The world economy and the euro area: broad-based upswing

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This year and next, global GDP will grow more strongly than expected. The growth rate should be just under four percent. In developed economies, the continuing improvement in the job market situation will drive consumption. Corporate investment activity will also gain momentum. Over the forecast horizon, a slowly rising inflation rate and somewhat tighter monetary policy will gradually slow private consumption down. Emerging countries are able to maintain somewhat more robust growth. Production is expanding again in China. In Brazil and Russia, stabilizing prices of raw materials and decreasing inflation rates are supporting economic momentum. Uncertainty about the US government's economic policy and the geopolitical conflict involving North Korea are current risks for the world economy.

The global economy has recently gained momentum. Compared to the beginning of the year, in both developed and emerging economies, the rate of expansion increased once again in the second quarter of 2017. Japan and the euro area experienced strong growth in output, and also in the US growth accelerated. In the group of emerging countries, the Chinese economy in particular returned to higher growth rates after having a weak first quarter. And the signs indicate that the Russian and Brazilian economies are gaining momentum after a long phase of weakness.

This puts the global upswing on a broader base, a situation that should remain stable during the forecast horizon (see Figure). Due to the continuous improvement in the job market situation and currently only weak price increases, private consumption is most likely to be driving growth in developed economies. In this environment, corporate investment is expected to expand. However, the rise in employment in both the US and the euro area should lead to gradually rising wages and inflation rates. The current halt of decreases in the prices of raw materials should also lead to higher inflation rates. Rising inflation rates will dampen the purchasing power of private households and also gradually cause monetary policy to contract, in turn causing investment activity to decelerate. In the later part of the forecast horizon, the global economy will shift to a somewhat flatter growth path, although the economies in the emerging countries—in particular, Russia and Brazil—will benefit from non-decreasing raw materials prices. Central and Eastern European countries should also continue to show robust, consumption-driven growth rates. In the near future, a gradual slowdown of expansion in China will be noticeable.

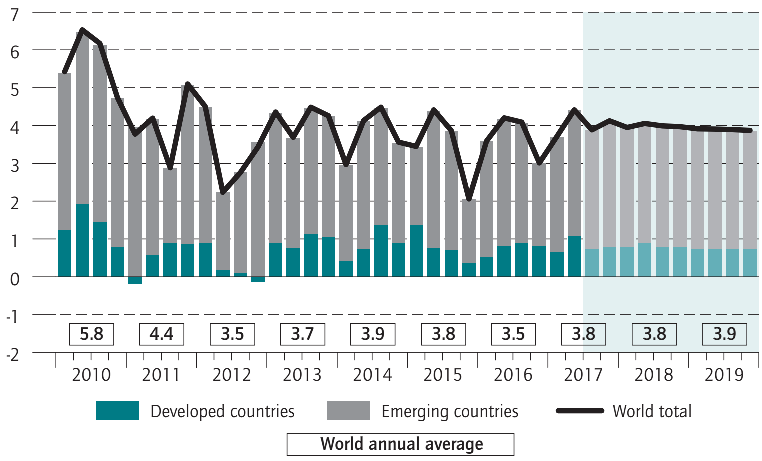
The global economy should grow by just under four percent within the forecast horizon. This slightly improves the forecast in comparison to the DIW *Economic Outlook* from June 2017 (see Table).

Monetary policy will be less expansive. In the US, the central bank will begin to reduce its balance sheet while sticking to its path of moderate increases in the interest rate. In the euro area, the European Central Bank's asset purchase program should end in the first half of 2018 due to gradual reduction in asset purchases. The bank will presumably raise the key interest rate by ten basis points in the second quarter of 2019. The Japanese central bank, on the contrary, apparently senses no imminent pressure to reduce its high level of accommodation. Globally, fiscal policy should be less restrictive overall.

However, the global economy may face a series of risks. In the US in particular, general conditions involving economic policy are marked by a high level of uncertainty at this time. And geopolitical risks surrounding North Korea are also at issue. An unexpected rise in the level of uncertainty could afflict global investment activity. The political uncertainty in the euro area has somewhat lessened. But in Italy in particular, the fragile situation in the banking sector is a source of problems. Brexit negotiations and the political tension within the European Union are likely to generate waves of uncertainty, dampening both foreign trade and investment activity.

Figure

World real GDP
In percent, percentage points



Sources: National statistical offices; DIW Economic Outlook Autumn 2017.

The global economic upswing is continuing.

Table

Real Gross Domestic Product, Consumer Price Inflation, and Unemployment Rate in the World Economy
In percent

	GDP				Consumer prices				Unemployment rate in percent			
	Change over previous year, in percent											
	2016	2017	2018	2019	2016	2017	2018	2019	2016	2017	2018	2019
Euro area	1.7	2.1	1.9	1.6	0.4	1.3	1.4	1.6	10.0	9.1	8.8	8.7
without Germany	1.7	2.0	1.9	1.5	0.3	1.1	1.4	1.6	12.7	11.6	11.2	11.1
France	1.1	1.7	1.8	1.5	0.2	1.1	1.4	1.5	10.1	9.6	9.4	9.3
Italy	1.0	1.3	1.2	1.0	0.0	1.3	1.2	1.2	11.7	11.4	11.3	11.3
Spain	3.2	3.1	2.5	2.1	−0.2	2.8	2.3	2.3	19.7	17.2	16.0	15.7
Netherlands	2.1	3.3	2.6	1.9	0.1	1.5	1.2	1.3	6.0	4.9	4.8	4.7
United Kingdom	1.8	1.4	1.4	1.7	0.7	2.7	2.6	2.3	5.0	4.8	4.9	5.0
USA	1.5	2.1	2.4	2.3	1.3	1.8	1.6	2.1	4.9	4.4	4.2	4.1
Japan	1.0	1.9	1.3	1.4	−0.1	0.3	0.5	1.1	3.1	3.1	3.1	3.0
South Korea	2.8	2.7	2.6	2.5	1.0	2.2	2.5	2.7	3.7	3.4	3.0	3.0
Middle Eastern Europe	3.0	4.2	3.3	3.4	−0.2	2.0	2.3	2.4	5.7	4.7	4.3	4.1
Turkey	3.0	4.2	3.3	3.5	7.8	10.9	7.7	7.7	10.9	11.1	11.4	11.5
Russia	−0.2	0.9	1.5	1.7	7.1	4.2	4.1	4.0	5.5	5.2	5.1	4.8
China	6.9	6.6	6.5	6.2	1.6	1.7	2.5	3.3	4.1	4.1	4.0	3.9
India	7.5	5.8	7.1	7.0	3.3	5.5	6.1	6.1				
Brazil	−3.6	0.6	1.2	1.7	8.7	4.1	5.5	6.0	11.3	12.8	10.6	8.4
Mexico	2.0	2.6	2.3	2.2	2.8	5.7	3.2	3.2	3.9	4.5	4.4	4.3
Developed Economies	1.6	2.0	2.1	1.9	0.8	1.6	1.5	1.9	5.9	5.4	5.2	5.1
Emerging Markets	4.9	5.1	5.4	5.3	3.3	3.5	3.9	4.4	5.4	5.5	5.3	5.0
World	3.5	3.8	4.0	3.9	2.2	2.7	2.9	3.4	5.6	5.4	5.2	5.1

Sources: National statistical offices; DIW Economic Outlook Autumn 2017.

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Layout and Composition
eScriptum GmbH & Co KG, Berlin

Sale and distribution
DIW Berlin
ISSN 2192-7219