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Article

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Subdued global growth, restrained European expansion

By Ferdinand Fichtner, Guido Baldi, Christian Dreger, Hella Engerer, Stefan Gebauer, Michael Hachula, and Malte Rieth

Global economic growth remains subdued. Leaving our forecast for this year unchanged, the pace of growth is expected to stand at 3.2 percent in 2016 and to increase somewhat over the following two years. In the advanced economies, the main growth driver will continue to be private consumption, which in turn is supported primarily by a steadily improving labor market and increases in real incomes. In Europe, the uncertainty associated with the Brexit decision will have a dampening effect on growth. In the emerging markets, the moderate increase in the pace of expansion should continue. In Russia and Brazil, the economic contraction process will gradually come to a halt, while in China, the current growth rate will remain stable thanks to solid consumer demand. Nevertheless, there are still a number of risks for the global economy: in particular, there's the uncertainty related to the Brexit decision, and tensions remain high in some parts of the European banking sector.

Global economic growth will increase slightly over the course of the forecast period, but will remain moderate. After the disappointing winter quarters of 2015/2016, the economic development did not pick up significantly in the second quarter of 2016. The increased political uncertainty—primarily due to the Brexit vote—will become more apparent over the second half of the year. This will be offset by an upturn in the US economy and in some of the emerging markets, however, with the result that the expansion rate of global production is likely to stand at 3.2 percent in 2016—as DIW Berlin predicted in June of this year¹—and probably somewhat higher in 2017 and 2018 (Table).

At the beginning of 2016, it was primarily the modest economic development in the emerging countries—especially China—that was dampening the expansion of global production. This likely led to a slowdown in the second quarter for the advanced economies as well, such as Japan and the US, where growth was holding back. Euro area production, however, continued in its upward trend. In the advanced economies overall, private consumption is likely to remain one of the principal growth drivers. Against this background and in light of the steady improvement in the labor market situation as well as increases in real income, business investment is expected to recover slightly later on in the forecast period—strong investment growth is unlikely however. In the euro area and the UK, the uncertainty related to the Brexit vote will likely constrict economic activity in the coming quarters; the dampening effect should begin to subside from the middle of next year onward. The growth of non-European economies should not be significantly affected by the Brexit decision.

In emerging markets, the moderate increase in expansion that was observed in the second quarter should continue over the forecast period. In Russia and Brazil, the

¹ Fichtner et al. (2016), Global Growth Still Subdued, DIW Economic Bulletin 24/25/2016, 277-280.

Table

Real gross domestic product, consumer price inflation, and unemployment rate in the world economy

In percent

	Gross Domestic Product				Consumer Prices				Unemployment rate in percent			
	Change over previous year in percent								2015	2016	2017	2018
	2015	2016	2017	2018	2015	2016	2017	2018				
Euro area	1.6	1.5	1.4	1.6	0.0	0.3	1.1	1.3	10.9	10.0	9.6	9.3
... without Germany	1.6	1.5	1.4	1.6	0.0	0.1	0.8	1.2	13.0	12.0	11.5	11.1
... France	1.2	1.2	1.2	1.4	0.1	0.2	0.9	1.3	10.4	9.9	9.7	9.5
... Italy	3.2	2.9	2.0	2.2	-0.5	-0.4	0.9	1.3	22.1	19.8	18.6	17.5
... Spain	0.6	0.7	1.1	1.3	0.1	0.2	0.8	1.0	11.9	11.2	10.5	10.3
... Netherlands	2.0	1.7	1.8	2.1	0.2	0.2	0.5	1.0	6.9	6.3	6.2	6.1
United Kingdom	2.2	1.7	0.9	1.9	0.0	0.6	2.6	1.8	5.3	5.1	5.6	5.4
USA	2.6	1.4	2.3	2.4	0.1	1.2	2.0	2.0	5.3	4.9	4.7	4.6
Japan	0.6	0.5	0.5	0.6	0.8	0.1	0.6	0.4	3.4	3.2	3.2	3.2
South Korea	2.6	2.7	2.8	3.2	0.7	1.0	2.2	2.7	3.6	3.4	3.0	3.0
Middle Eastern Europe	3.7	3.1	3.4	3.7	-0.4	-0.3	1.4	1.6	7.3	6.5	6.2	5.9
Turkey	4.0	3.2	2.7	3.1	7.8	8.8	8.3	7.4	10.3	9.6	9.2	9.0
Russia	-3.6	-0.8	1.2	1.9	15.5	6.8	4.5	4.1	5.6	5.6	5.6	5.5
China	6.5	6.1	5.9	5.9	-0.6	0.9	2.9	4.5	4.1	4.1	4.1	4.1
India	7.4	7.3	6.7	7.3	1.1	3.3	6.1	6.1				
Brazil	-3.9	-2.8	0.4	1.5	9.0	8.6	5.7	5.7	8.3	5.2	6.0	6.5
Mexico	2.5	1.7	2.5	2.7	2.7	2.6	3.1	3.2	4.4	4.4	4.8	4.8
Advanced Economies	2.0	1.4	1.7	2.0	0.2	0.8	1.7	1.6	6.3	5.9	5.7	5.6
Emerging Markets	4.4	4.5	4.8	5.1	2.9	3.2	4.2	4.8	5.3	4.9	4.2	4.1
World	3.4	3.2	3.5	3.8	1.7	2.2	3.0	3.4	5.8	5.3	4.9	4.8

Source: National statistical offices; DIW spring projections 2016.

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The world economy keeps expanding at a moderate pace.

economic contraction process will gradually come to a halt, while in China, the current pace of growth will be maintained primarily due to the solid consumer demand.

Global monetary policy is expected to be less expansionary. While the central banks in Europe and Japan will probably be more oriented toward stimulating growth, the Federal Reserve is likely to raise interest rates over the course of the forecast period due to a generally good labor market situation—but only slightly and gradually. Global fiscal policy is expected to be somewhat less restrictive. For example, fiscal policy is likely to be somewhat relaxed in Japan—and in China as well, where the

government is likely to create new economic stimulus measures.

Even though the uncertainty about economic development in China and the US has declined, there remain a number of risks for the global economy. Growing protectionism—in the wake of the US presidential election—presents a risk for global trade. In Europe, uncertainty remains high as a result of a number of factors, including the Brexit decision, the forthcoming constitutional referendum in Italy, the difficult formation of the Spanish government as well as the tense situations in some parts of the European banking sector.

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