

## World Economic Climate

ifo World Economic Climate Indicator Reaches Highest Level Since 2011

## Advanced Economies

Climate in Advanced Economies Remains Favourable

## Emerging and Developing Economies

Emerging and Developing Economies Expect Recovery to Remain on Track

## Heatmap

Visualisation of WES Results as a Heat Map

## New Indicator

International Trade Volume and its Expectations in Selected Aggregates

## Special Topic

A Year After the Election: Trump's Impact on the Economy



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## **NOTES**

The World Economic Survey (WES) assesses worldwide economic trends by polling transnational as well as national organisations worldwide on current economic developments in their respective countries. Its results offer a rapid, up-to-date assessment of the economic situation prevailing around the world. In *October 2017*, 1,119 economic experts in 120 countries were polled.

## **METHODOLOGY AND EVALUATION TECHNIQUE**

The survey questionnaire focuses on qualitative information: assessments of a country's general economic situation and expectations regarding key economic indicators. It has proven a useful tool, since it reveals economic changes earlier than conventional business statistics.

The qualitative questions in the World Economic Survey have three possible categories: "good / better / higher" (+) for a positive assessment resp. improvement, "satisfactory / about the same / no change" (=) for a neutral assessment, and "bad / worse / lower" (-) for a negative assessment resp. deterioration; The individual replies are combined for each country without weighting as an arithmetic mean of all survey responses in the respective country. Thus, for the time *t* for each qualitative question and for each country the respective percentage shares (+), (=) and (-) are calculated. The balance is the difference between (+)- and (-)-shares. As a result, the balance ranges from -100 points and +100 points. The mid-range lies at 0 points and is reached if the share of positive and negative answers is equal.

The survey results are published as aggregated data. For aggregating the country results to country groups or regions, the weighting factors are calculated using the gross domestic product based on purchasing-power-parity of each country.

# ifo World Economic Climate Indicator Reaches Highest Level Since 2011

The ifo World Economic Climate improved this quarter, with the indicator reaching its highest level since the second quarter of 2011 (see Figure 1). Experts assessed the current economic situation as more positive than last quarter and their expectations were also more optimistic. The climate improved in nearly all regions of the world. With the exception of the Middle East and Northern Africa, experts across the globe assessed the current economic situation more positively. Developments in their expectations were mixed. Optimism waned in advanced economies. Experts from emerging and developing economies, by contrast, expect the world economy to pick up; with Latin America contributing strongly to the improvement in expectations.

Based on exports, the price increase in the world economy will accelerate. Slightly fewer survey participants expect world trade to grow. The US dollar will appreciate against other currencies.

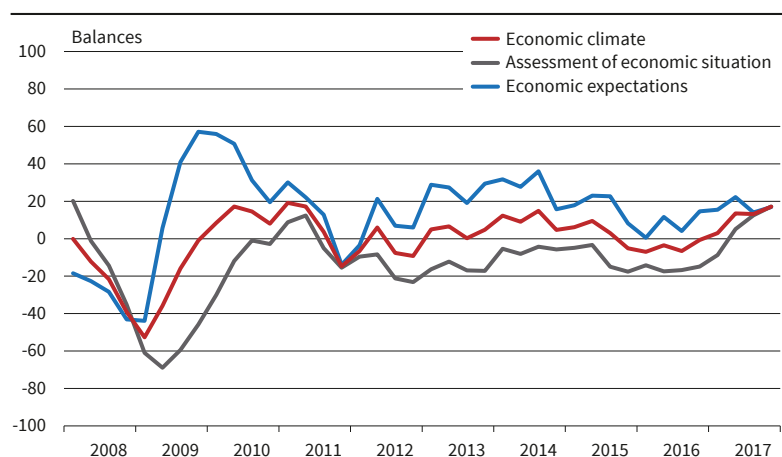
## ADVANCED ECONOMIES STABILISE AT A FAVOURABLE LEVEL

The economic climate in advanced economies improved further (see Figure 8). Economic sentiment was assessed far more favourably than the previous quarter for the fourth time in a row, but economic expectations did not improve further (see Figure 2).

The ifo Economic Climate Indicator for the Euro Area hit a new high. It rose from 35.2 points to 37.0 points in the fourth quarter of 2017, reaching its highest level since autumn 2000. Experts assessed the current economic situation as significantly better, but their economic expectations clouded over slightly. The upturn in the euro area will continue in the months ahead, but is expected to lose impetus somewhat. Experts in nearly all of the major

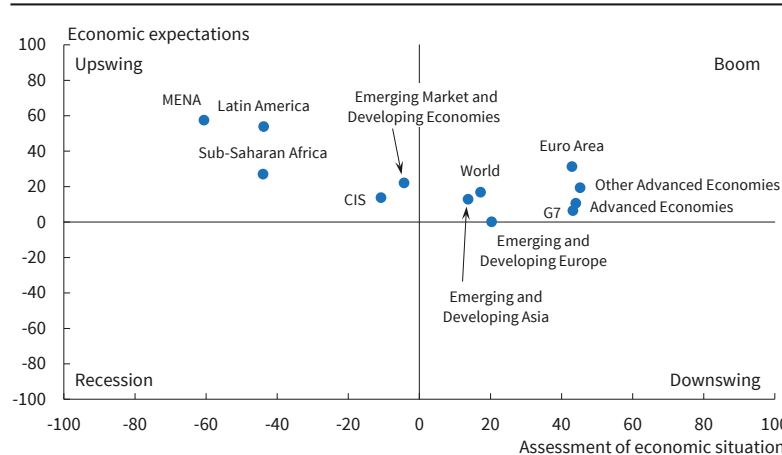
countries in the euro area assessed their current business situation as better. In **France** positive and negative assessments climbed above zero for the first time since the third quarter of 2007. Experts in the **Netherlands** almost unanimously assessed their current business situation as good. **Germany** was the only country in which very strong sentiment weakened slightly. In terms of expectations, the minor decline was primarily due to **Spain** and **Austria**. In **Italy**, by contrast, the economic outlook brightened considerably. Experts' forecasts of this year's inflation rate in the euro area as a whole remain unchanged at 1.5 percent. In the mid-term (in 2021) experts expect the inflation rate to

Figure 1  
ifo World Economic Climate



Source: ifo World Economic Survey (WES) IV/2017. © ifo Institute

Figure 2  
ifo Business Cycle Clock: Snapshot of selected Aggregates



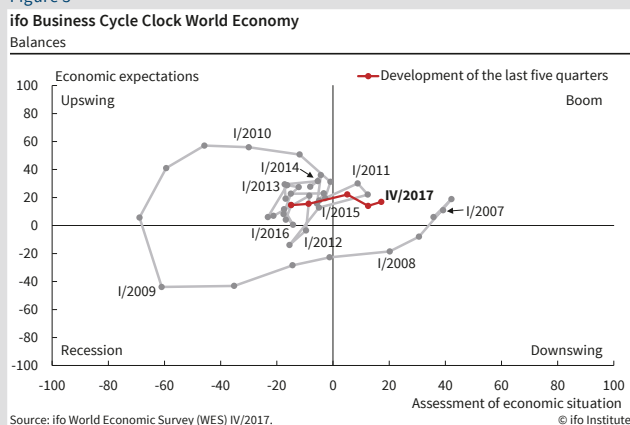
Source: ifo World Economic Survey (WES) IV/2017. © ifo Institute

### IFO BUSINESS CYCLE CLOCK FOR THE WORLD ECONOMY

A glance at the Ifo Business Cycle Clock, showing the development of the two components of the economic climate in recent years, can provide a useful overview of the global medium-term forecast. The business cycle typically proceeds clockwise in a circular fashion, with expectations leading assessments of the present situation.

According to the October survey, the Ifo Indicator for the world economy remained in the boom quadrant for the third quarter in a row. Experts assessed the current economic situation as economic expectations slightly more positive as in the previous survey. As a result, the indicator climbed slightly upward. The world economic climate is expected to stay on track for further recovery.

Figure 3



The Ifo World Economic Climate is the arithmetic mean of the assessments of the current situation and economic expectations for the next six months. The correlation of the two components can be illustrated in a four-quadrant diagram ("Ifo Business Cycle Clock"). The assessments on the present economic situation are positioned along the abscissa, the responses on the economic expectations on the ordinate. The diagram is divided into four quadrants, defining the four phases of the world business cycle. For example, should the current economic situation be assessed as negative but expectations as positive, the world business cycle is in an upswing phase (top left quadrant).

remain firm at 2.1 percent. In **Finland**, the economic climate improved further to 65.8 points as economic expectations were very favourably assessed.

With the economic outlook brightening, survey participants expressed greater confidence in their governments. Far fewer experts cited political instability and corruption as an economic problem. This, however, did not apply to Spain, where nearly all experts see the political situation as problematic. A decreasing number of experts in the euro area described demand as weak, but they cited a lack of innovation, a shortage of qualified staff and rising income inequality as a problem.

Developments in the remaining **G7** countries were heterogeneous (see Figure 7.1). **Japan** and **Canada** saw their economic climates cool down slightly due to less positive expectations, but the climate remained at around 20 points. Both the **United Kingdom** and the **United States** saw their climate improve due to better assessments of both the present economic situation and the six-month economic outlook. In the **United Kingdom** both components of the economic climate improved, but remained negative, resulting in a climate

of -31.8 points (see Figure 8.3). This represents an improvement of 14.5 compared to the previous survey. 84.2% of experts agreed that a lack of confidence in the government's economic policy was among the biggest problems facing the UK at the moment. The other economic problems identified by WES experts included inadequate infrastructure (78.9%), and political instability (75.5%). Experts updated their inflation expectations only marginally, to 2.7 for 2017 and to 2.8 for 2022 (see table 1). Survey participants in the UK now assessed the dollar as undervalued compared to the British pound. The Japanese yen and the euro are assessed as slightly overvalued vis-à-vis the pound. In the **United States** the current economic situation was assessed more favourably than in the last survey. Economic expectations recovered from the slight dip in the previous survey, and are now balanced out at zero. This suggests that economic recovery will continue in the months ahead. The euro and the British pound is seen as slightly undervalued compared to the dollar. The Japanese yen however, was assessed as very slightly overvalued vis-à-vis the dollar. Compared to results of the second quarter survey, a growing number of experts signalled political instability as an economic problem (54.8%). In line with the survey results of the second quarter this year, the biggest problems remain a lack of confidence in the government's economic policy (77.4%) and inadequate infrastructure (80.6%). The economic climate in **Japan** remained favourable, but cooled down slightly. This was due to less positive assessments of the next six months. The current situation was again reported to be more favourable than in last quarter. Assessments of private consumption improved and balanced out at zero. This is the best assessment of private consumption since the second quarter of 2014. However, experts still mentioned insufficient demand, along with a lack of confidence in the government's economic policy and lack of innovation as the biggest economic problems faced by Japan at the moment. In **Canada**, the climate cooled somewhat due to a decline in economic expectations. The present economic situation was assessed as favourably as last month at 55.6 points on the balance scale. The majority of experts cited a lack of international competitiveness, a shortfall of skilled labour and income inequality as the most prominent economic problems. Among the **Other Advanced Economies**, the best economic climates prevailed in the **Czech Republic, New Zealand** and **Sweden**. In the Czech Republic assessments of the present economic situation received the highest possible score on the balance scale for the second quarter in a row. Expectations for the next six months remained very positive. Skilled labour shortages, a lack of innovation and corruption were identified as the main economic problems. However, compared to the second quarter this year, an increasing number of experts cited a lack of trust in the economic policy of the Czech government as an economic constraint. Inflation rates were upwardly revised to 2.4 in

Table 1

## Inflation Rate Expectations for 2017 and in 5 Years (2022)

Aggregate*/Country	2017	2022	Country	2017	2022
<b>Average of countries</b>	3.4	3.5	Bosnia and Herzegovina	0.9	3.2
EU 28 countries	1.7	2.3	Brazil	3.3	4.8
Euro area a)	1.5	2.1	Bulgaria	1.8	2.8
			Cabo Verde	1.5	2.6
<b>Advanced Economies</b>	1.7	2.3	Chile	2.4	2.9
Australia	2.1	2.7	China	1.8	2.9
Austria	1.9	2.1	Colombia	4.2	3.3
Belgium	1.9	1.8	Croatia	1.5	2.2
Canada	1.9	2.2	Ecuador	1.2	2.5
Czech Republic	2.4	2.5	Egypt	28.0	10.3
Denmark	1.2	1.8	El Salvador	2.8	3.7
Estonia	3.4	2.6	Georgia	5.7	4.9
Finland	1.0	1.8	Guatemala	4.6	4.0
France	1.2	2.0	Hungary	2.2	3.2
Germany	1.7	2.1	India	4.8	4.2
Greece	1.3	2.0	Kazakhstan	7.8	6.1
Hong Kong	1.5	2.0	Kenya	8.8	8.3
Ireland	1.1	2.2	Kosovo	2.0	2.0
Israel	1.8	2.7	Lesotho	5.7	5.8
Italy	1.4	2.1	Malaysia	3.5	3.2
Japan	0.8	1.6	Mexico	5.9	4.0
Latvia	2.7	3.5	Morocco	1.7	1.9
Lithuania	3.5	2.5	Namibia	6.6	7.4
Netherlands	1.3	1.9	Nigeria	13.0	9.4
New Zealand	2.0	2.2	Pakistan	6.7	7.5
Norway	1.9	2.3	Paraguay	4.4	4.3
Portugal	1.5	2.1	Peru	3.0	2.8
Republic of Korea	1.8	2.2	Poland	2.2	2.7
Slovakia	1.4	2.4	Romania	2.3	3.2
Slovenia	1.8	2.9	Russian Federation	4.7	5.5
Spain	1.9	2.4	South Africa	5.5	5.7
Sweden	1.8	2.3	Sri Lanka	7.5	6.0
Switzerland	0.6	1.3	Thailand	1.0	2.5
Taiwan	1.0	1.3	Togo	1.5	3.2
United Kingdom	2.6	2.8	Tunisia	2.1	6.0
United States	2.0	2.6	Turkey	10.3	6.8
			Ukraine	13.8	7.2
<b>Emerging market and developing economies</b>	<b>4.9</b>	<b>4.3</b>	Uruguay	6.4	7.2
Argentina	22.6	6.3	Zambia	7.0	6.2
Bolivia	4.8	8.0	Zimbabwe	4.8	14.4

\* To calculate aggregates, country weights are based on gross domestic product based on purchasing-power-parity (PPP) in international dollars (database IMF's World Economic Outlook). – a) Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Spain, Slovenia, Slovakia.

Source: ifo World Economic Survey (WES) I/1/2017.

2017 and 2.5 in 2022 (see Table 1). In New Zealand the current economic situation was deemed considerably better than in the previous survey, soaring by 28.4 points to 90.9 on the balance scale. Experts in New Zealand are also positive about the six months ahead. In Sweden, the present economic situation was also given the best possible score on the balance scale. In **Switzerland**, by contrast, the present economic situation was assessed as less favourable than in the previous survey; but remains favourable with 35.0 points on the balance scale. Experts' short-term economic expectations brightened somewhat. The expected inflation rate for 2017 is being assessed at 0.6, while the inflation rate for 2022 remained unchanged at 1.3 (see Table 1). 63.2% of experts indicated a shortage of skilled labour as an economic problem. **Australia's** economic climate continued to brighten this quarter. Both the present economic situation and economic expectations were assessed more favourably than in the previous

survey. This resulted in a climate of 27.3 on the balance scale, the highest value since the last quarter of 2011. Only 36.4% of experts cited growing income inequality as an economic problem, compared to 92.9% in the previous survey. A lack of trust in the economic policy designed by the Australian government, as well as lack of innovation and inadequate infrastructure remained a concern for many experts. The **Asian Tigers**<sup>1</sup> saw a considerable deterioration in their expectations for the next six months, reflected in a 4.8 point slide in the economic climate to 19.1 points. Although the economic climate nevertheless remains very favourable; growth is expected to slow down. Foreign trade will also decline somewhat, but assessments remain very good. Inflation expectations were scaled back: for 2017 experts now expect an inflation rate of 1.4%, which is 0.2% lower than the previous survey. They predict an infla-

<sup>1</sup> Hong Kong, Singapore, Korea and Taiwan.

tion rate of 1.8% for 2022 (see Table 1). Over half of the experts in the Asian Tiger countries cited widening income inequality, a shortage of *skilled labour and a* lack of confidence in government economic policy as the main problems hindering their economy at the moment.

### EMERGING AND DEVELOPING ECONOMIES EXPECT RECOVERY TO REMAIN ON TRACK

The climate for emerging and developing economies stayed positive for the third quarter in a row. The current situation was judged to have improved compared to the previous survey, but remains negative. The economic outlook increased by 6.9 points to 22.1 on the balance scale (see Figure 2). Trade is still expected to pick up in these countries, albeit to a lesser extent than in the previous survey (see Box 1). Growing income inequality, corruption, and legal and administrative barriers for business are the top 3 economic problems facing these countries (see Table 3).

For the main emerging markets (**Brazil, Russia, India** and **China** – the **BRICs**) the economic climate remained positive at 7.0 on the scale for the third consecutive quarter. Business sentiment improved slightly to just below the zero-line, while the economic outlook brightened marginally. The top three economic problems in these countries are corruption, administrative and legal barriers to business and widening income inequality. The best economic climate prevailed in **India** at 13.8 points on the balance scale. However this marks a considerable drop from previous surveys, as both components were downwardly revised. Both investment and consumption were more negatively assessed than last quarter, and the trade volumes of both imports and exports are expected to decrease. More experts also expect inflation to increase in the months ahead. All of the main currencies are slightly overvalued vis-à-vis the Indian rupee. Indian experts unanimously agree that inadequate infrastructure is the biggest problem currently facing the Indian economy. In **China** both components of the economic climate were more favourably assessed than in the previous survey, resulting in a climate that points toward economic stabilisation. Growing income inequality and legal and administrative barriers to business were cited as the most prominent problems facing the Chinese economy at present. All four of the main currencies are around their proper value compared to the Chinese yuan. Inflation rate expectations did not change compared to the last survey (see Table 1). In **Russia** the hesitant recovery that started at the beginning of 2016 continues this quarter (see Figure 9.2). The present situation remained negative; but was assessed as considerably better than in the previous survey. The economic outlook remains positive; but experts are slightly more cautious about the extent of the recovery over the next six months. Over 90% of experts indicated a lack of innovation, poor international competitiveness, barriers to busi-

ness, and corruption as hindering their economy at the moment. Both investment and consumption saw small improvements, but remain weak. Trade volumes, on the other hand, are expected to increase in the months ahead, imports more so than exports, which would boost the existing trade deficit. Economic expectations in Brazil turned very positive this quarter. Combined with less negative assessments of the present economic situation, this resulted in an improvement of 32.6 points to -8.4 on the balance scale. Insufficient demand, inadequate infrastructure and corruption are cited by over 90% of respondents as an economic problem.

### OTHER EMERGING MARKETS

Within the other aggregates of emerging and developing economies, **Latin America** improved the most, but economic activity nevertheless remained subdued. Although the present business situation brightened somewhat compared to the last survey, it is still assessed as weak. Improvements, however, are expected over the next six months. **Emerging and developing Asia** continued to signal stable recovery at 13.3 points on the balance scale. The economic recovery that started in previous survey is proving sluggish in **emerging and developing Europe**, where the economic climate indicator dropped by 10.5 points to 10.0 points (see Figure 7). Experts' economic outlook in particular is more negative this survey than in previous quarters. Emerging and Developing Europe is the region bordering the downswing quadrant in the ifo business Cycle Clock (see figure 2). The economic outlook in the **Middle East and North Africa** remained positive on the whole, but assessments of the present situation deteriorated by 10 points. The economic climate nevertheless improved, albeit at a low level.

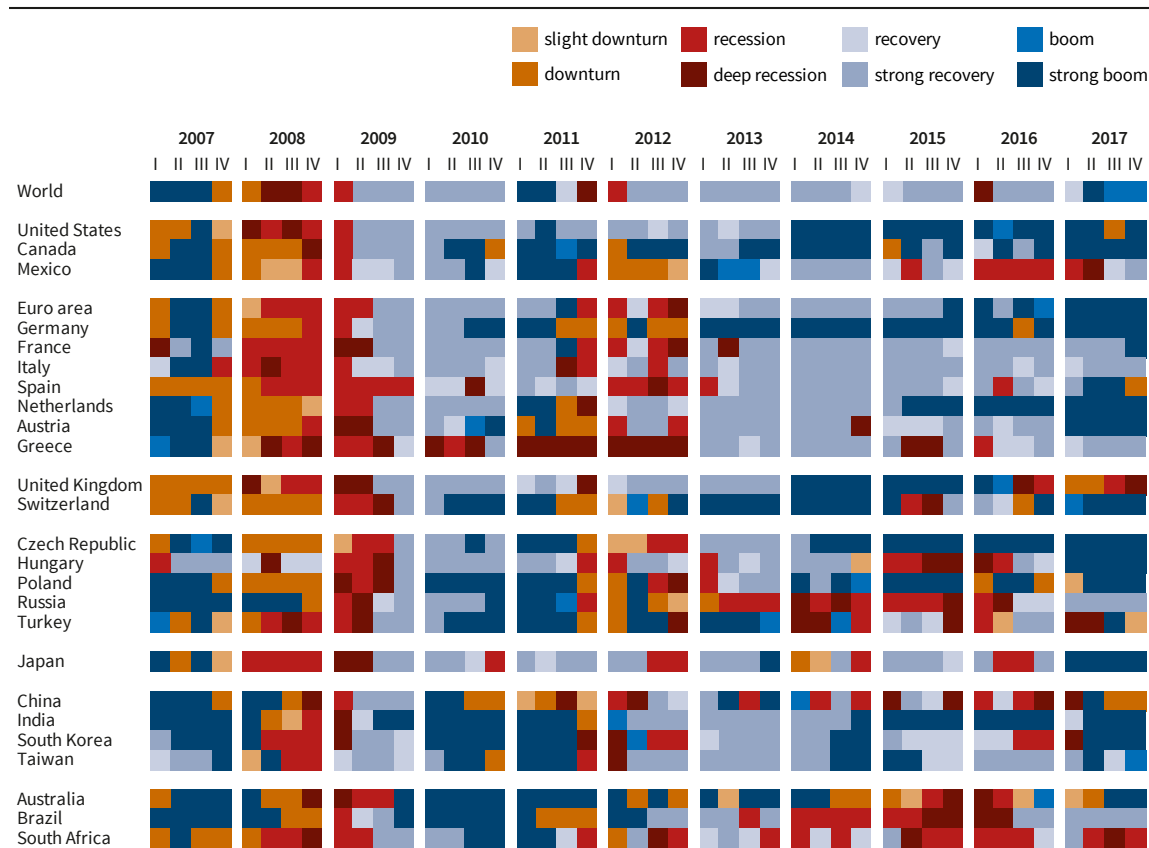
The cool-down in the economic climate of **Emerging and Developing Asia** is mainly caused by **India, Pakistan** and the **Philippines**. In all three countries, expectations and assessments of the present situation deteriorated. This, however, only resulted in a negative economic climate in Pakistan. The **Asean-5<sup>2</sup>** countries (see Figure 7) saw a strong improvement in their economic climate. Their assessments of the current situation remained unchanged, but experts are considerably more optimistic about the future. An upturn in investment was reported and private consumption remained at a very good level. Exports are also expected to pick up and exceed imports, improving the trade balance somewhat. Inflation for the current year was downwardly revised from 4.0 to 3.4; while inflation rate expectations for the next 5 years remained unchanged (see Table 1). Corruption was cited as an economic problem by 93.9% of experts. Other problems mentioned included insufficient skilled labour and a lack of international competitiveness.

<sup>2</sup> Indonesia, Malaysia, Singapore, Philippines and Thailand.



Figure 4

Visualisation of WES Results as a Heat Map



Notes: The assessments of the current situation and economic expectations for the next six months are visualised as a Heat Map (see Figure 4). The results of the survey are represented by a four colour scheme that illustrates the four phases of a business cycle: boom, downswing, recession, and upswing. These colours are slightly lighter when the values of the assessment of current situation and economic expectations are within the range of -20 and +20. To emphasise the different extends of the four phases.

Source: ifo World Economic Survey (WES) IV/2017.

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In **emerging and developing Europe, Bulgaria** was the only country to see an improvement in its economic climate, which is now at 24.4 points. **Croatia's** economic climate remains stable at a very favourable level (33.7 points). In **Hungary** and **Poland** the economic climate deteriorated slightly, but remained positive. In **Romania** and **Turkey** both components of the climate dropped, resulting in a poorer economic climate in both cases. A lack of innovation and trust in government economic policies coming remains a big problem for the countries in this region (see Table 3). In **Romania**, the economic problems cited by over 80% of experts include inadequate infrastructure, a lack of international competitiveness, a shortage of skilled labour, growing income inequality, and corruption. Inflation rate rose by 0.7 to 2.3 for 2017, but the expected inflation rate for 2022 was only marginally revised from 3.5 to 3.2 (see Table 1). **Turkey's** economic climate was more subdued than in the previous survey, as experts' outlook turned pessimistic. Continued weak investment along with the weakening domestic consumption reported by the survey respondents may be one of the underlying factors. The expected inflation rate for 2017 was revised by 0.7% to 10.3%, while the expected infla-

tion rate for 2022 was revised by 0.8% to 6.8% (see Table 1). According to the respondents, Turkey's main economic problem is its lack of innovation, which was cited by 90.9% of the experts surveyed.

Thanks to a far brighter economic outlook, the economic climate for **Latin America** (see Figure 7.2) approached zero (which signals cautious economic growth) for the first time since 2013. The economic climate in **Argentina** saw a remarkable increase from 1.6 points on the balance scale to 45.2 points. Assessments of the current economic situation in particular were more positive, but the economic outlook also continued to brighten. Both investment and private consumption was assessed as stronger than last quarter. In addition, trade volumes in both imports and exports are expected to increase. The expected inflation rate for 2017 was slightly downwardly revised, but remains very high at 22.6%. The expected inflation rate for 2022 was also revised from 8.5% to 6.3% (see Table 1). **Mexico** saw a slight deterioration in its economic climate indicator, which now rests at -14.4 points, as the economic outlook clouded over somewhat. The present economic situation did not improve and remained unchanged at -33.3 balance points. Corruption and a

lack of trust in economic policy were cited as the most prominent economic problems facing Mexico at present. Investment and consumption were assessed as weak, and foreign trade volume for both imports and exports is expected to decrease. Both components of the economic climate in **Peru** rose considerably, resulting in a favourable economic climate of 26.1 points. This represents an improvement of 54.8 points. Investment and private consumption picked up somewhat, but remain weak. All of the main currencies are reported to be undervalued vis-à-vis the Peruvian sol. Foreign trade volumes are expected to increase in the months ahead.

The climate of the **Commonwealth of Independent States** remained close to zero for the third quarter in a row. This time the present situation was more favourably assessed, but economic expectations were downwardly adjusted, although they remain positive. The economic climate in the **Ukraine** remained favourable, while the economic outlook continued to improve. The present economic situation was again assessed as negative. WES experts for Ukraine decided unanimously that corruption was the biggest constraint on the Ukraine's economy. Inflation rates for 2017 were upwardly corrected from 9.0% in previous survey to 13.8% in this survey (see Table 1). Countries from both the **Middle East and North Africa (MENA)** and **Sub-Saharan Africa** saw another improvement in their economic climate, albeit at a low level. The economic outlook for both aggregates was more favourably assessed than last quarter. Experts from the MENA countries indicated that their economy was hindered by a shortage of capital and lack of skilled labour. In Sub-Saharan Africa the main economic problems remained growing income inequality and corruption (see Table 3).

## INTERNATIONAL TRADE VOLUME AND ITS EXPECTATIONS IN SELECTED AGGREGATES

In the previous ifo World Economic Survey (WES Report III/2017) we presented the ifo World Trade Indicator (WTI). This indicator represents WES experts' expectations regarding exports and imports for their country. With a cross-correlation analysis we showed that the WTI has a good correlation to the World Trade Monitor (WTM) from the CPB Netherlands Bureau for Economic Policy Analysis (CPB). The WTM is a statistic published monthly with a time-lag of two months and typically subsequently revised. Our analysis in last quarter's WES Report considered global trade. The results of the cross-correlation for the same time were 0.70 and 0.76 with a delay of one quarter. This indicates that the series are very well correlated, which means the WTI is a reliable proxy for world trade as measured by the WTM.

Due to increasing trade between countries and the impact of trade on growth and living standards, it is important to be able to predict trade. Firms, however, do not trade with every area in the world to the same degree. Instead, trade still seems to be regional, either

because of currency unions like the Euro Area or due to regional trade agreements. It is therefore important for decision makers and economic forecasters working for governments and companies worldwide to understand developments in trade volume in their relevant regions. For this reason it's interesting to check the synchronous run between the WES Trade Expectations (the aggregated answers by the WES experts for the expected foreign trade volume in their respective countries) and the CPB's statistics for selected economic aggregates like advanced economies, the Euro area, emerging market and developing countries and Latin America.

To compare the two time series for every selected aggregate, we decided to convert the monthly WTM series into quarterly frequency data, by adding together the months of the respective quarter and dividing by three. Given that WES experts are asked for their expectations in the change of foreign trade volume, we calculate the rate of change from quarter to quarter. The resulting data of the WTM and the WES Trade Expectations for selected aggregates are presented in Figure 5.

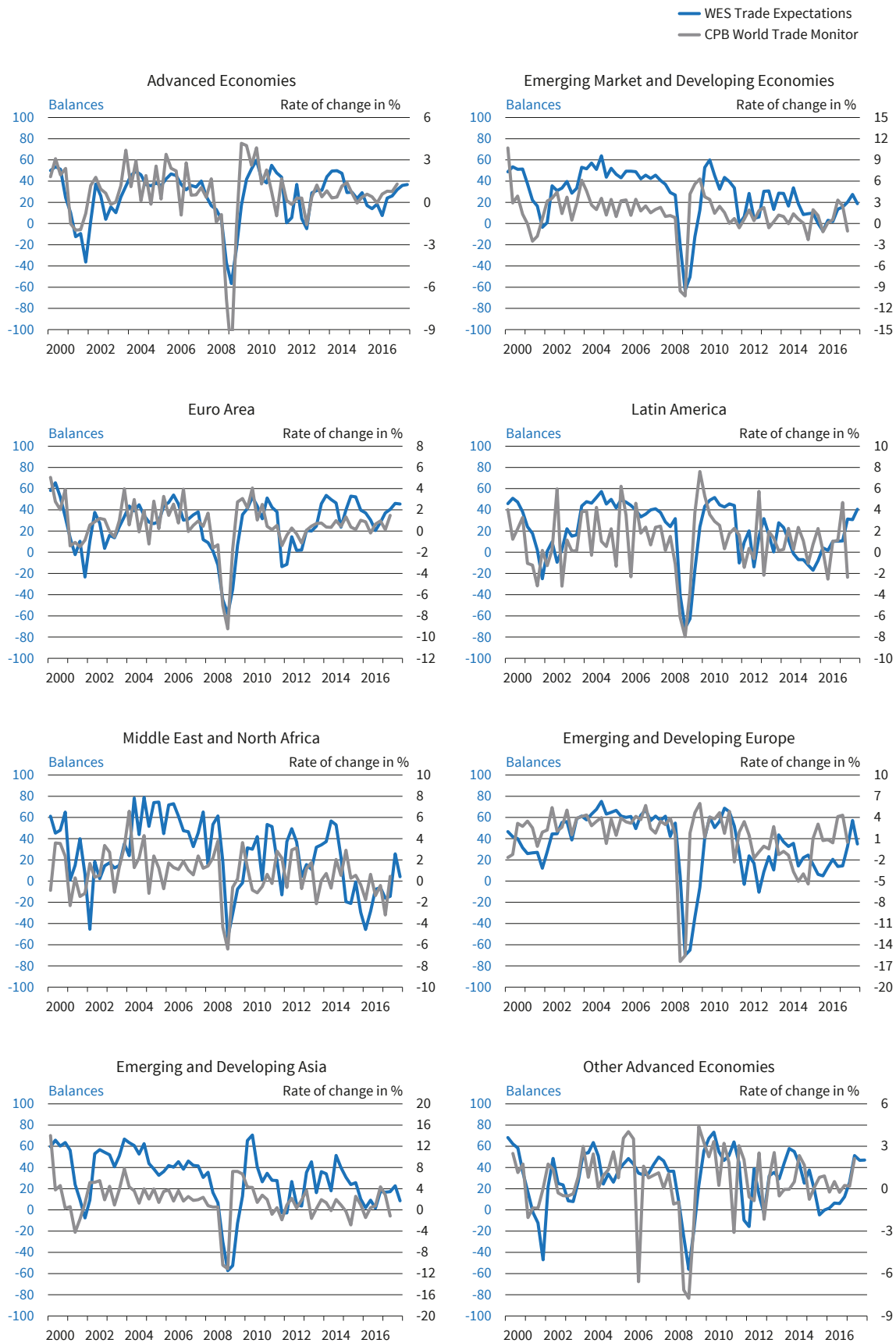
A first visual comparison reveals a link between the two time series in the selected aggregates. This suggests that WES experts have a good idea of the developments in foreign trade volume in their respective countries. To obtain a more official comparison, we use a cross-correlation analysis to determine the correlation between the two time series of the selected aggregates. In general, a cross-correlation is a measure of the similarity between two time series as a function of the time lag of one relative to the other. The resulting correlation coefficients are located in an interval between -1 and +1. A high coefficient stands for a high statistical link between the two time series. A zero identifies non-correlation.

To identify the WES Trade Expectations as a leading indicator to the WTM, the cross-correlation coefficient from WES in the current quarter to WTM of next quarter is calculated. Secondly, we calculate the correlation between the two time series simultaneously, without any time adjustment. Thirdly, to check if the WES Trade Expectations has a delay, the cross-correlation coefficient from WES in the current quarter to WTM of previous quarter is calculated. The results for the selected aggregates are presented in Table 4.

The coefficients of cross-correlation are the weakest over all selected aggregates if we test the WES Trade Expectations as a leading indicator of one quarter. With a value of 0.50, the Euro area performs best in this ranking (first column of Table 4). The coefficient for the advanced economies is 0.45 and for other advanced economies is 0.33. Only a fourth of the development in the foreign trade volume of Latin America can be explained by the WES Trade Expectations for Latin America. In the second column of Table 4 we compare the correlation in the same quarters of both time series for the selected aggregates. Here again, the advanced economies show the highest coefficient of 0.73. The Euro area also boasts a high correlation (0.72). The

Figure 5

Comparison of WES Experts Trade Expectations and the CPBs World Trade Monitor in Selected Aggregates



Source: ifo World Economic Survey (WES) IV/2017; CPB Netherlands Bureau for Economic Policy Analysis (CPB).

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Table 2

**Expected Growth of Real Gross Domestic Product (GDP) in 2017 (based on WES QIV/2017 and QII/2017)**

Aggregate* / Country	QIV/2017	QII/2017	Country	QIV/2017	QII/2017
Average of countries	3.5	3.3	Bulgaria	3.0	3.1
EU 28 countries	2.2	1.9	Cabo Verde	3.8	3.8
Euro area a)	2.1	1.7	Chile	1.7	1.7
			China	6.5	6.0
<b>Advanced Economies</b>	2.1	2.0	Colombia	1.9	2.1
Australia	2.5	2.5	Croatia	2.9	2.8
Austria	2.5	1.8			
Belgium	1.7	1.5	Ecuador	0.9	0.4
Canada	3.0	2.3	Egypt	4.4	3.6
Czech Republic	3.9	2.6	El Salvador	2.4	1.9
Denmark	2.2	1.8	Georgia	4.9	4.2
Estonia	3.5	1.7	Guatemala	3.1	3.2
Finland	2.9	1.7	Hungary	3.2	2.7
France	1.7	1.4	India	6.7	7.0
Germany	1.9	1.6	Kazakhstan	3.2	1.9
Greece	1.4	0.7	Kenya	4.3	5.5
Hong Kong	3.5	2.3	Kosovo	3.0	3.9
Ireland	4.1	4.1	Lesotho	2.5	3.2
Israel	2.8	2.8	Malaysia	3.5	2.4
Italy	1.4	1.0	Mexico	1.9	1.7
Japan	1.5	1.1	Morocco	3.6	3.9
Latvia	3.1	2.4	Namibia	1.1	1.8
Lithuania	3.7	2.7	Nigeria	1.5	1.8
Netherlands	2.5	1.9	Pakistan	5.2	4.8
New Zealand	2.7	2.4	Paraguay	4.0	3.9
Norway	2.1	1.3	Peru	2.8	2.7
Portugal	2.4	1.7	Philippines	6.3	6.6
Republic of Korea	2.7	2.5	Poland	3.9	3.1
Slovakia	3.5	3.2	Romania	4.8	3.9
Slovenia	4.2	2.9	Russian Federation	1.5	1.0
Spain	2.9	2.8	South Africa	1.0	0.9
Sweden	2.9	2.4	Sri Lanka	4.8	5.2
Switzerland	1.2	1.5			
Taiwan	2.2	2.0	Thailand	3.1	3.4
United Kingdom	1.6	1.6	Togo	5.0	5.2
United States	2.2	2.3	Tunisia	1.9	2.4
			Turkey	4.8	3.1
<b>Emerging market and developing economies</b>			Ukraine	2.6	0.7
Argentina	2.8	2.2	Uruguay	3.0	2.3
Bolivia	3.9	4.2	Venezuela	-11.0	-4.9
Bosnia and Herzegovina	2.5	2.7	Zambia	4.0	3.7
Brazil	0.9	0.6	Zimbabwe	0.7	1.9

\* To calculate aggregates, country weights are based on gross domestic product based on purchasing-power-parity (PPP) in international dollars (database IMF's World Economic Outlook). – a) Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Spain, Slovenia, Slovakia.

Source: ifo World Economic Survey (WES) IV/2017

aggregates of other advanced economies, emerging market and developing economies, Latin America and emerging and developing Asia have a correlation coefficient of almost 0.50. In the third column of Table 4 we compare the WES Trade Expectations with the WTM of the previous quarter. In this case the emerging market and developing economies and the Euro area show a high coefficient with 0.69. The coefficient for the emerging and developing Europe and the advanced economies is 0.67. Emerging and developing Asia follows with 0.66 and Latin America with 0.58.

Depending on the aggregate in question, the WES indicator has good results at the same time (simultaneous) or in some cases, it is better to compare the WTI to the WTM of the previous quarter (with a delay of one

quarter). In the case of simultaneous the aggregates of the advanced economies, the Euro area and other advanced economies, the WES Trade Expectations largely explain developments in foreign trade volumes. With a delay of one quarter, the aggregates of the emerging market and developing economies, Latin America, the Middle East and North Africa, emerging and developing Europe and emerging and developing Asia have the best correlation for the two time series.

The statistical analysis backs up the insights gained from plotting the two series for the selected aggregates. The WES Trade Expectations has a good degree of synchronism with WTM in the same period for the aggregates with advanced countries, and with one quarter delay to the WTM for the aggregates with

Table 3

**Economic Problems ranked by World Importance\***

	World	Advanced Economies	Emerging and Developing Economies	EU	Developing Europe	Developing Asia	Latin America	CIS	Mena	SubSaharan Africa
Widening income inequality	70.7	64.2	76.1	54.8	58.5	82.4	61.1	63.7	79.2	86.3
Lack of skilled labour	65.0	58.4	70.3	56.2	68.2	70.6	63.3	66.8	90.8	64.1
Lack of confidence in government's econ. policy	58.4	61.5	55.9	52.3	77.0	40.5	75.4	82.9	75.5	81.8
Lack of innovation	58.1	43.2	70.0	55.2	88.6	63.1	78.7	99.3	54.2	80.5
Legal and administrative barriers to business	57.6	38.1	73.4	39.2	38.7	79.4	62.8	85.2	79.0	50.0
Inadequate Infrastructure	54.6	55.5	53.9	50.1	44.7	38.8	88.2	78.4	70.8	84.5
Corruption	51.0	23.9	73.0	30.3	56.7	70.0	89.3	92.7	48.6	91.6
Lack of international competitiveness	48.1	33.8	59.6	37.6	66.7	46.2	74.6	91.3	81.7	84.2
Capital shortage	24.6	10.9	35.7	21.9	56.9	16.8	37.5	78.2	86.6	82.8

\*Numbers are based on percentages of experts indicating their country is facing this problem at the moment. Highlighted problems are the top 3 most important economic problems for each region.

Source: ifo World Economic Survey (WES) VI/2017.

Table 4

**Coefficients of Cross-correlation**

	Lead of one quarter	Simultaneous	Delay of one quarter
Advanced Economies	0.45	0.73	0.67
Emerging Market and Developing Economies	0.06	0.51	0.69
Euro Area	0.50	0.72	0.69
Latin America	0.24	0.49	0.58
Middle East and North Africa	0.18	0.37	0.43
Emerging and Developing Europe	0.12	0.43	0.67
Emerging and Developing Asia	0.04	0.46	0.66
Other Advanced Economies	0.33	0.53	0.50

Source: ifo World Economic Survey (WES) IV/2017; CPB Netherlands Bureau for Economic Policy Analysis (CPB); own calculations.

emerging and developing countries. The weakest correlation coefficient is finding when the WES is used as a predictor for the WTM. This is a good result for the WES indicator when the publication dates of both time series are taken into consideration. The current WES, which takes into account economic developments in Q4, is published in early November and its survey is conducted in October. The CPB publishes the WTM data for October at the end of December. This difference will be even greater for quarterly data, as the WTM does not complete its fourth quarter (December) until the end of February 2018. When compared at the same time, the WES survey has an advantage of three months. The advantage goes down to two weeks if the WES indicator needs a delay of one quarter to correlate better with the WTM.

Further research could include the same analysis with the unrevised data from the WTM (we currently use the most up to date data). A further analysis of why the results for advanced and emerging economies differ so much is needed.

**A YEAR AFTER THE ELECTION – TRUMP'S IMPACT ON THE ECONOMY**

A year after the election of Donald Trump as President of the US, his popularity ratings are down<sup>3</sup> and there is an ongoing debate over whether he will be able to keep his election pledges. The question is how successfully is Trump leaving his mark on domestic and international policy? To gain a better perspective on the influence of the Trump administration in the eyes of US economic experts, as well as economic experts around the world, we asked WES experts to assess the influence of the Trump administration on both US economic policy and international politics.

The first question attempted to gauge the economic impact of the Trump administration in general on the US economy, on the economy of different coun-

<sup>3</sup> [https://www.washingtonpost.com/page/2010-2019/Washington-Post/2017/11/05/National-Politics/Polling/release\\_502.xml](https://www.washingtonpost.com/page/2010-2019/Washington-Post/2017/11/05/National-Politics/Polling/release_502.xml)

Table 5

## Assessments of WES Experts on the Influence of the Trump Administration on International Policy Outcomes in Percentages

	Positive	United States In-effective	Negative	Positive	World In-effective	Negative
Balancing International Trade	4.1	54.1	41.6	2.6	63.6	33.7
International Cooperation in multilateral organisations	0.0	18.5	81.4	1.8	38.8	59.2
Peace and Security	0.0	29.6	81.4	2.3	37.0	59.2

Source: ifo World Economic Survey (WES) IV/2017.

Table 6

## Assessments of WES Experts on the Influence of the Trump Administration on Domestic Policy Outcomes in Percentages.

	Positive	United States In-effective	Negative	Positive	World In-effective	Negative
Social Justice	7.1	25.0	67.0	2.3	39.2	58.4
Health Care System	3.7	48.1	48.1	1.9	48.1	49.9
Employment	8.0	84.0	8.0	7.6	80.5	11.7
Favourable Business Climate	37.0	51.8	11.1	7.8	64.1	27.9
Beneficial trade deals for the US	0.0	46.1	53.8	3.6	60.9	35.4
Environmental protection	3.4	34.4	62.0	1.2	30.5	68.1
Minimising red tape	28.0	68.0	4.0	3.8	81.2	14.8
Prevention of illegal immigration	11.1	70.3	18.5	9.6	64.3	25.9

Source: ifo World Economic Survey (WES) IV/2017.

tries and on the global economy.<sup>4</sup> 73.7% of WES experts stated that the Trump Administration has had a negative effect on the world economy. However, only 42.3% indicated that their own country has been negatively affected. Experts in US neighbours Canada and Mexico, as well as in Ireland, reported that their economies have been negatively affected under the Trump administration. Canada and Mexico, both part of NAFTA, may feel more negative influence in the future, as the 23-year old trade deal is being renegotiated.<sup>5</sup> Ireland is the only European country where 75% of experts reported the Trump presidency having a clearly negative effect on the economy. Irish economic policy is based on low taxes and a business-friendly climate to attract foreign direct investment from the US amongst others.<sup>6</sup> Trump's economic plans propose tax cuts for US companies with an offshore headquarters like Apple. His tax reduction plans would move US corporation tax very close to Irish levels.

To assess Trump's influence over international policy outcomes, we asked our survey respondents to assess how Trump has performed in terms of balancing international trade, international cooperation in multilateral organisations and peace and security. Figure 5.1 shows the results of how the world assessed Trump's influence over these policies, as well as the assessments of US WES-experts. In all three policy areas, the influence of the Trump Administration has been assessed as either ineffective or negative. According to US experts, balancing international trade is one area where Trump's policies have done the least harm, with

41.6% stating that his policy has had a negative influence, versus 81.4% of respondents stating his politics have harmed international cooperation and peace and security. Trump's influence domestically is not assessed as any better. 57.6% of WES experts (excluding WES experts from the US) stated that the Trump administration has had a negative effect on the US economy. However, US experts see the influence of Trump on the US economy as less detrimental, with only 38% indicating that Trump has a negative influence domestically. However, 63.3% of US experts believe that the Trump administration has had a more negative influence on the global economy.

During his campaign Donald Trump hit the headlines with big statements on tax reform, trade bills, economic growth packages and infrastructure spending. To assess how his effectiveness is judged both inside the US and globally, experts were asked to indicate how they assess the influence of Trump and his administration on different policy outcomes. We also asked if this outcome was in line with their expectations, or if Trump had surprised them. It is important to bear in mind that policy is hard to change, as amendments can be slowed down due to a lack of political support or legal roadblocks.<sup>7</sup> Table 6 shows the percentages of US experts across the world (including in the US) and their assessment of Trump's presidency to date. In general, WES experts assessed the influence of Trump as negative on domestic policies and this was in line with the opinions expressed by US experts. The latter, however, were most positive on employment, business climate and reducing bureaucracy. With 37% of the US experts stating that the Trump administration's influence has been positive on the business climate, this is the area in which Trump scores most highly. By con-

<sup>4</sup> The exact wording of the question was: The Trump administration in general has a; highly negative impact, negative impact, no impact, positive impact, highly positive impact on the US economy, on my country's economy and on the global economy.

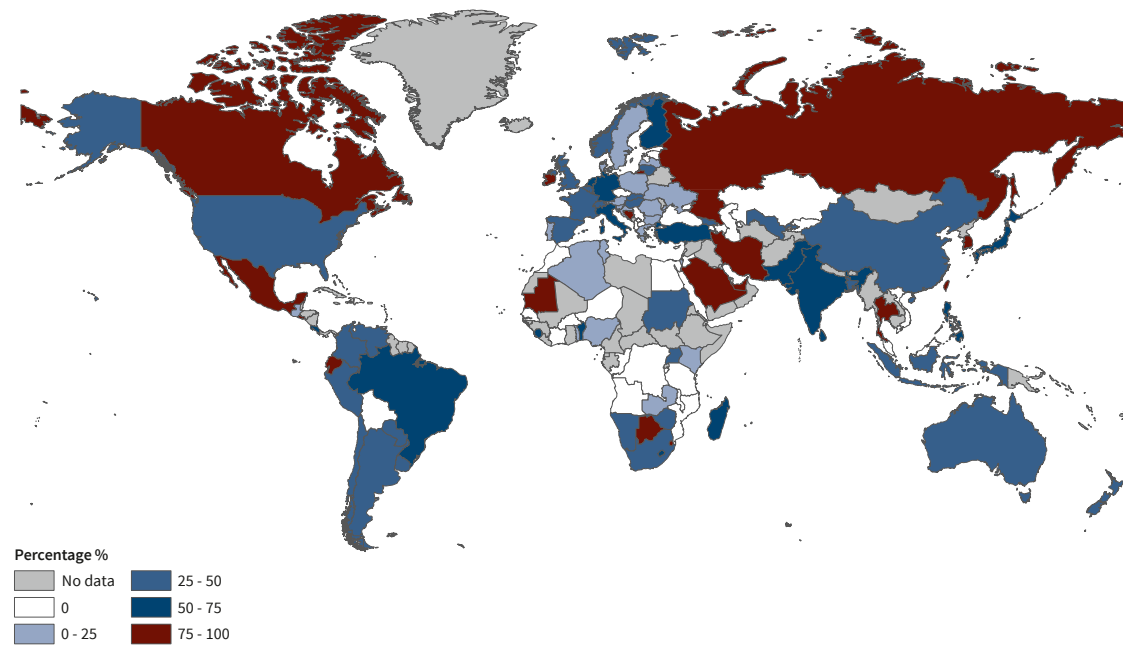
<sup>5</sup> <https://www.cnbc.com/2017/10/10/u-s-trade-deal-with-canada-mexico-on-thin-ice-as-new-round-of-talks-begin.html>

<sup>6</sup> <https://www.theguardian.com/world/2015/mar/05/ireland-attracts-soaring-level-of-us-investment>

<sup>7</sup> <http://www.npr.org/2017/11/06/561449128/how-trump-has-put-his-mark-on-policy-slowly>

Figure 5.1

Percentage of Experts Stating that the Trump Administration has a Negative Impact on their own Country



trast, social justice, healthcare, beneficial trade deals for the US, and environmental protection, are the policy areas in which its influence is assessed as most negative. Although Trump has announced tax cuts and plans to bring back jobs for “normal” Americans, 73.5% of WES experts worldwide and 61.2% of experts in the USA believe that the poor stand to lose out the most from the policy measures announced and those already implemented to date.

What is striking about this analysis is that US experts are slightly less negative in their assessments of Trump’s influence than those from the rest of the world. However, when various aspects of international politics and domestic policy outcomes are considered, the Trump administration is seen in a rather negative light. The areas in which Trump is least negatively assessed are employment, a favourable business climate and reducing bureaucracy.

Figure 6

Expected Trend for the next 6 Months for Short- and Long-term Interest Rates



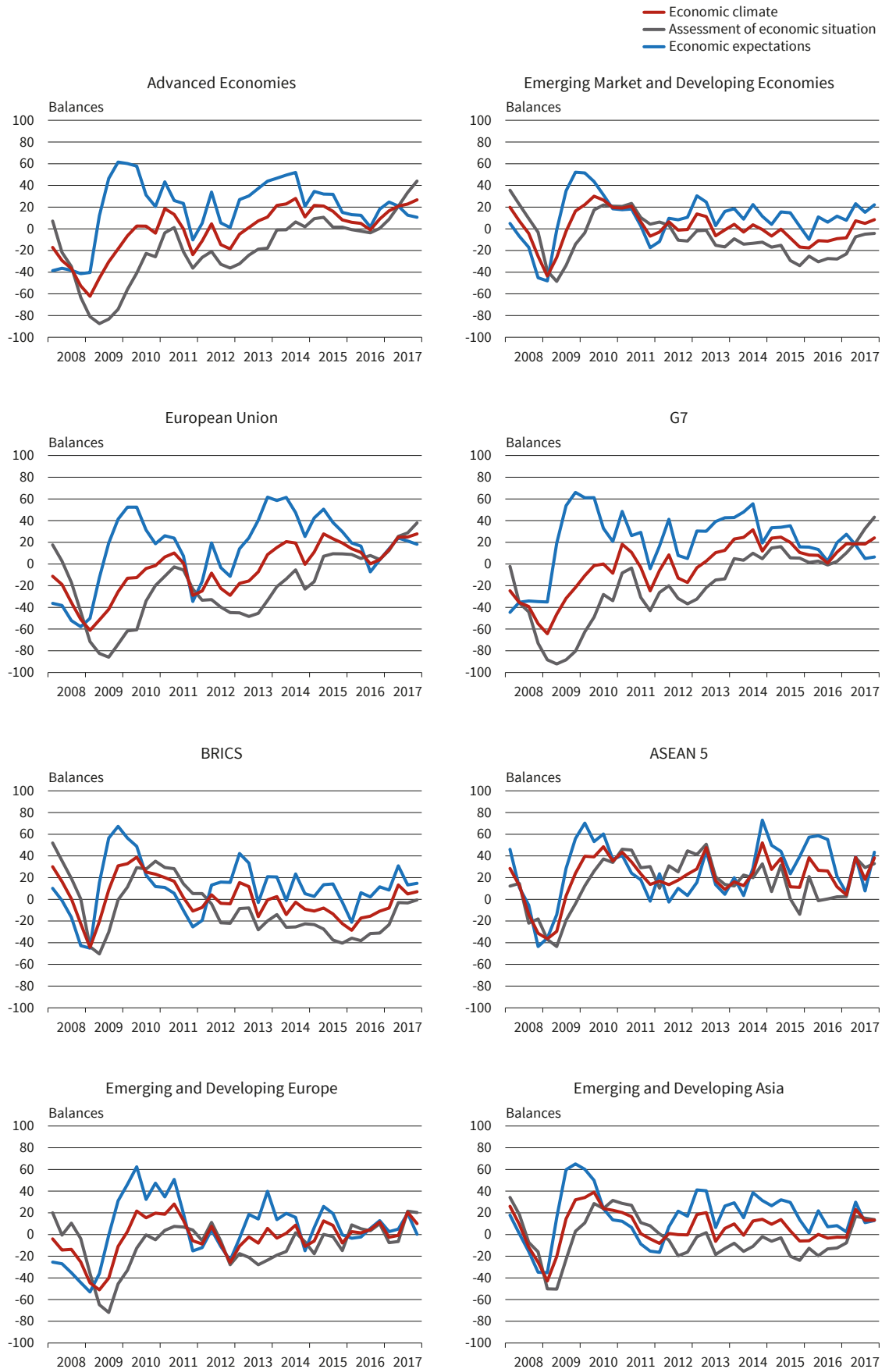
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Figure 7.1

Selected Aggregates

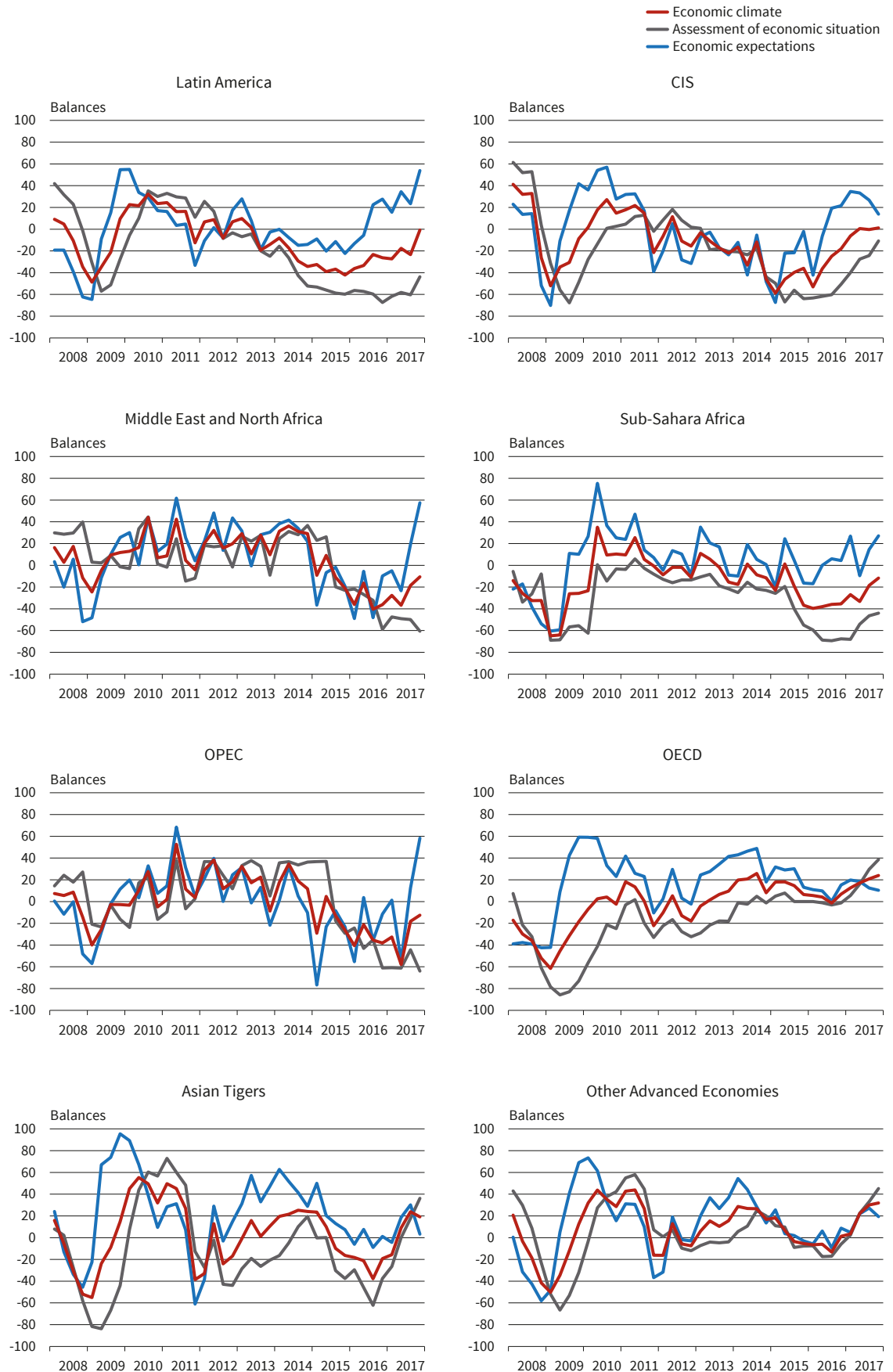


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Figure 7.2

Selected Aggregates

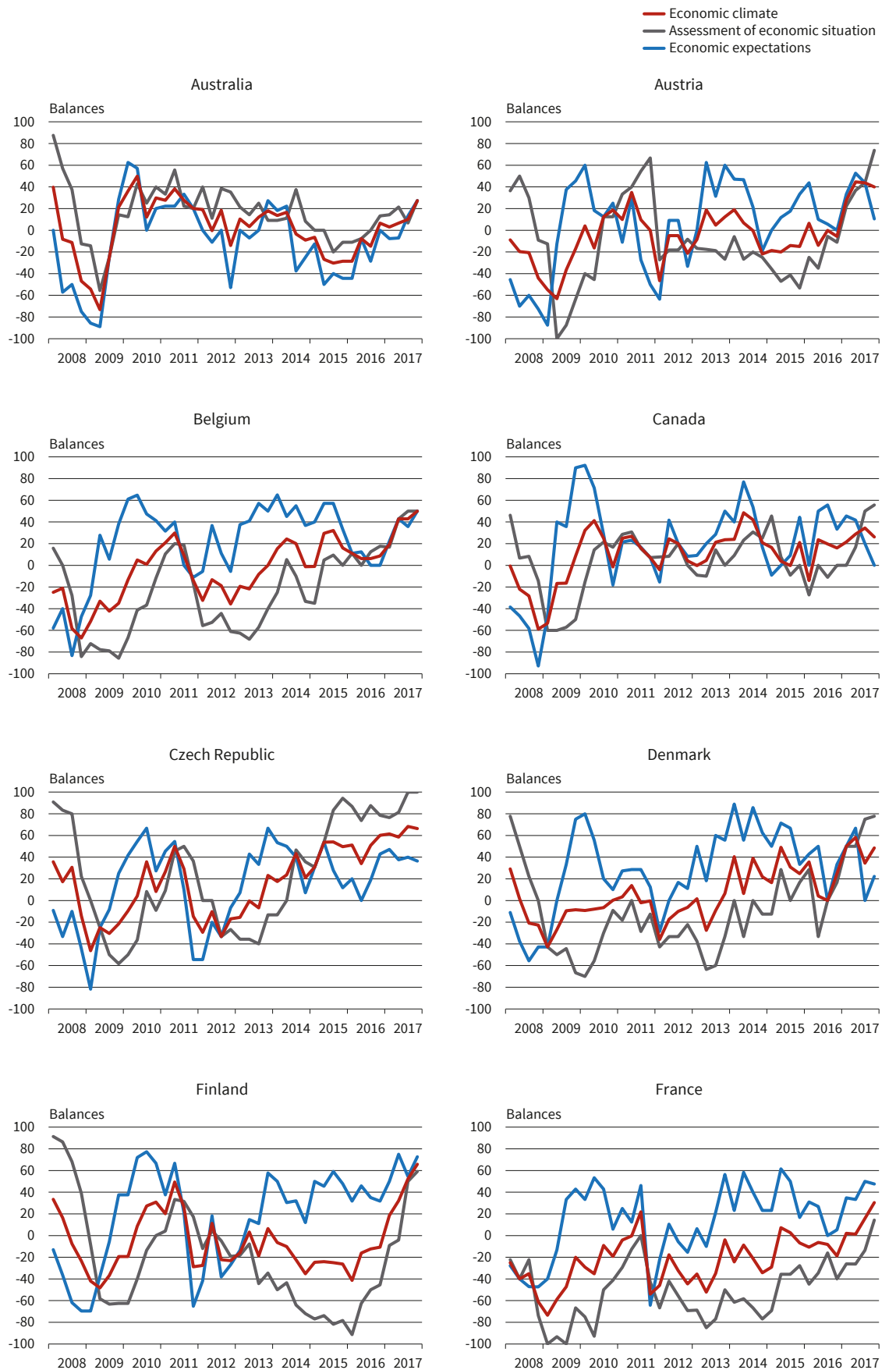


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Figure 8.1

Advanced Economies

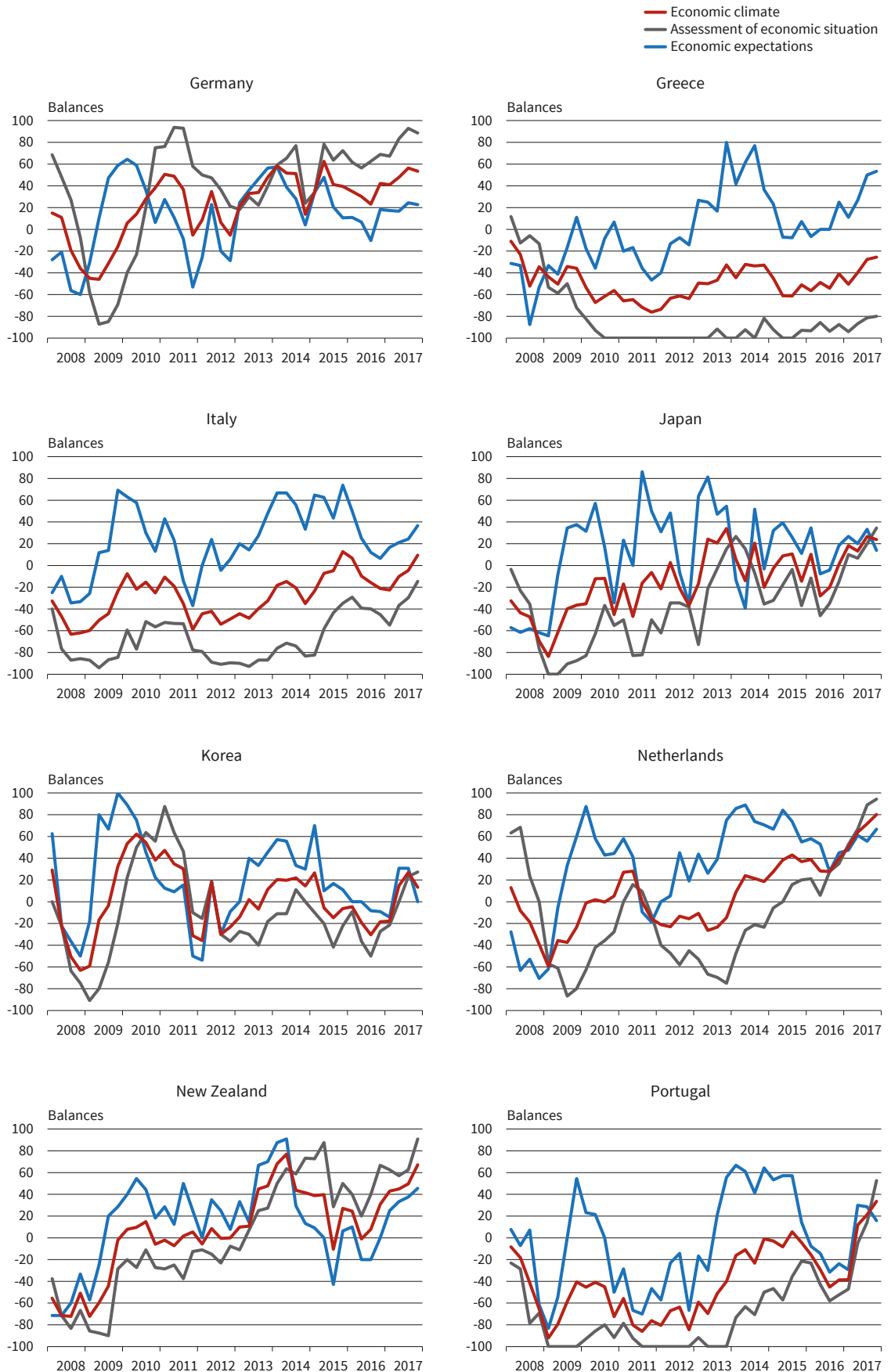


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Figure 8.2

Advanced Economies

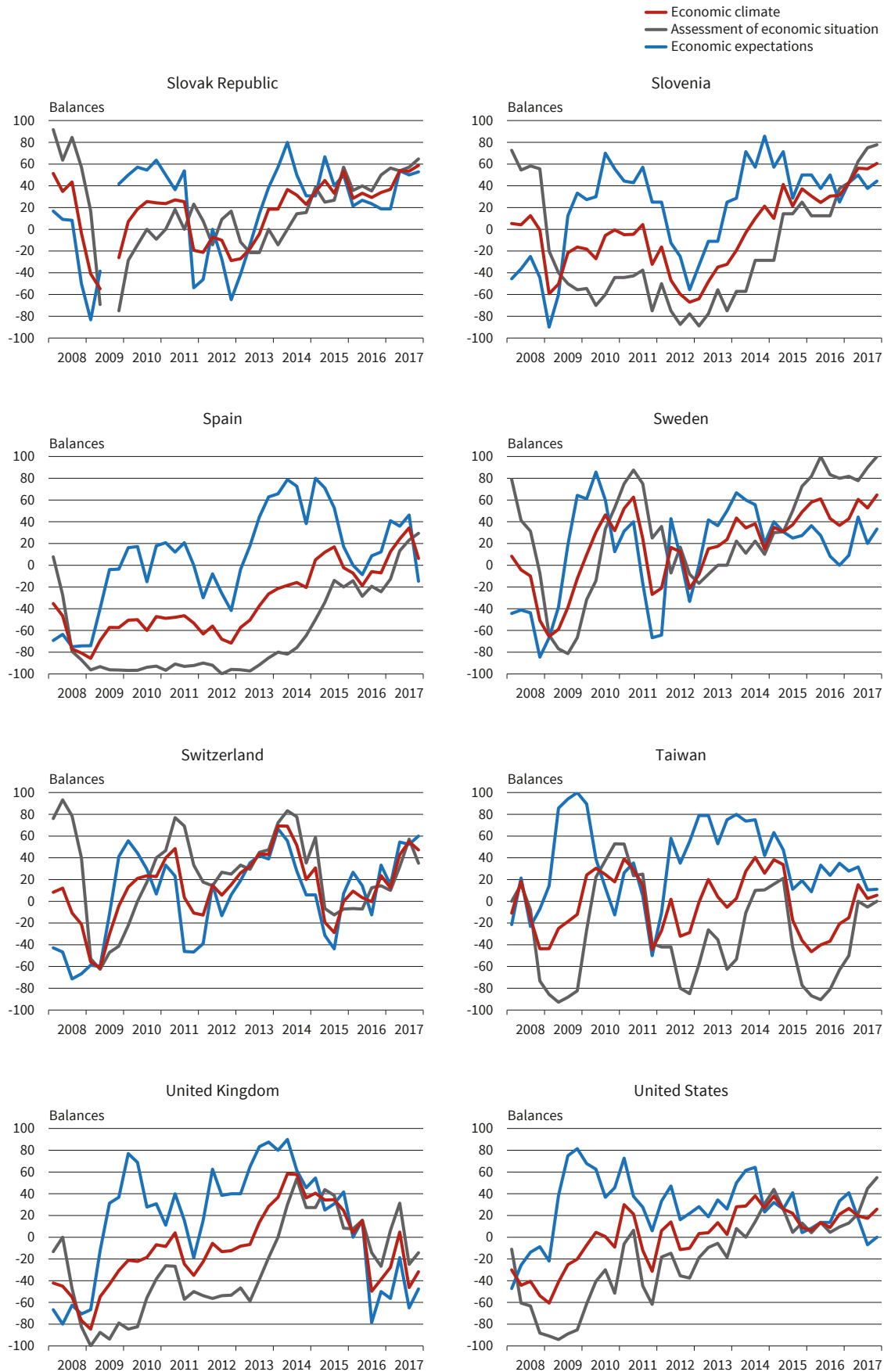


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Figure 8.3

Advanced Economies

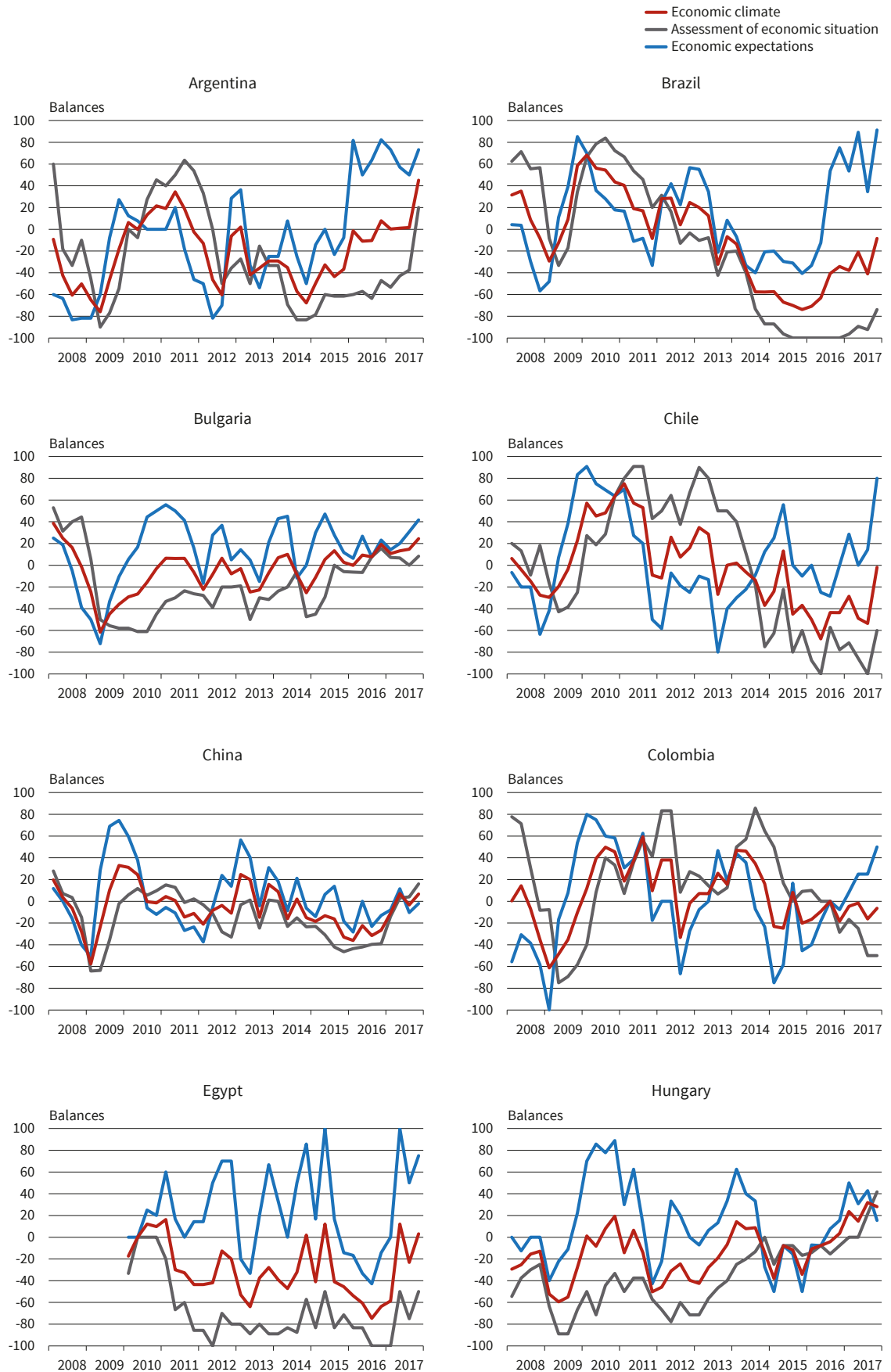


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Figure 9.1

Emerging Markets and Developing Economies

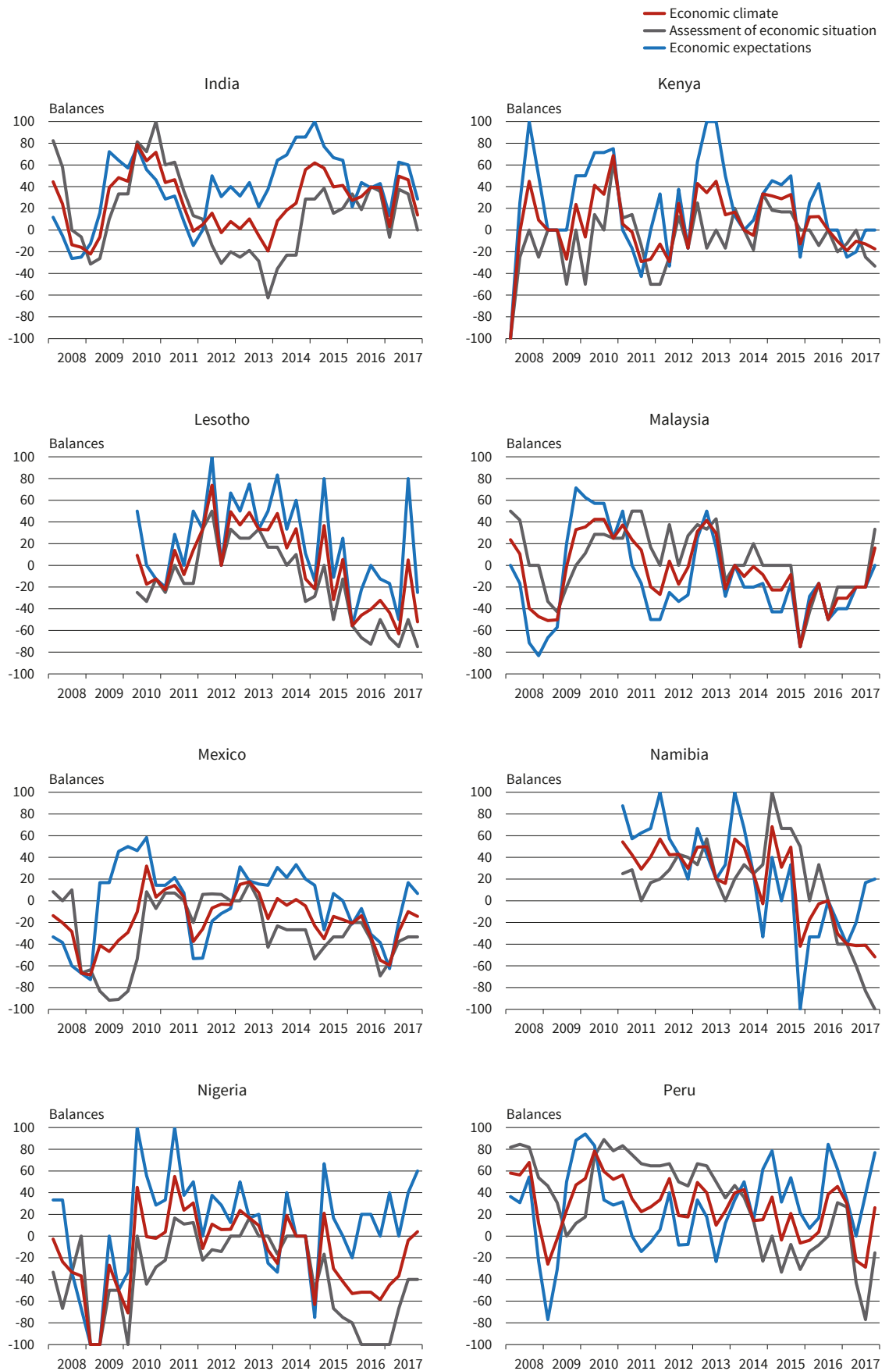


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Figure 9.2

Emerging Markets and Developing Economies



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Figure 9.3

Emerging Markets and Developing Economies



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