

2017 International Economic Outlook

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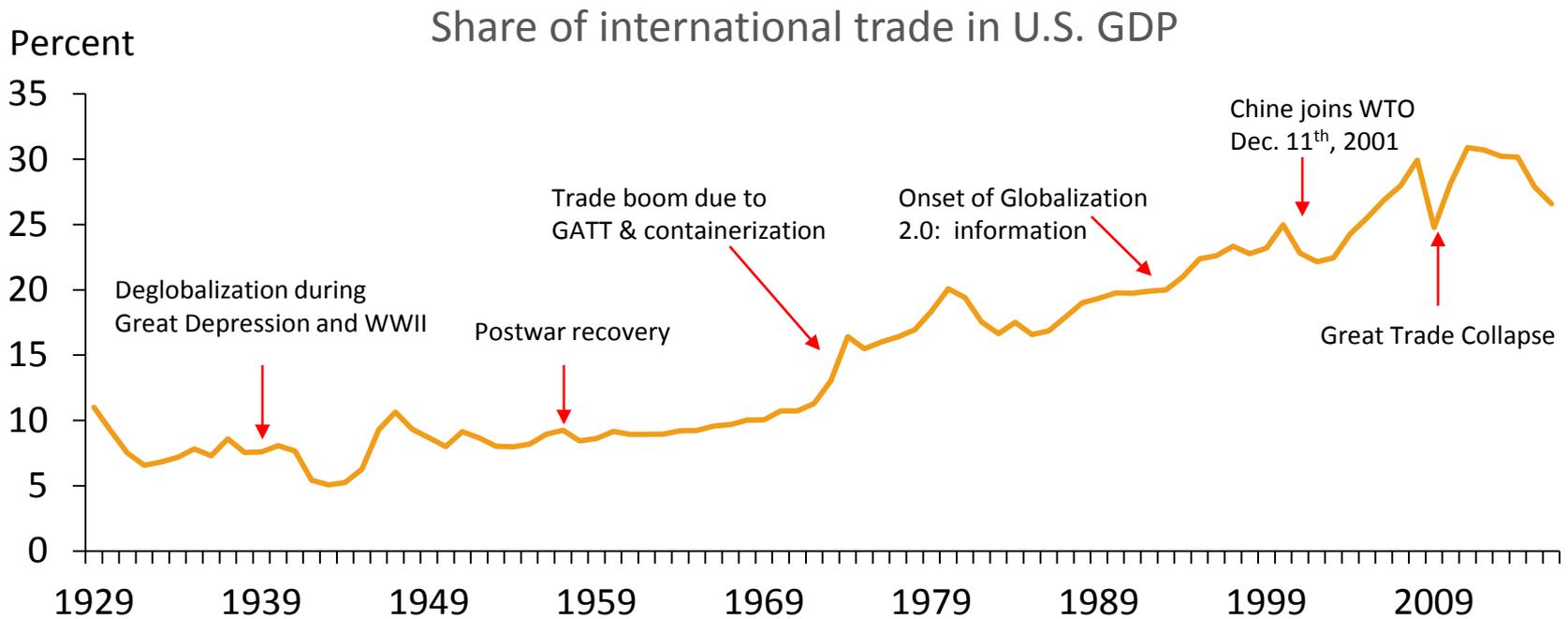
Outline

- Overview of globalization
- Global outlook for real economic activity & inflation
- Risks to the outlook
 - Monetary policy divergence
 - Oil
 - Europe: BREXIT, Italian banks, Greece, migrant problem...
 - China

Globalization

- Globalization - defining phenomenon of our era
 - Comparable to industrial revolution, Reformation etc.
 - Not new – nineteenth century / pre WWI
 - Trade versus technological change as drivers of change
- Interconnectedness
 - Global value chains
 - International financial markets
 - Fragility versus robustness

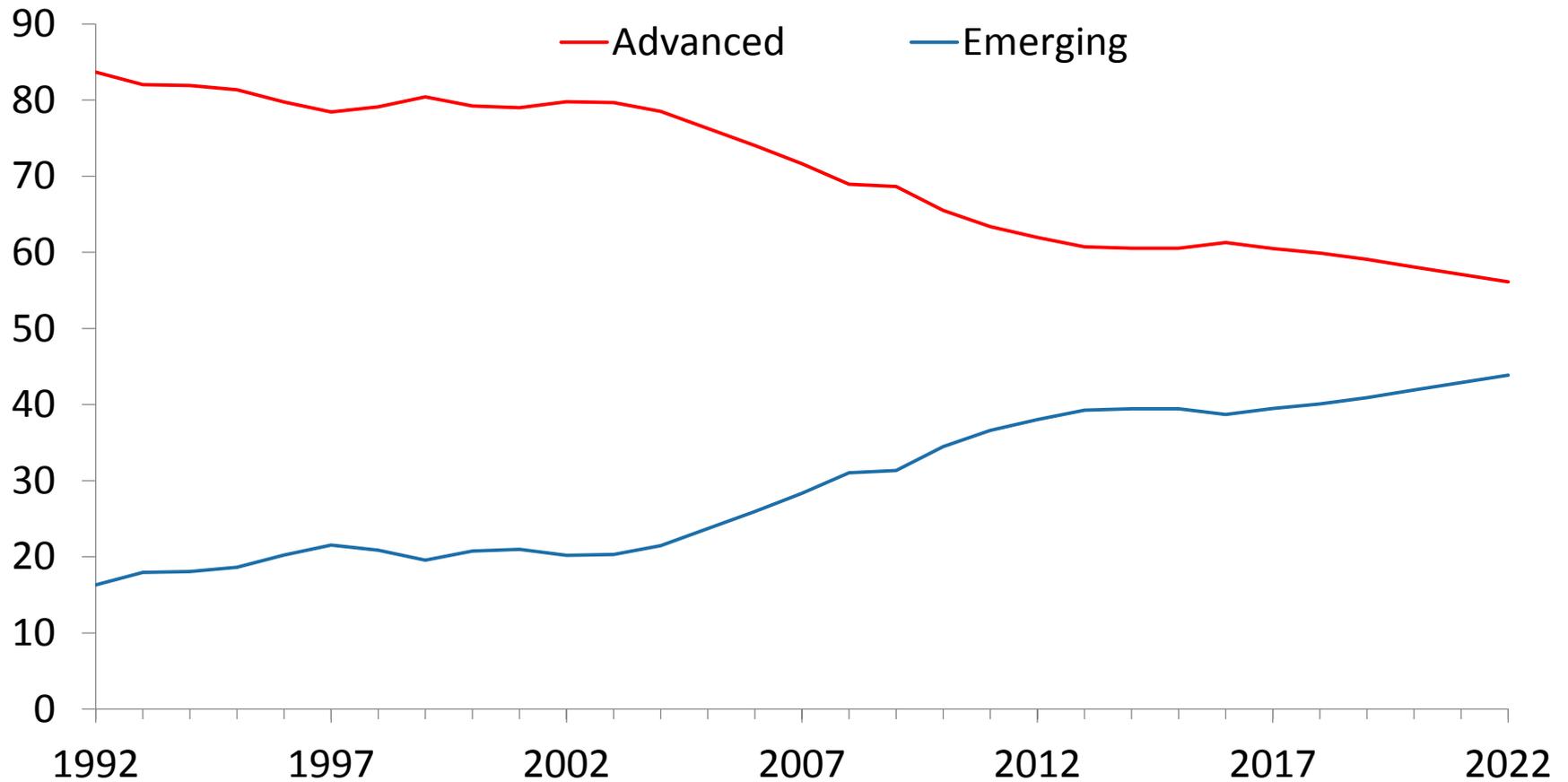
Globalization of the U.S. economy



World Output Shares

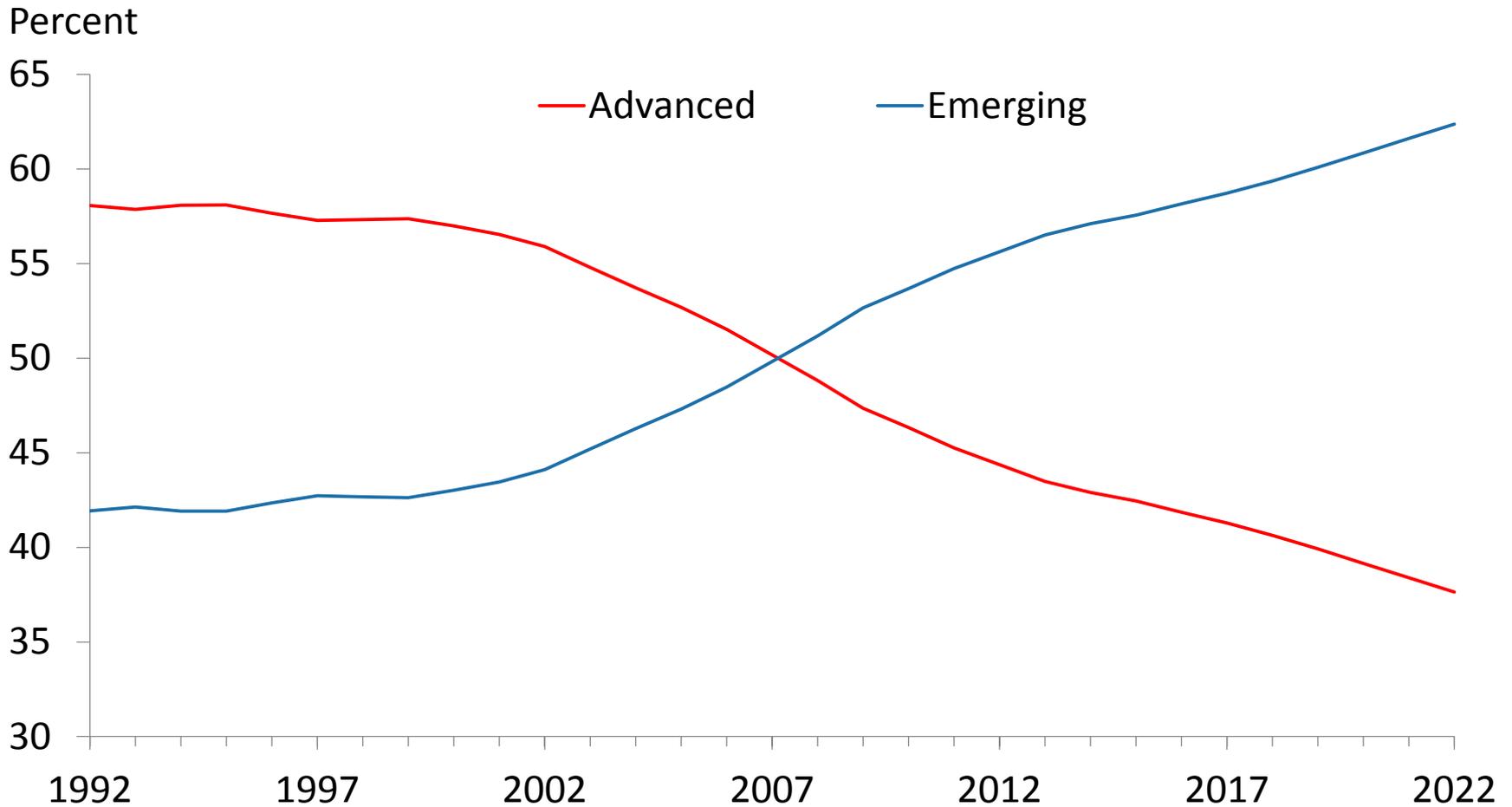
Nominal GDP based in USD, share of world total

Percent



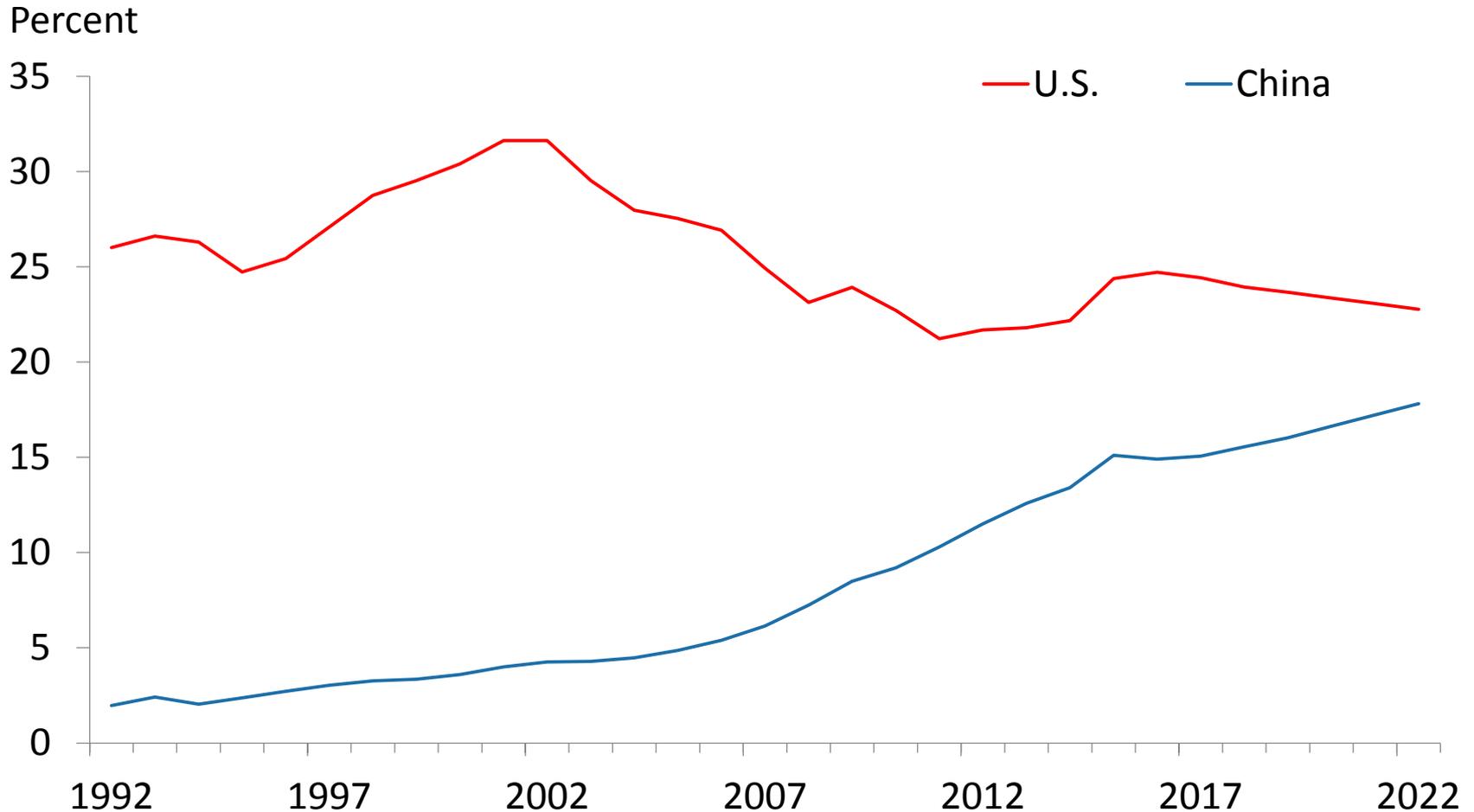
The world has changed!

GDP based on PPP, share of world total



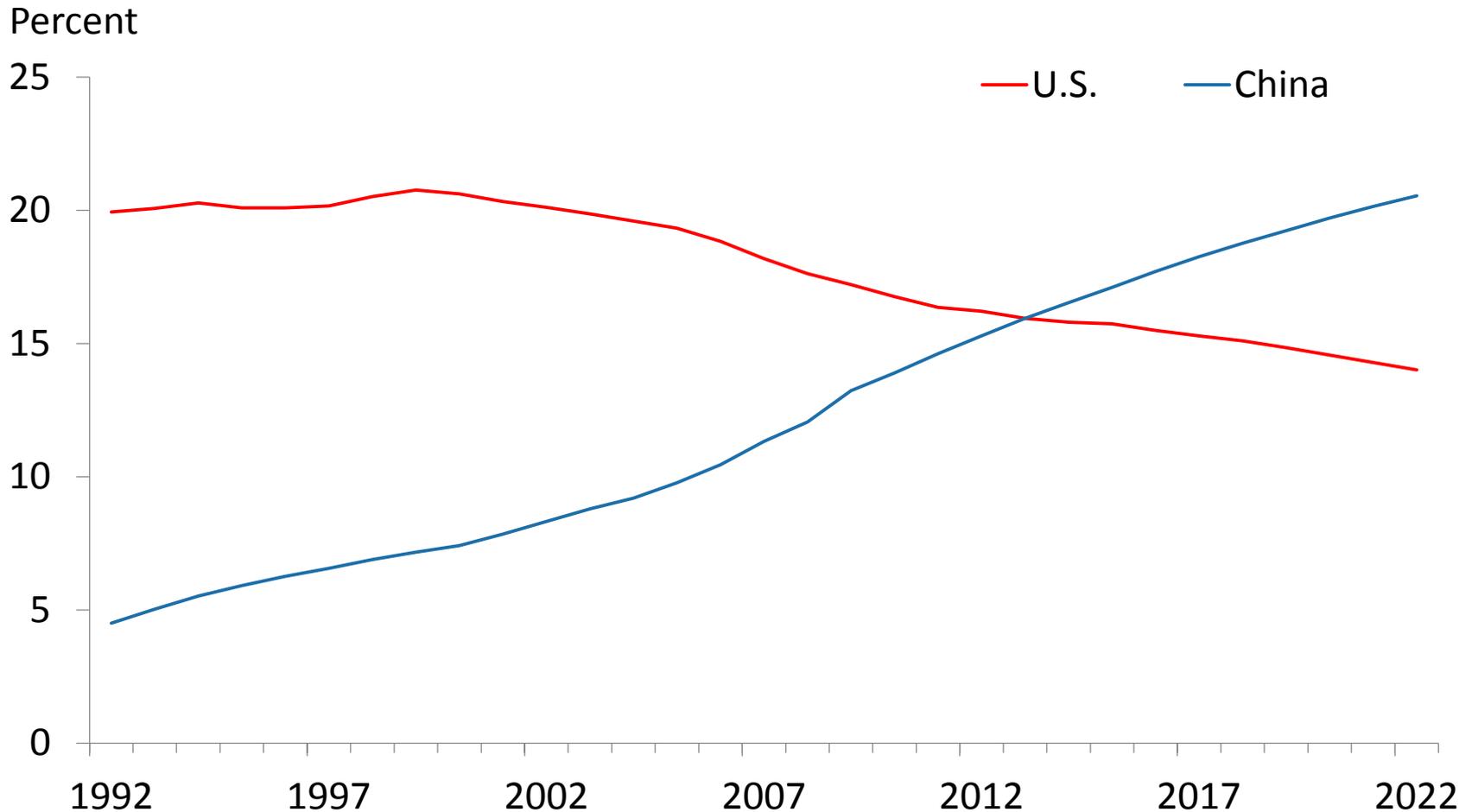
U.S. & China World Output Shares

Nominal GDP based in USD, share of world total



The world has really changed!

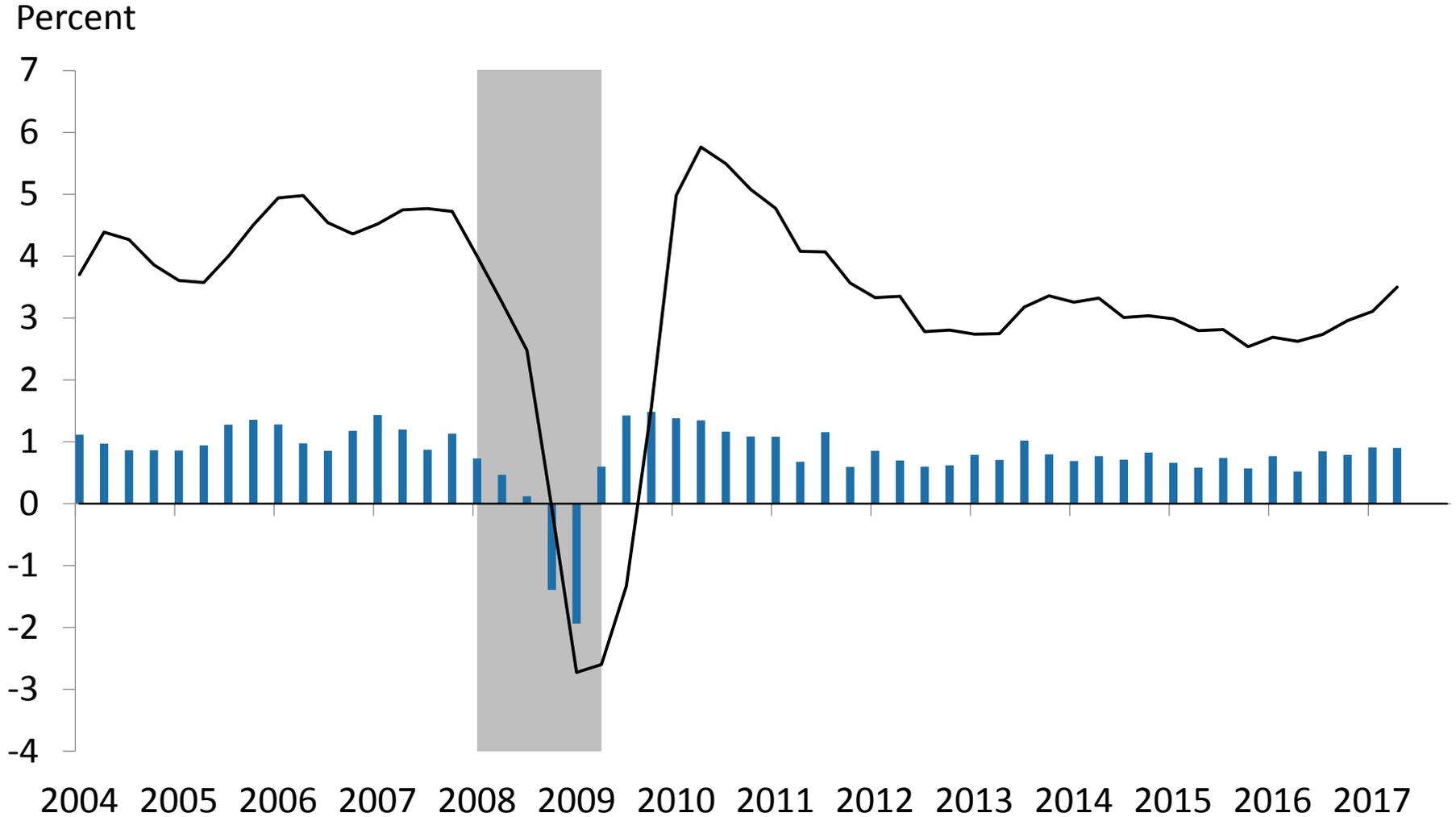
GDP based on PPP, share of world total



Global economic growth

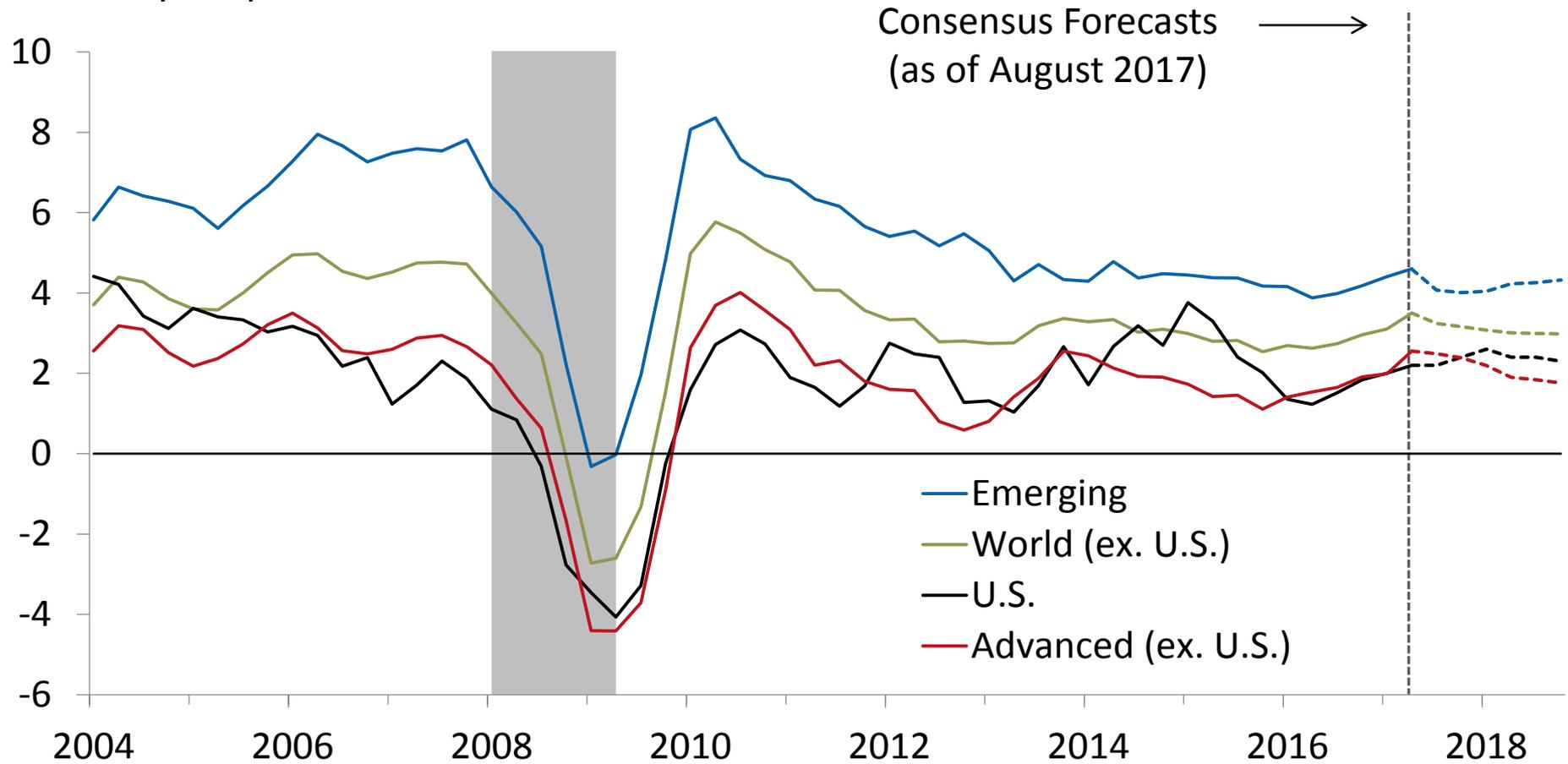
- Global growth upswing that began in mid-2016 continues
 - Global growth expected at 3.6% in 2017, which is up from 3.2% in 2016
- The current upswing is broader than others over the past decade
 - Includes about 75% of the global economy when measured by GDP at PPP
 - Accelerating growth in Europe, Japan, China and the U.S.
- Some emerging & commodity exporting countries continue to struggle
 - Oil prices have remained low reflecting stronger than anticipated supply

Global real GDP growth over the past decade

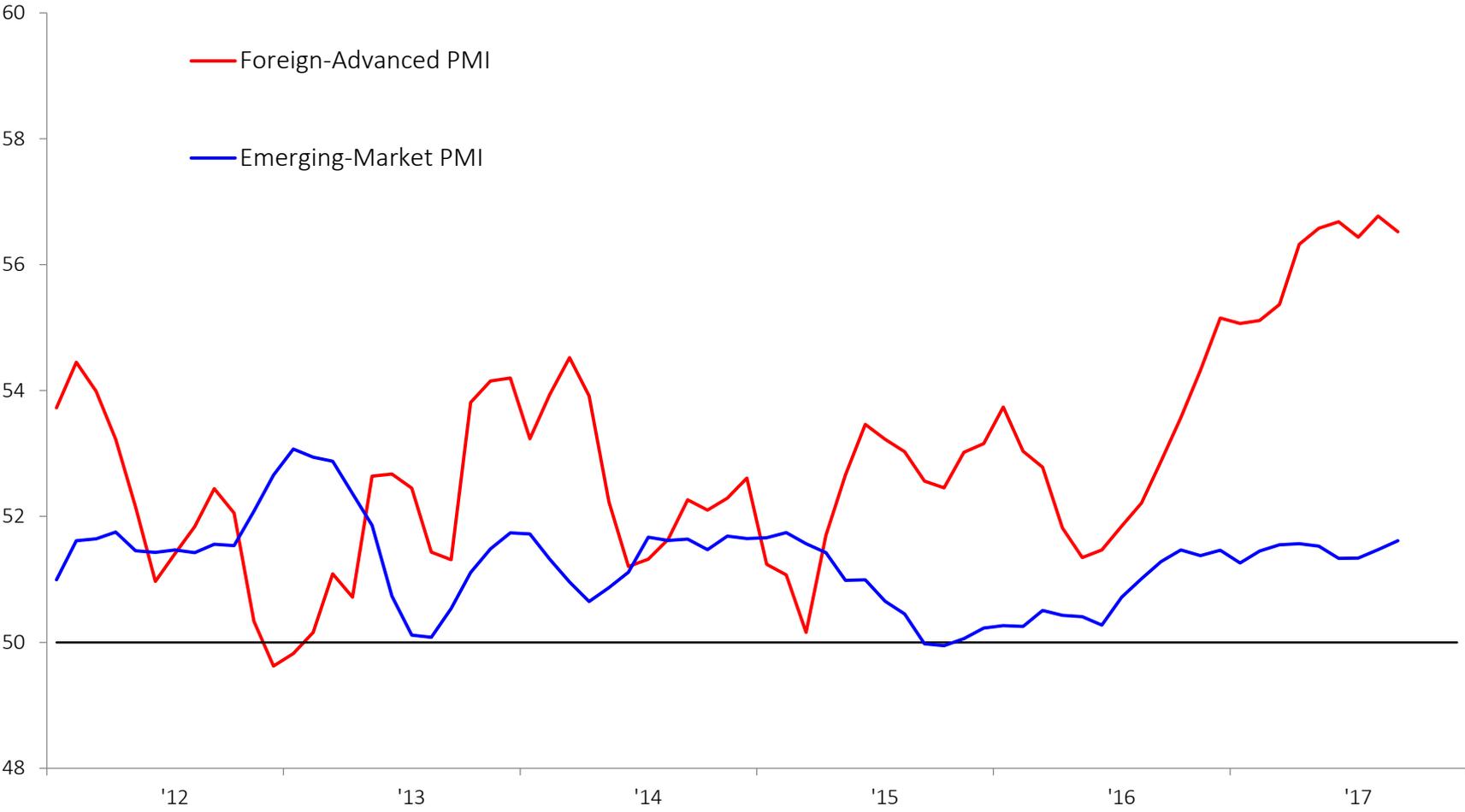


Real GDP growth picking up

Percent, year/year

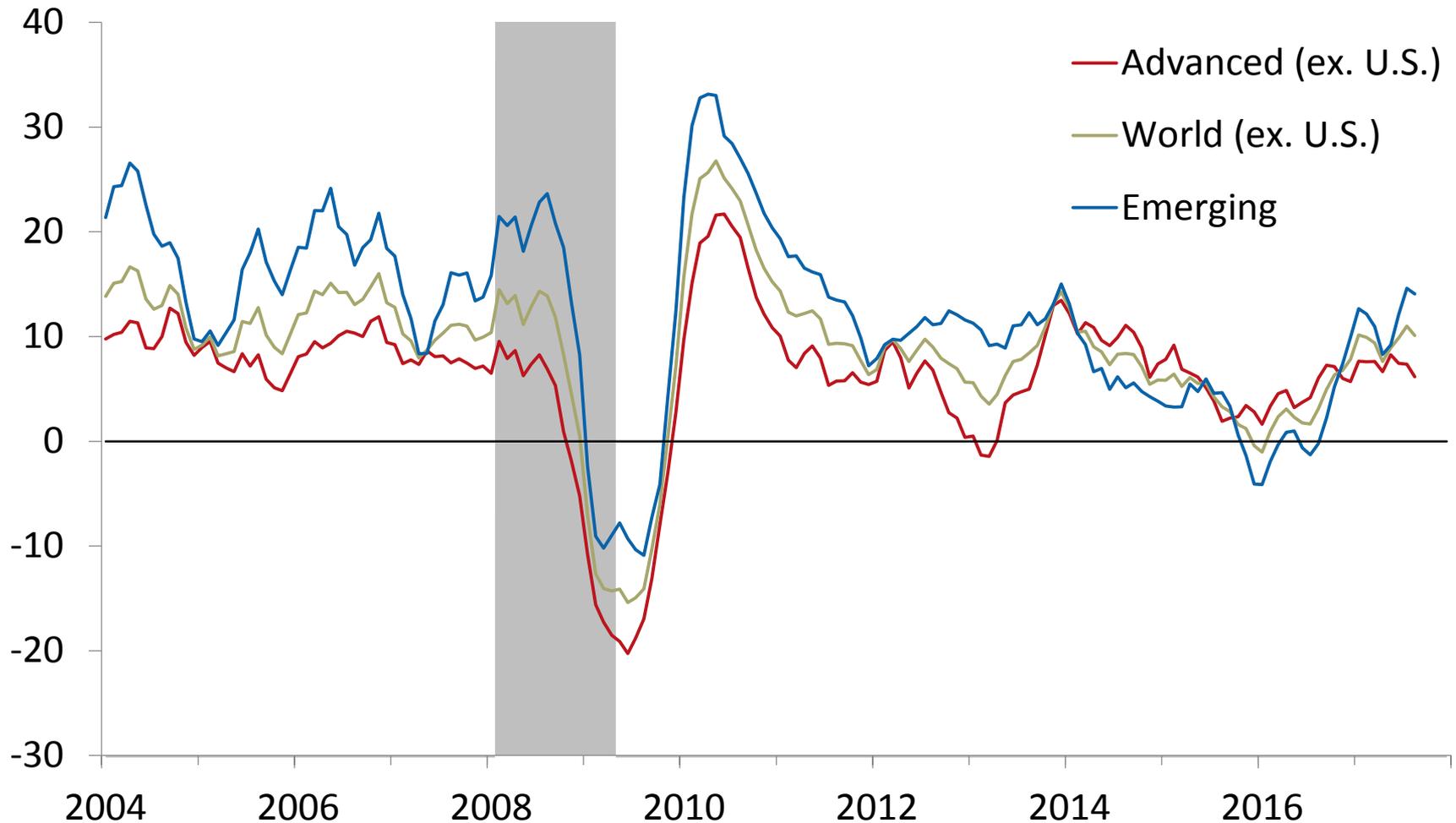


Global outlook has improved since mid-2016



U.S. exports picking up with stronger global growth and a weaker USD

Percent, 3MMA, year/year

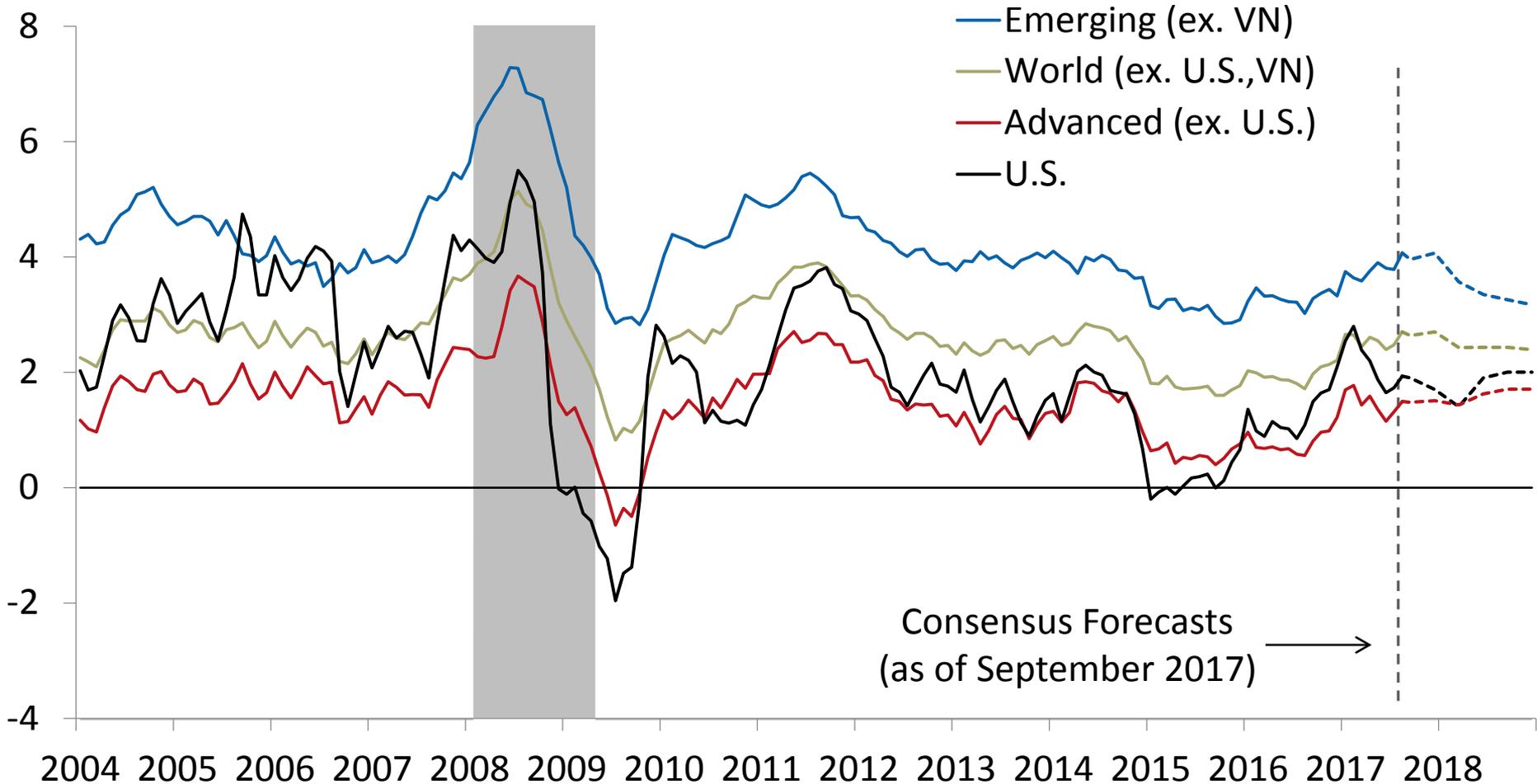


Global inflation outlook

- Inflation remains below target in most advanced economies
 - Leaves policy rates near zero in most advanced nations
 - Weak wage growth
- Effects of commodity price decline in recent months

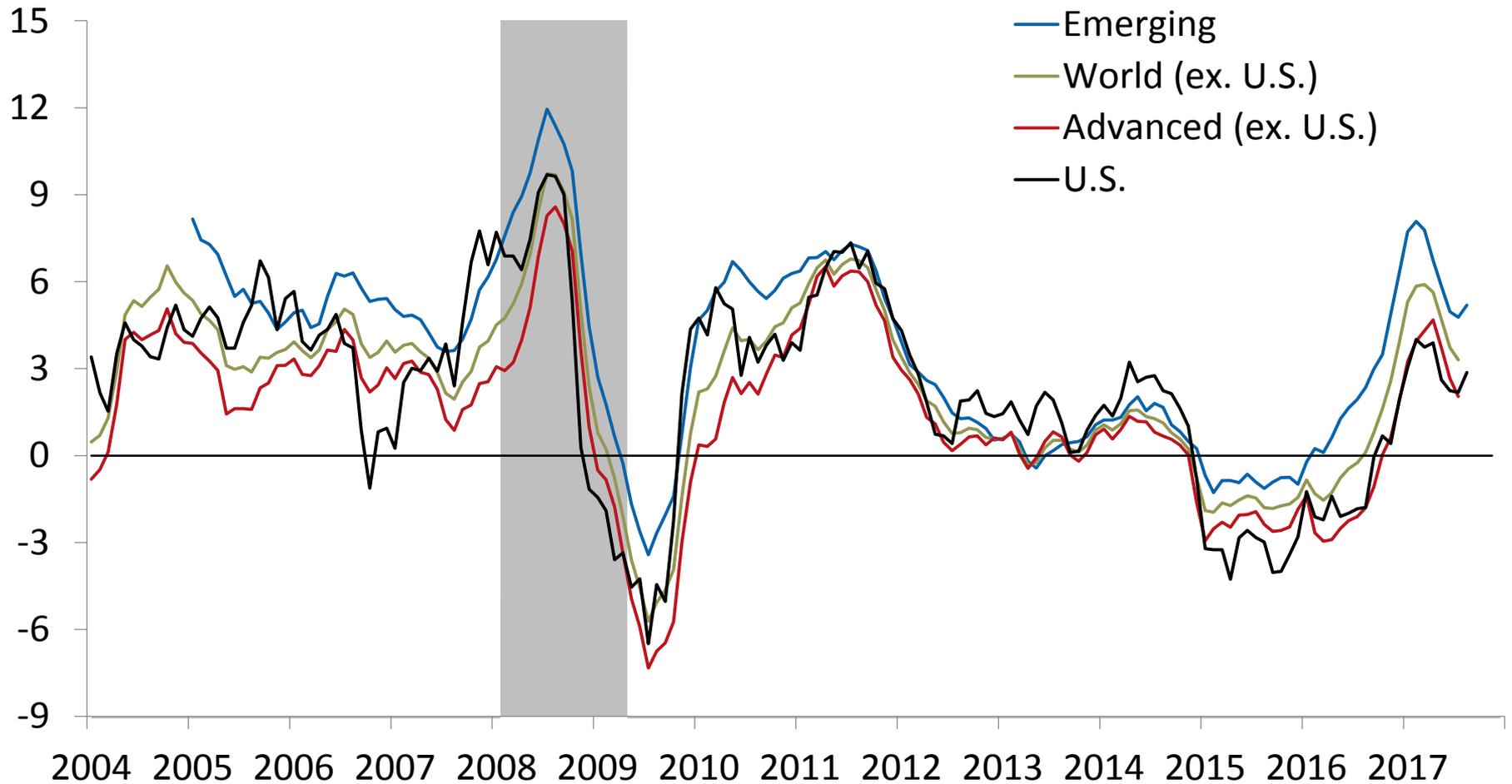
CPI inflation dominated by swings in energy prices

Percent, year/year



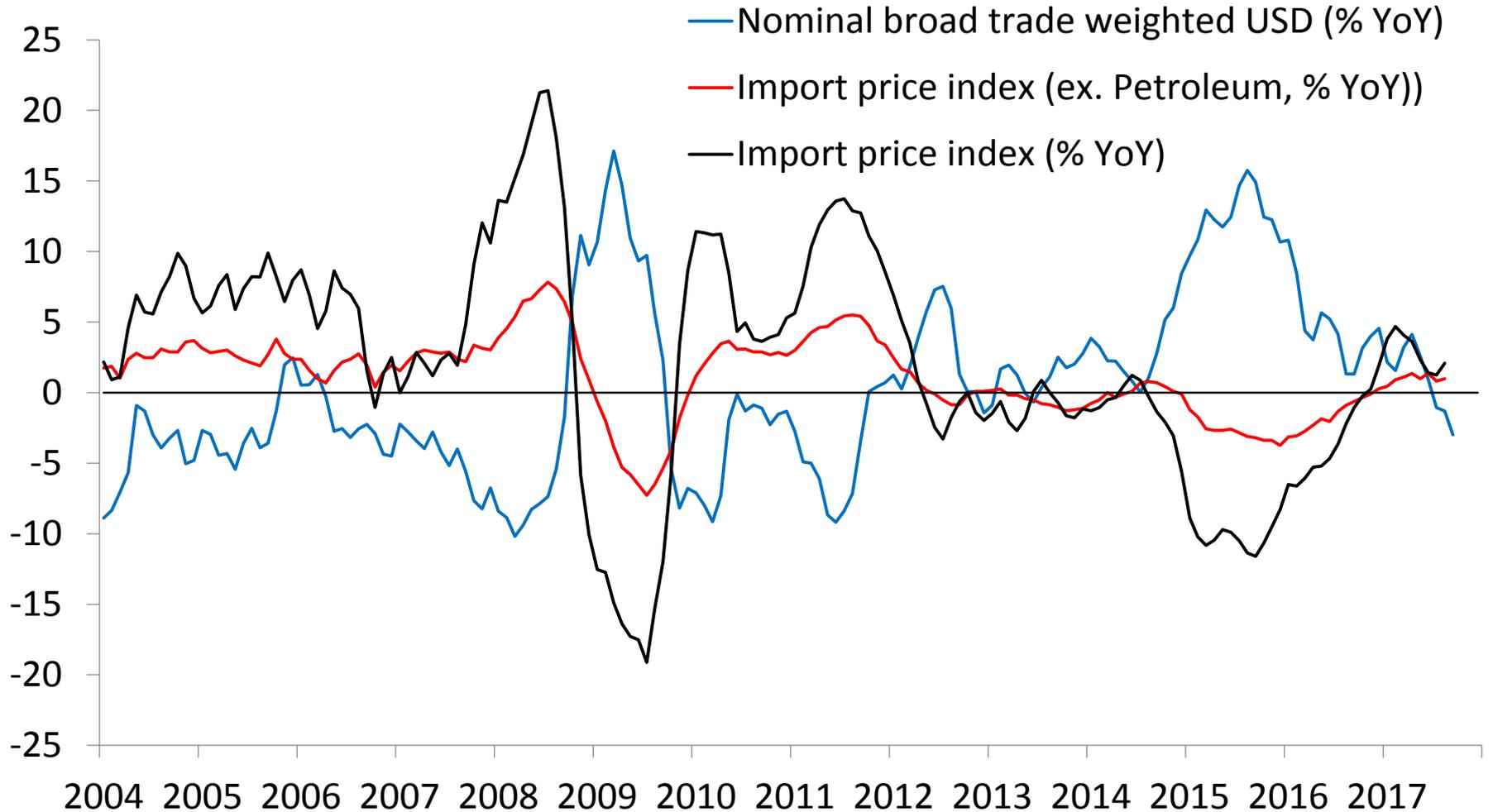
Deflation at the producer price level is ending

Percent, year/year

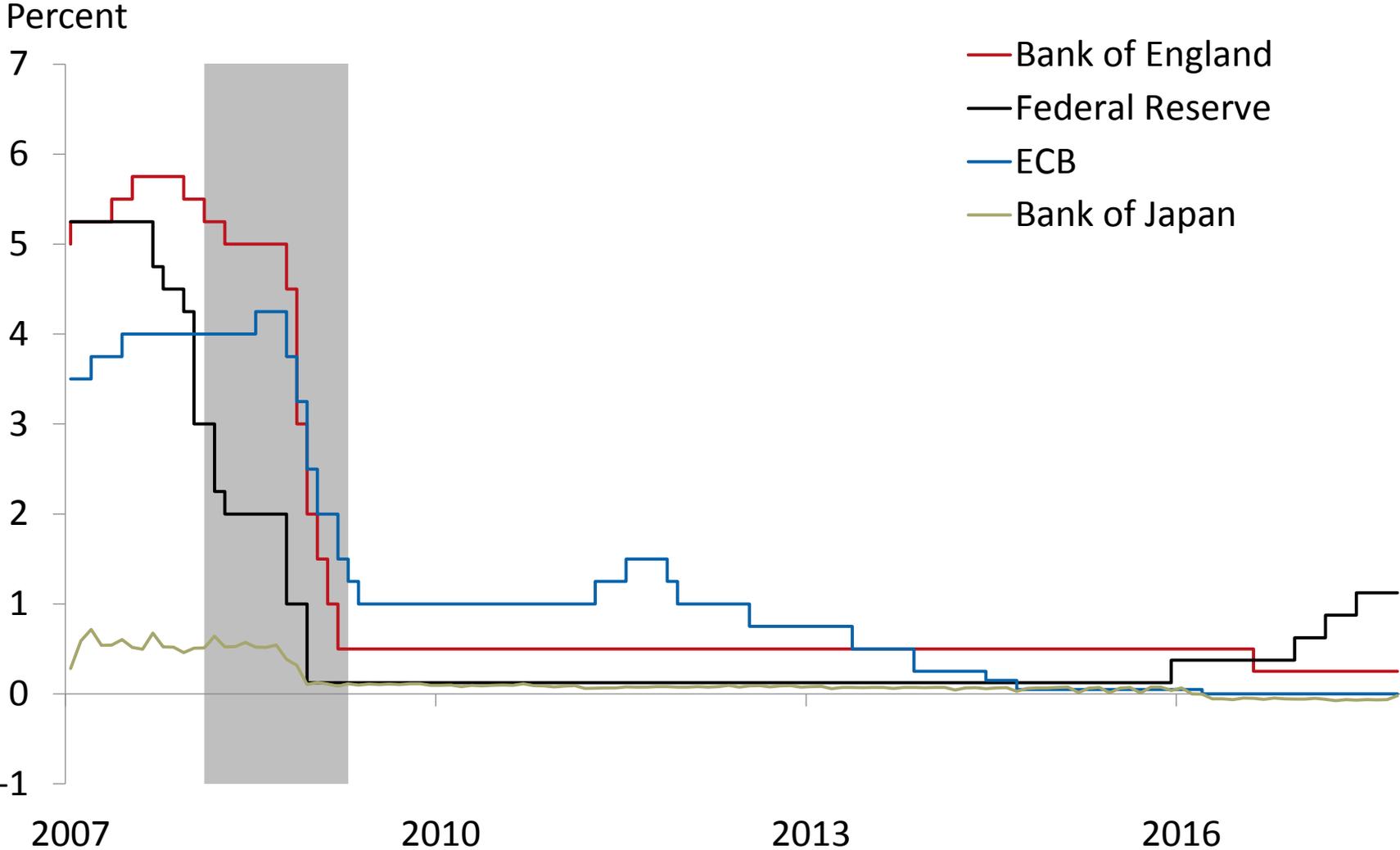


U.S. import price inflation back in positive territory after lower energy prices & strong dollar

Percent, year/year

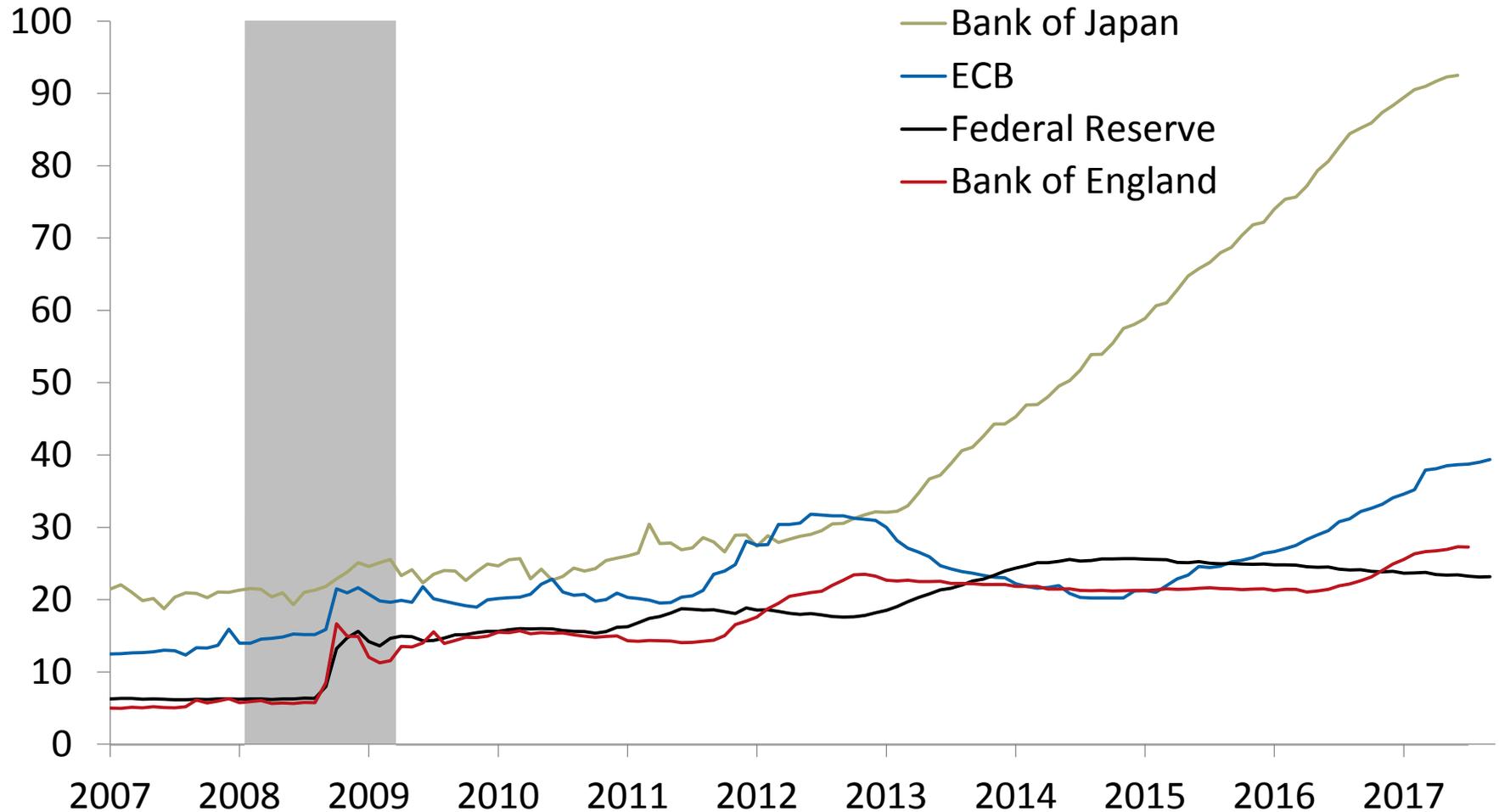


Central bank policy rates stuck at zero outside the U.S.

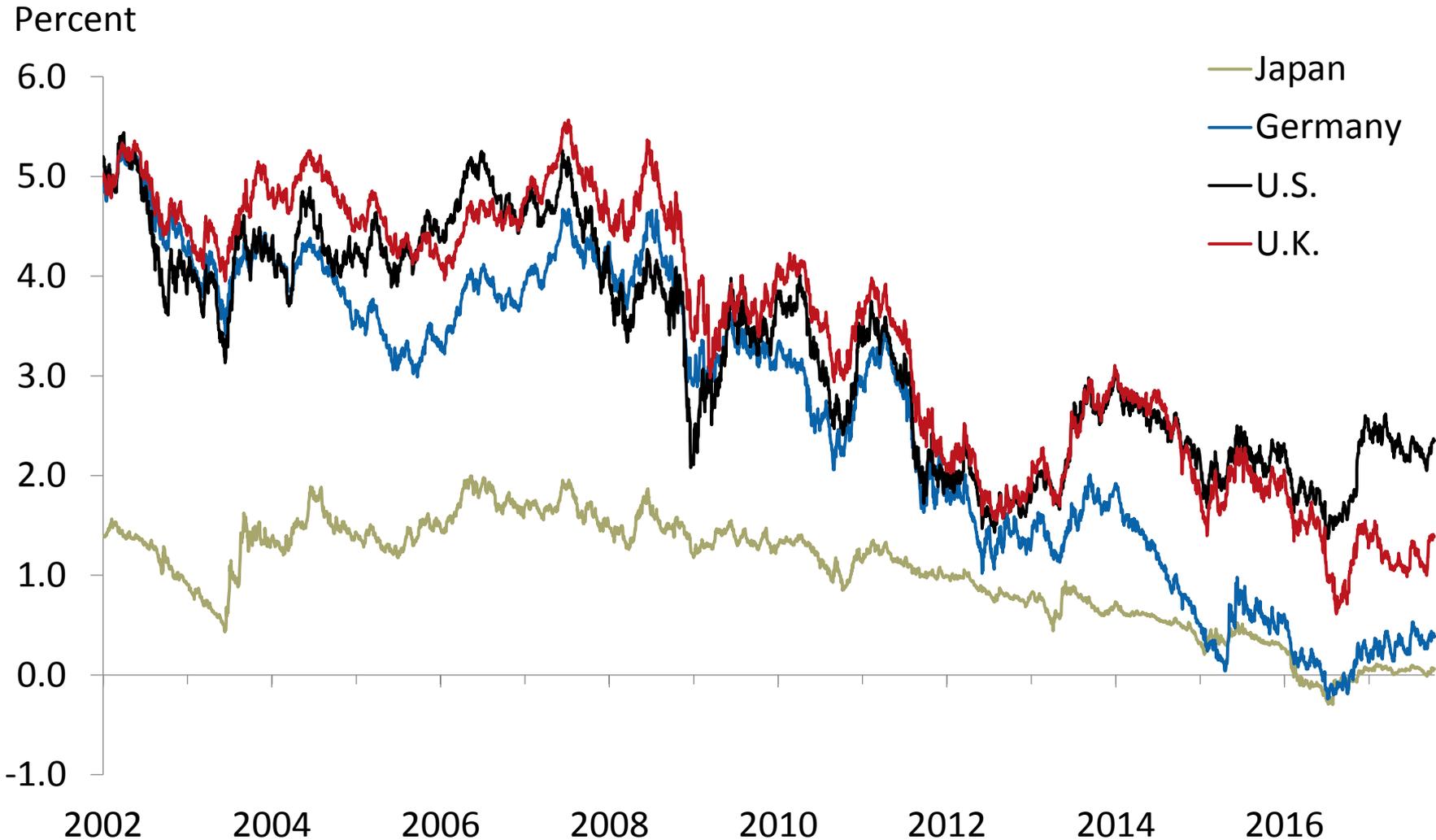


Central bank balance sheets: Still growing in euro area, Japan & U.K.

Percent of GDP



10-year government bond yields remain near record lows

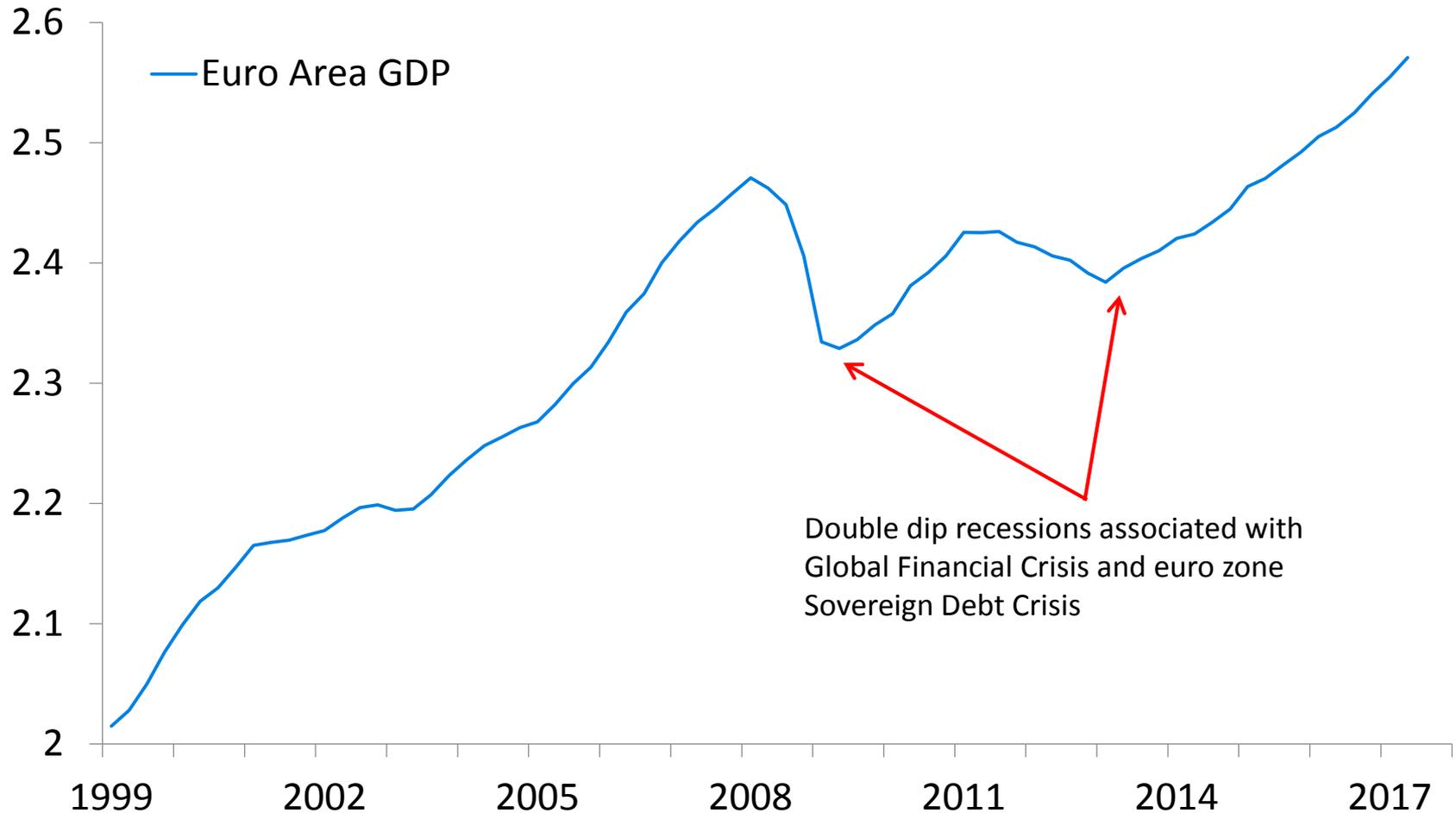


Headwinds & tailwinds for U.S. economy

- Tailwinds
 - Lower oil prices
- Headwinds
 - Monetary policy normalization in the United States
 - Liftoff from zero occurred at end 2015
 - How well prepared is the rest of the world for the end of the zero interest rate policy era?
 - Europe
 - How disruptive will BREXIT be?
 - Unresolved issues in Greece
 - Weak European banks & non-performing loans
 - Potential for a slowdown in China
 - Excess capacity
 - Risks of potential stock market & real estate market bubbles

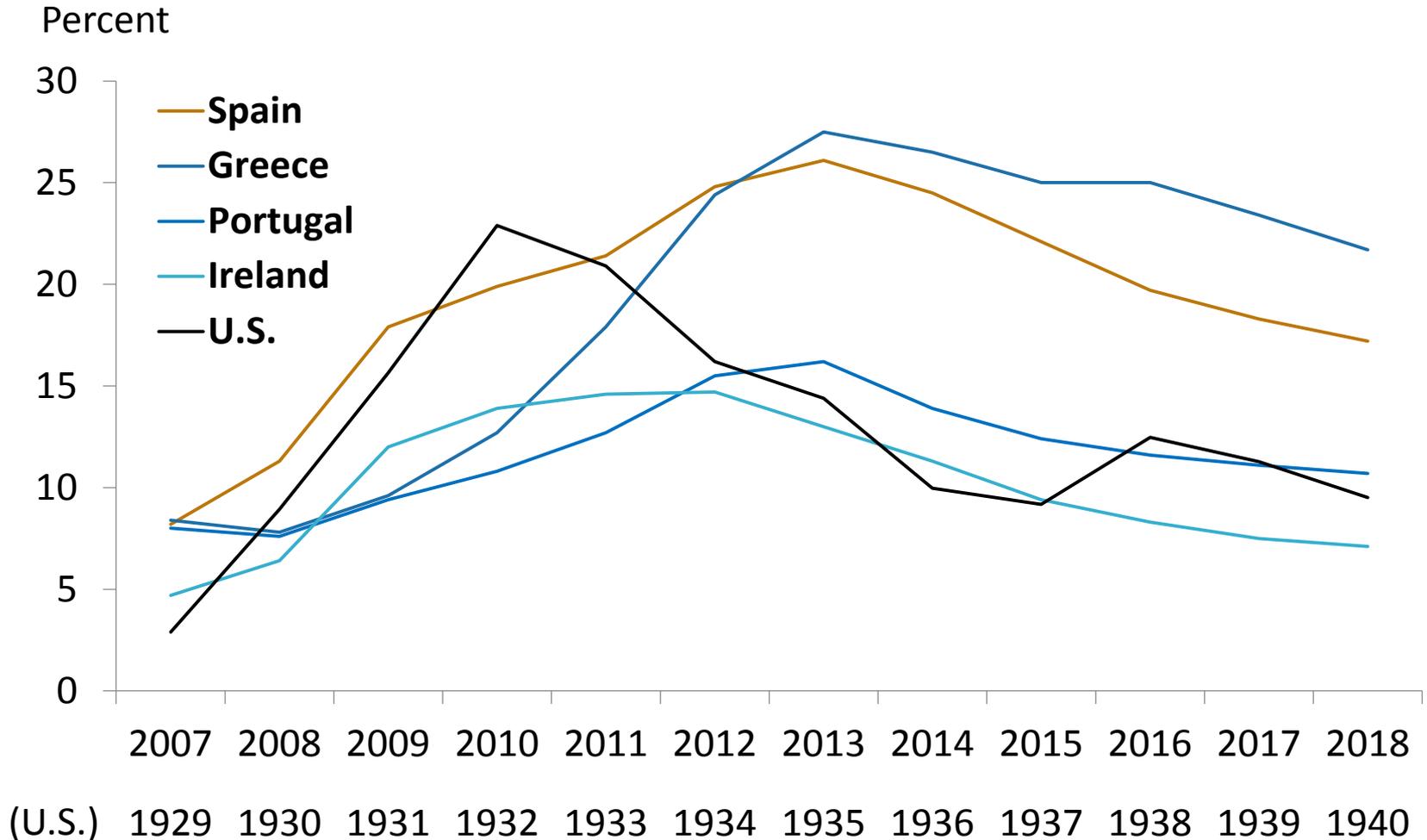
Euro area economic activity finally growing above its pre-crisis level

GDP, Trillions of 2010 €

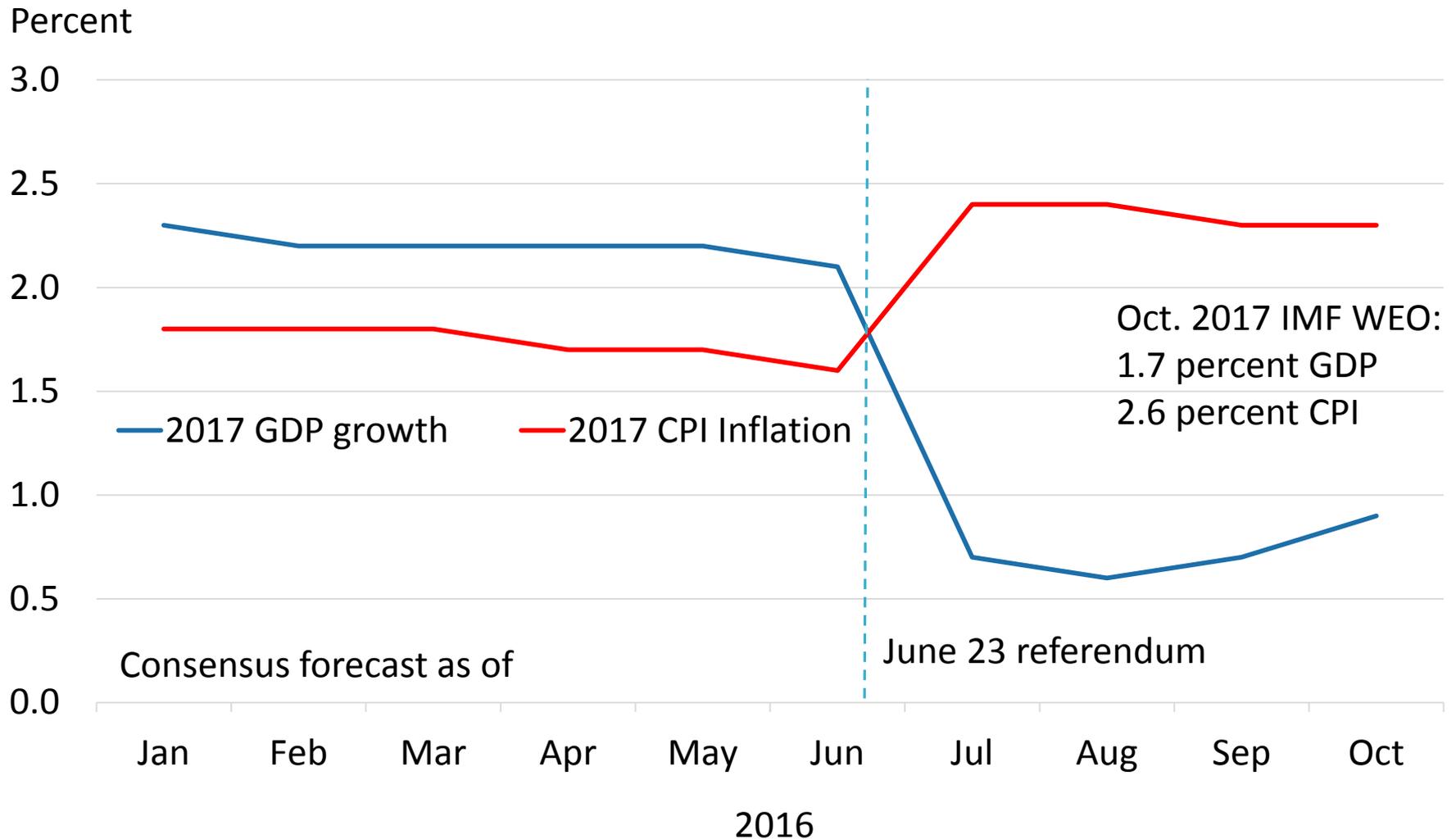


Great Depressions

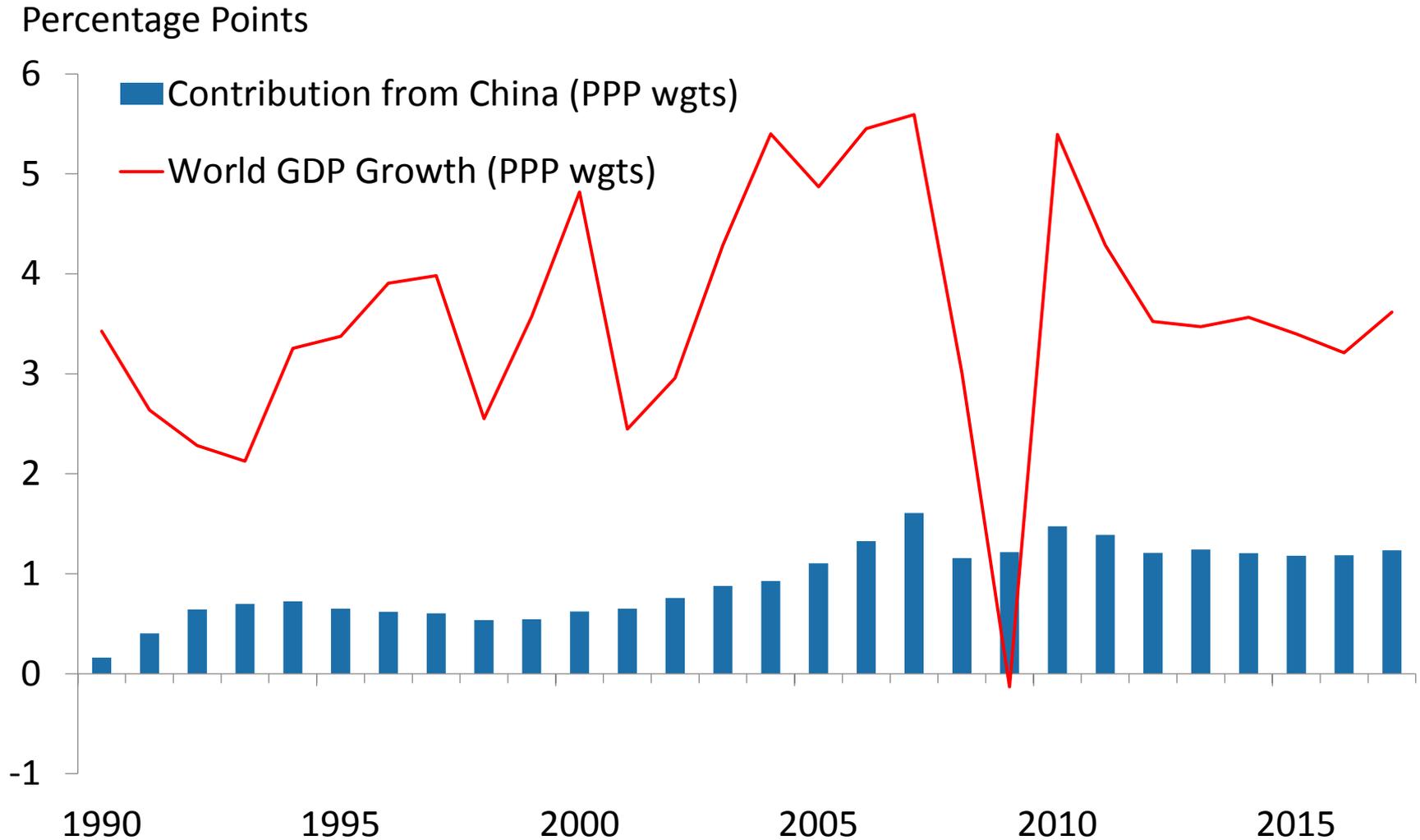
Unemployment Rate



Impact of the BREXIT shock on U.K. growth and inflation in 2017

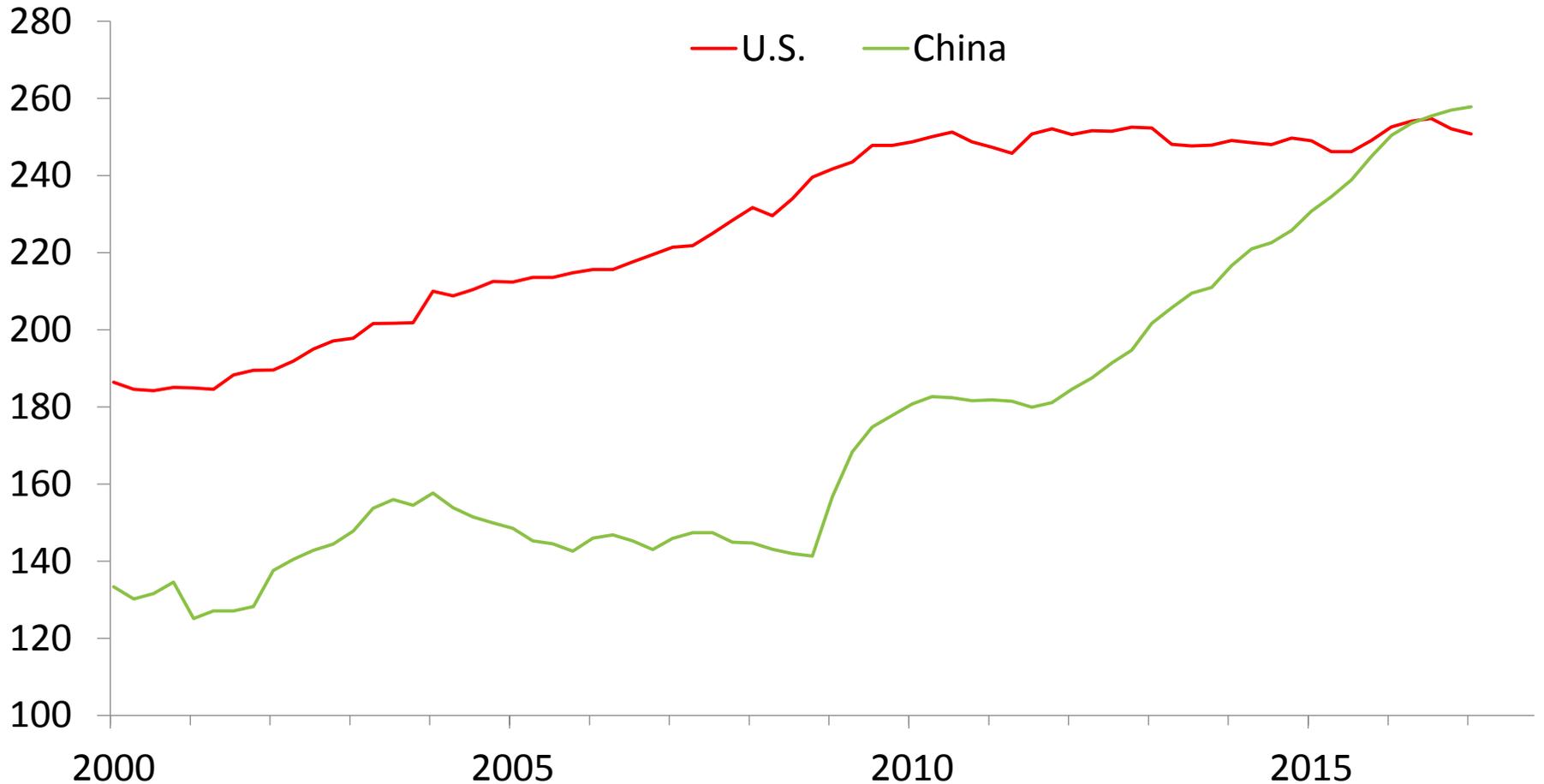


China contributes *a lot* to global GDP growth



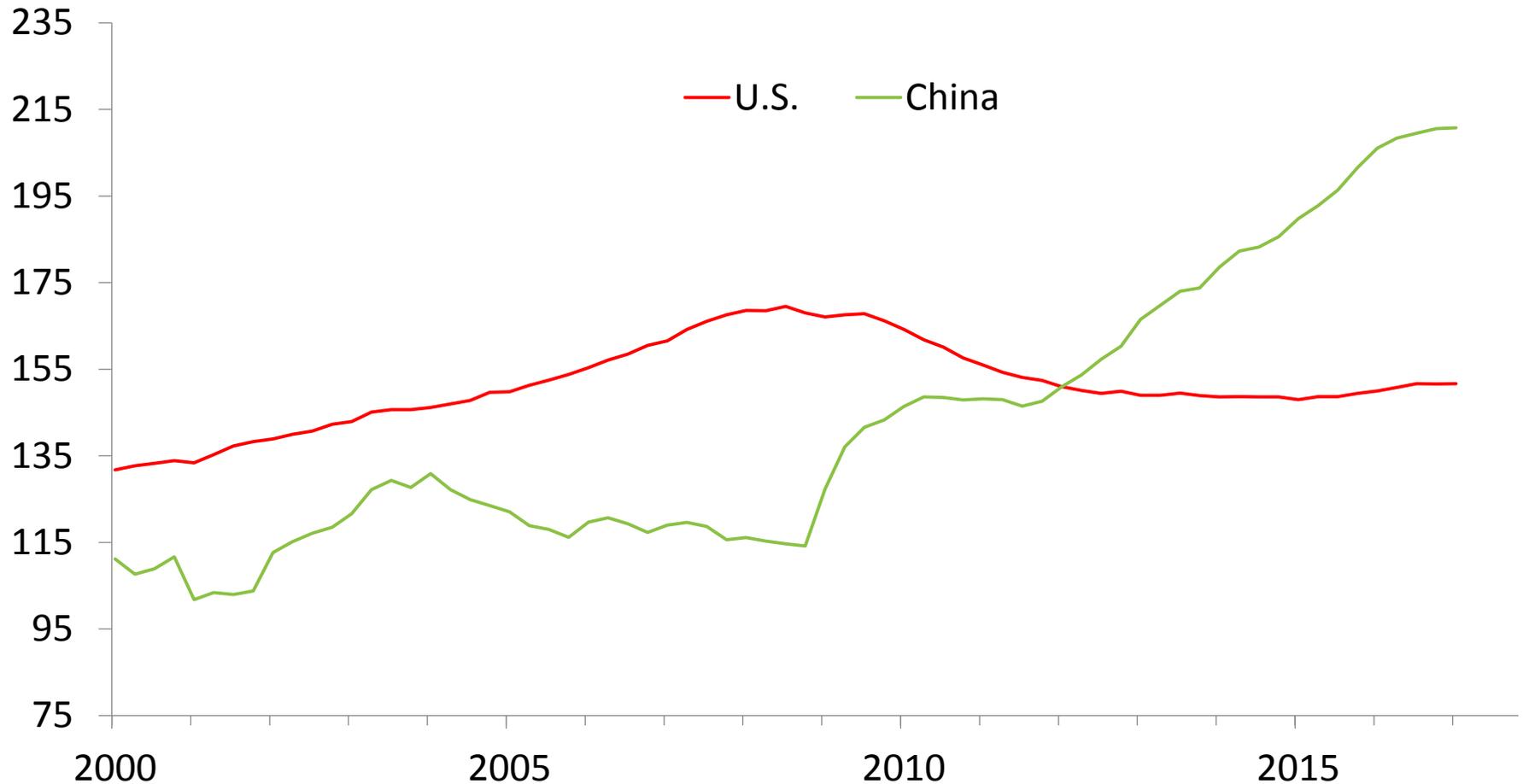
Credit to the nonfinancial sector (Percent of GDP)

Percent of GDP



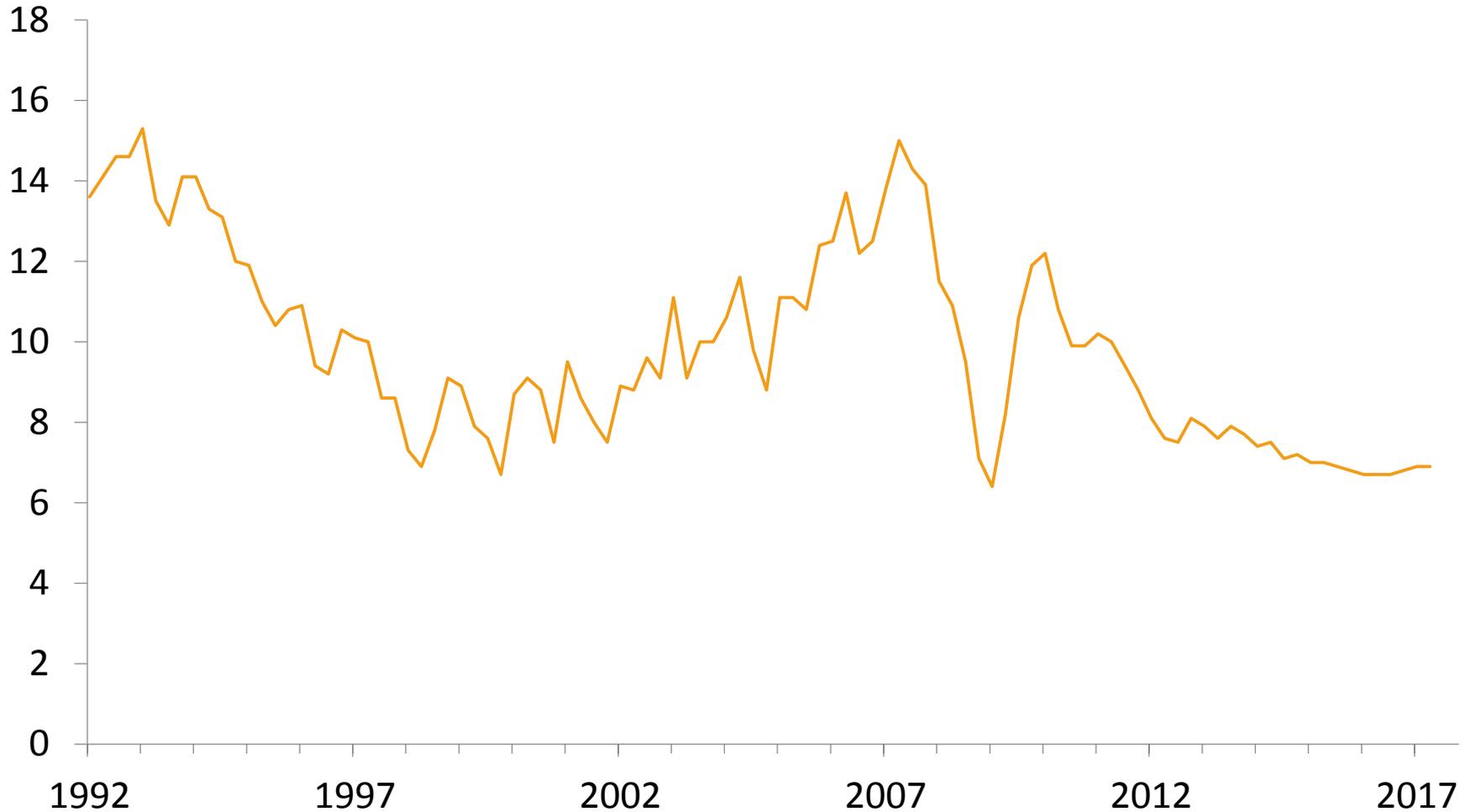
Credit to the private nonfinancial sector (Percent of GDP)

Percent of GDP

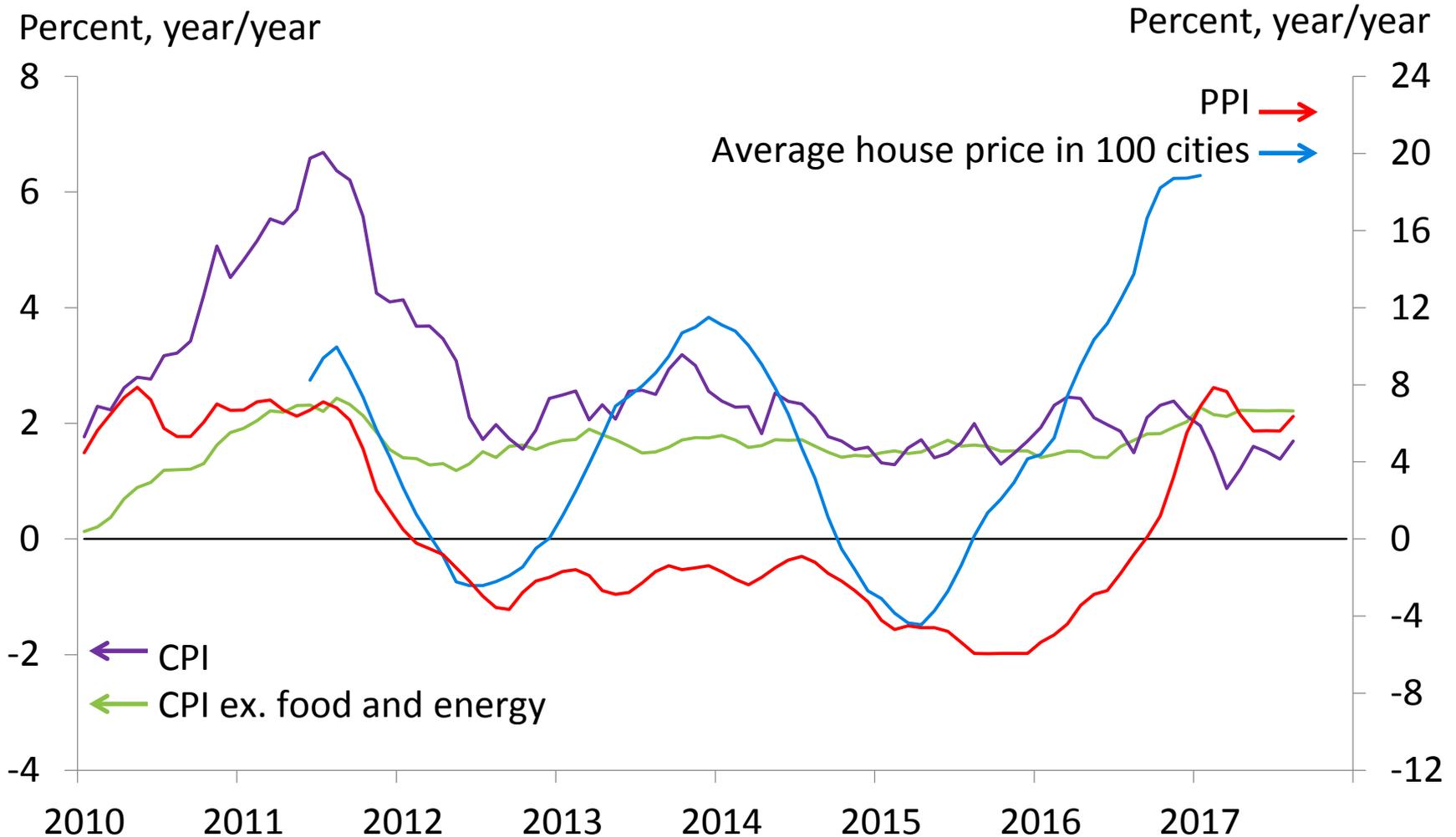


Chinese industrial output growth has slowed dramatically

Percent, year/year



Chinese price inflation: end of deflation at the producer level



Conclusions

- Outlook is for continued improved growth in 2017
 - U.S. likely to continue to be one of the stronger performers
 - Signs of improvement in Europe, Japan, China & the U.S.
- Risks
 - Monetary policies of major central banks diverging
 - Fed: normalization began December 2015
 - Europe; BREXIT
 - China slowdown
 - Oil



IMF growth outlook

October 2017

	2017	2018	Change from April 2017 forecast 2017	Change from April 2017 forecast 2018
World output	3.6	3.7	0.1	0.1
Advanced economies	2.2	2.0	0.2	0.0
United States	1.8	2.3	-0.1	-0.2
Euro area	2.1	1.9	-0.1	-0.2
Japan	1.5	0.7	0.3	0.1
UK	1.7	1.5	-0.3	0.0
Canada	3.0	2.1	1.1	0.1
Emerging Market & Developing Economies	4.6	4.9	0.1	0.1
China	6.8	6.5	0.2	0.3
India	6.7	7.4	-0.5	-0.3
Brazil	0.7	1.5	0.5	-0.2
Mexico	2.1	1.9	0.4	-0.1
Russia	1.8	1.6	0.4	0.2

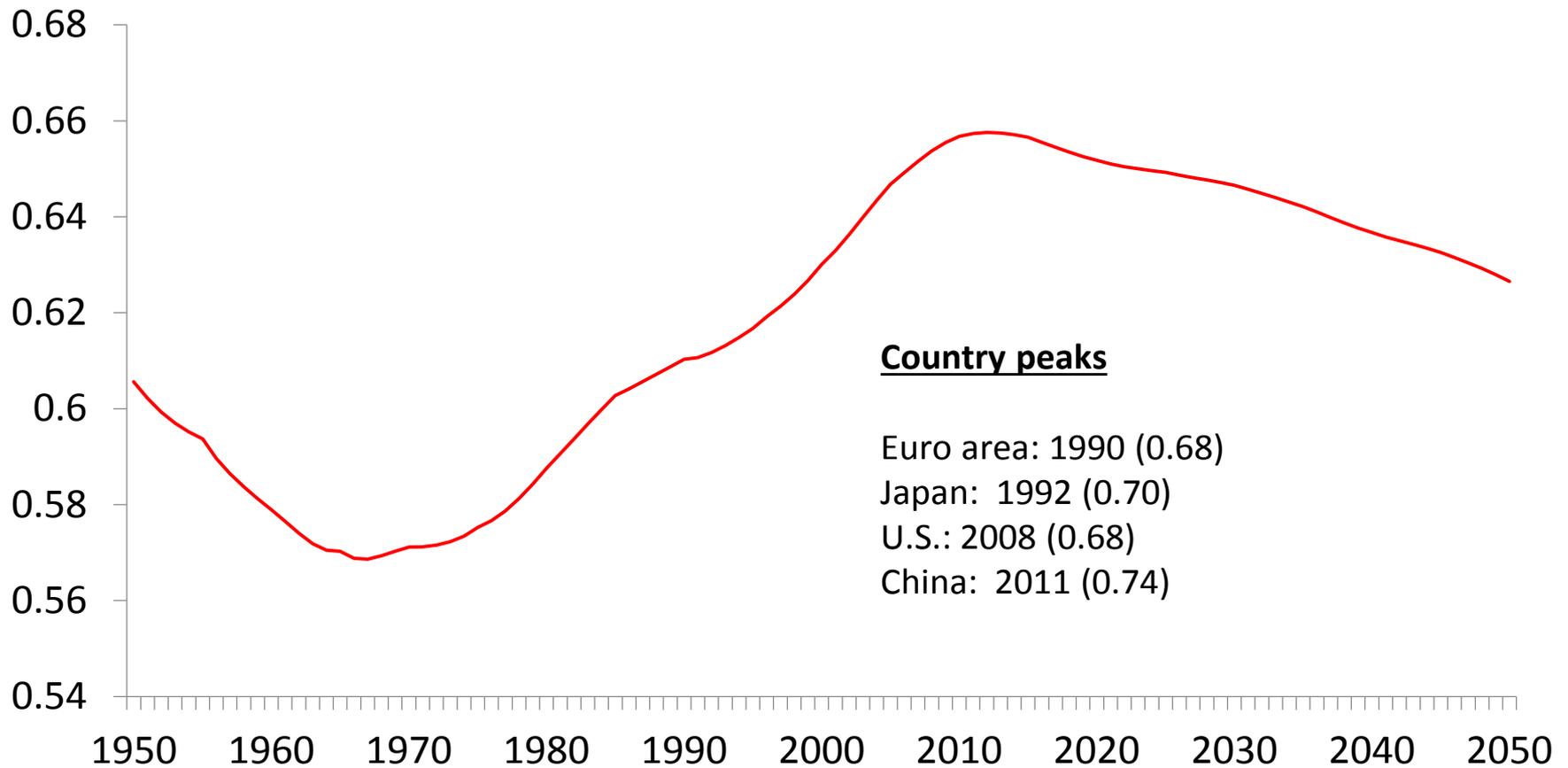
IMF inflation outlook

October 2017

	2017	2018	Change from April 2017 forecast 2017	Change from April 2017 forecast 2018
World	3.2	3.2	-0.3	-0.1
Advanced economies	1.5	1.9	-0.4	-0.1
United States	1.8	2.3	-0.6	-0.3
Euro area	1.1	1.6	-0.3	0.1
Japan	0.1	0.6	-0.7	0.0
UK	2.8	2.6	0.1	0.0
Canada	1.6	1.9	-0.5	-0.3
Emerging Market & Developing Economies	4.5	4.2	-0.3	-0.1
China	2.3	2.4	-0.2	0.1
India	4.5	4.8	-0.4	-0.3
Brazil	3.6	4.0	-0.8	-0.5
Russia	4.0	4.0	-0.4	0.0

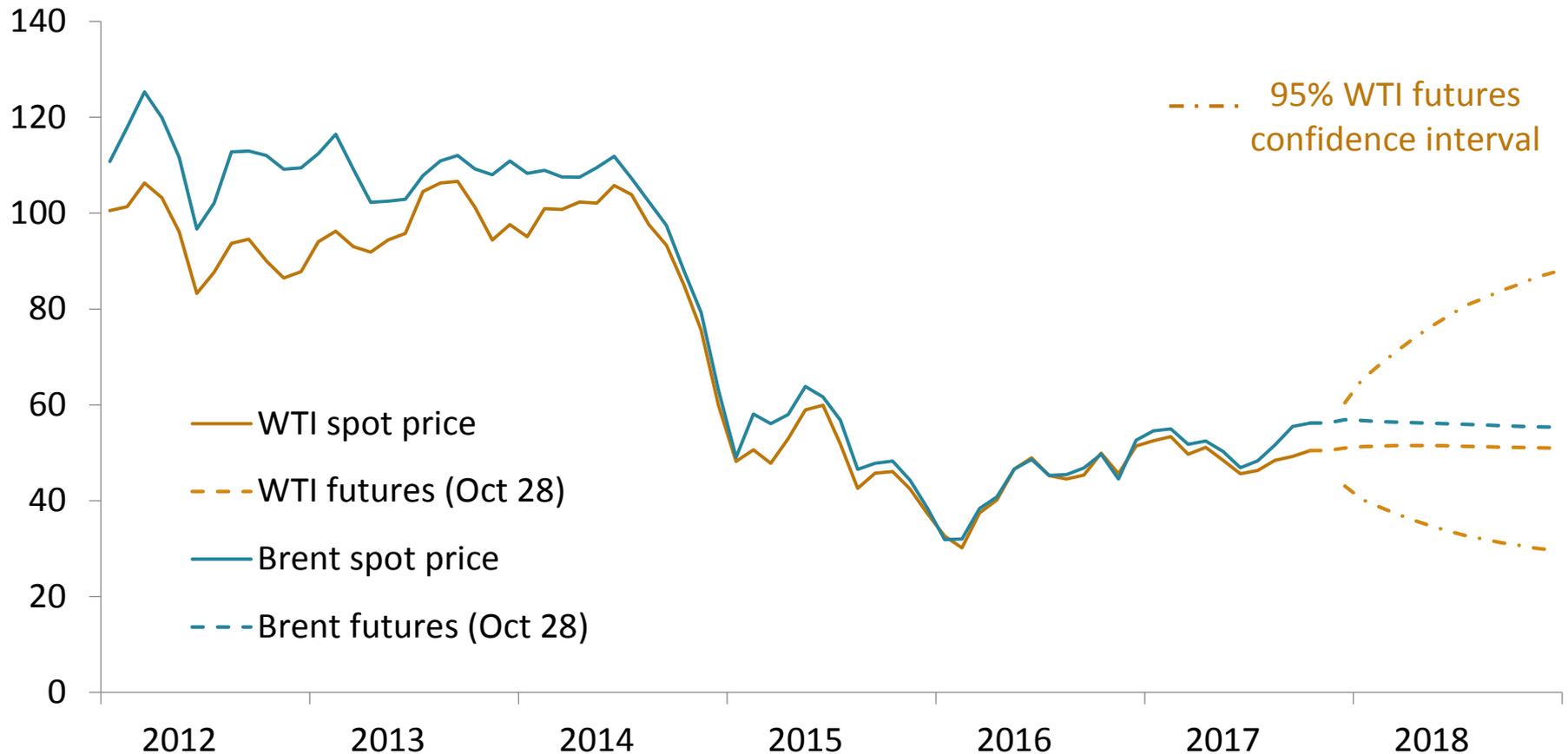
Demographic changes

Working age population (15-64) as share of total (world)



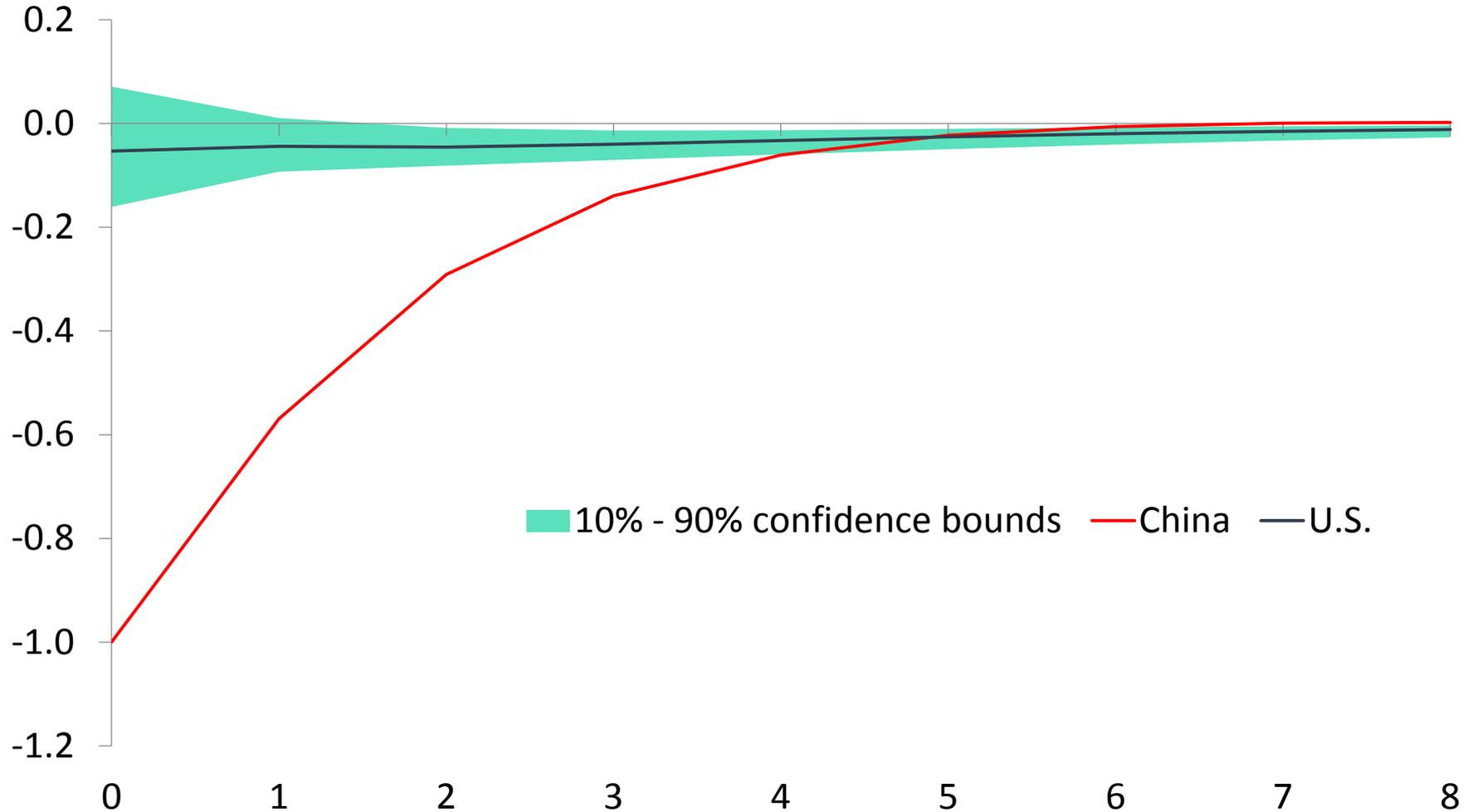
Lower oil prices a favorable tailwind for most countries

Dollars per barrel



Impact of China slowdown on U.S. in 2000....

Percent, deviation from baseline



...and today

Percent, deviation from baseline

