Weekly Brief

February 13, 2024

The Global Race for Economic Growth

I recently caught up with BCG's Chief Economist Philipp Carlsson-Szlezak just after he attended a private dinner with CEOs in Canada. I asked him to share some of the key messages he delivered to that group.

Over the past couple years, Philipp and his collaborator Paul Swartz repeatedly made the case that narratives of structural inflation and inevitable recession were too pessimistic and that the US was most likely headed toward a soft landing. Now that this is playing out, I was eager to hear Philipp's current global views, not just for the US but for China and the Eurozone as well. Here's an overview of his take, which I hope you'll find helpful.

A Reversal of Fortunes

To see the near-term growth prospects of these three regions, we need to consider the emerging structural legacies of recent shocks. The direct comparison of growth rates would be misleading, but understanding each bloc's ability or inability to return to its old growth path tells us a lot about resilience and the tactical outlook. (See Philipp's and Paul's new article on this topic in *Fortune*.)

- The US started out as a laggard in 2020 but is now the only bloc on its way to its pre-pandemic growth trajectory. Inflation threatened that progress, but the unfolding soft landing is evidence of remarkable resilience.
- China's economy was the envy of the world in 2020, making a swift return to its old growth path. But in its own reversal of fortunes, China's switch to a consumption-driven economy is proving challenging and has pushed it off that pre-pandemic path.

- The Eurozone has seen yet a different reversal of fortunes. It was making sustained progress toward its old growth path—until the war in Ukraine. Though a show of resilience has allowed it to escape a recession, a return to pre-pandemic growth now looks challenging.

Tactical Growth in 2024

Settling into their new trajectories, each bloc is fighting for tactical strength in the year ahead. Prospects vary, but we can view near-term growth with an optimistic lens. It should be a year of progress.

US Strength. Philipp thinks the US will continue to defy the pessimists. Consensus recession odds of 45% remain too high and are reminiscent of the recent past when pessimism was simply punted out quarter after quarter.

Yes, growth will be slower than the fast 3.1% of 2023, but the underlying resilience of the US economy is sustainable, not finite. As inflation has fallen below wage growth, real incomes are growing again. After a pullback during much of 2023, corporate earnings are set to expand. And the labor market is structurally tight, pushing companies to embrace technology where labor is scarce and pricey.

On the monetary side, it will get easier in 2024, even as the timing of rate cuts remains uncertain. And looking beyond this year, Philipp's team thinks the US is likely to overshoot its pre-pandemic trend.

China's Challenges. China's tactical fight, meanwhile, is to arrest the drag on growth. The shrinking real estate sector and weak equity markets remain headwinds as they impair the confidence and spending power of households whose consumption is needed to drive growth.

Stimulus would help, but many of the old channels, such as pushing construction, would undermine the desired rebalancing toward consumption. That said, even as the Chinese economy has been pushed off its old growth path, its rate of growth likely remains much higher than that of the other blocs, and China's past ability to manage difficulties points to resilience.

Europe's Restart. Despite the challenges, the Eurozone will see faster—but uneven—growth. Germany, which weathered the 2010s well relative to other Eurozone members, is now at the bottom of the growth league tables.

Yet labor markets across the bloc remain stronger than they've been in two decades, and real income growth is set to return as inflation drops below wage growth. Plus, after an era of tepid investment, the Eurozone has found convincing investment narratives in decarbonization, technology, and defense.

Combining Vigilance with Ambition

The better-than-expected growth outlook is no reason to let down our guard. The past four years have shown that shocks are ubiquitous, and continuous judgment of macroeconomic risks should stay at the top of corporate agendas.

But the past four years have also shown that shocks are not deterministic—neither for economies nor companies. The resilience we have seen, especially the avoidance of recession, is testament to the strong collective efforts of business leaders and policymakers. While leaders can't control the shocks, investing in capabilities to understand and react to them is a muscle they can continue to build.

Finally, given a baseline positive case for growth, boldness alongside vigilance is important, too!

Until next time,

Rich

Rich Lesser
Global Chair

Further Reading

[Here’s How the US, Europe, and China Are Faring in the Post-Pandemic Race for Economic Growth]

Have the conflagrations of recent years pushed the blocs off their old paths? If so, can they return?

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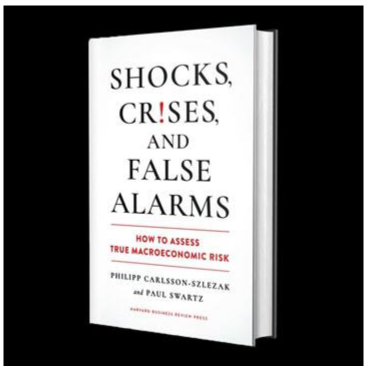

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