No. 81
November 2010
TRÉSOR-ECONOMICS

The global economic outlook in autumn 2010: how are the components of recovery lining up?

- Since the first stirrings of spring, the advanced economies have entered a phase of moderate recovery. As expected, the first half of 2010 was more buoyant than the latter half of 2009 for most of the world's leading economies, for the eurozone especially. The pickup in activity since summer 2009 rested largely on the recovery in global trade, and in particular on growth in trade with China and emerging Asia, which have created the necessary additional demand to spark the advanced economies back into life. International trade is expected to maintain this momentum over the next two years, supporting the advanced economies.

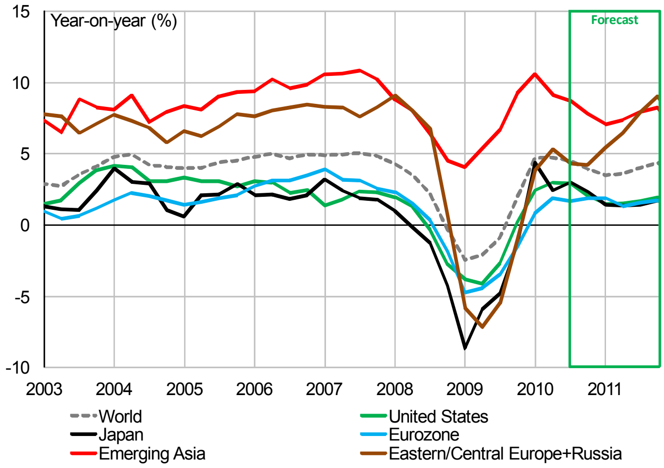
- Other factors too drove the spring 2010 rebound: in addition to temporary factors such as public stimulus plans and the inventory cycle, the healthy performance of the developed countries in first-half 2010 also reflected reviving domestic private domestic demand. In fact, two contradictory trends are at work here: fading temporary factors, with the expiration of the stimulus plans, and the progressive ramping up of private-sector growth drivers, allowing domestic demand in the developed countries to consolidate, looking to 2011.

- At the same time, the trade imbalances are likely to revert to a situation similar to that of 2008, meaning that the partial rebalancing seen in 2009 could have been largely cyclical in fact.

- In most of the developed countries, labour productivity is thought to have recovered at the expense of jobs. Only in the United States and China is GDP expected to recover its 2008 level by 2011, but employment is expected to revert to its 2008 level only in Germany, where it hadn't risen very much anyway. Combined with wage restraint in some countries, reviving productivity would help to restore mark-ups. These, together with improved funding conditions, would set the scene for an investment revival, except in Spain, where it would continue to be held back by weak domestic demand.

- Finally, after having fallen 0.9% in 2009, global GDP is expected to grow by 4.4% in 2010 and 3.9% in 2011, thanks largely to the emerging countries. Considerable uncertainties remain, however, both as regards the real economy and the financial sphere.

International environment: GDP growth



Source: DG Trésor

1. First half 2010: in search of sustainable growth drivers

1.1 Activity picks up in first-half 2010

In most of the world's leading economies, growth was more vigorous in the first half of 2010 than in the second half of 2009 (see Table 1). Eurozone activity picked up distinctly in the first half of 2010 thanks chiefly to a very dynamic second quarter. The intensification of eurozone growth as a whole nevertheless conceals contrasting performance in its main economies. Germany's has been the best by far, achieving record growth in Q2. Activity was also fairly sustained in France and Italy, to a lesser degree. Recovery in Spain remained weak, on the other hand, still heavily penalised by domestic imbalances. Growth gathered speed in the United Kingdom, particularly in Q2 2010. The acceleration recorded in Europe in the second quarter was counterbalanced, however, by a significant slowdown in Japan, the United States and also China.

Table 1: Recent GDP trends (by volume, and %)

	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	H2 2009	H1 2010	*2008*	*2009*	*2010 (to date)*
United States	–1.2	–0.2	0.4	1.2	0.9	0.4	0.9	1.7	***0.0***	***–2.6***	***2.3***
Japan	–4.4	2.3	–0.1	0.9	1.2	0.4	1.5	1.8	–1.2	–5.2	*2.7*
United Kingdom	–2.3	–0.7	–0.3	0.4	0.3	1.2	–0.4	1.1	–0.1	–4.9	*1.2*
China*	2.7	3.3	2.7	2.8	2.5	2.0	5.8	5.0	*9.6*	*9.1*	*8.5*
Eurozone	–2.5	–0.1	**0.4**	**0.2**	**0.3**	**1.0**	**0.4**	**0.9**	***0,3***	***–4.0***	***1.4***
Germany	–3.4	0.5	0.7	0.3	0.5	2.2	1.1	1.7	*0.7*	–4.7	*2.8*
France	–1.5	**0.1**	**0.3**	**0.6**	**0.2**	**0.7**	**0.6**	**0.8**	***0.1***	***–2.5***	***1.3***
Italy	–2.9	–0.3	0.4	–0.1	0.4	0.5	0.3	0.6	–1.3	–5.1	*0.9*
Spain	–1.6	–1.1	–0.3	–0.2	0.1	0.2	–0.9	0.2	*0.9*	–3.7	*–0.2*
Belgium	–1.7	0.1	1.0	0.4	0.0	0.9	1.3	0.7	*0.8*	–2.7	*1.6*
Netherlands	–2.3	–1.2	0.6	0.6	0.5	1.0	0.3	1.3	*1.9*	–3.9	*1.7*
Greece	–1.0	–0.3	–0.5	–0.8	–0.8	–1.8	–1.0	–2.0	*2.0*	–2.0	*–3.0*
Ireland	–2.8	–0.1	–0.3	–2.5	2.2	–1.2	–1.6	0.3	–3.6	–7.6	*–0.8*
Portugal	–1.8	0.6	0.3	–0.1	1.1	0.3	0.5	1.1	*0.0*	*–2.6*	*1.5*

Sources: Quarterly national accounts

1.2 Diversified growth drivers

The pickup in activity since summer 2009 was largely due to the recovery in global trade. Global trade began to bounce back in Asia as far back as the second quarter of 2009, with the easing of credit terms and the Chinese stimulus plan. The leading developed countries followed suit from Q3 onwards and even took up the running as from Q2 2010. After registering an historic decline in 2009 (–12.2%, versus +1.9% in 2008)[1], world trade grew at a particularly buoyant pace in the first half of 2010, with an annualised growth rate of +14.3%, compared to an average rate of nearly 7% over the past 10 years.

Several temporary factors (including an exceptionally harsh winter, public stimulus plans, and the inventory cycle) also helped to account for this spring rebound. After severely squeezing activity during the crisis, the manufacturers' inventory cycle turned in conjunction with the recovery in demand, consolidating the upturn since summer 2009. This supporting factor continued to play an important role in the first half of 2010, particularly in the United States, Germany and the United Kingdom. In addition, some countries continued to benefit from public stimulus measures. This was notably the case in Germany, whose record performance in Q2 2010 was partly traceable to the stimulus plan in the construction sector. Finally, also worth mentioning are the positive knock-on effects in Q2 of the harsh winter in Europe. Numerous investment projects initially planned for the end of 2009 or early 2010 had had to be delayed until Q2 2010, largely helping to buoy activity, particularly in Germany and the United Kingdom.

Table 2: The contribution of inventory to activity

Contribution of inventories	2008			2009				2010		2010
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	To date
United States	–0.1	–0.1	–0.5	–0.2	–0.2	0.3	0.7	0.6	0.2	**1.4**
Japan	0.3	–0.1	1.2	–1.2	0.1	–0.2	–0.4	0.1	–0.1	**–0.3**
United Kingdom	–0.7	–0.1	–1.5	0.0	0.4	–0.5	0.5	0.3	1.0	**1.2**
Germany	–0.4	0.2	–0.2	0.1	–1.0	1.4	–1.3	1.0	0.1	**0.6**
Italy	–0.3	–0.4	1.0	–0.8	–0.3	–0.1	0.8	0.1	–0.5	**0.2**
Spain	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.1**
France	0.2	–0.3	–0.7	–0.8	–0.5	–0.3	0.6	–0.2	0.6	**0.4**

Sources: Quarterly national accounts

(1) An overreaction, for which there may be several explanations, among them the international fragmentation of the production chain, a breakdown in trade finance, and the vulnerability and volatility of the manufacturing sector.

However, the strong performance recorded in H1 2010 also reflects the upturn in private domestic demand. While certain temporary factors supporting the recovery (such as the inventory cycle and public stimulus plans) have begun to run out of steam, private investment appears progressively to be picking up the slack[2], notably echoing the recovery in manufacturing capacity utilisation rates. On the other hand, this is less the case for private consumption, still dampened by high unemployment.

1.3 While the recovery appears to be confirmed, it lacks solid underpinnings in the short-term

The temporary factors supporting activity (such as the weather effect, the inventory cycle and public stimulus plans) are expected to fade rapidly. This phenomenon, combined with the return of global trade to a more moderate pace, due notably to the phasing-out of public stimulus measures in China, is expected to put a brake on world growth in Q3 2010. Most cyclical indicators appear to confirm the expected dip in activity in the course of summer 2010. Purchasing-manager surveys in August 2010 admittedly were still pointing to an expansionary phase in activity in the leading world economies, though to a significantly lesser degree than in Q2. Thus, after registering strong growth overall in the second quarter, manufacturing output indices at the beginning of the third quarter in Europe suggest less favourable growth performance. The Q2 slowdown in the United States and Japan is expected to persist in Q3. However, activity within the main developed regions is expected to remain positive, continuing to profit from the progressive revival of private domestic demand.

2. A cyclical and near-universal recovery in productivity

Trade is forecast to continue to fuel growth in the advanced economies, while the domestic growth drivers are expected to kick in only progressively, with two contradictory trends at work: the slowdown in temporary factors, and the progressive acceleration of domestic drivers thus point to a hesitant profile, likely to take shape in the course of 2011. The recovery is expected to create few jobs over that time frame, and to favour the export-oriented sectors.

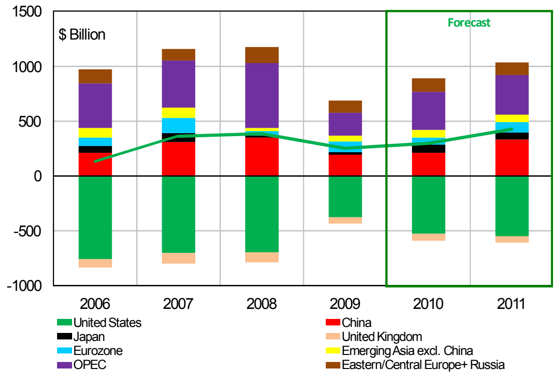
2.1 International trade is forecast to remain buoyant, supporting the advanced economies

Coming after a very healthy first half, global trade should continue to underpin the advanced economies on the road back to normal. Trade in goods and services was strong in H1 2010; the second half is bound to witness a slowdown relative to that very sharp upswing. However, looking to 2011, trade is expected to continue to intensify at a faster pace than the growth in global activity, and faster than in the past ten years. As a result, except in Italy-again penalised by deteriorating competitiveness-imports and exports are forecast to recover and then exceed their level prior to the Lehman Brothers collapse.

The contribution of emerging Asia, however, is expected to fade as the Chinese government reins-in its spending to support activity. Indeed, while it was in effect the Chinese stimulus plan (and to a lesser degree reviving distributor confidence) that kick-started stalled trade, this plan is expected to expire at the end of 2011, so that the investment spending profile, which peaked in 2009, would match that of emerging Asia's contribution to global trade. The impetus in 2011 will therefore come more from the developed countries, where domestic demand is expected to recover.

Overall, the trade balances are expected to revert to their pre-crisis profile in the medium term[3]. Indeed, on the one hand the US trade gap is forecast to widen again, due to fairly vigorous domestic demand, even though households have started to clean up their balance sheets and authorities have set about reducing the public deficit. On the other hand, the surplus recorded in emerging Asia and Japan is forecast to revert to its 2008 level (due in particular to the decline in imports following withdrawal of the measures to support the economy), while the OPEC countries' trade balance is expected to benefit from higher oil prices[4] (see Chart 1). These divergences owe much to the fact that exchange rates are still far from their equilibrium rates, and to persistent wide disparities in debt levels and in the savings/investment split.

Chart 1: Global trade imbalances



Source: IMF and DG Trésor

(2) In particular in Germany, the United Kingdom and the United States.

(3) This widening of trade imbalances is virtually within the realm of the observed at the time of writing.

(4) The statistical gap, i.e. the non-zero sum of global trade balances, is forecast to widen in the medium term. This is due in part to the fact that the different balances are greater in absolute terms. The IMF finds similar results in terms of current account balances (*World Economic Outlook*, April 2010). Our scenario's assumption for oil prices is the one provided by oil futures at 1 September.

Box 1: **Who gains from China's dynamism?**

In the winter of 2009, many analysts thought that Europe would not benefit from the recovery in emerging Asia, with Europe progressively losing market share, in China especially. However, despite some progress towards Asian integration, this trade decoupling is not expected to take place, as evidenced by Chinese customs data.

Admittedly, China's dynamism has benefited Asia first and foremost, but no more so than before the crisis: the crisis is even reckoned to have boosted the share of German goods in flows into China. The shift in trade flows to China is taking place more within Asia, the share of Northeast Asian exports (Japan and North Korea) having increased since 2008, and also with Oceania.

Table 3: Shares of Chinese imports

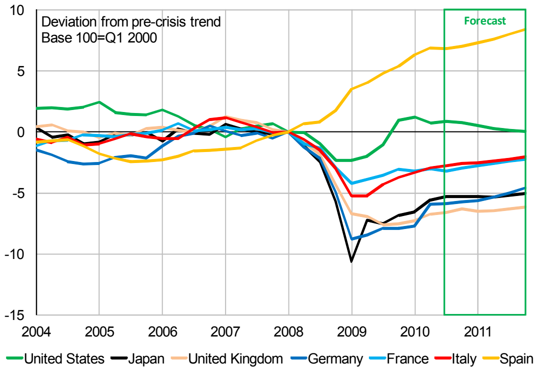
Share of Chinese imports from:	Q1 2006-Q1 2009	Q2 2009-Q2 2010
Asia	64%	60%
European Union	15%	16%
United States	7%	7%

Source: Customs data

2.2 Domestic growth drivers should gradually take up the running

Other than in Italy, productivity will progressively recover its pre-crisis level. Italy indeed has yet to abandon its temporary jobs support mechanism, which has admittedly curbed the destruction of jobs but which, in a recovering economy, hinders the rapid reallocation of labour and the adjustment of employment to the needs of a sluggish GDP. However, productivity is expected to revert to its pre-crisis level in the main other countries, but the trend is likely to remain weaker at this juncture, other than in Spain[5] and in the United States. In Germany, Italy, Japan and the United Kingdom, Chart 2 suggests that the impact of the crisis on labour productivity is likely to last a few years at least.

Chart 2: Discontinuities in labour productivity trends in selected countries



Source: DG Trésor

Key: productivity shortfall relative to what it would have been had the trend observed between 2000 and 2008 continued. A persistent shortfall points to a break with the trend.

Productivity is expected to pick up thanks to cyclical labour market adjustments, thereby impeding the fall in the unemployment rate. GDP is not forecast to revert to its 2008 level, other than in the United States and China. However, employment will not make good the shortfall observed in any of the developed countries, with the notable exception of Germany, where unemployment has scarcely risen during the crisis. In Spain, productivity registered a spurt during the crisis as a result of the very sharp adjustment in employment (unemployment rose from 11% in 2008 to over 20% in 2010). The correction occurred especially early, and on a large scale, in the countries experiencing a property crisis (Spain, the United States and the United Kingdom); so it was both the nature of the shock and the measures put in place to avoid redundancies that account for the disparity in the way employment has responded among the advanced economies[6]. However, unemployment is expected to remain high at least until 2011, its momentum frequently being restrained by cyclical movements in the labour market participation rate[7] (particularly in the United States, the United Kingdom, Italy and Japan), and employment will pick up only progressively in 2011. One factor hampering the recovery in employment is the reallocation of labour in economies in the process of deindustrialisation, which takes time, particularly in those where an entire sector has been durably affected (as in financial services and construction in the United States, Spain and the United Kingdom).

Combined with wage restraint in several countries, the restoration of productivity should similarly restore mark-ups. Real wages are forecast to stagnate for example in Germany, Spain and Italy. Efforts to hold down wage costs will spread, via both productivity gains and a tight grip on the wage bill. Real wages and labour productivity are likely to become decoupled over an extended period in Europe.

Investment could pick up: ultimately, wider margins, improving lending terms, low interest rates and more normal bond spreads should revive companies' willingness to invest. Spain is the exception this time, since private investment in producer goods is far more dependent on domestic demand than in neighbouring countries, but that country's domestic demand is depressed by weak conditions in the construction sector in particular.

(5) Spain is an exception: the adjustment in employment there is reckoned to have made an improvement in productivity trends possible. It remains to be seen, however, whether this improvement will prove durable, which will be the case, for example, if the crisis results in a reallocation of labour between sectors.

(6) Along with structural factors, such as population ageing in Germany and Japan.

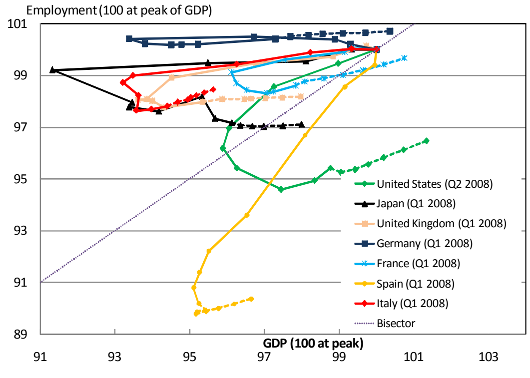
(7) As jobs are created, people who had dropped out of the labour market due to discouragement during the crisis return to the working population, thereby keeping unemployment high.

Box 2: The contrasting jobs content of recovery

Chart 3 shows how activity (abscissa) and employment (ordinate) respond to the financial crisis. Employment in the developed countries is expected to recover only slowly within the time frame of our forecasts (the curves are not markedly pointing upwards). While GDP in Germany and the US is expected to exceed its pre-crisis level by the end of 2011 (abscissa 100), in none of the developed countries will employment recover satisfactorily or make good its decline. Despite the upturn in activity, the recoveries will thus be fairly jobs-poor. This figure also serves to chart the course of apparent labour productivity, with the latter recovering once the curve reverts to the bisector (dark blue dotted line).

Two cases at opposite poles stand out: that of Germany, where partial work schemes helped avoid any correction in the level of employment, and where, according to forecasts, employment is thought to be picking up slowly (despite population ageing); and that of Spain, where employment has borne the brunt of the shock, thereby boosting productivity (with the curve pointing to the southeastern quadrant). The fastest upturn in both employment and activity, finally, is in the United States.

Chart 3: How employment has responded to the GDP shock

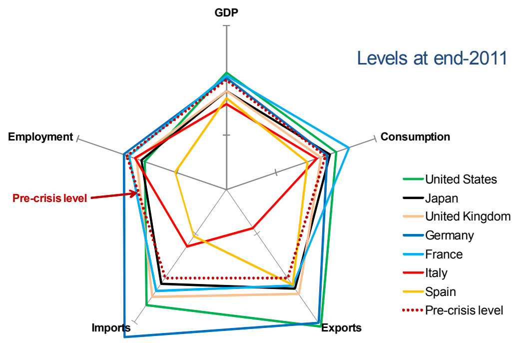


Source: DG Trésor

2.3 Other than for external trade flows, forecasts suggest that the key macroeconomic aggregates will not recover their end-2007 levels by the end of 2011, except in the United States (and China)

Overall, external trade will probably recover far faster than the domestic growth drivers. The exception to this will be Italy, where exports will be penalised by a loss of competitiveness and market share resulting from rising unit wage costs. In Spain and Italy above all, activity is unlikely to recover fully by the end of 2011, due in particular to the depressed state of domestic demand as a result of the labour market situation and, in Italy more specifically, due to loss of purchasing power. The United States and Germany, then, are the only economies whose main macroeconomic variables are expected to surpass their 2007 peak before 2012.

Chart 4: Comparisons with pre-crisis levels



Key: 80 in the centre, 100 at the Q1 2008 peak in dotted line. For example, Japanese exports and imports-and consumption to a lesser extent-are forecast to exceed their pre-crisis (beginning of 2008) levels at the end of 2011. Employment and GDP, on the other hand, will not exceed the peak before 2012.

3. Imbalances, old and new, are likely to impede recovery

In the French Trésor's scenario, vigorous trade growth will benefit the developed countries in varying ways: in certain countries (the United States, Spain and the United Kingdom), property will weigh persistently on the process of household debt reduction. Consumption will remain fairly lacklustre over the next two years, while fiscal consolidation is expected to act as a drag on European activity.

3.1 Agents' balance sheets have not yet been fully cleaned up

In countries that have experienced a simultaneous property and financial crisis, households will continue to be held back by hefty levels of debt. The crisis put the spotlight on excessive levels of debt among agents in the advanced economies (more precisely, European companies, and households in Spain, Britain and the United States that had taken advantage of the property boom). Corporate debt is thought to have ceased growing, although there is no clearly observable trend to debt reduction. Where households are concerned, the signs are that, with continuing labour market difficulties and the negative financial and property wealth effects, disposable income will not be sufficient to spark serious debt reduction in Spain and the United Kingdom. The situation is slightly better in the United States, even though debt levels there are still very high[8].

The property sector is likely to remain depressed in Spain and, to a lesser extent, in the United States. In this scenario, the US market will continue to suffer from a large overhang of unsold (or foreclosed) homes, which is weighing on construction investment. Reflecting sluggish demand, property prices are not expected to start rising again until sometime in 2011, bouncing back off their fundamentals[9]. The situation is even more alarming in Spain, where only the fact that the

(8) At the time of publication of GDP on 30 July 2010, most of the American series were revised for the past 3 years: consumption turned out to be weaker than previously thought, and the savings rate higher (the net savings rate worked out to 6.1% of disposable income in May 2010 after the revisions, versus 4.0% before the revisions). The process of household debt reduction thus appears to be well underway, and the savings rate is now more in line with the (unrevised) figures for debt.

(9) Describing an under-shooting reaction, signalling that the bubble has been well and truly deflated.

commercial banks are holding back supply[10] is preventing a fall in property prices, which will still be more than 15% over their fundamentals at the end of 2011; the construction sector, which is crucial In Spain's growth model, is not forecast to pick up until the end of 2011. Only in the United Kingdom have property prices already begun recovering again, being subject to powerful supply constraints: prices are forecast to start rising, but investment is likely to be held back by flat disposable income (as witnessed by the fall in demand for credit at the beginning of 2010) and by the VAT increase[11].

Consumption is expected to be uniformly slack, except in China. This is because household budgets are seriously constrained, their spending power curbed by weak job creation. Wealth effects, both property and financial, are weak. Finally, households are under pressure progressively to reduce their debt. Nevertheless, US household consumption is forecast to start accelerating at the end of 2011, taking up the running from the public stimulus plans (consumption accounts for 70% of US GDP). In addition, savings rates, after ballooning as a result of precautionary savings built up during the crisis, are not expected to decline significantly, especially in Spain, the United States and the United Kingdom.

3.2 Output gaps will remain substantial overall, weighing on inflation

Looking to 2011, the leading advanced economies will continue at below their growth potential: it will take time for them to close their output gaps, and the process will not be complete at the end of 2011, other than in the United Kingdom.

Consequently, and in view of persistently weak wage pressures, core inflation will continue to be very moderate, except in the United Kingdom, which has increased VAT twice in two years[12]. Because there is little pressure on the price of commodities at present, overall inflation will remain in check, including in China, making it easier for the central banks to maintain their accommodating stance.

Apart from Japan, the risk of deflation remains slight, though not improbable. Agents' expectations remain anchored in positive territory in both the eurozone and the United States. Moreover, the upturn in the real economy is at work, albeit at a modest pace, with rising domestic demand, employment and wages. Deflation in Japan is thought to come from the hefty and continuous adjustment of wage costs, the recent appreciation of the yen and the widening output gap, throughout our forecast time frame; the situation cannot therefore be compared to the deflationary spiral endured in the 1990s, which was fuelled by the ailing banks.

4. Many uncertainties, balancing each other out

4.1 Several factors could curb global growth, including a financial markets relapse, instability on exchange-rate markets, and rising disinflationary pressures

One cannot rule out further financial tensions on the bond, bank and stock markets in the short term. These stem from uncertainties as to the sustainability of the global economic recovery and the credibility of fiscal consolidation measures (in the eurozone especially). Should these uncertainties materialise, financing conditions would deteriorate, thereby harming business investment. A significant rise in bond market tensions leading to restrictions on access to liquidity could render further fiscal consolidation necessary, in particular, further penalising growth in the short term.

Persistent or even worsening instability between the major currencies, as seen recently, cannot be ruled out. The Fed's second quantitative easing programme (QE2), announced on 3 November 2010, could precipitate a depreciation of the dollar, which would support the competitiveness of America's exporters, but which by the same token would hinder European and Japanese exports. This downward trend in the dollar could be reinforced by moves by China to diversify its currency reserves, which could notably push up the yen and the euro. Moreover, a rise in the Yuan following the introduction of a more flexible exchange rate regime would harm China's growth and hence Chinese demand for developed countries' goods and services.

Several factors could reinforce downward pressures on inflation. While core inflation is below pre-crisis levels in our scenario, it is nevertheless expected to remain comfortably positive (except in Japan). A more negative than expected effect on private domestic demand of the private and public sector debt reduction process, or a sluggish recovery in employment, are the main threats that could drag prices and wages into a downward spiral.

(10) They have opted to keep homes that were foreclosed when the bubble burst on their balance sheet, and to wait for prices to rise before putting them on the market.

(11) This was cut to 12.9% in 2009 to support consumption, but then reverted to its 15% level in January 2010 before rising to 17.5% in January 2011.

(12) Unlike INSEE, the ONS does not filter the effects of indirect taxation when calculating core inflation, which means that the impact of the increase in VAT on prices is thus fully reflected in its core inflation index.

Box 3: **Difficulties of measuring potential growth on emerging from the crisis**

Potential growth is commonly estimated by means of a method based on a breakdown of the Cobb-Douglas-type production function. The economy thus gains in potential by developing its factors of production over the long run-e.g. physical capital (investment) and labour (falling structural unemployment, population growth, a non-cyclical increase in the labour market participation rate or in the number of hours worked per capita)-and through technical progress (measured by total factor productivity).

Table 4: DG Trésor estimates of potential growth

Potential growth (%)	Average 1997-2008			2009			2010			2011			2012	
	Trésor	EC	OECD	Trésor	EC	OECD	Trésor	EC	OECD	Trésor	EC	OECD	Trésor	EC
United States	2.6	–	3.0	1.5	–	1.6	1.5	–	1,2	1.6	–	1.6	1.9	–
Japan	1.1	–	1.1	0.6	–	0.4	0.7	–	0,5	0.9	–	1.0	1.0	–
United Kingdom	2.4	2.5	2.7	0.5	0.9	1.7	0.5	1.0	1,2	0.8	1.3	1.3	1.3	1.6
Eurozone	1.7	–	–	1.1	–	–	1.0	–	–	1.0	–	–	1.0	–
Germany	1.4	1.2	1.4	1.4	0.8	1.2	1.5	1.0	1,0	1.6	1.3	1.3	1.6	1.7
France	2.1	1.9	2.1	1.5	1.2	1.5	1.5	1.3	1,2	1.8	1.1	1.3	1.9	1.2
Italy	1.3	1.0	1.2	0.4	0.1	0.2	0.3	0.2	0,2	0.2	0.6	0.5	0.2	0.8
Spain	3.2	3.3	3.4	1.1	0.8	0.7	0.7	0.5	–0,4	0.6	0.4	–0.1	0.8	1.1

Sources: OECD Economic Outlook no. 87; DG Trésor; European Commission Spring Forecast 2010

While the assessment of an economy's equilibrium growth path is generally not a matter of consensus, it is still less so on emerging from a crisis on the scale just witnessed. Numerous unknowns stand in the way of certainty. Total factor productivity may have been affected in two opposing ways: productivity may have been boosted during the crisis if business failures eliminated the least productive companies but, conversely, protracted restructurings and lower R&D spending may have acted as a brake on productivity gains. This would render a break in the trend possible (see Apparent labour productivity, Chart 3). The rate of capital depreciation may have been modified, and some capital may have become obsolete due to under-utilisation and therefore no longer contributes to potential activity. Finally, the split between the cyclical and structural factors contributing to the unemployment rate is unclear, potentially skewing the estimation of Nairu.

Neutral choices lead to persistent relatively high potential output, with consequently particularly wide output gaps, which means that output gaps probably have grown wider. These uncertainties affect the analysis and forecasts of variables such as the general government structural balance or core inflation, both of which are directly sensitive to the potential growth assumptions adopted.

4.2 Conversely, lower than expected savings and a more pronounced investment rebound could result in a stronger recovery in activity

Fiscal consolidation is likely to cramp growth in the developed countries in the short term. Conversely, however, if this led households to reduce their precautionary savings, this would support growth. If savings rates fell, then private consumption and hence activity would automatically be more vigorous.

Given the extent of the output gaps, the cyclical rebound could prove stronger. Those variables that have experienced a sharp adjustment could, therefore, bounce back more vigorously. For example, investment projects put on hold during the crisis could be restarted once the recovery is underway; productivity could pick up more rapidly, moreover, especially in the southern European countries.

It seems, therefore, that while the risks are balanced, upside uncertainties are likely to play out more slowly.

Sylvain BAILLEHACHE and Nicolas END

Table 5: A synthetic view of forecasts

Annual average in %		Forecasts[a]	
	2009	2010	2011
GDP			
World	–0.9	4.4	3.9
United States	–2.6	2.6	1.6
Japan	–5.2	3.1	1.5
China	9.1	10.0	9.0
Eurozone	–4.1	1.4	1.6
Germany	–4.7	3.2	2.4
France	–2.6	1.5	2.0
Spain	–3.7	–0.4	0.8
Italy	–5.1	1.1	0.9
United Kingdoom	–4.9	1.6	1.9
Global trade	–12.2	–14.0	9.2
Global demand for French goods and services	–12.0	–11.8	7.7
Inflation			
United States	–0.3	1.4	0.9
Japan	–1.4	–0.7	–0.6
China	–0.7	2.5	1.5
Eurozone	0.3	1.4	1.4
France (HICP)	0.1	1.7	1.6

a. Forecasts are based on information available at 3 September 2010.

Publisher:

Ministère de l'Économie,
des Finances et de l'Industrie

Direction Générale du Trésor
139, rue de Bercy
75575 Paris CEDEX 12

Publication manager:

Benoit COEURÉ

Editor in chief:

Jean-Philippe VINCENT
+33 (0)1 44 87 18 51
tresor-eco@dgtresor.gouv.fr

English translation:

Centre de traduction des
ministères économique
et financier

Layout:

Maryse DOS SANTOS

ISSN 1777-8050

Recent Issues in English

October 2010

N°79. What explains the resilience of employment in Germany?
Volker ZIEMANN

N°78. The employment content of growth in the current U.S. recovery
Vincent GROSSMANN-WIRTH, Sophie RIVAUD

September 2010

N°77. The decline in industrial employment in France (1980-2007): how to account for it?
Lilas DEMMOU

July 2010

N°76. Which emerging countries have experienced a sudden stop of capital inflows during the recent crisis?
Fabrice BERTHAUD, Stéphane COLLIAC

June 2010

N°75. A more balanced growth for China: challenges and prospects
Benjamin DELOZIER, Cyril REBILLARD

http://www.tresor.bercy.gouv.fr/TRESOR_ECO/tresorecouk.htm

TRÉSOR
DIRECTION GÉNÉRALE