Talking point

Global growth momentum to remain subdued in 2016

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Even after yesterday's Fed rate hike – the first in nine years – the central banks will continue to generously provide the global economy with liquidity in 2016. Global growth looks set to remain below the average and uneven in 2016, at 3.3% (2015: 3.1%). With oil prices normalising somewhat – the oil price decline in 2015 probably contributed ¼ - ½ of a pp to global growth – and wage inflation moderate – with the possible exception of the US, where wage growth might finally pick up considerably in view of almost full employment – household consumption will again probably be the most important growth engine. Despite extremely low interest rates, credit-driven exuberance – which, by the way, was one of the reasons for the global economic and financial crisis in the middle of the past decade – seems unlikely in 2016.

Global trade disappointed considerably in 2015 and looks set to accelerate only moderately in 2016. Once more, trade should not make much of a contribution to global growth, not least because the emerging markets, whose integration into the global economy drove trade up until the emergence of the economic and financial crisis, should continue to register subdued growth rates in 2016, at 4.4% (up from 4.0%). As a consequence, investment, which was weak in 2015 too, will likely just begin to accelerate at best in 2016. Geopolitical factors, the presidential election in the US, refugee-crisis-related tensions within the EU, the probable referendum on a Brexit, the difficult situation in Syria and the Middle East, which harbours the risk of further terrorist attacks, and the commodity price slide are likely to weigh on investment sentiment in 2016. Overall, growth rates will probably decline slightly in the US and rise marginally in the euro area in comparison to 2015. In Japan, a temporary acceleration from 0.7% to 1.5% seems likely on the back of negative tax effects in 2015. However, such a pick-up will probably not provide a major impulse to the global economy. Expectations of slightly stronger growth in the emerging markets largely reflect the fact that the recessions in Russia, Brazil and Ukraine are petering out. China, whose unexpected slowdown in growth triggered global concerns and even contributed to the delay of the lift-off in the US by causing turmoil on the financial markets (the first rate hike had originally been planned for September), has recently returned to a firmer growth path thanks to considerable monetary easing and state investment programmes, but still looks set to register weaker growth in 2016 (6.7%, down from 7.0%). It remains to be seen whether the new Five-Year Plan will result in a more consistent economic policy. Overall, however, uncertainty about China, a cross-over economy hovering between state intervention and market forces, looks set to remain high.

Inflation – heading towards normalisation

Global inflation is likely to recover somewhat, simply because oil prices are unlikely to halve again in 2016 (2015: -46% yoy). Just like the consensus, we expect that massive cuts in US shale production will drive oil prices up somewhat by end-2016 (to USD 55/bbl). However, the oil price increase looks set to be very subdued as supply structures appear to have changed thoroughly and global demand is likely to rise moderately in a historical comparison. Core inflation in the industrial countries will probably normalise further (US: ca. 2%; EMU: 1 ¼%). Many emerging markets will probably see inflation accelerate in 2016 due to considerable exchange rate depreciation in 2015; however, we expect less exchange-rate volatility for this group of countries as a whole. Overall, inflation in the industrial countries is likely to pick up from 0.3% to 1.4%. In the emerging markets it is likely to rise from 5.6% to 5.9%.

Monetary policy – Fed is leading the way

The Federal Reserve will probably take three further rate steps of 25 bp each in the course of 2016, thus lifting the Fed funds rate to 1.125% by the end of 2016, i.e. below the median of the FOMC's dot charts. The past year has shown that forecasts of the timing and pace of the US lift-off are beset with considerable uncertainty. As monetary policy, not only in the US, has taken unprecedented measures during the past ten years, there are no historical blueprints on which forecasts cab be based. With inflation gradually normalising, other industrial countries are likely to implement (UK) or at least discuss (EMU) a monetary turnaround as well. While growth is likely to weaken somewhat in the euro area beyond 2016, the output gap looks set to narrow further so that inflation should be sufficiently near the ECB's target in 2017. Further significant monetary easing by the ECB is therefore unlikely in 2016. By end-2016, we might even see a European version of the tapering discussion. We believe that the ECB will gradually phase out its bond purchases from March 2017. However, the first rate hike should not take place until 2018. The big unknown – besides the oil price – is the USD/EUR exchange rate. We believe that the EUR will drop below parity versus the USD in 2016. With credit expansion still subdued, the exchange rate remains an important channel for the ECB's monetary policy. If the euro trades firmer than expected versus the USD, the impact on inflation and inflation expectations might give the doves in the ECB Council sufficient grounds to implement a bigger easing package – something that they seem to have initially planned for December.

GDP growth & inflation

	GDP growth, %				CPI inflation, %			
	2014	2015F	2016F	2017F	2014	2015F	2016F	2017F
G7	1.7	1.9	1.9	1.8	1.5	0.3	1.5	2.1
- USA	2.4	2.4	2.1	2.1	1.6	0.2	1.9	2.3
- Japan	-0.1	0.7	1.5	0.8	2.8	0.8	0.7	2.1
- Euro area	0.9	1.5	1.6	1.5	0.4	0.1	0.9	1.6
Asia (ex-Japan)	6.4	6.1	6.1	6.3	3.4	2.4	2.9	2.9
- China	7.3	7.0	6.7	6.7	2.0	1.4	1.8	1.8
- India	7.1	7.3	7.5	7.8	6.7	4.9	5.4	5.0
EEMEA	2.4	1.0	1.9	2.5	6.0	8.7	6.7	5.9
- Russia	0.6	-3.7	-0.7	0.5	7.8	15.6	9.2	7.1
Latin America	0.8	-0.8	-0.1	2.2	12.5	15.2	18.8	19.4
- Brazil	0.1	-3.7	-2.4	1.0	6.3	9.0	8.5	6.2
Advanced economies	1.7	1.9	1.9	1.8	1.3	0.3	1.4	2.0
EM economies	4.6	4.0	4.4	4.9	5.3	5.6	5.9	5.7
Global	3.4	3.1	3.3	3.6	3.6	3.4	4.0	4.2

Source: Deutsche Bank Research

Please see also: World Outlook

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