Global Economic Outlook:

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Global Economic Outlook

Key features of global outlook:

- 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
- Droughts in Europe and elsewhere disrupting commodity production and prices

Slowing down driven by downside risks
Growth and Inflation

- Slowdown in global growth: 6% (2021) to 2.7% (2023) – below average of 3.6 % (2000-21)

- Advanced economy growth projected to slow from 5.2% (2021) to 1.1% (2023)

- Emerging/developing economies also slowing from 6.6% (2021) to 3.7% (2023)

- Global inflation expected to peak at 8.8% (2022) falling to 4.1% (2024)

- Upward inflation revisions mostly for advanced economies such as US and EU
Growth and Inflation Forecast

Source: IMF, October 2022

Diagram showing GDP Growth Rate and Inflation Rate from 2021 to 2024 for World, Advanced Economies, and Emerging/Developing Economies.
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 EU
- Despite agreement on Black Sea grain exports, global food prices remain high and volatile
- Pandemic still affecting global economic outlook especially in China
Distribution of Core Inflation

Sources: Haver Analytics; and IMF staff calculations.
Note: The set of economies includes ARG, BRA, CAN, CHE, CHL, CHN, COL, CZE, DEU, DNK, ESP, FRA, GBR, HKG, HUN, IDN, IND, ISR, ITA, JPN, KOR, MEX, MYS, NOR, PER, PHL, POL, RUS, SGP, SWE, THA, TUR, TWN, USA, and ZAF. The group represents 89.4 percent of advanced economy GDP, 75 percent of emerging market and developing economy GDP, and 81 percent of world GDP based on purchasing-power-parity weights. Economy list uses International Organization for Standardization (ISO) country codes.

Source: IMF, October 2022
Change in Monetary Policy - G20

Increases/cuts in rates

Sources: Bloomberg Finance L.P.; and IMF staff calculations.
Note: AEs = advanced economies; EMs = emerging market economies.

Source: IMF, October 2022
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.
Rising Food Prices

Going hungry
Millions more people face hunger globally as food prices spike.

Real food price index
(2014-2016 = 100)

Global food insecurity
(millions of undernourished people)

Source: United Nations Food and Agriculture Organization.
Notes: Undernourishment means that a person is not able to acquire enough food to meet the daily minimum dietary energy requirements, over a period of one year.
**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
Wheat Prices

Wheat Drop
Wheat futures fell after Russia resumed role in grain-export deal

Russia “out-then-in” on grain deal

Source: CBT
Downside Risks Dominate

- Policy mistakes - UK’s September 2022 budget
- Policy divergence - continued strength of US$
- Inflation persists - energy/food price shocks
- Halting of Russian natural gas supplies to Europe – more pressure on inflation in euro area
- Worsening of China’s real estate sector which accounts for 20% of its GDP
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 had to step in
Trussonomics......

Source: Bank of England, October 5, 2022
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