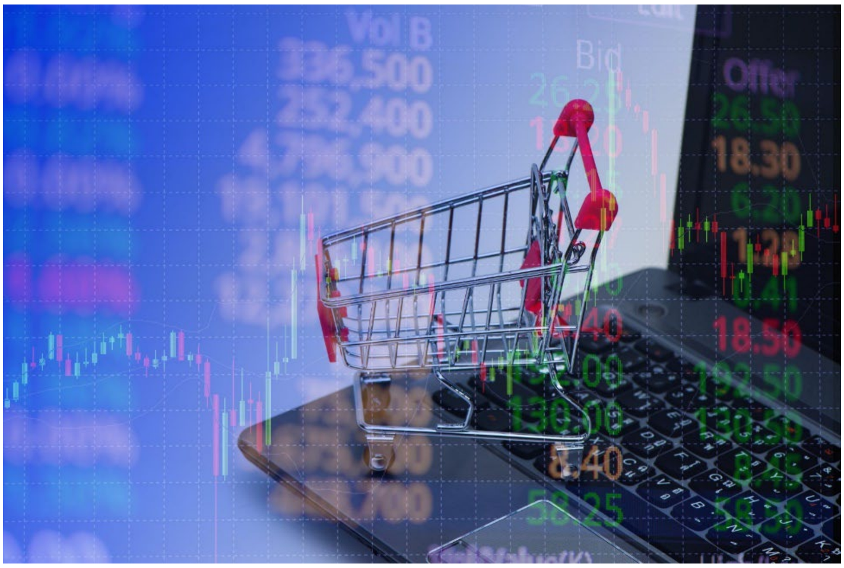
Note: Below are extracts from an article published by *JPMorgan Chase & Co* (7th February 2024) as referenced below.

Global inflation forecast:
Will prices come down in 2024?



Inflation is easing, but will central banks achieve their targets in 2024?

In their recent research paper, JPMorgan (2024) share their predictions for inflation around the globe for the coming year. Economists look at the global picture, then at specific regions. Although there is a downward trend generally across the globe, expectations are for a bumpy ride to achieve the lower inflation targets in the US, Europe and UK:

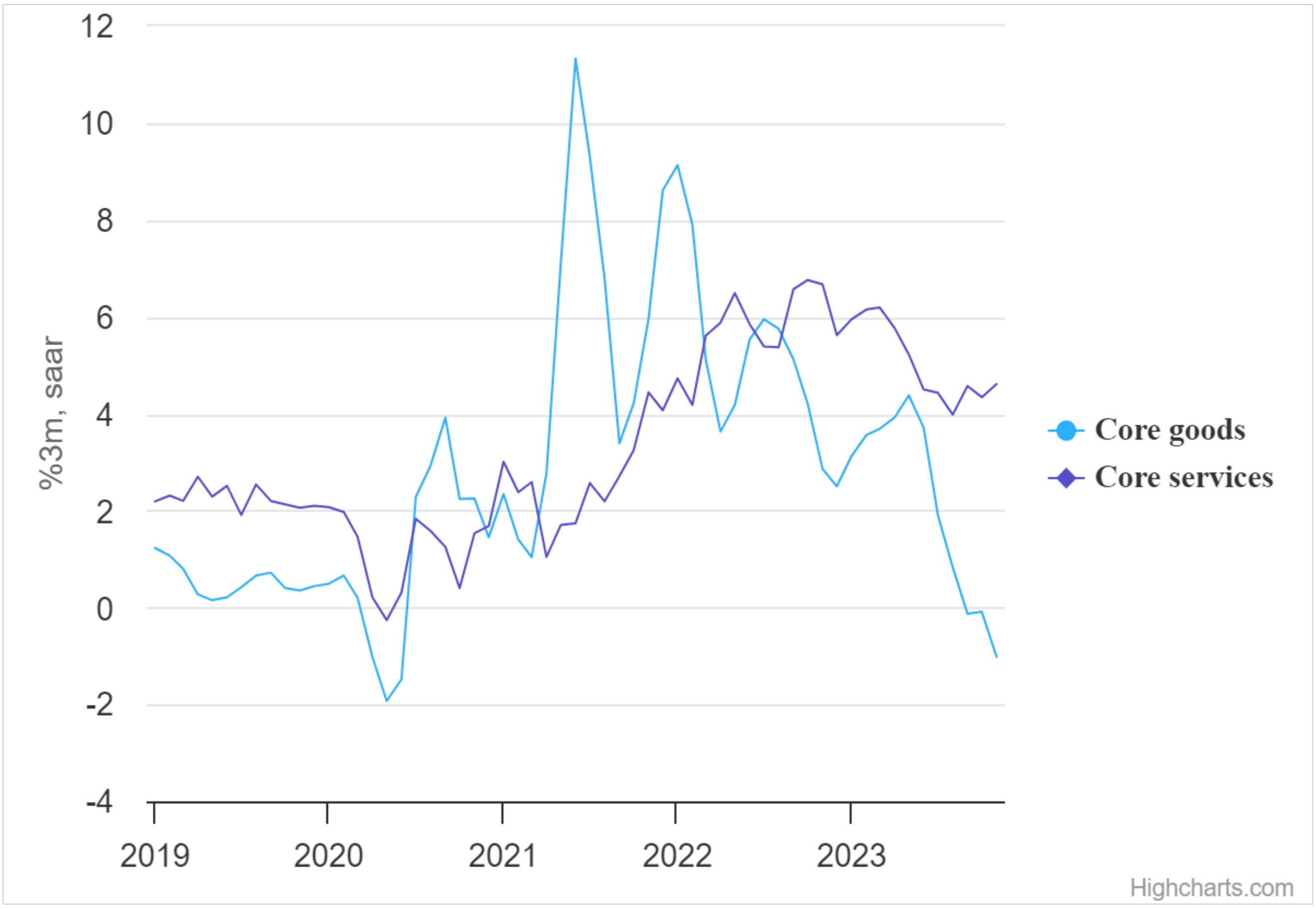
> **Key Findings:**
>
> - J.P. Morgan Research forecasts global core inflation will remain sticky at around 3% in 2024.
> - In the U.S., inflation has cooled significantly but still remains above target. Against a challenging growth backdrop, the road to lower inflation also looks bumpy in the U.K. and the Euro zone.
> - In China, deflationary pressures will likely ease in 2024, with headline CPI inflation trending up modestly to 0.9% year-over-year and core CPI inflation reaching 1.2%.
> - In emerging markets (ex-China and Turkey), J.P. Morgan Research expects both core and headline inflation to decline by 100 basis points (bp) over the course of 2024.
>
> JPMorgan (2024)

According to JPMorgan (2024), global inflation is expected to fall as the year progresses, with China being the notable exception, where analysts are expecting a modest rise in core CPI. With robust labour markets and solid demand, and growth, this research examines the impact of these factors on both core goods and core services inflation specifically:

> J.P. Morgan Research forecasts global core inflation will remain sticky at around 3% in 2024. “Although headline inflation is expected to drop, we look for a fading of goods price deflation. At the same time, tight labour markets and solid demand growth is expected to limit disinflation in service prices,” said Bruce Kasman, Chief Economist at J.P. Morgan.

The divergence between core goods and core services inflation has widened in recent months, as shown in the chart below. Core goods prices have stalled, reflecting the broader disinflationary impulse from weak manufacturing activity and falling China export prices. “However, while much of the recent inflation slide has stemmed from goods prices, a key risk for the new year is a reversal of these price declines. For instance, recent shipping and airfreight cost indicators have moved up and delivery times have started to lengthen again,” observed Nora Szentivanyi, Senior Economist at J.P. Morgan. Core goods prices will likely return to modest positive gains in the first half of 2024, according to J.P. Morgan Research estimates. On the other hand, the strength in core services inflation remains striking and is fairly uniform across regions, reflecting still-tight labour markets. “More noticeable cooling in labour markets may be required to bring core services inflation meaningfully lower and ratify market expectations for early easing by developed market (DM) central banks,” Szentivanyi added. Against this backdrop, J.P. Morgan Research forecasts only a moderate slowing in service price inflation to 4%ar in the first half of 2024. Progress on lowering inflation from its 2021–23 heights should allow the Federal Reserve (Fed) and other major central banks to ease policy. “But our forecast of firming core goods inflation and sticky service price inflation will likely limit the size of this easing relative to current market pricing, absent a more tangible threat to growth,” Kasman said.

Global core CPI (ex-China and Turkey)



Source: National sources, J.P. Morgan

JPMorgan (2024)

Researchers at JPMorgan (2024) further outline their inflation forecasts for each specific region globally- the US, UK, Europe, China, and Emerging Markets. Starting with the US, where it is anticipated that a softening of the labour market may be required in the run-in to inflation targets, and it is more likely that energy prices will be impacted by geo-politics this year:

U.S.

"Inflation has cooled significantly relative to earlier boomy highs from the past few years, but still remains above target. Weakening in core goods inflation has been an important moderating force for overall inflation, but core services prices excluding housing have cooled much less noticeably lately," said Michael Feroli, Chief U.S. Economist at J.P. Morgan. "Absent a recession next year, we don't see inflation getting all the way back down to 2%."

Core goods prices in the U.S. have been roughly flat throughout 2023, reflecting a near-return to pre-pandemic trends. However, inflation in the services sector has been more resilient. "In 2024, while the unwinding of supply chain shocks could deliver further disinflation, we think the 'final mile' of getting inflation down will require a softer labour market," Feroli said. "We are already seeing wage inflation slow and we think the labour market should soften over time as the economy is impacted by higher interest rates. This should allow core services prices to moderate, working to bring broader inflation aggregates closer to target."

Overall, while U.S. policymakers will likely be focusing on core inflation measures in 2024, changes in food and energy prices could also be significant. "After a strong run throughout much of 2021 and 2022, food price inflation settled down to a more moderate trend of 0.2% monthly gains in 2023, and we look for similarly unexciting increases moving forward," Feroli noted. "Swings in energy could be important, but we believe that any upcoming big changes would be more likely related to factors such as geopolitical events."

JPMorgan (2024)

For the UK JPMorgan (2024) forecast core inflation to remain high in 2024, despite the recent decline from its double-digit peak. Headline inflation may fall to target levels in the 1st half of the year which may apply pressure for policymakers to cut interest rates earlier than planned:

U.K.

In the U.K, core inflation is expected to remain elevated in 2024, reaching 3.1% in both June and December. "Inflation has fallen quickly from its double-digit peak, but the journey in core from 5% all the way back down to 2% will be the hardest," said Allan Monks, Chief U.K. Economist at J.P. Morgan. As with the U.S., the persistence of inflation in the U.K. is largely due to services prices, which were up 0.7% month-over-month in December 2023. However, recent inflation prints and an expected decline in the Ofgem energy price cap in April provide some optimism.

"Unless market pricing changes significantly or there are further large surprises on core, this looks set to take headline inflation down toward 1.6% in the second quarter of 2024, albeit on a temporary basis if our view that core inflation will remain above target is correct," Monks said. "The optics of headline inflation falling below 2% in April will put more pressure on the Monetary Policy Committee (MPC) to start cutting rates earlier than it has previously indicated, and owing to the broad improvement in core inflation, we are bringing forward our call for the first cut of 25 bp from November to August."

JPMorgan (2024)

The bumpy road to target inflation is also a feature for the Eurozone. However, JPMorgan (2024) forecasts that the challenging growth outlook in the region will be a key factor in achieving the 2% target:

Eurozone

> Similarly in the Euro area, the road to lower inflation looks bumpy. "Over the past two years, high inflation in the region was driven not only by energy, food and supply shocks, but also by a sharp increase in corporate profit margins and wage growth," said Greg Fuzesi, Euro Area Economist at J.P. Morgan. "While the fading of transitory forces has already slowed the momentum in core prices to a 3% pace, further progress requires corporate pricing and wage growth to moderate."
>
> However, the fact that the growth outlook for the region is challenging makes a full disinflation back to the European Central Bank's (ECB) 2% target more likely. "The 'final mile' is harder but more likely to be completed when the economy is at best sluggish. The weaker the economy, the greater the likelihood that inflation ultimately returns back to target," Fuzesi added. Overall, core inflation in the Euro area is expected to average at 2.6% in 2024.
>
> JPMorgan (2024)

China appears to be bucking the downward trend in inflation, where JPMorgan (2024) expects headline CPI to increase modestly, and deflationary pressures to ease overall:

> **China**
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> The picture is markedly different in China, where the domestic economy is grappling with deflation. "Multiple factors have contributed to deflationary pressure in China, including global commodity price declines, food price drags and policy support for supply rather than demand," said Haibin Zhu, Chief China Economist at J.P. Morgan. "However, we expect deflation will end but low inflation will stay in place in 2024."
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> Volatile pork prices have been the key driver of food deflation in China. However, the annual change in live pig stock, which tends to lead pork prices by three to six months, has stabilized in recent times. Plus, with oil prices expected to stay range-bound at around $83/bbl in 2024, deflationary pressures from imported energy prices will likely ease in the coming months.
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> "In the absence of a shift in policy direction from supporting supply to demand, the asymmetric recovery in retail sales and industrial production will stay in place, constraining room for core CPI to turn up. The inflation impulse from China's reopening will also gradually fade into next year," Zhu added. "Taken together, we expect headline CPI inflation to trend up modestly to 0.9% year-over-year on average in 2024, and core CPI inflation to reach 1.2%."
>
> JPMorgan (2024)

JPMorgan (2024) conclude with a look at Emerging Markets (excluding China and Turkey) , where the expectation is for both core and headline inflation to decline by 100 bp over the coming year, with a few exceptions where other influences come into play :

> **Emerging markets (EM)**
>
> In EM (ex-China and Turkey), J.P. Morgan Research expects both core and headline inflation to decline by 100 bp over the course of 2024. However, in a handful of economies — including Poland, Hungary, Romania, and Colombia — core inflation is still likely to exceed central bank targets by around 2 percentage points, reflecting some combination of tight labour markets, loose fiscal policy and unanchored inflation expectations.

“While the progress on core disinflation in EM has been impressive, it has been overly reliant on collapsing core goods inflation. However, this could change as the disinflationary impulse from a reversal of last year’s supply chain dislocations and China’s contracting export prices begins to fade,” said Jahangir Aziz, Head of Emerging Market Economics Research at J.P. Morgan. “On the other hand, the latest run rates on core services inflation call attention to the underlying stickiness in core inflation in parts of Latin America and Central and Eastern Europe. Overall, a key risk in 2024 is for persistent services inflation to combine with reaccelerating goods prices to keep core inflation above target mid-points.”

JPMorgan (2024)

EON

References

JPMorgan (2024). ‘Global inflation forecast: Will prices come down in 2024?’. *JPMorgan Chase & Co. February 07.* Available at https://www.jpmorgan.com/insights/global-research/economy/global-inflation-forecast (Accessed 12 February 2024).

J.P.Morgan