



Global Economic Outlook for 2025: Get Ready for Shifting Ground

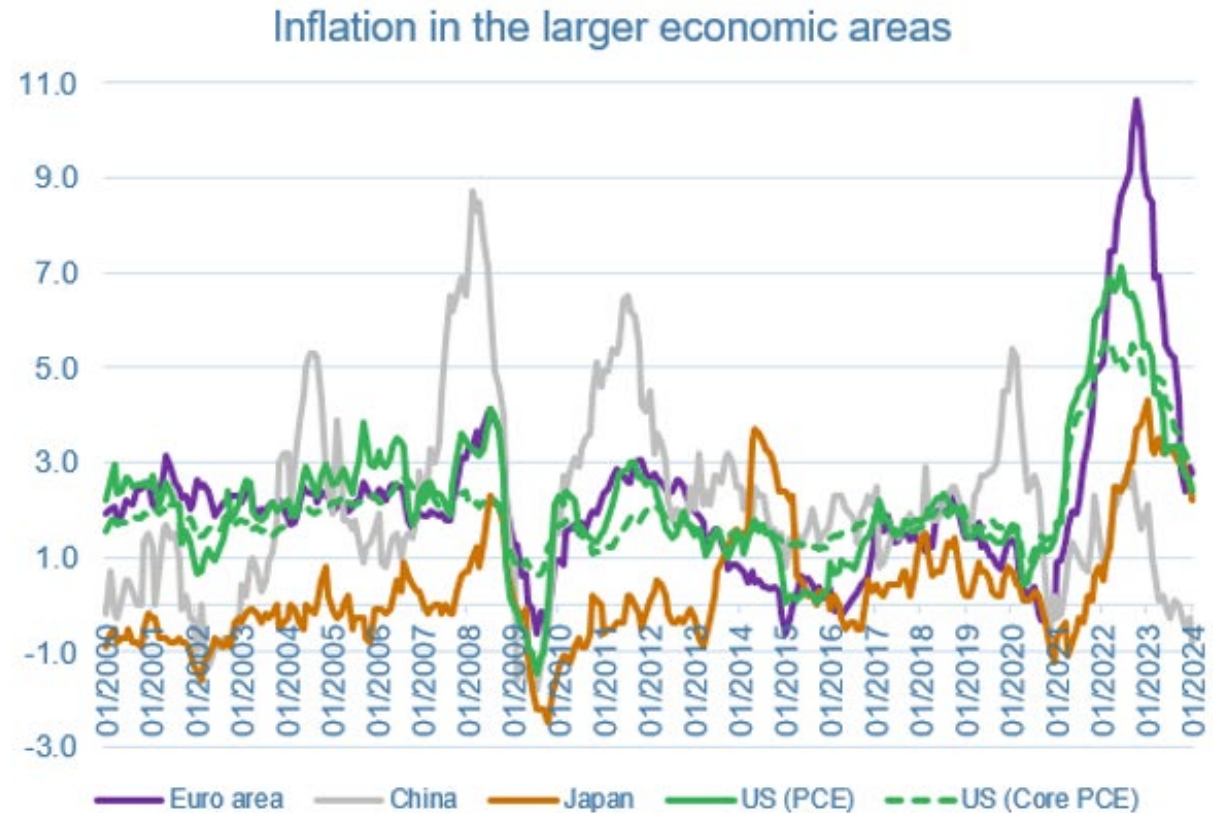
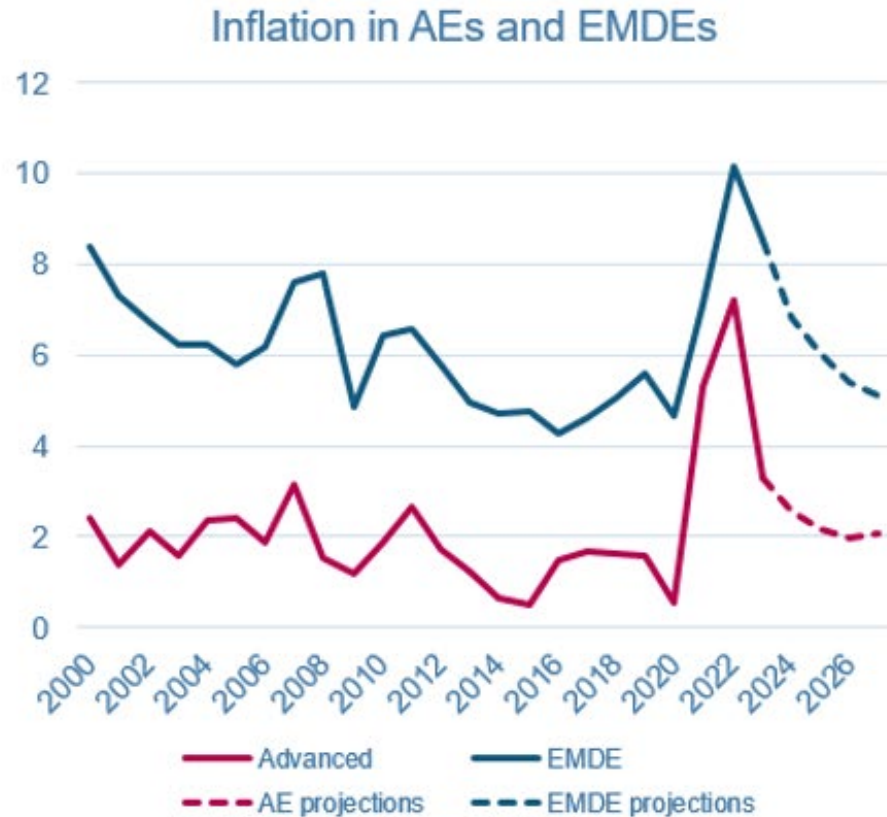
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NABE Panel on the Global Macroeconomic and Policy Outlook

ASSA Annual Meeting, San Francisco, January 3, 2024

Inflation approaching targets but not quite there in many cases



Source: IMF WEO database, October 2023; FRED; CEIC

Output costs have been surprisingly low

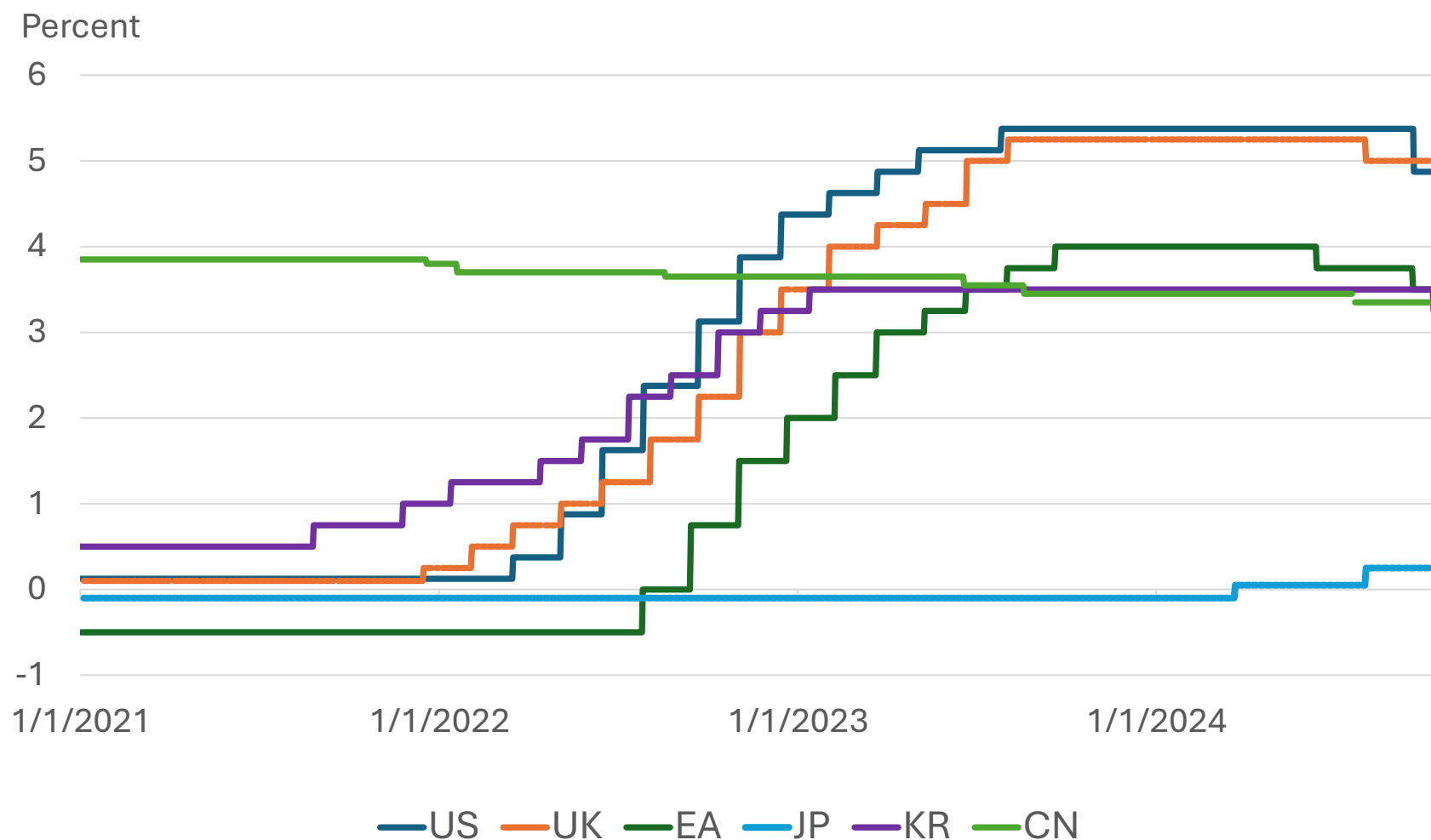


PIIE growth projections, October 2024

Real GDP Growth (Y/Y)		2022	2023	2024	2025
Global Growth		3.4	3.1	3.2	3.2
	United States	1.9	2.5	2.8	2.0
	Euro Area	3.4	0.4	0.7	1.0
	Japan	1.0	1.7	-0.1	1.4
	United Kingdom	4.3	0.3	1.0	1.0
	China	3.0	5.2	4.7	4.4
	India	7.0	8.2	6.8	6.6
	Russia	-1.2	3.6	3.6	1.2
	Brazil	3.0	2.9	2.8	2.0

Source: Consensus Forecasts for 2022-23; PIIE for 2024-2025. Annual-average-over-annual-average growth rates. PPP weights.

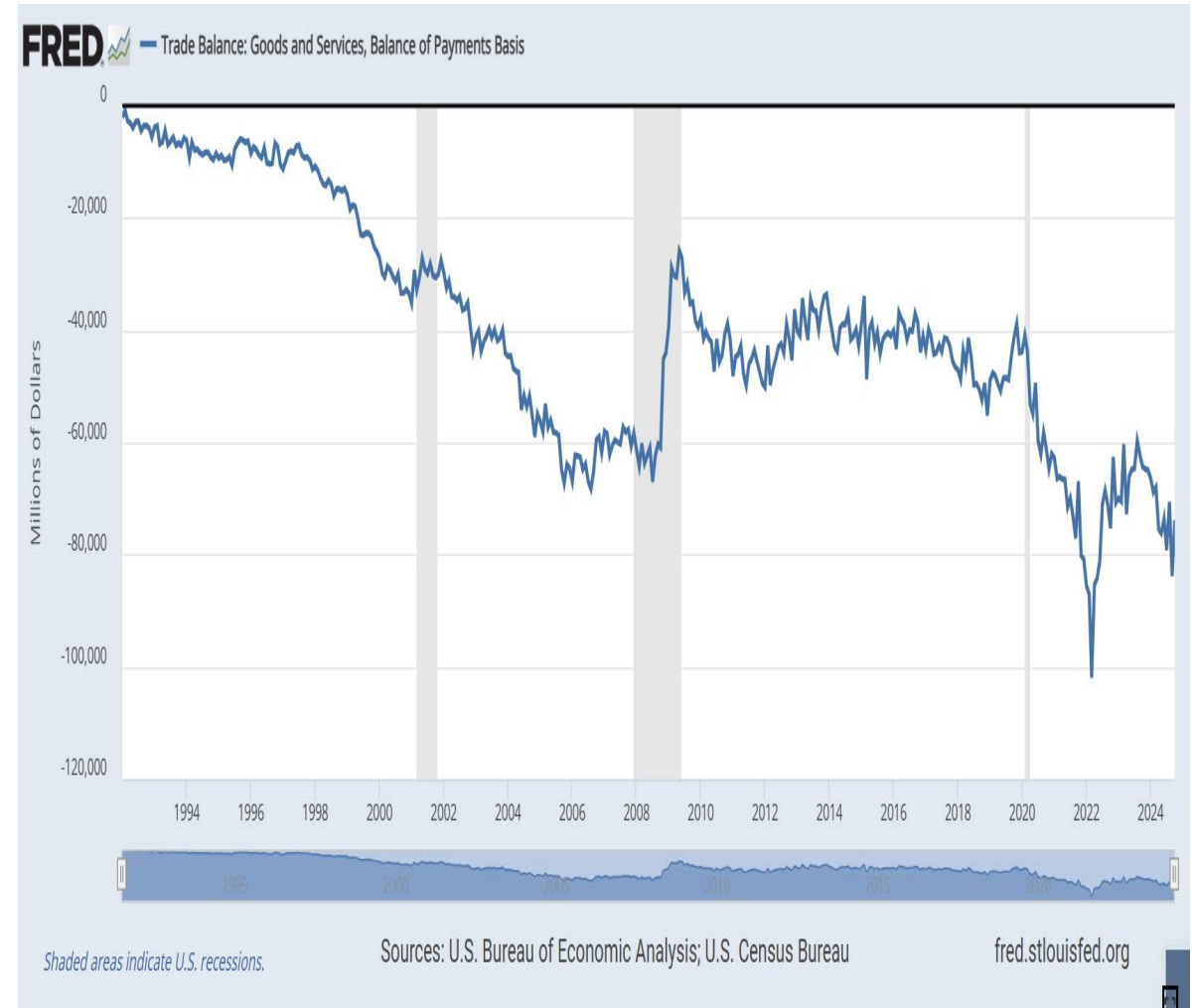
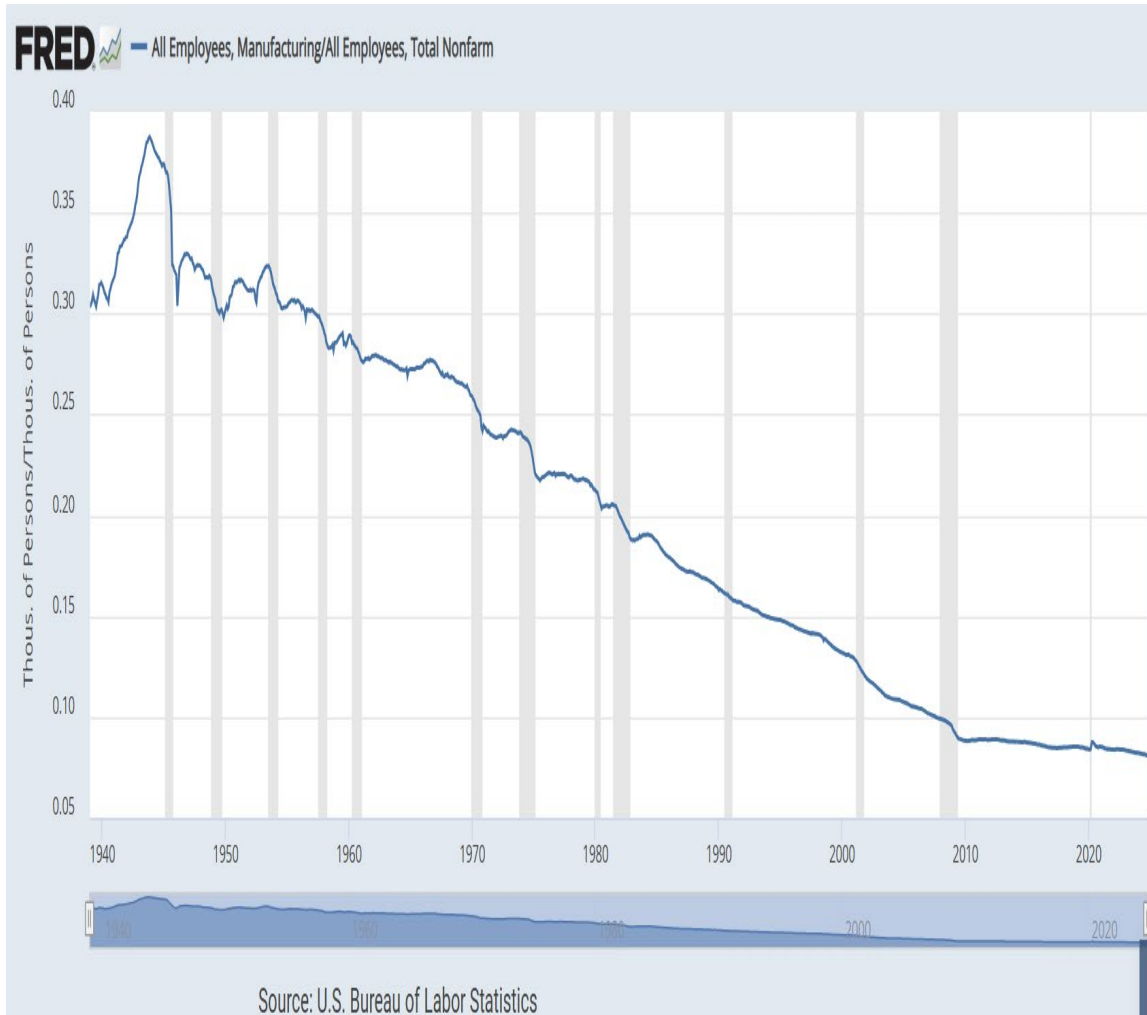
Many central banks started to ease



Prospective US policies muddy the outlook

- Fiscal – extend and expand 2017 TCJA, other tax breaks
- Deportations and immigration restrictions
- Deregulation in energy, finance
- Crypto promotion – “strategic” bitcoin reserve?
- Re-regulation in finance – capping credit card interest
- Monetary policy – more on this later
- Tariffs, tariffs, tariffs
- Inflationary and probably net expansionary, for now

Two main motivations for Trump tariffs



Tariffs unlikely to help with either – and then?

- Falling US manufacturing employment is not primarily due to trade and is common across countries (even China) – Lawrence (2024)
- The trade deficit is long-standing and reflects saving (including government saving) persistently below investment
- When tariffs fail, President Trump will likely turn to weakening the dollar
- But how? A weaker dollar without expenditure reduction → higher inflation

Tariffs and fiscal ease will strengthen the dollar—already at a relatively high level

Real trade-weighted index, 2020 = 100



Source: Bank for International Settlements

Options for weakening dollar (only the last of these is helpful and viable)

- Pressure Fed to ease
- Pressure foreign central banks to tighten (perhaps with tariff threats)
- Unilateral US intervention dollar sales
- Multilateral official dollar sales (perhaps motivated by tariff threats)
- Tax on foreign reserve holdings of dollars
- US capital inflow tax
- Fiscal consolidation

Risks

- US tariff threats could escalate, including for noneconomic goals
- Trade war and political uncertainty lead to global downturn
- Global trade fragmentation as countries protect themselves from US-dependence
- Higher US inflation
- Related, international monetary fragmentation (eroded US monetary hegemony) – a weaker dollar means a huge financial transfer to the US
- Spike in US borrowing rates – fiscal crisis?
- Expansionary effects of the Trump program could be short-lived – as in a classic populist policy cycle ...
- ... which usually ends in tears