EDMOND DE ROTHSCHILD

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2022-2023 FORECAST: GLOBAL GROWTH STILL AFFECTED BY PANDEMIC DISRUPTIONS

Dr Mathilde Lemoine, Chief Economist at the Edmond de Rothschild Group, has published her new growth, inflation and exchange rate forecast for 2022 and 2023:

- The effects of the pandemic are underestimated. In the United States, health restrictions are only 27% lower than their spring 2020 peak levels; 15% in France; 18 % in Switzerland; 7% in China and 22% in Thailand. Although the current situation is not as severe as full lockdowns, it creates imbalances, bottlenecks and overheating; it also results in a change in the relative prices of goods and services as well as a rise in commodity prices that will persist in 2022 and 2023.
- **No normalisation on the forecast horizon because of the G7's shattering failure, according to her analysis.**
- Paradoxically, the continuing pandemic opens up a potential for catching up for the sectors most affected by health measures.
- Growth in the eurozone, the United States and Asia (excluding China) should therefore remain above potential, yet highly heterogeneous and contingent upon ability to control the virus and its effects.
- **According to our forecast, US growth will slightly slow down to 4% in 2022 and 3.2% in 2023 due to the end of household subsidies. Growth in the eurozone will follow suit and slow down to 4.4% in 2022 and 2.4% in 2023, while Chinese growth will reach 5.3% in 2022 and rise to 5.5% in 2023. Overall, global growth is estimated at 4.6% in 2022 and 3.7% in 2023.**
- Mathilde Lemoine forecasts a gradual deceleration of inflation, which will remain high, due to reduced budget support to developed countries, key rate increases around the world and a drop in purchasing power.
- Lastly, our Chief Economist explains that the persistence of the pandemic implies widespread public intervention in the economy and warns about the potentially negative impact on growth over the medium term.

ANALYSIS

1. **The global economic recovery will be held back by the lingering effects of the pandemic, contributing to spasmodic and uneven growth.** However, paradoxically, the potential for catching up in the sectors most affected by health measures suggests that growth will be above potential.

2. The persistent restrictions at European borders and the end of direct subsidies in the United States should weigh on household consumption, postponing the hoped-for normalisation.

3. However, in France, economic growth will be less strong than its European neighbours', down from 4.2% in 2022 to 2% in 2023, despite the fact that the country successfully leveraged the significant economic recovery potential it had in 2021.

4. In Asia, although growth has been affected by the zero Covid strategy and that value chain disruptions are expected to persist and fuel intermediate product inflation, the gradual easing of health measures could support household consumption. Research teams expect growth to accelerate to 5.6% in the ASEAN countries in 2022 and 2023, while Chinese growth is forecast to remain constrained by the real estate slowdown, political recovery and the zero Covid strategy.
5. **At this stage, the scenario of a deceleration of inflation remains central for Mathilde Lemoine**. This scenario is fuelled by the fall in government subsidies, the drop in purchasing power resulting from the 2021 price increase, the rise in Federal Reserve key rates, and the persistent effects of the energy transition and climate change on energy and agricultural prices. The United States and the European Union are faced with the challenge of transitioning to a zero-carbon economy, which leads to a shift in the scale of decarbonised supply sources. She explains that this uncertainty could lead to a 20% increase in energy prices on average compared to pre-pandemic prices. **She also thinks that inflation could potentially be deflationary and that expectations of long-term nominal rate hikes could be challenged.**

"The Fed forecasts the same inflation rate for a lower GDP growth rate. We interpret this as an anticipated lower nominal interest rate in the long-term, as well as a lower real rate" says Mathilde Lemoine.

The Chief Economist believes that, despite this unfavourable inflation differential for the US, "the prospect of more dynamic growth could help the US government impose its bloc line of thinking, while Xi Jinping's China seems to be inclined to focus on domestic interests". However, **the continuing pandemic raises the probability of a decrease in growth, resulting from a misallocation of resources and a lack of investment in human capital**.

RESEARCH DEPARTMENT FORECAST - EDMOND DE ROTHSCHILD

	GDP						INFLATION					
% annual	2020	2021f	2022f	C*	2023f	C*	2020	2021f	2022f	C*	2023f	C*
World	-3.0	5.2	4.6	*4.4*	3.7	*3.5*	2.6	3.8	3.4	*3.5*	2.8	*2.9*
United States	-3.4	5.8	4.0	*3.9*	3.2	*2.5*	1.2	4.4	3.2	*3.7*	2.4	*2.4*
Eurozone	-6.5	5.2	4.4	*4.2*	2.4	*2.3*	0.3	2.5	2.2	*2.3*	1.8	*1.5*
Germany	-4.9	2.9	4.5	*4.3*	2.1	*2.0*	0.4	3.2	2.2	*2.4*	1.8	*1.8*
France	-8.0	7.1	4.2	*4.0*	2.0	*2.2*	0.5	2.1	2.0	*2.0*	1.7	*1.6*
Italy	-9.0	6.5	4.0	*4.4*	1.6	*2.0*	-0.1	1.9	1.9	*1.9*	1.3	*1.2*
Spain	-10.8	4.7	4.8	*5.9*	3.1	*3.2*	-0.3	2.9	2.4	*2.4*	1.9	*1.4*
Portugal	-8.4	4.7	5.2	*5.0*	2.0	*2.5*	-0.1	1.1	1.0	*1.3*	1.4	*1.3*
United Kingdom	-9.7	7.3	4.8	*4.9*	2.6	*2.1*	0.8	2.3	2.9	*3.6*	2.6	*2.1*
Switzerland	-2.5	3.2	2.6	*2.9*	1.9	*1.7*	-0.7	-0.7	0.6	*0.7*	0.7	*0.6*
Japan	-4.7	2.6	2.3	*2.7*	0.8	*1.3*	0.0	-0.4	0.5	*0.7*	0.4	*0.7*
China	2.1	9.2	5.3	*5.3*	5.5	*5.3*	2.5	0.9	1.6	*2.2*	2.3	*2.2*
ASEAN**	-4.6	4.8	5.6	*4.8*	5.6	*4.6*	0.8	2.2	2.5	*2.2*	2.3	*2.1*
Brazil	-4.1	5.2	1.7	*1.3*	2.0	*2.2*	3.2	5.4	6.3	*5.7*	4.0	*3.6*

*Consensus | **(Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam)

Our underlying oil assumption: 69 dollars a barrel at the end of 2022 and 68 dollars average in 2023

ABOUT THE EDMOND DE ROTHSCHILD GROUP

As a conviction-driven investment house founded upon the belief that wealth should be used to build the world of tomorrow, Edmond de Rothschild specialises in Private Banking and Asset Management and serves an international clientele of families, entrepreneurs and institutional investors. The group is also active in Corporate Finance, Private Equity, Real Estate and Fund Services.
With a resolutely family-run nature, Edmond de Rothschild has the independence necessary to propose bold strategies and long-term investments, rooted in the real economy.
Founded in 1953, the Group had CHF 168 billion of assets under management at the end of December 2020, 2,500 employees, and 33 locations worldwide.

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