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IMF warns of growth decline

International Monetary Fund (IMF) forecasts this week flashed warning signs that global economic growth might have already peaked.

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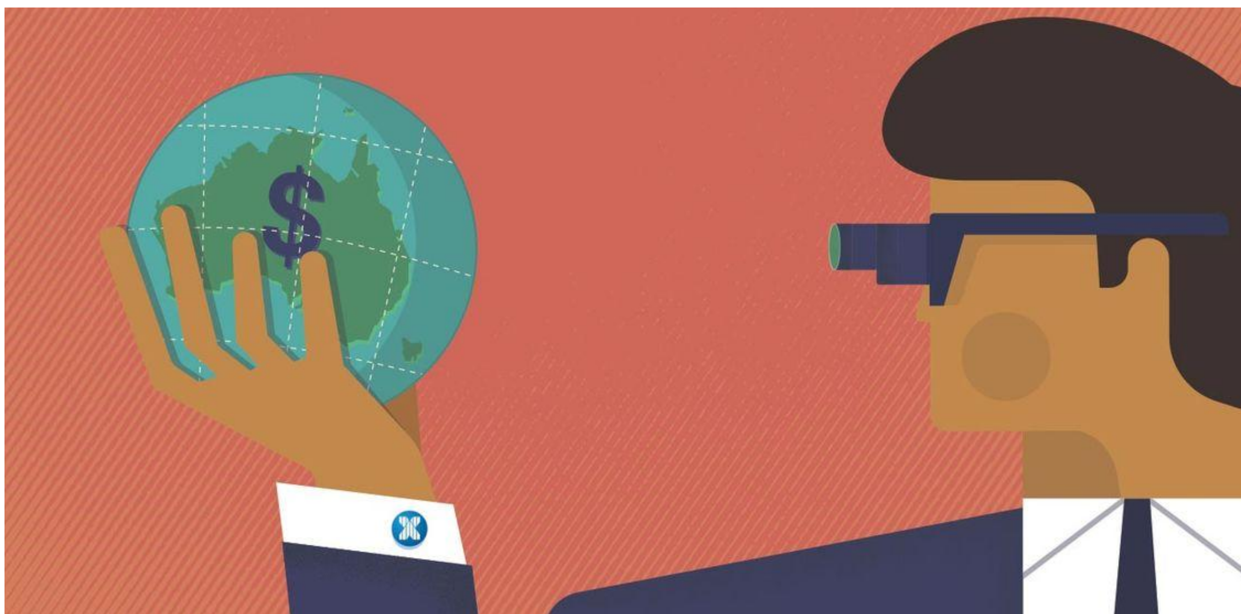

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In releasing the regular half-yearly World Economic Outlook this week, the IMF research director described the world economy as showing broad-based momentum but kept the fund's global growth projections at 3.9% for both 2018 and 2019.

Generally upbeat assessments of the world economy rely heavily on what happened in late 2017 rather than on what lies ahead.

Global growth accelerated in 2017 from 3.2% to 3.8%, the strongest increase since the recovery from the financial crisis during 2010. Improving growth outcomes in the second half of the year underpinned rising metal usage following an otherwise lacklustre first half.

The 60% rise in nonferrous metal prices since their cyclical trough 27 months ago - including a 20% rise since mid-2017 - is slightly better than, but broadly consistent with, historical averages so far into a cycle.

The question now is whether there is enough momentum to carry markets further into an upswing phase. More often than not, progress stalls at this point as the impact of favourable policies fades.

As some of the most positive monetary conditions in modern history are wound back, the mining industry will be relying more heavily on improved productivity to help raise potential growth rates.

The growth front is not encouraging. The IMF analysis points to no difference in average growth rates in the next six years than in the past six years. Key regions of the world - the US, Europe, emerging Asia - face a downward trending growth outlook. The fund's view is similar to that of the World Bank published in January 2018.

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Unusually low productivity growth in most advanced economies, reflecting low business investment spending and governments with little enthusiasm for reform agendas, are constraining how quickly global output can expand.

Legislation to cut taxes in the US will add a fiscal stimulus in the near term but whether it supports productivity-enhancing capital spending in the next several years to sustain a stronger growth base is less certain.

Along with the reduced risks to growth evident in 2017, a weaker US dollar contributed to the upward trajectory in metal prices.

Over the past 45 years, a 1% fall in the US dollar trade weighted index has come with an average rise of 3% in nonferrous metal prices. Since the end of 2016, the US dollar has fallen against a basket of currencies by 10% while daily traded nonferrous metal prices, as a group, have risen by as much as 20%.

The currency adjustment has reflected some reappraisal, now largely completed, of relative growth rates and the direction and pace of interest rate changes.

Other downside forces persist. The reduced need in a less risky macro environment for use of the US dollar as a safe haven is one.

While stronger US growth from a tax and spending driven fiscal stimulus may modify these tendencies in the near term, rising US debt levels will push the currency toward its longer-term downward trajectory. Since 1973, the trend decline in the US dollar has been 1.2% a year.

Supply constraints also supported more favourable cyclical outcomes in 2017.

The International Copper Study Group has reported that demand for the metal in 2017 rose by 0.7%, the smallest annual increase in demand since the financial crisis year of 2009. Despite unusually slow growth in usage, market balances were kept in check by a decline in mine output.

International Lead Zinc Study group statistics show zinc usage increasing at a 1.7% annual rate between 2010 and 2017 compared with a metal output growth rate of 0.9% leading to a multi-year rundown in inventories on a scale that has occurred only twice before in the past 50 years.

Supply-side constraints can be reversed quickly. If the zinc mine production rate in the last quarter of 2017 was maintained through 2018, for example, output will have grown by nearly 9% in the current year.

With global growth, policy settings and supply constraints becoming less supportive, the exchange rate is the only remaining key price driver moving in a generally favourable direction.

The greatest danger to a metal price cycle has usually come when monetary policy settings begin to tighten in response to higher inflation. This far into the cycle, monetary policy settings would usually be tightening, sometimes quite aggressively. In this cycle, policy settings are changing far more gradually than in the past because competitive forces within labour markets are holding back inflation pressures.

This time, a new negative influence is looming as the US government seeks to capture a larger share of world trade.

Historically, expanding world trade has contributed to higher global output. A departure from the trade liberalisation policies of the past several decades would have detrimental effects on global growth prospects and, ultimately, on the prosperity of the mining industry.

Whether such risks are realised will play out over the next several months as the negotiating skills of the US administration are fully tested.

US pursuit of its own self interest could help break down many existing barriers to goods and services entering Europe, China and Japan. There is an outside chance of that happening, with beneficial spillover effects for others.

The beliefs of the more aggressive advocates of trade rebalancing within the US administration could also be tested with an unplanned outcome. Since bilateral trade imbalances reflect relative savings rates, even unexpectedly strong penetration of new US export markets could coincide with a widening US trade deficit due to the savings reduction caused by that country's recently implemented fiscal policies.

Before conclusions can be drawn about these outcomes, a greater danger looms. Left to fester, uncertainties about trade policies will retard business investment plans. Signs of this are already evident.

The most important missing piece in the progress of the metal price cycle - a stronger private sector investment commitment - is at risk immediately whatever the eventual impact on trade flows.