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GLOBAL GROWTH LIFTS AMID A BENIGN OUTLOOK FOR GLOBAL INFLATION

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Global growth has risen from 2.6% at around the middle of the year to around 3.2% today.[1] Three forces have been instrumental in driving this: First, a meaningful phase of inventory liquidation came to an end toward the middle of the year; second, global financial conditions continued to loosen during the third quarter; and third, the policies implemented by Chinese authorities in the first half of the year have continued to have an impact in the second half.

On a regional basis, the growth slide in Latin America has largely stopped in response to the stabilization of commodity prices. Across Asia, the launch of new technology products (think Samsung Galaxy and iPhone 7[2]) has provided a meaningful growth driver. And in Europe, real purchasing power continues to be supported by the low price of oil.

Our indicators suggest that the acceleration in economic growth will peak in the fourth quarter as the tailwinds from loose monetary conditions and policy support from China subside. As things stand, however, while we are anticipating some moderation, we do not expect a precipitous drop-off.

As we consider the outlook for inflation over the coming year, we pay close attention to the closing output gaps in the U.S., Germany, and Japan to determine whether wage pressures are likely to rise. We believe that the prospects for upside surprises in wages are most prominent in the U.S., while, due to local technical factors, wage pressures will likely be kept at bay in Germany and Japan.

The most important global force behind headline inflation is the price of oil. Here, although base effects may distort the year-on-year price, we do not see a meaningful upside risk. Altogether, our global inflation model suggests that headline inflation will settle around 2.4% over the coming four quarters.

[1] Source: FactSet.

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