

Global Economic Prospects

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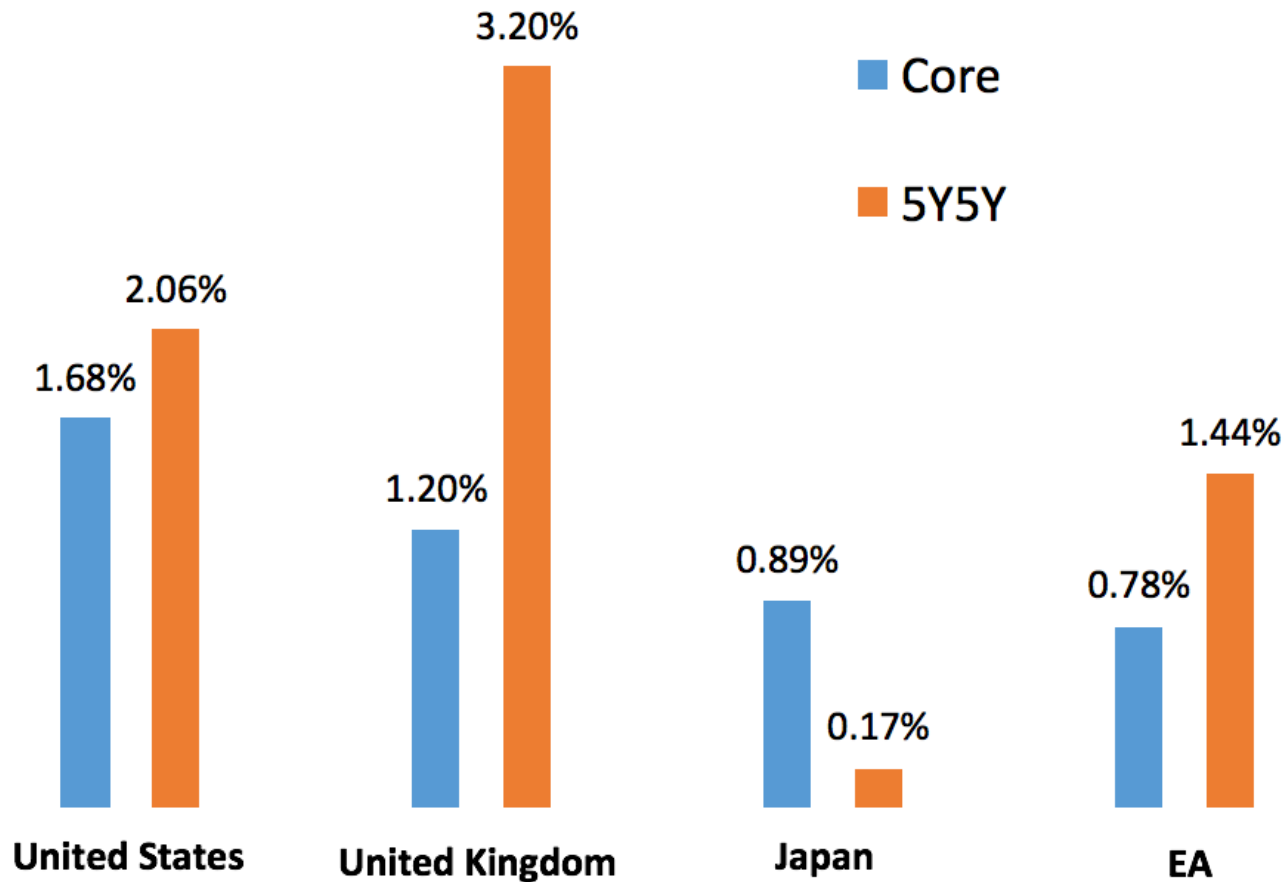
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The Global Outlook

Real GDP Growth (Y/Y)	2015	2016	2017
Global Output Growth (PPP weights)	3.1	3.2	3.3
US: Goldilocks	2.4	1.8	2.0
Euro Area: slow recovery	1.5	1.5	1.6
Japan: population aging	0.6	0.4	0.6
UK: steady growth, inflation below target	2.2	1.6	2.2
Brazil: corruption scandal	-3.8	-4.0	-2.0
Russia: oil price collapse, sanctions	-3.7	-1.5	1.1
China: gradual slowdown	6.9	6.4	6.2
India: the star of the show	7.3	7.5	7.1

Inflation below target

FEBRUARY 2016, CORE VS 5Y5Y



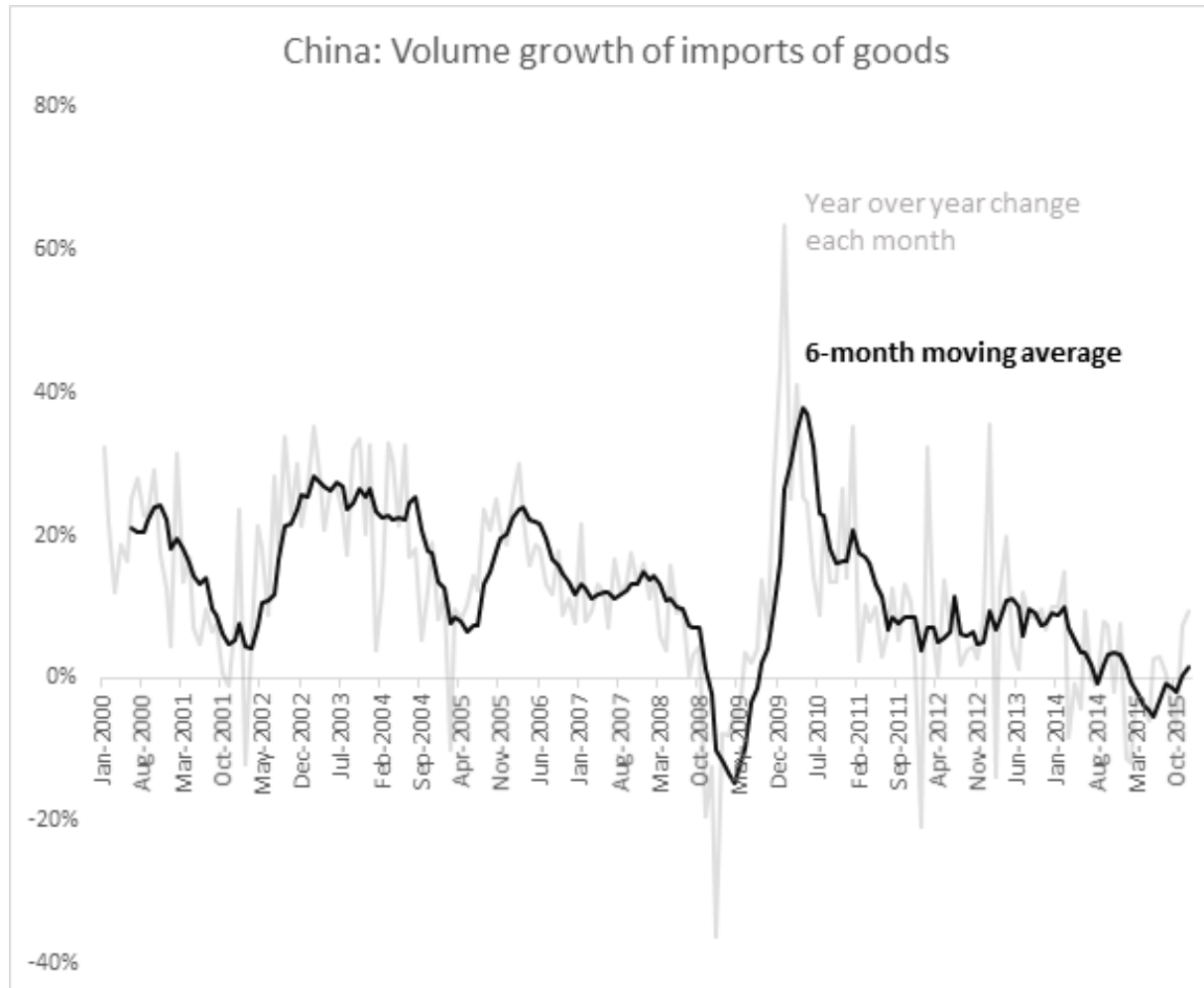
Impact of Lower Oil Prices

- Lower oil prices are good for the advanced economies
- Puzzling perceptions that lower oil prices hurt US
- Excessive correlation with inflation expectations
- Short term: collapse in investment in energy sector, gradual pick up in consumer demand, still no increase in investment by non-energy firms
- Massive adverse impact on oil and commodity producers (Venezuela, Russia, Nigeria...)
- Lower oil prices less of a net positive for world demand than decades ago
- Prospects for more stable oil prices

China's Impact on ROW

- Structural transformation from manufacturing to services
- Services now more than half of China's economy
- Imparts negative shock to ROW even with stable Chinese GDP growth
- Imports of services / Imports of goods and services: 18% China (22% worldwide median)
- Growth of imports of goods in volume slowing
- Hurts emerging economy exporters (commodities), advanced economy neighbors

Goods imports volume, China



Exports to China (% of total exports)

	2007	2014
Australia	14.0	33.9
South Korea	22.1	26.1
Japan	15.3	18.3
Brazil	6.7	18.0
Saudi Arabia	7.6	13.9
Indonesia	8.5	10.0
South Africa	6.5	9.6
United States	5.6	7.6
Russia	4.3	6.8
Germany	3.1	6.6
Argentina	9.3	6.5
United Kingdom	1.7	5.1
India	6.5	4.2
France	2.3	3.8
Canada	2.1	3.7
Italy	1.7	2.6
Turkey	1.0	1.8
Mexico	0.7	1.5

Risks from Europe

	Likelihood	Political impact in Europe	Global economic impact
Refugee crisis	Ongoing	Potentially major	Yes if politics suffers
Brexit	Low	Serious, manageable	Some but temporary
Grexit	No	Manageable	Limited
Italian bank NPLs	Ongoing	No	No

Global Prospects

- Advanced economies recovering slowly; diversity among emerging economies, where politics key.
- *China*: holding up but imparting negative impulse.
- *Oil prices*: in narrower range, net positive for advanced economies. Producers still ailing.
- *Geopolitical*: greater uncertainty than in past years.
- *Running out of ammunition?* Plenty of scope for more QE. Little for fiscal, but in global recession could have another round of coordinated stimulus.