News release

Date	8 May 2017
Contact	Mihnea Anastasiu Media Relations Manager Tel: +40 21 225 3546 Email: mihnea.anastasiu@ro.pwc.com

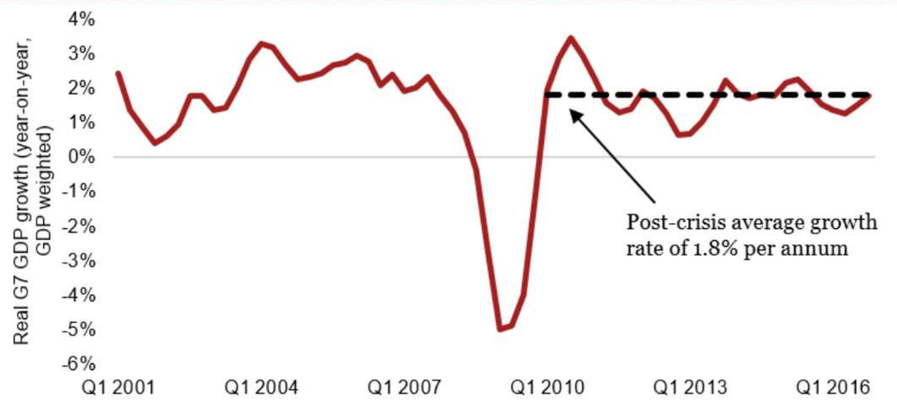
Economic activity in advanced economies is encouraging, but productivity is lagging

The recent increase in economic activity in the G7[1] advanced economies is attracting the attention of policymakers – particularly those that gathered in Washington DC for the World Bank-IMF Spring meeting.

But is the optimism justified? And more importantly, can the growth be sustained? In their latest Global Economy Watch, PwC's economists turn their attention to the advanced economies – and call on business to help boost productivity rates.

The economists say that 'hard' data indicates a slight acceleration in G7 economic growth to 1.7% year-on-year in the last quarter of 2016. The average growth rate post crisis is 1.8% *(see Figure 1)*. Furthermore, what is driving the optimism is the broad-based nature of the recovery across the G7, as indicated by less variation in growth rates across countries than at any time in the past 20 years.

Fig 1: Recently there has been a gradual uptick in G7 economic activity



Sources: PwC analysis, Thomson Datastream

[1] *G7 = US, Canada, France, Germany, Italy, Japan, UK*

Three reasons for this turnaround have been identified by the PwC economists:

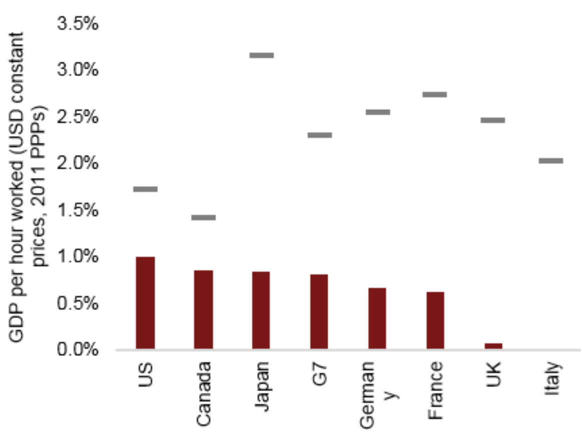
- First, the continued highly accommodative monetary stance across the G7 and, in particular, in the Eurozone, despite the gradual rise in US rates from historic lows recently.
- Second, governments are starting to spend more, with some putting infrastructure plans in place.
- Third, an uptick in demand from the large (E7) emerging markets, partly driven by a fiscal stimulus in China, as well as a turnaround in economic activity in Brazil. This is corroborated by recent trade data, which shows that emerging markets' imports continue to grow compared to a year earlier.

So, will this continue in the future? Most 'soft' survey-based data suggests the momentum has carried on through the first quarter of this year. This will not be confirmed until the 'hard' data on GDP is released later this month.

But policymakers' discussions should focus on the key factor which determines long-run standards of living: productivity. Barret Kupelian, Senior Economist, PwC says: "Our analysis shows that post-crisis productivity growth in the G7 has been around two thirds slower than its long-run average rate." *(See figure 2).*

Typically, governments take on the task to push through economy-wide reforms. For example, they can help drive large public investment projects or invest more in schooling.

Fig 2: The G7 post crisis productivity growth rate has been disappointing



Bars show 2008-2015/6 per annum average productivity growth rates
Horizontal lines show 1971-2007 per annum average productivity growth rate
Note: This measure of productivity has been calculated in Purchasing Power Parity (PPP) terms and so is sensitive to exchange rates. As such, it does not take into account of structural differences between economies, such as labour market flexibility. This feature, for example, gives the UK a lower relative figure.

Sources: PwC analysis, OECD

"But we think that businesses have an equally important role to play, particularly from a bottom-up perspective," adds Barret Kupelian. "Best practice management techniques, for example, could have an impact on national productivity rates if implemented across a large number of businesses.

"The economic growth target for our country in 2017 is ambitious and amongst the highest in the EU. In order to meet this objective, the public policies should aim for improvements in long term productivity – for example through increased investments in infrastructure and the quality of the education and health systems. It is necessary for Romania to avoid making the same policy mistakes it did before the crisis and to continue the cautious macroeconomic policies it followed in the past few years", stated Ionuţ Simion, Country Managing Partner, PwC Romania.

For more details, please see this month's Global Economy Watch at www.pwc.com/GEW.

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