Global Research
& Analytics

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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.

Slow lane ahead

- The United State (US) trade deficit reached a 10-year high in October, increasing 18.8% on-year, as imports growth outpaced exports
- Japan's real gross domestic product (GDP) growth for Q3 of 2019 contracted as natural disasters damped private consumption
- In November, China's trade surplus widened to a 10-month high of $44.7 billion, beating market expectations
- Crude prices eased 20% on-month in November to average 64.7 per barrel (bbl), compared with $81/bbl in October, due to an increase in inventories

With fiscal stimulus drying out, the US and China engaged in trade brinkmanship, and the euro zone battling its political-economic bugbears, global growth engine is sputtering. As a result, GDP growth is expected to slow down in most major economies in 2019. As per S&P Global, the US will lead the trend, as fiscal stimulus will wane and monetary policy normalization will continue, both weighing on growth. China's expansion will continue to moderate, despite the pause in corporate delivering and anticipated policy easing, as the effects of the ongoing trade tension impact the business and investor confidence negatively. European growth will trundle along, weighed down by concerns about Brexit, Italy's budget, and Germany's new leadership ahead of a reshuffling in European governance. Across emerging markets, tech and oil-exporting economies may struggle in relative terms. Moreover, risks are tilted to the downside. The risks include uncertainty about the resolution of US-China tariff and market turbulence related to the path of interest rate normalization by the US Federal Reserve.

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	3.5
UK[#]	0.2	0.4	0.4	0.1	0.4	0.6
EA[#]	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

Reduce the text

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US Economy

CPI inflation rise led by surge in energy index

Euro Zone Economy

Asset purchase program to end this month

US Economy

US trade deficit reaches a decade high in October

The US real GDP grew[1] 3.5% on-quarter in Q3 of 2019, compared with the 4.2% growth in Q2. The US trade deficit reached a decade high in October to a seasonally adjusted $55.5 billion. Trade deficit increased 18.1% on-year as imports growth (8.5%) outpaced exports growth (6.3%). The trade deficit with China increased 22.3% on-year in October, suggesting China's retaliations have been more effective than US tariffs so far. Trade balance also worsened against the European Union with the deficit rising 28% on-year.

The Consumer Price Index (CPI)-based inflation rose to 2.5% in October, 20 basis points (bps) higher than in September, led by a surge in the energy index. The US Federal Reserve's preferred inflation metric – the private consumption expenditure deflator-based core inflation (excluding food and energy) – eased to 1.8% in October compared with 1.9% in the preceding two months.

On the currency front, the US dollar index[2] continued to gain for the tenth consecutive month in November. It appreciated 1.1% on-month, mainly due to a sharp depreciation in the euro, which has a greater weightage in the index.

Consumer price inflation (y-o-y %)

	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
US	2.8	2.9	2.9	2.7	2.3	2.5
UK	2.4	2.4	2.5	2.7	2.4	2.4
EA	1.9	2.0	2.1	2.0	2.1	2.2
Japan	0.7	0.7	0.9	1.3	1.2	1.4
China	1.8	1.9	2.1	2.3	2.5	2.5

Source: Statistical bureau, respective countries

Policy interest rate (end of month %)

	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18
US	1.75-2.00	1.75-2.00	1.75-2.00	2.00-2.25	2.00-2.25	2.00-2.25
UK	0.50	0.50	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

Growth slows in euro zone

In Q3, the euro area (EA-19) posted its slowest growth since Q2 2014 at 0.2% on-quarter (not annualized), weighed down by negative contribution from net exports, partially offset by positive contribution from private consumption and change in inventories. The annual Harmonised Indices of Consumer Prices rose to 2.2% in October, from 2.1% in September, driven by higher energy prices. As per the Eurostat's flash estimate, inflation is expected to ease to 2% in November, as inflation in most items, especially energy and food, cooled off on-month. In its December meeting, the European Central Bank (ECB) maintained its main refinancing rate, marginal lending facility rate and the deposit facility rate at 0%, 0.25% and -0.4% respectively. The ECB confirmed the asset purchase program would end this month, but it would continue reinvesting the principal payments from maturing securities for an extended period.

Meanwhile, in the United Kingdom (UK), Q3 GDP growth came in at 0.6% on-quarter (not annualized), compared with 0.4% in Q2. This is the strongest GDP growth posited since Q4 2016. Growth in Q3, was broad-based, indicating a revival in manufacturing and construction.

CPI inflation in October was at 2.4%, unchanged from September, driven by transport, housing and household services. The Bank of England left its benchmark policy rates unchanged at 0.75% during its November meeting. It also agreed to maintain the stock of UK government bonds at £435 billion and that of corporate bonds at £10 billion.

[1] All growth numbers are seasonally adjusted and annualized, unless stated otherwise
[2] Dollar index (broad) is the weighted average of the foreign exchange value of the US dollar against the currencies of a broad group of major US trading partners

Japan Economy

Q3 growth at four-year low

China Economy

CPI inflation stable

Natural disasters contract Japan's Q3 growth

Japan's growth contracted to -2.5% in Q3, after posting a 2.8% rise in Q2. This was the slowest growth since Q2 2014. Contraction in private consumption and net exports were the major factors lowering growth in Q3. Private consumption plummeted due to temporary supply and demand disruptions from natural disasters.

Japan's unemployment rate (seasonally adjusted) was 2.4% in October, 10 bps higher on-month. The real average monthly household consumption expenditure was up to 1% on-year in October, compared with 0.5% in September.

Annual CPI inflation was 1.4% in October, 20 bps higher from September, led by fuel and food inflation. CPI inflation excluding fresh food, the Bank of Japan's target inflation rate, was stable at 1%. The bank left its policy rate unchanged in its October meeting 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 at a 28-month low in November

China's GDP growth moderated to 6.5% on-year in Q3, 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.

In November, the official manufacturing Purchasing Managers' Index (PMI) continued to slow for the third straight month. It hit the threshold of 50 that separates expansion (above 50) from contraction (below 50). Non-manufacturing PMI came in at 53.4, down 50 bps on-month.

In October, CPI inflation was at 2.5%, stable compared with September, driven by rising food and transportation prices. In contrast, the producer price inflation eased to 3.3% from 3.6% in September. The People's Bank of China kept its benchmark lending rate unchanged at 4.35%.

The Chinese yuan fell after US President Donald Trump tweeted the US would increase its tariff levied on $200 billion of Chinese imports (implemented in September) from 10% to 25% starting January 2019. However, this decision was put on hold after the leaders of the two nations agreed on a temporary truce during their December 1 meeting at the G-20 Summit.

Crude oil prices plunged in November

Commodity prices fell on-month in November with energy index plunging 15.4% and the non-energy index falling 1.3%.

The decline in the energy index was led by falling oil and coal prices. Brent crude prices crashed 20% on-month to average $64.5/bbl in November, compared with a four-year high of $81/bbl in October. Prices fell sharply during the month as Saudi Arabia, Russia and United Arab Emirates had agreed to increase the crude oil output between October to December in order to offset the supply disruption by Venezuela and Iran. In 2018 so far, oil prices have risen ~41% on average on-year. CRISIL Research expects crude oil prices to average at $70-72/bbl in fiscal 2019 compared with $57.4/bbl in fiscal 2018.

The non-energy index fell due to a decline in agriculture (-1.3%) and metal (-2.3%) indices, which were partially offset by gains in fertilizers (5.6%). The slip in the agriculture index was due to a fall in food and raw material prices. The metal index slipped on account of a fall in nickel and zinc prices. Precious metals index inched up slightly (0.1%) as gold prices gained marginally.

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