Economic Snapshot for G7 Countries

December 21, 2018

**Following global slowdown in Q3, growth likely stabilized in Q4**

The global economy lost steam in the third quarter following the second quarter’s strong showing. A comprehensive GDP estimate for the global economy put year-on-year growth at 3.1% for Q3, below Q2’s 3.4% increase.

[In Canada](https://www.focus-economics.com/countries/canada), the last major economy to release Q3 GDP data, year-on-year growth edged up, although growth in SAAR terms—the measure more closely followed by analysts—dipped as expected following Q2’s surge. The slowdown came on the back of slower private consumption growth and a further contraction in fixed investment, while the external sector strengthened on increased petroleum production.

Turning to the other G7 economies, as reported last month the U.S. surged ahead in Q3 thanks to buoyant consumer spending, while the same driver also supported an uptick in growth in the UK. However, [Japan](https://www.focus-economics.com/countries/japan) and [the Euro area](https://www.focus-economics.com/countries/eurozone) lost momentum on soft exports.

According to current third-quarter GDP data for emerging markets, Asia lost steam on the back of a weaker external sector, as trade war concerns ramped up, although growth rates were still the envy of other world regions. In Eastern Europe, weaker growth in regional powerhouses Turkey and Russia—coupled with slower momentum in the Eurozone—dampened activity, while growth in Latin America was meager due to soft activity in several key economies.

In contrast, the expansion in Sub-Saharan Africa appeared to strengthen due to improved performances from heavyweights Nigeria and South Africa, in part thanks to stronger agricultural production. Meanwhile, the Middle East and North Africa region should have benefited from higher oil prices, notwithstanding the sharp deterioration in Iran due to the impact of sanctions.

Looking to the final quarter, [the U.S. economy](https://www.focus-economics.com/countries/united-states) is set to remain the star performer among its G7 peers, with recent consumer confidence, employment and retail sales readings suggesting consumer spending stayed robust. Japan should have picked up speed following temporary disruptions in Q3, while Canada and the Eurozone are seen expanding at a moderate pace. Recent PMI data for the UK suggests growth dimmed markedly, as Brexit uncertainty starts to bite hard. FocusEconomics panelist see global growth at 3.2% in the fourth quarter.

On the political scene, at the recent G20 summit in Buenos Aires the U.S. and China agreed to not to increase tariffs for 90 days, to allow further time for negotiations. While this reduced geopolitical tensions to a degree, relations between the two global superpowers remain tense—even more so after an executive of Chinese firm Huawei was arrested in Canada pending extradition to the U.S—and a further escalation of the trade war cannot be ruled out in the coming months.

In Europe, the Eurozone recently agreed in principle to a common budget for the currency bloc, which if realized could promote investment and reduce economic disparities between member states. While some European countries are banding together, the UK continues in its efforts to extricate itself from the EU. However, domestic political uncertainty is mounting in Westminster, with Prime Minister Theresa May’s deal still lacking a parliamentary majority only a few months until the departure date.

**Global economic outlook stable, but risks loom on the horizon**

The 2019 economic outlook for the global economy was left unchanged this month following a downgrade in the previous period. Nevertheless, next year, the global economy will post weaker growth mainly due to less accommodative financial conditions worldwide and as some of the world’s largest economies approach the tail-end of their current economic cycles, pushing down global economic activity and, especially, global demand. Moreover, risks to the global economic outlook continue to be skewed to the downside. Despite the recent truce, both political and trade tensions between China and [the United States remain elevated](https://www.focus-economics.com/countries/united-states), fueling economic uncertainty. Meanwhile, the ongoing monetary tightening by central banks in advanced economies could spur further capital outflows from emerging markets, putting their financial markets at risk.

FocusEconomics Consensus Forecast panelists expect the global economy to expand 3.1% in 2019, which is unchanged from last month’s estimate and below the 3.3% increase projected for this year. The panel sees global economic growth at 2.9% in 2020.

This month’s stable outlook for the global economy reflects unchanged growth prospects for [Canada](https://www.focus-economics.com/countries/canada),[the United Kingdom](https://www.focus-economics.com/countries/united-kingdom) and [the United States](https://www.focus-economics.com/countries/united-states). Conversely, estimates for [the Eurozone](https://www.focus-economics.com/countries/eurozone) and [Japan](https://www.focus-economics.com/countries/japan) were downgraded this month.

Among developing economies, growth prospects in Asia ex-Japan remain strong on the back of solid domestic demand and bold government stimulus in China. In Latin America, while economic dynamics are expected to pick up in 2019, structural economic imbalances will keep growth at modest levels. Economic growth in Eastern Europe will moderate next year due to mounting economic headwinds in Turkey, slower consumption growth in Russia and weaker dynamics in its key trading partner, the European Union. In the Middle East and North Africa, economic growth will benefit from bolder fiscal support next year, while the outlook for the region will be determined by the evolution of oil prices and uncertainty over future production curbs. In Sub-Saharan Africa, the economic recovery is expected to gain traction next year.

**UNITED STATES | Private consumption continues to propel economic growth in Q4**

After a modest slowdown in the third quarter, the economy appears to be maintaining a robust—even if likely slightly softening—growth momentum in the fourth quarter, buttressed primarily by upbeat private spending thanks to the winter holiday season. Indeed, consumer confidence remained elevated in November, while retail sales data in the same month signaled private consumption growth will accelerate somewhat in Q4 compared to the previous quarter. This should further be supported by steady job gains in the labor market, fanning upward wage pressures. However, a subdued housing sector should continue to weigh on the economy. On the trade front, the meeting between Donald Trump and Xi Jinping in early December yielded a 90-day truce. This ensured no new tariffs will be enacted during the period, which should limit disruptions in business activity for the time being. Indeed, despite concerns about tariffs, the manufacturing sector gained steam in November thanks to solid domestic demand. Nevertheless, the reprieve could be short-lived; the U.S. is set to increase the rate on existing tariffs from 10% to 25% on 2 March, in the likely event that trade talks fail to produce a substantive agreement.

Higher government spending and robust private consumption amid a tight labor market should underpin growth next year. However, the economy is poised to slow due to multiple headwinds, most crucially on rising interest rates, a global growth deceleration, and fading stimulus from the 2017 tax cuts. The main downside risk remains a further escalation of the trade war with China, which could disrupt business activity and weigh on business confidence and investment. [FocusEconomics panelists see GDP expanding 2.5% in 2019](https://www.focus-economics.com/countries/united-states), which is unchanged from last month’s estimate, and 1.7% in 2020.

**EURO AREA | Eurozone economy slows sharply in Q3; moderate momentum likely persists in Q4**

Detailed data confirmed that broad-based malaise drove the Eurozone economy to slow notably in the third quarter, with growth recording the softest reading in four years. Notably, export growth contracted amid cooling global trade, while the industrial sector was also hurt as the automobile sector was disrupted by new emissions tests. Available data for the fourth quarter points to mixed momentum. In October, industrial production rebounded and the unemployment rate was stable. However, sentiment slid in November and the composite PMI plunged to a four-year low in December. In the political arena, European leaders agreed to make a common budget for the Eurozone on 14 December, accepting a slimmed-down version of an idea touted by French President Emmanuel Macron. The budget would be used to spur investment and reduce economic disparity among economies and is a sign of renewed life in Eurozone reforms. Most of the difficult decisions regarding the budget, including its size, have yet to be agreed upon and a proper proposal is expected in June. The budget could face lengthy negotiations to pass given the differing views among heads of states over the matter.

A solid domestic economy should drive healthy growth next year. However, a less favorable external backdrop will weigh on the pace of expansion. The threats of rising global protectionism and turbulent internal politics are key risks to the Eurozone’s forecasts. [The panel projects growth of 1.6% in 2019](https://www.focus-economics.com/countries/eurozone), which is down 0.1 percentage points from last month’s forecast, and 1.5% in 2020.

**JAPAN | Government approves tax reform to cushion likely impact from October 2019 sales tax**

The economy fared worse than initially reported in the third quarter as strong typhoons and a powerful earthquake severely disrupted economic activity. The economy is, however, expected to return to growth in the fourth quarter as supply chains recover from the natural disasters. The manufacturing PMI averaged slightly higher in Q4 than in Q3, while confidence among large manufacturing firms steadied at relatively high levels in the same period. Moreover, the Tankan survey—an economic survey of Japanese businesses conducted by the Bank of Japan (BoJ)—showed that large firms are planning to noticeably increase capital spending in the fiscal year ending in March 2019. On 14 December, the government unveiled a tax reform package for FY 2019 aimed at alleviating the negative consequences of a consumption tax hike scheduled for October 2019. Four days later, the government presented the budget for FY 2019, which will top JPY 100 trillion (USD 890 billion) for the first time, highlighting the government’s difficulties to rein in public spending.

Fundamentals should remain robust next year thanks to ultra-loose monetary policy, a tight labor market and construction works related to the 2020 Tokyo Olympics. A scheduled tax hike and rising trade protectionism will weigh on growth, however. [FocusEconomics panelists see the economy growing 1.0% in 2019](https://www.focus-economics.com/countries/japan), which is down 0.1 percentage points from last month’s forecast, and 0.6% in 2020.

**UNITED KINGDOM | Economy seems to lose steam in Q4 amid persistent political uncertainty**

The economy appears to have lost momentum in the final quarter. In the three months to October, GDP growth slowed on lower car sales and a softer pharmaceutical sector, while retail sales declined in month-on-month terms for the second straight month in October. Meanwhile, in November the services PMI slipped to an over two-year low, due to slower expansions in new orders and employment, while sentiment among consumers worsened. In contrast, the labor market remains a bright spot; in the three months to October, employment growth was solid, while nominal wage growth reached a near-decade high. On the political front, Prime Minister Theresa May recently called off the vote on the Brexit withdrawal agreement scheduled for 11 December, due to a lack of parliamentary support. She subsequently survived a no-confidence motion tabled by Conservative MPs. The intensifying political uncertainty is likely to depress investment in the months ahead.

Growth should be fueled next year by the looser fiscal stance and higher wages boosting private consumption. However, private fixed investment will likely remain subdued until there is greater clarity on the Brexit front. A failure to ratify the EU withdrawal deal before the UK departs the bloc in March 2019 is the key downside risk. [Our panelists expect GDP growth of 1.5% in 2019, unchanged from last month’s forecast](https://www.focus-economics.com/countries/united-kingdom), and 1.5% again in 2020.

**INFLATION | Global inflation falls in November on declining oil prices**

Global inflation fell from October’s over-five-year high of 3.2% to 3.0% in November, according to an estimate produced by FocusEconomics. The reading reflected lower price pressures in most advanced and developing economies due to the recent decline in global oil prices.

At its 18–19 December meeting, the U.S. Federal Reserve raised its target range for the federal funds rate by 25 basis points to 2.25-2.50%, in line with market expectations. However, the Fed also signaled fewer hikes ahead, with the median expectation of interest rate hikes for next year falling from three to two. Lower rate expectations were nevertheless consistent with a mild downgrade to the Fed’s projections for GDP growth and inflation. Conversely, the Bank of Canada stayed put at its 5 December meeting, following a rate hike at the prior meeting, as did the Bank of England and the Bank of Japan at their respective meetings in December. Meanwhile, at its 14 December meeting, the European Central Bank confirmed the end of its massive EUR 2.6 trillion quantitative easing stimulus program introduced in March 2015 to shore up the Eurozone’s banking system. Interest rates, however, are expected to remain at their present record-low levels until at least the end of next summer.

Against a backdrop of lower oil prices, an uncertain global economic outlook and tighter financial conditions, FocusEconomics panelists expect global inflation to fall from a 3.1% average in 2018 to 2.9% in 2019. The FocusEconomics panel projects that global inflation will edge down further to 2.7% in 2020.