The IMF's View of 2017–2018: Upbeat, but Still Worried

April 22, 2018

This brief reviews and assesses the recent World Economic Outlook published by the IMF.

Key take-always

The global economy accelerated significantly in 2017. Activity was up 3.8% — the strongest performance since 2011. Growth accelerated in both advanced economies and emerging markets. Big positive movers were the US (up 2.3% in 2017) and Japan (1.7%). Of note, the Eurozone accelerated to grow at the same pace as the US in 2017, while the UK lagged at 1.8%. Brazil, Nigeria, and Russia returned to growth after sharp recessions, helping to improve the outlook for their respective regions. Saudi Arabia was the only market of significance that shrank in 2017, due to the sharp drop in oil prices the previous year.

The IMF cited **the resurgence in investment and trade (up 4.9% in real terms) as big drivers of global growth in 2017.** This points to the direct risk to growth entailed in the recent trade actions by Washington. But the robustness of the trade data also suggests that these moves may not fundamentally shift overall trends in trade and globalization. To this point, the EU and Mexico just concluded negotiations to expand and deepen their bilateral free trade agreement.

The IMF has slightly upgraded its near-term view of the global economy and expects growth in 2018 to tick up to 3.9%, based on positive sentiment and momentum, an accommodative financial environment, strengthening commodities prices, and expansionary fiscal policy in the US. As indicated by the many green arrows in the chart on the following page, the IMF's optimism is exceptionally broad: Growth expectations around the world ticked up or held steady. The Middle East and North Africa region received the only downgrade. Also, many economists in Europe believe that growth in that region is now slowing.

The IMF believes global growth has maxed out for the foreseeable future and that global growth will decline to around 3.7% in the medium term as the current growth cycle in advanced economies matures and the US stimulus runs its course. (The IMF projects that the December 2017 tax policy changes will add 1.2% to real US GDP by 2020.)

The IMF signaled **optimism about the near-term growth potential of advanced economies** than it has in the past. The report indicated that the negative effects of the global financial crisis and the eurozone sovereign debt crisis were receding into the past faster than expected, investment was strong, digital innovation may be enhancing productivity in ways not fully accounted for, and there was more flexibility in the labor force than anticipated. The IMF warned, however, that growth in the long term will likely remain below pre-crisis levels because productivity improvements are not expected to sufficiently compensate for the depressive effects of aging workforces.

Emerging markets are expected to lead global growth over the medium term—with 4.9% growth expected in 2018 and an average of about 5% over the longer term. There were no significant changes in the EM narrative: Growth in China is expected to gradually taper off as the economy rebalances, and rapid growth in India is expected to offset that. An expected increase in commodity prices will favor commodity exporters (e.g. Brazil, Russia Nigeria), though the IMF does not foresee a return to the robust growth rates in commodity exporting countries experienced in the 2000-2014 supercycle. ▶

Growth Outlook	2016 Actual	2017 Actual	2018 Forecast
World	**3.2**	**3.8**	**3.9** ↑
Advanced Economies	**1.7**	**2.3**	**2.5** ↑
—US	1.5	2.3	2.9 ↑
—Eurozone	1.8	2.3	2.4 ↑
• Germany	1.9	2.5	2.5 ↑
• France	1.2	1.8	2.1 ↑
• Italy	0.9	1.5	1.5 ↑
• Spain	3.2	3.1	2.8 ↑
—UK	1.8	1.8	1.6 ↑
—Japan	1.0	1.7	1.2 ↑
Emerging Markets	**4.3**	**4.8**	**4.9** ↑
Asia	6.4	6.5	6.5 ○
—China	6.7	6.9	6.6 ↑
—India	7.1	6.7	7.4 ○
—ASEAN-5	4.9	5.3	5.3 ↑
Latin America	-0.9	1.3	2.0 ↑
—Brazil	-3.6	1.0	2.3 ↑
—Mexico	2.3	2.0	2.3 ↑
Russia	-0.2	1.5	1.7 ↑
MEAF	5.0	2.6	3.4 ↓
—Saudi Arabia	1.7	-0.7	1.7 ↑
Sub-Saharan Africa	1.4	2.8	3.4 ○
—Nigeria	-1.6	0.8	2.1 ↑
—South Africa	0.3	1.3	1.5 ↑

Source: IMF, April 2018. Key: ↑ = upgrade, ○ = no change, ↓ = downgrade

- **But, many emerging markets are not getting richer as fast as commonly thought.** The IMF reiterated that EM growth is very uneven and remains largely a China/East Asia/India story. Over one-quarter of emerging markets are not expected to narrow their per capita income gaps relative to advanced economies. These countries are clustered in Latin America, the Caribbean, the Middle East, and Africa.

- **Tepid wage growth and subdued inflation in advanced economies are continuing.** Despite record low unemployment rates in many advanced economies, more slack remains in labor markets than anticipated. The IMF pointed to two reasons for this: the share of workers involuntarily working part-time remains elevated and new entrants to the labor ▶

market are earning relatively lower wages than those retiring. The IMF concluded, “A sustained acceleration of labor earnings will be needed to push real wage growth above labor productivity gains, raise cost pressures for firms, and support the return of core inflation toward the medium-term target.” This suggests that popular frustration with stagnant or falling standards of living will persist.

- **Risks to growth presently are balanced, but they tilt to the downside in 2019 and beyond as the current growth cycle matures.** The IMF identified two key issues to watch: geopolitics and debt. Protectionist actions and other geopolitical risks could destabilize financial markets and undermine confidence. Global debt hit a new record high of $164 trillion in 2016, the equivalent of 225% of global GDP. A rapid tightening in still-ample global liquidity (in the US especially) could undermine confidence. To this point, the IMF chided the US as the only advance economy in which policymakers were not taking advantage of this period of robust growth to reduce debt. ■