



WORLD ECONOMIC OUTLOOK: GROWTH SLOWDOWN, PRECARIOUS RECOVERY

June 17, 2019

International Monetary Fund

Overview

- Recent Developments

- Global growth slowed faster than expected in 2018H2; broadly maintaining that pace in 2019H1
- Activity softened amid **trade tensions**, decline in business confidence, and **high policy uncertainty**
- **One-off and idiosyncratic factors** added to the drag on growth (Germany, Japan, China)
- **Financial conditions** had eased through April, but have since tightened as trade tensions escalated

- Outlook

- **Global growth** projected to level off in the first half of 2019, firm up thereafter
- **Pickup predicated on** resolving of trade tensions; policy stimulus in China; dissipation of temporary drags on euro area growth; gradual stabilization in some stressed EMDEs (including Argentina and Turkey); avoiding further escalation of trade tensions; orderly Brexit
- **Medium-term**: global growth set to plateau at 2020 level

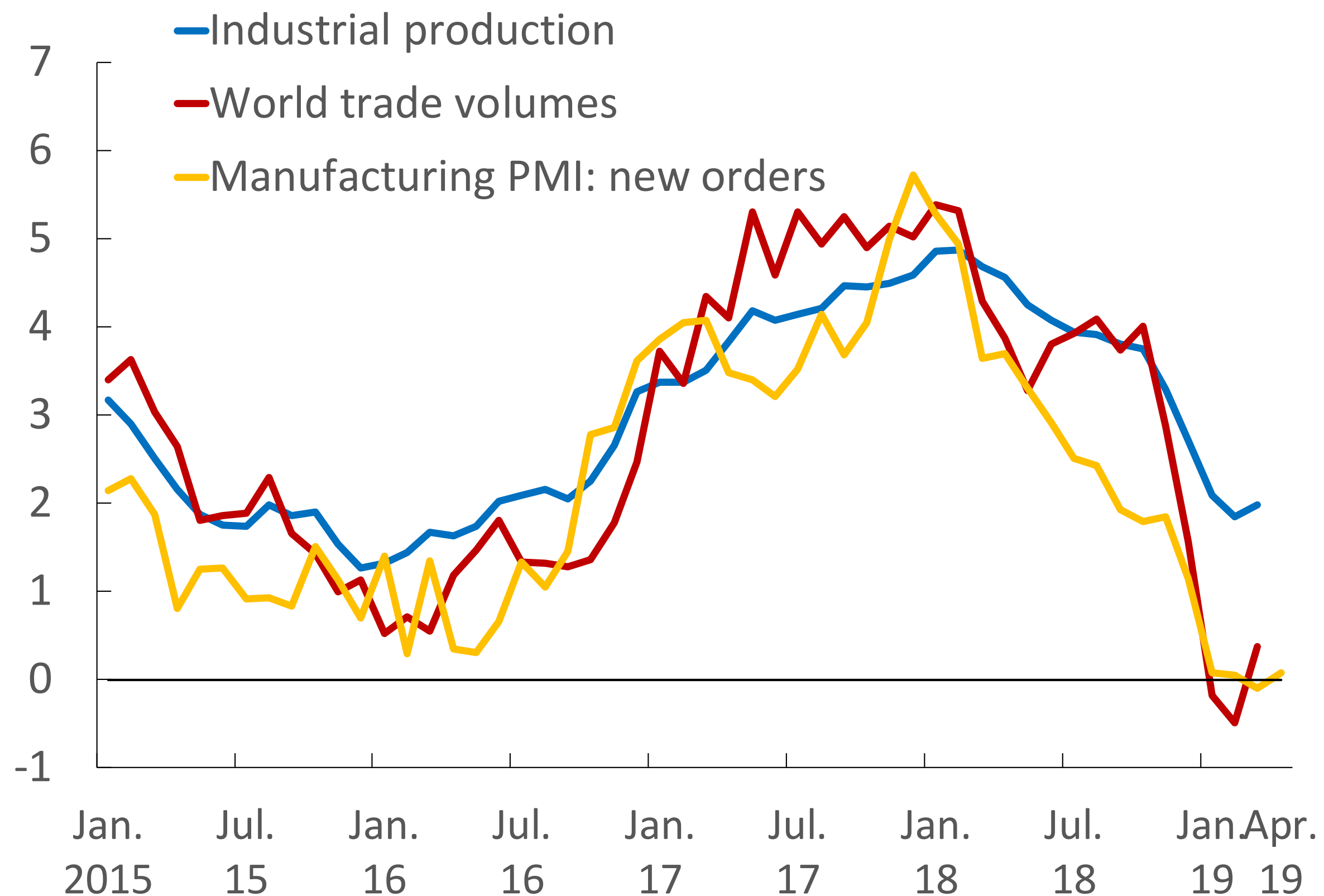
- Balance of Risks

- Skewed to the downside: Escalation of trade tensions, protracted risk-off sentiment that exposes financial vulnerabilities, geopolitical factors

Global trade, production softened against a backdrop of trade tensions and policy uncertainty...

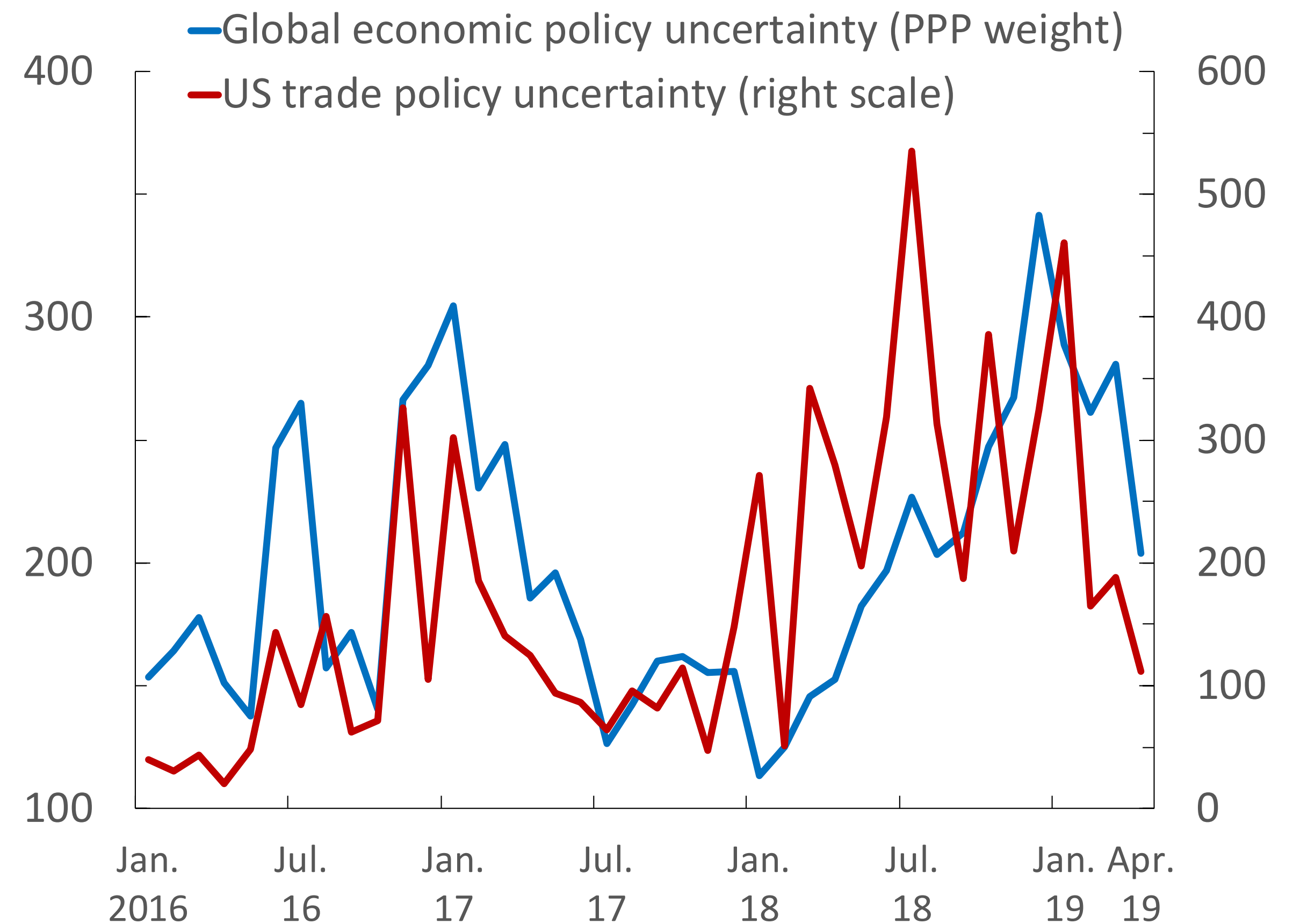
World Trade, Industrial Production, and Manufacturing PMI

(Three-month moving average, year-over-year percent change;
Deviations from 50 for Manufacturing PMI)



Policy Uncertainty and Trade Tensions

(Index)



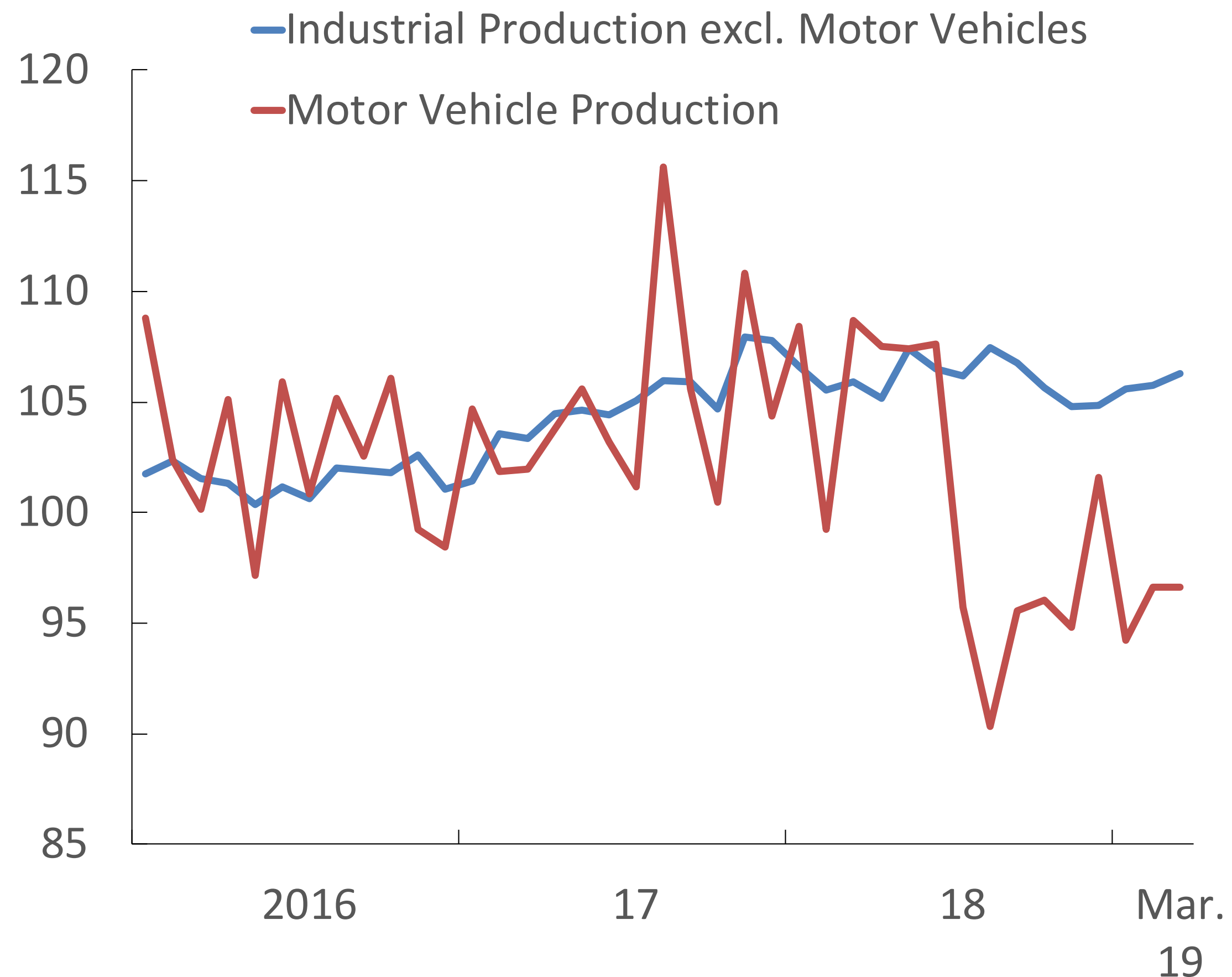
Sources: CPB Netherlands Bureau for Economic Policy Analysis; Haver Analytics; Markit Economics; and Baker, Bloom, and Davis (2016).

Note: PMI = purchasing managers' index.

...while country-specific factors also weighed on activity

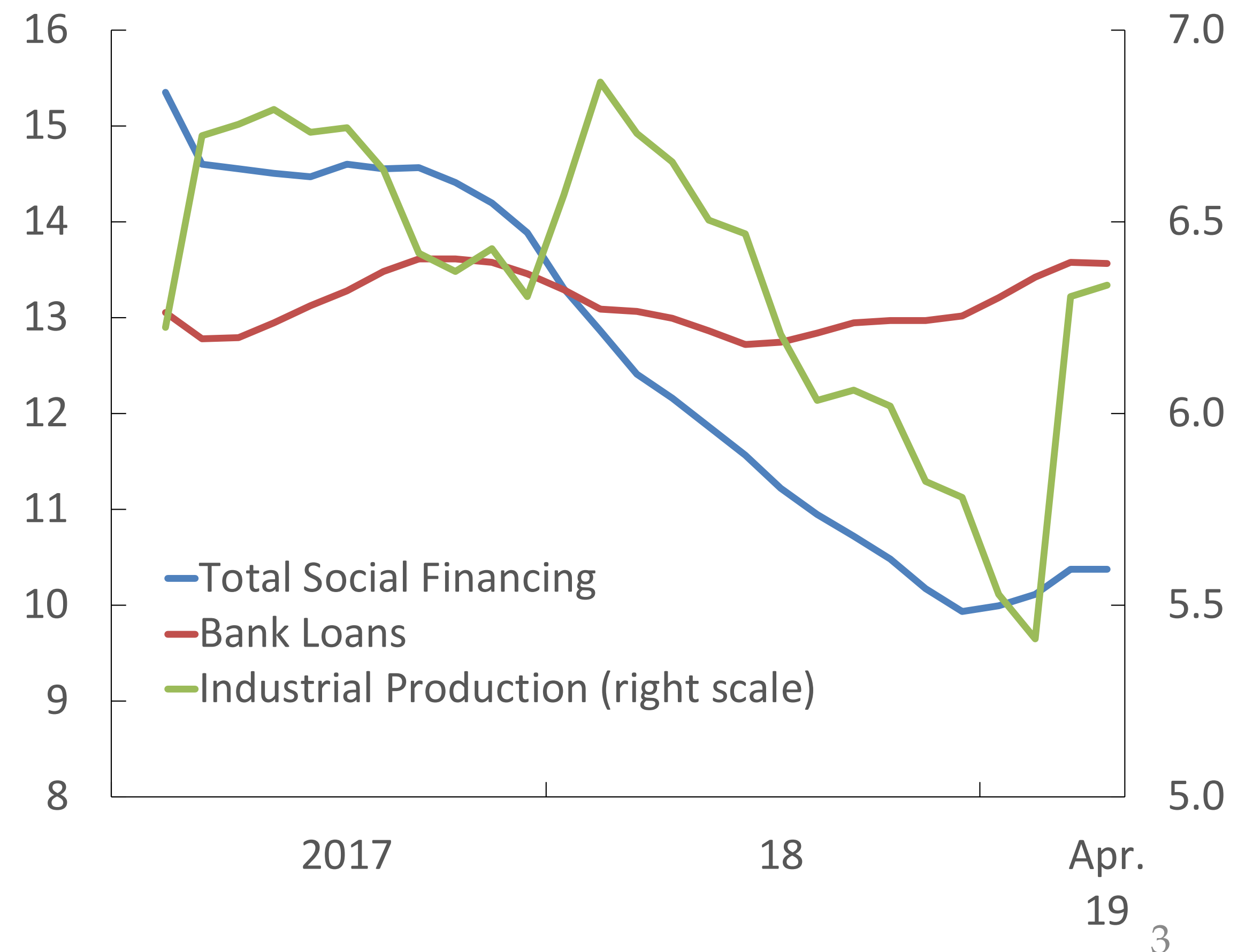
Germany: Industrial Production

(index, 2015 = 100)



China: Social Financing, Bank Loans and Industrial Production

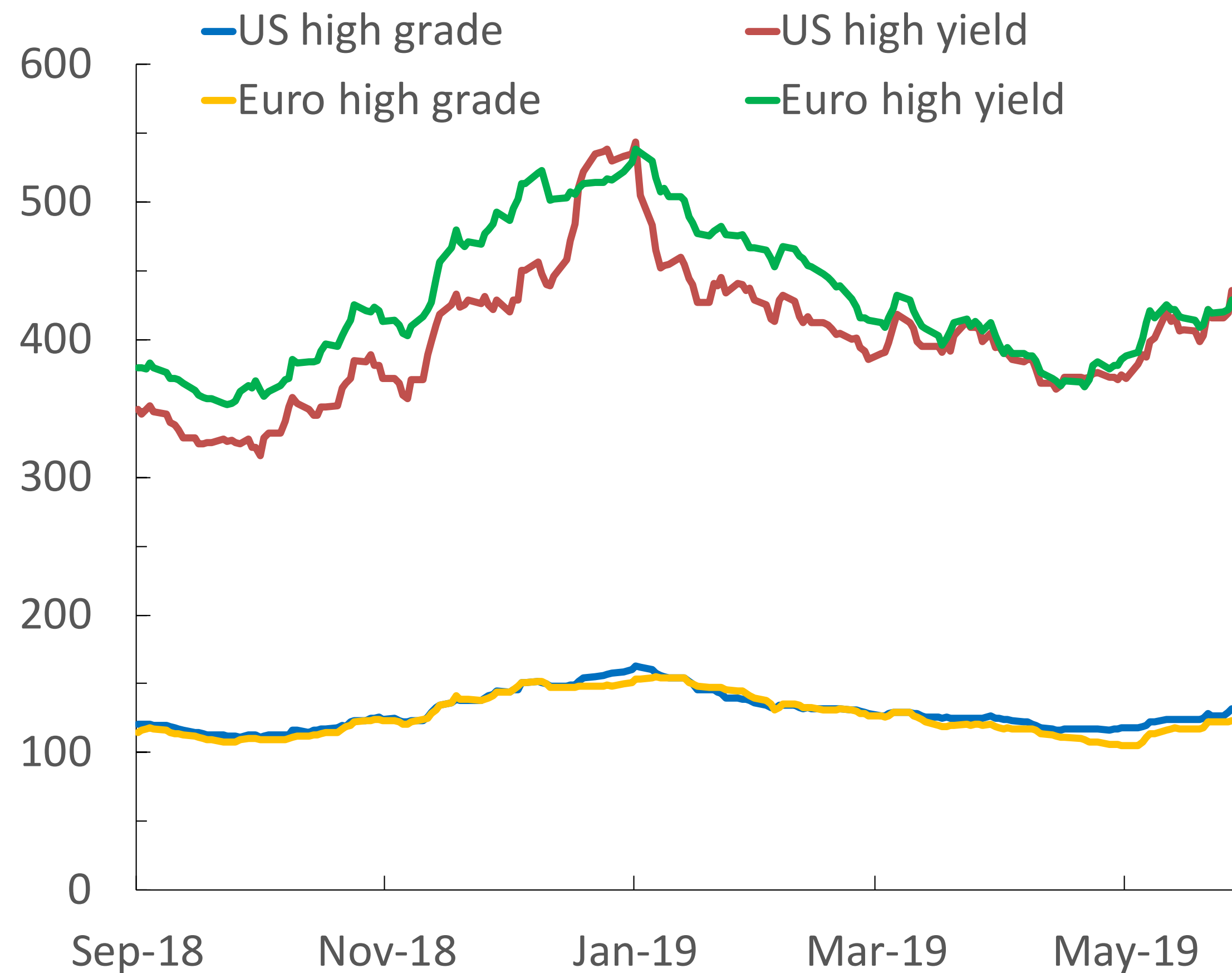
(Three-month moving average, year-over-year percent change)



Risk sentiment has turned the following escalation of trade tensions in May...

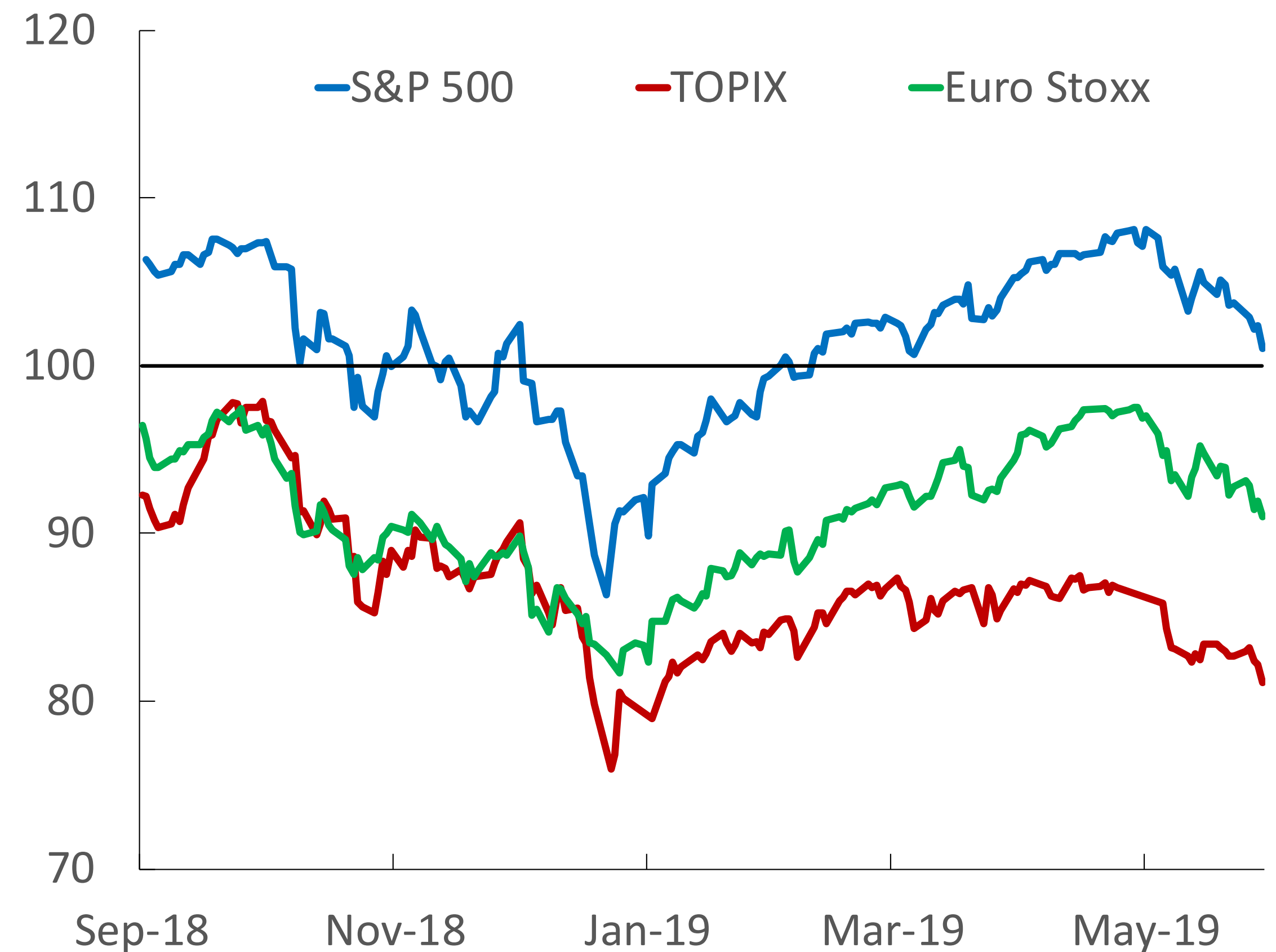
Credit Spreads

(Basis points)

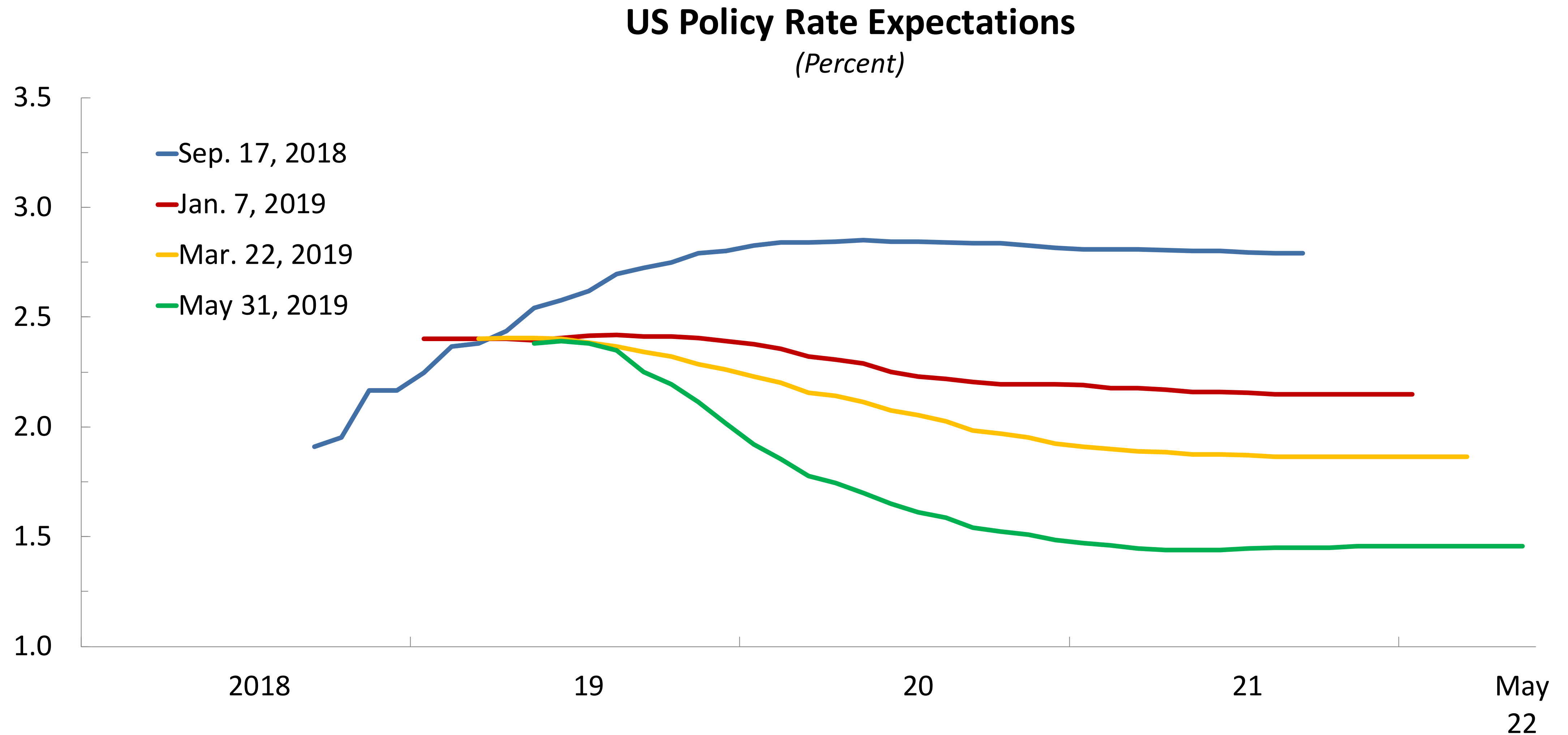


Advanced Economies: Equity markets

(Index, January 4th 2018 = 100)



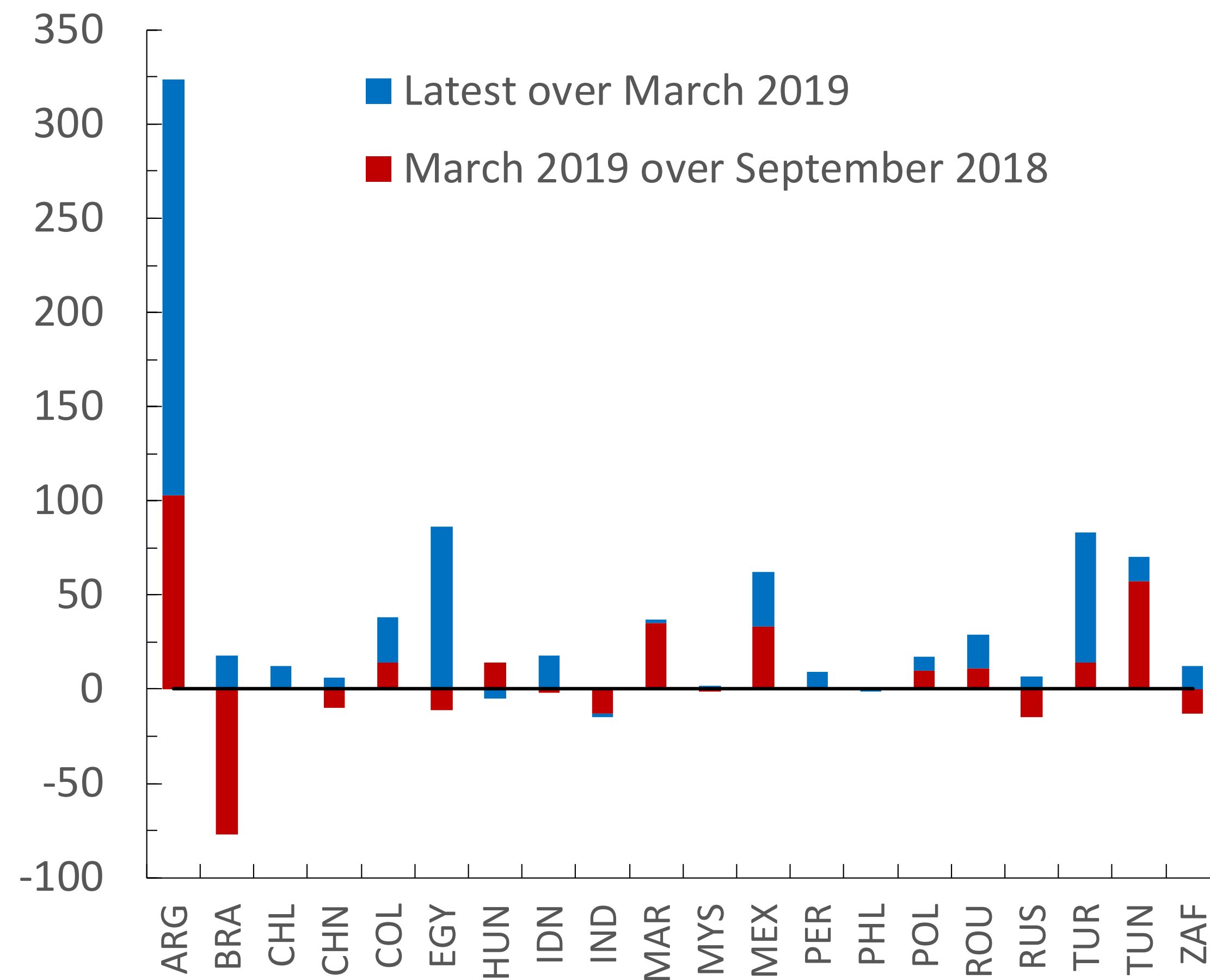
... and expectations of Fed rate cuts in 2019 have increased.



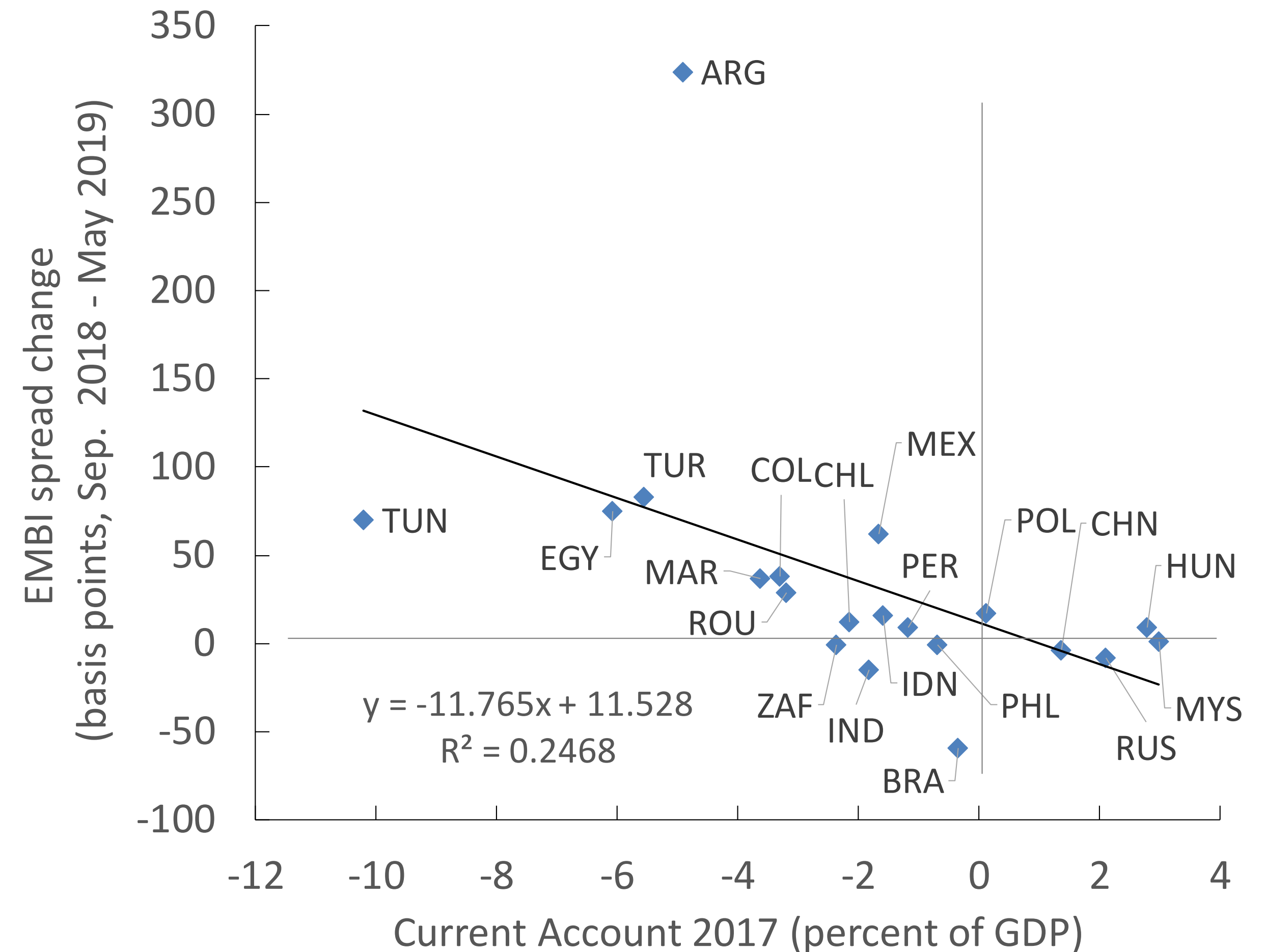
More broadly, financial conditions for EMs are more restrictive than in the fall; differentiation based on fundamentals

Change in EMBI Spreads

(Basis points)



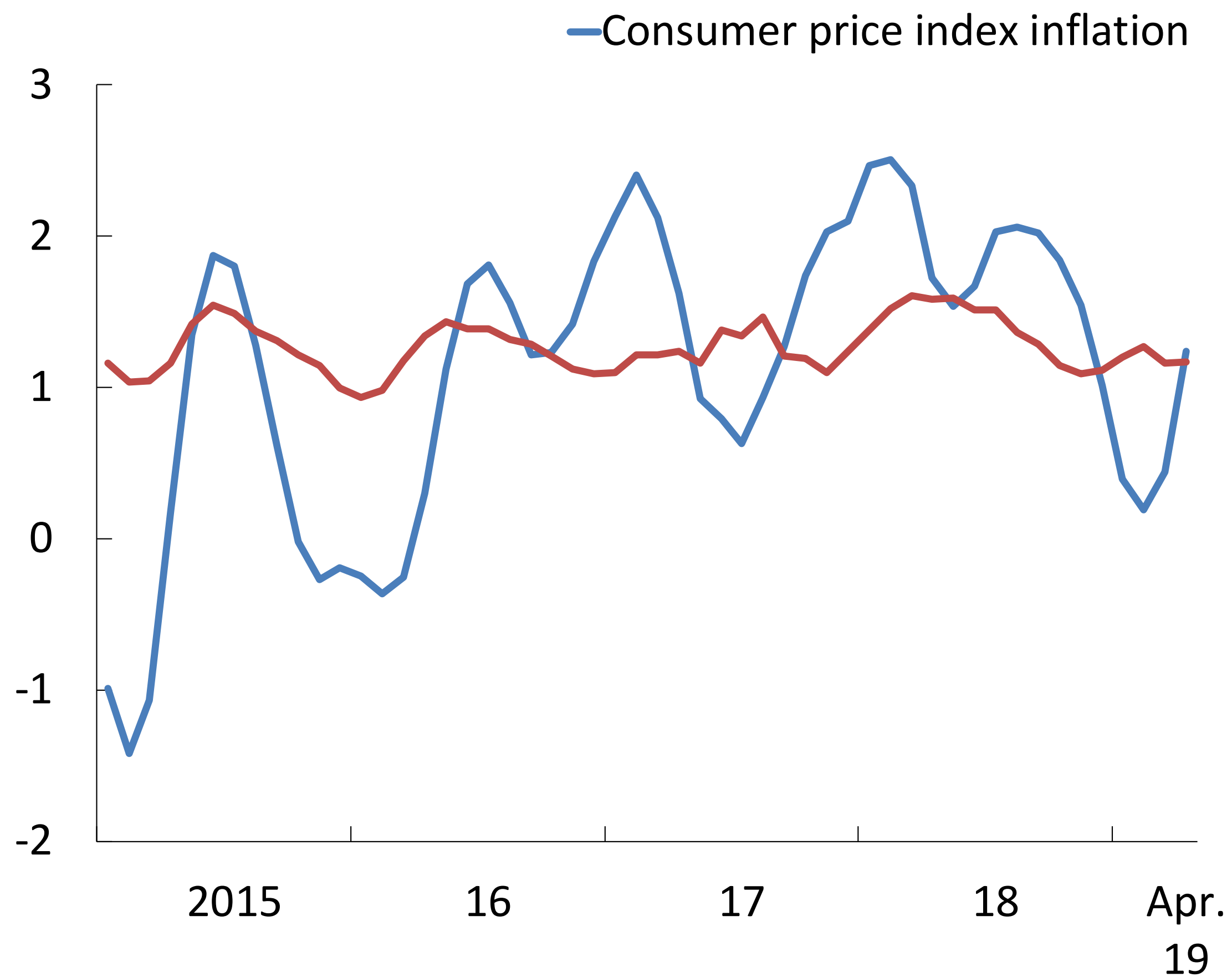
Current Account Balance and Change in EMBI Spreads



Consumer price inflation: muted

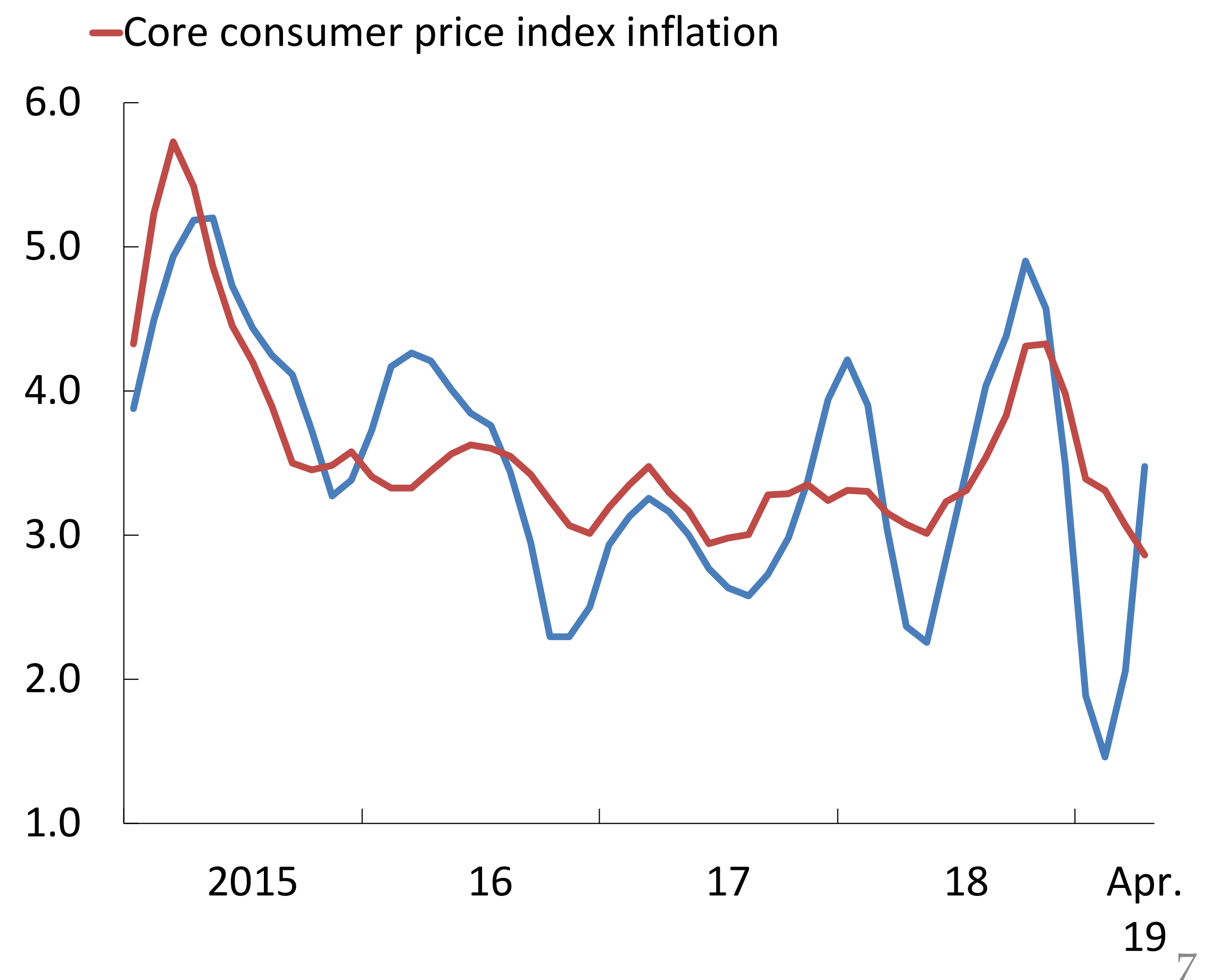
Advanced Economies

(Three-month moving average; annualized percent change)



Emerging Market and Developing Economies

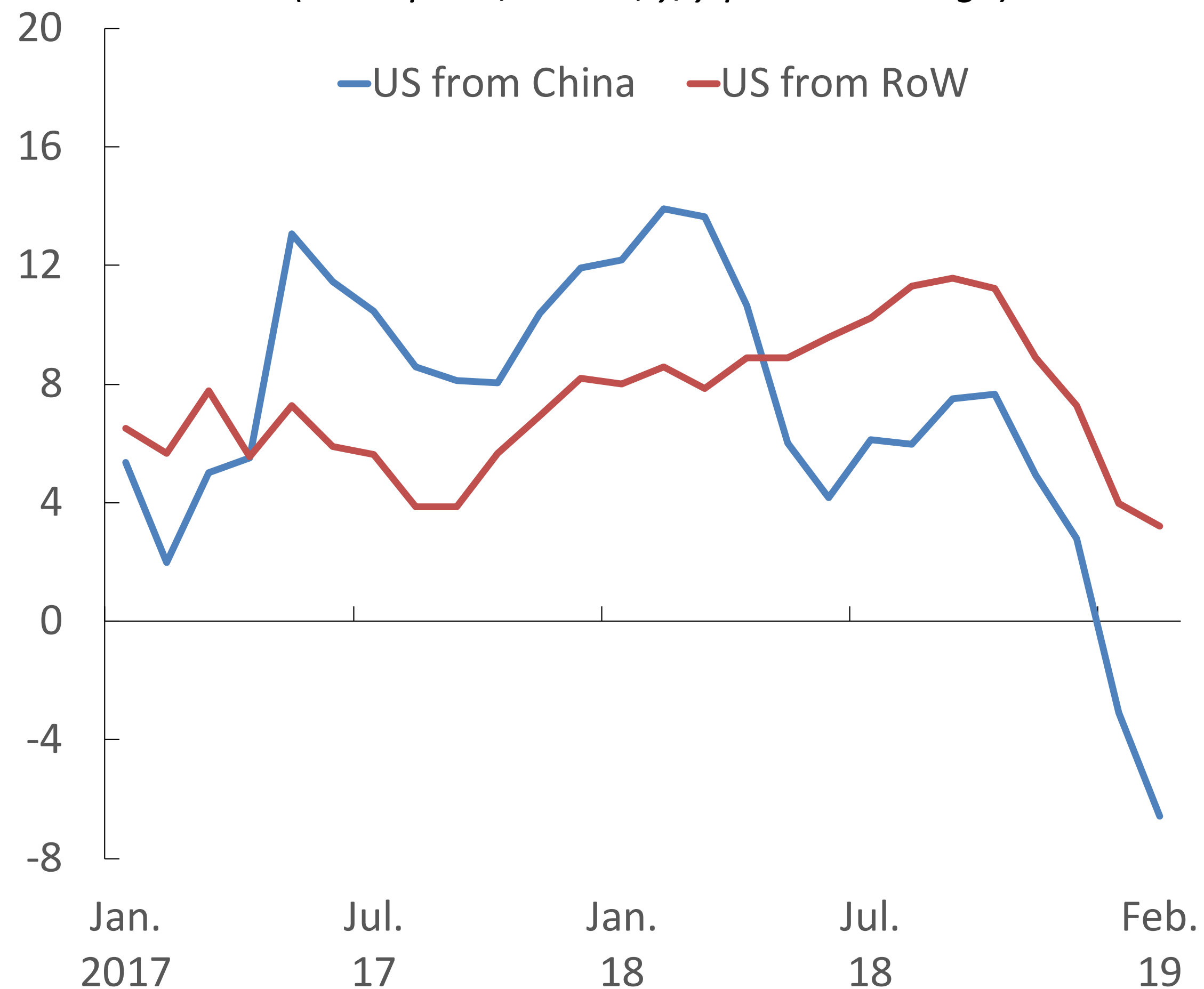
(Three-month moving average; annualized percent change)



Further escalation of trade tensions could drag activity, compounding effects of actions enacted in 2018

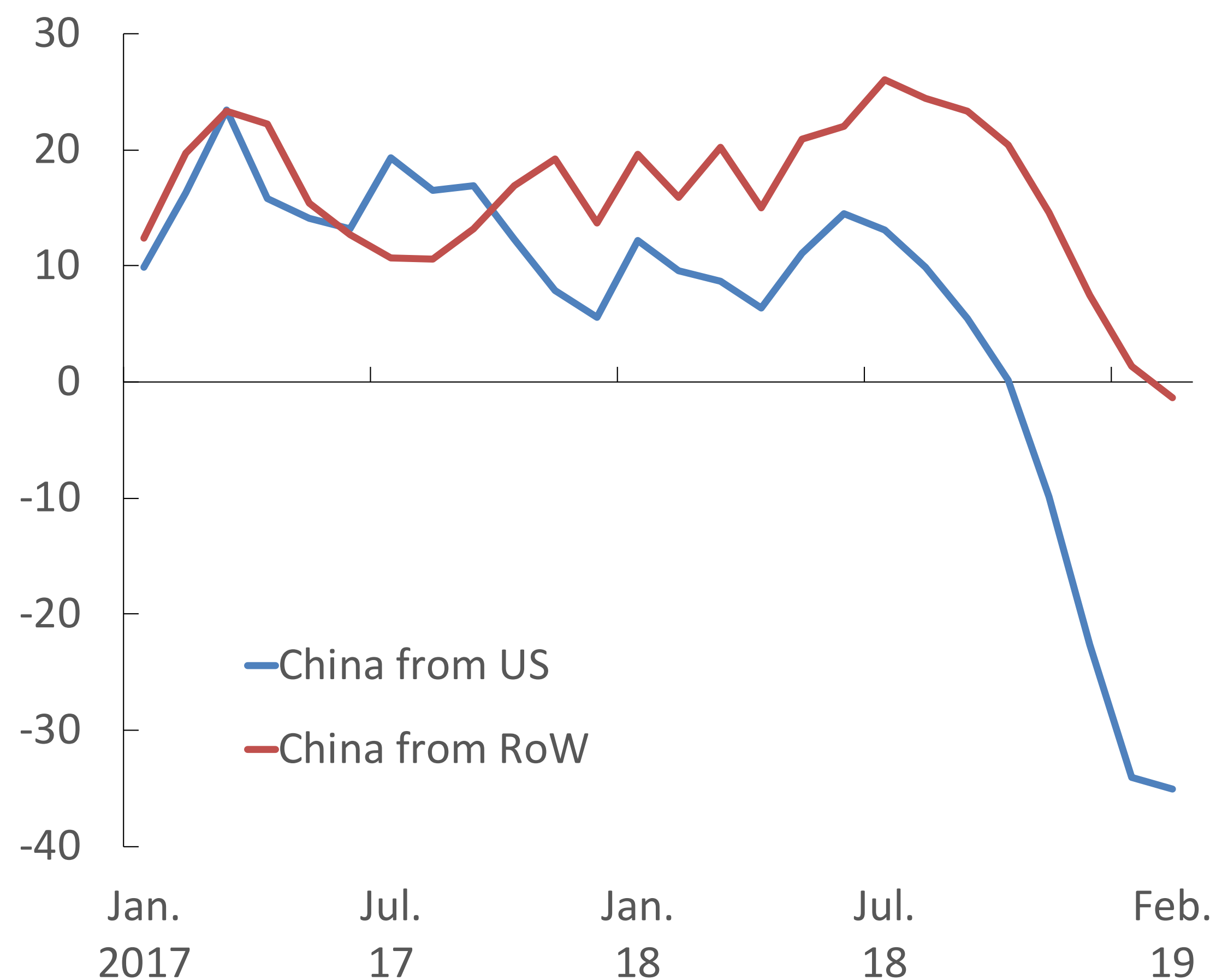
China losing market share in US import basket

(US imports, 3mma, y/y percent change)



US losing market share in China import basket

(China imports, 3mma, y/y percent change)



Growth projections: Advanced economies

(percent change from a year earlier)



World



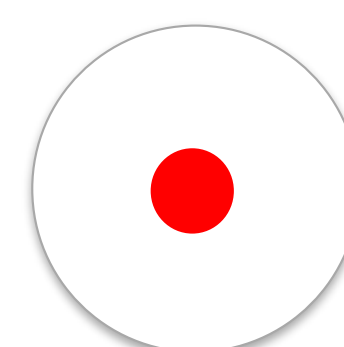
Advanced Economies



U.S.



U.K.



Japan



Euro Area



Germany



Canada



Other
Advanced
Asia

2018

3.6

2.2

2.9

1.4

0.8

1.8

1.5

1.8

2.8

2019

3.3

1.8

2.3

1.2

1.0

1.3

0.8

1.5

2.4

Revision
from Oct.
2018

−0.4

−0.3

−0.2

−0.3

0.1

−0.6

−1.1

−0.5

−0.2

2020

3.6

1.7

1.9

1.4

0.5

1.5

1.4

1.9

2.7

Revision
from Oct.
2018

−0.1

0.0

0.1

−0.1

0.2

−0.2

−0.2

0.1

0.0

Growth projections: Emerging markets and LIDCs

(percent change from a year earlier)



Emerging
Market and
Developing
Economies



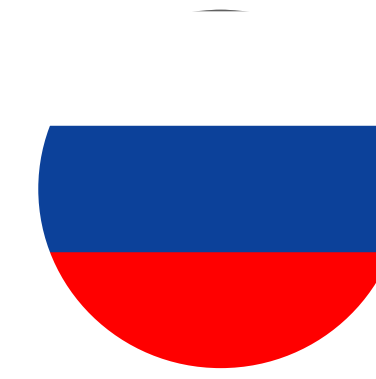
China



India



Brazil



Russia



ASEAN-5



Commodity
Exporting
Economies



Low Income
Developing
Countries

2018

4.5

6.6

7.1

1.1

2.3

5.2

1.9

4.6

2019

4.4

6.3

7.3

2.1

1.6

5.1

2.0

5.0

Revision from
Oct. 2018

−0.3

0.1

−0.1

−0.3

−0.2

−0.1

−0.6

−0.2

2020

4.8

6.1

7.5

2.5

1.7

5.2

2.9

5.1

Revision from
Oct. 2018

−0.1

−0.1

−0.2

0.2

−0.1

0.0

−0.1

−0.2

Risks: tilted to the downside

- **Sequence of tariff actions**
 - Has set the stage for possible further escalation of tensions to an intensity that carries systemic risks
 - Escalation could severely dent business confidence, harm financial market sentiment and increase volatility, slow investment and trade
- **Financial conditions**
 - Protracted risk-off could expose financial vulnerabilities
- **Other factors**
 - Geopolitical strains
 - Declining trust in mainstream political parties, regional and national institutions
 - Climate shocks
- **Interlinked risks could exacerbate effects:** materialization of one could trigger realization of others

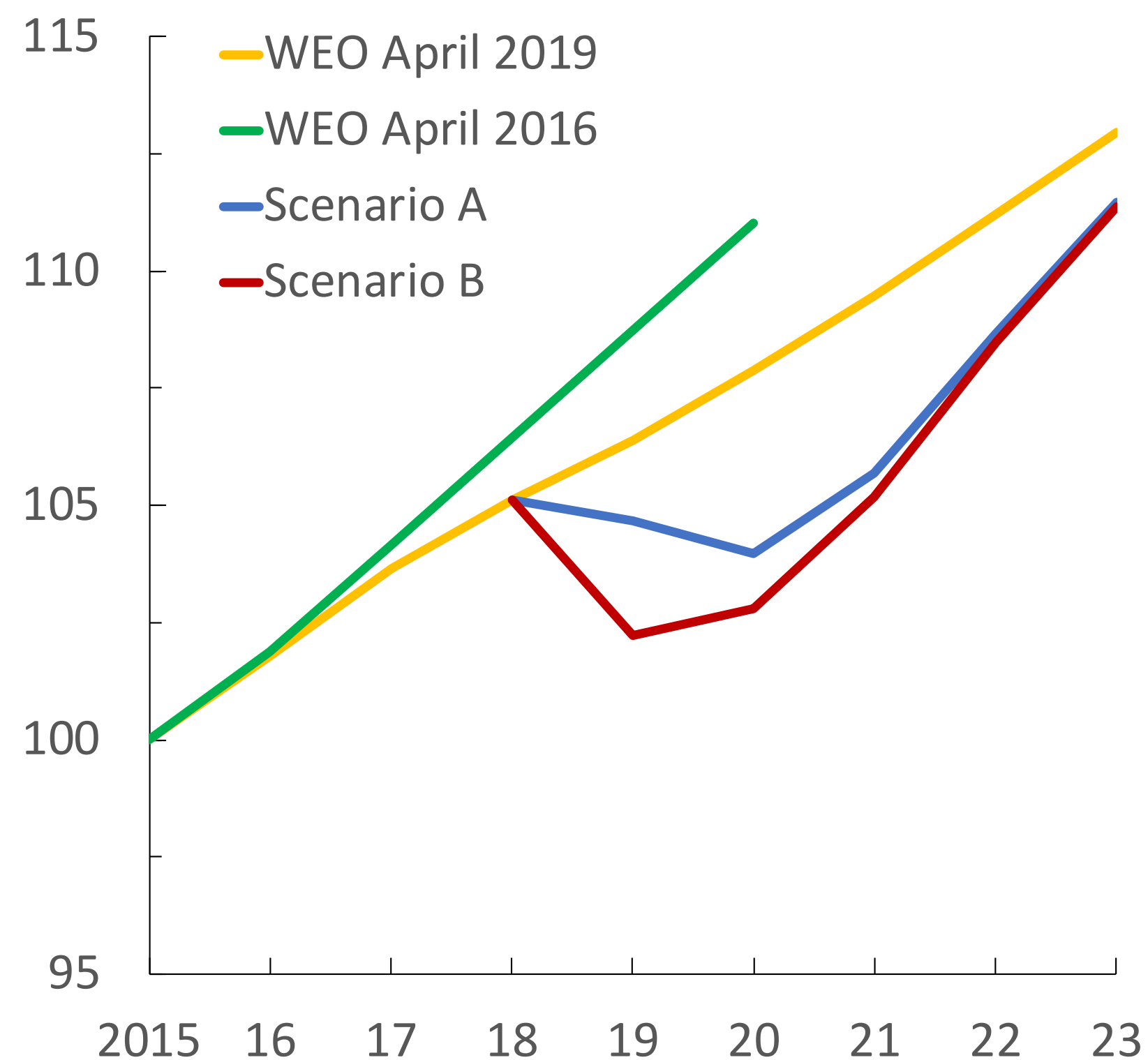
Projected global growth pickup relies in part on avoiding No-Deal Brexit

Real GDP in Brexit Scenario

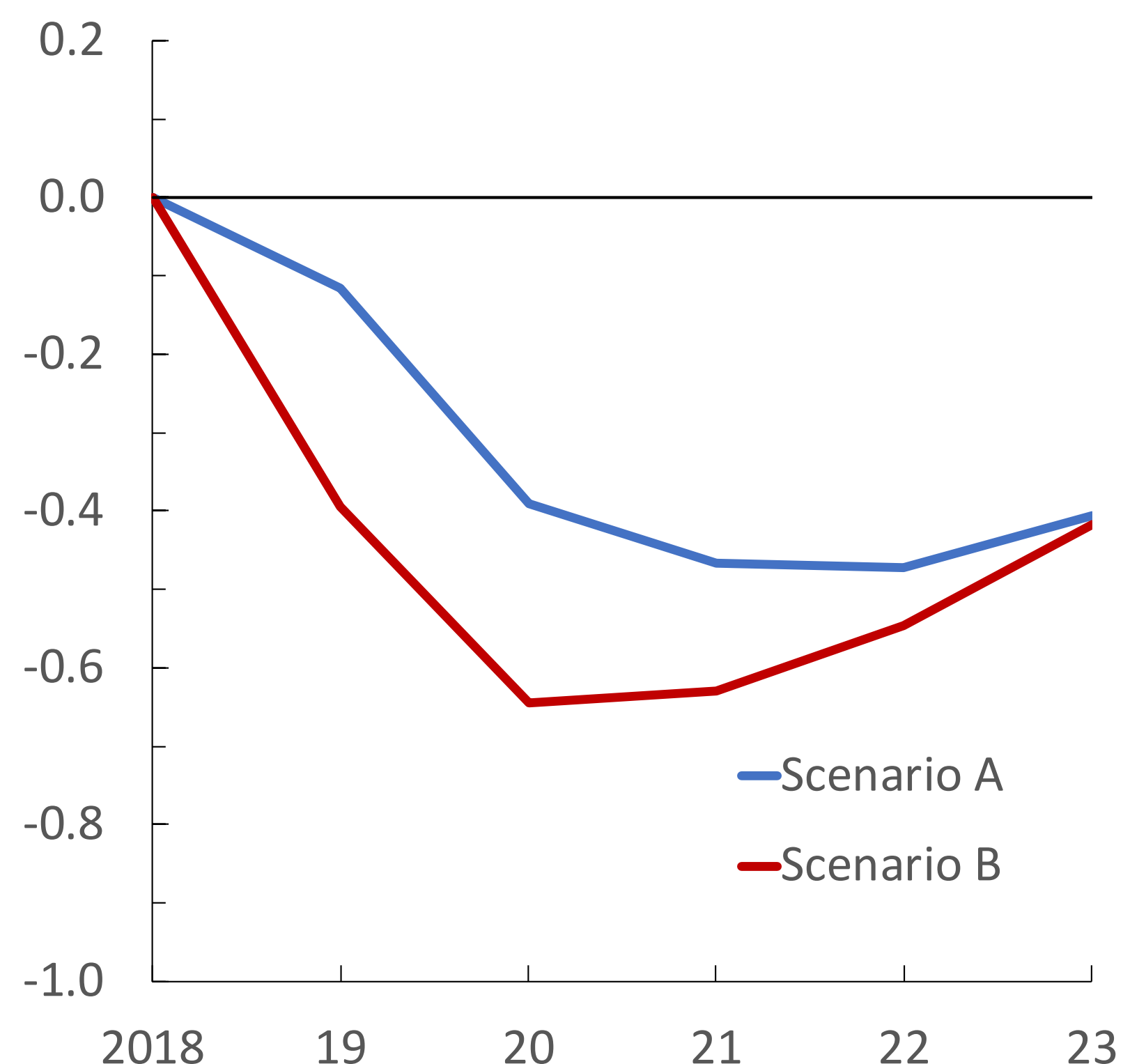
(Percent deviation from control, unless noted otherwise)

United Kingdom

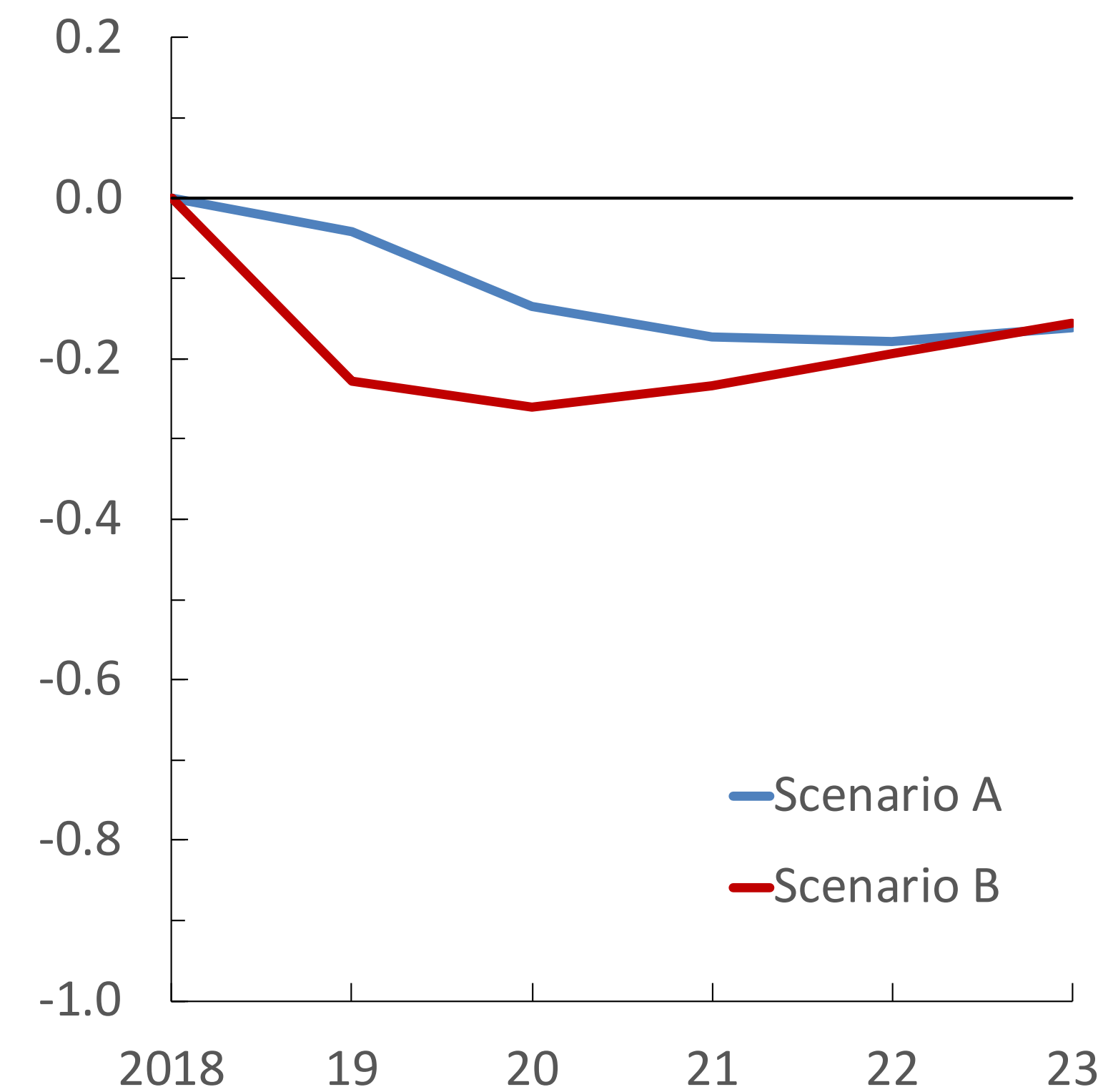
(Index, 2015 = 100)



European Union excl. UK



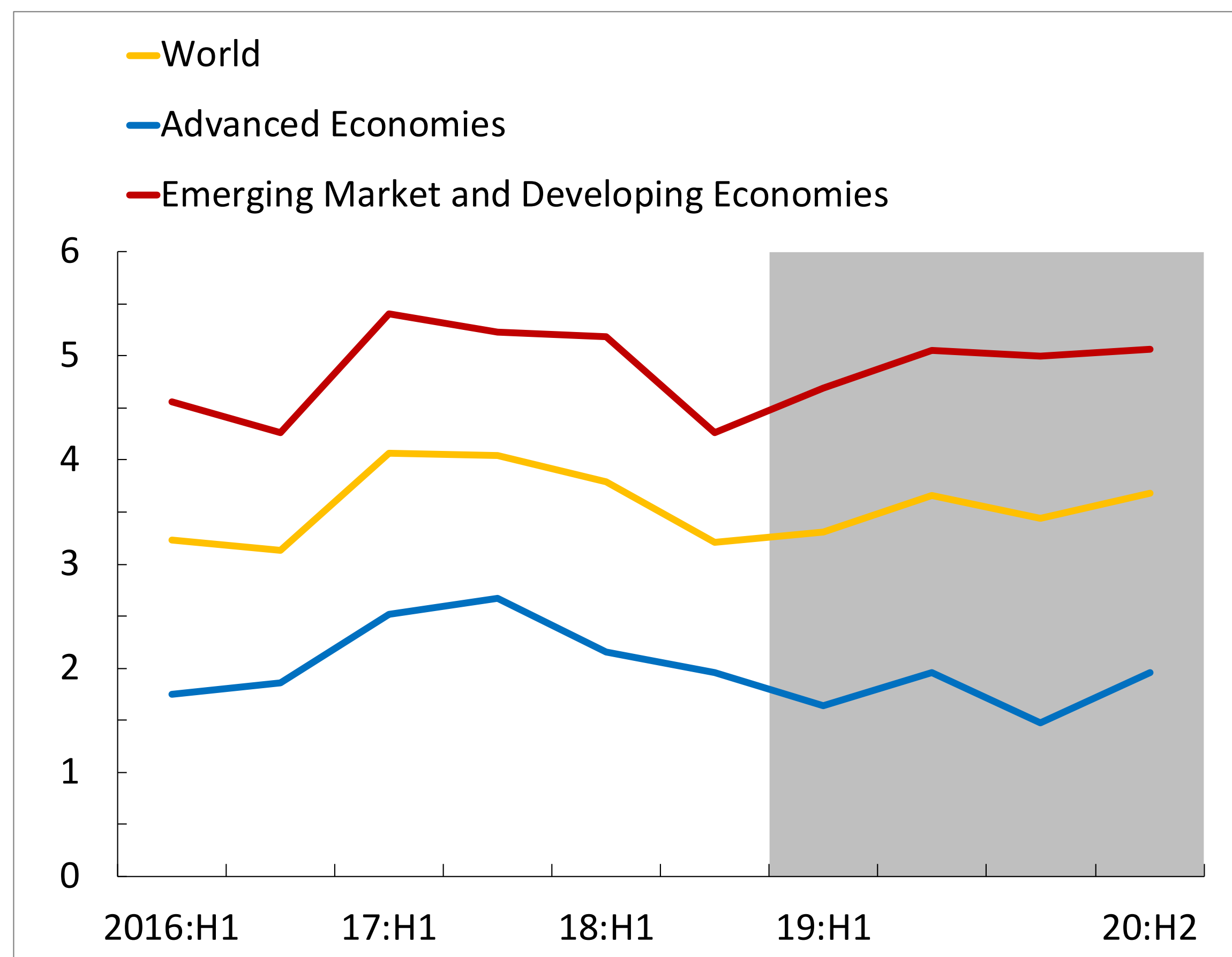
World



More broadly, global growth pickup predicated on precarious recovery in EMDEs

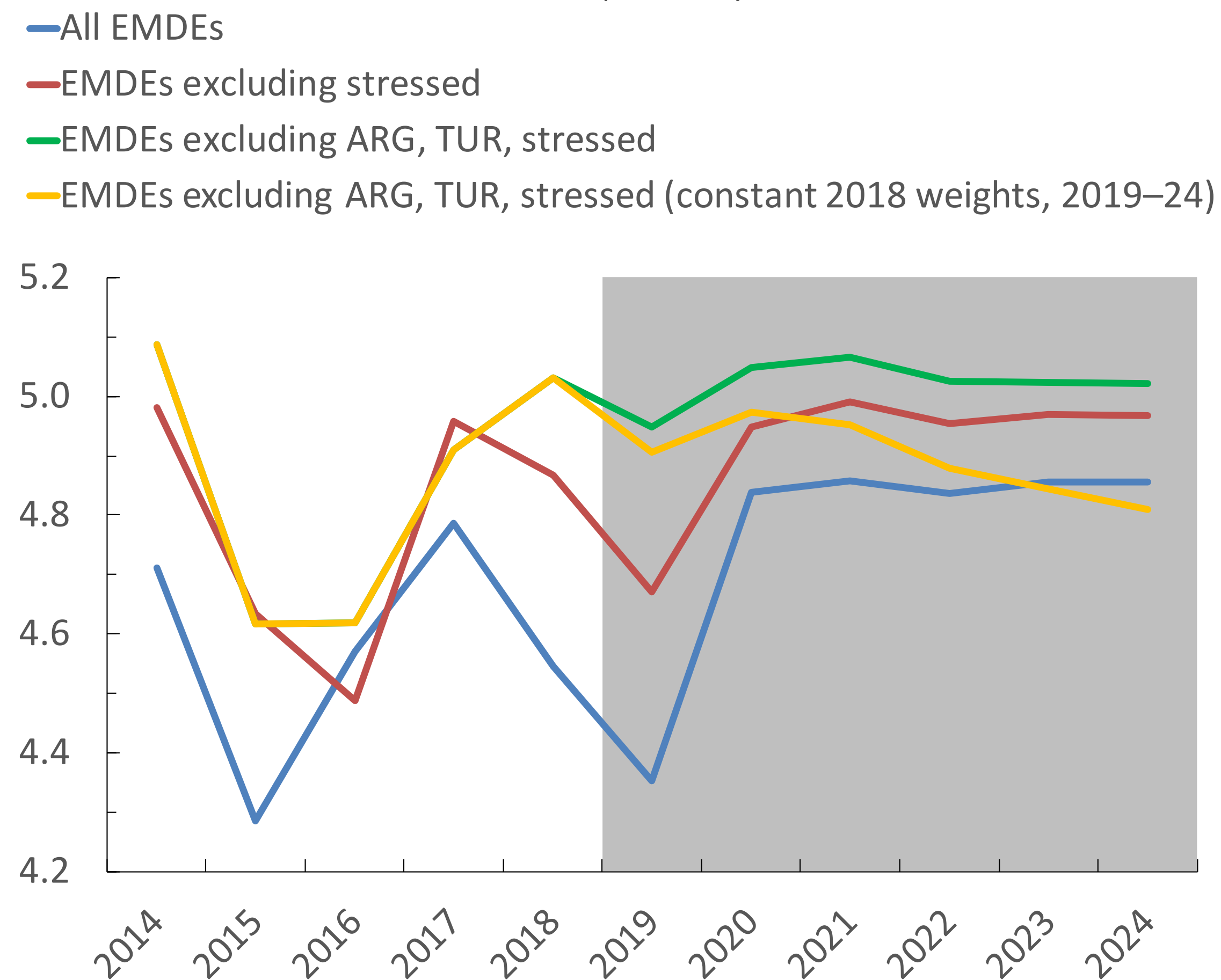
Half-Yearly Growth Rates

(annualized semiannual percent change)



Growth Rate: EMDEs

(Percent)



Source: IMF staff calculations.

Note: EMDEs = emerging market and developing economies; stressed = IRN, IRQ, LBY, SDN, SSD, UKR, VEN, YEM.

Avoid policy missteps, enhance resilience, boost medium-term growth

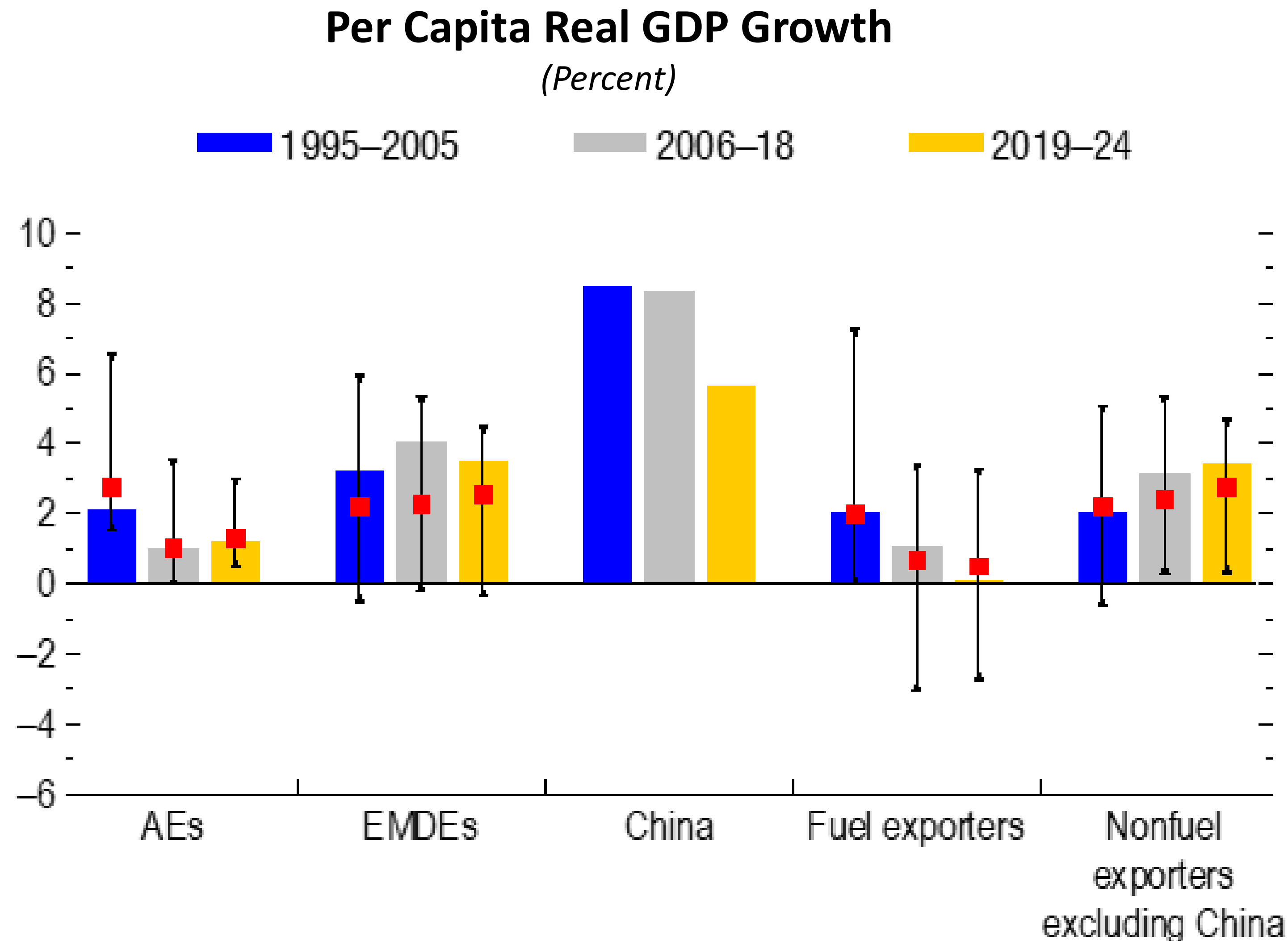
Advanced economies

- **Monetary policy:** support closing of output gaps where needed; **data dependent**
- **Fiscal policy** manage tradeoffs between supporting demand and ensuring debt remains on sustainable path
- *If current slowdown turns out more severe than projected, policy should become more accommodative where output is below potential and financial stability is not at risk*
- **Structural reform policies** to boost potential output and ensure benefits shared widely

Emerging market and developing economies

- Priorities differ based on **diverse cyclical positions** and country-specific vulnerabilities
- **Common objectives:** bolster financial resilience, boost potential growth and enhance inclusiveness
- **Strengthen fiscal positions where needed** (particularly LIDCs, commodity-dependent economies), focusing on revenue mobilization, limiting recurrent expenditure, and curbing poorly-targeted subsidies
- **Promote economic diversification** (commodity exporters, countries particularly vulnerable to climate events) – judicious macro management, improving access to credit, investing in infrastructure and workforce skills

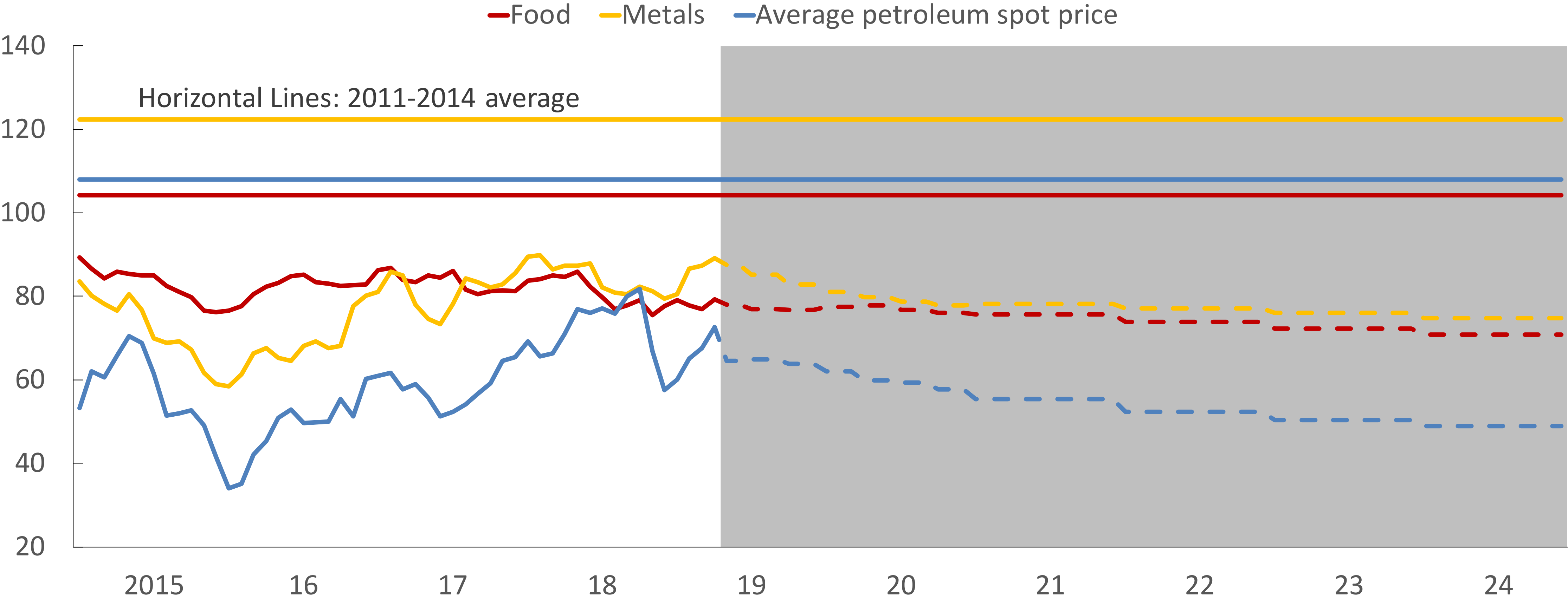
Interrelated risks compound a difficult medium-term outlook, where convergence prospects already appear limited for several EMDEs...



...in particular for commodity exporters, with prices expected to settle at levels well below past averages

Commodity and Oil Prices

(deflated using US consumer price index; index, 2014 = 100)



Sources: IMF, Primary Commodity Price System; and IMF staff estimates.



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