

PREDICTIONS FOR 2018. LET THE GOOD TIMES BEGIN

In our final GEW of the year, we outline key themes we think could prevail in the global economy in 2018.

- 1. Global economic growth on track to be the fastest since 2011:** In our main scenario, we project the global economy will grow by almost 4% in purchasing power parity (PPP) terms, its fastest since 2011, adding an extra \$5 trillion to global output in current value terms. More importantly, we expect growth to be broad based and synchronised, rather than dependent on a few countries. The main engines of the global economy - the US, emerging Asia and the Eurozone, which comprised 60% of world GDP in 2017 - are expected to contribute almost 70% of economic growth in 2018 in PPP terms compared to their post-2000 average of around 60%.
- 2. The beginning of the end of easy money:** Since the Federal Reserve started to gradually reduce the size of its balance sheet and raise rates, the question has been who will follow next. We expect the European Central Bank (ECB) to further reduce its monthly asset purchases in 2018. If Eurozone inflation rebounds faster than our baseline projection, 2018 could see the end of the ECB's asset purchase programme. In Japan, however, we

course to consume almost 600 quadrillion British Thermal Units (BTUs) of energy—double its 1980 level and the highest level on record. We expect India and China together will consume about 30% of global energy, which will be about six times more than the African continent will consume. Reflecting the slow shift towards renewables, 10% of global energy consumption is expected to be in renewables with China consuming twice as much renewable energy as the US.

Our detailed predictions have been compiled with input from our global team of economists.

Unemployment rate in G7 to hit a 40 year low: In 2018, the aggregate G7 unemployment rate is on course to hit a rate below 5% - equivalent to about 19 million workers. We expect wage growth to post a modest uptick, but still to remain below pre-crisis trends. This could be driven by tight labour markets like in the US—which is expected to hit an unemployment rate of about 4%—but offset by other economies like Italy, where unemployment levels remain relatively high. Watch out also for the wage negotiations of important sectors in Germany in the last quarter of 2018.

Eurozone expected to grow faster than 2%, while the UK lags: In our main scenario



Dec 29, 2017 10:01 +08

Global economic growth in 2018 on track to be fastest since 2011 - PwC

Date	29 December 2017
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The global economy is set to grow by almost 4% in 2018 in purchasing power parity (PPP) terms, adding an extra \$5 trillion to global output at current

values, according to new projections in PwC's [Global Economy Watch](#).

The main engines of the global economy - the US, emerging Asia and the Eurozone - are expected to contribute almost 70% of economic growth in 2018 compared to their post-2000 average of around 60%.

Growth in the Eurozone is predicted to be above 2% in 2018, as PwC expects the peripheral economies to outpace the core for the fifth consecutive year. Of the larger Eurozone economies, the Netherlands is expected to lead the way with economic growth at around 2.5%. By contrast, uncertainty relating to Brexit is expected to drag on UK growth, which is predicted to be 1.4% in 2018.

Barret Kupelian, senior economist at PwC, comments:

“In 2018, we expect global economic activity to grow at its fastest rate since at least 2011, with the three main engines of the global economy—the US, Eurozone and Asia—growing in tandem. However, there are some downside risks businesses should monitoring including the progress of the Brexit negotiations, key elections in large economies and protectionist tendencies in some nice sectors of the economy”

China, the world's largest economy in PPP terms, could grow by 6-7% in 2018, slower than previously, but in line with expectation. Amongst the 17 economies that will grow faster than China are India, Ghana, Ethiopia and the Philippines, pointing to broader based growth in Africa and Asian economies. Eight of the ten fastest growing countries in 2018 could be in Africa according to PwC's analysis.

With the fastest level of growth for several years, 2018 is predicted by PwC to be the most energy hungry on record too. Almost 600 quadrillion British Thermal Units of energy could be consumed by the global economy in 2018, the highest level on record and double that of 1980. India and China alone are expected to consume 30% of global energy.

Despite this, PwC's outlook predicts oil prices are set to remain broadly stable in real terms, with OPEC and its allies extending its 1.8 million barrels per day supply cut until the end of next year.

Other influences and factors to watch in 2018 include PwC's *Global Economy Watch* include:

- The European Central Bank could reduce its monthly asset purchases in 2018, but a dramatic shift in monetary policy in Japan is unlikely.
- Across the G7, the unemployment rate is predicted to hit a 40 year low, at around 5% or 19 million workers.
- Wage growth will post a modest uptick in some advanced economies where spare capacity is limited but remain below pre-crisis levels.
- An extra 80 million people are likely to be added to the world's population in 2018, but as a percentage increase this would be the slowest since 1950. For every 10 people added to the world's population, PwC predicts nine will be located in either Africa or Asia.

Ends.

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