

THE TWO PAGES MACRO SYNTHESIS OF THE MACRO SCENARIO

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GLOBAL APPROACH - 2 MAJOR CONCERNS

i. A negative shock on world trade – Asia is the major source of this slowdown.

The change of trend is rapid and is observed since the end of last summer (implying the rapid forecasts' revisions). This mainly reflects the effects of Trump's trade policy. Strong impact in Europe notably in Germany as Asia and China are major source of trade momentum. This shock penalizes the manufacturing sector and handicaps services whose dynamism is conditioned by the industry. It creates uncertainty leading to a more wait-and-see behavior. This is the beginning of a vicious circle that is penalizing for all. This is reflected in the trajectory of the Chinese manufacturing sector, whose progress is penalized by the pace of global trade fueling the idea of a stronger slowdown than expected from China.

ii. Productivity gains are lower than they used to be, especially in industrialized countries. This has the effect of limiting endogenous rebound of growth. As a result, the response to a negative shock is lower than in the past and suggests that trend growth is weaker than in the past. As a result a negative shock has more persistence, severely penalizing growth prospects.

iii. The reaction of the economic policy is essential

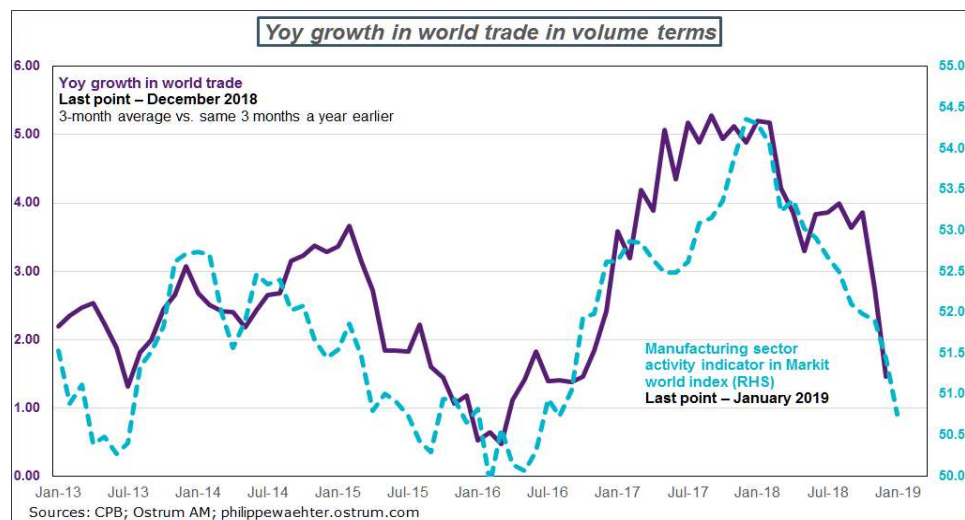
The absence of inflation and the shock on the activity suggest accommodative stance on monetary policy side.

The ECB can not really do more than what was announced in early March. The Fed stops all programs that could constrain its behavior => no commitments on the rates' rise and on the reduction of the balance sheet (the Fed wants to be agile) The other central banks have a rather accommodating tone.

Difference is on the fiscal policy side. Comparing the US and the Euro Area, it is restrictive in the Euro zone and flexible in the USA. This gap is noticeable for a long time. In China, fiscal policy accompanies structural changes and is not binding. The consequence is that demand is less constrained in the US than in Europe and facilitates economic adjustment. It allows for a more robust growth in the US than in Europe. In other words, the policy-mix is too restrictive in the Eurozone and it weighs on growth prospects. The external shock, in the very open euro (it openness is much larger than in the US) can not therefore be amortized by a counter-cyclical policy mix. ECB rates will remain low as long as fiscal policy remains restrictive. It can last a long time

iv. Risk on Brexit that may add on the top of the current world trade shock. We are waiting for the proposal of deadline, the reaction of the European Commission and the European governments' reaction which will have to validate unanimously this postponement. A no deal would accentuate the already observable macroeconomic shock. A delay of 3 months would raise questions about the new content of the agreement, a longer delay (mentioned by Donald Tusk) would look like a war of attrition in which, ultimately, everyone is losing.

GRAPHS TO HIGHLIGHT EXPLANATIONS



World trade has been slowing sharply since the beginning of last. It is Asia which shows the most marked decline.

The Markit global indicator on activity in the manufacturing sector suggests a further decline in trade at the beginning of 2019.

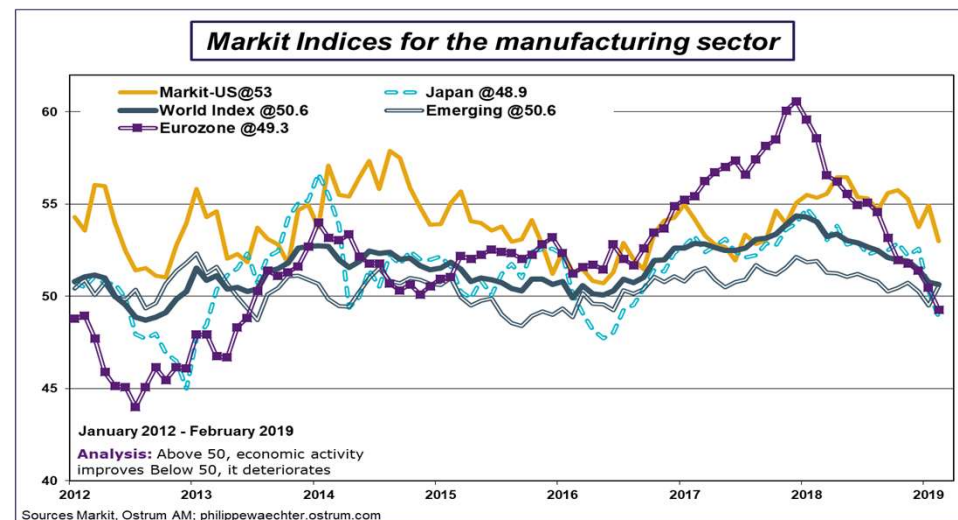
Average annual productivity growth over various periods

	US	Japan	Germany	France	Italy	Spain	UK
1990 – 2007	2.3	2.5	2.3	1.6	0.9	0.9	2.3
2009 – 2018	1.0	1.4	1.2	0.9	0.4	1.1	0.4
2013 – 2018	0.9	0.8	1.0	0.8	0.1	0.5	0.4

Sources: Conference Board; Ostrum AM; philippewaechter.ostrum.com

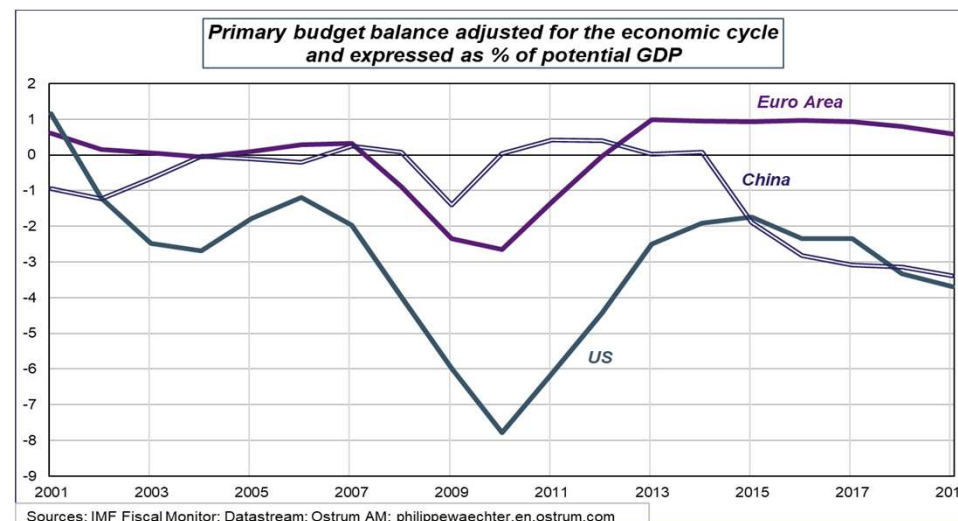
Productivity gains have been more than halved since the 2008 crisis. This limits the size of growth, the resilience of growth, while the rebound after a shock is more limited.

It is this combination of a strong negative shock on economies with low productivity gains that suggests the persistent nature of the shock. This is why central banks do not want to take risks, they do not want to take risk on the trajectory of the activity.



Activity indicators around the world look less vivid. The excess seen in the Eurozone at the end of 2017 was transformed first in a period of moderation followed, since last fall, by a faster decline due to the trade shock.

The US index is solid but not excessive, while that of emerging countries is close to equilibrium.



Restrictive fiscal policy in the eurozone weighs on activity when a negative shock occurs. This is a reason for the ECB to keep rates low in order to offset this restrictive nature. The situation is very different in the US and China, where fiscal policy is active

ADDITIONAL NOTES

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