THE WORLD ECONOMY
Forecast summary

Increases in tariffs and uncertainty about both future tariff impositions and their potential implications for production activity have continued to have negative effects on global trade and industrial production.

Several central banks, facing below target inflation, have loosened monetary policy to mitigate the effects of slower economic growth and a deterioration in the prospects for trade. While we expect that further monetary loosening will occur, fiscal policy could be more effective in boosting demand.

Trends in global industrial production and trade show activity stalling since late last year. Although there are also some weaker signs in the service sector, so far activity there has remained relatively robust.

In the light of recent data, we have lowered our forecast for global GDP growth this year from 3¼ per cent to 3 per cent, the slowest annual growth for a decade. We expect a similar pace in 2020, with a slight pick-up in 2021 to 3¼ per cent.

The imposition of tariffs by the US on goods from China and other protectionist measures have been a disruptive force in the global trading environment. The additional uncertainty arising from the trade war has combined with difficulties in the car market to contribute to a weakening of global industrial production and merchandise trade growth. While service sector activity has continued to grow relatively steadily, recent surveys have shown some signs of weakening growth here too.

Our central expectation is for continued global output growth, but we have reduced our forecast for the pace of that growth to 3 per cent in both this year and next, the slowest annual rate of global GDP growth since 2009. Global GDP growth this year is now expected to be around ¾ percentage point slower than we anticipated a year ago.

Although global GDP growth has peaked and, particularly in the advanced economies, labour markets have tightened with generally faster wage increases, inflation has remained subdued. The continued low inflation background has facilitated several central banks loosening monetary policy in response to the slowdown in global GDP and trade growth. We expect further monetary policy loosening will occur. Equity markets have grown strongly. However, the experience in equity markets late last year shows that they may remain vulnerable to shocks in confidence or sentiment.

The general low inflation and demand environment could lead to fiscal policy being used to boost demand. In Box B we examine the scope for increased fiscal spending to raise inflation in the Euro Area in the short term, to add to the recent resumption of central bank asset purchases, which is discussed in Box A.

The principal risks to the outlook come, we believe, from the continued concerns over trade policies and the progress of the US-China trade negotiations. The imposition of the tariffs themselves, the unpredictability of how negotiations will develop and the change away from trade liberalisation are affecting confidence and global trade activity. While we expect monetary and fiscal policies will be used to try to smooth the path of the world economy as it responds to a more restrictive global trade regime, they do not seem perfectly suited to offsetting a permanent contraction in international trade, which would be likely to restrict long-run economic growth prospects.

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	3.1	2.2	2.8	2.2	6.2	0.9	1.1	4.6
2020	3.1	2.3	3.4	1.9	5.8	0.2	1.3	4.8

(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

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