Global Economic Outlook

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Vistas from Texas: An Economic Outlook

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Overview

- Secular trends reshaping the world
  - Demographics
  - Globalization
  - Debt
  - Disruptive innovation
- The global outlook:
  - Synchronized growth
  - Few signs of inflation
- Risks
  - Europe (BREXIT, Italy, …)
  - China
  - Trade
  - Monetary policy normalization

Four Secular Trends

- Demographics
  - Aging populations in many countries, shrinking populations in some
  - Rising dependency ratios
  - Global competition for mobile labor?
- Globalization
  - More economic activity now takes place in the so-called emerging market economies than in the advanced economies
  - Greater sensitivity of local developments to global developments?
  - Populist backlash against open borders?
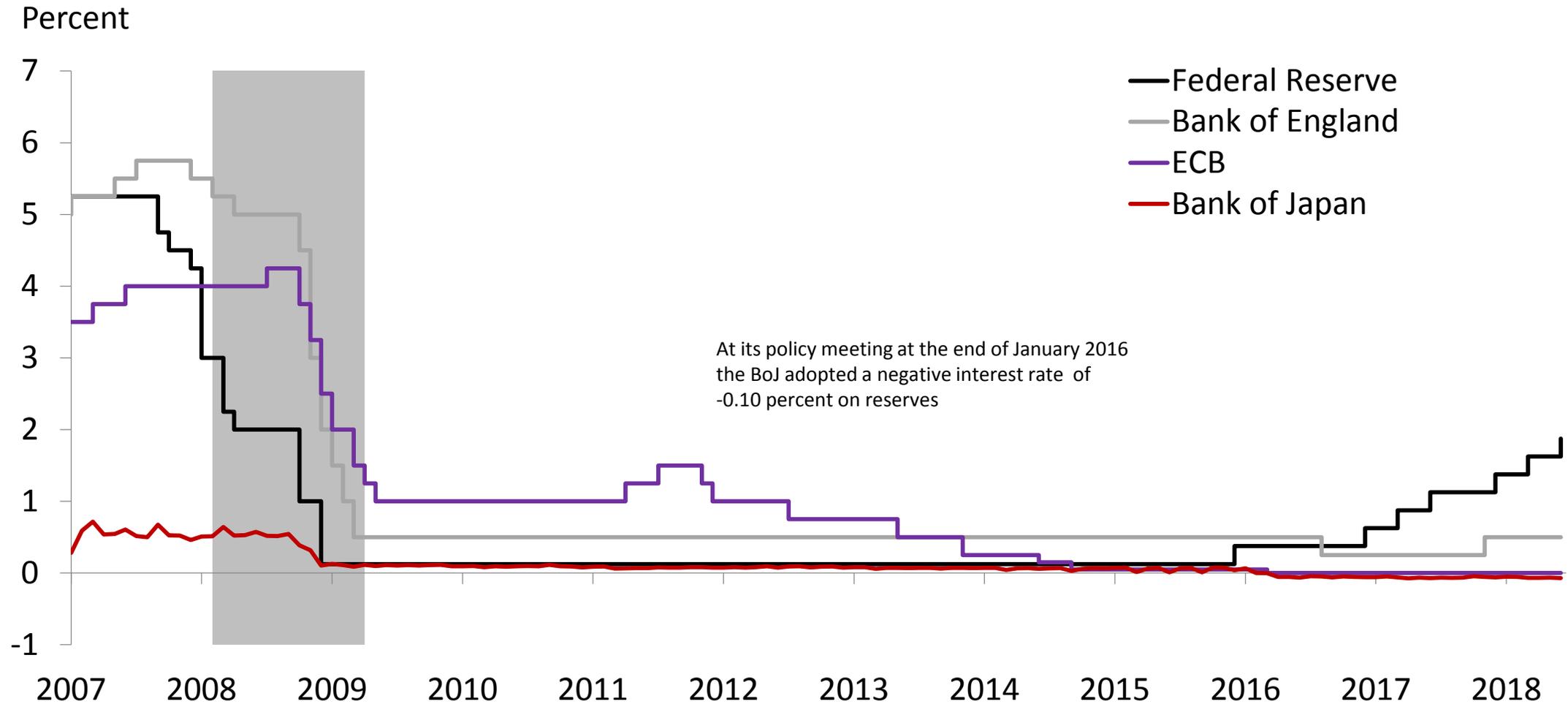
Four Secular Trends (continued)

- Debt
  - Public sector debt levels have grown in most advanced economies
  - Limited fiscal space for stimulus if needed going forward
  - The largest (emerging market) economy (China) remains very dependent on debt-fueled growth
- Disruptive innovation
  - IT and AI related innovation accounts for more of what ails the middle class than globalization?
  - Why no surge in productivity growth?

Central bank policy rates no longer stuck at zero

Percent

At its policy meeting at the end of January 2016 the BoJ adopted a negative interest rate of -0.10 percent on reserves

Federal Reserve
Bank of England
ECB
Bank of Japan

7
6
5
4
3
2
1
0
-1

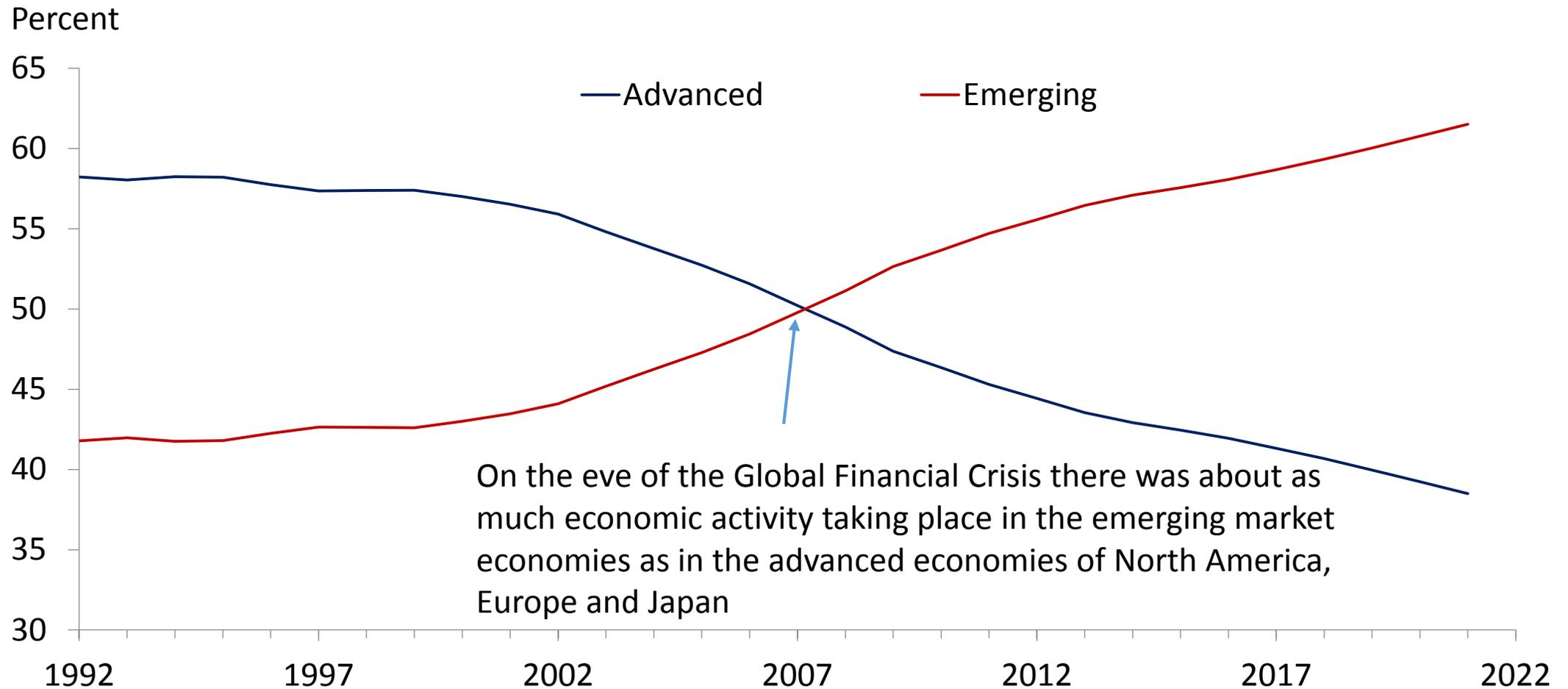2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018

IMF growth outlook

April 2018

	2017	2018(f)	2019(f)	Change from January 2018 WEO forecast 2018	Change from January 2018 WEO forecast 2019
World output	3.8	3.9	3.9	0.0	0.0
Advanced economies	2.3	2.5	2.2	0.2	0.0
United States	2.3	2.9	2.7	0.2	0.2
Euro area	2.3	2.4	2.0	0.2	0.0
Japan	1.7	1.2	0.9	0.0	0.0
UK	1.8	1.6	1.5	0.1	0.0
Canada	3.0	2.1	2.0	-0.2	0.0
Emerging Market & Developing Economies	4.8	4.9	5.1	0.0	0.1
China	6.9	6.6	6.4	0.0	0.0
India	6.7	7.4	7.8	0.0	0.0
Brazil	1.0	2.3	2.5	0.4	0.4
Russia	1.5	1.7	1.5	0.0	0.0

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The world has changed!

GDP based on PPP, share of world total

Percent

On the eve of the Global Financial Crisis there was about as much economic activity taking place in the emerging market economies as in the advanced economies of North America, Europe and Japan
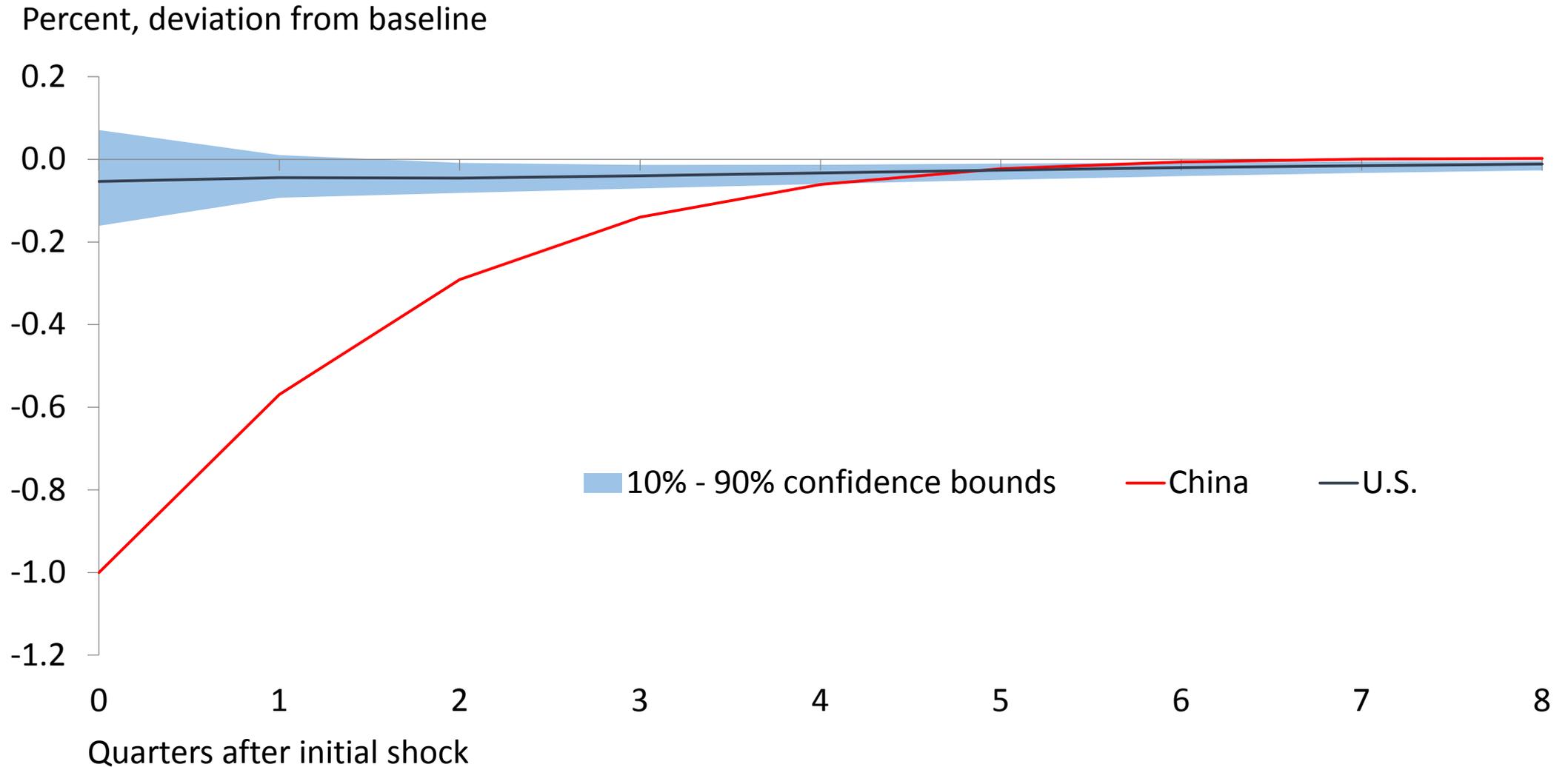
The world has really changed!

GDP based on PPP, share of world total
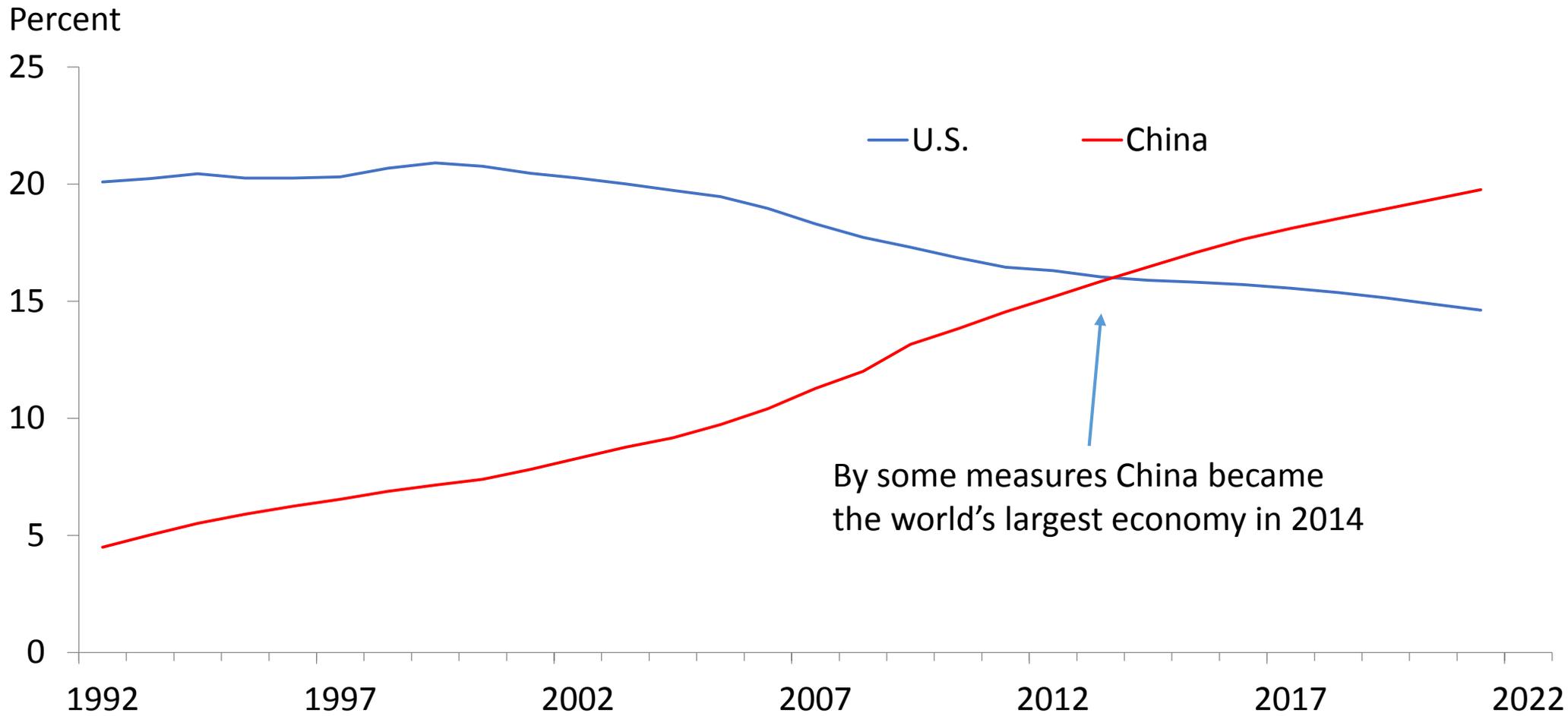
Impact of China slowdown on U.S. in 2000....

Percent, deviation from baseline

Quarters after initial shock

10% - 90% confidence bounds — China —U.S.

...and today

Percent, deviation from baseline
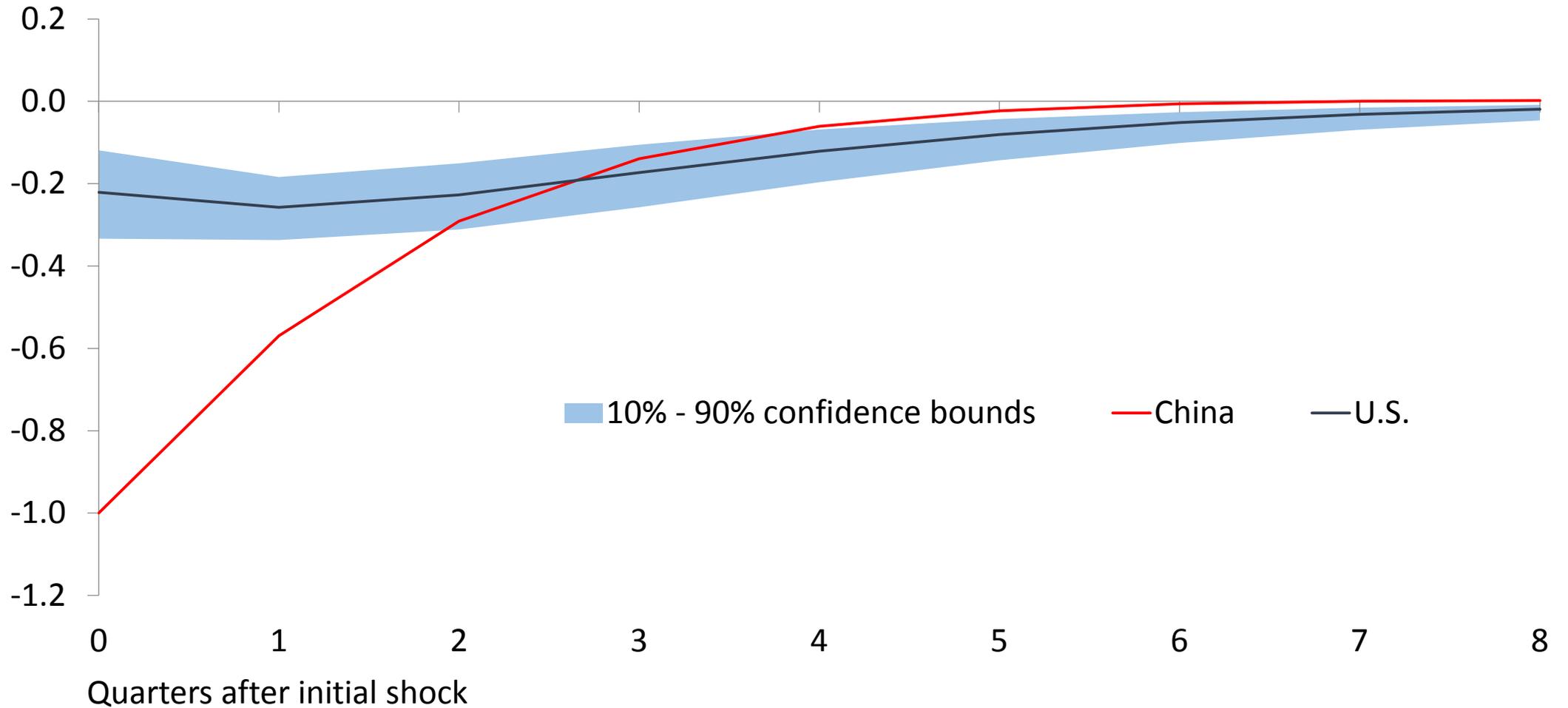
Quarters after initial shock

Share of state employment variation explained by global, national and residual state-specific shocks

Share of state employment variation explained by global, national and residual state-specific shocks

Percent

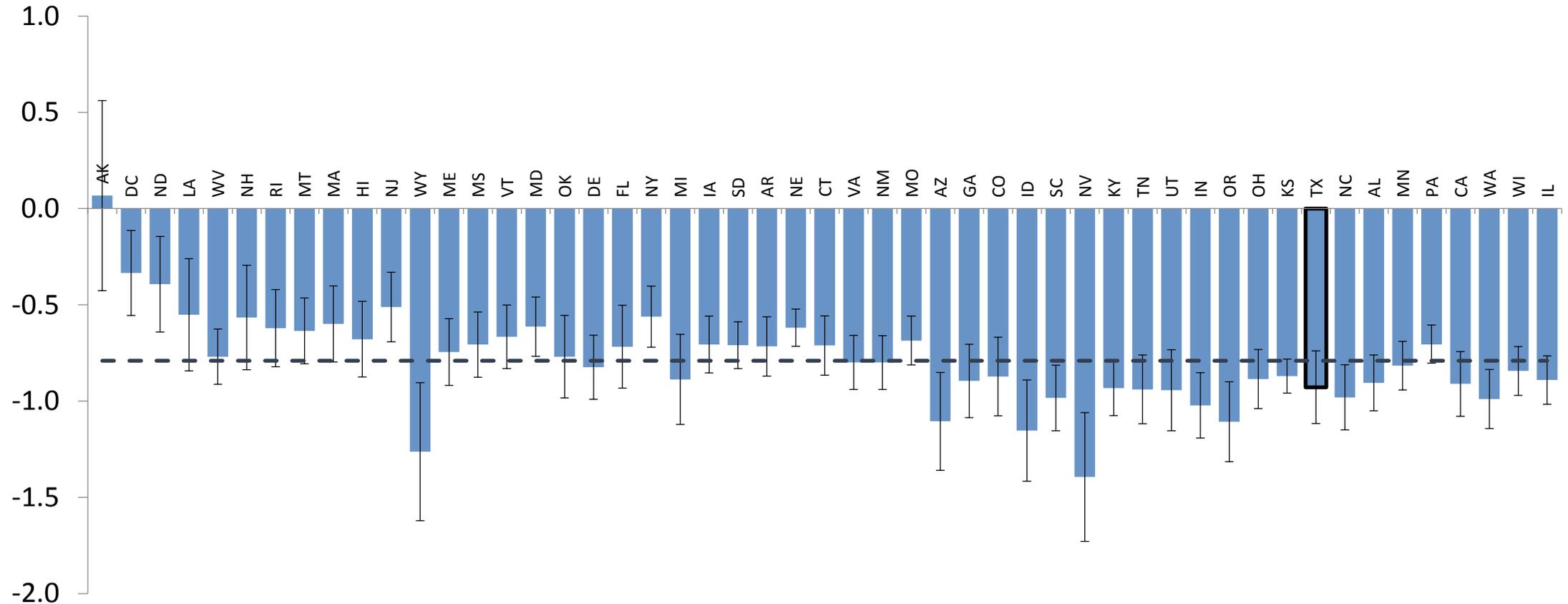■ Global shock, avg = 24.8   ■ National shocks, avg = 30.7

Share of state employment variation explained by global, national and residual state-specific shocks

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- Global shock, avg = 24.8
- National shocks, avg = 30.7
- Residual state-specific shocks, avg = 44.5
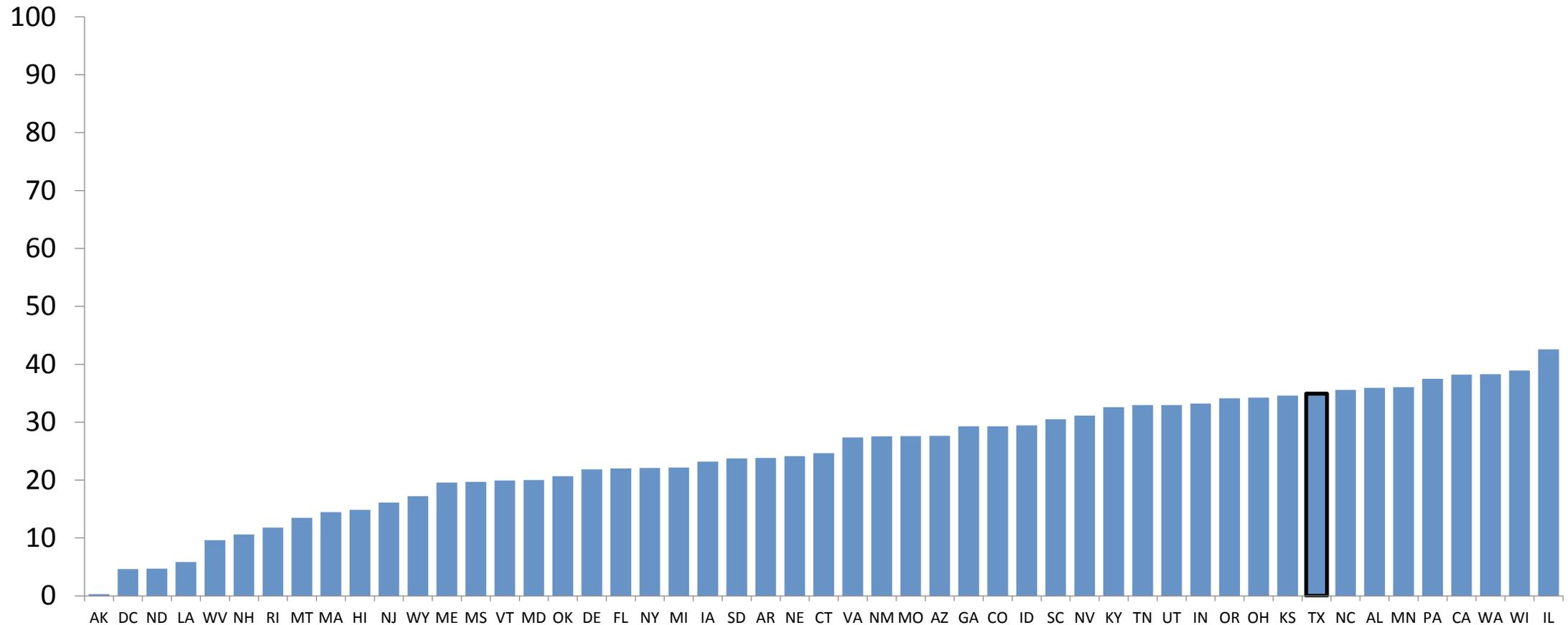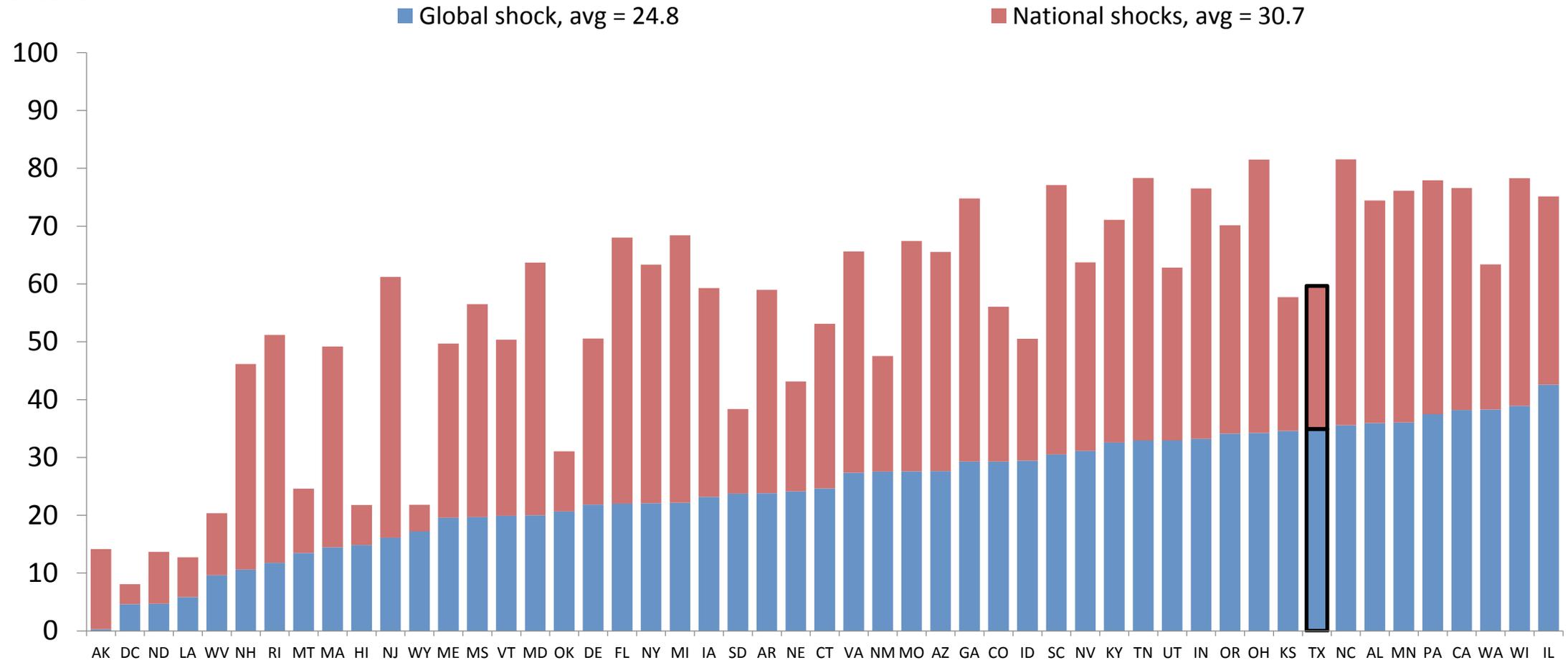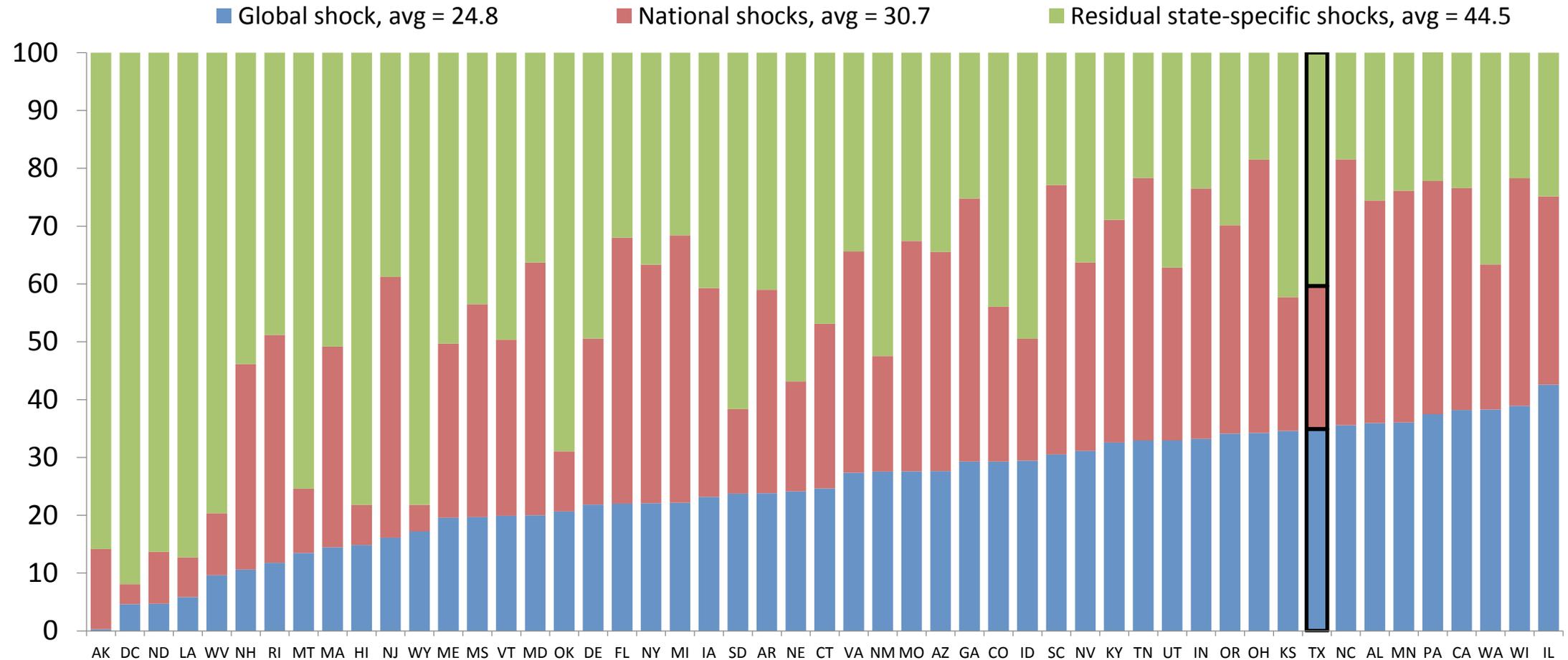
Summary

- Global business cycle *alone* explains about 25 percent of employment fluctuations, on average
  - Large differences across states
  - Range from a low of 0.3 percent in Alaska to 42.6 percent in Illinois
  - Texas: 34.9 percent
- Global and national business cycles *together* explain about 56 percent of employment fluctuations, on average
- About 44 percent of employment fluctuations (on average) cannot be accounted for by the global and national business cycles
  - Range from a low of 18.5 percent in North Carolina to 91.9 percent in DC
  - Texas: 40.3 percent

Cumulative one year effect of a 0.5% negative global foreign output shock on states' employment growth

Percentage points

– – Average = -0.79   ⊥ = 80% confidence interval
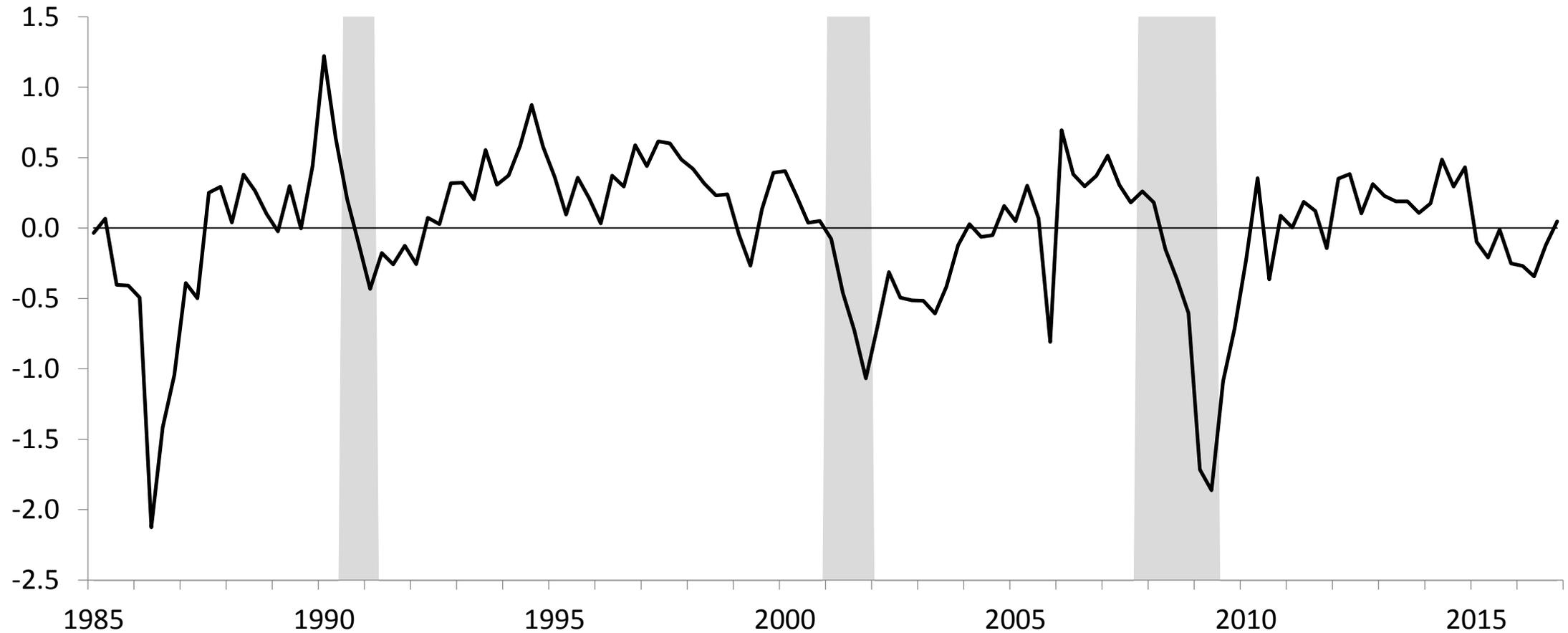
Contributions of shocks to employment growth in the 11th District
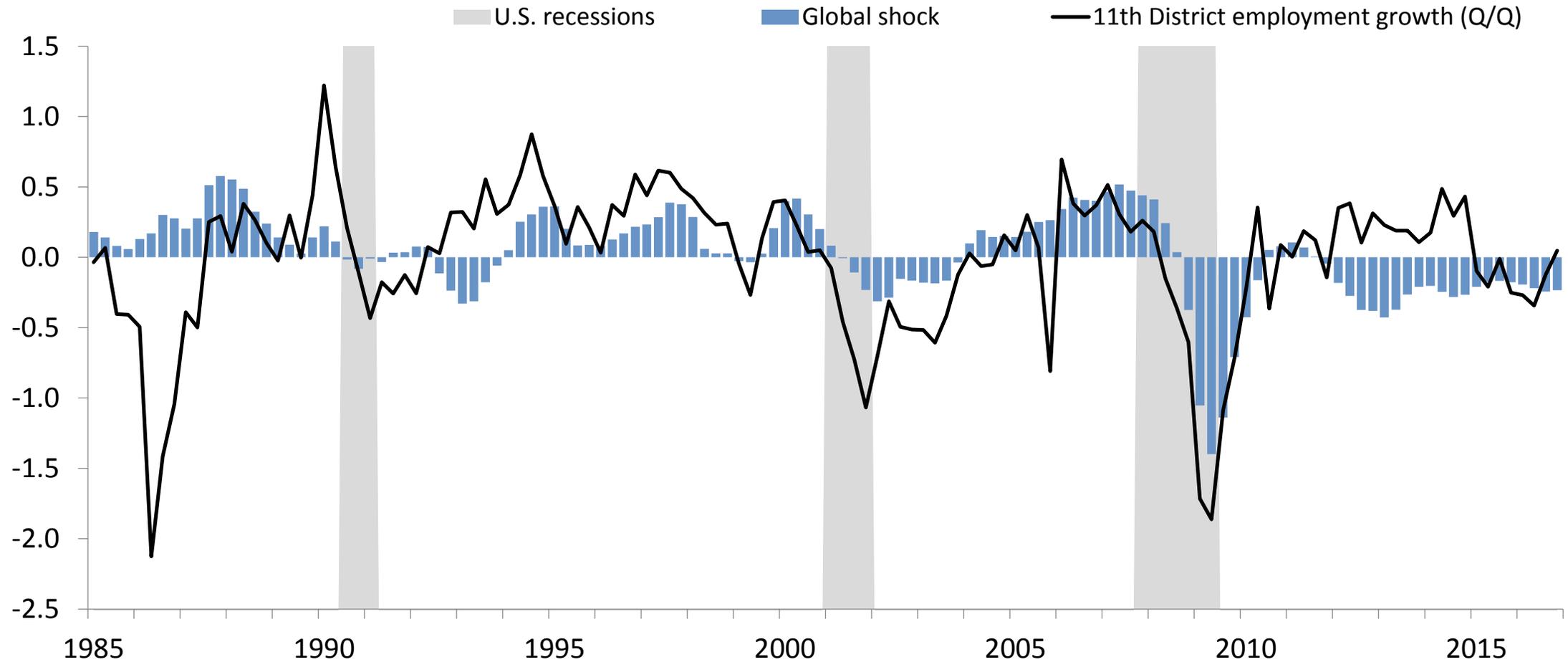

Percentage points

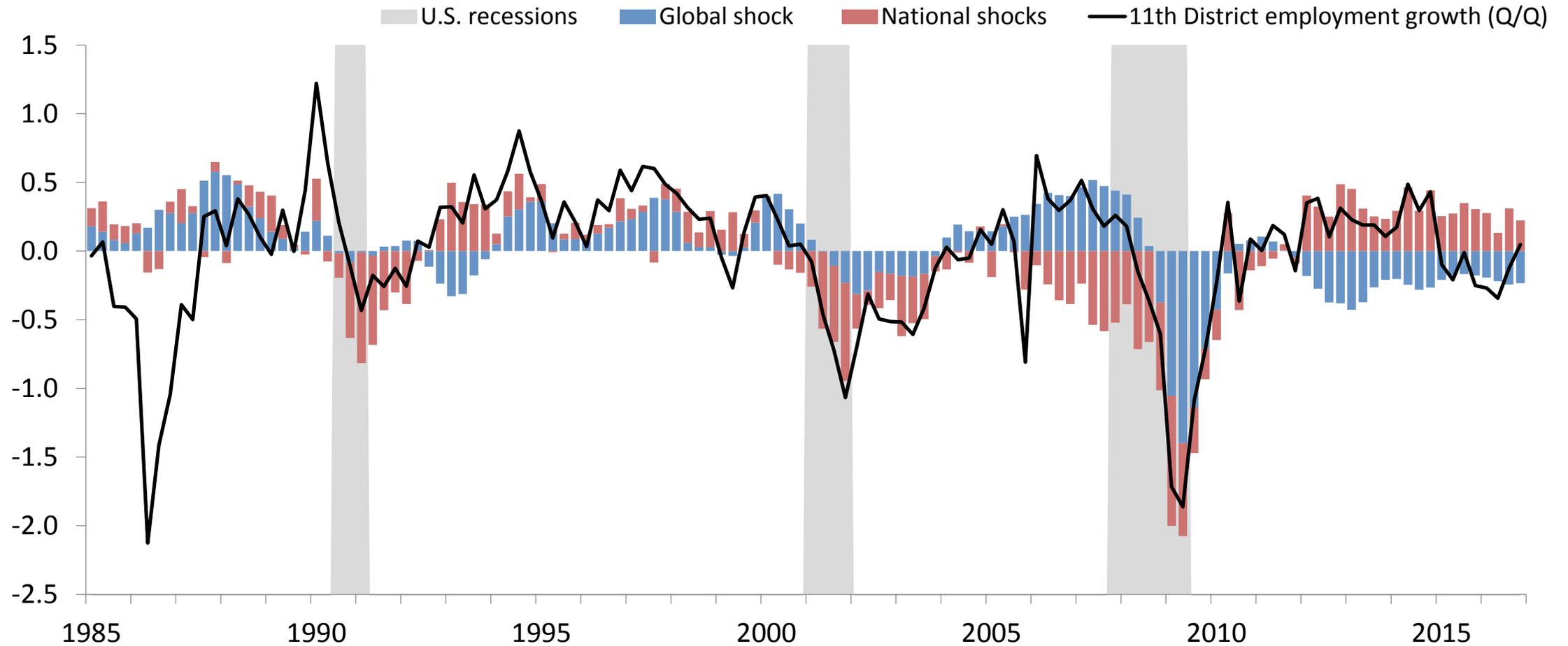■ U.S. recessions   —— 11th District employment growth (Q/Q)

Contributions of shocks to employment growth in the 11th District

Percentage points

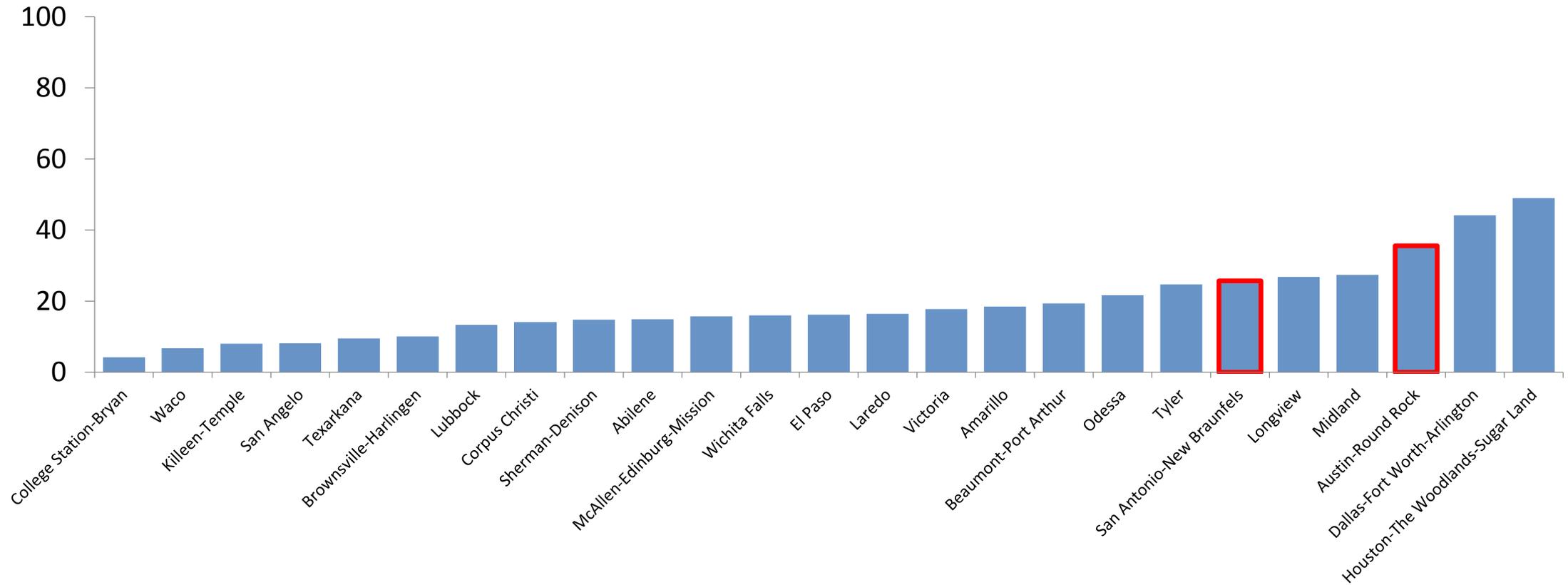# Contributions of shocks to employment growth in the 11th District

Percentage points

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Percentage points

U.S. recessions
National shocks
— 11th District employment growth (Q/Q)
Global shock
Residual state-specific shocks
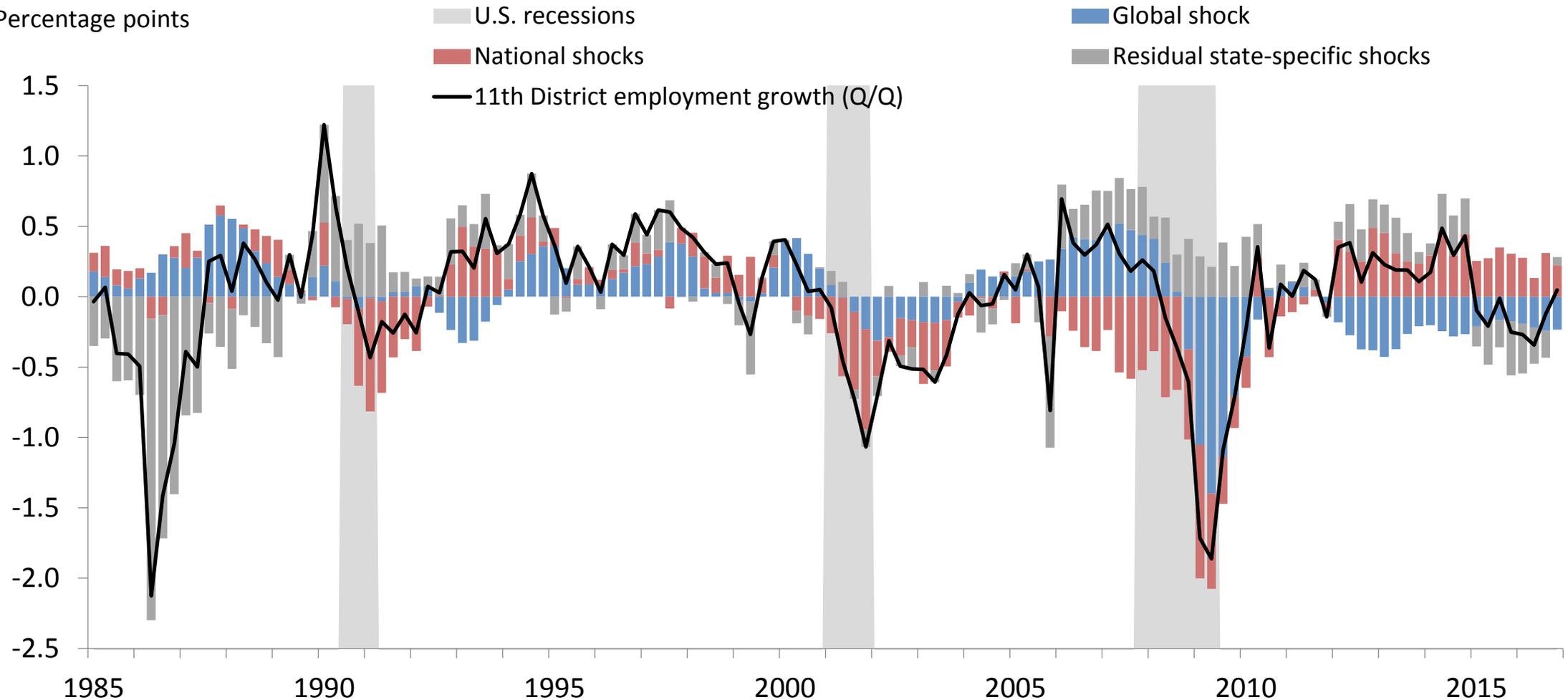
Share of metro area employment variation explained by global, national and residual MSA-specific shocks

Global shock, avg = 19.2

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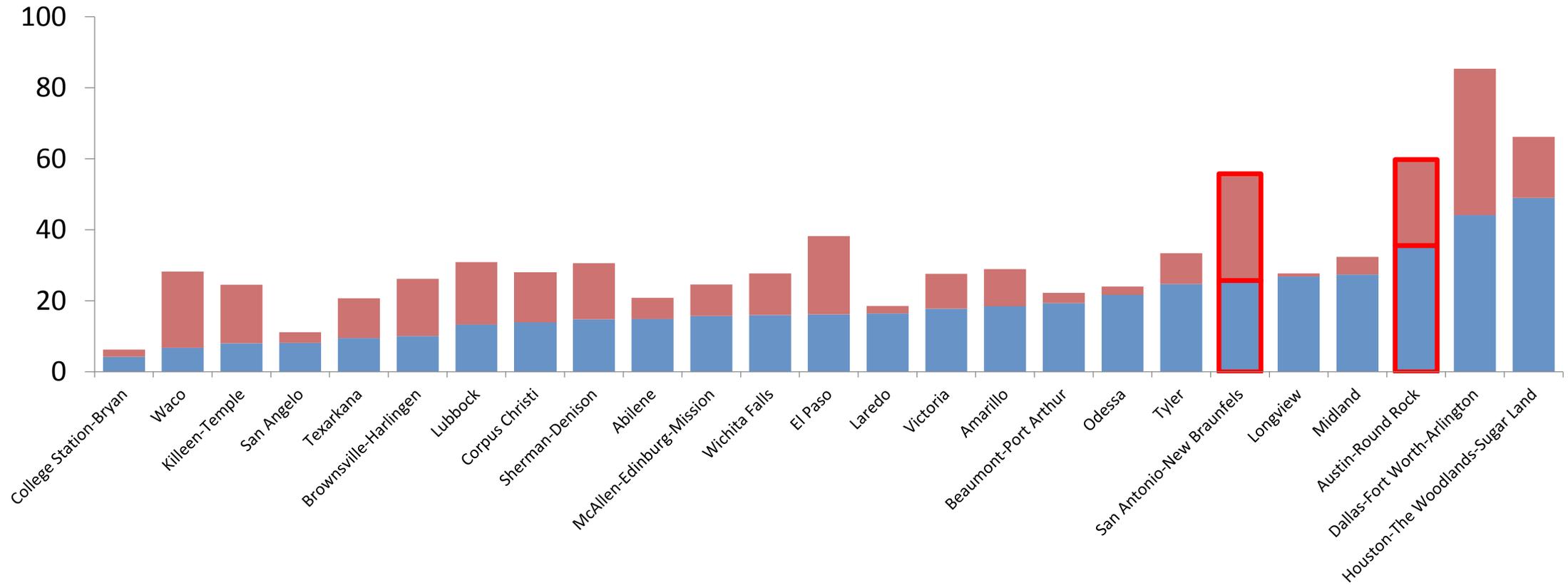
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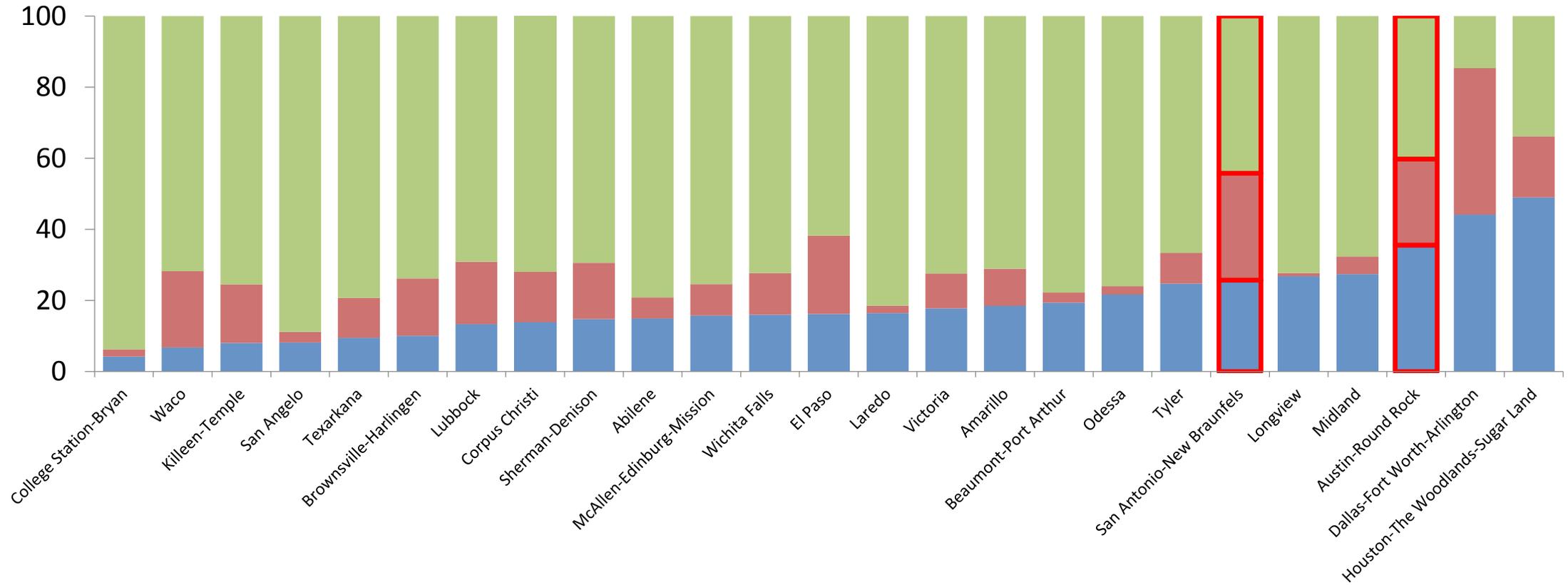- Global shock, avg = 19.2
- National shocks, avg = 12.8
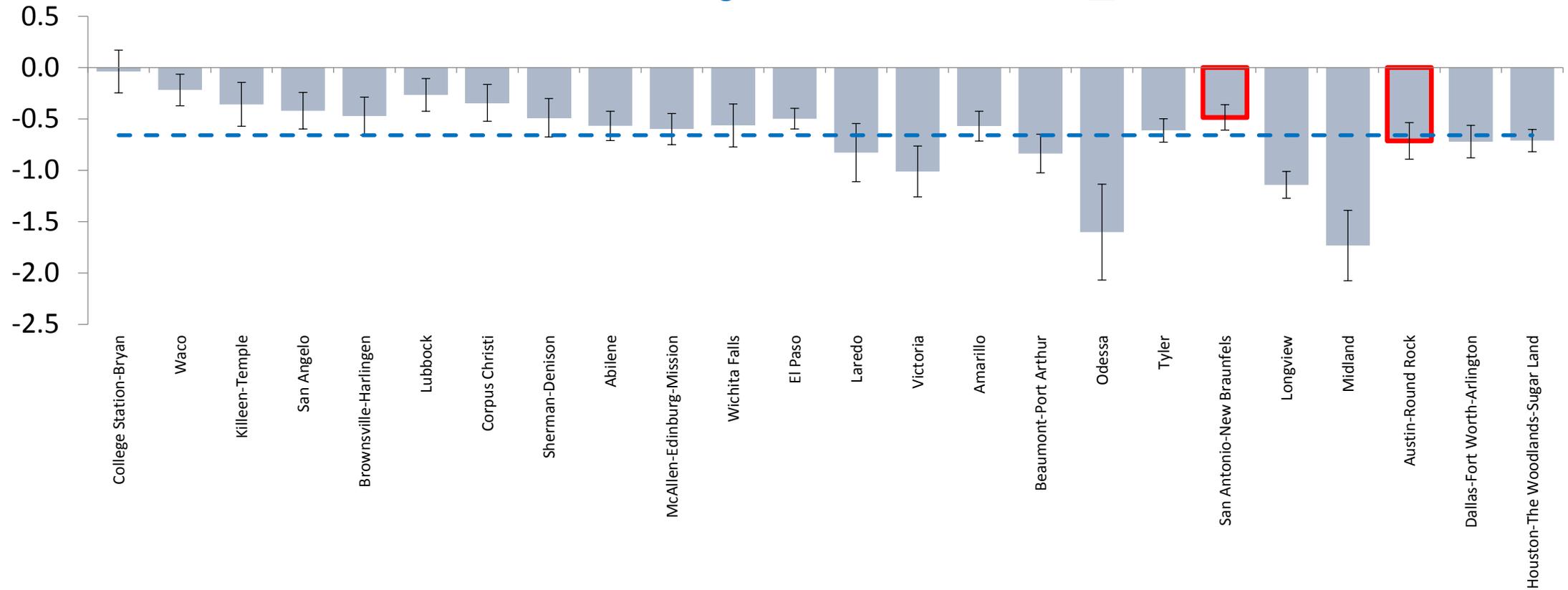- Residual shocks, avg = 68.0

Cumulative one year effect of a 0.5% negative global foreign output shock on MSAs' employment growth
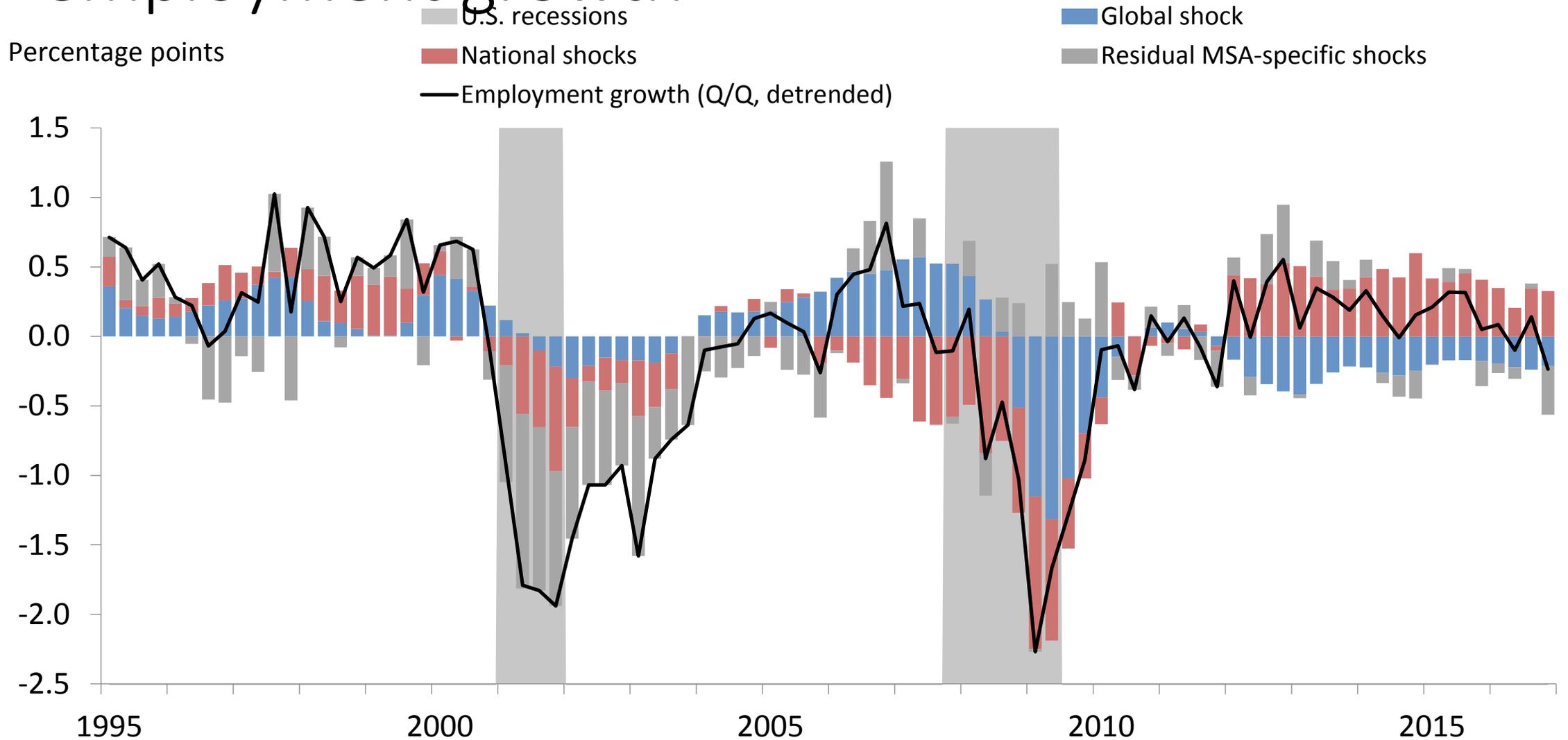
Contributions of shocks to Austin-Round Rock's employment growth
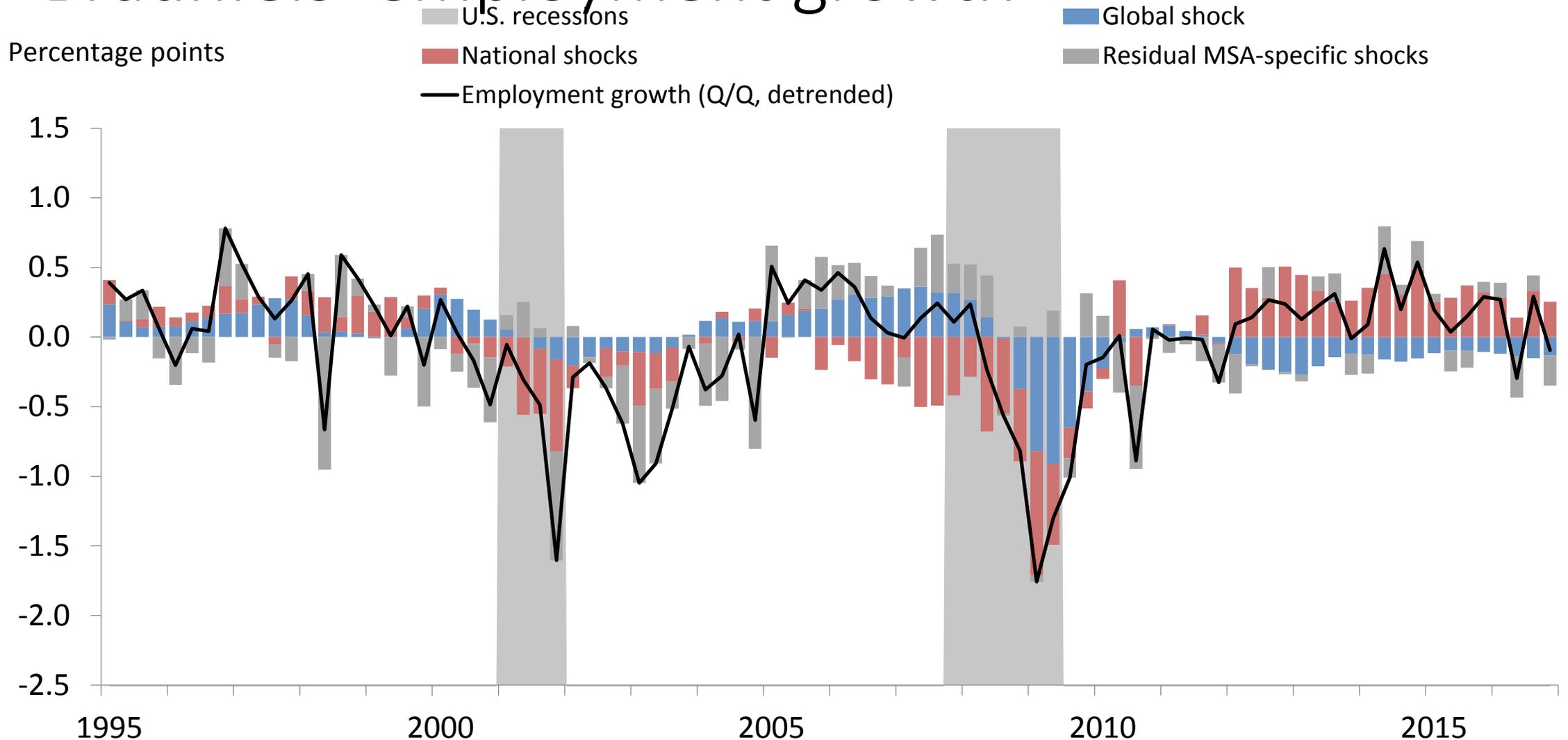
Percentage points

Legend: U.S. recessions · National shocks · Global shock · Residual MSA-specific shocks · Employment growth (Q/Q, detrended)

Contributions of shocks to San Antonio-New Braunfels' employment growth

Percentage points

Legend:
- U.S. recessions
- National shocks
- Employment growth (Q/Q, detrended)
- Global shock
- Residual MSA-specific shocks

Conclusions

- Modal outlook is for synchronized expansion in 2018 & 2019
  - U.S. likely to continue to be one of the stronger performers among the advanced economies
  - Expansion gathering momentum in Europe, Japan
  - Almost all emerging markets now growing
- Monetary policies of major central banks diverging
  - Fed: normalization began December 2015; BoE also normalizing
  - ECB, BoJ: still easing; but ECB will cease asset purchases at year end
  - PBOC: shift to concerns about financial stability
- Risks:
  - Overshooting in the U.S.
  - Europe: BREXIT, Italy…
  - China slowdown
  - Trade conflicts?

Globalization and Monetary Policy Institute