

Economic Alert iQ



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International

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IMF Cuts World Growth Forecast Again

- The IMF in its October Update of its World Economic Outlook (released today), trimmed its forecast for global growth to 3.1% in 2015, 0.2 percentage points lower than what was predicted in the July 2015 report and lower than the 3.4% expansion experienced in 2014. World output is forecasted to expand further in 2016, at a rate of 3.6%, less than the 3.8% projected in July 2015.
- The weaker prospects for the global economy is largely based on further slowdown in emerging markets and a weaker recovery in advanced economies.
- The IMF estimates that global growth in the first half of 2015 was at 2.9%, 0.3 percentage points lower than predicted in April 2015, with slower growth recorded in both the advanced and emerging market economies.
- The US economy is expected to lead the G7 industrial nations in 2015 and 2016. Though a strong second quarter was posted, the US continues to be affected by one-off factors, including much lower capital spending in the oil sector. While growth in 2015 for the US is forecasted at 2.6% in 2015 (up from the July projection of 2.5%), growth in 2016 is expected to slow to 2.8%, from its 3% July estimate. None of the other G7 countries are projected to post growth as high as 2% in 2015 or 2016.
- Growth in the emerging markets is now projected to slow from 4.6% in 2014 to 4% in 2015, compared to the Fund's July forecast of 4.2% for 2015, with a significant cut in Brazil's performance. According to the IMF, Brazil's economy will contract 3%, a significant deterioration from the July's forecasted contraction of 1.5%. For 2016, the IMF revised its marginal growth forecast of 0.7%, to a contraction of 1%. Brazil's weak outlook is based on fragile oil prices, its exposure to China and the widespread corruption scandal at State-run Oil Company, Petrobras. China's growth prospects remained unchanged at 6.8%, even as investment growth slowed and imports declined. Consumer demand remained fairly steady.
- The outlook for emerging markets in general is expected to be adversely impacted by lower commodity prices, tighter external and financial conditions as well as increasing financial market volatility.

Risks to the Forecast

According to the IMF risks are tilted to the downside, and have increased (relative to April 2015) for the emerging markets and developing economies. These risks include:

- Capital flow reversals associated with disruptive asset price shifts.
- Lower potential output
- Risks to growth in China
- Lower commodity prices
- Strengthening of the US Dollar
- Geopolitical risks

For the advanced economies, the risks include:

- Contagion risks from Greece-related events to other countries in the Euro are (though less of a risk compared to a year ago)
- Protracted weak demand and low inflation

Ongoing geopolitical turmoil in Ukraine, the Middle East and parts of Africa can also escalate and cause increased disruptions in global trade and financial transactions. Lower oil prices can result in upside risk to domestic demand and growth in oil importers.

Policy Priorities

- Specific policy prescriptions vary from country group to country group and among individual countries. However, there is need for structural reforms in both advanced and emerging market economies.
- The IMF has advised that the emerging markets be ready for the US to begin tightening monetary policy.
- The Fund has advised that countries take the opportunity of lower energy prices to reform energy subsidies and taxes.
- Appropriate fiscal policies, particularly in countries with fiscal space, to support global rebalancing and demand-supporting structural reforms are necessary to improve productivity and to stimulate investment.

IMF's World Economic Outlook Projections

	Year over Year Percent Change					
					Difference from July 2015	
					WEO Update	
	2013	2014	Projections		2015	2016
		2015	2016			
World Output	3.4	3.4	3.1	3.6	-0.2	-0.2
Advanced Economies	1.4	1.8	2.0	2.2	-0.1	-0.2
United States	2.2	2.4	2.6	2.8	0.1	-0.2
Euro Area	-0.4	0.8	1.5	1.6	0.0	-0.1
Germany	0.2	1.6	1.5	1.6	-0.1	-0.1
France	0.7	0.2	1.2	1.5	0.0	0.0
Italy	-1.7	-0.4	0.8	1.3	0.1	0.1
Spain	-1.2	1.4	3.1	2.5	0.0	0.0
Japan	1.6	-0.1	0.6	1.0	-0.2	-0.2
United Kingdom	1.7	2.9	2.5	2.2	0.1	0.0
Canada	2.0	2.4	1.0	1.7	-0.5	-0.4
Emerging Market and Developing Economies	5.0	4.6	4.0	4.5	-0.2	-0.2
China	7.7	7.4	6.8	6.3	0.0	0.0
India	6.9	7.3	7.3	7.5	-0.2	0.0
Latin America and the Caribbean	2.9	1.3	-0.3	0.8	-0.8	-0.9
Brazil	2.7	0.1	-3.0	-1.0	-1.5	-1.7
Mexico	1.4	2.1	2.3	2.8	-0.1	-0.2

Source: IMF, World Economic Outlook Update, October 2015

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