



Global Economy Report

July-August 2014



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 July 10, 2014

- ❖ US growth at the beginning of the year was penalised by difficult weather conditions and destocking, with a fall in income by almost 3%. Fundamentals remain solid and the Spring macro data flow confirms significantly higher growth already in the second quarter. We slightly lower our growth forecasts for the current year to 1.8%, due to Q1, but for the following year we foresee +3.0%.
- ❖ Inflation is gradually growing, supported by an improving scenario. Yet, it should remain below 2% both in 2014 and 2015, our forecasts are at 1.8% and 1.9%, respectively.
- ❖ In this issue we present a special focus on the United States.

- ❖ Growth below expectations in the first quarter, recent releases of leading indicators and surveys, and subdued or negative values for latest releases of industrial production increase risks on Eurozone's recovery. Growth in Q2 will probably be positive but below expectations, with recession risks in France. Our growth forecast for aggregate income in the euro area in 2014 is down at 1.0%; 2015 is trimmed to +1.6%.
- ❖ Downwards price pressure remains aggressive, but deflation risk is decidedly modest. Inflation is confirmed at +0.5% in June, justifying the ECB's expansive measures, aimed at curtailing deflation. Our average forecasted inflation rate is at 0.8% in 2014 and at +1.1% in 2015.

- ❖ In China there are signals suggesting the end of the cyclical slowdown phase and indications of recovery, e.g., the latest release of the Chinese PMI is the highest for the year. Overall, growth should be well above 7% both this year and the next one, with expected inflation around 2.5% and 3%, respectively.
- ❖ In Japan, we have seen some volatility in growth due to the increase in the consumption tax, but around a persistent growth trend. The good performance in the first quarter of the year will be followed by a strong slowdown in the second quarter, with recovery expected in the second semester, for a total growth in 2014 of about 1.7% and inflation at 2.7%.



EXECUTIVE SUMMARY

	2009	2010	2011	2012	2013E	2014E	2015E
GDP (%YOY)							
US	-3.1	2.4	1.8	2.8	1.9	1.8	3.0
EUROZONE	-4.4	2.0	1.4	-0.6	-0.4	1.0	1.6
GERMANY	-5.1	4.2	3.0	0.7	0.4	2.0	1.9
FRANCE	-3.1	1.7	2.0	0.0	0.2	0.4	1.2
ITALY	-5.5	1.8	0.4	-2.4	-1.8	0.2	1.4
UK	-5.1	1.7	1.1	0.1	1.7	2.9	2.5
JAPAN	-5.5	4.7	-0.6	2.0	1.6	1.7	1.8
BRASIL	-0.3	7.6	2.8	1.0	2.3	1.3	1.8
RUSSIA	-7.8	4.3	4.3	3.4	1.3	0.5	1.7
INDIA	6.4	8.9	7.5	5.1	4.6	4.7	5.4
CHINA	9.2	10.4	9.3	7.7	7.7	7.4	7.2
AUSTRALIA	1.4	2.6	1.4	3.6	2.4	3.1	3.0
KOREA	0.3	6.3	3.6	2.0	2.8	3.6	3.8
INFLATION (%YOY)							
US	-0.4	1.6	3.2	2.1	1.5	1.8	1.9
EUROZONE	0.3	1.6	2.7	2.5	1.4	0.8	1.1
GERMANY	0.2	1.2	2.5	2.1	1.6	1.1	1.7
FRANCE	0.1	1.7	2.3	2.2	1.0	0.9	1.2
ITALY	0.8	1.6	2.9	3.3	1.3	0.6	1.1
UK	2.2	3.3	4.5	2.8	2.6	1.8	2.0
JAPAN	-1.3	-0.7	-0.3	0.0	0.4	2.7	1.7
BRASIL	4.9	5.0	6.6	5.4	6.2	6.4	6.2
RUSSIA	11.7	6.9	8.5	5.1	6.8	6.8	5.5
INDIA	10.8	12.1	8.9	10.4	10.9	9.5	8.0
CHINA	-0.7	3.3	5.4	2.7	2.6	2.5	3.0
AUSTRALIA	1.8	2.9	3.3	1.8	2.4	2.8	2.6
KOREA	2.8	3.0	4.0	2.2	1.3	1.9	2.6

Banca Aletti Forecast

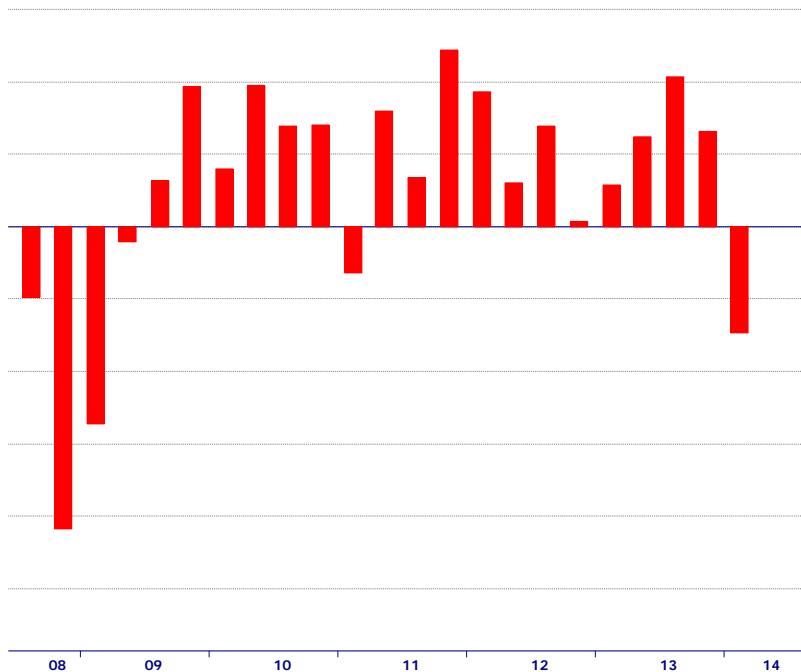
Cons. Bloomberg (Jul 14)

United States

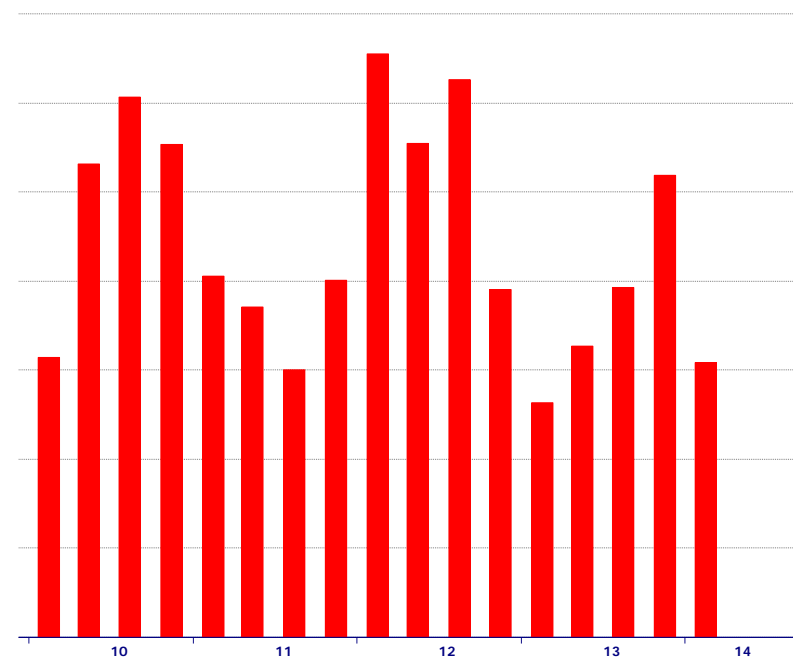
GROWTH IN Q1-14

After the second revision in national accounts' data, the first quarter's income contraction results significantly stronger and, at -2.9%, the worst performance since the beginning of 2009. Compared to the previous GDP estimate at -1%, the new figure is the worst revision since the beginning of the series in 1976. Annualised growth is reduced to 1.5% from previous quarter's 2.6%, reaching four quarters' lowest level.

GDP – QUARTERLY RATES ANNUALISED

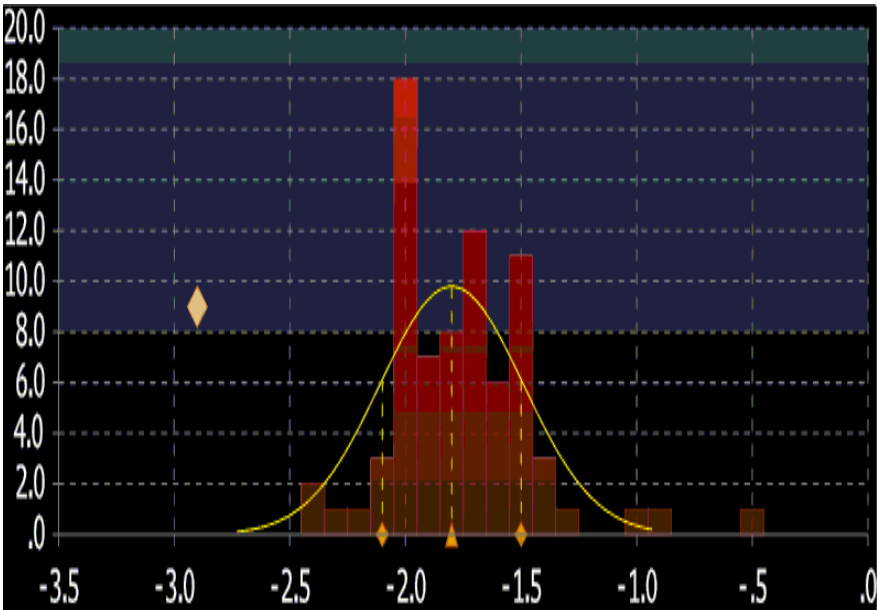


GDP – TREND RATES



A growth figure so strongly negative is an *outlier* compared to economists' forecast interval, where the highest estimate was at -0.5% and lowest at -2.4%, while the distribution mode (most common estimate) was at -2.0%.

GDP – QUARTERLY RATES ANNUALISED
FORECASTS DISTRIBUTION



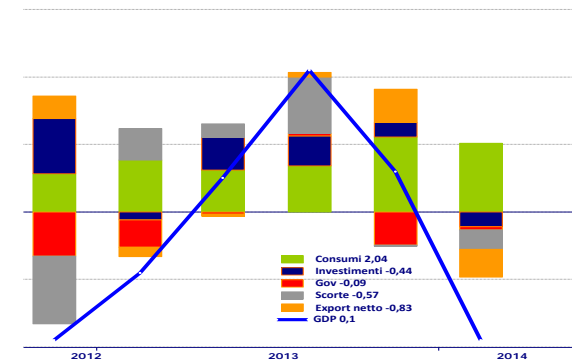
AVERAGE FORECAST	-1.80%
MEDIAN FORECAST	-1.80%
MAX FORECAST	-0.50%
MIN FORECAST	-2.40%
N° OF FORECASTS	76.00%
STD DEVIATION	0.30%

GROWTH IN Q1-14

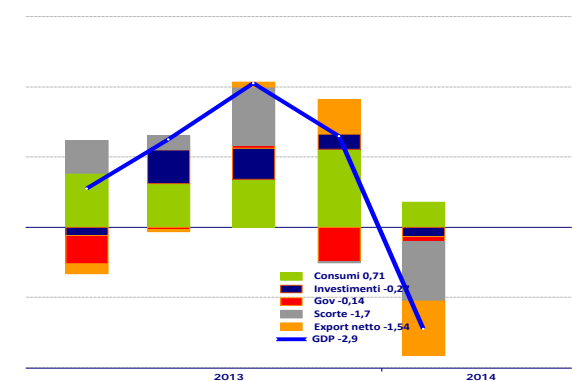
The major factor in the strongly negative revision of Q1 GDP is private health care spending growth, decidedly below expectations. The Bureau of Economic Analysis (BEA) estimated Obama's health care reform would stimulate demand for health care, which was excessively optimistic, since in the end it actually reduced GDP by 0.16 pp.

GDP – GROWTH CONTRIBUTIONS
Preliminary estimate

-Annualized Quarterly Change-	1Q Third	1Q Second	1Q Advance	4Q 2013	3Q 2013	2Q 2013	1Q 2013
Real GDP	-2.9%	-1.0%	0.1%	2.6%	4.1%	2.5%	1.1%
YOY percent	1.5%	2.0%	2.3%	2.6%	2.0%	1.6%	1.3%
Personal consumption	1.0%	3.1%	3.0%	3.3%	2.0%	1.8%	2.3%
Goods	0.2%	0.7%	0.4%	2.9%	4.5%	3.1%	3.7%
Durable goods	1.2%	1.4%	0.8%	2.8%	7.9%	6.2%	5.8%
Nondurable goods	-0.3%	0.4%	0.1%	2.9%	2.9%	1.6%	2.7%
Services	1.5%	4.3%	4.4%	3.5%	0.7%	1.2%	1.5%
Gross private investment	-11.7%	-11.7%	-6.1%	2.5%	17.2%	9.2%	4.7%
Fixed investment	-1.8%	-2.3%	-2.8%	2.8%	5.9%	6.5%	-1.5%
Nonresidential	-1.2%	-1.6%	-2.1%	5.7%	4.8%	4.7%	-4.6%
Structures	-7.7%	-7.5%	0.2%	-1.8%	13.4%	17.6%	-25.7%
Equipment	-2.8%	-3.1%	-5.5%	10.9%	0.2%	3.3%	1.6%
Intellectual Property	6.3%	5.1%	1.5%	4.0%	5.8%	-1.5%	3.7%
Residential	-4.2%	-5.0%	-5.7%	-7.9%	10.3%	14.2%	12.5%
Exports	-8.9%	-6.0%	-7.6%	9.5%	3.9%	8.0%	-1.3%
Goods	-11.4%	-9.8%	-12.0%	11.8%	5.6%	9.4%	-2.8%
Services	-2.9%	3.2%	3.0%	4.2%	0.1%	4.8%	2.2%
Imports	1.8%	0.7%	-1.4%	1.5%	2.4%	6.9%	0.6%
Goods	1.9%	1.0%	-1.6%	1.3%	2.4%	7.5%	-0.2%
Services	1.3%	-0.6%	-0.9%	2.2%	2.5%	4.0%	5.0%
Government consumption	-0.8%	-0.8%	-0.5%	-5.2%	0.4%	-0.4%	-4.2%
Federal	0.6%	0.7%	0.7%	-12.8%	-1.5%	-1.6%	-8.4%
National defense	-2.5%	-2.4%	-2.4%	-14.4%	-0.5%	-0.6%	-11.2%
Nondefense	5.9%	5.9%	5.9%	-10.0%	-3.1%	-3.1%	-3.6%
State and local	-1.7%	-1.8%	-1.3%	0.0%	1.7%	0.4%	-1.3%
Other Measures							
Change in inventories \$B	\$45.9	\$49.0	\$87.4	\$111.7	\$115.7	\$56.6	\$42.2
Net exports \$B	-\$441.1	-\$418.9	-\$414.4	-\$382.8	-\$419.8	-\$424.4	-\$422.3
Real final sales	-1.3%	0.6%	0.7%	2.7%	2.5%	2.1%	0.2%



GDP – GROWTH CONTRIBUTIONS
After second revision



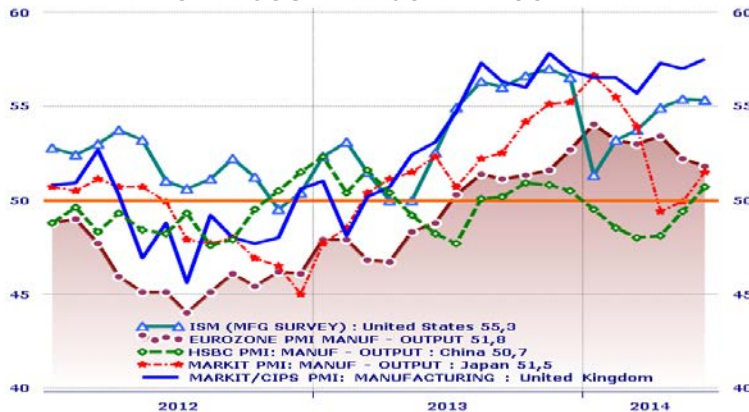
BUSINESSES' CONFIDENCE

The June survey of the Manufacturing ISM index (55.3, from 55.4 in May) proves that the growth rhythm of US industrial businesses is close to the highs of the previous month, four pp above January 2014's low. The most relevant feature of the survey is growth in new orders, that registered 58.9, highest of the past six months. Growing demand for auto and building materials is imposing a fast pace on production lines in a context of low stocks and good demand from foreign markets. The survey is consistent with strong industrial activity in the second quarter of the year.

ISM MANUFACTURING



ISM – COUNTRY COMPARISON



ISM MANUFACTURING – DETAILS

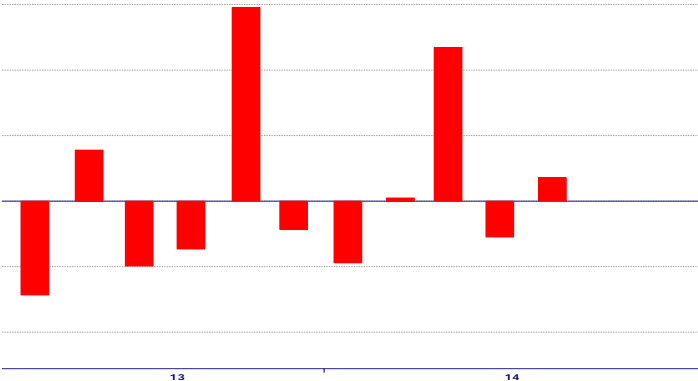
	June 2014	May 2014	April 2014	March 2014	Feb. 2014	Jan. 2014	Dec. 2013	Nov. 2013	6-mo Avg.
Manufacturing index	55.3	55.4	54.9	53.7	53.2	51.3	56.5	57.0	54.0
Prices paid	58.0	60.0	56.5	59.0	60.0	60.5	53.5	52.5	59.0
Production	60.0	61.0	55.7	55.9	48.2	54.8	61.7	62.4	55.9
New orders	58.9	56.9	55.1	55.1	54.5	51.2	64.4	63.4	55.3
Backlog of orders	48.0	52.5	55.5	57.5	52.0	48.0	51.5	54.0	52.3
Supplier deliveries	51.9	53.2	55.9	54.0	58.5	54.3	53.7	53.3	54.6
Inventories	53.0	53.0	53.0	52.5	52.5	44.0	47.0	50.5	51.3
Customer inventories	46.5	46.5	42.0	42.0	46.5	44.0	47.5	45.0	44.6
Employment	52.8	52.8	54.7	51.1	52.3	52.3	55.8	55.4	52.7
New export orders	54.5	56.5	57.0	55.5	53.5	54.5	55.0	59.5	55.3
Imports	57.0	54.5	58.0	54.5	53.5	53.5	55.0	55.0	55.2

In May, orders for durable goods necessary to production processes (net of defence and transportation sectors) increased by 0.7%, inverting the 1.1% decline of the previous month and giving a good acceleration to the 3-month annualised moving average (+14.3%, highest since March 2013). This signals that businesses are increasing productive capacity to satisfy growing demand, mostly in auto and building. Global demand for durable goods registered a 0.9% decline, mostly due to the defence sector, notoriously volatile.

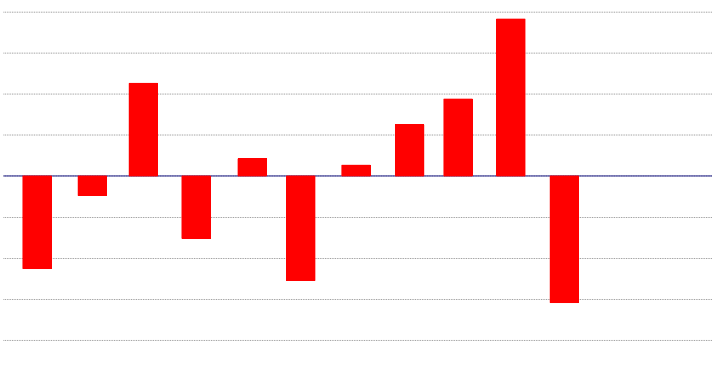
DURABLE GOODS ORDERS (%MoM)



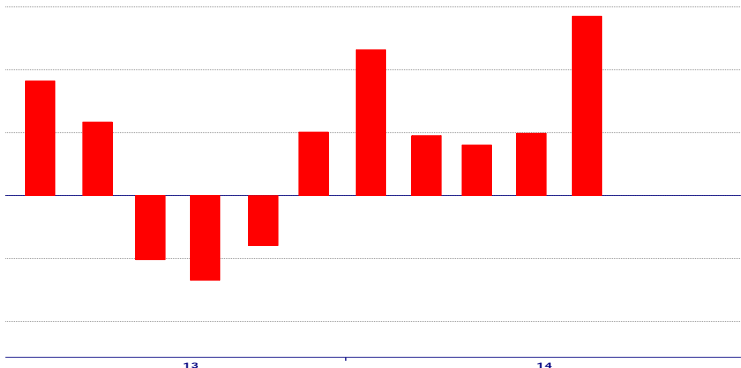
DURABLE GOODS ORDERS CORE (%MoM)



DURABLE GOODS ORDERS – Defence sector (%MoM)



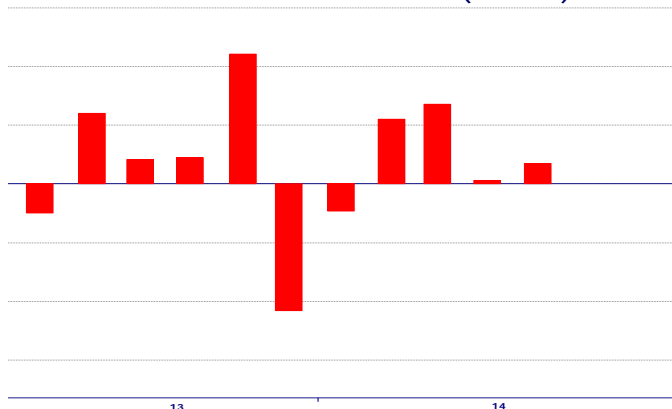
DURABLE GOODS ORDERS CORE (%3mav annual)



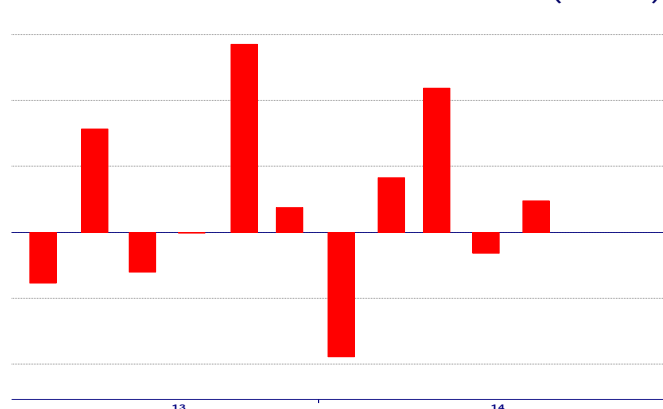
DURABLE GOODS DELIVERIES

Businesses are supported mostly by growing auto demand. Deliveries of new motor vehicles and relative parts increased in May by 2.1%. Annualised 3-month moving average leaped by 12.1%, highest since last November. Overall, durable goods deliveries increased in May by 0.3%, growing for the fourth month in a row.

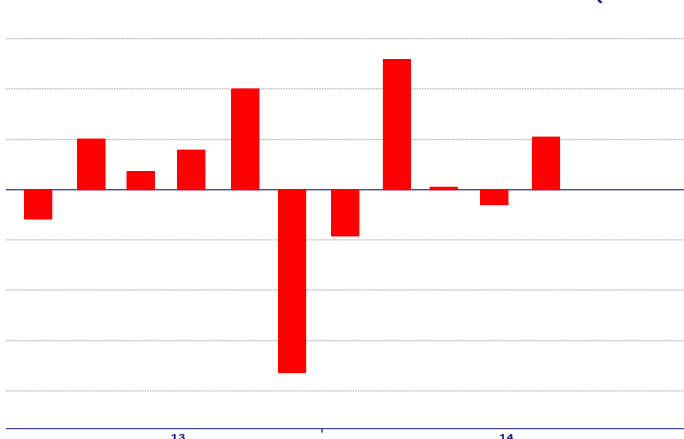
DURABLE GOODS DELIVERIES (%MoM)



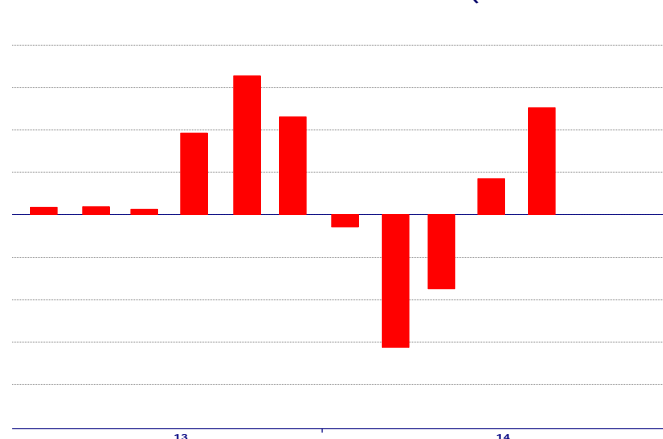
DURABLE GOODS DELIVERIES CORE (%MoM)



DELIVERIES – MOTOR VEHICLES AND PARTS (%MoM)



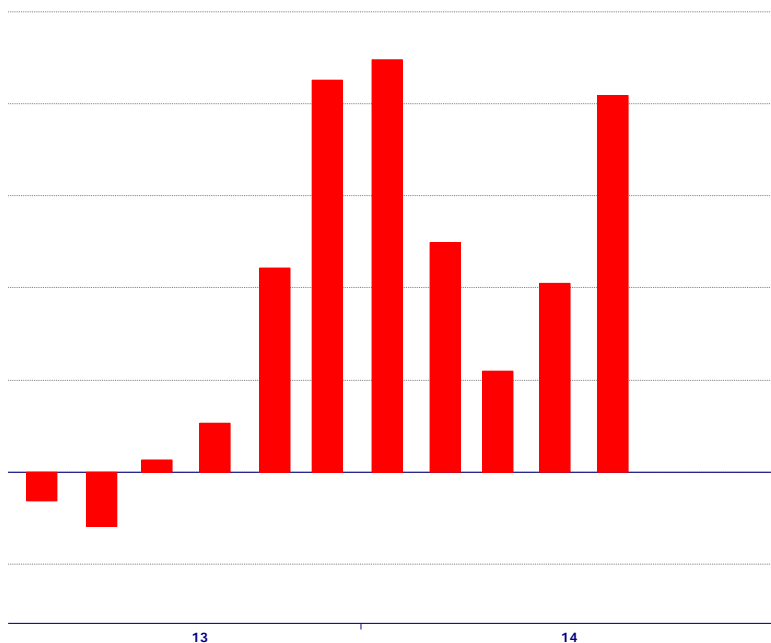
MOTOR VEHICLE DELIVERIES (%3mav annual)



DURABLE GOODS AND AUTO DEMAND

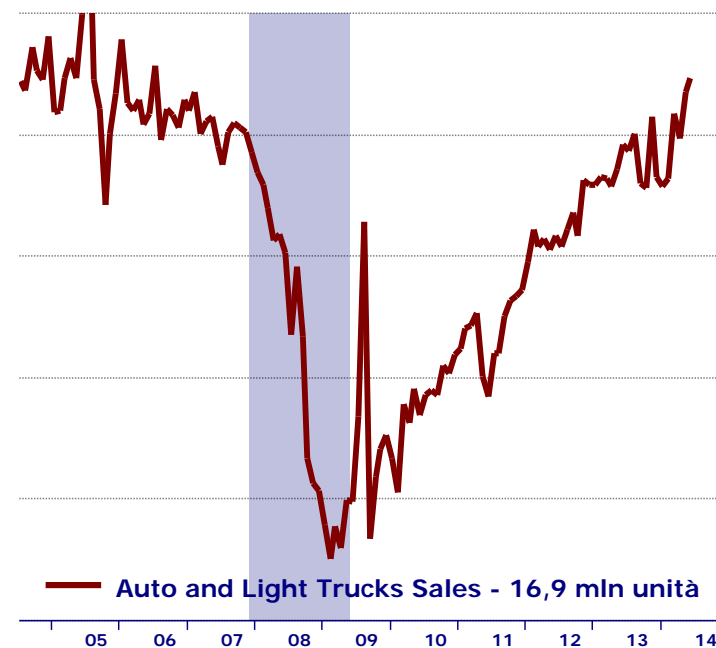
Annualised three-month moving average of durable goods deliveries, net of defence and transportation, increased in May by 8.2%, double its value in the previous month. The statistic, proxy of productive investments, confirms significant growth acceleration forecasted for the second quarter of the year. Car and light trucks sales grew in May by 16.9 million units on a yearly basis, fastest growth rate since 2006.

DELIVERY OF DURABLE GOODSCORE (%3mav)
annual)



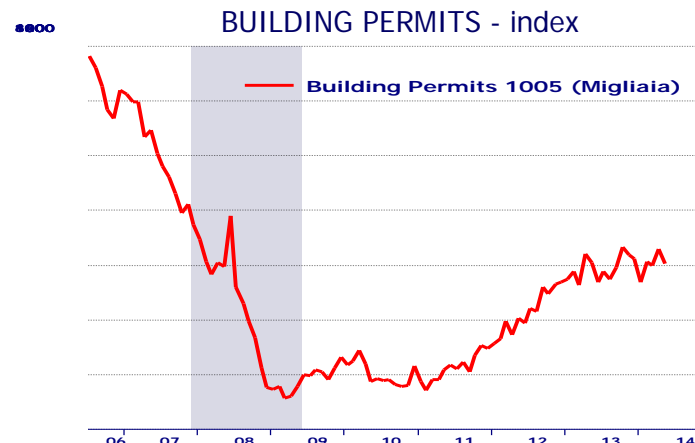
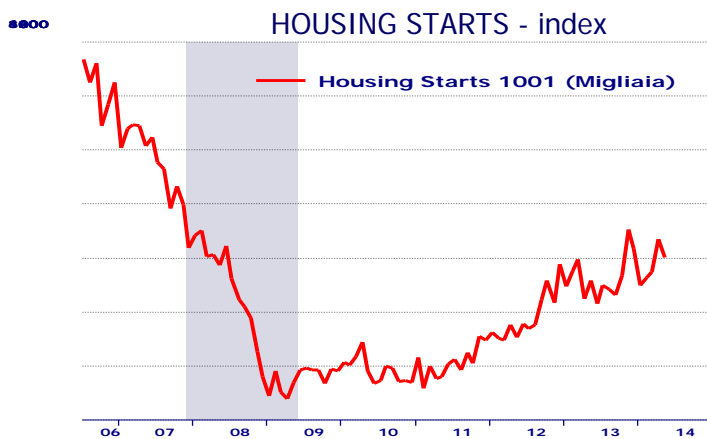
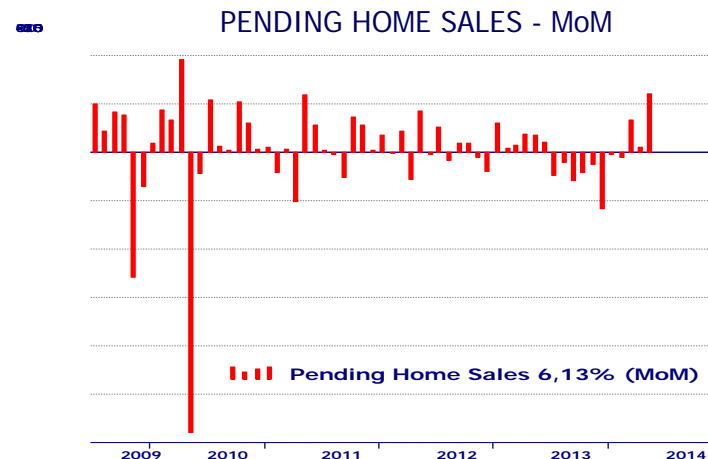
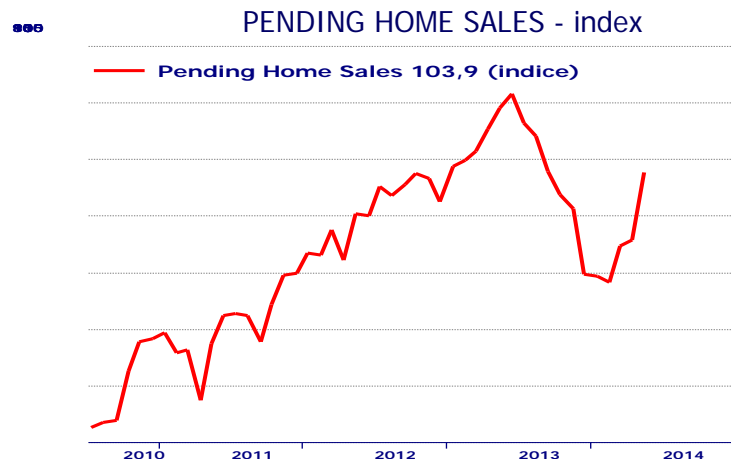
AUTO SALES

38

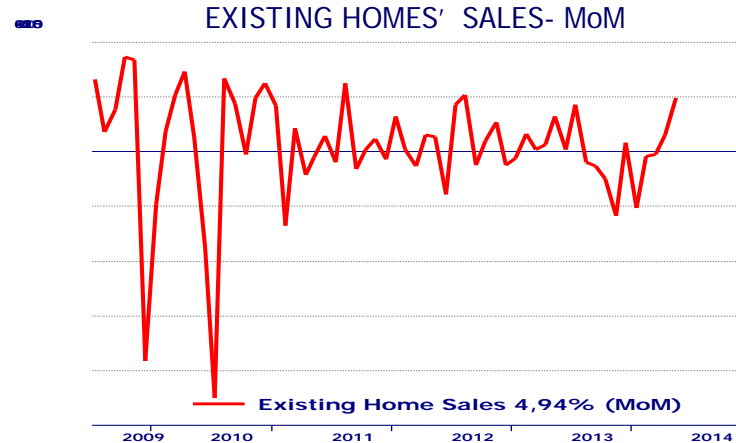
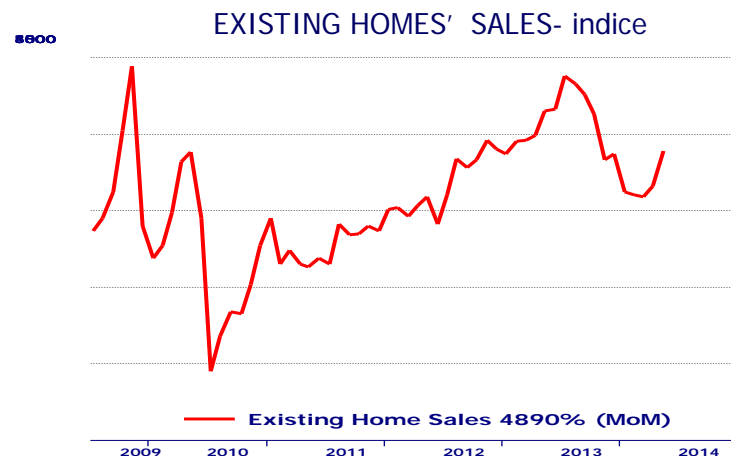
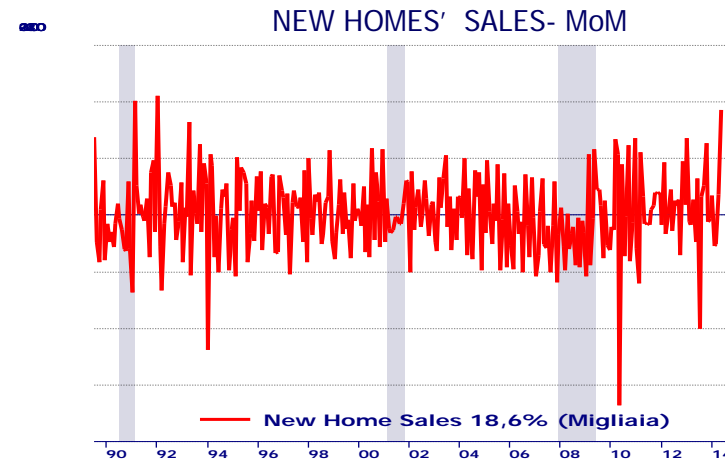
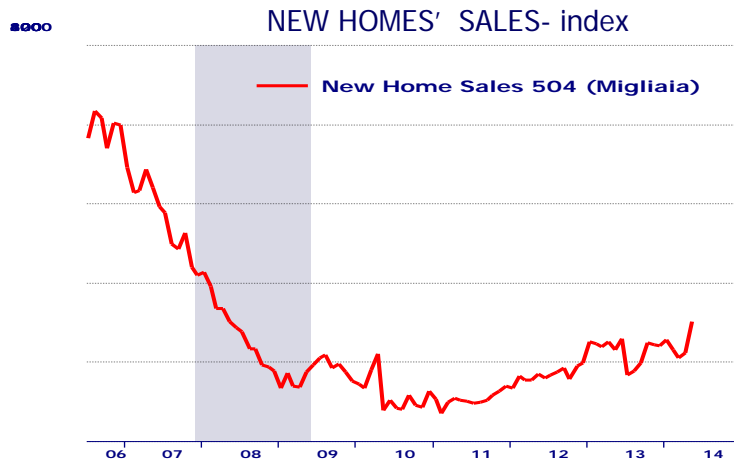


HOUSING MARKET

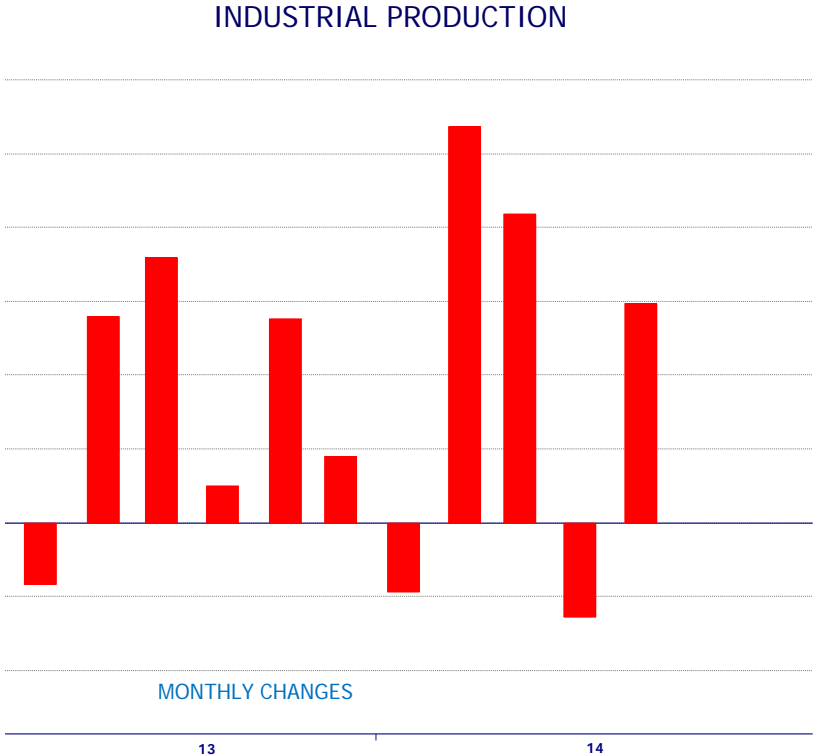
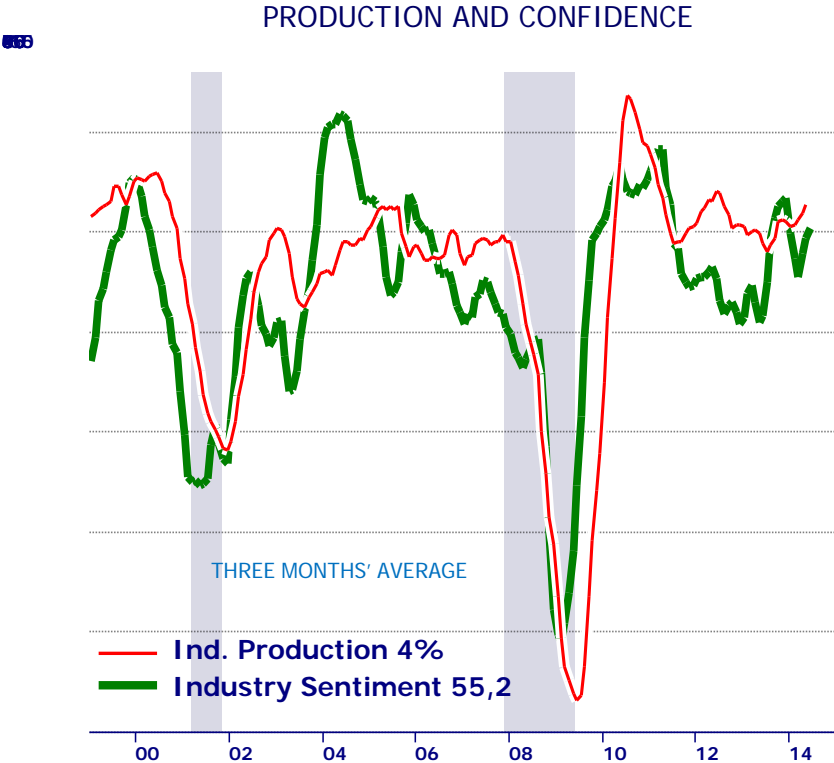
Pending home sales, for existing homes, increased in May by 6.1%, highest growth from over four years, signalling a housing market acceleration, after a weak year start. The number of housing starts and building permits is at 2008 highs.



The number of new homes sold last May increased by 18.6% compared to the preceding month, highest increase since 1992. Also the number of existing homes sold increased by 5%, registering a two year high.

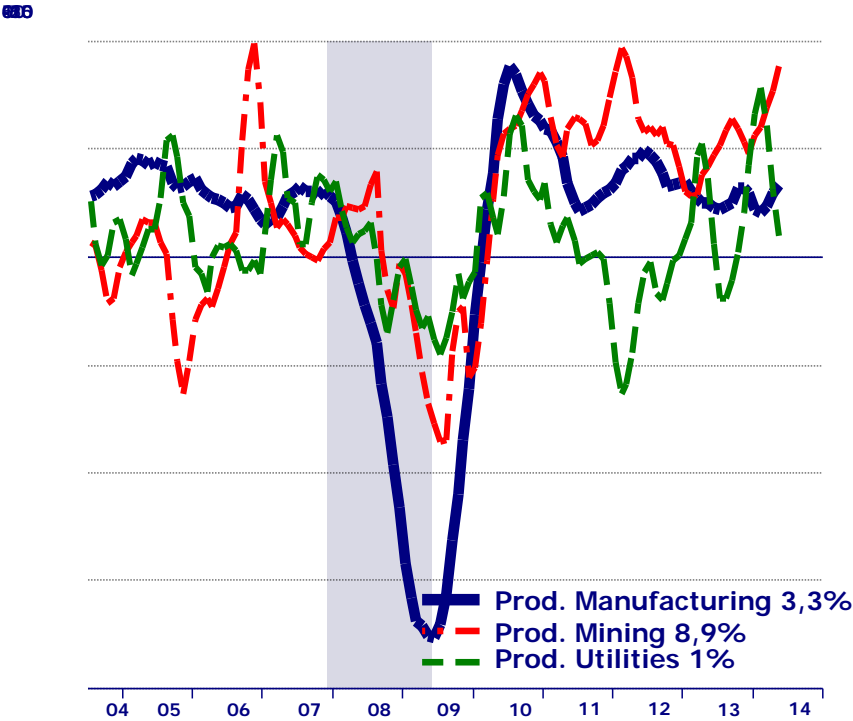


The US industrial production in May registered a positive surprise with 0.6% m/m, compensating April's 0.6% m/m decline, then corrected to -0.3%m/m. After April's slight correction, production started growing again, highlighting the positive trend for Q2 and Q3. April's data should be considered with February and March's recovery in mind (+1.1% and 0.9%, best two months of industrial activity since 2010).



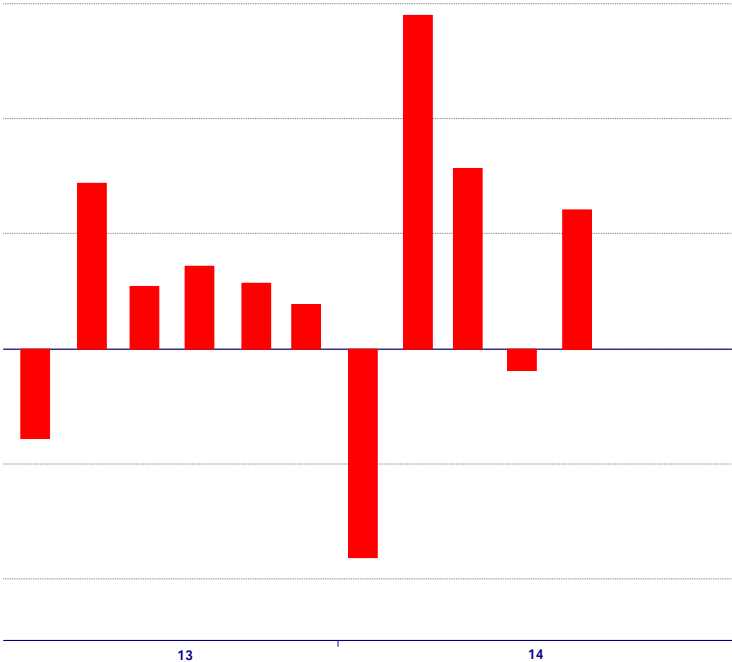
Manufacturing grew by 0.6% m/m, with a strong increase in auto production (1.5% m/m from -0.1% m/m in the previous month), in machinery (1.1% m/m from -0.5% m/m in April) and computers (0.7% m/m from -0.2% m/m in April).

PRODUCTION AND CONFIDENCE



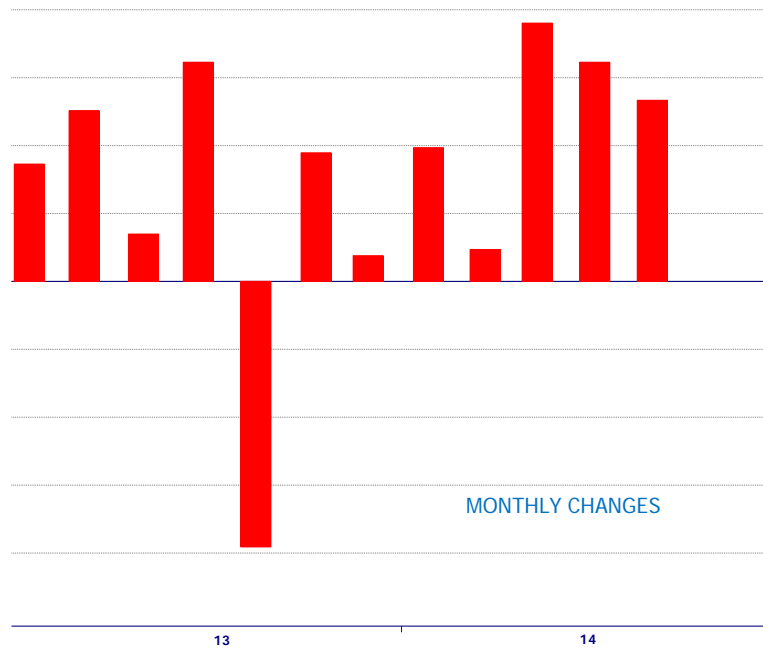
PRODUCTION – Manufacturing sector

MONTHLY CHANGES

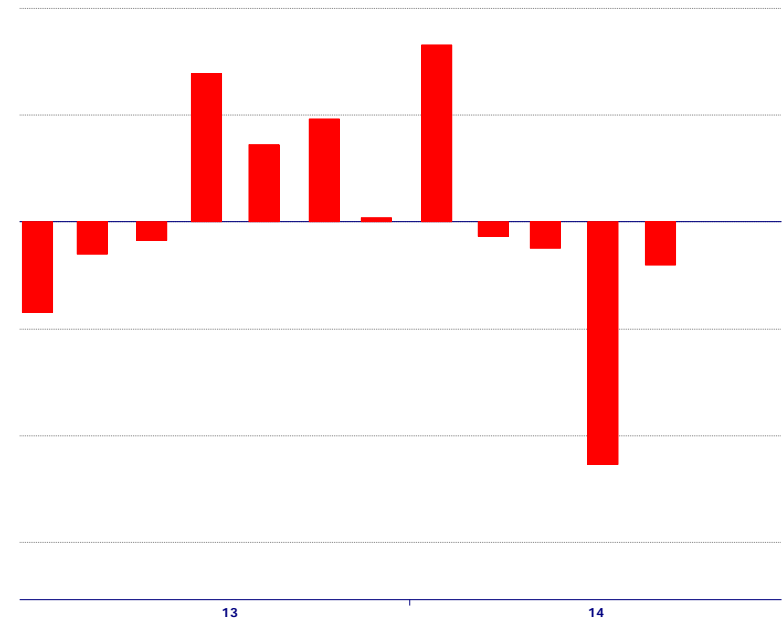


Utilities registered a decrease for the fourth consecutive month, although less intense than in April (-0.8% m/m from -4.5% m/m). Mining slowed down to 1.3% m/m from April's 1.6%.

PRODUCTION - Mining



PRODUCTION - Utilities

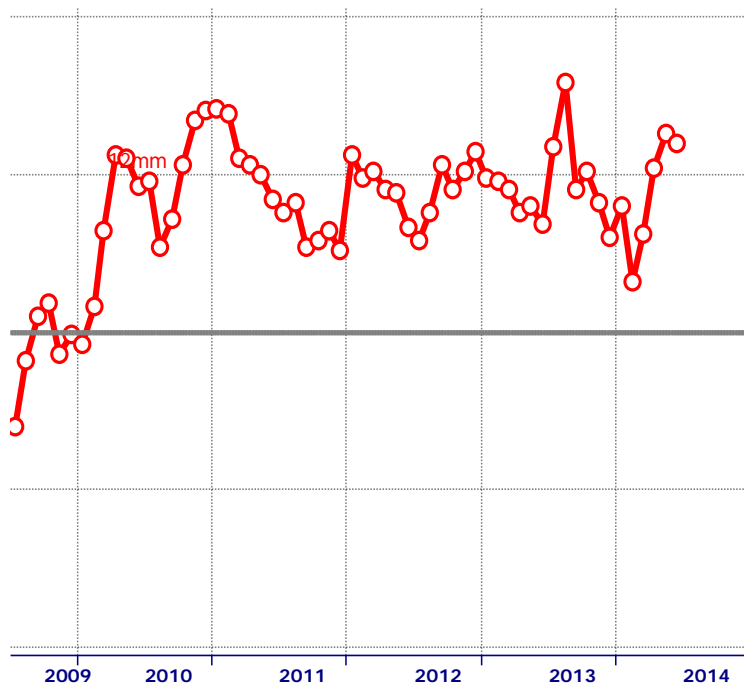


SERVICES BUSINESSES' CONFIDENCE

The Non Manufacturing ISM index, that measures confidence in services businesses, in June was at 56, in strongly expansive territory, slightly correcting the seven month peak registered in the previous months. The new orders index registered a peak since January 2011, at 61.2.

ISM NON MANUFACTURING

56

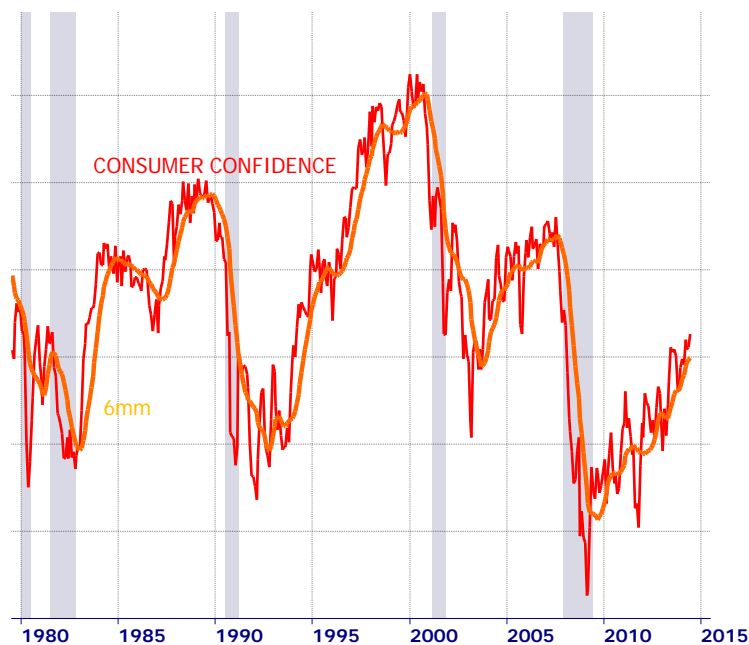


	June 2014	May 2014	April 2014	March 2014	Feb. 2014	Jan. 2014	Dec. 2013	Nov. 2013	6-mo Avg
Composite Index	56.0	56.3	55.2	53.1	51.6	54.0	53.0	54.1	54.4
Business Activity	57.5	62.1	60.9	53.4	54.6	56.3	54.3	55.3	57.5
Prices Paid	61.2	61.4	60.8	58.3	53.7	57.1	54.7	52.7	58.8
New Orders	61.2	60.5	58.2	53.4	51.3	50.9	50.4	55.7	55.9
Backlog of Orders *	53.0	54.0	49.0	51.5	52.0	49.0	46.0	49.0	51.4
Supplier Deliveries	51.0	50.0	50.5	52.0	53.0	52.5	51.5	51.0	51.5
Inventory Change *	53.5	55.5	55.5	48.0	50.5	50.5	48.0	54.0	52.3
Inventory Sentiment	60.5	63.0	65.0	60.5	62.0	63.0	57.5	60.5	62.3
Employment	54.4	52.4	51.3	53.6	47.5	56.4	55.6	54.5	52.6
New Export Orders *	55.0	53.0	57.0	49.5	47.5	49.0	51.5	58.0	51.8
Imports*	53.0	55.5	55.5	50.5	47.0	48.0	50.5	55.0	51.6

The Conference Board consumer confidence survey registered in June a peak since January 2008, confirming a generalised increase in confidence that is touching all sectors of the US economy.

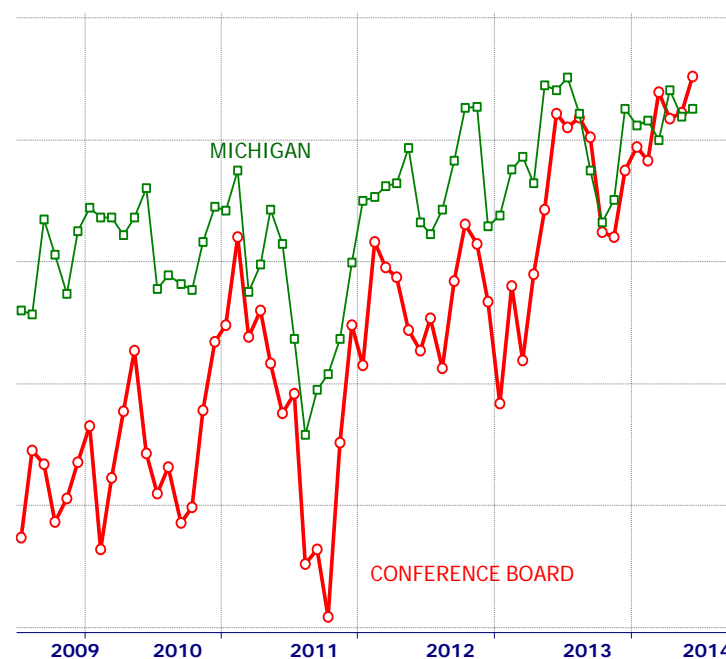
CONSUMER CONFIDENCE- CONFERENCE BOARD

890



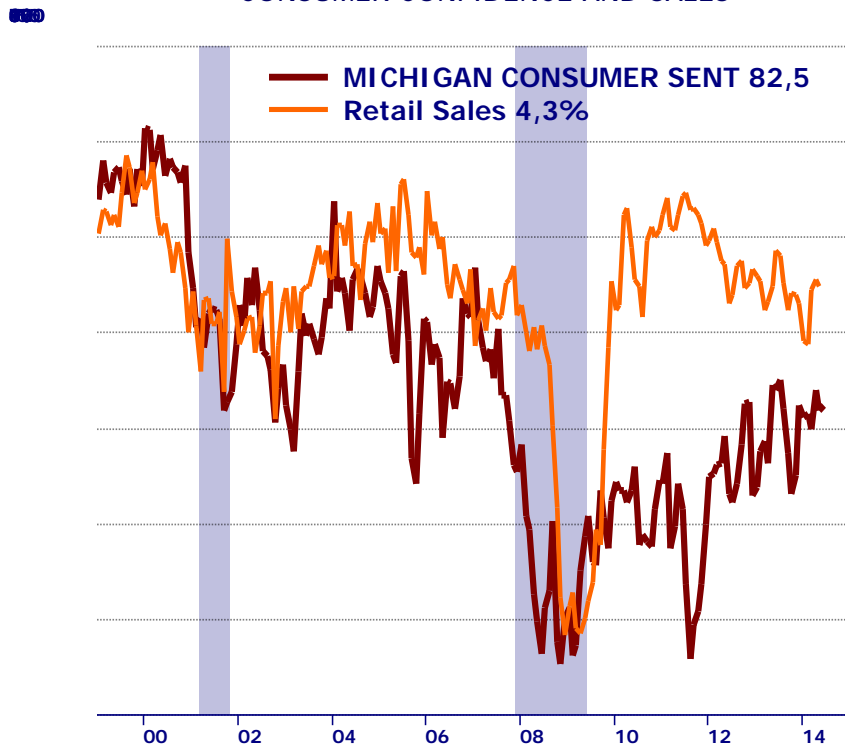
CONSUMER CONFIDENCE

80

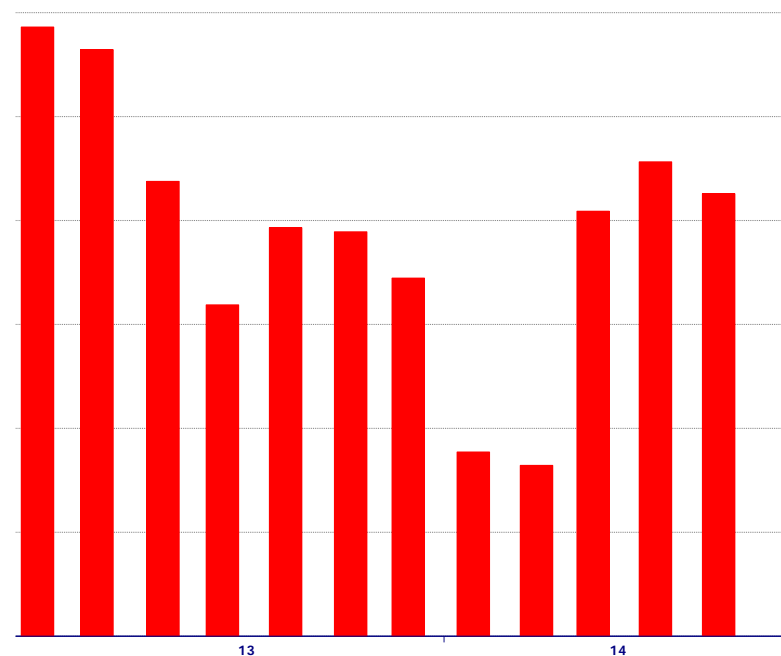


In May retail sales grew by 0.3%, half of consensus estimates, but the figure is associated with the net upward revision of April's statistic. The trend data, at 4.3%, confirms the robust increase in US consumption...

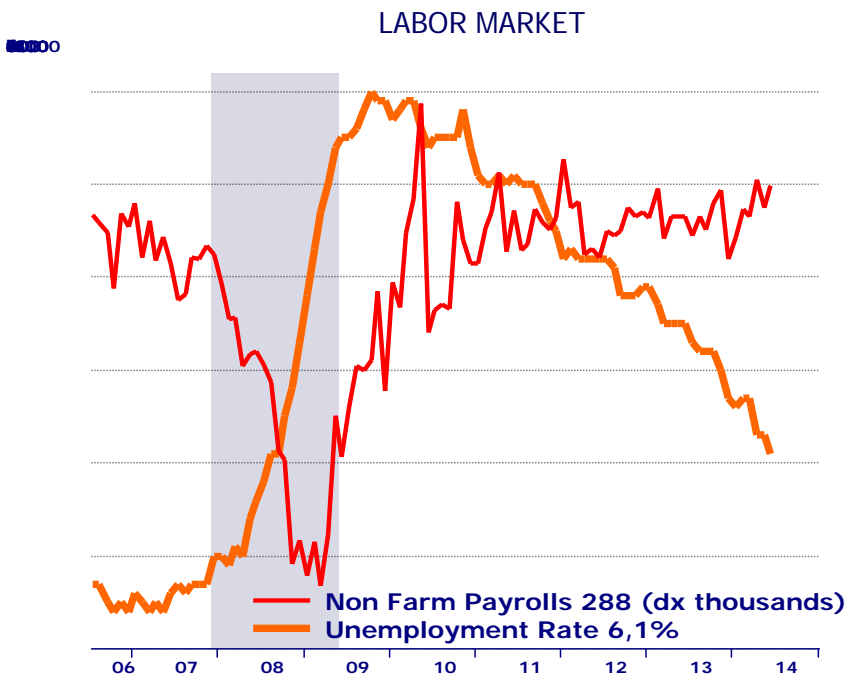
CONSUMER CONFIDENCE AND SALES



RETAIL SALES – ANNUAL CHANGES



In the US, new data regarding the labour market have been published in June. Domestic enterprises created 288 K new jobs, a much stronger figure than consensus forecasts (215 K). The unemployment rate fell to 6.1%, at September 2008 levels, with an unvaried participation rate around 62.8%.

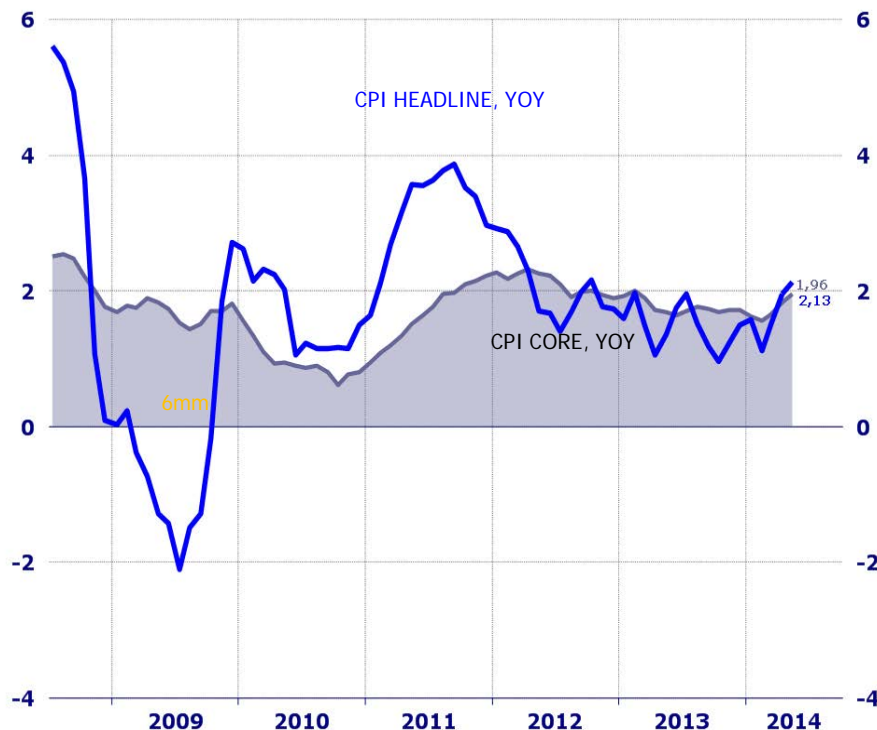


LABOUR MARKET (May '14)

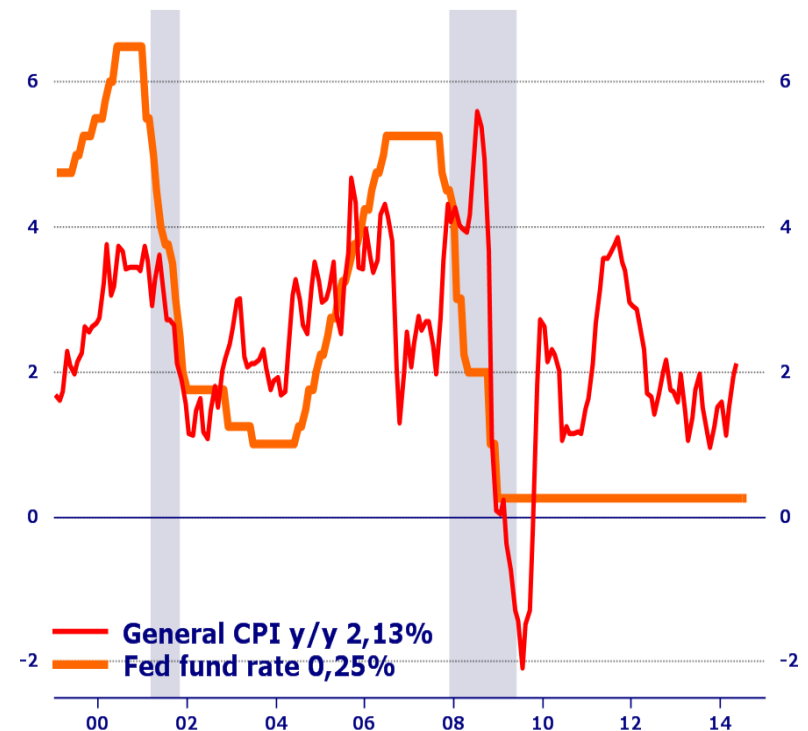
	June 2014	May 2014	April 2014	March 2014	Feb. 2014	Jan. 2014	3M Avg.
Unemployment rate	6.1%	6.3%	6.3%	6.7%	6.7%	6.6%	6.2%
Rate (3 decimals)	6.085%	6.297%	6.275%	6.712%	6.716%	6.584%	n/a
Avg. hrly earn all	0.2%	0.2%	0.0%	0.1%	0.3%	0.2%	0.2%
Avg. wkly hour all	34.5	34.5	34.5	34.5	34.3	34.4	34.5
Nonfarm employment	288	224	304	203	222	144	272
Previous estimate	n/a	217	282	203	222	144	n/a
Net Revision	29						
Overall change in nonfarm payrolls (June data + net revisions): 317							
Manufacturing	16	11	9	4	20	8	12
Previous estimate	n/a	10	4	4	20	8	n/a
Labor force change	81	192	-806	503	264	523	-178
Household employ chg	407	145	-73	476	42	638	160

Consumer price inflation accelerated in May, confirming Spring's recovery signals. The general price index is showing a trend increase of about 2.1%, the highest since October 2012. Net of food and energy, the index is at 2.0%, peak value since October 2012. Differing from the European case, the inflation's trajectory doesn't have a critical profile in the USA, thus the central bank can continue to remove the monetary stimulus previously provided to the economy.

INFLATION RATE



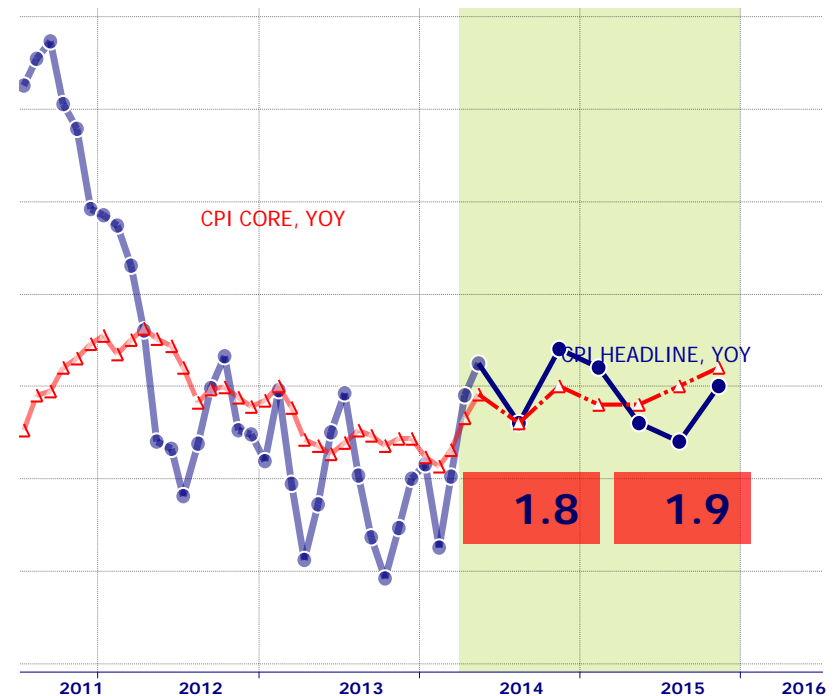
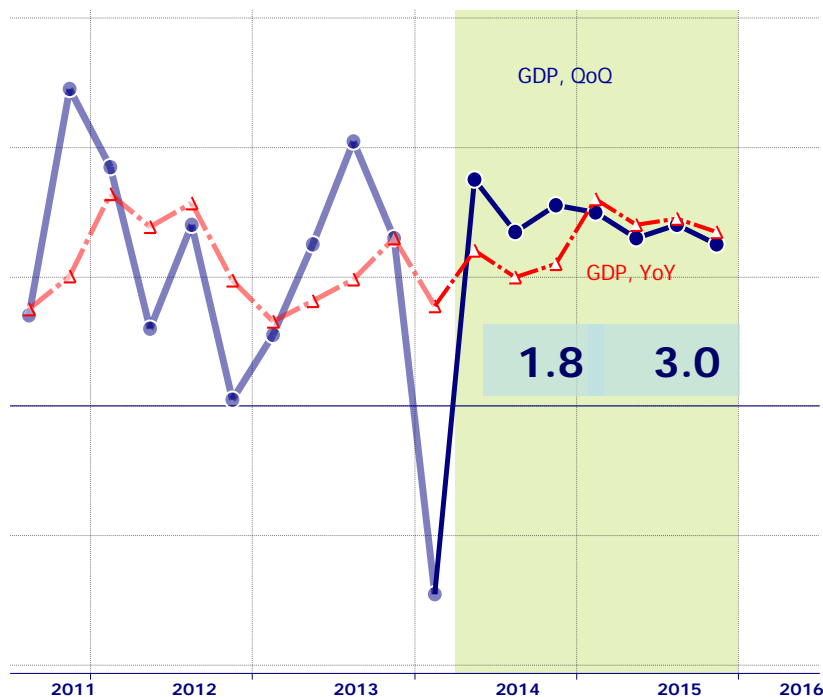
INFLATION AND MONETARY POLICY



After the GDP revision of the first quarter 2014, growth forecasts for the US economy in the current year have been trimmed to 1.8%. Income will start accelerating significantly already in Q2 (around 4%), reaching a persistently robust trajectory later on, with average increases over 2.5% annualised. In 2015 growth will further consolidate in average annual terms, reaching 3.0%, the fastest growth since 2005. Inflation's profile remains trouble-free for the whole forecasting period, gradually reaching 2% by 2015.

GROWTH

INFLATION



The 18th June FOMC meeting ended with a press release similar to April's, with tapering at consolidated rhythms (months acquisitions down to 35 bn, of which 20 in Treasuries and 15 in MBS). According to minutes released July 9th, QE3 will end next October, thus implying two further \$10 bn reductions in acquisitions (July 30 and 17 September) and a final cut in the 29 October FOMC. On the forecasting front, growth estimates have been downsized (from 2.9% to 2.2%) and also unemployment (from 6.2% to 6.05%).

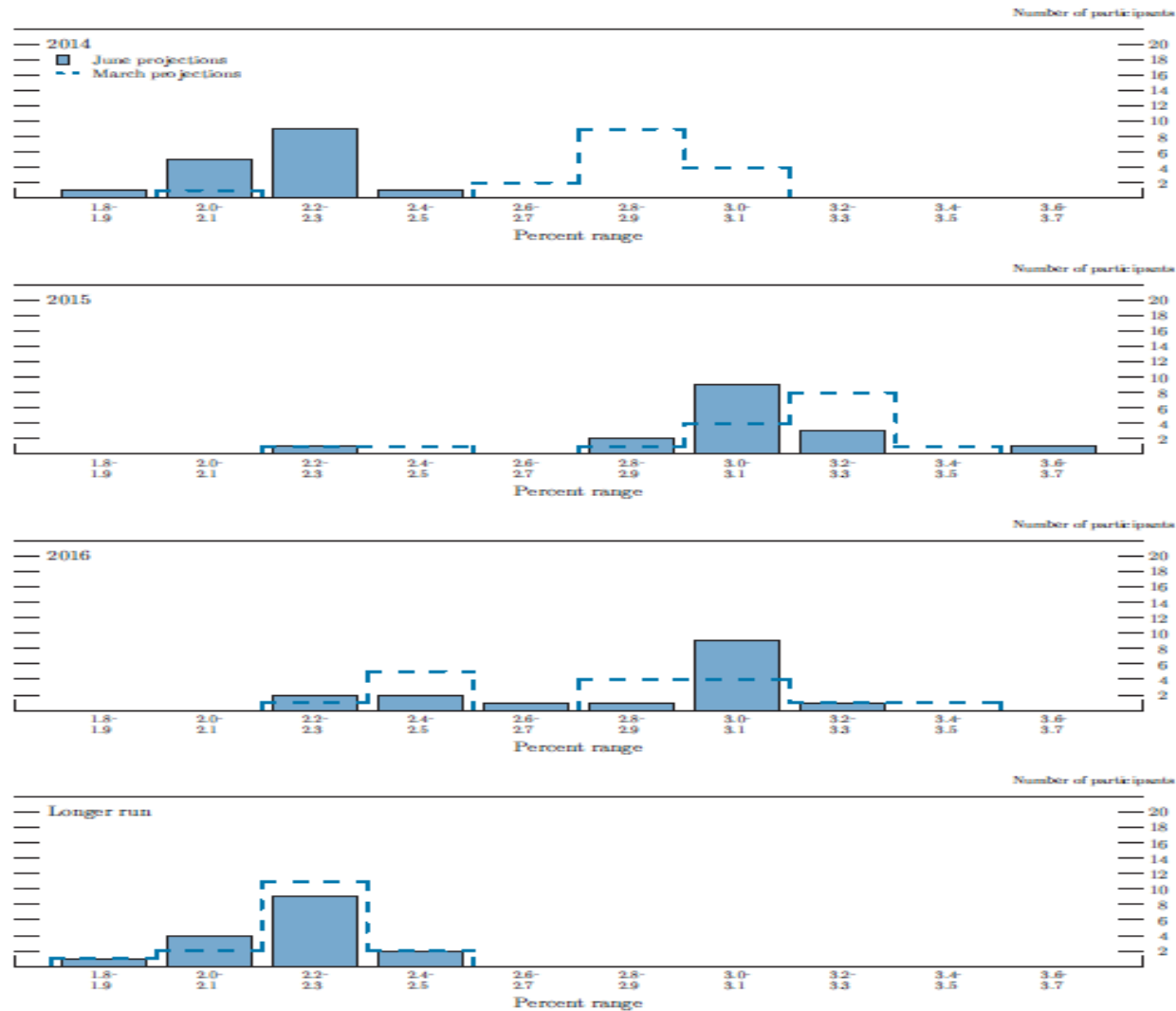
Economic Projections of Federal Reserve Board Members and Federal Reserve Bank Presidents, June 2014

Advance release of table 1 of the Summary of Economic Projections to be released with the FOMC minutes

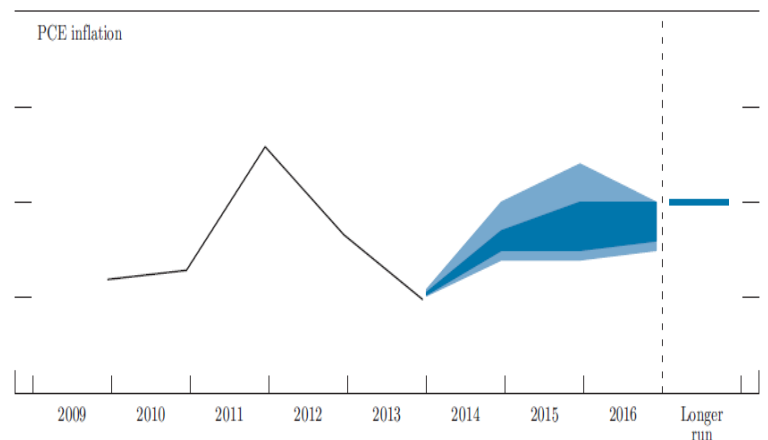
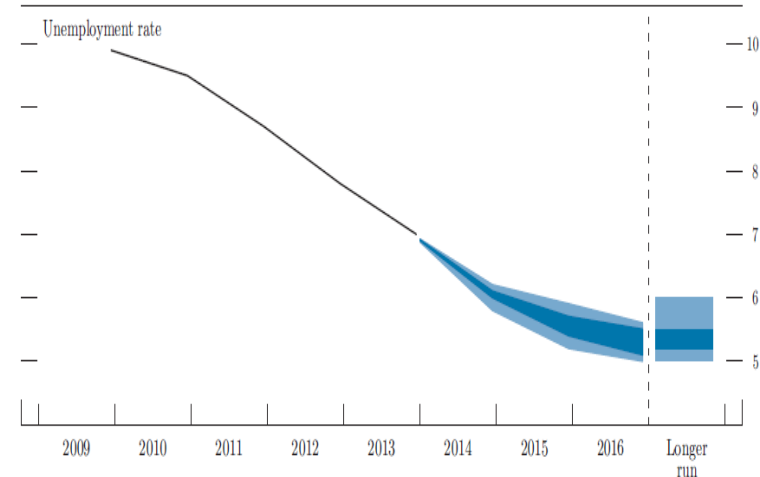
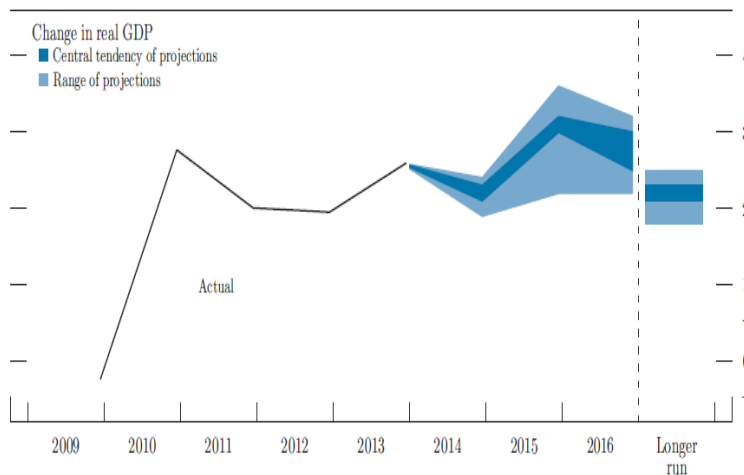
Percent

Variable	Central tendency ¹				Range ²			
	2014	2015	2016	Longer run	2014	2015	2016	Longer run
Change in real GDP	2.1 to 2.3	3.0 to 3.2	2.5 to 3.0	2.1 to 2.3	1.9 to 2.4	2.2 to 3.6	2.2 to 3.2	1.8 to 2.5
March projection	2.8 to 3.0	3.0 to 3.2	2.5 to 3.0	2.2 to 2.3	2.1 to 3.0	2.2 to 3.5	2.2 to 3.4	1.8 to 2.4
Unemployment rate	6.0 to 6.1	5.4 to 5.7	5.1 to 5.5	5.2 to 5.5	5.8 to 6.2	5.2 to 5.9	5.0 to 5.6	5.0 to 6.0
March projection	6.1 to 6.3	5.6 to 5.9	5.2 to 5.6	5.2 to 5.6	6.0 to 6.5	5.4 to 5.9	5.1 to 5.8	5.2 to 6.0
PCE inflation	1.5 to 1.7	1.5 to 2.0	1.6 to 2.0	2.0	1.4 to 2.0	1.4 to 2.4	1.5 to 2.0	2.0
March projection	1.5 to 1.6	1.5 to 2.0	1.7 to 2.0	2.0	1.3 to 1.8	1.5 to 2.4	1.6 to 2.0	2.0
Core PCE inflation ³	1.5 to 1.6	1.6 to 2.0	1.7 to 2.0		1.4 to 1.8	1.5 to 2.4	1.6 to 2.0	
March projection	1.4 to 1.6	1.7 to 2.0	1.8 to 2.0		1.3 to 1.8	1.5 to 2.4	1.6 to 2.0	

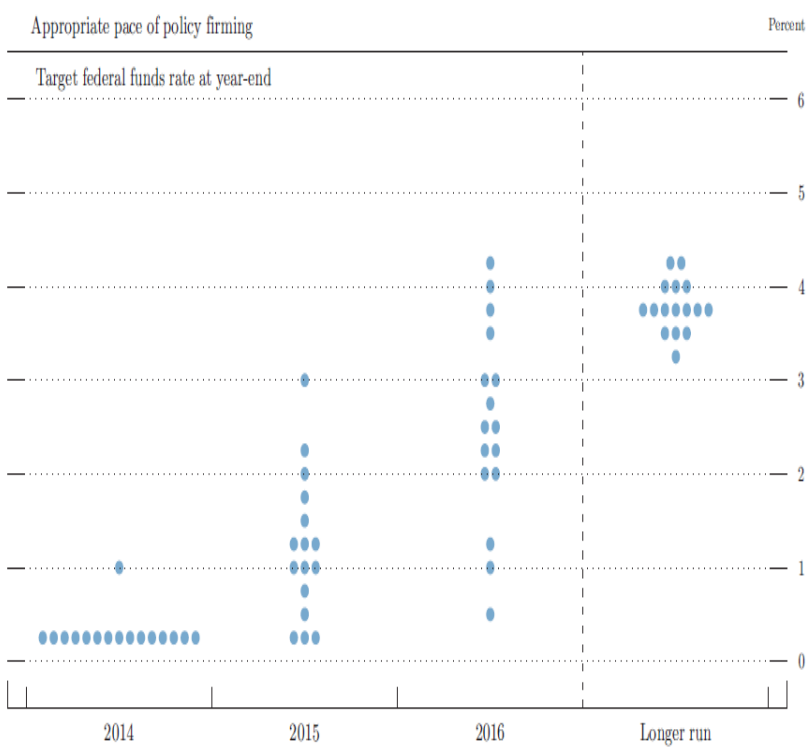
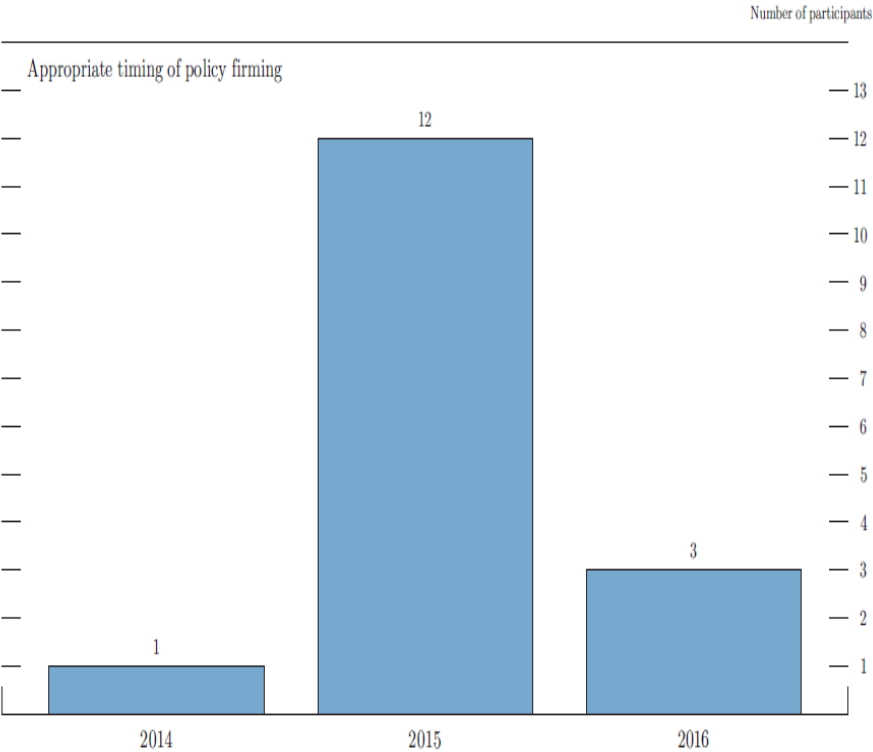
Figure 3.A. Distribution of participants' projections for the change in real GDP, 2014–16 and over the longer run



The FOMC members expect growth to accelerate decidedly in the second half of the current year, remaining for the whole 2015-2016 period above the long-term equilibrium value (estimated just above 2%). Consistently with this, unemployment is forecasted to constantly decrease, thus converging at the end of 2016 at its long-term equilibrium value, around 5%. Inflation should converge to its long-term target of 2%.



In the June meeting, the 12 members of the FOMC (one less than in March), declared to be in favour of a first increase in 2015 of the official rate (currently in the 0-0.25% range), while 3 of the members thought it better to wait till 2016 (in March only 2). Only one member was in favour of an increase this year. The ideal official rate according to each member has a very high dispersion both in 2015 and 2016. There is instead more agreement on the long-term equilibrium value, which should be around 4%.



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