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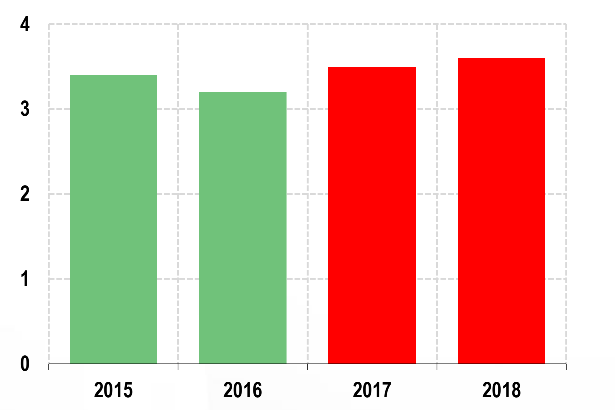
Neither satisfactory nor worrying

■ The IMF projects world growth to accelerate slightly ■ In the short-run, risks are on the upside, thanks to the European rebound ■ In the medium term, risks are on the downside…

The International Monetary Fund (IMF) chose not to amend its world growth forecasts, published in April. Global growth is projected to accelerate from 3.2% in 2016 to 3.5% in 2017 and 3.6% in 2018. This no event hides a downward revision to the US outlook as the previously expected fiscal boost is now seen as less likely to materialise. Admittedly, the fiscal debate did not even start in Washington, with all efforts from the current administration having been wasted over the failed repeal of Obamacare. On top of that, the American underlying momentum is not that strong. Even if GDP growth accelerated in the second quarter (+2.6%, quarterly annualised rate) the rebound is rather limited after yet an another weak start in Q1 (+1.2%). The Fed remains confident that the economy is set to keep on growing fast enough to allow the normalisation of its monetary policy to keep going. Still, the recent slowdown in inflation appears to worry the FOMC enough for its members choosing to stress their willingness to monitor future developments.

This downward revision is offset by a better outlook in Europe, with the IMF highlighting upside risks to its forecasts. Indeed, the European sky is getting clearer. The Flash estimates for Q2 GDP will be released on August 1st and we will have to wait another fortnight for Germany's figures. While the Spanish recovery remains as solid as ever (+0.9% q/q and +3.1% y/y in Q2), the strong performance from France lets it be hoped that activity will have once more expanded faster in Europe than in the US. French GDP was up a quarterly 0.5% despite a strong negative contribution from the inventory change. From one year to the other, the performance (+1.8%) is the strongest since mid-2011.

WORLD GDP GROWTH, ACTUAL AND PROJECTIONS



Source: IMF

In short, the IMF is quite optimistic for the short run. As for the medium term, it sees risks tilting on the downside. A possible correction in equity valuations, the still too speed growth in Chinese credit and a too abrupt reaction to the normalisation of the US monetary policy are the main risks highlighted. While world growth is set to accelerate, the IMF reminds us that the performance will remain way weaker than before the economic and financial crisis. The world economy still suffers from its consequences, which make it more sensitive to shocks. This is especially the case for the developed world, where over-capacities remain large, where investment has been weak for years explaining the disappointing performance of productivity. In short, this year and next will be another two years of a cyclical limited rebound. And just that...

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