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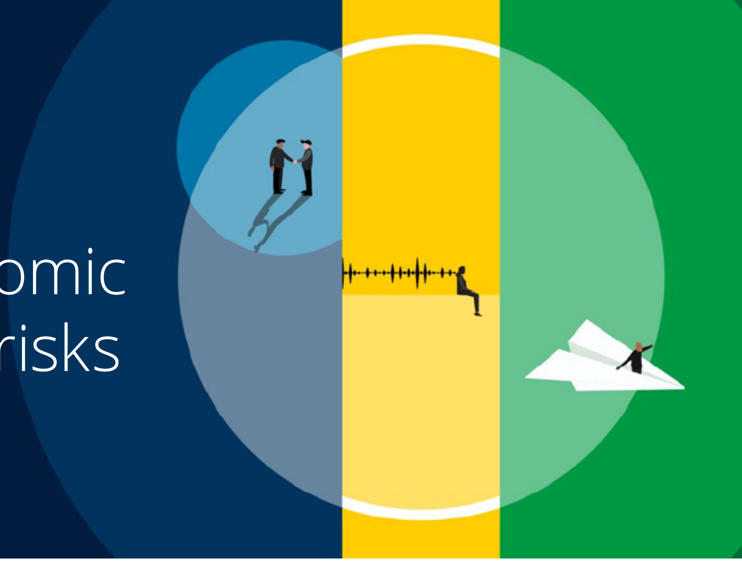

Global panel debate: Economic forecasts and geopolitical risks

CFO VISION 5 MINUTE READ

Based on an in-person discussion on 6 November 2024

From navigating risk to the evolving role of the CFO, our economists explore some of today's most pressing challenges. This conversation took place on the day after the US election, which prompted many of the questions from our audience.

Speakers

Host: **Kirsty Newman**, Partner and UK Market Chair, Deloitte

Speaker: **Ian Stewart**, Chief Economist, Deloitte UK

Speaker: **Rumki Majumdar**, Economist, Deloitte India

Speaker: **Michael Wolf**, Economist, Deloitte US

Today's theme is "lean in, listen, lead." Can you share one key piece of advice or action for our CFO group?

Rumki: Listen closely to the signals from the market and workforce, and lead with resilience and agility.

Michael: Scenario planning is a great way to prepare for multiple futures.

Ian: Having a view is important during times of uncertainty. When things go wrong in the world, it tends to be the CFO who is expected to explain the implications to the rest of the business.

What is your outlook on the UK's medium-growth prospects, and how do you see the government's role in shaping the short to medium-term outlook?

Ian: UK growth looked weak in the final months of 2023, but we had a strong recovery in the first half of 2024. We have a forecasted growth of 2% next year, which is really strong for this economy. We also live in a world where inflation rates and unemployment are falling, which supports income growth. This is a sustained recovery in the UK and the pace of growth next year is largely because of the budget. Looking at the budget numbers, most growth is driven by the government. Raising taxes as much as was announced on 30 October – the biggest tax rise in over 30 years – cramps growth in the private sector and takes that money to fund better public services. Overall, the UK will be a strong-growing economy over the next 18 months.

We have seen two short-lived but significant global sell-offs in recent months as concern rose about the US growth. Do you think the US economy will experience a gradual slowdown or a sharp recession?

Michael: It is difficult to extract the election results from our outlook, but two things have changed in a way that reduces the chance of a hard landing, even ignoring the election. The first is the labour market. In August, unemployment rose from 3.4% to 4.3% before returning to 4.1% a few months later.

But the unemployment rate is not as reliable an indicator of the labour market as we thought, so some of the fears of the market deteriorating are now unfounded. We also have data that indicates the health of the US labour market was quite good. The other important change is that it looks as if US spending and income

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growth are better aligned. Both have improved our outlook. We had already revised our outlook for US growth for the next year from 1.1% to 1.5%, but I think we will increase it again.

> "Listen closely to the signals from the market and workforce, and lead with resilience and agility." **Rumki Majumdar**

The latest forecast suggests 7% growth in 2024 for India, making it the world's fastest-growing major economy for 2024 and 2025. What is India getting right?

Rumki: India's growth story is indeed very encouraging. Since the pandemic, India's GDP numbers have consistently topped expectations. I want to highlight a few things that have been done right, which have helped strengthen economic fundamentals. One would be the government's investment in infrastructure and logistics over the last few years. Investments in roads, railways and energy are improving connectivity and reducing logistics costs, thereby driving competitiveness. These sectors have very positive economic externalities in terms of job, income and asset creation. For instance, the construction sector helped create jobs, especially during the pandemic, supporting livelihoods.

Second, the digital transformation and innovative solutions that India has seen in recent years, like Unified Payment Interface (UPI) and the Open Network for Digital Commerce (ONDC), which have aided in better inclusion, formalisation of the economy and increased tax revenues. And these are initiatives driven by the government.

Finally, India is prioritising manufacturing to promote job creation and become self-sustainable in critical sectors

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such as semiconductors, renewables, pharmaceuticals and automotive. All these sectors are now significantly contributing to exports as well.

What will we see next from a US economic perspective?

Michael: Many of the Tax Cuts and Jobs Act provisions that Donald Trump implemented in his first term sunset at the end of next year, which forces a tax deal. He campaigned on reducing corporate tax further, making individual tax cuts permanent and supplementing income loss with tariffs. Those tariffs will add a two-point increase to inflation by some estimates. His immigration policy to deport millions of undocumented immigrants will also lead to a substantial population and workforce loss. But what matters is what the legislature will allow him to do. There are some questions about how much he will be allowed to implement tariffs unilaterally, but it is very likely we will get a tax bill done and that it will look like what he has proposed.

Macroeconomically, the effects will be quite inflationary. Adding $7.5 trillion to the deficit over 10 years is a big number, plus the tariffs. It leads to an inflationary impulse, which will potentially force the Federal Reserve to pause or reverse interest rate cuts. In the near term, it will be quite expansionary. Longer term, there is a question about how bond markets feel regarding inflationary impulses.

What will the US election result mean for the UK and India?

Ian: This victory reinforces the idea that we live in a world where the old rules for globalisation and trade are increasingly contested. It indicates a shift like Brexit did, where globalisation faces far greater headwinds and the rules for running a global economy are being changed.

The US economy has been remarkably strong in the last three years. However, Donald Trump is likely to run a larger deficit than a Harris administration would have. That is likely to raise US growth, inflation and interest rates in the short to medium term.

The conflict in Ukraine exposed Europe's defensive weakness. The biggest concern is Germany. Despite being the dominant economic and political power in Europe, it is massively underpowered in terms of defence. Worryingly, the German economy seems to have lost momentum and, with an election due early next year, the country's political parties are focused on internal problems.

Rumki: India and the US have been strong partners during Donald Trump's first presidency, and we expect the relationship will strengthen further. India has a strong defence, economic security and technology partnership with the US. Besides, India is seen as a rising power in Asia and an economic alternative in the region. If Trump decides to implement some of his stated policies, such as higher tariffs on Chinese imports and restrictions on technology transfer, there are possibilities that US investors will likely redirect investment in India's tech infrastructure and also in energy, semiconductors and the defence space over the next few years.

India has been an attractive investment destination for several MNCs globally. Given that India has one of the largest and youngest demographics, and also the largest consumer base, US investors recognise the competitive advantage it brings.

How will the change of leadership in the US and the UK impact UK growth?

Ian: While the UK is important, we probably exaggerate how important the relationship is to America. So, while there may not be the personal chemistry that perhaps there was between Donald Trump and Boris Johnson, it may not make a huge difference in terms of the overall relationship.

There are a lot of areas where our interests align, but on climate and trade and perhaps security, views may differ. Chances are, this administration will mean more US energy production and lower hydrocarbon prices, which could complicate our energy transitions. The UK is used to working with allies with whom there are areas of disagreement. This is the essence of diplomacy.

Should we focus on strengthening our relationship with the EU?

Ian: While the [UK] government wants to reset relations with Europe, the problem is that Europe 'a la carte' is not available – it will be hard to get the parts that are most economically valuable to us without getting the whole lot. That is not to say that the UK should not seek closer economic relations with the EU, which is by some margin the UK's largest trading partner. Goodwill is important, but on its own, it is not going to solve the structural obstacles to trade created by Brexit. It is important to remember, though, that the UK is a major player in Europe – it is a significant economic power and plays an outsized role in defence and strategy. It was in the vanguard in providing support for Ukraine. There is a big question about what the EU can do to kickstart growth. Like the UK, they have seen a significant decline in their long-term growth rate in the last 15 years.

Do you see potential systemic risks given the debt levels in the US and UK?

Ian: We should all be grateful for how well policymakers in the West have dealt with the pandemic and the energy shock, because we have avoided deep recessions. The problem is that the public sector has socialised a whole load of risk, and there has been a massive expansion in government borrowing. Fighting the financial crisis, pandemic and energy shock has led to a 150% rise in indebtedness in the UK. The US debt numbers are mindboggling, too.

It will be a huge concern for markets and policymakers, who, for the last 50 years, have been right to worry about financial risk in the private sector. I think we are going to be worrying a lot more about potential risk in public sector balance sheets.

Michael: There is a possibility that the US is special in this case and will not go the way the UK went under Liz Truss's government because of the reserve status of the US dollar. The US dollar is still the preferred currency for most transactions, and I do not think that will change any time soon. But it is a very clear risk, and we are coming from an already disadvantaged place. We are spending well beyond our means, and adding this additional money is certainly a huge risk.

Ian: Such risks would be likely to manifest first in terms of higher inflation expectations in the US. Unlike Spain or Ireland, the US cannot default. But it can run higher inflation, and you can see market expectations for inflation nudging higher.

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