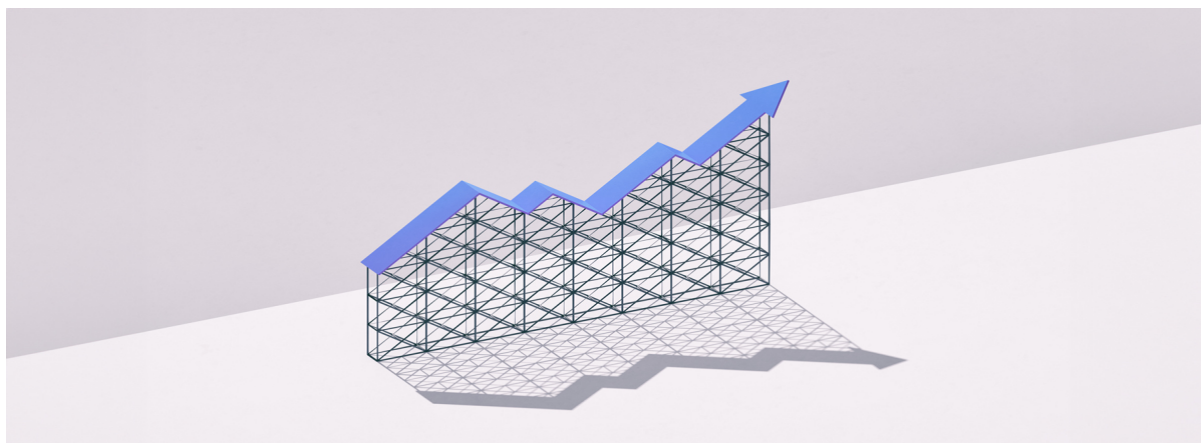


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What to Expect from the Global Economy in 2024

by [Walter Frick](#) December 27, 2023



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Summary. The economy is ending 2023 in better shape than expected. Most importantly, inflation is falling in much of the world and some central bankers have signaled likely interest rate cuts in 2024. But risks remain as higher interest rates work their way through markets. Geopolitics also looms large.

As 2023 comes to a close, the global economy is, in many ways, doing better than expected. The U.S. not only avoided a recession but has grown at a steady clip. Unemployment has been low and, crucially, inflation is falling in most of the world.

And yet, the economic outlook remains deeply uncertain. Higher interest rates are grinding their way through the system, wars are wreaking havoc around the world, and climate disasters are becoming more and more common. Five-year growth prospects for the global economy have never been worse.

The macroeconomic situation in 2024 will remain difficult and uncertain — but there are key themes and questions every business leader should keep an eye on heading into next year. While this analysis is focused on the U.S. economy, many of these same questions apply to much of the world.

Has inflation been tamed?

In June of 2022, the U.S. consumer price index peaked at just over 9% higher than the year prior. Since then it has fallen sharply: In November that figure was just 3.1%, not far from the Fed's stated goal of 2%.

So has inflation been tamed? The optimistic case starts with rental prices, which are a major slice of household spending. Rent prices are rising much less quickly, but

that takes a long time to show up in inflation statistics because most U.S. renters sign year-long leases. As more leases come up for renewal — and their prices stay flat or rise only modestly — the CPI could fall even further. By this way of thinking, inflation is nearly where it needs to be, there's just a lag in the data.

Despite better news on rent, we're still "not quite" there on inflation according to Matthew Klein, an economic analyst and author of The Overshoot newsletter. "Most of the excessive price increases in 2021 to 2022 were attributable to one-off events associated with the pandemic, the response to the pandemic, and Russia's invasion of Ukraine. The impact of those disruptions peaked in the middle of 2022 and has since faded," says Klein. However, "overall inflation remains somewhat faster than before the pandemic because wages and spending (in dollars) are both rising slightly faster than before. If underlying nominal retail spending is rising 7% a year it is hard for inflation to hold the line at 2% a year for very long."

The Federal Reserve is ending the year on a fairly optimistic note, by not only holding interest rates steady but signaling the possibility of multiple rate cuts in 2024. However, that path is not preordained and things could still go wrong according to Mihir Desai, a professor of finance at Harvard Business School and co-host of the After Hours podcast. "Absent a significant economic downturn, the final descent to 2% inflation will take longer, and have more zigs, zags and potholes than typically considered," he says. "As the saying goes, the longest mile is the last mile home."

(In Europe, where the war in Ukraine has had a more dramatic impact on energy prices, the European Central Bank and Bank of England remain somewhat more hawkish in their statements.)

Is the historically good labor market over?

One of the biggest debates of the last two years was whether unemployment would have to rise in order to bring down inflation. Thankfully, it hasn't had to rise much.

"This is still one of the best times in U.S. history to be looking for a job," says Klein. "The share of people in their prime working years is close to the highest it has ever been, although still below the peak of the late 1990s. The share of people who are working part-time when they would rather be full time is around all-time lows."

The labor market is cooling — at least slightly. The number of new hires has declined significantly over the last year, according to LinkedIn, and the number of job openings per unemployed worker has fallen as well. So far, though, the U.S. unemployment rate is still relatively low. And, as The Economist has argued, the longer term outlook for workers in the U.S. and Europe looks strong.

Can financial markets handle higher interest rates?

In March, the FDIC took over Silicon Valley Bank after it experienced a classic bank run. The cause? Higher interest rates made its bond portfolio less valuable, threatening its balance sheet and spooking its customers. Signature Bank and First Republic failed shortly thereafter. Higher interest rates have been working their way

through the economy, denting the balance sheets of bondholders and raising the cost of borrowing. Could they destabilize financial markets next year?

“All the impacts that one would expect from higher interest rates will still happen (and are happening) but just in slow motion relative to expectations,” says Desai. “As such, there is no sudden stop but more of a rolling stop ahead for the economy – perhaps a death by thousand cuts. That slowing process will be less immediately disruptive or recognizable but more long-lasting and harder to engineer an escape from given the limited fiscal and monetary space available to policy-makers.”

Corporate bankruptcies rose sharply in the U.S. this year, but are still well below the highs of the great financial crisis period.

“Many businesses are exposed to floating-rate debt, and they may be feeling pinched at some point. There are stories about some leveraged buyouts that are struggling,” says Klein. “But the experiences of Australia, Canada, Europe, and the UK – other rich economies that have much more short-term borrowing than we do – suggests that strong growth can make higher interest costs tolerable. While there is going to be pain ahead for some, the overall economic impact may not be that large.”

Other themes to keep an eye on in 2024

Asked what else he’s watching, Klein says:

China is a big wildcard. Many people had expected that the end of “Covid Zero” this year would lead to a surge in consumer spending and a big spike in oil prices, which had been held down by China’s travel restrictions. That is not what happened, in part because of longstanding structural issues that Michael Pettis and I explained in our book *Trade Wars Are Class Wars*, and also because the government seems determined to continue squeezing the real-estate sector.

Now there seems to be an attempt to pivot to investing in levels of manufacturing capacity that would only make sense if China became an overwhelmingly dominant exporter in categories where it has, until recently, not competed internationally. How that plays out and how that will affect the other major economies will be very important, and has the potential to be extremely disruptive.

Desai adds:

Were the warning signs on fiscal policy (higher long-term rates) from the fall of 2023 a red herring or a canary in the coal mine?

How does the remarkable rise in stock market concentration resolve itself? Via a broadening or a final and fatal narrowing? Will AI deliver on its transformative promise on the expected aggressive timeline? If not, does this lead to the unwinding of the AI-fueled rally in stocks and a corresponding tightening of financial conditions?

Does the narrative of the economic decline of China and the rise of India prove itself out? If so, how does this remake politics and economics around the world?

Politics will remain a major driver of economic uncertainty in 2024, including via the U.S. presidential election which could have unpredictable consequences for geopolitics, trade, and the wars in Ukraine and the Mideast.

What else? Josh Lipsky, the senior director at the Atlantic Council's GeoEconomics Center (where, for the record, I do some editing work), summed up his view of the biggest risks to the economy in a recent newsletter:

China's inaccurate data masking sputtering growth, the world's major shipping companies stopping transit in the Red Sea, and the second largest economy in South America at serious risk of default. And that's just scratching the surface.

While the economic outlook in the U.S. is better than it was a year ago, much of the uncertainty that businesses have gotten used to over the past three years is not going away.

The risks are real and numerous. Lipsky's metaphor for the economy in 2024 is a Jenga tower: "If you look from above, the tower seems tall and sturdy," he writes. "But if you pan the camera down and look at the sides of the Jenga tower, you see all the missing pieces. Each one is hollowing out the structure and you never know just how much instability the tower can take before it topples over."

- **Walter Frick** is a contributing editor at *Harvard Business Review*, where he was formerly a senior editor and deputy editor of HBR.org. He is the founder of *Nonrival*, a newsletter where readers make crowdsourced predictions about economics and business. He has been an executive editor at *Quartz* as well as a Knight Visiting Fellow at Harvard's Nieman Foundation for Journalism and an Assembly Fellow at Harvard's Berkman Klein Center for Internet & Society. He has also written for *The Atlantic*, *MIT Technology Review*, *The Boston Globe*, and the BBC, among other publications.