Global Economic Outlook: Tilted to the Downside Risks

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Agricultural Outlook and Policy Overview
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Signs of a slowdown......

“The global economy continues to recover from the pandemic and Russia's invasion of Ukraine, showing remarkable resilience; yet growth remains slow and uneven. The global economy is limping along, not sprinting.” Pierre-Olivier Gourinchas (Chief Economist, IMF)

Source: IMF, October 10, 2023
Growth, Inflation, and Trade: 2024

- Global growth: 2.9% (3.5% in 2022)
- Advanced economy growth: 1.4% (2.6% in 2022)
- Emerging economy growth: 4% (4.1% in 2022)
- Global headline inflation peaked at 8.7% in 2022, and expected to fall to 5.8% in 2024
- Global core inflation at 6.4% in 2022, and expected to fall gradually to 5.3% in 2024
- Global trade growth: 3.5% (5.1% in 2022) – historically low
Global Economic Outlook

- Pace of global recovery has moderated:
  - war in Ukraine
  - geoeconomic fragmentation, and increased trade barriers
  - tight monetary policy
  - diminishing savings stock
  - persistent manufacturing slowdown

- Idiosyncratic shocks to world economy, i.e., property sector crisis in China
Cumulative Excess Savings

% of GDP

Source: IMF, October 2023
Industrial Output

Year-over-year %

Advanced Economy Output
Emerging Economy Output

Source: IMF, October 2023
Global Economic Outlook

- Headline inflation moderated:
  - decline in energy and food prices

- Core inflation has declined more moderately:
  - passthrough of past energy shocks
  - tight labor markets
  - inflation targets only met by 2026

- Long-run inflation expectations remain anchored

- Monetary policy to remain tight
Inflation: Headline vs. Core

Headline Inflation

3-month annualized %

Core Inflation

3-month annualized %

Source: IMF, October 2023
Monetary Policy

% points

Forecast

Source: IMF, October 2023
Outlook Tilted to Downside Risks

- China’s growth slows further
- Underlying inflation persists
- Financial market repricing
- Debt distress increases
- More volatile commodity prices due to climate and geopolitical risk (wider Middle East conflict)
- Geoeconomic fragmentation intensifies affecting trade, capital and technology movements, and international payments
In 2023, China’s economy grew 5.2% post-pandemic controls, but growth is slowing.

Economy is characterized by high debt, a housing crisis, and a shrinking/ageing workforce.

Slower growth of 4.5% predicted for 2024.

China likely suffering from “secular stagnation”, i.e., excess savings, deflation, asset bubbles and other financial strains.

While actions of Chinese leadership have been erratic, its problems are systemic.
China has suppressed domestic consumption, resulting in savings that need investing.

15-20 years ago, with growth at 10%/annum, economy could make use of these savings.

For a while, China maintained demand by running large trade surpluses, then savings were channeled into a real estate bubble.

Answer would be to boost domestic consumption via (i) SOEs profit-sharing; (ii) strengthening the safety net; and (iii) giving out money.
Chinese Economic Growth

- Ideological reasons for Chinese leadership not to do this: (i) hostility to private sector; (ii) unrealistic ambitions; and (iii) opposition to expanding safety net

- Overall, policy paralysis, apart from use of investment-led stimulus as in the past

- State-controlled banking system lending to manufacturing sector rather than homebuyers

- Increased output being exported – notably electric vehicles – expected to double share of world market by 2030 (*The Economist*, January 2024)
Impact on Rest of World

- Commodity exporters very exposed to slowdown (copper, zinc, iron ore)

- Some economies in the west, e.g., Germany, and multinationals such as Tesla, and Qualcomm

- Without full-blown crisis, effects will be concentrated – only 4-8% of US, EU, and Japanese firm sales go to China

- US also taking hard line on China: promotion of domestic semi-conductor production, banning of high-tech investments, and tariffs still in place
Impact on Rest of World

Taking the lead

Commodity exports to China
% of GDP, 2022

- Metals
- Energy
- Agriculturals

Zambia
Chile
Malaysia
Peru
Australia
Saudi Arabia
Brazil
Russia
Indonesia
Nigeria

Exposure to China, total exports and Western-owned subsidiaries’ revenues, % of GDP, 2020

- Goods exports*
- Services exports†
- Affiliates’ revenues in China‡

Germany
Netherlands
France
United States
Britain
Italy
Spain

*Mainland China only †Including Hong Kong
Sources: Bloomberg; Capital Economics; Eurostat; IMF; OECD; The Economist
US “Decoupling” and China

=Value chains under stress due to US-China trade war, pandemic, and geopolitical shocks

Available data point to “great reallocation” in supply chain activity (Alfaro and Chor, 2023)

US direct sourcing from China has decreased – with Vietnam and Mexico gaining import share

Switch to indirect sourcing as China steps up investment in both Vietnam and Mexico

However, US import prices higher
Indirect Imports from China

US Import Market Share Change for Top 15 Importing Countries (2017-2022)

Source: Comtrade

Source: Alfaro and Chor (August 2023)
Global Trade and Shocks

Source: Bergeijk, December (2023)
Global Trade and Shocks

- Financial crisis and pandemic had significant impact on trade

- Compared to Great Depression, international trade has become more resilient to shocks

- Foreign policies and trade likely to have:
  - very specific effects (Russian invasion of Ukraine)
  - specific and global effects (attacks on merchant shipping in Red Sea)
Trade Now More Resilient

Index number (pre-collapse peak = 100)

-6 -4 -2 0 2 4 6 8 10 12 14 16 18 20 22 24
Months before and after pre-collapse peak level

- COVID collapse (Dec 2019 = 100)
- World Trade Collapse (Jul 2008 = 100)
- Great Depression 1930s (Nov 1929 = 100) Quarterly data

Source: Bergeijk (December 2023)
Black Sea Grain Exports

- 33 million metric tons of grain exported under Black Sea Grain Deal since July 2022

- End of deal led to 33% reduction in Ukrainian exports by late-August 2023 (*Bloomberg News*) – and significant increase in shipping costs

- Ukraine has developed humanitarian corridor for shipping – 153 vessels by late-November 2023

- Access to Black sea critical – but ongoing Russian attacks on Ukrainian ports affecting grain market volatility
Ukrainian Grain Export Routes

Figure 1. Danube Ports Have Become Key to Ukrainian Exports
Black Sea Grain Export Routes

Share of grain exports, July 2022-July 2023

Source: Ukrainian Grain Association (grain exports); Institute for the Study of War and AEI's Critical Threats Project (Russian-controlled areas)
Jake Steinberg/THE WALL STREET JOURNAL
Humanitarian Grain Corridor

Route taken by the cargo ship Joseph Schulte

*Crimea is annexed by Russia but this is not recognised by the international community.
Red Sea Attacks

- Houthi rebels based in Yemen have been firing drones and missiles at shipping in Red Sea

- Suez Canal handles 15% of world’s shipping traffic trade, accessed via 19-mile wide, Bab-el-Mandeb strait

- Shipments being re-routed around Cape of Good Hope - 60% drop in number of containers going through Suez Canal (British Chamber of Commerce)

- Maersk, which accounts for moving 20% of global trade, diverted all its ships in early-January

- Container rates have almost tripled since early-December (ING)
Red Sea Attacks
Impact on Shipping

Note: To show the changing paths of ships that regularly traverse the Red Sea, 9,461 cargo vessels recorded at entrances to the Red Sea in the last three months are shown. Shipping routes before the attacks show ship positions from Nov. 1, 2023 to Nov. 15, and positions from Jan. 1, 2024 to Jan. 15 are shown after the attacks. - Source: S&P Global
Red Sea Attacks

- Concern that conflict escalation in Middle East could lead to surge in energy prices, affecting global economic activity and inflation (World Bank, 2024)

- Potential to impact Ukrainian and Russian grain shipments to the Horn of Africa, which is expected to push up global corn and wheat prices

- With increase in oil prices, central banks may hold off cutting interest rates for longer than currently expected

- Reinforces expectation that some of world’s major economies may dip into recession this year
US - Mexico GM Corn Dispute

- Mexican Presidential Decree, February 13, 2023, banning use of GM corn in tortillas, and gradual ban of GM corn in all products for human consumption and animal feed

- US sought technical consultations March 6, 2023, under SPS Chapter of USMCA

- Grounds for dispute: measure is disguised trade restriction

- Panel established August 17, 2023, under USMCA dispute settlement mechanism - final report due March 2024
US - Mexico GM Corn Dispute

- Critical policy concern is Mexico’s questioning of GM crop safety – potential to undermine SPS Chapter of USMCA

- Currently, imports of GM (yellow) corn for animal feed allowed, with GM (white) corn being a relatively small portion of US exports

- If Mexico were to win case, substitution away from GM corn would have significant price effects on US and global market

- Expected: panel likely to find against Mexico – precedent of 2006 WTO GM ruling against EU
Value of Ohio Corn Exports

Source: US Census Bureau