

Global Economic Outlook

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The views expressed are those of the author and do not necessarily reflect the views of the Federal Reserve Bank of Dallas or the Federal Reserve System

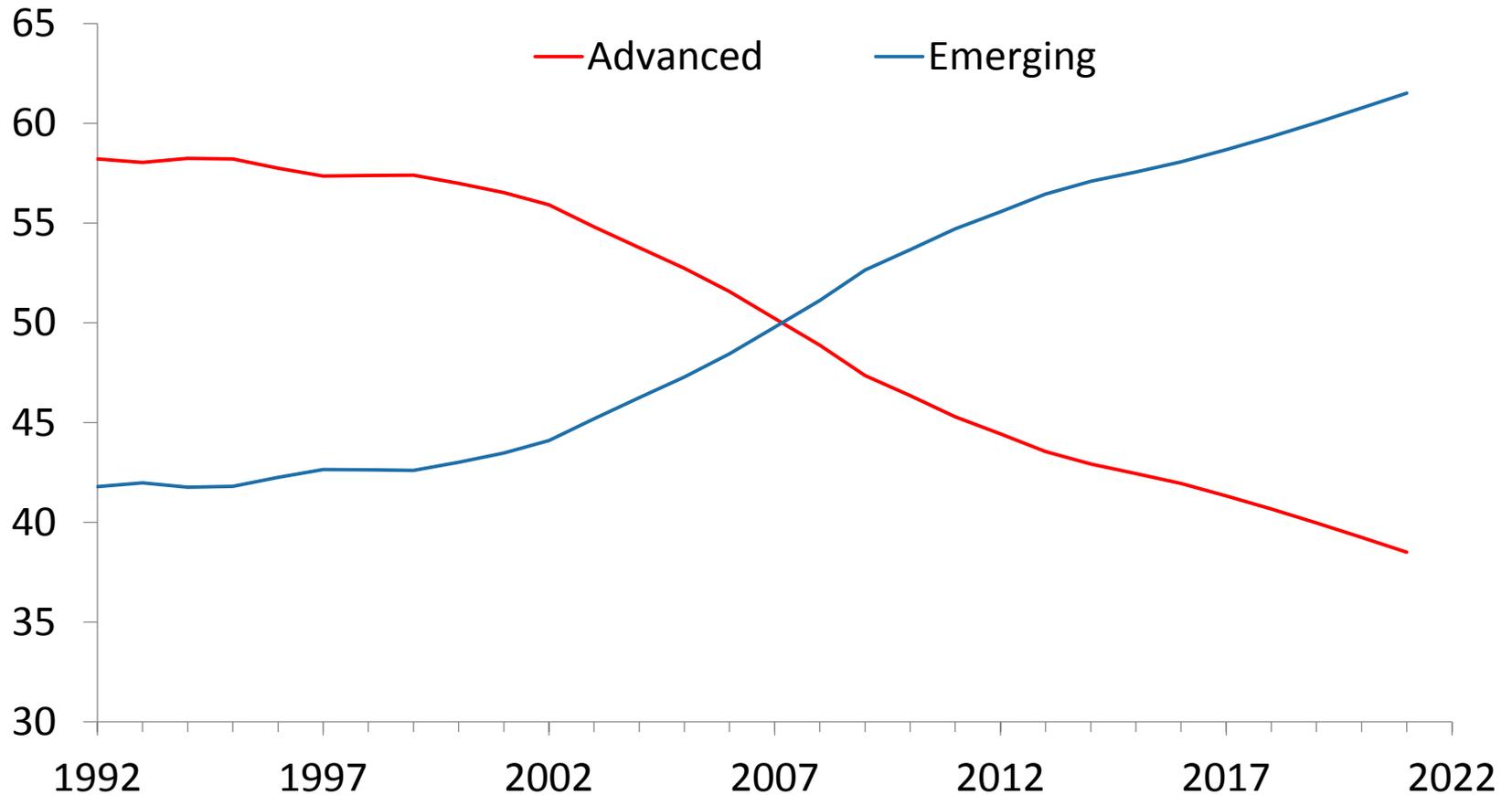
Outline

- Two secular trends reshaping the world
- 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
 - Europe: Greece, BREXIT, ...
 - China
 - Oil
 - Monetary policy divergence

The world has changed!

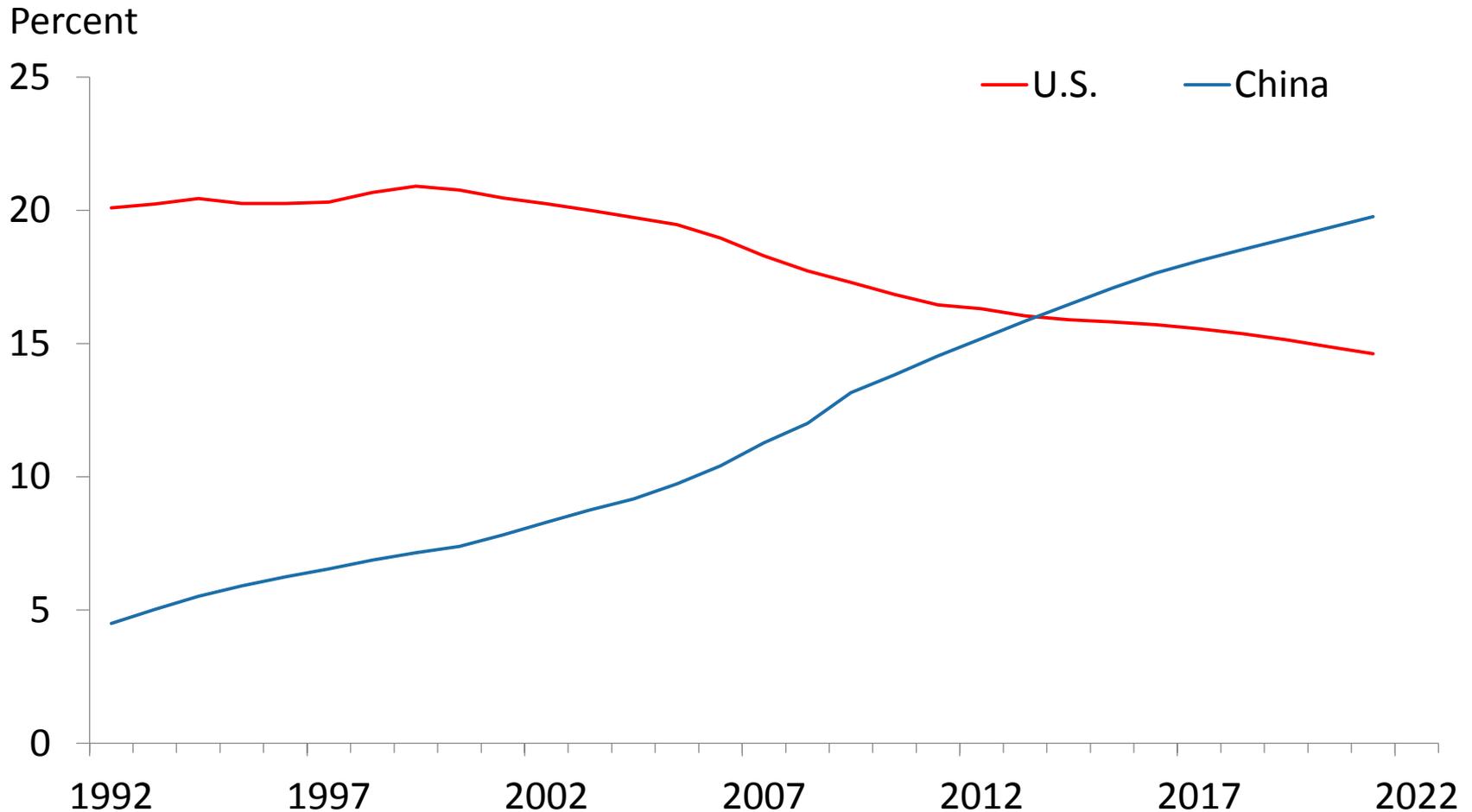
GDP based on PPP, share of world total

Percent



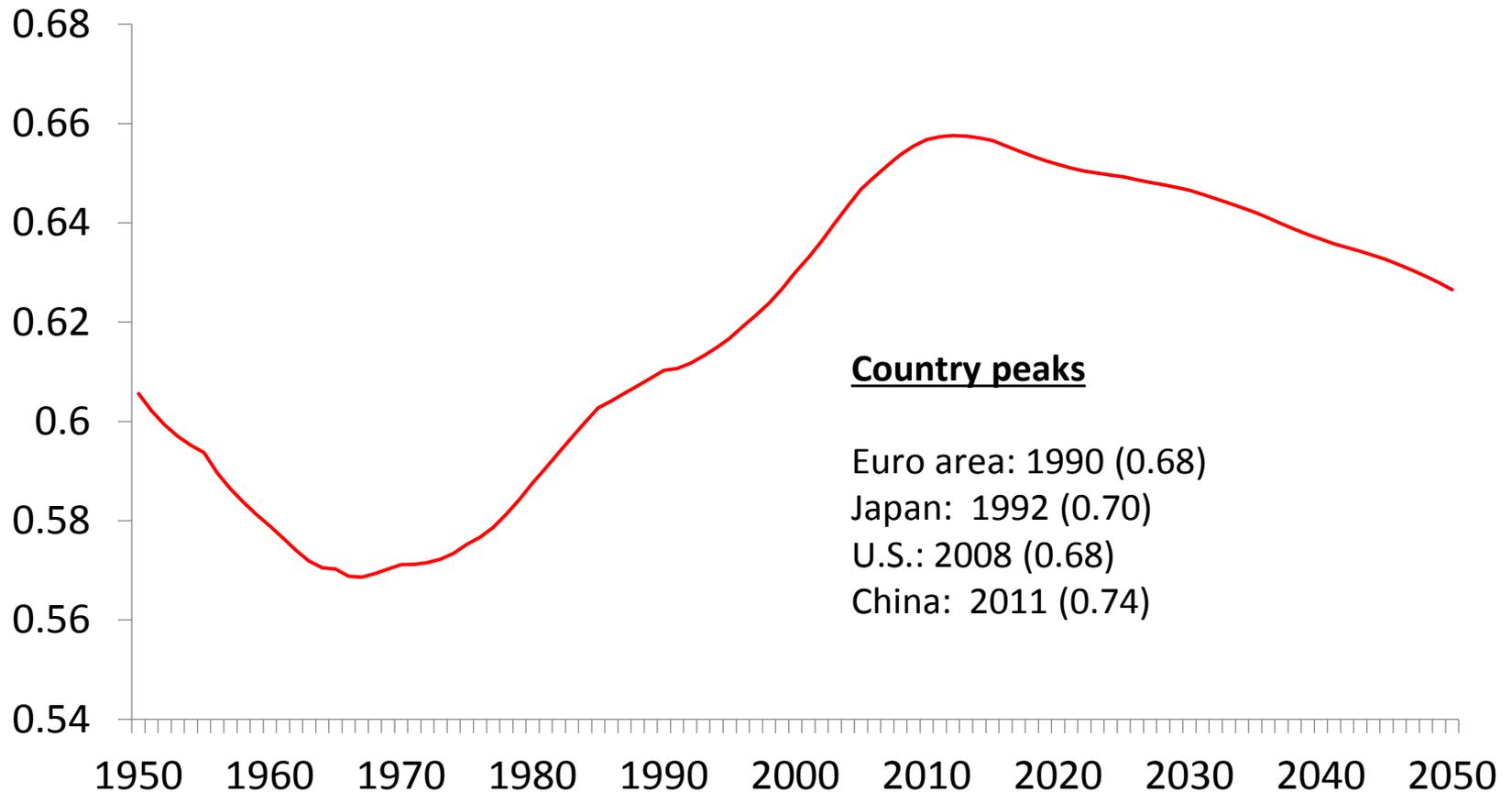
The world has really changed!

GDP based on PPP, share of world total

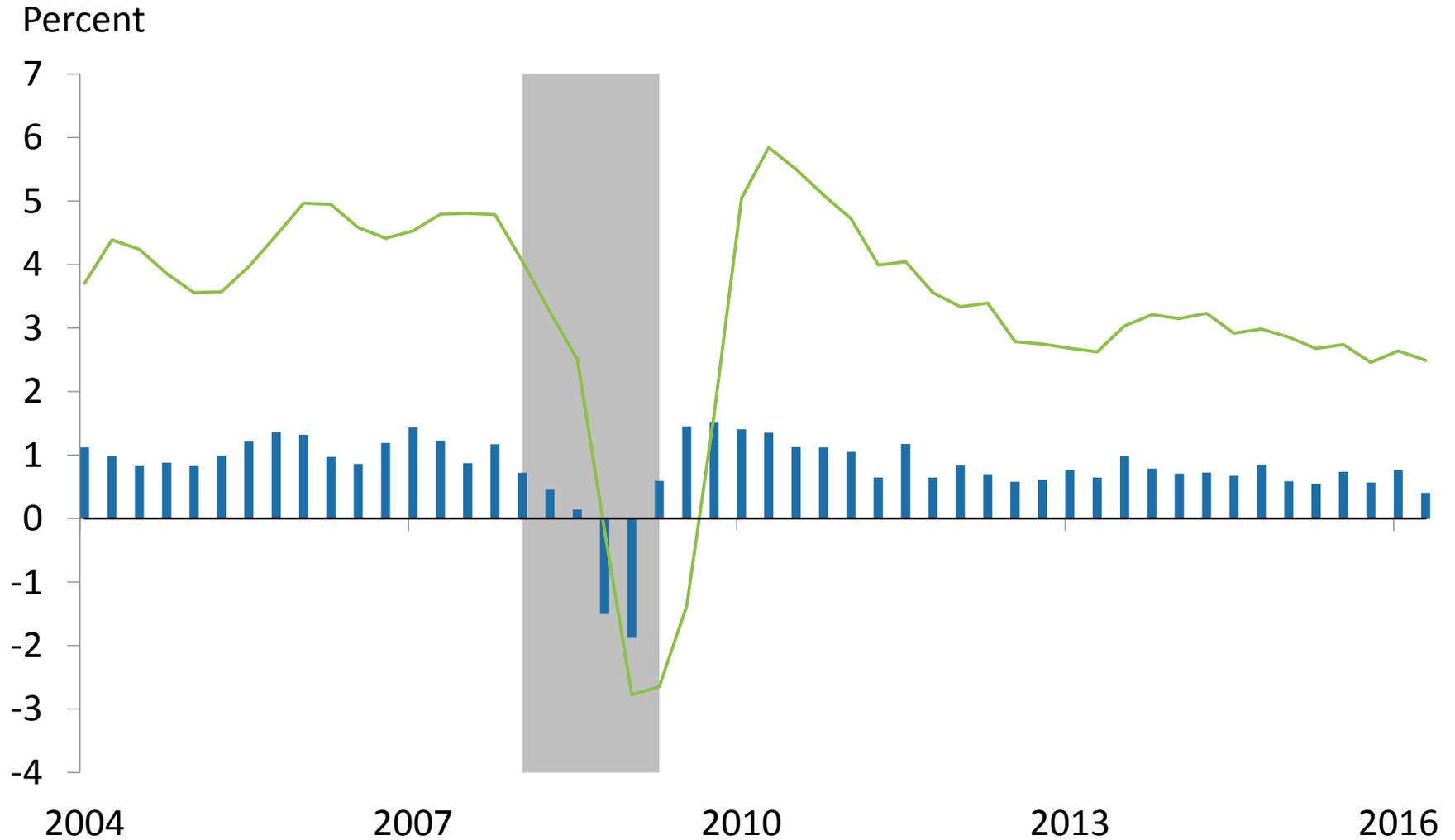


And we ain't done yet...

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

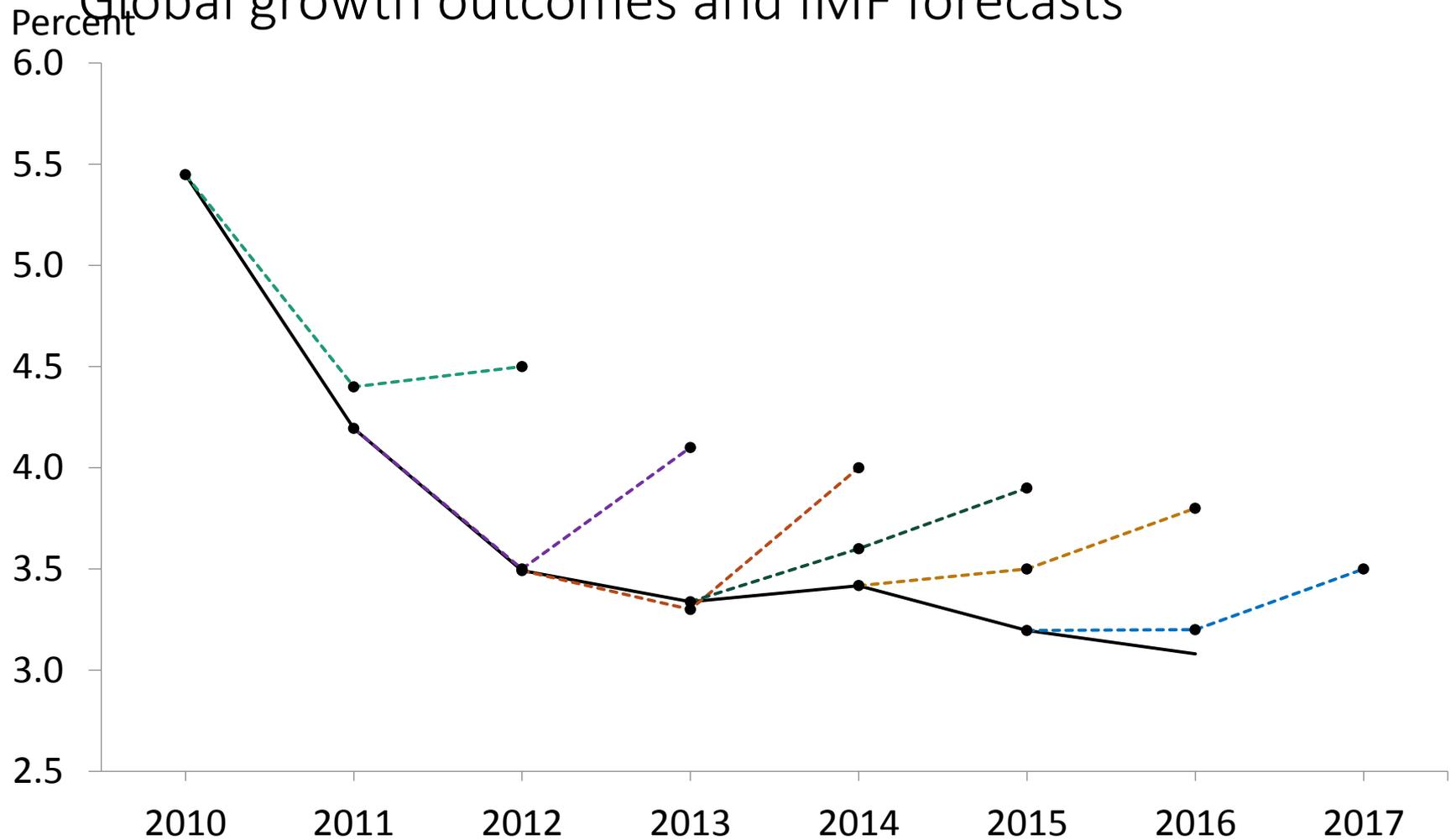


Global GDP growth over the past decade

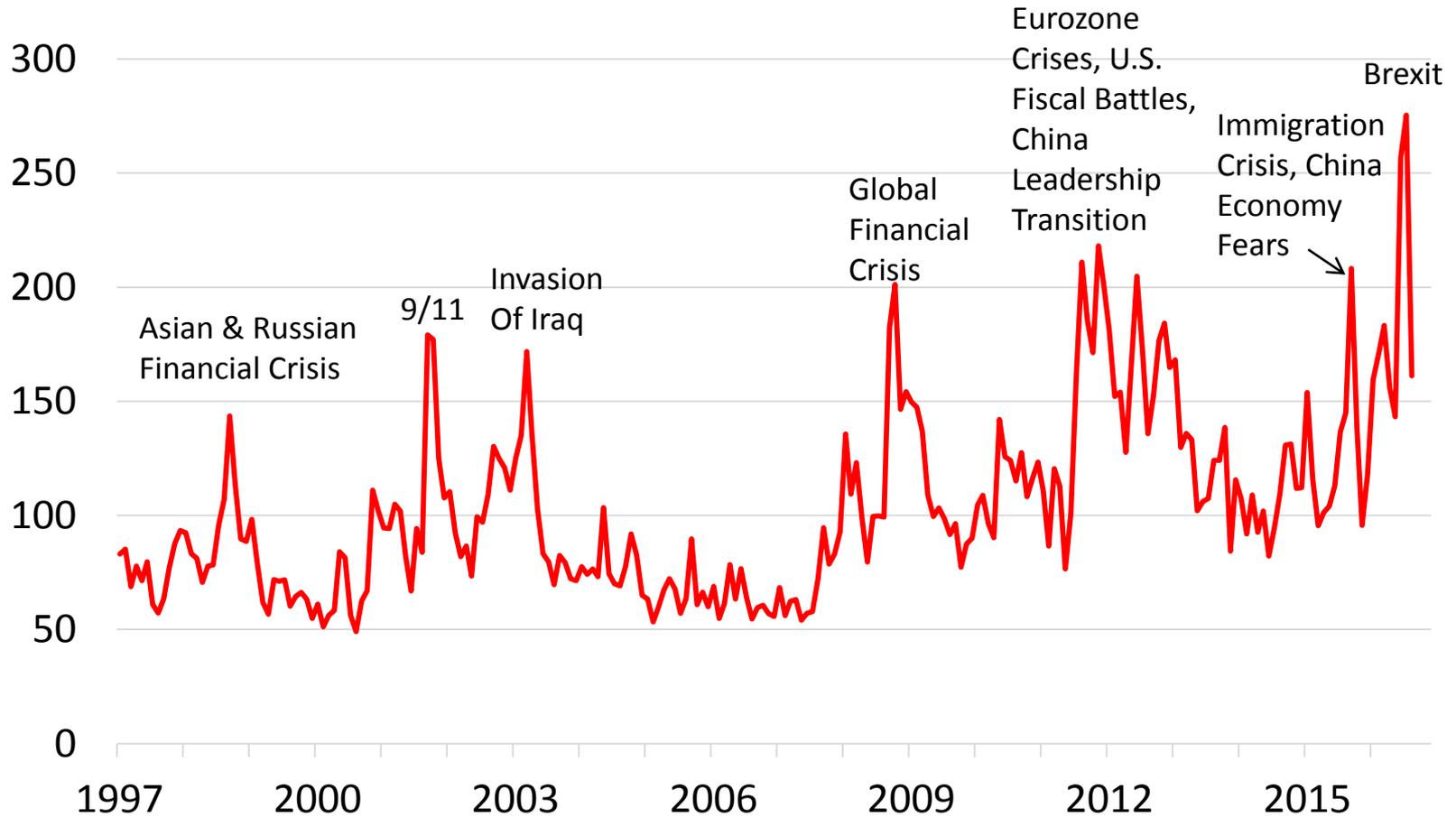


A disappointing recovery

Global growth outcomes and IMF forecasts

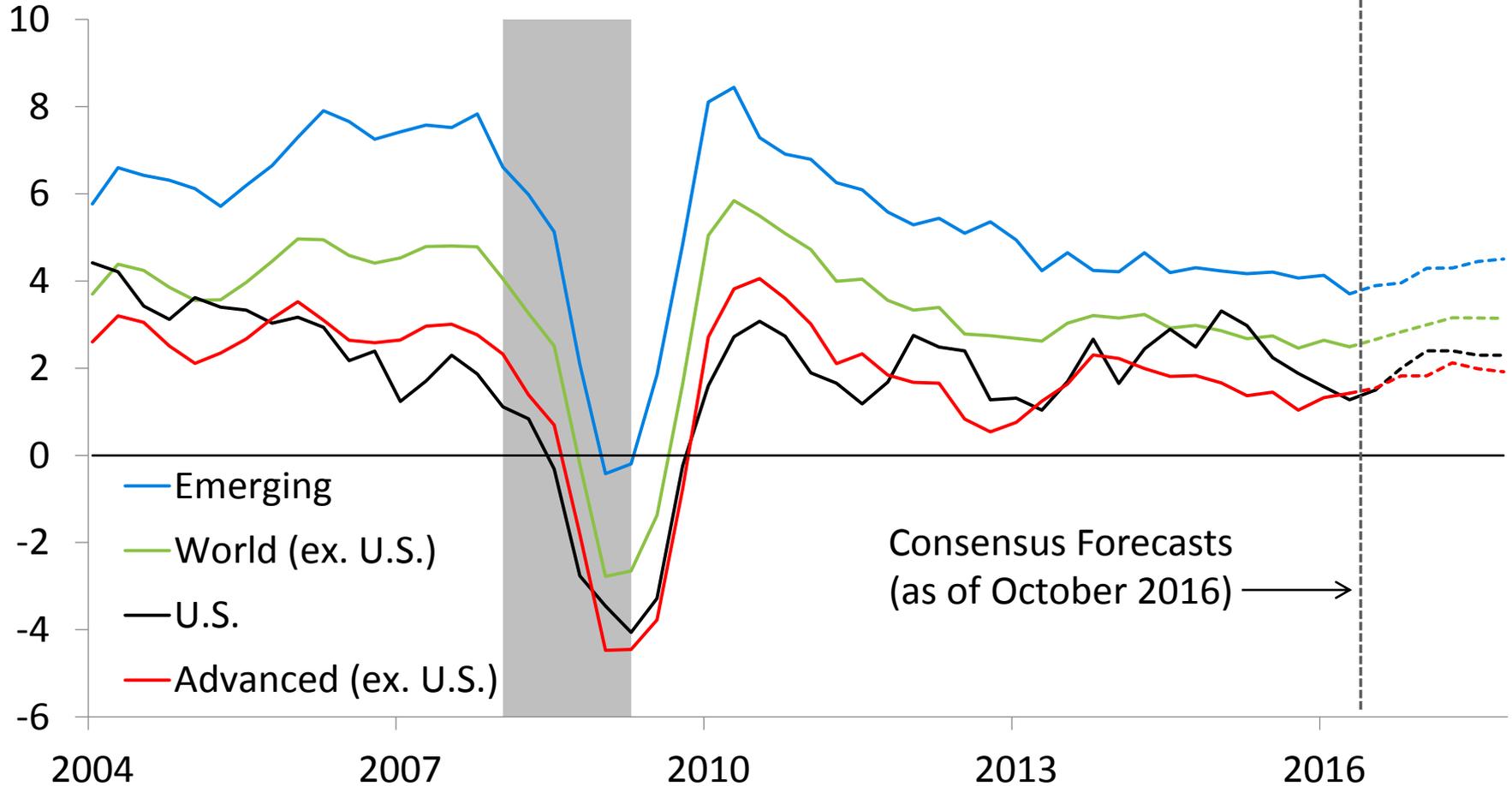


Global economic policy uncertainty

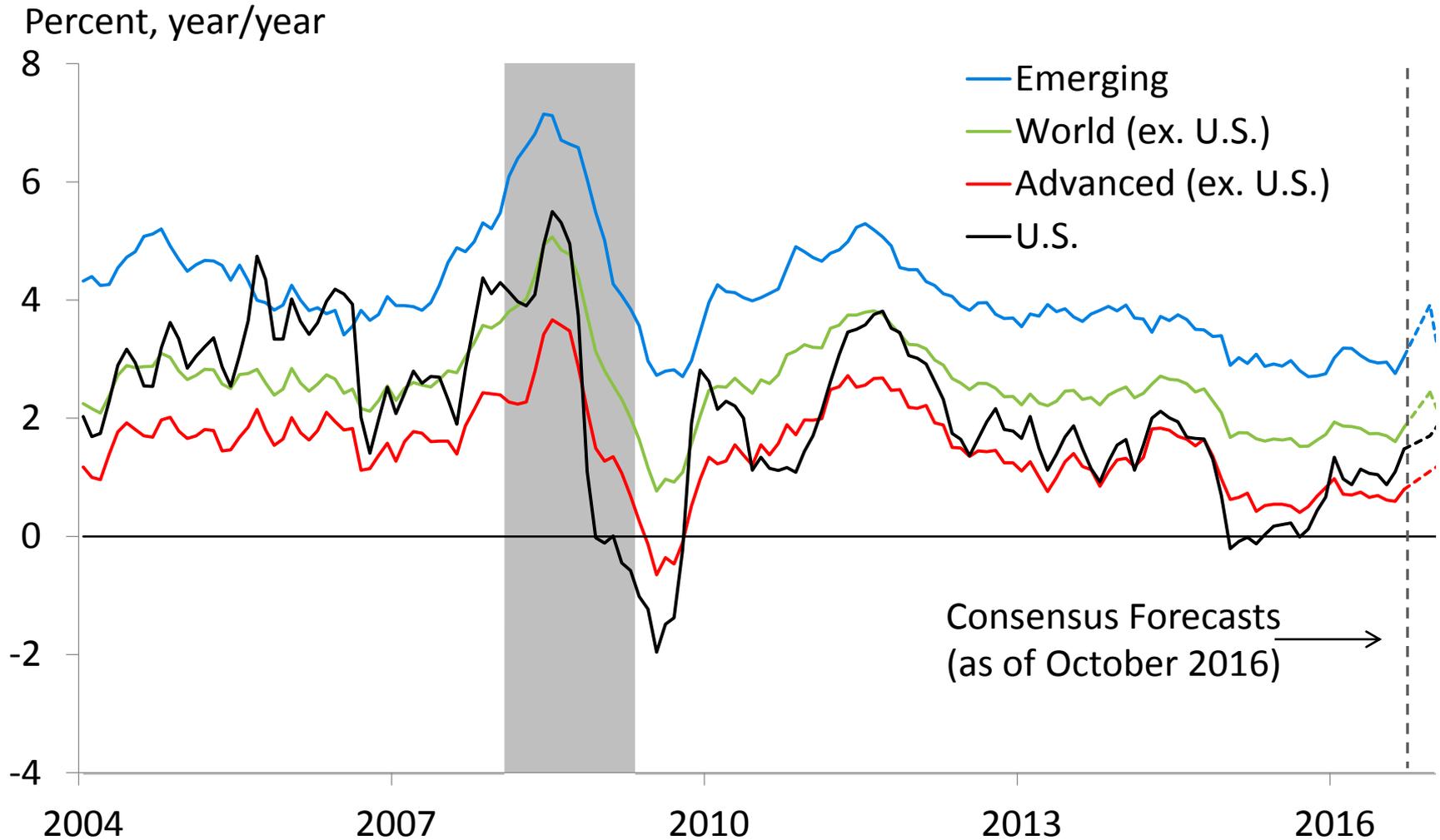


Real GDP growth expected to pick up

Percent, year/year

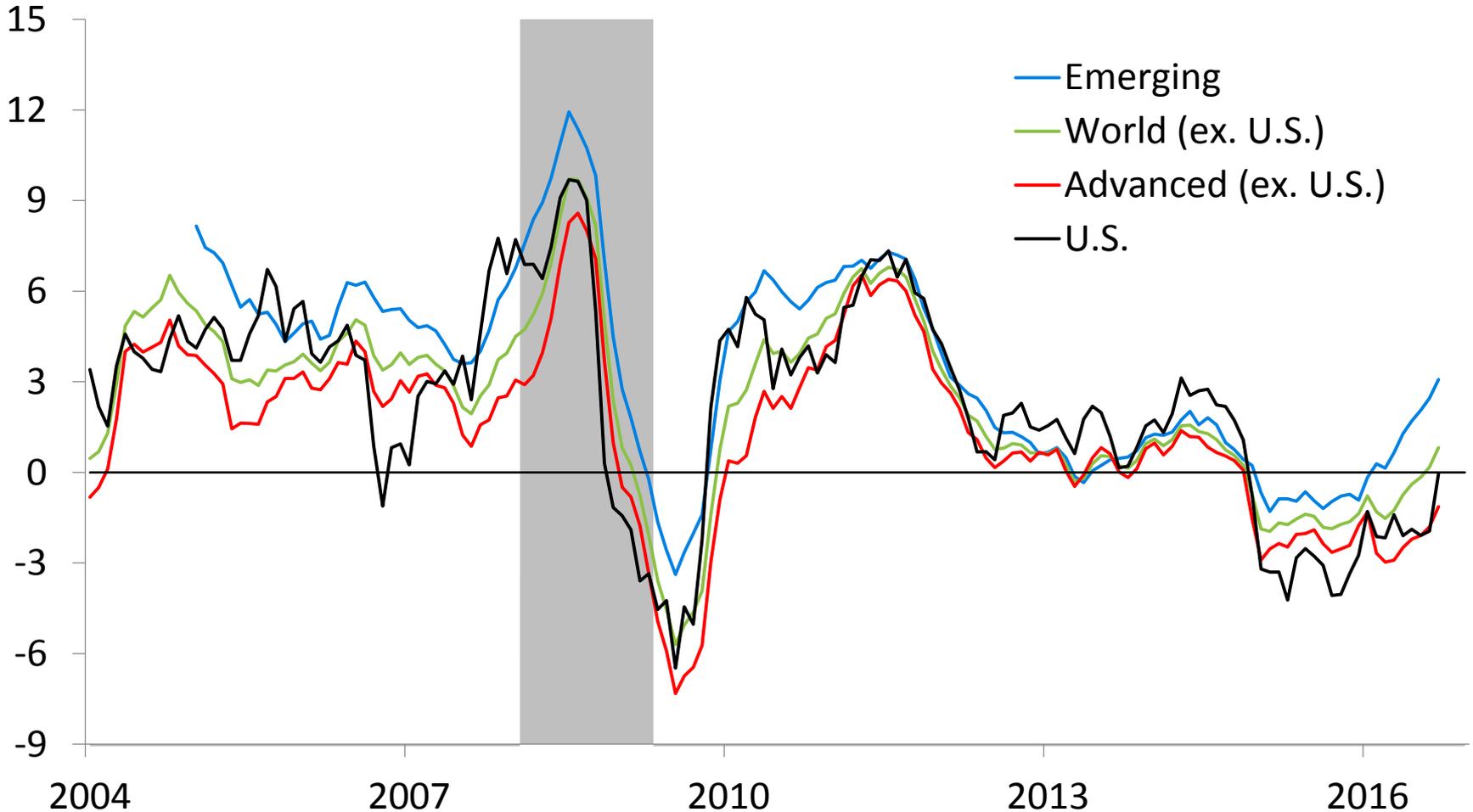


CPI inflation dominated by swings in energy prices



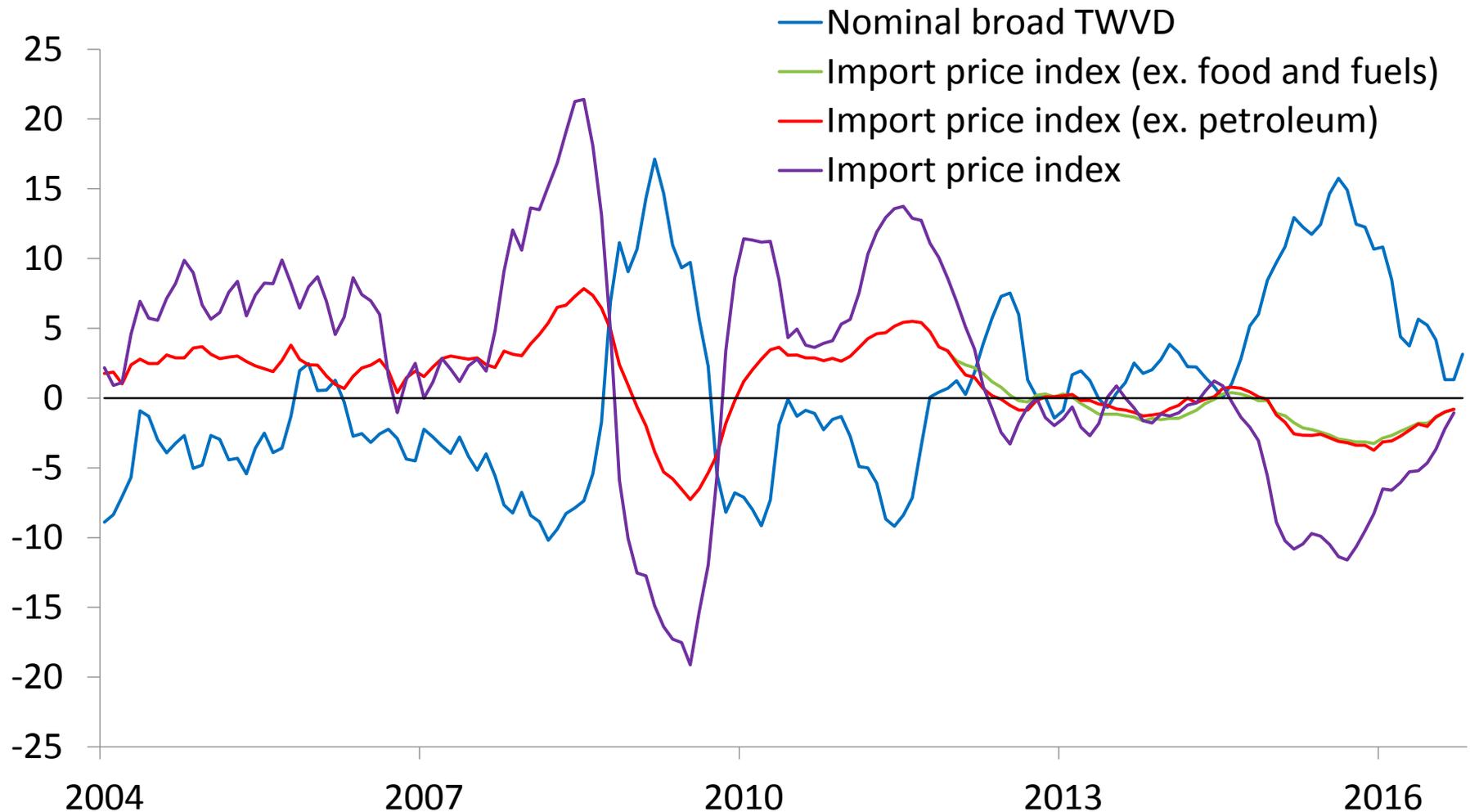
Deflation at the producer price level is ending

Percent, year/year



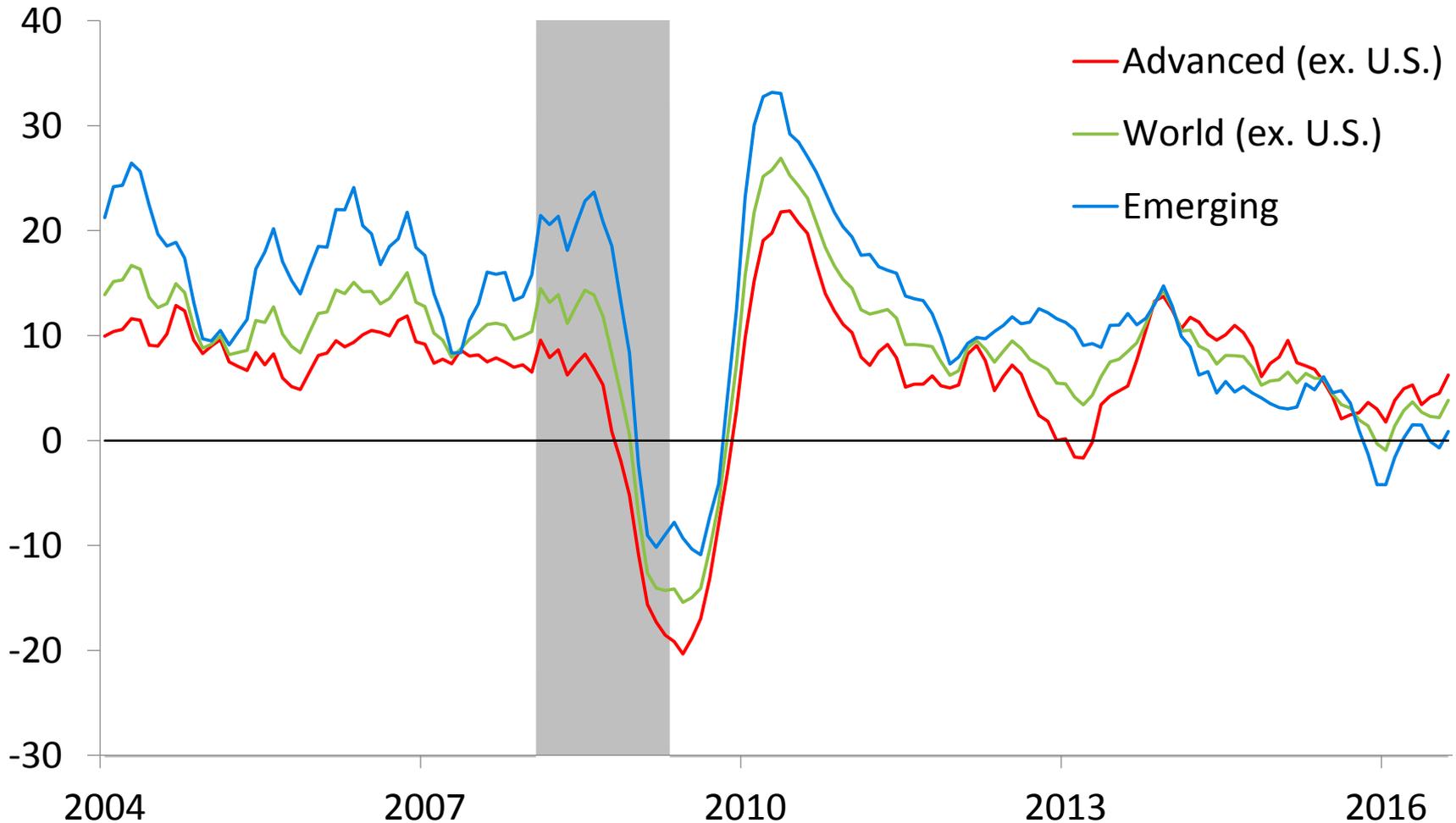
U.S. import price inflation in negative territory due to lower energy prices & strong dollar

Percent, year/year

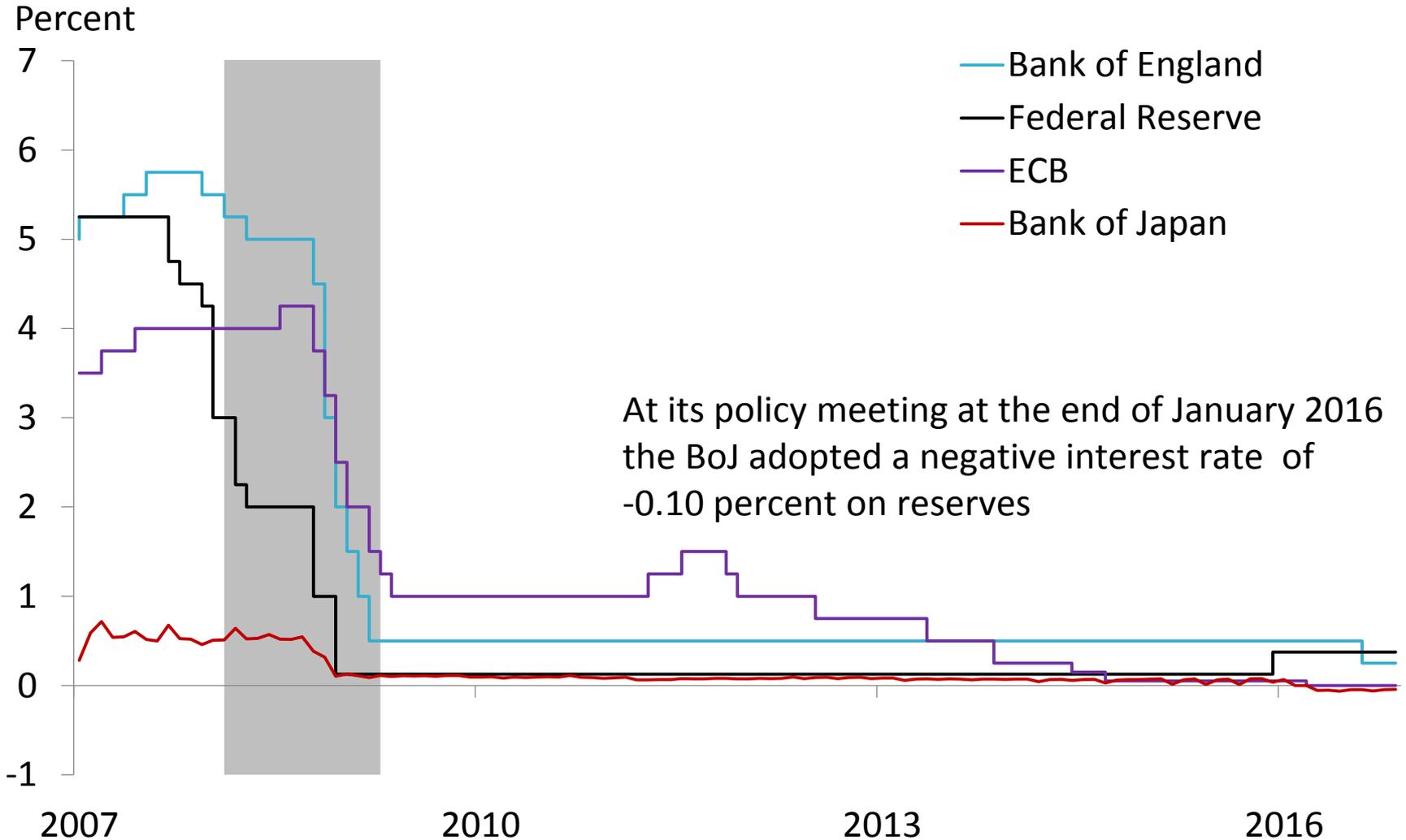


Strong dollar and weak global growth weigh on U.S. exports

Percent, 3MMA, year/year

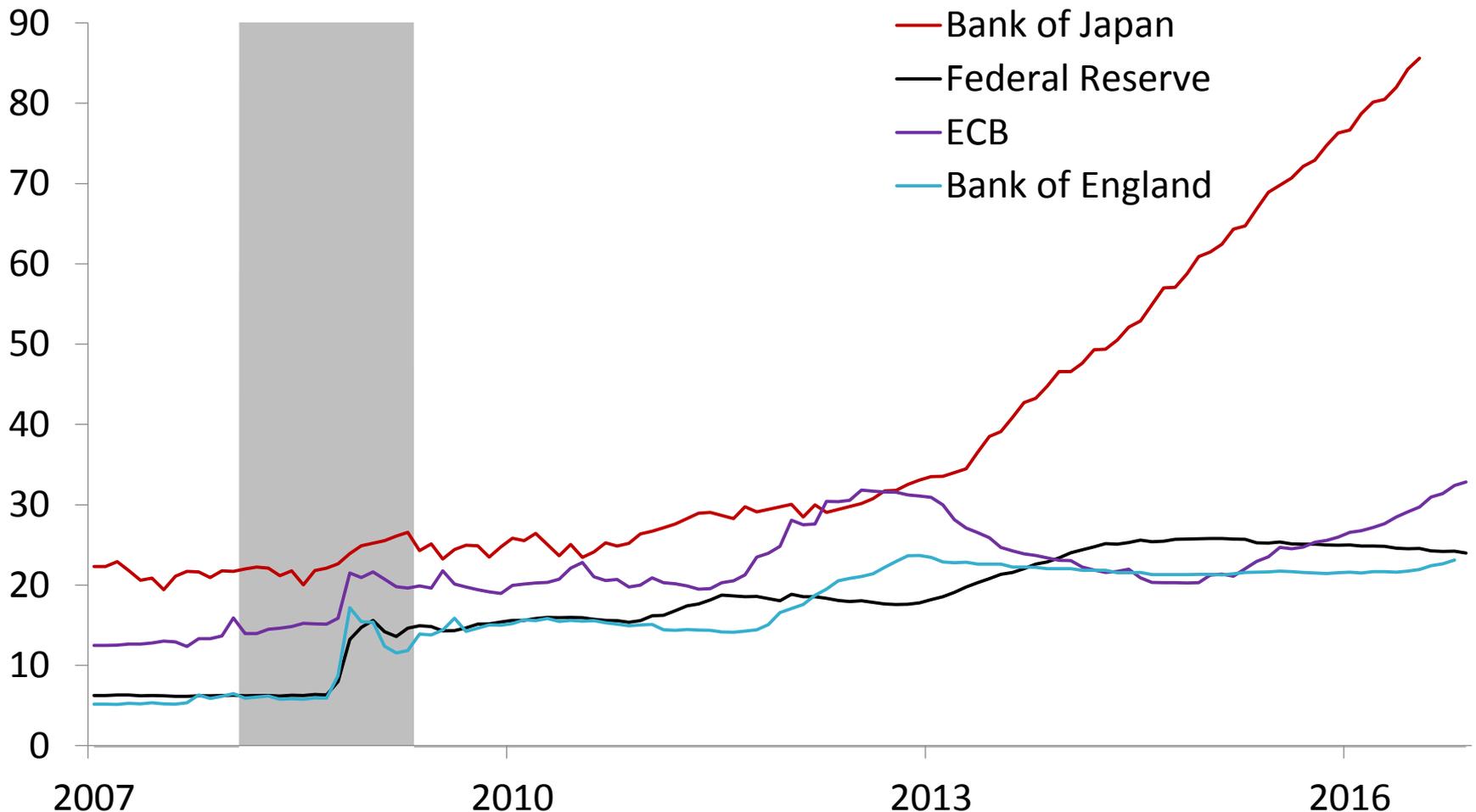


Central bank policy rates stuck at zero outside the U.S.

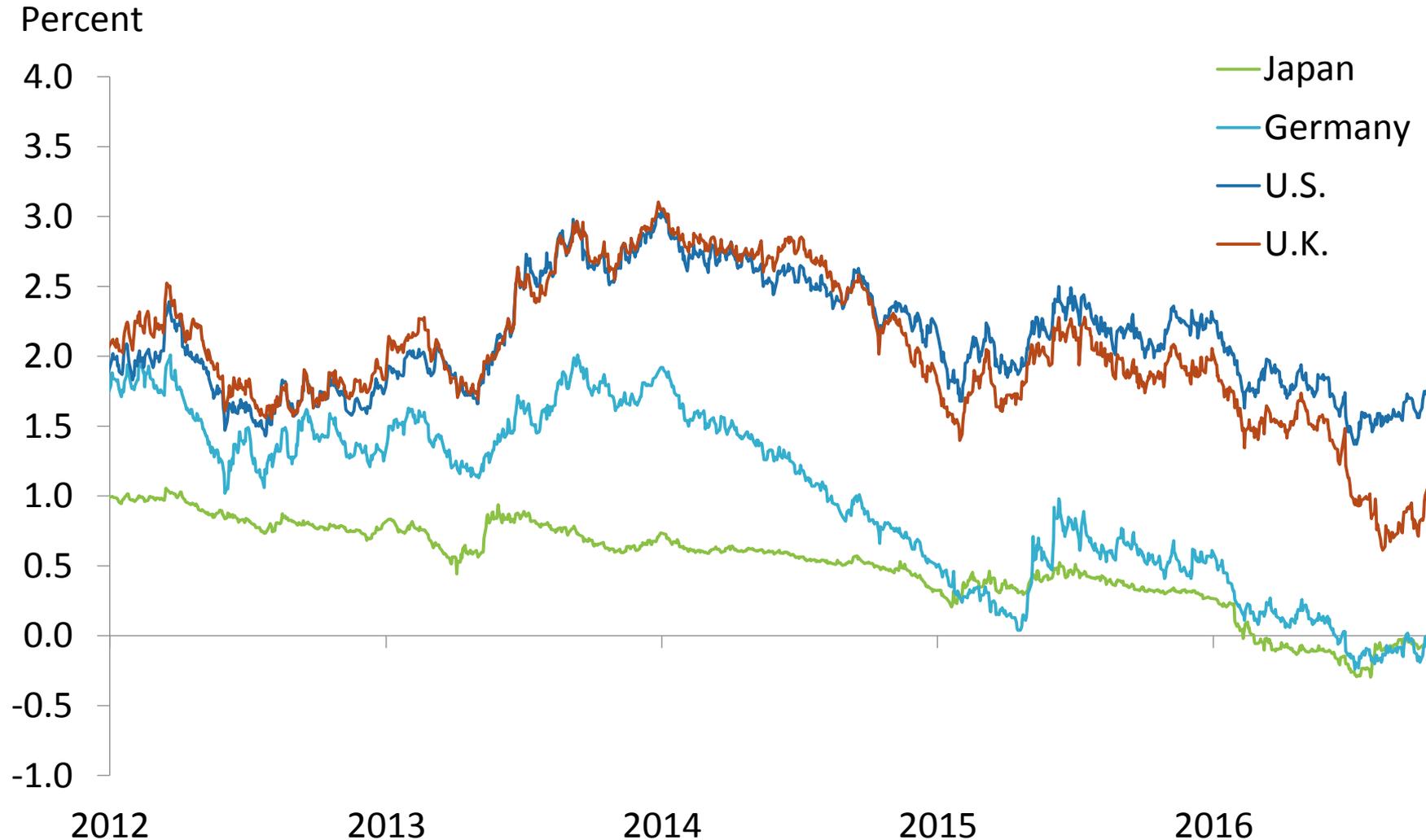


Central bank balance sheets: Still growing in euro area & Japan

Percent of GDP



10-year government bond yields remain near record lows

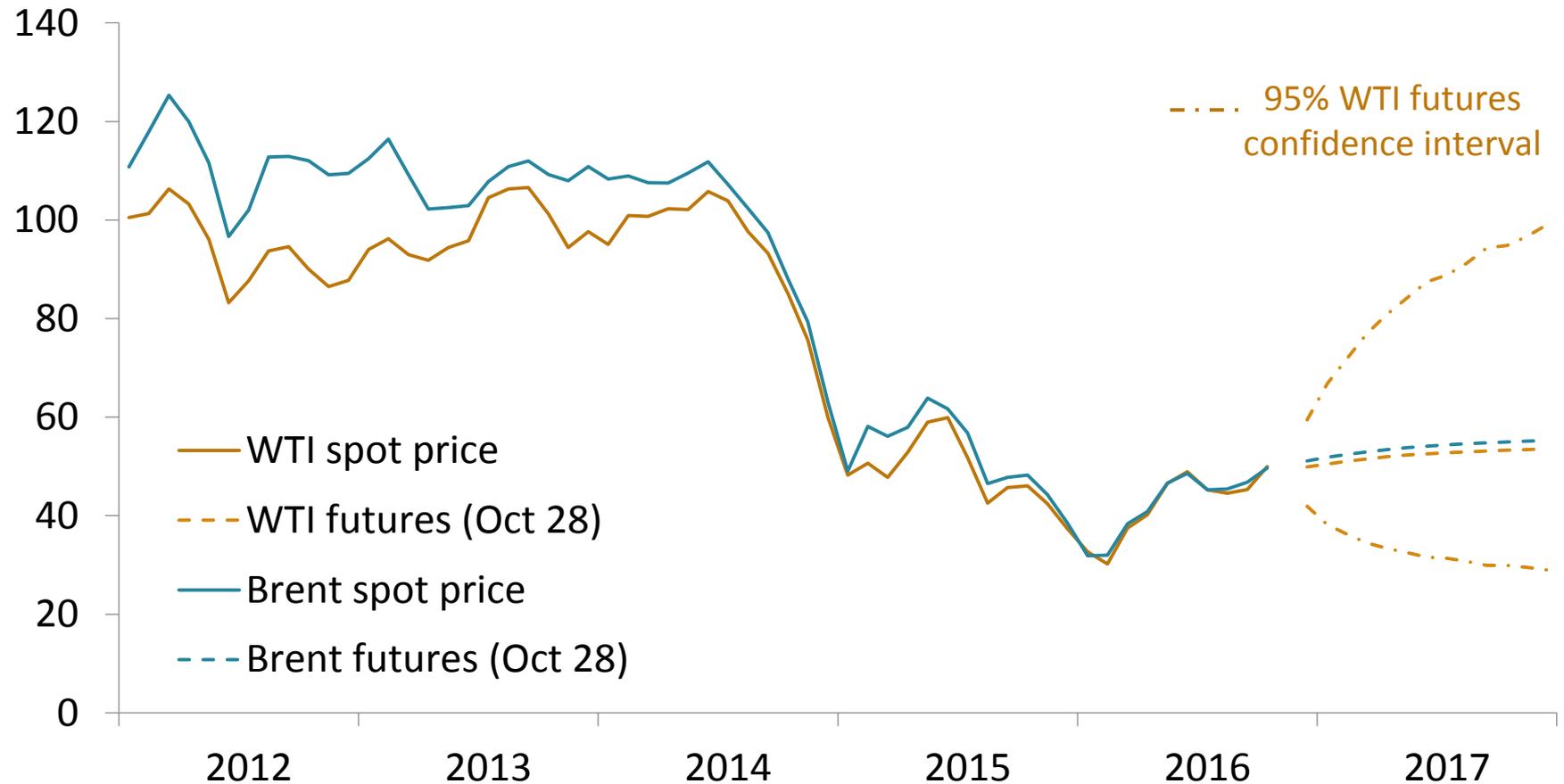


Headwinds, tailwinds and CAT

- Tailwinds
 - Lower oil prices
 - Fall in oil prices to boost global growth by about ½ percentage point in 2015 & 2016 (IMF)
- Headwinds
 - Europe
 - Unresolved issues in Greece
 - How disruptive would BREXIT 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 occurred at end 2015
 - How well prepared is the rest of the world for the end of the ZIRP era?

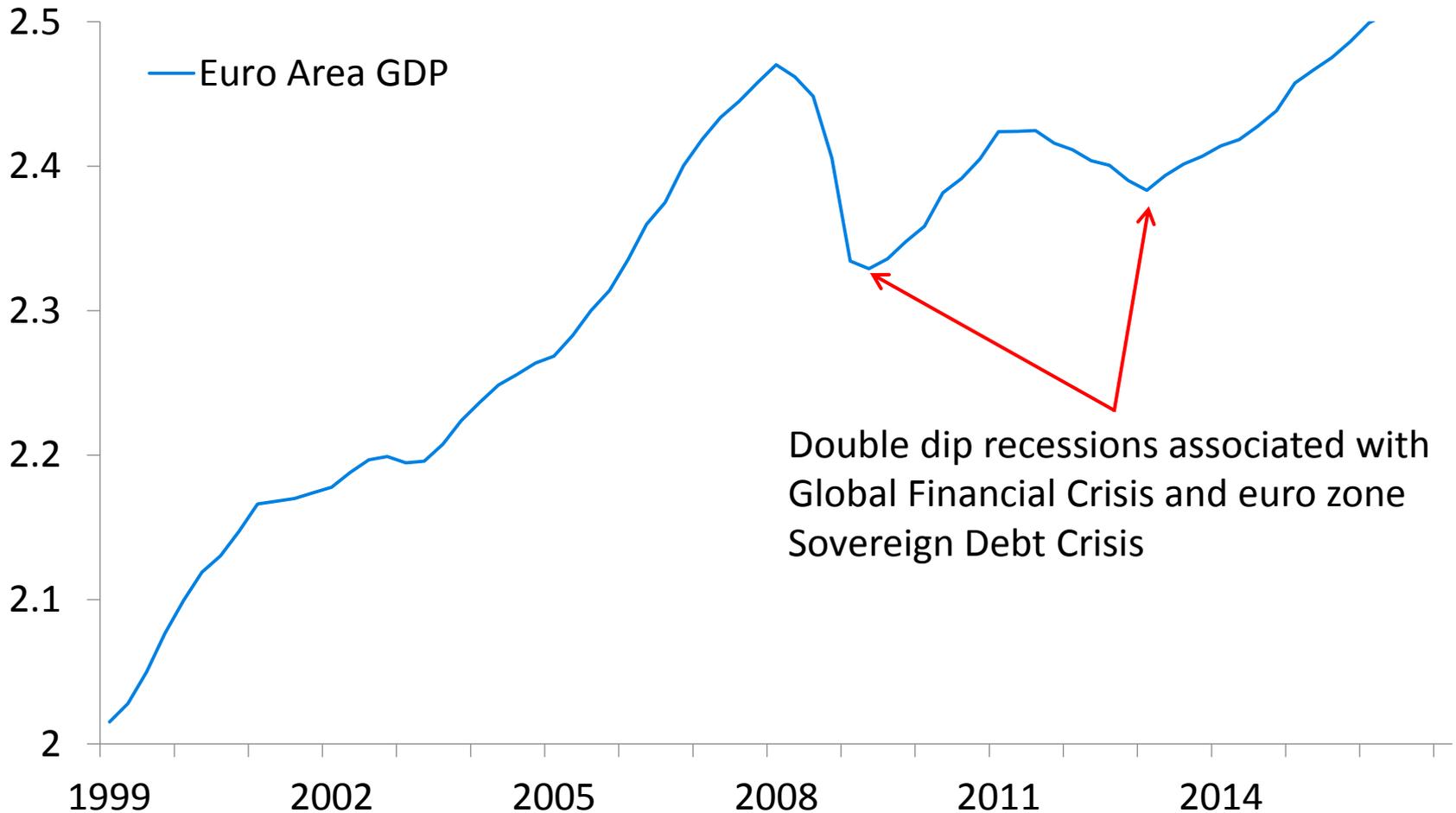
Lower oil prices a favorable tailwind for most countries

Dollars per barrel

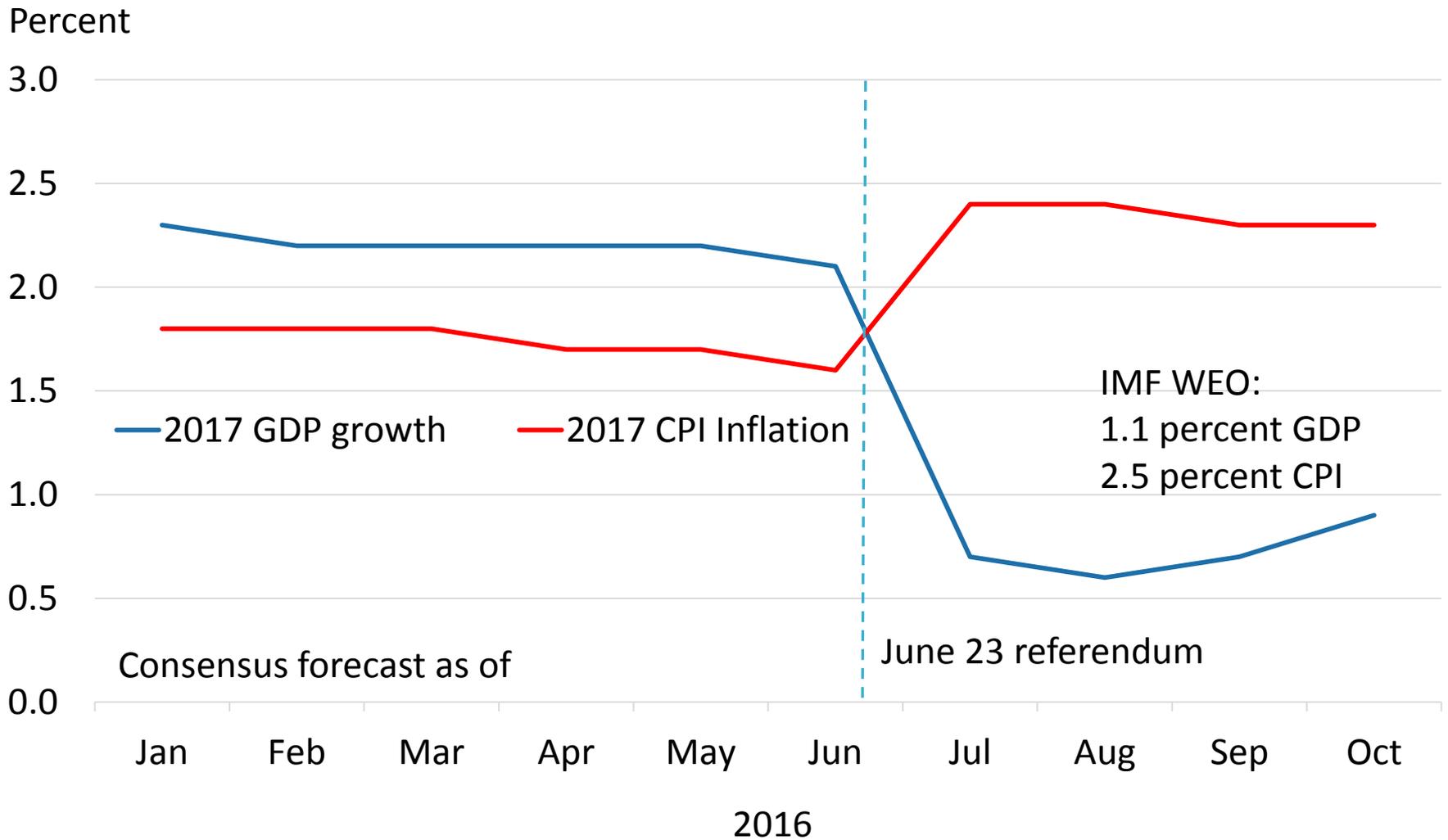


Euro area economic activity only recently got back to its pre-crisis level

GDP, Trillions of 2010 €

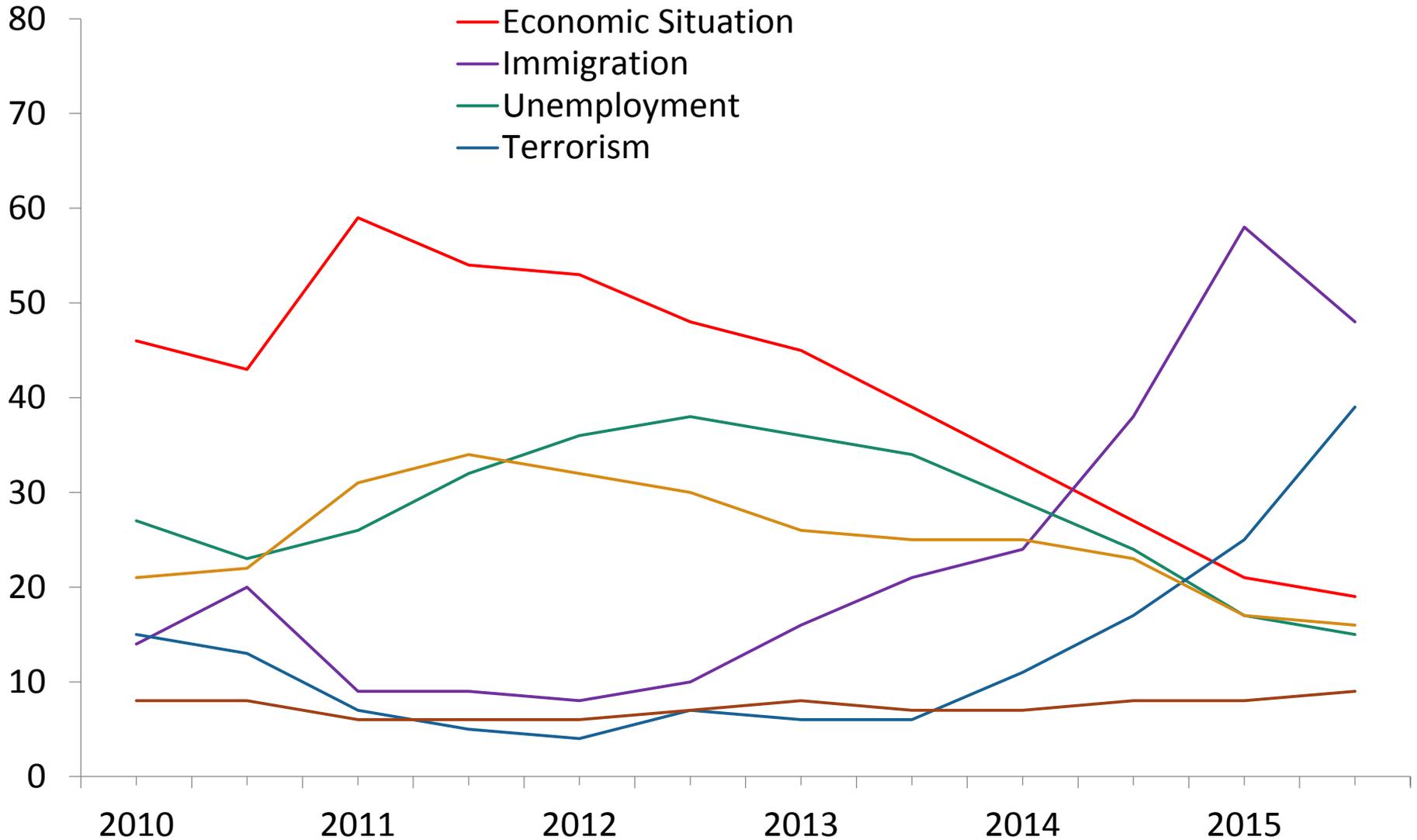


Impact of the BREXIT shock on U.K. growth and inflation in 2017

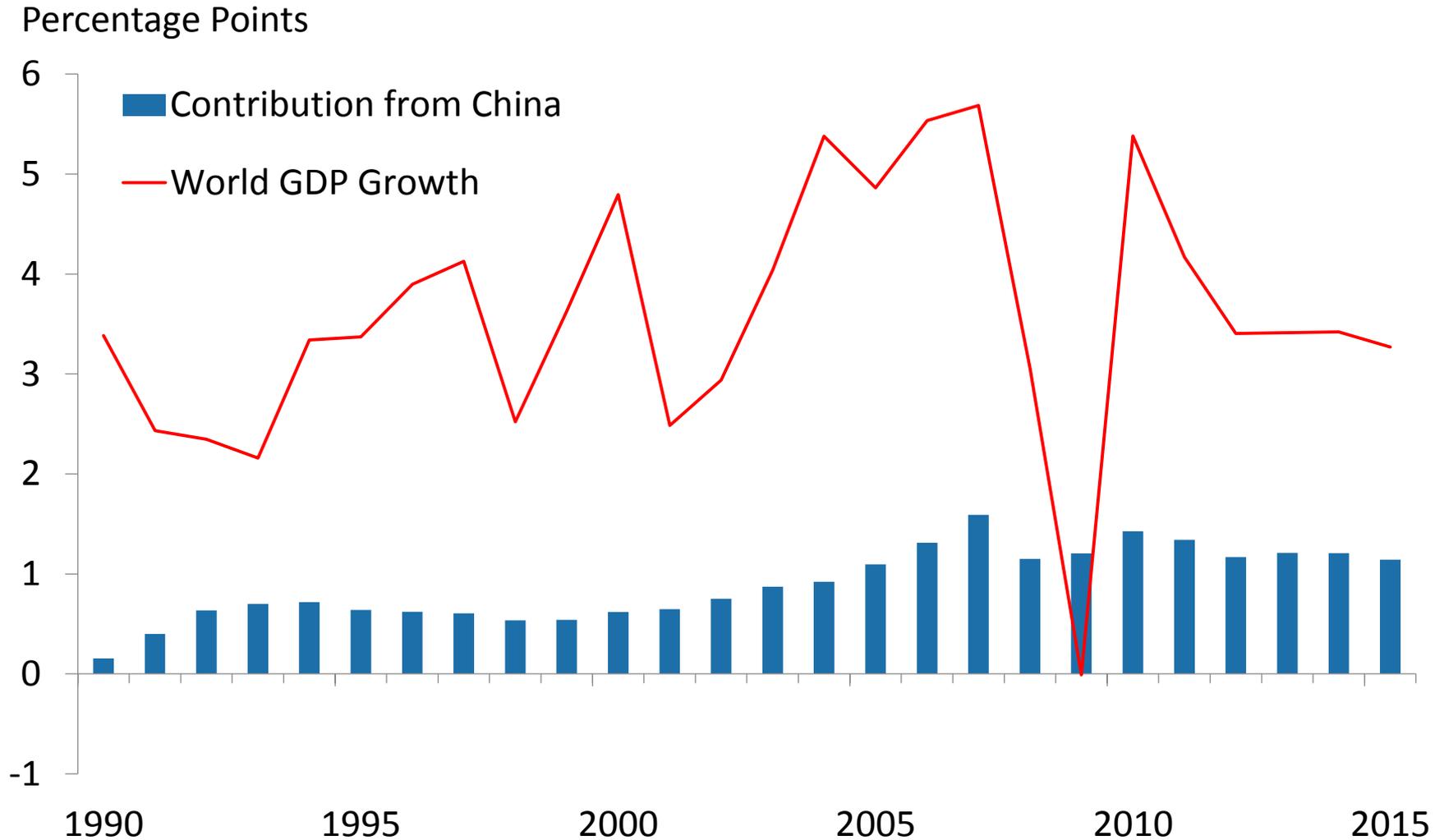


What worries European voters?

Percent

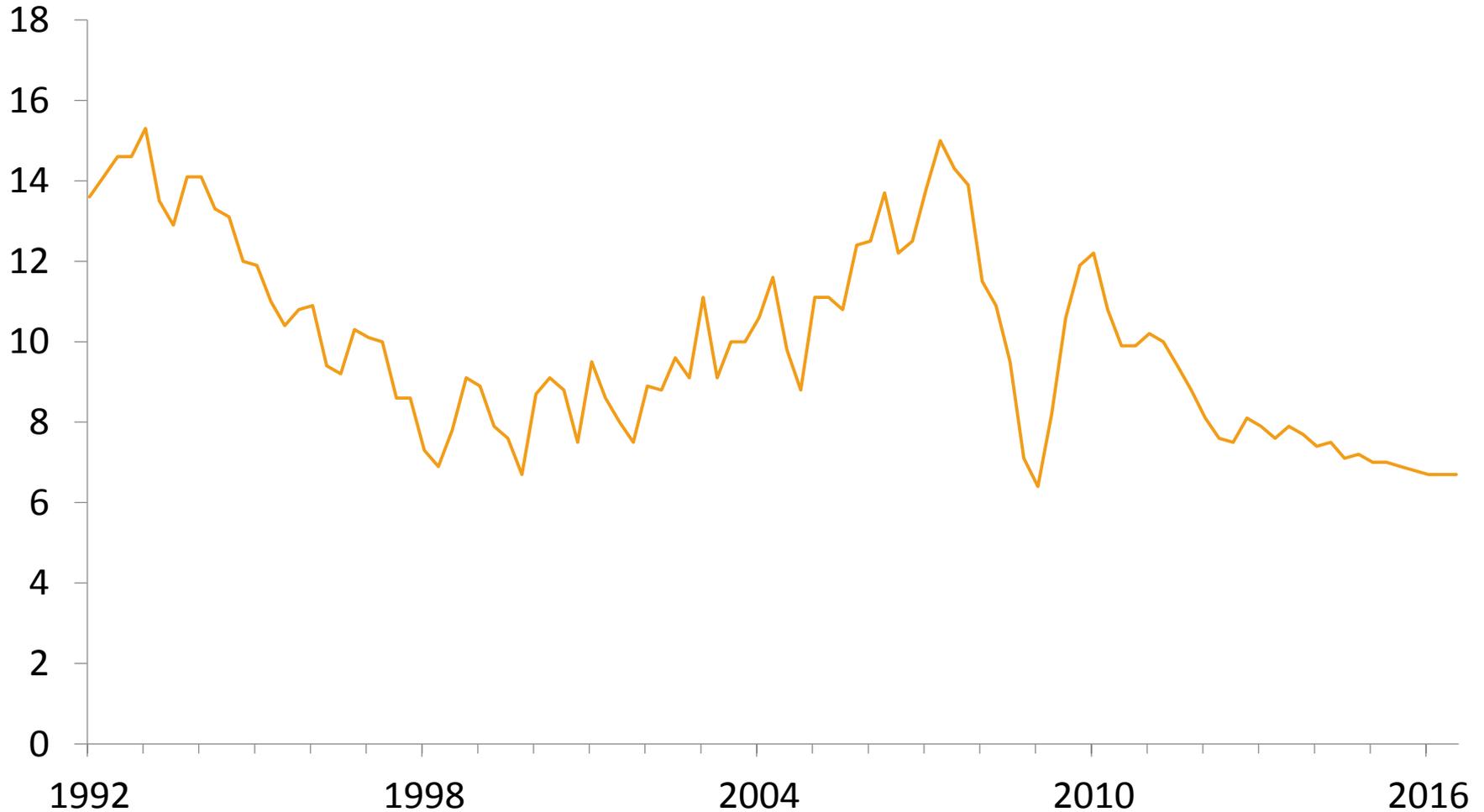


China's contributes a *lot* to global GDP growth

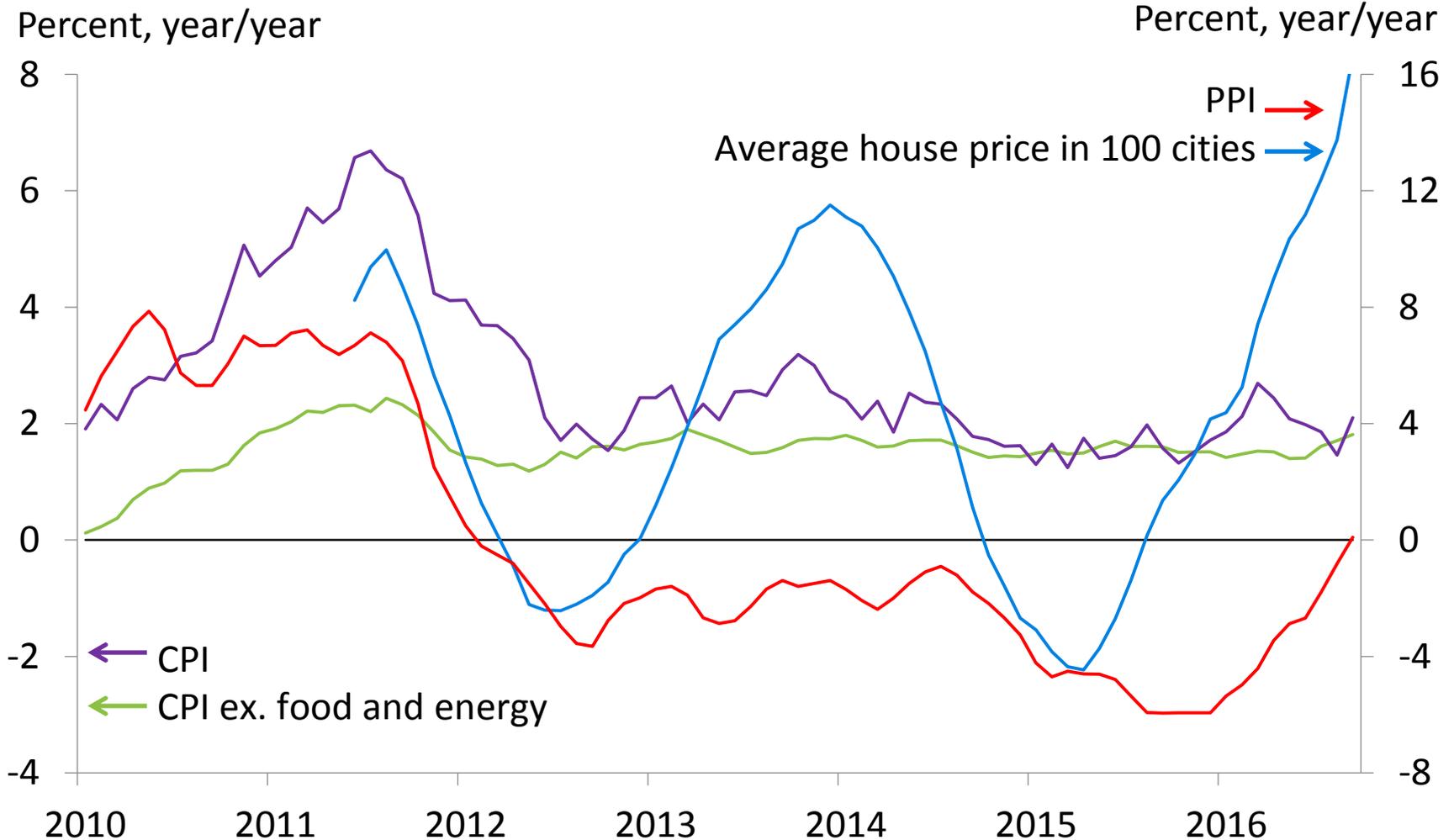


Chinese industrial output growth has slowed dramatically

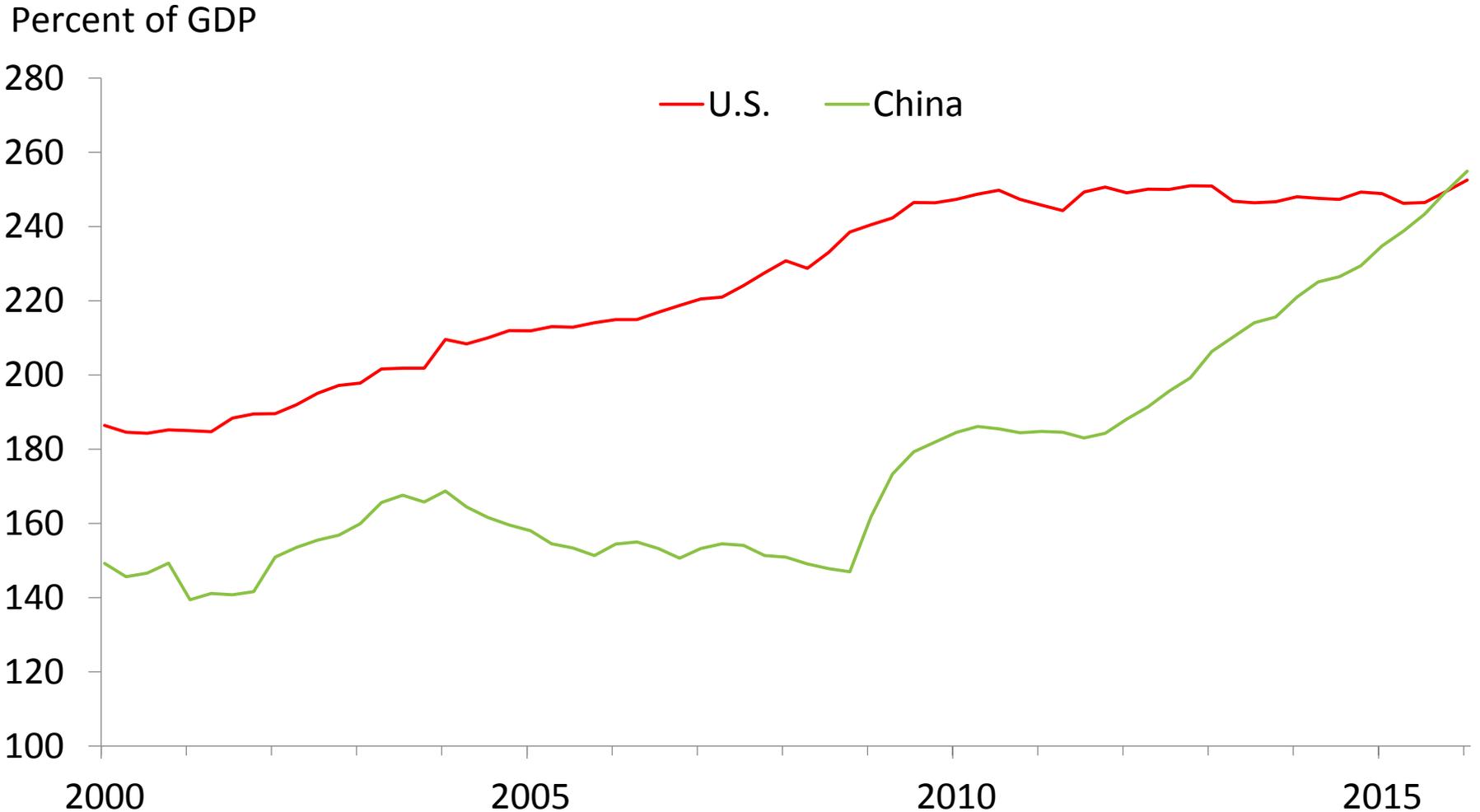
Percent, year/year



Chinese price inflation: persistent deflation at the producer level

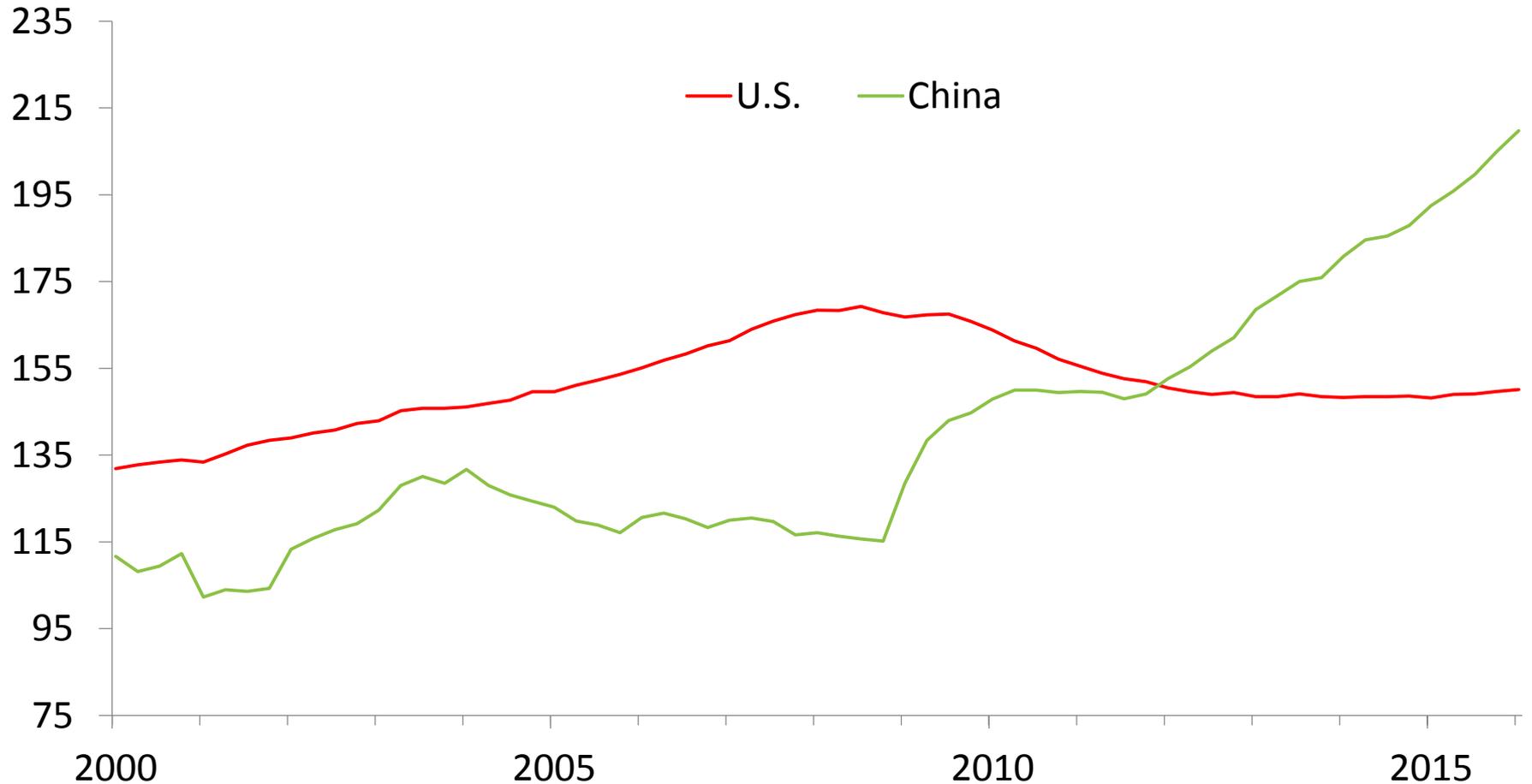


Credit to the nonfinancial sector (Percent of GDP)



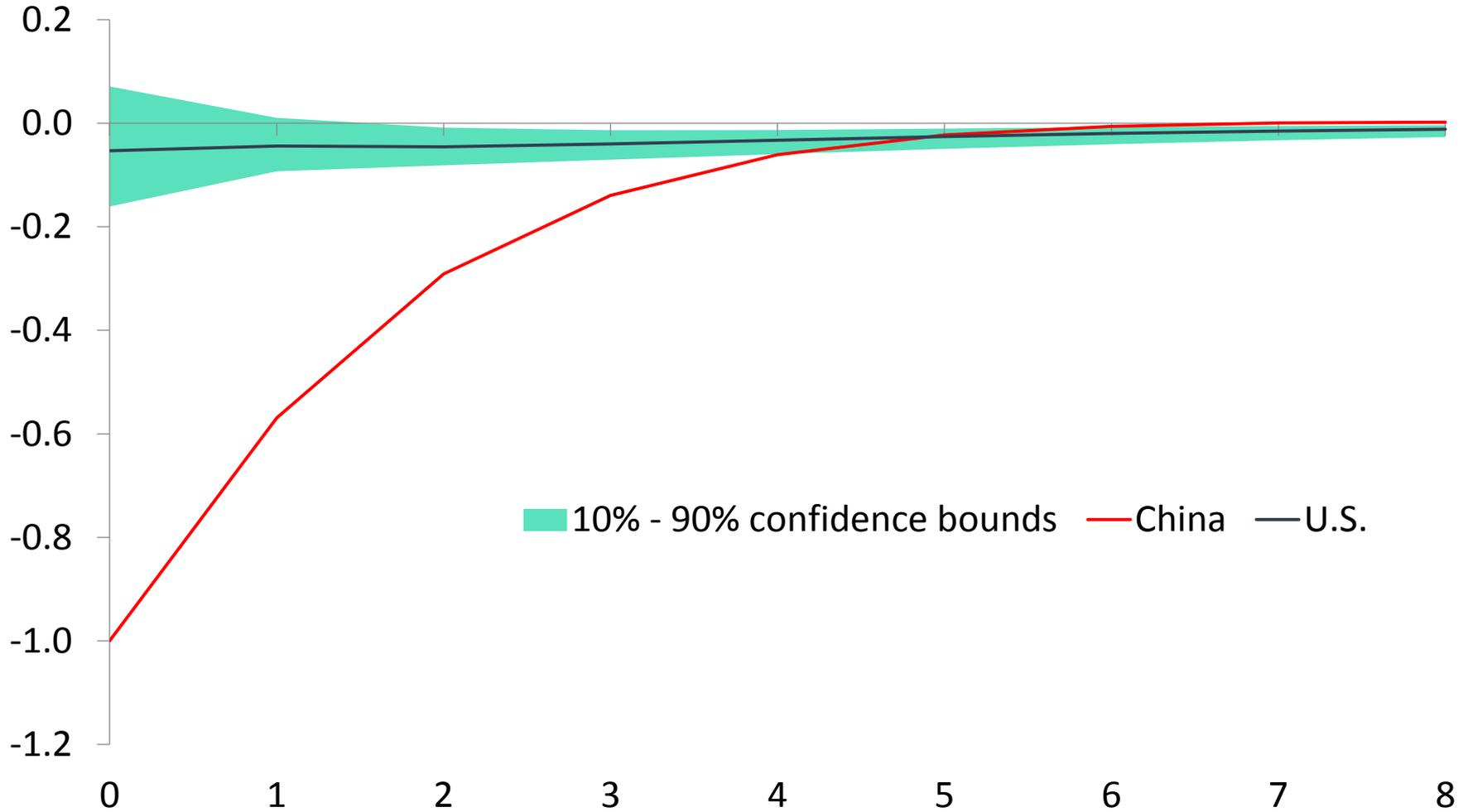
Credit to the private nonfinancial sector (Percent of GDP)

Percent of GDP

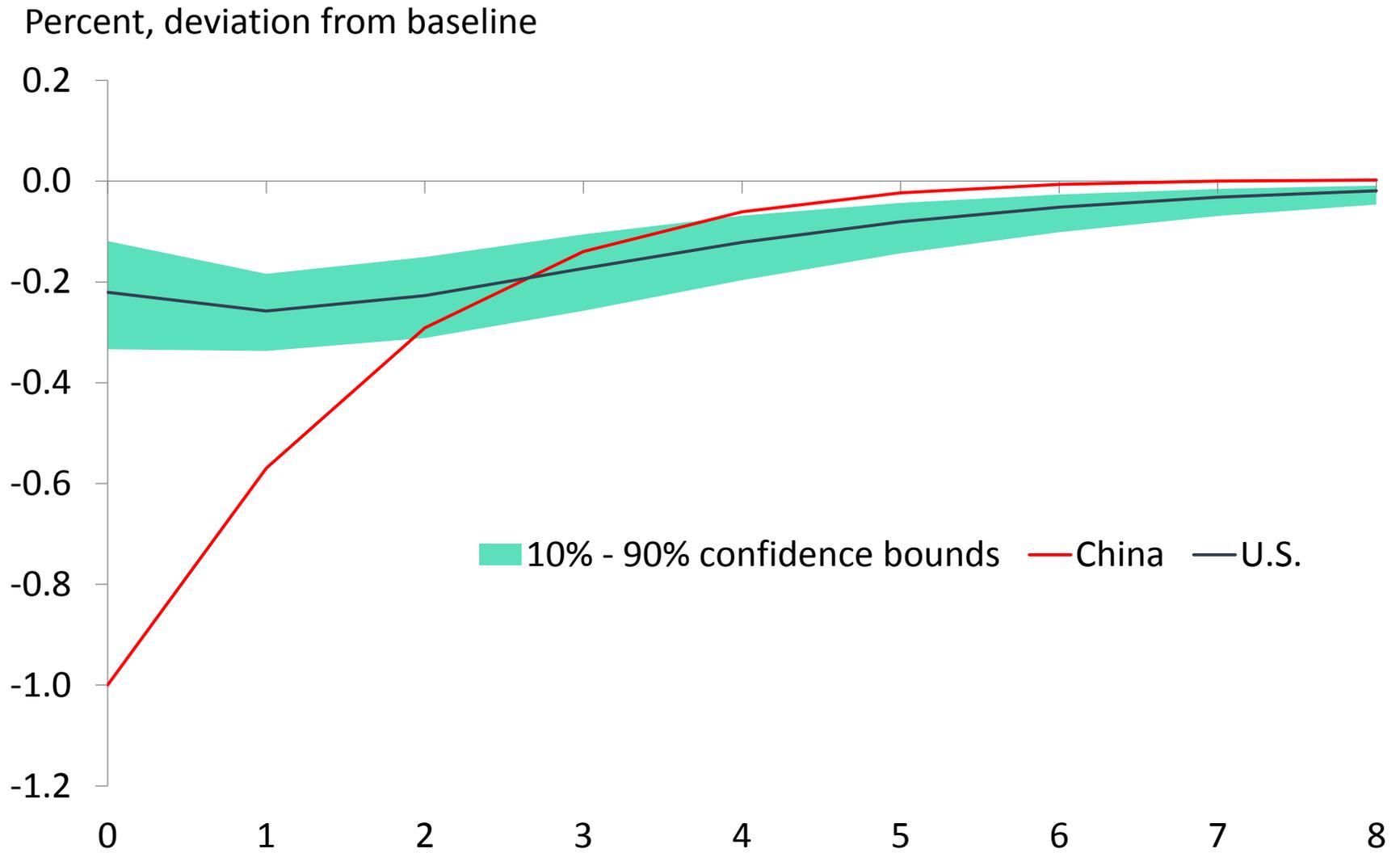


Impact of China slowdown on U.S. in 2000....

Percent, deviation from baseline



...and today



IMF growth outlook

October 2016

	2015	2016(f)	2017(f)	Change from April 2016 forecast 2016	Change from April 2016 forecast 2017
World output	3.2	3.1	3.4	-0.1	-0.1
Advanced economies	2.1	1.6	1.8	-0.3	-0.2
United States	2.6	1.6	2.2	-0.8	-0.3
Euro area	2.0	1.7	1.5	0.2	-0.1
Japan	0.5	0.5	0.6	0.0	0.7
UK	2.2	1.8	1.1	-0.1	-1.1
Canada	1.1	1.2	1.9	-0.3	0.0
Emerging Market & Developing Economies	4.0	4.2	4.6	0.1	0.0
China	6.9	6.6	6.2	0.1	0.0
India	7.6	7.6	7.6	0.1	0.1
Brazil	-3.8	-3.3	0.5	0.5	0.5
Russia	-3.7	-0.8	1.1	1.0	0.3

IMF growth outlook

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Canada	1.1	1.2	1.9	-0.3	0.0
Emerging Market & Developing Economies	4.0	4.2	4.6	0.1	0.0
China	6.9	6.6	6.2	0.1	0.0
India	7.6	7.6	7.6	0.1	0.1
Brazil	-3.8	-3.3	0.5	0.5	0.5
Russia	-3.7	-0.8	1.1	1.0	0.3

FEDERAL RESERVE press release



Release Date: November 2, 2016

For release at 2:00 p.m. EDT

“In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to 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)

Conclusions

- Modal outlook is for continued growth through 2016 & 2017, with a modest acceleration in 2017
 - U.S. likely to continue to be one of the stronger performers
 - Signs of improvement in Europe, Japan
- Monetary policies of major central banks diverging
 - Fed: normalization began December 2015
 - ECB, BoJ, PBOC: easing
- Risks:
 - Europe: BREXIT
 - China slowdown
 - Oil

