

# Global Growth Outlook Reflects Sustained Recovery

February 6, 2018

Global growth accelerated in 2017, supported by strengthening labor markets and external demand. Although inflation concerns among advanced countries abated, risks remain and are mostly tilted to the downside.

Concerns are centered on trade policy changes and entrenched protectionist attitudes, uncertainty about shifting U.S. policy and its global spillovers, and the consequences of tighter global financial conditions and asset volatility. High levels of public and private indebtedness, political and geo-political risks, and uncertainty about the strength of the cyclical recovery also weigh on the outlook.

## Global Growth to Remain Solid in 2018–19

The world is expected to reach 3.1 percent annual growth in 2018, slipping to 3.0 percent in 2019. Those forecasts follow on the heels of solid 3.4 percent year-over-year growth in third quarter 2017 (*Table 1*).<sup>1</sup> The ongoing improvement—expected to continue into 2018—is partly driven by a broadening cyclical rebound in major advanced economies, notably in the euro area and Japan. Advanced economies' expansion has firmed since early 2016, with annual growth projected to be 2.1 percent in 2018 and 1.8 percent in 2019.

Emerging economies are anticipated to expand around 4.3 percent during 2018–19. Tailwinds from firming commodity prices aiding key exporters (Russia, Brazil) as well as better-than-anticipated strength in China are expected to offset weakness elsewhere (Venezuela, South Africa). Growth in India is on course to outpace growth in China despite the lingering effects of the Indian banknote demonetization in November 2016 and implementation of the goods-and-services tax in July 2017.

## Low Inflation Slow to Rise in Advanced Economies

World headline consumer price index annual inflation is

predicted to be 2.5 percent during 2018–19. Expectations for advanced economies remain below the 2 percent reference threshold—1.7 percent in 2018 and 1.8 percent in 2019. Inflation remains disparate in Japan and within the euro area—it is much closer to target in Germany and other core euro-area countries.

Inflation of 3.4 percent in 2018 and 3.2 percent in 2019 is expected among emerging economies. Inflation has declined significantly for Brazil and Russia in response to tighter monetary policy. Mexico's inflation rate of 6.8 percent partly reflects the lingering effects of gasoline market deregulation in January 2017. Inflation is expected to recede in 2018 due to tightening monetary policy and strengthening of the peso since mid-2017.

Core inflation, which excludes food and energy, has remained fairly stable at slightly above 1.0 percent among advanced economies since 2010 (*Chart 1*). Persistently elevated core inflation among emerging economies, up 3.5 percent year over year in December 2017, is driven partly by Mexico and offset somewhat by improvements elsewhere, notably Brazil and Russia.

## A Balancing Act for Monetary Policy

Mexico raised its policy rate to 7.25 percent in December amid rising inflation (*Table 2*). The Bank of England raised its rate 25 basis points (0.25 percentage points) to 0.5 percent in November, while Canada's rate rose 25 basis points to 1.25 percent on Jan. 17. In contrast, both Brazil and Russia reduced rates 50 basis points in December, putting Russia at 7.75 percent and Brazil at 7.00 percent.

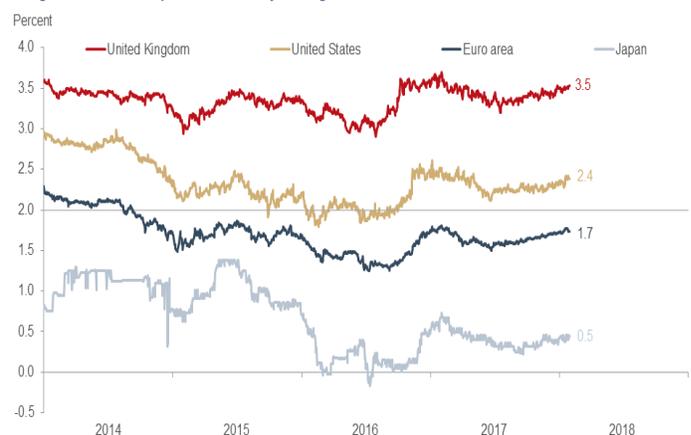
The European Central Bank (ECB) implemented an October decision to cut its bond-buying program from 60 billion euros a month to 30 billion euros and extended the program to September 2018. The first progress report on the European banking union was released on Jan. 18, noting that while

Chart 1  
Emerging Economies' Core CPI Inflation Remains Elevated



NOTES: The core consumer price index (CPI) inflation measure excludes food and energy. Calculations are based on a representative sample of 40 countries aggregated using U.S. trade weights. Venezuela (VN) stopped reporting in December 2013 and is therefore excluded from the aggregates. Shaded bar indicates global recession. Last data for the advanced and world aggregates are November 2017. Last data for the emerging aggregate and U.S. series are December 2017. SOURCES: Database of Global Economic Indicators; Haver Analytics.

Chart 2  
Long-Term Inflation Expectations Steady Among Advanced Economies



NOTES: Inflation expectations are derived from inflation-linked swap rates at the five-year-forward, five-year-ahead horizon and indicate what markets think the next five years of inflation will be like starting five years from now. The horizontal dashed line at 2.0 percent is included as a reference. Last data point is Jan. 29, 2018. SOURCE: Bloomberg.

**Table 1: Real GDP Growth and Headline CPI Inflation**

	GDP					CPI				
	Y/Y	Q/Q	Quarter	2018(f)	2019(f)	Y/Y	3M/3M	Month	2018(f)	2019(f)
United States	2.5	2.6	Q4	--	--	2.1	3.7	Dec.	--	--
<b>World (ex. U.S.)</b>	<b>3.4</b>	<b>3.0</b>	<b>Q3</b>	<b>3.1</b>	<b>3.0</b>	<b>2.9</b>	<b>3.2</b>	<b>Dec.</b>	<b>2.5</b>	<b>2.5</b>
<b>Advanced (ex. U.S.)</b>	<b>2.6</b>	<b>2.6</b>	<b>Q3</b>	<b>2.1</b>	<b>1.8</b>	<b>1.6</b>	<b>2.5</b>	<b>Dec.</b>	<b>1.7</b>	<b>1.8</b>
Canada	3.0	1.7	Q3	--	--	1.9	3.6	Dec.	--	--
Euro area	2.5	2.4	Q3	--	--	1.4	1.7	Dec.	--	--
Japan	2.1	2.5	Q3	--	--	1.1	2.8	Dec.	--	--
United Kingdom	1.5	2.0	Q4	--	--	3.0	3.2	Dec.	--	--
<b>Emerging</b>	<b>4.3</b>	<b>3.4</b>	<b>Q3</b>	<b>4.2</b>	<b>4.3</b>	<b>4.2</b>	<b>3.9</b>	<b>Dec.</b>	<b>3.4</b>	<b>3.2</b>
China	6.8	6.4	Q4	--	--	1.7	2.5	Dec.	--	--
Mexico	1.6	-1.2	Q3	--	--	6.8	4.4	Dec.	--	--
India	6.2	8.7	Q3	--	--	5.3	8.0	Dec.	--	--
Brazil	1.4	0.6	Q3	--	--	2.9	4.8	Dec.	--	--
Russia	1.9	-0.9	Q3	--	--	2.5	1.8	Dec.	--	--
South Africa	1.0	2.0	Q3	--	--	4.8	6.9	Dec.	--	--

NOTES: Calculations are based on a representative sample of 40 countries aggregated using U.S. trade weights. Venezuela is excluded from the inflation aggregates. The euro-area aggregate includes the nine euro-area countries that are in DGEI. Y/Y contains the most recent year-over-year value, while the Q/Q field contains the most recent quarter-over-quarter annualized growth rate. 3M/3M inflation is the annualized growth of latest-month consumer price index (CPI) over CPI three months ago. (f) represents forecasts from the January 2018 Consensus Forecasts, also aggregated using trade weights.

SOURCES: Database of Global Economic Indicators (DGEI); Haver Analytics; Consensus Forecasts.

bank loan portfolio quality continues to improve, slow progress remains a vulnerability in some areas—notably, Greece, Portugal, Italy and Eastern Europe. The ECB left rates unchanged at 0 percent on Jan. 25.<sup>2</sup> The Bank of Japan announced its decision on Jan. 9 to trim the amount of long-dated bond purchases it would buy.

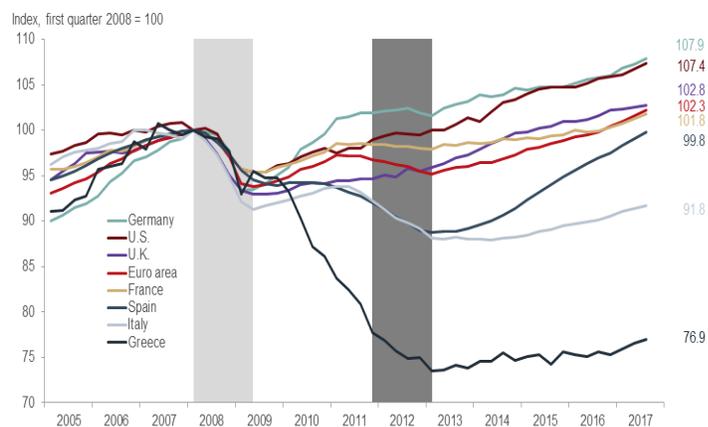
**Inflation Stable but Long-Term Challenges Remain**

The perils associated with unanchored inflation expectations leading to deflation remain largely tamed. Long-term inflation expectations have stabilized at levels consistent with or close to a conventional inflation target among major advanced economies—except in Japan (*Chart 2*).

The recently approved U.S. Tax Cuts and Jobs Act is expected to stimulate U.S. domestic activity over the medium term, mostly driven by the investment response to the corporate income tax cuts.<sup>3</sup> This raises the possibility of a less-gradual normalization of U.S. monetary policy and counterbalancing effects. Global spillovers are challenging to ascertain because key long-term trade agreements—the North America Free Trade Agreement and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)—are undergoing negotiation. On Jan. 23, 11 countries agreed to join CPTPP, which replaces the Trans-Pacific Partnership, abandoned by the U.S. last year. It is scheduled to be signed on March 8.

Other longer-term challenges to the outlook include demographics as well as weak productivity and low potential growth—and, within the euro area, limited real convergence across countries (*Chart 3*).<sup>4</sup> Southern Europe’s per

**Chart 3**  
GDP Per Capita Recovers in Euro Area; Differences Persist in Southern European Countries



NOTES: Indexed to peak in the euro area. Lighter shaded area indicates global recession. Darker shaded area indicates sovereign debt crisis (2011–12). Last data point is third quarter 2017.

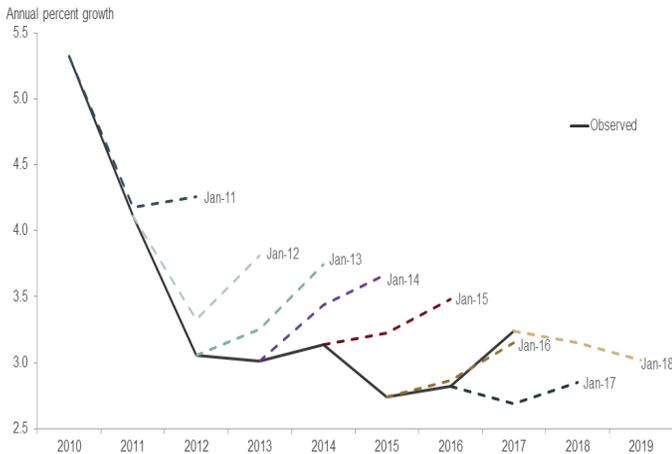
SOURCES: National statistical offices; Organization for Economic Cooperation and Development; Haver Analytics; authors’ calculations.

capita gross domestic product (GDP) divergence is quite striking. While Spain has achieved a robust recovery and is set to exceed first quarter 2008 levels, Italy and Greece are little improved in the aftermath of the euro-area sovereign debt crisis of 2011–12.

**Risks Still Skewed to the Downside**

Unlike in past years, some softening is forecast for 2018–19

**Chart 4**  
Recent World (ex. U.S.) Growth Is Expected to Soften Somewhat in 2018–19



NOTE: Calculations are based on a representative sample of 40 countries aggregated using U.S. trade weights. 2017 "observed" annual growth is partially estimated using Consensus Forecasts. Dashed lines represent forecasts calculated using the January release of Consensus Forecasts in a given year for that year and the next.  
SOURCES: Database of Global Economic Indicators; Consensus Forecasts; authors' calculations.

after what was likely a broad-based rebound in world growth in 2017 (Chart 4). Risks to the global outlook remain somewhat tilted to the downside over the medium term. Trade policy changes and the risk of protectionism could restrain global trade, depressing growth. Uncertainty over Brexit negotiations and political polarization, including in Germany, Italy, Spain and Brazil, may diminish business and consumer confidence.

High indebtedness and limited fiscal options expose some major vulnerabilities. As advanced economies gradually withdraw monetary accommodation, tighter global financial conditions, asset volatility and risks of contagion remain important concerns. Geopolitical risks, such as those emanating from Iran, Saudi Arabia and North Korea, are potential negative considerations for the global outlook.

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### Notes

1. World (ex. U.S.), advanced (ex. U.S.) and emerging aggregates come from a representative sample of 40 of the largest economies, ranked and weighted by their importance as U.S. trading partners. See "A New Database of Global Economic Indicators," by Valerie Grossman, Adrienne Mack and Enrique Martínez-García, *Journal of Economic and Social Measurement*, vol. 39, no. 3, 2014, pp. 163–97. Global recessions are dated in "A Contribution to the Chronology of Turning Points in Global Economic Activity (1980–2012)," by Valerie Grossman, Adrienne Mack and Enrique Martínez-García, *Journal of Macroeconomics*, vol. 46, 2015, pp. 170–85. Subsequent references to world and advanced economies exclude the U.S., and emerging economies exclude Venezuela unless otherwise noted. Forecasts are consistently aggregated using individual country data from Consensus Forecasts.

2. See "Monetary Policy Decisions," European Central Bank, Jan. 29, 2018, [www.ecb.europa.eu/press/pr/date/2018/html/ecb.mp180125.en.html](http://www.ecb.europa.eu/press/pr/date/2018/html/ecb.mp180125.en.html). For details on the European

**Table 2: Policy Rates**

	Policy rate	Cumulative change	
	Latest	Since last FOMC meeting	Since last year
<b>U.S.</b>	1.375	0.25	0.75
<b>Advanced (ex. U.S.)</b>			
Canada	1.25	0.25	0.75
Euro area	0.00	0.00	0.00
Japan	-0.10	0.00	0.00
United Kingdom	0.50	0.00	0.25
<b>Emerging</b>			
China	4.35	0.00	0.00
Mexico	7.25	0.25	1.50
India	6.00	0.00	-0.25
Brazil	7.00	0.00	-6.00
Russia	7.75	-0.50	-2.25
South Africa	6.75	0.00	-0.25

NOTES: Last data are from Jan. 30, 2018. Last meeting data are from Dec. 13, 2017. Last year is Jan. 30, 2017.

SOURCES: National central banks; Haver Analytics.

banking union report, see "Banking Union," European Commission, Jan. 18, 2018, [http://europa.eu/rapid/press-release\\_IP-18-266\\_en.htm](http://europa.eu/rapid/press-release_IP-18-266_en.htm). On the expanded asset-purchase program, see "Asset Purchase Programmes," European Central Bank, accessed Feb. 1, 2018, [www.ecb.europa.eu/mopo/implement/omt/html/index.en.html](http://www.ecb.europa.eu/mopo/implement/omt/html/index.en.html).

3. For a related analysis, see "World Economic Outlook Update, January 2018," International Monetary Fund, Jan. 22, 2018, [www.imf.org/en/Publications/WEO/Issues/2018/01/11/world-economic-outlook-update-january-2018](http://www.imf.org/en/Publications/WEO/Issues/2018/01/11/world-economic-outlook-update-january-2018).

4. See "Global Economic Prospects," World Bank, Jan. 9, 2018, [www.worldbank.org/en/publication/global-economic-prospects](http://www.worldbank.org/en/publication/global-economic-prospects)