

THE WORLD ECONOMY

Forecast summary

Last year the global economy expanded at its fastest pace since 2011. We continue to expect to see slightly faster global growth this year with momentum being carried forward. We expect growth to continue to be broadly based.

With some advanced economies appearing to be operating at close to full capacity, a slowdown in the pace of expansion in the medium term is likely unless productivity growth picks up substantially. We retain our view that the medium term outlook is for growth of around 3.5 per cent a year.

No economic outlook is without uncertainties. Issues such as increases in tariffs, the effect of the gradual removal of monetary accommodation and the prolonged persistence of low inflation, create potential for surprises to the forecast.

World economic growth strengthened last year to its fastest pace since 2011 and, with momentum carrying through, we continue to expect to see slightly stronger growth, perhaps reaching 4 per cent, this year. This may, however, prove to be a mini-peak in growth as we also continue to expect a slight edging down next year and into the medium term.

Two main forces continue to drive this view. First, as growth continues in the advanced economies, if evidence of reduced slack in labour markets mounts, we expect monetary authorities gradually to unwind policy accommodation both as part of a safeguard against potential inflationary pressures and as part of a normalisation programme. In line with central banks' news and market views, we do not expect sharp monetary tightening and do not see strong inflationary threats on the horizon. Second, we continue to expect growth in China to edge down slowly, reflecting the structural changes in that economy, and demographic trends generally to give a slight downward bias to global growth projections relative to the past decade.

While the headline growth and inflation forecasts portray a continued settled economic period, these forecasts are

not without risks and uncertainties. The general picture remains one of 'lowflation' continuing but there are risks from tighter labour markets, possible pressures on commodity prices and any upward shocks to inflation expectations. The faster pace of global growth and associated reductions in unemployment may create an upside risk to the forecast from both momentum and confidence building. But downside risks remain present too, with concerns having been expressed by some about the strong market in equities, which took a bit of a shock in the first quarter of this year, and the increase in private sector indebtedness, especially at a time when policy interest rates are expected to be rising gradually. Changes towards protectionism are also an emerging concern, perhaps especially at a time when geo-political tensions remain.

It is also important to note the widespread picture of economic growth that has emerged. Of the 46 countries that we monitor here, none recorded a fall in GDP in 2017 compared with four the year before. Our forecast is for that unanimous picture to be maintained both this year and next. Global growth may be running light of the pace it had before the Great Recession took hold but its pace is robust and experience is widespread.

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	Canada
2017	3.7	2.1	4.8	2.3	6.9	1.7	2.5	3.0
2018	3.9	2.5	5.3	2.7	6.6	1.2	2.3	2.6
2019	3.8	2.3	5.1	2.6	6.3	0.9	1.9	2.3

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