Economic Outlook for the United States and Other Major Economies
Peterson Institute for International Economics
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I. Global economic forecast update

Real GDP Growth (Y/Y)	2022	2023	2024
Global Output Growth	**3.4**	**3.1**	**2.8**
United States	**1.9**	**2.4**	**1.6**
Euro area	**3.4**	**0.6**	**0.7**
Japan	**0.9**	**1.8**	**1.3**
United Kingdom	**4.3**	**0.4**	**-0.3**
China	**3.0**	**5.2**	**4.5**
India	**7.2**	**6.5**	**6.2**
Russia	**-2.1**	**2.0**	**1.5**
Brazil	**3.0**	**3.0**	**1.3**

Note: Data refer to annual-average-over-annual-average growth rates. Purchasing power parity (PPP) weights used to calculate global GDP.
Sources: Consensus Forecasts for 2022; PIIE forecast for 2023–24 (updated January 3, 2024).
Watches for PIIE **upgrades** or **downgrades**, or large differences with consensus, highlighted.

II. Medium-term themes for 2024 (likely relevant through 2028) (Adam Posen)

- Long-term interest rates in the G7 will not come down very much in coming years, even if short-term rates are cut heavily by central banks. The equilibrium safe rate (aka r*) has gone up versus 2019 pre-COVID. While demographics and deglobalization continue their unchanged downward pull, fiscal demands will be at a sustained higher level due to demand for green investment, national defense, and industrial policies. Assuming realistically that there will be no substantial pay-fors in terms of tax increases or spending cuts, the structural public deficits will rise by 1-2% of GDP and stay up. This should be worth at least 0.7% on the US 10-year Treasury average rate.

- International financial fragmentation – notably between savings glut China and savings importing US, but due to geopolitics more broadly – will increase interest rates further. For balance of payment deficit economies, like the US, they will be funding their (rising) public debt from a shrinking pool of savings, increasing the cost of debt. Arguably, surplus countries, like China, will see their long rates go down as excess savings are trapped at home in lower yield assets. The net effect for the world, however, will be tighter credit conditions, as the US and other G7 economies set the floor for global interest rates, particularly for smaller and lower-income economies. In the 1980s, Germany and Japan saw their interest rates rise with US rates, even though they were in ample surplus.

- I believe that the trend productivity growth rate in the US has risen and that this faster rate will be supported by widespread adoption of AI over the next two-to-five years. This is a material change in my view; I have been a tech pessimist for all innovations after the 1990s internet in terms of moving the macro (productivity) needle, and that was proven correct. The last three quarters of positive productivity data in the US seem to me to reflect real factors. We see over-investment crowding in to the AI and related sectors in a way we haven't seen since the mid-1990s, but which preceded/accompanied all past general use technology booms; a rise in productivity growth is the simplest way of explaining what looked like labor hoarding by employers (hiring unjustified by growth projections).

- So, I am building into my forecast a rise in trend US real growth of 0.5% to 2.25% in 2024, and expect that to rise by another up to 1.0% over 2025-2028, as AI investment starts to prompt adoption and change in the private sector. This

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productivity acceleration would also raise real long-run interest rates by a like amount, but with neutral or positive effects on public debt sustainability.

- The spread and speed of similar productivity acceleration in other advanced economies remains to be determined. I do not expect much in other G7 economies in 2024-2025, because I argue that the current rise (preceding most AI utilization) is driven by labor market reallocation unique to the US. Potentially, the adoption by the private sector of AI in other countries could be fast in coming years, given the very low upfront capital costs and widespread availability of the technology. Political economy of labor markets, however, goes the other way.

- The corrosion of globalization continues in the critical areas of foreign direct investment, technological exchange, and business/research networks, between the US and China, and to a lesser degree the EU. This development is underappreciated for two reasons: international trade in goods remains more politically salient than services or R&D, and trade is predictably resilient, with some re-routing. In contrast, the macroeconomic effects of these forms of fragmentation are not immediately apparent, accumulating over time. This will likely lead to divergences in technical standards, impeding the speed and breadth of adoption of useful AI and green technologies.

- China will find various fiscal and monetary stimulus policies ineffective, bearing out the Economic Long COVID analysis. For similar reasons, even direct measures addressing real estate capitalization and oversupply will yield smaller growth benefits than expected – while a genuine problem, it is a manageable one, whereas widespread fear from Chinese households is more significant. This will feed further pressures for financial and human capital to exit China, and, in combination with self-sufficiency concerns, it will lead to an expanding SOE sector.

III. US economic outlook (Karen Dynan and David Wilcox)

The US economy made encouraging progress toward a more sustainable position in 2023.

- Inflation made much faster progress toward the Federal Reserve's 2 percent target than almost any forecaster—including the Fed itself—had anticipated.

- The momentum in real activity has slowed, suggesting that the Federal Reserve's campaign of rate hikes has gained traction. The pace of job creation has slackened, and the unemployment rate has edged up—though the latter remains low by historical standards. GDP spiked in 2023/Q3 but appears to have grown more slowly in 2023/Q4 and set to continue to do so over the next few quarters.

- The macroeconomic situation could go wrong in a big hurry, but for now, the combination is favorable: substantial disinflation accompanied by very little deterioration in the labor market. Thus far, it appears to be a picture-perfect execution of the fabled "soft landing."

For 2024, there are significant challenges and open questions:

- Finishing the job of bringing inflation back down to 2 percent is the number one priority of the Federal Reserve. Significant uncertainty surrounds the difficulty of snuffing out the last bit of inflation without tipping the economy into recession. The odds of a recession in 2024 still seem higher than the historical average.

- Stock prices are high by some metrics. The Federal Reserve's estimate of the "equity premium"—the excess expected return over risk ratio—cannot be observed but must be estimated. In the estimate in the October edition of the Financial Stability Report, the equity premium in September was the lowest it had been in two decades.

- Fiscal policymaking remains a major challenge for the US economy. Tough decisions must be made about aid to Ukraine and Israel, border security, trade agreements, entitlements, the need for tax adjustments, and the unsustainable growth of US debt.

- The healthy US labor market and built-up pandemic savings provide a benefit for the consumer, but rising home prices, delinquency rates, and other indicators point to difficulties faced by lower-income households. Wage restraint in the United States has likely been abetted by increased US immigration since 2021.

IV. Outlook for the euro area (Cecilia Malmström and Jeffrey J. Schott)

- The European Parliament elections in June are likely to increase the far right's share of the vote, possibly tipping the balance towards the traditional right on several issues. The liberals and the greens are expected to lose mandates, affecting issues like climate and migration. There is a spreading feeling in Europe that the green transition is going too fast, seen lately in farmer protests.

- Budgetary pressures will force US and European governments to use frozen Russian assets to fund Ukraine's war effort and reconstruction, as war funding becomes more contentious and Ukraine's bid for EU membership is fast-tracked.

- Financial reform in the European Union remains largely stalled. Before the European Union's current five-year legislative cycle ends in June, it is likely that the so-called CRR3/CRD6 legislative package (transposing the "Basel III Endgame" into EU law) will be passed. By contrast, the Crisis Management and Deposit Insurance (CMDI) legislative package is likely to be delayed to 2025 at the earliest. More generally, the completion of the euro area's banking union and the creation of an EU "capital markets union" will make no major steps toward actual reform—despite an active public debate—unless a crisis precipitates developments. The latter appears unlikely in 2024 given the apparent resilience of the European financial sector.

V: Outlook for China (Martin Chorzempa, Tianlei Huang, and Mary E. Lovely)

- The Chinese economy is suffering from a lack of confidence and demand heading into 2024, a legacy of the COVID-19 pandemic and the government's harsh zero-COVID policy. Chinese households continue to save rather than consume. Declines in real estate development investment are likely to worsen in the foreseeable future. Also dragging the economy down are the risks of increased party control and less emphasis on economic expertise, deteriorating the quality of financial policymaking.

- The Chinese financial sector is likely to be negatively affected in 2024 by generally lower growth levels and prospects, the continued difficulties in the property sector and related credit risk, and the reforms of China's financial supervisory architecture announced in 2023—reforms that are likely to decrease the effectiveness of a system that was already plagued by multiple challenges. A number of financial firms are likely to be revealed as unviable, and some may exit the market in a disorderly way. Even so, the risk of systemic financial turmoil remains low because of the extraordinary extent of state control over the financial sector.

- The Chinese government will likely raise its planned headline fiscal deficit closer to 3.5 percent of GDP in 2024, discarding its preference for a deficit not exceeding 3 percent of GDP. The government's recent decision to issue an additional 1 trillion-yuan treasury bond suggests a more aggressive role in supporting recovery in 2024.

- China's local debt problems will spread in 2024 as local and provincial governments tighten their belts by cutting back on staff and new project funding. Some provinces will seek help from the central authorities to avoid severe fiscal contractions, but fiscal transfers will not offset most of the loss. Local government contractions are unlikely to be offset by robust central government spending.

- The property downturn continues to be a drag on growth and consumer and business confidence, prompting greater government support to developers, especially in the private sector. This trend has occurred despite a nationwide lowering of down payment requirements for first-time buyers.

- Foreign direct investment is exiting China at a record pace and is unlikely to recover in 2024. Foreign firms are selling their existing investments to Chinese companies and repatriating their funds, putting downward pressure on the value of the Chinese currency. Several factors appear to be influencing the trend, including the spike in US-China tensions, uncertainty around export controls, and the increasingly stringent regulatory environment in China.

- Improved bilateral relations between the United States and China in 2023 are not likely to diminish national security restrictions on trade, technology, and investment flows. Instead, restrictions may spread to new areas like data and cloud computing, genetic information, and pharmaceuticals, limiting exposure to US technology and production.

VI. Outlook for Latin America (Monica de Bolle, Jeffrey J. Schott)

- Javier Milei, Argentina's new president, will not have the votes to pursue some of the exotic ideas proposed during his campaign, such as dollarization. Despite his reforms, including a major fiscal consolidation, the economic situation will likely worsen before political consensus to adopt a serious plan for currency reform can develop. A new International Monetary Fund program is likely, though Argentina will probably be in arrears on a $4 billion payment, the largest in the IMF's history.

- A worsening of the Argentinean economic situation will damage Brazil, which faces multifaceted internal vulnerabilities. President Luiz Inácio Lula da Silva faces legislative gridlock impeding passage of his legislation in Congress, where the balance leans sharply to the right, with many anti-Lula parliamentarians.

- Mexico will avoid the fiscal excess that is often exhibited in the final year of the Presidential term, since President Andrés Manuel López Obrador's designated successor is well ahead in the polls. Mexico is likely to continue an economic policy to attract foreign domestic investment from firms wanting to "near-shore" to North America, including a very significant rise in Chinese owned production.

VII. Outlook for indebted developing economies (Adnan Mazarei)

- The debt conditions for emerging-market and developing economies (EMDE) remain difficult, creating economic and social risks. The G20 Common Framework remains focused on low-income countries, leaving out middle-income ones without effectively including private creditors. Some progress has been made in resolving debt difficulties, especially the creation of the Global Sovereign Debt Roundtable, which has improved coordination with China in debt resolution discussions. But many EMDEs face financing difficulties, raising pressures to bring about greater official financing.

- The conflict in Gaza and Israel has produced a vast humanitarian crisis with dire economic consequences for the Middle East and beyond. The ripple effects to the rest of the Middle East have not been large thus far, but the outlook is poor because of a general increase in uncertainty and plummeting tourism. The risk of the conflict intensifying, and involving Lebanon and Iran, could undermine economic and political stability in the region. Egypt is particularly at risk, given its reliance on Suez Canal revenues, very large financing needs, and social tensions. Capital flows, especially to the Gulf Cooperation Council countries, could fall substantially.

- These trends could lead to considerable migration to Europe, exacerbating populist pressures there.

VIII. Outlook for trade and finance (Chad P. Bown, Martin Chorzempa, Gary Clyde Hufbauer, Jeffrey J. Schott)

- No large-scale policy liberalization is in sight for the global trading system. But owing to digital technology, services trade will continue to expand, while merchandise trade will tread water.

- Many countries are taking policy actions to insure themselves against a second Trump administration, not simply in the realm of trade by also in the military sphere. They may be led to adopt more industrial policies, finding workarounds when other countries implement policies they do not like (for example, the European Union raising concerns over the US Inflation Reduction Act promoting domestically produced electric vehicles).

- Trade conflicts could be triggered when the effects of one country's industrial policy start to materialize and cause economic pain elsewhere (e.g., the European Union's anti-subsidy tariffs on Chinese electric vehicles). It is not clear whether countries like Turkey and Vietnam will impose their own carbon taxes or otherwise retaliate.

- While China hawks in the US Congress will continue to introduce bills designed to decouple US-China trade and finance, few will be enacted. The outlook is continued absolute growth in US-China trade but with a decline in the US share of imports coming from China and an increase in US import shares from Mexico, Vietnam, and a few others. US firms operating in China will not put real new money into their ventures, and a few will pull up stakes.

- The World Trade Organization will tread water in 2024 amid hot and cold wars among major trading nations and a rising tide of national industrial policies, distorting subsidies, and import protection. Negotiations to reform the WTO dispute settlement mechanism will languish, missing the "by 2024" deadline, however defined; so, too, will needed trade reforms on trade-related climate issues.

- The upcoming WTO ministerial in Abu Dhabi in February 2024 should at best prevent further erosion of multilateral trade disciplines by extending two moratoriums—on customs duties on ecommerce and on non-violation claims under the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)—and by agreeing not to restrict exports of food and medicines. WTO members probably will only put forward work programs on climate and pandemic preparedness.

IX: Outlook for supply chains in the Indo-Pacific region (Han-Koo Yeo)

- The Indo-Pacific region's many businesses are incorporating the rise in industrial policies and other geopolitical risks into their business strategies, reconfiguring supply chains. Korea could be a barometer of how a highly open manufacturing-based economy in the region adapts when squeezed between the two superpowers, China and the United States: Korea's exports to China have dropped, and its exports to the United States have steadily increased, heralding a possible broader pattern of de-risking among third countries in the region.

- Still, despite US efforts to strengthen ties with its partners in the region and wean them away from Beijing, these countries may remain heavily reliant on economic ties with China, including for sourcing industrial inputs. Some third countries in the region could seize more opportunities of investment and supply chain development because of US-China tensions, capturing new opportunities if they develop the right policies. Already on this path are Indonesia, Singapore, Vietnam and (less so) Thailand.

- The Inflation Reduction Act (IRA) and the Creating Helpful Incentives to Produce Semiconductors and Science (CHIPS) Act encouraged new East Asian investment into the United States in critical industries such as semiconductors, electric vehicles, batteries, and other forms of clean energy. But foreign businesses also face political uncertainties in 2024, with current presidential candidate Donald Trump threatening to repeal the IRA. Foreign investors also face serious implementation issues, such as finding highly skilled engineers in STEM fields as well as relevantly trained young factory and construction workers.

- As actors with common security interests, the United States, Korea, and Japan could continue to strengthen their economic cooperation. China's efforts to restrict exports of rare metals could encourage this new arrangement.

X: Outlook for Climate Policy (Kimberly Clausing, Jacob Funk Kirkegaard, and Maurice Obstfeld)

- The COP28 gathering of world leaders in Dubai in late 2023 made clear that governments are falling short of the necessary steps to avert climate change. Accordingly, the world will substantially overshoot the Paris Agreement goal to limit global warming to 1.5 degrees Celsius, even under the most optimistic scenarios.

- In the year ahead, many countries will wrestle with the ideal policy response to the European Union's carbon border adjustment mechanism (CBAM), which is now being implemented. Several countries are moving towards parallel CBAM implementation and/or are considering carbon pricing in response. Still, divergent climate policy choices in the US and China, will lead to subsidy races and adverse competitiveness effects. Governments might consider revising trade rules in response, but multilateral progress is likely to be slow going.

- Climate action is one area that presents an opportunity for US-China collaboration, pursued most comfortably through multilateral frameworks. Rich countries are under pressure to realize that many poorer countries need assistance for climate adaptation, partly because they may be adversely affected by Europe's carbon border adjustment mechanism (CBAM) and other European policies, such as the European Union's deforestation regulation.

- Solar and battery prices will continue to decline rapidly in 2024, helping push solar installations up globally and likely to lead to real world installations beating (again) even the increasingly upbeat forecasts. Domestic Chinese and Chinese globally supplied photovoltaic panels will drive the surge. The combination of cheaper solar generation and battery storage will drive the replacement of fossil fuel generation with renewable energy.

- China's alleged "stranglehold" on green supply chains will continue to be exposed as largely a protectionist myth. China has restored global supply of germanium and gallium, with noticeably virtually no impact on global prices, while cobalt, lithium, and other "critical mineral" prices continue to decline due to the unwinding of speculative positions as new innovative materials solutions become available. The policy focus will shift towards overcoming increasingly constraining grid-related infrastructure shortcomings.

XII: Outlook for energy markets and critical minerals (Steven Fries and Cullen S. Hendrix)

- Crude oil (Brent) and natural gas (Netherlands TTF) prices continued to fall from their mid-2022 highs over the past year, but the European natural gas price remained elevated. Even with continued supply restraint by the OPEC+ countries, the global oil market surplus is set to widen in 2024, as demand growth in China moderates and non-OPEC+ supply continues to grow. Moreover, over the next few years, oil demand in advanced economies is expected to plateau with slower economic growth and greater energy efficiency, then decline with a growing fleet of electric vehicles (EVs). China, which has the largest and fastest growing EV fleet in the world, is set to follow this demand profile but with a lag due to its higher economic growth rate.

- Meanwhile, the G7 oil price cap on Russia's seaborne exports proved largely nonbinding, but the West's curbs on Russian oil exports—import bans and sanctions on shipping and insurance services—are increasing costs of Russian cargos and supporting the Urals crude oil discount, adding to downside risks to Russian revenues.

- Rapidly rising US oil production, structurally declining petrol demand, and a slowing global economy in 2024 will make the current OPEC+ price strategy of keeping crude at $90 to $100 per barrel increasingly untenable for Saudi Arabia. Political considerations regarding the stabilization of the Middle East after the end of the war in Gaza will play a major role in Riyadh's decision-making with regards to production and pricing.

- The global roster of liquefied natural gas (LNG) projects for commissioning in 2024–26 is expected to add further to global annual LNG capacity. The risks to natural gas prices in European and Asian-Pacific markets, where LNG is the marginal supply and sets the price, are thus slanted to the downside. Russian pipeline supplies of natural gas to European members of the Organization for Economic Cooperation and Development (OECD) were lower in 2023 than in 2021. At the same time, strong growth in EU renewable energy generation and the resumption of French nuclear power generation has put a significant dent in demand. LNG imports balanced the European market, and its storage facilities were again full ahead of the 2023–24 winter heating season.

- Notwithstanding inadequate progress, 2023 saw significant climate actions taken in the United States and Europe, with the low carbon subsidies in the US Inflation Reduction Act and EU Green Industrial Plan. But both actions face significant headwinds. The heavy reliance on subsidies and neglect of carbon pricing in the United States lacks credibility for long-term investments, especially for investments in energy end use technologies that use low carbon fuels like hydrogen. At the same time, the proposed increase in EU subsidies for low carbon investments has hit a funding roadblock in Germany, and therefore Europe.

- In the short term, the El Niño weather cycle will slow economic growth and increase the frequency of natural disasters in countries whose climates—like Peru, Ghana, and Indonesia—are heavily affected by the cycle. The economic losses stem not just from the burden of natural disasters and drought but also from the opportunity costs of investing in disaster preparedness and response versus improving infrastructure, education, and other growth-catalyzing activities.

- Globally, projected demand for critical minerals like lithium, copper, and other necessary inputs for global decarbonization efforts will continue to surpass the necessary capital investments in new mining capacity. A recent EY survey of leading mining firms identified lagging investment as the second biggest threat to the industry. Among the reasons for lagging investment are concerns about the environmental, social, and governance (ESG) impacts of mining (the number 1 risk in the same survey) and higher costs in a higher interest rate environment. These concerns, as well as concerns about how technological change will affect future demand for particular minerals, are adding up to an investment shortfall, if the industry is to be able to meet increased demand spurred Paris Agreement targets.

- Tesla will begin sourcing M3P batteries from Chinese manufacturer CATL for use in its Highland and Juniper EVs (the pre-production codenames for the updates for the entry-level Tesla Models 3 and Y). This will result in a lighter, more dense battery pack that will achieve efficiency gains. It also underscores the rapid advances in battery chemistry that will change the relative importance of critical minerals such as cobalt and nickel for EV supply chains.

XIV. Outlook for international migration (Michael Clemens)

- Political sentiment around the world may continue to turn against perceived abuses of the refugee system. Anti-immigrant and/or anti-refugee politicians have gained support in, or won, recent elections in the Netherlands, Turkey, and Poland. In the United States and the United Kingdom, anti-immigrant sentiment has risen in both salience and divisiveness as populist politicians mobilize anti-immigrant voters via social media, responding to the post-COVID surge in immigration pressure.

- The three largest recent crises of forced displacement—for Ukrainians, Syrians, and Venezuelans—have been regulated almost entirely outside the traditional refugee and asylum framework, illustrating the inflexibility and political fragility of the soon-to-be 73-year-old Refugee Convention. Nevertheless, support for the basic principle of asylum among the general public remains and may continue to be widespread.

- Continuing high pressure from migration and worker shortages across the skill spectrum, combined with the political intractability of expanded permanent migration pathways, will push most advanced economies toward further expansion of temporary employment-based visas. In the United States, barring a major economic downturn, the number of temporary work visas issued per year will continue to grow exponentially.

- Australia and New Zealand continue to expand temporary labor migration pathways in the Pacific region, notably through Australia's major expansion of the Pacific Australia Labour Mobility (PALM) scheme. This global trend includes countries considered in the past to be most reliant on native workers. Japan and Korea, under unprecedented pressure to augment their declining number of workers relative to elderly dependents, will almost certainly continue to enhance pathways for temporary labor.

- Automation and artificial intelligence (AI) will not broadly replace, and may enhance, demand for immigrant workers. AI is already reducing the demand for certain mid-skill white-collar employees. But in general, the effects of this recent wave of technological change will fall most heavily on portions of the skill spectrum that are the least reliant on immigrant labor. In particular, productivity increases for mid- and high-skill workers using AI are unlikely to reduce—and may increase—demand for low-skill employment increasingly filled by immigrant workers.

- More timely and accurate forecasts of surges in migration pressure will emerge. Advances in machine learning and statistical modeling, to incorporate information beyond the traditional "pull factors," are finally delivering more accurate predictions of increased demand for unauthorized migration. This includes much greater use of granular data on origin-country conditions, social media signals, interdiction activity, and smuggling networks yielding policy-relevant forecasts of asylum applications up to four weeks in advance.