Economic Forecast for 2017

Barry Naisbitt, Chief Economist at Santander UK, shares his thoughts on what to expect from the Eurozone and US over the next 12 months

In looking forward to the prospects for the economy in the coming year it is worth considering how 2016 unfolded.

Twelve-months ago, the IMF expected growth of 2.8 per cent in the US and 1.6 per cent in the Eurozone. In October, this was revised to 1.6 per cent and 1.7 per cent respectively. For 2017, the prospects for business growth in the advanced economies continues to look steady with the IMF expecting growth of 2.2 per cent for the US and 1.5 per cent for the Eurozone.

Inflation continues to be watched closely. Consumer price inflation in the US in November was 1.7 per cent, up 0.4 per cent a year earlier. In the Eurozone the increase has been more muted, with inflation at 0.6 per cent in November, up from 0.1 per cent a year previously. Against this background monetary policy in the US has been tightened a little, with rates once more being raised just once in the year in December. With the unemployment rate currently at 4.6 per cent, the lowest since mid-2007, and inflation expected to rise further, financial markets are currently pricing in further US rate increases in 2017.

The weaker overall economic performance in the Eurozone has, by contrast, led to rates being kept on hold and quantitative easing is >

continuing. Financial markets are not expecting any rate increases in the Eurozone in the coming year.

Political Landscape

The election of Donald Trump as US President has seen commentators speculate about what policy changes are likely to occur, especially on fiscal and trade policy.

For the UK, the major macroeconomic event in 2016 was the referendum vote. So far, expectations of slower economic growth resulting from increased uncertainty – both before and after the vote – have not been realised. The economy grew by 0.7 per cent in the second quarter and by an estimated – slightly slower – 0.5 per cent in the third quarter. A key issue for 2017 concerns how business investment will react to

> *“The prospects for business growth in the advanced economies continues to look steady”*

the economic uncertainty, especially as surveys are generally pointing to a slowdown in investment spending.

An immediate reaction to the referendum vote was a fall in the value of sterling, which should add to the upward pressures on inflation over the coming year. There have already been some high profile news pieces about various food price increases. Unless the pace of average earnings growth increases, higher inflation is likely to place pressures on household budgets during 2017. As a result, economic commentators are anticipating that the pace of economic growth will be slower than in 2016.

The view of the Office for Budget Responsibility was that after growth of 2.2 per cent in 2015, 2016 would see a very similar pace of growth (at 2.1 per cent) but that this would slip to 1.4 per cent in 2017.

With the various uncertainties and changes to come, 2017 could be yet another year of surprises, but providing both opportunities and challenges for businesses. ■

Latest Growth Projections	2015	2016	2017
World Output	3.2	3.1	3.4
Advanced Economies	2.1	1.6	1.8
US	2.6	1.6	2.2
Euro Area	2	1.7	1.5
Germany	1.5	1.7	1.4
France	1.3	1.3	1.3
Italy	0.8	0.8	0.9
Spain	3.2	3.1	2.2
UK	2.2	1.8	1.1
Japan	0.5	0.5	0.6
Canada	1.1	1.2	1.9
Emerging Market and Developing Economies	4	4.2	4.6
China	6.9	6.6	6.2
India (1)	7.6	7.6	7.6

(1) For India, data and forecasts are presented on a fiscal year basis and GDP from 2011 onward is based on GDP at market prices with FY 2011/12 as a base year. Source: Extract from IMF Global Outlook / October 2016

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Barry has been Chief Economist at Santander UK – formerly Abbey National – since 1998. He joined the organisation in 1994 and has worked through a period of significant change in the UK and global economies.

Prior to this, Barry worked as Principal Economist in HSBC’s Business Economics Unit, an Economic Advisor at both HM Treasury and the National Economic Development Office (NEDO) and as a lecturer in economics at Liverpool University.

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