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International

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## A Shifting Global Economic Landscape

### Current Uncertainty

- There is a varied dispersion of possible outcomes around projections, given uncertainty surrounding the policy stance of the incoming U.S. administration and its global ramifications.
- The assumptions underpinning the forecast should be more specific by the next quarter World Economic Outlook as more clarity emerges on U.S. policies and their implications for the global economy.

### Projected pick up for advanced economies

- The outlook for advanced economies has improved for 2017-2018, reflecting somewhat stronger activity in the second half of 2016 as well as a projected fiscal stimulus in the United States.
  - However, growth prospects for emerging markets and developing economies have marginally worsened, where financial conditions have generally tightened.
  - Near-term growth prospects were revised up for China, due to expected policy stimulus, but were revised down for large economies like India, Brazil and Mexico.
  - This forecast is based on the assumption of a changing policy mix under a new administration in the United States and its global spillovers.
  - The IMF projection is consistent with the steepening U.S. yield curve, the rise in equity prices and appreciation of the U.S. dollar since the U.S. presidential election.
  - This forecast also incorporates a firming of oil prices following the agreement among OPEC members and several other major producers to limit supply.
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## **Developments in second half of 2016**

### **Contrasting economic conditions**

- Global output growth is estimated at about 3 percent (at an annualized rate) for the third quarter of 2016—broadly unchanged relative to the first two quarters of the year.
- There has been a stronger-than-expected pickup in growth in advanced economies, due mostly to a reduced drag from inventories and some recovery in manufacturing output.
- Forward-looking indicators such as purchasing managers' indices have remained strong in the fourth quarter in most areas.
- With strong infrastructure and real estate investment in China as well as expectations of fiscal easing in the United States, prices for base metals have also strengthened.
- In contrast, it is matched by an unexpected slowdown in some emerging market economies. Activity was weaker than expected in some Latin American countries currently in recession, such as Argentina and Brazil, as well as in Turkey, which faced a sharp contraction in tourism revenues. Activity in Russia was slightly better than expected, in part reflecting firmer oil prices.

### **Commodity prices and inflation**

- Strong infrastructure and real estate investment in China as well as expectation of fiscal easing in the United States, prices for base metals have also strengthened.
  - Headline inflation rates have recovered in advanced economies in recent months with the bottoming out of commodity prices, but core inflation rates have remained broadly unchanged and generally below inflation targets.
  - Inflation ticked up in China as capacity cuts and higher commodity prices have pushed producer price inflation to positive territory after more than four years of deflation.
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## **Financial market developments**

- Long-term nominal and real interest rates have risen substantially since August particularly in the United Kingdom and in the United States since the November election.
- As of January 3, nominal yields on 10-year U.S. Treasury bonds have increased by close to one percentage point since August, and 60 basis points since the U.S. election.
- These changes have been mostly driven by an anticipated shift in the U.S. policy mix.
- U.S. fiscal policy is projected to become more expansionary, with stronger future demand implying more inflationary pressure and a less gradual normalization of U.S. monetary policy.
- The increase in euro area long-term yields since August was more moderate—some 35 basis points in Germany but 70 basis points in Italy, reflecting elevated political and banking sector uncertainties.

## **Exchange rates and capital flows**

- The U.S. dollar has appreciated in real effective terms by over 6% since August.
- The currencies of advanced commodity exporters have also strengthened, reflecting the firming of commodity prices, whereas the euro and especially the Japanese yen have weakened.
- Several emerging market currencies depreciated substantially in recent months—most notably the Turkish lira and the Mexican peso—while the currencies of several commodity exporters—most notably Russia— appreciated.

## **Global forecast**

- Global growth for 2016 is now estimated to 3.1%, in line with the October 2016 forecast.
  - Advanced economies are now projected to grow by 1.9% in 2017 and 2.0% in 2018, 0.1 and 0.2 percentage points more than in the October forecast, respectively.
  - Growth projections for 2017 have also been revised upward for Germany, Japan, Spain, and the United Kingdom, mostly on account of a stronger-than-expected performance during the latter part of 2016.
  - These upward revisions more than offset the downward revisions to the outlook for Italy and Korea.
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## Overview of the World Economic Outlook Projections

|   | Year over Year |            |             |            |  |             | Q4 over Q4 2/ |             |            |
|---|----------------|------------|-------------|------------|--|-------------|---------------|-------------|------------|
|   | 2015           | Estimate   | Projections |            | Difference from October<br>2016 WEO Projections 1/ |             | Estimate      | Projections |            |
|   |                | 2016       | 2017        | 2018       | 2017   | 2018        | 2016          | 2017        | 2018       |
| <b>World Output</b>                                       | <b>3.2</b>     | <b>3.1</b> | <b>3.4</b>  | <b>3.6</b> | <b>0.0</b>   | <b>0.0</b>  | <b>3.1</b>    | <b>3.6</b>  | <b>3.6</b> |
| <b>Advanced Economies</b>                                 | <b>2.1</b>     | <b>1.6</b> | <b>1.9</b>  | <b>2.0</b> | <b>0.1</b>   | <b>0.2</b>  | <b>1.8</b>    | <b>1.9</b>  | <b>2.0</b> |
| United States   | 2.6            | 1.6        | 2.3         | 2.5        | 0.1  | 0.4         | 1.9           | 2.3         | 2.5        |
| Euro Area   | 2.0            | 1.7        | 1.6         | 1.6        | 0.1  | 0.0         | 1.6           | 1.6         | 1.5        |
| Germany   | 1.5            | 1.7        | 1.5         | 1.5        | 0.1  | 0.1         | 1.7           | 1.6         | 1.5        |
| France  | 1.3            | 1.3        | 1.3         | 1.6        | 0.0  | 0.0         | 1.1           | 1.7         | 1.5        |
| Italy   | 0.7            | 0.9        | 0.7         | 0.8        | -0.2   | -0.3        | 1.0           | 0.7         | 0.8        |
| Spain   | 3.2            | 3.2        | 2.3         | 2.1        | 0.1  | 0.2         | 2.9           | 2.2         | 2.0        |
| Japan 3/  | 1.2            | 0.9        | 0.8         | 0.5        | 0.2  | 0.0         | 1.5           | 0.8         | 0.5        |
| United Kingdom  | 2.2            | 2.0        | 1.5         | 1.4        | 0.4  | -0.3        | 2.1           | 1.0         | 1.8        |
| Canada  | 0.9            | 1.3        | 1.9         | 2.0        | 0.0  | 0.1         | 1.6           | 2.0         | 2.0        |
| Other Advanced Economies 4/                               | 2.0            | 1.9        | 2.2         | 2.4        | -0.1   | 0.0         | 1.7           | 2.5         | 2.6        |
| <b>Emerging Market and Developing Economies</b>           | <b>4.1</b>     | <b>4.1</b> | <b>4.5</b>  | <b>4.8</b> | <b>-0.1</b>  | <b>0.0</b>  | <b>4.2</b>    | <b>5.1</b>  | <b>5.1</b> |
| Commonwealth of Independent States                        | -2.8           | -0.1       | 1.5         | 1.8        | 0.1  | 0.1         | 0.3           | 1.3         | 1.5        |
| Russia  | -3.7           | -0.6       | 1.1         | 1.2        | 0.0  | 0.0         | 0.3           | 1.1         | 1.3        |
| Excluding Russia  | -0.5           | 1.1        | 2.5         | 3.3        | 0.2  | 0.4         | ...           | ...         | ...        |
| Emerging and Developing Asia                              | 6.7            | 6.3        | 6.4         | 6.3        | 0.1  | 0.0         | 6.1           | 6.6         | 6.3        |
| China   | 6.9            | 6.7        | 6.5         | 6.0        | 0.3  | 0.0         | 6.6           | 6.5         | 6.0        |
| India 5/  | 7.6            | 6.6        | 7.2         | 7.7        | -0.4   | 0.0         | 6.2           | 7.9         | 7.6        |
| ASEAN-5 6/  | 4.8            | 4.8        | 4.9         | 5.2        | -0.2   | 0.0         | 4.3           | 5.3         | 5.3        |
| Emerging and Developing Europe                            | 3.7            | 2.9        | 3.1         | 3.2        | 0.0  | 0.0         | 2.8           | 2.6         | 3.3        |
| Latin America and the Caribbean                           | 0.1            | -0.7       | 1.2         | 2.1        | -0.4   | -0.1        | -0.7          | 1.7         | 2.0        |
| Brazil  | -3.8           | -3.5       | 0.2         | 1.5        | -0.3   | 0.0         | -1.9          | 1.4         | 1.7        |
| Mexico  | 2.6            | 2.2        | 1.7         | 2.0        | -0.6   | -0.6        | 1.9           | 1.4         | 2.4        |
| Middle East, North Africa, Afghanistan, and Pakistan      | 2.5            | 3.8        | 3.1         | 3.5        | -0.3   | -0.1        | ...           | ...         | ...        |
| Saudi Arabia 7/   | 4.1            | 1.4        | 0.4         | 2.3        | -1.6   | -0.3        | ...           | ...         | ...        |
| Sub-Saharan Africa  | 3.4            | 1.6        | 2.8         | 3.7        | -0.1   | 0.1         | ...           | ...         | ...        |
| Nigeria   | 2.7            | -1.5       | 0.8         | 2.3        | 0.2  | 0.7         | ...           | ...         | ...        |
| South Africa  | 1.3            | 0.3        | 0.8         | 1.6        | 0.0  | 0.0         | 0.6           | 1.0         | 1.9        |
| <i>Memorandum</i>   |                |            |             |            |  |             |               |             |            |
| Low-Income Developing Countries                           | 4.6            | 3.7        | 4.7         | 5.4        | -0.2   | 0.2         | ...           | ...         | ...        |
| World Growth Based on Market Exchange Rates               | 2.6            | 2.4        | 2.8         | 3.0        | 0.0  | 0.1         | 2.5           | 2.9         | 2.9        |
| <b>World Trade Volume (goods and services) 8/</b>         | <b>2.7</b>     | <b>1.9</b> | <b>3.8</b>  | <b>4.1</b> | <b>0.0</b>   | <b>-0.1</b> | ...           | ...         | ...        |
| Advanced Economies  | 4.0            | 2.0        | 3.6         | 3.8        | -0.1   | -0.3        | ...           | ...         | ...        |
| Emerging Market and Developing Economies                  | 0.3            | 1.8        | 4.0         | 4.7        | 0.1  | 0.4         | ...           | ...         | ...        |
| <b>Commodity Prices (U.S. dollars)</b>                    |                |            |             |            |  |             |               |             |            |
| Oil 9/  | -47.2          | -15.9      | 19.9        | 3.6        | 2.0  | -1.2        | 15.0          | 7.6         | 2.5        |
| Nonfuel (average based on world commodity export weights) | -17.4          | -2.7       | 2.1         | -0.9       | 1.2  | -0.2        | 6.6           | 0.2         | -1.4       |
| <b>Consumer Prices</b>                                    |                |            |             |            |  |             |               |             |            |
| Advanced Economies  | 0.3            | 0.7        | 1.7         | 1.9        | 0.0  | 0.0         | 1.0           | 1.8         | 2.0        |
| Emerging Market and Developing Economies 10/              | 4.7            | 4.5        | 4.5         | 4.4        | 0.1  | 0.2         | 3.9           | 4.0         | 3.9        |
| <b>London Interbank Offered Rate (percent)</b>            |                |            |             |            |  |             |               |             |            |
| On U.S. Dollar Deposits (six month)                       | 0.5            | 1.0        | 1.7         | 2.8        | 0.4  | 0.7         | ...           | ...         | ...        |
| On Euro Deposits (three month)                            | -0.0           | -0.3       | -0.3        | -0.2       | 0.1  | 0.2         | ...           | ...         | ...        |
| On Japanese Yen Deposits (six month)                      | 0.1            | 0.0        | 0.0         | 0.0        | 0.1  | 0.1         | ...           | ...         | ...        |

Source: IMF WEO Update, January 2017.



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