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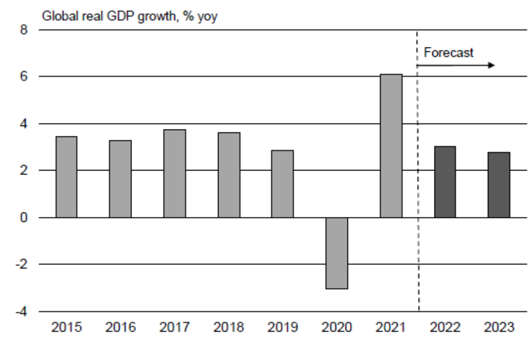
Downside risks to growth building

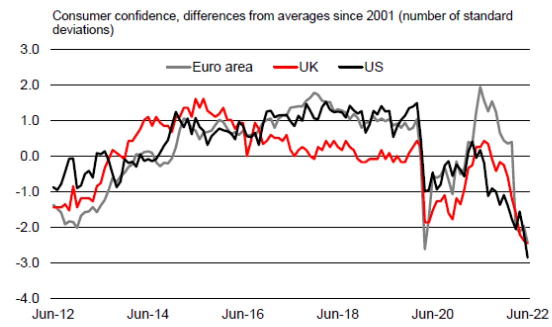
Abstract from *Macro Research, Economics Chartbook*
UniCredit Research

■ **Global:** GDP growth will probably slow to 3.0% this year (previously 3.3%) and 2.8% next year (from 3.4%). Headwinds from the Russia-Ukraine conflict have combined with COVID- 19 lockdowns in China to push inflation up further and slow the pace of economic activity. Central banks have become even more hawkish. Tighter financial conditions, a squeeze in real incomes and a sharp downturn in consumer confidence will increasingly weigh on activity. Trade is weakening, also reflecting a switching of expenditure away from goods. Global inflation will probably peak soon, but the speed and extent of the subsequent decline remains highly uncertain. We think that central banks and markets are underestimating the downside risks to growth. If Russian energy imports suddenly stop, much of Europe will likely see negative GDP growth for 2023.

A SLOWDOWN AHEAD



CONSUMER CONFIDENCE HAS FALLEN SHARPLY



Source: European Commission, GfK, IMF, University of Michigan, UniCredit Research

■ **US:** We forecast GDP growth of 2.4% this year and below-potential growth of 1.3% next year. Economic momentum is slowing, particularly for interest-rate-sensitive sectors such as housing and durable goods. CPI inflation will likely peak at about 9% yoy in 3Q22, with monthly inflation prints likely easing to levels consistent with target by around the turn of the year. Longer-run measures of inflation expectations are still well anchored and average hourly earnings growth is moderating. We expect the Fed to raise the target range for the federal funds rate into restrictive territory by the end of the year, to 3.25-3.50%, which we see as the peak. Rate cuts could start in late 2023.

■ **Eurozone:** GDP is likely to expand by 2.8% this year and by 1.3% in 2023. Survey indicators signal a weakening of growth momentum in the spring and downside risks for economic activity in 2H22. Headline and core inflation have further to rise, although we see initial signs that pipeline price pressure might start easing soon from extremely high levels. Weak growth and slowing inflation will probably force the ECB to stop hiking in 1Q23 once the depo rate reaches 1.25%, i.e. the lower end of the 1-2% range the central bank regards as “neutral”. We expect the announcement of a credible anti-fragmentation facility featuring potentially unlimited purchases and light conditionality.

■ **CEE:** The EU-CEE economies will likely grow on average by 3.6% in 2022 and 2.6% in 2023, with the Western Balkans lagging. Turkey could grow by 4.4% in 2022 and 3.3% in 2023. In Russia, the economy could shrink by around 10% this year and stall next year. Hungary and Slovakia would experience the biggest direct impact from a lack of Russian energy imports, followed by Bulgaria, Czechia and Serbia. Inflation is likely to peak this year in most CEE countries, except for Hungary and Poland, where the peak could be postponed to 2023. Inflation is expected to remain well above targets in 2023. We think that central banks will end rate hikes in the autumn, but the scope for rate cuts in 2023 is very limited. The CBR could cut the policy rate to 8% in 2022 and to 7% in 2023. The CBRT might hike in 2023 if there is a change in government.

■ **UK:** We forecast GDP growth of 3.4% this year and 0.6% next year. The economy will be skating on the edge of recession for the next few quarters amid a big squeeze in real disposable income. Inflation is set to stay higher for longer in the UK compared to peers, peaking at above 9% yoy in 4Q22, but should fall quickly to below 2% by end-2023. The BoE will probably stop raising the bank rate after a final 25bp hike to 1.50% in August.

■ **China:** GDP will likely grow by 4.0% in 2022 and by 4.2% in 2023. While most COVID-19-related restrictions were lifted at the beginning of June, the supply side of the economy is recovering faster than the demand side as Chinese consumers continue their cautious behavior to avoid quarantines. The central government is stepping up efforts to support the economy and reduce the negative impact of future waves of contagion on the domestic economy through a combination of monetary and fiscal policy measures. The PBoC might tolerate further weakening of the CNY towards 7.00 against the USD to support exports.