IMF trims global growth forecast


Paul Davidson, USA TODAY *8:30 p.m. EDT October 7, 2014*

(Photo: Susan Walsh, AP)

The International Monetary Fund trimmed its forecast for global economic growth on Tuesday, underscoring the widening divide between the accelerating U.S. recovery and stagnation or a slowdown in the eurozone and Asia.

The disparity is likely to take center stage as 188 central bankers and foreign ministers gather at the IMF 's fall meeting in Washington this week. U.S. officials are withdrawing stimulus programs as job growth picks up while other nations are ramping them up, increasing currency volatility and sowing international tension.

"There is a very unbalanced picture in the world economy," says Eswar Prasad, a professor of trade policy at Cornell University.

The IMF projected the global economy will grow 3.3% this year, down from its 3.4% forecast in July. Growth of 3.8% is expected in 2015, vs. its previous 4% estimate.

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China currency push takes aim at dollar
(http://www.usatoday.com/story/money/business/2014/10/07/china-currency-push/16852193/)

While the IMF partly attributed the downgrade to the weak, weather-tainted first quarter in the U.S., it noted that U.S. "activity picked up in the second quarter."

The U.S .economy's first-quarter contraction will limit the nation's growth for the year to 2.2%, the IMF predicted, but that's 0.5% higher than its July forecast. Growth of 3.1% is forecast for 2015, making the U.S. a shining star among world economies.

"The recovery continues, but it is weak and it is uneven," IMF Economic Counsellor Olivier Blanchard told reporters Tuesday. "You have some countries which have recovered or nearly recovered, and you have some countries which are still struggling."

In a speech last week, IMF Managing Director Christine Lagarde called sluggish global growth the "new mediocre."

Several economies are facing hurdles:

• **Eurozone.** After emerging from recession last year, the 17-nation eurozone is expected to expand by just 0.8% this year, down from the IMF's previous 1.1% estimate. The region is beset by massive government debt, 11.5% unemployment, meager consumer spending and a dismal lending climate. Economists worry the threat of deflation, or falling wages and prices, could trigger another recession.

Perhaps most alarming is that growth is anemic even in Germany, which had been the region's most reliable economic engine.

"The recovery has sort of ground to a halt," says senior economist Paul Dales of Capital Economics.

Nariman Behravesh, chief economist at IHS Global Insight, largely blames feeble steps by the European Central Bank to jump-start growth. He contrasted them with the U.S. Federal Reserve's massive government bond purchases to hold down long-term interest rates.

"The ECB talks a good game, but they don't back it up with sufficient action," Behravesh says.

Since June, the ECB has announced various stimulus measures. , Last month, the ECB said it would buy debt products from banks to push down interest rates.

Jonathan Loynes of Capital Economics predicts the moves will fall short. The ECB, he says, will be forced to follow the Fed's example and buy large quantities of government bonds by early next year, a strategy that would inject far more cash into the banking system.

The IMF, meanwhile, has called for increased infrastructure investment and more labor market and other reforms to spur growth.

• **China.** The IMF expects the Chinese economy to grow 7.4% this year and 7.1% in 2015, down from 7.7% in 2013. While that's still robust, the country's once-torrid housing market has slowed this year, and prices have fallen, hurting consumer spending, Behravesh says.

• **Japan.** Japan's economy is projected to grow 0.9% this year, down from a July estimate of 1.6%. Bond purchases that pushed down interest rates have jolted the economy from a two-decade stagnation. But a hike in the nation's sales tax to 8% from 5% in April dampened consumer spending more than anticipated.

The good news for the U.S. is that the overseas troubles spots are likely to have minimal impact on the nation's growth, economists say. Exports make up about 13% of the U.S. economy, with about 14% of the shipments going to the eurozone, and 7% to China.

"We don't think that the U.S. will catch the latest economic cold that is currently afflicting Europe and parts of Asia," Dales wrote in a note to clients.

Still, the dollar has strengthened against a basket of global currencies in recent months as the U.S. economy improves and other countries falter. Also boosting the greenback: the Fed has signaled that it will begin raising near zero short-term interest rates next year. A stronger dollar makes US goods more expensive for overseas customers and eventually could hobble U.S. exports and growth.

Prasad expects US officials this week to prod their foreign counterparts to do more to bolster growth. He also expects emerging markets like Brazil and Turkey to urge Fed officials to raise interest rates slowly to prevent a flight of capital to the U.S. that could erode their currencies.

"What they will say is that it's important for the Fed to conduct monetary policy in a way that reduces negative spillover effects," Prasad says.

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