Germany

Vigorous consumption

In Germany, activity picked up substantially in Q4 (+0.7% after +0.1%), driven by vigorous household consumption and investment in construction. In Q1 2015 growth should remain solid (+0.6%), due in particular to purchasing power gains linked to the introduction of the minimum wage and the fall in the price of oil products. In Q2, these factors are expected to be less influential and activity should slow slightly (+0.4%).

Falling unemployment, rising wages

Amid the upturn in activity in 2014 (+1.6% on average over the year) and very moderate apparent labour productivity, employment remained dynamic (+0.9%). In H1 2015 it should continue to improve: employment is expected to keep growing (+0.2% per quarter) but less rapidly than activity (*Focus*). The unemployment rate, already at its lowest level since reunification at 4.7% in January 2015, should continue to fall, reaching 4.6% in mid-2015. Wages, which have been rising significantly since mid-2009, should be especially vigorous in Q1 2015 (+1.4%) due to the introduction of the minimum wage on 1st January. At the same time, prices are expected to decline because of oil products. Household purchasing power should therefore progress well through to mid-2015. This should enable households to consume considerably more (+0.9% in Q1 and +0.7% in Q2, *Graph*), after two already buoyant quarters (+0.8%), while also saving more: the savings ratio is expected to reach 9.7% in Q2 2015, after 9.4% on average in 2014.

Investment not taking off

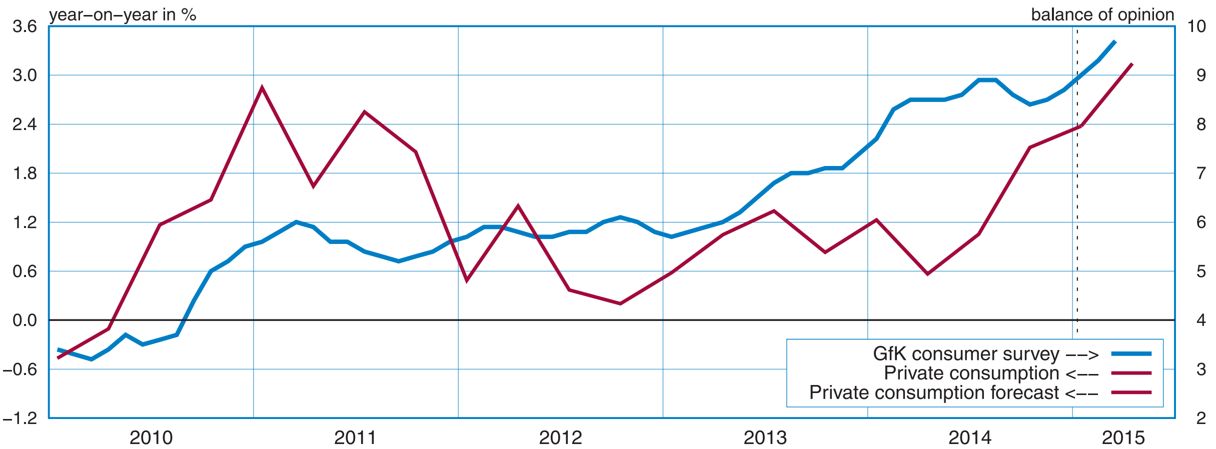
After the sharp drop in Q3 2014 (-1.4%), investment in capital goods rebounded only slightly in late 2014 (+0.4%). It is expected to pick up moderately in H1 2015 (+0.8% per quarter), driven by the improvement in demand prospects.

In construction, the short-term indicators are pointing downwards: since autumn 2014 the PMI index has been pointing towards a future contraction of activity; orders in construction are declining and building permits have been in stagnation since 2013. After a rebound in Q4, investment in construction is expected to slip back in Q1 2015, before stabilising.

Foreign trade no longer expected to sustain growth

Exports, like imports, increased sharply in Q4 2014, with foreign trade making a total contribution of +0.2 points to activity at the end of 2014 (+0.4 points for the whole year). In H1 2015, exports should be boosted by the recent depreciation of the Euro, but imports, stimulated by vigorous domestic demand, are expected to grow a little faster than exports. All in all, the contribution of foreign trade is expected to become neutral again in the course of H1 2015. ■

Consumer morale is at its hightest level since late 2001



Source: Destatis, INSSE forecasts

German productivity should recover in H1 2015.

German productivity slipped during the recession of 2008-2009

Apparent labour productivity declined in Germany during the major recession of 2008-2009, as it did in many other economies. Variation in the productivity cycle was aggravated by the intensive use of short-time working, which had the effect of reducing the quantity of work per person in employment. But productivity per hour worked was also affected by the crisis. In the manufacturing sector, the level of productivity per hour worked declined sharply (*see Graph 1*); however, between the end of 2009 and mid-2011 this productivity returned to its pre-crisis dynamic, although not all of the productivity lost during 2008-2009 in relation to this dynamic has yet been recovered.[1]

In the service sector, productivity fell back again in 2010

In the service sector, however, productivity per hour worked fell back again in mid-2010 (*see Graph 2*), in line with the slowdown in activity: a second cycle of productivity per hour worked thus succeeded the cycle observed in the recession of 2008-2009. Furthermore, from 2011 onwards, a further drop in the time worked by each employee served to amplify the decline in per capita productivity.

Although in 2010-2011 the increase in productivity per hour worked seemed to have returned to its pre-crisis dynamic in the manufacturing industry, since 2012 productivity per hour worked has once again stagnated in this sector, as in the service sector.

In H1 2015, growth is expected to create fewer jobs

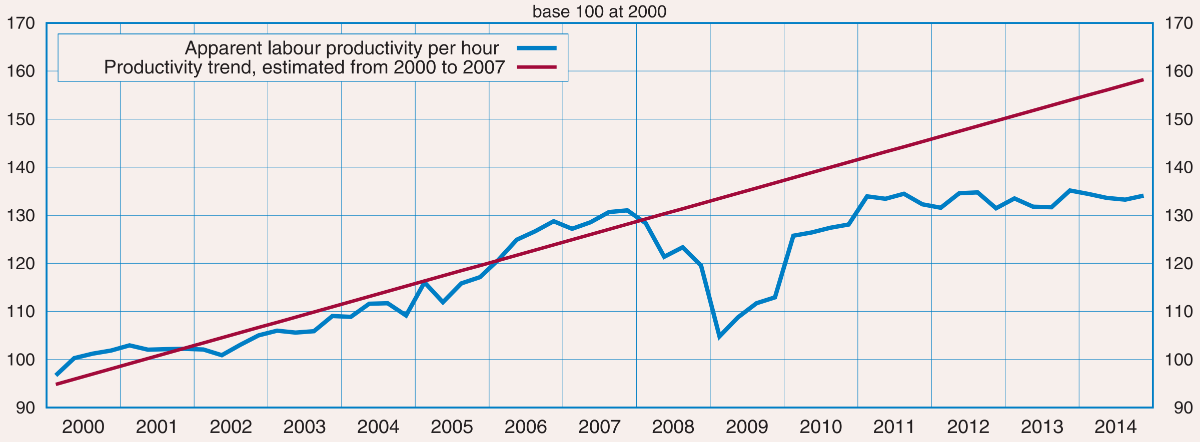
The nature of service employment is believed to explain the scale of job creation which has accompanied growth in this sector. Firstly, wages are lower: in late 2014, the average hourly wage was 25% lower than that recorded in the manufacturing industry. Secondly, the number of hours worked is lower, and the trend has been for this gap to increase: a service-sector employee worked on average 15% fewer hours than an employee in the manufacturing industry at the end of 2014 (the gap was 10% at the end of 2008). The minimum wage introduced on 1st January 2015 increases the cost of labour for low-wage earners, and should particularly affect this type of employment: a survey conducted by forecasting agency IFO confirms that services are much more strongly affected than the manufacturing industry by the introduction of the minimum wage (the change affects 31% of companies in the service sector excluding retail and 43% in the retail sector, compared with just 21% in the manufacturing industry).[2] This measure may therefore lead to a change in the composition of the labour force, particularly in the service sector, in favour of more highly-qualified jobs with a greater number of working hours. Economic growth would thus create fewer new jobs. In the manufacturing industry, the introduction of the minimum wage should have a more limited effect on productivity per hour worked; nonetheless, the number of hours worked should continue to increase (*see Graph 3*), leading per capita productivity to progress with renewed vigour. In the scenario presented in this Conjoncture in France report, German productivity should increase in H1 2015. ■

(1) Why did the unemployment rate keep on falling in Germany after 2007? *Conjoncture in France*, march 2013

(2) *Wie viele Firmen sind vom Mindestlohn betroffen ?*, Ifo, december 2014.

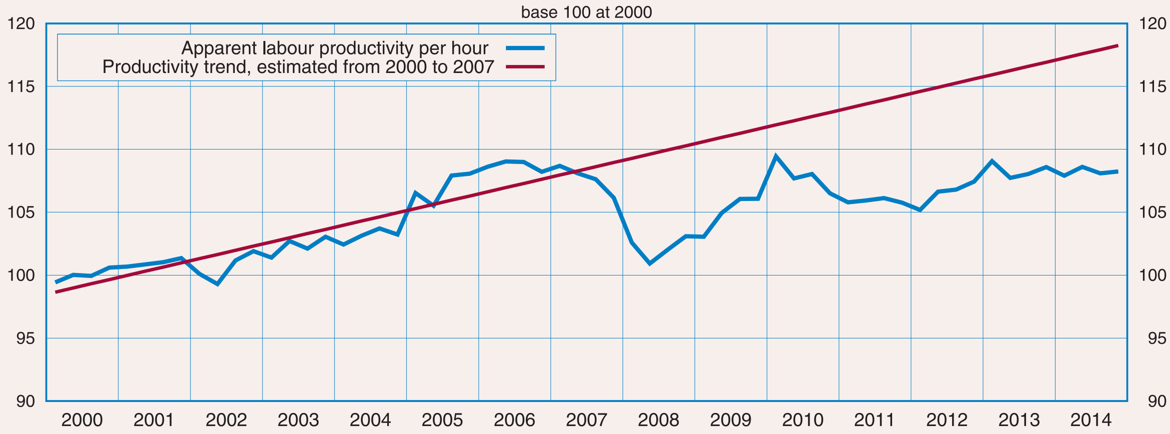
1 - Apparent labour productivity in the manufacturing industry

base 100 at 2000



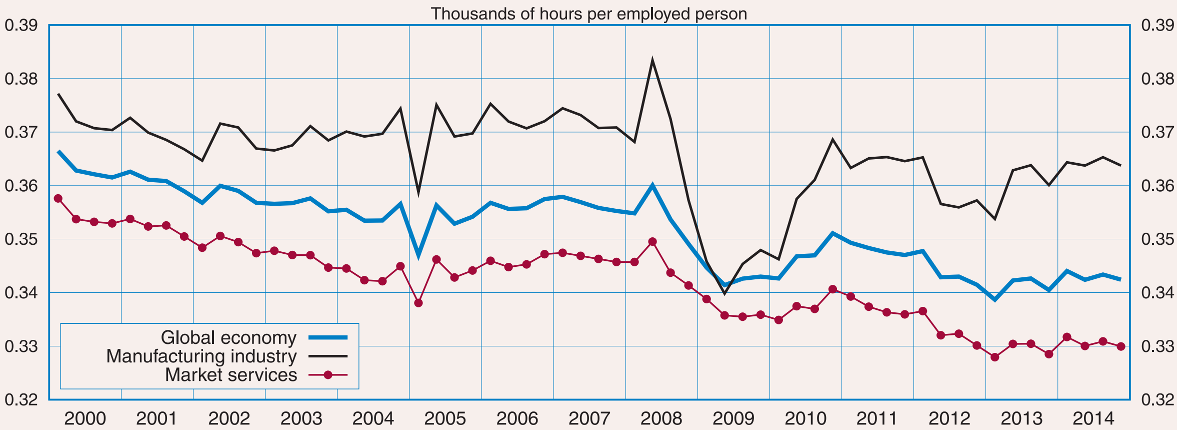
Sources: Destatis, INSSE calculations

2 - Apparent labour productivity in the service sector



Sources: Destatis, INSSE calculations

3 - Hours worked per capita



Source: Destatis

Italy

Pianissimo

After stagnating at the end of 2014, Italy should return discreetly to growth in H1 2015 (+0.1% in Q1, then +0.2% in Q2). The country is likely to benefit from the recent fall in oil prices and the depreciation of the Euro. Foreign trade and household consumption are expected to be the mainstays of this improvement,while investment should remain slow.

A sluggish final quarter of 2014

Activity stabilised in Q4 2014. On average over the year, activity shrank by 0.4% in 2014, after -1.7% in 2013. At the end of 2014, the strong performance of foreign trade was more than offset by inventory change, while household consumption and investment improved only slightly.

Exports, the mainstay of growth

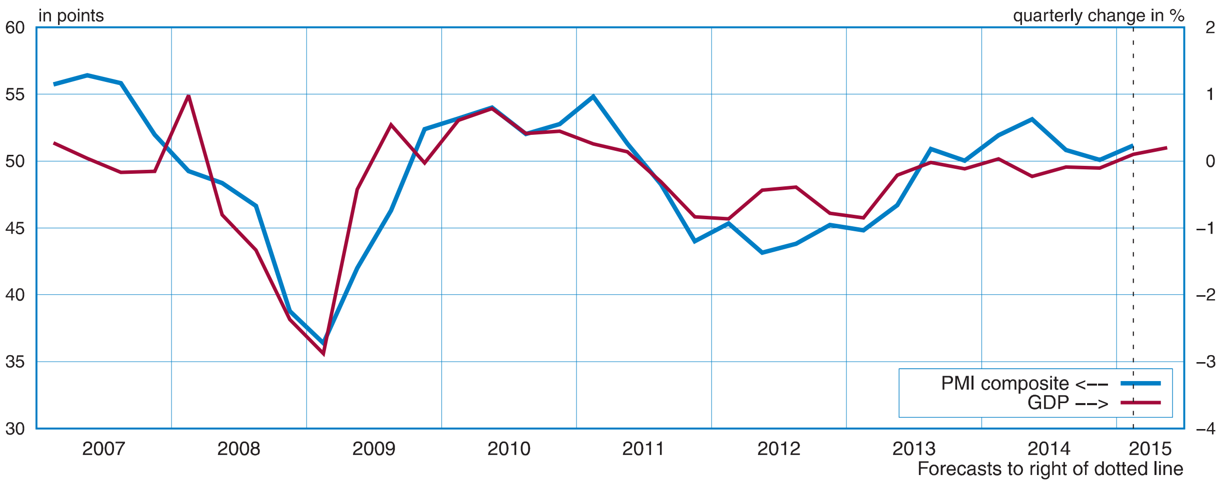
In 2014, exports (+2.4% annual growth) limited the decline in activity. The recent depreciation of the Euro, to which Italian exports are highly sensitive, should strengthen this support. In Q1, in reaction to a dynamic Q4 (+1.6%), exports are expected to slow down (+0.5%) before regaining momentum in Q2 (+1.2%). Imports are set to remain less vigorous overall (+0.5% in Q1, then +0.7%), in the wake of sluggish domestic demand.

Domestic demand should pick up slightly

Sustained by a slight recovery in employment, resilient wages and low inflation, household consumption has stood up to the overall lethargy relatively well (+0.1% on average per quarter from mid-2013 to end 2014). Employment should continue to improve weakly in H1 2015 with the 'Jobs Act' coming into force. Consumers have a high level of confidence, according to the January survey. In H1 2015 consumption expenditure should grow by 0.2% per quarter, driven in particular by the rise in purchasing power caused by the fall in the price of oil products.

Sluggish investment remains the main obstacle to growth. On the one hand, investment in construction has been falling continuously since 2008 (34% cumulative decline) and notably cost 0.4 points of growth in 2014. With prospects in construction remaining poor, this trend is unlikely to be reversed in the short term (-0.5% per quarter through to mid-2015). On the other hand, productive investment has fallen sharply each year since the recession. In Q1 2015 it is expected to fall again (-1.0%), due to an expected backlash effect in transport equipment, which was very dynamic in Q4 (+7.7%). In Q2, despite low production capacity utilisation and the sluggishness of domestic demand prospects, capital goods investment is expected to stabilise due to stronger foreign demand and the improvement in financing conditions fostered by the ECB's recent quantitative easing programme. ■

GDP and composite PMI



Sources: Markit, Istat

Spain

Growth gaining momentum

In Spain, activity picked up again in Q4 2014 (+0.7% after +0.5%). In 2014, annual growth settled at +1.4% after three years of decline (-1.2% in 2013, -2.1% in 2012 and -0.6% in 2011). Through to mid-2015, business tendency surveys suggest this momentum should be carried through: activity is expected to grow by 0.7% per quarter. At the end of H1 2015, the growth overhang for the year should reach +2.1%. This vigorous activity is expected to be driven mainly by domestic demand - particularly private consumption and corporate investment - which has recovered its buoyancy after six years of decline.

Consumption should remain vigorous

Since 2013, the recovery of employment has stimulated household consumption (*Focus*) which in 2014 experienced its strongest annual growth (+2.4%) since 2007 (*Graph*), directly through its effect on household consumption and indirectly through the drop in precautionary savings caused by the fall in unemployment. In H1 2015, this vigour should be confirmed (+1.0% per quarter), in the wake of still-dynamic employment. The fall in the price of oil should also improve household purchasing power in H1.

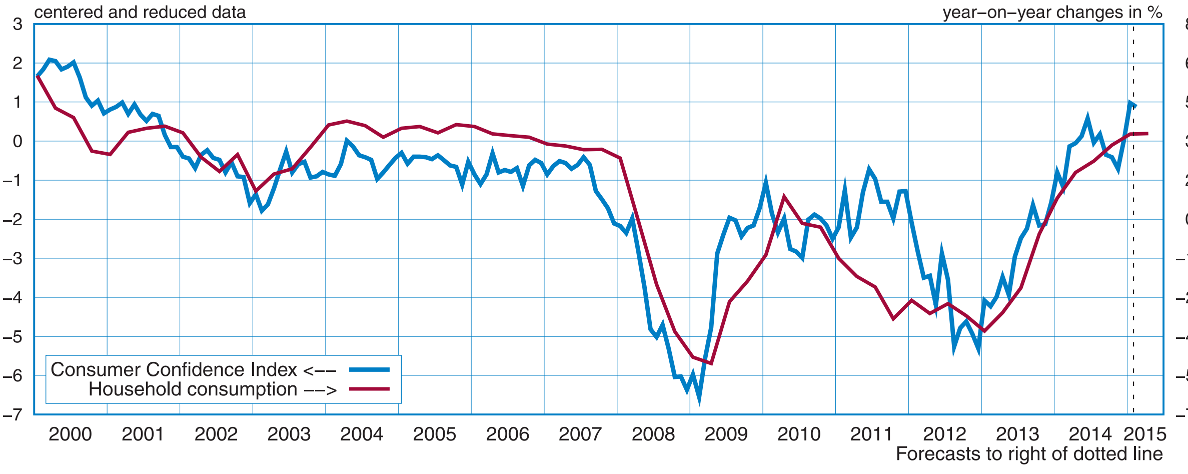
Upturn in construction investment

In H1 2015, the upturn in the property market that started in H2 2014 should continue, as suggested by the recent rise in building permits and the renewed confidence among building entrepreneurs. Investment in construction should therefore rise sharply, after seven years of decline during which the share of construction in GDP fell from 22% in mid-2007 to 9% in mid-2014.

Investment in capital goods should continue to grow at a sustained pace (around +2% per quarter), as it has since early 2013 (*Focus*). Indeed, businesses need to reinvest after a marked adustment phase, and production capacity is being used more, as indicated by the rise in the production capacity utilisation rate. This increase in investment is fostered by high corporate margins and by the recent easing of credit conditions.

The buoyancy of domestic demand is expected to sustain imports, which are set to rise more quickly than exports despite the depreciation of the Euro. The contribution of foreign trade to GDP growth should be slightly negative through to mid-2015. ■

The consumer confidence index is trending upwards



Sources: Eurostat, INSEE calculations

Corporate investment is the source of the Spanish recovery

Between 2008 and 2013 the Spanish economy was faced with a deeper and more serious crisis than that which affected its principal European partners. Imbalances in the country's current account and a substantial level of debt linked in large part to a massive property bubble made Spain particularly vulnerable to the global crisis of 2008-2009. The ensuing phase of adjustment thus proved to be long and painful: GDP fell by 7.4% in this period and the unemployment rate peaked at 26.3% in early 2013.

After this long struggle, the economy returned to growth in mid-2013. In 2014 the recovery solidified, becoming more dynamic with each passing quarter, although the economy is still far from its pre-crisis level of activity.

Internal devaluation improved circumstances for businesses

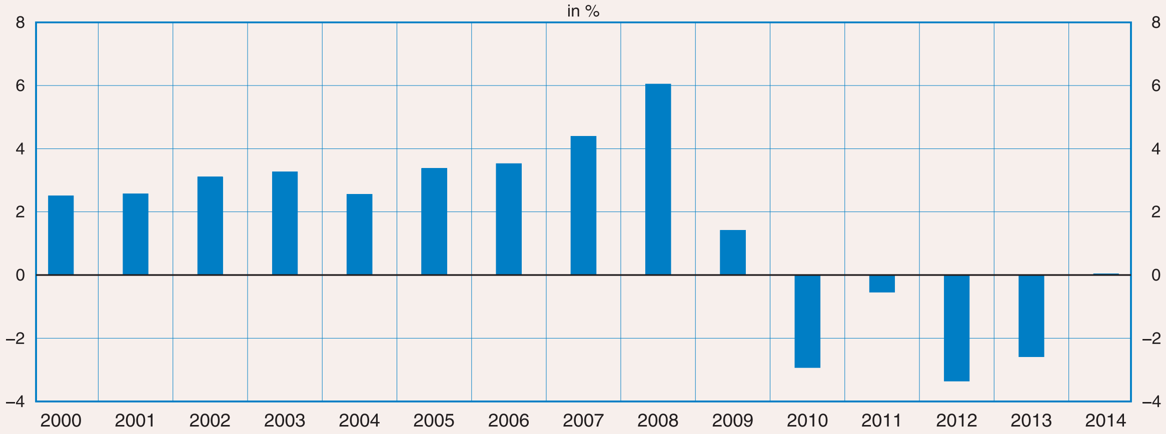
During the adjustment period, the Spanish economy made substantial productivity gains. At the same time, wages stagnated in nominal terms and decreased in real terms. The result was a significant reduction in unit wage costs from 2009 onwards (*Graph 1*). This reduction was further accentuated in 2012, partly as a result of reforms to the labour market.[1] The principal consequence of this "internal devaluation" was to allow businesses to increase their margin rate: this rate increased by 8 points between 2008 and 2012, reaching its highest level since the series began (1995) before subsequently stabilising. This rebuilding of margins helped to fund a swift upturn in capital goods investment from early 2013 onwards, when the need to reinvest after a period of severe adjustment began to be felt (*Graph 2*). Investment in production was thus the first component of domestic demand to show an upturn in Spain, from early 2013 onwards.

Gains in market share for exports, with little connection to the variation in Spanish prices

In theory, the reduction in wage costs should have paved the way for a sharp drop in export prices leading to an increase in the market share of Spanish exports. Spain's export

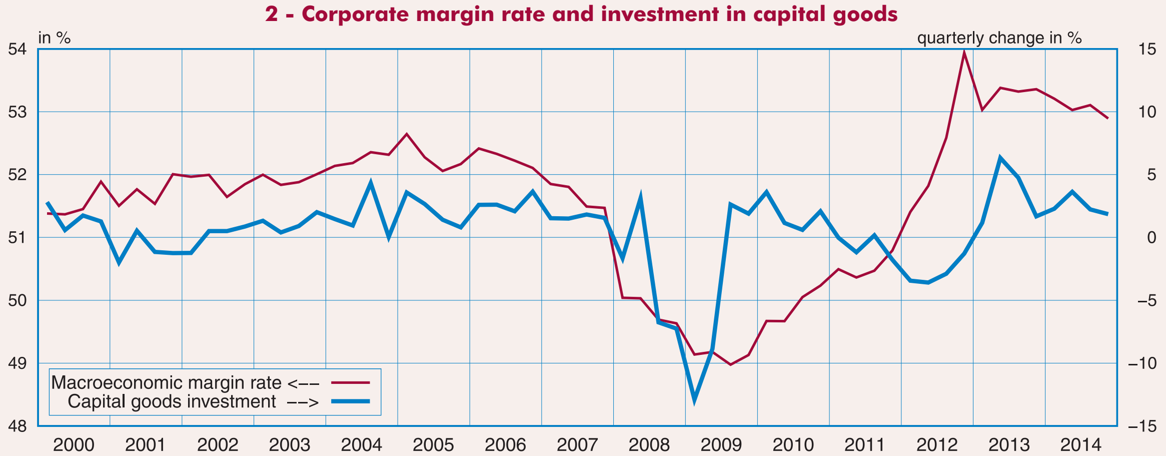
(1) OCDE (2014), *The 2012 Labour Market Reform in Spain: A Preliminary Assessment*, Éditions OCDE, Paris.

1 - Annual variation in unit wage costs



Source: INE

2 - Corporate margin rate and investment in capital goods



Sources: INE, INSEE calculations

performances have indeed improved since 2011 in volume (*Graph 3*), contributing 1 point of GDP growth in the intervening 4 years.[2] However, these gains are not the result of any apparent improvement in Spain's price competitiveness: since 2009, Spanish export prices have followed a similar trajectory to those of other Eurozone nations (*Graph 4*).

Two hypotheses may be put forward to explain how Spain's market share has increased in spite of the absence of any gains in price competitiveness.[3] This improved performance could be a result of the choice made by a growing number of businesses to turn to export markets, against a backdrop of sluggish domestic demand (the number of companies exporting from Spain has increased from 100,000 to 150,000 in five years), or else a result of the growing number of foreign companies setting up in Spain (and thus more likely to export).

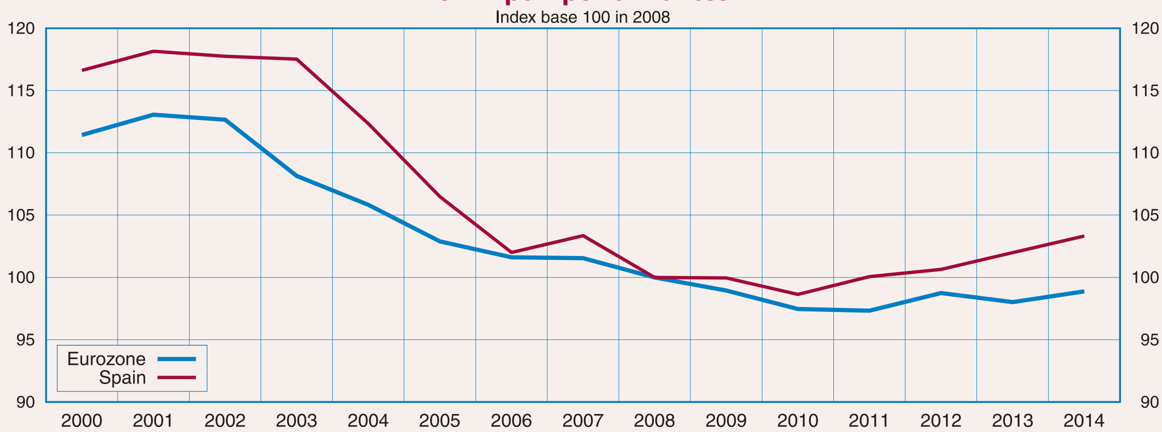
Fiscal consolidation measures have weighed less heavily since mid-2013

The final factor in the recent upturn is the end of the period of serious fiscal consolidation in mid-2013. Previously, these consolidation measures had weighed directly upon domestic demand in the form of reduced consumption expenditure and government investment, and more indirectly in the form of reduced private consumption linked to the decline in public sector wages.

Following the upturn in investment, a rebound in employment and the end of the period of fiscal consolidation contributed to the recovery of household purchasing power and consumption expenditure observed in H2 2013, with consumption returning to growth in summer 2013 for the first time in three years. ■

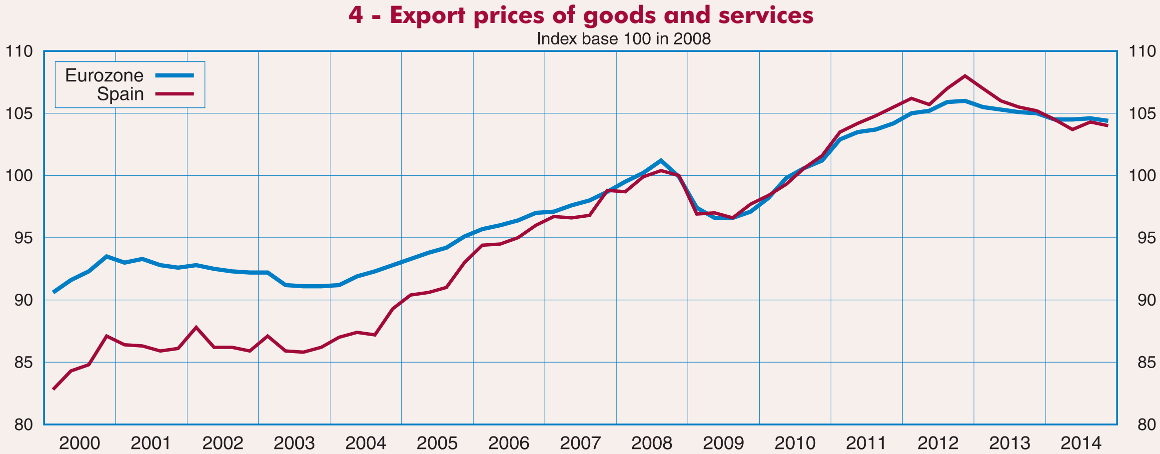
(2) Compared to an alternative scenario in which Spain's export performances would merely have stabilised, as was the case for the Eurozone as a whole.
(3) S. El Kasmi, M. Gaudiau, E. Kerrand et M-A. Ravon (2014), "Pourquoi les exportations espagnoles sont elles si dynamiques après crise ?", *Trésor-Éco* n°140, novembre.

3 - Export performances



How to read it: ratio of exports / world demand for Spain (and the Eurozone) in volume
Sources: Eurostat, INSEE calculations

4 - Export prices of goods and services



Source: Eurostat

United Kingdom

Still growing, but levelling off

In the United Kingdom activity grew once again in Q4 2014 (+0.5%) and annual growth stood at +2.6% in 2014. However, activity slowed slightly in comparison with the previous quarters, due to weaker domestic demand. In H1 2015, activity is expected to grow at the same pace (+0.5% per quarter), driven by household consumption as household purchasing power remains buoyant. However, household and corporate investment should both continue to slow in comparison with the trend of the last two years. The growth overhang in mid-2015 is expected to be +1.8%.

The business climate still bright

In Q4 2014, British growth remained solid but slowed once again (+0.5%, after +0.7% and +0.8%) due in particular to the fall in investment and in government consumption. For the year as a whole, growth reached +2.6% in 2014 (after +1.7% in 2013 and +0.7% in 2012). In early 2015, the business climate remains positive and growth in activity is set to continue at the same pace as in late 2014 (+0.5% per quarter). At the end of H1, the growth overhang for 2015 should be +1.8%.

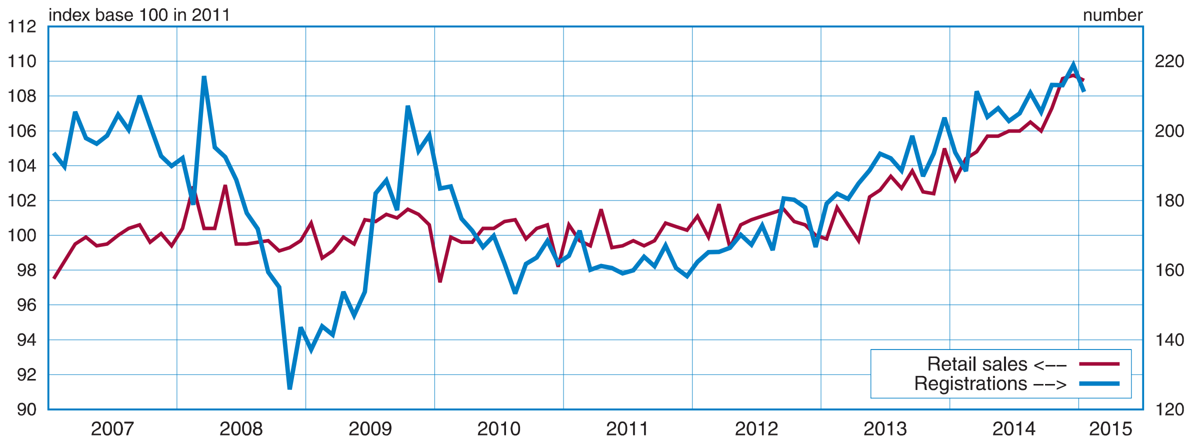
Consumption sustained by employment, wages and falling prices

In H1 2015 British households, whose confidence remains high, are expected to increase their consumption once again: +0.7% per quarter through to mid-2015, after +0.5% in Q4 2014 (*Graph*). Household purchasing power is expected to rise sharply again. It should be sustained above all by job creations (+0.5% in Q1 then +0.3% in Q2 2015) due to still-weak productivity gains and the recent fall in the prices of energy and food. More marginally, wages should pick up gradually due to growing tensions in the labour market: the unemployment rate should continue to fall, to 5.3% of the labour force in mid-2015 from 5.7% in January. Household investment is expected to increase moderately as the property market calms down (prices slowing, transactions and mortgages falling in number). Productive investment is expected to ease with the slowdown in demand prospects, but should remain buoyant.

Foreign trade expected to take its toll on growth

Since 2013, growth in exports has remained modest and the market share of the UK has diminished, partly due to the past appreciation of the pound. In Q1 2015, exports and imports are expected to stagnate as they correct for their exceptional vigour of late 2014. In Q2 2015, exports should return to a pace closer to their recent trend and imports should rise sharply again, driven by domestic demand. All in all, the contribution of foreign trade to growth in activity should once again be negative through to mid-2015 (-0.1 points in Q2). ■

British consumption remains vigorous



Sources: ONS, ECB

United States

Robust growth despite the appreciation of the dollar

American activity slowed a little but remained buoyant in Q4 2014 (+0.5% after +1.1%), sustained once again by domestic demand while growth was slowed by foreign trade. In H1 2015, despite a slowdown in Q1 due in particular to the harsh winter, domestic demand should remain strong, while the recent appreciation of the dollar should take its toll on foreign trade once again. All in all, activity should decrease in Q1 (+0.4%) then gather pace in Q2 (+0.7%)

At end 2014, activity remained vigorous

American activity remained dynamic in Q4 2014 (+0.5%) after two outstanding quarters (+1.1% then +1.2% in Q2 and Q3). In particular, government expenditure fell back (-0.4% after +1.1%), foreign trade weighed down on growth (contribution to growth of -0.3 points after +0.2 points), and corporate investment slowed (+1.2% after +2.2%). However, household consumption was very vigorous once again (+1.0% after +0.8%).

The buoyancy of domestic demand should sustain growth

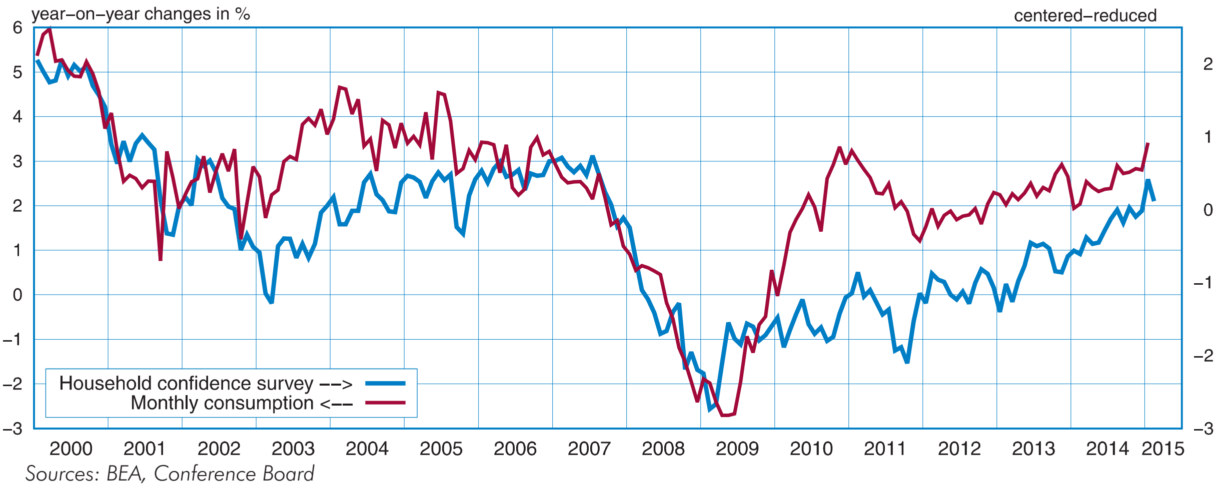
In early 2015, the labour market remains on an upward trajectory, as suggested by the opinions of business leaders in business tendency surveys and the sustained pace of job creations. Consequently, unemployment should continue to fall slightly: the unemployment rate should stand at 5.4% in mid-2015 after 5.5% in February. This improvement should contribute to a slight acceleration in wages. With purchasing power buoyed up by falling energy prices, household consumption is set to remain vigorous in H1 2015 (+0.5% in Q1 then +0.9%), despite a slowdown in retail sales in Q1. This is also suggested by high consumer confidence (*Graph*).

Private investment is set to accelerate in H1 2015. Property prices picked up and financing conditions remain favourable but the poor weather conditions led to a sharp fall in housing starts, so household investment is expected to shrink in H1 (-1.8%) then bounce back in H2 (+2.0%). Corporate investment should remain sustained, growing at between 1.5% and 2% per quarter, after a rebound in 2014 (+6.1% after +3.0% in 2013). It should continue to be stimulated by favourable demand perspectives and the need to boost production capacities.

The appreciation of the dollar likely to have an adverse effect on foreign trade

Since Q3 2014, the dollar has appreciated sharply, particularly against the Euro. This is likely to penalise foreign trade, which should contribute negatively to growth in activity in H1 2015 (-0.2 points per quarter), despite a sharp increase in world demand for US products. ■

Household consumption and confidence remain strong



Sources: BEA, Conference Board

The stagnation of the import penetration rate in America since 2011 can be linked to the decline in oil product imports

Since 2011 the import penetration rate in America has stagnated

Imports grew sharply as a proportion of American GDP in the period between the early 1990s, when this proportion was just 10%, and early 2008, when it peaked at 18% (*Graph 1*). After falling off drastically then bouncing back again during the crisis of 2008-2009, imports as a proportion of GDP have been stagnating since 2011. This break with the pre-crisis trend also shows in real terms.[1]

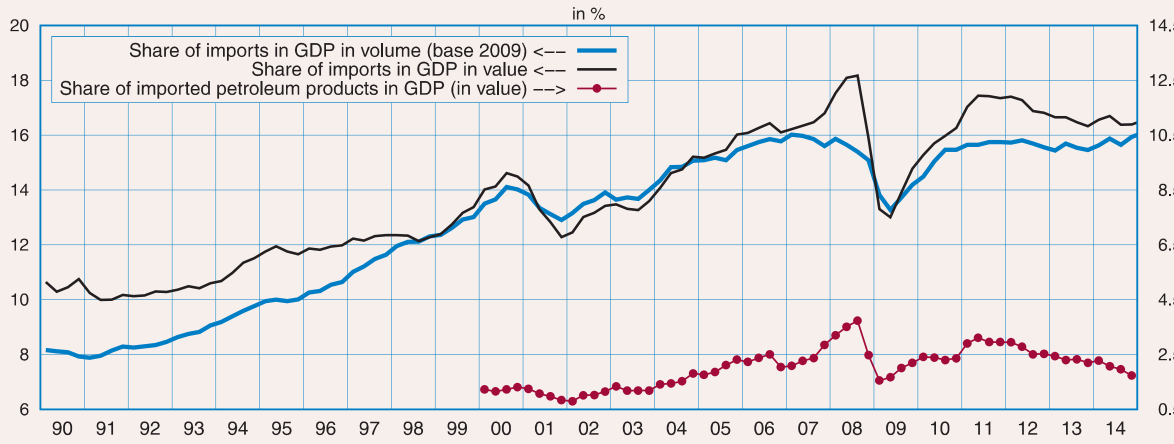
The decline in oil product imports is the primary contributing factor to this break

From 2011 onwards, oil product imports began to drop off noticeably as a proportion of GDP. In real terms, this development predates the crisis: oil product imports began to fall back as early as 2005 (*Graph 2*).

There are several potential explanations for this. Firstly, oil consumption fell in the United States, from 20.8 million barrels per day (Mbpd) in 2005 to 19.0 Mbpd in 2013. This fall was partly cyclical, but it also owes itself to structural changes, particularly the increased energy efficiency of America's motor vehicles. Furthermore, the opening up of shale gas reserves has led to a rebalancing between the different energy sources used. Natural gas as a proportion of the total volume of fossil fuels consumed increased from

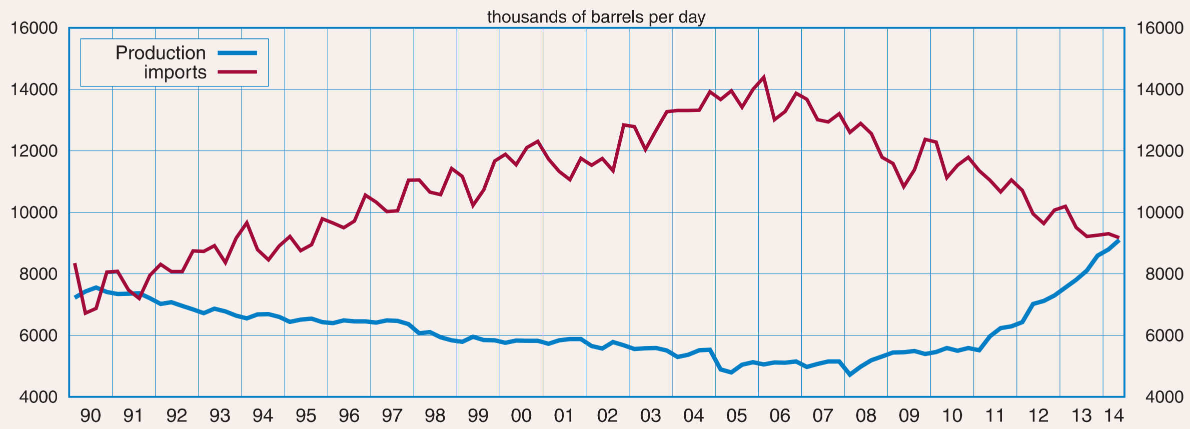
(1) The American national accounts measure variations in real terms using"chain-linked" prices. Strictly speaking, the use of this concept makes the different components of real GDP non-additive, thus making it impossible to construct real-term ratios. In practice, the deviation between GDP and the sum of the components is very small (an average of 0.1% in the period 2000-2014), so that the "chain-linked price" import penetration rate is considered a good approximation of the real penetration rate.

1 - Import penetration rate in the United States



How to read it: the import penetration rate is the ratio of imports to gross domestic product
Source: Bureau of Economic Analysis (BEA)

2 - Production and imports of crude oil



Source: Energy Information Administration (EIA)

26.3% in 2005 to 33.9% in 2014. At the same time, the share of oil in total primary energy consumption fell from 47.0% to 43.6%.

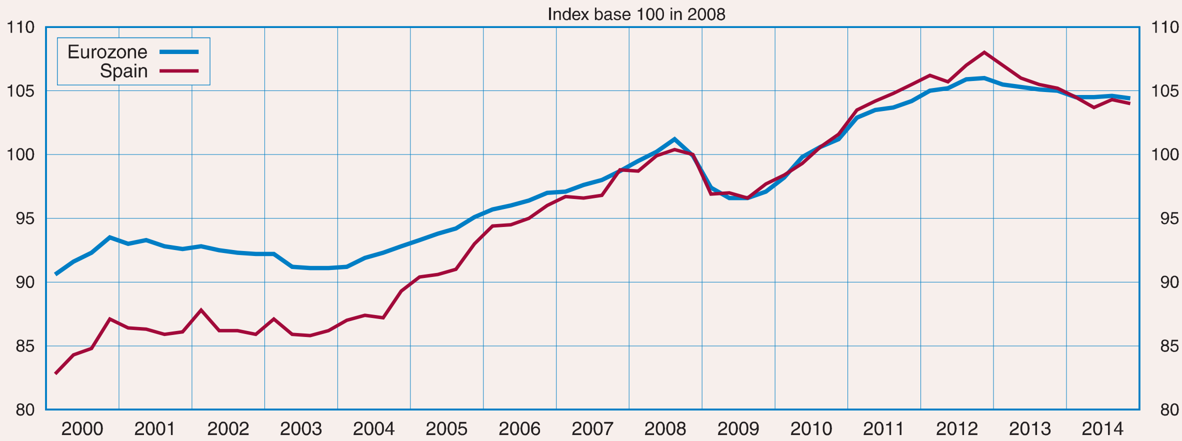
Moreover, the decrease in consumption was accompanied by a significant rise in domestic oil production, particularly from unconventional sources (*Graph 2*). This can be attributed to domestic production of biofuels and liquefied petroleum gas, as well as efficiency gains in refineries. As a result, whereas the trend had been for a decline in domestic oil production since the 1980s, since 2009 this production has picked up markedly to the extent that in 2014 the United States produces as many barrels per day as they import.

This specific feature linked to production levels of oil products is the key contributing factor to the stagnation of the import penetration rate over the past four years. Indeed, American imports excluding oil products have been progressing at their usual pace since 2011. In order to measure this effect, import equations have been estimated for the period 1994-2009, one model for all goods imports and one model for goods imports excluding oil products. The explanatory variables integrated into these models include domestic demand (consumption, private investment including corporate inventory levels, government consumption) and exports (*Graph 3*).

The model for all goods imports shows that, from 2011 onwards, the penetration rate diverges from the trend predicted by its long-term determinants. For Q4 2014 the equation predicts a rate 1.6 points above the rate actually observed.

On the other hand, the variation in imports excluding oil products from 2011 onwards is generally consistent with the long-term determinants: in Q4 2014, the deviation between the simulation and observed imports was not significantly different to 0 (0.4 points). ■

3 - Modelling of the penetration rate of goods imports (in value, as a % of GDP)



Sources: BEA, INSEE calculations

Japan

Out of recession

The upturn in Japanese activity which got underway at the end of 2014 (+0.4%) is expected to continue in H1 2015 (+0.8% then +0.6%). Household consumption should maintain its buoyancy (+0.4% per quarter), especially due to falling oil prices and new fiscal stimulus measures. Foreign trade is set to contribute positively to growth (+0.2 point then +0.1 point), partly thanks to the past depreciation of the yen.

Activity bounced back in late 2014

In Q4 2014, activity returned to growth (+0.4%) after two quarters of contraction (-1.6% then -0.7%) mainly attibutable to the rise in VAT in April 2014. This rebound is nevertheless modest and the main components of demand remain below their level of late 2013. Household consumption picked up (+0.5% after +0.3%) and corporate investment remained stable (-0.1% after -0.2%). In early 2015, the surveys point to a generally favourable short-term-outlook and industrial output has picked up significantly; activity is therefore expected to continue its upturn (+0.8% then +0.6%).

Growth supported by a new stimulus plan

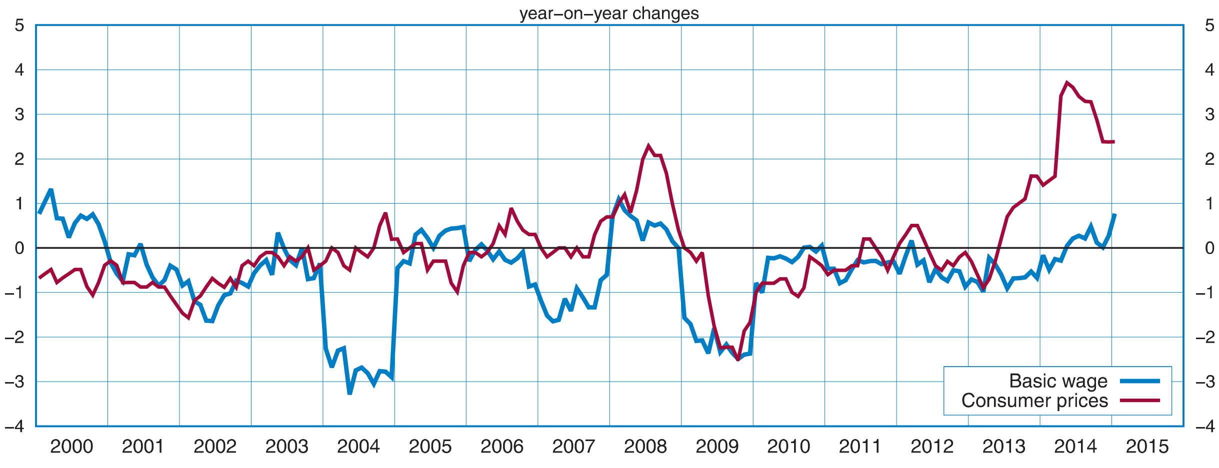
In early 2015, Parliament voted in a new stimulus plan worth 3,500 billion yen (0.7 GDP points). More than a third of this sum is aimed at boosting private consumption, which has also been stimulated by the effects of falling oil prices on purchasing power. In H1 2015 household consumption should therefore maintain its vigour of late 2014 (+0.4% per quarter). Driven by activity, corporate investment is expected to gather pace strongly (+1.3% then +1.2%). Household investment, hard-hit by the VAT spike in April 2014, should stabilise. Government investment should be buoyed up by the stimulus plan, more than half of which is intended for the reconstruction of regions affected by the 2011 tsunami.

Sustained by the relative vigour of world trade and the past depreciation of the yen, exports are expected to rise even more sharply in H1 2015 (+3.0% then +2.6%, after +2.8% at the end of 2014). Despite the upturn in domestic demand, imports should continue rising at a slower pace (+1.8% then +2.0%). All in all, foreign trade is set to contribute positively to growth (+0.2 points then +0.1 points).

Wages likely to pick up somewhat in early 2015

The VAT rise in April 2014 (+3 points) was passed on to prices and inflation rose (+2.4% in January 2015 against +1.4% one year earlier). Moreover, after having grown weakly through to late 2014, wages have accelerated slightly in early 2015 (+0.8% year-on-year in January, *Graph*). So even though wages are being eroded in real terms, an end-of-recession momentum seems to have been triggered. ■

Price and wages in Japan



Source: Japan Cabinet Office

Emerging economies

Growth crumbling

The emerging economies are generally slowing down in comparison with their average growth over the last two decades, but with increasing divergences. In China, growth is at its lowest level since 1990, due most notably to the slowdown in investment, in property in particular. In Brazil, growth has stalled due to a sharp contraction in domestic demand, under the dual effects of falling commodity prices and monetary tightening by the central bank intended to curb capital outflows. Russia has also suffered from the fall in oil prices and reciprocal economic and financial sanctions linked to the Ukrainian crisis. Conversely, the countries of central Europe do not seem to be suffering from the geopolitical tensions provoked by this crisis. Lastly, the Indian economy is showing strong signs of brightening. Business tendency surveys do not suggest any short-term improvement, so the emerging countries are expected to continue slowing in H1 2015. Consequently, their foreign trade is unlikely to recover its pre-crisis vigour: imports by all emerging countries should increase by 1.1% per quarter, a pace close to that of exports (+1.2% per quarter).

In China, growth at its lowest point since 1990

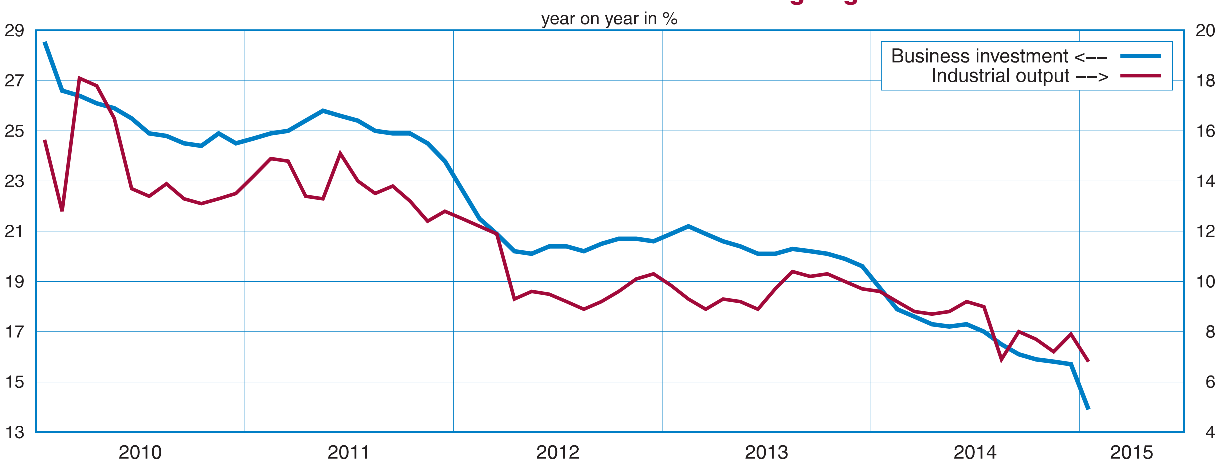
In Q4 2014, the Chinese economy slowed again (+1.5% after +1.9%): Chinese annual growth stood at +7.4% in 2014, its lowest level since 1990. Industrial output slowed significantly in the summer, and has done so again in early 2015. On the demand side, consumption remains sluggish and corporate investment continues to slow (*Graph 1*).

In early 2015, surveys again demonstrate a certain sluggishness in the short-term climate, with the Chinese economy not expected to pick up during H1. Consumption should increase modestly and investment should continue to slow, despite a possible improvement in construction: since late 2014, property prices seem to be stabilising. Chinese exports stagnated in Q4 2014 (after +5.1% in Q3), while imports shrank (-1.6% after +1.1%). In the wake of relatively dynamic world demand, exports should pick up again in H1 (+2.4% then +2.6%), despite the marked appreciation in the effective exchange rate of the yuan in late 2014. However, surveys on orders report negative findings in early 2015, suggesting relatively weak growth in imports in H1 (+1.0% per quarter).

The confidence crisis deepens in Brazil

After growing by 2.5% in 2013, the Brazilian economy stagnated in 2014. The business climate is very poor and in January 2015 household confidence was at its lowest level in 10 years (when the series began). The real is at its lowest level against the dollar since 2004, and prices are gathering pace once again (*Graph 2*) despite the fall in the price of oil products, leading to forecasts of further tightening in monetary policy; the central bank's base interest rate rose from 7.5% in April

1 - The Chinese slowdown is still ongoing



Source: NBSC

2013 to 12.75% in March 2015. Consequently, domestic demand is falling, as are retail sales which contracted in December and January. Moreover, industrial output remains in a very deteriorated state (-5.2% year-on-year in January), despite the revival of price-competitiveness linked to the depreciation of the real. Fiscal restriction plans announced by the government and electricity price rises planned for 2015 are expected to accentuate the decline in domestic demand a little more. Moreover, the fall in the prices of commodities and the slowdown in other emerging countries should continue to affect Brazilian exports. Activity is not expected to return to growth in H1 2015, and Brazil is even at risk of entering recession.

In Russia, inflation casts a shadow over activity prospects

In Russia, activity has slowed considerably since 2012. Year on year, activity virtually stagnated at the end of 2014 (+0.1% after +2.0% in late 2013). The ruble depreciated sharply, losing 45% of its value against the dollar following economic and financial sanctions, the withdrawal of foreign capital and the slump in oil prices. The Russian central bank has therefore committed to a policy of monetary tightening (with the base interest rate rising from 8% in October 2014 to 17% in January 2015 and 14% in March) and amended its exchange rate steering mechanism.

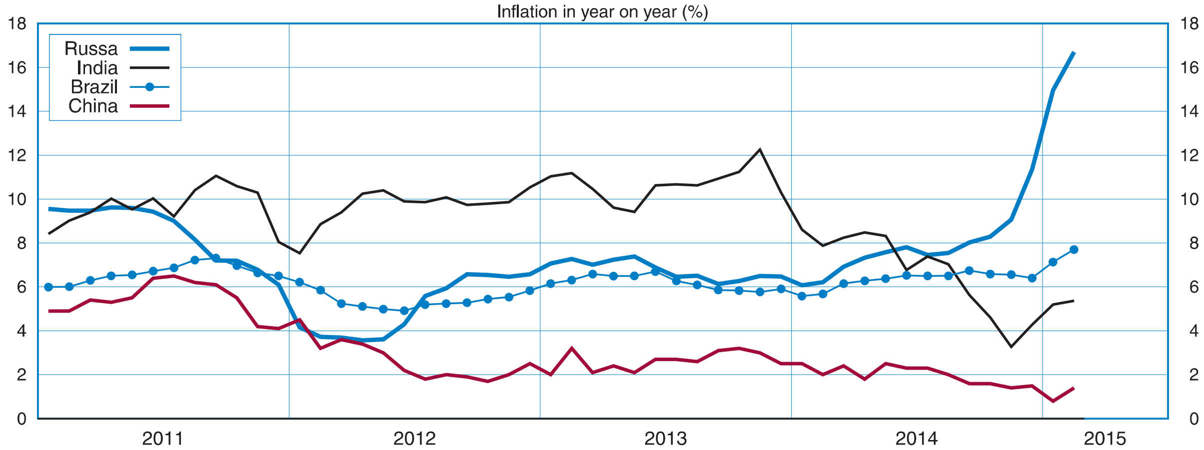
Nevertheless, prices have accelerated sharply and inflation reached +16.7% in February 2015 (+23.3% for food inflation), stretching consumer purchasing power. Consquently, household confidence and the business climate deteriorated badly in January 2015, and the Russian economy is unlikely to avoid going into recession in H1 2015.

India and central Europe stand out

The general slowdown does not involve all emerging countries. Indeed, the Indian economy is showing signs of picking up. Likewise, the countries of central Europe seem resilient to the geopolitical tensions caused by the Ukrainian crisis: the business climate continues to improve there and activity is expected to continue growing strongly in those countries. ■

2 - Rising inflation in Brazil, soaring prices in Russia

Inflation in year on year (%)



Source: national statistical institutes