INTRODUCTION

Euromonitor International Analytics offers precise answers to vital business questions in an increasingly fast-paced and uncertain world. Our Macro Model provides regularly updated forecasts and “what-if” scenarios for core macroeconomic variables, including real GDP growth, inflation, unemployment and interest rate. Its global scope ensures our macro forecasts and scenarios reflect the economically inter-connected world in which we live.

The Global Economic Forecasts report explains the quarterly updates of the Macro Model, with analysis focused on quarterly macro changes for the world’s key economies and what these mean to our view of the likely, optimistic and pessimistic scenarios for the global economy. Ultimately, we help businesses stay ahead of risks and opportunities as they emerge on a macroeconomic basis.

The global economy started 2017 strong with real GDP growth gaining momentum and rising to 3.6% in Q1 2017. We have maintained our global real GDP growth forecast at 3.5% for 2017-2018. Despite standing above the annual 3.2% growth in 2016, the forecast is still considerably below the pre-crisis growth levels.
For advanced and emerging economies, economic activity is forecast to accelerate, reaching 2.0% and 4.7% growth, respectively, in 2017. Emerging markets, however, will remain a principal driver of the global economic growth, accounting for as much as 74% of the world’s real GDP expansion, and this share is predicted to surge further up to 79% by 2020.

Our latest macroeconomic outlook shows the previous uncertainty surrounding the global growth forecast receding since May 2017. The political risks have diminished in Europe, with the region rebounding more strongly than expected and populist parties performing worse than expected in a number of Eurozone elections, which suggests that the populist surge might be beginning to fade.

However, some of the most urgent global risks presently are stemming from the unexpected US policies, rising geopolitical tensions, uncertain outcome of Brexit negotiations, or the possibility of a sharper than estimated China growth slowdown. These changes could complicate the macroeconomic situation in major economies with negative spill-overs to other countries and result in damage to their private confidence, investments and overall economic growth.

![Decomposition of Global Real GDP Growth](chart)

Source: Euromonitor International Macro Model
COUNTRY HIGHLIGHTS

EUROZONE

After years of disappointing growth, the Eurozone economy is booming. In line with the strong first half performance, we have lifted GDP growth forecasts to 1.8% in 2017 and 1.7% in 2018.

UK

The UK economic situation is growing gloomier. Our baseline real GDP growth projection for 2017 remains unchanged at 1.5%. In 2018, the growth is forecast to drop further to 1.2%.

JAPAN

The pick-up in Japan’s exports, consumption and investment has been more notable than expected. This has led us to upgrade our GDP growth forecasts to 1.4% in 2017 and 1.0% in 2018.

US

We have maintained the US GDP growth forecasts at 2.0% in 2017-2018, reflecting a mix of lower expected costs of protectionist policies, combined with scepticism about major fiscal stimulus.

GDP GROWTH

2.0% 1.8% 1.5% 1.4%
2017 AND 2017 2018 2017 2018

EUROZONE

1.8% 1.7%
2017 2018

UK

1.5% 1.2%
2017 2018

JAPAN

1.4% 1.0%
2017 2018

Source: Euromonitor International

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COUNTRY HIGHLIGHTS

**BRAZIL**

The recovery of Brazilian economy continues as expected. As a result, our baseline real GDP growth forecast remains largely unchanged at 0.5% for 2017 and 2.1% for 2018.

**RUSSIA**

Russian economy continues to recover, despite still weak consumer income and spending dynamics. We expect real GDP growth to accelerate to 1.3% in 2017 and to stabilise around 1.5% growth in 2018.

**INDIA**

Demonetisation has hurt Indian economic growth to an extent higher than expected. We have downgraded the real GDP growth forecast to 6.9% in 2017 and to 7.5% in 2018.

**CHINA**

China’s economy showed resilience in the first half of the year, but is expected to slow down in the second half, leading to 6.6% growth for 2017. GDP growth is expected to decline to 6.2% in 2018.

**GDP GROWTH**

- **Brazil**: 0.5% (2017), 2.1% (2018)
- **Russia**: 1.3% (2017), 1.5% (2018)
- **India**: 6.9% (2017), 7.5% (2018)
- **China**: 6.6% (2017), 6.2% (2018)
### GDP FORECASTS  REVISIONS OVER LAST QUARTER

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>2016 %</th>
<th>2017 (F) %</th>
<th>2018 (F) %</th>
<th>2019 (F) %</th>
<th>2020–2024 AVERAGE (F) %</th>
<th>2017 FORECAST CHANGE PERCENTAGE POINTS</th>
<th>2018 FORECAST CHANGE PERCENTAGE POINTS</th>
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## Inflation Forecasts: Revisions Over Last Quarter

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<tr>
<th>Country</th>
<th>2016 (%)</th>
<th>2017 (F) (%)</th>
<th>2018 (F) (%)</th>
<th>2019 (F) (%)</th>
<th>2020–2024 Average (F) (%)</th>
<th>2017 Forecast Change Percentage Points</th>
<th>2018 Forecast Change Percentage Points</th>
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<td>-0.3 ▼</td>
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</table>
INTEREST RATE FORECAST

Advanced Economies Interest Rate Forecast

- US
- Eurozone

BRIC Countries Interest Rate Forecast

- India
- China

UK
- Japan

Brazil
- Russia

Source: Euromonitor International Macro Model
MAJOR FORECAST REVISIONS

The better than expected performance of the Eurozone economy in 2017 is perhaps the main story in the short-term global outlook. Political risks have declined for now, following the underperformance of populist anti-EU parties in recent elections. Labour markets have improved, private sector sentiment has increased faster than expected, and interest rates remain very low. GDP growth is projected to stay around 1.7-1.8% in 2017-2018 (compared to 1.2% long-term trend growth).
MAJOR FORECAST REVISIONS

Mexico

We have lifted the GDP growth forecast for Mexico to 2% in 2017. The Mexican economy has held up better than expected after the election of the US president Donald Trump. Trump’s presidency so far has resulted in more moderate changes than anticipated. Private confidence has rebounded and the Mexican Peso has appreciated in the first half of 2017. Despite remaining concerns about tighter migration controls and higher trade barriers under the upcoming NAFTA renegotiation or even a trade war, Mexican consumer spending grew at a robust pace of around 3% year-on-year. The exports sector also expanded faster than expected, on the back of improving global demand and GDP manufacturing sector conditions.
MAJOR FORECAST REVISIONS

Canada

We have raised our GDP growth forecast to 2.7% in 2017. The economy performed significantly better than expected in the first half of the year, on the back of rising oil prices and a consumption boom. Faster consumption growth is sustained for now by house prices growth approaching 15% year-on-year and growing consumer debt levels. This raises the vulnerability of the economy to a reversal in real estate markets and a tightening of credit conditions.
MAJOR FORECAST REVISIONS

India

Industrial production and consumer durables spending growth were weaker than expected in the first half of 2017, countered in part by improving business conditions in the services sector. The demonetisation drive from the end of 2016 is continuing to drag down economic activity. The transition to a new goods and services tax system should also reduce short-term growth due to the costs of adjusting to the new tax regime. As a result, we have lowered the GDP growth forecast for 2017 for a second time this year to 6.9% in 2017. A rebound to 7.5% growth is expected in 2018.
Therefore, we have maintained US GDP growth forecasts at 2% annually in 2017-2019, reflecting a mix of lower expected costs of protectionist and anti-immigrant polices, combined with growing scepticism about any major fiscal stimulus.

### General outlook

The US economy slowed down in the first quarter of 2017, repeating the seasonal pattern of other recent years. However, economic activity rebounded in the second quarter, leaving year-on-year growth at 2% for the first half of the year.

<table>
<thead>
<tr>
<th>INDICATOR</th>
<th>2016 %</th>
<th>2017 (F) %</th>
<th>2018 (F) %</th>
<th>2019 (F) %</th>
<th>2020–2024 AVERAGE (F) %</th>
<th>2017 FORECAST CHANGE PERCENTAGE POINTS</th>
<th>2018 FORECAST CHANGE PERCENTAGE POINTS</th>
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</thead>
<tbody>
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<td>Real GDP growth</td>
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<td>2.0</td>
<td>2.0</td>
<td>1.9</td>
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<td>2.0</td>
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<tr>
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<td>2.9</td>
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</table>
In our baseline outlook, the US is moving along close to its long-term trend of 1.8% annual output growth and 2% annual inflation. This is despite the initial optimism in some quarters that a Republican administration would revive a mediocre economy, and the pessimism of some analysts that a Trump presidency would cause much slower growth.

At the end of July, the Republican controlled congress abandoned attempts to repeal and replace ex-President Obama’s healthcare reforms (the Affordable Care Act, or ACA). The failure to replace the ACA highlights the strength of the divisions inside the Republican Party between economic moderates and conservatives. It also puts into question the ability of the Republicans to execute other major legislative objectives such as large tax cuts.
THE EUROZONE

INDICATOR | 2016 % | 2017 (F) % | 2018 (F) % | 2019 (F) % | 2020–2024 AVERAGE (F) % | 2017 FORECAST CHANGE PERCENTAGE POINTS | 2018 FORECAST CHANGE PERCENTAGE POINTS
---|---|---|---|---|---|---|---
Real GDP growth | 1.7 | 1.8 | 1.7 | 1.6 | 1.3 | 0.3 ▲ | 0.1 ▲
Inflation | 0.3 | 1.6 | 1.5 | 1.6 | 1.7 | 0.0 | -0.1 ▼
ECB Refinancing Rate | 0.0 | 0.0 | 0.0 | 0.3 | 1.2 | 0.0 | 0.0

General outlook

In line with the strong performance, we have upgraded Eurozone GDP growth forecasts to 1.8% in 2017 and 1.7% in 2018.

After many years of disappointing growth, the Eurozone economy is booming. Eurozone GDP is estimated to have increased by 2% year-on-year in the first half of 2017.
Political risks have receded after the election of the pro-EU Emmanuel Macron as the French president in May, and the majority won by his La Republique en Marche (LREM) party in the June legislative elections. The big populist upsurge that was considered a major risk for 2017 has not materialised.

Populist parties have systematically underperformed in Eurozone elections relative to the polls, and the rise of populism in the Eurozone may have peaked.
THE UK

Brexit Negotiations Scenarios

1. June 2016
   52% of United Kingdom referendum voters choose to leave EU

2. March 2017
   Article 50 gets triggered, 2 years of talks begin

3. 4 possible outcomes by 2019
   - No agreement by 2019
     - Delayed FTA (Baseline)
       35-45% probability
       2019
     - No-Deal Brexit
       30-40% probability
       2019
   - Agreement by 2019
     - Light Brexit
       5-15% probability
       2019
     - Early FTA
       10-20% probability
       2019

General Outlook

The UK and EU negotiations kicked off in June 2017, a year after the Brexit vote. The parties aim for negotiations on the principles of Brexit agreement to conclude by end of 2017, to allow time for trade deal talks.

However, there is still a considerable amount of uncertainty around the EU exit deal that the UK government will be aiming for. Adding on to the Brexit haziness, in June 2017 the UK General Election resulted in a hung parliament with the Conservative Party failing to win an overall majority. This is expected to soften the British negotiation stance.
The overall picture of the UK economy is turning patchy. While real GDP continued with 2.0% year-on-year growth in Q1 2017, preliminary estimates suggest growth eased to 1.7% in Q2 2017. In our baseline, we expect the UK real GDP growth to continue slowing down to 1.5% in 2017 and 1.2% in 2018.
External demand for cars and electronics from Asia and the US as well as a weaker yen have supported exports and industrial output, while retail sales have also been on the rise, underpinned by firming consumer confidence and the resulting recovery in consumption.

General outlook

Firming exports, a pick-up in private consumption and stronger investment have been driving Japan’s economic growth recently, with real GDP growth climbing for the past few quarters to reach 1.6% year on year in Q1 2017.
On the back of positive momentum, our real GDP forecasts have been slightly upgraded to 1.4% in 2017 and 1.0% in 2018 (compared with 1.2% and 0.9%, respectively, in our previous report).

Despite all the government efforts to spur inflation with fiscal stimulus and low interest rates, consumer prices continue to grow only marginally, having increased by 0.4% year on year in May. The government has yet again postponed the 2% inflation deadline, which now seems unrealistic to reach, so we project inflation to grow by 0.4% in 2017 and 0.7% in 2018.
CHINA

General outlook

GDP increased by 6.9% year-on-year in the first half of 2017, but is expected to slow down in the second half, leading to 6.6% growth for the whole year.

Annual GDP growth is expected to decline towards 6% in 2018-2019, though consumption is still likely to increase by 7% annually due to the rebalancing of the economy away from investment.

<table>
<thead>
<tr>
<th>INDICATOR</th>
<th>2016 %</th>
<th>2017 (F) %</th>
<th>2018 (F) %</th>
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<th>2017 FORECAST CHANGE PERCENTAGE POINTS</th>
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In the July meeting of the Politburo (a group of the top Communist Party leaders), China’s leaders reiterated their commitment to reducing industrial excess capacity and containing financial system risks.

The government has continued to tighten financial regulation and credit conditions meaning that money supply growth has fallen to the lowest level in the last 10 years. However, private sector debt has continued rising faster than GDP.

In addition to this, the government is also planning a wave of mergers and acquisitions among state-owned enterprises (SOEs) to increase the efficiency of the SOE sector. According to recent estimates, productivity growth in Chinese manufacturing declined from 2.6% annually in 1998-2007 to barely above zero in 2008-2016. The government hopes SOE consolidation and other reforms will reverse this mediocre performance.
General outlook

Despite still weak statistics on real consumer income and spending dynamics, the Russian economy has continued to recover. According to Rosstat’s data, annual real GDP growth increased to 0.5% in Q1 2017, after a 0.3% increase a quarter before. Available recent data on dynamics in production, freight turnover, construction and retail inspire even more optimism, as expected, providing more significant contribution to the real GDP behaviour, with 2.5% year-on-year growth in Q2 2017 (the largest rate since Q3 2012).

In our baseline, we expect real GDP to grow by about 1.3% in 2017 and further follow a moderately stable trajectory of around 1.5% year-on-year growth over the next two years.
In May 2017, there was a sharp acceleration in the growth of industrial production to 5.6% year on year (against 0.7% growth in January-April), its highest value since 2012. In June, the industrial production growth slowed slightly, to 3.5% year on year, which is still far above the average for 2016, indicating a more sustained revival process.

The May jump in industrial production is partly explained by a calendar factor, i.e. the difference in the number of working days in May 2017 versus May 2016, and significant contribution of electricity and heat production dynamics, given unusually cold weather at the end of spring. Significant support to the overall production dynamics was also shown by the mining industry (despite the Russia and OPEC agreement on reduction in oil production) and manufacturing of consumer goods (cars, drugs, clothes, furniture, etc.).
Retail sales have turned back to growth in the last few months on the back of recovering consumption. Industrial output is getting back on track as well, supported by automobile, electronics and machinery production. Firming demand from abroad has translated into strong export growth, with trade balance recording the largest monthly surpluses on record in the last several months.

**General outlook**

Recovery of the Brazilian economy continues as expected. As a result, our real GDP growth forecast remains largely unchanged at 0.6% for 2017 and 2.1% for 2018.

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**Brazil Industrial Production Growth and Trade Balance**

*Increasing industrial output and strong exports support Brazilian economy*

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<td>2016</td>
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<td>2017</td>
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*Source: Euromonitor International from national statistics, OECD*
BRAZIL

However, consumer prices have recently plunged to the lowest level in a decade, down to 3% in June 2017, due to lower food, electricity and transport prices. We expect inflation to reach 3.8% in 2017 and 4.2% in 2018.

On the back of a steady drop in inflation, the central bank has continued to cut its benchmark interest rate, currently standing at 9.25%. The recent government downward revision of its inflation forecasts for 2017-2018 signals that the easing cycle is not yet over; we expect the interest rate to move further down to reach 8.3% at the end of 2018, helping the economy gain positive momentum after the recession.
Compared to the previous quarter, the deceleration was felt through both consumption and investment. The contribution of net exports was also negative, however the trade gap narrowed on a quarter-on-quarter basis. Nominal data on goods trade suggest that the trade deficit shrank from -6.2% of GDP in Q4 2016 to -4.5% in Q1 2017.

General outlook

The demonetisation shock dampened Indian economic growth in Q1 2017. Real GDP growth slowed down to 6.1% year on year, from 7.0% in Q4 2016. India’s economic growth has been declining for four consecutive quarters and has reached a 4-year low.
Higher frequency data confirm that the Indian economy has not yet recovered from the damage. Industrial production index growth dropped to 1.7% year on year in May. This was a result of a decline in mining activity and lower growth in manufacturing. The manufacturing sector was mainly adversely affected by water shortages as well as anticipation of the Goods and Services Tax (GST) reform in July.

Forecasts for India were revised downward due to lower than expected economic growth in Q1 2017. We anticipate real GDP growth will reach 6.9% in 2017 and accelerate to 7.5% in 2018.
**GLOBAL RISK SCENARIOS**

**Summary**

The macroeconomic risks have somewhat receded in advanced economies since May 2017. In line with lower political volatility after a series of elections across Europe and better than expected economic performance in the first half of 2017, we have diminished probabilities for the two Eurozone scenarios.

The Conservatives’ weak majority after the June 2017 elections is likely to soften the UK stance in the Brexit negotiations. This has led us to reduce the probability of No-Deal Brexit, a scenario where the negotiations break down and the UK exits the EU with their trade relations defaulting to WTO conditions. The likelihood of our major downside scenarios for emerging markets (China Hard Landing and Emerging Markets Slowdown) has remained unchanged relative to May.

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*Impact is measured as world GDP change over 3 years compared to baseline scenario, in percentage points*
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Contact us at Analytics@Euromonitor.com

Aleksej Baksajev
Economist, PhD Statistician
Connect via LinkedIn

Ana Solovjova
Senior Data Analyst
Connect via LinkedIn

Daniel Solomon
PhD Economist
Connect via LinkedIn

Ugne Saltenyte
Macro Analysis Manager
Connect via LinkedIn
<table>
<thead>
<tr>
<th>SCENARIO</th>
<th>DESCRIPTION</th>
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<tbody>
<tr>
<td>Advanced Economies Stagnation</td>
<td>Growing influence of populism leads to rising trade and immigration restrictions, and a slowdown in implementation of structural reforms. Labour productivity growth declines significantly below the baseline forecast. Falling private sector confidence reduces consumer spending and investment.</td>
</tr>
<tr>
<td>Emerging Markets Slowdown</td>
<td>Long term potential output in emerging markets lower than expected. Domestic business and consumer confidence drop significantly. Increase in capital outflows leads to higher financing costs.</td>
</tr>
<tr>
<td>China Hard Landing</td>
<td>A rise in the proportion of non-performing loans leads to a banking crisis and tightening credit conditions, especially for the private sector. Private sector confidence declines, slowing down the rebalancing process.</td>
</tr>
<tr>
<td>Trump Adverse Policies</td>
<td>The US imposes tariffs on imports from Mexico, China and other Asian countries, leading to a trade war. Stricter immigration restrictions reduce labour supply. Private sector confidence and stock market decline.</td>
</tr>
<tr>
<td>Trump Trade War</td>
<td>The US imposes a 45% tariff on imports from China and 15-20% on other Asian countries. The US drops out of NAFTA and imposes a 35% tariff on Mexican imports. Countries retaliate with tariff increases on the US.</td>
</tr>
<tr>
<td>Eurozone Recession</td>
<td>Growing geopolitical and EU break-up risks increase uncertainty and reduce investment. Significant deterioration takes place in Eurozone credit markets, consumer and business confidence.</td>
</tr>
<tr>
<td>No-deal Brexit</td>
<td>UK-EU negotiations stall, and the UK leaves the EU in 2019 without making a deal with the EU. Trade relations with the EU default to WTO conditions with significantly higher barriers.</td>
</tr>
<tr>
<td>Eurozone Debt Crisis</td>
<td>Renewed tensions in Italian and Spanish sovereign debt markets cause turmoil in financial markets, collapse in business and consumer confidence. Greece exits the Euro.</td>
</tr>
<tr>
<td>Global Crisis</td>
<td>Advanced economies stagnate, emerging markets’ potential growth falls well below expectations, leading to lower private confidence and higher borrowing costs. Growing distressed loans lead to a financial crisis in China. Pessimism about Eurozone growth results in lower private spending and deteriorating credit markets.</td>
</tr>
</tbody>
</table>
Definitions

- Forecast closing date: 9th August 2017

- All baseline forecasts (expected or most likely outcomes) are assigned a 20-30% probability unless stated otherwise.

- All GDP and GDP components growth rates are in real (inflation adjusted) terms unless stated otherwise.

- All GDP and GDP components growth rates are year-on-year unless stated otherwise.