



Global Economy Report

April 2014



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 Centre 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 April 8 2014

EXECUTIVE SUMMARY

- ❖ The European Commission growth forecasts confirm the global economy recovery, in line with the IMF scenario. The estimated growth in World Real GDP is 3.6% for this year and 3.9% for next year.
- ❖ Developed economies should grow this year by 2.2%, supported by a more widespread recovery, although still fragile in certain countries.
- ❖ Emerging economies forecasts point to an unchanged growth figure at 5.3%, with India's outlook improving and Brazil and Russia's worsening.

EXECUTIVE SUMMARY

- ❖ In the US, growth since the beginning of this year has been kept low by adverse weather conditions and stock correction after an outsized inventory gain in H2 2013. As spring advances, we should see a positive growth payback. Furthermore, the constant drop in Jobless Claims, Payrolls growth, which is returning to its trend, and generally positive consumer confidence numbers suggest that economic fundamentals remain favourable. Our growth forecasts are at 2.8% in 2014 and 2.9% in 2015.
- ❖ We expect inflation to stay below 2% for most of the forecasting horizon, thanks to the huge output gap accumulated during the Great Recession, while for core CPI we expect a gradual acceleration. Our Forecasts are for average headline CPI at 1.4% in 2014 and at 1.8% in 2015, while average core CPI is seen at 1.8% in 2014 and at 2.1% in 2015.

EXECUTIVE SUMMARY

- ❖ In the Euro Area, qualitative indicators are close to their several years peaks, suggesting an improvement also in France. January data have also registered a significant increase in private consumption in the area. The estimated Real GDP growth for 2014 is at 1.4%, above consensus, and at 1.8% for 2015. These values are led by Germany, where we expect growth above 2% both for this year and the next.
- ❖ Inflation in March was at 0.5%, its lowest level since end 2009, which should be the trough of price dynamics. Deflation risks are decidedly modest.

EXECUTIVE SUMMARY

- ❖ In the UK, the economic recovery is consolidating further and since Q2 it has been above potential. For the next few quarters we forecast a gradual slow down in growth, but growth should stay above potential in 2014. We continue to forecast a 2.7% growth for this year and 2.2% for next year.
- ❖ Inflation fell below target both in January and February for the first time since November 2009, due to commodity prices decline, weak salary growth and the pound's strength, which is reducing import prices, despite the acceleration in growth. In the past year inflation had been supported by a series of one-off shocks (higher taxes, University Tuition Fees Utilities' prices) and extraordinarily low labour productivity. We expect CPI still below target for most of the forecasting horizon. Our forecasts for average headline CPI are at 1.9% in 2014 and at 2.1% in 2015.

EXECUTIVE SUMMARY

- ❖ In China there are clear signals of slowdown: a drop in exports, lower than expected growth in industrial production, sales and investments and a decline in qualitative indicators. However, the slowdown seems orderly so far and that's the result of the economy's rebalancing sought after by political economic authorities.
- ❖ For Japan at the moment uncertainty prevails around a persistent growth trend, due to the increase in the Consumption tax. Our forecasts for 2014 and 2015 are at +1.2% and at +1.7% respectively. Inflation is expected to accelerate to +2.9% at the end of 2014, including the increase in the Consumption tax.
- ❖ In this report we present a special focus on Japan.

EXECUTIVE SUMMARY

GENERAL MACRO SUMMARY

	2009	2010	2011	2012	2013E	2014E	2015E
GDP (%YOY)							
US	-3,1	2,4	1,8	2,8	1,9	2,8	2,9
EUROZONE	-4,4	2,0	1,4	-0,6	-0,4	1,4	1,8
GERMANY	-5,1	4,2	3,0	0,7	0,4	2,1	2,1
FRANCE	-3,1	1,7	2,0	0,0	0,2	1,1	1,6
ITALY	-5,5	1,8	0,4	-2,4	-1,9	0,8	1,4
UK	-5,1	1,7	1,1	0,1	1,9	2,7	2,2
JAPAN	-5,5	4,7	-0,6	2,0	1,6	1,2	1,7
BRASIL	-0,3	7,6	2,8	1,0	2,3	1,9	2,5
RUSSIA	-7,8	4,3	4,3	3,4	1,3	2,0	2,5
INDIA	6,4	8,9	7,5	5,1	4,6	4,8	5,3
CHINA	9,2	10,4	9,3	7,7	7,7	7,4	7,3
AUSTRALIA	1,4	2,6	1,4	3,6	2,4	2,8	2,9
KOREA	0,3	6,3	3,6	2,0	2,8	3,6	3,6
INFLATION (%YOY)							
US	-0,4	1,6	3,2	2,1	1,5	1,5	2,0
EUROZONE	0,3	1,6	2,7	2,5	1,4	0,8	1,2
GERMANY	0,2	1,2	2,5	2,1	1,6	1,5	1,8
FRANCE	0,1	1,7	2,3	2,2	1,0	1,2	1,3
ITALY	0,8	1,6	2,9	3,3	1,3	0,9	1,3
UK	2,2	3,3	4,5	2,8	2,6	2,0	2,2
JAPAN	-1,3	-0,7	-0,3	0,0	0,4	2,7	1,8
BRASIL	4,9	5,0	6,6	5,4	6,2	6,0	5,7
RUSSIA	11,7	6,9	8,5	5,1	6,8	5,6	5,0
INDIA	10,8	12,1	8,9	10,4	10,9	9,6	8,2
CHINA	-0,7	3,3	5,4	2,7	2,6	3,0	3,2
AUSTRALIA	1,8	2,9	3,3	1,8	2,4	2,8	2,5
KOREA	2,8	3,0	4,0	2,2	1,3	2,2	2,8

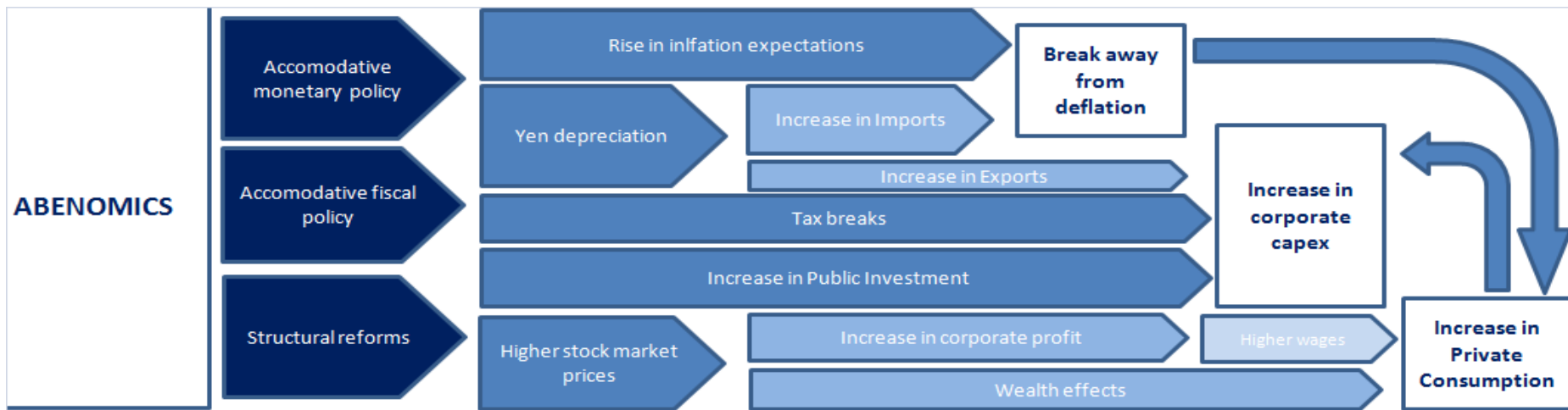
Banca Aletti Forecast

Cons. Bloomberg (Mar 14)

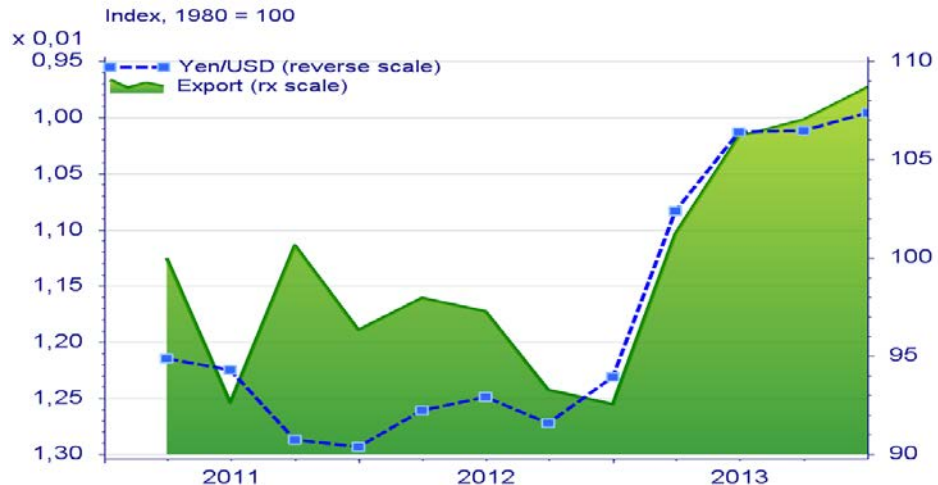
FOCUS ON JAPAN

ABENOMICS

The new policy in Japan aims to promote growth and end deflation, relying on "three arrows": an ultra-expansive monetary policy, expansive fiscal policy and structural reforms. The first effects of Abe's policy have been an acceleration in growth and exports and the exiting from the deflation spiral, also thanks to the heavy yen depreciation.



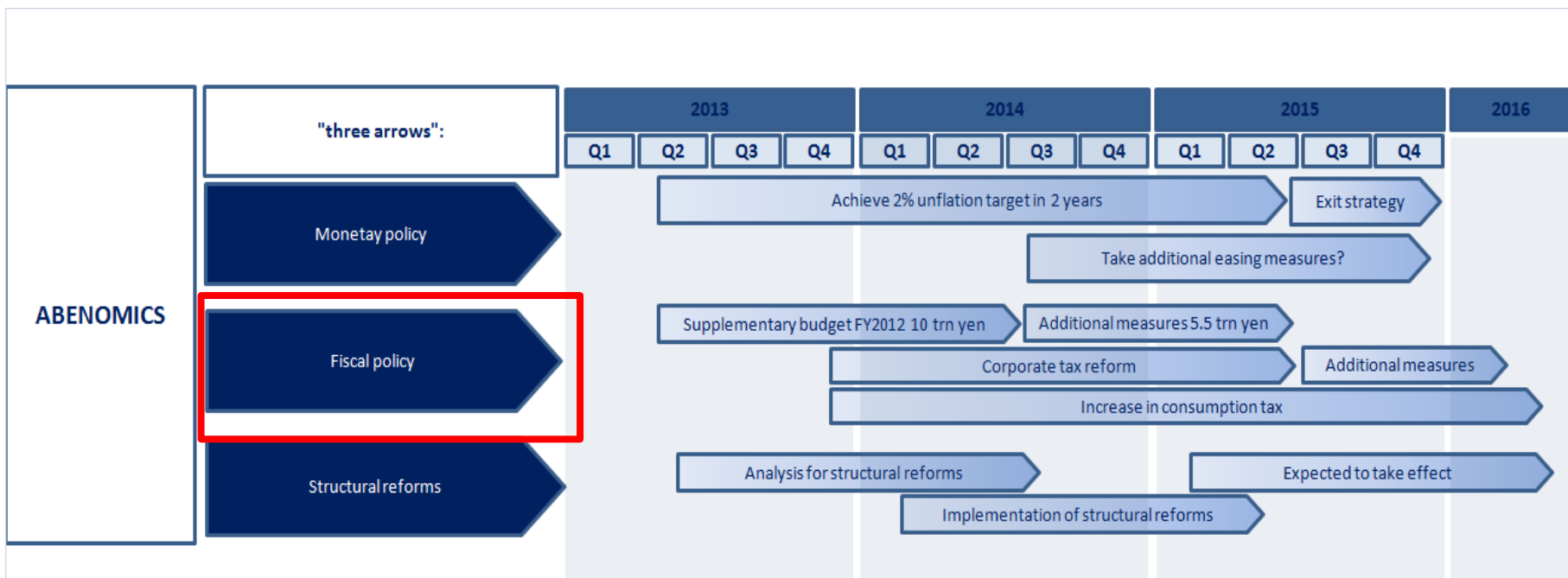
Fonte: Thomson Reuters Datastream / Fathom Consulting



Fonte: Thomson Reuters Datastream / Fathom Consulting

The Government implemented an increase in the Consumption tax from April 1st, to 8% from 5%. The next hike is scheduled for October 2015, but is subject to possible modifications depending on growth evaluation. The increase in taxation is necessary to reach the fiscal surplus target by 2020.

Consumption tax	Measures
	8% april 2014
	10% october 2015

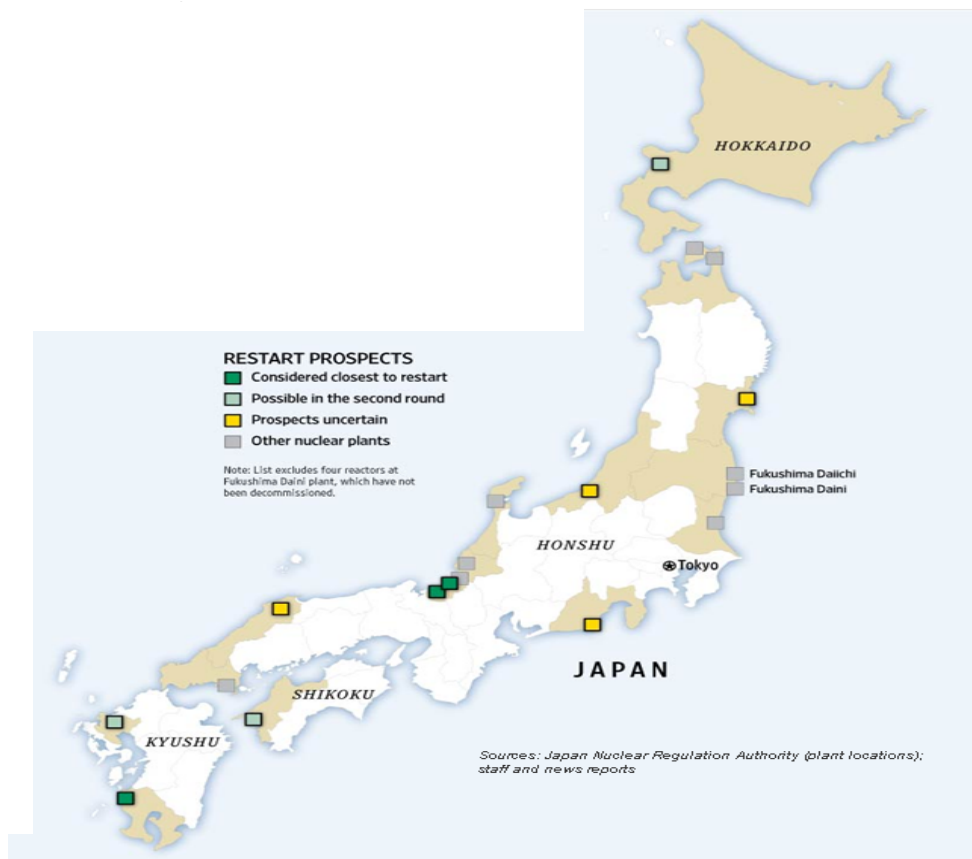
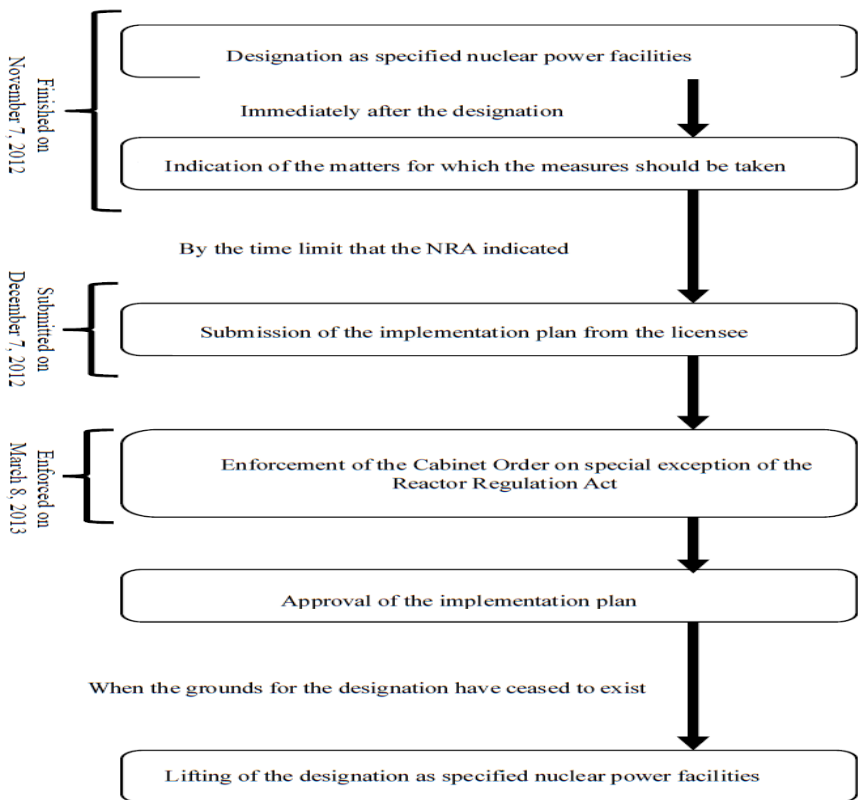


At the end of January the Government revised its plans for fiscal reforms for fiscal year 2014, with a series of measures to limit the recessive impact of the consumption tax increase.

<i>Additional measures</i>	Trn Yen
Measures for competitiveness	1.4
Acceleration of post-earthquake reconstruction and measures for the prevention of natural disasters	3.1
Measure to promote female and youth employment	0.4
Measures to mitigate the impact of higher consumption tax on low-income	0.6
Total	5.5

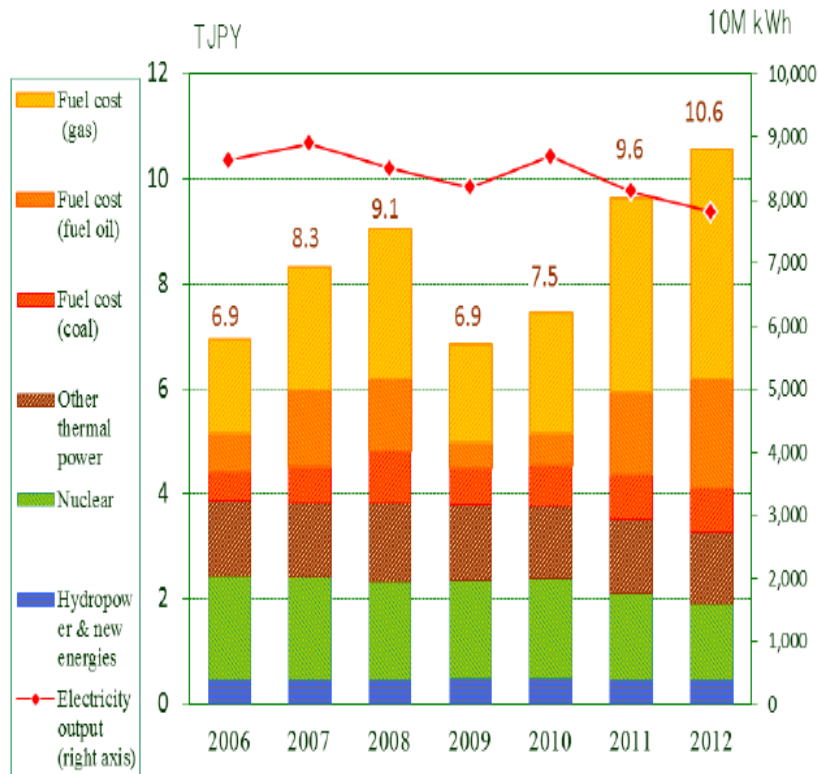
Taxation on motor vehicles	Economic cycle support measures	Regional economies' and small and medium companies' support
<ul style="list-style-type: none"> ❖ Gradual reduction and abolition of car sales' tax, in effect with consumption tax hike. ❖ Eco car tax cut extension. 	<ul style="list-style-type: none"> ❖ Abolition of reconstruction tax one year earlier, to push companies to raise wages with higher profits. 	<ul style="list-style-type: none"> ❖ Extraordinary measures' extension to deduct part of welfare expenses for small and medium companies. ❖ Fiscal breaks for commercial businesses that place headquarters in city centres. ❖ Support measures for small businesses
Energy support measures	Foreign investment incentives	Global pollution control measures
<ul style="list-style-type: none"> ❖ Fiscal breaks for oil industry to increase its competitiveness on international markets ❖ Fiscal breaks for energy production from renewable sources 	<ul style="list-style-type: none"> ❖ Fiscal breaks to attract foreign investment from overseas to global firms certified by the Act to Promote Japan as Asian Commerce Centre 	<ul style="list-style-type: none"> ❖ Given the extraordinary measures to support the oil and coal industry, revenue will be used to finance programmes to limit carbon dioxide emissions

Among the points on the Government's agenda, the second draft of the long term energy plan includes restoring nuclear energy to its role as primary source of electricity, to resolve the strong increase in costs seen since 2011 and to support the economy. The Nuclear Regulatory Authority (NRA) is monitoring 17 of the existing 48 nuclear plants, to evaluate whether they comply with the current law. The regulatory authority was created in 2012, as an independent organisation, following controversy on the conflict of interests of the existing Government Authority, which was both responsible for developing nuclear power and security controls.

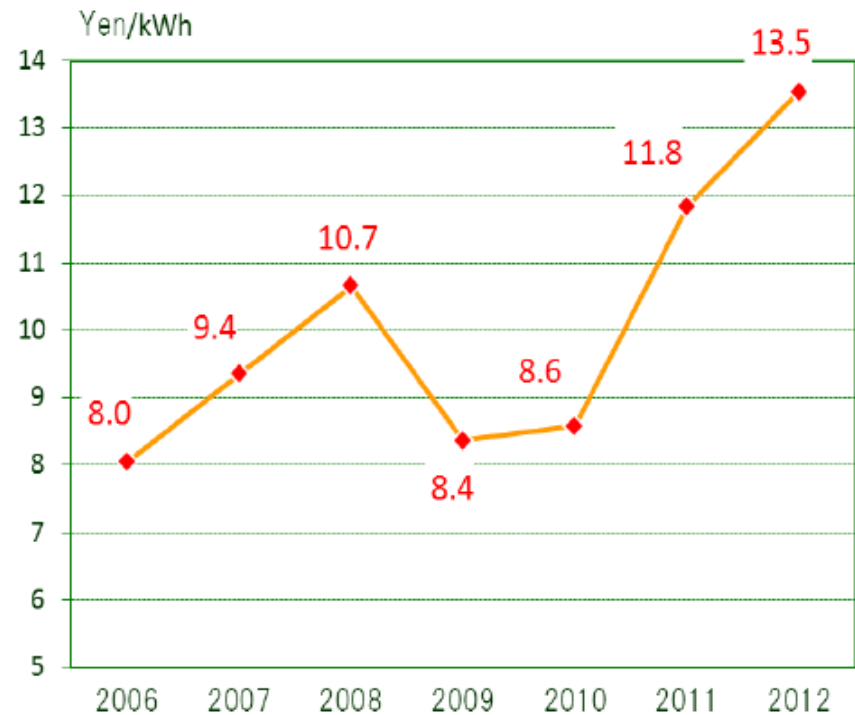


Energy production costs have soared since 2010, the year before the Fukushima Daiichi nuclear disaster, until 2012, according to the latest available data. The analysis, based on data provided by the 12 major electrical companies, shows a strong increase of both total costs and unit costs per kWh.

ELECTRICAL POWER GENERATED: TOTAL COST



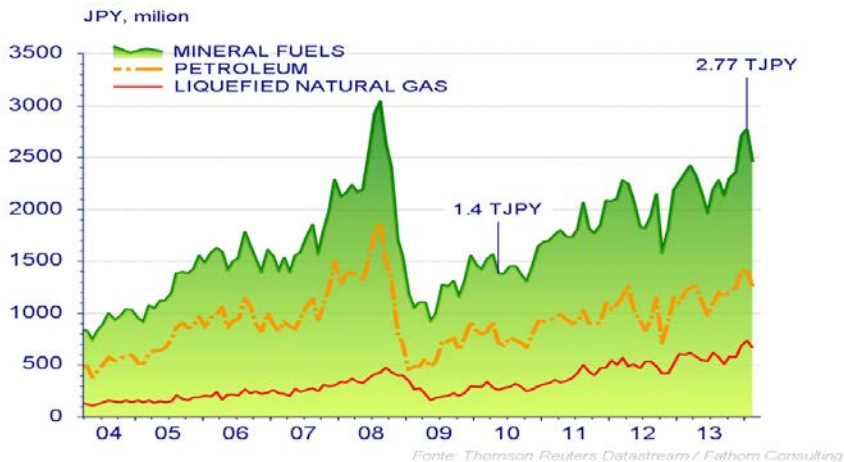
ELECTRICAL POWER GENERATED: UNIT COST



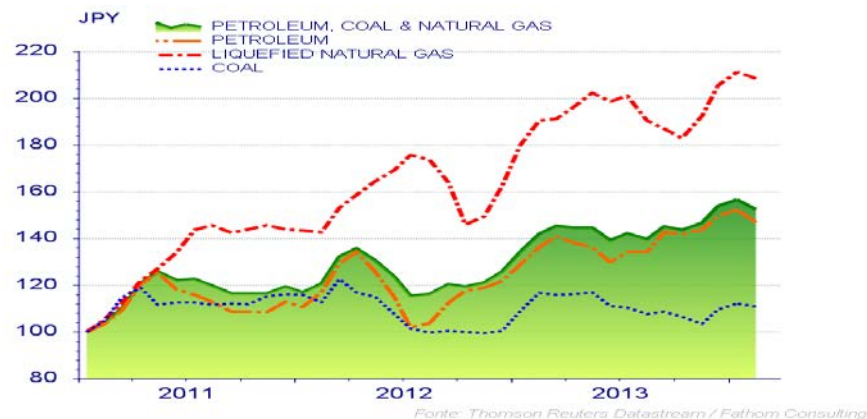
IEE, Japan

Increases are due to a spike in import prices, following the huge yen depreciation, and a change in the production mix, from nuclear to thermic. The increase in total cost was in part tampered by a reduction in consumption, thanks to energy saving decisions.

IMPORT



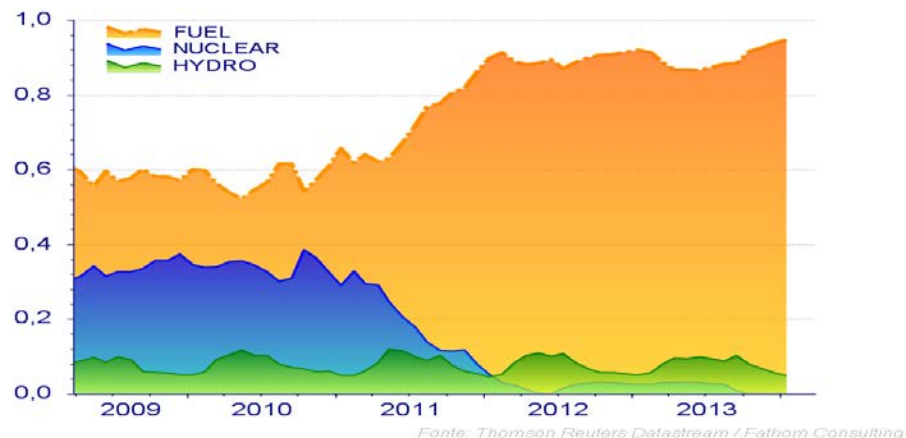
IMPORT PRICES



ELECTRICAL POWER GENERATED: DEMAND

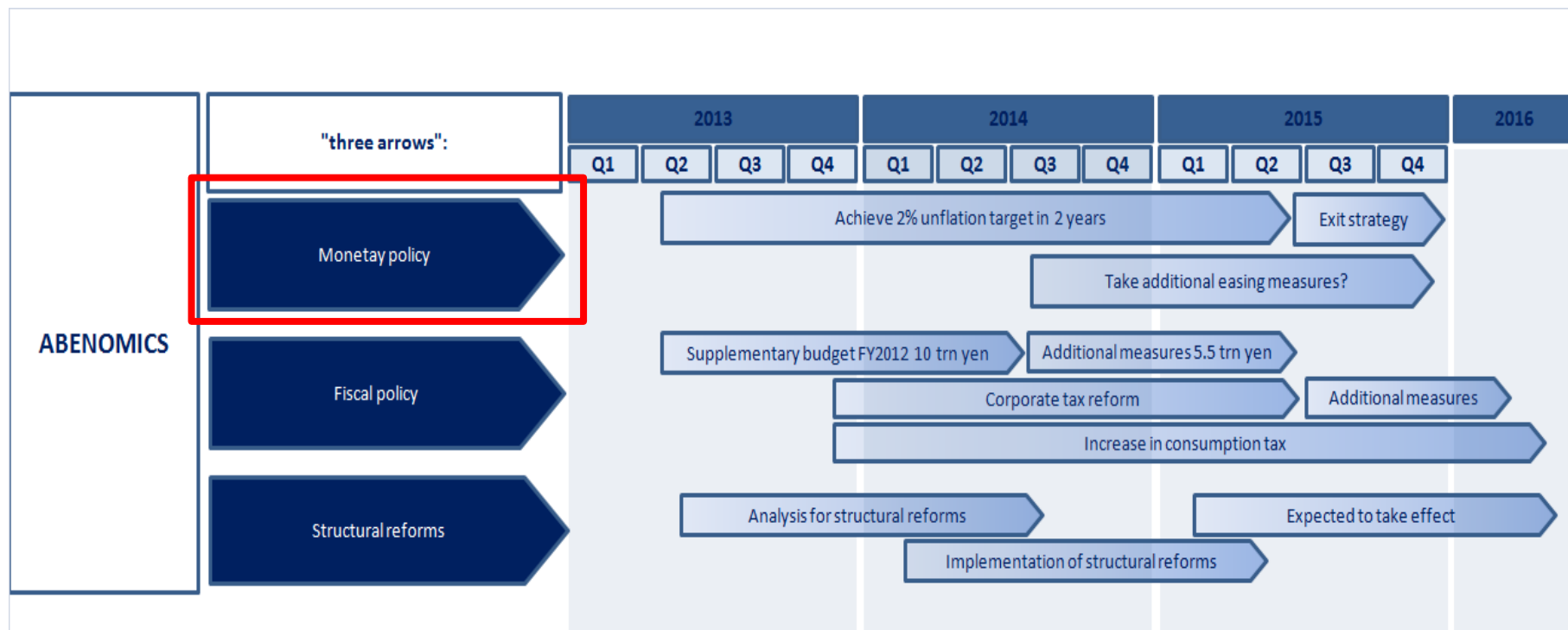


ELECTRICAL POWER GENERATED: SOURCES



The Bank of Japan left its monetary policy stance unchanged, but acted on **programmes for credit support, trying to increase demand and supply of loans and thus supporting growth:**

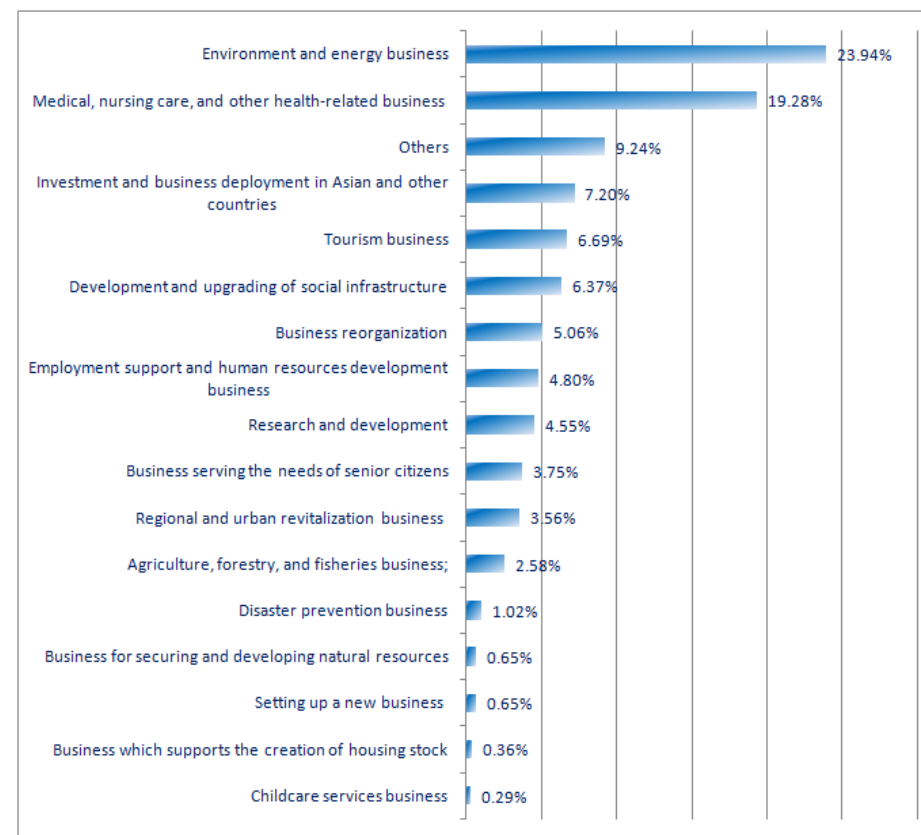
- ❖ It extended by one year its Stimulating Bank Lending Facility and its Growth Supporting Bank Lending Facility;
- ❖ It doubled the amount that banks can loan from the Central Bank through the Stimulating Bank Lending Facility, that previously had to be equal to the net amount of loans;
- ❖ It doubled the maximum amount banks can get through the Growth Supporting Bank Lending Facility, from 3.5 bln yen to 7 bln yen.



The *Loan Support Program* was created in 2010 and enhanced in 2012, splitting it in two sub-programs:

- ❖ *Stimulating Bank Lending Facility*, unlimited credit against collateral, from 0 to 3 year duration;
- ❖ *Growth Supporting Bank Lending Facility*, credit and loans with stock-like features, small investment and loans, between 1 and 10 bln yen and investment and loans in foreign currencies.

Areas for strengthening the foundations for economic growth	
	mln JPY
Childcare services business	0.8
Business which supports the creation of housing stock	1
Setting up a new business	1.8
Business for securing and developing natural resources	1.8
Disaster prevention business	2.8
Agriculture, forestry, and fisheries business;	7.1
Regional and urban revitalization business	9.8
Business serving the needs of senior citizens	10.3
Research and development	12.5
Employment support and human resources development business	13.2
Business reorganization	13.9
Development and upgrading of social infrastructure	17.5
Tourism business	18.4
Investment and business deployment in Asian and other countries	19.8
Others	25.4
Medical, nursing care, and other health-related business	53
Environment and energy business	65.8
Total	274.9



CONSUMPTION

February sales slowed down to 2.8% on a yearly basis from 4.4% in January, due to strong snowfalls that hit the eastern part of the country. Auto sales are deceleration, as an effect of the Consumption tax increase, to 14.9% yoy from 21.2% in January, but their growth remains quite robust.

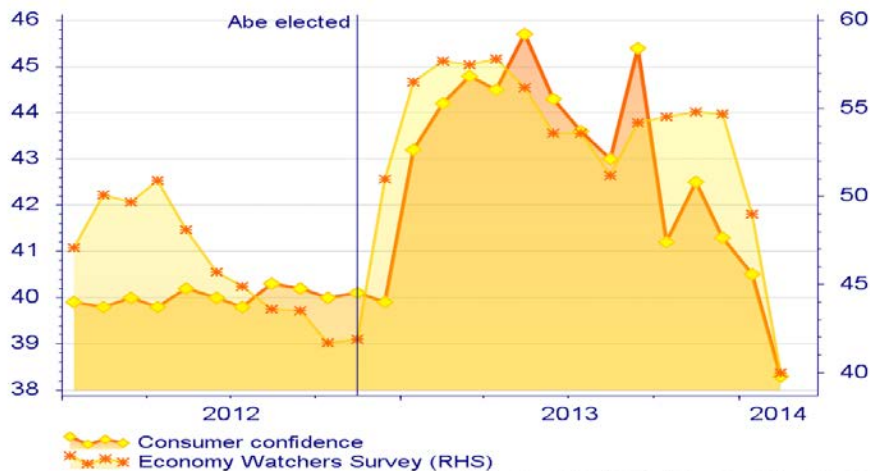
SALES



PROPENSITY TO CONSUME

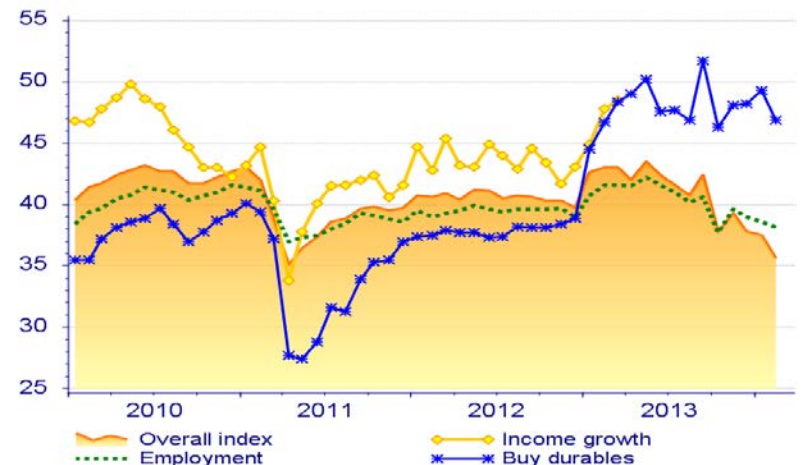


CONSUMER CONFIDENCE



Fonte: Thomson Reuters Datastream / Fathom Consulting

CONSUMER CONFIDENCE

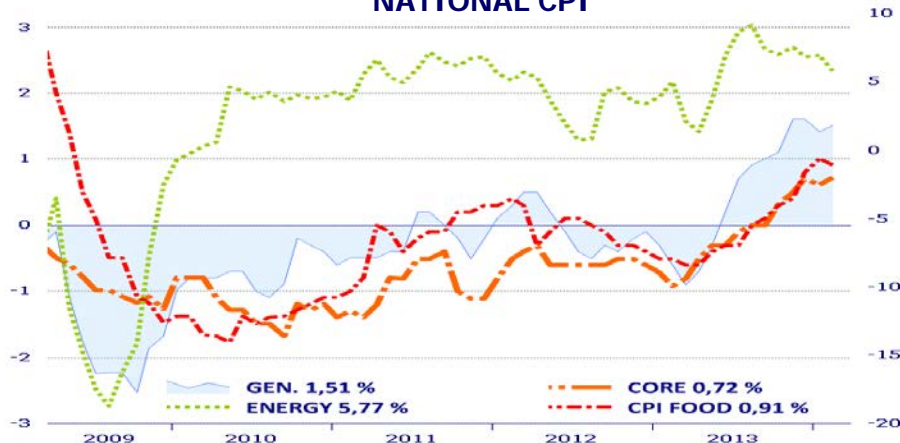


Fonte: Thomson Reuters Datastream / Fathom Consulting

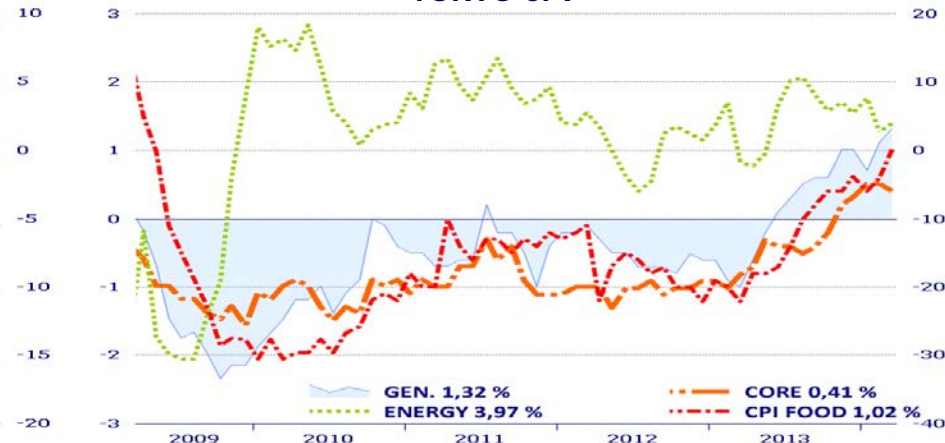
INFLATION

The national consumer price index in February accelerated to 1.5% yoy from 1.4% in January. The acceleration was led by increasing fresh food prices (7.8% yoy from 2.8%), the most volatile component of food prices. However, the price increase is not only due to transitory effects on these components, but also to structural ones. Actually, the core index for February, i.e. net of food and energy components, accelerated from 0.7% in January to 0.8% yoy, an all-time high. Inflation should accelerate in March as well, as the Tokyo CPI recorded a stronger than expected increase for this month, at 1.3% from 1.1% in February, its highest since 2008.

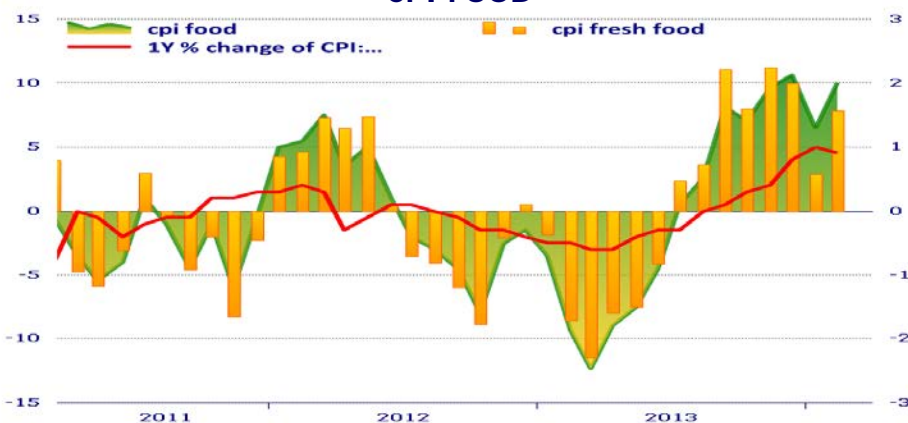
NATIONAL CPI



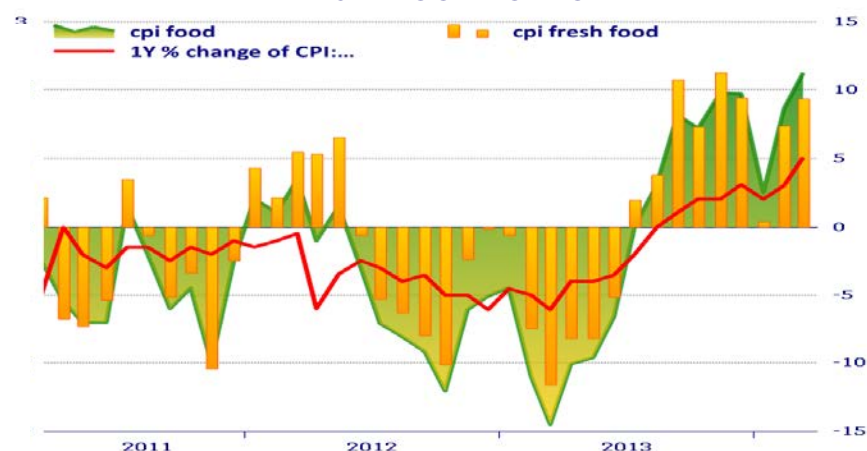
TOKYO CPI



CPI FOOD

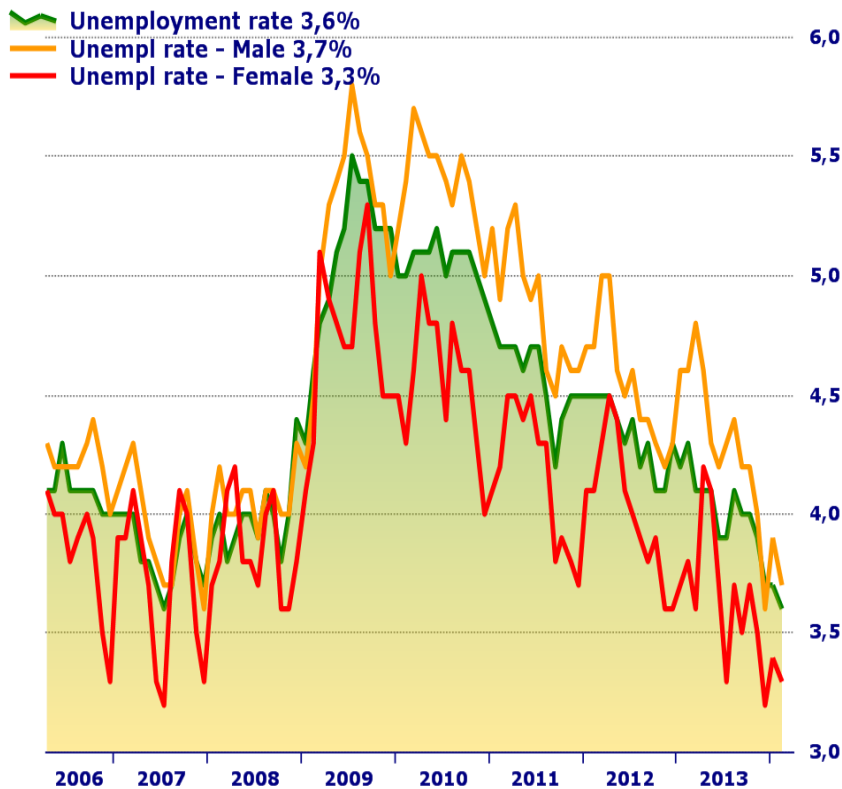


CPI FOOD TOKYO

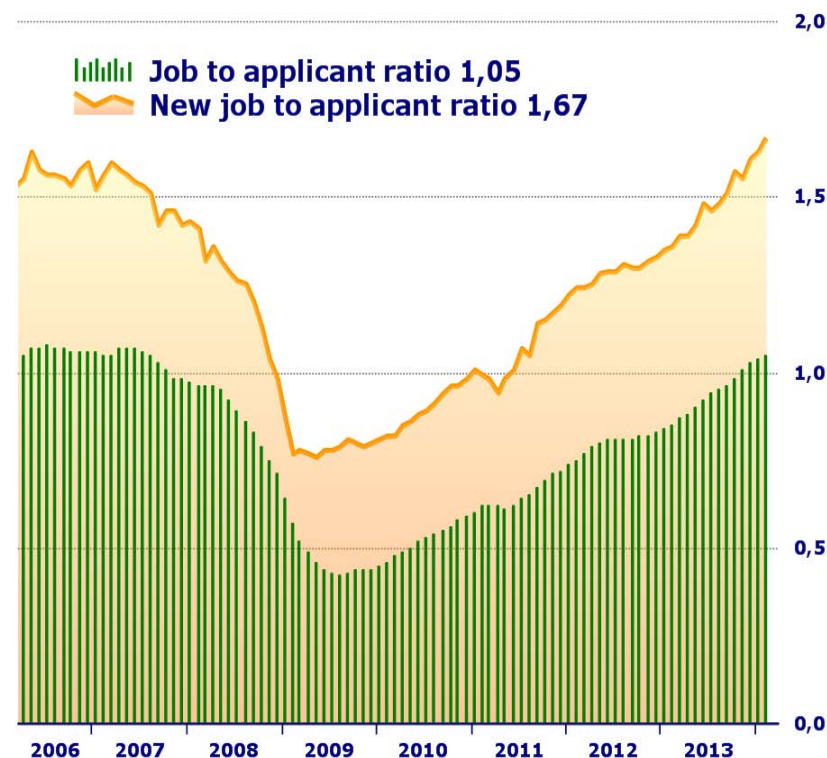


The labour market continues to enjoy a positive trend, with unemployment at 3.6% in February, its lowest level since July 2007. This is even more significant, as participation rate rose from 57.7% to 58.8%. Also the job-to-applicant ratio grew from 1.04 to 1.05, anticipating a possible further acceleration in hirings in the coming months, that will further attract new people to enter the labour market.

UNEMPLOYMENT RATE



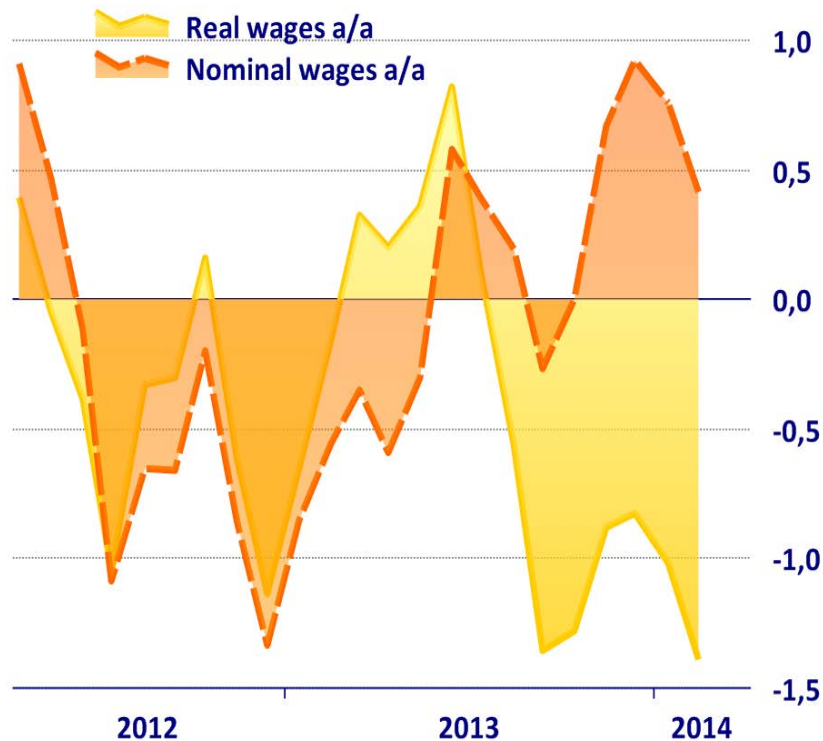
JOB TO APPLICANT RATIO



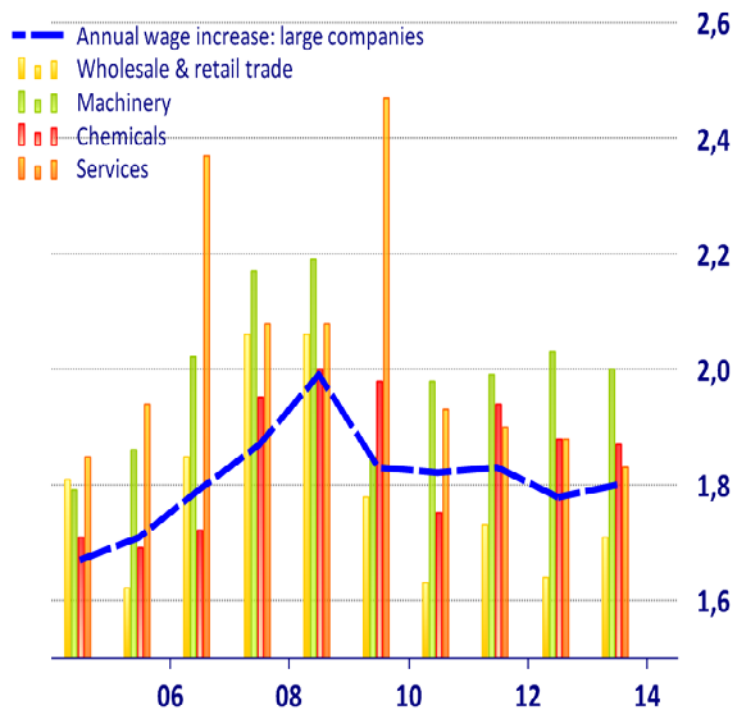
LABOUR MARKET

The wages negotiations round ("Shunto"), which involved 43 of the major Japanese companies, ended with an average increase of 1950 yen on monthly wages.

WAGES



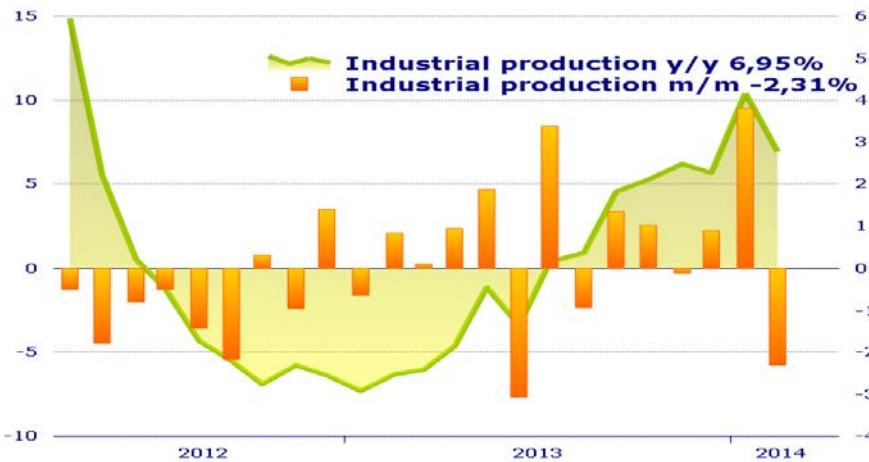
ANNUAL WAGE INCREASE: LARGE COMPANIES



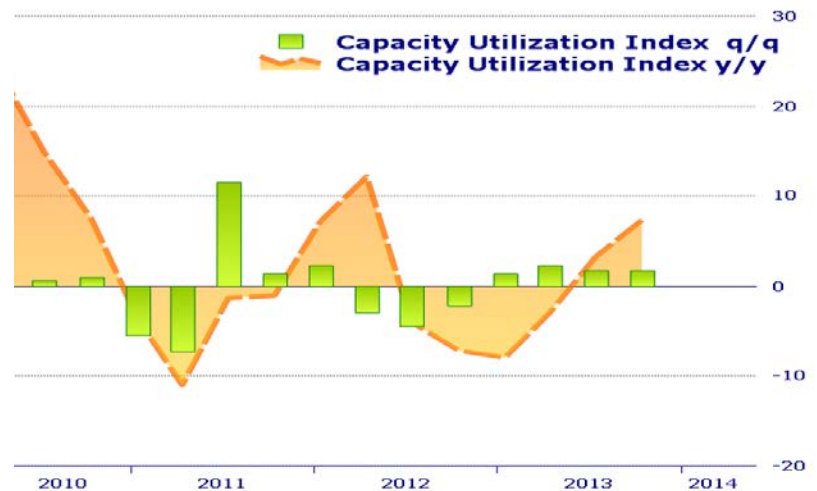
INVESTMENTS

The March industrial production number recorded a monthly drop due to strong snowfalls during two weeks in this month, in line with the PMI surveys results. Also, new construction suffered a strong halt, but in the next few months the increase in new Housing starts should support the Real Estate Sector.

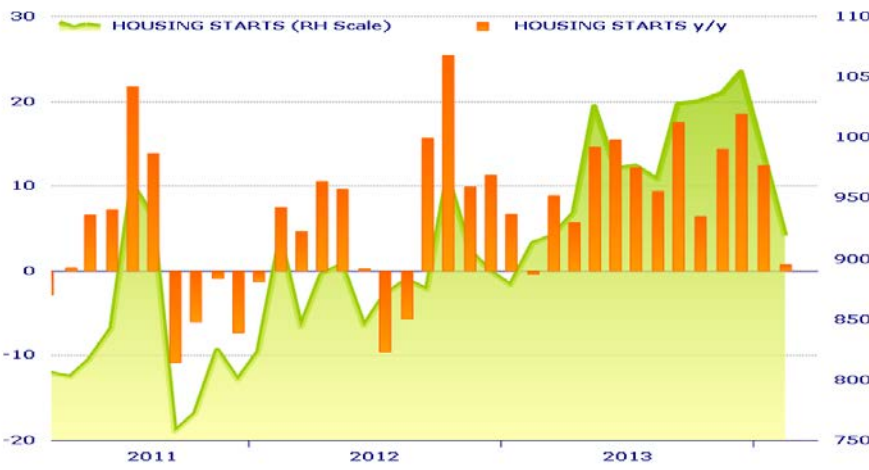
INDUSTRIAL PRODUCTION



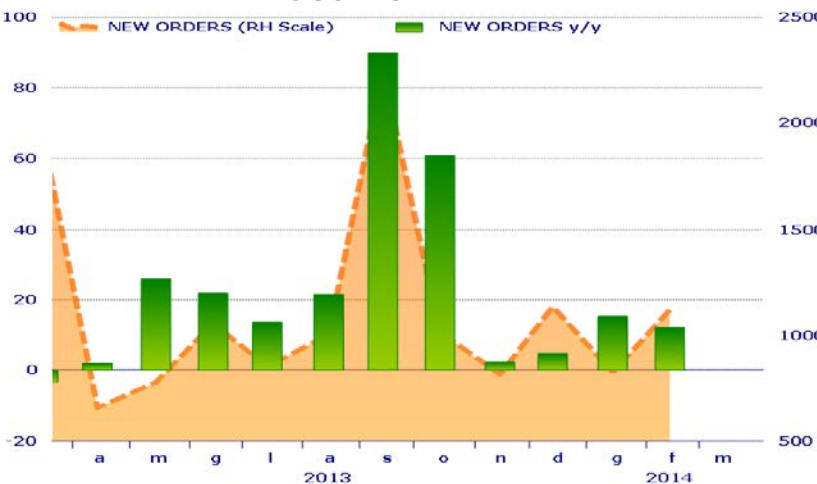
CAPACITY USED



HOUSING MARKET



HOUSING MARKET



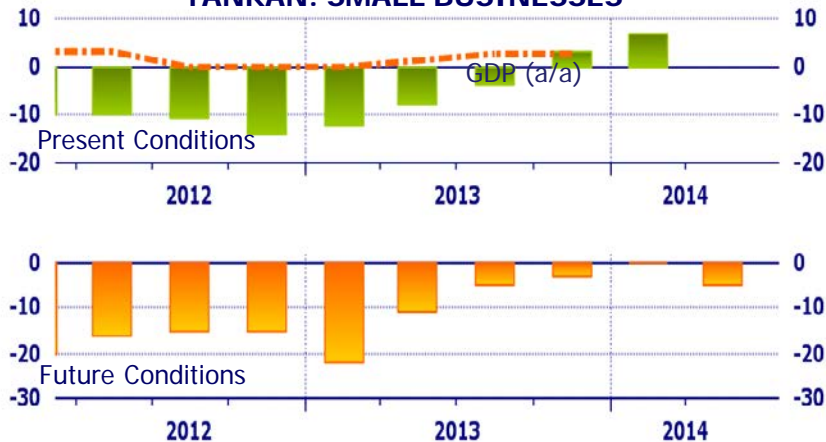
INVESTMENTS

March data were hit by adverse weather conditions that hit the country in February: first of all, we had a slowdown in production growth. Moreover, the TANKAN survey highlighted the positive perception of the current situation, while forecasts for the next months reflect the expected demand weakening due to increasing taxation.

TANKAN: BIG BUSINESSES



TANKAN: SMALL BUSINESSES

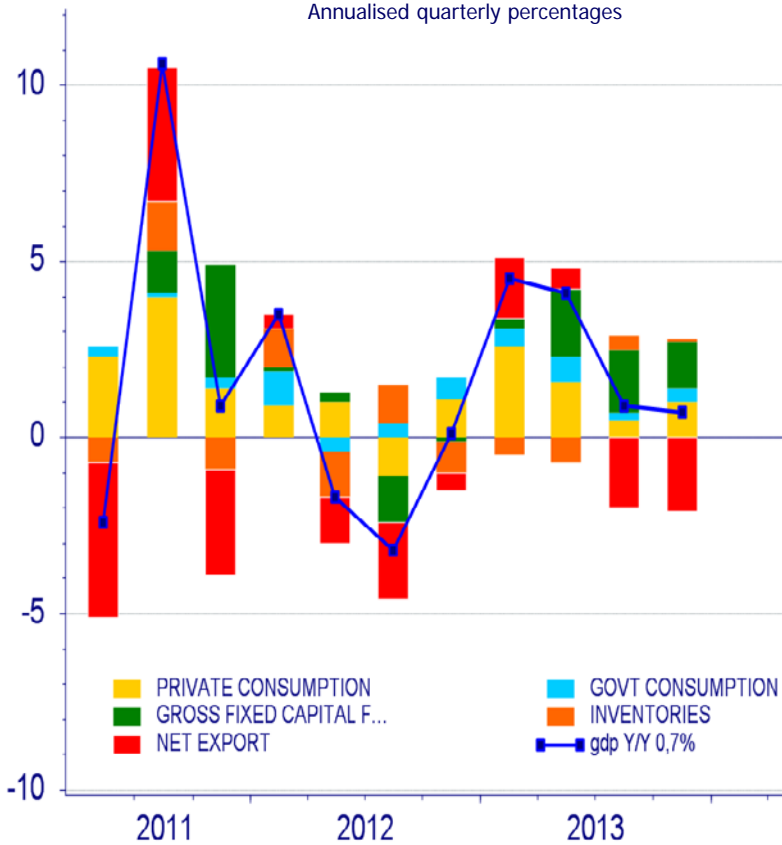


GROWTH

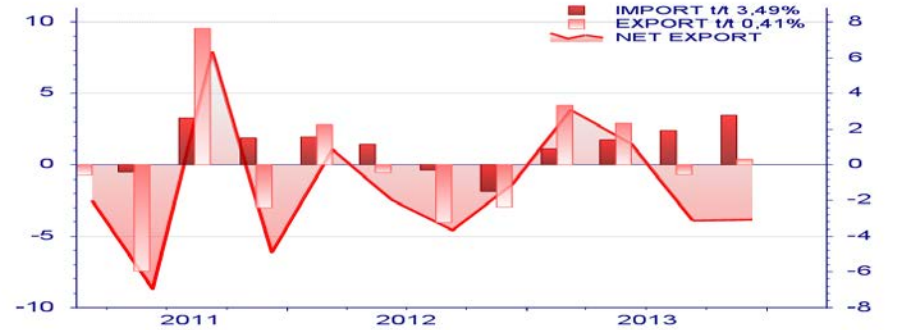
GDP growth for Q4 2013 showed a moderate slowdown, to 0.7% yoy. Compared to Q3 there was an acceleration in consumption, before the increase in consumption tax on April 1st, and in housing investments. Net export dragged on growth by 0.5%, due to a strong increase in imports and weakness in exports.

REAL GDP: CONTRIBUTIONS

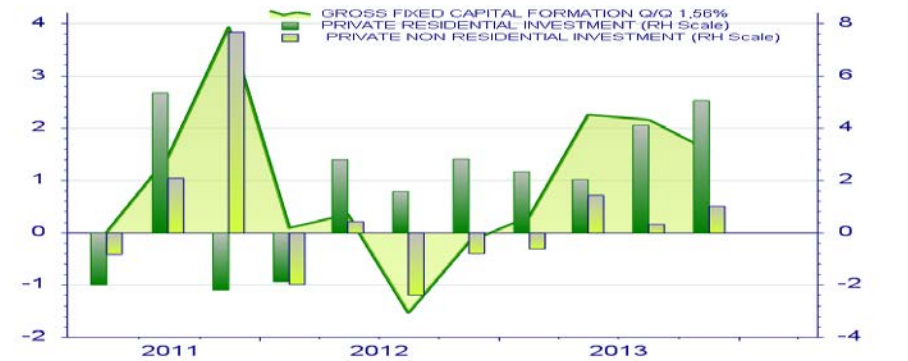
Annualised quarterly percentages



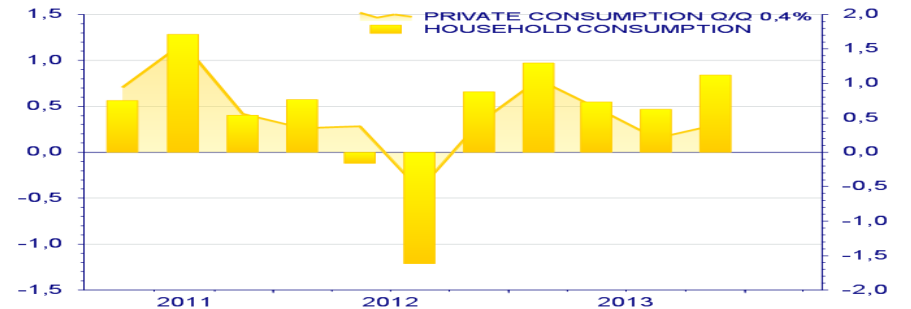
Fonte: Thomson Reuters Datastream / Fathom Consulting



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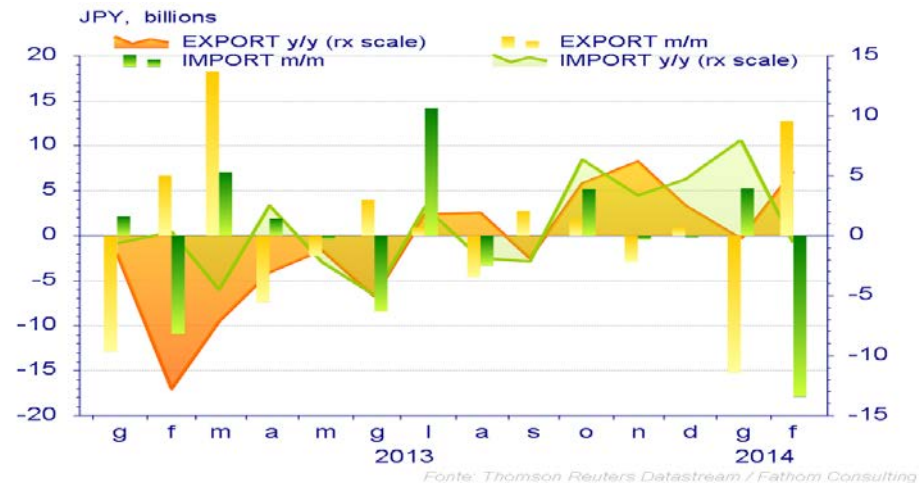
Fonte: Thomson Reuters Datastream / Fathom Consulting

In February export volumes returned to growth (5.4% on a yearly basis), particularly towards China (+22.5% on a yearly basis, from 4.9% in January). Import volumes decreased by 0.5%, with a drop in imports from Asia and China.

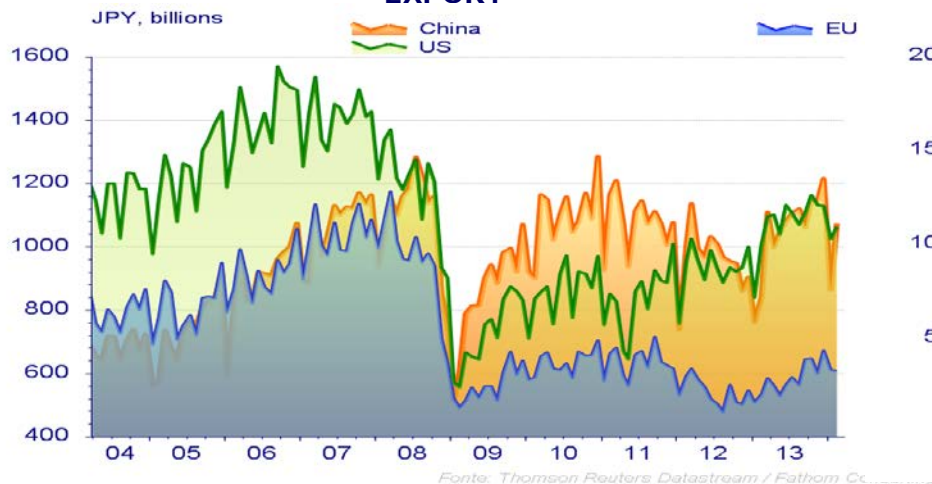
TRADE BALANCE



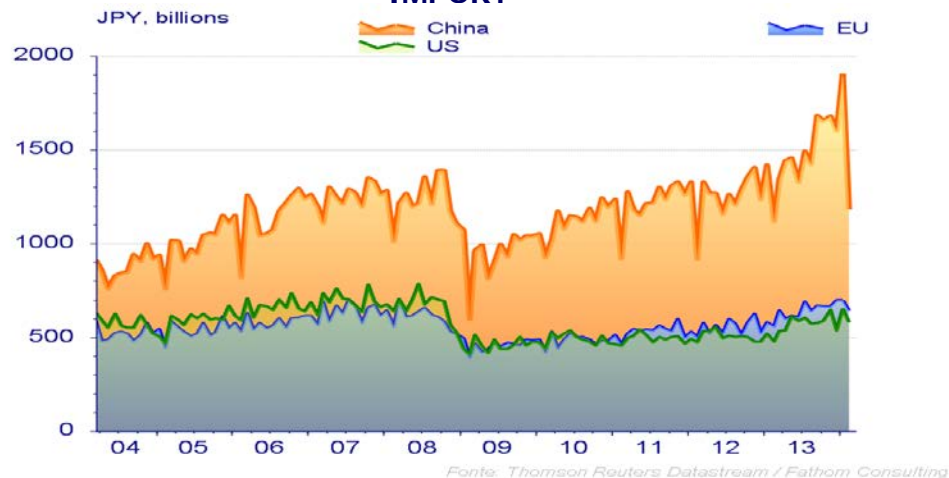
IMPORT/EXPORT: volumes



EXPORT



IMPORT

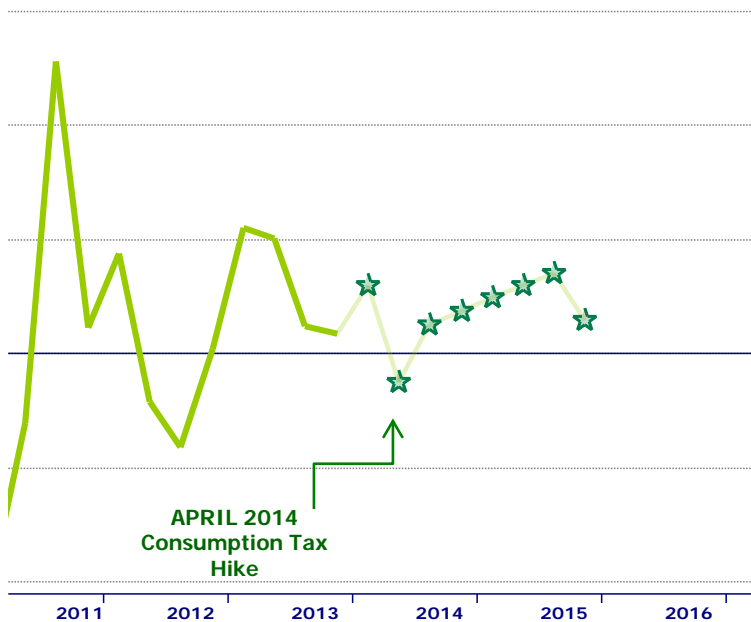


FORECASTS

Growth forecasts were downwardly revised to take into account Q4 data. In 2013 GDP grew by 1.6%, while estimates for 2014 and for 2015 are at +1.2% and at +1.7% respectively. Inflation is accelerating and CPI is expected to reach +2.9% yoy at the end of 2014, including the Consumption tax hike.

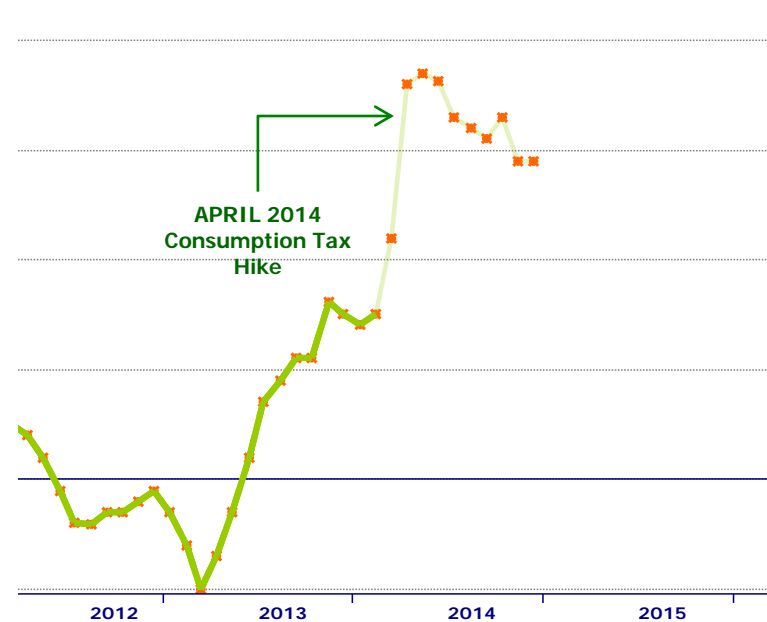
GDP

Quarterly Rates



INFLATION

Yearly Rates



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