International Economic Environment

HIGHLIGHTS

- Continued expansion of the global economy, albeit at a more moderate pace.
- Weaker export growth in regional economies, amid lower external demand and impact from ongoing global trade tensions.
- Financial market volatility reignited at the start of the quarter, but eased towards the end of 2018.

Global growth grew at a more moderate pace

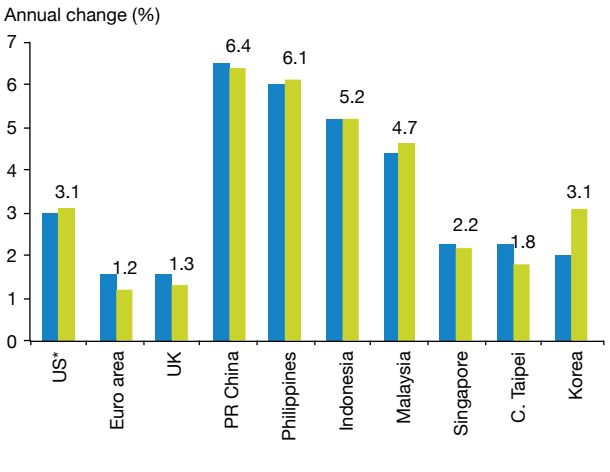
The global economic expansion continued, albeit at a more moderate pace in the fourth quarter of 2018. With the exception of the US, major advanced and emerging market economies recorded more moderate growth.

In the advanced economies, improvements in labour markets supported private consumption, as unemployment rates and wage growth remained steady. Consumer Price Indices recorded a more moderate increase during the quarter, as fuel prices moderated. Investment activity registered a slower expansion across most economies. The fiscal impetus from the 2017 tax reforms in the US began to wane in the fourth quarter of 2018.

Growth in the Asian region showed signs of a synchronised moderation. PR China recorded slower growth, as the economy faced external and domestic headwinds. Nevertheless, infrastructure investment in PR China improved marginally towards the end of the quarter, reflecting policy support from the government. Domestic demand in other Asian economies moderated, due mainly to waning support from investments and lower external demand. Private consumption growth remained sustained.

Global economic activity moderated in 4Q 2018

Chart 1: GDP Growth

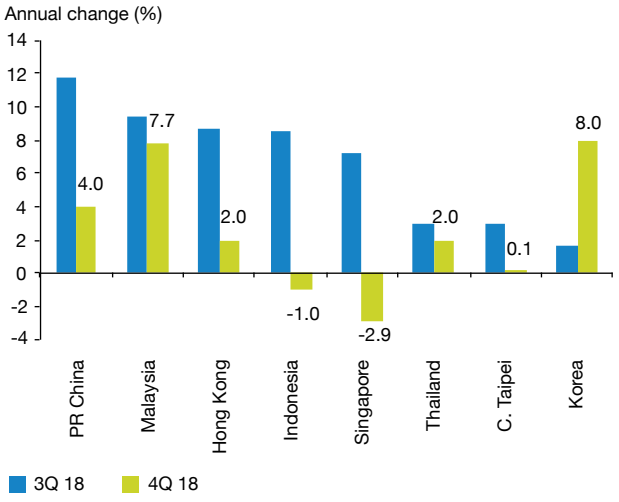


*Refers to implied 4Q18 GDP growth based on IMF's 2018 annual projection, as the recent government shutdown had delayed the actual GDP data release.

Source: National authorities

Weaker export performance in 4Q 2018

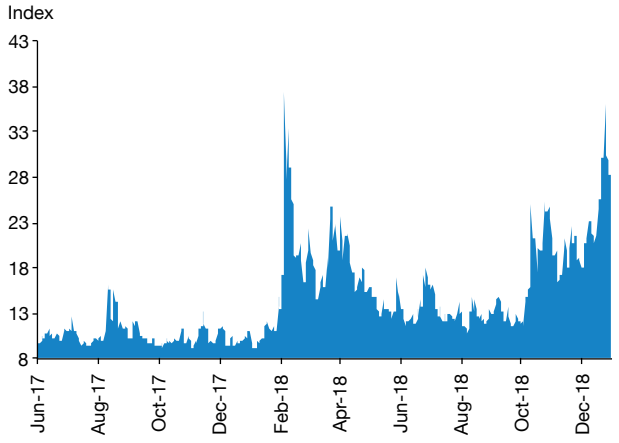
Chart 2: Export Growth of Selected Economies (in USD terms)



Source: Bloomberg

Higher volatility in the financial markets

Chart 3: Chicago Board Options Exchange (CBOE) Volatility Index (VIX)



Source: Bloomberg

Lower export growth

Weaker external demand and uncertainties from the ongoing trade actions affected external demand for regional economies. Most regional economies recorded lower export growth in the fourth quarter of 2018, reflecting lower export shipments to the US, Euro Area and PR China. By products, the lower regional export growth was due mainly to electrical and electronic products, while lower commodity prices also weighed on overall export performance.

Higher volatility in the financial markets

Financial market volatility continued to rise in October, amid equity selloffs in the US and emerging market economies (EMEs). This was attributable partly to the ongoing monetary policy tightening in the US, amid weaker reported corporate profits.

Of note, financial conditions in emerging markets tightened further, amid sustained capital outflows in Asian and Latin American countries. Trade disruptions from US tariff hikes and speculation over non-tariff retaliatory measures by PR China further reignited financial market volatility in the fourth quarter of 2018, albeit with some easing in December as the planned tariffs were suspended.

Brent crude oil price averaged lower at USD69 per barrel in the fourth quarter of 2018 (3Q 2018: USD76). The decline in crude oil prices was driven by expectations for global oil oversupply as the US reported record oil production and granted sanction waivers for Iran's oil trade partners. Prices were also weighed by concerns over the impact of global growth moderation on oil demand.