



Global Economy Report

July / August 2013



Global Economy Report

The Global Economy Report is prepared in cooperation by the Macroeconomic Research Division of Banca Aletti and the Global Governance Programme of the Robert Schuman Center for Advanced Studies of the European University Institute.

The objective of the Report is to provide an analysis of the current and expected macroeconomic and financial conditions at the global level, with also a focus on key economic areas such as Europe, the USA and ASIA.

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Report closed on July 20 2013



EXECUTIVE SUMMARY

- ❖ Starting with the USA, the latest data on growth were mixed, due to the impact of the Sequester and confirming our forecasts for a weaker central part of the year. Thanks to Equity and housing prices' growth and to the modest variation in total household debt in the past quarters, net household wealth is above pre-crisis levels, pushing higher income households to spend, while those with lower incomes are adjusting their spending priorities after tax increases, in order not to cancel all progress in their personal balances.
- ❖ In Q2 there's been a slowdown also in industrial activity due to low necessity to restock after Q1 accumulation and to the decrease in public demand after the Sequester. The reduced fiscal uncertainty can improve the outlook for investments in the coming quarters, which we expect to increase constantly. At the same time, the housing recovery continues to consolidate, despite the spike in mortgage rates. The unemployment rate will further decrease, but will remain well above NAIRU.
- ❖ Overall, our forecasts are at 1.7% for 2013 and 2.7% for 2014. The unemployment rate is forecasted at 7.3% at end of 2013 and at 6.7% at end of 2014.



EXECUTIVE SUMMARY

- ❖ Inflation: We expect inflation under 2% for the whole forecasting period, thanks to the output gap accumulated during the Great Recession and these three and a half years of slow recovery. We see no risk of deflation, with a stabilization of inflation in the second half of the year. The growth in core CPI will be driven by Shelter Costs. Forecasts: average headline CPI at 1.7% in 2013 and at 1.8% in 2014, average core CPI at 1.8% in 2013 and at 1.7% in 2014.
- ❖ Monetary Policy: We still expect the start of Tapering in September, that is the reduction on the Fed's part of monthly asset acquisitions before expected, with continuous gradual reduction in the following months with the strengthening of recovery.
- ❖ Risks: the principal risks are in fiscal policy, in tightening financial conditions and in a possible lower than expected global growth, mostly due to the Chinese slowdown.

EXECUTIVE SUMMARY

- ❖ In the Euro area the first signs of recovery are visible. The cycle's inversion indications are however still feeble and need to be confirmed. However, on the basis of the latest data, the probability that the long recession is close to its end is significantly higher.
- ❖ The second quarter of 2013 could be the first growth period after six consecutive quarters with a negative sign. We thus increased the GDP estimate for Q2 2013 in the Euro area from -0.2% to +0.1%, incorporating improvements for Germany (from +0.2% to +0.3%) and for France (from -0.3% to +0.1%), keeping the forecast for another decrease for Italy (-0.3%).

EXECUTIVE SUMMARY

- ❖ After the significant weakness in April, the qualitative surveys have improved between May and June. The leading indicators of the manufacturing sector (PMI) are at their highest since many months , signalling a consolidation of industrial activity, which is actually already visible. Production-as an average of the second quarter-registers robust growth versus the first quarter of the year; retail sales picked up in May after the difficulties of Q1.
- ❖ Recovery is hindered by worsening employment conditions and by risks on the global economic scenario. However, the unexpected increase in the cycle implies an average rate of growth for Eurozone at -0.5% in 2013 and +1.1% in 2014, respectively three and two tenths above previous estimates.

EXECUTIVE SUMMARY

- ❖ Inflation rebounded from the trough reached in April, at 1.6% in the most recent estimate in June. The disinflationary trend dominates due to the low pressure of the cycle and to the ending of inflationary pressure from costs of production factors.
- ❖ On average over the year, inflation is expected to contract from 2.5% in 2012, to 1.4% in 2013 and 1.3% in 2014, values that we confirm from our previous report.
- ❖ The expected course of inflation combined with low growth perspectives, allow the ECB ample possibilities for an expansive monetary policy.
- ❖ In this report we present a special focus on the euro area.

EXECUTIVE SUMMARY

❖ Growth in the UK is constrained by the households' continuous deleveraging and the need to rebalance the productive system. On the external front, so far, the devaluation of the pound hasn't produced the desired effects in terms of enhancing exports, due both to a lag in adjustment of exported volumes (J-curve), and to relative price insensibility of UK exports due to its sector specialization and to the weakness of its main trading partners (Eurozone). Our real growth forecasts lie around 1.0% in 2013 and 1.3% in 2014.

❖ For inflation, CPI has been influenced in the past years by a series of one-off shock, such as changes in VAT, and by energy prices. However, the underlying trend remains strong, compared to current growth levels, supported by low labour productivity that pushes ULC, and by the pound devaluation. We expect a CPI above target for the whole forecasting period, with average headline CPI at 2.7% in 2013 and at 2.5% in 2014.



EXECUTIVE SUMMARY

❖ Monetary Policy: the Bank of England MPC responded aggressively to signals of domestic demand's modest growth. The programme of asset acquisition is on hold since November, as the MPC has preferred to see whether recovery signals are sustainable. We expect the introduction of a forward guidance in rates Fed-style in August under the Carney leadership. In particular, a solution for the UK would be, in our view, to establish a target in terms of Consumer Spending rather than the unemployment rate, due to its profile which differs too much from growth. The official rates will remain stable at least till mid 2015.

❖ Risks: risks on growth forecasts are balanced, additional non conventional monetary easing is probable, despite upside risks on our inflation forecasts.

EXECUTIVE SUMMARY

- ❖ Macroeconomic data signal with no doubt that China is slowing down severely and above all previous estimates. The phenomenon has generated fears on a global scale for a possible “hard landing” of the second world economy, however here we will ignore the most pathological aspects. It’s the toll to pay at present (in terms of lower growth) to the new leadership’s target to modify the country’s development model, too dependant on credit and investment.
- ❖ The cycle is improving significantly in Japan. The expansive impulse, strongly robust in the first quarter of the year, should confirm its vigour in the coming quarters, ensuring an average development rate around 2% in the current year and the next one.

EXECUTIVE SUMMARY

GENERAL MACRO SUMMARY

	2009	2010	2011	2012	2013E	2014E
GDP (%YOY)						
US	-3.1	2.4	1.8	2.2	1.7	2.7
EUROZONE	-4.4	2.0	1.4	-0.5	-0.5	1.1
GERMANY	-5.1	4.2	3.0	0.7	0.2	1.8
FRANCE	-3.1	1.7	2.0	0.0	-0.1	1.0
ITALY	-5.5	1.8	0.4	-2.4	-1.8	0.4
JAPAN	-5.5	4.7	-0.6	2.0	2.1	2.0
BRASIL	-0.3	7.6	2.8	0.9	2.5	3.2
RUSSIA	-7.8	4.3	4.3	3.4	2.7	3.4
INDIA	6.4	8.9	7.5	5.1	5.1	5.7
CHINA	9.2	10.4	9.3	7.8	7.6	7.6
AUSTRALIA	1.4	2.6	1.4	3.6	2.5	2.8
COREA	0.3	6.3	3.6	2.0	2.5	3.5
INFLATION (%YOY)						
US	-0.4	1.6	3.2	2.1	1.5	1.6
EUROZONE	0.3	1.6	2.7	2.5	1.4	1.3
GERMANY	0.2	1.2	2.5	2.1	1.7	1.8
FRANCE	0.1	1.7	2.3	2.2	1.2	1.6
ITALY	0.8	1.6	2.9	3.3	1.7	1.6
JAPAN	-1.3	-0.7	-0.3	0.0	0.1	2.2
BRASIL	4.9	5.0	6.6	5.4	6.3	5.7
RUSSIA	11.7	6.9	8.5	5.1	6.5	5.6
INDIA	10.8	12.1	8.9	9.3	9.1	8.7
CHINA	-0.7	3.3	5.4	2.7	2.7	3.2
AUSTRALIA	1.8	2.9	3.3	1.8	2.4	2.6
KOREA	2.8	3.0	4.0	2.2	1.6	2.7

Banca Aletti Forecast

Cons. Bloomberg (July 13)

FOCUS ON THE EURO AREA

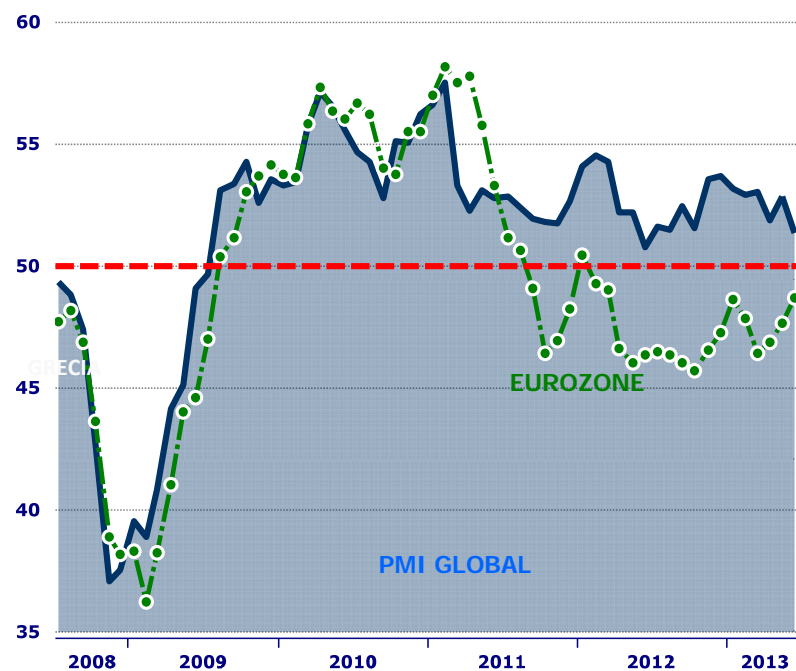


CONFIDENCE INDICATORS

In the month of June, according to PMI surveys, the gap between European and International cycle was reduced, but still significant...

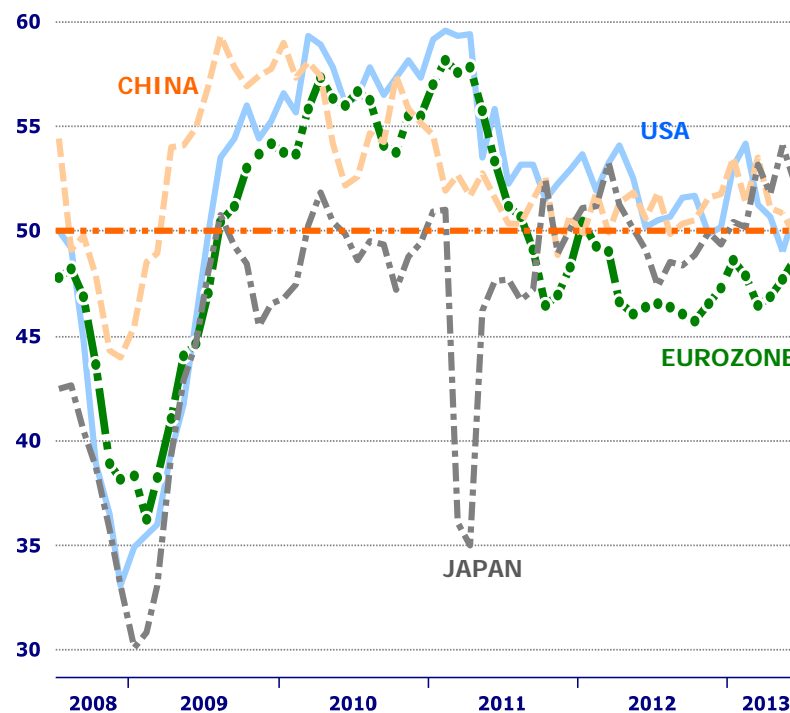
EUROPE AND INTERNATIONAL CYCLE

Comparison between PMI Composite indexes



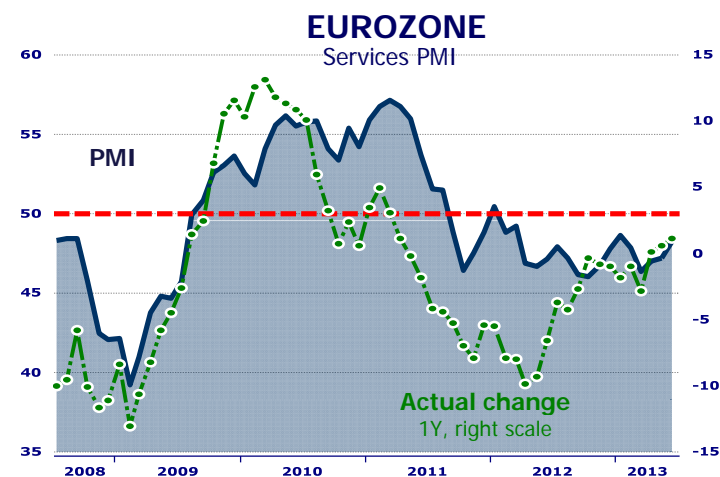
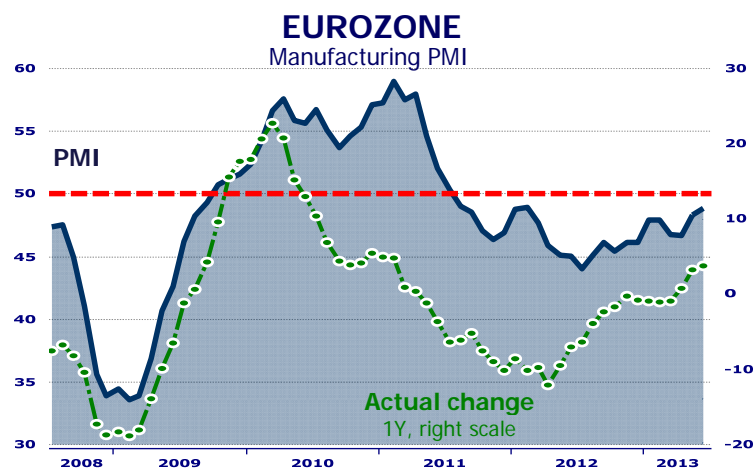
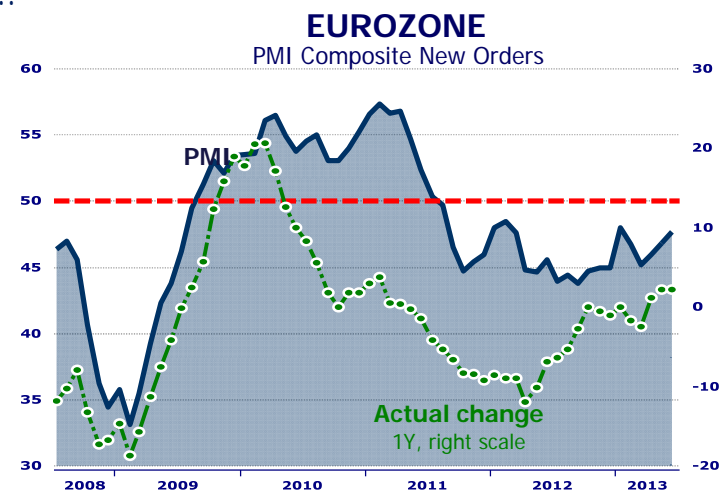
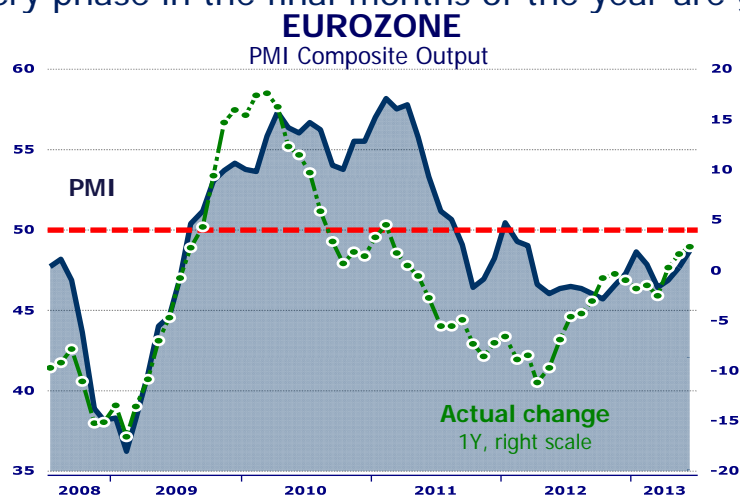
EUROPE AND INTERNATIONAL CYCLE

Comparison between PMI Composite indexes



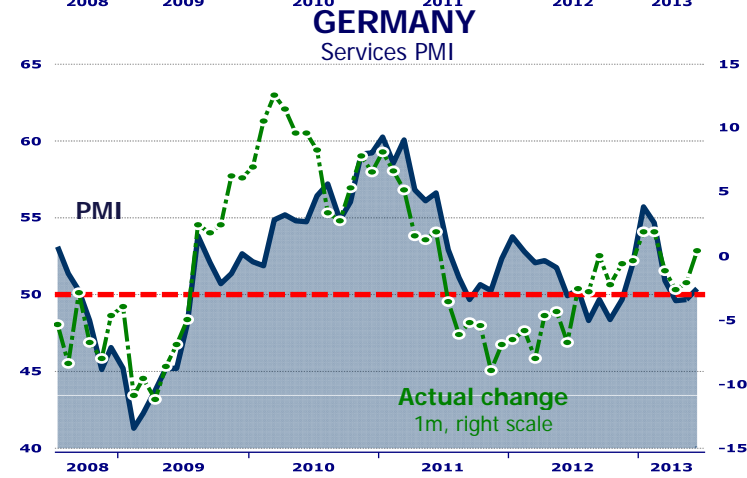
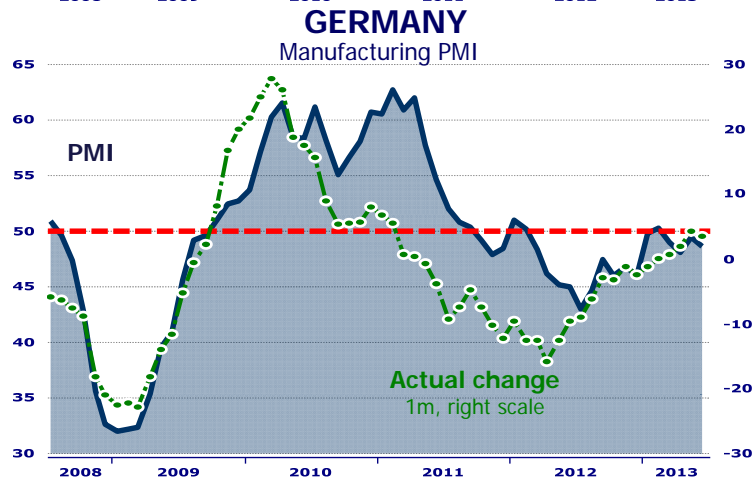
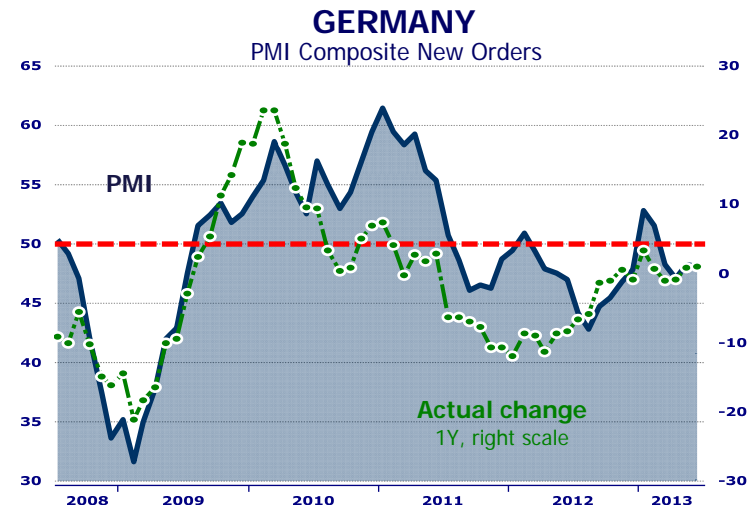
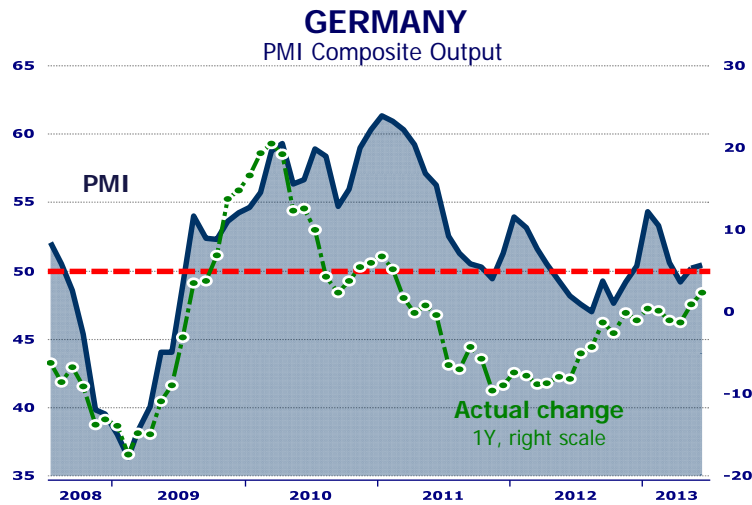
CONFIDENCE INDICATORS

The June PMI survey signalled an improvement of the Eurozone economic climate, insufficient however to offset the persistent dominance of recessive impulses in the area. The synthetic index for the entire economy grew by one point vs previous month reaching 48.7, 15 month high; that relative to manufacturing grew to 48.8, 16 month high; service index at 48.3, six month high...The probabilities for a recovery phase in the final months of the year are growing...



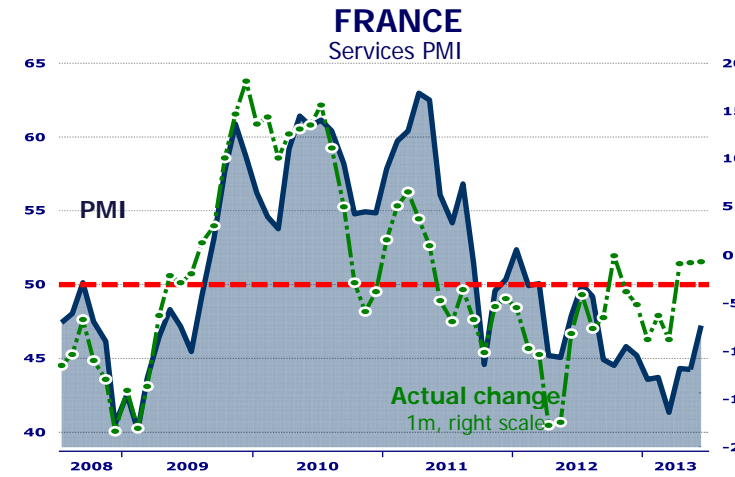
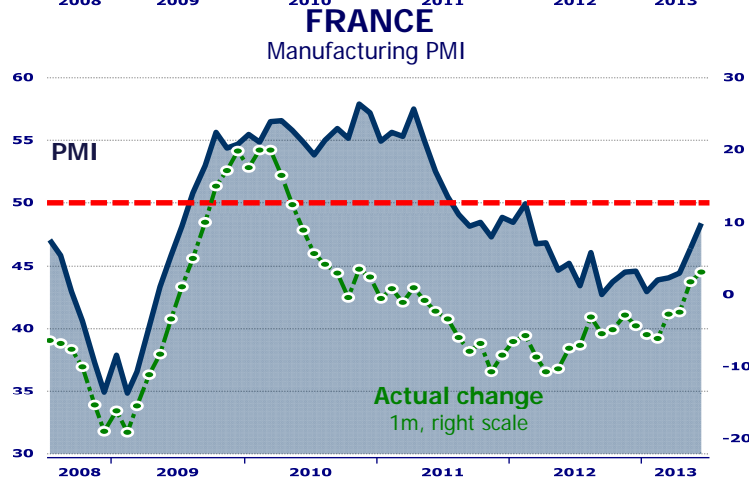
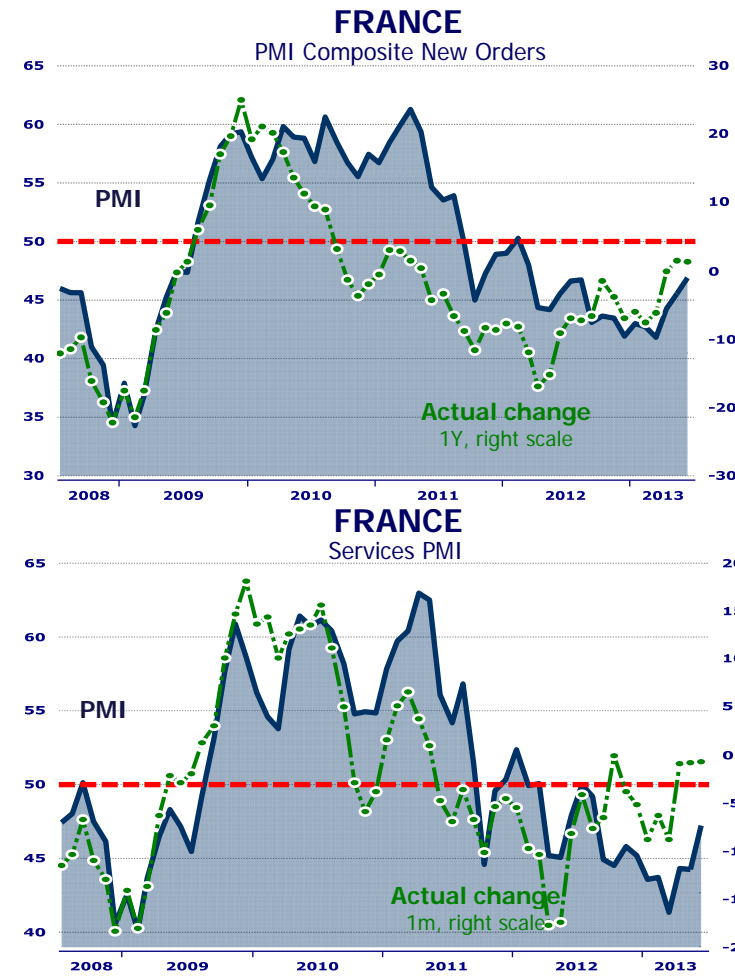
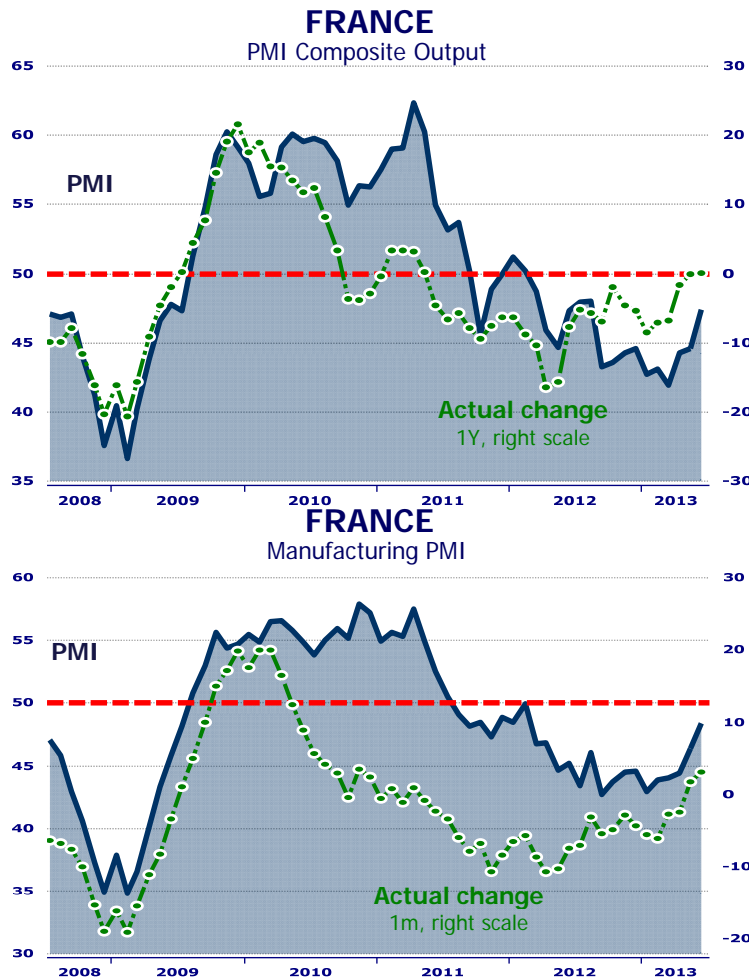
GERMANY, CONFIDENCE INDICATORS

In Germany, the PMI composite index consolidated its position over the 50 points level, at 50.4, three tenths higher than in May. Also the Services index exceeded 50, after two months below this level; not so manufacturing that registered worse conditions than at the beginning of the year...



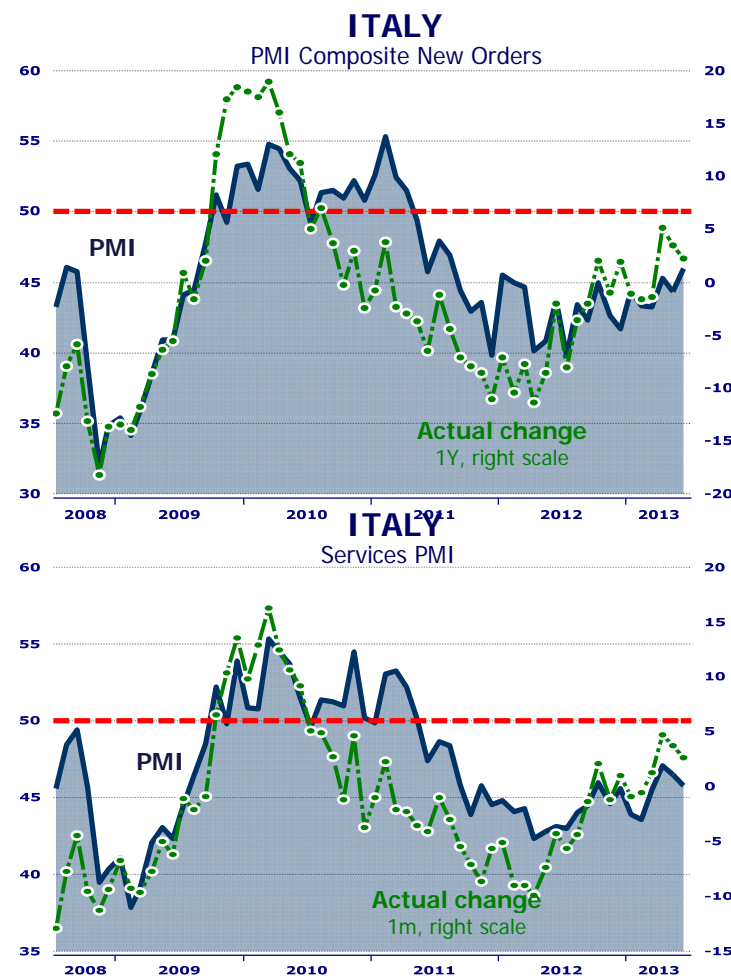
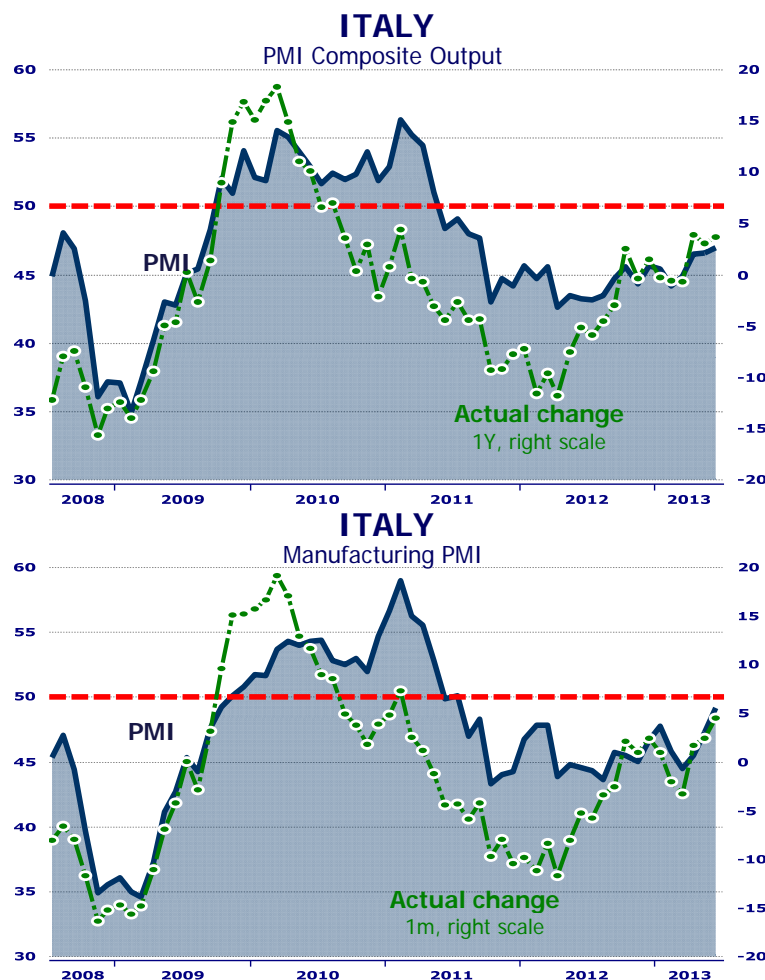
FRANCE, CONFIDENCE INDICATORS

In France, there's a definite impulse strengthening the economic climate from historically low levels. The synthetic PMI index in June registered 47.4, 11 month high, five points above the long time low scored last January (42.7). The index on new orders reached a sixteen month high, manufacturing 17-month high, 11 services...



ITALY, CONFIDENCE INDICATORS

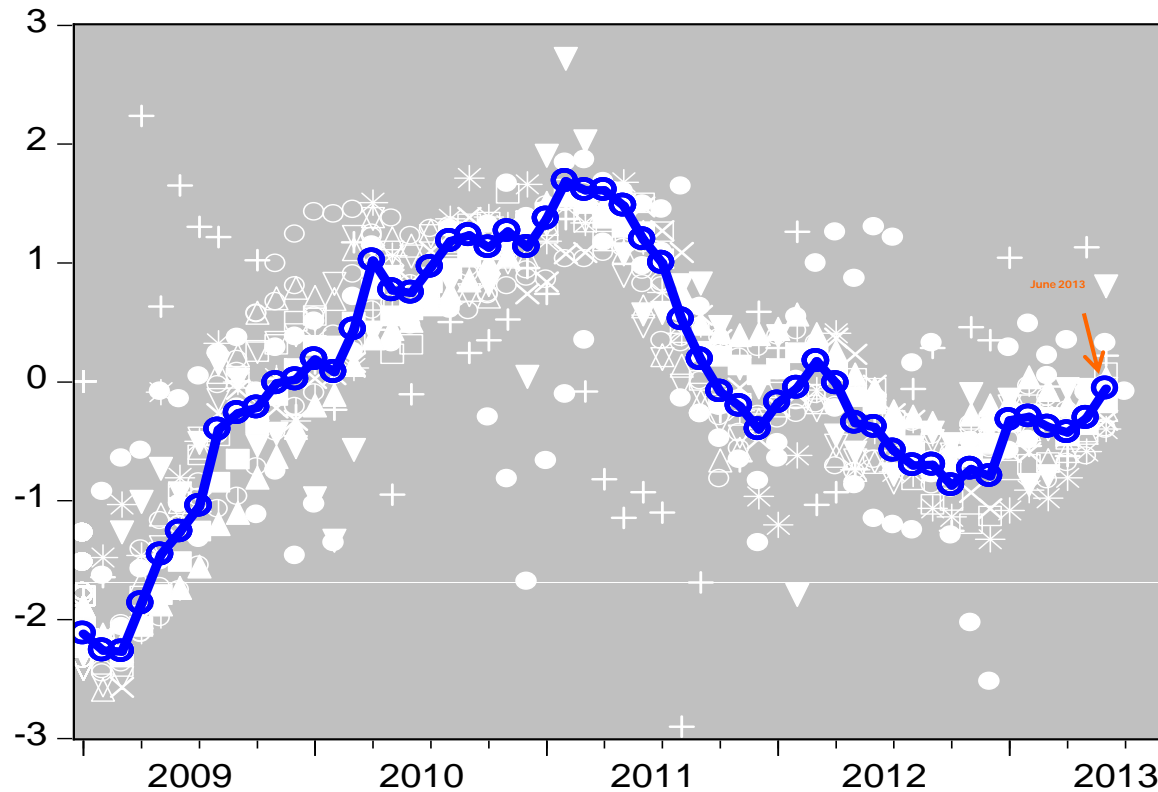
The consolidation process of macroeconomic parameters interests Italy with modest intensity. The slow recovery of synthetic PMI (47 in June, 22 month high) places it still far from expansion area. The recovery of manufacturing (49.1, 24 month high), is associated with a marked weakness in services (45.8, lower than previous month)....



QUALITATIVE INDEXES

The Eurozone synthetic qualitative index improved definitely between May and June, reaching the highest level since the beginning of last year...

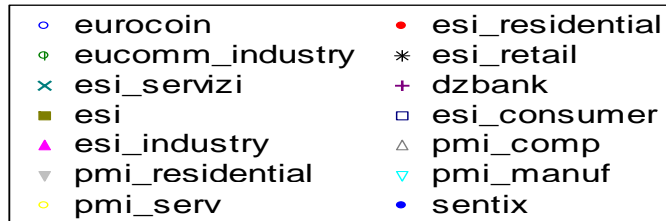
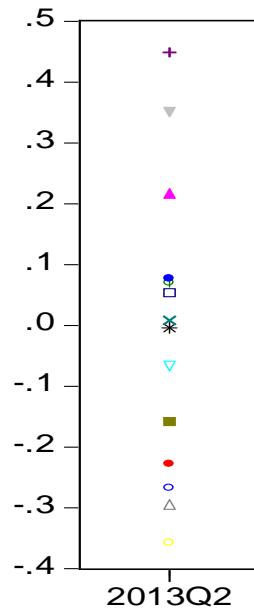
EUROZONE: SYNTHETIC QUALITATIVE INDEX



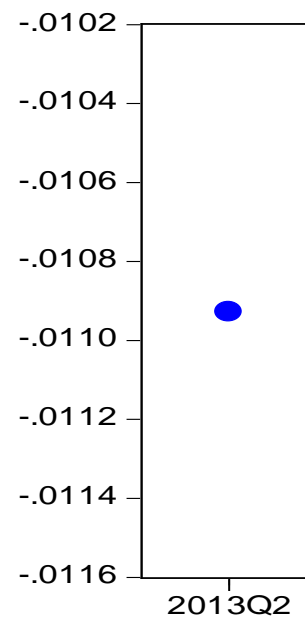
QUALITATIVE INDEXES

Regarding Q2 2012 GDP for Eurozone, the forecasting interval generated by leading indicators is comprised between -0.3% and +0.5%, improving since April (when the bounds were -0.4% e +0.4% respectively). The average forecast grows from -0.1% to zero; the weighted average is at -0.2% from -0.4%.

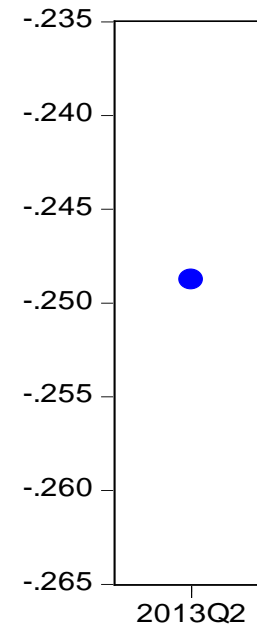
FORECAST SPECTRUM



AVERAGE FORECAST



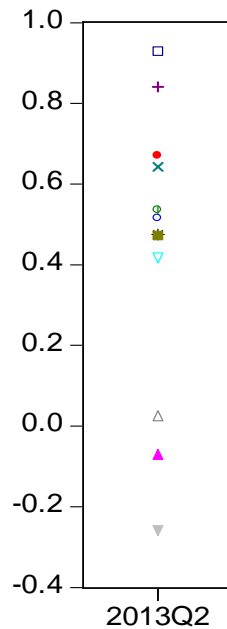
WEIGHTED AVERAGE



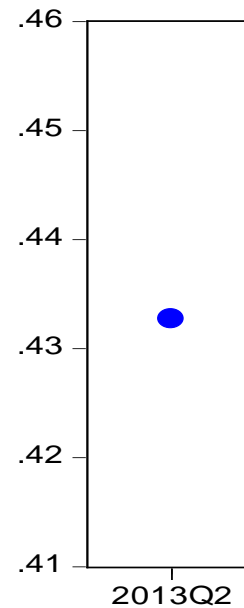
QUALITATIVE INDEXES - GERMANY

Q2 2013 GDP forecasts for Germany, according to leading indicators lie between -0.3% and +0.1%, in line with April trends. The average forecasts are confirmed at +0.4%, the weighted average is at +0.2%.

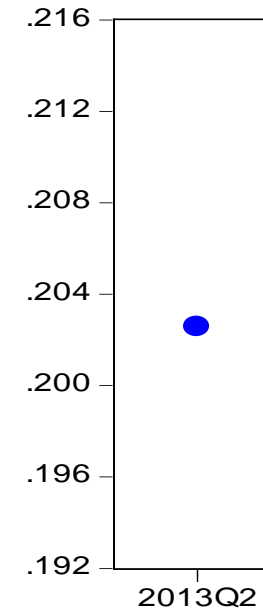
FORECAST SPECTRUM



AVERAGE FORECAST



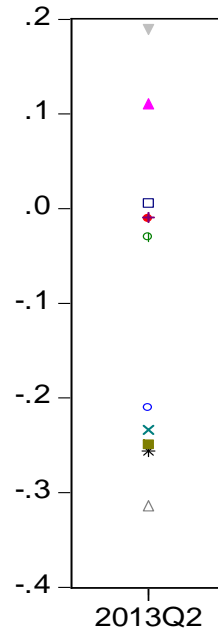
WEIGHTED AVERAGE



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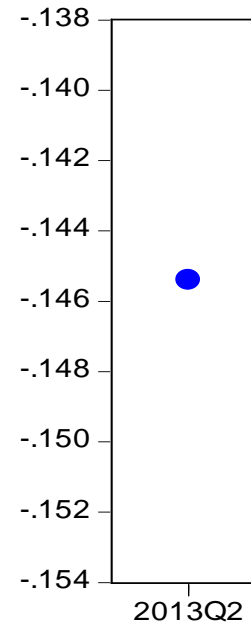
Regarding Q2 2013 GDP for France, leading indicators generate an interval between -0.3% and +0.2% (-0.4%/+0.2% in April). The forecasts' average improves by one tenth at -0.1%; the weighted average grows to a -0.2% from -0.3%.

FORECAST SPECTRUM

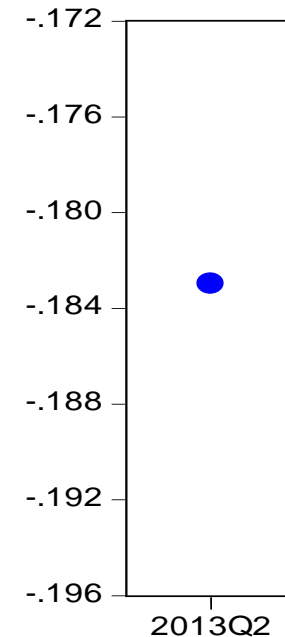


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AVERAGE FORECAST



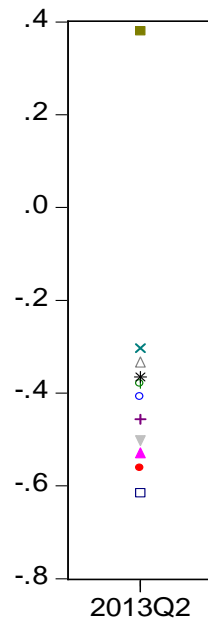
WEIGHTED AVERAGE



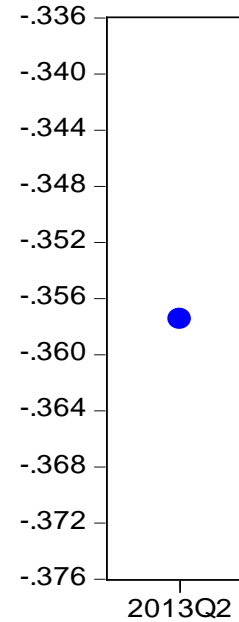
QUALITATIVE INDEXES - ITALY

Looking at Italy's Q2 2013 GDP, the forecasting interval generated by the leading indicators is between -0.6% and +0.4% (-0.6%/+0.2% in April). The forecasts' average is confirmed at -0.4%; the weighted average grows at -0.4% from -0.5%.

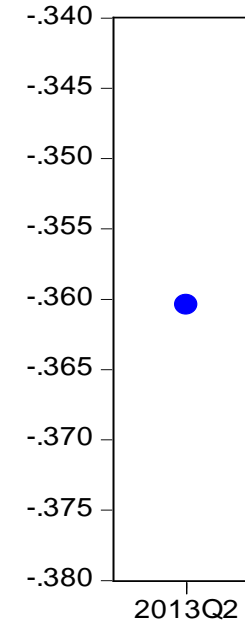
FORECAST SPECTRUM



AVERAGE FORECAST



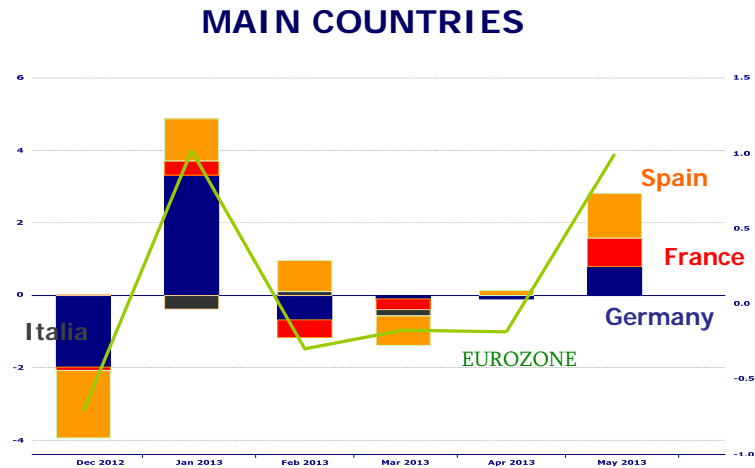
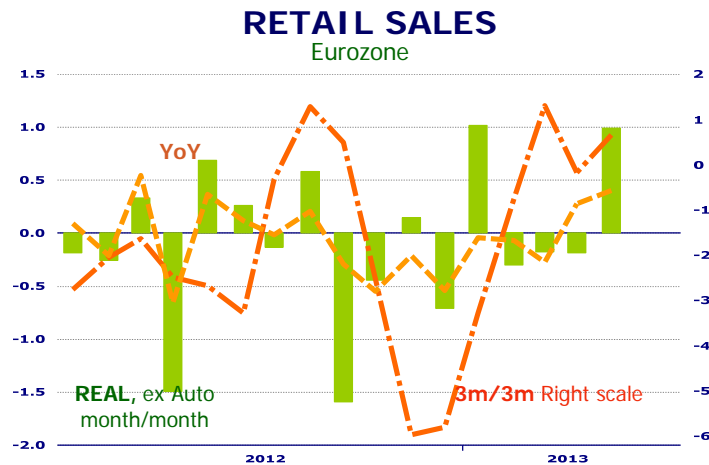
WEIGHTED AVERAGE



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- △ retail_conf_istat

HOUSEHOLDS' CONSUMPTION

After publishing May data and the update of April stats, the trend in private consumption in the Monetary Union has improved. The aggregated retail sales in the Euro area registered a 1.0% increase, interrupting three consecutive monthly decreases, thanks to simultaneous households' increased spending in Germany.

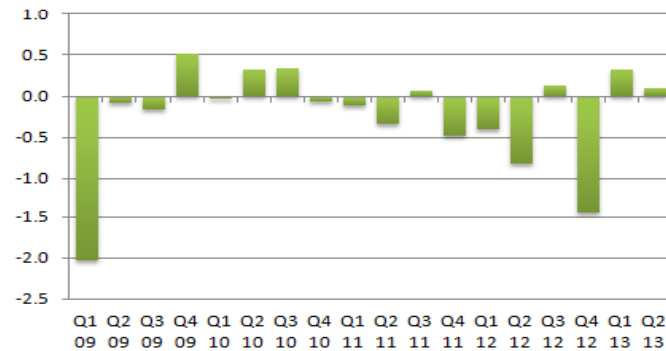


HOUSEHOLDS' CONSUMPTION

Also in terms of quarterly averages the situation is definitely better: while the April data suggested an important erosion of private consumption on the growth of aggregate GDP compared to the first quarter of the year, now that component seems just slightly lower...

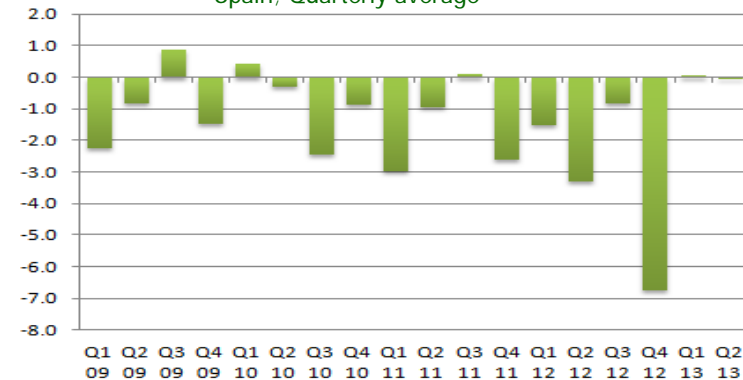
RETAIL SALES

Eurozone; Quarterly average



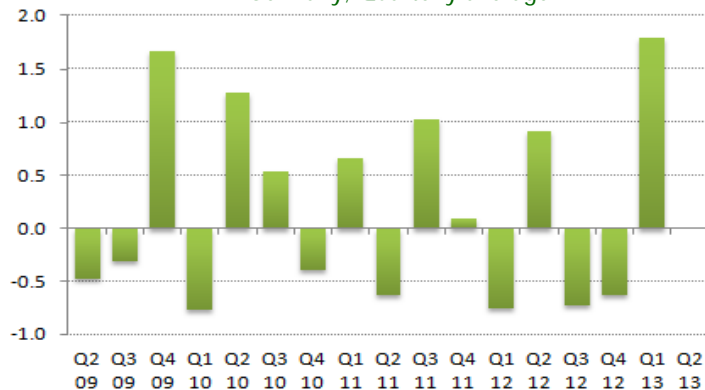
RETAIL SALES

Spain; Quarterly average



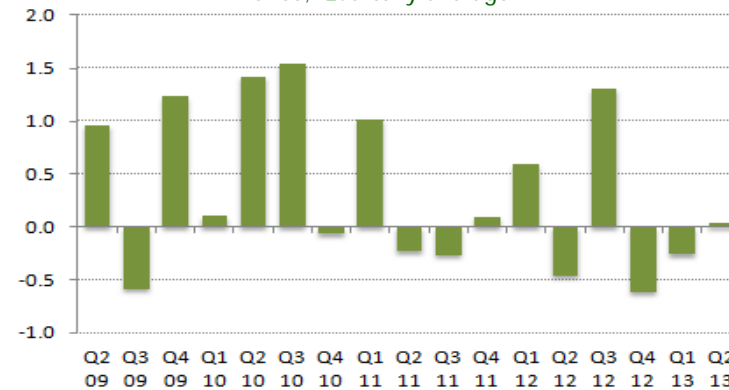
RETAIL SALES

Germany; Quarterly average



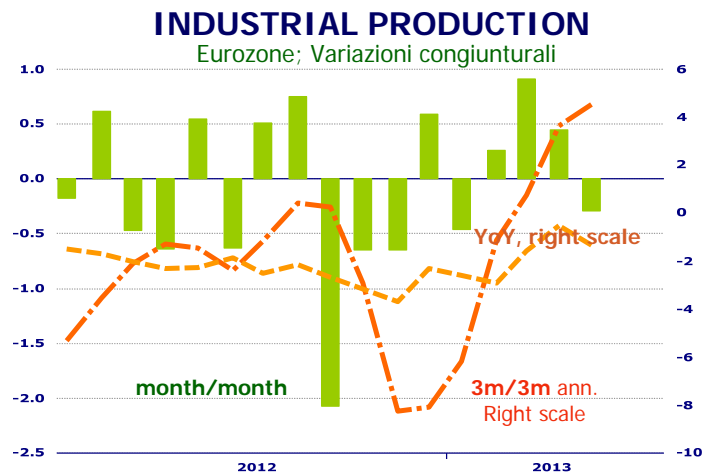
RETAIL SALES

France; Quarterly average



PRODUCTION

In May, the aggregate industrial activity corrected the April rebound, with a slight decrease of three tenths of a point. The data is due to a one percentage point contraction of German production (that grew over 2% the previous month) and by four tenths of French production (+2.3% in April). In Italy, instead, production registered a very slight increase (+0.1%) after three consecutive monthly decreases.

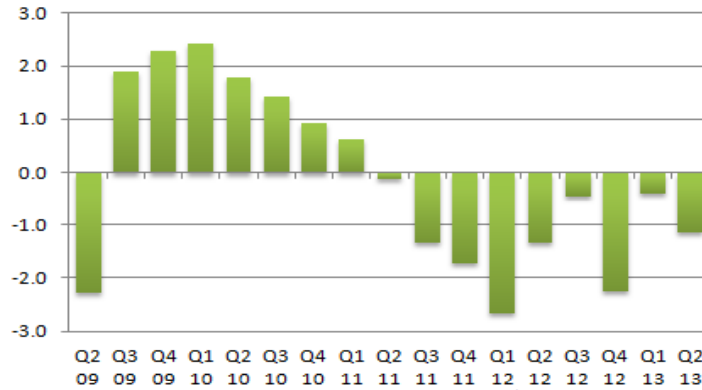


PRODUCTION

Considering quarterly averages, we assume a contribution of industrial production to GDP in Q2 significantly better than in Q1. The Eurozone aggregate data reveals that so far the production in Q2 2013 is the best since the end of 2010.

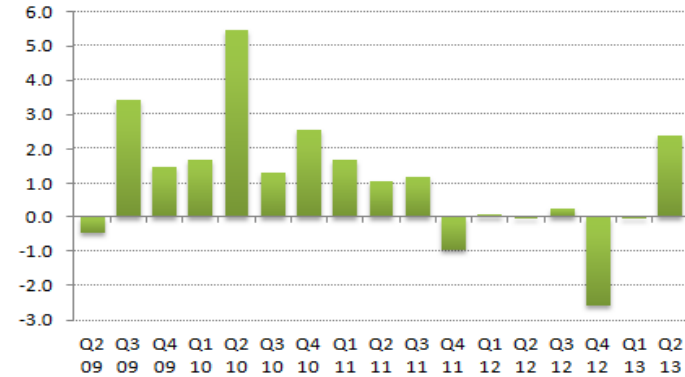
INDUSTRIAL PRODUCTION

Italy; quarterly average



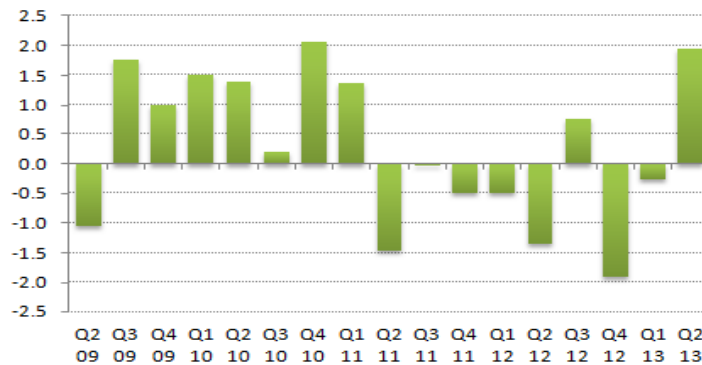
INDUSTRIAL PRODUCTION

Germany; quarterly average



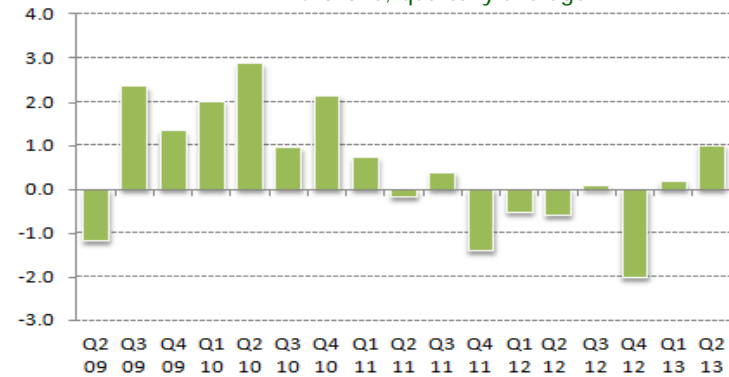
INDUSTRIAL PRODUCTION

France; quarterly average



INDUSTRIAL PRODUCTION

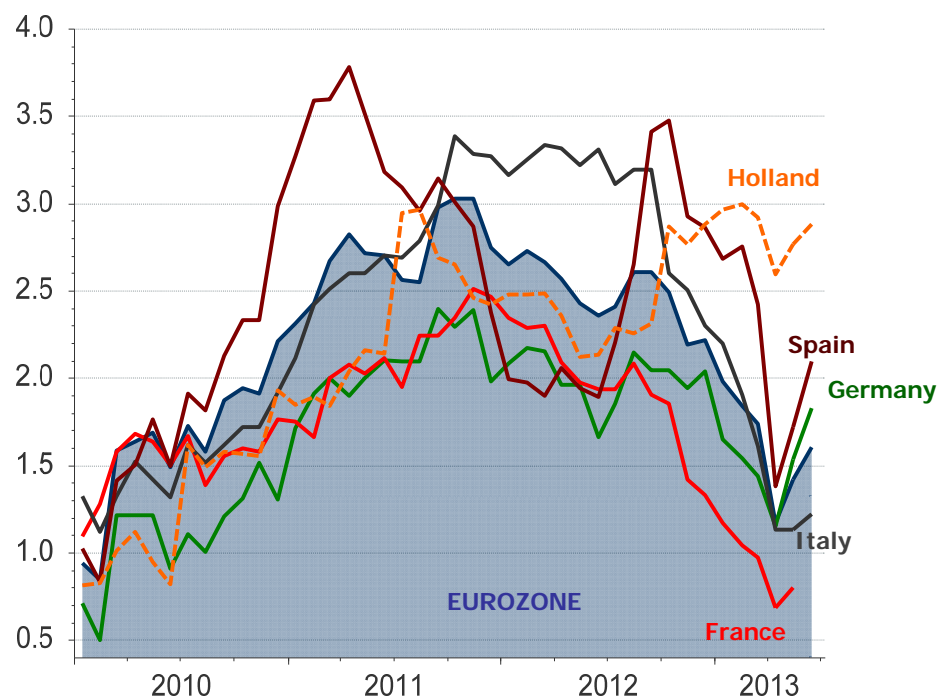
Eurozone; quarterly average



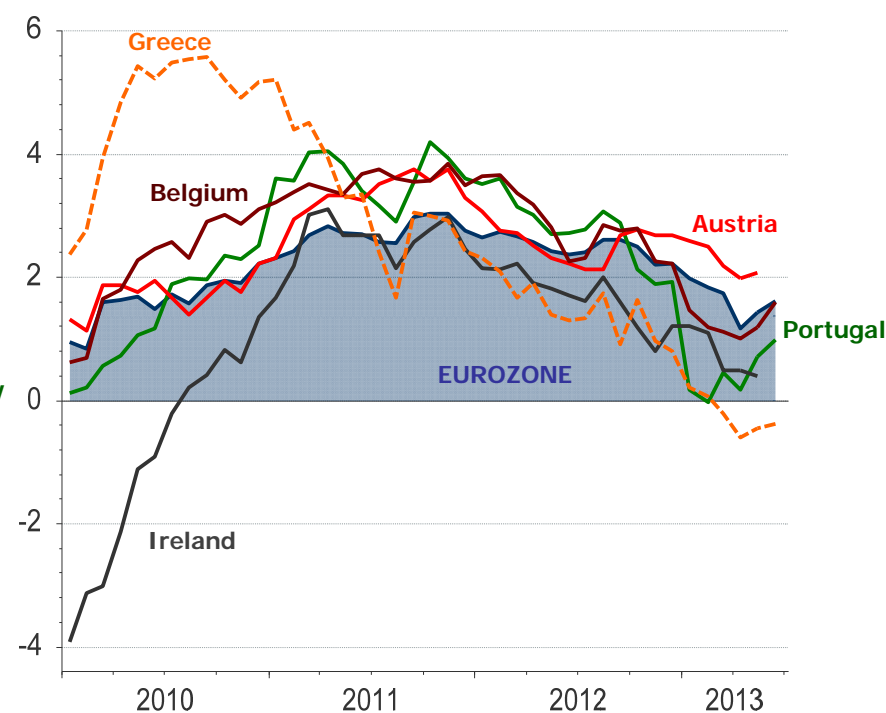
INFLATION

After registering in April the minimum since 2010 at 1.2%, the aggregate general inflation rate grew at 1.6% (flash estimate for June), following a recovery dynamic typical of the whole area. Among the greater economies, France has the lowest inflation rate, below 1%; Italy is at 1.2%, Germany at 1.8%, Spain at 2.1% and Holland at 2.8%.

INFLATION PER COUNTRY



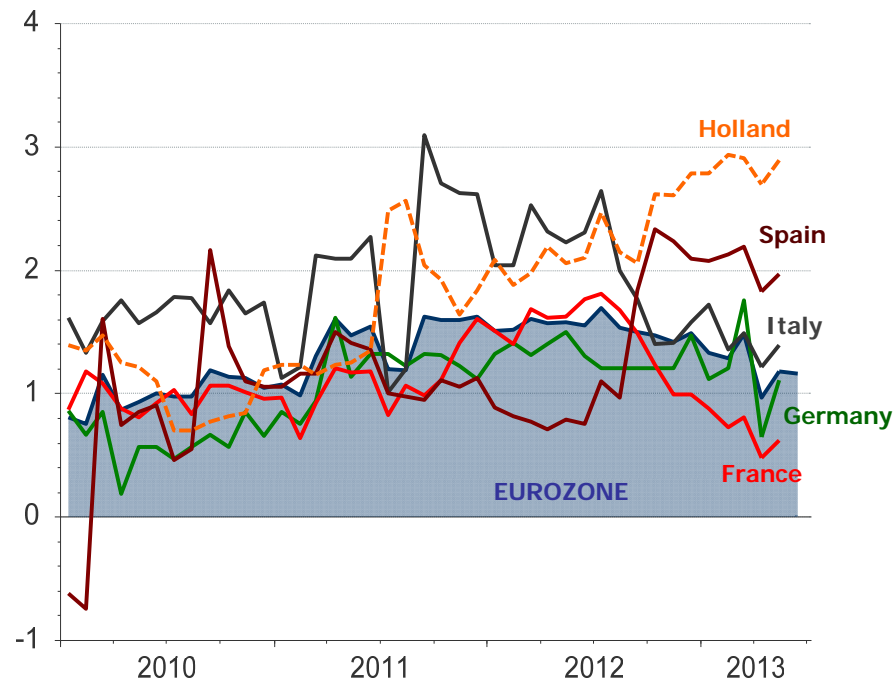
INFLATION PER COUNTRY



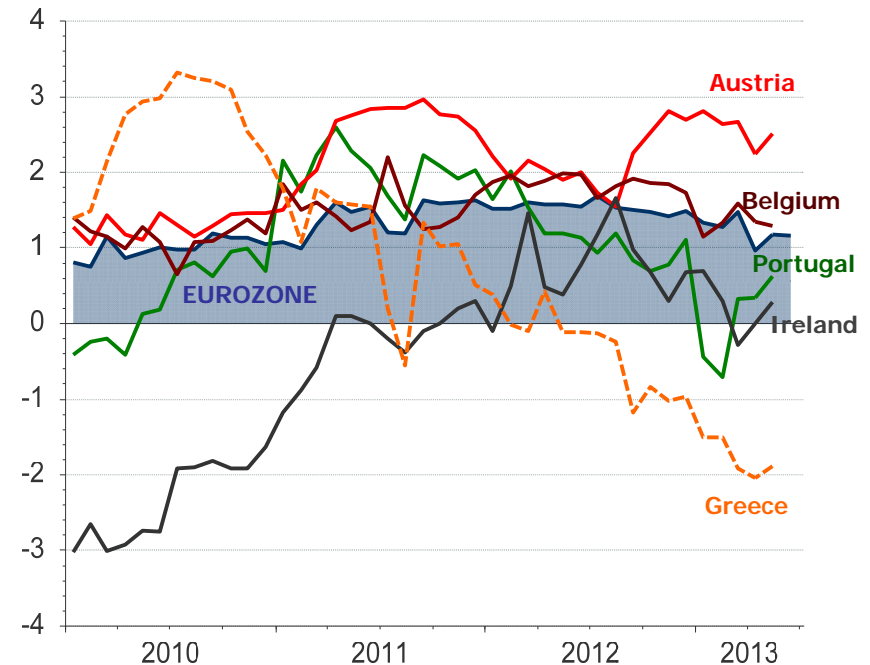
INFLATION

Net of volatile components (energy, food, alcohol, tobacco), the aggregate rate of inflation remained unaltered in June at 1.2%, two tenths more than April's 1.0%, which was an all time low since February 2011. In this case, national rates have a significantly greater dispersion...

CORE INFLATION PER COUNTRY



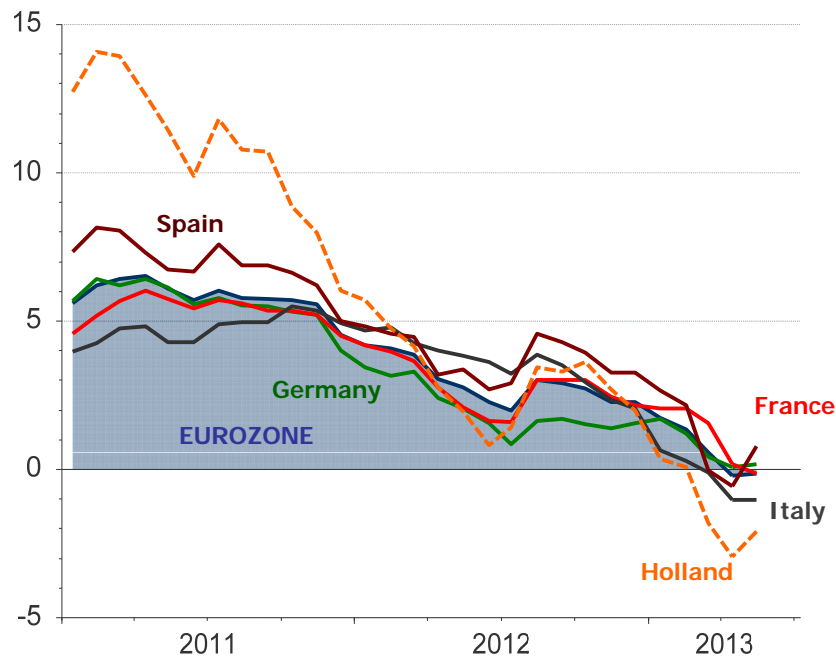
CORE INFLATION PER COUNTRY



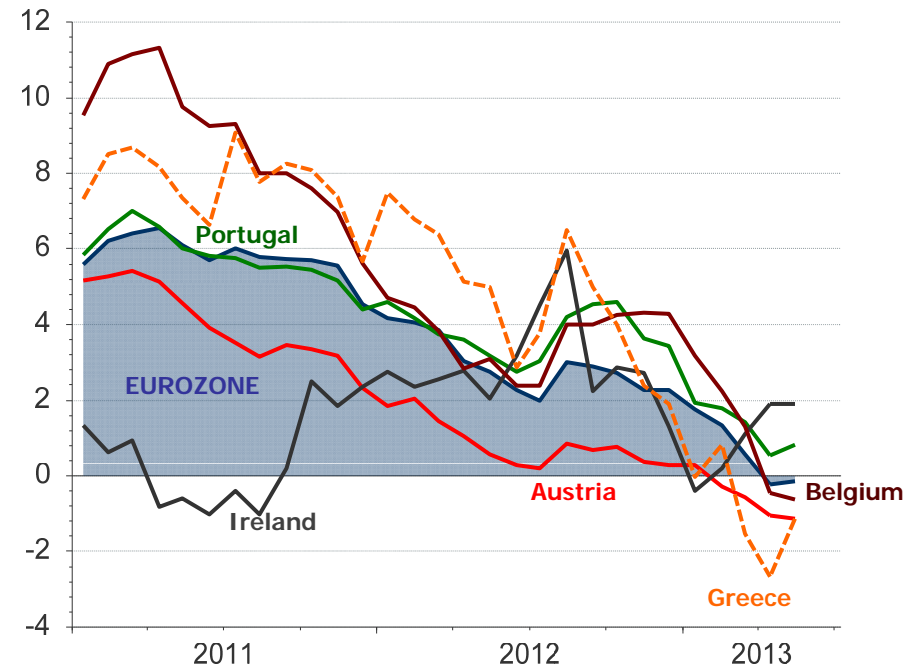
INFLATION

In May, Eurozone's inflation in production was again negative for the second time in a row, at -0.1% on a yearly basis, after the -0.2% of the previous month. Deflation on source prices is constantly putting downward pressure on retail prices also.

PRODUCER PRICES BY COUNTRY



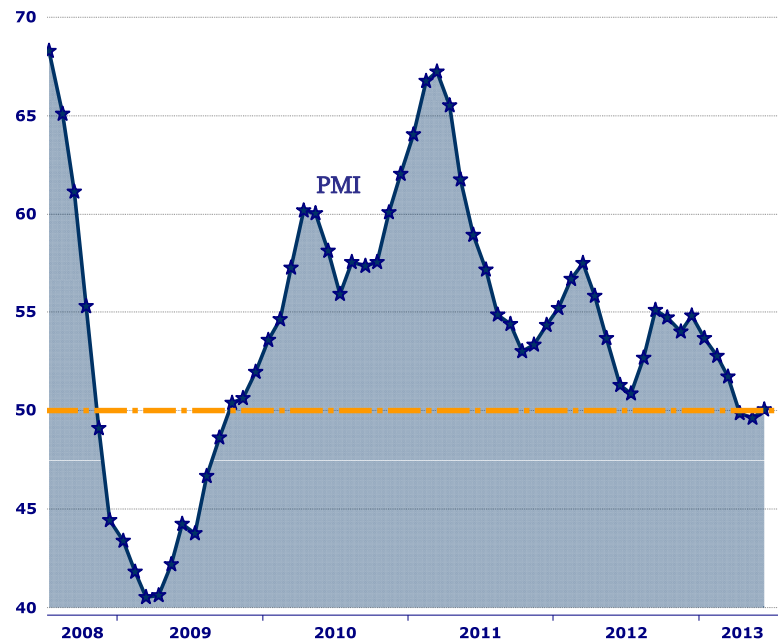
PRODUCER PRICES BY COUNTRY



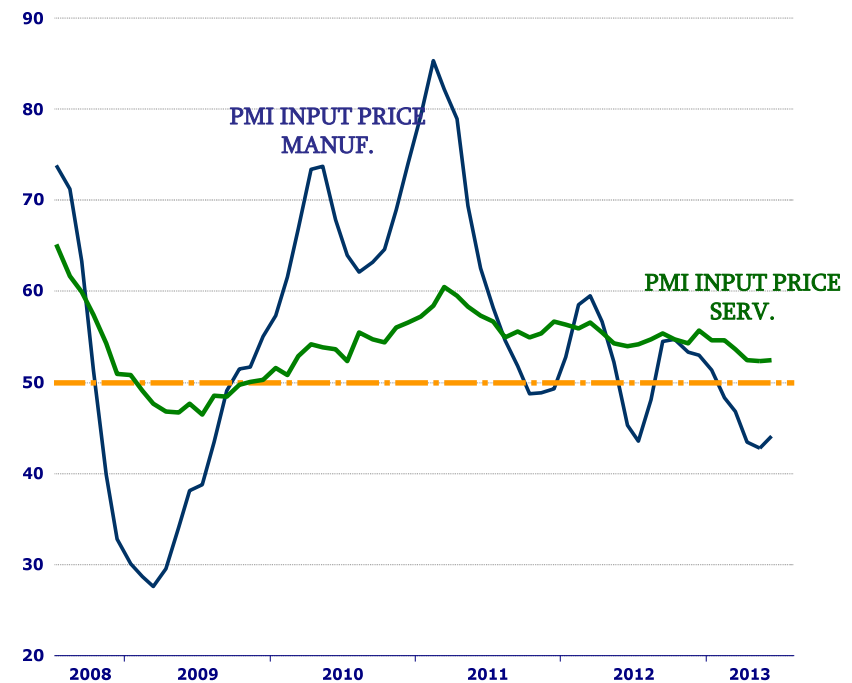
EXPECTATIONS AND INFLATION

Businesses signal that the costs of productive factors is at a four year low. Deflation is accumulating at the source, possibly preparing to impact retail prices.

EXPECTATIONS ON PRODUCER PRICES

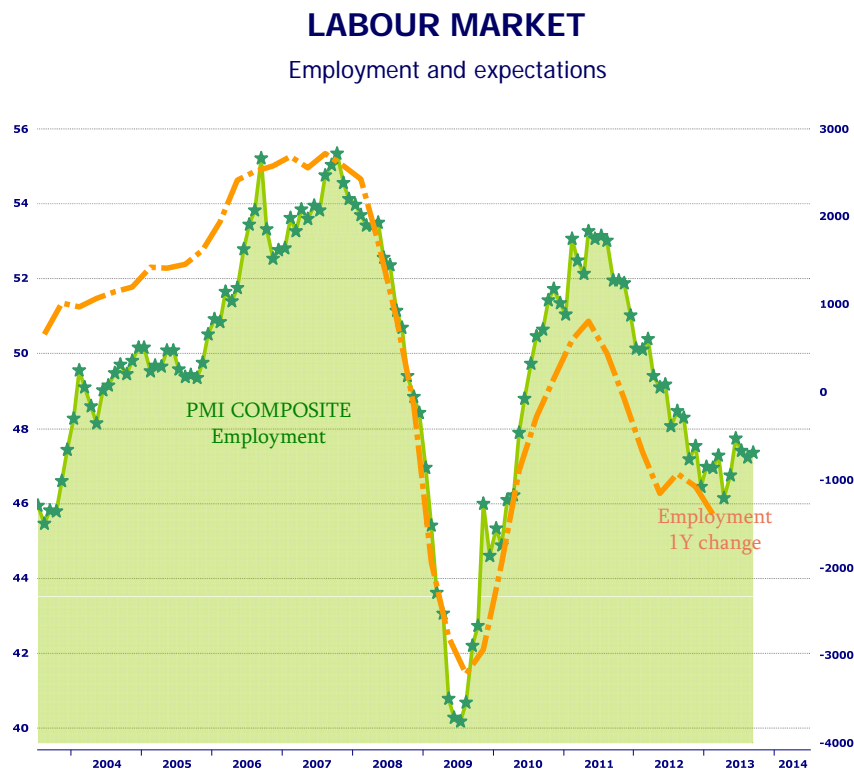
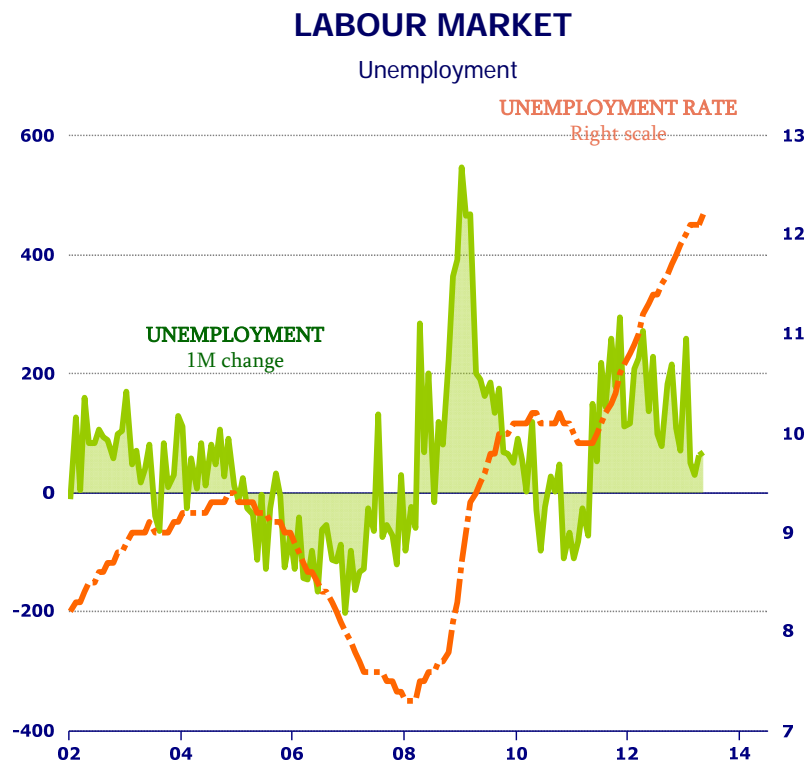


EXPECTATIONS ON PRODUCER PRICES



LABOUR MARKET

There is no signal for improvement in employment and unemployment rates.



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