



# Global Economy Report

May-June 2016



# 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.

This report has been prepared by:

- Daniele Limonta ([daniele.limonta@alettibank.it](mailto:daniele.limonta@alettibank.it))
- Massimiliano Marcellino ([massimiliano.marcellino@eui.eu](mailto:massimiliano.marcellino@eui.eu))
- Alessandro Stanzini ([alessandro.stanzini@alettibank.it](mailto:alessandro.stanzini@alettibank.it))

with the collaboration of:

- Alberta Martino ([albertamartino@gmail.com](mailto:albertamartino@gmail.com))

**Report closed on May 5, 2016**



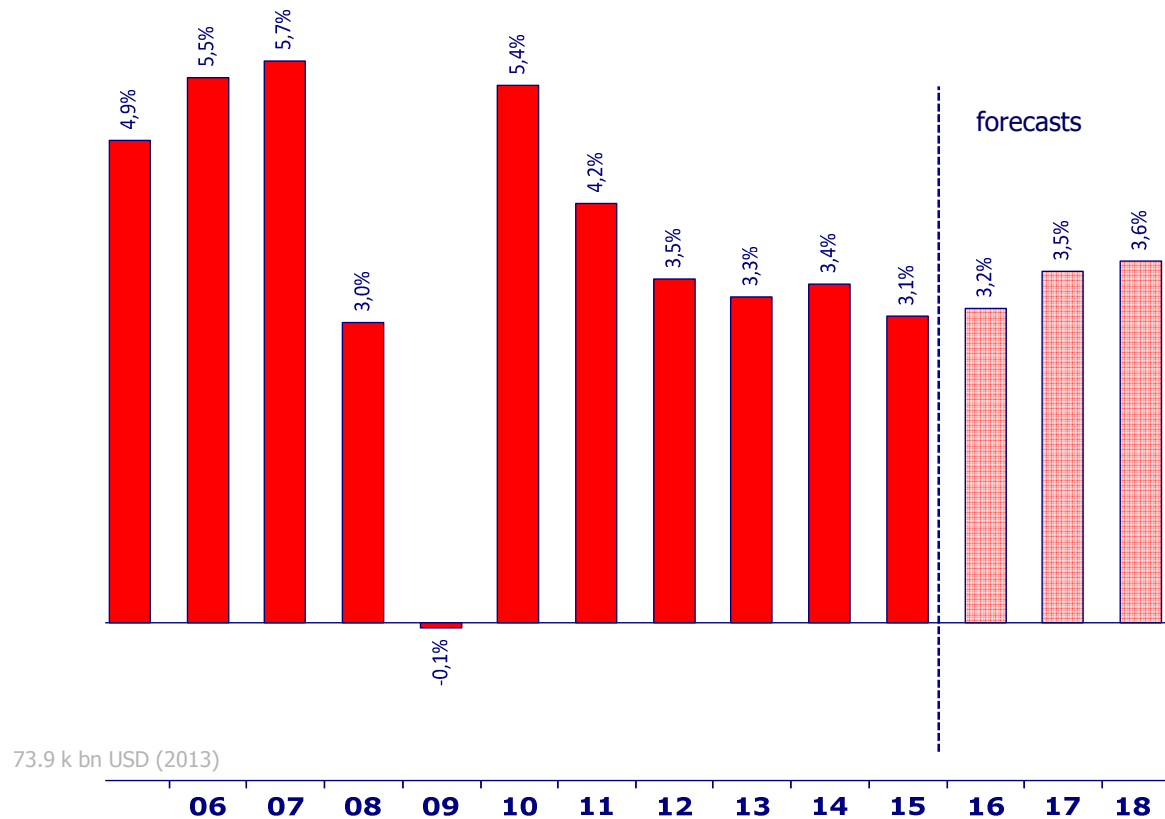


# GROWTH FORECASTS

In the April report, IMF has again trimmed its growth forecasts. Expected global GDP growth was cut by two tenths at 3.2% for this year, and by one tenth at 3.5% in 2017.

## IMF – GLOBAL ECONOMIC GROWTH

Annual average changes - World Economic Outlook - April 2016

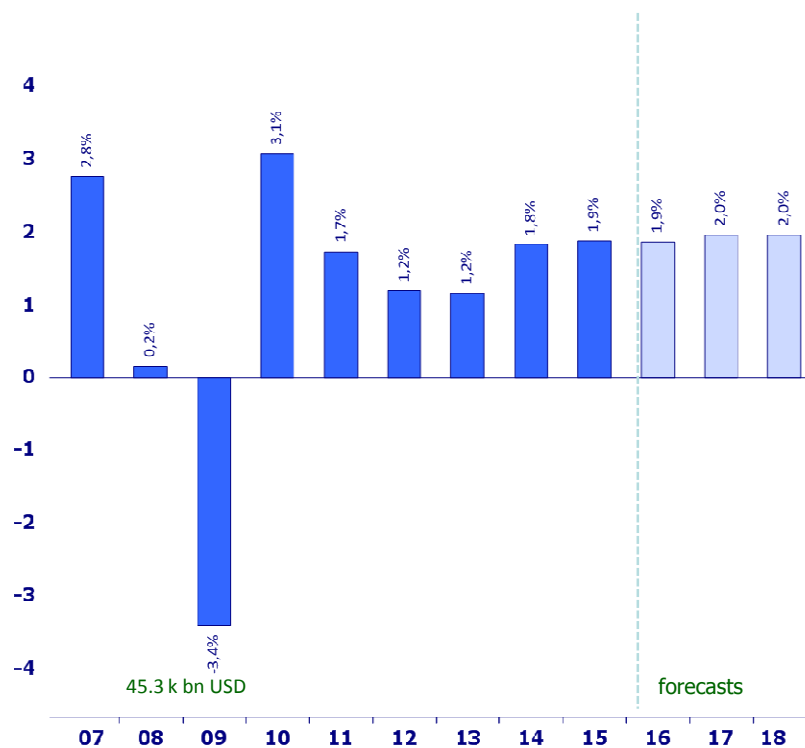


# GROWTH FORECASTS

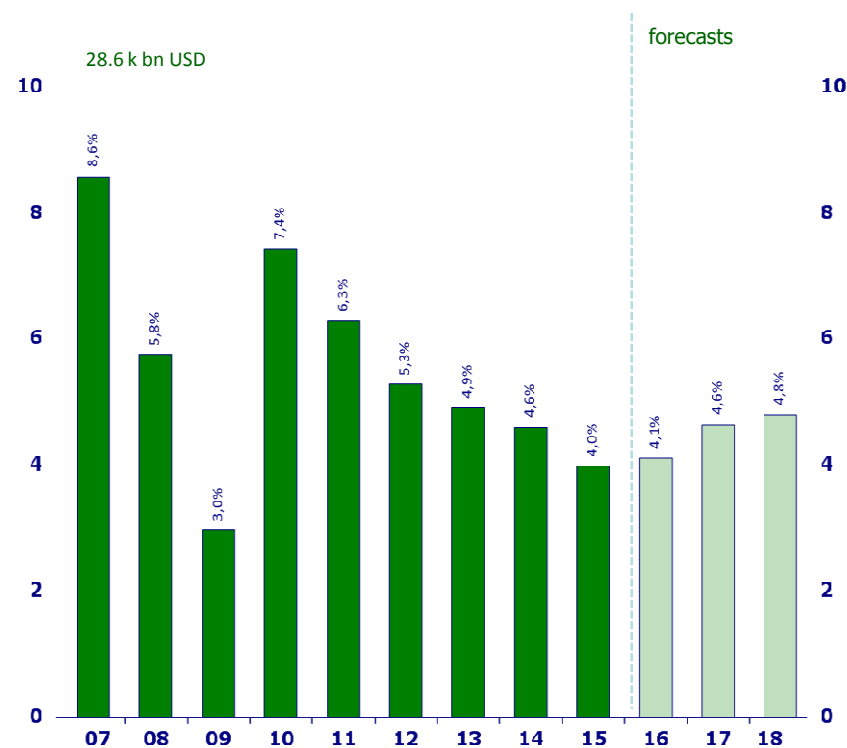
Major economies should grow this year at 2.0% (-0.2%) and at 2.2% in 2017 (-0.1%) and emerging economies at 4.0% (-0.2%) and at 4.5% (-0.1), according to the IMF.

## IMF – MAJOR ECONOMIES

Average annual changes - Economic Outlook - Oct. 2015



## IMF - EMERGING ECONOMIES

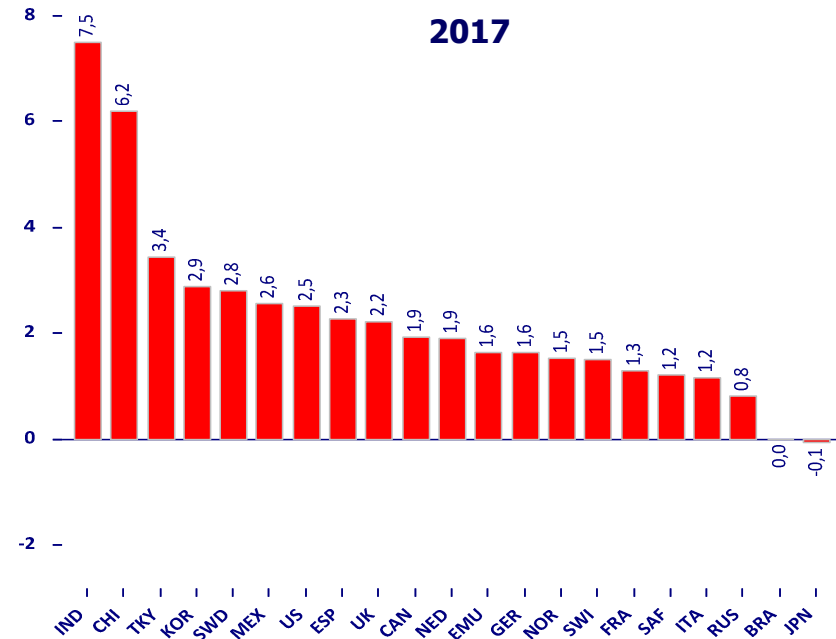
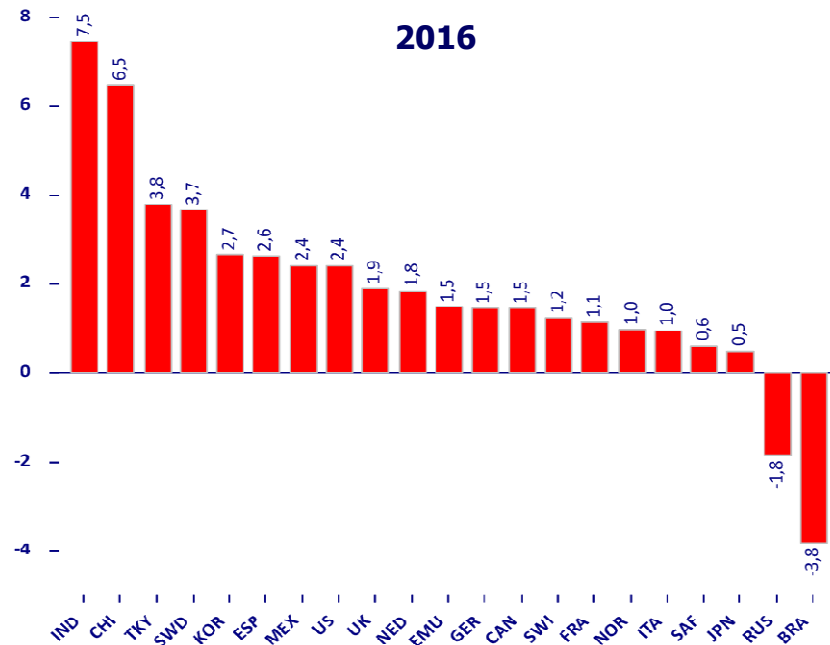


# GROWTH FORECASTS

Among major economies, the US and Eurozone, growing respectively at 2.4% and 1.6%, have a two tenths' downward revision for 2016. For Japan, the cut is more aggressive at five tenths, with a 0.5% expected growth. Among emerging economies, Russia and Brazil confirm their 2015 recession (-3.7% and -3.8%) with a contraction worth 1.8% and 3.8% in 2016, after a downward revision by eight tenths and three tenths.

## IMF – GLOBAL ECONOMIC GROWTH

Average annual changes - World Economic Outlook - April 2016



# GROWTH FORECASTS

For China, estimates have been increased by two tenths at 6.5% in the current year and at 6.1% for the next (the orderly slowdown perspective is confirmed); for India, the forecast is confirmed with growth at 7.5% for both years.

## IMF – GLOBAL ECONOMIC GROWTH

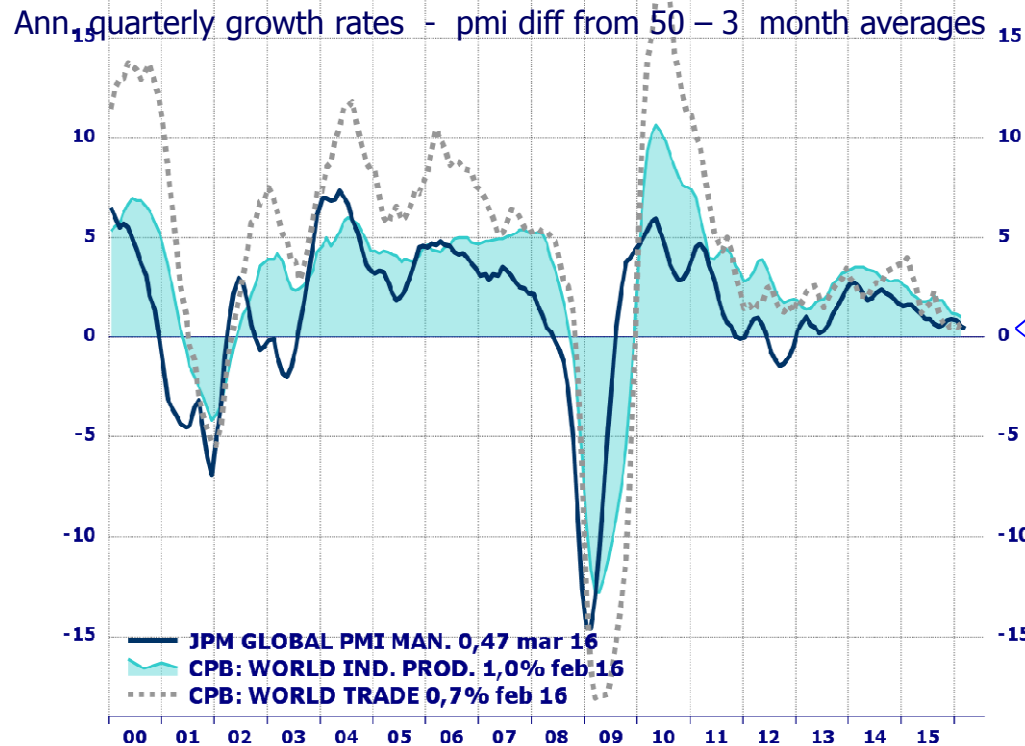
Average annual changes - World Economic Outlook - April 2016

	2011	2012	2013	2014	2015	2016e	diff.	2017e	diff.
PIL (% a/a)									
CRESCITA GLOBALE	4,2	3,4	3,3	3,4	3,1	3,2	-0,2	3,5	-0,1
ECONOMIE AVANZATE	1,7	1,2	1,4	1,8	1,9	1,9	-0,2	2,0	-0,1
STATI UNITI	1,6	2,3	2,2	2,4	2,4	2,4	-0,2	2,5	-0,1
EUROZONA	1,6	-0,8	-0,3	0,9	1,6	1,5	-0,2	1,6	-0,1
GERMANIA	3,0	0,7	0,2	1,6	1,5	1,5	-0,2	1,6	-0,1
FRANCIA	2,0	0,0	0,3	0,4	1,1	1,1	-0,2	1,3	-0,2
ITALIA	0,4	-2,4	-1,7	-0,4	0,8	1,0	-0,3	1,1	-0,1
SPAGNA	0,1	-1,6	-1,2	1,4	3,2	2,6	-0,1	2,3	0,0
GIAPPONE	-0,6	1,5	1,6	-0,1	0,5	0,5	-0,5	-0,1	-0,4
REGNO UNITO	1,1	0,3	1,7	2,9	2,2	1,9	-0,3	2,2	0,0
CANADA	2,5	1,7	2,0	2,4	1,2	1,5	-0,2	1,9	-0,2
ECONOMIE EMERGENTI	6,2	5,1	5,0	4,6	4,0	4,1	-0,2	4,6	-0,1
RUSSIA	4,3	3,4	1,3	0,6	-3,7	-1,8	-0,8	0,8	-0,2
CINA	9,3	7,7	7,8	7,3	6,9	6,5	0,2	6,1	0,2
INDIA	6,6	4,7	6,9	7,3	7,3	7,5	0,0	7,5	0,0
BRASILE	2,7	1,0	2,7	0,1	-3,8	-3,8	-0,3	0,0	0,0
MESSICO	4,0	4,0	1,4	2,3	2,5	2,4	-0,2	2,6	-0,3
SUDAFRICA	3,6	2,5	2,2	1,5	1,3	0,6	-0,1	1,2	-0,6

# INTERNATIONAL CYCLE

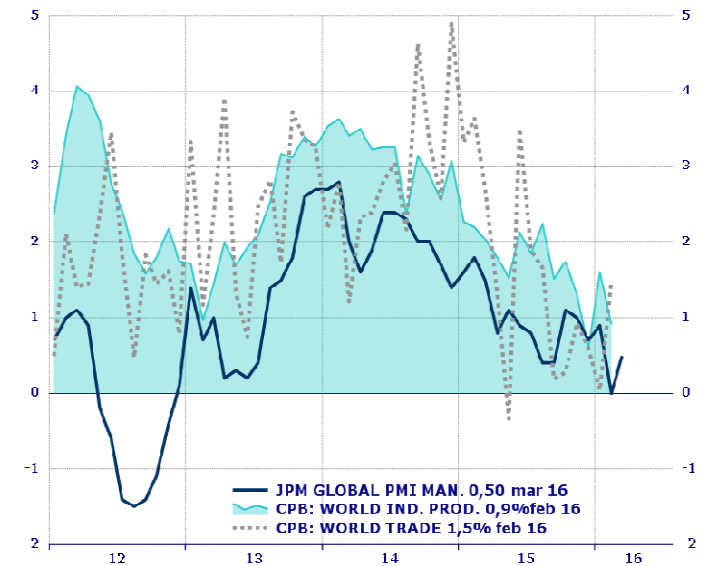
International trade and industrial activity's dynamic is still declining, despite the February/March rebound.

## GLOBAL IND. PRODUCTION, TRADE AND CONFIDENCE



## GLOBAL IND. PRODUCTION, TRADE AND CONFIDENCE

Ann. Quarterly growth rates- pmi diff from 50

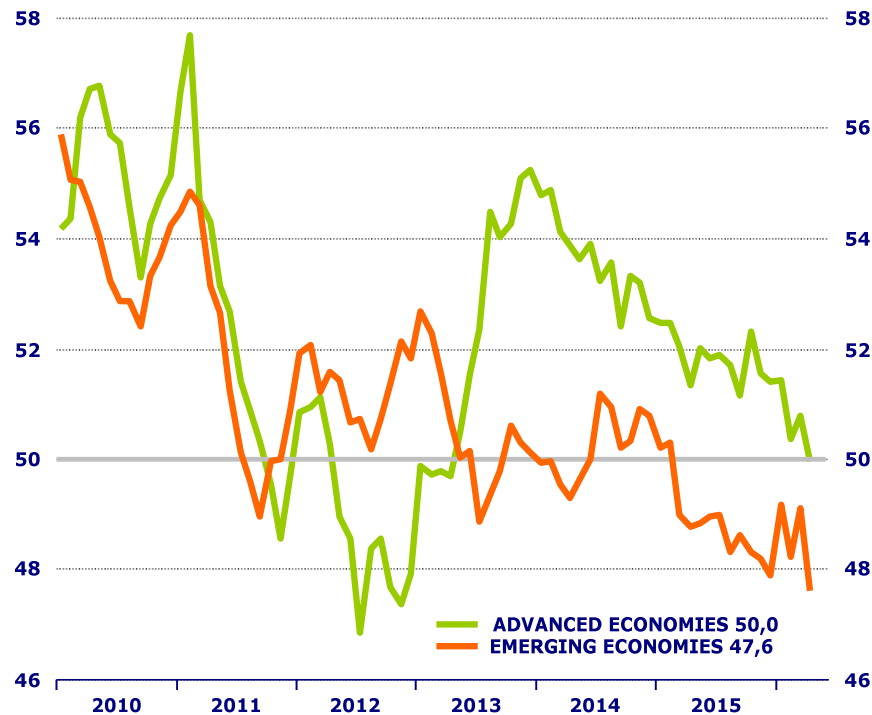


# INTERNATIONAL CYCLE

Leading indicators signal the persistence of a downward trend from the 2014-2015 highs. Among major economies, the levels are still compatible with continuing the positive growth dynamic, while among emerging economies the condition remains critical.

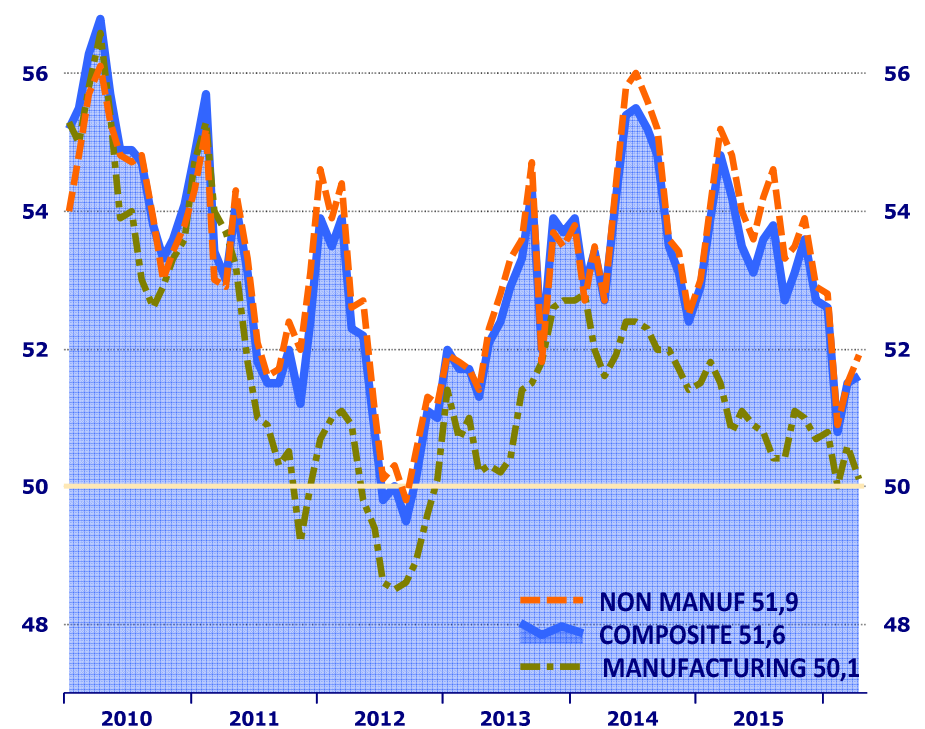
## CONFIDENCE – BUSINESS

Aggregate values by country group



## CONFIDENCE INDICATORS

Aggregate survey values by activity type

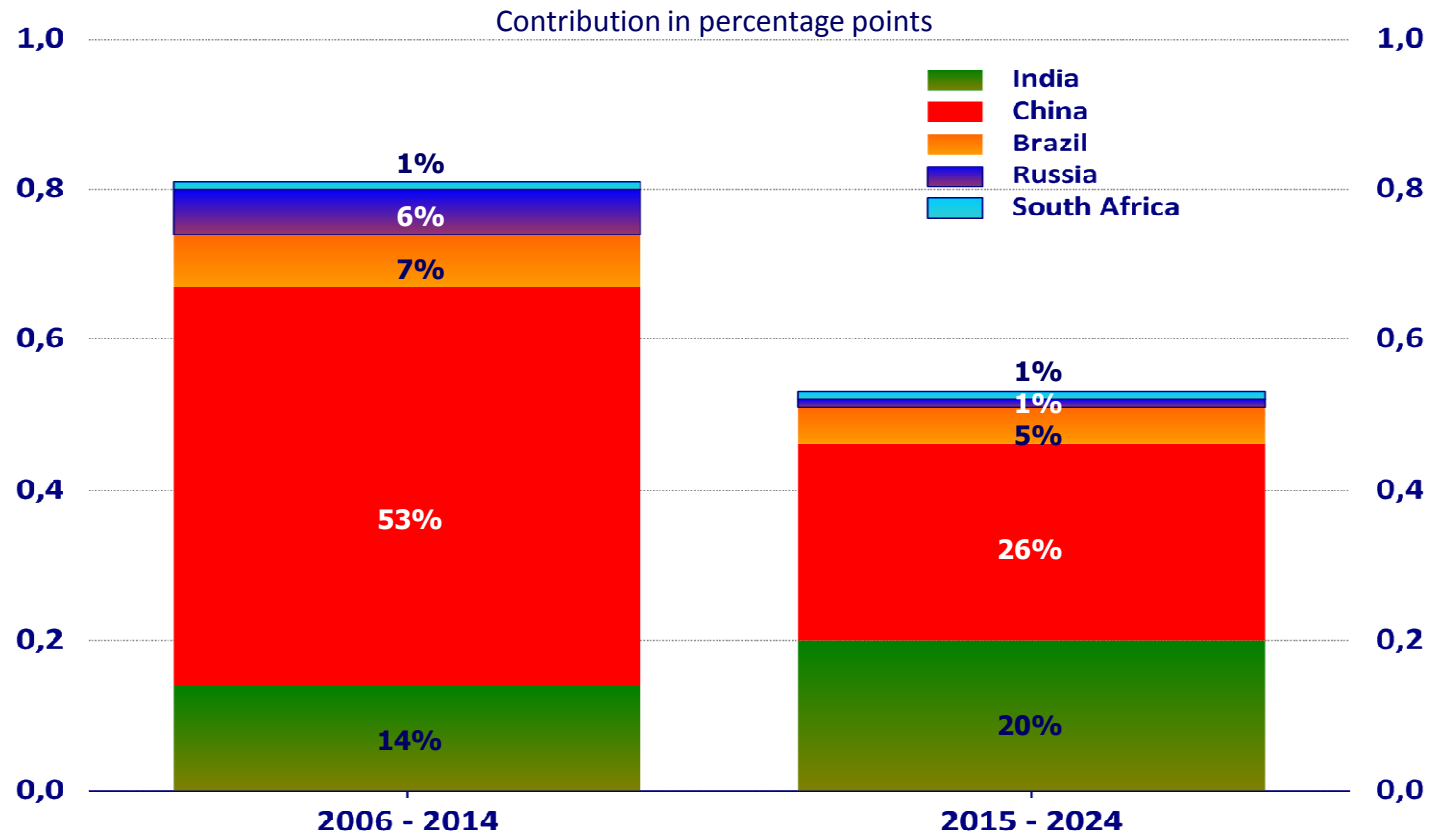




# DRIVERS OF GROWTH

Among emerging economies, the reduction in potential product lowers growth intensity, causing a lower contribution to global growth in the coming years.

## BRICS COUNTRIES – CONTRIBUTION TO GLOBAL GROWTH

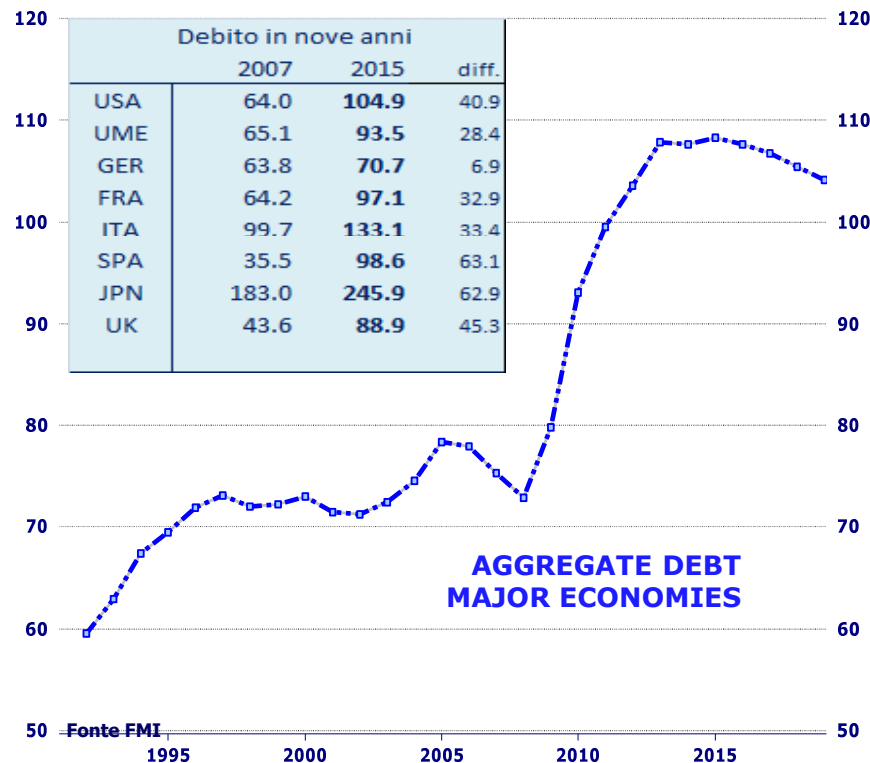


# PUBLIC FINANCE

Among major economies, debt is the main factor responsible for low growth, an issue that hits both public and private (households and businesses) accounts. Deleveraging has created further pressure on aggregate income.

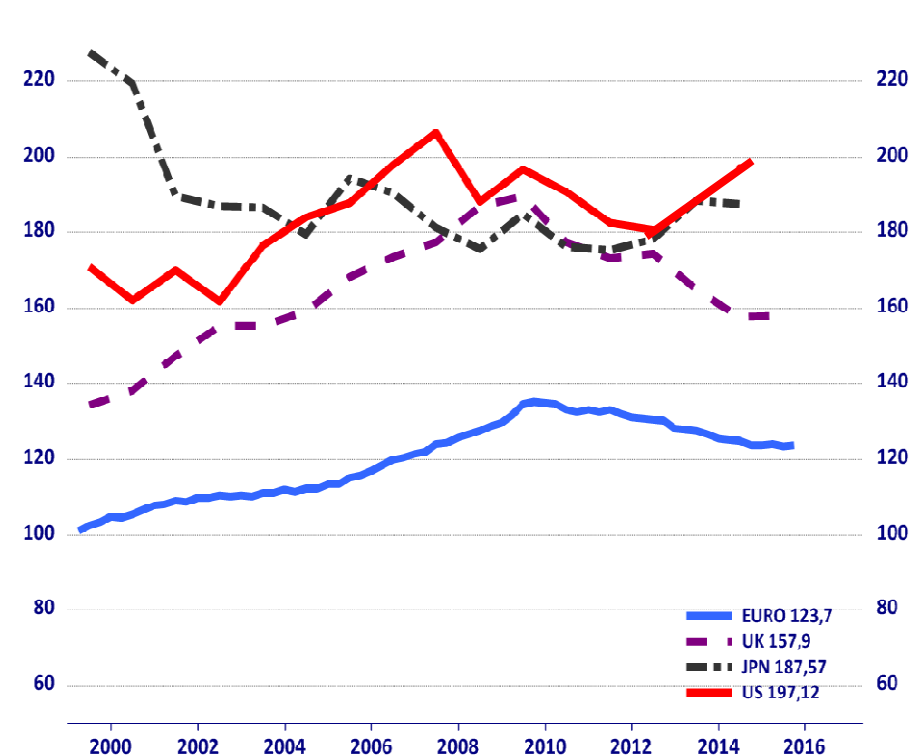
## PUBLIC DEBT

Data on GDP, major economies



## PRIVATE DEBT

Data on GDP, major economies

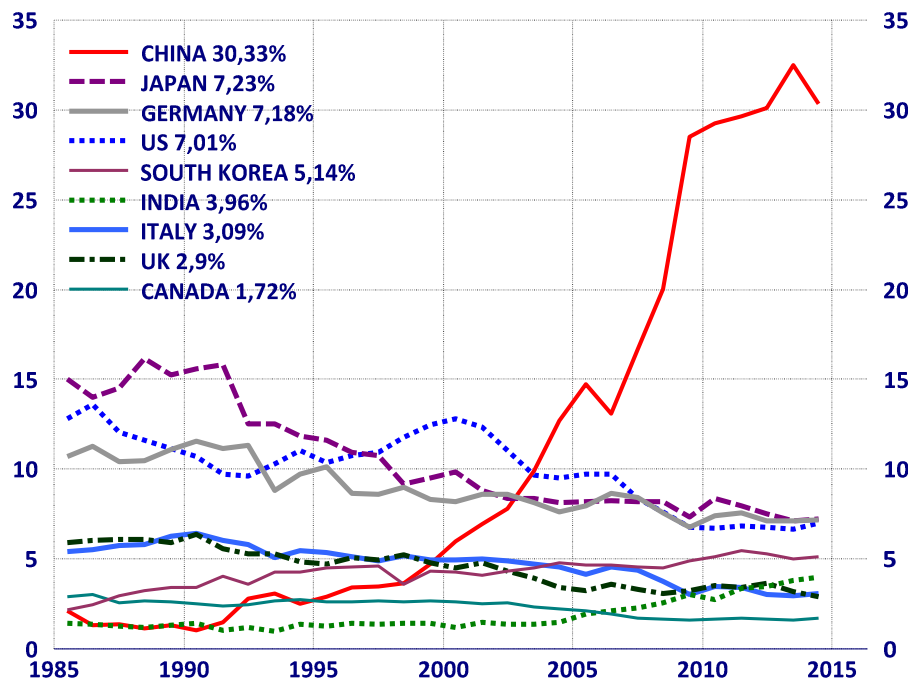


# RAW MATERIALS

The biggest consumer of raw materials globally, China, grows at half the speed of a few years ago, thus impacting on other countries' growth and, as in a vicious circle, also impacting commodities' prices, already in a declining cycle.

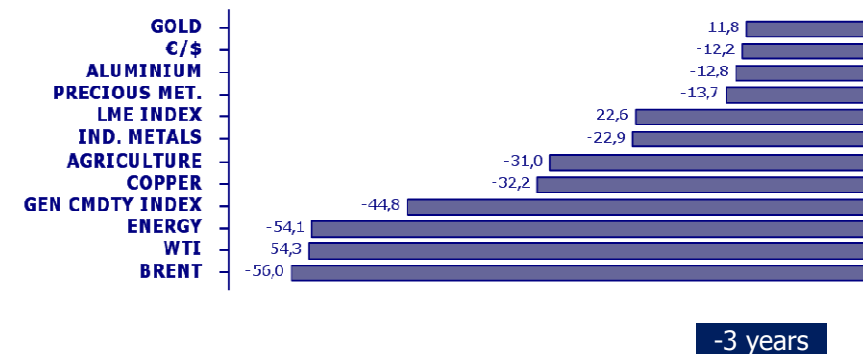
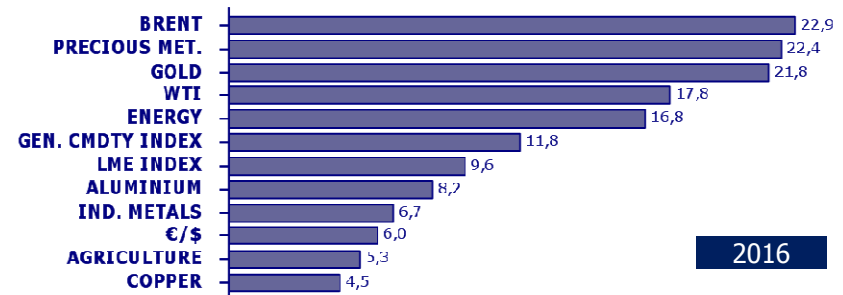
## MINERALS AND METALS IMPORTS

Quota on global total - percentage values



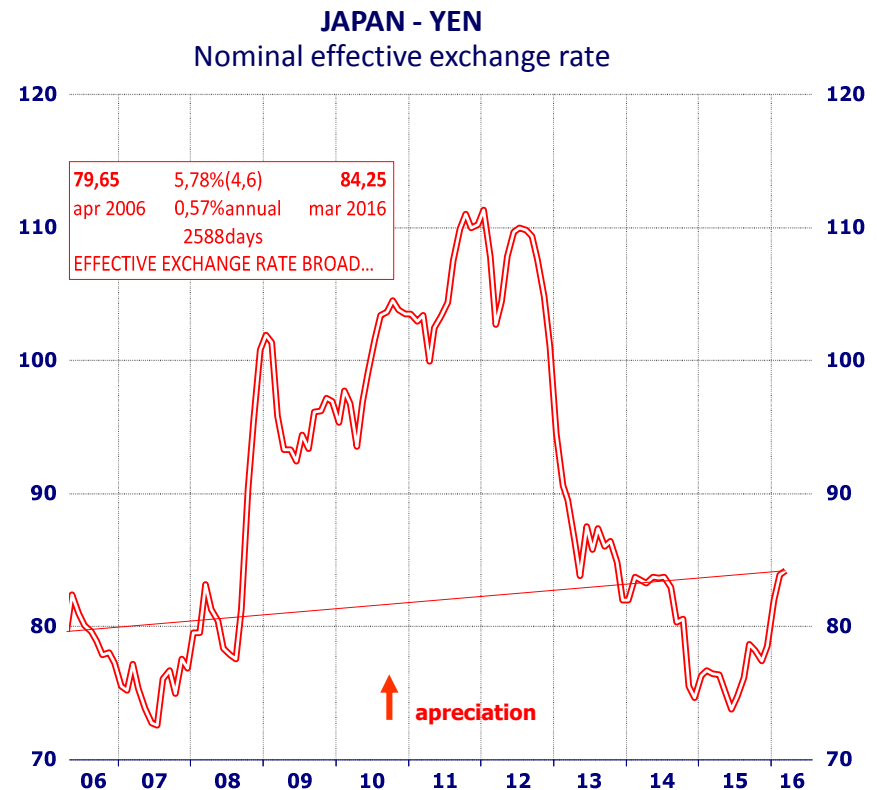
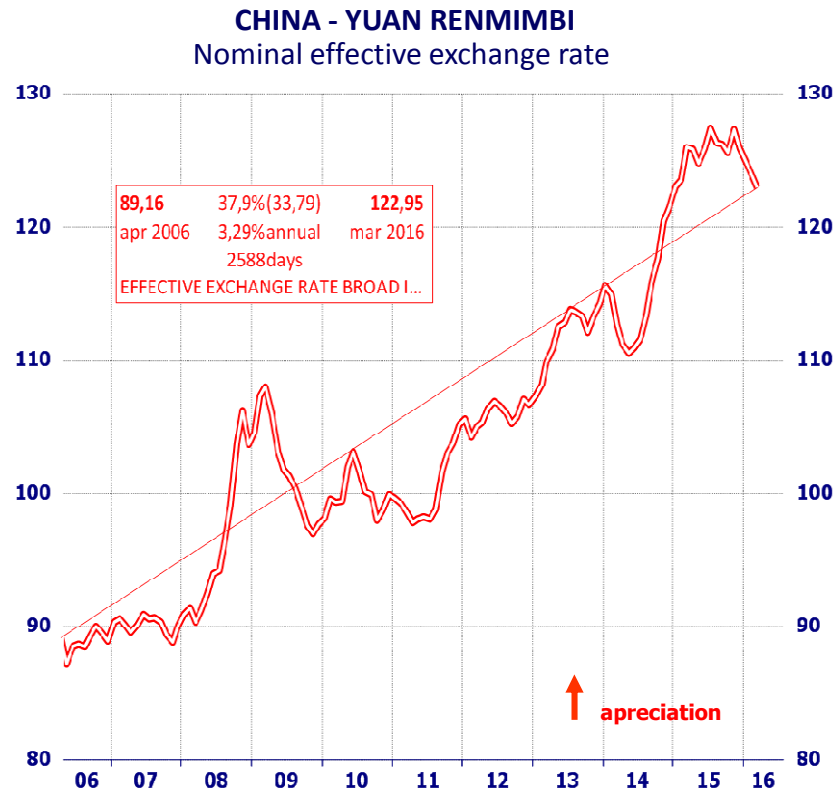
## RAW MATERIALS INDEXES

Percentage changes from 2016 and vs. 3 years ago



# CURRENCIES

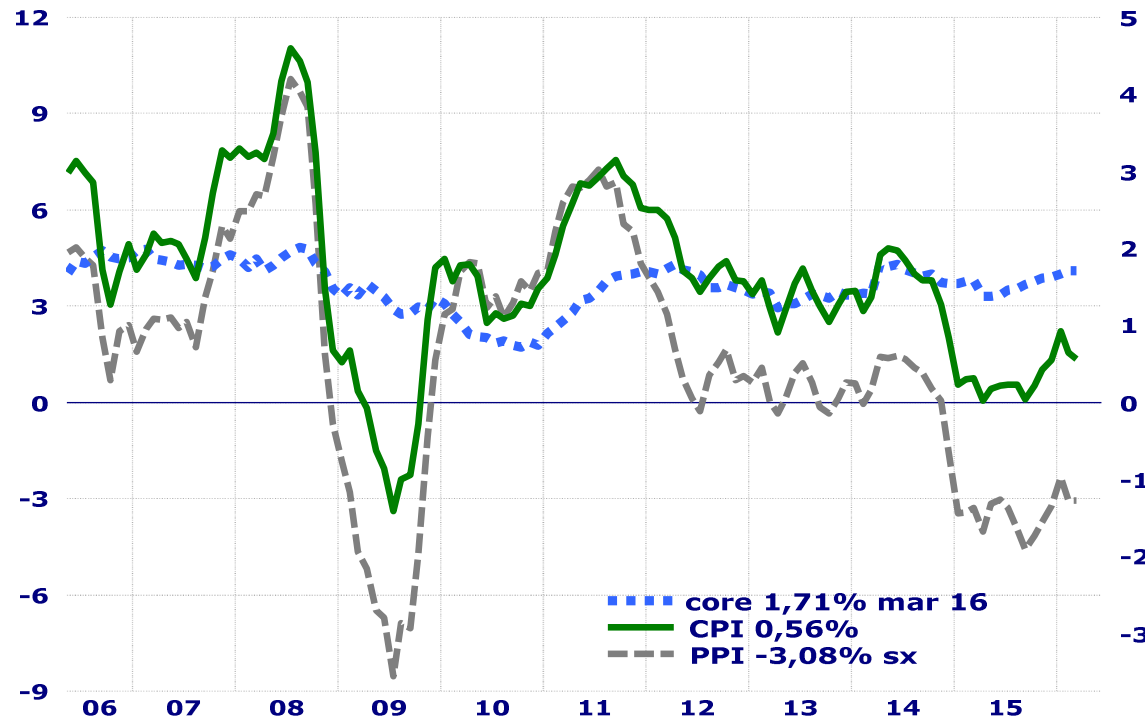
The Yuan renminbi has appreciated in the past years both in nominal and real terms...The Yen, instead, has lost value since 2012, although in the past months it has significantly recuperated.



# INFLATION

Among major economies, producer prices carry a significant deflationary risk. The compressive impulse was transmitted to consumer prices, through commodities' prices' drop, mostly energy prices, that triggered a huge redistributive mechanism of global wealth.

**G7 AGGREGAT INFLATION**  
Growth rates on a yearly basis

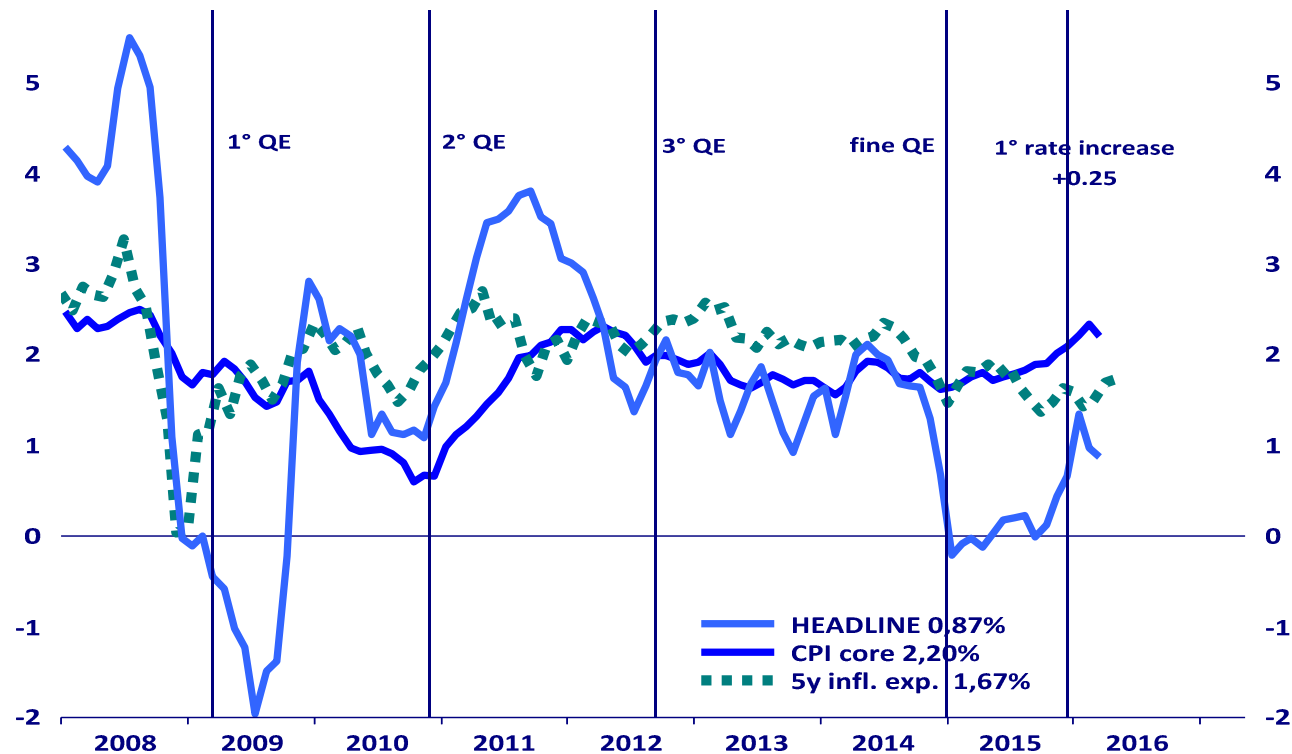


# MONETARY POLICY

In the US the reflationary objective has been reached, though not completely, through fiscal and monetary policy, with quantitative easing (QE).

## US INFLATION AND EXPECTATIONS

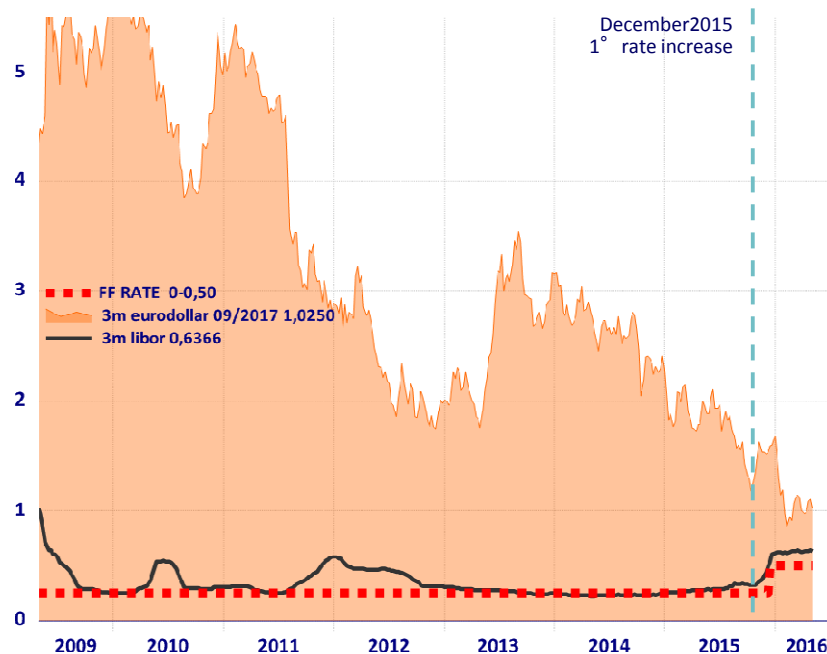
Prices' growth rates on annual basis



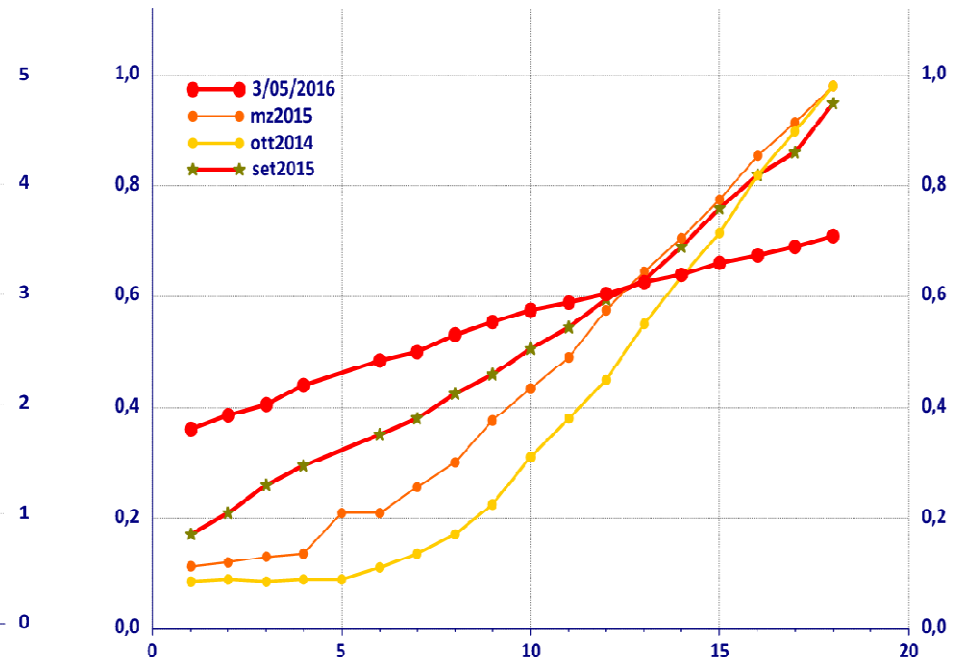
# MONETARY POLICY

At the end of QE, there's been a rather long waiting phase, before the December 2015 inversion, which so far has been the only intervention. Views on the Federal Reserve's operations span from tolerance for justified pragmatism to absolute lack of clarity.

**FED - MONETARY POLICY**  
Official rate, 3 month deposits and future Sept-2017



**FED - MONETARY POLICY**  
future curves in various dates

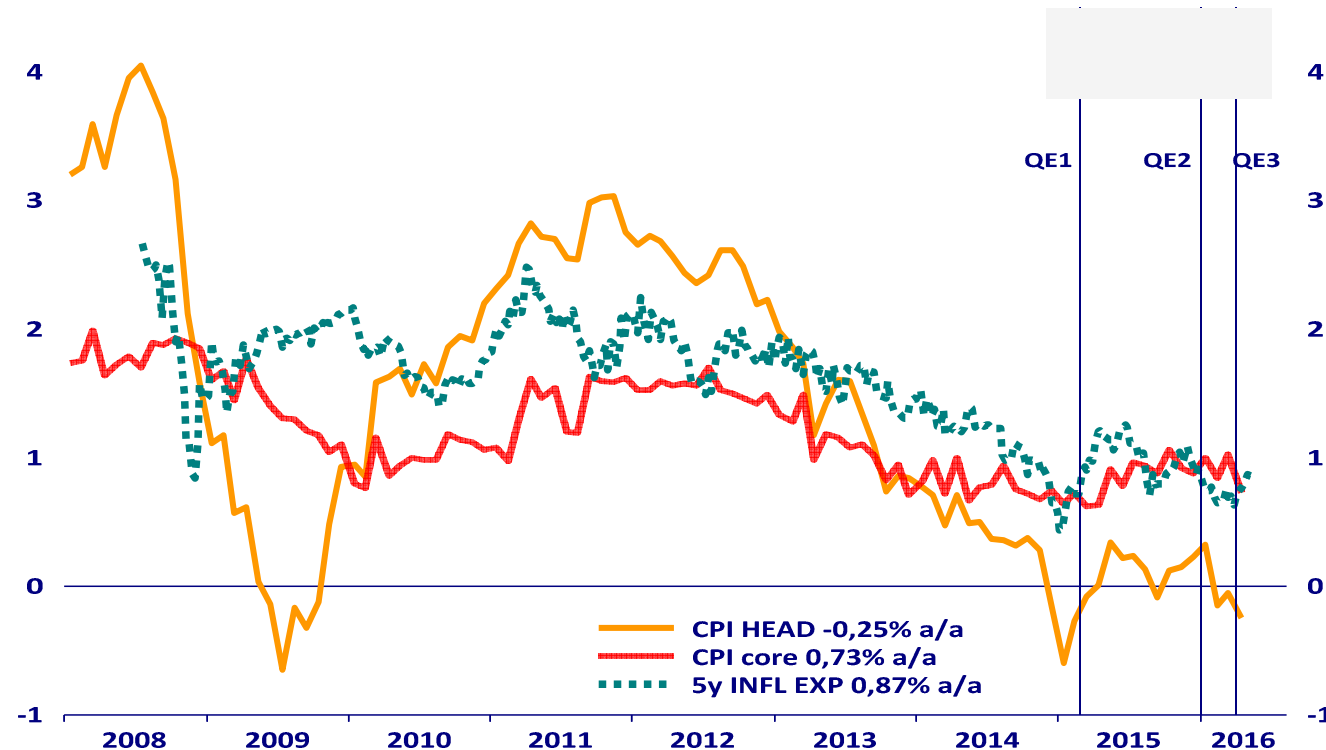


# MONETARY POLICY

In the Eurozone, the backwardness of the Union created a reaction to the public debt crisis that actually worsened the situation, and the banking sector conditions, lowering also inflation expectations and complicating the mandate of the ECB...

## EUROZONE INFLATION AND EXPECTATIONS

Prices' growth rate on an annual basis

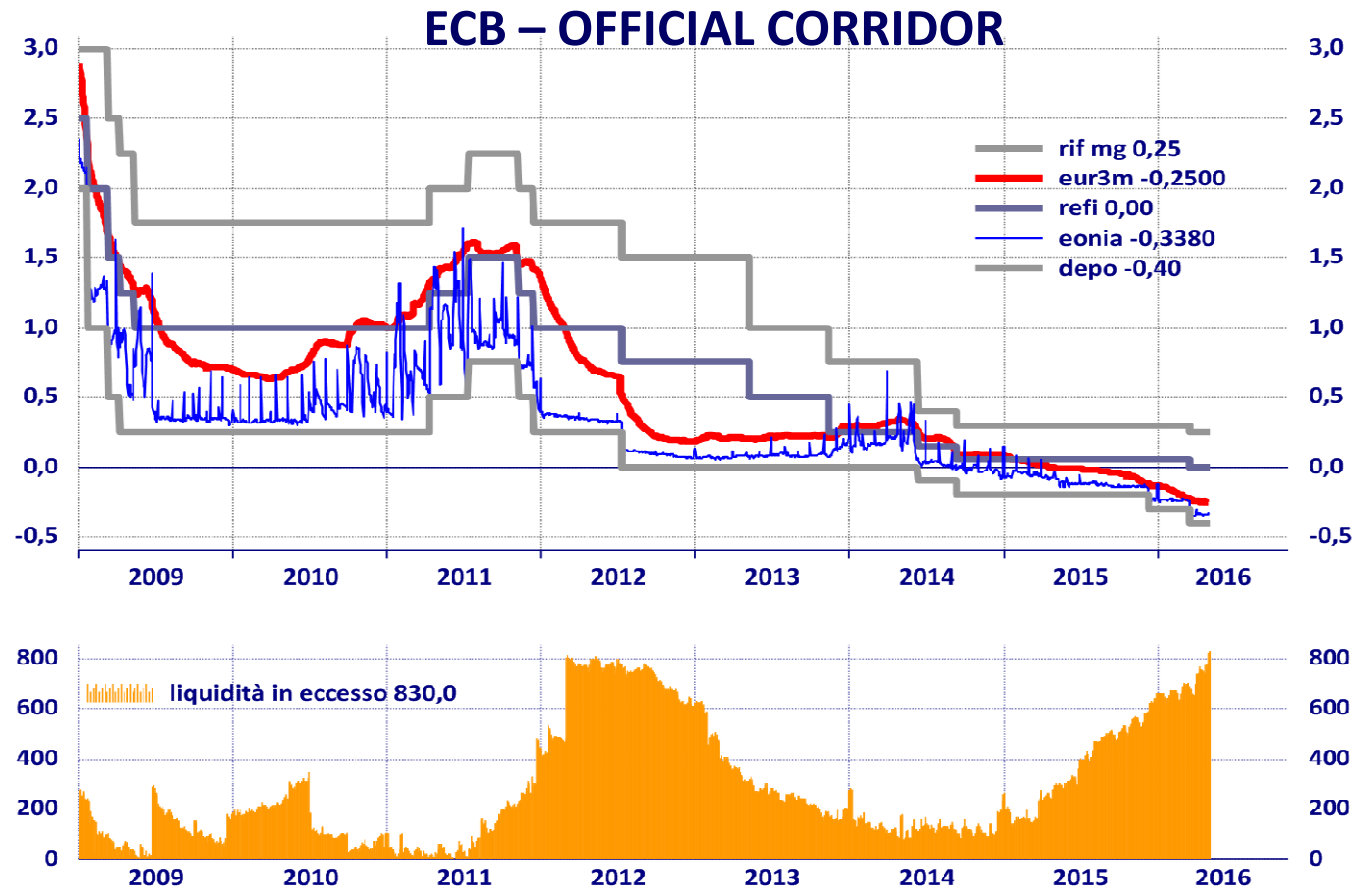






# MONETARY POLICY

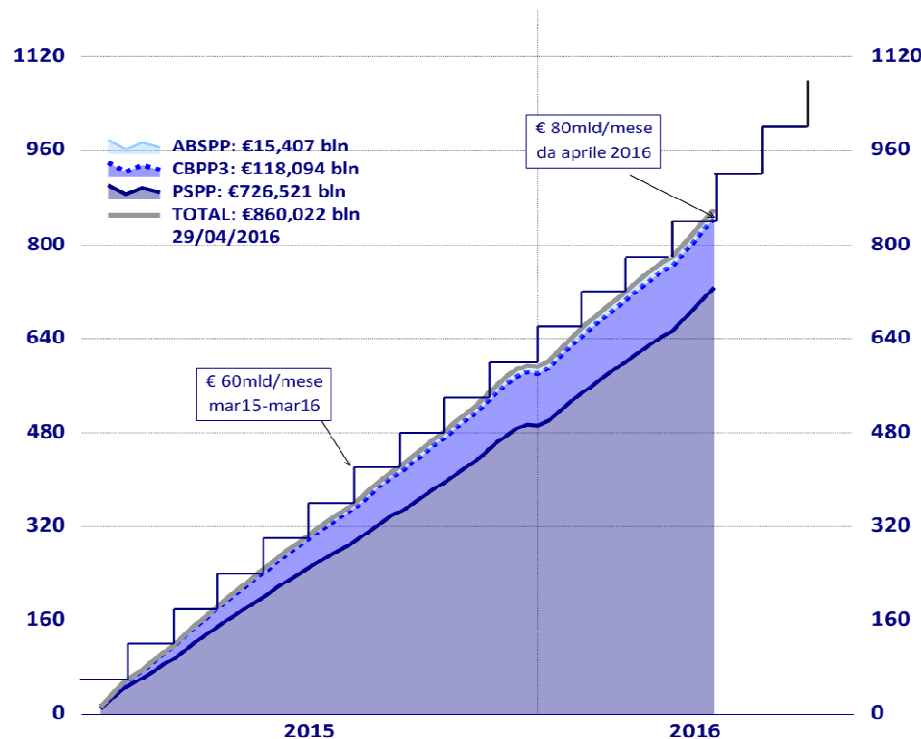
... the ECB postponed credit easing and very-expansionary actions to March 2015...



# MONETARY POLICY

... negative rates up to 40 basis points, quantitative easing on public assets and private backed securities, then increased and extended to other private bonds, and attractive TLTRO (targeted long term refinancing operations) are the measures put in place a year after the start of QE, progressively augmented over time...

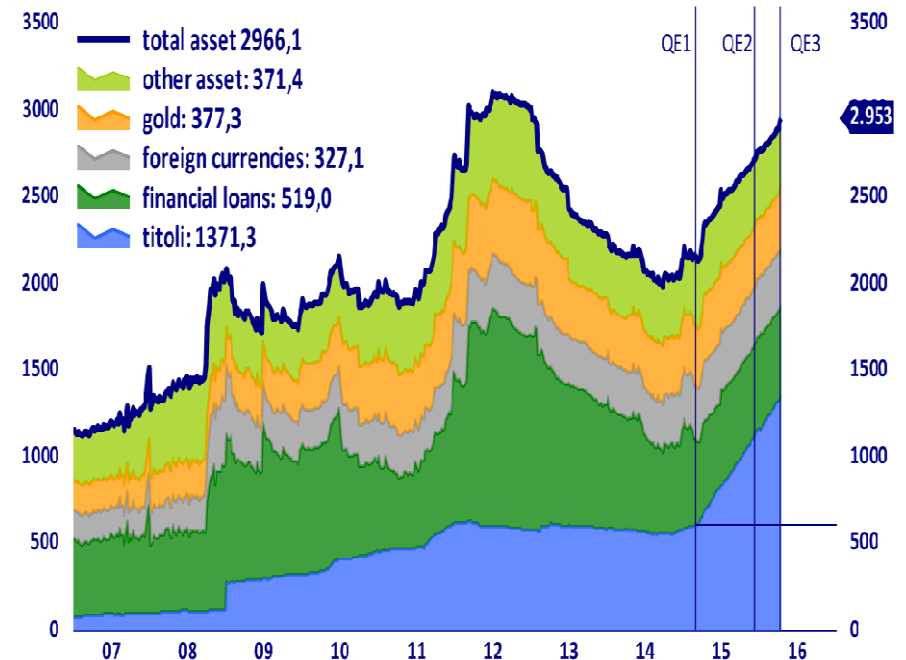
## ECB – QUANTITATIVE EASING



Acquisitions for 60 bn euro per month, for a total of 1140

## ECB – BALANCE

Total acquisitions for 60bn/month, for a total 1140 bn



On 6° November ECB's acquisitions are at 496billion, i.e. 43.5% of total planned



# MONETARY POLICY

... Quantitative easing was increased because it was successful. Criticism doesn't take into account what would've happened without such policy. In the past two years we would've witnessed substantially more negative inflation, also fed by the drop in energy prices...

## ECB– QE 2

Decisions taken in 3 December 2015 meeting

- # Extension of QE 60 bn /month till March 2017
- # Extension to December 2017 full allocation regime in refinancing operations
- # Acquisition extension on local and regional government emissions
- # Asset re-investment for assets already in the programme
- # Cut on deposit rate by 10 p.b. at -0.3%

## ECB – QE 3

Decisions taken in 10 March 2016 meeting

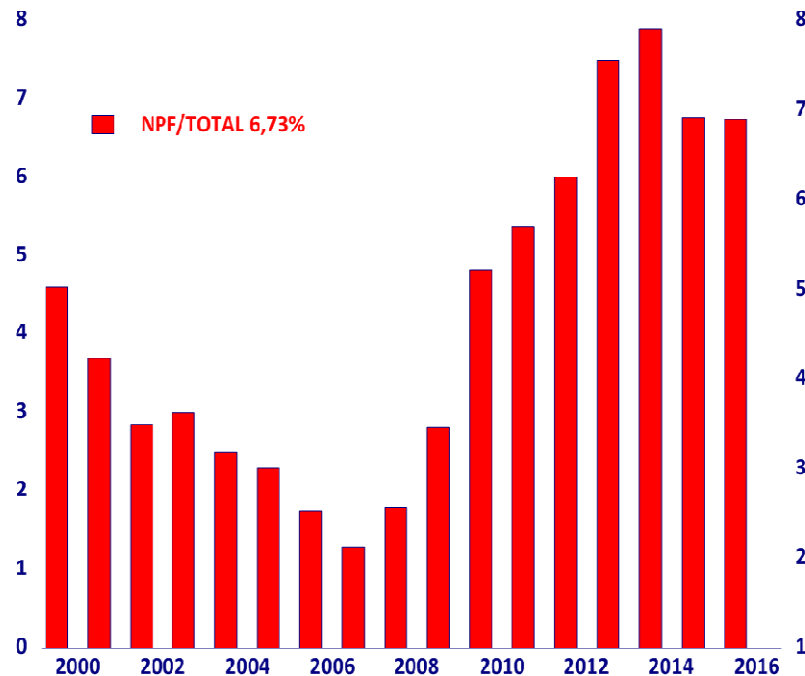
- # Cut on principal refinancing rate at 0 from 0.05%
- # Cut on overnight rate at -0.4% from -0.3%
- # Cut on overnight credit rate at 0.25% from 0.3%
- # Increase in monthly acquisition amount at 80bn from 60bn
- # Acquisitions extended to *investment grade* non-banking bonds
- # New series of 4 four-year TLTRO operations beginning in June
- # Increase from 33% to 50% on del limite acquistabile sul singolo emittente o singola emissione per i titoli emessi da organizzazioni internazionali e banche multilaterali



... Economic growth, that suffers from the strong decrease in global demand, would've been much lower without QE. Negative interest rates for the banking system haven't stopped the improvement in profitability and have created significant earnings on bonds and decreases in non performing loans (NPLs)...

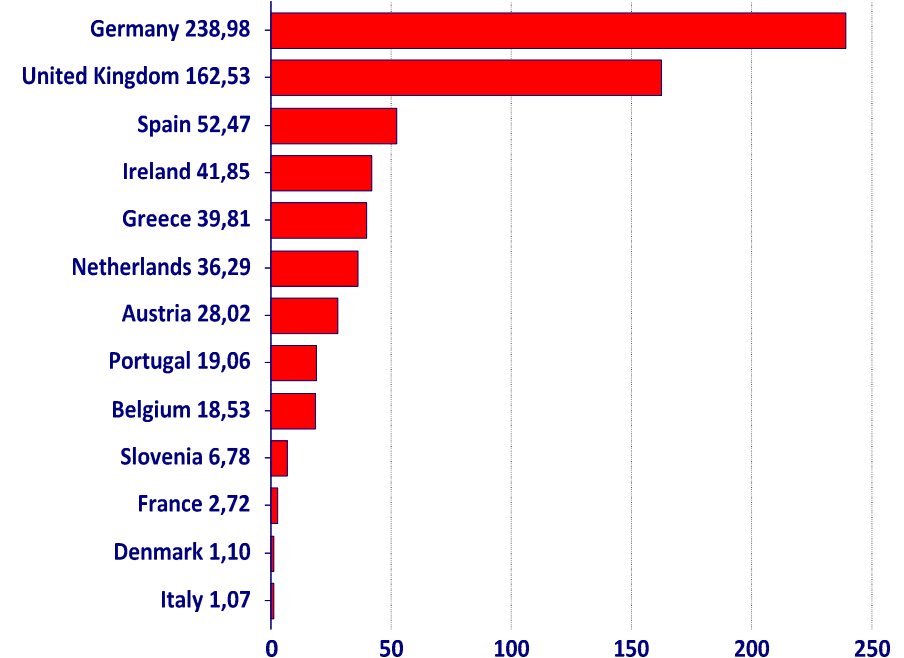
## EUROZONE NON PERFORMING LOANS

On total loans



## EUROPE – STATE BAILOUTS

Values in bn euro

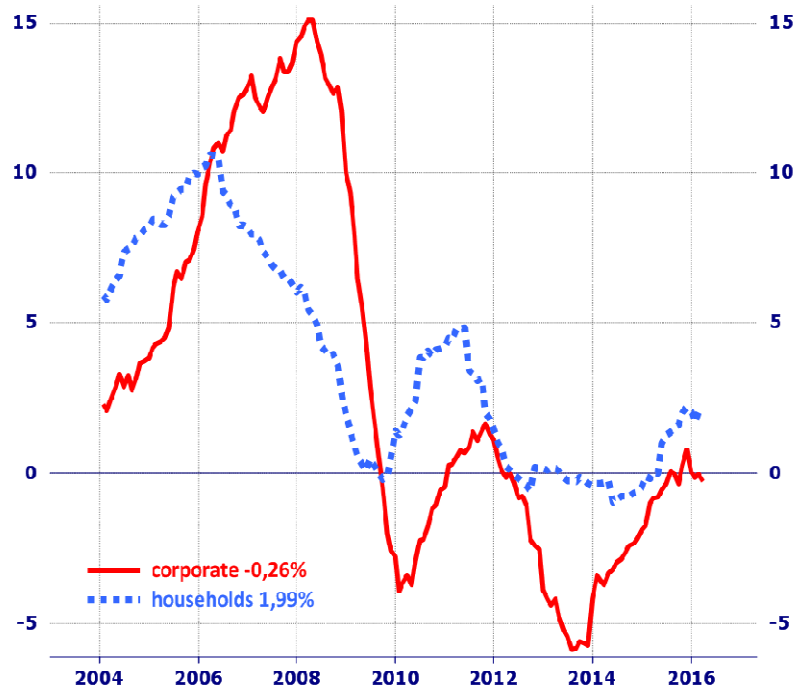




... Banking credit conditions have improved, with a generalised loosening of financial standards in many compartments, compression of the spreads across countries, and also the potential borrowers show greater dynamism and proactivity.

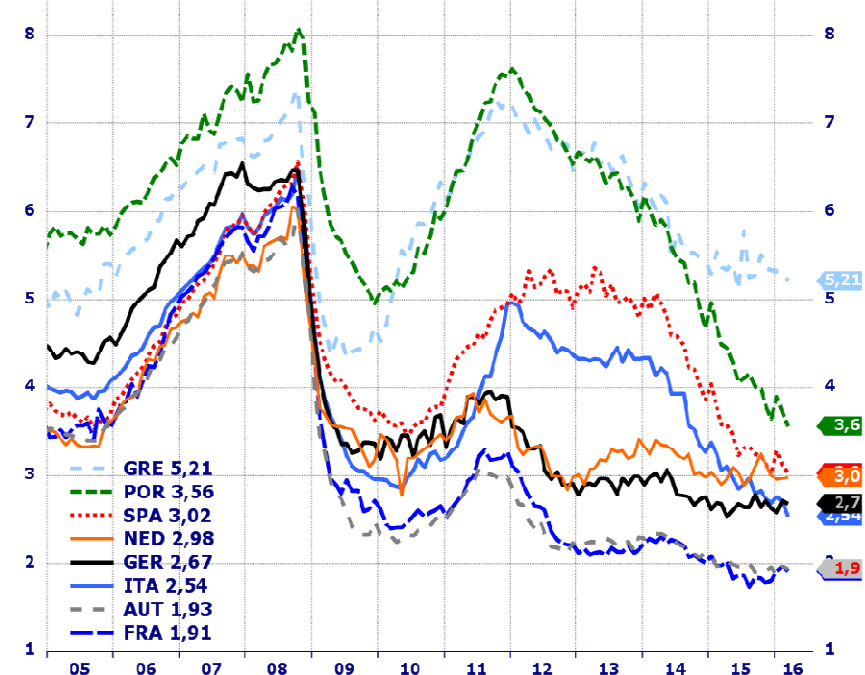
## EUROZONE – CREDIT

Annualised quarterly values



## EUROZONE – RATES ON LOANS

Business loans over 1 bn euro

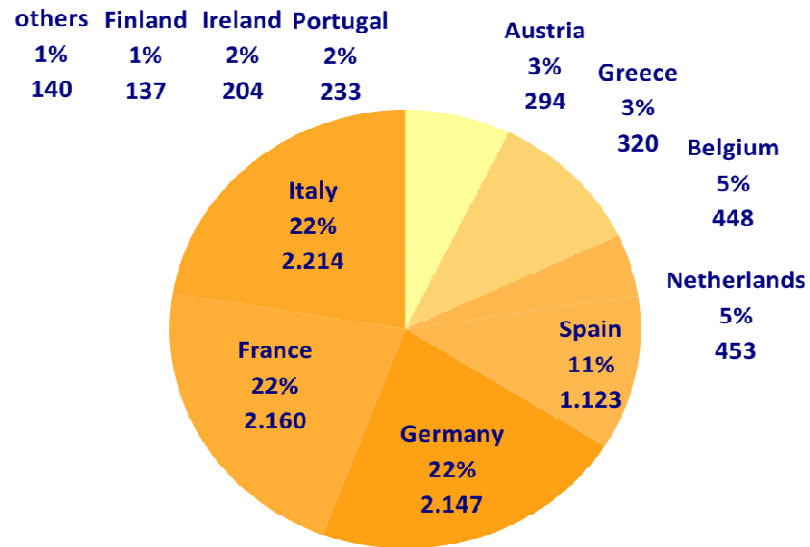


# PUBLIC FINANCE

Debt stability remains one of the critical points regarding the risk reduction target, an important point to arrive to risk sharing. The Fiscal Compact and the Banking Union will have a regulatory completion only with the activation of the European Resolution Fund and with the European Deposits Insurance Scheme.

## PUBLIC DEBT/GDP

European Commission – values in bn euro and % data



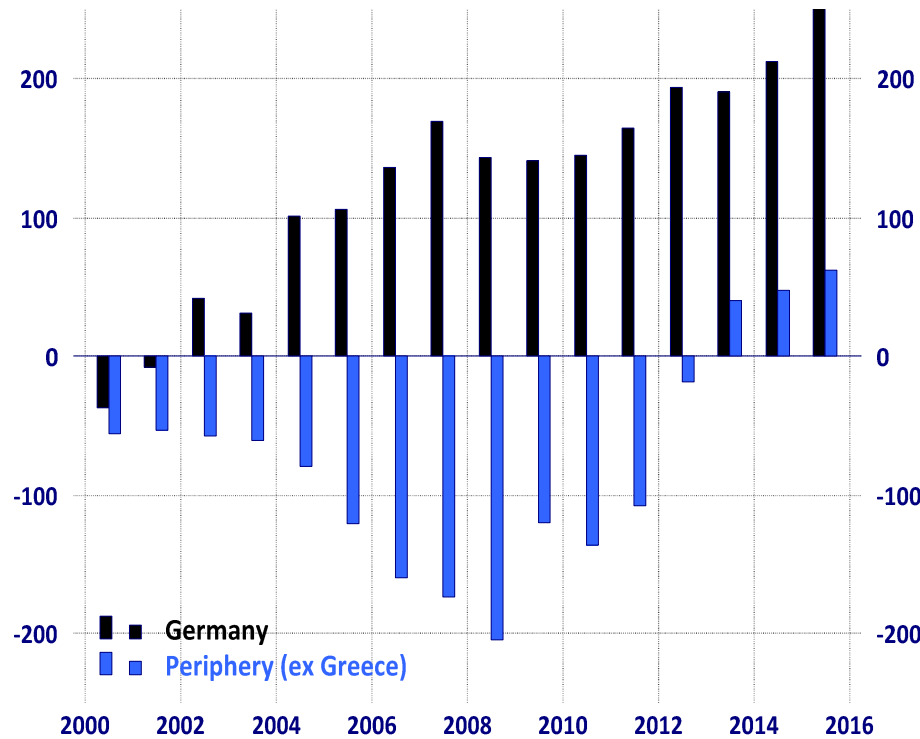
year 2016

other countries: Cyprus-Estonia-Lux-Malta-Slovakia-Slovenia

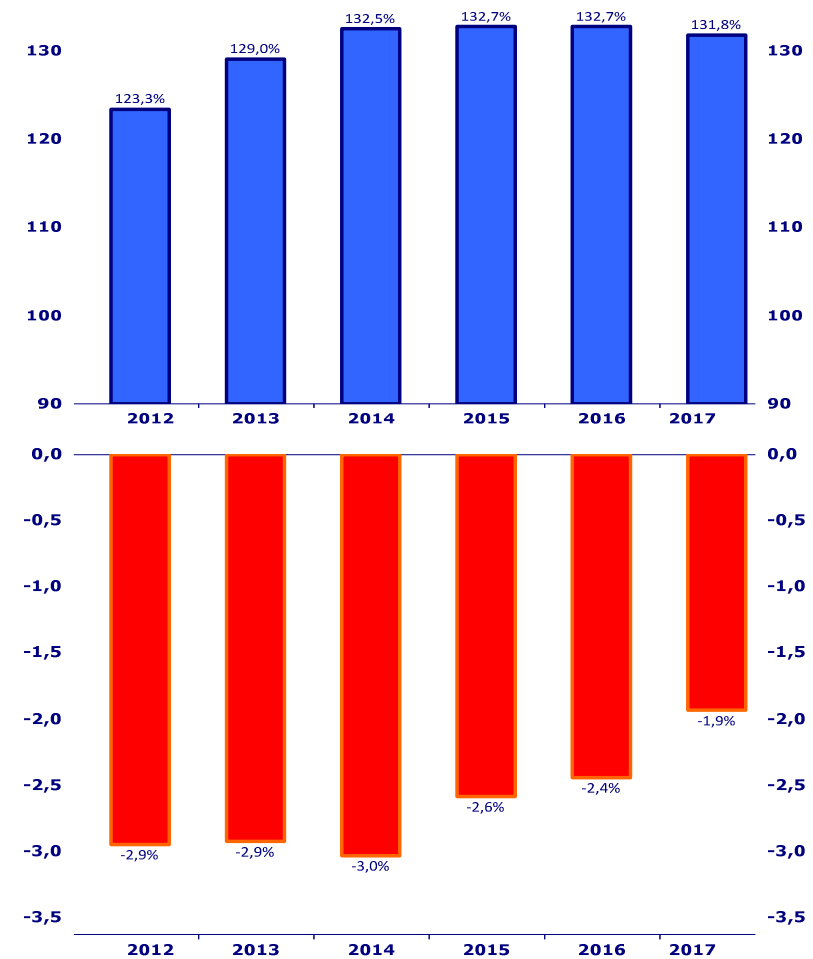
# PUBLIC FINANCE

Germany and the Netherlands raised the issue of limiting possession of national government bonds by banks, or a calculation method that, based on the quality of government bonds, takes into account the degree of capital absorption with decreasing strength of the issuer...

EUROZONE CURRENT ACCOUNTS  
bn euro



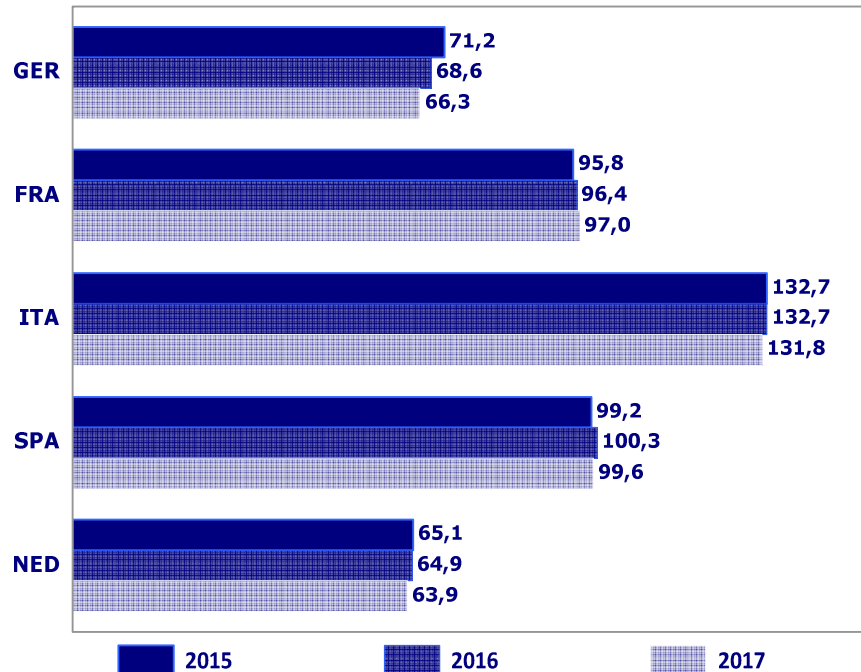
ITALY – DEFICIT AND DEBT  
deficit and debt on GDP



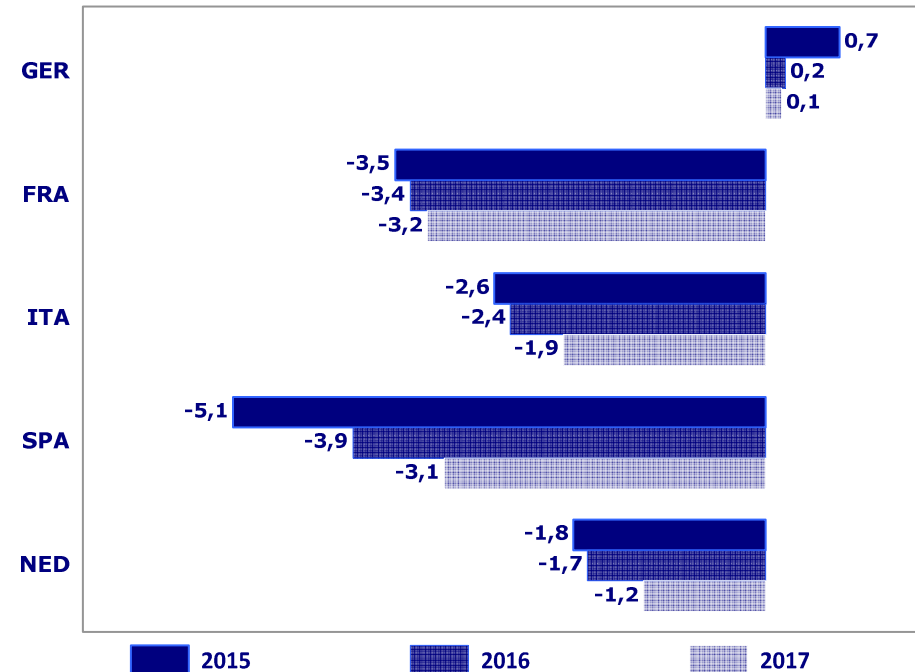
# EUROPEAN COMMISSION – MAY 2016 FORECASTS

According to the new forecasts by the Commission, Italy's debt on GDP ratio this year will be stable, and will decrease only in 2017. Other large Eurozone countries are in a similar condition, except Germany.

**EUROPEAN COMMISSION - DEBT/GDP**  
May 2016 - estimates 2015-2017



**DEBT-SURPLUS /GDP**  
May 2016 - estimates 2015-2017



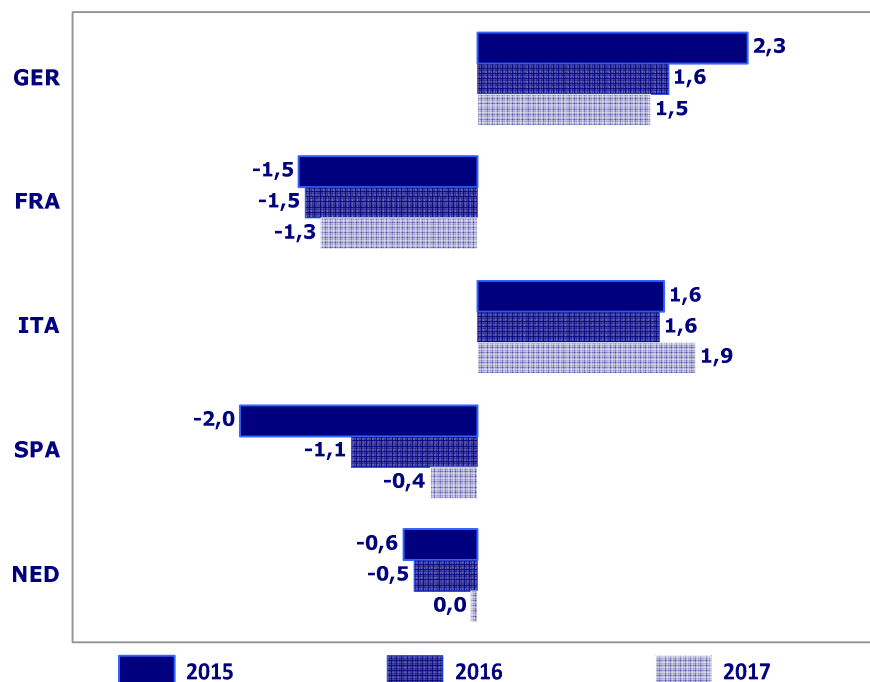


# EUROPEAN COMMISSION – MAY 2016 FORECASTS

The cycle adjusted balance and the structural balance of Italy worsen compared to previous forecasts, but the values are better than those of France and Spain. The Commission's evaluation on the government's accounts, scheduled for May 18, doesn't seem to face terrible obstacles.

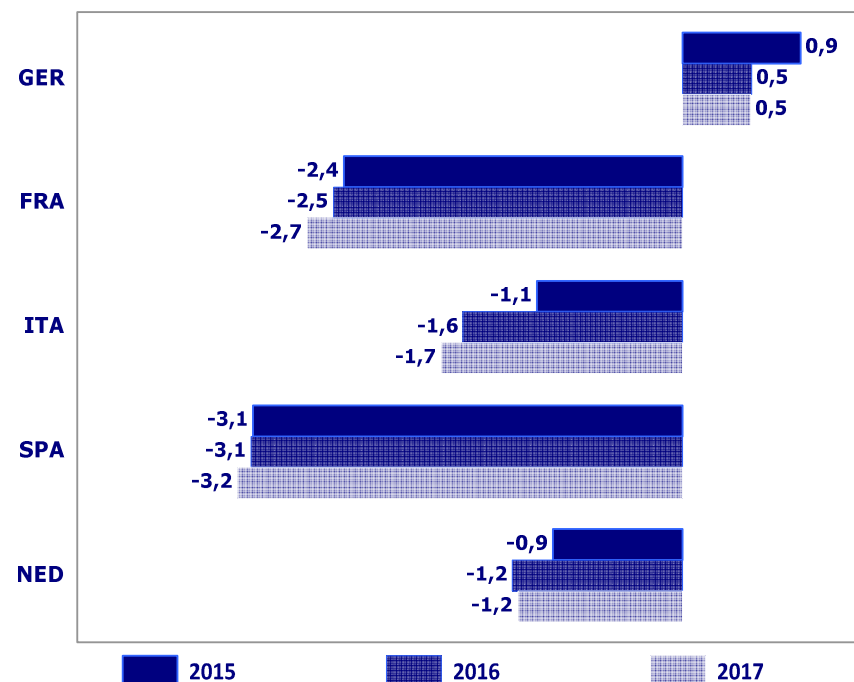
## SURPLUS-PRIMARY DEFICIT/GDP

May 2016 - estimates 2015-2017



## DEBT-SURPLUS/GDP ADJ. CYCLE

May 2016 - estimates 2015-2017



## DISCLAIMER

*The content of the preceding pages has been prepared by Banca Aletti&C. S.p.A. ("Banca Aletti") together with the European University Institute. Banca Aletti – belonging to the Gruppo Banco Popolare – is a broker authorized by law, listed in the Register of Banks, number 5383.*

*With this document Banca Aletti proposes to its customers' evaluation information retrieved from reliable sources in the system of financial markets and – where deemed necessary – its own opinion on the matter with possible commentary (notes, observations, evaluations).*

*We point out that the information provided, communicated in good faith and on the basis of data available at the moment, could be inexact, incomplete or not up to date and is apt to variation, even without notice, at any given moment.*

*This document cannot be in any way considered to be a sales or subscription or exchange offer, nor any form of soliciting sales, subscriptions or exchange of financial instruments or of investment in general and is neither a consulting in financial investment matters.*

*Banca Aletti is not responsible for the effects deriving from the use of this document. The information made available through the present document must not be considered as a recommendation or invitation on Banca Aletti's side to accomplish a particular transaction or to perform a specific operation.*

*Each investor should form his own independent persuasion, based exclusively on his own evaluations on the opportunity to invest. The decision to undertake any form of financial operation is at the exclusive risk of the addressees of the present disclaimer.*

*The source of all data and graphs is provided by Thomson Reuters where not otherwise specified.*

