

National Institute Economic Review No. 240 May 2017

The World Economy

EMBARGOED until 00.01am Wednesday 10th May

- Global output growth is forecast to pick up from 3.1 per cent in 2016 to 3.3 per cent in 2017 and 3.6 per cent in 2018 – a slightly stronger acceleration than expected in February. Projected medium-term growth is still well below pre-crisis rates.
- A striking feature of the current conjuncture is unusual uncertainty, particularly about the interpretation of recent ‘soft’ data showing increased business and consumer confidence in the advanced economies, US economic policies, and policies in Europe in the face of national elections in the largest economies.
- There are associated risks to our growth forecast on both the upside and the downside. Of particular concern are the downside risks that could derail the gathering momentum of global growth. These include the danger of a shift to protectionist trade policies.

Global growth has strengthened moderately and become more broadly based, including within the Euro Area and among emerging market economies that have been suffering severe recessions. In the advanced economies, headline inflation has risen close to targets except in Japan, but core inflation has remained well short of targets except in the US. Activity is probably close to full employment levels in the US, Japan and Germany, although subdued wage inflation continues to raise questions about employment gaps. In the Euro Area, unemployment has recently fallen to 9.5 per cent, below the halfway point between its 2008 trough and its 2013 peak.

Among the major emerging market economies, Brazil remained in deep recession in late 2016 but an upturn is expected to begin in the course of this year. Russia seems to have started to recover from its recession. India’s GDP growth has remained the fastest among the major economies despite last November’s exchange of currency. The gradual slowing of China’s growth, interrupted in late 2016, is likely to resume this year.

There are currently unusual uncertainties about the interpretation of recent increases in business and consumer confidence in the US and several other advanced economies, economic policies in the US, and prospective policies in the four largest economies of the European Union ahead of elections. These imply significant upside and downside risks to our forecast. However, risks seem skewed to the downside, and downside risks that could derail the gathering momentum of global growth are of particular concern.

One such risk is a possible reversal of recent gains in asset markets as a result of disappointed expectations about growth. Another is unexpectedly steep increases in US interest rates, which could result from proposed policies that would be likely to widen the budget deficit and increase inflationary pressure, with effects on asset markets and the US dollar’s exchange rate, and

repercussions on emerging market economies and global payments imbalances. A third risk is a US-led turn to protectionist trade policies. A fourth is increased danger of financial crises as a result of lighter regulation of the financial sector. There is also a risk of additional political obstacles to policies and reforms needed to improve the working of the monetary union in Europe and the broader EU economy.

Graham Hacche, Fellow of NIESR, said “*The gradual strengthening of the global expansion that we projected in the February 2017 Review seems to be materialising. However, the new forecast has been constructed at a time of unusual uncertainty. There are significant risks that the gathering momentum of global growth could be derailed by policy mis-steps by major economies including protectionist trade policies and unrealistic budgets or a weakening of private sector confidence.*”

	World economy			Real GDP growth in major economies				
	Real GDP ^(a)	Consumer prices ^(b)	World trade ^(c)	US	China	Japan	Euro Area	India
	2016	3.1	1.1	1.9	1.6	6.7	1.0	1.7
2017	3.3	2.4	3.9	2.1	6.7	0.8	1.6	7.3
2018	3.6	2.0	4.4	2.3	6.2	0.7	1.7	7.8

(a) Based on global PPP shares. (b) OECD countries, private consumption deflator. (c) Volume of total world trade.

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Notes for editors:

The forecast for the global economy is published in the National Institute Economic Review no. 240 May 2017. Details of NIESR’s previous Global economic forecast can be found [here](#).

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