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SCENARIOECO

Economic and sectoral research department

VIGOROUS ACTIVITY

- The global economic expansion is strengthening and broadening, driven by the industrial and trade recovery.
- In 2017-2018, global GDP growth is expected to reach its best level since 2011 in spite of geopolitical risks and slowing Chine GDP, but it is likely to slow thereafter.
- Some drivers behind this expansion are fragile, however: fiscal stimulus in the US, upholding of high risk appetite, gradual and well communicated withdrawal of monetary accommodation...

SOCIETE GENERALE

Ended the 19th of September 2017
Next issue: December 2017

Outlook Summary

GLOBAL ECONOMY	➢ Global growth and international trade accelerated in mid-2017, boosted by a synchronised improvement in most major economic regions that primarily benefited industry. ➢ The global economy is still supported by low interest rates and high investor risk appetite. Furthermore, oil prices continue to hover at a consumer-friendly level while the majority of producers are well on the way to adjusting to this low price. ➢ In 2017 and 2018, global growth is expected to stabilise at its highest level since 2011. The momentum should be upheld, in 2018, by a modest fiscal stimulus in the United States and the strengthening of the recovery in commodity-producing countries. Following its strong rebound observed in 2017, international trade is expected to slow down moderately in 2018. ➢ The main threats to this scenario are political and geopolitical risks: US Congress blocking the fiscal stimulus package or feeding uncertainties on the increase in the debt ceiling, tensions in the Korean peninsula, a shock in international trade stemming from protectionist measures, legislative elections in Italy, etc.
DEVELOPED ECONOMIES	➢ Growth accelerated in OECD countries over the second quarter, recording its best performance in more than two years. Sentiment surveys remained at very high levels, suggesting that momentum will hold strong in the short term. UK activity was hampered, however, by Brexit-related uncertainties. ➢ US growth is expected to pick up slightly in 2018, under the assumption of modest tax cuts being implemented at the start of the year. Economic activity may start to dip after 2018, however. ➢ Eurozone activity is expected to remain supported by slightly expansionist fiscal policies, accommodative monetary conditions and the employment recovery. Export momentum could flag in 2018 in the wake of the euro's recent appreciation, which could also put a damper on inflation.
EMERGING ECONOMIES	➢ The cyclical recovery in emerging countries stayed the course, driven by the rebound in Chinese demand and the return of capital flows since early 2017. Finally, most commodity-producing countries completed the largest part of their economic adjustment, setting the stage for activity to pick up again. ➢ In China, the impacts of the 2016 fiscal stimulus continued to be seen and credit remained dynamic. However, after the Congress of the Communist Party of China (October), the strategy to rebalance growth and reduce domestic financial risks is set to be resumed, putting GDP back on the slowdown track. ➢ The recovery in commodity-producing countries (Brazil, Russia, etc.) is expected to continue, driven by the stabilisation of exchange rates and shrinking inflation. Growth is expected to be undermined, however, by the lack of tax reforms, persistently low oil prices and political uncertainty (in Brazil's case).
CENTRAL BANKS	➢ The ECB is dealing with the recent appreciation of the euro, which is adversely affecting the inflation and growth outlook. Consequently, it is likely to adopt a cautious strategy, including the announcement in October that it plans to taper its bond buying programme (beginning in early 2018) while insisting on the very gradual pace of this tapering. It is not expected to raise policy rates before 2019. ➢ We expect the Fed to begin reducing its balance sheet in October, starting at a modest pace. Three Fed funds rate hikes are expected by end-2018, in response to the modest fiscal stimulus we are forecasting. ➢ Inflation is set to continue falling in emerging countries, giving central banks some room to manoeuvre. We anticipate that monetary easing efforts will continue in Brazil and Russia, at least in the short term. On the other hand, rising debt in China is liable to see the central bank tighten monetary conditions.
FINANCIAL MARKETS	➢ In such a buoyant economic environment, valuations on the equity markets are hovering near record peak levels. Risk premiums on the credit markets remain extremely low. ➢ After recently falling, especially in the US, long rates are expected to climb again. Indeed, financial markets have yet to fully price in the upcoming Fed rate hikes. ➢ Rising US interest rates should trigger a moderate appreciation of the US dollar, particularly against the EUR and the JPY.

Economic Forecasts

Real GDP (growth rate, as %)[1]	2014	2015	2016	2017 (f)	2018 (f)	Share of world GDP 2016 (As %) Purchasing power parities[2]	Share of world GDP 2016 (As %) Current exchange rates	GDP - 2016 USDbn Current exchange rates
Industrialised countries	**1.9**	**2.2**	**1.6**	**2.0**	**1.9**	**37.8**	**57.0**	**42,868**
United States	2.6	2.9	1.5	2.2	2.3	15.5	24.7	18,569
Japan	0.2	1.1	1.0	1.4	1.2	4.4	6.6	4,945
Euro area	1.4	1.9	1.8	2.2	1.8	11.6	15.7	11,887
Germany	1.9	1.5	1.9	2.2	1.8	3.3	4.6	3,462
France	1.0	1.0	1.1	1.7	1.6	2.3	3.3	2,464
Italy	0.2	0.7	1.0	1.3	1.1	1.9	2.5	1,851
Spain	1.4	3.2	3.2	3.0	2.6	1.4	1.6	1,232
United Kingdom	3.1	2.2	1.8	1.6	1.3	2.3	3.5	2,626
Emerging countries	**4.5**	**4.0**	**3.9**	**4.5**	**4.7**	**62.2**	**43.0**	**31,200**
Asia	6.3	6.1	5.9	6.0	5.8	35.1	24.8	18,699
China	7.3	6.9	6.7	6.7	6.3	17.8	14.9	11,190
India	7.5	8.0	7.1	7.3	7.5	7.2	3.0	2,190
Africa	4.7	2.7	0.1	1.9	3.0	3.9	2.3	1,139
Latin America	1.1	-0.3	-0.8	1.6	2.5	7.9	6.7	4,798
Brazil	0.5	-3.8	-3.6	0.7	2.0	2.6	2.4	1,811
Eastern Europe (incl. Turkey, ex. Russia)	3.1	3.4	2.5	3.6	3.0	4.8	3.1	2,324
Russia	0.7	-2.8	-0.2	1.5	1.2	3.2	1.7	1,296
Middle East	2.5	2.6	3.2	2.3	3.4	7.4	4.3	2,944
World - Purchasing power parities weights	**3.5**	**3.3**	**3.0**	**3.5**	**3.7**	**100**		
World - Current exchange rates weights	**3.0**	**3.0**	**2.5**	**3.1**	**3.1**		**100**	**74,068**
Oil price (Brent USD/Barrel)	**99**	**53**	**44**	**51**	**55**			

Consumer prices index (growth rate, as %)	2014	2015	2016	2017 (f)	2018 (f)
United States	1.6	0.1	1.3	2.0	2.1
Japan	2.8	0.8	-0.1	0.6	0.8
Euro area	0.4	0.0	0.2	1.5	1.4
Germany (HICP)	0.8	0.1	0.4	1.6	1.6
France (CPI)	0.5	0.0	0.2	1.0	1.3
Italy (HICP)	0.2	0.1	-0.1	1.4	1.2
Spain (HICP)	-0.2	-0.5	-0.2	1.8	1.4
United Kingdom	1.5	0.0	0.7	2.7	2.7

[1] *The annual numbers are seasonnaly and working-day adjusted and hence may differ from the basis used for official projections.*
[2] *Purchasing Power Parity (PPP) is the monetary exchange rate that equalises the cost of a standardised basket of goods between different countries. The GDP weighting of different countries as a share of world GDP expressed in PPP is based on the latest estimates by the World Bank*

	15/09/2017	Dec 2017	Jun 2018	Dec 2018	2015	2016	2017 (f)	2018 (f)
Interest rates								
United States								
Fed Funds target rate	1-1.25	1-1.25	1.5-1.75	1.75-2	0.15	0.40	0.95	1.55
10 year Gvt Bonds	2.2	2.3	2.6	2.8	2.1	1.9	2.3	2.6
Japan								
Complementary Deposit Facility rate	-0.10	-0.10	-0.10	-0.10	0.10	-0.08	-0.10	-0.10
10 year Gvt Bonds	0.0	0.0	0.1	0.2	0.4	0.0	0.1	0.1
United Kingdom								
Bank rate	0.25	0.25	0.50	0.50	0.50	0.40	0.25	0.50
10 year Gvt Bonds	1.4	1.3	1.5	1.5	1.8	1.3	1.2	1.4
Euro area								
Refinancing rate	0.00	0.00	0.00	0.00	0.05	0.00	0.00	0.00
10 year Gvt Bonds								
Germany	0.4	0.6	0.8	1.2	0.5	0.1	0.4	0.9
France	0.7	0.9	1.1	1.5	0.8	0.5	0.9	1.2
Italy	2.1	2.3	2.5	2.9	1.7	1.5	2.2	2.6
Spain	1.6	1.6	1.8	2.1	1.7	1.4	1.6	1.8
Exchange rates								
EUR / USD	1.20	1.20	1.15	1.18	1.11	1.11	1.13	1.15
EUR / GBP	0.88	0.90	0.90	0.90	0.73	0.82	0.88	0.90
EUR / JPY	133	138	132	130	134	120	127	132
GBP / USD	1.36	1.33	1.28	1.31	1.53	1.35	1.29	1.28
USD / JPY	111	115	115	110	121	109	112	114

US outlook: the big uncertainty

— **Initial signs point to a weakening of the US economic expansion, whose duration is broadly driven by economic policies.**

— **Modest tax cuts in 2018 are likely to be key to keeping growth above 2% and preserving investors' appetite for risk.**

— **Beyond the doubts over the US economic cycle, American politics is increasingly high on the list of global uncertainties.**

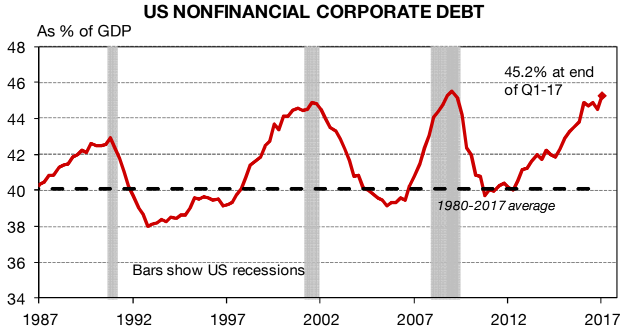
Activity data released since Q2-17 have provided reassurance over the momentum of the global economy, which appears robust at the moment.

However, uncertainty remains over the global economy's ability to sustain this positive trend for another one to two years. In particular, a renewed slowdown in Chinese growth, which seems inevitable once new Politburo members are selected in October, is a major risk to global trade and commodity prices. Above all, we believe that US economic and political developments are the most likely source of a shift in the global outlook.

Initial signs that the US economy's expansion phase is reaching maturity

The ongoing eight-year old expansionary phase in the US economy is the third longest since 1945. Underpinned by monetary policy, the expansion has been characterised by lower growth than in previous cycles and, above all, inflation that has struggled to recover. Although much of the exuberance generally observed at the end of the cycle is absent for now, some indicators are pointing to US growth possibly losing steam.

US NONFINANCIAL CORPORATE DEBT

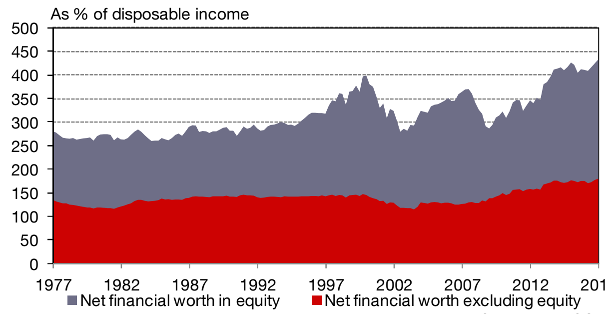


Sources : Federal Reserve, SG

These initial warnings have come from the non-financial corporate sector (NFC). After a decline in profits in 2015 and 2016, they continued to distribute dividends and carry out share buybacks[1], fuelling a rise in share prices. Against a backdrop of low rates, and moderate growth and investment – GDP only grew by 1.5% in 2016 – shareholder compensation was financed by debt. As a result, the NFC debt ratio reached 45.2% of GDP in Q1-17, just below its 2009 peak of 45.5%. However, this debt level analysis appears more balanced when considering liquid assets these companies have accumulated.

This situation of NFCs contrasts with households', which have seen their financial situation improve since 2008. The household debt to GDP ratio has declined (78.1% in Q1 2017 compared to 97.7% in early 2008), because the drop in mortgage lending has more than offset the rise in consumer loans, and consumption remains robust in 2017. However, this is partly driven by rising equity prices, which trigger both a wealth and a confidence effect. In fact, the household savings rate continues to drop and is now at its lowest level since 2009 (3.7% of gross disposable income in Q2 2017). The dependence of households' wealth on equities has become all the more apparent given the increased proportion of their income that is made up of dividends[2].

NET FINANCIAL WORTH OF US HOUSEHOLDS



Sources : Fed, SG

Growth, monetary policy: Donald Trump's fiscal policy will be key

The signs that the US cycle is reaching maturity do not necessarily mean that an economic downturn is imminent, especially as these signs are still partial. Nonetheless, the triptych that we have just described

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[1] In Q2 2017, S&P 500 companies paid USD 12.4 billion in dividends and bought back USD 14.7 billion in shares, i.e. increases of 72% and 176% respectively compared to Q2 2008.

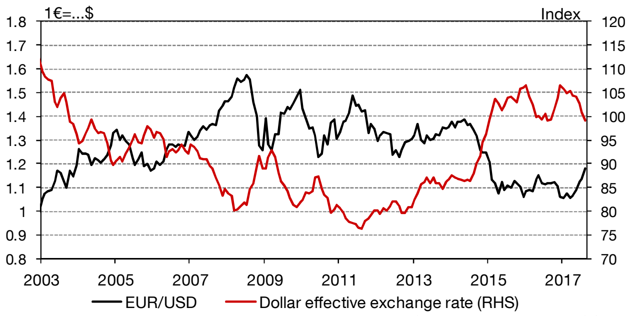
[2] The increase in dividends received between 2010 and 2016 (+74%) accounts for almost 15% of the rise in gross disposable income, while dividends only accounted for an average of 6.4% of GDI over the period.

(rising corporate debt / shareholder dividends / household consumption underpinned partly by higher equity valuations) seem unsustainable in a context of monetary policy tightening. The rising debt burden will effectively reduce companies' ability to remunerate their shareholders or invest. Moreover, this triptych increases US growth's exposure to the risks of plunging risk appetite among investors.

Against this backdrop, the Trump administration's future fiscal policy will be decisive in maintaining the expansion of the US economy. Donald Trump's electoral campaign proposed major tax cuts for both households and companies, and an infrastructure plan. However, tensions between the White House and the Republican-controlled Congress are hampering the implementation of such an expansionist fiscal policy. We do anticipate tax cuts – albeit not the widespread tax reform proposed initially – that will come into effect in H1 2018. This should result in a temporary growth spurt of 0.3pp of GDP, which is reflected in our 2.3% growth forecast for 2018. With such a policy, the United States' growth potential is not likely to be lifted, however.

Future fiscal policy choices could also alter the situation on the fixed income and currency markets, through their impact on monetary policy. In fact, disappointments over US inflation and the increasing doubts about the Trump administration's ability to work effectively with Congress have pushed investors to temper their expectations for increases in the federal funds rate since the spring. As such, financial markets are pricing in barely more than one rate hike before the end of 2018, which has contributed to reducing long-term interest rates and weakening the dollar.

US DOLLAR EXCHANGE RATE



Sources: Datastream, BoE, SG

As a result, implementing a fiscal stimulus to support growth, even temporarily, should allow the Fed to continue to gradually tighten its monetary policy. This should in turn fuel a recovery in US interest rates and the dollar, which fits with our scenario.

Above all, such a scenario would make the ECB's job easier. The ECB had to revise its eurozone inflation forecasts down in September, due to the euro's recent appreciation. This decrease in inflation forecasts complicates communications about the future tapering of the ECB's asset purchases. As a result, the central bank postponed a decision on this issue until its October meeting, preferring to opt for the status quo at the monetary policy meeting held on September, 7th.

United States – source of multiple risks

Beyond the impact of fiscal decisions on monetary policy and the financial markets, the moderating political risks in the eurozone increase the relative importance of the risks associated with the United States.

These risks are primarily geopolitical and trade related. At this stage, it is extremely unlikely that the serious tensions with North Korea will lead to open warfare. However, the situation could fuel tensions over trade between the United States on one side, and Russia and China on the other, if US sanctions are widened substantially to include Russian and Chinese companies that trade with North Korea.

Meanwhile, the process of renegotiating NAFTA (North American Free Trade Agreement) began in mid-August, with the goal of reaching an agreement before the Mexican general elections in mid-2018 and the US mid-terms in November 2018. In light of the major stumbling blocks that need to be overcome (rules governing public procurements, system for settling commercial disputes, etc.), there is a risk that the United States will call into question the wider agreement. This matters a lot for Mexico and Canada, as the US receives 75% of each country's exports.

Domestic political risks are also substantial. Congress will have to vote through a budget before 9 December in order to avoid a government shutdown that will close all non-essential public services, which would drag down activity and add to uncertainty. An increase to the federal debt ceiling (a short-term increase was approved in early September) must also be ratified before that date for the Treasury to be able to continue honouring its financial commitments.

EUROZONE

— **The ongoing economic upturn underway in the eurozone was confirmed by stronger GDP growth in the second quarter and improved confidence surveys over the summer underscore.**
— **GDP growth is expected to remain dynamic and above potential in 2018, but is unlikely to drive a significant increase in inflation.**
— **The exit from the ECB's ultra-accommodative monetary policy has been complicated by the recent appreciation of the euro. We nevertheless expect asset purchases to be tapered over 2018.**

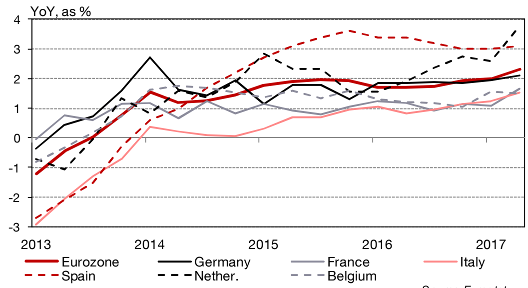
The economic upturn in the eurozone has been confirmed. In Q2-17, GDP accelerated to 0.6% QoQ (0.5% in Q1) and this economic momentum was evident in almost all member countries. The region is benefiting from a slight fiscal easing and from rising employment, which is buoying household income. Additionally, highly accommodative monetary conditions have supported the credit recovery, while the upturn in international trade has boosted exports.

Growth is projected to remain high in H2-17 and 2018, due to robust domestic demand. It could nevertheless decline slightly next year, as the recent appreciation of the euro is likely to dent strong exports.

Inflation could also bear the brunt of this euro appreciation, even if the latter remains under control. The price of a barrel of Brent in euro terms is indeed projected to increase at a more moderate pace in 2018 than in 2017. The underlying inflationary pressures are likely to be curtailed by the lack of significant wage acceleration in most major countries in the region, although the upcoming wage negotiations in Germany will be a key test on this front.

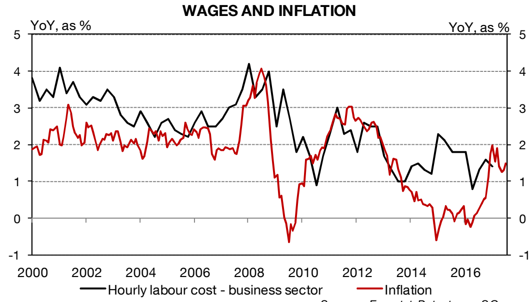
The ECB should therefore continue to face low inflation, but in a context of solid growth and job creation. As such, we expect it to announce in October that it will slow the monthly pace of asset purchases starting in January 2018, while stating that it will extend these purchases for most of the year. This should enable it keep control of long-term interest rates. Policy interest rates are not expected to be raised before 2019. The realisation of political risks (the elections in Italy, in particular) could nevertheless derail this timetable.

REAL GDP GROWTH



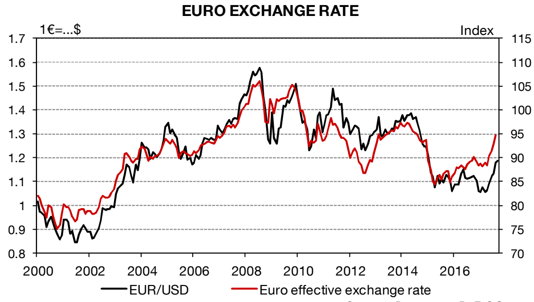
Source: Eurostat

WAGES AND INFLATION



Sources: Eurostat, Datastream, SG

EURO EXCHANGE RATE



Sources: Datastream, BoE, SG

As %	2014	2015	2016	2017 (f)	2018 (f)
Real GDP	**1.4**	**1.9**	**1.8**	**2.2**	**1.8**
Household consumption	0.9	1.7	2.0	1.8	1.6
Investment	1.7	2.9	4.3	2.6	2.8
Exports	4.5	6.4	3.2	4.6	4.0
Imports	4.7	6.7	4.6	4.1	4.1
Contribution of inventories to growth	0.3	0.0	-0.1	0.0	0.0
Purchasing power of disposable income	**0.9**	**1.7**	**1.9**	**1.8**	**1.6**
Unemployment rate	**11.6**	**10.9**	**10.0**	**9.1**	**8.4**
Saving rate	**12.7**	**12.5**	**12.3**	**12.5**	**12.5**
Inflation rate	**0.4**	**0.0**	**0.2**	**1.5**	**1.4**
Public sector balance (as % of GDP)	**-2.6**	**-2.1**	**-1.6**	**-1.3**	**-1.2**
Current account balance (as % of GDP)	**2.5**	**3.2**	**3.5**	**2.8**	**2.7**

GERMANY

— **GDP growth remained strong in Q2 2017 and this momentum is expected to continue in the short-term.**
— **Growth in 2017 is projected to reach its fastest pace since 2011, benefiting from both an acceleration in the export/investment nexus and robust consumption.**
— **We expect activity to remain buoyant in 2018. Given the current situation of full employment, this is likely to fuel a gradual acceleration in wages.**

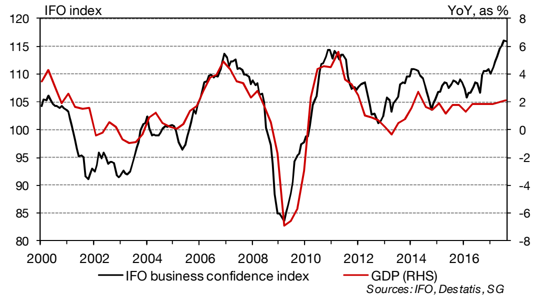
The strong growth momentum observed in Q1 2017 (0.7% QoQ) was confirmed in Q2 (0.6%). Household consumption saw its largest increase since 2011 and investment, in both construction and capital goods, remained robust after an already strong first quarter. In light of the further improvement in the latest business and consumer confidence surveys, we expect growth to remain strong in the short term

Against this backdrop, GDP is projected to accelerate in 2017 and to surpass the 2% mark. Germany benefits from the rebound in international trade, and this is having a positive impact on investment. Furthermore, private consumption and residential investment are supported by strong incomes and still-favourable credit conditions.

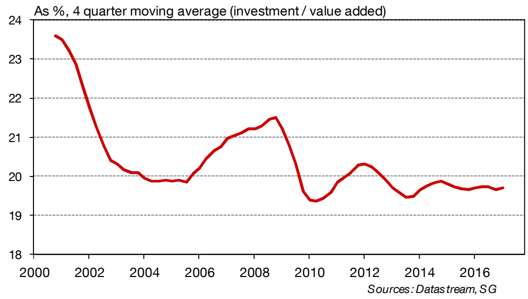
Growth is projected to remain sound in 2018, but could moderate slightly. Residential investment could slow after rising sharply for two years. Exports are expected to remain robust, although they could be affected by the euro appreciation. Investment in capital goods is likely to accelerate, as businesses are facing mounting production capacity constraints after years of underinvestment. At the same time, in the context of full employment, wages are set to increase more meaningfully. Indeed, major wage rounds in key sectors will occur in 2018 and unions' demands are likely to be supported by the recently more important inflation levels than in the previous rounds.

This scenario is based on the conventional assumption that fiscal policy will remain largely unchanged after the federal elections on 24 September. The scope of the budgetary leeway should nevertheless allow the future government to implement an expansionist policy, particularly through tax cuts for households. In that case, consumption could further support GDP in 2018.

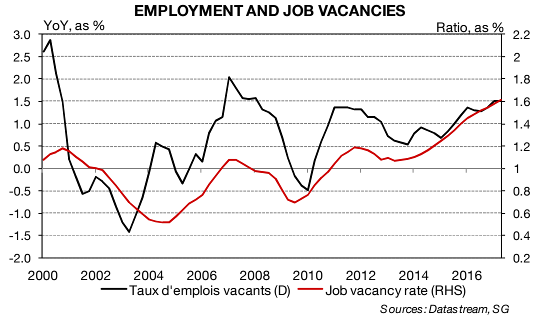
IFO SURVEY AND GDP



INVESTMENT RATIO OF NON-FINANCIAL CORPORATES



EMPLOYMENT AND JOB VACANCIES



As %	2014	2015	2016	2017 (f)	2018 (f)
Real GDP	**1.9**	**1.5**	**1.9**	**2.2**	**1.8**
Household consumption	1.0	1.6	1.9	2.0	1.8
Investment	3.7	1.0	2.9	4.0	2.8
Exports	4.5	4.7	2.4	4.3	3.9
Imports	3.5	5.2	3.8	4.7	4.5
Contribution of inventories to growth	-0.4	-0.3	-0.1	-0.2	0.0
Purchasing power of disposable income	**1.5**	**1.9**	**2.2**	**2.0**	**2.0**
Unemployment rate	**6.7**	**6.4**	**6.1**	**5.7**	**5.5**
Saving rate	**9.5**	**9.6**	**9.7**	**9.7**	**9.8**
Inflation rate	**0.8**	**0.1**	**0.4**	**1.6**	**1.6**
Public sector balance (as % of GDP)	**0.3**	**0.7**	**0.8**	**0.8**	**0.8**
Current account balance (as % of GDP)	**7.5**	**8.6**	**8.3**	**7.6**	**7.4**

FRANCE

— **The French economy is currently gathering pace and the job market is recovering.**
— **In 2017, growth is projected to reach its highest level since 2011, and it should remain strong in 2018.**
— **Fiscal policy could nevertheless dampen growth at end-2017 and in 2018, while the first positive effects of the reform of the labour code may not be felt before 2019.**

Economic momentum has continued to build. Growth remained strong in Q2, at 0.5% QoQ, as was the case in the prior two quarters. In particular, exports rebounded in the spring and household consumption picked up speed.

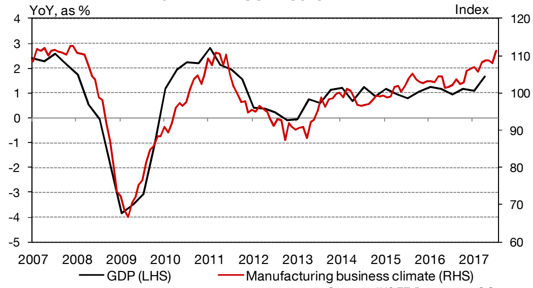
The latest confidence surveys indicate that activity will remain buoyant in Q3. As such, we now forecast that growth will surpass the 1.5% mark in 2017 and 2018 for the first time since 2011.

Stronger growth in 2017 over 2016 is expected, in particular, to result from the restocking trend that was already underway in the first half of the year and from a pick-up in exports. At the same time, household and business investment is projected to accelerate.

The growth drivers could change somewhat in 2018. Business investment, which is already high relative to the level of activity, is expected to moderate. In contrast, exports are likely to pick up once again and trend more in line with international trade, although the recent appreciation of the euro could limit this upturn. Lastly, we expect private consumption to improve only modestly despite the job market recovery. Purchasing power is set to be tempered by a slight rise in inflation, which could be driven both by further increases in oil prices and by prices for services. It is also likely to be affected by tighter fiscal policies. The significant changes in household taxation anticipated in 2018 are likely to be broadly neutral for purchasing power. The latter is, in contrast, likely to be affected by public expenditure savings (EUR20bn).

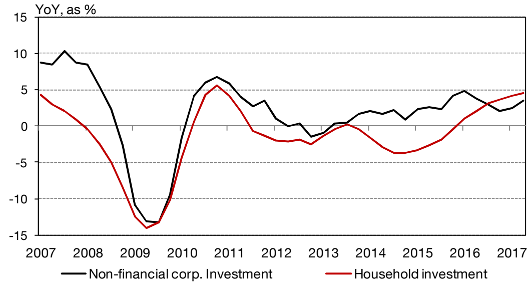
The reform of the labour code presented in September is ultimately expected to improve French companies' competitiveness and flexibility, but its impact on growth is unlikely to be felt before 2019.

GDP AND BUSINESS CLIMATE



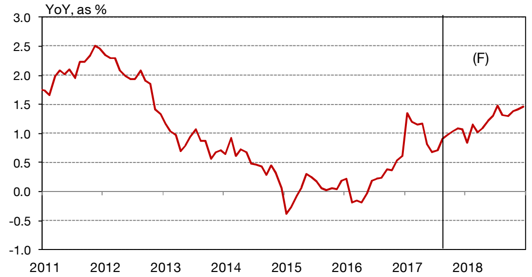
Sources: INSEE, Datastream, SG

REAL INVESTMENT



Sources : INSEE, Datastream, SG

INFLATION



Sources: INSEE, SG forecasts

As %	2014	2015	2016	2017 (f)	2018 (f)
Real GDP	**1.0**	**1.0**	**1.1**	**1.7**	**1.6**
Household consumption	0.7	1.3	2.1	1.3	1.6
Investment	0.0	0.9	2.7	2.9	2.4
Exports	3.4	4.0	1.9	2.5	3.5
Imports	4.8	5.5	4.2	3.8	3.2
Contribution of inventories to growth	0.7	0.3	-0.1	0.5	0.0
Purchasing power of disposable income	**1.1**	**0.8**	**1.8**	**1.5**	**1.4**
Unemployment rate	**10.0**	**10.1**	**9.8**	**9.1**	**8.8**
Saving rate	**14.7**	**14.3**	**14.0**	**14.1**	**14.0**
Inflation rate	**0.5**	**0.0**	**0.2**	**1.0**	**1.3**
Public sector balance (as % of GDP)	**-3.9**	**-3.6**	**-3.4**	**-3.0**	**-3.0**
Current account balance (as % of GDP)	**-1.3**	**-0.4**	**-0.9**	**-1.5**	**-1.2**

ITALY

— **Growth continued in Q2 with a further 0.4% increase in GDP. Rising prices did not hold back household consumption, and global demand is strong.**

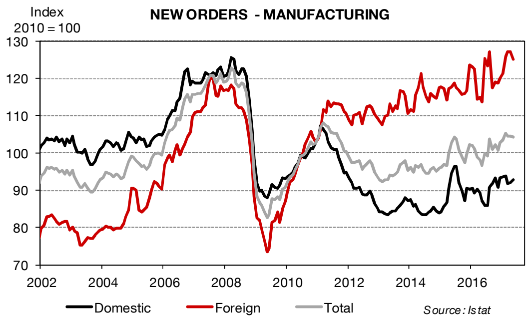
— **Uncertainties are receding due to progress in stabilising the Italian banking system and GDP is projected to increase by 1.3% in 2017 and 1.1% in 2018.**

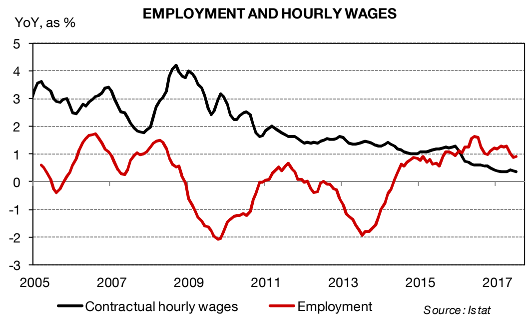
The recovery continued in Q2 (0.4%), due to strong industrial output driven by foreign orders. Italy is benefiting from the upturn in global trade, and the business climate is at its highest level since 2006. On the domestic demand side, household consumption is supported by job creation, although wages are slowing. Investment in capital goods recovered slightly in Q2, due to strong global demand.

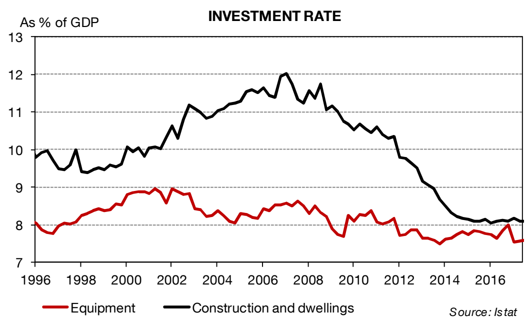
Italy's economy is projected to grow by 1.3% in 2017, which would be its best performance since 2010. In the second half of the year, households are expected to benefit from slowing inflation and investment could improve somewhat. The rate of investment may nevertheless remain depressed, in particular in the construction sector, due to low public expenditure.

The economy is forecast to grow by 1.1% in 2018. Household consumption could slow slightly, due to the stabilisation of the savings rate at an all-time low. Exports could also be less buoyant as a result of slowing global demand and the appreciation of the euro. In contrast, investment may be somewhat stronger, thanks to the credit recovery expected after the banking system is stabilised with the bailout of the main troubled banks in 2017.

Political uncertainties are receding, as early elections are now off the table until the spring of 2018 and the parties in the likely right-wing coalition (Forza Italia, the Northern League and Brothers of Italy) have softened their anti-euro stance. Discussions about a potential parallel currency could, however, drive the markets as the elections near.







As %	2014	2015	2016	2017 (f)	2018 (f)
Real GDP	**0.2**	**0.7**	**1.0**	**1.3**	**1.1**
Household consumption	0.2	1.6	1.3	1.3	1.0
Investment	-2.2	1.4	3.1	1.4	1.9
Exports	2.4	4.1	2.6	5.0	4.1
Imports	3.1	6.7	3.1	5.8	4.5
Contribution of inventories to growth	0.7	0.2	-0.4	0.2	0.0
Purchasing power of disposable income	**0.3**	**0.8**	**1.4**	**0.8**	**0.9**
Unemployment rate	**12.6**	**11.9**	**11.6**	**11.3**	**10.8**
Saving rate	**11.2**	**10.5**	**10.6**	**10.1**	**10.0**
Inflation rate	**0.2**	**0.1**	**-0.1**	**1.4**	**1.2**
Public sector balance (as % of GDP)	**-3.0**	**-2.7**	**-2.4**	**-2.2**	**-2.2**
Current account balance (as % of GDP)	**1.9**	**1.4**	**2.6**	**2.6**	**2.6**

SPAIN

— Growth in Spain remained brisk in Q2 2017, due to the rebound in household consumption and the positive contribution from external trade.

— Job creation and external demand are expected to continue to support the economy in the second half of the year and Spain could once again see 3% growth this year.

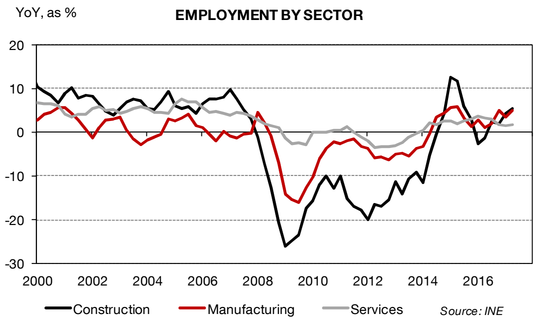
— In 2018, the economy is projected to grow by 2.6% due to a slight drop in the rate of investment and less buoyant global demand.

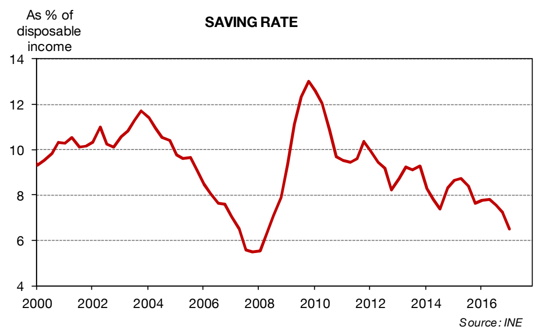
Quarterly growth remained strong and reached 0.9% in Q2 2017. Domestic demand benefited from a rebound in household consumption against the backdrop of strong job creation, in particular in the construction industry. In contrast, nominal wages remain sluggish. Households once again dipped deeply into their savings in the first half of the year and the savings rate fell to its lowest level since 2007.

The consumer confidence indicator remains strong, however, and we expect the pace of consumption to be maintained in the second half of the year. The tourism sector is also expected to support the economy this year: it was an excellent season (with a 14% increase in spending in H1) and the Barcelona attacks had very little impact on bookings in the weeks that followed. Lastly, the recovery in public investment, after several years of weakness, should be positive for the construction sector.

Growth is projected to reach 3% in 2017 and 2.6% in 2018. External trade is forecast to grow more slowly next year due to a drop in global demand and the recent appreciation of the euro. Similarly, productive investment could slow after several years of strong growth, as the rate of investment in capital goods is close to its all-time high (10% of GDP). In addition, the expected increase in long-term rates could affect credit to the private sector.

While the domestic political situation remains tense with Catalonia's referendum on self-determination set to go forward on 1 October, the economic impact should remain limited.





As %	2014	2015	2016	2017 (f)	2018 (f)
Real GDP	**1.4**	**3.2**	**3.2**	**3.0**	**2.6**
Household consumption	1.6	2.9	3.2	2.4	2.4
Investment	3.8	6.0	3.1	4.3	3.9
Exports	4.2	4.9	4.4	6.3	4.5
Imports	6.5	5.6	3.3	5.0	4.0
Contribution of inventories to growth	0.3	0.1	0.1	0.0	0.0
Purchasing power of disposable income	**0.7**	**2.1**	**2.7**	**1.2**	**2.3**
Unemployment rate	**24.5**	**22.1**	**19.7**	**17.2**	**15.1**
Saving rate	**9.0**	**8.2**	**7.7**	**6.9**	**6.7**
Inflation rate	**-0.2**	**-0.5**	**-0.2**	**1.8**	**1.4**
Public sector balance (as % of GDP)	**-6.0**	**-5.1**	**-4.5**	**-3.1**	**-2.4**
Current account balance (as % of GDP)	**1.1**	**1.4**	**1.9**	**1.6**	**1.8**

UNITED KINGDOM

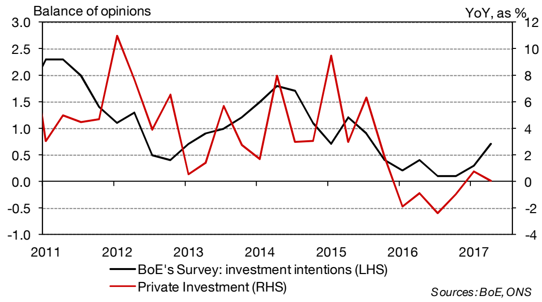
— *Brexit* talks have failed to deliver sufficient progress and are unlikely to focus on a trade deal this year. A "status quo" transition deal will help to push at bay fears of a cliff-edge *Brexit*.
— The slow-down in GDP growth in H1-17 is expected to continue in 2017 and 2018 as households consumption decreases and uncertainty over *Brexit* negotiations weigh on investment
— The Bank of England's monetary policy stance is likely to remain somewhat accommodative for an extended period. We expect only one rate hike of 25bp throughout 2018.

All three rounds of *Brexit* talks have failed to provide sufficient progress to allow officials to begin discussing a trade deal in October. With the two sides at odds over the rights of citizens, the divorce bill and the border between Northern Ireland and the Irish Republic, doubts are rising over the negotiators' ability to respect deadlines. While the release of several position papers throughout the summer provided little detail on the UK's exit strategy, May's government remains vulnerable. A transition deal appears is the interest of both sides and we expect one to be reached,, that would essentially maintain the status quo, including UK contributions to the EU budget and respect for the four freedoms for a period up to three years.

Real GDP growth remained subdued in Q2 (0.3% QoQ) after a very modest Q1. The bulk of the impact of Sterling depreciation on inflation and household purchasing power has already happened and imported inflation has slowed. Yet, we do not expect any rebound in consumption as already high consumer leverage and a historically low savings rate offer little room for more consumer spending. Uncertainty surrounding *Brexit* negotiations is expected to weigh further on private investment. Strong demand from the EU should spur UK exports and allow net trade to partly offset the slowdown in domestic activity. In this context, we expect tepid GDP growth in 2017 (1.6%) and 2018 (1.3%).

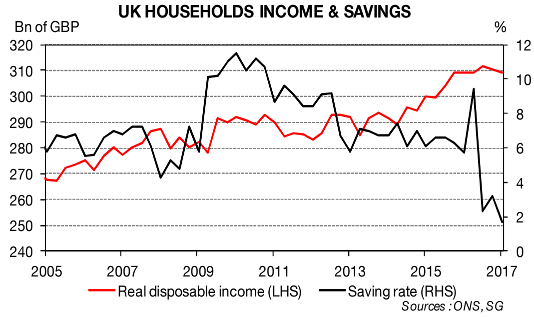
Meanwhile, monetary policy should remain somewhat accommodative. Recent communication from Bank of England's officials has turned more hawkish. As such, we expect only one rate hike of 25bp in Q1-18, setting the policy rate at 0.5% at year-end 2018. Inflation is likely to remain above 2%, with possible transitory effects pushing it higher than current levels.

BUSINESS CONFIDENCE AND PRIVATE INVESTMENT



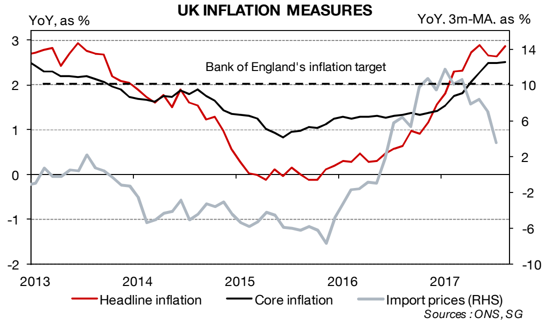
Sources: BoE, ONS

UK HOUSEHOLDS INCOME & SAVINGS



Sources : ONS, SG

UK INFLATION MEASURES



Sources : ONS, SG

As %	2014	2015	2016	2017 (f)	2018 (f)
Real GDP	**3.1**	**2.2**	**1.8**	**1.6**	**1.3**
Household consumption	2.2	2.4	2.8	1.7	0.9
Investment	6.7	3.4	0.5	2.4	0.9
Exports	1.5	6.1	1.8	3.4	4.2
Imports	2.5	5.5	2.8	3.3	3.0
Contribution of inventories to growth	0.5	-0.4	-0.5	-0.2	0.0
Purchasing power of disposable income	**1.5**	**3.6**	**1.5**	**-1.9**	**0.7**
Unemployment rate	**6.1**	**5.3**	**4.9**	**4.6**	**4.8**
Saving rate	**6.8**	**6.5**	**5.2**	**2.1**	**1.3**
Inflation rate	**1.5**	**0.0**	**0.7**	**2.7**	**2.7**
Public sector balance (as % of GDP)	**-5.7**	**-4.3**	**-3.0**	**-2.8**	**-3.0**
Current account balance (as % of GDP)	**-4.7**	**-4.3**	**-4.6**	**-3.4**	**-2.7**

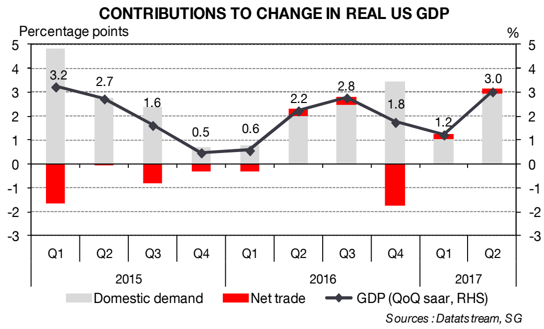
UNITED STATES

— **GDP growth bounced back in Q2 and we see further life in the now 8-year old expansion, supported by still firm job creation, wage gains, a favourable global backdrop and tax cuts.**

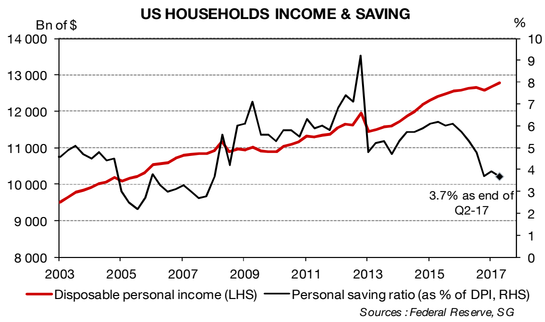
— **Fiscal policy is the main risk. Congress has delivered only short-term solutions this fall on the budget and debt ceiling. We expect agreement on tax cuts in late-2017, effective in H1-18.**

— **Fed balance sheet normalization is likely to start in October. We look for three 25bp rate hikes by end-2018 compared to current market pricing of just one full 25bp hike.**

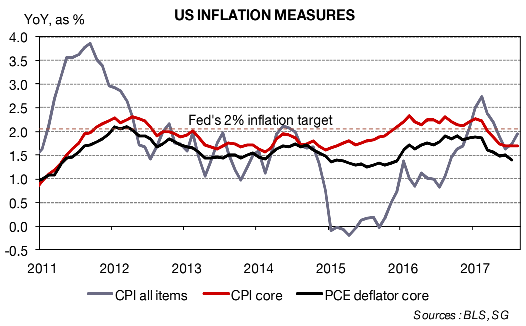
Real GDP grew at its fastest pace (+3.0% QoQ, saar) in more than two years in Q2. Consumer spending, private fixed investment and net trade all contributed to GDP growth. A favourable labour market and buoyant consumer confidence should support further strength in consumer spending. The broad depreciation of the USD coupled with a robust global economy and firm business fixed investment should benefit trade. As such, growth is set to average close to trend over the coming quarters, albeit with some temporary volatility induced by climatic factors (hurricanes Harvey and Irma).



After failing to deliver on health and financial reforms, the Trump administration is now focused on delivering on tax cuts. The main proposals include lowering the corporate tax rate and trimming the number of individual tax brackets. Making such measures permanent, however, would require significant offsetting savings to keep the federal deficit in check. Despite holding a majority in Congress, the Republicans seem unlikely to agree sufficient savings. As such, we look for a temporary tax cut only to be implemented in H1-18; enough to keep growth close to trend.



We believe that tax cuts are key to extending the already 8-year old expansion. A falling household savings ratio, rising debt for the nonfinancial private sector and softer profit margins suggest the current expansion is likely to enter in its late-cycle phase relatively soon.



Inflation disappointed in Q2, remaining below the Fed's 2% target. While the central bank is expected to start the unwind process of its $4.5tn balance sheet in October, markets are pricing just over one 25bp hike by year-end 2018, well below the five 25bp hikes discounted by the FOMC dots and also below our own forecast of three 25bp rate hikes.

As %	2014	2015	2016	2017 (f)	2018 (f)
Real GDP	**2.6**	**2.9**	**1.5**	**2.2**	**2.3**
Household consumption	2.9	3.6	2.7	2.8	2.9
Investment	6.2	3.8	0.6	3.9	3.3
Exports	4.3	0.4	-0.3	3.4	3.5
Imports	4.5	5.0	1.3	3.9	4.3
Contribution of inventories to growth	-0.1	0.2	-0.4	-0.2	0.0
Purchasing power of disposable income	**3.6**	**4.2**	**1.4**	**1.6**	**2.8**
Unemployment rate	**6.2**	**5.3**	**4.9**	**4.5**	**4.4**
Saving rate	**5.7**	**6.1**	**4.9**	**3.7**	**3.8**
Inflation rate	**1.6**	**0.1**	**1.3**	**2.0**	**2.3**
Public sector balance (as % of GDP)	**-2.8**	**-2.4**	**-1.4**	**-3.2**	**-3.6**
Current account balance (as % of GDP)	**-2.1**	**-2.4**	**-2.4**	**-2.4**	**-2.5**

JAPAN

— **Real GDP is expected to grow strongly by 1.4% in 2017 mainly supported by domestic demand, before decelerating to 1.2% in 2018.**

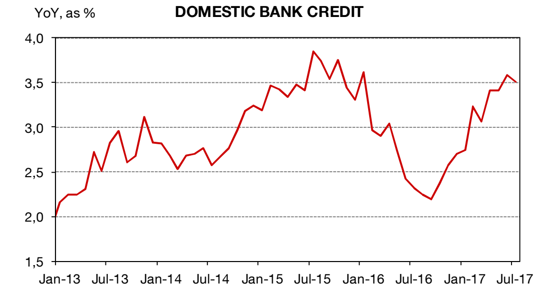
— **Inflation is projected to remain below 1%, falling short of the Bank of Japan (BoJ)'s 2% target.**

Real GDP strongly grew by 0.6% QoQ (1.1% YoY) in Q2-17, mainly supported by domestic demand. TANKAN business confidence and bank credit continued to improve in July. Prices have remained muted (0.4% YoY in July). Yet, stronger activity growth and prospects for a weaker JPY over expectations of higher US interest rates suggest rising inflationary pressures in the coming months. Inflation is thus expected to increase to 0.6% in 2017 and 0.8% in 2018.

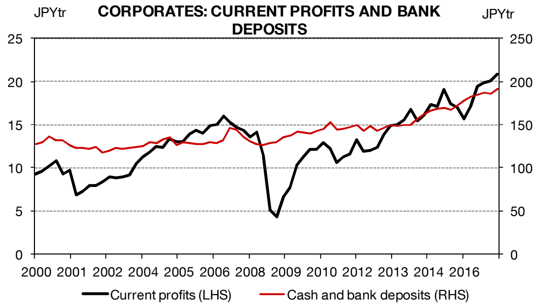
Economic growth is projected to strongly increase to 1.4% for 2017 (from 1% in 2016). Despite higher inflation, private consumption is likely to remain the main growth driver underpinned by rising wages on the back of a record low unemployment, improving labor productivity and declining savings rate. Private investment is expected to gradually improve, supported by higher corporate profits stemming from increasing prices. Exports are also likely to continue to provide strong impetus to growth, supported by a competitive JPY and robust global demand.

Activity is likely to decelerate to 1.2% in 2018 due to lower exports especially towards China which absorbs about 20% of total Japanese exports. Weaker exports would also constrain capex investment from corporate.

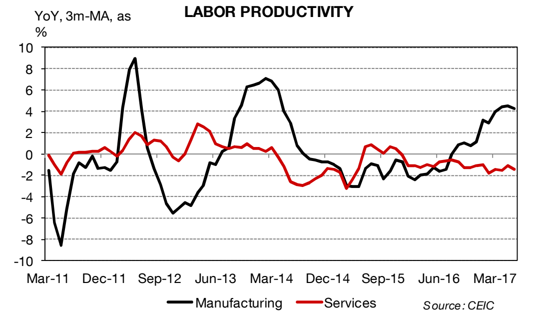
The BoJ is likely to maintain its QQE with yield curve control framework implemented a year ago for some time. It would thus normalize its monetary policy only after the Fed and the ECB. If growth were to weaken more than expected, accommodative fiscal policy could be used as a support to growth.



Source: Datastream



Sources: CEIC, SG



Source: CEIC

As %	2014	2015	2016	2017 (f)	2018 (f)
Real GDP	**0.2**	**1.1**	**1.0**	**1.4**	**1.2**
Household consumption	-0.9	-0.3	0.4	1.5	1.0
Investment	2.7	0.1	1.0	2.9	1.8
Exports	9.3	3.0	1.1	5.0	3.5
Imports	8.2	0.7	-2.3	3.9	3.7
Contribution of inventories to growth	0.1	0.6	-0.3	-0.5	0.0
Purchasing power of net disposable income	**-1.7**	**0.8**	**2.1**	**0.8**	**0.5**
Unemployment rate	**3.6**	**3.4**	**3.1**	**2.9**	**2.8**
Saving rate	**2.0**	**3.1**	**4.8**	**4.1**	**3.7**
Inflation rate	**2.8**	**0.8**	**-0.1**	**0.6**	**0.8**
Public sector balance (as % of GDP)	**-5.4**	**-3.5**	**-4.6**	**-5.0**	**-4.4**
Current account balance (as % of GDP)	**0.8**	**3.1**	**3.7**	**3.8**	**3.7**

CHINA

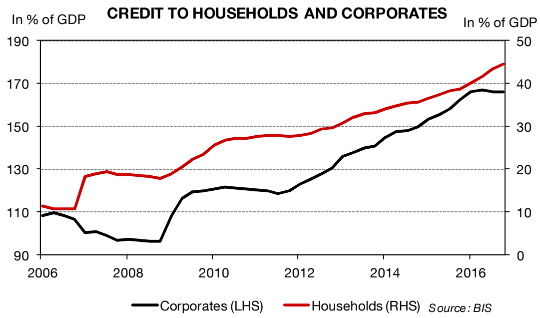
— **Activity was robust in H1-17 and there is not yet strong evidence of quick deterioration ahead of the 19th Party Congress next month.**

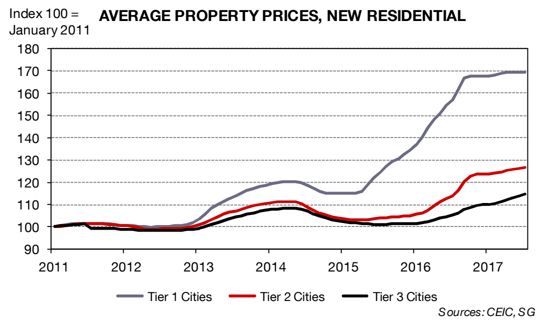
— **Economic growth is expected to remain sustained at 6.7% in 2017 before declining to 6.3% in 2018 when deleveraging and lowering financial system risk should once again become prominent issues for the authorities.**

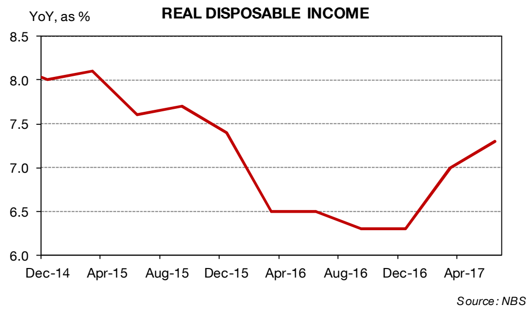
After robust real GDP growth in H1, recent activity data have been less positive. Industrial production, retail sales, and investment decelerated in July and August. Housing prices have not yet declined much in a context of surging mortgage loans. Indeed, new bank loans still grew by 24% YoY over the June-August period. Capital outflows have stabilized since Q2. Forex reserves hit a 9-month high in July at USD 3, 080bn.

The PBoC relaxed some capital controls early September. As a result, the RMB has started to weaken since then, making the authorities more comfortable with this trend, after the strong appreciation of the RMB against the USD since Q2 (+6%). In the meantime, the PBoC has relaxed domestic liquidity conditions as reflected in the recent decline in interbank rates.

In the near term, fiscal policy is expected to be less supportive to growth as the stimulus implemented in 2016 and in H1-2017 will be gradually withdrawn. Indeed, the policy mix is likely to be further tightened after the 19th Party Congress next October as authorities will continue to tackle the high leverage of the economy (257% of GDP). Investment will be significantly impacted. However, consumption should remain supportive to growth as real disposable income increases rapidly on the back of sustained wages and property incomes. Furthermore, households should continue to decrease their high savings rate. Exports are projected to continue to improve in line with stronger demand from Europe and from the US to a lesser extent. In sum, GDP growth should slow to 6.7% in 2017, accommodating the 6.5% official's growth target set for this year, and to 6.3% in 2018.







As %	2014	2015	2016	2017 (f)	2018 (f)
Real GDP	**7.3**	**6.9**	**6.7**	**6.7**	**6.3**
Consumption	8.4	9.1	9.3	9.5	9.6
Investment	6.3	4.2	3.1	1.3	1.1
External trade (contrib. to growth, pp)	-0.5	0.1	0.1	0.1	0.0
Inflation rate	**2.0**	**1.4**	**2.0**	**1.8**	**2.1**
General Government Balance (as % of GDP)	**-0.9**	**-2.7**	**-3.0**	**-3.3**	**-3.0**
General Government Debt (as % of GDP)	**39.8**	**42.9**	**46.3**	**49.9**	**52.6**
External Debt (as % of GDP)	**16.8**	**12.7**	**12.7**	**12.2**	**11.8**
Current Account Balance (as % of GDP)	**2.6**	**3.0**	**2.4**	**1.6**	**1.4**

INDIA

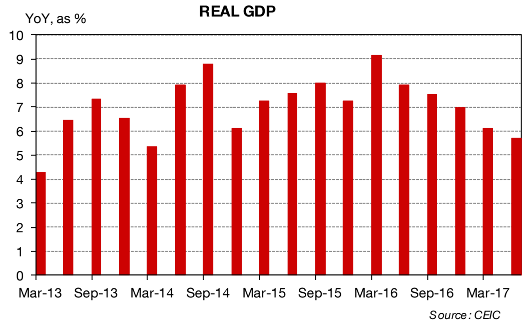
— **GDP growth is projected to remain strong at 7.3% in 2017 and 7.5% in 2018, driven by private consumption.**

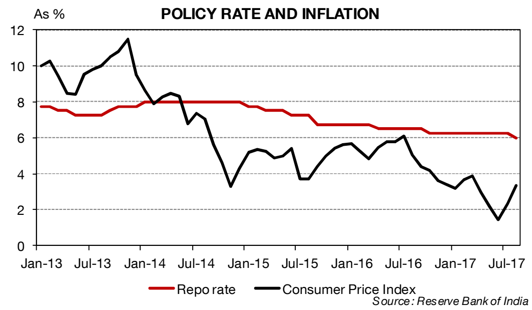
— **The recent rebound in prices is likely to remain limited. Inflation is expected to decline to 3.5% in 2017 before picking up modestly to 4.8% in 2018 due to stronger activity. Hence, there is some room for additional monetary easing.**

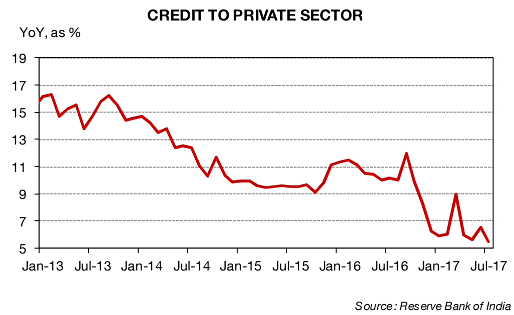
Real GDP slowed to its lowest rate in three years in Q2-17. Private consumption dropped sharply, hurt by the lingering (but fading) effects of demonetization. Meanwhile, investment has been quite volatile due the implementation of the GST from July 1st. These two negative impacts on activity are likely to be short-lived as reflected in the rebound of the industrial production in July and of the PMI in August. Inflation increased to 3.3% YoY in August driven by higher food prices. The rebound is expected to be limited as the effects of implementation of the GST are likely to be counterbalanced by the recent appreciation of the INR. Inflation is thus projected to decline to 3.5% in 2017 in line with the RBI's inflation target of 4% +/- 2%, before increasing to 4.8% in 2018.

The RBI cut its policy rate by 50 bps to 6% in August, for the first time since late 2016. Up to now, the accommodative policy stance adopted by the RBI has not helped to revive bank credit and investment. A large share of stressed assets including non performing loans (NPLs) and restructured loans (12% of total loans in Q2-17) has constrained banks 'balance sheets. The RBI has recently decided to strengthen the legal framework for NPL treatment to resolve the bulk of the problem by mid-2018. With real interest rates currently at around 3%, the RBI would still then have some room to lower its rate to support activity.

Economic growth is expected to remain sustained at around 7.5% in 2017-2018. Private consumption is likely to benefit from falling lending rates. Private investment is likely to remain muted and public capex will also be dampened by possible fiscal slippages due to the implementation of farm loans waivers to the agriculture sector that was severely hit by the demonetization last year after two successive years of drought.







As %	2014	2015	2016	2017 (f)	2018 (f)
Real GDP	**7.5**	**8.0**	**7.1**	**7.3**	**7.5**
Household consumption	6.2	6.1	8.7	7.2	8.2
Investment	3.4	6.5	2.4	3.0	3.7
Exports	1.8	-5.3	4.5	5.2	4.6
Imports	0.9	-5.9	2.3	3.5	3.9
Inflation rate	**6.0**	**4.9**	**4.6**	**3.5**	**4.8**
General Government Balance (as % of GDP)	**-7.2**	**-7.0**	**-6.6**	**-6.4**	**-6.5**
General Government Debt (as % of GDP)	**68.6**	**69.5**	**69.5**	**67.8**	**66.0**
External Debt (as % of GDP)	**23.3**	**23.4**	**22.9**	**22.7**	**22.5**
Current Account Balance (as % of GDP)	**-1.3**	**-1.0**	**-0.9**	**-1.5**	**-1.5**

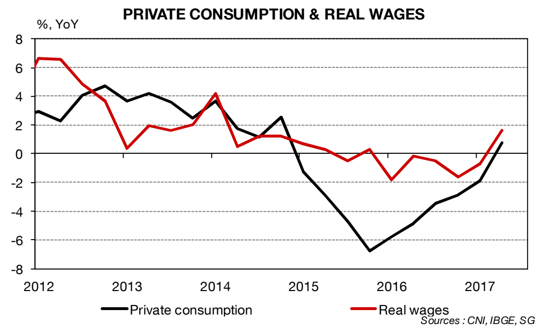
BRAZIL

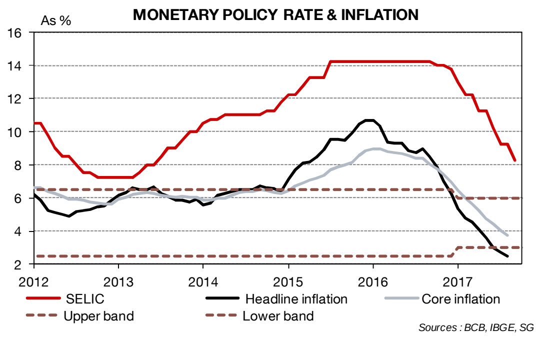
— Economic activity continues to slowly recover, supported by the resurgence of private consumption and still dynamic exports.
— The decline of inflation and interest rates will continue to drive private demand growth in H2-17.
— Investment is expected to moderately rebound in 2018, although it is likely to remain constrained by the ongoing political crisis.

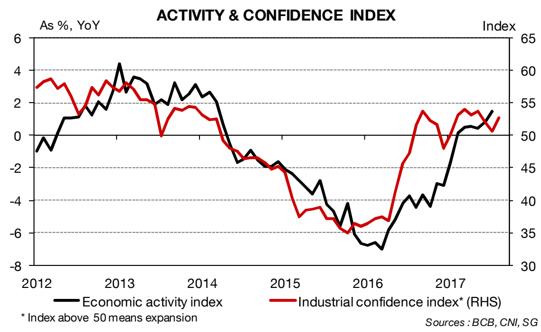
Activity continues on its slow recovery trend and GDP expanded by 0.3% QoQ in Q2-17. Although GDP growth decelerated with respect to the Q1 figure, the underlying dynamic improved. Private consumption started to grow again (1.4% QoQ) driven by higher real wages and the authorization by the government to withdraw some mandatory savings (employees indemnity fund savings). Additionally, the external sector remained a net contributor to growth sustained by past BRL depreciation, the recovery of commodity prices and higher demand from China.

The monetary authorities pursued their easing cycle, lowering the policy rate to 8.25%, as inflation continues to decelerate (2.5% YoY in August) while volatility of domestic financial assets has decreased. Given the benign inflation outlook and the shallow growth recovery prospects, it is expected that the BCB will extend its easing cycle until the end of the year. All in all, this monetary easing, which has translated mainly into less stringent credit conditions for households, will support the upswing of private consumption in the coming quarters.

The recovery should gain ground in 2018 underpinned mainly by the continued improvement of the labour market, further easing of financial conditions for households and businesses and still supportive external demand. Private investment is also expected to rebound, after 3 consecutive years of contraction, as it would benefit from the privatization and public concession program launched by the government in an effort to stabilise public finances. Nevertheless, the ultimate success of this program and a meaningful upturn of investment is dependent on the resolution of the political crisis.







As %	2014	2015	2016	2017 (f)	2018 (f)
Real GDP	**0.5**	**-3.8**	**-3.6**	**0.7**	**2.0**
Household consumption	2.3	-3.9	-4.2	0.5	1.8
Investment	-4.1	-14.0	-10.0	0.0	4.7
Exports	-0.8	6.3	1.8	4.8	4.0
Imports	-1.9	-13.9	-9.6	0.5	2.7
Inflation rate	**6.4**	**9.5**	**8.0**	**3.5**	**4.0**
General Government Balance (as % of GDP)	**-6.2**	**-10.3**	**-8.5**	**-7.5**	**-7.0**
General Government Debt (as % of GDP)	**57.2**	**66.5**	**71.0**	**75.0**	**79.0**
External Debt (as % of GDP)	**20.9**	**25.6**	**29.0**	**27.0**	**27.0**
Current Account Balance (as % of GDP)	**-4.5**	**-3.3**	**-1.5**	**-0.5**	**-1.0**

RUSSIA

— **Growth rebounded sharply in the first half of 2017, driven by robust investment, leading us to raise our forecasts. Activity may nevertheless be curbed by the potential impact of new sanctions on business sentiment.**

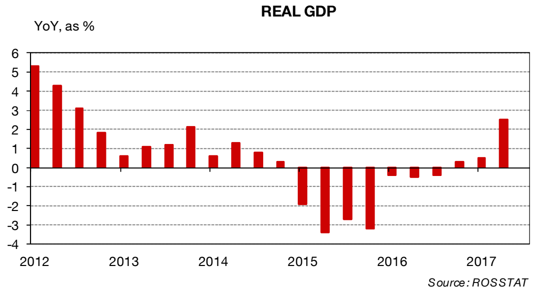
— **Consumption proved yet again to be the weakest link in the Russian recovery. It is expected to pick up in 2018 amid low inflation and a gradual upturn in oil prices.**

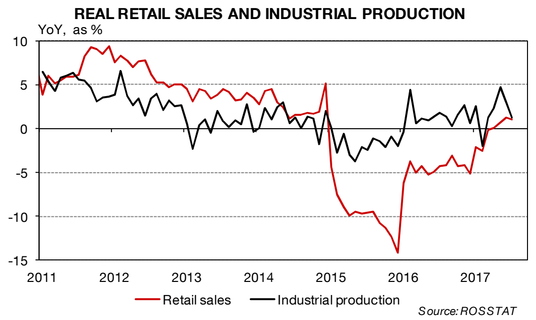
Economic activity surprised on the upside given its strength in the first half of 2017. It was primarily driven by the rebound in exports, but also investments. GDP growth came out at 2.5% YoY in Q2, a record high since 2012.

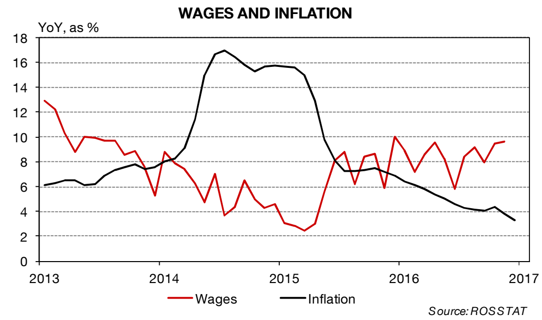
This momentum is not expected to last, however, because investments benefited from temporary factors (retailers were forced to equip themselves with new online cash registers by the 1st of July). In addition, new sanctions approved by the Trump administration have the potential to weigh on business sentiment while also complicating access to international funding for Russian companies. Finally, foreign trade is poised to lose momentum in 2018. Having made a substantial leap in Q2, industrial output has shown signs of losing steam since the summer. Next year, a recovery in consumption could support growth.

Up to now, consumption has been the weakest link in terms of economic growth, despite the rise in wages since 2016 amid strong disinflation. This can be attributed to ongoing deleveraging by Russian households, which have yet to recover their pre-crisis income levels. We think the situation will gradually improve in 2018, as inflation remains low and the fledgling credit recovery gains traction.

Persistently low inflation should allow the Russian Central Bank to continue easing its monetary policy in the coming quarters. With a benchmark rate of 8.5% and inflation below 4%, real interest rates are still too high for activity to really take off.

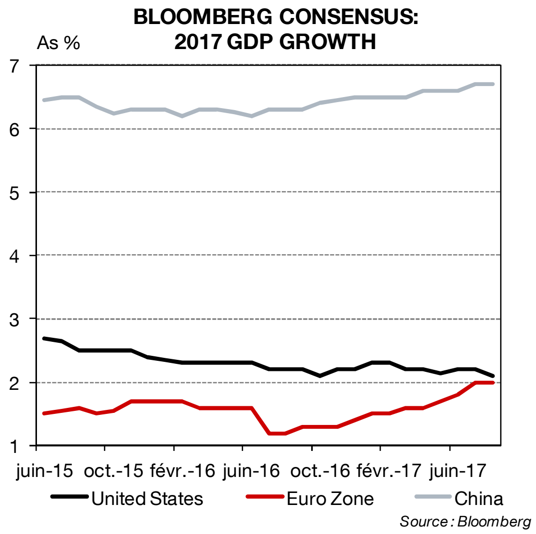


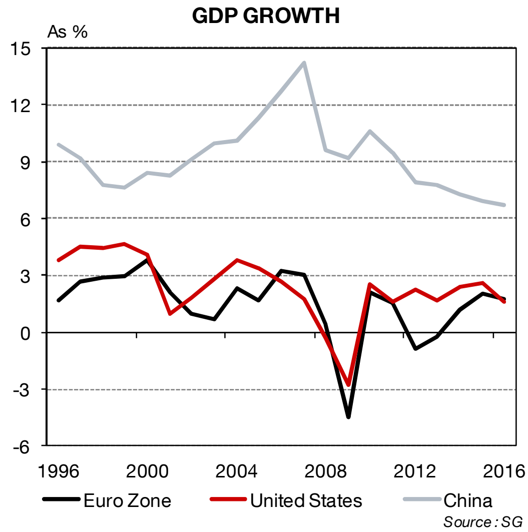




As %	2014	2015	2016	2017 (f)	2018 (f)
Real GDP	**0.7**	**-2.8**	**-0.2**	**1.5**	**1.2**
Household consumption	1.5	-8.4	-4.0	1.5	2.0
Investment	-4.0	-7.6	-5.0	3.0	2.0
Exports	0.5	0.7	2.0	3.0	2.0
Imports	-7.3	-17.7	-10.0	5.0	5.0
Inflation rate	**6.5**	**15.7**	**7.2**	**4.5**	**4.2**
General Government Balance (as % of GDP)	**-1.1**	**-3.5**	**-3.7**	**-2.5**	**-2.0**
General Government Debt (as % of GDP)	**13.0**	**14.0**	**16.0**	**18.0**	**19.0**
External Debt (as % of GDP)	**28.0**	**37.7**	**40.0**	**34.0**	**35.0**
Current Account Balance (as % of GDP)	**2.9**	**4.9**	**1.9**	**2.0**	**2.6**

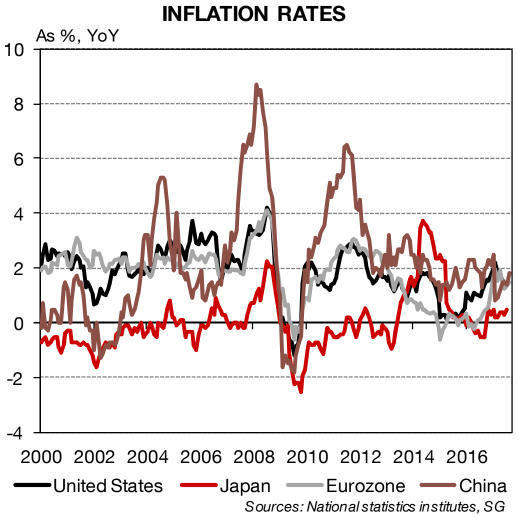
Economic Data





As %	2009	2010	2011	2012	2013	2014	2015	2016	2017(f)	2018(f)
GDP, volume										
World	**-1.9**	**4.2**	**3.2**	**2.5**	**2.6**	**2.9**	**2.8**	**2.5**	**3.1**	**3.1**
United States	-2.8	2.5	1.6	2.2	1.7	2.6	2.9	1.5	2.2	2.3
Japan	-5.4	4.2	-0.1	1.5	2.0	0.2	1.1	1.0	1.4	1.2
United Kingdom	-4.3	1.9	1.5	1.3	1.9	3.1	2.2	1.8	1.6	1.3
Eurozone	-4.5	2.0	1.6	-0.8	-0.2	1.4	1.9	1.8	2.2	1.8
Germany	-5.6	3.9	3.7	0.7	0.6	1.9	1.5	1.9	2.2	1.8
France	-2.9	1.9	2.1	0.2	0.6	1.0	1.0	1.1	1.7	1.6
Italy	-5.5	1.6	0.7	-2.9	-1.7	0.2	0.7	1.0	1.3	1.1
Spain	-3.6	0.0	-1.0	-2.9	-1.7	1.4	3.2	3.2	3.0	2.6
China	9.2	10.6	9.5	7.9	7.8	7.3	6.9	6.7	6.7	6.3
India	8.5	10.3	6.6	5.5	6.5	7.5	8.0	7.1	7.3	7.5
Brazil	-0.1	7.5	4.0	1.9	3.0	0.5	-3.8	-3.6	0.7	2.0
Russia	-7.8	4.5	4.0	3.5	1.3	0.7	-2.8	-0.2	1.5	1.2
Investment, volume										
World*	**-4.3**	**3.8**	**5.4**	**4.3**	**3.3**	**3.8**	**2.3**	**1.5**	**2.2**	**2.0**
United States	-16.7	1.5	6.3	9.8	5.0	6.2	3.8	0.6	3.9	3.3
Japan	-9.6	-1.6	1.7	3.5	5.0	2.7	0.1	1.0	2.9	1.8
United Kingdom	-15.2	5.0	1.9	2.3	3.2	6.7	3.4	0.5	2.4	0.9
Eurozone	-11.2	-0.5	1.6	-3.3	-2.4	1.7	2.9	4.3	2.6	2.8
Germany	-10.0	5.0	7.4	-0.1	-1.2	3.7	1.0	2.9	4.0	2.8
France	-9.0	1.9	2.1	0.3	-0.7	0.0	0.9	2.7	2.9	2.4
Italy	-10.0	-0.6	-1.7	-9.4	-6.6	-2.2	1.4	3.1	1.4	1.9
Spain	-16.9	-4.9	-6.9	-8.6	-3.4	3.8	6.0	3.1	4.3	3.9
China	9.2	7.1	9.1	7.2	6.2	6.3	4.2	3.1	1.3	1.1
India	-0.7	15.2	11.5	2.4	2.5	3.4	6.5	2.4	3.0	3.7
Brazil	-2.1	17.9	6.8	0.8	5.8	-4.1	-14.0	-10.0	0.0	4.7
Russia	-14.7	6.4	9.2	5.9	1.3	-4.0	-7.6	-5.0	3.0	2.0

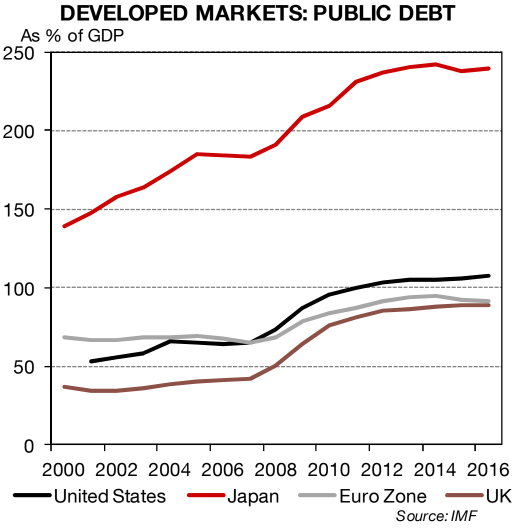
Sources: Datastream, IMF, OECD, SG computations and forecasts
* Weighted average of the 11 countries shown here

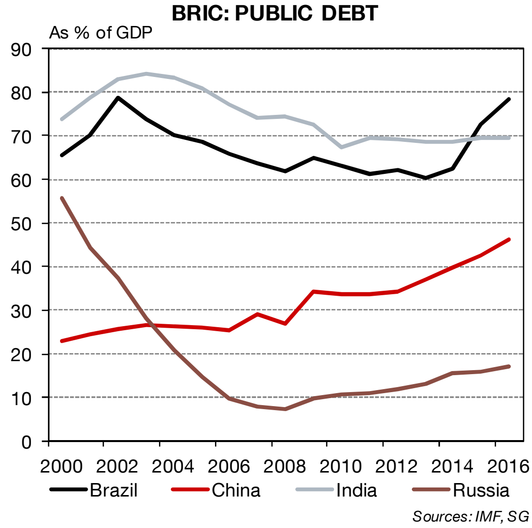


As %	2009	2010	2011	2012	2013	2014	2015	2016	2017(f)	2018(f)
Inflation										
World*	**0.9**	**2.3**	**3.7**	**2.8**	**2.4**	**2.2**	**1.6**	**1.7**	**2.0**	**2.2**
United States	-0.3	1.6	3.1	2.1	1.5	1.6	0.1	1.3	2.0	2.1
Japan	-1.4	-0.7	-0.3	-0.1	0.3	2.8	0.8	-0.1	0.6	0.8
United Kingdom	2.2	3.3	4.5	2.8	2.6	1.5	0.0	0.7	2.7	2.7
Eurozone	0.3	1.6	2.7	2.5	1.4	0.4	0.0	0.2	1.5	1.4
Germany	0.2	1.1	2.5	2.1	1.6	0.8	0.1	0.4	1.6	1.6
France	0.1	1.5	2.1	2.0	0.9	0.5	0.0	0.2	1.0	1.3
Italy	0.8	1.6	2.9	3.3	1.2	0.2	0.1	-0.1	1.4	1.2
Spain	-0.1	1.6	3.2	2.4	1.4	-0.2	-0.5	-0.2	1.8	1.4
China	-0.7	3.3	5.4	2.6	2.6	2.0	1.4	2.0	1.8	2.1
India	10.6	9.5	9.5	9.9	9.4	6.0	4.9	4.6	3.5	4.8
Brazil	4.9	5.0	6.6	5.4	6.2	6.4	9.5	8.0	3.5	4.0
Russia	11.7	6.9	8.4	5.1	6.8	6.5	15.7	7.2	4.5	4.2
Current account balance (as % of GDP)										
United States	-2.6	-2.9	-2.9	-2.6	-2.1	-2.1	-2.4	-2.4	-2.4	-2.5
Japan	2.8	3.9	2.1	1.0	0.9	0.8	3.1	3.7	3.8	3.7
United Kingdom	-3.0	-2.8	-1.8	-3.7	-4.4	-4.7	-4.3	-4.6	-3.4	-2.7
Eurozone	-0.1	0.0	0.0	1.4	2.2	2.5	3.2	3.5	2.8	2.7
Germany	5.7	5.4	6.0	7.1	6.8	7.5	8.6	8.3	7.6	7.4
France	-0.8	-0.8	-1.0	-1.2	-0.9	-1.3	-0.4	-0.9	-1.5	-1.2
Italy	-1.9	-3.4	-3.0	-0.4	1.0	1.9	1.4	2.6	2.6	2.6
Spain	-4.3	-3.9	-3.2	-0.2	1.5	1.1	1.4	1.9	1.6	1.8
China	4.8	3.9	1.8	2.5	1.5	2.6	3.0	2.4	1.6	1.4
India	-2.8	-2.8	-4.3	-4.8	-1.7	-1.3	-1.0	-0.9	-1.5	-1.5
Brazil	-1.6	-3.4	-2.9	-3.0	-3.0	-4.5	-3.3	-1.5	-0.5	-1.0
Russia	3.8	4.1	4.8	3.3	1.5	2.9	4.9	1.9	2.0	2.6

Sources: Datastream, IMF, SG computations and forecasts

* Weighted average of the 11 countries shown here



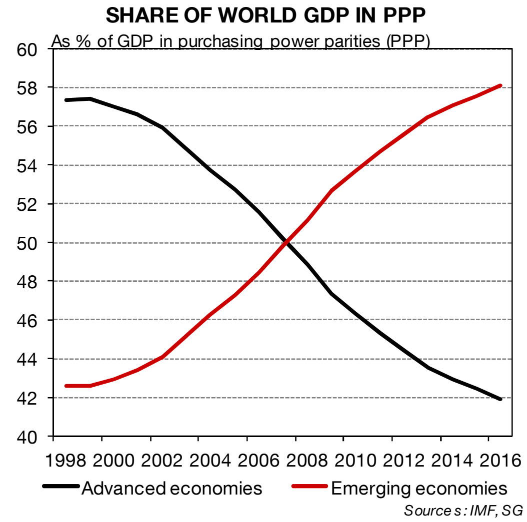


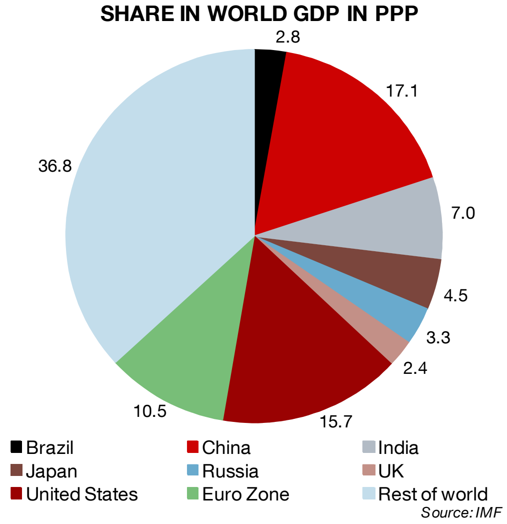
As % of GDP	2009	2010	2011	2012	2013	2014	2015	2016	2017(f)	2018(f)
Public sector balance										
United States	-12.8	-12.2	-10.7	-9.0	-5.5	-2.8	-2.4	-1.4	-3.2	-3.6
Japan	-9.8	-9.1	-9.1	-8.3	-7.6	-5.4	-3.5	-4.6	-5.0	-4.4
United Kingdom	-10.1	-9.5	-7.5	-8.2	-5.6	-5.7	-4.3	-3.0	-2.8	-3.0
Eurozone	-6.3	-6.2	-4.2	-3.6	-3.0	-2.6	-2.1	-1.6	-1.3	-1.2
Germany	-3.2	-4.2	-1.0	0.0	-0.2	0.3	0.7	0.8	0.8	0.8
France	-7.2	-6.8	-5.1	-4.8	-4.0	-3.9	-3.6	-3.4	-3.0	-3.0
Italy	-5.3	-4.2	-3.7	-2.9	-2.9	-3.0	-2.7	-2.4	-2.2	-2.2
Spain	-11.0	-9.4	-9.6	-10.5	-7.0	-6.0	-5.1	-4.5	-3.1	-2.4
China	-1.8	-0.4	-0.1	-0.3	-0.8	-0.9	-2.7	-3.0	-3.3	-3.0
India	-9.5	-8.6	-8.3	-7.5	-7.0	-7.2	-7.0	-6.6	-6.4	-6.5
Brazil	-3.2	-2.7	-2.5	-2.5	-3.0	-6.2	-10.3	-8.5	-7.5	-7.0
Russia	-5.9	-3.2	1.4	0.4	-1.2	-1.1	-3.5	-3.7	-2.5	-2.0
Public debt*										
United States	81.3	89.5	94.4	98.9	101.2	102.1	101.2	105.0	102.9	102.0
Japan	177.0	181.4	196.9	205.7	208.6	214.6	219.3	222.2	225.9	227.9
United Kingdom	64.5	76.0	81.6	85.1	86.2	88.1	86.6	87.8	83.0	81.8
Eurozone	78.5	84.0	86.3	89.6	91.6	92.2	90.4	89.3	87.4	86.0
Germany	72.6	81.0	78.7	79.9	77.5	74.9	71.2	68.3	65.1	62.1
France	78.9	81.6	85.2	89.5	92.3	94.9	95.6	95.6	95.6	95.8
Italy	112.5	115.4	116.5	123.4	129.0	131.8	132.1	132.6	132.4	131.7
Spain	52.8	60.1	69.5	85.7	95.5	100.4	99.8	99.4	99.1	97.9
China	34.3	33.7	33.6	34.3	37.0	39.8	42.9	46.3	49.9	52.6
India	72.5	67.5	69.6	69.1	68.5	68.6	69.5	69.5	67.8	66.0
Brazil	64.9	63.0	61.2	62.2	60.2	57.2	66.5	71.0	75.0	79.0
Russia	9.9	10.6	10.9	11.8	13.1	13.0	14.0	16.0	18.0	19.0

Sources: Datastream, IMF, SG computations and forecasts

* BRIC: source IMF; Developed countries: national sources (Maastricht methodology for EU countries)

Structural Data



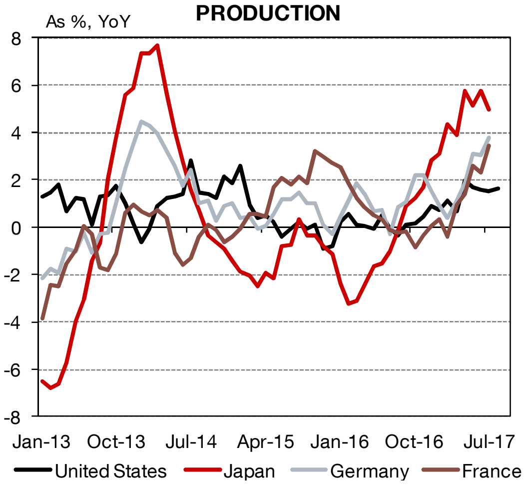


In 2016	GDP in $ (USDbn)	GDP p. capita ($, at PPP)	Population (Millions)	Credit (% GDP)*	Ext. Position, net** (% GDP)	Openness ratio***
United States	18,569	57,436	323	152	-44	21
Euro Zone	11,879	37,071	339	163	-6	69
Germany	3,467	48,111	83	107	52	71
France	2,463	42,314	65	186	-15	45
Italy	1,851	36,833	61	117	-14	48
Spain	1,233	36,416	46	166	-82	50
Netherlands	771	51,049	17	233	72	143
China	11,218	15,399	1,383	211	16	36
Japan	4,939	41,275	127	158	62	29
United Kingdom	2,629	42,481	66	164	22	38
India	2,256	6,616	1,309	57	-16	32
Brazil	1,799	15,242	206	66	-40	21
Canada	1,529	46,437	36	218	9	54
South Korea	1,411	37,740	51	193	20	70
Russia	1,281	26,490	143	68	18	39
Australia	1,259	48,899	24	204	-59	30
Mexico	1,046	18,938	122	44	-46	69
Indonesia	932	11,720	259	40	-34	34
Turkey	857	24,912	80	84	-42	49
Switzerland	660	59,561	8	215	127	81
Saudi Arabia	640	55,158	32	65	92	58

Sources: World Bank, BIS, IMF, Datastream
*Bank loans and debt securities of the non financial private sector
** Foreign assets, net of liabilities to the rest of the world
*** Sum of imports and exports, divided by GDP

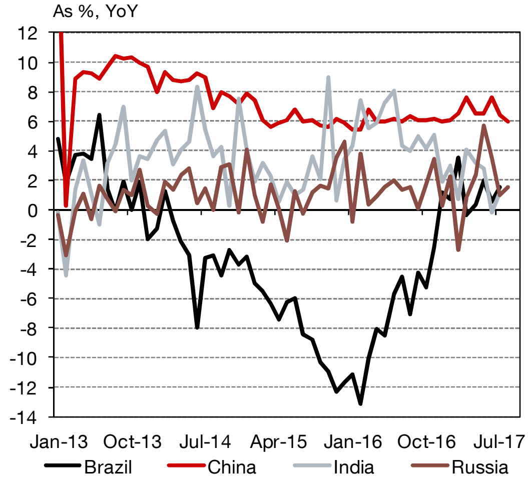
Cyclical Data

DEVELOPED MARKETS: INDUSTRIAL PRODUCTION



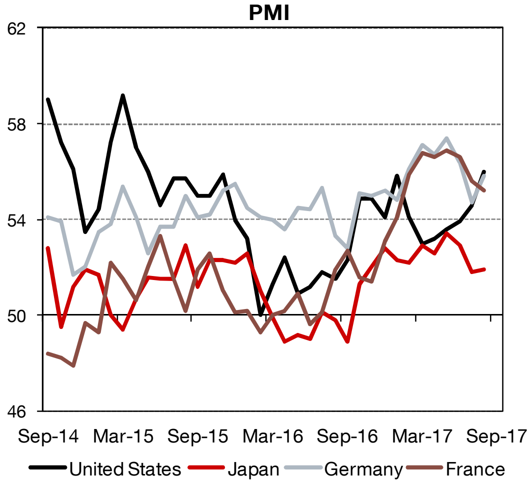
Sources : Nationals, SG

BRIC: INDUSTRIAL PRODUCTION



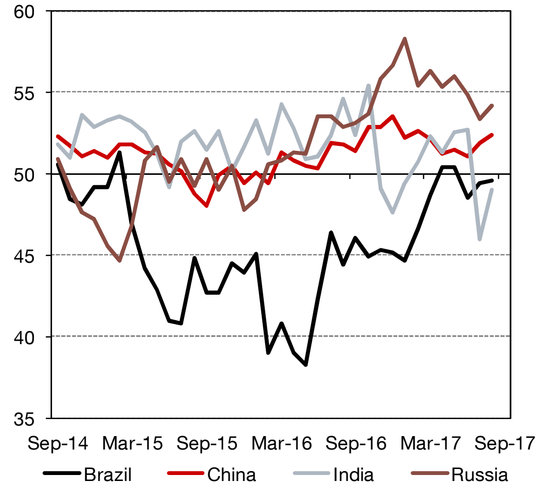
Sources : Nationals, SG

DEVELOPED MARKETS: COMPOSITE PMI



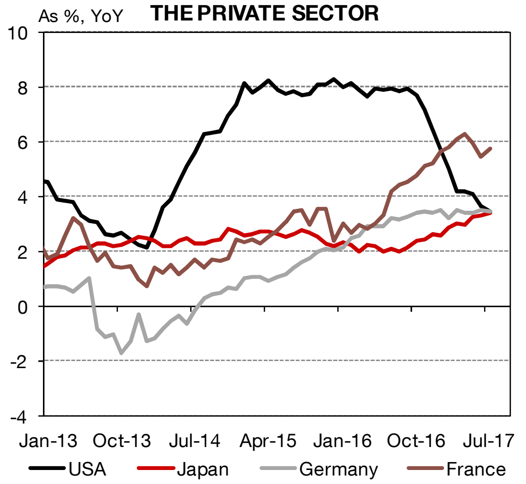
Source : Datastream

BRIC: COMPOSITE PMI



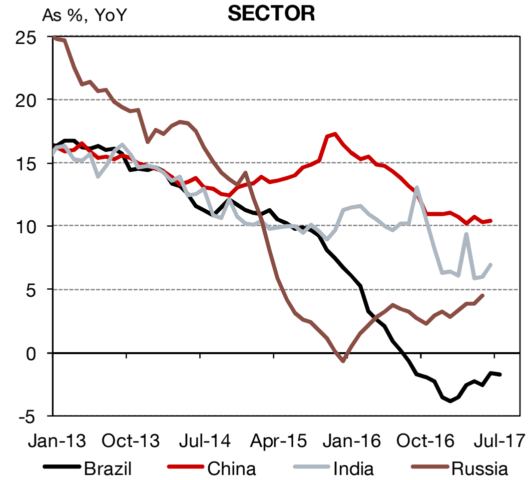
Source : Datastream

DEVELOPED MARKETS: CREDIT TO THE PRIVATE SECTOR



Sources : Nationals

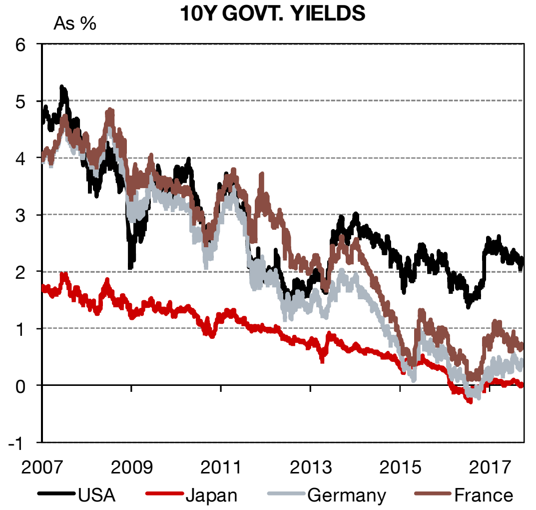
BRIC: CREDIT TO THE PRIVATE SECTOR



Sources: Nationals, SG

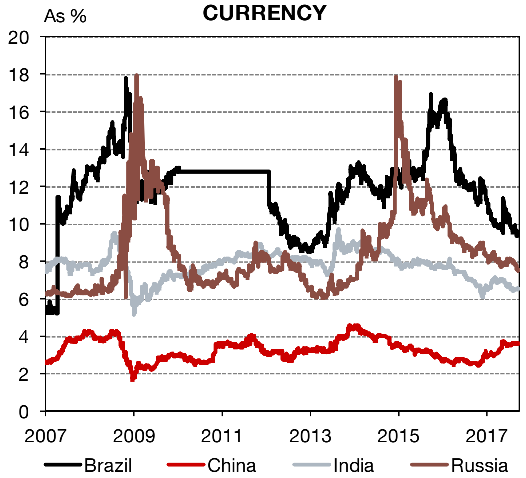
Financial Data

10Y GOVT. YIELDS



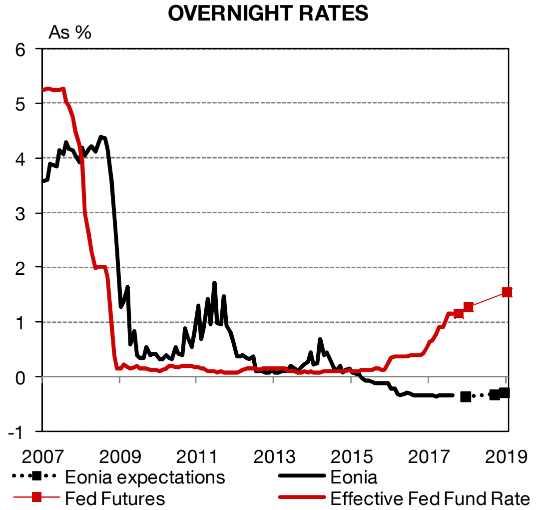
Source: Datastream

5Y SOV. INTEREST RATES IN LOCAL CURRENCY



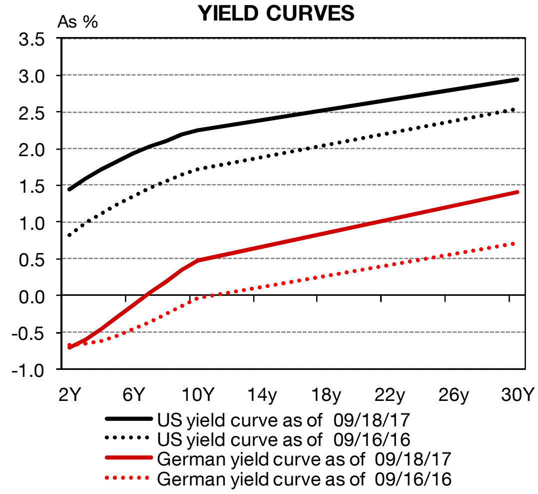
Source: Datastream

OVERNIGHT RATES



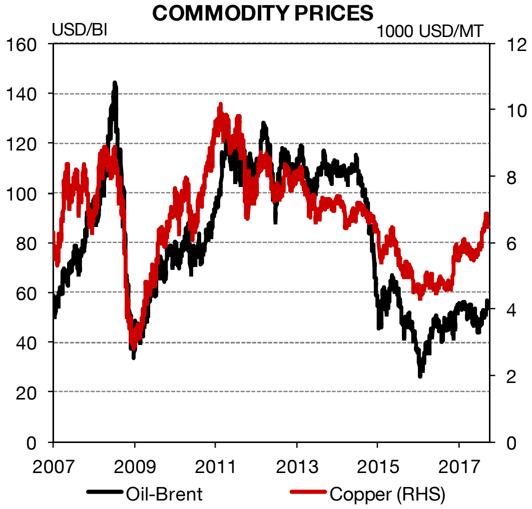
Source: Bloomberg

YIELD CURVES



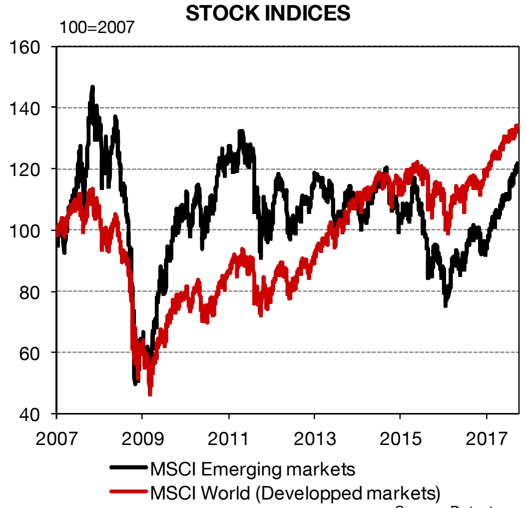
Source: Datastream

COMMODITY PRICES



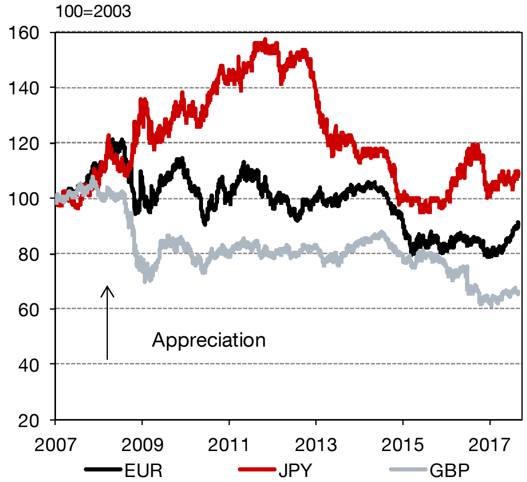
Source : Datastream

STOCK INDICES



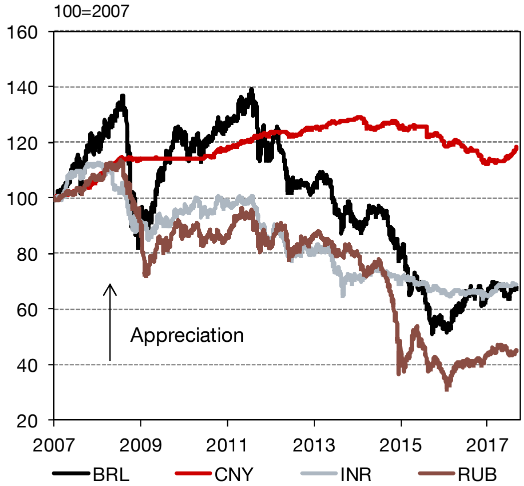
Source: Datastream

DM: EXCHANGE RATE AGAINST USD



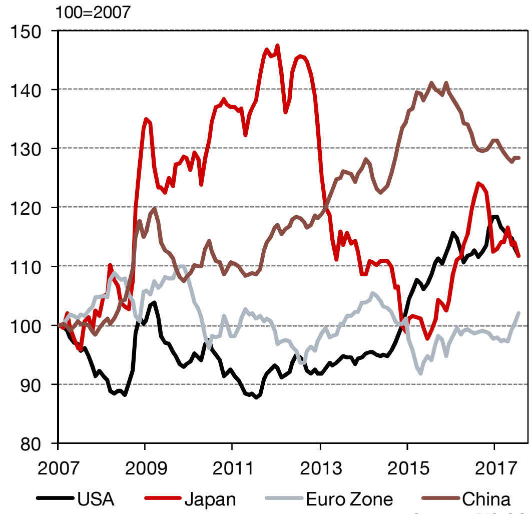
Source: Datastream

BRIC: EXCHANGE RATE AGAINST USD



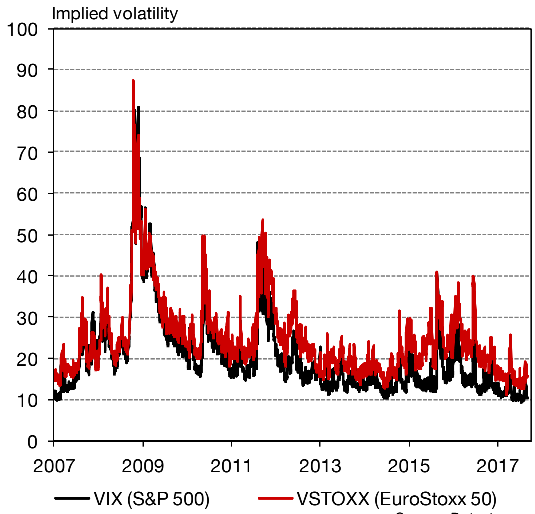
Source: Datastream

NOMINAL EFFECTIVE EXCHANGE RATE



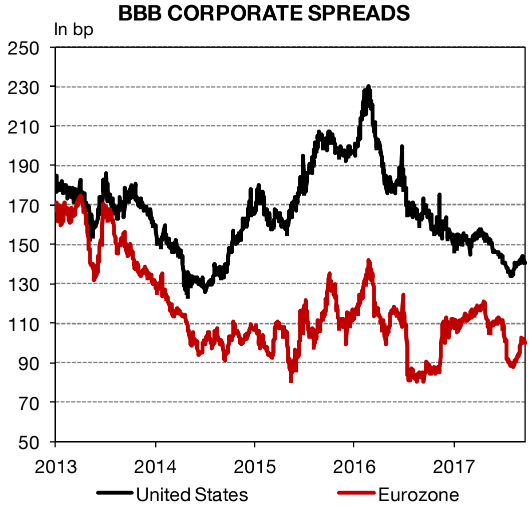
Sources: BIS, SG

EQUITY MARKETS VOLATILITY



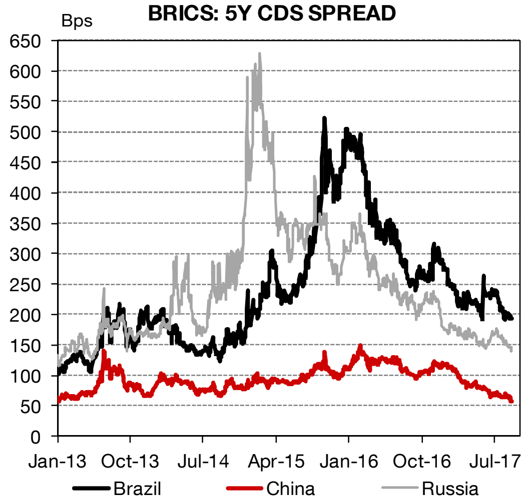
Source: Datastream

BBB CORPORATE SPREADS



Sources: Bloomberg, SG

BRICS: 5Y CDS SPREAD



Sources: Datastream, SG

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