Since 2012, real global gross domestic product (GDP) growth has been between 3.1 and 3.5% annually, according to International Monetary Fund (IMF) estimates, with 2016 seeing the slowest growth of the period. At the start of the year, broad expectations were that continued support from global central banks, the potential for increased fiscal stimulus, especially in the U.S., and stabilization in commodity prices would return growth toward the top end of that range. In this week’s Weekly Economic Commentary, we review how global growth expectations have changed over the course of 2017.

Overall, solid growth in the first half of the year in developed international markets has helped to support the overall global growth picture for 2017. While expectations for stimulus in the U.S. have declined due to an increasingly uncertain legislative environment, there has been a partial offset in some decline in trade risk concerns. On balance, a strong first half has led to a pickup of growth expectations for all of 2017, but expectations of further upside have been tempered by a slight decline in the U.S. growth outlook, a shift in the overall tone of major global central banks despite still very accommodative conditions, and some increased uncertainty in oil markets.

GROWTH EXPECTED TO ACCELERATE IN 2017

Consensus expectations continue to see accelerating global growth in 2017 compared to 2016, which was the slowest year of growth since 2009. According to IMF data, median annual real global economic growth between 2009 and 2016 was 3.5%, the same as median growth dating back to 1980 [Figure 1].
The current consensus of Bloomberg-surveyed economists sees economic growth moving back toward that longer-term rate in 2017 and 2018, with median growth expectations of 3.4% in 2017 and 3.5% in 2018.

**GROWTH EXPECTATIONS RISING**

The most straightforward way to gauge how growth expectations have evolved over the first half of the year is simply to look at the change in consensus forecasts. The median Bloomberg-surveyed economists’ estimate for real global growth in 2017 bottomed at 3.1% in early December 2016 and has been in an upward trend since, climbing to 3.4% in the most recent reading [Figure 2]. While forecasts are only changed periodically as respondents update their views, the trend reflects growing confidence in stronger global growth over the first half of the year. That view is further confirmed by the changing tone of global central bankers. While the monetary policy environment remains very supportive overall, the Federal Reserve increased rates twice in the first half of 2017, the Bank of Canada raised rates in July for the first time in seven years, and the European Central Bank and Bank of England have both raised the possibility of starting to remove stimulus.

**SURPRISES HAVE DECLINED TO NEUTRAL**

Surprise indexes, which standardize and aggregate economic data compared to expectations, help to provide a sense of whether expectations might have gotten ahead of themselves or may be lagging a change in activity. Global economic data, as aggregated in the Citi Global Economic Surprise Index, steadily surprised to the upside in the first quarter of 2017, but the average surprise has fallen off in the second quarter. The current reading of -6.4 sits in the range of -20 to +20 where we consider expectations to be largely in line with the data [Figure 3]. Note that even at a modestly negative reading, the current level is stronger than the largely negative pattern of surprises we have seen over the last five years.

Global leading indexes tell a similar story. The Organisation for Economic Co-operation and Development’s (OECD) Composite Leading Indicator (CLI) of OECD countries, which includes all major developed economies, has
declined marginally since January 2017 but is still categorized as signaling stable growth momentum. The U.S. did see a modest downgrade in its growth cycle outlook since January and the rate of change for the OECD area has declined slightly, but the aim of the CLIs is to lead major changes in trend and small declines should not raise concerns.

CONCLUSION

While the overall picture of global growth remains positive, the tone remains cautious. As a sign of continued caution, June 2017 presentations updating global growth from the World Bank and OECD were entitled “A Fragile Recovery” and “Better But Not Good Enough” respectively. The IMF will be releasing its mid-year global growth update on July 24 and is likely to strike a similar tone. Despite the note of caution, the overall picture remains decisively more positive than 2016. Stronger international growth has provided a positive economic backdrop for the U.S. economy so far in 2017, and may help U.S. growth push forward in the second half of the year if the Trump administration and Congress can make better progress on pro-growth policy initiatives.