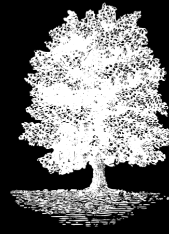


THE TAPLOW GROUP

GLOBAL BUSINESS REPORT

2024

Contents

Asia 03

Australia 04
China 05
India 06
New Zealand 07

Americas 10

Brazil 11
Canada 12
USA 14

Europe 16

Belgium 17
Bulgaria 17
Denmark 18
Finland 20
France 21
Germany 22
Luxembourg 23
Netherlands 23
Norway 24
Spain 24
Sweden 25
UK 26

ASIA

Australia

The market conditions in Australia continue to support executive recruitment and executive search activity.

The total population of Australia is 26,638,544 (June 2023), with an unemployment rate of 3.9% (November 2023) and the Consumer Price index of 5.4% (September quarter 2023)

The low unemployment percentage presents challenging conditions for employers to source and secure the talent and experience they require without specialist search and recruitment services.

Inflation, the value of the Australian dollar against other major currencies, including the US dollar, the Euro, the Yen and the Yuan, has supported exports while contributing to the cost of imports and inflation. The increase in interest rates has been consistent from a historical low of 0.10% per annum with 12 consecutive rises (four 0.50% increases and eight 0.25% increases), taking the cash rate to 4.35%.

Inflation in Australia has passed its peak but is still too high and is proving more persistent than expected. CPI inflation is now expected to be around 3½ per cent by the end of 2024 and at the top of the target range of 2 to 3 per cent by the end of 2025.

In the final quarter of the 2023 year, the Federal Parliament passed industrial relations laws which substantially increased the burden and costs imposed on businesses using labour-hire arrangements and hurt productivity.

National Accounts (November 2023) indicated that Australia is in a GDP per capita recession, and under the current Government, mortgage repayments have almost tripled, prices have gone up by more than 9%, and taxes have gone up by over 27%.

Sources: Australian Bureau of Statistics, Finspro, The Guardian, Reserve Bank of Australia, Angus Taylor MP.

China

GDP growth target of "around 4.5%" for 2024 set by China: According to Nomura China's macro 2024 outlook, Beijing may set a GDP growth target of "around 4.5%" for 2024, a touch below the "around 5.0%" for 2023. Many institutional investors have a similar prediction the GDP growth target ranges from 4% to 4.5%, which largely depends on the timing, probability, scale and format for Beijing to take the eventful step of directly intervening in the property sector.

Slow recovery of China's Economy is foreseeable in the first quarter of 2024: In 2024, many Challenges have to be faced by China, such as lasting geopolitical tensions, delayed delivery of numerous homes, weaker external demand, lack of confidence for foreign investors, etc. Although the Chinese government will take many stimulus measures at the end of 2023, it is predictable that 'the Winter is still coming'. The property sector may be the biggest and most significant factor dragging the recovery of China's economy. Cash-strapped and insolvent developers have left a vast number of homes unfinished. This delayed delivery issue is key to any meaningful recovery in the coming quarters.

Push factors for China to take more specific measures: Local governments' financial messes need to be cleaned up, and fiscal investment needs to be put in the right direction. Private entities need to take more involvement in the only state-owned sector previously. Local investors and foreign investors' confidence needs to be strengthened. Geopolitical tensions, especially the Taiwan issue, need to be modified to raise the confidence of all entities, including foreign investors.

Improvement in export is expected: Export growth is expected from an estimated -5.0% in 2023 to -1.5% in 2024. Consumer electronics and mobile phone exports may benefit from a potential global tech upswing. At the same time, low domestic inflation and the weak RMB could help China's export sector maintain a competitive edge. However, the weak demand has to be taken seriously, which will slow down the turnover growth and damage the balance sheet of many Chinese enterprises. On the other side, weak external demand also limits inflation. It leaves more room for the China Central Bank's money printing, which might be essential for rescuing many projects left unfinished by developers.

India

India is positioned to be the fastest-growing economy within the G20 group of nations, building on its remarkable economic performance. In the fiscal year 2022-23, the country experienced rapid economic growth, reaching 7.2%. The forecast for the fiscal year 2023-24 anticipates a growth rate of 6.9%. Notably, GDP growth remained robust at 7.6% year-over-year in the July-September quarter of 2023, following a growth of 7.8% in the April-June quarter.

GDP Projection for 2024: According to S&P Global Ratings, India is poised for robust economic growth, with an estimated annual expansion of 6-7.1% in the fiscal years 2024-2026. The Reserve Bank of India also forecasts a 6.5% economic growth for the fiscal years 2023-24 and 2024-25, emphasizing the country's resilience to global economic fluctuations.

Inflation: Morgan Stanley projects a moderation in headline inflation to 4.9% in FY2025, while the Reserve Bank of India maintains its CPI inflation rate projection at 5.4% for the current fiscal year (2023-24). In its 'India 2024 outlook, Goldman Sachs anticipates headline inflation to persist above 5.1%, with core inflation resisting at 4.5% .

Growth Sectors: Key sectors such as steel, cement, commercial vehicles, and aviation have exhibited positive growth in the July-September quarter 2023. India's economic landscape is expected to maintain its upward trajectory, positioning it as one of the world's fastest-growing economies over the next decade.

Long-Term Outlook: India's long-term economic outlook is underpinned by several growth drivers, including a large and fast-growing middle class, accelerating e-commerce through digital transformation, and robust Foreign Direct Investment (FDI) inflows. Multinationals across diverse industries, from manufacturing to services, see India as a crucial long-term growth market

Sectors Poised for Excellent Returns: Investors are anticipated to find lucrative opportunities in healthcare, renewable energy, information technology, real estate, fast-moving consumer goods (FMCG), and the automobile industry.

Job Market and Investment Inflows: India's job market is expected to grow substantially in 2024, particularly in sectors embracing artificial intelligence and data. The real estate sector, in particular, is projected to attract significant investment, making India a major destination for inflows in the Asia Pacific region.

Key Sectors for Foreign Investors: India's appeal to foreign investors remains strong, with key sectors such as healthcare, fintech, renewable energy, IT, real estate, and R&D attracting significant attention. The relaxation of foreign direct investment (FDI) policies and production-linked incentive (PLI) schemes have further fuelled interest in these sectors.

Conclusion: India's economic landscape in 2024 presents a compelling narrative of sustained growth, supported by robust GDP projections, controlled inflation, flourishing sectors, and attractive investment opportunities. The nation's resilience and dynamic market conditions position it as a key global player.

Sources: Economic Times, LiveMint, S&P Global, Groww, People Matters, The Hindu Business Line, India Briefing.

New Zealand

October's 2023 General Election delivered a change in New Zealand's government, with centre-right parties securing a majority of seats in parliament. The National Party will lead the new government, with agreed support from the ACT party and the New Zealand First party.

The change in government and policies in late 2023 will have important implications for the economic landscape. Notable areas where the coalition partners agree include:

- Tax cuts/lifting of tax brackets.
- Easing of tax obligations on property investors.
- Reduced regulatory burdens, focusing on the agricultural sector and less ambitious climate change policies.
- Focusing the RBNZ on inflation control rather than its current dual mandate.

In essence, the likely suite of policies will see a more minor role for government with lower taxes, less regulation and lower government spending. In terms of fiscal policy, it is likely to see the new government-run a similar (or slightly higher) operating balance as under the previous government but with roughly equal cuts to tax revenue and government expenditure.

More broadly, the new government's policies are likely to be supportive of businesses. Notably, by reducing red tape, the new government aims to lower businesses' costs and thus lift incomes while encouraging hiring and investment.

While the change in government signals more remarkable restraint in spending over the next few years, governments of all stripes continue to face tougher, longer-term choices. New Zealand's population is growing rapidly and ageing, increasing the demand for core public services, including spending on health, superannuation, and education. Also, in the short term, at least, high inflation is putting further pressure on government spending. Unless governments are prepared to run higher operating deficits and higher levels of debt, future budgets will likely require further cuts to spending and/or additional sources of revenue.

There's been a sharp tightening in financial conditions over the past year, and that's still expected to be a significant drag on demand. Adjusting for the impact of price changes, there has been no growth in per capita spending since the middle of last year.

Financial conditions are continuing to tighten, and that means the softness in spending is set to continue through the New Year. Increasing numbers of households will have to rewind their spending, and many others will do so out of caution. There's likely weakness in interest rate-sensitive areas, like spending on furnishings and other household durables.

The pressure on households' finances is coming through on two significant fronts. First are the continued large increases in living costs, eroding households' spending power. Consumer prices rose by 5.6% over the past year, including significant increases in the cost of necessities. Every family across the country has felt those increases. Westpac expects inflation to persist and maintain pressure on household budgets. Second, household finances continue to be pressured by increases in debt

servicing costs. Many borrowers have now rolled off the merger fixed mortgage rates onto much higher rates. Hence, households' spending on debt servicing costs has increased. As many borrowers remain insulated from the rate rises, the average interest rate that borrowers are paying now has 'only' risen by 170bps. That's still a significant rise but much less than the 525bp increase in the OCR since the start of the tightening cycle.

Over the coming year, around 60% of all fixed-rate mortgages will come up for repricing. Importantly, with increased offshore funding costs pushing local borrowing rates higher in recent months, the rise in interest costs will now be more significant than Westpac had previously assumed. Westpac expects the average mortgage rate paid will rise by another 100bps over the coming year. Households with mortgages will see the share of their disposable incomes spent on interest costs rising to 20% by the end of next year (up from just 10% in 2022).

Helping households to maintain their spending in the face of those mounting financial headwinds has been the strength of the jobs market. The past year has seen the number of people in employment rise by 4%, and average hourly earnings have risen by close to 7%. But while the labour market has remained in good health, it has started to soften. Businesses have scaled back their plans for hiring as economic growth has slowed, and the turnaround in net migration has seen the number of applicants per job rise. Unemployment is set to rise to 5.2% by the end of next year. Wage growth is also expected to slow gradually. Hence, weaker labour market conditions will reinforce the slowdown in household spending

Sources: Westpac New Zealand

AMERICAS

Brazil

The Brazilian Economy: It achieved a steady growth rate of 3% GDP in 2023, repeating 2022 under a new government formed in January 2023.

2023 12-month inflation rate: Reached 4.84%, 1.27% down, compared to last year (Oct. 2021 – Nov. 2022); current inflation target is 3.25%. The Central Bank of Brazil monitors and manages public economic policies concerning currency stability and inflation rates. The inflation target for 2024 is aimed at 3.00%.

The Brazilian Central Bank has adjusted the interest rate trend under a precautionary policy directly related to the current government spending policy, showing clear evidence to be kept at a high level due to the 2024 and 2026 election seasons. There is a consensus that a government administration reform should be made to reduce SELIC, the official interest rate, further and keep it reasonable.

"Brazilian Drex" – After the success of "Pix", the 24X7 cost-free instant bank local money transfer system introduced about two years ago, the Central Bank of Brazil will introduce the "Drex" – the digital version of the real currency, supported by the "blockchain" technology, which adds security to the financial operations preventing the occurrence of frauds.
This system, which brings all the facets of financial transactions under one unique, secure platform, will be in place in 2024.

- The current unemployment rate is down to 7.7%, from previous two-digit rates a couple of years ago, after Covid-19. The current Brazilian workforce jumped to a population of over 100 million.
- Tax Reform Law – After 30 years of discussions, Congress and the government promulgated the 2023 Tax Reform Laws, which will be enforced starting in 2024. Significant changes call for the creation of IVA – Imposto de Valor Agregado/ Aggregated Value Tax/VAT, under a twofold tax structure: Creation of the IBS "Goods and Services Operation Tax", replacing 5 Tax items (3 Federal + 1 State + 1 Municipal).
- Creation of CBS "Goods and Services Contribution" replacing a 6th Tax.

The objective was to simplify the complex and confusing tax system, eliminating the "Brazilian states tax war" and the current tax cascade effect.

Brazil's economy continues to rank 9th amongst the 10 top worldwide economies, with a GNP exceeding 2.5 trillion Brazilian reais. The investment rate is slightly under 20% of GDP.

According to the United States Department of Agriculture / USDA, Brazil was the world's foremost producer of soybean, sugar, coffee and orange juice and the world's major exporter of soybean, Sugar, coffee, corn, cellulose, tobacco, orange juice, beef and chicken meat.

Canada

Despite persistently high inflation and rising interest rates, the news was better than expected for the Canadian economy in 2023.

At this time last year, many economists wondered whether it could stop the Canadian economy from overheating without causing a recession. Though 1.1% growth for the Canadian economy in 2023 is slightly lower than the economy's 2% potential, but still higher than initial forecasts.

The best news for 2024 is less uncertainty concerning interest rates. Canadians should find comfort that the most aggressive interest rate hikes in 40 years are ending. High-interest rates will continue to weigh on growth, but most of the slowdown has likely already occurred.

The Bank of Canada anticipates beginning to lower its key rate as early as this summer. However, the Bank will unlikely bring the rate down to 2.5%, the neutral level, before 2025. Rates will remain higher than those Canadians have been used to over the past 15 years.

Past interest rate hikes will continue to limit Canadians discretionary spending. This will be especially pronounced in British Columbia, Ontario and Quebec, where inflation increases and households are more indebted.

The slowdown will be less pronounced for commodities-oriented provinces. They rely less heavily on household spending. Alberta and Saskatchewan are set to grow above the national average in 2024.

With a well-diversified economy, Manitoba has always been less sensitive to cyclical disruptions. This current slowdown should not be any different. However, the pullback in Canada's biggest markets (B.C., Ontario and Quebec) could dent Manitoba's exports. Around 50% of the province's exports are to other provinces.

The Atlantic provinces benefited from the substantial population increase experienced at the national level in 2023. However, slower forecasted growth in the U.S. and China could weaken the region's exports in 2024.

The Bank of Canada and the Fed are concerned about the tightening labour market. Last summer in Canada, unemployment was at a record low at 4.9%, and employers couldn't find staff. The unemployment rate rose in the latter half of 2023 from 5% to 5.5%, and we expect it will continue to go up and peak at the end of 2024 at 6.6%.

Sources include: BDC and Royal Bank of Canada

USA

As we follow the analytical reports of the largest banks, including Morgan Stanley, J.P. Morgan, Goldman Sachs, as well as S&P (Standard & Poor's), to the extent we can tease out of their reports – the following represents a degree of concurrence which seems to be now apparent.

Forecasts are varied, but the consensus from the most respected analysis suggests solid US consumer spending driven by continued real personal income gains and sustained private investment will underscore a reasonably steady pace of growth at or near the 1.8% long-run rate in the United States in 2024. We note that month-to-month variances are highly likely as there is no viable current consensus over the pace of the recovery.

There are thoughts that policy tailwinds from both the fiscal and monetary authorities will set the stage for solid productivity and growth in the year ahead as inflation eases back to a much more tolerable 2.5% to 3% range, which is already reflected in recent economic activity and may be showing signs of further moderation.

The leading indicator that we watch is the Federal Funds Policy Rate analysis. So far, there is a relatively consistent analysis forecasting four 25 basis-point cuts in the federal fund's policy rate starting as early as June 2024, which would bring it into a range between 4.25% to 4.5% by the end of the year with the risk of a lower rate growth rate triggering an earlier rate reduction.

For gross domestic product, , the baseline forecast consensus expects a modest easing in growth following the torrid 2.9% year-ago pace in the third quarter of 2023. Growth will then rise to at or above the apparent consensus trend of 1.8% in the second half of 2024 and possibly accelerate into 2025.

Employment growth is not as straightforward as it is readily apparent that the most significant growth employers will likely try to trim costs by reducing employment and occupancy costs as leases come up for renewal. At least some landlords expect they can increase rental costs during recovery. This problem suggests

a volatility increase 2024, perhaps as early as Q2. Some markets are already seeing a slight increase in occupancy costs for the most desirable properties.

Return to work issues, including returning to a workplace office, still need to be settled, with a difficult-to-measure number of employees objecting to day-to-day office returns and many firms with an undetermined commitment to insisting on return. Construction spending, which appears to be ticking up at the moment, is also uncertain, albeit highly likely as roads and bridges are seemingly not statistically assured, to be a high priority at the national and local state/city level. Available construction labour before the pandemic was challenging for contractors – both domestic and foreign – and workplace departures in this cohort seem to have grown during the pandemic

Incentives for returning to the workplace across most categories and for entrants in the construction workforce are seemingly undeterminable now as the impact on potential inflation is being considered in both the private and public sectors. The November 2024 election period is also a factor, as neither major party has the appetite to consider the possibility of inflationary pressures in an election year.

The US economy thrives during periods of optimism, and most forecasts are at least relatively optimistic given the period we have been through following the Covid pandemic and related illness issues. As well, we have had quite a few departures from active full-time employment, and then we have the work-from-home phenomenon that has been and still is quite unsettled. . . We believe 2024, barring any unsettling events or natural catastrophes, to be a year of recovery. Questions will still exist about workforce development, deployment and varied alternatives. It is not limited to working from home but includes other issues we hear of, including more offshoring.

The other significant risks we are considering are further conflicts amongst nations in the Middle East, the Baltics and Africa and new conflicts amongst other forces in various areas of the world. Even slight mistakes can yield extended periods of negative impact for employers and employees.

EUROPE

Belgium

Economic growth in Belgium is expected to remain broadly stable over the forecast horizon, at 1.4% in 2023 and 2024 and 1.5% in 2025. Given the evolution of energy prices and the mitigating effect of government measures, inflation is projected to reach 2.4% in 2023 and 4.2% in 2024 before declining to 1.9% in 2025.

Private consumption is set to remain robust over the forecast horizon, as the automatic indexation of wages and social benefits supports the purchasing power of households. Real GDP growth is expected to reach 1.4% in 2023 and then remain broadly stable in 2024 and 2025.

Slowdown in employment: After reaching 2.1% in 2022, employment growth is forecast to slow down to 0.8% in 2023 and 0.6% in 2024. The unemployment rate is expected to remain at around 5.6% before declining to 5.4% in 2025. Following mainly the automatic indexation of wages, compensation of employees per head is set to grow by 7.0% in 2023, 3.6% in 2024 and 3.1% in 2025.

Bulgaria

Economic growth is expected to slow down in 2023 and 2024 and then recover in 2025. After a strong performance in 2022, exports are set to contract in 2023 due to subdued foreign demand and rebound afterwards. Imports are also expected to contract sizeably in 2023 after expanding strongly in 2022.

Household consumption is projected to temporarily stagnate in late 2023 and early 2024 and then resume a moderate expansion. Inflation is set to decelerate further, albeit at a slower pace. The government deficit is expected to increase slightly in 2023, driven by higher spending on increases in pensions and wages legislated in previous years.

Overall, the labour market remains tight, with an unemployment rate of 4.5% in August 2023, but there are signs of exhaustion of further employment gains. The unemployment rate has increased by 0.5 pps. since the trough in January 2023, while new hires have dropped by 12% in the first seven months of 2023 compared to a year earlier.

Denmark

A Thriving Economic Landscape with Promising Market Niches for Businesses

Denmark, a Nordic nation renowned for its progressive social policies, entrepreneurial spirit, and unwavering commitment to innovation, stands as a beacon of economic resilience amidst a global landscape of challenges. Its robust financial foundations, highly skilled workforce and steadfast dedication to technological advancement have propelled Denmark into a position of global prominence.

GDP Expansion and Foreseeable Trends: Denmark's economic trajectory has demonstrated remarkable resilience, weathering the storms of the global financial crisis and the COVID-19 pandemic. In 2022, the country's GDP growth soared to a remarkable 3.8%, driven by a surge in domestic consumption and a robust export performance. While some economic headwinds may arise, experts project a continuation of moderate growth in the coming years, with estimates ranging from 1.3% to 1.9% for 2023 and 2024. This outlook is supported by recent developments, such as the Danish government's announcement of a EUR 1.5 billion package to help the economy and the country's strong performance in the financial sector.

Emerging Market Sectors Poised for Prominence: Denmark's economic landscape is brimming with promising market segments poised for significant growth in the years to come. These industries are driven by technological advancements, shifting consumer preferences, and supportive government initiatives. Among the most prominent sectors are:

- Sustainable Technology: Denmark's global leadership in sustainable energy solutions is expected to continue creating immense opportunities for businesses specialising in renewable energy technologies, energy efficiency solutions, and sustainable infrastructure development. The government's focus on green energy initiatives, such as expanding offshore wind power, will boost this sector further.
- Digital Health: The Danish healthcare sector is embracing digital innovations at an accelerating pace, generating

strong demand for companies developing telemedicine solutions, data analytics tools, and personalised healthcare platforms. The recent launch of a national digital health strategy, which aims to improve access to healthcare and enhance patient outcomes, is expected to fuel growth in this sector.

- Advanced Manufacturing: Denmark's manufacturing industry is renowned for its precision engineering, automation, and sustainability. Businesses that excel in these areas are attracting significant investment and capturing market share domestically and internationally. The Danish government is encouraging the modernisation of the manufacturing sector through initiatives such as developing "superclusters" that bring together companies and research institutions to collaborate on innovation.
- E-commerce and Logistics: As the global e-commerce market expands, the need for efficient e-commerce platforms and logistics solutions is rising. Businesses that can provide seamless and cost-effective fulfilment services are poised for significant growth. The Danish government's support for digital infrastructure and logistics capabilities is expected to support this sector's development further.

Diverse Business Opportunities Across Various Industries: Beyond these emerging sectors, Denmark offers a plethora of business opportunities across various industries:

- Life Sciences: Denmark's pharmaceutical and biotechnology industry is flourishing, driven by a solid research base and a supportive regulatory environment. Companies in this sector are well-positioned to capitalise on global demand for innovative healthcare solutions. The Danish government's investments in research and development in the life sciences sector are expected to contribute to further growth.
- AgTech: Denmark's leadership in agricultural exports is complemented by a rapidly evolving agricultural technology sector. Companies developing innovative precision farming solutions, sustainable agriculture practices, and food safety technologies hold immense potential. The Danish government's focus on improving agricultural productivity and environmental sustainability will likely support this sector's growth.
- FinTech: Denmark's financial sector embraces digital transformation, providing a fertile ground for FinTech companies to innovate and disrupt traditional financial services. Opportunities exist in payment solutions, digital banking, and financial data analytics. The Danish government's support for FinTech initiatives, such as creating a FinTech sandbox, is expected to foster innovation and growth in this sector.
- Creative Industries: Denmark is an innovative hub with strengths in design, architecture, and media. Businesses harnessing these talents for branding, marketing, and digital content creation are gaining traction in domestic and international markets. The Danish government's promotion of design and creativity is expected to continue to support this sector's growth.

Finland

Bank of Finland's interim forecast: economic recovery will be delayed.

The Finnish economy is in mild recession in 2023, according to the Bank of Finland's interim forecast published today. The rise in prices, interest rates, and weaker export demand are weighing on the economy. The favourable trend in employment will come to a halt, but domestic inflation is now slowing rapidly. However, the economic recovery will take longer than previously estimated. The downside risks to economic growth have increased.

"The recession is still expected to be shallow, but the economy will recover more slowly than estimated in the summer. Statistical data available in the summer indicate weak developments for the rest of the year. In addition, risks in the domestic and global economy have grown," says Bank of Finland Head of Forecasting Meri Obstbaum.

According to the Bank of Finland's September 2023 interim forecast, GDP will contract by 0.2% in 2023. The economy will slowly start to recover from the recession in 2024. GDP growth in 2024 will be slower than projected in the Bank of Finland's June forecast, i.e. only 0.2%. In 2025, economic growth will gather pace, albeit only to 1.4%.

INFLATION WILL SLOW SIGNIFICANTLY – EMPLOYMENT RATE WILL DIP: Employment has been growing for a long time, but it will dip during the recession. The employment rate for the 20 to 64 age group will fall to 77.7% in 2024. The number of persons employed will resume growth in 2025 as economic growth strengthens, and the employment rate will return close to the level in 2022. Higher prices are eroding households' purchasing power, but growth in earnings and falling inflation are improving their consumption opportunities. Inflation will slow to 1% in 2024, but services prices will continue to rise faster than previously expected.

The risks surrounding the forecast are predominantly on the downside. Geopolitical confrontations and the transmission of the rise in interest rates to the economy may lead to adverse developments. Slower-than-expected growth in the global economy would further decrease Finnish companies' opportunities for increasing exports. Higher interest rates also curb investment and affect real estate market activity. In Finland, the outlook for residential construction has weakened rapidly due to the housing market freeze, and difficulties in the sector may come to a head and affect employment and the economy more strongly than projected.

Sources include Bank of Finland

France

Banque de France assesses that the French economy will gradually emerge from inflation without a recession. In the short term, the latest information available suggests a slight downward revision of growth for 2023 to 0.8%. However, Banque de France is maintaining its growth projections for 2024 (0.9%) and 2025 (1.3%) unchanged and is expecting growth of 1.6% in 2026. This acceleration in 2026 assumes that the effects of recent shocks to the French economy (external tax shock, tightening of monetary and financial conditions) will have abated by that time.

Economic activity is expected to remain sluggish in 2024 before strengthening subsequently. In 2024, growth should be driven to a greater extent by household consumption due to the fall in inflation, which will benefit the purchasing power of wages and the lower saving ratio.

Headline inflation (HICP), which peaked in early 2023, is expected to continue to subside: after averaging 5.7% in 2023, inflation should fall sharply to 2.5% in 2024. This projection has been revised slightly downwards compared with the September forecast. Headline inflation should decline substantially over the forecast horizon, helped by falling energy prices; core inflation (i.e. HICP excluding energy and food) should also come down, albeit more slowly.

The turnaround that Banque de France forecasts in the labour market now appears to be underway. Following a time lag over the next few quarters, employment is expected to adjust to the economic slowdown observed since late 2022, with only a partial recovery of past productivity losses. Consequently, the unemployment rate should continue to rise, although it should stay under 8% in 2025, before resuming a downward trajectory as economic activity recover.

Sources: Banque de France - Macroeconomic projections

Germany

Global challenges and crises will again influence economic expectations for Germany in 2024. The impact of the government's decisions is more massive than recently. Among others, these support climate protection, energy transformation through decarbonisation and nuclear phase-out, and many funding programs, particularly of a social nature.

Germany is one of the largest economies in the world. The government is pursuing an austerity course on the one hand and significant changes in the population's behaviour on the other. We shall see to what extent this will be successful. The Constitutional Court recently overturned the government's debt and financing dreams. - The economy needs reliability for investment and the immigration of skilled workers. At present, migration is taking place in the social systems.

Global trade restrictions have recently hit Germany particularly hard. After a recession of -0.1% GDP in 2023, the Bundesbank is forecasting growth of +0.4% GDP for 2024, with inflation set to fall to 2.7%. Other forecasts by economic institutes and chambers of commerce generally put growth at around +1.0%, with a range of -0.5% or +1.3% and inflation well below 3%. - To finance the energy transformation, the country needs investments and an inflow of capital of more than EUR 100 billion per year over many years, which has yet to be realised in recent years, on the contrary.

In the individual sectors, expectations for 2024 are somewhat differentiated; the sentiment is poor, worse than the situation. Restructuring, strategy renewal and transformation are the growth drivers. Despite rising wages, consumption could grow only slightly, but, e.g., domestic, and international vacation travel should be booming. Employment levels remain high. There will be downward corrections, including in real estate prices. However, there is a shortage of residential units, and fewer are being built due to higher production and financing costs and many regulations.

Higher financing costs have also meant risks for SMEs recently and can lead to restructuring and risks for the financial market. - In summary, growth should occur in services and production, but most sectors are complaining about a lack of predictability. Ultimately, export growth could be even more robust and essentially be the economy's engine in 2024.

Italy

Real GDP is expected to have bottomed out in the third quarter of 2023 and to pick up in the last quarter of 2023, leading to annual growth of 0.7%. It is set to accelerate to 0.9% in 2024 and 1.2% in 2025, driven by RRF-funded investment. Inflation is forecast to fall to 6.1% this year, 2.7% in 2024 and 2.3% in 2025. The reduction of the government deficit- and debt-to-GDP ratios is projected to come to a halt in 2024-25.

In 2024, private consumption is set to pick up, along with the projected recovery in real disposable incomes due to nominal wages rising faster than consumer prices. With the gradual phasing out of the tax credits weighing heavily on housing investment, gross fixed capital formation is poised to be propped up by the planned rollout of RRF-supported investment in both infrastructure and equipment, notably in digital and green projects. Thanks to mildly expanding global trade, net exports are set to contribute positively to annual GDP growth, which is forecast to reach 0.9%.

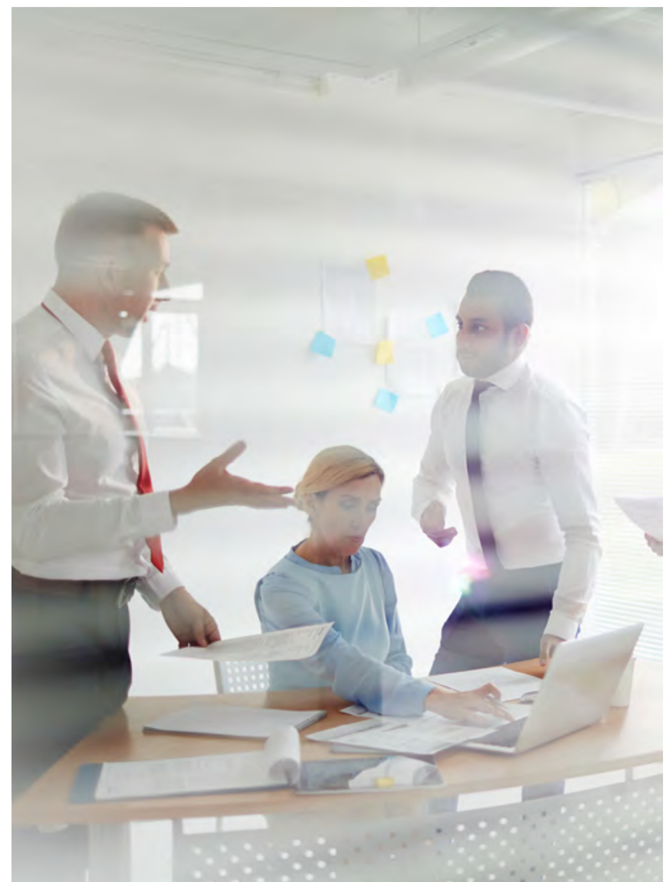
Employment over the two-year forecast period, employment, measured in terms of FTE, will grow in line with GDP (+0.6% in 2023 and +0.8% in 2024). The improvement in employment will be accompanied by a decrease in the unemployment rate to 7.6% this year and 7.5% win 2024. The number of employed people in Italy was forecast to continuously decrease between 2023 and 2024 by in total 0.1 million people. While the number was increasing earlier, it deteriorated and the number was forecast to reach 23.46 million people in 2024.

Sources include EU and Statista

Luxembourg

Real GDP growth is projected to fall by 0.6% in 2023 before recovering to 1.4% in 2024 and 2.0% in 2025. The below-average growth in 2023 is mainly due to weak investment linked to tighter financing conditions and lower net exports, while their rebound explains the improvement in 2024.

Mirroring the decline in economic activity in 2023, the labour market is expected to weaken. Employment growth is projected to slow from 3.4% in 2022 to 1.7% in 2023 and 1.2% in 2024 before recovering to 1.5% in 2025. Unemployment dropped to 4.6% in 2022 but is expected to increase to 5.5% in 2023, 5.9% in 2024 and 6.0% in 2025.



Netherlands

For 2023, the economy is expected to have grown by 0.1% compared to 2022. The Netherlands is expected to have modest growth for 2024 and 2025: 0.5% in 2024, followed by a further increase in economic growth to 1.0% in 2025.

Retail inflation is expected to average 5.2% in the first half of 2024 before easing to its 4% target between July and September and rising to 4.7% in the final quarter. However, the labour market remains strong, with the unemployment rate still at a historically low level and with significant increases in wage growth. The pickup in wage growth is projected to lead to a recovery in real wages and a return to modest private consumption growth towards the end of 2023. Overall, GDP growth in 2023 is expected at 0.6%.

The Dutch labour market continues to be tight, with vacancies exceeding the number of unemployed persons and several sectors experiencing labour shortages. The unemployment rate grew marginally to 3.5% in the second quarter of 2023 while remaining historically low. On the back of a slowing economy, the unemployment rate is forecast to increase to 3.9% in 2024 and 2025 yet remaining well below the unemployment rates seen before the pandemic. Fuelled by a tight labour market and surging inflation, nominal wage growth increased considerably and is expected to reach 6.2% in 2023, 5.5% in 2024 and 3.9% in 2025.

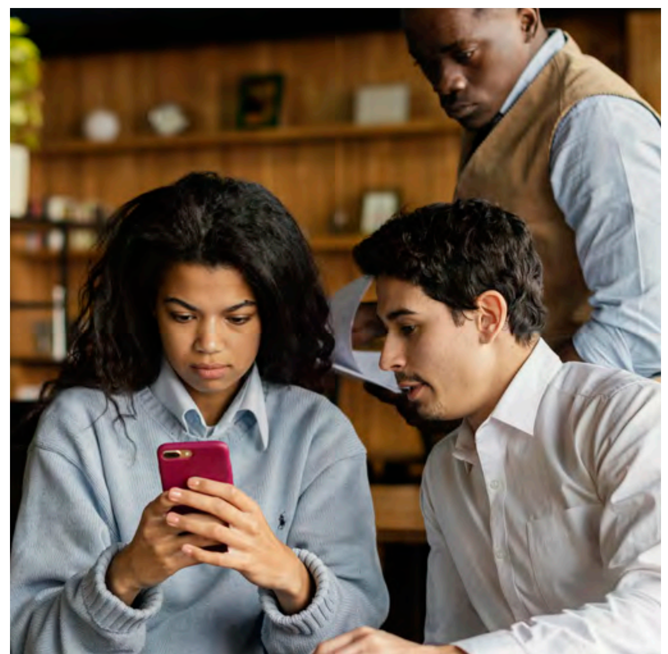
Norway

Interest rate (national bank forecast) as of January 2023 was 1.75 % but increased over the year to end on 31st December at 4,00%. Inflation is high at 4.80%, and the unemployment rate stands at 3.2%

Total Exports were € 241 090 000 000, mainly from oil and gas, and total imports were € 93 000 000 000; major trading partners are Sweden, China, Germany, USA, Denmark, and the United Kingdom.

Norway's Major Industries include Oil & Gas, Fish and seafood and technology; expected forward (Norwegian Government) GNP in 2024 + 2.2%, GNP in 2025 + 1.8%GNP in 2024 2.6%.

Unemployment is forecast in 2024 to be 3.9% and rise in 2025 at 4.1%; the interest rate (national) at the end of 2024 will peak at 3.25% and forecast at the end of 2025 to be around 2.75%.



Spain

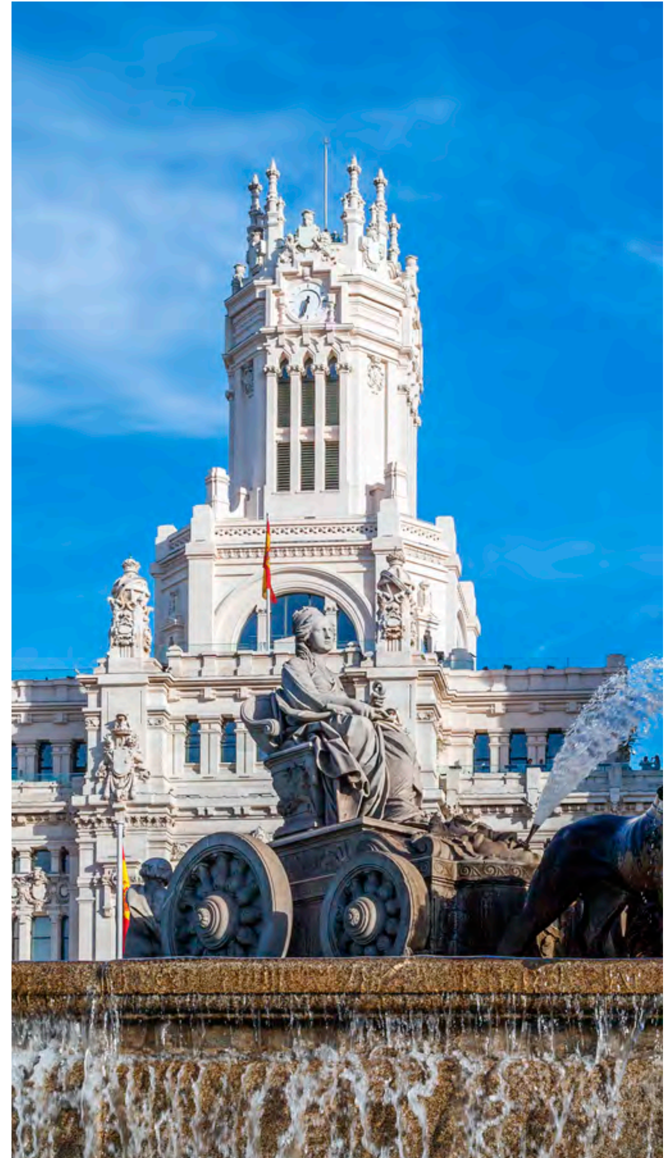
OCDE upwards revisions for the Spanish economy: For 2023, the institution will raise by four-tenths to 2.1% of the Spanish Gross Domestic Product (GDP) growth compared to its last forecasts in March. For 2024, the OCDE has also improved its economic expectations by 0.2% compared to the March estimates, reaching 1.9% for the coming year.

The data provided by the OCDE for this year aligns with the government's growth expectations, which stated that Spain would grow by 2.1% in 2023. However, for 2024, the OCDE differs from the government, which claimed that the GDP would increase by 2.4%.

The OCDE indicates that the increase in external demand will boost exports, encouraging private investment despite financing costs. However, the observatory also points out risks: a possible escalation of the war and increased financial vulnerability due to tightening lending conditions caused by interest rate hikes.

The observatory of industrialised countries indicates that Spain will end 2024 with a general Consumer Price Index (CPI) of 3.9% due to the fall in energy prices and the tightening of monetary policy.

Improvement in financial conditions & Economic boost above the Eurozone: The OCDE expects fiscal conditions to improve in the coming months because the withdrawal of assistance will make fiscal policy "slightly restrictive" in the next two years, leading to a decrease in the public deficit from 3.5% in 2023 to 3.2% in 2024. The government and the Commission assessed that Spain would reach the deficit target of 3% by 2024.



The estimated growth of the Spanish economy is double that of the Eurozone, which will expand its GDP by a modest 0.9% in 2023 and increase it to 1.5% in 2024. Germany, the European locomotive, is undergoing a downward revision, and the OCDE expects its economy to stagnate this year. However, it will return to growth in 2024 with a rise of 1.3%.

Spain's position has been relatively better than that of other Northern European countries, with inflation reaching 3.2% in May and less energy dependence on the Russian market.

Sweden

Beginning in 2024, the Swedish economy is set to grow again, albeit slowly. However, the labour market is expected to weaken, with unemployment reaching 8.5 per cent next year. Inflation is decreasing and will be below Riksbank's inflation target by the second half of 2024. Consequently, the Riksbank will initiate a series of interest rate cuts next summer, as indicated in the latest forecast.

The weak demand is evident in the decline in employment seen during the past autumn, and the labour market is projected to weaken further. Unemployment will continue to rise, peaking at 8.5 per cent by the end of 2024. The downturn in the labour market will not be as severe as in previous recessions, as companies are, to an extent, retaining staff to meet demand when the economic situation improves.

CPIF inflation dropped from over 10 per cent last year to 3.6 per cent in November 2023, primarily due to lower energy and international commodity prices. Highly leveraged households were susceptible to higher interest and rising inflation because of the quick changes in interest rates on their accumulated debt, in line with higher policy rates. Relatively tight financial conditions will continue restraining domestic demand over the forecast horizon. In 2024, private consumption is projected to be held back by uncertainty.

UK

The UK economy performed better than expected in 2023: At the start of 2023, the market consensus was that GDP would fall by 1%. Economists are now forecasting growth of 0.5%.

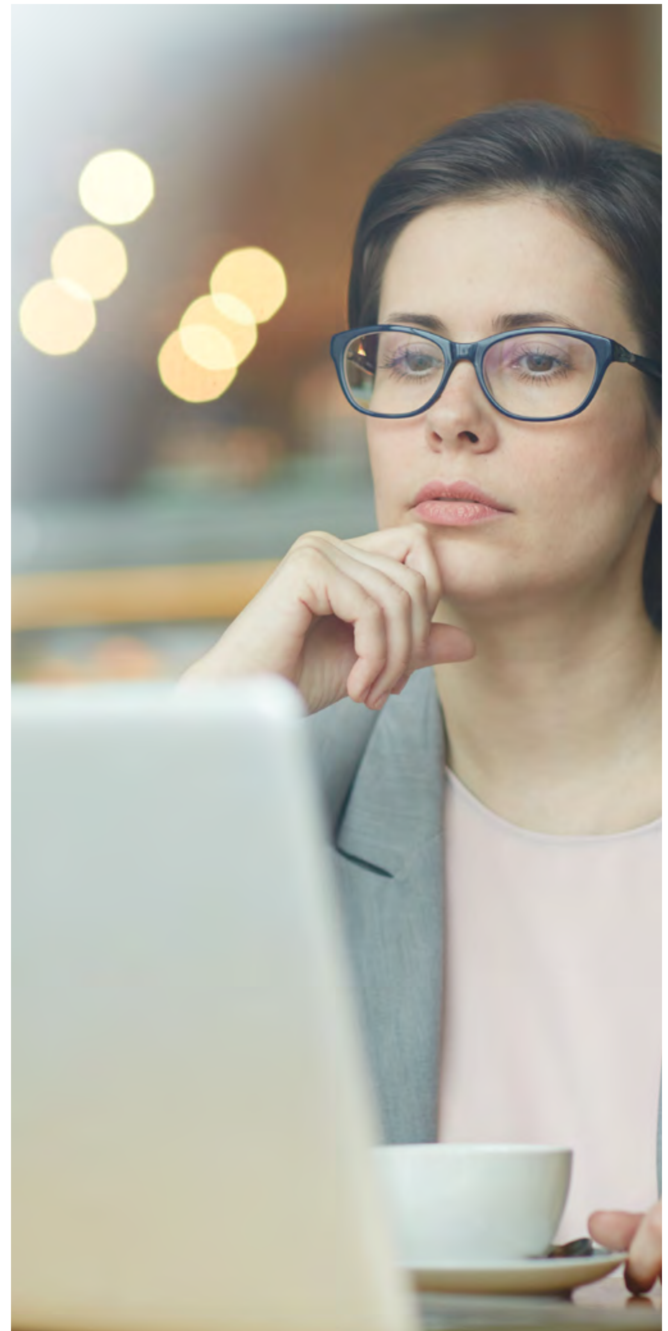
On a year-to-date basis, business investment grew by 6.3% in Q3 2023. Household consumption – the main growth engine in regular times – was up by 0.3%, but it's still below its pre-pandemic level. That's essentially a result of successive adverse shocks to real incomes.

Modest GDP growth of 0.5% in 2024: GDP is anticipated to grow at a modest pace of 0.5% in 2024 and only to pick up towards its steady-state rate of around 1% in 2025.

The unemployment rate remains at 4% or above in sectors such as hospitality and healthcare, while nominal pay growth was close to 8% in September. The UK has seen a slight job slowdown but remains high at around 900,000 open roles.

The next UK general election will likely be held in the second half of 2024, or it could be pushed to January 2025. Given that the Labour Party has consistently held a double-digit lead in the polls, it is anticipated there will be a change of government. However, the Labour Party has stressed that economic growth will be at the heart of their government in the first few years in office, which should give investors confidence rather than uncertainty.

The UK service sector has traditionally been the key to UK economic growth. This sector held up well in the past year and is anticipated to grow in 2024 with professional services and equities. The stock market is growing, and the hospitality sector will largely be flatlining. The manufacturing sector will benefit from reducing inflation and lower interest rates, meaning they can borrow less to invest than they have in the preceding two years. However, this is expected in the second half of 2024.



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