

## Global Economic Outlook Remains Strong

**May 4, 2018**

Real world output growth excluding the U.S. came in at 3.4 percent in 2017, and forecasts call for continued strong growth in 2018 and 2019 (*Table 1*). The Dallas Fed's Database of Global Economic Indicators (DGEI) forecasts 2018 world (excluding U.S.) real gross domestic product (GDP) growth at 3.2 percent. Advanced economies excluding the U.S. are expected to grow 2.1 percent, while emerging countries are expected to expand 4.3 percent

World Economic Outlook forecasts from the International Monetary Fund (IMF) were consistent with DGEI, predicting strong global economic growth in both 2018 and 2019.<sup>1</sup> The IMF's forecasts for world growth in 2018 and 2019 were each 20 basis points higher in April than in October 2017.

### Broad-Based Increase in Global Activity

Economic expansion in 2017 was broad based, with the IMF's global growth aggregate at its highest level since 2011. Two-thirds of the countries in the aggregate experienced faster growth in 2017 than in 2016—the largest share since 2010.

The IMF's advanced-economy aggregate increased 60 basis points in 2017, a solid performance, in part due to increased fixed capital formation and inventory building in advanced economies. Canada was the strongest performer among advanced economies with real GDP growth of 2.9 percent in 2017.

Annual output growth in emerging economies was led by increases of 7.3 percent in India and 6.8 percent in China. Russia had the weakest performance, with its annual growth weighed down to 1.0 by a fourth-quarter contraction of 1.8 percent. The IMF attributes faster growth in emerging and developing countries to an acceleration in private consumption.

Higher commodity prices and increased fixed investment in commodity-exporting countries, notably Brazil and Russia, were important drivers of the pickup in global GDP growth. Investment growth slowed in China and India but was offset by higher net exports and consumption.

Global trade recovered in 2017, reflecting improved investment in formerly stressed commodity exporters and in advanced economies. Both global trade volume and industrial

**Table 1: Real GDP Growth**

	Observed				IMF's World Economic Outlook forecasts	
	Y/Y	Q/Q	Quarter	Year	2018	2019
United States	2.9	2.3	Q1	2018	2.9	2.7
<b>World (ex. U.S.)</b>	<b>3.4</b>	<b>3.1</b>	<b>Q4</b>	<b>2017</b>	--	--
<b>Advanced (ex. U.S.)</b>	<b>2.6</b>	<b>1.9</b>	<b>Q4</b>	<b>2017</b>	--	--
Canada	2.9	1.7	Q4	2017	2.1	2.0
Euro area	2.6	2.4	Q4	2017	2.3	1.9
Japan	2.1	1.6	Q4	2017	1.2	0.9
United Kingdom	1.2	0.4	Q1	2018	2.4	2.0
<b>Emerging</b>	<b>4.3</b>	<b>4.4</b>	<b>Q4</b>	<b>2017</b>	--	--
China	6.8	7.2	Q1	2018	6.6	6.4
Mexico	2.0	4.5	Q1	2018	2.3	3.0
India	7.3	6.6	Q4	2017	7.4	7.8
Brazil	2.2	0.2	Q4	2017	2.3	2.5
Russia	1.0	-1.8	Q4	2017	1.7	1.5
South Africa	1.9	3.1	Q4	2017	1.5	1.7

NOTES: Aggregates are trade-weighted and reported when data for a sufficient number of countries are available. They are reweighted to account for any missing data. Country data are arranged in descending order of trade weight.

SOURCES: Database of Global Economic Indicators; International Monetary Fund; Haver Analytics; Consensus Forecasts.

production are at their highest levels since 2011 (*Chart 1*).

Acceleration in global trade was evident in emerging economies as well. Trade growth rose from 2.2 percent in 2016 to 6.4 percent in 2017, reflecting increased exports from emerging Asian markets and a recovery in imports in commodity-exporting countries.

### Global Inflation Remains Stable

The international inflation outlook has remained stable. The DGEI forecast for 2018 headline inflation is 1.8 percent in advanced economies (excluding the U.S.) and 3.5 percent in emerging economies (excluding Venezuela). Headline inflation has remained above core inflation in both the emerging and advanced aggregates.

Producer price index (PPI) inflation, a measure of average changes in prices received by producers, is useful for understanding global inflation dynamics. Except in the U.S., PPI inflation has declined since early 2017. As of February, world (excluding the U.S.) PPI inflation was 2.4 percent, down from 5.7 percent a year ago (*Chart 2*).

Commodity prices rebounded, pushing up headline inflation. The IMF’s commodity price index rose 16.9 percent between August 2017 and February 2018. In January, oil prices reached their highest level since 2015. Sharp increases in natural gas prices were driven by demand for liquefied natural gas (LNG) in China, where coal usage is restricted. LNG is at the highest price in three years, and metals prices have increased due to expansion in global economic activity.

While commodity prices helped push up headline inflation, core inflation (excluding fuel and food) remained sluggish. In the advanced aggregate excluding the U.S., March 2018 core inflation was 1.5 percent, up from 1.1 percent in March 2017. U.K. headline inflation was 2.5 percent on a year-over-year basis. Inflation was 1.1 percent in Japan and 1.3 percent in the Euro area, both below their 2 percent targets.

Emerging-country core inflation dipped 50 basis points from a year ago to 3.1 percent. Core inflation in Russia and Brazil is near historical lows.

### Emerging Markets Loosen Policy

Since mid-March, there have been no notable changes in advanced economies’ policy rates. In emerging markets, Brazil, Russia and South Africa reduced policy rates by 25 basis points each.

Brazil’s monetary policy committee, COPOM, cut the benchmark SELIC rate to a historically low 6.5 percent. Since October 2016, COPOM has cut the policy rate by 7.75 percentage points.

The Bank of Russia cut its one-week repo auction loan rate to 7.25 percent. The bank cited low levels of inflation as the motivation for the policy rate change.

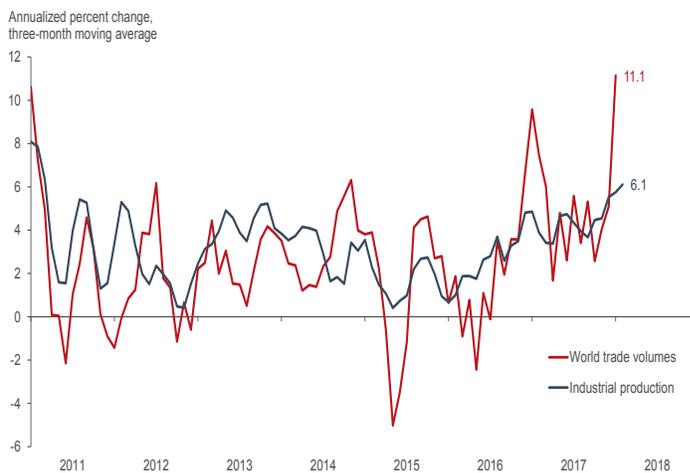
South Africa’s central bank cut its average repo rate to 6.5 percent. The central bank’s governor, Lesetja Kganyago, said “there was some room to provide further accommodation without undermining the inflation trajectory or the downward trend in inflation expectations.”<sup>2</sup>

—Everett Grant and Daniel Crowley

### About the Authors

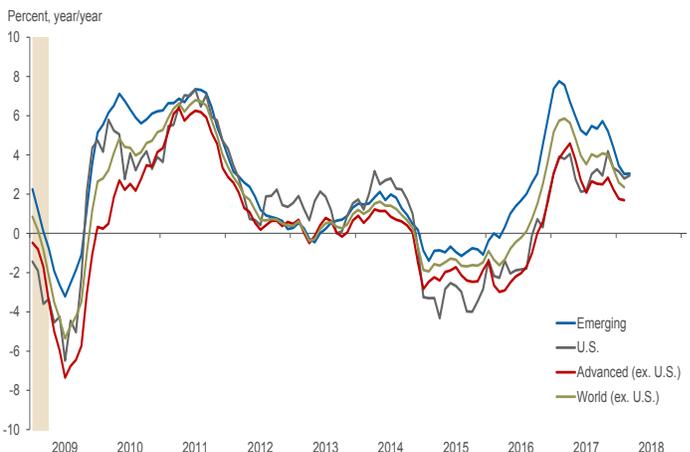
Grant is a research economist and Crowley is a research analyst in the Globalization Institute at the Federal Reserve Bank of Dallas.

**Chart 1**  
Global Trade Accelerates



SOURCE: International Monetary Fund.

**Chart 2**  
Producer Price Inflation Remains Low



NOTE: Shaded bar indicates global recession.  
SOURCES: Database of Global Economic Indicators; Haver Analytics.

### Notes

1. See “[World Economic Outlook: Cyclical Upswing, Structural Change](#),” April 2018.
2. See “[Statement of the Monetary Policy Committee](#),” March 2018.