



Global Economy Report

May-June 2015



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 May 14, 2015



EXECUTIVE SUMMARY

- ❖ Compared to 2014's 3.4%, the EU Commission's May forecasts foresee a global income growth rate only slightly higher at 3.5%, just one tenth below its *Winter Forecast* published in February. The estimate is in line with IMF's and lower than OECD's, which includes emerging markets at 5.1%, almost certainly due to be trimmed.
- ❖ For 2016, the Commission estimates an acceleration from 3.5% to 3.9%, as an effect of higher growth in advanced economies (+0.2% to 2.5%) and in emerging economies (+0.6% to 5.0%). The one tenth correction on the past quarter interests all major aggregates, with global growth marginally inferior than previous forecasts. In any case, there is a convergence on global growth rates among major international forecasters.



EXECUTIVE SUMMARY

- ❖ In the USA, as an effect of a significant trade balance deterioration, the system's stagnation in Q1 2015 will probably develop into a recession.
- ❖ The macro data flow continues to disappoint expectations, but the improvement in orders, the pickup in retail sales and residential compartment offer comforting indications for a stabilisation in the second quarter of the year.
- ❖ Overall, we expect GDP to grow about 2.5% in 2015, picking up to 3% in 2016.
- ❖ For inflation, there are indications of stabilization in the core measure. We expect still low inflation this year but increasing to above 2% in 2016.
- ❖ This expected inflation pattern, combined with the change in forward guidance, paves the way for a first increase in interest rates in the second half of the year, likely followed by subsequent quarterly increases.



EXECUTIVE SUMMARY

- ❖ The Eurozone's recovery is adjusting on levels sustainable over time. The cycle is thus entering a more mature phase, with more expansionary and persistent impulses, geographically widespread.
- ❖ Qualitative indexes' trajectories confirm the cycle's upward inversion in all the major economies of the area and on aggregate terms.
- ❖ In the first quarter 2015, Eurozone's product increase was 0.4%, which brought our estimates to 1.4% for 2015 and 1.9% for 2016. The new values are also in line with the EU Commission improved evaluation of the macroeconomic situation.
- ❖ General inflation moves around zero in 2015, then accelerates in 2016 with an average expected value of 1.5%.



EXECUTIVE SUMMARY

- ❖ China closed 2014 with a 7.4% growth, lower than previous year's 7.8%, but close to the Government's 7.5% target.
- ❖ For the current year, authorities lowered the target at 7%. Chinese Q1 GDP confirms the downtrend with 7.0% from previous 7.3%, despite the People's Bank of China's expansive policies, in an attempt to boost the economy and counter deflation risk.
- ❖ One of the key factors remains the manufacturing compartment's slowdown, that displays an evident excess of production capacity mainly in traditionally state-run industries and in building, impacting on steel and cement production, of which China is one of the main consumers globally.



- ❖ Bank of Japan's new forecasts include a modest downward revision both on inflation and growth. The expectations are for moderate acceleration in 2015 and 2016, while in 2017 the economy should be hit again by a consumption tax hike.
- ❖ Inflation in Japan should remain flat on the short term and then gradually accelerate, once the effects of declining oil prices cease, to converge on 2% target at the end of the forecasting period, supported by recovery of domestic demand and increase in expected inflation.
- ❖ Growth estimates for 2015 and 2016 are respectively at +1.1% and +1.3%. For the current year, inflation is expected to grow moderately due to base effects and energy prices, and for the next year we should see a moderate acceleration (1.2%).





EXECUTIVE SUMMARY

	2009	2010	2011	2012	2013	2014	2015E	2016E
GDP (%YOY)								
US	-2.8	2.6	1.6	2.3	2.2	2.4	2.5	3.0
EUROZONE	-4.4	2.0	1.4	-0.6	-0.4	0.9	1.5	1.9
GERMANY	-5.1	4.2	3.0	0.7	0.4	1.6	1.6	2.2
FRANCE	-3.1	1.7	2.0	0.0	0.4	0.4	1.2	1.8
ITALY	-5.5	1.8	0.4	-2.4	-1.8	-0.4	0.9	1.5
UK	-5.1	1.7	1.1	0.1	1.7	2.8	2.2	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	-1.0	1.2
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	7.4	7.6
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	3.1	3.6
INFLATION (%YOY)								
US	-0.4	1.6	3.2	2.1	1.5	1.6	0.3	2.2
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	0.3	1.6
FRANCE	0.1	1.7	2.3	2.2	1.0	0.6	0.2	1.0
ITALY	0.8	1.6	2.9	3.3	1.3	0.2	0.1	0.9
UK	2.2	3.3	4.5	2.8	2.6	1.5	0.4	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	8.0	5.8
RUSSIA	11.7	6.9	8.5	5.1	6.8	7.8	15.1	7.2
INDIA	10.8	12.1	8.9	10.4	10.9	7.8	6.1	5.5
CHINA	-0.7	3.3	5.4	2.7	2.6	2.0	1.5	2.1
AUSTRALIA	1.8	2.9	3.3	1.8	2.4	2.5	1.7	2.7
KOREA	2.8	3.0	4.0	2.2	1.3	1.3	1.0	2.0
Banca Aletti Forecast								
Cons. Bloomberg (Mag 15)								
Historical Data								

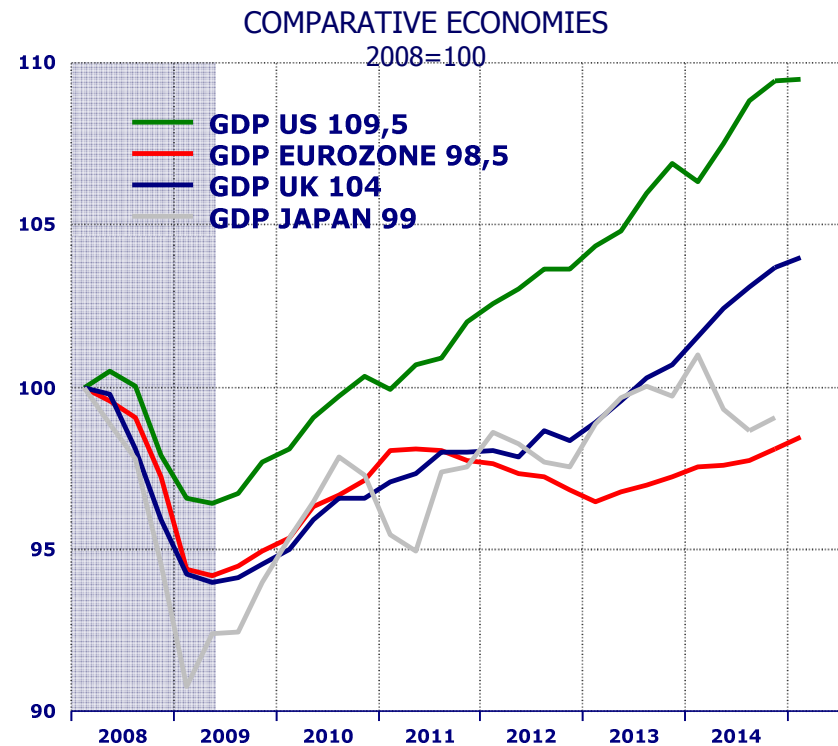
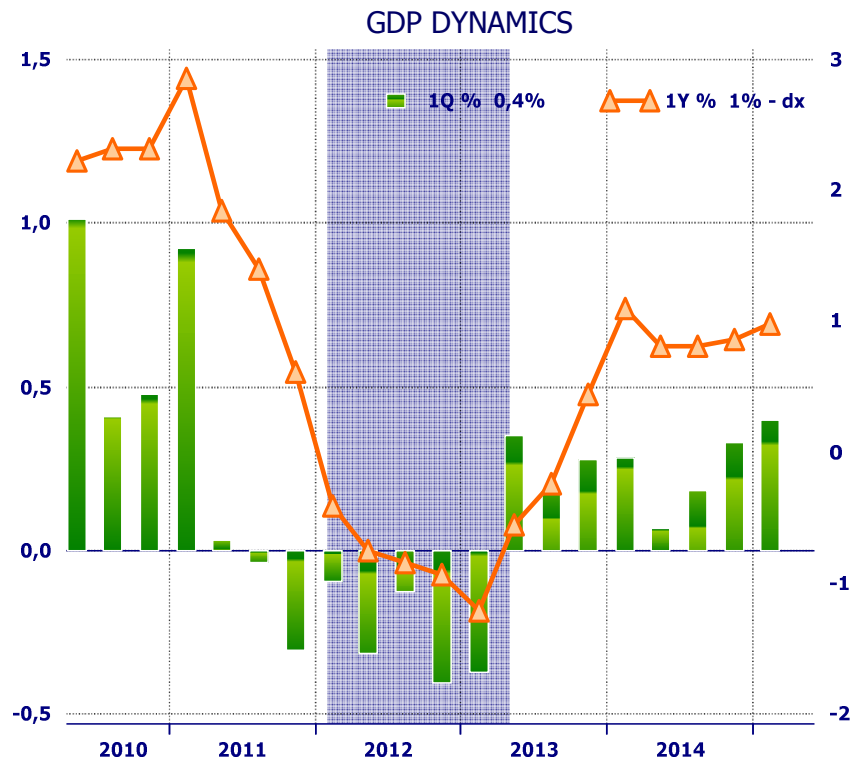


The Eurozone Outlook



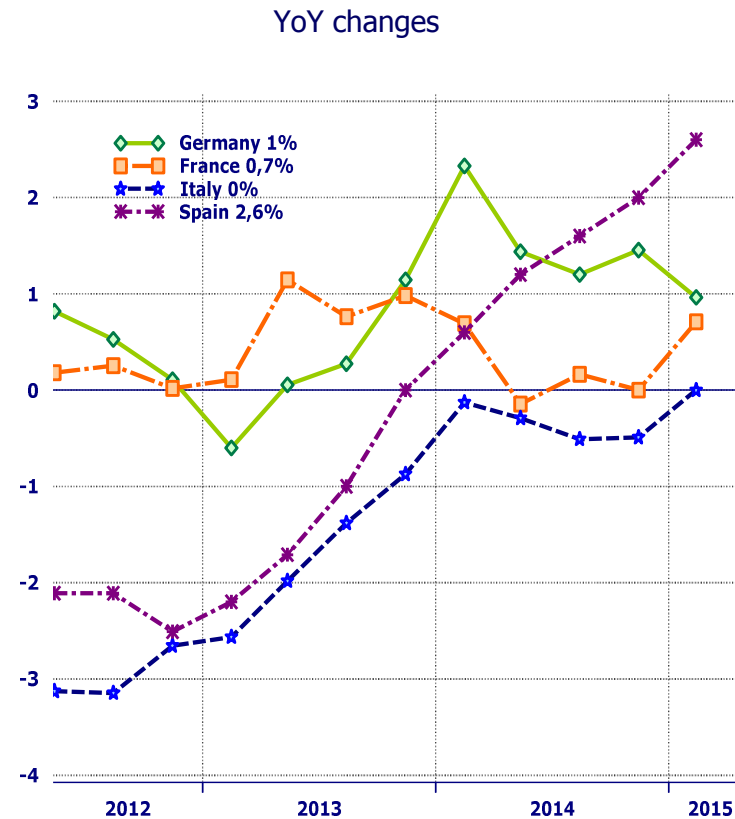
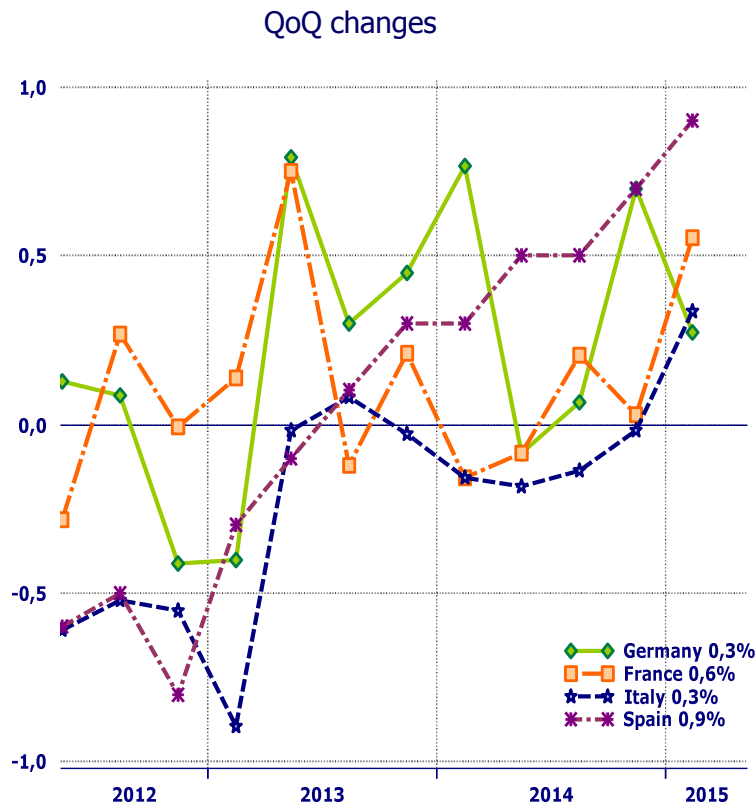
GROWTH DATA Q1-15

In Q1 2015, Eurozone's aggregate income increased by 0.4% compared to the prior quarter, in line with expectations and growing for the eighth consecutive quarter. It's the highest expansion rate since 2011. Despite the continuous progress, the recovery's intensity is much lower than in anglosaxon economies. Eurozone's income is still below its pre-crisis levels, which has been overcome in 2011 in the US and in 2013 in the UK.



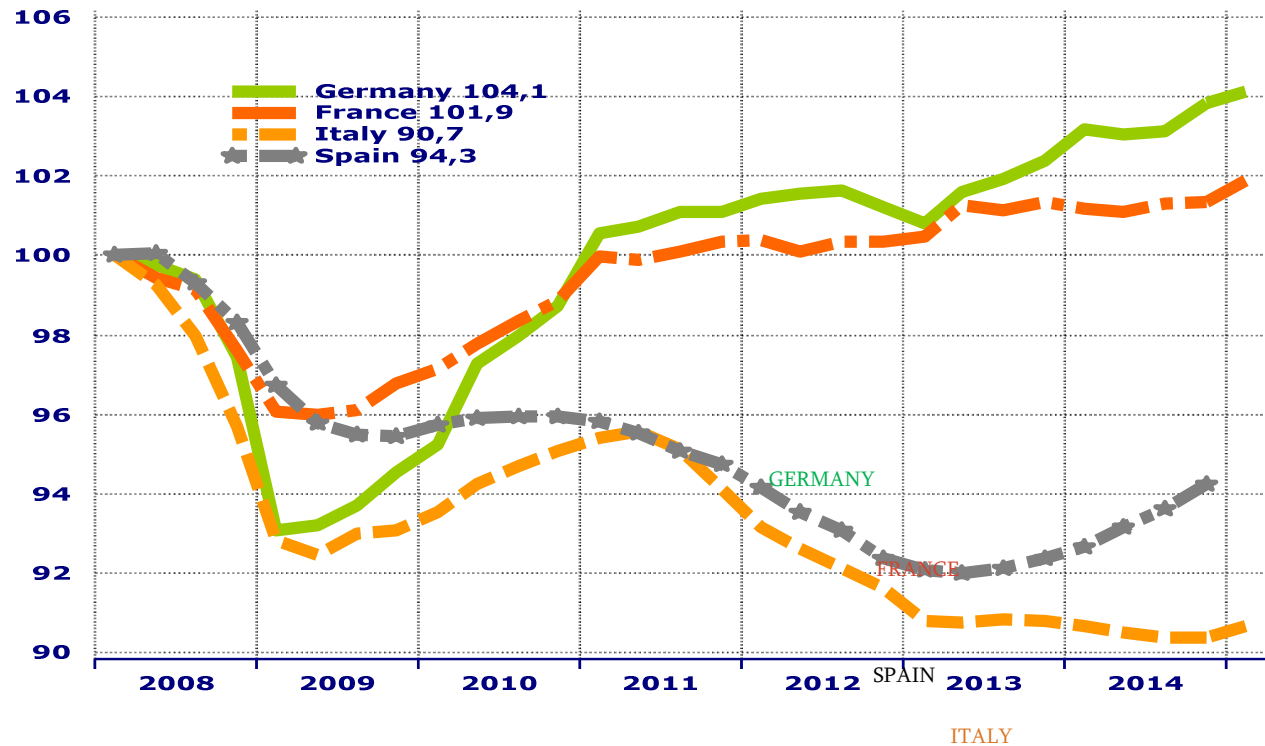
GROWTH DATA Q1-15

Aggregate product's growth in the first three months of 2015 has been sustained simultaneously by the four major economies of the Union, which have all reached notable performances. In Germany income grew by 0.3%, lower than expected, but reasonable after a strong expansive impulse in the previous quarter (+0.7%).



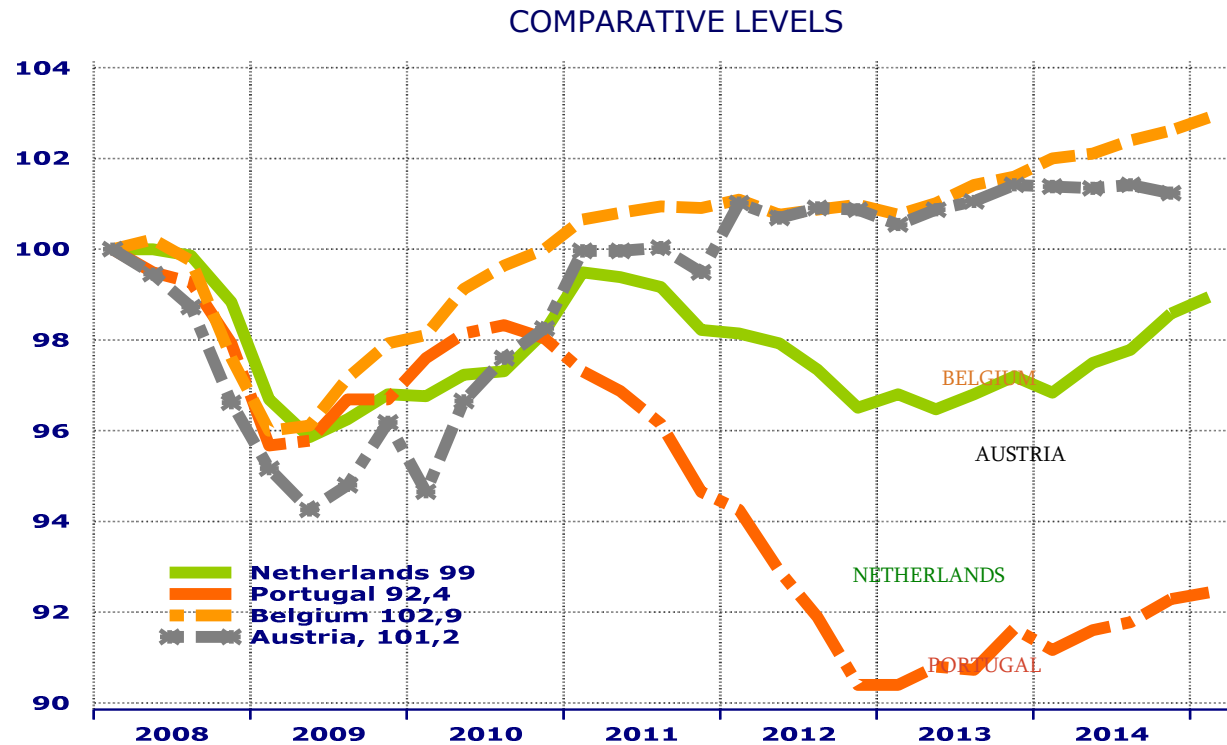
On the contrary, strong accelerations have been registered in France (+0.6%, highest since 2013Q2), Spain (+0.9%, highest since 2007) and even Italy (+0.3%), the best growth performance of the past four years that hopefully closes the long recessive phase begun in mid 2011. Relative to the beginning of the financial crisis, Italy's income had the worst performance. On the other hand, France and Germany, already since 2011, have recuperated pre – crisis levels.

COMPARATIVE LEVELS



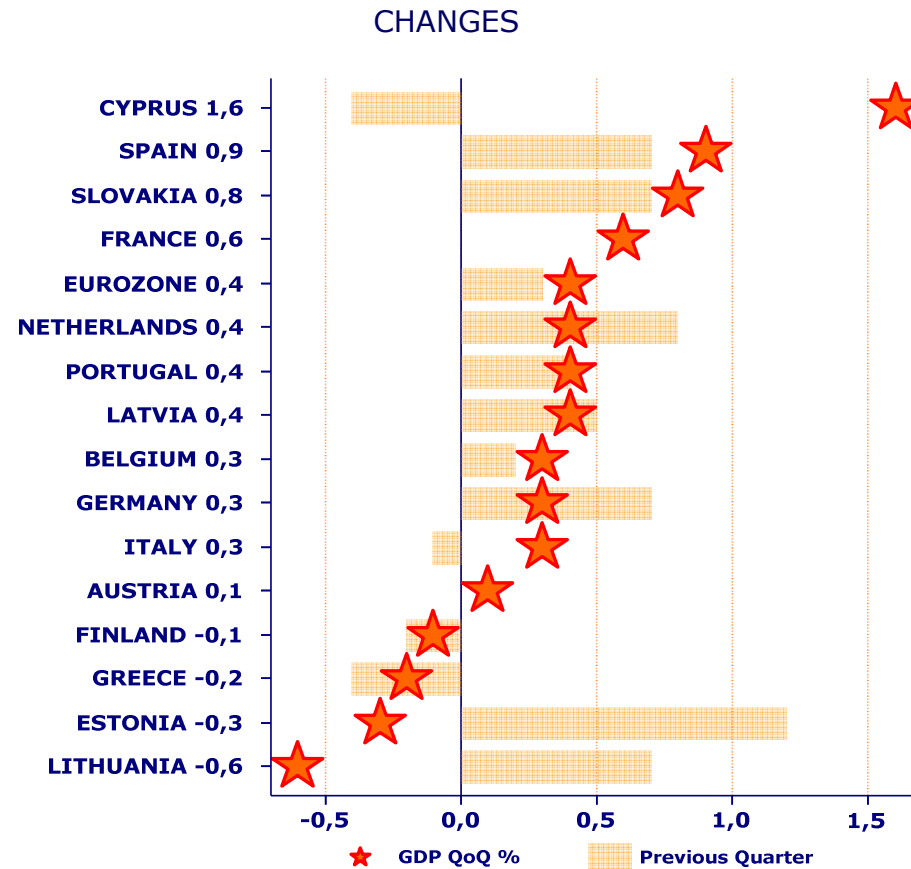
GROWTH DATA Q1-15

Among smaller economies we signal moderate growth with stronger impulses in the Netherlands (+0.4%) and Belgium (+0.3%) and weaker in Portugal (+0.2%) and Austria (+0.1%). Studying income evolution since the beginning of the crisis, Belgium is the most dynamic economy, while at the opposite extreme we have Portugal, that in any case is recovering since end of 2012's lows (like the Netherlands). Austria's income is higher than 2008, but in the past year has been stagnant.



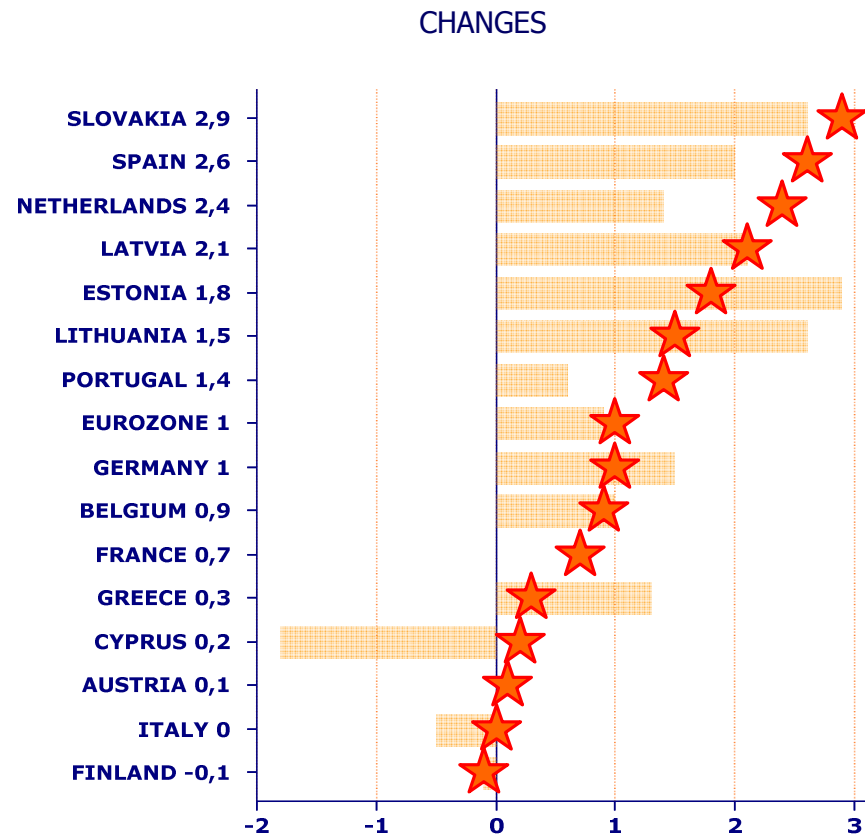
GROWTH DATA Q1-15

GDP changes indicate that Cyprus was the most dynamic economy in the first three months of 2015, overturning the previous quarter's decline. On the other hand, GDP declines in Finland (-0.1%), Greece (-0.2%), Estonia (-0.3%) and Lithuania (-0.6%). With two consecutive GDP contractions, Greece and Finland are the only two Eurozone economies in a technical recession.



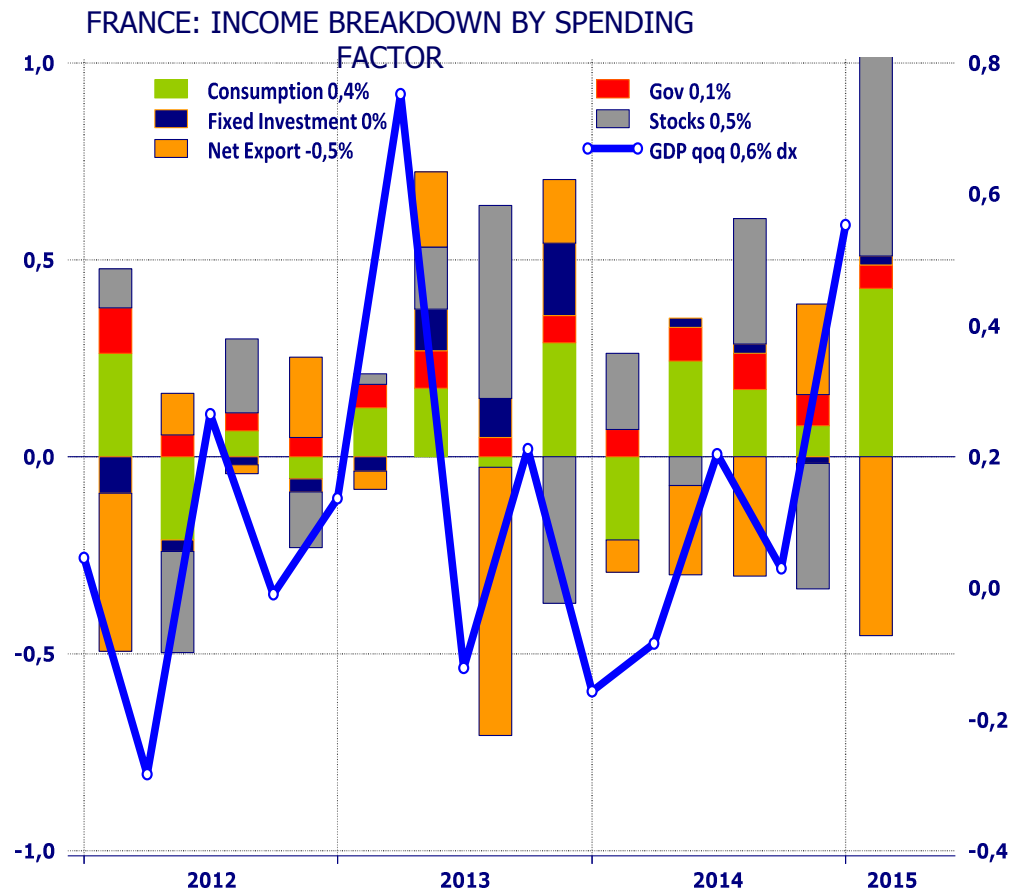
GROWTH DATA Q1-15

The most robust growth rates are in Slovakia, Spain, the Netherlands and Lithuania, where they are above 2%. A comparison on an annual basis is positive for all economies, with the exception of Finland (-0.1%) and Italy, where GDP is same as last year. France and Germany are around the middle of the list.



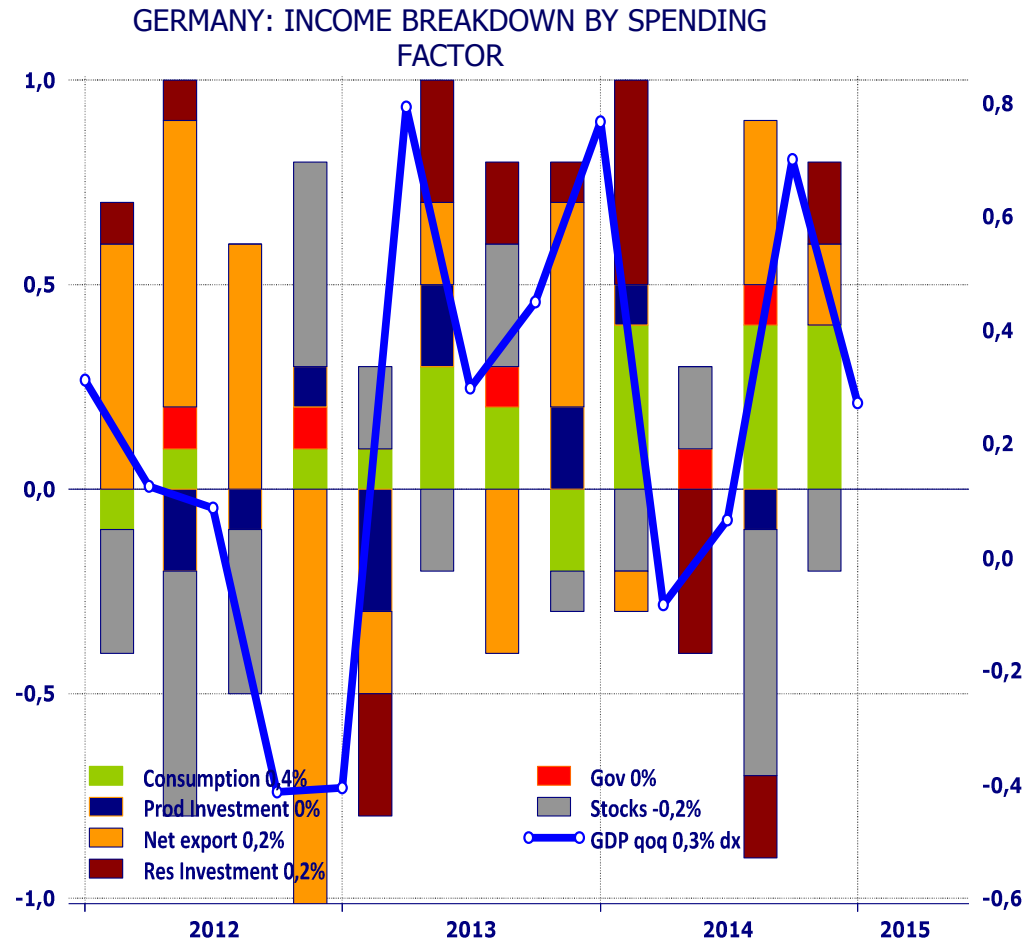
GROWTH DATA Q1-15

French income breakdown by spending factor indicates growth comes mainly from consumption (private and public), which overall has had the best performance since 2009. Investment's contribution was null, while stock accumulation contributed by half a point, balancing exactly what was subtracted by foreign trade.



GROWTH DATA Q1-15

In Germany, on the other hand, growth has been below expectations, but according to the statistical office all factors of domestic demand are stronger than in the previous period, creating the conditions for sustained growth over time.

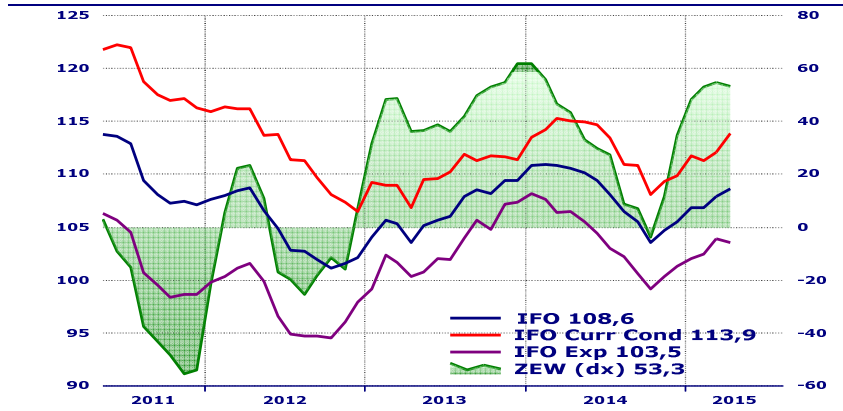




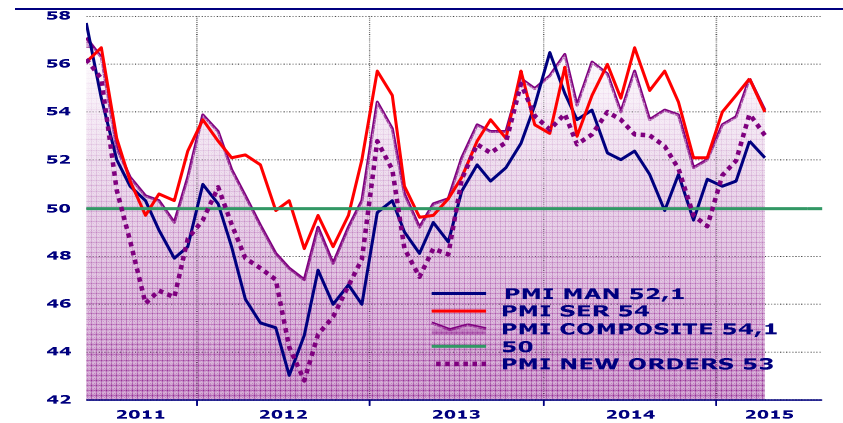
BC Barometer: GERMANY

The major qualitative indexes suggest the German economy is stabilising, in line with a sustainable economic growth. GDP's growth estimate in the second quarter is at five tenths of a point, accelerating from Q1.

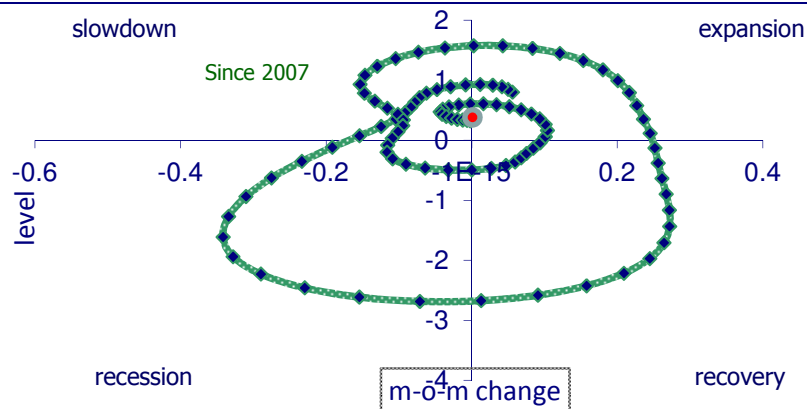
Leading Indicators



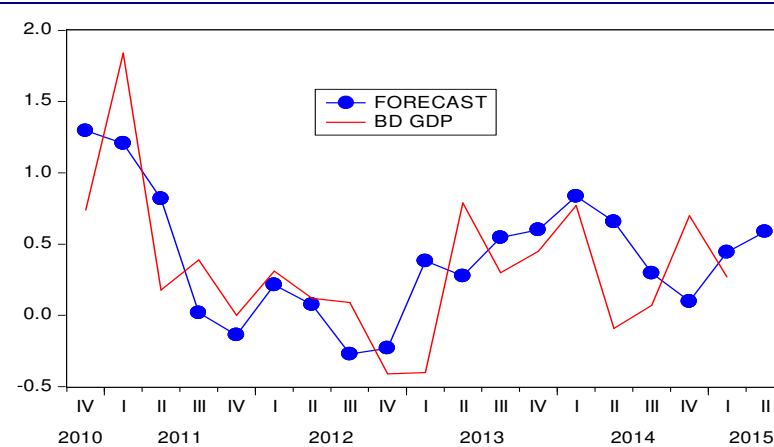
Leading Indicators



Economic Cycle Clock: ESI Index



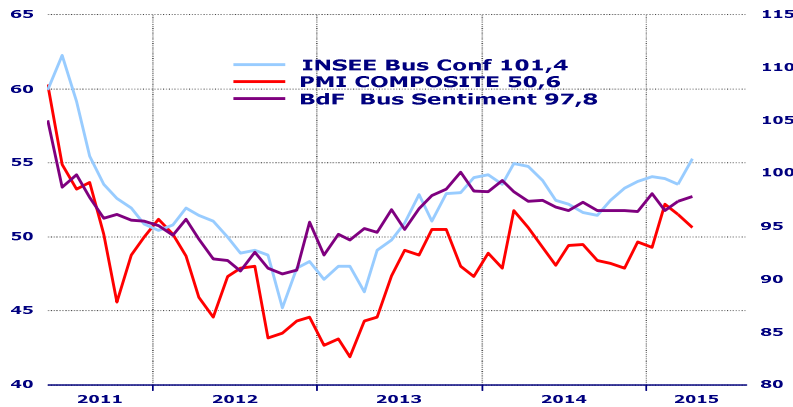
GDP Forecast



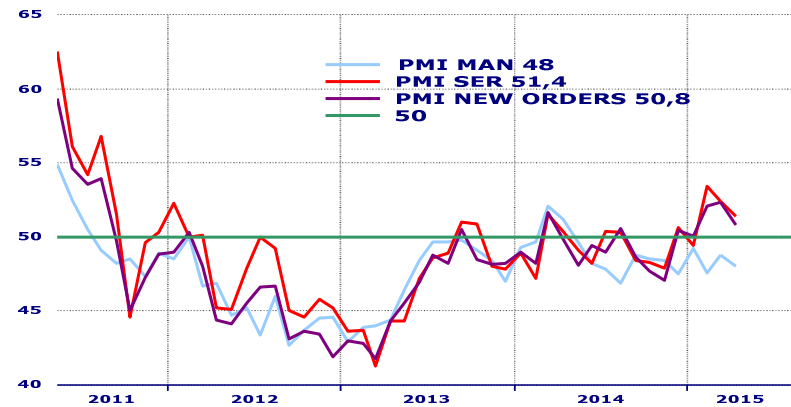
BC Barometer: FRANCE

Also in France stabilisation signals prevail, on levels compatible with a more modest growth than Germany's. The strong Q1 growth doesn't seem sustainable. We favour an increase in income by two/three tenths in Q2. Manufacturing continues to decrease.

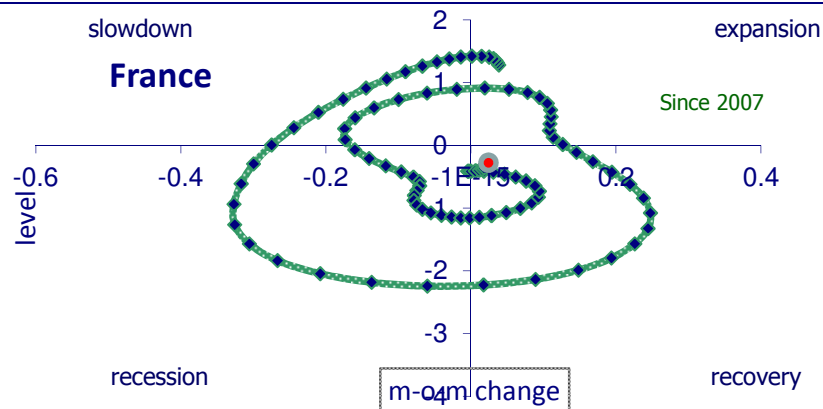
Leading Indicators



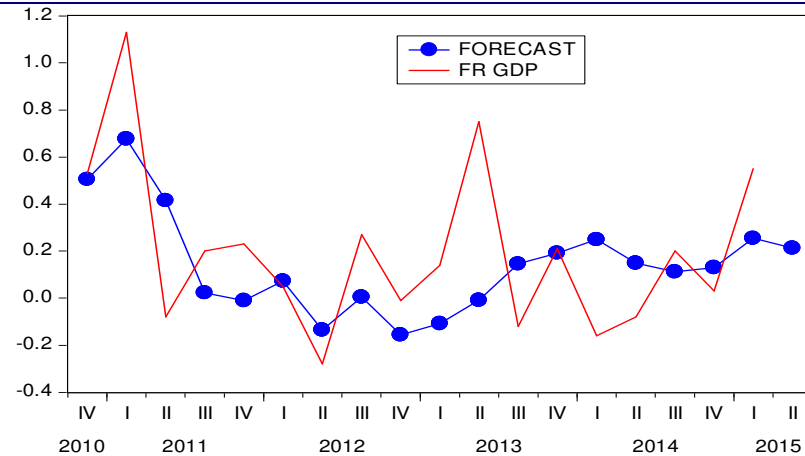
Leading Indicators



Economic Cycle Clock: ESI Index

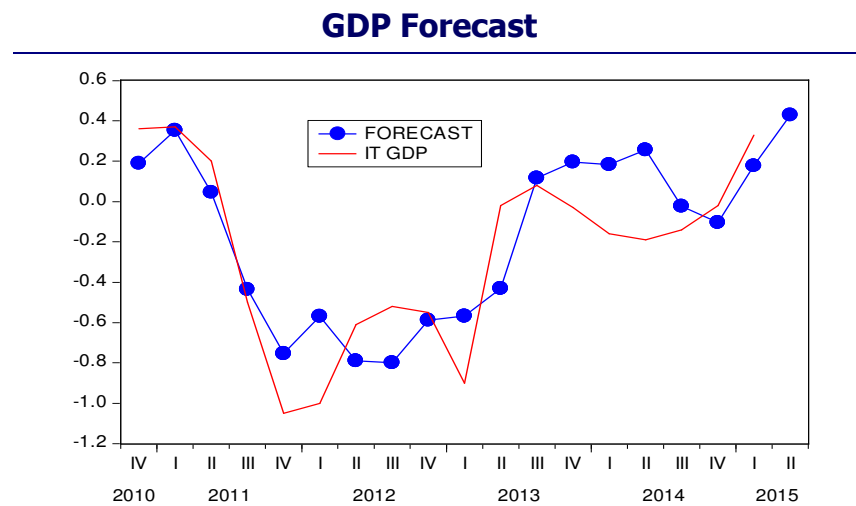
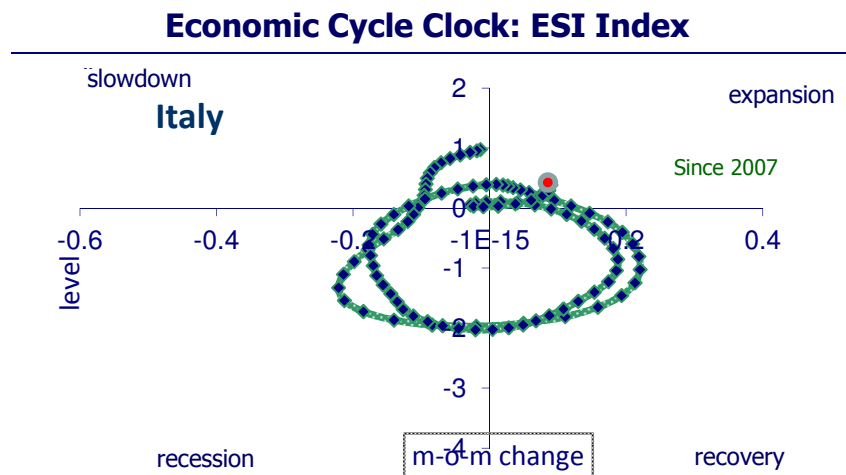
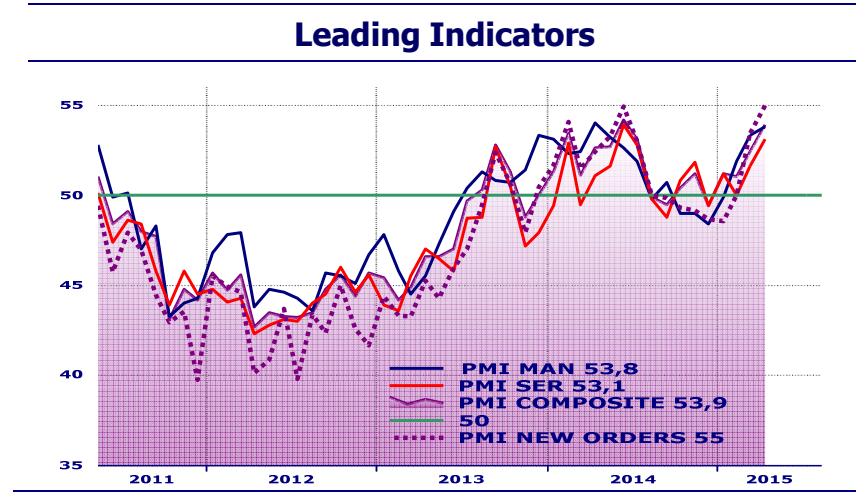
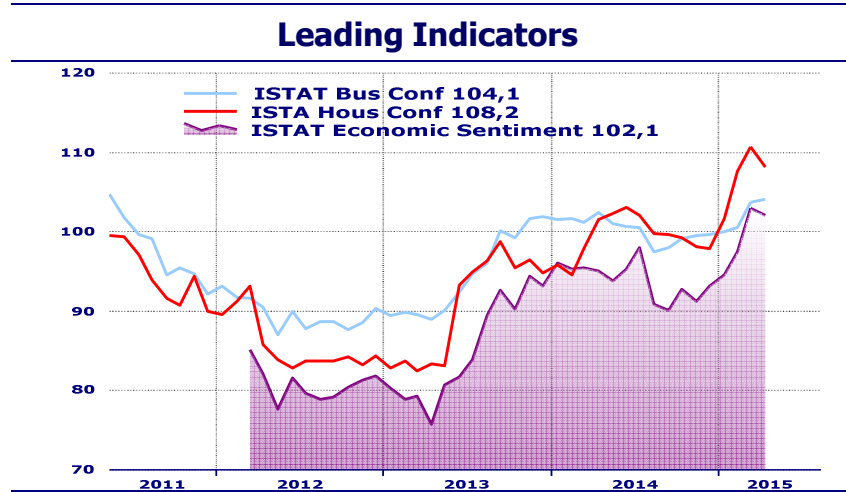


GDP Forecast



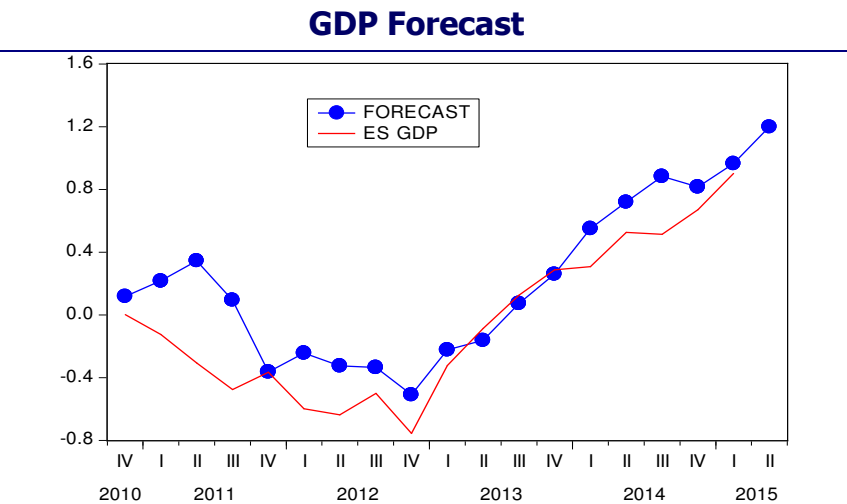
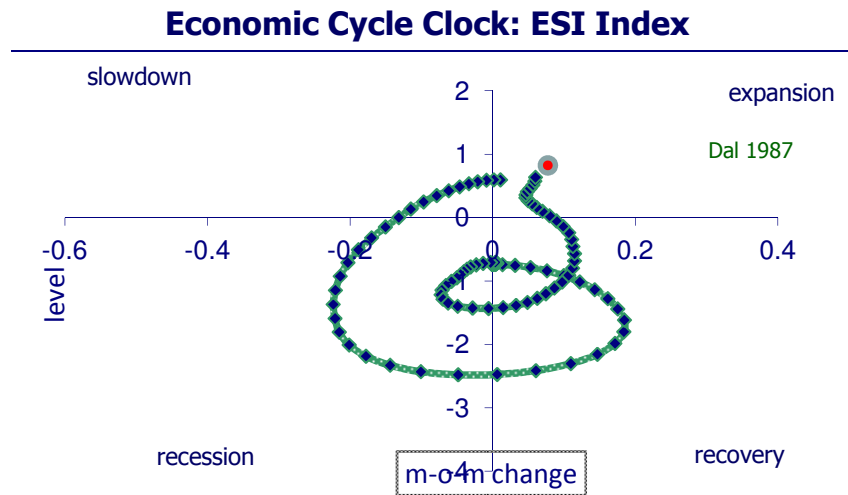
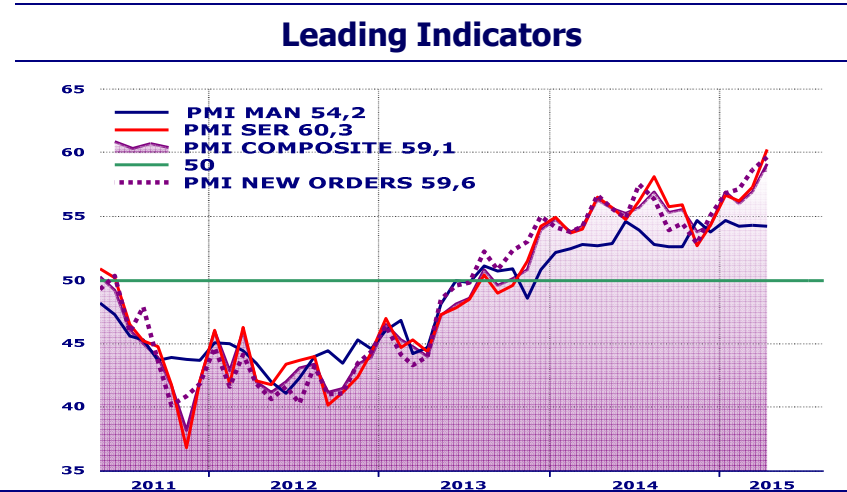
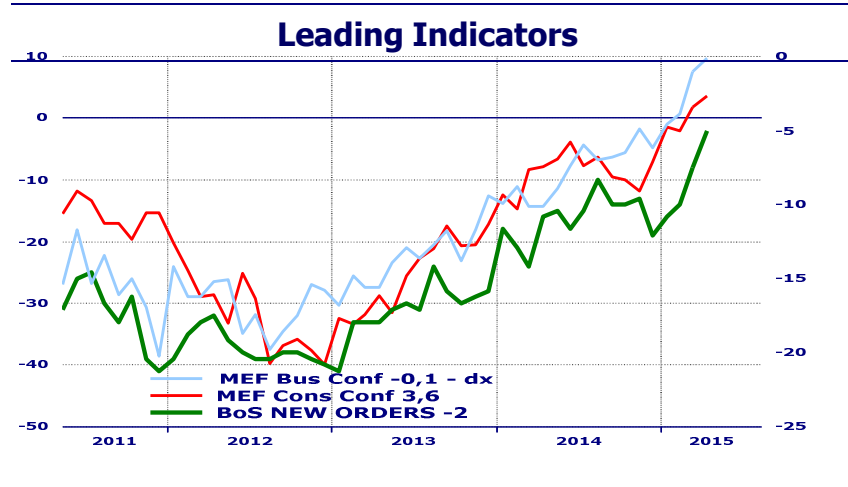
BC Barometer: ITALY

Leading Indicators signal decidedly stronger economic expansion for Italy, e.g., in April Manufacturing PMI reached 53.8. After a first quarter that brought positive surprises, income will register more consistent growth starting in Spring.



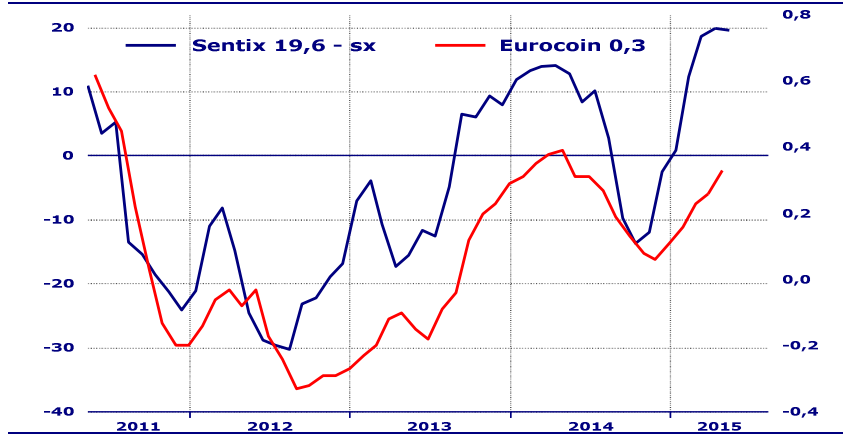
BC Barometer: SPAIN

The intensity of expansive conditions is at a high in Spain, with Composite PMI that further accelerates on historically high levels and compatible with vigorous growth rates. For the second quarter, indicators seem to point to further acceleration.

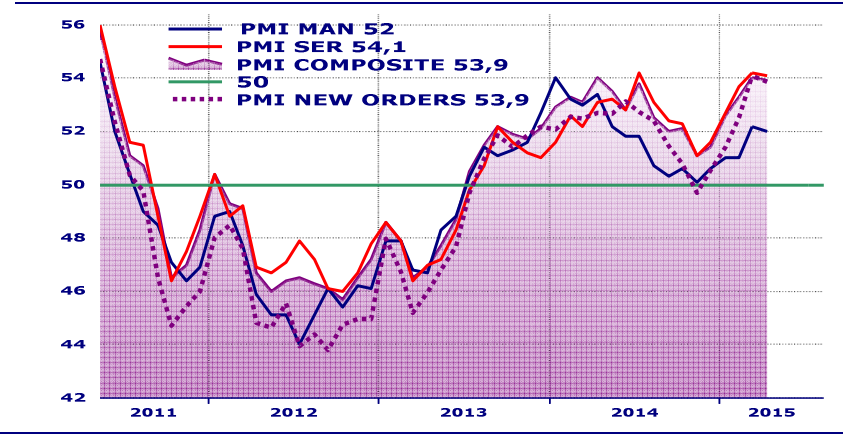


On an aggregate level, the prevailing message points to indicators' stabilisation, on levels compatible with moderate economic growth.

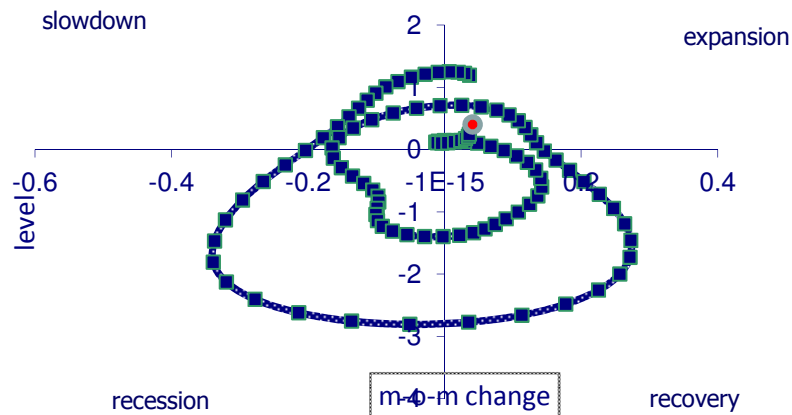
Leading Indicators



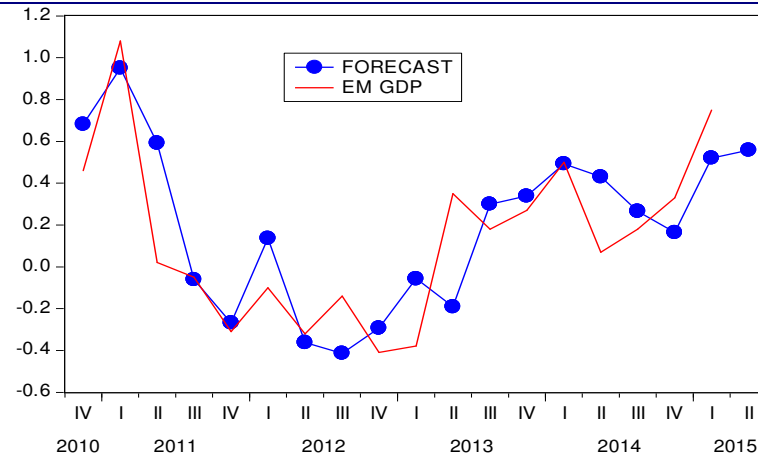
Leading Indicators



Economic Cycle Clock: ESI Index

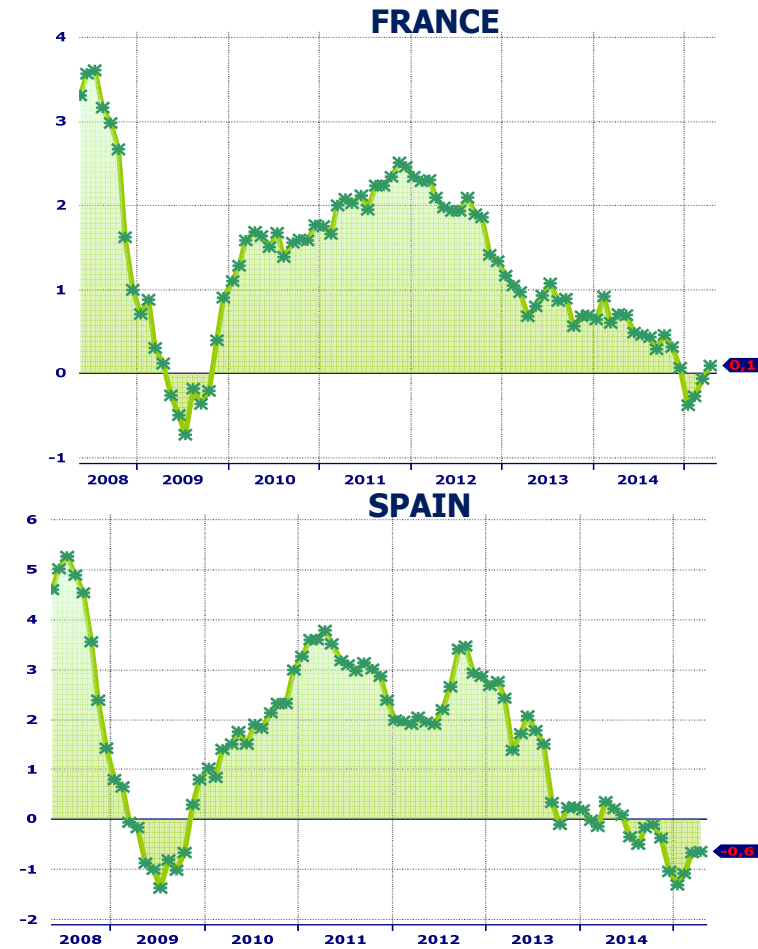
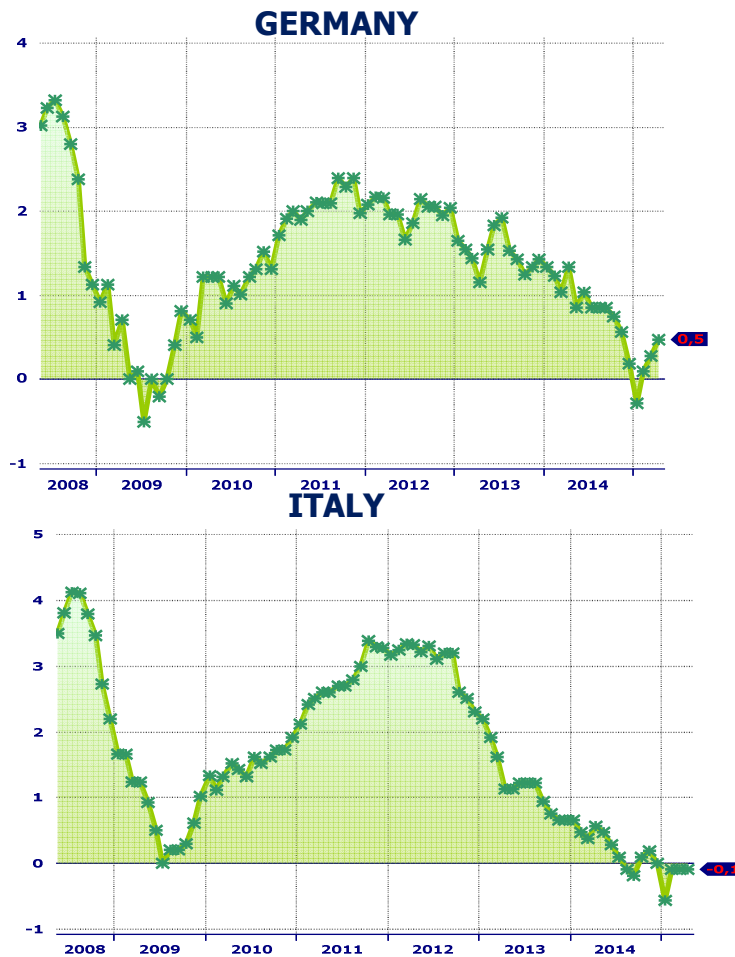


GDP Forecast



INFLATION BY COUNTRY

April's preliminary data indicate a generalised softening of deflationary pressures in Eurozone's major economies; in particular inflation returned definitely positive in Germany, but gives indications for an increase also in other major economies.

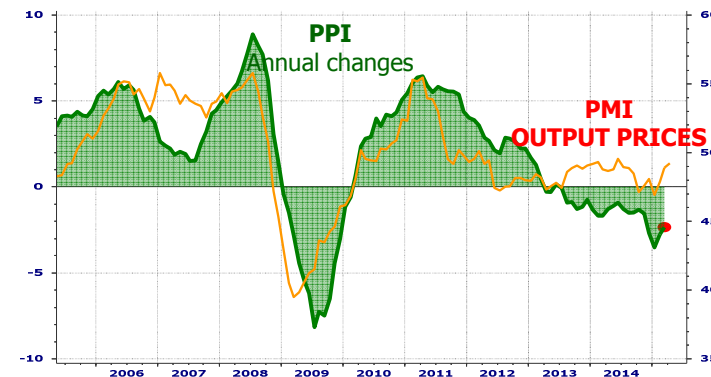
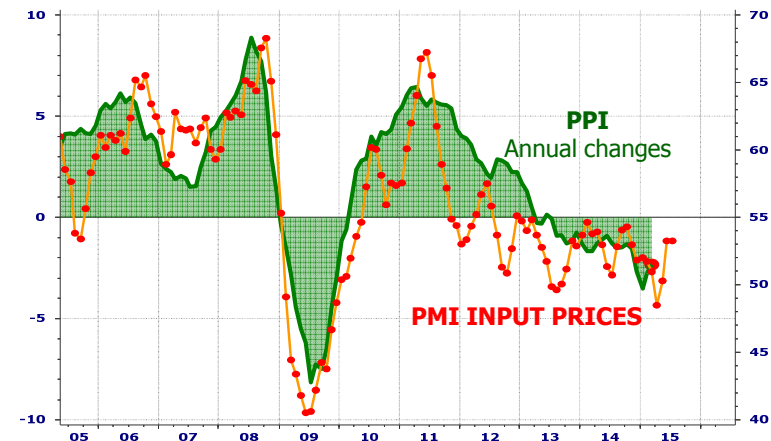
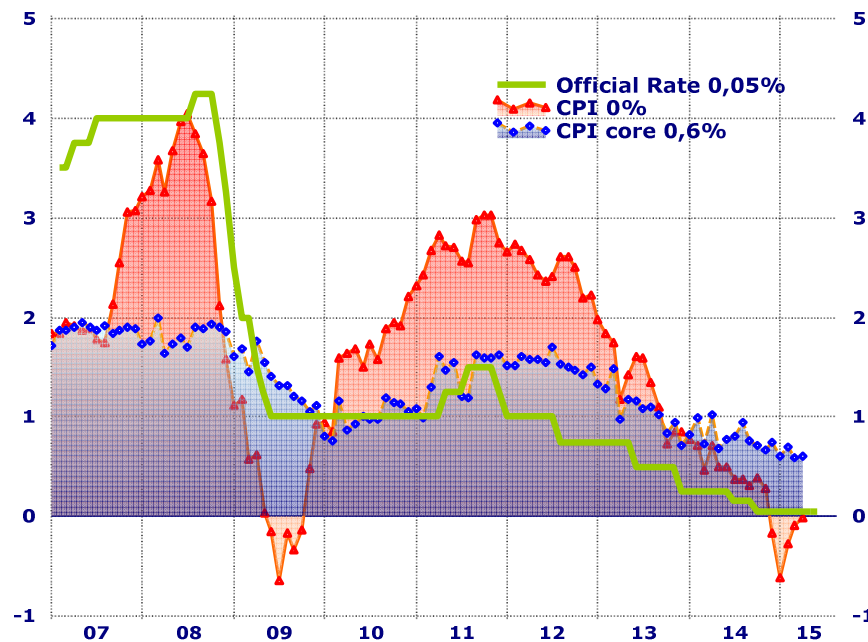


INFLATION

At the area level, after four months in negative territory, the inflation rate was null in April, halting the deflationary phase at least temporarily. Core rate is stable at 0.6%. The leading indicators signal pressure lessening upstream of the supply chain.

INFLATION BY MACROSECTOR

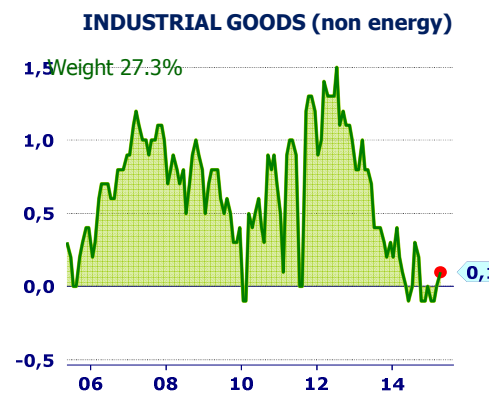
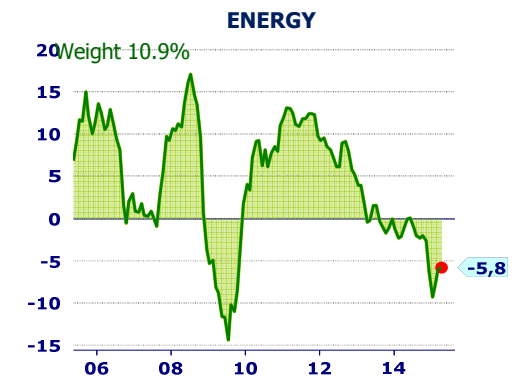
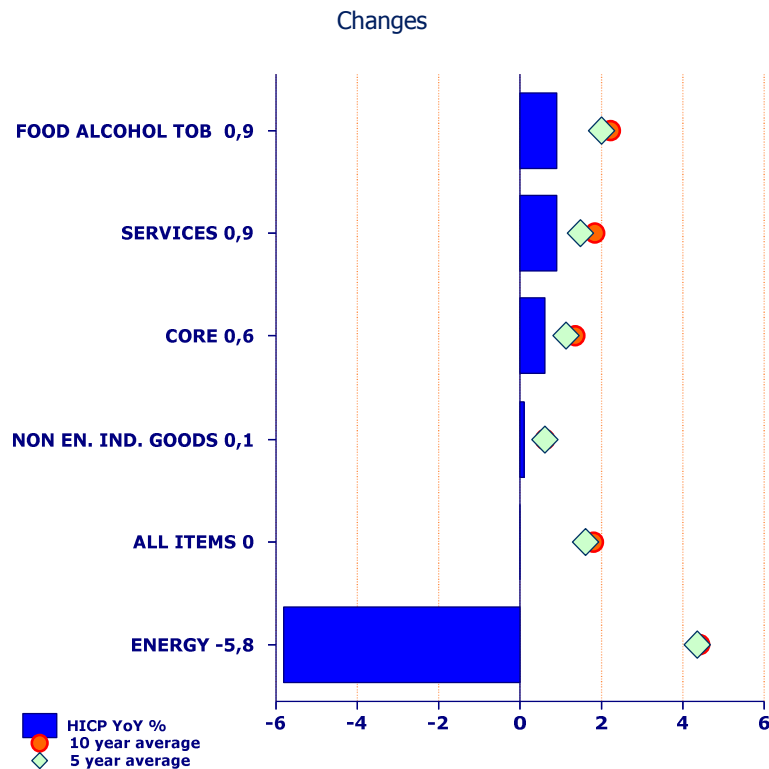
Changes



INFLATION

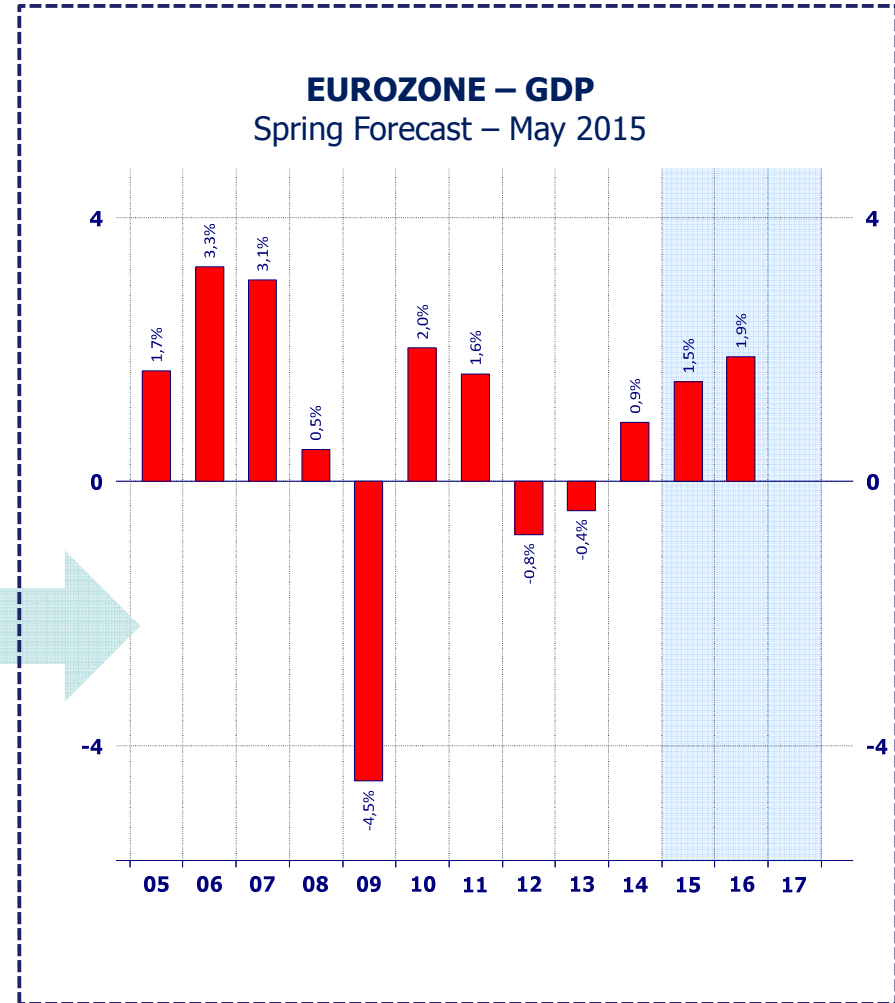
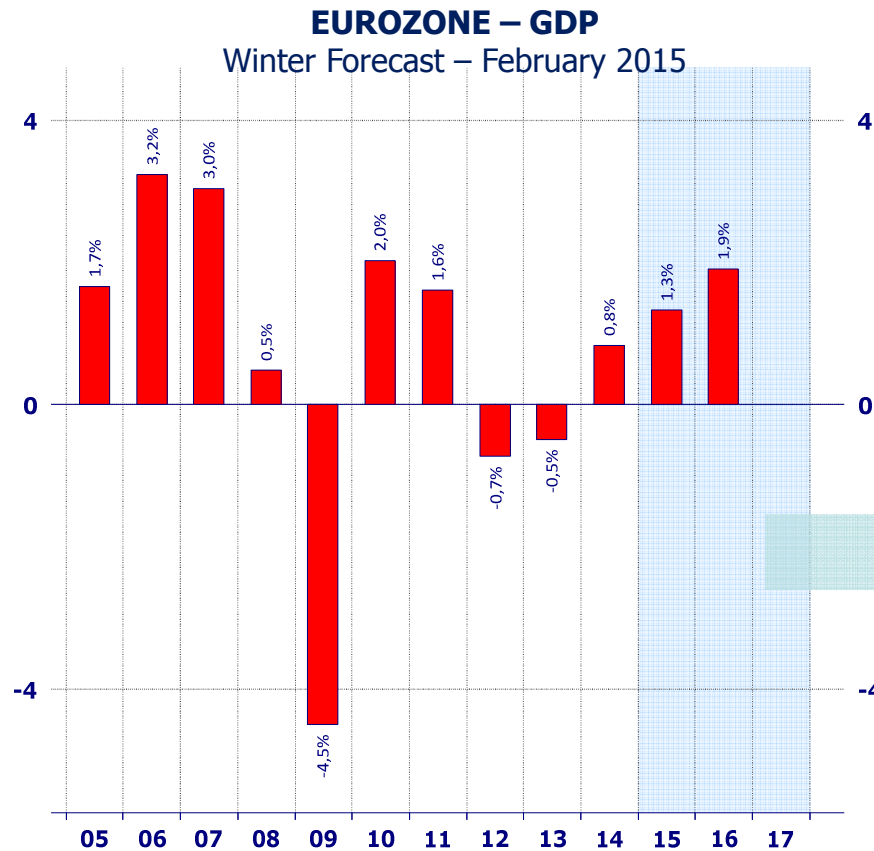
In March the bullish pull on general inflation is actually mostly due to non core components (energy and food). Services' prices fell to an all time low at 0.9%. In the past months, the stabilisation of energy prices is supporting headline inflation, now growing, while previous cyclical weakness is putting downward pressure on core inflation. In 2015 the price evolution scheme is ideally reversed compared to the previous year.

INFLATION BY MACROSECTOR



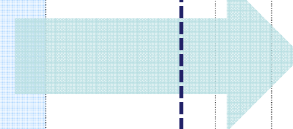
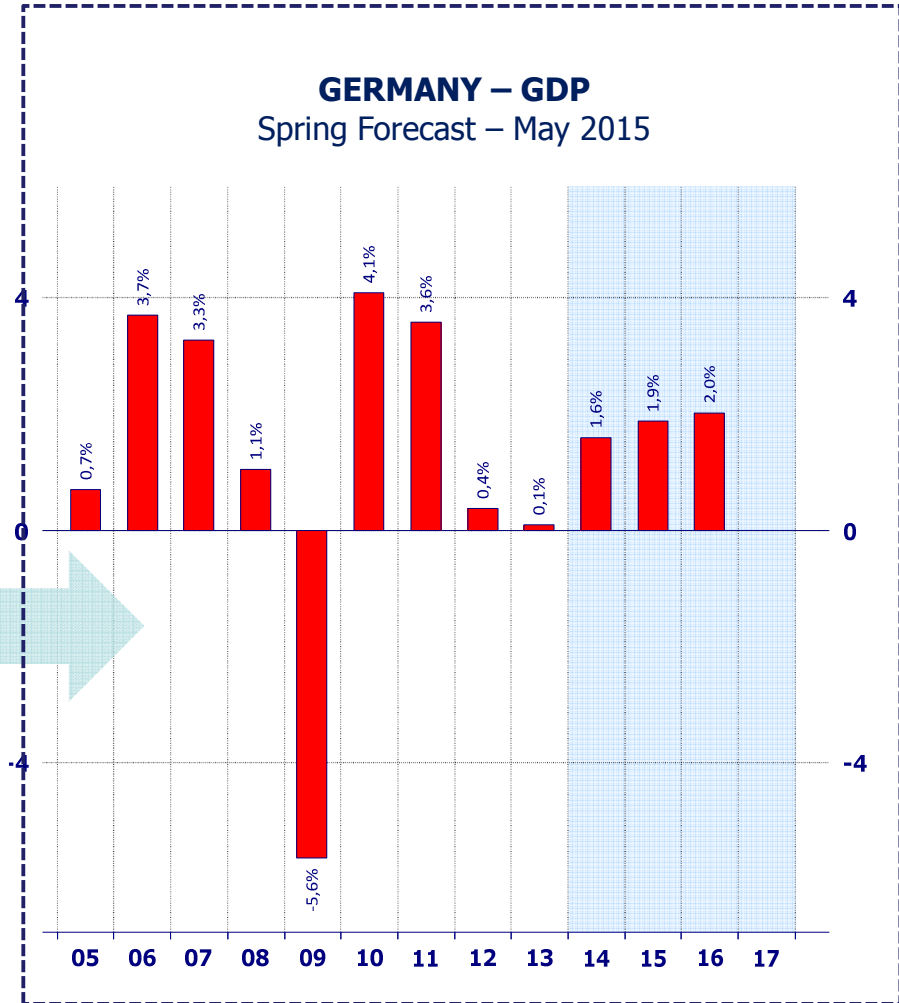
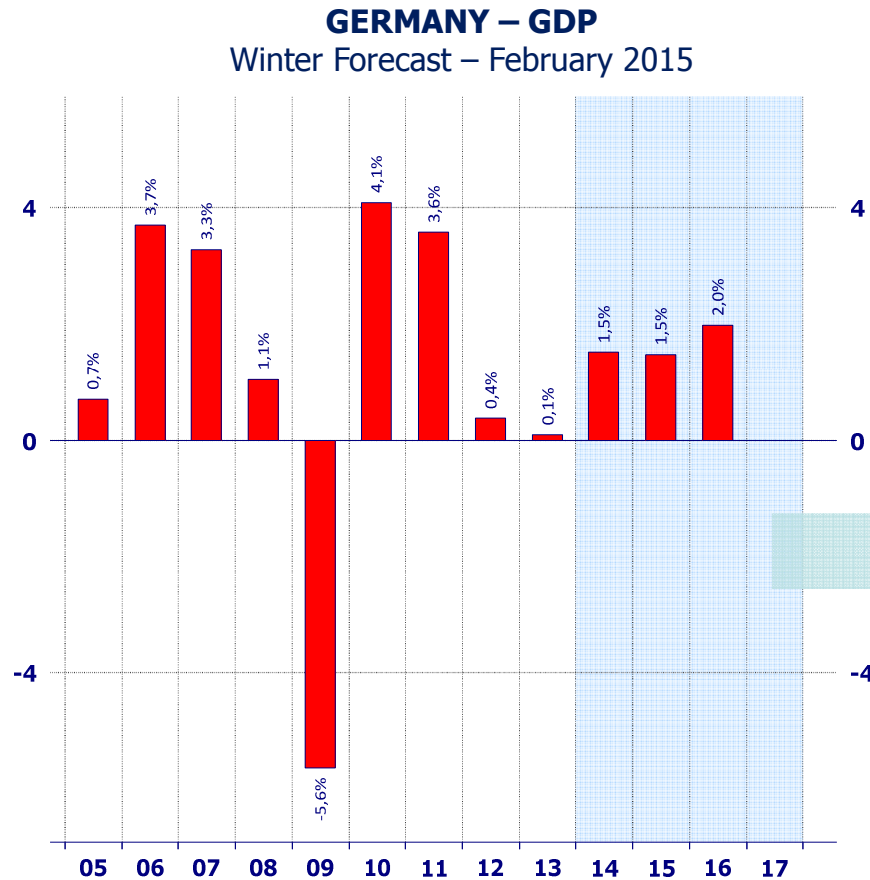
EC SPRING FORECASTS

The Commission brought growth estimates up to 1.5% for 2015, confirming 1.9% for 2016

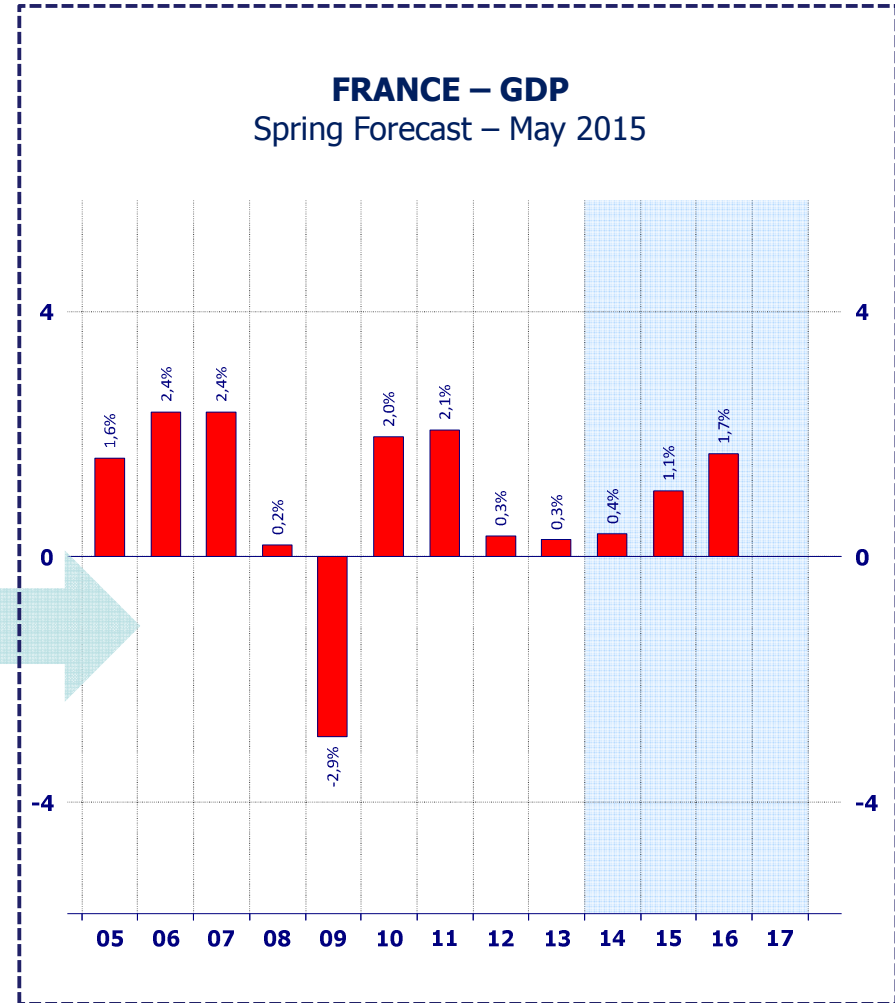
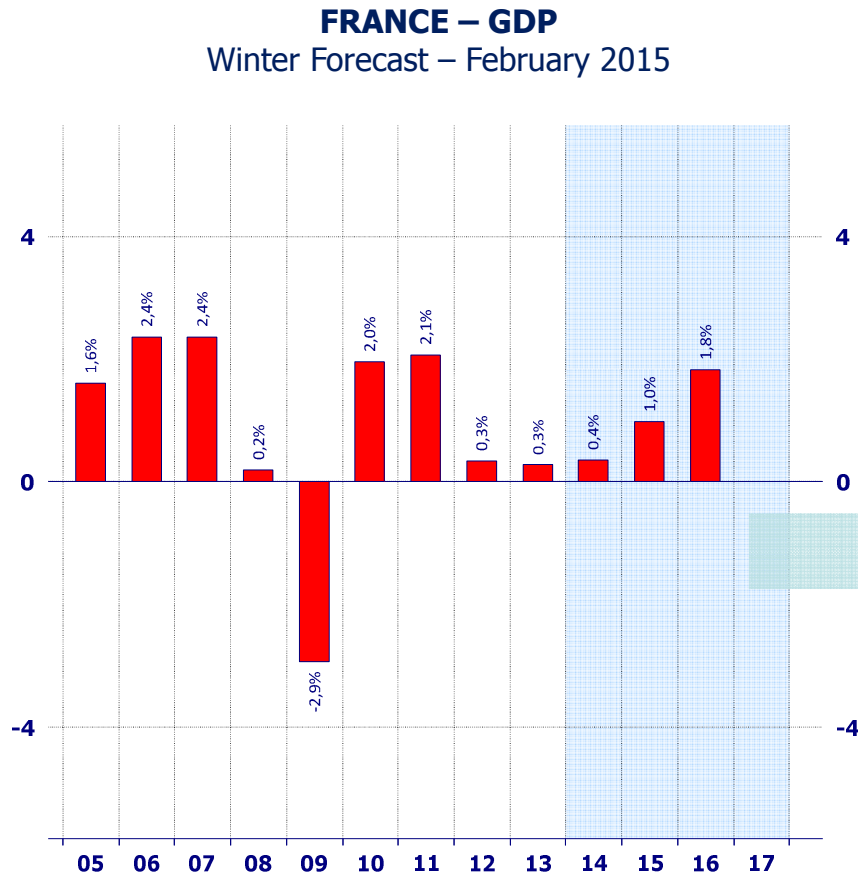


EC SPRING FORECASTS

Significant increases on estimates also for Germany, with growth rates around 2% both in this and the next year.

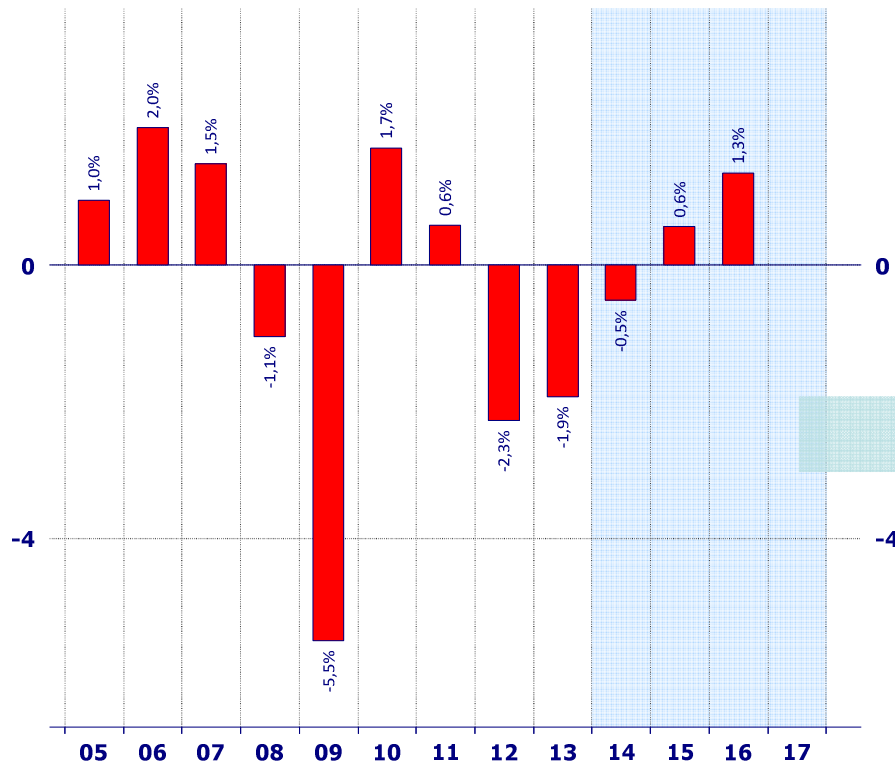


... softer revision for France, only one tenth higher this year at 1.1%

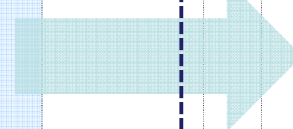
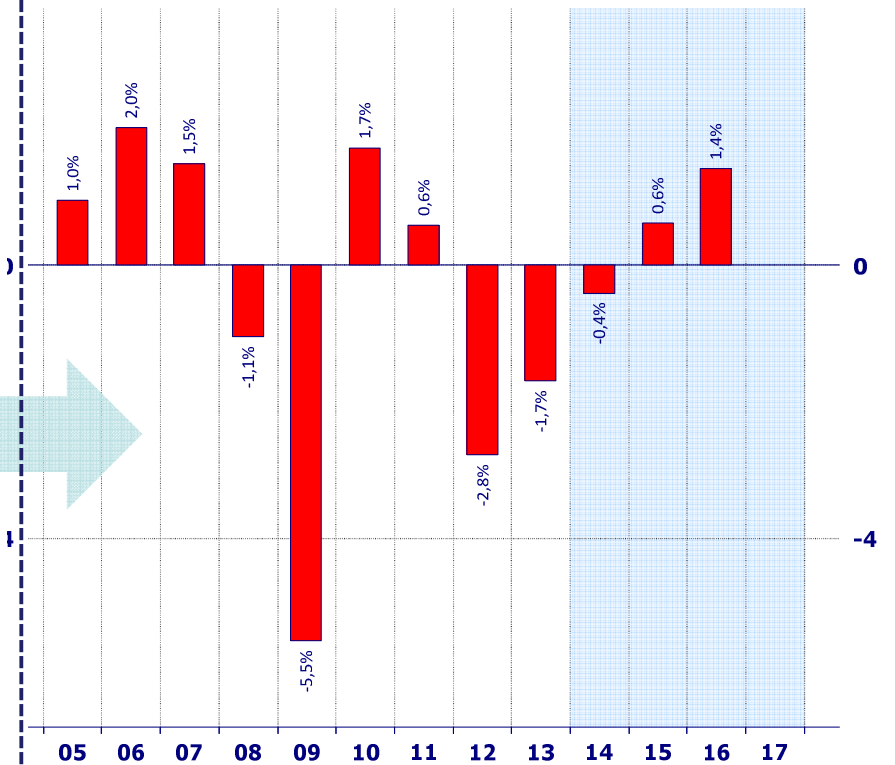


... same for Italy, that earns one tenth in 2016 at 1.4%

ITALY – GDP
Winter Forecast – February 2015



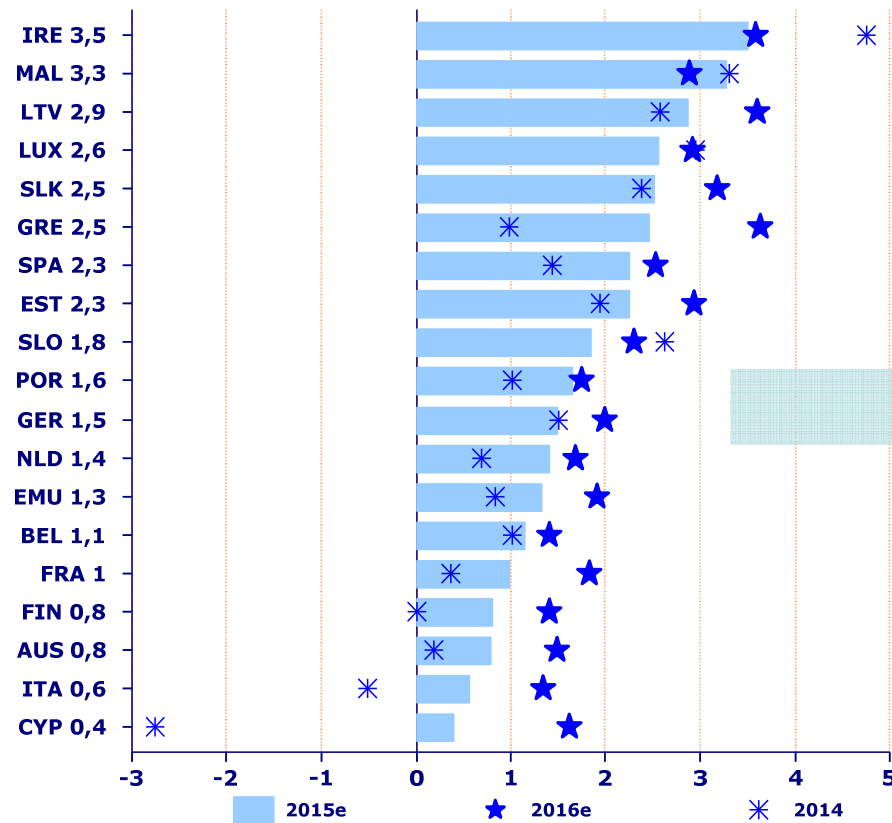
ITALY – GDP
Spring Forecast – May 2015



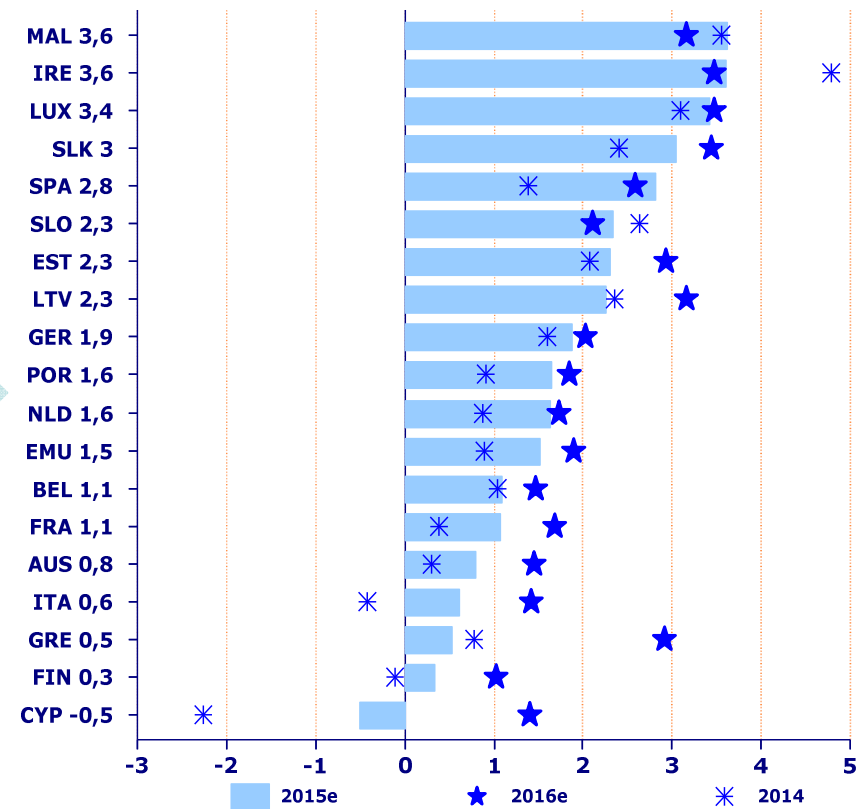
EC SPRING FORECASTS

In 2015, according to the Commission only one country (Cyprus) will have negative growth; in February the estimate was for a modest 0.4% increase. Greater revision for Greece, whose expected growth rate was cut by two points from 2.5% to 0.5%. Malta and Ireland are again the most dynamic economies.

EUROZONE - GDP
Winter Forecast – February 2015

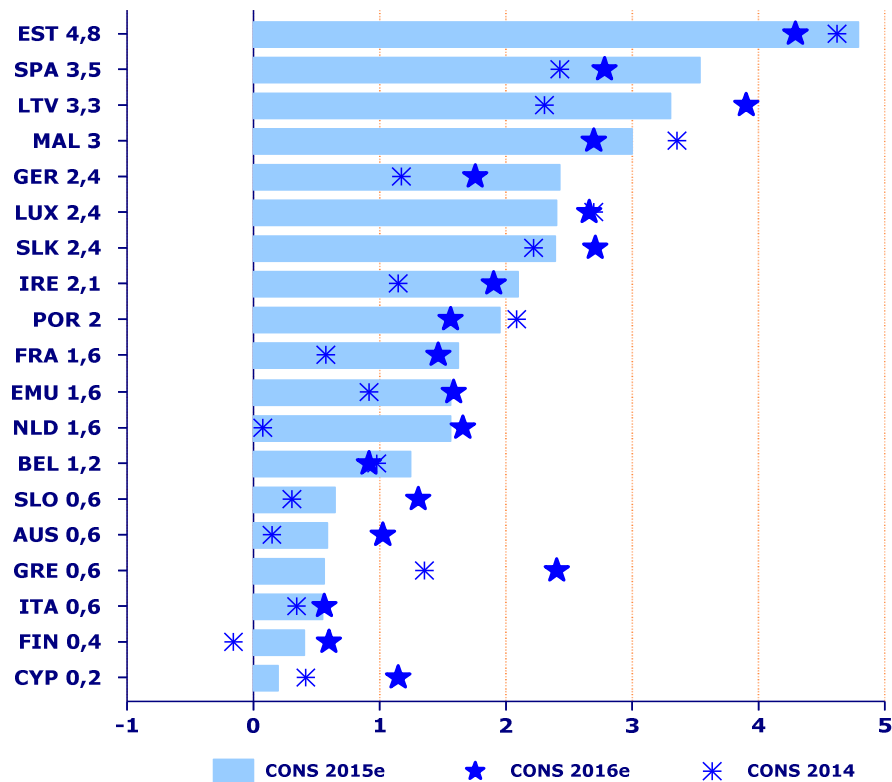


EUROZONE – GDP
Spring Forecast – May 2015

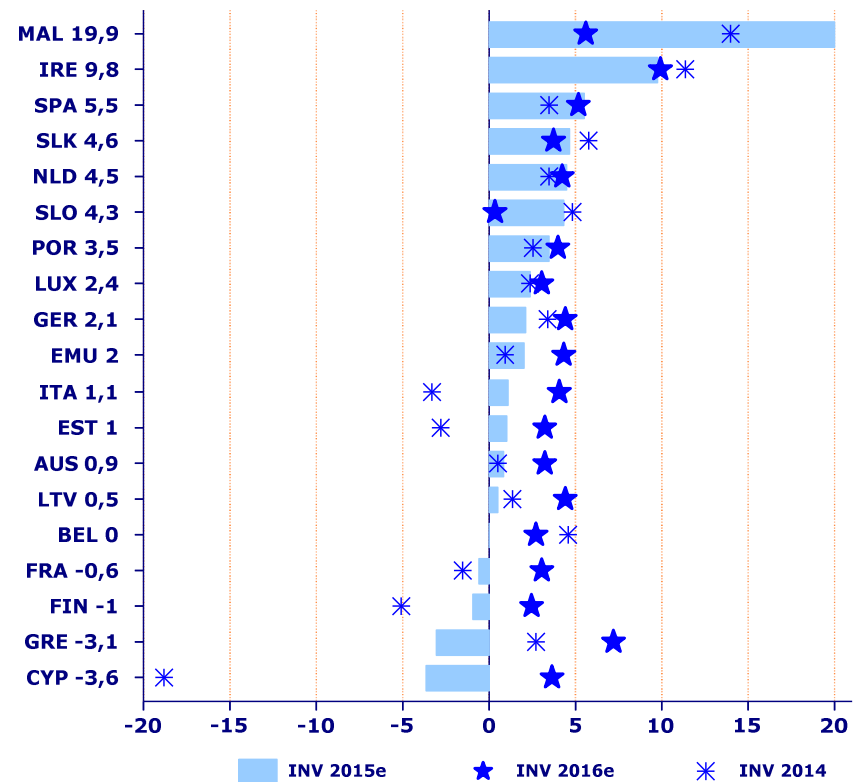


Domestic demand is expected to strengthen, but the investment cycle is hardly taking off also in France.

EUROZONE – CONSUMPTION
Spring Forecast – May 2015

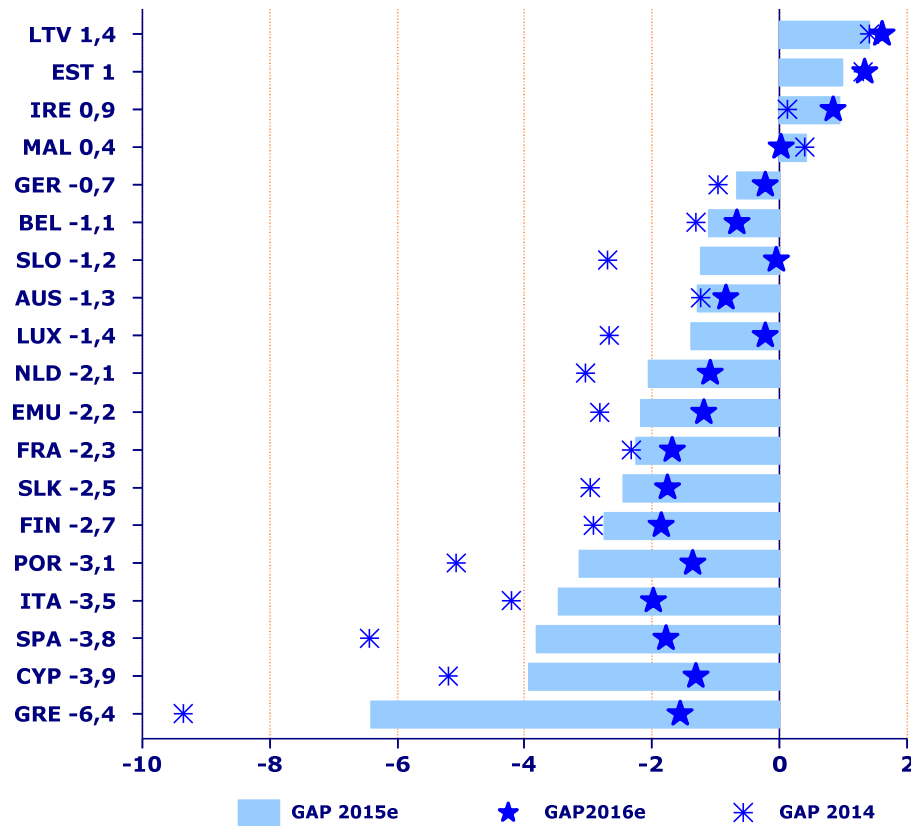


EUROZONE – INVESTMENTS
Spring Forecast – May 2015

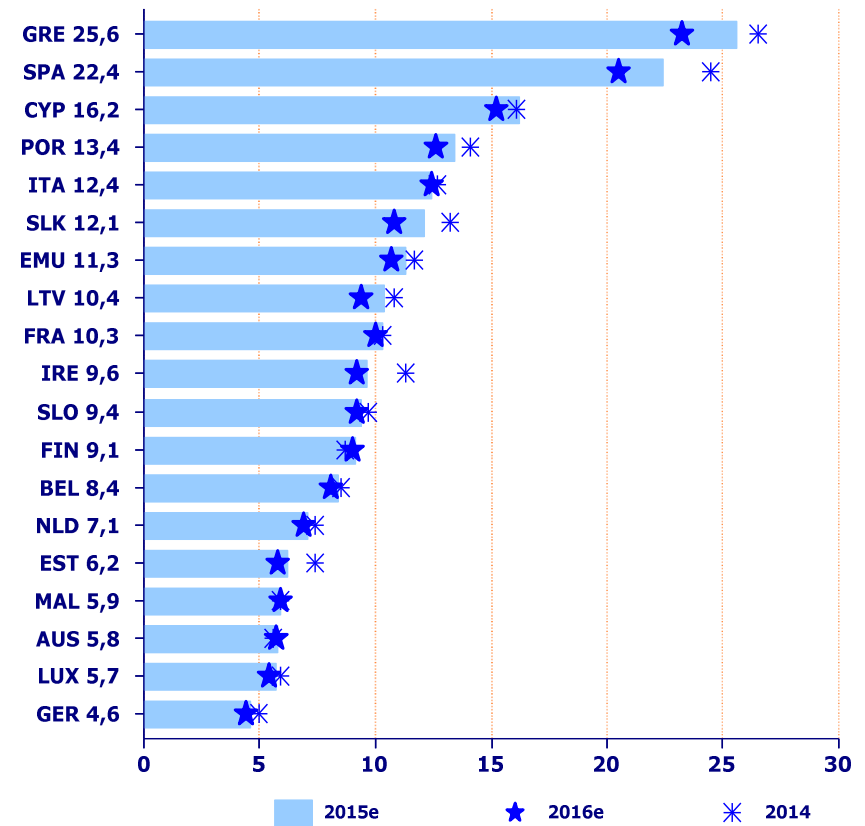


The persistence of idle resources hinders inflation's run. Still in 2016 only three smaller economies will have output above potential.

EUROZONE – OUTPUT GAP
Spring Forecast – May 2015



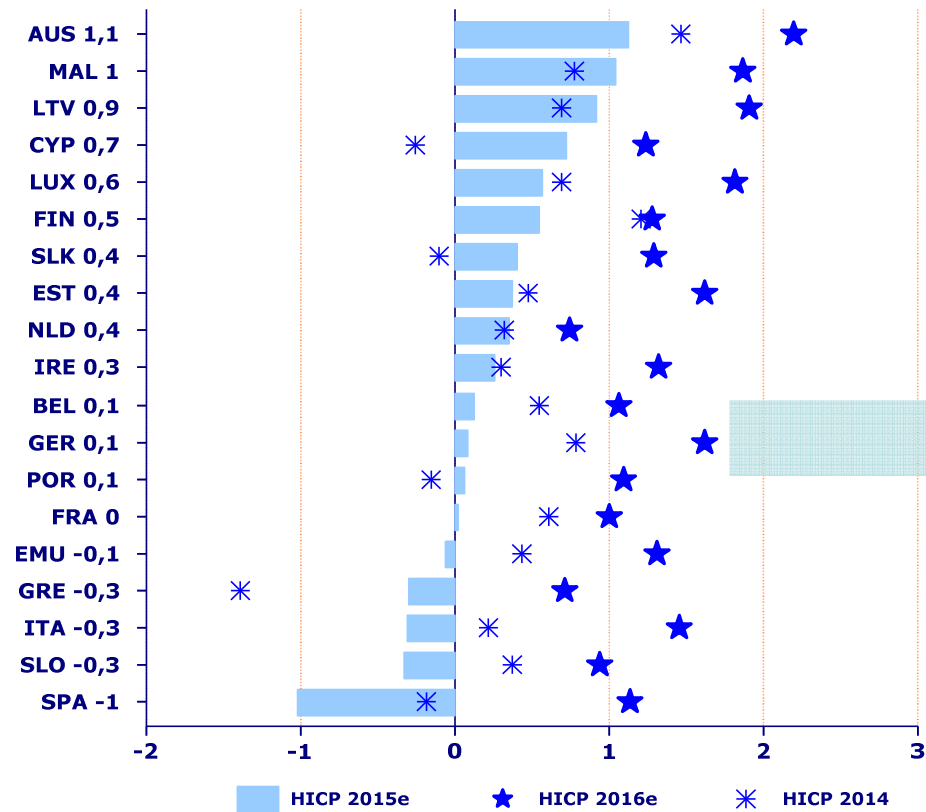
EUROZONE – UNEMPLOYMENT RATE
Spring Forecast – May 2015



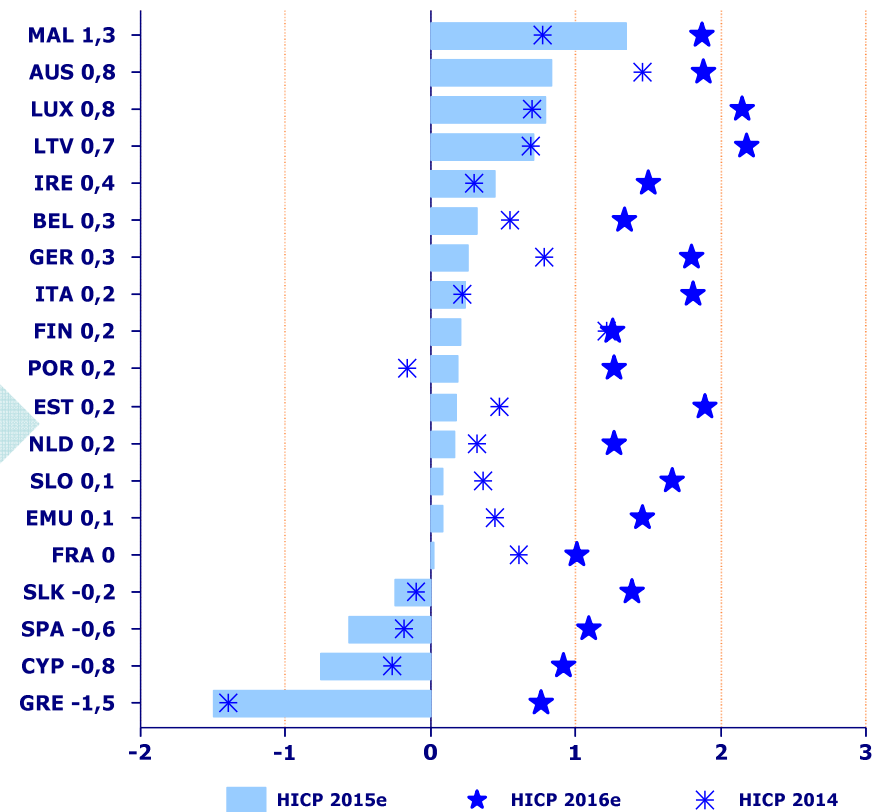
EC SPRING FORECASTS

The estimate for aggregate inflation rate was revised upwards at 1.5% in 2016, two tenths higher. Next year inflation rates will tend to be almost all over Eurozone above 1%.

EUROZONE – INFLATION
Winter Forecast – February 2015



EUROZONE – INFLATION
Spring Forecast – May 2015

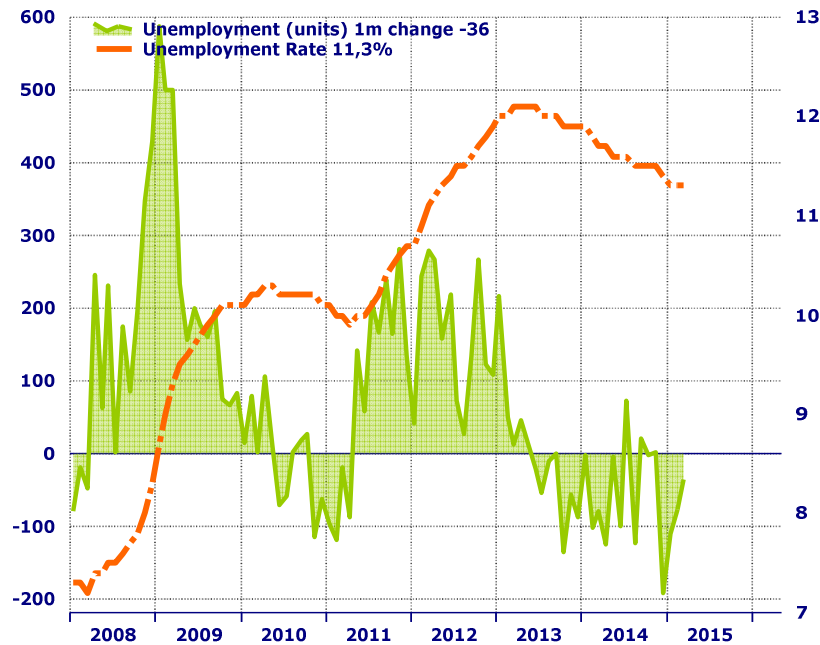


LABOUR MARKET

The situation, previously critical, is finally improving in a structural way and probably sustainable over time, although overall weak. The number of unemployed dropped by a further 36 K units in March, for a total of over 1.1 million units since the cyclic peak in May 2013. The unemployment rate is now at 11.3%, lowest since April 2012. The leading indicator is at 51.9 in March, highest since 2011, signalling a moderate acceleration of employment.

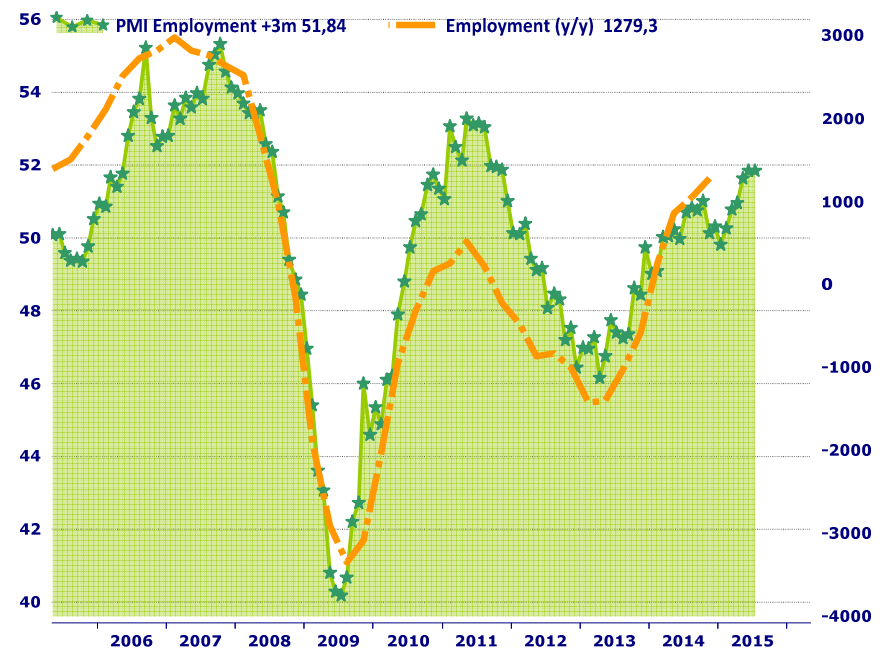
LABOUR MARKET

Unemployment



LABOUR MARKET

Employment and Expectations

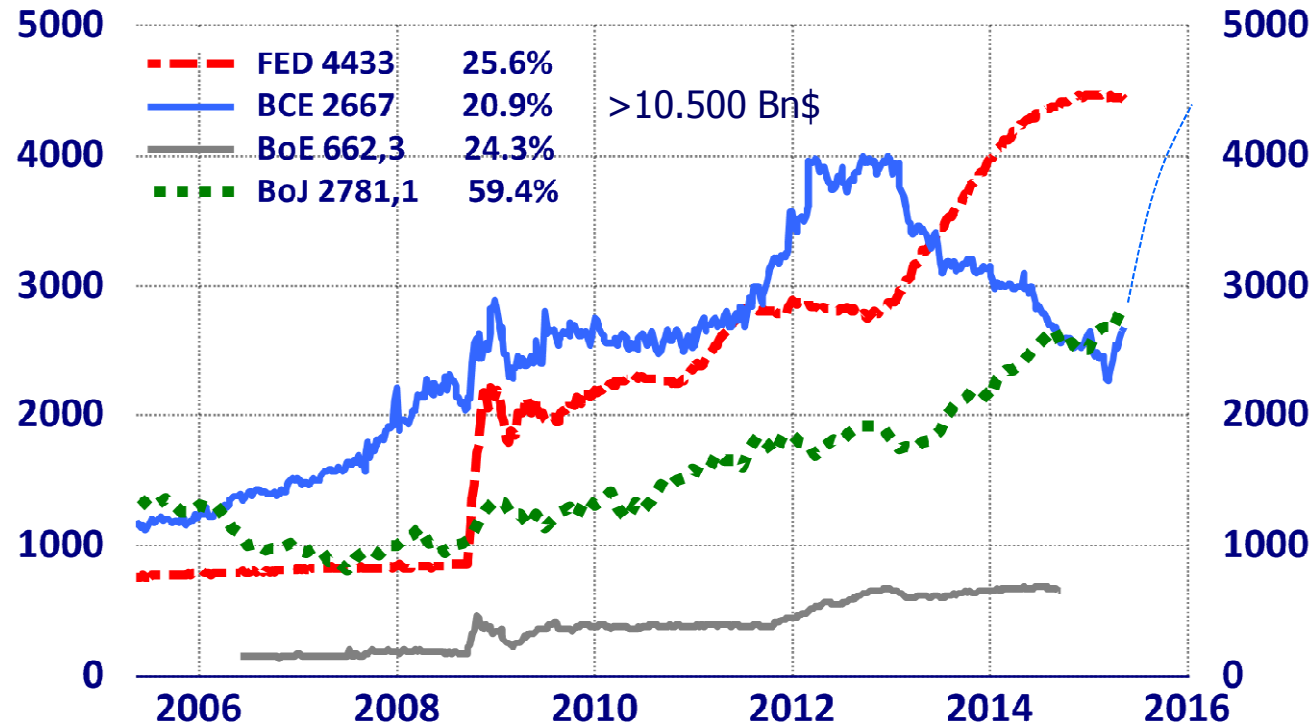


SOURCES OF RECOVERY

The principal sources of recovery are the ECB's expansive policy (QE), associated with a further reduction of interest rates, improved credit, lower exchange rate and the wealth effect due to growing stock and bond prices; the US recovery and China's ongoing growth; the reduction in energy prices; the slowdown in fiscal tightening; and the stabilisation of the situation in Ukraine and North Africa.

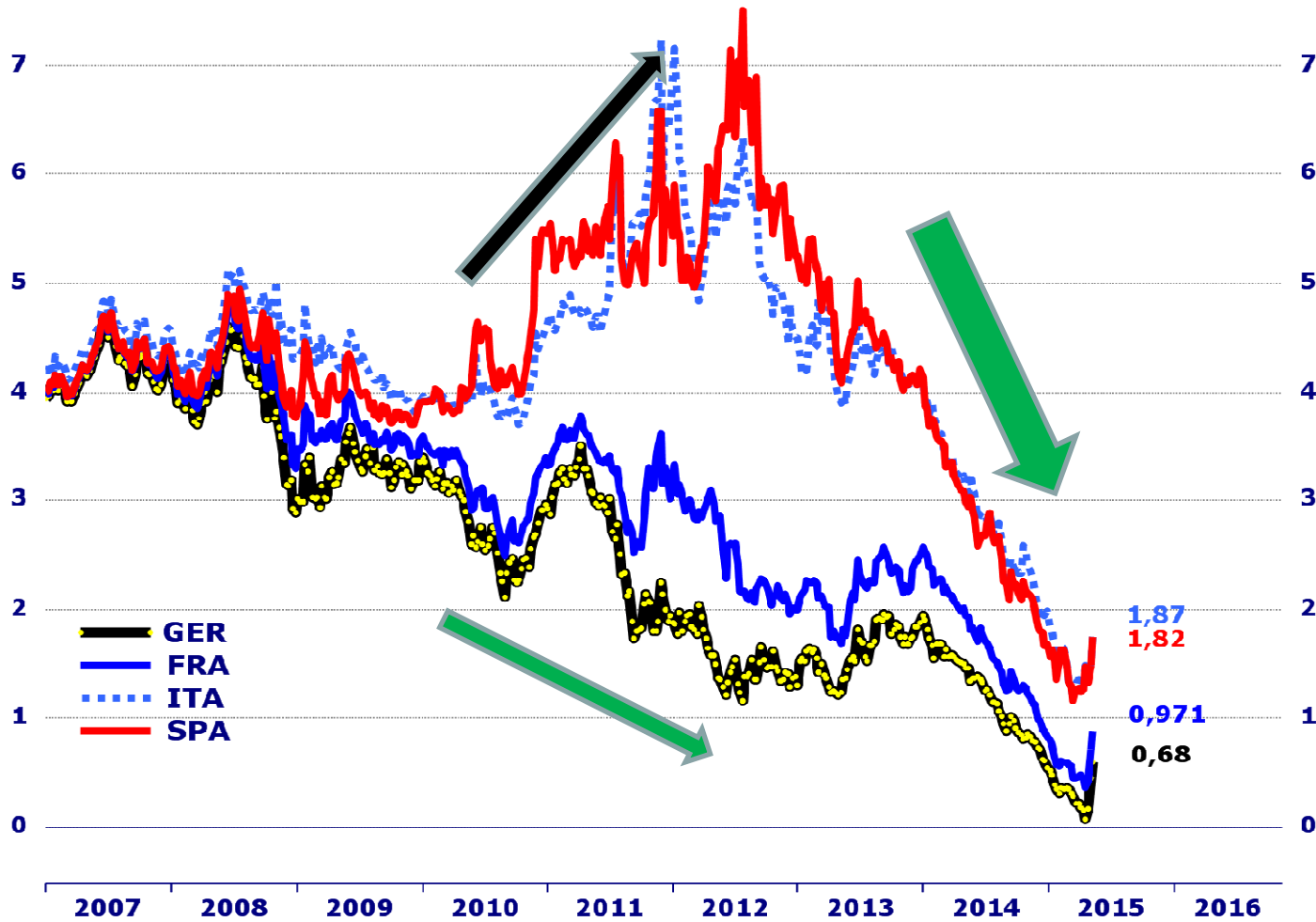
CENTRAL BANKS' FINANCIAL STATEMENTS

Total assets, mln USD

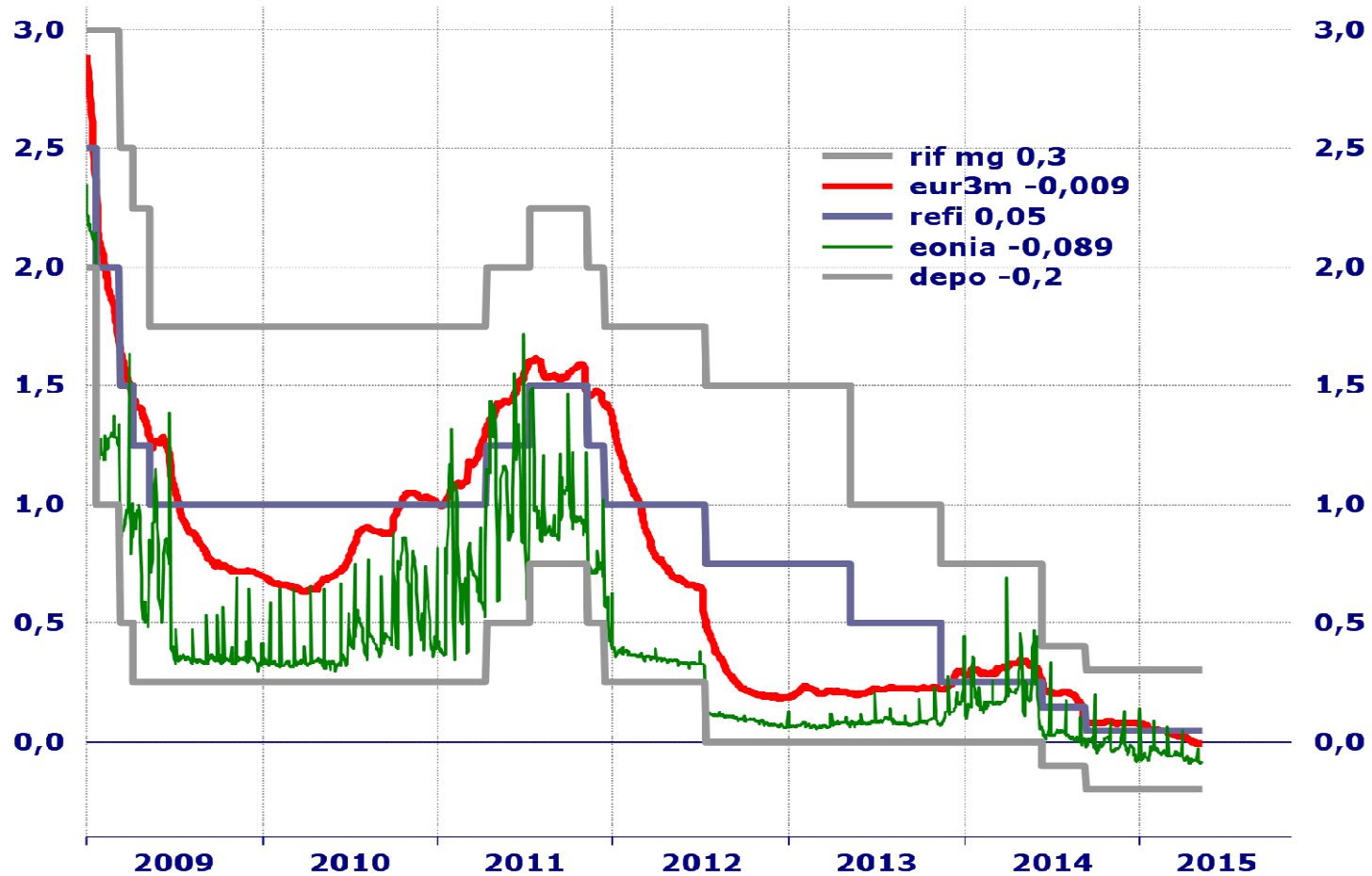




EUROZONE TEN YEAR RATES

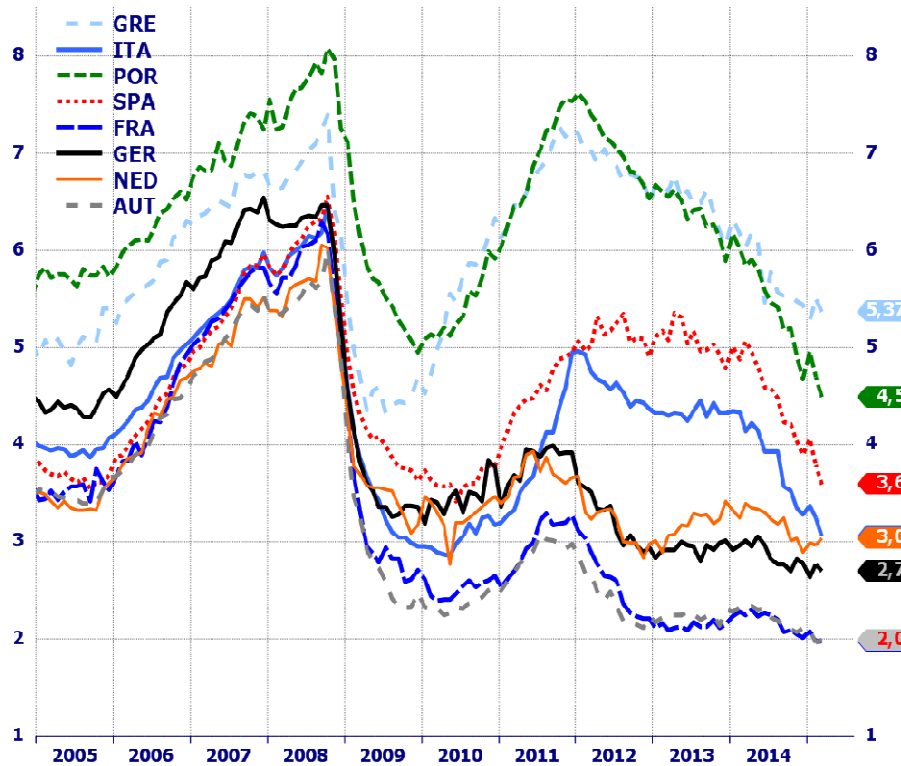


ECB – OFFICIAL RATES' CORRIDOR

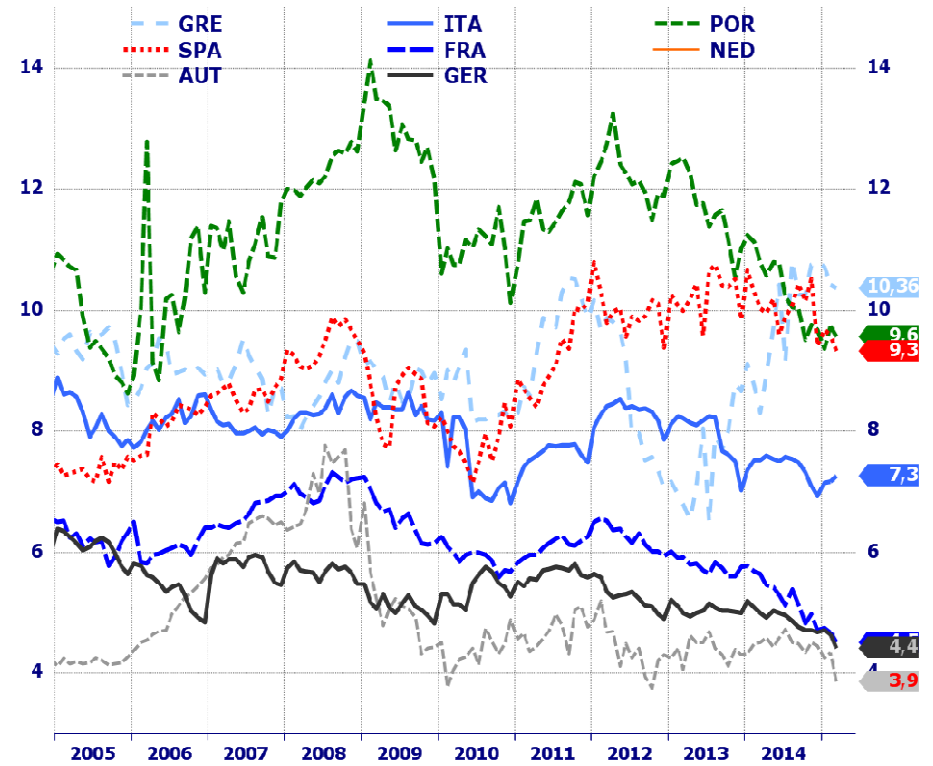


CREDIT INTEREST RATES

Credit to businesses below 1 mln euro

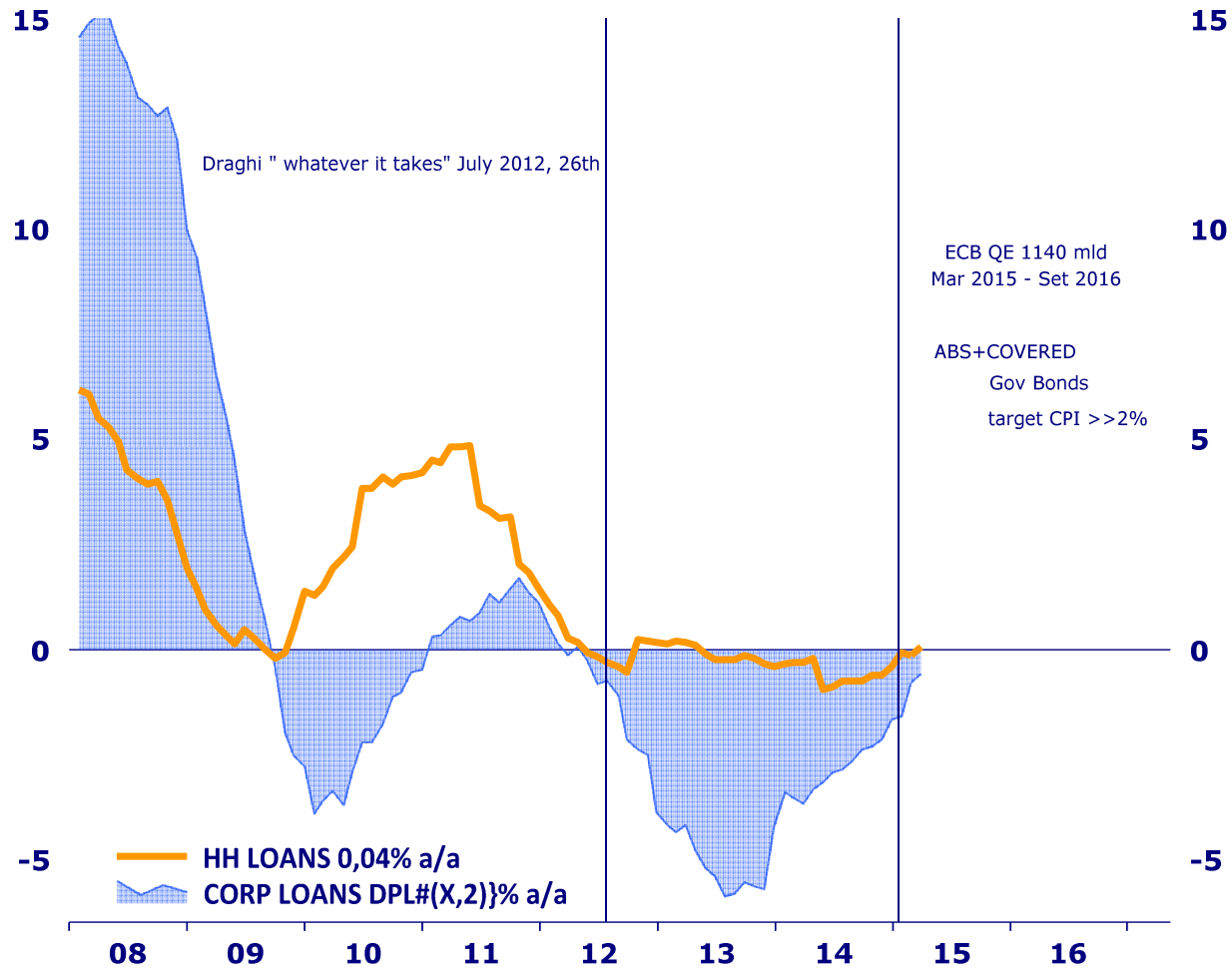


Consumer credit, variable rate 1-5 years



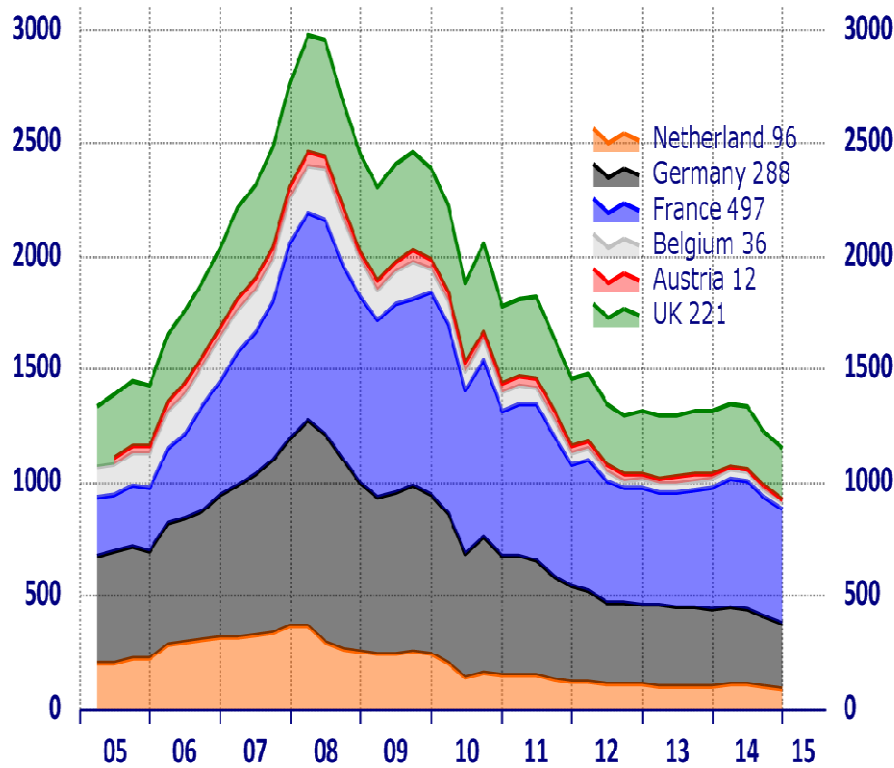
ECB AND CREDIT

ECB policy and key variables

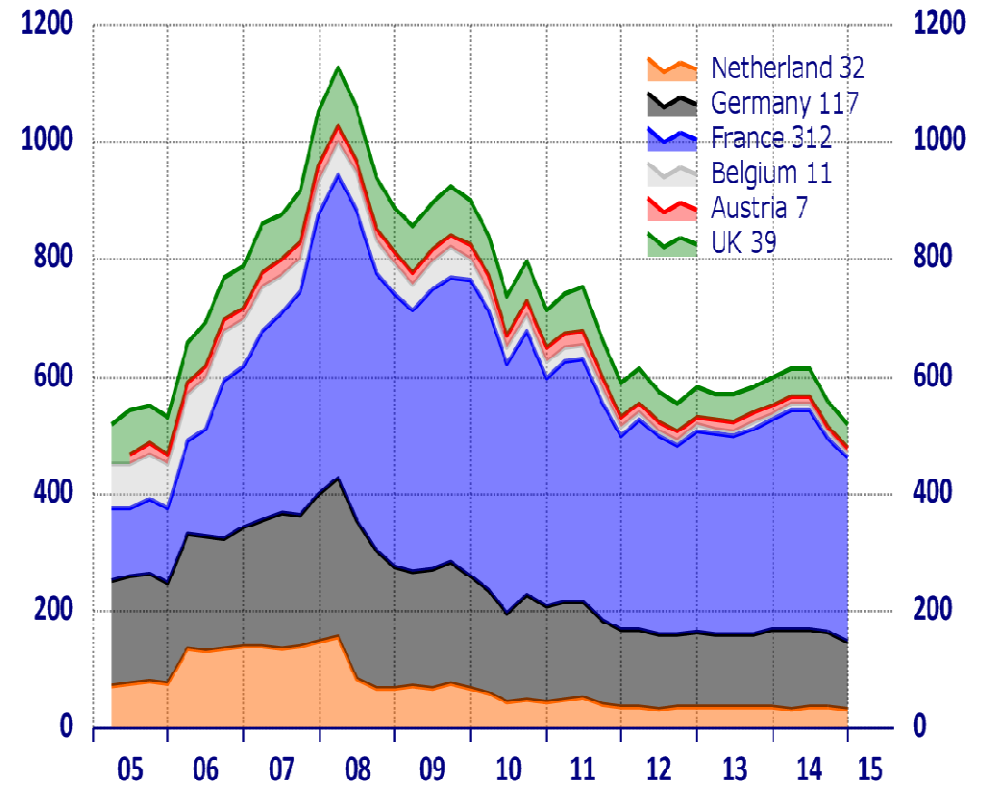


BANKS' COMMITMENTS

CORE COUNTRIES/PERIPHERY

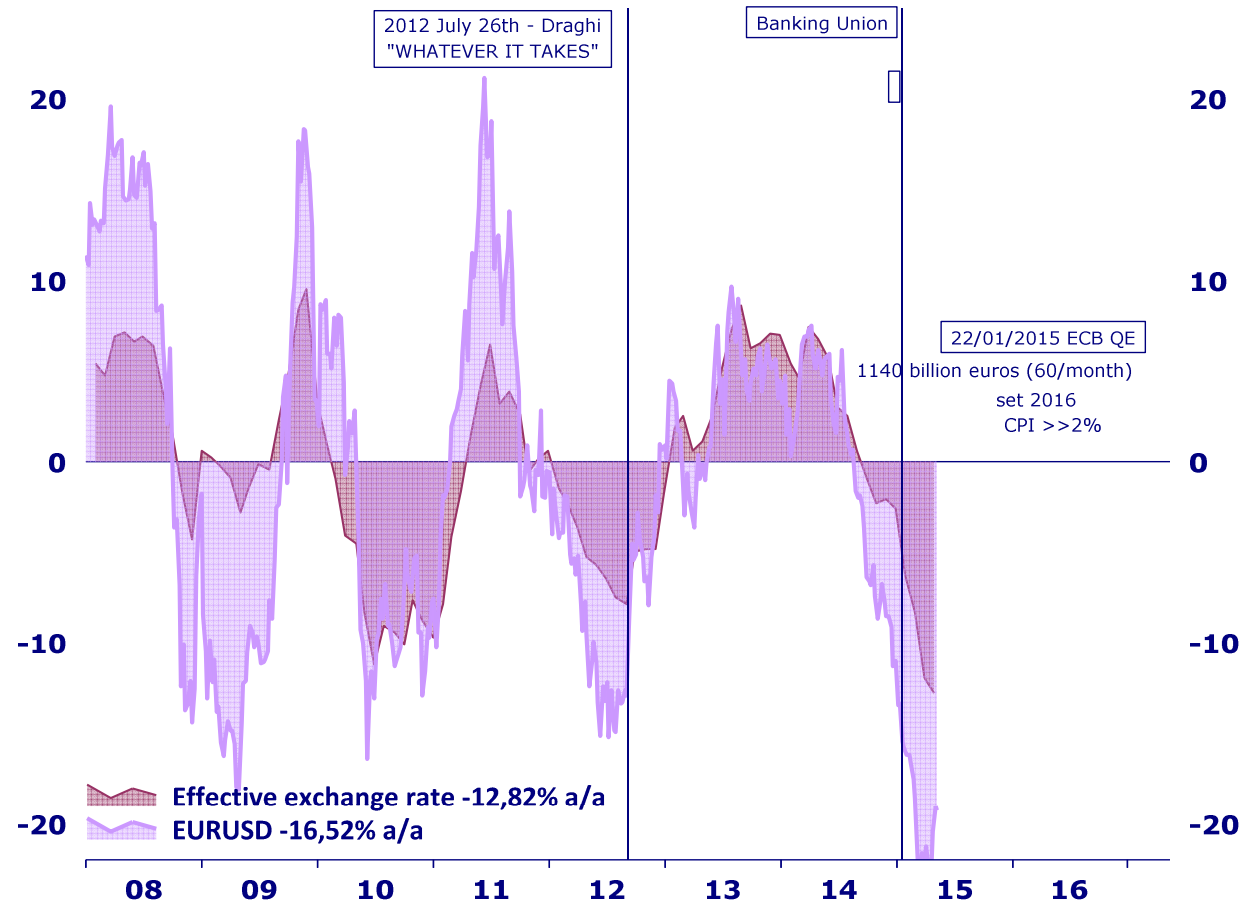


CORE/ITALY



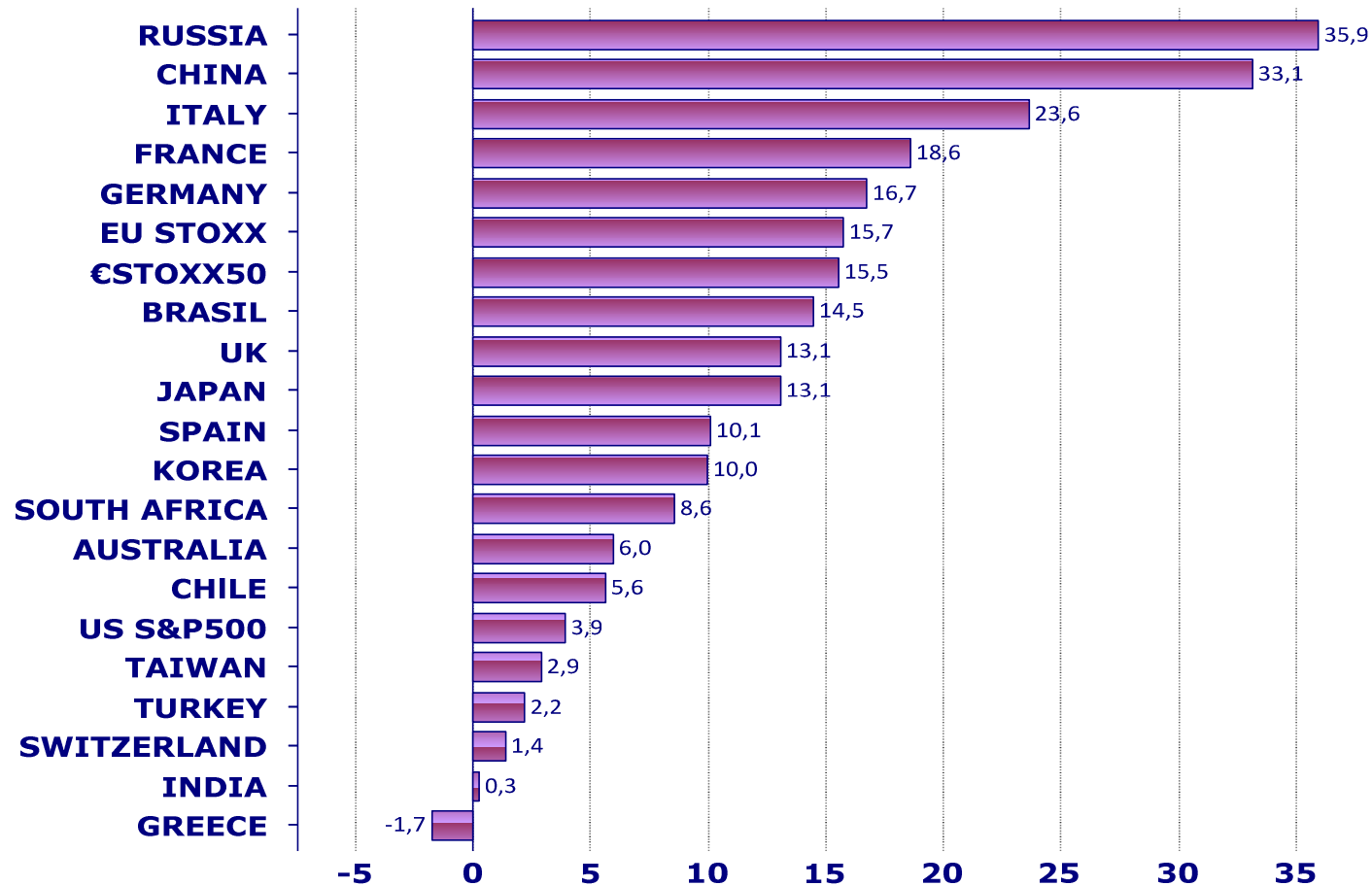
EURO AND ECB

ECB policy and key variables



STOCK MARKETS

SINGLE INDEXES – PERFORMANCE IN 2015 from 1/01/2015 to 05/15/2015



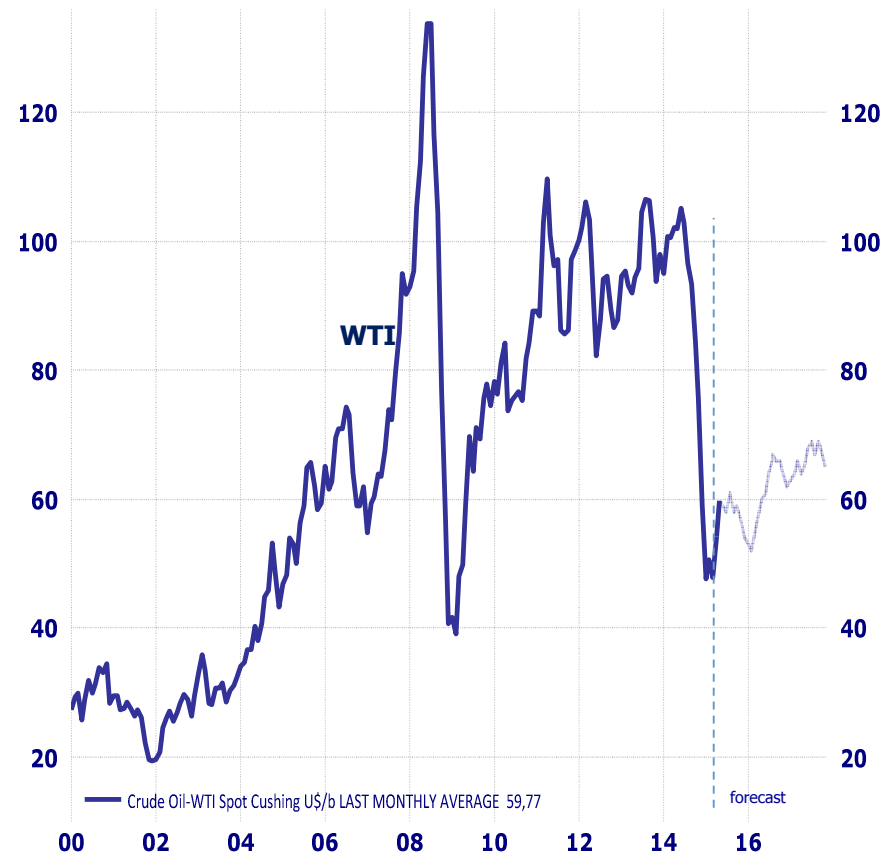
WTI OIL

ANNUAL AVERAGE PRICES (\$/b) AND CHANGES

	WTI price	BRENT price	WTI %	BRENT %
1999	19,3	17,9	34,0	40,5
2000	30,4	28,4	57,1	58,4
2001	25,9	24,4	-14,6	-14,2
2002	26,2	25,0	0,9	2,6
2003	31,1	28,8	18,9	15,2
2004	41,4	38,2	33,2	32,7
2005	56,6	54,5	36,6	42,6
2006	66,0	65,2	16,7	19,6
2007	72,3	72,5	9,5	11,3
2008	99,6	96,9	37,7	33,6
2009	61,8	61,6	-37,9	-36,4
2010	79,5	79,6	28,6	29,3
2011	94,9	111,4	19,4	39,9
2012	94	112	-0,9	0,2
2013	98	109	4,1	-2,7
2014	93	99	-4,9	-8,9
2015	54,6	61,3	-41,4	-38,0
2016	61,8	68	13,1	11,0

WTI \$, SPOT PRICES AND FORECAST

Average monthly data



RECOVERY'S RISKS

The principal sources of recovery could have a downside:

- Less expansive ECB policy if inflation picks up moderately
- Increase in US interest rates (stronger financial than real effects)
- Return of credit crunch if NPLs increase
- Exchange rate appreciation
- Adjustment /marked volatility on stocks' and bonds' prices
- Recovery in USA and China's growth further slowing down
- Raising energy prices
- Further fiscal crunch
- GREXIT / BREXIT, Greece's default
- Worsening political sceanrio in Ukraine and North Africa.



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