

Press conference

December 2016

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Structure

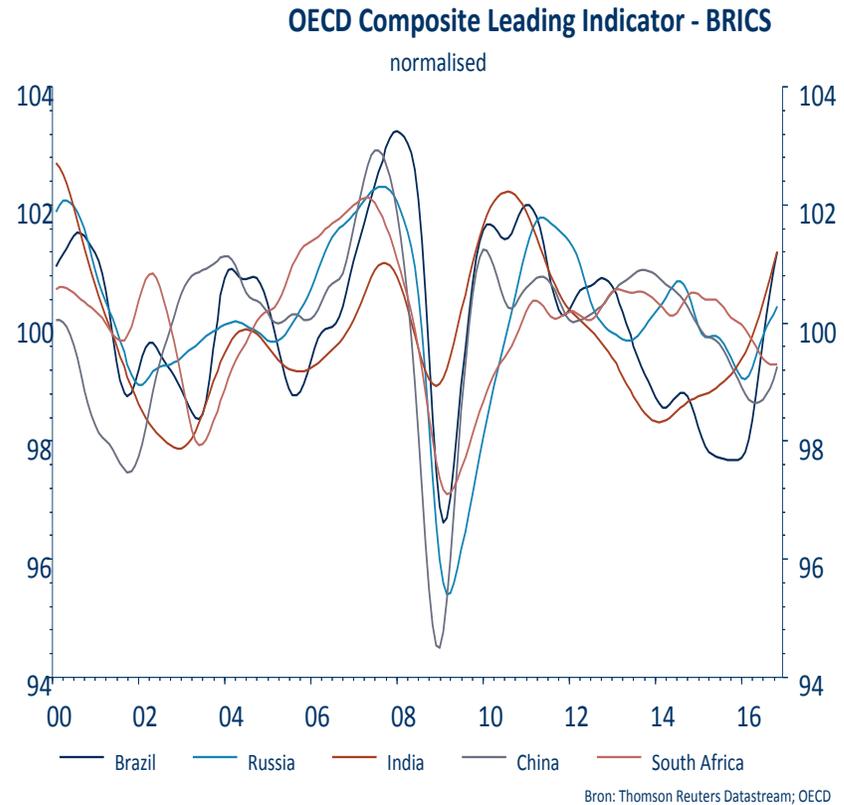
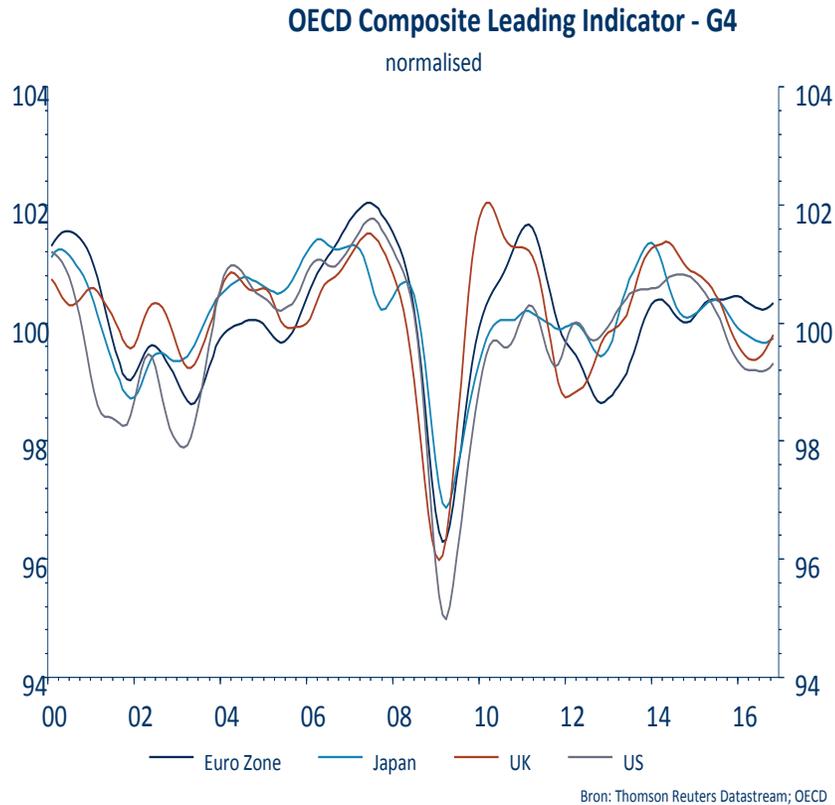
- 1 General overview
 - 1.1 Global environment & trends
- 2 Real economic developments per country/region
 - 2.1 Eurozone
 - 2.2 US
 - 2.3 China
- 3 Forecasts + Belgium
- 4 Special Topic: De-globalization



General overview

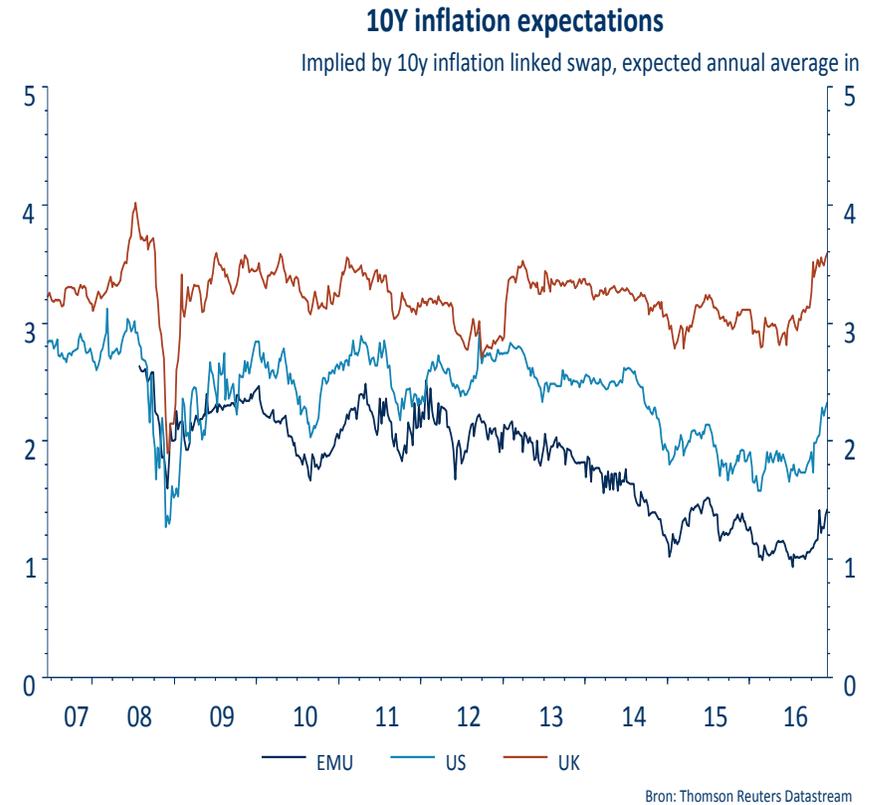
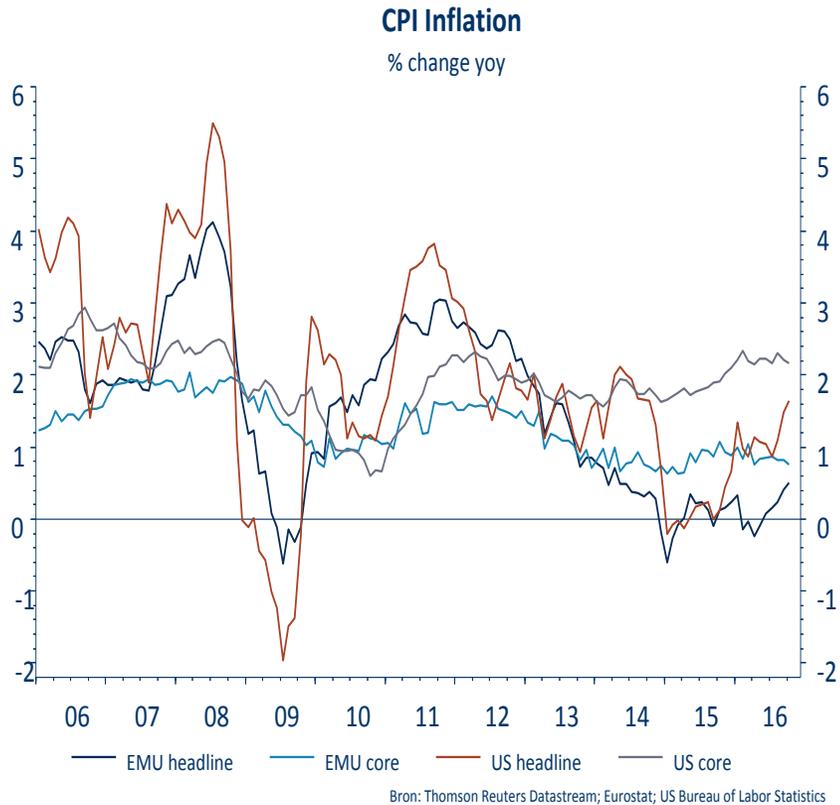
1.1 Global environment & trends

Leading indicator suggests upcoming improvements, especially in emerging markets. US economy in late-cyclical phase



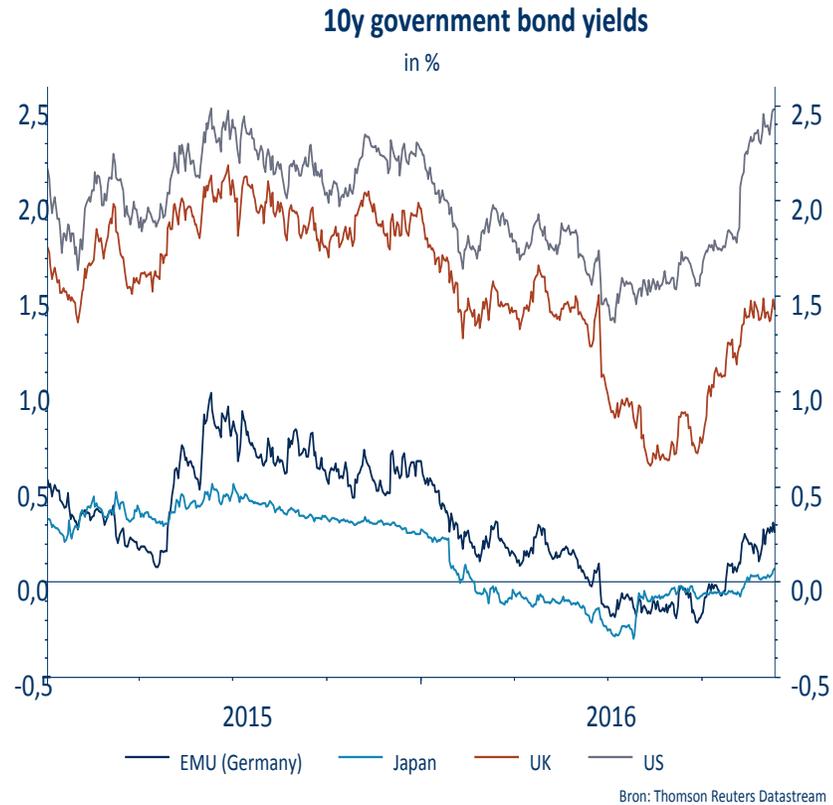
1.1 Global environment & trends

Inflation dynamics remain on their upward trend thanks to energy base effects. Inflation expectations boosted by anticipation of Trump's expansionary policies...



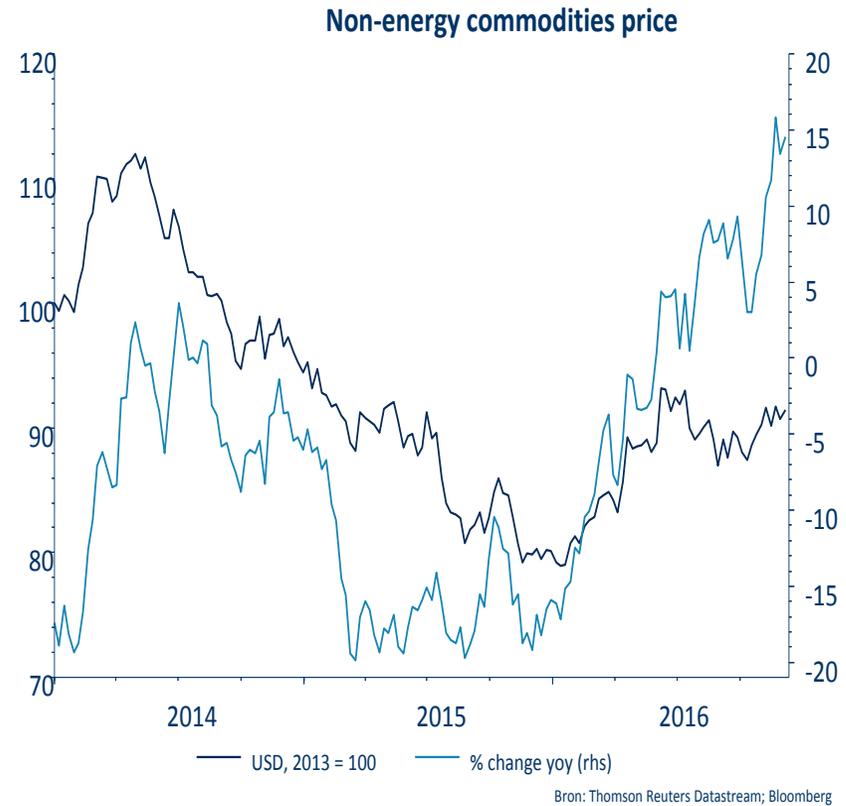
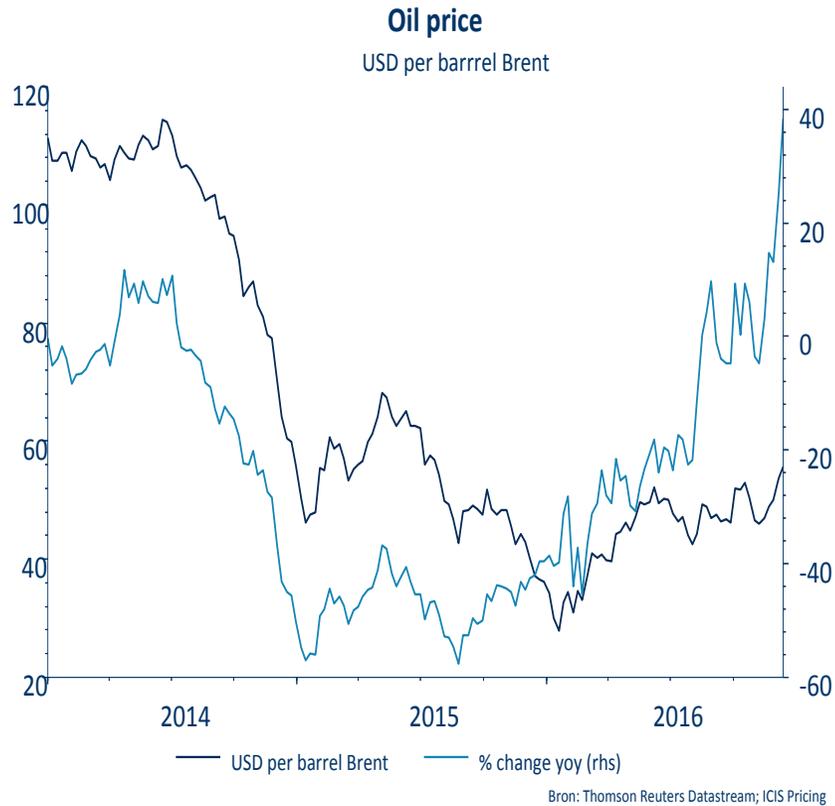
1.1 Global environment & trends

... as a result, bond yields, especially in US, rose abruptly following the election. Consequently, the US-German yield spread reached its highest level since the early 90s



1.1 Global environment & trends

Energy base effects still contributing positively to inflation. Production cut deal by OPEC and non-OPEC, representing almost 2% of global oil output, could generate some additional upward price pressures but compliance to the deal remains key



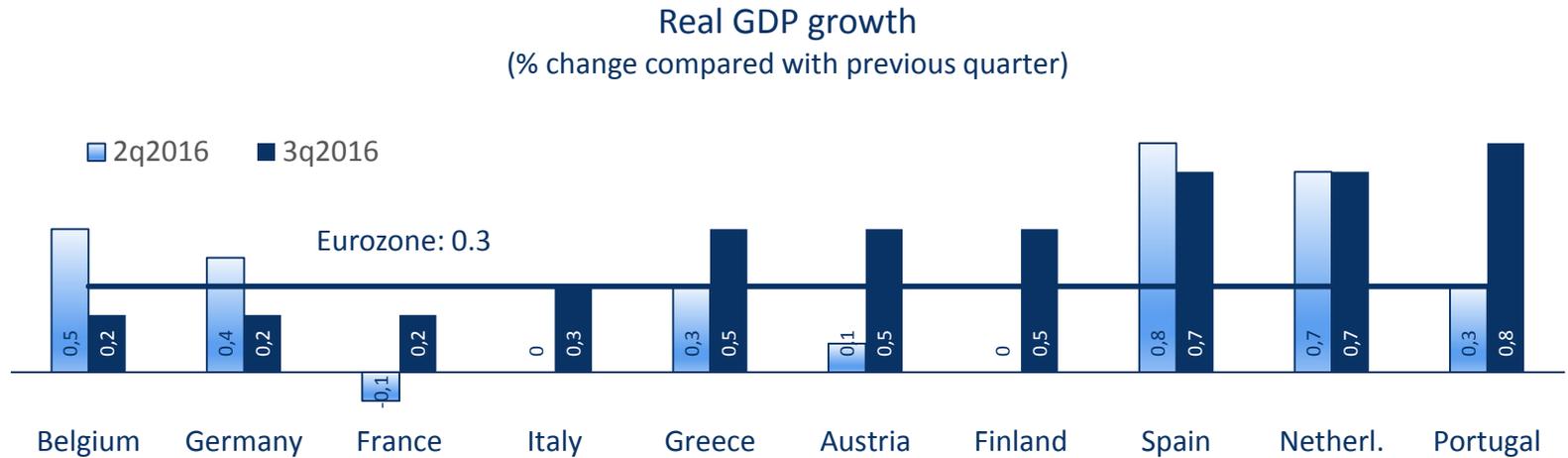
2

Real economic developments per
country/region

2.1

Eurozone

Q3 real GDP growth: confirming resilient, but vulnerable recovery

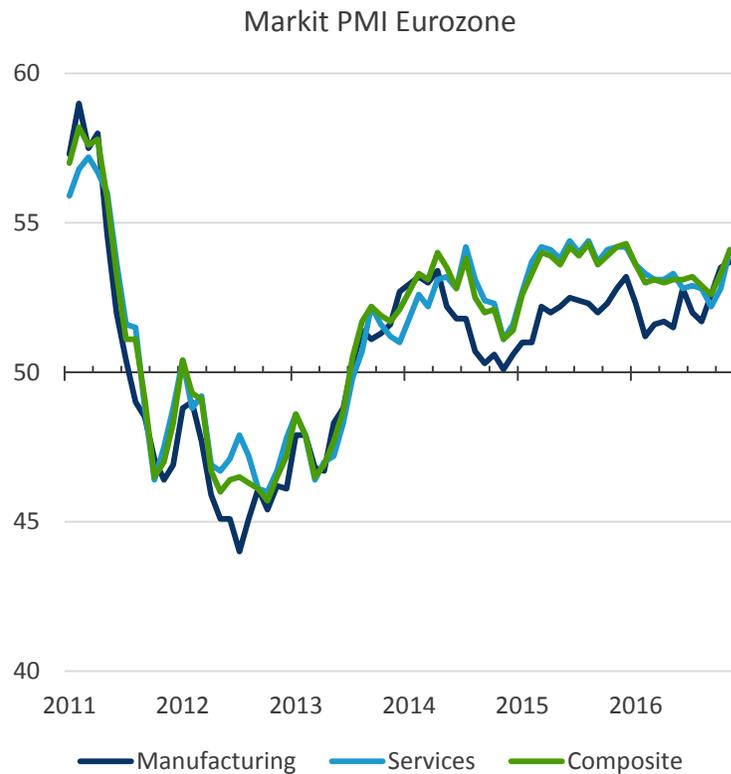


Source: Eurostat (2016)

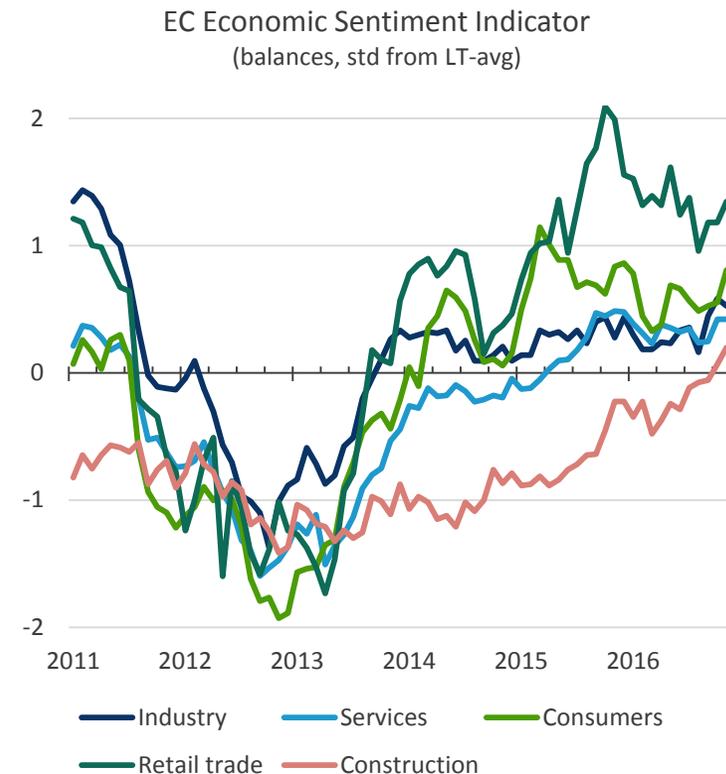
2.1

Eurozone

Improving economic sentiment, broadly based across sectors



Source: Markit Economics (2016)

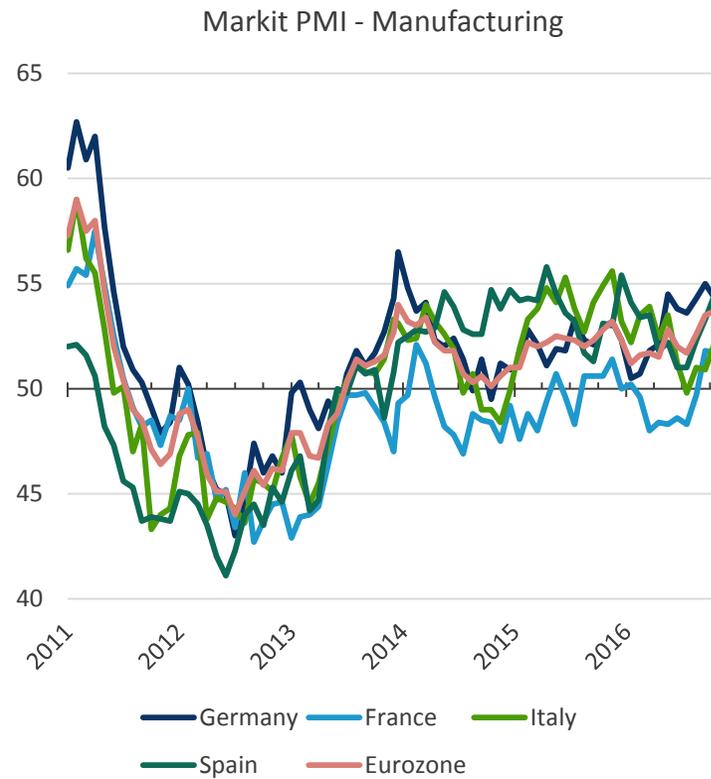


Source: EC (2016)

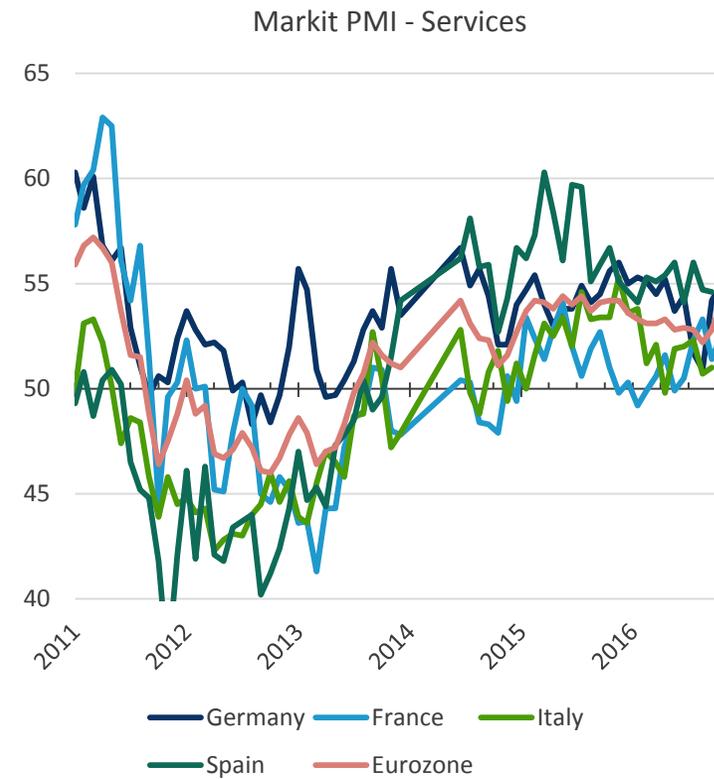
2.1

Eurozone

Improving economic sentiment, broadly based across countries



Source: Markit Economics (2016)

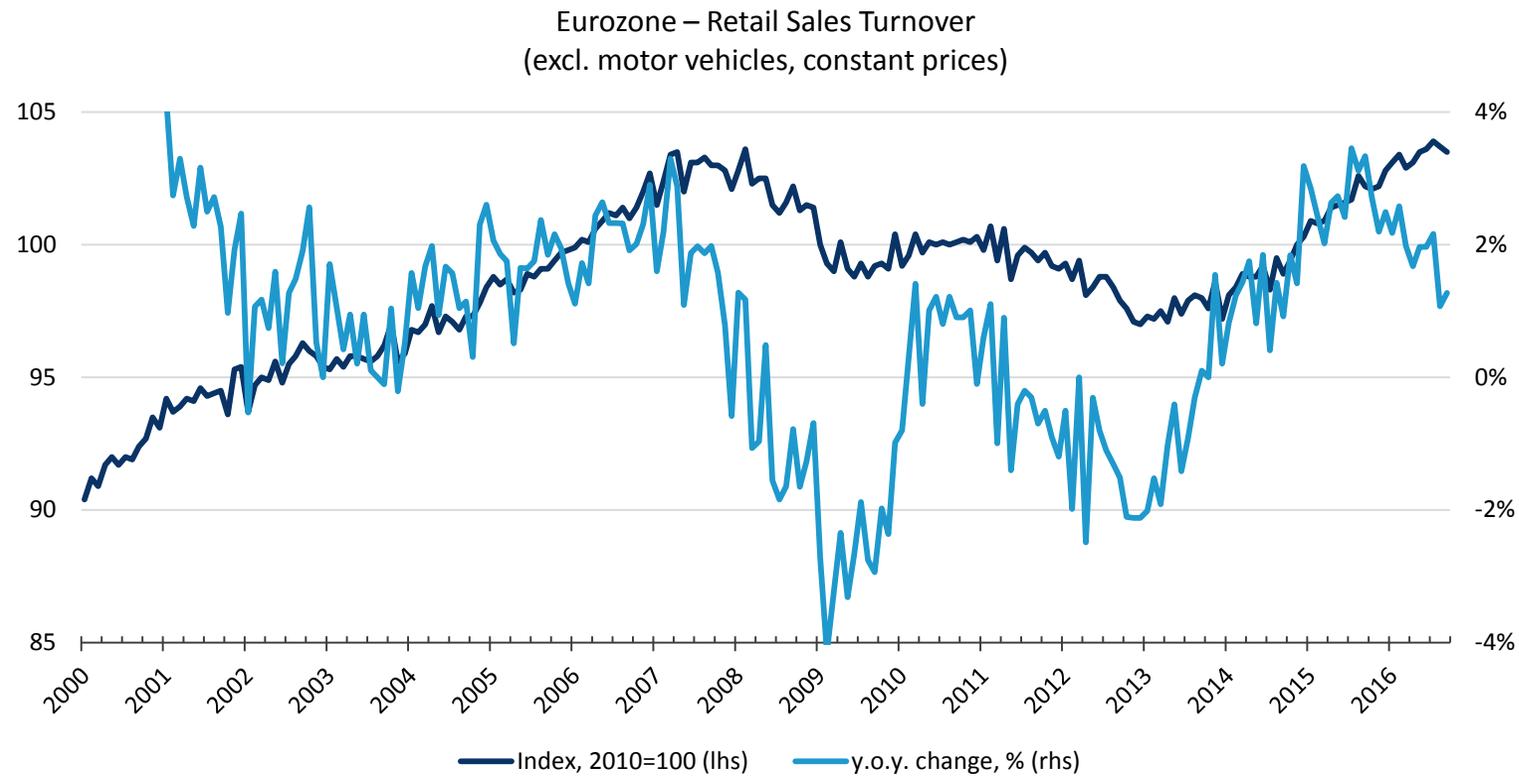


Source: Markit Economics (2016)

2.1

Eurozone

Private consumption indicators: over the peak



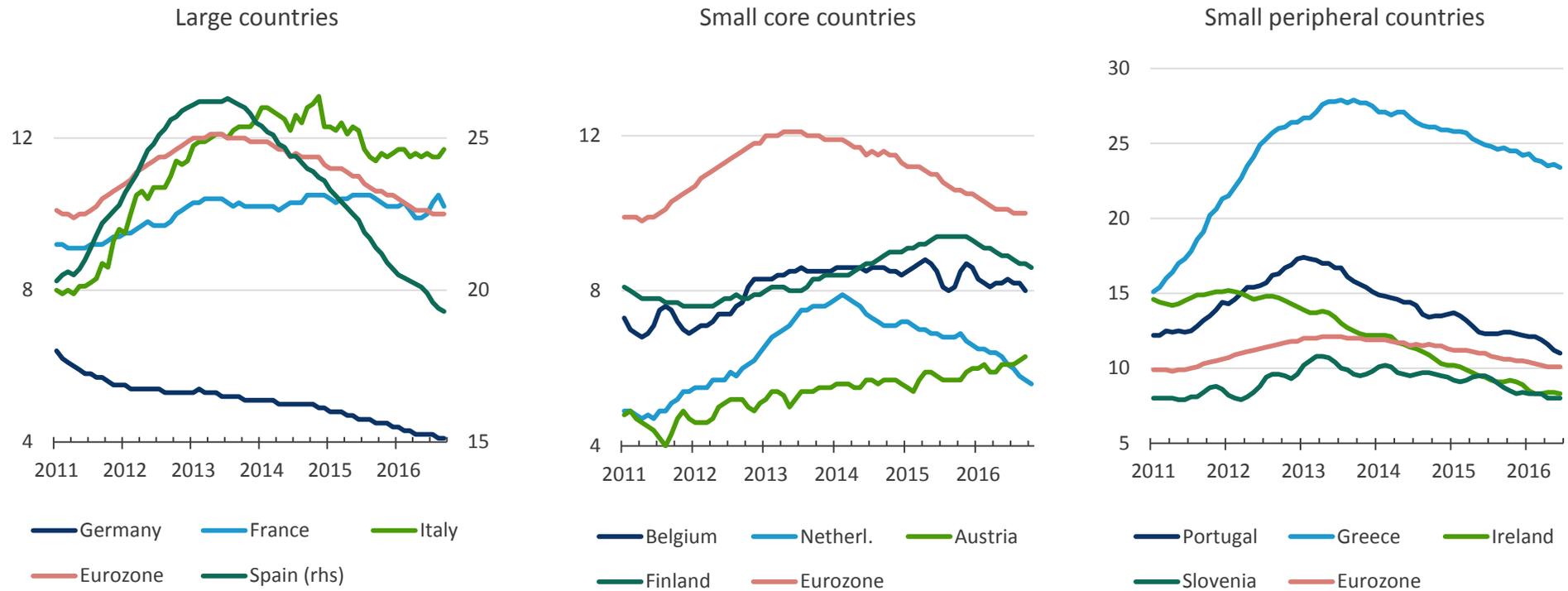
Source: Eurostat (2016)

2.1

Eurozone

Labour market: improving with some exceptions (France & Italy!)

Harmonized Unemployment Rates, %

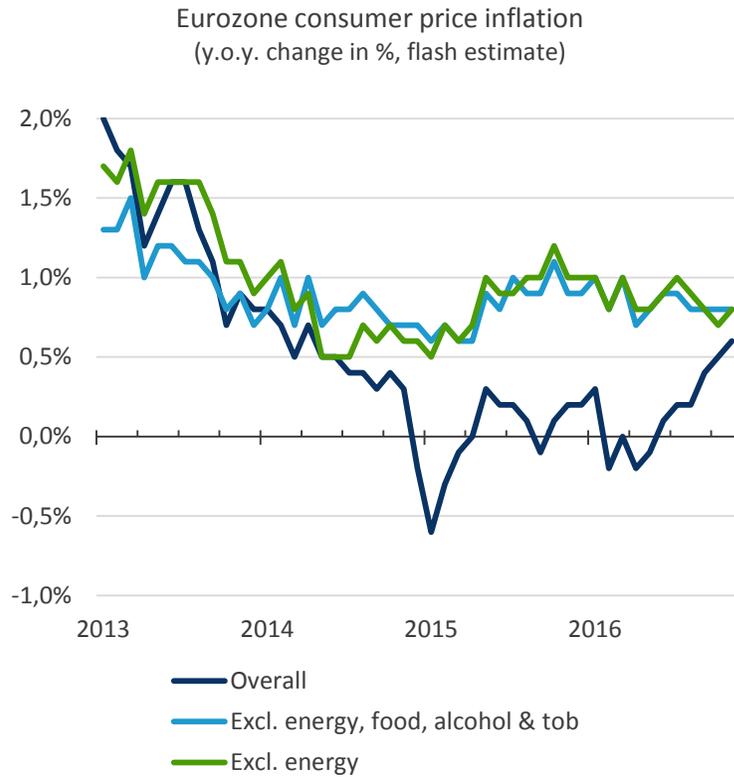


Source: Eurostat (2016)

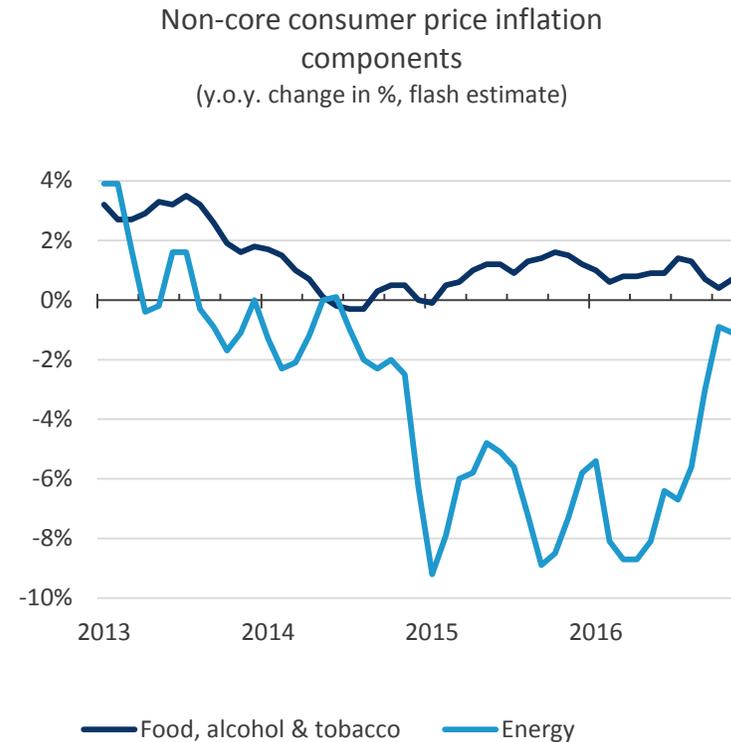
2.1

Eurozone

Headline inflation lifted by... food, alcohol & tobacco prices, as upward pressure from energy prices stalled



Source: Eurostat (2016)

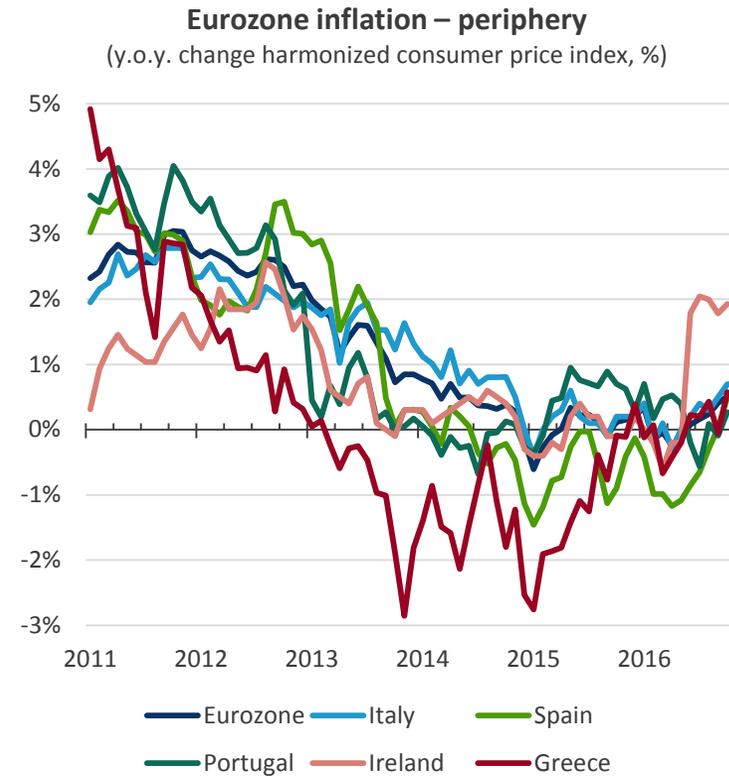
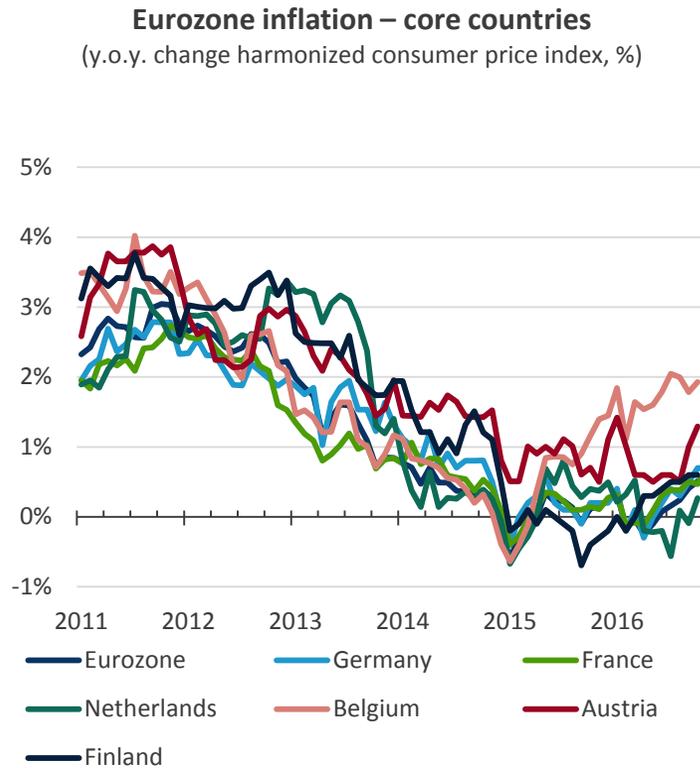


Source: Eurostat (2016)

2.1

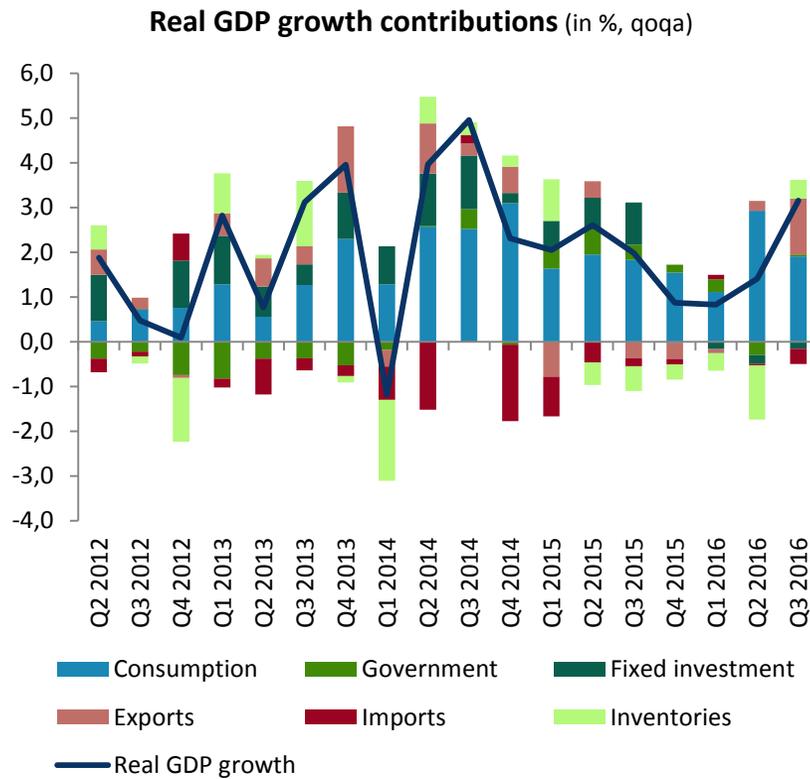
Eurozone

Headline inflation: turned positive in most countries

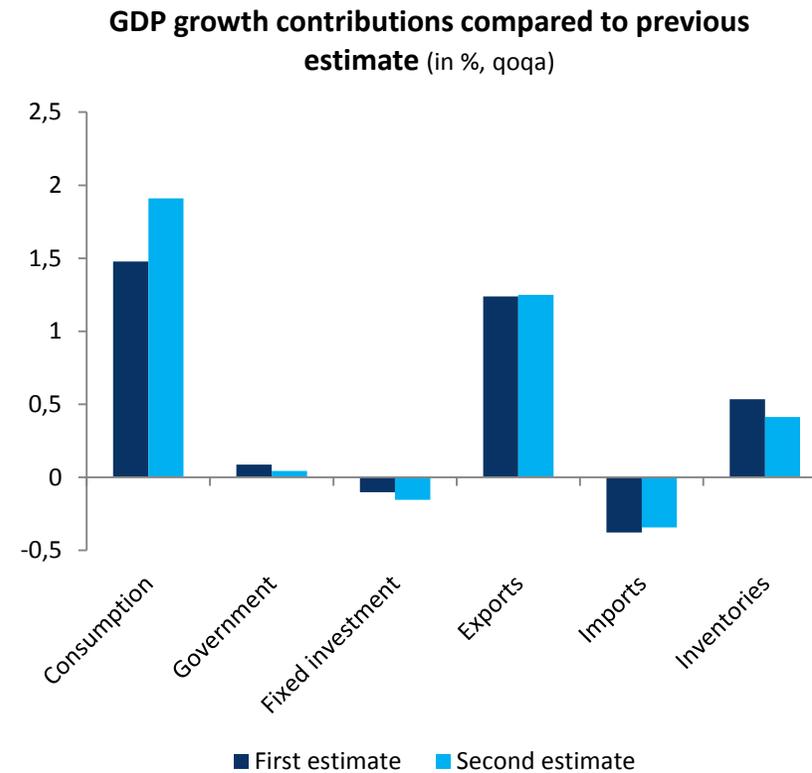


2.2 US

Q3 2016 GDP growth (second estimate): upward revision to 3.2%qoqa thanks to higher growth contribution of private consumption



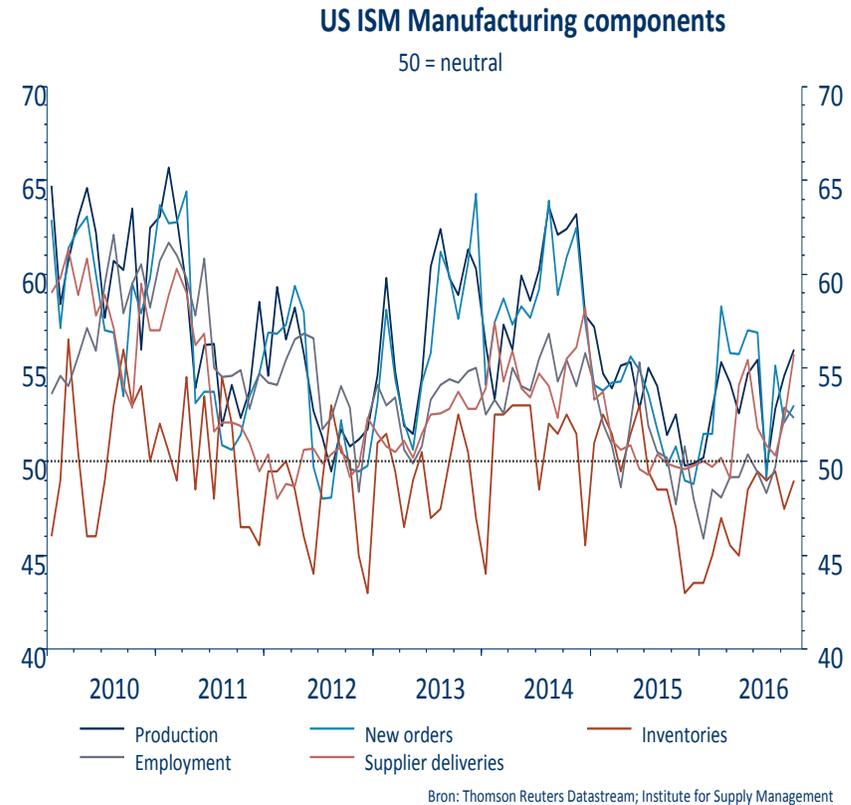
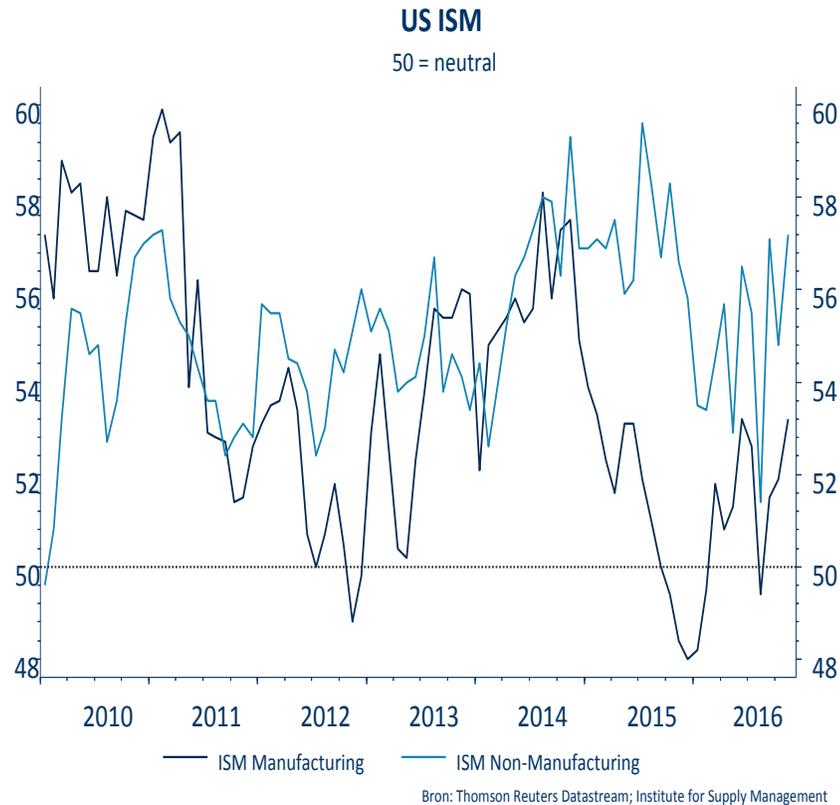
Source: Bureau of Economic Analysis



Source: Bureau of Economic Analysis

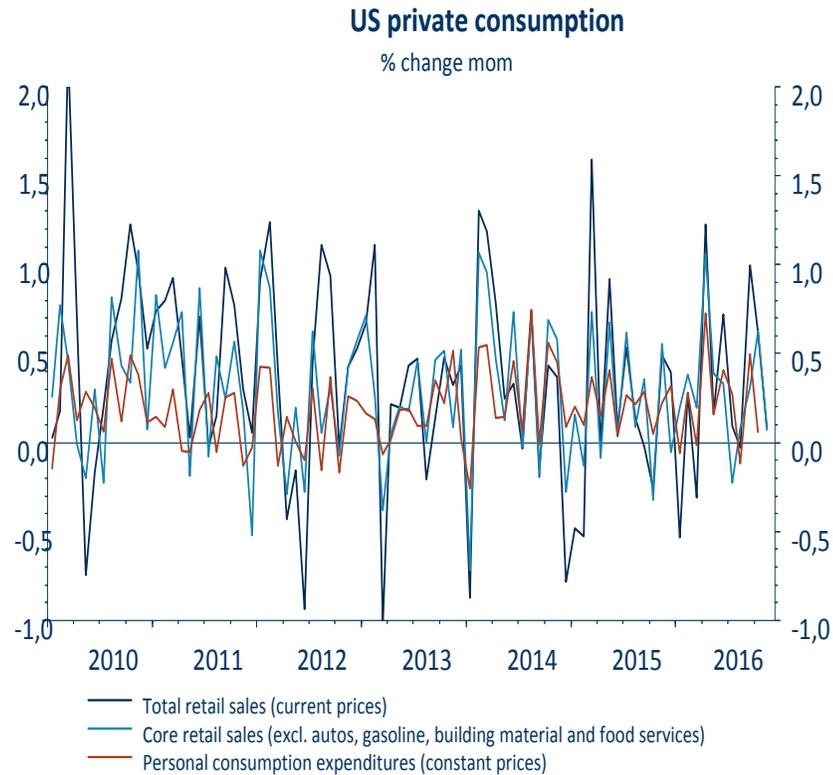
2.2 US

*Manufacturing sector continues its recovery:
Manufacturing ISM climbs up further, supported by higher production and employment components*

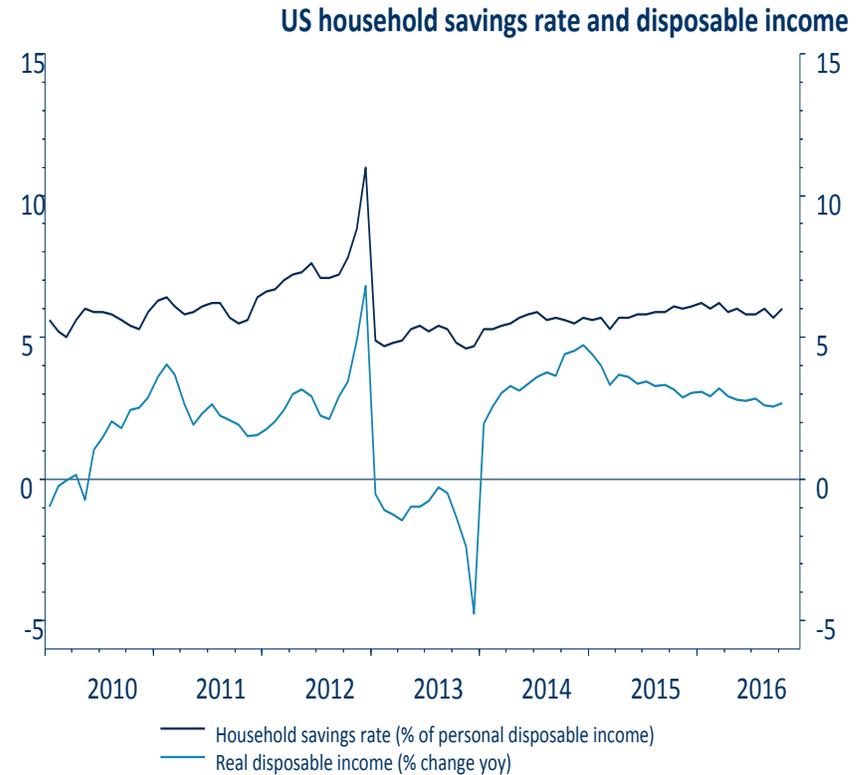


2.2 US

Solid private consumption momentum continues into Q4



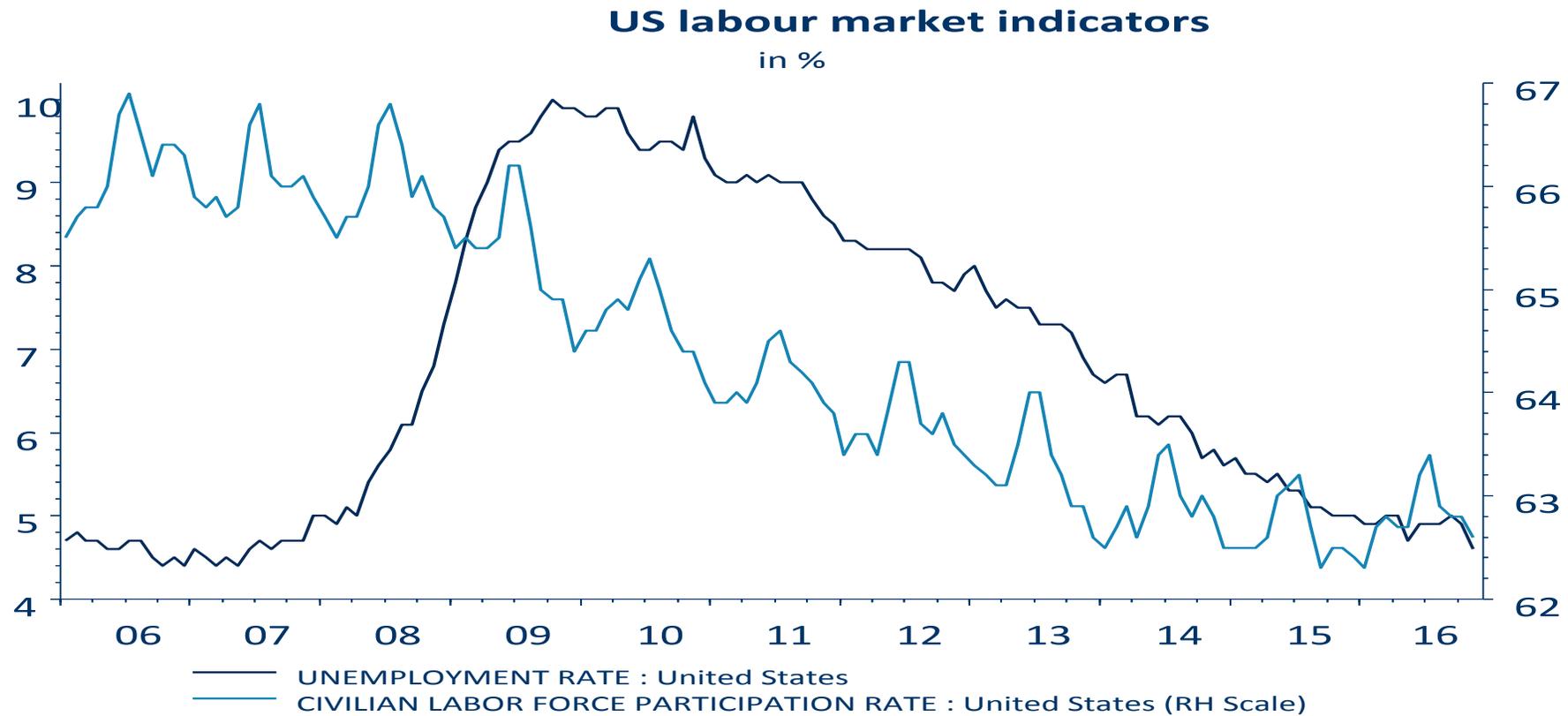
Bron: Thomson Reuters Datastream; Bureau of Economic Analysis; Census Bureau



Bron: Thomson Reuters Datastream; Bureau of Economic Analysis

2.2 US

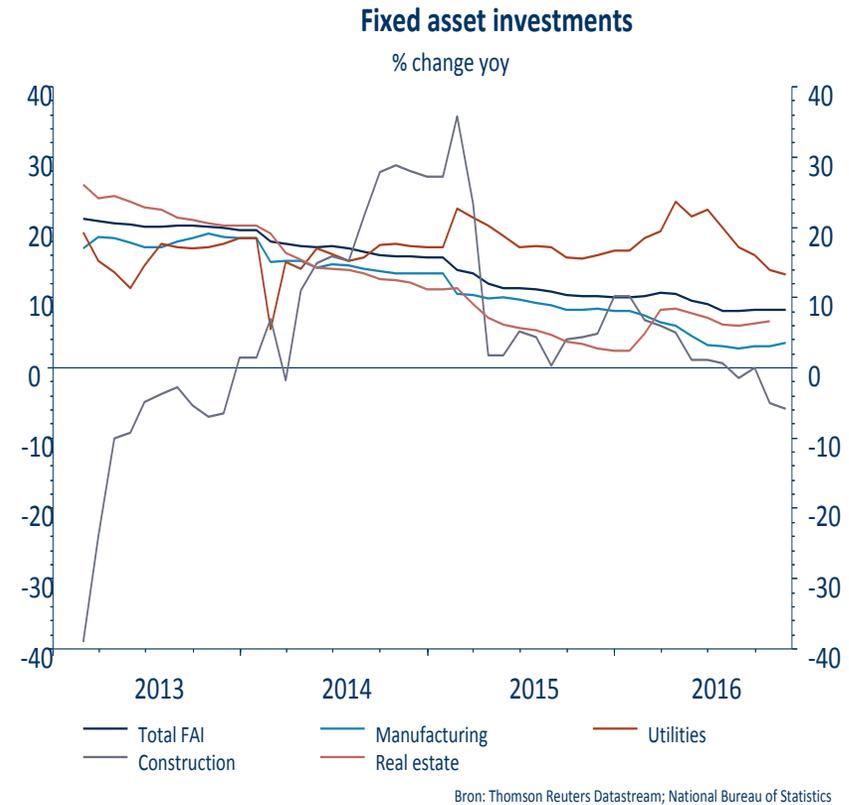
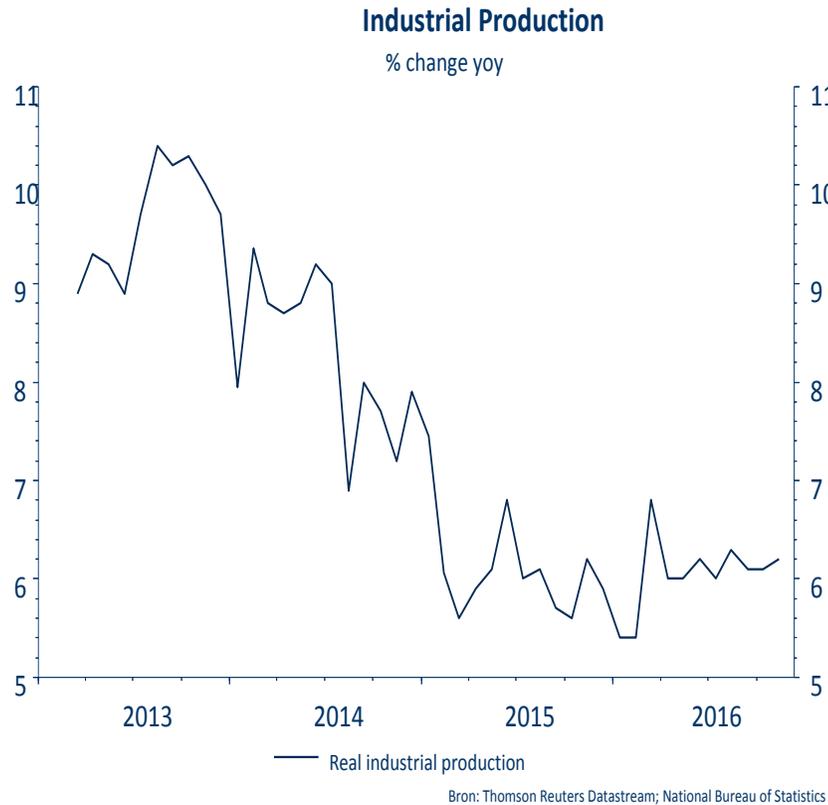
Continuation of solid labour market



Bron: Thomson Reuters Datastream; US Bureau of Labor Statistics

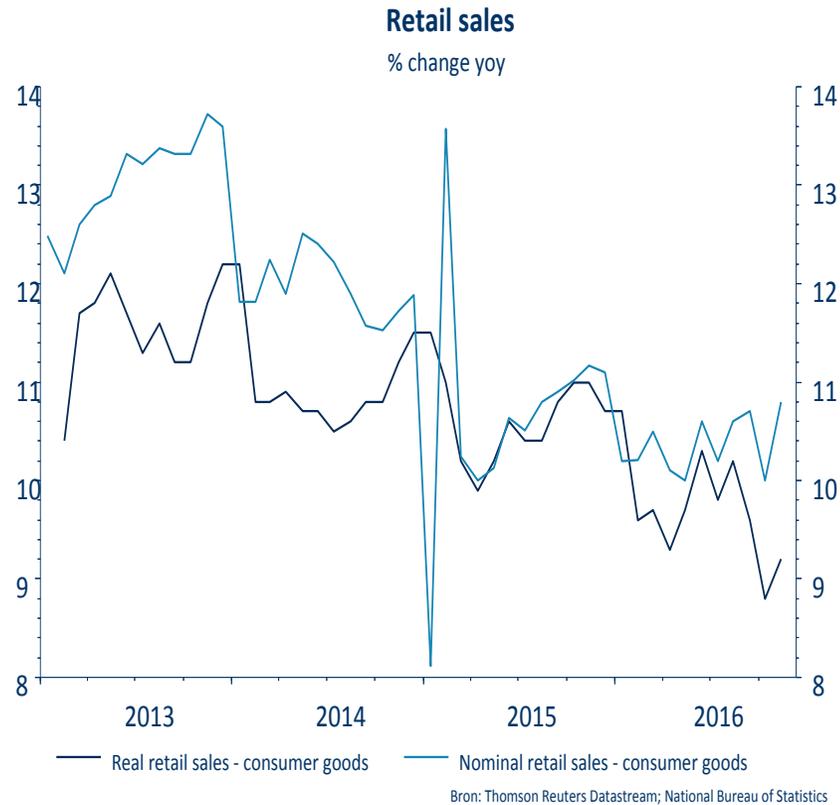
2.3 China

Stable start of Q4: Investments grow faster than expected thanks to recovery of private investment growth and continuation of government spending. Industrial production growth steady



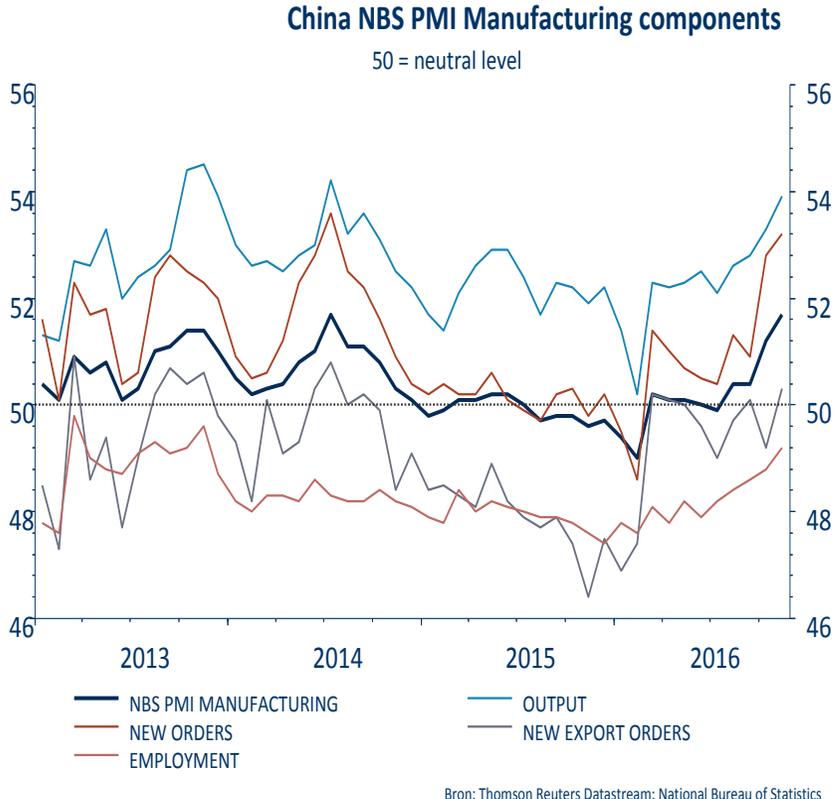
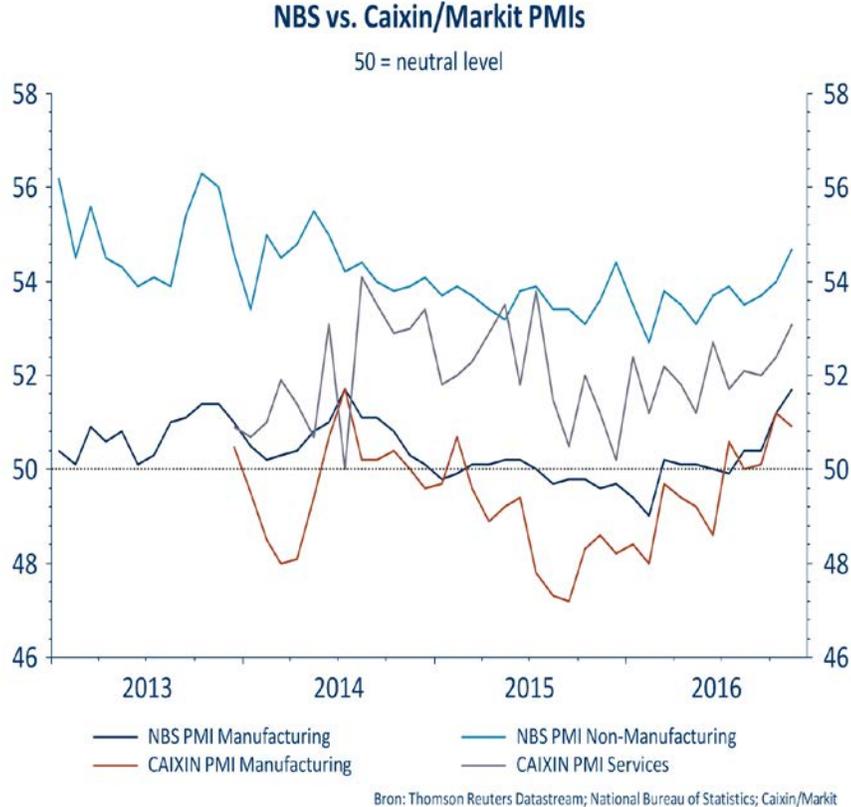
2.3 China

Stable start of Q4: Retail sales growth disappointed, decreasing to 10%yoy mostly due to decrease of auto sales growth that reversed its upward trend. The low level of consumer income sentiment suggests further slowdown is possible



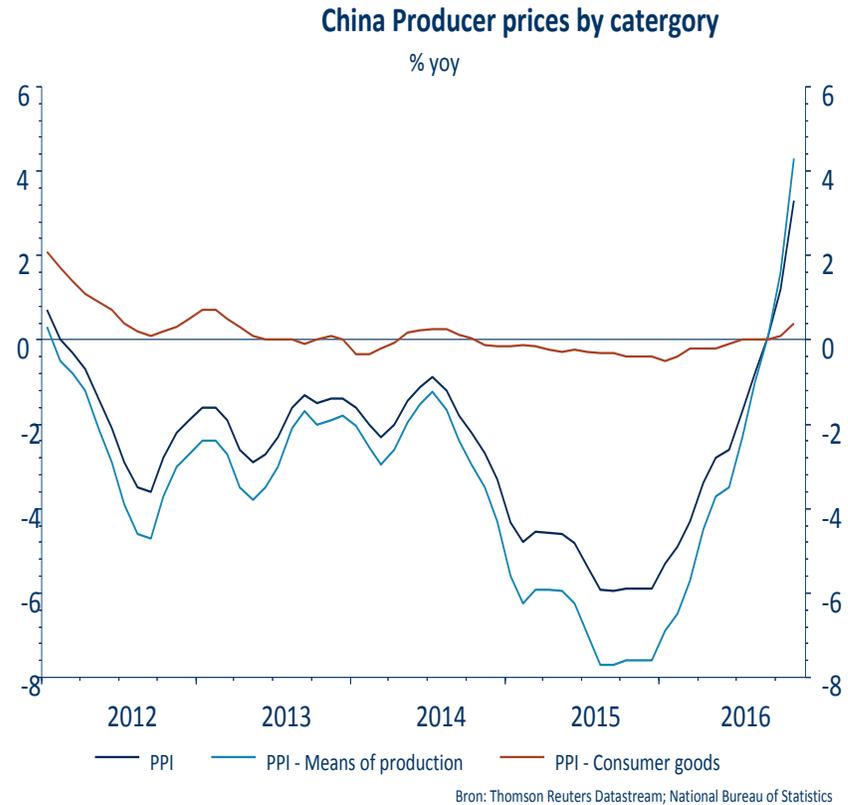
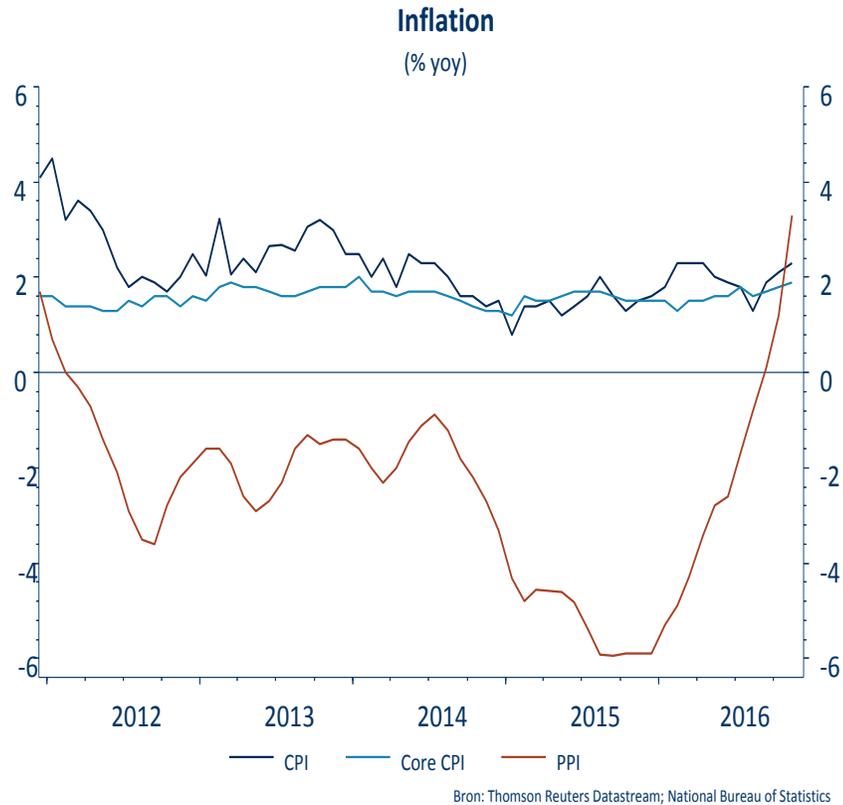
2.3 China

PMIs illustrate further strengthening of the broad Chinese economy



2.3 China

Inflationary pressures trending upward. Recovery of commodity prices and some improvements in excess capacity cutting support rise of PPI inflation



3

Forecasts:

What will 2017 bring for the global,
European and Belgian economy?

3.1. Forecasting in the New Normal

Summary and Highlights based on KBC-CBC Forecasts

- Remarkable consensus among forecasters
 - KBC-CBC vision broadly in line with consensus forecasts

- Leading principles for 2017
 - Continued recovery after the financial crisis and exit from the *New Normal*
 - Continued high sensitivity to global shocks (“news”), possibly leading to periods of high volatility in the economy and markets
 - Political events: elections in France, Germany, Netherlands; international conflicts; eurozone survival
 - Economic events: actual implementation of Trumponomics; content of Brexit negotiations; developments in monetary policy (deviations from consensus on future Fed hikes; surprising changes by ECB)

3.2. Expectations for 2017: Global Economy

Summary and Highlights based on KBC-CBC Forecasts

- **Continued recovery** after the financial crisis
- **US leading the global business cycle.** Outlook more positive after Trump's election
- Emerging markets contributing more to global growth again, but different growth models
 - Commodity-based economies facing substantial recovery (cfr. Increasing oil and commodity prices)
 - Both positive and negative elements for China:
 - Overcapacity remains an enormous risk for the global economy (inflation, non-performing loans, problems in Chinese financial sector may spill over to the global real economy)
 - Currently smooth transition to a more market-oriented, demand-driven economy
- **Global connections are important determinant of global economic development.**

3.3. Expectations for 2017: European Economy

Summary and Highlights based on KBC-CBC Forecasts

- **Gradual exit from the New Normal**
- Markets have anticipated too quickly and too much on similar US-EU recovery.
 - Exit from the New Normal will take more time in Europe.
 - Inflation expectations increased, but still below ECB targets.
 - Growth expectations improving, but remain sluggish.
 - Structural labour market problems only partially tackled.

3.4. Expectations for 2017: Belgian Economy

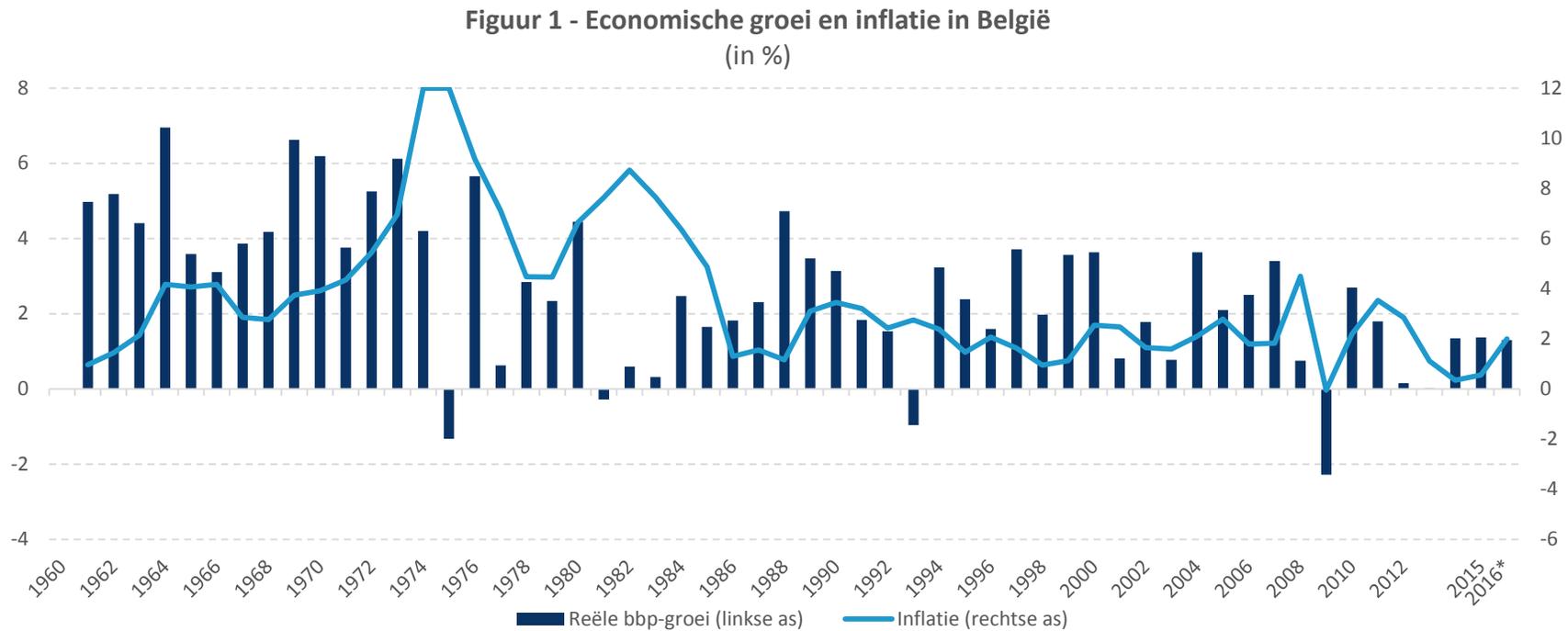
Summary and Highlights based on KBC-CBC Forecasts

- Weak growth forecasts
 - Consumption growth remains weak compared to international evidence
 - Investment provided strong, but volatile contribution to growth – however: **potential investment contribution remains much higher** (cfr. Available savings in Belgium)
 - Not much contribution by government spendings
 - Growth is sensitive to net exports – **global context puts higher risks on trade as engine of Belgian growth.**
 - PLUS: Declining potential growth!
- Convergence to EU inflation
- Labour market issues: slow realization of policy reforms + continued demographic challenges

Belgium: Growth and Inflation

Growth continues on same low path.

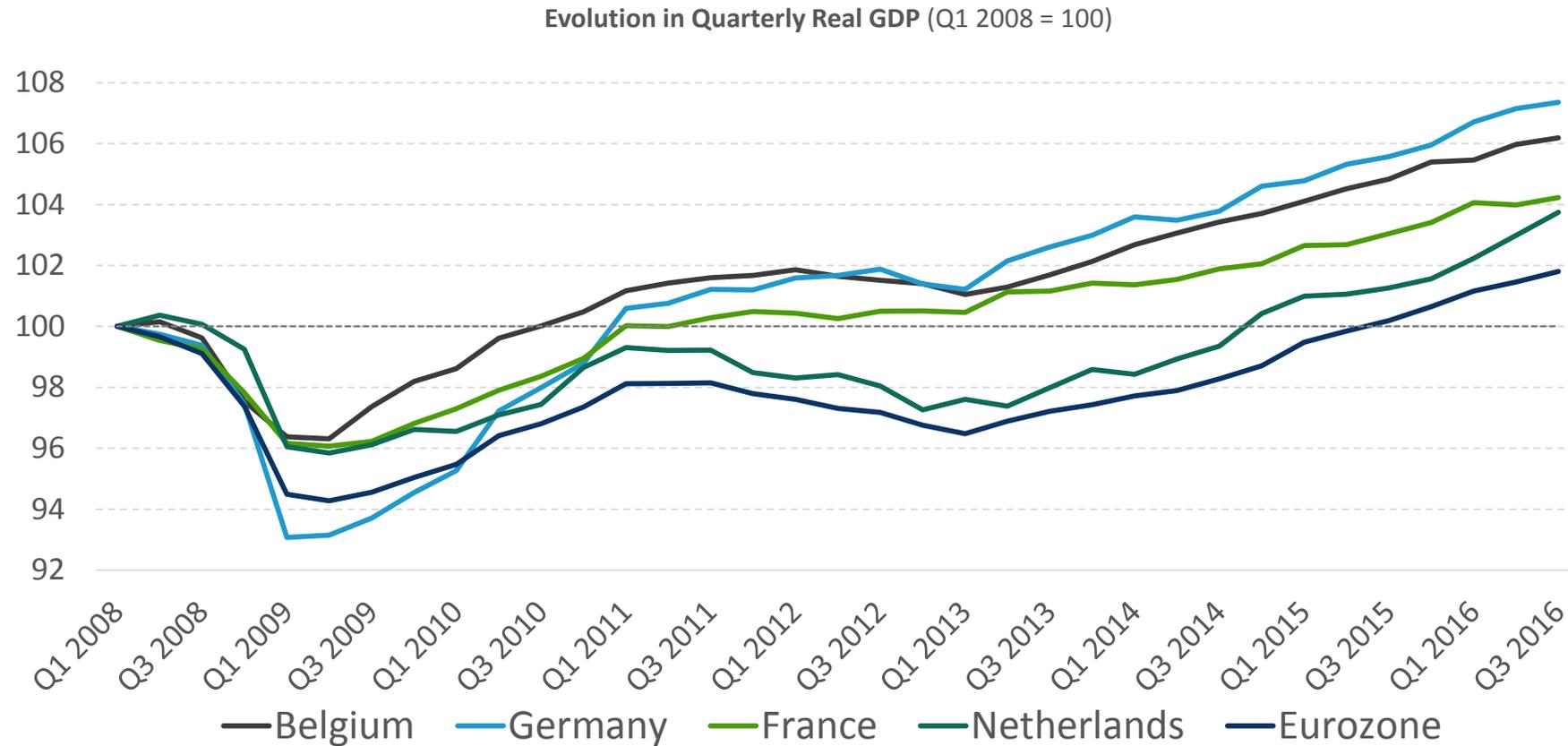
Inflation converges to Eurozone average (end of temporary policy effects)



* KBC forecast 2016

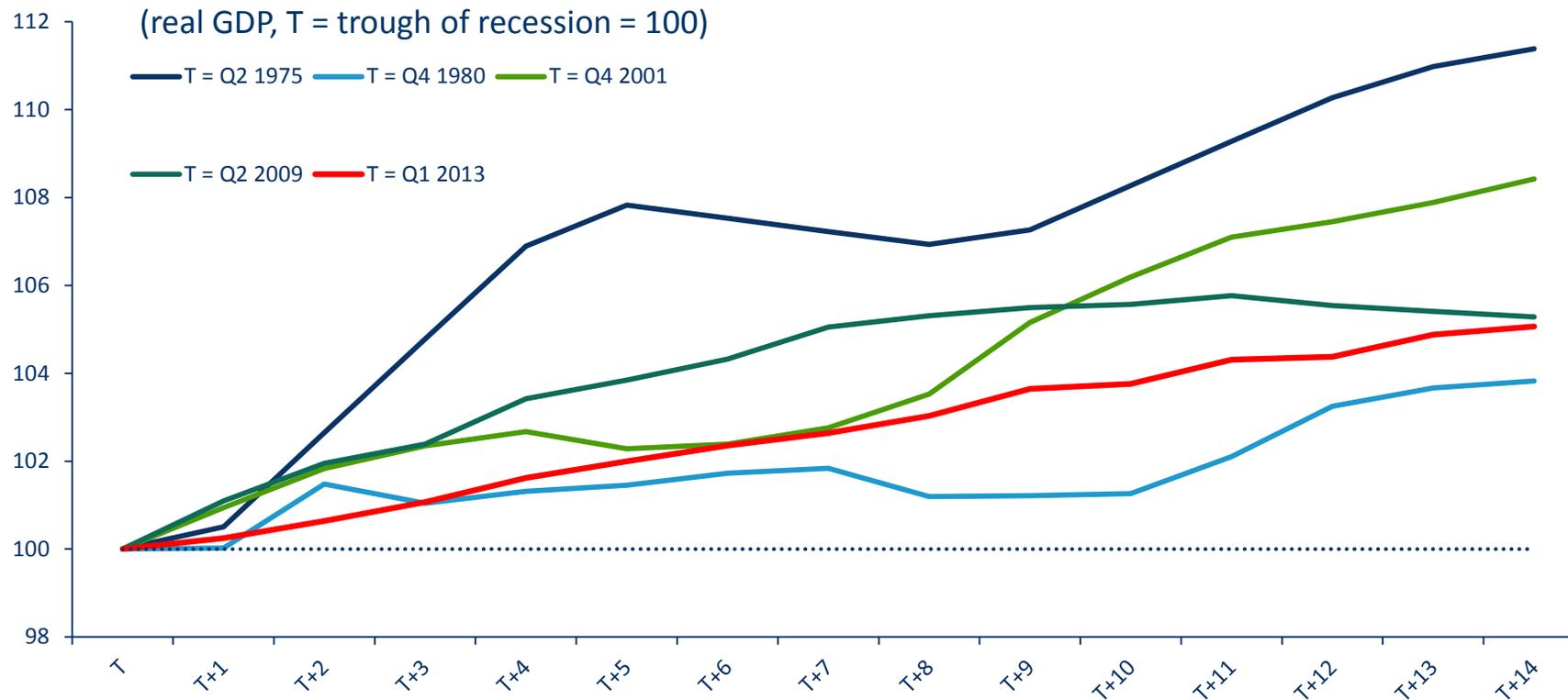
Belgium: Post-Crisis Development

Remarkably fast recovery after the financial crisis, but recovery slows down.



Belgium: Economic Recovery in Belgium after Recessions

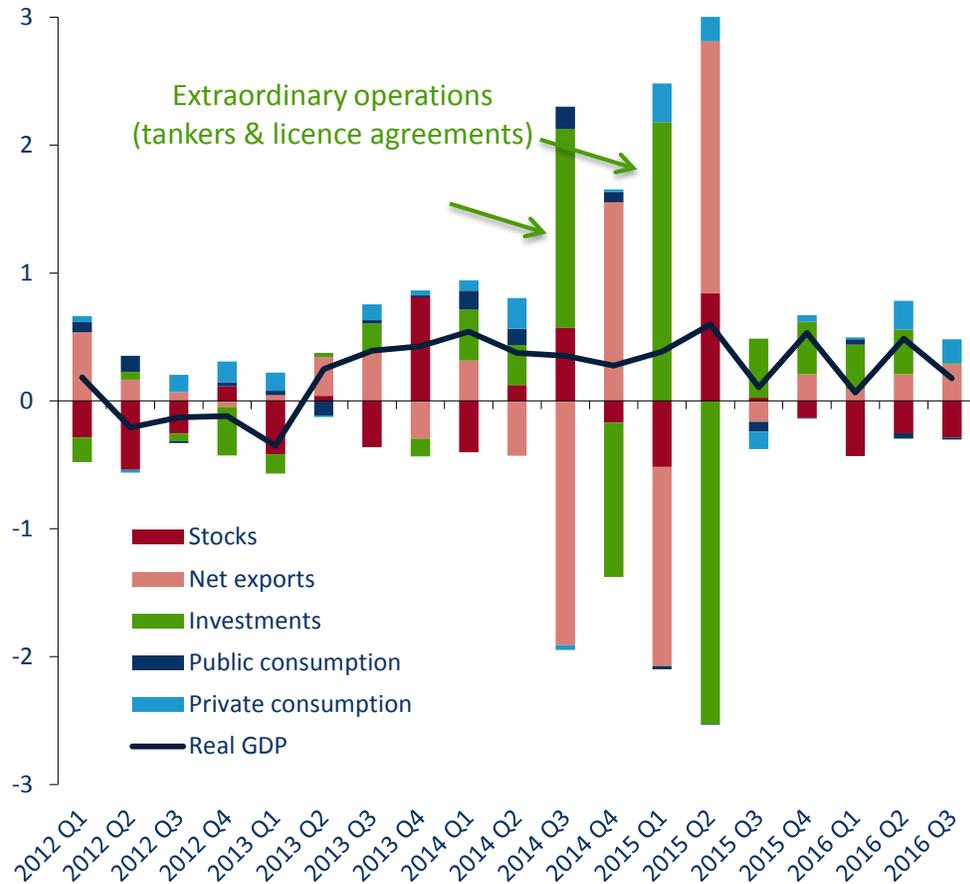
Latest recovery slower than recovery after the 2008-2009 crisis



Source: KBC Economic Research (2016), based on NBB (2016)

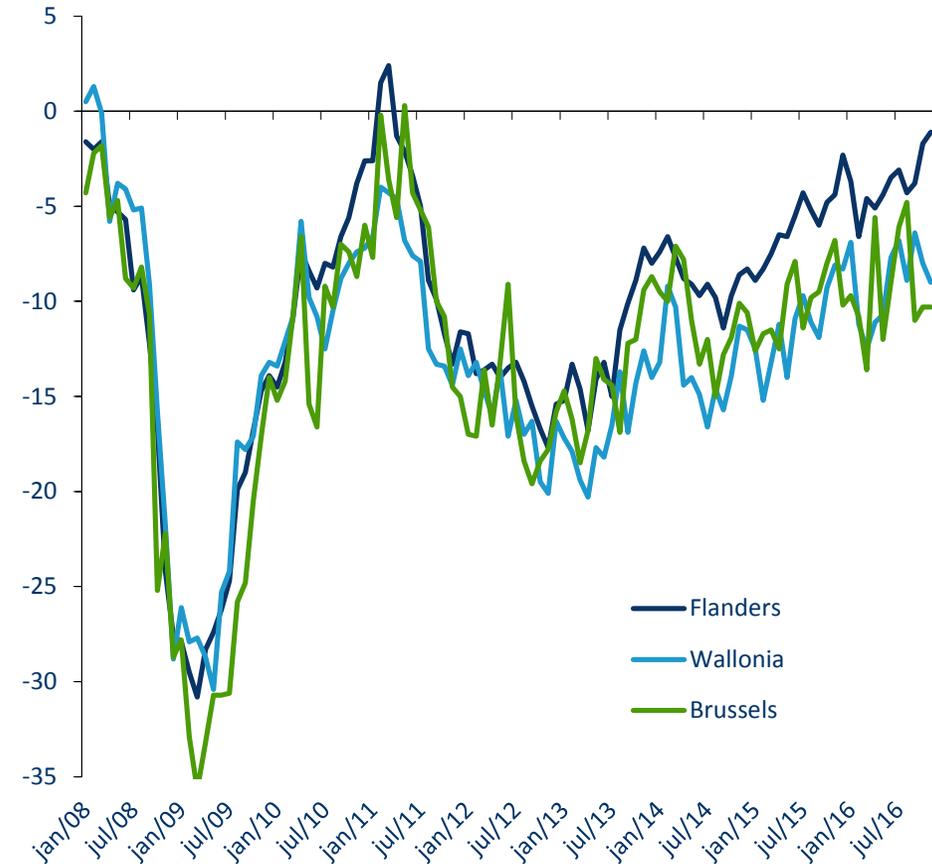
Belgium: Growth Components and Producer Confidence

Contribution of components to GDP growth
(quarter-on-quarter change, in %)



Source: NBB (2016)

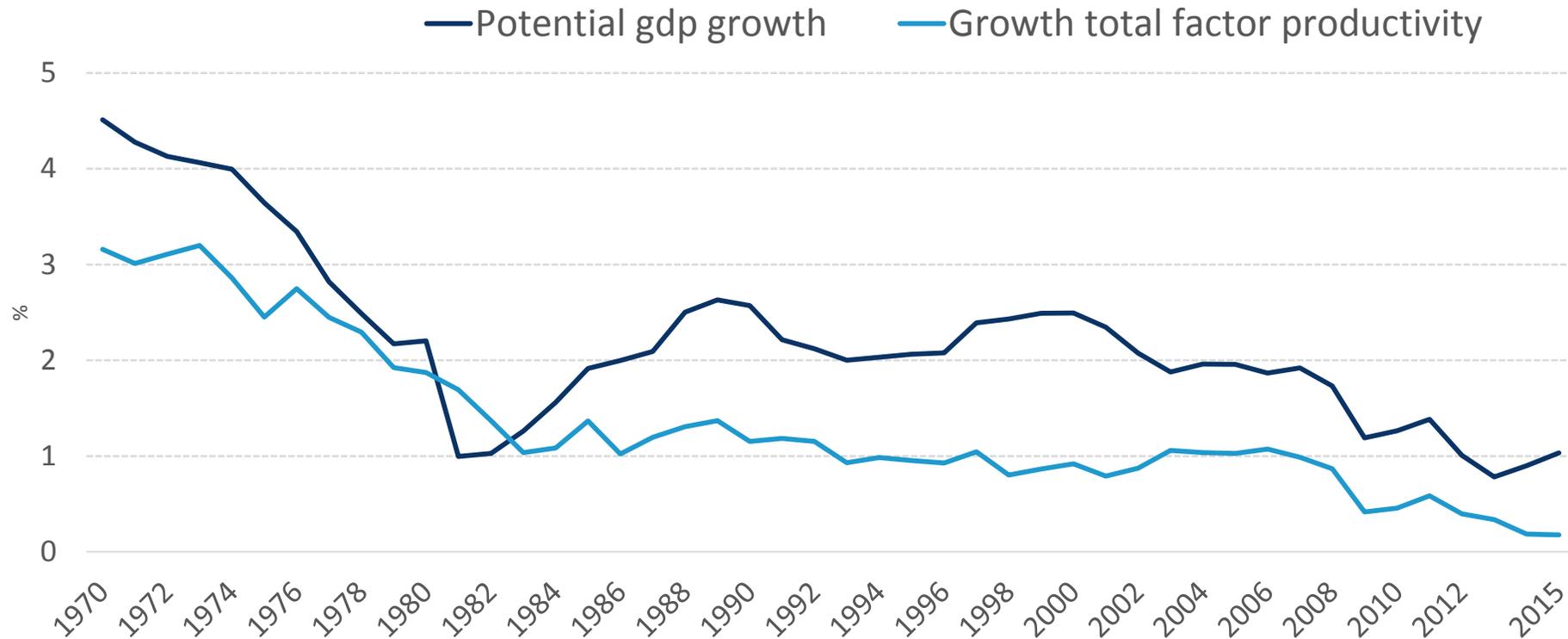
Producer confidence in the three Belgian regions
(NBB indicator)



Source: NBB (2016)

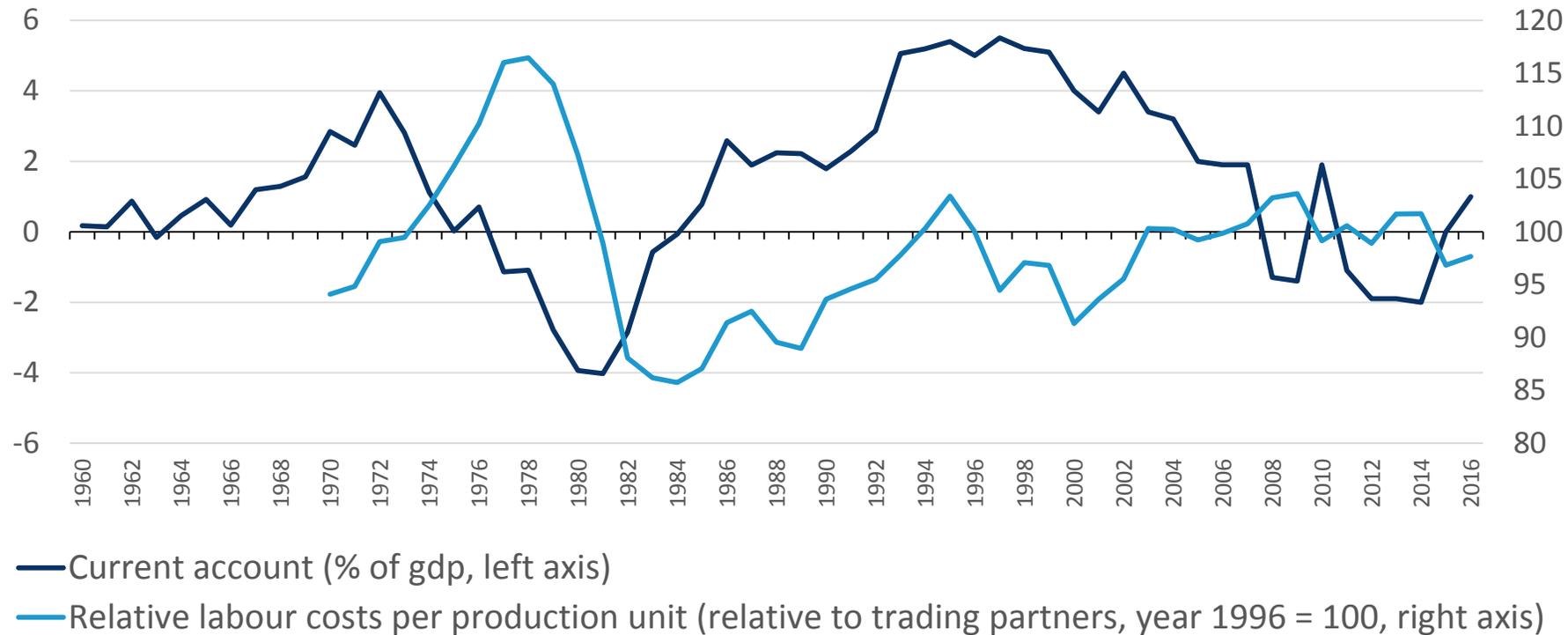
Belgium: Potential Growth and Productivity

Low productivity growth causes decreasing potential growth: challenges for the long-run!



Belgium: International Competitiveness

Belgian international competitiveness gradually improves, supported by labour costs moderation. Strong sensitivity to global context.

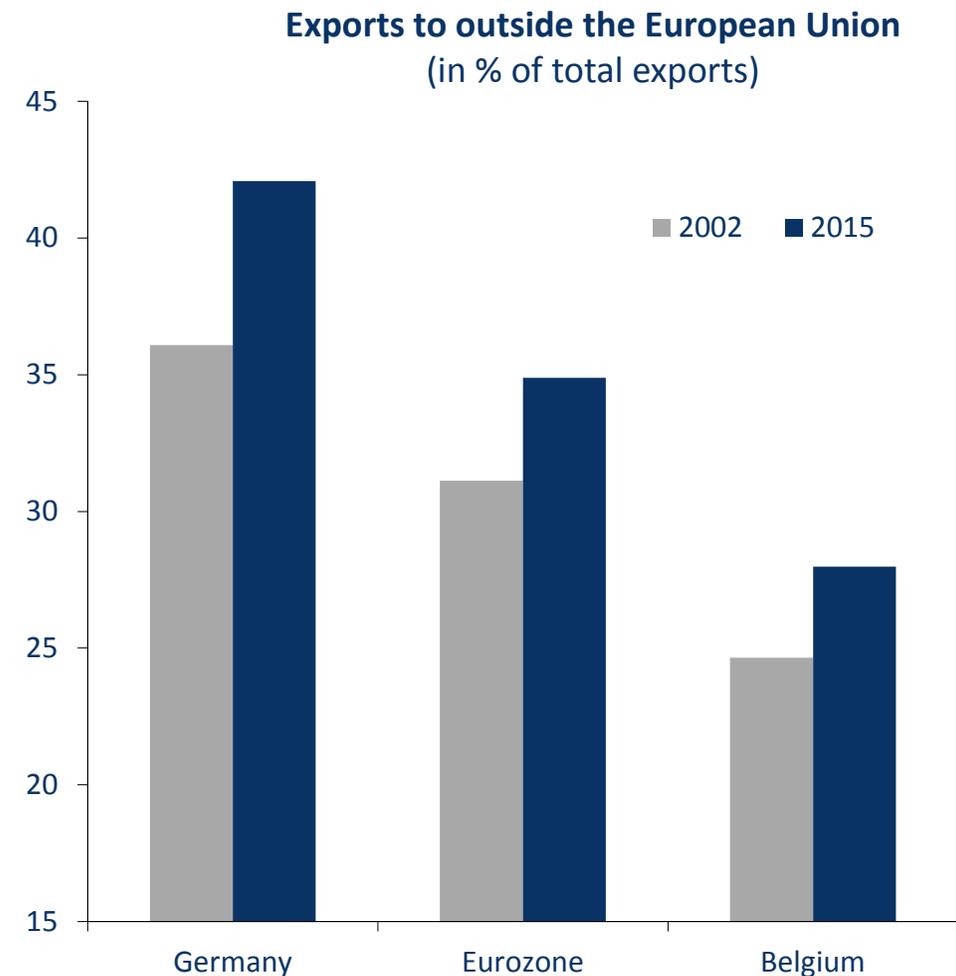
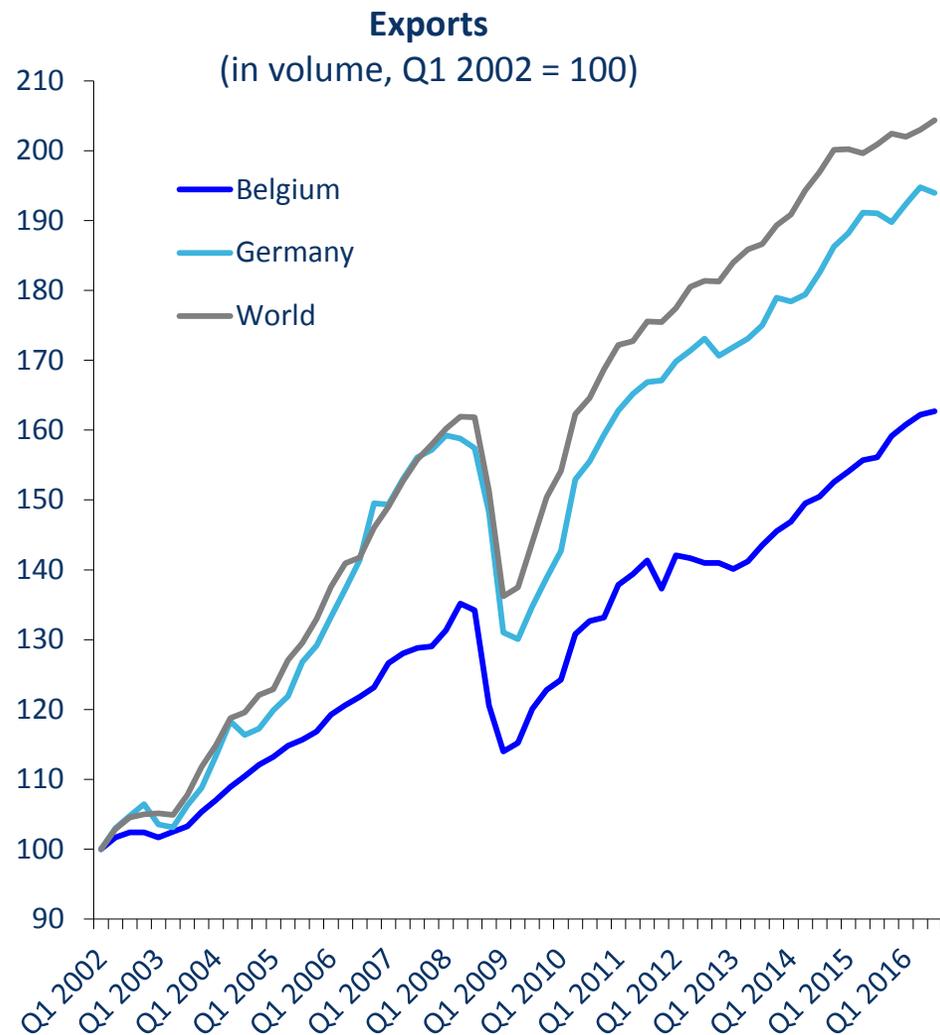


Belgium: International Competitiveness

Improved competitiveness reflected in increasing share in global markets



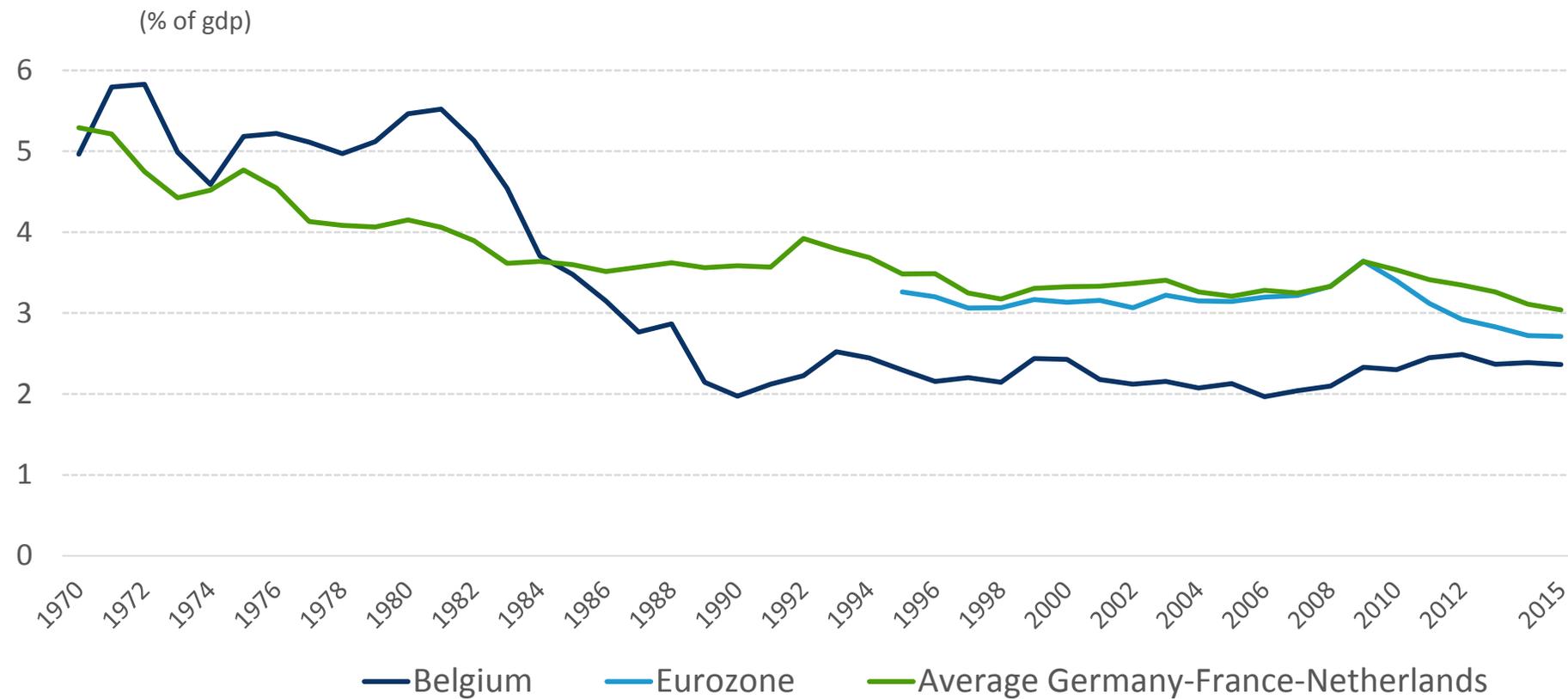
Belgium: Export Growth – not top of the class – still strongly oriented on the EU market



Source: KBC Economic Research (2016), based on IMF (2016)

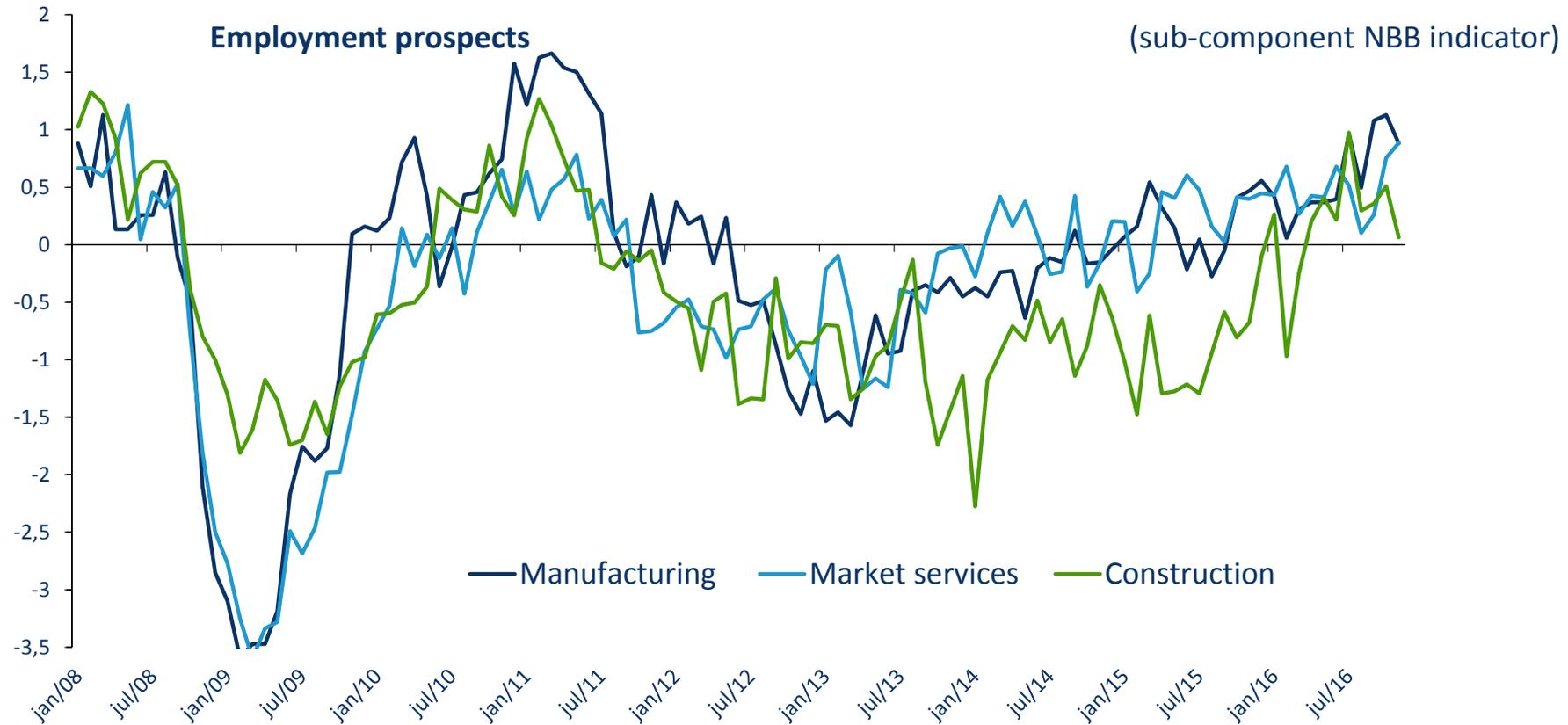
Belgium: Weak Public Investments

Weak growth stimulus by government spendings



Belgium: Labour Market

Good prospects, driven by economic recovery.

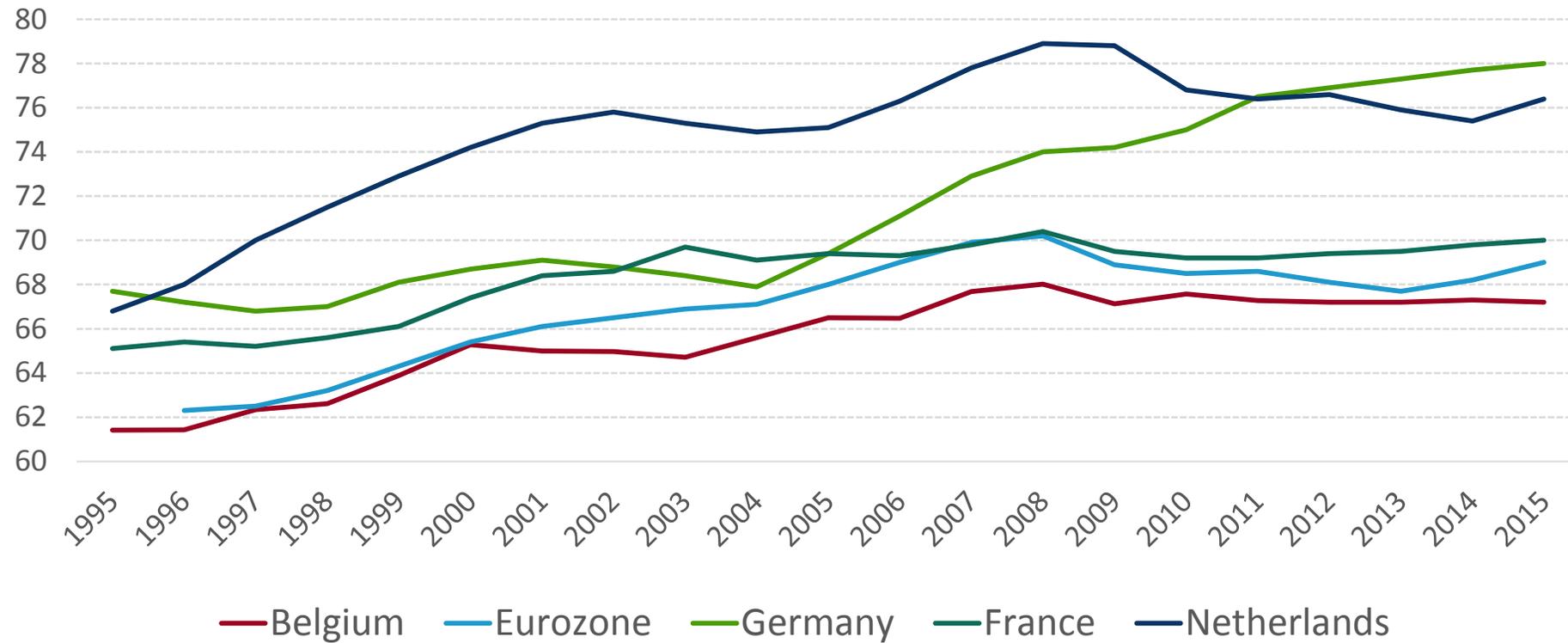


Source: NBB (2016)

Belgium: Labour Market

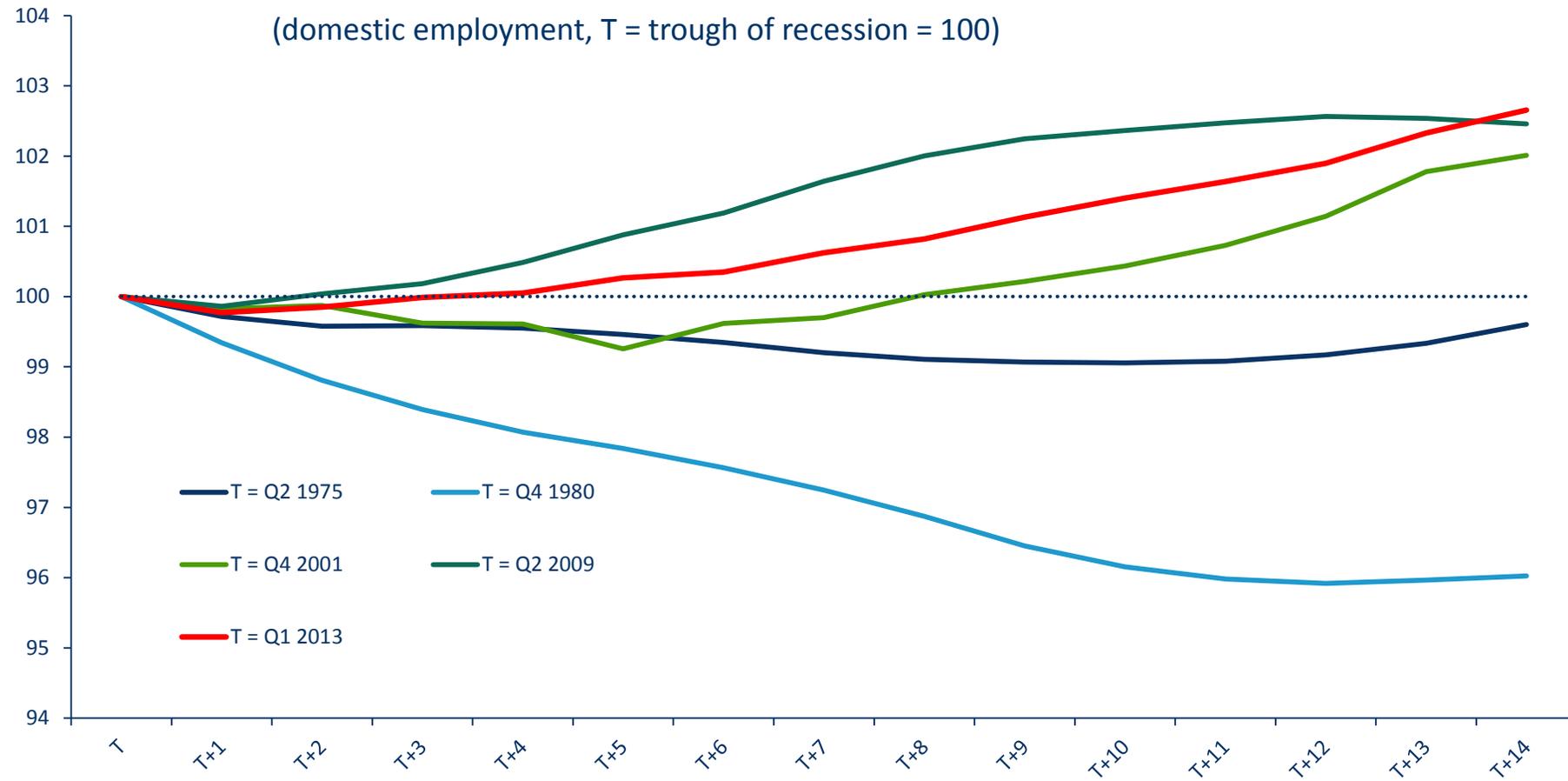
Labour participation is the main challenge...

(number of active workers as % of population aged 20-64)



Belgium: Job Creation in Belgium after Recessions

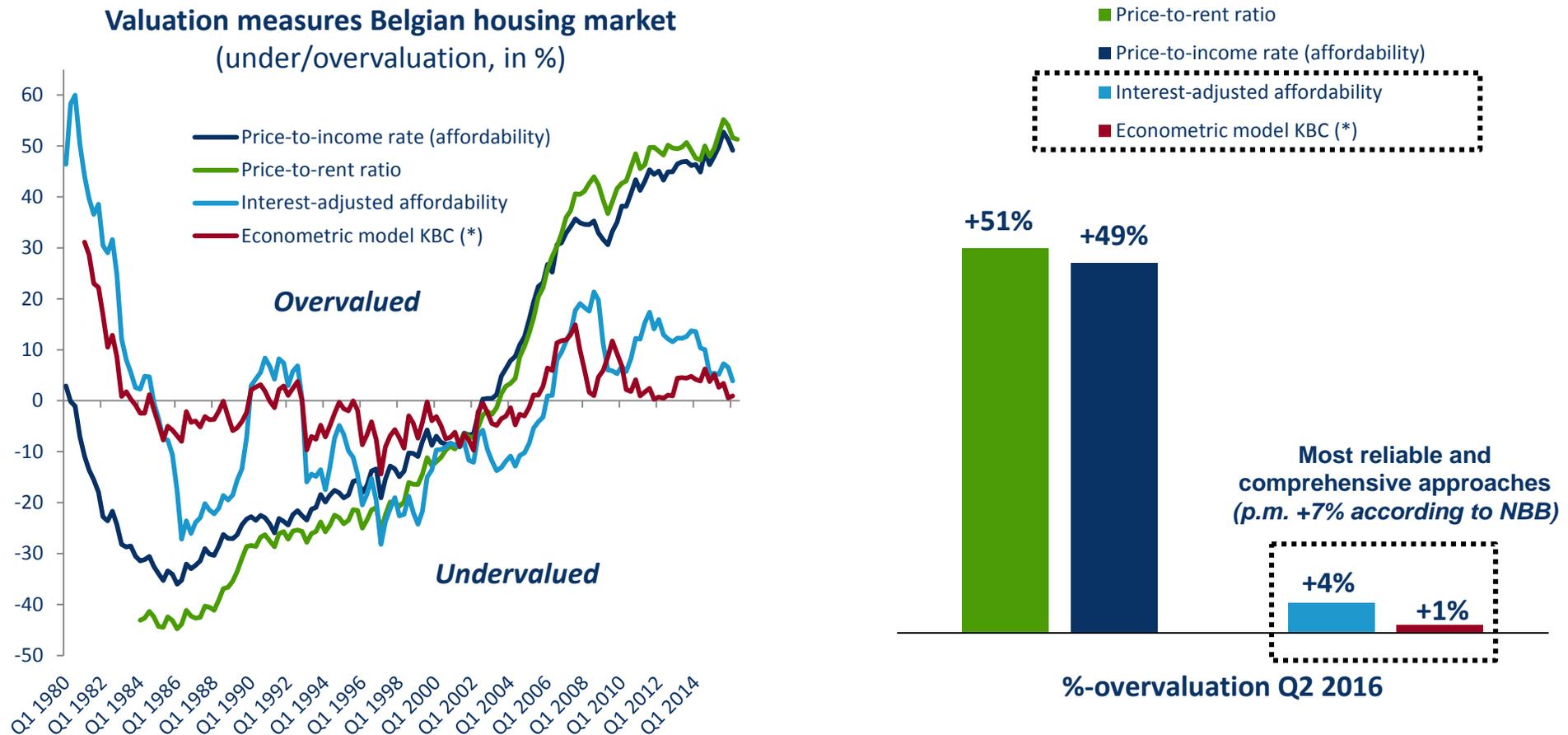
... but historically not doing bad.



Source: KBC Economic Research (2016), based on NBB (2016)

Belgian housing market: a soft landing

Not excessively overvalued according to more reliable and comprehensive valuation approaches

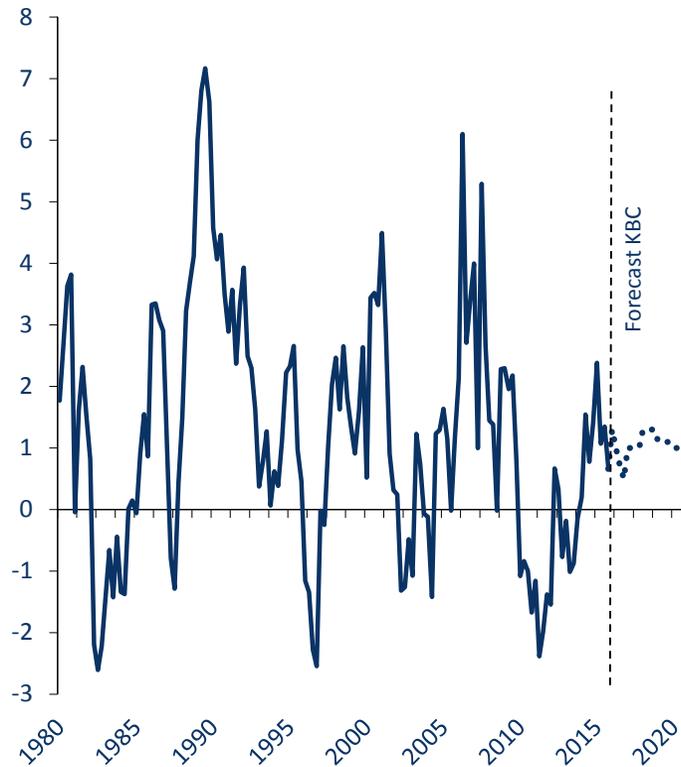


(*) Deviation from 'fundamental price' as determined by disposable income, mortgage interest rate and number of families

Belgian housing market: a soft landing

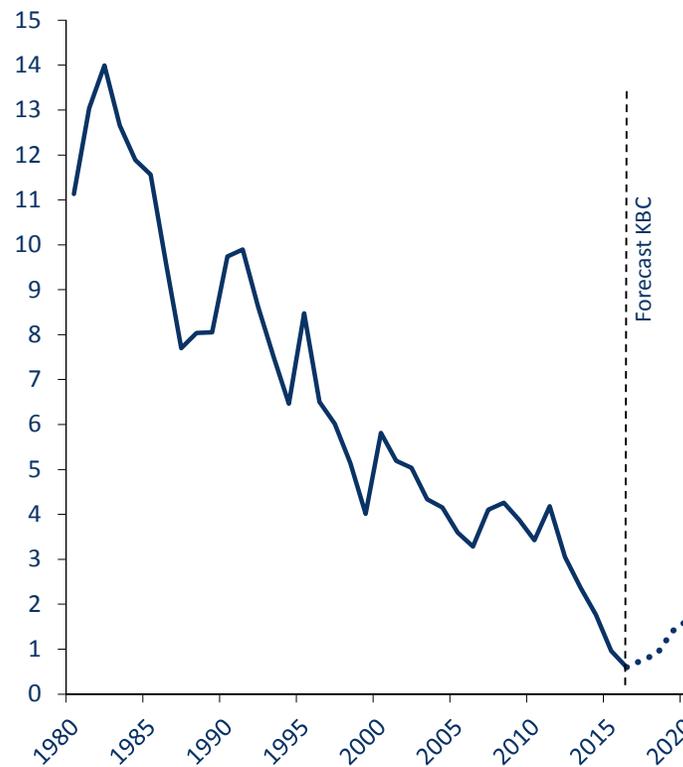
Income growth, still low interest rates and demographics make a price crash rather unlikely

Real disposable income Belgian households
(year-on-year change, in %)



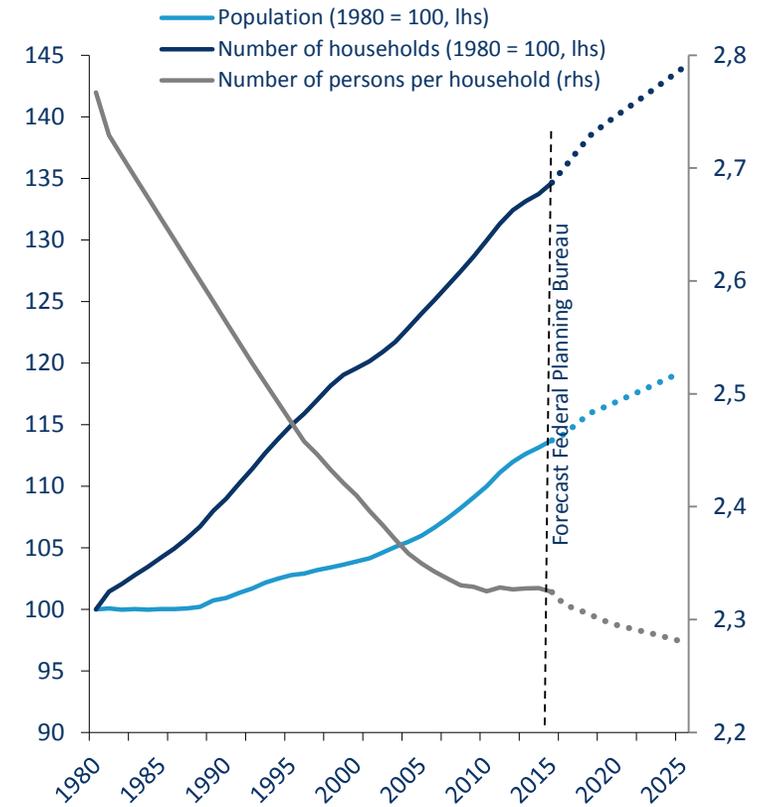
Source: NBB (2016)

Belgian long-term interest rate
(10-year government bond rate, in %)



Source: Datastream (2016)

Demographics Belgium



Source: Federal Planning Bureau (2016)

KBC-CBC Forecasts for 2017

	Current (13/12/2016)	End 2017
ECB depo rate (in %)	-0,40	-0,40
Fed fund target range (in %)	0,50-0,75	1,00-1,25
US 10 year bond yield (in %)	2,44	2,60
German 10 year bond yield (in %)	0,30	0,50
USD per EUR	1,06	1,03
Oil price	55	60

KBC-CBC Forecasts for 2017

Growth and inflation forecasts (annual average, in %)						
	Real GDP growth			Headline inflation		
	2015	2016	2017	2015	2016	2017
EMU	1,6	1,6	1,4	0,0	0,2	1,5
US	2,6	1,6	2,3	0,1	1,3	2,6
Belgium	1,5	1,3	1,2	0,6	2,0	1,6
China	6,9	6,5	6,3	1,4	2,0	2,1

4

De-Globalization: The Gradual Implosion of Global Trade

KBC Economic Research on De-Globalization

Rising Protectionism = main risk for the global economy in the near future

- Intensive follow-up on global developments by the KBC Economic Research (KBC Group NV)
 - KBC Scoreboard for Global Protectionism
 - KBC Indicators of Potential Protectionism
 - KBC Indicators of Belgian Sensitivity to Global Protectionism (upcoming)

- Country focus:
 - Advanced Economies: European Union, United States, Japan, Canada, South Korea
 - Emerging Markets: China, India, Indonesia, Brazil, Mexico, Chile

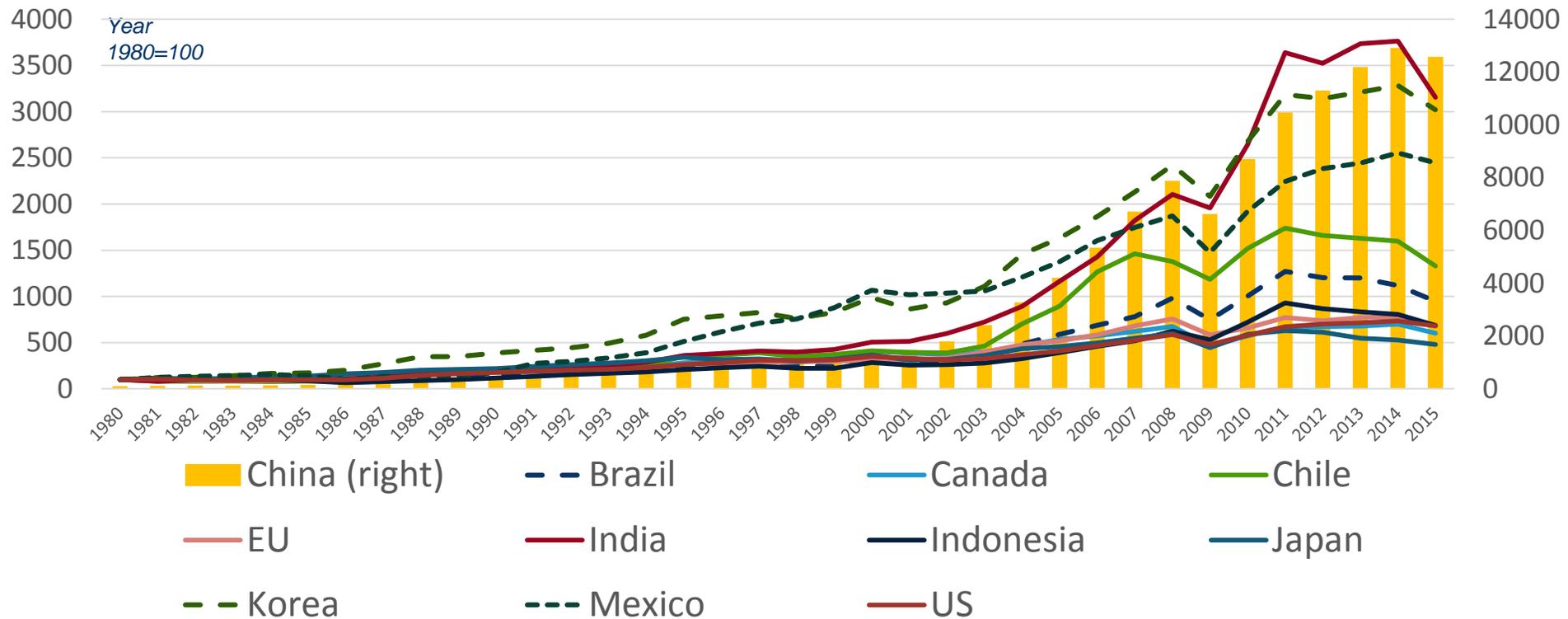
Long-term Evolution in Global Exports

Implosion of global trade = recent declining trend in world trade as % of GDP



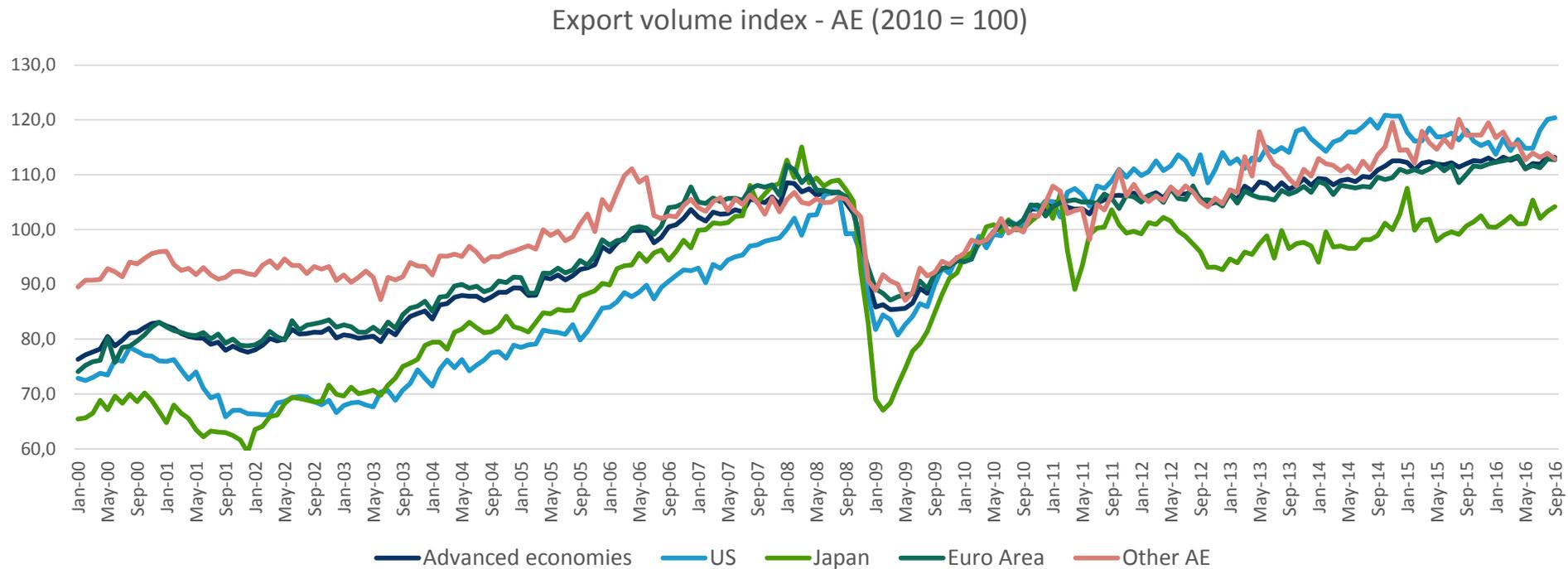
Long-term Evolution in Global Exports by Country

Impressive growth in total export values (current prices), but recently turning negative.



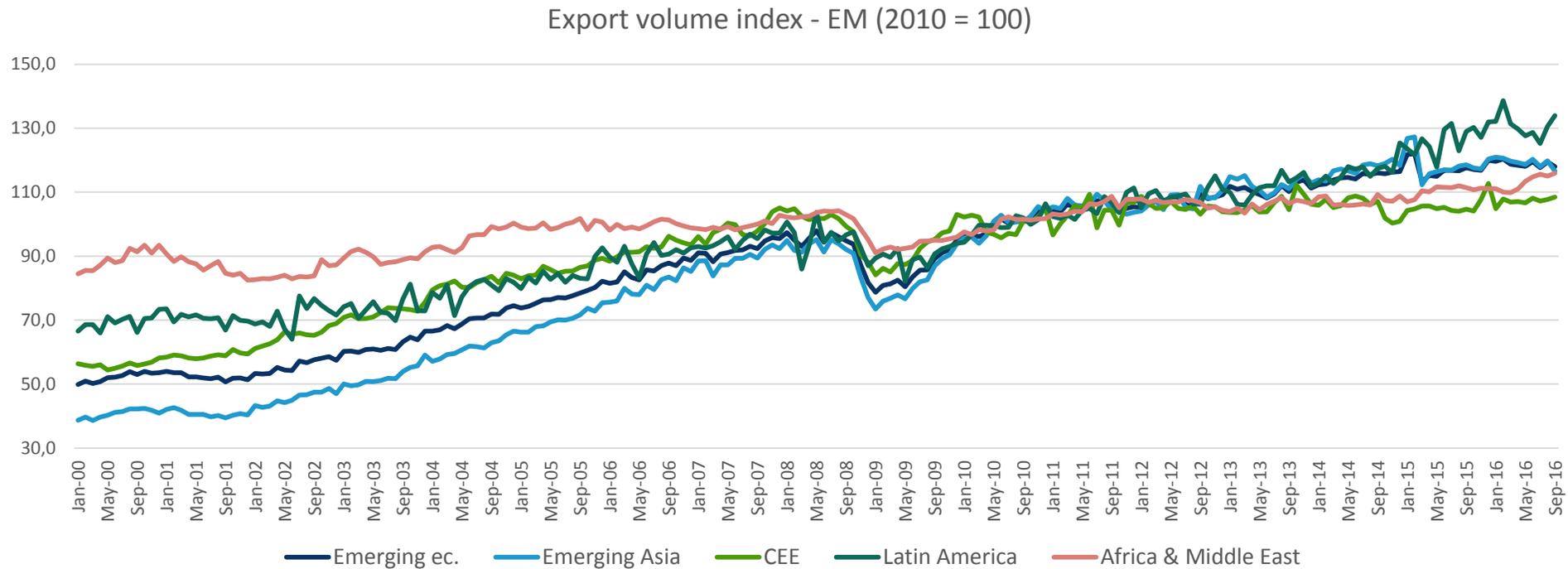
Recent Evolutions in Global Exports

Post-crisis growth in export volume is stabilizing in advanced economies.



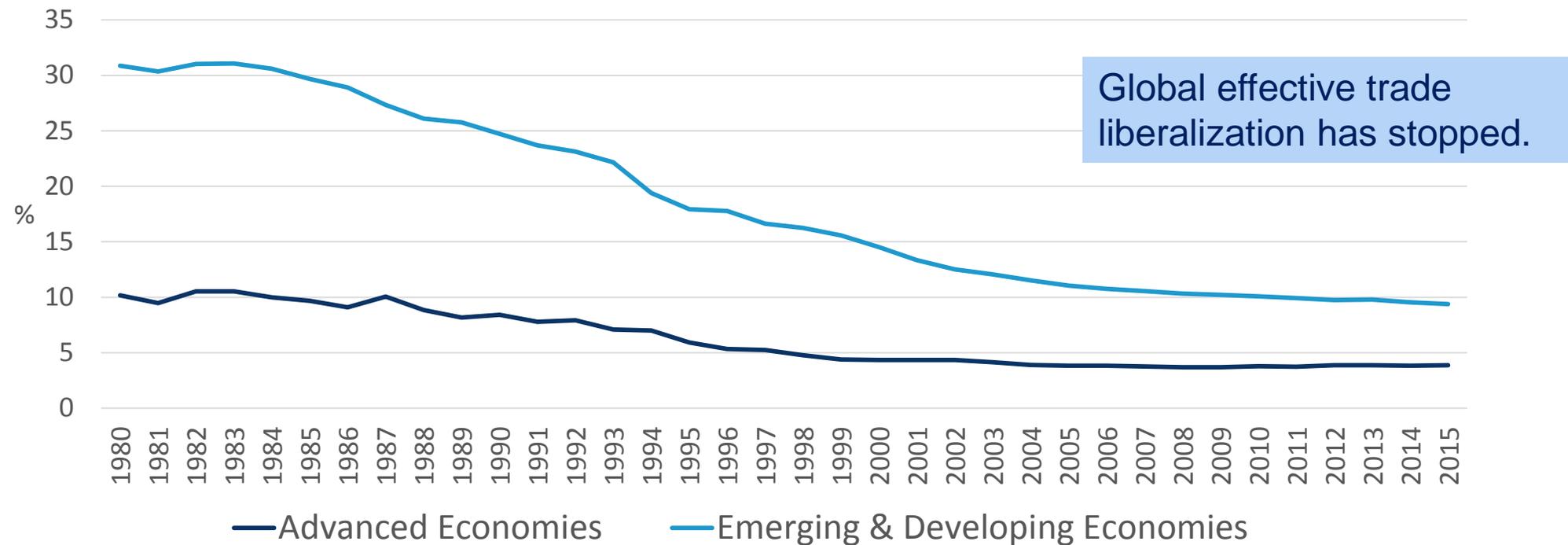
Recent Evolutions in Global Exports

Similar stabilization in export volume growth in emerging markets, but still strong performance in some countries/regions.



Evolution in Global Tariff Protection

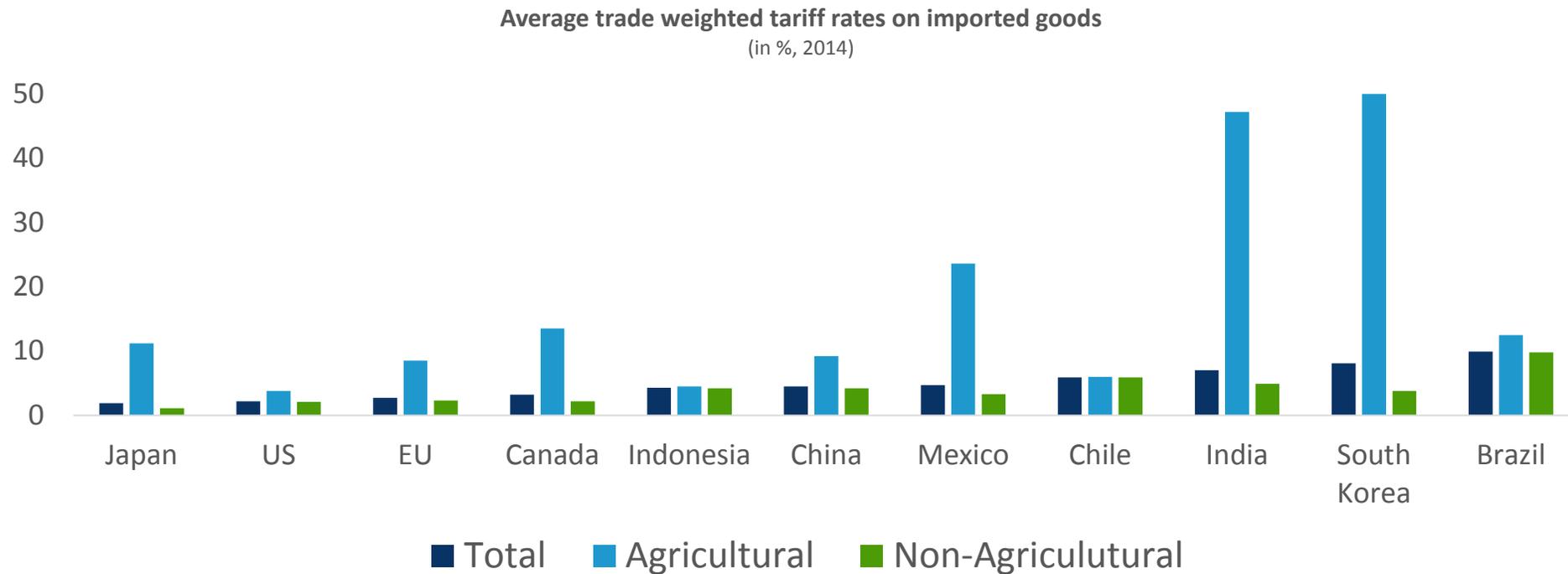
*Tariffs are the main instrument of global barriers to trade
(cfr. WTO tariffication process)*



Source: IMF (2016), KBC Economic Research (2016)

Tariff Protectionism by Country

At first glance: only protectionism left in emerging markets and in agriculture.

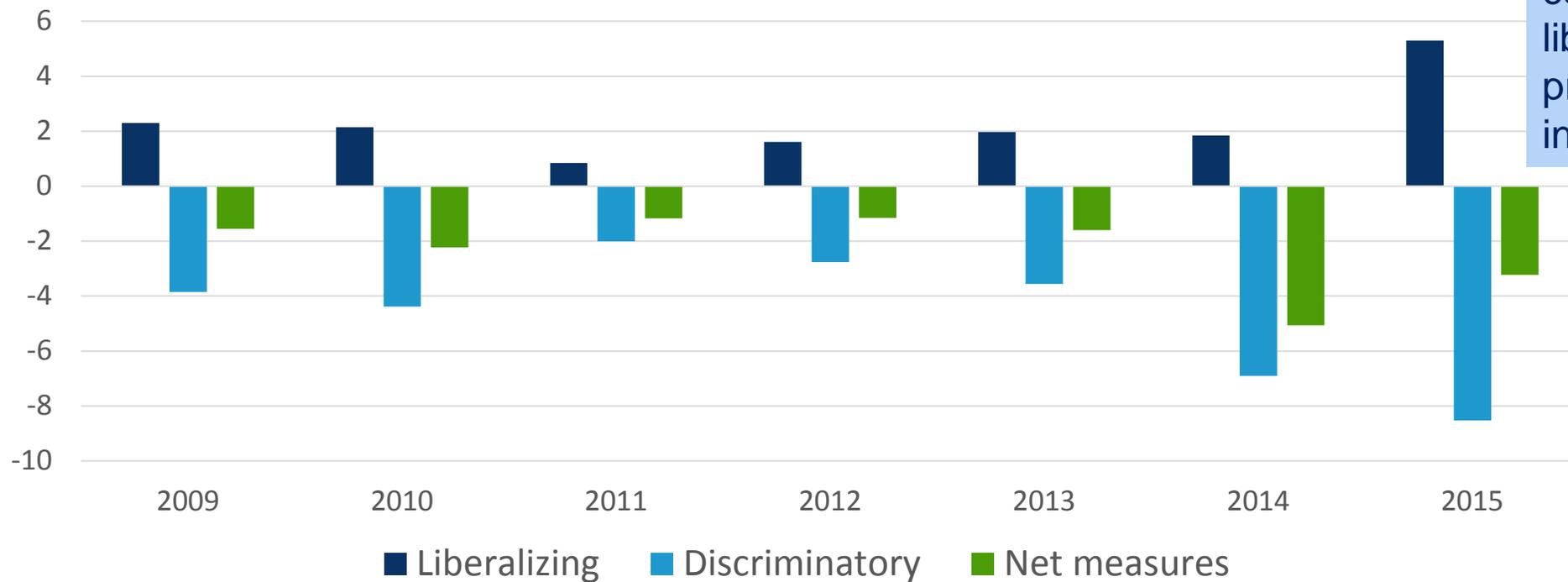


Source: WTO (2016)

Rise of Protectionism after the Crisis

Despite early warnings for devastating impact of protectionism

Number of liberalizing and discriminatory trade-related measures:



Despite continued trade liberalization, net-protectionism is increasing.

Source: Global Trade Alert (2016)

KBC Indicator of Potential Tariff Protectionism (compatible with WTO rules)

Difference between final bound WTO tariffs and trade-weighted average actual tariffs

KBC Indicator for Potential Tariff Protectionism

	EU	US	Japan	Canada	Korea	China	India	Indonesia	Brazil	Mexico	Chile
Total	2.1	1.3	2.5	3.6	8.7	5.5	41.5	32.8	21.5	31.5	19.2
Agricultural	2.4	1	5.4	3.1	-33.7	6.5	66.3	42.6	22.9	21.4	20.1
Non-Agricultural	1.6	1.2	1.4	3.1	6.4	5	29.6	31.4	21	31.5	19.1

KBC Indicator of Potential Tariff Protectionism (compatible with WTO rules)

Main findings:

Within the World Trade Organisation (WTO) framework:

- There is only limited potential for tariff protectionism by advanced economies.
- There is a substantial potential for tariff protectionism by emerging economies.
 - Notable exception: China (reason: recent WTO membership)

KBC Indicator of Potential Tariff Protectionism: SECTORS (compatible with WTO rules)

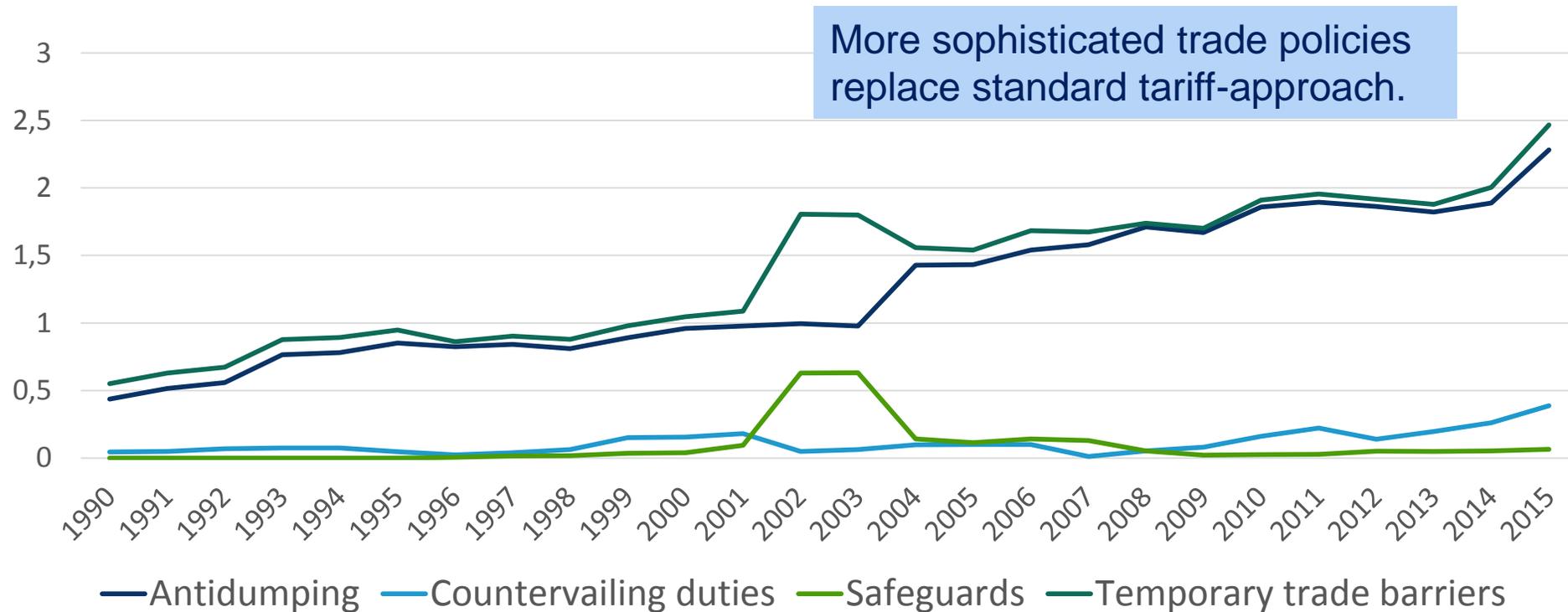
Largest potential for tariff protectionism in food-related sectors in emerging markets (except China)

KBC Indicator for Potential Tariff Protectionism: by Sector											
	EU	US	Japan	Canada	Korea	China	India	Indonesia	Brazil	Mexico	Chile
Animal products	1,9	0,1	2,4	3,4	4,9	0,8	75	39,1	29,5	37,7	19
Dairy products	2	-0,7	23	-30,4	3,8	-0,1	31,5	68,5	30,5	39,2	23,2
Fruit, vegetables, plants	-0,4	0,2	-0,3	0,5	6,7	0,1	70,7	40,1	24,3	21,4	19
Coffee, tea	0	0	-0,6	-3	17,7	0	76,8	38,6	20,8	40,2	19
Cereals & preparations	3,3	0,5	23	-2,4	-26,1	0,7	84	39,5	32,2	35,3	19,2
Oilseeds, fats & oils	0	-2,9	1,4	1,6	5,5	0,2	134,6	35,4	27	35,2	23,2
Sugars and confectionery	0,4	-2,5	6,7	0,9	16,5	-1,3	88,8	51,8	17,9	86,7	37,3
Beverages & tobacco	-0,4	-3,8	1,5	2,7	10,4	-0,3	51,9	36,9	20,5	16,8	19
Cotton	0	0	0	0,8	2	0	104	33,4	48,6	39,4	19
Other agricultural products	-0,1	0,1	0,5	0,4	1,9	0,2	82,5	36,6	21,1	21,5	19
Fish & fish products	-1	0,2	-0,8	0,1	-1,6	0,4	70,8	34,1	23,2	19,4	19
Minerals & metals	0	0	0	1,7	2,9	0,2	30,4	32,4	22,8	31,5	19
Petroleum	-0,5	0	11,2	5,9	4,5	-0,3	n.a.	39,8	34,9	37,9	19
Chemicals	0,1	0	0,1	3,7	0,2	0,2	31,7	32,8	12,8	32,9	19
Wood, paper, etc.	0	0	0,2	0,6	1	0,5	27,4	35	17,7	29,8	19
Textiles	0	0,1	0,1	8,3	7,6	0,2	15,4	17,2	11,5	25,3	19
Clothing	0,1	0	0,2	0,7	15,9	0,1	25,1	20,6	0,1	15,1	19
Leather, footwear, etc.	0,1	0,1	0,6	3,4	4,5	0,2	24,5	31,1	18,9	28,9	19
Non-electrical machinery	-0,2	0	0	3,1	3,6	0,3	21,5	30,2	19,6	32,3	19
Electrical machinery	-0,4	0	0,1	3,3	3,2	0	20,6	24,8	17,8	30,9	19
Transport equipment	-0,2	-0,1	0	-0,1	2,7	0	16,3	29	14,9	28,5	19,5
Manufactures, n.e.s.	-0,1	-0,1	-0,1	1,9	3,8	0,1	25,2	28,7	17,7	29,4	19

Source: KBC Economic Research (2016)

Trade Defence Policies: The New Protectionism

WTO-conform trade defence policies are actively and increasingly used to protect domestic economies.



Source: IMF (2016), KBC Economic Research (2016)

New Protectionist Methods: Anti-dumping

Intensively used by US (and EU) on emerging countries as well as by China on advanced countries

Gradually emerging markets develop their own trade defence strategies, in particular anti-dumping policies.

# of anti-dumping measures (initiated or in force)											
Imposer/Victim	Brazil	Canada	Chile	China	EU	India	Indonesia	Japan	Korea	Mexico	US
Brazil		2	2	57	2	6	2	1	12	7	14
Canada	3		0	20	0	4	2	2	8	1	4
Chile	0	0		0	0	0	0	0	0	1	0
China	1	1	0		17	5	0	22	11	0	22
EU	1	1	0	61		8	7	1	5	1	3
India	1	1	0	110	26		11	10	26	2	13
Indonesia	0	0	0	10	0	4		1	5	0	0
Japan	0	0	0	3	0	0	0		1	0	0
Korea	0	1	0	11	0	5	1	6		0	3
Mexico	3	0	1	31	0	2	0	1	3		10
US	10	4	1	114	0	20	9	18	20	11	

Source: KBC Economic Research (2016), based on WTO (2016)

New Protectionist Methods: Countervailing Duties

Intensively used by US (and EU) on China and India -> extensions to other emerging markets likely

# of countervailing measures (initiated or in force)											
Imposer/Victim	Brazil	Canada	Chile	China	EU	India	Indonesia	Japan	Korea	Mexico	US
Brazil		0	0	0	0	2	1	0	0	0	0
Canada	0		0	18	1	4	1	0	1	0	0
Chile	0	0		0	0	0	0	0	0	0	0
China	0	0	0		2	0	0	0	0	0	3
EU	0	1	0	8		6	1	0	0	0	1
India	0	0	0	2	0		0	0	0	0	0
Indonesia	0	0	0	0	0	0		0	0	0	0
Japan	0	0	0	0	0	0	0		0	0	0
Korea	0	0	0	0	0	0	0	0		0	0
Mexico	0	0	0	0	0	3	0	0	0		0
US	4	1	0	52	0	16	5	0	11	1	

Source: KBC Economic Research (2016), based on WTO (2016)

Other Faces of De-Globalization

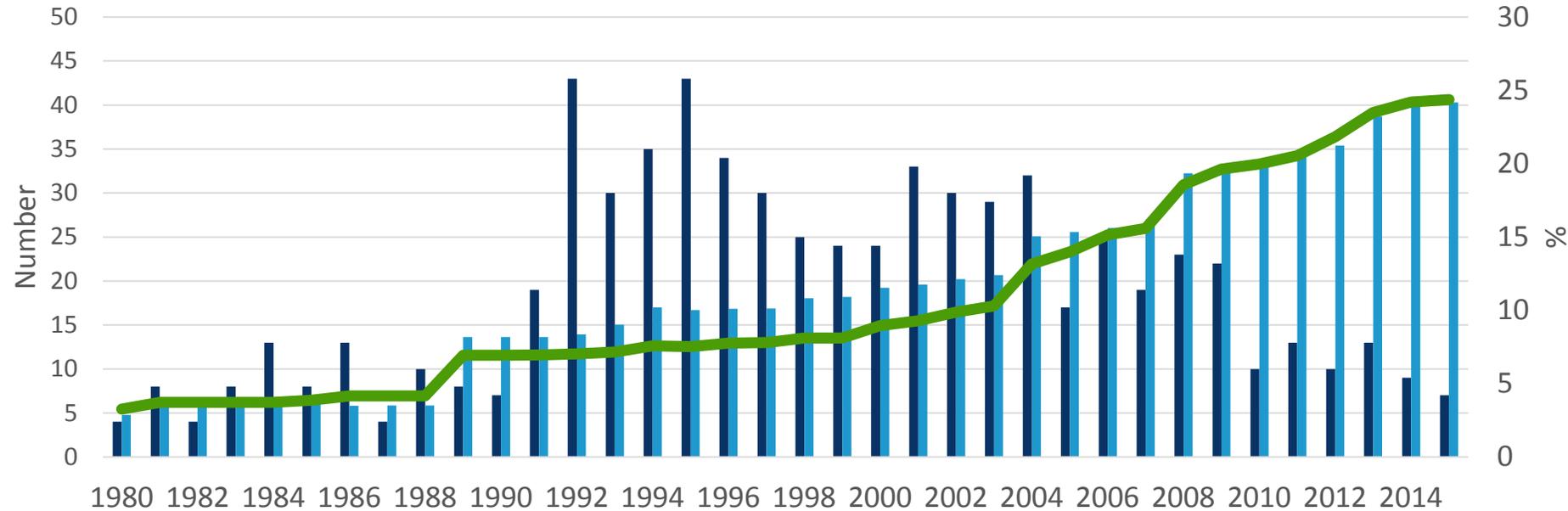
Rise in traditional barriers to trade is supplemented by

- **Anti-globalization rhetoric** in the world
- **Actual trade conflicts**
 - E.g., sanctions on/from Russia
- **Increased exchange rate volatility**
 - Competitive devaluations = easiest way to increase protectionism
- **Regulatory divergence** (cfr. Brexit-discussion)
- Move from multilateral trade liberalization to **regional and bilateral trade liberalization**

World of Regional Trade Agreements

Number of regional trade agreements is increasing.

Though leading to trade creation, also causing trade diversion.



- Number of new agreements signed (left)
- Average number of trading partners involved (left)
- Percent of global GDP covered (right scale)

Trade liberalization for some is protectionism for others.
+ Debate on current RTA trends.



Conclusions

- **De-globalization has started:**
 - Implosion of international trade flows
 - Changing international trade policies
- **Fast rise of protectionism**, even within WTO framework.
- More **sophisticated trade policies** will cause damage to world trading system.
- This will lead to an **increasing number of trade conflicts** in the world.
- In particular, **negative effects on open economies** (EU, Belgium).