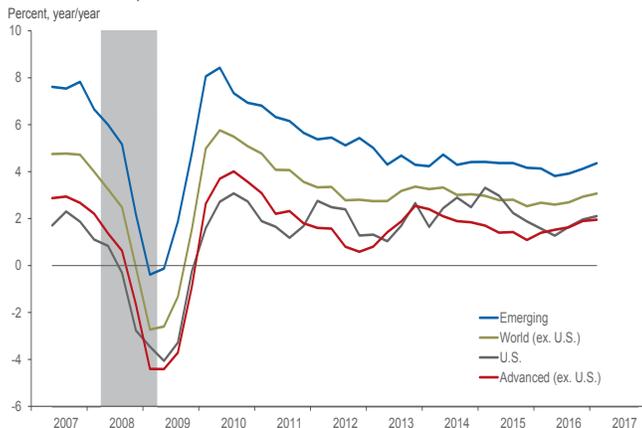


Global Economic Growth on Stronger Footing, Moderately Improves

July 31, 2017

The global economic outlook has marginally advanced in the past six weeks. Recent data releases suggest moderate improvement to growth across countries. Chart 1 shows an upward tick in gross domestic product (GDP) for the Federal Reserve Bank of Dallas' Database of Global Economic Indicators (DGEI) aggregates during first quarter 2017. The DGEI uses 40 countries—selected using U.S. nominal trade weights and percent of world GDP—that are assembled into three categories and shown along with the U.S.

Chart 1
GDP Growth Ticks Upward in First Quarter 2017



NOTE: Last data points are first quarter 2017. Shaded bar indicates global recession.
SOURCES: Database of Global Economic Indicators; Haver Analytics.

The International Monetary Fund (IMF), in its World Economic Outlook Report for July, projected global growth at 3.5 percent for 2017 and 3.6 percent for 2018¹. The estimates, unchanged from April, masked changes among individual economies—downward revisions to the U.S. and the U.K. offset by higher forecasts for Japan, China and Europe.

“The recovery in global growth that we projected in April is on a firmer footing; there is now no question mark over the world economy’s gain in momentum,” IMF Chief Economist Maurice Obstfeld said this month². “Recent data point to the broadest synchronized upswing the world economy has experienced in the last decade.”

Inflation among advanced economies still remains subdued with the exception of the U.K. The situation is more varied in emerging-market economies. Venezuela, with its high inflation, remains an outlier.

Improving Growth Among Countries

Most major countries and country aggregates experienced annualized quarter-over-quarter growth larger than their 2012–16, five-year averages (*Table 1*).

Strong residential investment and household consumption, a significant rebuilding of manufacturing inventories,

Table 1: Gross Domestic Product Growth

	Observed			2012–16
	Y/Y	Q/Q	Quarter	Period average
United States	2.1	1.4	Q1	1.9
World (ex. U.S.)	3.1	3.1	Q1	2.8
Advanced (ex. U.S.)	2.0	2.0	Q1	1.5
Canada	2.3	3.7	Q1	1.7
Euro Area	1.7	1.7	Q1	0.9
Japan	1.3	1.0	Q1	0.9
United Kingdom	2.0	0.9	Q1	2.1
Emerging	4.4	4.3	Q1	4.2
China	6.9	6.9	Q2	6.8
Mexico	2.6	2.7	Q1	2.2
India	6.1	7.2	Q1	6.4
Brazil	-0.4	4.3	Q1	-0.8
Russia	0.5	1.5	Q1	-0.3
South Africa	0.6	-0.7	Q1	1.4

NOTES: Country data are arranged in descending order of trade weight. Euro-area aggregate includes the nine euro-area countries that are in Database of Global Economic Indicators. Observed growth uses quarterly data. Y/Y contains the most recent year-over-year value, while the Q/Q field contains the most recent quarter-over-quarter annualized growth rate.

SOURCES: Database of Global Economic Indicators; Haver Analytics.

as well as growing exports, boosted above-average Canadian economic expansion. In its July Monetary Policy Report, the Bank of Canada anticipated 2.8 percent GDP growth in 2017, up from the 2.6 percent forecast in its April report.³

After a two-year recession, Brazil’s economy expanded at a 4.3 percent annualized rate during the first quarter. Japan’s first-quarter growth—1.3 percent on a year-over-year basis—slightly exceeded its 2012–16, five-year average of 0.9 percent.

China was the first major country to release second-quarter GDP data. This new data matched China’s first-quarter performance, with an annualized quarter-over-quarter rate of 6.9 percent, and is on course to surpass its 2017 GDP target of 6.5 percent and its 6.7 percent expansion in 2016. China has not exceeded its previous year’s growth rate since 2010. Contributing are the retail and

manufacturing sectors, with recent year-over-year factory output growth matching a two-year high of 7.6 percent in March 2017. Chinese exports also grew 8.5 percent in the first half of the year, largely due to increased demand from the U.S. and Europe.

The Japan-European Union Economic Partnership Agreement (JEEPA) was announced July 5; negotiations on the pact began in 2013. JEEPA reduces trade barriers with the goal of increasing trade between the parties, potentially giving a small boost to global growth. EU imports from Japan, in nominal U.S. dollars, dropped following the Great Recession and remain at early-2000 levels (*Chart 2*). JEEPA still requires government approvals before implementation.

Most Advanced Economies' Inflation Below Target

Inflation in most advanced economies remains below target, with the exception of the U.K. Year-over-year inflation of 2.6 percent in the U.K. during the month of June was above the Bank of England's 2 percent target, largely owing to the pound's depreciation following the 2016 Brexit vote. Similarly, Mexico's outlook also changed following the U.S. presidential election amid concerns about a renegotiated North American Free Trade Agreement that led to increased year-over-year inflation in June of 6.3 percent; Mexico's 2012-16, five-year average is 3.3 percent. While the British pound remains relatively weaker, the Mexican peso has largely rebounded since the start of 2017 (*Chart 3*).

Among emerging markets, India's inflation is heavily influenced by food prices, which make up nearly half of the Indian goods basket used to compute the country's consumer price index. Aided by heavy rainfall in recent months, agricultural output increased, putting downward pressure on prices.

Low commodity prices continue to negatively impact growth in economies—such as those of Brazil, Russia, South Africa and Canada—that rely heavily on exports of these goods. The IMF, in the July World Economic Outlook, advised commodity exporters to diversify their sources of growth.

The Venezuelan government quoted inflation for the first four months of 2017 at 92 percent; however, private estimates believe this is a conservative assessment and cite levels closer to 700 percent over the period.

Improving Outlook

The global economies' outlook has improved slightly since June. Canada achieved above-average GDP expansion in first quarter 2017, aiding the first-quarter global growth uptick, while China's strong expansion in the second quarter may signal additional positive reports for the latest quarter.

Economic protectionist sentiment has been prevalent recently in economies globally. However, Japanese and European policymakers have put forth JEEPA in an effort to expand trade ties.

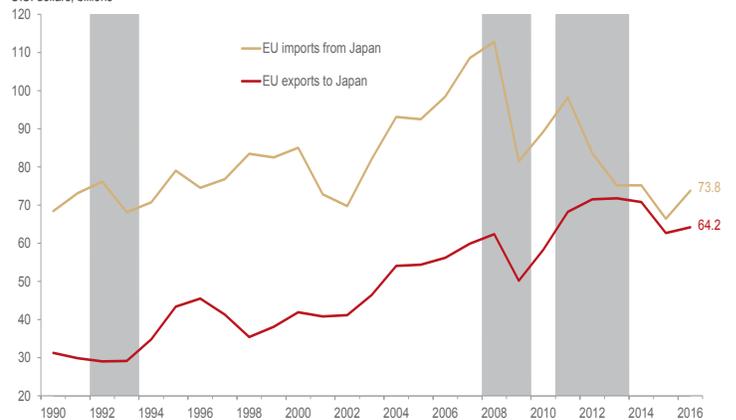
Overall, as the impact of the Great Recession recedes, global economic growth is advancing.

—Arthur Hinojosa

About the Author

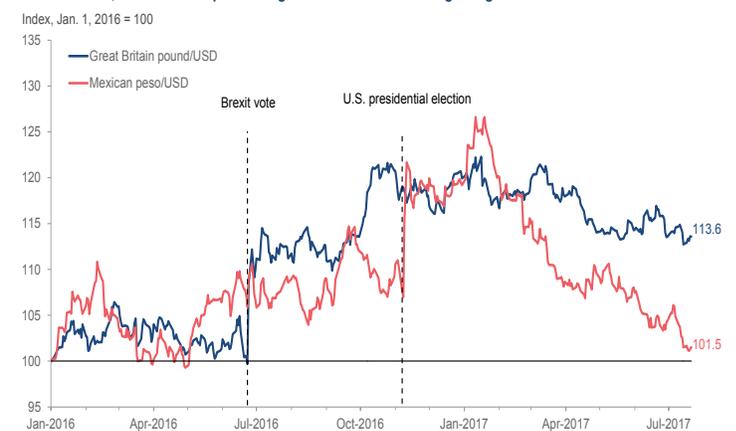
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Chart 2
Since Great Recession, European Union Imports From Japan Fell



NOTES: Annual data; last data points are 2016. Shaded bars indicate recession periods in Europe. If a recession occurred during any quarter during the year, then the year was marked as a recession.

Chart 3
Mexican Peso, U.K. Pound Depreciate Against the Dollar Since Beginning of 2016



NOTES: Last data points are July 21, 2017. Solid black line is a reference for the indexes' starting level on Jan. 1, 2016. SOURCES: Database of Global Economic Indicators; Haver Analytics.

Notes

1. For more information, see "World Economic Outlook Update, July 2017," International Monetary Fund, Kuala Lumpur, July 24, 2017.
2. "A Firmer Recovery," by Maurice Obstfeld, IMFBlog, July 24, 2017, <https://blogs.imf.org/2017/07/23/a-firming-recovery/>.
3. For more information, see "Monetary Policy Report," Bank of Canada, July 2017, April 2017.