

Global Economy Expands During Third Quarter

December 19, 2017

Third-quarter gross domestic product (GDP) data suggest increased real (inflation-adjusted) global economic activity. World (excluding U.S.) GDP grew 3.4 percent on a year-over-year basis in the third quarter, according to the Federal Reserve Bank of Dallas' Database of Global Economic Indicators (DGEI). Advanced economies (excluding the U.S.) grew at a rate of 2.6 percent, and emerging economies expanded at a 4.2 percent rate (Chart 1).

There was little change in inflation from September to October in DGEI global aggregates. Global headline consumer prices increased 2.6 percent in October. Inflation in advanced countries (excluding U.S.) was well below 2 percent on a year-over-year basis and was 4 percent in emerging economies (excluding Venezuela).

Advanced Economy GDP Expands

U.S. GDP grew 3.3 percent on an annualized quarter-over-quarter basis, continuing a trend of increasing GDP growth since 2016. This is up from 3.1 percent in the second quarter. Table 1 shows third-quarter GDP growth and DGEI aggregates on year-over-year and annualized quarter-over-quarter bases.

Advanced nation (excluding U.S.) aggregate GDP growth has increased since late 2015.

Canadian GDP growth slowed in the third quarter to 1.7 percent on an annualized quarter-over-quarter basis from 4.5 percent in the second quarter. Canada, supported by rebounding commodity prices, has been the strongest performer among the advanced major trade partners during the first three quarters of 2017.

Euro-area aggregate growth was 2.4 percent in the third quarter. The unemployment rate dipped to 8.8 percent,

the lowest since January 2009.

Japan grew at 1.4 percent in the third quarter. A decline in Japanese consumer spending was offset by strongly higher net exports.

Both Mexico and Russia had declines in real economic activity in the third quarter.

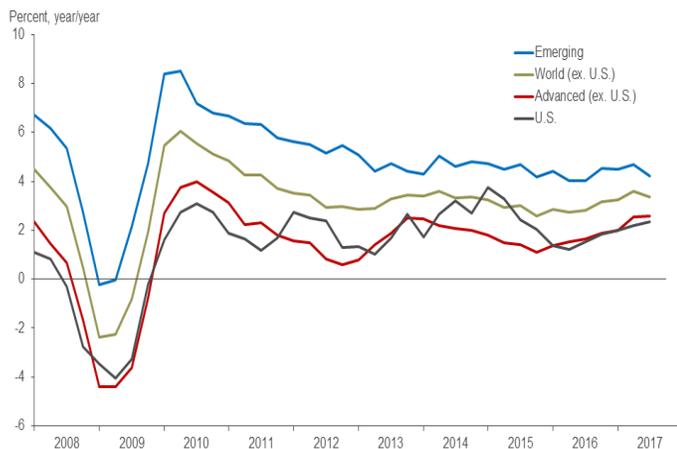
Mexico's GDP contracted 1.2 percent on an annualized quarter-over-quarter basis. The GDP declines follow two earthquakes in September. An International Monetary Fund (IMF) report stated that the negative impact from the earthquakes would have limited impact on 2017 economic activity because of reconstruction in the fourth quarter.¹ The IMF also cited "prolonged NAFTA-related uncertainty along with political uncertainty and tighter monetary conditions" as motivation for a decline in expected growth. Banco de México has raised its overnight rate from 3 percent to 7 percent since December 2015.

Russia's real GDP contracted 2 percent on an annualized quarter-over-quarter basis in the third quarter. The slowdown appears to be driven by falling industrial production. Russia emerged from a recession in first quarter 2017.

India recorded the strongest performance among the major emerging economies in the third quarter. GDP grew 8.7 percent on an annualized quarter-over-quarter basis, up from 4.2 percent in the second quarter. The increase is most likely due to the introduction of a national sales tax in early July that replaced state and local sales taxes.

China's economy grew in line with the government target at 6.5 percent.

Chart 1
Real Gross Domestic Product Growth Trending Higher



NOTE: Calculations are based on a representative sample of 40 countries aggregated using U.S. trade weights.
SOURCES: Database of Global Economic Indicators (DGEI); Haver Analytics.

Chart 2
Bank of England Raises Policy Rate



SOURCES: Bank of England; U.K. Office for National Statistics.

Chart 3
China's Credit Growth Slows in Recent Months



NOTE: SHIBOR is Shanghai interbank offered rate.
SOURCES: Bank for International Settlements; National Interbank Funding Center.

Central Banks Tighten Policy in the U.K., EU

The Bank of England raised the U.K. official bank rate by 25 basis points to 0.5 percent in the intermeeting period. The increase on Nov. 2 was the first since July 2007. U.K. headline inflation was the highest among advanced economies, with consumer prices increasing by 3 percent on a year-over-year basis in October. This is up from 0.9 percent in October 2016 (*Chart 2*). A depreciating pound following the June 2016 decision to leave the European Union contributed to the uptick in prices.

The European Central Bank (ECB) reduced its bond-buying program from 60 billion euros a month to 30 billion euros on Oct. 26. However, the ECB extended its asset-purchase program through at least September 2018.

China Credit Growth Slows

China has not changed its one-year lending policy rate since October 2015 amid indications of decreasing accommodation.

Second-quarter credit to the private nonfinancial sector totaled 210 percent of GDP, significantly higher than any other emerging economy. However credit growth slowed by 0.6 percentage points in 2017 after increases in 2016 and 2015. Interest rates on the three-month Shanghai interbank offered rate (SHIBOR), three-month treasury notes and three-year treasury bonds increased in the past year (*Chart 3*). These are signs of decreased credit availability in China.

—J. Scott Davis and Daniel Crowley

About the Authors

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Note

1. "IMF Executive Board Concludes the 2017 Article IV Consultation with Mexico," International Monetary Fund, 2017, Nov. 13, 2017, www.imf.org/en/News/Articles/2017/11/10/pr17435-mexico-imf-executive-board-concludes-the-2017-article-consultation

Table 1: Real Gross Domestic Product Growth

	Observed		
	Y/Y	Q/Q	Quarter
U.S.	2.3	3.3	Q3
World (ex. U.S.)	3.4	2.8	Q3
Advanced (ex. U.S.)	2.6	2.4	Q3
Canada	3.0	1.7	Q3
Euro area	2.5	2.4	Q3
Japan	1.6	1.4	Q3
United Kingdom	1.5	1.6	Q3
Emerging	4.2	3.1	Q3
China	6.8	6.5	Q3
Mexico	1.6	-1.2	Q3
India	6.2	8.7	Q3
Brazil	1.4	0.6	Q3
Russia	1.8	-2.0	Q3
South Africa	1.0	2.0	Q3

SOURCES: Database of Global Economic Indicators; Haver Analytics.