



Global Economy Watch

Predictions for 2016: G7 on steadier footing than the E7



Understanding what lies ahead is important for business planning. At the start of this new year, we have set out the key themes we think will prevail in the global economy in 2016.

- 1. Smoother sailing for the G7:** In our main scenario, the G7 will 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).
- 2. Geopolitics (rather than economics) will be 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 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.

Our more detailed predictions for the year ahead have been compiled with input from senior

economists from around our global network.¹

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. The US will continue to create an average of around 200,000 jobs per month, helping to sustain consumer spending growth. But 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 we expect it to grow within the range of 2-2.5% (see our separate box on predictions for the UK economy on page 2).

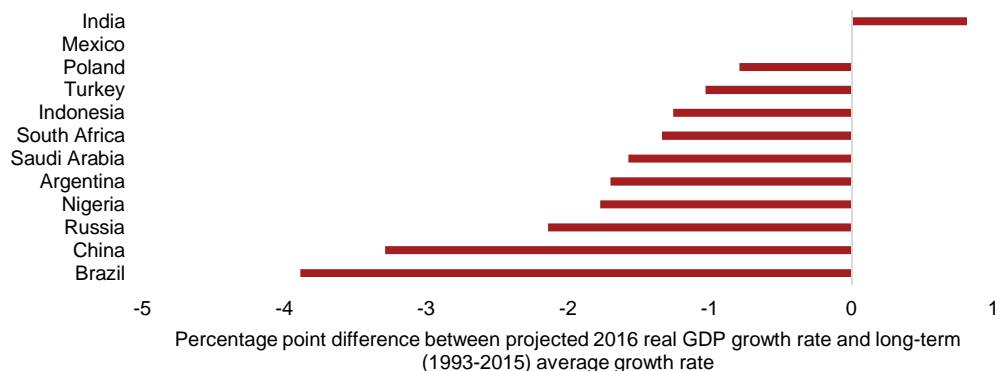
US and UK interest rates to rise in 2016: In December last year, the Fed led the way with its first rate increase since 2006. We expect it to continue to raise rates, albeit gradually, in 2016. Bar any major global accidents, we expect the Bank of England to follow suit at some point during 2016.

However, a gradual tightening of monetary policy in the US could have wide global repercussions. For example, businesses and households with exposure to dollar-denominated debt will come under pressure as dearer funding costs will impact their finances. Economies such as Chile, Turkey and Russia could be particularly impacted due to their relatively high levels of US dollar debt, which stand at 37%, 25% and 24% of GDP respectively.

In contrast with the US and the UK, we expect the European Central Bank, the Bank of Japan and the People's Bank of China to maintain an accommodative monetary policy stance in 2016.

¹John Hawkworth (UK), Andrew Sentance (UK), Andrew Nevin (Nigeria), Allan Zhang (China) and John Stell (US).

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

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Predictions for 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 we think this year should mark the end of the wider Eurozone financial crisis. With most imbalances in peripheral economies under control and structural reforms underway, such as Spanish legislation on promoting corporate financing, we think that Eurozone GDP will expand by around 1.6% in 2016, its fastest growth rate since 2011.

This pick-up in growth will be accompanied by businesses hiring more workers. As such, we expect the total number of unemployed people in the Eurozone to drop below 17 million during 2016, its lowest level 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.

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 account, including freeing up restrictions on IPOs.

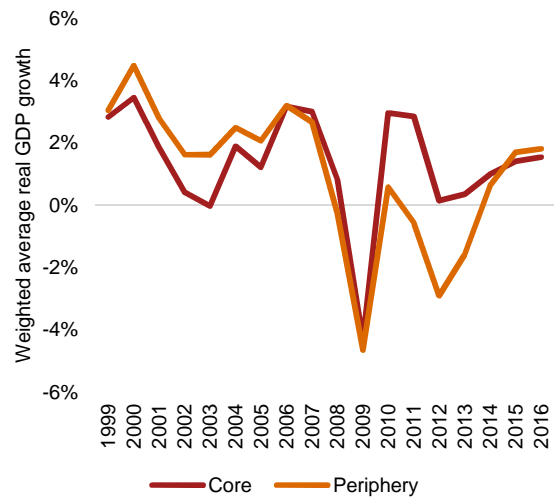
Finally, even though a hard landing is not part of our main scenario, it is still a significant downside risk that businesses should be mindful of as it could have particularly strong ripple effects across some of the South East Asian economies.

The GCC economies will start to reform their public finances: In the face of finite oil and gas reserves, 'lower for longer' energy prices mean that policymakers in some of the Gulf Cooperation Council (GCC) economies will face a challenging fiscal environment. In Oman and Saudi Arabia, for example, the IMF thinks that the government's budget deficit could be close to 20% of GDP in 2016.

In the medium-term this is unsustainable. Policymakers will therefore start to put plans in place now to raise revenue in the short-term. One way they will do this is by selling large infrastructure projects to the private sector. Ultimately though we think some GCC countries will start to set up institutions to introduce medium-term fiscal frameworks.

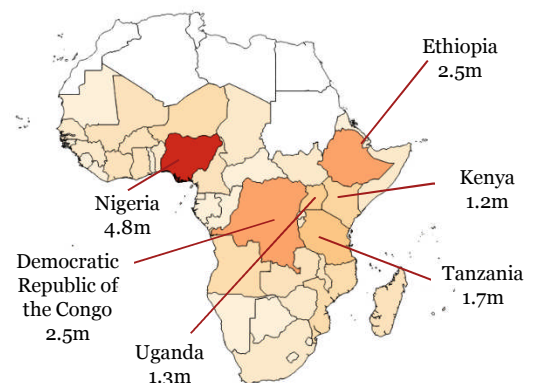
Sub-Saharan Africa (SSA) will add 'an Australia' to the world's population: SSA's population will grow by more than 25 million people in 2016, which is larger than the entire population of Australia. This will be in line with past trends as SSA has added more than 20 million people per year to its population 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 (see our separate box on predictions for the Nigerian economy below).

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

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



Notes: Darker colours reflect greater population growth; population data is as of 1 July in each year
Sources: PwC analysis, UN World Population Prospects

Predictions for the UK economy in 2016 from John Hawkworth, Chief Economist, PwC UK



- The UK economy should remain one of the strongest in the G7, with continued steady real GDP growth of around 2-2.5% in 2016. Consumer spending and private sector services will remain the main drivers of this growth, but the manufacturing sector could continue to lag behind. Fiscal policy will provide only a modest drag on growth in 2016 after the Chancellor softened his planned spending cuts in the Autumn Statement.
- We expect average UK house prices to rise by around 5-7% in 2016, comfortably outstripping consumer price inflation of around 1% and average earnings growth of around 3%. Generation rent will continue to find it hard to get on the housing ladder, particularly in hot spots like London, Oxford and Cambridge.
- Assuming no major adverse global shocks, we expect the Bank of England to begin to raise interest rates gradually at some point during 2016, reaching 1% by the end of the year.

Predictions for the Nigerian economy in 2016 from Dr. Andrew Nevin, Chief Economist, PwC Nigeria



- Growth will rebound after a disappointing 2015 to almost 5% in 2016 as tight fuel supplies and power outages abate and a more accommodative monetary and fiscal stance takes hold. A crackdown on corruption should also help to increase FDI inflows, supported by improved security and better governance.
- Nonetheless, growth headwinds will persist as low oil prices present fiscal and current account challenges. However, with support from a newly-appointed Finance Minister and improved tax collection, non-oil revenues could see significant increases, keeping Nigeria's Federal Government deficit to around 2.5% of GDP.
- Greater stability will enable Lagos to consolidate its position as a leading SSA economic centre and we project its economy to outperform in 2016 and grow impressively over the longer-term.
- Pressures from the FX market will tell in 2016 and we expect the Official Naira rate to be devalued to 225N/US\$, giving the CBN some room to ease FX market restrictions.

Projections: January 2016

	Share of 2014 world GDP		Real GDP growth				Inflation			
	PPP	MER	2015e	2016p	2017p	2018-2022p	2015e	2016p	2017p	2018-2022p
Global (Market Exchange Rates)		100%	2.7	3.0	3.0	2.9	1.9	2.4	2.3	2.6
Global (PPP rates)	100%		3.2	3.5	3.6	3.5				
G7	32.0%	46.0%	1.9	2.2	2.1	1.9	0.3	1.2	1.5	1.8
E7	35.6%	25.4%	4.2	4.5	4.8	4.8	0.5	2.3	2.8	3.2
United States	15.9%	22.5%	2.6	2.8	2.6	2.3	0.1	1.4	1.9	2.0
China	16.6%	13.4%	6.9	6.5	6.0	5.7	1.5	1.8	1.8	2.8
Japan	4.4%	6.0%	0.7	1.3	1.3	1.0	0.8	0.9	1.1	1.4
United Kingdom	2.4%	3.8%	2.2	2.2	2.3	2.3	0.0	1.2	1.9	2.0
Eurozone	12.2%	17.4%	1.5	1.6	1.7	1.6	0.1	1.1	0.9	1.4
France	2.4%	3.7%	1.2	1.3	1.6	1.6	0.1	1.2	0.0	1.2
Germany	3.4%	5.0%	1.5	1.7	1.6	1.4	0.2	1.3	1.5	1.7
Greece	0.3%	0.3%	-2.2	-1.4	2.7	2.5	-0.4	0.1	-1.4	1.4
Ireland	0.2%	0.3%	6.7	5.5	4.3	2.5	-0.0	1.0	1.5	1.7
Italy	2.0%	2.8%	0.7	1.3	1.2	1.2	0.2	0.7	1.0	1.4
Netherlands	0.7%	1.1%	2.0	1.8	2.2	1.8	0.3	1.2	1.5	1.3
Portugal	0.3%	0.3%	1.5	1.6	1.7	1.2	0.5	0.8	1.4	1.6
Spain	1.4%	1.8%	3.1	2.6	2.3	2.0	-0.6	0.8	1.0	1.2
Poland	0.9%	0.7%	3.5	3.4	3.4	3.6	-0.9	0.9	1.3	2.5
Russia	3.3%	2.4%	-3.8	-0.5	1.0	1.5	15.6	8.9	7.3	4.0
Turkey	1.4%	1.0%	3.2	3.0	3.2	3.5	7.6	7.2	6.7	6.5
Australia	1.0%	1.9%	1.7	2.7	2.9	2.9	1.7	2.5	0.0	2.5
India	6.8%	2.7%	7.3	7.7	7.7	6.5	5.0	5.2	4.3	5.0
Indonesia	2.5%	1.2%	5.2	3.6	4.6	5.4	6.8	6.1	0.0	5.1
South Korea	1.6%	1.8%	2.6	3.1	3.6	3.5	0.8	1.5	1.8	3.3
Argentina	0.9%	0.7%	2.0	1.7	2.3	2.5	17.0	25.0	25.0	20.0
Brazil	3.0%	3.0%	-2.9	-0.9	1.4	3.0	9.0	7.5	5.0	5.0
Canada	1.5%	2.3%	1.3	2.0	2.3	2.2	1.1	1.7	1.9	2.0
Mexico	2.0%	1.7%	2.4	2.6	3.0	3.3	2.7	3.1	3.0	3.0
South Africa	0.7%	0.5%	1.5	1.6	2.0	2.5	4.6	5.6	5.4	5.3
Nigeria	1.0%	0.7%	3.2	4.8	5.0	5.5	9.1	10.0	9.2	7.5
Saudi Arabia	1.5%	1.0%	2.8	2.3	2.9	3.3	2.2	2.5	3.0	3.2

Sources: PwC analysis, National statistical authorities, Datastream and IMF. All inflation indicators relate to the Consumer Price Index (CPI). Argentina's inflation projections use the IPCNu Index. 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	0.25-0.5% (December 2015)	Rate to rise gradually in 2016	26-27 January
European Central Bank	0.05% (September 2014)	Rate on hold until at least 2017	21 January
Bank of England	0.5% (March 2009)	Rate rise expected at some point during 2016	14 January



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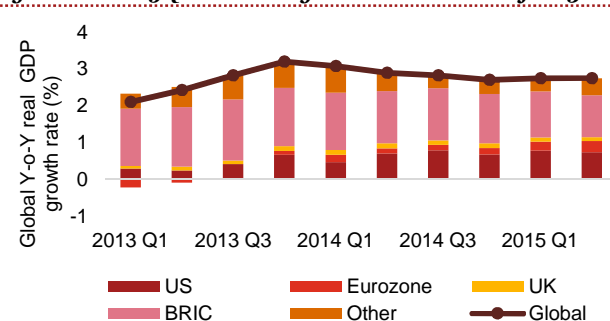
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Chart of the month

Global year-on-year (Y-o-Y) GDP growth in the second quarter of 2015 was slightly lower than 3%, which it last exceeded in the first quarter of 2014.

The contribution of the BRIC economies has fallen, but this has been somewhat offset by the Eurozone, which has swung from being a drag on growth at the start of 2013 to contributing around 11% of global growth in 2015 Q2.

Chart of the month: Eurozone contributes more to global growth in 2015 Q2 than at any time since the start of 2013



Note: Based on market exchange rate (MER) weights
Sources: PwC analysis, Datastream, National Statistical Agencies

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