



Global Economy Report

April 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.

This report has been prepared by:

- Daniele Limonta (Banca Aletti, daniele.limonta@alettibank.it)
- Massimiliano Marcellino (EUI and Bocconi University, massimiliano.marcellino@eui.eu)
- Francesca Panelli (Banca Aletti, francesca.panelli@alettibank.it)
- Alessandro Stanzini (Banca Aletti, alessandro.stanzini@alettibank.it)
- Maria Eleonora Traverso (Banca Aletti, mariaeleonora.traverso@alettibank.it)

with the collaboration of:

- Alberta Martino (EUI, alberta.martino@eui.eu)

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EXECUTIVE SUMMARY

- ❖ The IMF downwardly revised its global growth forecast for this year, to 3.3% from 3.5% in January, while its 2014 forecast remains unchanged at 4.0%.
- ❖ In detail, Eurozone Growth forecasts have been downwardly revised to -0.3% from -0.1% for 2013, while its 2014 forecast remains unchanged at 1.1%. US growth forecasts have been downwardly revised for both 2013 and 2014, to 1.9% from 2.1% and to 3.0% from 3.1%, respectively. Among Developed Economies, only Germany and Japan experienced an upward revision for their growth forecasts.
- ❖ IMF Chief Economist, Blanchard, highlighted how policy makers should remain on alert despite the recent reduction in tail risks. In fact, he highlighted how risks remain high in the medium term. They relate with the Eurozone crisis and the US and Japan ability to cut their budget deficits and debt levels.

EXECUTIVE SUMMARY

- ❖ In terms of main economic areas, in the United States Q1 GDP is currently tracking higher than expected, since Consumers used their savings to keep the same level of Consumption despite the end of the Payrolls Tax Holiday. However, this trend is not sustainable and since March we are experiencing some signals of slowdown, especially in retail sales and in the manufacturing sector. This slowdown is mainly due to the beginning of the Sequestration. Hence, GDP growth should be much weaker in Q2 than in Q1. The Real Estate Recovery remains on track, helping to partially offset the impact of the Sequestration.
- ❖ Overall, we expect USA growth to reach 2.0% in 2013 and 2.9% in 2014, overall in line with the IMF forecasts.
- ❖ US inflation is expected to stay below 2% over the entire forecasting horizon, thanks to the huge output gap opened since the Great Recession and the following mild recovery. Upside risks are negligible. Overall, we expect Headline CPI to grow by 1.7% in 2013 and 1.6% in 2014 on average, while core CPI is expected to grow by 1.8% in both years.

EXECUTIVE SUMMARY

- ❖ In the Eurozone, qualitative indexes have deteriorated in the first quarter of the year, signalling a loss in confidence.
- ❖ The marked worsening of the PMI surveys is counterbalanced by the stable performance of the other leading indicators, which overall cushion the negative signals for the scenario. The downside risks for the cycle have however grown decidedly.
- ❖ Negative signals are particularly serious for France, where the speed of deterioration of the economic scenario is fast. The cyclical conditions are improving in Germany, but in a modest fashion.
- ❖ We foresee that only Germany will register a positive growth in the first quarter 2013, assuming still two quarters of contraction for France's GDP and three for Italy. For Eurozone, the estimate for Q1-13 is at -0.3% (-1.2% annualised).

EXECUTIVE SUMMARY

- ❖ The estimates for average yearly GDP growth in 2013 have been downgraded for France from -0.1% to -0.5% and for Italy from -1.3% to -1.8%, while Germany remains unaltered at +0.3%, which is below consensus. Eurozone forecast passes from -0.4% to -0.7%.
- ❖ Inflation continues to slowdown, with the headline rate at 1.7% in March (the minimum since July 2010) and core inflation at 1.3% (minimum since March 2011).
- ❖ We expect inflation to remain below the 2% ECB target both in 2013 and 2014, with values of 1.8% and 1.7%, respectively. This enhances the possibility of a rate cut, though its probability remains limited.

EXECUTIVE SUMMARY

- ❖ After the 2011Q4-2012Q2 recession, the growth of the UK economy was rather stable, adjusting for the transitory effects of the Olympic Games and of the Queen's Diamond Jubilee. The underlying conditions remain weak, due to domestic deleveraging, fiscal consolidation and the need to rebalance the productive structure. Also, the devaluation of the exchange rate did not so far boost exports. Overall, we expect the UK to grow by 0.4% in 2013 and 0.8% in 2014.

- ❖ We expect inflation to remain above the target of the Bank of England, due to the low labour productivity and the devaluation of the pound. We expect the headline CPI to grow by 3.1% on average in 2013 and by 2.4% in 2014. These values reduce the likelihood of additional quantitative easing measures in the short run, but different tools could be used after the arrival of the new Governor, Carney, in July. In particular, he could follow the FED and announce low rates for a prolonged period of time, until specific economic targets are reached.

EXECUTIVE SUMMARY

- ❖ Japan is in a phase of net recovery thanks to the strong support from the economic policy authorities, which have permitted a quick depreciation of the currency and growth of the stock market. The Central Bank of the new governor Kuroda changed the reference parameter (the monetary mass and not the overnight rate) and poured liquidity into the system with the goal of ending deflation. The extraordinary magnitude of the operation has forced us to upgrade our growth forecasts for Japan (from +1.1% to +1.5% in 2013 and from +1.8% to 2.0% in 2014) and for inflation (zero for the current year but +1.1% on average in 2014, netting fiscal measures).
- ❖ The consolidation of China's recovery showed some uncertainty in February and March, as signalled by a modest weakness in macro parameters. However, we believe that the bottom line trend is unaltered, in line with the views of the IMF. Also, from the Party Congress in March, the growth target was confirmed at 7.5%, and in March inflation decreased and international trade grew.

EXECUTIVE SUMMARY

- ❖ The IMF downward revised its 2013 forecasts for all the BRICs countries, to 3.4% from 3.7% for Russia, to 8.0% from 8.1% for China, to 5.7% from 5.9% for India and to 3.0% from 3.5% for Brazil. 2014 forecasts were left unchanged for Russia (at 3.8%), upwardly revised for Brazil (to 4.0% from 3.9%) and downwardly revised for China (to 8.2% from 8.5%) and for India (to 6.2% from 6.3%).
- ❖ In this issue of the report we will focus on the economic conditions in China and Japan.

EXECUTIVE SUMMARY

GENERAL MACRO SUMMARY

	2009	2010	2011	2012	2013E	2014E
GDP (%YOY)						
US	-3,1	2,4	1,8	2,2	2,0	2,9
EUROZONE	-4,4	2,0	1,4	-0,5	-0,7	1,0
GERMANY	-5,1	4,2	3,0	0,7	0,3	1,4
FRANCE	-3,1	1,7	1,7	0,0	-0,5	0,8
ITALY	-5,5	1,8	0,4	-2,2	-1,8	0,4
JAPAN	-5,5	4,7	-0,6	2,0	1,5	2,0
BRASIL	-0,3	7,6	2,8	0,9	3,1	3,5
RUSSIA	-7,8	4,3	4,3	3,4	3,3	3,7
INDIA	6,4	8,9	7,5	5,2	5,1	6,1
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
KOREA	0,3	6,3	3,6	2,0	2,8	3,9
INFLATION (%YOY)						
US	-0,4	1,6	3,2	2,1	1,9	1,7
EUROZONE	0,3	1,6	2,7	2,5	1,8	1,7
GERMANY	0,2	1,2	2,5	2,1	1,7	1,9
FRANCE	0,1	1,7	2,3	2,2	1,5	1,7
ITALY	0,8	1,6	2,9	3,3	2,0	1,8
JAPAN	-1,3	-0,7	-0,3	0,0	0,1	2,2
BRASIL	4,9	5,0	6,6	5,4	5,9	5,5
RUSSIA	11,7	6,9	8,5	5,0	6,5	5,6
INDIA	10,8	12,1	8,9	9,3	8,9	8,3
CHINA	-0,7	3,3	5,4	2,7	3,1	3,5
AUSTRALIA	1,8	2,9	3,3	1,8	2,6	2,6
KOREA	2,8	3,0	4,0	2,2	2,6	3,0

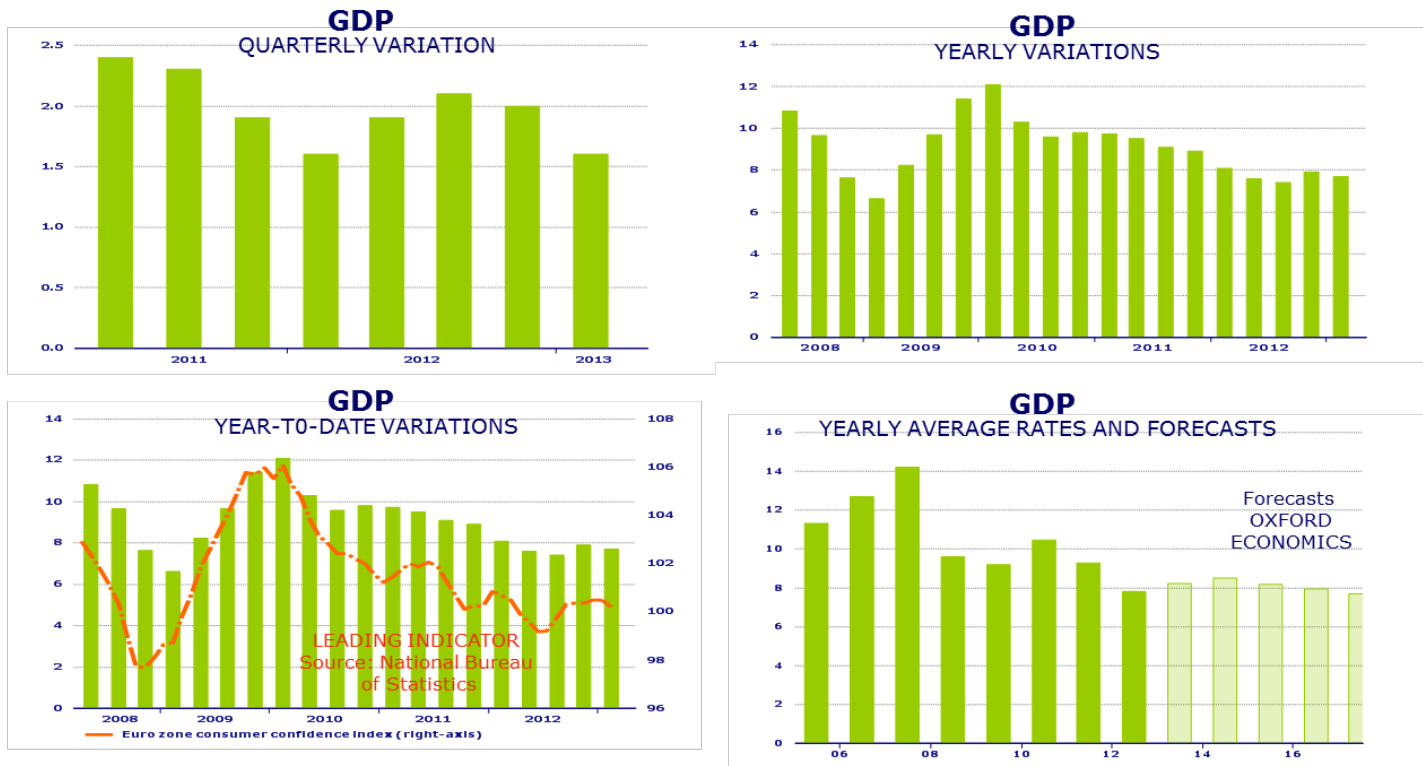
Our Forecast

Cons. Bloomberg (Apr 13)

FOCUS ON CHINA AND JAPAN

CHINA - GROWTH

In the first quarter of 2013, Chinese GDP had a trend growth around 1.6%, down from 2.0% at the end of 2012. The system is in a phase of growth stabilisation after the protracted slowdown of the past two years; the rebound of economic activity is taking longer than expected. The leading indicator supports the cycle's stability. We confirm our growth estimate at 8.1% for the current year.

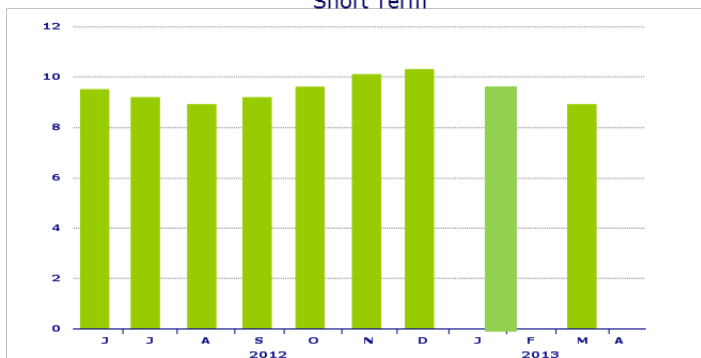


CHINA - ECONOMIC ACTIVITY

Production slowed down for the second month in a row, at 9.5% from 9.9% Jan-Feb average, a new minimum of the past four years, retail sales had a marginal acceleration, but are around the minimum of the past years.

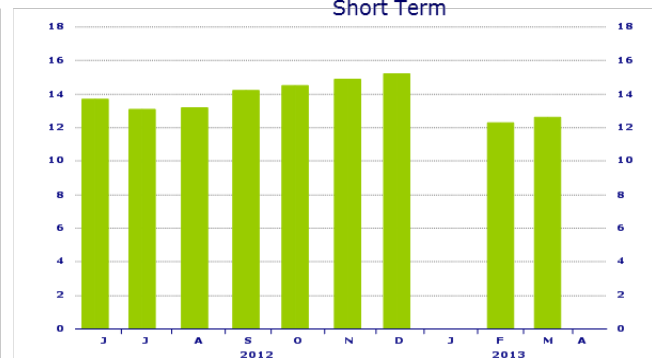
INDUSTRIAL PRODUCTION

Short Term



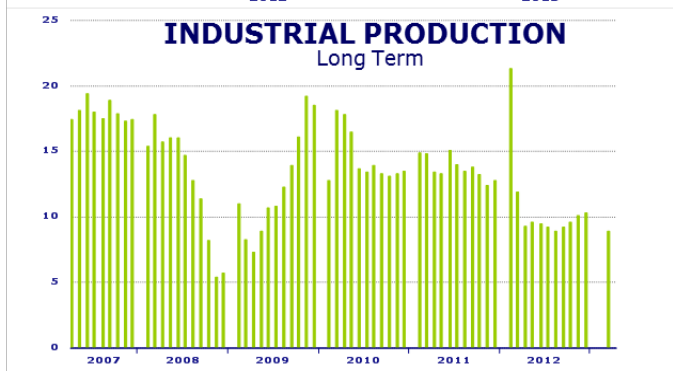
RETAIL SALES

Short Term



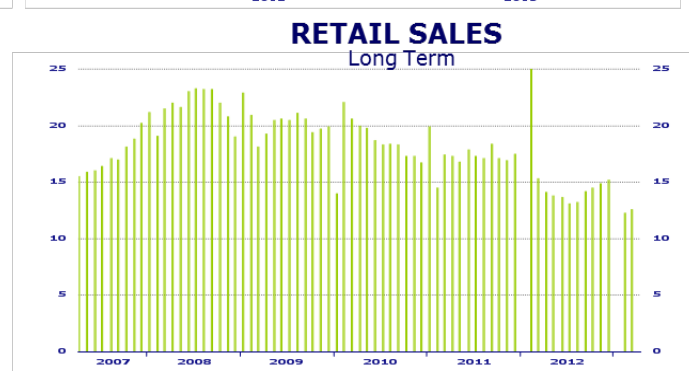
INDUSTRIAL PRODUCTION

Long Term



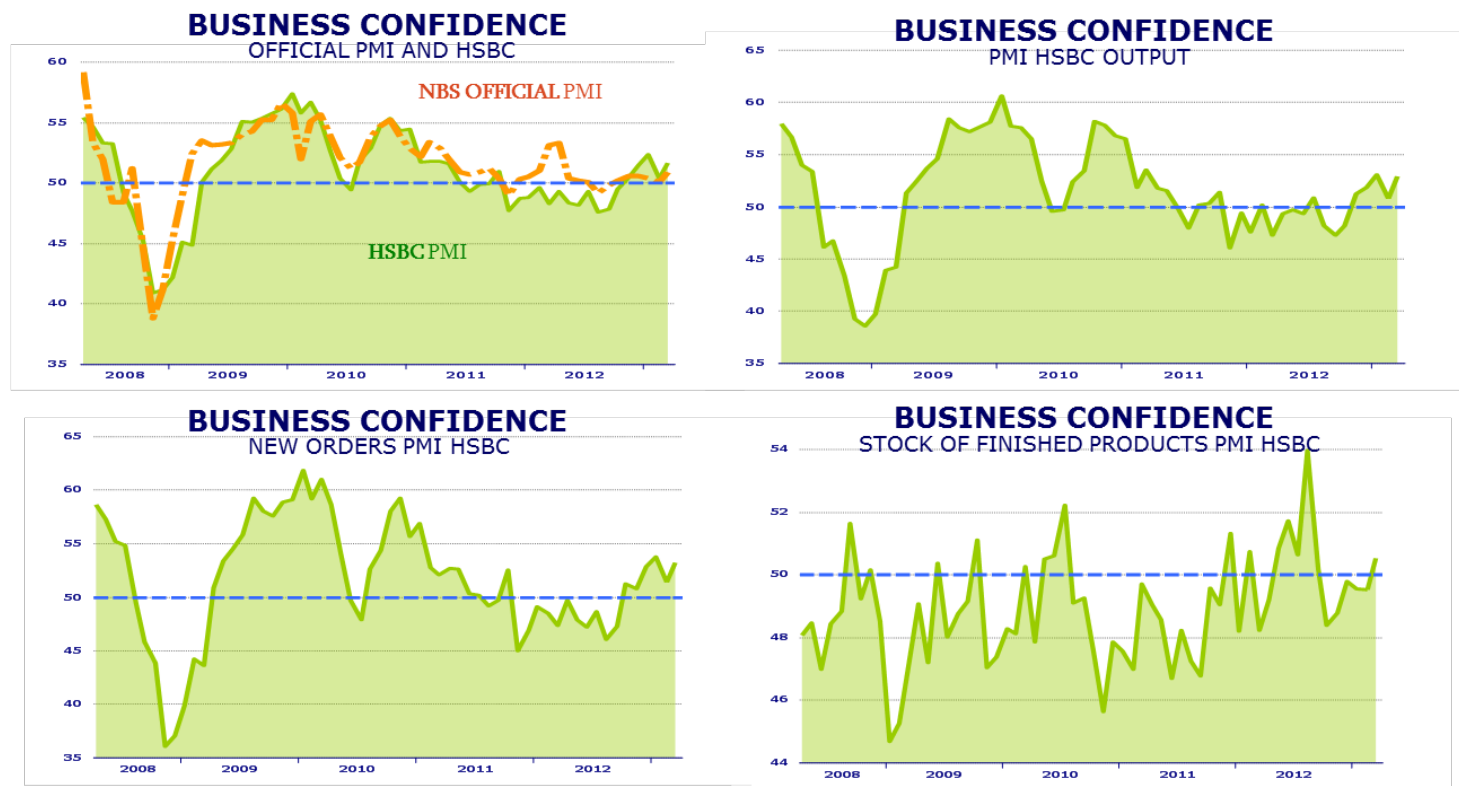
RETAIL SALES

Long Term



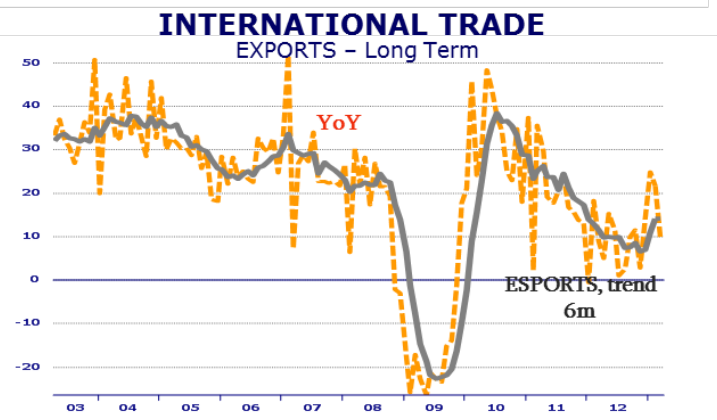
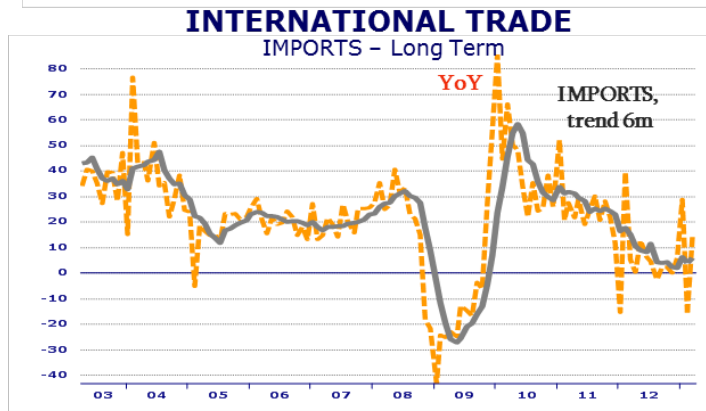
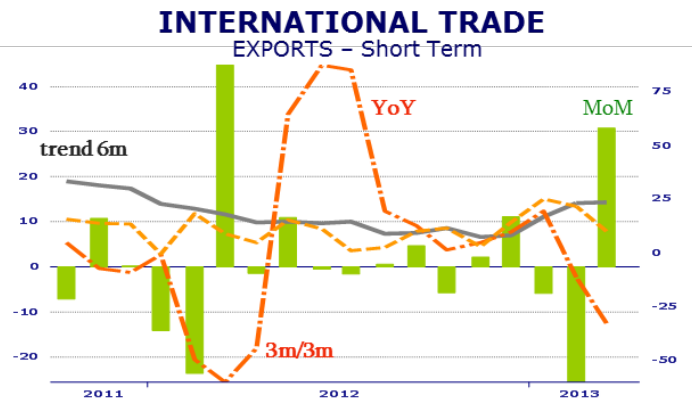
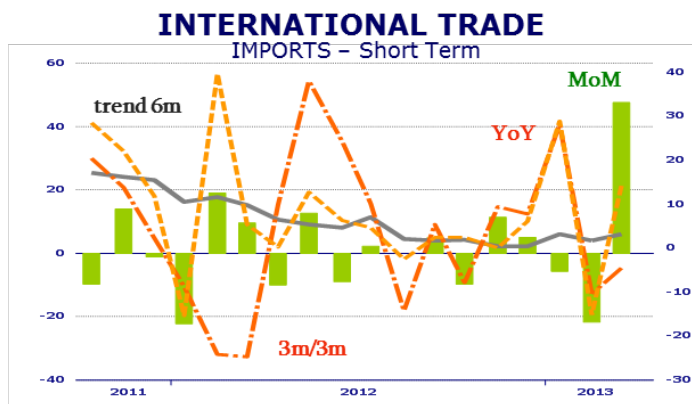
CHINA - QUALITY INDEXES

Quality indexes register evident signs of growth over the reference value of 50, thus giving signals for growth's acceleration for the coming months.



CHINA - INTERNATIONAL TRADE

Data on international trade for the month of March shows a net increase versus previous months. Both imports and exports are in acceleration phase after the minimum registered at the beginning of the new year, as shown by their 6-month average.

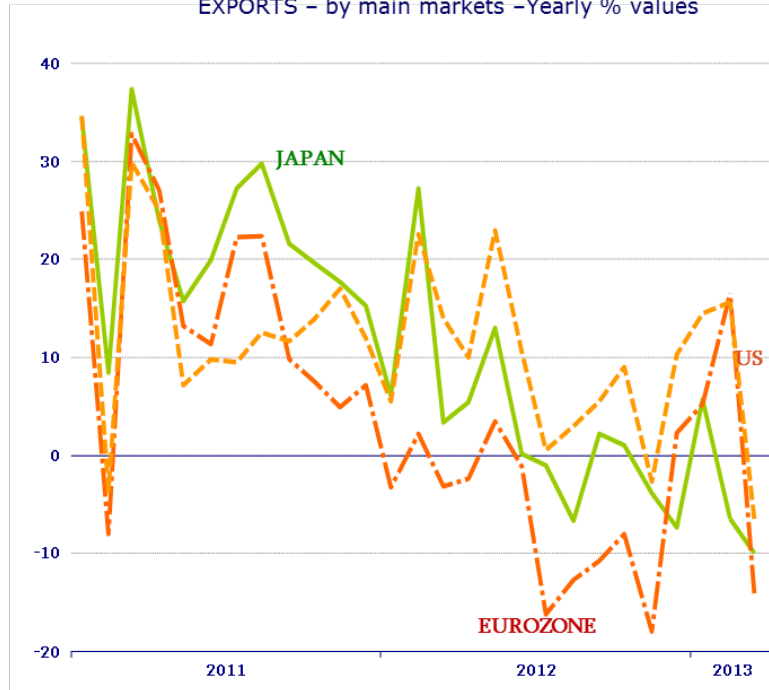


CHINA - INTERNATIONAL TRADE

The higher than expected imports in March (+14.1% vs. expected +5.3%) is an evident signal of stronger internal demand and confirms the economic recovery of the country. This explains the deficit in trade balance (-884 million dollars) after a year of constant surplus. The increase in exports (+10% yearly) was insufficient to cover for growth in imports, as it was slowed down by lower demand in the US, Eurozone and Japan.

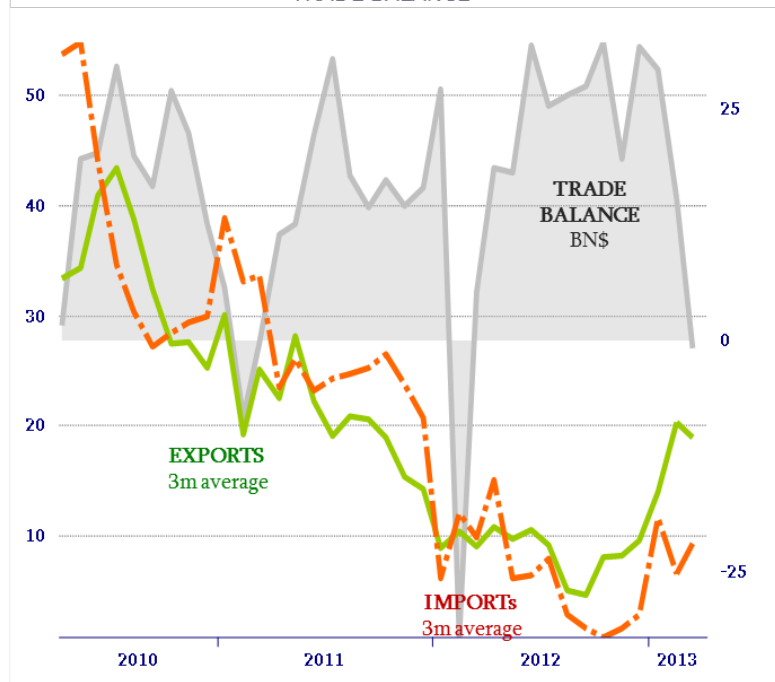
INTERNATIONAL TRADE

EXPORTS – by main markets – Yearly % values



INTERNATIONAL TRADE

TRADE BALANCE

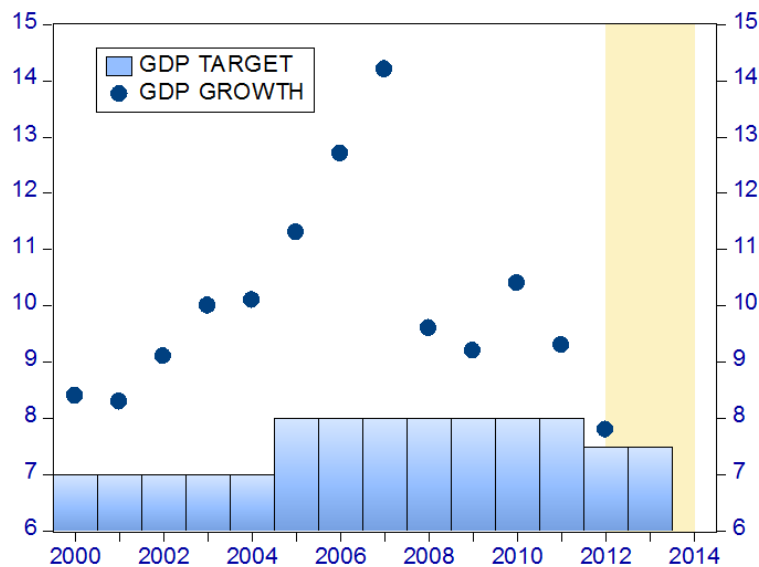


CHINA - OFFICIAL FORECASTS

Overall, the macroeconomic parameters seem to easily ensure the 7.5% minimum growth target fixed by the Government, and always exceeded in previous years. Another supporting signal comes from the acceleration in the growth rate of the monetary mass, traditionally associated with improved cyclical conditions in the economic system

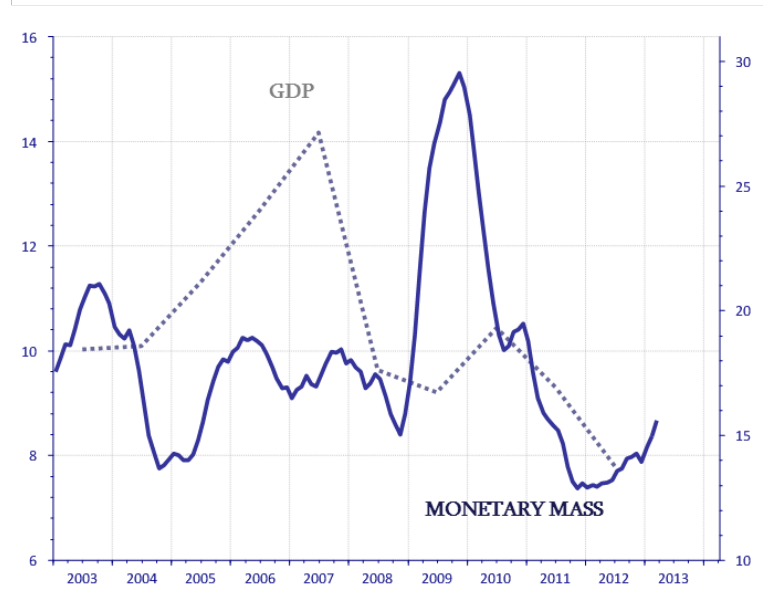
GDP

Official Forecasts and Real Growth Rate; Yearly average values



MONETARY MASS

Real Growth Rate; GDP Yearly average values

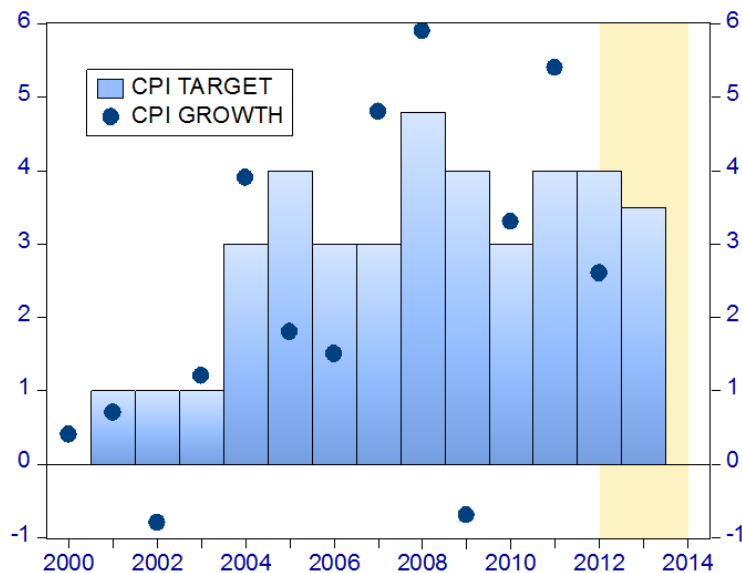


CHINA - OFFICIAL FORECASTS

Target Inflation was lowered by half a point from 4.0% to 3.5%, due to modest current values, but expected to grow quickly due to pressure from food prices, from increase in national energy tariffs, from major inflation imported from other countries (quantitative slowdown in industrialized zones) and also from real estate prices. In February 2013, the housing price index grew by 1.1%, the fifth increase in a row in two years. The government is also constantly active to avoid a real estate bubble.

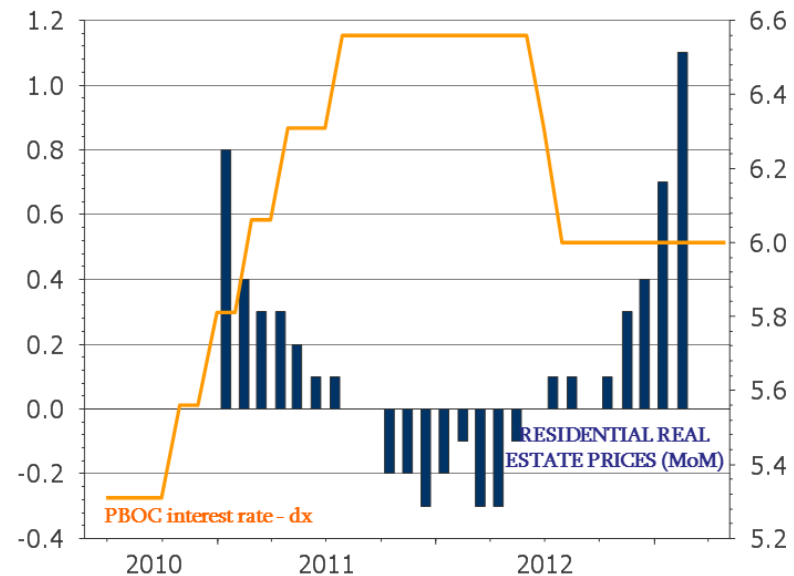
RETAIL INFLATION

Official Forecasts and Real Growth Rate; Average annual values



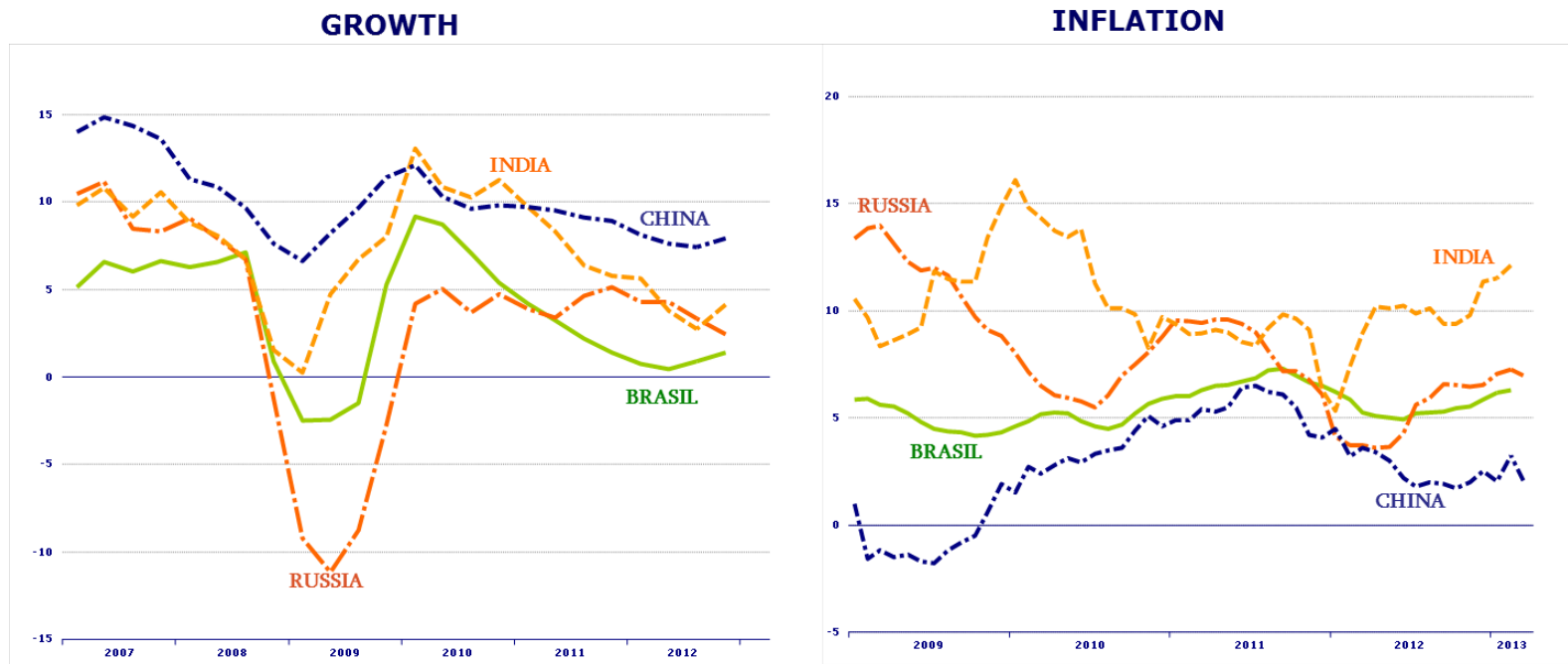
REAL ESTATE PRICES AND INTEREST RATE

CPI EX FOOD



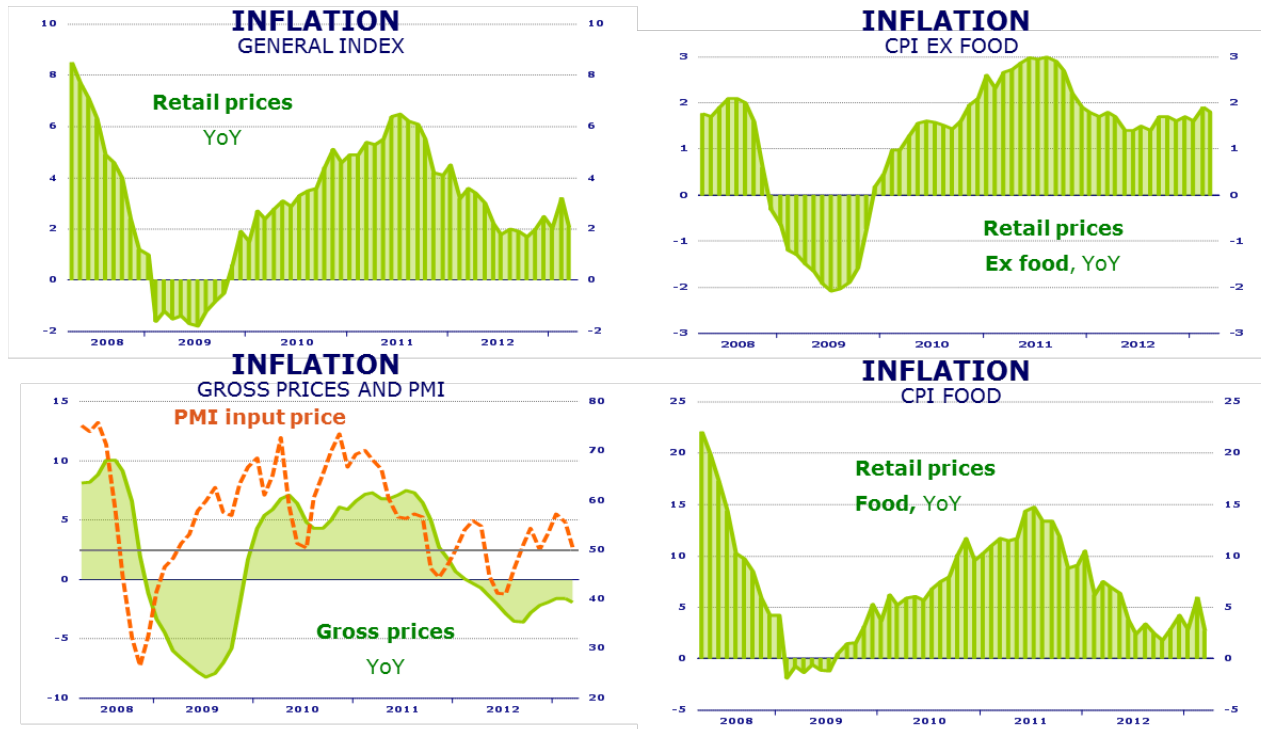
CHINA – BRIC COUNTRIES SCENARIO

In the past two years, China kept the highest growth rate among the BRIC countries and at the same time the lowest inflation. The economic cycles appear however decidedly in sync: growth is in an acceleration phase after the 2012 minimum; inflation has picked up in India, Russia and Brasil, a condition that poses significant risks on the price dynamics also in China.



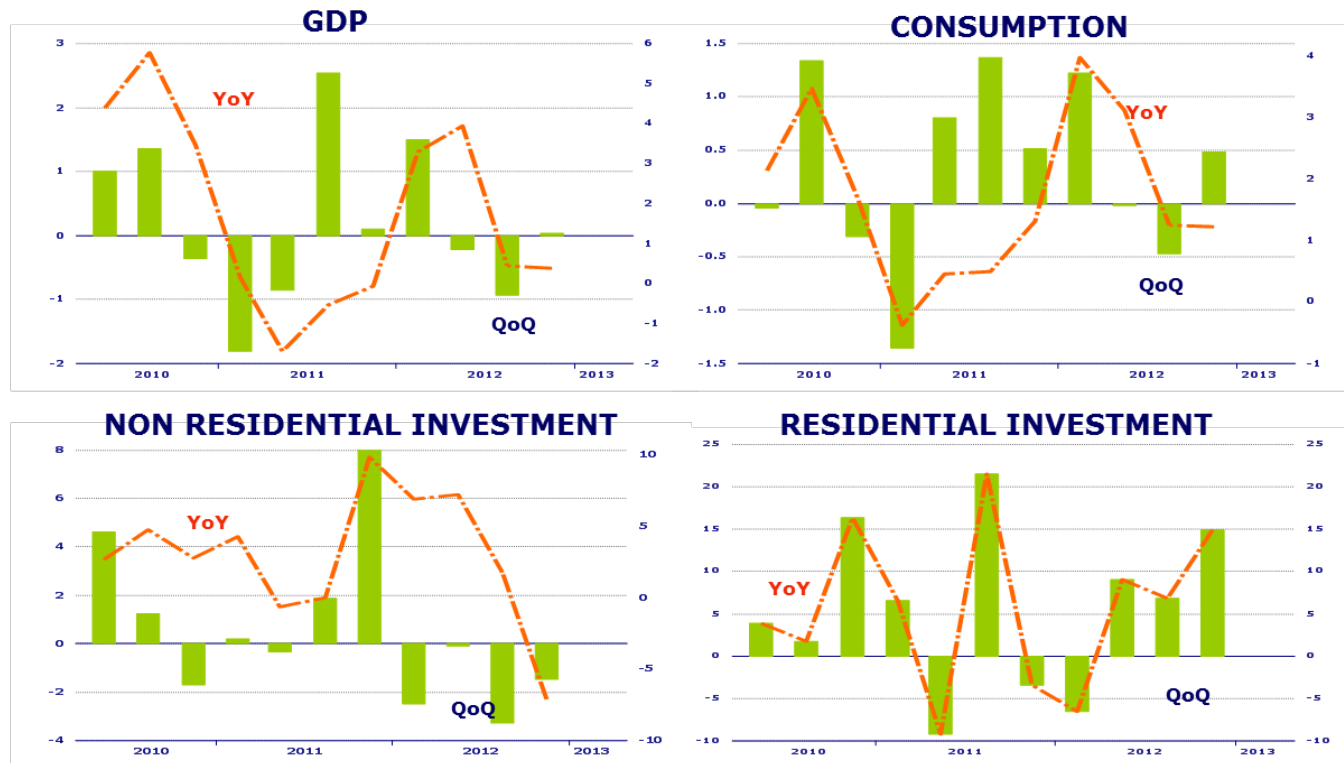
CHINA - PRICE DEVELOPMENTS

The inflation rate dropped in March to 2.1%, from 3.2% in February, a value that incorporated the distortionary effect of the Lunar New Year. The decrease was led by food, where we see a definite moderation, as the index without food remained basically stable, just below 2%. Deflation increases at the beginning of the production process, as the price index at production decreased by 1.9%. However, the PMI index has been for several months over level 50, signalling a constant accumulation of upward pressure on prices.



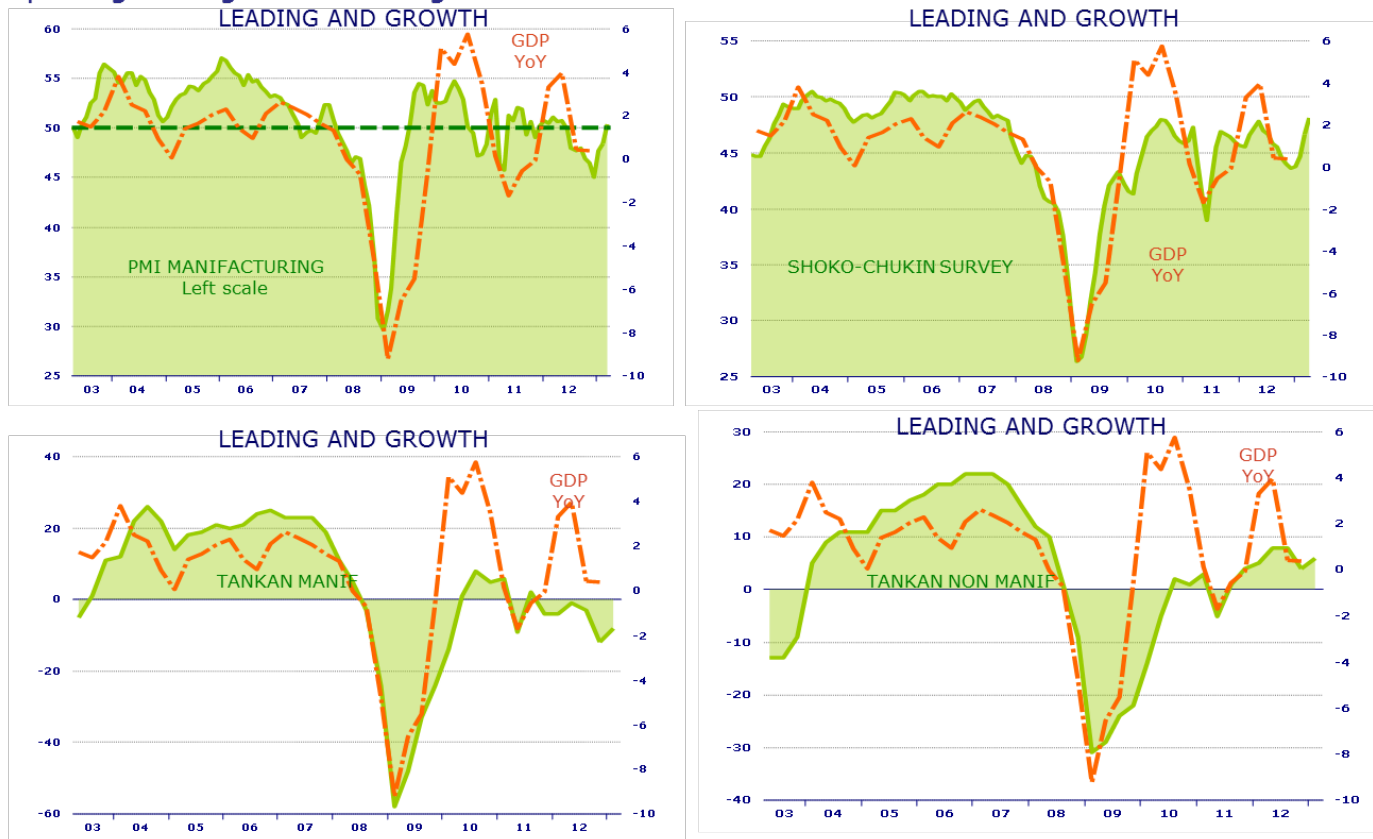
JAPAN - GROWTH

The review of national accounting has formally determined the end of the technical recession in Japan, transforming the initial estimate of income change in Q4-12 at -0.4% (annualized) in a +0.2% increase. The variation is due to a more favourable dynamic of investment in productive structures and a higher growth of consumption.



JAPAN - LEADING INDICATORS

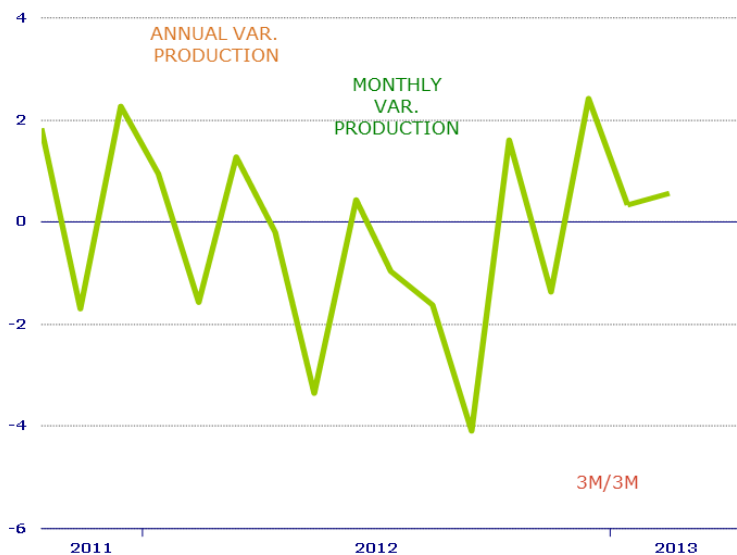
In the first surveys of 2013, the qualitative indicators turned positive, signalling a stabilisation of the Japanese cycle. The Tankan index for big manufacturing businesses registers an improvement for both the current situation and for the June forecasts. Firms are budgeting extremely cautious investment plans for this year, partly due to a great prudence in forecasts of exchange rate with US dollar. The non manufacturing index is also improving and signals a further growth in June.



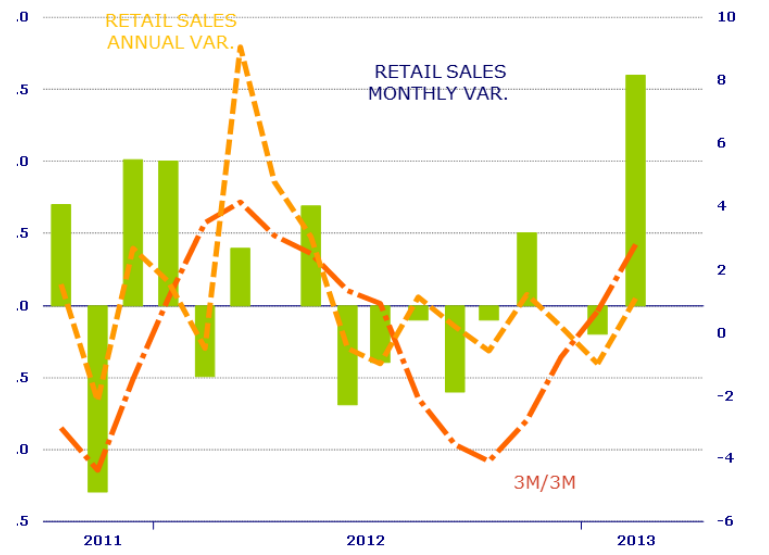
JAPAN - MACRO VARIABLES

The three month average signals a significant improvement of retail sales that, in the course of the year, should benefit from the expected inflation growth, from the increase in nominal salaries and from the anticipated buying due to a planned increase in sales tax. Also for industrial production the three month average shows growth of investments that in the coming months should be supported by currency depreciation and fiscal and monetary expansionistic policies.

INDUSTRIAL PRODUCTION



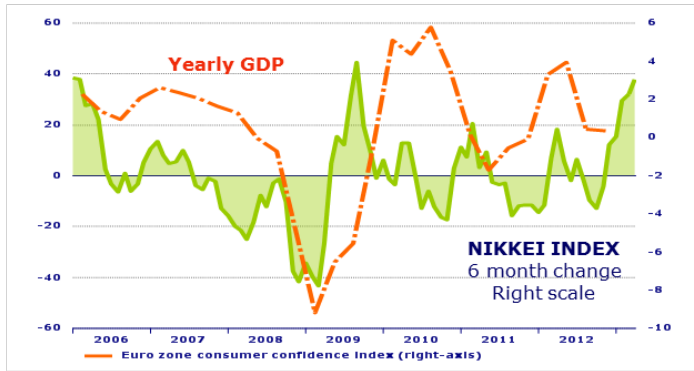
RETAIL SALES



JAPAN - EXCHANGE RATE

The quick depreciation of the exchange rate and the good performance of the stock market, with the Nikkei index at its five year peak, are changing the scenario for the evolution of Japanese income, working as formidable multipliers of growth taking place in other macro parameters in the country. These dynamics bring also evident benefits in terms of contrasting deflation, directly (higher imported inflation) and indirectly (growth consolidation).

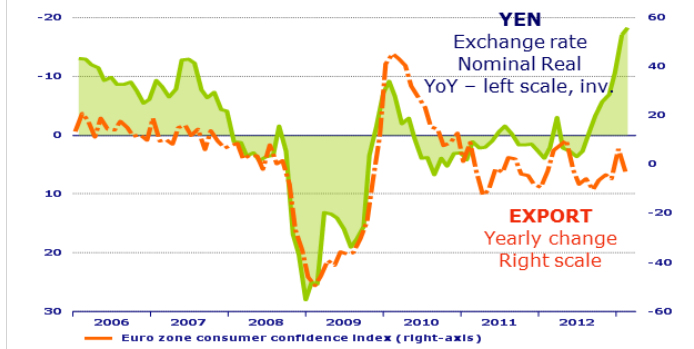
INCOME AND STOCK EXCHANGE



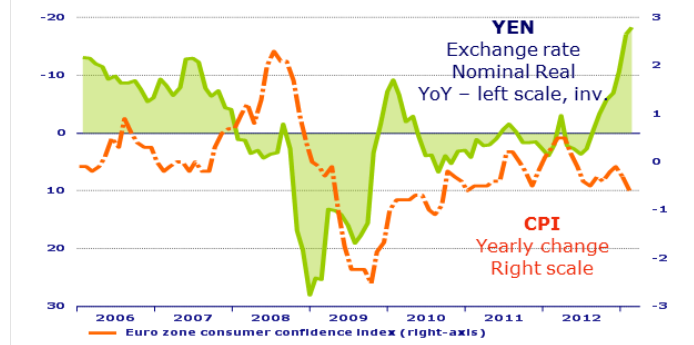
EXCHANGE RATE AND PRODUCTION



EXCHANGE RATE AND EXPORT



EXCHANGE RATE AND INFLATION



THE NEW GOVERNOR: A strong support to the Japanese economic scenario comes from monetary policy. The first meeting of the Bank of Japan under the new governor Kuroda decided a strongly expansionary policy.

❖ **THE POLICY AND THE TARGET:** The meeting held on 3-4 April showed a strong orientation towards unconventional instruments of monetary policy with the aim of supplying a quantitative and qualitative monetary stimulus to the economy oriented to hit the 2% inflation target.

❖ **THE TOOLS:** To reach its target, on a two year horizon, the Bank of Japan:

- will double the monetary base;
- will double the amount of JGB and ETF detained;
- will double the average life of JGB it buys.

JAPAN - THE CENTRAL BANK

The details of the programme of expanding the monetary base and the acquisition programme are the following:

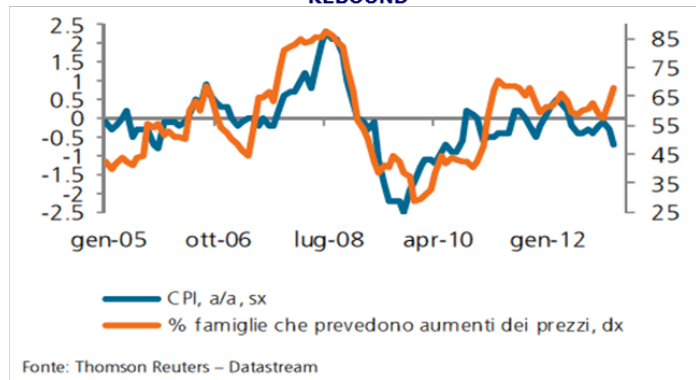
	(JPYtrn)		
	End-2012 (actual)	End-2013 (projected)	End-2014 (projected)
Monetary base	138	200	270
(% of GDP)	29.3%	41.6%	54.7%
Breakdown of the BoJ's balance sheet			
JGBs	89	140	190
CP	2.1	2.2	2.2
Corporate bonds	2.9	3.2	3.2
ETF	1.5	2.5	3.5
J-REIT	0.11	0.14	0.17
Loan support program	3.3	13	18
Total assets (including others)	158	220	290
(% of GDP)	33.5%	45.7%	58.7%
Banknotes	87	88	90
Current deposits	47	107	175
Total liabilities and net assets (including others)	158	220	290
(% of GDP)	33.5%	45.7%	58.7%

Source: BoJ

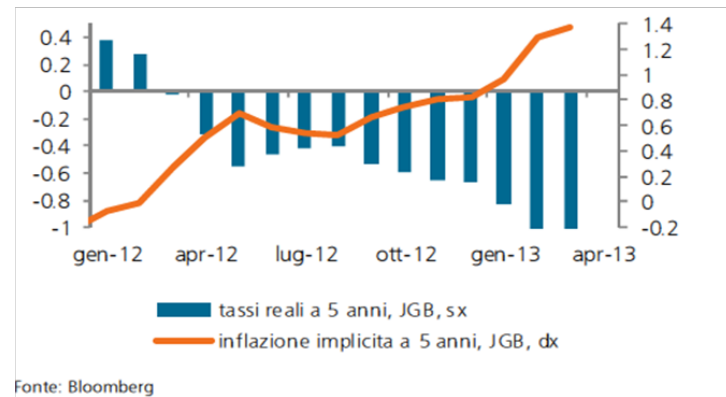
JAPAN - THE CENTRAL BANK

A fundamental instrument for the BoJ to improve its monetary policy is the expectation channel. In this sense, special attention will be posed on the communication of the chosen guidelines.

INFLATION AND % FAMILIES THAT EXPECT A REBOUND

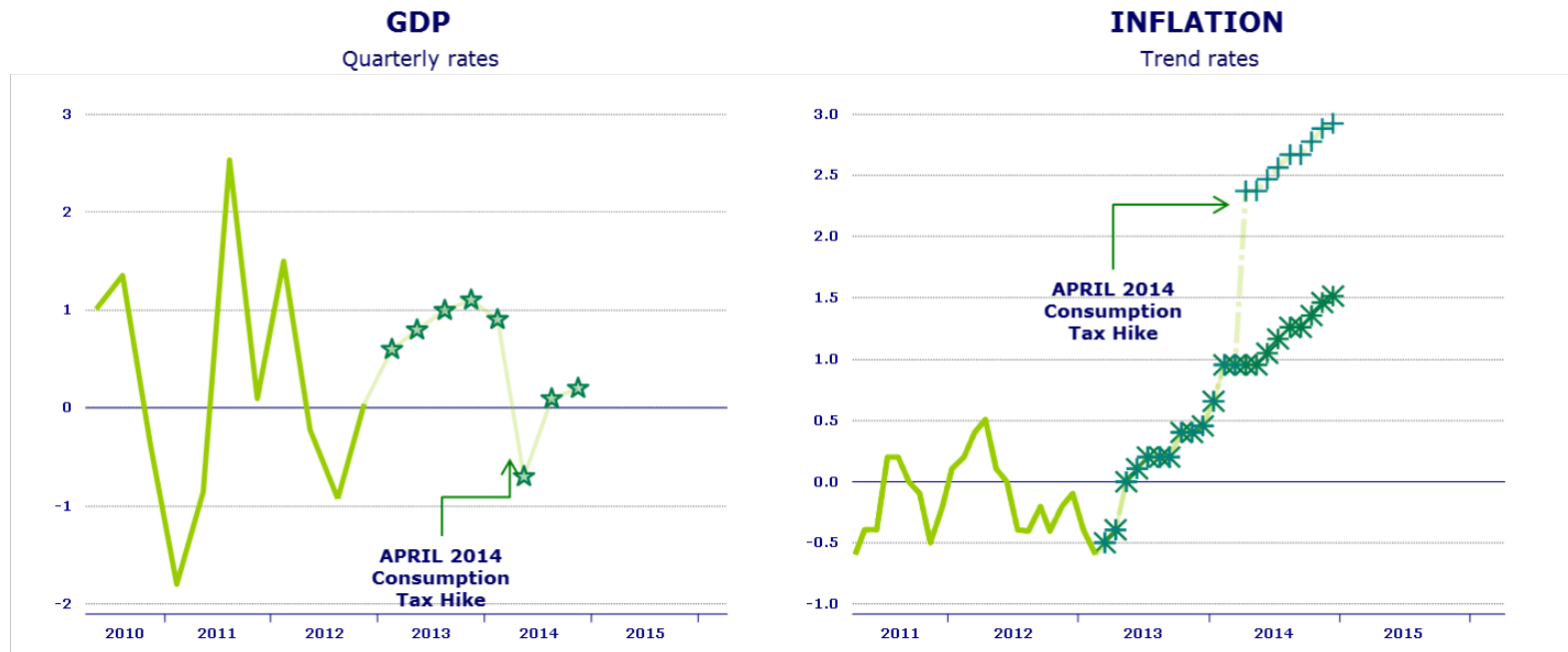


INFLATION EXPECTATIONS AND REAL INTEREST RATES



JAPAN - FORECASTS

As a consequence of the aggressive monetary policy, the growth forecasts for Japan have been upgraded: in 2013 forecasted GDP goes from 1.1% to 1.5% and in 2014 from +1.8% to +2.0%. Also inflation projections are more aggressive: the CPI is expected to reach +1.5% at the end of 2014 without considering the increase in sales tax, for a yearly average rate of 1.1% without this increase and +2.2% including it.



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