

Global Growth Uneven, Inflation Low

April 30, 2015

The global growth outlook remains mixed, with prospects improving in advanced economies and weakening in emerging economies. The International Monetary Fund (IMF), in its April *World Economic Outlook*, forecasts global growth at 3.5 percent in 2015 and 3.8 percent in 2016. Low energy prices are keeping inflationary pressures subdued while boosting consumption in advanced economies and hurting oil-exporting countries. Global risks include slower growth in China and ongoing negotiations between the Greek government and its major creditors.

Advanced Economy Growth Offsets Emerging Economy Slowdown

Global economic growth was just under 3 percent year over year in fourth quarter 2014 (*Chart 1*). Despite a pickup in advanced economies and a slowdown in emerging economies in 2014 compared with 2013, emerging economies still made up three-fourths of world output growth. China's gross domestic product (GDP) grew 7 percent year over year in the first quarter, down from 7.3 percent in the fourth quarter. It was the country's lowest quarterly growth rate since 2009. The Brazilian and Russian economies are expected to contract in 2015, with Russia's decline likely to persist through 2016. However, activity in the euro area has improved in early 2015, with lower oil prices buoying consumption.

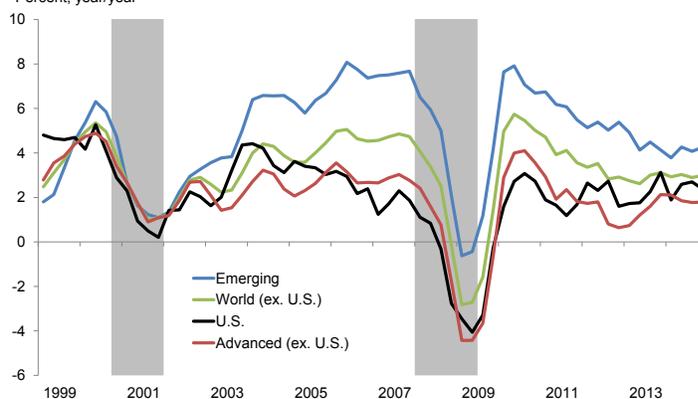
Low Oil Prices Keep Inflation Subdued

Recent global inflation declines have been driven by the drop in energy prices. The latest numbers for headline consumer price index (CPI) inflation in the advanced economies are well below the major central banks' 2 percent targets (*Chart 2*). Forecasts for 2015 headline CPI inflation from Consensus Economics have been steadily revised downward in recent months, especially following the Organization of the Petroleum Exporting Countries' decision in November not to cut oil production. Even core CPI inflation, which excludes food and energy prices, has mildly decelerated. Core CPI inflation in emerging economies has declined slowly since 2014, while rates have held steady in advanced economies.

Monetary Policy Generally Accommodative in Advanced Economies

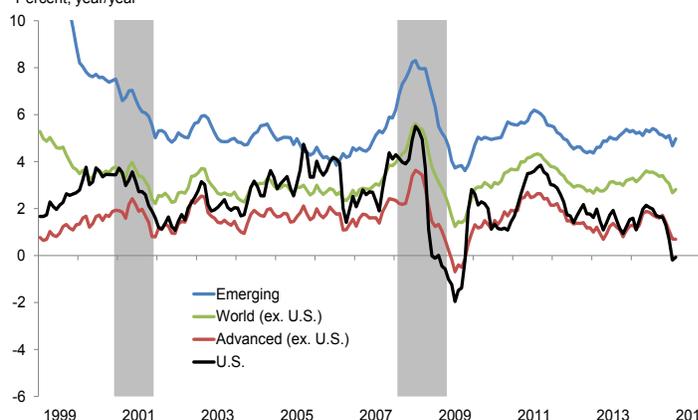
Many central banks are pursuing quantitative easing programs and loose monetary policy in light of low inflation (*Chart 3*). None of the central banks in the major advanced economies have changed their policy rates since the March Federal Open Market Committee meeting. However, at its April 8 meeting, the Bank of Japan reaf-

Chart 1
Real GDP Growth Uneven Across Advanced and Emerging Economies
Percent, year/year



NOTES: Calculations are based on a representative sample of 40 countries, aggregated using U.S. trade weights. Shaded bars indicate global recessions.
SOURCES: Database of Global Economic Indicators; Haver Analytics; author's calculations.

Chart 2
Headline Consumer Price Index Inflation Low in Advanced Economies
Percent, year/year

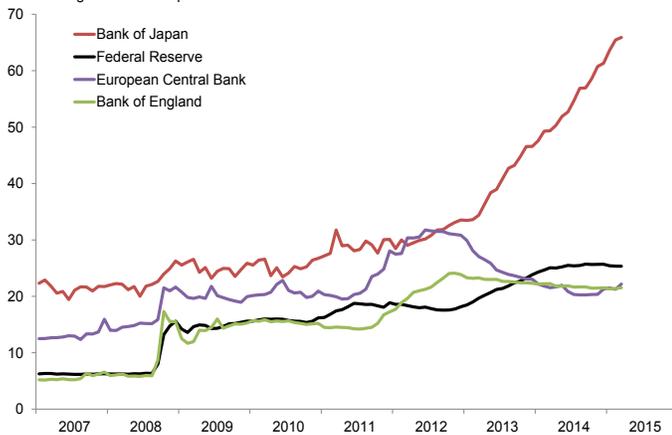


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firmed its plans to expand its monetary base by about ¥80 trillion per year under its previously announced quantitative and qualitative easing program. Similarly, the European Central Bank (ECB) started a quantitative easing program in March, which entails the purchase of €60 billion of financial assets per month through September 2016.

Government bond yields in most advanced economies have fallen in 2015, reflecting looser monetary policy in the euro area and Japan, and reduced growth prospects in some countries. The yield on Germany's 10-year bond is less than 20 basis points and could fall below zero, joining Switzerland's 10-year bond yield, which has been negative since January. Yields on sovereign debt in several other European countries are also negative (*Chart 4*). The ECB's

Chart 3
European Central Bank and Bank of Japan Expand Balance Sheets
 Percent of gross domestic product



SOURCES: Haver Analytics; Bank of England; author's calculations.

asset-purchase program may push yields still lower in coming months.

China Tries to Stave Off Slowdown

The People's Bank of China surprised markets April 19 with a 100 basis-point reduction in the required reserve ratio—the largest decline since November 2008. Economic activity in China continues to slow, with industrial value-added growing just 0.25 percent month over month in March and retail sales similarly decelerating. The slower growth posted in the first quarter raises concerns about China's goal of 7 percent GDP growth for 2015. The deceleration in consumer and producer prices, along with house prices that seem to have peaked last year, also brings into question China's 3 percent inflation target (*Chart 5*).

Greece and IMF in Debt Negotiations

Negotiations between the Greek government and its major creditors have not reached a resolution. On April 9, the Greek government made a scheduled repayment of around €465 million to the IMF, with about €2 billion more due to the IMF in May and June. Lower-than-expected tax receipts and deposit outflows from Greek banks have made Greece once again heavily reliant on short-term ECB funding. Private deposits at Greek banks held steady at around €160 billion throughout 2013 and 2014, but deposit outflows resumed in 2015, reducing overall deposits by about €20 billion year to date (*Chart 6*). Greek banks' dependence on emergency funding from the ECB through Emergency Liquidity Assistance has risen from roughly €40 billion toward the end of 2014 to about €100 billion—nearly two-thirds of Greece's GDP.

Global Growth Expected to Increase

Despite some headwinds, global growth is projected to continue its slow upward trajectory. The more optimistic situation in many advanced economies may offset the risks posed by China's slowdown, but the recent improvement in the euro area still hinges on an orderly resolution to the ongoing Greek crisis.

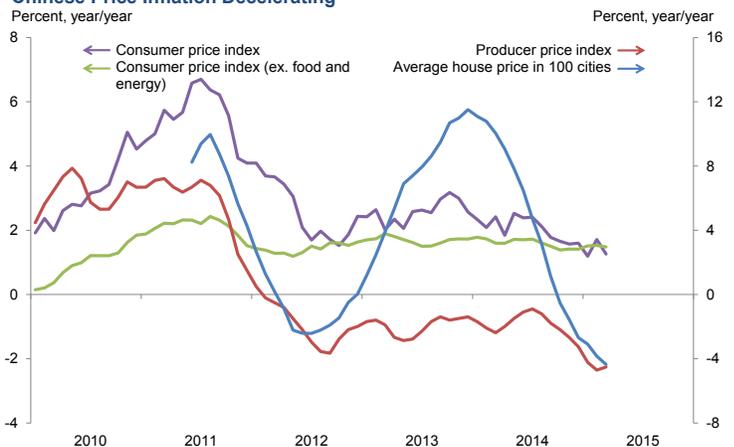
—Valerie Grossman

Chart 4
Sovereign Yields Negative in Many European Countries



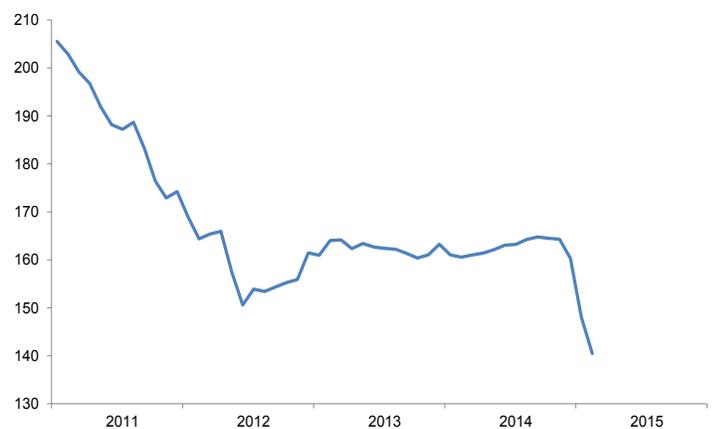
NOTES: Sovereign bond yields are as of April 27. Red cells indicate negative yields; green cells indicate positive yields. Data for three-month and six-month bond yields are not available for Austria. SOURCES: Haver Analytics; Bloomberg.

Chart 5
Chinese Price Inflation Decelerating
 Percent, year/year



SOURCE: Haver Analytics.

Chart 6
Deposit Outflows from Greek Banks Resume in 2015
 Billions of euros



SOURCE: Bank of Greece.

About the Author

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