

AIECE General Meeting | Den Haag | Spring 2019

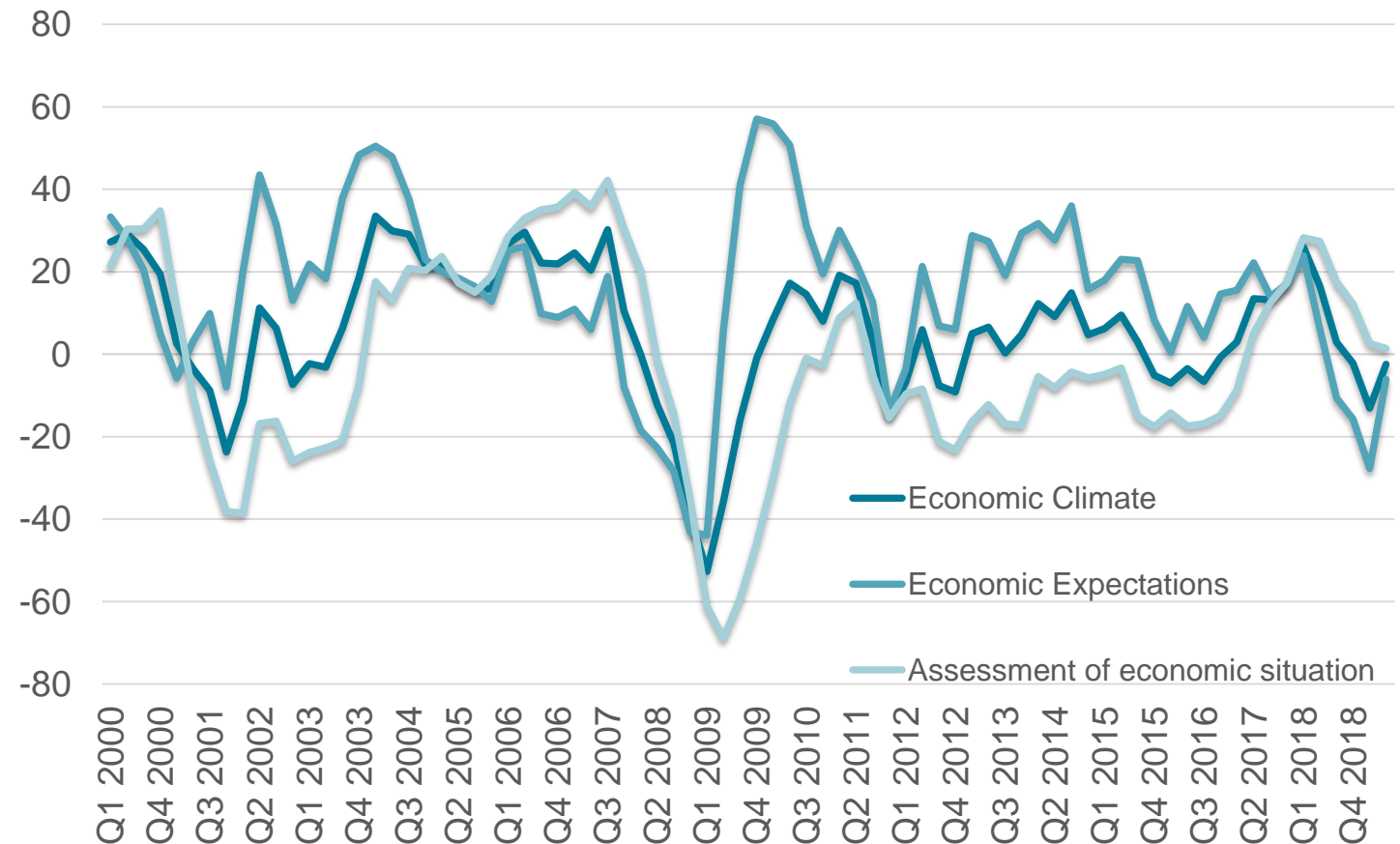
The Outlook for the World Economy

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09. May 2019

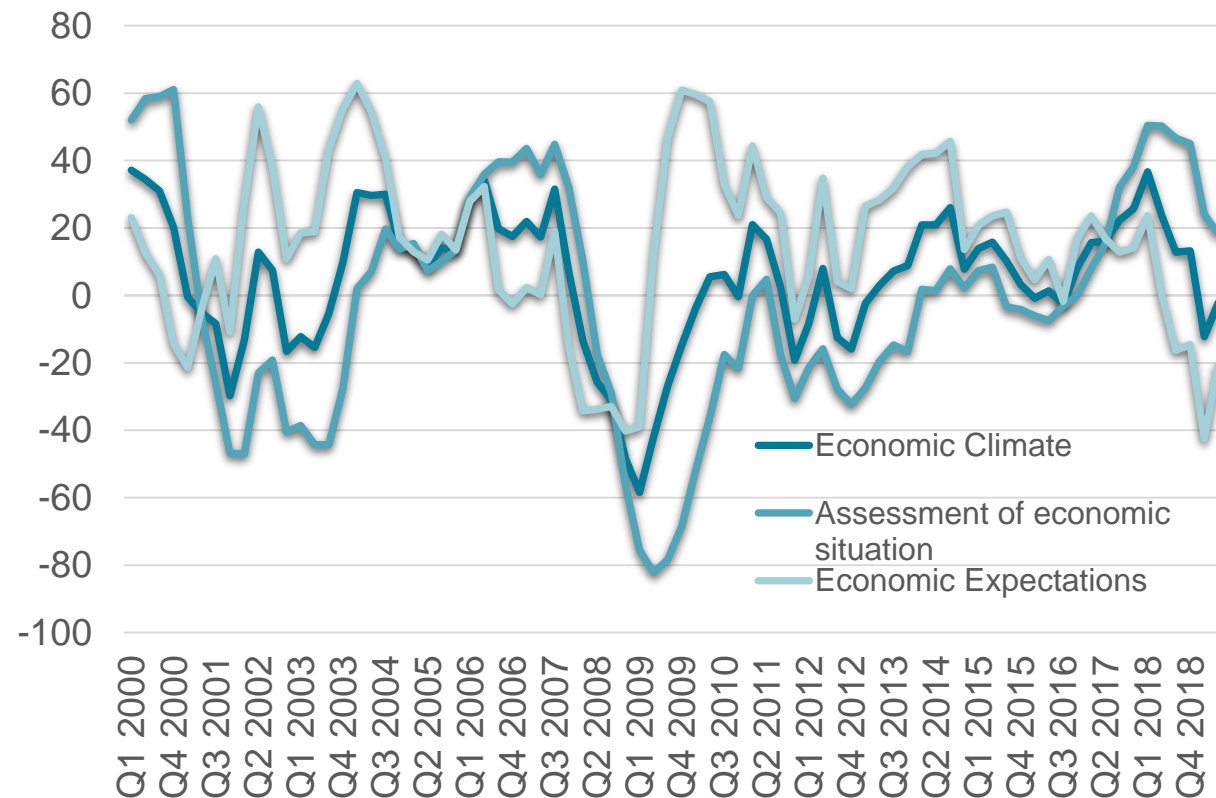
Global sentiment stabilized on low levels

- Ifo World Economic Survey shows a downward trend since the beginning of 2018.
- Stabilization in Q2, especially due to rebound of expectations.
- Recovery originating both in advanced and emerging markets.

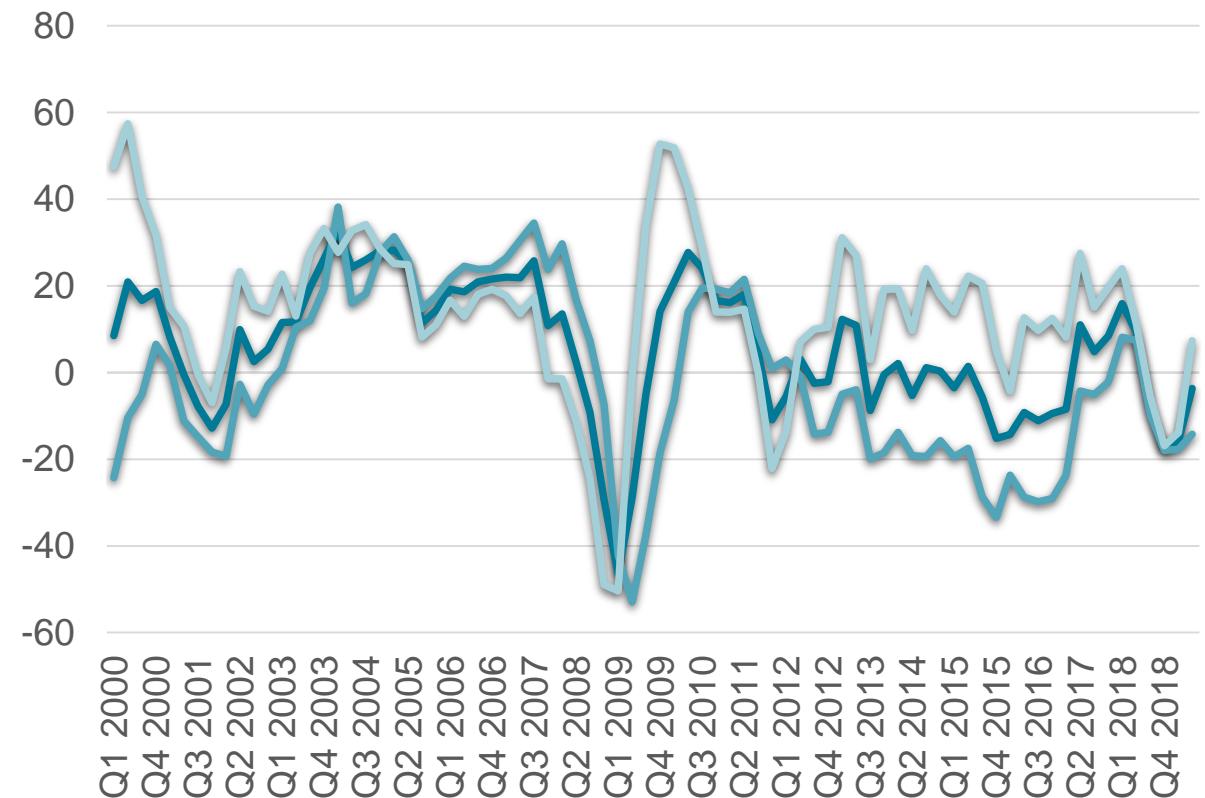


Advanced and emerging economies weak but stabilizing

Advanced economies



Emerging market and developing economies



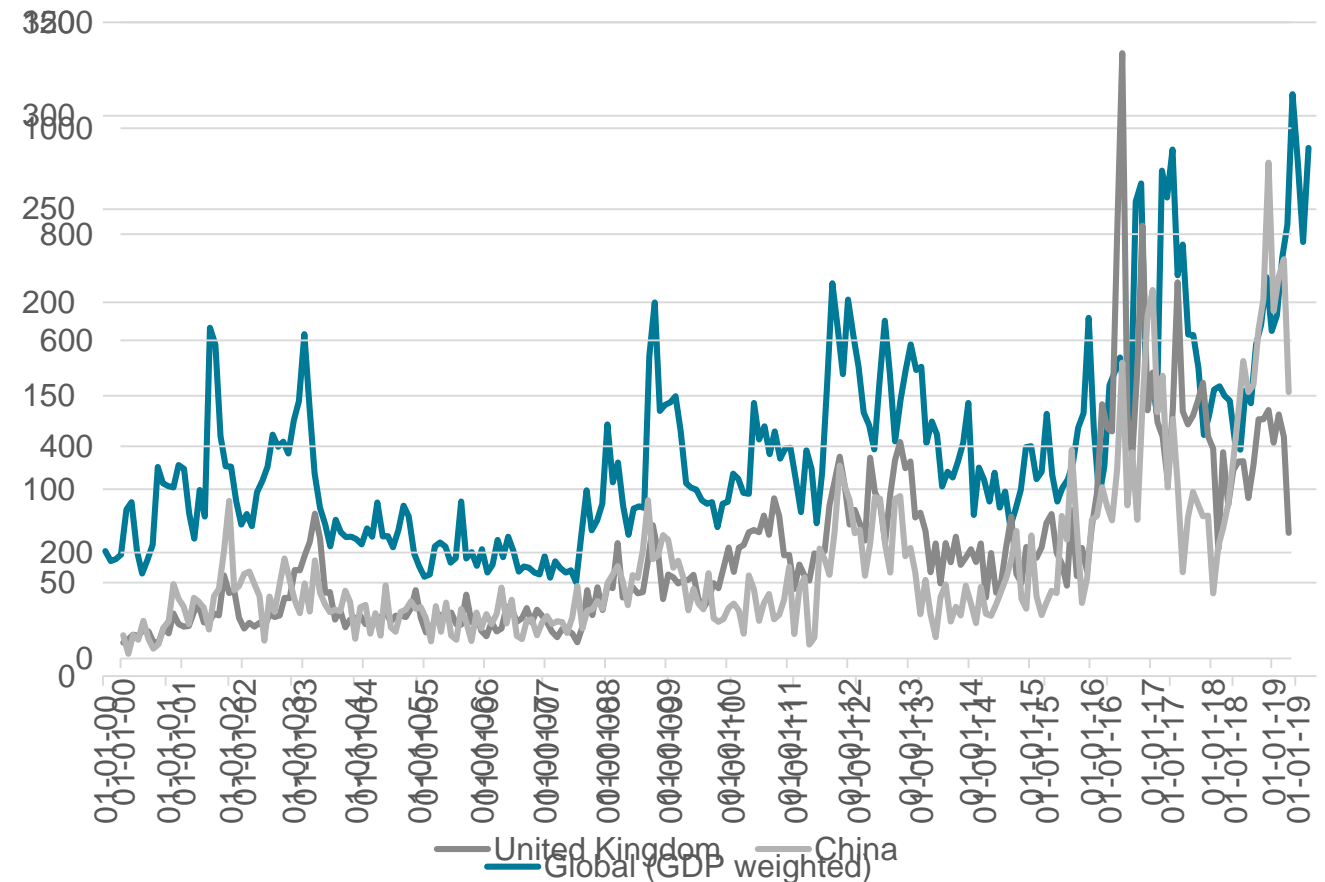
Policy uncertainty weighs on sentiment

- Policy uncertainty reached record values in December 2018 and stayed elevated.
- Several factors drove uncertainty:
 - Brexit
 - Trade wars
 - Monetary policy
 - Global political tensions
- Most factors mitigated, but then:

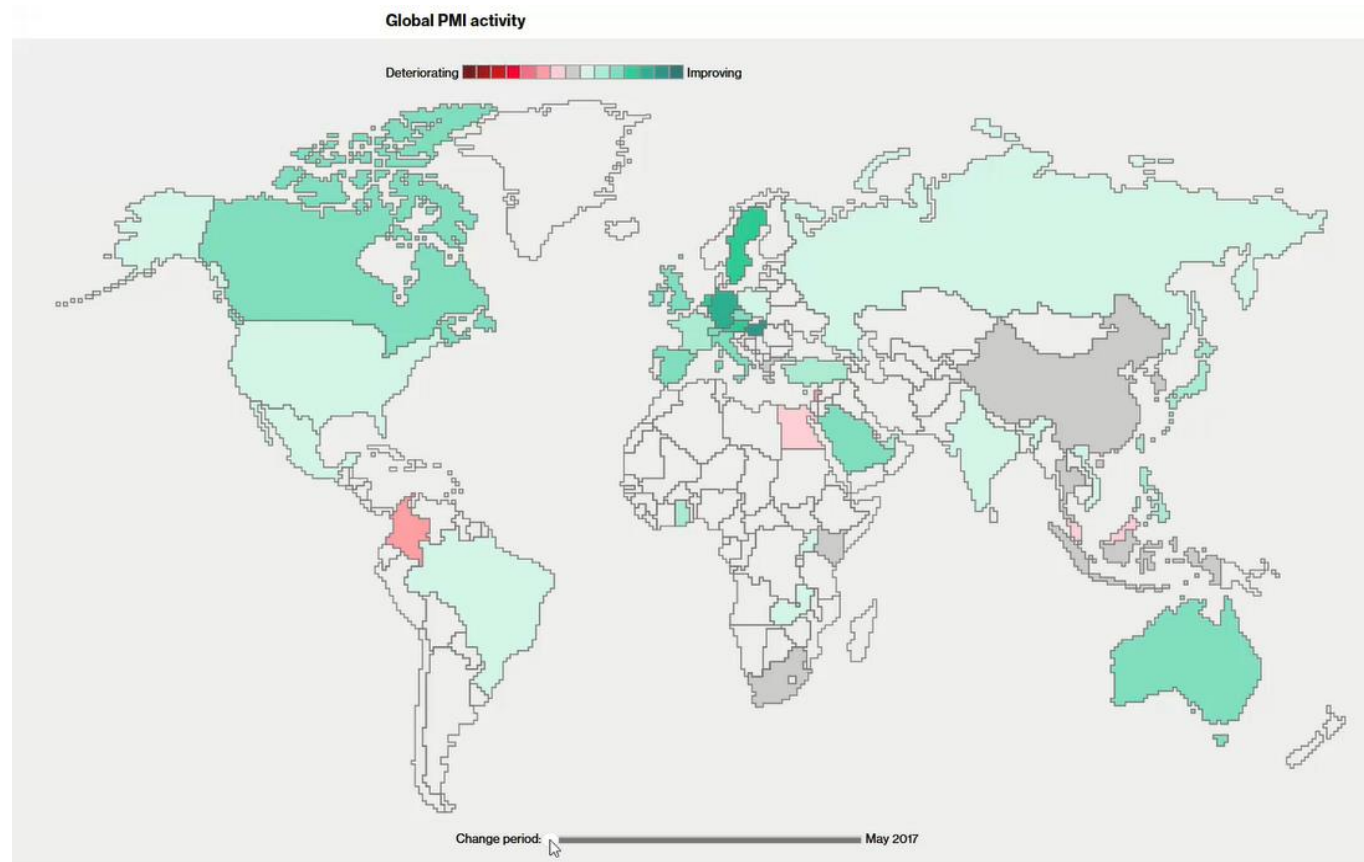


For 10 months, China has been paying Tariffs to the USA of 25% on 50 Billion Dollars of High Tech, and 10% on 200 Billion Dollars of other goods. These payments are partially responsible for our great economic results. The 10% will go up to 25% on Friday. 325 Billions Dollars....

12:08 PM · May 5, 2019 · Twitter for iPhone

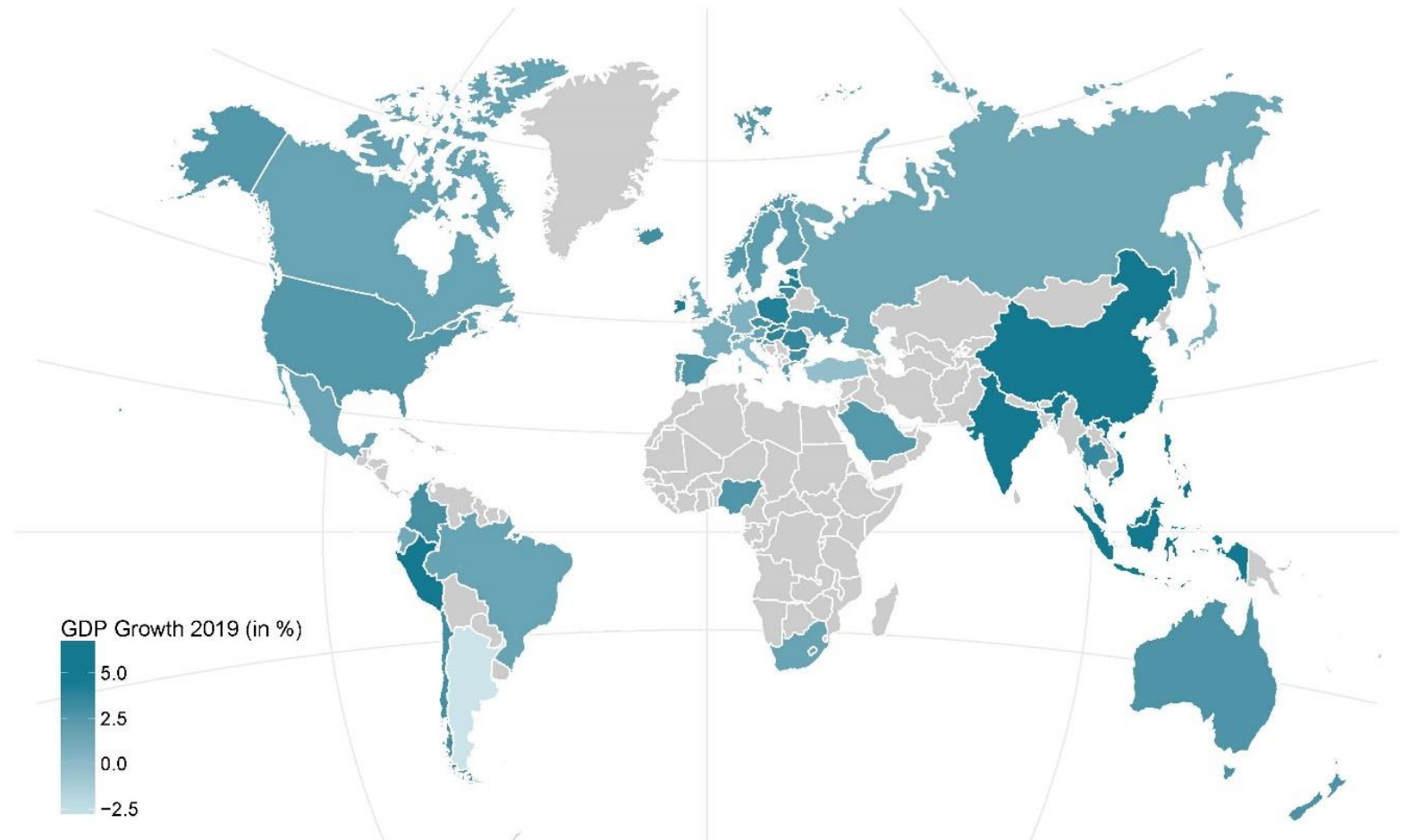


Global PMI activity stabilized recently on low levels

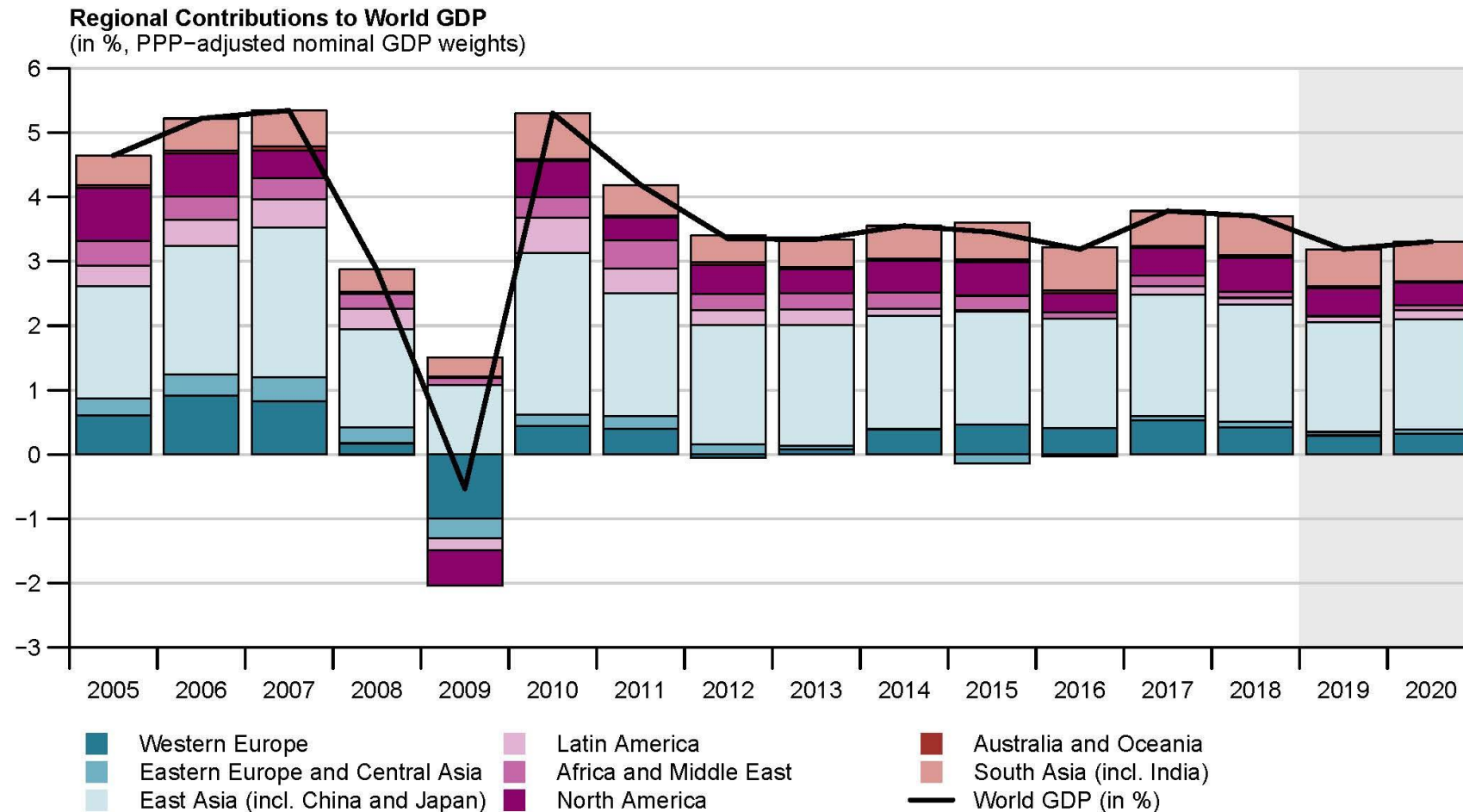


Global Outlook

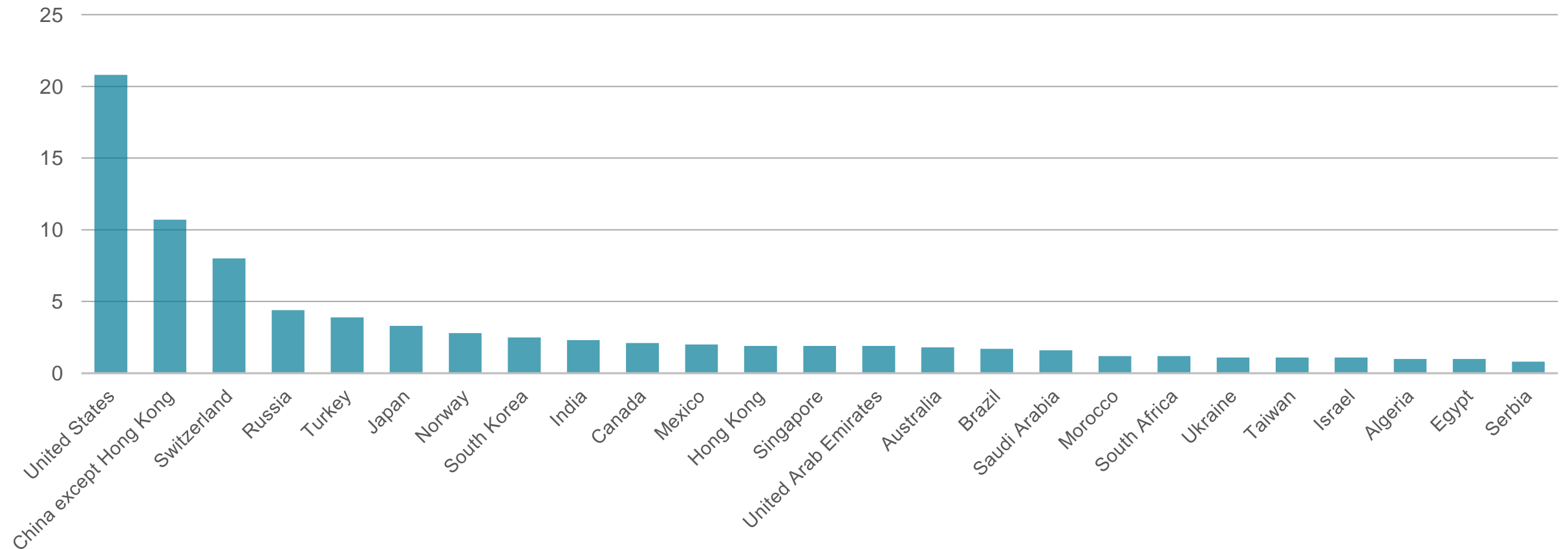
- Asia will stay the most dynamic region of the world.
- North America still growing strong.
- Latin America recovering (with exceptions).
- Western Europe rather weak in comparison.
- Central and Eastern Europe more dynamic.
- World GDP: 3.2 in 2019, 3.4% in 2020
 - IMF WEO: 3.3% in 2019, 3.6% in 2020



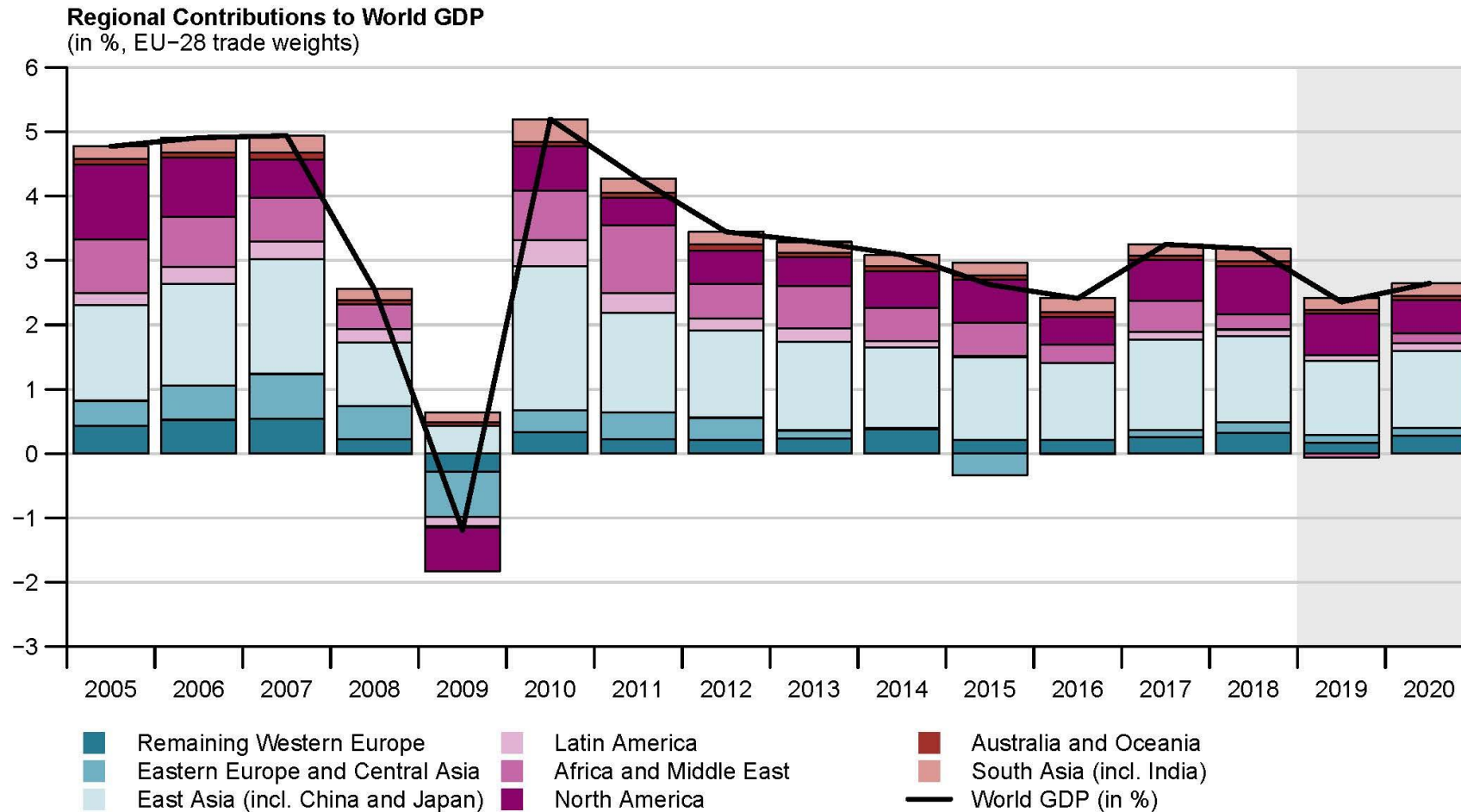
World GDP growth mostly driven by Asia



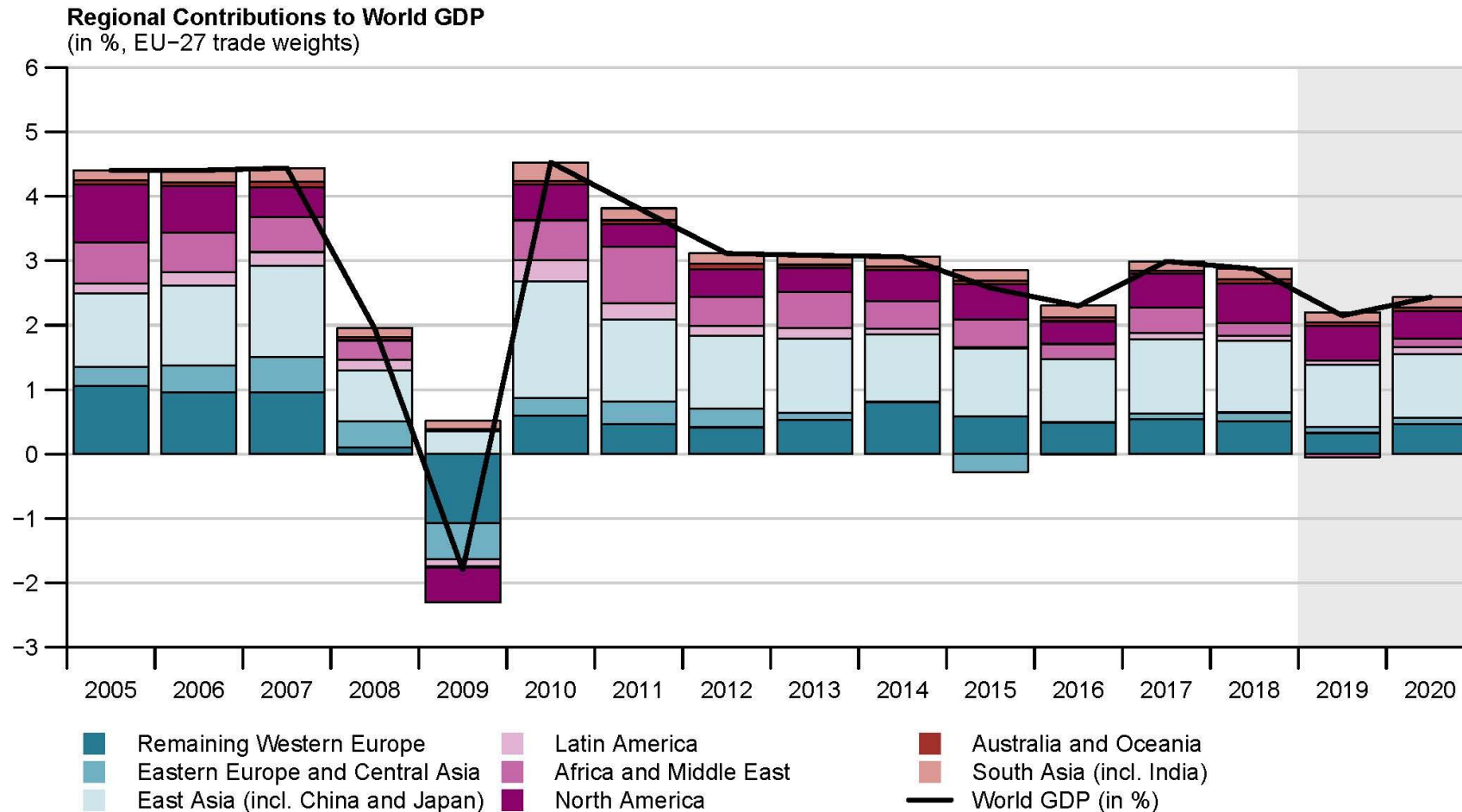
EU 28 – Top 25 export destinations



World GDP excluding EU28



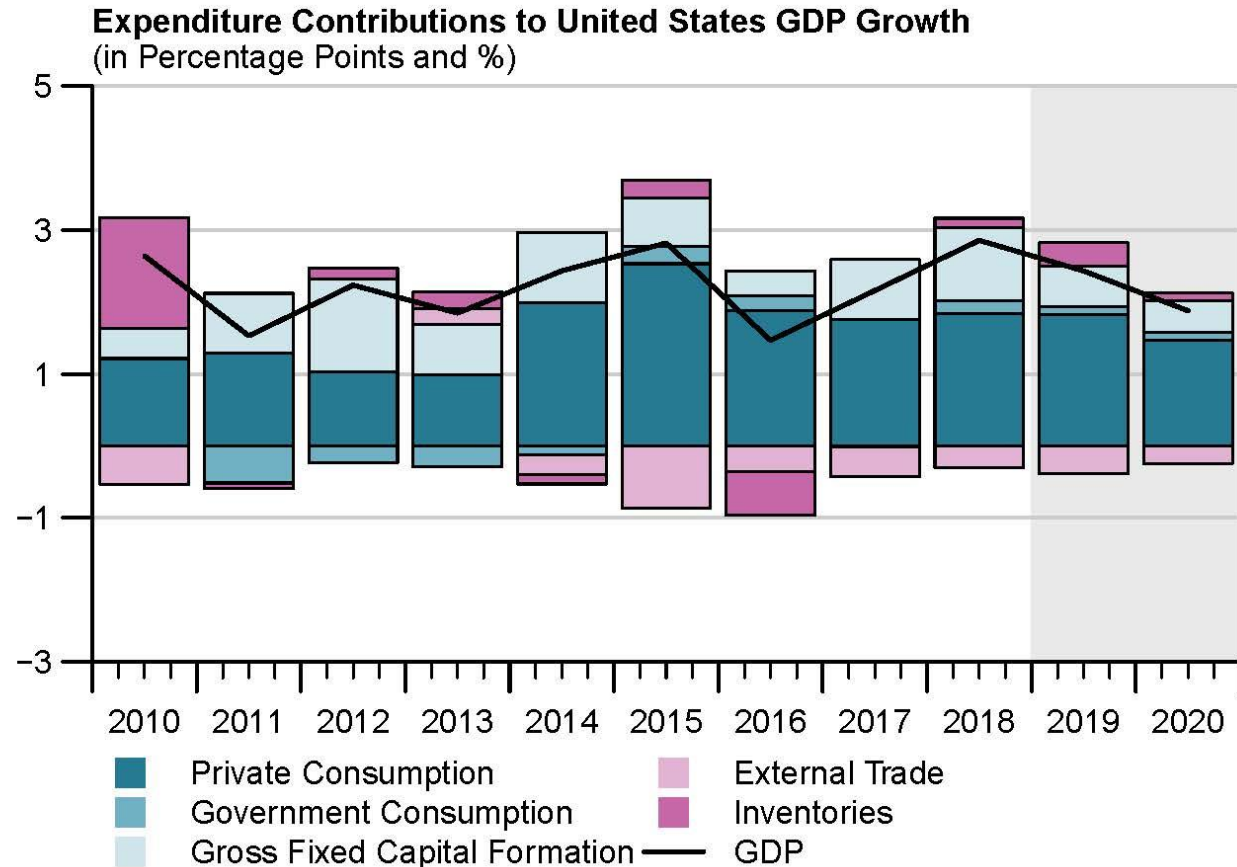
World GDP excluding EU27



Advanced Economies

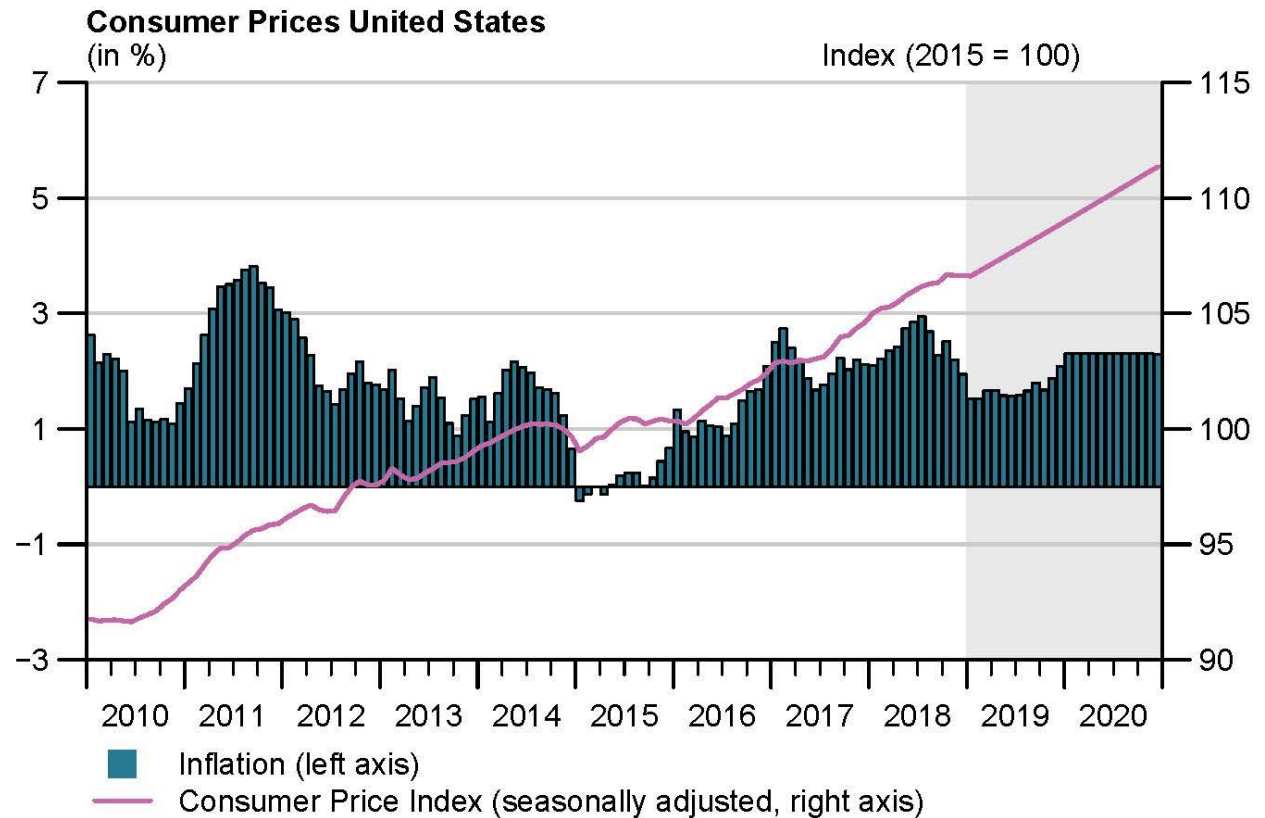
United States

- Continuing expansion in the United States: 19Q1: 3.2%
 - Government shutdown in January restricted consumption expenditures
 - Weak imports and inventories buildup
- Fading fiscal impulses and high capacity utilization likely to dampen growth.
- KOF forecast: 2019: 2.7%, 2020: 1.9%
- Risk: Tariffs of 25% (up from 10%) on Chinese imports worth 200bn, starting May 10th. Possibility of imposing tariffs also on remaining goods imports worth 325bn.

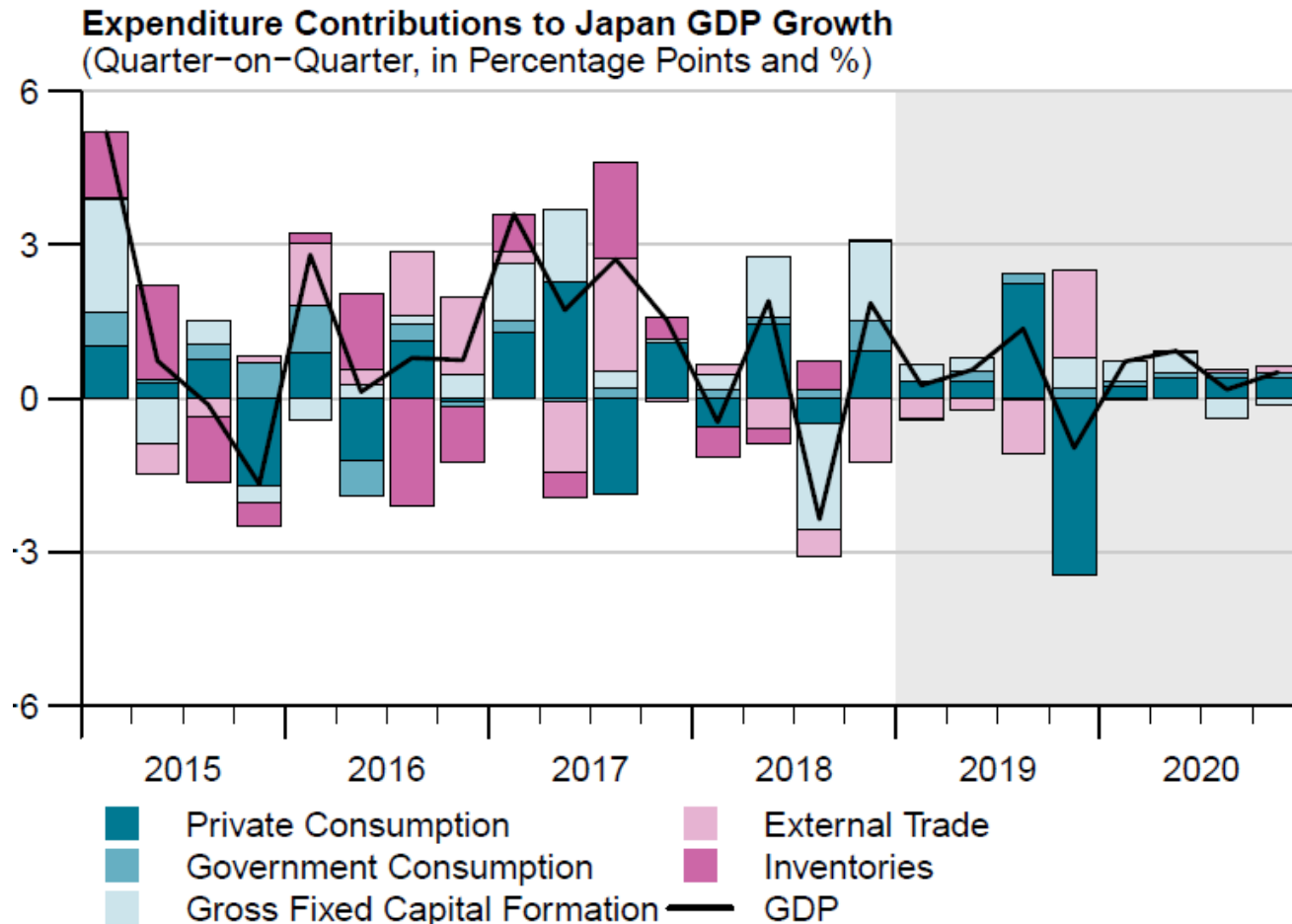


United States

- Inflation at 1.9%, up from 1.5% at beginning of year.
 - Core inflation declined further to 2%
 - Negligible impact of tariffs on prices so far
- Fed maintains neutral stance
 - Keep rates steady at 2.25-2.5% in the near future.
 - Quantitative tightening has slowed down to 35bn per month until September 2019, then stops.
 - Balance sheet will then be at 3.7tn, down from 4.3tn in 2019.

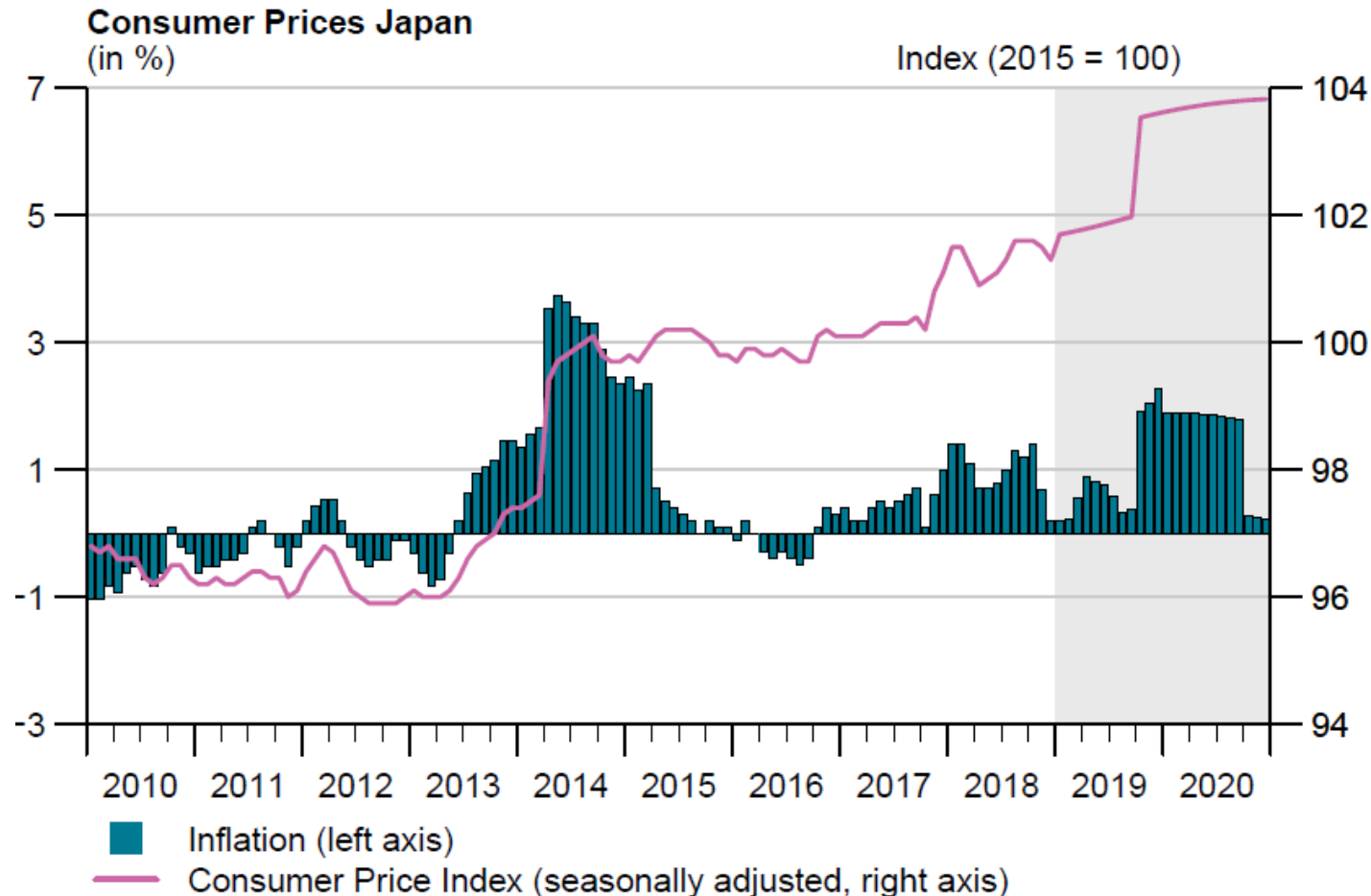


Japan: GDP



- Year 2018: GDP growth 0.8% due to robust domestic demand amid weaker foreign demand.
- Year 2019:
 - Good labor market conditions and increasing wage support private consumption.
 - VAT increase in October induces pull-forward effects in Q3 and a slump in Q4. Negative effects of VAT increase muted in comparison to 2014 due to fiscal package.
- KOF forecast (as of February): 2019: 0.4%, 2020: 0.4%

Japan: CPI



- Will inflation ever increase? We do not think so.
- **Why is inflation so low in Japan? How could it become higher?**
 - More monetary stimulus needed due to small / negative natural real rate (Von Weizsäcker/Summers secular stagnation hypothesis)?
 - Higher interest rates lead to higher inflation (Neo Fisher hypothesis)?

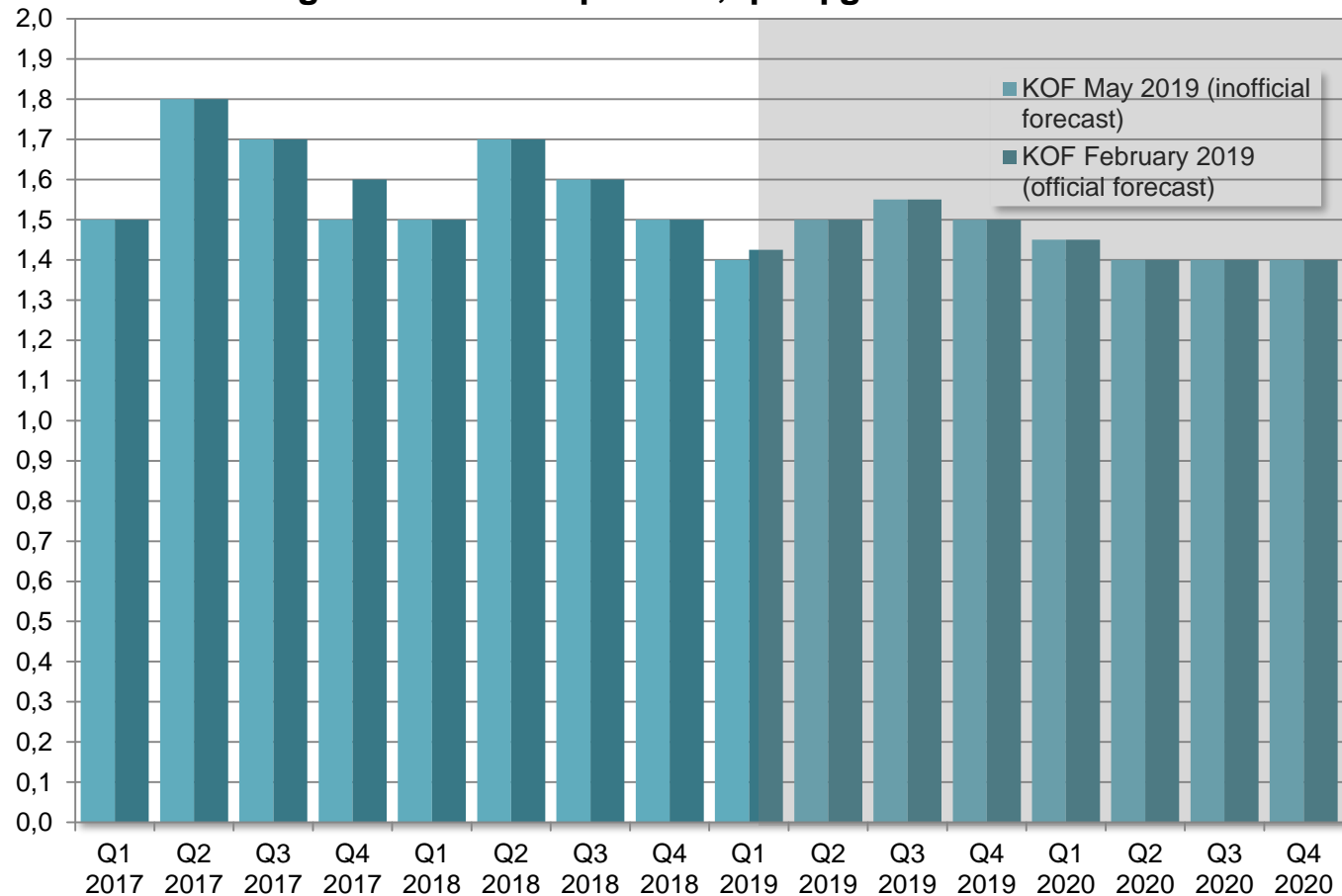
Questions

- Question on Japan:
 - Why is inflation so low in Japan? How could it become higher?
- Questions on US:
 - The yield curve in the US has flattened recently. Is this just a result of the normalization of monetary policy or a sign for an impending recession?
 - Inflation in the US is moderate despite a positive output gap and nominal wage growth picking up. Why?
 - Threat of introduction of new tariffs tomorrow. Just negotiation tactic or a real threat? Can Europe profit from the trade war or will Europe be next?

Emerging Economies

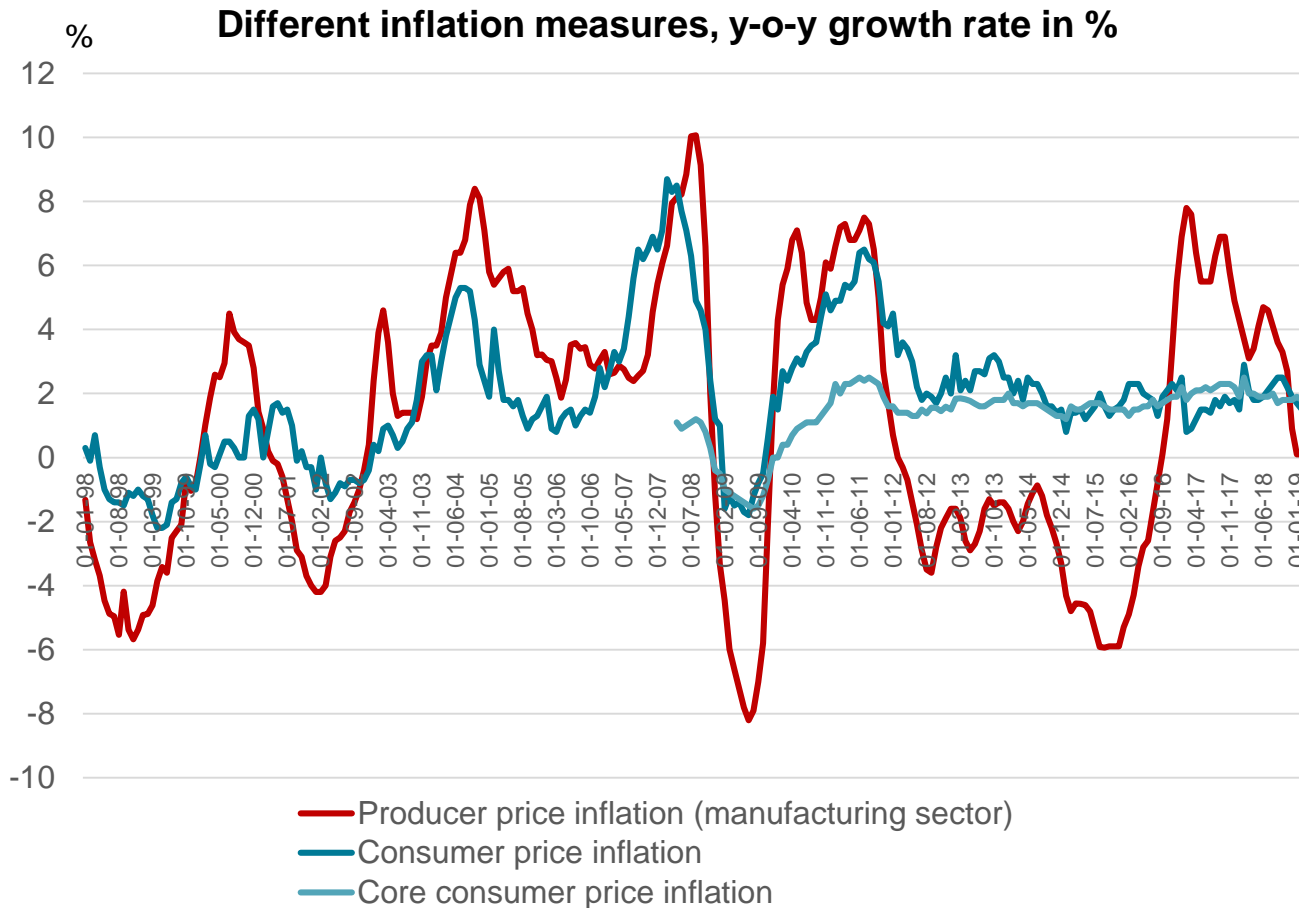
China: GDP

Real gross domestic product, q-o-q growth rate in %



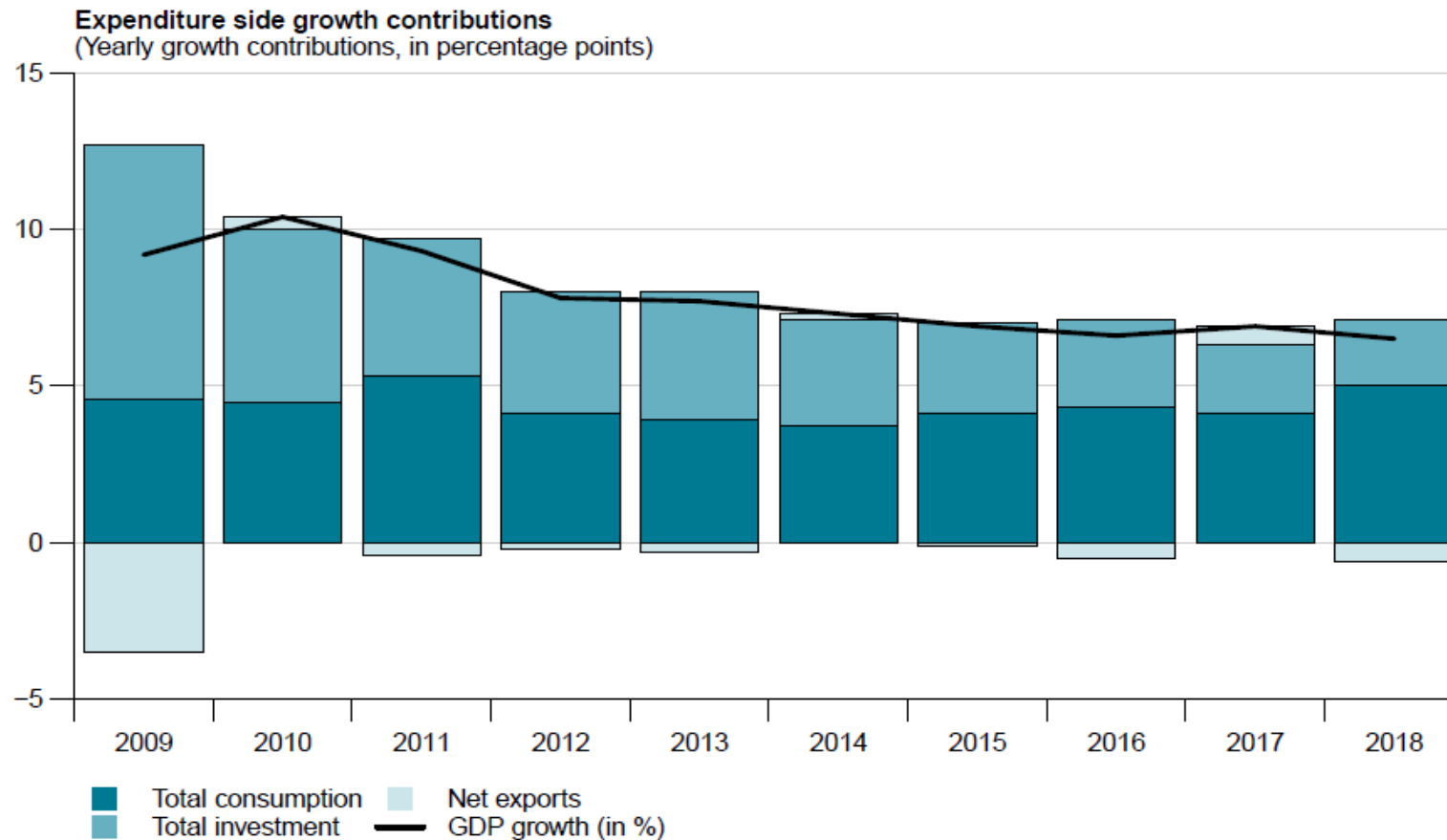
- Year 2018: Slowdown with negative effects on the labor market
 - Slowdown factors: Fading past stimuli; stricter (off-balance sheet) credit regulations for local governments and banks; trade conflict with US
- Chinese government responds by monetary and fiscal stimuli
 - Lower reserve requirements for banks
 - Ease access to finance for private SMEs
 - Tax cuts and spending increases
 - Permission for local governments to take up debt via off-balance sheet vehicles
 - Consolidation of local government finances started in 2017. Is it already finished?!
- Stimuli will temporarily support growth
- KOF forecasts: 2019: 6.2%, 2020: 6.0%

China: Consumer and producer price inflation



- Negative producer price inflation since 2012 reflects severe overcapacities and slowdown in the Chinese manufacturing sector.
- Further fall in 2015 indicates further slowdown (which was apparent in various indicators except official GDP).
- Increase in 2016-2017 due to monetary and fiscal stimuli to prop up the economy.
- Decrease in 2017-2018 reflects fading out of stimuli/tighter regulation w.r.t. debt financing.

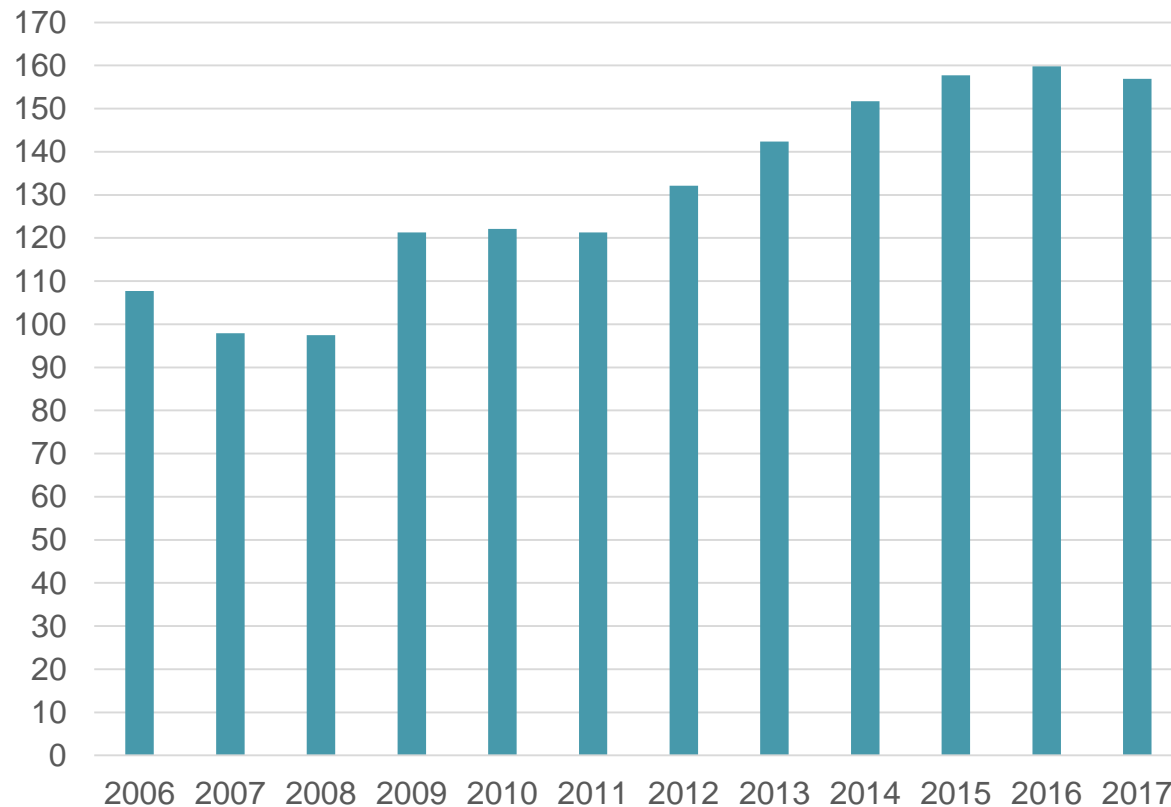
China: Structural rebalancing



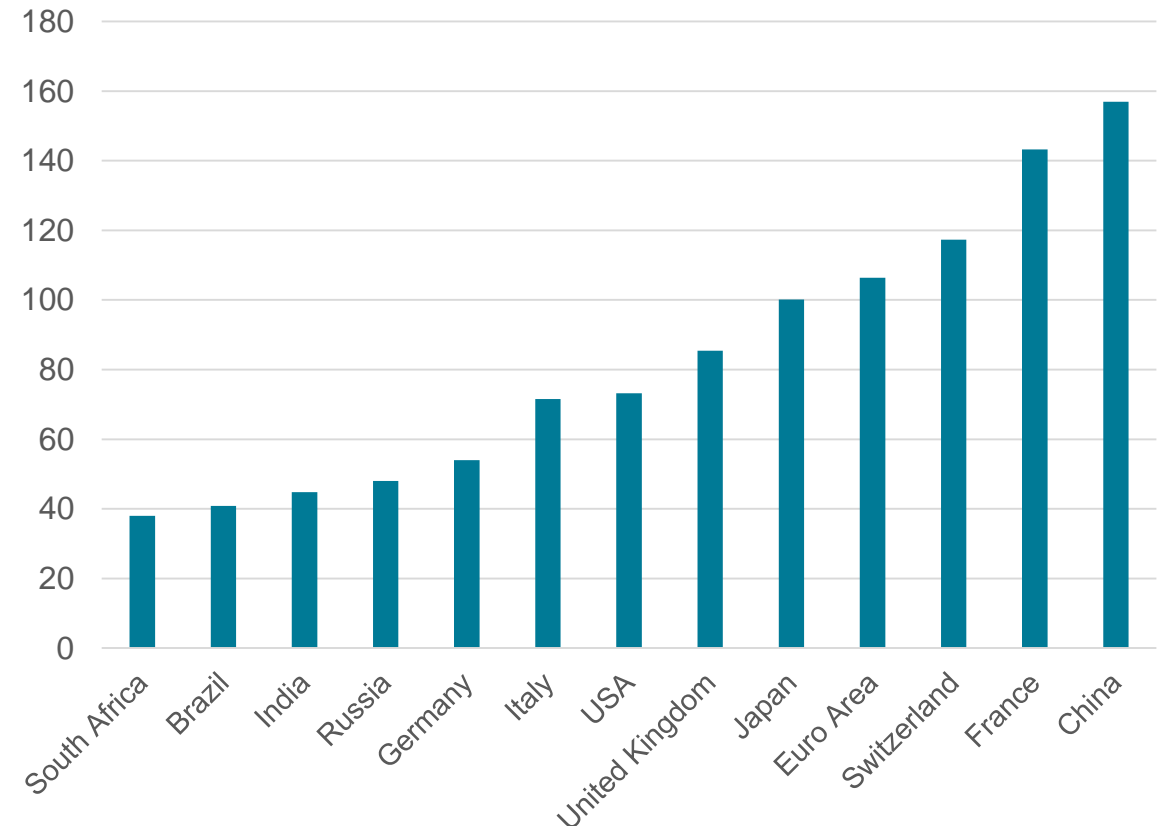
- Growth is slowing since 2010.
- Contribution of investment is shrinking, whereas contribution of consumption is rather stable.
- Transition towards consumption led growth is on its way!
- Contribution of net exports negligible, despite trade surplus!

Risk: Can the Chinese corporate sector deleverage without substantial negative effects on growth?

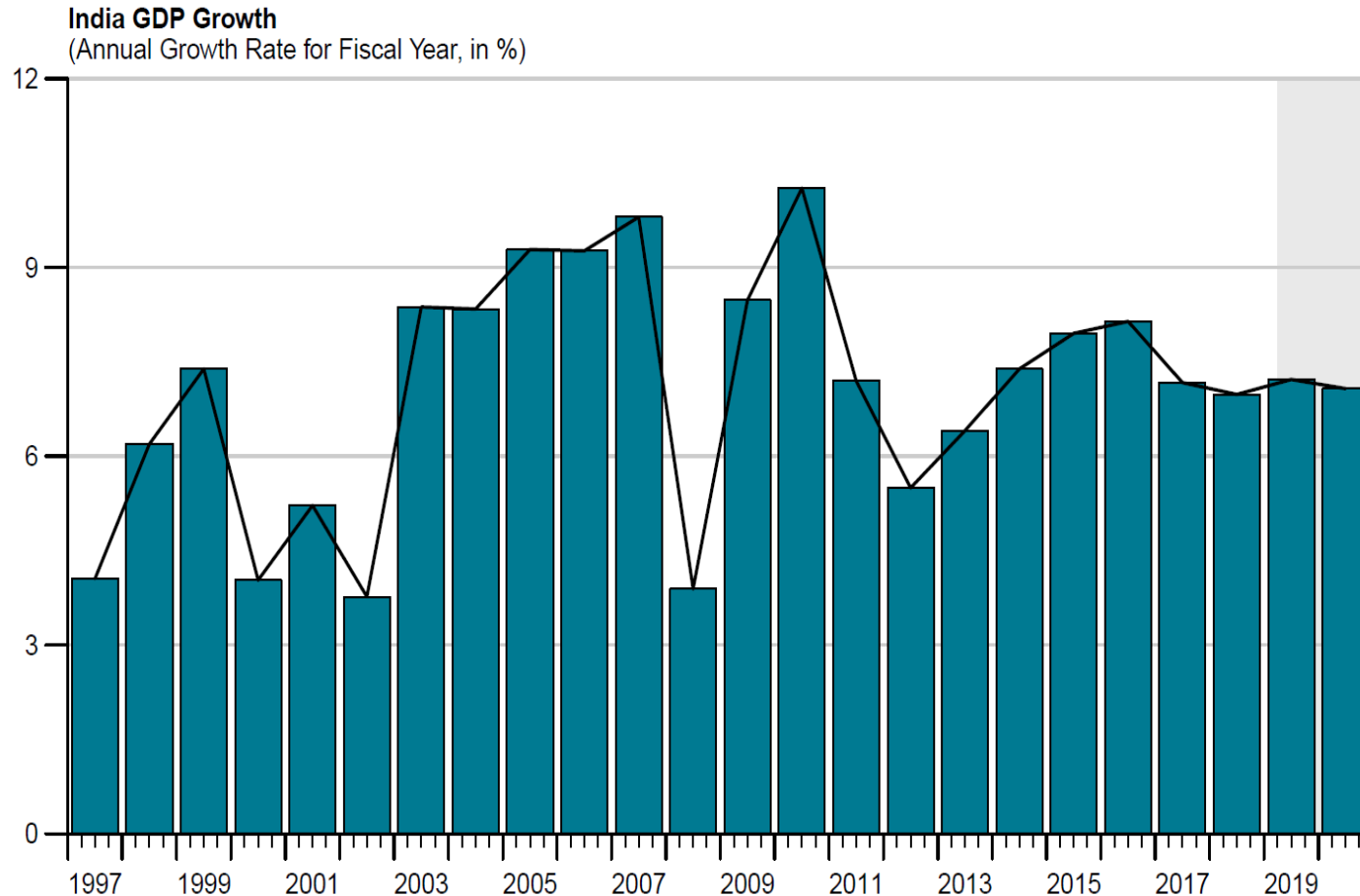
Outstanding credit in the Chinese (non-financial) corporate sector in % of GDP



Outstanding credit in the (non-financial) corporate sector in % of GDP in 2017

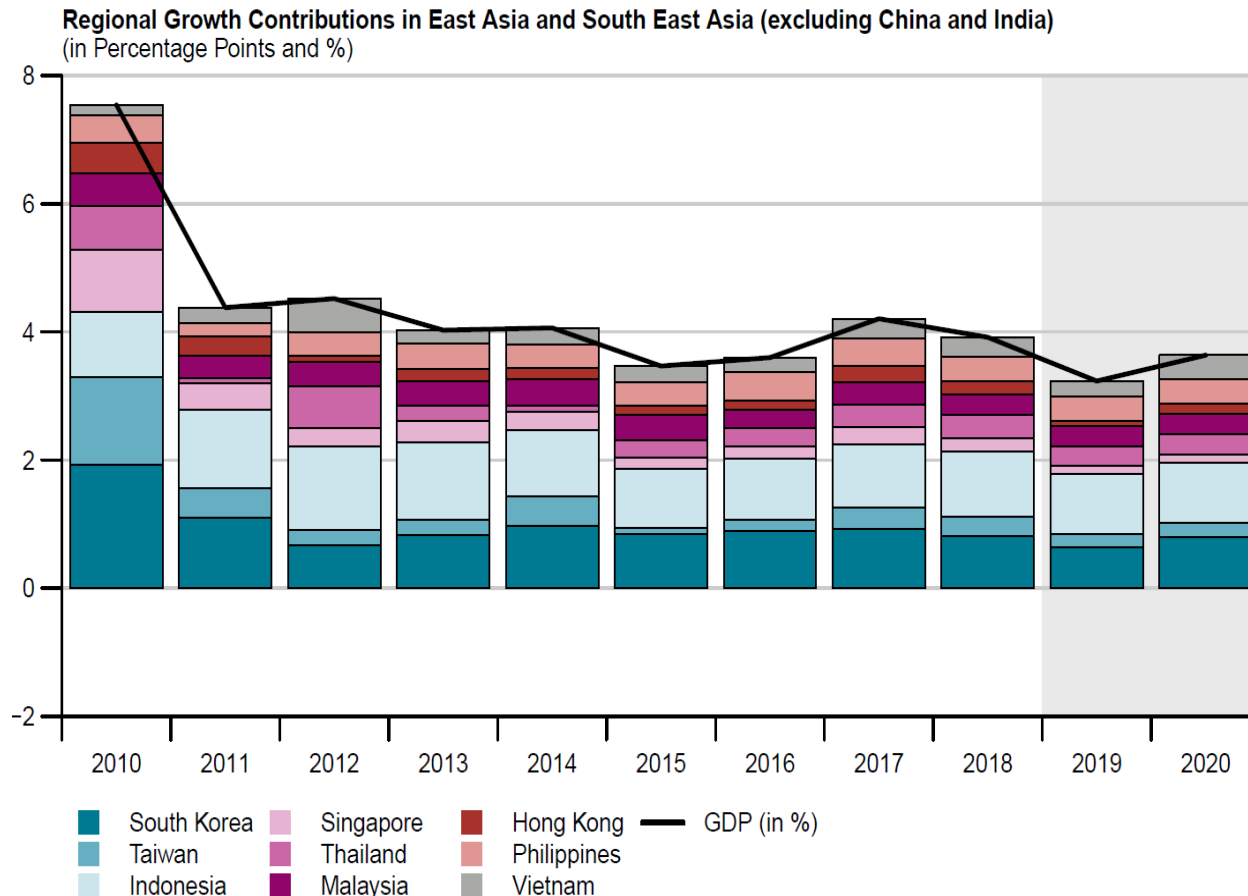


India



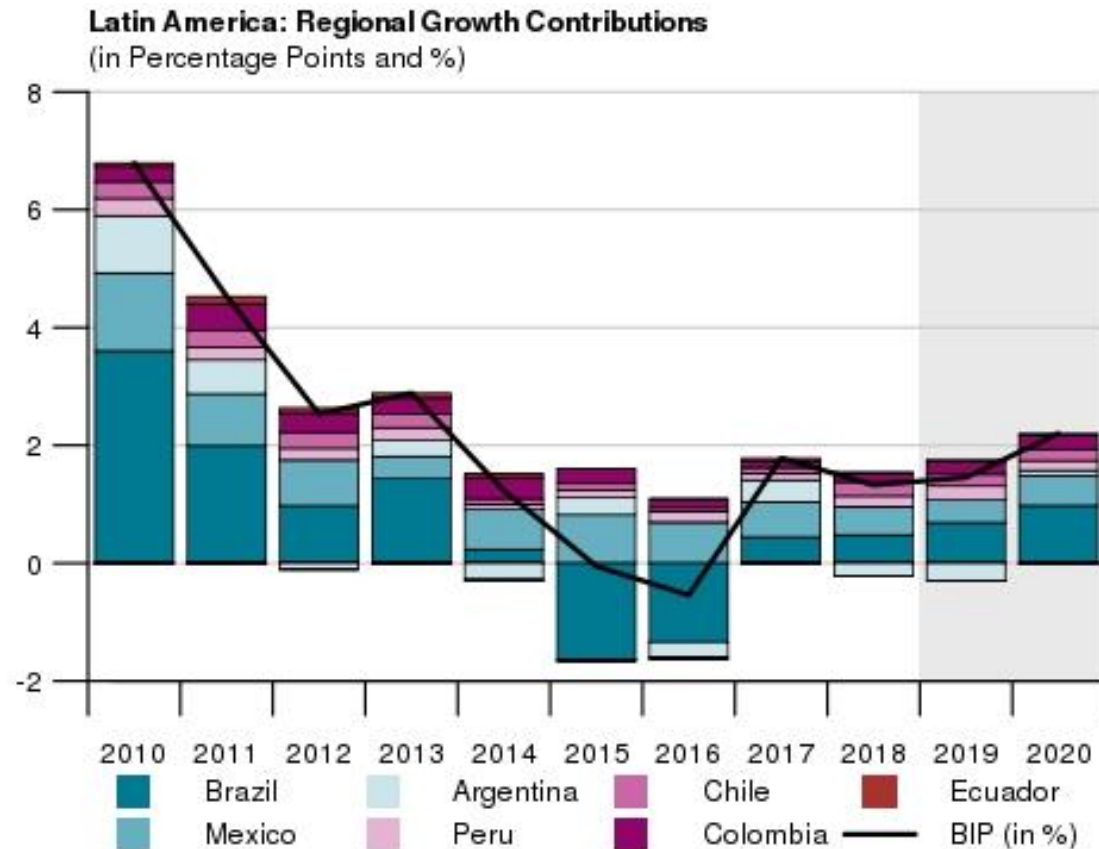
- Year 2018: Liquidity shortages for SME dampened production towards end of year.
- Strong fiscal impulses ahead of general elections in April-May 2019.
- More accommodative US Fed policy and low inflation permitted interest rate cuts in February and April 2019.
- Weaker growth expected as impulses fade out after elections.
- KOF forecasts: FY2018: 7.0%, FY2019: 7.2%, FY2020: 7.1%

East Asia & South East Asia (excluding China and India)



- Slowdown in China lead to negative effects on other **East Asian** countries. South Korea was propped up by strong fiscal impulses
- Growth in **South East Asia** was relatively robust despite exchange rate depreciations in early 2018.
- Weak foreign demand will dampen growth in 2019.
- Risk of sudden capital outflows higher again than 6 months ago due to China exposure.
- KOF forecasts: 2019: 3.4%, 2020: 3.5%

Latin America



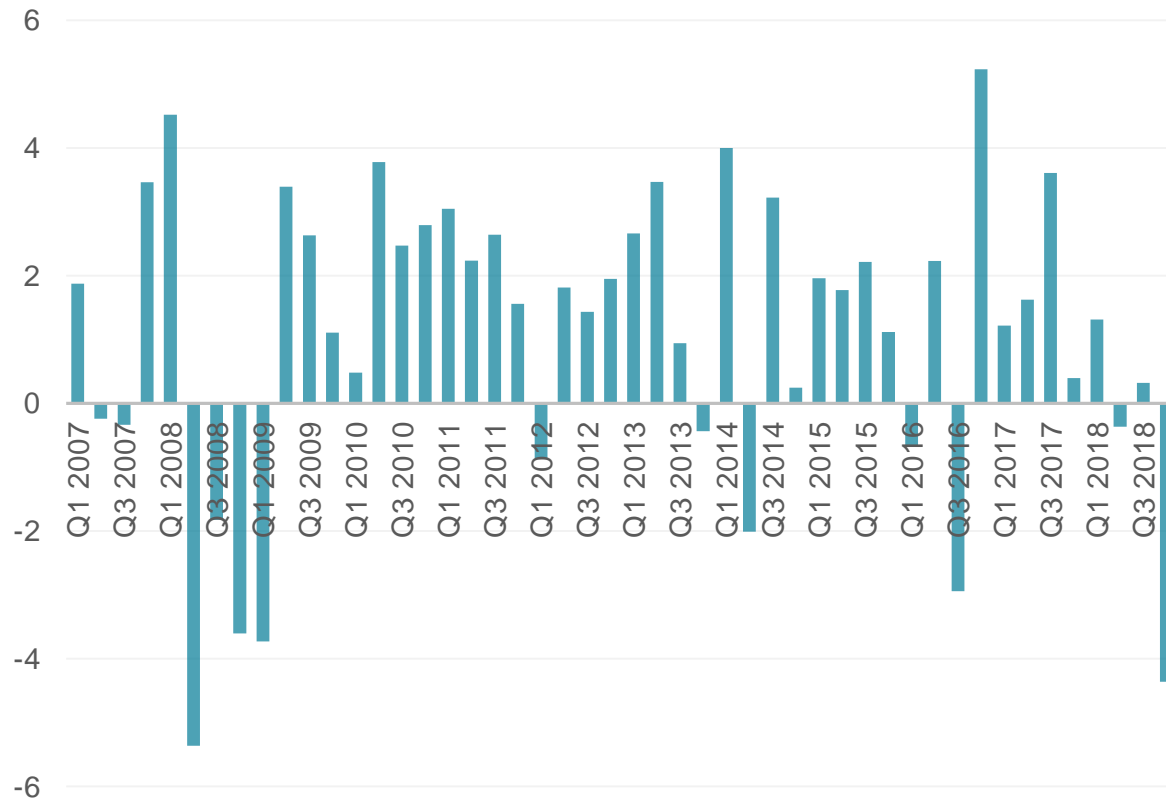
- **Brazil** slowly recovering from severe recession in 2015 and 2016.
- **Argentina** slides back into recession after sharp depreciation of Peso in summer 2018, slow structural reform and political uncertainty.
- Following conclusion of USMCA free trade negotiations in autumn 2018, **Mexico** benefits from reduced uncertainty on trade relationships with US.
- KOF forecasts: 2019: 1.5%, 2020: 2.2%

Russia

- Year 2018: GDP grew by 2.3% thanks to the FIFA World Cup and strong household spending.
- 2019 will be weaker due to:
 - VAT increase in January will put pressure on consumer spending and increase inflation.
 - Exports contracted in January for the first time since October 2016 (warm winter in Europe).
- But: Oil prices increase steadily this year and Russia pumps more oil than agreed with OPEC.
- KOF forecasts: 2019: 1.3%, 2020: 1.5%

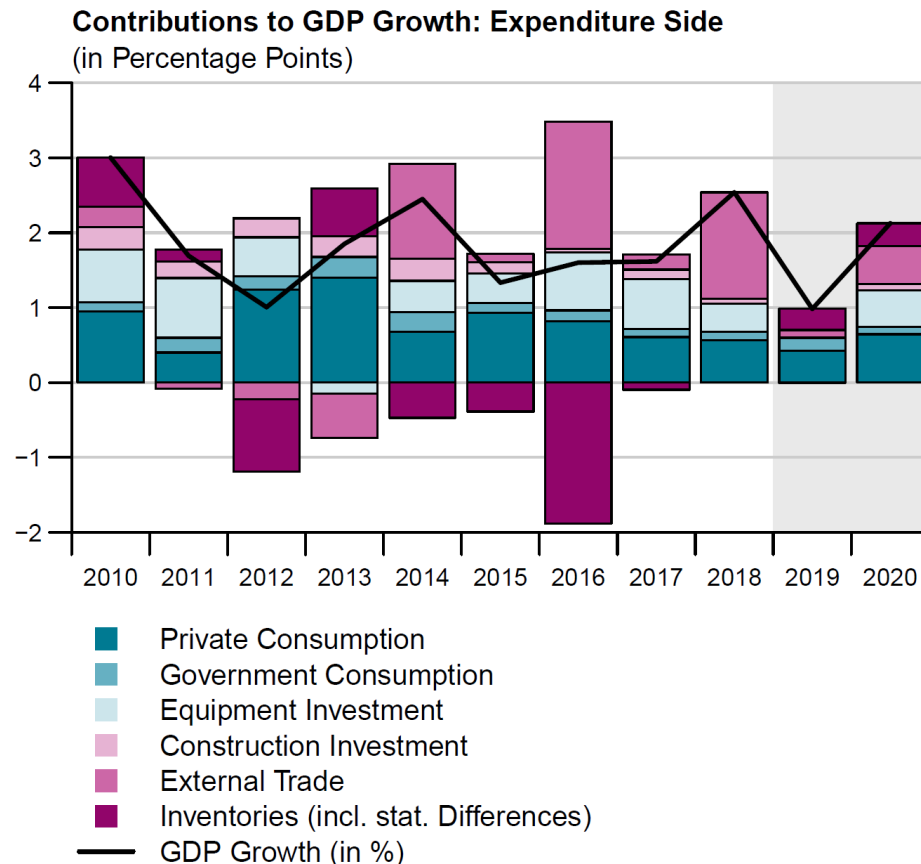
Turkey

Turkish real GDP growth, q-o-q in %



- Year 2018: GDP growth 2.6% but mostly due to carry-over.
- Economy shrank severely in Q4 2018.
- Lira again under severe stress in recent weeks, due to concerns over monetary and fiscal policy.
- Turkish economy will contract amid persistently high inflation, rising unemployment and currency weakness.

Appendix: Switzerland



- Year 2018: Strong GDP growth by 2.5%, mainly due to strong export growth but also sport events.
- Year 2019: Weaker international demand but also no sport events in 2019.
- License fees have an impact of + / - 0.3pp on yearly growth rates every 2 years
 - ➔ 2018: 2.2% instead of 2.5%
 - ➔ 2019: 1.3% instead of 1.0%
 - ➔ 2020: 1.8% instead of 2.1%

Thank you for your attention!

Questions? Comments?