

Global Economic Outlook

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Vistas from Texas: An Economic Outlook

August 7, 2015

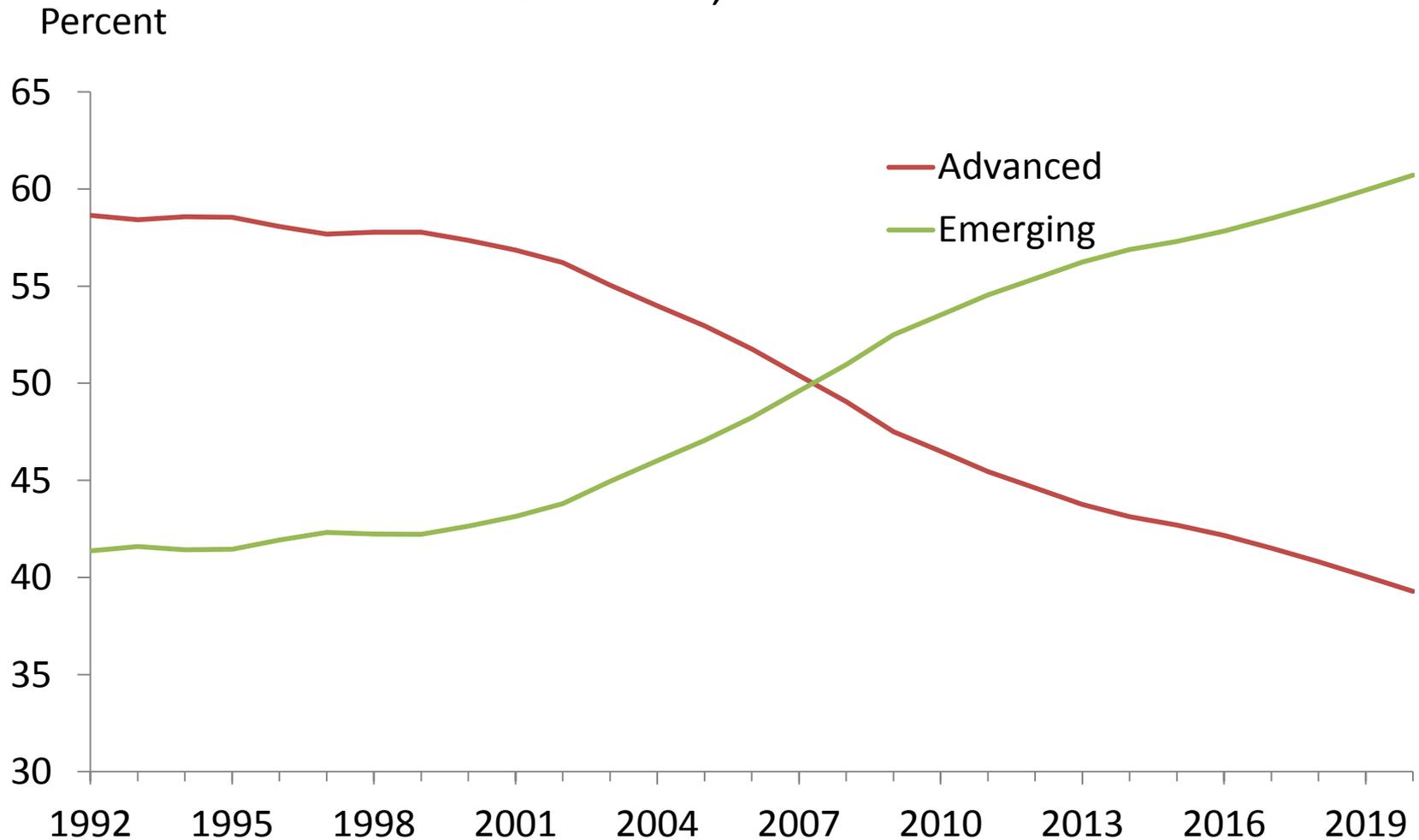
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Outline

- Recent developments and changes in the outlook for real economic activity
- Recent developments and changes in the outlook for inflation
- Monetary policy developments around the world
- Risks to the outlook
 - Greece
 - China
 - Monetary policy divergence

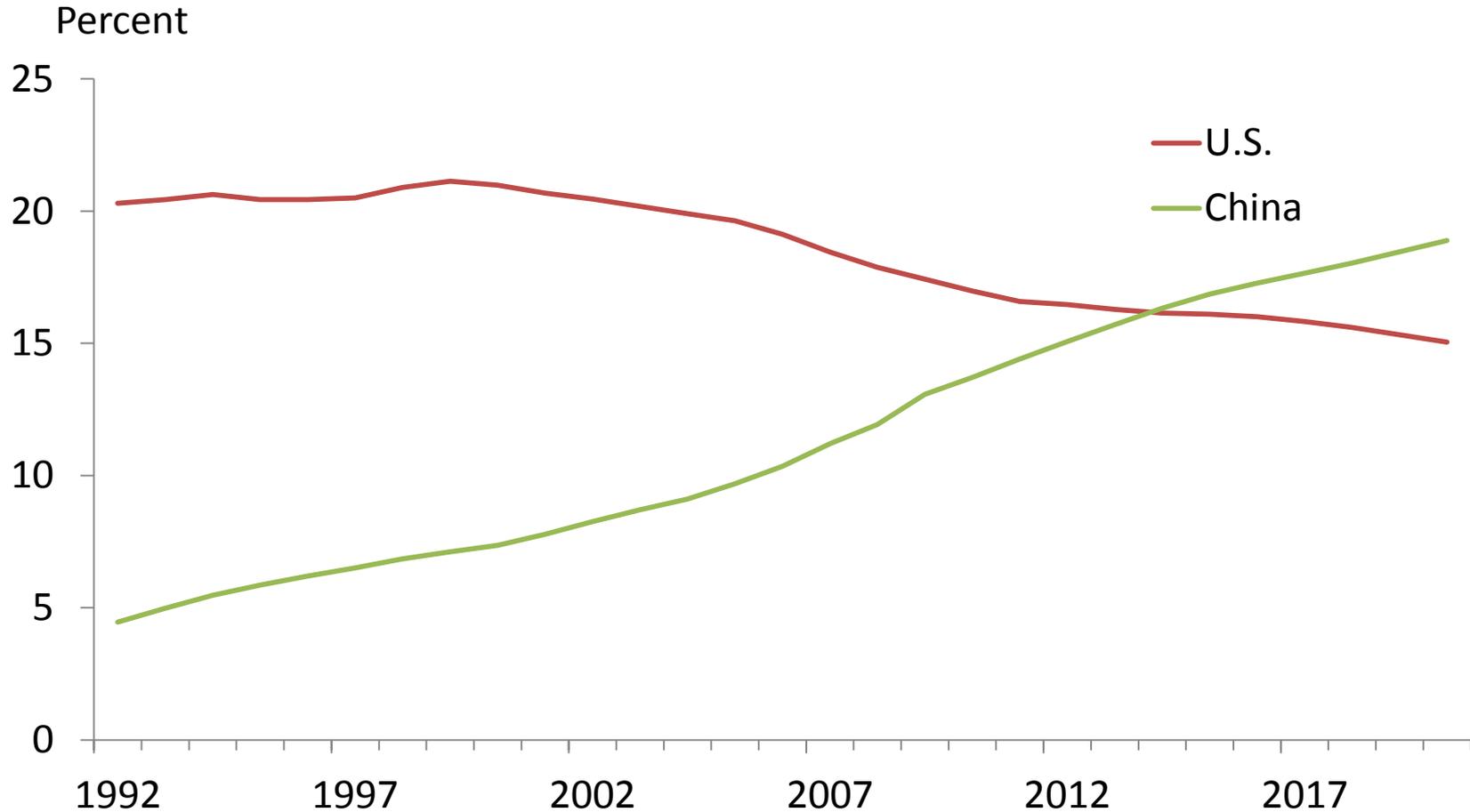
The world has changed!

GDP based on PPP, share of world total



The world has really changed!

GDP based on PPP, share of world total

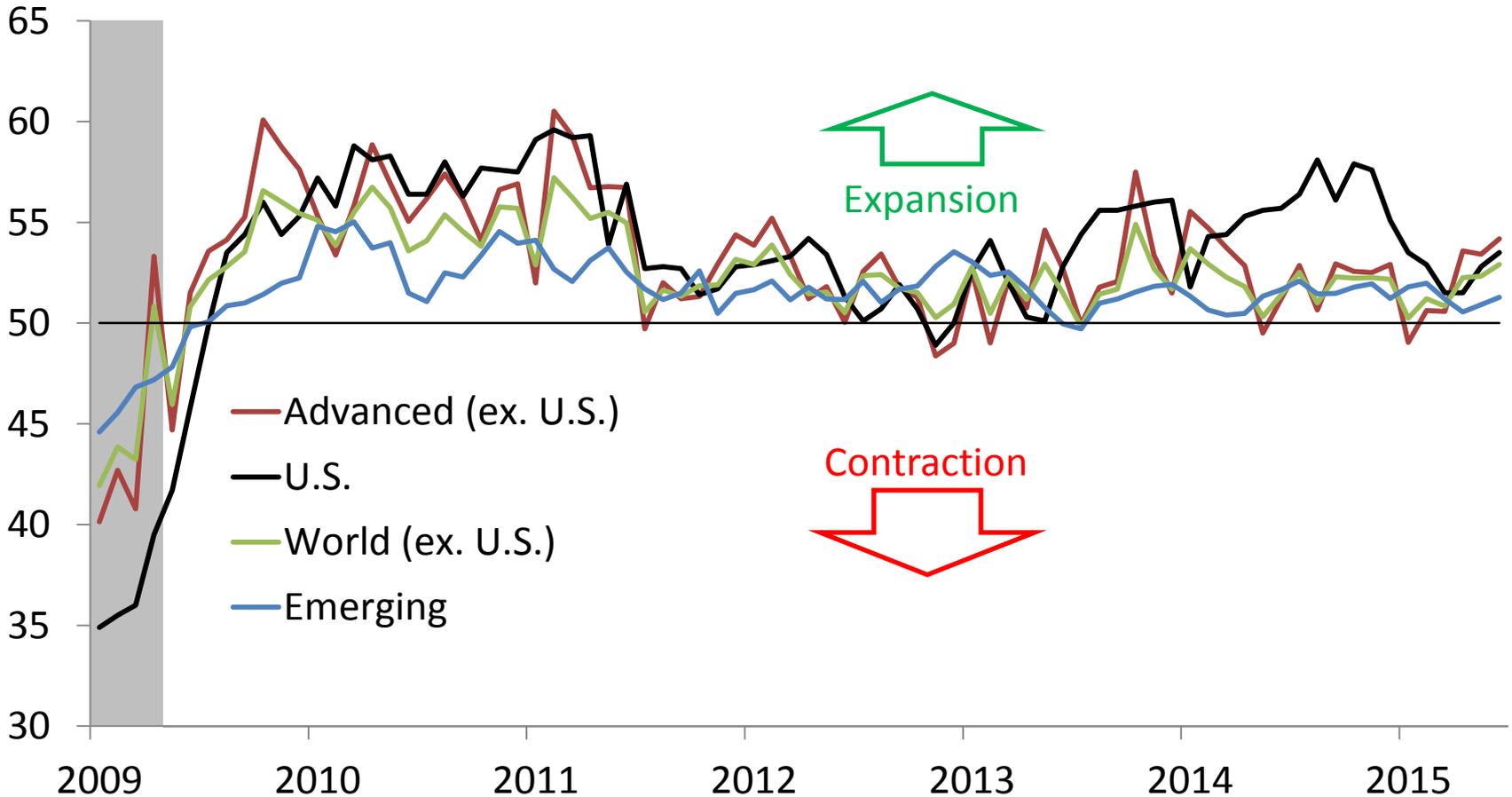


What happens overseas matters for Texas

- Texas exports are equivalent to about half (45-55 percent) of the output of tangible goods in Texas
- Historically, Texas' exports have been more concentrated geographically than other states, but have become more diversified over time
- Likewise, the product composition of Texas' exports is a bit less diverse than the U.S. as a whole
- Importance of the energy sector to the state economy
 - Oil prices determined in global markets

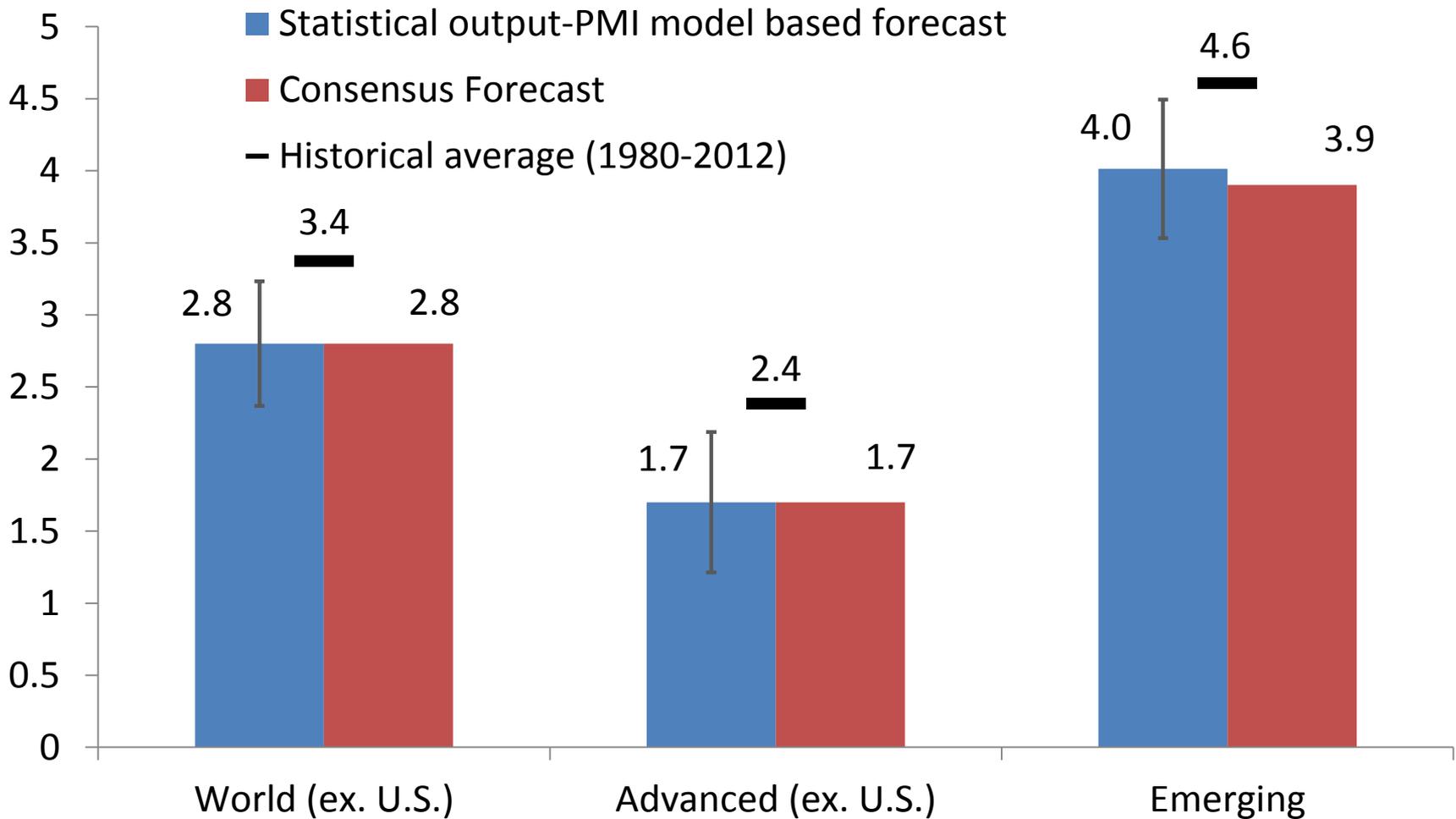
Purchasing Manager Indices provide the timeliest read on global economic activity

Diffusion index



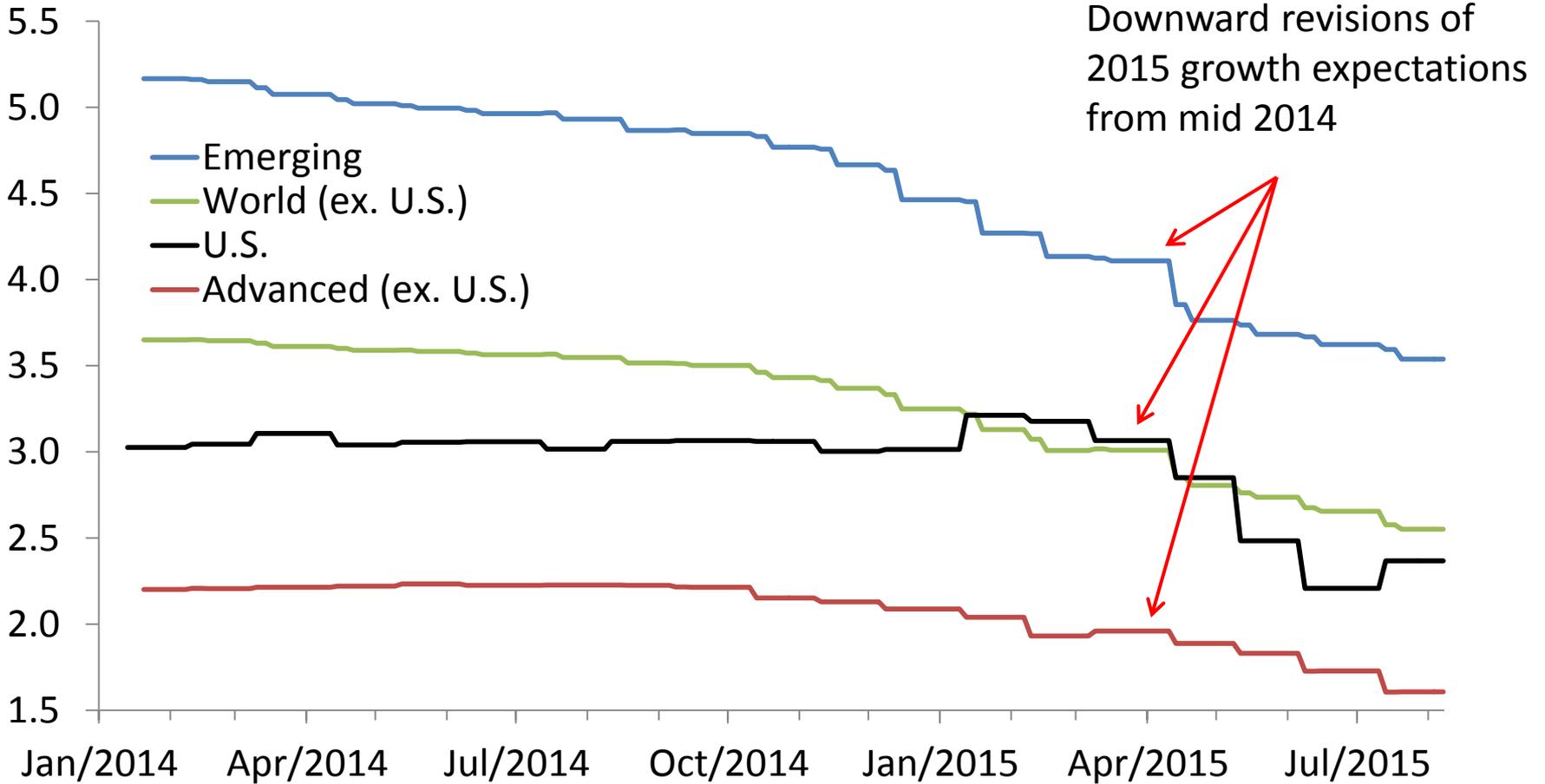
July 2015 Q2 FRB Dallas “Nowcasts”

Percent, year/year



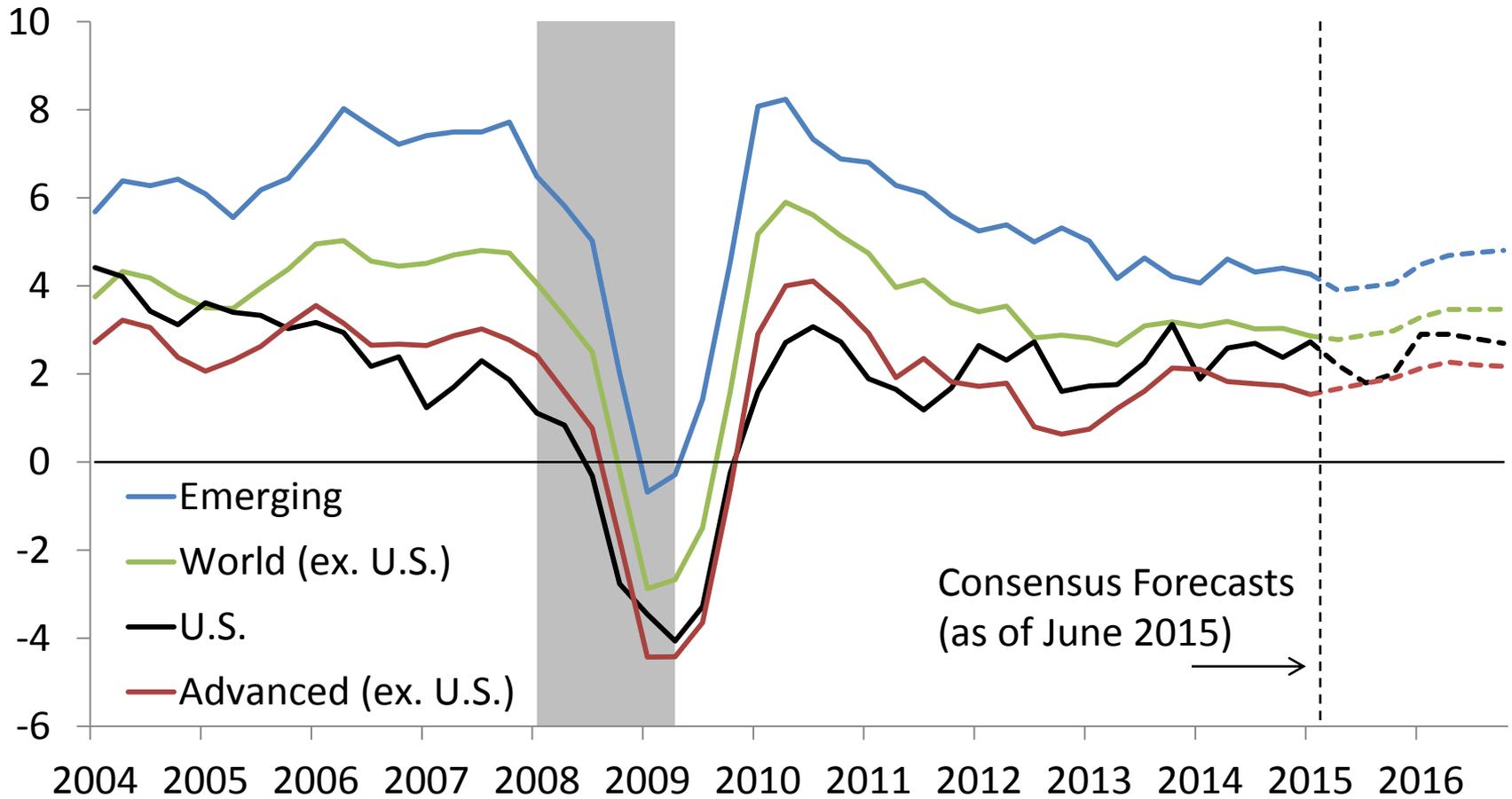
Evolution of *Consensus Forecasts* for 2015 GDP growth

Percent, year/year

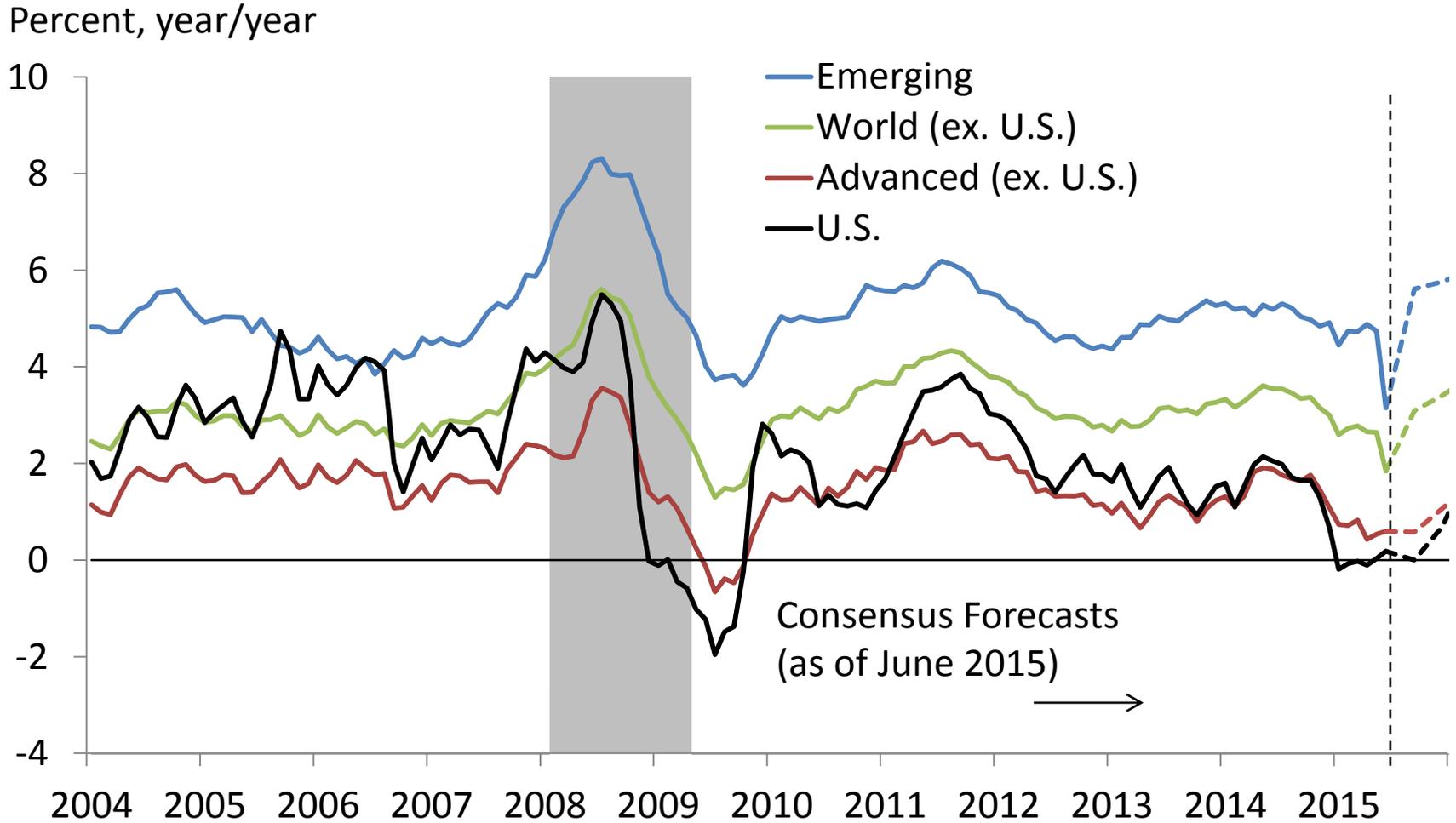


Real GDP growth expected to pick up

Percent, year/year

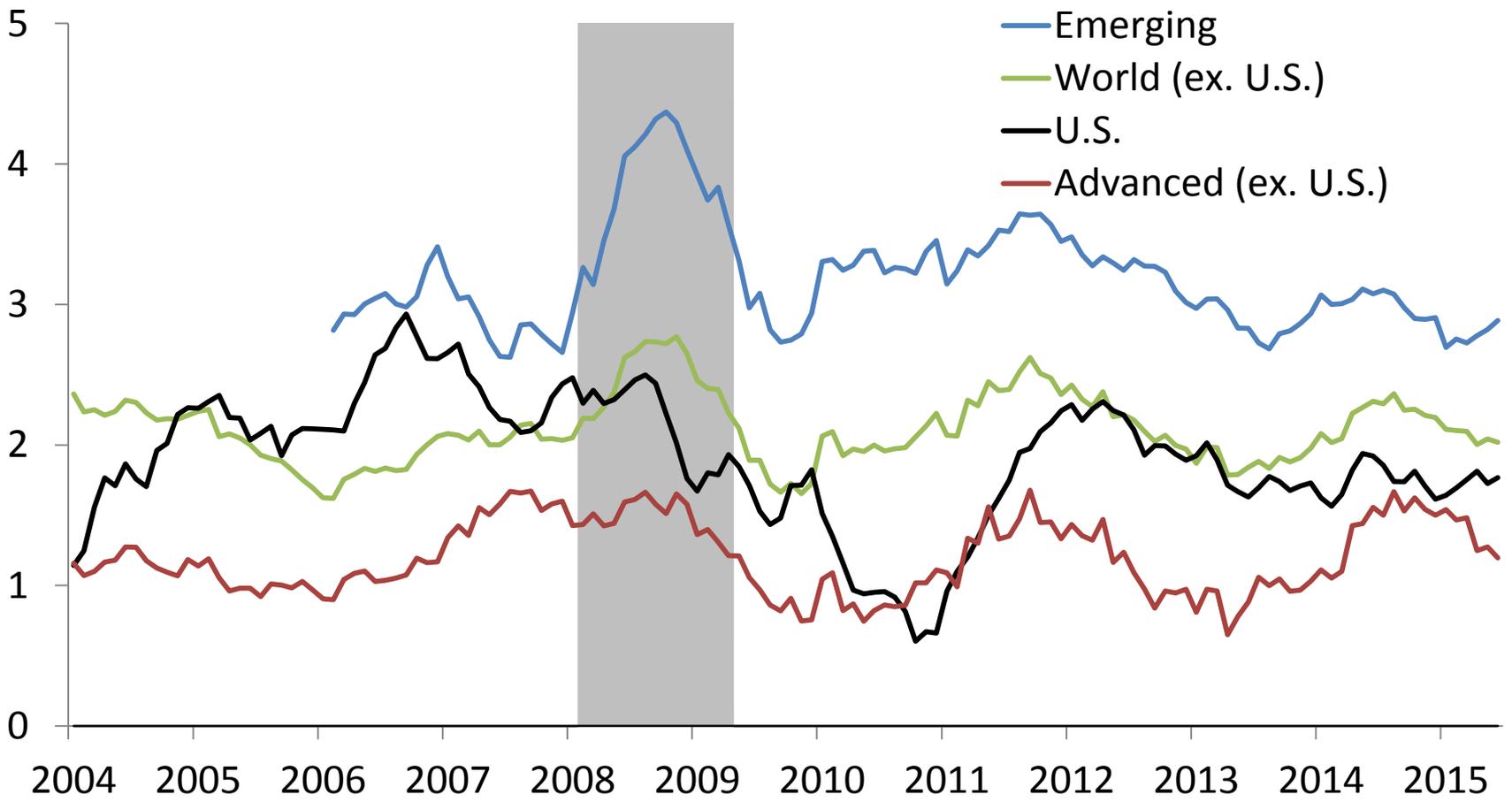


CPI inflation dominated by swings in energy prices



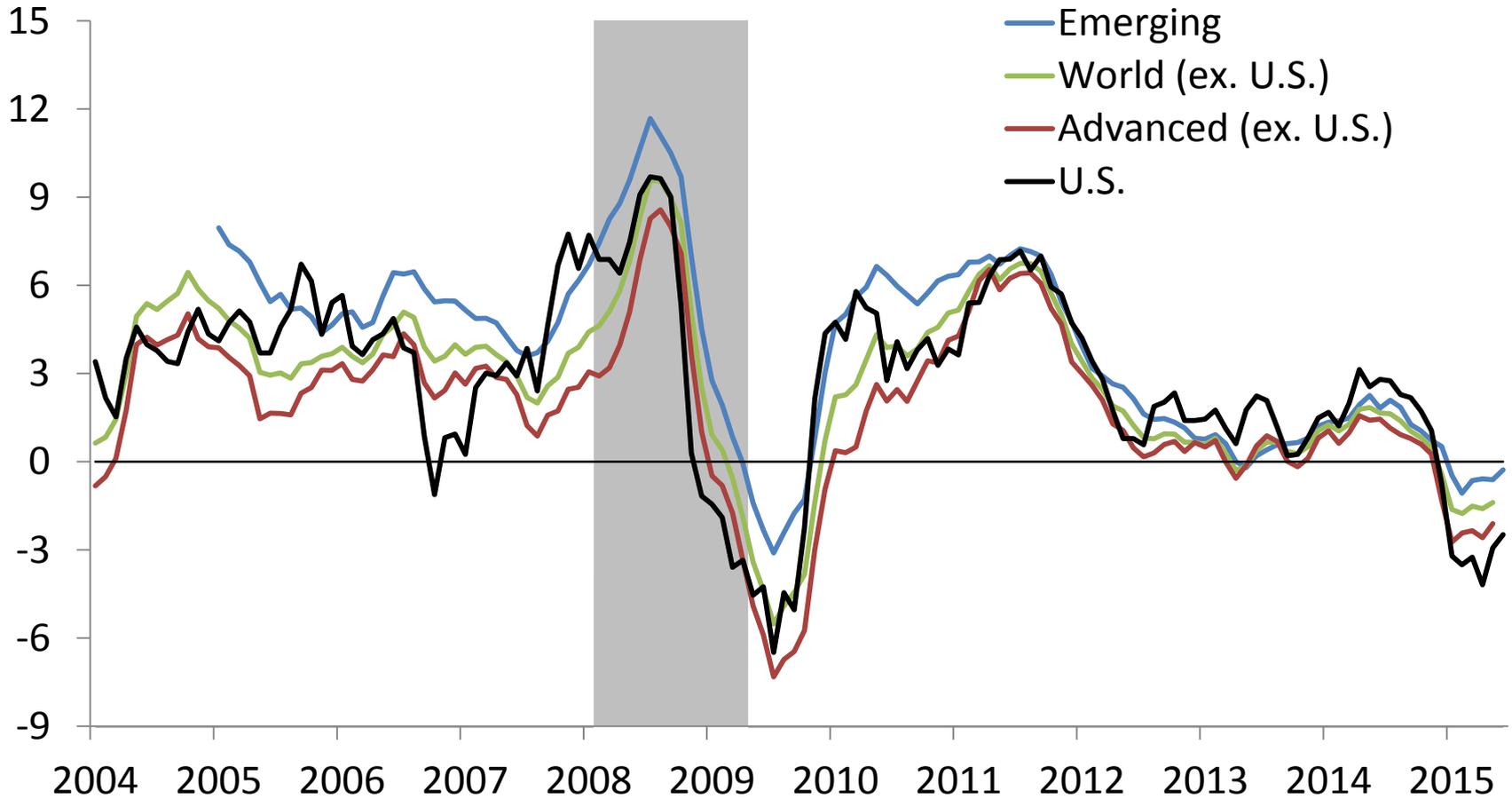
But even core CPI inflation is down over the past year in the AEs

Percent, year/year



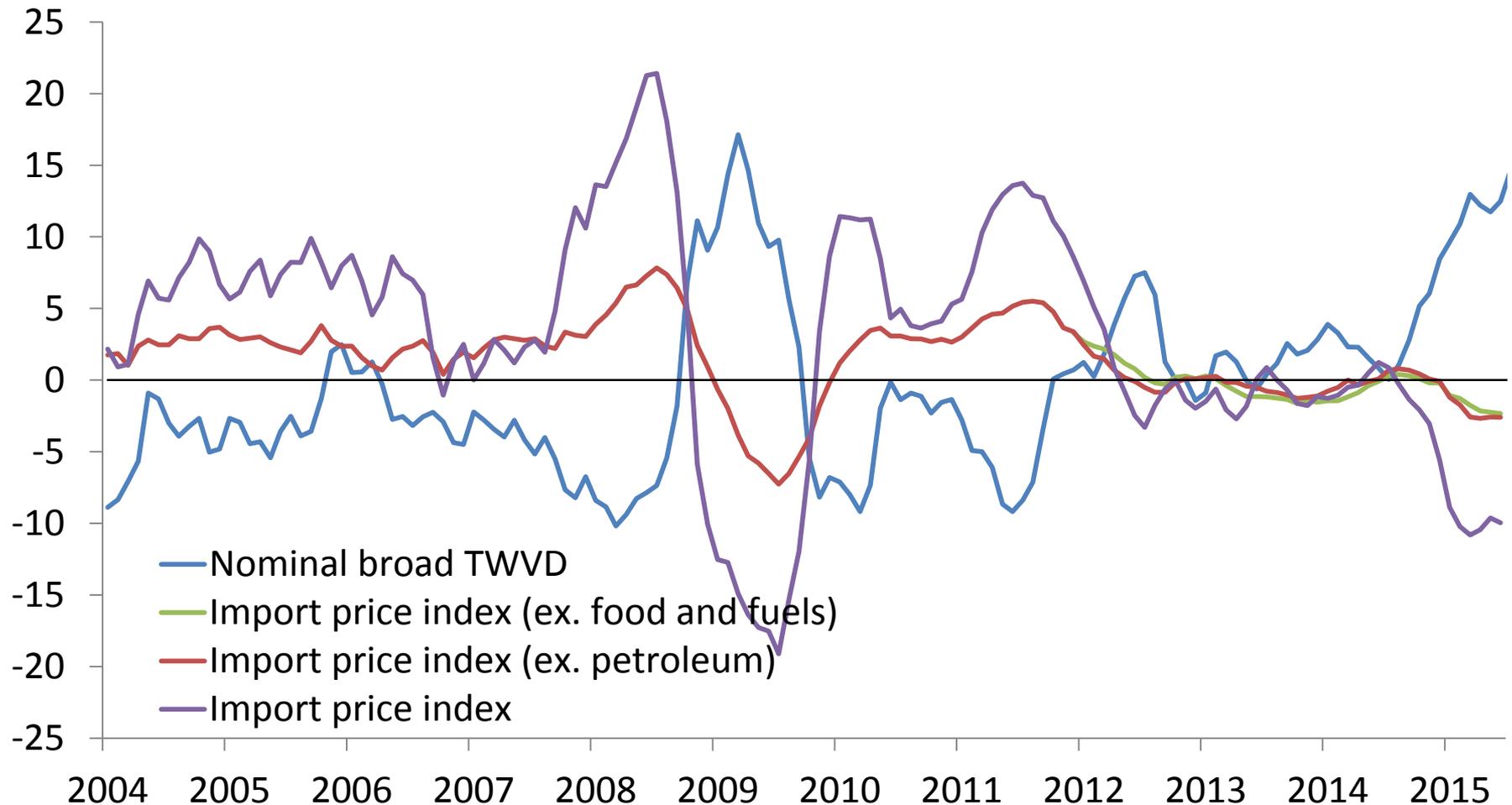
Deflation at the producer price level

Percent, year/year



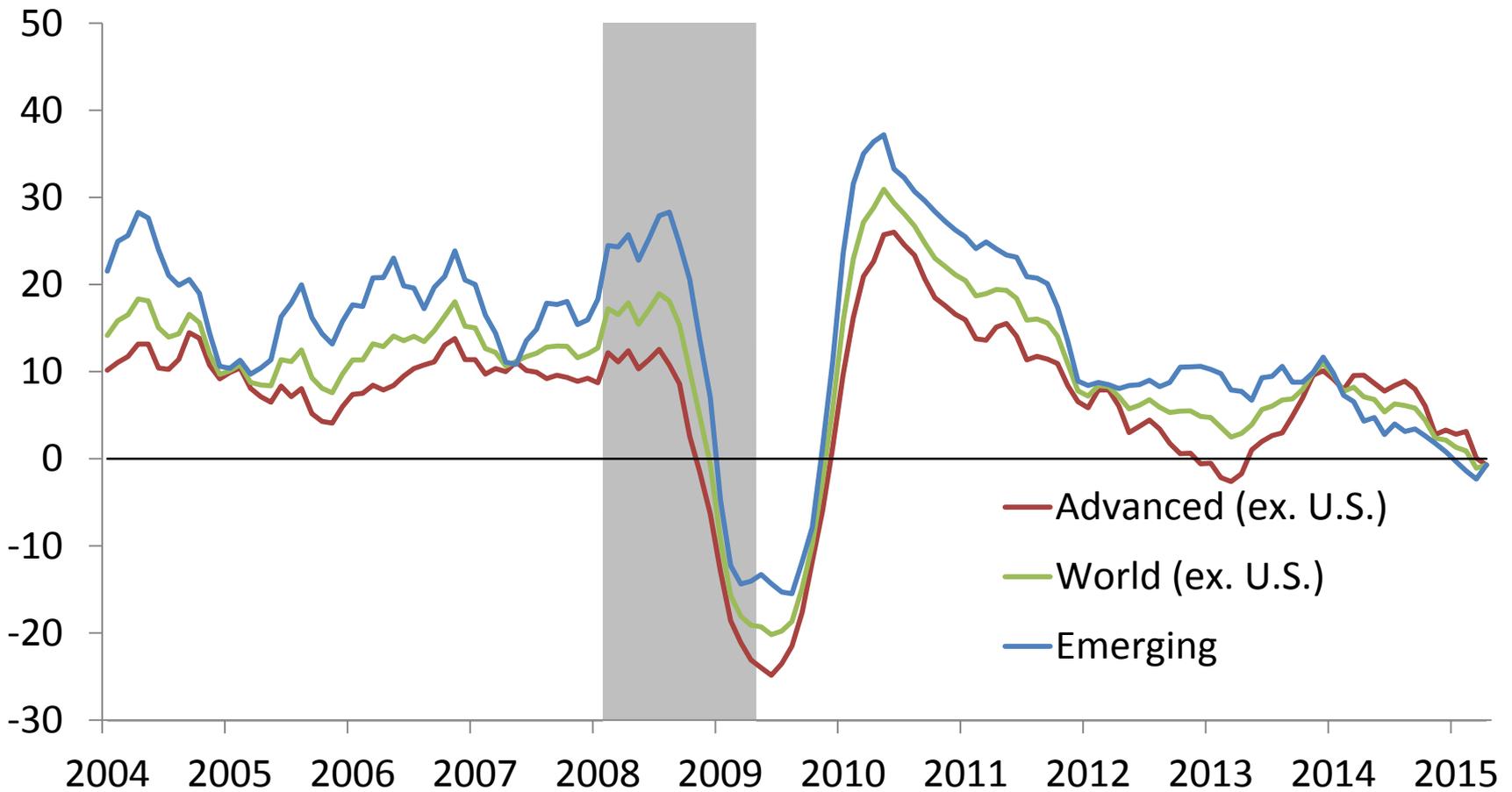
U.S. import price inflation in negative territory due to lower energy prices & strong dollar

Percent, year/year

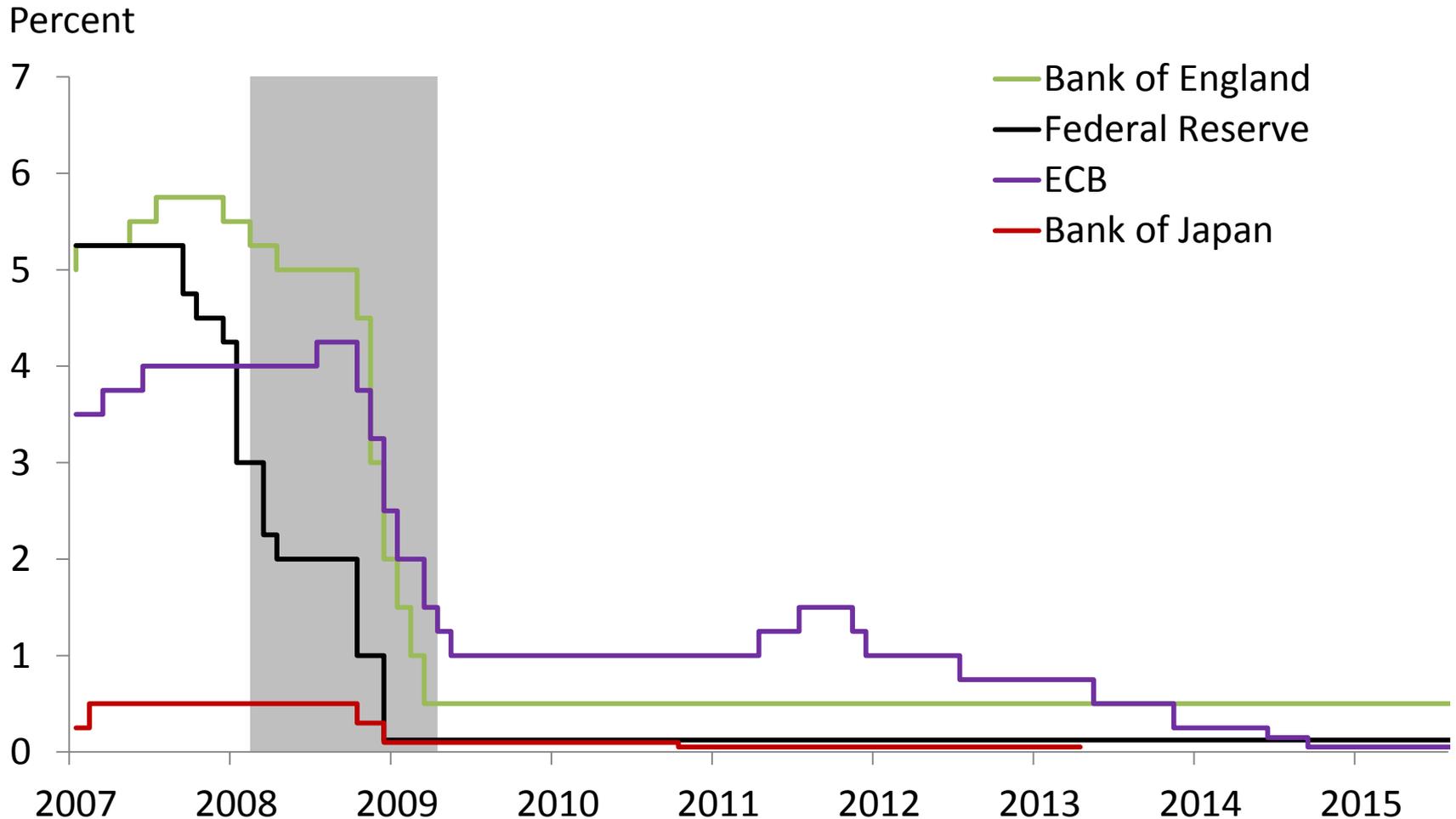


But the strong dollar weighs on U.S. exports

Percent, 3MMA, year/year



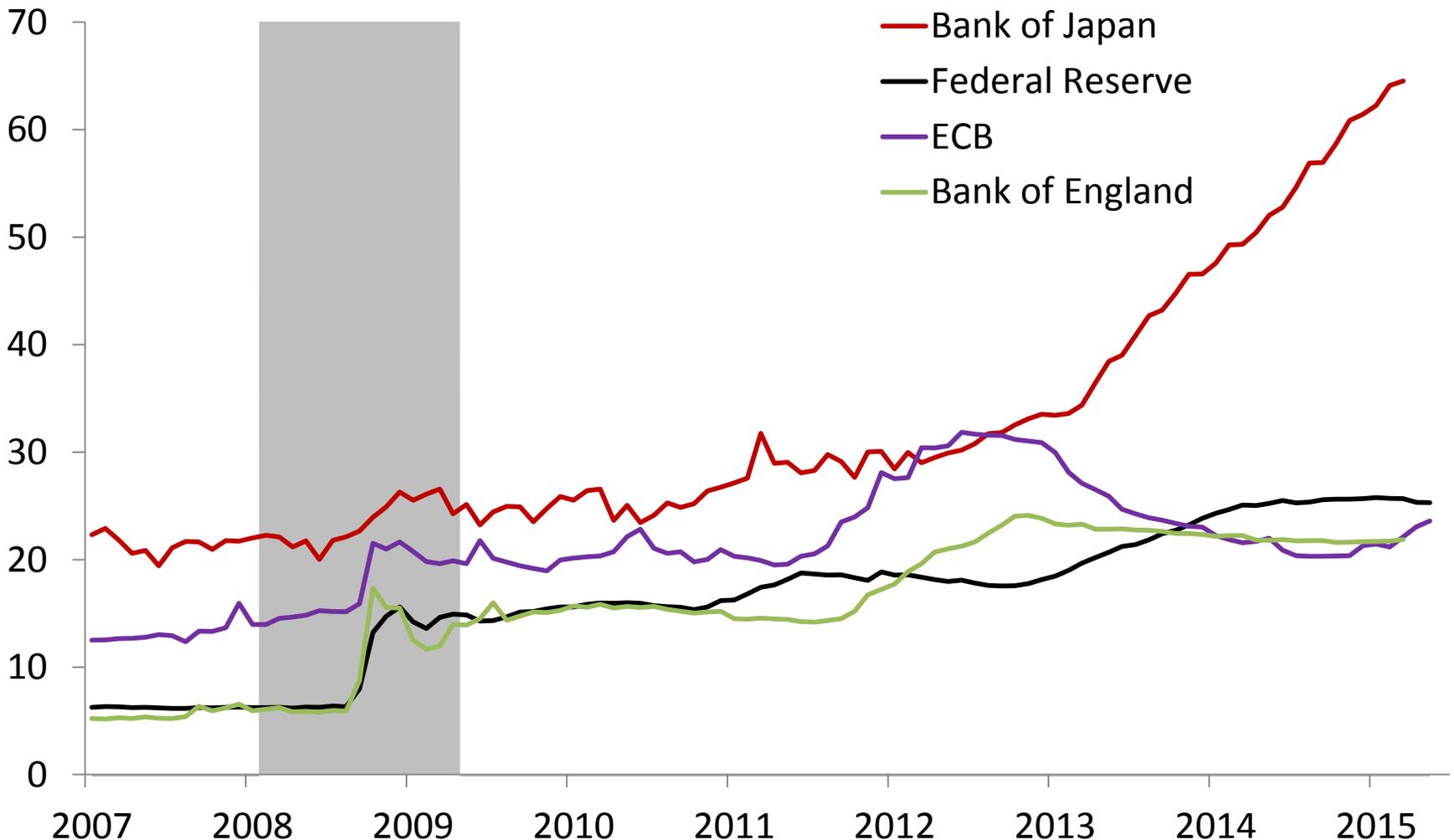
Central bank policy rates stuck at zero



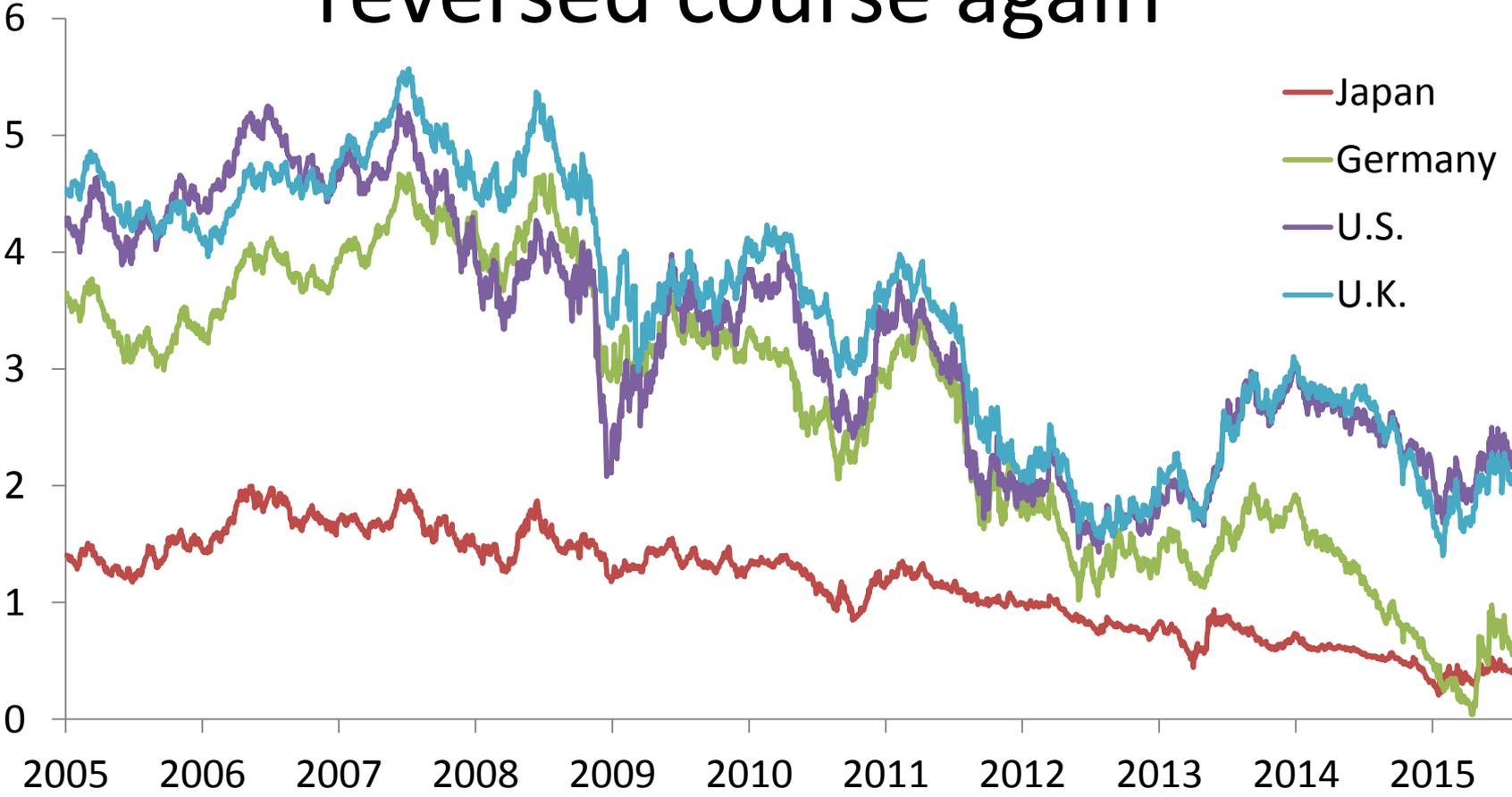
On April 4, 2013, the main operating target for Japan changed to the monetary base, which has increased 97.1 percent between April 2013 and March 2015.

Central bank balance sheets: Still growing in euro area & Japan

Percent of GDP



10-year government bond yields reversed course in 2015, and then reversed course again

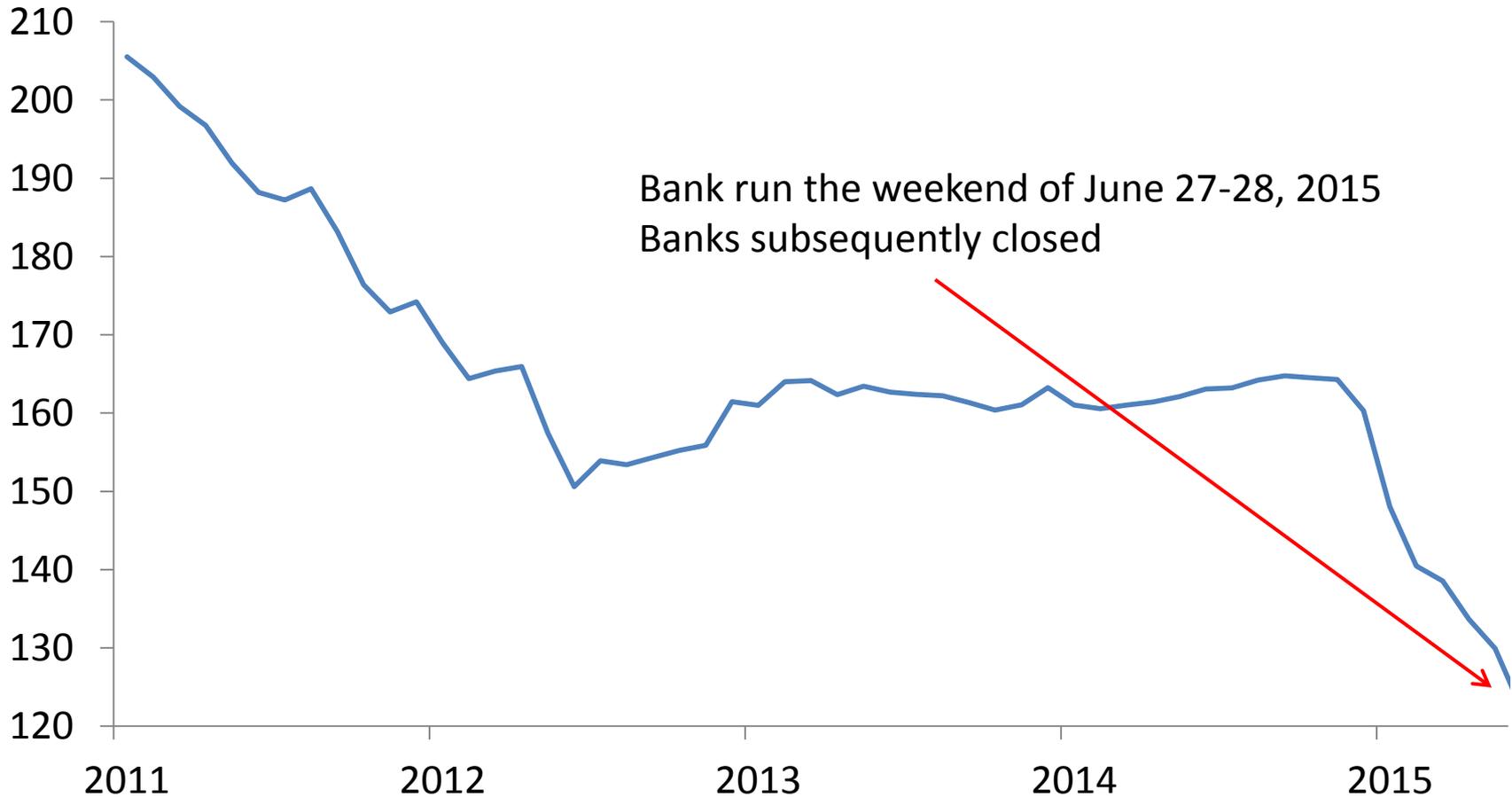


Headwinds, tailwinds and CAT

- Tailwinds
 - Lower oil prices
 - Fall in oil prices to boost global growth by about ½ percentage point in 2015 & 2016 (IMF)
- Headwinds
 - Greece
 - How disruptive would GREXIT be?
 - Slowdown in China
 - Economy seems to be slowing faster than expected, prompting policy action; bursting of stock market bubble
- Clear air turbulence?
 - Monetary policy normalization in the United States
 - Liftoff from zero will occur when data indicate that conditions are right
 - How well prepared is the rest of the world for the end of the ZIRP era?

Private deposits in Greek banking sector: From a bank jog to a bank run

Billions of euro



The weekend of June 27-28*, 2015.



Greeks Line Up at Banks and Drain ATMs After Tsipras Calls Vote



Door Closing to Greece as Finance Chiefs Scorn Referendum

2 hours ago



Greece's Tsipras Calls July 5 Referendum on Bailout Demands



Greeks Cautious as Tsipras Vote Puts Fate of Euro in Their Hands

The Greek bank run, June 27-28, 2015.



The Greek bank run, June 27-28, 2015.



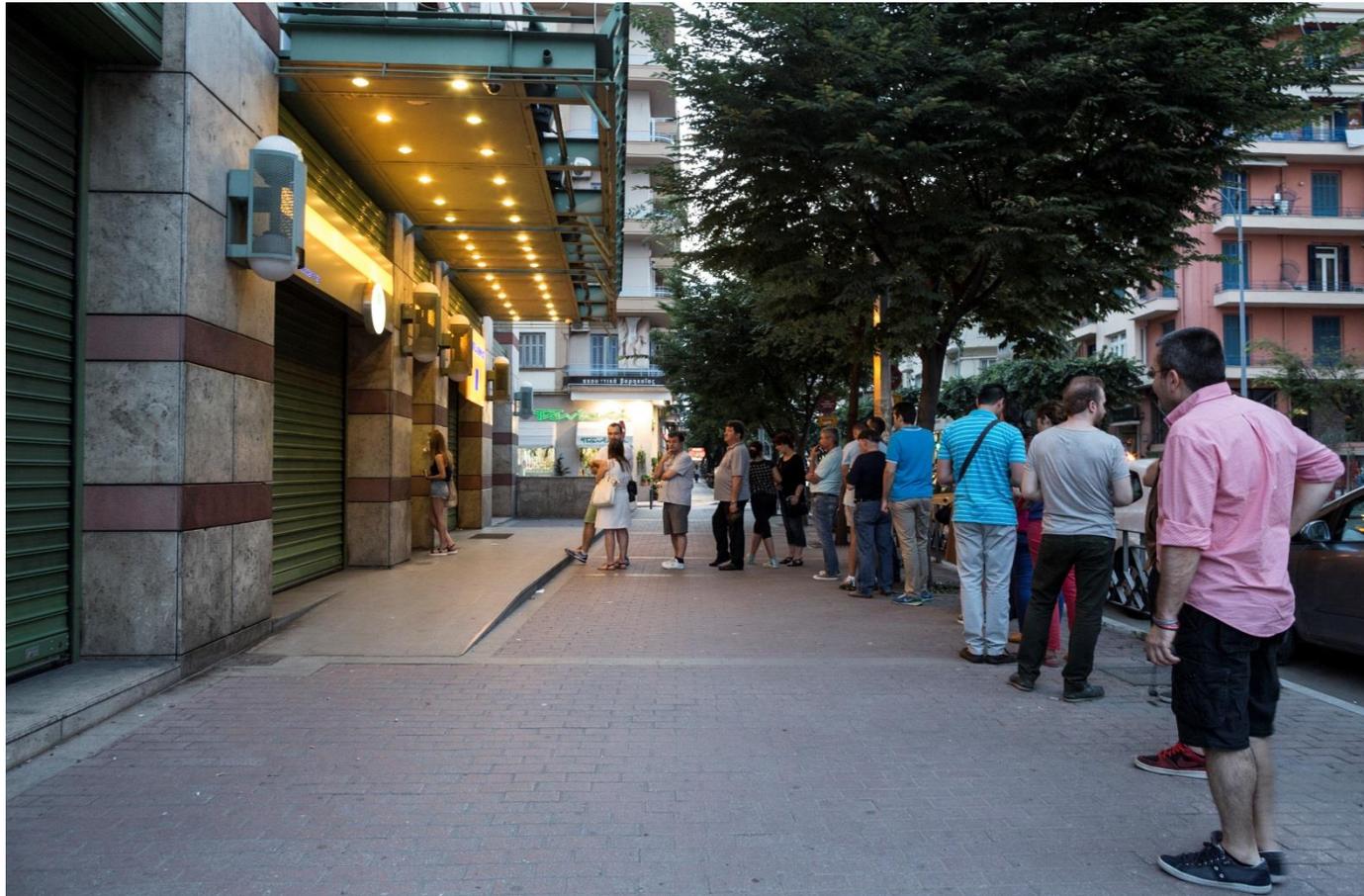
The Greek bank run, June 27-28, 2015.



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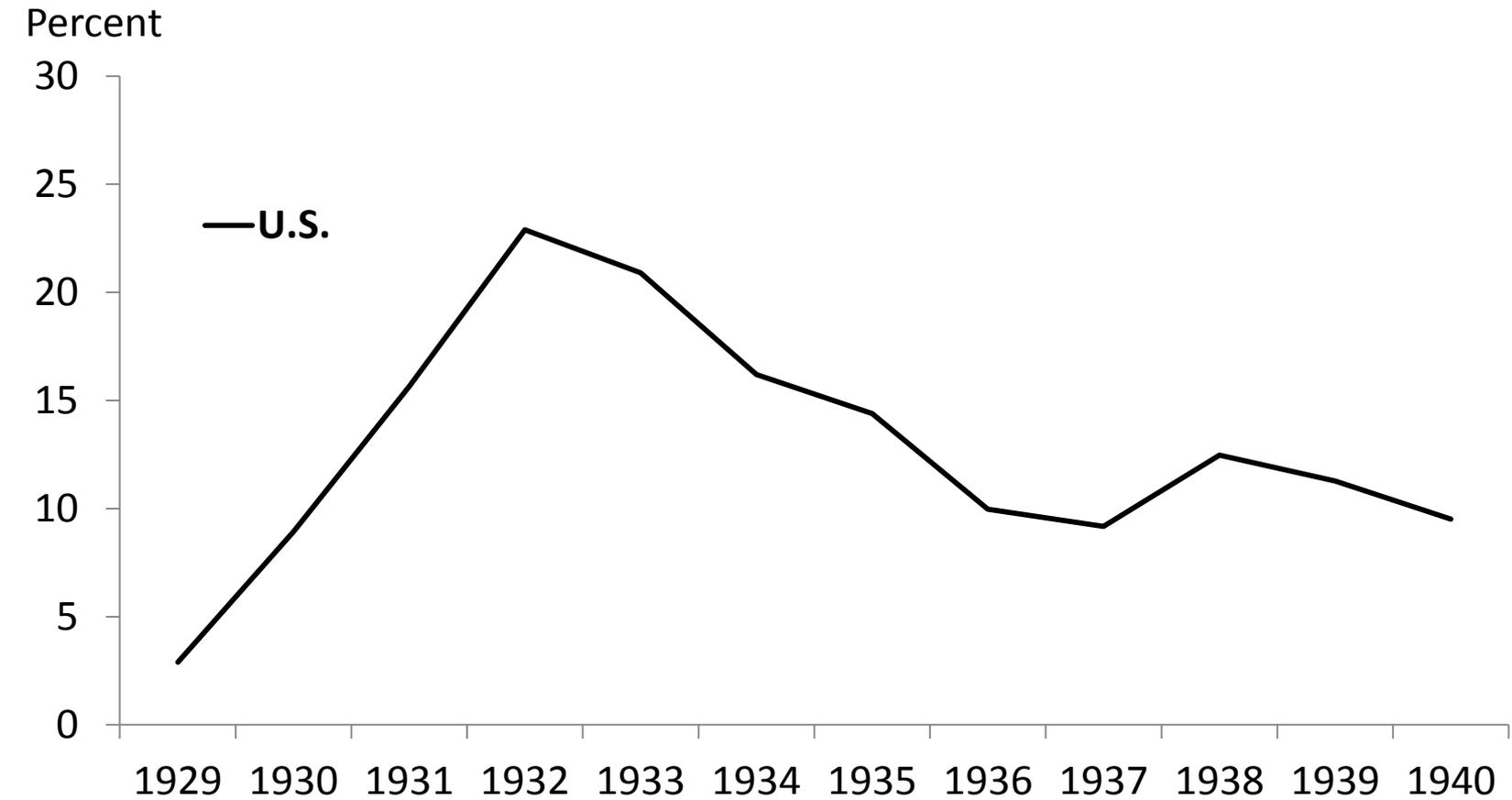


The Greek bank run, June 27-28, 2015.



Great Depressions

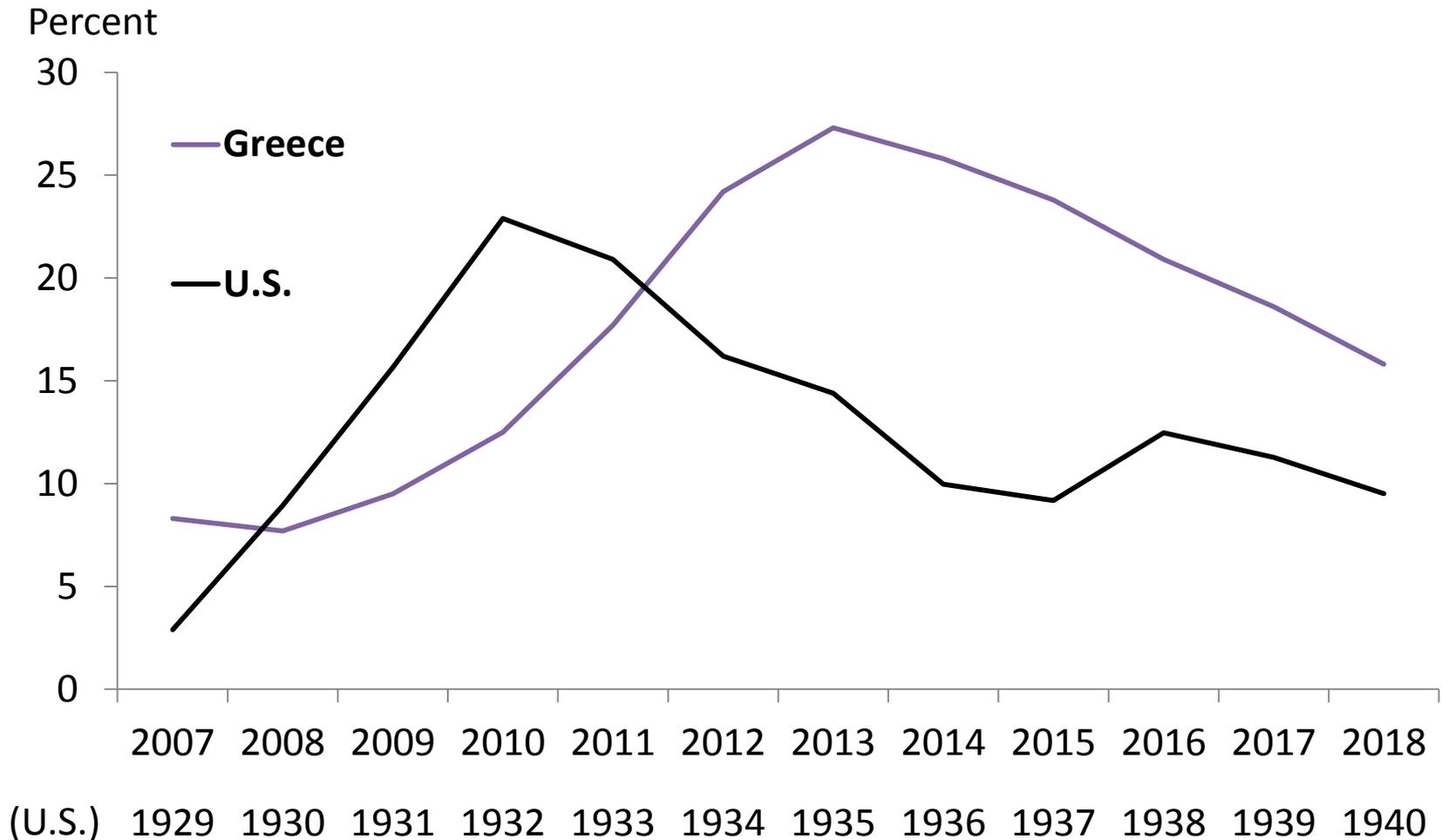
Unemployment Rate



(U.S.)

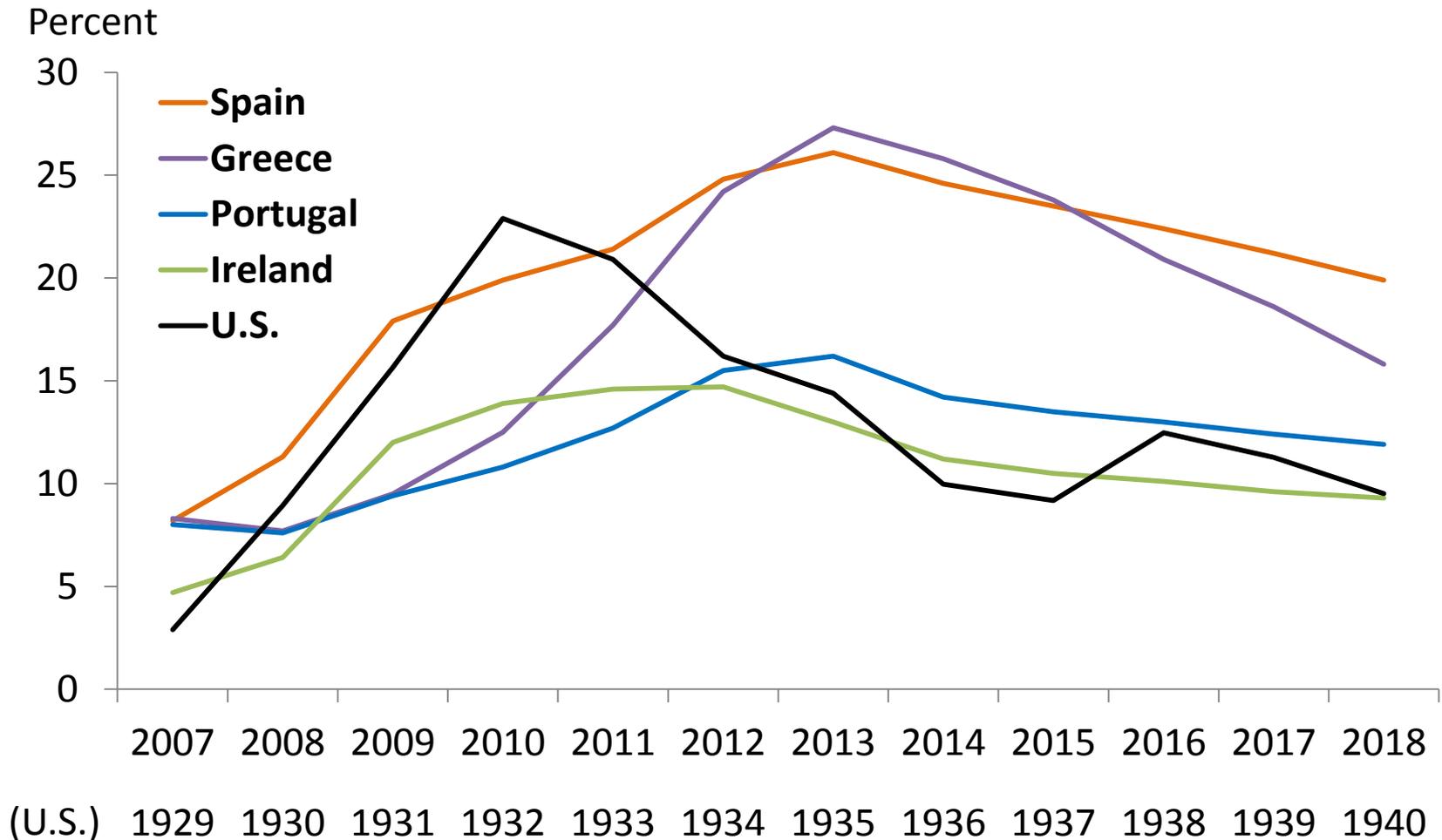
Great Depressions

Unemployment Rate



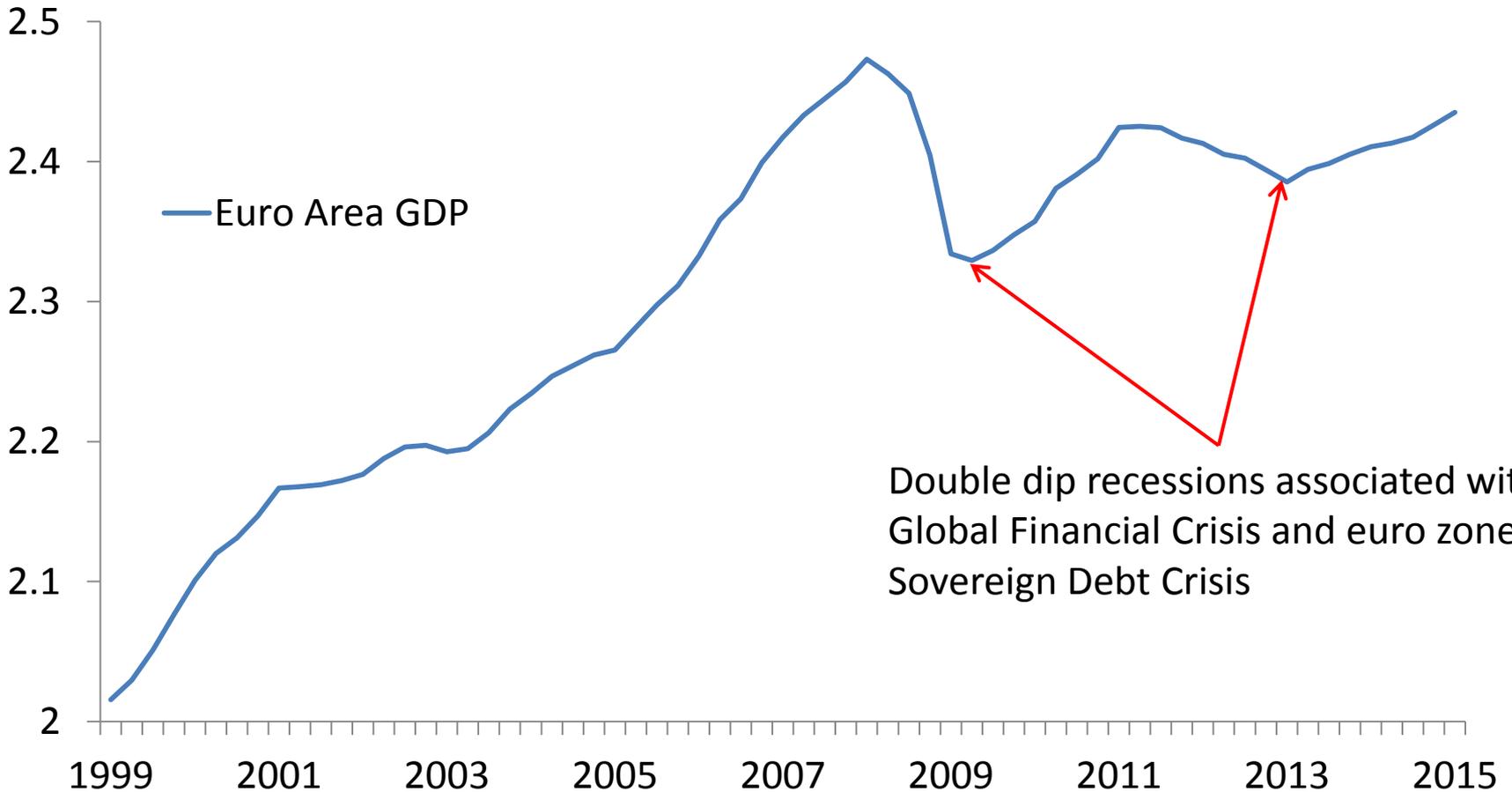
Great Depressions

Unemployment Rate



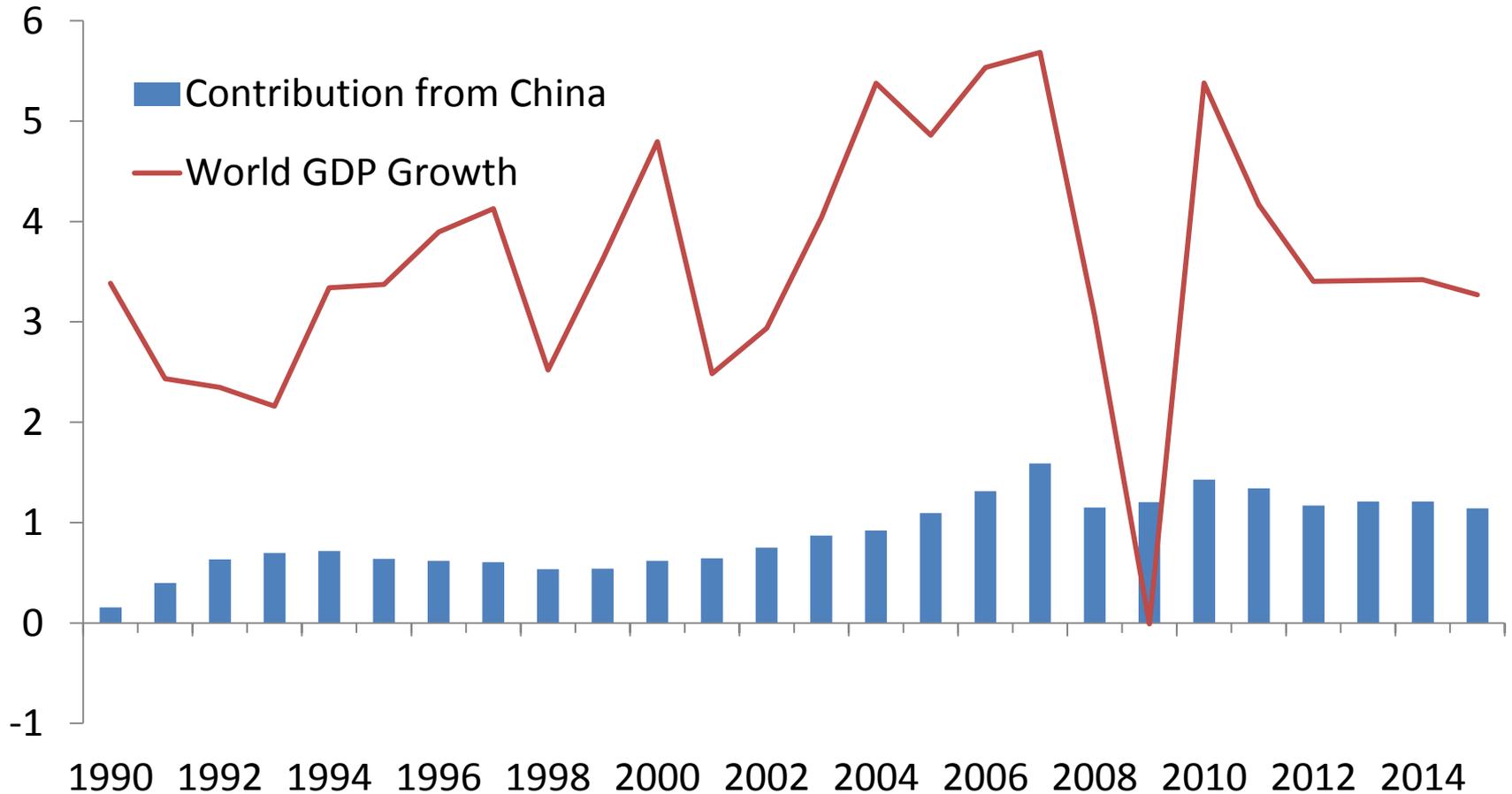
Euro area GDP has still not attained its pre-crisis level

GDP, Trillions

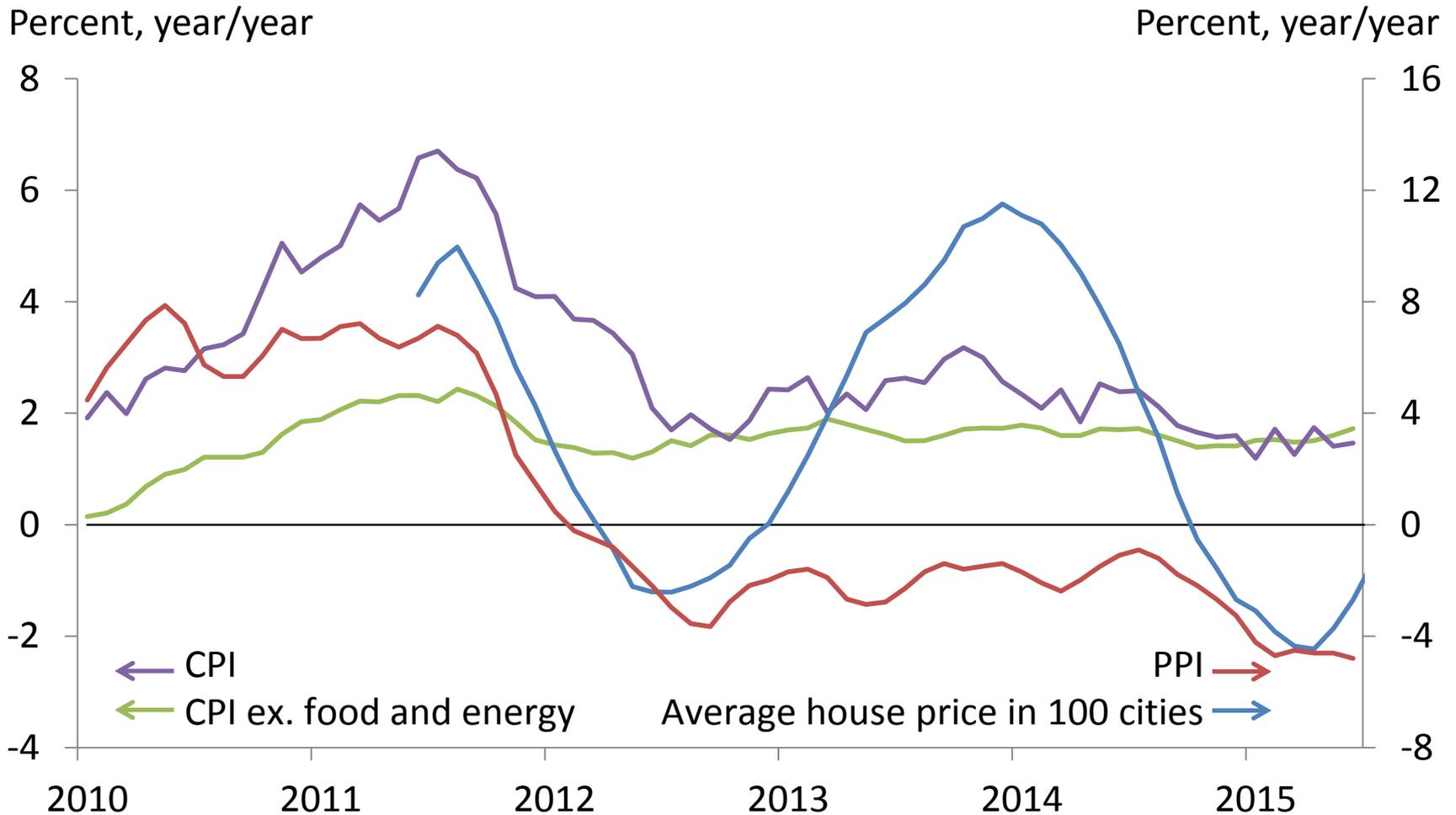


China contributes a lot to global GDP growth

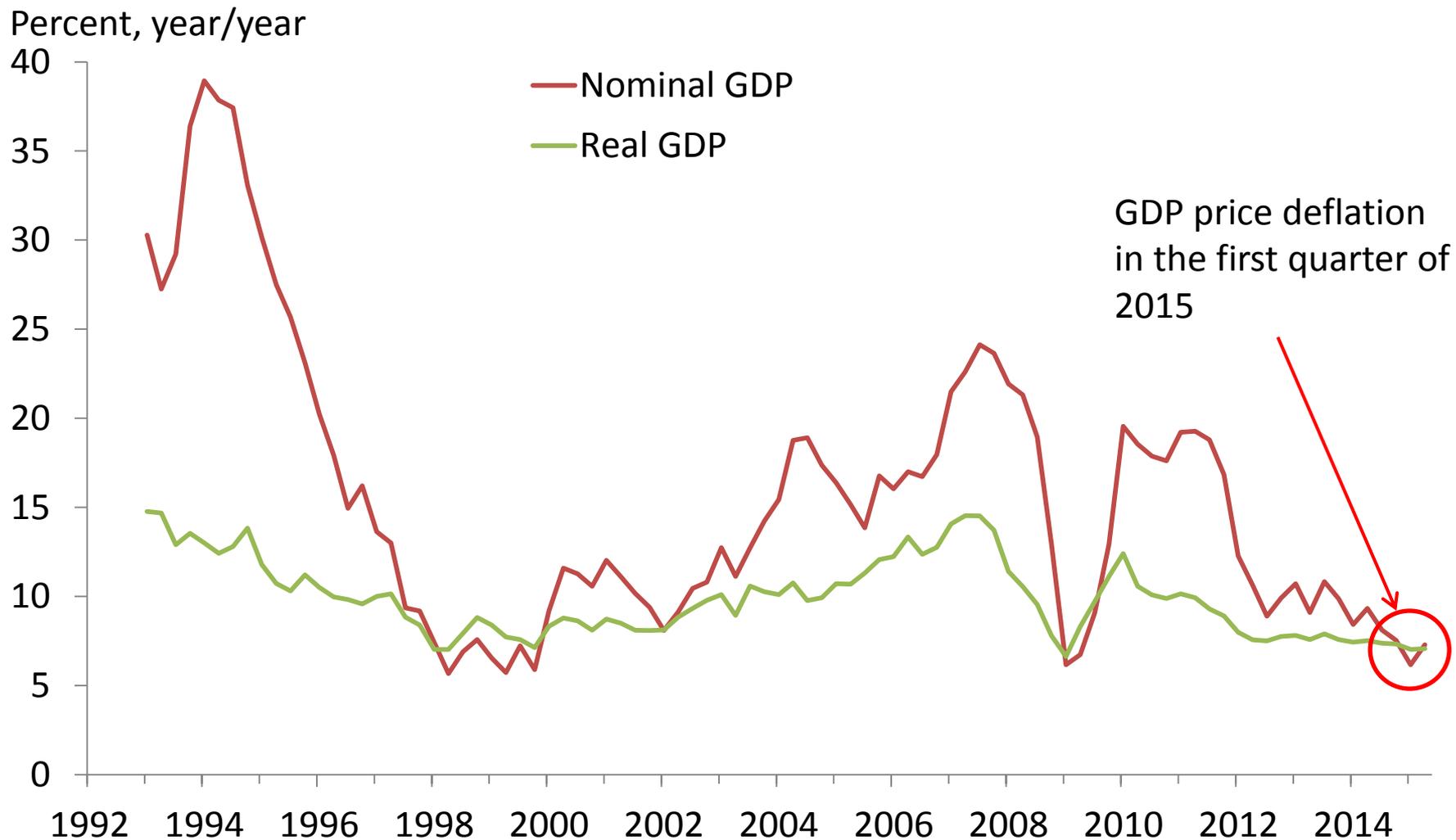
Percentage Points



Chinese price inflation: low and getting lower

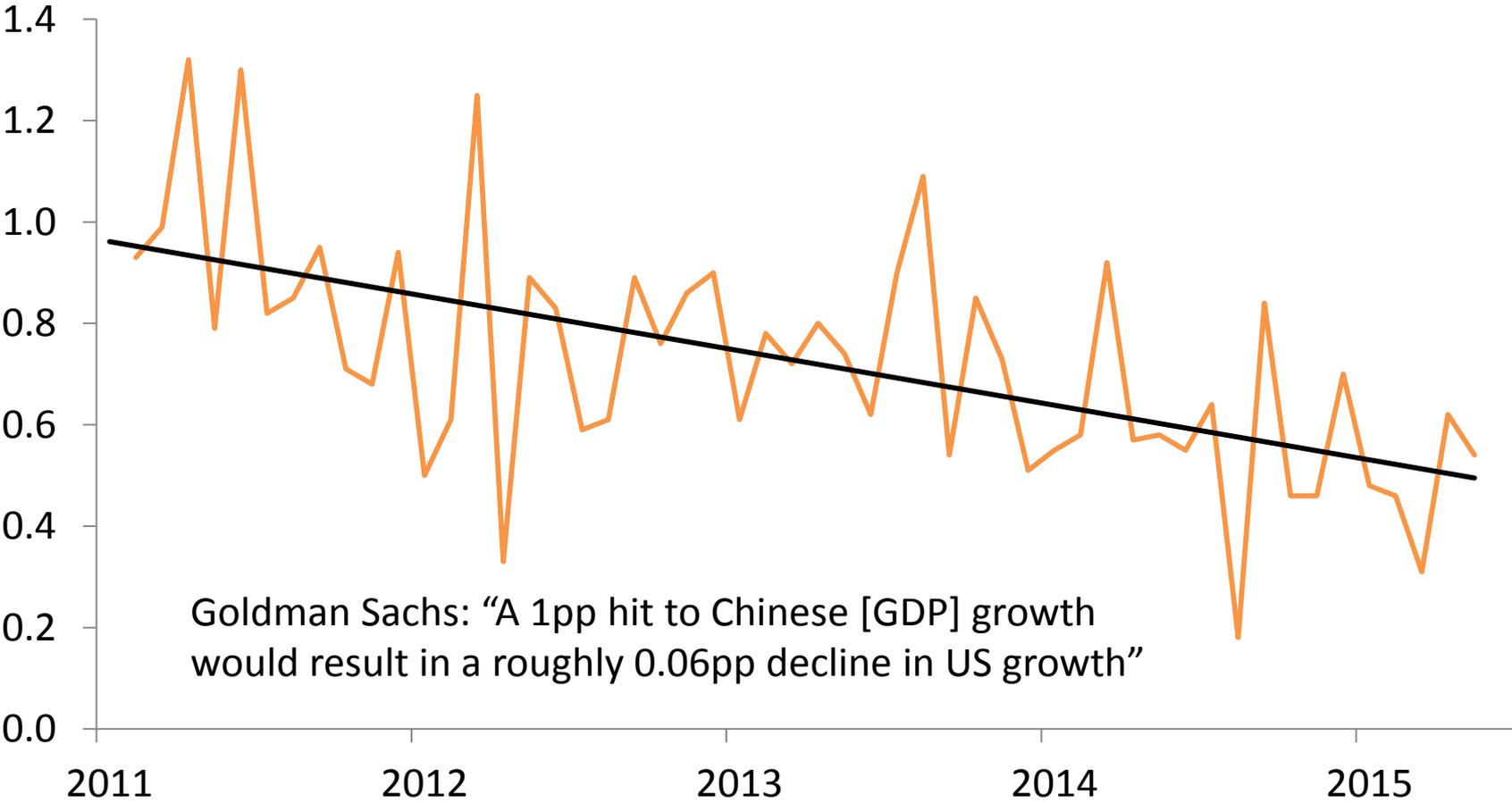


A short history of Chinese growth



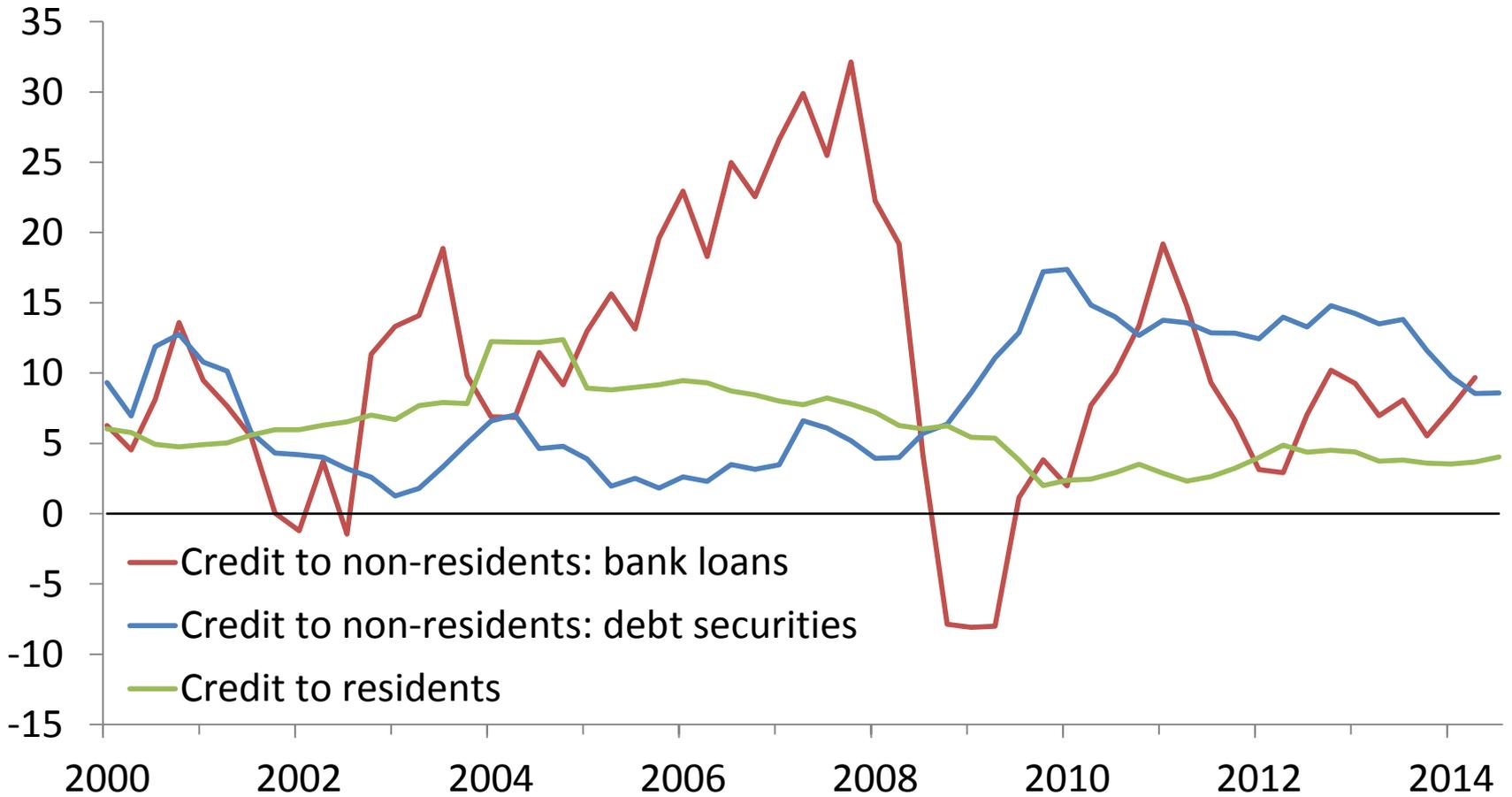
Chinese industrial output growth has slowed dramatically

Percent, month/month



U.S. dollar credit growth

Percent, year/year



The growth of offshore credit

	Currency of denomination (Trillions of US dollars)		
Credit outstanding	Dollar	Euro	Yen
Total	49.6	33.8	18.0
Of which:			
Credit to residents	40.5	32.5	17.5
Credit to nonresidents	9.1	2.3	0.5

Note to Table: Data as of September 2014.

IMF growth outlook

July 2015

	2013	2014	2015(f)	2016(f)	Change from April forecast 2015	Change from April forecast 2016
World output	3.4	3.4	3.3	3.8	-0.2	0.0
Advanced economies	1.4	1.8	2.1	2.4	-0.3	0.0
United States	2.2	2.4	2.5	3	-0.6	-0.1
Euro area	-0.4	0.8	1.5	1.7	0.0	0.1
Japan	1.6	-0.1	0.8	1.2	-0.2	0.0
UK	1.7	2.9	2.4	2.2	-0.3	-0.1
Canada	2	2.4	1.5	2.1	-0.7	0.1
Emerging Market & Developing Economies	5	4.6	4.2	4.7	-0.1	0.0
China	7.7	7.4	6.8	6.3	0.0	0.0
India	6.9	7.3	7.5	7.5	0.0	0.0
Brazil	2.7	0.1	-1.5	0.7	-0.5	-0.3
Russia	1.3	0.6	-3.4	0.2	0.4	1.3

IMF growth outlook

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Brazil	2.7	0.1	-1.5	0.7	-0.5	-0.3
Russia	1.3	0.6	-3.4	0.2	0.4	1.3

Press Release

FEDERAL RESERVE press release

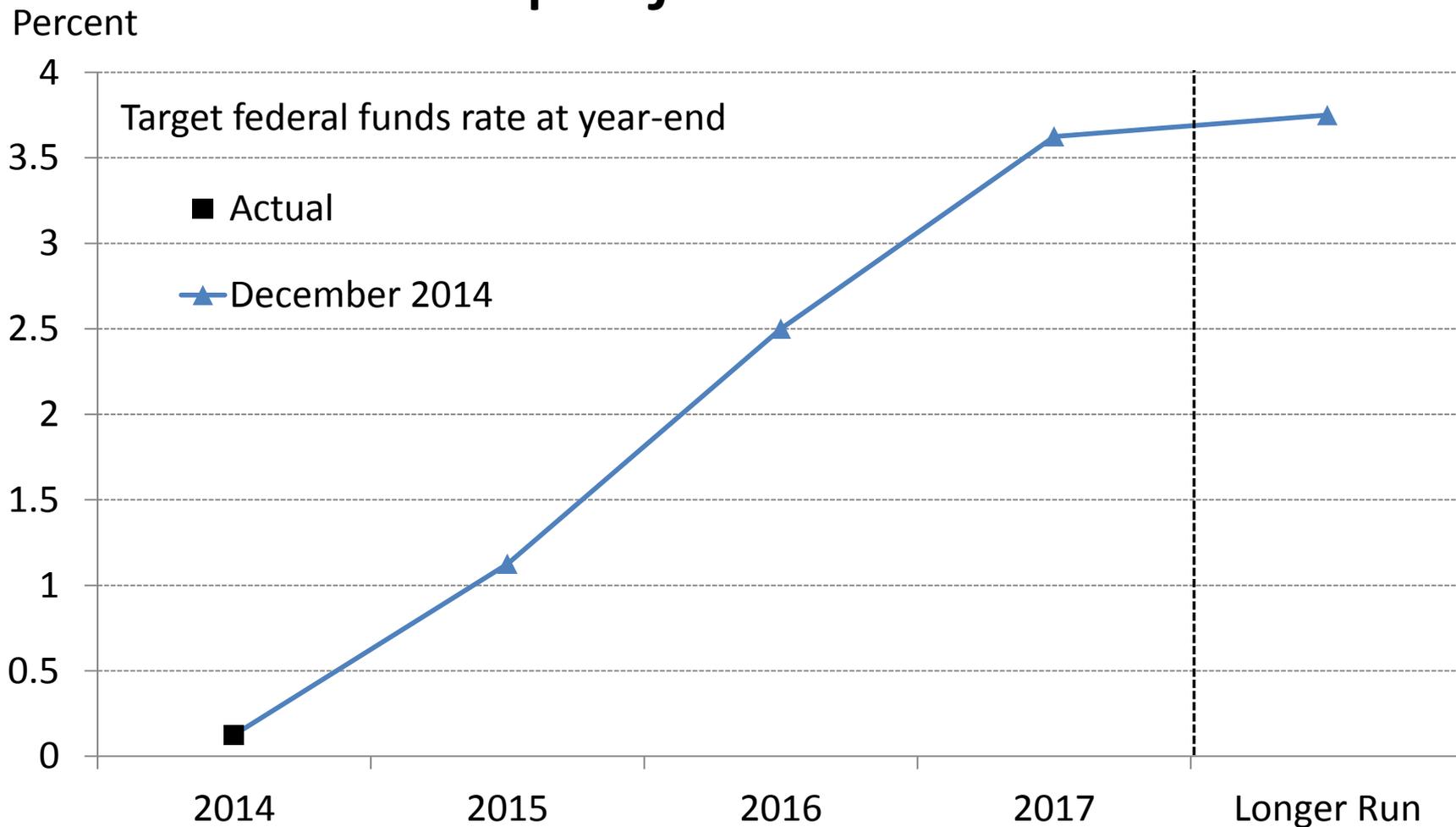


Release Date: July 29, 2015

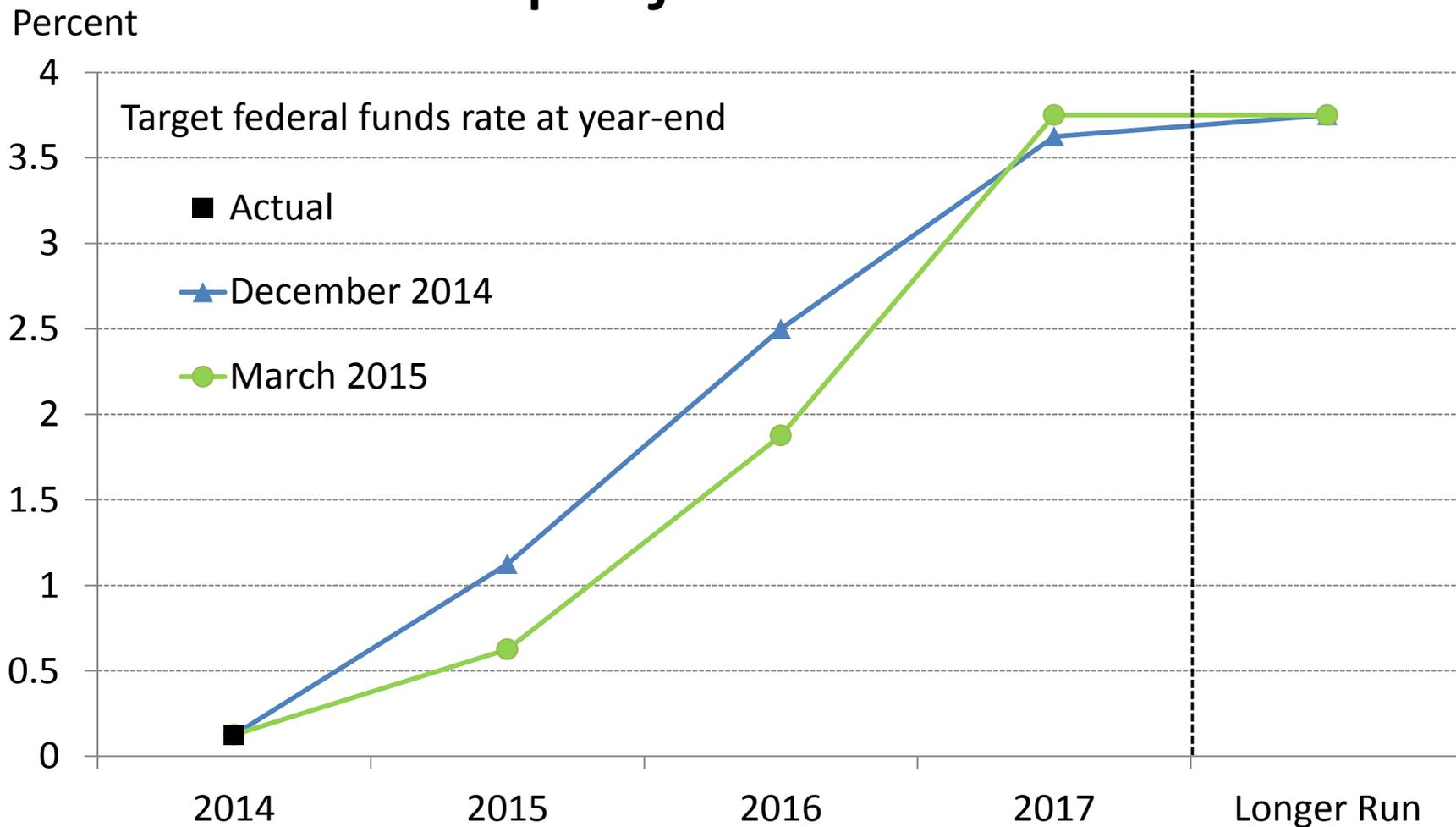
For immediate release

- “...the Committee today reaffirmed its view that the current 0 to 1/4 percent target range for the federal funds rate remains appropriate. In determining how long to maintain this target range, the Committee will assess progress--both realized and expected--toward its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments.” (emphasis added)

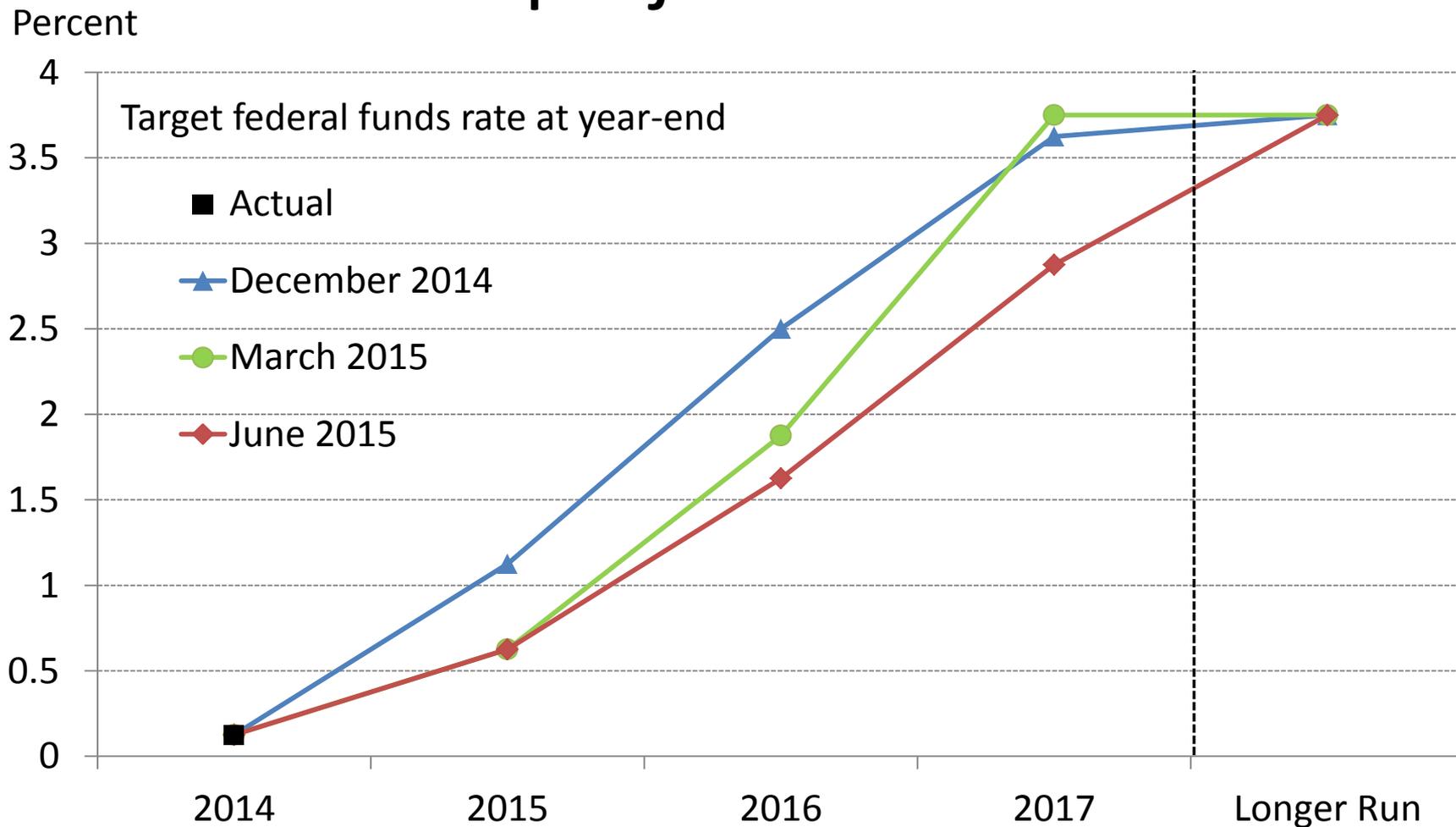
Median FOMC participants' fund-rate projections



Median FOMC participants' fund-rate projections



Median FOMC participants' fund-rate projections



Conclusions

- Modal outlook is for continued growth through 2015 & 2016, with a modest acceleration in 2016
 - U.S. likely to be one of the stronger performers
 - Signs of improvement in Europe, Japan
- Monetary policies of major central banks likely to diverge
 - Fed: normalization
 - ECB, BoJ, PBOC: easing
- Risks:
 - Absence of any substantive resolution of the Greek crisis
 - China slowdown

