# THE WORLD ECONOMY
## Forecast summary

Recent trends in global industrial production and trade show activity stalling since late last year. The pace of service sector activity has remained steadier.

Tariff increases and trade disputes have contributed to the weakness in production and trade and have added uncertainty to the global economic outlook.

In response to weaker production activity and continued low inflation, central banks in many economies have either loosened monetary policy or positioned themselves to do so, which has been reflected in financial markets.

Taking these forces into account, we have reduced our forecast for global GDP growth this year slightly to 3¼ per cent. This is likely to be, by a small margin, the slowest annual growth for a decade. We expect output growth to show a slight pick-up in 2020 to 3½ per cent.

It is now clear that 2017 marked a peak year in the global economic growth cycle, with the three major economic areas – the USA, China and the Euro Area – all seeing faster growth than a year earlier.

As US monetary policy has normalized, the US dollar appreciated and trade tensions grown, the tailwinds from accommodative financial conditions have subsided and headwinds to global GDP growth have risen. Several factors, including economic problems in Argentina, Venezuela and Turkey, the tripling in oil prices from a low in early 2016 to a peak in late 2018, difficulties in the European car market, and uncertainty from US tariffs and trade policy have contributed to a weakening of industrial production and merchandise trade growth. However, service sector activity has continued to grow relatively steadily.

Despite the rise in oil prices up to late last year, and some signs of high capacity usage and labour market tightness in the advanced economies as output growth continued, inflationary pressures have remained subdued. At a time when these pressures are easing, monetary loosening is either expected (as in the US) or has already been undertaken (as in Australia).

After the price falls last December, equity markets have rebounded, with the US equity price rises underpinned by expectations of Federal Reserve policy rate reductions to come. However, the experience late last year shows that the global markets remain vulnerable to shocks in confidence or sentiment this year.

Our central expectation is that global output growth will continue, but at a slightly slower pace than the 3.6 per cent recorded last year, at around 3¼ per cent, which is ½ percentage point slower than we forecast a year ago. Global growth this year could be, by a slim margin, the slowest in a decade during which the annual rate of global GDP expansion has been steady.

There are risks to the outlook, most notably from uncertainties over trade policies and the progress of the US – China trade negotiations. It appears to be both the tariffs themselves and the unpredictability of how the trade negotiations will develop that are affecting confidence and global trade activity.

Summary of the forecast — Percentage change, year–on–year

| | World economy | | | Real GDP growth in major economies | | | | |
|---|---|---|---|---|---|---|---|---|
| | Real GDP[(a)] | Consumer prices[(b)] | World trade[(c)] | US | China | Japan | Euro Area | BRICS+[(d)] |
| 2018 | 3.6 | 2.5 | 3.9 | 2.9 | 6.6 | 0.8 | 1.9 | 5.4 |
| 2019 | 3.3 | 2.3 | 3.7 | 2.6 | 6.2 | 0.9 | 1.2 | 4.9 |
| 2020 | 3.4 | 2.6 | 4.3 | 2.0 | 6.0 | 0.3 | 1.4 | 5.1 |

(a) Based on global PPP shares. (b) OECD countries, private consumption deflator. (c) Volume of total world trade. (d) Includes Brazil, Russia, India, China, Indonesia, Mexico, South Africa, Turkey

https://doi.org/10.1177/002795011924900102 Published online by Cambridge University Press