Global Economy Watch

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Predictions for 2019: Coming off the boil
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In our first edition of 2019, we look ahead to the trends we expect to come to the fore in the global economy in the year to come. We have identified three themes for 2019:

Global growth will slow

The global economy enjoyed a mini-boom between the end of 2016 and early 2018, when growth picked up in most major economies. This phase is now over, and in 2019 we expect the G7 economies to return to growth rates close to their long-run averages. In the US, the boost from fiscal stimulus is likely to fade, higher interest rates may dampen consumer spending and a strong dollar could continue to drag on net exports. We expect growth to moderate from an estimated 2.8% in 2018 to around 2.3% in 2019. In the Eurozone uncertainty relating to global trade tensions and Brexit will take a toll, while the European Central Bank is likely to offer less support to growth as its quantitative easing policy ends. Growth in China is also expected to slow relative to 2018. Although the government will try to ensure that the slowdown is minimal, the impact of US tariffs and the need to control debt levels are likely to result in at least a modest deceleration in growth in 2019. Emerging market currencies could come under periodic pressure from a strong US dollar, but this effect is likely to lessen later in the year, when we believe it will become more evident that the US economy is slowing.

Workers and wages will come to the fore

Labour markets in advanced economies are likely to continue to tighten, even if job creation slows. This may push up wages, but cause problems for businesses looking to fill talent shortages. In 2019 we expect unemployment rates to fall a little further in the US and Germany, where the rates of job creation have remained strong. But many other economies could show evidence of hitting structural floors. There is already evidence of this in Canada, where unemployment reached a 40-year low of 5.8% in late 2017 but has failed to fall any further, triggering an acceleration in wage growth. Other economies, such as the Netherlands, Denmark and Belgium are approaching their respective floors, with the pace of decline in joblessness slowing sharply. Assuming an orderly Brexit, by end-2019, the UK may also see unemployment flattening off at around current levels, though a disorderly 'no deal' could lead to a marked rise in unemployment.

Trade conflicts will deepen

We expect trade wars to continue in 2019. This is likely to generate further uncertainty for policymakers and businesses. The former will try to assess the impact of potential tariffs on growth and inflation, while the latter will attempt to mitigate the impact on their supply chains and customers. The main focus of tensions is likely to remain US-China trade, but there will always be the risk of this escalating into a wider trade conflict and businesses accordingly need to plan for different scenarios.

Fig 1: The US's biggest annual bilateral merchandise trade deficits, 2017
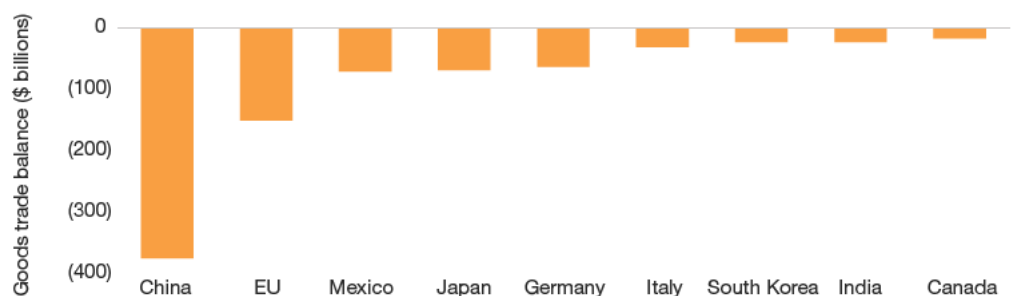

Source: US Census Bureau

Predictions for 2019

The US government deficit breaches $1 trillion again

The budget deficit is likely to continue to grow in absolute terms and could rise back above the $1 trillion mark in 2019 for the first time since 2012, because of tax cuts passed by Congress in late 2017 and higher government department spending limits. A deficit of $1 trillion would mean that the government would spend $3 billion more each day than it received in tax and other revenue in 2019. By comparison, the EU economy, which is of a similar aggregate size to the US, is likely to post a combined government deficit only about a fifth as large as that of the US with some economies (Germany, Netherlands, Greece) posting budget surpluses.

Fig 2: The widening US budget deficit
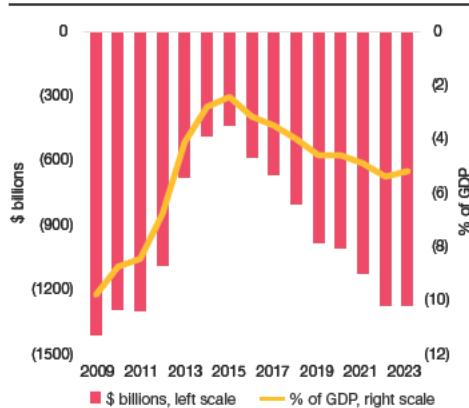
Source: Congressional Budget Office, 2018

2019 will be one of the ten hottest years ever recorded

Global greenhouse gas emissions are generating record-breaking high temperatures around the world and also appear to be contributing to more frequent extreme weather events. Analysis by the World Meteorological Organisation (WMO) suggested that the global temperature level in 2017 was 1.1°C above the 1850-1900 pre-industrial average. This is more than halfway towards the ceiling of limiting warming to below 2°C relative to the pre-industrial average set under the 2015 Paris Agreement on climate change. According to an insurance firm, Munich Re, total disaster losses from climate-associated events in 2017 reached $320 billion, an inflation-adjusted record high.

Based on data collected by the WMO in its annual statement on the behaviour of the global climate, we expect 2019 to join 2017, 2016, 2015, 2014, 2013, 2010 and 2009 in the top ten of the hottest years ever. (Data for 2018 has yet to be published.)

Fig 3: Average annual temperature based on variance with 20th century average
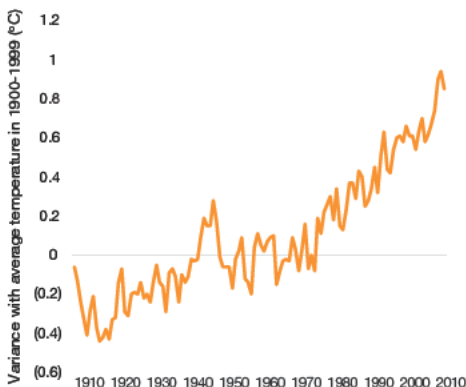
Source: National Oceanic and Atmospheric Administration, 2018

Around 40 countries will see their workforces shrink

Thirty years ago, it generally required war or major civil unrest for a country's working-age population to shrink. This occurred in only a handful of states, such as Liberia and parts of the disintegrating Yugoslavia. But in each decade since, the number of such economies has risen, to 16 in 1999 and an estimated 39 in 2018, due to ageing populations and below replacement fertility levels. According to World Bank data, seven of the G20 countries have declining workforces, in addition to other major economies such as Austria, Portugal and Spain. But the global nexus of the declining labour force remains Eastern Europe. It is possible to travel in a rough circle from Germany's North Sea coast, moving south and east to the Aegean Sea off Greece, then swing north via Moscow and finally west to end in Germany's Baltic Sea coast, passing through 23 countries, all of which have falling numbers of workers.

This circle is likely to widen further in 2019 to include the Netherlands, and possibly Belgium too. Having fewer workers is problematic for an economy. Productivity has to rise more quickly just to keep output

flat. Government funding must be sourced from fewer contributors. And if the shrinking labour force is caused by an ageing society, there are more pensioners who need to be supported in their old age. We expect forward-thinking governments to spend more time considering how to keep their older workers in the labour force for longer in the coming years.

Fig 4: The economies expected to have the fastest-shrinking workforces in 2019
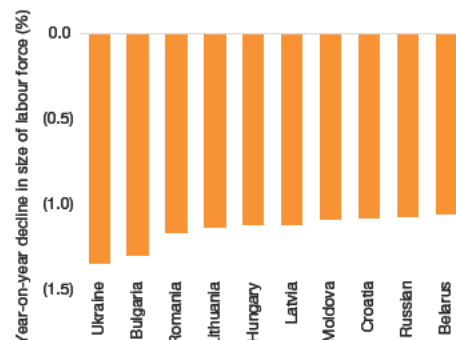
Source: World Bank, 2018

The UK will fall in the rankings of the world's largest economies

The UK was considered to be the world's fifth largest economy by the IMF in 2018 in US dollar terms at market exchange rates. Based on both the IMF's forecasts and our main scenario projections, it is likely to be surpassed by two others in 2019: India and possibly also France. One of these changes may be permanent. India is the fastest growing large economy in the world, with an enormous population, favourable demographics and high catch-up potential due to low initial GDP per head. India is therefore all but certain to continue to rise in the global GDP league table in the coming decades as projected in our latest World in 2050 report. The UK and France, however, have regularly switched places over the past decade or two, owing to their similar levels of development and roughly equal populations. France's improvement in 2019 will depend on the continued relative strength of the euro against the pound, but much depends on how Brexit turns out.

Further predictions for 2019

- At the Women's World Cup in France in June-July, the reigning champions, the US, defend their title. The hosts, England and Germany represent their biggest rivals.

- Online shopping in the UK surpasses 20% of total retail sales for the first time. Internet sales have been rising steadily as a proportion of the total for years, typically setting a new record in each November to coincide with Black Friday/Cyber Weekend sales.

- Elections are held in Africa's two largest economies: Nigeria (February) and South Africa (May). But ongoing governance problems mean that we project growth in both countries in 2019 to be below their long-term average, at 2.5% in Nigeria and 1.6% in South Africa.

- The US will record its longest-ever business cycle expansion in July 2019, when the period of growth that began in mid-2009 surpasses the length of the expansion that ran from 1991 until 2001. But this could come to an end in 2020 or 2021.

Projections: January 2019

	Share of 2017 world GDP		Real GDP growth			Inflation		
	PPP	MER	2019p	2020p	2021-2025p	2019p	2020p	2021-2025p
Global (Market Exchange Rate ('MER')		100.0%	3.0	2.8	2.8	2.6	2.7	2.6
Global (Purchasing Power Parity ('PPP') rates)	100.0%		3.6	3.5	3.4	3.1	3.1	3.0
G7	30.6%	46.0%	1.9	1.5	1.5	1.9	2.1	2.0
E7	37.6%	26.6%	5.3	5.3	5.1	3.8	3.7	3.7
United States	15.3%	24.3%	2.3	1.8	1.8	2.2	2.3	2.2
China	18.2%	15.0%	6.3	6.2	5.9	2.4	2.7	2.9
Japan	4.3%	6.1%	0.8	0.3	0.6	1.1	1.7	1.2
United Kingdom	2.3%	3.3%	1.6	1.7	1.8	2.2	2.0	2.0
Eurozone	10.2%	13.9%	1.8	1.6	1.5	1.6	1.8	2.0
France	2.2%	3.2%	1.7	1.5	1.8	1.5	1.7	1.9
Germany	3.3%	4.6%	1.7	1.6	1.4	1.7	2.0	2.3
Greece	0.2%	0.3%	2.1	2.2	1.5	1.2	1.5	1.8
Ireland	0.3%	0.4%	3.3	3.7	3.0	1.3	1.5	1.9
Italy	1.8%	2.4%	0.9	0.9	0.8	1.4	1.5	1.7
Netherlands	0.7%	1.0%	2.3	2.3	1.9	1.9	1.8	2.0
Spain	1.4%	1.6%	2.4	1.8	2.0	1.7	1.9	1.9
Poland	0.9%	0.7%	3.5	3.0	3.0	2.5	2.5	2.5
Russia	3.2%	1.9%	1.7	1.8	1.5	4.2	4.8	4.7
Turkey	1.7%	1.1%	0.2	2.6	2.4	19.0	14.2	13.0
Australia	1.0%	1.7%	3.0	2.7	2.8	2.5	2.5	2.5
India	7.4%	3.3%	7.6	7.7	7.7	4.8	5.0	5.0
Indonesia	2.6%	1.3%	5.2	5.3	5.2	5.0	4.6	4.1
South Korea	1.6%	1.9%	2.8	2.8	2.8	1.9	2.0	2.0
Brazil	2.6%	2.6%	2.5	2.2	2.2	4.2	4.0	4.0
Canada	1.4%	2.1%	1.9	1.8	1.7	1.9	2.0	2.0
Mexico	1.9%	1.4%	2.2	2.7	2.7	3.9	3.0	3.0
South Africa	0.6%	0.4%	1.6	1.7	1.8	5.3	5.4	5.5
Nigeria	0.9%	0.5%	2.5	2.5	2.5	10.8	13.0	14.0
Saudi Arabia	1.4%	0.9%	2.2	1.9	2.1	3.1	3.1	3.0

Sources: PwC analysis, National statistical authorities, Datastream and IMF. All inflation indicators relate to the Consumer Price Index (CPI). 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. UK projections assume a reasonably smooth Brexit process.
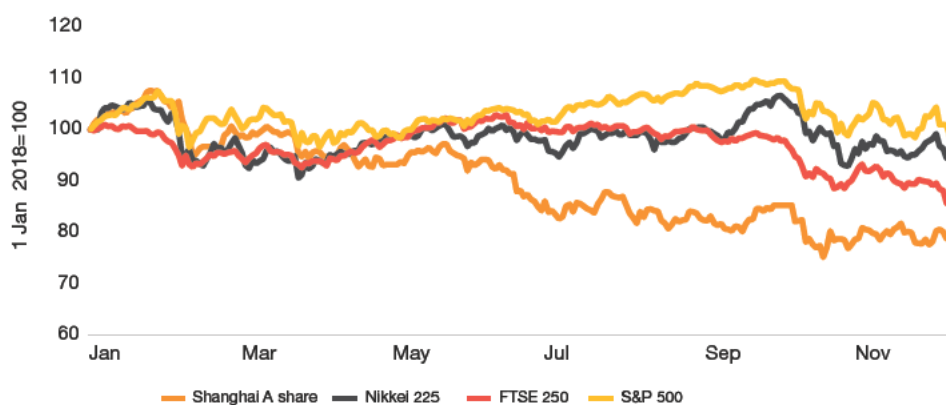
Interest rate outlook of major economies

	Current rate (Last change)	Expectation	Next meeting
Federal Reserve	2.25-2.5% (December 2018)	At least two rate rises during 2019	January 29-30
European Central Bank	0.00% (March 2016)	No rate rise for the foreseeable future	January 24
Bank of England	0.75% (August 2018)	No rate rise expected in H1 2019	February 7

Chart of the month

The chart on the right shows that 2018 has been a difficult year for the world's biggest stockmarkets, with the Nikkei, FTSE and Shanghai main indices all down for the year as a whole as of the time of writing in mid-December.

Stocks have suffered from investor concerns about the policymaking environment in 2018, notably the potential for the US-China trade dispute to escalate, and of the Federal Reserve raising US interest rates at a pace that imperils economic growth and stability in emerging markets.

Major stockmarkets have generally declined in 2018 as a result of policy concerns

Source: Refinitiv