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AS GOOD AS IT GETS

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Nikolaj Schmidt
Chief International Economist

WHAT ARE THE LATEST DATA TELLING US ABOUT THE STATE OF THE GLOBAL ECONOMY?

That it's weakening. The data were pretty strong around the turn of the year, but since then they have become more negative. One of the reasons for this has been the rising oil price, which is a tax on consumers. In the past, the effect of higher oil prices on consumers has been offset by a boost in capital expenditure from the energy sector, but this time around, energy companies are not spending as much on capital as they are focusing on generating free cash flows.

Another reason is that last year's surge in corporate profits, which led to an acceleration in investments, has now largely abated. A further headwind to capital formation—and therefore growth—is coming from higher market volatility and the constant talk of trade wars. Finally, after surprising on the upside in the first quarter of this year, the deleveraging process in China seems finally to be having an impact.

Looking ahead, our forecast for global growth is below consensus as our proprietary lead indictors point to continued deceleration—a signal that is reinforced by the worrying outlook for global trade policy.

ARE PRESIDENT TRUMP'S FISCAL STIMULUS MEASURES HAVING AN IMPACT?

Some of the effects are showing already, though it's very difficult to pinpoint exactly when fiscal support hits an economy. I think that the tax cuts have already boosted consumption, which is strong, although real incomes are not rising particularly fast. The evidence suggests that President Trump's fiscal measures will have the most impact on the U.S. economy in the fourth quarter of this year before fading through 2019.

Overall, I think the U.S. looks in decent shape for the time being. But this is probably as good as it gets. I think there will be a slowdown in the U.S. economy—it probably won't be a dramatic decline, but I do believe that uncertainty over trade relationships is damaging business confidence, and that will start to show.

WHO STANDS TO LOSE THE MOST FROM A TRUMP-LED TARIFF WAR—THE U.S. OR OTHER COUNTRIES?

Let's be clear about one thing: Tariffs hurt everybody. There's no winner. Who suffers most will be determined by how many fights President Trump chooses to pick. In a straight trade war between the U.S. and China, China will suffer most because its economy is smaller and it is already in the midst of a slowdown. However, if Trump begins imposing tariffs on the whole world, the U.S. economy will probably suffer the most—the more fights you pick, the more pain you inflict on yourself. If there are blanket tariffs, the pain across the rest of the world will be spread around, though not evenly—small, manufacturing-based economies such as South Korea, Taiwan, Thailand, and possibly central and Eastern Europe, will probably be hit hardest.

The important thing to note about trade wars is that it's usually not the direct impact of the tariffs themselves that cause the most damage—it's the fear that they create. If you're the CEO of a major company and are considering spending USD $1 billion on irreversible capex, you want to know whether you can trade with Mexico in six months' time—and the terms under which that trade will be conducted. Without that clarity, it's hard to make spending commitments. So while the actual impact of Trump's proposed tariffs may not be that significant as a proportion of global GDP, they are likely to be damaging for business confidence. The indirect loss to global growth through reduced capital expenditure could be much greater than the loss caused by the tariffs themselves.

HOW WILL THE CHINESE AUTHORITIES SEEK TO MANAGE A SLOWDOWN THERE?

The credit impulse (the change in new credit as a proportion of GDP) in China is fading. The authorities have been trying to deleverage for a while, but this did not immediately have a negative impact on growth, which surprised many people. What probably happened was that, in anticipation of the change in leadership at the National People's Congress, there was a strong tailwind from fiscal spending in the first half of the year, and that effectively offset the negative impact of deleveraging. Now the impact of fiscal spending has faded and the effect of deleveraging is really beginning to show.

Since their bungled response to the country's stock market crash in 2015, the Chinese authorities have shown themselves to be very competent at managing the economy. However, I think that confidence in their ability to continue doing so is being challenged, and it appears that their current response is somewhat slow and reactive. The fading credit impulse, combined with the rising oil price—China is a major oil importer—is leading to a loss of purchasing power. This is a growth headwind. I expect the government to continue to be reactive rather than proactive—it's not going to do what it used to do, which was to launch huge infrastructure projects in order to boost growth.