The Conference Board

World Economic Outlook 2015

Global Growth Is Not Gaining Much Traction: Volatility Will Prevail

The last two months have been increasingly challenging for the global economy, leading to some significant adjustments in The Conference Board Global Economic Outlook. The changes are to a large extent the result of greater volatility and uncertainty, and they present a higher risk for the global economy in 2015. The rapid decline in oil prices, quick adjustments in exchange rates (with the US dollar appreciating and weakening of most other currencies, notably the euro), and the new quantitative easing program of the ECB are just a few examples of the economic factors at play. In addition, there is increased geopolitical uncertainty related to the Russia-Ukraine and Middle East conflicts, as well as increased concern about the economic and political future of the Euro Area and European Union.

As a result, we made some significant adjustments to the global economic outlook for 2015 released in November. While the overall global real GDP growth average is projected to be 3.3 percent – remaining slightly below the 3.4 percent we projected last November –, the global average reflects a combination of upsides and downsides. Downward revision are primarily due to a major GDP decline in Russia (from +0.8 to −3.5 percent) and moderate declines in the Euro Area (1.6 to 1.4 percent), Japan (1.1 to 0.6 percent), and Brazil (1.5 to 0.5 percent). Upward revisions include the United States (2.6 to 2.9 percent), Mexico (2.8 to 3.5 percent), and India (5.5 to 5.9 percent). The adjustments to India, however, do not reflect the recent substantial statistical upward revisions in India's GDP growth measures, the reliability of which is still debated.

The United States will continue to register stronger growth than its peers, but the expansionary phase will show signs of maturing, causing a moderation in profitability and a variety of cost pressures. European economies have more scope to recover, and the recently announced QE program may help improve business and consumer confidence, and the weakened euro could help offset negative effects from slower exports to emerging markets. However, Europe's dysfunctional policy environment to accelerate growth through investment and reforms could make the recovery look moderate compared to the United States. China will continue its "soft fall" growth trajectory, as already limited government stimuli will have less effect despite recent monetary easing, and expose the weakening of China's creditworthiness more clearly. Other major emerging markets will continue to grow, but their pace will vary depending on the net impact of declining oil prices and exchange rate depreciations, as well as progress of their own reform agendas. New geographies for growth, such as Africa and parts of Asia, offer opportunities to build sustainable growth models but they also bring challenges on economic, legal, and institutional fronts.

Relative to the base scenario for the outlook, downsides to the global outlook could come from possible intensified political and economic risks. Upsides relate to the ability of policy and business to invest in people, raise productivity, and rebuild trust and confidence, but they may need significantly more time than the current year to materialize.

For a full overview of The Conference Board Global Economic Outlook 2015, download StraightTalk® which includes the strategic overview of the outlook (members only).

Business Outlook

US: MODERATELY POSITIVE

- US is projected to grow at a modest 2.9 percent in 2015, 0.3 percent points higher than our November forecast.
- Profitability may come under increased pressure as the business cycle matures and cost increases are imminent.
- America's strength in technological progress needs to help accelerate productivity.

EURO-AREA: CAUTIOUS SHORT-TERM OPTIMISM, BUT DOWNSIDE RISKS ACCUMULATE

Despite significant downside risks, the Euro Area is projected to grow at 1.4 percent in 2015, slightly lower than what we projected in November.

- The substantial QE program implemented by the European Central Bank can have a positive effect on sentiment, but whether it will produce significant effects to boost the growth outlook is debated.
- Modest recovery in domestic consumption is a likely source of growth as labor markets improve.
- However, disinflation or even deflation could bring growth rates further.

ASIA-PACIFIC: CHALLENGING IN CHINA; MOSTLY POSITIVE ELSEWHERE

- Despite softening growth rates, the Asia-Pacific region remains the leader for global growth.
- Growth rates of China and India are converging to 5.5 percent growth on average from 2015–2019.
- Despite short-term headwinds from the global economy, Southeast Asia will continue to strengthen to become a global production hub.

LATIN AMERICA: UPSIDE POTENTIAL

- Economic conditions in Latin America are unlikely to improve rapidly in 2015, with regional growth at only 1.6 percent.
- Slowing prices for commodity and energy exports provide significant downside.
- Productivity growth should build on investment, improved business confidence, and a better educated labor force.

AFRICA: POSITIVE, BUT UNCERTAIN

- GDP growth in Africa in 2015 is projected at 4.4 percent.
- Nigeria will be the strongest performer at 6.7 percent growth in 2015, but it is heavily dependent on natural resources and vulnerable to global demand conditions.
- A positive growth outlook for Africa is strongly dependent on improved institutional performance and better governance.

ECONOMIC INDICATORS

U.S.A

- Consumer Confidence 1.7 pts
- Employment Trends Index 0.92 %
- Help Wanted OnLine 138,500
- Leading Economic Index 0.1 %
- Measure of CEO Confidence 1.0 pts

GLOBAL

Leading Economic Index for:

- Australia 0.3%
- Brazil 1.5%
- China 1.0%
- Euro Area 0.3%
- France 0.4%
- Germany 0.1%
- India 0.7%
- Japan 0.1%
- Korea 0.3%
- Mexico 1.6%
- Spain 0.2%
- U.K. 0.3%
- U.S. 0.1%