1Q2024 Global Economic Outlook

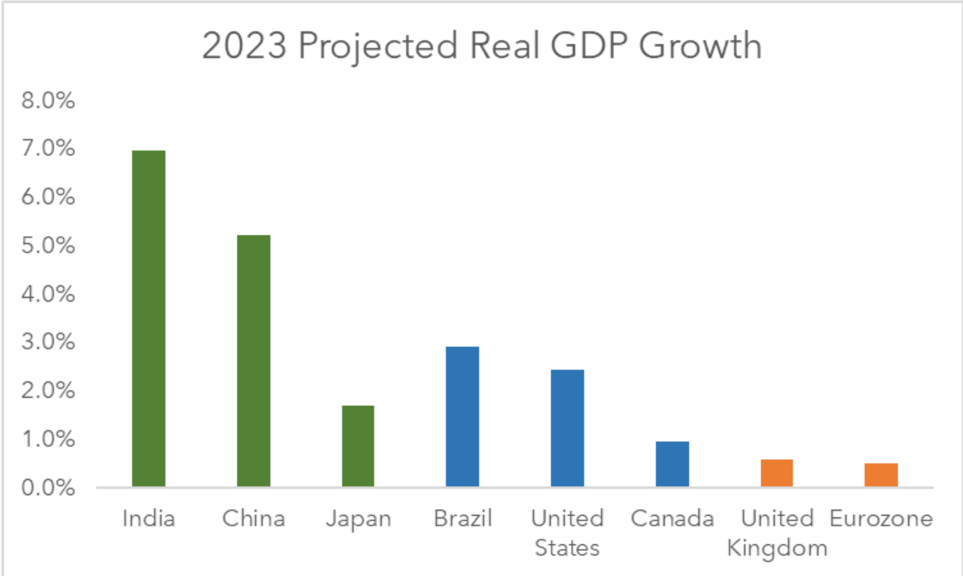
Highlights

- Global economy surprised in 2023.
- Recession likely avoided in 2024.
- Inflation heading to targets.
- Central banks ready to shift.
- CRE slowly nearing turning point.

The global economy concluded a year of outperformance in 2023 despite the many headwinds and great uncertainty it faced. Even without finalized fourth-quarter data, global growth likely clocked in around 2.5%. Though about 50 basis points (bps) below the average from the last business cycle, it nonetheless represents a noteworthy achievement during a period in which many (though not BGO) expected a stalled economy if not outright recession. Global growth looks set to slow further in 2024 under the weight of tight monetary policy and increasing fiscal headwinds. But we do not foresee a global recession in our base case. Growth should rebound in 2025 as monetary policy loosens and fiscal policy becomes more neutral.

GDP

Through three quarters, growth remained steady, in the 2.5% to 3.0% range on an annualized basis. In particular, the third quarter generated notable upside surprise. The US economy provided much of the quarterly upside, growing at a roughly 5% rate, well ahead of expectations and powered by the resilience of US consumer spending. But that feat should prove very difficult to repeat in the fourth quarter. Therefore, we anticipate a modest slowdown in growth, with consumers easing a bit after such a strong third quarter, especially in the US. Nonetheless, the global economy possesses multiple growth engines. During 2023, five of the ten largest economies in the world, representing the majority of GDP, should post growth of at least 1.7%. India should generate the strongest growth rate of the major economies, while China should still register roughly 5% growth despite its notable post-lockdown difficulties. By region, Asia Pacific will contribute the largest share to growth, followed by the Americas, with Europe pulling up the rear. Consequently, we anticipate only modest slowing in the final stages of the year, which should provide the economy with some momentum in early 2024.

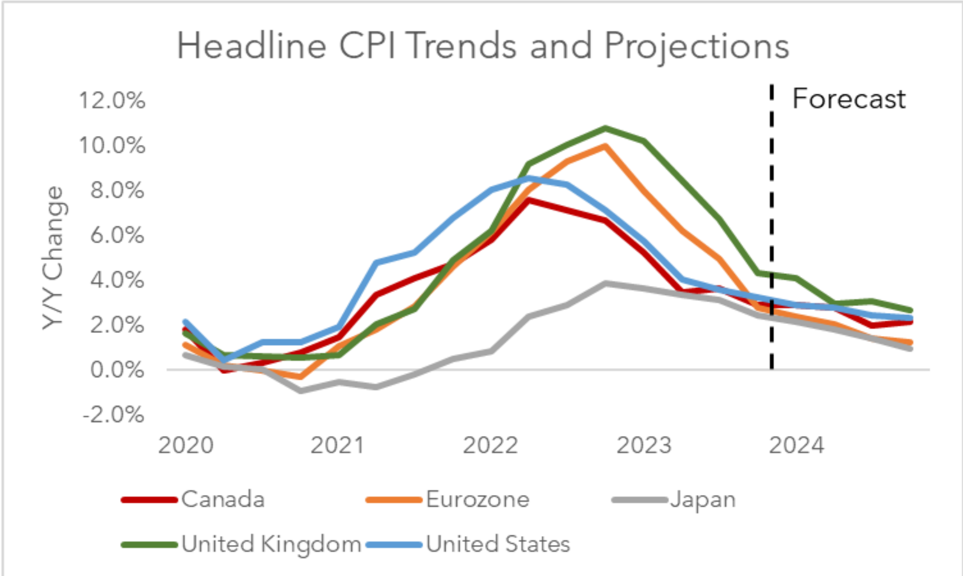


Sources: Oxford Economics. BGO Research

But we do not expect that momentum to last. Although tight financial conditions did not cause the 2023 recession many anticipated, they are still impacting economic activity. And despite the increased use of fixed-rate debt during the last few years, some economies remain more interest-rate sensitive than others. Add more restrictive fiscal policy to the equation and the broad contours by geography should remain intact in 2024, but with slower growth across almost all major economies. Among these major economies, India, China, and the US should produce the strongest growth, helping to keep the global economy out of a recession. Major economies more sensitive to higher rates and tighter financial conditions, such as the UK, the Eurozone, and Canada, should lag behind their large-economy peers before mounting a recovery toward the latter half of the year.

Inflation

Inflation remained the most important component of the economic landscape in 2023. Thankfully, it decelerated quickly around the world with both headline and core measures pulling back. Increasingly, research shows that most inflation stemmed from disruptions to global supply chains, from causes such as the pandemic and war. As these disruptions continue to abate, the pressures on the supply side of the economy have eased and production has returned to something approximating pre-pandemic norms. Of note, food and energy production adjusted to the disruption from the war in Europe. Strikingly, and somewhat quietly, US oil and natural gas production reached the highest level on record, ever, as the country further entrenched itself as the top producer of both in the world. Combined, the US and Canada produced more oil and gas than the entire Middle East. This helped to limit upward pressure on oil prices stemming from increased geopolitical risk and OPEC+ production cuts.



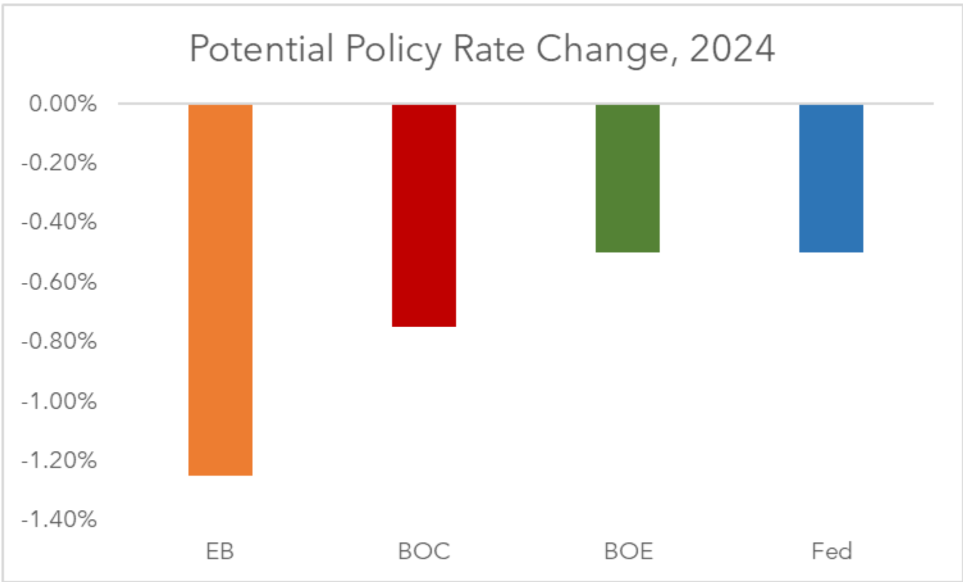
Sources: Oxford Economics. BGO Research

Demand also played a role in inflationary pressures of the last few years, but notably less than on the supply side. Consumption spending across major economies surged upon reopening after the acute phase of pandemic lockdowns. But since then, it has reverted back to pre-pandemic trends. And consumption looks set to slow further in 2024, with some impact from tight monetary policy likely still lying ahead, slowing job growth and wage growth limiting additional spending power, and the impact from fiscal stimulus fading as consumers spend down their excess savings. This downshift should further alleviate demand pressure on inflation.

We anticipate additional slowing in global inflation in 2024, moving ever closer to target rates. We still expect a bumpy ride down but foresee little reason for any meaningful resurgence in inflation. Across most major economies, inflation should continue to slow, but less so than in 2023. Inflation trajectories should increasingly diverge as idiosyncratic factors, namely different national economic growth rates, become relatively more important for inflation than systematic global factors such as supply-chain disruptions, war, and post-lockdown demand resumption.

Monetary Policy

Divergent inflation trends should also bring divergent monetary policy decisions from major central banks. Broadly slowing economies and inflation will provide central banks with cover to start cutting policy rates, but with different timing. With the Eurozone struggling, the European Central Bank (ECB) could move the quickest to begin cutting rates, as early as the second quarter, as the ECB seeks to stabilize the economy. In the UK, the Bank of England (BOE) will also likely look to stabilize an economy that is at least flirting with a recession. But because inflation is not falling as quickly in the UK as it is in the Eurozone, the BOE will likely take longer to begin cutting rates, possibly around mid-year or the third quarter.



Sources: Oxford Economics. BGO Research

In Canada, with inflation heading to target and the economy likely contracting, the Bank of Canada (BOC) will likely begin an easing cycle around mid-year as well. In the US, relatively strong economic growth, a tight labor market, and an inconsistent downward path for inflation will likely delay rate cuts until the latter half of the year, later than the futures market currently expects. But with growth set to slow and inflation moving closer to target, the Fed should have some cover to begin an easing cycle. Finally, although we anticipate that the Bank of Japan (BOJ) will end its negative interest rate policy in 2024, we do not foresee the BOJ abandoning an effective zero-rate policy for the foreseeable future, meaning little effective policy change.

CRE And The Economy

Commercial real estate (CRE) remains a highly cyclical asset class. But an interesting phenomenon has emerged over the last 20 years that previously did not exist: desynchronization. Prior to the early 2000s both the CRE space markets and capital markets generally moved in synch with each other, rising and falling together. In the wake of the dotcom bust, this synchronization broke down. While space market fundamentals struggled, capital markets performed well. Eventually, space markets recovered, and synchronization returned. But in the wake of aggressive central bank tightening over the last two years, desynchronization returned. However, in this instance the space markets have held up relatively well (though not unscathed) while the capital markets have greatly suffered.

We foresee the end of this desynchronization over the next 12-24 months. As central banks around the world start easing monetary policy, CRE capital markets should recover. Returns should improve, transaction volume should increase, and debt markets should thaw. Slowly at first, but then at increasing speed. The space markets should also improve as the supply pipeline eases and demand holds firm. That should bring the two sides of the CRE market back together and provide more attractive returns for investors than those experienced over the last 18 months. Earlier loosening by certain central banks could give those respective geographical markets a head start, but easing should ultimately provide a strong boost to CRE investment returns around the world. While this might seem like wishful thinking, the cyclical nature of CRE provides some confidence. CRE follows relatively long, pronounced cycles, and does not move in a random fashion the way public markets do. Once CRE markets start turning, that momentum persists until that phase of the cycle ends. We can already see early signs of this development in CRE returns. With central banks poised to cut rates, momentum should follow once again.

Closing Thoughts

Even positive outlooks contain risks. We see three. First, central bank policy. Although loosening seems almost certain at this juncture, it could occur later and less aggressively than we expect, which could impede economic growth. Second, optimism itself. Largely related to central bank policy, if reality fails to meet expectations, that could send ripples through real economic activity, restraining the economy. Third, geopolitical risk. Around the world risk abounds: wars, elections, trade relations. Though usually not enough to cause a recession, all of those have already proven their disruptiveness.

About BGO

BentallGreenOak ("BGO" or "BentallGreenOak") includes BentallGreenOak (Canada) Limited Partnership, BentallGreenOak (U.S.) Limited Partnership ("BGO U.S."), their worldwide subsidiaries, and the real estate and commercial mortgage investment groups of certain of their affiliates, all of which comprise a team of real estate professionals spanning multiple legal entities.

This document is for informational purposes only and does not constitute an offer to sell or solicitation of an offer to buy units in any BentallGreenOak fund (a "BGO Fund", "Fund", or, collectively, "BGO Funds" or "Funds"). Prospective investors must not construe the contents of this document as legal, tax, financial, accounting, investment or other advice, and each prospective investor is urged to consult with its own advisers with respect to legal, tax, financial, accounting, investment and other consequences of investing in a BGO Fund, the suitability of a BGO Fund for such investor and other relevant matters concerning an investment in a BGO Fund. A decision as to an investment in any Fund must be made solely by the investor and in consultation with its own advisers.

Statements in this document that are not historical facts are based on current expectations, estimates, projections, opinions and beliefs and are subject to change. Such statements are subject to known and unknown risks, uncertainties and other factors. Moreover, this document contains statements, estimates and projections as well as certain forward-looking statements, which can be identified by the use of forward-looking terminology such as "may", "will", "would", "should", "expect", "project", "intend", "target" or "believe" or the negatives thereof or other variations thereon or comparable terminology (together, the "Projections"). Economic outcomes may differ materially from those reflected in or contemplated by such forward-looking statements, and undue reliance should not be placed thereon. The market analysis presented in this document represents the subjective views of BGO.

Ryan Severino, CFA
Managing Director, Chief Economist & Head of US Research
BGO
ryan.severino@bgo.com