

Global Economic Outlook

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Global Economic Growth

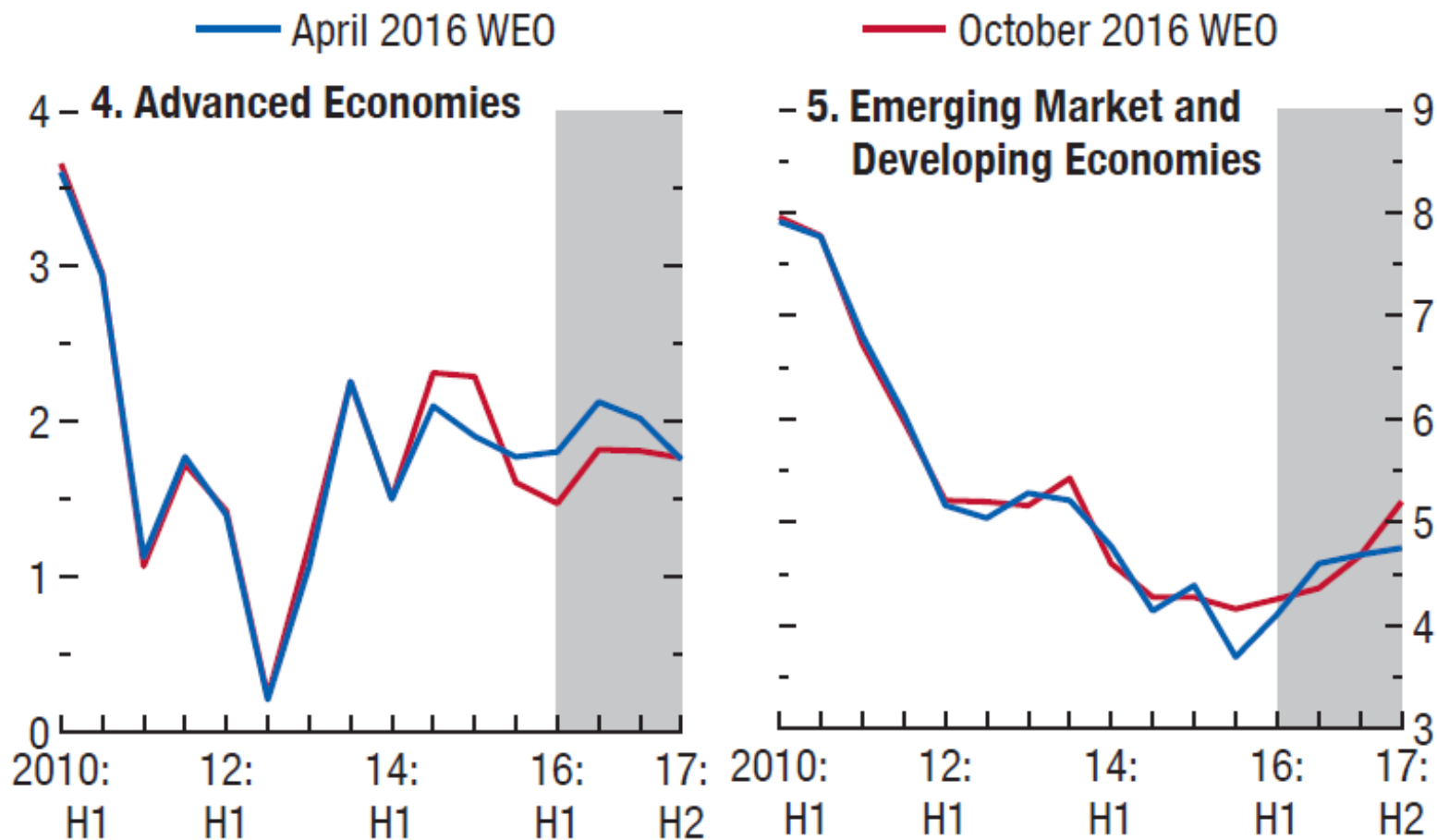


- **World output forecast to grow by 3.4% in 2017**
- **Emerging/developing market economies (4.6%), and advanced economies (1.8%)**
- **Pace of growth will vary across advanced economies: picks up in US (2.2%), slower in euro area (1.5%), and weak in Japan (0.6%)**
- **Resilience in Asia (6.5%), India (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)



Inflation Forecasts



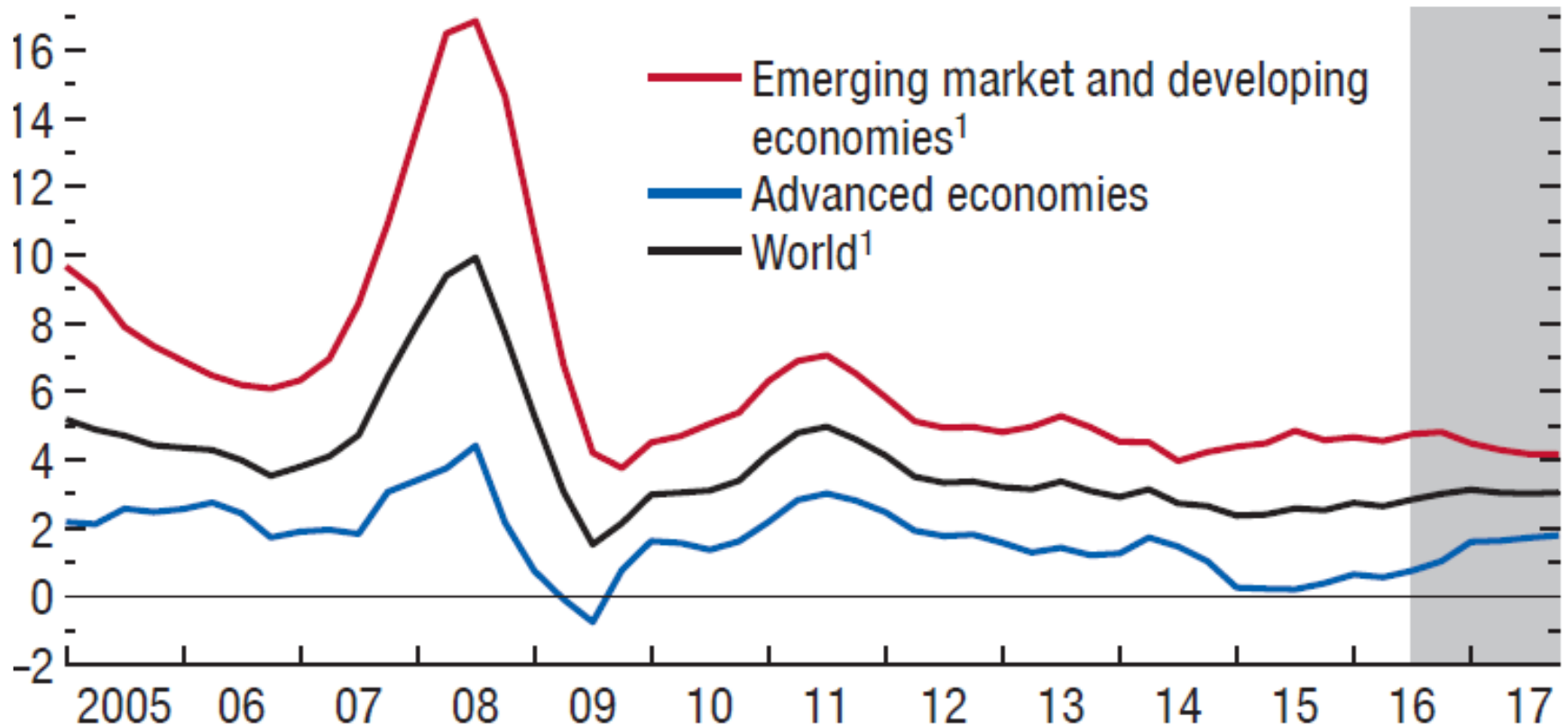
- **Low in advanced economies (1.7%):**
 - **Negative output-gaps remain**
 - **Unemployment still higher than pre-crisis levels in many countries**
 - **US (2.3%), Euro area (1.1%), Japan (0.5%)**
 - **UK (2.5%) due to depreciation of £ post-Brexit**

- **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

	EEA	Bilateral	WTO
Trade (%)	-9	-19	-24
FDI (%)	-10	-20	-26
Productivity (%)	-2.8	-6.0	-7.7
GDP level (%)	-3.4 to -4.3	-4.6 to -7.8	-5.4 to -9.5

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**

*1,028 Economists Ask Hoover
To Veto Pending Tariff Bill*

*Professors in 179 Colleges and Other Leaders Assail
Rise in Rates as Harmful to Country and
Sure to Bring Reprisals.*

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**