Global Outlook

- Global Baseline Outlook
- Global Forecasts: GDP Growth, Inflation, Interest Rate
- Global Risks

The US
China
India
Japan
The Eurozone
The UK
Russia
Brazil

Notes
Global Baseline Outlook

- In the second half of 2019, the global growth outlook has deteriorated, with worsening trade tariff risks, greater geopolitical uncertainty in the Middle East, worsening business and consumer confidence, and slower output growth.

- According to global business surveys, business activity growth and one-year ahead business growth expectations have declined to levels not seen since the beginning of 2016.

- We have downgraded global GDP annual growth estimates to around 3% in 2019-2021 (0.2 percentage points less annually than in Q3 forecasts). Advanced economies growth has been downgraded slightly to 1.4-1.6% annually in 2019-2021. Emerging and Developing Economies (EMDE) have been more substantially downgraded to less than 4% growth in 2019, recovering to around 4.5% growth in 2020-2021.

- India, Mexico and Germany have had the worst growth downgrades among major economies.

Source: Euromonitor International Macro Model
• The negative shocks to the global economy have been partly countered by a loosening of monetary policy around the globe and significant declines in global long-term interest rates, with US and Eurozone government bond yields falling by 0.6-1 percentage points in since March 2019. On average AE long-term government bond yields have declined by around one percentage points over the last year.

• The slowdown has so far mainly affected the manufacturing and trade sectors, with relative strength in consumption and services sectors.

• The recent global growth slowdown is modest by historical standards. But overall global downside risks have increased since mid-2019. We now assign around 15% probability at a 1-year horizon to our main Global Downturn/Recession scenario, compared to around 13% probability in Mid-2019. Such a scenario would reduce global output growth below zero in 2020 and reduce annual global growth rates by 1-2 percentage points over 2020-2022.
**Global Economic Forecasts: Q4 2019**

November 2019

**GLOBAL OUTLOOK**

Real GDP Annual Growth Forecasts and Revisions from Last Quarter, AE (%, percentage points)

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# Real GDP Annual Growth Forecasts and Revisions from Last Quarter, EMDE (%, percentage points)

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Inflation Quarterly Forecasts

**Advanced Economies**

- US
- Eurozone

**Developing and Emerging Countries**

- Brazil
- Russia
- India
- China

Source: Euromonitor International Macro Model
Central Bank Interest Rate Quarterly Forecasts

Advanced Economies

Developing and Emerging Countries

Source: Euromonitor International Macro Model
• The persistent rise in trade tensions since the middle of 2019, worsening growth slowdown especially in EMDE’s, further declines in business confidence, manufacturing and trade growth have all caused an increase in probability estimates for the Global Downturn, Emerging Markets Slowdown and Global Crisis risk scenarios. In contrast, the recent preliminary agreement between the EU and UK governments on a future trade deal has reduced the risks of No-Deal Brexit scenarios.

• According to our Global Risks Index, combining scenario probabilities and global output impact, the 3 biggest global macroeconomic risk scenarios over a one-year horizon remain a Global Downturn, and Emerging Markets Slowdown and a Global Crisis.

* Impact is measured as world GDP change over 3 years compared to baseline scenario, in percentage points
### Global Risk Index Scores and Rankings

**Euromonitor International Global Risk Index, November 2019**

<table>
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<tr>
<th>SCENARIO</th>
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<th>GLOBAL GDP IMPACT, %</th>
<th>PROBABILITY, %</th>
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**Source:** Euromonitor International Macro Model  
**Note:** Global Risk Index ranks scenarios by the expected global GDP impact, calculated as the 3-year cumulative global real GDP impact of the scenario multiplied by its 1-year probability, relative to the average global downside shock probability. The Index is based on 58 world’s major economies (representing 90% of global GDP at PPP).
General Outlook

- Economic growth has decelerated to 1.5-2% year-on-year in the second half of 2019. GDP growth for 2019 is estimated at 2-2.4% in 2019 and is expected to decline to 1.1-1.9% in 2020.

- So far, consumer spending overall appears to be holding up well, despite the slowdown in global trade and business investment growth. Disposable income growth remains significantly above trend, unemployment risks are low, financing conditions are favourable and consumer confidence remains above average (though declining).

- However, services consumption (the main component) has decelerated to 1.7% year-on-year growth in Q3 2019. Consumption is expected to increase by around 2.5% in 2019 and by 1.7-2.3% in 2020.

- The current slowdown is focused in manufacturing and business investment. However, the economy remains vulnerable to a worsening slowdown or more severe downturn, in which consumer confidence and spending growth would also decline substantially.

- Baseline scenario one-year ahead probability: 20-30%.

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THE US

Forecast Risks (1)

- The latest US tariffs on China announced in August imply that on current plans all Chinese imports to the US will be subject to tariffs by December 2019.

- In the first week of November there were indications of progress in the China-US trade talks, with discussion of possible removal of some of the recent US tariffs on China, and delay in planned upcoming tariff increases. The aim is to get a partial trade deal by the end of 2019. However, any progress in trade talks remains highly uncertain, and trade war escalation risks remain quite high.

- We have reduced US annual GDP growth forecasts by 0.1 percentage points in 2019-2020 to account for the latest round of tariff increases. We also maintain our one-year ahead probability of 26-36% for escalation into an all-out US-China trade war with a further 15-25 percentage points rise in bilateral tariffs on all imports. In this scenario, US annual GDP growth would decline to 0.9-1.6% in 2020-2021.

US Global Risks Scenarios in 2019 Q4

- Real GDP Growth
- Unemployment Rate
- Inflation
- Interest Rate

Source: Euromonitor International Macro Model
Forecast Risks (2)

- The direct impact of a worsening trade war, on its own, on the overall US economy is limited. However, a worsening trade war could indirectly raise the likelihood of a more severe global downturn through adverse financial markets and business confidence and risk aversion effects.

- In the Global Downturn scenario, fears of escalating protectionist and populist policies in advanced economies, growing geopolitical tensions and heightened investor risk aversion raise uncertainty levels and worsen global financial markets’ sentiment. A global downturn would cause the US economy to contract by 0-1.2% in 2020. We assign this scenario a 12-18% probability over a one-year horizon.

- In contrast, the US economy is relatively robust to our second worst global macroeconomic risk, an Emerging Markets Slowdown. Such a scenario would reduce growth to around 0.7-1.5% in 2020. We assign this scenario a 12-20% probability over a one-year horizon.
Pessimistic and Optimistic Scenarios

**The US**

**Pessimistic scenario**
- Declining business and consumer confidence combine with rising US-China trade tensions and cause a worse than expected economic slowdown.
- GDP growth declines to 0.4-1.2% in 2020.
- Probability: 20-25% over a one-year horizon.

**Optimistic scenario**
- Consumer and business confidence increase and the US and China reach a trade agreement, eliminating most of the current tariffs.
- GDP growth improves to 1.9-2.7% in 2020.
- Probability: 15-20% over a one-year horizon.

- In a major downturn, the decline in private sector confidence is more severe and spills-over into significant increases in financial market risk premia. GDP growth in 2020 would range from -0.5% to 0.5%.
- Probability: 15-20% over a one-year horizon.
Consumer sentiment has declined in recent months, though it remains above average. US consumers continue to perceive solid current personal income and financial conditions, supporting spending.

However, household expectations about the 1-5 years ahead economic outlook have become more pessimistic. These more pessimistic expectations about future financial and economic conditions signal a heightened risk of a significant slowdown in consumer spending in 2020-2021.

Business confidence indices have given conflicting signals in the last few months. Corporate business sentiment has declined in recent months. The CEO Economic Outlook Index (a Sentiment index for large businesses) declined sharply in Q3 2019, below the historic average. Most US CEOs still expect company sales to increase over the 6-month horizon, but only 36% expect to increase CAPEX over the next half year.

In contrast, the business sentiment among small business owners remains in the top 20% of the historic distribution despite declining in September 2019 (according to the NFIB’s optimism index).

Ultimately, a more substantial and general decline in business sentiment risks spilling over into reduced hiring and wage growth, leading to a slowdown in consumer spending.
• The continuing strong performance of US stock markets, rising moderately in recent months, are another signal that so far business and financial markets sentiment may not have declined substantially. The stability of the US stock markets also reflects looser monetary policy and declining long-term interest rates.

• So far this easing of financing costs has been sufficient to counter rising US-China trade war tensions, geopolitical tensions in the Middle East and rising fears of recession. However, stock markets and business investment are highly vulnerable to both global and domestic shocks in 2020.
Labour Markets and Household Income

- Solid labour markets continue to be the main factor supporting relatively strong consumer spending growth. The US unemployment rate has stayed around 3.5-3.7% in the last three months. We expect it to remain at around 3.7% in 2020.

- The US prime working age employment rate (the most robust measure of labour markets performance) has now returned to levels previously reached in 2006-2007 before the global financial crisis. It is now two percentage points above the 2001-2019 average, though it remains still below the levels reached at the end of the internet boom in the 1990s.

- Labour productivity and compensation growth has improved significantly in 2019. Labour compensation growth has outperformed productivity growth over the last year, reducing some of the previous declines in the labour share of income since 2001. However, this partly reflects faster growth in worker benefits.

- Real wage growth has remained 1-1.5% year-on-year. Both labour productivity and real worker compensation growth are expected to grow at around 1-1.5% annually in 2020-2021.
Interest Rates and Monetary Policy

• The main story in financial markets in the last two years has been the convergence between short- and long-term interest rates, due to significant drops in long-term interest rates. Some of these declines are likely to be transitory, but our current estimate of long-term US risk-free interest rates has declined to 2.5% (around 0.5% in real terms, after inflation).

• At the end of October, the US Fed cut the Fed funds rate to 1.5-1.75%. This follows up on an earlier 0.25 percentage points cut in September.

• The Fed’s governors have emphasised solid consumer spending growth and labour markets, accompanied by weak business investment and trade outlook. The interest rate cuts have been justified as a precautionary move against slowing global growth and rising trade policy uncertainty. This trade uncertainty has cut business investment growth significantly.

• The Fed has hinted that it will pause for now on further interest rate cuts, unless there are major adverse shocks, eg from a trade war escalation or worse than expected global slowdown/downturn.

• We expect US short-term interest rates to remain at around 1.6% in 2020-2021, rising towards 2.3% over 2022-2023. However, this forecast is vulnerable to significant downturn risks in 2020. A domestically-driven major downturn or a global downturn would drive down US short-term interest rates in 2020 towards 0.5-1%.
CHINA

General Outlook

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- China’s economic slowdown is continuing, with official annual GDP growth expected to decline towards 5-6% in 2020-2021. Rising trade war tensions with the US have led to a modest downgrade in the outlook.
- However, the main driver of the slowdown remains a reduction in the economic catch-up potential with developed economies, combined with hesitation by the Chinese government to adopt more substantial reforms of the state-owned enterprises (SOE) and financial sectors that could significantly boost long-term growth.
- Credit growth has continued exceeding nominal output growth by more than two percentage points in Q3 2019, leading to a continuing debt build-up, though more slowly than before.
- The Chinese economic slowdown has reduced consumer spending, but the consumption sector is expected to continue outperforming the rest of the economy, as China gradually evolves to a more well-balanced economic structure.
- Chinese real consumer spending is expected to exceed GDP growth by around 0.5-1 percentage points over a 2-5 years horizon, with growth exceeding 9% annually in the upper middle class and richer income segments.
- Baseline Scenario Probability: 25-30%.
Forecast Risks

- The China-US trade war has worsened since mid-2019. Without at least the first phase of a trade deal, all Chinese imports to the US will be subject to tariffs by December 2019. Despite signs of a potential de-escalation in early November, the outlook for negotiations is highly uncertain.

- We have therefore reduced China’s GDP growth forecasts by a cumulative 0.4 percentage points for 2019-2021, factoring in the latest round of tariffs.

- We have maintained the probability of a more severe all-out trade scenario at 26-36% over a one-year horizon. Such a scenario would cut our growth forecast in 2020 to 4.5-6.5%.

- Despite the strong news focus on trade tensions with the US, China remains much more vulnerable to other scenarios, such as a Global Downturn or an Emerging Markets Slowdown, or a more domestically-driven hard landing scenario. In our main Global Downturn scenario, Chinese GDP growth would decline to 1.1-2.2% in 2020 and to 2.4-3.8% in 2020. We assign this scenario a 12-18% probability over the next 12 months.

### China Global Risks Scenarios in 2019 Q4

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<th>Scenario</th>
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<td>China Hard Landing: 2020 Q1</td>
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<td>US-CN Trade War: 2020 Q1</td>
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Source: Euromonitor International from Euromonitor Macro Model
Pessimistic and Optimistic Scenarios

**China Real GDP Growth Forecast**

- **Pessimistic scenario**
  - Faster than expected declines in private sector confidence and worsening trade tensions with the US cause a steeper decline in fixed investment and consumer spending growth.
  - GDP growth declines to 4.2-5% in 2020.
  - Probability: 20-25% over a one-year horizon.

- **Optimistic scenario**
  - A combination of improving private sector sentiment, stronger fiscal stimulus effects and de-escalation of the trade war with the US boost economic activity.
  - GDP growth rises to 6-6.8% in 2020.
  - Probability: 15-20% over a one-year horizon.

- **In a major downturn**, the worsening private sentiment and spending are accompanied by large declines in real estate prices and much tighter borrowing conditions. GDP growth declines to 2.9-3.9% in 2020.
- Probability: 15-20% over a one-year horizon.
Economic Activity and Private Sector Sentiment (1)

- China’s official GDP year-on-year growth declined to 6% in Q3 2019, with overall Q1-Q3 average growth of 6.2%. Worsening exports and fixed investment growth were key drivers of the ongoing slowdown.

- Fixed assets investment real growth declined to around 5.4% year-on-year in real terms (using 0% PPI inflation and 5.4% nominal growth). Exports have contracted in recent months. Household consumption growth has also slowed down to slightly above 6%.

- The rebalancing of the economy towards services has continued. Manufacturing and construction sectors growth was 5.6% year-on-year over Q1-Q3, while services sector growth was 7%. Services now account for 54% of China’s GDP, compared to around 40% for industry and construction sectors.

- Both industrial production and retail sales monthly growth data indicate a significant slowdown in China’s economy, with growth rates around 5-6% over the last half year. The decline in retail sales growth is especially alarming, given the growing importance of domestic demand for sustaining China’s economy.
Economic Activity and Private Sector Sentiment (2)

- A combination of fiscal stimulus and official statistical bias could keep China’s official GDP growth close to 6% in 2020, but the true growth rate of economic activity may be closer to 4-4.5%.

- Both business and consumer confidence have declined in the last half year, though consumer confidence still remains much greater than the historical average. The relatively high consumer confidence partly reflects economic rebalancing, with households expecting a greater share of national income going into wages and an improving social safety net reducing the need for precautionary savings.
Chinese Consumer Spending Medium-Term Trends (1)

- Q1-Q3 2019 per capita real consumer spending growth was 5.7% (around 6.1% overall). This was supported by per capita real disposable income year-on-year growth of 6.1% in Q1-Q3.

- **Chinese real consumer spending is expected to slow down to around 5.3-6.3% annual growth over a 5-year horizon**, in line with the more general structural slowdown in China’s economic activity and disposable income growth (annual GDP growth is expected to average 4.9-5.9% over the same period).

- However, a breakdown of forecasts by income segments reveals ongoing fast growth of 9-15% annually expected for upper income households (with annual household income above 45,000 in PPP adjusted 2018 US dollars). By 2023, these households are expected to account for more than 50% of Chinese consumer spending.

Source: Euromonitor International Consumer Spending by Income Bands model
Note: Consumer Spending by Income Bands, Constant 2018 prices PPP adjusted
E segment: less than 5000 USD, D segment: 5000 to 15000 USD
C segment: 15000 to 45000 USD, B segment: 45000 to 100000 USD
A segment: More than 100000 USD
CHINA

Chinese Consumer Spending Medium-Term Trends (2)

- The main threat to consumer spending growth over the medium term is a global economic downturn, which would reduce annual spending growth in the A and B segments by 1-2 percentage points. However, the overall trend towards more spending by upper middle class/upper class households is robust to macroeconomic shocks.

China Real Consumer Spending Average Annual Growth by Household Income Band, Baseline and Global Downturn Scenario

Source: Euromonitor International Consumer Spending by Income Bands model
Note: Consumer Spending by Income Bands, Constant 2018 prices PPP adjusted
E segment: less than 5000 USD, D segment: 5000 to 15000 USD
C segment: 15000 to 45000 USD, B segment: 45000 to 100000 USD
A segment: More than 100000 USD
India’s economy has slowed down to the lowest growth during the past six years in 2019, with average Q1-Q3 growth at 5.4%. Despite the low growth of 5.1% in Q1, the economy is expected to recover in Q4 with 5.6% growth mainly due to increased consumption.

The slowdown in Q2 2019 was related to lack of fixed investment and lower private consumption growth. While overall growth was prompted by highly increased public spending by 14% and recovering export growth by 2.2% year-on-year growth in Q2 2019. Inflation is currently below the medium-term target of 4%, inflation is projected to grow gradually to 4.4% till 2021.

GDP growth is expected to recover gradually and increase by 5.9-6.8% in 2020 and by around 6.8% in 2021. The fiscal year growth is expected to be slightly higher, with average 6.4% growth in 2020 and 6.9% growth in 2021.

Interest rates are projected to continue falling in the next year, which should benefit consumers and businesses, as well as increase investments.

However, rising doubts about India’s GDP growth accuracy could raise concerns related to future economic trajectory, which could have a negative impact to investment and first ever sovereign bond offering in overseas market.
### Pessimistic and Optimistic Scenarios

#### Pessimistic scenario

- **In the pessimistic scenario**, the slowdown of India’s economic growth will continue. Internally, the labour market faces growing unemployed population numbers which contribute to decreasing consumer demand. Externally, increasing trade issues between the US and India contribute to decreasing demand for exports.

- India’s real GDP growth could drop to 4.9% in 2020 and have a slower recovery with 6% growth in 2021. We assign this scenario a 15-25% probability over a one-year horizon.

#### Optimistic scenario

- **In an optimistic scenario**, India’s economy would recover and accelerate fast due to increasing exports and growing foreign investments. An above normal monsoon season and renegotiation of better conditions in RECP could contribute to expanding exports, while a falling interest rate should help to recover from the 2019 slowdown.

- India’s real GDP growth could accelerate to 8.2% in 2020 and 7.7% in 2021. We assign this scenario a 15-25% probability over a one-year horizon.
• India’s economy in Q1 2019 was dragged down by exports and fixed investment growth, the main factors that boosted economic growth during 2018. Despite negative growth at the beginning of the year, exports recovered from -3.4% in Q1 to 2.3% year-on-year in Q3 2019.

• Fixed investment growth improved from -1.9% in Q1 to 2% year-on-year in Q3 2019. This implies that the recent corporate tax cut spurred investment growth which is expected to rise by 4.8% in Q4 2019. Despite its sensitivity to oil price changes and the monsoon season, India’s economy is expected to avoid macro shocks during Q4 2019 and maintain stable GDP growth by 1.6%. Meanwhile online purchase during festive seasons indicates that private consumption will rise and could increase by 5.4% year-on-year in Q4 2019.

• One of the main factors that contributed the most to slowdown of India’s economic growth was gradually increasing unemployment. In Q3, the unemployment rate rose to 3-year high, prompted by the steep drop in car sales, which forced automakers to shut down plants and lay off contract workers. The decreased consumption affected the informal sector and daily-wage workers creating more unemployment. It is expected that unemployment will continue to rise in 2020 and could reach 2014 levels.
Inflation and Monetary Policy

• In Q3 2019, the CPI inflation rate accelerated to 3.5% from 2.4% year-on-year in Q1. The inflation rate remained lower than 4% of mind point of the Reserve Bank of India’s (RBI) target. Increasing food prices that account around half of the inflation basket, a weaker rupee and RBI’s aim to maintain inflation in 2-6% target range projects that inflation will be going upwards in the coming quarters. India’s inflation is forecast to grow by 4.7% year-on-year in Q4 2019 and remain above RBI’s mind point target in 2020 quarters.

- The RBI continued its monetary policy easing by cutting interest rates, that in Q3 2019 reached levels that were last seen after the 2008 global economic crisis. In order to maintain a stable banking system environment, RBI imposed restrictions for small banks. India’s rupee gained around 5% against the British pound between January and October 2019 due to growing Brexit uncertainty, while it dropped by 0.3% against the US dollar over the same period. This shows remarkable stability outside major shocks in specific trade partners.
General Outlook

• **Japan GDP is expected to grow by around 1.0% in 2019 and then slow down to 0.3% in 2020.** Japan’s economic growth slightly accelerated in Q2 of 2019, kept stable in Q3, but is expected to decline in the last quarter of the year. The sales tax hike and typhoon Hagibis will weigh negatively on GDP growth in the last quarter of 2019 and in 2020.

• **Japan’s Q2 2019 annualised real GDP growth was revised down from the original estimate of 1.8% to 1.2% on the back of the continuing trade war between the US and China which affects business spending in Japan.** The Bank of Japan (BoJ) hinted that due to these developments it would be willing to cut interest rates further.

• **Domestic demand might decline further.** Consumer confidence is at a low even though the labour market shows ongoing strength. Besides monetary policy, there are limited drivers for inflation.

• **Unexpectedly, after years of business-friendly policy improvements from Shinzo Abe’s government, Japan is planning to introduce stricter rules on foreign investments in industries related to national security.** The change could deter foreign investments and given the country’s already lacklustre growth, may push the economy into a slowdown. Nevertheless, the government reiterated that it welcomes foreign direct investment.
Economic Activity

- Japan's consumer confidence edged up slightly in October 2019 since mid-2018. Confidence remains low and after the sales tax increase is not expected to rise further at least in Q4 2019.

- Retail sales increased in August 2019. Nevertheless, just like the recent increase in consumer confidence, this growth is not expected to persist and it may be attributed towards temporary increase in sales before the hike in the tax rate.

- Inflation continues to decline in 2019 which, together with low consumer confidence, prompted the BoJ to adjust its forward guidance to a more dovish stance (indicating willingness to cut interest rates in the near future).

- Unemployment continues to decline amid disinflationary forces. The economy is close to full employment, while job openings substantially exceed job seekers. Labour markets in Japan continue to show robustness amid low consumer confidence and deteriorating global economy.
Pessimistic and Optimistic Scenarios

**Pessimistic scenario**

- The most immediate risks to Japan’s economy remain the same as in the previous quarter: an intensifying China-US trade war resulting in lower business and consumer spending in Japan. On top of that, the increased sales tax may affect consumers more strongly than expected.
- In this pessimistic scenario, we see Japanese GDP declining by around 0.7% in 2020.
- We assign a probability of 20-25% to such a scenario over a one-year horizon.

**Optimistic scenario**

- Our optimistic scenario assumes that the global economy rebounds, China-US trade war moderates, and the Japanese economy is not severely affected by the sales tax increase.
- In this scenario, business and consumer spending together with investments grow quicker than expected. Inflation reverses its current slowdown and the economy grows by 1.3% in 2020.
- We assign a probability of 10-15% to such a scenario over a one-year horizon.

Source: Euromonitor International Macro Model
Foreign Trade

- Potential easing of monetary policy by Japan will negatively affect the Japanese yen’s value, which may improve Japan’s trade balance in the next quarter. Already in October, we saw a reversal and depreciation of the yen against the US dollar.

- In September 2019, Japan signed a trade deal with the US. The US is the second largest trading partner for Japan after China. The trade deals improve conditions for agriculture product imports from the US to Japan and for Japanese exports of machinery to the US.
### General Outlook

**Q4 2019 Forecast**

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<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP Growth (%)</td>
<td>1.9</td>
<td>1.1</td>
<td>1.2</td>
<td>1.3</td>
<td>1.2</td>
<td>-0.1</td>
<td>-0.1</td>
</tr>
<tr>
<td>Inflation (%)</td>
<td>1.8</td>
<td>1.4</td>
<td>1.4</td>
<td>1.6</td>
<td>1.8</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>ECB Refinancing Rate (%)</td>
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<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.7</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

- **The Eurozone outlook has continued to worsen during the second half of 2019, with Germany almost entering a technical recession. Q3 GDP growth declined to 1.1% year-on-year.** Lower exports, business investment and industrial production have been the focus of the slowdown so far, accompanied by substantial declines in business confidence and profit expectations.

- Consumer confidence has also been declining and an ongoing slowdown may lead to a bigger hit to household finances and consumer spending in 2020.

- **Our current baseline forecast is for GDP growth of around 1.1% in 2019, rising to 0.8-1.5% growth in 2020.** However these forecasts are vulnerable to substantial downside risks.

- Baseline scenario one-year ahead probability: 20-30%.
Pessimistic and Optimistic Scenarios

The Eurozone

**Pessimistic scenario**

- Worsening private sector sentiment and global demand cause a worsening slowdown, pushing the Eurozone close to recession.
- GDP Growth ranges from -0.2% to 0.6% in 2020.
- Probability: 20-25% over a one-year horizon.

**Optimistic scenario**

- Rising private sector sentiment and improving global demand boost the Eurozone economy.
- GDP growth rises to 1.3-2% in 2020.
- Probability: 15-20% over a one-year horizon.

In Italy a new governing coalition was formed in September, following the collapse of the previous populist coalition of the League and M5S. The new coalition represents a pro-EU and pro greater fiscal responsibility shift, reducing financial market concerns about Italian debt default and Italexit.
**Eurozone Short-Term Economic Activity and Business Environment:**

- GDP growth has been around 1.2% year-on-year in the last half-year. Purchasing managers’ indices indicate a similar pace of growth in the last quarter of 2019.
- So far, the services sector, retail sales and consumer spending have held up well with consumption growth around 1.3% in the first three quarters of 2019, and real retail sales increasing 3.1% year-on-year in September.
- In contrast, manufacturing output is contracting due to worsening global exports demand. Industrial production in Germany and Italy has been especially badly hit.
- Labour markets continue to be a positive factor in the outlook especially for consumer spending, with employment growth of around 1% estimated for the whole of 2019. However, according to the ECB, annual employment growth should decline towards 0.5% in 2020-2021.
- Real wage year-on-year growth has held up at 1-1.5%, despite stagnating labour productivity, and is expected to remain similar in 2020, though this time backed by faster productivity growth.
Private Sector Sentiment:

• The Eurozone’s Economic Sentiment Index has declined in recent months and is now barely above the long-term historical average.

• In October, there was a decline in consumer confidence due to more pessimistic expectations about the economic outlook and household financial conditions. Business and retail confidence indices also declined due to more pessimistic expectations about future demand conditions.

• Consumer confidence indices in the main Eurozone economies remain moderately above historic averages, though declining in recent months. Business confidence has declined substantially in 2019, especially in Germany, reflecting the worsening manufacturing and global exports environment.
GENERAL OUTLOOK

THE UK

Q4 2019 Forecast

<table>
<thead>
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</tr>
</thead>
<tbody>
<tr>
<td>Real GDP Growth (%)</td>
<td>1.4</td>
<td>1.0</td>
<td>1.2</td>
<td>1.4</td>
<td>1.5</td>
<td>-0.2</td>
<td>-0.1</td>
</tr>
<tr>
<td>Inflation (%)</td>
<td>2.5</td>
<td>1.9</td>
<td>1.9</td>
<td>2.0</td>
<td>2.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Bank Rate (%)</td>
<td>0.6</td>
<td>0.8</td>
<td>0.8</td>
<td>1.0</td>
<td>1.8</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

- The UK economy is in a holding pattern pending the resolution of Brexit and elections uncertainty in the beginning of 2020. The baseline forecast is for GDP growth of around 1% in 2020 (0.3-1.6% allowing for moderate business cycle shocks, Brexit events withstanding), with a modest improvement in growth in 2021 and beyond.

- This assumes that an EU-UK Brexit deal is reached either as a free trade agreement (FTA) or as a customs union (CU) in 2020. The trade deal is likely to maintain tariff-free trade for most goods between the EU and the UK.

- Relative to the European Single Market, the trade deal would imply significant non-tariff barriers, especially for services, in addition to significant extra administrative costs for UK exporters to the EU. During the 2020 transition period, trade and FDI regulations would remain as in the EU.

- The greater likelihood of a more restrictive trade-deal than previous expectations of a customs union has caused a cumulative reduction in the baseline forecasts with around 1.5% lower long-term UK GDP levels compared to Q3 forecasts. We assign the baseline outlook a 45-55% probability.
Forecast Risks (1)

- The main forecast risks to the UK economy continue to come from uncertainty about Brexit outcomes. After intense political battles, UK prime minister Boris Johnson was forced to seek an extension of the Article 50 period, delaying Brexit until the end of January 2020.

- For Q4 2019, we have raised our estimated baseline FTA/CU scenario probability to around 70%, reducing the probability of no-deal Brexit scenarios to around 30%. This comes after the EU and the UK reached a new preliminary deal framework in mid-October.

- The passage of PM Johnson’s new agreement with the EU is still uncertain, but for the first time there is a negotiations framework that is acceptable to most hard Brexiteers. This means that the overwhelming majority of MPs now support some kind of Brexit deal or remaining in the EU.

- The parliamentary deadlock in Parliament ultimately led MP’s to agree to hold a general election in December. The latest polls suggest that the Conservatives are likely to remain the largest party, potentially with a new majority of seats.

![UK Brexit Scenarios in 2019 Q4](chart)

**Source:** Euromonitor International Macro Model
Forecast Risks (2)

- Depending on the outcome of the elections, Johnson’s push for his deal could be easier with Conservatives gaining significantly more seats or even a majority. Alternatively, a decline in the number of Conservative MPs may open the road for concessions towards a softer Brexit such as a Customs Union amendment or a second Brexit referendum between Johnson’s deal and remaining in the EU.

- Under no-deal scenarios trade relations with the EU would default to WTO conditions with significantly higher barriers and a potential chaotic transition to a new customs and regulatory controls regime. In our main No-Deal Brexit scenario, UK economic growth would decline to around 0.2% in 2020. Over five years, UK output levels would fall by 2-5% below the baseline forecast. We now assign this scenario a 15-25% probability.

- In a more severe disorderly Brexit scenario, UK output would contract by around 3-4.5% in 2020, with long-term declines in economic activity of 5-9% relative to the baseline forecast. This scenario is now assigned a roughly 5-15% probability.
Economic activity rebounded moderately in Q3, with GDP growth likely to have been above zero. UK GDP is contracting slightly at the beginning of Q4 2019, according to purchasing manager indices. Industrial production has declined due to a mix of the worsening global demand environment and Brexit business uncertainty, but real retail sales growth remains strong.

- **Strong labour markets and low interest rates continue to support household spending.** The unemployment rate averaged 3.8% in July-September and is likely to remain close to 4% in 2020. The Bank of England is likely to maintain short-term interest rates below 1% in 2020-2021.

- **Consumption growth is expected at around 1.5% in 2019 and 1-1.5% in 2020.** In contrast to the household sector, business investment is stagnant, likely increasing by 0-0.5% in 2019.

- **Private sector confidence has remained moderately below the historic average.** Consumer sentiment declined slightly in October, further below historical average. The Markit UK business outlook survey for October suggests low but stable business confidence, with around 30% of firms expecting an increase in business activity over a one-year horizon.
Economic Activity Growth

- Annual GDP growth rose to 0.9% in Q2 2019 after a 0.5% increase a quarter earlier, according to Rosstat data. GDP statistics by spending category suggest that, so far, the growth slowdown in the economy is mainly driven by domestic demand and inventory dynamics, and not on investment and net export increase as it was a year earlier.

- Lack of support to growth from net exports is mainly caused by a reduction in oil exports amid the OPEC+ agreement on oil production cuts and general slowdown in the global economy. As for the growth rate of gross fixed capital formation, it is constrained by slower than expected implementation of several national projects planned by the government.

- Given the weak economic activity observed since the beginning of this year in our baseline, by the end of 2019 we expect real GDP to grow by about 0.8% and further increase to around 1.5% year-on-year over the next two years.

- Transition to the active stage in the aforementioned project implementations in early 2020 is expected to push public spending and provide a more significant contribution to the higher economic growth next year.

- It is also expected that moderately favourable dynamics of consumer demand amid better household income dynamics and exhaustion of the restraining effect of the VAT increase will continue to support economic activity in 2020.
**Pessimistic and Optimistic Scenarios**

<table>
<thead>
<tr>
<th><strong>Russia Real GDP Growth Forecast</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
</tr>
<tr>
<td>Euromonitor baseline</td>
</tr>
<tr>
<td>-2</td>
</tr>
<tr>
<td>0</td>
</tr>
<tr>
<td>2</td>
</tr>
<tr>
<td>Source: Euromonitor International Macro Model</td>
</tr>
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</table>

**Pessimistic scenario**

- The pessimistic scenario assumes oil prices will fall to $35 per barrel in early 2019 and remain close to this level over the forecast period.
- Deterioration of trade conditions will become the reason for a short-term economic recession amid acceleration of capital outflow, budget tensions, new wave of rouble depreciation, decline in business confidence and contraction of domestic demand.
- Under this scenario, we expect real GDP to decrease by 0.1-0.2% in 2020 - 2021. We assign a 10% probability to this scenario over a 1-year horizon.

**Optimistic scenario**

- An optimistic scenario assumes oil prices will gradually rise to $US80 per barrel in 2019 and remain at this level further. This factor, alongside the improved business and consumers expectations, will boost the economic activity in the country. Despite application of fiscal rule it will also create a background for more dynamic growth in investment and consumer income.
- Under these conditions real GDP is expected to grow by 3.0% - 3.3% over the next two years. This scenario is assigned a probability of 5-10% over a 1-year horizon.
Production and Investment

• The trend towards a moderate increase in industrial production has continued. Rosstat data shows that the growth rates of industrial production in Q3 2019 were almost similar to the previous quarter (+2.9% year-on-year growth in Q3 2019).

• In contrast to the first half of the year, the dynamics of production were quite homogeneous across sectors, ie both mining and manufacturing have been showing 2.5-3.0% annual growth since June 2019.

• Stagnation in investment dynamics is also evidenced by the situation in construction. Construction shows almost zero annual growth rates since the beginning of the year and the latest data are no exception.

• After restrained annual growth of agricultural output in Q1-Q2 2019 which amounted to 1.0-1.2%. In Q3 2019, agricultural output significantly accelerated to 5.1%.

• Annual growth of freight turnover has decreased by 0.6% in Q3 2019 after weak growth by 1.3% a quarter before. The main contribution to the contraction came from a decline in coal and ferrous metal exports (due to slack external demand) and reduction in exports of petroleum products because of the Druzhba pipeline incident.
Inflation, Income and Consumption

• Annual inflation continued to slow down in Q3 2019. It stood at 4.2% in September after a local peak of 5.3% in March. As expected, the main factors behind the downward trend in consumer prices behaviour were the exhaustion of the effect of the VAT increase, minor strengthening of the ruble in the first half of 2019, and balanced domestic demand dynamics.

• **In our baseline scenario, we expect annual inflation to range from 4.8% to 4.5% in 2019 and stay close to 4% level over the next two years.** Amid the current situation, the Board of Russian Central Bank decided to reduce the key rate by 50 bps in total to 7.00%. After 1.9% and 1.6% growth in Q1 and Q2 2019, respectively, retail trade turnover dynamics continued to stagnate reaching just 0.7% annual growth in September.

• Relatively strong growth of real wages (2.8% year-on-year in June-August) has helped sustain consumption growth moderately above output growth. At the same time, a broader indicator - real disposable incomes of the population – was still stagnating in Q2 2019, which limits the potential for rapid improvement in consumer spending dynamics.
General Outlook

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</thead>
<tbody>
<tr>
<td>Real GDP Growth (%)</td>
<td>1.1</td>
<td>0.7</td>
<td>1.7</td>
<td>2.1</td>
<td>2.4</td>
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<td>-0.3</td>
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<tr>
<td>Inflation (%)</td>
<td>3.7</td>
<td>3.7</td>
<td>4.0</td>
<td>4.0</td>
<td>4.0</td>
<td>-0.2</td>
<td>-0.1</td>
</tr>
<tr>
<td>Interest Rate</td>
<td>6.6</td>
<td>6.2</td>
<td>5.3</td>
<td>6.0</td>
<td>7.3</td>
<td>-0.3</td>
<td>-1.1</td>
</tr>
</tbody>
</table>

- Brazil's economy is still on the verge of recession despite active measures taken by the Central Bank to stimulate growth. These steps can take time to produce desirable effect.
- Inflation remains below target and is projected to rise at a gradual pace.
- Stimulative monetary policy resulted in a large decrease in interest rates. This is expected to induce sustainable economic recovery, while the inflation outlook remains benign.
- Low inflation combined with high unemployment, low industrial capacity and business production is a sign of continuous economic slack. On the other hand, it leaves space for more active economic stimulus. The economic recovery is still significantly slower than expected.
- Therefore, we have downgraded our Real GDP growth from 0.9% to 0.7% and from 2.0% to 1.7% for years 2019 and 2020, respectively.
General Outlook (2)

- Economic growth was mainly driven by private consumption and investment in recent quarters. Both drivers have seen positive growth compared with the previous quarter, suggesting that monetary policy measures are starting to yield positive results.

- Other growth factors such as Net Exports and Stocks are lagging and indicating that economy is still below its potential.

- The Central Bank is planning to reform liquidity assistance system so that financial institutions could avoid stacking up large reserves. This is expected to further improve financial conditions and is expected to boost the contribution of investment to growth.

Source: Euromonitor International from OECD
Pessimistic and Optimistic Scenarios

**BRAZIL**

**Pessimistic scenario**

- Brazil is struggling to introduce fiscal reforms which are one of the most important factors to maintain sustainable public finances. Fiscal uncertainties increase the risk of an economic downturn. Even with more optimistic domestic conditions, the global outlook is not favourable.

- Under this scenario, real GDP growth could reach 0.2% in 2020 and 0.9% in 2021. We assign a probability of 10-15% to this scenario over a one-year horizon.

**Optimistic scenario**

- As the Central Bank is already introducing active monetary policy measures, it might give necessary momentum and boost economic growth.

- The long-awaited pension reform has received final approval from the Senate. It is expected to reduce public debt and improve fiscal stability.

- In this case, real GDP growth could reach 3.2% in 2020 and 3.3% in 2021. We assign a 10-15% probability to this scenario over a one-year horizon.

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**Brazil Real GDP Growth Forecast**

Source: Euromonitor International Macro Model

![Graph showing real GDP growth forecasts for Brazil from 2018 to 2021, with pessimistic and optimistic scenarios highlighted.]
Monetary policy and exchange rates

- **One of the most significant measures recently taken by the Central Bank is the reduction of foreign exchange reserves.** It has not been done in almost 10 years and Brazil’s foreign exchange reserves are among the highest in the world. Maintaining them is quite costly and inefficient. According to the government, it was done to help hedge against global market volatility as well as reduce public debt and support local currency.

- **The Central Bank has also slashed the interest rate.** While looser monetary policy may not be in line with the goal of sustaining the real, monetary policymakers argue that it will help stimulate the economy while inflation remains below target.

- **The real has depreciated against the US dollar in recent months, due to remaining economic weakness and lower interest rates.** For now, it has not affected inflation, which remains relatively weak, in line with a high unemployment rate and slow economic growth. The government believes that growing credibility regarding monetary and fiscal policies, and a lowering of the country risk premium will reduce any negative outcome resulting from depreciation. It is ready to tolerate a weaker real as long as it does not spur inflation.
Scope and Objectives

- Global Economic Forecasts quarterly Global Outlook is a partner piece to Euromonitor Macro Model, which is represented in Macro Model dashboard.

- The Global Outlook is an explainer of quarterly forecast updates of Macro Model. The analysis is focused on quarterly macro changes and what these mean to our view of the likely, optimistic and pessimistic scenarios for the global economy.

- Euromonitor International’s Macro Model (EMM) is a quarterly forecast model for the global economy.

- EMM is a global model, with countries simultaneously interacting through trade and aggregate demand spillovers. It currently produces GDP, Unemployment, Inflation and Interest Rate forecasts for 58 countries.

- The EMM forecasts are revised quarterly, with some inter-quarter revisions for key economies.

- Global Economic Forecasts quarterly Global Outlook focuses on world’s key economies and explains the latest macroeconomic changes in them, as well as the most up-to-date baseline, optimistic and pessimistic scenarios for these economies.
# Global Risk Scenario Descriptions

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Downturn</td>
<td>Fears of escalating protectionist and populist policies and growing geopolitical tensions raise uncertainty levels and worsen sentiment in global financial markets and the private sector.</td>
</tr>
<tr>
<td>Global Crisis</td>
<td>The global crisis scenario combines a severe global downturn with a Chinese hard landing and a Eurozone recession.</td>
</tr>
<tr>
<td>Eurozone Recession</td>
<td>Growing geopolitical and EU break-up risks raise uncertainty and reduce investment. Significant deterioration in Eurozone credit markets and confidence indicators. Italy and Greece exit the Eurozone.</td>
</tr>
<tr>
<td>China Hard Landing</td>
<td>Lower private sector confidence, declining exports, a rising proportion of non-performing loans and greater than expected costs of rebalancing from investment to consumption cause a sharp downturn in China’s economy.</td>
</tr>
<tr>
<td>No-Deal Brexit</td>
<td>UK-EU negotiations break down, and the UK leaves the EU in 2019 without making a trade deal.</td>
</tr>
<tr>
<td>Disorderly No-Deal Brexit</td>
<td>This is a worst-case No-Deal Brexit scenario. Trade sensitivity and disruptions are more severe and long lasting.</td>
</tr>
<tr>
<td>Korean Conflict</td>
<td>Nuclear fears lead to a US strike on North Korea. North Korea invades South Korea and strikes Japan. Fears of strikes on the US or other Asian countries lead to a sell-off in financial markets and a slowdown.</td>
</tr>
<tr>
<td>Global Trade War</td>
<td>US-China Trade War tariff increases and bilateral tariff increases between the US, Asia Pacific, the EU, Canada and Mexico.</td>
</tr>
<tr>
<td>Trump Adverse Policies</td>
<td>Global Trade War and stricter US immigration policies cause big decline in employment growth.</td>
</tr>
</tbody>
</table>
Definitions

- Forecast closing date: November 5, 2019
- All baseline forecasts (expected or most likely outcomes) are assigned a 20-30% probability unless stated otherwise.
- All most likely Pessimistic and Optimistic Scenarios are assigned a probability of 15-25% unless stated otherwise.
- All GDP and GDP components growth rates are in real (inflation adjusted) terms unless stated otherwise.
- All annual GDP and GDP component growth rates are for January-December calendar year unless stated otherwise.
- All quarterly GDP and GDP components growth rates are year-on-year unless stated otherwise.
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