

## Global Outlook Continues Improving

November 3, 2017

World gross domestic product (GDP) edged up in the second quarter, thanks to improvement in both advanced and emerging economies. World real (inflation-adjusted) GDP (excluding the U.S.) rose 0.4 percentage points to 3.5 percent on a year-over-year basis (*Chart 1*). Advanced economies (excluding the U.S.) saw 2.6 percent growth, compared with 2.0 percent in the first quarter, while emerging economies saw 4.6 percent growth, up from 4.4 percent.

### Notable Second-Quarter Performance

Canada, the Netherlands and France contributed to the advanced economies' performance. Canadian GDP growth increased from 2.3 percent in the first quarter to 3.7 percent in the second quarter, while the Netherlands moved up from 2.6 percent to 3.8 percent and France from 1.1 percent to 1.8 percent.

The greatest changes among emerging economies were in Mexico, Russia and India. GDP growth increased from 2.6 percent to 3.0 percent in Mexico and from 0.5 percent to 2.4 percent in Russia. India's growth rate decreased, from 6.1 percent to 5.6 percent.

The most recent biannual World Economic Outlook from the International Monetary Fund (IMF) was released in October. Aggregate world real GDP (excluding the U.S.) is forecast to grow 3.2 percent in 2017 and 2.9 percent in 2018, up from 2.8 percent in 2016. The IMF growth calculations were created by aggregating IMF forecasts using U.S. bilateral trade weights.

### Aggregate Inflation Unchanged

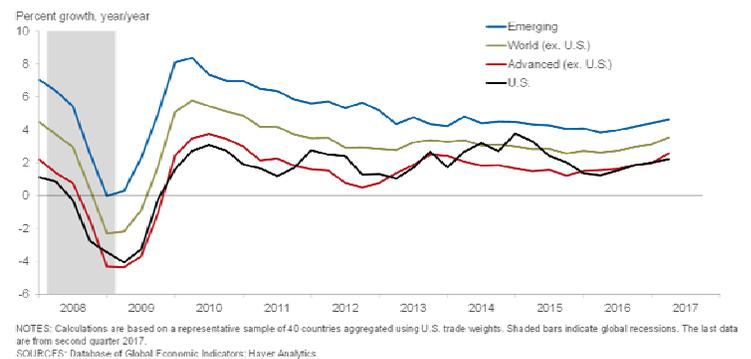
Inflationary pressures have largely remained muted. World CPI inflation (excluding the U.S. and Venezuela) during September was unchanged from August at 2.7 percent year over year (*Chart 2*).<sup>1</sup>

Among advanced economies, Canada's year-over-year consumer price index (CPI) inflation rose to 1.6 percent in September from 1.4 in August, while Germany's CPI advanced to 1.9 percent from 1.8. South Korea's inflation fell to 2.1 percent from 2.6 percent.

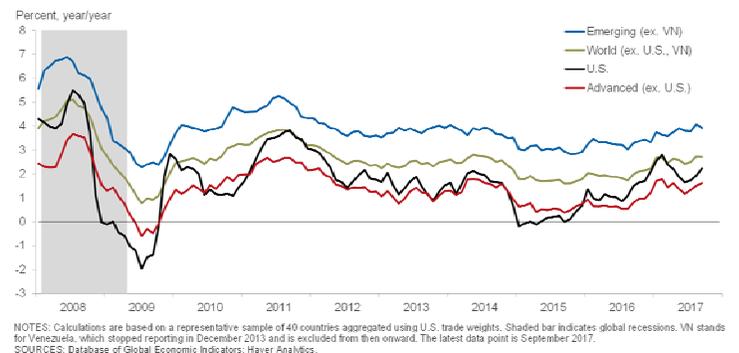
Among emerging economies (excluding Venezuela), aggregate year-over-year CPI inflation decreased to 3.9 in September percent from 4.1 percent in August. Mexico recorded the most significant decline, to 6.3 percent from 6.7. CPI inflation in China fell to 1.5 percent from 1.7, while it increased in Turkey to 4.3 percent from 3.7.

IMF forecasts for the world (excluding the U.S. and Venezuela) anticipate CPI inflation of 2.7 percent in 2017 and 2.4 in 2018, compared with 2.0 in 2016. The IMF forecasts are aggregated using U.S. bilateral trade

**Chart 1**  
Global Real GDP Growth Improves Slightly



**Chart 2**  
Headline CPI Inflation Unchanged in World (ex. U.S.) Aggregate



weights. Apart from the U.S., CPI inflation in advanced economies was 0.8 percent in 2016 and is projected to reach 1.4 percent in 2017 and 1.7 percent in 2018. Among emerging economies (excluding Venezuela), CPI inflation was 3.3 percent in 2016 and is projected to be 4.2 percent in 2017 and 3.3 percent in 2018.

### Central Banks Continue Quantitative Easing Programs

Monetary policy rates around the world have not significantly changed since August. Among advanced economies, the Bank of Canada increased its policy interest rate from 0.75 percent to 1.00 percent on Sept. 6. Among emerging economies, the central bank of Brazil cut its SELIC target rate from 9.25 percent to 8.25 percent on Sept. 6, the central bank of the Russian Federation cut its key rate from 9.00 percent to 8.50 percent on Sept. 18 and Bank Indonesia cut its benchmark rate from 4.50 percent to 4.25 percent on Sept. 22.

The European Central Bank (ECB) announced on Oct. 26 that it will extend its purchases under its asset purchase program, albeit at a reduced volume (*Chart 3*).<sup>2</sup> The ECB will continue purchases at its current pace of 60 billion euros per month through December 2017 and will make purchases of 30 billion euros per month from January to September 2018, or until the ECB sees inflation consistent with its target of inflation rates below, but close to, 2 percent. On Sept. 21, the Bank of Japan announced that it will continue “quantitative monetary easing with yield curve control,” with annual asset purchases of 80 trillion yen.<sup>3, 4</sup>

### Mexico Expands Currency Swap Program, Canada Upgrades Outlook

The Mexican peso’s recent weakening largely reflects uncertainty in international trade policies. The peso depreciated 8.9 percent against the U.S. dollar from July 19 to Oct. 24 (*Chart 4*). The Mexican central bank’s foreign exchange commission announced a US\$4 billion expansion of its \$20 billion currency swap program on Oct 25. The program, intended to counter recent peso volatility, was first announced on Feb. 21, with the sole auction of \$1 billion on March 6.<sup>5</sup>

Canada’s second-quarter real GDP was 0.3 percentage points above Bank of Canada (BoC) projections in its Monetary Policy Report released in July (*Chart 5*). The BoC expects output to modestly rise through year-end 2017 and to moderate by 2019. The BoC increased the target for the overnight rate in its July and September announcements but kept the rate unchanged in its recent statement, on Oct. 25.<sup>6</sup> BoC cited a pickup in inflation and stronger-than-expected economic growth in the second quarter (*Chart 5*).

—Kelvinder Viridi

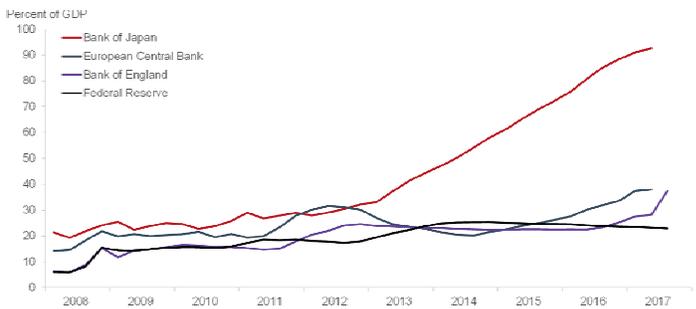
### Notes

1. Venezuela is excluded because the government has not released CPI data since December 2013.
2. “Monetary Policy Decisions,” European Central Bank, Oct. 26, 2017, [www.ecb.europa.eu/press/pr/date/2017/html/ecb.mp171026.en.html](http://www.ecb.europa.eu/press/pr/date/2017/html/ecb.mp171026.en.html).
3. Bank of Japan’s “yield curve control” is generally understood to mean that the central bank is targeting a 10-year yield of 0 percent.
4. “Statement on Monetary Policy,” Bank of Japan, Sept. 21, 2017, [www.boj.or.jp/en/announcements/release\\_2017/k170921a.pdf](http://www.boj.or.jp/en/announcements/release_2017/k170921a.pdf).
5. Foreign Exchange Hedges Auctions, Banco de México, March 2017, [www.banxico.org.mx/sistema-financiero/estadisticas/mercado-cambiario/operaciones-vigentes-del-banco-de-mexico-en-el-mer/mecanismos/foreign-exchange-hedges-aucti001.html](http://www.banxico.org.mx/sistema-financiero/estadisticas/mercado-cambiario/operaciones-vigentes-del-banco-de-mexico-en-el-mer/mecanismos/foreign-exchange-hedges-aucti001.html).
6. “Bank of Canada Maintains Overnight Rate Target at 1 Percent,” Bank of Canada, Oct. 25, 2017, [www.bankofcanada.ca/2017/10/fad-press-release-2017-10-25/](http://www.bankofcanada.ca/2017/10/fad-press-release-2017-10-25/)

### About the Author

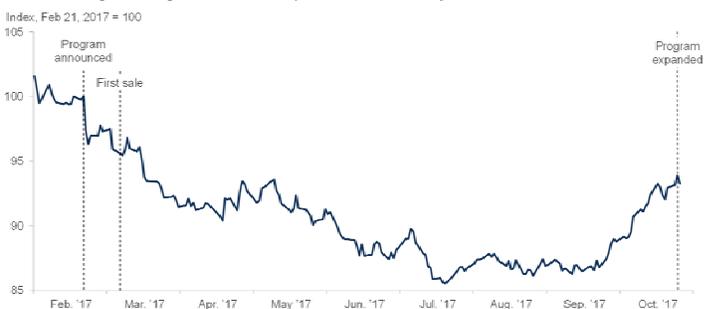
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**Chart 3**  
Central Bank Balance Sheets Continue to Grow



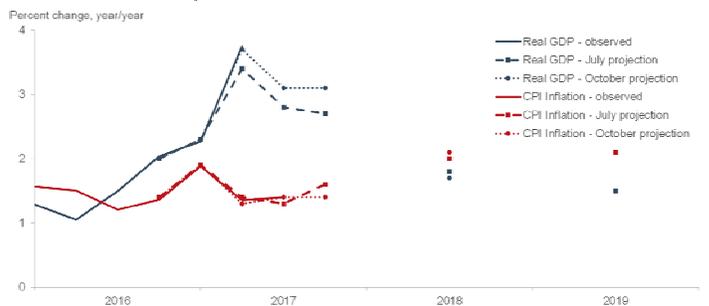
NOTE: The last data are from second quarter 2017.  
SOURCES: National sources; IHS GlobalVantage.

**Chart 4**  
Mexico's Foreign Exchange Commission Responds to Peso Volatility



NOTE: An increase represents a strengthening U.S. dollar.  
SOURCE: Banco de México.

**Chart 5**  
Bank of Canada Revises Projections in October 2017



NOTES: July projections are from Bank of Canada's Monetary Policy Report released July 12. October projections are from the report released Oct. 25.  
SOURCES: Bank of Canada; Statistics Canada.