



# Global Economy Report

March-April 2015



European  
University  
Institute

ROBERT  
SCHUMAN  
CENTRE FOR  
ADVANCED  
STUDIES



# 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 March 16, 2015**

- ❖ In the USA, macroeconomic data still below expected levels pushed the surprise index further into negative territory.
- ❖ Moderate growth in the first quarter of the year, at 2.5%, also due to winter climate and halt in harbour activities on the west coast.
- ❖ Basic macroeconomic trajectories hold; weakness in orders improves; vigorous job creation continues.
- ❖ Inflation turns negative in January and will return positive only in the last quarter of 2015.
- ❖ Fed prepares rates' inversion for the summer or autumn.

- ❖ For Eurozone, the qualitative indexes' trajectory confirms the cycle's upward inversion in all the area's major economies and at an aggregate level.
- ❖ Real economy highlights the recovery's consolidation in private consumption.
- ❖ In the first quarter of 2015 we estimate an increase in Eurozone's income in the order of four/five tenths of a point. Increase in average growth estimates at 1.4% in 2015 and at 1.9% in 2016.
- ❖ General inflation will remain negative till the summer and will be null on average in 2015, accelerating in 2016 at an average 1.4%.
- ❖ ECB has sensibly increased its outlook on the macroeconomic scenario.

- ❖ As for China, we confirm a scenario of controlled slowdown, with growth perspectives in line with IMF's and thus below 7% both for 2015 and for 2016.
- ❖ The People's Bank of China is gradually proceeding towards a loosening in monetary policy. In February it intervened with a second rate cut, after the November expansive move.
- ❖ In Japan, after two quarters of growth contraction, that led the country to recession, the Prime Minister Abe called early elections, seeking consensus on his economic policy ("Abenomics"). The December elections confirmed the LDP-Komei coalition both at the Upper and the Lower House. At the same time, the Prime Minister postponed the second tax hike on consumption (from 8% to 10%), planned for this October, to April 2017 and announced a stimuli package worth 3.5 trillion yen to support growth. Monetary policy, after the past fall, remained sensibly expansive, and we do not exclude a further intervention in the second half of the year to support prices and growth.

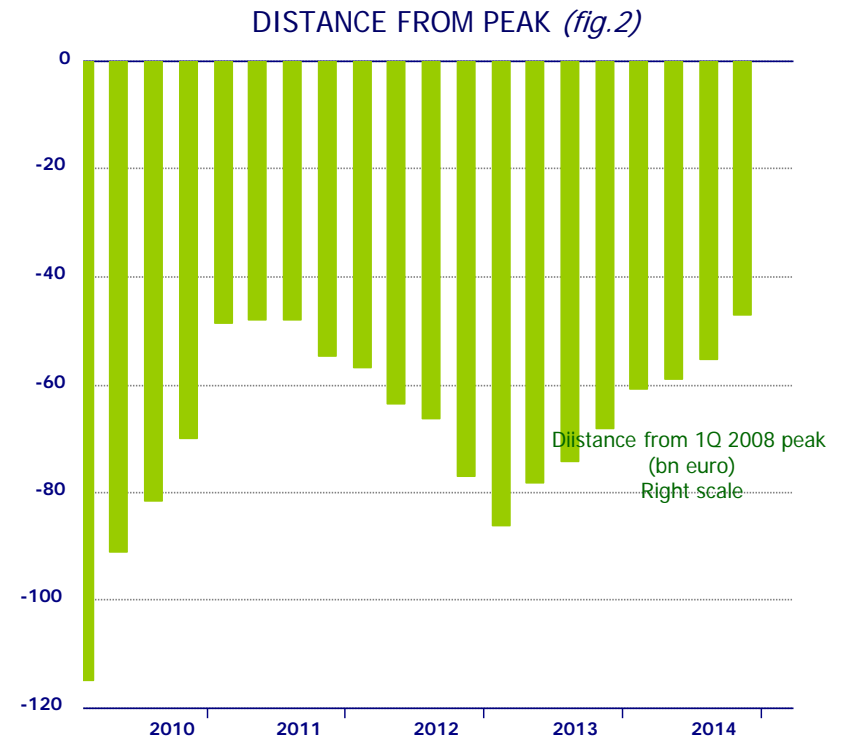
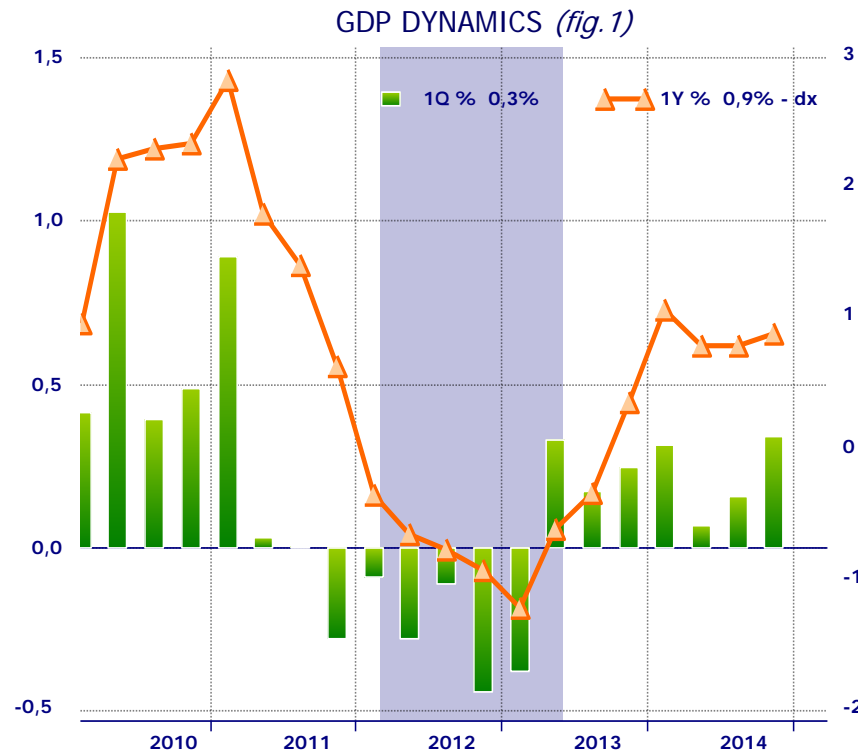


# EXECUTIVE SUMMARY

GDP (%YOY)								
US	-2.8	2.6	1.6	2.3	2.2	2.4	3.4	3.1
EUROZONE	-4.4	2.0	1.4	-0.6	-0.4	0.9	1.4	1.9
GERMANY	-5.1	4.2	3.0	0.7	0.4	1.6	1.8	2.2
FRANCE	-3.1	1.7	2.0	0.0	0.4	0.4	1.1	1.8
ITALY	-5.5	1.8	0.4	-2.4	-1.8	-0.4	0.6	1.4
UK	-5.1	1.7	1.1	0.1	1.7	2.6	2.6	2.3
JAPAN	-5.5	4.7	-0.4	1.7	1.6	0.0	1.0	1.3
BRAZIL	-0.3	7.6	2.8	1.0	2.3	0.0	-0.3	1.5
RUSSIA	-7.8	4.3	4.3	3.4	1.3	0.6	-4.0	0.5
INDIA	6.4	8.9	7.5	5.1	4.6	5.8	6.3	6.5
CHINA	9.2	10.4	9.3	7.7	7.7	7.4	7.0	6.7
AUSTRALIA	1.4	2.6	1.4	3.6	2.4	2.7	2.4	3.0
KOREA	0.3	6.3	3.6	2.0	2.8	3.3	3.4	3.6
INFLATION (%YOY)								
US	-0.4	1.6	3.2	2.1	1.5	1.6	0.1	1.8
EUROZONE	0.3	1.6	2.7	2.5	1.4	0.4	-0.2	1.2
GERMANY	0.2	1.2	2.5	2.1	1.6	0.8	0.2	1.6
FRANCE	0.1	1.7	2.3	2.2	1.0	0.6	0.1	1.1
ITALY	0.8	1.6	2.9	3.3	1.3	0.2	0.0	0.8
UK	2.2	3.3	4.5	2.8	2.6	1.5	0.5	1.7
JAPAN	-1.3	-0.7	-0.3	0.0	0.4	2.7	1.1	1.2
BRAZIL	4.9	5.0	6.6	5.4	6.2	6.3	7.2	5.8
RUSSIA	11.7	6.9	8.5	5.1	6.8	7.8	14.0	7.0
INDIA	10.8	12.1	8.9	10.4	10.9	7.8	7.5	..
CHINA	-0.7	3.3	5.4	2.7	2.6	2.0	1.6	2.4
AUSTRALIA	1.8	2.9	3.3	1.8	2.4	2.5	2.0	2.7
KOREA	2.8	3.0	4.0	2.2	1.3	1.3	1.3	2.3
Banca Aletti Forecast								
Cons. Bloomberg (Mar 15)								
Historical Data								

# The Eurozone Outlook

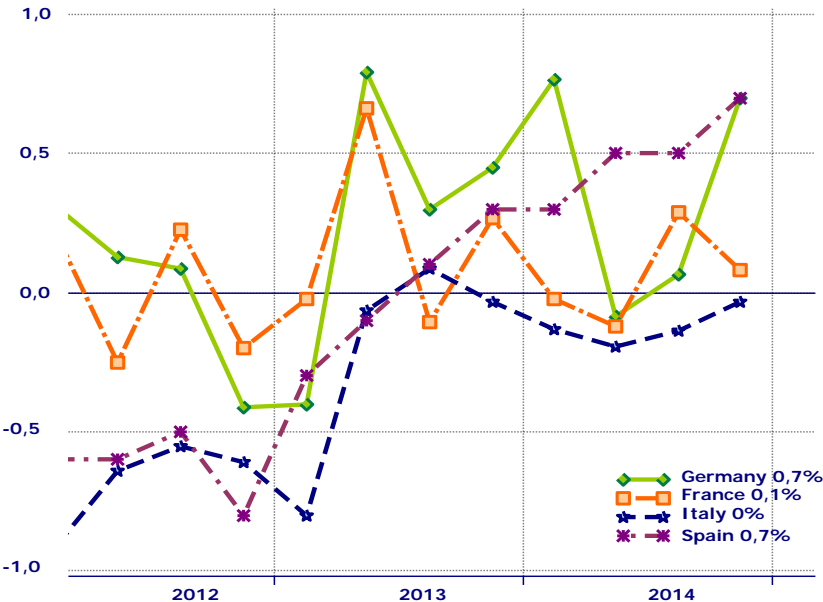
In the fourth quarter 2014 Eurozone's aggregate income increased by 0.3% compared to the previous period (same as preliminary estimate), growing for the seventh quarter in a row, the best performance since the beginning of last year. At the end of 2014 growth rate was at 0.9%, in positive territory for the first time since the double contraction in 2012 (-0.7%) and 2013 (-0.4%).



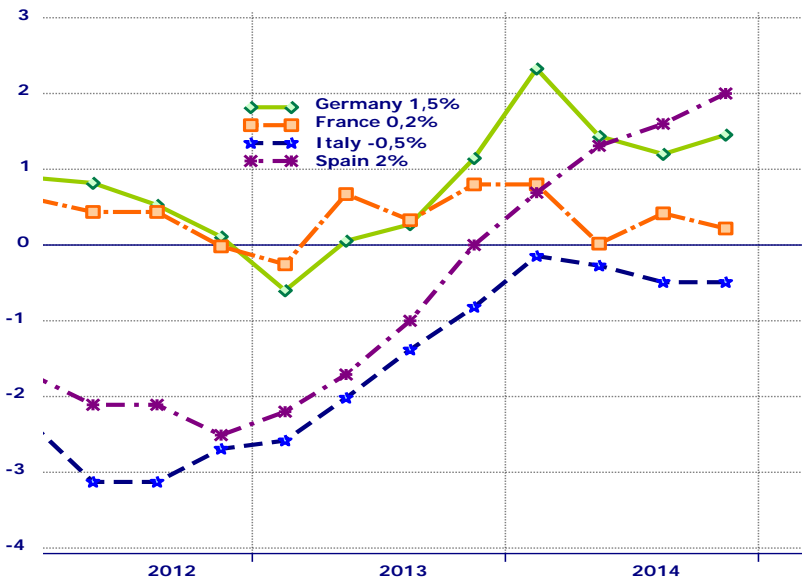


Germany closed 2014 registering growth more than double the consensus. Income grew by 0.7%, almost at the 0.8% peak registered at the beginning of last year, thus closing the weakness experienced in the central part of the year. 2014 closed with an average growth rate at 1.6%, sensibly higher than +0.2% in 2013, and highest since 2011. This will have a sizable drag effect on 2015 growth, about 0.5%.

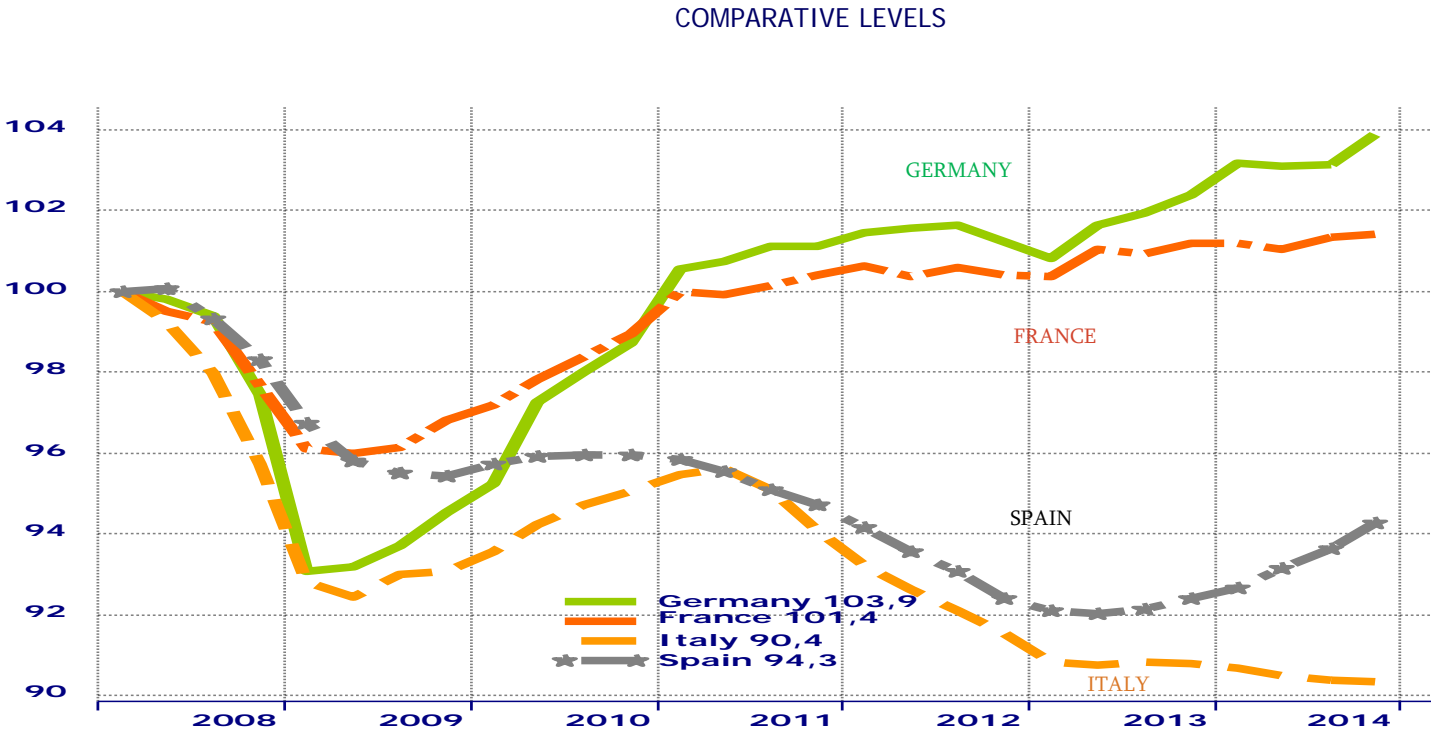
QOQ GROWTH RATES



YOY GROWTH RATES

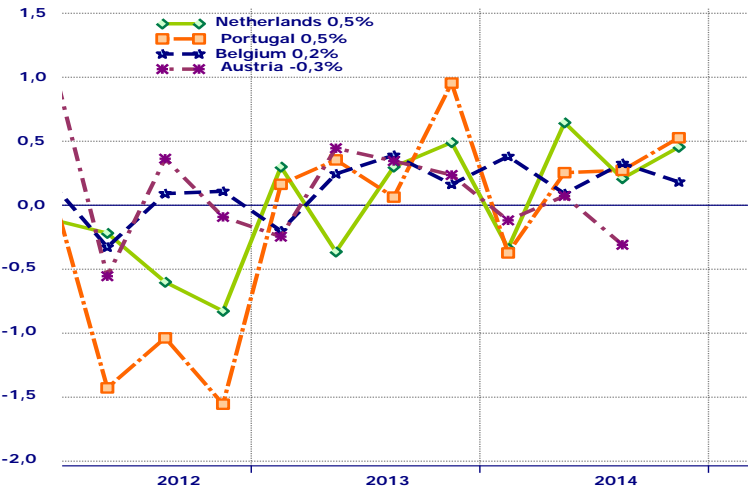


France registered a nearly stagnant evolution (+0.1%, in line with consensus), slowing down from previous quarter (+0.3%), with an average annual growth at +0.4%, same as in 2013. Growth for 2015 is rather modest and equal to two tenths of a point. In Italy, growth was null; 2014 ended with a -0.4% decrease; its drag effect on 2015 is slightly negative (-0.1%). Spain grew by 0.7%, highest growth rate since 2007.

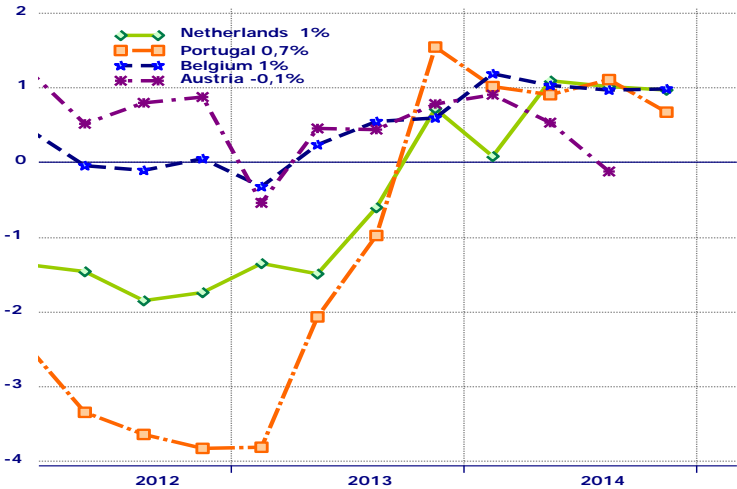


Among smaller economies, growth was particularly strong in the Netherlands and Portugal, around half a percentage point.

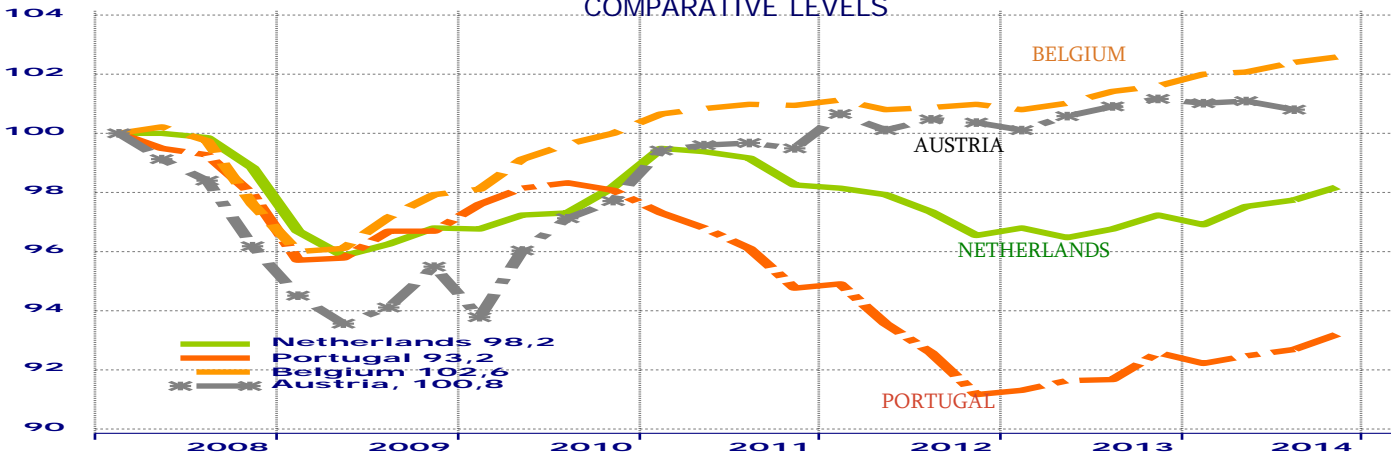
QOQ GROWTH RATES



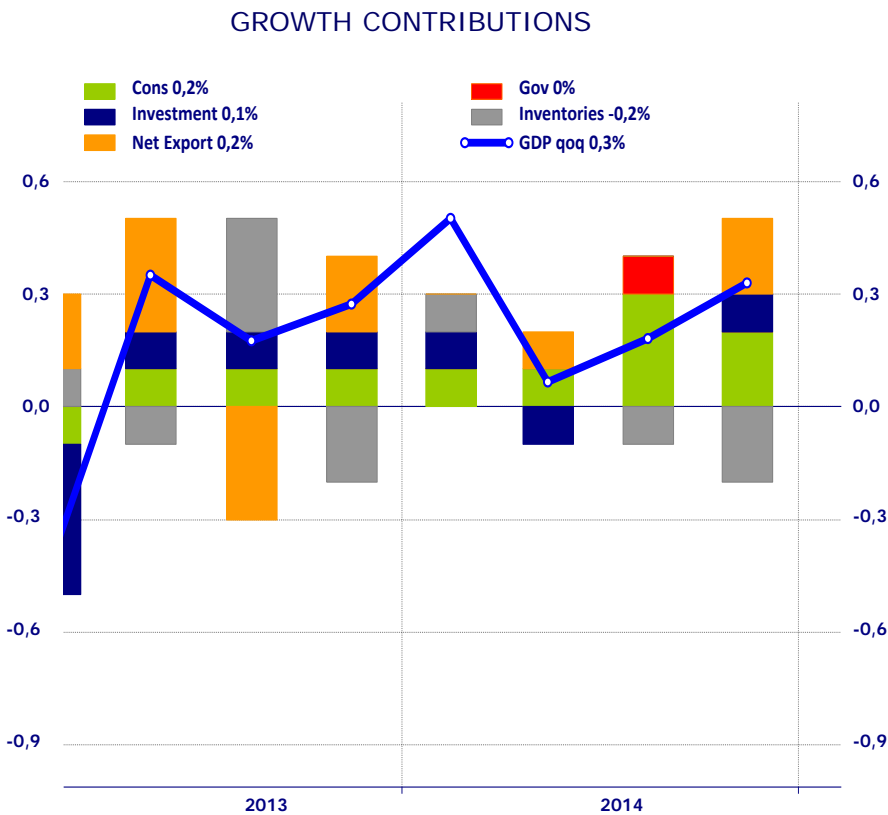
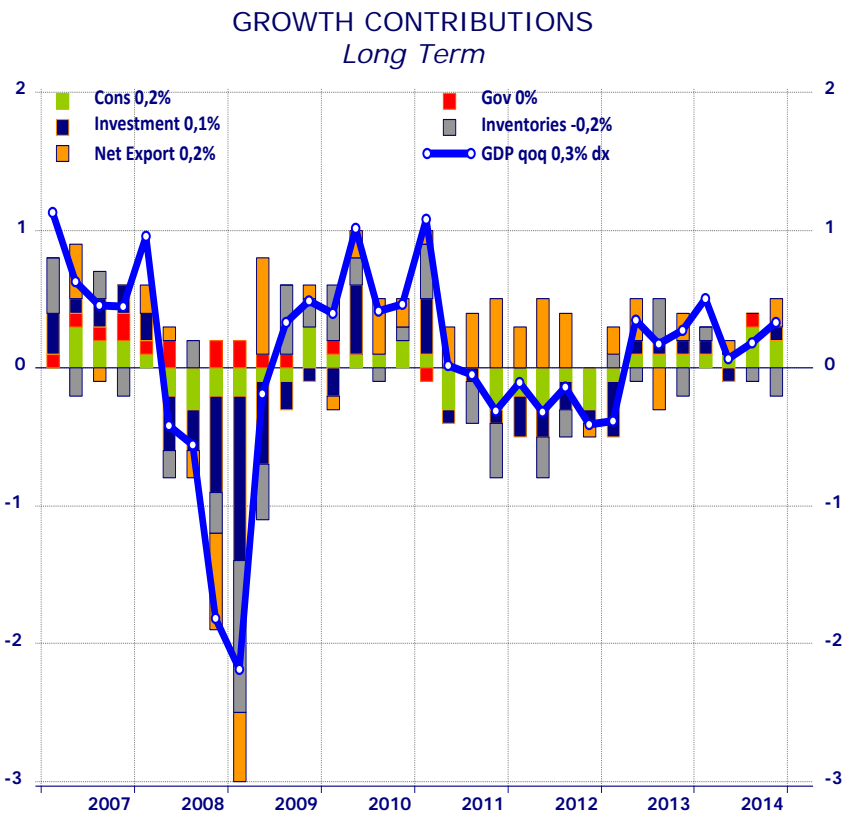
YOY GROWTH RATES



COMPARATIVE LEVELS



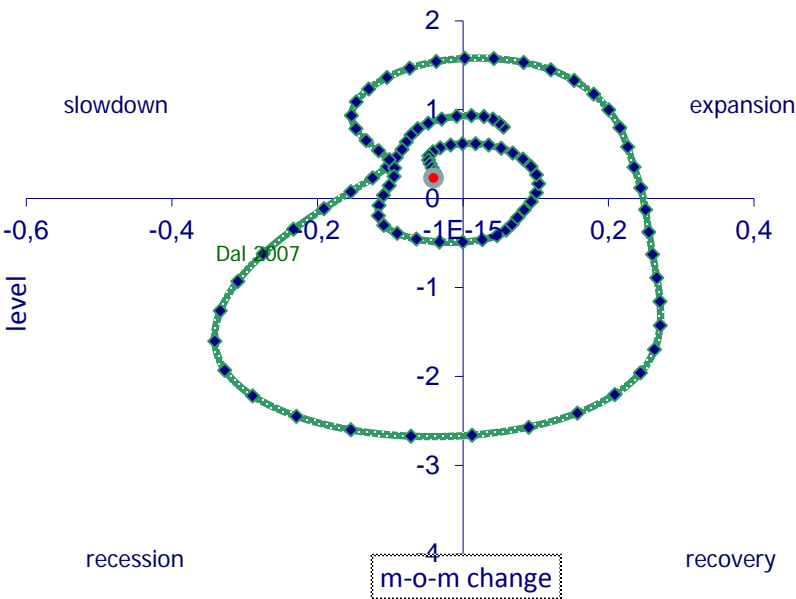
Growth’s qualitative contributions in Q4 are satisfactory, with a balanced positive contribution by internal and external demand and a negative contribution from stocks, which means higher future production.



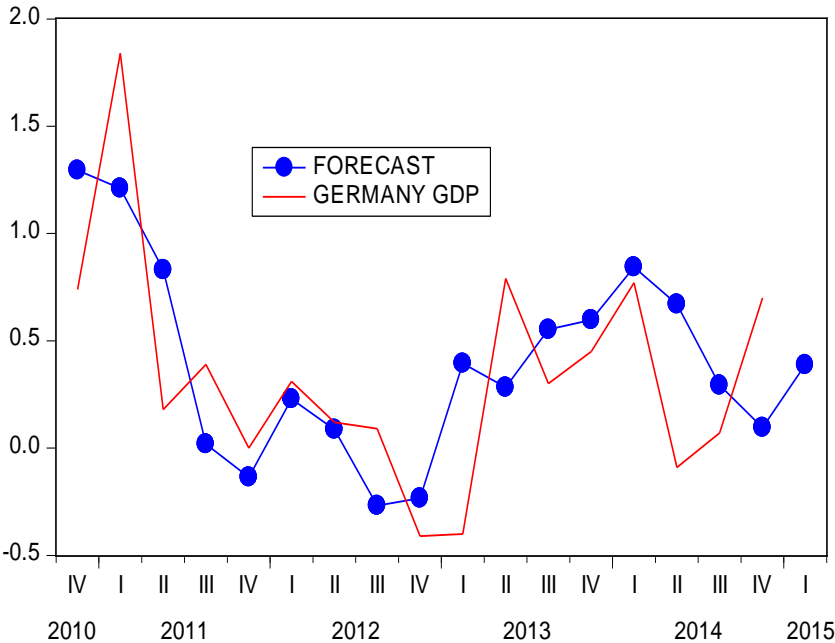
# ECONOMIC CYCLE: GERMANY

Germany’s slowdown in the central part of 2014 is ending. The qualitative indicators’ pattern has inverted its declining trajectory that dominated the past year, signalling an acceleration from the start of 2015. The IFO index is at its highest since July 2014, the ZEW since February 2014. All principal PMI components signal a strengthening expansion. Growth in Q1 could be in the order of half a point.

Economic Cycle Clock: ESI index



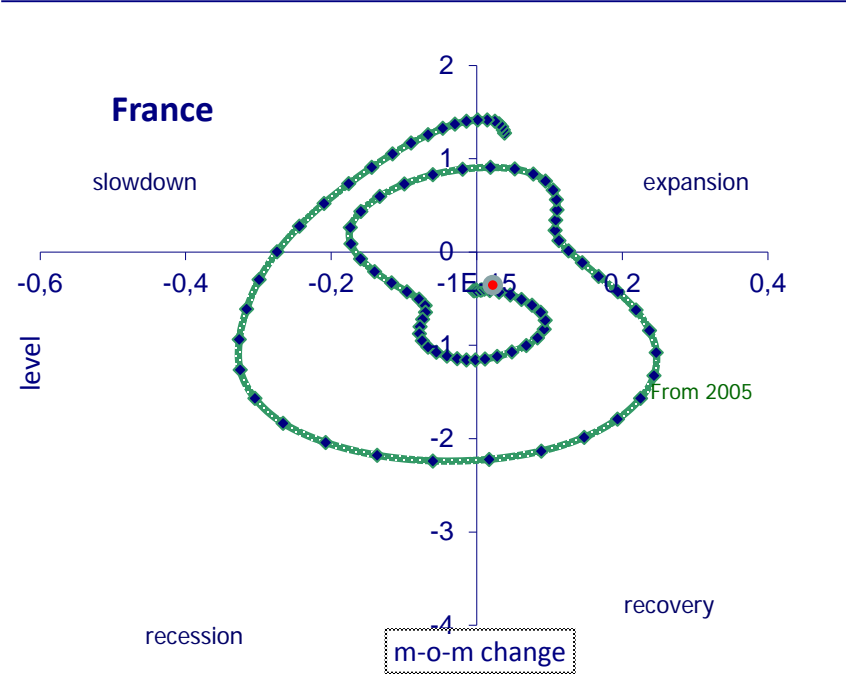
GDP forecast



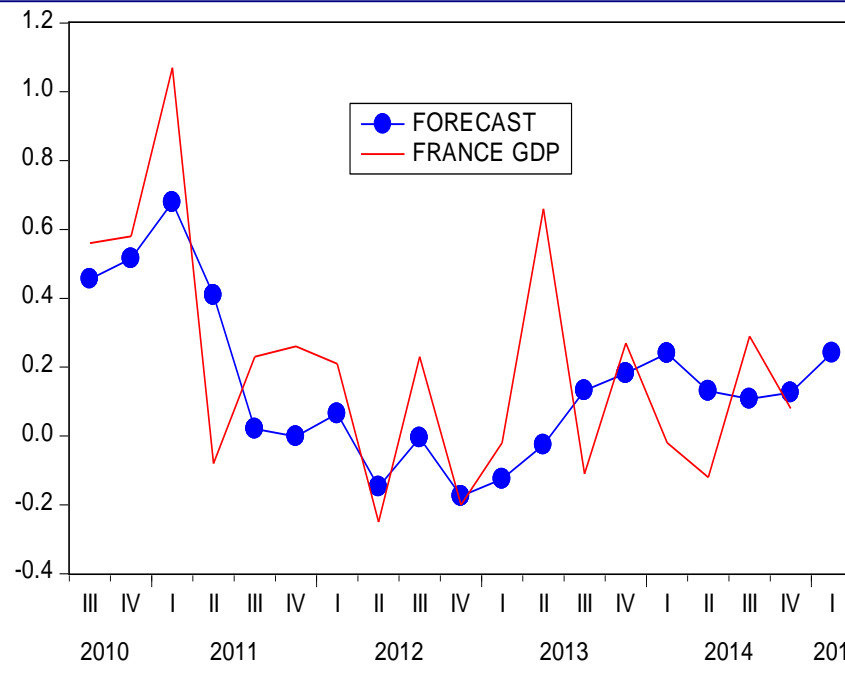
# ECONOMIC CYCLE: FRANCE

France’s economic scenario decidedly improves. In February, the ESI index interrupted its progressive decline toward the recessive quadrant and turned toward the recovery area. The composite PMI index rebound to 52.2, growing by three full points from the previous month and expanding for the first time since April 2014. Services are at their four-year high. Forecast for Q1 2015 growth is at +0.2/0.3%.

Economic Cycle Clock: ESI index



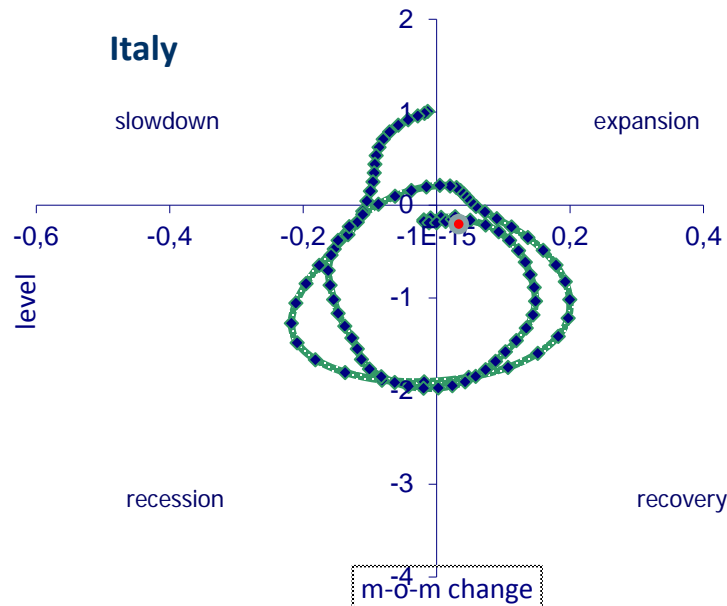
GDP forecast



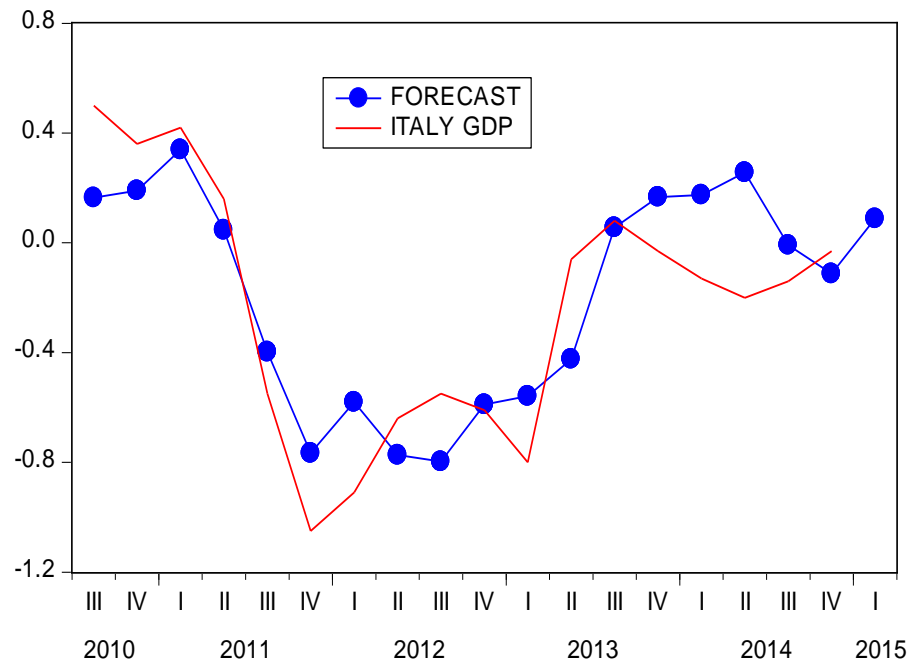
# ECONOMIC CYCLE: ITALY

Like France, also for Italy the ESI index trajectory interrupted its recessive path, turning into the recovery area. This is confirmed by the PMI survey's indications of moderate economic expansion (composite at 51) and, above all, by the relevant growth in confidence surveys by the national statistics office (ISTAT). Households are at their highest in 13 years (since 2002), businesses on the past eight months. After 13 quarters, growth will finally return positive in the first months of 2015 (+0.2% our forecast).

Economic Cycle Clock: ESI index



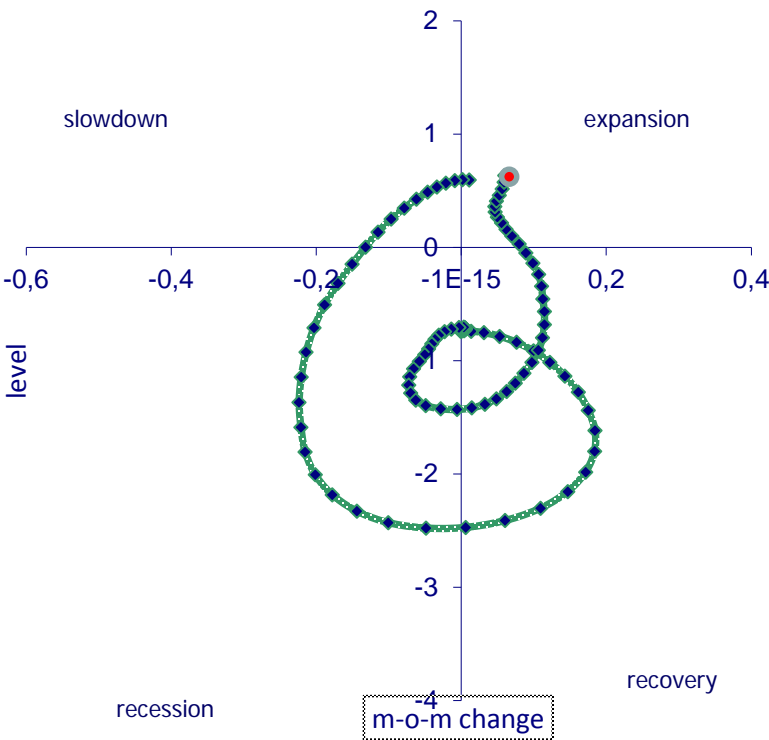
GDP forecast



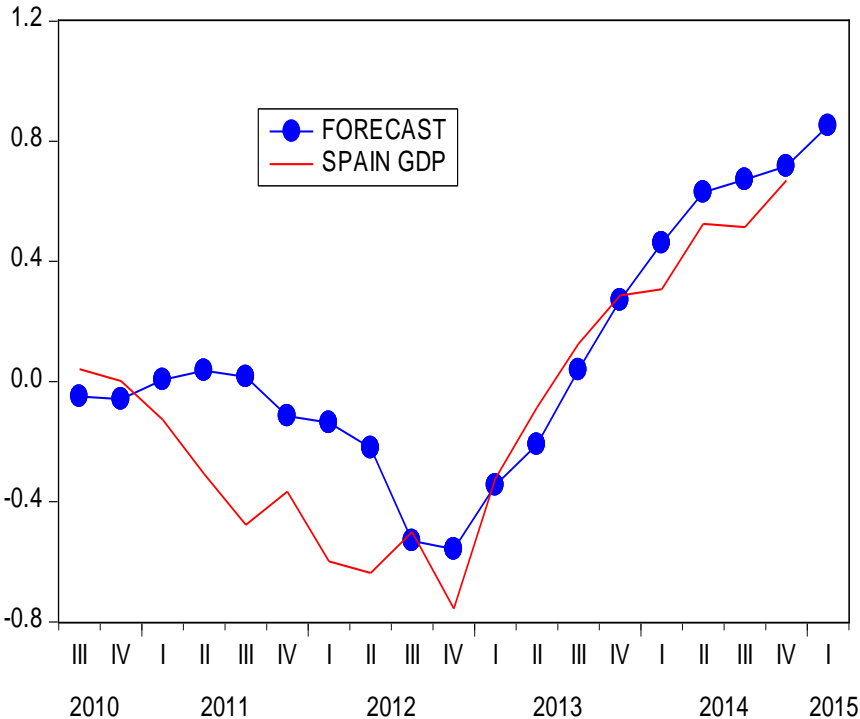
# ECONOMIC CYCLE: SPAIN

The Spanish economic cycle continues its expansion phase supported by the constant improvement of qualitative indexes. With an extremely vigorous composite PMI and at 56.0 in February, we estimate that income may grow in the first quarter in the order of 0.7/0.8%, same level as registered at the end of 2014.

Economic Cycle Clock: ESI index



GDP forecast

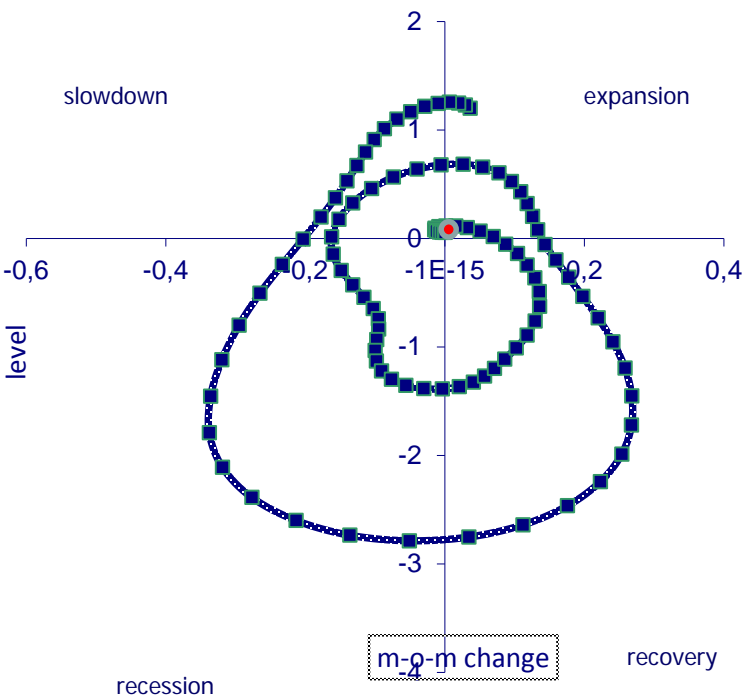




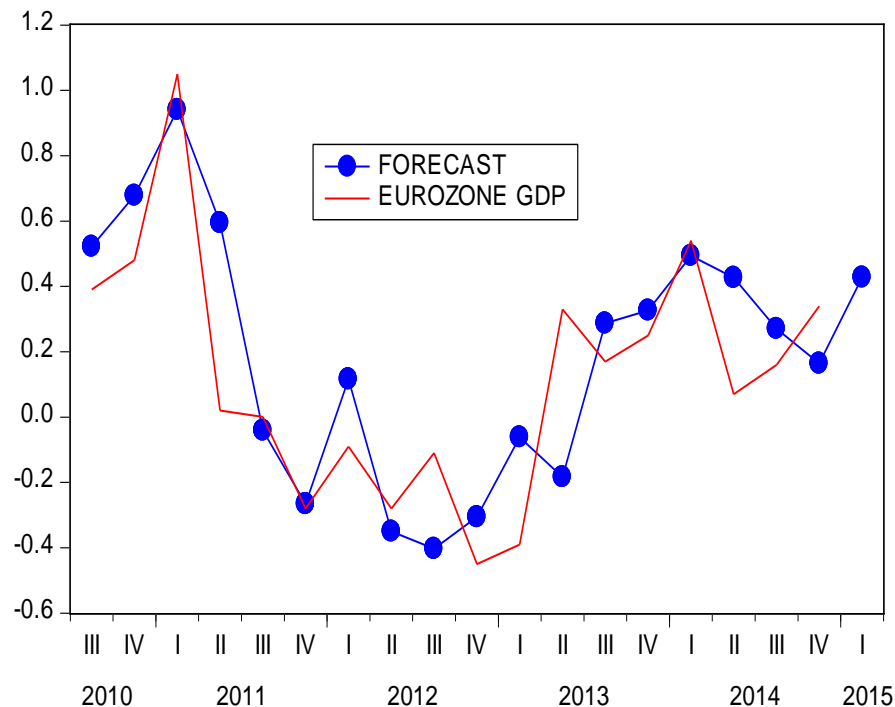
# ECONOMIC CYCLE: EUROZONE

ESI index's inversion has brought Eurozone's economic cycle to the margin of the expansion area. The aggregate data is expanding in the first quarter of the year, with composite PMI at 53.3 (highest in ten months), Eurocoin 8-month high, Sentix 10-month high. We forecast for the first quarter of the year an income growth of around 0.4%.

Economic Cycle Clock: ESI index

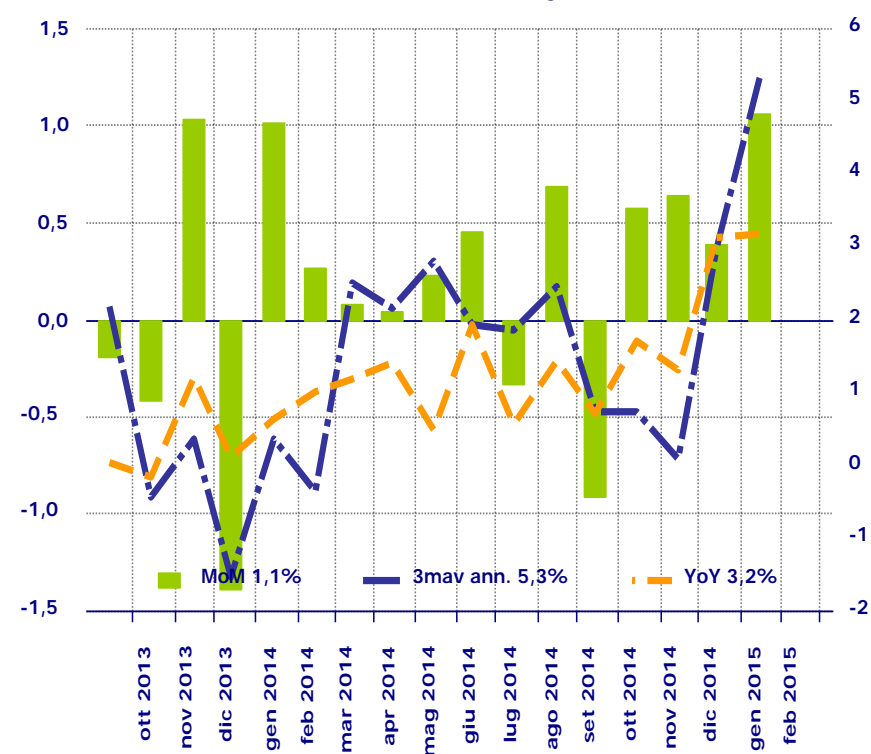


GDP forecast

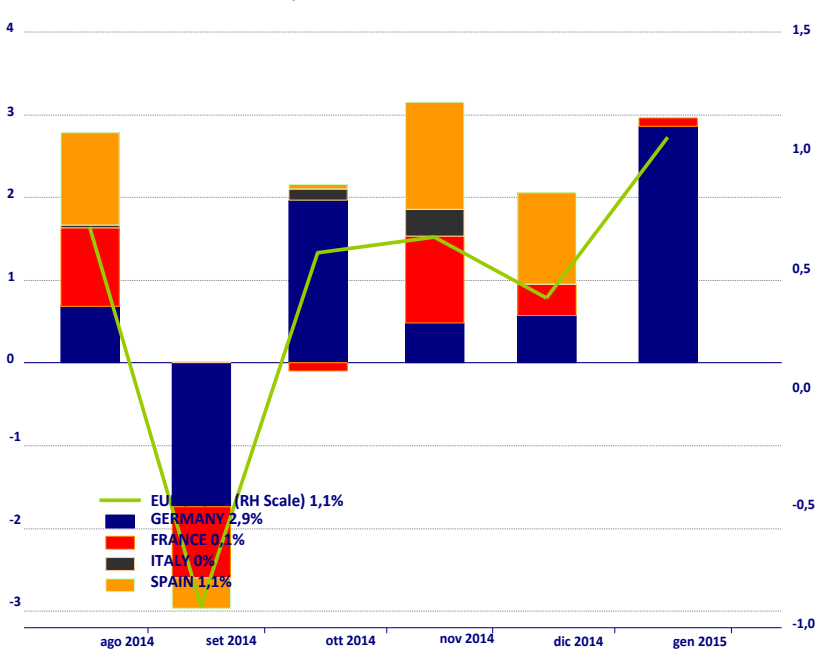


After the positive retail sales trend at the end of 2014, consumption kicked off in 2015 with even greater strength. Eurozone’s aggregate sales registered a +1.1% increase in January, highest since May 2013, mostly due to German households’ strong spending dynamics (+2.9% in real terms, peak since January 2013, fourth consecutive growth month).

RETAIL SALES  
Eurozone; changes



CHANGES  
Principal countries

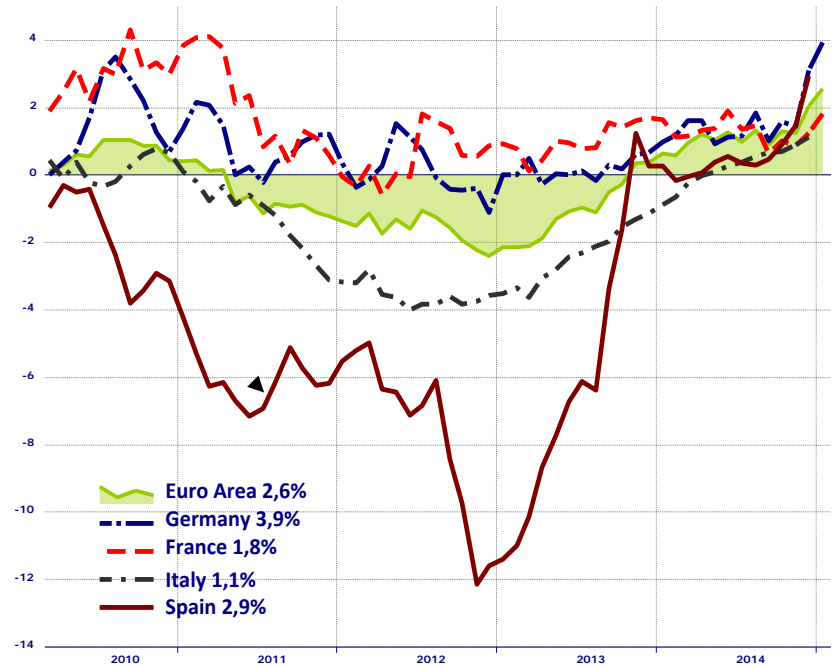


# RETAIL SALES

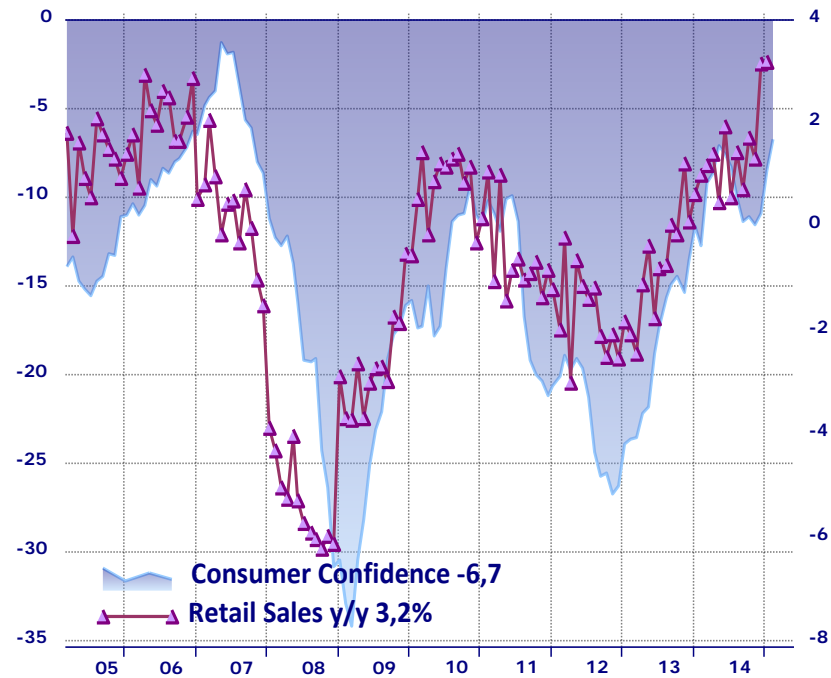
On a yearly basis comparison, the trend dynamics are accelerating throughout the whole of the Monetary Union. With growth at over 3%, sales in Eurozone are at their highest since 2005, supported by improved consumer confidence, which completely recovered from the drop in mid 2014, returning to maximum levels since 2007.

## CHANGES

Principal countries; changes (3-month averages)

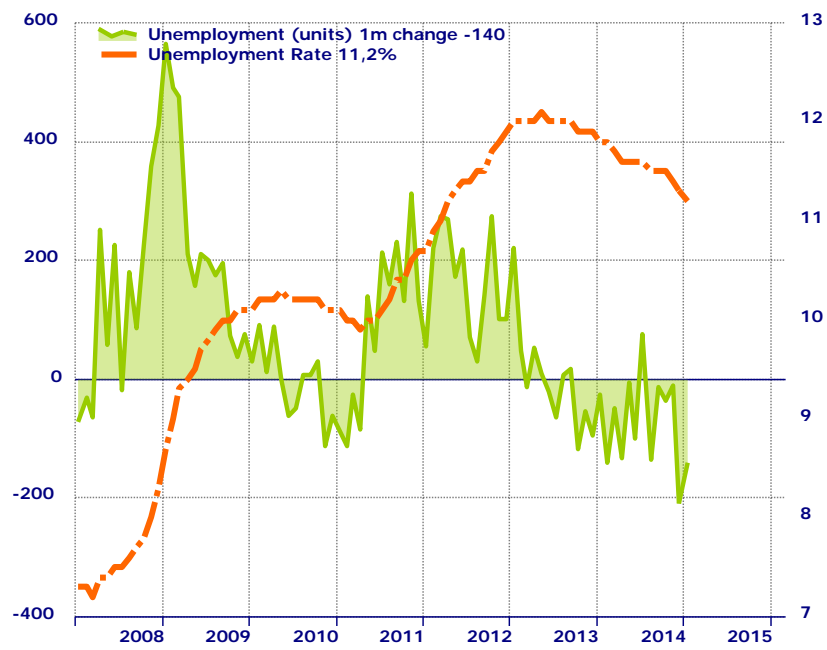


## COMPARATIVE LEVELS

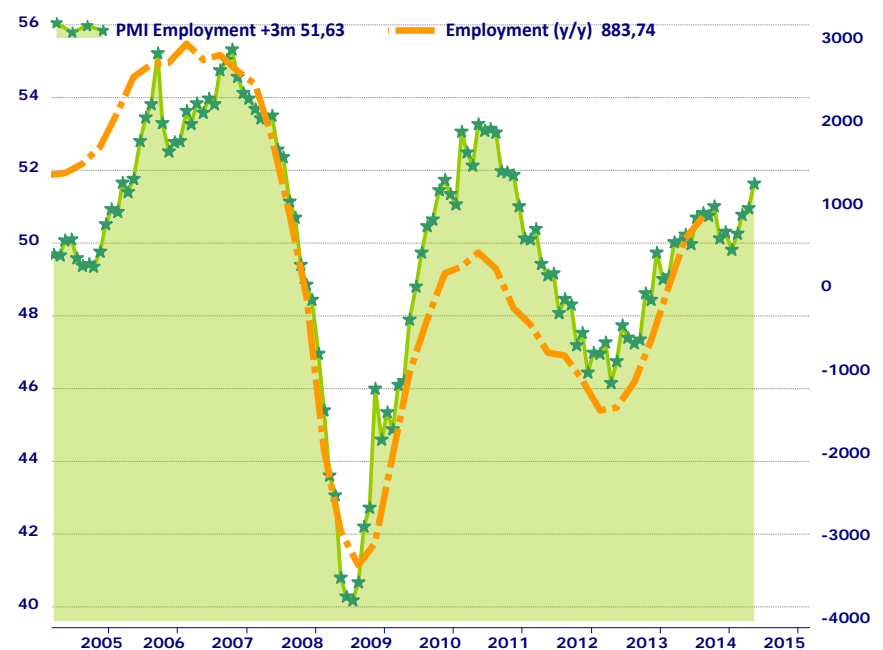


Eurozone’s labour market, previously critical, is finally improving consistently, though remaining overall unsatisfactory. Unemployed dropped by 140K in January, fifteenth consecutive contraction in the past sixteen months. In the whole 2014, the number of unemployed declined by 721K units, bringing current unemployment rate at 11.2%, lowest since April 2012. The leading indicator is at 51.6, its peak level since 2011, signalling a moderate acceleration in employment.

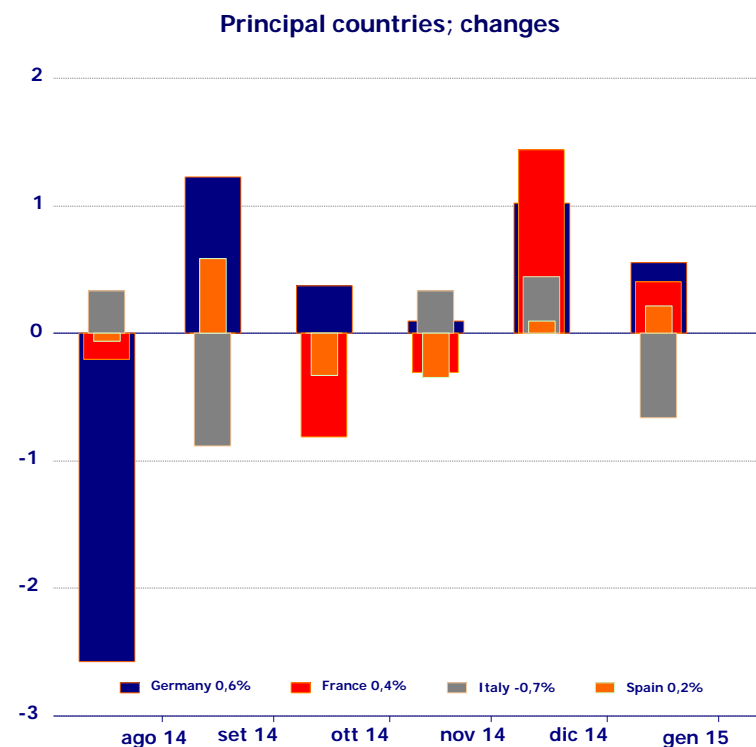
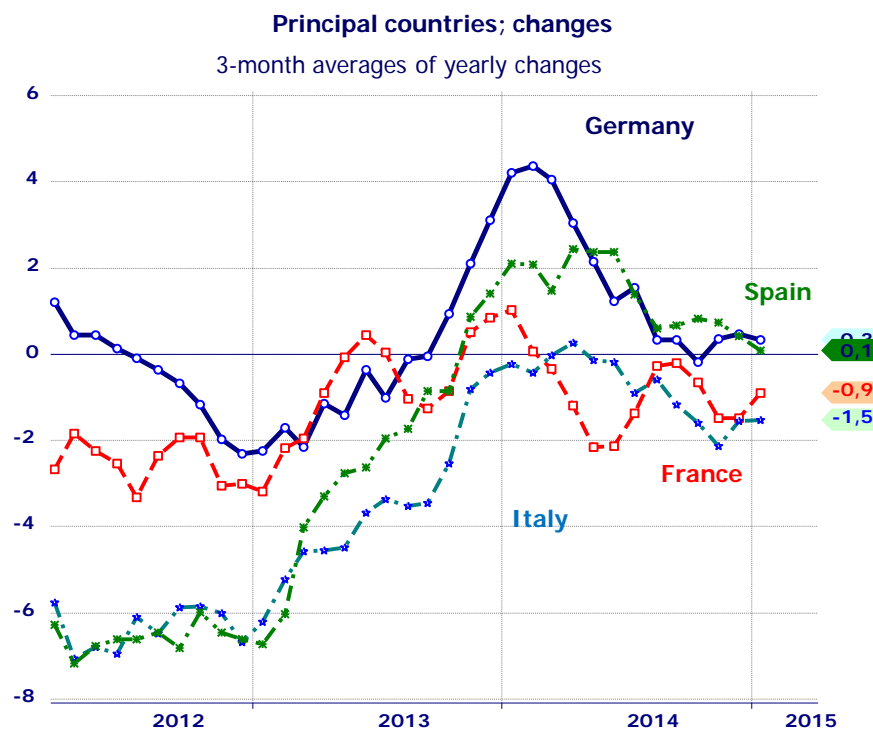
Unemployment



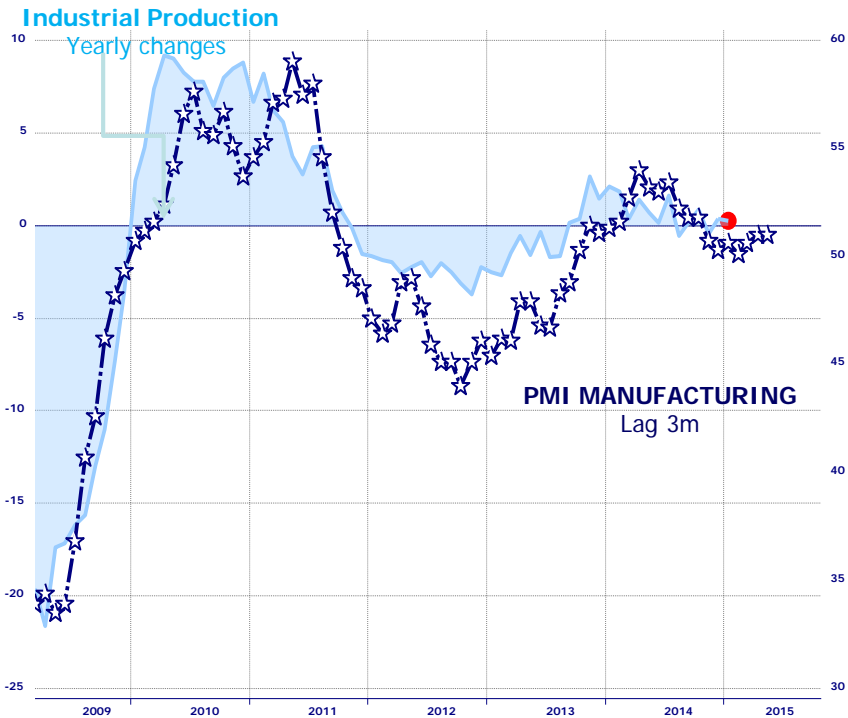
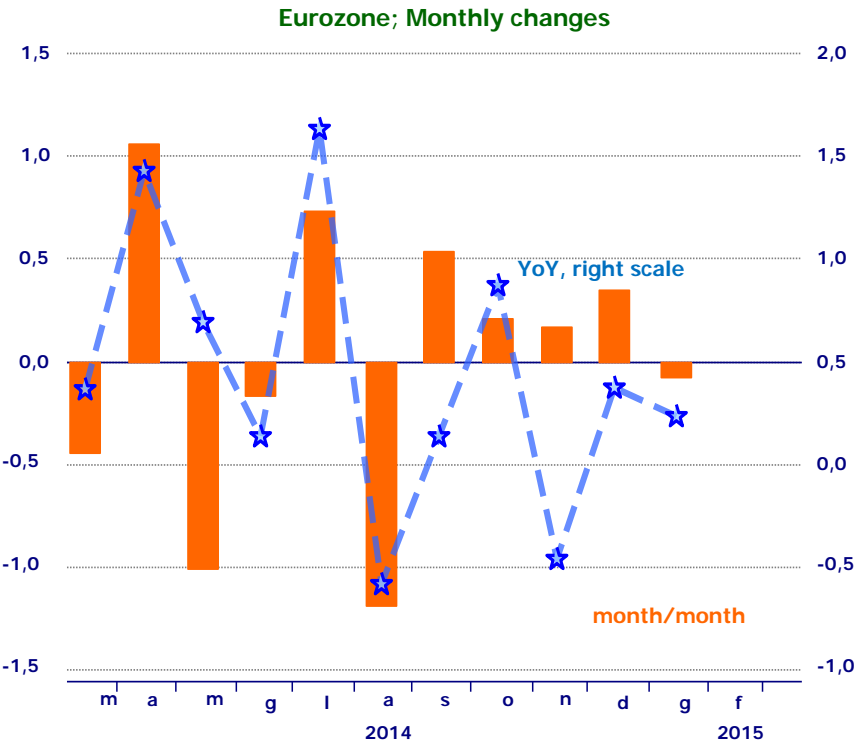
Employment and expectations



The beginning of 2015 confirmed signs of industrial activity stabilisation after the weakness witnessed in the second half of last year. German production in January grew by 0.6%, fifth consecutive increase, coupled with the robust previous increase from +0.1% to 1.0%. In February also France and Spain registered increases for the second consecutive month, while Italy reported an unexpected contraction by seven tenths of a point.

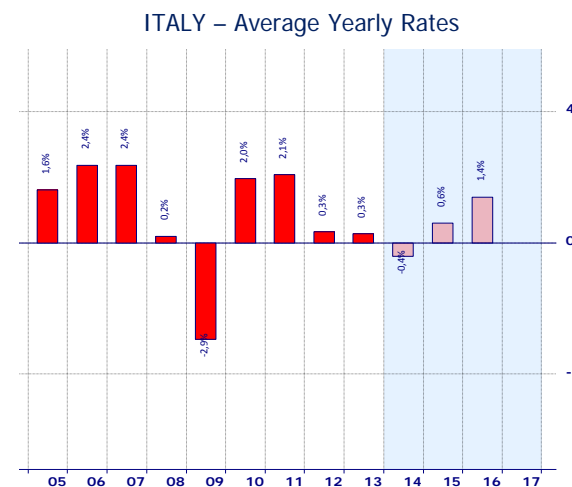
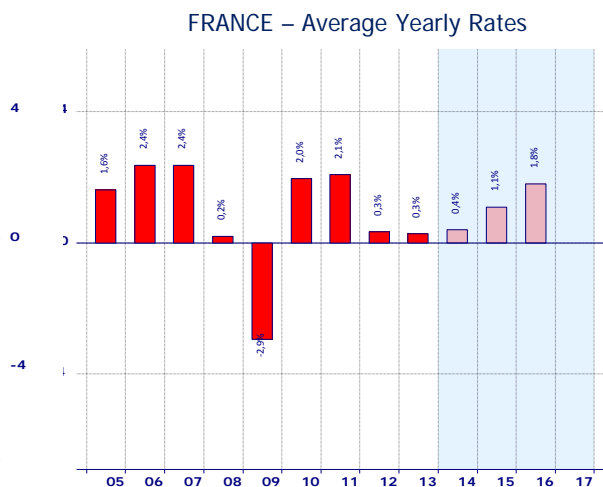
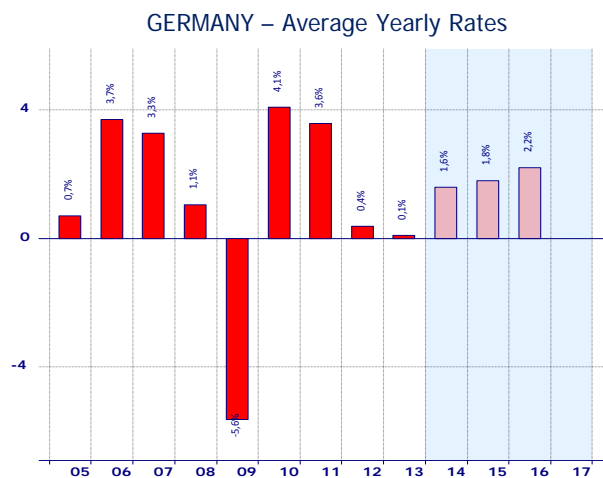
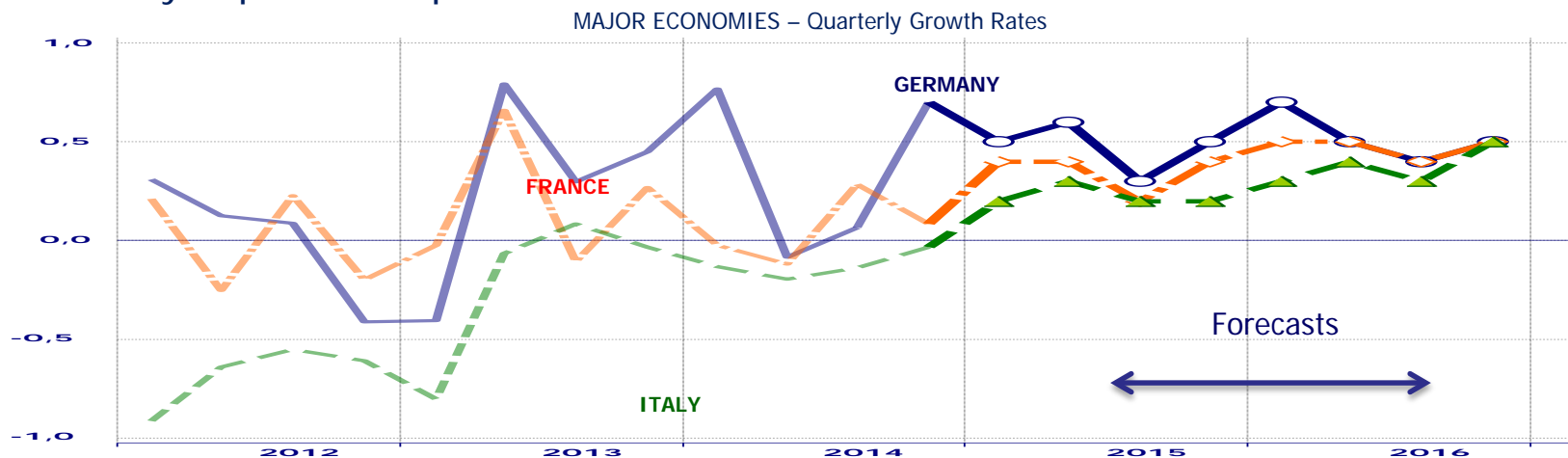


The trend dynamics remain stagnant (Germany, Spain) or persist in negative territory (Italy, France), but the perspective is of gradual recovery, thanks to the good start of 2015 and the leading indicators' positive turn. Production at the end of 2014 was null, after three consecutive increases. In January production registered a decrease by one tenth pp.

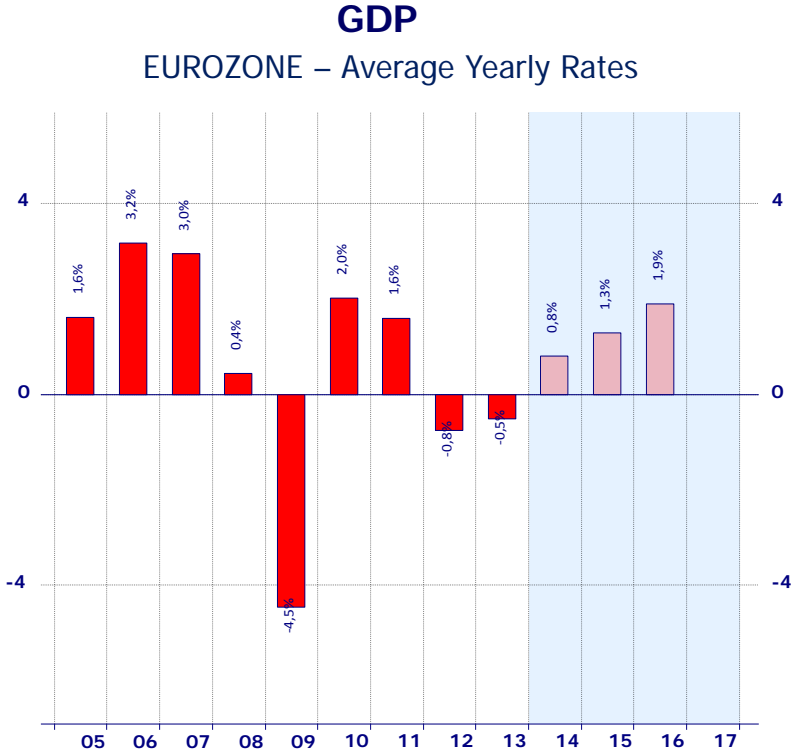
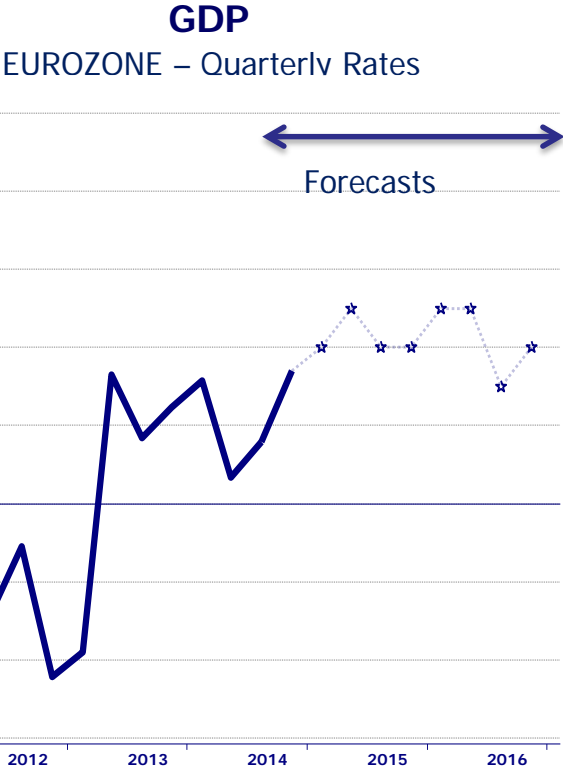


# GROWTH FORECASTS

In the 2015-16 period, the growth profile in all major Eurozone economies becomes more regular. Germany leads the group thanks to its growth intensity, but also France and Italy gain a satisfactory expansive impulse.



Between 2015 and 2016, Eurozone’s growth path should be on sensibly higher levels than in the previous two-year period. The average growth rate is expected to accelerate at 1.4% this year and at 1.9% in the next.



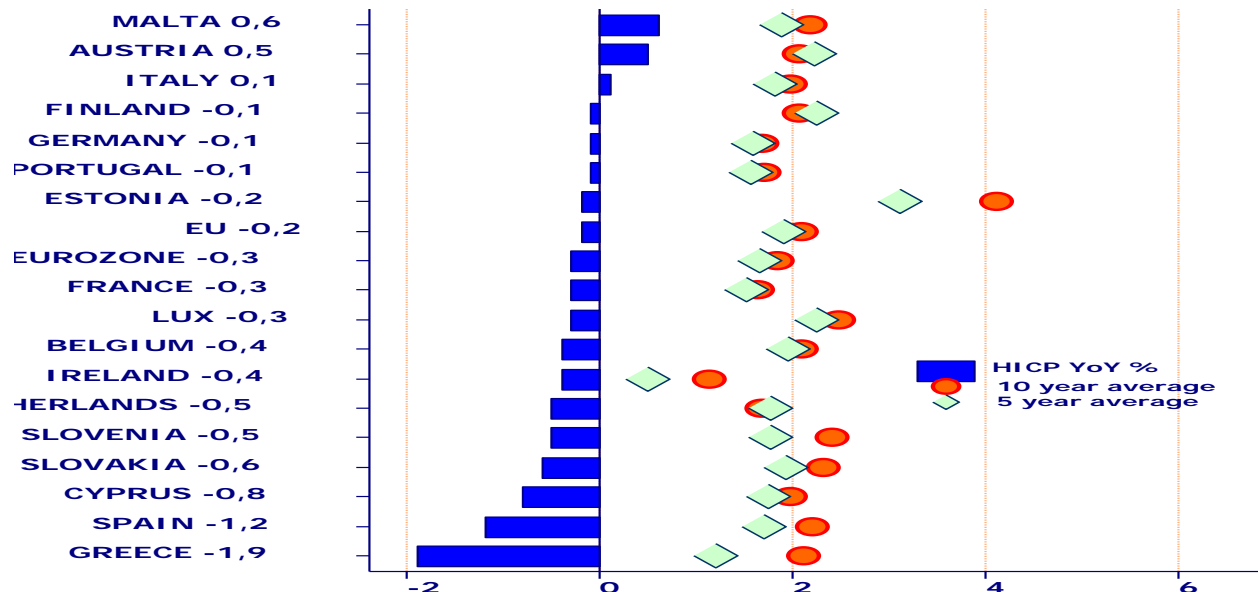




At the beginning of 2015 the number of countries with negative price growth rates has grown, including all Eurozone countries with the exception of Malta and Austria. The strongest deflationary impulses are in Greece, Spain and Luxembourg (over -1%). In Italy the harmonised inflation rate was at -0.5% in January, same as Germany, just a little lower than France

## INFLATION BY COUNTRY

Year on year changes; data harmonised on European basis



January 2015 values, February 2015 for Eurzone



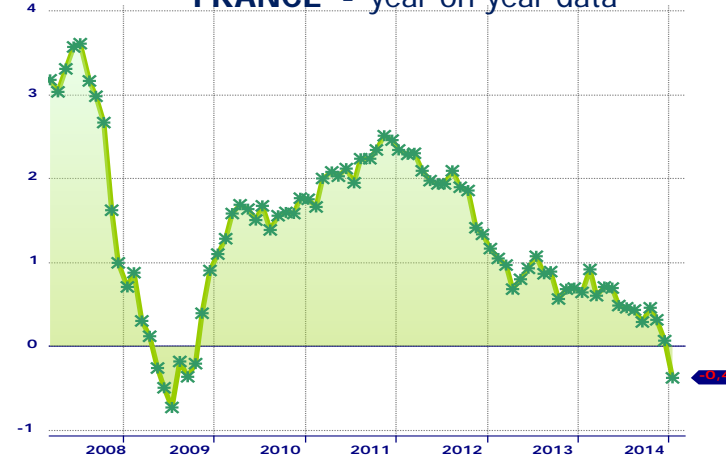
# INFLATION BY COUNTRY

February's preliminary data indicates a generalised weakening of disinflationary pressures in the major Eurozone economies. In particular, inflation returned positive in Germany and deflation is slowing in Italy and Spain.

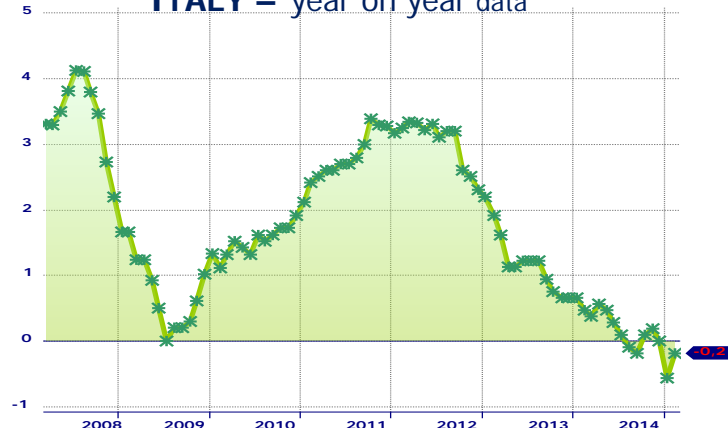
**GERMANY – year on year data**



**FRANCE - year on year data**



**ITALY – year on year data**



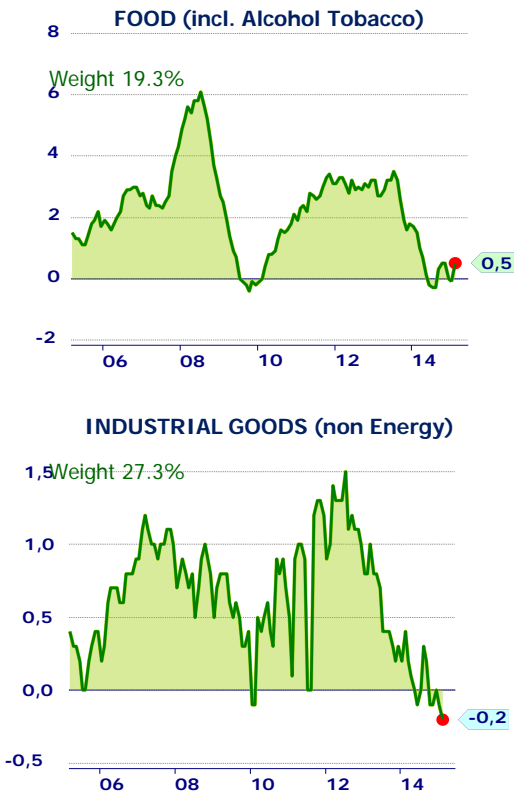
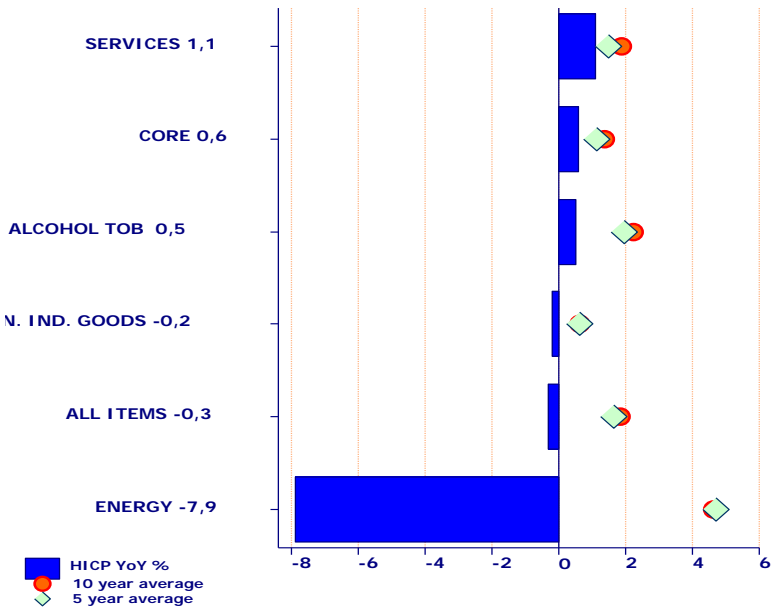
**SPAIN - year on year data**



In Eurozone, the general aggregate inflation rate increased by three tenths in February, at -0.3% from -0.6% in January, thanks to a modest deceleration in the energy price fall (-7.9% from -9.3%) and to the rebound in food (+0.5% from -0.1%). Core inflation rate at +0.6% is the same as in February, an absolute low, with a modest increase in services (+1.1% from +1.0%) offset by the further industrials' slowdown (-0.2% from -0.1%), that reached the absolute minimum since 2001.

## INFLATION BY MACROSECTOR

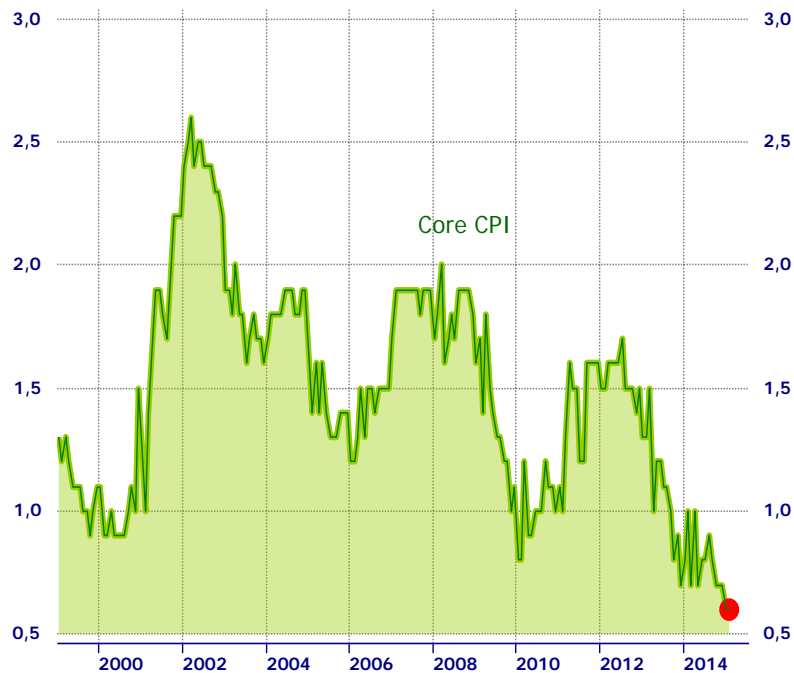
Trend changes



The persistence of record low inflation on Services – a good indicator of domestic price pressure – projects a further weakness on the core dynamics for the coming months.

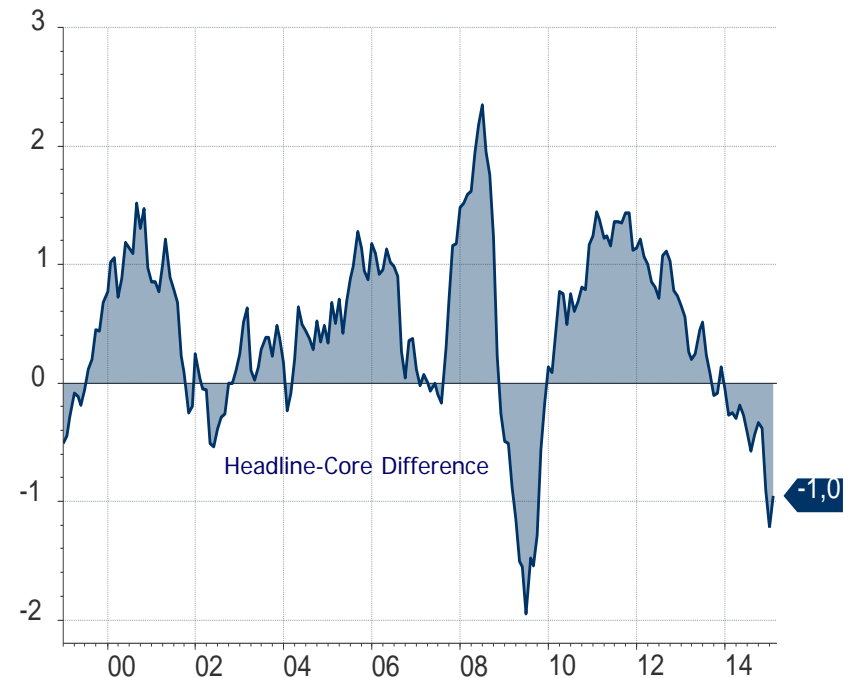
## INFLATION

Trend variations



## INFLATION

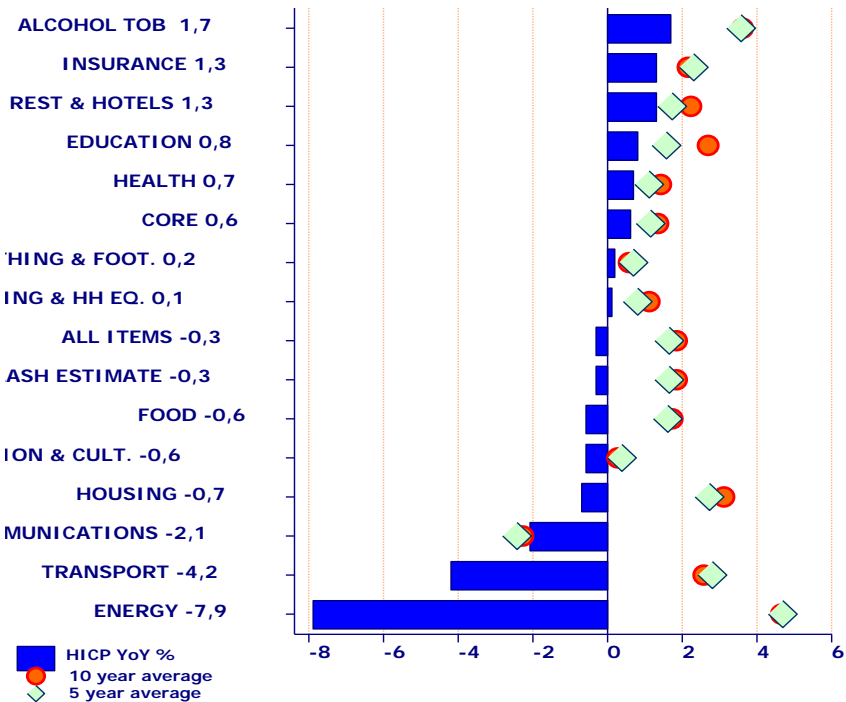
Trend variations



A “hard core” of core aggregate sectors continues to enjoy positive inflation rates: insurance, restaurants and hotels, education, healthcare. Also, alcohol and tobacco prices are growing strongly. The way energy price fall penetrates the core aggregate is through transport services. Deflation in communication services is in line with the historical series.

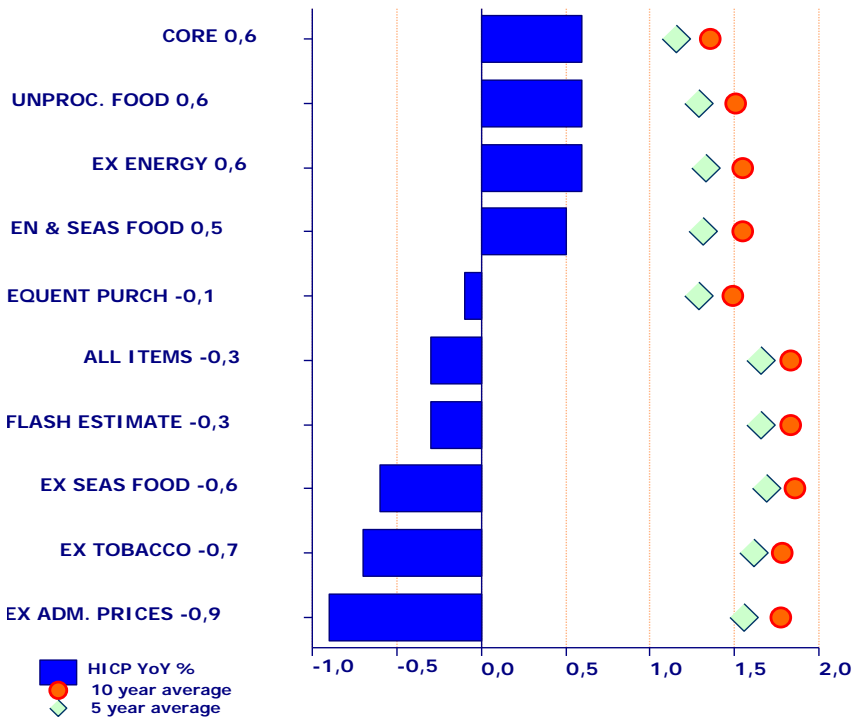
INFLATION BY SECTOR

Trend Changes

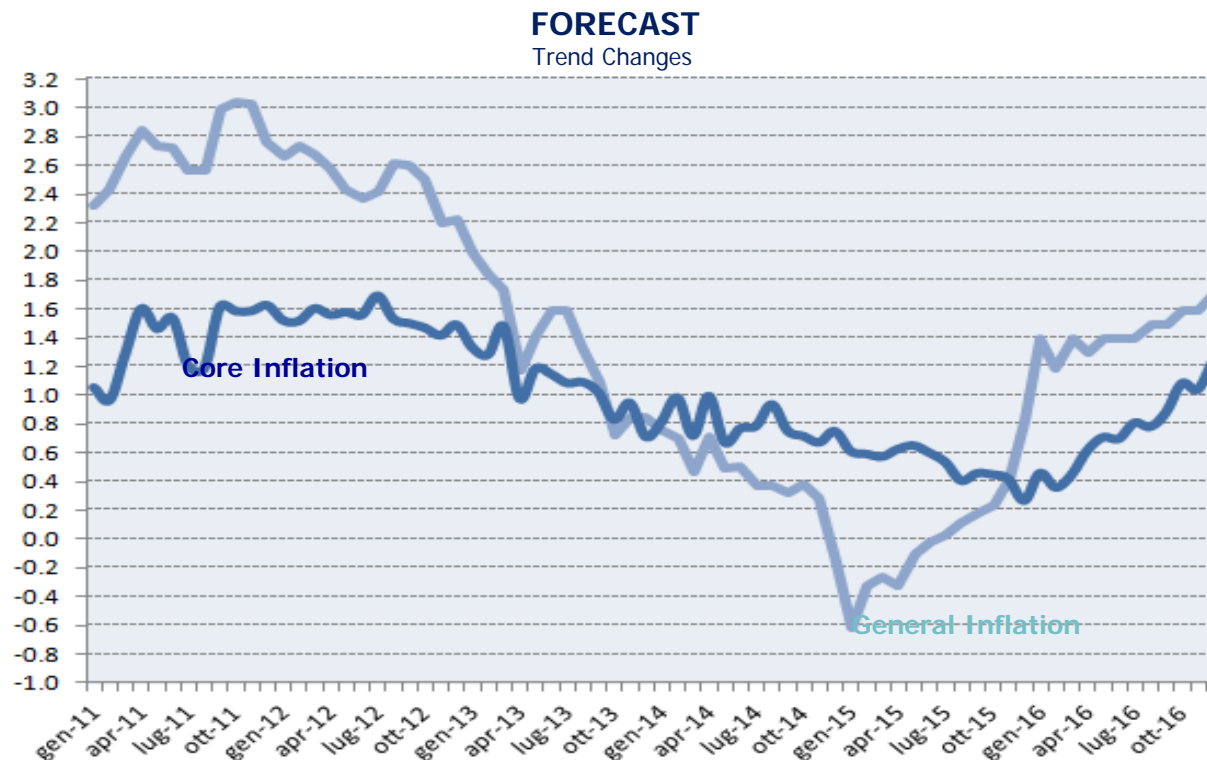


INFLATION BY SECTOR

Trend Changes



The new profile is based on an average general inflation rate at 0% in 2015 (+0.2% from the previous month) and at 1.4% in 2016 (+0.2%). The monthly dynamics sees the inflation rate: 1) persist in negative territory until May; 2) close 2015 at +0.8%; 3) grow gradually in 2016 up to 1.7% in December. For the Core data, the average is at **+0.5% in 2015** (+0.1% on the previous month) and at +0.7% in 2016 (confirmed). Monthly dynamics sees a) a gradual movement from current values to a minimum at +0.3% in December 2015; b) a gradual recovery in 2016 from +0.5% in January to +1.2% in December.



## MEETING ECB – 5 MARCH 2015

- \* **ECB SENSIBLY IMPROVED ITS EVALUATION OF THE MACROECONOMIC SITUATION**
  - \* **WITH THE SOLE EXCEPTION OF THIS YEAR'S HICP INFLATION, ALL OTHER ESTIMATES FOR INFLATION AND GDP WERE UPGRADED**
  - \* **GDP 2015 +1.5%** from +1.0%; **2016 +1.9%** from 1.5%; **2017 +2.1%** (new).
  - \* **INFLATION 2015 0%** from +0.7%; **2016 +1.5%** from 1.3%; **2017 +1.8%** (new).
- > ECB foresees inflation to converge on 2% target at the end of the forecasting period, in line with the Quantitative Easing goal.



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