



Global Economy Watch

Predictions for 2018: Let the good times roll



In our final GEW of the year, we outline key themes we think could prevail in the global economy in 2018.

- 1. Global economic growth on track to be the fastest since 2011:** In our main scenario, we project the global economy will grow by almost 4% in purchasing power parity (PPP) terms, its fastest since 2011, adding an extra \$5 trillion to global output in current value terms. More importantly, we expect growth to be broad based and synchronised, rather than dependent on a few countries. The main engines of the global economy - the US, emerging Asia and the Eurozone, which comprised 60% of world GDP in 2017 - are expected to contribute almost 70% of economic growth in 2018 in PPP terms compared to their post-2000 average of around 60%.
- 2. The beginning of the end of easy money:** Since the Fed started to gradually reduce the size of its balance sheet and raise rates, the question has been who will follow next. We expect the European Central Bank (ECB) to further reduce its monthly asset purchases in 2018. If Eurozone inflation rebounds faster than our baseline projection, 2018 could see the end of the ECB's asset purchase programme. In Japan, however, we don't think there will be a dramatic shift in monetary policy. Generally, we expect monetary policy to somewhat tighten in the G7, reflecting closing output gaps in some advanced economies and stable inflation expectations.
- 3. Global economy biggest, most energy hungry ever:** The global economy is on

course to consume almost 600 quadrillion British Thermal Units (BTUs) of energy—double its 1980 level and the highest level on record. We expect India and China together will consume about 30% of global energy, which will be about six times more than the African continent will consume. Reflecting the slow shift towards renewables, 10% of global energy consumption is expected to be in renewables with China consuming twice as much renewable energy as the US.

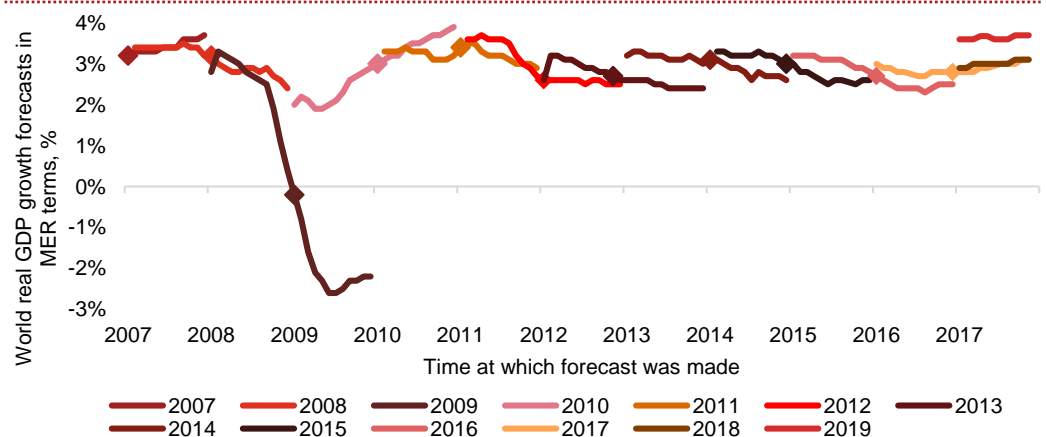
Our detailed predictions have been compiled with input from our global team of economists.

Unemployment rate in G7 to hit a 40 year low: In 2018, the aggregate G7 unemployment rate is on course to hit a rate below 5% - equivalent to about 19 million workers. We expect wage growth to post a modest uptick, but still to remain below pre-crisis trends. This could be driven by tight labour markets like in the US—which is expected to hit an unemployment rate of about 4%—but offset by other economies like Italy, where unemployment levels remain relatively high. Watch out also for the wage negotiations of important sectors in Germany in the last quarter of 2018.

Eurozone expected to grow faster than 2%, while the UK lags: In our main scenario projections for 2018, we expect the GDP-weighted growth rate of the peripheral Eurozone economies to grow faster than the core. Specifically, we expect growth of around 2.5% and 2% respectively in GDP weighted terms¹.

¹ Core countries include Germany, France, Italy and Netherlands. Periphery countries include Greece, Spain, Portugal and Ireland.

Fig 1: For the first since 2010, global GDP growth forecasts are being revised upwards.



Sources: PwC analysis, Consensus Economics, IMF

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Predictions for 2018

This would be the fifth consecutive year the peripheral Eurozone economies have outpaced the core. Of the larger Eurozone economies (see Figure 2), the Netherlands is expected to lead the core economies' scoreboard (2.5% growth). Ireland is expected to be the fastest growing peripheral economy (3.5% growth). Greece is likely to exit its bailout programme in August marking the first year since 2009 where no Eurozone economy is under IMF surveillance. Germany will continue to post the world's largest current account in absolute terms to the tune of over \$300 billion. By contrast with the recovering Eurozone, uncertainty relating to Brexit is expected to drag on UK growth, which is expected to be only around 1.4% in 2018¹.

Relatively stable oil prices: We expect average oil prices to remain broadly stable in real terms in 2018. In November, OPEC and its allies agreed to extend its 1.8 million barrels per day (b/d) supply cut until the end of 2018. Though part of OPEC, Iran was permitted a lower cut, to 10.05 million b/d, as it recovers from nuclear related sanctions. This is likely to keep oil output growth modest, provided the deal proves viable over time. We think risks are weighted to the downside due to the possibility of non-compliance and, in particular, US shale oil producers' ability to increase supply rapidly. Specifically, US shale oil producers effectively drove the recent global oil glut, and increasing prices due to OPEC's latest deal could incentivise US shale producers to increase their rig count.

Chinese growth to slow down in line with expectation: We project China, the world's largest economy in PPP terms, to grow by around 6-7% in 2018. At the 2017 party congress, President Xi outlined China's shift in focus from high speed to high quality growth. This was coupled with supply side reforms addressing structural

problems, such as excess factory production and pollution. Any further, unexpected, reduction in Chinese growth (for example because of financial stability issues related to high debt levels in the property sector) is a downside risk. Our analysis shows that, looking at the trade linkages alone, Australia and South Korea could be particularly susceptible to any such slow down as exports to China make up a significant proportion of their trade.

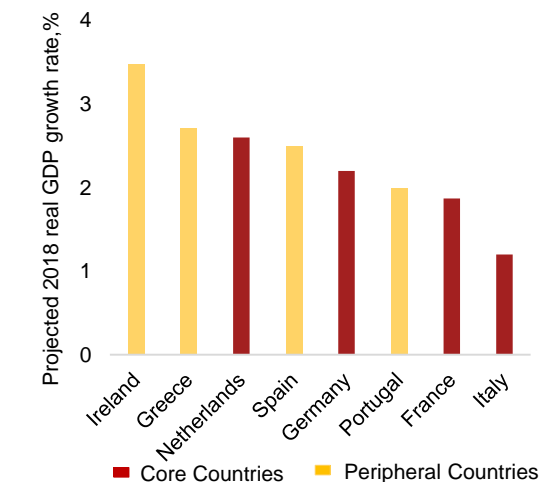
Global population growth at slowest rate since records began in 1950: We expect the world will add an extra 80 million people to its population in 2018, but as a percentage increase this would be the slowest since 1950. The continents of Asia and Africa are projected to be the major contributors, with 40 and 30 million people respectively². This is despite Africa's current population size being less than a third of that of Asia. Africa's dynamism will also be reflected in economic output - so it is unsurprising that eight of the ten fastest growing countries in 2018 could be in Africa.

While the growth outlook for 2018 looks good, there are also some other downside risks for business to bear in mind, including:

- The final agreed form of US tax stimulus leading to unsustainably large fiscal deficits squeezing financial conditions at an unexpectedly fast pace with wider spill over effects.
- The handling of the Brexit negotiations as well as wider discussions about the future of the EU.
- Political uncertainty in large economies as elections are held across Brazil, Mexico, Italy, South Korea and the US midterms as well as continued geopolitical tensions related to North Korea.

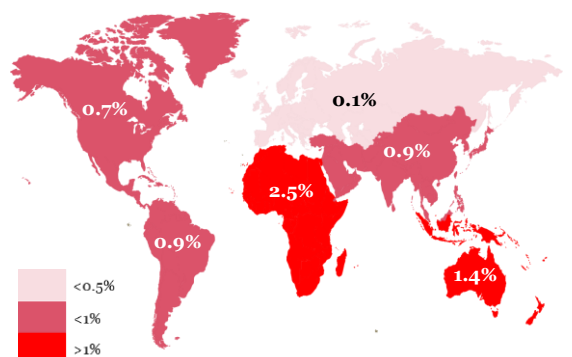
¹ For more details on the UK economy visit www.pwc.co.uk/ukeo/ ² Continents as per United Nations definitions

Fig 2: Peripheral countries will lead the Eurozone in 2018.



Sources: PwC main scenario projections

Fig 3: For every 10 people added to the world's population, we expect 9 to be located in either the Asian or African continent.



2018 population growth rate. Continents as per United Nations classifications.

Sources: PwC analysis, United Nations

Further predictions for 2018...

- **India is expected to be the world's fastest growing large emerging economy** (growing by approximately 7-8% in 2018). **Seventeen other economies, as well as India, could grow faster than China** including Ghana, Ethiopia and the Philippines.
- **Libya, Bhutan and Macao** could see the greatest increase in real GDP per capita, all above 7%. While GDP per capita in Sub-Saharan Africa could surpass \$4,000 for the first time according to the IMF.
- **The US consumes over 25 million barrels of oil per day (mb/d)**, that's more than China (12.6 mb/d), India (4.6 mb/d) and Russia (3.5 mb/d) combined.
- **Brazil is our favourite to win the 2018 FIFA World Cup**, after a strong qualifying campaign and favourable group stage draw. Germany and France complete our top three.
- **China could surpass 1.3 billion smartphone users.** The global top three could be completed by India (530 million) and the US (230 million).

Projections: December 2017

	Share of 2016 world GDP		Real GDP growth				Inflation			
	PPP	MER	2017e	2018p	2019p	2020-2024p	2017e	2018p	2019p	2020-2024p
Global (Market Exchange Rates)		100.0%	3.2	3.2	3.0	2.9	2.4	2.5	2.4	2.4
Global (PPP rates)	100.0%		3.7	3.7	3.6	3.5	2.8	2.9	2.8	2.8
G7	31.0%	47.1%	2.0	2.0	1.8	1.7	1.7	1.8	1.9	1.9
E7	36.9%	25.8%	5.5	5.4	5.4	5.1	3.0	3.3	3.4	3.5
United States	15.5%	24.7%	2.2	2.4	2.2	2.0	2.1	2.1	2.2	2.1
China	17.8%	14.9%	6.8	6.5	6.3	5.9	1.8	2.3	2.4	2.6
Japan	4.4%	6.6%	1.4	1.0	0.8	0.6	0.4	0.5	1.1	1.3
United Kingdom	2.3%	3.5%	1.5	1.4	1.6	1.8	2.7	2.7	2.3	2.2
Eurozone	10.4%	13.9%	2.3	2.2	1.8	1.6	1.4	1.4	1.5	1.6
France	2.3%	3.3%	1.8	2.0	1.7	1.8	1.0	1.1	1.4	1.8
Germany	3.3%	4.6%	2.3	2.3	1.9	1.4	1.7	1.7	1.7	1.7
Greece	0.2%	0.3%	1.8	2.7	2.4	1.0	1.2	1.0	1.4	1.7
Ireland	0.3%	0.4%	4.4	3.5	3.0	2.8	0.4	1.0	1.2	1.9
Italy	1.9%	2.5%	1.3	1.4	1.0	1.0	1.2	1.3	1.3	1.2
Netherlands	0.7%	1.0%	3.2	2.6	2.0	1.9	1.4	1.5	1.9	1.6
Portugal	0.2%	0.3%	2.4	2.1	1.7	1.3	1.5	1.4	1.4	1.4
Spain	1.4%	1.6%	3.1	2.6	2.2	2.0	1.8	1.2	1.4	1.4
Poland	0.9%	0.6%	3.9	3.4	3.2	2.8	1.8	2.2	2.7	2.4
Russia	3.2%	1.7%	1.7	1.8	1.6	1.7	3.7	4.1	4.1	4.2
Turkey	1.7%	1.1%	4.9	3.2	3.8	3.5	11.0	8.4	8.1	7.0
Australia	1.0%	1.7%	2.2	2.9	3.0	2.8	1.9	2.2	2.5	2.5
India	7.2%	3.0%	6.8	7.4	7.6	7.0	3.4	4.5	5.0	5.0
Indonesia	2.5%	1.2%	5.1	5.3	5.4	5.2	3.8	4.0	3.8	4.3
South Korea	1.6%	1.9%	3.0	2.9	2.7	2.8	2.0	1.8	2.0	2.0
Argentina	0.7%	0.7%	2.8	3.0	3.2	3.0	25.0	18.5	-	-
Brazil	2.6%	2.4%	0.6	1.8	2.1	2.6	3.5	4.1	4.2	4.5
Canada	1.4%	2.0%	3.0	2.1	2.0	2.0	1.5	1.8	1.9	2.0
Mexico	1.9%	1.4%	2.0	2.1	2.2	2.5	6.0	4.2	3.9	3.0
South Africa	0.6%	0.4%	1.0	1.3	1.5	3.0	5.9	5.3	5.6	5.4
Nigeria	0.9%	0.5%	0.4	2.0	3.4	4.8	16.5	12.1	10.7	9.0
Saudi Arabia	1.5%	0.8%	-0.3	1.3	1.9	2.0	0.3	3.7	3.0	2.3

Sources: PwC analysis, National statistical authorities, Datastream and IMF. All inflation indicators relate to the Consumer Price Index (CPI). Argentina has recently launched a new CPI measure, which only contains data from April 2016. We therefore do not report an inflation measure for 2019, and will provide 2019 and 2020-2024 projections once a longer series is available. Note that the tables above form our main scenario projections and are therefore subject to considerable uncertainties. We recommend that our clients look at a range of alternative scenarios.

Interest rate outlook of major economies

	Current rate (Last change)	Expectation	Next meeting
Federal Reserve	1.5% (December 2017)	Further gradual tightening in the next year	30 – 31 January
European Central Bank	0.00% (March 2016)	No rate rise for the foreseeable future	25 January
Bank of England	0.5% (November 2017)	Further rate rise expected before end of 2018	8 February



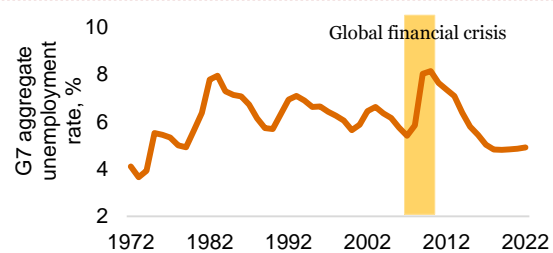
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Chart of the month

As outlined earlier, 2018 could see aggregate G7 unemployment drop to levels last seen in 1974.

Aggregate G7 unemployment could hit 44 year low



Sources: PwC analysis



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