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World Economic Outlook in Autumn 2024: Monetary Easing and Geopolitical Tensions

Directorate General of the Treasury (DG Trésor) International Forecasting Teams

- Global growth is expected to reach 3.2% in 2024, a similar rate to 2023, before increasing to 3.4% in 2025. This outlook is a slight improvement on forecasts released in spring 2024. In 2025, global activity is anticipated to grow at the same pace as in the second half of the 2010s, supported by monetary policy easing and strong performances in emerging countries.

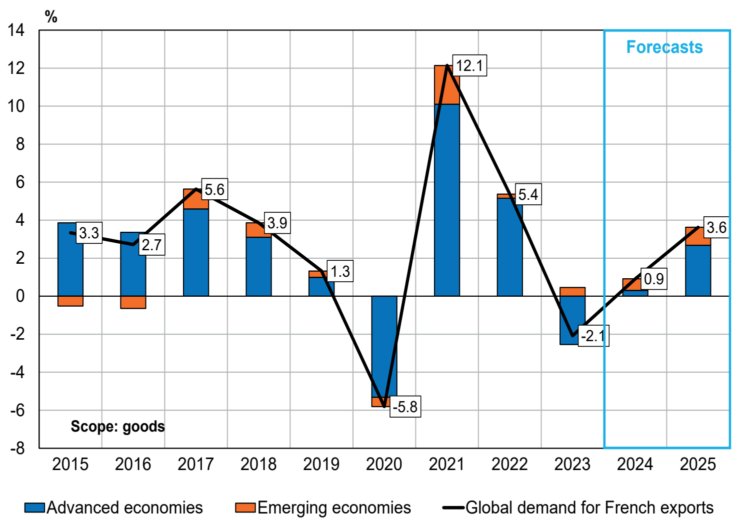
- Growth is forecast to remain uneven across advanced economies. In 2024, activity is expected to be particularly robust in the United States and Spain, more moderate in Italy and the United Kingdom and flat in Germany. These advanced economies are experiencing different levels of growth due to disparities in consumption patterns and export performance. Growth rates are expected to converge in 2025, with an acceleration of activity in the euro area and a slight slowdown in the United States, primarily due to a weakening of household consumption.

- Although still strong, activity in the major emerging economies – China, India, Brazil and Turkey – is projected to slow compared with 2023, particularly in China where structural imbalances are likely to continue to weigh on activity.

- Following a contraction in 2023, global trade is anticipated to recover in 2024 and accelerate in 2025. Global trade is expected to be driven primarily by emerging economies and the United States, resulting in slower growth in global demand for French exports (see Chart).

- Global activity could nonetheless be impacted by an escalation of geopolitical tensions, which are the main risks surrounding this scenario.

Global demand for French exports



Source: DG Trésor.

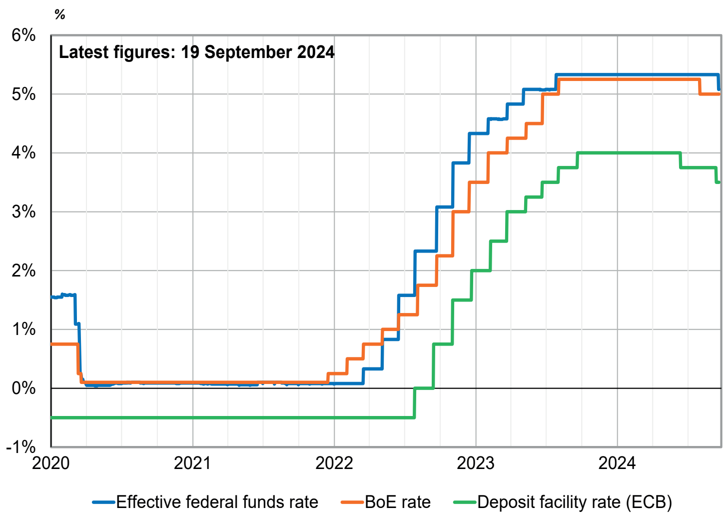
1. Scenario assumptions: Monetary easing in late 2024

Global forecasts were finalised on 26 August 2024[1] and are based on assumptions regarding the evolution of financial conditions, fiscal policy and commodity prices.

Following the monetary tightening carried out until mid-2023, the key interest rates of central banks in major advanced economies are currently high (see Chart 1). However, there is some prospect of monetary easing in the months ahead. The European Central Bank (ECB) and the Bank of England (BoE) started a cycle of monetary easing in the summer when they both cut their key rates by 25 basis points, in June and August 2024, respectively. On 12 September 2024, the ECB cuts its key deposit facility rate again by 25 basis points to 3.50%. In the United States, the Federal Reserve decided to lower the target range for the federal funds rate by 50 basis points at its meeting on 17 and 18 September. Gradual interest rate cuts are anticipated by the ECB, the Federal Reserve and the BoE amid declining inflation until end-2025.[2]

Monetary policy stances in major emerging economies are expected to continue to differ (see Chart 2). While Turkey is envisaged to pursue a restrictive monetary policy in 2024 to fight inflation, India could cut interest rates by the end of the year for the first time amid falling inflation (+3.5% in July). In China, monetary policy is forecast to remain cautious in a bid to stabilise the yuan against the US dollar. The Central Bank of Brazil could resume its monetary easing policy, which was stopped in June, by the end of the year. These monetary policy stances will partly depend on how US monetary policy evolves in the future.

Chart 1: Key rates in major advanced economies

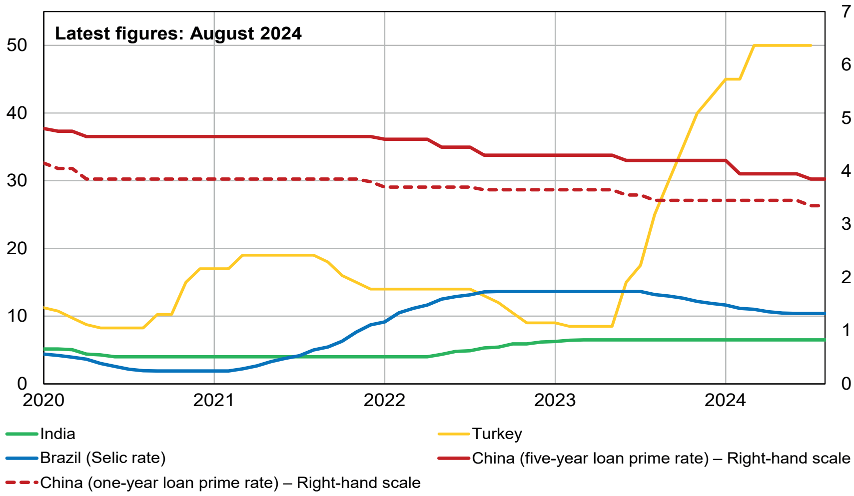


Sources: Refinitiv, BoE, AFT.

(1) These global economic forecasts were prepared by Louis Adjiman, Louis Bertrand, Louis Blanco, Guillaume Blin-Vialart, Léocadie Darpas, Rizlaine Embarek, Juliette Flament, Eléa Giraud, Adama Hawa Diallo, Patrick Kanda Tunda, Paul Mainguet, Laure Noël and Eloïse Villani.

(2) According to market forecasts, the Federal Reserve's federal funds rate is expected to be cut from 5.3% in Q3 2024 to 3.4% in Q4 2025 on a quarterly average basis. The BoE's rate is anticipated to be cut from 5.1% in Q3 2024 to 3.8% in Q4 2025, based on market forecasts. The assumption is that the ECB's deposit facility rate (the interest rate banks receive when they deposit money with the central bank overnight) will be lowered from 3.75% in Q3 2024 to 3.00% at end-2025.

Chart 2: Key rates in major emerging economies (%)



Source: National central banks.

In major advanced economies, fiscal policy is expected to be more restrictive on the whole in 2024 and 2025 than in 2023. In the euro area, various one-off support measures in response to the inflation shock have been withdrawn in 2024, with a limited impact on activity given the slowdown in prices, particularly energy prices. In Spain and Italy, however, activity is anticipated to be supported by expedited disbursements under the EU's Recovery and Resilience Facility (RRF). In Germany, public finances are projected to weigh to a lesser extent on activity in 2024[3] and 2025 than forecast in the spring, despite the budget cuts announced for 2025. US fiscal policy is expected to be slightly more restrictive in 2024 and 2025 than in 2023, in line with Congressional Budget Office projections, but the outlook for 2025 will largely depend on the outcome of the US elections. In the United Kingdom, higher-than-anticipated public spending in 2024 will support activity[4]. UK fiscal policy is forecast to become more restrictive in 2025, in line with the new government's goal of reducing the government debt ratio in the mid-term.

Following a sharp contraction in 2023 to $82.4 from $100.9 in 2022, the average price of a barrel of Brent crude oil (the European benchmark) is assumed to stabilise in 2024 to $82.3 before falling slightly to $79.8 in 2025. Oil prices have been relatively constant despite high geopolitical tensions, particularly in the Middle East, reflecting fears about global oil demand, especially for the US and Chinese economies. However, oil prices remain significantly higher than pre-pandemic levels ($57.4 a barrel on average over the 2015-2019 period). For forecasting purposes, the price of a barrel of Brent crude oil is fixed at $79.8 (€73.0), the average price over the period from 31 July to 19 August 2024, and the euro exchange rate is set at $1.09, the average over the same period.

(3) The amending German federal budget for 2024 was presented on 17 July 2024 and includes fewer savings than the initial budget adopted on 2 February because of under-execution of the 2023 budget and withdrawals from reserves.

(4) Following an audit commissioned after it came to office, the new government revealed a shortfall in public finances of roughly £22bn for the 2024-2025 financial year as a result of the cost of some measures being underestimated by the previous government and unforeseen spending.

2. International scenario: An environment characterised by divergence, less favourable for France

Table 1: Global growth forecasts

	2015-2019 average	2021	2022	2023	2024 DG Trésor forecasts	2025 DG Trésor forecasts	2024 Revisions to March 2024 forecasts	2025 Revisions to March 2024 forecasts
Global growth	**3.4**	**6.5**	**3.5**	**3.2**	**3.2**	**3.4**	***+0.1***	***+0.2***
Advanced economies[a]	**2.2**	**5.7**	**2.7**	**1.7**	**1.7**	**1.8**	***+0.2***	***+0.2***
Euro area[b]	2.0	6.0	3.5	0.5	0.8	1.4	*+0.1*	*–0.2*
Germany	*1.8*	*3.5*	*1.7*	*–0.1*	*0.1*	*0.9*	*–0.2*	*–0.3*
Spain	*2.8*	*6.4*	*5.8*	*2.5*	*2.7*	*2.2*	*+0.9*	*+0.0*
Italy	*1.0*	*8.3*	*4.1*	*1.0*	*0.9*	*1.2*	*+0.2*	*+0.1*
United Kingdom	2.0	8.7	4.3	0.1	1.1	1.3	*+0.8*	*+0.2*
United States	2.5	5.8	1.9	2.5	2.5	1.9	*+0.2*	*+0.5*
Emerging economies[b]	**4.4**	**7.0**	**4.1**	**4.3**	**4.3**	**4.4**	***+0.2***	***+0.1***
Brazil	–0.5	4.8	3.0	3.1	2.2	2.4	*+0.5*	*+0.4*
China	6.7	8.5	3.0	5.2	5.0	4.6	*+0.3*	*+0.2*
India[c]	6.7	9.7	7.0	7.8	6.7	6.6	*+0.7*	*+0.1*
Turkey	4.1	11.4	5.6	4.5	3.5	3.3	*+0.2*	*–0.3*
World trade in goods[d]	2.8	12.8	4.0	–1.3	2.0	4.0	*–0.4*	*0.0*
World demand for French exports	3.4	12.1	5.4	–2.1	0.9	3.6	*–0.3*	*–0.1*

a Aggregate forecast figures for "advanced economies" and "emerging economies" are estimated based on IMF projections with forecast figures adjusted using DG Trésor projections for the countries in the table above and past figures adjusted for revisions to national accounts. The forecast of global demand for French exports no longer includes predictions for the Russian economy due to the drop in bilateral flows following trade sanctions against Russia.
b The euro area aggregate derives from quarterly accounts adjusted for working days. Forecast figures are estimated based on European Commission projections adjusted by those of DG Trésor for Germany, France, Italy and Spain.
c India's growth is for the fiscal year running from the beginning of April to the end of March.
d. Global trade, calculated as the sum of imports, covers 40 countries representing 85% of global imports.

Sources: IMF, World Economic Outlook Update, July 2024; OECD, Economic Outlook, May 2024; European Commission, Spring 2024 Economic Forecast; DG Trésor calculations and forecasts.

2.1 Global growth revised slightly upward for 2024 and 2025

Global activity is expected to grow in 2024 at the same pace as in 2023, at a rate of 3.2% (see Table 1). It is projected to be slightly stronger than anticipated in spring 2024[5] (0.1 pp), due to an improvement in growth prospects in both advanced and emerging economies.

Global growth is envisaged to rise to 3.4% in 2025 and return to pre-pandemic averages (calculated over the 2015-2019 period), driven by monetary easing and a pickup in global trade. The upward revision compared to the spring forecast (0.2 pp) primarily reflects a slower-than-expected contraction in activity in the United States and China.

Emerging countries as a whole are anticipated to be the main drivers of global growth and return to pre-pandemic growth levels in 2025 (4.4%), whereas activity in advanced countries is projected to remain below pre-pandemic levels (1.8% in 2025, compared with 2.2%).

(5) See "World economic outlook in spring 2024: Moderate and uneven growth", *Trésor-Economics,* No. 339, March 2024.

Global trade in goods is expected to bounce back in 2024 (2.0% after 1.3% in 2023), but is forecast to grow at a slower pace than activity due to weaker demand in 2024 for trade-intensive investment goods which has been impacted by monetary easing and global supply chain tensions (see Box 3). Growth in trade in goods (4.0%), is projected to outpace activity growth in 2025, reflecting a catch-up in trade following the contraction in 2023 and limited gains in 2024.

The international environment is likely to be slightly less favourable for the French economy than expected in spring; global demand for French exports is envisaged to grow at a slower rate than global trade (0.9% in 2024 and 3.6% in 2025), due to slower growth in France's main export markets, particularly Germany.

2.2 Diverging growth trends in advanced economies

In the United States, growth is expected to remain strong at 2.5% in 2024 before contracting to 1.9% in 2025, while inflation is expected to continue to decline to the Federal Reserve's target rate of 2% in late 2025. The slowdown in activity in 2025 is expected to mirror the decline in household consumption as savings buffers accumulated during the pandemic recede and the labour market eases. Business investment is forecast to remain high, aided primarily by the Inflation Reduction Act (IRA) and the Creating Helpful Incentives to Produce Semiconductors (CHIPS) Act as they helped to boost construction investment in industry in 2023 by building and expanding factories and are expected to increase capital investment through to 2025. Investment is also likely to be driven by spending on artificial intelligence and gradual improvements in financing conditions for both businesses and households.

After growing by just 0.5% in 2023, the euro area is projected to see a mild pickup in 2024 (0.8%), due to lower inflation and a robust labour market (see Box 1), which are supporting real wages and household consumption. Activity is expected to grow at a faster pace in 2025, at 1.4%, aided by monetary easing, a decline in savings, albeit still timid, and strong external demand. Inflation is expected to continue to decline to below 2.0% in 2025.

Activity is predicted to flatline again in Germany in 2024, nearing stagnation (0.1%) after slightly contracting (0.1%) in 2023. Factors expected to support activity six months ago – household consumption and exports – are still struggling to materialise. Investment is forecast to be particularly weak as industry faces major difficulties. Activity is projected to increase by 0.9% in 2025, driven primarily by household consumption, with strong wage growth boosting purchasing power. Meanwhile, monetary easing is expected to slowly encourage business and household investment. Exports are forecast to contribute to Germany's recovery as global demand for exports increases, but many of the productivity losses observed since the pandemic are expected to remain.

Activity in the United Kingdom in 2024 is projected to pick up faster than anticipated in spring, growing by 1.1% (after 0.1%). In early 2024, growth was supported by household investment, especially in renovation, and high public spending. In 2025, growth is expected to be slightly higher (1.3%), with monetary easing stimulating household consumption and investment. Foreign trade is forecast to slow growth in 2024, but should recover in 2025 as global demand drives up exports.

Growth in Italy is expected to be similar to the euro area, following a period of outperformance after the pandemic. Activity is forecast to edge down in 2024 to 0.9% from 1.0% in 2023 before picking up in 2025, increasing by 1.2%. Investments under the RRF, particularly tax credits under the Transition Plan 5.0 to support businesses' digital and energy transition, are anticipated to offset the impact on activity of the reduction of the "Superbonus" for energy renovation. Household consumption is forecast to be modest in 2024 against a backdrop of depleting pandemic-related savings buffers and depressed purchase intentions, before accelerating in 2025.

Spain is projected to report buoyant growth in 2024 and 2025 of 2.7% and 2.2%. Growth is much stronger than in other major EU countries, underpinned by the RRF, the rebound in tourism and a robust labour market, which has benefited from immigration and can improve further in view of the high unemployment rate (11.5% in July 2024). The slowdown in 2025 would be mainly fuelled by a weaker contribution from tourism, which has already returned to 2019 levels.

Box 1: How can we explain the strong performance of employment in the euro area?

Despite a series of shocks since 2020, the labour market has remained very robust in the euro area, with strong employment growth and unemployment at a historic low. In the second quarter of 2024, total employment in the euro area, based on the definition used in national accounts,[a] was 4.2% higher than at the end of 2019, while GDP was 3.9% higher. Over the same period, employment grew at a similar pace in the United States (4.5%), but activity rose even more sharply (9.4%).

Employment was higher than pre-pandemic levels in the euro area's four major advanced economies (Germany, France, Italy and Spain). The unemployment rate in the euro area was 6.4% in July 2024, the lowest level since the start of the series, in 1998, despite rates varying considerably between these major countries.

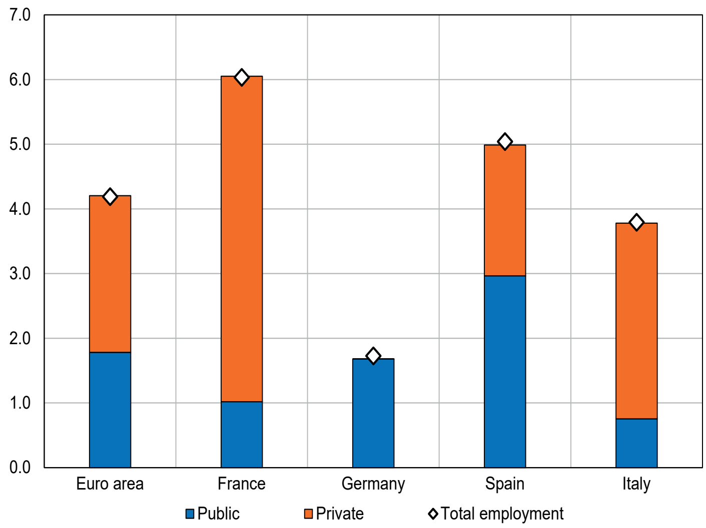
Employment was particularly strong in the public and parapublic sector,[b] which grew twice as fast as the private sector (see Chart 3). Public-sector employment, in areas such as administration, defence, education, healthcare and social work, rose by 7.1% compared with end-2019, playing a key role as a stabiliser during crises, as it did during the 2008-2009 financial crisis.[c] Private-sector employment also grew, but to a lesser extent, surpassing its pre-pandemic level by 3.2%. The gap was particularly wide in Germany, where public-sector employment increased by 7.2% compared with –0.1% in private-sector employment, and Spain (13.2% compared with 2.8%). In Italy, employment in the private sector rose by 3.8%, at the same rate as in the public sector (up 4.0%), and France was in the middle.

There has been a –1.2% decline in hours worked per employee compared with pre-pandemic levels despite the jump in employment in the euro area. This was particularly apparent in Germany and Spain, which both recorded decreases of –2.2%. Italy, however, saw a 2.4% increase in hours worked per employee.

The contraction of hours worked per employee in the euro area was partly due to labour hoarding in some sectors where demand has not returned to normal levels.[d] The ECB's labour hoarding indicator[e] revealed that in the first quarter of 2024 the share of firms hoarding labour was higher than before the pandemic, at 22.2% compared with an average of 12.7% over the 2014-2019 period.

The latest indicators show that the labour market is normalising in the euro area. Employment expectations in the business survey published by the European Commission have been below their average since June 2024. The slowdown in employment could partly offset productivity losses observed since the start of the pandemic.

Chart 3: Total employment in Q2 2024 (vs Q4 2019)



Sources: National accounts, Eurostat.

a. Employment data for European Union (EU) countries may differ depending on whether data is taken from Eurostat's labour force survey (EU-LFS), which is used to calculate the unemployment rate, or from national accounts. Data from the EU-LFS is collected from surveys of households and provides statistical estimates, whereas national accounts data is taken from government sources. In addition, national accounts use a broader scope.

b. The analysis is based on employment data from quarterly accounts and the NACE classification. The public sector is defined as non-market sectors, public administration (O), education (P) and human health and social work activities (Q). The latter mainly includes public organisations, as well as some private organisations such as clinics.

c. See "The role of public employment during the COVID-19 crisis", *ECB Economic Bulletin*, Issue 6/2022.

d. Other factors may explain the decline in hours worked per employee, such as the impact of sectoral composition and the increase in sick leave. In addition, the number of hours worked per employee is on a downward trend structurally in the euro area.

e. See "Higher profit margins have helped firms hoard labour", *ECB Economic Bulletin*, Issue 4/2024.

2.3 Forecast slowdown in activity in major emerging countries in 2024 and 2025

In China, growth is forecast to moderate to 5.0% in 2024 and 4.6% in 2025 from 5.2% in 2023. Growth is expected to be driven by increased exports and fiscal support in 2024, particularly in the manufacturing industry. This would enable the economy to meet the Chinese government's growth target of "around 5.0%". Household consumption is predicted to remain weak, however, in the context of ongoing problems in the real estate sector, the main component of household wealth in China. Activity in the real estate sector could stabilise in 2025, depending on whether local governments can clear the backlog of unsold housing stock. In the mid term, the scale of the slowdown in activity will depend on China's ability to change its growth model and position itself in new technology sectors.

In India, growth is expected to remain strong at 6.7% in the 2024/25 fiscal year,[6] compared with 7.8% in 2023/24, buoyed by ongoing public infrastructure investment and improved consumer confidence, in addition to positive base effects. Household consumption will nonetheless depend on movements in food prices,[7] which are impacted by harvests and monsoons in the summer. In 2025/26, growth is forecast to contract slightly to 6.6%, supported by domestic demand amid monetary policy easing. Fiscal consolidation efforts are anticipated to persist across both years.[8]

In Brazil, activity is forecast to grow by 2.2% in 2024, down from 3.1% in 2023, after monetary easing was stopped in June 2024 and flooding affected Rio Grande do Sul (see Box 2). Activity is projected to pick up in 2025 by 2.4%, aided by the reforms implemented in 2024 (the first package of tax reforms) and the ramp-up in hydrocarbon production and exports. The likely increase in public investment and rebuilding efforts in Rio Grande do Sul are also expected to contribute to growth, but to a lesser extent.

In Turkey, despite a strong first quarter supported by the rise in the minimum wage,[9] economic activity is forecast to contract to 3.5% in 2024 from 4.5% in 2023, on account of monetary tightening[10] which should constrain domestic demand. After peaking in May 2024, inflation is projected to fall in the second half of 2024. In 2025, activity is expected to slow again to 3.3% because of a still-restrictive monetary policy[11] combined with fiscal consolidation efforts.

(6) India's fiscal year runs from the beginning of April to the end of March.
(7) Inflation for food prices remained high at 5.4% in July. Food prices account for 46% of households' consumption baskets.
(8) The Indian government has pledged to reduce the fiscal deficit to 4.5% of GDP in 2025/26 from 5.6% in 2023/24.
(9) The minimum wage was doubled between January 2023 and January 2024. A large portion of Turkey's labour force earns the minimum wage (43.1% of workers excluding the agricultural sector in 2021) and it is a benchmark for wage bargaining. There are no plans for the minimum wage to be raised again by the end of 2024.
(10) In order to fight inflation, the Turkish central bank raised the key rate from 8.5% in June 2023 to 50.0% in June 2024.
(11) Despite gradual monetary easing, private consumption is expected to remain constrained by forecast still-high inflation and a positive real key interest rate.

Box 2: What impact do extreme weather events have on the growth of emerging economies?

Several extreme weather events have affected major emerging countries since the start of 2024, including record heat waves in India and the Rio Grande do Sul floods in Brazil. Extreme weather events (such as floods, heatwaves, hurricanes and droughts), have supply-side impacts on activity (for example by reducing crop yields and disrupting crop cycles, increasing operating costs and offshoring production), and demand-side impacts, (by increasing prices and causing job losses) with major effects on economic growth.[a] Extreme weather events are estimated to have cost the equivalent of 0.3% of GDP on average annually between 2000 and 2023 in India, 0.3% in China, 0.1% in Brazil, and more marginally in Turkey[b] (see Chart 4).

The floods in Brazil at the start of the year are expected to negatively affect growth by 0.3 of a percentage point in 2024.[c] A total of 90% of local government areas in Rio Grande do Sul were affected by the flooding. The state accounts for 6.5% of Brazil's GDP, 12.6% of GDP from agriculture and 8.3% of GDP from industry.

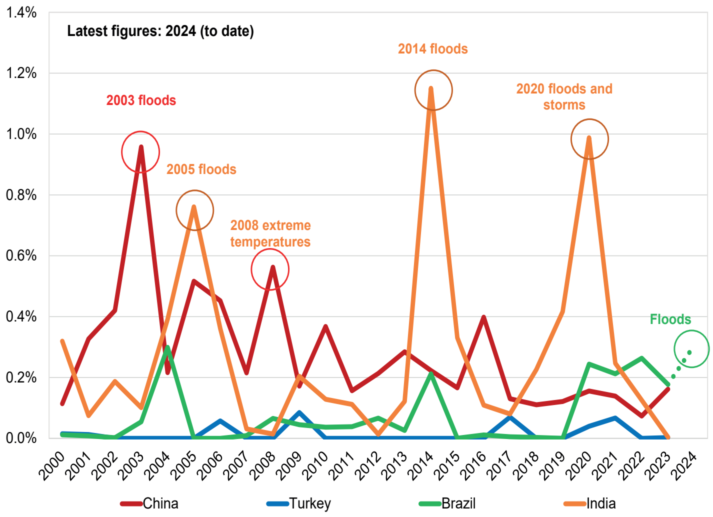
China was hit by flooding, heatwaves and drought in the country's centre which are predicted to impact both agricultural output and hydropower production.[d] The cost reached $12.8bn between January and June 2024, or 0.1% of GDP.[e]

How to read this chart: Extreme weather events are estimated to have cost India 1 point of GDP in 2020. This cost does not include the positive effects on activity of rebuilding after the events.

Turkey has had multiple episodes of heatwaves and flooding, with 1,475 extreme weather events recorded in 2023, an increase compared with 2022. During the summer of 2024, Turkey experienced a series of wildfires due to extreme heat in the Aegean region, which is home to 18% of the country's agricultural output, and Izmir, Turkey's third-largest city, which accounts for more than 6% of the country's GDP.

India is particularly exposed to flooding, rising temperatures and unusual monsoon activity. The country was struck by record heatwaves again in May and June 2024, but the monsoon season is forecast to be relatively good despite a late, slow start.[f] The Reserve Bank of India (RBI) estimates that up to 4.5% of India's GDP could be at risk from lost labour due to extreme heat and humidity by 2030, accounting for 34 million full-time jobs according to the World Labour Organisation.

Chart 4: Estimated cost of extreme weather events (% of GDP)



Source: EM-DAT.

How to read this chart: Extreme weather events are estimated to have cost India 1 point of GDP in 2020. This cost does not include the positive effects on activity of rebuilding after the events.

a. See Gaillat E. and Guiet V. (2023), "Emerging economies and climate change", *Trésor-Economics*, No. 328.
b. These estimates have been taken from the EM-DAT international disaster database, which compiles data from various sources, including UN agencies, NGOs and reinsurance companies. Costs are total economic losses directly or indirectly related to the disaster as a percentage of GDP, but do not include the impact on GDP of rebuilding. The impact of extreme weather events, e.g. heatwaves, droughts and hurricanes, on the economic growth of emerging and developing economies remains negative in the mid term, even when the positive impact of rebuilding is taken into account (Cevik et al., 2023).
c. Standard & Poor's, "Floods in Brazil's Rio Grande do Sul state disrupt supply chain", June 2024.
d. *The Economist*, "China is struck by floods and drought – at the same time", 1 July 2024.
e. "Natural disasters cost China $13 bln in January-June", Reuters, 12 July 2024.
f. Changes in monsoons can have major consequences for private consumption because the agricultural sector employs nearly half the population (44% of the workforce in 2023/24 according to the MoSPI).

3. Downside risks amid persistent geopolitical uncertainty

The main risk to the scenario still stems from geopolitical tensions. The wars in Ukraine and the Middle East, as well as the tensions in the South China Sea, are still major sources of risk for the global economy. For the moment, these events have not prevented a fall in commodity prices, including oil prices, as prices are currently lower than the price set for forecasting purposes (a barrel of Brent crude oil averaged $71 during the week of 9 September 2024). But geopolitical tensions could disrupt global trade. A sudden rise in oil prices or renewed frictions in maritime trade in 2025 would have a largely negative impact on the international economic scenario.

The 2024 US elections are another mainly downside risk and their outcome could lead to greater protectionism or a return of inflation. With the decline in inflation well under way, the pace of key rate cuts and the time it takes for the cuts to flow through to monetary policy represent more symmetrical risks for domestic demand in advanced countries. The same applies to the trend in savings behaviour.

Financial markets were particularly volatile during summer 2024 and remain a risk factor. The financial sector could come under pressure if markets suddenly fall (for example in technology stocks), and emerging economies remain vulnerable to capital outflows in response to a slump in investor confidence. Finally, global warming is causing more extreme weather events, which already negatively affect economies, particularly emerging economies.

Box 3: How the tensions in the Red Sea are impacting global trade

Yemen's Houthi rebels have been attacking ships in the Red Sea since October 2023 in response to the war between Israel and Hamas. The attacks originally targeted Israel-linked ships, but have now spread to all vessels, in particular commercial ships (see Chart 5). The Red Sea is a strategic waterway connecting Asia and Europe through the Bab el-Mandeb Strait and the Suez Canal, and roughly 15% of the world's maritime trade used the route in 2022. In January 2024, most shipowners started to bypass the area and reroute vessels via the Cape of Good Hope in southern Africa (see Chart 6). Maritime traffic through the Bab el-Mandeb Strait fell by 70% in the first half of 2024 year on year. The cost of maritime freight, measured by the Freightos Baltic Index, increased almost fivefold between October 2023 and August 2024 due to longer transit times and higher fuel, manpower and insurance costs.

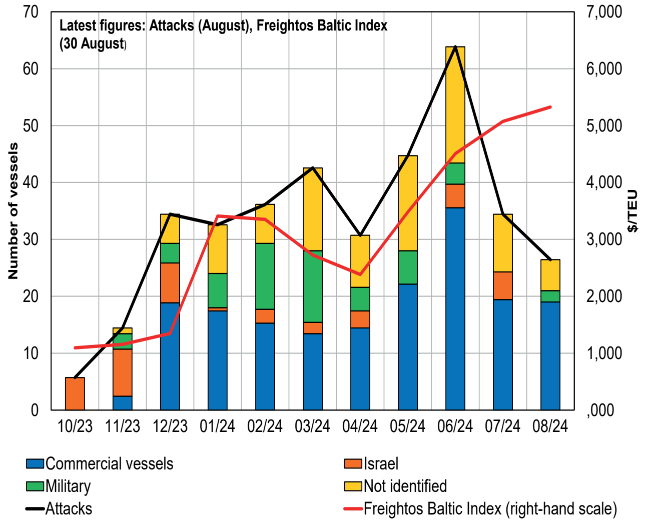
Reduced traffic through the Red Sea has disrupted global supply chains, which have also been impacted by the drought in the Panama Canal since November 2023:

- In anticipation of trade disruptions, retailers appear to have expedited their orders for the peak shopping season (Black Friday, Christmas), bringing forward the peak shipping season by several months.[a]
- Increased transit times due to the Cape of Good Hope diversion have disrupted vessel arrival schedules at ports. Transshipment ports in the Strait of Malacca, and Asia in general, reported a decline in traffic in March 2024, before a slight pickup the following month, causing major congestion. In the port of Singapore, ships were waiting to be berthed for five days on average in May 2024, compared with one day typically.
- Using new routes has increased the vulnerability of global trade to the risk of adverse weather conditions. Storms off the Cape of Good Hope caused halts to traffic and losses of containers in summer 2024.[b]

Despite fewer vessels transiting through the Red Sea, the number of attacks peaked in June 2024 to around 64 before declining in July and August. The Freightos Baltic Index was $5,326 at end-August, significantly higher than in 2019, but still much lower than its peak of $11,000/TEU in September 2021.

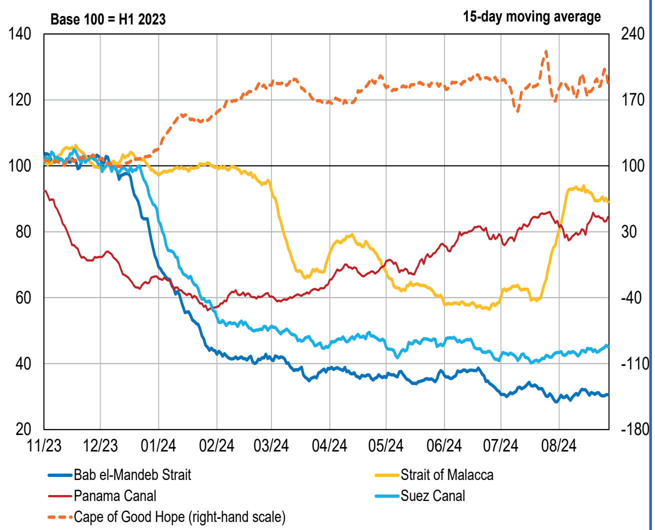
The attacks[c] weighed on global trade growth[d] in 2024 and slowed disinflation.[e] These effects are expected to dissipate as new routes normalise, boosting trade in 2025.

Chart 5: Houthi rebel attacks in the Red Sea



Sources: ACLED, Freightos.

Chart 6: Daily transit trade volume, in number of vessels



Source: PortWatch (IMF).

a. According to the National Retail Federation, imports at container ports peaked in the US in August, two months earlier than usual.
b. In August 2024, the South African Maritime Safety Authority reported that two vessels had lost 46 and 99 containers, equivalent to 65% of total losses in 2023.
c. The UKMTO reported that two attacks occurred in the Red Sea on 2 September 2024.
d. In summer 2024, global trade was still fragile and remained vulnerable to new shocks. Strikes in North America in August contributed to the 14% increase in freight costs for the route linking the region to Asia.
e. In the *Economic Outlook, Interim Report* released in February 2024, OECD research suggested that the recent 100% increase in shipping costs, if persistent, could raise annual OECD import price inflation by close to 5 percentage points, adding 0.4 percentage points to consumer price inflation after about a year.

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