

THE WORLD ECONOMY

Forecast summary

Recent data suggests that the global growth cycle has probably peaked. We forecast world GDP growth of around 3.5 per cent a year over the next two years.

On that basis, the second decade of the 21st century will have seen sustained global GDP growth.

Tariff increases and trade disputes seem likely to act as a drag on the global economic outlook, with a bias towards slower growth as a consequence.

Despite faster wage growth in advanced economies, the recent fall in oil prices has reduced the risks of inflation overshooting targets. We expect central banks to reduce monetary accommodation very gradually.

In the past two years global economic growth has been boosted by tailwinds from accommodative financial conditions and the US fiscal stimulus. Global growth has hit a cyclical peak, and the pace is now slowing. Increased uncertainty over trade and tariffs, higher US interest rates and slowing growth in China are moderating global growth prospects.

The average annual pace of GDP growth in the second decade of the 21st century (estimated at 3.8 per cent) has been slower than in the ten years before the Great Recession (4.2 per cent), partly reflecting the slowdown in economic growth in China, which was running at a 10 per cent annual pace in the early years of the last decade.

As GDP growth in the advanced economies has continued, signs of high capacity usage and labour market tightness have increased. A slowing in growth and the reduction in oil prices late last year are likely to restrain inflationary pressure, so monetary authorities are likely to unwind policy accommodation gradually, mindful of the economic uncertainties.

Higher US policy interest rates and the stronger US dollar could start to place pressures on economies which have built up US dollar debt. With equity markets having seen falls last year in February and December, and with volatility rising in these episodes, the global economy remains vulnerable to shocks in confidence or sentiment. In the US the extended length of the economic expansion is starting to be perceived as a possible future risk factor.

A key feature of the international economy over the past year has been the increase in protectionist rhetoric, leading to tariffs set by the US, with retaliatory measures from some other countries. These actions create the potential for slower world trade and global economic growth. While we estimate the scale of such effects on growth not to be substantial yet, there remains considerable uncertainty around how this situation will develop.

With economic and geo-political risks, we expect global GDP growth in the near-term to be around 3.5 per cent, maintaining the long expansion of the global economy. Factoring in demographic trends and a further reduction in the pace of growth in China, we expect a similar pace of global growth in the medium term.

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	India ^(d)
2018	3.8	2.6	4.5	2.9	6.6	0.8	1.9	8.0
2019	3.6	2.9	4.1	2.5	6.2	1.1	1.7	7.4
2020	3.5	3.0	3.7	2.2	6.1	0.2	1.5	7.4

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