Marketing material

The global economy in pictures March 2019

Schroders

Global and European growth forecast: reasons to be cheerful

We've upgraded our forecasts for 2020

Global growth forecast

2019: 2.9% to **2.8%**

2020: 2.5% to **2.7%**

Near term indicators remain weak, but there are reasons to be cheerful further ahead:

- **Lower energy prices** are helping to bring down inflation and boost real incomes
- **US-China are moving closer** to a trade deal
- **Monetary policy looks easier** - interest rates may rise more slowly

European growth failed to pick up in 2018, but Eurozone fundamentals look strong and signs of a rebound are emerging:

- 4th consecutive year of **above trend GDP growth** (>1.2%)
- **Above trend employment growth** for almost all member states

European growth forecast

2019: 1.6% to **1.3%**

2020: 1.2% to **1.4%**

Emerging Markets (EM) forecast update: oil on troubled waters

Inflation outlook improves for most EM countries (ex Russia) due to:

- **Falls in crude oil prices**
- **Domestic economic slack**

Russia

Cheaper oil means weaker currency and more imported inflation. But this had already been priced in and our growth outlook remains the same

China

Trade war truce with the USA warrants mild optimism but its economy is still set for an ongoing slowdown

Brazil

Economic confidence is high and Bolsonaro's ambitious pension reform proposal has encouraged investors

Japan: Bank of Japan to stay on hold through Value Added Tax (VAT) hike

Growth outlook

2019: 1.0% to **0.7%**

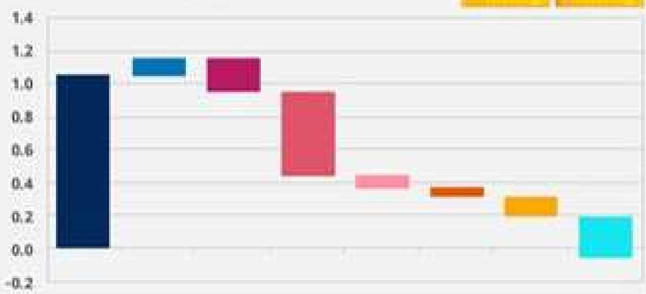
2020: 0.0% to **0.4%**

8% to 10% planned rise in VAT in October

- **Monetary policy is likely to remain unchanged** through the VAT hike
- **The short-term interest rate should be held at -0.1%** until late 2020
- **Likely decline in consumer demand,** as well as frontloading, as a result
- **Japanese Government plan to offset the impact of the VAT hike with additional spending**

Spending to counteract VAT increase

Cumulative net revenue, GDP %



VAT hike revenue; Other tax revision revenue; Reduced VAT on necessary goods; Free early childhood education; Medical fees; Housing and autos tax credit; Special measures (x disaster spending)

Source: Ministry of Finance, Schroders Economics Group, 26 February 2019.

Source: Schroders as at March 2019.