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Daily Note

THINGS THAT WON'T HAPPEN IN 2024

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- Our final Daily Note of the year always makes big consensus-busting forecasts.
- This time round it's extreme Swiftonomics, sweary central bankers and AI dominance.
- Admittedly, this is an attempt at humour – sometimes our forecasts prove wrong.

Each December, we publish bold "non-consensus" forecasts for the year ahead. Rather disturbingly, some of those predictions come true. Worse still, since we first started this exercise in 2015, it has become increasing difficult for our readers to discern whether we are joking – such is the increasingly bizarre nature of today's world. Let's hope none of the following happens:

Argentina's Taylor rule

The new president of Argentina shocks the world when he "irrevocably" ties his nation's currency to the most valuable commodity in the world – Taylor Swift (or, more precisely, signed and authenticated Taylor Swift merchandise). Taking Swiftonomics to new extremes, Javier Milei's radical experiment starts off well, delivering an unprecedented five months of steady GDP growth and stable prices. (Rumours emerge that an envious Rishi Sunak is considering a SWIFT system for the UK, too.) Unfortunately, things take a turn for the worst when one of Ms Swift's advisors reads about the scheme in *The Economist* and pushes her to pivot to "merch", triggering a massive expansion in Argentina's money supply. Beyond the inevitable toll this takes on Taylor's other business interests – she cancels a world tour owing to "physical and emotional exhaustion"

– Swiftonomics is abandoned amid hyperinflation in Argentina and a massive housing bubble in the US (a "wealth effect" from millennial Swifties exporting their memorabilia to South America and using the proceeds for deposits on American property). Now identified as a "systemic risk", Ms Swift and her advisors face tough new macroprudential rules – and another source of US entrepreneurial spirit is snuffed out by overzealous regulators. She just can't shake it off.

Forward f***ing guidance

When Jay Powell was caught on a "hot mike" using the F-bomb at an IMF event in November 2023 (something that did, in fact, happen – see here), he inadvertently triggered a revolution in central bank communication. The once softly spoken technocrats had just discovered not only that swearing makes them sound really cool (the Fed is always the trend setter in this regard) but that it can be a highly effective way to mould market expectations. "If you think we are cutting rates in March, you are f***ing deluded!" "I don't give a f*** about what the latest PMI said, that survey is bull****!". Within months, ECB watchers are learning new French profanities from Christine Lagarde and the BoJ has employed Snoop Dogg as a "special advisor". Pretty soon, policy minutes from central-bank meetings come to resemble the scripts of a Martin Scorsese movie, with F-words often outnumbering references to unemployment and inflation by a ratio of 150/1. Unfortunately, the policy evolution lasts only a few months. And, as always, it is the Bank of England that ruins it for everyone. When Andrew Bailey uses an unmentionable word on primetime TV to describe people who demand big wage rises and the king is forced to intervene, the central-banking community is plunged into a lengthy period of quiet (non-sweary) reflection.

Peak populism

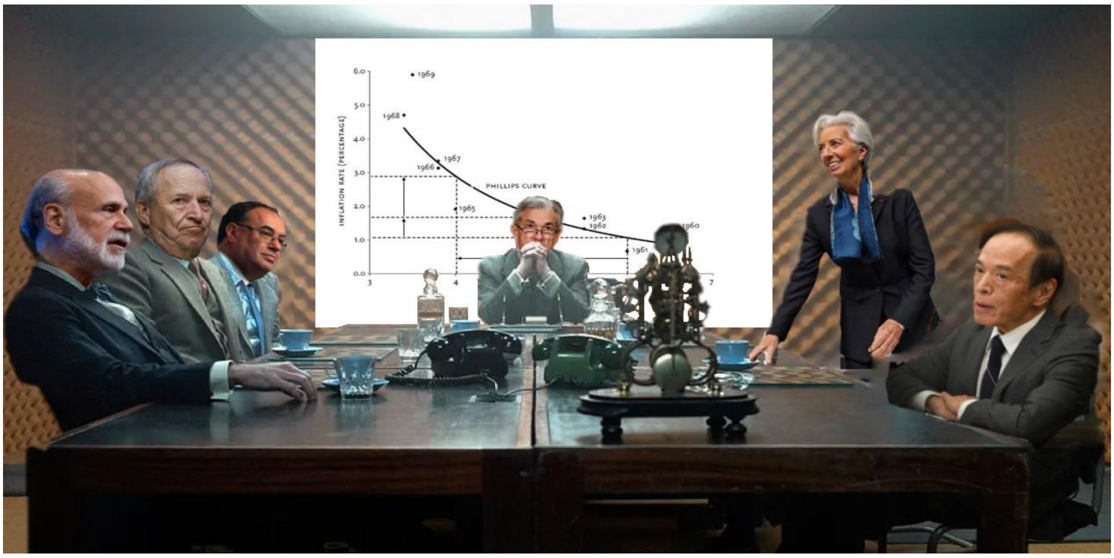
Donald Trump's election victory seals the deal on the new era of "strong-man politics". International disputes will now be settled like "real men", with wrestling competitions and burger-eating contests. But after one particularly fiery encounter at the United Nations – which sees Putin's dramatic bare-chested pony-riding entrance seriously backfire (and the new UK prime minister, Nigel Farage, is caught trying to deport IMF officials to Rwanda) – it becomes clear that public attitudes are starting to shift. The breakthrough comes in Cambridge, where researchers publish a ground-breaking study showing that the real secret to the success of populist politicians is not their "plain speaking" or their rejection of "woke lefty elitism", but rather their ridiculous and laughable hair styles. It turns out that a "bad barnet" can make even the most zealous right-wing extremist look warm and fluffy. But when politicians everywhere are found to be sporting frightful fringes, misguided mullets and clumsy combovers, it becomes impossible for the public to make the distinction between the "entertainers" and the "experts". By the end of 2024, an astonishing 19 of the G20 nations have (inadvertently) elected leaders with PhDs and the world can look forward to a "second Enlightenment".

THAT recession finally happens

Everyone knows recessions follow the "Final Destination principle". Like the hero in the movies, the business cycle can cheat death only for a limited time, because ultimately the hard landing will chase it down and unleash an even-more-gruesome finale. And the recession that was supposed to hit in 2022 finally catches us in 2024, only days after the last Recessionista (Dire Grimley at Doomsday Securities) throws in the towel and declares a "new Goldilocks paradigm". Yet, just as the conspiracy theorists on Twitter warned, new benchmark revisions show the global economy has been in a state of continuous recession since 1993, concealed only by plunging response rates in official statistics. On the new data, GDP is down 14% over the past 18 months, unemployment rates have risen to depressionary levels, and consumer prices are up a whopping 99% – comfortably justifying widespread societal gloom. (If you poked fun at the Bloomberg economics team for saying there was a "100% chance of recession" in November 2022, you better have your apology ready in 2024.) It turns out that all that "revenge spending" was, in fact, just long-term jobseekers travelling huge distances in pursuit of ghost vacancies. And the central bank response? Unrepentant, of course. As is the tradition, officials devise another imaginary counterfactual scenario that "proves" the situation would have been "even worse" without their timely policy interventions. (And, naturally, they receive well-deserved promotions.)

The bull**** revolution

Far from unleashing vast productivity gains and creating untold wealth, rapid advancements in AI deliver a world of endless feedback loops, enormous computational waste, and a situation where one guy in Wolverhampton can create more fake news in five seconds than the rest of civilization has managed in the previous 2000 years. In fact, as the cost of producing complete bull**** plunges to zero, it is impossible to distinguish the fact from the phony. This is an era where AI-generated marketing campaigns interact with AI-generated “prospects”, all business-to-business contact happens via autoreply, and we are flooded with so much misinformation nobody can trust even the most honest politicians (who, unbeknown to them, now interact exclusively with “focus groups” made up of online pornbots). But some of the most peculiar effects are found in financial markets, when traders start using AI to predict what central banks will do, while those same central banks are using AI to tell them “what the market is thinking”. [Ed - too close to the bone?] Risk-on/risk off swings become so violent that it takes only one mildly surprising CPI print to destabilize the entire system. (You don’t want to know what happens when equity strategists get hold of AI.). Financial markets implode, with the mass layoff of all traders, portfolio managers, and analysts. (Productivity soars.) In the end, only macro economists are left, because, as everyone knows, macro economists never bull**** and are totally trustworthy and reliable. Right?



I see Phillips curves

After another totally needless recession that puts millions of people out of work, a parliamentary enquiry rules that the Phillips curve should be made illegal in the UK. (The ruling is a bit like Germany’s “debt brake”, except it is based on logic and benefits society.) Unfortunately for macroeconomics, this new law triggers a wider debate about whether there are other things economists believe that are totally devoid of empirical grounding (perish the thought!) – such as “natural rates of interest”, “natural rates of unemployment”, “potential GDP”, fictious “output gaps”, money “velocity”, and anything that uses the word “equilibrium” or comes with the asterisk (*) suffix. (Presumably the * is used to denote the presence of magic pixie dust and/or ideas that were generated by unicorns.) Eventually, this new wave of “actual evidence-based analysis” even spreads to the financial sector, where it puts hundreds of thousands of “market liquidity” experts out of work. But it is central bankers who have the hardest time adjusting. Some are even forced to meet in secret “underground”, where they can feel safe discussing the shape of their Phillips curves, continue their search for the mythical NAIRU, or compare their “credibility” contours.

The Daily Note will return on 2 January. Happy holidays!

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