

Germany

Government expenditure and private consumption driving activity

In Germany, activity continued to grow modestly in Q4 2015 (+0.3%), shored up by the government expenditure required to deal with the refugees arriving in the country and by investment in construction, helped by the mild temperatures, and investment in capital goods. However, exports were down, particularly those to China, and foreign trade had a negative impact on growth for the second consecutive quarter. In Q1 2016, growth should pick up slightly (+0.5%) as household consumption increases, boosted by vigorous wages and the very low rate of inflation. Activity should see a more modest increase in Q2 (+0.3%).

Consumption should build up steam

With the mass influx of refugees into Germany (see Focus), government consumption accelerated in Q4 2015 (+1.0%) and should maintain this momentum in H1 2016 (+0.6% per quarter).

However, household consumption slowed in late 2015 (+0.3%), in reaction to the buoyancy of Q3, although purchasing power remained vigorous. Purchasing power has been driven by increases in employment and wages, as well as the low level of inflation sustained by the fall in energy prices since mid-2014. Job creation is driving the fall in unemployment, which stood at 4.3% in early 2016, the lowest level since 1991. Private consumption should therefore display a clear upturn in H1 2016 (+0.6% then +0.5%, *Graph*).

Investment likely to slow in early 2016

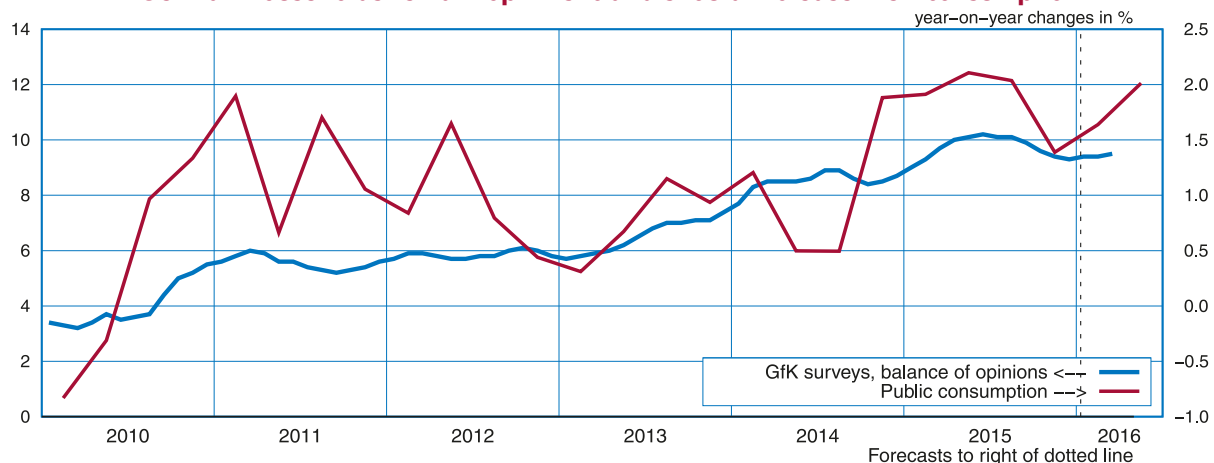
In Q4 2015 investment in construction was particularly vigorous (+2.2% after -0.2%), as a result of temperatures which were well above the seasonal average. A backlash effect should cause investment in construction to fall in Q1 2016 (-0.5%), before stabilising in Q2. Investment in capital goods accelerated sharply in late 2015 (+1.0% after +0.2%). With the production capacity utilisation rate at its highest level since 2011, and domestic demand remaining robust, this investment should slow by comparison but nonetheless continue to grow in H1 2016 (+0.6% per quarter).

Foreign trade continuing to hamper growth

German exports experienced a clear downturn in Q4 2015 (-0.6%), and though imports slowed (+0.5% after +1.1%), foreign trade dampened growth for the second consecutive quarter. In H1 2016 exports should bounce back (+0.3% then +0.7%), although average growth is likely to be less dynamic than it was in 2015. Imports should pick up pace, growing more rapidly than exports (+0.7% then +1.0%), so that the contribution of foreign trade should remain negative.

All in all, economic activity in Germany should grow by 0.5% in Q1 and 0.3% in Q2, taking the growth overhang for the year to +1.2% by the end of H1. ■

German households remain optimistic and should increase their consumption



Since 2015, the unprecedented rise in the number of refugees entering Germany has led to an increase in government spending and a slight increase in the size of the labour force

The massive influx of refugees into Germany since 2015 has seen an unprecedented increase in net migration, partially offset by a decline in the natural balance. This population influx should have a limited impact on the labour market in 2016. In 2015 the influx stimulated economic activity in the short term, as a result of government expenditure to welcome and integrate these new arrivals.

An exceptional migratory balance in 2015

According to the latest estimates from the German Ministry for Migrants and Refugees (BAMF), around 1.1 million refugees arrived in Germany in 2015. The German research institutions expect another 1.0 million refugees to arrive in 2016 (source: BAMF and the Kiel Institute for the World Economy, IfW), assuming that there is no political decision limiting their right to enter the country.

Although for the time being it is difficult to measure the effects of this influx of refugees on Germany's population, the country's national statistical institute (Destatis) has estimated net migration at +900,000 for 2015, compared to an annual average of +100,000 in the 2000s.

The scale of this migratory balance appears to be unprecedented, higher even than during the reunification of Germany and the opening up of the country's eastern borders in the 1990s (Graph): in 1992, at its peak, the migratory balance was +800,000. Nonetheless, at a time when the natural balance is negative, the short-term effects on total population and the labour market need to be seen in perspective.

The migratory balance will be partially offset by the negative natural balance

Germany's population increase, although remaining particularly high in 2015 and 2016, will be partially offset by the natural balance of births and deaths. This natural balance is increasingly negative in Germany, with Destatis estimating that it fell from -190,000 to

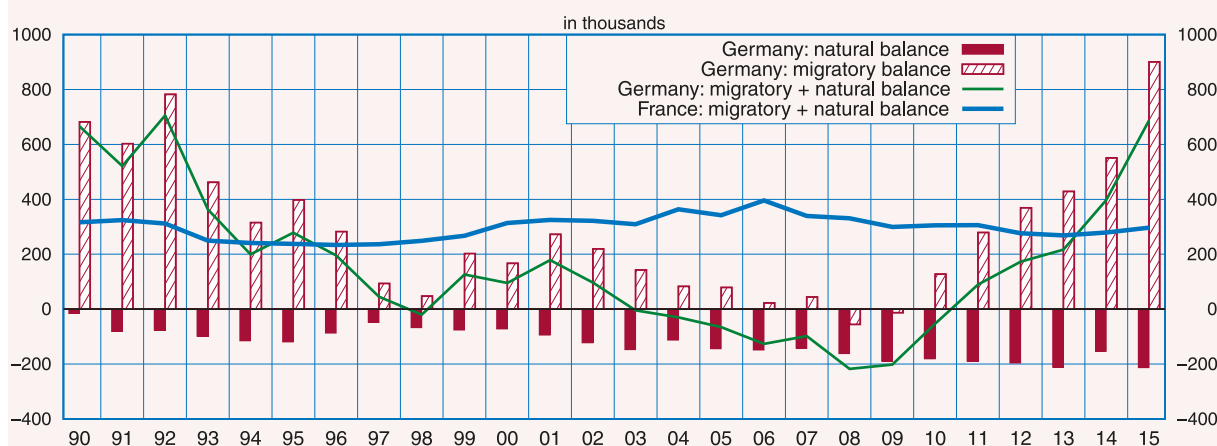
-215,000 in 2015. Germany has a low birth rate (1.47 children per woman in 2014) compared to France (2.01 children per woman in the same year). For this reason the German population was barely any bigger at the end of 2015 (81.9 million) than it was in 2002 (81.1 million), while the French population has increased by 4.5 million over the same period.

Limited effects on the labour market

The population increase will not necessarily be long-lasting, since not all requests for asylum are approved. As a result of the delays involved between the arrival of a refugee, the submission of a request for asylum, the processing of this request and the subsequent decision, Germany had 366,000 requests still in the processing stage in September 2015. According to Eurostat, of the 249,000 asylum decisions reached in Germany in 2015, 141,000 were positive.

Furthermore, not all population increases result in a proportional increase in the labour force. The BAMF estimates that the labour force increased by 70,000 in 2015, and will rise by 240,000 in 2016, as a direct result of the influx of refugees. In H1 2016, a quarterly increase in the labour force 0.1 points greater than the recent trend has been forecast, reflecting the impact of migration on the labour market (equivalent to around 50,000 new workers per quarter by the end of H1 2016). The expected increase in employment should be sufficient to absorb this rise in the labour force, and the unemployment rate should remain stable.

Comparison of migratory and negative natural balances for Germany and France



Sources: Destatis, INSEE

Increased government spending driving an increase in activity

The German Institute for Economic Research (DIW Berlin) has estimated government expenditure on welcoming and integrating immigrants at 6 billion Euros in 2015 and 15 billion in 2016. The forecasts issued by the German Council of Economic Experts are comparable (8.3 billion in 2015 and 14.3 billion in 2016), while the IfW expects to see even greater levels of government spending on immigrants in 2016

(23.6 billion). This expenditure is boosting the dynamism of both consumption and investment by general government, particularly for the construction of new buildings.

In H1 2016 government consumption should therefore remain buoyant, with a growth overhang in late June of +2.2% for the year 2016, after a sharp acceleration in 2015 (+2.4% after +1.7% in 2014). This increase in government consumption contributed +0.2 GDP points to German growth in 2015. ■

Italy

Fragile recovery

In 2015, Italian activity grew (+0.6%) for the first time since 2011, thanks to the recovery of domestic demand. However, GDP slowed once again at the end of the year (+0.1% after +0.2%). Domestic demand increased and foreign trade rebounded, while changes in inventories had a negative effect (-0.4 points). In H1 2016, activity is expected to regain a little momentum (+0.2% then +0.3%), driven by household consumption. Investment in capital goods should hold firm after a strong recovery in 2015 (+3.5%).

Household consumption drives growth once again

In Q4 2015, household consumption slowed slightly (+0.3%, after +0.5%). Across 2015 as a whole, it increased by 0.9% (after +0.6% in 2014), making it the mainspring of annual GDP growth (+0.6%), which was positive for the first time since 2011. At the end of 2015, GDP hardly grew at all (+0.1%), despite good performances in investment and foreign trade, as changes in inventories had a significant negative effect (-0.4 points).

At the beginning of 2016, consumer confidence was at its highest level since 2001 and vehicle registrations were once again making solid progress, signalling that household consumption was likely to increase once again in H1 2016 (+0.3% per quarter, *Graph*) fuelled by an upturn in purchasing power (+0.5% then +0.4%). The latter

should be stimulated by further rises in employment and wages per capita, as well as the recent fall in oil prices. In addition, households are expected to benefit from favourable tax measures.

The recovery in investment confirmed

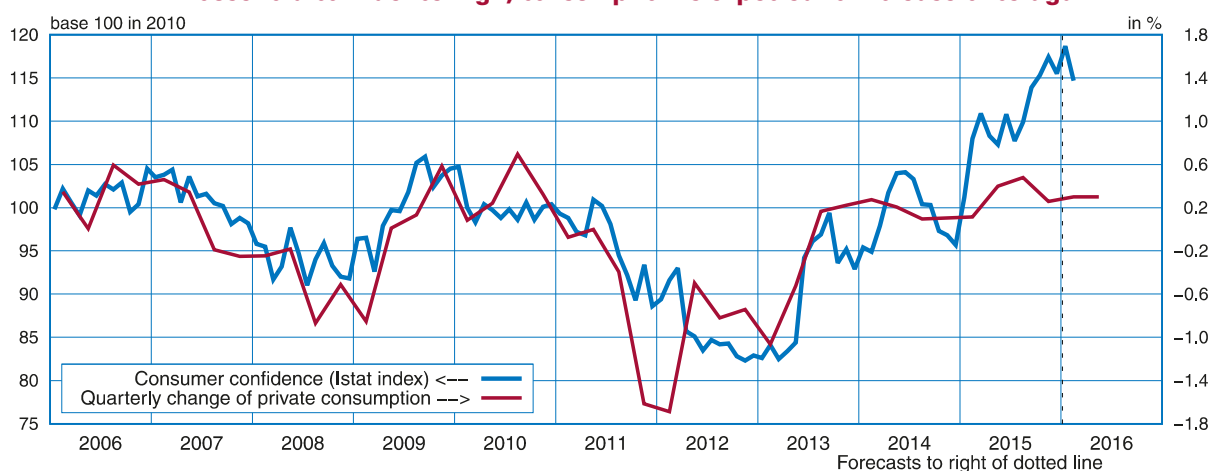
After five quarters of strong growth, investment in capital goods continues to take advantage of favourable conditions, and credit supply is expected to be the only limiting factor. At the start of 2016, investment in capital goods is expected to rise further (+0.4% then +0.7%), driven by an increase in demand and the effect of the new additional depreciation allowance scheme, similar to the one implemented in France.

Investment in construction accelerated in Q4 2015 (+0.9% after +0.2%). As an average over the year, it dropped 0.9% in 2015, its smallest decline since 2007. The business climate in this sector suggests that stagnation is likely in H1 2016.

Foreign trade expected to be neutral

At the end of 2015, Italian foreign trade made a positive contribution to activity, thanks to the rebound in exports (+1.3%) after the setback experienced by several Eurozone countries during the summer. On average in 2015, however, foreign trade made a negative contribution to growth (-0.3 points), for the first time since 2010. All in all, exports (+0.7% per quarter) and imports (+0.8% per quarter) are expected have a neutral effect on GDP growth in H1 2016. ■

With household confidence high, consumption is expected to increase once again



Source: Istat

Spain

Domestic demand unlikely to slow much

In Spain, activity grew as fast in Q4 2015 as in Q3 (+0.8%), and was still driven by vigorous domestic demand. In H1, growth is unlikely to lose much momentum (+0.7% in Q2 2016), with domestic demand remaining very buoyant.

Manufacturing industry expected to regain momentum

In Q4 2015, Spanish GDP increased as vigorously as in the previous quarter (+0.8%, *Graph*), pushing growth up to +3.2% across the whole of 2015 (after +1.4% in 2014).

At the beginning of 2016, the business climate is still very much above its long-term average, both in services and in industry. In addition, the PMI in the manufacturing industry picked up substantially in January, returning to its level of May 2015. Even if it slips back a little in February, it does suggest that the sector is on its way to recovery after two sluggish quarters. In H1, overall activity is expected to grow rapidly (+0.8% in Q1 then +0.7% in Q2). By mid-2016, the carry-over effect for 2016 should be +2.6%, after +3.2% across the whole of 2015.

Household purchasing power driving private consumption

Household consumption is expected to remain vigorous, sustained by an upturn in purchasing power. This is likely to come from job creation, which is set to remain strong, low inflation due to its energy component, and per capita wages, which are finally expected to rise. The savings ratio should

hold its level at around 9.0%, matching its pre-crisis average. Unemployment is still high, but should fall in a sustained fashion and reach 20% by mid-2016, six points lower than its peak in early 2013.

Government consumption was dynamic in 2015 (+2.7%), a year of local elections (in May) and national elections (legislative elections in December) but is likely to slow at the beginning of 2016 in an effort to curb the budget deficit.

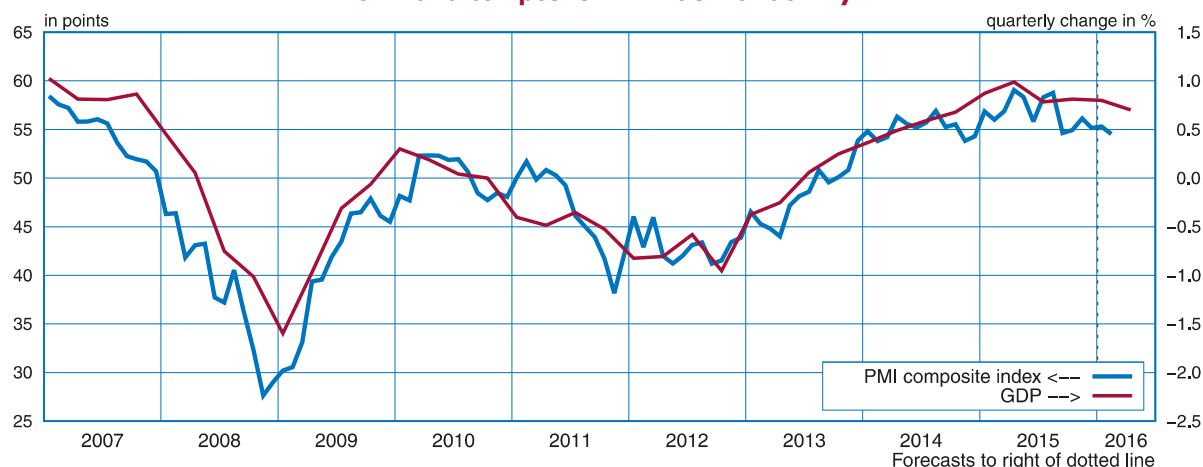
The catch-up dynamic in investment likely to fade a little

Investment in capital goods should remain dynamic in H1 2016, especially as production capacities are being used more and corporate margins are still very high. However, it is expected to slow down slightly as the catch-up phase comes to an end. Investment in construction should continue to rally as building permit applications have increased sharply since the beginning of 2015.

The contribution of foreign trade expected to remain negative

Foreign trade is once again expected to have a slightly adverse effect on Spanish growth. As domestic demand is more vigorous than that of its trading partners, the dynamism of Spain's imports is likely to be only partly offset by its exports. By mid-2016, the contribution of foreign trade to the GDP carry-over effect is likely to be -0.2 points after already being -0.5 points in 2015. ■

GDP and composite PMI index for activity



Sources: INE, Markit

United Kingdom

General slowdown

In Q4 2015, British activity picked up slightly (+0.5% after +0.4% in Q3) but did not recover the pace it had reached between mid-2013 and mid-2015 (+0.7%). By mid-2016, it is expected to increase only moderately again (+0.4% per quarter) as domestic demand is losing momentum sharply. Job creations are expected to slow and consumption is likely to be affected by a savings ratio that is now unable to fall any further, having dropped to its lowest level since 1963. In addition, corporate investment is likely to slow since production capacities are being used less and there are uncertainties surrounding the outcome of the referendum to leave the European Union. The mid-year carry-over effect for 2016 is expected to stand at +1.4%, after an annual average of +2.2% in 2015.

A less buoyant business climate

In Q4 2015, British activity accelerated slightly (+0.5% after +0.4% in Q3) due to the improvement in foreign trade. However, growth remained weaker than the average between mid-2013 and mid-2015 (+0.7% on average per quarter). At the beginning of 2016, the business climate was substantially less favourable than at the beginning of 2015 (*Graph*). Activity is therefore expected to grow moderately in H1 2016, at +0.4% per quarter. The mid-year carry-over effect for 2016 should reach +1.4%, after +2.2% across 2015.

Consumption no longer expected to benefit from the dissaving linked with reduced unemployment

By June 2016, household consumption is likely to lose momentum (+0.5% per quarter) due to saving

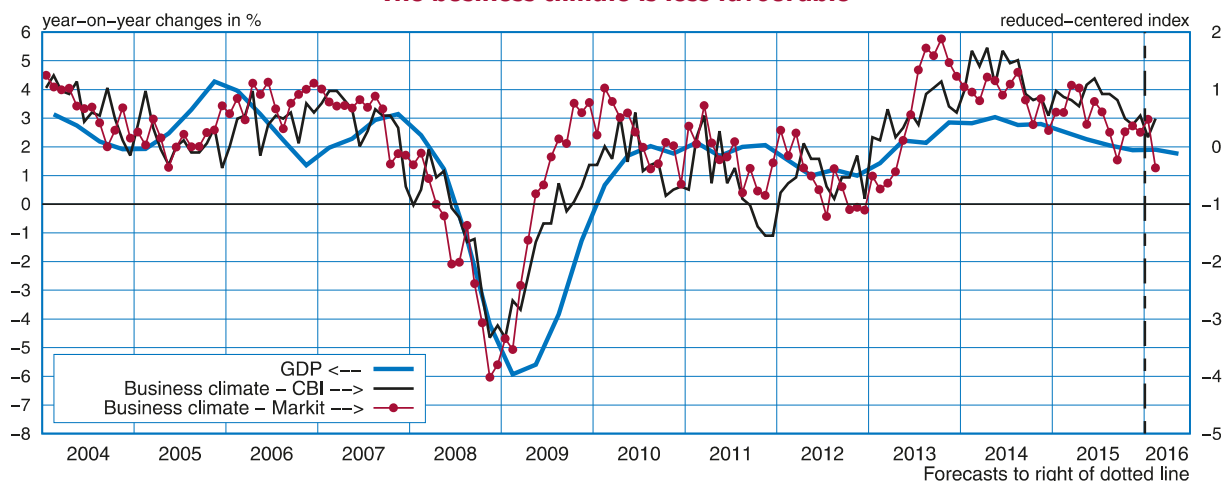
behaviour: in Q3 2015, the savings ratio exhausted its potential to fall, having reached its lowest level since 1963. The unemployment rate, which fell to 5.1% in December, is almost at its frictional level as there are very few redundancies yet still considerable difficulties recruiting. Unemployment is therefore unlikely to fall further and is no longer expected to encourage dissaving by households. However, purchasing power should remain sustained as wages look set to increase, stimulated by tensions in the labour market and the increase in the minimum wage on 1st April.

Corporate investment is expected to stall in H1 2016 (+0.3% per quarter), held back by only moderate activity, production capacities that are used less intensively in industry and the uncertainties generated by the outcome of the referendum to be held on 23 June on leaving the European Union.

Foreign trade should no longer hinder growth

Since the end of 2015, the pound has depreciated more than 5% against the currencies of its trading partners, after a long period of appreciation which began in mid-2013. Exports are therefore expected to bounce back in H1 2016 (+0.7% per quarter) thanks to the upturn in price competitiveness and despite the slowdown in world demand for British products. Imports look set to decelerate (+0.7% per quarter) in the wake of domestic demand. The contribution of foreign trade to growth should therefore remain neutral in H1 2016 (after -0.4 points across the whole of 2015). ■

The business climate is less favourable



Sources: ONS, CBI, Markit, INSEE calculations

United States

Household expenditure limiting the slowdown

Activity in the United States slowed in Q4 (+0.3% after +0.5%), hampered by the downturn in exports and the sluggishness of productive investment. Only household consumption remained vigorous. As an average across 2015, activity increased as much as in 2014 (+2.4%), with household consumption making the greatest contribution. In H1 2016, growth is expected to be moderate once again (+0.5% per quarter) compared to the period between mid-2013 and mid-2015 (+0.7% on average per quarter). For the most part, it is likely to remain driven by household consumption and investment.

At the beginning of 2016 the business climate slipped back

At the beginning of 2016 the business climate was still deteriorating in industry and has slipped back significantly in services, despite being above its long-term average. Activity should therefore only grow moderately (+0.5% per quarter), driven mainly by household expenditure, while demand from businesses is likely to remain sluggish and foreign trade is expected to continue to adversely affect growth. The mid-year growth overhang is expected to be +1.6%, against +2.1% one year earlier.

The labour market remains solid

The unemployment rate in the United States has been falling continuously since 2010 and reached 4.9% in February 2016, a figure that the Federal Reserve estimates to be structural. In this context, wages should continue to increase vigorously

(+0.7% per quarter), so that household income should remain buoyant through to mid-2016. Furthermore, inflation should continue to be curbed, as the appreciation of the dollar and the decline in commodity prices continue to spread throughout the economy. Household purchasing power should therefore continue to grow vigorously in H1, driving consumption (+0.7% then +0.6%, after +0.5% at the end of 2015).

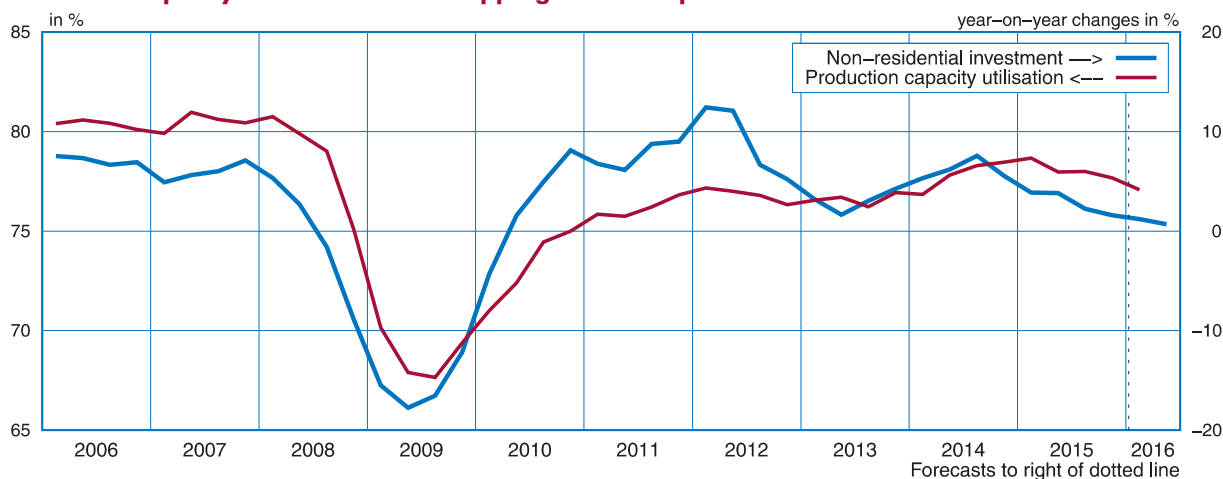
At the end of 2015, corporate investment contracted

Corporate investment slipped back in Q4 2015 (-0.5%). Over 2015 as a whole, it slowed substantially (+2.9% after +6.2% in 2014) due to the collapse in spending on infrastructure in the oil sector. Given the drop in the production capacity utilisation rate, investment is unlikely to increase much in H1 2016 (Graph). In contrast, as a result of low interest rates and improved purchasing power, residential investment picked up well in 2015 (+8.7% after +1.8% in 2014); building permits are still rising, suggesting that they are likely to remain dynamic until June.

Foreign trade likely to continue negatively affecting growth

Foreign trade is likely to continue taking its toll on activity. Exporting companies are expected to be penalised further by the past appreciation of the dollar, whereas imports should accelerate as a result of dynamic consumption. All in all, the trade balance should again contribute negatively to growth in Q1 and Q2 2016, after cutting annual growth by 0.7 points in 2015. ■

The capacity utilisation rate is slipping back and productive investment is at a standstill



Sources: Fed, BEA

Japan

Activity has tumbled once again but wages are picking up at last

In Q4 2015, Japanese activity shrank by 0.3%, after +0.3% in Q3. This drop is largely due to a sharp downturn in domestic demand, especially household consumption. Over 2015 as a whole, GDP barely picked up at all: +0.5% after -0.1% in 2014. Nevertheless, the distinct improvement in purchasing power, made possible by the end of the wage freeze and the drop in energy prices, should lead to a rebound in consumption at the start of 2016. Activity should then increase once again in H1 2016, at a moderate pace (+0.3% per quarter). By mid-2016, the annual GDP carry-over effect is expected to reach +0.4%.

Rising wages and low inflation are expected to stimulate consumption

After falling back 0.9% in Q4 2015, household consumption looks set to recover in H1 2016 in reaction (+0.6% in Q1, then +0.4% in Q2). It should be sustained by a solid improvement in purchasing power. Basic wages have been stimulated by hiring difficulties on the labour market – unemployment is very low and the number of job vacancies is much higher than the number of unemployed; in 2015 basic wages rose for the first time in 10 years (*Graph*) and are unlikely to decline before June 2016. Households are also enjoying a further reduction in energy prices. In addition, the mild autumn temperatures exacerbated the decline in energy consumption, which is expected to bounce back in reaction.

Corporate investment expected to grow moderately but government investment likely to decline further

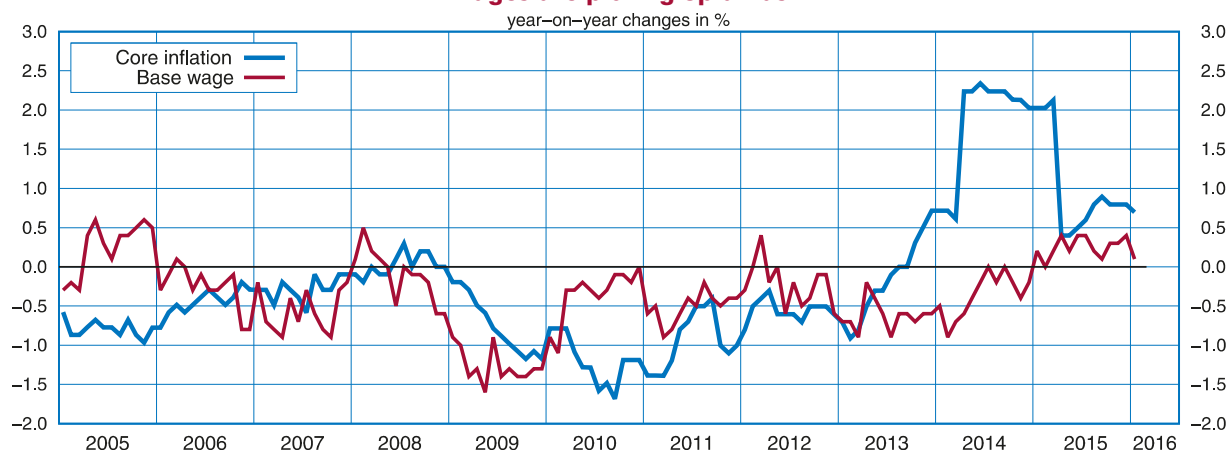
Encouraged by high margin rates, businesses are expected to see a moderate increase in their investment expenditure in H1 2016: +0.4% in Q1 then +0.5% in Q2, after +1.5% at the end of 2015. In contrast, government investment is likely to shrink further: the effect of the 2011-2013 stimulus plans is fading and government orders have taken a distinct downturn, especially in construction.

Foreign trade no longer likely to sustain activity

In Q1 2016, business tendency surveys and customs data for January suggest weak growth in exports, adversely affected by the sluggishness of demand from Japan's Asian neighbours, especially China. At the same time, imports are expected to increase moderately, in the wake of domestic demand. The contribution of the trade balance to growth should therefore be neutral, after driving activity in 2015 (contribution of +0.4 points to total growth of +0.5%).

All in all, in H1 2016 activity should bounce back modestly (+0.3% per quarter), and by mid-2016 the annual GDP carry-over effect should reach +0.4% after +0.5% for 2015 as a whole. ■

Wages are picking up at last



Source: Japan Cabinet Office

Emerging economies

The slowdown is under control in China, while the recession continues in Brazil and Russia

In 2015, activity in the emerging economies continued to grow sluggishly, below the pace of the past two decades. Divergences grew, particularly the gap between exporters of commodities, who have been penalised by declining prices, and the countries that import these commodities, who have benefited from this decline.

The Chinese economy slowed again, growing by 6.9% in 2015, the lowest annual growth figure in 25 years. Nevertheless, growth should stabilise in H1 2016, sustained by consumption. Imports dropped off again in late 2015, and should rebound only slightly. In Brazil the recession is dragging on, amid political tensions and deteriorating public finances. Despite the rebound in foreign trade, industrial output has fallen and domestic demand remains poor. Activity should contract further still in Russia, hit by the new fall in oil prices and the weakening of the rouble. Meanwhile, Eastern and Central European nations and Turkey continue to benefit from the upturn in Eurozone activity and should continue to enjoy dynamic growth. Activity should continue to grow rapidly in India, boosted by falling oil prices.

All in all, imports to the emerging economies should grow very modestly in H1 2016 (+0.2% then +0.6%), compared to their pre-crisis trend (+2.6% on average over the period 2000-2007).

Growth set to stabilise in China

In China, overall activity slowed down again in Q4 2015 (+1.6% after +1.8% in Q3) and should maintain this pace throughout H1 2016. The

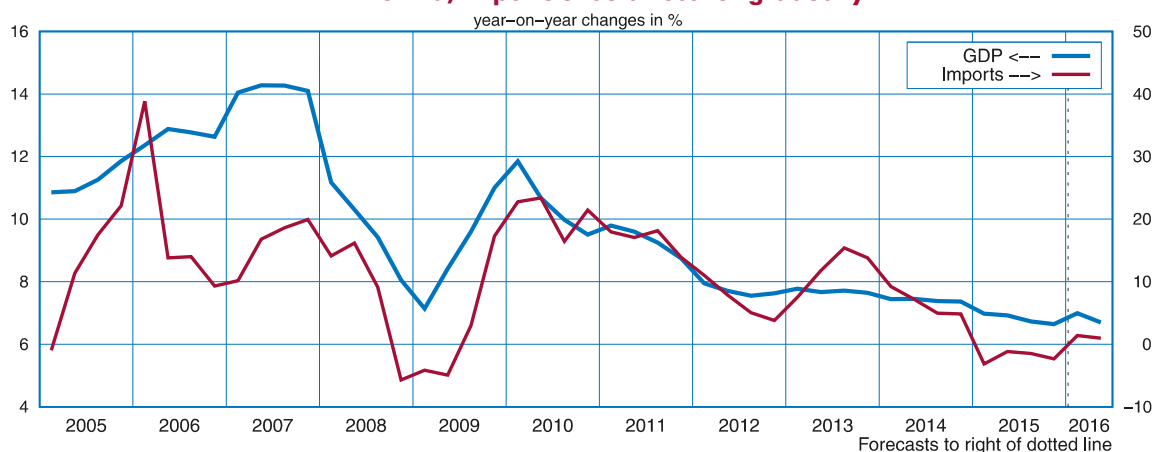
growth overhang by the end of Q2 2016 should stand at +5.4%, compared with an annual average of +6.9% in 2015, the weakest growth since 1990.

This stabilisation can be primarily attributed to consumption (*Focus*), which is beginning to recover some of its previous buoyancy: new car registrations rebounded in Q4 2015 (+21.0%) thanks to the abolition of the tax on vehicle purchases; furthermore, retail sales have seen a slight increase since Q2 and household confidence has stopped decreasing since June 2015, although it remains below its long-term average.

However, corporate investment has slowed sharply since the start of 2015, particularly in the business property market. Nonetheless, the continuous easing of monetary policy over the past two years and the rebound in lending should mitigate this slowdown.

In Q4 2015, Chinese exports dropped (-0.8%). After falling again in Q1 2016 (-0.5%), they should pick up again slightly in Q2, thanks to the devaluation of the yuan in summer 2015 and a slight upturn in demand from China's trading partners in Asia. Meanwhile, imports also dropped off towards the end of 2015, and the annual average growth rate has decreased very sharply (for the first time since the series began in 1991). In Q1 2016, imports should slow further before returning to a pace of growth more in step with that for overall economic activity in Q2 2016 (*Graph 1*).

1 - In China, imports should recover gradually



Sources: NBSC, China Customs

International developments

The depression continues in Brazil

In Brazil, activity contracted sharply in 2015 (-3.8%). Although the central bank has increased its base rate several times, prices have continued to accelerate, undermining household purchasing power. In early 2016 the Real has been at its weakest level against the dollar. Unemployment is rising rapidly. Furthermore, the acute deterioration of public finances has led to more spending cuts. Domestic demand should thus remain thoroughly depressed.

Activity should therefore continue to recede in H1 2016. However, the slide should slow somewhat, with an increase in exports attenuating the decline in industrial output. Brazil has posted a clear trade surplus for several months now, thanks to the gains in price-competitiveness induced by the depreciation of the Real and the decline in imports.

The new fall in oil prices should prolong Russia's recession

In Russia, activity is expected to have shrunk in Q4 2015 (-0.6%) for the sixth consecutive quarter. The new drop in oil prices has delayed any prospect of stabilisation of the economy. The rouble has lost almost a quarter of its value against the dollar since 2015, yet despite this adjustment the country's public finances are suffering from the decline in revenues from hydrocarbon products (Graph 2). Government expenditure should therefore be reduced in 2016, thereby penalising activity. Moreover, further depreciation of the currency is likely to provoke another spike in inflation, which had appeared to be stabilising (+8.1% year-on-year in February 2016, down from +15% in November 2015). However, industrial output stopped declining several months ago, and retail

sales rose in January following several months of contraction. Nevertheless, domestic demand remains substantially weakened in early 2016: real wages continue to fall year-on-year, while unemployment has increased slightly and households remain pessimistic about the economic outlook. Imports should continue to fall as a result of sluggish domestic demand and ongoing trade embargos.

Activity should continue to decline in H1 2016, albeit less sharply. The growth overhang at mid-2016 should stand at -1.7%, following a 3.7% decline in GDP in 2015.

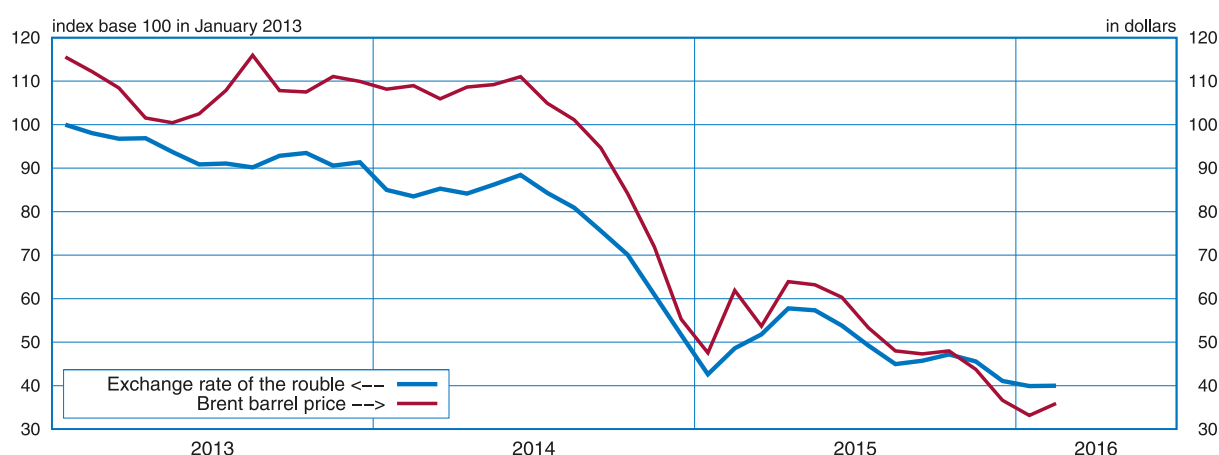
Central and eastern Europe buoyant, and Turkey resilient

In central and eastern Europe, growth should remain dynamic in H1 2016, thanks to the fall in energy prices and the resilience of activity in the Eurozone.

In Turkey, activity has proved to be resilient to the various shocks encountered in 2015. The arrival of 2.5 million migrants could explain the buoyancy of government expenditure in 2015; in early 2016, this massive population influx could cause tension, leading to spikes in inflation and unemployment. The sharp increase in the minimum wage as of 1st January 2016 should galvanise consumption, while the Russian embargo which came into force on the same date should have no more than a limited impact on activity. All in all, Turkey should continue to enjoy solid growth in H1 2016.

In India, growth should remain strong over the forecasting period, bolstered by low energy prices and in spite of a slight weakening of the industrial sector. ■

2 - The rouble falls again, in the wake of energy prices



Sources: IEA, Macrobond AB

Despite the slowdown in the Chinese economy, French exports to China have increased

China's growth is slowing, but its contribution to international growth continues to rise

After a long period of particularly vigorous growth, China has been in a phase of economic slowdown since mid-2010. GDP growth, which had been over 10% per annum since the mid-2000s, has since gradually dropped off to stand at just below 7% in 2015.

China's dynamic growth, systematically superior to average international growth, has increased the country's relative weight in the global economy: from 5.4% of world GDP in 2006, China accounted for 15.5% in 2015. So in spite of the general slowdown, the contribution of the Chinese economy to international growth remains greater in 2015 than it was ten years ago (Graph 1).

The process of transition for China's economic model is underway

This slowdown seems to be linked with a transition from a growth model based on exports and investment

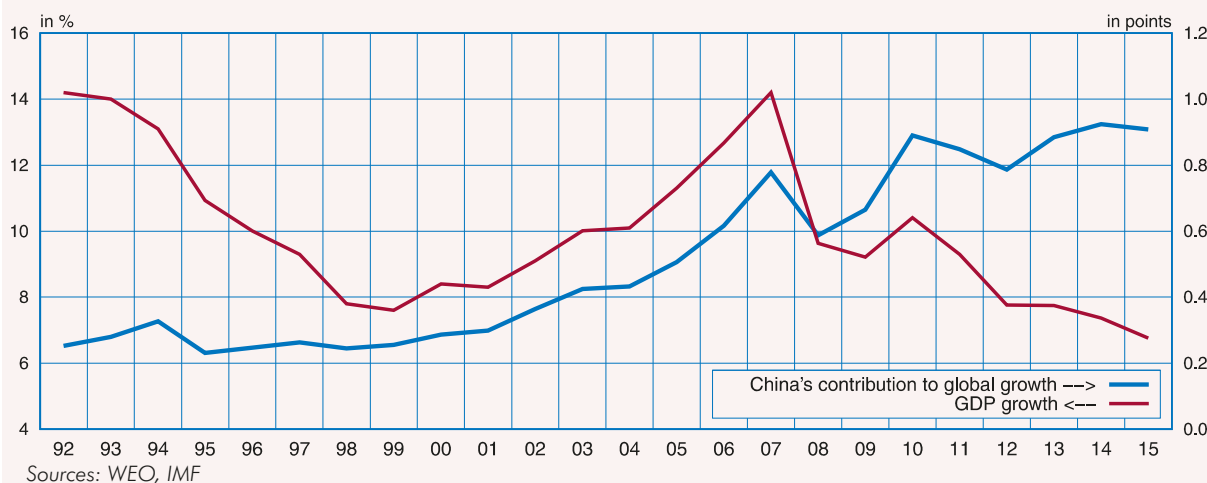
towards a model based on household demand. A transition of this nature implies a change in the structure of Chinese imports to which trading partners will need to adapt. Numerous indicators hint at this shift of priorities towards household demand.

The openness of the Chinese economy has diminished, particularly due to the decline in the trade of parts for assembly

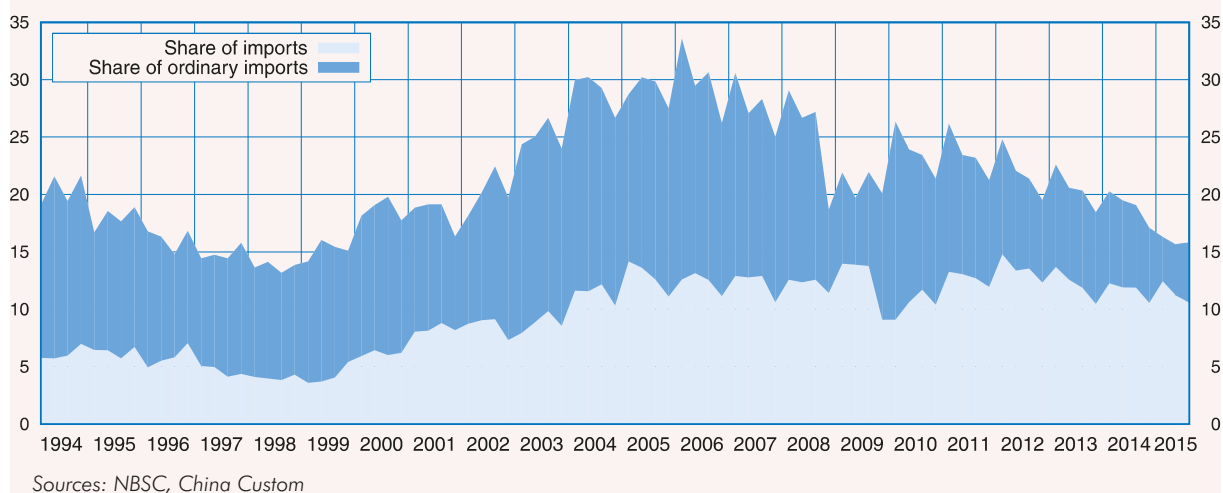
Imports had previously grown steadily as a percentage of GDP, from 15% in 1996 to 34% by the start of 2006. Since then this share has gradually declined, returning to 15% in 2015, almost identical to the level last seen in 1996 (Graph 2).

However, this overall decrease is not the result of a decline in "ordinary imports", it in fact reflects the decrease in imports of goods received for processing before subsequent export. This change in the structure of China's imports highlights the relative decline in recent years of imports destined for the country's export sectors and, conversely, the growing importance of imports destined for the domestic market.

1 - Chinese growth and its contribution to international growth



2 - Ordinary imports and exports as a share of Chinese GDP



International developments

Exports have followed a similar trajectory: they increased sharply as a share of GDP from the early 2000s until 2007, peaking at 38%, and have shrunk steadily since, standing at around 21% in 2015; this has been reflected in the reduced contribution of exports to overall growth in China. Exports of assembled or transformed products as a percentage of total Chinese exports have also decreased steadily, from around 55% in 2005 to 35% a decade later.

Investment is slowing while consumption is picking up pace

China's growth since 1992 has gone hand-in-hand with changes in the structure of domestic demand: investment as a percentage of GDP increased from 40% to 46% between 1992 and 2014, with consumption falling from 46% to 38%. Since 2010, however, these trends have been reversed: consumption has risen slightly (*Graph 3*) and the contribution of consumption to growth has just surpassed the contribution made by investment (*Graph 4*).

This decrease has been accompanied by changes in the structure of investment, in favour of residential investment (up from 61% in 2009 to 69% in 2015) and at the expense of investment in production capacities.

The recent rise in Chinese household consumption as a percentage of overall domestic demand, and the concomitant decrease in exports and investment, are further evidence of the economic restructuring in progress in China.

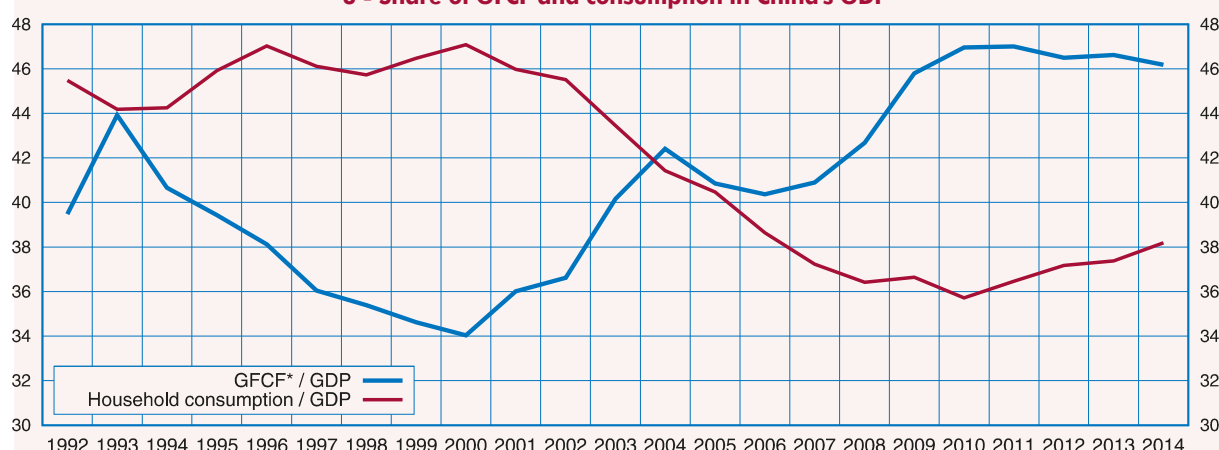
French exports are benefiting from the transformation of China's economic model

Chinese imports account for 10% of global trade but just 4% of French exports, far below the corresponding figure for Germany (7%). The specialisation of French exports in terms of region, range or sector prevented them from capitalising to the extent that Germany's exports did on the buoyancy of Chinese demand in the 2000s.

Regarding trade with China, an analysis of the structure of French exports (*Table*) reveals a high level of specialisation in certain sectors, dominated by aeronautical and space technologies and food products, while Germany is more focused on "electrical and mechanical machinery" and automobiles (these categories combined account for almost two-thirds of total exports).

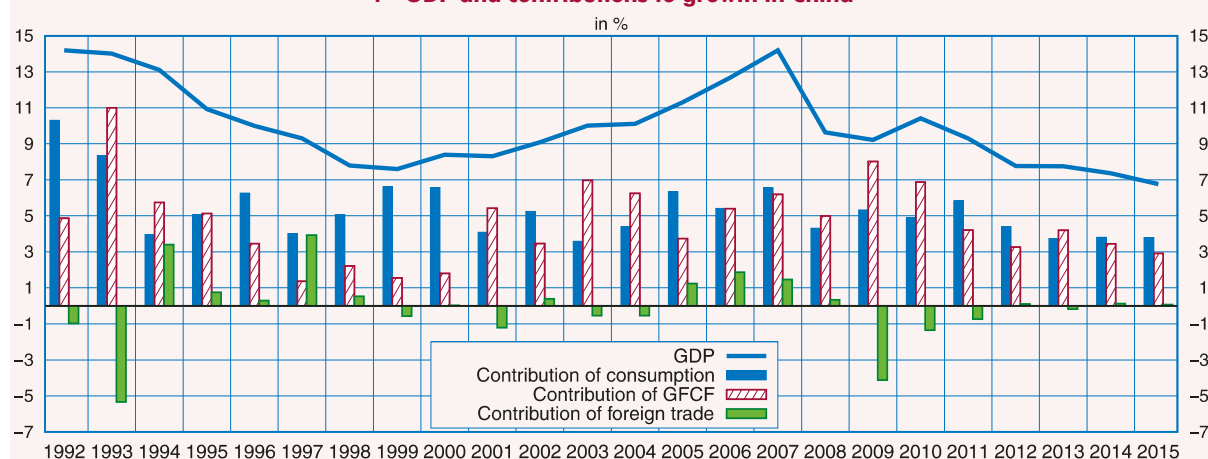
Data on the balance of payments also reveal significant disparities in service exports: 8.8 billion Euros from Germany, twice the value of French exports (4.3 billion Euros). The structure of service exports is

3 - Share of GFCF and consumption in China's GDP



* GFCF: Gross fixed capital formation
Source: NBSC

4 - GDP and contributions to growth in China



* GFCF: Gross fixed capital formation
Source: NBSC

also different. "Transport services" account for 40% of France's service exports to China, and just 18% of German exports. Germany's service exports largely consist of services to businesses (telecoms, IT, R&D etc.): the percentage of "other services to businesses" is higher for Germany (28%) than it is for France (18%), and the same is true of R&D services (19% compared with 7%).

Compared with German exports, French exports to China thus appear to be more focused on goods and services likely to benefit from the buoyancy of

household consumption, directly or indirectly (orders of aircraft are closely linked to the expansion of household demand for air travel). On average in 2015, according to customs data, French exports of goods increased in value by 10.9%, boosted by food products (+52%), particularly drinks and cereal grains, and aircraft deliveries (+20%). Germany, on the other hand, took full advantage of the great dynamism of Chinese investment in the 2000s, but has been hit harder by the Chinese slowdown: customs figures reveal a 4.2% decrease in German exports to China in 2015 (Graph 5). ■

Table : French and German exports of goods to China

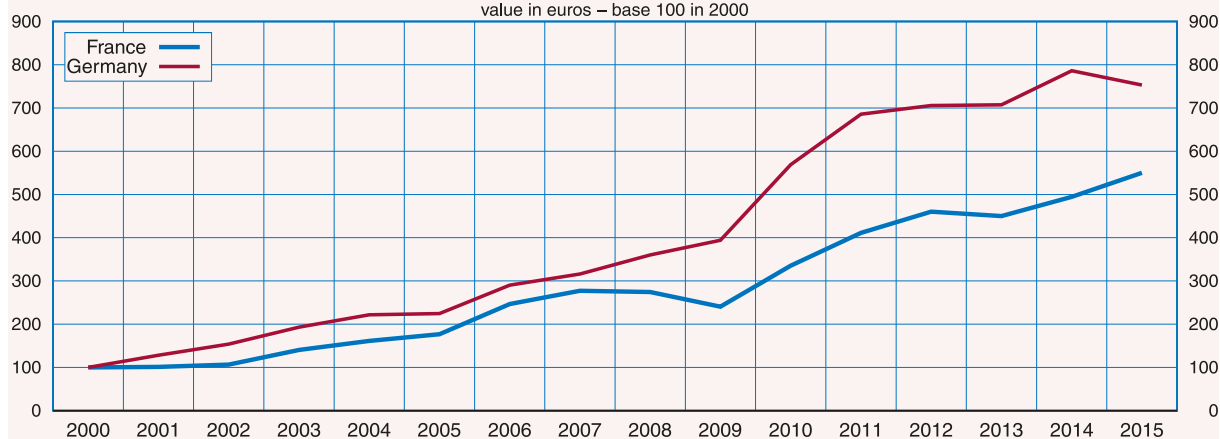
structure in 2014 (in euro at current prices)

	France (in %)	Germany (in %)
Aircraft and spacecraft	27,4	4,2
Mechanical appliances	17,3	23,3
Food stuffs (incl. agricultural products)	9,3	1,2
Electrical machinery and equipment	8,0	13,8
Chemicals	7,7	8,0
Others	6,1	5,7
Metals and metal products	5,1	5,5
Apparel and accessories	5,0	0,4
Automobiles (and other land vehicles)	4,8	27,8
Optical instruments	3,8	7,0
Pharmaceuticals	3,6	2,1
Textiles	1,6	0,4
Other transport equipment	0,2	0,6

Source: OECD

5 - Exports to China

value in euros – base 100 in 2000



Sources : NBSC, China Custom