International Outlook for 2014

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The overall international economy will be stronger in 2014 than it is in 2013. Globally, GDP is forecasted to increase 3.6 percent in 2014, and is currently predicted to achieve a growth of 2.9 percent in 2013. This article will address the main reason the world economy seems to be stuck in low gear and is forecasted to experience moderate growth in 2014. It will also expose the global economy's weaknesses in the medium-term by outlining the shortcomings of the economies relied upon to uphold global growth.

Figure 1: Countries Discussed in the 2014 International Economy Outlook

Source: Indiana Business Research Center

World Output

In 2014, world output will once again be predominantly supported by more advanced economies rather than growth from emerging and developing markets. The more advanced economies are slowly strengthening and expected to grow 2 percent in 2014. Despite repetitive efforts from U.S. politicians in Washington to sabotage the recovery, U.S. news is encouraging. The panic in Europe has somewhat receded as the peripheral countries are not as likely to default, the core European countries are slowly getting out of the recession, and other developed economies around the globe, such as Canada, Australia and Japan are steadily growing. The emerging markets (which had been the engine of growth in the recent past) are still growing but moderately weakening. This is particularly the case for India, Brazil and Turkey. China is still showing a solid 7.3 percent growth rate and its slowdown from double-digit growth rates has been orderly and deliberately gradual.

The risk to the global forecast remains down, but the most significant threat to the world economy will be in the second half of 2014. The Federal Reserve System will likely exit from both quantitative easing and zero policy rates and many economies' fundamentals will be tested.

Global Trade

One metric to assess global health is the volume of global trade. Five years ago the financial tsunami in the United States was transmitted globally through the trade channel. International trade fell to record lows and only recovered because of the coordinated global stimulus and a growing Chinese appetite for imports. 2010 marked the end of the global recession and many economists made a mistake: they expected the world's output to strongly bounce back and stabilize at more than 4 percent annual growth rate, a very optimistic expectation. However, households decided to pay back their debt, advanced economies shifted from fiscal stimulus to austerity, and many economies' structural deficiencies surfaced. The main reason the optimistic forecast on global growth did not materialize was the less-than-stellar world trade recovery. In the past year and a half, world trade has barely grown (about 2 percent), and is well below its 20-year average of 5.4 percent. The necessary force of global recovery is missing.

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In 2008, through contagion from the United States, Europe faced its own financial meltdown, which undeniably placed the European Union (EU) economies at the heart of an eventual trade implosion. Since the EU consumes roughly one third of the world's traded goods, when it is in meltdown mode, the world simmers as well. Specifically, Europe's subsequent bailouts exposed their structural problems: sovereign debt, a weak banking system, income distribution issues and mismatched labor market skills.