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World Economic Outlook: A Weakening Global Expansion

Global growth fragile:

- The global economy is projected to grow at 3.5% in 2019 and 3.6% in 2020, 0.2% and 0.1% below October 2018 projections.
- The growth forecast for 2019 and 2020 was already revised downward in the last World Economic Outlook (WEO) because of the adverse effect of tariff increases sanctioned in the United States and China in 2018.
- A downward adjustment since October reflects softer momentum in the second half of 2018, inclusive of the introduction of German automobile fuel emission standards, Italian sovereign and financial risks and weakening financial market sentiment as well as a contraction of the Turkish economy projected to be deeper than expected.
- A plethora of triggers beyond escalating trade tensions could spark a further deterioration in risk sentiment with adverse growth implications, especially given the high levels of public and private debt. These potential triggers include a "no-deal" withdrawal of the United Kingdom from the European Union and a greater-than-forecasted slowdown in China.

Faltering momentum and high uncertainty

- High-frequency data signal subdued momentum in the fourth quarter 2018.
- Outside the United States, industrial production has decelerated, particularly of capital goods.
- As of early January, crude oil prices stood at around USD55 a barrel, and markets expected prices to remain broadly at that level over the next 4–5 years.
- Prices of metals and agricultural commodities have softened slightly since August, in part due to subdued demand from China.

- Consumer price inflation has generally remained contained in recent months in advanced economies but has inched up in the United States, where above-trend growth continues.
- Among emerging market economies, inflationary pressures are easing with the drop in oil prices. For some, this easing has been partially offset by the pass-through of currency depreciations to domestic prices.
- While the US Federal Reserve raised the target range for the federal funds rate to 2.25–2.50% in December, it signaled a more gradual pace of rate hikes in 2019 and 2020.
- In line with earlier communication, the European Central Bank ended its net asset purchases in December. However, it also confirmed that monetary policy would remain amply accommodative, with no increase in policy rates until at least summer 2019, and full reinvestment of maturing securities continuing well past the first rate hike.
- Concerns about inflationary effects from earlier oil price increases and, in some cases, closing output gaps or pass-through from currency depreciation have led central banks in many emerging market economies (Chile, Indonesia, Mexico, Philippines, Russia, South Africa, and Thailand) to raise policy rates since the fall.
- As of early January, the US dollar remains broadly unchanged in real effective terms relative to September, the euro has weakened by about 2% amid slower growth and concerns about Italy, and the pound has depreciated about 2% as Brexit-related uncertainty increased.

Forecasts considerations

- The baseline forecast incorporates the US tariffs announced through September 2018 and retaliatory measures.
- For the United States, these include tariffs on solar panels, washing machines, aluminum, and steel announced in the first half of 2018; a 25 % tariff on USD50 billion worth of imports from China, and a 10 % tariff on an additional USD200 billion of imports from China, with the latter rising to 25 % after the current 90-day “truce” ends on March 1, 2019.
- For China, the forecast incorporates tariffs ranging from 5 to 10% on USD60 billion of imports from the United States.
- Metals prices are expected to decrease 7.4% year-on-year in 2019 (a deeper decline than anticipated last October 2018), and to remain roughly unchanged in 2020. Price forecasts for most major agricultural commodities have been revised modestly downwards.

Slower growth in 2019

- Weakness in the second half of 2018 will carry over to coming quarters, with global growth projected to decline to 3.5 % in 2019 before picking up slightly to 3.6 % in 2020.
- This growth pattern reflects a persistent decline in the growth rate of advanced economies from above trend level occurring more rapidly than previously anticipated coupled with a temporary decline in the growth rate for emerging market and developing economies in 2019, reflecting contractions in Argentina and Turkey, as well as the impact of trade actions on China and other Asian economies.
- Specifically, growth in advanced economies is projected to slow from an estimated 2.3 % in 2018 to 2.0 % in 2019 and 1.7 % in 2020. This estimated growth rate for 2018 and the projection for 2019 are 0.1 %age point lower than in the October 2018 WEO, mostly due to downward revisions for the euro area.
- There is substantial uncertainty around the baseline projection of about 1.5 % growth in the United Kingdom in 2019-20. The unchanged projection relative to the October 2018 WEO reflects the offsetting negative effect of prolonged uncertainty about the Brexit outcome and the positive impact from fiscal stimulus announced in the 2019 budget.
- The growth forecast for the United States also remains unchanged. Growth is expected to decline to 2.5 % in 2019 and soften further to 1.8 % in 2020 with the unwinding of fiscal stimulus and as the federal funds rate temporarily overshoots the neutral rate of interest. Nevertheless, the projected pace of expansion is above the US economy's estimated potential growth rate in both years. Strong domestic demand growth will support rising imports and contribute to a widening of the US current account deficit.
- Japan's economy is set to grow by 1.1 % in 2019 (0.2 % point higher than in the October WEO). This revision mainly reflects additional fiscal support to the economy this year, including measures to mitigate the effects of the planned consumption tax rate increase in October 2019.

Policy recommendations

- Policymakers should cooperate to address sources of dissatisfaction with the rules-based trading system, reduce trade costs, and resolve disagreements without raising tariff and non-tariff barriers. Failure to do so would further destabilize a slowing global economy.
- All countries should emphasize measures that boost productivity, raise labor force participation, and ensure adequate social insurance.
- Monetary policy should ensure inflation expectations remains anchored, while fiscal policy should build buffers where necessary to replenish limited policy space.
- Addressing high private debt burdens and balance sheet currency and maturity mismatches will require macro-prudential framework. Exchange rate flexibility can complement these policies by helping to buffer external shocks.

Overview of the *World Economic Outlook* Projections (percent change, unless noted otherwise)

	Year over Year										
						Difference from Oct 2018			Q4	over Q4	
		Estimates	Projections			WEO Projections			Estimates	Projections	
	2017	**2018**	**2019**	**2020**		**2019**	**2020**		**2018**	**2019**	**2020**
World Output	3.8	3.7	3.5	3.6		–0.2	–0.1		3.5	3.6	3.6
Advanced Economies	2.4	2.3	2	1.7		–0.1	0		2.1	1.9	1.7
United States	2.2	2.9	2.5	1.8		0	0		3	2.1	1.5
Euro Area	2.4	1.8	1.6	1.7		–0.3	0		1.2	1.9	1.5
Germany	2.5	1.5	1.3	1.6		–0.6	0		0.9	1.7	1.5
France	2.3	1.5	1.5	1.6		–0.1	0		1	1.6	1.5
Italy	1.6	1	0.6	0.9		–0.4	0		0.2	1.2	0.6
Spain	3	2.5	2.2	1.9		0	0		2.3	2.1	1.6
Japan	1.9	0.9	1.1	0.5		0.2	0.2		0.6	0	1.6
United Kingdom	1.8	1.4	1.5	1.6		0	0.1		1.3	1.5	1.6
Canada	3	2.1	1.9	1.9		–0.1	0.1		2	1.8	1.9
Other Advanced Economies	2.8	2.8	2.5	2.5		0	0		2.8	2.3	2.9
Emerging Market and Developing Economies	4.7	4.6	4.5	4.9		–0.2	0		4.7	5	5
Commonwealth of Independent States	2.1	2.4	2.2	2.3		–0.2	–0.1		2.4	1.8	1.9
Russia	1.5	1.7	1.6	1.7		–0.2	–0.1		2.2	1.4	1.7
Excluding Russia	3.6	3.9	3.7	3.7		0.1	0		. . .	. . .	. . .
Emerging and Developing Asia	6.5	6.5	6.3	6.4		0	0		6.3	6.4	6.3
China	6.9	6.6	6.2	6.2		0	0		6.4	6.2	6.2
India	6.7	7.3	7.5	7.7		0.1	0		7.1	7.6	7.7
ASEAN	5.3	5.2	5.1	5.2		–0.1	0		5.1	5.1	4.7

Emerging and Developing Europe	6	3.8	0.7	2.4		–1.3	–0.4		1.3	2.1	1.6
Latin America and the Caribbean	1.3	1.1	2	2.5		–0.2	–0.2		0.3	3	1.9
Brazil	1.1	1.3	2.5	2.2		0.1	–0.1		1.9	2.4	2.2
Mexico	2.1	2.1	2.1	2.2		–0.4	–0.5		2.1	2.3	2.1
Middle East, North Africa, Afghanistan, and Pakistan	2.2	2.4	2.4	3		–0.3	0		. . .	. . .	. . .
Saudi Arabia	–0.9	2.3	1.8	2.1		–0.6	0.2		4.1	1	2.2
Sub-Saharan Africa	2.9	2.9	3.5	3.6		–0.3	–0.3		. . .	. . .	. . .
Nigeria	0.8	1.9	2	2.2		–0.3	–0.3		. . .	. . .	. . .
South Africa	1.3	0.8	1.4	1.7		0	0		0.5	0.9	2.2
Memorandum											
Low-Income Developing Countries	4.7	4.6	5.1	5.1		–0.1	–0.2		. . .	. . .	. . .
World Growth Based on Market Exchange Rates	3.2	3.1	3	2.9		–0.1	0		2.9	2.9	2.8
World Trade Volume (goods and services) 6/	5.3	4	4	4		0	–0.1		. . .	. . .	. . .
Advanced Economies	4.3	3.2	3.5	3.3		–0.1	–0.1		. . .	. . .	. . .
Emerging Market and Developing Economies	7.1	5.4	4.8	5.2		0	0.1		. . .	. . .	. . .
Commodity Prices (U.S. dollars)											
Oil	23.3	29.9	–14.1	–0.4		–13.2	4		11.3	–9.7	–0.7
Nonfuel (average based on world commodity import weights)	6.4	1.9	–2.7	1.2		–2.0	0.9		–0.9	0.1	1.4
Consumer Prices											
Advanced Economies	1.7	2	1.7	2		–0.2	0		2	1.8	1.9
Emerging Market and Developing Economies	4.3	4.9	5.1	4.6		–0.1	0		4.5	4.1	3.7

London Interbank Offered Rate (percent)											
On U.S. Dollar Deposits (six month)	1.5	2.5	3.2	3.8		–0.2	–0.1		. . .	. . .	. . .
On Euro Deposits (three month)	–0.3	–0.3	–0.3	0		–0.1	–0.1		. . .	. . .	. . .
On Japanese Yen Deposits (six month)	0	0	0	0.1		–0.1	0		. . .	. . .	. . .

Source: IMF

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