely come more in services—rather than goods—translating to a smaller global growth impulse.
- Growth impact estimates of a services-driven rebound are relatively small—the highest for Latin America, followed by Asia, and virtually zero for the G4.
- Amid rising restrictions on exports to China's technology industry, any goods-related rebound from trade is likely to be smaller, too.

- A weaker yen and high import prices have been major drivers of inflation in Japan.
- Wages are rising, internal factors should be larger drivers.
- With hedged yields of foreign bonds for yen-based investors now negative, massive repatriation flows back into JGBs could exacerbate liquidity and price moves in global markets.

Source: Haver, as of April 6, 2022.

CONSENSUS FORECAST

- Consensus has converged with our 2023 growth expectations in Japan, while we remain marginally above consensus for 2024. Inflation should trend to around 2% by 2024.
- We expect solid 2023 growth in China following the reopening but are mindful of the risks around ongoing weakness in the property sector weighing on consumer confidence, and a slower than expected recovery in the labor market. Inflation could overshoot temporarily as the rebound gathers steam.

Economic Growth	4/6/2023	12/31/2020	12/31/2021	12/31/2022	2023 (E)	2024 (E)
Japan Real GDP (Y/Y %)	0.4	-4.3	2.3	1.0	1.1 ▼	1.2 --
China Real GDP (Y/Y %)	2.9	2.2	8.4	3.0	5.3 --	5.0 --
Inflation						
Japan CPI (Y/Y %)	3.3	0.0	-0.3	2.5	2.3 ▲	1.2 --
China CPI (Y/Y %)	1.0	2.5	0.9	2.0	2.3 ▼	2.3 --
Labor Market						
Japan Unemployment (%)	2.6	2.8	2.8	2.6	2.5 --	2.4 --
China Unemployment (%)	4.0	4.2	4.0	5.6*	4.1 --	4.1 ▲
Rates						
Japan Central Bank	-0.10	-0.10	-0.10	-0.10	0.00 --	0.00 --
Japan 2Y Note	-0.06	-0.13	-0.09	-0.09	0.15 ▲	0.05 ▼
Japan 10Y Bond	0.46	0.02	0.07	0.07	0.67 ▲	0.67 ▲
China Central Bank (MLF)	2.75	2.95	2.95	2.75	2.75 --	2.75 --
China 2Y Note	2.38	2.63	2.71	2.35	2.49 ▲	2.34 ▼
China 10Y Bond	2.86	3.14	2.77	2.84	3.06 ▲	3.08 ▼
Currencies						
USD/JPY	131.79	103.25	115.08	115.08	125.00 --	120.00 --
USD/CNY	6.87	6.52	6.38	6.38	6.65 ▼	6.50 --

Arrows indicate consensus estimate change compared to one month ago

Note: Unemployment figures are annual averages. Figures with arrows indicate Bloomberg private market consensus estimates.
*Bloomberg private market consensus for 2022, as of February 2023.
Source: Bloomberg. As of April 6, 2023.

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