GLOBAL ECONOMY

CRISIL Insights

February 2019

The CRISIL Insights Global Economy series represents our outlook on the financial scenario across the world and provides a perspective into how it will shape up in the near future.

Asynchronous world

- The United States Federal Reserve maintained policy rates in its January meeting, but signaled a pause in future rate hikes
- Euro zone annual growth slowed to a four-year low of 1.8% in 2018
- China's gross domestic product growth moderated to 6.6% in 2018, the slowest in three decades
- Crude oil prices rebounded in January on output cuts by major oil producing countries

The 'synchronous' music pulsating through the global economy has more or less ground to a dissonant halt. Recent growth projections are signalling quite the reverse in 2019. Growth in most major economies is set to moderate. In January, the International Monetary Fund (IMF) revised down[1] its global growth projections for 2019 and 2020 to 3.5% and 3.6%, respectively, from 3.7% in 2018. Key factors for the downward revision include increase in tariffs by the United States (US) and China, the lingering impact of weak growth momentum in the second half of 2018, and lukewarm financial market sentiment. Risks to global growth are tilted to the downside. These include escalation of trade tension, tighter financial conditions, deterioration in the risk sentiment, no-deal Brexit, and greater-than-expected Chinese economic slowdown.

GDP heat map

GDP growth (q-o-q SA annualized %)

	Q3-17	Q4-17	Q1-18	Q2-18	Q3-18	Q4-18
US	3.2	2.9	2.0	4.2	3.4	N/A
UK#	0.4	0.4	0.1	0.4	0.6	0.2
EA#	0.7	0.7	0.4	0.4	0.2	0.2
Japan	2.5	2.0	-0.9	2.2	-2.6	1.4
China*	6.8	6.8	6.8	6.7	6.5	6.4

Note: * y-o-y %, #q-o-q, not annualized
Source: Statistical bureau, respective countries

Improvement | Decline | Unchanged

[1] In its October update, the IMF had maintained global growth forecast at 3.7% for both 2019 and 2020.

US Economy

US Fed signals a pause

Euro Zone Economy

Transitory factors weigh down GDP growth in 2018

US Economy

Longest US government shutdown ends in January

The longest ever shutdown of the US government is likely to hit economic growth in the first quarter of 2019. The shutdown pushed up the unemployment rate in January by 10 bps on-month. However, the economy added 304,000 non-farm jobs, much stronger than market expectations. Wage growth also showed a gradual upward trend. Average hourly earnings grew at 3.2% on-year, stable compared with December.

Consumer price index (CPI)-based inflation, eased to 1.9% in December, compared with 2.2% in November, as energy inflation eased. This marks the first time since August 2017 that the headline inflation has been under 2%. Core inflation (excluding food and energy) was steady at 2.2% for the second month in a row, with shelter and medical care inflation continuing to exert pressure.

In its January 30 meeting, the US Federal Open Market Committee (FOMC) kept its benchmark policy rate (2.25 to 2.5%) unchanged and signaled a pause in its rate hike policy. The FOMC took a dovish tone due to slower global growth, Brexit, the US government shutdown, and tighter financial conditions.

Consumer price inflation (y-o-y %)

	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18
US	2.9	2.7	2.3	2.5	2.2	1.9
UK	2.5	2.7	2.4	2.4	2.3	2.1
EA	2.1	2.0	2.1	2.2	1.9	1.6
Japan	0.9	1.3	1.2	1.4	0.8	0.3
China	2.1	2.3	2.5	2.5	2.2	1.9

Source: Statistical bureau, respective countries

Policy interest rate (end of month %)

	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
US	1.75-2.00	2.00-2.25	2.00-2.25	2.00-2.25	2.25-2.50	2.25-2.50
UK	0.75	0.75	0.75	0.75	0.75	0.75
EA	0.0	0.0	0.0	0.0	0.0	0.0
Japan	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
China	4.35	4.35	4.35	4.35	4.35	4.35

Source: Central bank, respective countries

Euro Zone Economy

Euro zone growth slows to a four-year low

The euro zone (euro area or EA-19) real GDP growth for the fourth quarter (Q4) came in at 0.2% on-quarter (not annualised), stable compared with Q3. With this, the annual GDP growth for 2018 stood at 1.8%, compared with 2.4% in 2017, the slowest GDP growth since 2014, when annual GDP growth was 1.4%. Transitory factors such as disruptions in the German auto industry linked to new environmental standards and social unrest in France (the yellow vest protest) weighed on growth. These factors are continuing to slow growth in the first quarter of 2019, too.

The euro zone's goods trade surplus narrowed to €19 billion in November compared with €23.4 billion a year ago, as imports growth (4.7% on-year) outpaced exports growth (1.9% on-year). The unemployment rate was stable at 7.9% for the second consecutive month in December. This is the lowest unemployment rate recorded in the region since October 2008. The annual harmonised indices of consumer prices eased to 1.6% in December, from 1.9% in November, as energy inflation cooled off.

As per the Eurostat's flash estimate, inflation is expected to slip further to 1.4% in January as industrial goods inflation has softened. In its January 24 meeting, the European Central Bank maintained its main refinancing rate, marginal lending facility rate, and the deposit facility rate at 0%, 0.25% and -0.4%, respectively.

The UK's GDP growth moderated to 0.2% on-quarter (not annualised) in Q4, compared with 0.6% in Q3, due to a slowdown in construction and manufacturing activities. Overall, in 2018, GDP growth moderated to 1.4%, compared with 1.7% in 2017, the slowest growth since 2012. CPI inflation eased to 2.1% in December, 20 bps lower on-month, as petrol and air fare prices cooled. The Bank of England left its benchmark policy rates unchanged at 0.75%.

Japan Economy	China Economy
Third consecutive month of trade deficit	Slowest GDP growth in three decades

Japan's GDP growth rebounds in Q4

Japan's GDP grew 1.4% in Q4 2018 compared with a contraction of 2.6% in Q3, as consumer spending and capital expenditure rebounded from natural disasters that disrupted corporate activity. Annual GDP growth in 2018 slowed to 0.7%, compared with 1.9% in 2017, as contraction in private (residential) and public investment weighed on growth. Japan posted a trade deficit of ¥56.7 billion in December, compared with a trade surplus of ¥356.2 billion a year ago, as exports growth contracted 3.9% while imports grew at a modest 1.9%. This marks the third consecutive month of trade deficit. Overall, in 2018, Japan posted a trade deficit of ¥1,206 billion, compared with a surplus of ¥2,907 billion in 2017, as exports growth remained meek (4.1% on-year) compared with imports growth (9.7%).

Japan's unemployment rate (seasonally adjusted) was 2.4% in December, 10 bps lower on-month. The real average monthly household consumption expenditure was up at 1.9% on-year in December, compared with 0.3% in November. Annual CPI inflation eased sharply to 0.3% in December, compared with 0.8% in November, as food, and transport and communication inflation fell. CPI inflation excluding fresh food, the Bank of Japan's (BoJ) target inflation rate, also eased 20 bps on-month to 0.7%. The BoJ left its policy rate unchanged in January, at -0.1%.

China's growth slows down

China's real GDP growth in Q4 moderated to 6.4% on-year compared with 6.5% in Q3. Overall, in 2018, growth fell to 6.6%, compared with 6.9% in 2017, led by a slowdown in manufacturing. This is the slowest growth rate China has seen over the past three decades. The official manufacturing purchasing managers index (PMI) continued to remain below 50% for the second month in a row in January. The manufacturing PMI stood at 49.5%, gaining a modest 10 bps on-month. Conversely, non-manufacturing PMI improved for the second month in a row to 54.7%, gaining 90-bps on-month. A PMI reading above 50% signals expansion, while a reading below 50% signals contraction. Therefore, while China's non-manufacturing sector, led by services, is expanding, the manufacturing sector is contracting.

In December, the trade surplus widened to $57.1 billion, compared with $53.9 billion a year ago, beating market expectations. It was the largest trade surplus since December 2015 (surplus of $56.7 billion). Surplus widened as imports contracted 7.6%, marking the biggest decline since July 2016. In December, CPI inflation eased to 1.9% compared with 2.2% in November, as inflation in transportation and communications fell. The People's Bank of China maintained its benchmark lending rate at 4.35%.

Commodity prices gain modestly in January

As per the World Bank's pink sheet, commodity prices rose modestly in January. The energy index gained 1.6% on-month while the non-energy index gained 0.6%.

After plunging in December, the energy index rebounded in January, as oil prices picked up. Brent crude averaged $59.4 per barrel (bbl) in January, gaining 5.1% on-month, aided by production cuts by major oil producing countries and US sanctions on Venezuela. CRISIL Research believes these factors coupled with a supply disruption from Libya will continue to keep crude oil prices higher in February as well.

Non-energy prices gained marginally, with rises in the agriculture index (1.2% on-month) balanced by losses in fertilisers (-2.9%) and metals and minerals (-0.4%). Precious metals gained 3.6%, led by increase in gold and silver prices.

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