Global Economy Continues to Suffer Weak Growth Momentum

By Claus Michelsen, Guido Baldi, Geraldine Dany-Knedlik, Hella Engerer, Stefan Gebauer, and Malte Rieth

ABSTRACT

Favorable labor market conditions and the resulting increase in private consumption are still sustaining the global economy. Trade disputes and political uncertainties, however, continue to slow investment activity, with the result that economic growth will only be moderate particularly in advanced economies. By contrast, growth is accelerating in emerging markets, especially in India. Global economic growth is likely to remain moderate over the next two years. Consumption, in particular, will continue to prop up the economy, with investment activity expected to remain sluggish in the near term, despite favorable financing conditions. Towards the end of the forecast period, investment is expected to pick up again and trade to recover, replacing private consumption as the main drivers of growth. Worldwide, the economy is expected to grow by 3.6 percent this year and by 3.7 percent in each of the two subsequent years. Even though tariff disputes between the US and China have eased somewhat, downward risks remain high. Additional US tariffs and Brexit uncertainties threaten to weaken the economy.

The global economy picked up slightly in the third quarter of 2019 compared with the first half of the year (see Figure). In both advanced economies and emerging markets, the primary growth driver was increasing private consumption, sustained by continued favorable conditions on labor markets. Meanwhile, investment activity remained subdued.

The pace of expansion in advanced economies, however, remained virtually unchanged; with manufacturing in the US and the euro area showing similar development to the previous quarter. The UK economy, in contrast, rebounded after contracting in the second quarter, while Japanese economic performance lost considerable momentum.

In emerging economies, growth continued to accelerate slightly. In some of these economies production expanded markedly, for example in India. By contrast, the rate of expansion in China remained nearly unchanged.

For the forecast period, sluggish global production is expected to continue, although the global economic sentiment has brightened somewhat. In particular, trade policy uncertainties have receded recently, with the US and Japan concluding a trade agreement in fall, for example, and the trade dispute between the US and China beginning to ease. In addition, Chinese foreign trade stabilized in the third quarter after a significant decline in the first half of the year.

However, recent increases in tariffs on aluminum and steel as well as the US government's threat to impose additional tariffs on European products suggest there is no fundamental turnaround in US trade policy. For instance, simmering trade disputes are likely to continue to weigh on investment activity in most economies, albeit to a slightly lesser extent than seen recently. At the end of the forecast period, these burdens are likely to ease provided trade policy conditions remain the same and, thus, global trade should regain some momentum in 2021.

But for the time being, weak growth in industrial manufacturing is not likely to change. Despite the recent positive development of key economic indicators for the manufacturing sector in most advanced economies, the majority

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Table

Real GDP, consumer price inflation, and unemployment rate in the world economy
In percent

	GDP				Consumer prices				Unemployment rate in percent			
	Change over previous year in percent											
	2018	2019	2020	2021	2018	2019	2020	2021	2018	2019	2020	2021
Euro area	1.9	1.2	1.1	1.4	1.7	1.2	1.2	1.4	8.2	7.5	7.4	7.2
without German	2.0	1.5	1.2	1.3	1.7	1.1	1.0	1.3	10.3	9.6	9.3	9.1
France	1.7	1.3	1.3	1.4	1.9	1.2	1.3	1.3	9.1	8.5	8.2	8.1
Italy	0.7	0.2	0.5	0.8	1.2	0.8	1.0	1.1	10.6	10.0	9.9	9.7
Spain	2.4	2.0	1.7	1.6	1.7	0.9	1.2	1.5	15.3	14.1	13.7	13.4
Netherlands	2.5	1.7	1.5	1.6	1.6	2.6	1.4	1.5	3.9	3.5	3.6	3.7
United Kingdom	1.4	1.3	1.2	1.6	2.4	1.9	2.1	2.2	4.2	4.0	4.1	4.2
USA	2.9	2.3	1.9	1.7	2.4	1.8	2.1	1.9	3.9	3.7	3.5	3.5
Japan	0.8	0.9	0.6	0.8	0.8	0.6	0.9	1.1	2.5	2.4	2.3	2.3
South Korea	2.7	1.8	2.2	2.0	1.6	0.6	1.2	1.4	3.8	3.8	3.7	3.6
East-central Europ	4.5	4.1	3.6	3.5	2.2	2.7	2.8	2.8	3.8	3.4	3.2	3.2
Turkey	2.9	0.3	2.5	2.6	16.4	14.9	11.1	9.8	11.0	13.9	13.7	13.5
Russia	2.0	1.2	1.8	1.9	2.9	4.5	3.7	4.1	4.8	4.6	4.5	4.4
China	6.5	6.2	6.1	6.0	2.5	3.3	3.6	3.6	4.1	4.1	4.1	4.1
India	7.3	5.7	6.2	6.1	3.9	3.5	3.7	3.5				
Brazil	1.1	0.7	1.0	1.3	3.8	3.7	3.9	4.2	12.3	12.1	11.4	10.9
Mexico	2.0	0.1	1.1	1.1	4.9	3.5	3.3	3.2	3.4	3.6	3.6	3.5
Advanced econo	2.3	1.8	1.5	1.5	2.0	1.4	1.7	1.7	4.8	4.5	4.4	4.3
Emerging markets	5.5	4.7	5.0	5.0	3.6	4.0	4.0	4.0	5.1	5.2	5.2	5.1
World	4.2	3.6	3.7	3.7	3.0	3.0	3.1	3.1	5.0	4.9	4.8	4.8

Sources: National statistical offices; DIW winter projections 2019.

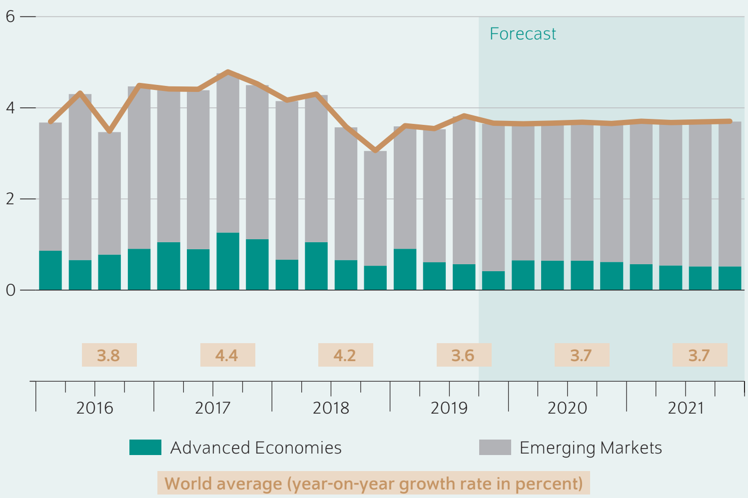
is still below the expansion threshold. Services sector sentiment is slowly clouding but remains positive overall. The recent waning employment growth mirrors the general economic slowdown and, even more so, the continuing manufacturing slump. Overall, sufficiently tightened labor market conditions will continue to generate upward wage pressure. Along with persistently low energy prices and inflation rates, this should bolster real disposable income and consumption.

Further impetus for the global economy may also come from improved financing conditions. Monetary policy in the US and the euro zone, as well as in many emerging markets, is more expansionary than it was in the first half of the year. While the US and euro area central banks remain unlikely to further ease their monetary policy, the stimuli already generated as well as future cuts in key interest rates in some emerging markets should help ease financial conditions further. Fiscal policy also remains globally expansive. Additional expenditure is planned in some European countries, China, and other emerging economies, such as India.

All in all, the global economy is likely to experience just moderate growth, burdened by persistently sluggish investment activity. This means that consumption will, in all likelihood, remain the primary driver of growth in the global economy. The global economy is expected to grow by 3.6 percent this year and by 3.7 percent in each of the two subsequent years (see Table). DIW Berlin has thus revised its forecast upward since the fall.

Figure

World real GDP growth
Quarter-on-quarter, in percent



Sources: National statistical offices; DIW winter projections 2019.

The economy is not gaining momentum

The downside risks have decreased slightly over the fall forecast, with the trade dispute between the United States and China easing somewhat in the third quarter, for example. The increases in tariffs on Chinese products planned for October were initially postponed and negotiations between the two countries have now resumed. Overall, however, the risk of global trade disputes escalating remains high, with the Hong Kong conflict also contributing to the situation. Furthermore, the United Kingdom is still facing the risk of a disorderly exit from the European Union, despite the Brexit deadline having been postponed. Tariff disputes in particular, but also a hard Brexit, are likely to weaken the robust consumption seen in the advanced economies to date and send the global economy into a new slump.

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