

Tuesday 12th April 2016 – 11:45am

International

Prepared by: Ravi Kurjah, Analyst II (Research and Analytics)

ravi.kurjah@firstcitizenstt.com

IMF Cuts Growth Outlook Again

Projection cuts

- The International Monetary Fund cut its world expansion forecasts, as weak exports and slowing investment dim prospects in the U.S, a consumption-tax hike saps growth in Japan and a slump in commodity prices continue to stagger commodity producers.
- According to the IMF, the world economy will grow at a modest 3.2% in 2016, down from a projected 3.4% in January 2016 and 3.5% in 2017 down from a projected 3.6%.
- This growth projection reflects a combination of factors: weakness in oil-exporting countries, a moderate slowdown in China, where growth continues to shift away from the traditional manufacturing and investment, and a still-weak outlook for exporters of non-oil commodities, including Latin America, following further prices declines.

Emerging markets outperforms advanced economies

- The IMF stated that emerging markets and developing economies would still account for the lion's share of world growth in 2016 and would grow at a 4.1% pace, improving to 4.6% in 2017.
- The projected pickup in 2017 reflects a stronger performance in emerging market economies, in particular, growth in countries experiencing severe macroeconomic conditions in 2015-2016 (including Brazil, Russia, some Latin American countries and the Middle East).
- The modest acceleration of growth in advanced economies largely reflects support from lower energy prices and accommodative monetary policies, notwithstanding an expected gradual Federal Reserve tightening in the U.S.

Country and Region Outlook

1. **United States** growth is projected to continue at a moderate pace, supported by strengthening balance sheets, no further fiscal drag in 2016, and an improving housing market.
2. The modest **Euro** area recovery is projected to continue in 2016–17, with weakening external demand outweighed by the favorable effects of lower energy prices, modest fiscal expansion, and supportive financial conditions.
3. In **Japan**, growth is projected to remain at 0.5% in 2016, before turning slightly negative to –0.1% in 2017 as the scheduled increase in the consumption tax rate (of 2 percentage points) goes into effect.
4. In the **United Kingdom**, growth (forecast at 1.9% in 2016 and 2.2% in 2017) is expected to be driven by domestic private demand supported by lower energy prices and buoyant property market, which help to offset headwinds from fiscal consolidation and heightened uncertainty ahead of the June referendum on European Union membership.
5. Growth in **China** is projected to slow to 6.5% this year and 6.2% in 2017, slightly higher than the projections in the October 2015 WEO, reflecting announced policy stimulus.
6. In **India**, growth is projected to notch up to 7.5% in 2016–17, as forecasted in October. Growth will continue to be driven by private consumption, which has benefited from lower energy prices and higher real incomes.

7. In **Latin America and the Caribbean**, overall growth in 2016 is expected to be negative for a second consecutive year (at -0.5%). However, across all countries in the region, economic activity is expected to strengthen in 2017, with growth picking up to 1.5%. There are substantial differences across regions and countries. While South America remains heavily affected by the decline in commodity prices, Mexico, Central America, and the Caribbean are beneficiaries of the U.S. recovery and, in some cases, lower oil prices.
8. In **Brazil**, output is expected to contract by a further 3.8% in 2016 (following a contraction of 3.8% in 2015), as the recession takes its toll on employment and real incomes and domestic uncertainties continue to constrain the government's ability to formulate and execute policies.
9. Growth in **emerging and developing Europe** is projected to remain broadly stable at 3.5% in 2016 and 3.3% in 2017. Activity in the region has benefited from lower oil prices and the gradual recovery in the euro area, but elevated corporate debt is hindering private investment.
10. The outlook across the **Middle East, North Africa, Afghanistan, and Pakistan** (MENAP) region has weakened considerably because of further declines in oil prices and intensifying conflicts and security risks.

Medium Term Outlook

- Global growth is projected to increase further beyond 2017, to just below 4% by the end of the forecast horizon in 2021, reflecting a further pickup in emerging market growth and developing economies.
- This outcome relies on a number of significant assumptions:
 - A gradual normalization of conditions in several economies currently under stress.
 - A successful rebalancing of China's economy, with trend growth rates that while lower than those of the past two decades- remain high.
 - A pickup in activity in commodity exporters, albeit with growth rates more modest than in the past.
 - Resilient growth in other emerging market and developing economies.

In this context, the gradual increase in the global weight of fast-growing countries such as China and India also plays a crucial role in boosting global growth.

Overview of the World Economic Outlook (WEO) Projections, (Percent change, unless noted otherwise)	2015	Projections		Difference from Jan 2016 WEO Update		Difference from Oct 2015 WEO	
		2016	2017	2016	2017	2016	2017
World Output	3.1	3.2	3.5	-0.2	-0.1	-0.4	-0.3
Advanced Economies	1.9	1.9	2.0	-0.2	-0.1	-0.3	-0.2
United States	2.4	2.4	2.5	-0.2	-0.1	-0.4	-0.3
Euro Area	1.6	1.5	1.6	-0.2	-0.1	-0.1	-0.1
Germany	1.5	1.5	1.6	-0.2	-0.1	-0.1	0.1
France	1.1	1.1	1.3	-0.2	-0.2	-0.4	-0.3
Italy	0.8	1.0	1.1	-0.3	-0.1	-0.3	-0.1
Spain	3.2	2.6	2.3	-0.1	0.0	0.1	0.1
Japan	0.5	0.5	-0.1	-0.5	-0.4	-0.5	-0.5
United Kingdom	2.2	1.9	2.2	-0.3	0.0	-0.3	0.0
Canada	1.2	1.5	1.9	-0.2	-0.2	-0.2	-0.5
Other Advanced Economies	2.0	2.1	2.4	-0.3	-0.4	-0.6	-0.5
Emerging Market and Developing Economies	4.0	4.1	4.6	-0.2	-0.1	-0.4	-0.3
Commonwealth of Independent States	-2.8	-1.1	1.3	-1.1	-0.4	-1.6	-0.7
Russia	-3.7	-1.8	0.8	-0.8	-0.2	-1.2	-0.2
Excluding Russia	-0.6	0.9	2.3	-1.4	-0.9	-1.9	-1.7
Emerging and Developing Asia	6.6	6.4	6.3	0.1	0.1	0.0	0.0
China	6.9	6.5	6.2	0.2	0.2	0.2	0.2
India	7.3	7.5	7.5	0.0	0.0	0.0	0.0
ASEAN	4.7	4.8	5.1	0.0	0.0	-0.1	-0.2
Emerging and Developing Europe	3.5	3.5	3.3	0.4	-0.1	0.5	-0.1
Latin America and the Caribbean	-0.1	-0.5	1.5	-0.2	-0.1	-1.3	-0.8
Brazil	-3.8	-3.8	0.0	-0.3	0.0	-2.8	-2.3
Mexico	2.5	2.4	2.6	-0.2	-0.3	-0.4	-0.5

Middle East, North Africa, Afghanistan, and Pakistan	2.5	3.1	3.5		-0.5	-0.1		-0.8	-0.6
Saudi Arabia	3.4	1.2	1.9		0.0	0.0		-1.0	-1.0
Sub-Saharan Africa	3.4	3.0	4.0		-1.0	-0.7		-1.3	-0.9
Nigeria	2.7	2.3	3.5		-1.8	-0.7		-2.0	-1.0
South Africa	1.3	0.6	1.2		-0.1	-0.6		-0.7	-0.9



Follow us on Twitter [@FCISResearch](https://twitter.com/FCISResearch)

Disclaimers

All information contained in this article has been obtained from sources that First Citizens Investment Services believes to be accurate and reliable. All opinions and estimates constitute the Author's judgment as of the date of the article; however neither its accuracy and completeness nor the opinions based thereon are guaranteed. As such, no warranty, express or implied, as to the accuracy, timeliness or completeness of this article is given or made by First Citizens Investment Services in any form whatsoever. First Citizens Investment Services and/or its employees or directors may, where applicable, make markets and effect transactions, or have positions in securities or companies mentioned herein. Neither the information nor any opinion expressed shall be construed to be, or constitute an offer or a solicitation to buy or sell.