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.

Divergent tackles

- The United States (US) Federal Reserve raised its policy rate by 25 basis points (bps) in December, but cut projection for 2019 rate hikes to two from three earlier
- China's official manufacturing Purchasing Managers' Index (PMI) contracted in December for the first time since July 2016
- Brent crude oil prices fell to a 15-month low in December on concerns of oversupply and global economic slowdown

The global economy started on a strong note in 2018. However, as the year progressed, the momentum slackened to signal a slowdown. Protectionist sentiment, the trade war between the US and China, volatile crude prices, geopolitical concerns, and financial pressures all played their part. The red flags are out again as 2019 dawns.

Central banks of several advanced economies have taken note of these concerns. In December, the monetary policy committees of key advanced economies met and signaled a divergent global monetary policy. In the US, the Fed cut the projection for its 2019 rate hikes. Moreover, a rotation of the Federal Open Market Committee's (FOMC) voting members in 2019 has tilted the balance towards a dovish FOMC. In Europe, the European Central Bank (ECB) wrapped up its asset purchase programme, although continuing to reinvest in maturing securities. The ECB is expected to start hiking its benchmark policy rate in the second half of 2019, ending the negative interest rate era that followed the financial crisis. Separately, the Bank of England kept its policy rate on hold while the Bank of Japan (BoJ) continued with its qualitative and quantitative easing policy.

GDP Heat Map

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

	Q2-17	Q3-17	Q4-17	Q1-18	Q2-18	Q3-18
US	3.1	3.2	2.9	2.0	4.2	3.4
UK#	0.2	0.4	0.4	0.1	0.4	0.6
Euro Area#	0.7	0.7	0.7	0.4	0.4	0.2
Japan	2.1	2.7	1.5	-1.3	2.8	-2.5
China*	6.9	6.8	6.8	6.8	6.7	6.5

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

Improvement | Decline | Unchanged

US Economy	Euro Zone Economy
2018 - Strongest year for job gain since 2015	ECB concludes asset purchase programme

US Economy

US growth likely to start slowing in 2019

The US GDP growth[1] for Q3 of 2018 slowed to 3.4% on-quarter (revised down from 3.5%), compared with 4.2% in Q2. Negative contribution from net exports and residential fixed investment weighed on growth, partially offset by positive contribution from private consumption, non-residential investment, and government spending.

In December, the economy added 312,000 jobs, above the market consensus. The unemployment rate was 3.9% in December, up 20 bps on-month. Overall in 2018, the economy added 2.6 million jobs, the strongest year for job gains since 2015.

The Consumer Price Index-based (CPI) inflation eased to 2.2% in November, compared with 2.5% in October. Core inflation (excluding food and energy) inched up 10 bps on-month to 2.2% due to a broad-based increase. The Fed's preferred inflation metric – the private consumption expenditure (PCE) deflator-based core inflation – rose to 1.9% in November, after easing to 1.8% in October.

The FOMC raised the federal funds target range by 25 bps to 2.25-2.50% during its December meeting. Against the backdrop of recent tighter monetary conditions, the FOMC signaled a slower pace of policy rate going forward, compared with its September projections. The FOMC lowered the median forecast for 2019 rate hikes to two from three previously.

Consumer price inflation (y-o-y %)

	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18
US	2.9	2.9	2.7	2.3	2.5	2.2
UKm	2.4	2.5	2.7	2.4	2.4	2.3
EA	2.0	2.1	2.0	2.1	2.2	1.9
Japan	0.7	0.9	1.3	1.2	1.4	0.8
China	1.9	2.1	2.3	2.5	2.5	2.2

Source: Statistical bureau, respective countries

Policy interest rate (end of month %)

	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18
United States	1.75-2.00	1.75-2.00	2.00-2.25	2.00-2.25	2.00-2.25	2.25-2.50
UK	0.50	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

Eurozone's unemployment rate lowest since October 2008

The euro area (EA) GDP slowed to 0.2% on-quarter (not annualized) in Q3, compared with 0.4% in Q2. This is the slowest growth posted since Q2 2014. Negative contribution from net exports weighed on growth, partially offset by positive contributions from private consumption and change in inventories. The unemployment rate fell to 7.9% in November, compared with 8% in October. This marks the lowest unemployment rate recorded in the region since October 2008.

The annual harmonised indices of consumer prices (HICP) eased to 1.9% in November, from 2.2% in October, as inflation in most items, especially energy and services, cooled off on-month. As per the Eurostat's flash estimate, inflation is expected to slip further to 1.6% in December, as energy inflation eased further. The ECB concluded the last phase of its asset purchase programme in December. However, it is continuing to reinvest the principal payments from maturing securities.

In Q3 2018, the UK GDP growth was at its strongest since Q4 2016 at 0.6% on-quarter (not annualized). This compares with 0.4% in Q2 2018. Services remained the strongest contributor, followed by construction and manufacturing. The Bank of England left its benchmark policy rates unchanged at 0.75% during its December meeting.

[1] All growth numbers are seasonally adjusted and annualized, unless stated otherwise

Japan Economy

Annual CPI inflation eases with energy inflation

China Economy

GDP growth moderates

Japan posts trade deficit for second consecutive month

Japan's GDP growth came in at -2.5% on-quarter in Q3, after rising 2.8% in Q2, the slowest growth since Q2 2014. Contraction in private consumption and net exports were the key factors weighing on growth. Private consumption plummeted due to temporary supply and demand disruptions from natural disasters.

Japan's unemployment rate (seasonally adjusted) was 2.5% in November, 10 bps higher on-month. The real average monthly household consumption expenditure was up to 0.3% on-year in November, slower compared with 1% in October.

Annual CPI inflation eased to 0.8% in November compared with 1.4% in October, as energy inflation eased. CPI inflation excluding fresh food, the BoJ's target inflation rate, also eased 10 bps on-month to 0.9%. The BoJ left its policy rate unchanged in December at -0.1%. It declared it would continue quantitative and qualitative monetary easing with yield curve control until inflation reaches 2%.

China's manufacturing PMI contracts in December

China's GDP growth moderated in Q3 to 6.5% on-year, compared with 6.7% in Q2. Negative contribution from net exports weighed on growth, which offset the positive contribution from final consumption and private investment. The expansion is the slowest since Q1 2009, with steady deleveraging of the corporate sector and the intensifying trade war with the US also weighing on growth.

After slowing for three consecutive months, the official manufacturing PMI contracted in December for the first time since July 2016. However, non-manufacturing PMI improved, gaining 0.4% on-month, signaling expansion in the services sector. The manufacturing PMI stood at 49.4%, while the non-manufacturing PMI was 53.8% in December.

In November, CPI inflation was 2.2%, down 30 bps on-month, as inflation in food and transportation and communication eased. In contrast, the producer price inflation eased to 3.3% from 3.6% in September.

Energy prices plunge for second month in a row

Commodity prices fell largely in December, according to the World Bank's pink sheet. The energy index nosedived 11.3% on-month, while the non-energy index slipped 0.4%.

Energy index plunged for second month in a row led by a sharp fall in crude oil prices. The Brent crude oil prices fell to a 15-month low of $56.5 per barrel (bbl) on average in December. This marks the second consecutive fall in crude oil prices, after prices hit a four-year high in October, averaging $81/bbl. Prices fell as Saudi Arabia, Russia and the United Arab Emirates continued to increase the crude production in December as per their deal to offset the supply disruption from Venezuela and Iran. This was further supported by a slowdown in demand as a result of lower economic growth. CRISIL Research expects crude oil prices to average at $70-72/bbl in fiscal 2019 compared with $57.4/bbl in fiscal 2018.

Within the non-energy index, agriculture index gained a modest 0.5%, while the fertilizers and metal indices lost 4% and 1.8%, respectively.

Precious metals gained 2.3% on-month, led by stronger gold and silver prices.

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