

Global Outlook Unchanged, but Uncertainty Persists

November 4, 2016

The outlook for continued slow expansion through 2017 remains mostly unchanged following modest global output growth (excluding the U.S.) in the second quarter (*Chart 1*).¹ Few countries have released third-quarter output data. Most notably, China's gross domestic product (GDP) grew 6.7 percent year over year for the third consecutive quarter. The International Monetary Fund (IMF) kept its global growth forecasts for both 2016 and 2017 unchanged from July in its October World Economic Outlook. Global risks include low inflation in advanced economies and uncertainty after the U.K.'s vote to leave the European Union (EU), known as Brexit.

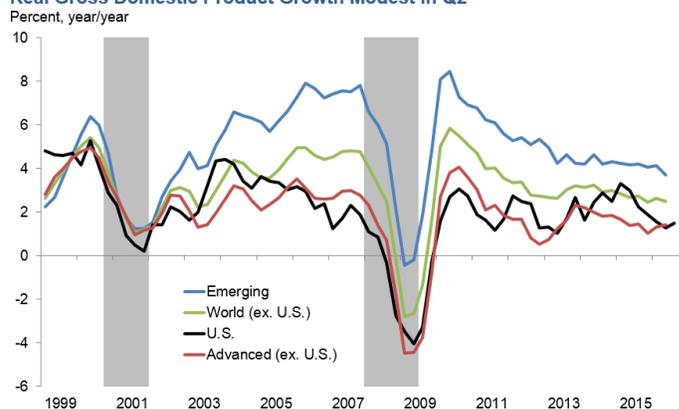
China Producer Prices Increase

For the first time in over four years, China's producer price index (PPI) rose in September, increasing 0.1 percent year over year (*Chart 2*).² The PPI has been on an upward trajectory in recent months, and the increase seems to be mostly broad based, although some sectors are still experiencing deflation. Developments in the PPI might be more significant than those in the consumer price index (CPI) for inflation pressures in the U.S. because they better reflect price movements in goods that can be traded internationally. China's CPI inflation also increased to 1.9 percent year over year in September from 1.3 percent in August.

Inflation Subdued in Advanced Economies

CPI inflation in advanced economies (excluding the U.S.) continues to be low at 0.8 percent year over year in September (*Chart 3*). Japan's inflation rate for all items excluding fresh food was negative in September at -0.4 percent year over year and has been negative on a seasonally adjusted basis since January. At its Sept. 20-21 meeting, the Bank of Japan decided to introduce Quantitative and Qualitative Monetary Easing (QQE) with yield curve control, expanding on its QQE program. The new policy involves setting a short-term policy rate and a target level for long-term interest rates. The central bank will maintain its negative interest rate of -0.1 percent for policy-rate balances held by financial institutions in their Bank of Japan accounts and will pur-

Chart 1
Real Gross Domestic Product Growth Modest in Q2



NOTES: Calculations are based on a representative sample of 40 countries; aggregated using U.S. trade weights. Shaded bars indicate global recessions.
SOURCES: Database of Global Economic Indicators; Haver Analytics; author's calculations.

Chart 2
China's Producer Prices Increase for First Time in Over Four Years



SOURCES: China National Bureau of Statistics; Haver Analytics.

chase Japanese government bonds (JGBs) to maintain the yield on the 10-year JGB around the current level of zero percent.

Inflation in the euro area has also been low for the past several years. CPI inflation increased to 0.5 percent year over year in September and October but still remains far below the European Central Bank (ECB) target of close to (but below) 2 percent. While the euro area has seen some economic improvements, the environment of low inflation has kept pressure on the ECB to maintain its stimulus. The

ECB kept interest rates on hold at its Oct. 20 meeting but left the door open to more stimulus at its Dec. 8 meeting. GDP growth was unchanged in the third quarter at 1.6 percent year over year.

Developments in Europe Drive Uncertainty

At the semiannual IMF meeting in October, ECB President Mario Draghi alluded to the risks the euro area faces as a result of the June 23 Brexit decision. The effects of the U.K.'s split from the EU are still uncertain. British Prime Minister Theresa May announced in her Oct. 2 speech to the Conservative Party that the U.K. will invoke Article 50 of the Lisbon Treaty by March 2017, and that the result will be a "hard" Brexit, one involving a more distinct departure from the existing arrangements with the EU. Britain's economy performed better than expected in the three months after the Brexit referendum, with third-quarter GDP rising 0.5 percent quarter over quarter (2.3 percent year over year). However, the pound has continued to fall, plummeting by more than 17 percent since June 23 (*Chart 4*).

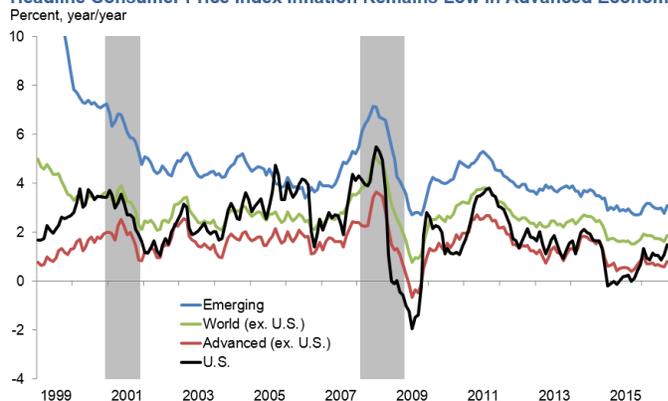
Elsewhere in Europe, German lender Deutsche Bank has struggled after news in September that the Department of Justice proposed a \$14 billion fine due to the bank's mortgage-lending activities in the run-up to the 2008 global financial crisis. The news prompted a roughly 20 percent decline in September in Deutsche Bank's shares, which have subsequently rebounded to levels before the announcement. Still, uncertainty surrounding the settlement has brought concerns about the broader European banking system to the fore once again.

—Valerie Grossman

Notes

1. Aggregate numbers for world (ex. U.S.), advanced (ex. U.S.) and emerging come from a representative sample of 40 of the largest economies, ranked and weighted by their importance as U.S. trading partners. See "A New Database of Global Economic Indicators," by Valerie Grossman, Adrienne Mack and Enrique Martínez-García, *Journal of Economic and Social Measurement*, vol. 39, no. 3, 2014, pp. 163–97. For the methodology used for dating global cycles, see "A Contribution to the Chronology of Turning Points in Global Economic Activity (1980–2012)," also by Grossman, Mack and Martínez-García, *Journal of Macroeconomics*, vol. 46, 2015, pp. 170–85.
2. All figures are seasonally adjusted.

Chart 3
Headline Consumer Price Index Inflation Remains Low in Advanced Economies



NOTES: Calculations are based on a representative sample of 40 countries; aggregated using U.S. trade weights. Shaded bars indicate global recessions.
SOURCES: Database of Global Economic Indicators; Haver Analytics; author's calculations.

Chart 4
British Pound Down Sharply Since Brexit Referendum



SOURCES: Bank of England; Haver Analytics.

About the Author

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