DALLASFED Economic Update

International

Outlook Mostly Unchanged as Global Risks Persist

April 29, 2016

First-quarter gross domestic product (GDP) data have not yet been released for most countries, but new forecasts from the International Monetary Fund (IMF) project slow expansion over the next two years. Recently, the global outlook has been most affected by volatility in energy prices, which may have negatively impacted foreign investment and U.S. exports.

GDP Growth Remains Low

Year-over-year global GDP growth for the fourth quarter was revised up slightly over the past month *(Chart 1)*. Real U.S. GDP growth edged up to 1.98 percent. Other significant revisions included a 0.17 percentage point increase to growth in the U.K., a 0.36 percentage point increase in Hungary and a 1.22 percentage point increase in Greece.

The IMF released its latest World Economic Outlook (WEO) in April, which included 2016 and 2017 GDP growth forecasts. The projections for 2016 are 2.40 percent for the U.S, 2.33 percent for the world (excluding U.S.), 1.47 for advanced economies (excluding U.S.) and 3.09 for emerging economies.[1] The projections for 2017 are 2.50 percent for the U.S., 3.02 for the world (ex. U.S.), 1.72 for advanced economies (ex. U.S.) and 4.16 for emerging economies.

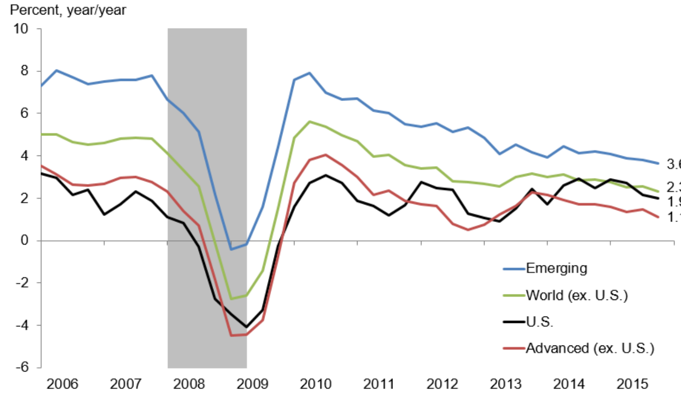
U.S. Exports Fall

Global trade remains sluggish, and U.S. exports are no exception. Table 1 shows the breakdown of the 6.7 percent year-over-year dip in exports in March. The largest drop in U.S. exports has been from Canada, which has a heavy reliance on its energy sector. The breakdown by industry shows that U.S. mining and energy exports fell the most, in line with the plunge in energy prices. Exports of durable goods, which account for 55 percent of U.S. total, have dropped 7.7 percent. Looking at exports by end use shows that industrial supplies (intermediate goods) and capital goods have contributed a combined 5.7 percentage point decline to the contraction in exports.

Inflation Measures Affected by Energy Price Volatility

The precipitous drop in energy prices in late 2014 depressed headline Consumer Price Index (CPI). As inflation is measured on a year-over-year basis, low energy prices caused headline inflation to stay low for most of 2015 *(Chart 2)*. In 2016, we expect year-over-year headline

Chart 1
Fourth-Quarter GDP Growth Revised Slightly Upward



NOTES: Aggregated using U.S. trade weights. Shaded bar indicates global recession.
SOURCES: Database of Global Economic Indicators; Haver Analytics; author's calculations.

Table 1
Weakness in Foreign Investment Drags U.S. Exports

Destination	Y/Y change* (percent)	Contribution (percent)
Euro area (18%)	-1.6	-0.3
Canada (19%)	-10.3	-1.9
Mexico (16%)	-1.8	-0.3
China (8%)	-6.4	-0.5
Japan (4%)	-6.3	-0.3
Industry	**Y/Y change** (percent)**	**Contribution (percent)**
Agriculture (5%)	-13.1	-0.6
Mining and energy (2%)	-31.1	-0.7
Durable manufacturing (55%)	-7.7	-4.3
Nondurable manufacturing (18%)	-6.0	-1.1
Other (19%)	-4.3	-0.8
End Use	**Y/Y change** (percent)**	**Contribution (percent)**
Foods, feeds and beverages (8%)	-11.5	-1.0
Industrial supplies and materials (28%)	-15.7	-4.5
Capital goods, ex. auto (36%)	-3.4	-1.2
Auto vehicles, parts and engines (10%)	-4.7	-0.5
Consumer goods, ex. auto (13%)	-2.4	-0.3

*Percent change in 2015 over 2014.
**Percent change from March 2015 to February 2016 over March 2014 to February 2015.
NOTE: Figures in parentheses denote each component's share of total exports.
SOURCES: Haver Analytics; author's calculations.

inflation to be unusually high as it is now being measured versus the depressed 2015 CPI levels. Core CPI does not directly include energy prices, but it does include indirect effects of energy prices. Goods and services that use oil and oil products as intermediate goods have become cheaper as a result of low energy prices, and core CPI reflects these indirect effects.

Import and Producer Prices Decline

Another source of downward pressure on inflation comes from import prices. U.S. import prices, excluding food and energy, fell 2.3 percent from March 2015 to March 2016. This drop in import prices is the result of a strengthening dollar and more cheaply produced goods (in foreign currency terms). The producer price index (PPI) measures the price of output and, unlike the import price index, is available for most major countries.

Table 2 shows changes in PPIs, exchange rates (FX-rates) and FX-rate-adjusted PPIs for five major U.S. trading partners. For both the euro area and Japan, the decrease in PPI is overshadowed by changes in U.S. dollar exchange rates. For these two trading partners, goods are more expensive in dollar terms than they were a year ago. Mexico has seen an increase in PPI and a depreciation of its currency, resulting in cheaper goods in dollar terms. In China, both the PPI and exchange rate decreased, leading to much cheaper goods in dollar terms.[2]

International Monetary Policies Mostly Unchanged

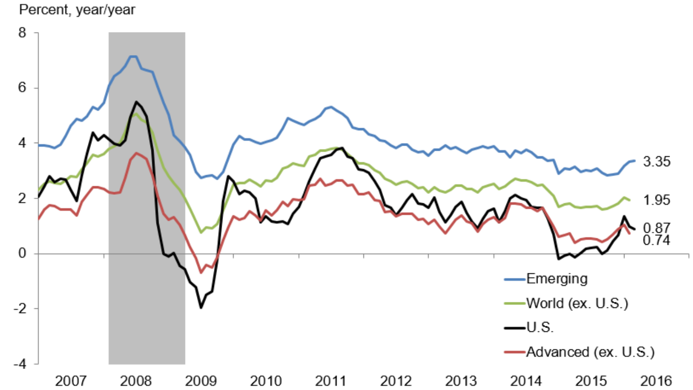
A number of central banks have held meetings recently, but most have left their monetary policies unchanged. The Reserve Bank of India announced a 25 basis point decrease in their repo rate on April 5. Canada, Brazil and the U.K. kept their official rates constant in their April meetings, and the European Central Bank (ECB) announced no change in their meeting on April 21. The ECB has released additional details about the expansion of their asset purchasing program that was announced in March and begins in June. Contrary to expectations, the Bank of Japan also announced no changes in their monetary policy in their meeting on April 28.

–Kelvin Virdi

Notes

1. To better compare the trends displayed in Chart 1 with the IMF projected growth rates, the projections are aggregated over the same 40 countries and the same U.S. trade weights used in the Database of Global Economic Indicators (DGEI).
2. Unfortunately, the import price index and the producer price index do not track the same goods. The import price index tracks the prices of goods that make it to the U.S. from other countries, and the producer price index tracks the prices of all goods produced in a country. Even though they do not track the same goods, the dramatic decrease in the exchange-rate-adjusted PPI still conveys meaningful information about the declining import price index.

Chart 2
Headline Inflation Contaminated by Commodity Price Volatility



NOTES: Aggregated using U.S. trade weights. Shaded bar indicates global recession.
SOURCES: Database of Global Economic Indicators; Haver Analytics; author's calculations.

Table 2
Producer Price Deflation in Major Trading Partners

Country	Change in PPI (percent)	Change in FX-rate (percent)	Change in FX-rate-adjusted PPI (percent)
Euro area (16%)	-4.2	5.4	1.2
Canada (12%)	-1.4	-4.7	-6.1
Mexico (12%)	4.8	-12.4	-7.6
China (18%)	-4.9	-4.3	-9.2
Japan (6%)	-3.7	9.7	6.0

NOTES: Figures in parentheses denotes each country's share of U.S. imports. Positive change in foreign exchange (FX) rate means appreciation of the currency against the dollar. All changes calculated using latest data on year-over-year basis.
SOURCES: Haver Analytics; author's calculations.

About the Author

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