Freefall is officially over, maybe

The International Monetary Fund (IMF) has held its global output growth forecasts steady after years of missing its targets, in a tentative sign of cyclical progress for the mining industry.

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The IMF has finally pulled the parachute on its growth forecast downgrades

In an interim update to its twice yearly World Economic Outlook (WEO) on January 16, the IMF left its forecasts for global growth in 2017 and 2018 unchanged at 3.4% and 3.6%, respectively.

Slight upgrades to advanced economy growth rates of 0.1 percentage point and 0.2 percentage points were offset by a cut of 0.1 percentage point in 2017 emerging market growth prospects.

Within the advanced economies, the fund says a better 2018 outcome in the US than thought likely at the time of its last full-scale review in October will more than offset weaker growth in Italy and the UK.

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Among the developing economies, India is expected to grow less strongly in the near term following introduction of currency reforms to crack down on cash transactions before pushing back to 7.7% in 2018.

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Reflecting some improvement in output indicators in the middle of 2016, Chinese growth outcomes in 2017 are likely to be slightly higher than anticipated previously, before easing back to 6%.

The IMF first published a global output growth forecast for 2018 in its April 2013 WEO. The expected 4.5% growth rate was trimmed to a more modest 4.1% the following October. By April 2015, the forecast was sitting at 3.9% and, in April 2016, it was cut further to 3.6%.

"The absence of a full-blown cyclical upswing that rewards miners indiscriminately may be no bad thing"

World growth has exceeded 4% in nine out of the 25 years prior to 2009. If realised, the IMF's forecasts for the coming five years imply growth will have failed to beat 4% for a stretch of at least 10 years.

A rethink by the economics profession of world growth potential comes against a backdrop of systemic financial risks, flagging productivity growth, subsiding demographic momentum and lukewarm support among governments for microeconomic reform.

The IMF has still characterised the balance of risks as tilted to the downside, reserving for itself some wiggle room to effect a further forecast cut if the need arises.

Among the perceived threats to growth are a contraction in the volume of world trade over the coming two years and the apparent hostility among newly installed US policymakers toward liberalising trade agreements that fail to confer obvious economic benefits on the US.

In framing its forecasts, the fund has modified its growth estimate for the US to take account of what it believes are feasible tax policy and infrastructure spending options with the House of Representatives, Senate and presidency coming under Republican Party control.

Unusually, the fund has decided to anticipate policy measures in a member country that have yet to be fully defined.

The latest US GDP estimates published on January 27 by the Department of Commerce showed growth of 1.9% over the year to December 2016, slightly below the frustratingly sluggish 2.1% annual pace since the start of 2010.

The fund has foreshadowed a US growth boost of 0.4 percentage points in 2018 from a shift in policy during 2017 for an outcome of 2.5%. Such an improvement would fall well short of candidate Trump's challenging election trail rhetoric about engineering an outcome closer to 4%.

The IMF forecast revisions imply disappointment in the coming year for commodity market investors buoyed by the Trump election.

But the IMF may simply be too pessimistic about the Trump-led growth effect on the US just as it was in its assessment of the Brexit impact on UK growth – the fund has had to add back 0.4 percentage points to UK growth in 2017.

Forecasting is cyclical. In the initial stages of a downswing, forecasters like the IMF are habitually too optimistic.

The fund has not yet moved into the next stage of the cycle when the changing pattern of growth begins to force successive upward revisions amid a rising tide of optimism about future growth.

Implicit in the fund's recent commentary is a judgment that structural shackles bind the world's largest economies too tightly for a replication of even such a longstanding forecasting pattern.

From a mining industry standpoint, the growth picture painted by the fund is consistent with moving along the bottom of an unusually prolonged cyclical trough.

The debilitating impact of growth downgrades on expectations has passed. A key ingredient of any subsequent cyclical upturn – an acceleration in global growth – is technically present insofar as the fund thinks growth in 2018 will exceed growth in 2017 but the 0.2 percentage point difference in expected outcomes between the two years is hardly material.

The commodity price cycles which drive interest in mining-sector investment markets most typically come from a growth surprise: unanticipated strength in growth feeding a surge in demand for raw materials and cutting into inventories or pushing up capacity utilisation are needed to drive prices higher.

As things stand, growth in raw material usage seems set to underperform historical averages. Moderate rates of growth within the scope of the industry to cope cannot, by definition, initiate a positive cyclical outcome.

At the same time, and having gone largely unnoticed by mining commentators, yields on the lowest-rated corporate debt have continued lower after falling steadily through 2016.

The Merrill Lynch index of yields on bonds rated CCC or lower has halved from 22% a year ago. The move in corporate bonds, contrary to the trend in government bond yields, has been signalling a renewed willingness among professional money managers to embrace higher-risk investments.

The absence of a full-blown cyclical upswing that rewards miners indiscriminately may be no bad thing. Low-quality projects may still struggle but stable growth in a more risk friendly funding environment offers a renewed chance for better quality mining development opportunities to gain investment traction.

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