Global Economic Outlook - April 2019

April 2, 2019

by Carl Tannenbaum, Ryan James Boyle, Vaibhav Tandon, Brian Liebovich of Northern Trust

Expanding Ailments

The incoming data so far this year have not been encouraging. Trade struggles and the market's fourth-quarter correction are weighing on economic activity.

Against this backdrop, we have revised down our 2019 growth projections for major advanced economies. We are still cautiously optimistic that some of the major uncertainties that affect the outlook will erode over the summer. In our central case, we expect the U.K. to leave Europe with a deal that preserves the present provisions of finance and business. The positive news flow around the U.S.-China trade suggests both sides will find a common ground.

A soft landing of the world economy is most likely, but the possibility of a recession in a few advanced markets cannot be ruled out.

United States

- We have been expecting U.S. growth to moderate as the impact of tax reform recedes. But recent readings on consumption and housing have been tepid, at best. The first quarter of the year is likely to show only modest progress; while we expect the pace of growth to recover, the expansion is not robust. In light of this, we no longer foresee a rate increase from the Federal Reserve in 2019.
- This softer outlook, combined with weaker global data, led to the first 3-month/10-yearyield curve inversion since 2007. Though an inversion is not a perfect predictor of a recession, its history of correlation is too frequent to disregard, raising concerns about the outlook. We do not believe a recession is imminent, but downside risks are growing.

Eurozone

The eurozone economy, particularly its manufacturing sector, is struggling. Sentiment and confidence indicators have continued to disappoint. But all hope is not lost. German business confidence rose in March and domestic demand (led by the services sector) remains resilient. This should be sufficient to avoid a recession.

- The impact from some country- and sector-specific woes is anticipated to fade soon. Attention will soon be shifting to the May elections for the European Parliament, which may set the tone for eurozone economic policy in the years ahead. The degree of freedom countries will be granted over their budgets will be central.

United Kingdom

- March 29, the original Brexit date, has passed. The brief extension to April 12 leaves little time for rework, yet the British parliament is in utter confusion. Even after taking control of the Article 50 process, Parliament has failed to find a consensus. We still expect an agreement that largely preserves the existing provisions of business and finance, but the odds of more extreme scenarios are uncomfortably high.
- Uncertainty is weighing on economic activity and business decisions. As a result, monetary policy is stuck in limbo, despite low unemployment and upward pressure on wages. We expect the Bank of England to remain on hold this year, as it continues to warn about the long-run damage being wrought by Brexit.

Japan

- In our central scenario, a robust labor market should allow the Japanese economy to continue expanding. But the deteriorating external environment will emerge as a challenge. Japanese exports have been affected by slowing demand from Asia, particularly China, which is a key destination for Japanese goods. With the Chinese economy likely to continue decelerating, Japanese exports will remain weak.

- We expect the consumption tax hike in the last quarter of 2019 to dampen growth and push inflation higher. However, inflation will still remain below the 2% target. Given the weakening external environment and subdued inflation, we expect the Bank of Japan to maintain its current policy stance for a long time to come.

China

- The Chinese economy is struggling and policy makers are ratcheting up their efforts to engineer a soft landing. Weakness in exports, infrastructure and mining are weighing on growth. Disappointing infrastructure investment suggests the government's efforts have failed to have a notable impact thus far. This leaves China as a willing negotiator, and raises the likelihood of a trade accord with the United States.

 Global Economic Forecast – April 2019

	2017	2018	2019F	2020F
United States				
Real GDP (Q4-Q4 % change)	2.5	3.0	2.0	1.8
Unemployment Rate, EOP (%)	4.1	3.9	3.7	3.8
Inflation (CPI, Q4-Q4, %)	2.1	2.2	2.1	1.9
Policy Rate (Top), EOP (%)	1.50	2.50	2.50	2.75
Eurozone				
Real GDP (Q4-Q4 % change)	2.7	1.1	1.3	1.5
Unemployment Rate EOP (%)	8.7	8.0	7.8	7.5
Inflation (CPI, Q4-Q4, %)	1.4	1.9	1.3	1.5
Policy Rate, EOP (%)	0.00	0.00	0.00	0.00
Deposit Rate, EOP (%)	-0.40	-0.40	-0.40	-0.40
United Kingdom				
Real GDP (Q4-Q4 % change)	1.6	1.3	1.3	1.5
Unemployment Rate EOP (%)	4.4	4.0	3.9	3.8
Inflation (CPI, Q4-Q4, %)	3.0	2.3	1.6	1.9
Policy Rate, EOP (%)	0.50	0.75	0.75	1.00
Japan				
Real GDP (Q4-Q4 % change)	2.4	0.3	0.2	0.8
Unemployment Rate EOP (%)	2.7	2.4	2.4	2.3
Inflation (CPI, Q4-Q4, %)	0.6	0.9	1.5	1.0
Policy Rate, EOP (%)	-0.10	-0.10	-0.10	-0.10
China				
Real GDP (Q4-Q4 % change)	6.8	6.4	5.9	5.5
Unemployment Rate EOP (%)	3.9	3.9	4.0	4.0
Inflation (CPI, Q4-Q4, %)	1.8	2.2	2.1	2.2
Policy Rate, EOP (%)	4.35	4.35	4.35	4.35
Exchange rates (EOP)	**Mar-2019**	**Jun-2019F**	**Sep-2019F**	**Dec-2019F**
EUR/USD	1.12	1.14	1.16	1.17
GBP/USD	1.30	1.33	1.35	1.36
USD/JPY	110.9	109.0	108.0	107.0
USD/CNY	6.71	6.70	6.68	6.65

F: Forecast *EOP: End of period*