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Global economy in charts

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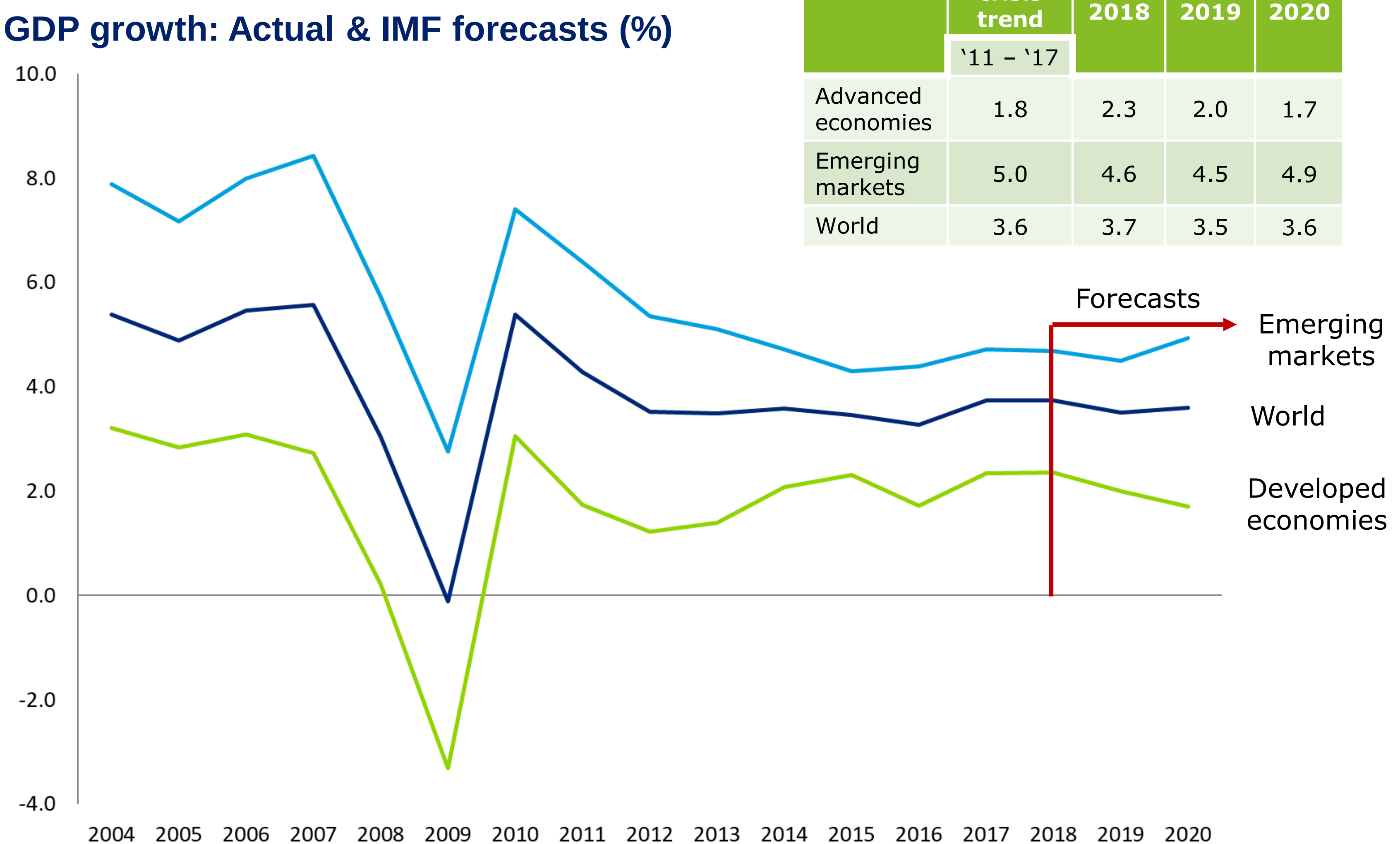
Summary

1. Global activity easing
2. Slowdown most apparent in euro area
3. China transitioning to slower growth, service economy
4. Central banks pulling back from tightening
5. UK growth dependent on Brexit: exit deal could see GDP growth > 1.0% this year, no deal growth could be < 0.5%
6. Risks to global growth tilting to downside

Synchronised slowdown in 2019

Developed economies and emerging markets expected to slow in 2019.

	Post-crisis trend '11 – '17	2018	2019	2020
Advanced economies	1.8	2.3	2.0	1.7
Emerging markets	5.0	4.6	4.5	4.9
World	3.6	3.7	3.5	3.6



Source: IMF World Economic Outlook Update, January 2019

GDP growth in major economies: Actual & IMF forecasts

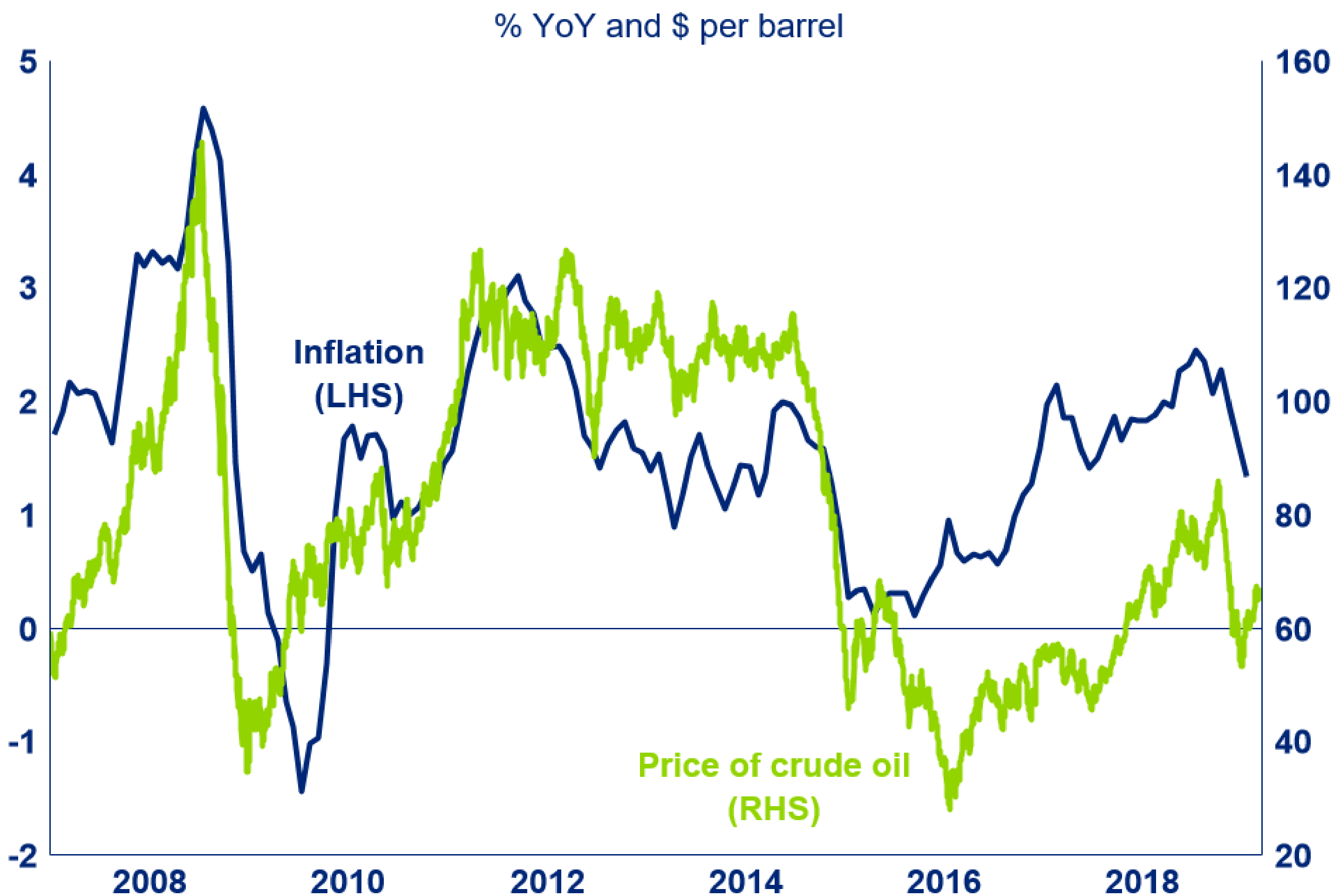
	GDP growth (% YoY)			
	Post-crisis trend '11 – '17	2018	2019 forecast	2020 forecast
US	2.1	2.9	2.5	1.8
UK	2.0	1.4	1.5	1.6
Euro area	1.2	1.8	1.6	1.7
Germany	1.9	1.5	1.3	1.6
Japan	1.1	0.9	1.1	0.5
China	7.6	6.6	6.2	6.2
India	6.8	7.3	7.5	7.7

Source: IMF World Economic Outlook Update, January 2019

Last year’s fall in oil prices has lowered inflation in advanced economies

Despite a recent bounce back due to cuts in OPEC supply, oil prices remain 22% below their peak in October. This has brought G7 inflation to its lowest level in almost two years.

G7 inflation and price of crude oil



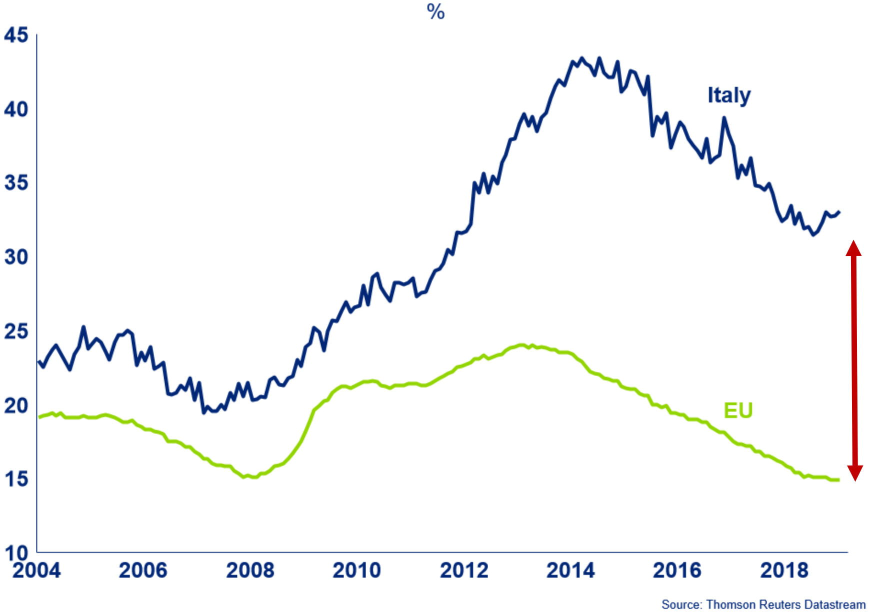
Export-led German economy hit by slowing export growth

Slower Chinese and European growth, tariffs imposed on goods exported to the US and China, and the vehicle emissions scandal have hit German industry. Germany’s Ifo Business Climate Index, a bellwether for the whole European economy, is at its lowest level in more than two years.

Italy in recession for third time in a decade

Italian GDP contracted in the second half of 2018 sending the country into recession. The Italian economy is expected to shrink further in 2019. High levels of unemployment and government debt and a weak banking system are particular vulnerabilities.

Italy and EU youth unemployment rate



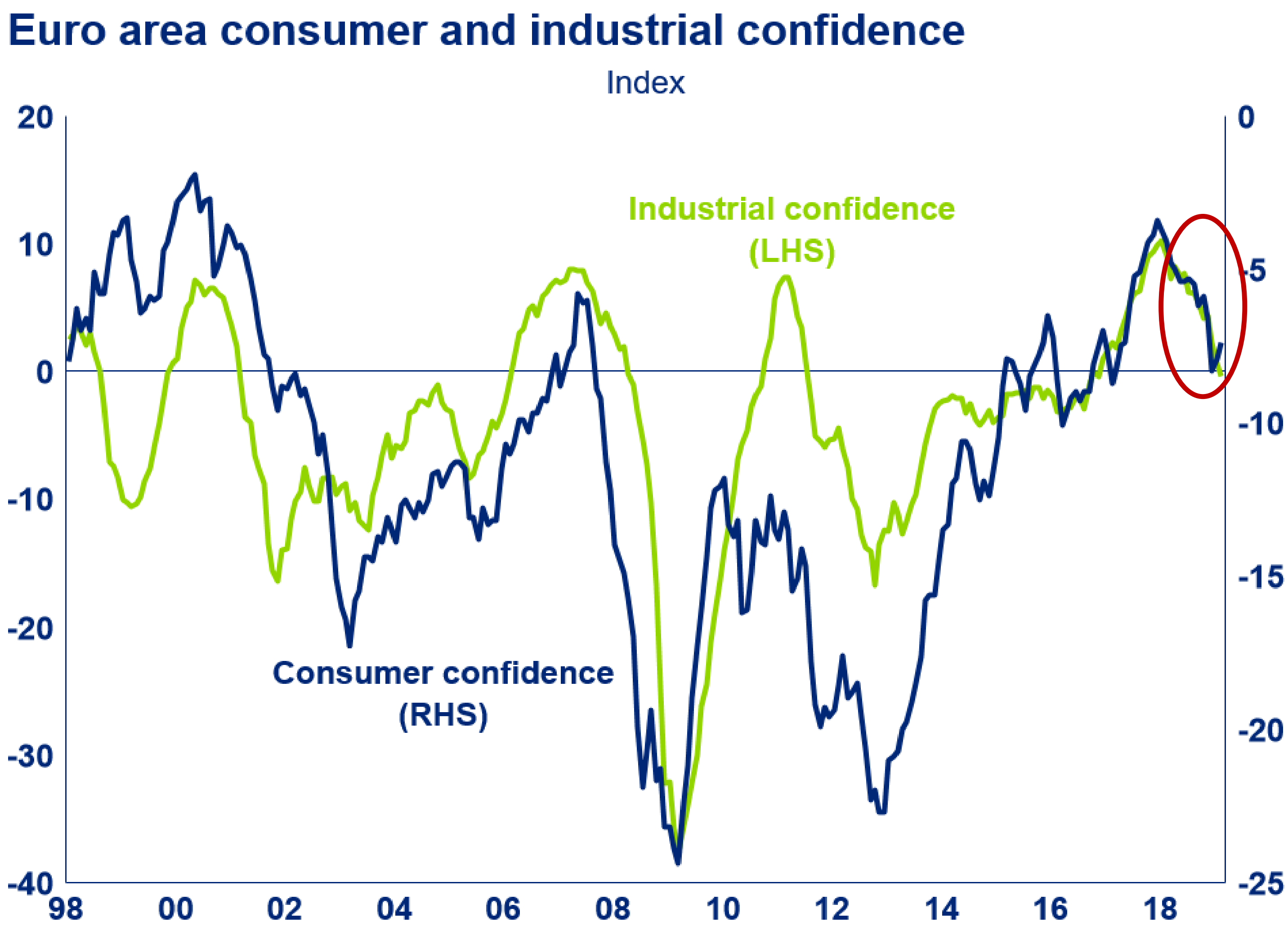
Share of population at risk of poverty or social exclusion

Source: Eurostat

At risk-of-poverty are persons with disposable income below 60% of the national median disposable income. Severely materially deprived persons have living conditions severely constrained by a lack of resources

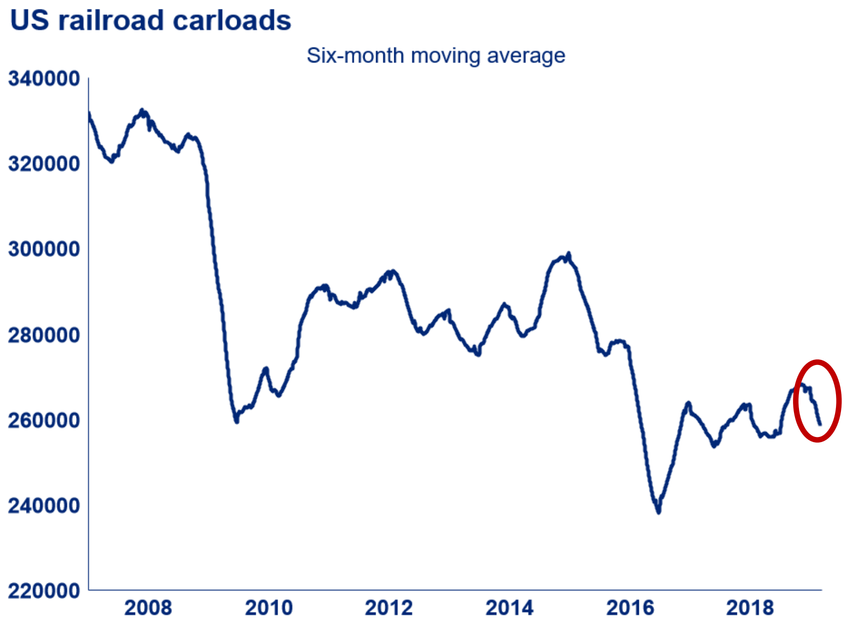
Euro area expected to grow at slowest pace in five years

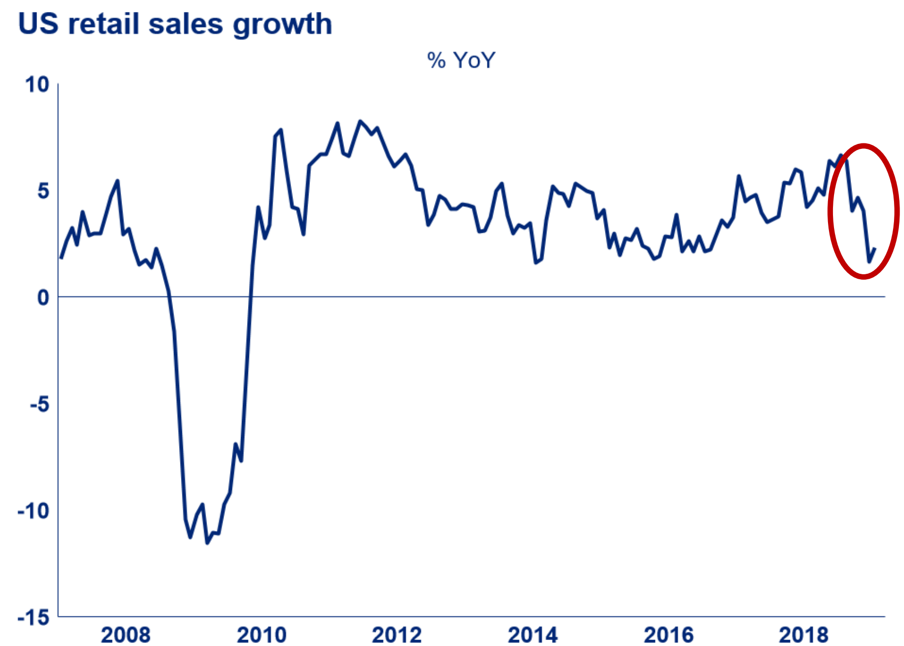
Prospects for euro area growth have weakened, as reflected in the industrial and consumer confidence indicators.



US growth softening

The US economy boomed in 2018 partly as a result of major tax cuts. 2019 is likely to be a year of rather slower growth.





Markets have lowered rate expectations

The unexpected pace of the global slowdown has caused the US Fed and European Central Bank to pull back from monetary tightening. Financial markets assume US and euro area rates will stay on hold this year.

ECB to halt expansion of €2.6tn stimulus programme

End of extra bond purchases shifts investor focus to timing of interest rate rises

December 2018, Financial Times

ECB unveils fresh bank stimulus amid rising eurozone gloom

Cheap loans and rate outlook put Draghi in camp of central bankers making monetary U-turn

March 2019, Financial Times

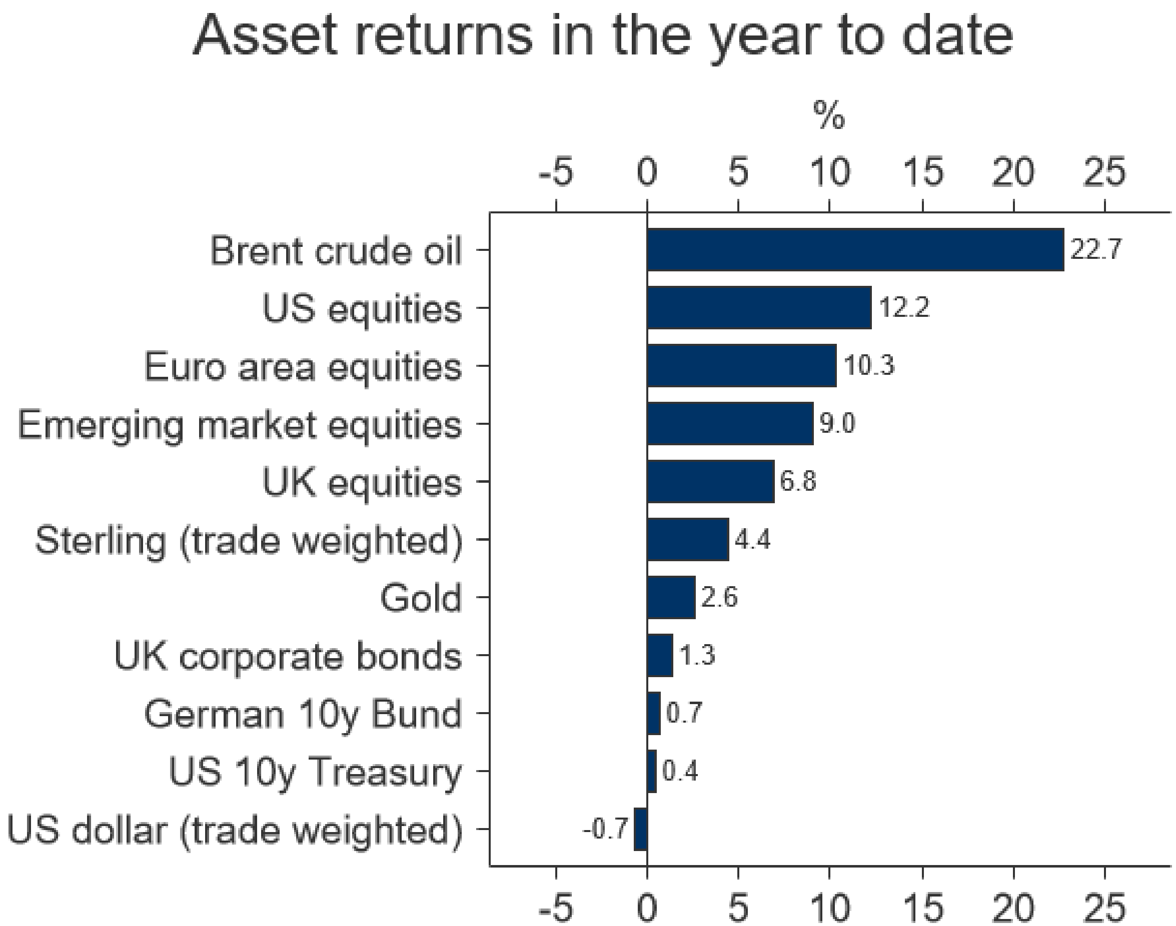
US, euro area: End-2019 rate expectations

Dovish move by US Fed = equity market rally & lower volatility

Equities have rallied on the prospect of interest rates staying lower for longer. This has enabled the US S&P 500 equity index to regain all of its December losses. Equity market volatility has fallen back.

Crude is best performing asset, Fed and ECB actions support risk assets

A cut in OPEC supply and uncertainty over production in Venezuela and Iran have boosted crude prices by 23% this year, making it the best performing asset in our basket. A move towards dovish monetary policy in the West has bolstered equities.

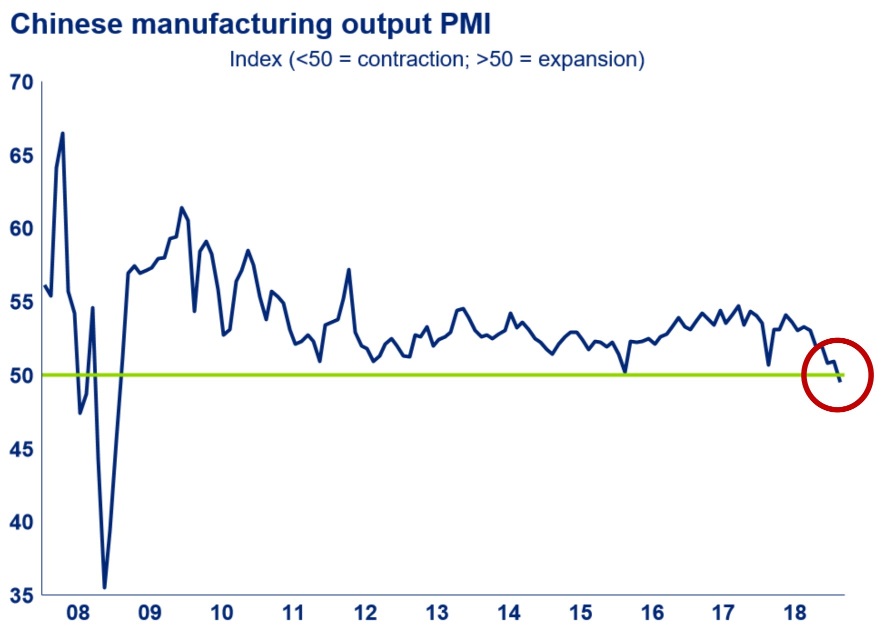


Sharp contraction in global trade

Global trade registered its sharpest contraction since the financial crisis, in December. Talks between the US and China have so far had little success in defusing trade tensions.

Chinese growth expected to be slowest in almost three decades

US protectionism and a rebalancing of Chinese growth away from investment and towards consumption is driving a slowdown. This is evidenced by a fall in Chinese manufacturing activity, its first since the financial crisis, and a sharp contraction in imports.



Mixed picture across emerging markets

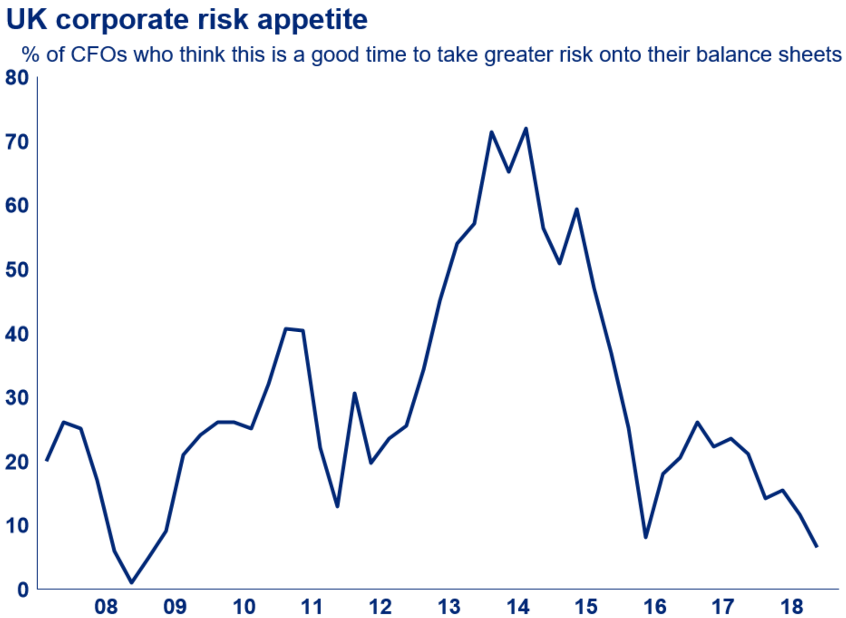
India, Brazil and Russia are the only major emerging economies in our basket expected to post faster growth than their post-crisis trend this year. Country-specific factors are major determinants, with a general firming up of growth in Russia and reforms in Brazil, both of which were badly hit by the prolonged fall in commodity prices beginning in 2011. India's fundamentals look strong, benefiting from strong growth in investment and personal consumption.

	GDP growth (% YoY)			
	Post-crisis trend '11 – '17	2018	2019	2020
China	7.4	6.6	6.2	6.2
India	6.9	7.3	7.5	7.7
Brazil	0.6	1.3	2.5	2.2
Russia	1.5	1.7	1.6	1.7
Mexico	2.7	2.1	2.1	2.2
Saudi Arabia	3.6	2.3	1.8	2.1
South Africa	1.7	0.8	1.4	1.7

Source: IMF World Economic Outlook Update, January 2019

UK corporates braced for disruptive Brexit

Uncertainty over the nature of Brexit has hit British corporate risk appetite, which is down to a nine-year low. Deloitte's latest CFO Survey shows that CFOs are responding with their most defensive strategy stance in eight years, with cost reduction and cash control as top priorities.



Source: Deloitte CFO Survey, Q4 2018

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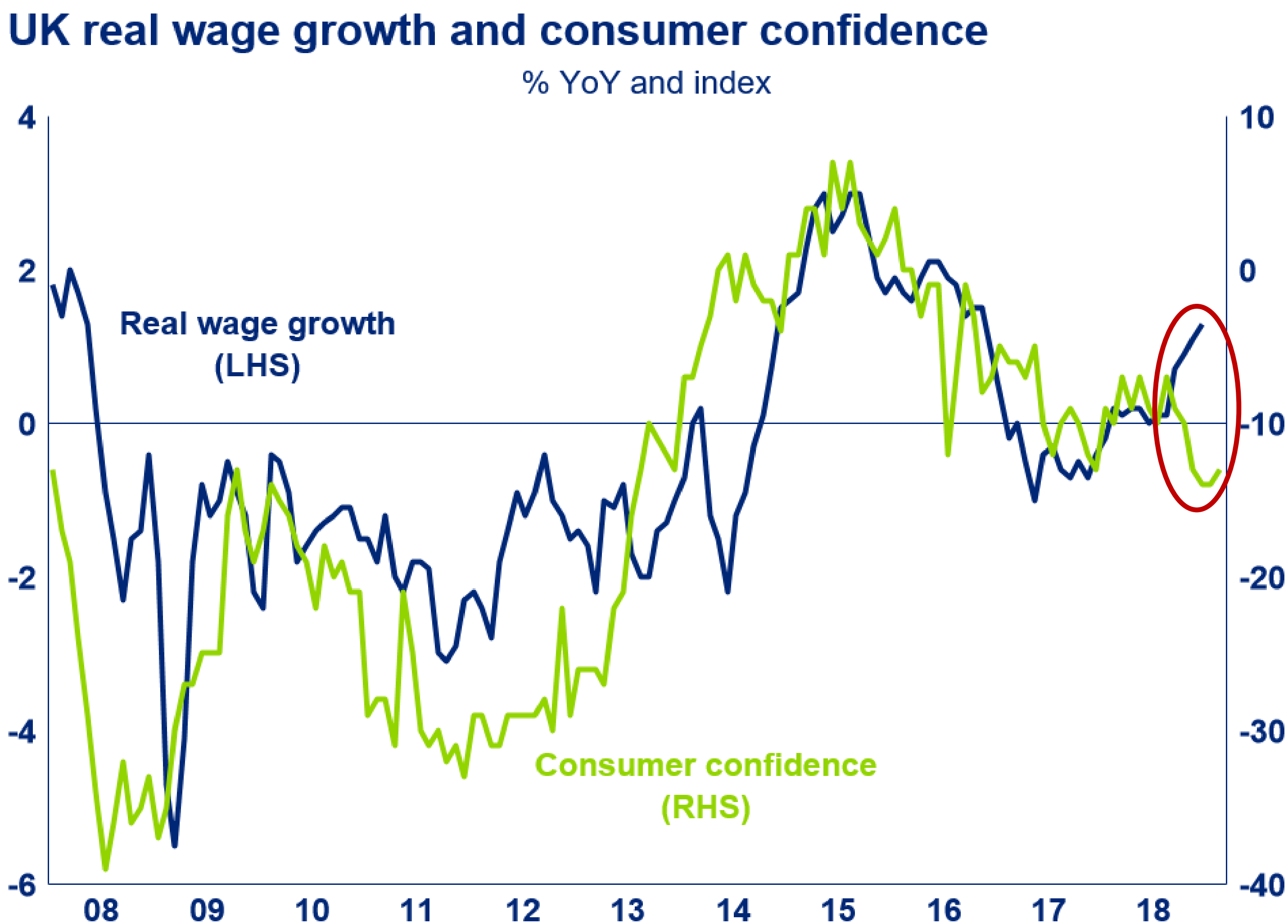
UK consumer confidence subdued despite growth in real wages

Despite real wages growing at their fastest pace in two years, consumers remain uncertain about Brexit and UK growth, which has left consumer confidence close to a five-year low.



Nature of Brexit to determine growth

Economists expect UK growth to slow sharply in the event of a no-deal exit from the EU, with the UK avoiding a recession. By contrast, if a transition deal were to be struck, UK growth is expected to accelerate modestly this year.

Forecaster	Nature of Brexit	2019 forecast	2020 forecast
Average of NIESR & OECD forecasts[*]	No deal	0.4%	0.3%
	Deal	1.5%	1.5%
Latest IMF forecast[**]		1.5%	1.6%

[*] National Institute of Economic and Social Research and Organisation for Economic Co-operation and Development forecasts released in Q4 2018, and Deloitte calculations

[**] IMF World Economic Outlook Update, January 2019

Growth headwinds > tailwinds

Headwinds

- mature recovery
- bubble, debt risks
- trade tensions
- manufacturing slowdown
- politics
- policy stretched

Tailwinds

- Central Banks easing up
- fiscal easing
- low inflation, unemployment
- wage growth
- US-China trade deal?

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Data for all the charts in this document was sourced from Thomson Reuters Datastream unless otherwise stated. Charts as on 14th March 2019.