

IMF global outlook downgrades US growth prospects

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25 July 2017

In its latest quarterly review, the International Monetary Fund (IMF) kept its projections for world economic growth unchanged from its April forecast but made a significant shift in the overall result. The IMF downgraded its forecast for US growth.

“US growth predictions are lower than in April, primarily reflecting the assumption that fiscal policy will be less expansionary going forward than previously anticipated,” the IMF said. This followed an assessment in its annual review of the US economy last month when the IMF said it dropped the assumption of a boost to US growth from Trump administration proposals to cut taxes and lift infrastructure spending.

The IMF forecast US growth to be 2.1 percent this year and next—well below the administration’s assumptions that it will lift the growth rate to 3 percent. The downgrading has important political as well as economic implications.

Trump won the presidential vote on the basis of a populist claim, which resonated in sections of the working class, that his administration would “Make America Great Again” by ramping up economic growth. Those claims have been shattered just six months into his administration.

The worsening prospects for US growth are not only reflected in the IMF outlook. The US dollar, which surged after the November election, is now down to its lowest level against a basket of global currencies since last September.

In the bond markets, moreover, the yield on 10-year US treasuries is hovering around 2.23 percent, compared to a post-election high of 2.6 percent. Falling bond yields are generally an expression of worsening prospects for the economy as investors seek returns in financial assets, pushing up their prices and sending yields down.

The other major growth prediction downgrade was the UK. The IMF cut its forecast for British growth for this year by 0.3 percentage points to 1.7 percent, on the basis of weaker than expected results in the first quarter. It described the economic performance as “tepid.” As in the US, the downgrade has political implications as the deeply divided May government carries out its Brexit negotiations.

In a statement, the British treasury said: “This forecast underscores exactly why our plans to increase productivity and ensure we get the very best deal with the EU [European Union], are vitally important.” Contradicting the IMF outlook, it claimed the “fundamentals of our economy are strong.”

The IMF’s growth downgrades for the US and the UK were counterbalanced by slight increases for China, the EU and Japan. The IMF forecast Chinese growth at 6.4 percent, an increase of 0.2 points from three months ago. The forecast for Japan was lifted to 1.3 percent this year, an increase of 0.1 from April, and the euro area growth rate was revised upward by 0.2 points from three months ago to 1.9 percent.

Of the major economies in the G7, Canada led the way with growth forecast to be 2.5 percent this year, up 0.6 points from April. But this spurt is not expected to last, with the IMF cutting its projection for Canadian growth to 1.9 percent next year, a downward revision of 0.1.

Commenting on the forecast, the IMF’s chief economist, Maurice Obstfeld, said the “recovery in global growth” projected by the fund in April was on a “firmer footing” and “there is no question mark over the world economy’s gain in momentum.”

Obstfeld said it was the “broadest synchronised upswing the world economy has experienced in the past decade.” But these remarks, which were meant to

project a more confident outlook, actually point in the other direction. A decade after the emergence of the global financial crisis, the world economy has yet to return to the growth rate achieved before 2008, with no prospect of it doing so in the future.

In his comments, Obstfeld acknowledged a number of “downside risks.”

Many emerging and developing economies had been receiving capital inflows at favourable borrowing rates, “possibly leading to risks of balance of payments reversal later”—that is, an outflow of capital if interest rates begin to rise.

Supportive policy had lifted China’s growth rates but this was “coming at the cost of continuing rapid credit expansion and the resulting financial stability risks.”

In the advanced economies, Obstfeld said “median incomes have stagnated and inequality has risen over several decades.” He warned: “Even as unemployment is falling, wage growth still remains weak.” Continuing slow growth was holding back living standards, carrying the risk of “exacerbating social tensions.”

Obstfeld noted that the “threat of protectionist actions and responses remain salient in the near and medium terms” and emphasised the need to strengthen multilateral cooperation as a “key to prosperity.”

However, there is a shift in the opposite direction as the US seeks to counter its economic decline with an aggressive “America First” agenda, which saw deep divisions emerge at the G20 meeting earlier this month.

In the short term, the key trade issue will be whether the Trump administration decides to impose tariff and other restrictions on steel imports into the US by invoking 1962 legislation that enables the president to take action on “national security” grounds.

There have been warnings that such action could set off a global trade war. The latest came in remarks yesterday by the chairman of the Japan Iron and Steel Foundation, Kosei Shindo. He told reporters that any US curbs on steel imports could provoke retaliatory action, impacting on many other products.

“If other countries respond with products other than steel, that would be opening a Pandora’s Box,” he told reporters. Noting that the EU has already said it will consider taking action, he said: “We are concerned about the possibility that a chain of protectionism would happen.”

Shindo said he did not expect trouble for Japanese

steel mills, as they exported high-value and speciality products that could be made only in Japan. But if such products disappear “we will put the trouble on customers in the US,” he warned.

While the Trump administration is the catalyst for the rise in protectionism, it is not the fundamental cause. Rather, it lies in what the IMF describes as “tepid longer-term growth” which is increasingly turning the world market once again into a battleground of each against all.



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