World economy loses some momentum

The latest Economic Update from the OECD has seen it revise down its forecasts for global growth for the second time in a couple of months. It is now forecasting that the world economy will grow by 3.5% in 2019. In its mid-year assessment, it was forecasting 3.9% growth for next year.

This also represents a slower pace of growth than in 2018, with both the OECD and IMF estimating that the world economy will expand by 3.7% this year. Growth would have been lower in 2018 but for a marked strengthening of activity in the US due to the loosening of fiscal policy by the Trump administration via both tax cuts and spending increases. By contrast, growth has decelerated this year in the Eurozone, UK, Japan and China.

Global growth has peaked then and the consensus view is that it will ease gradually in 2019 and 2020. It is anticipated that macroeconomic policies will become less supportive of activity, while the headwinds from trade tensions and tighter financial conditions are expected to continue. However, with interest rates remaining very low in most economies and real incomes rising, it is expected that a sharp slowdown in activity can be avoided.

The OECD warns, though, that an intensification of the major downside risks facing the world economy could see growth weaken much more substantially than forecast over the next couple of years. It highlights some early warning indicators of weakening global activity that need careful watching, such as a sharp fall-off in new export orders in all the major economies and declining container port traffic.

Meanwhile, the Global Composite PMI, a good indicator of world economic activity fell to two year lows in September and October. Preliminary data from a number of countries suggest that there may have been a further decline in November, suggesting the world economy is ending the year on a weak note. A close eye will need to be kept on PMIs and other leading indicators of activity in the early part of next year to see if this weakening trend has extended into 2019, which would be a concern.

Financial markets are becoming quite worried about signs of slower growth in the world economy as well the heightened uncertainty about the economic outlook. This has seen increased risk aversion and marked falls in equity markets over the past two months. Many stock markets are now in negative territory for the year, despite the relatively solid performance of the global economy in 2018 and good corporate earnings reports.

Recent softer economic trends are also food for thought for monetary policy makers who are contemplating either commencing or continuing with rate tightening policies next year. Most central banks expect growth to hold up reasonably well next year, although a somewhat more cautious tone has been struck by the Fed in recent weeks.

The recent sharp fall in oil prices improves the prospects for global growth next year, certainly consumer spending as it will lower inflation thereby boosting real incomes. However, what would really help restore confidence would be an end to trade disputes, a lowering of geo-political tensions and better international co-operation. The G20 gathering at the weekend in Argentina made some progress on this front, but this will need to be built on in 2019.

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