World Economic Outlook:
Global Manufacturing Downturn, Rising Trade Barriers

October 2019

Gian Maria Milesi Ferretti
International Monetary Fund

Overview

- ***Recent Developments***
  - Global growth at its slowest since financial crisis; synchronized slowdown
  - Manufacturing downturn, rising trade barriers, services holding up
  - Accommodative macro policies provide vital support to activity

- ***Outlook***
  - Global growth to pickup modestly in 2020 and beyond
  - Hinges precariously on durable normalization in key emerging markets currently underperforming or in severe stress
  - Advanced economies expected to slow toward modest potential growth rates

– ***Risks skewed to the downside***
  - Stress may fail to ease in key emerging markets
  - Trade tensions could escalate, with associated elevated policy uncertainty
  - Financial market sentiment could deteriorate, giving rise to a generalized risk-off episode
  - Climate change could severely weaken prospects, especially in vulnerable countries

What drives the growth slowdown?

- ***Structural slowdown***
  - US slowing gradually towards potential, with still very substantive policy support
  - Euro Area
  - China “rebalancing” and slowing towards sustainable growth rates, clamping down on financial excesses
- ***Several emerging economies facing country-specific headwinds to growth***
  - Brazil: policy uncertainty, mining disaster, decline in demand for commodities from China
  - Mexico: tight monetary policy, policy uncertainty, external environment (relation with US)
  - India: notable slowdown—drop in car demand, financial sector woes, policy uncertainty
  - Stressed economies
- ***Trade tensions and manufacturing recession***
  - Increase in trade barriers and trade policy uncertainty
  - Car sector woes
  - Tech cycle

Key Vulnerabilities in the Global Financial System

- Rising corporate debt burdens
- Increasing holdings of riskier & more illiquid assets by institutional investors
- Increased reliance on external borrowing by emerging & frontier market economies

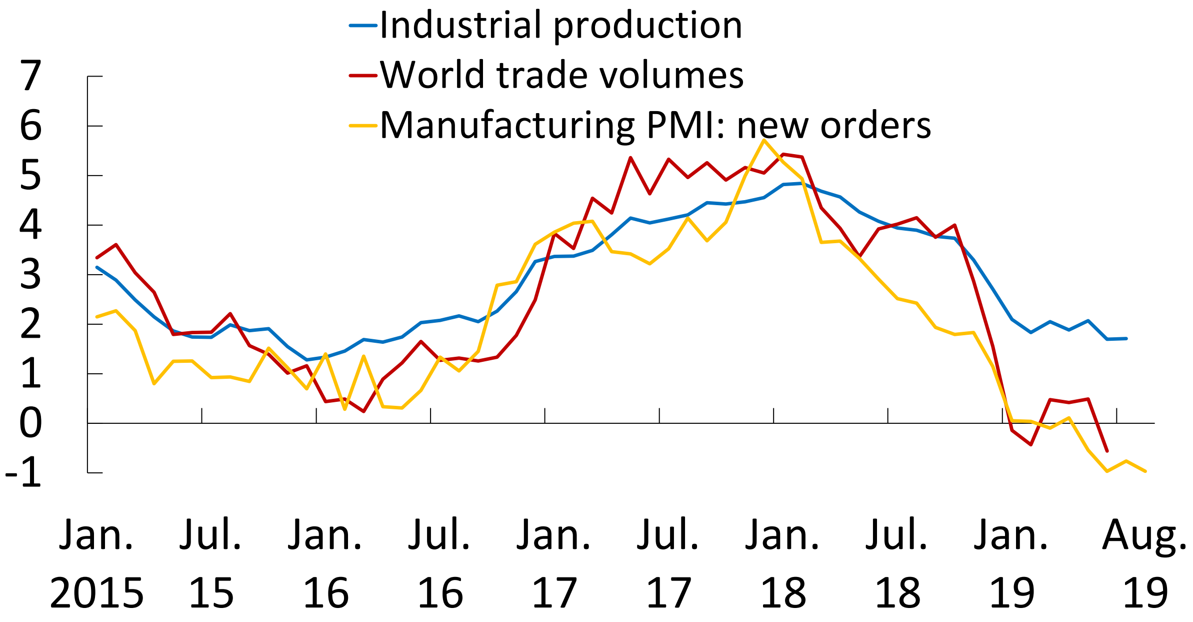
What Should Policymakers Do?

- Address corporate vulnerabilities with stricter supervisory & macroprudential oversight
- Tackle risks among institutional investors through strengthened oversight & disclosures
- Implement prudent sovereign debt management practices & frameworks

Broad-based slowdown in manufacturing, trade, capex, consumer durables

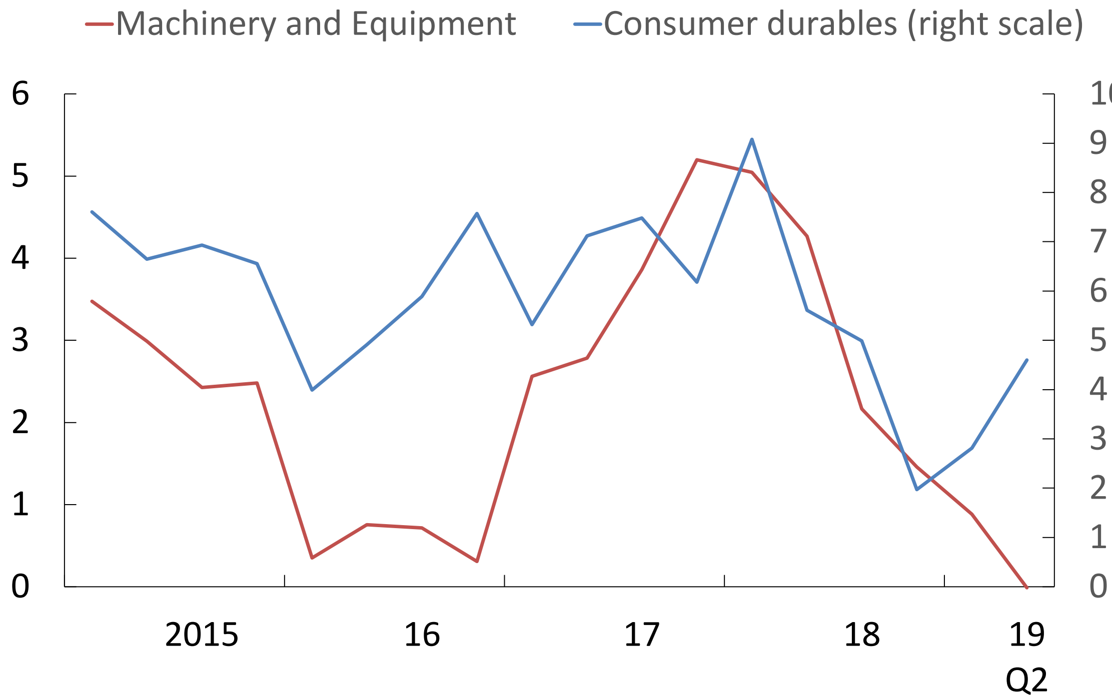
World Trade, Industrial Production, and Manufacturing PMI

(Three-month moving average, year-over-year percent change; Deviations from 50 for Manufacturing PMI)



Spending on durable goods

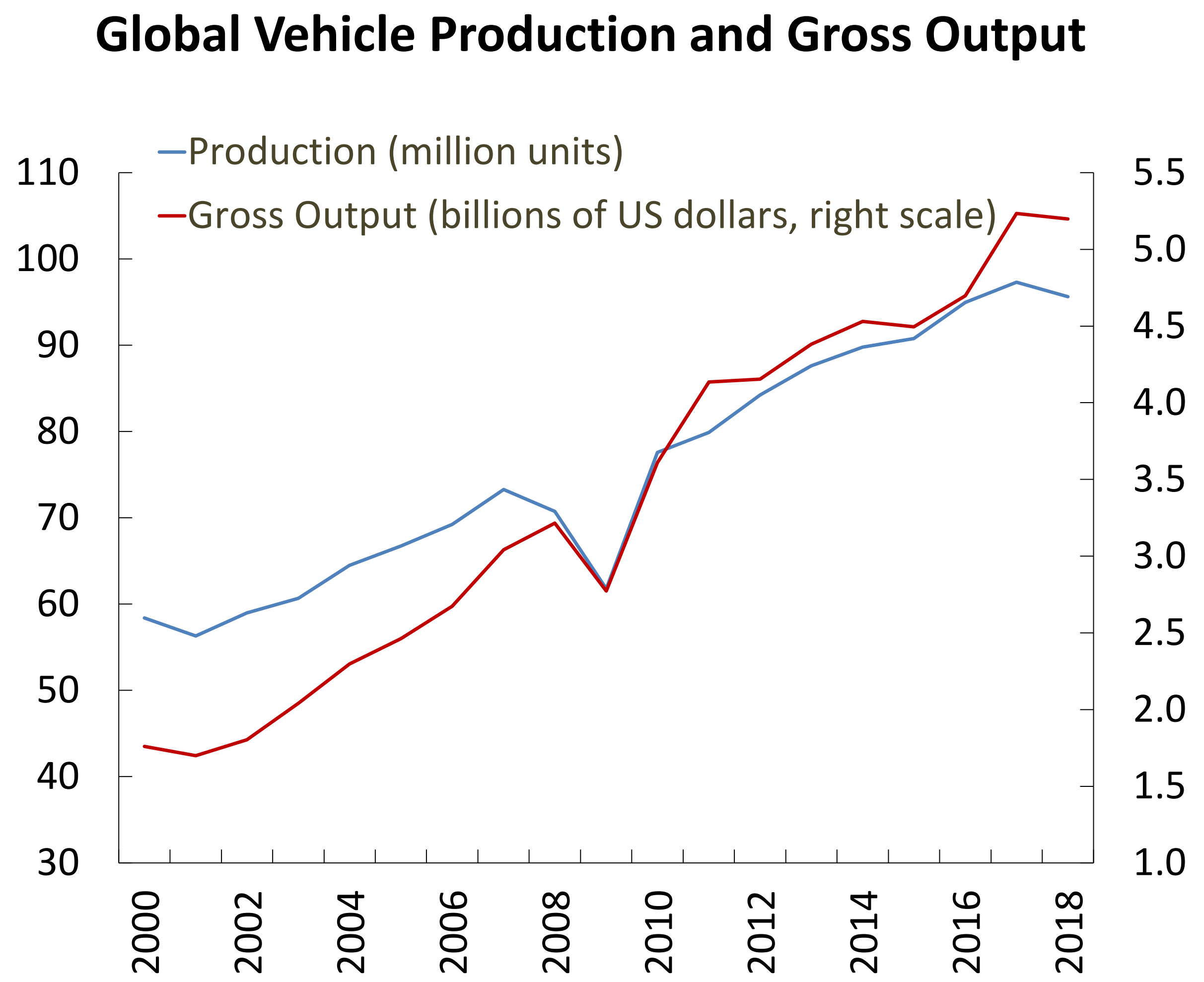
(Percent change from a year ago)

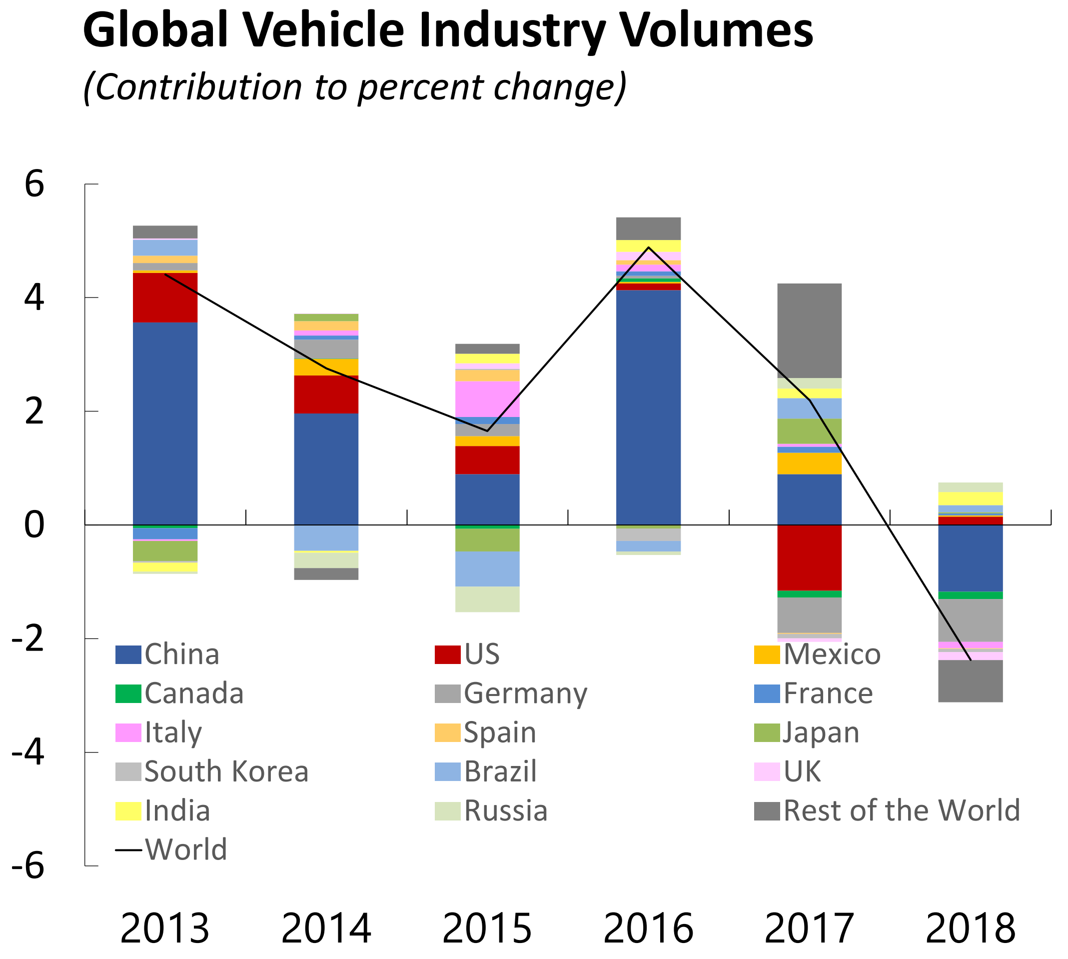


Sources: CPB Netherlands Bureau for Economic Policy Analysis; Haver Analytics; Markit Economics; and Baker, Bloom, and Davis (2016).

Note: PMI = purchasing managers' index.

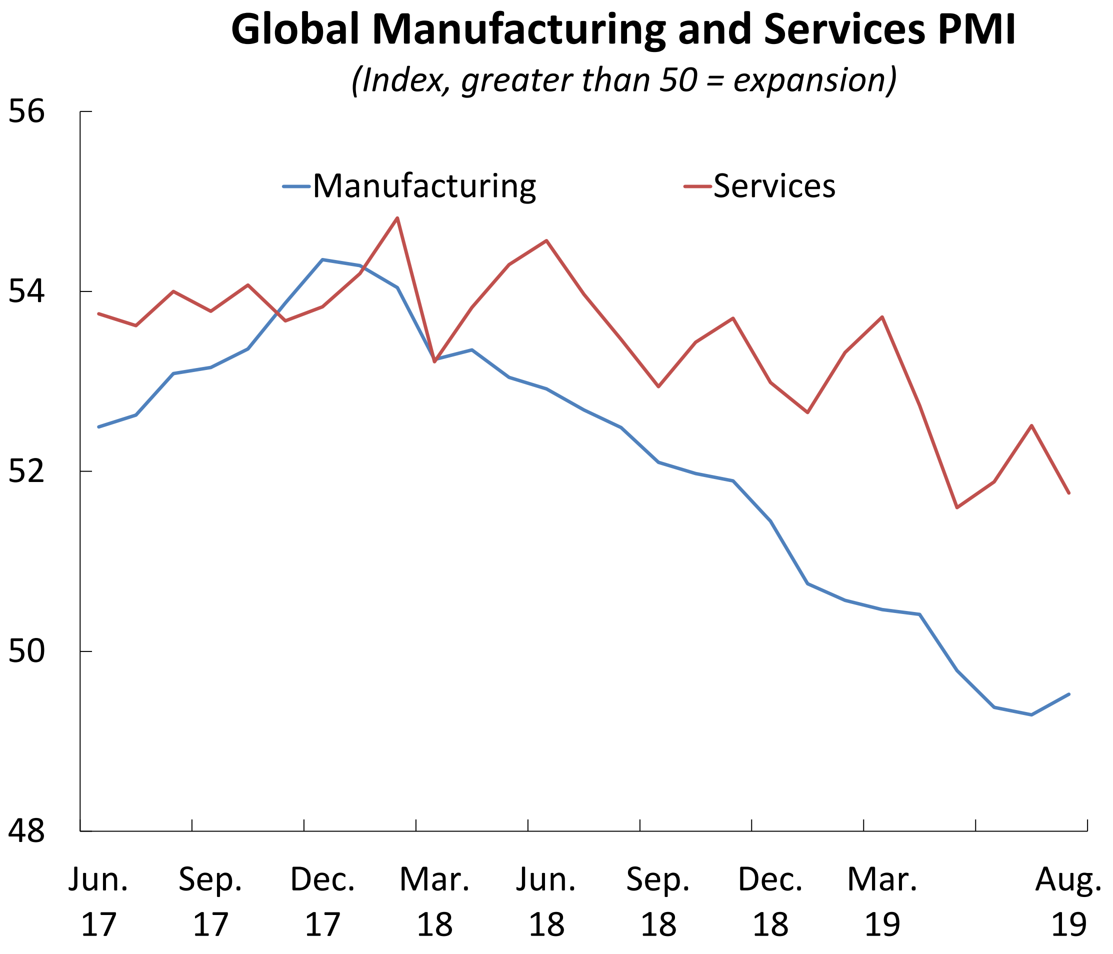
The automobile industry contracted in 2018 for the first time since the global financial crisis

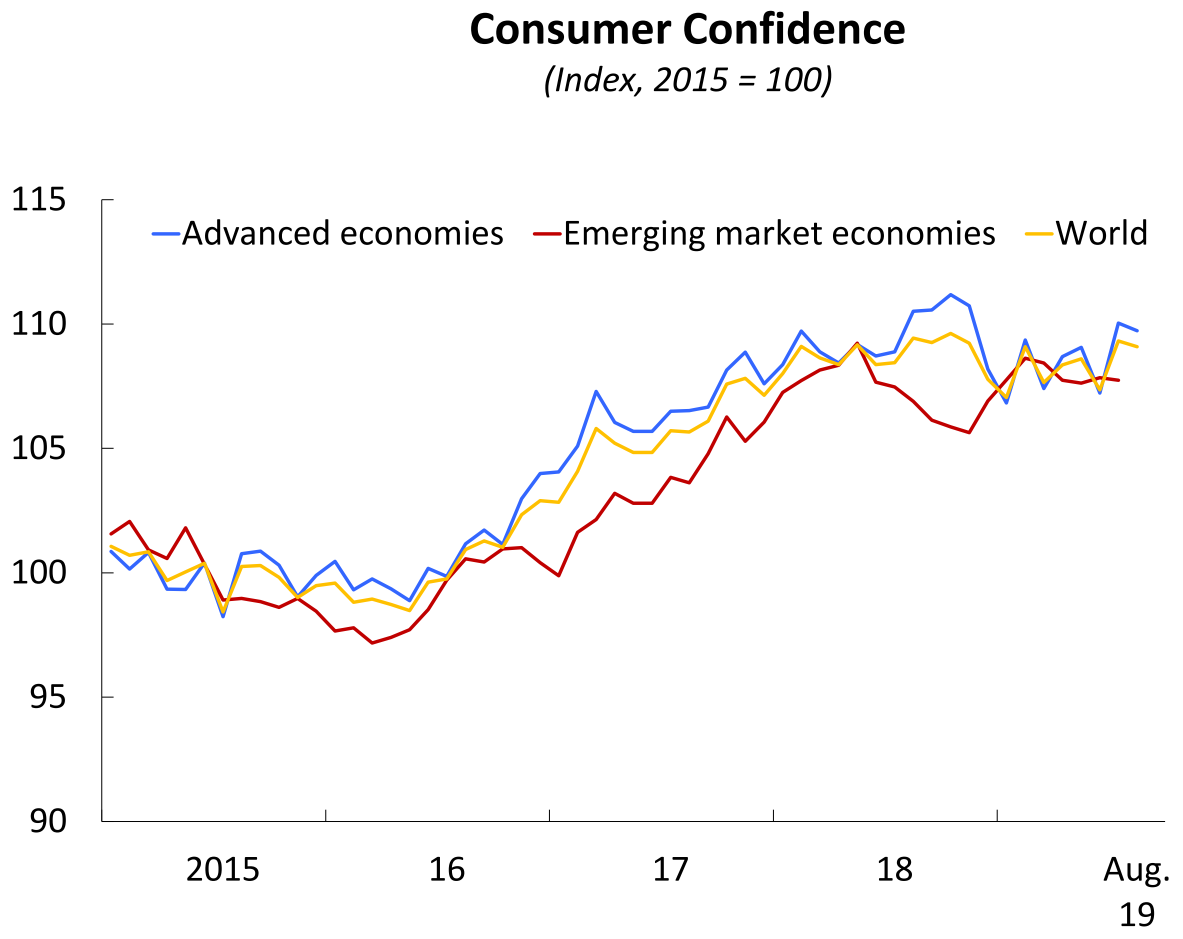




Sources: International Organization of Motor Vehicle Manufacturers; national statistics offices; World Input-Output Database; and IMF staff calculations.

While manufacturing weakened, services activity and consumer confidence have remained resilient



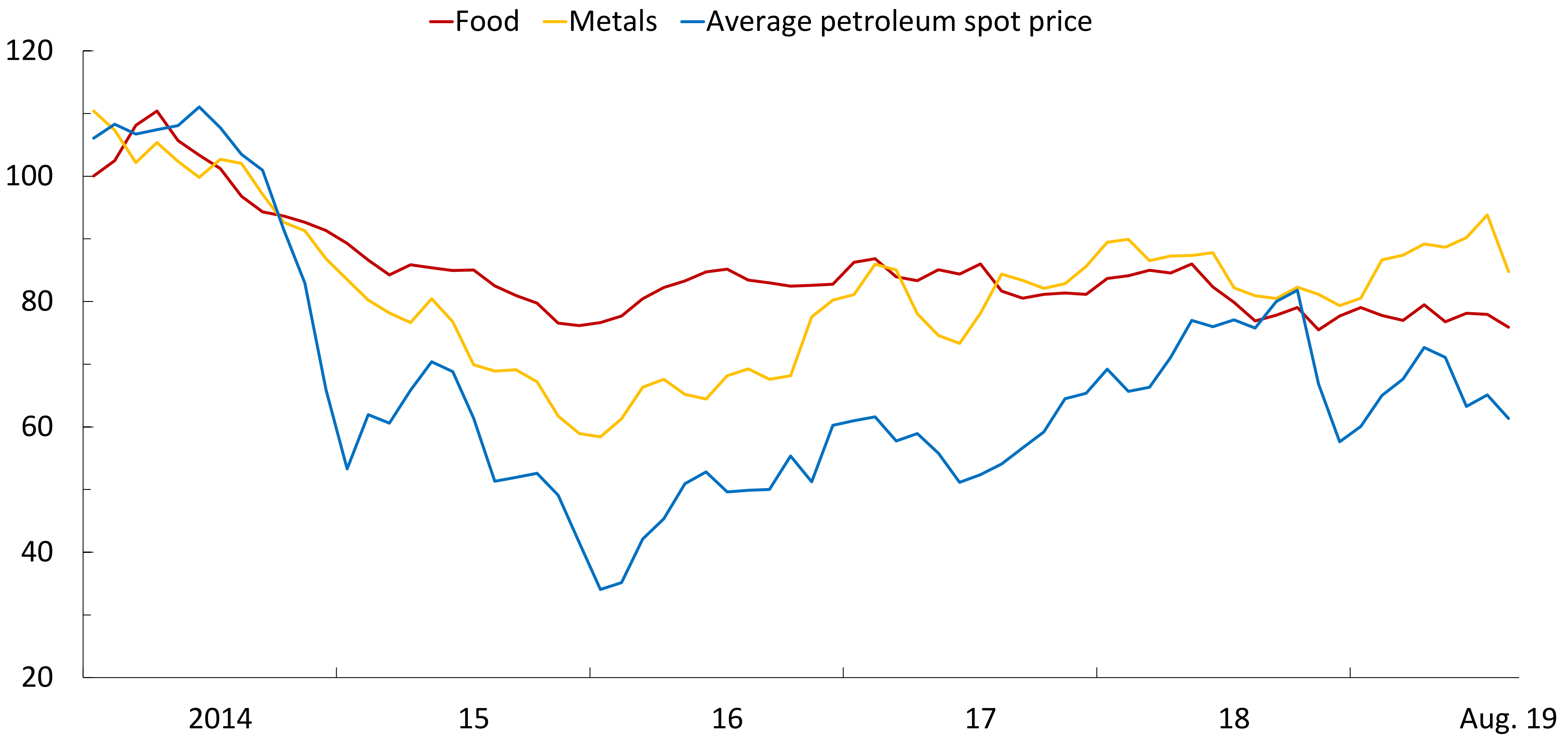


Sources: Haver Analytics; Markit Economics; and IMF staff calculations
Note: PMI = purchasing managers' index.

Commodity prices remain subdued

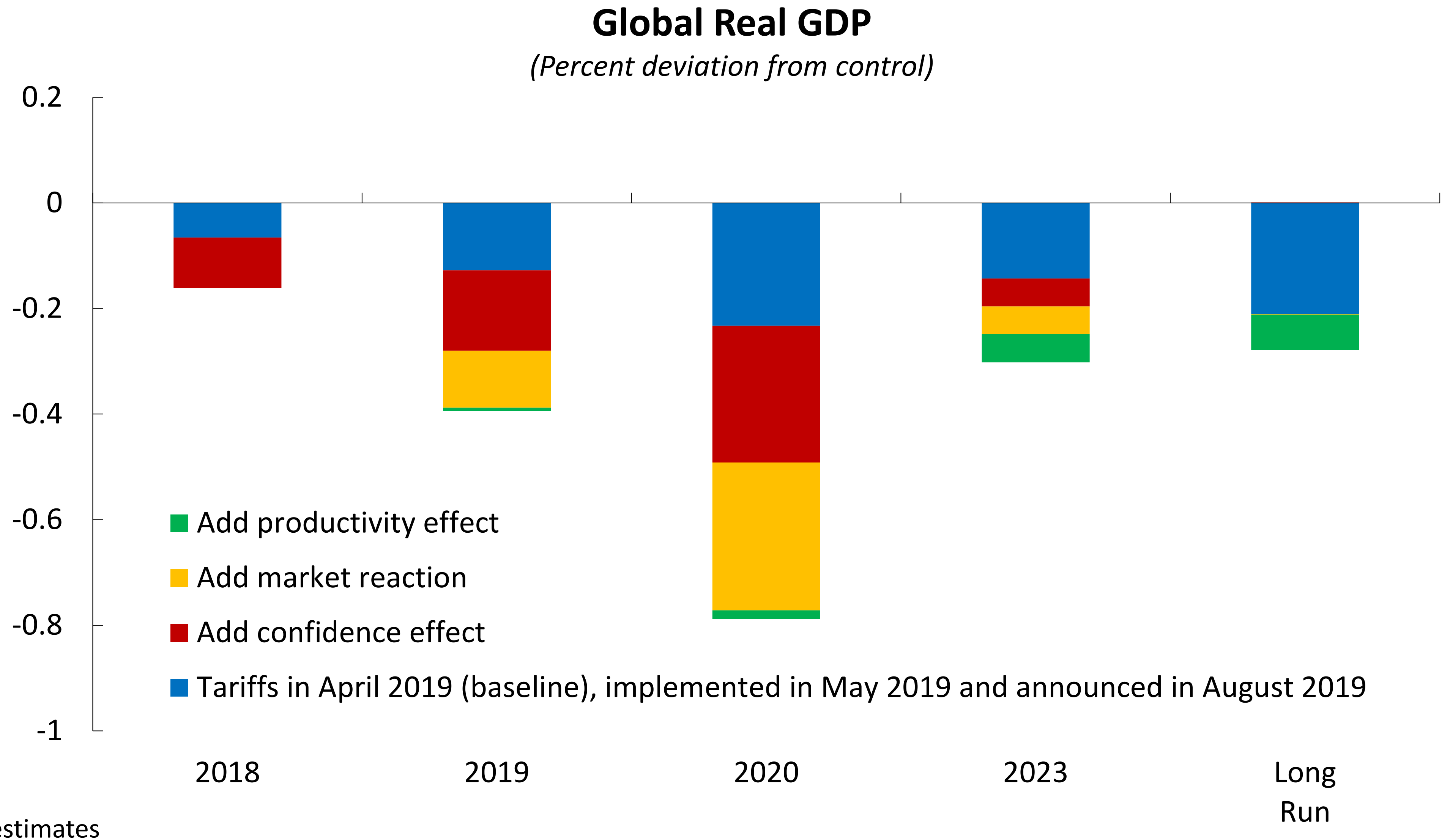
Commodity Prices

(Deflated using US consumer price index; 2014 = 100)



Sources: IMF, Primary Commodity Price System; and IMF staff calculations.

Higher tariff barriers affect global activity directly and through financial, business confidence, and productivity channels

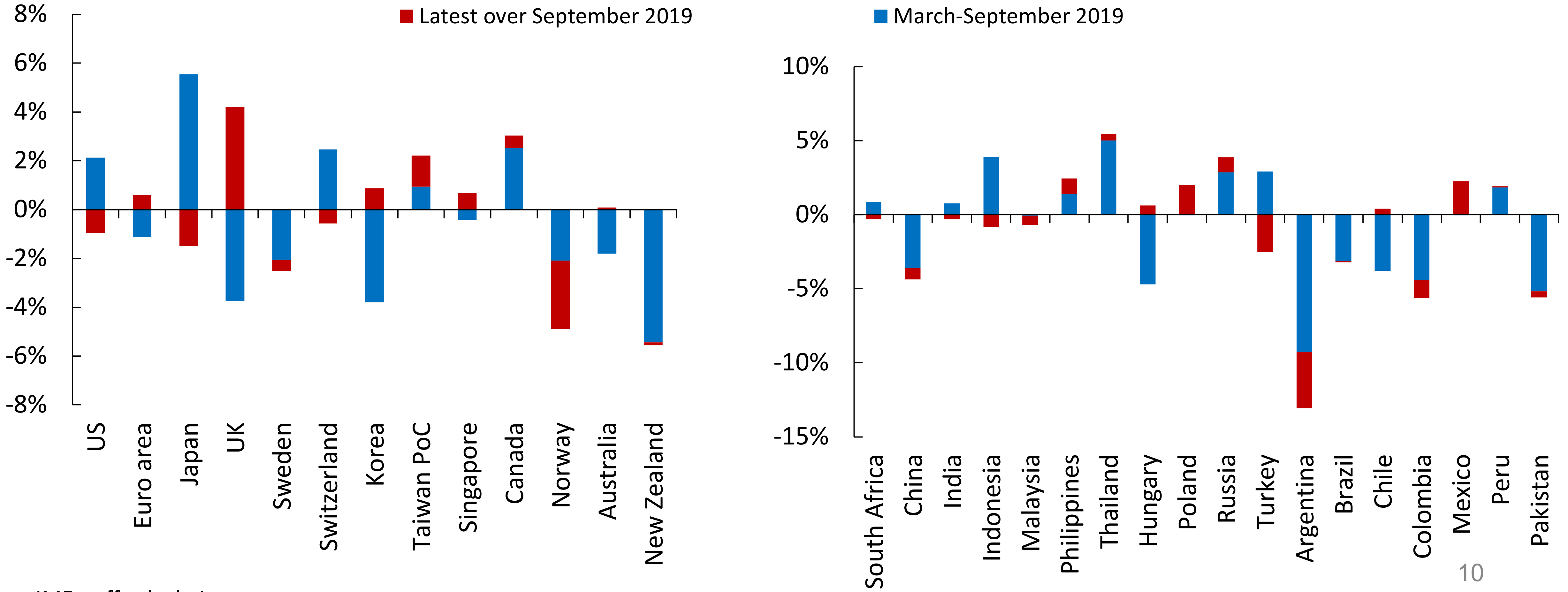


Sources: IMF staff estimates

Exchange rate developments: risk on/risk off, Argentina, Brexit

Real Effective Exchange Rate Changes, March 2019-October 2019

(Percent)



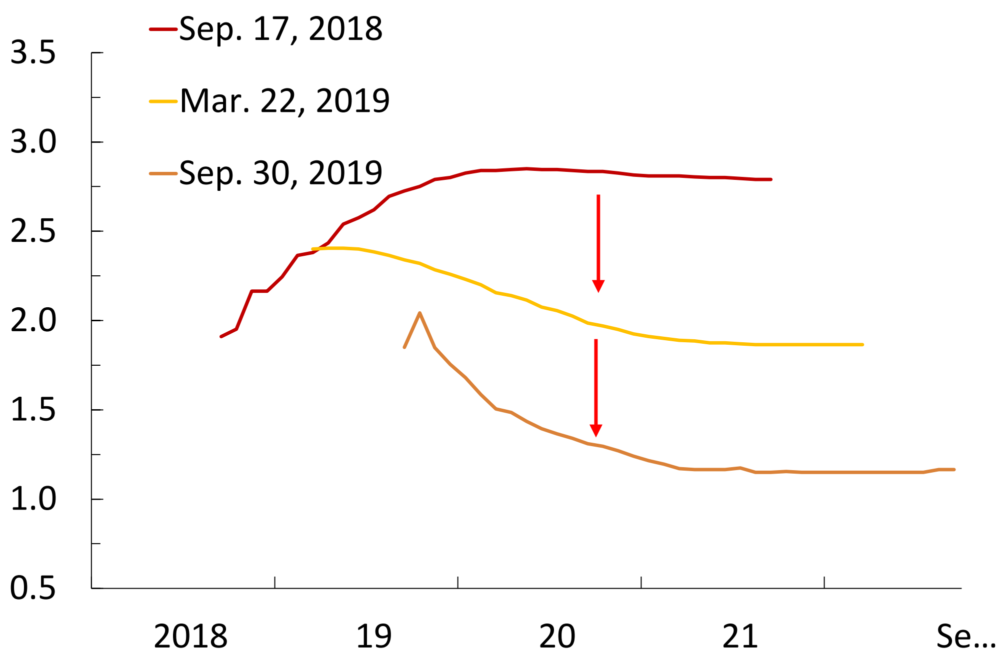
Source: IMF staff calculations

Monetary policy has turned more accommodative, financial conditions in AEs have eased since the spring

Sovereign bond yields in AEs have declined notably, in some cases deep into negative territory

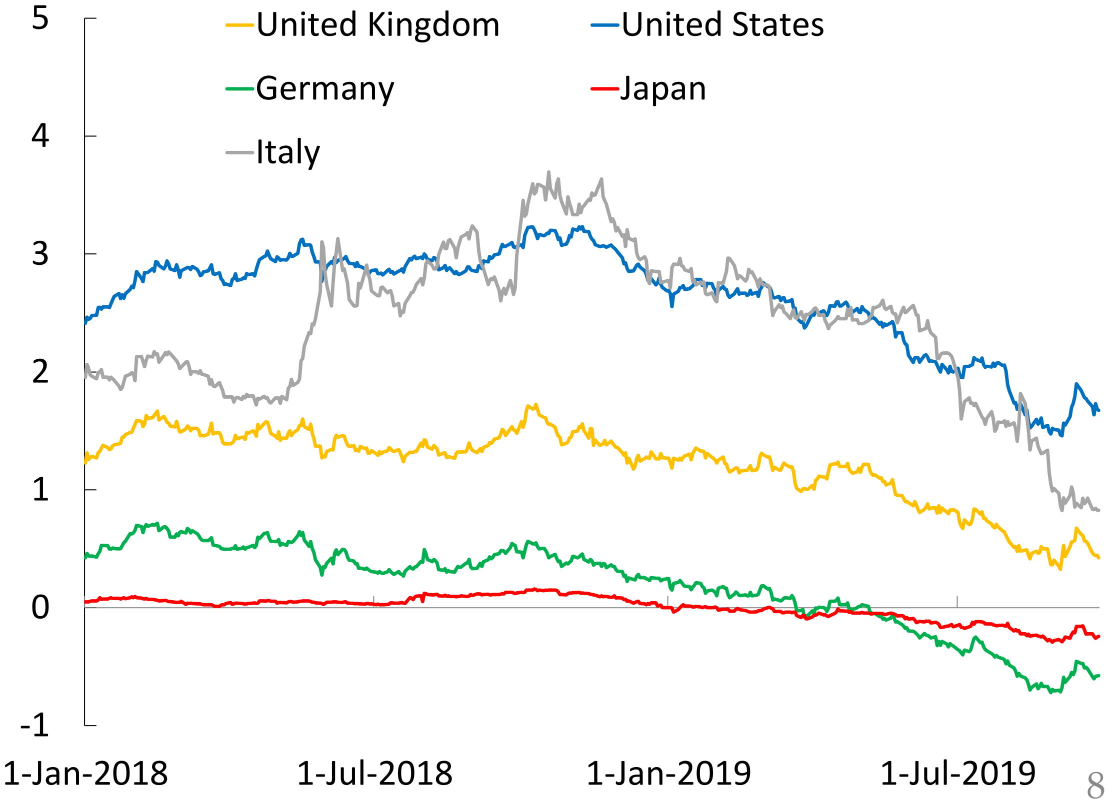
US Policy Rate Expectations

(Based on Federal Funds Rate Futures)



Ten-year government bond yields

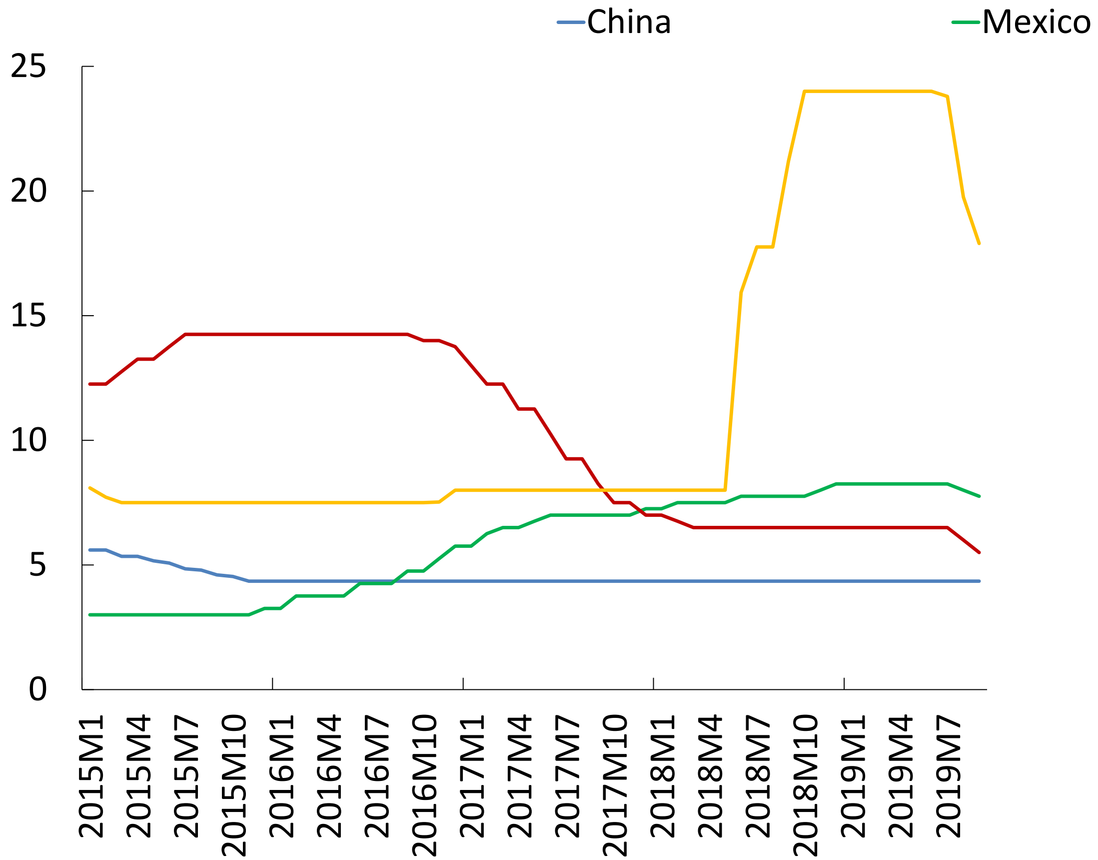
(percent)



Sources: Bloomberg Finance L.P., Haver Analytics; Thomson Reuters Datastream and IMF staff calculations. Updated September 30, 2019

Financial conditions in EMDEs: broadly stable since April, except for those under stress

Policy Rate
(Percent)



Ten-Year Government Bond Yields
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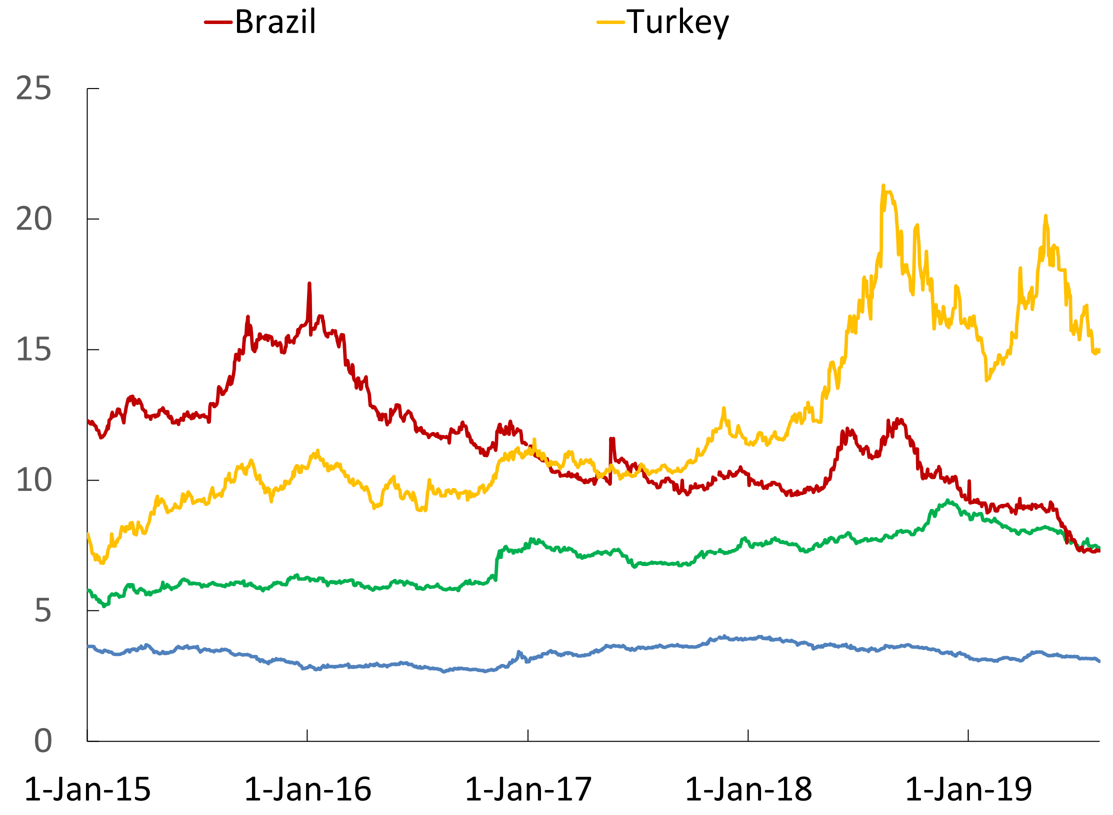


Source: Haver Analytics.

Policy support

- Monetary policy
  - *Impact of easing actions in 2019: +0.5 pp on global growth for 2019 and 2020*
  - *Key assumptions: rate declines sustained in 2020, declines in LT interest rates divided into changes in term premia, assumed to decay gradually thereafter, and shifts in expectations of the neutral interest rate.*
- Fiscal policy
  - *Impact of easing actions in 2019: about 0.3 pp on growth for 2019 and 2020*
  - *Key assumptions: only unanticipated measures proposed in 2019 were included. Effects particularly large for China, India, Korea*

Growth projections: Advanced economies
(percent change from a year earlier)

	World	Advanced Economies	U.S.	U.K.	Japan	Euro Area	Germany	Canada	Other Advanced Asia
2018	**3.6**	**2.3**	**2.9**	**1.4**	**0.8**	**1.9**	**1.5**	**1.9**	**2.8**
2019	**3.0**	**1.7**	**2.4**	**1.2**	**0.9**	**1.2**	**0.5**	**1.5**	**1.6**
Revision from Apr. 2019	–0.3	–0.1	0.1	0.0	-0.1	–0.1	–0.3	0.0	–0.6
2020	**3.4**	**1.7**	**2.1**	**1.4**	**0.5**	**1.4**	**1.2**	**1.8**	**2.7**
Revision from Apr. 2019	–0.2	0.0	0.2	0.0	0.0	–0.1	–0.2	-0.1	-0.5

Sources: IMF *World Economic Outlook* October 2019, April 2019.

Growth projections: Emerging markets and LIDCs

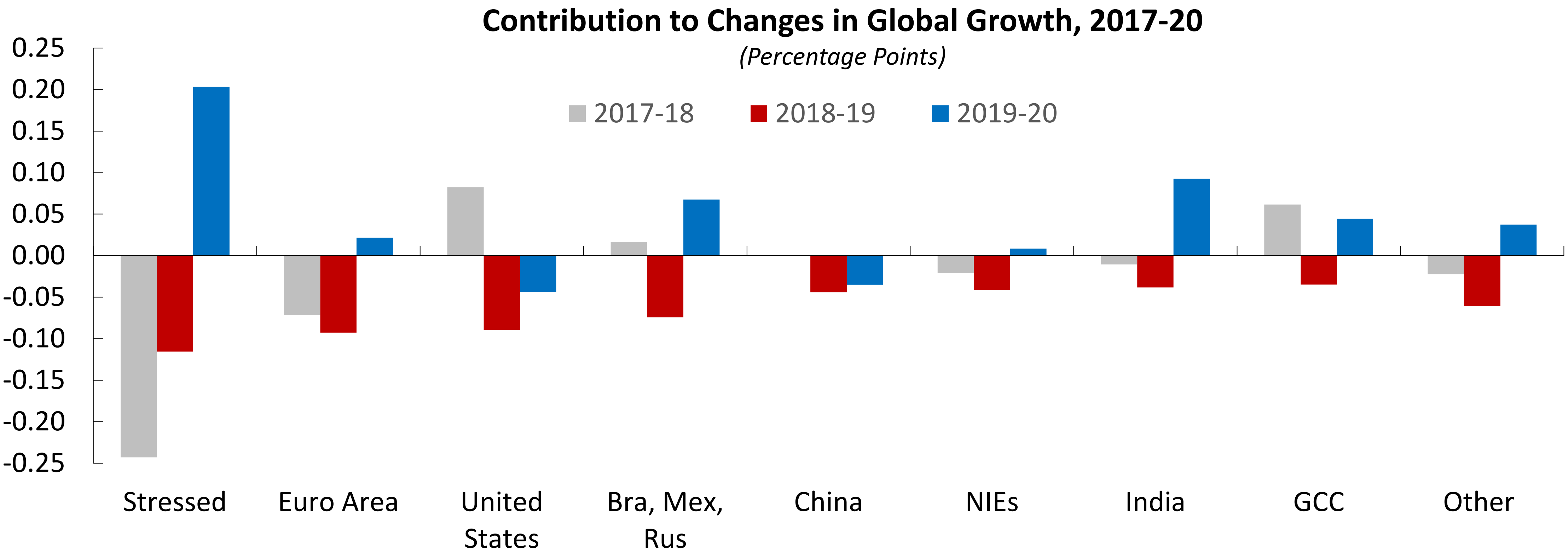
(percent change from a year earlier)

	Emerging Market and Developing Economies	China	India	Brazil	Russia	ASEAN-5	Commodity Exporting Economies	Low Income Developing Countries
2018	4.5	6.6	6.8	1.1	2.3	5.2	1.9	5.0
2019	3.9	6.1	6.1	0.9	1.1	4.8	1.1	5.0
Revision from Apr. 2019	−0.5	−0.2	−1.2	−1.2	−0.5	−0.3	−0.9	0.0
2020	4.6	5.8	7.0	2.0	1.9	4.9	2.7	5.1
Revision from Apr. 2019	−0.2	−0.3	−0.5	−0.5	0.2	−0.3	−0.2	0.0

Sources: IMF *World Economic Outlook* October 2019, April 2019.

Synchronized downturn; precarious recovery

Projected 2020 pickup: rests on normalization in underperforming and stressed EMs



Sources: IMF staff estimates

Note: NIEs = newly industrialized Asian economies; stressed = Argentina, Iran, Libya, Sudan, Turkey and Venezuela. Data labels use International Organization for Standardization (ISO) country codes.

Risks: tilted to the downside

- Strains may fail to ease in a few key EMDEs currently underperforming or in severe distress
  - About 70 percent of projected 2020 global growth pickup accounted for by EMDEs in severe distress or underperforming relative to past averages
- Further disruptions to trade and global supply chains
  - Intensification of US-China trade tensions or a no-deal Brexit would deepen harm to investment, productivity and output
- Abrupt declines in risk appetite and deterioration in financial sentiment
- Continued buildup of financial vulnerabilities that could amplify next downturn
- Geopolitical tensions, domestic policy uncertainty and conflict
- Climate change

Financial Vulnerabilities

Key Vulnerabilities in the Global Financial System

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What Should Policymakers Do?

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Policy Priorities

Mutlilateral: Resolve trade disagreements cooperatively, roll back distortionary barriers

Curb greenhouse gas emissions: carbon pricing as the centerpiece

Advanced economies

- Accommodative monetary policy remains appropriate.
- Stronger macroprudential policies and a more proactive supervisory approach critical to secure balance sheet strength.
- Fiscal policy can play a more active role, especially where the room to ease monetary policy is limited.
- Structural reforms to lift country-specific constraints on potential output growth; enhance inclusiveness.

Emerging market and developing economies

- Recent softening of inflation creates room for some countries to support activity through monetary policy.
- Regulation and supervision should ensure adequate capital and liquidity buffers to guard against disruptive portfolio shifts.
- In high debt countries, fiscal policy should generally aim for consolidation, while adjusting its pace to avoid prolonged downturn.
- Structural reforms to bolster medium-term growth prospects and resilience; enhance inclusiveness.