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IMF: idiosyncratic recoveries to drive modest growth pick-up

■According to the IMF's chief economist, the growth outlook is precarious ■Although the Fund expects somewhat of a pick-up of growth next year, this is driven by a small group of emerging and developing economies which are currently under stress or underperforming ■The modest growth acceleration reflects country-specific factors, rather than the expectation of a broad-based improvement ■In the US, the growth slowdown is expected to continue well beyond 2020 and Chinese growth is projected to decline to 5.8% next year. Against this background, the projected slight pick-up in the eurozone, driven by Germany and Italy, and which supposes that external demand regains some momentum, looks challenging.

The title of the IMF's new World Economic Outlook (WEO) sounds more like an observation than an assessment, let alone a forecast: "Global manufacturing downturn, rising trade barriers". For a clearer and punchier message, the reader should check the blogpost of the Fund's chief economist Gita Gopinath: "Synchronized slowdown, precarious outlook". The IMF now expects the world economy to grow 3.0% this year (versus 3.3% in the April WEO) and 3.4% next year (3.6% in April). This would still leave growth below the 3.6% of 2018. The forecast for 2020 warrants little excitement, even less so when considering that "about 70 percent of the projected 2020 pickup in global growth is accounted for by a small group of emerging market and developing economies in severe distress or currently underperforming relative to past averages." It concerns Argentina, Iran, Turkey, Venezuela, Brazil, Mexico and Russia. With such a diverse group of countries and, given their limited weight in the world economy, we should not count on significant spillover effects, at least not in the advanced economies[1] In addition, if distress were to last longer, this would obviously jeopardise the projected pick-up of global growth.

Although the IMF expects the US to slow down, from 2.4% this year to 2.1% next, both numbers are slightly higher than in April (respectively 0.1 and 0.2 percentage points). In China, the slowdown is expected to continue and growth is projected to drop below 6.0% next year to 5.8%. The developments in the US and China create a challenge for the eurozone. Nevertheless, the Fund expects somewhat of an acceleration next year (from 1.2% in 2019 to 1.4%), on the back of a rebound in Italy (from 0.0% to 0.5%) and, particularly, Germany (from 0.5% to 1.2%).

[1] Research from the World Bank shows that spillovers from China, Russia, India, Brazil, Turkey, Mexico, and Indonesia (these countries represent about 80 percent of total emerging market output) are sizeable for other emerging and frontier markets but they are small and not statistically significant for advanced economies. Unsurprisingly, the biggest spillovers are from China. Source: How Important are Spillovers from Major Emerging Markets?, CAMA Working Paper 37/2017, May 2017, Raju Huidrom, M. Ayhan Kose and Franziska Ohnsorge

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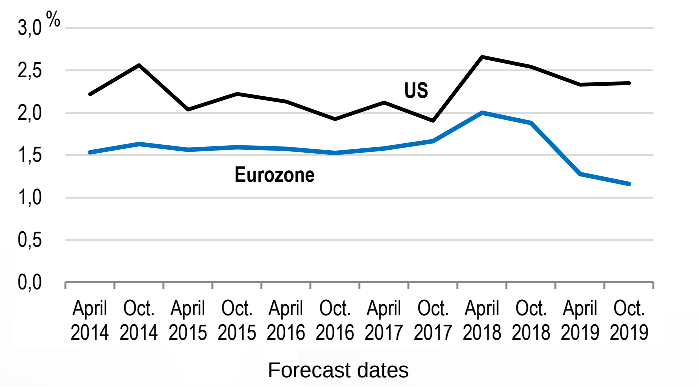
EVOLUTION OF REAL GDP GROWTH FORECAST FOR 2019



Source: IMF World Economic Outlook (various issues), BNP Paribas

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The rebound is based on external demand regaining some momentum, which looks a bit challenging, and the fading of temporary factors (e.g. car emission standards in Germany) which have been weighing on growth.

To conclude, the good news in the new IMF forecasts is that world growth next year should be higher. However, this performance reflects a number of idiosyncratic recoveries, rather than a broad-based improvement of economic conditions. It makes the projection less robust, hence the use of the word "precarious" in G. Gopinath's blogpost. Apart from inspiring little confidence, this word also underlines the necessity to foster a reduction of uncertainty. In the past two years, uncertainty has jumped for reasons we have become all too familiar with (Brexit, confrontation on trade). For this reason, it turned out that projections made in 2017 and early 2018 were based on too optimistic assumptions. This is particularly the case in the eurozone: chart 1 shows that the latest estimate for 2019 growth is 0.8 percentage points lower than the projections made in the April 2018 WEO. The drastic downward revision of the growth projection from 2.0% to 1.2% over the span of 18 months may be largely attributed to the growing uncertainty of households and companies. It may also have contributed to a feeling of uncertainty when they realised that earlier assumptions were way too optimistic. Another striking point in the current WEO is the longer-term projection for the US (chart 2): the growth slowdown is expected to end in 2022 but is not followed by a subsequent pick-up. Clearly, given the horizon, this is more a scenario than a forecast, but it's a scenario of, for US standards, rather soft growth.

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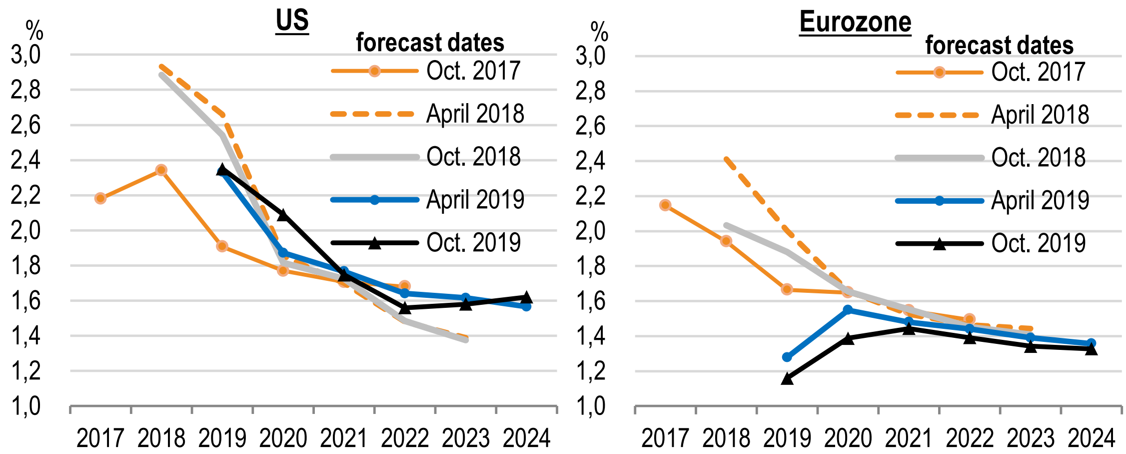
REAL GDP GROWTH FORECAST



Source: IMF (WEO), BNP Paribas