
News release

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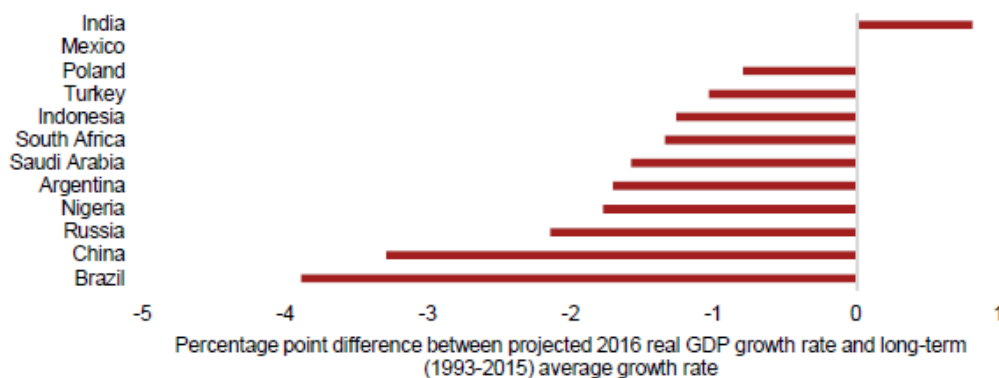
PwC economists reveal predictions for 2016

- *G7 to grow at fastest rate since 2010, led by US and UK*
- *Geopolitics (rather than economics) will top policymakers' agendas*
- *Commodity prices will remain lower for longer*
- *End of the Eurozone crisis*
- *African population to rise in 2016 by the equivalent of Australia*

As we enter the New Year, PwC's economists have once again peered into the crystal ball to make their predictions for 2016.

- 1. Smoother sailing for the G7:** The G7 is expected to grow faster than 2% in GDP-weighted terms, which would be the fastest pace since 2010. In contrast, the E7 emerging economies will grow slower than their trend rate (but still faster than the G7). Within the E7, the Brazilian and Russian economies will contract and China will slow, but India will be the star performer (See Figure 1).

Fig 1: Of the emerging economies we monitor, only India is expected to grow faster in 2016 than its long-term average growth rate



Sources: PwC analysis, IMF

- 2. Geopolitics, rather than economics, will be at the top of policymakers' agendas:** Three geopolitical issues will continue to dominate the news headlines. First, the migrant crisis in Europe, which may slow down in the winter, but could flare up again in the spring. Second, the response of the international community to the crisis in the Middle East. Third, the referendum on the fate of the UK's membership of the European Union.

3. **Commodity prices will remain lower for longer:** This this will be good news for most businesses, households and policymakers in commodity importing economies, but a challenge for countries that rely heavily on commodity exports.

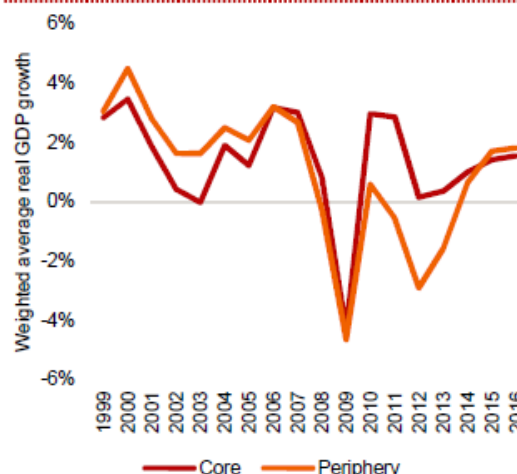
PwC economists also provide more detailed predictions for the year ahead, as summarised by UK Chief Economist, John Hawksworth:

“We expect the US recovery to switch into a higher gear in 2016, while the UK will also enjoy continued consumer-led growth. We should also see at least the beginning of the end of the Eurozone crisis. The once-mighty BRICs, however, will have another tough year in 2016, with the notable exception of India.”

In more detail:

- **The US will top the G7 GDP growth league table:** The US economy will grow by almost 3% and so contribute to around two-thirds of overall G7 growth in 2016. It is also expected that the US will continue to create an average of around 200,000 jobs per month, helping to sustain consumer spending growth. However, the US won't have an easy run to the title of the fastest growing G7 economy; the UK will be its main rival as it is expected to grow within the range of 2–2.5%.
- **US and UK interest rates to rise in 2016:** In December last year, the Fed led the way with its first rate increase since 2006. PwC economists expect it to continue to raise rates, albeit only gradually, in 2016. Barring any major adverse global shocks, it is expected that the Bank of England will follow suit at some point later in 2016. In contrast with the US and the UK, the European Central Bank, the Bank of Japan and the People's Bank of China are expected to maintain an accommodative monetary policy stance in 2016.
- **The end of the Eurozone crisis:** The peripheral economies will grow faster than the core economies for the second year in a row (See Figure 2). The Greek crisis could flare up again but this should not lead to contagion to the rest of the bloc, which is why PwC economists expect 2016 to mark at least the beginning of the end of the wider Eurozone financial crisis. With most imbalances in peripheral economies under control and structural reforms underway, it is likely that Eurozone GDP will expand by around 1.6% in 2016 – its fastest growth rate since 2011.
- **India will be the star performer amongst the E7:** For the second year in a row, we expect India to grow faster than China, expanding by around 7.7% in real terms. India will continue to reap the benefits of recent reforms. The cut in the policy rate by the Central Bank of India from 8% to 6.75% last year will help to support consumption and investment growth this year. Foreign direct investment in India's underdeveloped manufacturing sector should also pick up as foreign investment caps have mostly been lifted.

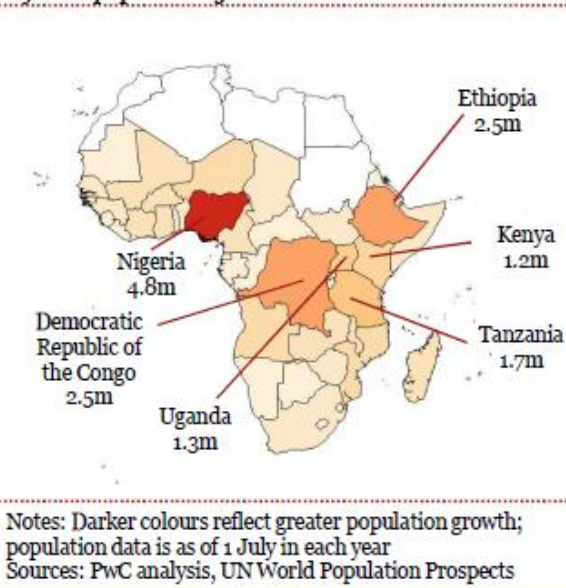
Fig 2: Growth in the Eurozone periphery is expected to outpace the core again in 2016



Note: Core – France, Germany, Netherlands. Periphery – Ireland, Italy, Greece, Portugal, Spain
Sources: PwC analysis, Eurostat

- **Chinese GDP growth will ease to 6.5%:** China's economic slowdown looks set to continue with rebalancing now underway. Growth in manufacturing and exports will continue to slow gradually. However, Chinese business leaders will continue to move into higher value added areas of manufacturing. To meet this goal, we think overseas investment by Chinese companies will pick up, particularly through the acquisition of businesses involved in new technologies and R&D activities. The internationalisation of the renminbi is expected to continue as more moves will be made to liberalise the capital amount, including freeing up restrictions on IPOs. Finally, even though a hard landing is not part of PwC's economists' main scenario, it is still a significant downside risk that businesses should be mindful of as it could have particularly strong ripple effects across some of the South East Asian economies.
- **Sub-Saharan Africa (SSA) will add 'an Australia' to the world's population:** SSA's population will grow by more than 25 million people in 2016, which is larger than the entire population of Australia. This will be in line with past trends as SSA has added more than 20 million people per year to its population in every year since 2006. At a country level, Figure 3 shows that just under 20% of SSA's population growth in 2016 will be driven by Nigeria alone.

Fig 3: Nigeria will be the main driver of Sub-Saharan Africa's population growth in 2016



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