As trade tensions increase, IMF lowers forecasts for global growth

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The International Monetary Fund has pointed to a slowdown in growth for 70 percent of the world economy by value in 2019, with the most significant weakening taking place in the advanced economies. Any recovery in 2020 is dependent on expanded production in emerging market economies.

The forecast was contained in the IMF's *World Economic Outlook* report issued on Tuesday for its spring meeting in Washington this week. The WEO cut the forecast for global growth for 2019 by 0.2 percentage points from its prediction in January and said global growth would fall to 3.3 percent this year from 3.6 percent in 2018.

Commenting on the report, IMF chief economist Gita Gopinath said the downward revision reflected "negative revisions for several major economies including the euro area, Latin America, the United States, the United Kingdom, Canada and Australia." Measures of industrial production and investment remain weak in "many advanced and emerging market economies" and global trade "has yet to recover."

The IMF has forecast a return to 3.6 percent global growth in 2020, but this is based on shaky foundations. According to Gopinath, the recovery is "precarious" and is predicated on a rebound in emerging market and developing economies.

"Specifically," she wrote, "it relies on an expected rebound in growth in Argentina and Turkey and some improvement in a set of stressed developing countries, and is therefore subject to considerable uncertainty." Growth in the advanced economies would continue to slow, despite a partial recovery in the euro area.

The fact that the prospect for "recovery" is dependent on Turkey and Argentina, both of which have experienced major falls in value of their currencies, speaks volumes about the state of the world economy.

While the IMF says the global economy is continuing to grow at a "reasonable rate" and recession is not in its projections, there are many "downside risks."

As Gopinath noted: "A deterioration in market sentiment could rapidly tighten financing conditions in an environment of large private and public sector debt in many countries, including sovereign-bank doom-loop risks."

Such risks arise when the debt problems of major financial institutions impact on the stability of the banking system of the country in which those institutions are based and leads to a negative feedback loop. This risk is not confined to emerging markets, with Italy, one of the G7 group of major economies, a possible candidate.

The IMF has described the situation as a "delicate moment" for the global economy. If downside risks do not materialise and policy support is effective then global growth should rebound, Gopinath wrote. "If, however, any of the major risks materialise, then the expected recoveries in stressed economies, export-dependent economies, and highly-indebted economies may be derailed."

The worsening situation in the advanced economies was highlighted in a comment by *Financial Times* economist Gavin Davies on Monday. While holding out the possibility for a recovery, he noted that "no one in policy circles believes that a return to the strong global expansion seen in 2017 is very likely."

Davies pointed to three main factors in the continuing weakness in global manufacturing and merchandise trade. The growth in business capital expenditure in the global economy was now effectively down to zero after reaching 6 percent in 2017. The escalation of trade tensions between the US and China, and the US and Europe had "disrupted global supply chains" and there had been a "cyclical downturn in IT production in emerging Asia" which had yet to reach bottom.

Among the reasons for the slowdown, the IMF's WEO report pointed to "trade tensions" that "increasingly took a toll on business confidence." It warned that a further escalation and "the associated increases in policy uncertainty could further weaken growth."

Setting out "policy priorities," the report said the main issue at the multilateral level is "for countries to resolve trade disagreements cooperatively, without raising distortionary barriers that would further destabilise a slowing global economy."

However, events are moving in the opposite direction. Despite reports about what the IMF called a "more optimistic" outlook for a settlement of the US-China trade conflict, the two sides have yet to reach an agreement. The US is insisting that there are still major issues to be resolved, including on intellectual property rights and an enforcement mechanism for any agreement.

The Trump administration has also chosen to increase tensions with Europe by moving to act on a World Trade Organisation report that the European aircraft manufacturer Airbus had received subsidies that benefited it as against its US rival Boeing. The finding was brought down in last May and Airbus maintains that it has taken action to comply.

On Tuesday, however, Trump launched a new trade offensive, declaring in a tweet: "The World Trade Organisation finds that the European Union subsidies to Airbus had adversely impacted the United States, which will now put tariffs on $11 billion of EU products! The EU has taken advantage of the US on trade for many years. It will soon stop!"

The list of possible tariffs covers a range of goods, from aeroplanes and helicopters to agricultural products such as wine and cheese.

US Representative Robert Lighthizer said the case had been in litigation for 14 years and "the time has come for action."

On the other side, the EU is also preparing its own measures against the US for the failure by Washington to end tax breaks for Boeing that harm Airbus.

The announcement of the new tariff threat came as Boeing faces a deepening crisis over two crashes of its 737 Max 8 plane, resulting in the deaths of 346 people, due to faulty software in its automatic pilot system. This again underscores the direct ties between the US government and the aerospace giant.

The new tariff threat against Europe is also related to the negotiations between the US and the EU over a trade deal. Last July, under the threat of having a 25 percent tariff imposed on European auto exports, European Commission President Jean Claude Juncker agreed to bilateral discussions.

Those negotiations have yet to begin. No progress has been made in preliminary discussions because of the US demand that agriculture must be put on the table in the face of the EU's insistence that there was never any agreement to do so.

The threat of auto tariffs was not withdrawn. Trump has until May to consider a report from the Commerce Department as to whether the tariffs should be imposed by invoking "national security" grounds.

Reporting on the latest tariff move, Bloomberg noted that Trump was sending a clear message to the spring meetings of the IMF and the World Bank: "My trade wars aren't finished and a weakening global economy will just have to deal with it."

Former US trade negotiator Wendy Cutler told the news agency that Trump had been able to use the threat of tariffs to force the EU, Japan and others into negotiations, but pointed to the potential for a major escalation. "The question is at what point does it backfire? At what point do countries just say enough is enough?"