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Global economy

Emerging markets disappointments lead IMF to downgrade global outlook

- **IMF revises global growth forecasts down due to disappointing emerging markets trends**
- **UK and key euro member growth revised up**

In its latest World Economic Outlook, the International Monetary Fund downgraded its projection for global GDP growth in both 2013 and 2014, citing worse than expected performance of emerging markets. Advanced economies, on the other hand saw GDP predictions unchanged on the whole compared to the July predictions, albeit with some notable variations between economies. The UK's outlook was revised up markedly whereas the US and Canada saw downward revisions to GDP projections.

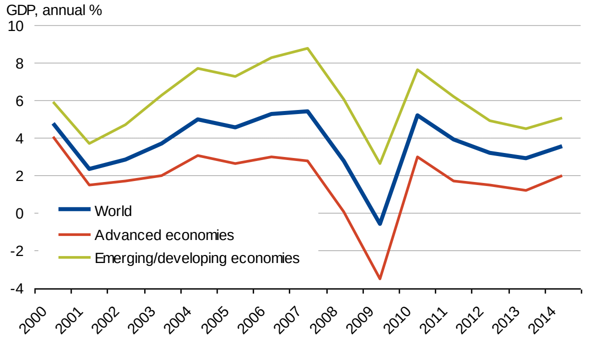
The IMF's view of the global economy corresponds closely with recent survey data, which have shown the developed world economies leading the global economic upturn whereas emerging markets have either more or less stagnated or moved into decline. The divergence between the strong performance of the developed world PMI survey data and the emerging markets PMI has been the greatest on record in recent months.

The IMF's updated forecasts downgraded emerging market GDP growth by 0.5% in 2013 and by 0.4% in 2014. Especially steep downward revisions occurred for Russia, India and Mexico this year, with all major emerging markets also seeing further downward revisions to their growth outlooks next year.

China is now only forecast to grow by 7.6% in 2013 and by 7.3% in 2014. Back in the spring, these figures were 8.0% and 8.2% respectively, highlighting how the landscape has changed in recent months. India is set to grow by just 3.8% this year (down from 5.6% in the summer outlook) and just 5.1% next year. Brazil, Mexico and Russia have even weaker economic outlooks.

Emerging markets as a whole are now expected to see GDP grow by 4.5% this year and 5.1% next year. That compares with 1.2% and 2.0% growth in advanced economies.

IMF World Economic Outlook



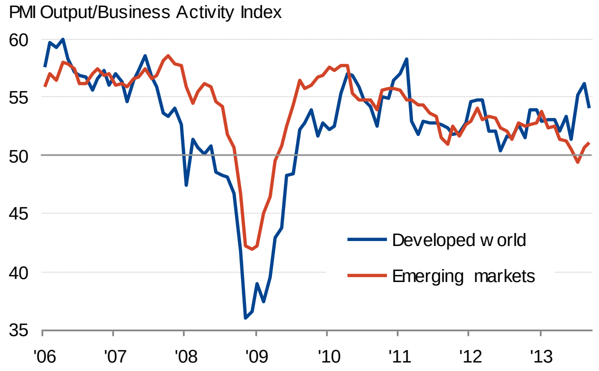
Source: IMF.

IMF GDP predictions

	Actual	Forecasts		Change from prior forecast	
	2012	**2013**	**2014**	**2013**	**2014**
World	3.2	2.9	3.6	-0.3	-0.2
Advanced Economies	1.5	1.2	2.0	0.0	0.0
Emerging Markets	4.9	4.5	5.1	-0.5	-0.4
United States	2.8	1.6	2.6	-0.1	-0.2
Euro Area	–0.6	-0.4	1.0	-0.1	0.0
Germany	0.9	0.5	1.4	0.2	0.1
France	0.0	0.2	1.0	0.3	0.1
Italy	–2.4	-1.8	0.7	0.0	0.0
Spain	-1.6	-1.3	0.2	0.3	0.1
Japan	2.0	2.0	1.2	-0.1	0.1
United Kingdom	0.2	1.4	1.9	0.5	0.4
Canada	1.7	1.6	2.2	-0.1	-0.1
Russia	3.4	1.5	3.0	-1.0	-0.3
China	7.7	7.6	7.3	-0.2	-0.4
India	3.2	3.8	5.1	-1.8	-1.1
Brazil	0.9	2.5	2.5	0.0	-0.7
Mexico	3.6	1.2	3.0	-1.7	-0.2

Source: IMF.

PMI survey data



Source: Markit.

Japan is set to see the strongest economic expansion of all major advanced economies this year, growing 2.0%, but growth will weaken in 2014 after the impact of stimulus starts to wane and higher sales taxes hit.

Growth was revised up sharply for the **UK** in 2013 and 2014, though remains below what would be considered long-term trend rate sin both years.

US and **Canadian** growth rates were meanwhile revised down slightly for both years, though remained above those of the UK in both cases.

Growth for the **eurozone** was also revised down slightly by 0.1% for this year, with GDP set to fall by 0.4%, but the region is still predicted to grow by 1.0% next year. The expected recovery is led by Germany and France, with Spain and Italy also set to see growth in 2014. GDP outlooks for Germany, France, and Spain were all revised up compared with the summer outlook, and Italy's outlook was unchanged, suggesting other countries saw downward revisions.

Ongoing risks

The IMF highlighted how risks are skewed to the downside, especially in relation to how the easing of policy stimulus in the US could adversely impact emerging markets. The possibility of the US failing to draw a swift conclusion to its debt crisis could also lead to recession instead of further recovery.

The eurozone is also cited as an ongoing concern, with the possibility of its debt crisis flaring up again always something to bear in mind.

The weakness of emerging markets represents the IMF joining in the growing chorus of calls for countries such as China, Brazil and India to beef-up structural reform initiatives, and for China in particular to seek ways to boost domestic private consumption.

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