Global Economic Outlook:

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Some Optimism......

“IMF chief says global economic outlook ‘less bad’ than feared”

“Kristalina Georgieva hints growth forecast could be upgraded thanks to retreating inflation, but warns against overoptimism”

Source: Guardian, January 20, 2023
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
- Faster than expected recovery in China following relaxation of COVID-19 shutdown
- Heatwaves and droughts still have potential to disrupt commodity production and prices
Growth, Inflation and Trade: 2023

- Global growth: 2.9% (6.2% in 2021)
- Advanced economy growth: 1.2% (5.4% in 2021)
- Emerging economy growth: 4.0% (6.7% in 2021)
- Global inflation peaked at 8.8% in 2022, falling to 4.3% in 2024
- Advanced economy inflation: peaked at 7.3% in 2022, falling to 2.6% in 2024
- Emerging economy inflation: peaked at 9.9% in 2022, falling to 5.5% in 2024
- Global trade growth: 2.4% (10.4% in 2021)
Core Inflation

Mean Core Inflation (Annualized %)

Sample of 35 countries – 81% of global GDP

Source: IMF, October 2022
Factors Affecting Outlook

- Inflation risen faster and more persistently than expected – central banks have rapidly lifted rates
- European gas prices have fallen by 85% - EU expected to suffer only mild recession
- Despite agreement on Black Sea grain exports, global food prices have fallen but remain high
- Investor views on inflation do not necessarily match up to those of central banks
Change in Monetary Policy - G20

Source: IMF, October 2022
European gas prices have fallen 85% from their August peak

Benchmark TTF contract

Source: Refinitiv
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Global Food Prices

- Commodity prices corrected to pre-invasion levels due to: (i) improved supply conditions, (ii) Ukrainian grain export deal, and (iii) macroeconomic factors

- Outlook uncertain – price risk still on upside:
  - Stability of Ukrainian grain export deal
  - Potential for and impact of export restrictions
  - Continued drought/weather conditions
  - Tight stocks
Global Food Price Correction

World Food Prices End 2022 Just Below Where They Started
UN commodity index fell for a ninth straight month in December

Source: UN’s FAO
Grain Export Deal

Ukraine Crop Exports Have Plateaued
Volumes have held about steady since September

- Grain corridor
- Rail
- Danube ports
- Trucks
- Ferry

Source: UkrAgroConsult
**Grain Export Deal**

**Inspections of Ukraine Crop Ships Hold Below Earlier Peak**
Number cleared in January fell for third straight month

<table>
<thead>
<tr>
<th></th>
<th>Outbound ships cleared</th>
<th>Crop tonnage aboard</th>
</tr>
</thead>
<tbody>
<tr>
<td>August</td>
<td>49</td>
<td>1.1M tons</td>
</tr>
<tr>
<td>September</td>
<td>125</td>
<td>2.9M</td>
</tr>
<tr>
<td>October</td>
<td>194</td>
<td>4.3M</td>
</tr>
<tr>
<td>November</td>
<td>111</td>
<td>3.1M</td>
</tr>
<tr>
<td>December</td>
<td>105</td>
<td>3.6M</td>
</tr>
<tr>
<td>January</td>
<td>85</td>
<td>3.1M</td>
</tr>
</tbody>
</table>

Source: Black Sea Grain Initiative
Note: Inspections were temporarily conducted without Russian involvement when it stepped back from the deal in late October; it resumed in early November
Beggar-Thy-Neighbor Policies

Trade restrictions affect food-insecure countries

Tight Stocks

Less Wheat
Global grain stocks are depleted amid war in Ukraine, drought

Source: US Department of Agriculture
Who to Believe on Inflation?

Financial markets “celebrating” evidence core inflation is falling – bond prices imply central banks will start loosening monetary policy.

S&P Index up 8% this year – markets expect lower cost of capital and earnings growth, and dollar is down suggesting greater appetite for risk.

However, policymakers do not to agree – still a “long way to go” (Jerome Powell, 2/7/23).

Rate increase(s) slowing, but central banks wary of repeating mistakes of 1970s.

Have investors got carried away?
Downside Risks Dominate

- China’s recovery might stall due to COVID-19 health consequences, and worsening real estate sector
- War in Ukraine escalates, pushing up energy and food prices in EU and developing countries
- Debt distress in developing countries – despite recent dollar depreciation
- Persistence of inflation due to wage growth
- Financial market repricing if inflation rates increase
- Increased geopolitical fragmentation due to war in Ukraine – barriers to trade and capital movement
Dollar Softening?
Global Policy Priorities

- Control inflation/inflation expectations
- Contain re-emergence of COVID-19, i.e., boost vaccination efforts in China and elsewhere
- Ensure financial stability by avoiding mistakes such as “Trussonomics”, and introduce common standards and oversight of crypto assets
- Restore debt sustainability given lower growth and higher borrowing costs
- Target income support at most vulnerable
- Increase resilience of value chains