

Predictions for 2015: The US back in the game!



Some of our 2014 predictions proved correct....

In the January 2014 issue of Global Economy Watch we set out our predictions for 2014. Broadly speaking, we did quite well. We predicted correctly, for example, that:

- advanced economies would contribute about 40% to global GDP growth;
- the Federal Reserve would taper their asset purchases to zero during the year; and
- the UK would be the fastest growing G7 economy.

...but oil prices and football tripped us up

We didn't get everything right. Last year we had thought that there was a risk of upward pressure on oil prices whereas the price has fallen sharply in recent months due to slowing demand and US shale oil production. Linked to this, we had expected UK inflation to be slightly above its 2% target on average in 2014, but it has fallen well below that due in large part to weaker global energy and food prices. Our suggestion that Brazil was favourite to win the World Cup also came up short, though our second and third favourites, Germany and Argentina, did contest the final.

What will 2015 bring?

In this Global Economy Watch we outline our top 5 predictions for 2015 as well as 3 key factors for businesses to

look out for:

1. US economic growth expected to be the fastest since 2005: US unemployment has fallen during 2014 to below 6%, and we expect this, combined with lower oil prices, to contribute to rising household consumption. In our main scenario we are projecting US economic growth of 3.2% in 2015, the fastest growth rate since 2005. In line with this, we expect the US to contribute around 23% of global GDP growth in 2015 (see Figure 1), its largest contribution in a single year since before the financial crisis.

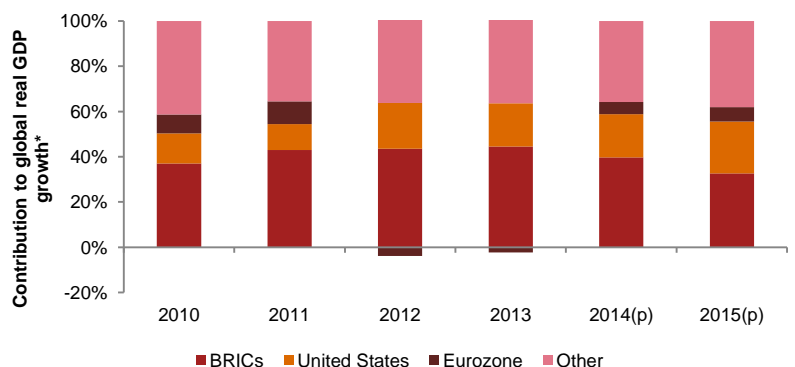
2. Economic growth in China projected to be the slowest since 1990: We still expect China to make the biggest contribution to global growth in 2015. However, its projected growth rate of 7.2% would be its slowest since 1990 and its high debt levels pose some downside risks to that main scenario.

But 2 of the other BRIC economies are experiencing more severe problems:

- in Russia, we expect GDP to shrink in 2015 on the back of low oil prices and economic sanctions; and
- growth is expected to be sluggish in Brazil where our main scenario projection is for the economy to grow by only around 1%.

Taken together, we expect the BRICs' contribution to global growth to fall for the second year in a row to around 33% in 2015 (see Figure 1).

Fig 1: The US is projected to make its largest percentage contribution to global GDP growth since before the financial crisis



Sources: PwC analysis, IMF

*measured in constant 2013 US\$, global refers to the sum of 185 economies

Visit our blog for periodic updates at:

pwc.blogs.com/economics_in_business

Predictions for 2015

3. Low inflation leads to Quantitative Easing in the Eurozone:

We expect both inflation and growth to remain very low in the Eurozone in 2015. We therefore expect the ECB to undertake a quantitative easing programme involving the purchase of government bonds, in an attempt to boost demand and head off deflation.

4. India expected to resume growing at above 6%:

After growing at below 6% since 2012, we think 2015 could be the year that India turns the corner, posting growth of around 7%. In the short-term, low oil prices are likely to increase GDP growth, ease the pressures of India's high current account deficit and help bring down inflation.

Looking towards the longer-term, we think that the February 2015 budget could see India take a step towards implementing new structural reforms which will boost the economy.

5. Economic growth in Sub-Saharan Africa (SSA) to outpace global growth for 15th year in a row (see Figure 2):

We also expect the combined GDP of SSA's 4 largest economies (in purchasing power parity terms) – Nigeria, South Africa, Angola and Ethiopia – to overtake the economic output of Italy in 2015 when measured in constant 2013 international dollars. For businesses, this is a further sign of the potential of SSA as a region in which to invest.

Three factors for businesses to look out for...

We have identified three possible situations that businesses should plan for:

1. Falling oil prices: Oil prices have been falling in recent months due to slowing global demand, the US shale oil boom and steady production from

OPEC. Our predictions and projections (see page 3) assume that oil prices will average between \$60-70 over the course of 2015 and finish the year at around \$80. However, due to the highly unpredictable nature of oil prices, businesses should plan for different scenarios.

We have used the National Institute Global Econometric Model (NiGEM) to estimate the possible impact of falling oil prices (see Figure 3). We have looked at the impact in 2016 as a sharp oil price fall could have some unpredictable short-term impacts in 2015. The net impact on global GDP is projected to be positive, but results vary considerably by country, with Russia the major loser.

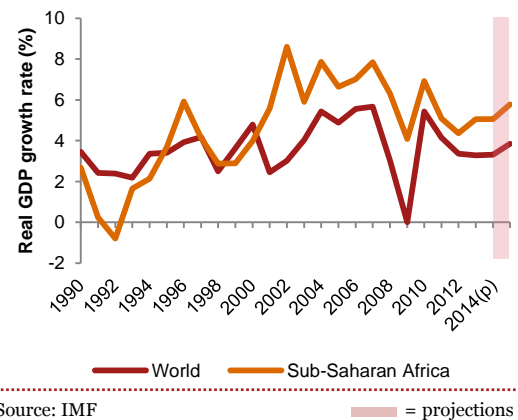
2. A hard landing in China: The Chinese economy clearly has vulnerabilities given its high total debt level (around 250% of GDP) and estimates by Chinese academic researchers that around \$6.8 trillion of the investments made since 2009 may have been wasted on creating ghost towns, unused office blocks and mothballed factories.

So far the Chinese government appears to have this under control, but the downside risks of a hard landing should not be ignored given the history of property investment bubbles bursting as in Japan in the early 1990s or the US in 2007-8. Any such adverse shock in China at some point over the next few years would also have severe adverse effects on the wider global economy.

3. Escalation of geopolitical risks:

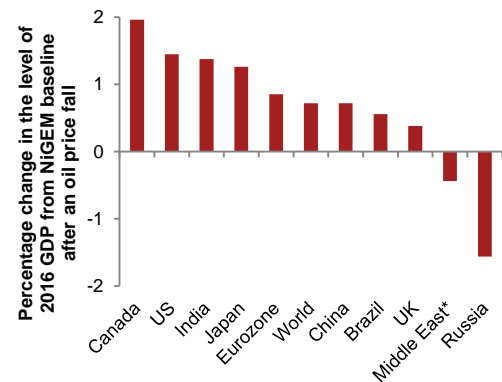
An escalation of the geopolitical tensions in Russia and Ukraine and in the Middle East could have a negative influence on business confidence, leading businesses to hold back on investment, which would likely exert downward pressure on global growth.

Fig 2: In 2015, growth in SSA is projected to be around 2 percentage points higher than the global rate



Source: IMF

Fig 3: A fall in the oil price could boost the level of global GDP in 2016



Source: PwC analysis using NiGEM

*Middle East refers to the region in the NiGEM model

Fig 3: Oil price simulation using NiGEM

We shocked the oil price from NiGEM's baseline of around \$95 in 2015 Q1 by \$40 then assumed the price moved up to \$80 by 2015 Q4 and began growing at the baseline growth rate from 2016 Q1 onwards.

Predictions for the UK economy in 2015 from John Hawksworth, Chief UK Economist



- UK economic growth was around 3% in 2014, the fastest in the G7, but is projected to slow to around 2.5% in 2015. This would be behind the US and Canada, but still the strongest of the large European economies.
- The projected UK slowdown reflects the drag on exports from the ongoing malaise in the Eurozone and an expected intensification of the fiscal squeeze after the general election on 7 May 2015. Uncertainty over the outcome of this election could also dampen business investment in the short-term.
- Despite this slowdown, the UK appears to be on course to be a £2 trillion economy by 2017, the fifth largest in the world.
- London and the South East will continue to lead the way with real output growth of around 3% in 2015, with Northern Ireland bringing up the rear with growth of just under 2%.
- Inflation should remain well below its 2% target rate in 2015, which should help to produce a return to positive average real wage growth for the first year since the recession.
- Unemployment should continue to fall steadily through the year, potentially returning to pre-recessionary rates of around 5% of the labour force by the end of 2015.
- House price inflation will moderate over the course of 2015, but could still average around 7% over the year. The average UK house could cost around £290,000 by the end of 2015, or around £560,000 in London.
- UK official interest rates could rise slightly to around 1% by the end of 2015.

Projections: January 2015

	Share of 2013 world GDP		Real GDP growth				Inflation			
	PPP*	MER*	2014p	2015p	2016p	2017-2021p	2014p	2015p	2016p	2017-2021p
Global (Market Exchange Rates)		100%	2.7	3.0	3.4	3.2	2.6	2.7	2.4	2.5
Global (PPP rates)	100%		3.3	3.5	3.9	3.9				
United States	16.4%	22.4%	2.3	3.2	3.1	2.6	1.7	1.5	1.7	1.9
China	15.8%	12.7%	7.4	7.2	7.2	6.9	2.1	2.3	1.8	3.0
Japan	4.6%	6.6%	0.3	1.2	1.6	1.0	2.7	1.4	2.3	1.9
United Kingdom	2.3%	3.4%	3.0	2.5	2.3	2.3	1.5	1.2	1.7	2.0
Eurozone	12.3%	17.1%	0.8	1.1	1.7	1.6	0.5	0.8	1.3	1.4
France	2.5%	3.8%	0.5	0.8	1.4	1.7	0.6	0.6	1.0	1.2
Germany	3.4%	4.9%	1.4	1.1	1.9	1.4	0.8	1.2	1.7	1.7
Greece	0.3%	0.3%	0.6	1.9	3.0	3.5	-1.3	-0.1	1.0	1.4
Ireland	0.2%	0.3%	4.3	3.3	3.2	2.5	0.4	0.8	1.1	1.5
Italy	2.0%	2.8%	-0.4	0.3	1.1	1.1	0.2	0.5	1.1	1.4
Netherlands	0.8%	1.1%	0.8	1.4	1.6	1.8	1.0	1.2	1.1	1.3
Portugal	0.3%	0.3%	0.9	2.1	2.1	1.8	-0.1	0.6	0.9	1.5
Spain	1.5%	1.8%	1.3	2.0	2.1	2.1	-0.1	0.5	1.0	1.2
Poland	0.9%	0.7%	3.3	3.7	3.5	3.5	0.2	1.0	2.0	2.5
Russia	3.4%	2.8%	0.2	-5.0	-0.5	2.0	8.0	15.0	8.0	4.3
Turkey	1.4%	1.1%	2.8	3.4	3.8	4.0	8.9	7.1	6.5	6.2
Australia	1.0%	2.0%	2.8	2.6	3.0	3.1	2.6	2.5	2.6	2.5
India	6.6%	2.5%	5.4	7.0	6.7	6.5	4.4	4.2	4.3	6.0
Indonesia	2.3%	1.2%	5.2	5.8	5.8	6.3	6.2	6.5	6.7	5.1
South Korea	1.7%	1.7%	3.4	3.7	4.0	3.8	1.4	2.0	2.2	2.9
Argentina	0.9%	0.8%	-0.4	0.1	3.1	3.1	25.0	25.0	-	-
Brazil	3.0%	3.0%	0.3	1.0	2.9	3.0	6.3	5.5	4.5	4.8
Canada	1.5%	2.4%	2.4	2.9	2.6	2.0	2.0	1.8	1.8	2.1
Mexico	2.0%	1.7%	2.3	3.7	4.0	3.6	4.0	3.7	3.4	3.1
South Africa	0.7%	0.5%	1.4	2.3	2.8	3.5	6.1	5.5	5.4	5.3
Nigeria	1.0%	0.7%	6.0	4.4	6.0	7.0	8.4	9.8	8.3	7.3
Saudi Arabia	1.5%	1.0%	4.2	3.8	4.5	5.2	2.7	3.0	3.2	3.4

Sources: PwC analysis, National statistical authorities, Thomson Datastream and IMF. All inflation indicators relate to the Consumer Price Index (CPI), with the exception of the Indian indicator which refers to the Wholesale Price Index (WPI). Argentina's inflation projections use the IPCNu Index released by INDEC. We will provide a 2016 and 2017-2021 inflation projection once a longer time series of data is available. Also note that the tables above form our main scenario projections and are therefore subject to considerable uncertainties. We recommend that our clients look at a range of alternative scenarios.

Interest rate outlook of major economies

	Current rate (Last change)	Expectation	Next meeting
Federal Reserve	0-0.25% (December 2008)	Rate to start to rise during the middle of 2015	27-28 January
European Central Bank	0.05% (September 2014)	Rates on hold following decrease in September	22 January
Bank of England	0.5% (March 2009)	Rate to start rising gradually later in 2015	8 January



Richard Boxshall

T: +44 (0) 20 7213 2079
E: richard.boxshall@uk.pwc.com



Barret Kupelian

T: + 44 (0) 20 7213 1579
E: barret.g.kupelian@uk.pwc.com



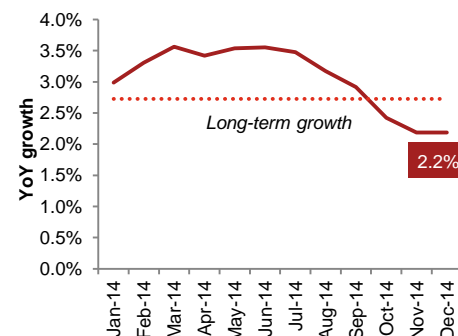
Conor Lambe

T: +44 (0) 20 7212 8783
E: conor.r.lambe@uk.pwc.com

PwC's Global Consumer Index

This month's global consumer spending growth has stabilised after falling for 6 consecutive months.

Equity markets performance has improved slightly, with stronger performance in industrial production. However, news of weakening global growth has weighed on consumer and business confidence, which could dampen consumer spending in the short-term.



The GCI is a monthly updated index providing an early steer on consumer spending and growth prospects in the world's 20 largest economies. For more information, please visit www.pwc.co.uk/globalconsumerindex

We help you understand how big economic, demographic, social, and environmental changes affect your organisation by setting out scenarios that identify growth opportunities and risks on a global, regional, national and local level. We help make strategic and tactical operational, pricing and investment decisions to support business value creation. We work together with you to achieve sustainable growth.

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers LLP, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2015 PricewaterhouseCoopers LLP. All rights reserved. In this document, "PwC" refers to the UK member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.