Global Economic Outlook:

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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)
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

Source: IMF, October 2022
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

Source: IMF, October 2022
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

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

Forecast Domestic Food Prices

Source: IMF, October 2022
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