World Economic Outlook

The Best Global Growth Since 2011 Is Good News for Agricultural Markets

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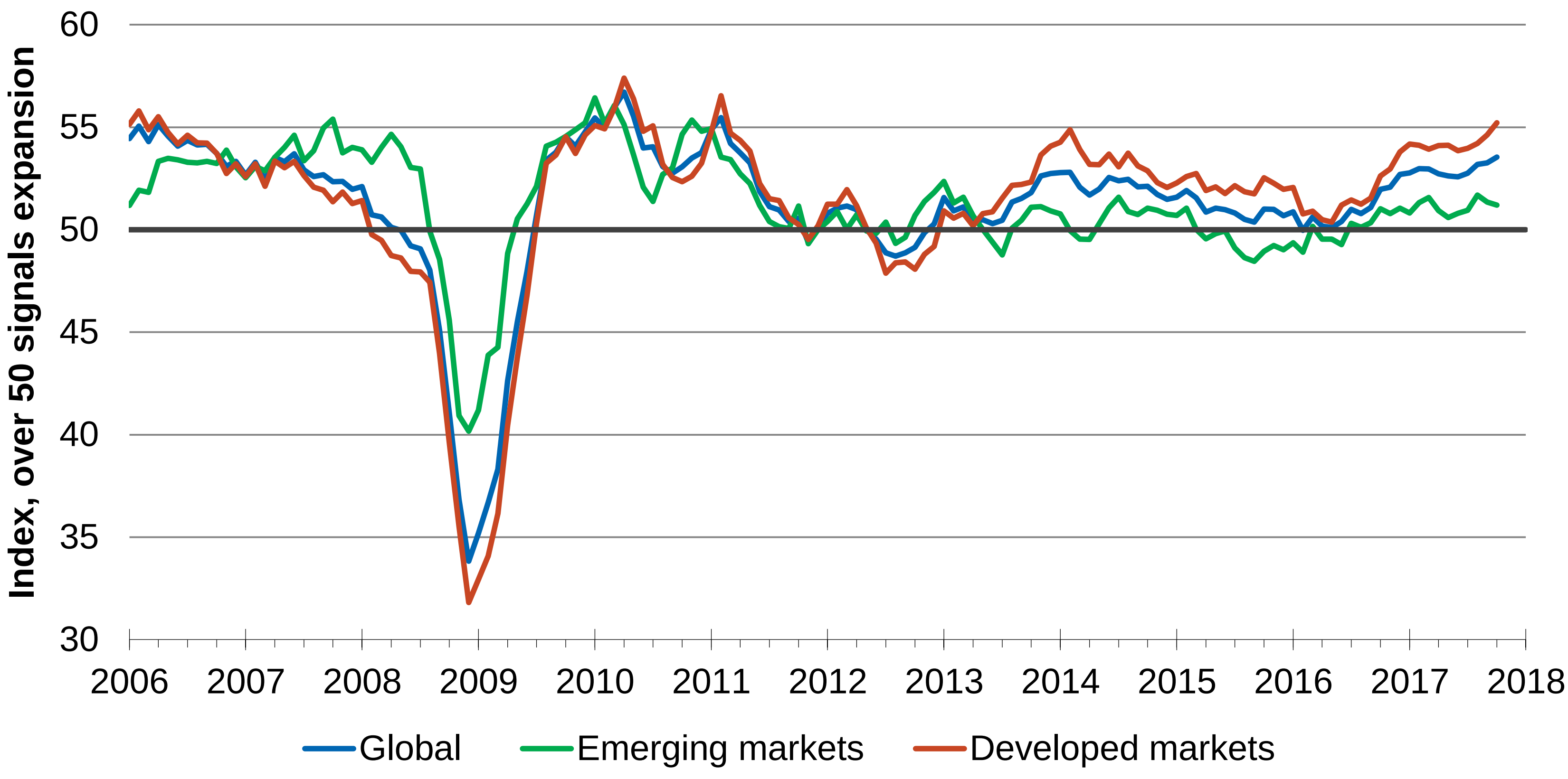
IHS Markit™

Global outlook summary

- Global growth will pick up from 2.5% in 2016 to 3.2% in 2017 (the strongest since 2011) and 3.2% in 2018, led by the United States, Europe, and Japan.
- The recent rebound in trade growth is especially encouraging.
- The US economy will see decent growth (2.0–2.5%), even without stimulus.
- Expansions in the Eurozone and Japan are gaining momentum (especially domestic demand), thanks to growth-supportive policies—but stronger currencies and ongoing structural problems will limit the upside.
- China's near-term strength masks longer-term fragilities.
- Emerging markets will benefit from stronger global growth, rising commodity prices, and a weaker dollar.
- In this environment, inflation rates and interest rates will rise gradually—and the dollar will keep sliding as investors become more optimistic about the rest of the world (and if US political uncertainty remains high).

Manufacturing PMI

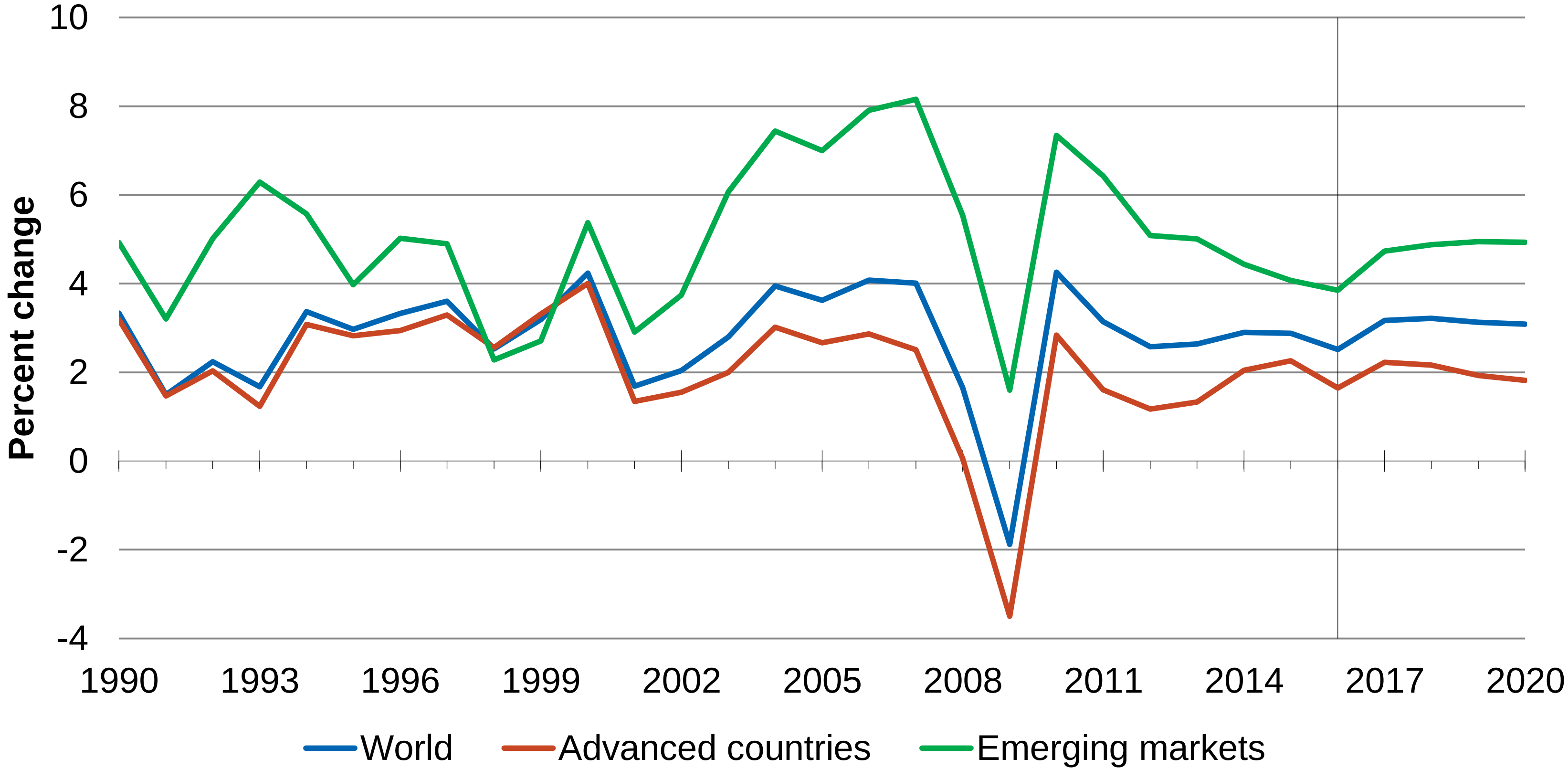
JPMorgan–IHS Markit PMIs



Source: IHS Markit

World GDP growth

Real GDP



Source: IHS Markit

World trade volume and industrial production are accelerating markedly in 2017

Global real GDP, industrial production, and real exports

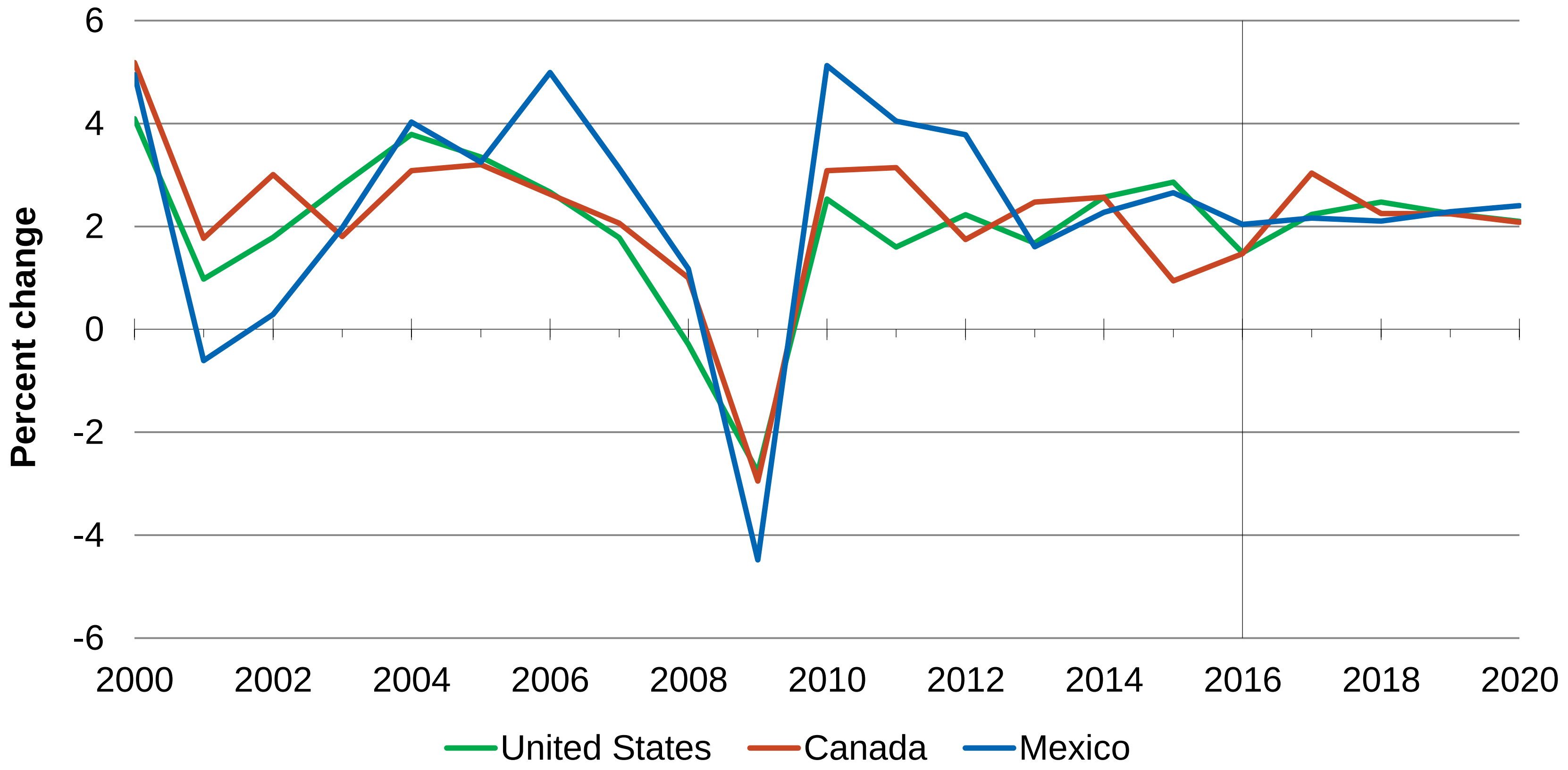
Source: IHS Markit

The US economy: Near-term volatility, but above-trend growth through 2019

- After a very weak first quarter, growth has been running at around 3% in the second and third.
- Even without stimulus, US growth will be decent (2.0–2.5%) this year and next.
- Consumer spending continues to drive US economic growth, supported by rising employment, real incomes, and household wealth.
- Business fixed investment will benefit from strengthening global markets and an easing of regulatory policies, although commercial building is slowing.
- Increasing demand, low inventories of homes for sale, and rising prices will encourage more homebuilding, even as interest rates rise.
- The Federal Reserve will gradually raise interest rates (taking the federal funds rate to 3.00% in late 2019) and reduce its asset holdings—notwithstanding the low inflation “mystery”.
- If enacted, the tax bill could add as much as 0.3 percent point in 2018.

Economic growth rates are converging in North America

Real GDP



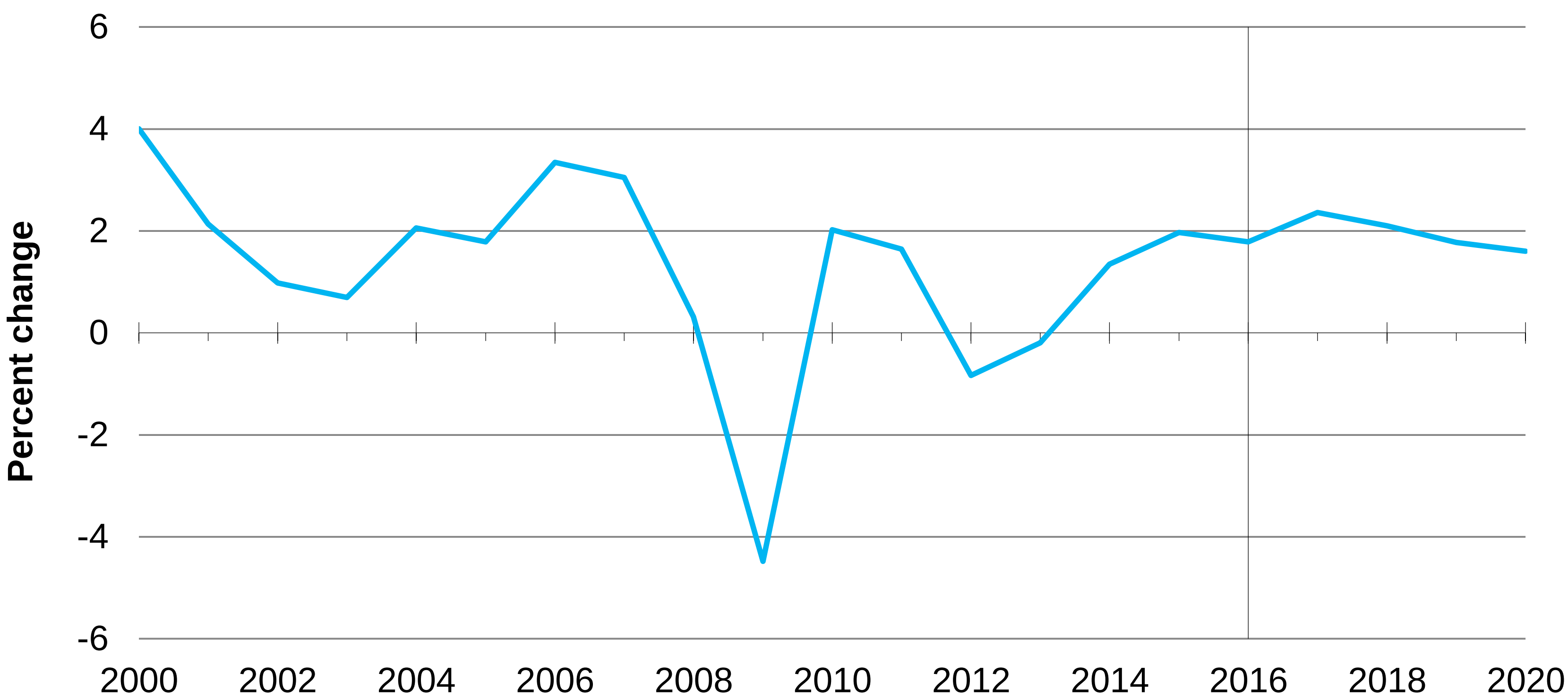
Source: IHS Markit

Have the Eurozone and Japan finally turned the corner?

- Between 2011 and 2016, the growth in the United States and United Kingdom averaged 2.0%, while growth in the Eurozone and Japan averaged only 1.0%.
- The Eurozone suffered through a two-year recession in 2012 and 2013, while Japan had three (shorter) recessions between 2011 and 2014.
- The key factor accounting for this poor growth was a combination of tight fiscal *and* monetary policies.
- On the other hand, in the United States and United Kingdom, tight fiscal policy was accompanied by ultra-loose monetary policy.
- The better growth performance of the Eurozone and Japan since 2014 can be explained in large part by a shift in fiscal policy into neutral and a shift in monetary policy into high gear.
- Unless this policy stance changes significantly, the Eurozone and Japan will continue to grow at (or slightly above) trend for the next couple of years.

Eurozone real GDP growth

Real GDP



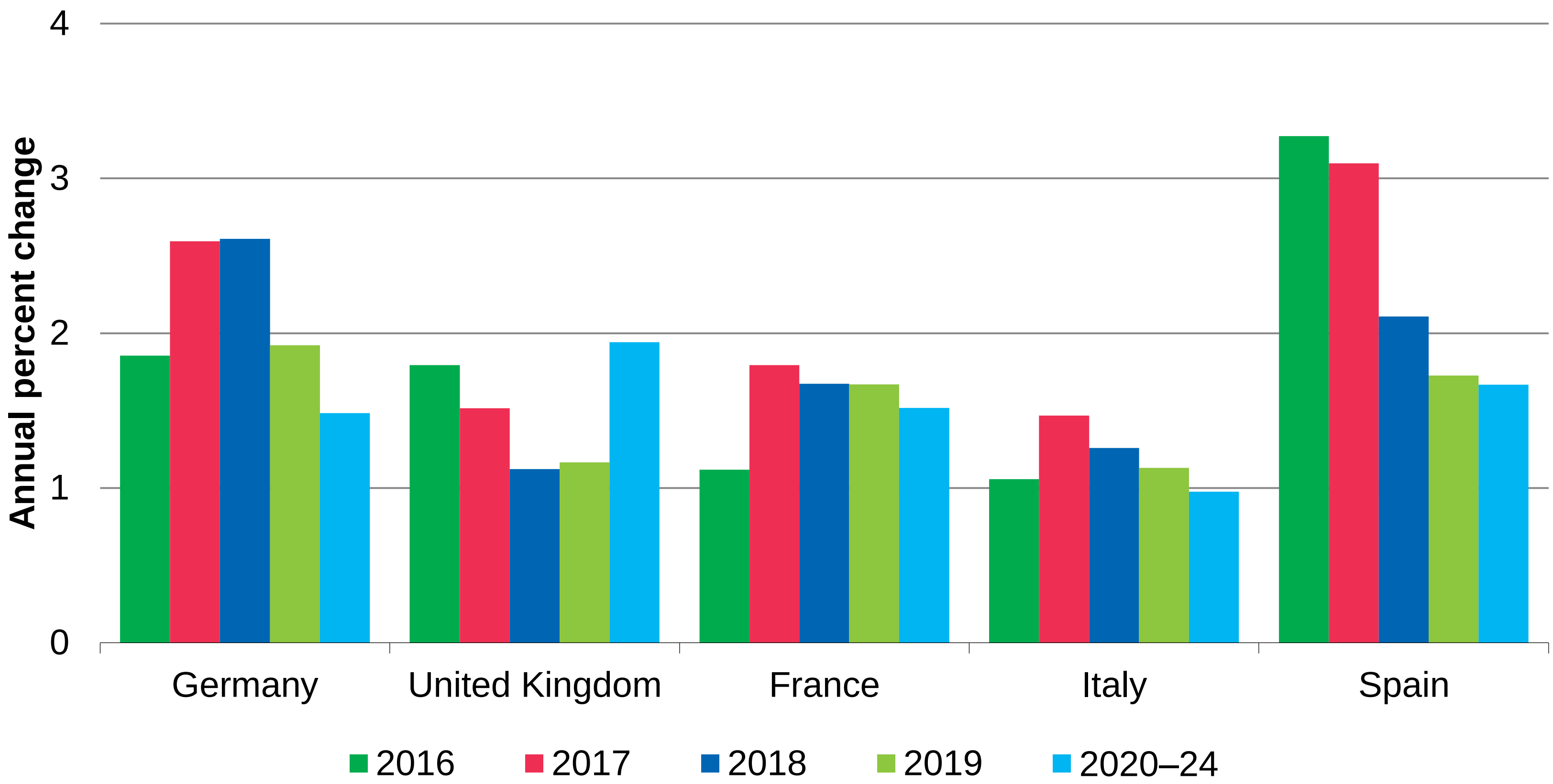
Source: IHS Markit

Western Europe on a steady growth path

- The Eurozone economy is expected to grow 2.4% this year – the best since 2006 – and 2.1% in 2018.
- Monetary stimulus, reduced fiscal headwinds, low oil prices, and rising consumer and business confidence will help sustain growth.
- Election results in the Eurozone have improved business prospects, although challenges remain; in particular, the banking and political situations in Italy are fragile.
- The rising popularity of nationalist parties in Germany and Austria and the separatist pressures in Spain are also sources of concern.
- Underlying price pressures remain subdued.
- An appreciating currency could become a drag.
- Monetary policy remains accommodative; the European Central Bank is not expected to raise interest rates until the third quarter of 2018.
- Fallout from Brexit will hurt UK growth in the next couple of years.

Real GDP growth in Western Europe

Real GDP



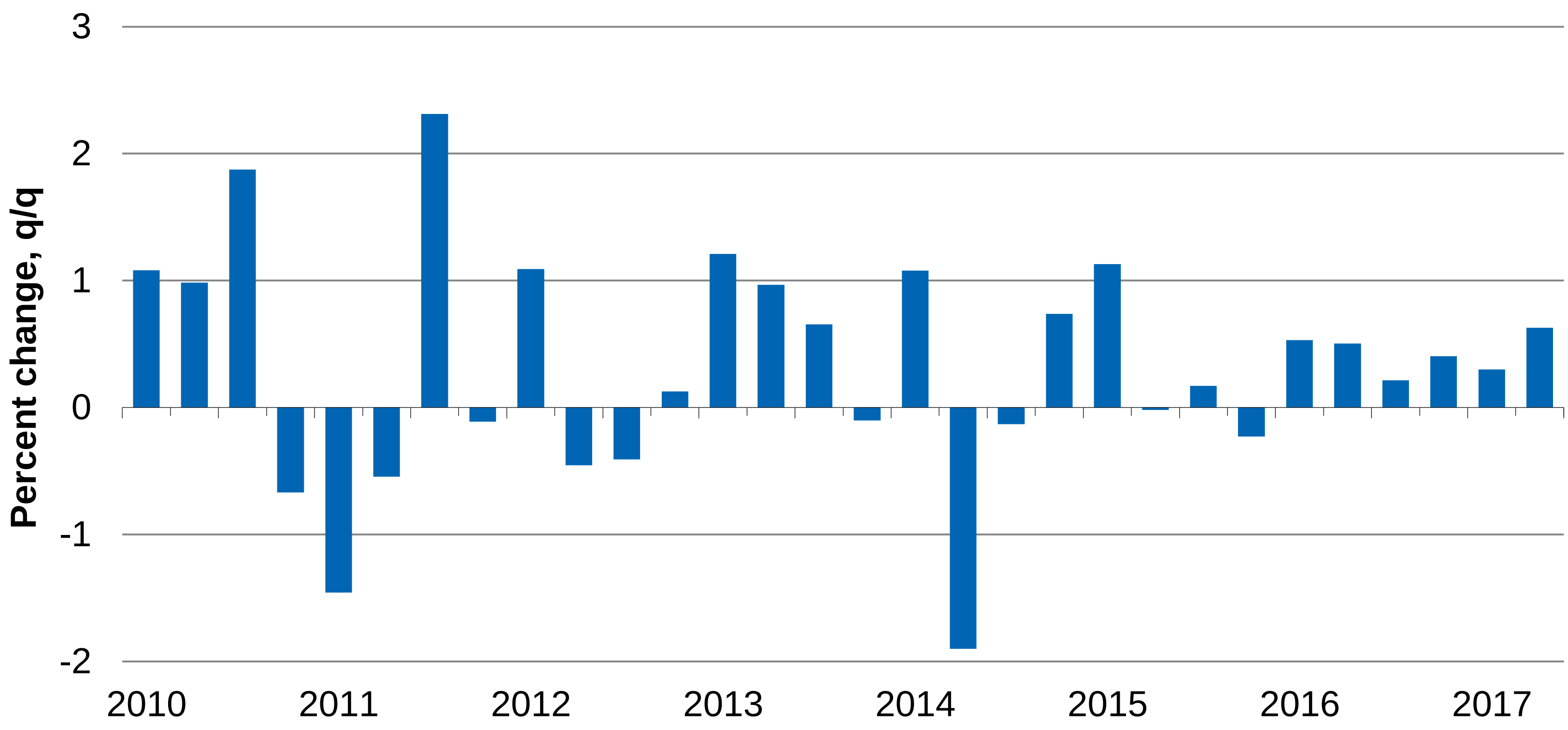
Source: IHS Markit

Japan’s growth spurt is fading

- Real GDP grew at a 1.4%% annual rate in the second quarter, slower than the 2.5% rate of the second quarter.
- Growth this year is expected to be 1.6%, followed by only1.1% next year.
- With the unemployment rate below 3%, wages should accelerate, supporting moderate growth in consumer spending.
- A strengthening global economy and solid increases in corporate profits will sustain decent growth in capital expenditures—although an appreciating currency could hurt.
- A consumption tax increase in October 2019 will lead to buy-in-advance behavior, causing an economic setback later.
- A declining, aging population limits growth potential, and high government debt may become a serious challenge.

Japan’s real GDP growth since 2010

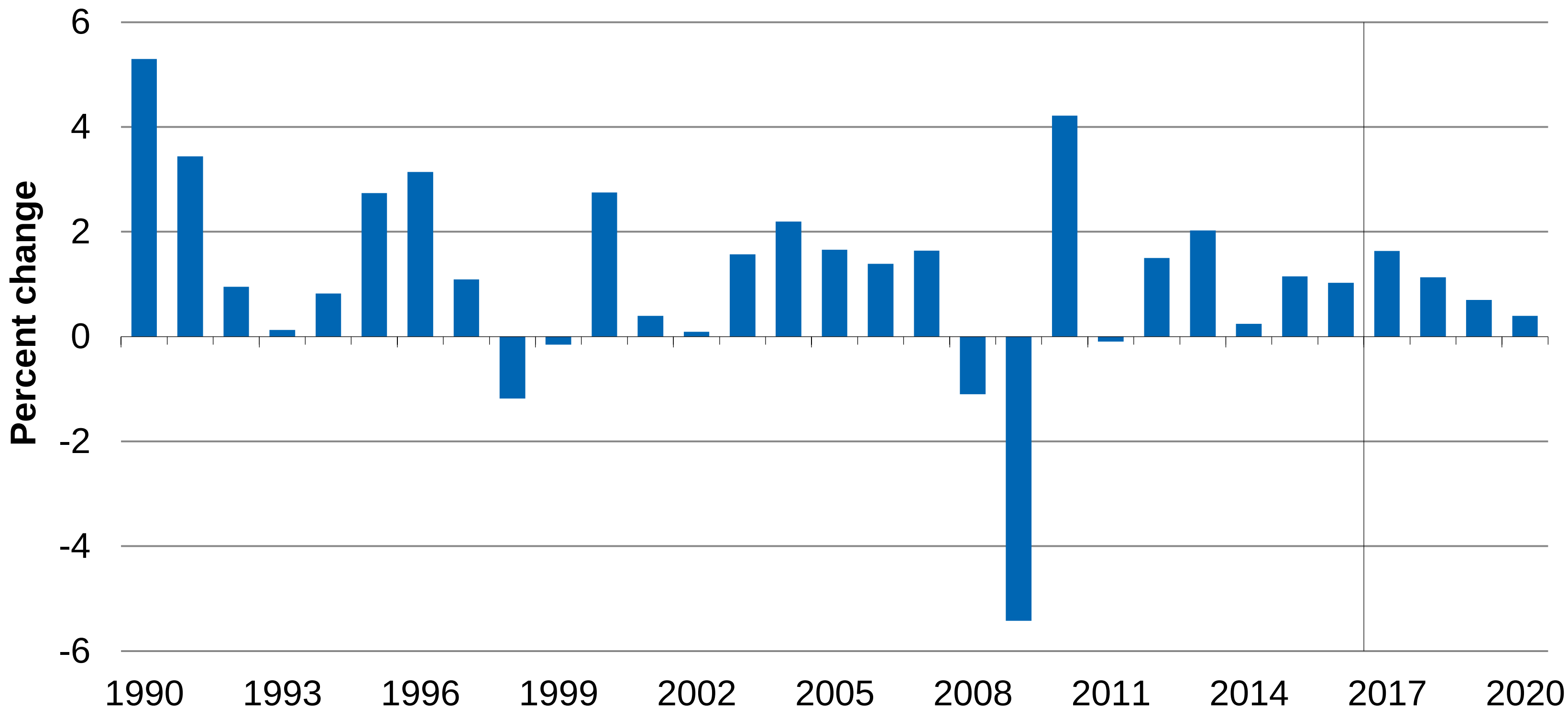
Real GDP



Source: IHS Markit

Japan’s economy has limited growth potential

Real GDP



Source: IHS Markit

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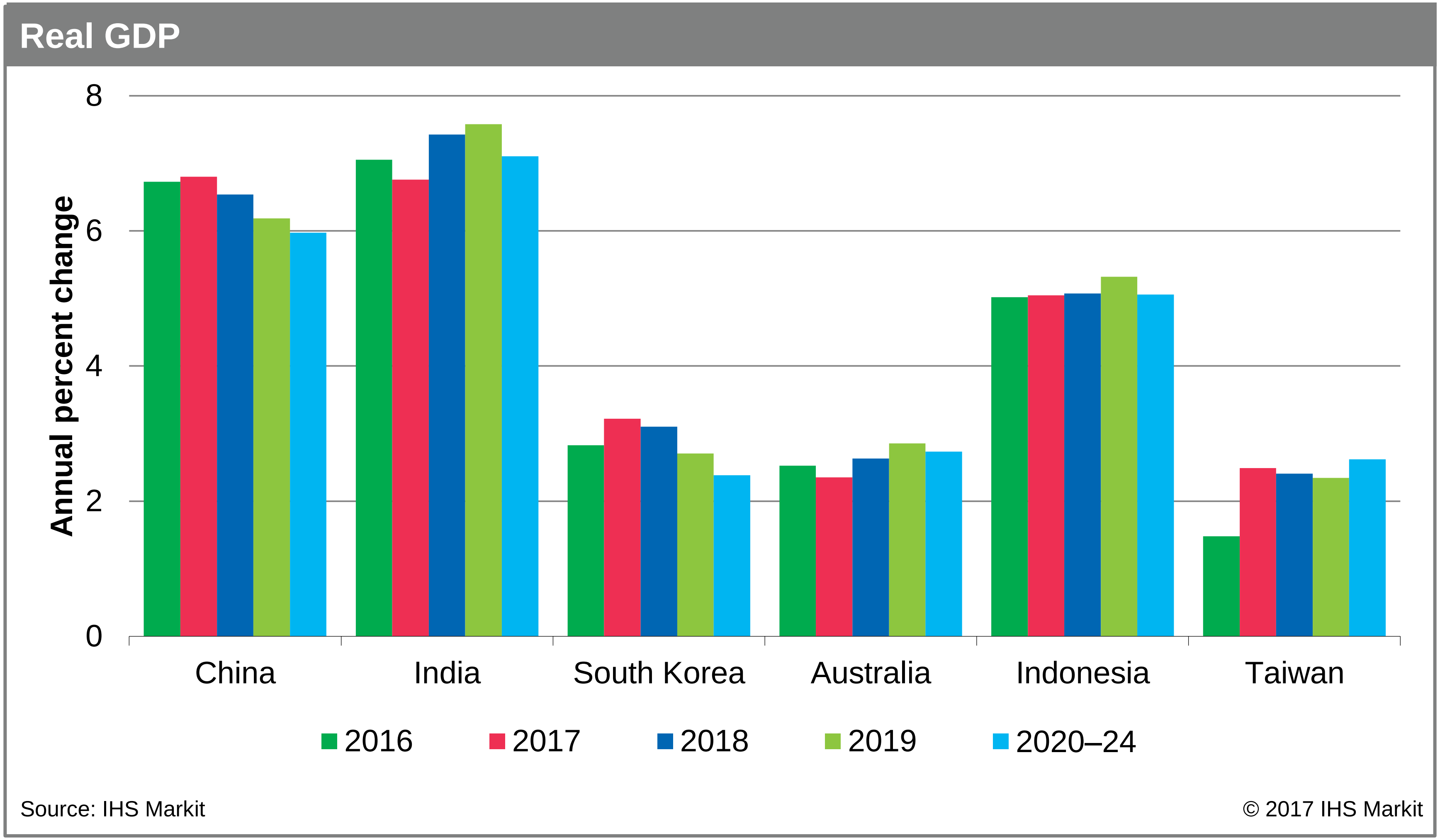
Asia-Pacific will lead all regions in growth

- China's economic growth will slow as tightening financial conditions lead to a correction in real estate markets.
- India's economy has struggled in 2017 but should achieve 7.0–7.5% growth during the next five years as economic reforms attract foreign investment.
- Indonesia's growth is holding near 5.0%, led by robust gains in fixed investment, including much-needed infrastructure development.
- Despite a retrenchment in mining investment, Australia is maintaining 2.5% growth with rising exports of minerals and energy.
- New manufacturing hubs such as Vietnam are emerging in Southeast Asia and South Asia as China loses cost competitiveness.
- The information technology–business process outsourcing industry is set for continued rapid growth in India, Malaysia, and the Philippines.

Real GDP growth in Asia-Pacific

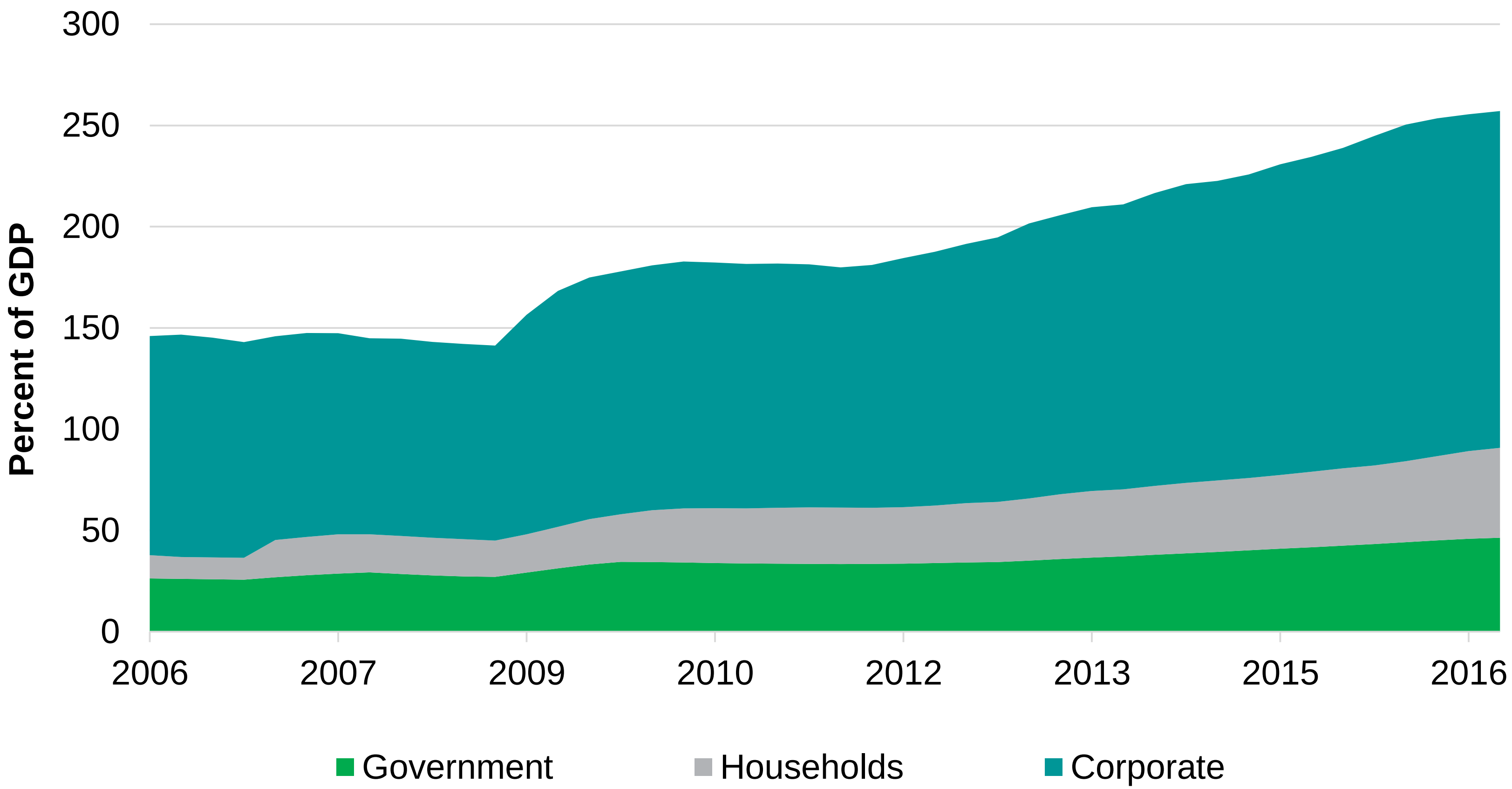


China’s economic growth will slow gradually

- Real GDP increased 6.9% year-on-year in the first two quarters of 2017 and 6.8% in the third, supported by policy stimulus to ensure stability ahead of the 19th Party Congress.
- Meanwhile, policymakers are trying to reduce the high levels of leverage in the economy through tighter financial supervision and regulation.
- Headwinds from excess industrial capacity and a housing-market correction will trim real GDP growth from 6.8% in 2017 to 6.5% in 2018 and 6.2% in 2019.
- Progress on reducing excess capacity has been extremely slow – hurting medium-term prospects.
- The renminbi is expected to depreciate gradually against the US dollar through 2019, and capital controls have been tightened to prevent large capital outflows – this means that the currency has become “de-internationalized”.
- Longer-term, China’s demographic headwinds will result in even slower real GDP growth.

China's massive debt will constrain future monetary policy, credit growth, and investment

Debt stock by sector



Source: Bank for International Settlements (BIS)

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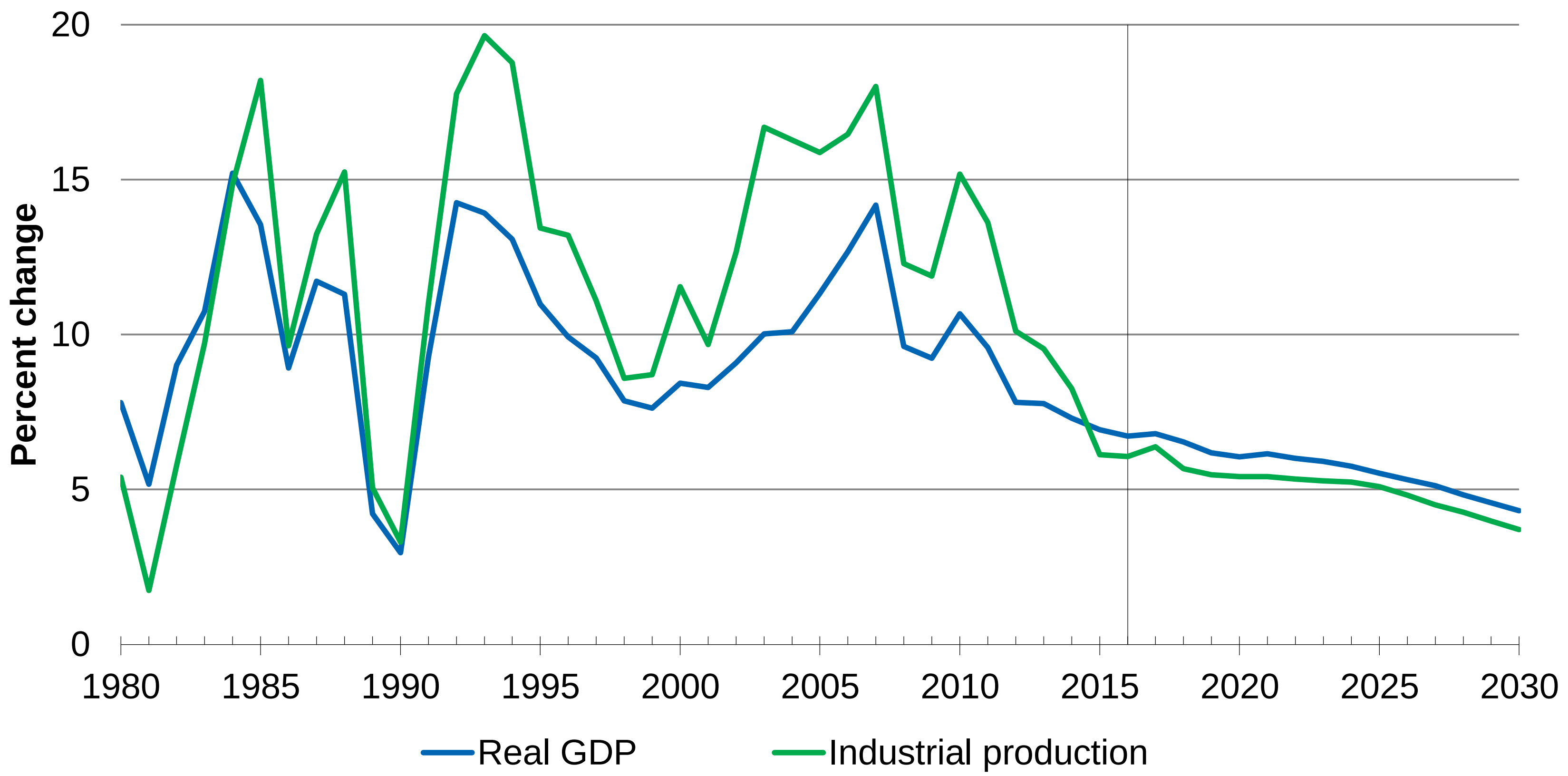
China's economic growth will downshift in the long run

Real GDP and industrial production



Source: IHS Markit

Forces that restrained emerging markets' growth and conditions leading to improved performance

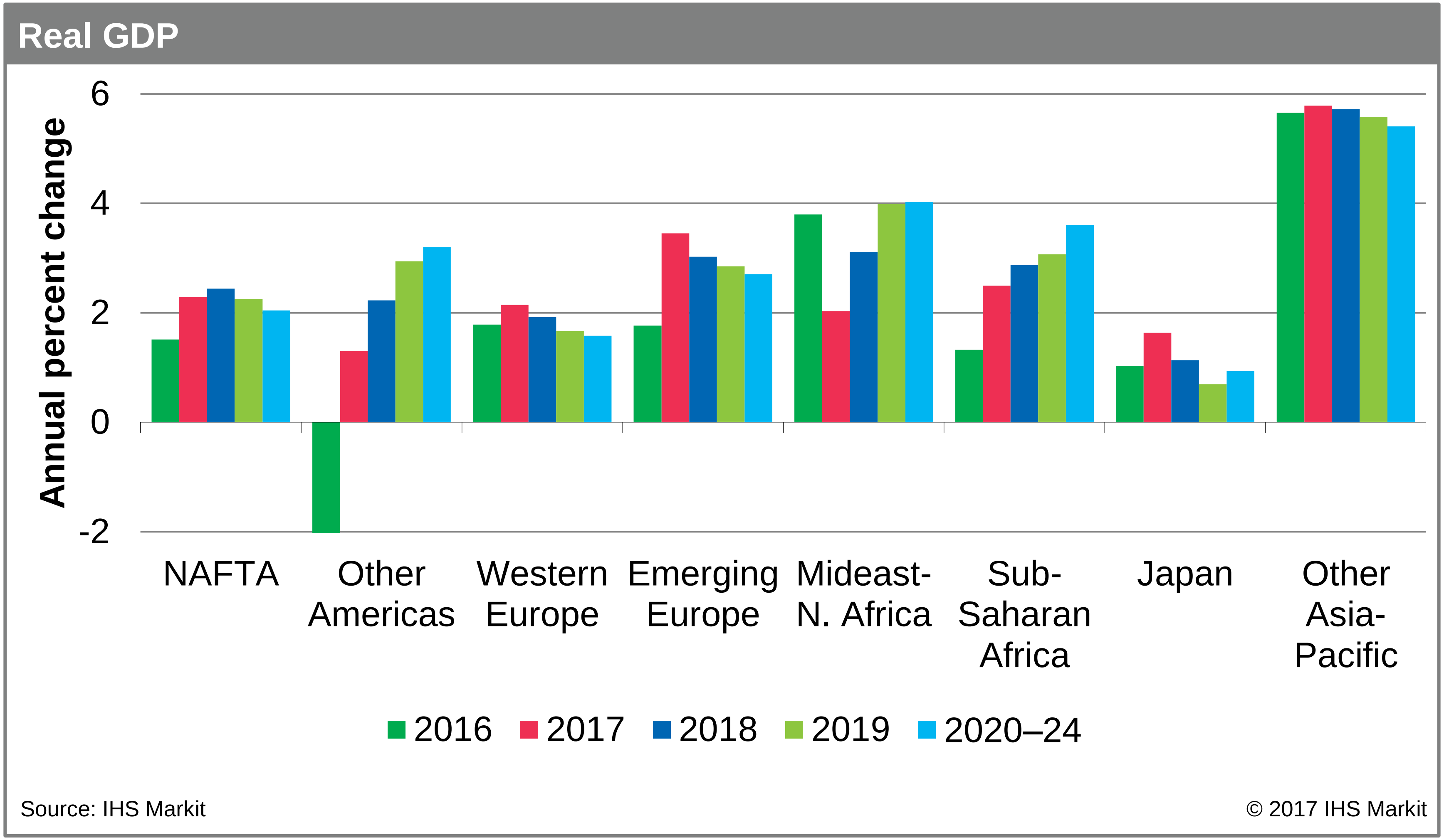
Restraints on growth

- Excess capacity after investment booms
- Slowdown in world trade
- Low commodity prices
- Capital flight and downward pressure on currencies
- Debt accumulation

Turnaround conditions

- Rising consumer demand
- Strengthening exports
- Recoveries in commodity prices and stock markets
- Return of risk capital
- Market and fiscal reforms to improve resource allocation

World GDP growth by region

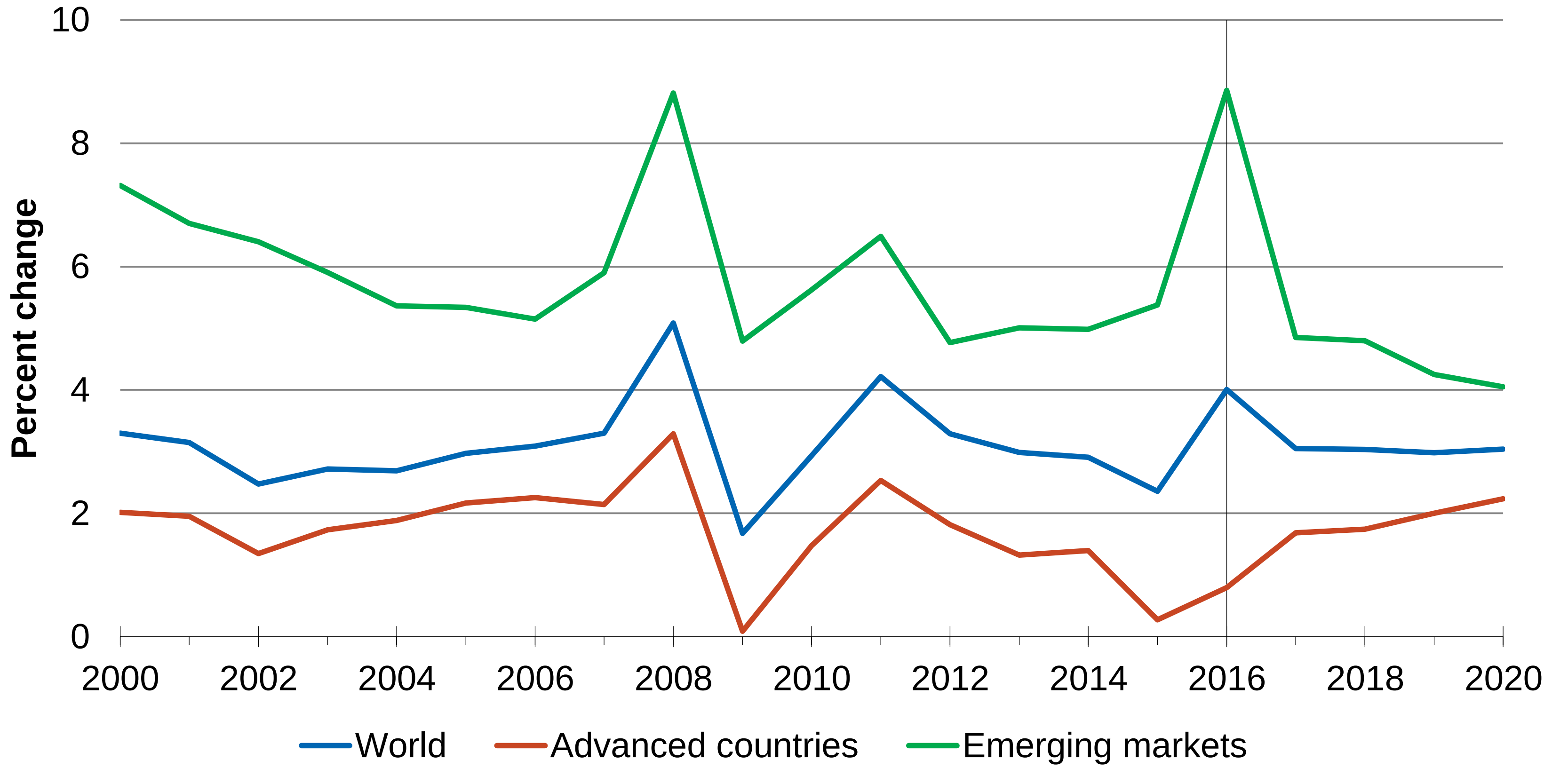


Why is inflation still so low?

- No sustained inflationary liftoff—yet—anywhere.
- Many explanations, but little consensus—price inflation
  - Lackluster growth and, for some countries, still-large output gaps
  - Excess industrial capacity
  - Technology
  - Rolling positive supply shocks (e.g., commodity markets)
- Many explanations, but little consensus—page inflation
  - Labor market slack
  - Time lags
  - Demographics
  - Poor productivity growth
  - Technology and globalization
  - Earnings pressure and the shift in market power
- Bottom line: Inflation will rise in the next couple of years—but slowly.

Inflation is trending upward slowly in developed markets

Consumer price inflation



Source: IHS Markit

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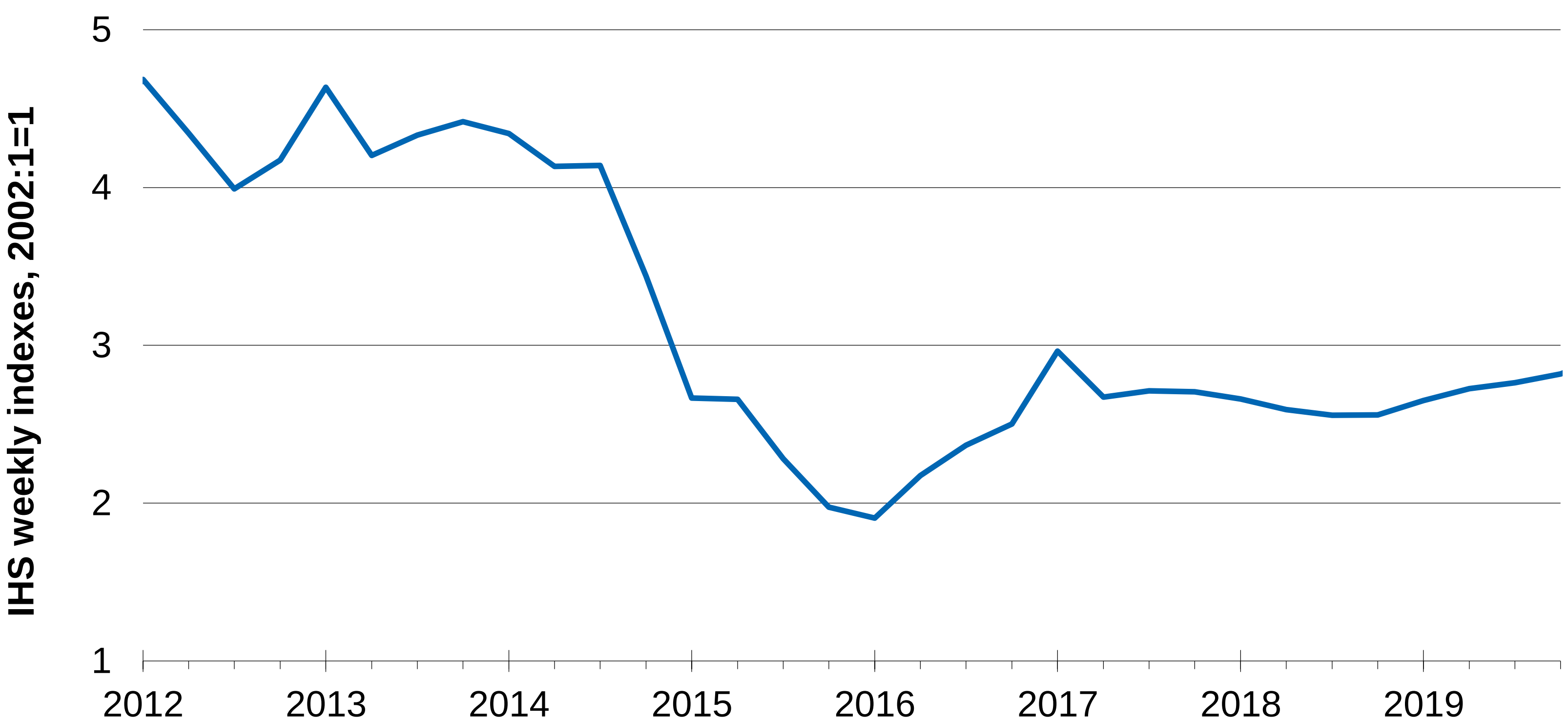
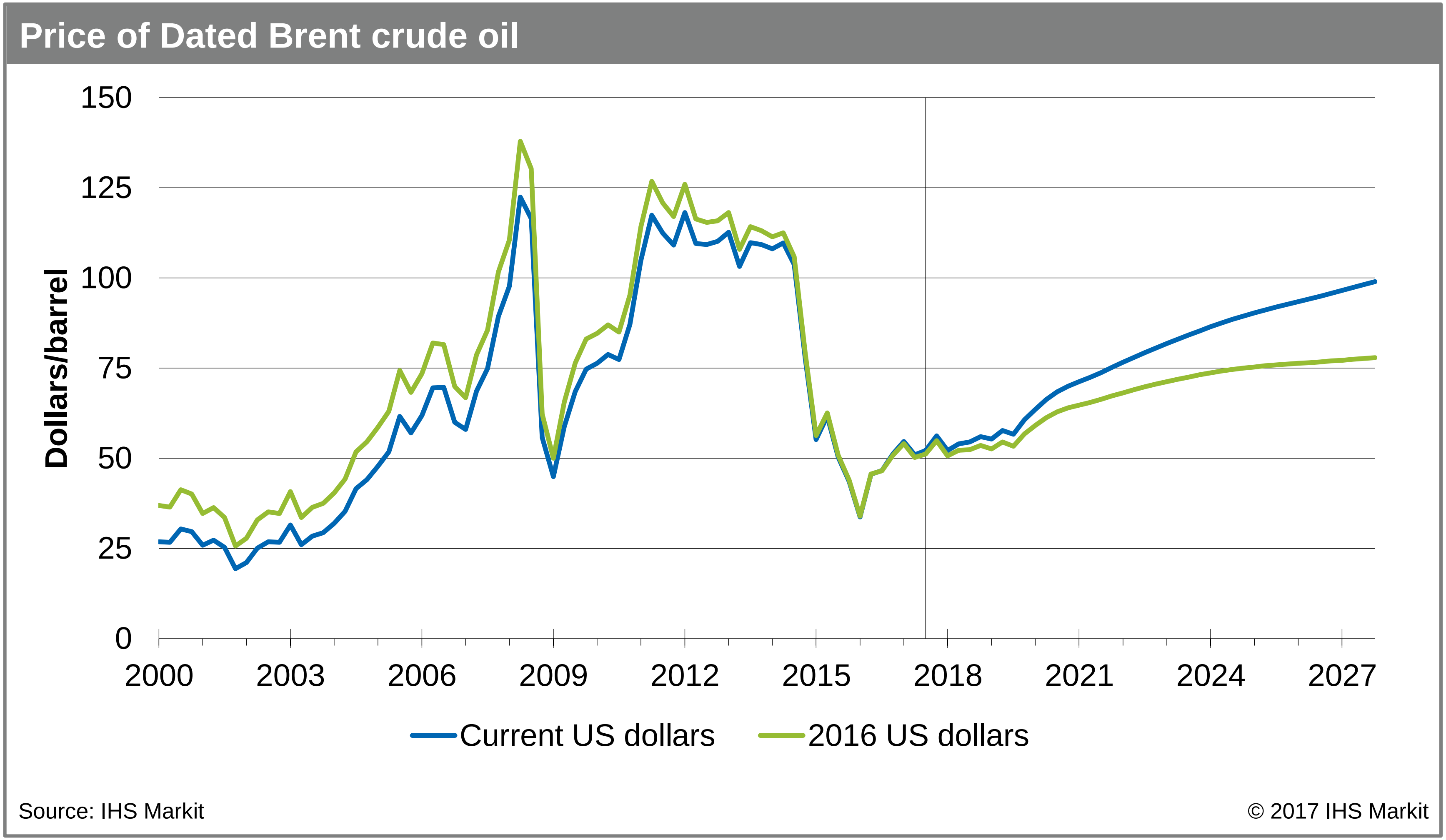
Industrial materials prices are recovering but remain well below their previous peaks

IHS Markit Materials Price Index

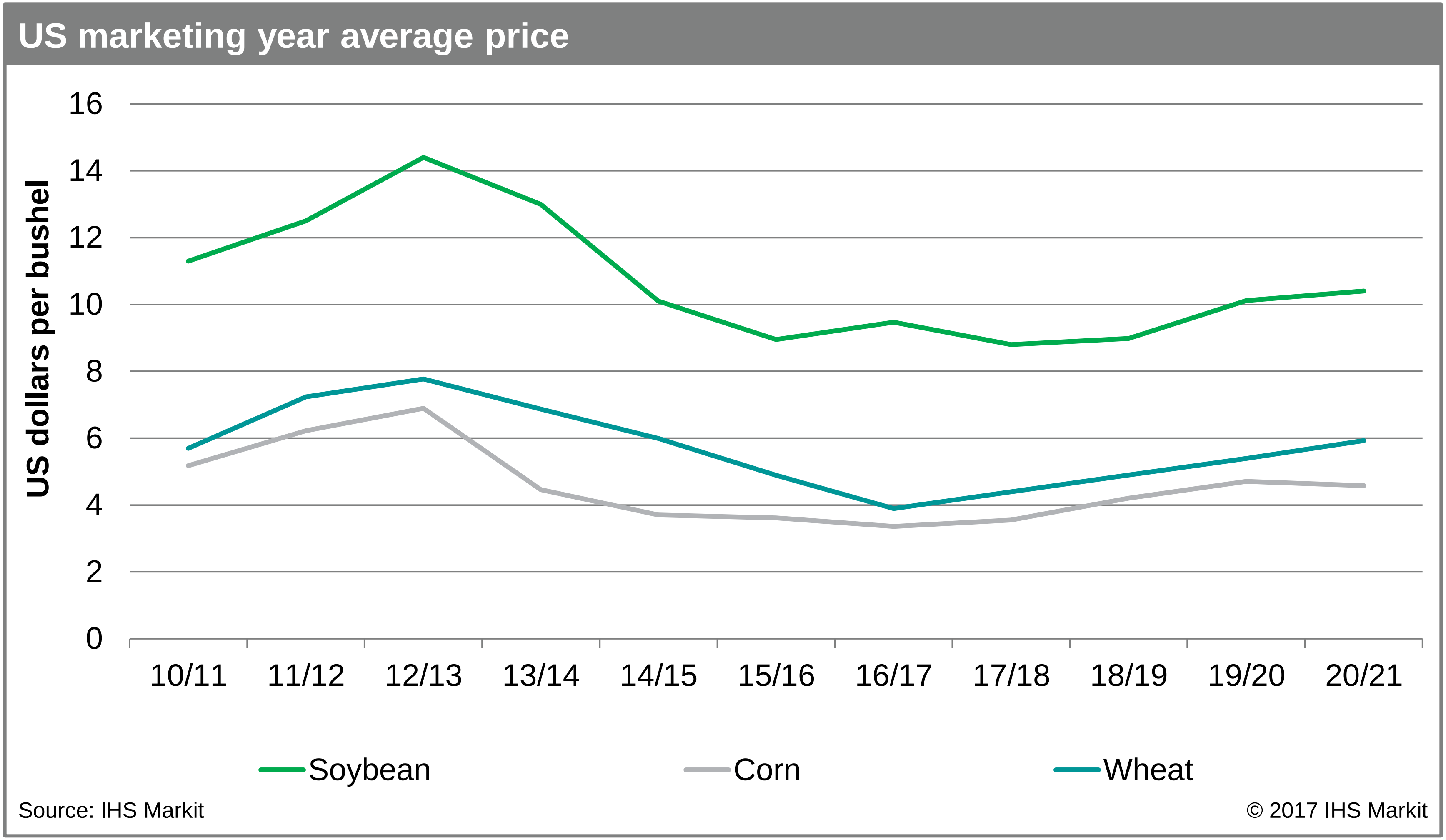


Source: IHS Markit

Crude oil prices will gradually recover after 2018

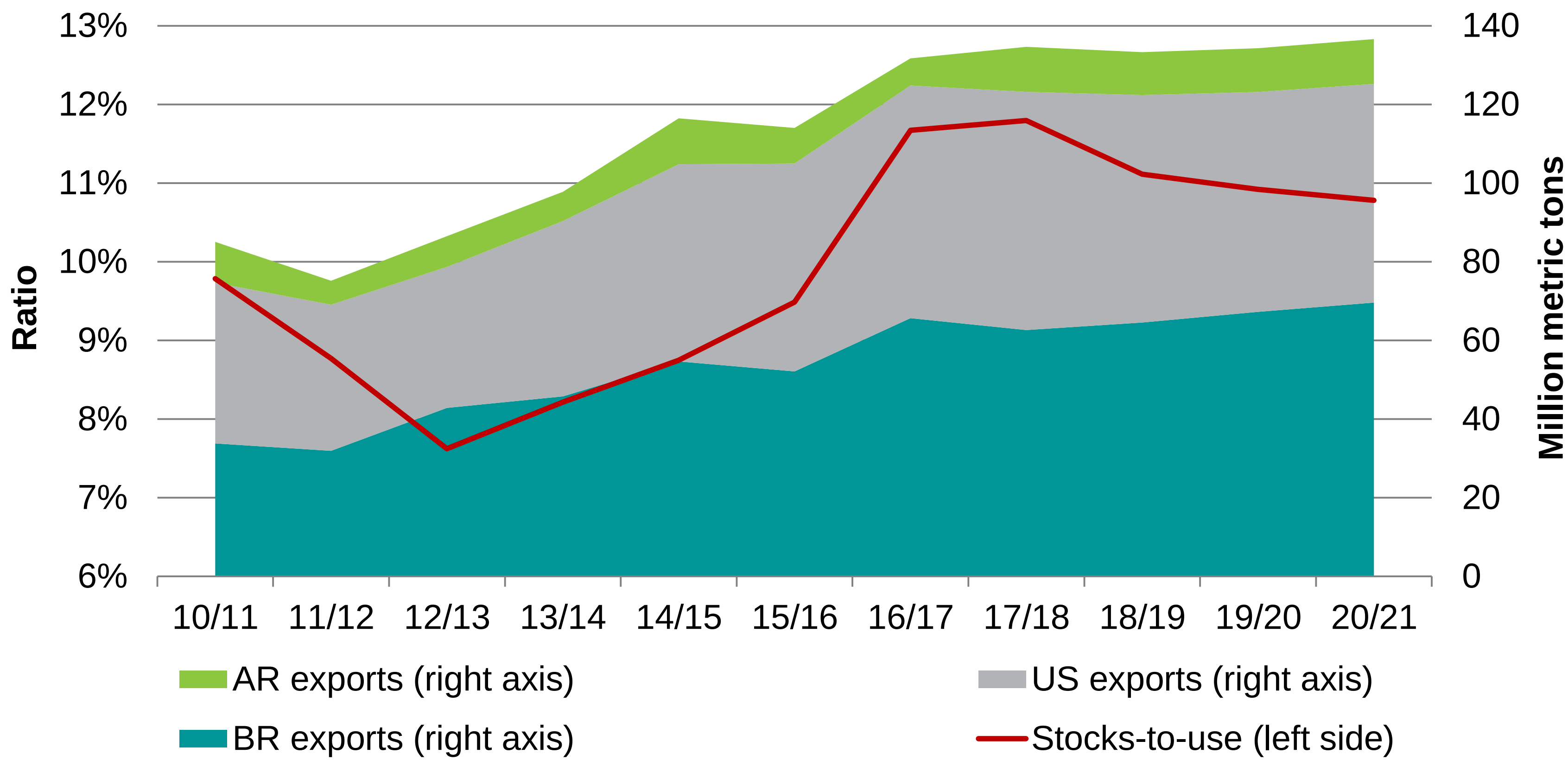


US agriculture market is searching for a low



Export growth in Big 3 soybean producers remains with Brazil

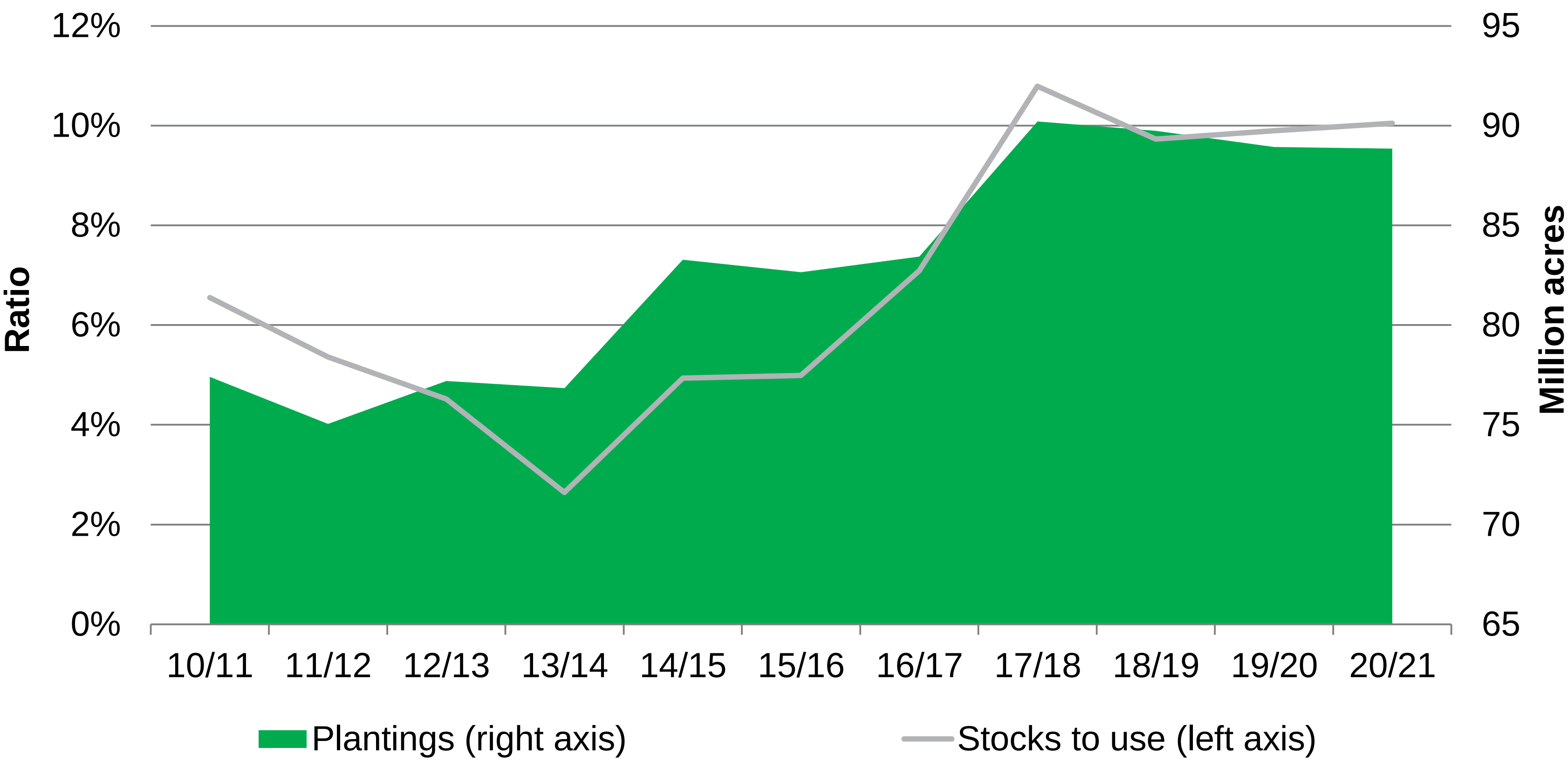
Global stocks-to-use ratio, Big 3 soybean producers' exports



Source: IHS Markit

Chinese soybean import demand helps support US soybean plantings

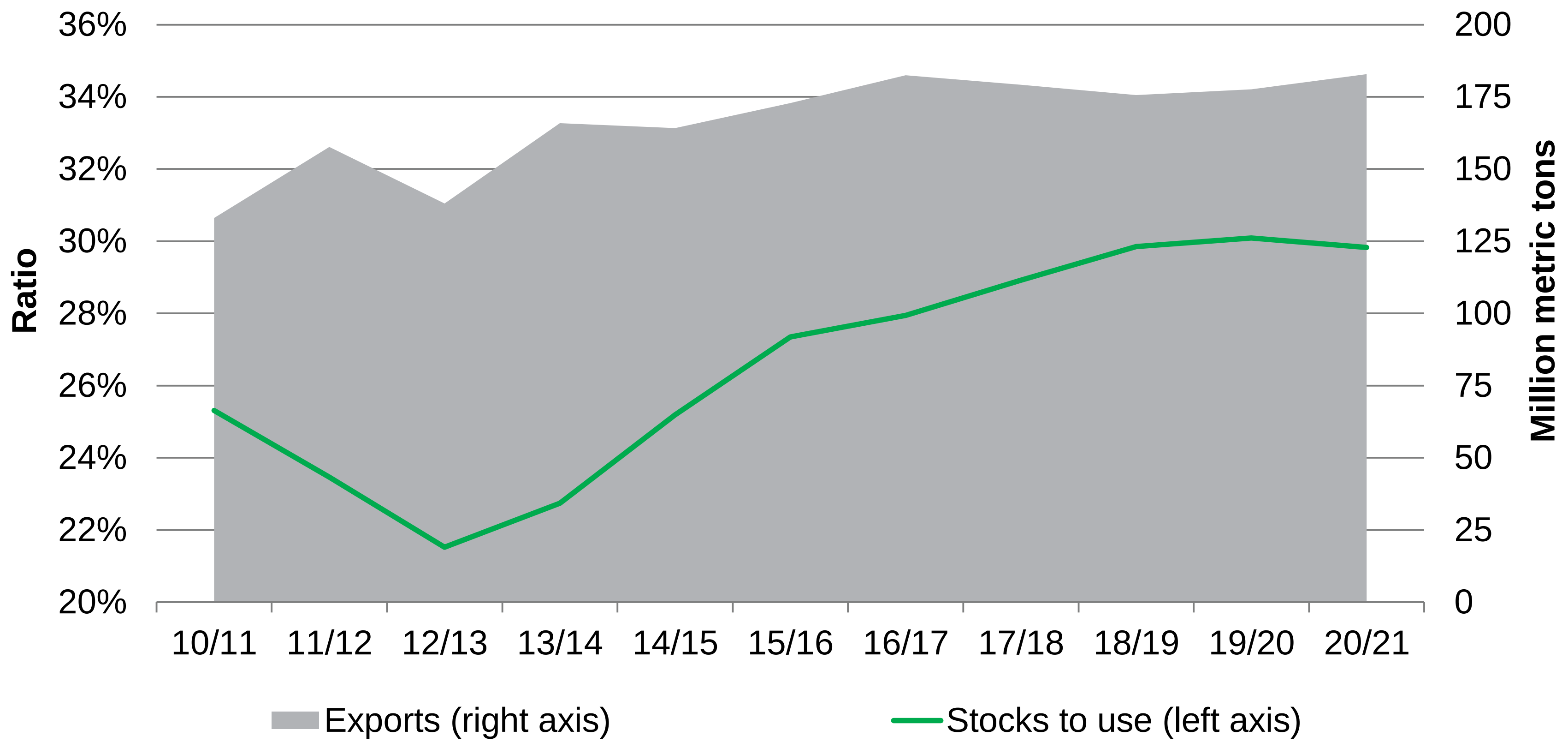
US soybean plantings remain elevated



Source: IHS Markit

EU and CIS wheat production growth crowds out US exports

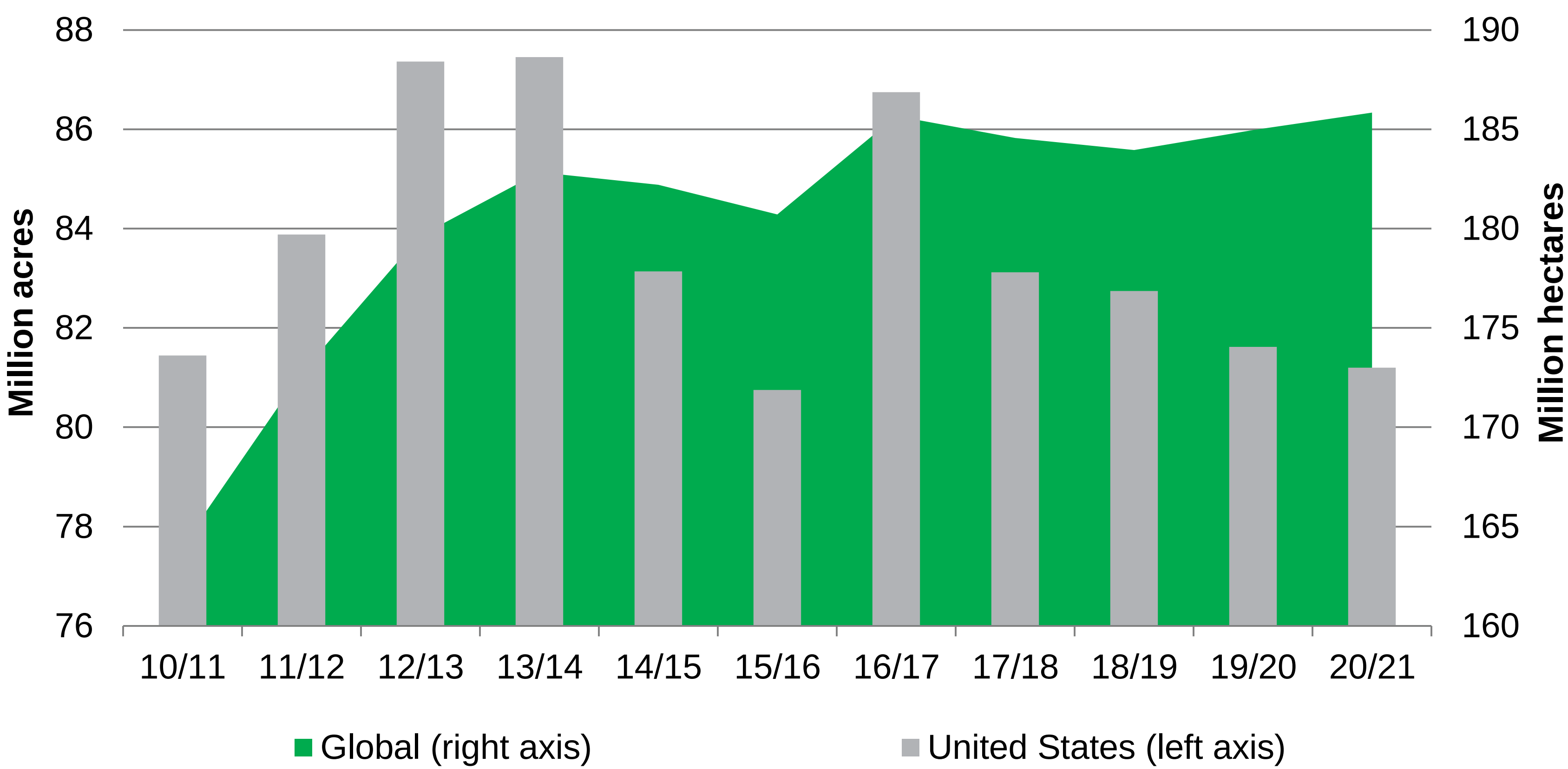
US wheat export sector struggles to gain large market share as global production expands



Source: IHS Markit

Area gains in corn coming from outside of US

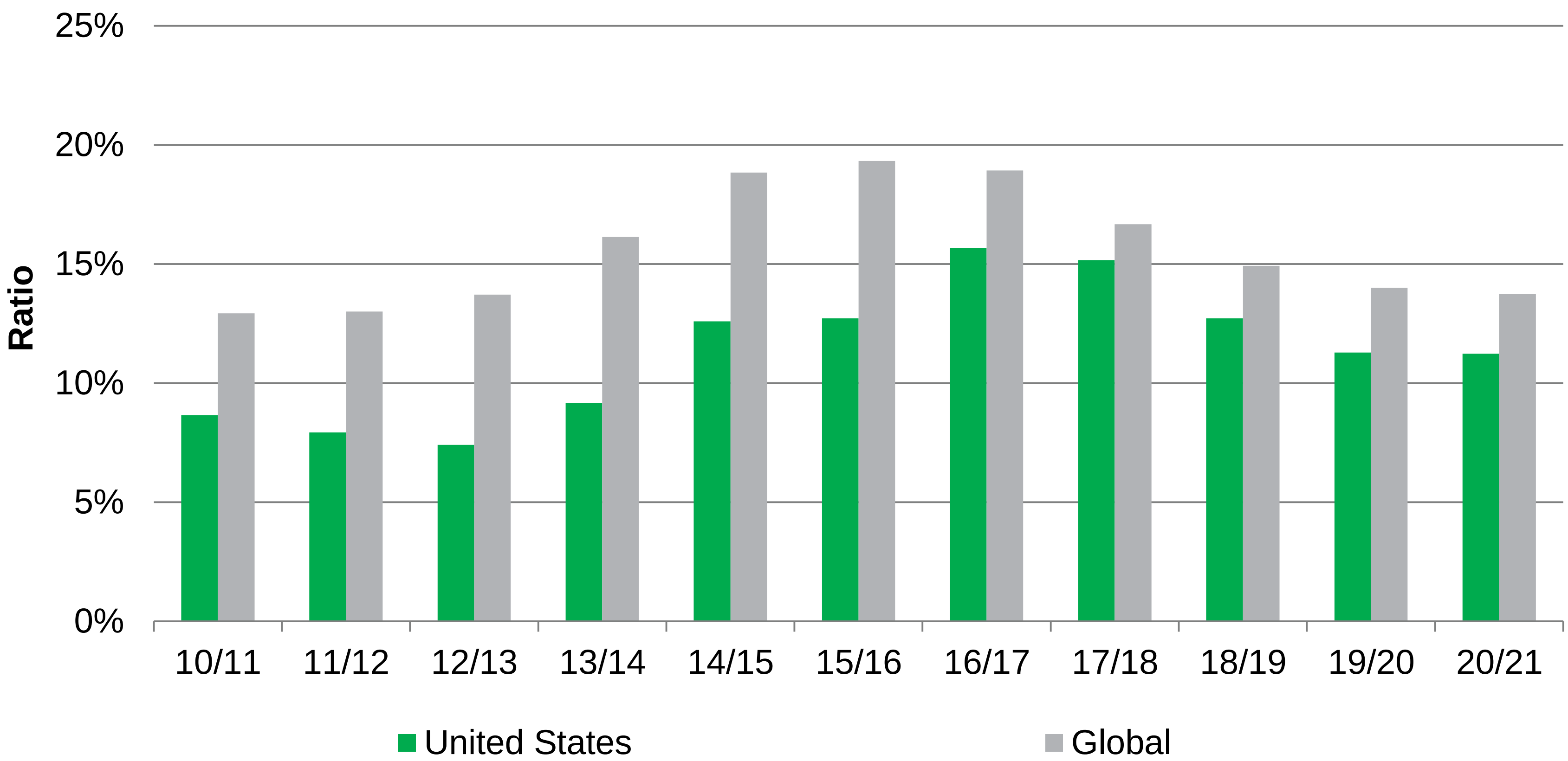
United States and global corn area harvested



Source: IHS Markit

Tighter stocks to use levels helping to drive agricultural prices higher

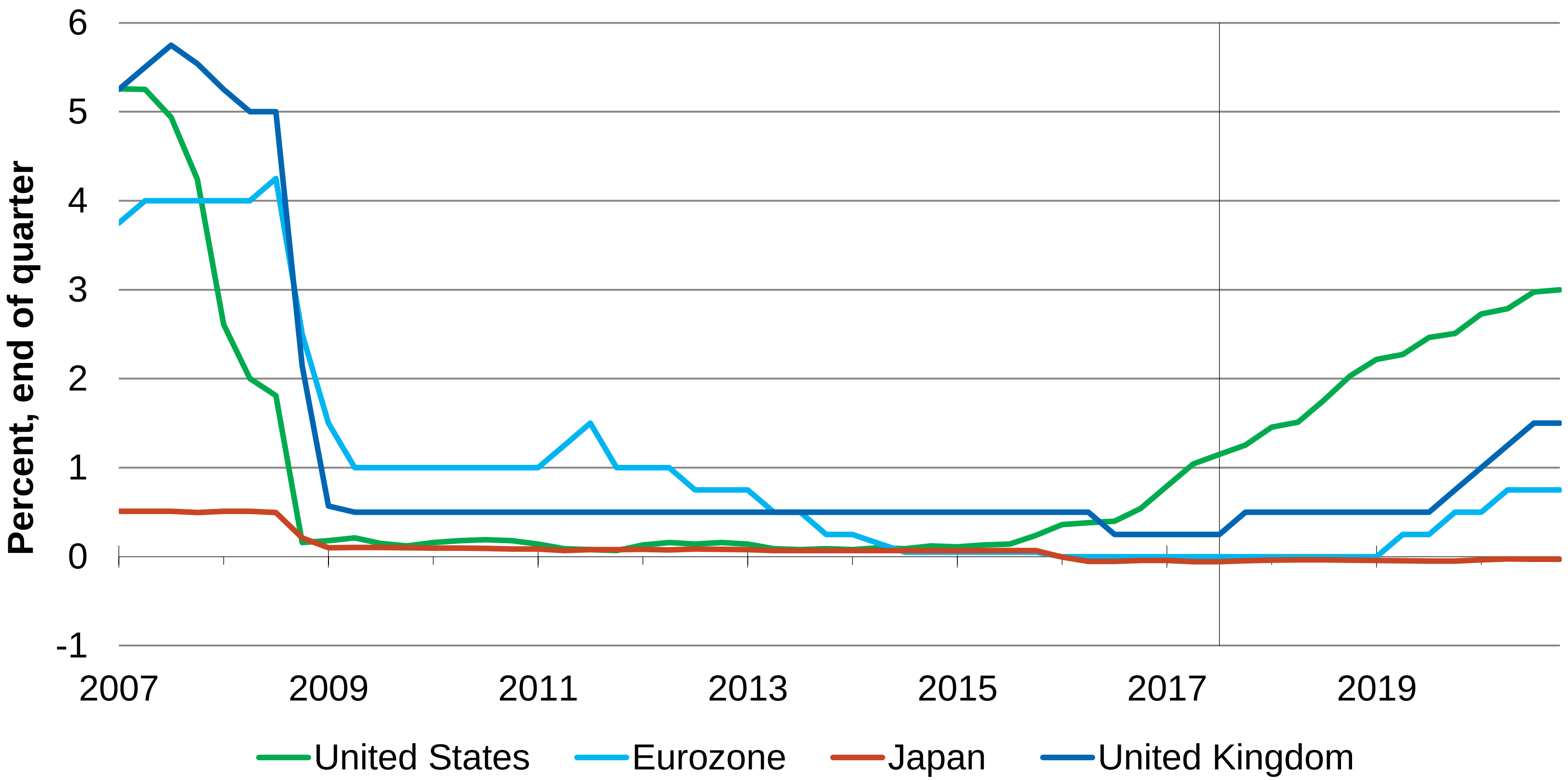
United States and global stocks to use



Source: IHS Markit

The US Federal Reserve is leading major central banks in raising interest rates, but policy is still not tight

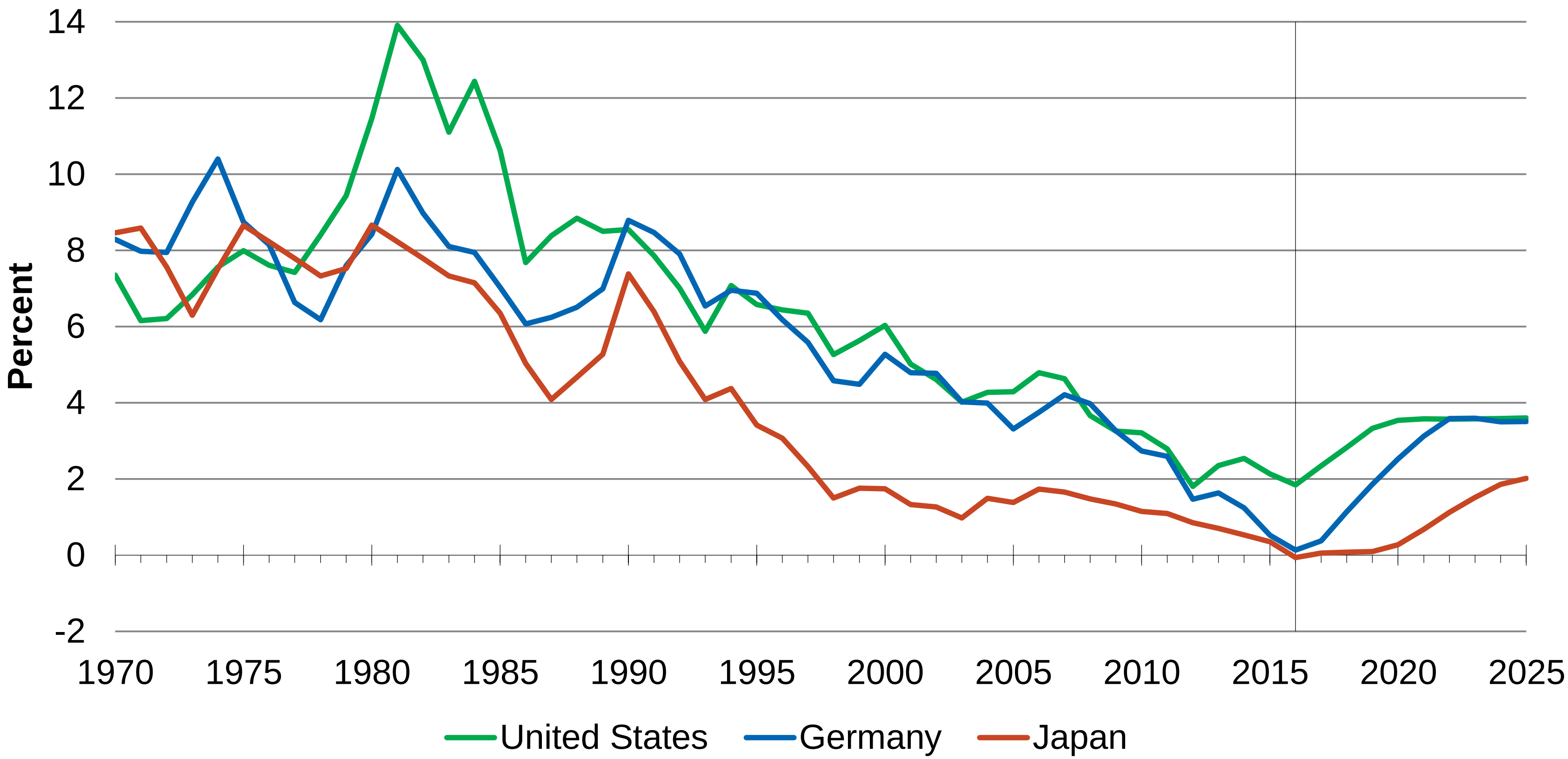
Policy interest rates



Source: IHS Markit

Long-term government bond yields will rise from exceptionally low levels

Ten-year government bond yields



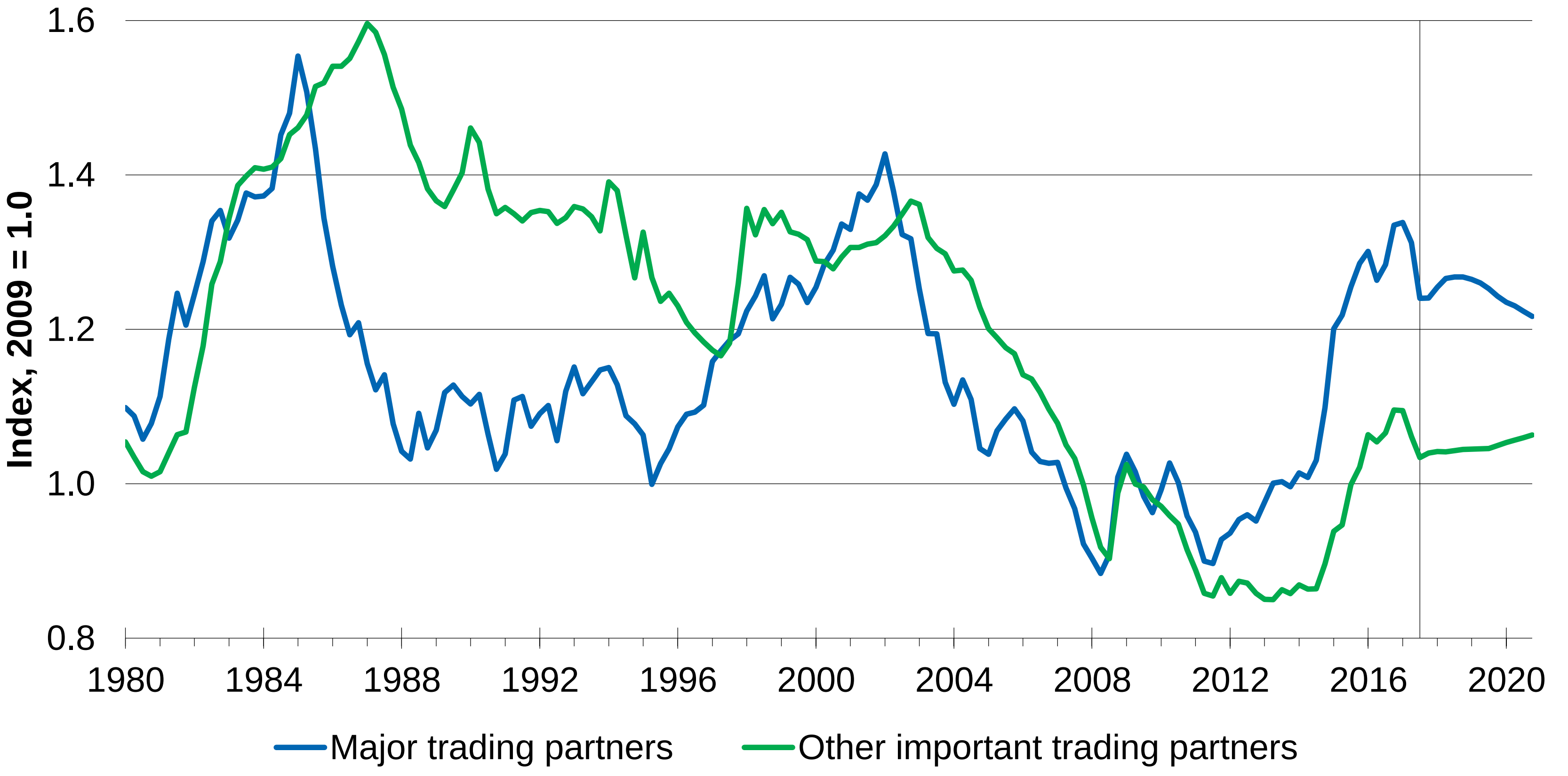
Source: IHS Markit

The causes and consequences of recent forex swings

- Since 1980, the US dollar has seen three very large swings, but the share of the dollar in foreign-exchange (forex) reserves has been remarkably stable.
- The strength of the dollar in recent years was attributable to stronger US growth, expectations of higher US interest rates, and volatility elsewhere in the global economy.
- However, in much of 2017 the dollar weakened as investors began to focus on stronger growth in the rest of the world, the unpredictability of US politics, the rising US current-account deficit, and diminished worries about China.
- Because of rising European political uncertainty, though, the dollar has risen again recently.
- The dollar is expected to slide over the couple of years, but could see a near-term bump, as the Fed keeps rising rates before other central banks.
- The consequences of a weaker dollar include stronger US export growth, a boost in the dollar value of the overseas profits of US corporations, and less pressure on central banks in the emerging world.

The dollar's real exchange value will depreciate against major currencies in the medium term

Real trade-weighted dollar index



Source: IHS Markit

What could darken this bright picture?

- The average duration of an expansion does not tell us much—and neither does low unemployment.
- The usual suspects are low-level threats for the moment…
  - Monetary (over) tightening
  - Oil shocks
  - Bursting asset bubbles
- …and not all shocks cause recessions…
- …but policy mistakes are possibly the biggest threat now.
  - A central bank mistake
  - Fiscal debacle
  - Trade war
  - Mismanaged China debt crisis
- Geopolitical threats (North Korea, Syria, Ukraine, etc.) are low probability but potentially high-impact events.
- Bottom line: Left to its own devices, the global expansion could go on for another couple of years—breaking the longevity record.

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