Global Economic Outlook

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Vistas from Texas: An Economic Outlook

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The views expressed are those of the author and do not necessarily reflect the views of the Federal Reserve Bank of Dallas or the Federal Reserve System
Overview

• Secular trends reshaping the world
  • Demographics
  • Globalization
  • Debt
  • Disruptive innovation

• The global outlook:
  • Synchronized growth
  • Few signs of inflation

• Risks
  • Europe (BREXIT, Italy, …)
  • China
  • Trade
  • Monetary policy normalization
Four Secular Trends

• Demographics
  • Aging populations in many countries, shrinking populations in some
  • Rising dependency ratios
  • Global competition for mobile labor?

• Globalization
  • More economic activity now takes place in the so-called emerging market economies than in the advanced economies
  • Greater sensitivity of local developments to global developments?
  • Populist backlash against open borders?
Four Secular Trends (continued)

• Debt
  • Public sector debt levels have grown in most advanced economies
  • Limited fiscal space for stimulus if needed going forward
  • The largest (emerging market) economy (China) remains very dependent on debt-fueled growth

• Disruptive innovation
  • IT and AI related innovation accounts for more of what ails the middle class than globalization?
  • Why no surge in productivity growth?
Central bank policy rates no longer stuck at zero

At its policy meeting at the end of January 2016, the BoJ adopted a negative interest rate of -0.10 percent on reserves.
<table>
<thead>
<tr>
<th>Country</th>
<th>2017</th>
<th>2018(f)</th>
<th>2019(f)</th>
<th>Change from January 2018 WEO forecast</th>
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The world has changed!

GDP based on PPP, share of world total

On the eve of the Global Financial Crisis there was about as much economic activity taking place in the emerging market economies as in the advanced economies of North America, Europe and Japan.
The world has really changed!

GDP based on PPP, share of world total

By some measures China became the world's largest economy in 2014.

Percent, deviation from baseline

Quarters after initial shock

10% - 90% confidence bounds
China
U.S.
...and today

Percent, deviation from baseline

Quarters after initial shock

10% - 90% confidence bounds
China
U.S.
Share of state employment variation explained by global, national and residual state-specific shocks

Global shock, avg = 24.8
Share of state employment variation explained by global, national and residual state-specific shocks

Global shock, avg = 24.8
National shocks, avg = 30.7
Share of state employment variation explained by global, national and residual state-specific shocks

Global shock, avg = 24.8
National shocks, avg = 30.7
Residual state-specific shocks, avg = 44.5
Summary

• Global business cycle *alone* explains about 25 percent of employment fluctuations, on average
  • Large differences across states
  • Range from a low of 0.3 percent in Alaska to 42.6 percent in Illinois
  • Texas: 34.9 percent

• Global and national business cycles *together* explain about 56 percent of employment fluctuations, on average

• About 44 percent of employment fluctuations (on average) cannot be accounted for by the global and national business cycles
  • Range from a low of 18.5 percent in North Carolina to 91.9 percent in DC
  • Texas: 40.3 percent
Cumulative one year effect of a 0.5% negative global foreign output shock on states’ employment growth

Percentage points

Average = -0.79

= 80% confidence interval
Contributions of shocks to employment growth in the 11th District

Percentage points

U.S. recessions

11th District employment growth (Q/Q)
Contributions of shocks to employment growth in the 11th District

Percentage points

- U.S. recessions
- Global shock
- 11th District employment growth (Q/Q)
Contributions of shocks to employment growth in the 11th District

U.S. recessions
Global shock
National shocks
11th District employment growth (Q/Q)

Percentage points
Contributions of shocks to employment growth in the 11th District

Percentage points

11th District employment growth (Q/Q)

U.S. recessions
National shocks
Residual state-specific shocks
Global shock

Share of metro area employment variation explained by global, national and residual MSA-specific shocks

Global shock, avg = 19.2
Share of metro area employment variation explained by global, national and residual MSA-specific shocks

- **Global shock, avg = 19.2**
- **National shocks, avg = 12.8**
Share of metro area employment variation explained by global, national and residual MSA-specific shocks

- Global shock, avg = 19.2
- National shocks, avg = 12.8
- Residual shocks, avg = 68.0
Cumulative one year effect of a 0.5% negative global foreign output shock on MSAs’ employment growth

Average = -0.66

= 80% confidence interval
Contributions of shocks to Austin-Round Rock’s employment growth

- U.S. recessions
- Global shock
- National shocks
- Residual MSA-specific shocks
- Employment growth (Q/Q, detrended)
Contributions of shocks to San Antonio-New Braunfels’ employment growth

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- Contributions of shocks to San Antonio-New Braunfels’ employment growth
Conclusions

• Modal outlook is for synchronized expansion in 2018 & 2019
  • U.S. likely to continue to be one of the stronger performers among the advanced economies
  • Expansion gathering momentum in Europe, Japan
  • Almost all emerging markets now growing

• Monetary policies of major central banks diverging
  • Fed: normalization began December 2015; BoE also normalizing
  • ECB, BoJ: still easing; but ECB will cease asset purchases at year end
  • PBOC: shift to concerns about financial stability

• Risks:
  • Overshooting in the U.S.
  • Europe: BREXIT, Italy…
  • China slowdown
  • Trade conflicts?