The global economy is on course for muted growth this year and next as it faces risks from a slowdown in China, the prospect of higher interest rates in the US and the lingering threat of a Greek exit from the euro, according to the latest forecasts from Moody`s.

Outlining the list of potential shocks that could knock even modest expansion off course, the credit rating agency said it did not expect the world`s leading economies to shake off the legacy of the financial crisis and return to their former growth averages for the next five years.

Moody`s forecasts GDP growth for the G20 to slow to 2.7% this year, down from 2.9% in 2014. The agency is expecting only a slight pickup to 3% growth in 2016, according to its latest quarterly global outlook, which feeds into its ratings on countries` sovereign debts.

“The recovery in the US and, to a lesser extent, the euro area and Japan, will be offset by the ongoing slowdown in China, low or negative growth in Latin America and only a gradual Russian recovery from its recession this year,” said the report`s author, Marie Diron.

“A sharp or long-lasting correction in asset prices in China is one of the risk factors which could result in lower G20 growth than in our baseline forecasts.”

Moody`s said UK growth appeared “robust and broad-based” although it forecast a slowing pace from 2.7% expansion this year to 2.4% in 2016. It said the Bank of England may starting raising interest rates gradually from early next year, as long as a recent pickup in wage growth is maintained. The latest official figures, however, showed UK earnings growth either stalled or fell, depending on the measure used.

The agency used its quarterly update to revise down its oil price forecasts following the sharp falls in recent months and continuing signs that supply continues to outpace demand. Moody`s now expects Brent crude to average $57 (?37) a barrel in 2016, only a little higher than the 2015 average of $55. The price of the North Sea benchmark has more than halved from its peak price of $115 a barrel last summer, trading at $49 on Monday.

Moody`s warning over threats to the outlook from China follows sharp falls on the country`s stock markets last month as officials in Beijing brought in emergency measures to stabilise prices and shore up confidence in the world`s second biggest economy.

China`s surprise currency devaluation last week only served to heighten fears about the state of its economy and the potential impact on the rest of the world. In the biggest one-off devaluation of its currency in two decades the country`s central bank allowed the yuan, also called the renminbi, to weaken by nearly 2% in a day. That was followed by two successive days of further markdowns in the value of the currency.

“The recent depreciation of the renminbi has added concerns about what it may portend for China`s economic growth,” said Diron.

Moody`s forecasts that the official measure of Chinese growth will slow from 7.4% last year to 6.8% this year and 6.5% in 2016, falling towards 6% in subsequent years.

The ratings agency also highlighted risks to the global economy from “a disorderly response” to the anticipated rise in US interest rates.

“The Federal Reserve has stated its intention to raise interest rates from later this year. However, future prices currently imply an expectation that rate increases may start later and proceed at a slower pace than implied by its open market committee`s projections. This gap presents a risk,” said Diron.

The US central bank has paved the way for its first increase in the cost of borrowing in nine years to come as soon as next month. That prospect has fanned fears of renewed volatility in emerging economies` currency, bond, and stock markets as money floods out of them. If a rate rise does cause a shock in financial markets, Moody`s said Turkey and South Africa are among the more vulnerable countries.

In the eurozone the threat of Greece leaving the single currency has receded but not gone away, the ratings agency warned. Although Athens has clinched a new €86bn (?60bn) bailout package, Moody`s has forecast a "sharp recession" in Greece, as "capital controls, heightened risk of exit from the euro area in June and July and now lack of visibility about the policy and economic environment put spending on hold".

For the eurozone as a whole, Moody`s forecast economic growth to rise from 0.9% last year to about 1.5% this year and next, helped by lower oil prices and a weaker euro. But there was as yet no evidence that structural reforms had significantly lifted the region`s growth potential, Diron said in her report.

Economy of the United States

The U.S. economy grew faster than initially thought in the second quarter on solid domestic demand, showing fairly strong momentum that could still allow the Federal Reserve to hike interest rates this year. Gross domestic product expanded at a 3.7 percent annual pace instead of the 2.3 percent rate reported last month, the Commerce Department said in its second GDP estimate. Economists polled by Reuters had expected that second-quarter GDP growth would be revised to a 3.2 percent rate.

Consumer spending, which accounts for more than two-thirds of U.S. economic activity, grew at a 3.1 percent rate, rather than the 2.9 percent pace reported last month. Investment in nonresidential structures was revised to show it rising at a 3.1 percent rate, reflecting stronger spending on commercial and healthcare construction. It was previously reported to have contracted at a 1.6 percent pace. Spending on residential construction was raised to a 7.8 percent pace from a 6.6 percent rate. Business spending on equipment was not as weak, as initially thought.

U.S. industrial output advanced at its strongest pace in eight months in July as auto production surged in a bullish signal for third-quarter economic growth. Industrial production shot up 0.6 percent last month after a downwardly revised increase of 0.1 percent in June, the Federal Reserve said. Economists polled by Reuters had looked for a gain of just 0.3 percent last month. The gain in output reflected a 0.8 percent increase in factory production that was spurred by 10.6 percent surge in motor vehicle output that more than offset a June decline.

Mining production edged up 0.2 percent, while utilities production fell 1.0 percent.

The step up in overall production pushed the percentage of industrial capacity in use up to 78.0 percent in July, in line with forecasts, from a downwardly revised 77.7 percent in June. Capacity utilization in the factory sector rose to 76.2 percent last month, its highest level since December, from a revised 75.7 percent in June.

The trade deficit in the United States fell in July to its lowest level in five months as exports rose broadly, signaling underlying strength in the economy despite concerns about a global growth slowdown. The Commerce Department said the trade gap narrowed 7.4 percent to $41.9 billion, the smallest level since February. The trade deficit for June was revised to $45.2 billion from the previously reported $43.8 billion. When adjusted for inflation, the deficit fell to $56.2 billion in July from $59 billion the previous month.

Exports increased 0.4 percent to $188.5 billion in July, the first rise since April. There were increases in exports of food, industrial supplies and materials, and capital goods in July. Automobile exports also rose. Imports fell 1.1 percent to $230.4 billion, led by consumer goods such as pharmaceuticals and cell phones. However, automobile imports were the highest on record and the value of crude oil imports was the highest since January.

U.S. consumer prices rose slightly in July as gasoline and food prices increased marginally, but a solid gain in shelter costs suggested inflation pressures were stabilizing enough to support expectations of an interest rate hike this year.

The Labor Department said its Consumer Price Index edged up 0.1 percent last month after advancing 0.3 percent in June, marking the sixth straight month of increases. In the 12-months through July, the CPI climbed 0.2 percent. It was the second month the annual CPI increased after plunging crude oil prices pushed it into negative terrain in January. Economists polled by Reuters had forecast the CPI rising 0.2 percent from June and gaining 0.2 percent from a year ago.

The so-called core CPI, which strips out food and energy costs, ticked up 0.1 percent last month after rising 0.2 percent in June. Shelter, which recorded its biggest increase in nearly 8-1/2 years, was the main contributor to last month`s rise in the core CPI. In the 12 months through July, the core CPI increased 1.8 percent. It was the fourth time in five months that the 12-month change was 1.8 percent.

Economy of the European Union

Seasonally adjusted GDP rose by 0.3% in the euro area (EA19) and by 0.4% in the EU28 during the second quarter of 2015, compared with the previous quarter, according to flash estimates published by Eurostat, the statistical office of the European Union. In the first quarter of 2015, GDP grew by 0.4% in both areas.

Compared with the same quarter of the previous year, seasonally adjusted GDP rose by 1.2% in the euro area and by 1.6% in the EU28 in the second quarter of 2015, after +1.0% and +1.5% respectively in the previous quarter.

In June 2015 compared with May 2015, seasonally adjusted industrial production fell by 0.4% in the euro area (EA19) and by 0.2% in the EU28, according to estimates from Eurostat. In May 2015 industrial production decreased by 0.2% and 0.1% respectively. In June 2015 compared with June 2014, industrial production increased by 1.2% in the euro area and by 1.7% in the EU28.

The first estimate for euro area (EA19) exports of goods to the rest of the world in June 2015 was €182.7 billion, an increase of 12% compared with June 2014 (€162.7 bn). Imports from the rest of the world stood at €156.4 bn, a rise of 7% compared with June 2014 (€146.7 bn). As a result, the euro area recorded a €26.4 bn surplus in trade in goods with the rest of the world in June 2015, compared with +€16.0 in June 2014. Intra-euro area trade rose to €151.2 bn in June 2015, up by 10% compared with June 2014. These data are released by Eurostat.

The first estimate for extra-EU28 exports of goods in June 2015 was €159.7 billion, up by 13% compared with June 2014 (€141.4 bn). Imports from the rest of the world stood at €149.3 bn, up by 7% compared with June 2014 (€139.4 bn). As a result, the EU28 recorded a €10.4 bn surplus in trade in goods with the rest of the world in June 2015, compared with +€2.0 in June 2014. Intra-EU28 trade rose to €271.3 bn in June 2015, +10% compared with June 2014.

Euro area annual inflation is expected to be 0.2% in August 2015, stable compared to July 2015, according to a flash estimate from Eurostat. Looking at the main components of euro area inflation, food, alcohol & tobacco (1.2%, compared with 0.9% in July) and services (1.2%, stable compared with July) are expected to have the highest annual rate in August, followed by non-energy industrial goods (0.6%, compared with 0.4% in July) and energy (-7.1%, compared with -5.6% in July).

The euro area (EA19) seasonally-adjusted unemployment rate was 10.9% in July 2015, down from 11.1% in June 2015, and from 11.6% in July 2014. This is the lowest rate recorded in the euro area since February 2012. The EU28 unemployment rate was 9.5% in July 2015, down from 9.6% in June 2015, and from 10.2% in July 2014. This is the lowest rate recorded in the EU28 since June 2011. These figures are published by Eurostat.

Eurostat estimates that 23.067 million men and women in the EU28, of whom 17.532 million in the euro area, were unemployed in July 2015. Compared with June 2015, the number of persons unemployed decreased by 232 000 in the EU28 and by 213 000 in the euro area. Compared with July 2014, unemployment fell by 1.648 million in the EU28 and by 1.116 million in the euro area.

Economy of Japan

Japan`s real gross domestic product contracted 0.1% from the previous month in July, the Japan Center for Economic Research said. The fourth straight monthly drop stemmed from sluggish foreign demand. Exports grew only 0.6% during the month, while imports climbed 1.8%. A decline in inventories also sharpened in July, further pushing down GDP. Yet rising incomes nudged consumption up 0.1%, softening the GDP`s fall. Investment crept up 0.2%, growing for the first time in three months. Japan`s economy contracted at a 1.6 percent annual pace in April-June after a 4.5 percent expansion in the first three months of the year.

Japan`s industrial production unexpectedly fell in July, sapping a rebound in the economy from a slump last quarter. Output fell 0.6 percent from June, when it increased 1.1 percent, the trade ministry said, compared with the median forecast for a 0.1 percent gain in Bloomberg survey. Manufacturers plan to boost production by 2.8 percent in August and then reduce it 1.7 percent in September, according to a trade ministry survey. Those forecasts point to a 0.7 percent increase in production this quarter, said Marcel Thieliant, an economist at Capital Economics.

Japan`s trade deficit widened to its largest level in five months in July, adding to worries over the recovery amid weakening demand in China for chemicals, machinery and electronics. Though exports rose 7.6 percent from a year earlier, imports fell just 3.2 percent, less than forecast. The resulting 268.1 billion yen ($2.2 billion) deficit compared with a deficit of 70.5 billion yen ($566 million) in June and was the biggest since February.

Japan`s primary inflation gauge was flat in July, beating expectations for a drop below zero, in slightly encouraging news for the Bank of Japan as it struggles to beat deflation and bring about steady price growth.

The core consumer-price index was unchanged from a year earlier in July after a modest 0.1% increase a month earlier, the government said. Economists surveyed by The Wall Street Journal and Nikkei expected that the core index, which strips out volatile fresh-food costs, would fall 0.1%.

While the latest figure is well below the 2% targeted by the Bank of Japan, the fact that the measure didn`t turn negative was still good news for an economy that has been mired in deflation for more than a decade. Core inflation has softened since peaking at 1.5% in April last year, driven lower by drops in global oil prices and sluggish domestic demand.

Japan`s unemployment rate fell to 3.3 percent in July from 3.4 percent in the previous month, the government said. Separate data showed the country`s job availability gained to 1.21 in July from 1.19 in June, meaning that 121 positions were available for every 100 job seekers. The number of unemployed people fell a seasonally adjusted 0.9 percent from June to 2.2 million, the internal affairs ministry said in a preliminary report.

Economy of Russia

Russian gross domestic product dropped by 3.6 percent in the first seven months of the year, compared to the same period last year, Russia`s Economic Development Ministry said in a report. Drops in construction and investment remain the major negative factors affecting the Russian economy, the report said.

In July, the GDP decline accelerated to 4.6 percent year-on-year. However, for the first time since the start of the year, the Russian economy grew by 0.1 percent last month compared to June. The Economic Development Ministry said in the report that Russian GDP reached an inflection point in July. Mining, manufacturing, retail, production, and distribution of electricity, gas and water all positively influenced the dynamics of Russian GDP in July, the report said.

Russia`s industrial production fell in July, data showed. It fell by 4.7% following declines of 4.8% in June, 5.5% in May and 4.5% in April, indicating the economy hasn`t yet bottomed out as many officials predicted. The drop in the headline industrial production was close to analysts` expectations of a fall of 4.6% in July compared to a year before.

Consumer prices in Russia rose 0.2% in the week to Aug. 31, compared with a 0.1% rise in the preceding week, reflecting ruble weakness, data from the Federal Statics Service showed. This takes the accumulated inflation rate since the beginning of the year to 9.7% compared with 5.6% in the same period a year earlier.

The latest data contrasts with the usual August performance of the consumer prices index. As prices for fruit and vegetables typically go down in August, the headline CPI stays at zero or even declines. This time, however, inflation has picked up, boosted by the ruble`s drop toward its weakest level last week, which has further pushed up prices for imported goods. Accelerating inflation makes it more difficult for the Bank of Russia to trim interest rates to revive the economy, which has sunk into recession.

Analysts now predict the central bank will hold the key rate at 11% at its next board meeting on Sep. 11 as the annual inflation reading, or CPI growth compared with a year ago, hovers above 15%.

According to the August 19 release of the Federal Service of State Statistics, the unemployment rate in Russia edged down by 0.1% to 5.3% in July. Unemployment in Russia has been declining gradually since April this year. The rate had reached 5.9% in March 2015.

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