



# Global Economy Report

March 2013



## 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 Center 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 14 2013**



## EXECUTIVE SUMMARY

- ❖ The winter forecasts of the European Commission have been revised downwards and now indicate that global growth in 2013 will be 3.2%, just slightly above the 3.1% value we experienced in 2012. In fact, there remain critical conditions and unbalances in several developed countries, and a sluggish recovery in emerging economies.
- ❖ Developed economies are still subject to sizable fiscal adjustments, combined with financial risks related to the sustainability of high levels of public debt in a low growth environment. In emerging markets, increasing inflation could lead to tightened monetary conditions and less expansionary fiscal policy.
- ❖ Global growth should accelerate in 2014 according to the European Commission, reaching 3.9%, a value lower than the 4.1% expected by the IMF just a few weeks ago.

## EXECUTIVE SUMMARY

- ❖ In terms of main economic areas, in the United States the beginning of the Sequestration implies a stronger fiscal drag than what we expected after the compromise that avoided the Fiscal Cliff. Moreover, private consumption in the first quarter of 2013 is penalized by the end of the Payrolls Tax Holiday. However, at the aggregate level, consumption is favoured by a wealth effect related to the good performance of the equity market and improved conditions in the real estate sector.
- ❖ Overall, we expect USA growth to reach 1.4% in 2013 and 2.7% in 2014, with the possibility of upward revisions in case of a good and retroactive agreement on the Sequestration.
- ❖ USA inflation is instead expected to be lower than 2% over the entire forecast period, thanks to the remaining substantial output gap and the overall mild recovery. More specifically, we expect the CPI headline to grow by 1.7% in 2013 and 1.6% in 2014, with corresponding values for the CPI core of 1.7% and 1.8%.

## EXECUTIVE SUMMARY

- ❖ At the beginning of 2013, macroeconomic data for the euro area outdid forecasts, both on the demand and on the supply side, with quarterly retail sales' growth at its highest in the past six years. However, production still declined in January after the strong slowdown of the end of 2012.
- ❖ The income trend remains very weak. In 2013Q1 near-recessive conditions will persist all over, except Germany, where we foresee an immediate return to growth after the 2012Q4 contraction.
- ❖ The European Commission updated its forecasts announcing that the Eurozone output for 2013 will shrink for the second year in a row (-0.3%), but will be positive in the next year (+1.4%).
- ❖ The contribution of internal demand to income creation will be negative in all its components (consumption, investment, stock), leaving the job of harnessing the fall to international trade.

## EXECUTIVE SUMMARY

- ❖ The slow growth of internal demand is also due to difficult credit conditions in the area. These reflect both low demand from consumers and firms, and low supply from banks, with tightened credit standards.
- ❖ The qualitative indicators signal however an improvement of the economic conditions at the aggregate level and for Germany, whereas there is a significant decline for Italy and, notably, for France.
- ❖ Inflation continues to slowdown, with the general index at 1.8% in February (the minimum since September 2010) and the core index at 1.3% (the minimum since August 2011). We expect inflation to remain below 2% at least until 2014.
- ❖ In this issue of the report we will focus on the economic conditions in the euro area.

## EXECUTIVE SUMMARY

- ❖ For Japan, we expect the end of the recession and a gradual recovery, mostly due to the more expansionary fiscal policy and more aggressive monetary policy.
- ❖ For China, there are some doubts about the strength of the recovery due to some data released in February and the possibility of a tightening of the monetary conditions later on in 2013. However, overall there remains a favourable scenario.
- ❖ For Brasil, India and China, the forecasts made by the European Commission appear sensible. Specifically, the EC expects a growth rate of 3.5% for Brasil in 2013 (much higher than the 1% of 2012), further increasing to 4% in 2014. India should follow a similar pattern, with the growth rate of 4.8 in 2012 followed by 5.8% this year and 6.6% next one. Finally, Russia's Gross Domestic Product should increase by 3.7% in 2013 (slightly higher than the 3.4% of 2012) and by 3.9% in 2014

# EXECUTIVE SUMMARY

## GENERAL MACRO SUMMARY

	2009	2010	2011	2012	2013E	2014E
GDP (%YOY)						
US	-3.1	2.4	1.8	2.2	1.4	2.7
EUROZONE	-4.4	2.0	1.4	-0.5	-0.4	1.0
GERMANY	-5.1	4.2	3.0	0.7	0.3	1.4
FRANCE	-3.1	1.7	1.7	0.0	-0.1	1.0
ITALY	-5.5	1.8	0.4	-2.2	-1.3	0.5
JAPAN	-5.5	4.7	-0.6	2.0	1.1	1.8
BRASIL	-0.3	7.6	2.8	0.9	3.5	4.0
RUSSIA	-7.8	4.3	4.3	3.4	3.3	3.7
INDIA	6.4	8.9	7.5	5.2	5.4	6.3
CHINA	9.2	10.4	9.3	7.8	8.1	8.0
AUSTRALIA	1.4	2.6	1.4	3.5	2.6	3.0
COREA	0.3	6.3	3.6	2.0	3.2	3.9
INFLATION (%YOY)						
US	-0.4	1.6	3.2	2.1	1.5	2.1
EUROZONE	0.3	1.6	2.7	2.5	1.8	1.7
GERMANY	0.2	1.2	2.5	2.1	1.9	1.9
FRANCE	0.1	1.7	2.3	2.2	1.6	1.8
ITALY	0.8	1.6	2.9	3.3	2.0	1.8
JAPAN	-1.3	-0.7	-0.3	0.0	0.1	2.0
BRASIL	4.9	5.0	6.6	5.4	5.9	5.6
RUSSIA	11.7	6.9	8.5	5.0	6.5	5.6
INDIA	10.8	12.1	8.9	9.3	9.2	7.8
CHINA	-0.7	3.3	5.4	2.7	3.0	3.5
AUSTRALIA	1.8	2.9	3.3	1.8	2.6	2.6
COREA	2.8	3.0	4.0	2.2	2.6	3.0

Our Forecast

Cons. Bloomberg (Mar 13)



## FOCUS ON THE EURO AREA

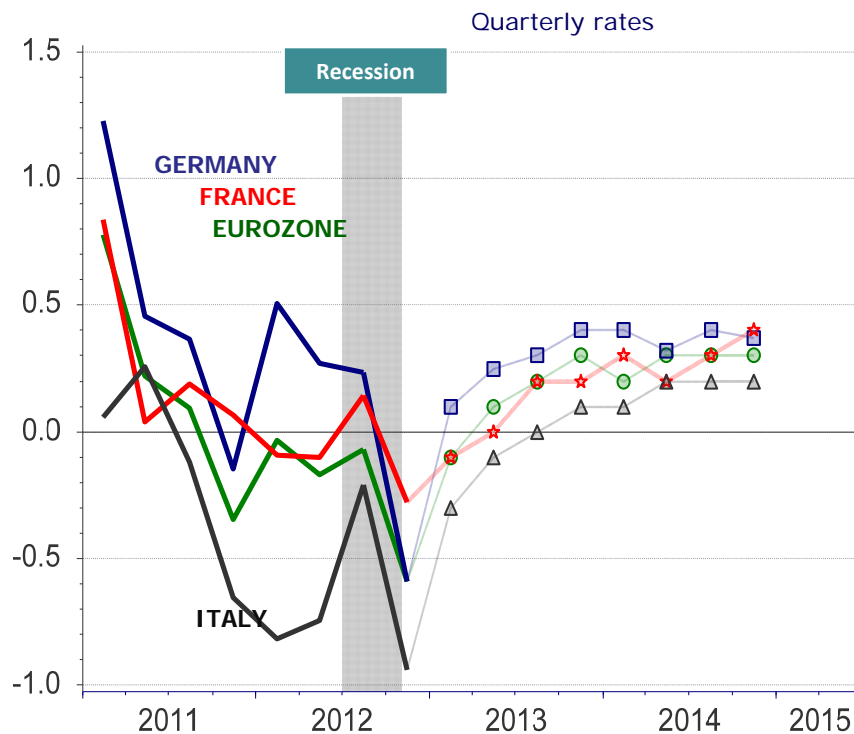


# GROWTH AND INFLATION

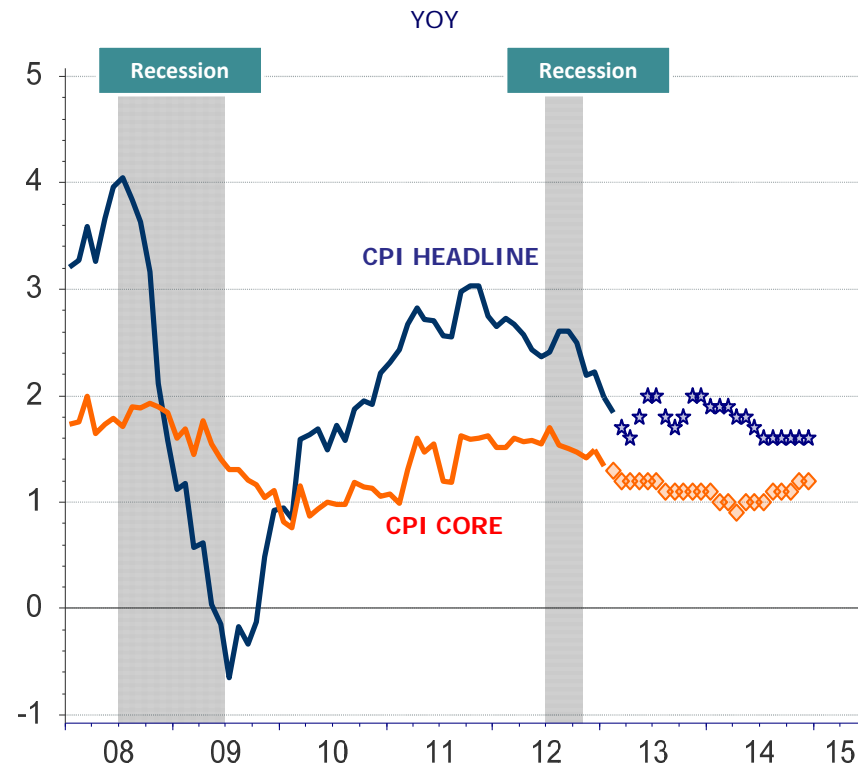
The European recession so far has embraced five consecutive quarters, equaling the previous one of 2008/09 in terms of time span, although of lesser intensity. Growth should return positive during 2013, though to a limited extent and with substantial heterogeneity across euro area member countries.

Inflation is under control, with forecasts below 2% for the headline until 2015, and even lower expected values for core inflation.

## GROSS DOMESTIC PRODUCT



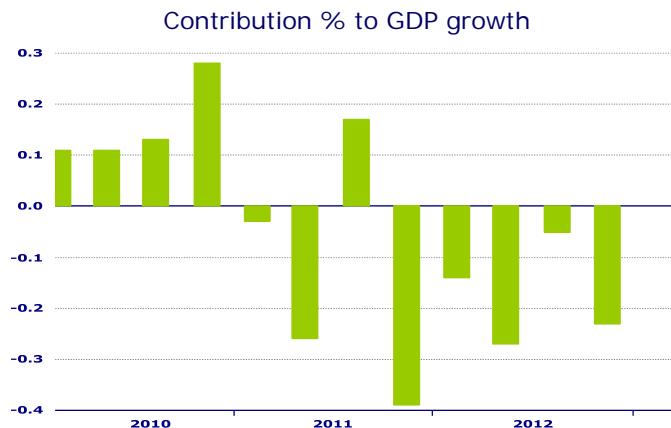
## INFLATION



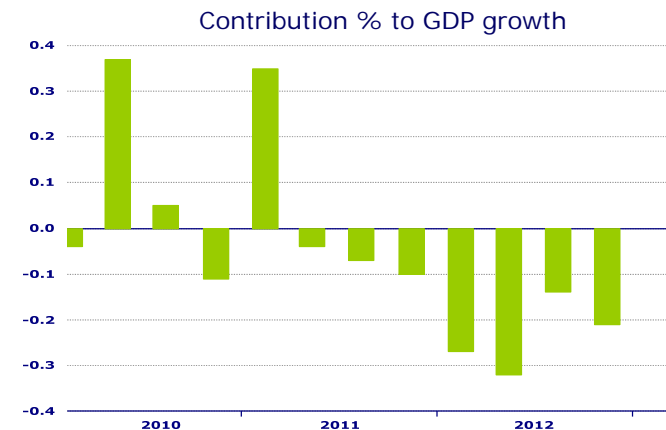
# GROWTH AND INFLATION

All the components of internal demand contributed negatively to the growth of GDP, but for the first time after 11 quarters, also international trade gave a practically null contribution in 2012Q4.

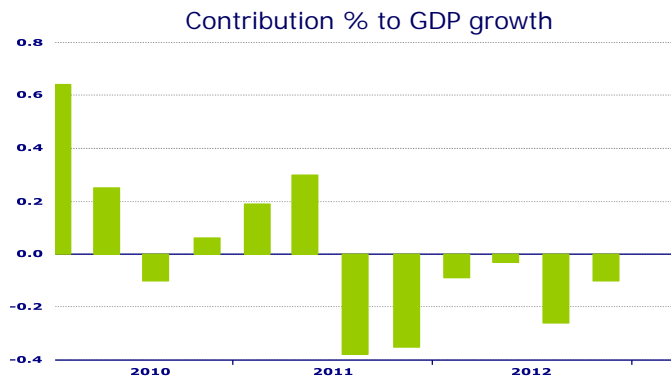
## PRIVATE CONSUMPTION



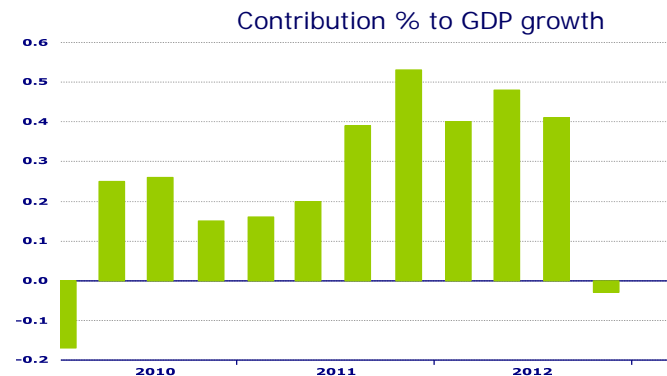
## INVESTMENT



## INVENTORIES



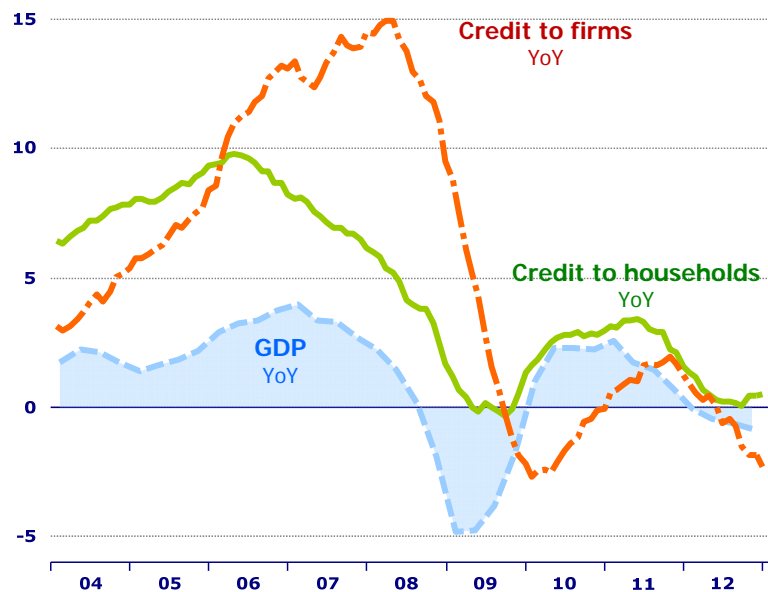
## NET EXPORT



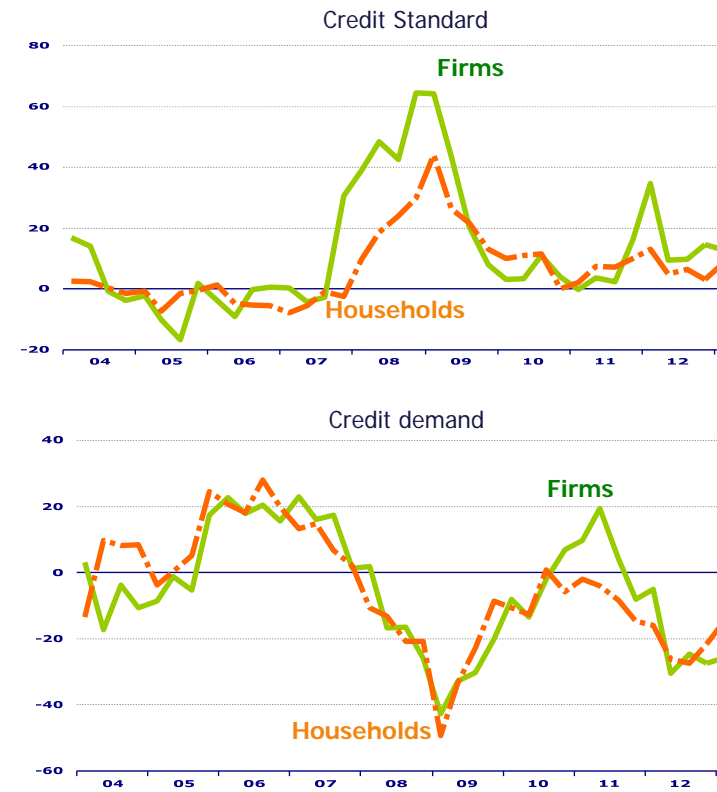
# CREDIT CONDITIONS

The slow growth of internal demand is also due to difficult credit conditions in the area. These reflect both low demand from consumers and firms, and low supply from banks, with tightened credit standards

CREDIT AND GROWTH



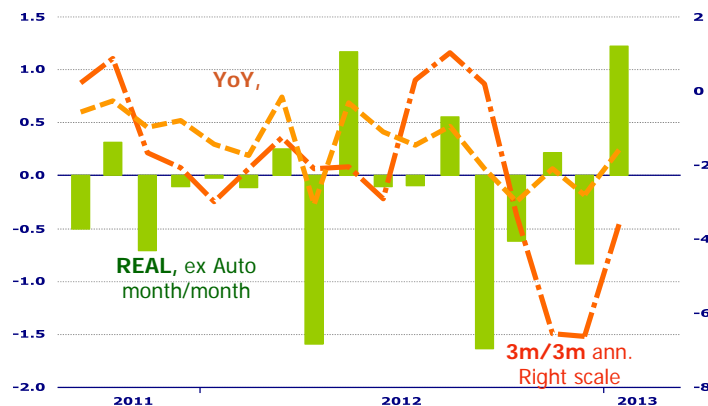
CREDIT CONDITIONS



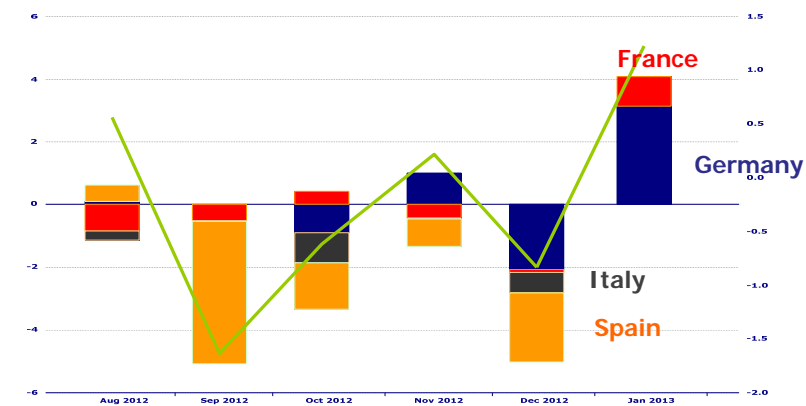
# HOUSEHOLDS' CONSUMPTION

2013 started with the strongest retail sales' growth ever recorded in Germany over the past six years: a 3.1% increase on a monthly basis, the maximum since December 2006. Also France started the new year on a positive note, with a 0.9% growth in sales, the strongest in the last seven months. At the aggregate level, growth was at 1.2%, the best performance since 2010.

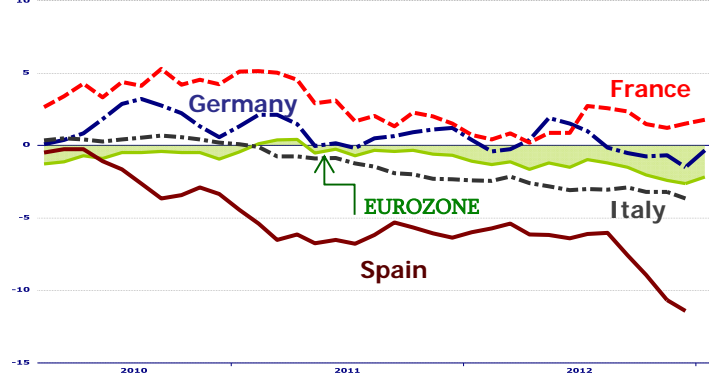
RETAIL SALES



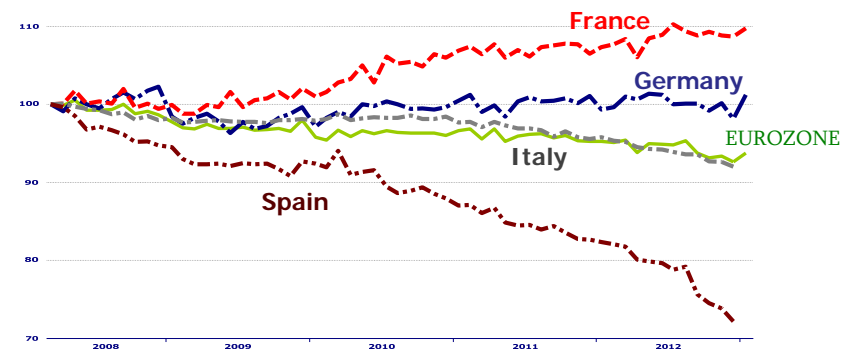
MAIN COUNTRIES



MAIN COUNTRIES

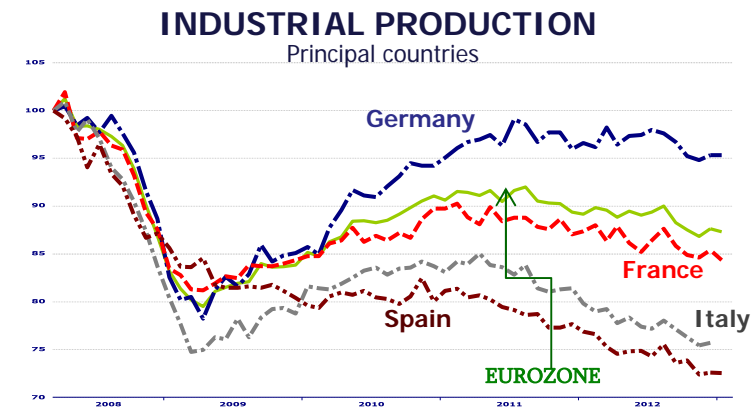
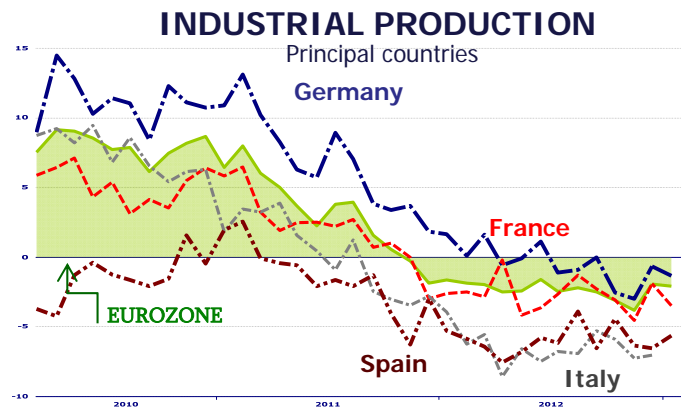
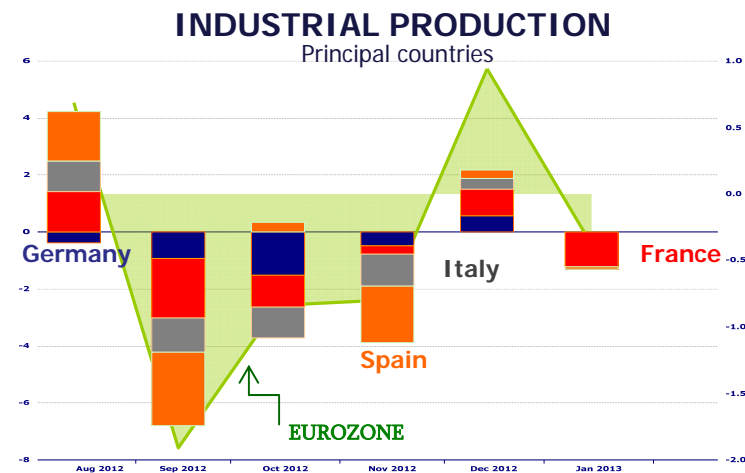
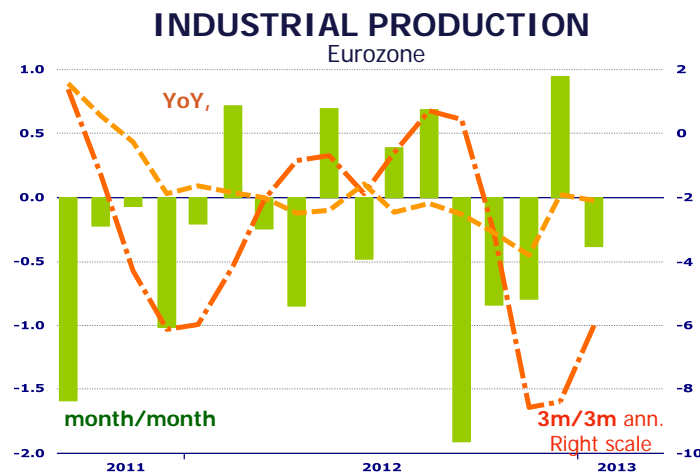


NORMALIZED LEVELS



# PRODUCTION

On the supply side, the beginning of 2013 has been markedly more uncertain, with stagnant industrial production in Germany, a strong decrease in France (-1.2% monthly, much worse than expected) and a more modest one in Spain (-0.1%), resulting in an aggregate decrease of -0.4%.

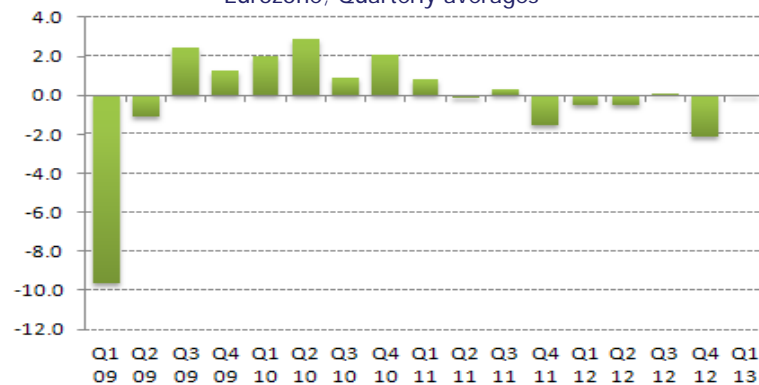


# PRODUCTION

The quarterly averages are negative in France and Spain, slightly positive in Germany, while the aggregate is unchanged, but are compatible with an overall contribution of industrial production to growth which is better than in the previous quarter.

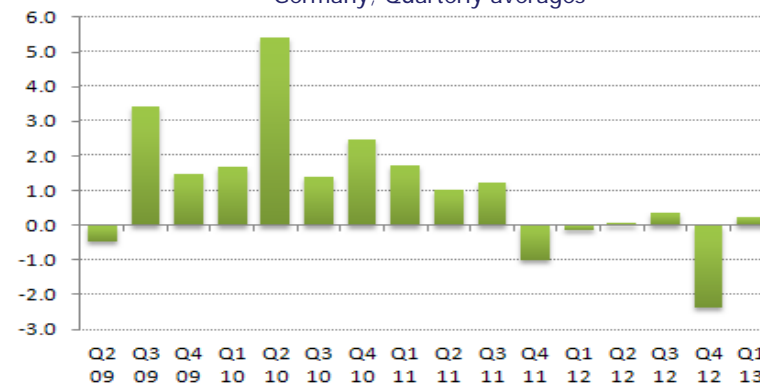
## INDUSTRIAL PRODUCTION

Eurozone; Quarterly averages



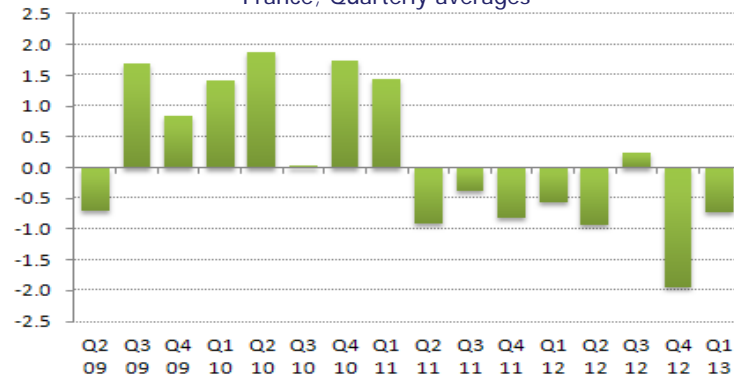
## INDUSTRIAL PRODUCTION

Germany; Quarterly averages



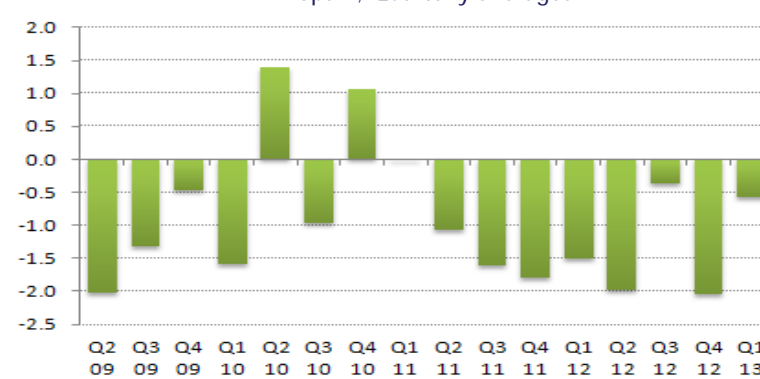
## INDUSTRIAL PRODUCTION

France; Quarterly averages



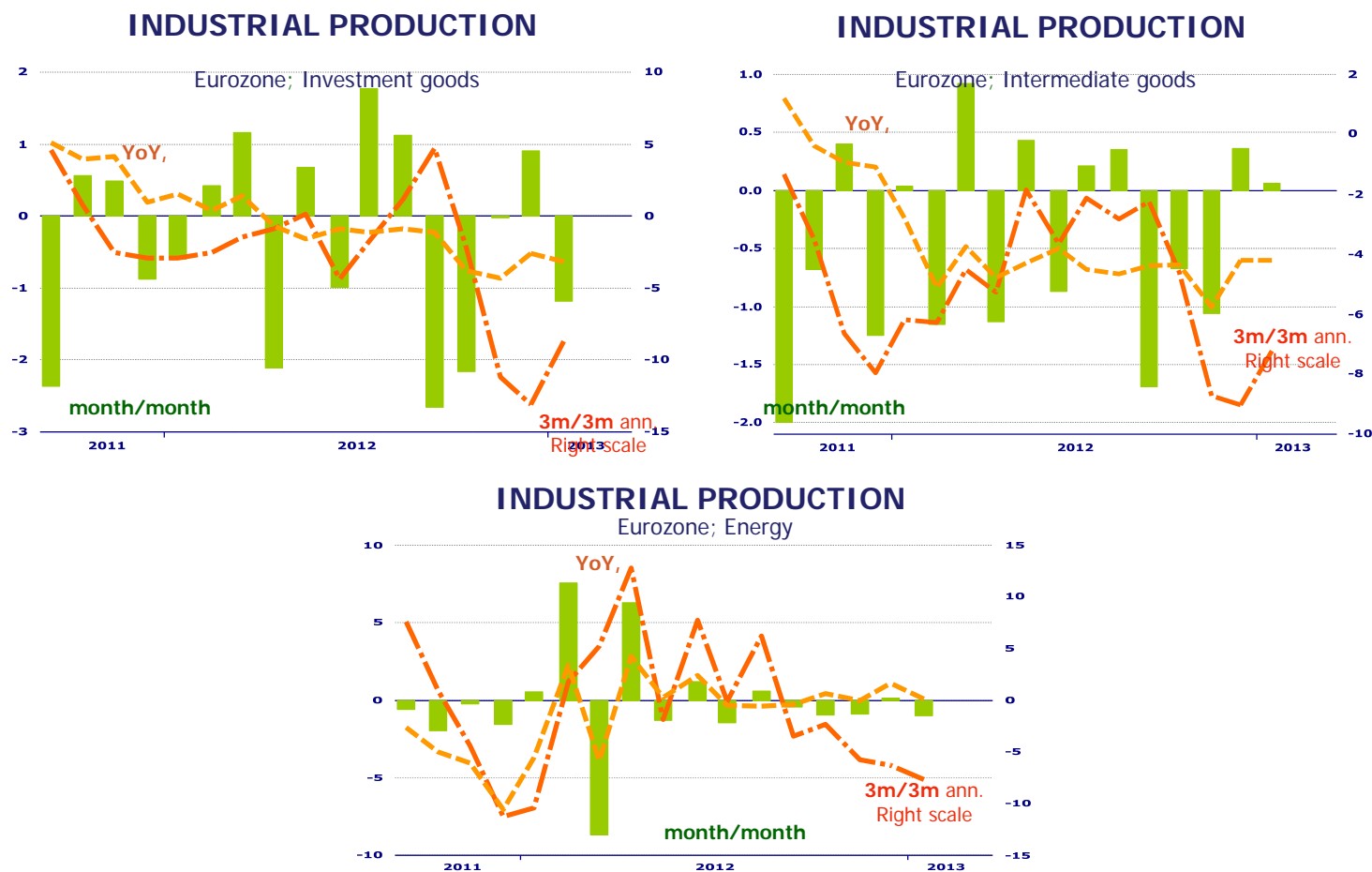
## INDUSTRIAL PRODUCTION

Spain; Quarterly averages



# PRODUCTION

The intermediate goods sector supported the industrial compartment in the first part of the year...



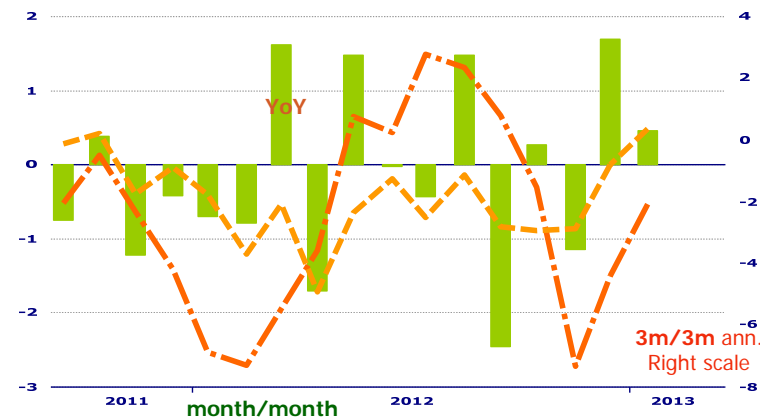


# PRODUCTION

... together with the production of durable goods, which is improving for the second month in a row.

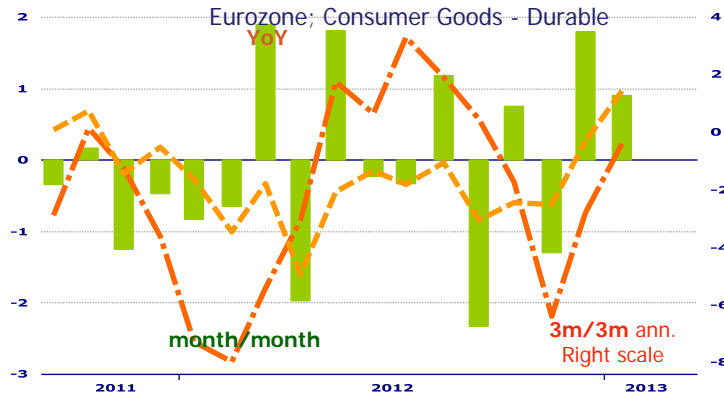
## INDUSTRIAL PRODUCTION

Eurozone; Consumer Goods - Total



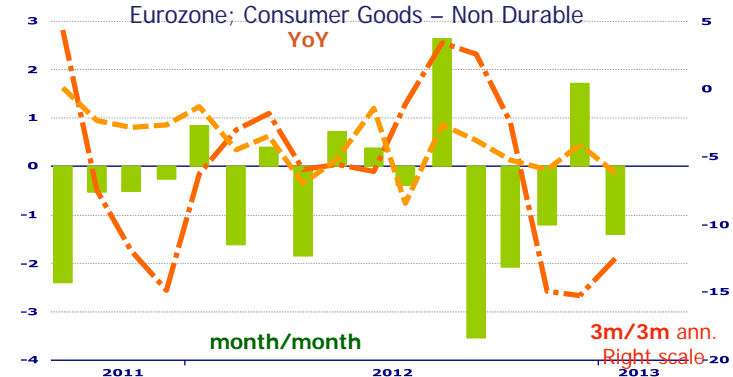
## INDUSTRIAL PRODUCTION

Eurozone; Consumer Goods - Durable



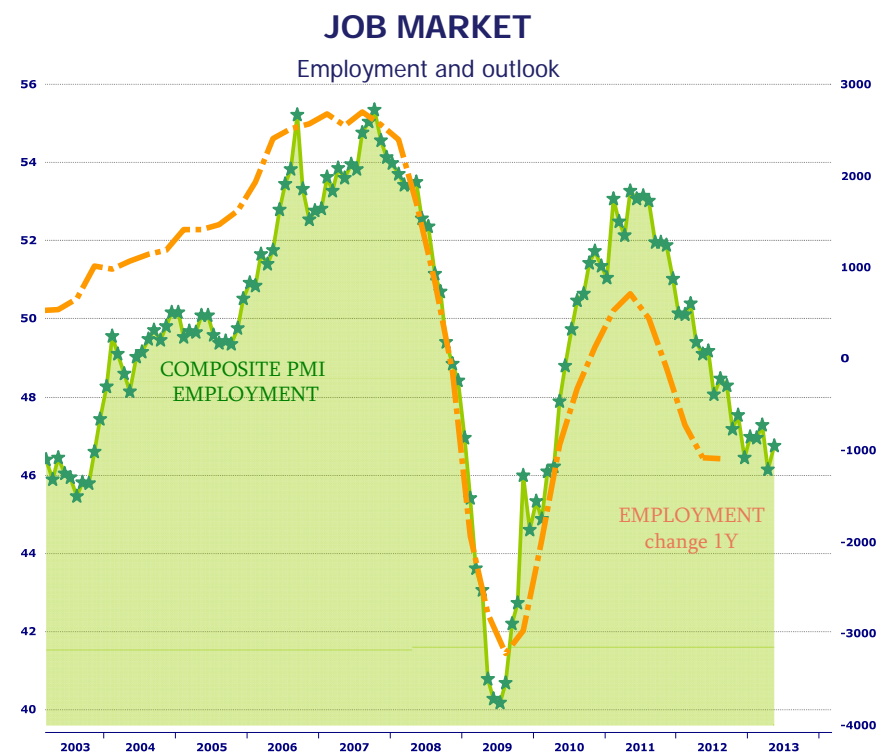
## INDUSTRIAL PRODUCTION

Eurozone; Consumer Goods - Non Durable



# JOB MARKET

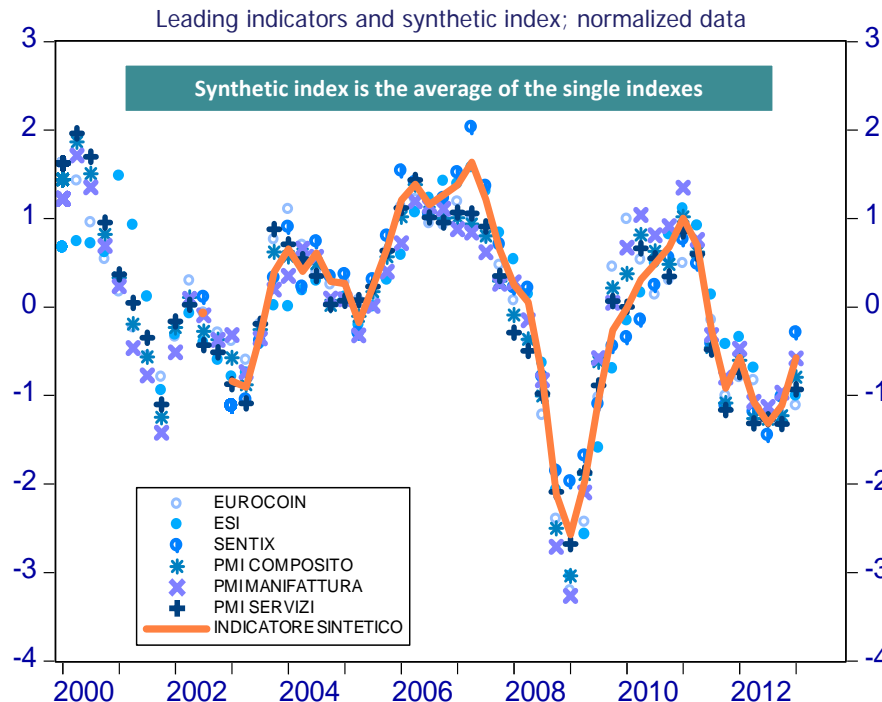
There's no sign of job market recovery: the continuous increase in unemployed pushes the rate of unemployment to new records constantly (11.9% record in January). The qualitative indicators signal a persistent worsening of the underlying conditions...



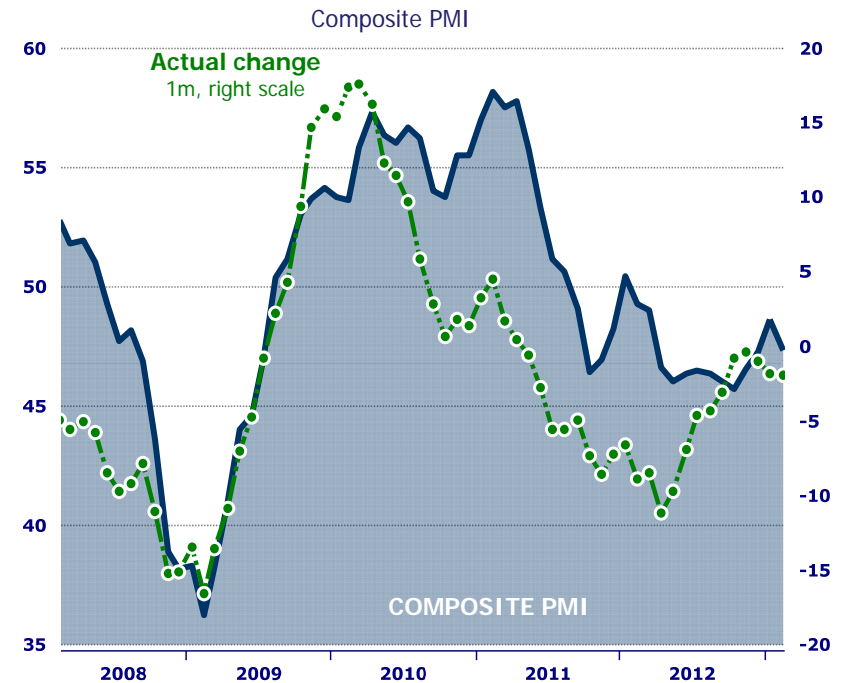
# LEADING INDICATORS

According to the first releases of 2013, the principal leading indicators have improved, increasing since the lows registered around the end of 2012Q2. The synthetic indicator is completing an inversion in trend, with a relative maximum for this year. However, taking a longer term perspective, the current levels remain modest, leaving high uncertainty on real potential for economic recovery. The composite PMI (one of the indicators strongly correlated with income) is at 47.3, indicating persistent contraction of economic activity.

## EUROZONE



## EUROZONE

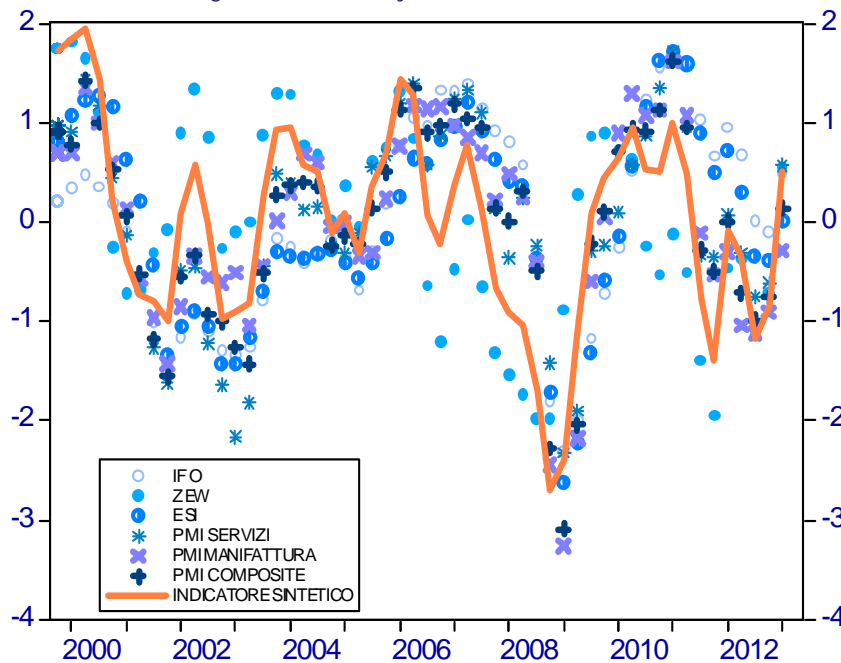


# LEADING INDICATORS

The upturn of leading indicators is more aggressive in Germany, where the synthetic indicator -in almost vertical growth in the recent period- is at the maximum levels of the past two years. The composite PMI, at 52.7 in February, confirms that the largest Eurozone economy has quickly recovered from the 2012Q4 fall, returning to expansion already in the first months of 2013.

## GERMANY

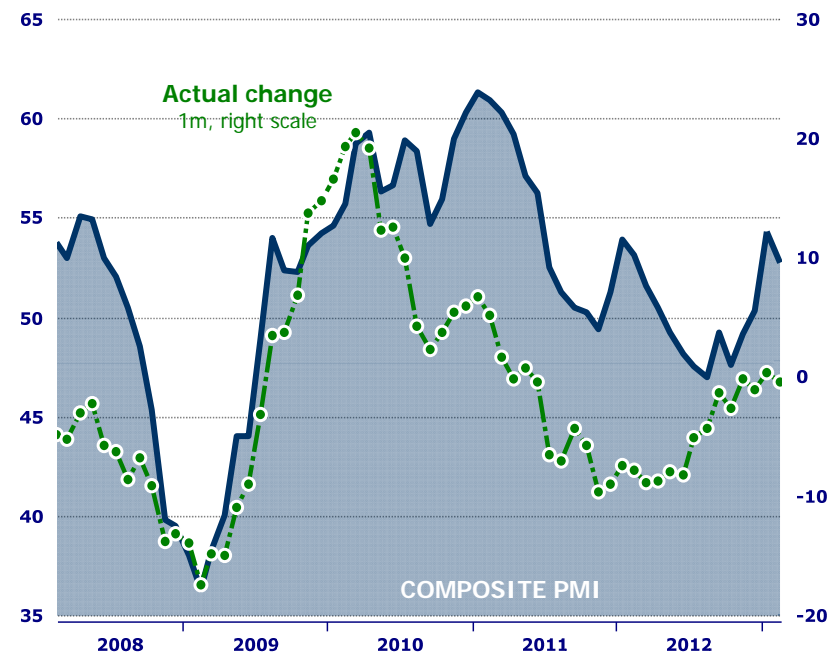
Leading indicators and synthetic index; normalized data



Synthetic index is the average of the single indexes

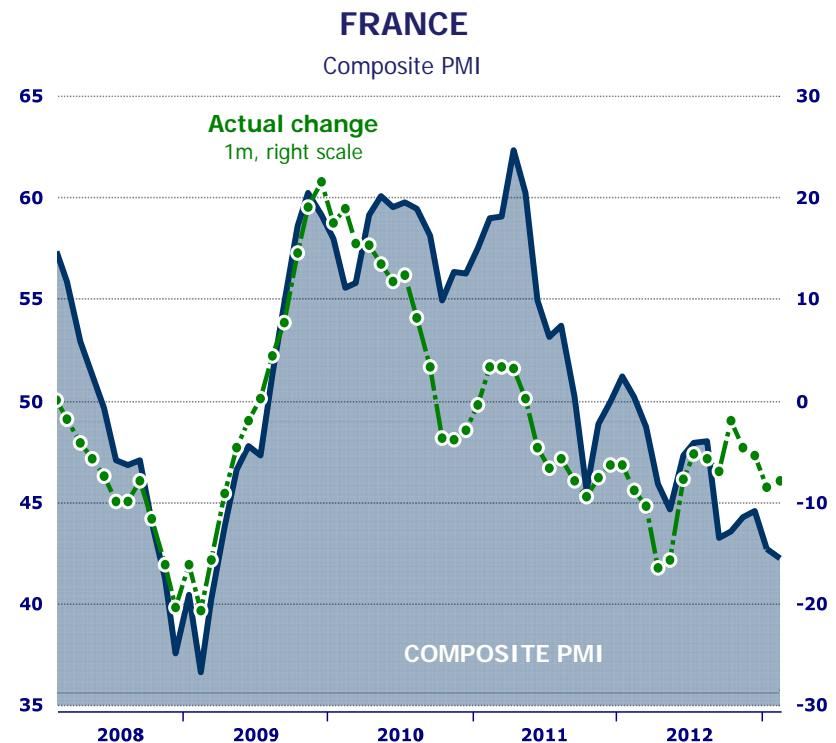
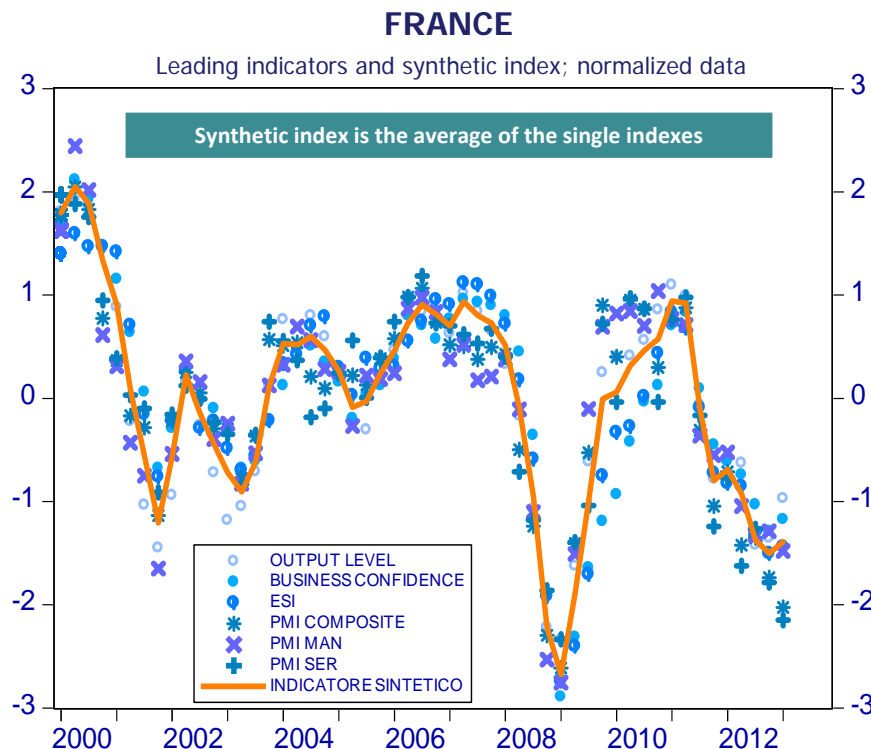
## GERMANY

Composite PMI



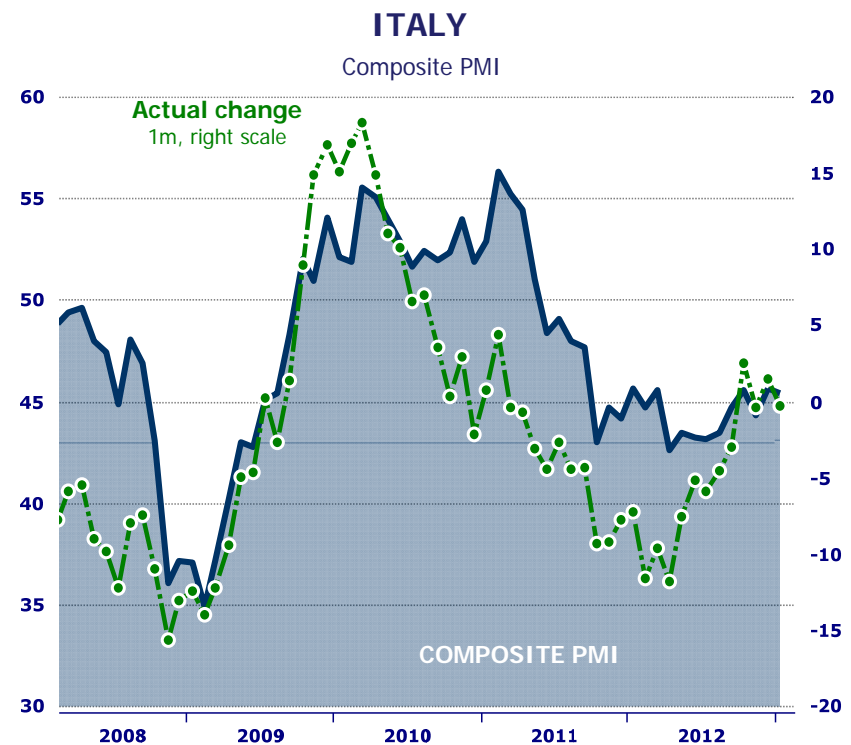
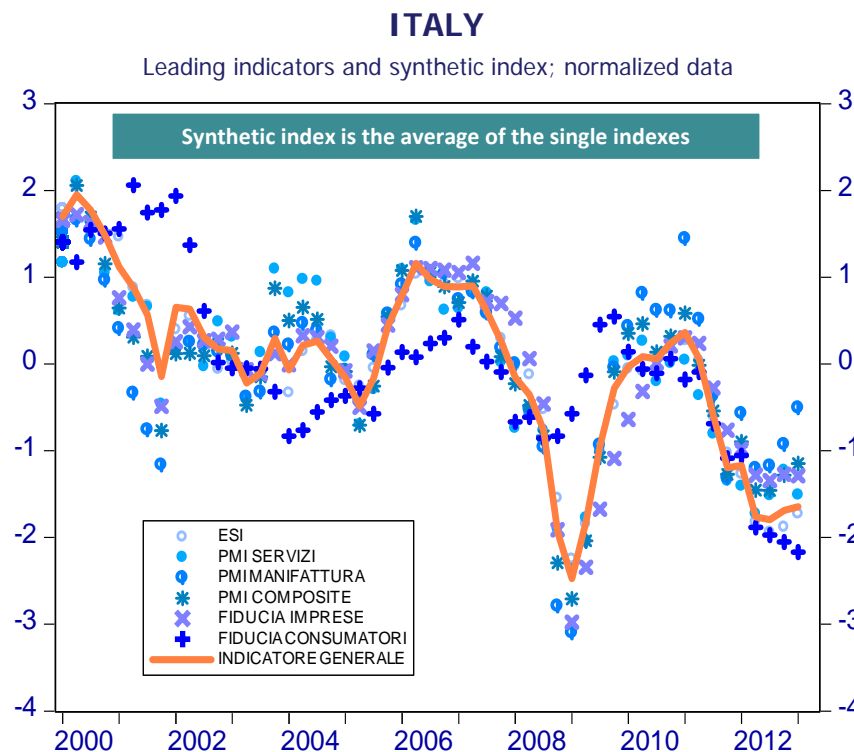
# LEADING INDICATORS

The vigorous improvement on economic climate in Germany is offset by serious and protracted loss of confidence in France, that is reaching critical dimensions. The risk of recession for the second Eurozone economy is growing, with potential negative effects on aggregate growth. The Composite PMI fell in February at 42.7, the worst in the last four years, compatible with a scenario of severe contraction of economic activity.



# LEADING INDICATORS

In Italy, the leading indicators suggest on average a mild improvement in economic activity at the beginning of 2013, which is insufficient however to exit from the recession. The Composite PMI is stable around 45 since several months, in full contraction area.

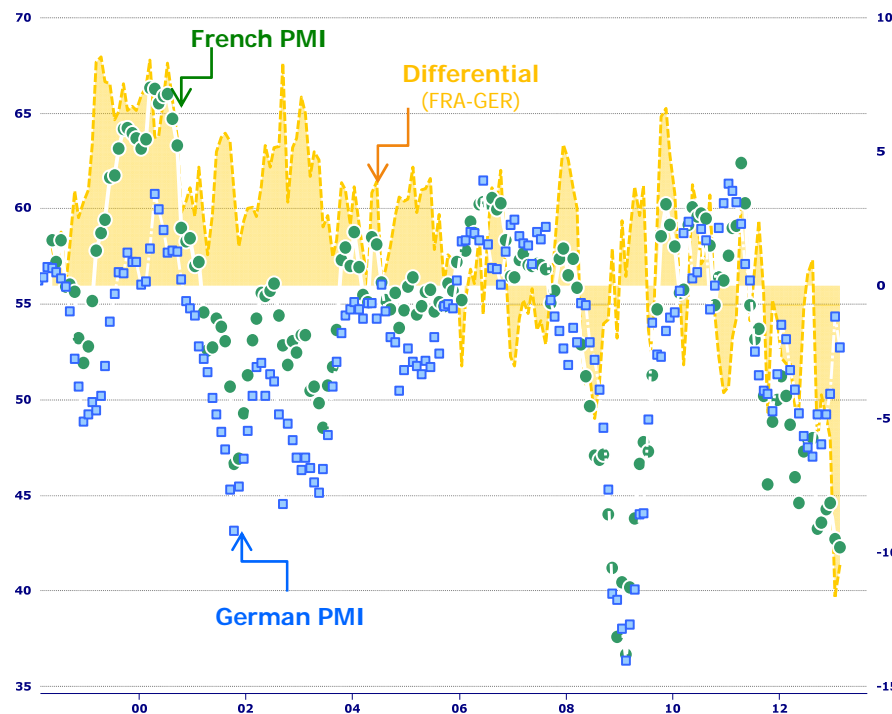


# LEADING INDICATORS

The differential between the French and German growth trajectories is historically exceptional, as signaled by the maximum difference between the PMI indexes of the two countries (over 10 points!). The differential between Italy and Germany is also large, but in line with the average of the past three year period.

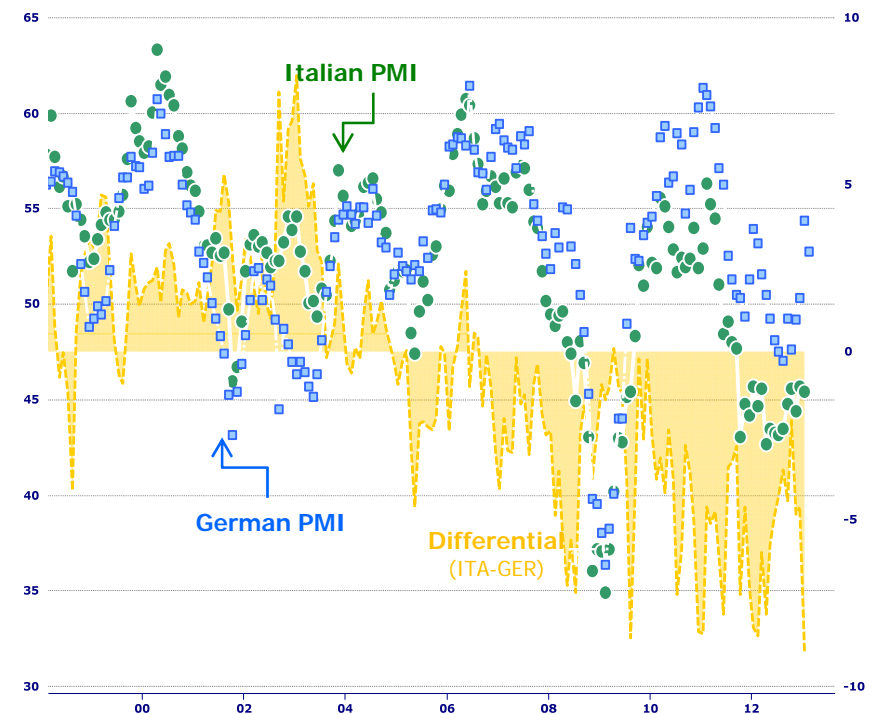
## FRANCE

France-Germany PMI comparison



## ITALY

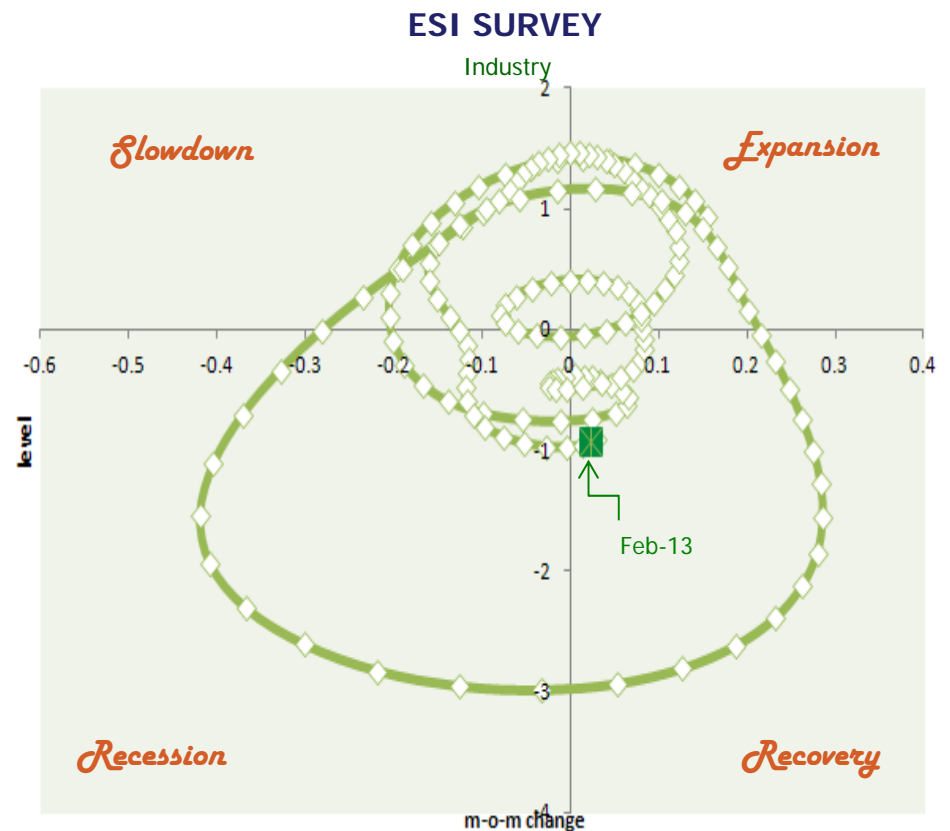
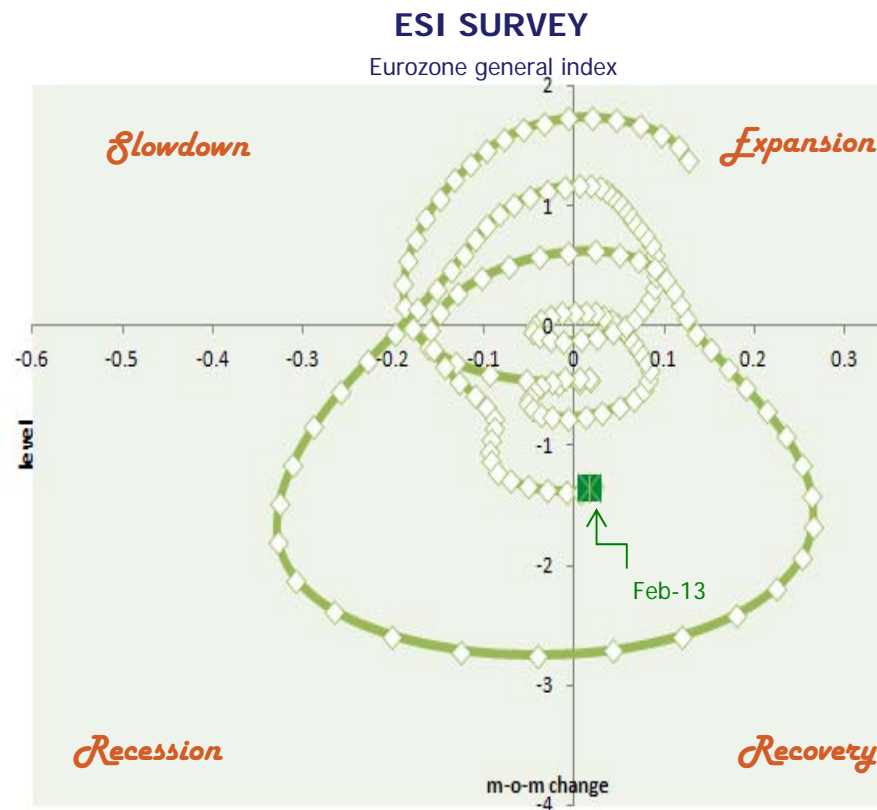
Italy-Germany PMI comparison





# THE CYCLES' METRICS

With the February 2013 data, the EU Commission ESI synthetic index has completed its path in the recessive quadrant and entered for the first time in the recovery area. The indicator for the industrial sector has simultaneously completed a similar path. The signal closes (at least for now) a series of 18 consecutive series in the most negative quadrant.

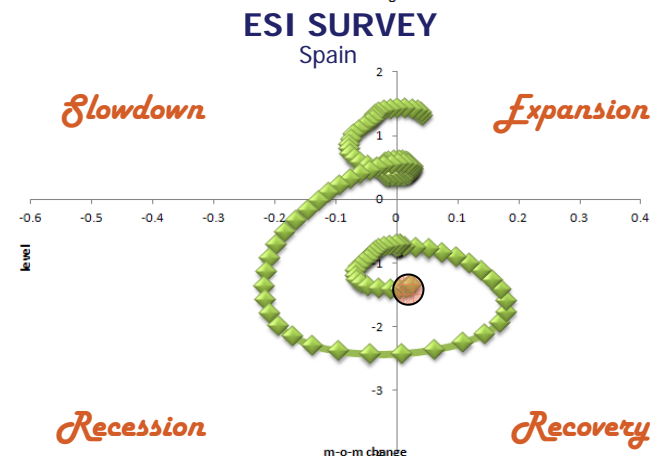
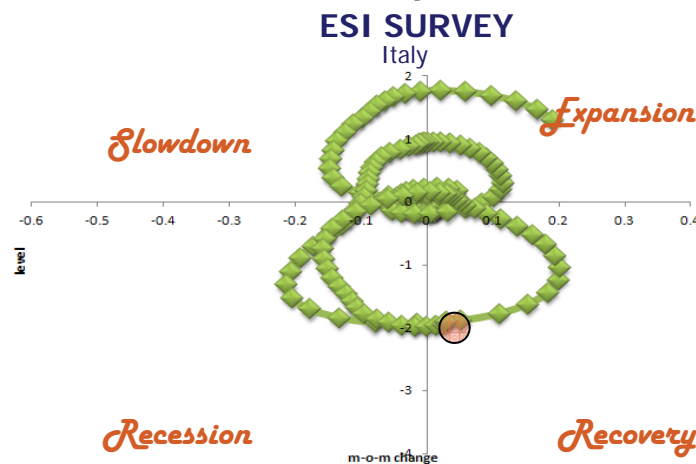
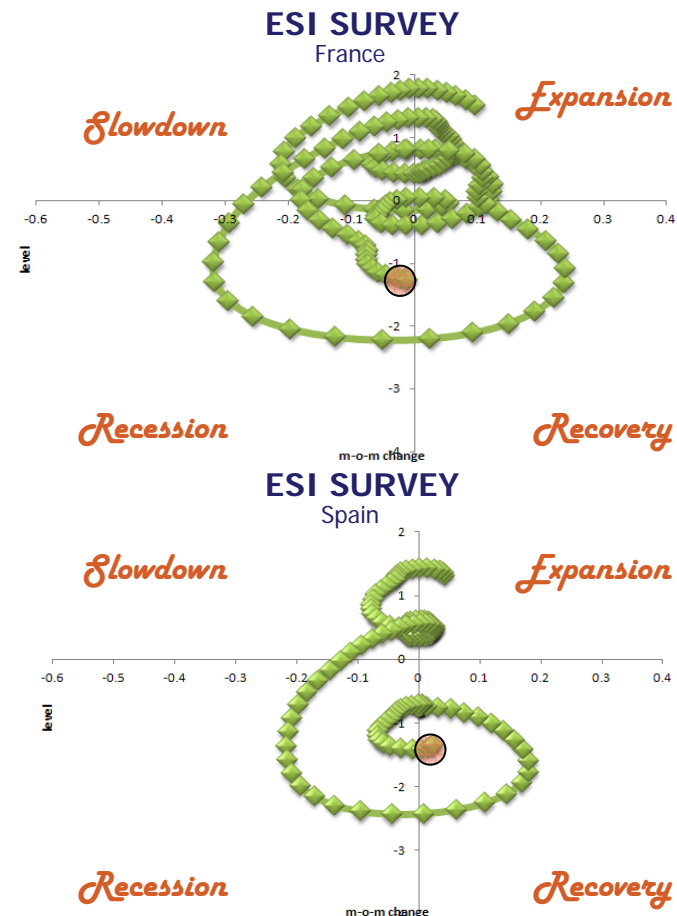
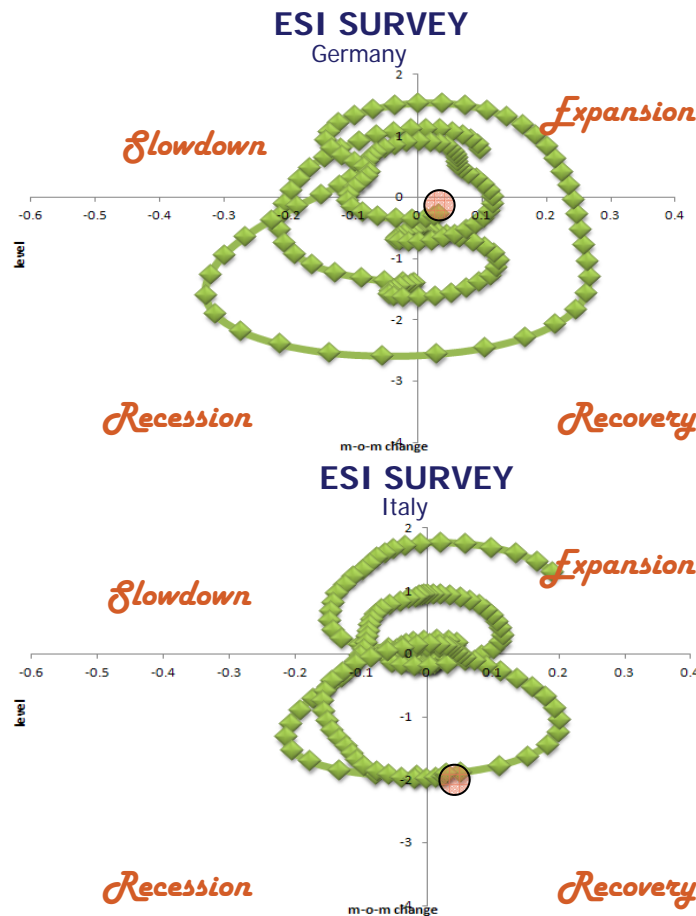






# THE CYCLES' METRICS

Germany, Italy and Spain simultaneously entered a recovery area although in a marginal manner in the case of Italy and Spain; the situation is sensibly worse for France, that remains in the recessive quadrant.

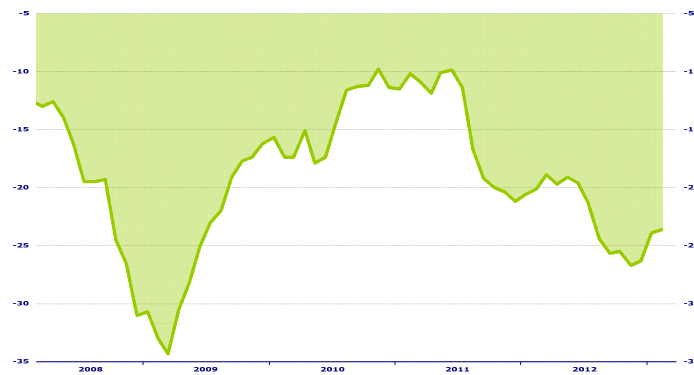


# CONSUMER CONFIDENCE

The beginning of the new year shows a discontinuity in families' confidence: the sentiment is less negative, but the absolute levels remain depressed and historically modest.

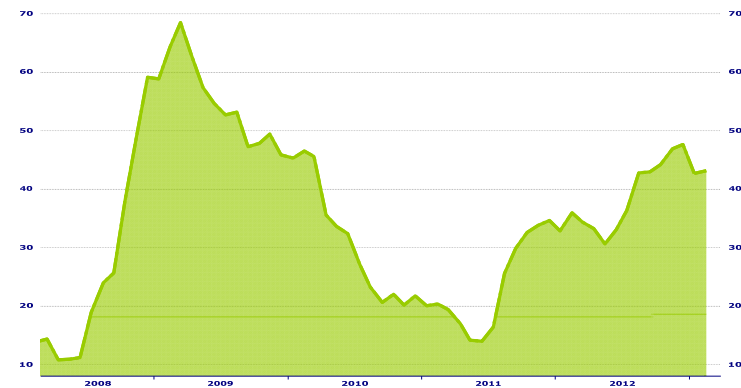
## CONSUMER CONFIDENCE

UE Commission Survey– Feb 13



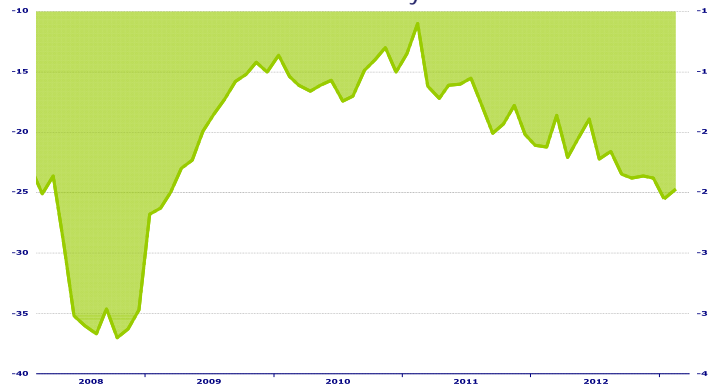
## JOB MARKET

Expected Unemployment



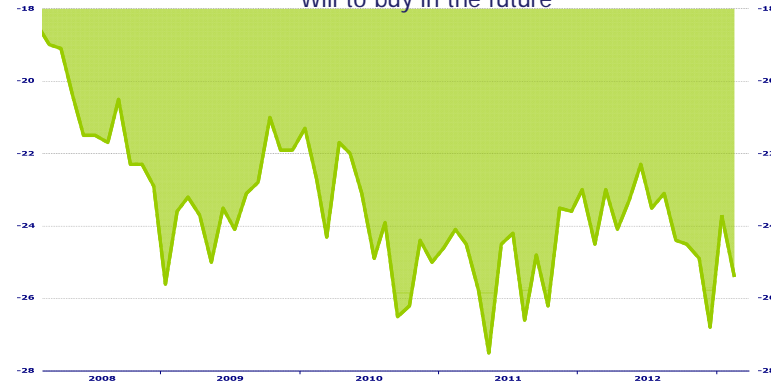
## CONSUMPTION PROPENSITY

Will to buy



## CONSUMPTION PROPENSITY

Will to buy in the future

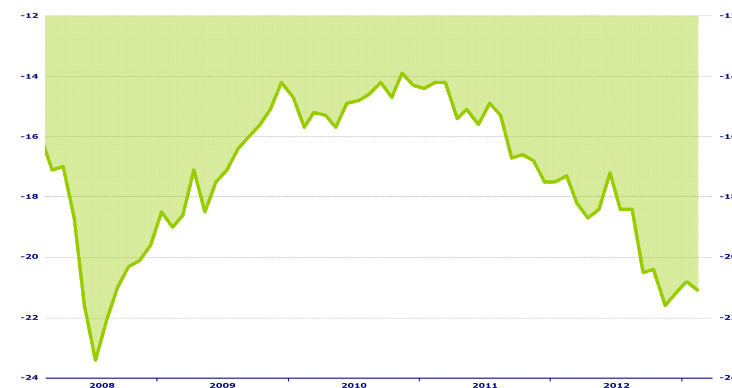


# CONSUMER CONFIDENCE

The improvement in expectations on the economic and financial situation is still marginal.

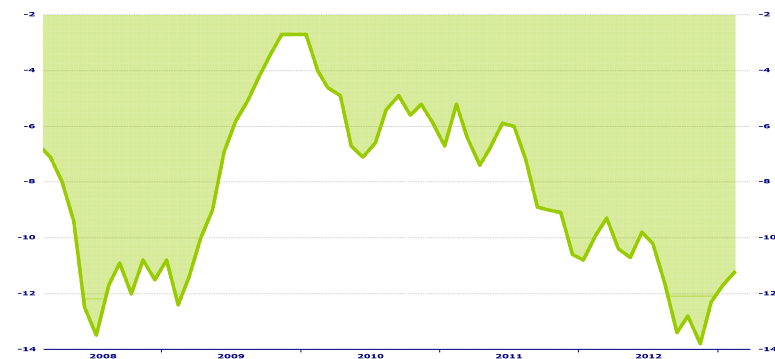
## FINANCIAL SITUATION

Current Conditions



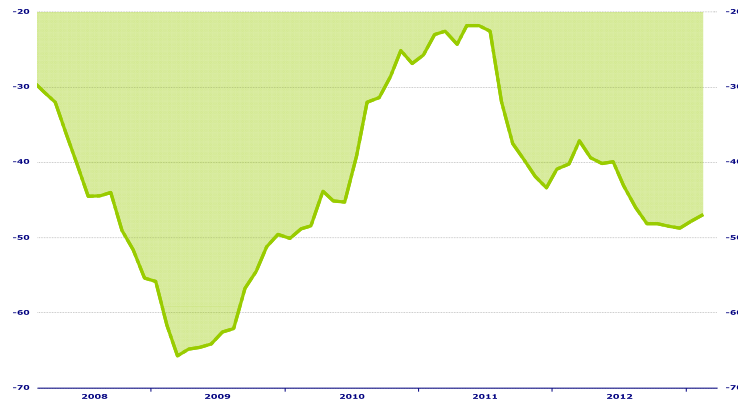
## FINANCIAL SITUATION

Expected-12 months



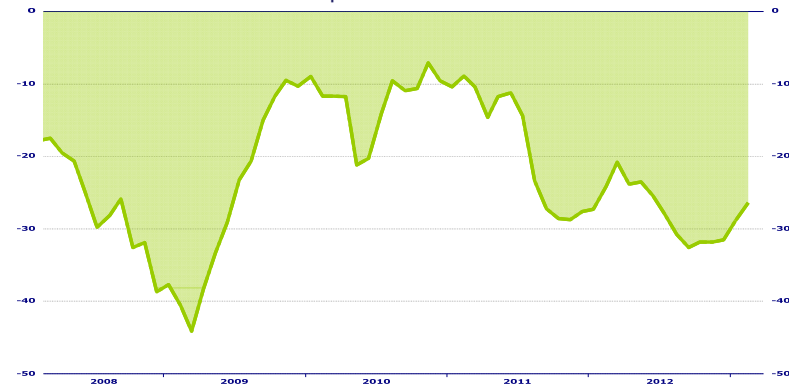
## ECONOMIC SITUATION

Current Conditions



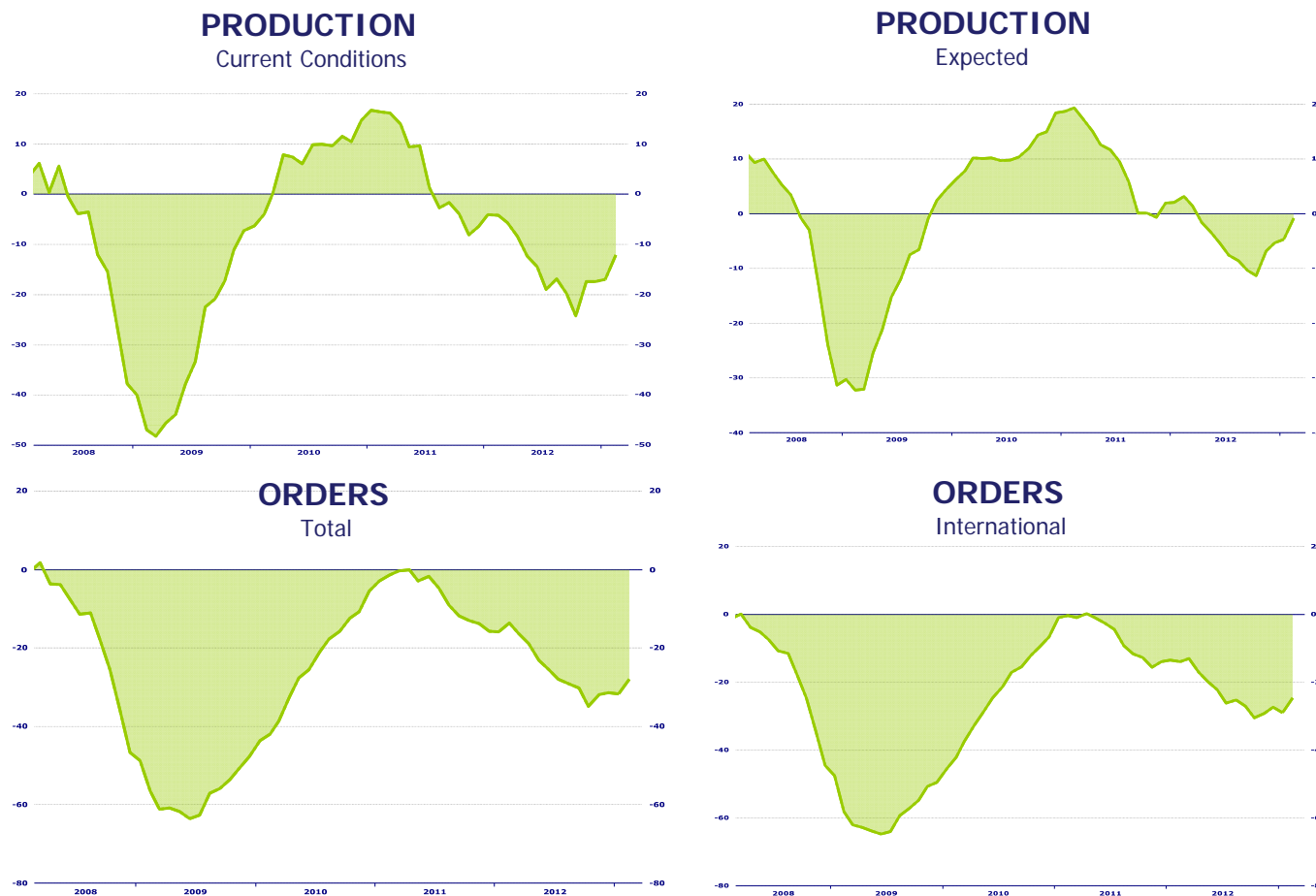
## ECONOMIC SITUATION

Expected-12 months



# BUSINESS CONFIDENCE

The improvement in business confidence is instead more consistent; the expected production and orders are at the highest of several months.

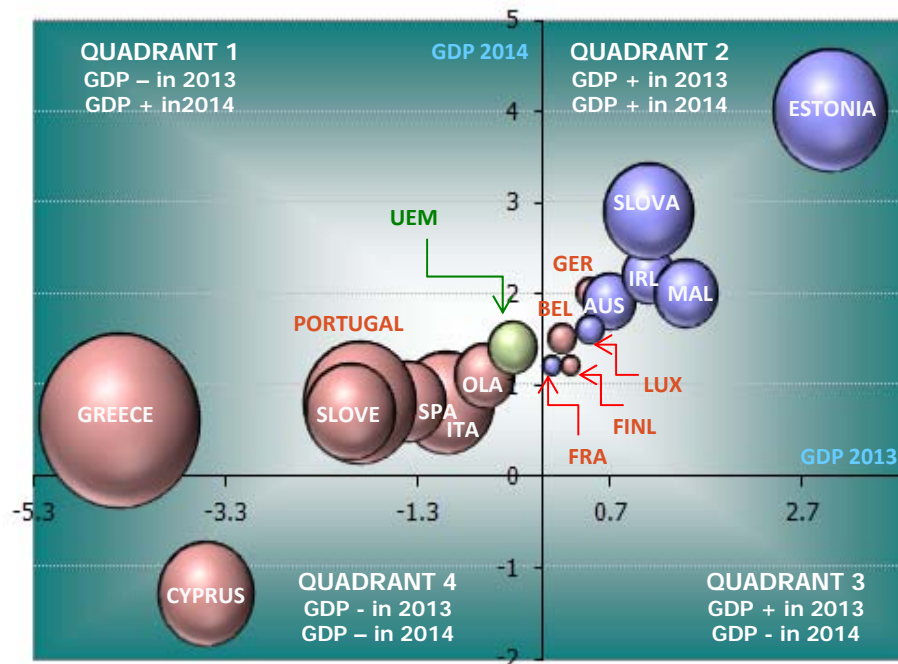


## EU COMMISSION FORECASTS, 2013-14

In February, the European Commission updated its growth and inflation forecasts for 2013-14. Besides the euro area as a whole, the Netherlands, Italy, Spain, Portugal, Slovenia and Greece will experience negative growth this year. Germany performs better, with expansion both this and next year. Inflation is positive in all the countries (except Greece) but limited, with average values in line with the ECB price stability target.

### EUROPEAN COMMISSION

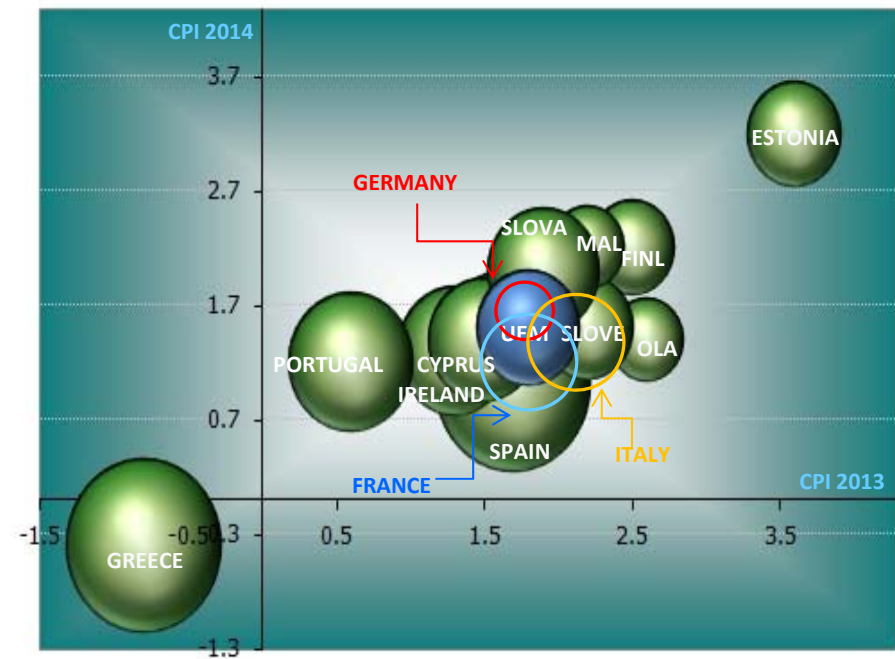
Growth Forecasts



The dimension of the bubbles is proportional to GDP growth in 2012.  
The red color indicates a negative GDP.

### EUROPEAN COMMISSION

Inflation forecasts



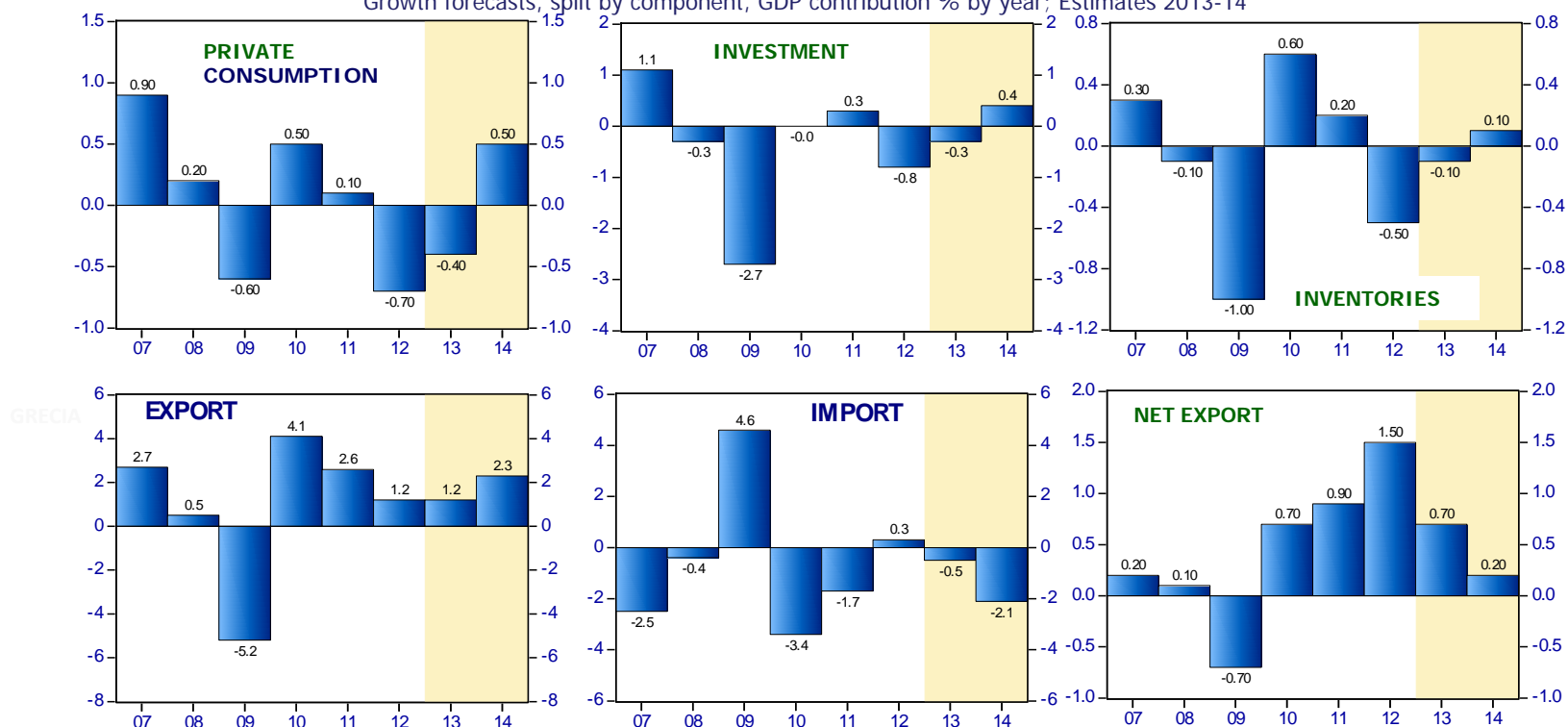
The dimension of the bubbles is proportional to the inflation rate for 2012.

## EU COMMISSION FORECASTS, 2013-14

According to the estimates of the Commission, in 2013 the drivers of growth in the euro area will remain the same as last year. The internal demand will register a new contraction in all its components, although less severe. The only positive contribution to growth will come from international trade, but in a lighter measure than in 2012 (around half, +0.7% down from +1.5%), due to increased imports. Only from 2014 there should be a progressive improvement in all the growth components.

### EUROPEAN COMMISSION

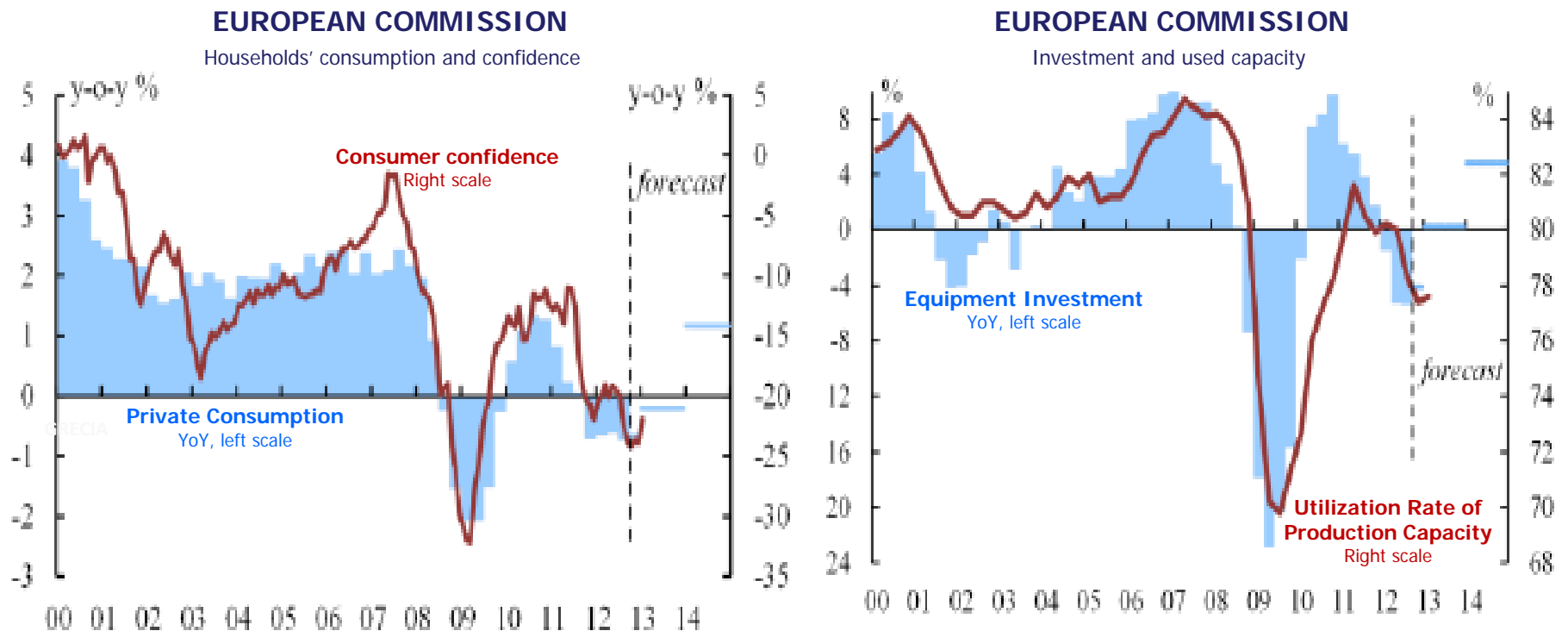
Growth forecasts, split by component, GDP contribution % by year; Estimates 2013-14





## EU COMMISSION FORECASTS, 2013-14

During 2012, consumption contracted due to the progressive erosion of households' confidence, while business investment took into account the ample unused capacity in the system. In the central scenario of the EU Commission, the improvement in consumer and business sentiment should gradually favor a positive growth for both variables considered, even though they will offer a positive contribution to growth only starting from 2014.



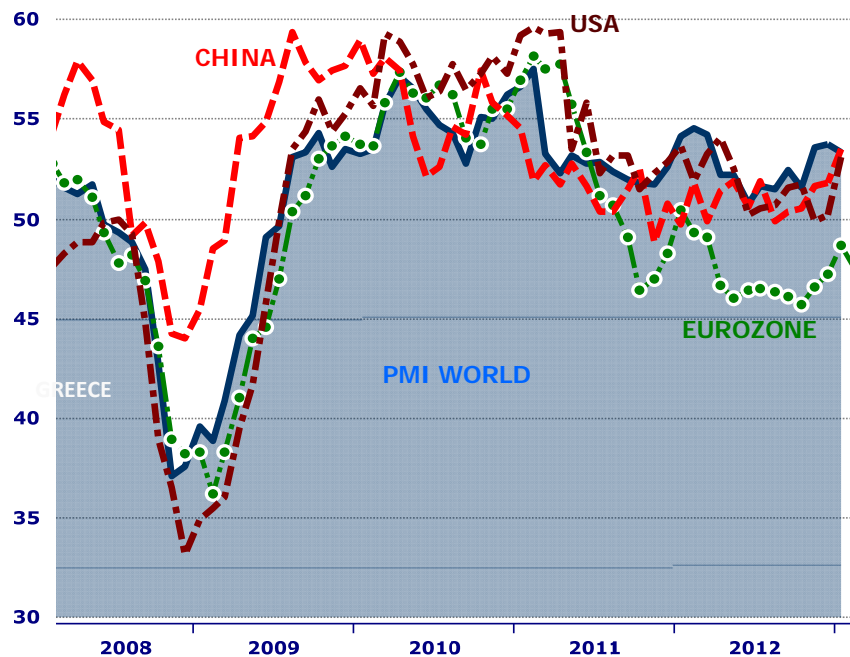
Fonte: Commissione UE, European Economic Forecast, Winter 2013

## EU COMMISSION FORECASTS, 2013-14

The improvement of the global scenario, in line with the message from the leading indicators, should result in increased demand for Eurozone production. However, the cycle in the Monetary Union should remain sensibly more modest compared to the major international systems, as in the past two year period.

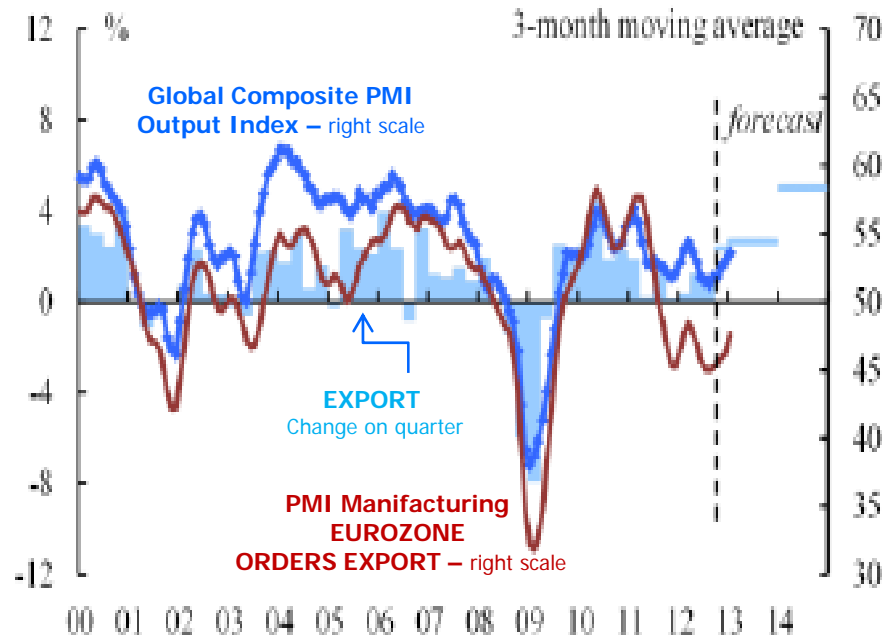
### EUROPE AND INTERNATIONAL CYCLE

Composite PMI comparison



### EUROPEAN COMMISSION

Global demand, Export and PMI Indexes,



Source: EU Commission, European Economic Forecast, Winter 2013



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