Global Research & Analytics

CRISIL
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GLOBAL ECONOMY

CRISIL Insights

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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.

Major economies post above-trend growth in 2017

- The United States (US) economy adds 313,000 non-farm jobs in February, the strongest number since July 2016
- China's exports grow by a whopping 44.5% in February, beating market expectations
- Crude oil prices ease to $65.3/barrel (bbl) average in February from $69.1/bbl a month ago

Global growth engine has been revving up for some time, with inflation still staying benign. The US, euro area and Japan posted solid above-trend growth in 2017, expanding at 2.7%, 2.3% and 1.7%, respectively. China, now the world's second largest economy and largest contributor to global gross domestic product (GDP), grew by a robust 6.9%. The International Monetary Fund expects global growth to be solid at 3.9% in 2018 as the synchronized upturn in the advanced economies continues. However, inflation remains at or below target in most of the advanced economies, reflecting the lingering confidence effects from the global financial crisis as well as tepid wage growth despite apparently tight labor markets. However, the expectations of a faster-than-expected pick-up in inflation have gained traction in recent months as employment data of the major economies suggest further tightening of labor markets, which could push up wages.

GDP heat map

GDP growth (q-o-q seasonally adjusted annualized %)

	Q3-16	Q4-16	Q1-17	Q2-17	Q3-17	Q4-17
US	2.8	1.8	1.2	3.1	3.2	2.5
UK#	0.5	0.7	0.3	0.3	0.5	0.4
Euro area#	0.4	0.6	0.6	0.7	0.7	0.6
Japan	0.9	1.1	1.9	2.4	2.4	1.6
China*	6.7	6.8	6.9	6.9	6.8	6.8

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

Improvement	Decline	Unchanged

US Economy

Unemployment rate stays low

Eurozone Economy

Inflation moderates

US Economy

Strongest non-farm job gains in US since July 2016

US GDP growth for Q4 of 2017 was revised down to 2.5% (earlier 2.6%) on-quarter, lower compared with 3.2% growth in Q3. The deceleration was on account of a downturn in private inventory investment and net exports, which was partially offset by acceleration in private consumption expenditure, government spending and fixed investment.

Trade deficit widened by $7.9 billion on-year in January to $56.6 billion as imports growth (7.4%) outpaced exports (5.1%). The economy added 313,000 non-farm jobs in January with broad-based employment gains. This is the strongest number posted since July 2016. The unemployment rate stayed low at 4.1% for the fifth consecutive month.

Annual Consumer Price Index (CPI)-linked inflation stood at 2.1% in January 2018, stable from December 2017, led by a sharp spike in fuel prices. Core inflation (CPI excluding food and energy) was also steady at 1.8%. The dollar index inched up 0.3% on-month on average in February. However, further gains were capped due to increased perception of inflation risk in the US after the January employment data showed stronger-than-expected non-farm job gains.

Consumer price inflation (y-o-y %)

	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18
US	1.9	2.2	2.0	2.2	2.1	2.1
UK	2.7	2.8	2.8	2.8	2.7	2.7
Euro area	1.5	1.5	1.4	1.5	1.4	1.3
Japan	0.7	0.7	0.2	0.6	1.0	1.4
China	1.8	1.6	1.9	1.7	1.8	1.5

Source: Statistical bureau, respective countries

Policy interest rate (end of month %)

	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18
US	1.00-1.25	1.00-1.25	1.00-1.25	1.25-1.50	1.25-1.50	1.25-1.50
UK	0.25	0.25	0.50	0.50	0.50	0.50
Euro area	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 banks, respective countries

Eurozone Economy

Euro area unemployment lowest since December 2008

Euro area GDP moderated to 0.6% on-quarter (not annualized) in Q4, from 0.7% in Q3. Goods trade surplus narrowed to €25.4 billion in December, compared with €27.6 billion a year ago, as imports rose faster (2.5%) than exports (1.0%). The unemployment rate was stable at 8.7% (seasonally adjusted) in January, the lowest rate in the region since December 2008. The annual harmonized index of consumer prices inflation was 1.3% in January, down from 1.4% in December, on account of moderation in food and energy prices. As per the Eurostat's preliminary estimate, inflation is expected to moderate further in February to 1.2%. In February, the euro gained 1.1% on-month on average against the greenback.

In its March meeting, the European Central Bank (ECB) kept its policy rates unchanged and signaled to maintaining the rate for an extended period of time or at least until the duration of its asset purchase program. In addition, the ECB confirmed to undertake net asset purchases under its asset purchase program of €30 billion per month until the end of September 2018 and beyond if necessary until the inflation reaches its target rate of near 2%.

In the United Kingdom(UK), Q4 2017 growth moderated to 0.4% on-quarter (not annualized, earlier 0.5%) from 0.5% (earlier 0.4%) in Q3, led by services. The Bank of England kept its key policy rate unchanged at 0.5% in its February meeting. It also stated gradually raising rates if the economy continued to perform as per expectations. The pound gained 1% on-month on average against the dollar in February.

Japan Economy	China Economy
Private consumption and investment rebounds	China posts a solid trade surplus

Inflation picks up in Japan despite a stronger yen

Japan's Q4 GDP came in soft at 1.6%, compared with 2.4% in Q3. While net exports, government spending, and inventories weighed on growth, private consumption and investment rebounded, supporting economic expansion in Q4. Trade deficit narrowed to ¥944.1 billion in January, down from ¥1091.9 billion a year ago, as exports growth (12.3% on-year) outpaced imports (7.9%). Japan's unemployment rate (seasonally adjusted) declined to 2.4% in January compared with 2.8% in December. Annual CPI inflation rose to 1.4% in January compared with 1% in December, led by an increase in energy and food prices. Core inflation (excluding fresh food and energy) inched up 10 basis points on-month to 0.4%, due to an increase in medical care prices. Inflation continued to rise despite the yen strengthening 1.8% on average on-month against the dollar in January. In February, the yen gained 2.6% on-month on average.

In its March meeting, the Bank of Japan kept its policy rate unchanged at minus 0.1%, and the target yield on 10-year Japanese government bonds at ~0%. It also stated it would continue with its quantitative and qualitative monetary easing policy until the CPI, excluding fresh foods, exceeded its 2% target.

China's exports outperform in February

China posted a solid 6.8% on-year growth in 2017, stable compared with Q3. Services led the way, suggesting an ongoing rebalancing of the economy. In February, China's official manufacturing and non-manufacturing Purchasing Managers' Index (PMI) decreased by 10 and 90 basis points on-month, respectively. While the manufacturing PMI was at 50.3%, the non-manufacturing PMI was 54.4%, highlighting the strengthening of the non-manufacturing sectors.

In February, China posted a solid $33.74 billion trade surplus compared with a trade deficit of $0.1 billion a year ago, beating market expectations. Exports grew by a whopping 44.5% on-year while imports rose 6.3%. In January, the annual CPI inflation eased to 1.5%, compared to 1.8% a month ago, as food prices declined. The producer price index (PPI)-linked inflation was 4.3% in January, compared with 4.9% in December.

The People's Bank of China maintained its benchmark lending rate at 4.35%. On the currency front, the yuan appreciated 1.6% on average against the dollar on-month in February.

Energy prices decline, non-energy prices gain in February

As per the World Bank's pink sheet, commodity prices were mixed in February, with energy index falling 5.4% and non-energy index rising 1.2%. The energy index fell, ending seven months of gains, due to a decline in Brent prices, which averaged $65.3/bbl on average during the month from $69.1/bbl a month ago. This fall was owing to a significant rise in US output. CRISIL Research expects crude prices at $55-60/bbl in fiscal 2018 and $63-68/bbl in fiscal 2019, compared with $48.5/bbl in fiscal 2017. This will be aided by Organization of Petroleum Exporting Countries (OPEC)-led supply cuts and strong demand from the US and non-OECD (Organisation for Economic Co-operation and Development) nations, including India.

The non-energy index rose 1.2% led by a 1.7% increase in agriculture index and 2% increase in fertilizer prices. Metals index remained unchanged as increases in prices of nickel, tin, and zinc were balanced by declines in copper and aluminum prices. Precious metals index declined 0.5%, owing to a decline in silver prices.

Source: CRISIL Research

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