BRIC economies lost growth momentum in 2011 but US economy shows signs of improvement

LONDON, UK: BRIC economies will continue to drive global economic growth in 2012 but have been losing momentum in the second half of 2011 and further slowing of growth is expected in 2012. The US economy is picking up, and looks set to achieve robust growth this year. A significant worsening of the Eurozone crisis remains the key risk for all of these economies, according to two PwC reports launched this week, *Economic Views - BRIC* and *Economic Views - US*.

BRIC economies

The BRIC economies lost growth momentum in the second half of 2011, raising questions about their ability to drive global economic growth in 2012 and their vulnerability to the crisis playing out in the Eurozone.

Domestic challenges such as high inflation and interest rates lie behind the slow down and a reversal in investor risk appetite means that capital is moving out of the BRICs and other emerging economies to safe heavens like the US.
Yael Selfin, head of macro-consulting and a director in PwC's economics team, commented:

"This slowdown needs to be put into perspective. The BRIC economies are all expected to grow faster than any of the developed economies this year, and the authorities in these economies have scope for fiscal and monetary stimulus measures should they need to support a slowdown in private sector growth.

"We remain confident that the BRIC economies will continue to drive world economic growth in 2012.

"China will remain the best performing of the BRICs growing at a respectable 8.6% in 2012. We are expecting a slow start to the year by both Brazil and India, but if they bring forward stimulus measures as we expect then growth should pick up pace in the second half of 2012, registering 3.3% and 7.5% growth respectively. Russia is the only economy in the group not to have slowed in the second half of last year, but it is also the most vulnerable to a slowdown in the Eurozone through its trade exposure, and to a possible deterioration in the global economy through lower oil prices, and so we are expecting Russian growth to moderate to 3.7% this year."

US

In stark contrast to developments in Europe, the US economy appears to be gathering momentum. Unemployment figures continue their downward trajectory and consumer and business sentiment has improved. Meanwhile, interest rates are set to remain low for another two years. These factors will support private sector demand growth in 2012. Intensification in the Eurozone debt crisis poses the greatest risk to the US recovery, particularly if the global banking system is affected.

Selfin commented: "Agreeing a credible plan to reduce the fiscal deficit remains an outstanding problem. With eyes firmly focussed on the presidential elections in November, it's unlikely that any major reforms to deal with this issue will be implemented before then. Fortunately for the US, investors are more concerned with developments in the Eurozone to worry about US fiscal sustainability, but the day of reckoning will come if solution is not found in the next presidential term. The challenging times continue and are likely to do so for the foreseeable future."