Global Economic Outlook

Ian Sheldon
Ohio State University

2014 Outlook Conference
Ohio Wesleyan University

November 11, 2013
Global Economic Growth

- World output forecast to grow by 3.6% in 2014
- Unlike developments post-financial crisis, advanced economies have gained some speed, and emerging and developing economies have slowed
- However, emerging and developing economies will still account for bulk of global growth in 2014 at 5.1% compared to advanced economies at 2.0%
- Within each group, differences in growth path and point in business cycle
Economic Growth Breakdown

GDP Growth (Annualized quarterly % change)

Source: IMF WEO (October 2013)
Growth Dynamics

- Main boost to global growth from US (2.6%) – depends on fiscal resolution and debt ceiling
- Activity expected to slow in Japan (1.2%) as stimulus package winds down
- In euro area (1.0%), economic activity stabilizing in periphery and recovering in core economies
- Somewhat lower growth forecast in China (7.3%)
- In Latin America (3.1%), currency depreciations have partially offset tightening of financial conditions
Economic Growth: US and Japan

GDP Growth (Annualized quarterly % change)

Source: IMF WEO (October 2013)
Economic Growth: Euro Area

GDP Growth (Annualized quarterly % change)

Source: IMF WEO (October 2013)
Economic Growth: Developing Asia

GDP Growth (Annualized half-over-half % change)

Source: IMF WEO (October 2013)
Economic Growth: Latin America

GDP Growth (Annualized half-over-half % change)

Source: IMF WEO (October 2013)
Inflation Forecasts

- Inflation pressures subdued:
  - Large output-gaps remain in advanced economies
  - Commodity prices have fallen with improved supply, and lower demand growth in emerging economies

- Inflation rates in major economies:
  - US - 1.5%
  - Euro area - 1.5%
  - Japan - 2.0%
  - Emerging/developing economies - 5/6%
Global inflation

Headline Inflation

Source: IMF WEO (October 2013)
International Trade and Global Imbalances

- World trade reflects weak global growth patterns
- Global current account imbalances projected to decrease
  - Lower surpluses in oil exporting countries
  - Need to have expansion of consumption in China and investment in Germany
- Exchange rate adjustments in surplus economies and deficit economies have supported rebalancing
International Trade

World Trade Volume and Industrial Production (2005=100)

Source: IMF WEO (October 2013)
Global Imbalances

Global Imbalances (% of world GDP)

Source: IMF WEO (October 2013)
Policy Challenges

- **US**: unwinding of monetary easing; resolution of fiscal policy - potential for global spillovers
- **Euro area**: fiscal adjustment; weak banking system; monetary easing - ECB should commit to low rates
- **Japan**: QE; fiscal policy; and structural reforms - scale up QE if inflation expectations stay low
- **China**: investment at 50% of GDP - rebalance toward sustainable private-consumption based growth
- **Emerging economies**: tighter external financing; low negative output gaps – orderly exchange rate depreciation and appropriate fiscal/monetary policy
Policy Challenges

- **US**: unwinding of monetary easing; resolution of fiscal policy - potential for global spillovers
- **Euro area**: fiscal adjustment; weak banking system; monetary easing - ECB should commit to low rates
- **Japan**: QE; fiscal policy; and structural reforms - scale up QE if inflation expectations stay low
- **China**: investment at 50% of GDP - rebalance toward sustainable private-consumption based growth
- **Emerging economies**: tighter external financing; low negative output gaps – orderly exchange rate depreciation and appropriate fiscal/monetary policy