

Press Release

Schroders' Chief Economist upgrades 2017 global growth forecast to 2.8%

14 December 2016

HONG KONG – Schroders has revised up its 2017 global growth forecast from 2.6% to 2.8%, the first upgrade in nearly two years thanks to a more optimistic outlook for emerging markets, the US, and the UK. Global Inflation next year is expected to pick up to 2.4% from 2.0% in 2016, primarily led by oil price effects in advanced economies.

Keith Wade, Chief Economist and Strategist, Schroders commented: *“Our positive outlook for emerging markets is primarily driven by China, which we believe could post a 6.5% growth rate in 2017 on the back of the country’s effort in building a sustainable economy. We are also expecting the US to benefit from a loosening fiscal policy that will begin to come through later next year, while in the UK, it appears the country is weathering the effect of Brexit better than expected.”*

US stimulus impacts emerging markets

Wade noted that a relatively optimistic outlook for China offsets the expected growth rate downgrade to certain emerging markets, such as Brazil, India and Russia. US policy is likely to be neutral to positive for Chinese growth next year.

He added: *“Particularly, a boost in fiscal policy demand would support the demand for some Chinese products. Meanwhile, the US’ potential withdrawal from the Trans-Pacific Partnership could open up opportunities for China to create its own trade deals in the Asia Pacific region.”*

Growth and risks rise under Trump

In the US, an expansionary fiscal policy plays a significant role in the favourable outlook for the US. Wade commented that there are however concerns about the inflationary implications of adding a boost to an economy with late cycle capacity constraints.

He said: *“It will be difficult for US President-elect Donald Trump to create 25 million jobs when there are only 8 million unemployed in the country.”*

The US Federal Reserve is expected to raise rates this month by 25 bps. With inflation rising, further rate increases are expected in 2017 to 1.25% by year-end, with the Fed moving cautiously on concerns about its impact on the rest of the world.

UK to count the cost of Brexit

The UK continues to defy gloomy post-Brexit expectations. Like its Eurozone neighbours, higher inflation is set to dampen growth, although inflation is compounded by the fall in Sterling.

Wade said that the Bank of England is likely to remain on hold now given better growth, but the government has missed a great opportunity to boost public investment and long-term productivity growth.

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Higher inflation to dampen Eurozone growth

The European Central Bank will face pressure to defend ongoing stimuli, but Wade expected it to resist calls to halt its support.

Wade continued: *“We recently revised up Eurozone growth slightly for 2017, but still expect a slowdown as inflation is forecast to surge owing to energy inflation dynamics. This should dampen activity in 2017, but the outlook for 2018 is brighter.”*

“Looking further ahead to 2018, we expect global growth to pick up further to 3.0%, as US fiscal expansion fully kicks in helping lift growth across the world economy. The picture for inflation is more mixed, as price pressures continue to build in the US but tend to moderate elsewhere. The US is further advanced in the economic cycle than Europe or Asia, and hence is expected to experience greater inflationary pressure. Overall, despite a pick-up in the US, global inflation is forecast to stabilise at 2.3% in 2018,” Wade concluded.

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