

Global Economic Outlook:

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THE OHIO STATE UNIVERSITY
COLLEGE OF FOOD, AGRICULTURAL,
AND ENVIRONMENTAL SCIENCES

Global Economic Outlook

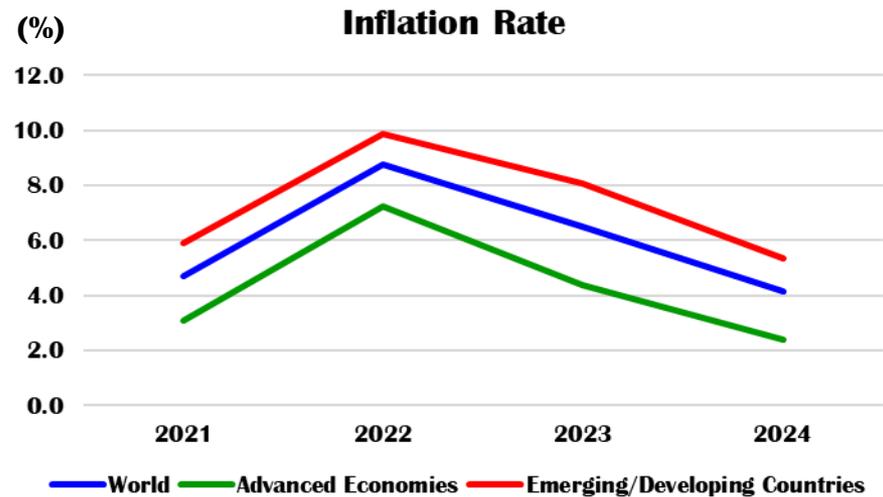
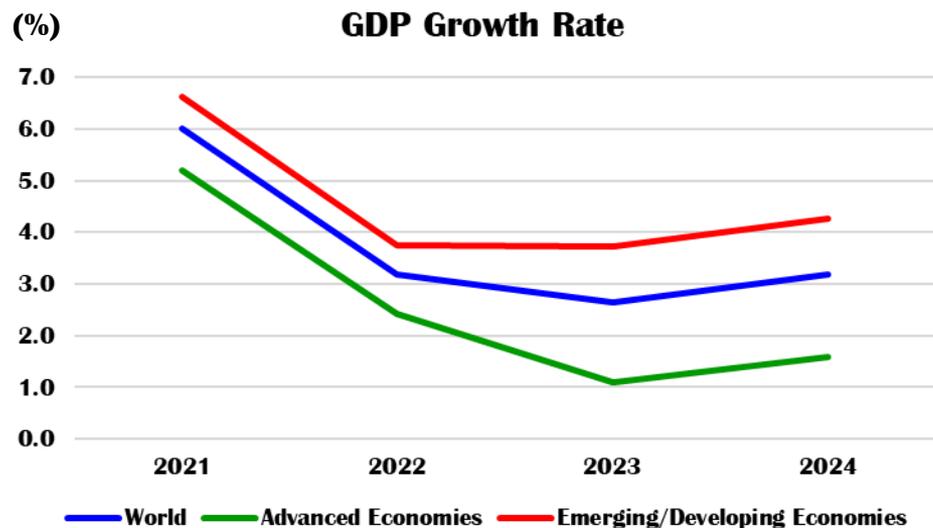
◆ Key features:

- **Inflation at multidecade high – tight monetary policy and declining fiscal support**
- **Russia's ongoing war in Ukraine – disruptive politically and economically**
- **Despite moderation, pandemic still affecting economic activity – notably in China**
- **Heatwaves and droughts disrupting commodity production and prices**

Growth, Inflation and Trade: 2023

- ◆ **Global growth: 2.7% (6% in 2021)**
- ◆ **Advanced economy growth: 1.1% (5.2% in 2021)**
- ◆ **Emerging economy growth: 3.7% (6.6% in 2021)**
- ◆ **Global inflation expected to peak at 8.8% in 2022, falling to 4.1% in 2024**
- ◆ **Upward inflation revisions mostly for advanced economies such as US and EU**
- ◆ **Global trade growth: 2.5% (10.1% in 2021)**

Growth and Inflation Forecast

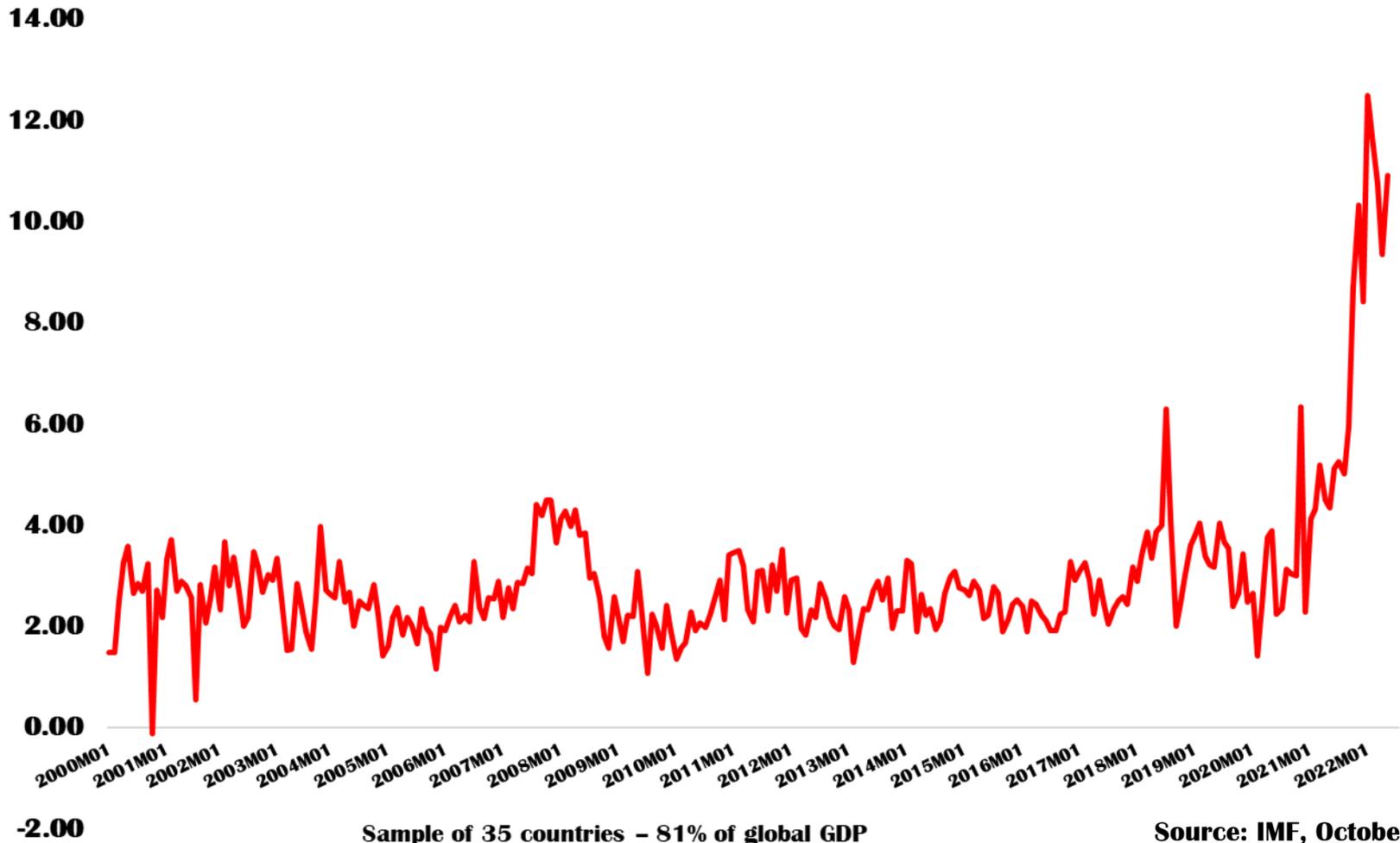


Factors Affecting Outlook

- ◆ Inflation risen faster and more persistently than expected – central banks have rapidly lifted rates**
- ◆ War in Ukraine having significant impact on natural gas exports to and prices in EU**
- ◆ Pandemic still affecting global economic outlook especially in China**
- ◆ Despite agreement on Black Sea grain exports, global food prices remain high**

Core Inflation

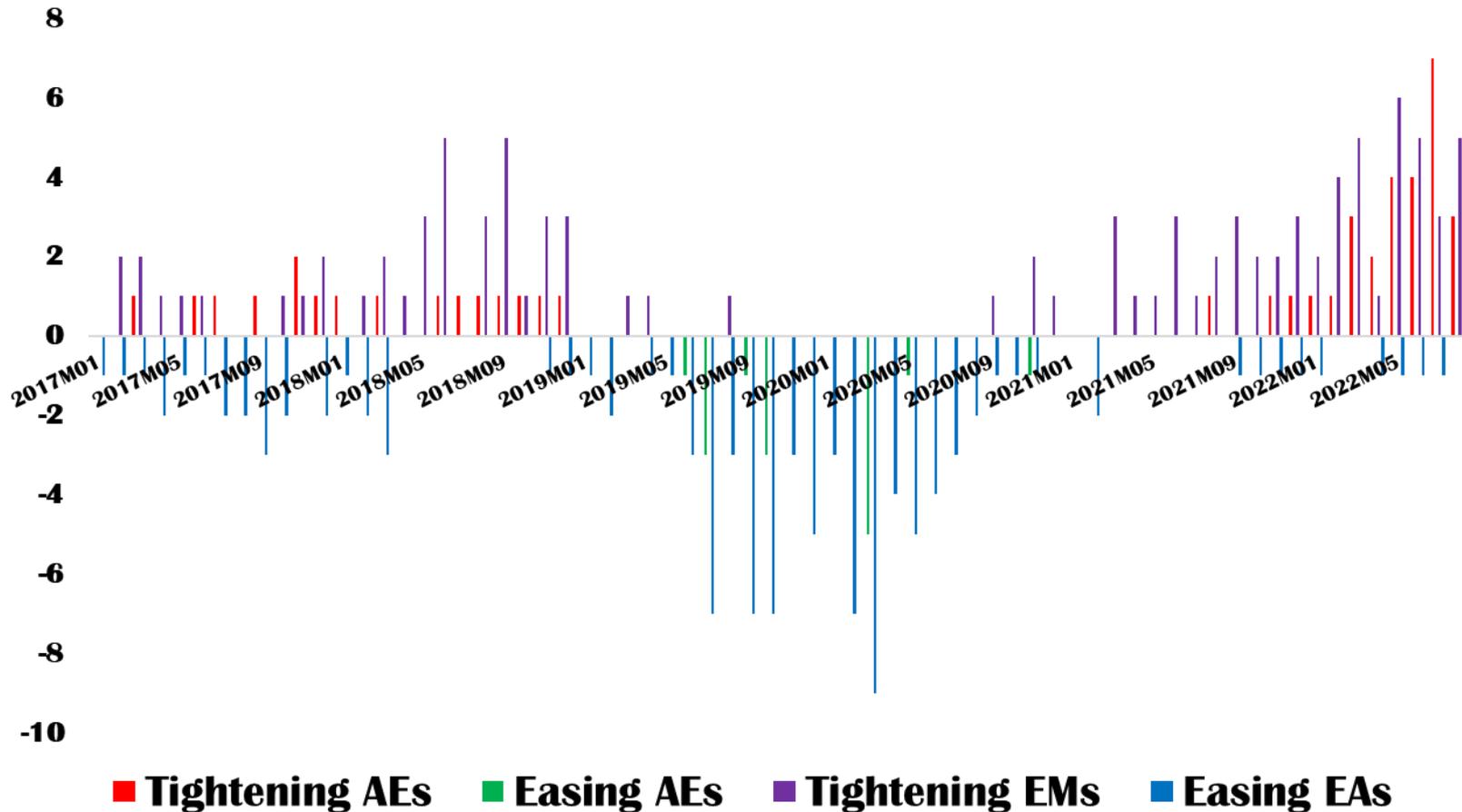
Mean Core Inflation (Annualized %)



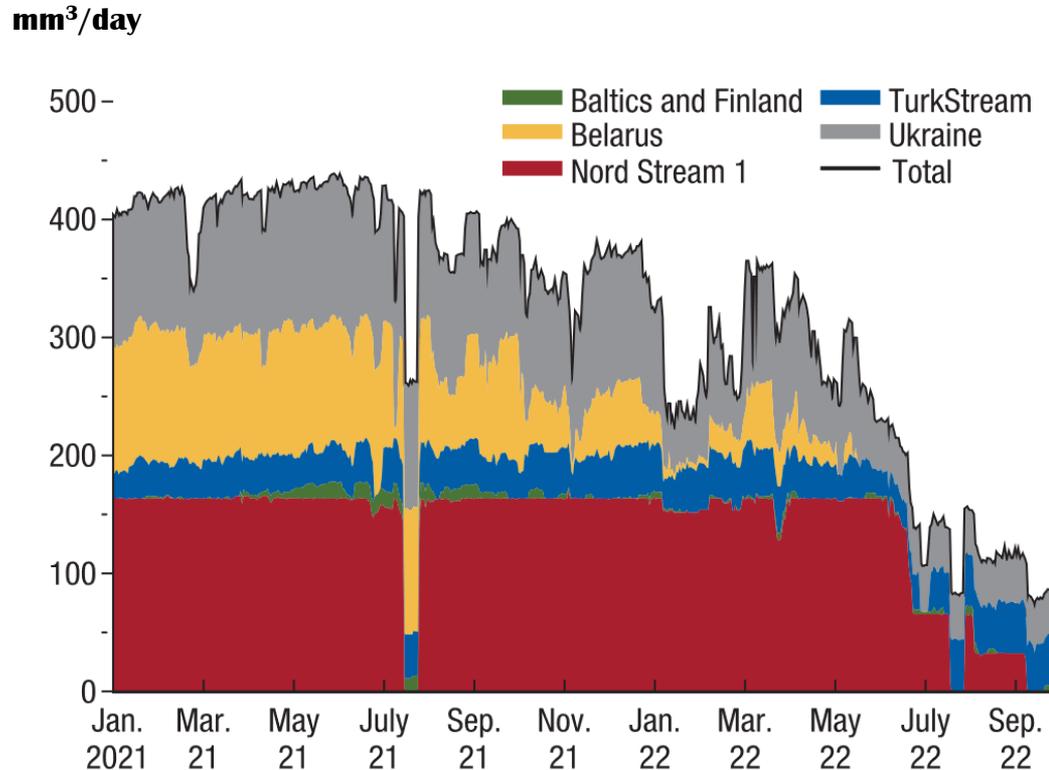
Sample of 35 countries – 81% of global GDP

Source: IMF, October 2022

Change in Monetary Policy - G20



Russian Pipeline Gas Supplies

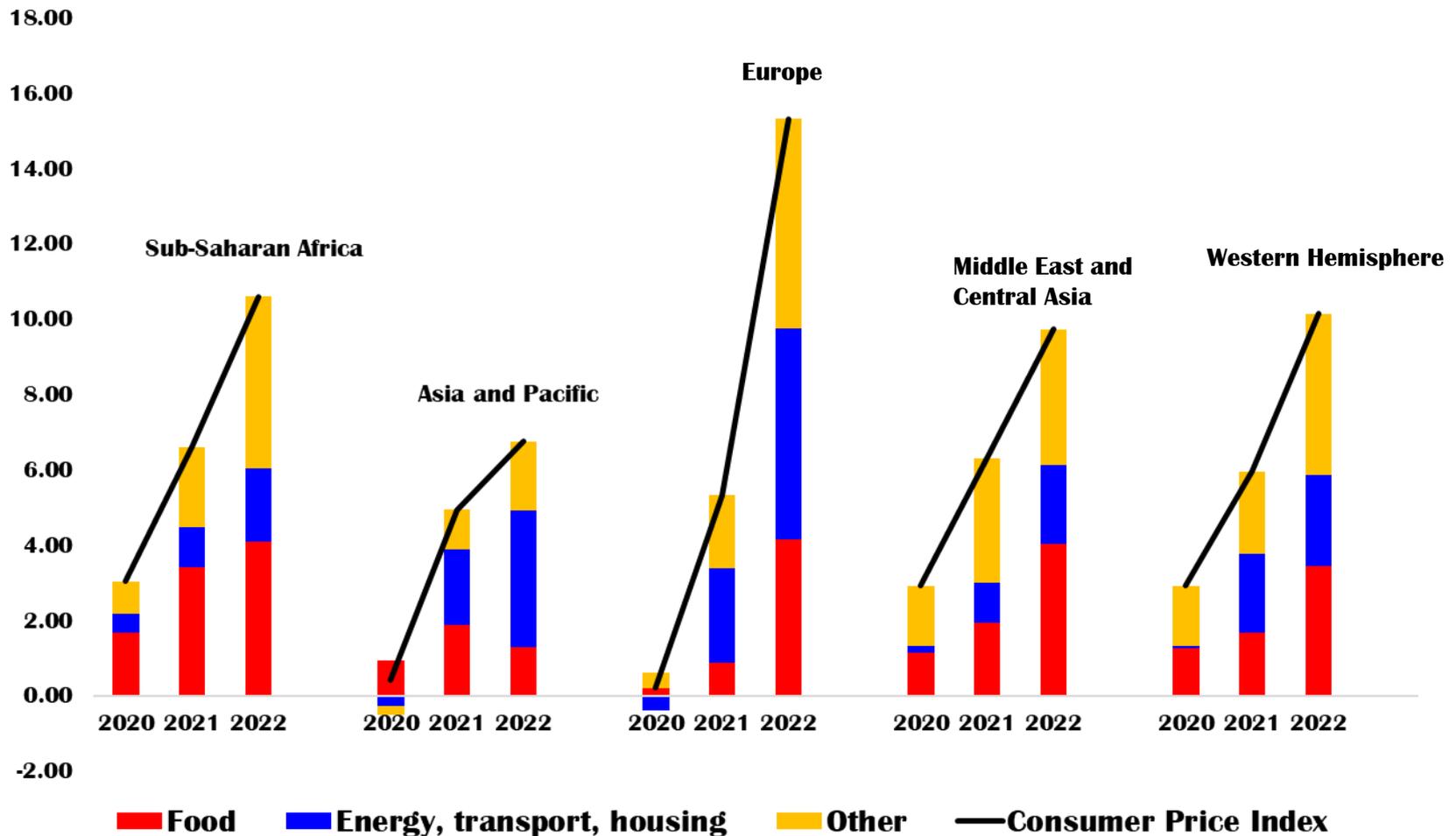


Sources: European Network of Transmission System Operators for Gas; Gas Transmission System Operator of Ukraine; and IMF staff calculations.

Note: Latest data available are for September 18, 2022. Recent data are provisional. Gas flow volumes are measured at EU border crossing points; Belarus excludes flows to Kaliningrad (Russia). EU = European Union.

Source: IMF, October 2022

Inflation Breakdown



Food Prices

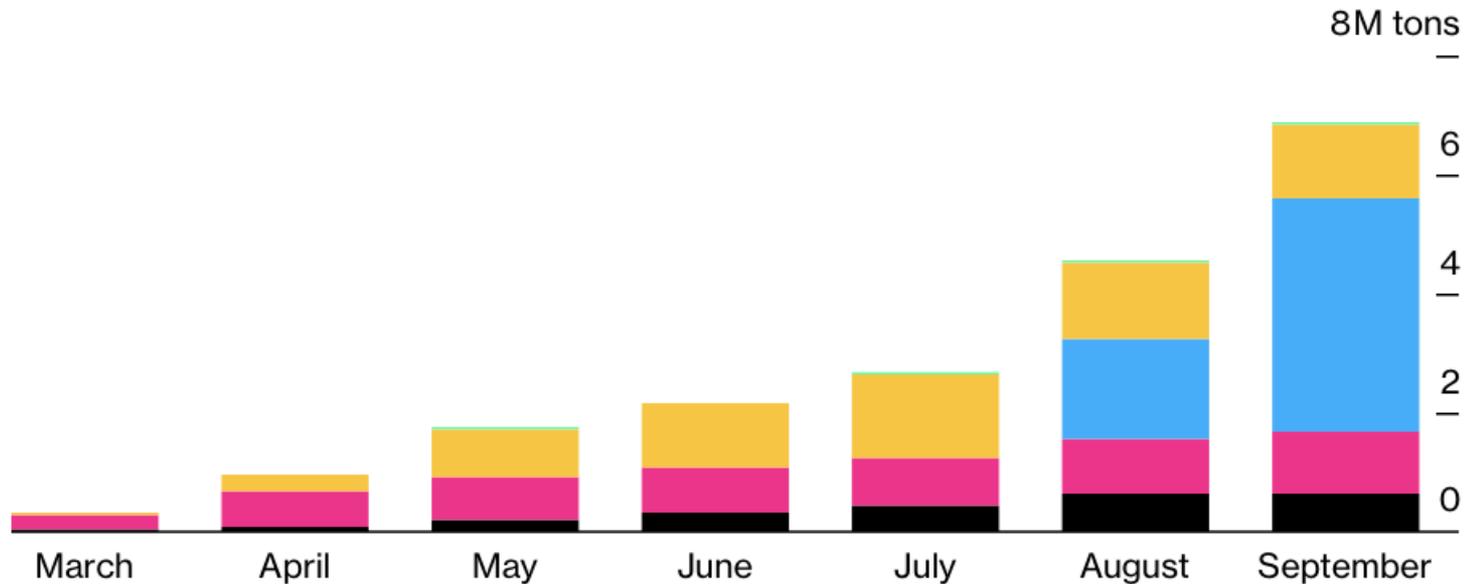
- ◆ **Food commodity prices corrected to pre-invasion levels due to improved supply conditions, the grain export deal, and macroeconomic factors**
- ◆ **Estimated to have added 6% points to inflation for average country in 2022, forecast to decrease to 2% points in 2023**
- ◆ **Outlook uncertain – price risk still on upside:**
 - **potential for export restrictions**
 - **continued drought/weather conditions**
 - **passthrough of higher fertilizer prices**

Ukraine Crop Exports

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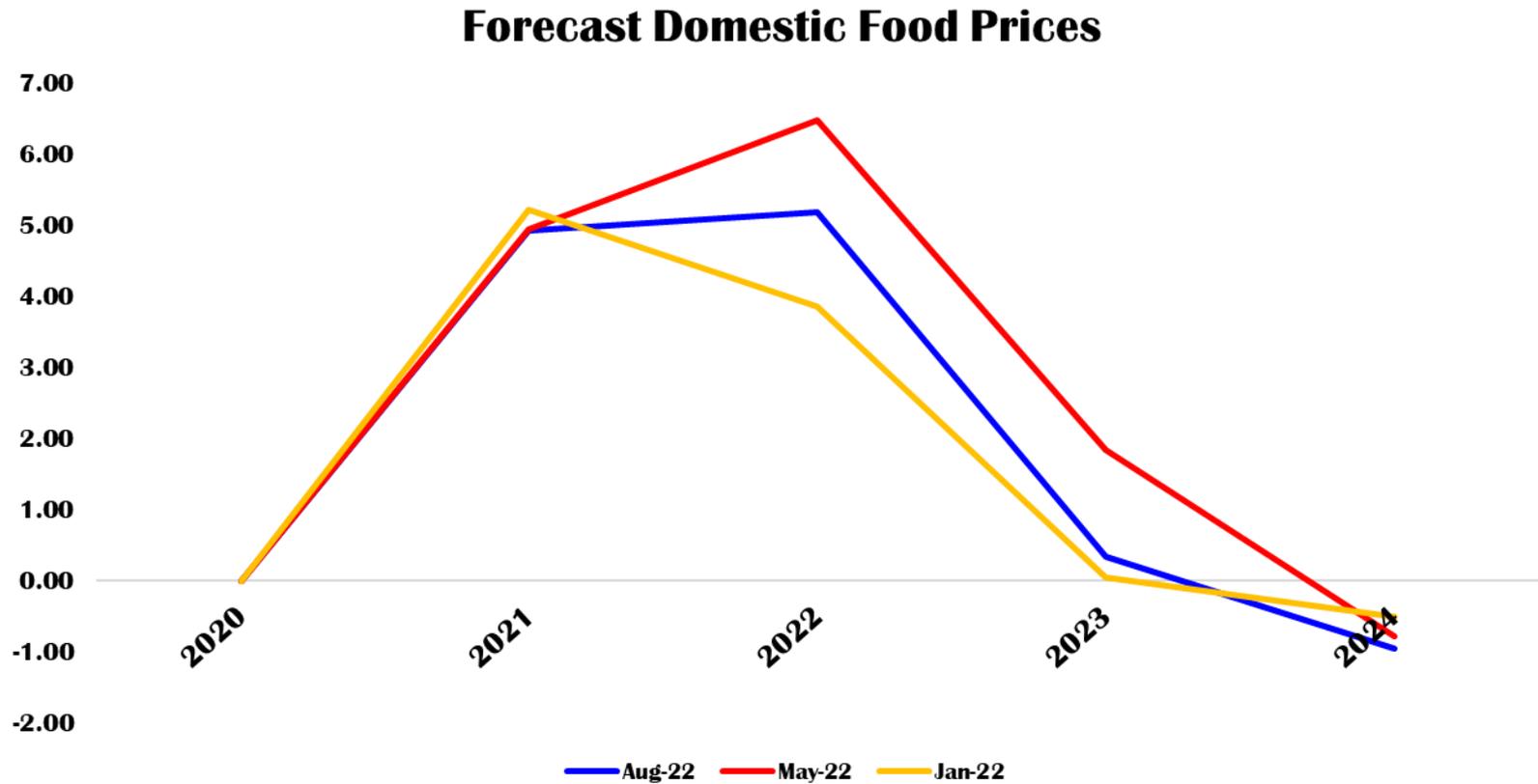
Monthly shipments surged since the grain corridor opened in August

■ Trucks ■ Rail ■ Black Sea ports ■ River ports ■ Ferry



Source: UkrAgroConsult, citing agriculture ministry data

Outlook for Food Prices



Downside Risks Dominate

- ◇ Policy divergence - continued strength of US\$**
- ◇ Policy mistakes - UK's September 2022 budget**
- ◇ Inflation persists - energy/food price shocks**
- ◇ If Russian natural gas supplies to Europe halted – more pressure on inflation in euro area**
- ◇ A worsening of China's real estate sector which accounts for 20% of its GDP – potential for banking sector losses**

Impact of Strong Dollar

- ❖ **Increase in US interest rates has led to financial inflows pushing up value of dollar**
- ❖ **Hurts emerging economies who rely on food and oil imports, and borrow in dollars to pay for them**
- ❖ **Impact of Russian invasion of Ukraine on food and energy prices exacerbated by rise in dollar**
- ❖ **Potential for sovereign debt crisis: some countries already in default (Sri Lanka) others in “severe stress” (Lebanon, Zambia, and Ethiopia)**

Dollar Appreciation

The Dollar Is Strong

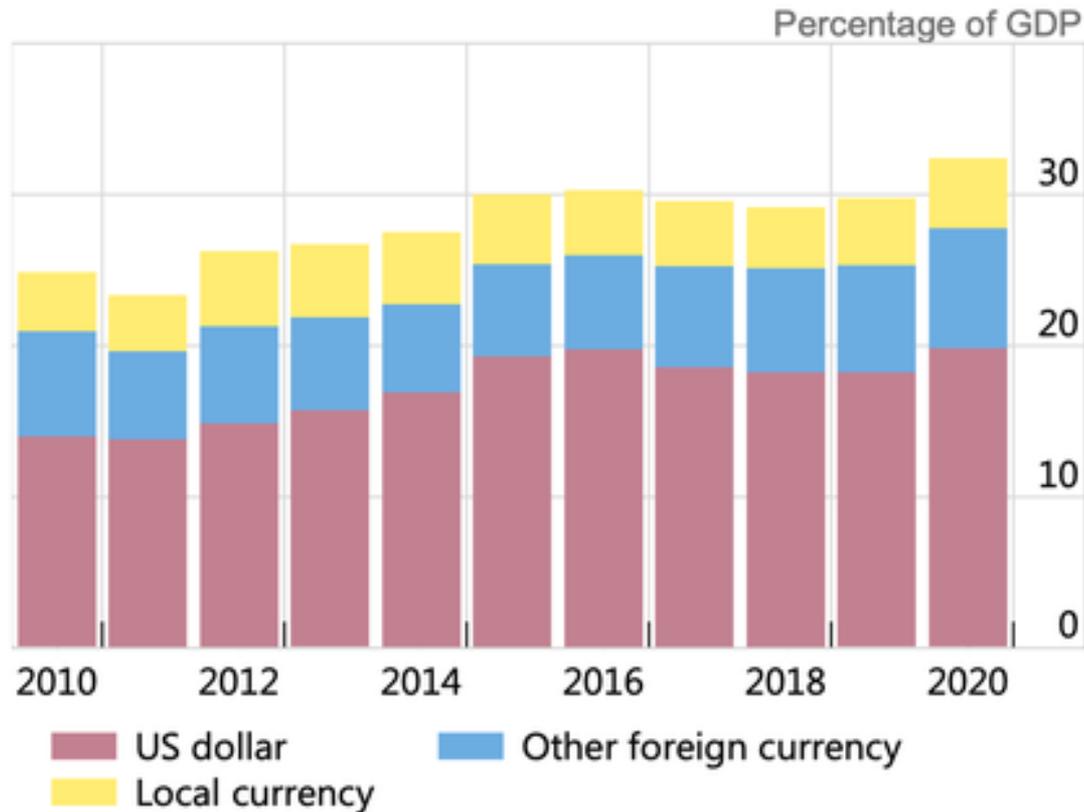
— Value of dollar against currencies of a broad group of trading partners, adjusted for inflation



January 2006 = 100

Source: Federal Reserve • By The New York Times

Emerging Market Economy Debt

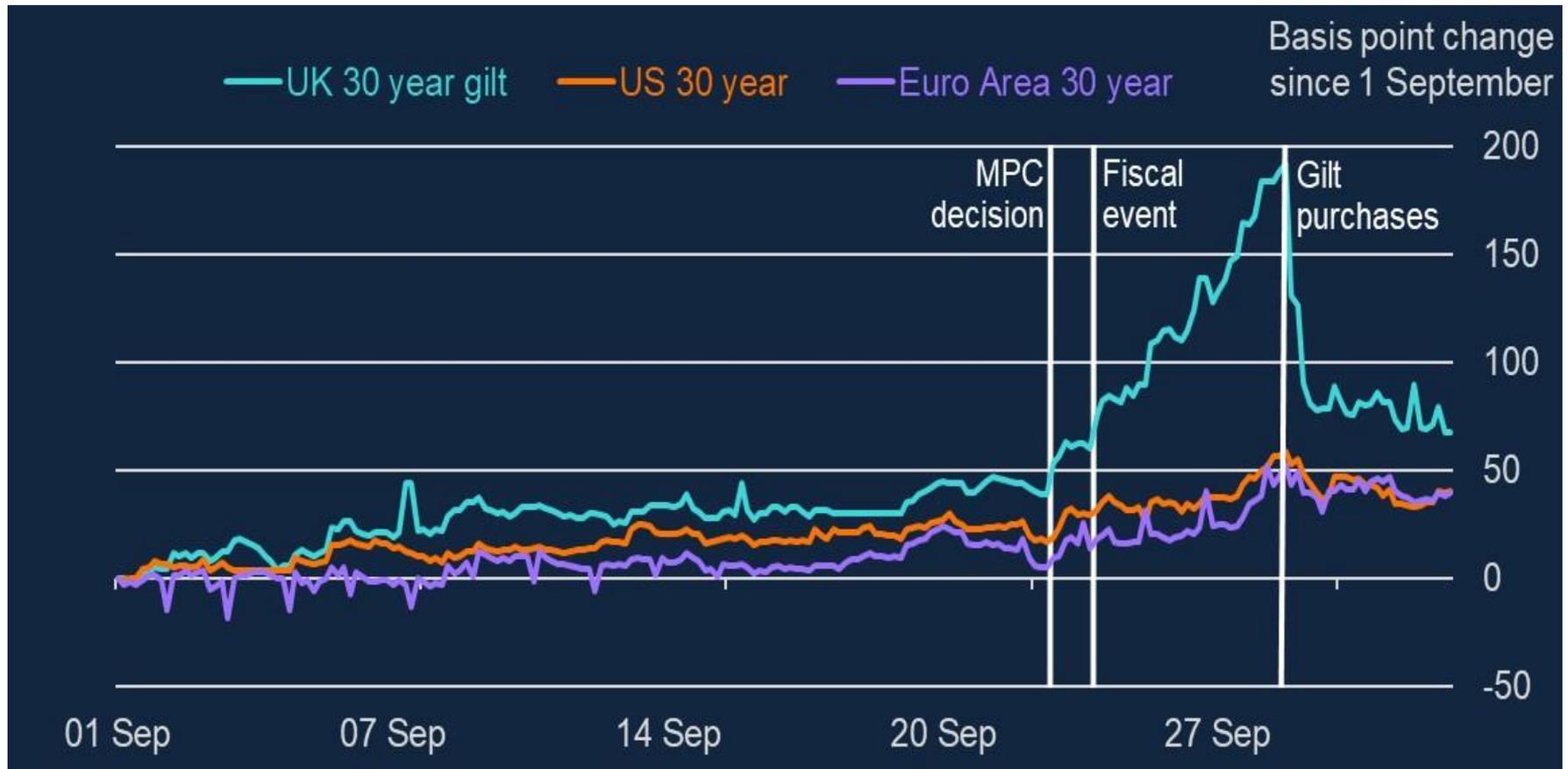


Source: Krugman, *NYT*, September 9, 2022

Policy Mistake: “Trussonomics”

- ❖ **Bond markets spooked by UK fiscal policy announcement on September 27, 2022**
- ❖ **Created serious problems in UK pension market**
- ❖ **Firms hedged against interest rate drops through “liability-driven investment” funds (LDI)**
- ❖ **When bond prices fell, counterparty had to be paid, so LDIs sold off bonds to generate cash, driving down bond prices even further**
- ❖ **Bank of England stepped in to purchase bonds**

Trussonomics.....



Source: Bank of England, October 5, 2022

Policy Mistake: “Trussonomics”

- ❖ **UK was not about to default on its debt**
- ❖ **Mistake was to announce tax cuts without being clear about matching spending cuts**
- ❖ **Uncertainty led markets to expect higher short-run interest rates, which in turn influenced price of UK bonds, and pushed down exchange rate**
- ❖ **Spillovers to stock and global bond market – generating new concerns about financial system**

From Inflation to Growth

- ◆ **Priority: control inflation/inflation expectations**
- ◆ **Path of anti-inflation policies will depend on:**
 - **Lag between costs and benefits will place pressure on central banks**
 - **Capital flows and pressure on countries with dollar-denominated debt**
 - **Coordination of monetary and fiscal policy**
 - **How most vulnerable are protected from inflation**