Global economy in charts
Q2 2019

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Summary

1. Global activity continues to ease
2. Significant slowdown in euro area
3. Trade tensions have hit export-reliant economies
4. Rate expectations pushed back as central banks make dovish statements
5. Equities sold off in May with investors switching to bonds
6. 2020 UK growth heavily dependent on Brexit settlement
7. Risks to global growth tilted to the downside
Synchronised global slowdown

Growth slowdown concentrated in developed markets and China.

GDP growth: Actual & IMF forecasts (%)

<table>
<thead>
<tr>
<th></th>
<th>Post-crisis trend</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>'11 – '17</td>
<td>1.8</td>
<td>2.2</td>
<td>1.8</td>
<td>1.7</td>
</tr>
<tr>
<td>Advanced economies</td>
<td>5.0</td>
<td>4.5</td>
<td>4.4</td>
<td>4.8</td>
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<tr>
<td>Emerging markets</td>
<td>3.6</td>
<td>3.6</td>
<td>3.3</td>
<td>3.6</td>
</tr>
</tbody>
</table>

Source: IMF World Economic Outlook, April 2019
Recent fall in oil prices to exert downward pressure on inflation
Despite cuts in OPEC supply, slowing global growth has hit oil prices, which are down 20% from the April peak.
Trade tensions and slowing global exports

The imposition in May of further US tariffs on Chinese imports and Chinese retaliation could end trade growth’s brief return to positive territory.
German activity hit by trade gloom

Germany’s Ifo Business Climate Index, a bellwether for the whole European economy, is at its lowest level in more than four years.
Italy forecast to barely grow this year
Italy is the weakest euro area economy, with manufacturing output contracting and consumer spending slowing significantly.
Euro area expected to grow at slowest pace in six years

European growth prospects remain weak, as reflected in the industrial and consumer confidence indicators.
US growth also softening

Global slowdown underway in trade, manufacturing and investment. Even in the US, where growth has held up, a key industrial activity indicator suggests growth is at a two-year low.
Chinese slowdown continues

Chinese retail sales growth slowed to a 16-year low in April and investment growth remains close to a record low.
Rate expectations lower

Dovish statements by US Fed Chair Jay Powell and ECB President Mario Draghi have sharply lowered rate expectations, with markets now expecting two rate cuts by the Fed this year.
Escalating trade tensions hit equities in May
This year’s US equity rally was dented by news of further tariffs. The US S&P 500 fell 7% in May but has recovered some of its losses after a dovish turn by the Fed.
Investors seek safe assets
Weaker global growth has lowered rate expectations and bond yields. The yield on 10-year US treasuries and German bunds are down to their lowest levels in more than two years.

**US and German benchmark bond yields**

%
Brexit-driven stockpiling boosts Q1 UK growth

A rise in business investment, as British firms stockpiled goods for a potential no-deal Brexit in March, delivered a sharp but short-lived acceleration in Q1 growth.

Source: Consensus Economics forecasts and Deloitte calculations
UK corporates braced for disruptive Brexit

UK corporates have adopted the most defensive strategies in more than nine years, with a laser-like focus on cost reduction and a record high cash pile.

Source: Deloitte CFO Survey, Q1 2019
UK consumer holding up, manufacturing output drops

Low unemployment and rising real wages have supported consumer spending while manufacturing output is contracting, consistent with the global industrial slowdown.
Nature and timing of Brexit key determinant of growth

In the event of a no-deal exit from the EU, NIESR* expects UK growth to slow this year and the economy to contract in 2020. If a transition deal were to be struck, the UK is expected to avoid a recession, with growth accelerating in two of three scenarios next year.

UK GDP growth: Actual and forecast, % YoY

<table>
<thead>
<tr>
<th>2018 growth</th>
<th>Nature of Brexit (or Remain)</th>
<th>2019 forecast</th>
<th>2020 forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.4%</td>
<td>Continued EU membership</td>
<td>1.4%</td>
<td>2.2%</td>
</tr>
<tr>
<td></td>
<td>Single market and customs union membership</td>
<td>1.4%</td>
<td>1.6%</td>
</tr>
<tr>
<td></td>
<td>Customs union only</td>
<td>1.2%</td>
<td>0.9%</td>
</tr>
<tr>
<td></td>
<td>Orderly no deal</td>
<td>1.2%</td>
<td>-0.7%</td>
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*Source: National Institute of Economic and Social Research, April 2019
GDP growth in major economies: Actual & IMF forecasts

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<tbody>
<tr>
<td>US</td>
<td>2.1</td>
<td>2.9</td>
<td>2.3</td>
<td>1.9</td>
</tr>
<tr>
<td>UK</td>
<td>2.0</td>
<td>1.4</td>
<td>1.2</td>
<td>1.4</td>
</tr>
<tr>
<td>Euro area</td>
<td>1.2</td>
<td>1.8</td>
<td>1.3</td>
<td>1.5</td>
</tr>
<tr>
<td>Germany</td>
<td>1.9</td>
<td>1.5</td>
<td>0.8</td>
<td>1.4</td>
</tr>
<tr>
<td>Japan</td>
<td>1.1</td>
<td>0.8</td>
<td>1.0</td>
<td>0.5</td>
</tr>
<tr>
<td>China</td>
<td>7.6</td>
<td>6.6</td>
<td>6.3</td>
<td>6.1</td>
</tr>
<tr>
<td>India</td>
<td>7.0</td>
<td>7.1</td>
<td>7.3</td>
<td>7.5</td>
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Source: IMF World Economic Outlook, April 2019
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