

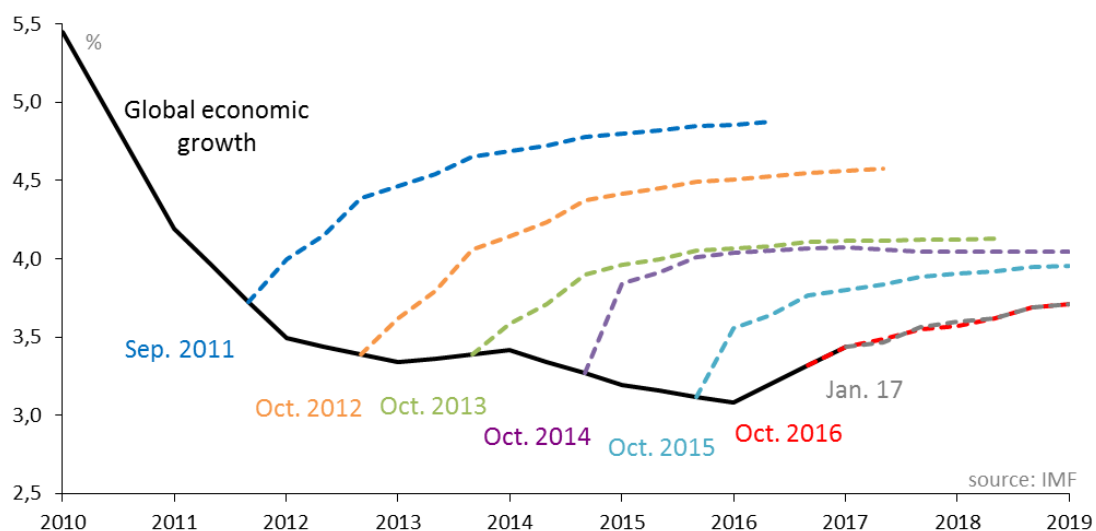
Global growth: optimism for 2017?

By Laurent Ferrara and Clément Marsilli

According to the Banque de France nowcasting model, global economic growth is likely to increase moderately in 2017: it would expand by 3.3% after 3.0% in 2016. This is in line with the consensus of major international organizations. Since 2011, the International Monetary Fund (IMF) had to revise downwards its global growth projections, but the mid-January update of forecasts brings optimism for global growth this year.

Figure 1: Former global growth forecasts systematically revised downwards

Source : IMF



The January 2017 update of the IMF [World Economic Outlook](#) (WEO) forecasts an acceleration in global economic activity in 2017, thereby confirming its October assessment. This has been a first since 2011. In the years since the so-called “Great Recession”, the IMF has had to systematically revise downwards its global economic growth projections (see Figure 1).

As regards 2017, global growth projections by the IMF can be traced back to the April 2012 WEO. At that date, world GDP growth was forecast at 4.7%; it is now at 3.4% in the latest 2017 update. This 1.3 percent point fall can be mainly explained by the slowdown in emerging market economies. Thus, the IMF has cut the 2017 economic projection of emerging economies by 2.3 percent points between 2012 and 2017 (from 6.8% to 4.5%). To a lesser extent the estimated 1.9% economic growth of advanced countries for 2017 is also below original expectations of 2.4% in 2012.

An optimistic bias since the Great Recession

Persistent over-optimism about regional and global growth is not specific to IMF forecasts. Growth projections by international and national economic institutions have also followed similar patterns since the Great Recession. How to explain this optimistic bias?

First, emerging countries have experienced important changes in their growth models. It is well known by economists that such “new normal” paradigm can only be progressively integrated into forecasting models. In particular, China, which now represents about 17% of global output, has entered a new phase of economic development, shifting from a strong export orientation to a consumer-driven economy. This rebalancing has had negative effects on China’s domestic GDP growth, falling from 10.3% in 2010 to 6.5% in 2017, according to IMF estimates.

Second, other structural and cyclical headwinds contributed to the lack of robust momentum in the global economy. These include some well-documented factors such as weak economic growth in the euro area, the global trade slowdown, the slump in business investment, increased geopolitical risks and declining commodity prices.

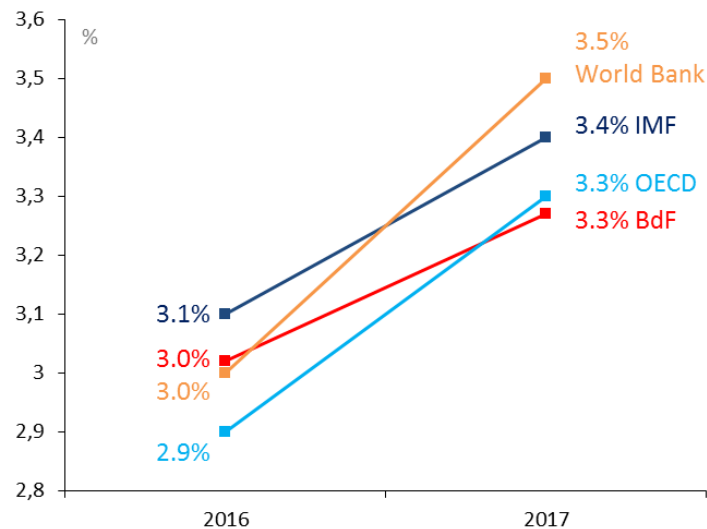
Our nowcasting model confirms a pick-up in 2017 global growth

How confident can we be about the forecasts of growth resurgence in 2017? Growing uncertainty surrounding baseline assumptions has weakened global projection exercises, requiring the analysis of low-probability economic scenarios. In this context, nowcasting models appear as interesting alternatives. Nowcasting --a contraction of “now” and “forecasting”-- attempts to assess economic growth in real time by estimating the impact of newly-released data on contemporaneous projections.

A [Banque de France Working Paper](#) (Ferrara and Marsilli, 2014; see also [Rue de la Banque](#)) puts forward a new nowcasting tool that tracks in real-time annual global economic growth on a monthly basis. Using a large data-set of both national and global economic indicators, the model assesses monthly world economic dynamics and estimates the implications for global growth in the current year. Regular updates provide early estimates (nowcasts) of the global activity which tend to anticipate IMF global growth revisions.

Figure 2: Slight rebound expected in global growth in 2017

Sources: IMF (Jan.17), OECD (Nov.16), World Bank (Jan.17)



According to this model, which incorporates the latest data released up to end of January, global economic activity is expected to expand by 3.3% in 2017 (see red line in Figure 2). Global growth will be slightly higher in 2017 than in 2016, although it remains significantly lower than average growth witnessed before the Great Recession (about 4.5% between 2000 and 2007).

Renewed optimism by the main international organizations (as reported in Figure 2) is in line with the most recent incoming data included into the model. A close monitoring of the global growth nowcasts will be particularly useful this year against a background of high uncertainty, particularly the ones surrounding the economic policy of new US Administration and the Brexit negotiations.