



# Global Economic Outlook



**Nicola Nobile**

Lead Economist

[nnobile@oxfordeconomics.com](mailto:nnobile@oxfordeconomics.com)



*Follow us on Twitter:*

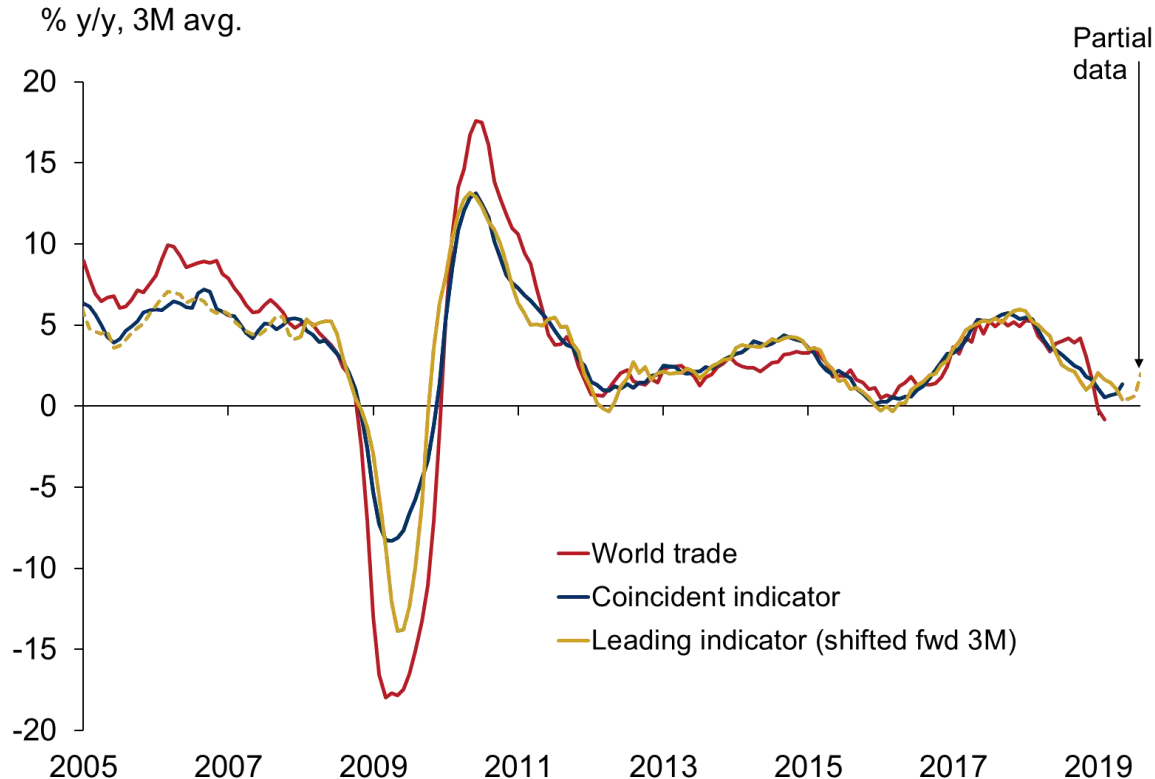
*@niconobivalgre*

*@OxfordEconomics*

**May 2019**

# World trade growth plunged in early-2019

## World trade and world trade indicators



Source : Oxford Economics/Haver Analytics/Reuters

**Our 2019 world trade forecast stands at less than 2% marking a 10-year low after still expanding 3.7% in 2018 and 5.3% in 2017. A recovery in H2 2019 should lead to a 3.6% rise in 2020.**

# Overall GDP growth slowing gently

## World: GDP & PMI



Source : Oxford Economics/Haver Analytics/Markit

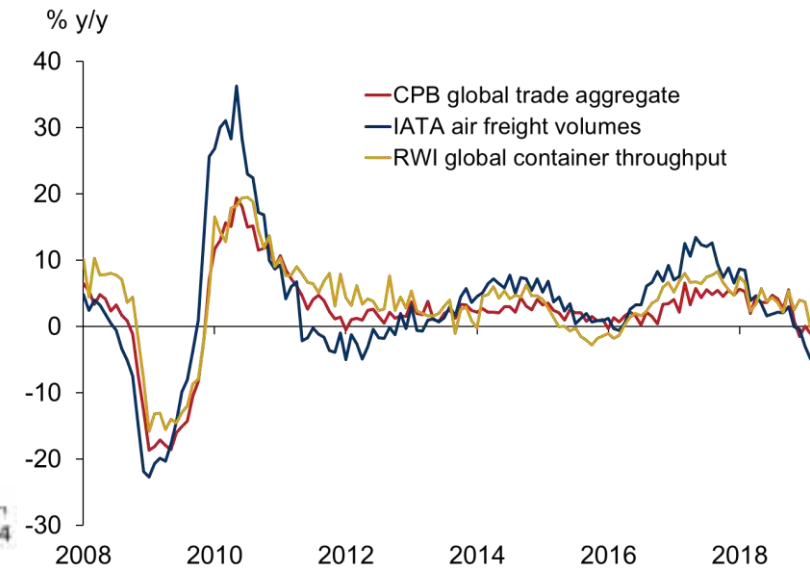
# Near-term trade outlook stands on shaky ground

**World: Trade growth estimates\***



Source : Oxford Economics/Haver Analytics/Reuters. \*Based on regression coefficients of world trade on diff. indicators; \*\* based on ann. 6M chg.

**Global trade indicators**



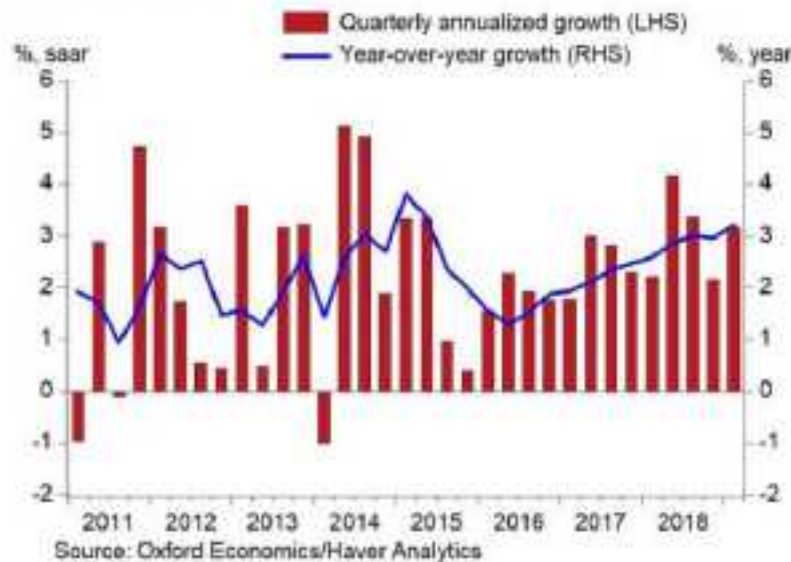
Source : Oxford Economics/Haver Analytics

**Some key export surveys such as in China and Korea have risen a little, but mood among European exporters remains gloomy.**

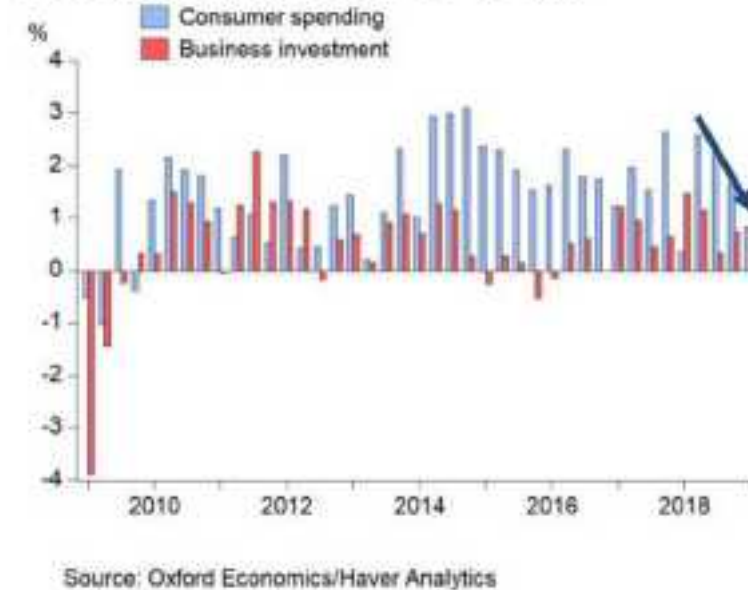
**Latest hard data also remains fairly mixed, but fundamentals suggest a recovery in the coming months.**

# US: Strong growth masks some weakness in composition

US: Real GDP



US: Contributions to real GDP growth



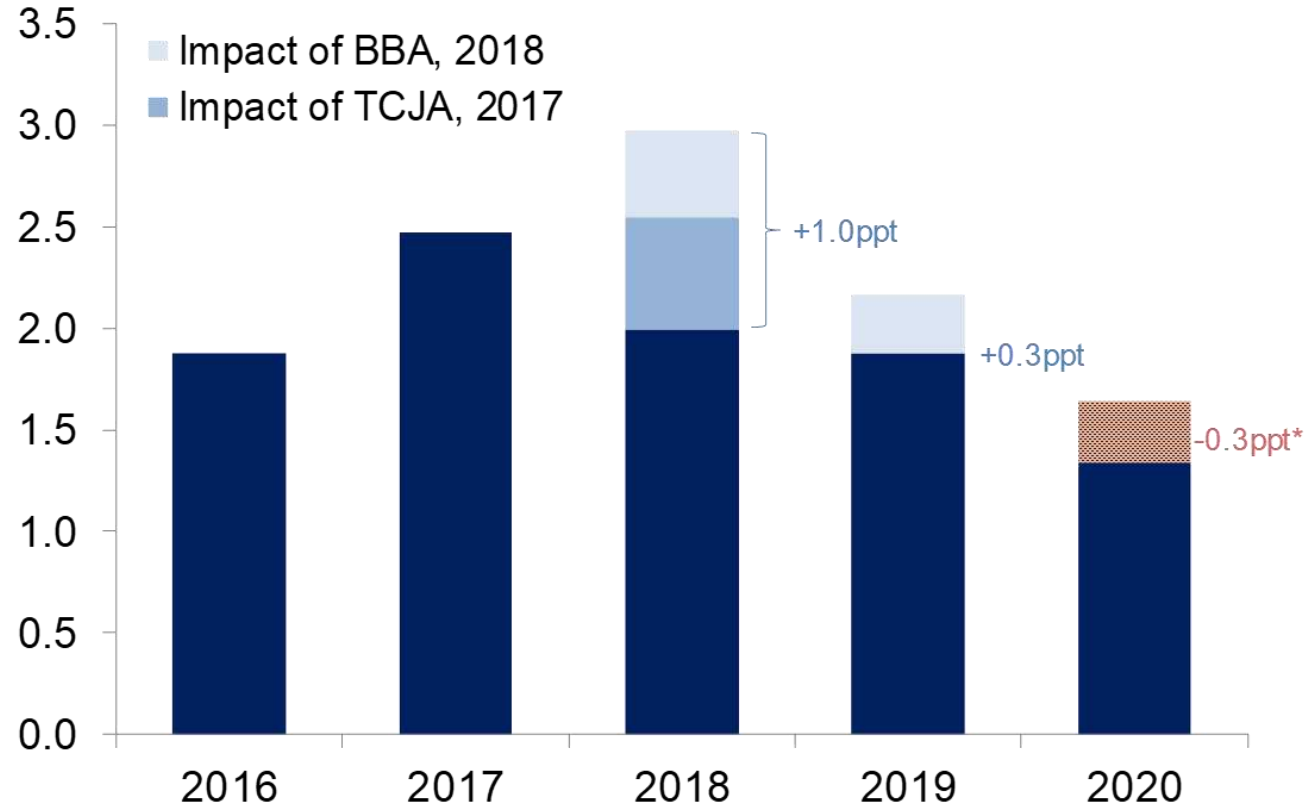
Consumer spending posted its weakest advance since Q1 2018, growing a modest 1.2% (contributing 0.8ppt to GDP growth), following a 3.8% and 2.5% gain in Q3 and Q4, respectively.

Business investment moderated further in Q1, growing 2.7% following a 5.4% advance in Q4. Reduced energy activity continued to weigh on structures outlays, down 0.8% (the third consecutive quarterly decline), while spending on equipment was up a meagre 0.2%

# Fiscal policy still a boost, albeit a fading one

## US: Policy tailwinds will diminish over time

Real GDP growth, Q4/Q4



Source: Oxford Economics

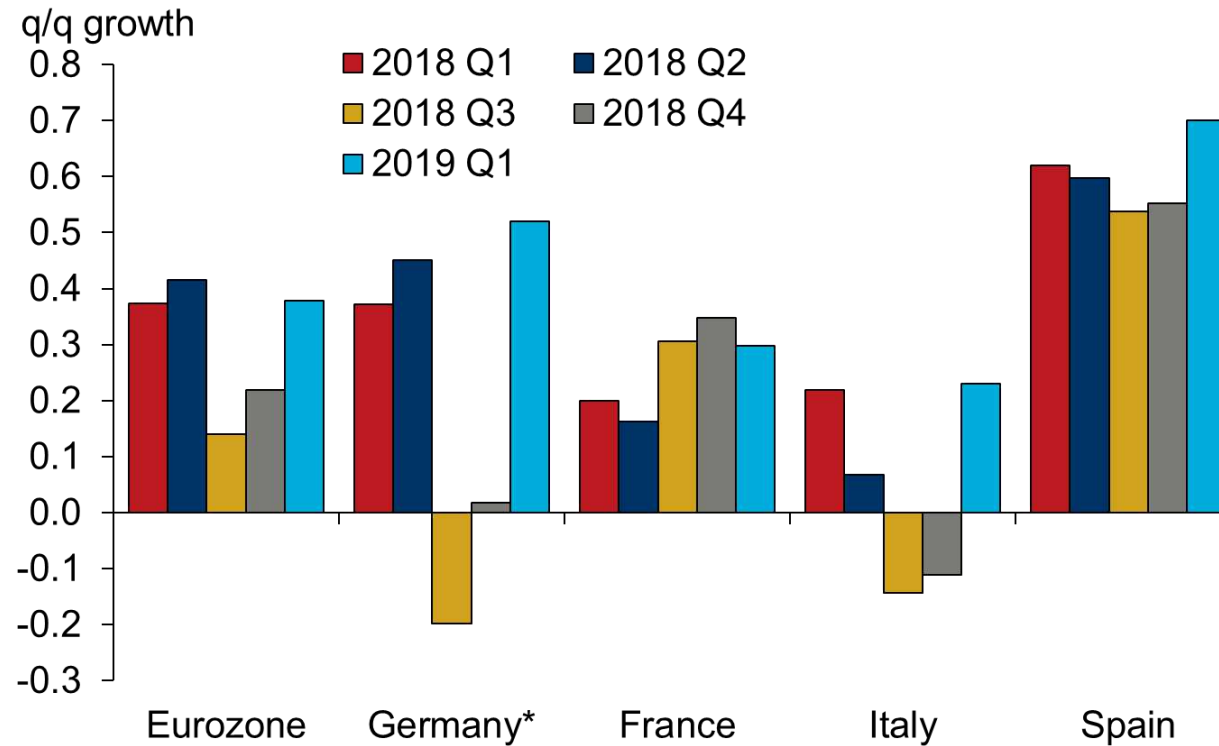
BBA, 2018 = Bipartisan Budget Act of 2018

TCJA, 2017 = Tax Cuts and Jobs Act of 2017

\*Fiscal cliff risk if Congress doesn't extend BBA spending

# EZ: Q1 GDP pick-up eased recessions fears

## Eurozone: GDP growth

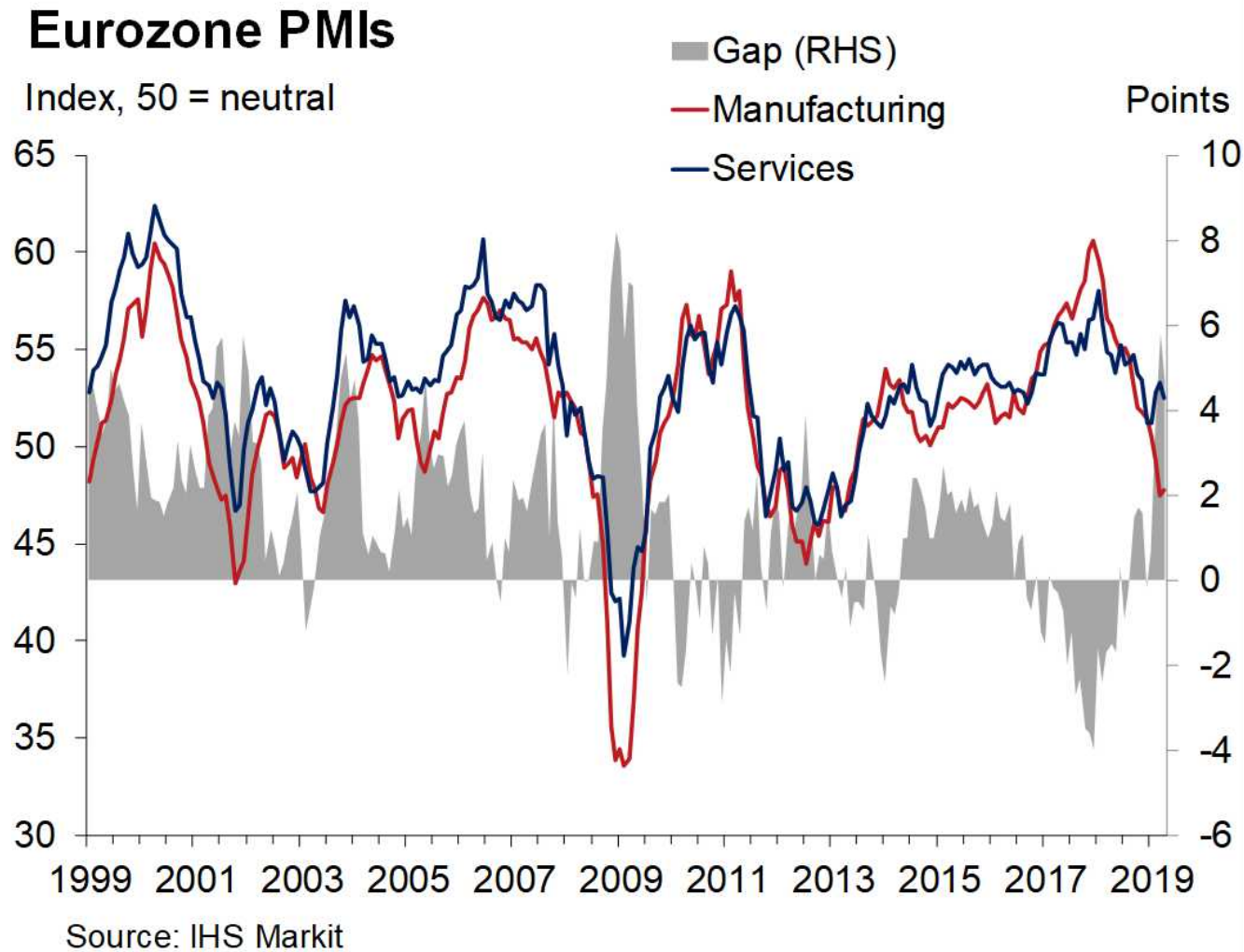


Source : Oxford Economics/Haver Analytics

\*Forecast for German 2019 Q1 data



## But manufacturing weakness remains a risk for Q2 GDP

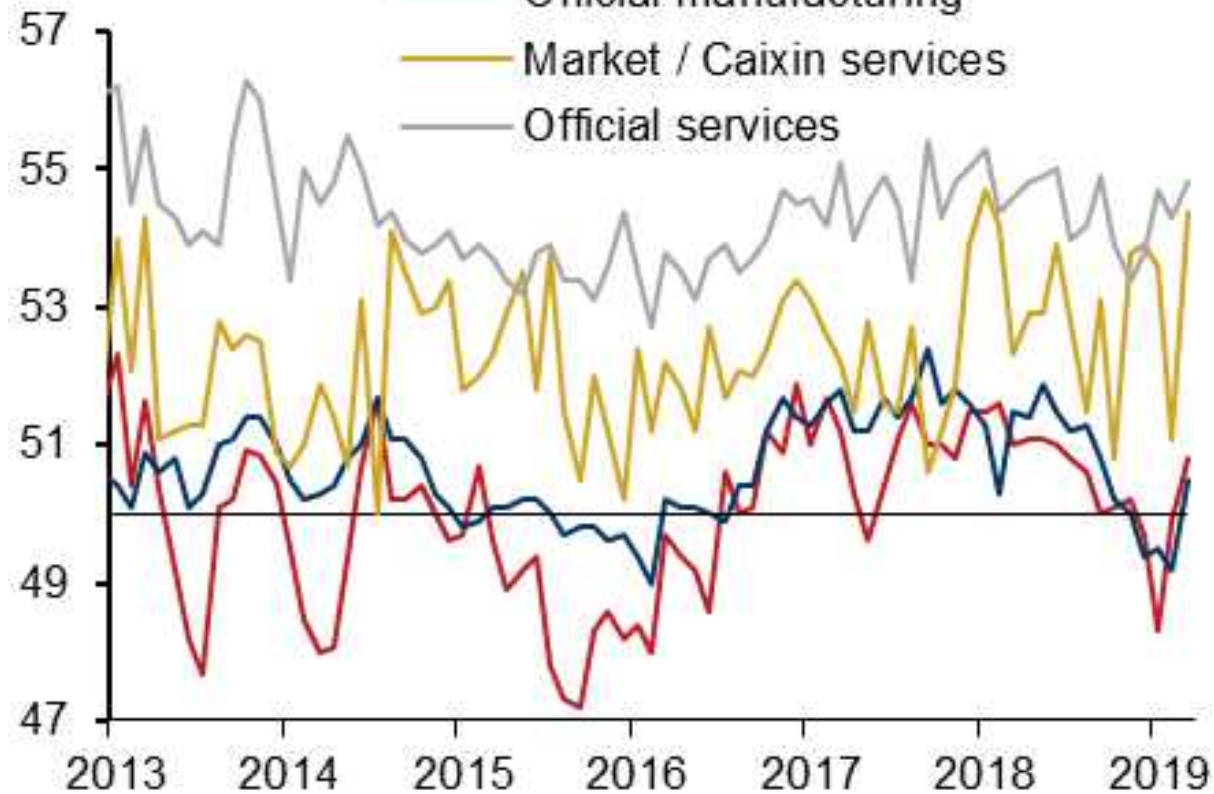




## China saw sharp deceleration in industry in end-2018

### China: PMIs

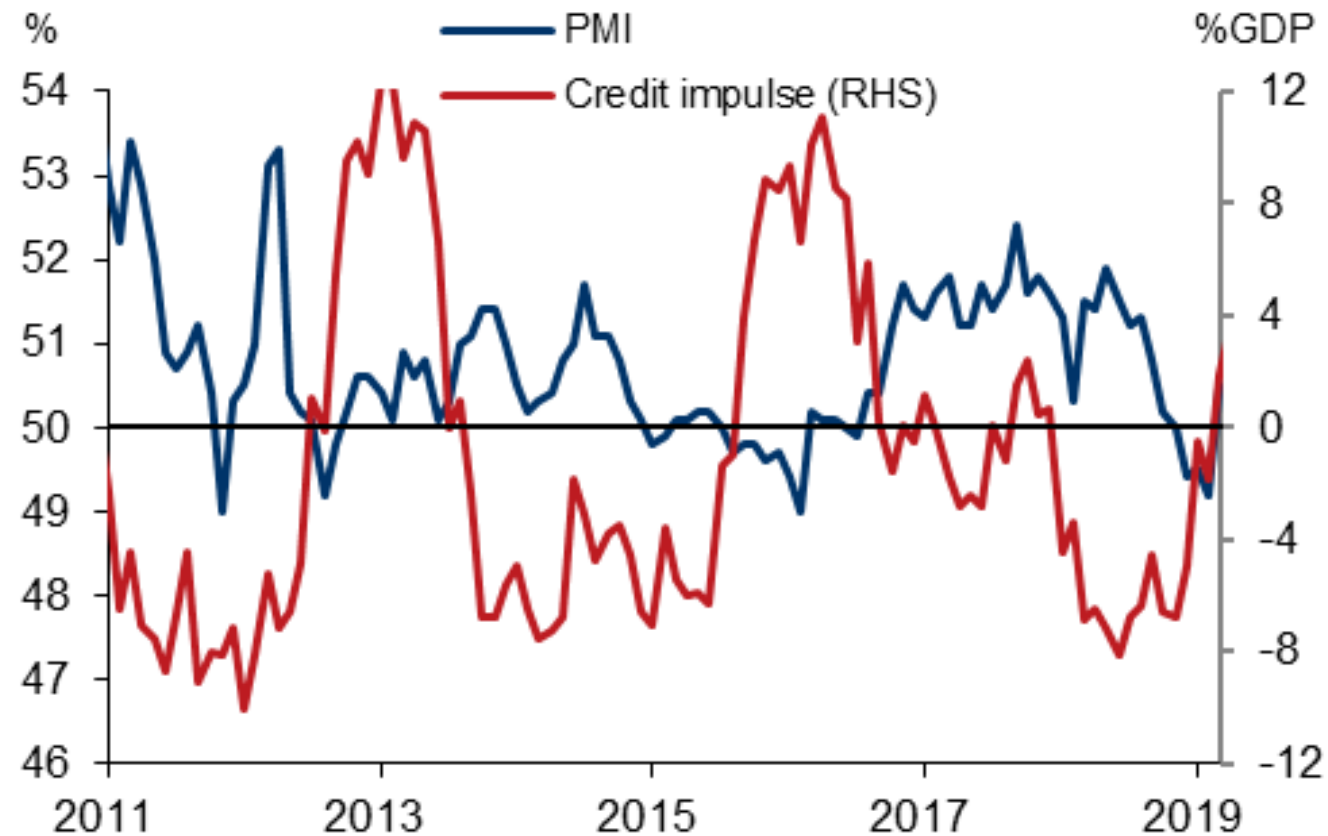
index, 50=Neutral



Source: Oxford Economics, CEIC Data, Markit, Caixin

## More ample credit is starting to kick in

### China: Credit impulse and PMI



Source: Oxford Economics, CEIC Data

## Summary of short-term forecast:

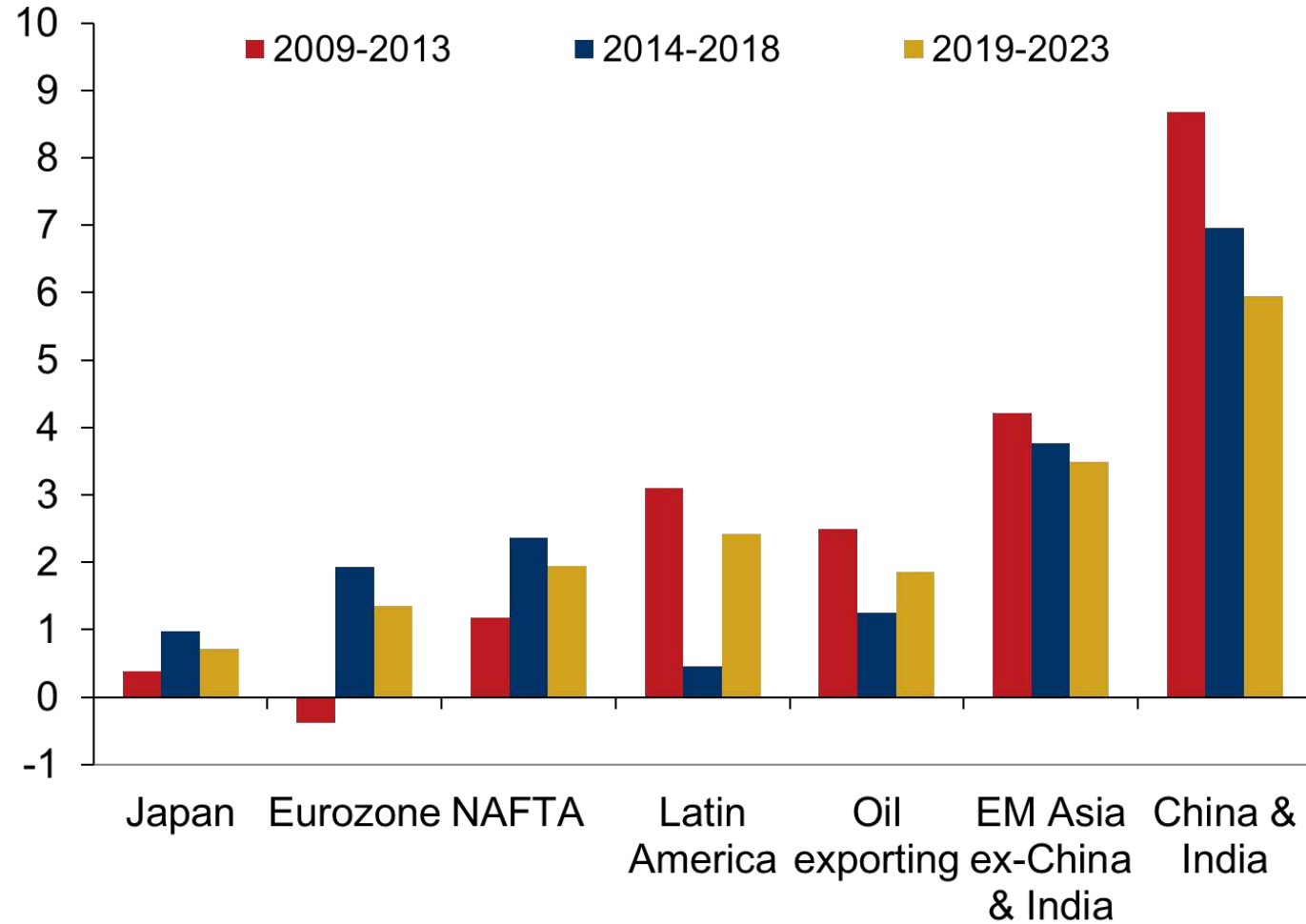
---

- Don't get too gloomy about the global economy – growth in 2019 still underpinned by US and Chinese policy
- Global trade still weak, but signs of bottoming out.
- US economy still going strong supported by fiscal and monetary policy, but likely to weaken as we move closer to 2020.
- Eurozone: a solid domestic economy vs. external risks

# Asia still the world engine

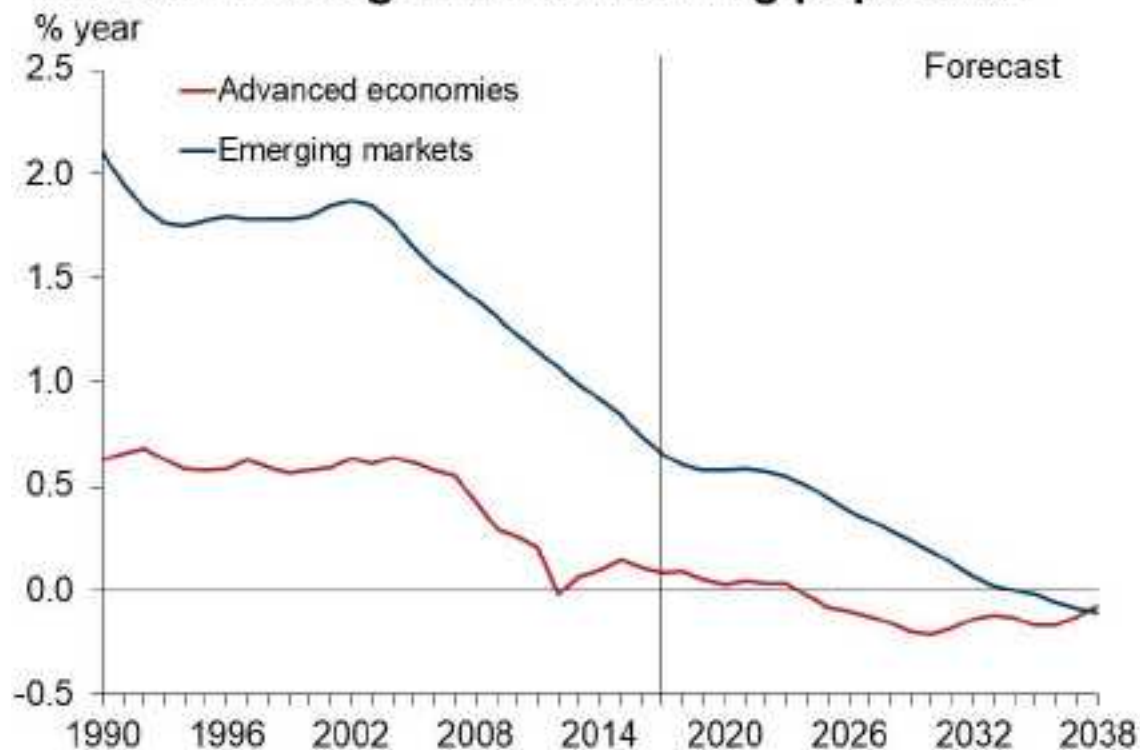
## World: Real GDP growth

Compound average growth rate, in %



# Weak fundamentals in Advanced Economies

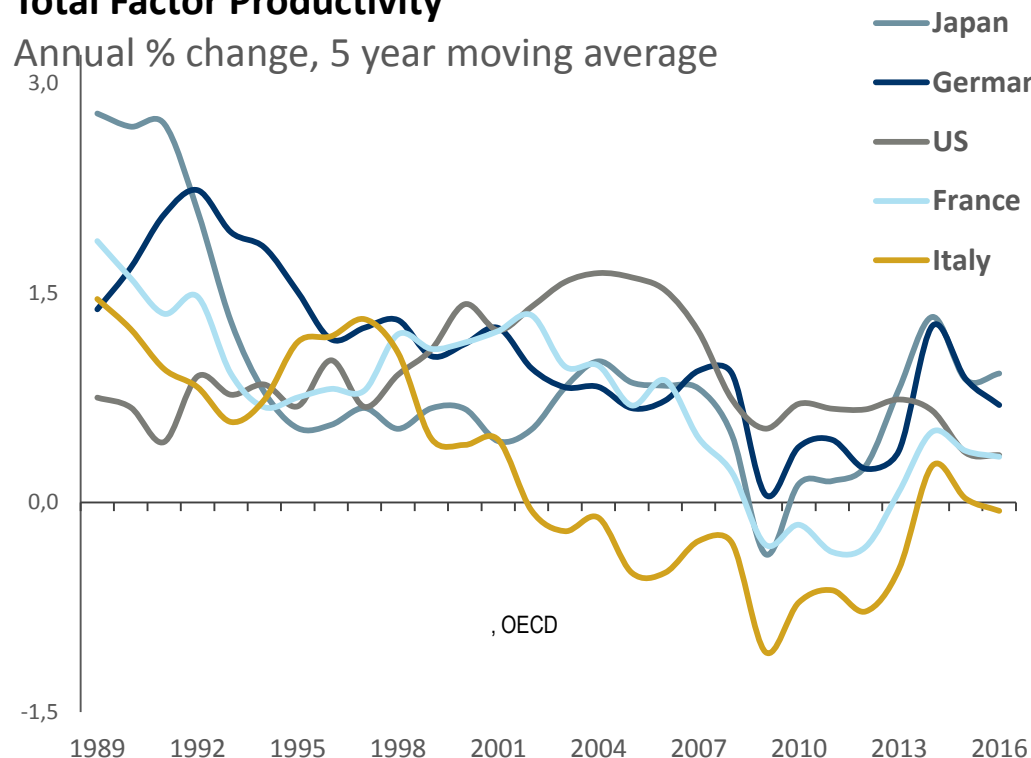
**World: Annual growth of working population**



Source : Oxford Economics/Haver Analytics

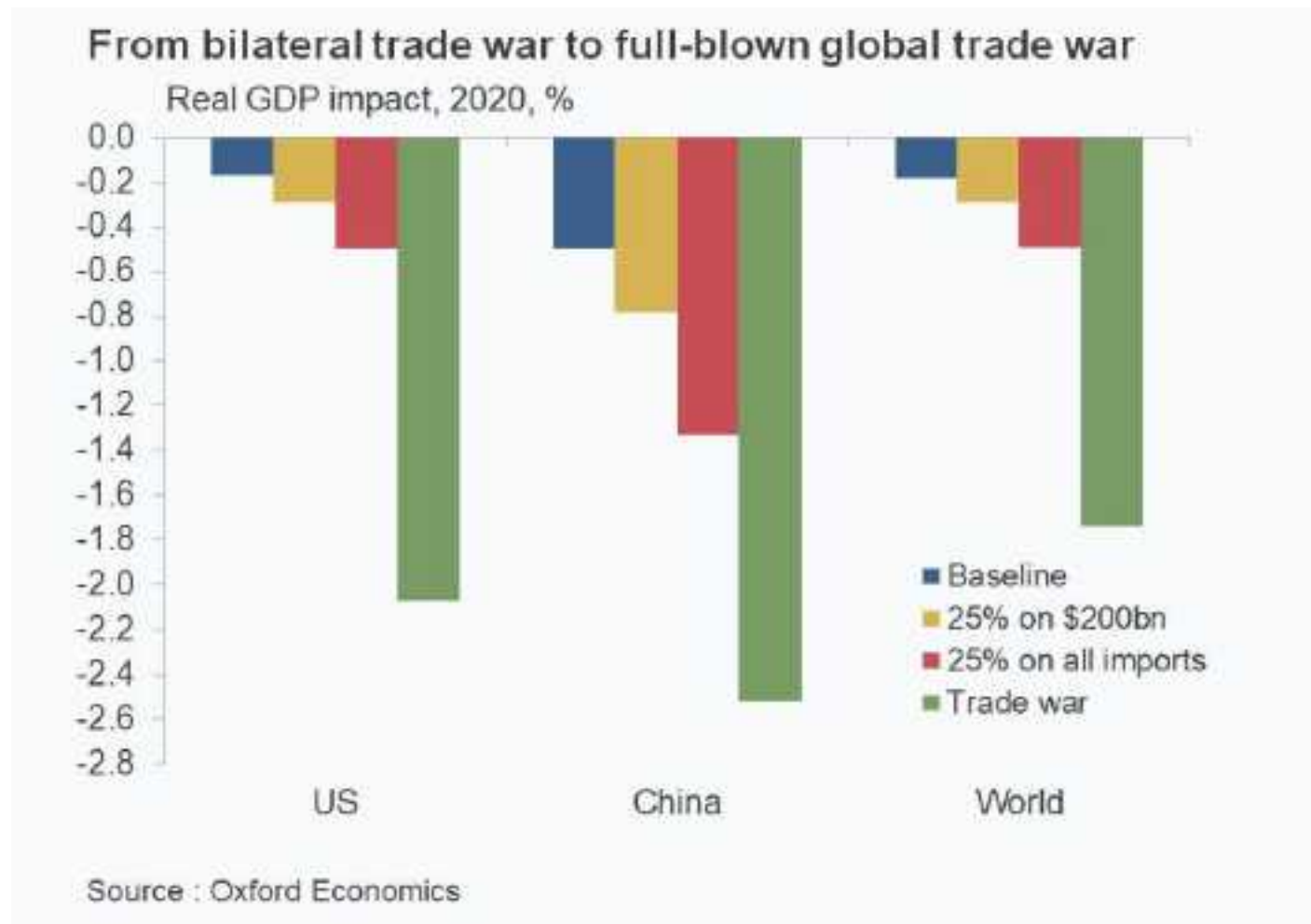
**Total Factor Productivity**

Annual % change, 5 year moving average



- Ageing leads to lower working population, higher savings and higher welfare costs
- Need for faster penetration of innovation and new technology to raise potential output

# Downside risk from trade war



# Risks to growth skewed to the downside

---

- Protectionism and fully blown tariff war
- European fragility exposed
  - Brexit, migration, populism
  - And Italy
- High debt levels undermining growth
- Geopolitical conflicts
- **In a low growth environment, politicians may be (and have been) tempted by overly expansionary policies, incompatible with low potential output growth – RISK OF BUBBLES**