

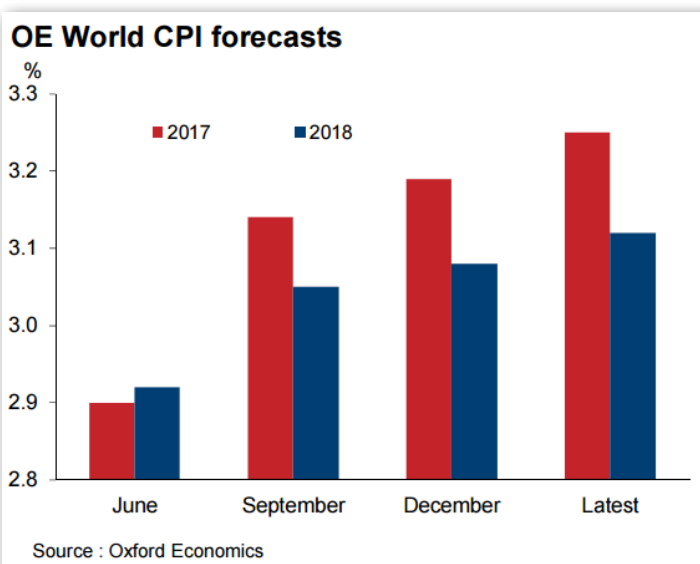
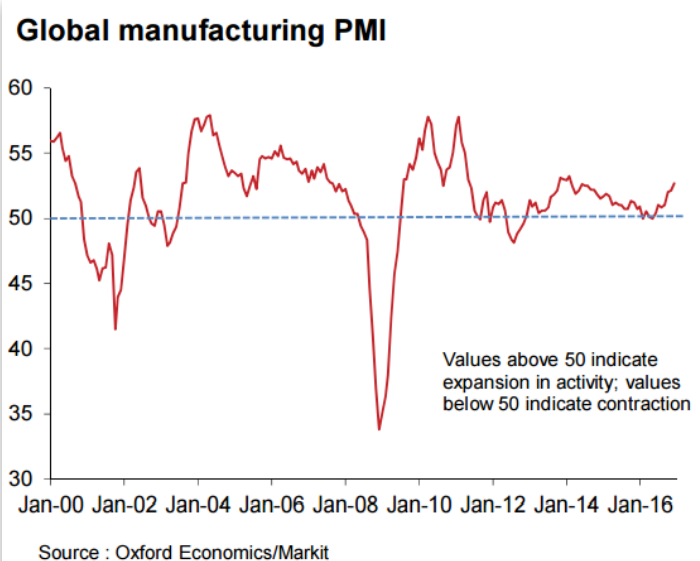
## EXECUTIVE SUMMARY

# World Economic Prospects: January 2017

Each month Oxford Economics' team of 160 economists updates its baseline forecast for 200 countries using the Global Economic Model, the only fully integrated economic forecasting framework of its kind. Below is a summary of our analysis on the latest economic developments, and headline forecasts. For complete analysis or to request trial access, [click here](#) or visit [www.oxfordeconomics.com](http://www.oxfordeconomics.com).

## A world with higher inflation

- Our world GDP growth forecasts are unchanged this month, at 2.6% for 2017 and 2.9% in 2018. But we expect a sizeable increase in inflation, to 3.3% in 2017 from an estimated 2.8% in 2016, as the effect of higher oil prices feeds through.
- Global indicators continue to point to a pick-up in activity towards the end of last year, driven by stronger manufacturing activity. The global manufacturing PMI rose to the highest level in almost three years in December, while the composite index – which includes services – was at a 13-month high.
- World trade should be underpinned by stronger growth in the US (2.3% in 2017 and 2.5% in 2018), bolstered by the anticipated effects of President Trump's expansive fiscal policies. That said, uncertainties around our central forecast are unusually high given the high level of uncertainty surrounding the Trump administration. Encouragingly, there are increasing signs that the tighter labour market is



leading to a pick-up in wage inflation in the US, which will support consumers.

- Given these reflationary trends, we expect two increases in the Federal funds rate this year and US bond yields are likely to continue to rise. The widening of interest rate differentials between the US and the Eurozone will drive the euro down to parity with the US dollar by end-2017 for the first time since 2002.
- We have revised our Brexit assumptions this month. We now assume that the two-year period of exit negotiations is followed by a transitional arrangement lasting 2-3 years. This would provide breathing space to negotiate a free trade agreement with the EU.
- Emerging market growth on the whole will improve in 2017 but performance will differ across countries: Russia and Brazil will exit recession, but countries with weak balance of payments positions, high dollar debt and exposure to possible US protectionist actions will be at risk. In China, policymakers are moving to greater

emphasis on reducing financial risks and less focus on the 6.5% GDP growth target for 2017. Continued action is also likely to dampen further depreciation of the CNY.

[Click here to view the full report.](#)

### About Oxford Economics

Oxford Economics is a world leader in global forecasting and quantitative analysis. Our worldwide client base is comprised over 1,200 corporations, financial institutions, and government organisations.

Founded in 1981, Oxford Economics employs more than 260 people in 19 offices around the world, including 160 economists, and draws on a network of 500 contributing researchers. The rigour of our analysis, the calibre of our staff, and our links with Oxford University make us a trusted resource for decision makers.

**For more information or to request a trial visit [www.oxfordeconomics.com/trial](http://www.oxfordeconomics.com/trial).**

## Contact us

OXFORD: +44 1865 268900

LONDON: +44 207 803 1400

BELFAST: +44 2892 635400

CAPE TOWN: +27(0)21 863 6200

DUBAI: +971 56 396 7998

FRANKFURT: +49 69 96 758 658

MILAN: +39320 4525 559

PARIS: +33 (0)1 78 91 50 52

NEW YORK: +1 646 503 3050

BOSTON: +1 617 206 6112

CHICAGO: +1 773 867 8140

LOS ANGELES: +1 424 238 4331

MEXICO CITY: +52 (55) 52503252

MIAMI: +1 954 916 5373

PHILADELPHIA: +1 610 995 9600

PRINCETON: +1 609-683-5237

TORONTO: +1 905 361 6573

SINGAPORE: +65 6850 0110

HONG KONG: +852 3103 1096

SYDNEY: +61 2 9220 1707

TOKYO: + 81 3 6870 7175