Figure 1.12. Recession and Deflation Risks

The IMF staff’s Global Projection Model suggests that one-year-ahead recession risks have increased compared with the April 2014 WEO in the euro area, Japan, Latin America, and the Rest of the World group. The increase is largely due to lower growth starting points, which imply that a smaller negative shock is more likely to trigger a recession, everything else equal. Deflation risks have increased for the euro area compared with the April 2014 WEO, again mostly on account of an even lower starting point for inflation given that euro area inflation declined to about ½ percent in the second quarter of 2014.

1Deflation is defined as two consecutive quarters of falling consumer prices within a four-quarter window.

2For details on the construction of this indicator, see Kumar 2003 and Decressin and Laxton 2009. The indicator is expanded to include house prices.