

**AIECE Spring Meeting 17/18 May 2018**

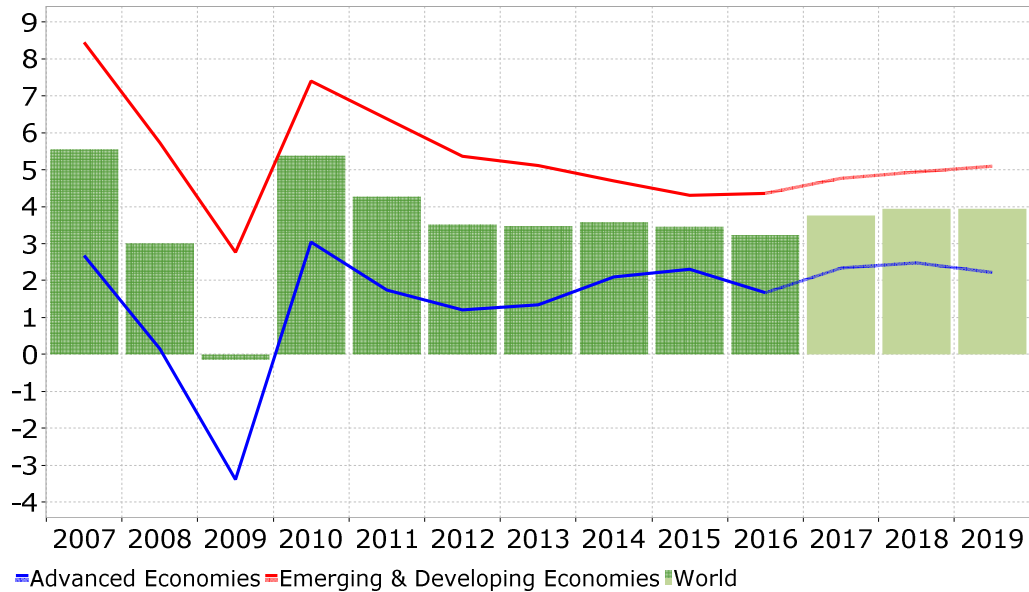
# World Economic Environment

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**NIER**

# Global growth has gained momentum

## GDP growth

IMF WEO April 2018



- Global growth increased last year and IMF (WEO April -18) think it will hover slightly below 4% 2018 and 2019 as well.
- The upturn is broadly based in terms of geography. Among GDP components, GFCF is the main driver.
- But global growth will not be extraordinary in a historical perspective – marginally above it's mean since 1980.
- Does the synchronization of the upturn imply the risk of a more rapid slow down?

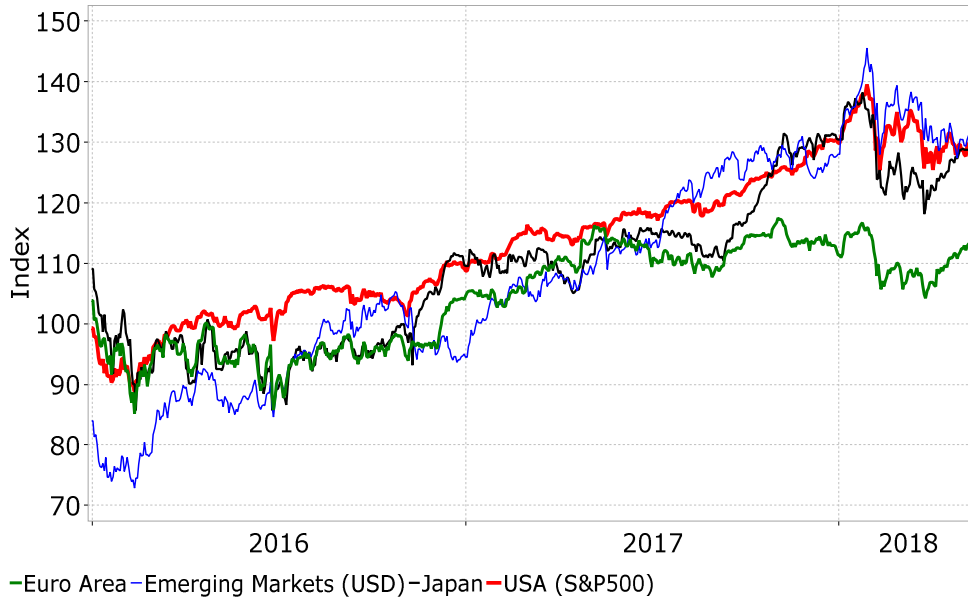
## World, IMF WEO April 2018

	2017	2018	2019
<b>GDP growth</b>	3,8	3,9	3,9

# The increase in stock prices abated this year

## Stock prices

Index 2015-01-01 = 100

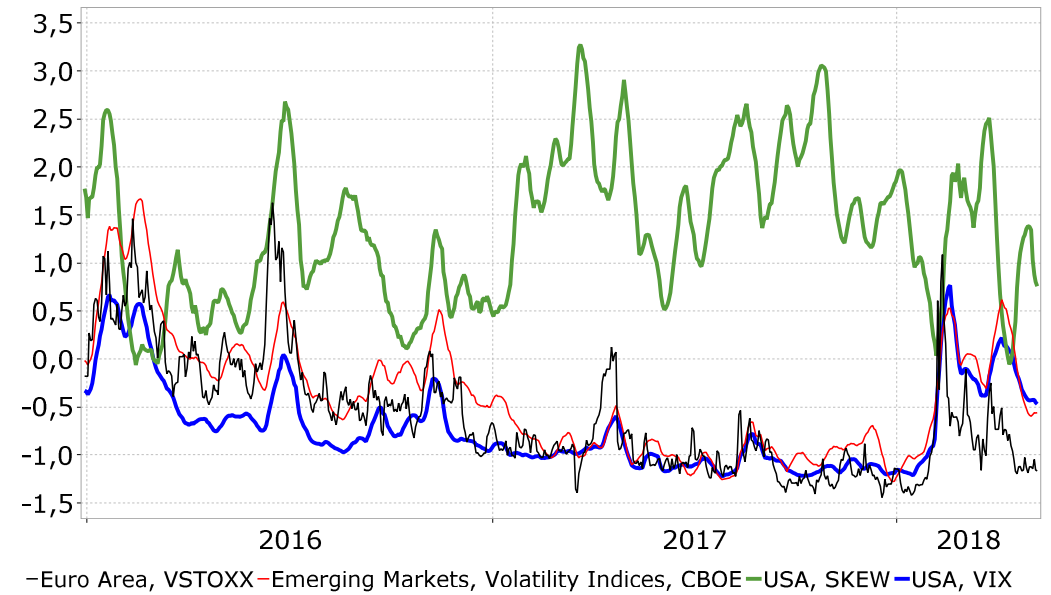


- But still no major setback.

# ... and volatility has been higher

## Stock market "risk indices"

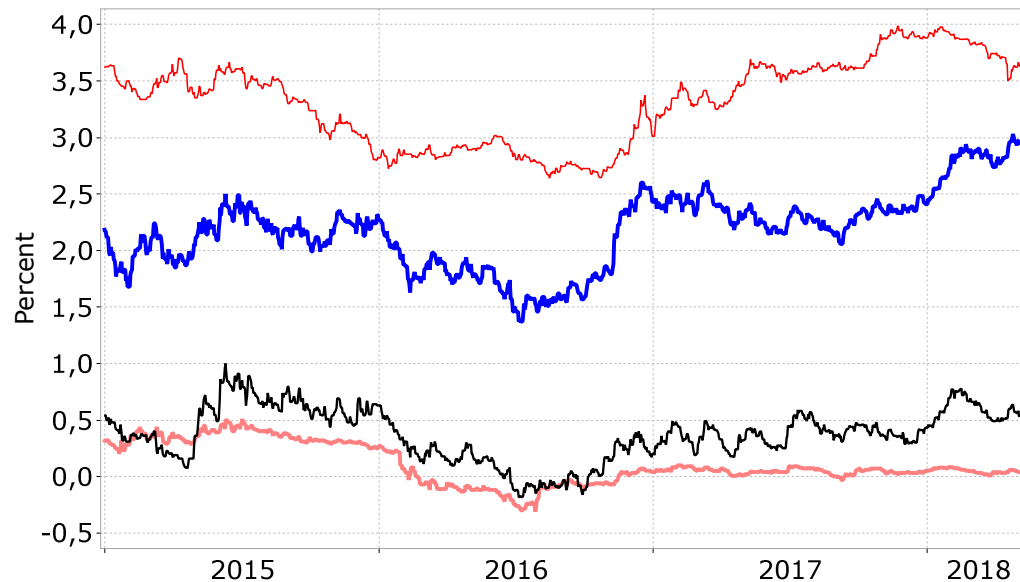
Standardised deviations from mean (since 1999-01-01, except Em. Markets since 2011-03-16), 10 day MA



- Volatility has been higher this year, though.

# Higher US interest rates

10 year government bond interest rates

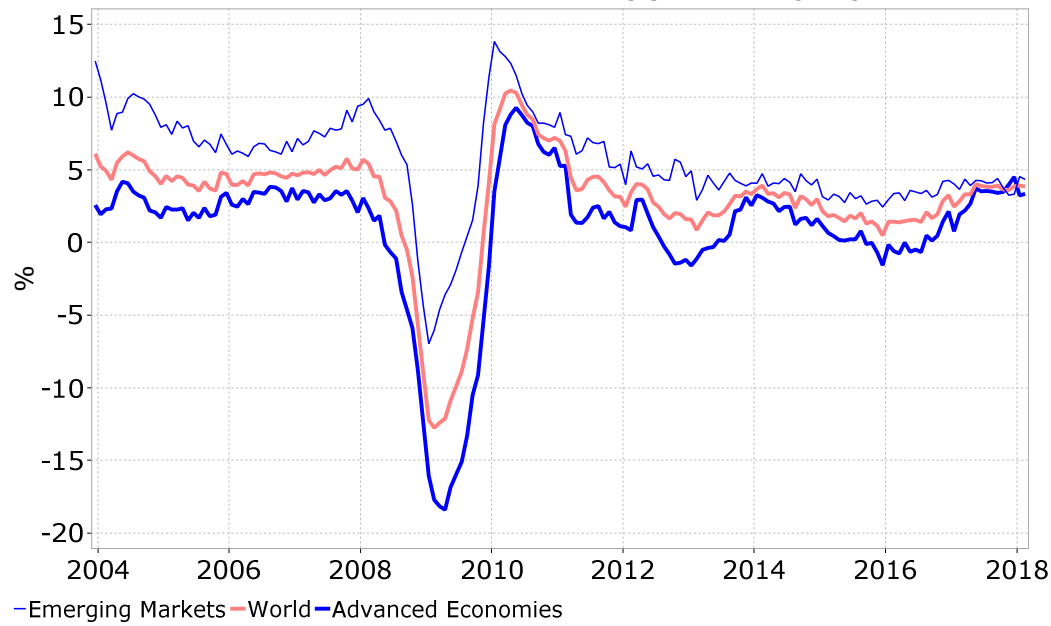


-Germany, Government Benchmarks, Macrobond, 10 Year, Yield-China -Japan -USA

- In most countries, interest rates have been rather flat this year.
- The exception is the US: the business cycle is more mature and fiscal policy will be pro-cyclical.

# Industrial production growth has risen

Industrial Production Excluding Construction, y-o-y growth, SA (CPB)

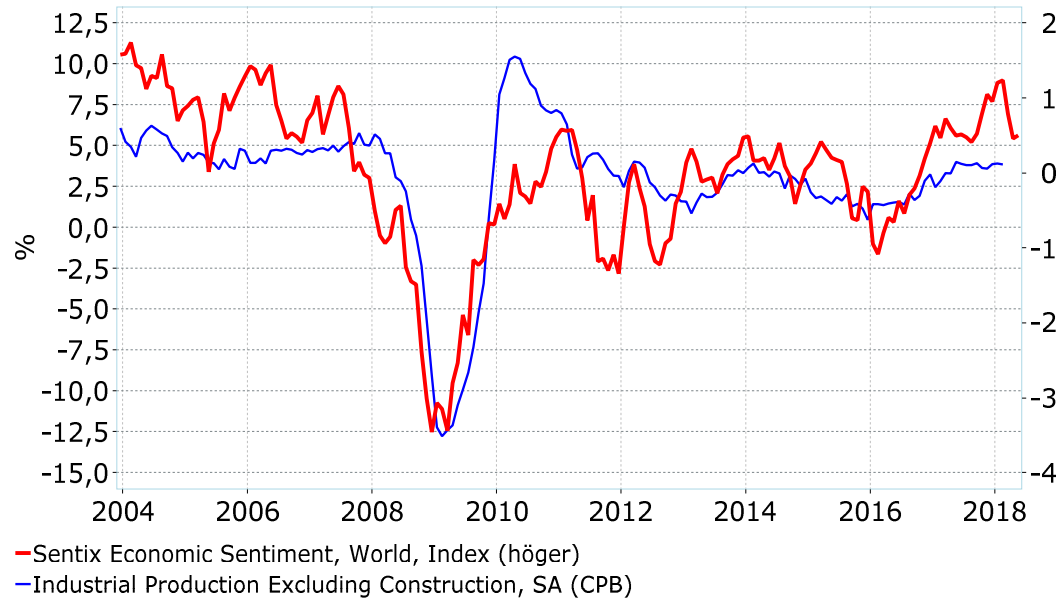


- Especially in advanced economies have growth increased.
- Signs of a slow down in advanced economies ?

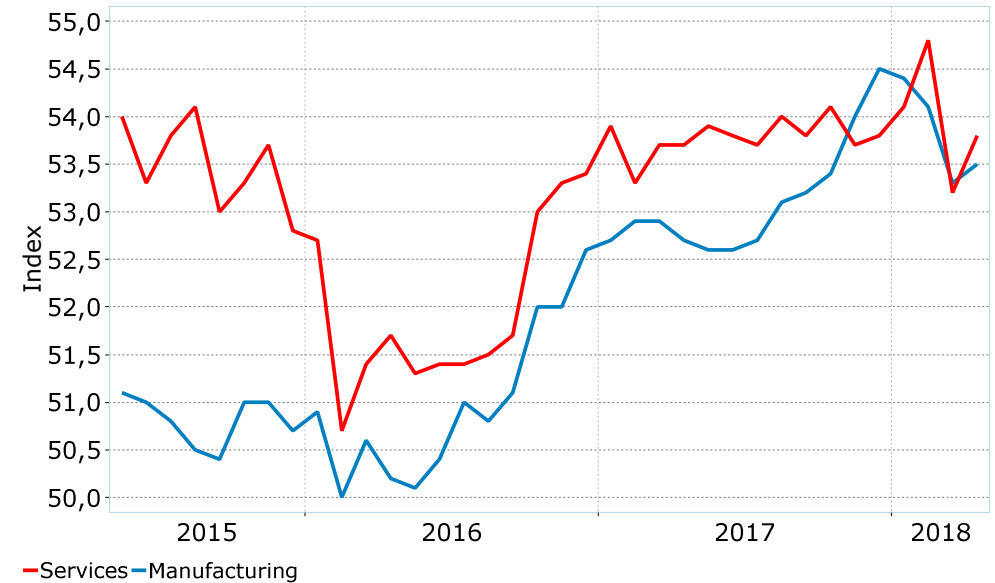
# Global sentiment indicators have fallen from high levels

## World industrial production and Sentix global index

Y-o-y growth and standardised deviation from level mean, respectively



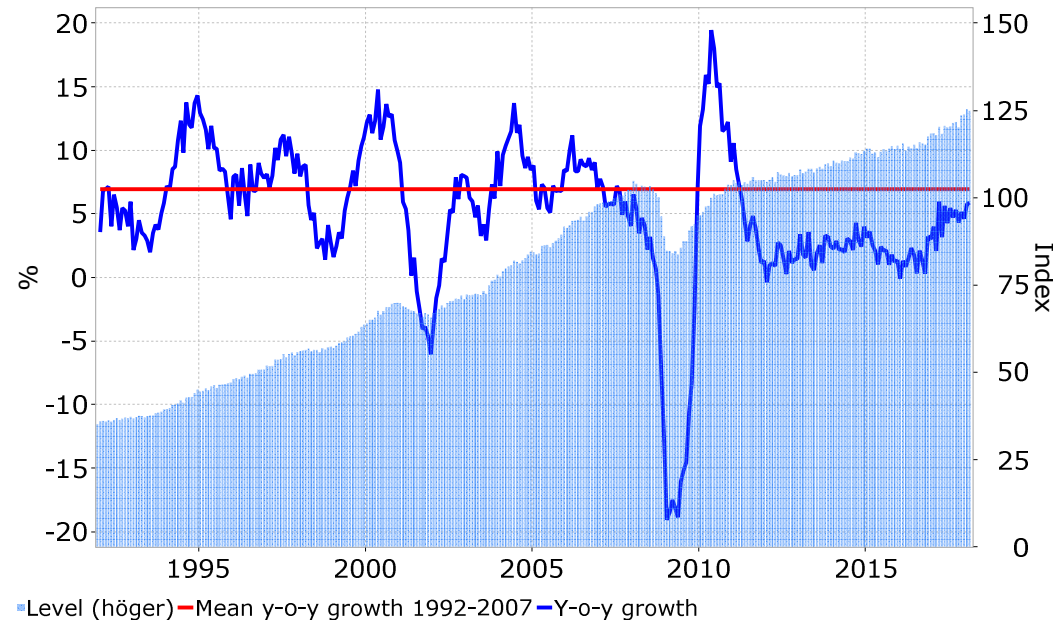
## Markit PMI, global indices



- Other sentiment indices have fallen too – from high levels.

# World trade has resumed growth

World trade in goods, volume, SA (CPB)

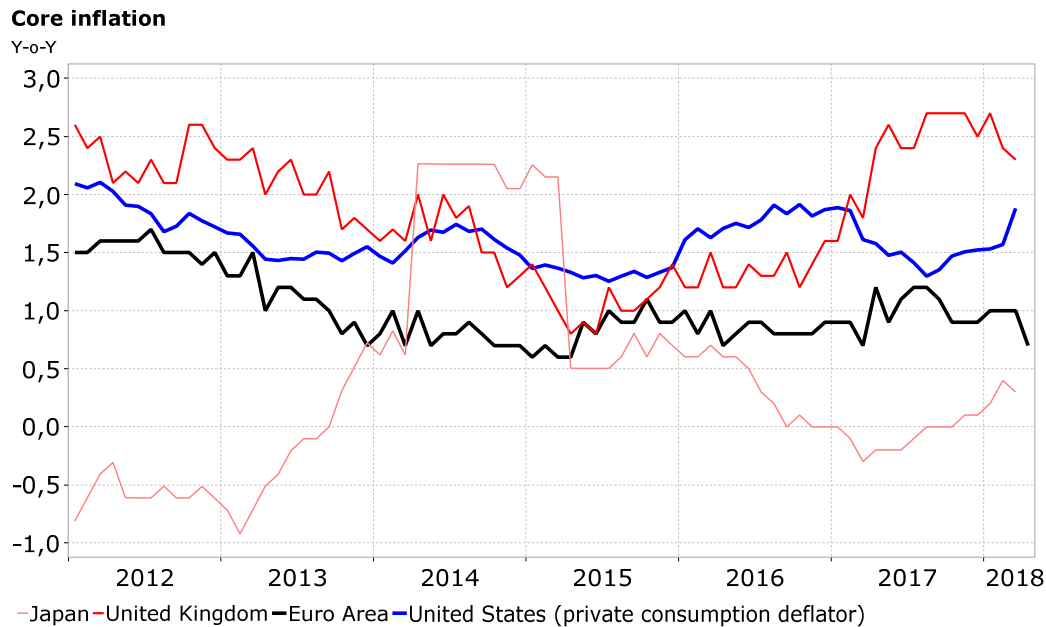


World trade in goods and services, IMF WEO April 2018

	2017	2018	2019
	4,9	5,1	4,7

- Investment activity is strong in many parts of the global economy, something which is often said to be conducive to trade growth.
- But will it reach pre-2007 levels?
- On a sustained basis, probably not: China is re-balancing, the pace of the use of global value chains have probably peaked, the trend of trade liberalization (policy) will probably slow down or even be reversed.
- Not least: the 15 years before the financial crisis was an exceptional period.
- How much does it matter for Europe?
- Will there be a trade war?
- Latest (!) new on trade policy have been positive (for a change).
-

# Core inflation varies across countries



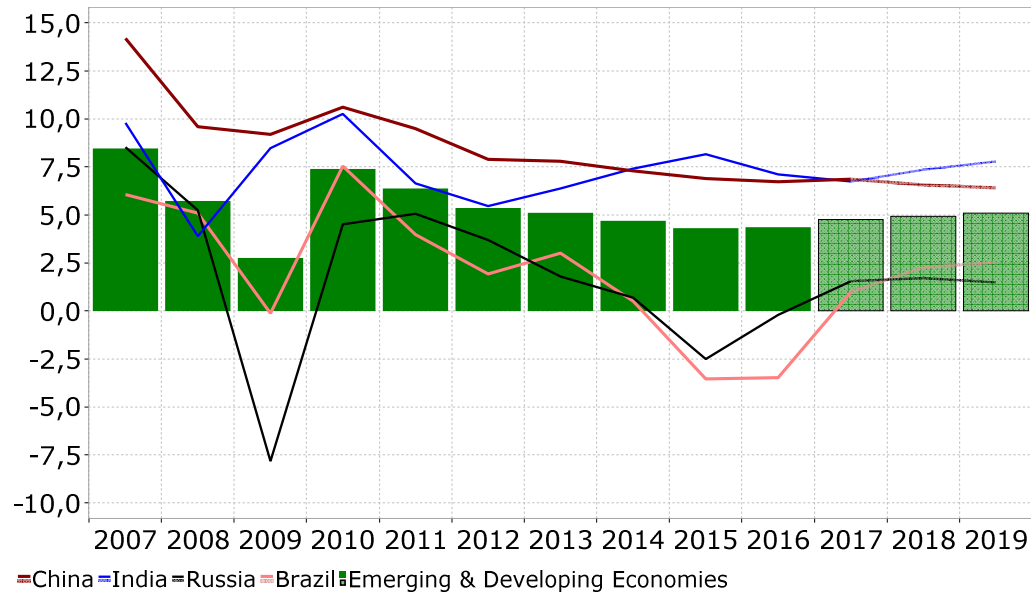
- Low inflation (considering assessments of) resource utilisation.
- Most important: wage growth is still low.
- UK is the main exception.
- Inflation is on the rise in the US (see below).



# Emerging markets

Emerging markets GDP growth

IMF WEO April 2018

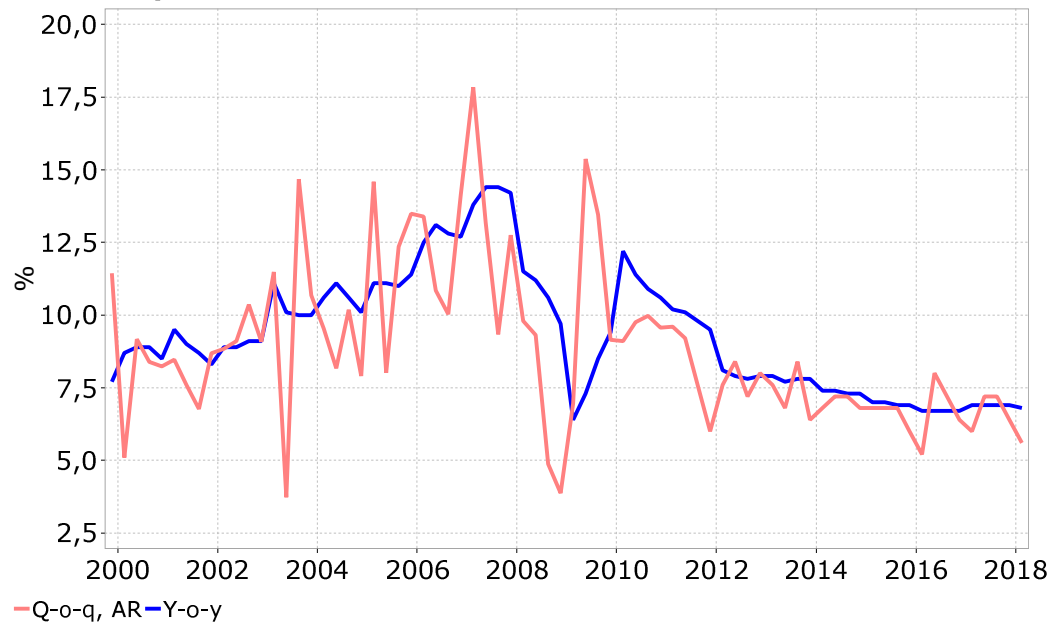


- GDP growth will increase slightly.
- Less marked downturn and thus less marked upturn than in advanced economies.
- The exceptions being Russia and Brazil.
- After recessions, these two countries are behind much of the increase in EM growth since 2016.

# China

Still robust growth at the beginning of 2018

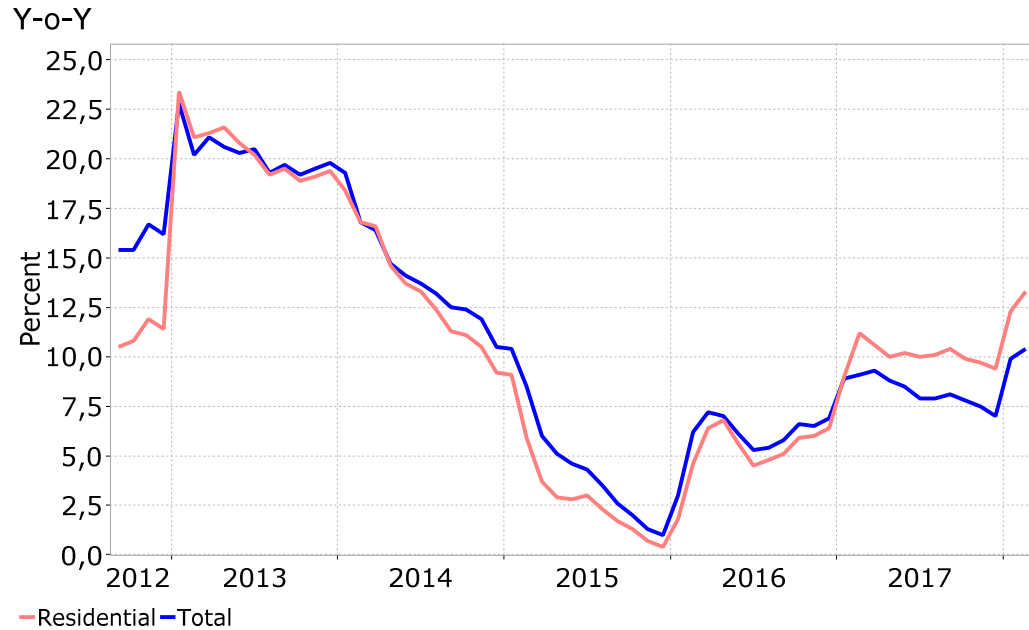
China, GDP growth



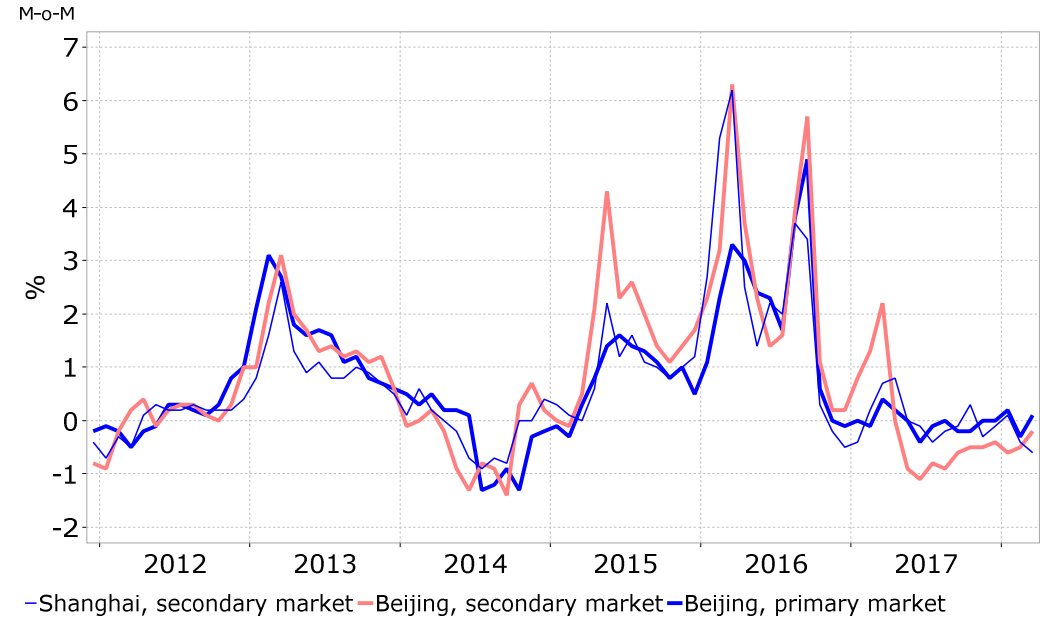
- 2018q1 GDP growth (y-o-y): 6,8%.
- Apparently, private investment growth was strong.

## Increased construction growth at the beginning of this year

China, construction investments



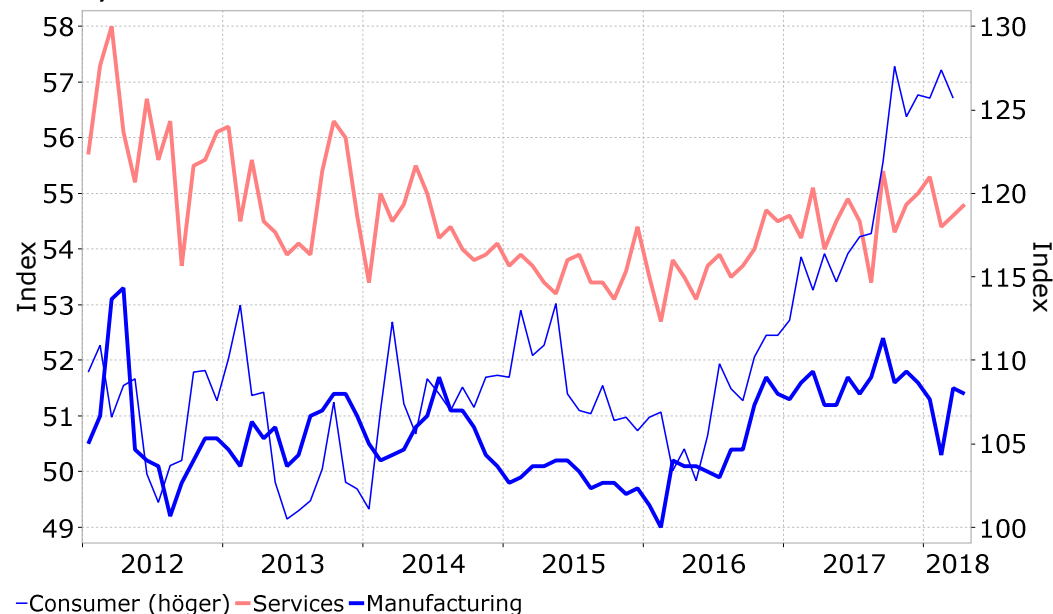
China, residential real estate prices



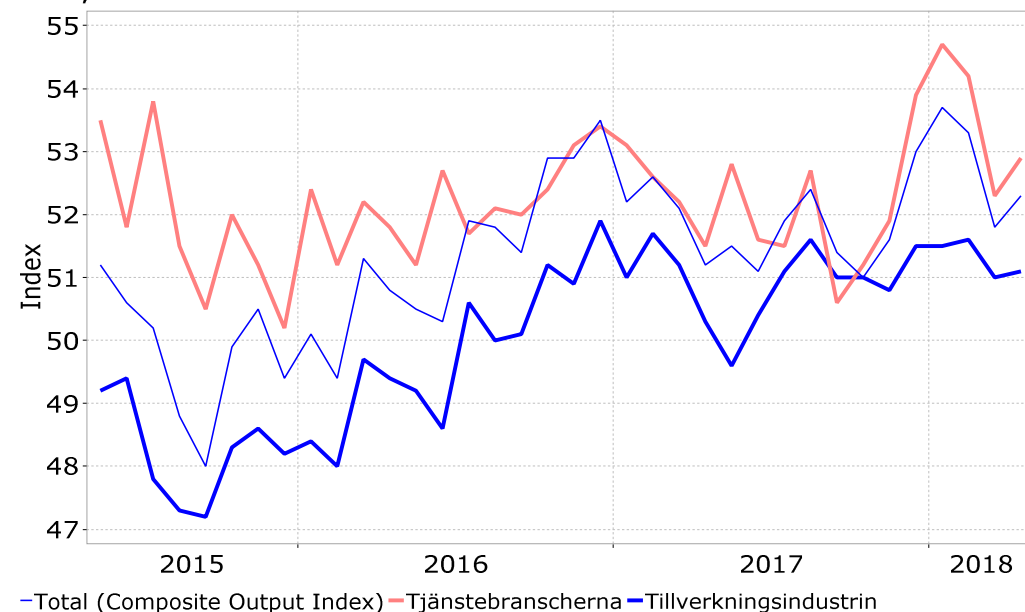
- One area where still problems with over-capacity: real estate.
- Still, the fall in real estate prices have been dampened.

## Sentiment indices are still on relatively high levels

### China, sentiment indices



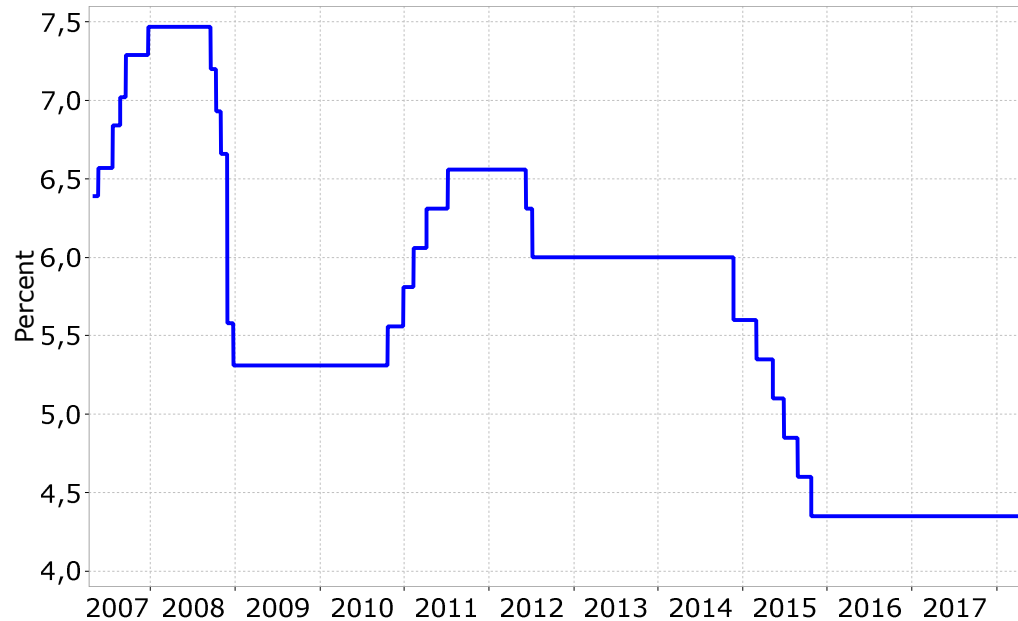
### China, Markit PMI



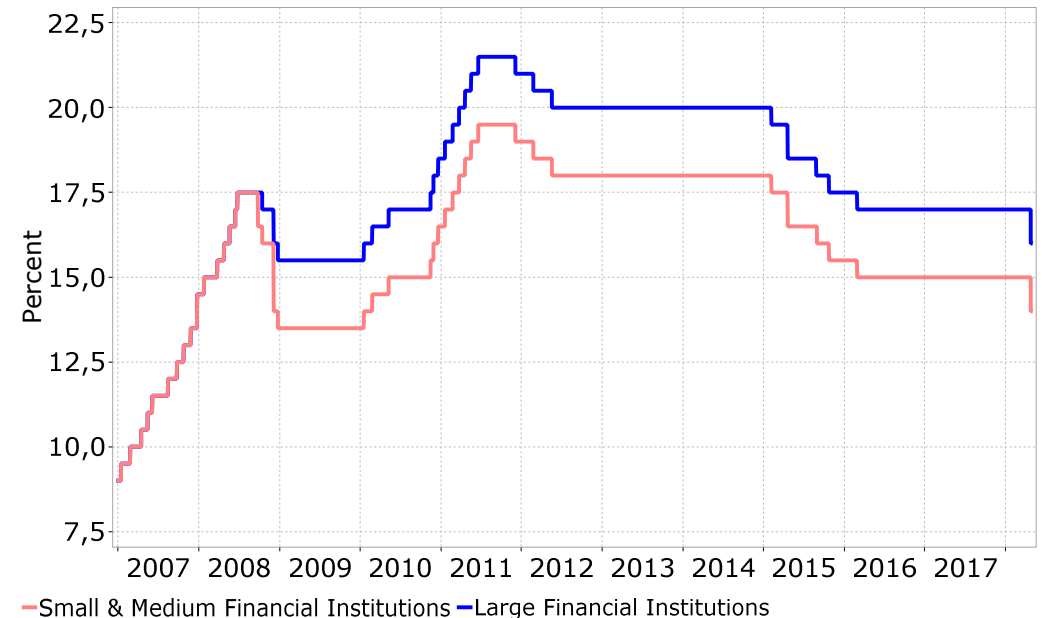
- If some of these – and monthly economic data – are used in short term GDP-models, they typically imply that growth during this year will be a little lower than last year.

# Economic policy has been expansionary

China, policy rate



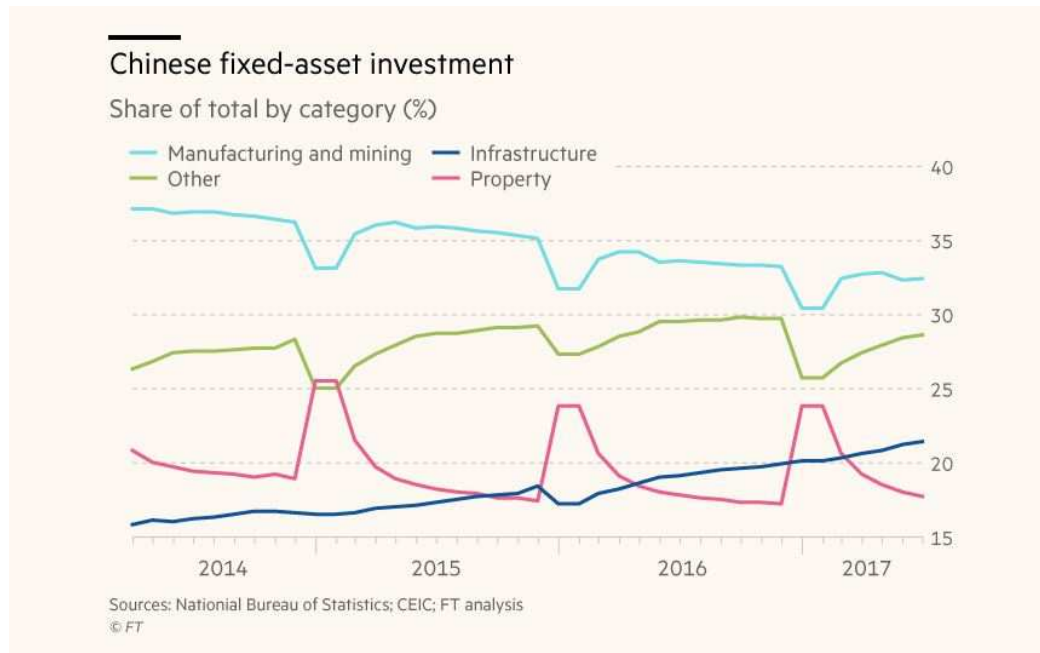
China, reserve requirement ratio



- The policy rate and the reserve requirement ratio have been unchanged since late 2015/ early 2016. These measures are widely considered to have stimulated growth during 2016 and 2017.
- Most experts have expected that the next move will be in the direction of tightening.

- 18 of April, however, PBoC lowered the reserve requirement ratio.
- The move was said to be aimed at small firms.

## ... including infrastructure investments



- Chinese government has shifted investments from manufacturing (“dirty industries”) to infrastructure.
- Many analysts expect infrastructure growth to be lower from this year.
- One reason is that measures have been taken to dampen credit growth (and more measures are on the way), not least in shadow banking and regional public borrowing.
- Some restrictive measures have also been taken in the residential market, e.g. more restrictive rules regarding mortgages.

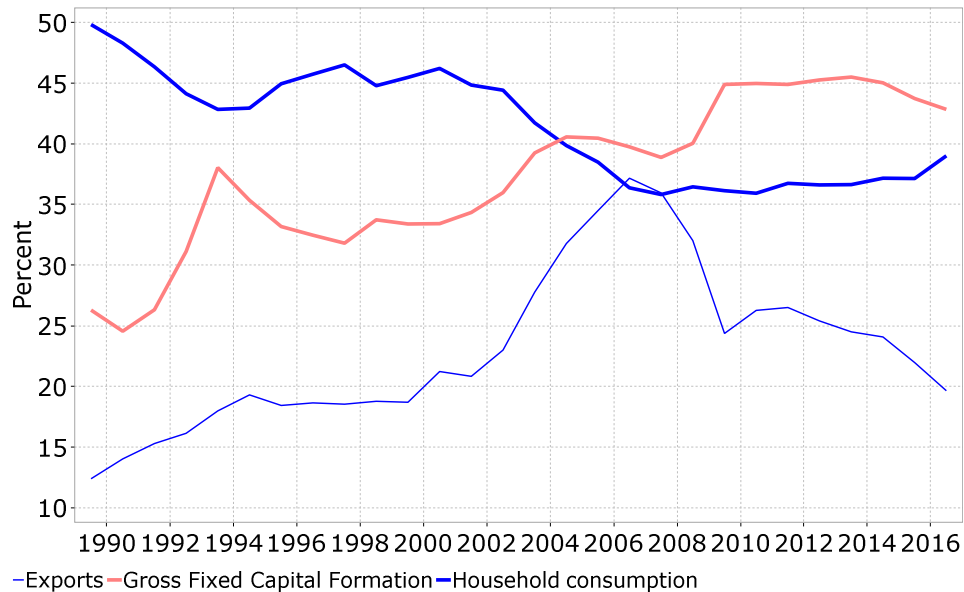
### China forecasts, IMF WEO April 2018

	2017	2018	2019
GDP growth	6,9	6,6	6,4
Inflation	1,6	2,5	2,6

- Together, these factors point to a resumption of the gradual decline in GDP growth ahead.
- The great risk is that the re-balancing from an investment-driven economy with overcapacity to a more consumption-driven economy will not be gradual, but abrupt.

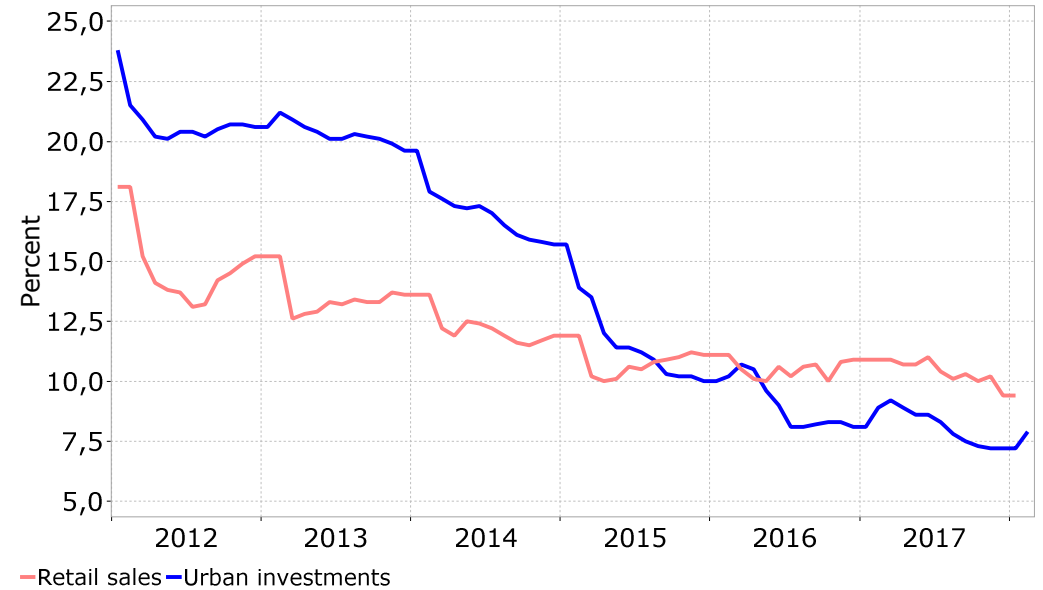
# Re-balancing has begun, but still long way to go

China, shares of GDP



China, retail sales and urban investments

Y-o-y, current prices



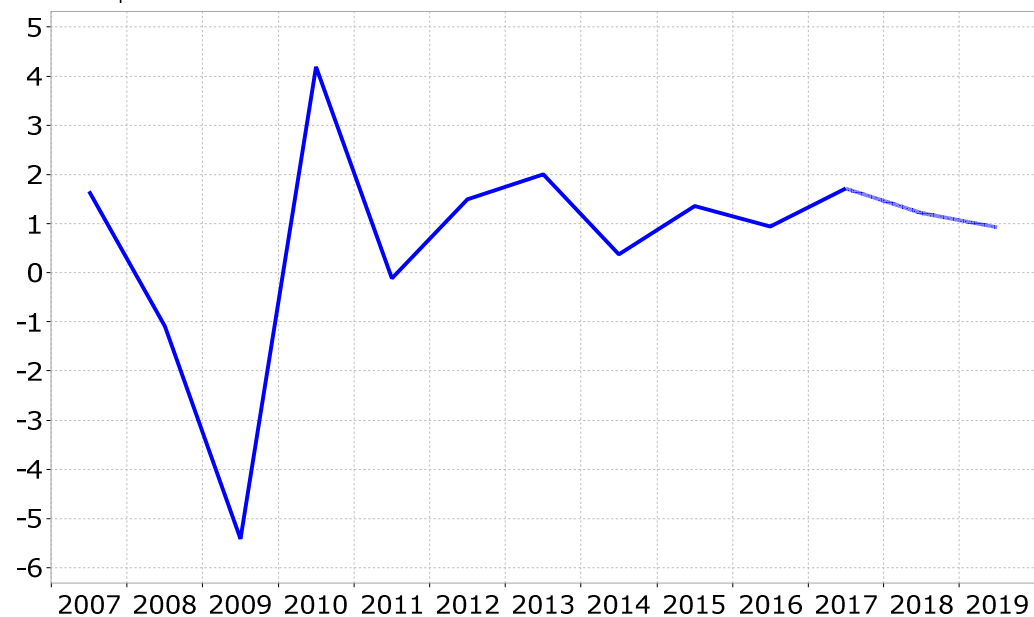


# Japan

**Reasonably strong 2017. Lower growth ahead.**

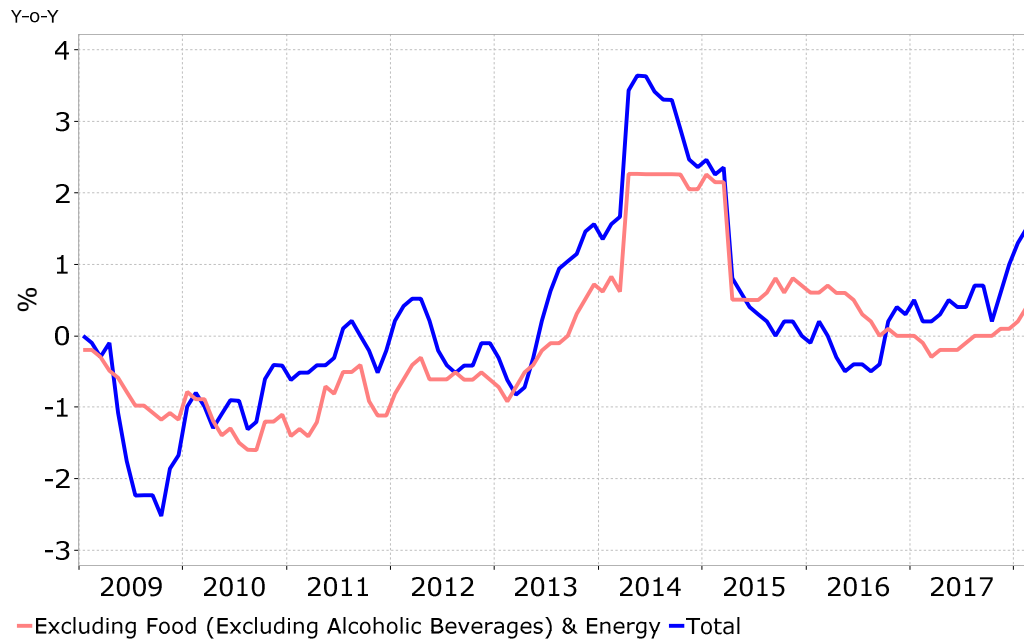
## Japan, GDP growth

IMF WEO April 2018

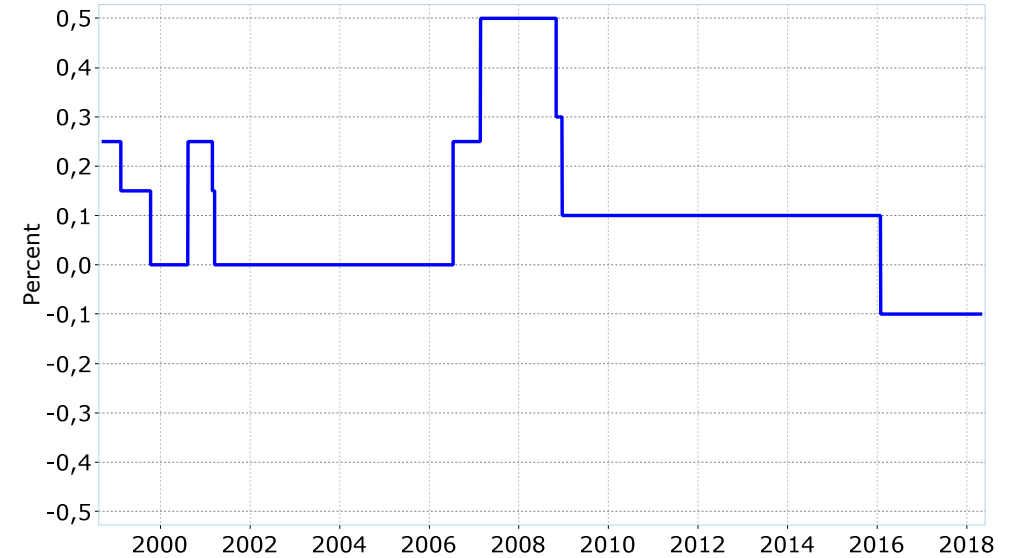


# Japanese inflation has increased, mostly due to energy

Japan, CPI



Japan, policy rate



BoJ will probably start to gradually increase the policy rate next year.

### Japan forecasts, IMF WEO April 2018

	2017	2018	2019
GDP growth	1,7	1,2	0,9
Inflation	0,5	1,1	1,1

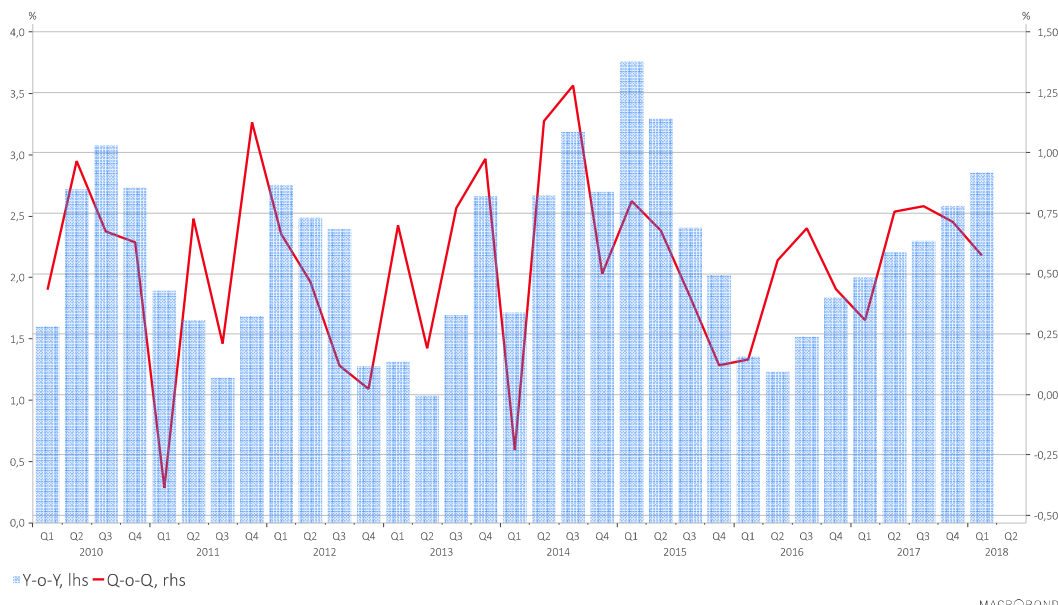
- GDP growth will decline (but still be above potential growth). 2019 affected by the VAT increase.
- Inflation will increase, but not hit target.

# USA

## Lower growth at the beginning of 2018

USA, GDP growth

Frequency: quarter

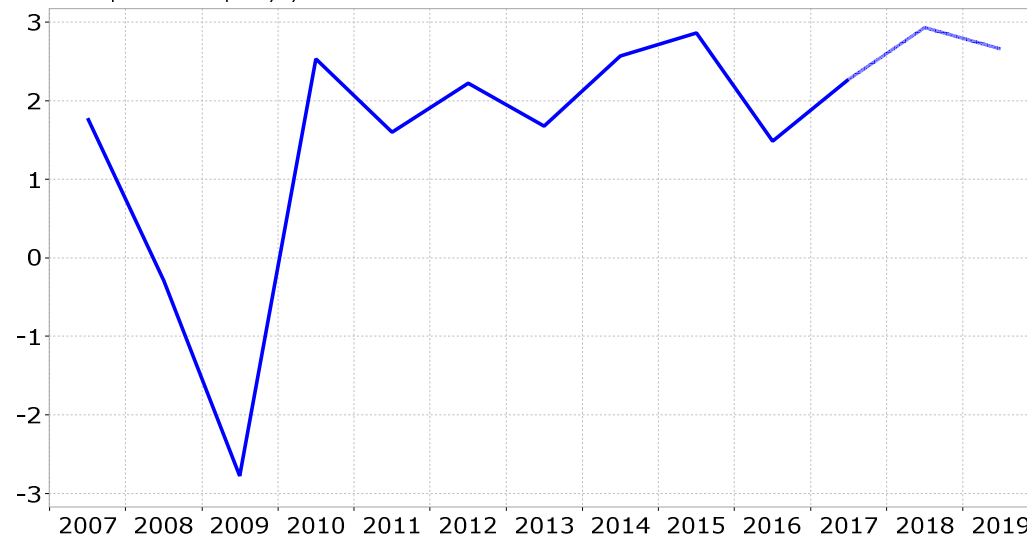


- GDP growth slowed in 2018q1, probably slightly more than was generally anticipated.
- Growth in household consumption, residential investments and public sector investments all fell quite considerably. Note that it was after a strong 2017q2, though.
- Import growth also fell markedly, and growth in total demand was almost halved compared to (the very strong) 2017q4.
- Q1 normally is revised upwards.

## But the outlook for 2018 and 2019 is still bright

USA, GDP growth

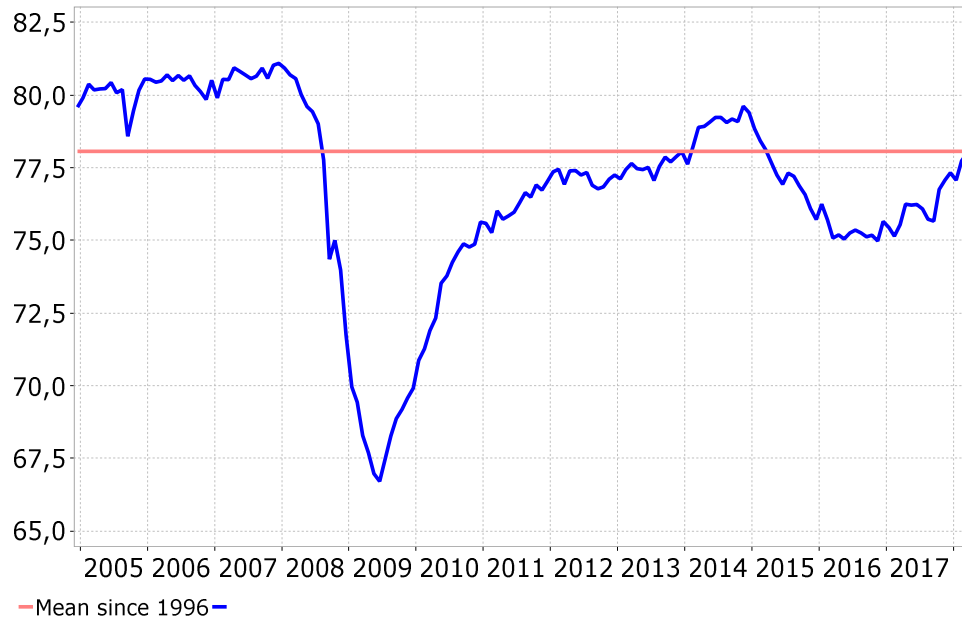
IMF WEO April 2018. Frequency: year



- IMF expects GDP growth of 2,9% this year and 2,7% next year.
- This is approximately 1 pp higher than a consensus estimate of potential growth.

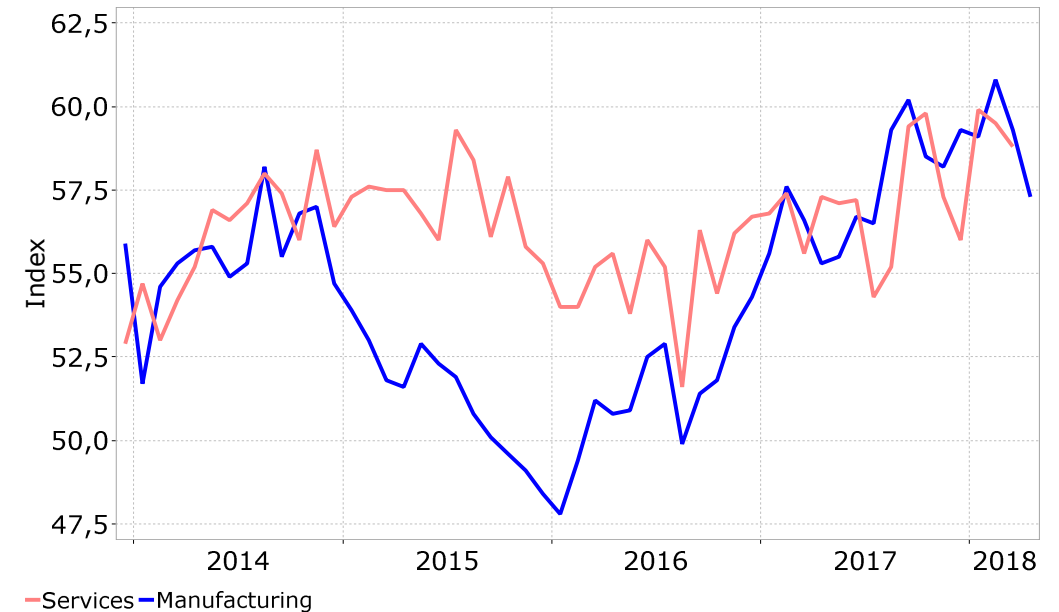
# Mixed signals lately

USA. Capacity utilisation rate, manufacturing



- Rising capacity utilisation gives credence to the story of an investment-driven boom.

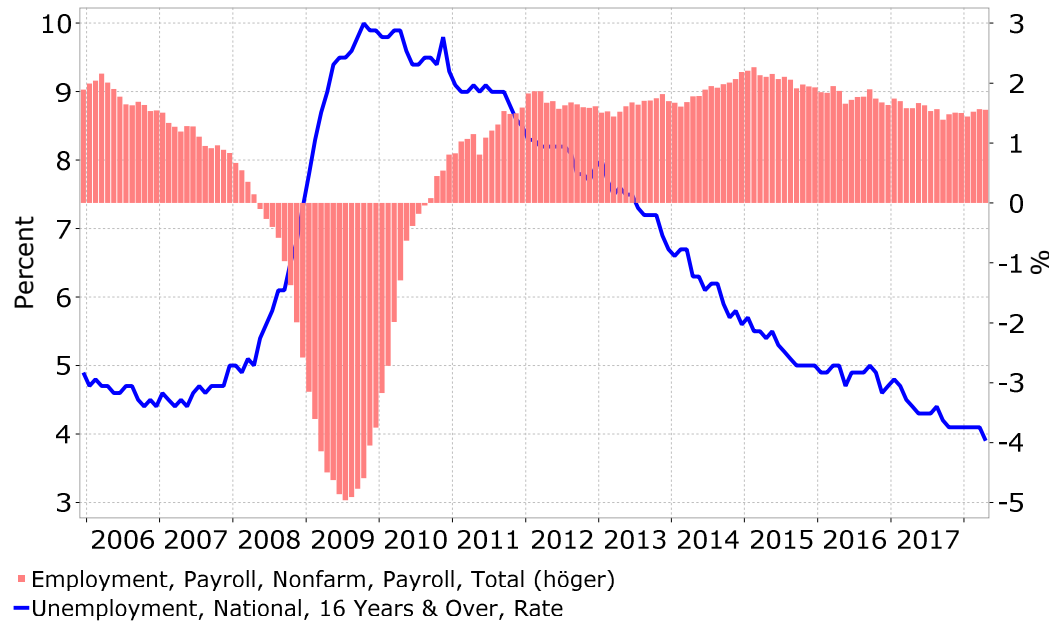
USA. Purchasing managers indeces (ISM)



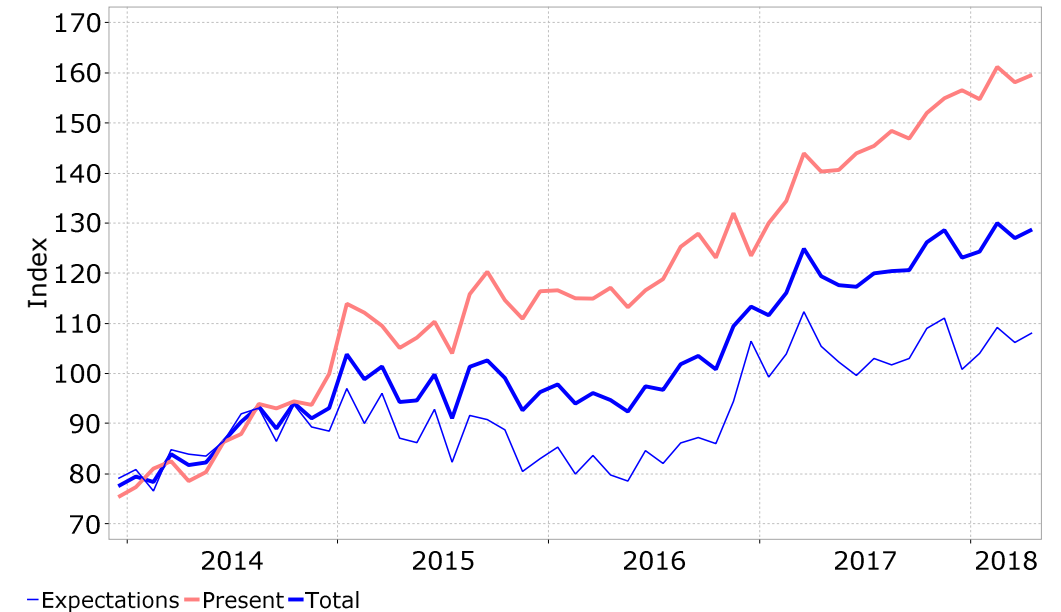
- Many sentiment indeces have fallen, but are still elevated and clearly above normal.
- The falling indeces imply a risk to the IMF (implicit) forecast of GDP growth during the remainder of 2018 that is at least as high as during the second half of 2017.

# The US consumer should be able and willing to contribute

USA, Labour market



USA. Consumer confidence (Conference Board)

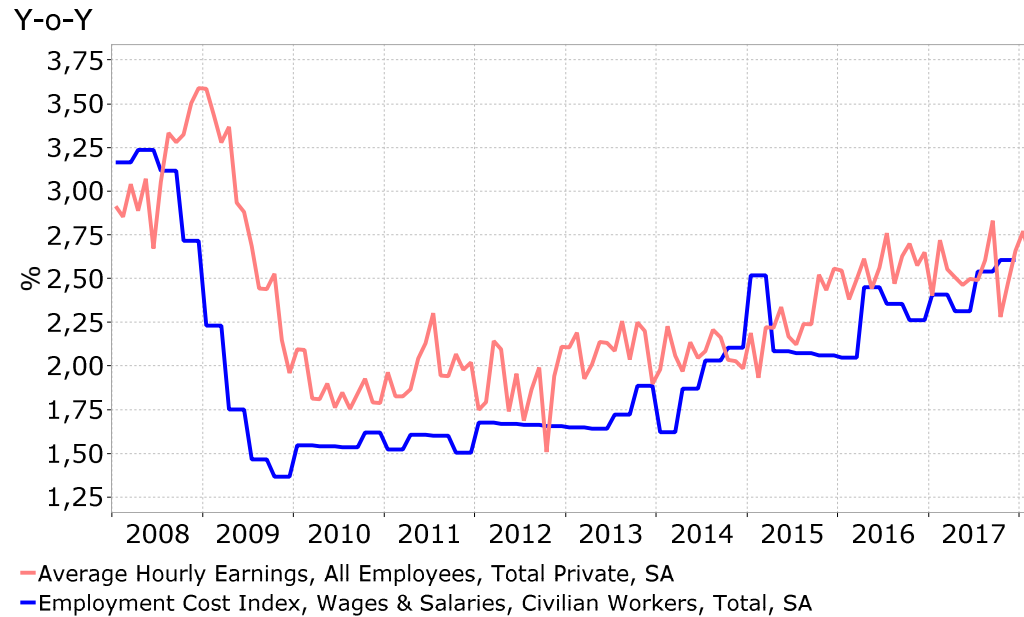


- The labour market is still very strong.
- The unemployment rate in april of 3,9% has not been seen since the end of 2000.
- Note that the participation rate is still low, however (62,8% in april).

- It looks like US consumers are are expecting worse times ahead.
- But note that all three indeces are approximately one standard deviation above their mean.

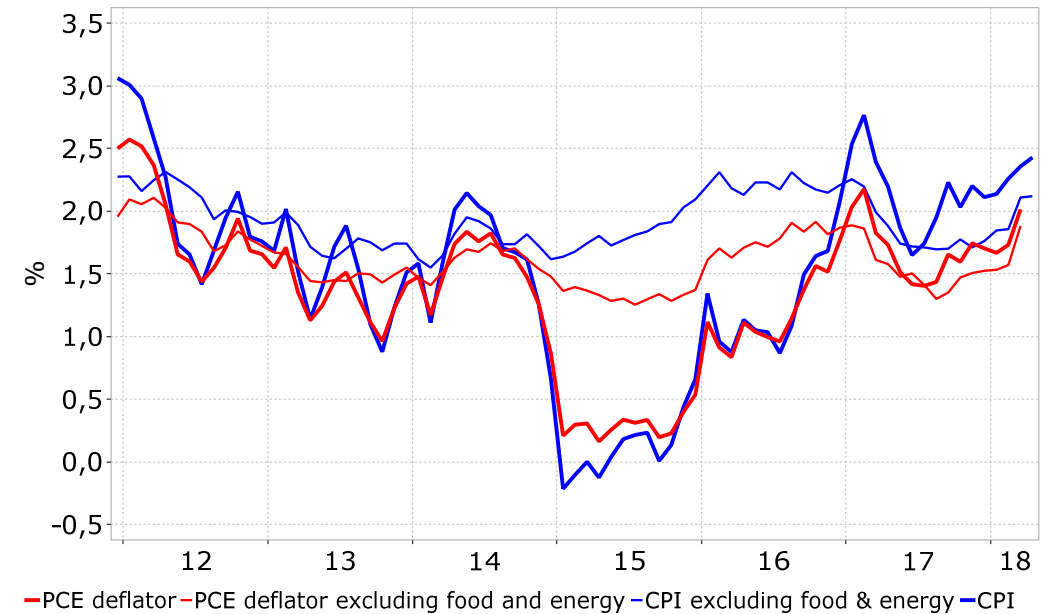
# Can wage inflation *not* increase...?

## USA, labour costs



- Wage growth is still subdued given most measures of labour market slack.
- The april increase of 2,6% (yoy) was slightly lower than anticipated.

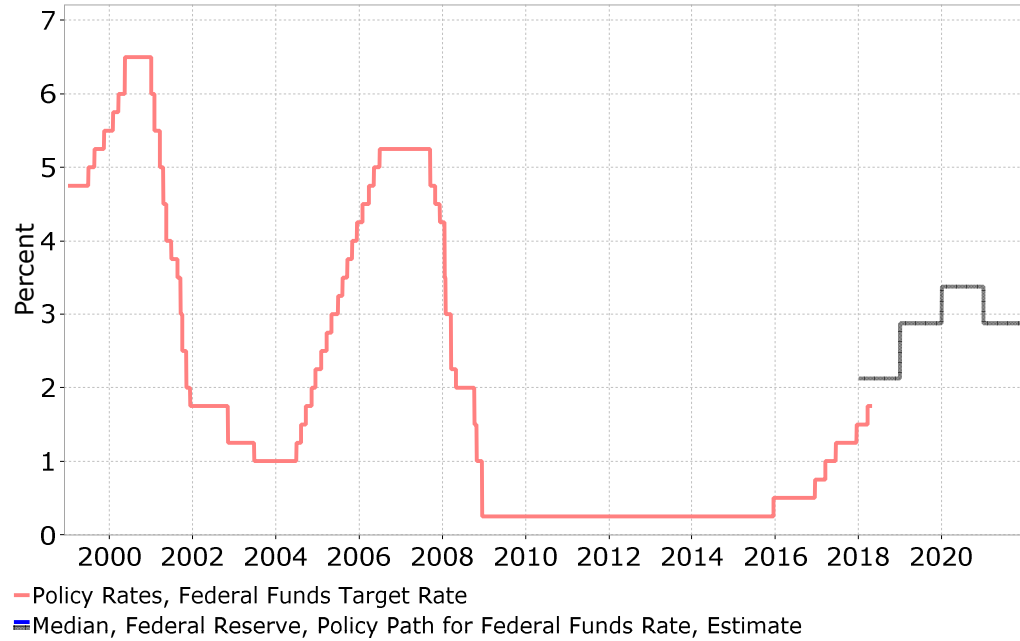
## USA, inflation



- But inflation seems to be on the rise – and has reaches the Fed target lately.
- If inflation is already on target what will happen when wages do accelerate?

# Fed policy rate will continue to increase

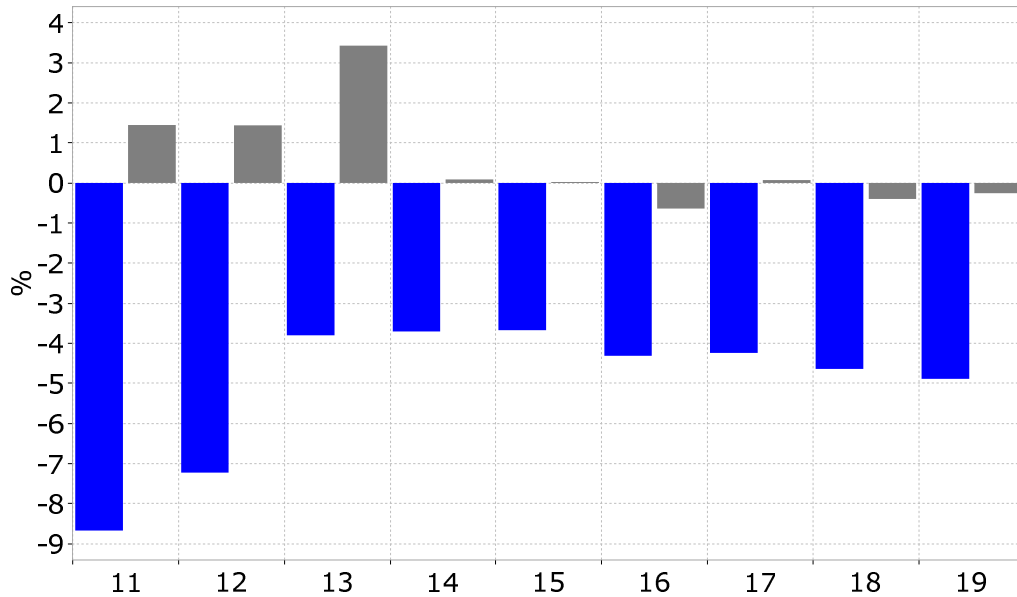
USA, policy rate





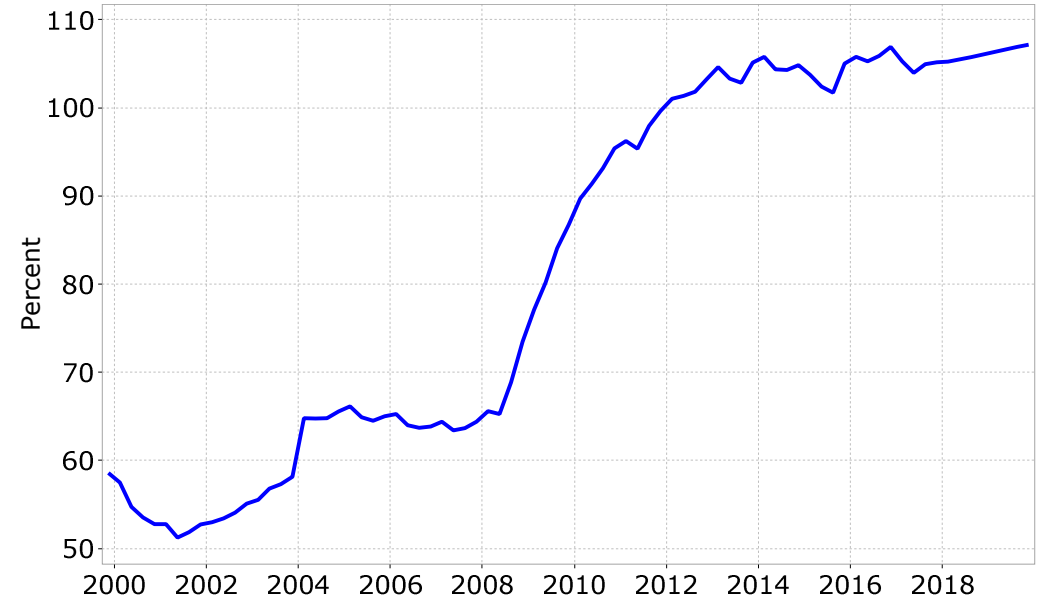
# Fiscal policy will be expansionary and public debt will increase further

USA, Cyclically adjusted government net lending



■ Cyclically Adj. Gov. Net Lending, Percentage of Potential GDP, OECD Economic Outlook  
 ■ Y-o-Y (i.e. "fiscal stance")

USA, Public debt

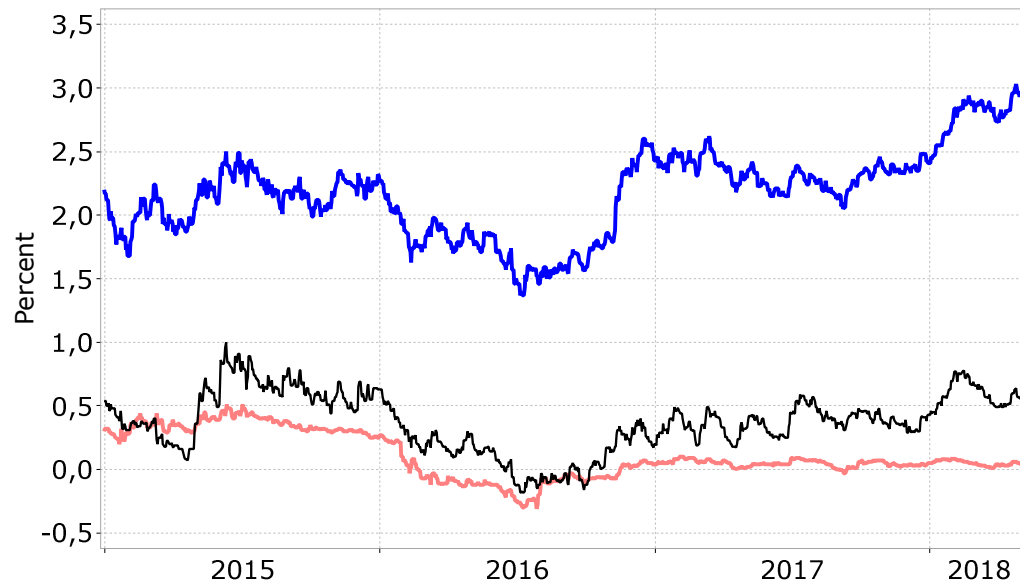


— General Gov. Gross Financial Liabilities, Percentage of GDP, OECD Economic Outlook

- These (OECD) forecasts are from November.
- An update would show a more expansionary fiscal policy and most likely a higher level of public debt.

## ... already having effects on interest rates

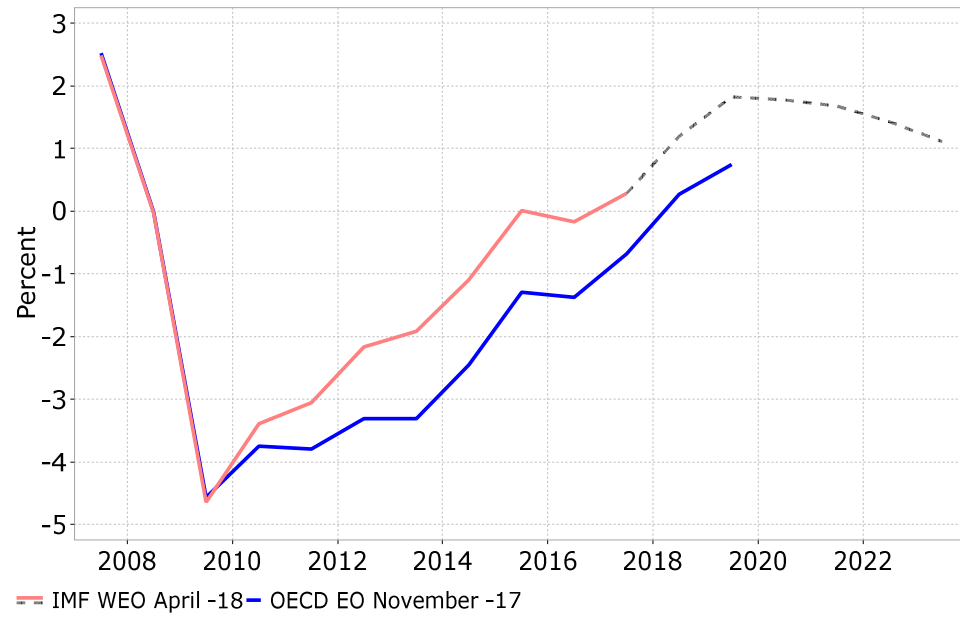
10 year government bond interest rates



-Germany, Government Benchmarks, Macrobond, 10 Year, Yield -Japan -USA

# A long boom awaits ?

USA, GDP gap



**US forecasts, IMF WEO April 2018**

	<b>2017</b>	<b>2018</b>	<b>2019</b>
GDP growth	2,3	2,9	2,7
Inflation	2,1	2,5	2,4

- Growth will increase further.
- Inflation will hover around the Fed target.