

Turning point for global economy

Global growth remains robust

But our forecast revised down for GDP growth in 2018



Due to:

Global leading indicator falling in March and April

Higher oil prices expected to **reduce consumer spending** power

Trade tension between US and China

Still in expansion, but **may experience stagflation** in late 2018 as growth cools and inflation rises

Emerging Markets (EM)

Turbulence interrupts a smooth flight

Lower growth and higher inflation caused by:

Weak Q1 and much higher oil price

Increased Sanctions

Trade tensions

BRIC¹ forecast summary

% per annum (previous forecast)	GDP		Inflation	
	2018	2019	2018	2019
China	6.6 (6.6)	6.4 ↓ (6.5)	2.4 ↑ (2.2)	2.0 ↓ (2.3)
Brazil	2.7 ↓ (2.8)	2.6 ↓ (2.8)	3.5 ↓ (2.8)	4.5 ↑ (4.4)
India	7.3 ↓ (7.4)	7.5 ↓ (7.7)	4.9 ↑ (4.7)	5.0 ↑ (4.4)
Russia	2.1 ↓ (2.7)	1.9 ↓ (2.1)	3.5 ↓ (3.6)	4.4 ↓ (4.5)

Source: Thomson Datastream, Schroders Economics Group, 15 May 2018. ¹ BRIC = Brazil, Russia, India, China

Higher inflation = we expect EM central banks to turn more hawkish, with interest rate hikes in India and Brazil, Russia being the only one with room potentially to cut them

Source: Schroders as at June 2018.

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Europe catches a cold

Cold weather may have been the cause for Q1 economic slowdown in the Eurozone, but leading indicators also struggle to recover

Political highlights:

Spain

Prime Minister ousted, Socialist leader to take over

Italy

Uncertainty returns as two populist parties join to form government

UK

GDP growth struggled

Positive news on Brexit

with announcement of a 21-month transitional deal after April 2019

Uncertainty has negative impact on confidence, spreading to housing market:

Upper end of market led slowdown - high net wealth individuals postponing purchases / leaving country

If house prices fall, history suggests it would take years to halt the decline

UK house prices are uncertain

House prices (Y/Y)



Source: Thomson Datastream, Land Registry, Halifax, Nationwide, Rightmove, LSL/Acadametrics, Schroders Economics Group. 23 May 2018.