Global Economic Outlook

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Global Economic Growth

- World output forecast to grow by 3.4% in 2017

- Emerging/developing market economies (4.6%), and advanced economies (1.8%)

- Pace of growth will vary across advanced economies: picks up in US (2.2%), slower in euro area (1.5%), and weak in Japan (0.6%)

- Resilience in Asia (6.5%), India (7.6%), China (6.2%), and improvement in stressed economies, e.g., Brazil (0.5%), and Russia (1.1%)
Economic Growth Breakdown

GDP Growth (Annualized semiannual % change)

Source: IMF WEO (October 2016)
Inflation Forecasts

- Low in advanced economies (1.7%):
  - Negative output-gaps remain
  - Unemployment still higher than pre-crisis levels in many countries
  - US (2.3%), Euro area (1.1%), Japan (0.5%)
  - UK (2.5%) due to depreciation of £ post-Brexit

- Higher in emerging/developing economies (4.4%):
  - China (2.3%), India (5.2%), and Brazil (5.4%)
Global Inflation

Headline Inflation

Source: IMF WEO (October 2016)
Downside Risks

- Stagnation in advanced economies: *secular stagnation*
- China’s ongoing adjustment: potential for spillovers
- Inward-looking trade policies:
  - BREXIT vote in UK – creating uncertainty
  - Non-ratification of Trans-Pacific Partnership (TPP) and failure of Trans-Atlantic Trade and Investment Partnership (TTIP) negotiations
  - US moves toward protectionism
BREXIT – An Object Lesson?

Table 1: Effect on UK trade/FDI/productivity/GDP after 15 years

<table>
<thead>
<tr>
<th></th>
<th>EEA</th>
<th>Bilateral</th>
<th>WTO</th>
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<tbody>
<tr>
<td>Trade (%)</td>
<td>-9</td>
<td>-19</td>
<td>-24</td>
</tr>
<tr>
<td>FDI (%)</td>
<td>-10</td>
<td>-20</td>
<td>-26</td>
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<tr>
<td>Productivity (%)</td>
<td>-2.8</td>
<td>-6.0</td>
<td>-7.7</td>
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<tr>
<td>GDP level (%)</td>
<td>-3.4 to -4.3</td>
<td>-4.6 to -7.8</td>
<td>-5.4 to -9.5</td>
</tr>
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Source: UK Treasury (April, 2016)
End of Regionalism for US?

- TPP, signed in October 2015 covering US and 11 other countries, will not be ratified by Congress

- Forgoing expected $130 billion increase in US GDP by 2030 (Petri and Plummer, 2016)

- TTIP negotiations between US and EU will likely not be concluded

- TTIP estimated to increase GDP/capita in long run by 4.9% in US, and average of 3.9% across EU member countries (Felbermayr et al., 2015)
Possible Trade War?

- Incoming administration *could*:
  - Place 35% tariff on Mexican imports
  - Place 45% tariff on Chinese imports
  - Renegotiate free trade agreements (FTAs)
  - Withdraw from WTO

- US statutes might allow higher import tariffs – Trade Expansion Act (1962) and Trade Act (1974)

- US can withdraw from NAFTA after 6 months notice – tariffs would revert to MFN rates
Potential Effects of Trade War

- Noland *et al.* (2016) simulate two scenarios:
  
  - “full trade war” — US employment falls by 4.8 million by 2019 due to recession, many states incurring reduced employment, e.g., Ohio 4%
  
  - “aborted trade war” — employment falls by 1.3 million, tariffs being removed after a year

- Estimates ignore: (i) role of global supply chains, (ii) renegotiation of FTAs/withdrawal from WTO, and (iii) impact of uncertainty on investment