

Michelsen, Claus et al.

Article

Global economy and the euro area: Protectionism weighing on trade and investment

DIW Weekly Report

Provided in Cooperation with:

German Institute for Economic Research (DIW Berlin)

Suggested Citation: Michelsen, Claus et al. (2019) : Global economy and the euro area: Protectionism weighing on trade and investment, DIW Weekly Report, ISSN 2568-7697, Deutsches Institut für Wirtschaftsforschung (DIW), Berlin, Vol. 9, Iss. 22/24, pp. 194-195, https://doi.org/10.18723/diw_dwr:2019-22-2

This Version is available at:

<https://hdl.handle.net/10419/200222>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

Global economy and the euro area: protectionism weighing on trade and investment

By Claus Michelsen, Guido Baldi, Geraldine Dany-Knedlik, Hella Engerer, Stefan Gebauer, and Malte Rieth

ABSTRACT

The global economy is holding steady amidst uncertainty, although subdued export and investment growth in some places is already proving the extent to which protectionism and the unresolved trade conflicts are negatively affecting the economy. Contributing to the uncertainty is the continued unclear outcome of Brexit. In many countries, the domestic economy is fighting against a downturn. However, the situation on the labor market remains good overall and employment and wages are rising, leading many private households to spend some of the extra money. Although DIW Berlin expects the global economy to slow in 2019 and 2020, with growth of 3.7 percent for each year, its forecast remains largely stable compared to the spring of this year.

The global economy expanded somewhat more strongly in the first quarter of 2019 compared to the end of 2018. The expansion accelerated mildly in both developed and emerging market economies (Figure). The economy gained momentum in the US and the euro area in particular, mostly due to domestic demand. The labor markets are continuing to develop strongly and consumers remain mostly confident about the future. In contrast, foreign trade and corporate investment activity have been largely sluggish recently, mainly due to the uncertainties caused by the ongoing trade conflicts.

These conflicts will likely continue. In May, the US once again increased tariffs on imports from China. In addition, they threatened action against European and Japanese car and car part imports. Protectionism is likely to weigh on economic activity in both the US and the countries affected by the tariffs. Consumer prices are likely to continue to rise, but companies' uncertainty is increasing. Some investment decisions are likely to be postponed, and the slowdown in foreign trade momentum will likely weigh on the economy, particularly in Asian countries.

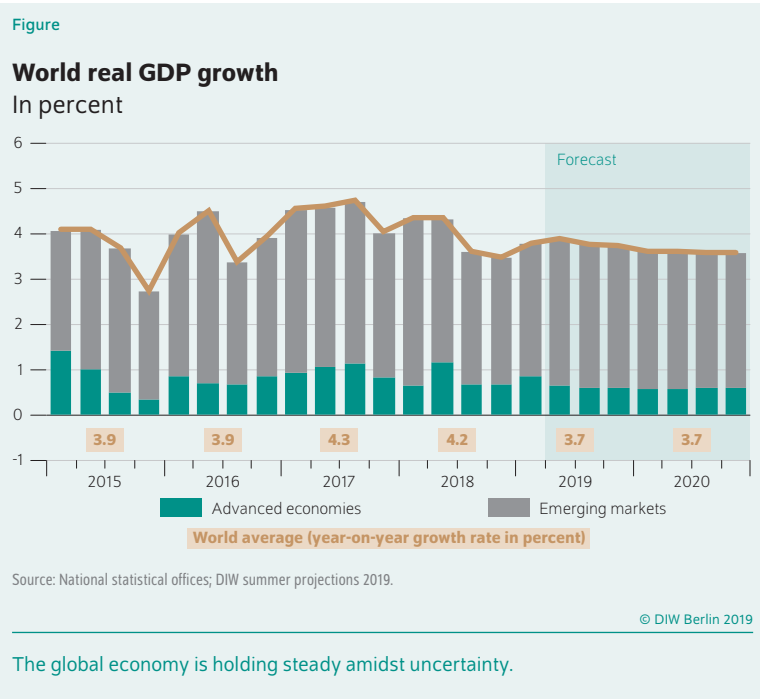
In most countries, robust consumer demand is counteracting these strains so that growth rates are declining only gradually overall. The labor market situation is even improving further in many places, although the pace of employment growth is slowing down. Wages are increasing more strongly than in the previous years, but core inflation rates remain mostly low. However, headline inflation is expected to pick up somewhat over the forecast period, as energy prices have risen due to political tensions in and around the Middle East.

There is hardly any need for action on the part of the central banks. Therefore, monetary policy will remain expansionary globally. In the US, previous interest rate hikes are currently having a slightly dampening effect. Towards the end of the forecast horizon, however, key US interest rates are likely to be lower, especially if the trade conflicts cause the economic situation to become gloomier than expected. In the euro area, longer-term refinancing operations will likely support the economy, especially in the southern countries. Here, too, key interest rate hikes are not to be expected until the end of 2020.

Fiscal policy is likely to become more expansionary globally than it has been recently. In the US, the stimulating effects of tax cuts and expenditure increases are slowly ending. In contrast, governments in China and large euro area countries are likely to launch fiscal stimuli in the near future.

As a result, the global expansion is likely to slow to 3.7 per cent in 2019 and in 2020 (Table). Thus, DIW Berlin's prognosis remains largely stable.

The largest risk for the economy are the trade conflicts originating from the US. Should the dispute with China escalate and Europe and Japan become even more involved in the tariff dispute, this will have a greater negative impact on corporate sentiment, foreign trade, and investment in Europe than in the past. Unclear plans for Brexit post a further risk: If a no-deal Brexit occurs, this is likely to affect not only the economy in Great Britain, but also those of its closest trade partners, primarily Germany, negatively. Moreover, due to the renewed budget dispute between the EU Commission and the Italian government, overall economic development in the euro area could be weaker than expected.



Table

Real GDP, consumer price inflation, and unemployment rate in the world economy

In percent

	GDP				Consumer prices				Unemployment rate in percent			
	Change over previous year in percent											
	2017	2018	2019	2020	2017	2018	2019	2020	2017	2018	2019	2020
Euro area	2.5	1.7	1.2	1.4	1.4	1.8	1.4	1.7	9.0	8.2	7.7	7.6
without Germany	2.5	1.8	1.3	1.4	1.4	1.8	1.3	1.5	11.4	10.4	9.9	9.8
France	2.3	1.6	1.3	1.4	1.1	1.8	1.3	1.6	9.4	9.1	8.6	8.3
Italy	1.8	0.7	0.3	0.7	1.3	1.2	0.9	1.1	11.3	10.6	10.4	10.5
Spain	3.0	2.6	2.4	1.8	2.0	1.7	1.2	1.7	17.2	15.3	14.2	14.1
Netherlands	3.0	2.6	1.8	1.7	1.3	1.6	2.4	1.8	4.8	3.9	3.5	3.6
United Kingdom	1.8	1.4	1.3	1.3	2.7	2.4	2.0	2.0	4.5	4.2	4.1	4.2
USA	2.2	2.9	2.5	1.8	2.1	2.4	1.8	2.0	4.4	3.9	3.7	3.5
Japan	1.9	0.8	1.0	0.8	0.6	0.8	1.0	1.2	2.8	2.5	2.4	2.4
South Korea	3.1	2.7	1.7	2.4	1.9	1.5	1.1	2.7	3.7	3.8	3.3	3.0
East-central Europe	5.1	4.5	3.8	3.4	1.7	2.2	2.4	2.8	4.6	3.7	3.4	3.3
Turkey	7.4	2.7	-2.5	2.8	11.1	16.4	17.1	16.2	10.9	11.0	14.0	13.5
Russia	1.8	2.0	1.5	1.9	3.5	3.1	4.7	4.1	5.1	4.7	4.4	4.3
China	6.8	6.5	6.2	6.0	1.4	1.7	2.2	2.2	4.0	3.9	3.7	3.7
India	6.9	7.4	6.6	6.3	4.0	3.9	5.5	6.1				
Brazil	1.1	1.1	0.8	1.0	3.4	3.7	4.7	6.5	12.8	12.3	10.2	9.2
Mexico	2.3	2.0	1.6	1.4	6.0	4.9	4.2	3.2	3.4	3.3	4.8	4.8
Developed economies	2.3	2.2	1.9	1.5	1.8	2.0	1.6	1.9	5.3	4.8	4.6	4.4
Emerging markets	5.7	5.6	4.9	5.0	2.9	3.3	4.1	4.4	5.2	5.0	4.8	4.5
World	4.3	4.2	3.7	3.7	2.5	2.8	3.1	3.4	5.3	4.9	4.7	4.5

Source: National statistical offices; DIW summer projections 2019.

© DIW Berlin 2019

Claus Michelsen is Head of the Forecasting and Economic Policy department at DIW Berlin | cmichelsen@diw.de

Guido Baldi is a Visiting Researcher at the Forecasting and Economic Policy department at DIW Berlin | gbaldi@diw.de

Geraldine Dany-Knedlik is a Research Associate at the Forecasting and Economic Policy department at DIW Berlin | gdanyknedlik@diw.de

Hella Engerer is a Research Associate at the Forecasting and Economic Policy department at DIW Berlin | hengerer@diw.de

Stefan Gebauer is a Research Associate at the Forecasting and Economic Policy department at DIW Berlin | sgebauer@diw.de

Malte Rieth is a Research Associate at the Macroeconomic department at DIW Berlin | mrieth@diw.de

JEL: E32, E66, F01

Keywords: Business cycle forecast, economic outlook

LEGAL AND EDITORIAL DETAILS



DIW Berlin — Deutsches Institut für Wirtschaftsforschung e. V.

Mohrenstraße 58, 10117 Berlin

www.diw.de

Phone: +49 30 897 89-0 Fax: -200

Volume 9 June 13, 2019

Publishers

Prof. Dr. Pio Baake; Prof. Dr. Tomaso Duso; Prof. Marcel Fratzscher, Ph.D.;
Prof. Dr. Peter Haan; Prof. Dr. Claudia Kemfert; Prof. Dr. Alexander Kriwoluzky;
Prof. Dr. Stefan Liebig; Prof. Dr. Lukas Menkhoff; Dr. Claus Michelsen;
Prof. Karsten Neuhoff, Ph.D.; Prof. Dr. Jürgen Schupp;
Prof. Dr. C. Katharina Spieß

Editors-in-chief

Dr. Gritje Hartmann; Mathilde Richter; Dr. Wolf-Peter Schill

Reviewer

Karl Brenke

Editorial staff

Dr. Franziska Bremus; Rebecca Buhner; Claudia Cohnen-Beck;
Dr. Daniel Kemptner; Sebastian Kollmann; Bastian Tittor;
Dr. Alexander Zerrahn

Sale and distribution

DIW Berlin Leserservice, Postfach 74, 77649 Offenburg

leserservice@diw.de

Phone: +49 1806 14 00 50 25 (20 cents per phone call)

Layout

Roman Wilhelm, DIW Berlin

Cover design

© imageBROKER / Steffen Diemer

Composition

Satz-Rechen-Zentrum Hartmann + Heenemann GmbH & Co. KG, Berlin

ISSN 2568-7697

Reprint and further distribution—including excerpts—with complete
reference and consignment of a specimen copy to DIW Berlin's
Customer Service (kundenservice@diw.de) only.

Subscribe to our DIW and/or Weekly Report Newsletter at

www.diw.de/newsletter_en