

# Macroeconomic Outlook

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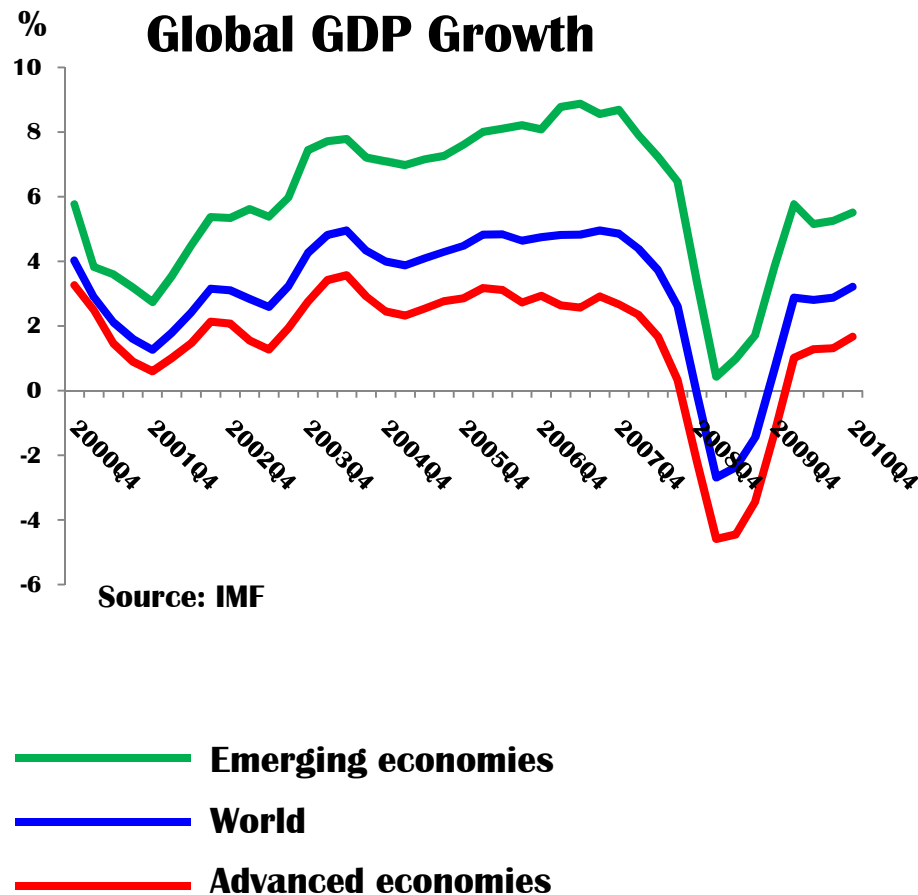


# Global economic situation

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- ◆ **Global economy expanding again – pulled up by strong performance in Asian economies**
- ◆ **Recovery evident in financial markets, although conditions still difficult for borrowers**
- ◆ **Pace of recovery slow, mostly led by turn in inventory cycle**
- ◆ **Commodity demand increasing, boosting trade**
- ◆ **Lay-offs likely to continue in advanced economies  
- low demand, excess capacity, and tight credit**

# Global economic situation

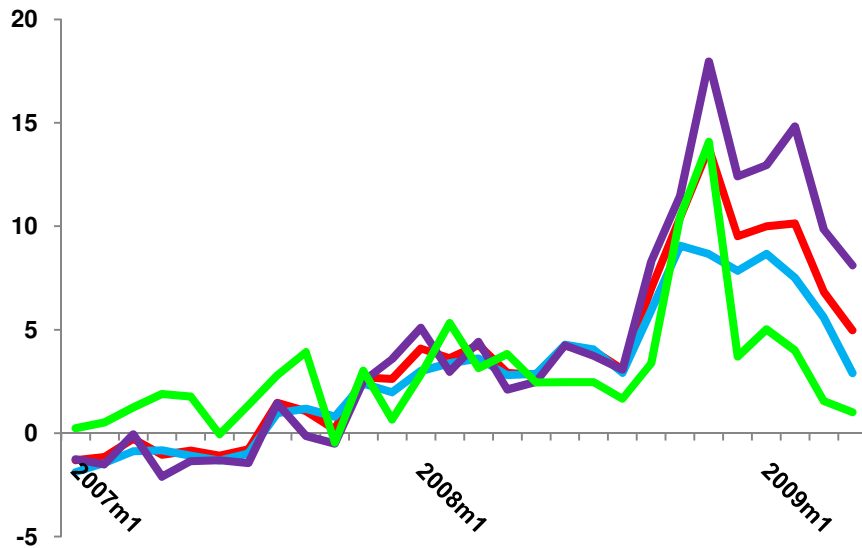


## GDP Growth

1. Global:
  - 1.1% (2009)
  - 3.1% (2010)
2. Advanced economies
  - 3.4% (2009)
  - 1.3% (2010)
  - US
    - 2.7% (2009)
    - 1.5% (2010)
3. Emerging economies
  - 1.7% (2009)
  - 5.1% (2010)

# Global economic situation

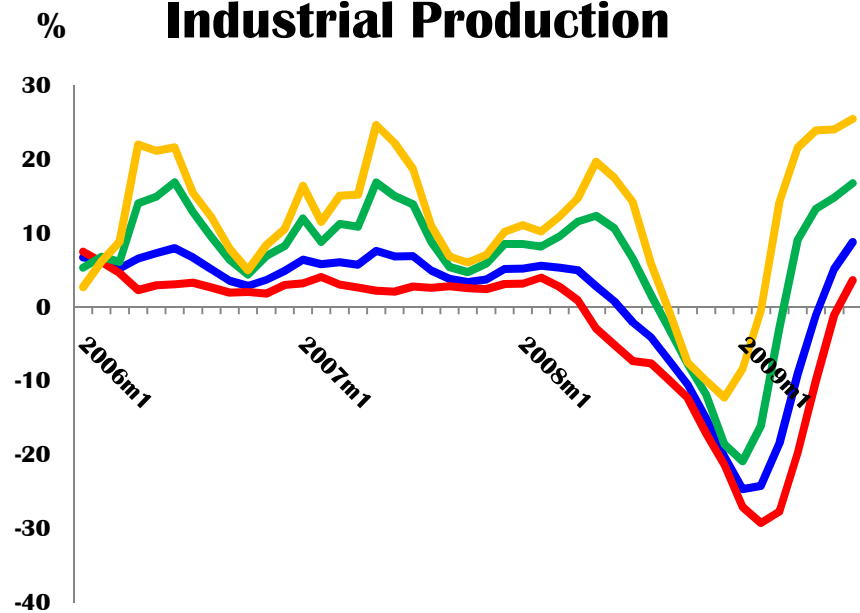
## Financial Stress



Source: IMF

- Advanced economies
- USA
- Western Europe
- Japan

## Industrial Production

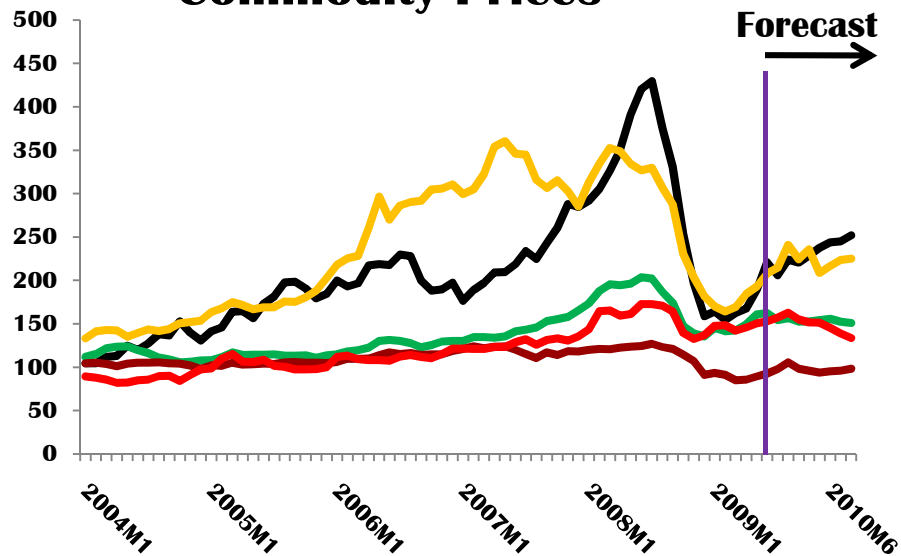


Source: IMF

- Emerging Asia
- Emerging economies
- World
- Advanced economies

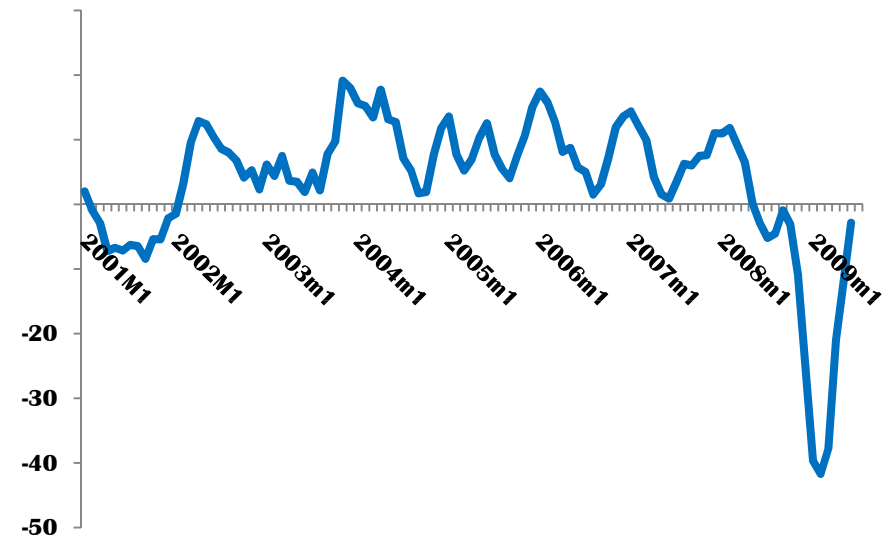
# Global economic situation

## Commodity Prices



- Energy
- Metals
- Agricultural commodities
- Food
- Beverages

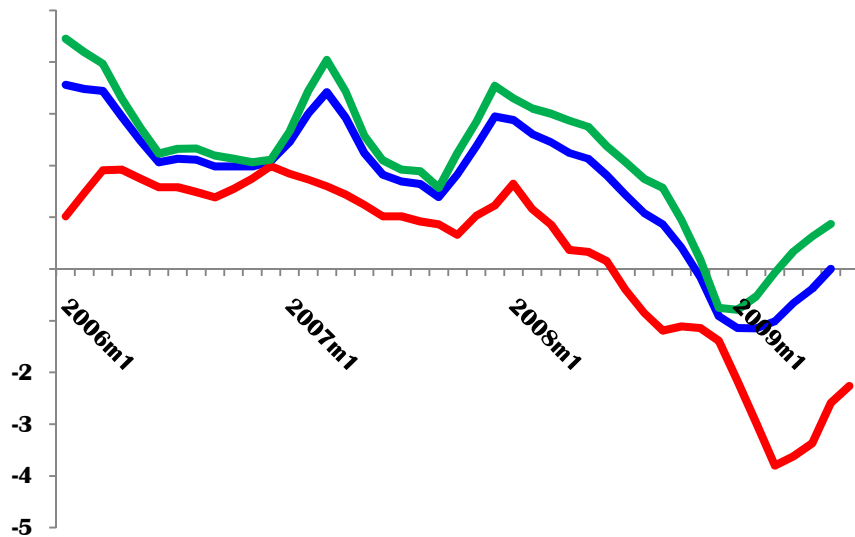
## World Trade



- Trade volume

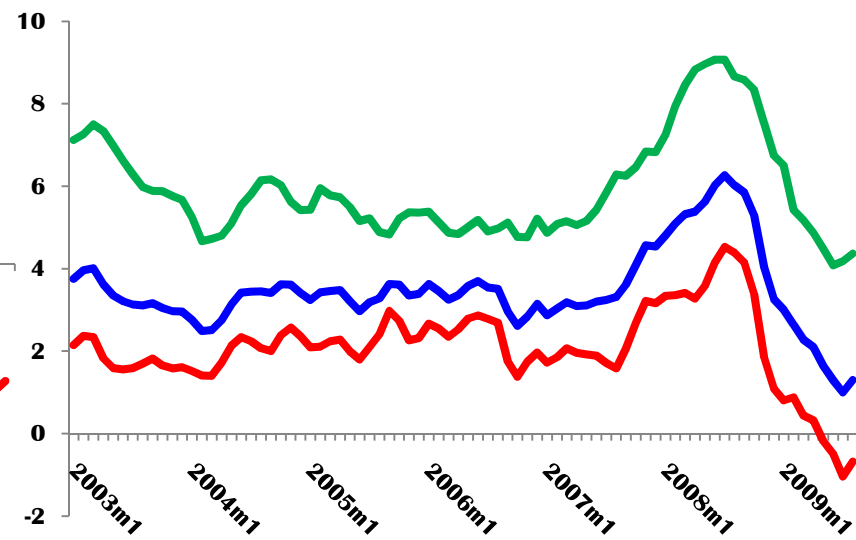
# Global economic situation

% **Employment**



Source: IMF

% **Headline Inflation**



Source: IMF

— Emerging economies  
— World  
— Advanced economies

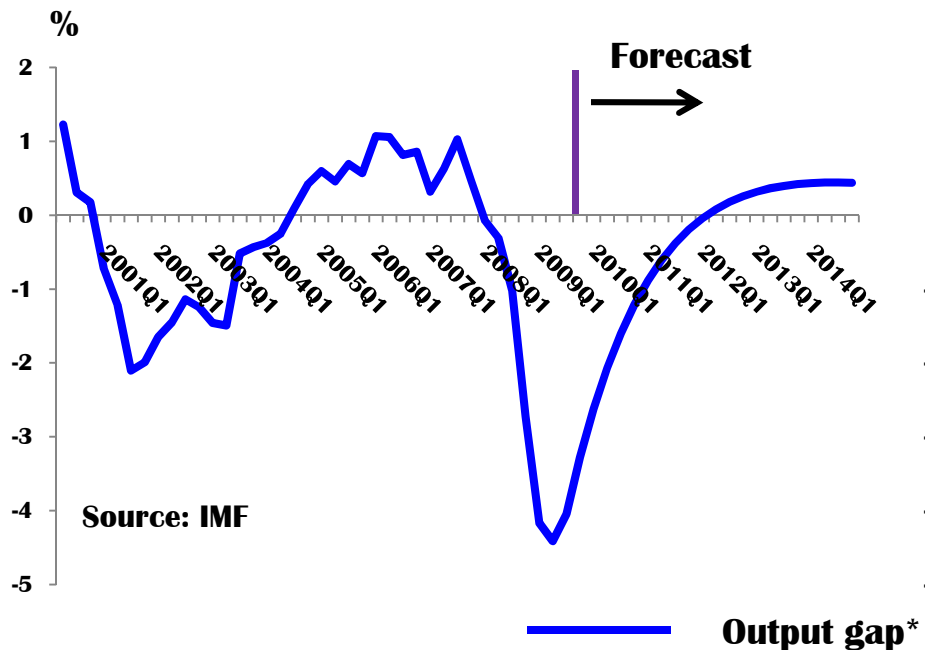
# Public policy

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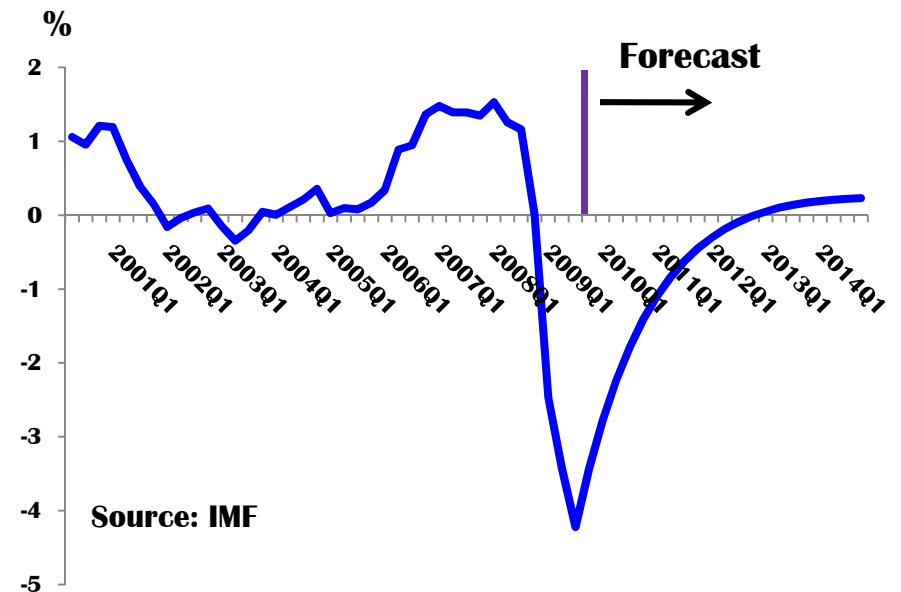
- ◆ **Policy critical in cutting adverse feedback loop between financial and real sectors**
- ◆ ***Monetary policy:***
  - **rise in output gap has reduced inflation**
  - **interest rates at zero bound, and central banks committed to keeping rates low**
  - **various measures used to ease financial conditions – “quantitative easing”**
  - **hard to unwind if markets remain illiquid**

# Output gaps

## US – Output Gap



## Euro area – Output Gap

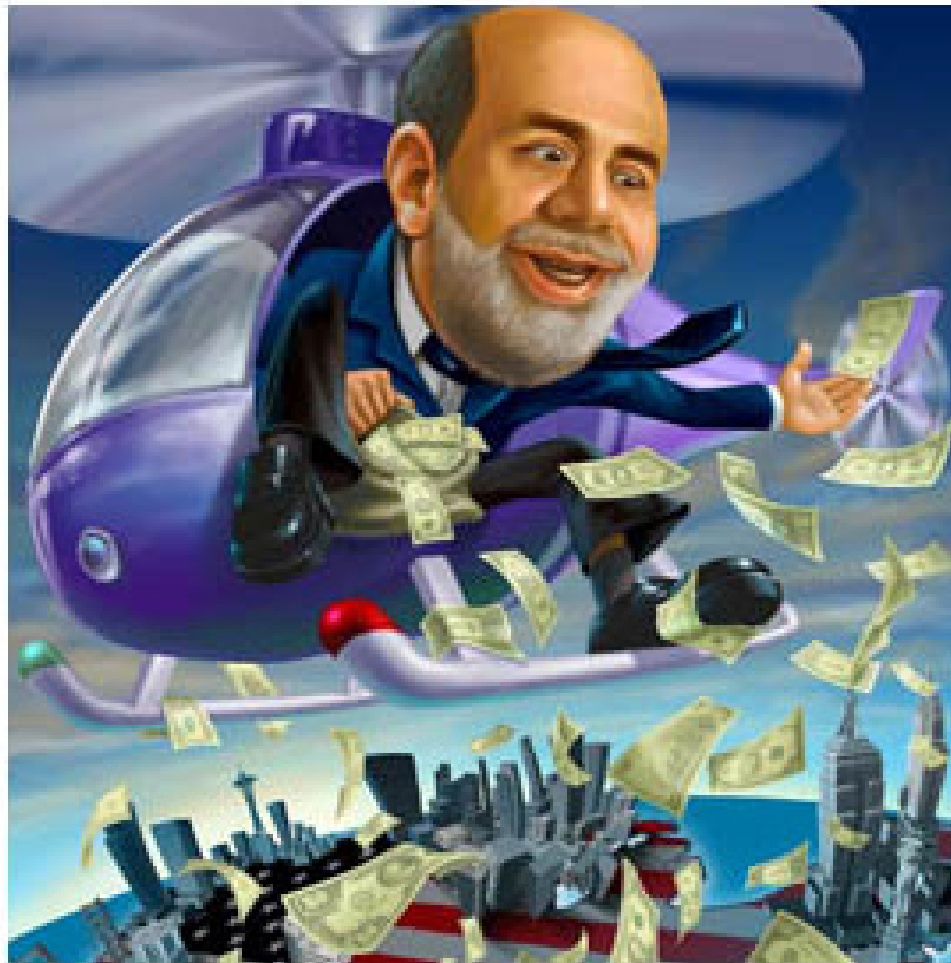


\*Actual GDP growth – potential GDP growth

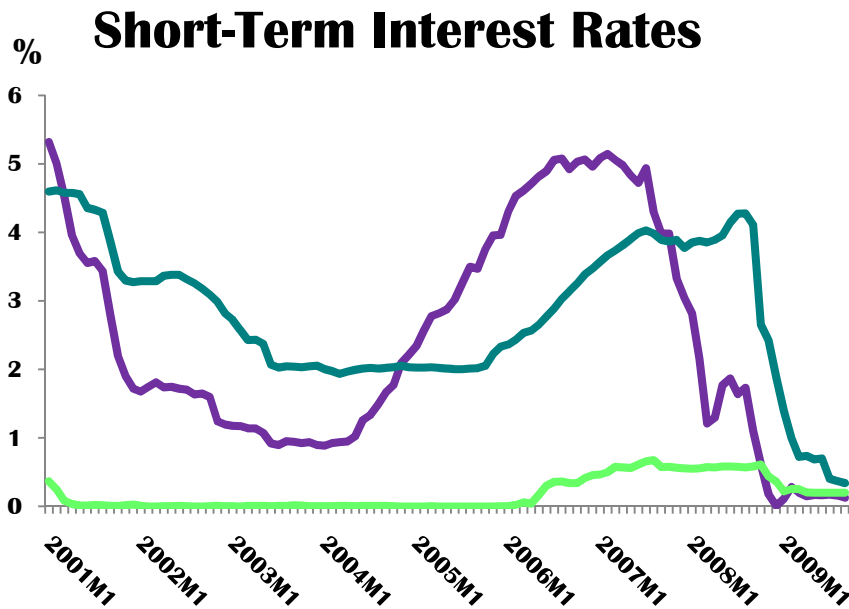


# **“Helicopter Ben!”**

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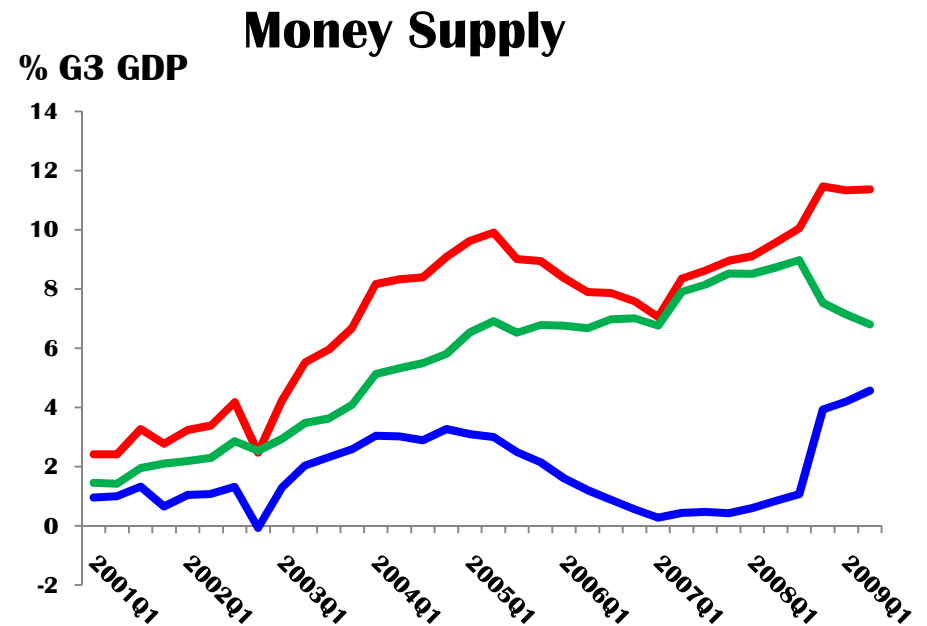


# Monetary policy



Source: IMF

— US  
— Euro area  
— Japan



Source: IMF

— Base money + reserves  
— Reserves  
— Base money

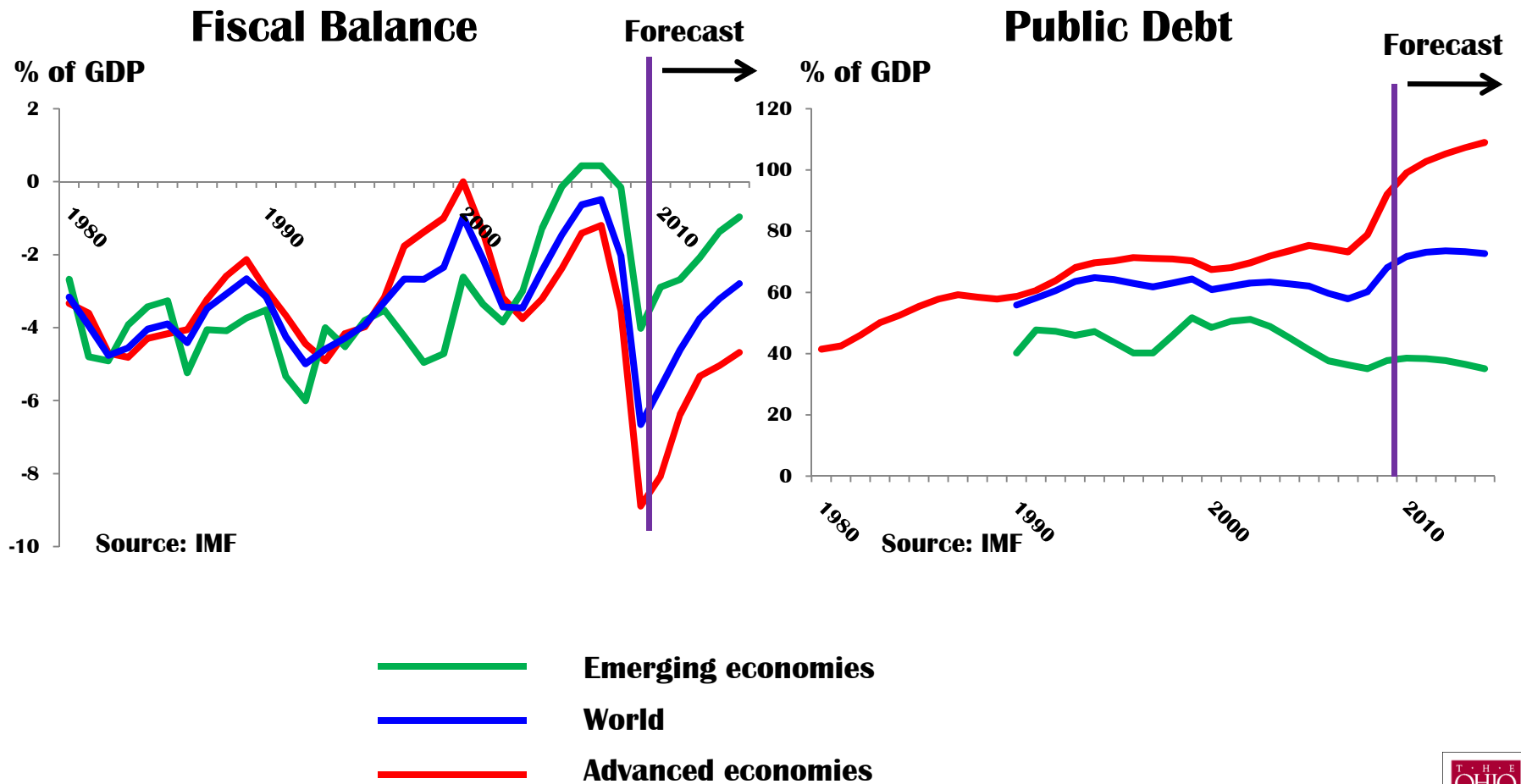
# Public policy

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## ◆ *Fiscal policy:*

- **provided major stimulus in both advanced and emerging economies**
- **expansion largest in advanced economies, estimated to boost G20 GDP by 1% in 2009**
- **public debt rising fast, especially in advanced economies (110% of GDP by 2014)**
- **fiscal deficits will contract as recovery improves cyclical components of budget**

# Fiscal policy



# Public policy

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## ◆ *Financial policy:*

- **most governments provided deposit and debt guarantees – low cost and easy to implement**
- **programs to recapitalize financial institutions have typically met with public skepticism**
- **G20 economies have put in less than 6% of GDP**
- **capital remains short of that necessary to forestall further bank deleveraging – potential drag on recovery**

# Rebalancing world economy

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- ◆ **Sustained medium-term growth will require addressing supply-side disruptions due to crisis, i.e., growing output gaps – 3-5% of potential GDP**
- ◆ **Adjustments also required in global demand:**
  - **economies with export-led growth and current account surpluses (Asia) will need to increase domestic consumption**
  - **required to offset lower demand and higher savings rates in economies that have run current account deficits (US, UK, parts of Euro area)**

# Risks to sustained recovery

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- ◆ **Key risk is that recovery stalls, and deflation becomes entrenched – could be triggered by too early exit from accommodative monetary policy**
- ◆ **Other risks include:**
  - **central banks have to tighten monetary policy by more than expected to deal with inflation**
  - **large increases in public debt could unsettle global bond markets**
  - **pressures for trade protection may build with increased unemployment**

# Short vs. medium-term objectives

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- ◆ **Need to map course between unwinding support policies too soon/leaving them in place too long**
- ◆ ***Monetary Policy:***
  - **in advanced economies, central banks can afford to maintain liberal monetary policy for a while**
  - **once output gap narrows, and inflation becomes a concern, policy will need to be tightened**
  - **inflation-targeting perhaps too narrow - more emphasis on macro-prudential tools needed**



# Short vs. medium-term objectives

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## ◆ *Fiscal Policy:*

- **stimulus needs to be sustained until economic recovery on firm footing**
- **but need to address long-term fiscal balances at some point by committing to deficit reductions**
- **long-term increase in debt will place pressure on interest rates as recovery occurs, possibly crowding-out private investment**
- **may also eventually cause flight from bonds**

# Short vs. medium-term objectives

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## ◆ *Financial Policy:*

- **restructuring financial firms is key for normal lending to resume, i.e., toxic asset cleanup**
- **exit strategies need to be clearly articulated**
- **three key financial reforms necessary:**
  - (a) perimeter of regulation needs broadening**
  - (b) counter-cyclical frameworks required**
  - (c) international regulatory convergence**



# Thank you

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