THE WORLD ECONOMY
Forecast summary

Recent data indicates that the global output growth cycle has peaked. We expect global GDP growth to continue, but at a slightly slower pace than in the past two years.

Tariff increases and trade disputes have contributed to slowing growth and have added uncertainty to the global economic outlook.

While slightly faster wage growth in advanced economies and tighter labour markets raise the potential for higher inflation, the fall in oil prices in late 2018 should, with slowing output growth, prevent a widespread pick-up in inflation.

Continued low inflation opens the possibility for central banks to increase monetary accommodation to support economic activity should it be required.

Despite slower output growth this year, this decade will have seen sustained global GDP growth averaging 3.8 per cent a year.

Tailwinds from accommodative financial conditions and the US fiscal stimulus boosted global economic growth during the past two years. As these have subsided, global growth has retreated somewhat from its cyclical peak.

Some headwinds to global GDP growth have started to arise, particularly from tariffs being imposed and from increased uncertainty over future tariffs and trade growth. In addition, the withdrawal of US monetary policy accommodation by the US Federal Reserve in 2017 and 2018, economic problems in Argentina, Venezuela and Turkey, the rise in oil prices through much of 2018, difficulties in the European car market, and a slowdown in China have all contributed to a weakening of global merchandise trade.

Signs of high capacity usage and labour market tightness have increased in the advanced economies as output growth has continued. The reduction in oil prices late last year and the weakening in global demand growth are likely to restrain inflationary pressure. As a result, we expect any further monetary tightening to be limited and easing, which has already occurred in China and in policy guidance from the ECB, may become more widespread.

Following the falls last December, equity markets have risen again and market volatility has subsided. The experience late last year illustrates that the global economy remains vulnerable to shocks in confidence or sentiment. Our central expectation is that output growth will weaken, but not dramatically.

While there are risks in the global economy, we expect global GDP growth in the near-term to be around 3½ per cent both this year and next, weaker than in the previous two years but still maintaining the expansion of the global economy.

While the average annual rate of GDP growth in the second decade of the 21st century has been slower than in the years before the Great Recession, partly reflecting the slowdown in economic growth in China as that country has undergone a transition, the decade looks set to have been a less volatile one for global output growth than the first decade of this century.

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	3.7	2.5	4.5	2.9	6.6	0.8	1.8	5.4
2019	3.4	2.6	3.7	2.4	6.2	0.9	1.3	5.0
2020	3.6	3.0	4.6	2.1	6.1	0.3	1.7	5.3

(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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