

KIEL INSTITUTE **ECONOMIC OUTLOOK**

World Economy
Summer 2024

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GROWTH REMAINS SUBDUED

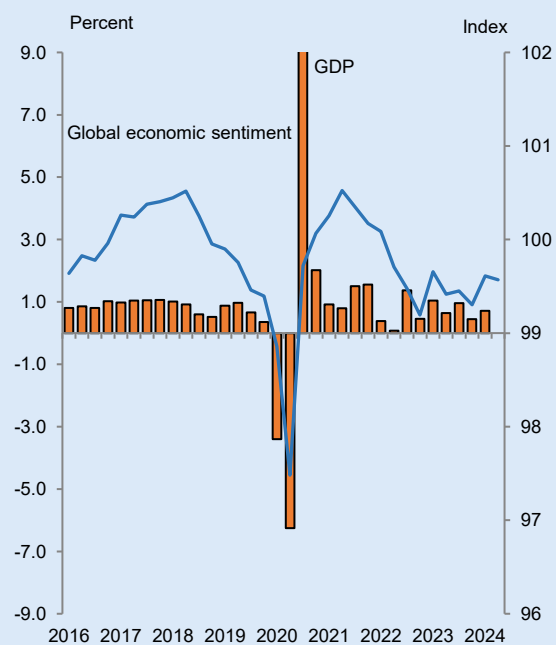
Klaus-Jürgen Gern, Stefan Kooths, Wan-Hsin Liu, Jan Reents and Nils Sonnenberg

The global economy has expanded at a moderate pace so far this year. Meanwhile, the previously pronounced differences in economic momentum have diminished, particularly in the advanced economies. While the robust expansion in the United States lost momentum, the economy in Europe picked up noticeably after a period of stagnation. At the same time, there are signs of accelerating production in China, although many indicators suggest that domestic private demand continues to be sluggish. Against this backdrop, growth in world trade in goods resumed. The moderate global economic expansion is likely to continue in the forecast period, with private consumption picking up in Europe as real wages rise again. Next year, the gradual easing of monetary policy should increasingly lend support. All in all, we expect global production - measured on a purchasing power parity basis - to increase by 3.2 percent this and next year, respectively. We raise our forecast for 2024 by 0.4 percentage points compared to our March forecast, while the forecast for 2025 remains unchanged. Although unemployment in the advanced economies will slightly increase this year, it remains at a historically low level. Inflation has barely fallen further recently, mainly due to a stubborn rise in prices for services. The expected further decline towards the target of 2 percent is likely to be slow, and the risk has increased that monetary policy will have to remain restrictive for longer than previously expected. Further risks for the global economy are primarily of a geopolitical nature and arise not least from the uncertainties related to the US presidential elections. An escalation of trade conflicts, for example, would weigh on global economic activity.

The world economy gained momentum in the early months of 2024. After losing steam towards the end of 2023, the world economy expanded significantly faster in the first quarter of this year (Figure 1). This was primarily driven by a substantial increase in production in the emerging economies, especially in China. In the advanced economies, the economic expansion continued at a moderate pace. Business sentiment improved markedly after the turn of the year. The indicator for the global economic climate, calculated by the IfW Kiel based on sentiment indicators from 42 countries, suggests that recent growth momentum largely continues in the second quarter of 2024.

Industrial production and goods trade show signs of life. While the global economic expansion continues to be driven by services, global industrial production appears to have emerged from last year's stagnation in the first quarter. The uptick observed already at the end of last year continued into the early months of this year. Global goods trade is also on the rise again after a significant decline last year. Concerns about potential trade disruptions due to security issues in the Red Sea have not materialized. However, the rerouting of a large portion of shipping traffic from the Suez Canal route around the Cape of Good Hope has contributed to a significant increase in freight rates, globally and

Figure 1:
World economic activity



Quarterly data, seasonally adjusted. Global economic sentiment is based on business expectations in 42 economies. GDP: price adjusted, change over previous quarter, 46 countries, weighted by purchasing power parities.

Source: OECD, Main Economic Indicators; national sources; Kiel Institute calculations.

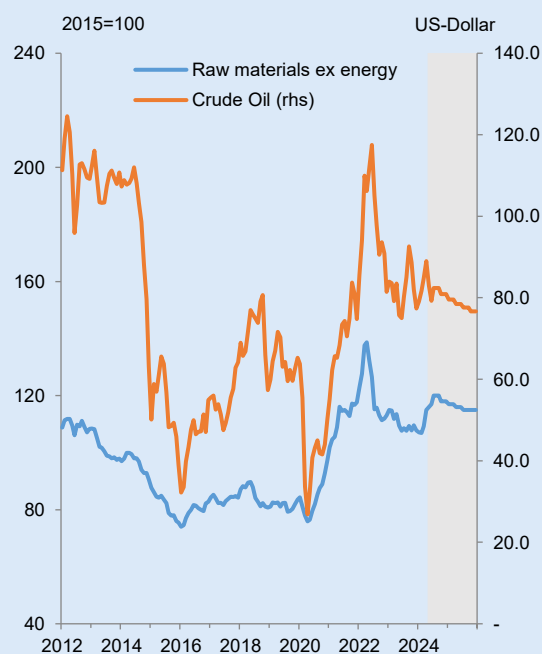
particularly on routes between Europe and East Asia. The number of ship passages through the Suez Canal remains at about one-third of the level recorded before November 2023, when attacks on merchant ships by Yemeni rebels began ([Kiel Trade Indicator, Juni 2024](#)).

Growth differentials in advanced economies narrow. In the first quarter, GDP of the advanced economies increased at a moderate pace, with previously pronounced differences in economic dynamics narrowing. The economic expansion in the United States slowed noticeably, with GDP rising only by 0.3 percent, following strong increases in previous quarters. This was largely due to a slowdown in private consumption and a significant deceleration in government consumption. The developments of inventories and foreign trade also had a dampening effect. Conversely, Europe saw a noticeable economic upturn for the first time in a year and a half. The GDP growth rate in the euro area was 0.3 percent, while that in the United Kingdom reached 0.6 percent. The acceleration in the euro area was mainly driven by a revival in exports, while imports slightly declined. Private consumption increased only slightly, as in previous quarters, and investments fell, largely due to a drastic slump in Ireland reflecting activities of multinational companies. Unlike in Europe, Japan has yet to recover from the economic slowdown experienced since last summer, primarily due to a continued decline in private consumption. The 0.5 percent decline in GDP in the first quarter was partly due to issues in the automotive sector, leading to a drop in exports, car registrations and investments. The scandal over irregularities in applications to certify certain car types has recently widened and is expected to affect production in the coming months.

Growth in emerging economies has picked up. Output growth in emerging economies as a whole accelerated significantly in the first quarter of the year, primarily due to faster growth in China, although the reported quarterly increase of GDP of 1.6 percent is likely overstating the underlying growth momentum. The expansion remained robust in India, and production in Southeast Asian emerging economies generally increased markedly. Significant GDP growth was also recorded in a number of Latin American countries, including Brazil. Finally, the upturn in Russia continued, with GDP reportedly 5.4 percent higher in the first quarter compared to a year earlier.

Oil prices are under pressure amid decreasing OPEC compliance and lower demand growth. Oil prices surged in the spring due to concerns about supply security in the wake of the Middle East conflict, historically low levels of inventories, and the prospect of continued restrictive supply policies by Saudi Arabia, pushing Brent crude prices above \$90 per barrel in mid-April. However, prices have since fallen back to \$80 per barrel by early June. The geopolitical risk to oil supply is now perceived to be lower, and demand forecasts have been revised downwards while supply prospects have improved. Although the OPEC+ group of oil producers extended until 2025 the production quotas introduced in 2020 to support prices, the additional significant voluntary production cuts by individual countries (notably Saudi Arabia) have been prolonged only until September, leading to an earlier-than-expected increase in production. Additionally, the quota compliance of cartel members has decreased in recent months as production consistently exceeded agreed levels. Meanwhile, oil production outside OPEC+ continues to rise swiftly. Consequently, we expect oil prices to gradually decrease further in the forecast period, consistent with financial market expectations (Figure 2). In contrast, natural gas prices have risen significantly in recent months from the very low levels recorded in March, both in Europe and the United

Figure 2:
Raw material prices



Monthly data, data edge: shaded: forecast.
Raw materials ex energy: HWWI-Index, USD-based; Crude Oil: Spot market, Brent.

Source: International Petroleum Exchange; HWWI, Rohstoffpreisindex, Kiel Institute forecast.

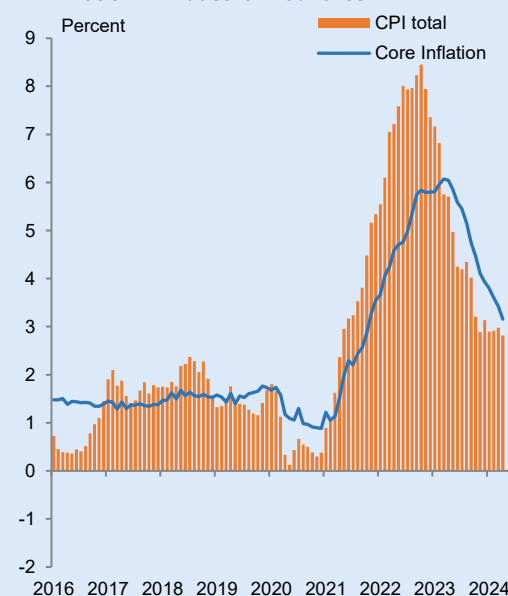
States. This is due to a normalization of unusually low winter demand, compounded by the temporary outage of a major gas field in Norway. Prices for non-energy commodities also tended to rise. Particularly strong price increases were recorded for some beverages (cocoa, coffee, orange juice), driven by supply shortages, but metal prices also rose on the back of increased demand from China.

Inflation decline stalls. Global inflationary pressures have eased significantly over the past year. In the G7 countries, the inflation rate fell from 8.4 percent in October 2022 to 2.9 percent in November 2023. However, it has not decreased further since then (Figure 3). The main reason for stubborn inflation is that energy prices are no longer significantly below their levels in the previous year. While dampening effect on the inflation rate of the energy component has diminished – with a positive contribution to inflation expected during the summer months – the core rate (consumer prices excluding energy and food) continued to decline until recently, reaching 3.2 percent for the group of countries in April. Notably, prices of services continue to increase at elevated rates, while prices for industrial goods have stabilized in most countries.

The process of cutting interest rates has started in advanced economies but progress is likely to be slow. In March, the Swiss National Bank cut interest rates by 0.25 percentage points, followed by the Swedish Riksbank in early May, and on June 6 the European Central Bank (ECB) reduced the deposit rate from 4 percent to 3.75 percent. While the US Federal Reserve and the Bank of England are expected to follow suit with interest rate cuts, the expected date (late summer) is later than anticipated earlier this year. Further interest rate steps will probably come cautiously, as progress on inflation has slowed, and given the robust economic activity in the United States, a rapid reduction in short-term rates could jeopardize achieving the inflation target. While we expect three rate cuts by the ECB by the end of this year, the Fed is likely to reduce its rate only twice (Figure 4). Thus, monetary policy in major currency areas will remain restrictive for the time being. A neutral interest rate level in the euro area is not expected until the end of 2025, whereas in the United States monetary policy will still be restrictive, with policy rates still in the range of 4 to 4.25 percent in the final quarter of next year.

Interest rates decline significantly in emerging markets. Several central banks in emerging economies began cutting interest rates already last year, particularly where monetary tightening was implemented early. For instance, in Brazil, the central bank's interest rate peaked at 13.75 percent in

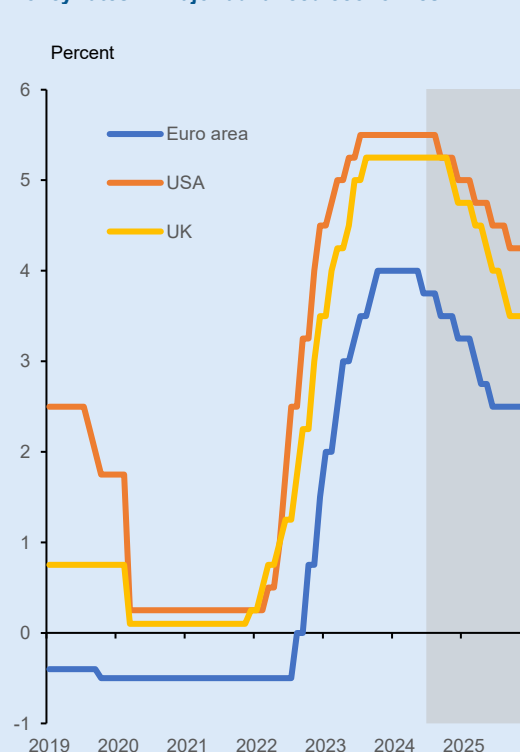
Figure 3:
CPI Inflation in Industrial Countries



Monthly Data; yoy change.

Source: OECD, *Main Economic Indicators*; Kiel Institute calculations.

Figure 4:
Policy rates in major advanced economies



Monthly data. Euro area: Deposit Facility Rate, USA: Federal Funds Rate, UK: BoE base rate.

Source: LSEG Datastream. shaded area: forecast of ifw Kiel.

August 2022 and has since been reduced by 3.25 percentage points. In Chile, the central bank has lowered its rate by 5.25 percentage points to 6 percent since July 2023. Eastern European central banks also started raising rates early and reached their peak in autumn 2022. For over six months now, rates have successively been cut, most significantly – by almost 6 percentage points – in Hungary, where rates had been raised more sharply than in Poland or the Czech Republic. In other emerging markets, such as India or South Africa, central banks are on hold now for a long time, while in a few rates have been raised in recent months in response to increasing inflationary pressures, notably in Russia and especially in Turkey. Here, the government shifted from a low-interest policy last year, raising the key interest rate from 8.5 percent to 50 percent between May 2023 and March 2024 to combat high inflation. Overall, interest rate cuts have predominated in emerging markets since last autumn, which is expected to continue this year.

Supportive fiscal measures are phasing out, but significant consolidation efforts are generally absent. Fiscal policy has been expansionary in recent years to mitigate the economic effects of the pandemic and rising energy prices. Also, numerous fiscal programs with focuses on industrial policy objectives, infrastructure and renewable energy have been implemented. The crisis measures are now phasing out, yet significant efforts to reduce the still-high structural deficits are not apparent. Given the hugely increased public debt, which is more expensive to finance in the current interest rate environment than in recent years, fiscal restraint is necessary to ensure sustainable public finances and gain fiscal space for future crises (IMF, 2024 For 2024 and 2025, we expect only slightly restrictive effects from fiscal policy).

OUTLOOK: A SUBDUED ECONOMIC OUTLOOK

Moderate global economic expansion continues. Economic policy conditions and structural problems stand in the way of a significant strengthening of global economic expansion. While prospects for private consumption have improved amid rising real wages thanks to declining inflation and increasing compensation, this partly comes at the expense of profit margins and dampens investments. Additionally, monetary policy remains restrictive and will only be gradually eased. Fiscal policy is also expected to be moderately restrictive during the forecast period. Furthermore, structural problems in China remain unresolved, and a sustainable strong recovery is not in sight. The European economy is experiencing very low productivity growth in the context of structural challenges such as labor shortages and the transition to green energy. Increasingly interventionist industrial and trade policies could weigh on productivity and add to uncertainty.

Global economic activity remains moderate, regional growth differentials diminish. We expect global production to increase by 3.2 percent this year, slightly higher than last year (Table 1). We also expect a 3.2 percent increase for 2025. We raise our forecast for 2024 by 0.4 percentage points compared to our March forecast ([Gern et al. 2024](#)), while the forecast for 2025 remains unchanged. Based on market exchange rates, global output growth will rise by 2.7 percent both this year and next. Global goods trade, which contracted by 1.9 percent in 2023, is expected to increase by 1.0 percent this year. For 2025, we expect a continuing recovery with a growth rate of 2.3 percent. Overall, the change in trade volume is expected to align more closely with the increase in global economic activity, as growth shifts from services to manufacturing. Regional differentials are also expected to diminish: While the US economy loses momentum, growth in Europe and Japan is expected to pick up in the forecast period.

The upswing in the United States is petering out. The modest quarterly rate of growth of 0.3% in the first quarter likely understates the underlying economic momentum, as robust employment growth in May and positive signals from purchasing manager indices suggest more robust growth in the second quarter. However, private consumption, the main driver of the recovery, appears to be losing momentum, with excess savings accumulated during the pandemic largely depleted and real disposable incomes increasing more slowly. Recently, only consumption of services increased, while consumption of goods declined. The significant increases in business investment in structures seen last year are largely due to extensive government support programs which now should have largely be implemented. On a positive note, the housing market appears to have bottomed out and should support economic activity during the forecast period. All in all, we expect GDP growth of 2.2 percent this year and 1.8 percent in 2025 (Table 2). It should be noted, however, that economic policy uncertainty is particularly high due to

the upcoming presidential elections in November. The unemployment rate is expected to rise slightly to 4.1 percent in the course of this year and next. Inflation is expected to gradually approach the Federal Reserve's target.

Table 1:
Real GDP and consumer prices in the global economy

	Weight	Gross domestic product				Consumer prices			
		2022	2023	2024	2025	2022	2023	2024	2025
World economy total	100	3.4	3.2	3.2	3.2	9.3	8.0	7.3	5.1
including									
Advanced economies	59.3	2.6	1.6	1.6	1.8	7.7	4.8	2.9	2.3
China	18.4	3.0	5.4	5.2	4.5	2.0	0.2	0.9	2.1
Latin America	4.8	3.8	2.1	1.5	2.3	18.0	24.2	30.5	9.8
India	7.3	6.5	7.7	7.1	6.7	6.7	5.7	4.5	4.7
East Asian emerging economies	5.0	4.9	3.3	4.0	4.1	4.7	3.5	2.6	2.4
Russia	2.9	-1.2	3.6	2.2	0.8	13.8	5.9	7.2	6.0
Africa	2.4	3.6	3.1	3.5	3.9	14.1	18.8	18.1	14.6
<i>Memorandum item:</i>									
World trade volume (goods)		2.7	-1.9	1.0	2.3				
World economy (GDP weights using current US-dollar exchange rates)		3.1	2.7	2.7	2.7	8.2	6.3	5.5	3.8

Percent. Weights according to GDP in 2023 based on purchasing power parities. GDP, consumer prices: change over previous year. East Asian emerging economies: Thailand, Malaysia Indonesia and Philippines. Africa: Egypt, Nigeria, South Africa, Algeria, Ethiopia.

Source: IMF, International Financial Statistics; OECD, Main Economic Indicators; Kiel Institute calculations; shaded area: Kiel Institute forecast.

Table 2:
Real GDP, consumer prices and unemployment rate in advanced economies

	Weights	Real GDP				Consumer prices				Unemployment rate			
		2022	2023	2024	2025	2022	2023	2024	2025	2022	2023	2024	2025
European Union	40.2	3.6	0.6	1.0	1.7	9.2	6.4	2.7	2.3	6.2	6.0	5.9	5.6
Euro area	34.0	3.5	0.6	0.9	1.5	8.5	5.4	2.4	2.0	6.8	6.6	6.4	6.0
Sweden	0.9	1.6	0.1	1.2	2.1	8.1	6.1	2.3	2.0	7.5	7.7	7.9	7.4
Poland	2.2	5.9	0.1	2.0	3.0	13.2	10.7	4.3	3.7	2.9	2.8	2.7	2.6
United Kingdom	5.1	4.3	0.1	0.9	1.4	9.1	7.2	2.8	2.4	3.7	4.0	4.3	4.1
Switzerland	1.0	2.7	0.7	1.4	1.5	2.8	2.1	1.3	1.0	4.3	4.1	4.2	4.0
Norway	0.6	3.0	0.7	1.7	2.1	5.8	5.5	3.8	3.0	3.4	3.6	3.8	3.7
United States	35.3	1.9	2.5	2.2	1.8	8.0	4.1	3.2	2.4	3.6	3.6	3.9	4.1
Canada	3.1	3.8	1.1	1.0	2.0	6.8	4.1	2.7	2.2	5.3	5.4	6.3	6.0
Japan	8.5	1.0	1.9	0.1	1.3	2.5	3.3	2.2	1.6	2.6	2.6	2.5	2.4
South Korea	3.8	2.6	1.3	3.1	2.7	5.1	3.6	2.7	2.1	2.8	2.6	2.8	2.6
Australia	2.3	3.8	2.1	1.5	2.8	6.6	5.8	3.5	2.8	3.7	3.7	4.1	4.0
Total	100.0	2.8	1.5	1.4	1.7	7.8	5.1	2.8	2.3	4.6	4.6	4.6	4.5

Based on GDP at prices and exchange rates of 2023 in percent. Change over previous year in percent. European Union and Norway: Harmonized Index of Consumer Prices (HICP). Standardized unemployment rate in percent (ILO); country groups weighted according to the size of the labor force in 2023.

Source: Eurostat, VGR; OECD, Main Economic Indicators; IMF World Economic Outlook Database; Statistics Canada, Canadian Economic Account; shaded: Kiel Institute forecast.

Economic weakness in the euro area weakness will be overcome gradually. The more than year-long phase of near stagnation is expected to give way to moderate expansion during the forecast period. While GDP growth in the first quarter benefited from favorable weather conditions boosting construction activity temporarily, private consumption is expected to gain momentum in the coming months due to significantly increased real disposable incomes against a backdrop of a strong labor market, higher wages, and reduced inflation. Financing conditions will also improve with the anticipated easing of monetary policy. Additionally, the external economic environment is expected support economic activity during the forecast period. Annual GDP growth is expected to rise modestly to 0.9 percent on average this year, up from 0.6 percent last year, and to increase to 1.5 percent in 2025, approaching potential growth.

Inflation is expected to decrease from an average of 5.4 percent in 2023 to 2.4 percent in 2024 and 2.0 percent in 2025, aligning with the ECB's inflation target next year.

The UK economy is emerging from stagnation. GDP increased by a robust 0.6 percent in the first quarter, after seven quarters of virtually no growth. With real wages rising significantly, private consumption prospects have brightened, and business sentiment has improved. Inflation fell sharply to 2.3 percent in April, partly due to base effects from last year's gas price cap increase. However, the core inflation rate remained high at 3.7 percent, well above the 2 percent target, and has recently increased due to rising service prices. Consequently, monetary policy is expected to be eased very slowly, and high interest rates will continue to dampen investments, particularly in housing construction. Additionally, fiscal policy is expected to be restrictive during the forecast period to comply with fiscal rules. However, following the snap general election scheduled for July 4, fiscal priorities may be reset, potentially leading to significant changes in the fiscal policy environment. All in all, GDP is expected to grow by 0.9 percent this year, up from only 0.1 percent last year. For 2025, we expect growth of 1.4 percent.

The Japanese economy is hampered by inflation. In Japan, GDP contracted by 0.5 percent in the first quarter of 2024. Investments, private consumption, and exports all declined. Part of the weakness at the beginning of the year was due to the automotive sector, which faced difficulties after irregularities in the approval processes for models of one manufacturer were revealed. Production was temporarily halted, and new registrations plummeted at the beginning of the year. Although the situation appeared to have improved in the spring, with registrations and production rising sharply in March, similar issues were reported at other manufacturers in early June, indicating potential new disruptions in the coming months. Apart from this temporary factor, private consumption remains the main drag on the economy. It has declined for four consecutive quarters and was 2 percent lower in the first quarter compared to a year earlier. This is due to real wage losses, as wage growth has not kept up with inflation. Inflation did not rise as sharply in Japan in 2022 as in most other advanced economies but has decreased very slowly, partly due to the yen's significant depreciation, which has made imports more expensive. Wages have been slow to respond to the unfamiliar situation of rising consumer prices. Only at the beginning of this year were wage increases above the inflation rate recorded. The weak yen results from the still very accommodative monetary policy. Unlike other major central banks, interest rates in Japan have not been significantly raised above zero, and the interest rate for ten-year government bonds has been kept low (around 1 percent). A significant change in this policy is unlikely in the near future, especially as global interest rates are generally expected decline. Fiscal policy is approximately neutral. Measures were adopted last autumn to prevent a strong economic drag from the expiration of programs implemented last year to mitigate the energy crisis and to promote investments in green technology and digital infrastructure. Overall, despite a noticeable recovery in the course of the year, the Japanese economy is expected to grow only slightly this year as a whole. For next year, we expect a growth rate of 1.3 percent.

Structural problems remain headwinds for China's economy. Despite an unexpectedly strong GDP increase of 1.6 percent in the first quarter, China's economic outlook remains subdued. The crisis in the real estate sector persists, accompanied by declining investments and financial turmoil. Deteriorating employment prospects, high youth unemployment, and increased uncertainty weigh on consumer sentiment. Shrinking revenues and high debt levels of local governments constrain public investments. The central government has responded by attempting to mitigate the effects of the real estate crisis through debt restructuring programs and supporting the completion of ongoing projects. Additionally, domestic demand is supported by increased government investments. To be sure, a new construction boom is not the current policy goal, as the government seems to accept a correction in the oversized real estate sector. The priority is rather on upgrading the industry with a new strategy to enhance the productivity of the Chinese economy. However, it is questionable whether this goal can be sustainably achieved through state planning and coordination. All in all, a continuation of the trend toward lower growth rates is expected for China, influenced by demographics and developments in trade policy. We expect GDP growth to decline from 5.4 percent last year to 5.2 percent this year and 4.5 percent next year (Table 3).

Table 3:
Real gross domestic product and consumer prices in selected emerging market economies

	Weights	Real GDP				Consumer prices			
		2022	2023	2024	2025	2022	2023	2024	2025
Indonesia	5.6	5.3	5.0	4.8	4.6	4.1	3.7	2.6	2.6
Thailand	2.0	2.5	1.9	2.5	3.8	6.1	1.2	1.0	1.2
Malaysia	1.5	8.9	3.5	3.4	5.1	3.4	2.5	2.8	2.6
Philippines	1.6	7.6	5.6	5.3	5.3	5.8	6.0	3.5	3.0
Total	10.7	5.7	4.3	4.2	4.6	4.6	3.4	2.5	2.4
China	41.6	3.0	5.4	5.2	4.5	2.0	0.2	0.9	2.1
India	16.6	6.5	7.7	7.1	6.7	6.7	5.7	4.5	4.7
Asia total	68.9	4.3	5.8	5.5	5.1	3.5	2.0	2.0	2.8
Brazil	5.2	3.1	2.9	1.7	2.0	9.3	4.6	4.3	3.7
Mexico	4.1	3.7	3.2	2.0	2.3	7.9	5.5	4.7	3.6
Argentina	1.6	5.0	-1.6	-3.1	2.7	72.4	133.0	227.0	47.0
Colombia	1.3	7.3	0.6	2.0	2.3	10.2	11.7	7.0	4.0
Chile	0.8	2.1	0.3	2.5	2.1	11.6	7.6	4.2	3.2
Peru	0.7	2.7	-0.6	2.0	2.8	7.9	6.3	2.7	2.5
Latin America total	13.6	3.8	1.9	1.3	2.2	16.3	20.6	30.2	8.6
Egypt	2.3	6.7	3.8	3.4	4.5	8.5	24.4	30.0	25.0
Nigeria	1.7	3.3	3.0	3.5	3.5	18.8	24.7	30.0	28.0
South Africa	1.3	1.9	0.6	0.7	1.2	6.9	5.9	5.0	4.5
Algeria	0.8	3.6	4.2	3.8	3.2	9.3	9.3	6.2	4.8
Ethiopia	0.5	6.4	7.2	6.5	6.5	33.9	30.2	25.0	18.0
Africa total	6.6	4.5	3.3	3.2	3.6	12.9	19.5	21.9	18.9
Russia	6.4	-1.2	3.6	2.2	0.8	13.8	5.9	7.2	6.0
Tyrkiye	4.6	5.5	4.4	4.0	4.5	72.3	53.9	60.0	45.0
Total	100.0	3.9	4.9	4.5	4.3	9.7	8.3	10.1	6.8

In percent. Weights: According to 2023 GDP at purchasing power parities. — GDP: price adjusted; changes compared to the previous year. — Consumer prices: changes compared to the previous year. — Asia total, Latin America total: based on listed countries.

Source: IMF, International Financial Statistics; OECD, Main Economic Indicators; national statistics; Kiel Institute calculations; shaded: Kiel Institute forecast.

The expansion in other emerging markets slightly accelerates. India's economy is currently expanding dynamically, gradually approaching the pre-crisis trend after pandemic-related losses. Although industrial production growth has recently slowed, sentiment indicators suggest continued strong economic activity. While inflation in India has remained at 5 percent in recent months and the central bank has kept interest rates unchanged for over a year, more and more countries are cutting rates as inflation declines. In Latin America, interest rate cuts in the meantime are very significant, albeit coming from rather high levels. This improves prospects for a recovery in economies that were very weak last year. Additionally, prices for some key export commodities have increased, particularly benefiting countries like Chile and Peru. Russia's economic outlook remains highly uncertain. Production and income gains – GDP increased by 3.6 percent in 2023 – are mainly due to government orders, not least for rearmament, and higher transfer payments. Economic capacities are highly utilized, so increased demand will likely lead to additional inflationary pressures. The central bank has substantially raised interest rates, which is expected to dampen private sector consumption and investments during the forecast period.

Risks to the forecast include in particular a more restrictive monetary policy than expected and political uncertainties. The impact of the initial sharp interest rate increases on the advanced economies has so far been surprisingly mild. It is possible that the full effect has not yet been felt, and higher financing costs are only gradually reflected in spending on investments and long-term consumer goods. Falling real estate prices and high vacancies, particularly in commercial real estate, could weigh on banks and restrict lending. It is also possible that the current degree of monetary policy restriction is insufficient to sustainably bring inflation to target. The currently high price pressures in services could

prove more persistent than expected, delaying or even reversing the assumed interest rate reduction process by central banks. An adjustment of expectations could cause disruptions in financial markets and highlight fiscal sustainability issues. Geopolitical risks arise from the increasing divide between China and the United States, which goes beyond trade policy issues. Tensions between the EU and China have also increased. The countervailing duties on battery electric vehicles recently announced by the European Commission cannot be expected to remain unanswered by the Chinese authorities. The upcoming presidential election in the United States in November brings significant uncertainty regarding economic policies and the geopolitical environment. The results of the elections to the European parliament have also increased political uncertainty in the European Union, for example with regard to the outcome of the parliamentary elections subsequently called in France.

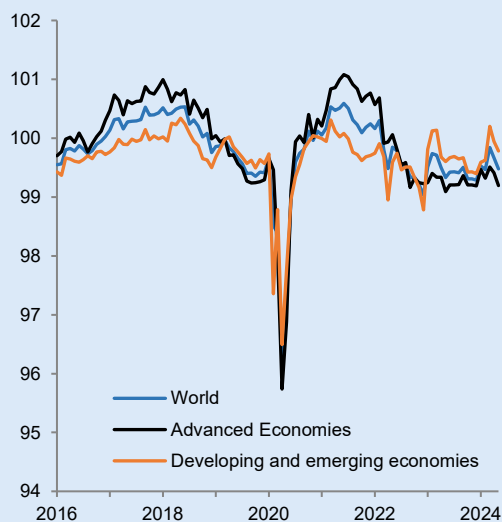
Data annex

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1. World Economy

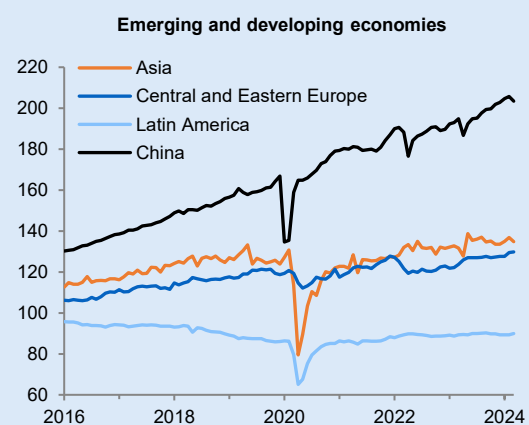
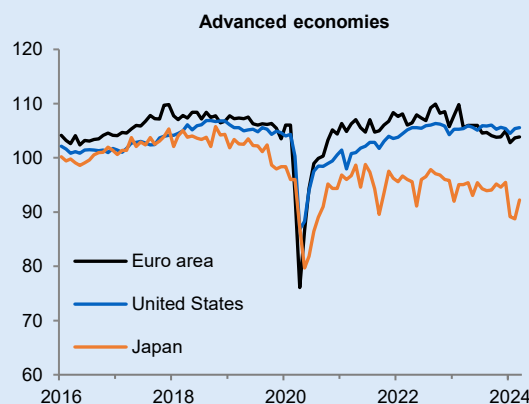
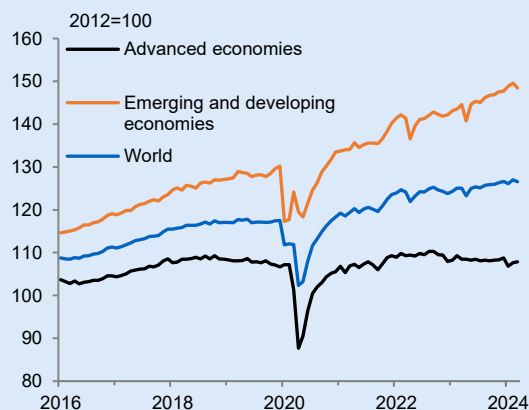
Figure 1.1:
Business expectations by groups of countries



Monthly data, seasonally adjusted. Indicators are based on business expectations in 42 countries (34 advanced economies and 8 emerging economies).

Source: OECD, *Main Economic Indicators*; national sources; Kiel Institute calculations.

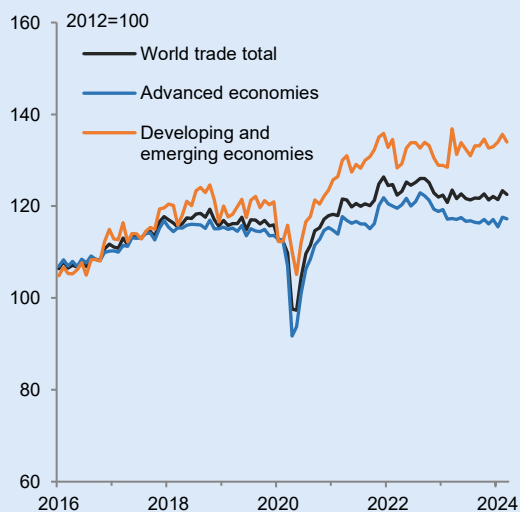
Figure 1.2:
Industrial production by groups of countries and regions



Monthly data. Last value: March 2024.

Source: CPB, *World Trade Monitor*; Kiel Institute calculations.

Figure 1.3:
World Trade

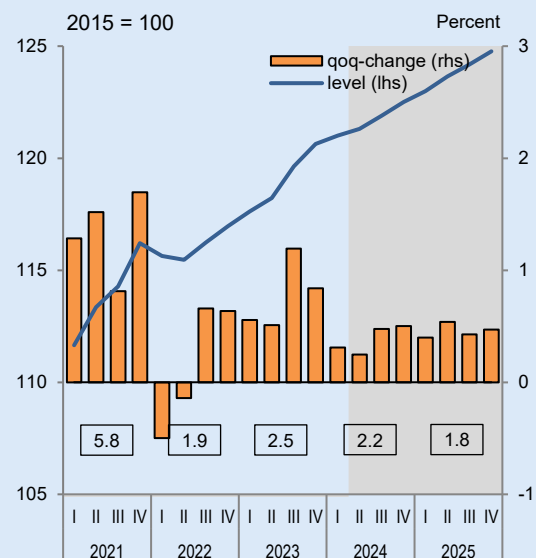


Monthly Data.

Source: CPB, *World Trade Monitor*; Kiel Institute calculations.

2. United States

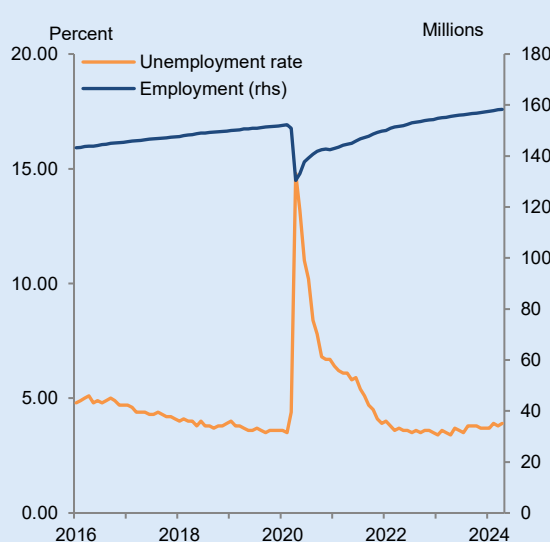
Figure 2.1:
GDP in the United States



Quarterly data, price, seasonally and calendar adjusted, qoq-change; annual rate of change (boxes).

Source: Bureau of Economic Analysis; shaded: Kiel Institute forecast.

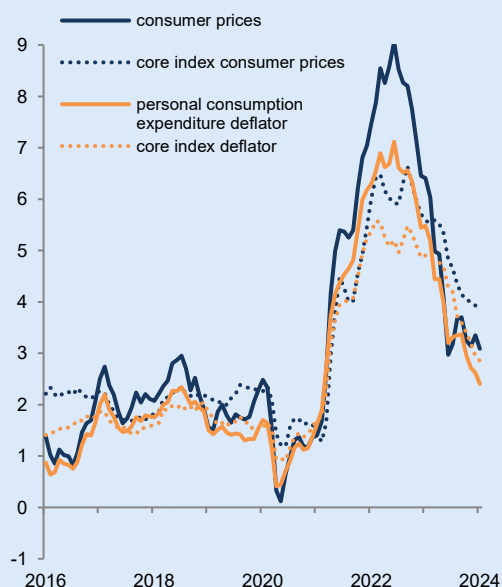
Figure 2.2:
Labor market



Monthly data; seasonally adjusted.

Source: US Department of Labor, *Employment Situation*.

Figure 2.3:
Consumer prices



Monthly data; change over previous year. Core index: consumer prices excluding energy and food.

Source: US Department of Labor, *Consumer Price Index*.

Table 2.1:
Key indicators United States

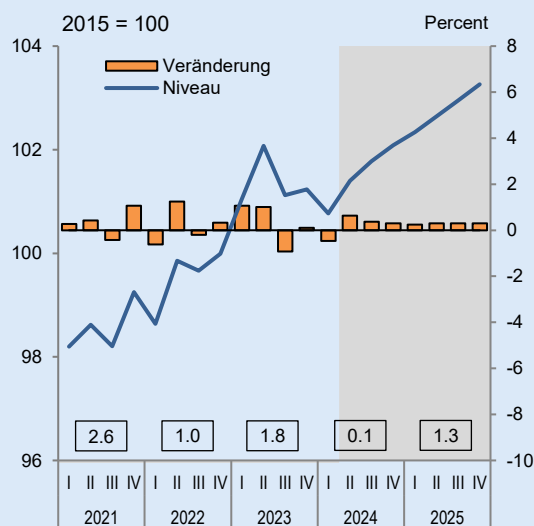
	2022	2023	2024
Gross Domestic Product	2.1	1.3	0.8
Domestic expenditure	2.4	0.9	0.8
Private consumption	2.8	2.1	1.1
Government consumption	-0.6	2.7	1.0
Gross fixed capital formation	-0.2	-1.2	0.2
Machinery and equipment	4.3	-2.5	0.2
Intellectual property rights	8.9	5.6	2.2
Structures	-6.9	6.0	-4.2
Residential investment	-10.7	-12.3	0.8
Inventories	0.7	-0.7	-0.1
Net exports	-0.3	0.4	0.0
Exports	7.2	2.1	0.6
Imports	8.2	-0.8	0.6
Consumer prices	8.0	4.1	2.6
Unemployment rate	3.6	3.7	4.2
Current account balance	-3.7	-3.3	-3.3
Government budget balance	-5.3	-4.4	-4.6

GDP: volumes, change over previous year, percent. Net exports, inventories: contribution to growth, percentage points. Unemployment rate: unemployed in relation to labor force, percent. Current account balance, government budget balance: percent of nominal GDP. Budget balance: fiscal year.

Source: US Department of Commerce, *National Economic Accounts*; US Department of Labor, *Employment Situation and Consumer Price Index*; US Department of the Treasury, *Monthly Treasury Statement*; Kiel Institute calculations; shaded: Kiel Institute forecast.

3. Japan

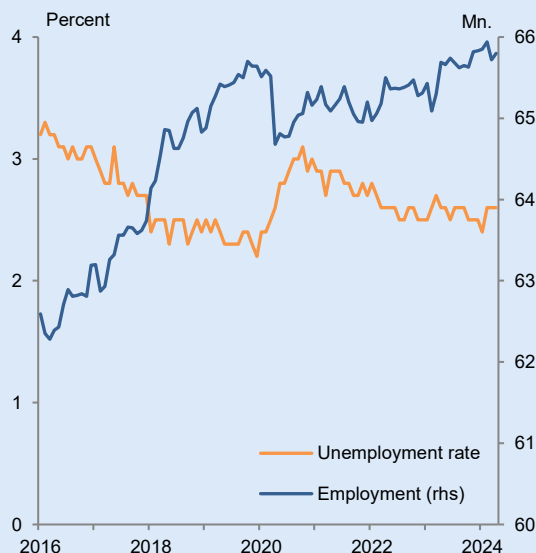
Figure 3.1:
GDP



Quarterly data, price, seasonally and calendar adjusted, qoq-change; annual rate of change (boxes).

Source: Cabinet office, *National Accounts*; shaded: Kiel Institute forecast.

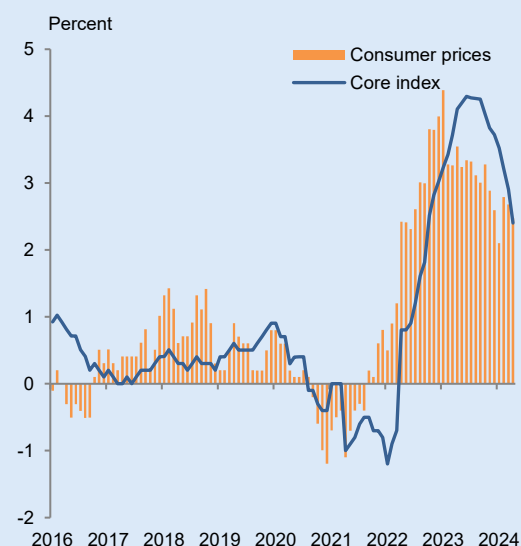
Figure 3.2:
Labor market



Monthly data; seasonally adjusted.

Source: Department of Labor.

Figure 3.3:
Consumer prices



Monthly data; change over previous year. Core index: consumer prices excluding energy and fresh food.

Source: Statistics Bureau of Japan.

Table 3.1:
Key indicators Japan

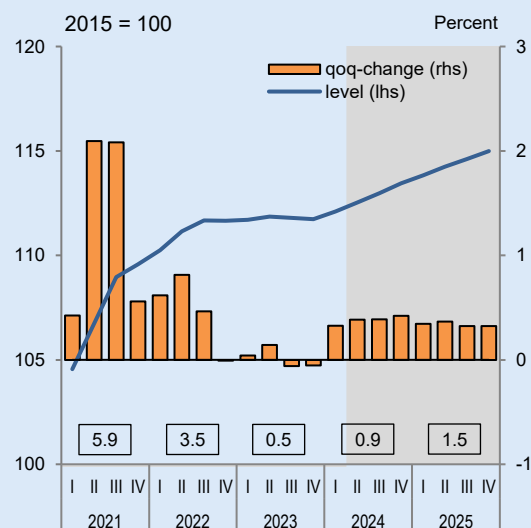
	2022	2023	2024	2025
Gross Domestic Product	1.0	1.8	0.1	1.3
Domestic expenditure	1.4	0.9	-0.1	1.1
Private consumption	2.1	0.6	-0.8	1.0
Government consumption	1.7	0.5	0.3	0.8
Gross fixed capital formation	-1.9	-0.2	2.1	1.7
Enterprises	2.0	1.9	1.6	2.3
Residential Investment	-3.5	1.1	-3.1	1.9
Public investment	-9.7	3.0	3.4	-0.3
Change in inventories	0.3	-0.1	0.0	0.0
Net exports	-0.3	0.6	0.2	0.2
Exports	5.5	3.2	0.7	3.6
Imports	7.9	-1.4	-0.5	2.9
Consumer prices	2.5	3.3	2.2	1.6
Unemployment rate	2.6	2.6	2.5	2.4
Current account balance	1.8	3.6	3.5	4.0
Government budget balance	-4.2	-3.9	-4.0	-3.5

Percent. GDP: volumes, change over previous year, percent. Net exports, inventories: contribution to growth, percentage points. Unemployment rate: unemployed in relation to labor force. Current account balance, government budget balance: percent of nominal GDP.

Source: Cabinet Office, *National Accounts*; OECD, *Main Economic Indicators*; Kiel Institute calculations; shaded: Kiel Institute forecast.

4. Euro Area

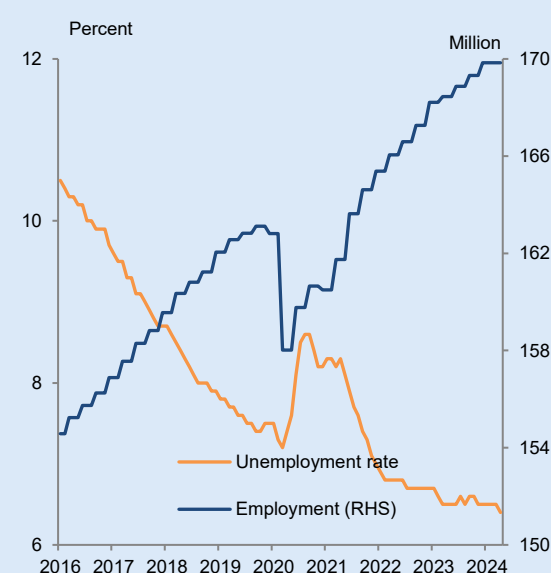
Figure 4.1:
GDP



Quarterly data, price, seasonally and calendar adjusted, qoq-change. Annual data: price adjusted, annual rate of change (boxes).

Source: Federal Statistical Office, Fachserie 18, Series 1.3; shaded: IfW forecast.

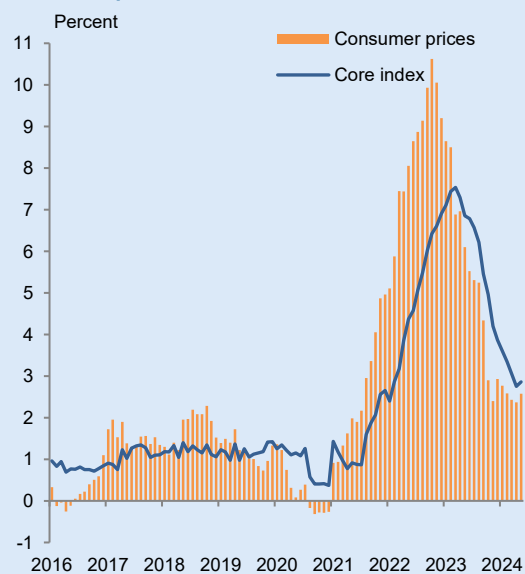
Figure 4.2:
Labor market



Monthly data; seasonally adjusted.

Source: Eurostat, *Labor Statistics*; ECB, *Monthly Bulletin*.

Figure 4.3:
Consumer prices



Monthly data; y-o-y change. Core index: HICP without energy and unprocessed food.

Source: Eurostat, *Price Statistics*.

Table 4.1:
Key indicators Euro Area

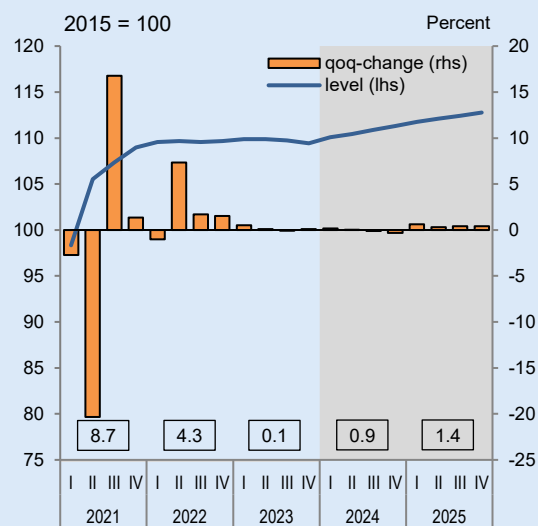
	2022	2023	2024	2025
Gross Domestic Product	3.5	0.6	0.9	1.5
Domestic expenditure	3.6	0.3	0.3	1.5
Private consumption	1.6	1.0	1.6	1.2
Government consumption	4.2	0.6	0.7	0.8
Gross fixed capital formation	2.6	1.5	-0.6	2.3
Inventories	0.4	-0.5	-0.3	0.3
Net exports	0.0	0.3	0.6	0.0
Exports	7.4	-0.6	1.7	3.7
Imports	8.1	-1.2	0.6	4.0
Consumer prices	8.5	5.4	2.4	2.0
Unemployment rate	6.3	6.1	6.0	5.7
Current account balance	1.0	2.5	2.6	2.7
Government budget balance	-3.6	-3.2	-2.9	-2.7

GDP: volumes, change over previous year, percent. Net exports, inventories: contribution to growth, percentage points. Unemployment rate: unemployed in relation to labor force, percent. Current account balance, government budget balance: percent of nominal GDP.

Source: Eurostat, *National Accounts*; Kiel Institute calculations; shaded: Kiel Institute forecast.

5. United Kingdom

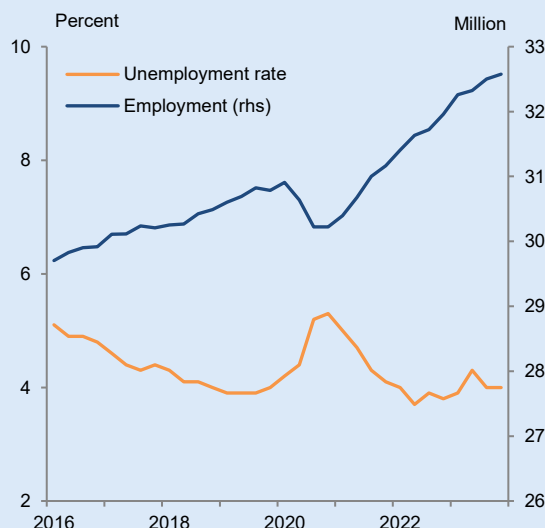
Figure 5.1:
GDP



Quarterly data, price, seasonally and calendar adjusted, qoq-change; annual rate of change (boxes).

Source: Cabinet office, *National Accounts*; shaded: Ifw forecast.

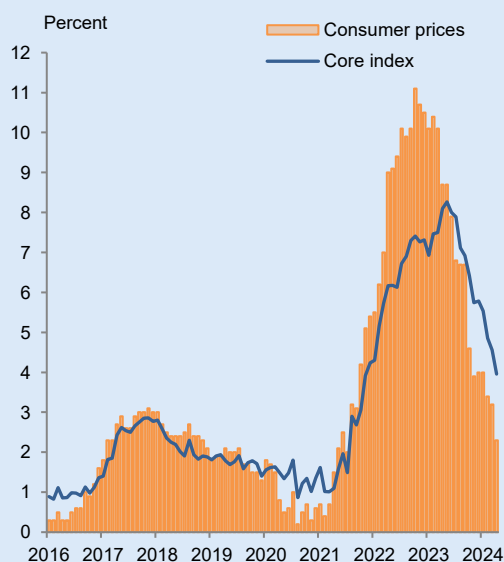
Figure 5.2:
Labor market



Quarterly data, seasonally adjusted.

Source: Office for National Statistics, *Economy*.

Figure 5.3:
Consumer prices



Monthly data, change over previous year. Core rate: consumer prices excluding energy and fresh food.

Source: Office for National Statistics, *Economy*.

Table 5.1:
Key indicators United Kingdom

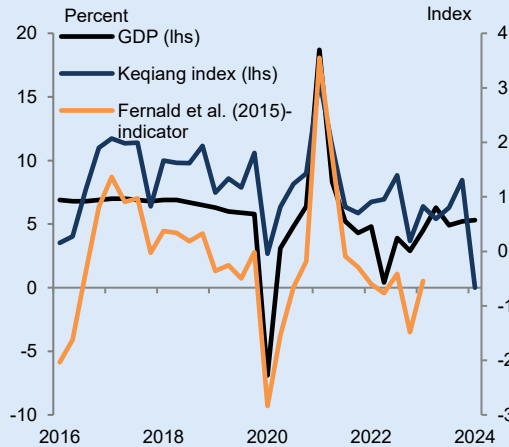
	2022	2023	2024	2025
Gross Domestic Product	4.3	0.1	0.9	1.4
Domestic expenditure	4.8	-0.2	0.8	1.2
Private consumption	5.2	0.5	1.1	1.3
Government consumption	2.5	-1.3	-0.5	0.7
Gross fixed investment	7.9	2.6	0.5	1.0
Inventories	-0.5	-0.3	0.0	0.0
Net exports	-1.7	0.2	0.1	0.1
Exports	8.6	-0.3	1.5	1.8
Imports	14.1	-1.0	1.0	1.3
Consumer prices	9.1	7.2	2.8	2.4
Unemployment rate	3.7	4.0	4.3	4.1
Current account balance	-3.1	-3.3	-2.0	-1.5
Government budget balance	-4.6	-5.6	-4.8	-4.2

Percent. GDP: volumes, change over previous year, percent. Net exports, inventories: contribution to growth, percentage points. Unemployment rate: unemployed in relation to labor force. Current account balance, government budget balance: percent of nominal GDP.

Source: Office for National Statistics, *Economy*; shaded: Kiel Institute forecast.

6. China

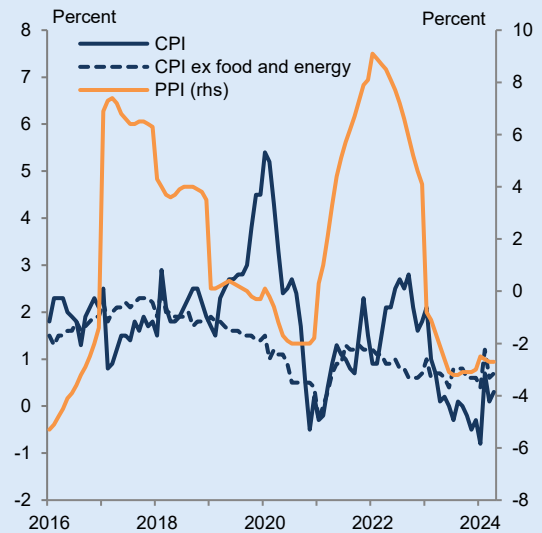
Figure 6.1:
GDP and alternative activity indicators



Quarterly data. GDP: year-on-year percentage change; Keqiang-index: arithmetic mean of the year-on-year growth rates of bank lending, electricity consumption and freight cargo; Fernald et al. (2015)-indicator: first principal component of the year-on-year growth rates of electricity production, railway cargo, retail sales and raw material prices (see Fernald et al. (2015). *Is China Fud-ging its Figures? Evidence from Trading Partner Data*. Federal Reserve Bank of San Francisco, Working Paper 2015-12).

Source: National Bureau of Statistics; People's Bank of China; Kiel Institute calculations.

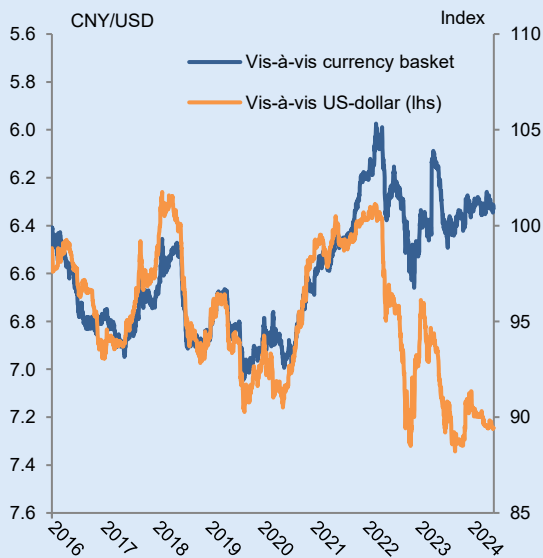
Figure 6.2:
Inflation



Monthly data; y-o-y growth rate. Core index: CPI excluding food and energy.

Source: National Bureau of Statistics.

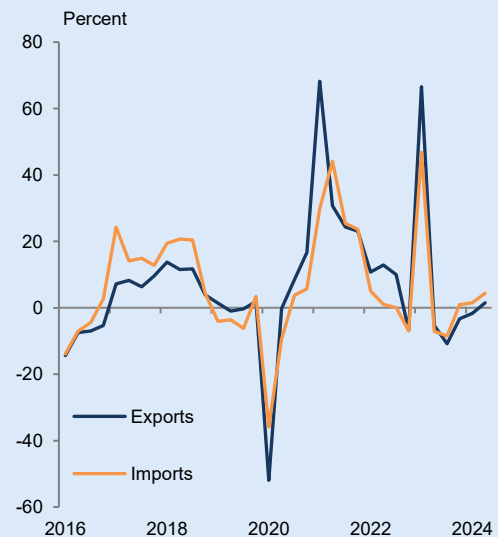
Figure 6.3:
Exchange rates



Daily data.

Source: Thomson Reuters; China Foreign Exchange Trade System; Kiel Institute calculations.

Figure 6.4:
Foreign trade

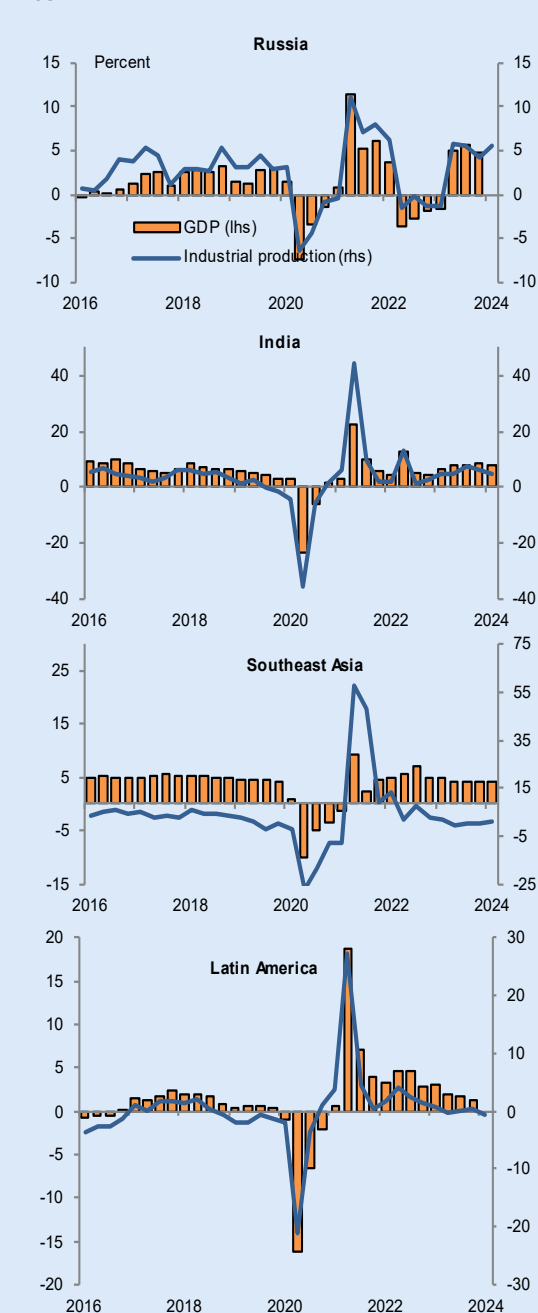


Change on a year earlier based on quarterly averages.

Source: General Administration of Customs China

7. Emerging Economies

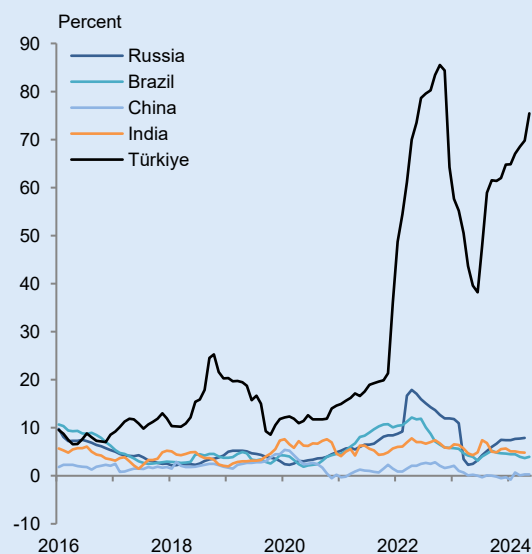
Figure 7.1:
GDP and industrial production in emerging economies



Quarterly data; volumes, seasonally adjusted; change over previous year, Southeast Asia: GDP-weighted average of Indonesia, Thailand, Malaysia and the Philippines; Latin America: GDP-weighted average of Argentina, Brasil, Chile, Colombia, Mexico and Peru.

Source: IMF, *International Financial Statistics*, national statistical offices Kiel Institute calculations.

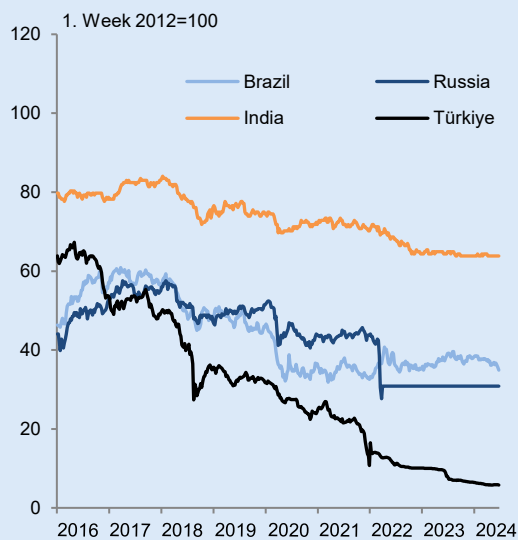
Figure 7.2:
Consumer prices



Monthly data; change over previous year.

Source: Federal State Statistics Service, *Russia*; IBGE, *Brazil*; National Bureau of Statistics, *China*; Labour Bureau, *India*.

Figure 7.3:
US-dollar exchange rates



Weekly data.

Source: LSEG

8. Additional Forecast Tables

Tabelle 8.1:

Real GDP, consumer prices and unemployment rates in the European Union

	Weights	Real GDP				Consumer prices				Unemployment rate			
		2022	2023	2024	2025	2022	2023	2024	2025	2022	2023	2024	2025
Germany	24.3	1.9	0.0	0.2	1.2	8.6	5.9	2.2	1.9	3.1	3.0	3.2	3.1
France	16.5	2.6	1.1	0.9	1.0	5.9	5.6	2.6	2.0	7.3	7.3	7.3	7.1
Italy	12.3	4.1	1.0	0.9	1.1	8.7	6.0	1.5	2.1	8.1	7.7	6.9	6.6
Spain	8.6	5.8	2.5	2.2	1.8	8.3	3.4	3.0	2.0	13.0	12.2	11.6	10.5
Netherlands	6.1	4.4	0.2	0.7	1.7	11.6	4.1	2.2	1.9	3.5	3.5	3.6	3.4
Belgium	3.4	3.0	1.4	1.2	1.2	10.3	2.5	3.6	2.3	5.6	5.5	5.6	5.4
Austria	2.8	4.9	-0.7	0.3	1.3	8.6	7.5	3.6	3.0	4.8	5.1	5.2	5.2
Ireland	3.0	9.6	-3.3	0.9	4.8	8.1	5.2	2.0	1.8	4.5	4.3	4.5	4.3
Finland	1.6	1.3	-1.0	-0.2	1.6	7.2	4.5	1.2	2.3	6.8	7.2	7.5	7.3
Portugal	1.6	6.8	2.3	1.8	1.8	8.1	5.4	1.9	1.9	6.2	6.6	6.4	6.1
Greece	1.3	5.7	2.0	1.8	2.1	9.3	4.0	2.6	1.8	12.5	11.1	9.9	8.7
Slovak Republic	0.7	1.9	1.6	2.5	2.8	12.1	10.8	3.1	2.8	6.2	5.9	5.4	5.0
Luxembourg	0.5	1.4	-1.1	1.6	2.9	8.2	2.8	2.5	2.2	4.6	5.2	5.5	5.2
Kroatien	0.5	7.0	3.1	3.4	2.7	10.7	8.4	3.6	2.5	6.8	6.1	6.0	5.7
Slovenia	0.4	2.9	1.8	1.7	2.2	9.3	7.3	2.7	1.9	4.0	3.7	3.6	3.5
Lithuania	0.4	2.4	-0.3	2.0	2.5	18.9	8.9	1.8	2.3	6.0	6.9	7.0	6.5
Latvia	0.2	3.1	0.0	2.1	2.9	17.2	9.3	1.2	2.1	6.9	6.5	6.5	5.8
Estonia	0.2	-0.5	-3.1	-0.5	3.2	19.5	9.0	3.1	2.3	5.6	6.4	7.0	6.5
Cyprus	0.2	5.1	2.5	3.4	2.0	8.1	4.0	2.4	2.0	6.8	6.1	5.9	5.3
Malta	0.1	8.1	5.7	4.6	3.5	6.1	5.6	2.7	2.4	3.5	3.1	2.3	2.2
Sweden	3.2	1.6	0.1	1.2	2.1	8.1	6.1	2.3	2.0	7.5	7.7	7.9	7.4
Poland	4.4	5.9	0.1	2.0	3.0	13.2	10.7	4.3	3.7	2.9	2.8	2.7	2.6
Denmark	2.2	2.7	1.9	0.2	1.6	8.5	3.4	1.8	1.8	4.5	5.1	5.0	4.7
Czech Republic	1.8	2.4	-0.2	1.5	2.9	14.8	11.2	2.7	2.4	2.4	2.6	2.9	2.6
Romania	1.9	4.1	2.1	2.1	3.7	12.0	10.0	5.4	3.7	5.6	5.6	5.5	5.3
Hungary	1.2	4.6	-0.7	2.1	3.0	15.3	17.2	4.3	3.8	3.6	4.0	4.2	4.0
Bulgaria	0.6	4.2	1.9	2.1	3.1	13.0	8.6	3.3	2.4	4.2	4.3	4.4	4.2
European Union	100.0	3.6	0.6	1.0	1.6	9.2	6.4	2.7	2.3	6.2	6.0	5.9	5.6
Addendum:													
European Union 11	87.4	3.4	0.6	0.8	1.4	8.3	5.3	2.3	2.0	6.8	6.6	6.4	6.1
Accession countries	12.6	4.4	0.6	2.0	3.0	13.3	10.7	4.1	3.3	4.1	4.1	4.0	3.8
Euro Area	84.8	3.5	0.6	0.9	1.5	8.5	5.4	2.4	2.0	6.8	6.6	6.4	6.0
Euro Area without Germany	60.5	4.2	0.9	1.2	1.6	8.4	5.2	2.4	2.1	8.1	7.8	7.5	7.0

Based on GDP at prices and exchange rates of 2023 in percent. Change over previous year in percent. Harmonized Index of Consumer Prices (HICP). Standardized unemployment rate in percent (ILO); country groups weighted according to the size of the labor force in 2023. Accession countries since 2004.

Source: Eurostat, National Accounts; shaded: IfW forecast.