



# Global Economy Report

November-December 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 November 16, 2015**

- ❖ In the October report, the IMF trimmed its growth estimates. The global GDP growth rate was cut by two tenths at 3.1% in 2015 and at 3.6% in 2016.
- ❖ Developed economies should grow by 2.0% this year and by 2.2% the next; emerging economies by 4.0% and by 4.5% respectively.
- ❖ The decrease in growth intensity this year compared to 2014 (from 3.4% to 3.1%) is due to slower acceleration in growth in some OECD countries in the first semester (USA, UK, Canada and Japan), coupled with a stronger slowdown in China and deeper recession in Russia and Brazil, with widespread negative effects in all emerging markets.
- ❖ Acceleration in 2016 will take place thanks to stronger growth in major economies, but slowdown in China and recession in Brazil and Russia will persist.

- ❖ Among developed economies, the high level of debt and the attempt to reduce it are among the main causes of weak growth, a phenomenon that is public as well as private.
- ❖ In Europe, this phenomenon adds on to weaknesses due to government debt crisis and credit crunch.
- ❖ Debt, deleveraging and the recurring uncertainty phases, together with past issues, cause very weak capital investment spending. Export is recovering but negatively influenced by low growth in Asia and continuing crisis with Russia. Private consumption appears instead steady.

- ❖ In China, the principal macroeconomic variables are now on sensibly lower trajectories, also compared to the recent past.
- ❖ The stock boom, a declining cycle beyond expectations due to the change of development model, macroeconomic imbalances, some doubt on the capacity of economic policy to limit the weakness and, finally, the decision to devalue the yuan in three stages (11-12-13 August), have given way to a very intense currency contagion and an exceptional increase in risk aversion, causing new drops in raw materials' prices, with an intensification in deflationary impulses in a strong and rapid vicious circle.

- ❖ The risk of systemic contagion with a short circuit between finance and real economy is still present, although not quite clear cut.
- ❖ The Fed's monetary policy decisions are thus very important. Now the normalisation phase of American monetary policy seems very close. While its effects on the real economy will be likely minor, those on the financial markets could still be major.
- ❖ The ECB seems instead at least partly unsatisfied by its quantitative easing, so that it plans another action in December, although the most recent data on core inflation seem slightly better.
- ❖ In this report we present a special focus on the Euro area and its major members.



# EXECUTIVE SUMMARY

	2009	2010	2011	2012	2013	2014	2015E	2016E
<b>GDP (%YOY)</b>								
US	-2.8	2.5	1.6	2.3	2.2	2.4	2.4	2.3
EUROZONE	-4.5	2.0	1.6	-0.9	-0.4	0.9	1.5	1.4
GERMANY	-5.6	4.2	3.6	0.4	0.1	1.6	1.4	1.5
FRANCE	-2.9	2.0	2.1	0.2	0.7	0.2	1.1	1.3
ITALY	-5.5	1.7	0.6	-2.8	-1.7	-0.4	0.7	1.3
UK	-4.3	1.9	1.6	0.7	1.7	2.9	2.4	2.0
JAPAN	-5.5	4.7	-0.4	1.7	1.6	-0.1	0.6	1.0
BRAZIL	-0.2	7.6	4.0	1.8	2.8	0.2	-2.7	-0.9
RUSSIA	-7.8	4.5	4.3	3.4	1.3	0.6	-3.9	0.3
INDIA	6.4	8.9	7.5	5.1	4.6	7.2	7.3	7.5
CHINA	9.2	10.4	9.3	7.7	7.7	7.3	6.8	6.5
AUSTRALIA	1.5	2.3	2.7	3.6	2.0	2.8	2.3	2.6
KOREA	0.7	6.5	3.7	2.3	2.9	3.3	2.5	3.0
<b>INFLATION (%YOY)</b>								
US	-0.3	1.6	3.2	2.1	1.5	1.6	0.2	1.5
EUROZONE	0.3	1.6	2.7	2.5	1.4	0.4	0.1	1.1
GERMANY	0.2	1.1	2.5	2.1	1.6	0.8	0.3	1.4
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	0.2	1.0
UK	2.2	3.3	4.5	2.8	2.6	1.5	0.1	1.3
JAPAN	-1.3	-0.7	-0.3	0.0	0.4	2.7	0.7	0.8
BRAZIL	4.9	5.0	6.6	5.4	6.2	6.3	8.8	6.4
RUSSIA	11.7	6.9	8.5	5.1	6.8	7.8	15.3	7.9
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	1.6	2.0
AUSTRALIA	1.8	2.9	3.3	1.8	2.5	2.5	1.6	2.4
KOREA	2.8	3.0	4.0	2.2	1.3	1.3	0.8	1.7

Banca Aletti Forecast

Cons. Bloomberg (Nov15)

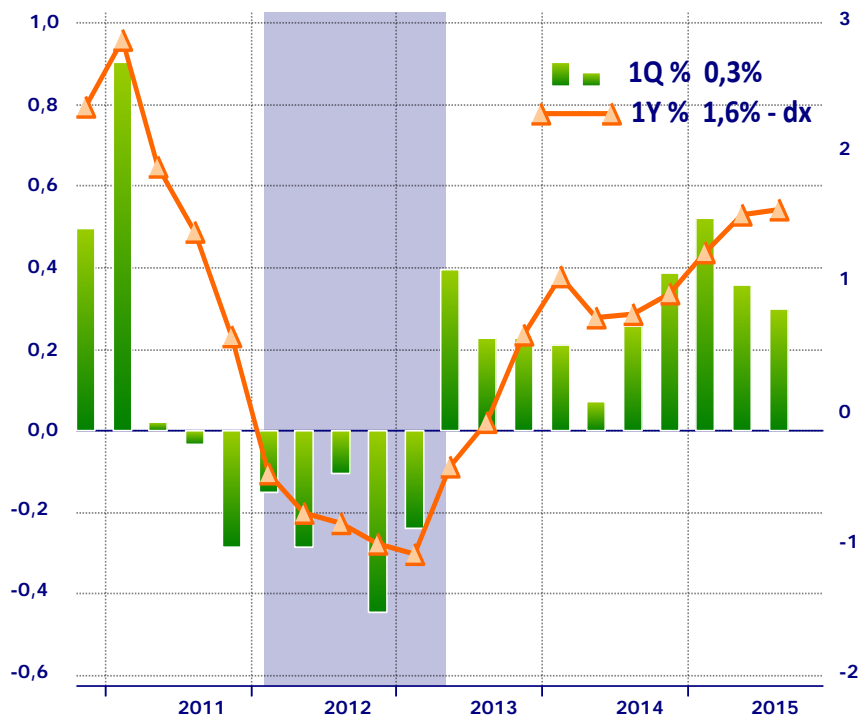
Historical Data

# The Euro Area Outlook



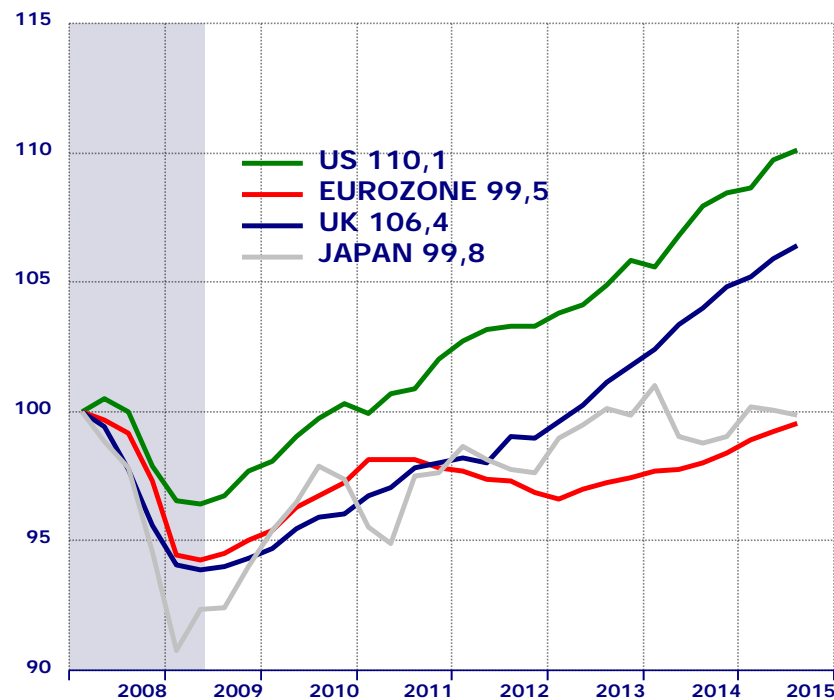
In the third quarter 2015, aggregate income grew by 0.3% compared to previous period, growing for the tenth quarter in a row. On a year on year basis, the increase was at 1.6%, highest since 2011. Recovery's intensity is still largely inferior to Anglosaxon economies and also compared to Japan's.

## GDP DYNAMICS



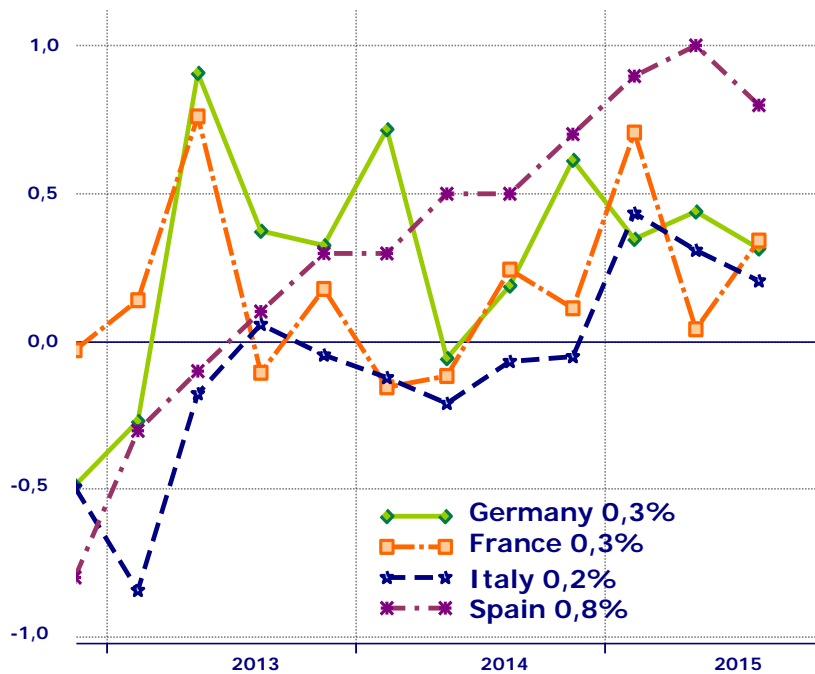
## GDP COMPARISON

Adjusted values, 2008=100

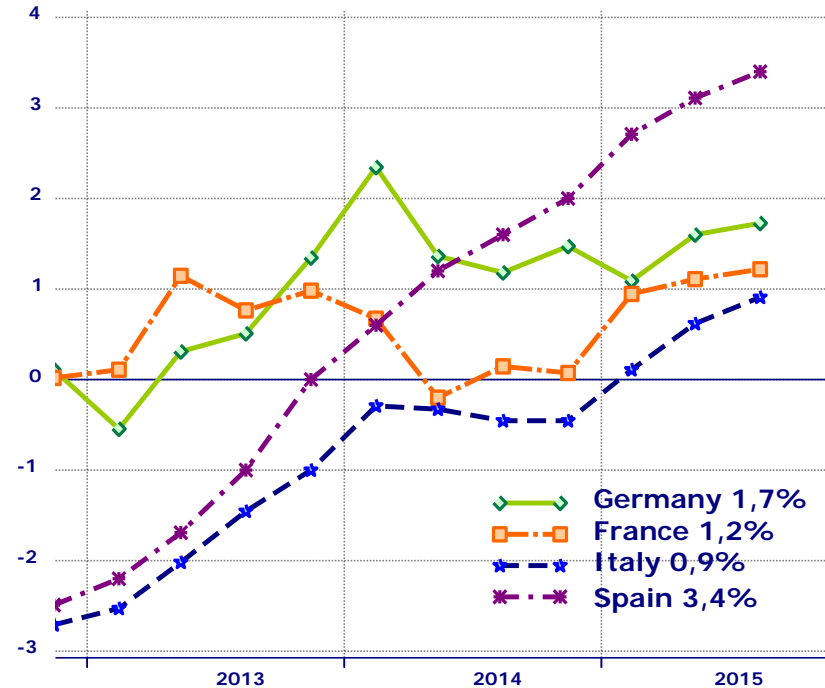


GDP growth has occurred simultaneously in the major economies of the Union. In Germany income grew by 0.3%, as in France; in Italy growth was at +0.2%, in positive territory for the third consecutive quarter, though a bit smaller than expected. Spain confirmed its' growth rates well above European average.

### QoQ CHANGES

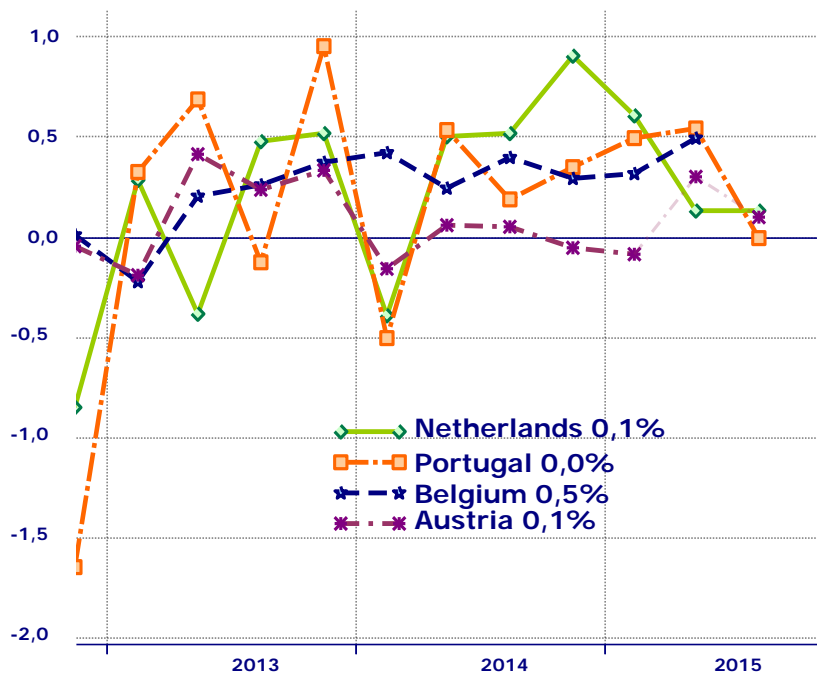


### YoY CHANGES

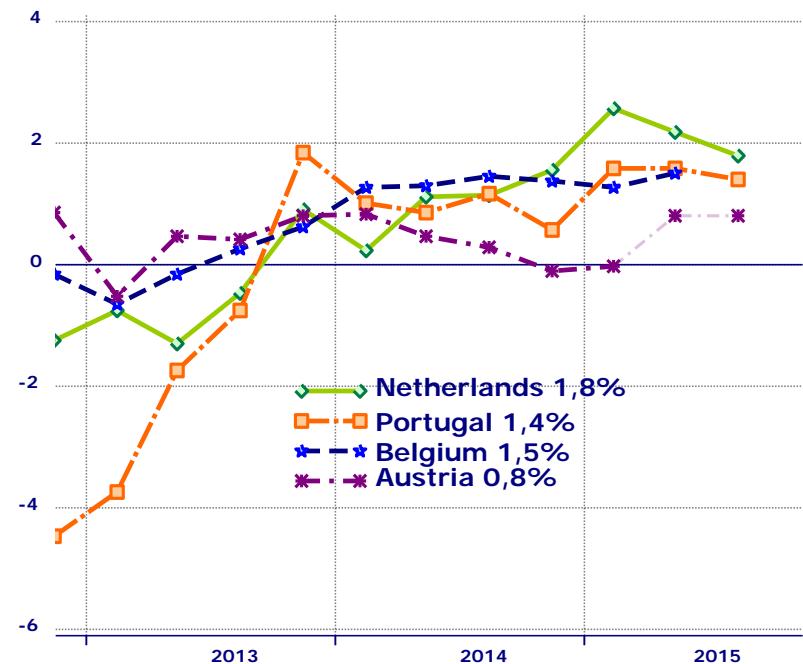


Among minor economies we observe moderate growth, but with different impulses. Portugal was stagnant, after five consecutive growth quarters, as well as Austria and The Netherlands.

### QoQ CHANGES

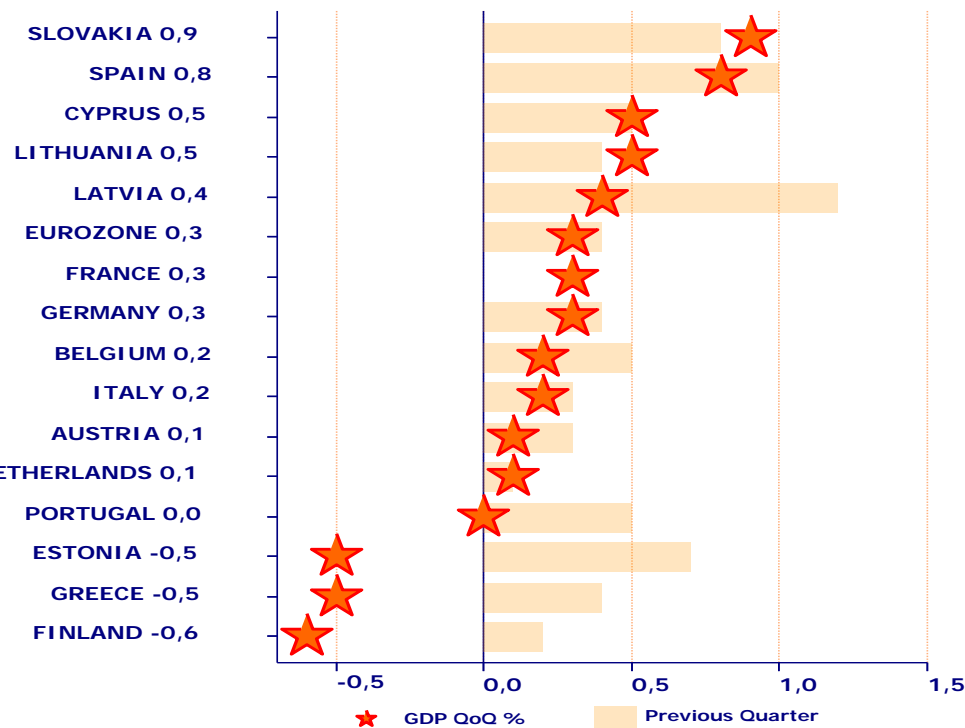


### YoY CHANGES

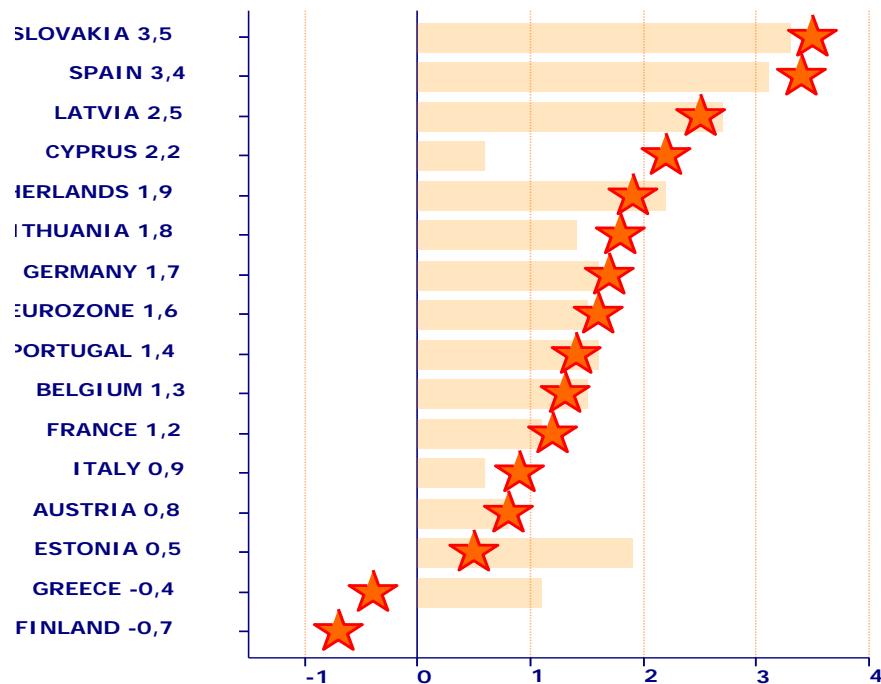


Slovakia has been the most dynamic economy in the third quarter of 2015, followed by Spain, the only large economy in the leading pack. Three countries remain in the negative area.

## QoQ CHANGES

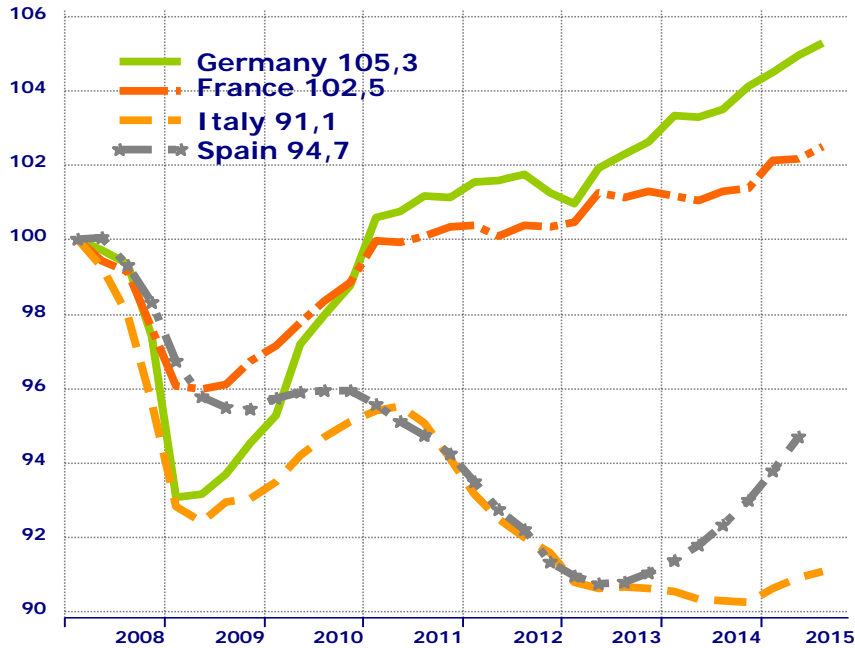


## YoY CHANGES

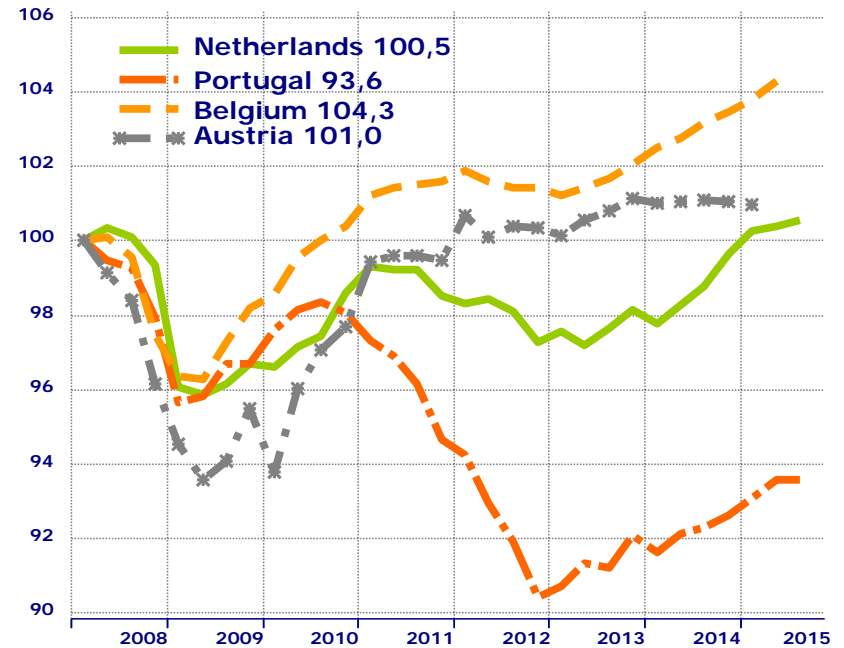


Among major economies, only Germany and France have caught up with pre-crisis income levels. Among minor economies, this condition exists for Netherlands, Belgium and Austria.

## COMPARATIVE LEVELS

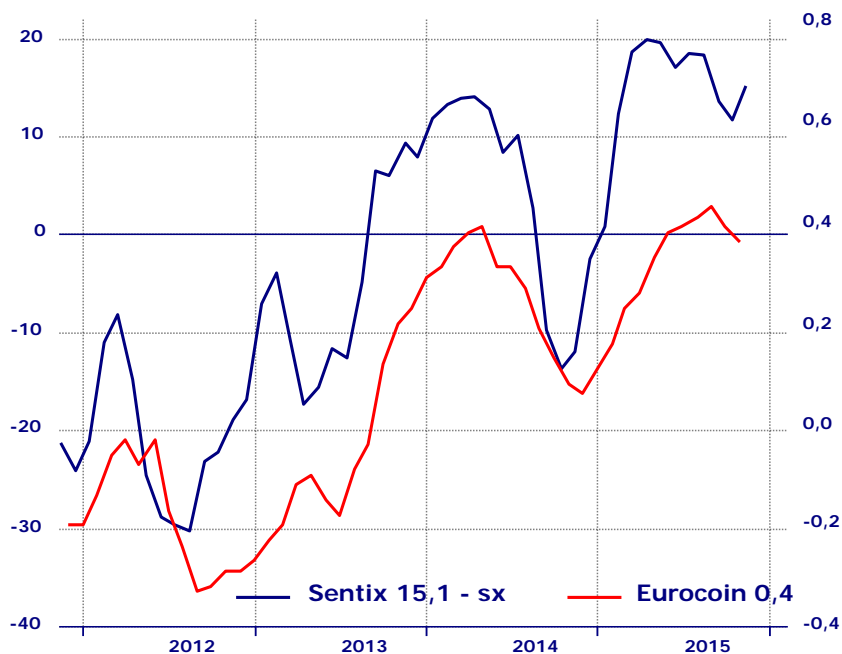


## COMPARATIVE LEVELS

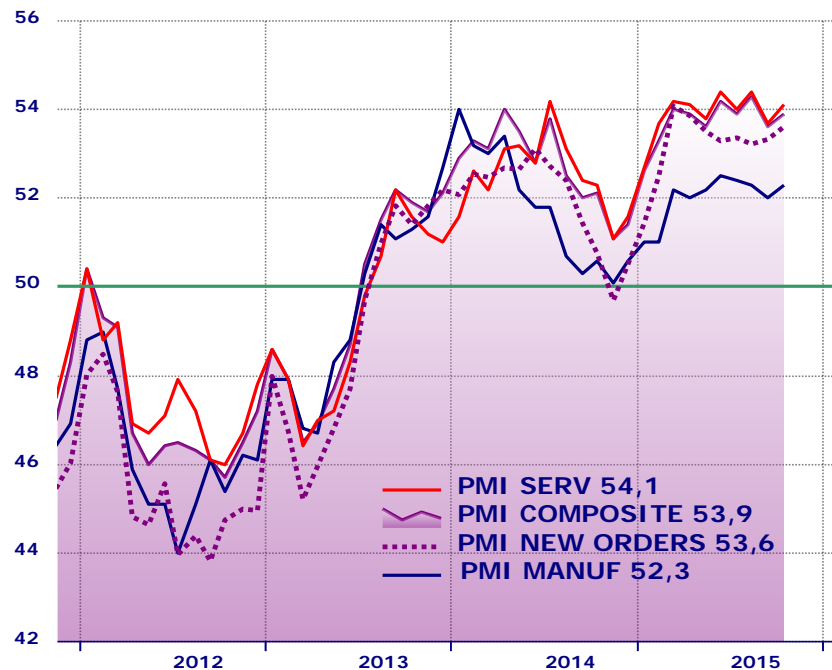


At the beginning of the fourth quarter, the level of leading indicators confirms the expansive phase of the European economy. In October, composite PMI grew by three tenths at 53.9, confirming the aggregate cycle's stability. The Sentix November index turned positive and interrupted its decline.

## LEADING INDICATORS

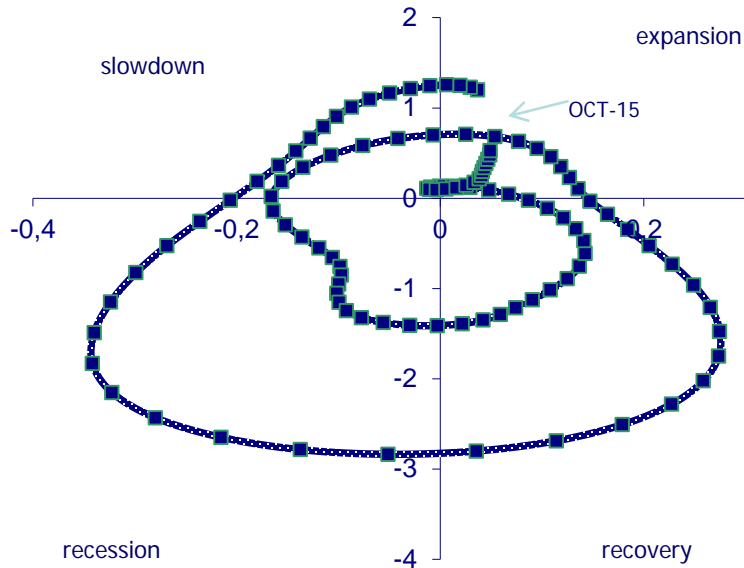


## LEADING INDICATORS

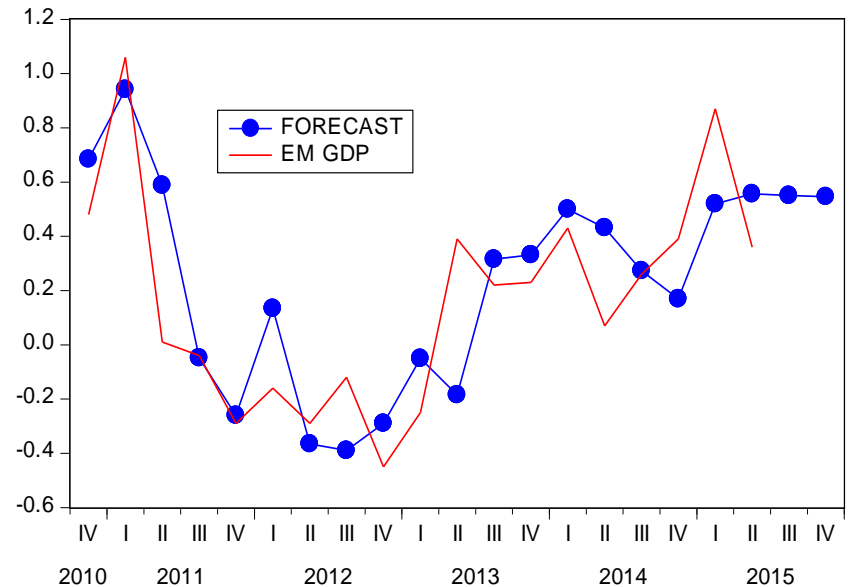


The October ESI index fixes the economic cycle in full expansion area. Leading indicators signal the continuation of the recovery phase for the fourth quarter, with a growth intensity similar to the previous quarters.

### ESI INDEX

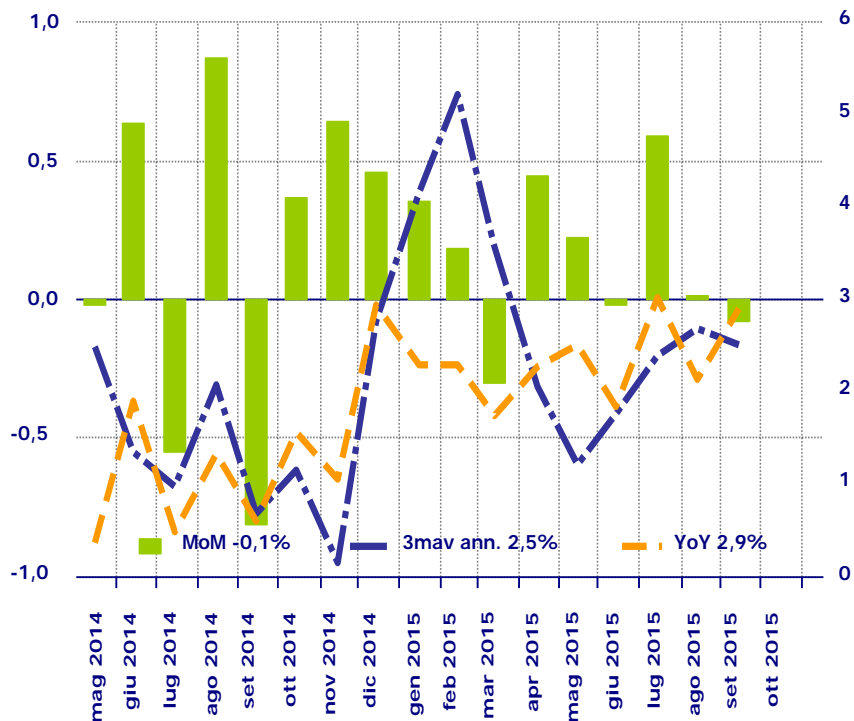


### GDP FORECAST



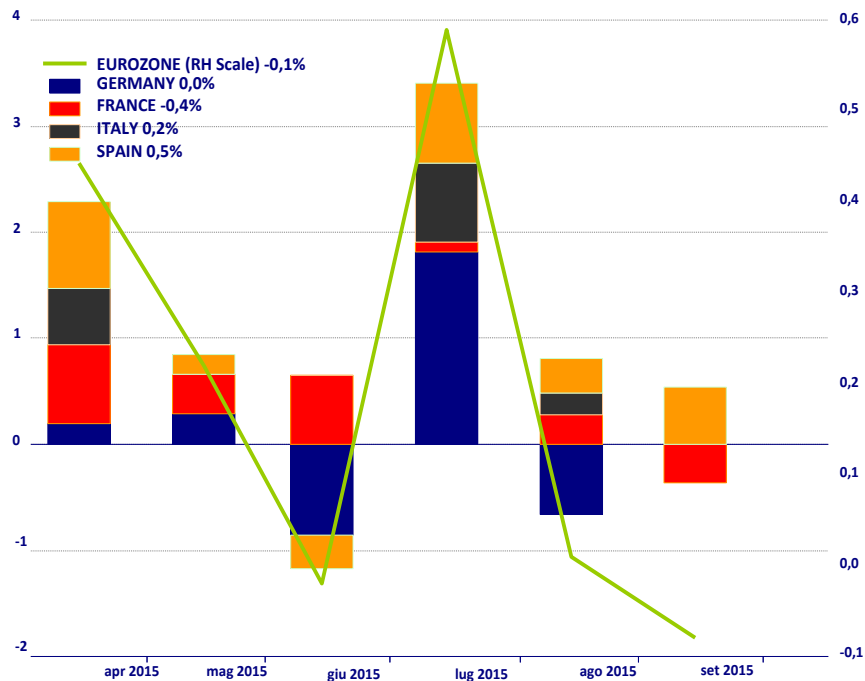
After a vigorous increase in July and a basic stagnation in August, Eurozone's aggregate retail sales have registered a modest decrease in September, by one tenth of a point compared to the previous month.

## RETAIL SALES



## QoQ CHANGES

Largest countries



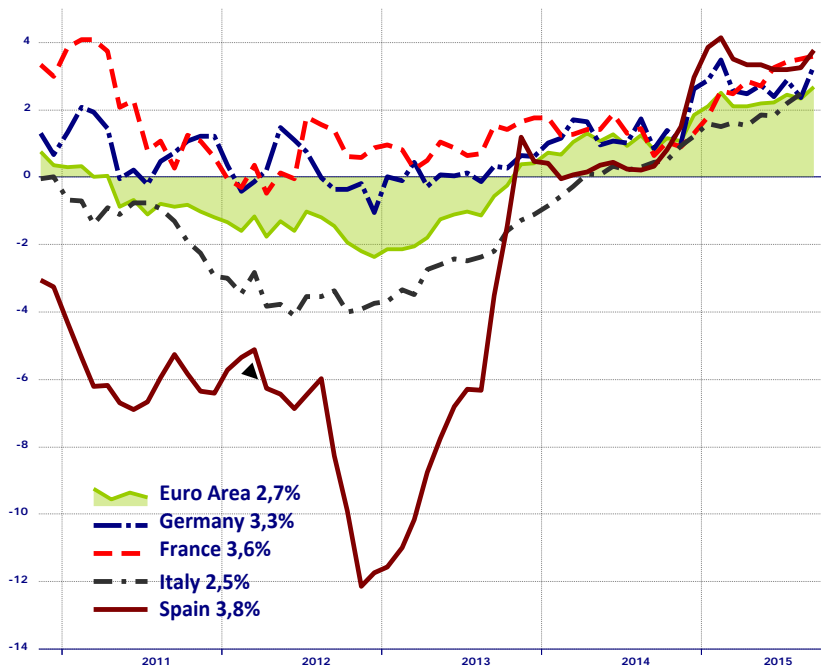


# RETAIL SALES

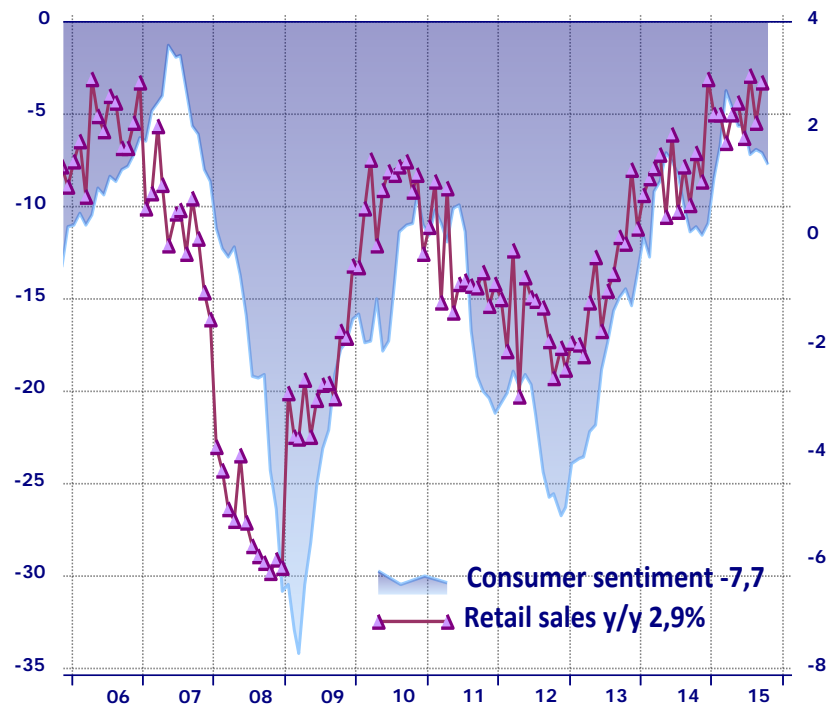
On an annual basis we foresee an acceleration in retail sales' trajectories in all of Eurozone's major economies, with increases above 2%.

## QoQ CHANGES

Major countries, qoq changes (3-month averages)



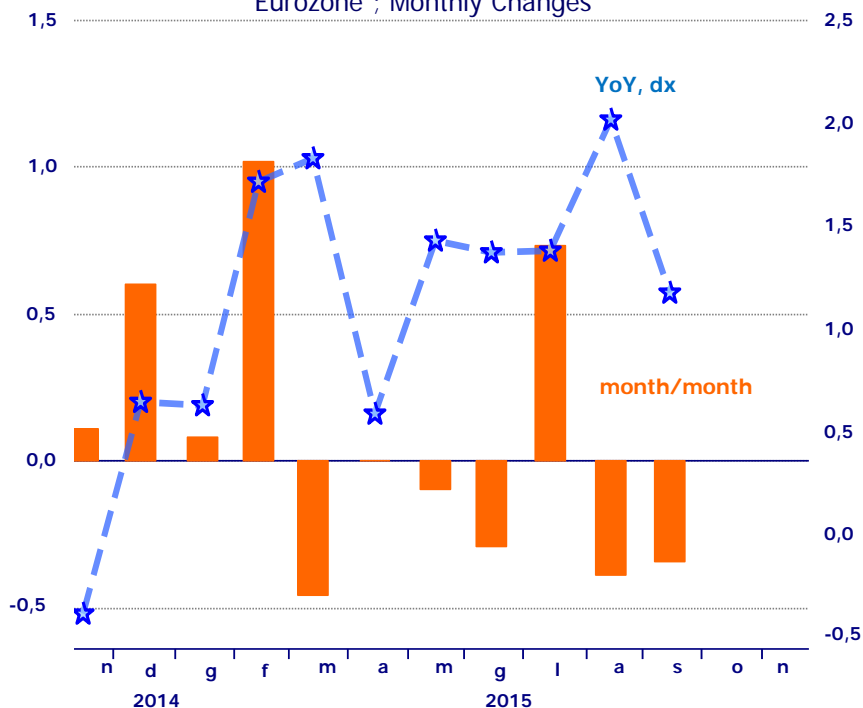
## COMPARATIVE LEVELS



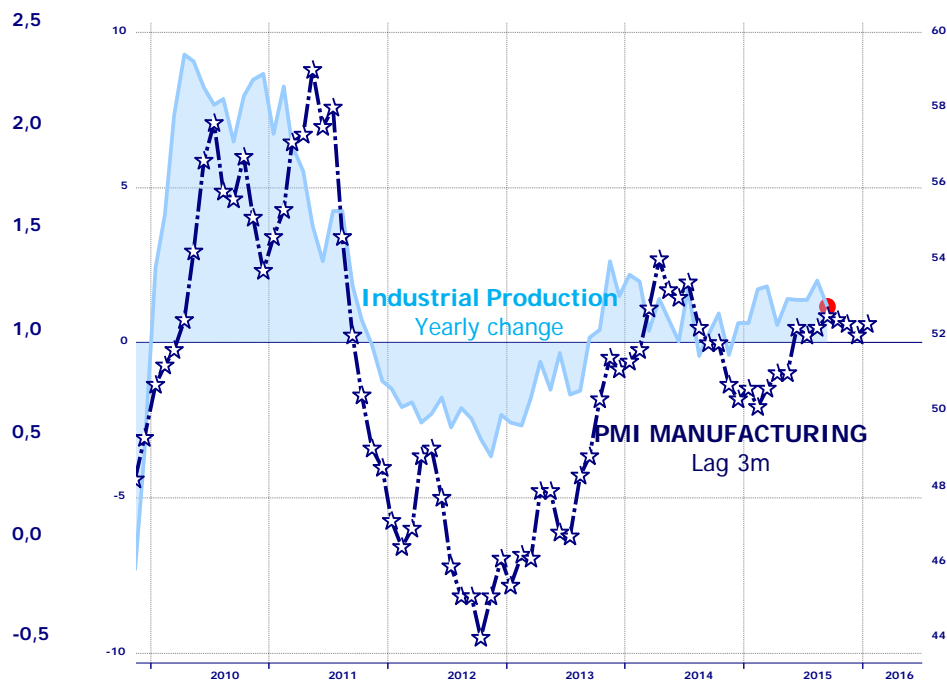
Industrial production has shown some uncertainty recently, but the leading indicator's evolution in expansive territory suggests the growth phase will continue in coming months

## INDUSTRIAL PRODUCTION

Eurozone ; Monthly Changes



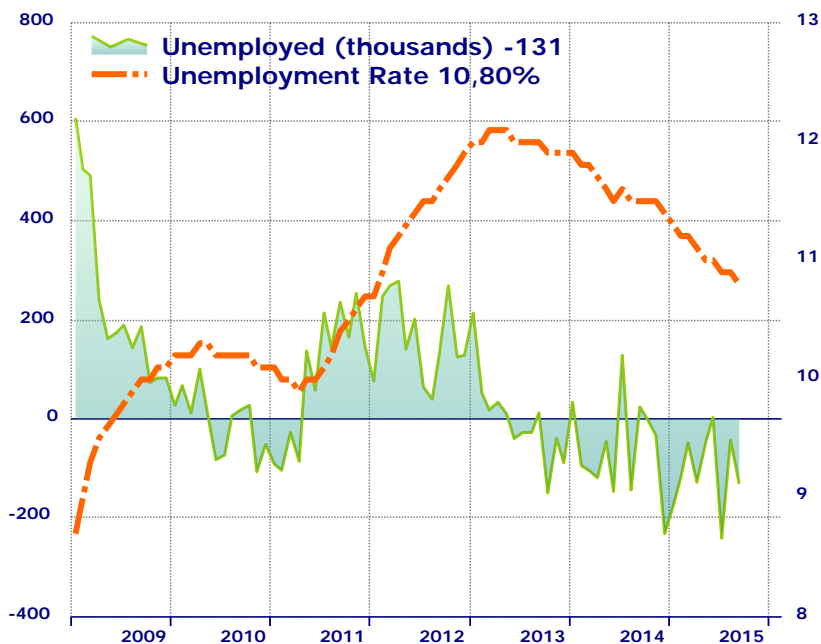
## INDUSTRIAL PRODUCTION



The labour market's trend of continuous improvement has carried on during the summer months of 2015. The leading indicator is again in expansive territory in October, supporting the gradual improvement of employment conditions.

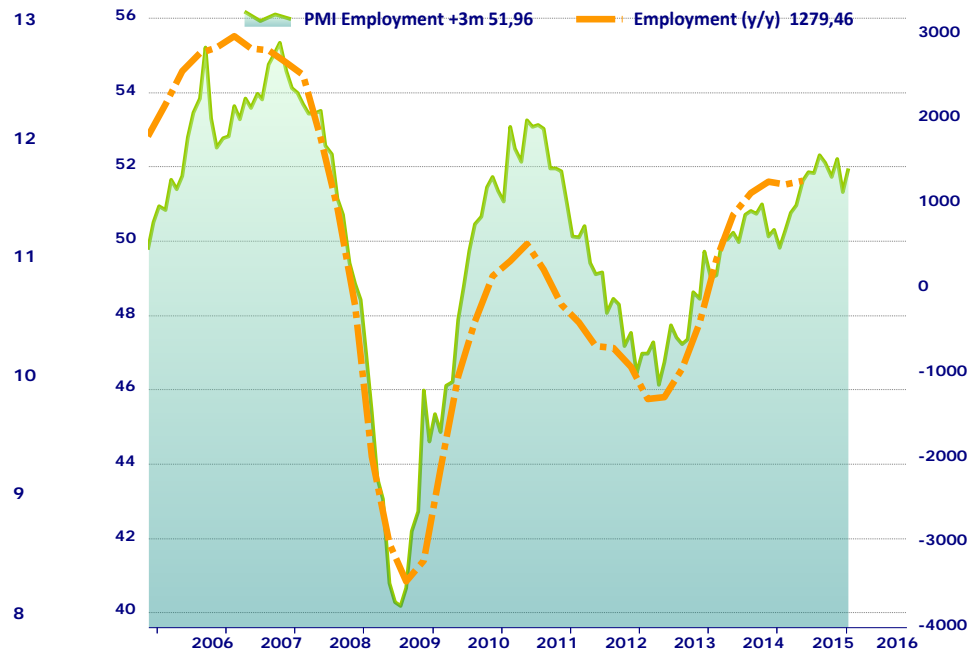
## LABOUR MARKET

Unemployment



## LABOUR MARKET

Employment and expectations

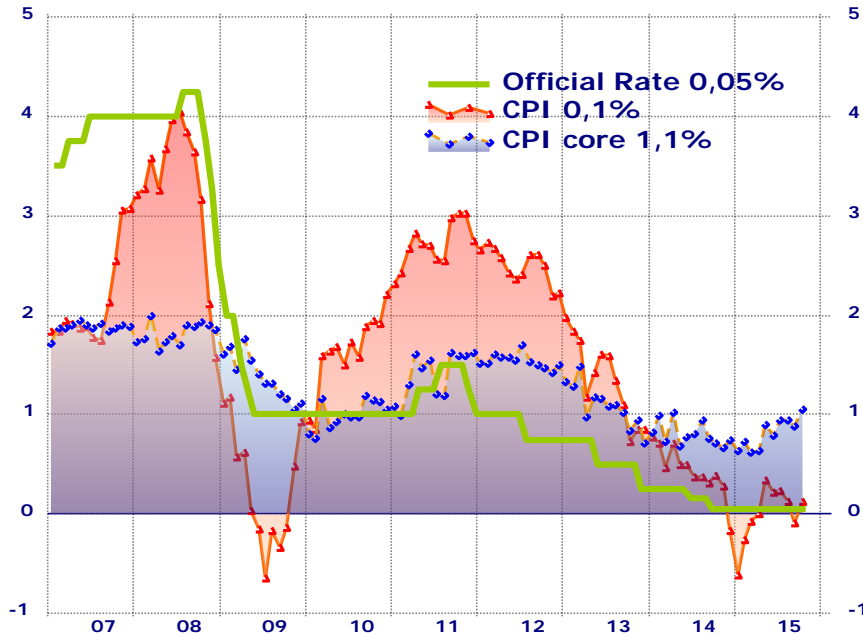


# INFLATION

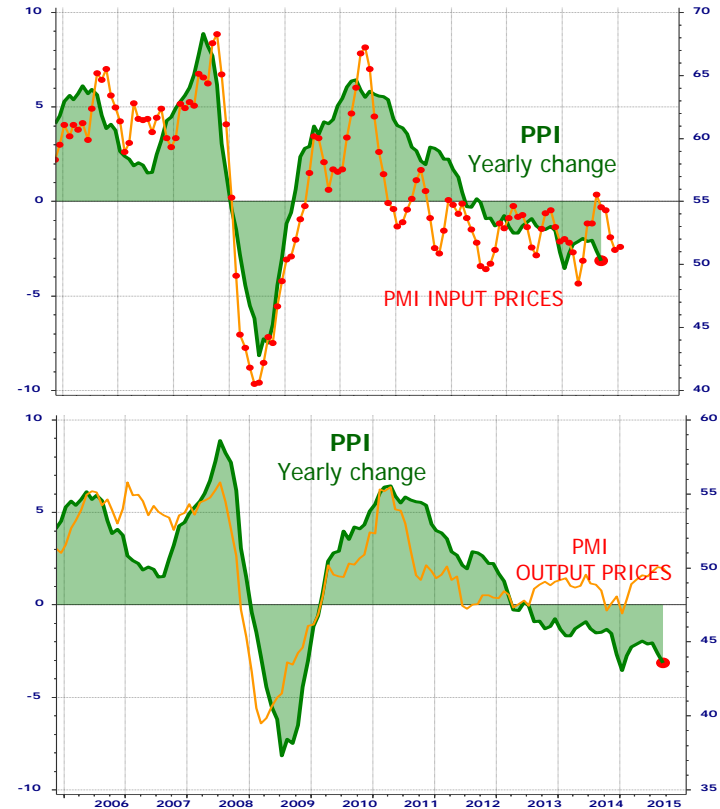
The October data indicated an upwards correction in inflation by one tenth, up to 0.1%, after the negative figure in September. The core index also grew by one tenth, at +1.1%. Producer prices (-3.1%, constantly negative since August 2013) keep inflation risks well under control.

## INFLATION AND POLICY RATE

Yearly change



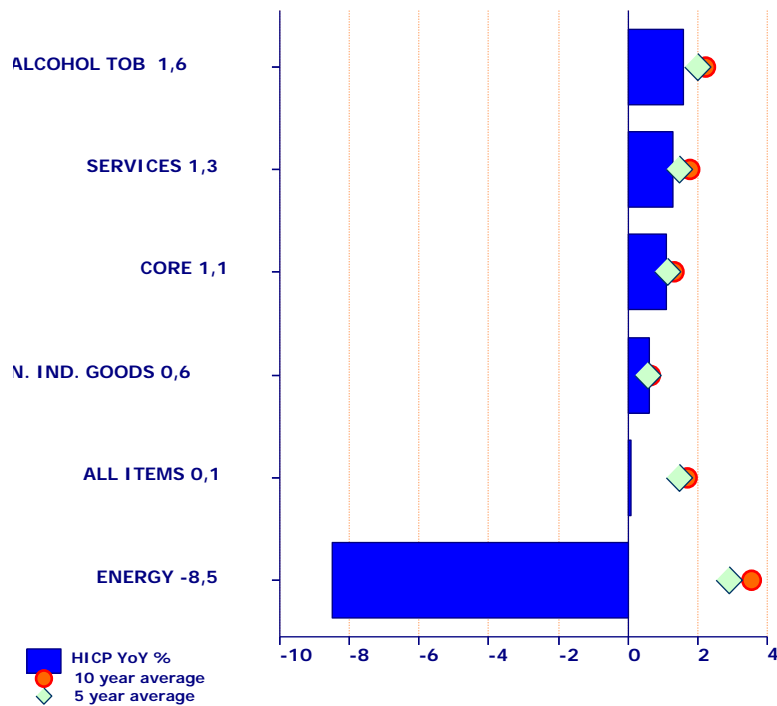
## INFLATION AND SOURCE PRICES



The October data indicated an increase in sectorial inflation, specifically in food, industrial goods (excluding energy) and services, that justify the increase in the core component. On the contrary, energy prices further increased their drop.

## INFLATION BY MACROSECTOR

Yearly change



### FOOD



### ENERGY



### INDUSTRIAL GOODS



### SERVICES

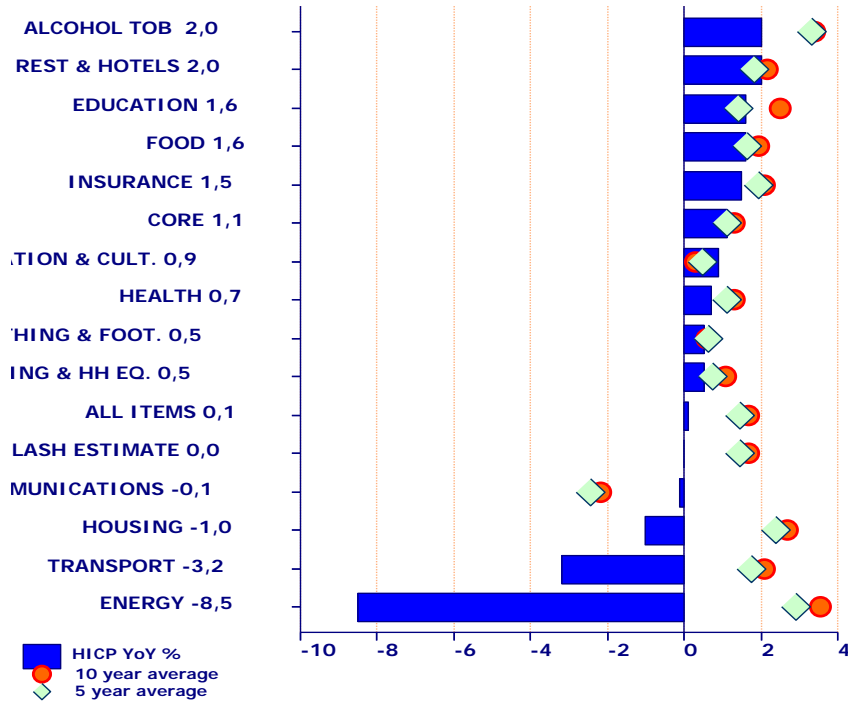


# INFLATION

Net of the energy component, Eurozone's inflation would be decidedly higher, at 1.2% in October.

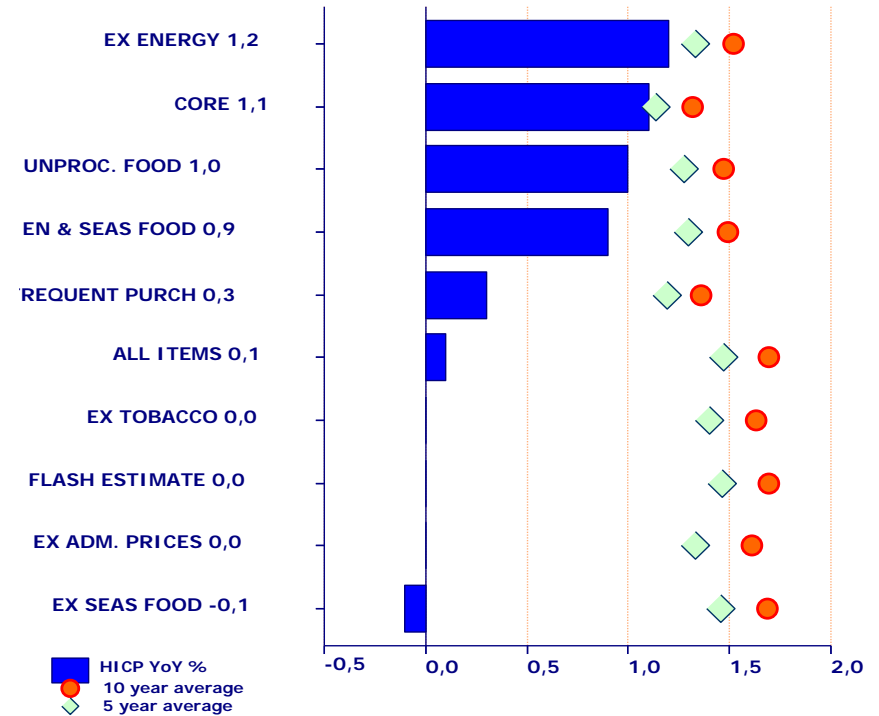
## INFLATION BY SECTOR

Changes



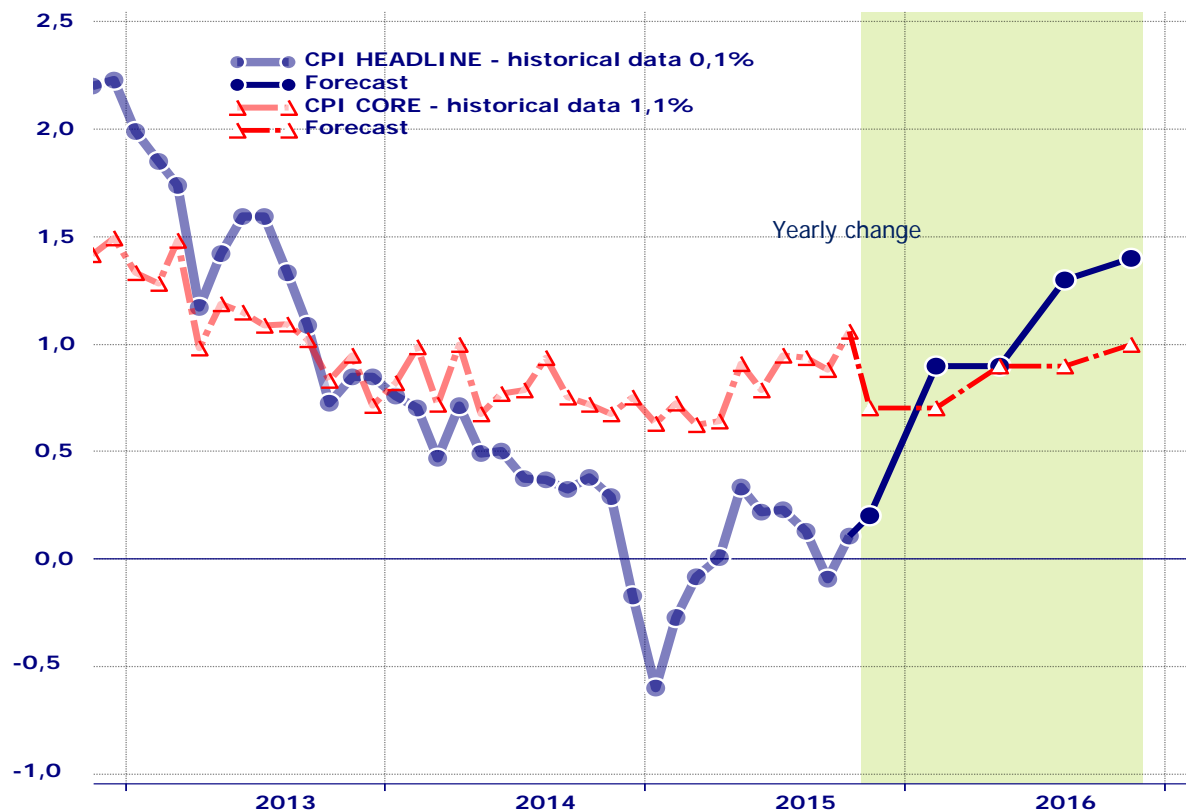
## INFLATION BY SECTOR

Changes



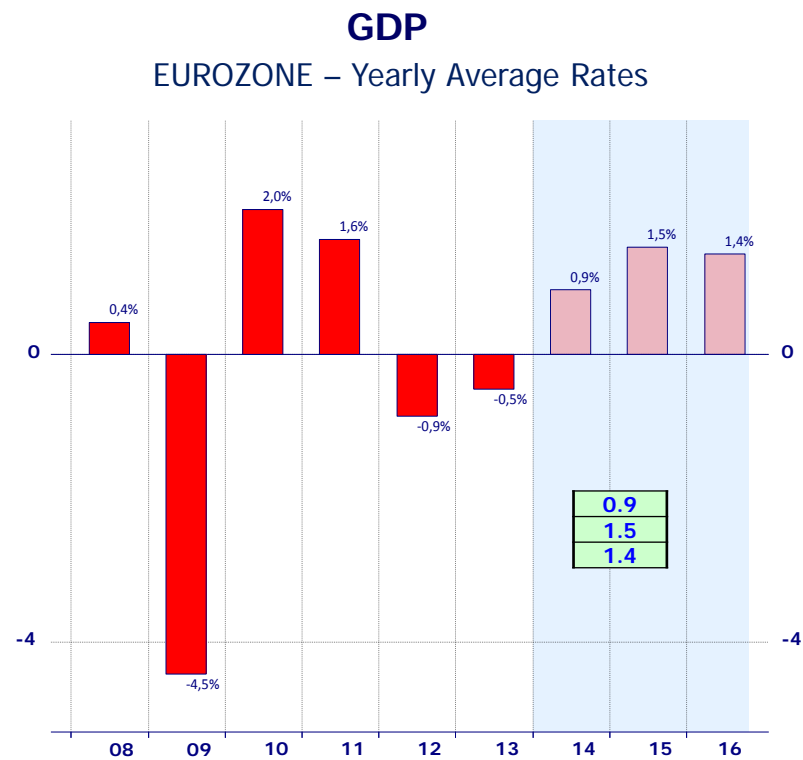
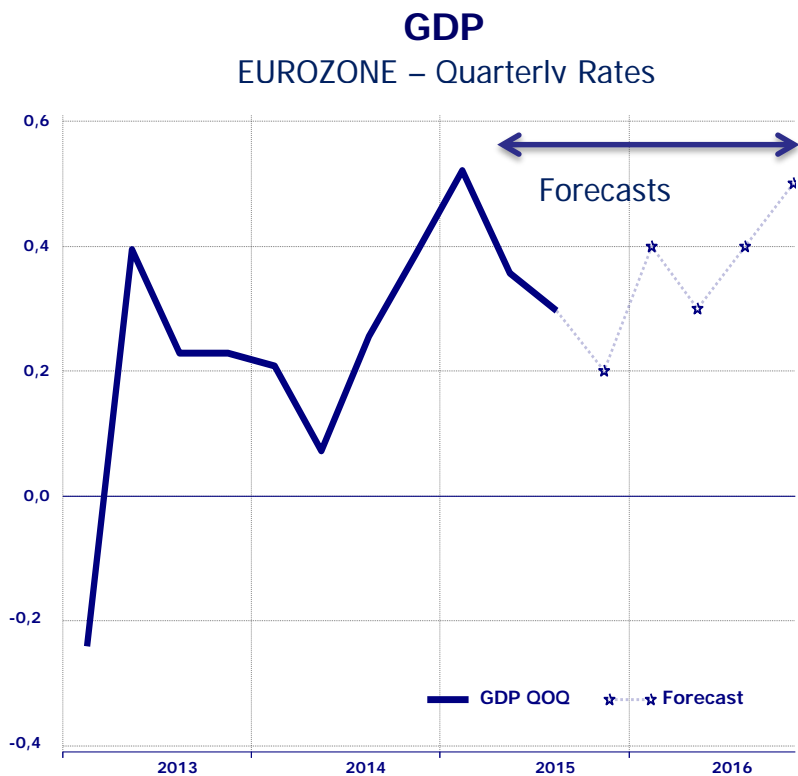
# INFLATION

In the last quarter of the year strong base effects connected to energy prices will tend to push inflation on the rise. The average rate is null in 2015 and should reach +1.1% in 2016 for the headline index; 0.8% and 0.9% for core.



# GROWTH FORECASTS

We confirm a constant and moderate growth in Eurozone GDP, though assuming a temporary slowdown in the last quarter of 2015 due to Germany's weakness. Growth forecast for the current year is at +1.5%, while for 2016 it is at +1.4%.

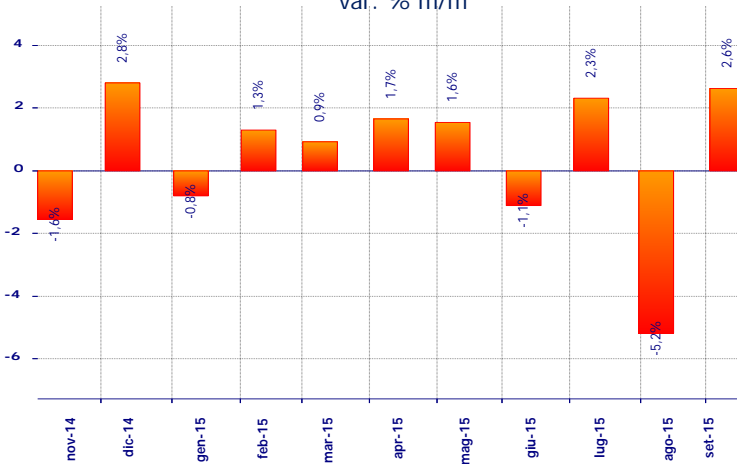




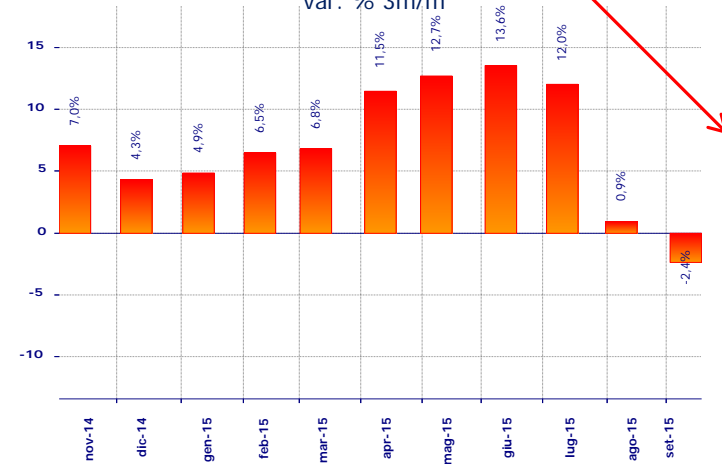
# GERMANY: FOREIGN TRADE

Germany's exports registered a modest growth in September (+2.8%), but the three month averages point toward a slowdown in the expansive impulse of foreign trade and the trend rate is at 2015 lows.

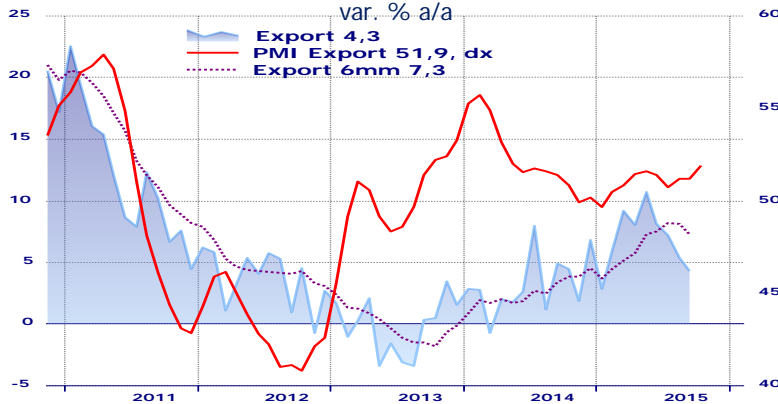
**EXPORT**  
var. % m/m



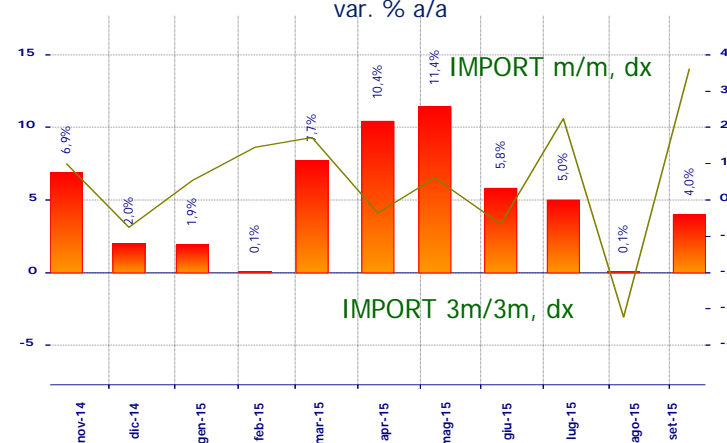
**EXPORT**  
var. % 3m/m



**EXPORT**  
var. % a/a

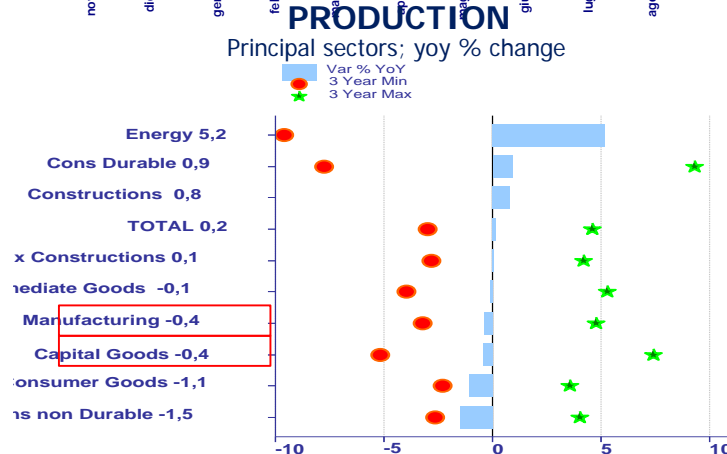
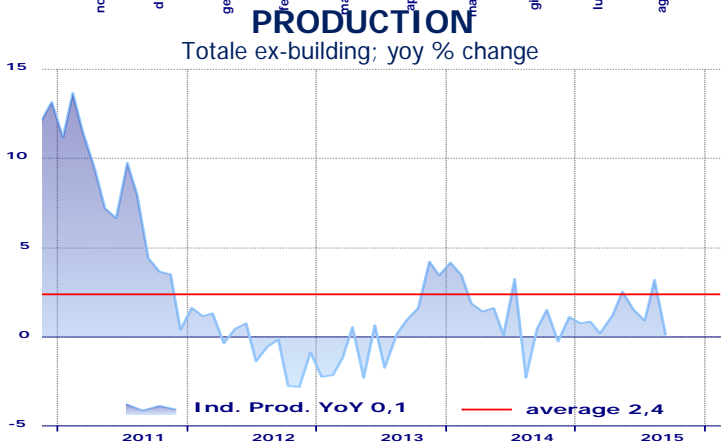
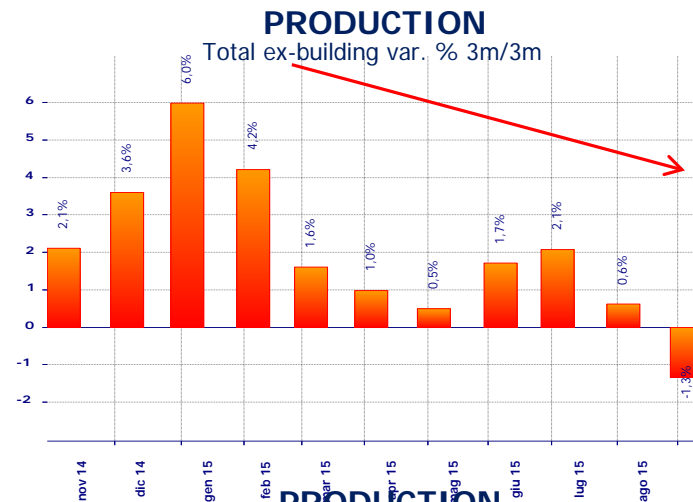
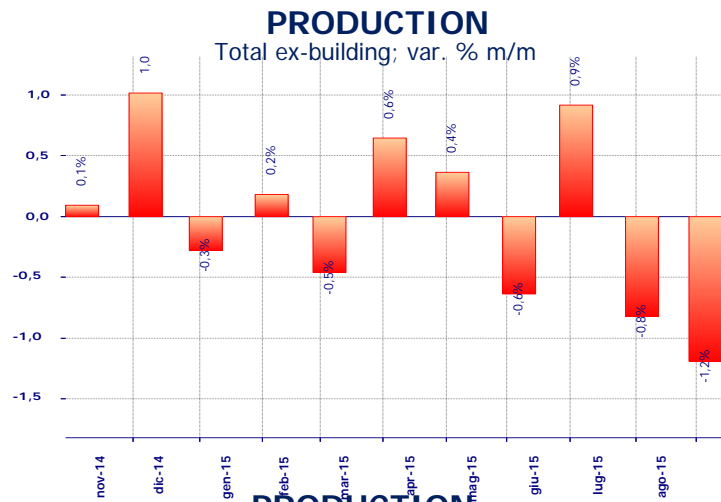


**IMPORT**  
var. % a/a



# GERMANY: INDUSTRIAL ACTIVITY

Following a double decrease in August and September, the trend growth rate of German industrial production is almost zero, indicating an output stagnation. The weakness in three month average signals an evident loss in economic activity momentum...

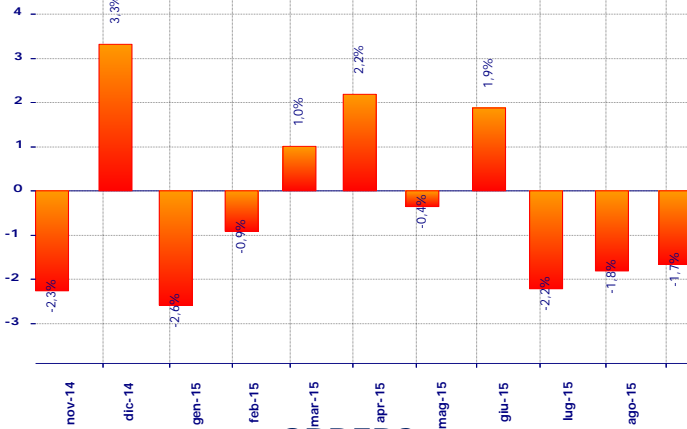


## INDUSTRIAL ACTIVITY

The triple contraction in new orders in Germany confirms the slowdown in industrial activity as suggested by production data. Qualitative surveys also confirm the persistence of an expansive base impulse in industry, highlighted by the ascending trajectory of PMI index, that thus qualifies the slowdown as temporary...

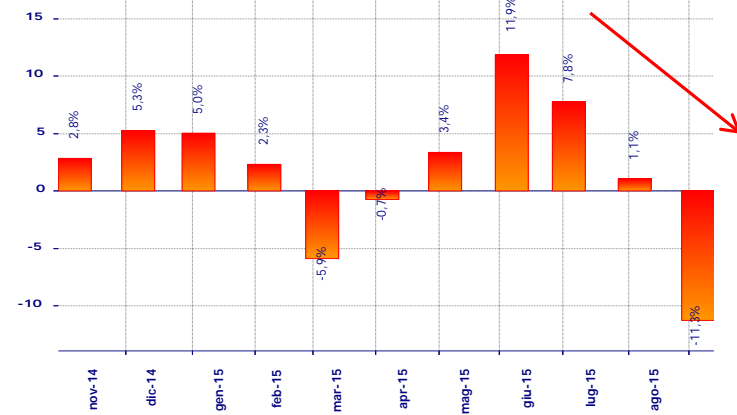
### ORDERS

Manufacturing, mom % change



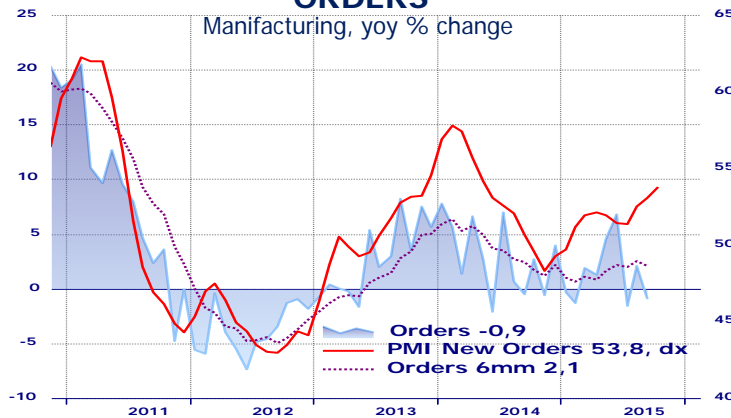
### ORDERS

Manufacturing, qoq % change



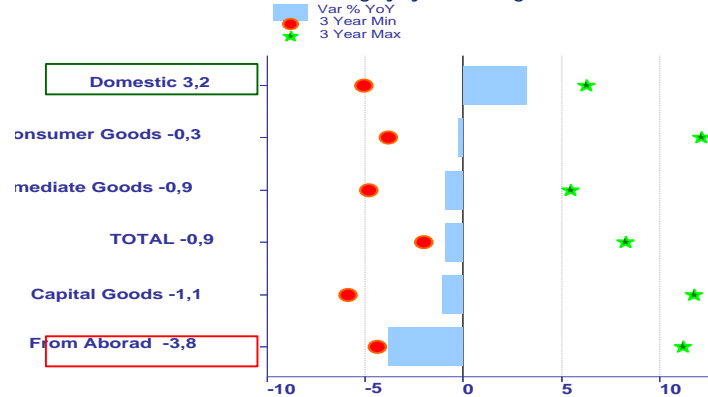
### ORDERS

Manufacturing, yoy % change



### ORDERS

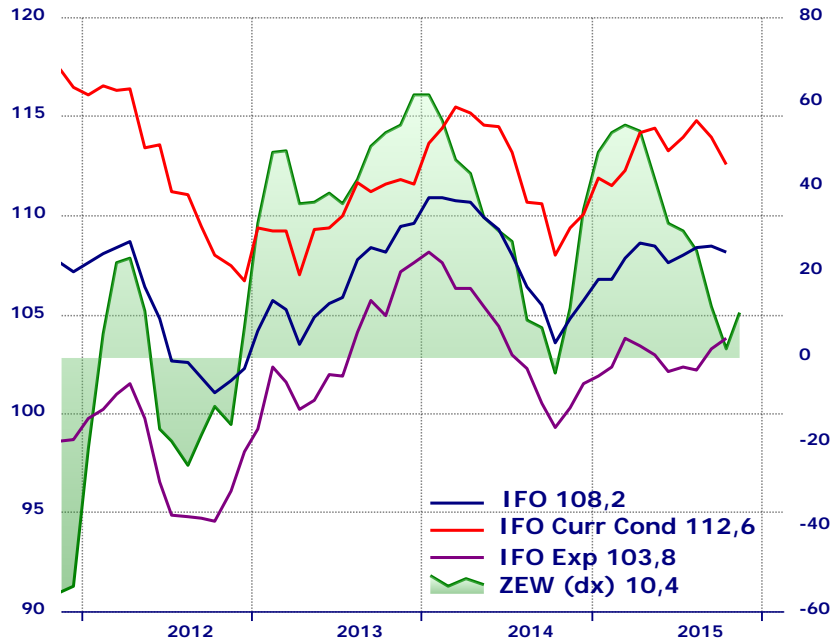
Manufacturing, yoy % change



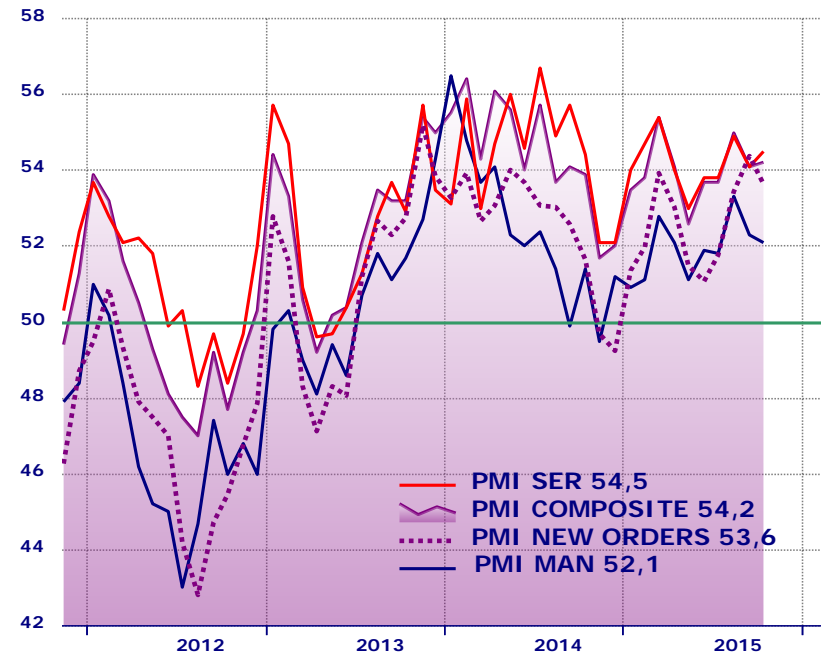
# GERMANY: BUSINESS CYCLE

Germany's leading indicators' trend is dichotomous. Those that reflect investors' sentiment like ZEW, more sensible to the cycle's short term fluctuations, have a downward trajectory for the impact of emerging markets' slowdown and the VW scandal. On the other hand, those who reflect real economic activity significantly hold their stance. The IFO index remained stable in October, on the year's highs, the PMI survey is also stable and confirms expansion's persistence.

### LEADING INDICATORS



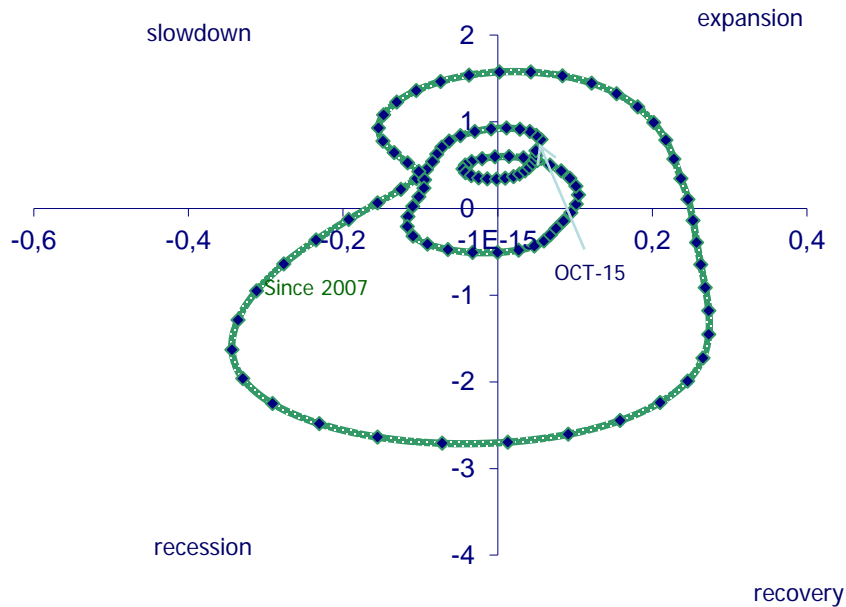
### LEADING INDICATORS



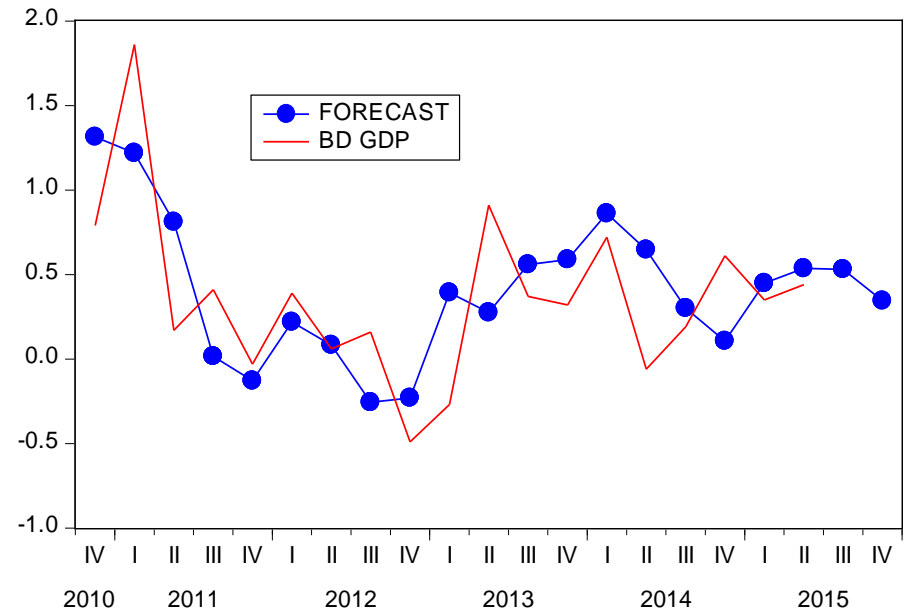
# GERMANY: BUSINESS CYCLE

Leading indicators signal the risk of a temporary slowdown in the final quarter of the year. However, the October ESI index confirms the expansive base trajectory, positioning the cycle in the highest quadrant.

### ESI INDEX



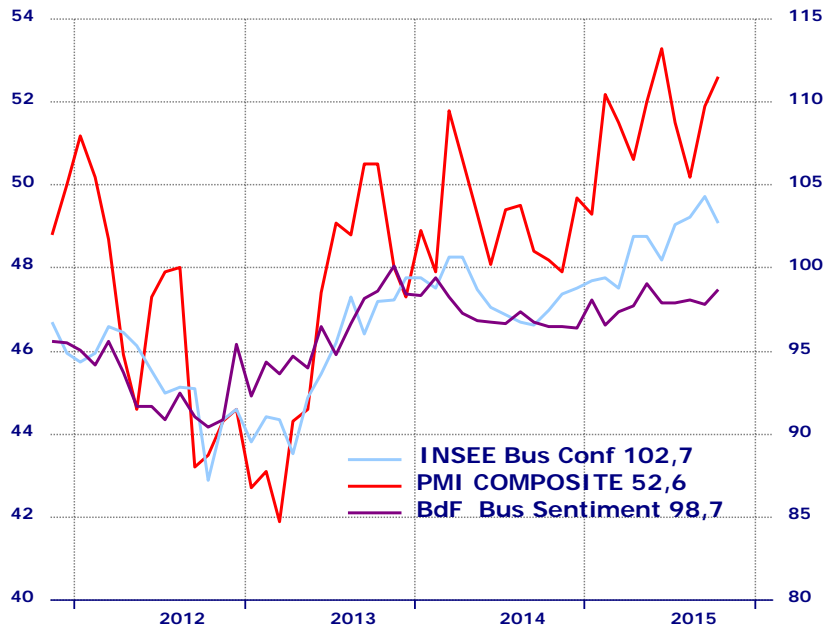
### GDP FORECAST



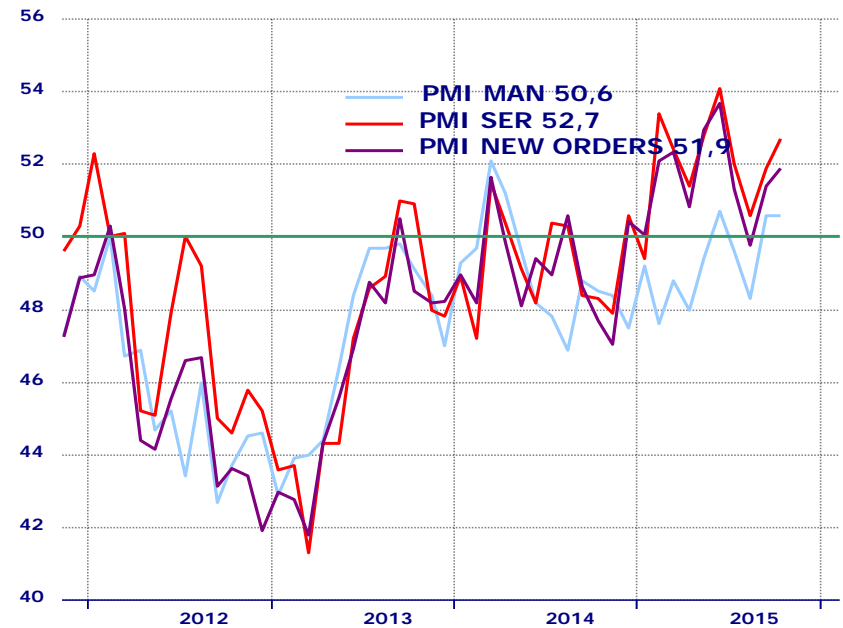
# FRANCE: BUSINESS CYCLE

The level of the French economic cycle has improved. The October composite PMI index grew at 52.6 from 51.9 in September, at a five month high, thanks to stability in the Manufacturing component (50.6, highest since April 2014) and growth in Services (52.7 from 51.9, five month high). INSEE and Bank of France confidence surveys are on several years' highs.

## LEADING INDICATORS



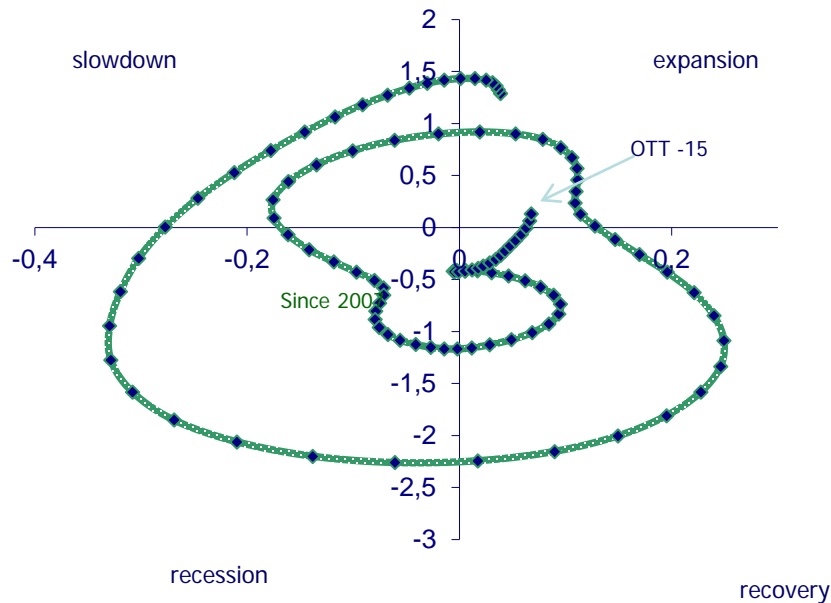
## LEADING INDICATORS



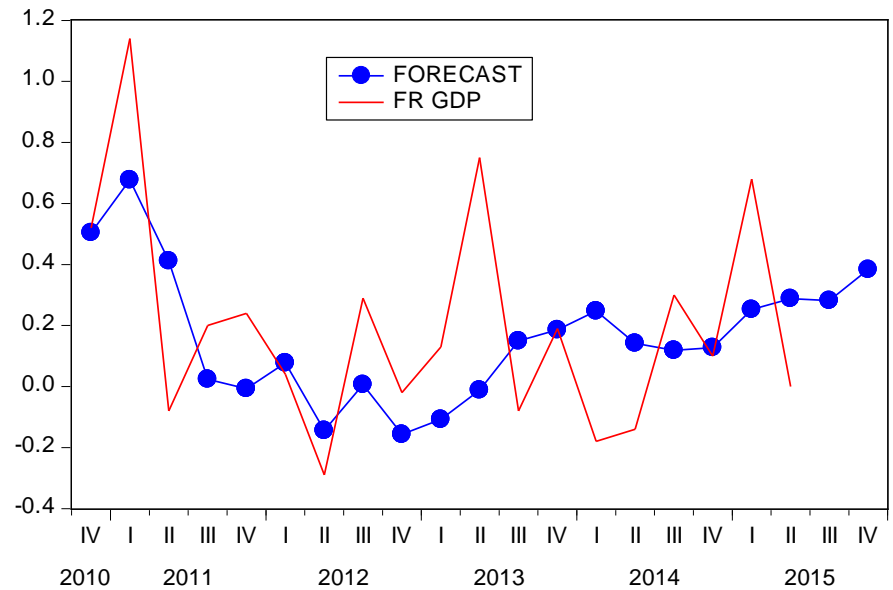
# FRANCE: BUSINESS CYCLE

The ESI index has completed the passage from recovery to expansion area, entering the highest quadrant, abandoned the last time in October 2011. The leading indicators confirm the economy's acceleration potential for the final part of the year. The terroristic attacks of 13 November are not expected to impact significantly on growth if consumers' and firms' confidence is quickly restored.

**ESI Index**



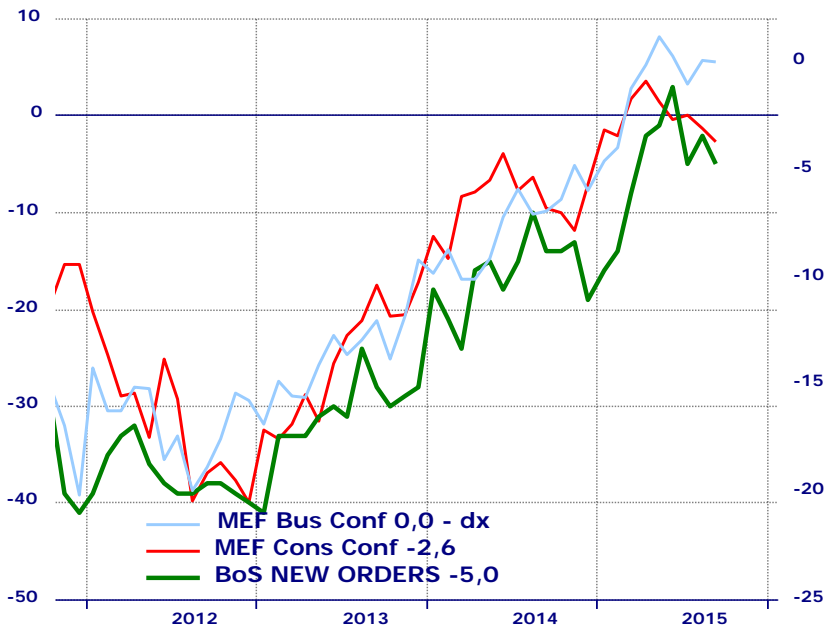
**GDP FORECAST**



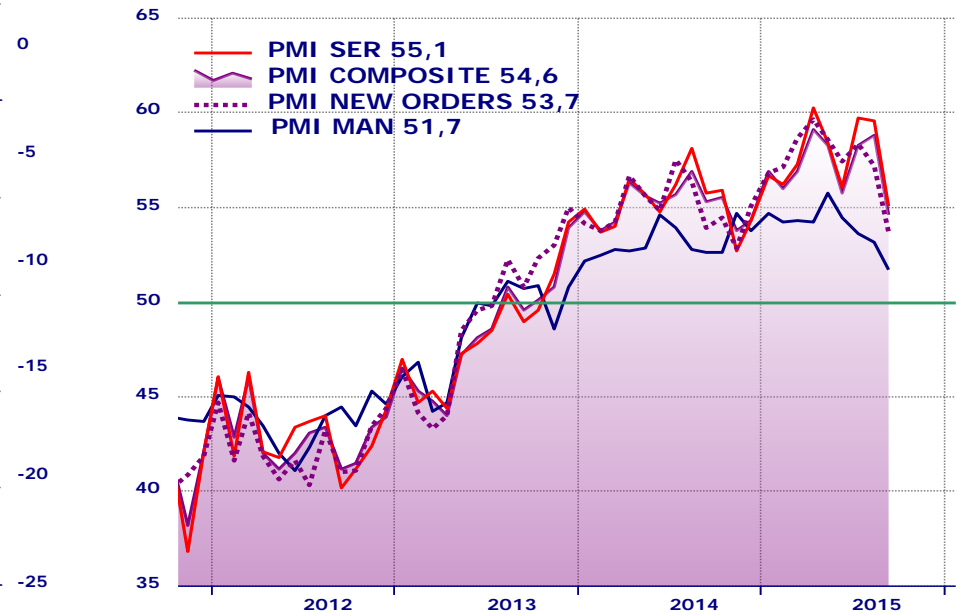
# SPAIN: BUSINESS CYCLE

Leading indicators signal decidedly a moderation in expansive intensity compared to past highs.

### LEADING INDICATORS



### LEADING INDICATORS

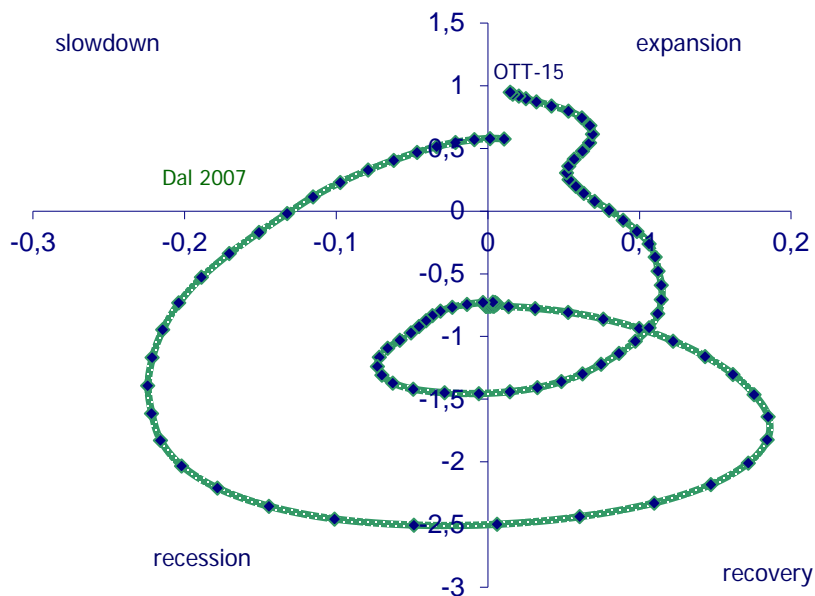




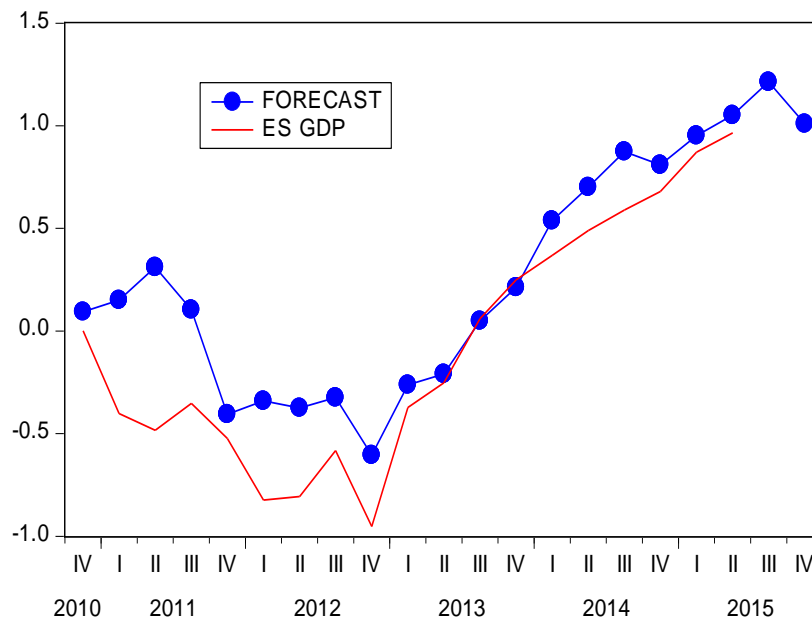
# SPAIN: BUSINESS CYCLE

Accordingly, we forecast a gradual decrease in expansive intensity in Spain for the final part of 2015, though still positive and rather large.

### ESI INDEX



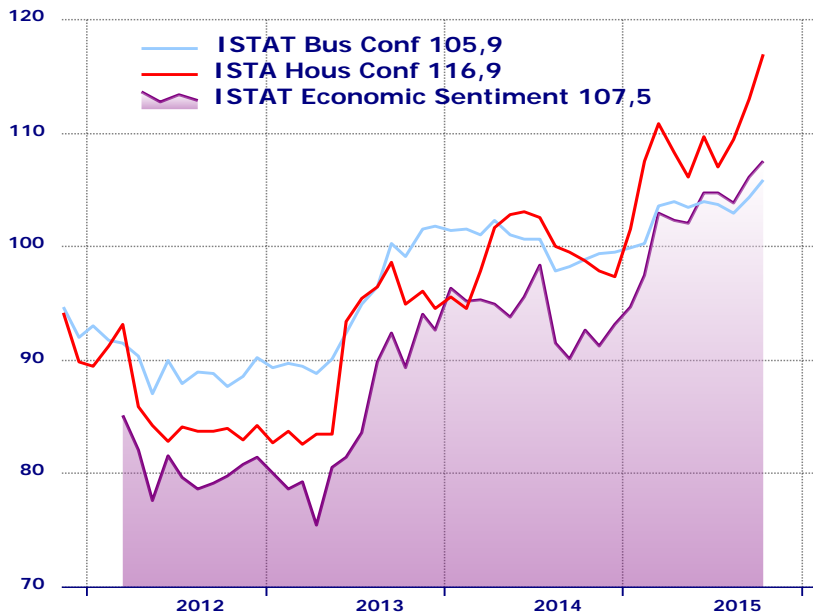
### GDP FORECAST



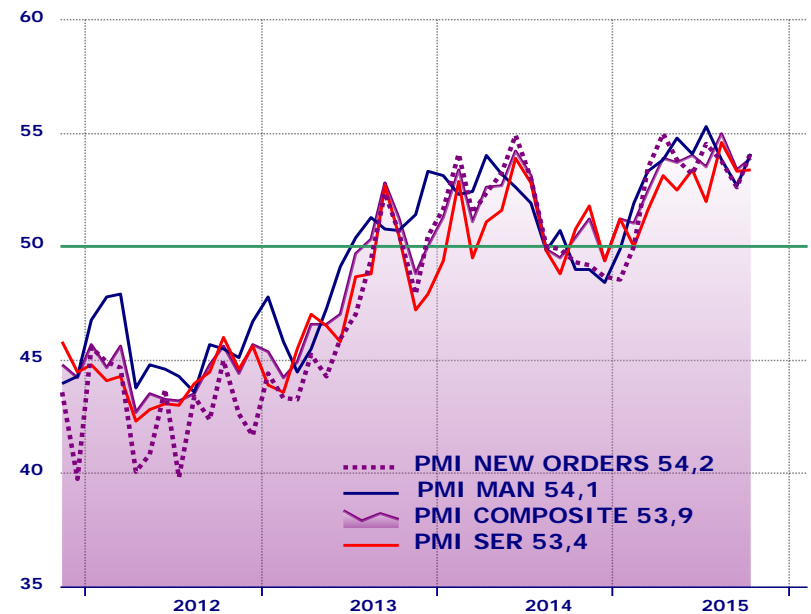
# ITALY: BUSINESS CYCLE

All leading indicators give positive signals about the Italian economy. Households' confidence, according to ISTAT, is at highest levels since 2002, business confidence is at highest since 2008, while October PMI are solidly above 50, signalling a vigorous growth of economic activity.

## LEADING INDICATORS



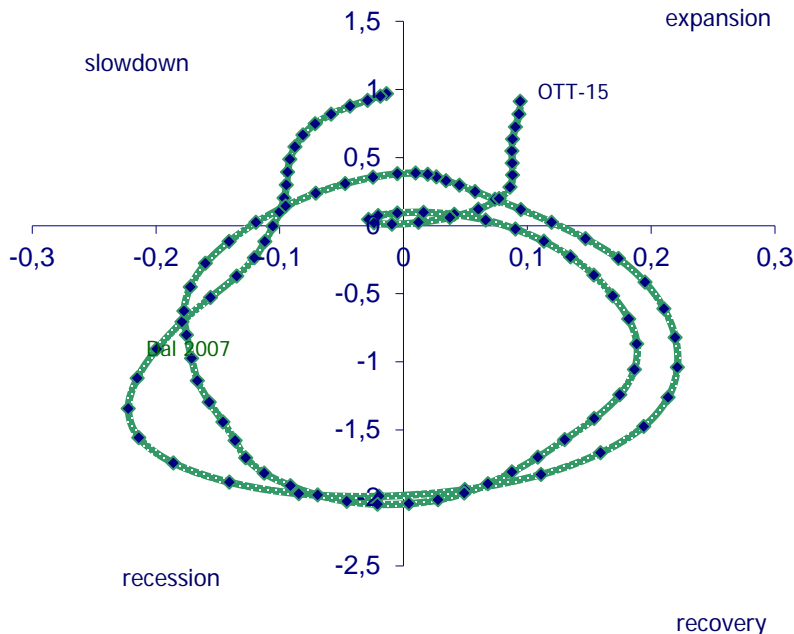
## LEADING INDICATORS



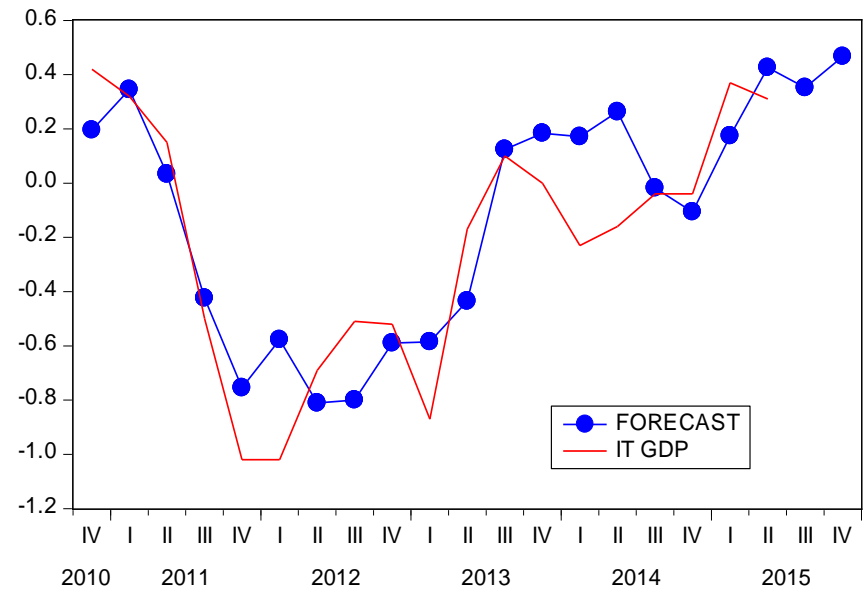
# ITALY: BUSINESS CYCLE

The ESI index is in the middle of the expansive quadrant, with a strong increasing trajectory. Qualitative indexes are consistent with an economic expansion close to half a percentage point in the fourth quarter of the year, though the lower than expected GDP value for Q3 suggests some caution.

ESI INDEX



GDP FORECAST

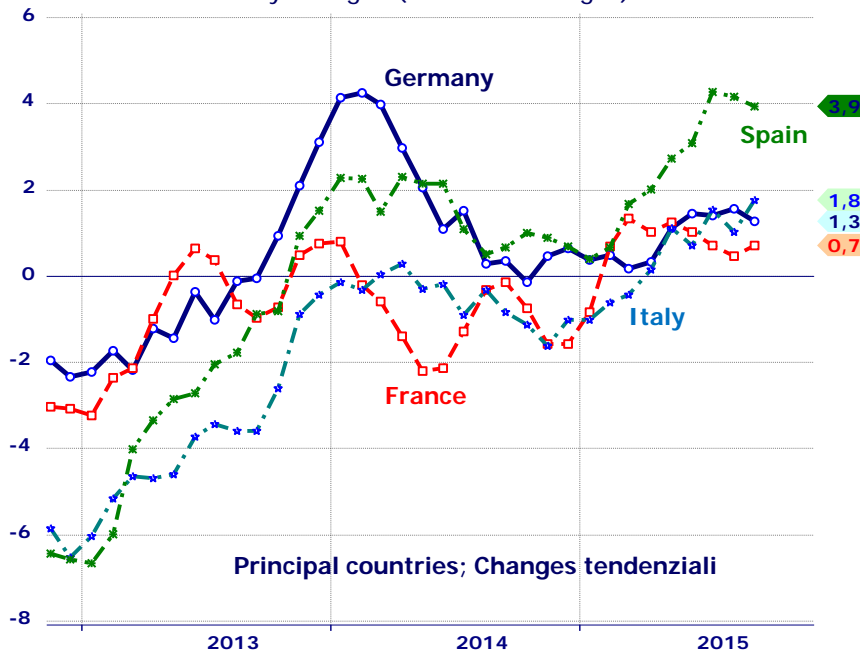


# COUNTRY COMPARISON: PRODUCTION

Beyond Germany's fall, industrial activity moderately grew in September in the other Eurozone major economies. Spain boasts the most vigorous growth in industrial activity, at almost 4% yearly, over twice as high as the other major economies.

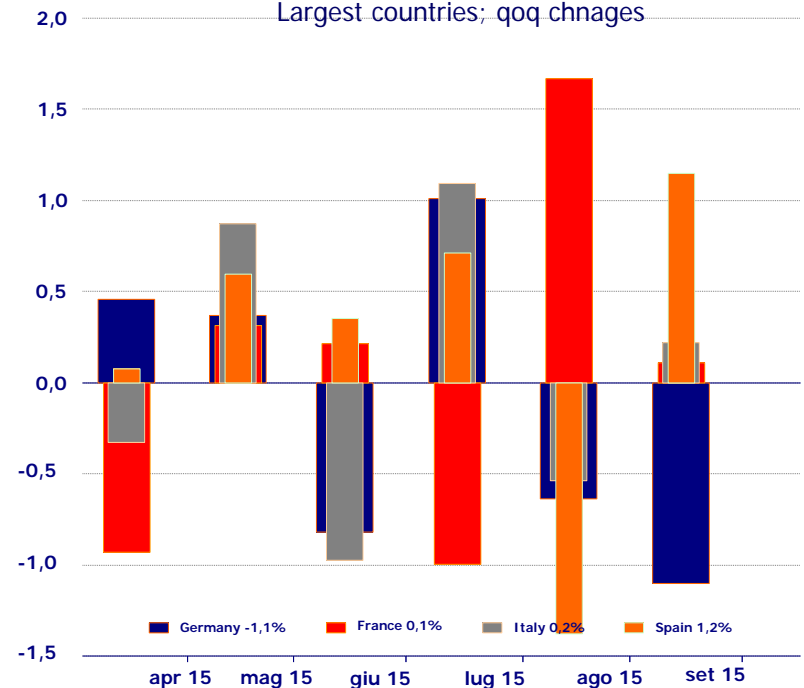
## INDUSTRIAL PRODUCTION

Yoy changes (3-month averages)



## INDUSTRIAL PRODUCTION

Largest countries; qoq chnges

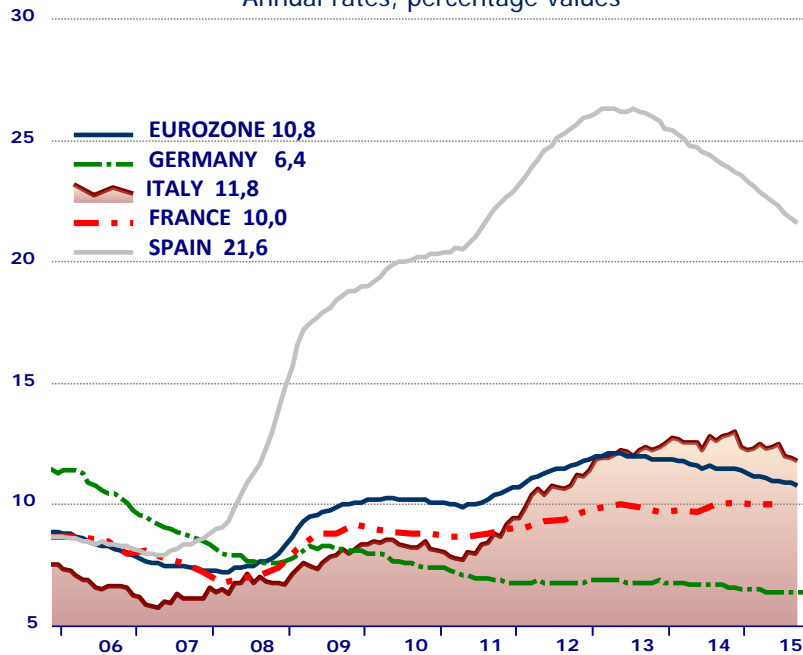


# COUNTRY COMPARISON: LABOUR MARKET

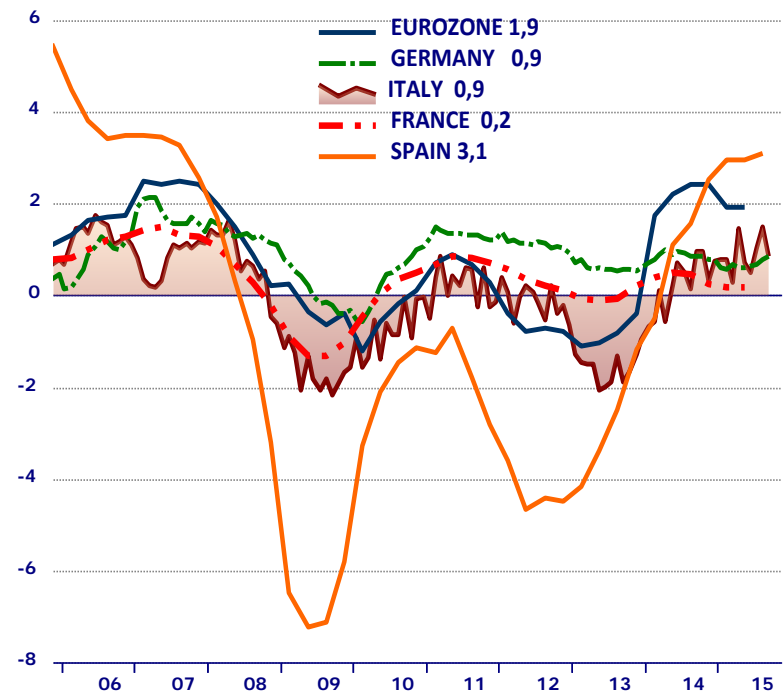
Spain presents the highest unemployment rate (21.6%), twice as high as Eurozone's average (10.8%); Germany has the lowest (6.4%). Only in 2015, the Italian unemployment rate started to decrease (11.8%), although higher than European average. In the current year, employment experiences a major boost also in Italy.

## UNEMPLOYMENT

Annual rates, percentage values

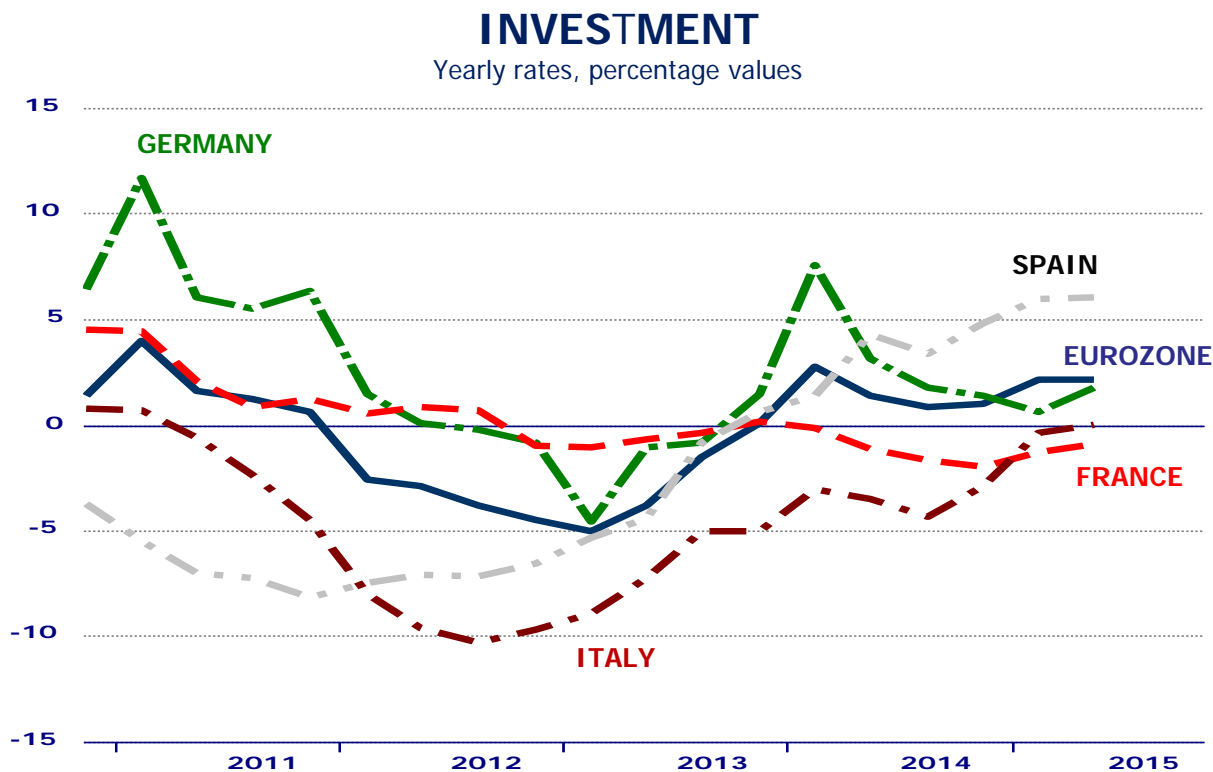


## EMPLOYMENT



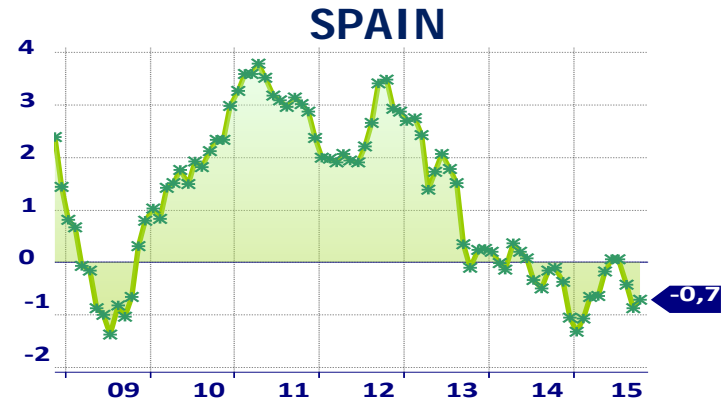
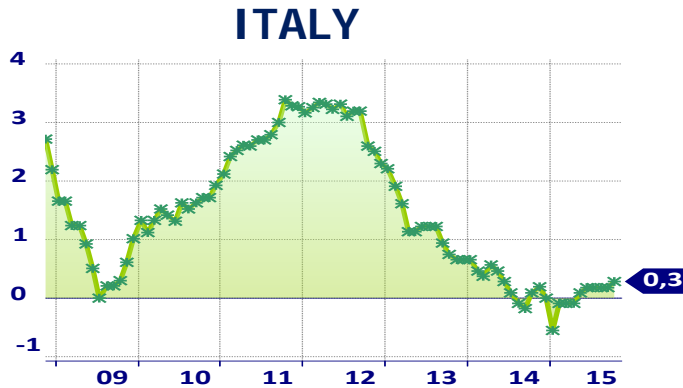
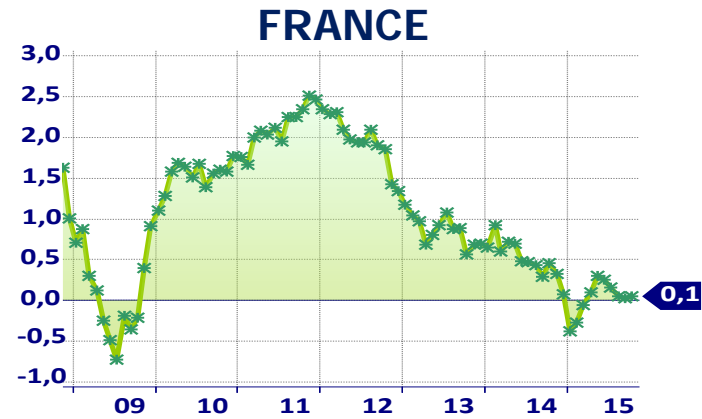
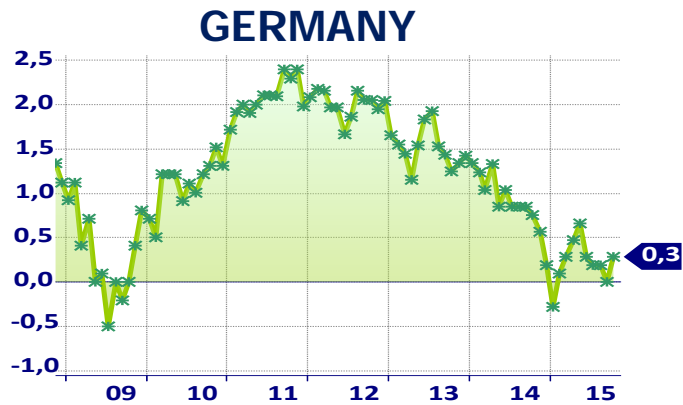
# COUNTRY COMPARISON: INVESTMENTS

Internal demand, supported by consumption, is still constricted by investments' weakness, mainly due to high debt (an effect of the crisis...) and remaining uncertainty, while the credit conditions have improved substantially. The capex evolution is stagnant in France and Italy, only moderately positive elsewhere. Spain is also in this aspect the most dynamic economy.



# COUNTRY COMPARISON: INFLATION

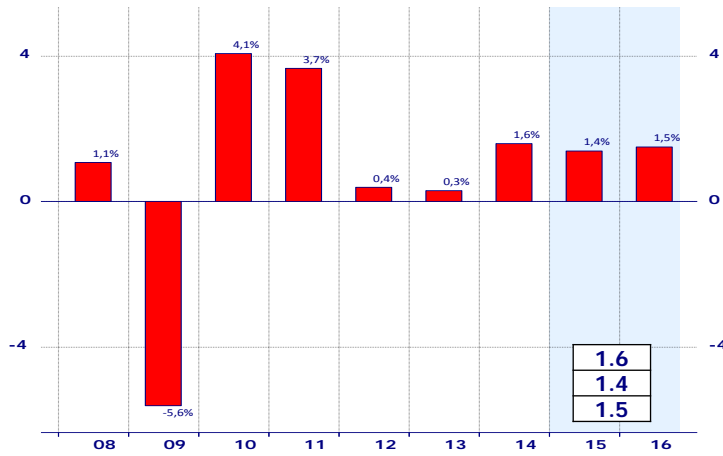
October statistics signal a widespread improvement of inflation in the Monetary Union's major economies. In Germany, the inflation rate passed from zero to +0.3%, a five month high. In Italy the NIC index, including tobacco, grew from +0.2% to +0.3%, registering the highest since June 2014; in Spain the index increased to -0.7% from -0.9%, the worst figure among major economies.



# COUNTRY COMPARISON: PAST AND EXPECTED GROWTH

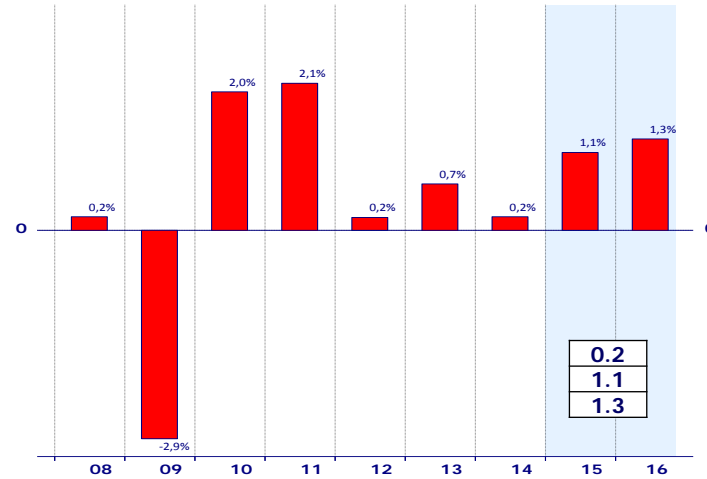
## GERMANY

% change over year



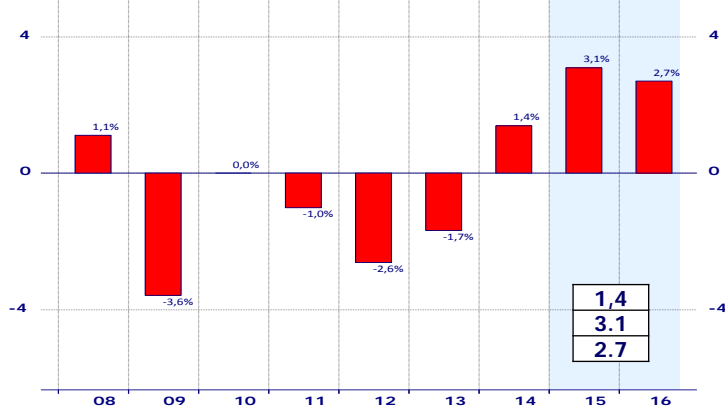
## FRANCE

% change over year



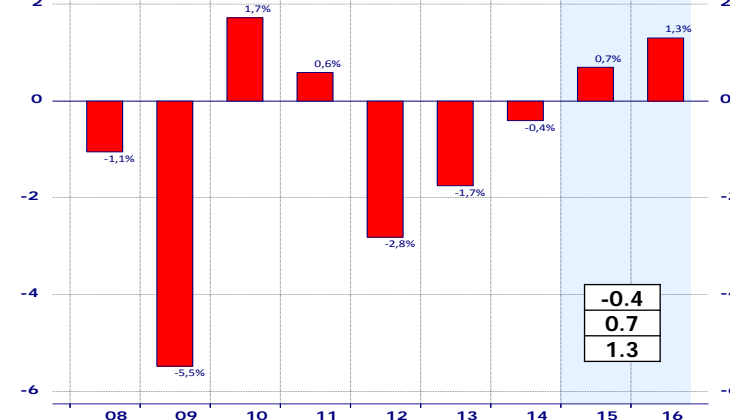
## SPAIN

% change over year



## ITALY

% change over year





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