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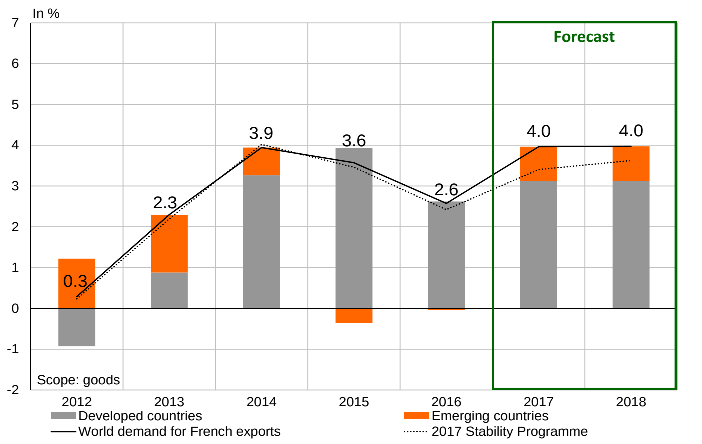
TRÉSOR-ECONOMICS

The global economic outlook in September 2017: signals remain upbeat

- After a two year slowdown, global economic activity is set to gather pace in 2017, with 3.6 % growth, driven by both advanced and emerging economies, before continuing at the same pace in 2018.
- In the US, growth is likely to be stronger in 2017, thanks to a rebound in private investment, then again in 2018, assuming a fiscal stimulus package is implemented. In Japan, economic activity is expected to accelerate sharply in 2017, boosted by a recovery in private demand, before slowing in 2018. In the UK, growth is set to decrease due to the initial negative effects of the Brexit vote.
- Euro area recovery should continue at a strong pace. Private investment is set to remain dynamic, benefiting from continued ECB monetary support and improved financing conditions, and the acceleration in global demand is likely to drive exports despite the euro's recent strengthening. In the largest euro area economies, growth is expected to gather pace in Germany and Italy, and to remain dynamic (albeit not as high) in Spain.
- Economic prospects in emerging economies are uneven. Russia and Brazil are gradually recovering from recession, and India continues to experience very dynamic growth. In contrast, Chinese economic activity is set to slow significantly in 2018, and the recovery in Turkey since late 2016 is expected to run out of steam.
- World growth has seen a renewed stronger contribution from trade since end 2016. World trade is clearly accelerating in 2017 and is expected to grow by 4%, followed by steady growth in 2018. World demand for French exports should display a similar profile over the forecasting horizon.
- This scenario is subject to several risks: political developments in the US; the terms and effects of Brexit; the magnitude of the slowdown expected in China; financial risks, notably with regard to the current highs on US stock markets. Lastly, world trade growth could be stronger than anticipated if the dynamic trend observed since late 2016 continues.

Growth in world demand for French exports, by area*



* *Source: DG Trésor*

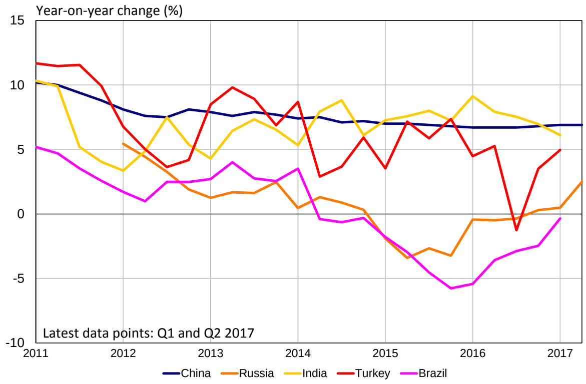
* The forecasts and data in this document were finalised on 22 August 2017.

MINISTÈRE DE L'ÉCONOMIE ET DES FINANCES

1. World growth proved resilient in the first half of 2017

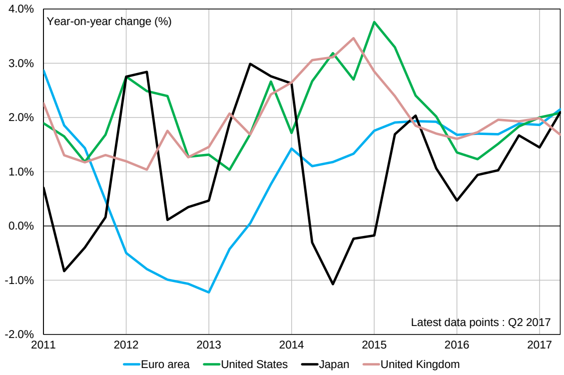
In emerging economies, signals on the macroeconomic situation have been generally upbeat this year in Russia, China and Turkey, in contrast with more mixed signals from Brazil. In advanced economies, economic activity has got off to a sound start in 2017 (see Charts 1 and 2).

Chart 1: GDP growth in the main emerging economies



Source: National statistical institutes.

Chart 2: GDP growth in the main advanced economies



Source: National statistical institutes.

1.1 Emerging economies have benefited from a more favourable international environment, but situations are still mixed

In the first half of 2017, the situation in emerging economies has generally become less strained thanks to a fairly buoyant international environment. Emerging economies' growth was notably supported by a pick-up in activity in China. This uptick benefited China's main trade partners and fuelled a broader recovery in international trade momentum. Stable oil prices and higher prices for other commodities, notably metals, resulted in a slight easing of pressure on exporting countries. However, these countries' situation remains poor given the persistent weakness in commodity prices. Furthermore, since the start of this year, emerging economies have benefited from net capital inflows notably because US interest rates have risen more gradually than initially anticipated.

1.2 In the main advanced economies, activity has been strong in early 2017, with economic indicators still upbeat at mid-2017

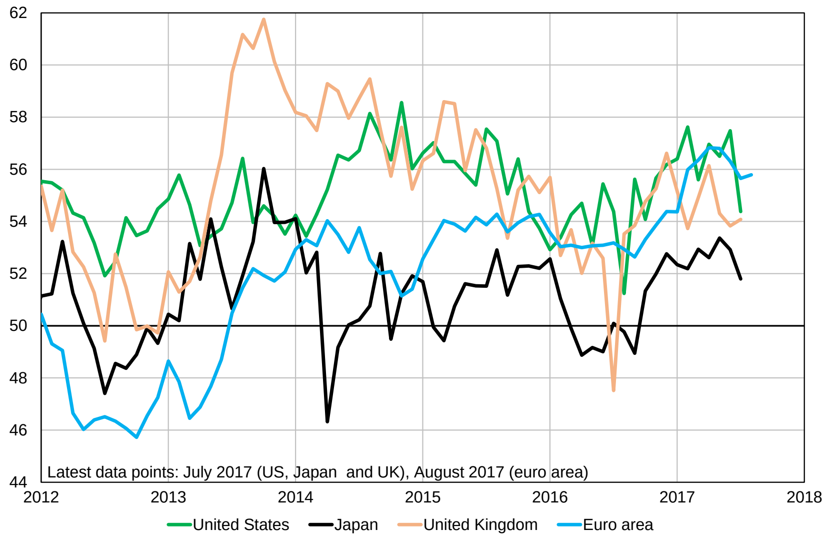
In the advanced economies, economic activity has got off to a sound start in 2017. In the first half, the US economy continued to recover, driven by business investment, which has returned to levels close to those observed before the soft patch in 2016. Activity picked up in the euro area thanks to a recovery in foreign trade, and grew stronger in Japan, driven by an acceleration in consumption and in public and private investment. Conversely, the UK saw early signs of a slowdown: private consumption rose at a slow pace, dampened by higher inflation due to the depreciation in sterling, with foreign trade weighing on growth; investment has remained solid up to now despite uncertainties about Brexit terms.

At mid-2017, economic indicators for advanced economies remained upbeat despite levelling off somewhat during the summer (see Chart 3). After a gradual improvement since mid-2016 across the main advanced economies, surveys of purchasing managers in manufacturing and services signalled some loss of momentum.[1] At the start of the second half, indicators appeared to stabilise in the euro area, while at the same time, they declined slightly in Japan and to a more pronounced extent in the US, albeit remaining at high levels. In the UK, in a context of uncertainty, survey results are volatile but upbeat overall, notably with a slight improvement in July.

[1] The PMI (Purchasing Manager's Index – Markit) for the euro area, Japan and the UK, and the ISM index (Institute for Supply Management) for the US.

TRÉSOR DIRECTION GÉNÉRALE

Chart 3: Manufacturing and services PMI surveys in advanced economies



Source: ISM, Markit.

1.3 The first half of 2017 was also buoyed up by the Vienna agreement on oil and a wave of optimism on financial markets

In Q1 2017, Brent oil prices levelled off at around US$55 per barrel after the Vienna agreement took effect,[2] but then slid beneath the US$50 in June due to growing uncertainty about OPEC's ability to rebalance the market, despite the decision to extend the agreement for nine more months until March 2018. Indeed, the agreement's signatories are hampered by the rise in US production and continued high oil inventories. Brent rebounded slightly in late July in the wake of a meeting of the Joint Ministerial Monitoring Committee for the Vienna agreement, which suggested that production curbs could be extended beyond March 2018, and following a cap on Nigerian production, which had previously been exempt. The price of Brent has been just above US$50 per barrel since then – below its post-agreement level.

A wave of optimism has swept across financial markets since the start of 2017. Stock markets of the main advanced economies have seen steady gains. Dividend yields are well above their historical average in the US, a sign that equities may be overpriced,[3] whereas volatility looks low in light of the magnitude of political and other uncertainties. Sovereign rates recently declined, breaking with the rise since mid-2016, and the main central banks have started to focus on unconventional monetary policy exit strategies (reducing the Fed's balance sheet and gradually unwinding the ECB's quantitative easing). On the forex market, the euro has strengthened considerably over the past few months, notably due to improved euro area economic prospects and statements by the ECB. The euro has appreciated significantly against the dollar which has been hit by uncertainties about the Trump Administration's fiscal stimulus plans and by market expectations of the Fed tightening monetary policy more gradually than previously anticipated.

2. After a significant rise in 2017, world growth is set to remain strong in 2018

After a two-year slowdown, global economic activity is set to gather pace to 3.6% in 2017, under the impetus of both advanced and emerging economies, before continuing at a similar rate in 2018 (see Table 1).

[2] In late November 2016, OPEC and 11 non-OPEC countries (including Russia but not the US) signed an agreement in Vienna to reduce their production by 1.8 million barrels a day for six months from 1 January 2017.

[3] For example, the P/E ratio – which measures stock prices relative to earnings per share – currently stands above its long-term average for the S&P 500 index, after rising steadily since 2012.

2.1 Growth is expected to rise in emerging economies despite a slowdown in China in 2018

In China, growth has been strong in 2017 thanks to the Chinese government's continued sizeable stimulus measures (both fiscal and monetary), whose magnitude is hard to evaluate. However, growing internal imbalances – notably due to sharp credit growth in a context of high debt levels and excess industrial capacity – are likely to result in a clear slowdown in the medium term. This slowdown could begin in 2018.

In Brazil, the exit from recession is likely to remain very gradual and is dependent on renewed private sector confidence. In 2017, the Brazilian economy's recovery has been hampered by weak household consumption, further fiscal consolidation and renewed political tensions after corruption charges were filed against President Temer (see Box 1). Nevertheless, economic activity is expected to accelerate gradually in 2018, thanks to an easing of monetary policy (the policy rate has been cut by 400 basis points since October 2016).

In India, 2017 growth has been adversely affected by the surprise demonetisation of 500 and 1,000 rupee banknotes in late 2016. Growth is expected to rebound in 2018 as the negative effects of demonetisation subside, combined with strong growth in public-sector wages and the implementation of a single federal VAT (“Goods and Services Tax”) aimed at simplifying indirect taxation and creating a single market in India.

In Russia, the gradual recovery in economic growth is set to continue thanks to a stabilisation in oil prices. However, growth is likely to be dampened due to structural vulnerabilities, such as weak productivity and the ageing population.

In Turkey, economic activity is set to benefit in the short term from generally expansionist macroeconomic policies and an easing of political uncertainty following the referendum approving constitutional reform. Nevertheless, the deterioration in the business environment and the centralisation of power could reduce longer-term growth. The anticipated tightening of international financing conditions could also dampen activity.

Box 1: Growing political tensions in Brazil

Political tensions have been rekindled with the indictment of President Michel Temer on corruption charges. In early May 2017, an executive at JBS (Brazil's largest agrifood multinational), giving evidence as part of an investigation on the Petrobras corruption scandal known as “Lava Jato”, presented prosecutors with a recording of a conversation in which he informs President Temer of hush money paid to the former speaker of the House, currently in jail for corruption. This recording, made public by prosecutors on 18 May, rekindled a political crisis that had partially died down after President Dilma Rousseff was removed from office in August 2016. This situation immediately sparked fresh volatility on financial markets: on 18 May, the Brazilian stock market plunged nearly 9% and the Brazilian real depreciated 8% against the US dollar.

In the short term, the risk of President Temer being removed from office seems very unlikely, but the situation is still unstable. In late June, the Prosecutor General of the Republic filed corruption charges against President Temer. However, these charges would only lead to conviction and removal from office with a two-thirds vote of the Congress. The House failed to reach a two-thirds majority when it voted on 2 August. In this context, the most likely scenario – barring another attempt at impeachment – is for President Temer to remain in office in a weakened position until the next presidential elections scheduled for autumn 2018.

The lost credibility may delay theadoption of the announced reforms, also postponing the return to growth. Resurgent political tensions could permanently undermine the governing coalition and thus weaken the government's ability to move forward with its reform agenda. In particular, pension reform – which is crucial to stemming the rise in federal spending – could be postponed indefinitely or gutted of its substantive measures given the very short window of opportunity for a vote between the parliamentary recess and the start of the presidential campaign. This situation may also dampen confidence and the return to growth, despite the positive signs observed since Q1 2017.

2.2 Stronger growth in the US and dynamic activity in Japan stand in contrast to a slowdown in the UK

In the US, after a blip in 2016, **growth is set to rise in 2017 and 2018** (growth forecast at 2.0% in 2017 and 2.4% in 2018, after 1.5% recorded in 2016). Economic activity is set to accelerate gradually over the forecast period thanks to the clear recovery in private investment in 2017 and assuming that a fiscal stimulus package in 2018 boosts GDP growth by 0.4 points. Foreign trade is set to be much more dynamic: exports are expected to gather pace in the wake of world trade, and imports thanks to robust domestic demand. In addition, the low unemployment rate is likely to support a strong trend in nominal wages, leading to a rebound in core inflation. In this context, the Fed is set to raise its key rates for a third time in 2017, followed by three additional rate hikes in 2018, while also trimming its balance sheet.

In Japan, economic growth should rise sharply in 2017 (GDP expected up by 2.0% in 2017 after 1.0% in 2016), thanks to dynamic consumption and a pick-up in investment, which is being driven by the preparations for the Olympic Games and the government's stimulus package. Activity is set to slow in 2018 to 1.3%, due notably to weaker public demand and private consumption. Moreover, the weak unemployment rate, now below its structural level, and demographic decline are expected to put upward pressure on wages, and inflation should move back into moderately positive territory.

In the UK, economic activity proved remarkably resilient after the Brexit referendum in June 2016. However, the slowdown observed since early 2017 is set to continue (growth is seen at 1.6% in 2017 and 1.4% in 2018, after 1.8% in 2016). Higher inflation and weak momentum on wages are likely to dampen consumption, while sterling's depreciation is set to have a limited positive effect on exports (see Box 2).

Box 2: What effects will Brexit have, a year after the referendum?

Projections drawn up before the Brexit referendum in June 2016 suggested that Brexit would have a strong negative impact on the UK economy out to 2018. The downgraded outlook was attributable to: (i) rising uncertainties notably for investment and consumption, with an increase in precautionary savings, (ii) a deterioration in financial conditions and high financial market volatility, possibly curbing investment or curtailing consumption due to a negative wealth effect. (iii) Conversely, a sharp depreciation in sterling was expected to cushion the referendum's negative effect on activity (despite the subsequent rise in import prices) by improving the UK economy's competitiveness.

The UK economy has proven very resilient to the shock of the referendum results. Markets and business confidence rebounded rapidly, and uncertainty appears to have had a modest impact so far on investment and precautionary savings. The unemployment rate even continued to decline. Forecasters were surprised that economic activity turned out to be so resilient in the second half of 2016. Up to now, sterling's depreciation (of about 20% between end 2015 and mid-2017) stands out as the predominant effect of the referendum. Furthermore, the easing of the fiscal consolidation pathway and more accommodative monetary policy may have underpinned this resilience in activity.

However, economic activity in the UK slowed in early 2017, and this slowdown is set to continue: UK demand is likely to slump, and productivity gains to provide only modest support.

(i) Following the depreciation of sterling, **inflation picked up** above the Bank of England's 2% target (2.6% in July).

(ii) Despite these inflationary pressures and a tight labour market, **wages lack momentum**, given the Brexit-related uncertainties and higher costs weighing on companies. As such, consumers' purchasing power is stalled.

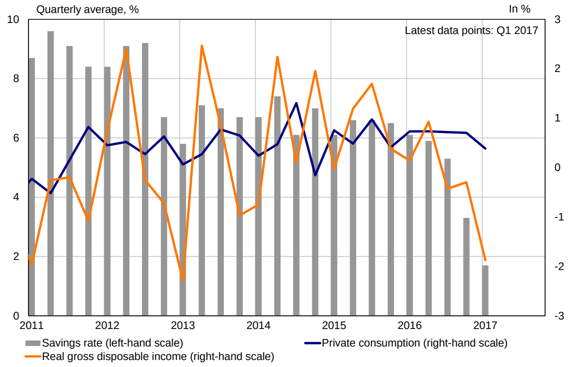
(iii) Nevertheless, and despite the shock of uncertainty, household consumption has held up thanks to a **strong decline in the household savings rate** (see Chart 4) and greater recourse to consumer credit. This decline in savings can be attributed to the low unemployment rate and the growth in UK household wealth (two decisive factors for the UK savings rate), but this trend is probably not sustainable. **Consumption is therefore expected to slump**.

(iv) **Investment** is unlikely to collapse but **is nevertheless set to be impacted by uncertainties**.

(v) **Sterling's depreciation is expected to have a limited positive effect on exports**, as companies have partially offset the positive currency effect on price competitiveness by raising their prices (see Chart 5). Moreover, exports may show relatively modest sensitivity to competeveness**.**

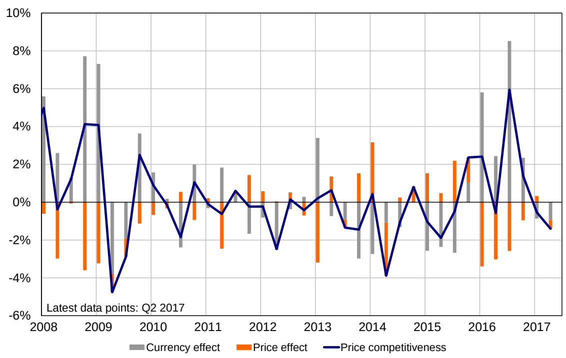
In spring 2016, before the referendum, UK growth for 2017 was forecast at 2.2%. Now, this growth forecast stands at 1.6%.

Chart 4: Purchasing power, consumption and savings in the UK



Source: ONS.

Chart 5: Contribution to UK price competitiveness



Source: DG Trésor.

Outside the UK, news of the Brexit referendum results triggered an immediate, sharp downturn on financial markets followed by a quick rebound. Thus, at this stage, compared to the forecasts established in summer 2016,[4] the Brexit is set to impact the growth of the UK's trading partners via two main channels. Firstly, via the trade channel, as the UK slowdown would dampen demand for its partners' products and would therefore weigh on French and euro area exports in particular. And secondly, via the currency channel, as sterling's depreciation would boost the competitiveness of UK exporters while adversely affecting the competitiveness of trading partners. These two negative effects have a modest impact on the UK's trading partners, and are factored into the international scenario presented here.

2.3 In the euro area, economic recovery is set to continue at a strong pace

The euro area's economic recovery is expected to continue at a strong pace in 2017 and 2018 (with growth of 2.0% then 1.8%). In 2017, inflation is projected to rise due to higher oil prices, with an impact on private consumption. Inflation is then expected to decline in 2018, with energy price inflation subsiding,[5] whereas core inflation is likely to be slightly higher but still low. In parallel, continued monetary policy support from the ECB[6] and better financing conditions are set to support a recovery in corporate credit and investment, despite uncertainties (the impact of Brexit talks, outcome of national elections, etc.) and persistent weakness in some countries' banking sectors. Furthermore, the acceleration in world demand is likely to drive a recovery in exports despite the euro's recent appreciation, stemming the negative contribution of foreign trade to euro area national accounts.

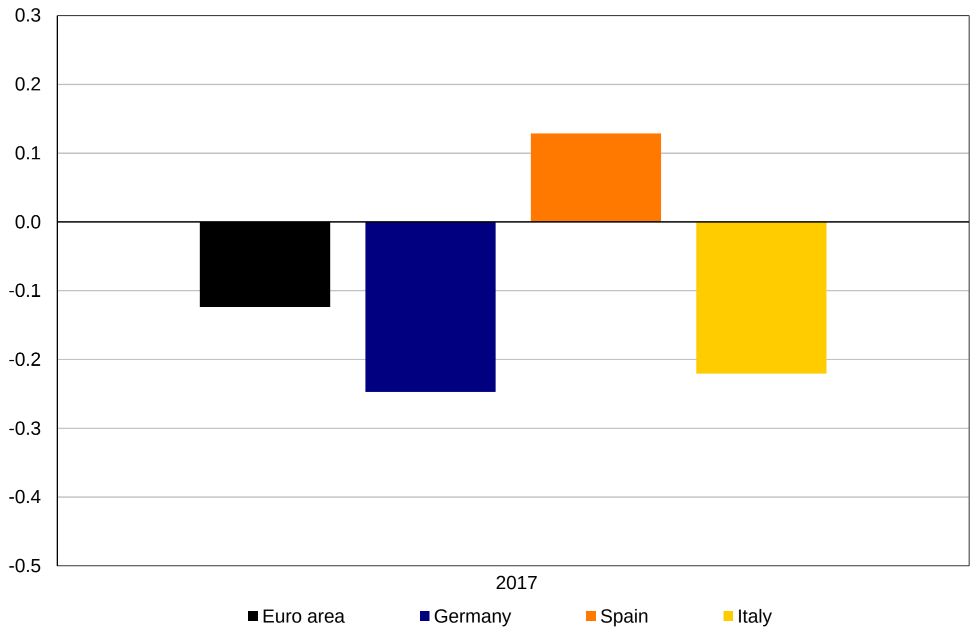
In 2017, the euro area's aggregate fiscal stance is expected to remain broadly neutral, but fiscal policies in individual countries may differ (see Chart 6). In Germany, the fiscal stance is likely to be expansionary despite the slowdown in public consumption related to the arrival of refugees. In Italy, fiscal policy is set to be expansionary and to underpin growth by reducing tax pressure. The fiscal stance in Spain is expected to be neutral, after two years of structural "disadjustment" (expansionary fiscal policy).

[4]See J-B. Bernard, L. François, T. Gillet, J. Lecumberry, Y. Padieu and A. Tavin, "The world economy in summer 2016: moderate but gradually accelerating growth", *Trésor-Economics* No. 181, September 2016.

[5] Under the conventional assumption of stable oil prices going forward.

[6] At its press conference on 8 June, the ECB – as expected – adjusted its message on the trend in key rates, stating that they will "remain at their present levels for an extended period of time" and are therefore unlikely to be cut further. However, it also highlighted the weakness in core inflation and reiterated that it will continue to be very accommodative until sustainable inflationary pressures appear.

Chart 6: Structural adjustment (fiscal stance)



Source: European Commission (Spring Forecasts).

In Germany, economic growth is set to remain strong (2.2% in 2017 and 2.0% in 2018 after 1.9% in 2016). Public consumption is expected to remain fairly dynamic, gradually slowing as migrant inflows decrease. Growth in the labour force is set to continue, with job creations slowing and the unemployment rate ebbing more slowly. Consumption is set to decelerate somewhat, but improved economic prospects are expected to drive a gradual pick-up in business investment.

In Italy, growth is expected to gather pace (1.4% in 2017 and 1.2% in 2018, after 0.9% in 2016), driven by domestic demand. The government's fiscal stance, via a reduction in the tax burden, is set to foster investment, whereas renewed global demand momentum is expected to underpin exports. However, the strength of the Italian recovery remains dependent on dynamic investment growth. This in turn will depend on a recovery in lending even as Italian banks continue to face substantial difficulties despite recent improvements. Moreover, the effects of exemptions from social contributions, which boosted employment in 2016, are expected to fade. This factor, combined with wage talks unfavourable to employees (owing to persistently-high unemployment), should slow private consumption.

In Spain, economic activity is likely to slow in 2017 and 2018 due notably to neutral fiscal policy after two years of expansionary fiscal policy. However, growth is forecast at a robust 3.1% in 2017 and 2.7% in 2018 (after 3.2% in 2016). The momentum on job creation is set to support consumption. Despite a broadening of the corporate income tax base, companies are likely to ramp up their investments thanks to very strong confidence, continued high profit margins and favourable financing conditions. Spanish firms are set to continue to record strong performance gains on exports, enabling foreign trade to make a strong positive contribution to growth.

Table 1: Growth forecast *

GDP (as an annuel average, %)	Average 2000-2007	2014	2015	2016	2017 (forecasts, working day ajusted)	2018
World growth[1]	**4.5**	**3.5**	**3.4**	**3.2**	**3.6**	**3.6**
Memorandum: world growth forecast in the 2017 Stability Programme	*4.5*	*3.4*	*3.2*	*3.1*	*3.4*	*3.5*
Advanced economies[2]	**2.6**	**2.0**	**2.2**	**1.6**	**2.1**	**2.1**
United States	2.7	2.6	2.9	1.5	2.0	2.4
Japan	1.5	0.2	1.1	1.0	2.0	1.3
United Kingdom	2.9	3.0	2.2	1.8	1.6	1.4
Euro area	**2.2**	**1.2**	**2.0**	**1.8**	**2.0**	**1.8**
Germany	1.6	1.9	1.7	1.9	2.2	2.0
Italy	1.5	0.1	0.8	0.9	1.4	1.2
Spain	3.7	1.4	3.2	3.2	3.1	2.7
Other advanced economies	3.9	2.9	2.0	2.0	2.5	2.7
Emerging economies[2]	**6.6**	**4.6**	**4.2**	**4.4**	**4.6**	**4.6**
Brazil	3.6	0.5	-3.8	-3.6	0.0	1.5
China	10.5	7.3	6.9	6.7	6.8	5.8
India	7.1	6.9	7.5	7.5	7.0	7.5
Russia	7.2	0.7	-2.8	-0.2	1.6	1.7
Turkey	5.4	5.0	5.8	3.0	3.8	3.0
Other emerging economies	4.3	3.4	3.5	3.5	3.4	3.6
World demand for French exports[4]		**3.9**	**3.6**	**2.6**	**4.0**	**4.0**
World trade[5]		**3.8**	**2.3**	**1.6**	**4.0**	**3.9**

[1] Data not working-day adjusted (past period).

[2] Aggregate figures for advanced economies and emerging economies are estimated using IMF forecasts, adjusted using DG Trésor forecasts covering the countries in the table above and France.

[3] Aggregate forecasts for the euro area are extrapolated from DG Trésor forecasts for Germany, France, Italy and Spain.

[4]World demand covers 39 countries and organisations (Germany, Belgium, Italy, Spain, US, UK, OPEC, Netherlands, China, Switzerland, Japan, Russia, Poland, Turkey, Brazil, Sweden, South Korea, Hong Kong, Singapore, Canada, Morocco, Portugal, Austria, Czech Republic, Hungary, Australia, India, Malaysia, Mexico, Thailand, Ireland, Denmark, Greece, Slovakia, Norway, Taiwan, Finland, Philippines and Argentina), which receive 86% of French exports.

[5] World trade covers 40 countries (the 39 listed above plus France), which receive 85% of world exports.

Source: IMF, July 2017 WEO update; calculations and forecasts: DG Trésor.

* *The forecasts and data in this document were finalised on 22 August 2017.*

3. Growth in world demand for French exports is set to recover significantly in 2017 and hold steady in 2018

World trade[7] slowed sharply in 2016, posting its lowest growth rate since 2009 (1.6% in 2016 vs. 2.3% in 2015), under the negative impact of the US economic slowdown and the slump in euro area imports after a dynamic 2015. In 2015 and in 2016, the elasticity of global trade to world economic activity was exceptionally low, notably due to weak trade momentum in emerging economies.

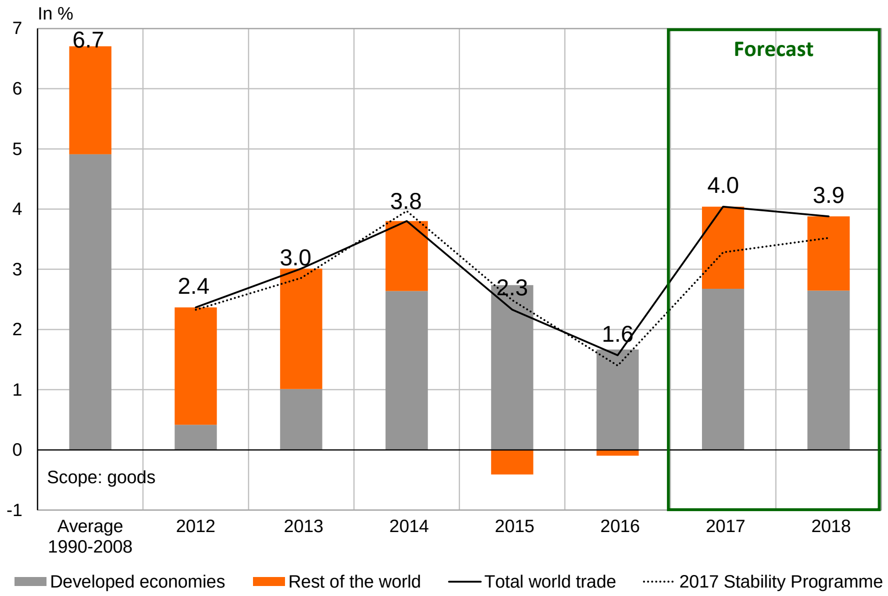
World trade is set to recover in 2017 (see Box 3), with a growth rate of 4.0% (see Chart 7). This acceleration in world trade far outstrips the pick-up in world economic growth, and is mainly attributable to the rebound in trade elasticity to economic activity. The upturn is notably visible in China and India, following two years in which Chinese imports were lacklustre and Indian imports declining, despite strong demand in both countries. Also in Russia, imports clearly recovered in the beginning of this year. In addition, world trade should be supported by a recovery in US private investment after a blip in 2016, and by the pick-up in OPEC trade, reflecting higher oil prices.

World trade is expected to grow at a similar pace of nearly 4% in 2018, against a backdrop of stable world growth. World trade growth would thus converge towards the world economic growth rate over the forecasting horizon. Nevertheless, the growth in world trade is set to be well below its pre-crisis rate (6.7% p.a. on average between 1990 and 2008), mainly due to structural trends,[8] as the elasticity of world trade to world economic activity is lower than before the crisis (it is seen at close to 1 over the forecasting horizon, after 0.5 in 2016 and an average of 1.5 from 2000 until the crisis).

[7] World trade in goods, in real terms.

[8] See L. François, J. Lecumberry and L. Shimi, "Why is world trade so weak?" *Trésor-Economics* No. 166, April 2016.

Chart 7: World trade and contributions by area



Source: DG Trésor.

World demand for French exports is expected to move in a similar pattern. After slowing to 2.6%[9] in 2016 (after 3.6% in 2015), **growth in world demand for French exports is expected to accelerate substantially to 4.0% p.a. in 2017 and 2018** (see Chart on page 1).

Box 3: World growth is receiving a stronger contribution from trade

In late 2016, world trade began a clear recovery that has continued in early 2017. According to the CPB, world trade posted quarterly growth of 1.8% in Q4 2016 and 1.4% in Q1 2017 (after 0.6% in Q3 2016), i.e. the strongest pace since Q4 2010[10]. Emerging Asia made a strong contribution to the recovery in imports over this period (at end March, it represented three-quarters of the carry-over growth in imports, which totalled 4% – see Chart 8). Thus, world growth is seeing a renewed stronger contribution from trade.

In particular, Chinese imports posted a strong recovery in late 2016/early 2017. This trend is attributable to stronger Chinese domestic demand, on the one hand – especially for infrastructure investments correlated to the Chinese government's stimulus measures – and dynamic exports, on the other hand, driven by renewed growth in the assembly trade. The pick-up in Chinese trade also has a knock-on effect on the rest of Asia given the region's strong trade integration.

The recovery in the assembly trade in China, and subsequently in trade in Asia more broadly, combined with stronger demand in Europe and the US, is likely to continue to support growth in world trade.

World trade is therefore set to continue to rebound, albeit at a slightly slower pace than in the past few quarters. New export orders, after growing virtually non-stop since mid-2016, levelled off in mid-2017 on a global level (see Chart 9), and according to the CPB, world trade has slowed to 0.4% growth in Q2, led by emerging Asia. The CPB's data shows that as at end June, the carry-over growth in world trade for 2017 nevertheless stood at 3.9%. We have opted for a relatively conservative scenario on trade, both for the countries for which we give detailed forecasts[11] and for other countries; our forecast growth rates

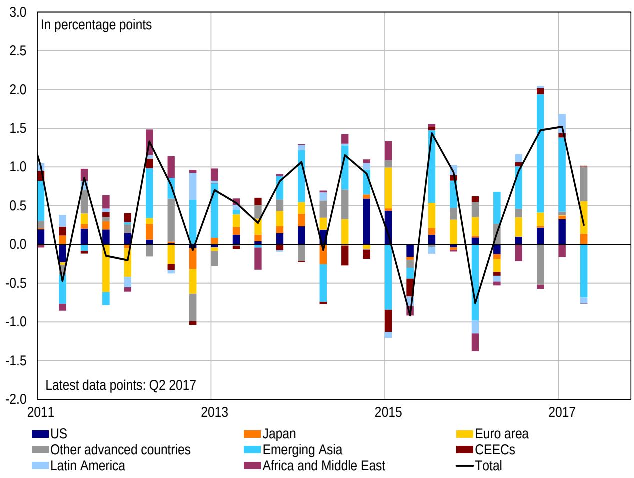
[9] In 2016, world demand for French exports was more dynamic (+2.6%) than world trade as a whole (+1.6%). France has benefited more from the recovery in euro area trade since 2014, thanks to the structure of French exports (one-half of all French exports go to euro area countries, compared to just over one-quarter of world exports). Moreover, France has been less impacted by the deterioration in trade with emerging economies (20% of French exports vs. nearly one-third of world exports).

[10] Centraal Plan Bureau (Netherlands), calculated using customs data.

[11] Germany, Italy, Spain, US, Japan, UK, Brazil, China, India, Russia, Turkey and OPEC.

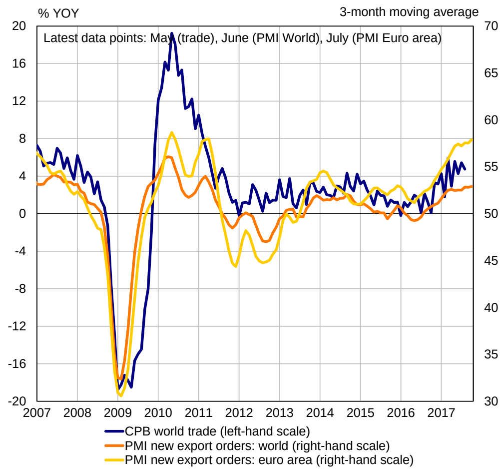
are slightly lower than those of international organisations. Therefore, our projections harbour some upside potential for world trade.

Chart 8: Contributions to world imports growth



Source: CPB.

Chart 9: World trade and PMI



Source: CPB, Markit.

4. This baseline scenario is exposed to numerous uncertainties

- **Fiscal stances are marked by strong uncertainties**. The outcome of elections in Germany and Italy, the fate of the Trump Administration's fiscal stimulus plans in the US, the magnitude of Japan's stimulus package announced in the summer, or the Chinese government's stimulus measures are all uncertain at this stage.
- **The scope and timing of the effects of Brexit remain uncertain**. The cost of the UK leaving the EU will ultimately depend on several factors (agreements reached with the EU, length of period of uncertainty leading up to the signing of agreements, market reaction, subsequent changes to the policy mix).
- **New financial risks are emerging**, particularly in the US. Markets may be too complacent towards certain economic and political risks: in particular, dividend yields are well above their historical average, suggesting that equities may be overprices, whereas volatility still looks low.
- **Emerging economies are still exposed to major contingencies**. In China, the government's economic stimulus measures could be stronger or last longer than expected; this would postpone the inevitable slowdown in activity. Weak commodity prices are creating financial difficulties in several producer countries. Political and geopolitical uncertainties are another potentially negative factor.
- **The trend in world trade is especially uncertain**. Growth in world trade could be stronger than anticipated if the dynamic trend observed since late 2016 continues. Our central scenario for world trade is indeed on the conservative side (see Box 3).

Box 4: Main adjustments to the April 2017 Stability Programme and comparison with international organisations' forecasts

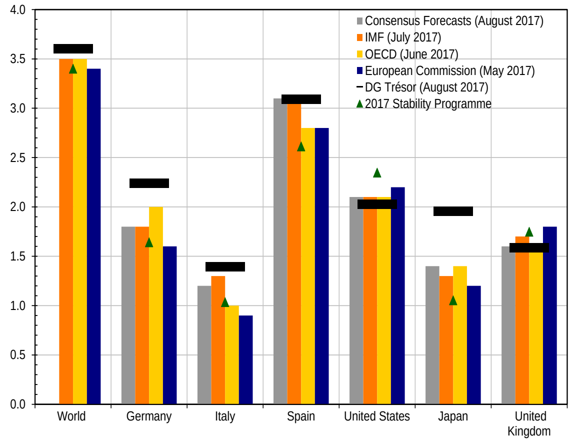
The international environment has improved both in advanced economies and in emerging economies since the Stability Programme scenario was drawn up. For this reason, we have revised up our global growth forecasts by 0.2 points for 2017 and 0.1 points for 2018.

Growth has been revised up for most of the large economies worldwide. This is the case for Japan, where economic activity has surprised on the upside in the past few quarters, driven by more robust domestic demand. Also in the euro area, the growth scenario has been revised upwards. Employment has surprised on the upside. This has had a positive impact on household purchasing power, which has been further supported in Spain by an income tax cut for low-income households, announced for 2018 and equal to 0.2 points of GDP. Thus, consumption forecasts were raised, as were investment forecasts. In China, the stronger-than-expected size of the stimulus measures has resulted in more robust growth than expected in the first half of 2017. Lastly, in Turkey, activity has been buoyed by an easing of uncertainties, as well as more expansionist economic policies than anticipated.

However, this improvement in the global economic climate has not affected all countries evenly. In the UK, the economy continued to be resilient after the referendum vote until end 2016, but growth faltered in early 2017. This performance is in line with our expectations overall, so we leave our forecasts virtually untouched. In the US, economic activity has slowed more than anticipated, automatically affecting the growth forecast for 2017. Lastly, in Brazil, domestic demand has failed to recover due to the revived political tensions.

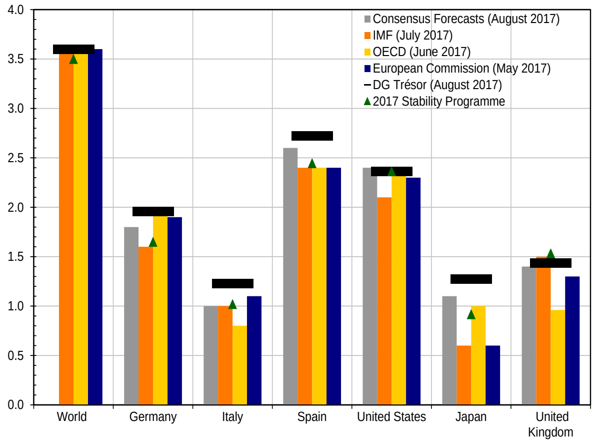
This scenario of accelerating growth in 2017, driven by both the advanced and the emerging economies, is broadly consensual (see Charts 10 and 11). It is close to the scenario presented by the European Commission in May and those published by the IMF in July (WEO update) and the OECD in June. It is also consistent with the August Consensus Forecasts.

Chart 10: Growth forecasts for 2017



Source: IMF, OECD, European Commission, Consensus Forecasts, DG Trésor.

Chart 11: Growth forecasts for 2018



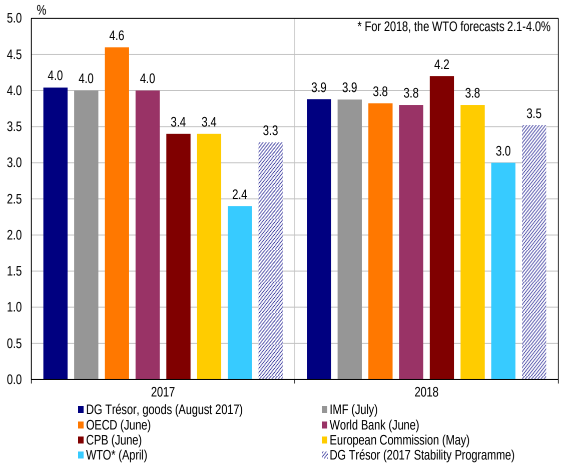
Source: IMF, OECD, European Commission, Consensus Forecasts, DG Trésor.

We have revised up world trade forecasts more sharply since the Stability Programme, with upward revisions of 0.7 points in 2017 and 0.4 points in 2018 due to an upgrade in trade forecasts for both advanced economies and the main emerging economies. **Likewise, we have revised up our forecast of world demand for French exports**: we now expect 4% growth p.a. in 2017 and 2018, vs. 3½% in the Stability Programme.

While the scenario of a clear acceleration in world trade in 2017 is fairly consensual, the magnitude of this growth varies depending on the forecaster, **and our scenario of stable world trade growth in 2018 breaks with the consensus** (see Charts 12 and 13). Our forecast is in line with the IMF and World Bank scenarios. Conversely, the OECD projects a stronger ramp-up in world trade growth in 2017, followed by a slowdown in 2018. Insee also forecasts a stronger increase in trade in 2017 (+5.9%). Conversely, the European

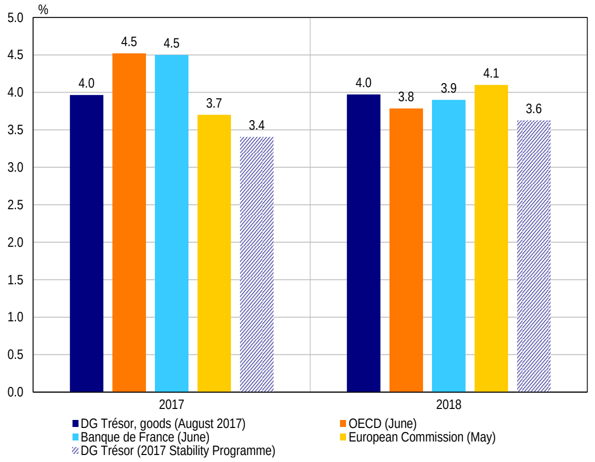
Commission forecasts a gradual acceleration in world trade between now and 2018. **Our 2018 forecast is in line with those of other organisations.**

Chart 12: Comparison of world trade forecasts



Source: IMF, OECD, World Bank, CPB, European Commission, WTO, DG Trésor.

Chart 13: Comparison of forecasts of world demand for French exports



Source: OECD, Banque de France, European Commission, DG Trésor.

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