Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Box A:

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The International Economic Outlook

By Monetary Policy Division

The outlook for global economic growth has weakened, and risks from emerging market economies, a slowdown in the European economy, and uncertainty related to Brexit remain on the horizon. Euro area economic activity has been hampered by lower export demand, as well as some country and sector specific factors. As a result, ECB staff projections reflect a weaker outlook for Euro area GDP growth in 2019 and 2020.

Global economic activity has weakened and the growth outlook is less favourable than previously anticipated. Vulnerabilities stemming from emerging market economies and the weakening European economy, combined with a slowdown in trade and global manufacturing, Brexit uncertainty and risks in financial markets, may adversely affect confidence and investment, undermining global economic activity. In light of this assessment, the OECD revised down its projections in March, projecting global GDP to grow by 3.3 per cent in 2019 and 3.4 per cent in 2020.

Euro area economic activity has remained weak, reflecting the slowdown in external demand and a number of country and sector-specific adverse factors, which seem to have more persistent effects than previously anticipated. Real GDP increased by 0.2 per cent on a quarterly basis in the fourth quarter of 2018, following 0.1 per cent growth in the third quarter. On the other hand, unemployment is still on a downward trajectory and reached 7.8 per cent in January, stable compared with December 2018 and down from 8.6 per cent in January 2018. This remains the lowest rate seen since October 2008. Monetary policy remains accommodative, thereby underpinning domestic demand and supporting favourable financing conditions. This, coupled with rising wages, is expected to support consumption and economic activity over the medium term.

The ECB staff macroeconomic projections released in March reflect a weaker outlook than previously projected, notably in the near term. Euro area GDP is foreseen to increase by 1.1 per cent in 2019, 1.6 per cent in 2020, and 1.5 per cent in 2021 (substantially revised down for 2019, slightly revised down for 2020 and unchanged for 2021 compared with the December 2018 projections). The balance of risks is still tilted to the downside, mainly reflecting external geopolitical factors, as well as uncertainties stemming from the risk of rising protectionism and vulnerabilities in emerging markets.

Turning to euro area sentiment indicators, the Markit composite PMI posted 51.9 in February 2019 (up from 51.0 in January). While slightly higher than in January, the reading signals that the rate of expansion remains modest. The European Commission's economic sentiment indicator and the

business climate indicator remained broadly flat in February, while the consumer confidence indicator increased slightly.

Euro area annual HICP inflation was 1.5 per cent in February, up from 1.4 per cent in January. While moderating from the very high rates observed in 2018, energy remains the component with the highest annual rate. Measures of underlying inflation have remained broadly stable, but subdued, with HICP excluding energy and unprocessed food increasing by 1.2 per cent. Looking ahead, energy price inflation is expected to decline further over the forecast horizon, partly offset by gradually rising underlying inflation. The March projections forecast annual HICP inflation at 1.2 per cent in 2019, 1.5 per cent in 2020 and 1.6 per cent in 2021 (revised down for the whole projection horizon compared with the December 2018 projections).

In light of these developments, at its March meeting the Governing Council (GC) of the ECB announced measures aimed at providing additional monetary stimulus. The GC launched a new series of quarterly targeted longer-term refinancing operations (TLTRO-III), starting in September 2019 and ending in March 2021, each with a maturity of two years, with built-in incentives for credit conditions to remain favourable. An extension to the horizon in which the GC will not raise rates was also outlined, with the key ECB rates now expected to remain at their present levels at least through the end of 2019.

Turning to the United States, the labour market remains robust, with strong job gains and low unemployment, but growth of economic activity has slowed from its solid rate in the fourth quarter of 2018. Growth of household spending and business investment has slowed down somewhat in the first quarter of 2019. While headline inflation has declined due to lower energy prices, inflation excluding energy and food have remained near 2 per cent.

The US Federal Open Market Committee (FOMC) maintained the target range for the federal funds rate unchanged at 2.25 to 2.5 per cent at its March meeting. The FOMC confirmed that, in light of global economic and financial developments and muted inflationary pressures, it will be patient in determining future adjustments to the target range for the federal funds rate. Moreover, the FOMC announced that, if the economy evolves as expected, the unwinding of the Federal Reserve balance sheet will stop at the end of September 2019.

In the United Kingdom, economic growth slowed in late 2018 and appears to have weakened further in early 2019. The slowdown mainly reflects a weaker external demand and the fall in household spending and business investment, as Brexit uncertainties continue to weigh on confidence. Heightened uncertainty and elevated bank funding costs are expected to subside over time and, together with looser fiscal policy, to support the growth recovery in the medium term.

The Bank of England's Monetary Policy Committee maintained the Bank Rate and the stock of bond purchases unchanged in March, at 0.75 per cent and at 445 billion GBP respectively. Looking ahead, the appropriate monetary policy stance will reflect the broader economic outlook. This, in turn, will continue to depend significantly on the type of transition to new trading arrangements between the EU and the UK.