News release

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Contact	Simon Reed, PwC Tel: +44 (0) 20 7804 2836 Mobile: +44 (0) 7703 130957 e-mail: simon.reed@uk.pwc.com More details: www.pwc.com/GEW Follow/retweet: @pwc_press

Advanced economy growth weak despite record low interest rates, says PwC

Growth in the advanced economies continues to be weak despite record low interest rates, say PwC economists. GDP growth for the G7 in the third quarter of this year averaged 1.4% year-on-year, compared to a long-term growth rate of slightly over 2% per annum.

This has prompted many policymakers to re-focus their attention on fiscal levers in a bid to stimulate growth. For example, large non-Eurozone economies have recently announced or extended fiscal plans:

- The **Canadian** government plans to invest C$120 billion (approx. US$90 billion) in infrastructure projects over the next 10 years
- In August, **Japan** announced a stimulus package to boost the economy worth Yen 4.6 trillion (around US$40bn) as part of a wider package which involves further funding from other quasi-government institutions
- In the **UK**, the Chancellor announced a £23 bn. National Productivity Investment Fund to be spent over the next five years on housing, transport, broadband and R&D; and
- In the **US**, President-elect Trump plans to invest in infrastructure and make changes to the tax system.

PwC's economists have identified three key reasons why fiscal stimulus may be particularly beneficial in the present economic environment:

1. **Current and future government debt can be financed at cheap rates:** since the financial crisis, most governments have taken steps to tackle the liability side of their balance sheet. Even though public debt levels remain relatively high by historic standards for some of the G7, the current weighted interest expense paid on government debt is at record lows. In the US, for example, the weighted average interest rate on its government debt is expected to be 1.8% this year, compared to 3.1% a decade ago.
2. **Using complementary policies can be fiscally more effective:** while monetary policy has been expansionary in many advanced economies since the crisis, fiscal policy has been largely contractionary. According to the IMF, government deficits in the G7 have reduced by around 6 percentage points of GDP since 2009. But, using the two policies together will increase the likelihood of influencing aggregate demand.
3. **Fiscal stimulus can directly deliver longer-term productivity benefits:** some policies associated with fiscal expansion can have a positive long-term impact on productivity. For example, efficient infrastructure investment can improve connectivity, while government support for R&D can result in technological advances that make workers more productive.

Says Barret Kupelian, Senior Economist, PwC:

> "Given the focus on infrastructure improvements across different economies, engineering and construction companies, in particular, could stand to benefit. Businesses in regions where these improvements are planned are also likely to gain, particularly over the longer-term. But if these plans can go some way towards raising productivity growth at a national level, then, over the longer-term, businesses across the economy stand to benefit."

In this month's Global Economy Watch, PwC economists also take a look at household spending as a key driver of economic performance. In many advanced economies, household spending is the largest component of GDP.

Last year, discretionary disposable incomes grew for the first time since the financial crisis, suggesting real household spending power has only just started to recover. Combined with the fact that adjusted savings ratios are either falling or remaining stable in many European countries, this suggests the Christmas period could be a prosperous one for businesses across Europe. Santa's elves may have a busy December.

And finally, the economists monitor the continued recovery in the Eurozone periphery countries of Cyprus, Spain, Greece and Portugal, highlighting that year-on-year growth in these countries outstrips that in the core for the 10^{th} quarter in a row. Core countries are Germany, France, Italy and the Netherlands.

For more details, please see this month's Global Economy Watch at www.pwc.com/GEW.

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