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International

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IMF World Economic Outlook – April 2017 Gaining Momentum?

Strong Rebound

- For advanced economies, the IMF has revised growth in the United States upwards, reflecting the expected fiscal policy easing and an uptick in confidence, especially after the November elections.
- The outlook has also improved for Europe and Japan based on a cyclical recovery in global manufacturing and trade which began in the second half of 2016.
- Since the U.S. election, expectations of looser fiscal policy in the United States have contributed to a stronger dollar and higher U.S. Treasury interest rates, pushing up yields elsewhere as well.
- Market sentiment has generally been strong, with notable gains in equity markets in both advanced and emerging market economies.
- Stronger activity and expectations of more robust global demand going forward, coupled with agreed restrictions on oil supply, have helped commodity prices recover from their troughs of early 2016.
- Headline inflation has been picking up in advanced economies due to higher commodity prices, but core inflation dynamics remain subdued.

Medium term risk skewed to the downside

- An inward shift in policies, including increased protectionism, with lower global growth caused by reduced trade and cross-border investment flows.
 - A faster-than-expected pace of interest rate hikes in the United States, which could trigger a more rapid tightening in global financial conditions and a sharp dollar appreciation, with adverse repercussions for vulnerable economies.
 - An aggressive rollback of financial regulation, which could spur excessive risk taking and increase the likelihood of future financial crises.
 - Financial tightening in emerging market economies, made more likely by mounting vulnerabilities in China's financial system associated with fast credit growth and continued balance sheet weaknesses in other emerging market economies.
 - Adverse feedback loops among weak demand, low inflation, weak balance sheets, and anemic productivity growth in some advanced economies operating with high levels of excess capacity.
 - Noneconomic factors, including geopolitical tensions, domestic political discord, risks from weak governance and corruption, extreme weather events, and terrorism and security concerns.
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IMF: policy needed

- Policy choices will be crucial in shaping the outlook and reducing risks. Priorities for macroeconomic demand management are increasingly differentiated, given the diversity in cyclical positions.
 - Actions to bolster potential output are indeed urgent given persistent headwinds from population aging in advanced economies.
 - In economies where output is close to or above potential, fiscal policy should aim at strengthening safety nets and increasing potential output.
 - Trade openness, exchange rate flexibility, and strong institutions help emerging market and developing economies enhance the growth impulse from external conditions.
 - Facing ever-present risks of global financial volatility, emerging market economies vulnerable to an adverse turn in external financial conditions would benefit from adopting stronger risk management practices and containing balance sheet mismatches.
 - Preserving the global economic expansion will also require policymakers to avoid protectionist measures and to do more to ensure that gains from growth are shared more widely.
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Overview of the World Economic Outlook Projections

	2016	Projections		Difference from January 2017 WEO Update ¹		Difference from October 2016 WEO ¹	
		2017	2018	2017	2018	2017	2018
World Output	3.1	3.5	3.6	0.1	0.0	0.1	0.0
Advanced Economies	1.7	2.0	2.0	0.1	0.0	0.2	0.2
United States	1.6	2.3	2.5	0.0	0.0	0.1	0.4
Euro Area	1.7	1.7	1.6	0.1	0.0	0.2	0.0
Germany	1.8	1.6	1.5	0.1	0.0	0.2	0.1
France	1.2	1.4	1.6	0.1	0.0	0.1	0.0
Italy	0.9	0.8	0.8	0.1	0.0	-0.1	-0.3
Spain	3.2	2.6	2.1	0.3	0.0	0.4	0.2
Japan ²	1.0	1.2	0.6	0.4	0.1	0.6	0.1
United Kingdom	1.8	2.0	1.5	0.5	0.1	0.9	-0.2
Canada	1.4	1.9	2.0	0.0	0.0	0.0	0.1
Other Advanced Economies ³	2.2	2.3	2.4	0.1	0.0	0.0	0.0
Emerging Market and Developing Economies	4.1	4.5	4.8	0.0	0.0	-0.1	0.0
Commonwealth of Independent States	0.3	1.7	2.1	0.2	0.3	0.3	0.4
Russia	-0.2	1.4	1.4	0.3	0.2	0.3	0.2
Excluding Russia	1.8	2.5	3.5	0.0	0.2	0.2	0.6
Emerging and Developing Asia	6.4	6.4	6.4	0.0	0.1	0.1	0.1
China	6.7	6.6	6.2	0.1	0.2	0.4	0.2
India ⁴	6.8	7.2	7.7	0.0	0.0	-0.4	0.0
ASEAN-5 ⁵	4.9	5.0	5.2	0.1	0.0	-0.1	0.0
Emerging and Developing Europe	3.0	3.0	3.3	-0.1	0.1	-0.1	0.1
Latin America and the Caribbean	-1.0	1.1	2.0	-0.1	-0.1	-0.5	-0.2
Brazil	-3.6	0.2	1.7	0.0	0.2	-0.3	0.2
Mexico	2.3	1.7	2.0	0.0	0.0	-0.6	-0.6
Middle East, North Africa, Afghanistan, and Pakistan	3.9	2.6	3.4	-0.5	-0.1	-0.8	-0.2
Saudi Arabia	1.4	0.4	1.3	0.0	-1.0	-1.6	-1.3
Sub-Saharan Africa	1.4	2.6	3.5	-0.2	-0.2	-0.3	-0.1
Nigeria	-1.5	0.8	1.9	0.0	-0.4	0.2	0.3
South Africa	0.3	0.8	1.6	0.0	0.0	0.0	0.0
<i>Memorandum</i>							
European Union	2.0	2.0	1.8	0.2	0.0	0.3	0.0
Low-Income Developing Countries	3.6	4.7	5.3	0.0	-0.1	-0.2	0.1
Middle East and North Africa	3.8	2.3	3.2	-0.6	-0.1	-0.9	-0.2
World Growth Based on Market Exchange Rates	2.4	2.9	3.0	0.1	0.0	0.1	0.1
World Trade Volume (goods and services)	2.2	3.8	3.9	0.0	-0.2	0.0	-0.3
Imports							
Advanced Economies	2.4	4.0	4.0	0.2	-0.2	0.1	-0.2
Emerging Market and Developing Economies	1.9	4.5	4.3	0.3	-0.4	0.4	-0.2
Exports							
Advanced Economies	2.1	3.5	3.2	0.1	-0.2	0.0	-0.8
Emerging Market and Developing Economies	2.5	3.6	4.3	-0.1	-0.3	0.0	0.1
Commodity Prices (U.S. dollars)							
Oil ⁶	-15.7	28.9	-0.3	9.0	-3.9	11.0	-5.1
Nonfuel (average based on world commodity export weights)	-1.9	8.5	-1.3	6.4	-0.4	7.6	-0.6
Consumer Prices							
Advanced Economies	0.8	2.0	1.9	0.3	0.0	0.3	0.0
Emerging Market and Developing Economies ⁷	4.4	4.7	4.4	0.2	0.0	0.3	0.2
London Interbank Offered Rate (percent)							
On U.S. Dollar Deposits (six month)	1.1	1.7	2.8	0.0	0.0	0.4	0.7
On Euro Deposits (three month)	-0.3	-0.3	-0.2	0.0	0.0	0.1	0.2
On Japanese Yen Deposits (six month)	0.0	0.0	0.0	0.0	0.0	0.1	0.1

Source: IMF WEO Update, April 2017.



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