Schroders

Economic and Strategy Viewpoint

Global forecast update and outlook for 2015

Keith Wade
Chief Economist and Strategist

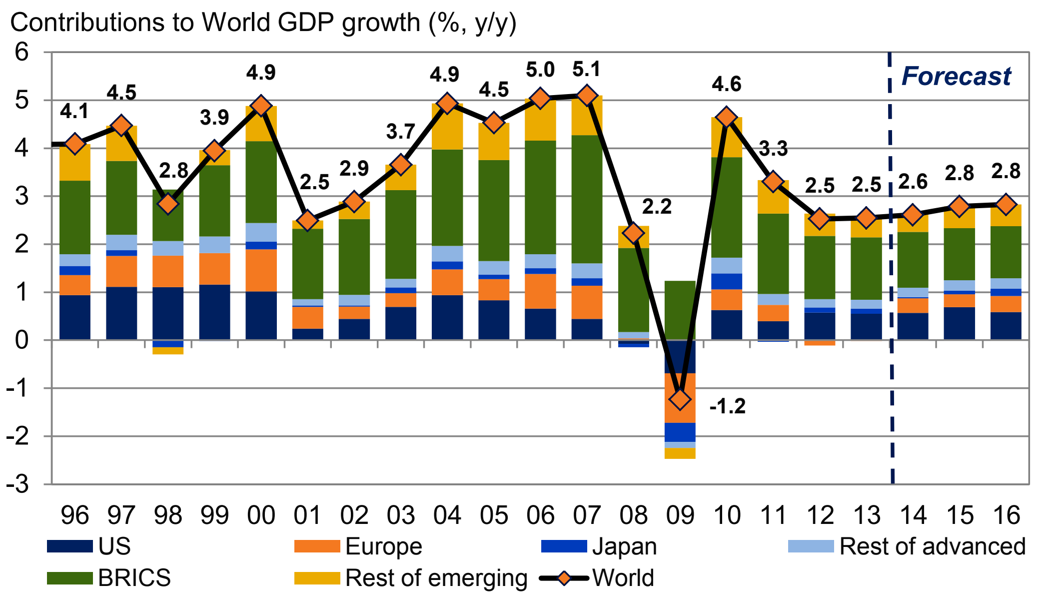
Global forecast update and outlook for 2015 (page 2)

- **Global activity undershot expectations in 2014 as the world economy struggled to shake off the malaise of the past three years. Going forward the outlook is for a modest recovery as the fall in energy prices supports consumer spending and reduces business costs, whilst the squeeze from fiscal austerity eases further. Monetary policy is set to diverge with the US and UK tightening whilst loose policy remains the order of the day in the Eurozone and Japan.**
- **Risks are still skewed toward more deflationary outcomes, with Eurozone deflation and a hard landing in China. However, we have also increased the probability on a stronger growth and lower inflation outcome to reflect the ongoing fall in energy costs.**

Views at a glance (page 8)

- **A short summary of our main macro views and where we see the risks to the world economy.**

Chart: Global sub-par recovery continues



Source: Thomson Datastream, Schroders. 25 November 2014. Previous forecast from August 2014. Please note the forecast warning at the back of the document.

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Global forecast update and outlook for 2015

2014 post-mortem

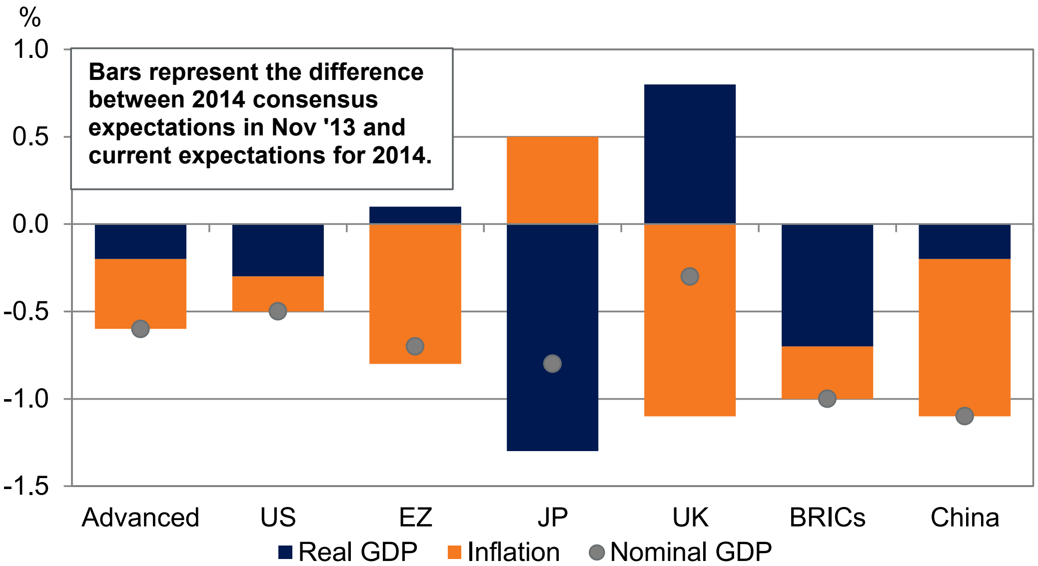
Both growth and inflation came in lower than expected in 2014

Hopes that the world economy would shake off the malaise which has gripped activity for the past three years have been disappointed in 2014 and as we head toward the end of the year we look set to experience a third consecutive year of sub trend growth. Compared to consensus forecasts made a year ago, global growth at 2.6% has undershot consensus forecasts by about ½% with the greatest miss in the emerging markets (which disappointed by about 1%). China accounts for some of this, but Brazil and Russia both significantly undershot.

For the advanced economies the miss was more modest, but included the US (which had a torrid q1 as the economy literally froze) and Japan, where the impact of fiscal tightening pushed the economy back into recession. Despite the gloom surrounding the Eurozone economy, growth looks set to come in close to expectations at 1%. The UK was the outperformer, significantly beating growth expectations as the recovery continued.

The concern in the Eurozone, of course, is that inflation has been lower than expected, undershooting by 0.8% with an outcome of just 0.5% y/y now expected for 2014. China inflation also significantly undershot. Lower than expected inflation has been a theme everywhere this year and is partly a reflection of the fall in food and energy prices, but also reflects a moderation in core inflation. On this basis, the undershoot in nominal activity has been widespread and significant in 2014 (chart 1) and is consistent with the downward shift in interest rate expectations.

Chart 1: Outturn vs. forecast: significant undershoot in 2014



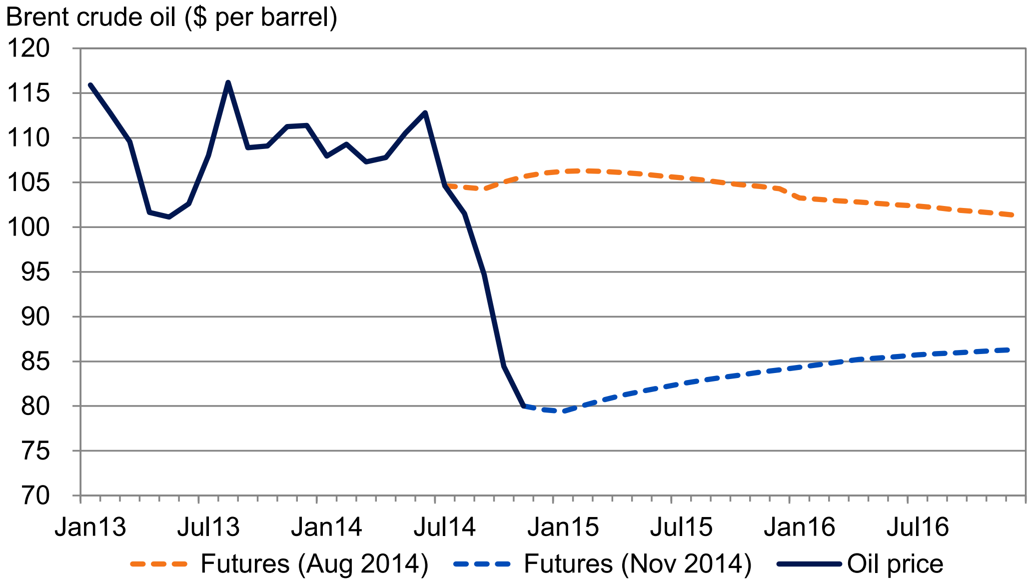
Source: Thomson Reuters Datastream, 26 November 2014

Outlook: the forces shaping growth

Lower energy prices act as a tax cut, will support growth in 2015

Looking ahead we have resisted the temptation to slash our forecasts for 2015 as we believe that growth will gain some support from the fall in commodity prices and a less restrictive fiscal stance. The shift in energy prices has been dramatic with Brent oil prices now some 20% lower than when we made our last set of forecasts in August (chart 2). Note that the oil price curve has shifted down by some $5-$7 since we set our baseline assumptions, indicating that the impact on the world economy could be greater if prices do not recover in coming months.

Chart 2: Spot and futures prices collapse in the oil market



Source: Thomson Reuters Datastream, 17 November 2014

As highlighted in last month's Viewpoint, whilst weak demand has played a role in the softness of commodity prices so signalling a concern for global growth, more supportive supply side factors have been as important. For example, lower food prices are largely due to the agricultural sector enjoying record harvests. On the energy side, a breakdown in discipline in the OPEC cartel has been a critical supply side development.

Lower commodity prices are affecting the emerging economies and putting pressure on the likes of Russia, Brazil and the Middle East states to cut back state expenditure. There are also concerns for the finances of some energy companies who have leveraged into higher oil prices. Overall though the move can be seen as positive for the West and large parts of Asia who import most of their energy needs. The increase in expenditure from consumers will be more immediate and greater than the cut backs in spending by the latter group, which is dominated by governments and corporates. The boost to growth occurs because the former are liquidity constrained and so spend the gain in real income (like they would a tax cut), whilst the latter tend to have significant liquidity and take time to react, or simply chose to run smaller surpluses/ larger budget deficits.

Fall in oil prices is worth around 0.5% to global growth

Based on simulations from the Oxford Economics Forecasting model, the 20% fall in oil prices will add about 0.5% to 2015 growth in the world economy and take 1% off 2015 inflation. Interest rates are generally lower as inflation expectations and wage growth moderate, adding to the stimulus. We have built these effects into our baseline forecast in the form of a near term boost to consumer spending in the first half of next year. Thereafter though we would expect the boost to moderate as oil prices stabilise.

Another factor which will affect growth next year is fiscal policy. This is nothing like the impact it has been in recent years, but the fact that governments are backing away from austerity means that the drag from fiscal policy will be considerably less than in previous years (chart 3). The decision by Prime Minster Abe in Japan to delay the next rise in the consumption tax by 18 months is the latest example. We have also seen a considerable swing in the Eurozone where fiscal policy has been a significant drag in recent years to a more neutral effect.

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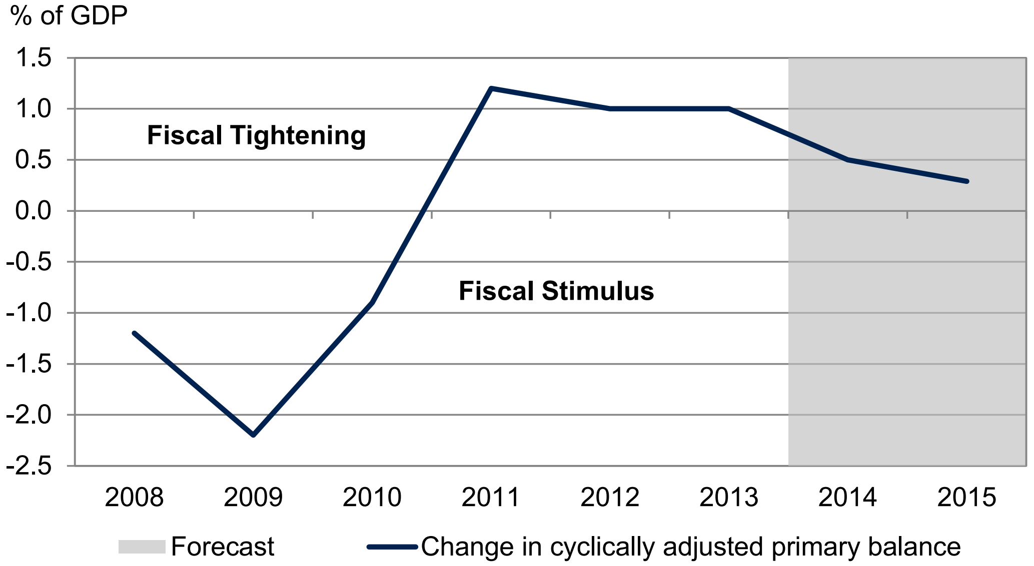
Chart 3: Drag from fiscal policy to ease in 2015 for G20 (advanced economies)

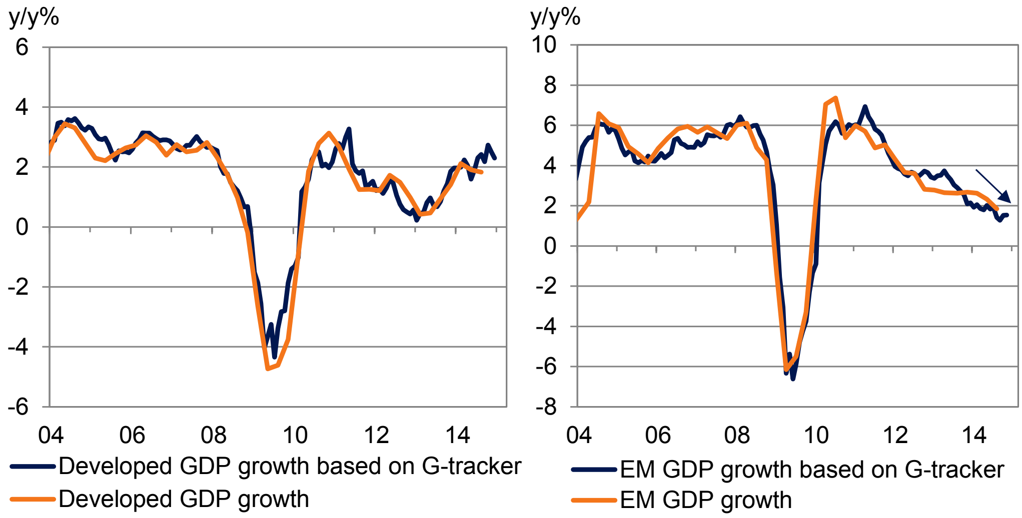


Source: IMF, Schroders 25 November 2014

In the near term our forecasts are, as always, influenced by surveys and other indicators and although we have seen a moderation in the widely followed PMI's, they remain consistent with steady global growth. However, our proprietary indicators continue to point to a divergence between the developed and emerging economies (charts 4 & 5).

Our g-trackers remain positive, but continue to reveal DM/ EM split

Charts 4 & 5: Growth trackers signal DM recovery, EM decline



Developed G9: US, UK, Eurozone, Japan, Canada, Australia, New Zealand, Norway and Sweden. EMD (Emerging debt markets): Brazil, Mexico, Russia, Turkey and Indonesia. Source: Schroders, Thomson Datastream, 31 October 2014

Forecast summary: policy divergence ahead

Upward revisions to the US and Japan, offset by cuts to the Eurozone and emerging markets

Pulling this together, our global growth forecast of 2.8% for 2015 is little changed from last quarter with downward revisions to the Eurozone and emerging markets offset by upward adjustments to the US and Japan. This compares with a likely outcome of 2.6% in 2014. Upgrades in the US and Japan reflect the benefits of lower oil prices and an absence of fiscal tightening, whilst in the Eurozone and emerging economies these positives are offset by structural headwinds on growth.

This quarter we have introduced our 2016 forecast which shows another year of sub-par global growth at 2.8% with US activity moderating in response to higher interest rates and a stronger USD. Growth in China also eases down and when combined with the US, offsets a minor upturn in Japan and the Eurozone in response to further BoJ and ECB easing and currency depreciation.

Our inflation forecasts have been cut in response to lower than expected outturns in recent months and the fall in commodity prices. Global inflation is expected to come in at 2.9% for 2015 with a significant reduction for the US where falling energy prices have the most impact on CPI inflation. The Fed is generally expected to look through much of this fall and focus on the core rate of inflation and wages, which are both expected to rise in 2015. We have, however, reduced the pace of rate tightening such that the Fed funds rate is expected to rise to 1.25% by end 2015 (previously 1.5%). US rates then peak at 2.5% in 2016.

We now expect full QE from the ECB, but the BoJ may hesitate to expand QQE further

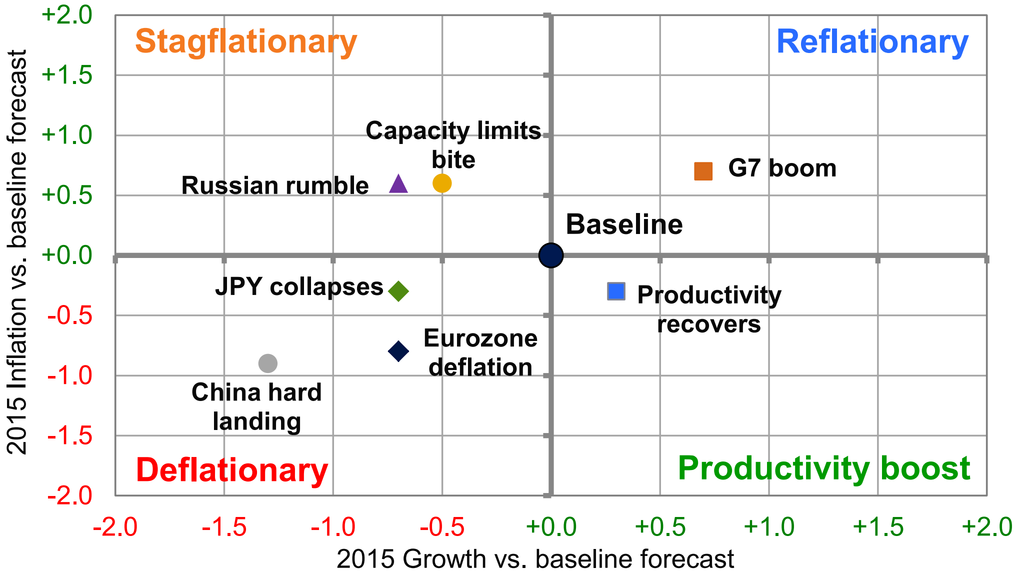
In the Eurozone we expect the ECB to monitor the impact of recently announced measures to reduce bank funding costs, but to implement QE (sovereign debt buying) later in 2015. This is a close call as the economy is expected to escape deflation and can be seen as an insurance move to protect against the risk of falling prices. For the UK, we have pushed out the first rate hike to November 2015 (previously February) as a result of lower inflation.

In Japan, the BoJ will keep the threat of more QQE on the table, but is now likely to let the weaker JPY support the economy and refrain from further increases in QQE. Governor Kuroda is likely to be uncomfortable with the decision to delay the next increase in consumption tax by 18 months until 2017. Portfolio outflows to overseas markets by the likes of the Government Pension Investment Fund (GPIF) are likely to keep the currency weak. We estimate that to move to the new benchmark the GPIF would have to buy around $150bn of international bonds and equity. Meanwhile, China is expected to cut interest rates further and pursue other means of stimulating activity in selected sectors.

Scenarios

The baseline view represents our central case for the world economy, but of course we recognise that there are a range of risks around this and have updated our scenario analysis. From chart 6 we can see that there remains a bias toward the deflationary side with "Eurozone deflation", "China hard landing" and "JPY collapse" all scenarios which would result in weaker global growth and inflation when compared to the baseline. (For a full description of the scenarios see page 22).

Chart 6: Scenarios around the baseline



Source: Schroders, 25 November 2014

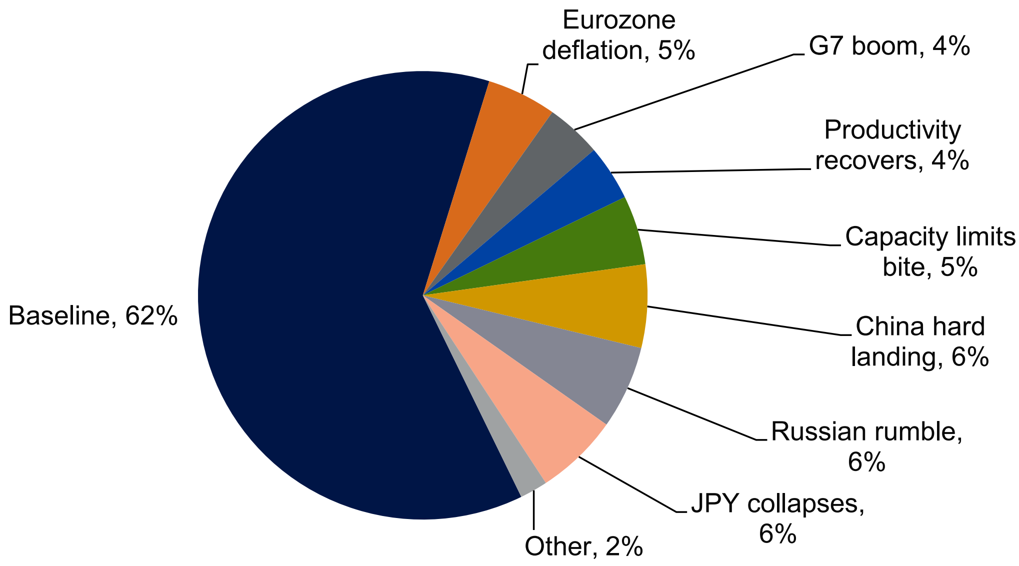
The new scenario, "JPY collapse", reflects a situation where investors begin to question whether the Japanese government is serious about debt reduction as they continue to delay tax hikes. Capital flight follows on fears of default and the BoJ is forced to raise interest rates to stem the outflow. The result is a very weak JPY (circa 180 vs. USD) and higher risk premiums in global bond markets to reflect heightened default risk, thus creating a deflationary impulse for the rest of the world. Asia, particularly Korea and China would be badly hit whilst as a competitor in a number of sectors, Germany would also be adversely affected.

Scenario analysis indicates that risks are skewed toward deflation.

In terms of probabilities, the deflation risks have risen. Although we have slightly reduced the probability attached to the Eurozone deflation scenario (as a result of the fall in the Euro) we have raised the probability on China hard landing and put a slightly higher probability on the JPY collapses scenario than the one it replaced (secular stagnation, another deflationary scenario). These changes result in a 17% probability on deflation risks compared with 15% last quarter.

The probability on "G7 boom" has been slightly reduced (from 5% to 4%) to reflect the lack of traction from monetary policy to growth in the Eurozone and Japan. However, we have increased the probability on "productivity growth boost" from 2 to 4% to capture the risk that the fall in oil prices will lift growth by more than expected. Overall though the scenario analysis continues to suggest that the risk on interest rates is skewed to the downside with central banks likely to maintain stimulus in the face of a lower inflation outcome than in the baseline.

Chart 7: Baseline and scenario probabilities*



*Probabilities are mutually exclusive. Source: Schroders, 25 November 2014

Europe: Edging closer to sovereign QE

Macro data has been slightly better than expected in recent months, although the fall in oil prices is set to push inflation to dangerously low levels. The European Central Bank is edging closer to sovereign QE in response, but is likely to wait a little longer before pulling the trigger. Meanwhile, the UK boom may be over. Growth is beginning to moderate and as we head into 2015, the UK's shortcomings are likely to become more obvious to investors.

Q3 growth shows slight improvement

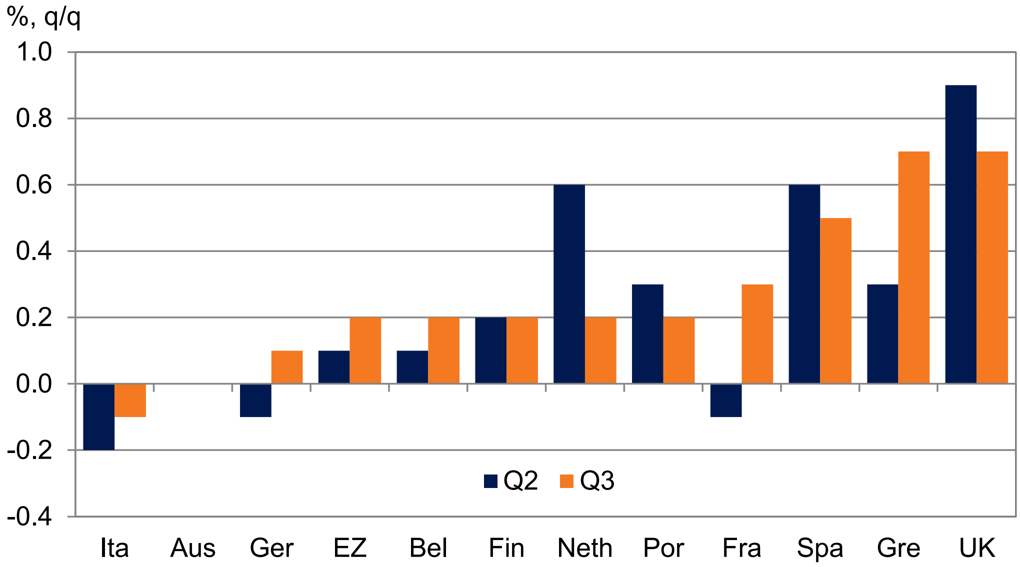
Q3 growth data was slightly better than expected, but still sluggish

Official estimates show the Eurozone grew by 0.2% in the third quarter compared to the previous quarter, which was slightly better than consensus expectations of 0.1%. Compared to the same period a year earlier, the Eurozone grew by 0.8%.

The performance of individual member states remains very diverse and reflects the progress made in terms of fiscal and structural reforms. For example, Italy is in recession with the economy having shrunk by 0.1%, whereas Spain grew by 0.5% over the same period (chart 8).

Having contracted in the second quarter, Germany was feared to have slipped into recession given falls in industrial production and retail sales during the third quarter. However, the economy managed to eke out 0.1% growth to avoid a technical recession. Consumer spending growth saved Germany as business investment continues to flounder, possibly in reaction to rising tensions between Europe and Russia. Meanwhile, France beat expectations by recording 0.3% growth, although according to the French statistical office, much of that growth was driven by government spending.

Chart 8: Recent European GDP growth



Source: Thomson Datastream, Eurostat, Schroders. 25 November 2014.

Greece saw the fastest Q3 growth in the Eurozone as it exited recession

In more positive news, Greece was the fastest growing economy in the Eurozone, posting 0.7% growth on the quarter and 1.4% growth compared to a year earlier. It appears that the Greek economy has finally stabilised and while there is still a mountain of fiscal and structural reforms that need to be implemented, positive growth will help ease the social problems caused by the crisis. Elsewhere, Portugal delivered another positive quarter, while the Netherlands saw a slowdown over the same period.

While the latest quarterly growth numbers were marginally better than expected, leading indicators suggest stabilisation at low growth rates rather than any pick up in the near future.

Schroder Economics Group: Views at a glance

Macro summary – November 2014

Key points

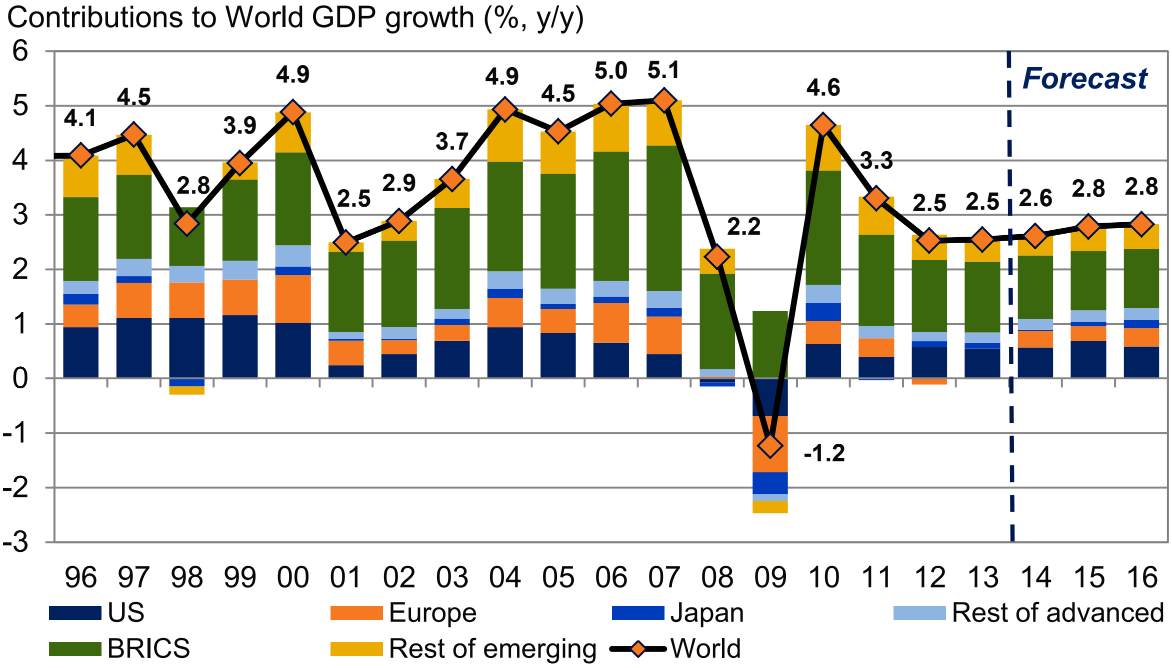
Baseline

- Global recovery to continue at sub par pace as the US upswing is offset by sluggish growth in the Eurozone and emerging markets. Lower energy prices are weighing on inflation, but will also boost growth in 2015H1.
- US recovery continues and unemployment set to fall below the NAIRU in 2015 prompting Fed tightening. First rate rise expected in June 2015 with rates rising to 1.25% by year end. Policy rates to peak at 2.5% in 2016.
- UK recovery likely to moderate next year with general election and resumption of austerity. Interest rate normalisation to begin in 2015 with first rate rise in November.
- Eurozone recovery becomes more established as fiscal austerity and credit conditions ease whilst lower energy prices help consumption. ECB to monitor effects of recent easing, but we now expect sovereign QE in Q2 2015 in response to deflation fears.
- In Japan, the consumption tax has pushed the economy into recession prompting further easing by the BoJ and PM Abe to call a snap general election. Bank of Japan to continue to support recovery, but Abenomics faces considerable challenge to balance recovery with fiscal consolidation.
- US leading Japan and Europe. De-synchronised cycle implies divergence in monetary policy with the Fed tightening ahead of ECB and BoJ, resulting in a firmer USD.
- Tighter US monetary policy and weaker JPY weigh on emerging economies. EM exporters to benefit from US cyclical upswing, but China growth downshifting as the housing market cools and the authorities seek to reign in the shadow banking sector. Generally, deflationary for world economy, especially commodity producers.

Risks

- Risks are still skewed towards deflation, but are more balanced than in the past. Principal downside risks are Eurozone deflation and China hard landing. Some danger of inflation if capacity proves tighter than expected, whilst upside growth risk is a return of animal spirits and a G7 boom. Increased prospect of stronger growth/ lower inflation if oil prices continue to fall.

Chart: World GDP forecast



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Schroders Baseline Forecast

Real GDP

y/y%	Wt (%)	2013	2014		Prev.	Consensus	2015		Prev.	Consensus	2016
World	100	2.5	2.6	↑	(2.5)	2.6	2.8	↓	(2.9)	3.0	2.8
Advanced*	63.0	1.3	1.7	↑	(1.6)	1.7	2.0		(2.0)	2.2	2.1
US	24.8	2.2	2.3	↑	(2.0)	2.2	2.8	↑	(2.6)	3.0	2.4
Eurozone	18.8	-0.4	1.0	↑	(0.8)	0.8	0.9	↓	(1.2)	1.1	1.4
Germany	5.4	0.2	1.5	↓	(1.6)	1.4	1.2	↓	(2.0)	1.4	1.8
UK	3.7	1.7	3.1	↑	(3.0)	3.0	2.5		(2.5)	2.6	1.8
Japan	7.2	1.5	0.3	↓	(0.8)	1.0	1.1	↑	(0.9)	1.3	2.2
Total Emerging**	37.0	4.7	4.1		(4.1)	4.1	4.1	↓	(4.3)	4.4	4.1
BRICs	22.8	5.7	5.1		(5.1)	5.1	4.8	↓	(4.9)	5.1	4.7
China	13.6	7.7	7.3		(7.3)	7.4	6.8		(6.8)	7.1	6.5

Inflation CPI

y/y%	Wt (%)	2013	2014		Prev.	Consensus	2015		Prev.	Consensus	2016
World	100	2.7	3.0	↓	(3.1)	3.0	2.9	↓	(3.3)	3.0	3.2
Advanced*	63.0	1.3	1.4	↓	(1.5)	1.4	1.3	↓	(1.7)	1.4	1.8
US	24.8	1.5	1.6	↓	(1.7)	1.7	1.5	↓	(2.2)	1.6	2.4
Eurozone	18.8	1.3	0.5	↓	(0.7)	0.5	0.8	↓	(1.1)	0.9	1.1
Germany	5.4	1.6	1.0	↓	(1.1)	1.0	1.4	↓	(1.8)	1.5	1.7
UK	3.7	2.6	1.5	↓	(1.6)	1.6	1.3	↓	(2.2)	1.6	2.0
Japan	7.2	0.4	2.8	↑	(2.7)	2.8	1.3	↓	(1.5)	1.9	1.4
Total Emerging**	37.0	4.9	5.7	↓	(5.8)	5.7	5.6	↓	(5.8)	5.6	5.6
BRICs	22.8	4.6	4.1	↓	(4.4)	4.2	4.0	↓	(4.4)	4.0	4.0
China	13.6	2.6	2.2	↓	(2.3)	2.1	2.2	↓	(3.0)	2.4	2.7

Interest rates

% (Month of Dec)	Current	2013	2014		Prev.	Market	2015		Prev.	Market	2016	Market
US	0.25	0.25	0.25		(0.25)	0.24	1.25	↓	(1.50)	0.82	2.50	1.80
UK	0.50	0.50	0.50		(0.50)	0.57	0.75	↓	(1.50)	0.99	1.50	1.62
Eurozone	0.05	0.25	0.05	↓	(0.15)	0.09	0.05	↓	(0.15)	0.09	0.05	0.18
Japan	0.10	0.10	0.10		(0.10)	0.05	0.10		(0.10)	0.05	0.10	0.06
China	6.00	6.00	5.60	↓	(6.00)	-	5.20	↓	(6.00)	-	5.00	-

Other monetary policy

(Over year or by Dec)	Current	2013	2014		Prev.		2015		Prev.		2016
US QE ($Bn)	4459	4033	4486	↑	(4443)		4594	↑	(4443)		4557
UK QE (£Bn)	365	375	375		(375)		375		(375)		375
JP QE (¥Tn)	276.2	224	295		(295)		383		(383)		383
China RRR (%)	20.00	20.00	20.00		20.00		19.00	↓	20.00		18.00

Key variables

FX	Current	2013	2014		Prev.	Y/Y(%)	2015		Prev.	Y/Y(%)	2016	Y/Y(%)
USD/GBP	1.56	1.61	1.56	↓	(1.68)	-3.1	1.50	↓	(1.63)	-3.8	1.48	-1.3
USD/EUR	1.25	1.34	1.23	↓	(1.32)	-8.2	1.18	↓	(1.27)	-4.1	1.14	-3.4
JPY/USD	116.5	100.0	117.0	↑	(105.0)	17.0	125.0	↑	(110.0)	6.8	130.0	4.0
GBP/EUR	0.80	0.83	0.79	↑	(0.79)	-5.3	0.79	↑	(0.78)	-0.2	0.77	-2.1
RMB/USD	6.13	6.10	6.12		(6.12)	0.3	6.20	↑	(6.05)	1.3	6.35	2.4
Commodities												
Brent Crude	77.5	109	100.4	↓	(101)	-7.9	82.1	↓	(89)	-18.3	85.5	4.2

Source: Schroders, Thomson Datastream, Consensus Economics, November 2014
Consensus inflation numbers for Emerging Markets is for end of period, and is not directly comparable.
Market data as at 17/11/2014
Previous forecast refers to August 2014
* **Advanced markets:** Australia, Canada, Denmark, Euro area, Israel, Japan, New Zealand, Singapore, Sweden, Switzerland, Sweden, Switzerland, United Kingdom, United States.
** **Emerging markets**: Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela, China, India, Indonesia, Malaysia, Philippines, South Korea, Taiwan, Thailand, South Africa, Russia, Czech Rep., Hungary, Poland, Romania, Turkey, Ukraine, Bulgaria, Croatia, Latvia, Lithuania.

Schroders Forecast Scenarios

Scenario	Summary	Macro impact	Probability*	Global vs. 2015 baseline Growth	Global vs. 2015 baseline Inflation
Baseline	Our global growth forecast of 2.8% for 2015 is little changed from last quarter with downward revisions to the Eurozone and emerging markets offset by upward adjustments to the US and Japan. This compares with a likely outcome of 2.6% in 2014 and paints a picture of a sluggish world economy when compared to the cycles of the 1990s or 2000s. Upgrades in the US and Japan reflect the benefits of lower oil prices and an absence of fiscal tightening, whilst in the Eurozone and emerging economies these positives are offset by structural headwinds on growth. This quarter we have introduced our 2016 forecast which shows another year of sub-par growth at 2.8% with US growth moderating in response to higher interest rates and a stronger USD. Growth in China also eases down and when combined with the US,, offsets a minor upturn in Japan and the Eurozone in response to further BoJ and ECB easing and currency depreciation.	Our inflation forecasts have been cut in response to lower than expected out turns in recent months and the fall in commodity prices. Global inflation is expected to come in at 2.9% for 2015 with a significant reduction for the US where falling energy prices have the most impact on CPI inflation. The Fed is generally expected to look through much of this fall and focus on the core rate of inflation and wages, which are both expected to rise in 2015. We have however reduced the pace of rate tightening such that the Fed funds rate is expected to rise to 1.25% by end 2015 (previously 1.5%). US rates then peak at 2.5% in 2016. In the Eurozone we expect the ECB to monitor the impact of recently announced measures to reduce bank funding costs, but to implement QE (soveriegn debt buying) later in 2015. This is a close call as the economy is expected to escape deflation and can be seen as an insurance move to protect against the risk of falling prices. For the UK, we have pushed out the first rate hike to November 2015 (previously February) as a result of lower inflation. In Japan, the BoJ will keep the threat of more QQE on the table, but is now likely to let the weaker JPY support the economy and refrain from further increases in QQE. China is expected to cut the RRR further and pursue other means of stimulating activity in selected sectors.	62%	-	-
1. Eurozone deflation	Weak economic activity weighs on Eurozone prices with the region slipping into deflation. Households and companies lower their inflation expectations and start to delay spending with the expectation that prices will fall further. The rise in savings rates deepens the downturn in demand and prices, thus reinforcing the fall in inflation expectations. Falling nominal GDP makes debt reduction more difficult, further depressing activity.	Deflationary: weaker growth and lower inflation persists throughout the scenario. As a significant part of the world economy (around one-fifth), Eurozone weakness drags on activity elsewhere, while the deflationary impact is also imported by trade partners through a weaker Euro. ECB reacts by undertaking sovereign QE, but the policy response is too little, too late.	5%	-0.7%	-0.8%
2. G7 boom	DM growth picks up more rapidly than in the base as the corporate sector increases capex and consumers spend more rapidly in response to the recovery in house prices. Banks increase lending, reducing their excess reserves and asset prices boom. The Fed begins to withdraw stimulus: Interest rates rise earlier and the Fed begins to contract its balance sheet in 2015. However, the withdrawal of stimulus is not sufficient to prevent a more rapid tightening of the labour market and a pick-up in inflation.	Reflationary: stronger growth and inflation vs. baseline. Stronger US demand supports activity around the world. Commodity prices and US Treasury yields rise and USD strengthens as inflation picks up and Fed unwinds QE and raises rates.	4%	+0.7%	+0.7%
3. Productivity recovers	Weak productivity has been a feature of the recovery in the US and UK and growth has been largely driven by increasing employment. In this scenario the slowdown in productivity gradually reverses as firms deploy technology to better effect resulting in improved output/ hour.	Better growth/ lower inflation. Increased productivity reduces unit wage costs thus keeping inflation in check as economic activity recovers. The Fed are still expected to tighten policy, but the lack of inflationary pressure means they can delay until later in 2015.	4%	+0.3%	-0.3%
4. Capacity limits bite	Central banks overestimate the amount of spare capacity in the economy believing there is significant slack in the labour market and a substantial output gap. However, weaker trend growth and the permanent loss of some capacity in the post financial crisis environment mean that the world economy is closer to the inflationary threshold than realised. Consequently, as demand increases, inflation starts to accelerate prompting a re-appraisal of monetary policy and higher interest rates.	Stagflationary: tighter monetary policy slows growth, but inflation continues to rise until the economy has returned to trend. Monetary policy tightens earlier in this scenario.	5%	-0.5%	+0.6%
5. China hard landing	Efforts to deliver a soft landing in China's housing market fail and house prices collapse. Housing investment slumps and household consumption is weakened by the loss of wealth. Losses at housing developers increase NPL's, resulting in a retrenchment by the banking system and a further contraction in credit and activity.	Deflationary: Global growth slows as China demand weakens with commodity producers hit hardest. However, the fall in commodity prices will push down inflation to the benefit of consumers. Monetary policy is likely to ease/ stay on hold while the deflationary shock works through the world economy.	6%	-1.3%	-0.9%
6. Russian rumble	Fighting continues in East Ukraine between government forces and rebels supported by Russian troops. Putin continues to supply the rebels and the west retaliates by significantly increasing sanctions. Russia responds by cutting gas and oil supplies to Europe.	Stagflationary. Europe is hit by the disruption to energy supply resulting in a fall in output whilst alternative sources are put in place. Higher oil prices hit global inflation and the breakdown of relations between Russia and the west creates significant volatility in financial markets.	6%	-0.7%	+0.6%
7. JPY collapses	The Japanese economy fails to respond to monetary easing (QQE) and, as it becomes increasingly difficult to tighten fiscal policy, investors fear a default by the government on its debt. The JPY falls sharply, inflation accelerates and bond yields rise causing the BoJ to increase interest rates to stem capital flight. Real activity is weaker in Japan despite the lower JPY as a result of higher interest rates and the squeeze on real wages from higher inflation.	Deflationary: the rest of the world has to contend with an even weaker JPY, hitting the growth and inflation outlook in Asia and in other major competitors.	6%	-0.7%	-0.3%
8. Other			2%	-	-

*Scenario probabilities are based on mutually exclusive scenarios. Please note the forecast warning at the back of the document.

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Updated forecast charts - Consensus Economics

For the EM, EM Asia and Pacific ex Japan, growth and inflation forecasts are GDP weighted and calculated using Consensus Economics forecasts of individual countries.

Chart A: GDP consensus forecasts

2014	2015

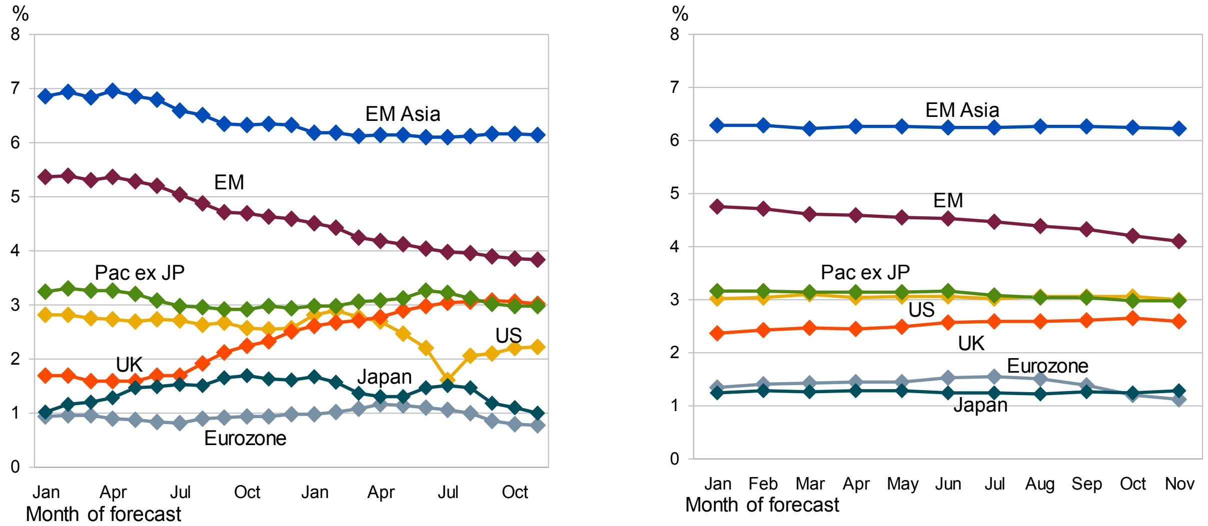
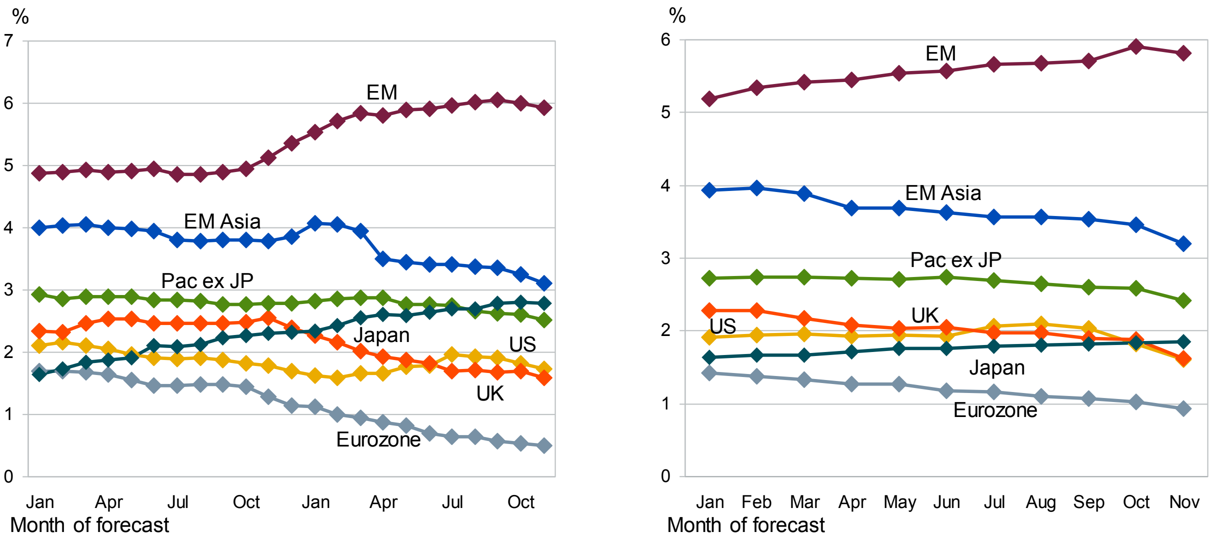


Chart B: Inflation consensus forecasts

2014	2015



Source: Consensus Economics (November 2014), Schroders
Pacific ex. Japan: Australia, Hong Kong, New Zealand, Singapore
Emerging Asia: China, India, Indonesia, Malaysia, Philippines, South Korea, Taiwan, Thailand
Emerging markets: China, India, Indonesia, Malaysia, Philippines, South Korea, Taiwan, Thailand, Argentina, Brazil, Colombia, Chile, Mexico, Peru, Venezuela, South Africa, Czech Republic, Hungary, Poland, Romania, Russia, Turkey, Ukraine, Bulgaria, Croatia, Estonia, Latvia, Lithuania

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