Economic Update
INTERNATIONAL
Federal Reserve Bank of Dallas

Global Growth Little Changed Despite Heightened Policy Uncertainty

March 23, 2018

Global real gross domestic product (GDP) growth decreased from 3.5 percent on a year-over-year basis in third quarter 2017 to 3.4 percent in fourth quarter 2017.[1] Risks to the global outlook remain tilted to the downside as trade policy changes and the specter of protectionism pose restraints on trade and growth. Geopolitical risks also persist and are an additional source of downside risk.

Emerging Economies Slightly Depress Global Growth

Growth among advanced economies was largely unchanged from third quarter 2017 to fourth quarter 2017 (*Chart 1*). Notable changes include real (inflation-adjusted) GDP expansion in South Korea, where the growth rate fell from 3.8 percent to 3.0 percent on a year-over-year basis; Canada, where it narrowed from 3.0 percent to 2.9 percent; and Switzerland, where it expanded from 1.2 percent to 1.9 percent.

Meanwhile, emerging economies' growth rate slipped from 4.4 percent to 4.3 percent on a year-over-year basis. Notable changes include India, where real GDP increased from 6.4 percent to 7.3 percent; Mexico, where it narrowed from 1.7 percent to 1.5 percent; and China, where it slipped from 6.9 percent to 6.8 percent.

Initial CPI Data Suggest Lower Inflation in Emerging Economies

Year-over-year consumer price index (CPI) inflation in January 2018 was 2.6 percent globally and 1.6 percent in the advanced nations (*Chart 2*). Not enough inflation data have been released to broadly assess CPI activity in February. Based on available February data, CPI inflation increased from 1.0 percent to 1.4 percent year over year in Korea; it decreased from 1.6 percent to 1.3 percent in Germany and from 1.8 percent to 1.4 percent in Taiwan.

Year-over-year CPI inflation in emerging countries, for which more recent data are available, decreased during the January-to-February period from 3.8 percent to 3.7 percent.[2] Notable changes include India, where inflation fell from 5.0 percent to 4.4 percent; Mexico, where it fell from 5.5 percent to 5.3 percent; and China, where it rose from 1.9 percent to 2.1 percent.

Mexico's Target Rate at Nine-Year High

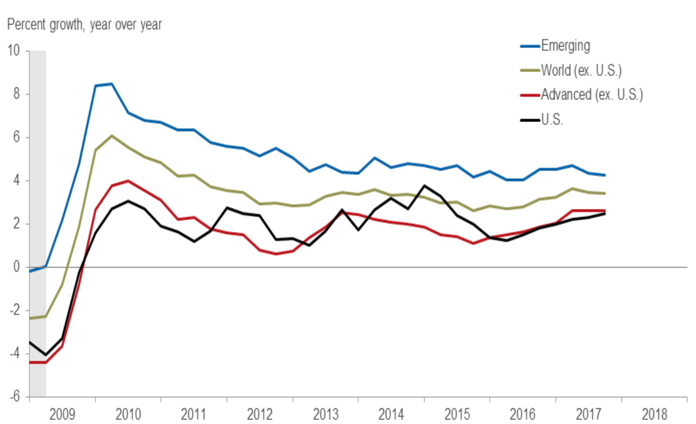
Banco de México increased its target rate from 7.25 to 7.5 percent on Feb. 8 (*Chart 3*). The rate has risen 1.25 percentage points over the past year. The one-day interbank interest rate that the central bank targets is at its highest level since March 2009. CPI inflation in Mexico has exceeded the central bank's long-term target of 3 percent, plus/minus 1 percent, since January 2017 and reached a high of 6.8 percent inflation year over year in December 2017. Inflation has remained above 5 percent more recently.

Policymakers cited the need to anchor medium- and long-term inflation expectations.[3] They also said they expect inflation to decrease to the 3.0 percent target by first quarter 2019 and remain there through the year.

Brazil's central bank decreased the overnight SELIC target from 7.0 to an all-time low of 6.75 percent on Feb. 7. Over the past year, the overnight SELIC rate has decreased 5.5 percentage points. Brazil's monetary policy committee (COPOM) projects inflation at 4.2 percent in 2018 and 2019, assuming a benchmark rate of 6.75 percent at year-end 2018 and 8.0 percent at year-end 2019.[4] Brazil's extended national CPI is 3.2 percent on a year-over-year basis, toward the lower end of COPOM's target range of 3.0 percent to 6.0 percent.

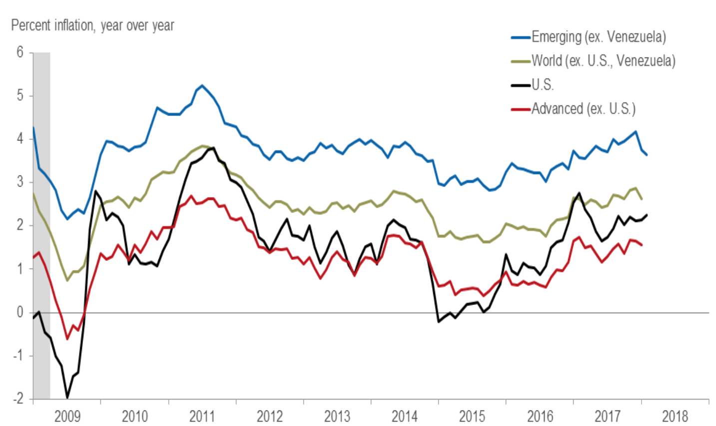
The Russian central bank decreased its policy rate from 7.75 to 7.5 percent on Feb. 9, part of a cumulative 2.5 percent-

Chart 1
Real GDP Growth Constant in Advanced Economies, Down in Emerging Economies



NOTES: Calculations are based on a representative sample of 40 countries. Data are aggregated using U.S. trade weights. The shaded bar indicates global recession using methodology explained in "A Contribution to the Chronology of Turning Points in Global Economic Activity (1980–2012)," by Enrique Martínez-García, Valerie Grossman and Adrienne Mack, *Journal of Macroeconomics*, vol. 46, issue C, 2015, pp. 170–85.
SOURCES: Database of Global Economic Indicators; Haver Analytics.

Chart 2
Headline CPI Inflation Ticks Down Among Emerging Economies



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age-point decline over the past year. Russian policymakers cited lowered short-term inflation risks and indicated that the central bank will continue cutting the policy rate while aiming to reach a neutral monetary policy later this year.[5]

Venezuela Eliminates One of Two Official Exchange Rate Systems

Venezuela removed one of its two official exchange rates in February.[6] The surviving DICOM exchange rate stood at 36,604 bolivars per dollar in early March, a steep devaluation from the 3,340 bolivar/dollar rate at year-end 2017. The DICOM rate has been the official government-controlled rate for most transactions, though lightly used because of an extensive black market. The discontinued DIPRO, intended for purchase of essentials such as food and medicine, was pegged at 10 bolivars per dollar.

Other global exchange rate changes were less pronounced (*Chart 4*). Among emerging economies, the Chinese yuan depreciated 0.7 percent in February, from 6.28 to 6.33 yuan per dollar, while the Mexican peso appreciated 0.7 percent, from 18.7 to 18.6 pesos per dollar.

Among advanced economies, the Canadian dollar depreciated 2.3 percent against the U.S. dollar, from 1.25 to 1.28 in February. The euro appreciated 0.4 percent against the dollar, from 1.24 to 1.23, while the Japanese yen appreciated 2.2 percent against the dollar, from 109 to 107.

—Kelvinder Virdi

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About the Author

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Notes

1. Global, advanced-nation data exclude the U.S.

2. Emerging-nation data exclude Venezuela unless otherwise-noted.

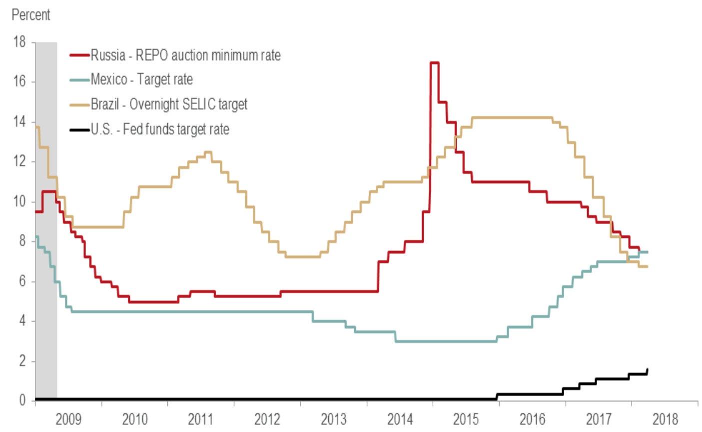
3. "Anuncio de Política Monetaria" (Announcement of Monetary Policy), Banco de México, Feb. 8, 2018, accessed March 16, 2018, www.banxico.org.mx/informacion-para-la-prensa/comunicados/politica-monetaria/boletines/%7B55536148-BA81-97FD-1998-95EF37BB4BA4%7D.pdf.

4. "212th Meeting of the Monetary Policy Committee of the Central Bank of Brazil," press release, Central Bank of Brazil, Feb. 15, 2018, accessed March 16, 2018, www.bcb.gov.br/en/#!/c/copomstatements/1846.

5. "The Bank of Russia Decides to Cut the Key Rate by 25 bp to 7.50," information notice, Bank of Russia, Feb. 9, 2018, accessed March 16, 2018, www.cbr.ru/eng/press/keypr.

6. "Aviso Oficial" (Official Notice), Central Bank of Venezuela, 2018, accessed March 16, 2018, www.bcv.org.ve/ley/convenio39.pdf.

Chart 3
Monetary Policy Rates Increase in U.S. and Mexico, Decrease in Brazil and Russia



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SOURCES: Central Bank of Russia; Banco de México; Central Bank of Brazil; Federal Reserve Board.

Chart 4
Most Major Currencies Appreciate Against U.S. Dollar in February

NOTES: The shaded bar indicates global recession using methodology explained in "A Contribution to the Chronology of Turning Pointsin Global Economic Activity (1980-2012)," by Enrique Martinez-Garcia, Valerie Grossman and Adrienne Mack, *Journal of Macroeconomics*, vol. 46, issue C, 2015, pp. 170–85. Venezuela is not included due to the significant devaluation in the bolivar.
SOURCE: Federal Reserve Board.